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Welcome to our November issue of 'Market Matters', a bi-monthly e-newsletter providing a range of valuable insights for Practice owners considering succession, sale, merger or acquisition.

This month comments upon the potential demise of commissions, and the potential impact on Practice valuations, and at readers' requests, commentary on valuing Risk based Practices.

If we can clarify any of the comments and observations in the 'Market Matters' don't hesitate to contact us on 1300 766 156.

Best regards

Chris Wrightson & Wayne Marsh, Directors

Preparing for a ban on Commissions

Think it will never happen - then note this release ([UK bans Commissions](#)).

A recent survey on our website www.centurionmarketmakers.com.au, completed by over 60 Practice Owners indicates that 41% of Practices are reducing their dependency on commissions and have, or are in the process of, transitioning to a fee for advice model. Another 17% indicated they are already fully fee based, 32% of Practices indicated they will let the clients choose (fees or commissions), 10% indicated they

do not intend to change their remuneration model.

Practice Valuations and a ban on Commissions

If a ban on asset based commissions (up-front and trail) results from the Ripoll Inquiry, what effect will this have on the prices paid for books of business?

There is an argument that given the certainty of income with these 'legacy' books, and their link to improving investment markets, that the quarantining of commission based books may drive up their value, at least in the short term. It is more likely that overtime, through natural attrition of



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customers, a fall in embedded value of legacy books is likely.

An interesting aside to any ban on commissions, is that it might encourage a review of Buyer of Last Resort (BOLR) and similar arrangements, which have long provided a floor price for Practice sales in the industry.

All of which are catalysts - to protect the value of your business, start the transition to a fee for advice offer by reviewing your client advice offer, the engagement approach and service proposition; and communicate the value of this experience to your clients.

If you're concerned about valuations, call us **(1300 766156)** to discuss how you might lock in value now.

Valuing Risk (insurance) based Practices

In response to feedback in our last Newsletter, Risk specialists have asked for the principles in valuing a risk based Practice and current price expectations.

In valuing a Risk Practice, the key drivers of price from an Acquirer's perspective are likely to include the:

- Size of book and location of Clients;
- Breadth of underwriters;
- Nature and Quality of the Advice provided;
- Client dependency on the Advice provider, and
- the ease of transition to the Acquirer.

In terms of prices paid, Risk based Practices remain in demand, because of their strong recurrent income and the manner in which this income complements the more variable asset based revenue. In the current market, sellers can reasonably expect Acquirers to offer between **3.25 and 3.5x** the annual recurrent revenue of the book of risk business.

For partial sales of C+D clients, the sale price is likely to be lower.

Merging or Recapitalising your Business

After years of building your Practice, you may need an exit strategy or



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ownership succession plan.
Your Practice may be financially distressed or you may be looking for a way to expand the Practice or get cash for estate planning.

Selling the firm or part of the Client book may be options, but not the only ones.

Some Practice owners find a solution to succession in **a merger, or access to cash by recapitalising their business.**

In a recap, an owner exchanges equity for cash (and/or shares) in the acquiring entity. The Practice owner benefits from the cash injection, from support for growth and expansion, and from the investing entities future growth. **Call us on 1300 766156 to discuss accessing a Merger partner, or recapitalising your business.**

Centurion Market Makers provides a service for sellers, mergers or for buyers of Financial Planning Practices. With over 40 years combined experience Centurion Principals have the expertise to assist you source buyers or sellers, and guide you through the transaction.