

M&A 2022

Outlook for the UK Wealth Management Industry

M&A in the UK Wealth Management sector is booming

Dear Colleague,

2021 has been a remarkable year for the industry. We have seen an unprecedented influx of new private equity capital into the industry, increasing the number of private equity backed consolidators to 31.

At the heart of most private equity strategies is EBITDA-Multiple arbitrage: Buy a number of smaller businesses cheap, consolidate them into one larger firm and benefit from the valuation premiums given to larger businesses. Our research shows that the potential for EBITDA-Multiple arbitrage is substantial and could exceed 130% in some cases.

It is therefore no surprise that in addition to the private equity backed consolidators a significant number of regional and privately owned firms have also started to raise financing to compete with the larger firms for acquisition targets with the aim to grow through M&A.

Whilst the long-term macro trends are very supportive for the industry, our data shows that prices for small, medium and large acquisition targets have started to increase by up to 70%. Such an increase in prices makes it much harder to create value through M&A, in particular if buyers are pricing execution risks correctly.

We expect the M&A market to continue to be strong in 2022 and valuations to continue to be at the top end of the spectrum. The increase in new PE-backed consolidators, deal activity and therefore valuations will make it harder for buyers to create value through simple consolidation. Whilst multiple arbitrage will remain a significant factor in value creation, planning to exploit synergies and technology will be key to create value at similar rates compared to prior years.

We hope you enjoy this report and look forward to working with you again in 2022 and beyond!



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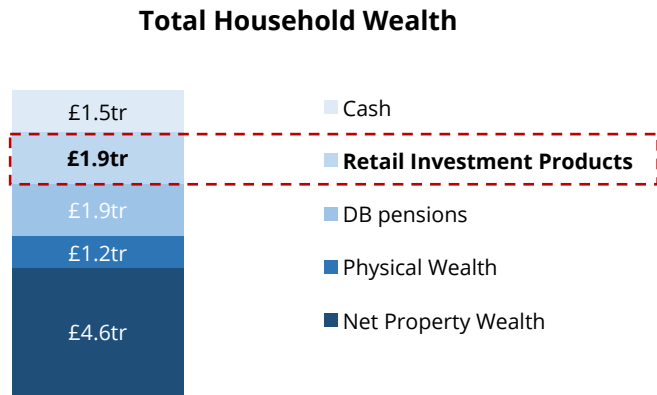


I.

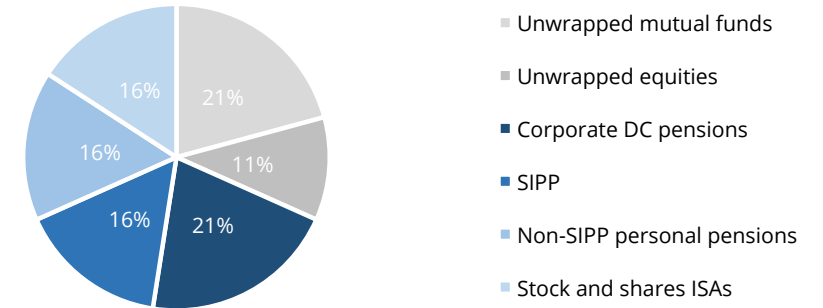
Favourable Sector Fundamentals

There are very few trillion-pound markets in the UK but Wealth Management is one

1.

