Selling your IFA Business: a guide produced by Harrison Spence Ltd

HARRISONSPENCE

Welcome to Harrison Spence Limited.

For over fourteen years, Harrison Spence has been at the forefront of buying and selling IFA practices of all shapes and sizes, along the way we have helped many individuals achieve life changing capital events.

Selling your business or your share of a business is a big decision, and in response to many requests we have produced this short guide which we hope will help anyone considering taking those first steps to change their working life.

Alan

Alan Marks
Managing Director
Harrison Spence Limited

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Guide to selling your IFA Business

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Why Sell your Business ?

What are the drivers for selling your business

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Why sell your Business?

"It is only when you know what you are going to do next that you really are ready to make that decision to sell"

When we first open discussions with a potential seller of a business, one of the first questions we always ask, is "Why are you thinking of selling your business."

The reason for this is simple, we believe that Mergers & Acquisition agents have a duty of care to ensure that a person who is considering making a life changing decision has given due consideration to this fundamental question and that the full implications have been considered.

Having dealt with M&A's for over 14 years, the answer I most often receive which makes me inwardly cringe is along the lines of " Well our lease is up in three months' time and I/we don't want to sign up for another 5 years"

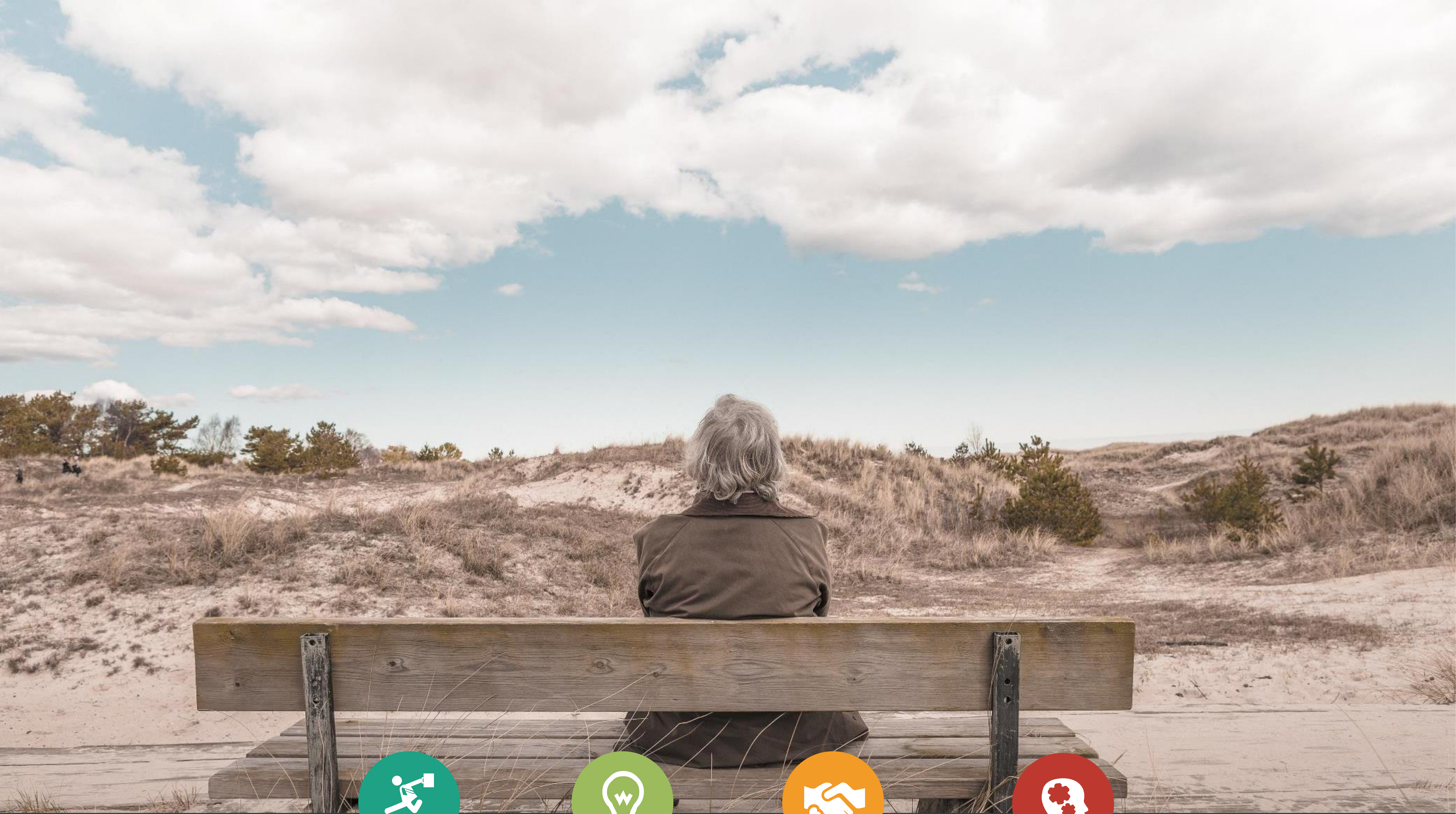
This answer never fails to surprise me as financial advisors who are experts at planning for their client's futures, pay so little attention to their own. There is a well known expression of, "plumbers with leaky taps."

