EPISODE TRANSCRIPT

What Advisors Should Focus on to Maximize the Value of Their Practice: An Investment Banker's Guidance

A conversation with Dan Seivert, CEO and Managing Partner at ECHELON Partners.

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is What Advisors Should Focus on to Maximize the Value of Their Practice: An Investment Banker's Guidance. It's a conversation with Dan Seivert, CEO and managing partner of ECHELON Partners. I'm Mindy Diamond, and this is The Diamond Podcast for Financial Advisors.

This podcast is designed for advisors like you who are interested in learning more about the evolving wealth management industry through candid dialogue with breakaway advisors, those from the C-suite, and industry thought leaders. It's available on our website, diamond-consultants.com, as well as Apple Podcasts and other major podcast platforms. So be sure to subscribe and share it with your colleagues. At Diamond Consultants, our mission is to help advisors live their best business life.

We want every elite advisor to find exactly the right place for their business and their clients to thrive, whether it's at a wirehouse, a regional, boutique, or independent firm. As the industry's leading recruiters and consultants, we've transitioned more than a quarter of a trillion dollars in assets under management in the past decade. And each year, 25% of transitioning advisors who manage $1 billion or more are our clients. Curious about where, why, and how advisors like you are moving?

Download the latest Advisor Transition Report to learn more, including Intel on recruiting deals and our insight and analysis on the latest trends in the wealth management space. You'll find it at diamond-consultants.com/transitionreport. Or if you'd like to talk, feel free to give us a call at 908-879-1002.

One of the key indicators of the health and success of an advisor's business is its valuation. It offers perspective on whether vision and goals are in alignment with the firm or model it is built upon. It is a benchmark of sustainability and scale, and it is what ultimately drives the ability to monetize either for continued growth or succession. So what is it that drives business value? We asked an expert on the topic, Dan Seivert, to share those key factors that impact the value of an advisor's business.

And Dan is indeed an expert. As the founder and CEO of ECHELON Partners, a boutique investment bank focused on M&A and succession planning for the wealth and investment management industries, Dan's firm also provides sales side, buy side, and merger advisory services to wealth and investment managers seeking strategic growth, partnership, and succession solutions.

ECHELON's M&A Deal Reports are an industry standard, providing data and perspective on activity on a quarterly and annual basis. Plus, the Deals and Dealmakers Summit and webcast feature some of the industry's most influential voices on M&A, strategy, leadership, and

solutions for deal making. In this episode, Dan sits on the other side of the table with my partner Louis to discuss key information on the heels of ECHELON's 2023 Deal Report.

Dan shares wisdom on driving enterprise value at all levels, valuation and M&A trends advisors need to be aware of, the rise of private equity and how this impacts advisors regardless of where they are building their businesses. It's a unique interview with an industry thought leader that will help advisors better understand the value drivers of their business and how to maximize that value, plus how to think about valuation going forward no matter where you practice, whether you are interested in going independent or not. There were plenty of smart insights to glean, so let's get to it.

Louis Diamond:

Dan, thank you very much for joining us today.

Dan Seivert:

My pleasure. You've had a lot of great people in the past, and it's a privilege to join you.

Louis Diamond:

Very good. Well, let's jump in. If you can tell us about your background and path to coming into the financial services space.

Dan Seivert:

Sure. It was a little bit different. When I graduated from Occidental College, I went over to Australia for a year as part of a Rotary scholarship. And I really enjoyed that experience. But when I came back, I was a little bit scared that it was going to be difficult to enter the working world. And lo and behold, I was able to get a job with Skadden Arps as part of their legal team and M&A rather quickly, and I was often away helping them to do deals in the corporate finance in the real estate world.

So that was a great first experience and my intention was to eventually make my way into financial services. And I did that first by joining the Capital Group in a strategy function, working for the chairman and was able to serve a bunch of the different divisions, helping with all sorts of things from mutual fund IPOs to wholesaler compensation, to rolling out new products.

And one thing led to another and I was able to join the investment research team following financial institutions. And as such, I was responsible for valuing 30 publicly traded companies, and they were the large financial institutions such as Merrill Lynch, Smith Barney, Lehman Brothers, Bear Stearns, Morgan Stanley.