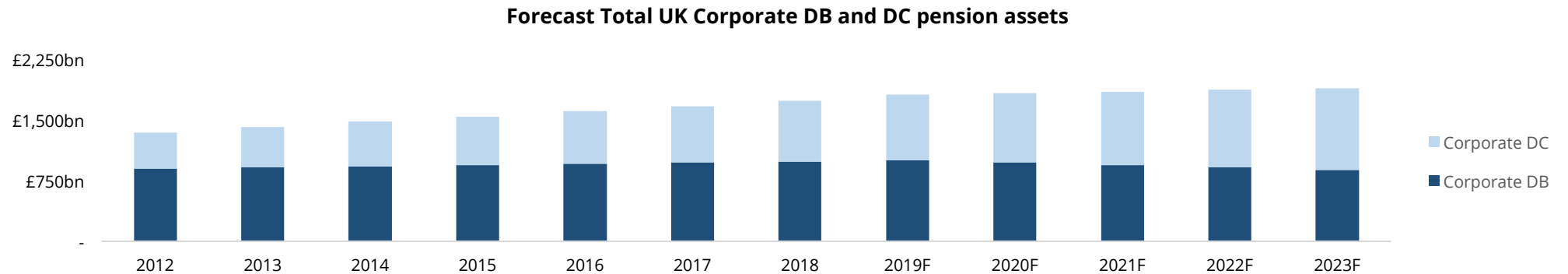


69% (£1.3tr) of Retail Investment Products are wrapped



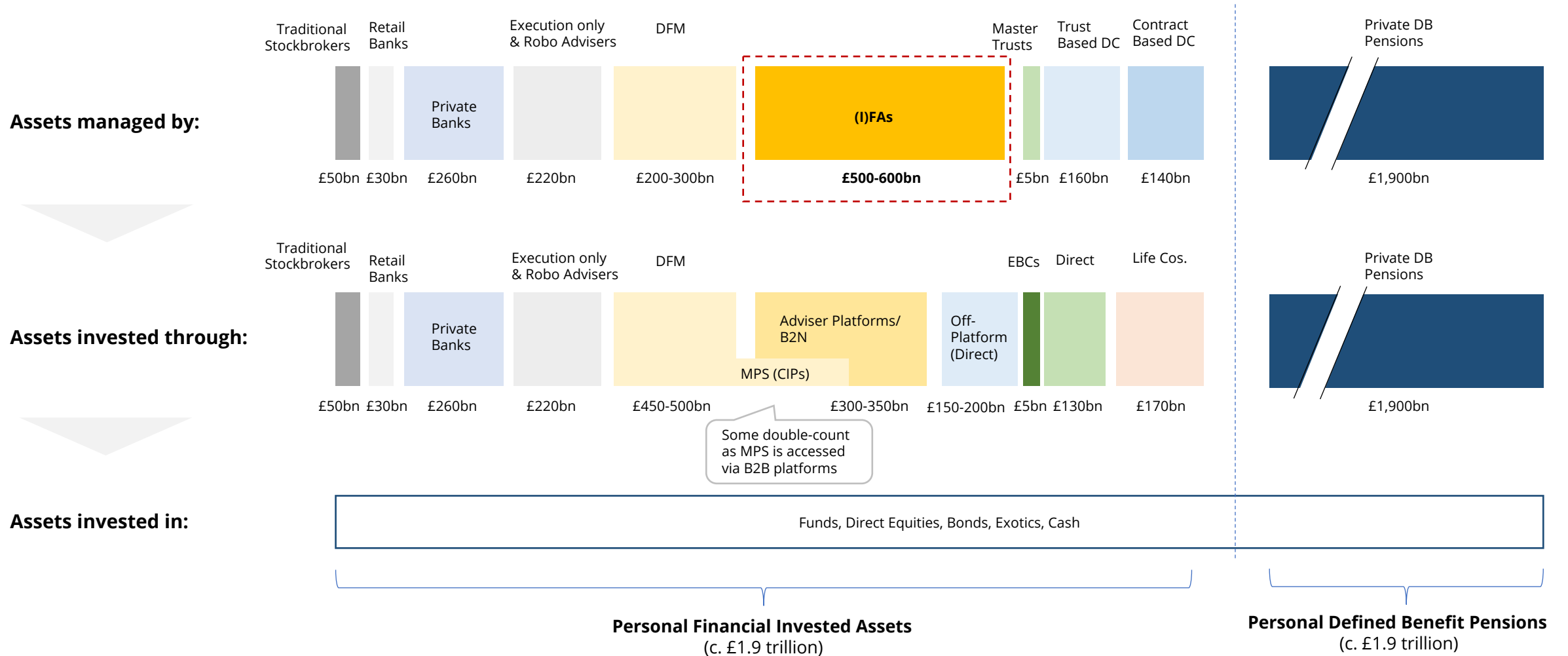
£1.9tn of personal liquid investable financial assets provide a fertile ground for growth and value creation

2.



