MERCER CAPITAL

MERCER CAPITAL'S

Value Matters™

Volume 2007-09 » September 28, 2007
www.mercercapital.com
mcm@mercercapital.com

Valuing Independent Trust Companies Requires Special Attention

Excerpted from Mercer Capital's recently published whitepaper, "Understand the Value of Your Trust Company." For the full text, along with other whitepapers in the "Understand the Value of..." series, visit www.mercercapital.com

The rapid expansion of the financial services industry over the past two decades has given rise to a unique hybrid enterprise: the independent trust company. With roots in the departments of commercial banks, independent trust companies occupy an interesting space in the investment management community, positioned somewhere between a family office and an institutional asset manager. As a result, there really is no one-size-fits-all definition of an independent trust company, and recognition of the particular attributes of independent trust companies is significant to understanding their value.

As high net worth clients migrated from the traditional sales mentality investment approach of brokerage firms, the idea of independent investment advisors began to gain steam. The financial advisory business model transformed from cold calling staffs paid by transaction-based commissions to unbiased and credentialed professionals paid on the basis of assets under management by client bases built primarily on referrals. The popularity of Registered Investment Advisors, or RIAs, centered on the fiduciary responsibility associated with such practices, as well as the greater degree of accessibility and high touch nature of the business operations, which often originated in smaller family office operations. Additionally, the smaller size of independent advisors allowed for greater innovation and more specialized services.

The number of total investment advisors registered with the SEC expanded from 6,360 in 1999 to 8,614 in 2005 (excluding all investment advisors only required to register with their respective states). This number expanded by an additional 1,676 in 2006; however, much of this growth was largely attributable to SEC rule modifications requiring hedge fund managers to register as investment advisors. More than 90% of all RIAs reported less than 50 employees.[1]

Assets managed by independent RIAs more than doubled from 2000 to 2006, while their share of investable assets expanded from 9.0% in 2003 to 14% in March of 2007. A comparison of the market share allocations of U.S. investable assets at year end 2003 and March 31, 2007 is shown in Figure One and Figure Two.[2,3]

1 *"Evolution Revolution 2006," Online, Available http://www.icaa.org, Accessed March 30, 2007.*

2 *"Forces That Will Change the Industry", Online, Available http://registeredrep.com, Accessed August 23, 2007*

3 *TDA Spring 2007 Regional Conference Presentation, Online, Available http://www.tdaconferences.com/RegionalConference/2007, Accessed August 24, 2007*

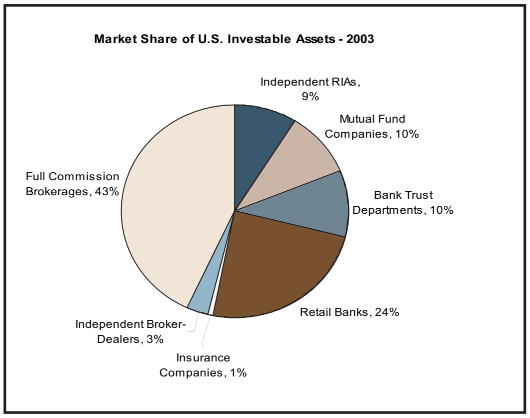


FIGURE ONE

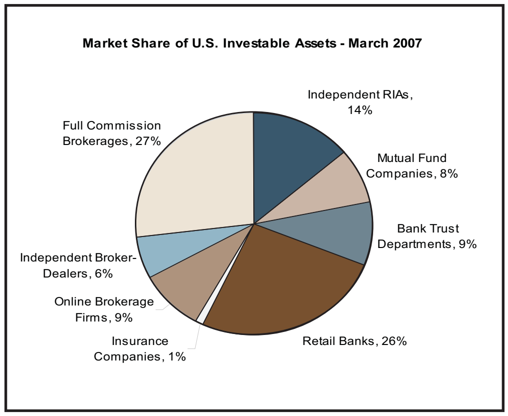


FIGURE TWO

Total assets under management (AUM) reported by SEC-registered investment advisors reached an all-time high of $31.4 trillion as of April 2006. Assets held in discretionary accounts grew 18% from $24.3 trillion in 2005 to $28.6 trillion in 2006. Figure Three illustrates the growth in discretionary assets reported by investment advisors in all AUM categories and total assets under management.[4]

