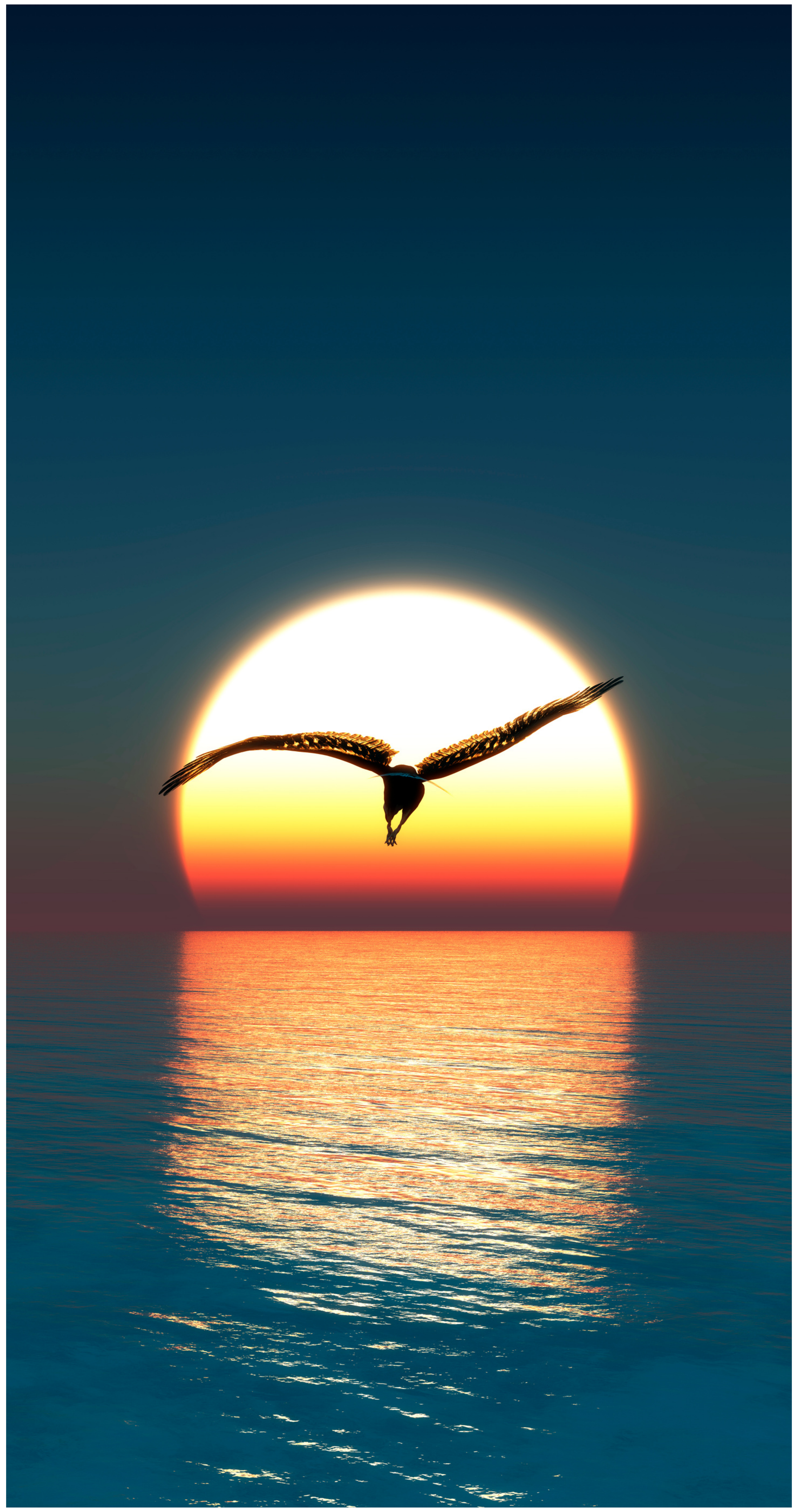

3 KEY STEPS TO SUCCESS WHEN SELLING YOUR IFA BUSINESS

Mergers and Acquisition Division

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FIRST STEPS IN THE DANCE

Owning, running and growing an IFA business whether on your own or with colleagues is one of the most rewarding careers you will ever have.
It is often a rollercoaster of a ride but one which the majority of people would not swop for anything.