Continued shift from DB to DC and is increasing the addressable Wealth Management market further

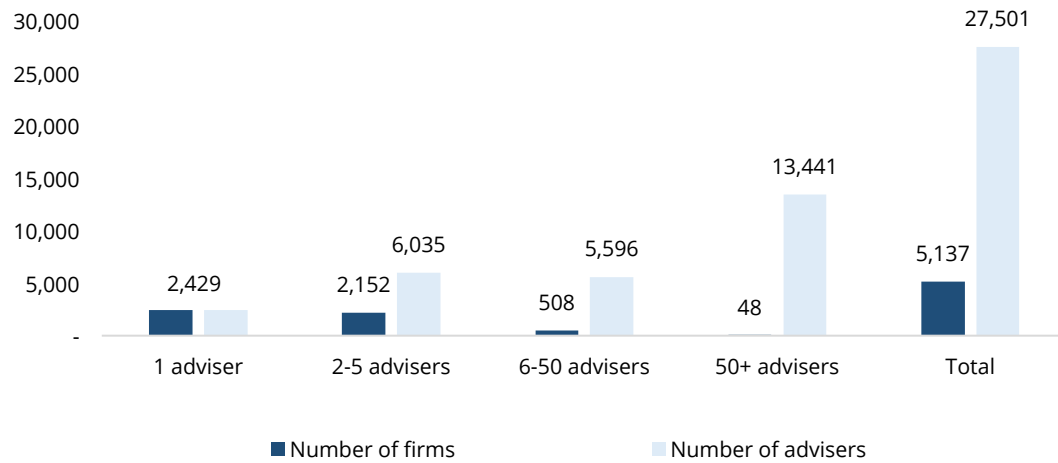
IFAs are in a prime position to drive wider market consolidation



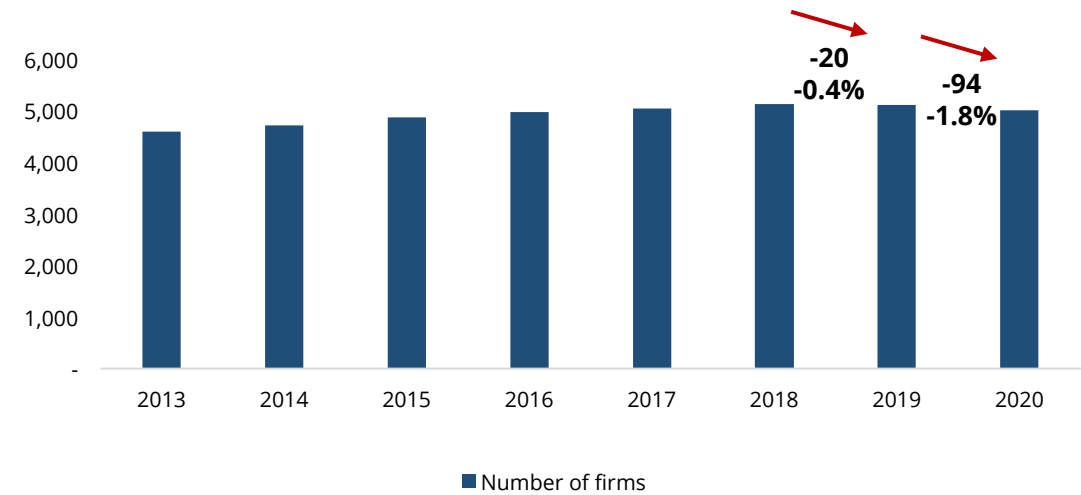
Wealth Management has a complex industry structure. Financial advisors make up the largest segment.