DISCRETIONARY ASSETS *($ IN TRILLIONS)*

Category of IA by Assets Under Management (AUM)	2006 AUM	2005 AUM	% Change
>$100 Billion	$12.927	$11.197	15.5%
$50-100 Billion	$4.092	$3.338	22.6%
$10-50 Billion	$6.535	$5.599	16.7%
$5-10 Billion	$1.503	$1.354	11.0%
$1-5 Billion	$2.309	$1.779	29.8%
$100 Million to 1 Billion	$1.110	$0.871	27.4%
$25-100 Million	$0.166	$0.138	20.3%
<$25 Million	$0.007	$0.007	0.0%
Total	**$28.649**	**$24.283**	**18.0%**

FIGURE THREE

In spite of all the changes taking place in recent years, there remains some debate regarding whether the independent trust industry is mature or evolving. On the one hand, the concept of providing comprehensive wealth management within the context of highly personalized customer service is not new, but on the other, the level of sophistication expected across the spectrum of trust services has never been higher and, indeed, seems to be growing at a rapid pace.

RULES OF THUMB

There are both formal and informal approaches to value, and while we at Mercer Capital are obviously more attuned to the former we do not ignore the latter. Industry participants often consider the value of investment managers in general, and independent trust companies in particular, using broad-brush metrics referred to as "rules-of-thumb." Such measures admittedly exist for a reason, but cannot begin to address the facts and circumstances specific to a given enterprise.

4 *Ibid*

As an example of this, industry participants might consider asset managers as being worth some percentage of assets under management. At one time, investment manager valuations were thought to gravitate toward about 2% of assets under management.

Understanding why such "rules of thumb" exist is a good way to avoid putting too much faith in them. During periods of consolidation, buyers often believe that the customer base of an acquisition candidate can be integrated with the acquiring firm's existing managed assets to generate additional profits in line with industry expectations. So if the investment management industry is priced at, say, 15x earnings and profit margins are 20%, the resulting valuation multiple of revenue is 3.0x. If revenue is generated by fees priced at about 67 basis points of assets under management, then the implied valuation is about 2% of asset under management. Note, however, all the "ifs" required to make the 2% of AUM rule of thumb work. …

To download a complete copy of this whitepaper, visit www.mercercapital.com

Kristin C. Beckman
beckmank@mercercapital.com

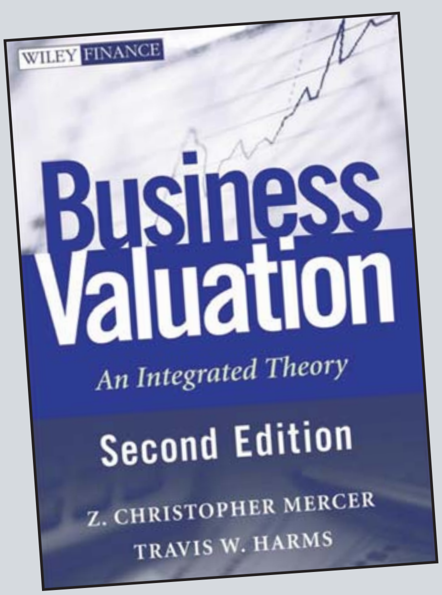
Matthew R. Crow, ASA, CFA
crowm@mercercapital.com

MERCER CAPITAL'S E-BOOK LIBRBARY

TITLE	DESCRIPTION	INVESTMENT	RELEASE DATE
Valuing Shareholder Cash Flows: Quantifying Marketability Discounts	Quantifying Marketability Discounts has been updated and is now offered as an e-book. Titled *Valuing Shareholder Cash Flows: Quantifying Marketability Discounts - 2005 E-Book*, this edition provides a brand new chapter which discusses each of the five assumptions of the QMDM in depth. As a bonus, when you purchase the e-book, you will also receive the *QMDM Companion*, the latest edition of the Quantitative Marketability Discount Model, in spreadsheet format.	**$95.00**	*Currently Available*
Valuing Financial Institutions	We are responding to requests to put this 1992 book back into print and we are doing so as an E-Book	**$65.00**	*Currently Available*
Are S Corporations Worth More Than C Corporations?	An e-booklet that adds to the S Corp vs. C Corp debate	**$19.95**	*Currently Available*
Embedded Capital Gains	A closer look at the Embedded Capital Gains issue.	**$19.95**	*Currently Available*
Rate & Flow: An Alternative Approach to Determining Active/Passive Appreciation in Marital Dissolutions	In this e-book, we present an alternative model for determining active / passive appreciation in a marital dissolution. In states where an owner/spouse's active management of a business does not preclude the consideration of passive appreciation, we offer a fresh approach based on rate and flow analysis	**Complimentary**	*Currently Available*
QMDM Fact Sheet	The latest information about the QMDM in a pdf format	**Complimentary**	*Currently Available*

Visit our website at www.mercercapital.com for more information or to download an e-book.