However there comes a time when we all must think about stepping off the ride and handing the business over to new owners whilst at the same time securing just rewards for what you have built up and the risks you have taken over the years.

It is imperative that this stage is planned carefully as value can either be added or destroyed depending on how you approach it. In this article I look at the 3 key steps you need to adopt before you even begin to have external conversations. This is all about you, getting your business ready and working smart. After following these steps if you then decide to put off any form of succession plan for a few years the worst-case scenario is that you will be left with a better running business, know what steps to take to enhance value and have a very clear picture as to what all the Business Owners want.

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THE STAGES

Stage 1	Stage 2	Stage 3
Preparation	Going to Market	Presenting your Business

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STAGE 1

PREPARATION

IT'S ALL ABOUT YOU

Make sure that a succession plan is built into your business strategy document no matter how close or how far out the time scales may be.
Far too many Business Owners leave it far too late and the impact of this is that you may take business decisions that in fact work against what you are trying to achieve.

Plan what you as an individual want to achieve from any deal and if there is more than one of you share those views in order that you are all clear of individual expectations.

Another often over looked aspect is what will your life look like after a deal? If you can't describe what this will look like, then there is a very good chance that you are not ready to sell.

When you are clear on the above points then have a look at the variety of options that are available for you to achieve this. The choices will often be driven by the size and structure of your business so take advice and explore all the options available to you.

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Key Points

DON'T LEAVE IT TOO LATE

WHAT DO YOU WANT OUT OF ANY DEAL?:

- Personally and for your family
- For your people
- For your clients

WEIGH UP THE OPTIONS

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STAGE 1

PREPARATION

GETTING READY

As much as we all think our businesses are perfect and well run there are aspects that could be done better. Any potential acquirer will look at your business with a microscope during due diligence, so it is important that you are clear where you have got it exactly right and where there is room for improvement. Knowing this in advance gives you greater flexibility during negotiations.

There are key aspects of your business (listed below) that you need to have a very tight control on. In my experience most firms can report very well around regulation, proposition and finances. Where many firms
struggle is around the other systems and control of running a business such as HR or how risk is reported and managed in the business. This all leads to how easy is it to get data from your business across many aspects not least of all clients, their assets and the revenue they bring in.

IFA businesses tend to struggle with IT systems as the majority of systems do not integrate with each other easily and with multi-platform usage trying to get a helicopter view of a clients' total holdings from one source is near impossible. Being able to articulate how you work with multi systems is critical as any new owner will need to either follow your processes or look to integrate it with their own. Either way you need to know this inside out.

A very useful exercise to see the areas you need to spend some time on is to work your way through a series of due diligence questions as a form of trial audit.

It is always worth at this stage getting a valuation of your business as it stands today before you consider making any changes. If you are going to make changes to what you do you want to make sure that it adds value to what you already have so setting a benchmark valuation is key.

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Key Points

GET YOUR BUSINESS IN ORDER

- Data
- Technology
- Finances
- Systems and Control
- Proposition
- Regulation

GET A VALUATION UNDERTAKEN ON YOUR BUSINESS

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STAGE 1

PREPARATION

WORKING SMART TO INCREASE VALUE

Having gone through Stages 1 you are now in a position to better understand what you want from a deal, what type of deal would suit you and the business the best, the current readiness of your business and what it is worth in todays' market. Now it's about being smart.

This will partially depend on your timescales but most companies I have dealt with have been able to make changes which have significantly increased the value of their firm. Most acquirers will be looking at your EBITDA figure and the offer they make will usually be a multiple of 5-7 times depending on your size. Therefore, for every £100k increase in EBITDA this could equate to an increase in value of your business of £0.5 – £0.7m.

With the above in mind you can pull together a plan that identifies aspects of your business where changes could be made to increase value and systematically work through them. It will also help you make business decisions around capital expenditure as well. That IT system you were thinking was too expensive at £50k, if it brings savings and operational efficiencies of a similar value that would increase the value of your business by £0.25 - £0.35m.

Having a plan based on increasing your EDITDA not matter how small an increase will have a significant impact on the value of your business.

Key Points

MAXIMISE YOUR EBITDA

Compile a list of areas where savings might be made

Prioritise the list starting with ones that make the largest savings

Review any capital spend for its impact

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STAGE 2

GOING TO MARKET

DEAL STRUCTURE

It is important that you map out your requirements of how you want to see a deal structured for you as some acquirers are far less flexible than others and there is always a trade off on certain points.