And in my mid 20s, I had the really unique ability to sit down with people like Sandy Weill and Jamie Dimon and learn their thoughts about their business model and valuation and figure out whether it was a great buy or a sell for our portfolio managers. From there, I worked for a

boutique investment bank in Los Angeles and really learned the deal making business and selling entrepreneurial businesses from one of the greats, and I learned a lot of the unique ways of deal making.

And from there I was recruited to be one of the founding partners of Lovell Minnick, which is a private equity firm, which was a great treat and really allowed me to hone my valuation skills, deal structuring, writing and association with selling companies, and really learn how private equity investors consume information and make decisions and then sit on boards and add value to the companies. It was shortly thereafter after a three year stint at Lovell Minnick that I founded ECHELON Partners some 23 years ago.

Louis Diamond:

Yeah, that's quite the journey. It seems like you started off as an attorney and then more into the research world, and then investment banking, private equity, and then ping pong back to not only being an investment banker, but starting what's now one of the leading in wealth and asset management focus investment banks in the country. And I'd just love to learn a little bit more about the founding of ECHELON.

Most great business owners in this industry and others, they start their companies because they see a gap in the marketplace or they sense there's a need that their skillset can fill. What was that need that you saw back in 2001 when you decided to found the specialist investment bank ECHELON Partners?

Dan Seivert:

Well, for starters, I love the way that you frame the question, and that's really the way that I was looking at it. What are the needs in the marketplace and where is there a gap? I did come to the conclusion that there's got to be a better way, and it really related to the fact that I felt that in the financial services space for smaller entrepreneurial businesses, say the ones that had valuations between five and 50 million, the current service offering at the time, which was around 2000, was very corporate and it wasn't being discussed in the language of entrepreneurs.

And the investment bank that I worked for was known as the entrepreneurs' investment bank, and we had developed a set of services and solutions and ways of talking with and working with our clients that really heightened their pride around entrepreneurship and their desire to maintain that post-transaction. So that became a high sensitivity for me.

As a result, we ended up improving on the analytical tools and marketing documents that I used in my previous jobs, and we really took valuation, which at the time was focused on as a multiple of revenue, to a more industry standard focused on multiple of EBITDA. The business model really had three areas. It was valuation, consulting, and investment banking. And on the

valuation side, we really brought a scorecard approach and launched that, and that was something different and more advanced than the industry had ever seen.

And on the consulting side, we focused on strategic planning, equity sharing programs. We did help firms with a lot of growing pains that they would experience as they went through different business models. And then finally, we were a FINRA registered broker-dealer focused primarily on sell side M&A. And we were doing this for three subsets of financial services industry, which was asset managers, wealth managers, and back then it was FinTech companies, but that's gotten more specific as wealth tech companies.

So there were a lot of needs in the marketplace that just weren't being addressed, and our solution and our value proposition was to basically know more about the business than any investment banker because we had worked in the space and to be able to transact unlike any consultant ever could. So it was a nice combination of those two elements.

Louis Diamond:

That was a very clear way to share not just the focus areas, but also the three core elements of the business. Is that focus and the tenets of the value proposition still the same today?

Dan Seivert:

It is. I would say that our percentage mix has changed over time. Initially, it was a little bit more equal, but I would say that investment banking is probably more like 75% of what we do, and we do not do anything beyond sell side. Our buy side is very limited and focused, and our capital raising is also very focused and specialized.

It's 75% investment banking and 75% sell side. With that said, we're the leading provider of valuation services for firms with more than 300 million in AUM. And over our 25 years, more focused on investment banking. We've advised on more transactions in the industries that we cover than any other provider.

Louis Diamond:

Well, congratulations on that success. And as someone who follows ECHELON and many other investment bankers in the space, I think it's safe to say that when folks are looking to transact their business, they will prioritize finding a specialist. This industry is so nuanced and the lingo, the verbiage and just how to market a business is very specific. So of course, you can go to a bulge bracket investment bank or more of a generalist firm, but typically all these folks that I've worked with, I've had much greater success working with groups like yours who really know the space inside and out.

They know the buyers. They know the valuations better than anyone. So I think that focus has served you well. But I have to ask the question. There are other specialized investment banks within our industry. How would you say ECHELON differentiates from others? And feel free to

name names or not. But in general, how do you guys stand out versus a somewhat crowded field these days?

