



A Guide To Selling Your Financial Planning Business

For many, selling a financial planning business is not about retiring – it is about changing careers, following philanthropic or environmental pursuits, a wish to step away from management responsibilities or the desire to reap financial rewards for hard work.

Whatever your reasons, there is a lot to consider when selling a financial planning business. That's why Centurion Market Makers developed this Guide to Selling Your Financial Planning Business - a guide that outlines the steps needed for a successful business sale.

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THE SEVEN STEPS FOR A SUCCESSFUL SALE

Step one Define your goals

While most business owners know *why* they are selling their business, many do not know *what* they will do after they sell it.

The first six months after exiting the business is known as the “honeymoon” period - a time where people do all the things they have been looking forward to like golf, holidays and spending time with family. But what will you do beyond this? Despite what many people think, it may get boring playing golf 365 days a year! You must have clear goals for what you will do after you exit the business, these goals will help you manage the emotion and stress that comes with selling what may be a lifetime’s work.

After you have identified what you will do after you have exited the business, take the time to then consider your personal, financial and business goals for the sale. Ensure they are specific, measurable, time bound and realistic.

Step two Prepare your business for sale

The second step in a successful sale is to prepare your business for sale.

Preparing a business for sale is not unlike preparing a home for sale. You need to ensure it is attractive, presentable and ready to sell.

Is your business ready for someone to take a look at? Or are there things you could do quickly and easily to make it more attractive to a buyer?

When answering this question, you must consider all aspects of the business including clients, staff and other stakeholders like your AFSL group, platform/ fund managers and referral sources, particularly those you share clients with.

Ensure your databases and financial records are ready for inspection. The more accurate data you have about your business and clients the easier it will be to engage potential buyers. If these areas need work, consider hiring a temporary staff member to do the data work and talk to your accountant about building a financial history for the business.

You may also consider professional tax and legal advice to ensure you are optimally structured. Some AFSL agreements with individual and corporate Authorised Representatives are not ideal for a sale to maximise capital gains tax benefits.

Finally, you will need a project management plan that incorporates a stakeholder management plan, a communication plan and a risk management plan.

Step three Prepare to negotiate

Depending on your potential buyers you will need to develop a business profile or Information Memorandum. You will also need to identify your key terms (including payment terms, warranties, restraints and leases) beyond the valuation or price. Identify what you consider to be ***the best, a good, and a satisfactory position*** on each of these items. This helps you clarify acceptable outcomes for you, your clients and your staff.

As a minimum, consider your position on:

- | | |
|----------------------------|--------------------------|
| 1. Valuation and price | 8. Warranties |
| 2. Initial payment | 9. Premises |
| 3. Other payments & timing | 10. Contracts and leases |
| 4. Price adjustments | 11. Staff |
| 5. Your tenure | 12. Client communication |
| 6. Your remuneration | 13. Client handover |
| 7. Restraints | 14. Due diligence |

Your position on these points may vary depending on who the buyer is and the perceived level of risk in the transaction with that buyer.

Step four Find the right buyer

The marketplace of buyers consists of:

- Family
- Employees
- External buyer or merger in your current AFSL
- External buyer or merger outside your current AFSL
- Stock exchange listing

Each of these buyers potentially holds differing views on the value of the business and unique needs for a transaction to take place.

For example, if you sell to an external buyer who will finance the purchase through a bank, they may focus more on the financial side of the transaction (particularly EBIT and free cash flow). They will also give considerable focus to how the combined businesses (yours and theirs) will operate day-to-day.

Many buyers will look to implement their business model rather than yours in the future. Therefore you must consider if their business culture is a suitable fit for you. A good cultural fit is critical to the success of a transaction and as most transactions have deferred payments for settlement that are linked to performance, it can impact your final sale price.

Price is a function of risk and effort.

Selling to the highest bidder may not always result in the best financial result or the best outcome for your clients and staff.

