Kenyon Prendeville

The **12 Steps** to Success

How to unlock value and ensure positive outcomes when buying and selling financial services businesses.

Business growth and enhancement are two of the most vexed issues facing financial planners today. So, too, are the corollary issues of buying or selling a financial services practice.

A key problem has been the lack of an established marketplace that brings together buyers and sellers. Most transactions are done in almost clandestine conditions, thus limiting market intelligence to only price or speculation.

Part of the challenge lies in the fact that the majority of financial planning practices are small and/or family businesses. Most principal financial planners are excellent at what they do; they love their work and their clients trust and respect them. But many do not have skills necessary to build or run a sustainably bigger business.

Many will reject a business plan that suggests they recruit a highly paid business manager whose role would be to develop and run the business, allowing the principal to keep doing what he/she does best — financial planning.

> **"Integrating two businesses requires a lot of effort, no matter how alike they may seem to be."**

There are few financial planning firms that are officially and publicly for sale. There are, however, many principals/partners in financial planning firms who are in a state of flux. Not only are they wrestling with the day-to-day business issues, they are also trying to decide what strategies to implement for the future. Not surprisingly, fewer than 12% of all financial planning practices have active succession plans. This is a potential disaster in the making.

These owner-practitioners require high-quality strategic assistance to help them work through the issues, explore all possible options and chart a way forward. Good advice is particularly important when buying or selling a business.

At Kenyon Prendeville, we follow a 12-step process designed to ensure the best outcome for all parties to a transaction.

1. Develop a strategy

Whether buying or selling, you must develop a game plan. Decide what you want, when you want it, and how much you are willing to pay. Consider how to go to market, what assistance you require and what strategic outcome you are seeking.

2. Preparation

A vendor needs to undertake a significant amount of preparatory work before placing their business on the market. Start by creating a 'virtual data room' that contains:

- Three years of financial records.
- Client segmentation assessment.
- Client service matrix.
- Organisational charts with job descriptions and CVs.
- Full client list to facilitate compliance.
- Client file selection.
- Past and current compliance reports.
- Complaints register.
- Funds under management analysis.
- Business plans.
- Office manual.
- Licence/s and lease details.
- Software summary.
- Marketing material.
- Lists of referral sources.
- New business activity summary.

A potential buyer needs to have explored (if not sourced) finance and considered the ramifications of an acquisition. Being able to clearly articulate the "value proposition above cheque book" to a vendor is essential.

3. Realistic expectations

The vendor needs to obtain an independent valuation of their business. This should provide a range of prices using several methodologies to establish a realistic range. Both vendor and buyer need to have seriously considered the duration of the transition period post-sale. Will the vendor retire immediately, stay on three months, one year, or seek ongoing part-time employment?

4. Business as usual

Both parties need support to ensure business continuity. Personal discipline is required to ensure that the focus is not diverted from normal business operations. Too many vendors emotionally 'retire' at the signing of contracts when significant outstanding payments are still to be determined by performance after 12 months. The vendor must be an advocate of the buyer and vice-versa. This underpins the need to establish, from the earliest possible point, cultural alignment and mutual respect.

Communication strategies need to be developed for both pre- and post-transaction for each party. There will be

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change; thus, there will be fear and uncertainty. Leadership and the ability to articulate a clear vision for the future are essential from the buyer and vendor.

5. Flexibility

For any deal to be successful, flexibility is required. Often a buyer can feel they paid more than they should, and the vendor may feel he/she has sold for less than true value. This is the point of convergence. Price is only one factor; flexibility on a wider range of issues such as timing, transition, continuity of staff and ongoing roles all contribute to a satisfying deal.

6. Risk analysis

Confidentiality agreements need to be signed at the earliest possible stage. Due diligence across financial, commercial and legal issues should be carried out early in proceedings, but after cultural fit has been established. It is the future entitlement to the ongoing revenue of the business that is usually being bought or sold; therefore, there must be a high degree of integrity and confidence attached to the financials.

Business interruption is a significant risk. If a buyer proposes to integrate the acquired business within their own, then many issues will need to be considered. A new business plan, including marketing and cash flow management, must be developed to further reduce risks.

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7. Negotiable/non-negotiable items

Work with your business advisor in an open and frank manner to establish what the bottom line really is. This will help ensure that the deal does not falling over because the 'goalposts' move during negotiations. Deal-breakers can be around issues such as personnel, timing, future roles, and price. To avoid conflict, create an inventory of non-negotiable items. This will ensure that you do not enter negotiations with the wrong party.