Dan Seivert:

I think we've always started with a focus on the grassroots elements of deal making and consulting, which to us is valuation. So we are really grounded in the principles of valuation and accounting, and that is our core. We're a research driven firm. We do that for our clients on the investment banking side and on the consulting side. And we have an amazing repository of data with respect to transactions, private transactions, because there really are not any public comparables in our space.

So it starts with valuation. And the other four items that I would mention is we're really focused on the billion dollar plus AUM firms. And I would say that at any given time, there's been 500 to 800 of those firms and a bunch continue to get merged away and big hit. The pond gets restocked with some more billion dollar plus firms. But we've worked with hundreds of them over our 25-year history. And at any given time, we've probably worked with 20% of them helping them with transactions and strategy work.

I'm sure we help firms at half a billion and higher as they particularly go through the growing pains of that size area, if you will. I would say the third item is we really specialize in tax issues and deal structuring. Given my private equity background and my familiarity with all of the tax issues that are at play, we can really help our clients optimize their after-tax proceeds and we really bring that as a key differentiator. I would say the fourth element has to do with our scorecard approach to evaluating buyers.

Most of our clients really want to find a partner, not a buyer or a transaction firm, if you will, and they really want somebody who will take care of their employees, their investor clients, them as entrepreneurs and their ownership group. And we bring to the task a 360 degree view of the buyer by virtue of the relationships that we oftentimes have with their private equity partner. We often know many people on their board.

We know employees and the management team members. We know advisors who have joined them and are happy and ones that maybe weren't happy and left. We know their technology and vendor partners, and we know their history and evolution. So this knowledge as well as our organized approach to scoring the buyers and different areas that matter a lot to our seller clients is a big differentiator.

And then finally, I would say the fifth element is that we really view the analysis through the private equity lens that I started with, and that has to do with looking at opportunities from the standpoint of a return on invested capital or an internal rate of return or the quality of the management or finding ways that allow the target to reach its fullest potential through an

ownership group and sufficient capital. So I would say those are the five ways in which we differentiate ourselves.

Louis Diamond:

Another very well said answer. And I think those are differentiators because you hit on I think major things that a prospective seller cares about. If you don't mind, can we drill into one or two of the points you made? One of the ones I noted was on the tax side. So of course, if someone's selling their business, there's going to be a windfall and you want to figure out what's the most optimal way to keep the proceeds and not distribute it all to the government.

But can you give an example other than ordinary income versus long-term capital gains of a tax issue that someone either might not have considered or just something that someone can learn from listening to this podcast today?

Dan Seivert:

Sure. So I think that first one, interestingly enough, is really relevant for a lot of the firms that you speak with whose succession solution is almost exclusively offered up in terms of ordinary income. In terms of capital gains, there's state and federal capital gains taxes. So I think it's important to figure out ways in which one can optimize that part of the equation.

But another layer down, if you will, is to use trust and estate planning techniques to basically limit the amount of capital gains taxes that one would experience either on the amount that they receive or on the growth of the amount that they receive. And there are life insurance strategies and estate planning strategies that are particularly relevant for people whose deal proceeds exceed $20 million or the inheritance gift tax limit.

I'm not going to give you the greater details here, but suffice to say that there are some solutions that can save people millions of dollars and working in the period a year in advance of the actual close of the transaction is oftentimes a great strategic move.

Louis Diamond:

Very interesting. Thank you for sharing that. One other just dive a little deeper follow up question is on the valuation side, it seems like that's a real strength of ECHELON's. I just wanted to check something. So if you're marketing the sell side client to prospective buyers, obviously it's important for the seller to understand their value or for your team to analyze if deals being received are good deals or not.

Everyone wants to know that. How much of an impact though does your valuation knowledge have on what a firm's ultimately going to pay? Because I would think that the firms your mostly dealing with are private equity sponsors, or they're backed by a private equity sponsor, or they just have their own valuation model. So how much of an impact does your valuation knowledge have on the ultimate purchase price?

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Dan Seivert:

Well, I would say that each deal, it differs a little bit. But in general, I would say that it comes into play in certain really important situations. The way that it really percolates up, if you will, is that buyers will have a sense of value based on the growth and scale of the target pre-adjustment and then post-adjustment when it's integrated into their company as that has an impact on the compensation expenses, the non-compensation expenses, and then oftentimes the growth profile as well, depending on how they can partner to achieve growth.

