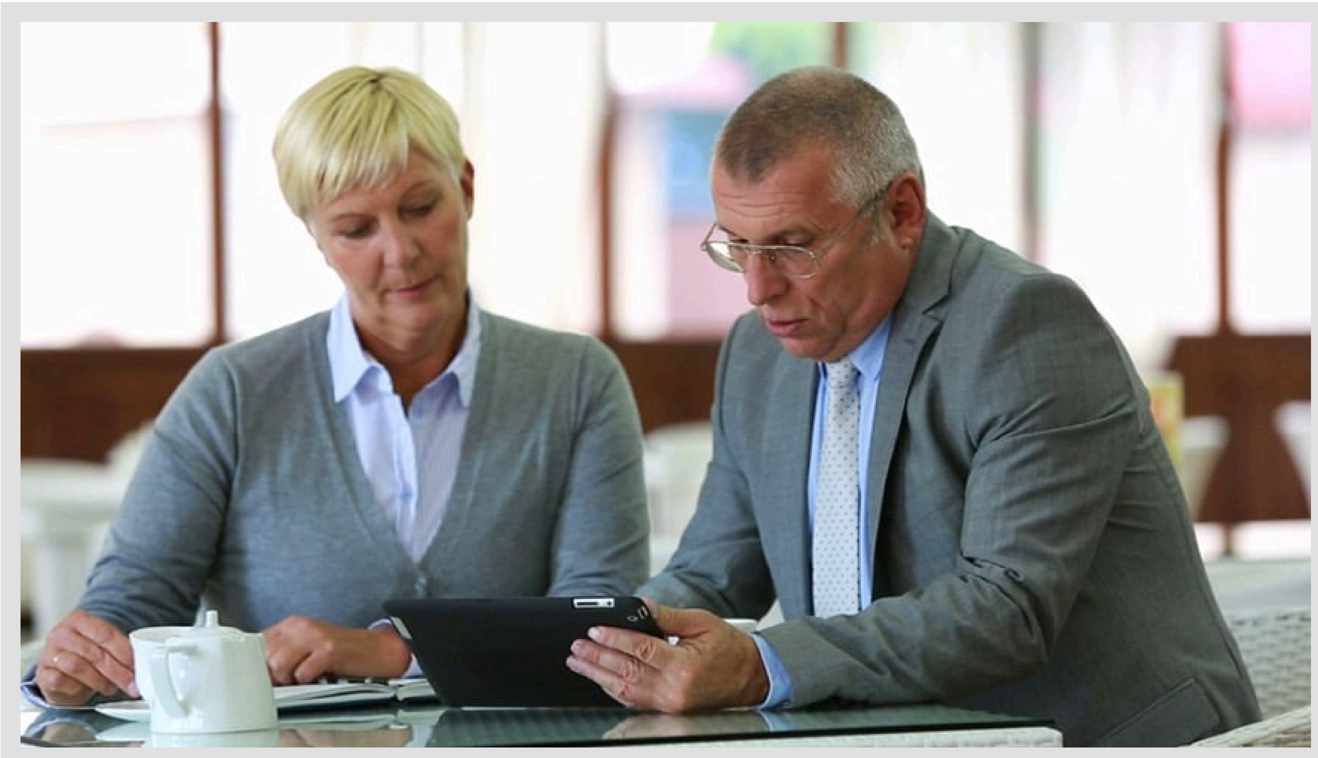

Financial Planners & Investment Advisors

NAICS: 523930
SIC: 6282

prepared February 18th, 2022

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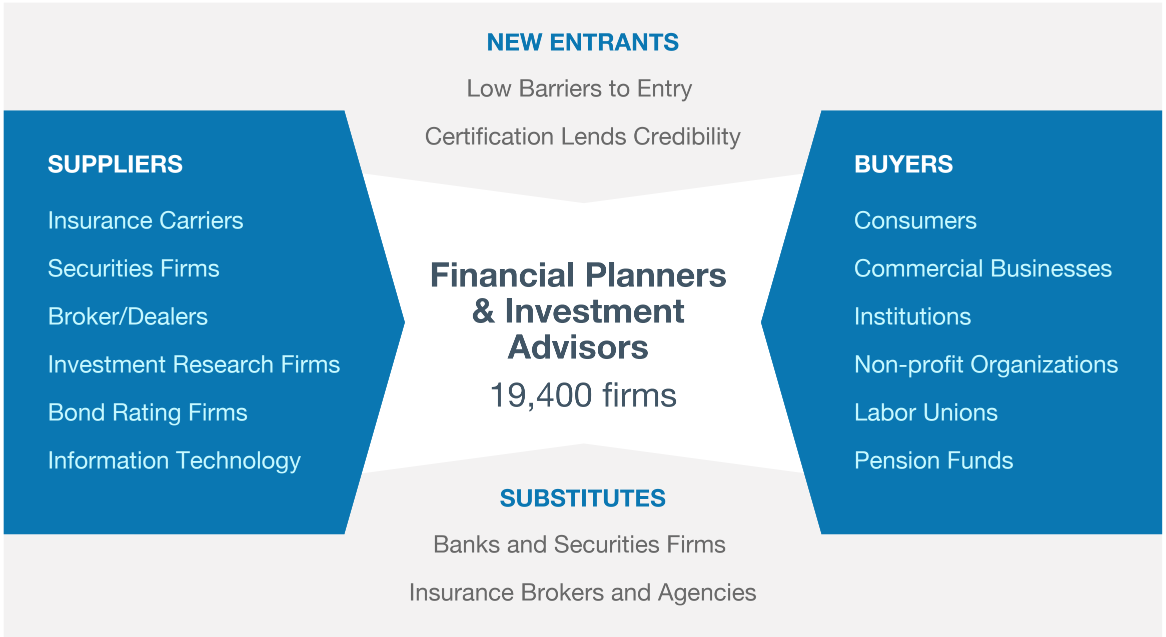
Coronavirus Update

Feb 11, 2022 -- Survey: Advisors Challenged in Recruiting Top Talent

- In early 2022, markets were skittish as the Federal Reserve said it might pull back on pandemic-related monetary stimulus sooner and to a greater degree than previously stated as it moves to fight inflation, according to The Wall Street Journal. The rapid spread of the Omicron variant initially rattled markets. Still, fears were largely shaken off amid reports the new variant causes less severe illness than earlier ones, despite being much more contagious. In early December, the fourth quarter 2021 Business Roundtable's economic-outlook index hit 124, which is 10 points higher than in Q3 2021 and marked an all-time high for the index. However, the Business Roundtable noted the survey for Q4 was completed before the emergence of the Omicron variant. The Roundtable's chairman, who is also CEO of Walmart, said, "Continued progress in defeating the pandemic, including new variants, will be necessary to sustain strong growth into the second half of 2022."
- Despite the pandemic and economic uncertainty, investors continued to pour money into their investment accounts in the third quarter of 2021, according to analysis of retirement savings trends by Fidelity Investments. The value of retirement accounts wavered a bit amid some market volatility in Q3, according to Fidelity's Q3 2021 Retirement Analysis released in mid-November. People have continued to sock money away in their retirement accounts despite the continued economic effects of the pandemic. The average IRA balance was up 15% year-over-year in Q3 2021 and rose slightly over Q2. The average 401(k) value increased 15% compared to Q3 2020 but was down 2% from Q2 2021. The percentage of workers with an outstanding 401(k) loan reached a record low of 17.3% in Q3 2021.
- As the pandemic has increased investment participation, brokerages have enjoyed strong growth as new investors opened accounts. Fidelity Investments added 4.1 million new accounts in Q1 2021, up nearly 160% compared to Q1 2020. Fidelity added 1.7 million new accounts in Q2 2021 and 1.3 million in Q3 2021, up 16% from the same period in 2020. Growth in the three quarters of 2021 followed a booming full-year 2020, which saw more than 32 million new Fidelity Investments workplace participant accounts opened and 26 million new retail investment accounts.
- As advisors and their clients become more comfortable with remote work and digital meeting tools during the pandemic, advisors and their wealthier clients may move away from high-cost, high-tax financial industry epicenters such as New York and San Francisco, according to Financial Planning. The potential for higher taxes under the Biden administration may also prompt some advisors to reduce their tax burden by relocating to lower-tax locales, such as Florida or Texas – neither of which have a state income tax.
- While the pandemic caused untold financial harm to millions, it also generated substantial new pockets of wealth as interest rates were slashed and stock markets rose to new highs. According to Financial Planning, the wealthy getting wealthier has created strong demand for experienced wealth management advisors. The pace of wealth creation is expected to outstrip employment growth in the financial planning industry. On a global basis, the number of millionaires is projected to rise 50% over the next five years compared to the end of 2020, according to Credit Suisse Group. However, according to the US Bureau of Labor Statistics, the number of personal financial managers in the US is forecast to increase 5% between 2020 and 2030. To meet the anticipated boom in demand, financial advice firms are turning to acquisitions to staff up instead of relying solely on recruiting new advisors.
- About a third of high-net-worth investors report their financial advisor hasn't asked them about how the pandemic has affected their financial future, according to a recent survey by Absolute Engagement, a firm that tracks advisor-client experiences and engagement. About a quarter of wealthy investors said, "what is important to me has changed" during the pandemic, and 20% reported being worried about their financial futures. Nearly 15% of net-high-worth investors said they felt "overwhelmed" when they think about retirement, and 11% said they would likely need to work more. Absolute Engagement suggests advisors should prepare direct questions about the pandemic's impact on clients' goals, such as retirement timing, where they want to retire, and changes in lifestyle priorities.
- Despite the pandemic, about two-thirds of Generation Z adults say they are optimistic about their financial futures but feel they could use more knowledge about financial preparation matters, including investing, retirement savings, and buying a home, according to a recent Bank of America survey. More than 25% of survey respondents said they contributed to a retirement account in the past year, and the same percentage invested in the market. About 70% said they added to the savings in the past year. A third of Gen Z adults rated their financial knowledge as low, and 40% of that group said they were unsure about how to gain more financial understanding.

