

Meeting in the Middle

Goal: Selling a part of your practice for a fair price.

Problem: You cannot easily quantify the value of your smaller accounts. You want to sell them in order to focus on your larger ones. These small accounts probably could be better served and be productive for the buyer.

Suggestion: Give them another chance to convert to a diversified product, like a level-load variable annuity. If not, sell them based on potential GDC, not on current GDC. You'll garner a much higher price from a buyer.

Identify clients generating under 0.25% in annual GDC – the “back-of-your-book.” Offer a college funding, insurance, or investment analysis. If suitable, suggest a VA instead of their aged B-shares, CDs, bonds, or under-water stocks. For clients with too much cash, ease them back into the market with a conservative asset allocation.

Then use the Convert Assets Calculator. Evaluate how much these clients are worth to another rep.

Result: Your business grows, and your sale price is higher, with help from Broker Village.

The calculator is easy to use. Data entry is fast and easy. Help files, wizards, and prompts guide you.

A rep has 500 clients, manages \$50 million, and GDC of \$325,000. Ranked by productivity (“ROA”), *not* account size, the top 20% of clients have 45% of assets (\$22.5 million) and generate 80% of GDC. The “back-of-the-book” is 400 clients. They have 55% of assets (\$27.5 million) and generate 20% of GDC (\$65,000).

She will sell ½ of the back-of-the-book: \$13.75 million in assets, 200 clients, & \$32,500 in GDC. She is sure that ½ of these clients would convert to a VA if asked and proper. VAs pay 2.5% up-front & 1.25%/yr starting in year two. The conversion takes two years.

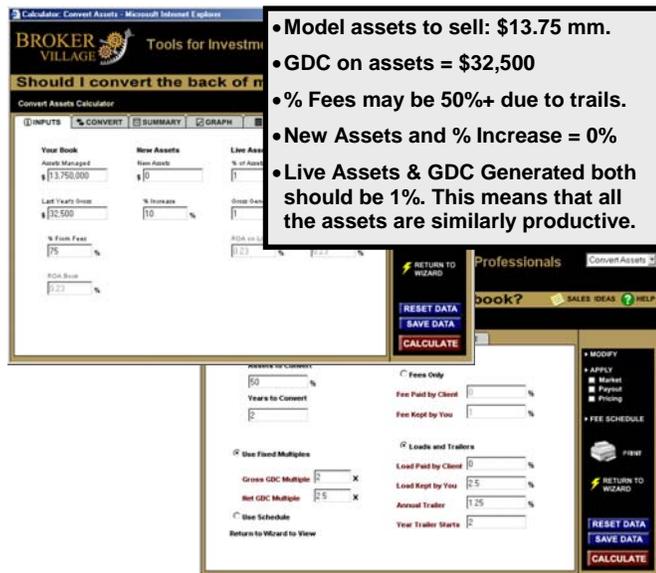
A buyer values them at 1X current GDC, or \$32,500. The reps favors 2X GDC once the conversion is done.

Print, graph, & table the result. The rep does an analysis. Once the conversion is over in 2 years, annual GDC is \$158,036 vs. \$36,421. In 5 years, cumulative GDC is \$470,385 higher (\$376,308 @80% payout) if clients convert! It's \$534,165 vs. \$157,857.

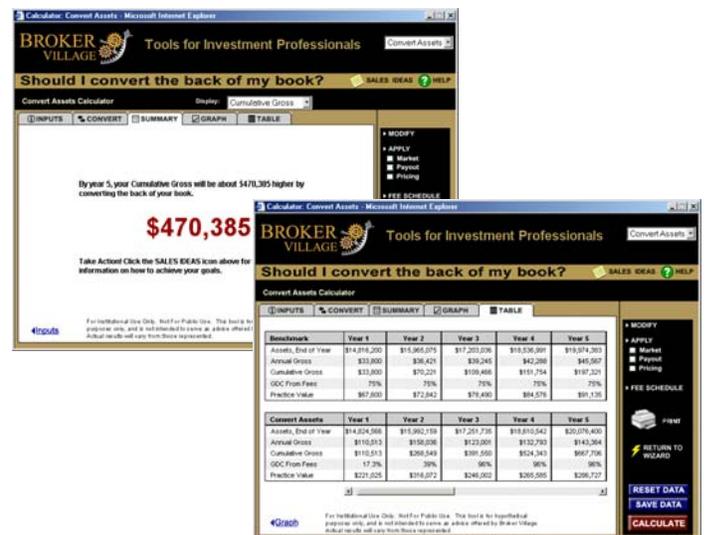
The rep shows the analysis to the buyer. GDC is about 96% fee-based after three years once the high VA trail kicks in. At that point, the assets are very valuable and could be easily sold again. The rep says the proper sales multiple is 2X year-2 GDC (when the conversion is over). So, the value is \$316,072!

The rep points out that, after five years, the assets are worth \$820,892 to the buyer! That's \$534,165 in net GDC plus selling the assets at 2X GDC or \$286,727.

The buyer is impressed. They meet near the middle, at \$200,000. Our rep is very happy with the sales price. She got an extra \$167,500 over the initial offer.



- Model assets to sell: \$13.75 mm.
- GDC on assets = \$32,500
- % Fees may be 50%+ due to trails.
- New Assets and % Increase = 0%
- Live Assets & GDC Generated both should be 1%. This means that all the assets are similarly productive.



	Year 1	Year 2	Year 3	Year 4	Year 5
Benchmark					
Assets, End of Year	\$14,254,589	\$15,265,075	\$17,251,738	\$19,210,542	\$20,076,400
Annual Gross	\$110,513	\$150,036	\$123,095	\$132,350	\$143,384
Cumulative Gross	\$33,000	\$70,221	\$109,466	\$151,754	\$197,321
GDC From Fees	75%	75%	75%	75%	75%
Practice Value	\$67,490	\$72,842	\$79,490	\$84,575	\$91,135
Convert Assets					
Assets, End of Year	\$14,254,589	\$15,265,139	\$17,251,738	\$19,210,542	\$20,076,400
Annual Gross	\$110,513	\$268,349	\$396,550	\$524,343	\$667,706
Cumulative Gross	\$110,513	\$378,862	\$775,412	\$1,299,755	\$2,067,461
GDC From Fees	17.3%	39%	96%	96%	96%
Practice Value	\$221,026	\$316,072	\$466,002	\$595,985	\$768,727