They also have a sense of the gap between the multiple that they trade at and what they're buying at. And that multiple arbitrage often factors into their thinking. Said another way, $1 million of profits for the seller could be worth an eight multiple. But at the close of the transaction, that might go to a 16 multiple, doubling overnight, if you will. And that really plays into the aggressiveness that the buyer will use against the other buyers, if you will.

But I think the thing that really plays in most is that if it really comes down to it and a buyer starts saying things about what the target's really worth, I think our ability to look at it from the buyer's perspective and to incorporate that private equity lens and basically show them a vivid picture of what it is worth to them versus what the target might be worth on its own is very helpful. And that's where our valuation expertise and particularly our private equity valuation expertise can really be an advantage.

I'm not suggesting that it ever tilts so far that the buyer isn't a winner, but I would say it optimizes the equilibrium of the win, so to speak.

Louis Diamond:

Yeah, and it seems like it's a partnership approach. That if you're guiding them and you have credibility within the transaction, even if you're representing the seller, that just with more information and more context, it helps the buyer clarify what an appropriate offer is. So I'm with you. All those areas seem like value adds. What I've been most excited to ask you about is just the evolution of the independent wealth management space.

You've had a truly front row seat to see where the industry was in 2001 when you founded ECHELON to today. And a lot has happened, pandemics, global financial crises, the breakaway movement starting, accelerating, et cetera. So I'm curious just to hear how you would categorize or characterize the change that you've seen in the wealth management industry, especially on the independent side since the founding of ECHELON.

Dan Seivert:

One of the first elements of your question was what's been going on with deal flow, and I would say prior to 10 years ago, it was 50 to 100 deals per year, and now we're pretty much set at over 300 deals per year. So the volume has gone up a lot, but I'm not a big deal volume guy, if

you will. I think the big change is that much like retail investors, if you don't know what you're doing, there's an inclination to buy a lot when the market is up and to sell a lot when the market is down.

And the way that translates into the wealth manager buyer world is that if you're paying a lot of attention to deal volume, you have a tendency to act like retail investors. And the best buyers in the market are ones that are consistently buying no matter where we are in the business cycle, and it's more of a dollar cost averaging approach. And I would say we see more of that and that's a big change in the marketplace. Another part of your question is how has the mindset of the seller changed?

And as I first reflected on this, my initial thought was we used to have this mentality of the buyer saying or the bubble above their head would be, "Oh, I'm stoked to have your interest to today where it might be you're lucky to land me." And I actually don't think that's a change. I just think that there's always people with that personality. And there's some that come to the equation very humble and some that come to the equation that you're fortunate to have me on your team.

So what different is something that I would say is special about the wealth management industry. As I was initially a generalist investment banker, I saw a lot of firms that were focused on deal consideration and maximizing that. And I'm blown away that almost every one of our clients says that the most important things to me, Dan and the ECHELON team, is that we take care of our employees, that we take care of our clients, and that the founder group and owner group is also taken care of in the transaction.

And the fourth most important thing is what happens on the deal consideration side or the dollars. And so that people first mentality continues to ring true. And it's not a change, but it is something that's very different in our industry. I'm really happy that's the mentality most of the time. In terms of the buyers, there's definitely been an evolution and a big change there. I would say that the initial buyers in the space were very focused on financial engineering and what I would call more self-centered deal making.

But today's buyers are very partnership oriented. They're more benevolent, and they've really brought to the task a host of deal structuring solutions that I would say not only preserve entrepreneurship, but they catalyze and amplify entrepreneurship, which you wouldn't really think because the old deal making was effectively death to entrepreneurship. And a lot of today's deal makers have really changed that.

Louis Diamond:

How about just thinking about let's say 2010, so after the financial crisis has settled to an extent, but before we saw this massive inflow of private equity sponsors entering the space? When you were working with the sell side client then, what was the dynamic? How many bids did he

typically get, and how many credible buyers would you say were in the marketplace then versus now?

Dan Seivert:

Back then there were probably 20 to 40 buyers, but there was definitely a vast difference in terms of the number of bids. It was usually five to 10. Today, we have close to 500 buyers in our list. I would say the top 50 are the ones that are doing more than five deals a year and really have deal teams. They have a professional process.