- Inflation led the list of top investment professional concerns for 2022, according to a Markets Live Global Survey, as reported by Bloomberg. Nearly a third of survey respondents said inflation posed the leading tail-risk for markets in 2022, with many tying inflation risks to central banks shifting monetary policy either too quickly or lagging behind. More than 25% of those surveyed said the coronavirus was the top risk, and about half of those cited the Omicron variant specifically. Many felt pandemic-related risks stem from the potential for government restrictions and central bank missteps in adjusting policy in reaction to the pandemic. Nearly a quarter of investment professionals felt geopolitical tensions pose the biggest market risks in 2022, including strife between China and Taiwan, and Russia and Ukraine.
- The pandemic has contributed to a labor shortage that is affecting most industries, including financial planning and investment advice firms. More than 35% of independent registered financial advisors say finding talent is a challenge, according to the recent Schwab Advisor Services' 2022 Independent Advisor Outlook Study. Of more than 700 independent advisors who custody assets with Schwab or TD Ameritrade, half are looking to find new hires outside the financial industry, including sales, communications, and technology.
- A recent Nationwide Retirement Institute survey of employer-sponsored retirement plan participants and sponsors found that the pandemic has caused many women to have negative emotions when thinking about their current retirement plan status. Of women who stopped or put off contributing to their retirement plans, 45% say they are worried, 53% say they are frustrated, and 16% report being panicked. One-fifth of women surveyed said they felt they were on the wrong track for retirement, and an equal percentage said they would likely have to retire later than planned. However, women are taking action to maintain their retirement goals. Two-thirds of retirement plan sponsors said women are more likely than men to make changes to their retirement plans.

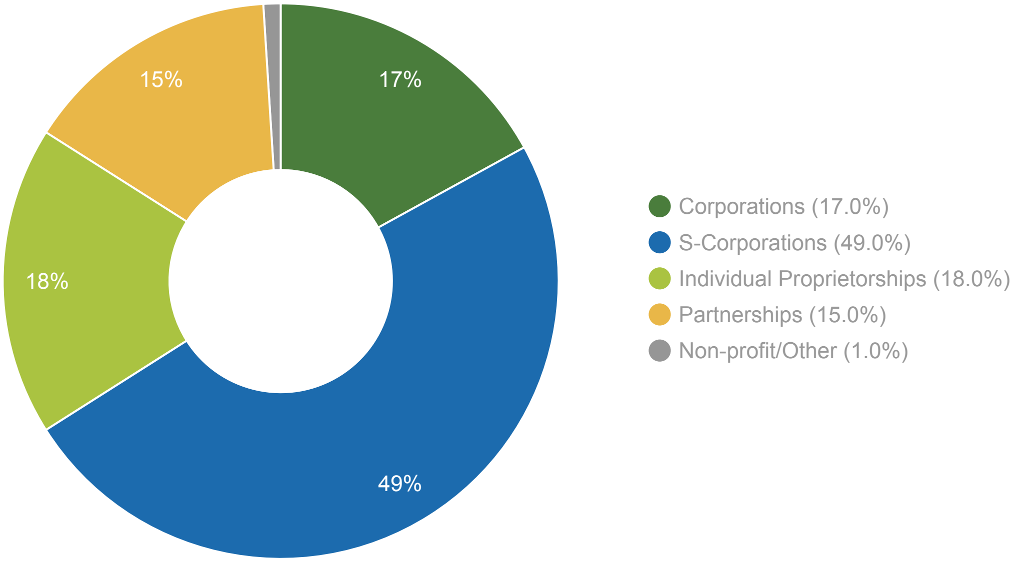
Industry Structure



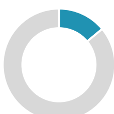
The average financial planner or investment advisor operates out of a single location, employs 10-11 workers, and generates $2.4 million annually.

- The financial planning and investment advisory service industry consists of about 19,400 firms that employ about 201,400 workers and generate about $47 billion annually.
- The financial planning and investment advisory service industry is concentrated at the top and fragmented at the bottom; the top 50 companies account for over 61% of industry revenue.
- Large fee-only investment advisory firms include Financial Engines Advisors, Hall Capital Partners, and Chevy Chase Trust. Large financial planning and investment advisory firms that also provide asset management and other services include Ameriprise Financial and Lazard.
- The industry includes national and regional firms, franchises, and independent operators.

Industry Demographics

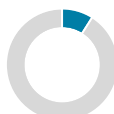


Source: US Census Bureau



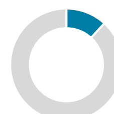
Female Owned

14.0%



Minority Owned

9.0%



Veteran Owned

11.8%

Source: Census Bureau

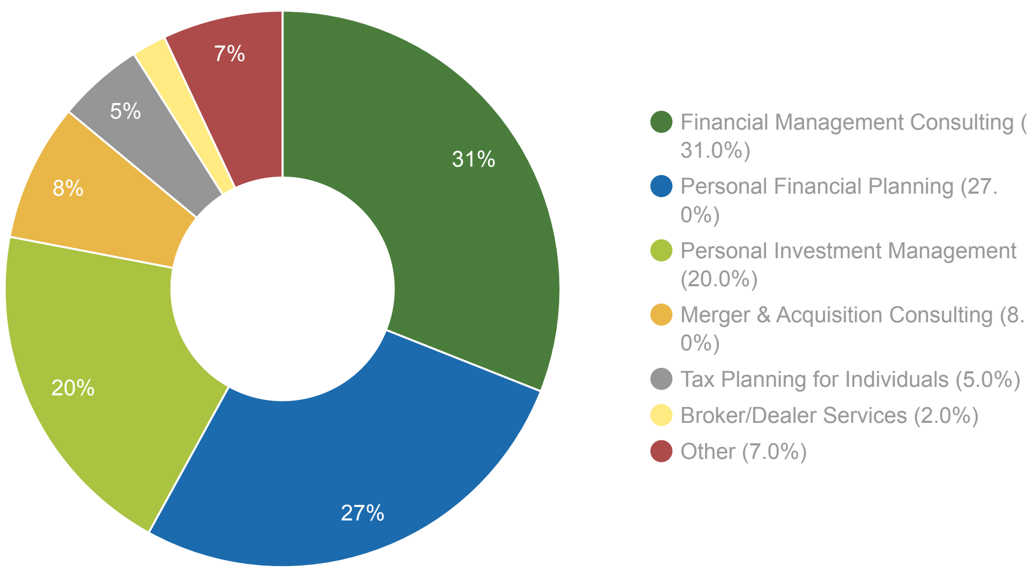
How Firms Operate

Products and Operations

Financial planners and investment advisors provide investment advice and develop financial plans to meet client goals. While the Census definition of the industry stipulates that firms do not execute trades, companies in the industry may manage client assets in addition to providing advice and planning services.

- Major revenue categories include services for personal financial planning; personal investment management products; and financial management consulting.
- A company may also act as a licensed broker/dealer or work with third party broker/dealers, which sell financial or insurance products.
- Firms may specialize in a particular client base, such as high net worth individuals, non-profit organizations, or corporate executives.

