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SPECIALISTS IN FINANCIAL SERVICES RECRUITMENT

Guide to Buying an IFA Business

Buying and Selling IFA Businesses

and

Why we are in the Golden Age

If you are hoping to buy an IFA business, it pays to understand the market

If you are new to this you may be surprised to learn there is a long queue of companies waiting to do the same.

So, if you are hoping to be a winner in the buying stakes, you will need a strategy and information is power. In this report we will outline key steps which can make you a winner.

How and why Financial advice businesses are valuable

Financial Advice businesses have had almost no value until quite recently and now they have the potential to make their owners into millionaires overnight!

The cause of this dates back to January 2013.

The Retail Distribution Review (RDR) was implemented on 1st January 2013. It raised the qualification requirements and ended commission for Investment Advice in the UK. This caused an exodus of Financial Advisers, who have never been replaced.

Barriers to Entry

The high barriers to entry and shortage of Financial Advisers plus regulatory burden ensured only the relatively wealthy could afford Financial Advice but due to the drop in Financial Adviser numbers, there are more than enough clients to go around.

Move from Commission to Fees

The move from commission to fees, also gave financial advice businesses an ongoing income which gave them ongoing value for the first time in history. Whereas, under the commission regime, Financial Advisers only made money from clients every time a transaction was required (and this sometimes encouraged some pretty ropey practises), Financial Advisers can now make money from their businesses quite literally in their sleep.

Many Wealth managers and financial planning practises provide an ongoing review service to their clients and receive their fees based on client assets under management which is withdrawn from clients' assets on a monthly basis. While this suits most clients because it is a small, regular payment which they do not feel like they are paying personally, it also suits most Financial advice businesses as it means ongoing income.

The ongoing fees model means that client banks finally have a true value, which allows them to be bought and sold.

The Value

When an adviser is ready to sell his or her business, there are many companies keen to buy, recognising the ongoing value of the client book. Many client books accumulate and with it, so do revenues for the Advice business. A typical individual in the UK, also receives inheritances in their 50s so clients add more to their investments. Buyers recognise the likelihood that the client revenues will grow even with little focus on generating new business.

While the real value in an IFA business therefore lies in its potential to create an increasing income to the buyer, bigger businesses also have the added benefit of increasing the value of a client bank by virtue of trading on a higher EBITDA basis than the seller. This can ensure a client bank increases in value on day 1.

While there are many ways to value an IFA business, we have already mentioned multiples of Ongoing Revenue or normalised EBITDA. All lead to a significant payment when owners retire.

The Once in a Generation Opportunity

Today we face a once in a generation opportunity to build a Wealth Manager or Financial Planning business through acquisition as many Financial Planning businesses and Wealth Management businesses (from micro to large) will be offered for sale in the next 5 years.

Why IFAs are Selling

RDR has created a unique opportunity for the first generation of post RDR IFAs to make a significant capital sum but they will not be around for ever.

The UK Financial Adviser population is reaching retiring age. A significant proportion are in their mid-50s or beyond. According to the Heath report 3, published in January 2019, 5% planned to retire immediately and a further 16% plan to leave in the next 5 years. That is over 1/5 of the market… and that is even before we knew about Covid-19.

The Heath Report 3
Number of Advisers in Decline

The Heath Report 3, published in January 2019, surveyed 249 Adviser firms representing 865 Advisers on the current availability and future of professional advice in the UK and some interesting findings were:

- Five percent (1,650) of Advisers are planning to retire immediately and a further 16 percent (5,280) have plans to leave in the next five years.
- The average age of an Adviser at the time of the report was mid-fifties.
- It is estimated that only 18,000 advisers will still be working in 10 years' time.

Why IFAs are Selling *Cont…*

When asked why they are selling up, many IFAs also mention the cost and demands of increased regulation and PI Insurance fees. With almost 89% of the advice businesses employing less than 5 Financial advisers, it could be argued that many are sub-scale, there is a great case to merge many of the Practices but too many of the existing players no longer have the appetite for it.