Of course, there are many reasons to sell your business, the lease being up is just one of them, but selling something you have nurtured and grown for probably a good number of years and worked hard at on a daily basis needs a good deal of careful consideration.

Are you doing the right thing? Imagine how will you feel handing over control of your business, to a third party, in most cases a third party you have only met 6 or 9 months ago as well.

The truth is the decision to sell may seem an easy one, especially if you are feeling the time is right, but some IFAs do regret a sale almost as soon as the ink is dry on the contract and you must be prepared for this post sale feeling of remorse.

In a small business in particular, it is important to ask a person outside of your organisation that does not have a vested interested in the selling of your business for an opinion. Remember though, the final decision to sell must be yours and when you have made your decision you must be ready to take the next steps.



Energy

Many people experience a loss of energy.

Idea

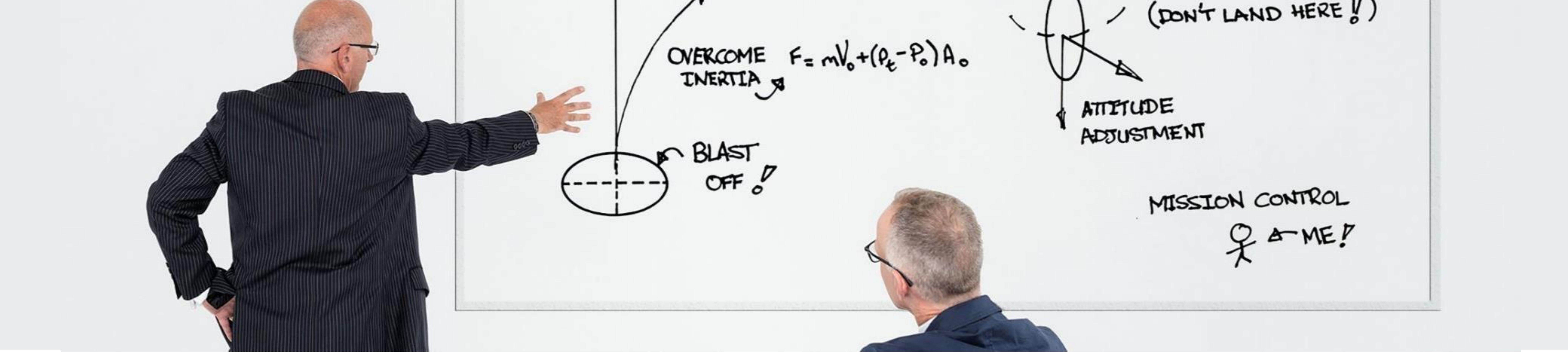
I want to do something else.