Financial Planners & Investment Advisors Revenue



Source: US Census Bureau

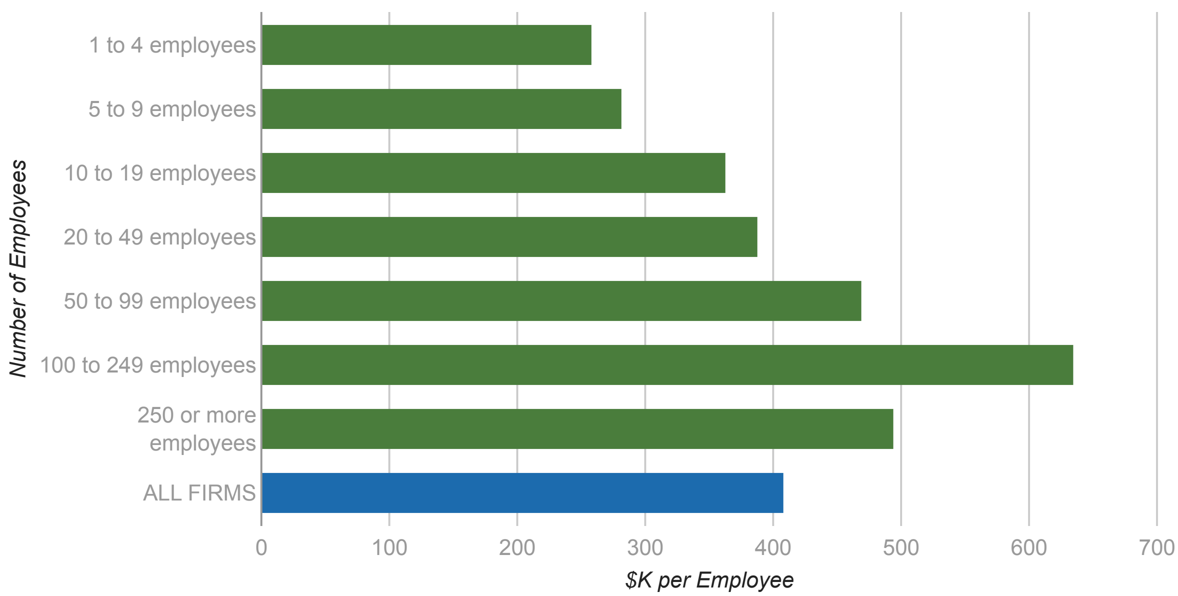
The financial planning process is typically based on a long-term relationship between the client and the advisor. Planners assist clients in gathering financial information; setting goals; analyzing financial status; developing, implementing and monitoring plans; and modifying plans according to changes in circumstance. Firms offer information on investment options, outline associated risks, and make recommendations as to which investments best fit a client's objectives. Planners monitor investments, develop reports, and meet with clients on a regular basis for updates. Investment advisors primarily give advice on investing in stocks, bonds, mutual funds, and other financial instruments, but may manage portfolios. Many financial planners are also investment advisors. Assets under management (AUM) are the value of assets managed by planners or advisors on behalf of clients. Firms may sell financial products, such as money markets, mutual funds, or insurance, to help clients achieve financial objectives.

Financial plans for consumers involve accommodations for major life milestones, such as marriage, retirement, or the birth of children. Planners provide guidance on a wide variety of financial issues, including college funding, retirement funds, Social Security, pensions, and life insurance. Recommendations may involve paying down debt, increasing savings, reallocating assets, or creating a will or trust. Private bankers or wealth managers work with affluent individual investors who meet a minimum net worth threshold. Institutional investors include businesses, non-profits, labor unions, pension funds, and government entities. Institutional advisory service providers may work on complicated transactions, such as mergers and acquisitions (M&A), capital structure, and capital funding projects.

Marketing and promotional vehicles vary. Because of the sensitive nature of a client's financial information, referrals and relationships are important to generating new business. Financial planners affiliated with a major brand typically receive corporate referrals and benefit from marketing and infrastructure-related resources provided by the parent company. Firms that work with institutional clients rely on high-level relationships with senior executives. Independent operators may give seminars and leverage social and business networks to solicit clients.

The degree of federal and state government regulation in the industry varies depending on the types of services provided and products sold. Regulations primarily protect the client's best interests and minimize conflicts of interest, particularly for firms that are also broker/dealers. A Registered Investment Adviser (RIA) has registered with the SEC if he/she manages $110 million or more in assets. RIAs with less than that amount are only required to register with the state where they are headquartered. Individual investment advisor representative (IAR) is typically required to pass a series of exams to practice. A Certified Financial Planner (CFP) has a college degree in a finance-related field, completed a board certified course of study, and has a minimum of three years of experience. In reality, almost anyone can call themselves as a financial planner, and titles can be confusing. Planners and advisors may work with accountants, lawyers, and other professionals to provide a comprehensive set of services. Many financial planners are self-employed.

Revenue per Employee by Firm Size



Source: US Census Bureau

Profit Drivers

Growing AUM And Project Work

Firms increase revenue by growing their assets under management and winning new project-based work from clients. Because of the sensitive nature of a client's financial information, referrals and relationships are important to generating new business. Firms that work with institutional clients rely on high-level relationships with senior executives. Planners and advisors associated with a major brand benefit from marketing and advertising campaigns from the parent company, while independents leverage social and business networks to solicit new clients.

Increasing Productivity

Increasing the revenue generated per planner or advisor improves profitability for firms, so they provide support resources to improve their productivity. Computer systems provide real-time information on financial markets, highlight trends, develop financial planning scenarios, and help advisors make recommendations.

Retaining Employees

As planners and advisors build trusted relationships with clients, clients often identify more with them than the firm. As a result, they often take their clients with them when they leave the firm. To maintain clients and assets under management, firms need to retain their planners and advisors, particularly the high performers. Firms may include long-term incentives in their compensation to help retain employees.

Industry Trends

Trends are affected by the COVID-19 pandemic.

Changes in revenue, employment, business practices, trade and forecasts are occurring rapidly and data reporting by the government lags the changes. We are tracking changes in the “Coronavirus Update” chapter.

More Registered Advisors

As the number of advisers increases, assets under management (AUM) continue to grow for SEC-registered investment adviser professionals. While the number of advisers increased by 2.7% in 2016, 3.3% in 2017, 3.7% in 2018, 3.3% in 2019 and 3.9% in 2020, AUM increased 5.8%, 16.7%, 1.4%, 1.4% in 2019 and 16.2%, respectively, according to the Investment Adviser Association. The typical SEC-registered investment adviser (registered AUM of $110 million or more) has 141 accounts, which include individuals, high net worth individuals, and pension and profit sharing plans, and $341 million in registered AUM.

Acquisitions Continue to Boost Growth

Due to favorable market conditions, merger and acquisition activity in the Registered Investment Adviser (RIA) sector has climbed after posting a significant drop in 2013, when firms enjoyed the benefits of strong organic growth. The number of acquisitions climbed annually from 90 deals in 2014 to 176 in 2018, according to DeVoe & Co. The industry posted 132 transactions in 2019 and assets under management (AUM) of $347 billion. Despite the Covid-19 pandemic, the industry posted 159 transactions in 2020, marking the seventh consecutive year of growth, and a record high value of $500 billion in AUM. Healthy growth and financials make RIAs an attractive acquisition target, and many firms are choosing to sell.

Online Financial Planning And Advice

Online-only financial planners and investment advisors are a hot market, generating impressive account growth and attracting millions in venture capital. Some online-only service providers use algorithms and account aggregation to offer general financial advice, and may offer specific buy/hold/sell recommendations. Online-only firms tend to be more transparent with fees and appeal to a younger client base more accustomed to purchasing services online. While some early entrants have already failed, the market continues to attract new blood. Significant growth in online-only services threatens the traditional market, and is cause for concern, particularly for firms that serve less affluent clients.

Favorable Demographics

Favorable demographics, particularly the large baby boomer cohort, create growth opportunities for financial planners and investment advisors. The population of adults age 65 and older is projected to increase 30.5% between 2020 and 2030. Faced with rising health costs and the prospect of outliving their own assets, many boomers are turning to professionals for advice on how to best manage finances during the golden years. Unable to rely on Social Security, pension plans, and Medicare the way previous generations have, today’s aging adults must adapt to retirement with fewer safety nets and increased reliance on their own assets.