However, there are a significant number of players, and not just those already in the financial advice business who can see the opportunity that consolidation presents and are keen to buy these small businesses and that presents the opportunity for the current generation to sell out and capitalise on an opportunity many of them could not have anticipated, even just a few years ago.

In many cases they acquired their client banks without cost and can now sell even quite a modest client bank for a seven-figure sum.

Many of the current generation of advisers started out as employees (often working for Bancassurers) before striking out on their own. These Financial Advisers were then able to take clients with them when they left the bank or other large employer due to their personal relationships with their customers and limited restricted covenants. Even where restricted covenants did exist, many companies (particularly the banks) didn’t seem to worry about clients following the adviser because of the low perceived value of clients.

Why do so many people want to buy IFA businesses?

We have already established that an IFA business has a great potential upside in terms of future income stream.

We also mentioned how an ambitious firm with tradable stock can instantly increase its value just through having a higher EBITDA trading multiple.

Finally, the large product providers need to protect their routes to market, so creating a vertically integrated firm can make money from all parts of the value chain.

What are the alternatives?

Building a business organically is possible but much slower and it is very hard work. Making a client profitable can take time. Since the end of commission, typical initial fees of 1-3% of the amount invested mean clients become profitable over time but not usually at outset.

Until recently, a popular way to build a business was through hiring advisers who could bring clients with them. While this is, in theory, still possible, it is much more difficult than it used to be.

As the market has recognised the true value of client banks, so companies have learned how to tighten covenants with non-compete and non-deal clauses. So many adviser covenants are much tighter, and it is virtually impossible to move clients for the first 12-18 months after moving companies.

At the same time, self-employed advisers who genuinely own their client banks are becoming a rare species as they too choose to sell when the time and price is right.

Even the senior executives in some of the biggest financial planning firms have told me that the days of recruiting the self-employed adviser with his or her own client bank are numbered.

As a result, buying clients via business or client acquisition makes sense for many.

Who are the potential buyers?

As the first generation of Post RDR(and post COVID) business owners retire and their businesses are sold, there is a wall of money willing to support the ambitious business in Acquiring clients whose future income stream seems a one-way bet.

There are many different parties interested in buying Financial adviser businesses.

- Small sub scale Adviser businesses seeking scale to survive
- Small medium and large network members whose parent network are willing and able to provide Financial support for acquisitions.
- Medium size businesses with ambitions to become big players
- Large IFA Businesses who believe big is beautiful
- The product providers with vertically integrated businesses seeking distribution
- Big companies keen to protect their distributors from redirecting business to their competitors
- Banks – re-entering the market – using their own brand or joint ventures with fund managers
- Venture Capitalists and Private equity players seeking market entry.
- Others

The good news is that there is room for all, if your strategy and execution are exemplary.

Summary

The industry is consolidating, and many business owners have reason to sell at a reasonable price.

The small businesses, often small or sole traders and almost always owner managed, will be available at a relatively affordable price now. Prices look likely to rise in the future as supply reduces.

Once an owner managed business or client bank has transferred to a larger business, stock market rises and the demographic time bomb will see assets grow the next generation of wealth managers will be larger and more profitable, achieving economies of scale and other synergies.

Within a few years, the Financial Advice market it will look much more like other professional services markets, with a small number of dominant players. Entry at scale will be virtually impossible

Next time around the client bank will be valued as a Corporate asset, probably based on a higher multiple of EBITDA and only available in much larger denominations.