Flexibility

I still want to work on my terms.

Ability

I still have plenty of ability, but I would like some money now.



When to sell?

"Try to sell your business when things are going well and after tidying up any potential problems or loose ends"

The decision to sell any business must be a matter of personal choice but there are some key times when to sell and when not to sell. It is generally accepted that the worst time to sell a practice, is when it is experiencing a downturn in business, any potential purchaser is going to focus on this as a possible way to reduce the value of their offer to you.

Possibly the best time to sell a business is when it is on the up, or when you can see an even better future for the business, this way you are leaving something on the table for a future purchaser.

The general state of the economy, is of less importance, most purchasers are market condition agnostic and will allow for a downturn in fund prices etc.

There is a lot of misinformation relating to the best month to sell, many think that first marketing a business in December or late in the year could be detrimental as firms may not be looking to acquire at that time, this is actually counter intuitive to the fact that companies that are looking to acquire see no difference between January 10 and December 2nd.

The reality is, if you come to market in December, your likely to receive more attention from acquirers as when January comes, they will be viewing far more propositions as people return from their Christmas break and decide to sell.

As we have mentioned in many of our past e-mails, if you are on our list, you will have read that the Christmas break for many is " Thinking time" and decisions to make changes often come in the first week in January.

We strongly recommend doing some preparatory work before your business appears for sale, there is no point in trying to sell up with any loose ends or potential problems outstanding.

Incidentally, most IFAs do not realise there is a problem until someone points it out to them, if it comes up during a potential purchaser's due diligence, it could delay matters or lead to a reduced offer. There are a number of companies that can help you with this preparatory work of doing your own due diligence on yourself, if you require help and it need not take a long time.

You only have one chance to make a first impression with a purchaser, so it is important to get it right first time.

Who would want to buy your business

Based on our experience There will always be someone that will buy your business

The good news is, whatever the size of your business, there will always be a buyer who will be looking for it. Despite what many IFAs think, the smaller the business, the more potential acquirers that may be interested.

If you own a larger business, there are usually acquirers with funds looking for these as well. A quick glance at the trade press will give a good indication of who is in the market to buy a business at any particular time, sometimes the same names keep cropping up or there are announcements of a new consolidator or a particular business's intended expansion plans.

On the face of it, locating a potential acquirer may seem quite straight forward, the tricky part is obtaining the interest of an acquirer where there will be a good cultural it and once an offer has been made and agreed, importantly getting the deal over the line.

> ***"Finding a buyer is easy, finder a buyer that will give you what you want, is a little harder"***

Types of Seller?

> *“Events in a business’s life often take a long time to manifest, but when they do come to the surface, they usually happen very quickly”.*

Sellers fall into several groups depending on what they are looking to achieve.

In our experience, most requested scenarios will be considered by an acquirer providing they are reasonable, but it is important to communicate “special requests” early in the initial discussions.

We have seen too many deals collapse because one or both parties were not clear on their intentions. Incidentally, we regularly come across these situations where we are asked to help on a deal that has already been initiated without our involvement and problems are starting to occur.

Sell and hand over and retire

This used to be the most common type of seller.

All buyers will expect you to hand over your clients at some point in the transaction after the deal is done allowing you to then retire. Typically, you will receive 50-60% of the agreed price upfront with the remaining balance paid equally after 12 and 24 months.

During the initial period post completion, you will be expected to facilitate the handover of clients with more attention employed to the largest clients to ensure they remain with the business.

When contemplating a retirement sale, it is important to consider the period you will be required to be involved in the business post sale, even if it is only to a small degree.

Sell and stay with the new company.

This type of sale is becoming more popular, especially with IFAs that relish helping their clients but do not like dealing with the mundane aspects of running the business. We call it “escaping the glue” the most common reasons cited are that “I do not want to be a compliance officer, HR manager, agony aunt, software engineer, or property manager”. These are all reasons we have seen for wanting to sell up.

