ECHELON PARTNERS

INVESTMENT BANKERS | MANAGEMENT CONSULTANTS | VALUATION EXPERTS

To the Wealth and Investment Management Industries

How Important is Formal Valuation?

Originally Published By Brook Southall, Investment News

Daniel Seivert, chief executive and founder of **Echelon Partners**, Eric Schwartz, chairman of the board and CEO of Cambridge Investment Research, and Kelli Cruz, director of research and consulting at IN Adviser Solutions, discussed if and when a registered investment adviser should determine a formal valuation of its firm.

Daniel Seivert

The fact of the matter is, a lot of firms have just been focused on organic growth and they really haven't had the occasion where they've needed to figure out how much their equity is worth; they're just focused instead on building that equity. One of the key elements of a succession plan is to have a liquidity event for the departing partner. And you do have to figure out an appropriate valuation at that time, and sometimes it's good to do that at the very beginning of the process. What I mean by that is, if it takes five years to successfully implement a plan, after the fifth year, the partner really has the freedom to do what he or she wants after all has been done.

So it's good to think about the valuation at the very front end of the process and understand how the firm's value is going to change over the coming five years with the increase of expenses for replacements, for human capital and perhaps with increased growth as a result of that. There are a lot of fluctuations that are going to be going on and everyone is going to be sensitive to it. The buyers, the junior partners are going to be sensitive to the ups and downs of the valuation, and the departing founder is going to be sensitive to it. So [a valuation] is important and the timing of it is important.

Kelli Cruz

One of the things that I have learned from working with Dan is that a lot of firms think they need that valuation when maybe they're not focused on the right question yet. Maybe they need to get there at some point, but they are focusing on what their firm is worth before they've really taken a step back and figured out what they're trying to accomplish, how they're going to get there and how a valuation fits into that process.

Eric Schwartz

In a relatively quick time, somebody that's familiar with the industry could look at a book of business and come up with a valuation that's probably come within plus or minus 10% or 15% of full-blown valuation. Those numbers are fairly well-banded if you look at a few key metrics. I think that's part of why people don't always have to do a formal valuation, because they have a rough idea of what it's worth.

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.

Daniel Seivert

Managing Director

dseivert@echelon-group.com