Shortage Of Financial Planners

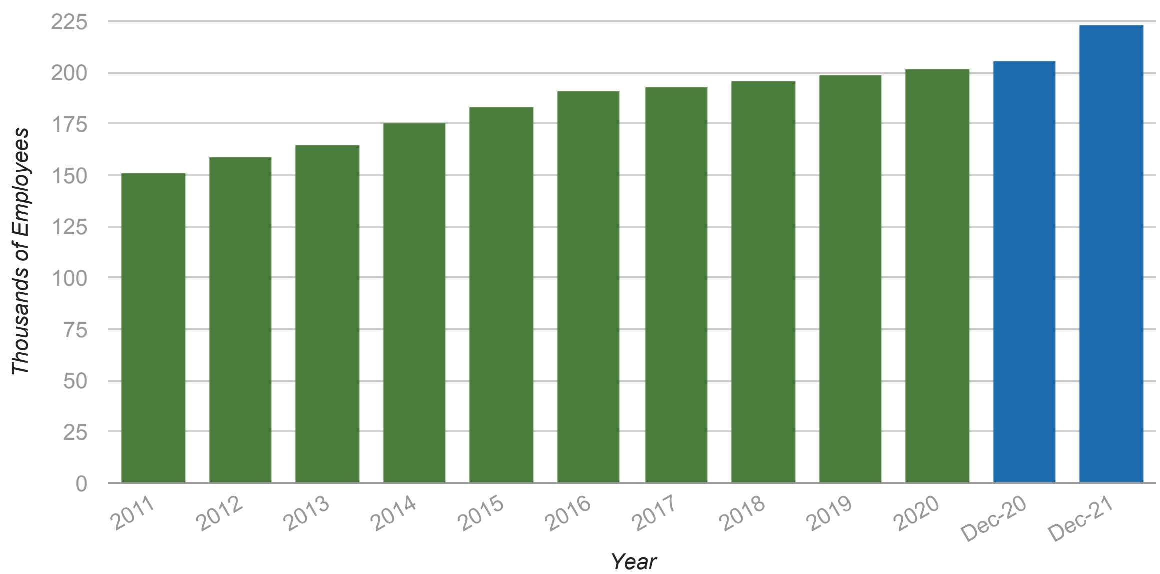
While demand for financial planning services is expected to increase over time, the number of qualified planners is projected to fall short of needs, particularly the number of planners under the age of 30. The average age of advisors is about 50, according to a survey by Cerulli and Associates, meaning many professionals are looking at retirement for themselves. Over the next ten years, around one-third of the advisor workforce is expected to retire. Firms are actively seeking young advisors and investing in training to replace those retiring. The BLS projects employment for financial advisors to increase 4.4% between 2019 and 2029, slightly faster than average growth for all occupations.

Employment and Wage Trends

Employment by financial planners and investment advisors increases

Overall employment by financial planners and investment advisors changed 8.8% in December compared to a year ago, according to the latest data from the Bureau of Labor Statistics.

Financial Planners & Investment Advisors Employment

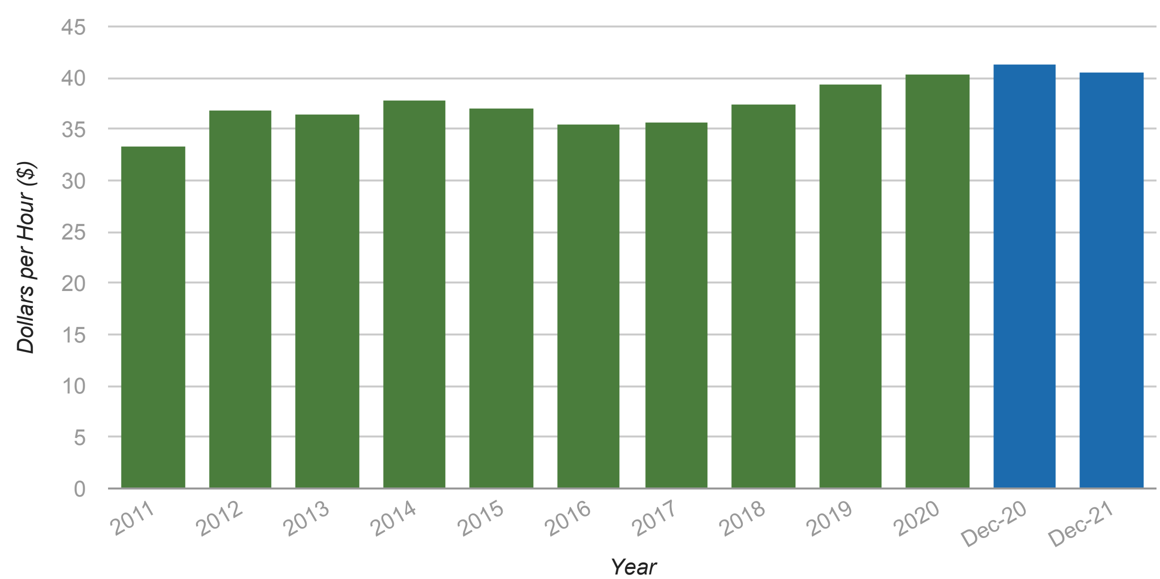


Source: Bureau of Labor Statistics

Wages at financial planners and investment advisors fall

Average wages for nonsupervisory employees at financial planners and investment advisors were $40.46 per hour in December, a -2.1% change compared to a year ago.

Average Wages for Nonsupervisory Employees



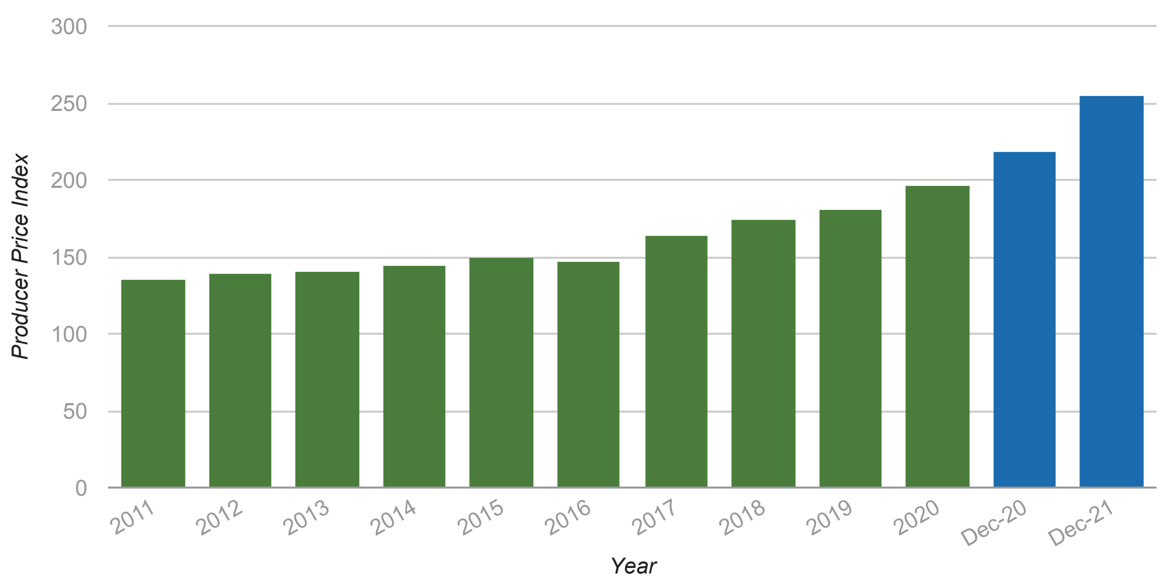
Source: Bureau of Labor Statistics

Price Trends

Producer Prices for financial planners and investment advisors rise

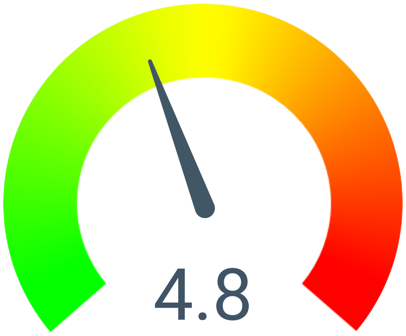
The Producer Price Index for financial planners and investment advisors changed 16.49% in December compared to a year ago, according to the latest data from the Bureau of Labor Statistics.

Producer Price Index for financial planners and investment advisors



Source: Bureau of Labor Statistics

Credit Underwriting and Risks



Industry Risk Rating:
Stable/Satisfactory

Business Exit Rates:	6.5	Higher than US average for all businesses
Cyclical Sensitivity:	4.0	Low Sensitivity
Barriers to Entry:	5.0	Low initial capital; high regulatory/technical barriers; moderate concentration
External Risk:	6.1	High external risk
Industry Outlook:	3.7	Higher than GDP; low cyclical risk
Financial Summary:	3.3	Very high margins; moderate liquidity; moderate leverage

Key Metrics

METRIC	VALUE	COMPARISON
Performance During 2007–2009 Recession	7.9%	0.0% GDP
Business Exit Rate 2019–2020	10.57%	9.0% All Industries
Compound Annual Growth Forecast (2020–2025)	7.3%	6.1% GDP
SBA 7(a) Default Rate by Number of Loans (2010-2019)	1.08%	3.82% All Industries
SBA 7(a) Default Rate by Gross Loan Amount (2010-2019)	0.18%	1.21% All Industries

Underwriting Considerations

- Client / Key Employee turnover can be an industry challenge. How much Client / Key Employee turnover has occurred in the past 5 years.
- Lines of Credit are typically for year end bonuses and/or distributions. Collateral is typically a challenge as there is not AR or inventory to lend against. An alternative source of collateral is recommended.
- Acquisition Lines of Credit in place for easy acquisitions of smaller firms can be an opportunity to clients.
- A Field Exam is recommended for companies with larger Lines of Credit.