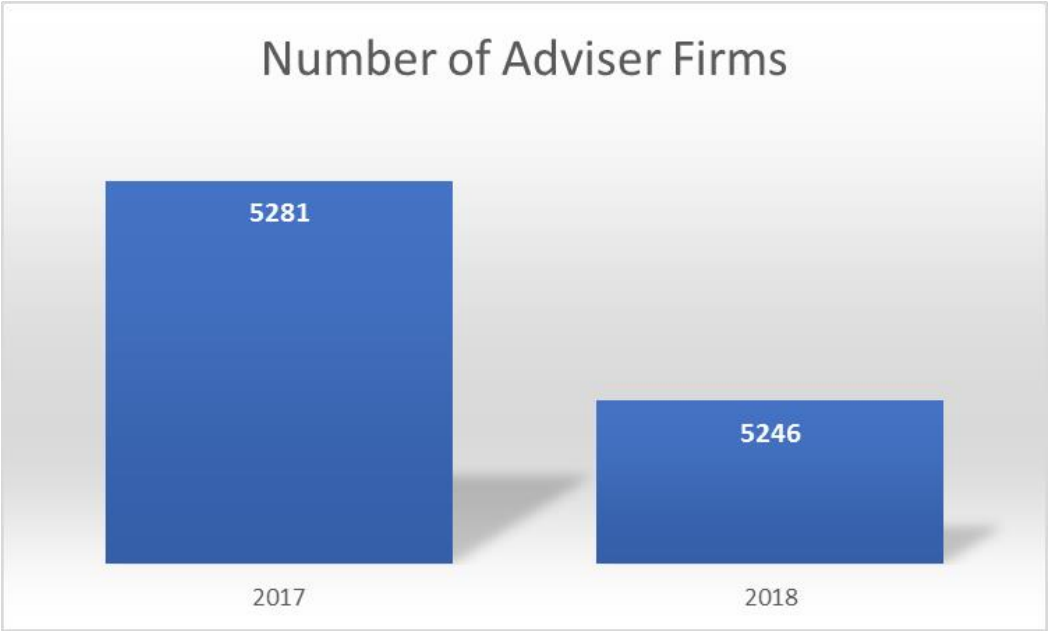
Eventually, probably within the next few years, this consolidation will be complete.

Despite all the above, there will be plenty of businesses to go around providing you have done your homework have the right USP and a way of reaching the right people at the right time (when they wish to sell up).