Where oftentimes it really depends on the target, the number of LOIs or bids that we get, and sometimes our client handpicks the number of firms that we can go to. But we can have some situations where we have over 40 bids and other situations where we have a much lower number just because of either where the target is or the uniqueness of their business model.

Louis Diamond:

Very interesting. And would you say that in your experience because there's more credible buyers, you're able to solicit more bids on behalf of your clients? That means that the sellers have more leverage than they did in the past. Is that accurate?

Dan Seivert:

I would say that their negotiation leverage is sometimes a function of the business cycle and sometimes a function of how busy the buyer community is and also sometimes a function of just how generous the buyers are to begin with. So I think a lot of buyers have become quite generous. And so even though the seller might have more negotiation leverage, they don't really need to use it as much.

Whereas in the past, I think the starting point was way farther away from the eventual goal and you really needed to use that negotiation clout and leverage to muscle your way all the way back to where things should be. And so I think those are some of the ways in which I would look at that.

Louis Diamond:

That's a helpful perspective. So basically the bids you're getting today are closer to where you ultimately land than they used to be.

Dan Seivert:

Well, I think they're closer to where they should be in terms of a starting point. Where they eventually go to I think really depends on the partnership fit and how much growth and success the two can potentially achieve together. Some sellers bring a very valuable resource to the buyer. That buyer scale, they can then spread it across a lot of different clients.

Think about the example with Starbucks buying a nutrition or a fruit drink brand. And that brand or that solution, because it might be very health oriented and there was a hole in the lineup of Starbucks, all those thousands of stores that they have can really significantly increase the volume and the overall promise of the partnership together.

Louis Diamond:

Let's talk briefly about private equity. I know in reading your M&A Deal Report, which we'll talk about in a minute, that private equity is a consistent theme. Not a surprise to anyone listening. But can you just talk briefly about the outsized role that private equity has had on both M&A deal flow, but also industry consolidation overall?

Dan Seivert:

Well, I think that people have some apprehensions about private equity's involvement, and I would say that's a good place to start the conversation, because what people read about and they've read about for the past 20 years are situations where private equity gets involved, they take control, and then they start meddling in the management and really changing the tenure of the entrepreneurship or the freedom of the management team. And I would say that fear is real for cyclical companies and for companies that are sold at too high of a valuation.

I would say that it hardly ever comes up in the wealth management industry where private equity firms are not struggling to achieve high single digit or low teen returns, but instead are consistently getting IRRs in the 20, 30 or 40% range, which are three to four times industry standards. They really aren't in a position of dissatisfaction that motivates meddling. So that fear is misplaced for the most part. I would say that private equity has been more like a concierge at a hotel.

Where if you need help getting a restaurant or a ride or a conference space or a massage or anything that would make your life better, more successful, that they're there to help. The way that comes about is introductions to deals, introductions to capital, assistance with management, figuring out how to share equity with your team. I've found them to be incredibly helpful and some of them are amazing when it comes to assistance in areas like social media or using data scientists to optimize revenue growth through technology.

Louis Diamond:

It's a very interesting perspective, and I think you're right. I can't really think of a really negative private equity experience like a lot of people fear in this industry. And it seems like the logic you have is because business is good and basically the management teams know what they're doing and probably know their fiefdom and their clients better than a third party private equity sponsor would.

Do you view private equity's role in the space other than the strategic help they give as a net positive? So in other words, the consolidation that's happening, it's largely fueled by private equity. Do you think that's a positive for the industry?

Dan Seivert:

I think it's a huge positive. The industry's recurring revenue profile and growth profile really creates a backdrop for enterprise value creation or said another way, wealth creation for entrepreneurs. But without private equity's involvement to be the bank and to be a vehicle for liquidity, none of this would come to a... It would not bear fruit.

And because of their involvement, they're making millionaires out of entrepreneurs, and they're really allowing these entrepreneurs to move on and achieve some of their dreams beyond working. So yes, they're winning along the way as well, but there are other industries that don't have this involvement and the lack of liquidity just creates a completely different vibe, if you will, for the entrepreneurs.

Louis Diamond:

Let's pivot and talk about valuation. So maybe you can just briefly talk about valuation trends today. So I'm not going to ask you to talk about what valuations are, even though I'm sure everyone's curious. But can you just talk about trends and maybe how you've seen valuations change over the last few years?