Industry Risks

Vulnerability To Performance Of Financial Markets And Economy

Demand for financial planning and investment advisory services is vulnerable to economic conditions and the related effect on financial markets. Instability in financial markets often causes investors to panic or act overly conservative, resulting in withdrawal of funds. During a recession, the value of assets under management (AUM) typically drops, reducing fees earned. Corporations typically delay or forego major financial transactions when finances are tight, although demand for restructuring services often increases during periods of uncertainty. Ironically, economic downturns are periods when all types of investors could use more financial guidance.

Competition From Alternative Sources

Financial planners and investment advisors compete with a wide range of alternative sources, including banks, securities firms, portfolio managers, mutual funds, insurance companies, accountants, online-only services, and clients themselves. Many competitors offer planning and advising services as a complement to core services and a sales tool. Some competitors can offer a more comprehensive set of products, including loans and commercial banking services. Online-only financial advice service providers are in their infancy, but represent a credible threat. Financially savvy clients with the appropriate expertise and resources can develop their own financial plans.

Dependence On Key Staff

Financial planning and investment advisory service providers rely on qualified, professional staff that are able to develop close, long-term relationships and a sustainable client base. Trust is essential because services typically involve large sums of money and risk. Institutional relationships can involve management of accounts worth millions and require financial professionals with specialized skills and experience. Certain investment advisory positions require staff to pass a series of exams. Frequently, business is tied to the advisor, not necessarily the firm. Advisors who leave often take their client base with them.

Lack Of Trust

Repeated scandals involving the financial industry have created an air of skepticism and environment of mistrust. Bernie Madoff's Ponzi scheme bilked a wide range of investors, from individual retirees to major hedge funds, out of millions. Numerous incidents of unethical and illegal practices involving large companies, such as Enron and Lehman Brothers, tarnished the reputation of the entire financial community, including planners and investment advisors. The unscrupulous behavior of the few has garnered increased regulation and forced the industry to become more transparent about fees and commissions.

Client Turnover

High client turnover reduces assets under management (AUM) and fees earned. Clients typically leave in search of higher returns or better communications. As financial planners and investment advisors build a client base, resources are stretched thin, with each additional client receiving less attention. In some cases, retention decreases because clients feel neglected. The most lucrative clients become the best new business prospects for competitors.

Company Risks

Conflicts Of Interest

Good financial planners act in the best interests of their clients, and fully disclose all fees and any potential conflicts. Planners and advisors that also act as broker/dealers are in a precarious position, because they have incentive to sell certain financial products. Basing fees on assets under management (AUM) is tricky because any recommendation that diminishes the asset base may reduce a firm's revenue.

Unpredictable Demand For Project Work

Demand for project-based advisory services can be unpredictable and difficult to sustain. Institutional transactions, such as acquisitions or capital funding projects, generally involve short-term contracts and are often one-time engagements. The timing of projects varies, depending on market conditions and the client's financial status. Project completion is not guaranteed – regulatory and financing issues can prevent parties from reaching an agreement and earning all fees.

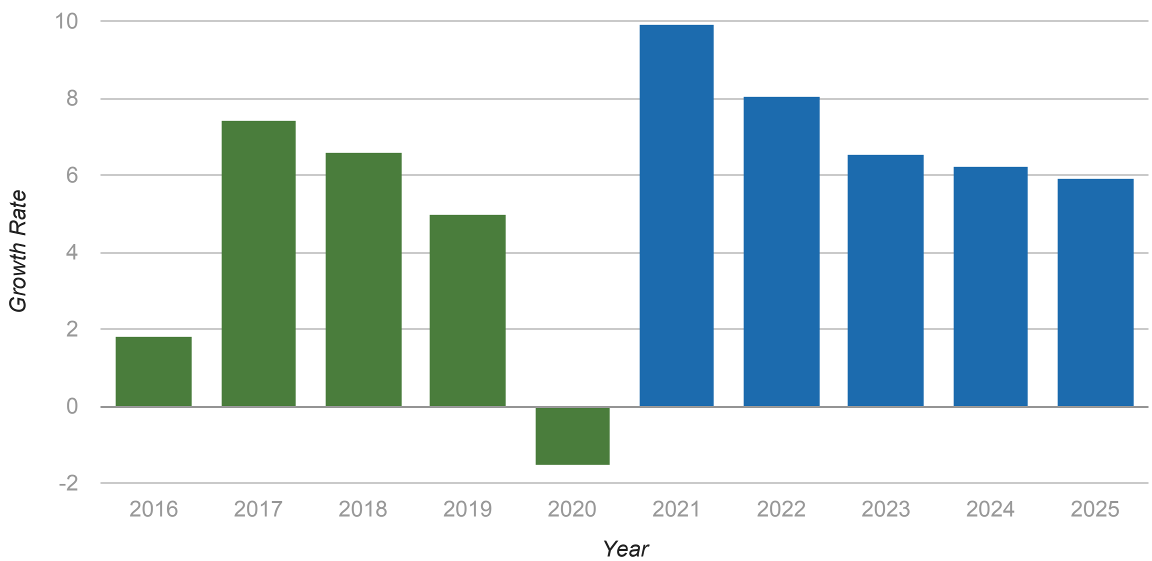
Industry Forecast

Sales for the US financial planners and investment advisors industry are forecast to grow at a 7.3% compounded annual rate from 2020 to 2025, greater than the growth of the overall economy.

Vertical IQ forecasts are based on the Inforum inter-industry economic model of the US economy. Inforum forecasts were prepared by the Interindustry Economic Research Fund, Inc.

Last Update: August 2021

Financial Planners & Investment Advisors Industry Growth



Source: Interindustry Economic Research Fund, Inc.

Working Capital

Sell and invoice

Companies generate the majority of revenue by charging fees for providing financial and investment advice to consumer and institutional clients. Fees may be fixed or based on an hourly rate or a percentage of the value of assets held by a client (assets under management or AUM). Firms that also serve as broker/dealers may earn commissions on the sale of securities. Some companies work on retainer. Billing varies depending on fee structure - firms may invoice monthly, quarterly, annually, or upon completion of a project. Disclosure of fees has been a problem for the consumer side of the industry.

Collect

Most firms offer customer credit. Receivables average 12-13% of assets. For institutional engagements that involve restructuring or bankruptcy, payment terms may be subject to court approval and holdbacks - collection can take longer compared to other types of transactions.

Manage Cash

Cash flow can be uneven, and affected by a variety of factors. Revenue associated with AUM varies depending on financial market conditions and client behavior. Rapid depreciation in market values or significant withdrawals by clients reduces AUM and the associated fees. Firms that charge an hourly rate, a flat fee, or retainer are less dependent on market performance, although delivering healthy returns helps maintain a stable client base and steady cash flow. Turnover among planners and advisors can reduce revenue because clients may follow their account manager upon departure, due to stronger affinity for the individual they work with rather than the company.

For firms that serve institutional clients and perform project-based work, cash flow is affected by the timing and successful completion of transactions. Certain types of projects, including acquisitions, capital funding, and restructurings, occur infrequently. As a result, revenue can be unpredictable, and firms may rely on lines of credit to supplement working capital requirements. Because compensation for staff can involve significant performance-based incentives, expenses often peak when firms pay out bonuses.

Pay

The industry is heavily reliant on experienced, professional planners and advisors. As a result, payroll is the industry's largest expense and averages 28-33% of sales. Compensation frequently involves some type of incentive, through commissions, bonuses, or equity-based programs. Some compensation plans involve deferred awards to help retain key employees.

Rent averages 2-4% of sales and advertising averages 2-3% of sales. Other expenses include education, training, and development programs and insurance.

Report

After-tax net profit averages 17-20% of sales. Assets under management (AUM) are the value of assets managed by planners or advisors on behalf of clients, and can be a good gauge of financial health. The number of new and lost clients relative to the total number of clients affects growth potential. Firms may track revenue per advisor to evaluate the effectiveness of individual staff. A low advisor retention rate signals problems with employee satisfaction.

Cash Management Challenges

Cash Shortfalls Due To Timing Of Projects

Firms that primarily serve institutional investors typically work on project-based activities and cash flow can be uneven due to the number of active projects and timing of project milestones. Some projects, such as mergers and acquisitions, require a high number of hours but occur infrequently. Firms may require a monthly retainer from institutional clients to help smooth cash flow.

Cash Shortfalls Due To Employee Bonuses

To attract and retain skilled financial professionals, compensation typically includes significant performance-based incentives. These employee bonuses are often based on year-end results and paid in the first quarter. The additional expense associated with bonus payments can create temporary cash shortfalls for firms and they may rely on lines of credit to cover the shortfall.

Reduced Revenue Due To Financial Market Downturns

Firms that base their fees on assets under management (AUM) will see reduced revenue during financial market downturns due to the lower value of AUM. Weak financial markets and economic conditions may also cause personal investors to withdraw funds and institutional customers to delay projects.