Some IFAs just want to get back to why they entered the profession in the first place, giving advice and helping people.

There are a number of options here, you can sell out on day one or agree to a partial sale with a pre agreed price or formula for future sales which will allow you more time to build a bigger client bank which would be added to the pre agreed later sale price.

Types of Seller continued ?

Events in a business's life often take a long time to manifest, but when they do come to the surface, they usually happen very quickly".

Hybrid option of the above two

This would suit a business where one or more stakeholders want to leave and one or more want to stay.

If an internal market sale is not suitable, it may be possible to facilitate a sale where one party leaves and one stays working for the new company. The seller/ leaver is free to take their pay-out earlier and the other can negotiate their own deal.

Sell Part of your Business.

There is also a possibility that you could sell just part of your business. You could invest some time properly segmenting your client bank to establish, which clients are making the business money and which ones are proving too labour intensive and do not produce sufficient levels of revenue for the time spent by you and your team in a year.

Once you have packaged them up, there will be an acquirer that is interested in buying this "tail end" Some acquirers only want smaller clients and will have devised a plan to maximise value from them.

With the revenue generated from this sale, you can invest this back in to your business or take as a capital sum for yourself.

Distressed seller

This a situation you do not want to find yourself in and can come from: ill health or threat of ill health, an investigation by the regulator, or from business partners or directors falling out. In these cases, buyers can still be found but it is important that a potential sale is presented in the correct manner to avoid any "low-balling" attempts by the acquirer.

Business Divorce

One or more shareholders fall out, this can be for a variety of reasons, often a disagreement relating to the direction a business is taking over time spent by parties on different elements of the business, or simply that the people grow apart.

Disruption in the business is very volatile, it upsets staff and can eventually destabilise and devalue a business. The most important piece of advice we can give when dealing with this situation is when attending meetings with acquirers, always put on a united front, squabbling in front of a prospective purchaser will not be well received (except that they will see an opportunity to get a bargain!).

“ Having good Partnership or Shareholder Agreements with fellow partners/directors is essential”.

Internal Market Sale

There are two areas to internal market sales, historically the most common was where one owner/ partner wanted to retire, however, the others did not.

Whilst as already explained, there are acquirers that will be happy to facilitate this; what if the remaining stakeholders do not want to sell to a Third Party? They will of course need to buy the shares themselves.

This scenario emphasises the paramount importance of having good shareholder or partnership agreements in place to deal with the “What happens when” questions. So many firms ignore this as when a business is established and in the early stages, everyone is happy, people are not thinking about an event which is probably not even on the horizon. Plan ahead for these possibilities and you will have an agreed exit if it occurs.

In more recent times, we have seen a large increase of another type of internal market sale, and this is being driven by owners of businesses who are coming to retirement and would prefer to sell to their internal team rather than an external buyer.

This can be a very sensitive subject to broach internally and because of the sensitivity of the discussion, we would suggest you employ the services of an independent company to assist, to help avoid fall outs during the process, over matters such as the value and how this will be paid.

The final option is a sale through an Employee Ownership Trust (EOT) and they are currently very much in vogue and have a number of specific advantages.

Realistic amounts being achieved

Setting Your Expectations

My grandmother used to say, if something looks too good to be true, its likely not to be true. If you have heard the going rate for an IFA practice is “X” and you have been told someone can get you substantially more, its likely to be untrue and more importantly, you will have been seen to be in the market place.

There are many firms that embark on a sale, believing they will receive higher multiples, but the reality is, in all probability they will not. Another fallacy is that by involving multiple prospective purchasers, they will all bid against each other driving the price higher, in our experience, most buyers do not like to be placed in a “Dutch Auction” and will make an offer and then walk away from this situation.