Dan Seivert:

Well, I think it all starts with there's a need for internal valuations and there's a need for transactions or external valuations. And it's easy to forget that internal valuations are important. There's still plenty of firms that are wanting to share equity and do transactions as they grow and prior to an outside third party partner. And the sophistication of internal valuations and the importance of them continues to improve, which is a really good thing because it means fairness for the partners.

External valuations, I think there's this general notion that they've been increasing, and so therefore they're bumping against not fair or inappropriate or there's a bubble. And I would just say that if the valuations were too high, then the buyers would be getting hurt. But the buyers instead are getting rewards that are four times or three times what they would otherwise get in other industries, which suggests to me that there's an incredible amount of more runway to share the rewards with the sellers and to continue to see upward pressure on valuations.

Louis Diamond:

So it seems like because the private equity sponsors and the folks doing the buying are still making far more on a dollar of invested capital than in other industries, that logic states there's

still an ability to potentially pay more for businesses, which is probably music to the ears of many people listening.

A lot of folks, especially ones that are practicing at the major wirehouse and maybe thinking about taking the entrepreneurial leap, they worry about 10 years from now, if I go independent, take the risk, how am I going to be able to sell my business? Will valuations be the same? And you don't have the crystal ball. Neither do I. But it seems like if you follow the trajectory of the industry and also just the logic that you shared, that there's potential optimism, not to put words in your mouth, that valuations will still remain very robust into the future.

Dan Seivert:

True. And I think that just the backdrop of this question is around numbers, and I think that it's important to refocus it on what's most important, which is people and partnerships. And if you could take a really discounted valuation at the beginning of a partnership. But if the partnership is doing well and they're growing through organic growth and inorganic growth, you're going to more than make up for it in the value of the stock that you take and the quality of life that you enjoy.

It's more of a Warren Buffett type thought that it doesn't really matter so much as to where I enter. It's what I do with the investment over time that matters most. And that's what I firmly believe.

Louis Diamond:

Very smart. So Dan, your company produces a really terrific quarterly and annual M&A Deal Report. It's cited frequently by media publications. I know I look forward to it, and it makes me a smarter participant in the industry. So you just released your 2023 report. Will you share some of the highlights of the state of M&A today?

Dan Seivert:

Sure, happy to. So just for starters, for anybody who does not get the report, you can sign up for it at echelon-partners.com. I would say that the first thing that comes to mind is as much as we talk about deal volume, as I said earlier in the podcast, it's not about the deal volume. So it's a little bit ironic, but what's important is that for great buyers and sellers is that you find a way to achieve your goals no matter where we are in the business cycle.

If I were to go a level down, what we're learning about deal volume as we've just come off of a 10-year run where we had higher volumes every year, the past three years have been over 300 deals per year, sure, that's great. We're down a little bit this year, and we're certainly at a higher level than four or five years ago when deals were close to the 200 level. I think one of the deeper questions, is that deal volume enough?

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And if you look, there's 17,000 firms out there. And if we were doing 10% a year, that'd be 1,700. If we're doing 5%, that would be a number that's closer to 850. So I just still feel that there's not enough volume going on because I think that most industries should be transacting somewhere closer to three to 5%. And so I think it begs the question, are things so good, is the cash cow so great that entrepreneurs are continuing to enjoy the proceeds later into life?

I'd say the next thing is that professional buyers continue win an increasing percentage of the deals. But I would say for the smaller guy, if you will, don't let that discourage you. We see plenty of what we call "friends deals," and those are some of the best in the industry, where somebody that you might know really respects you and they want to hand place their firm with you.

And that can be great for them and great for you. Also, it's important to note that there are over 200 private equity firms now backing a lot of the buyers. Most of them only ride one or two portfolio companies. As much as you might think that's full compliment, we are constantly meeting new private equity firms that want to enter the space and have not yet found a platform.

And some of them are very accomplished. And just like all the others, they started with no knowledge of the financial services industry and no portfolio company, but they have a way to get in and make things happen. We're increasingly seeing more debt partners come to the equation, which is a sign of the maturation of the deal process in our industry.

And I would say that this year there was only a handful of firms that did more than 10 deals, which I think is demonstrating that it's pretty hard to hit that level of 20 deals per year, which happens occasionally, but deals are hard to process. And as much as people have built teams to do so, it takes a lot to get a lot of deals over the finish line.