Capital Financing

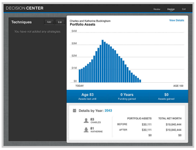
Projects that involve capital financing include the purchase of property, buildings, furnishings, fixtures, technology, and information systems. Large firms require office space for staff and client meetings. Firms may choose to lease space and minimize upfront capital costs. An independent planner or advisor can operate out of a home office. In general, independent firms can start with a minimal capital investment.

The industry is heavily reliant on technology and information systems. Computer systems, including databases, software, and networks, provide real-time information on financial markets, highlight trends, develop financial planning scenarios, and help advisors make recommendations. Large firms have significant investments in proprietary information systems which analyze financial data and facilitate account management. All types of companies may rely on specialized software to help automate day-to-day activities, such as billing, payroll, sales, and accounts receivables and payables.

Firms also rely on capital to fund growth – through new offices, expansions, and acquisitions. Planners new to the industry may opt to purchase a practice (and an existing client base) in lieu of starting from scratch. Firms can also enter new geographical markets or offer additional services through acquisitions and expansions. Client retention can be a potential problem during an acquisition because not all clients may agree to transfer to new ownership.

Sources of capital for large firms include cash, stock, debt, or a combination. Small and medium-size firms often struggle to secure commercial loans because traditional bank-financed lending is based on collateral and assets. Earn-out financing is the most common form of funding, and involves a down payment to the seller and additional payments over time based on performance. Other forms of financing include cash payouts over time and installment sales. Small firms and independent operators may rely on personal or home-equity loans as sources of capital.

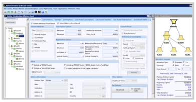
Examples of Equipment Purchases



Financial Planning Software

$500 - 3,600 per user

Software to help planners develop plans for clients using multiple scenarios and assumptions.



Financial Practice Management Software

$1,000 - 5,000 per user

Modules for managing a financial planning practice, including accounting, marketing, customer relationship management, portfolio management, and financial planning.

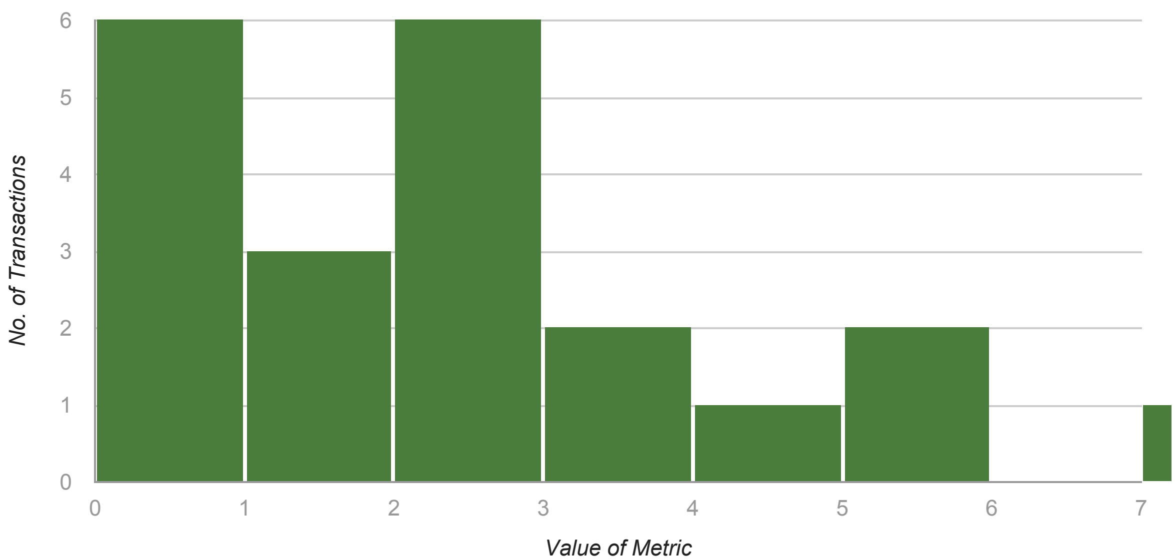
Business Valuation

This data on business valuations is supplied by DealStats, an online database with the most complete financial details on nearly 36,000 acquired companies. These companies are mostly small and medium-sized private firms.

Summary Valuation Data for Financial Planners & Investment Advisors

	MEDIAN	MEAN	# TRANSACTIONS	DATES
Price to Net Sales	2.29	3.97	21	09/24/1997–07/02/2019
Price to Gross Profits	2.25	4.55	18	09/24/1997–07/02/2019
Price to EBITDA	7.47	26.24	13	09/24/1997–07/02/2019
Price to EBIT	8.27	60.77	14	09/24/1997 –07/02/2019

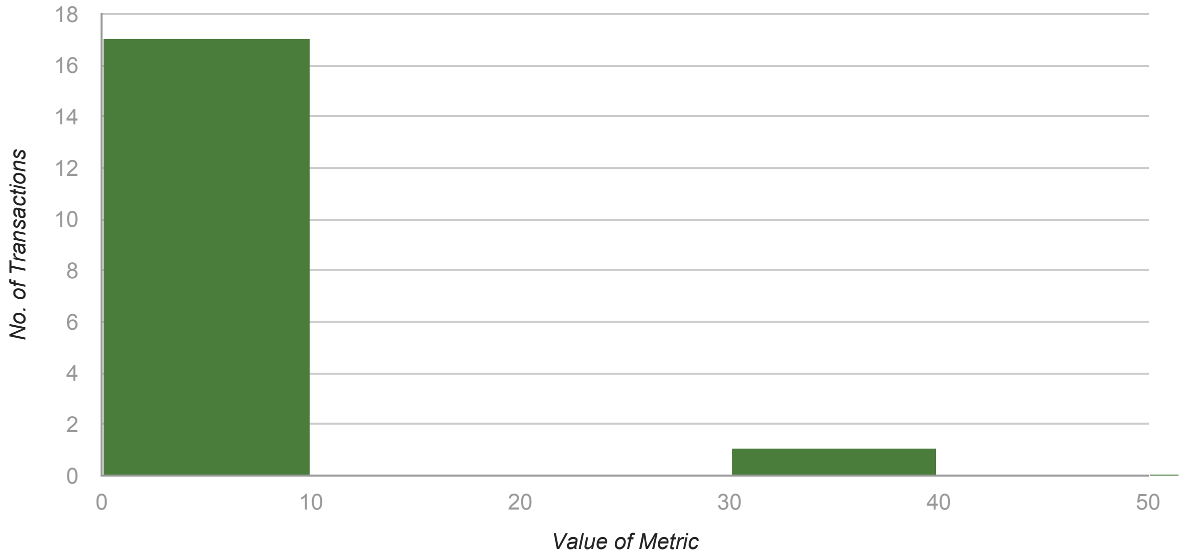
Click on the metric below to see a distribution of transactions for the industry:



Source: DealStats

Count: 21 **Min:** 0.24 **Max:** 38.86 **Mean:** 3.97 **Median:** 2.29

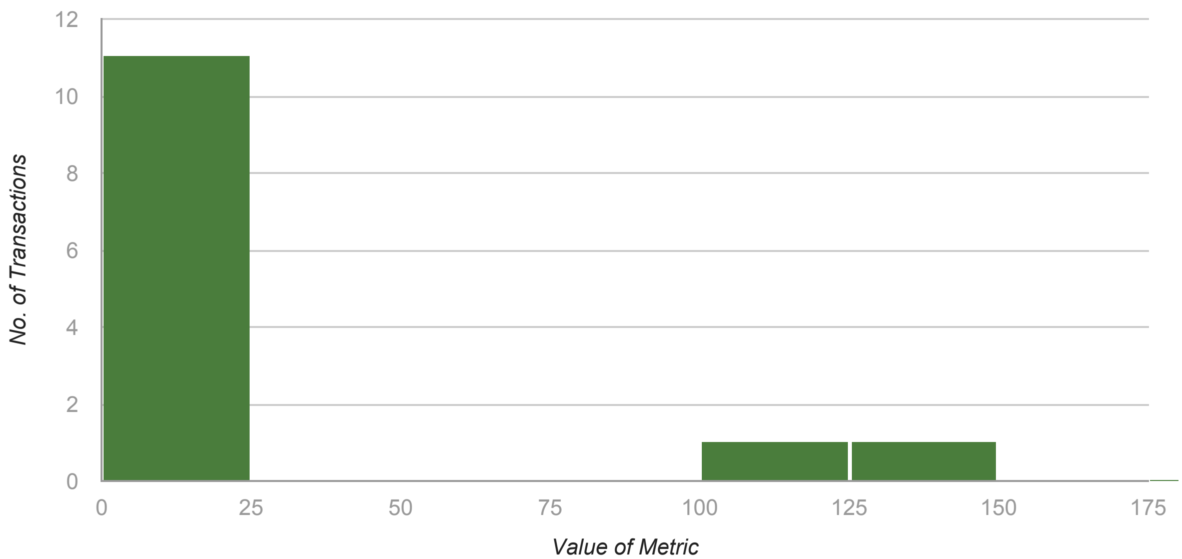
Price to Sales = Selling Price/Net Sales
Date range: 09/24/1997 - 07/02/2019



