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## NEWS RELEASE

### YOUR Q&A: DOES NEUBERGER DEAL DEVALUE MANAGERS?

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#### Question

*Should an asset manager believe their market valuation is lower given the price paid for the Neuberger Berman deal?*

*Third-Party Marketer, Institutional, East Coast*

#### Answer



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The answer is "no." While Lehman Brothers bought Neuberger Berman for \$2.6 billion in July 2003 and Bain Capital and Hellman & Friedman picked it up for \$2.1 billion in September 2008, it's believed that Neuberger had a peak valuation of \$10 billion in the past couple of years. One should not extrapolate the roughly 80% valuation decline from this deal onto the asset management industry as a whole. Keep in mind the following factors that forced the outcome of this deal (and likely make it an outlier in the set of M&A comparables).

- 1) Desperation: Lehman had few options but to sell quickly.
- 2) Low demand: Most buyers, with the exception of the super large bank holding companies, have only been looking and analyzing during this downturn.
- 3) Huge perceived risk: Buyers believed there was a strong possibility that clients and key management team members would leave Neuberger Berman (and that the required retention package would be complex and difficult to pull off).
- 4) Expeditious action required: The pre-close deal cycle had to be done in a few weeks, which is a fraction of the typical time allotted to an auction and target evaluation by the buyer.

More broadly, asset manager valuations are based on EBITDA (cash flow) and a valuation multiple that corresponds to the growth, risk and quality of the underlying asset relative to other firms in this industry. As of Oct. 1, 2008, valuations for the 21 publicly-traded asset managers are down an average of 43% from their 52-week highs, not 80% as the Neuberger deal would suggest.

Valuations have fallen because lower markets mean lower fee revenue and lower cash flow. While generally viewed as safe investments, asset managers are presently perceived as much riskier given the turbulent markets and near-term uncertainties. Again, remember that buyer demand for entire companies and the stocks in this sector is much lower than usual as many of the traditional bank and insurance buyers are injured on the sidelines while other strategic buyers are waiting for the dust to settle. Given the above, valuation multiples are off 15% to 25% from their peaks a year ago. The remainder of the decline in value can be attributed to lower cash flows. Same goes for private companies. In conclusion, very little, if any, of the recent decline in asset manager valuations should be attributed to the perceived low price paid for Neuberger Berman. (To see an Echelon Partners report on valuation, click [here](#).)

## ABOUT ECHELON PARTNERS

ECHELON Partners (ECHELON) was formed in 2001 to offer investment banking and consulting to a subset of the financial services industry known as “investment product developers and distributors” (IPDADs). Since that time, ECHELON’s professionals have helped hundreds of senior executives envision, initiate, and execute a multitude of complex business strategies and transactions. ECHELON’s business is making companies more valuable through delivering advice and orchestrating transactions. Accordingly, ECHELON measures its success in the enterprise value it creates for its clients. Companies that strive to outperform their peers choose to work with ECHELON because we are as passionate about their results as they are.

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