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NEWS RELEASE

THE ART OF THE DEAL

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*The following is an edited transcript of the webcast What is your advisory business worth? held Feb. 23 in New York. InvestmentNews deputy editor Evan Cooper was the moderator. The panelists were Paul Lally, Steven Levitt, **Daniel Seivert** and Harman K. "Jet" Wales.*

Investmentnews: Dan, tell us a little bit about **Echelon Partners** and your approach.

Mr. Seivert: Our firm was founded in 2001. And over my 20-year history of serving the financial services industry, I've worked for a number of firms, starting off in mergers-and-acquisitions law at Skadden Arps Slate Meagher & Flom, then working for The Capital Group Cos. as a buy-side portfolio manager and then in strategy, then at Lovell Minnick Partners as a venture capitalist — all of those prior to founding this firm.

Our firm has conducted over 450 valuations and evaluated more than 2,000 acquisition targets and authored 22 reports specifically on the subjects dealing with the wealth and investment management industry.

So with that as a prologue, I thought I would cover five key questions related to the key theme of: "What's your advisory business worth?" The first one is, what is value when it comes to wealth management firms? It's important to consider that value isn't always the same in different situations. So the first situation is what your practice can be sold for. A key example of how value differs is when you sell a practice to a third party through an auction process, versus selling your practice to internal partners or a lieutenant in your organization. One would sell for a competitive market price. The other might sell for a discounted price. We often see a discount of 20% to 60% for internal sales.

Another thing you should keep in mind is: "What is value as it relates to others' coming into your business or leaving?" If a partner is added or if a partner departs, one needs to keep in mind whether it is a minority position or a majority position. There are different valuations in those two different situations.

Also consider what your team or division might be worth to other teams or producers inside an independent broker-dealer. Oftentimes you have a fixed market and a currency, or a valuation, by which the overall firm has set for transacting values, and you can't really affect that. In those situations, value is more of a dictated level. That goes for the wirehouses as well, when a broker leaves.

The third question is: "When are valuations conducted?" Here's our list: mergers, acquisitions, sales, partners' coming or going, the divorce of a partner, litigation, financing — it could be debt or equity — strategic planning, buying and selling agreements, and continuity planning or succession planning.

There's a host of applications for which valuation is important.

The fourth question is, "How does one calculate value?" We have a seven-step process.

The first step is to evaluate the type of firm being valued. Is it a commission-based practice or fee-based? Is it large or small? Does it deal with alternatives? Are fees hourly or fixed? There's a host of different business models out there. Some are asset managers only; some are asset managers and wealth managers.

The second step is choosing the appropriate method for the valuation. For the sake of simplicity in this example, I'm going to use a multiple of [earnings before interest, taxes, depreciation and amortization] or of cash flow.

The third step is to calculate your pro-forma Ebitda. And this involves adjusting your revenues so that you take out non-recurring items and also adjusting your expenses for occasional personal expenses that are run through the business or any non-recurring or non-operating expenses, and to develop a pro-forma Ebitda.

The fourth step is to determine the appropriate valuation multiple, and this is where the magic is. We specifically have a 10-factor valuation multiple score card for which we go through the different aspects of the business, and we score it so that we come up with the appropriate valuation multiple. Some folks do a multiple of cash flow; some folks do a multiple of revenue. But the hardest task within valuation is figuring out what the appropriate valuation multiple is. With respect to a multiple of Ebitda, it could range anywhere from three to 15.

The fifth step is to calculate the preliminary value, multiplying the Ebitda by the Ebitda multiple. So let's say you had \$1 million in Ebitda, a seven-times multiple, the firm would have a preliminary value of \$7 million.

The sixth step is to make adjustments. So is it a minority position? What buyer is involved? How do synergies play on this? For instance, if two firms are coming together, two plus two equals not four but six; how does the additional two in value get split between the buyer and the seller? That needs to be factored in.

And the seventh and final step is to calculate the adjusted value.

The last question is: "How are advisers doing with respect to equity management?" We find that there's been a lot of difficulty for advisers calculating an accurate value for themselves, and they've fallen into the trap of just using some of the rules of thumb rather than going for the appropriate valuation. I think also many often start the value management process too late and have little ability to control their fate in the process. Many fail to execute a professional sales process. We believe that advisers often leave hundreds of thousands of dollars on the table when it comes to these liquidity events.

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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