Step five Negotiate a sale

Reaching an agreement requires both parties to look for solutions to each others needs. There are four principles to consider when negotiating the sale of your business:

1. Be clear on **why you want to sell the business**. This will help you manage emotion and stress in the negotiation.
Establish intent. Be sure that both you and the buyer want to be at the table.
3. **Look for solutions.** It is fundamental that you and the buyer look for solutions to each other's needs. As a seller you should establish the buyer's interests and requirements early in discussions.
4. Be clear on **what you will negotiate**, and what you will trade off. Before beginning negotiations spend time documenting the key items to discuss with a buyer (see step 3 - *Prepare to negotiate*). Note any preliminary knowledge of their position, and identify what you consider to be the best, a good, and a satisfactory position on each item. This helps you clarify acceptable outcomes to reach an agreement. If you only have one position on everything then you have nothing to negotiate.

There are four phases to the negotiation process; investigative, presentation, bargaining and agreement. You should work through the phases being careful not to get ahead of yourself.

The Investigative Phase

Contrary to what you might feel, the investigative phase is the most important phase. Gather as much information about the buyer as you can, including their needs and wants. It is unlikely you will be successful if you have not spent enough time understanding the other party.

The Presentation Phase

The presentation phase is the fun part – success will be directly proportional to the preparation you have done. You are talking about your business, your opening position and creating an environment where the buyer is comfortable doing business.

The Bargaining Phase

Stay in control throughout the bargaining phase. If, from your preparation, you are clear on the range of outcomes that will be acceptable, you will effectively communicate and negotiate them.

The Agreement Phase

During the agreement phase, document and keep a plain English record of what you have agreed with the buyer. When you both agree, give a copy of the document to your lawyer.

You may find that buying parties will want to do due diligence before contracting and require some conditions precedents for settlement. These are things that you agree to do after signing contracts but before settlement.

Following this process and these principles will make negotiating the sale of your business much easier. It is a matter of **both sides** sitting down to reach an outcome with which **you are both happy**.

Step six Due Diligence

This is the step where the buyer confirms all representations made by the seller and may review advice and compliance. The buyer's objective is to increase their comfort and confidence to proceed and identify any issues that may require further negotiation.

Two key aspects are covered in the due diligence stage – **financial and compliance**.

In the financial due diligence stage, you will need to prove and confirm your business' financial and operating position by reviewing documentation, data, systems and assets. This will include income and expenses, clients, FUM and any other financial items within the proposed transaction. You should also anticipate the need to engage key staff identified as critical to the sustainability of the business.

The buyer will also want to conduct compliance due diligence, both business and client advice. Typically a review will be conducted where the buyer (or representative) will randomly select and review client files to validate the basis for the advice provided, quality of records and history of client servicing.

Ideally, you should be able to provide a buyer with a consolidated client list including account number, name, address, age, fund manager, fee structure, recurring revenue and FUM. You should also offer a copy of your Financial Services Guide and access to client files, paper copy and electronic, your compliance history and a copy of your most recent compliance report.

Your aim should be to facilitate a concise and efficient due diligence to limit any disruption to the business and promptly verify data, enabling the transaction to progress.

Step seven Contracts and settlement

The buyer will usually provide you with a contract to purchase and it should reflect your term sheet or heads of agreement.

Agreeing and signing the contracts may be followed by any final due diligence on clientele and financial position as well as meetings with business critical staff if this has not already happened. Also, any other condition precedents required before settlement will need to occur. An example of a condition precedent might be for you to arrange for the transfer of the lease on the business premises to the acquirer.

Settlement occurs when you transfer to the new owner what you have sold and receive payment subject to the terms you have agreed. This may be simple or quite involved if the buyer is licensed through a different AFSL to you.

MAKING THE PROCESS EASIER

Following is a list of mistakes people make when selling their business. Avoiding these will make the sales process easier:

- Thinking like a seller not a buyer
- Failing to understand valuation methodologies
- Confusing buyer of last resort structures with other valuation methodologies
- Having one position on everything rather than a range
- Not focusing on the cultural fit with the buyer
- Not getting assistance to optimise the outcomes

Given the time and effort you have put into building your business, it makes sense to gain professional assistance when selling your financial planning business. Centurion Market Makers can help guide you through the entire process to ensure you get the best outcomes for you, your clients and staff.

For more information please contact:

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