NOW AVAILABLE



Business Valuation

An Integrated Theory, Second Edition

Z. Christopher Mercer, ASA, CFA and Travis W. Harms, CFA, CPA/ABV

Whether you are an accountant, auditor, financial planner, or attorney, *Business Valuation: An Integrated Theory, Second Edition* enables you to understand and correctly apply fundamental valuation concepts. Thoroughly revised and expanded, the *Second Edition* demystifies modern valuation theory, bringing together various valuation concepts to reveal a comprehensive picture of business valuation.

With the implementation of new accounting pronouncements mandating the recognition of numerous assets and liabilities at fair value, it has become critical for CPAs charged with auditing financial statements to understand valuation concepts.

ORDER TODAY AT WWW.MERCERCAPITAL.COM

MERCER CAPITAL ON THE ROAD

October 9, 2007
McGehee Group
Las Vegas, Nevada
"Buy-Sell Agreements"
Z. Christopher Mercer, ASA, CFA

October 17, 2007
Minnesota Society of CPAs
Minneapolis, Minnesota
"Buy-Sell Agreements"
Matthew R. Crow, ASA, CFA

October 30, 2007
2007 ASA Annual Business Valuation Conference
San Diego, California

"The Market Approach vs. the Income Approach"
Matthew R. Crow, ASA, CFA &
Travis W. Harms, CFA, CPA/ABV

"Adjusting Multiples from Guideline Public Companies"
Timothy R. Lee, ASA

November 20, 2007
FEI Memphis Chapter Meeting
Memphis, Tennessee
"Buy-Sell Agreements"
Z. Christopher Mercer, ASA, CFA

December 2, 2007
AICPA Business Valuation Annual Conference
New Orleans, Louisiana
"Discounts for Lack of Marketability Panel"
Z. Christopher Mercer, ASA, CFA

December 3, 2007
AICPA Business Valuation Annual Conference
New Orleans, Louisiana
"An Integrated Theory of Business Valuation"
Z. Christopher Mercer, ASA, CFA &
Travis W. Harms, CFA, CPA/ABV

December 4, 2007
AICPA Business Valuation Annual Conference
New Orleans, Louisiana
"The Discounted Cash Flow Method: A to Z"
Travis W. Harms, CFA, CPA/ABV

December 5, 2007
Baltimore Estate Planning Council
Baltimore, Maryland
"Buy-Sell Agreements"
Z. Christopher Mercer, ASA, CFA

December 5, 2007
ASA Maryland Chapter
Baltimore, Maryland
"Buy-Sell Agreements"
Z. Christopher Mercer, ASA, CFA

The professionals of Mercer Capital have a great deal of experience speaking to industry and professional groups across the nation on topics such as:

- Buy-Sell Agreements
- The Integrated Theory of Business Valuation
- Is Your Business Ready for Sale?™
- Purchase Price Allocation
- Valuation of Employee Stock Options
- Litigation Support and Expert Testimony
- Valuation of Privately Held Businesses, Partnerships, or LLCs
- Financial Institution Valuation
- ESOP Valuation

To book a Mercer Capital professional as a speaker at your next conference or CLE/CPE meeting, please contact Barbara Walters Price at priceb@mercercapital.com.

A GENTLE PLUG FOR OUR FIRM

MERCER CAPITAL is a business valuation and investment banking firm serving a national and international clientele. Our reputation for excellence is based on an ability to solve complex financial problems expeditiously. We convert over 20 years of experience, including thousands of assignments, into solutions for the issues of today.

