AURA
CONSULTING

Planning for an exit

This process cannot be a quick win. Planning for an exit should be a fundamental activity throughout the period of ownership of an advisory business. Preparing for the final sale should be treated as a three to five-year process.

Value enhancers for IFAs

Recurring and sustainable income: Acquirers are placing a high value on firms with a high proportion of recurring revenues

Clear advice proposition: A firm that clearly sets out its area of focus will attract a higher rating than a firm with an unclear, poorly executed, whole-of-market offering.

'Sticky' client base: An acquirer's major concern is that clients will leave during or after sale – especially if their assigned adviser also chooses to leave the firm. Purchasers will therefore be looking for:

- Low historic client attrition rates;
- High levels of client activity and new inflows;
- Remuneration based on long-term client relationships – e.g. annual fees;
- Client servicing that involves many touch points across a firm, not just one adviser.

Large case sizes: The efficiency of the operation is likely to be greater, the quality of the customer base better and compliance easier to monitor if a firm exhibits a small number of clients with high assets under advice rather than a large number of small clients. That said, there will be concern if only a few clients account for a very high proportion of assets under advice/influence.

High-quality adviser teams: Given the increased professional standards demanded by the RDR, acquirers will favour firms where RIs have, or are in the process of attaining, chartered status. Acquirers may also interview individual RIs within a firm to gauge their commitment and assess terms on which they are happy to be tied into the business.

USPs and innovation: Finally, some firms will command a high valuation because they are doing something innovative and forward-thinking that holds a particular attraction for certain acquirers.

Value threats for IFAs

Owner is seeking immediate exit:

Owner holds key client relationships: The acquirer will be concerned about any concentration of relationships with a single individual – especially if there is any indication the owner is looking to retain those relationships on exit.

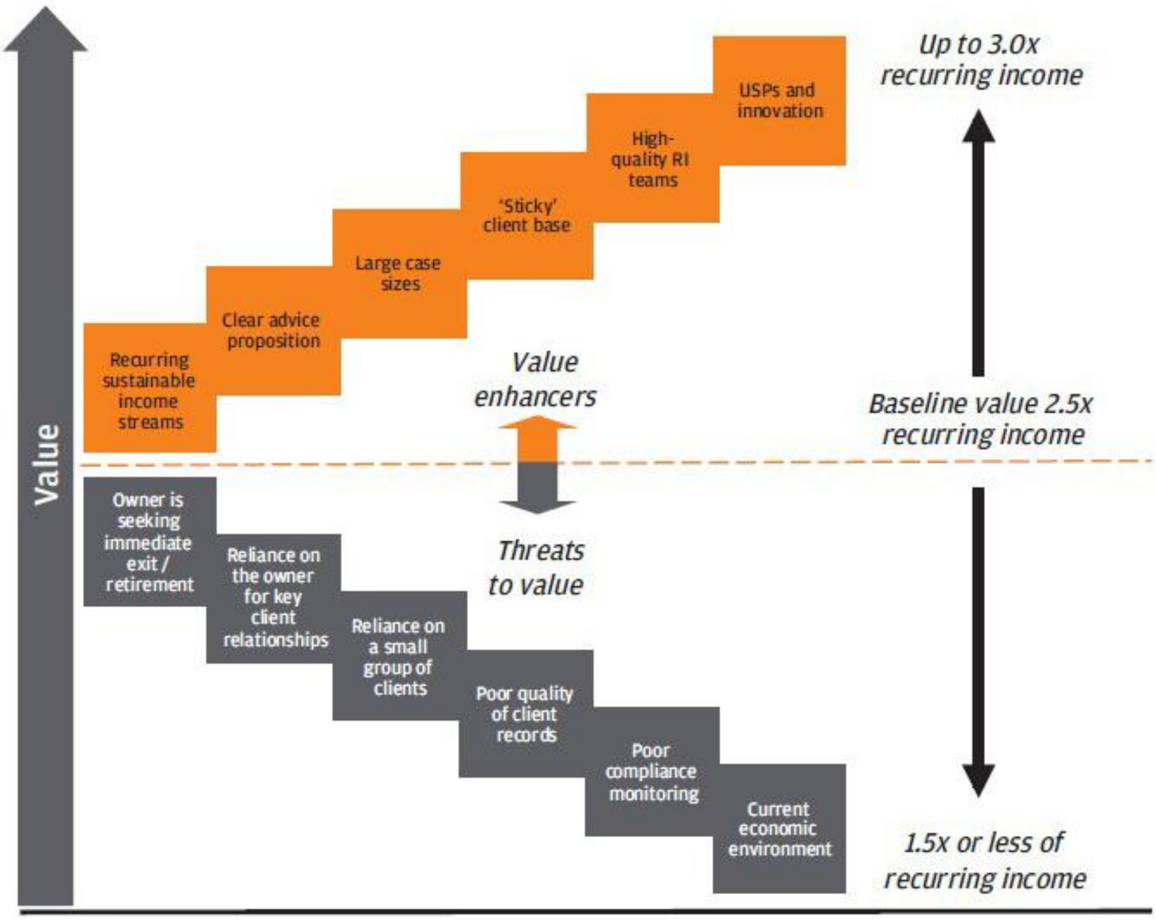
Over-reliance on few clients: While acquirers look favorably at larger average clients, too high a proportion of overall revenue coming from a few individual clients will cause concern.

Low-quality client records: A general discount may be applied to reflect poor operational management. Second, a lack of data means acquirers may not be able to value aspects such as recurring revenue, high-value clients or growth in assets under advice.

Poor compliance and/or regulatory concerns: Poor compliance monitoring (or any regulatory issue/failing) is likely to mean a number of buyers will not consider the acquisition at all.
Hopefully we are already providing you with some value at no cost.

Diagram 2: Value enhancers and threats for small IFAs

The factors that can increase and reduce IFA valuations. The precise impact of each factor will vary for each firm.



Source: Ernst & Young