BRIDGEMARK STRATEGIES

Maximizing the Value of Your Financial Advisory Business:

Understanding What Drives P.R.I.C.E.

Introduction

Over the past decade, the valuation landscape for financial advisory firms has transformed. Historically, practices were priced at roughly **two times recurring revenue** - a rule of thumb that has largely become obsolete.

Today, valuations are increasingly linked to **EBITDA multiples**, with well-structured, profitable firms trading at **10-20x EBITDA**, or equivalently **4-6 (or more) times revenue.**

Private equity has played a pivotal role in driving this trend, bringing institutional capital and consolidation strategies to the independent advice channel. However, the strongest determinant of value remains **the firm's internal fundamentals**, including its structure, people, and growth trajectory.

Executive Summary

In today's evolving wealth management landscape, the valuation of financial advisory firms and financial advisor practices has increased dramatically. Once valued primarily as a multiple of revenue, firms are now more commonly appraised based on profitability metrics such as EBITDA – this can yield valuations of four, five, or even six times revenue, or more in some cases.

These elevated valuations are being elevated by private equity and other institutional investors' interest in the wealth management industry. Their interests are rooted in scalable, profitable business models with high growth potential. The increasing sophistication of advisory practices, the recurring revenue, the client (or revenue) retention, and year over year growth rates are fueling these outside investors which seem to have an insatiable appetite for acquisitions.

This paper outlines the key factors that drive valuation in advisory businesses, using the acronym **P.R.I.C.E.** to represent the five primary value drivers:

- **P**eople
- **R**evenue
- **I**ncrease (Growth)
- **C**lients
- **E**BITDA

Each of these elements influences how buyers assess enterprise value and how sellers can strategically prepare their business for transition or succession.

The Five Drivers of Value: The P.R.I.C.E. Framework

P: People

The foundation of any advisory business is its people. Buyers evaluate not only the talent of the current leadership team, but also the firm's ability to operate and **grow independently of its founder.**

A strong valuation depends on having:

- A **stable, multi-generational team** including junior and senior advisors.
- **Tenured support staff** who maintain client continuity.
- Clear **succession or partnership structures** that ensure sustainability.
- Appropriate **compensation and staffing balance** (not over- or under-resourced).

From a buyer's perspective, "sell and stay" models - where key advisors remain active for five years or longer - command the highest multiples. Firms that rely heavily on a single founder or lack depth in their talent bench tend to experience valuation discounts due to "*key person risk*."

R: Revenue

Revenue is a critical driver of firm value, but not all revenue is created equal. Buyers look beyond top-line figures to examine the **composition, consistency, and quality** of earnings. The most valuable revenue streams include:

- **Recurring, fee-based AUM** revenue (to maximize this category, buyers are looking for a minimum of 85–90% of total revenue).
- **Financial planning-centric models** that integrate advice with asset management.
- **Model-based portfolio management**, which reduces operational risk and dependency on individual portfolio managers.

Commissionable, or trail-based revenue, is not inherently negative, but firms with heavy reliance on these streams (especially those without a broker-dealer solution) will see a smaller buyer pool and potentially reduced valuations.

Key Insight: Firms with a diversified revenue mix anchored in fee-based advisory services tend to achieve higher stability and scalability, both of which translate into superior valuations.

I: Increase Growth Year-over-Year (Growth Rate)

Buyers place a premium on growth. Firms with **sustained, measurable growth** in clients, assets, and revenue over a three-year period are more attractive acquisition targets.

Growth metrics typically include:

- **Net new asset growth**
- **Revenue growth**
- **Net new client growth**

Equally important is understanding what drives growth—whether through client referrals, marketing investments, or strategic partnerships.

Buyers will often adjust or "credit back" reasonable marketing expenses that support sustainable growth, recognizing them as strategic investments rather than costs that depress EBITDA.

Firms showing flat or negative growth trends—often due to aging founders or client bases—can expect valuation discounts relative to their growth-oriented peers.

C: Clients

A firm's client demographics and concentration play an integral role in its valuation. Buyers seek **balanced, diversified client bases**, not overly concentrated or skewed toward older investors nearing decumulation. Key considerations include:

- **Client age distribution** and life stage mix.
- **Concentration risk** (too few large clients or too many small ones).
- **Household retention** posterity
- **Retention predictability** post-transaction.

Firms that demonstrate **multi-generational engagement** - serving parents, children, and even grandchildren - are rewarded with higher valuations because they offer continuity and long-term revenue visibility.

E: EBITDA

EBITDA - Earnings Before Interest, Taxes, Depreciation, and Amortization—has become the industry's dominant valuation metric. It reflects a firm's **true, free cash flow** and is the most standardized measure of profitability.

To calculate EBITDA:

1. Begin with total (*gross*) revenue.
2. Subtract all operating expenses (*administrative, staffing, technology, platform, rent, etc.*)
3. Determine EBOC (*Earnings Before Owner's Compensation*) - the total pre-tax income to the owner(s). Adjusted EBOC can include add-backs such as a 401k contribution to the owner or a car or other expenses that the owner may run through a business.
4. Divide EBOC into:
    - Compensation for **advisory work** (the owner's role as an advisor), this compensation will often range between 15%-30% of total revenue and
    - Compensation for **ownership** of a financial advisory firm

The portion attributable to ownership represents the true **EBITDA**, and it's this number that buyers apply multiples to. Buyers will often work with sellers to determine an adjusted EBITDA that will include personal expenses that are run through the business that may not continue.