It is true, certain types of practice can make up to 20% higher than a “standard” business, for example a niche market IFA which specialises in a unique or a very narrow group of clients, e.g., dentists, doctors, solicitors, etc. this will always be attractive to a particular acquirer that can see synergy in that sector or niche.

You may feel your business deserves more, this will need careful explaining to potential acquirers so they can understand the value and potential of your business.

The multiples do change at all times depending on market conditions, in particular if there are more buyers than sellers.

As this is constantly changing, do call us if you require the current numbers that you should be looking in the region of.

Getting the Best Deal

What can you do to get the best deal

Segmentation

Spend some time segmenting your clients

Perform an Audit

Perform an audit on your business, consider getting some external assistance to help take a critical eye of your files

Optimize internal systems

Make sure your internal systems are working efficiently, purchasers love this, it means less work for them.

Leave something on the table

Demonstrate you can see a plan for your business so a potential purchaser that the business still has room to grow.

What to do first ?

"A business correctly marketed and in a professional manner is more likely to lead to a sale at the best possible price.

What to do first

Firstly, before you do anything else, talk to someone who can guide you and will tell you how to prepare your business for sale. This could be a company such as ourselves or perhaps an IFA that you know who has already sold their business and may be able to help you avoid some of the pitfalls.

Most acquirers will require similar information, so it helps to talk to someone who has already been through the process.

It is essential to sort out any historical problems or recent errors or omissions before you go to market. Look at your business as if you were intending to buy it and were carrying out due diligence, understand the risks that an incoming purchaser might see. This pre-sale "MOT" as we call it can really help facilitate a smooth sale.

A good example would be "Defined benefit pension transfers," given the current market conditions around these.

If you have done any of these, whether it is only a few or a large number, list out each case showing the size of the case and the advice given, any third party review of the files and the action taken by the clients. In addition, if you have subsequently reviewed the files for any reason state when and why the review was undertaken.

Another example would be any historic UCITS investments that were still in client's portfolios. Again, a list of these with as much information will help with enquiries from any prospective purchaser doing their Due Diligence.

What to do First

A business correctly marketed and in a professional manner is more likely to lead to a sale at the best possible price

Errors

List out all the errors and omissions, concerns and risks, deal with them or be prepared to give answers to them.

Get advice

Ask an independent third party to do the same thing to see if there anything you have missed.

Kerb Appeal

Make sure that your business looks good and has "kerb appeal". It is important to make sure any potential purchasers will like what they see.

Prepare

Prepare the data that any potential acquirer will want and know how to present this data to them, speak to a corporate finance advisor or a M&A brokerage as they will be used to the style of data required.

Data

Decide how you intend to market your business, are you going to go it alone by making approaches to potential purchasers or are you going to ask a company to represent you.

1-Please note that most corporate finance houses are generalists, so are some M&A brokers, other M&A brokers specialise in unique areas.

2-At some point you will need advice on handling the proceeds of the sale, It is not essential to speak to accountants or tax advisors until you know the structure of your potential deal and at that point, they can advise how to minimise your tax liability on any sale and may suggest changes or specific wording in a contract.

How long does it take

STEP 01

Decide what to do

STEP 02

Prepare your data

STEP 03

Do due diligence on yourself

STEP 04

Finalize presentation

STEP 05

Offer for Sale

In our Experience the process will take between 3-9 months if you use a broker- But 12 months + if you go it alone

How long does it take

STEP 06

Heads of Terms

STEP 07

Involve Solicitors

STEP 8

Sign Contracts

STEP 09

After Sales Care

By using a Broker- some will offer you coaching and help iron out those after sales niggles

Deciding to use a broker or going it alone.

Make sure you know what service you are paying for

We occasionally encounter IFAs that want to go it alone when they are looking to sell their business, often in response to an advertisement or because they have knowledge that a certain company is looking to acquire. If this is your choice, fine, and of course you will avoid any brokerage fees but going it alone could leave you alone in the lion's den, and it is important you are aware of what you will be taking on.