Corporate Valuation. Mercer Capital provides a broad range of independent valuation and financial advisory services, including:

- Dispute Analysis Services and Expert Testimony
- Valuation for Corporate Tax Matters
- Valuation for Corporate Income Tax Issues
- Valuation for ESOPs
- Purchase Price Allocations
- Valuation of Employee Options
- Goodwill Impairment Testing
- Valuation of Intangible Assets
- Fairness Opinions

Investment Banking. Mercer Capital's investment banking division and specializes in providing merger and acquisition services to sellers or buyers of private businesses or public companies divesting divisions and subsidiaries. In addition, we assist clients in industry consolidations, roll ups, and refinancings.

INTERNET COMMERCE: OBTAIN PROPOSALS TO VALUE YOUR COMPANY, BANK, FLP OR LLC VIA OUR WEBSITE

The cost of your time and delays in obtaining proposals has just gone down. Use one of the PROPOSAL REQUEST FORMS on our website.

Many of your colleagues have already used our PROPOSAL REQUEST FORMS and are impressed by the decrease in transactional overhead and the increased ease in obtaining actionable proposals for their clients. We are pleased to be doing business with them. Try it yourself! Visit our website and provide us with the pertinent information via this form, and we'll prepare a proposal and deliver it to you via e-mail, fax or USPS. Complete confidentiality is assured.

UNSUBSCRIBE

We will continue to send the newsletter as published at no cost unless you notify us that you wish to be removed from the distribution list. To REMOVE yourself from this list, send an e-mail to: newsletters@mercercapital.com and type the words "Unsubscribe – Value Matters" in the subject line (without the quotation marks).

MERCER CAPITAL

Business Valuation » Investment Banking

HEADQUARTERS:
5860 Ridgeway Center Parkway, Suite 400
Memphis, Tennessee 38120
901.685.2120 » Fax 901.685.2199

LOUISVILLE OFFICE:
511 South 5th Street, Suite 206
Louisville, Kentucky 40202
502.585.6340 » Fax 502.585.6345

www.mercercapital.com

DISCLAIMER. This publication does not constitute legal, valuation, tax, or financial consulting advice. It is offered as an information service to our clients and friends. Those interested in specific guidance for legal and accounting matters should seek competent professional advice. Inquiries to discuss specific valuation or corporate finance matters are welcomed. Permission is specifically granted to send copies of this Value Matters™ to others who might have an interest in its contents. Permission is also granted to quote portions of this newsletter with proper attribution.

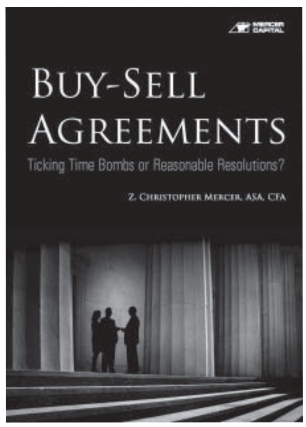
MERCER CAPITAL

Buy-Sell Agreements

TICKING TIME BOMBS OR REASONABLE RESOLUTIONS?

RELEASED IN JANUARY 2007, *"BUY-SELL AGREEMENTS: TICKING TIME BOMBS OR REASONABLE RESOLUTIONS?"* **HAS QUICKLY BECOME A VALUABLE TOOL FOR ATTORNEYS, BUSINESS ADVISORS AND BUSINESS OWNERS WHO RECOGNIZE THE IMPORTANCE OF BUY-SELL AGREEMENTS. DON'T TAKE OUR WORD FOR IT. BELOW ARE JUST SOME OF THE PUBLISHED**

To summarize *Buy-Sell Agreements* in one word, that word would be "methodical." Mercer focuses like a laser beam on virtually all of the possible permutations of the pricing and valuation provisions of buy-sell agreements, together with the advantages and disadvantages of each...*Buy-Sell Agreements* offers a comprehensive buy-sell audit checklist that alone makes it worthy of purchase, serious use and study...If you are looking for a book that has a comprehensive discussion of the pricing and valuation aspects of buy-sell agreements (which I've really not ever seen before), this is it...*Buy-Sell Agreements* is a no-brainer addition to the library of every one who works with or who drafts buy-sell agreements.