8. Timeframes

A purchase or sale should be managed like any other important project. Timeframes should be created and monitored. All parties should agree to the timeframes and commit to them to ensure the process gets to a 'go' or 'no go' expeditiously. The more protracted the negotiations, the less likely a transaction will be satisfactorily concluded. For the average business sale/purchase, six to 12 weeks from search to completion is realistic.

9. Legal advice at the conclusion

Legal advice is essential. However, we strongly recommend that this should not be sought until negotiations have been largely concluded. Lawyers can become 'deal-breakers' instead of 'deal-makers' and can significantly add to costs if allowed. Lawyers should be there to draft documents that reflect what has been agreed. Lawyers should not be allowed to influence the intent or spirit of an agreement.

10. Future vision

Most vendors will experience 'seller remorse', given the significant changes envisaged. This can be a subconscious hurdle to overcome, which is understandable given that the business is about to be handed over (to a virtual stranger) usually after many years of sole control.

'Seller remorse' can be overcome when there is confidence in the purchaser and in the vendor's own future. If the vendor is to retire, significant lifestyle planning should be done. The vendor must be able to look to the future of the business positively without them at the helm and to the next phase of their personal life journey. The buyer must plan for the future and accept the fact that this will be one of the greatest challenges of their career.

11. Project management

The anxieties of how much needs to be done can be intimidating; however, this can be offset by a project management approach. Although it is important to work towards the 'big picture', it is equally important to break the project down into digestible pieces. Effective communication, time management and appropriate resources to tackle the required tasks are essential.

12. Seek professional advice

Using an experienced business advisor will ensure that the transaction is negotiated smoothly. Business advisors should have extensive networks and specialise in their field. Their skills should enable outcomes to be successfully negotiated in order to protect the interests of all stakeholders.

The advisor must be able to work in harmony with staff, dealer group, due diligence teams and other professional advisors. The contracting of a business advisor should substantially increase the likelihood of success within workable timeframes. Fees, references, processes used and timeframes should also be discussed prior to appointment.

The following case studies demonstrate two successful outcomes, primarily due to planning, preparation, and effective communication.

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The **12 Steps** to Success (continued)

CASE STUDY 1

	SELLER	BUYER
FUM	$50 million	$45 million
Platform	ASGARD	MLC
Licence	Own	Own
Recurring revenue	$415k	$400k
Age of business	15 years	12 years
Staff	4	4
Key issues	Early retirement	Growth
Main concerns	Daughter's future as a financial planner	Synergy, client welfare

Outcomes:

- Six weeks from start to finish.
- Purchase price of 2.65 times recurring revenue = purchase price of $1.1 million.
- 40% upfront, balance (60%) in 12 months, subject to revenue retention including a 5% rise and fall adjustment for revenue.
- Daughter – offered long-term employment contract and mentored.
- All staff retained for three months. One was general manager for the whole business for 18 months.
- Client transition – no fall-off, cross-selling occurring and increased revenue.

Simple tips on buying or selling

- Commit sufficient time to explore an acquisition or realisation until it is a 'go' or 'no-go'. (Most transactions should take no longer than 6-12 weeks.)
- Get professional help early, develop a strategy, and accept advice.
- Remember both buyer and seller are selling something.
- Establish what is and is not negotiable.
- Be flexible; there are many ways to achieve a successful outcome for both parties.
- Communicate with all stakeholders effectively and in a timely manner.
- In most deals, price is not THE most important issue.
- Leave the lawyers until the deal is agreed.
- Plan to make a good business great.
- Assess the past, evaluate the present, but plan the future.

CASE STUDY 2

Area	Financial planner
Age	30 years old
FUM	$25 million
Recurring revenue	$200k
No of Clients	135
Age of business	15 years
Staff	4
Key issues	Early retirement
Main concerns	Daughter's future as a financial planner

Objective: To buy a business with at least $30 million FUM.

Finance available:

- Two times current recurring revenue = $400k
- Two times recurring revenue of new business.

For example:
$30m @ .5 = $150k recurring revenue x 2 = $300k
Total loan available = $700k
Interest payment @ 9% = $63k pa

Unable to proceed?
Did not have:

- Five years in industry.
- Three years of acceptable financials.
- EBIT to gross income >20% in past three years.
- Gearing <70% business and personal.

Solution:
Negotiated an active succession position within another financial planning business.

- Purchasers business, FUM and recurring revenue equated to equity of 20%of a larger business.
- The vendor agreed that the purchaser would acquire 20% pa over four years.
- Purchaser was mentored and gained experience.
- Worked in and understands the business.
- Funding was a combination of debt, performance bonuses and personal contribution — much easier to manage.