Paul Harper MBA ACII DipPFS
Chartered Insurer

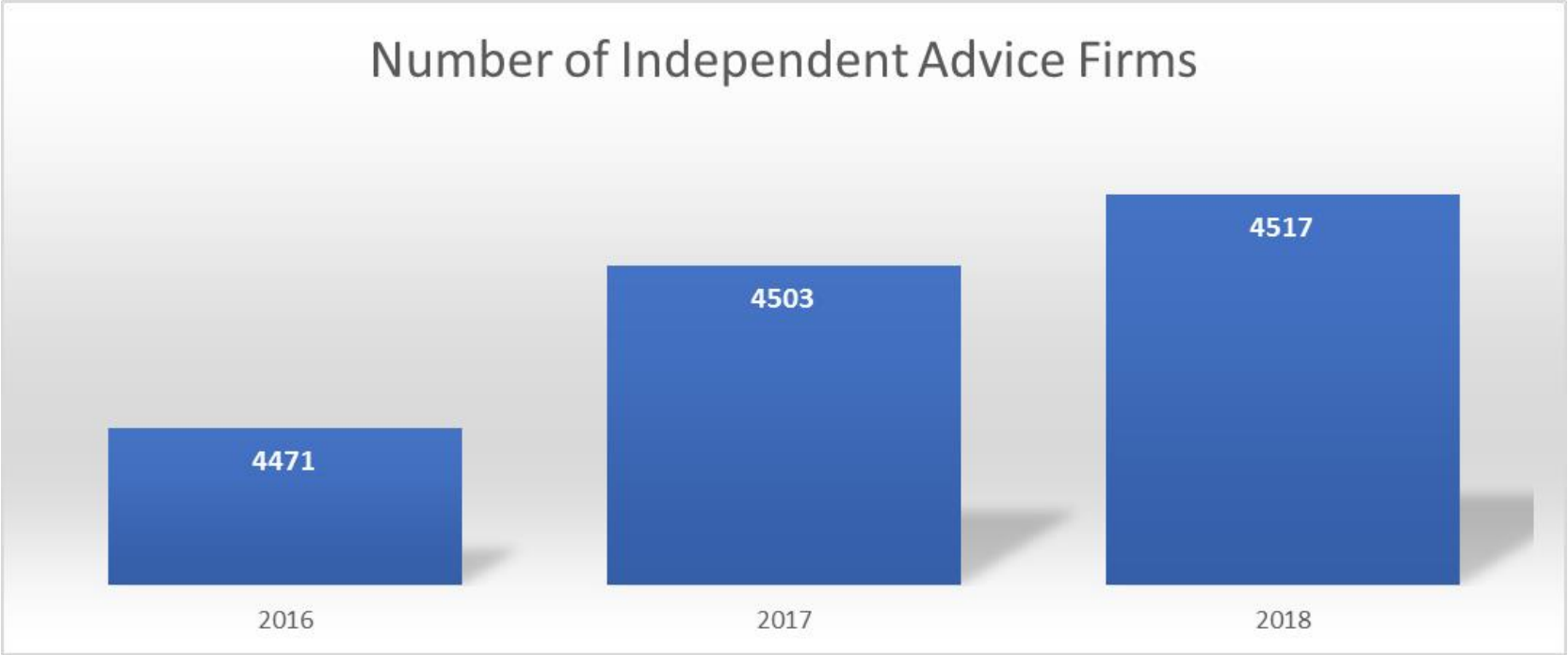
The IFA Market

- The number of advisers (+1% on 2017) and Adviser Firms (-1% on 2017) is steady. This is bad news for the Advice Gap.
- Despite mergers and acquisitions the Adviser market is still mainly a cottage industry with 89% of firms having 5 employees or fewer and almost half only having one adviser.
- Self employment still dominates the market which is a sign of its immaturity as only 10% of firms have over 5 employees and we don’t currently appear to be near ‘tipping point’.



The IFA Market

Source: FCA Data Dec 2018



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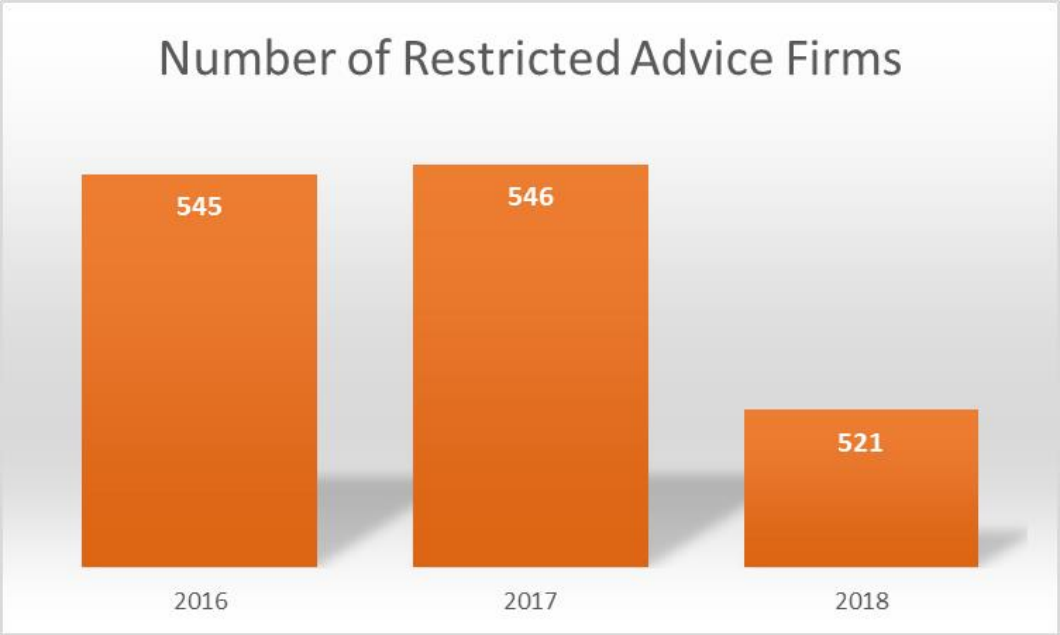