Source: DealStats

Count: 18 **Min:** 0.5 **Max:** 38.86 **Mean:** 4.55 **Median:** 2.25

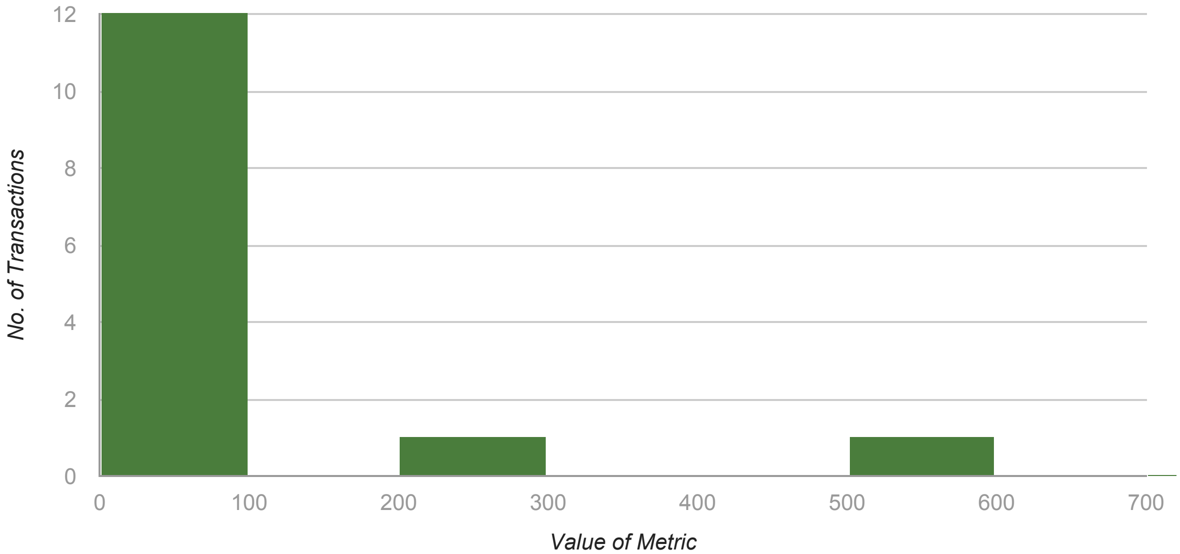
Price to Gross Profit = Selling Price/Gross Profit
Date range: 09/24/1997 - 07/02/2019



Source: DealStats

Count: 13 **Min:** 1.35 **Max:** 130.85 **Mean:** 26.24 **Median:** 7.47

Price to EBITDA = Selling Price/Operating Profit + Depreciation & Amortization
Date range: 09/24/1997 - 07/02/2019



Source: DealStats

Count: 14 **Min:** 1.35 **Max:** 520.05 **Mean:** 60.77 **Median:** 8.27

Price to EBIT = Selling Price/Operating Profit
Date range: 09/24/1997 - 07/02/2019

Selling Price, also known as MVIC (Market Value of Invested Capital) *is the total consideration paid to the seller and includes any cash, notes and/or securities that were used as a form of payment plus any interest-bearing liabilities assumed by the buyer. The MVIC price includes the noncompete value and the assumption of interest-bearing liabilities and excludes (1) the real estate value and (2) any earnouts (because they have not yet been earned, and they may not be earned) and (3) the employment/consulting agreement values. In an Asset Sale, the assumption is that all or substantially all operating assets are transferred in the sale. In an Asset Sale, the MVIC may or may not include all current assets, non-current assets and current liabilities (liabilities are typically not transferred in an asset sale).*

Source: DealStats 2019 (Portland, OR; Business Valuation Resources LLC). Used with permission. DealStats is available at https://www.bvresources.com/learn/dealstats

Financial Benchmarks

The following financial benchmark data is based on annual financial statements submitted by member institutions of the Risk Management Association from Q2 of the first year listed through Q1 of the following year.

Financial Ratios (Financial Planners & Investment Advisors, Industry-wide)

MEASURE	2018-19	2019-20	2020-21
Current Ratio	1.23	1.24	1.16
Quick Ratio	.75	.98	1.04
Days Inventory	2.27	12.34	10.7
Days Receivables	46	31	39
Days Payables	18.07	20.14	31.44
Pre-tax Return on Revenue	21.29%	23.90%	36.97%
Pre-tax Return on Assets	28.93%	47.66%	70.88%
Pre-tax Return on Net Worth	124.98%	173.07%	220.71%
Interest Coverage	23.27	31.37	36.93
Current Liabilities to Net Worth	1.81	1.49	1.29
Long Term Liabilities to Net Worth	1.51	1.14	0.82
Total Liabilities to Net Worth	3.32	2.63	2.11
Number of Firms Analyzed	*189*	*144*	*130*

Income Statement (Financial Planners & Investment Advisors, Industry-wide)

ITEM	2018-19	2019-20	2020-21
Revenue	100.0%	100.0%	100.0%
Cost of Sales	32.76%	35.02%	31.33%
Gross Margin	67.24%	64.98%	68.67%
Officers Compensation	6.51%	5.77%	6.83%
Salaries-Wages	20.97%	21.85%	22.84%
Rent	2.73%	2.84%	1.83%
Taxes Paid	2.75%	2.81%	3.15%
Advertising	2.7%	2.23%	2.98%
Benefits-Pensions	2.58%	2.66%	3.01%
Number of Firms Analyzed	*189*	*144*	*130*

ITEM	2018-19	2019-20	2020-21
Repairs	0.5%	0.49%	0.41%
Bad Debt	0.5%	0.56%	2.17%
Other SG&A Expenses	2.32%	3.12%	-1.28%
EBITDA	25.68%	22.66%	26.73%
Amortization-Depreciation	2.46%	2.52%	2.25%
Operating Expenses	44.02%	44.85%	44.19%
Operating Income	23.22%	20.13%	24.48%
Interest Expense	2.01%	1.17%	1.96%
Other Income	0.45%	0.23%	-1.09%
Pre-tax Net Profit	20.77%	18.73%	23.61%
Income Tax	0.95%	0.85%	0.8%
After Tax Net Profit	19.82%	17.88%	22.81%
Number of Firms Analyzed	*189*	*144*	*130*

Balance Sheet (Financial Planners & Investment Advisors, Industry-wide)

ASSETS	2018-19	2019-20	2020-21
Cash	32.87%	33.02%	34.35%
Receivables	12.6%	12.33%	14.21%
Inventory	0.27%	0.68%	0.79%
Other Current Assets	6.7%	5.92%	3.53%
Total Current Assets	52.45%	51.95%	52.88%
Net Fixed Assets	13.97%	10.92%	11.87%
Net Intangible Assets	20.0%	18.8%	23.5%
Other Non-Current Assets	13.58%	18.31%	11.75%
Total Assets	*100.0%*	*100.0%*	*100.0%*

LIABILITIES			
Accounts Payable	4.83%	5.71%	5.41%
Loans/Notes Payable	18.6%	14.09%	12.13%
Other Current Liabilities	19.94%	20.45%	20.67%
Number of Firms Analyzed	*189*	*144*	*130*

LIABILITIES

Total Current Liabilities	43.37%	40.25%	38.21%
Total Long Term Liabilities	39.94%	37.4%	35.18%
Total Liabilities	83.3%	77.65%	73.39%
Net Worth	16.71%	22.35%	26.61%
Total Liabilities & Net Worth	100.0%	100.0%	100.0%
Number of Firms Analyzed	*189*	*144*	*130*

Vertical IQ financial benchmark data is based on data provided by the Risk Management Association (RMA) and Powerlytics, Inc. RMA's Annual Statement Studies provide comparative industry financial benchmarks based on financial statements of small and medium business clients of RMA's member institutions. Additional detail on income statement line items is provided using Powerlytics financial benchmarks, which are based on reporting submitted to the IRS. Additional detail on these data sources can be found at RMA and Powerlytics.

Bank Product Usage

Top Bank Products Used by Financial Planners & Investment Advisors

The following table provides the frequency of bank product usage by Financial Planners & Investment Advisors with less than $10 million in annual revenue. It is provided by Barlow Research Associates, Inc., the premier market research firm in the financial services industry.