L. PAUL HOOD, ESQ.
Steve Leimberg's Business Entities Newsletter, Issue 119, February 13, 2007.
Courtesy: Leimberg Information Services, Inc. (LISI) at www.leimbergservices.com

In the teacher's manual to our *Business Associations* case book, my friend, colleague and coauthor Bill Klein posits that "any lawyer who advises people entering into a business venture and who fails to urge the adoption of a buy-sell agreement is guilty of malpractice." Z. Christopher Mercer's new book *Buy-Sell Agreements: Ticking Time Bombs or Reasonable Resolutions* offers a tremendously useful guide to these remarkably important contracts. In it, he provides guidance for business people and their financial advisors to use in assessing the need for a buy-sell agreement and, if one is appropriate, deciding on key terms. It will also be very useful to counsel drafting buy-sell provisions, as it offers drafting checklists and samples of how various issues can be treated. I recommend it very highly.

STEPHEN BAINBRIDGE
William D. Warren Professor of Law, UCLA
Published on ProfessorBainbridge.com

In this eminently well-written, concise, and non-technical book, Chris lays out the fundamental parameters and processes that must be considered to minimize problems...Appraisers who read this book and apply its lessons will be able to position themselves in the marketplace as not just valuation specialists but in the wider role of facilitators of business valuation dispute resolutions, a much more productive role for us.

RAND M. CURTISS, FIBA, MCBA, ASA, ASA
President, Loveman-Curtiss, Inc.
Chair of the American Business Appraisers National Network
Published on IBA Discussions Blog at www.go-iba.org/blog

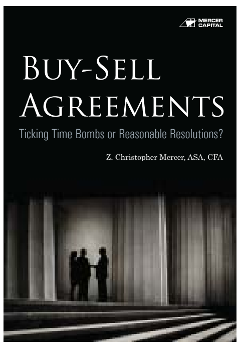
Mr. Mercer has done a great job of addressing the reasons business owners might want to have a buy-sell agreement and the business factors these business owners should consider in the agreement... Overall, Mr. Mercer provides valuation practitioners, business consultants, and business owners with a very useful handbook for preparing, reviewing and interpreting buy-sell agreements.

DAVID A. ELLNER, CPA/ABV
The Financial Valuation Group
Published in the AICPA ABV e-Alert
Volume 9, Issue 2, February/March 2007

MERCER CAPITAL

Buy-Sell Agreements

TICKING TIME BOMBS OR REASONABLE RESOLUTIONS?



Order Your Copy Today

$79.00

(plus shipping)

"...is terrific - sophisticated, refreshingly thoughtful and the first really new ideas (to me, anyway) in this area I've heard or seen in a long time."

Putnam C. Smith, J.D., LLM, Partner, Lipscomb, Johnson, Sleister, Dailey & Smith, LLP, Cumming, Georgia

Written for business owners, attorneys, CPAs, business appraisers, and other professional advisors to business, this book provides a roadmap for you (or your clients) to develop or improve your buy-sell agreement. The first book written from a valuation perspective which is important to note because business appraisers are usually consulted when there is a problem. Learn from our 25 years of experience working with well-constructed and terribly constructed buy-sell agreements (in almost every case no one realized there were problems until a trigger event occurred)!

HIGHLIGHT SECTIONS/CHAPTERS INCLUDE:

- **Categories & Types of Buy-Sell Agreements**
- **Process & Single Appraiser Buy-Sell Agreements**
- **Process Timetables** - Why it takes more time than you think
- **The Six Defining Elements of Buy-Sell Agreements** - Agreements must have all six but most do not!
- **War Stories** from our experience
- **The Buy-Sell Audit Checklist** - This alone is worth the price of the book
- In addition, the **ASA BV Standards and USPAP Standards 3, 9 & 10** are reprinted in full for your convenience

To order, fax back to 901.685.2199, call us at 901.685.2120, or visit www.mercercapital.com

Name

Firm

Address

City/State/Zip   Telephone

Email

☐ Visa ☐ Mastercard ☐ American Express ☐ Check Enclosed

Card Number

Name on Card   Exp. Date

Signature

SHIPPING CHARGES

	1 Book	2 or More
FedEx Ground	$7.00	$12.00
2-Day	$11.00	$15.50
Overnight	$35.00	$40.00

Please call for Canadian & International rates

QTY	Regular Price	TOTAL
	$79	
	Sales Tax - TN Residents (9.25%)	
	Shipping Charge	
	TOTAL	

Make checks payable to

Peabody Publishing, LP
5860 Ridgeway Center Parkway,
Suite 400,
Memphis, TN 38120