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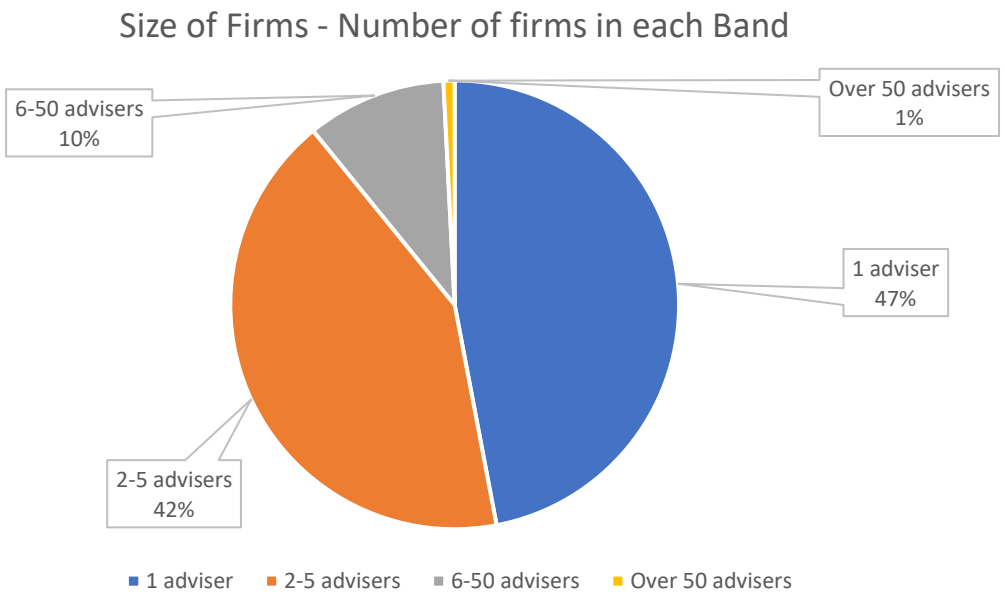

The IFA Market

Source: FCA Data Dec 2018

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Revenue Generated by intermediary firms
(Retail Investments) 2016 – 2018

2016		2017		2018	
£3.26bn	Up 8% on 2015	£3.95bn	Up 21% on 2016	£4.45bn	Up 12% on 2017

The IFA Market

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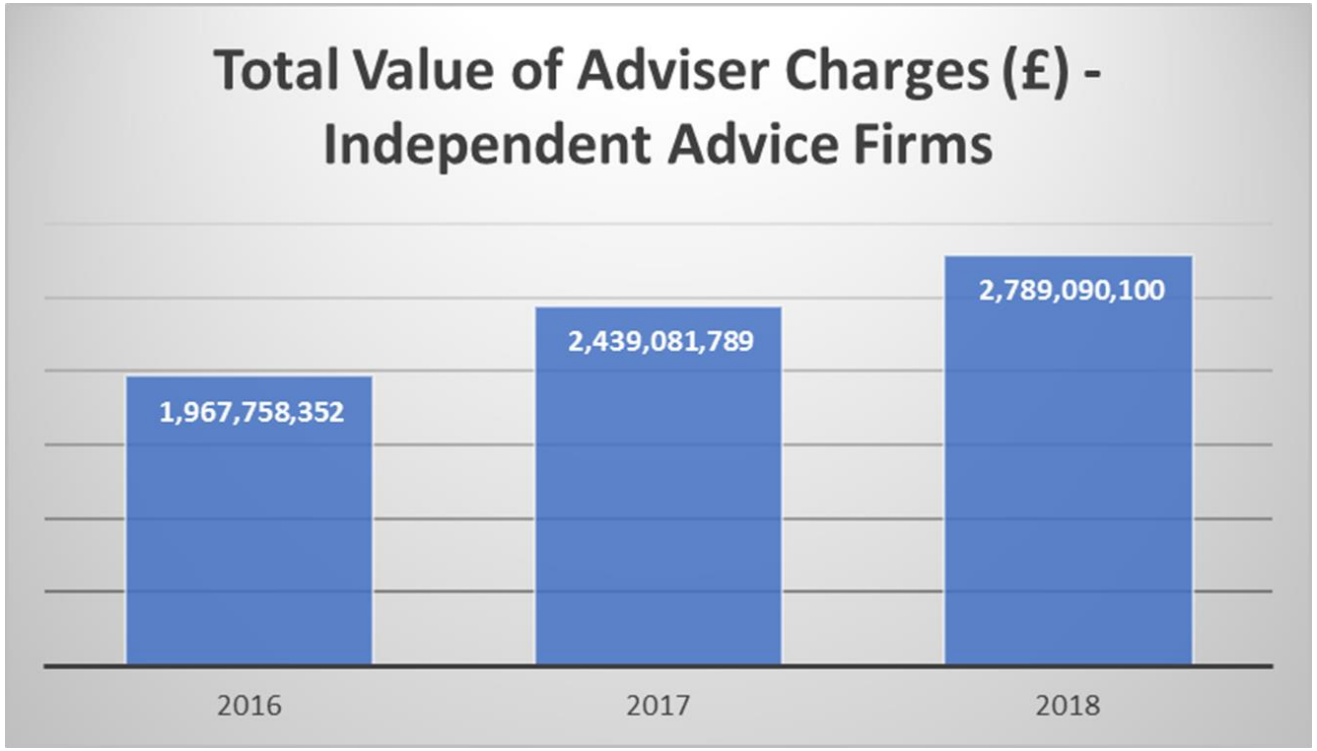