BANK PRODUCT	% OF FIRMS
Business checking account services	97.0
Electronic payments initiated through the Internet (Bill Payment)	68.0
Business debit card or business check card	67.0
Automated clearing house services (ACH)	62.0
Business savings or money market account	59.0
Business credit card issued in your company's name (Visa, MasterCard, Amex, etc.)	57.0
Overdraft protection for business checking	56.0
Wire transfer services	55.0
Remote deposit capture (scanning checks at your office or by mobile device for electronic deposit)	51.0
Point-of-sale credit card processing	42.0
Money market mutual funds or short-term investments	30.0
Credit lines secured by receivables, inventory, property or other assets	30.0
Unsecured short-term loans or working capital line of credit (less than one year)	28.0
Term loans or equipment financing (one year +)	27.0
Commercial real estate mortgage	27.0
Equipment leasing	26.0
Commercial real estate mortgage (company occupied building)	26.0
Commercial real estate mortgage (investment property)	26.0
SBA loans	23.0
Company sponsored 401(k), SEP, pension or profit sharing plan	23.0
International (foreign exchange, import/export letters of credit)	22.0
Payroll processing	21.0
Account reconciliation processing (ARP)	20.0
Certificates of deposit	20.0
Overnight investment or sweep accounts	19.0

BANK PRODUCT	% OF FIRMS
Accounts receivable collection (lockbox)	16.0

Barlow’s Small Business Banking program is a multi-client research program sponsored by leading banks. Each quarter, a stratified random sample of businesses throughout the United States with sales between $100,000 to $10 million compiled from an independent list provider are invited to participate in a comprehensive banking survey of over 100 questions. The results measure channel adoption, bank satisfaction, brand power, account management, service quality, business product usage and the selling abilities of leading providers. The results in this chapter are calculated directly from the business product usage section and represent usage for the average small business ($100K-<$10MM).

For more information on Barlow’s banking research, go to http://www.barlowresearch.com/

Quarterly Insight

4th Quarter 2021

Gen Z Adults Optimistic About Financial Future

Despite the pandemic, about two-thirds of Generation Z adults say they are optimistic about their financial futures, but feel they could use more knowledge about financial preparation matters including investing, retirement savings, and buying a home, according to a recent Bank of America survey. More than 25% of survey respondents said they contributed to a retirement account in the past year, and the same percentage invested in the market. About 70% said they added to their savings in the past year. A third of Gen Z adults rated their financial knowledge as low, and 40% of that group said they were unsure about how to gain more financial understanding.

3rd Quarter 2021

Workers Maintain Focus on Saving Despite Pandemic

A recent survey suggests investors across all generations kept a focus on their retirement savings despite the effects of the pandemic. The survey by Transamerica Center for Retirement Studies and the Transamerica Institute found that more than 80% of workers are saving through a 401(k) or other retirement account. Nearly 85% of baby boomers and Generation X are saving, followed by about 80% of millennials and 70% of Generation Z. However, about 20% of workers believe they will have to postpone their retirement due to the pandemic. About 60% of workers made adjustments to their finances due to COVID-19, including reducing expenses (32% of respondents), dipping into savings (24%), taking on more credit card debt (17%), reducing or ceasing retirement contributions (14%), and postponing healthcare (14%).

2nd Quarter 2021

Advisor Retention Hits All-Time High During Pandemic

Despite the challenges of the pandemic, financial advisors managed record-high client retention in 2020, according to a recent report by McKinsey & Company. Financial advisors had a retention rate of 94.6% in 2020, topping the previous record set in 2019, and advisors saw less client churn than during the previous financial crisis in 2008. The high level of client retention in 2020 underscored the depth of advisor relationships and the value of human advice during the pandemic, according to McKinsey. Per-advisor median assets also hit a record-high $130 million, a 9% rise over 2019, although 75% of the increase was from market performance. Financial advisors continue to see an influx of younger investors. The percentage of clients between the ages of 25 and 56 increased to 24% in 2020 compared to 19% in 2016. The McKinsey report is based on data from about 70,000 advisors with more than 20 North American wealth management firms.

1st Quarter 2021

Political Shift May Prompt Financial Planning Strategies

For high wealth clients, advisors may set up joint meetings with clients' attorneys and CPAs to adjust tax planning considering President Biden's proposed tax increases on individuals who earn more than $400,000 per year. Some experts suggest investors with a large portion of their net worth in pretax retirement accounts should roll a portion of their wealth into a Roth IRA. Assuming taxes may rise, a Roth is attractive because taxes are collected on the front end – while taxes are low – and is tax-free when the money is spent in retirement. Advisors may also advise clients who earn more than $1 million to avoid higher capital gains taxes proposed in the Biden plan by selling off some investments.

4th Quarter 2020

Investment Accounts Grew in Q3

Despite the pandemic, investors continued to pour money into their investment accounts in the third quarter of 2020, according to analysis of retirement savings trends by Fidelity Investments. The average IRA balance was $117,700 in the third quarter, a 6% increase over the previous quarter and up 7% over the same period in 2019. More investors are saving in an IRA in addition to their employer's 401(k) plan. In Q3 2020, more than 2 million people on Fidelity's platform saved in both an IRA and a 401(k), a 12% increase over Q3 2019. The rise in investment activity may signal increased demand for financial planning and investment advice.

3rd Quarter 2020

Advisors Optimistic, Comfortable with Virtual Tools

Financial professionals are fairly optimistic about their 2020 revenue prospects, the economy overall, and their ability to connect digitally with current and prospective clients, according to a survey released in August 2020 by Florida-based financial services firm Incapital. About 37% of financial professionals expect their revenue to rise more than 10% in 2020; 38% said they believe revenue growth will be 0%-10%. Just under 20% said their revenue growth would be flat to down 20%. On average, financial professionals said their confidence in the economy ranked a 7 on a scale of one to 10 (with 10 being the highest confidence level). Financial professionals reported their top three barriers to growth were repeated office shutdowns, volatile markets, and social distancing requirements. Despite concerns about distancing, financial professionals are adept at communicating virtually. More than 40% said they plan to chiefly communicate by phone, while 36% plan to use virtual video tools such as Zoom and WebEx. The Incapital survey - which included more than 600 financial planners, wealth managers, and fiduciaries – was conducted in mid-June 2020.

2nd Quarter 2020

Financial Planners Content to Work from Home

Even as every state is making moves to reopen, financial advisors are in no hurry to return to their offices. In a recent survey by Financial Advisor IQ, only 28% of respondents said they want to return to offices in the second quarter. Nearly 45% of advisors want to wait and return sometime in 2021. Some advisor offices are gradually phasing in returns to the office, but with fewer people in the office at a time. Those who are uncomfortable returning are in many cases allowed to continue working from home. Firms are also making investments in digital meeting technologies to improve the remote work experience. Many financial technology firms are providing free access to online tools for planners and investment advisors that are working remotely.

1st Quarter 2020

Lawmakers Seek Investigation of Firm's Data Privacy Practices

Three federal lawmakers have called for an investigation of wealth management firm Envestnet's sale of clients' financial transaction data to third parties without their consent. Senators Ron Wyden (D., Ore.), Sherrod Brown (D., Ohio) and Rep. Anna Eshoo (D., Calif.) urged the Federal Trade Commission to investigate whether Envestnet's sale of clients' data represents "an unfair, deceptive or abusive" practice. The lawmakers say that Envestnet does not directly inform clients that their transaction data is being sold, but relies on partner firms to inform clients in their terms and conditions or privacy policy.

Industry Terms

Advisor/Adviser

Investment professional that provides advice. The SEC uses the term adviser, while most of the industry uses advisor. However, the terms are basically interchangeable.

AUM

Assets Under Management

Broker/Dealer

Person or company that buys and sells securities on behalf of clients or their own accounts.

CFP

Certified Financial Planner, planner who has a college degree in a finance-related field, completed a board certified course of study, and has a minimum of three years of experience.

Financial Planner

Financial professional that develops financial plans to meet client goals. Most financial planners are investment advisors, but not all investment advisors are financial planners.

Investment adviser/advisor

An individual or a firm that is in the business of giving advice about securities to clients. May offer portfolio or asset management services.

RIA

Registered Investment Adviser, adviser registered with either the SEC or state, depending on the value of AUM. In 2012, SEC-registered advisers had a minimum $110 million in registered assets under management (RAUM).

Series 65

Exam administered by the Financial Regulatory Authority (FINRA) to qualify individuals to operate as Investment Advisor Representatives and provide investment advice.

Wirehouse

Brokerage houses with multiple branches that sell proprietary products.

Web Links

Financial Planning Association
News, trends, and advice for consumers and financial planning professionals

Financial Planning
New, trends, statistics, and rankings

Financial Advisor (FA)
News and trends

Investment News
News, trends, and rankings

SEC
Regulations and definitions for investment advisers

Journal of Financial Planning
News and trends for financial planners

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NAICS: 541213 SIC: 7291

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