Typical EBITDA margins for healthy advisory firms range from **35% to 50%**. Multiplying that EBITDA by current market multiples can result in **enterprise values equating to 4–6x revenue** for top-tier firms.

When do Multiples of Revenue Equal Multiples of EBITDA?

There is a caution in this example that potential sellers should understand. The calculated EBITDA in this example is an unencumbered free cash flow. This means that there are no expenses connected to this EBITDA calculation which is what drives price. The EBITDA multiples on advisory businesses can often achieve 8x to 14x or even significantly more.

When a seller considers selling a percentage of their revenue, they must understand that selling a portion of revenue and the multiple for a sale on a portion of revenue is not the same as selling the entire business.

When selling a portion of revenue, one must understand that there are advantages and disadvantages. In addition to the pros and cons, what should always be considered is how any sale compares to what the marketplace may offer.

For example: if a financial advisory practice sells at five times revenue after calculating EBITDA and appropriate multiples, and if someone has the opportunity to sell just 20% of their revenue at seven times revenue, is the 5x revenue higher or lower than the 7x in this example? While at first blush, the 7 may appear better than the 5, but when breaking down the numbers in this example the 7x revenue may actually be a lower value.

When do Multiples of Revenue Equal Multiples of EBITDA? - cont.

Let's consider this common example for a practice with $500mm in fee-based assets doing $4mm in revenue. The business has expenses that total 35% of total revenue, leaving 65% of Revenue for Owners Compensation. As described earlier, we will split the owners' compensation into two categories, and for this example we will allocate 20% of top-line revenue for performing the role of a financial advisor and the remaining 45% is for owning a financial advisory business.

For this example, the $4mm top-line revenue and 45% EBITDA means that EBITDA is $1.8mm. While there are a lot of dependencies (including the other variables listed above that drive price), if we assume some normalization for all of the other factors we could estimate that a reasonable price for this business may be 10x EBITDA or $18mm.

Now, let's calculate how the sale of 20% of the revenue for 7x will affect the rest of these numbers in this example. 20% of $4mm is $800k, so the owner would receive a check of seven times $800k, or $5.6mm.

Now what's the value for the rest of the business? The new EBITDA is $1mm.

When do Multiples of Revenue Equal Multiples of EBITDA? - cont.

To now calculate the value of the two-step transaction. There is $1mm remaining in EBITDA since 20% of the revenue or $800k was sold. Using the above-mentioned 10x EBITDA in this example yields a price for the business of $10mm and a combined value of $15.6mm vs the original number of $18mm.

This is the part that confuses people - selling 20% of revenue in this example was the same as selling 44% of EBITDA. $800k is 44% of $1.8mm.

EBITDA is **free cash flow**, there are no expenses connected to EBITDA. When selling a portion of revenue, it is the same - there are no expenses. The remaining business carries the expenses, and typically the seller has three choices after selling a portion of revenue since many firms that are willing to buy a portion of revenue may have restrictions related to the remaining portion of the business:

- **Choice One:** Sell the remaining business internally. This can be the desired outcome, as often businesses are too expensive to just sell the entire firm to second generation advisors. This strategy can create a pathway for advisors to get liquid while the next generation can eventually buy out the first generation. Additionally, this creates some liquidity for owners and or to fund growth while creating a tranche sale which can maximize valuation.

When do Multiples of Revenue Equal Multiples of EBITDA? - cont.

- **Choice Two:** Sell the remainder to the original buyer. This strategy can work, but often the buyer is only interested in the minority sale and doesn't want to run the business. Additionally, the remaining balance of the business may not be worth as much to the first buyer and they may offer a lower price on the second portion.

- **Choice Three:** Buy the business back. This can be an option that provides independence again but can come at a significant cost. Sometimes buyers of the original will want a premium to allow you to buy the business back. Plus, add time from the original partial sale to the time you want it back and the original price would have likely gone up as well. The good news for the firms that may want to buy themselves back is that they may have grown significantly, and they can also attribute some of their growth to their investor. It would be looked at as a favorable relationship.

The Market Today: Private Equity and Consolidation

The advisory industry has entered a consolidation phase, fueled by private equity capital and aggregators seeking scale, efficiency, and growth.

This trend benefits well-run independent firms that demonstrate strong fundamentals in the P.R.I.C.E. framework.

At the same time, it creates competitive tension among buyers, often resulting in multiple bids and enhanced negotiating power for sellers.

Firms considering a sale, merger, or partial liquidity event should prepare **two to three years in advance if possible**, ensuring that their operations, revenue mix, and growth metrics align with what strategic buyers value most. Most importantly, buyers are very sophisticated and are evaluating dozens of firms per year and many are buying more than one a month.

Conclusion

Valuing a financial advisory firm is both an art and a science. While market dynamics and private equity capital drive overall demand, the true determinants of value are internal - the people, processes, and profitability of the firm.

By strategically managing each component of P.R.I.C.E., advisory firm owners can maximize their valuation, improve business resilience, and create a more compelling opportunity for buyers or merger partners.

If you are considering a sale, merger, or other monetization event, then seek the help of a Consultant that can help you curate the marketplace, evaluate different firms and negotiate the financials. There is often more than can be negotiated than most sellers are aware.

In short: Value follows structure. Firms that build sustainable teams, predictable revenue, consistent growth, diversified clients, and strong EBITDA margins will always command premium prices.