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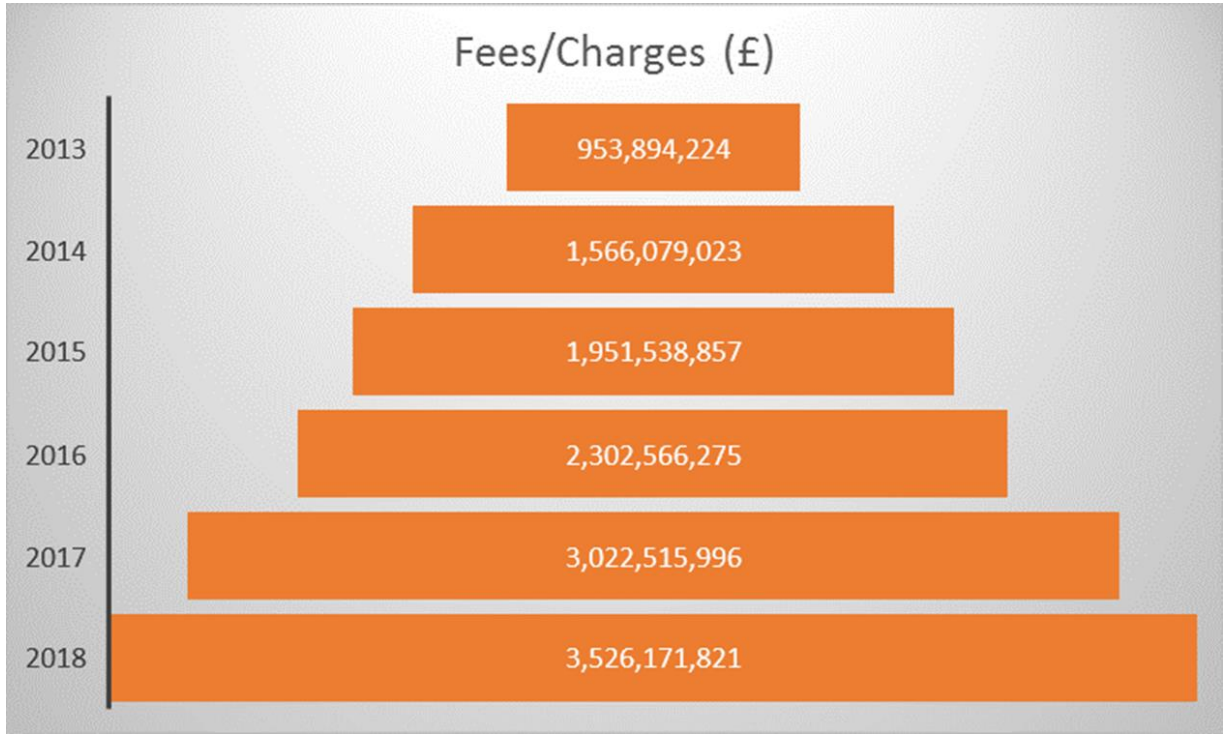

