

GETTING THE MOST FOR YOUR FIRM

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Almost every advisor must come up with a valuation for their firm at some time or another—whether it's to sell or merge with another firm. And for some, it's more of an art than a science. How do you put a price on your firm? The five most important factors that go into a valuation include financial management, growth, scale, business model, and clients, said **Dan Seivert**, CEO of **ECHELON Partners**, during a Laserfiche workshop in New York.

Seivert outlined how advisors can maximize their valuation within these five aspects: Under financial management, advisors should target average fees greater than 80 basis points. Non-compensation expenses should be less than 20 percent of the firm's revenue, and compensation expenses should account for less than 50 percent of revenue. EBITDA margins should be greater than 30 percent. Revenue, Seivert believes, is highly overrated in determining valuation.

Growth, Seivert said, is the single most important driver of valuation. And firms will be judged on how their growth compares to the performance of a balanced portfolio (60 percent stocks/40 percent bonds). In the last year, the typical balanced portfolio would've returned 15 percent. If you're lagging, that sends a message to potential buyers that you couldn't even get market growth. And if you're just getting market growth, that won't be considered a "growth" firm. Advisors should target projected EBITDA growth of over 25 percent.

Scale is another important driver, and can be measured by asset thresholds, revenue and profits to the bottom line. There are also qualitative measures of scale, including the size of the management team, specialization of management, designated management, increased levels of redundancy (how easy an employee can be replaced), and decreased dependence on any one executive.

Ideally, a firm should have over \$500 million in fee-based assets, revenue over \$10 million, and EBITDA over \$3 million to achieve scale.

As far as the firm's business model, Seivert said ECHELON likes the pure-play wealth management firms. Insurance and 401 (k) business are the biggest detractors from a firm's valuation.

The ideal client base of a high-valuation firm will average \$2 million to \$10 million in size; large clients, with over \$20 million in assets, are overrated, Seivert said. In addition, a good client base will be one where the advisor has good communication and education systems in place.