Selling a business is a once in a lifetime event and unless you are aware of the nuances of the process and how certain acquirers behave or may behave, it is difficult to know how to react when certain situations present themselves during the sales process.

Of course, there is also the issue of locating a potential purchaser; on the surface this looks easy as the trade press usually let you know who is acquiring businesses, or as mentioned above, you may have received a letter in the post from a company looking to acquire.

Please be aware, breaking cover without preparation may put you in a weaker position and in our experience not using a broker can add 6 months to the time it takes to sell your business and that is after you are satisfied that the acquirer is a good cultural fit.

There are different types of broker you can appoint to act for you:

- Brokers who charge the purchaser.
- Brokers who charge the seller.
- Brokers that may charge both parties.

If you use a broker who only charges the buyer, they are not acting as your agent but the agent of the purchaser. Whereas someone who gets paid by the buyer, are duty bound to work in your best interest and will strive to obtain the best deal for you.

What do brokers do

What do brokers actually do ?

There are a number of brokers that will offer to assist you with the sale of your business **and it is important to question them as to the level of service you can expect them to provide.**

There are brokers that will sell any type of business and others that specialise in Financial Services businesses.

The charges may be similar, even from a broker that will simply make an introduction, and lets you get on with it, occasionally asking you where you are in the process so as they can gauge when they will receive their fee.

If you are going to use a broker, not only is their fee a consideration but ask them what they are going to do for the fee you are going to pay them, where and what are the "value adds" in their proposition?

A good M&A broker will offer a full service and the charge is likely to be similar. Here is a list of what we feel a good broker should do for you.

What will a broker do ?

"Ask your preferred broker to confirm what you are actually paying them to do"

1. They will help you to assess what is the best option for you after taking information about your business and your current situation. They will make sure you are comfortable with your decision. A good broker will not simply just recommend you to sell, they will also point out if you have other options open to you.
2. Once you have committed to selling, a good broker will help you prepare the data and go through the internal due diligence.
3. They will then discuss potential acquirers that meet your needs and will look at the cultural fit which is **98% of any deal**. We often hear "I want my clients looked after, I may meet them in the in the street and I want to be able to look them in the eye". A good broker should also not be against approaching companies you have identified yourself.
4. They will engage with potential acquirers and discuss the opportunity with them.
5. If the early stages are undertaken with a confidentiality agreement in place, the potential acquirers will require to know who is for sale and the information pack can be sent to your pre-approved list.
6. They will set up meetings for introductions and chair those meetings. They will assist with drawing up a list of key questions that you will need to ask in the meeting.
7. Post meetings, they will discuss the merits of each company and assist you with identifying the parties you wish to continue talks with.
8. They will arrange second meetings with your preferred list and chair these meetings again.
9. They will discuss with you who is your primary choice and pursue with the potential acquirer to obtain offers for your business.
10. One of the points often forgotten by both a seller and the buyer is that both parties will have to work together for a period of time post completion of the deal; one of the key roles a good broker does is act as a buffer between the two parties. They will deal with any delicate matters up to completion and for the duration of the agreed pay out period post the deal.
11. Once a deal has been agreed, a good broker will assist both parties in drawing up the Heads of Terms (HoT's) this is a very key document as it lays out the basis of how the deal will be structured and what will be expected by both parties after the deal is completed.

What will a broker do ?

"Experience is everything in selling these types of businesses "

12. At the point that the "HoTs" is being discussed, it is usual to introduce a legal advisor to assist you with the preparation of documents. It is imperative that the legal advisor is both an expert in commercial law and fully conversant around the nuances of buying and selling financial service companies.

    Please do not think that your friendly local solicitor may be able to assist, as sadly you may end up paying for their education in how to buy and sell a financial services company. A good broker will have a large number of relationships with legal advisors who are experts in this field and can act on behalf of different sized firms and are used to dealing with the size of deal on the table.