Louis Diamond:

I almost did a double take when you said there's over 200 different private equity firms within our industry. Is that accurate?

Dan Seivert:

That's correct.

Louis Diamond:

Wow, that's amazing. Yeah, that's absolutely incredible to even know that there's that many private equity sponsors out there, but nonetheless, ones that found our industry to be appealing. It's incredible. Let's pivot a bit to talk about those advisors that might be tuning in who are employed by one of the major wirehouse firms or are employed by a firm where they're captive to that firm. They're not independent. Can you talk about how those individuals should view the value of their practice within that context?

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Dan Seivert:

I think the first thing that comes to mind is that many of today's great RIAs started from people that were trained and learned the ropes and learned the business in the wirehouse channel. So there's a lot of evidence of coming from that area and achieving RIA success. Valuation is largely driven by the quality of the people. The major challenge that somebody from the wirehouse has is figuring out, do you want to jump back into another wirehouse?

Do you want to join an existing RIA, or do you want to start an RIA? And all of those do have certain elements of getting in touch with valuation. And the major obstacle is the fact that you don't have a complete business and you're basically working with a synthetic income statement. And we've found ways to really soften that and to work in collaboration with buyers and new partners to get to the bottom of that.

And certainly the buyer side has made huge progress in this. But valuation is a little bit more of something that you work on together rather than dictate when you're coming from the wirehouse channel. And so I would say open-mindedness and working together goes a long way to achieve success.

Louis Diamond:

And we see it the same way. And I agree with you that a lot of these big RIAs are figuring out ways to attract wirehouse teams. And our prediction is it's going to be one of the biggest and most disruptive trends across the industry is private equity's outsize role in recruiting wirehouse teams. Probably not the same way that they're transacting with RIAs, but they can at least be a meaningful participant and get into the deal flow for the biggest and best teams in the industry.

So I think we see it in a similar way. Last question for you. In your years of experience running ECHELON and before that in your other jobs, you've had the opportunity to represent some of the biggest and best firms in the industry as they've transacted their business or thought about potentially selling their business. What do you think sets apart the best firms from all the rest?

Dan Seivert:

I think it really starts with not the word culture, because culture is super important, and I believe that it's people that drive culture, and then it's taking culture to the next level, which is partnership. And partnership is a single word for how do we share the responsibilities of the firm, and how do we share the rewards of the firm, and how have we agreed to have management and governance around those elements?

And there's some really great decision making that paves the way for success, but that ends up being a very big differentiator, the bringing together of people, culture, and partnership. So I would say that's one pillar. The second pillar is similarly, it has three constituent pieces, and

that's a business model, process, and technology. There are so many different business models out there and ways to do the business.

It can be very narrow where you focus on manager selection, asset allocation, and financial planning, or it could be very broad and encompass holistic wealth management, which includes all sorts of things like insurance, tax, trust and estate, and even proprietary asset management.

But it's making some important decisions about what's the subset that's great for your client base, how do we develop consistent processes, and then how do we bring technology to ensure the quality and the consistency of the end solution and client experience? That's my second pillar, and it's really both have three elements that come together and the best firms I think do a great job with all six of those pieces.

Louis Diamond:

That is an incredible answer, and probably a whole episode we can do on each of the six pieces. But at a high level, it's the combination of people and culture. And then on top of that, it's a business model that seems like it's focused or it's intentional, in that you're able to have the processes and technology to make it scalable and efficient, to say in a not as eloquent way as you did.

Dan wanted to thank you so much for spending time with us today, sharing about the evolution in birth of ECHELON Partners and becoming a leading specialty investment bank in the industry, and then just hearing about what deal making used to be like before the proliferation of private equity, some deal structure or trends, and then hearing about ways that the best firms receive premium valuations. So I appreciate your wisdom and spending time with us today and look forward to doing this again with you soon.

Dan Seivert:

Thank you very much, Louis, and congratulations to you and the Diamond Consultants team for all of your success and your contributions to the industry. And we will continue to look forward to working together more with you and your clients as we move forward. It was a lot of fun speaking with you today, and I look forward to next time.

Louis Diamond:

Me too. Thanks, everyone.

Mindy Diamond:

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