The IFA Market

Source: FCA Data Dec 2018

Self employment still dominates the market which is a sign of its immaturity as only 10% of firms have over 5 employees

The 9 Step Process to successfully buying IFA Businesses

STEP 1 – Define your objectives, strategic direction and culture

- Why are you looking to acquire?
- How are you looking to fund the acquisition?
- Can you clearly define your culture in your business?
- Are there any lines in the sand?

STEP 2 – Acquisition Profiling

- What are you looking for in terms of client numbers, FUM, ongoing revenue, location, age profile of and type of clients?
- Do you want advisers?
- What does their client proposition and charging structure need to look like?
- What does the investment proposition need to look like?
- Do you want the owner to remain in the business post acquisition?

STEP 3 – Define your target businesses

- Identify the businesses that match your criteria
- You can use a variety of data sources, many of which are expensive and need time and effort to evaluate. However, limited information about authorised firms can be accessed for free on the FCA database.

STEP 4 – Approach target and prepare shortlist

- Contact your targets to gauge their interest
- Ensure that NDAs are signed by all parties.
- Request some headline information to ascertain their suitability
- Arrange a meeting and commence due dilligence

STEP 5 – Agree firm to purchase and negotiate deal

- Make your sale
- Issue a Non Binding Offer (NBO)
- Negotiate and issue Head of Terms (HOTs)

STEP 6 – Manage acquisition process and complete deal

- Ensure the process is run to precise timelines to avoid drift.
- Co-ordinate the legal and due diligence process (depending on the type of deal external parties may need to be brought in for due diligence)
- The official process is completed on the signing of the Sales and Purchase Agreement (SPA)
- Ensure a Client transition plan is in place for post deal.

STEP 7 – Create Client Transition Plan

- Analyse client data – FUM/fee size, location, age profile, funds invested, TERs, linked accounts
- Create client communications strategy
- Create detailed sales plan (priority clients, f2f visits, phone call follow ups, documentation to be signed, appointment targets etc..)
- Meetings with platform provider to agree approach
- Present to whole team and get buy in

STEP 8 – Manage client Transition Plan

- Weekly meetings with Advisers using detailed MI on performance (numbers of appointments, new ToBs signed etc..)
- Weekly meetings with support staff to identify any issues and resolve
- Bi-weekly business updates to whole team on progress
- Identifying gaps in the team. It is usual for Directors to move on after a head-over. You may feel you can increase the business profitably through investing in further advisers or key managers. With the right planning and recruitment partner you can have candidates lined up and read to go

STEP 9 – Complete Review and Report Back Detailed Findings

- Carry out a comprehensive audit on the health of the business. For example – processes, back office, client segmentation and proposition, marketing etc..
- This is an opportunity to reflect and identify areas to focus on following successful client migration

About Paul Harper Search & Selection Celebrating 20 Years at the Heart of Financial Services

We have been supporting businesses in acquiring senior staff & directors since 1999.

We arranged our first Financial Adviser business acquisition in 2001 and have been helping Financial Services Directors achieve their business goals ever since.

Contact Us

We are seeing an increasing number of Chartered and Certified Financial Planning businesses and Wealth managers who are keen to find the right deal and not just the highest paying deal.

If you are seeking to buy an adviser business and want us to help you get to the front of the queue please email Paul Harper on his personal email:

paulh@paulharpersearch.co.uk

or call Paul on his mobile **07768 952212**

Testimonials

"You widened my horizon as to what is available in the market. With a retained search you save an awful lot of time. It was really quite eye opening. We probably know more about our sector of the market than any other firm operating in it as a result of it"

Jon Collins, Chief Executive, Winterbourne Trustees

"I would definitely recommend others to use Paul Harper Search & Selection"

Gillian Hepburn, Intermediary Solutions Director, Schroders

Further testimonials available on request