13. A legal advisor will review the "HoTs" and will then work with the seller and the buyer's solicitor to progress the contract. A good broker will be fully engaged in all of this, assisting in bringing the deal to completion and making sure there are no unnecessary delays. **Getting a deal agreed is the easy ,but getting it signed and completed is the difficult part.**

14. On completion, some brokers will expect to be paid in full, a good broker will understand that as the deal structure is such that you will getting an initial payment, plus future payments. They will therefore only charge you as each payment is made known and paid in accordance with the fee structure.

15. A good broker will stay in contact post the sale as much or as little as you require. There may be seller's remorse to deal with. How will you feel the day after you have banked the money? The truth is, a high proportion of sellers enter into a period of remorse, experiencing negativity and question if they have made the right decision.

    Imagine on Friday you were running a business, come Monday you are retired and someone else is running the show. These can be difficult times and a good broker will help coach you through this period if you need assistance.

16. Happily ever after or happily never after. A good broker will discuss all these points before you set out on your journey. Misunderstandings post deal between purchaser and seller are common and this is a valued part of a broker's service. If you are having to work for the new owners for a while, many former owners find this exceedingly challenging, and you may need assistance with this. In our opinion, it is very difficult for a broker to do all of the above well, if they have not actually worked as an IFA and therefore may not understand what you do in your day-to-day roll. It would be a benefit if the broker you choose has built and sold a financial services business and has experienced first-hand the potential problems with getting a deal over the line.

Avoiding the pitfalls

Most pitfalls arise if you go it alone and are dealing direct with the acquirer however, many can be avoided if you have prepared your business for sale properly but as often happens, a problem arises on the due diligence and the seller will not know how to react.

- If you are using a broker, use the broker, make them work for their fee. They should be aware of any potential problems and will have a course of action to correct the situation.
- We can think of two occasions where the seller was confronted by the acquirer who stated that the broker was not needed in a meeting and they were pushed or coerced in to a situation that was detrimental to them financially. Any good broker would have helped them avoid this.
- Exclusivity clauses are the bane of inexperienced sellers. We have seen some who have signed up to an offer which has onerous clauses including excessively long clauses where you cannot talk to anyone else, a broker will protect you from this.
- Another common pitfall with dealing direct, is the acquirer trying the renegotiate the price often on receipt of new information, of course the negotiation in price is usually downwards.
- Surprisingly many acquirers try to do deals they are not capable of doing, buying your practice could simply be wishful thinking on their part, or they may have another motive for wanting a closer look at your business. A good broker will have ensured that any buyer has the means to complete the deal they are proposing and not relying on finding the money once a deal has been agreed.
- Sellers expect the buyers to do due diligence on them, however, few do due diligence on the buyer, it is important to understand the style of company that will be purchasing your business.
- A good broker will know if the acquirer can do a deal of a certain size and will make sure they are able to complete on it, “show us the money” is the phrase.

What we can do to help

Not Ready to Sell Yet ?

Bearing in mind it will probably take between 6 to 9 months to do a deal (dependent on the size and complexity of the deal required) so to obtain the best possible price it is advisable to start planning a year in advance. In addition, you most probably will have to stay for a period after the deal, so bear that in mind, that your sale period will probably be a minimum of one year up to three years, from start to the finish.

There are a number of brokers who will offer to sell your business for you when the time arrives. We hope you will consider using our services. We have genuine experience in selling IFA practices having not only sold them for many clients, but, having built and sold our own businesses as well.

We have sold business of all shapes and sizes

This is our field of expertise and we can take you from those first thoughts of selling your business right the way through to getting your chosen deal over the line.

Along the way, if you require, we can also introduce you to a range of service providers who will have worked on similar deals to yours. This would include.

- Accountants & Tax Advisors Experienced in IFA sales .
- Companies that specialise in pre -sale compliance work
- Solicitors
- Legal Advisors.

Good Luck !

It has taken a long time to build your business, we wish you every success. If you deided to sell.

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