Therefore the clearer you are on what is really important to you the easy it will be to identify the right type of acquirer and deal structure. Some of the areas you need to consider are on the page below:

Ignore the noise you hear in the market about ‘such and such will pay x times ongoing’ or ‘I got a great deal where I was paid everything up front’.

There isn’t such a thing as the perfect deal and no one is going to tell they sold for a bad deal!

However there are good deals and if approached correctly you will be able to secure yourself a deal that you will be very happy with and meet the vast majority your requirements.

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AREAS TO BE CONSIDERED

DO YOU WANT TO STAY ON AFTER THE DEAL IS COMPLETED AND IF SO WHAT ARE YOUR MINIMUM AND MAXIMUM TIMESCALES FOR THIS?

PLEASE THINK SERIOUSLY ABOUT THIS AS IT MAY MEAN YOU BECOME AN EMPLOYEE FOR A PERIOD OF TIME. HOW WOULD YOU FEEL ABOUT THAT HAVING RUN YOUR OWN BUSINESS FOR MANY YEARS?

CONSIDERATION

HOW IS THE CONSIDERATION PAID AND OVER WHAT TIMESCALES?

WHAT TYPE OF INDEMNITIES AND WARRANTIES WILL YOU BE LIABLE FOR?

DOES THE CONTRACT NEED AN UPSIDE IN IT TO SHARE ANY INCREASE IN VALUE

WILL YOU NEED RUN OFF PI COVER AND IF SO, DO YOU KNOW THE COST OF THIS?

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STAGE 2

GOING TO MARKET

POTENTIAL ACQUIRERS

As hard as it is to imagine, not every business will want to buy you. You may be too big or too small, your investment proposition may not align with their investment ethos, your charging structure may be too high or too low, your client profile doesn't meet what they are looking for or you are simply in the wrong geographical location.

You can not do this without effectively without the help of a good broker as they will know all the firms that are looking to acquire and not just the ones you read about in the press. They will know the specifics of what firms are looking for which will help in producing a target list of firms to approach.

The worse mistake a Business Owner can make is to let multiple sources know that he is up for sale. Nobody wants a business that is been hawked around the market and given how close our industry is there is a good chance that this gets leaked out somewhere down the line.

Confidentiality is paramount in this process and distribution of any material must be closely controlled.

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STAGE 3

PRESENTING YOUR BUSINESS

If somebody was trying to sell their business to you how would you feel if the information that was initially provided looked amateurish? Conversely if you received a professional pack detailing all the key information required how would you feel?

This is all about making any potential acquirer not only want to have a conversation with you but be excited about the prospect compared to other businesses they may be talking to at the moment. It is about portraying your business in a professional manner and demonstrating that you are serious about the potential sale of your business.

This is best done by having a professional presentation pack, sometimes referred to as an **Information Memorandum** prepared that presents the company's history, structure, performance and key statistics in a format that helps any potential acquirer get a good understanding of your business and your aims.

The next stage is **meeting** with any potential acquirer either remotely or face to face. This is an important step for both sides as a cultural fit is critical in making a deal work. If you like what the acquirer tells you about their business and why they are looking to buy but you do not like the individual then it is unlikely the deal will go any further. Better to get a quick no than to have matters drag on and eventually fall apart.

If there is interest from both sides then conversations will continue clarifying certain aspects until the acquirer is in a position to present a NBO (Non Binding Offer) or goes to HOTs (Heads of Terms). At this point you are now into the acquisition process which we will cover off in a separate article.

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SUMMARY

Selling your business or getting an exit strategy in place with your firm is part of business life but most people will only ever do it once. It is the culmination of years of hard work and sacrifice so it must be approached correctly for you to get the best out of the deal and to eventually be able to step back and enjoy the fruits of all those years of hard work.

Our role in this is simple. We work alongside you all the way in this process from the first discussion with you until the deal is signed. Our aim not only is to get you the right price but to get you the right contract terms as well as these are just as critical. In addition we understand you also have a business to run so we take away much of the work that is
involved in a deal to free up your time and report to you to keep you fully updated.

We co-ordinate with all the key parties involved to ensure everyone is kept up to speed and there are no delays in the process and when issues arise, as they always do, we are the first point of call to get them resolved.

Selling a business is never straight forward and can be fraught but by working closely with the client we are able to take much of the stress and work load away and protect them for mistakes we see being made which can end up being costly.

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