A highly fragmented industry is starting to consolidate

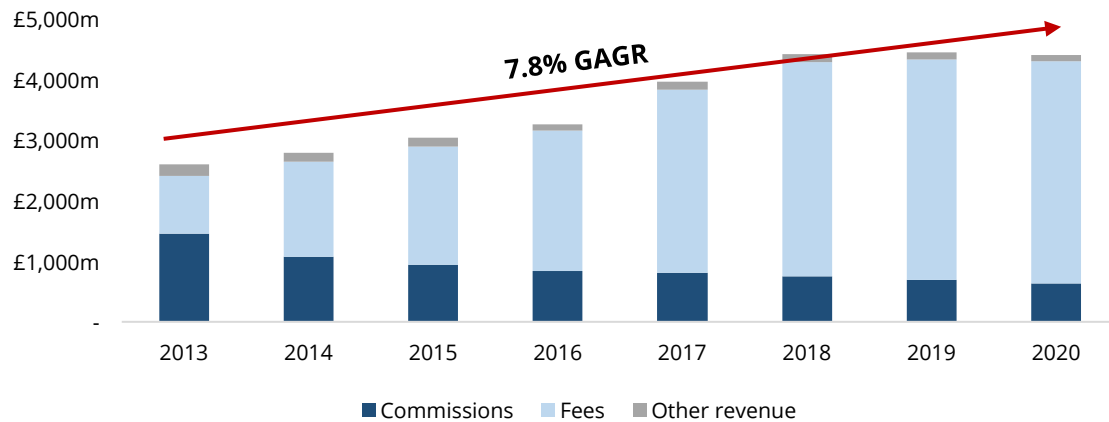
Small firms dominate Wealth Management



Number of advice firms is declining



Industry Revenues are growing at circa 8% p.a.



- 89% of all IFAs in the UK have 5 advisers or less and just 48 firms (1%) have more than 50 advisers.
- Whilst industry revenue is growing at circa 8% p.a., the number of firms is declining.
- Although the industry is still highly fragmented, the data shows clearly that consolidation has already started and is accelerating.

Mega macro trends driving long-term structural change in the sector



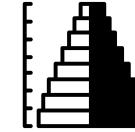
Technology

- Technology is playing an increasingly important role in driving Wealth Management business efficiency and profitability. Larger players can afford to invest more heavily in currently available and emerging offerings, which has the potential to underpin the viability of aggressive buy-and-build strategies.
- The most obvious example of the impact of technology in the sector is the widespread adoption of proprietary custody platforms. This has facilitated the development of scalable investment propositions, which not only reduce complexity and risk but also provide the opportunity to increase margins, particularly in the case of vertically integrated business models.
- The use of platforms linked with proprietary back-office systems has further improved business efficiency, management information quality and client reporting.
- The emergence of “robo-advice” technology has been shown to have its limitations, particularly in the case of more complex client needs (where Wealth Managers are most in demand). However, there are early signs that the next generation of such offerings targeted at improving adviser productivity, as well as improving client service, offer potential for significant margin improvement—the largest single area of expense for most Wealth Managers is adviser compensation.
- Finally, increasing client acceptance of technology-driven remote servicing is likely to further improve adviser efficiency.



Regulation

- Regulatory changes in the last decade have uncovered fundamental inefficiencies in the market and suboptimal outcomes for retail customers.
- RDR has fundamentally improved the transparency of services and fee structures, changed the way the industry is compensated and introduced professional standards on the individual adviser level.
- Pension freedoms legislation has increased the flexibility available at retirement and put more pressure on individuals to consider a range of pension and savings products.
- The introduction of auto-enrolment has increased the range of products required to service employee pensions.
- As a result, regulation has had a positive impact on the sector, increasing the options available for consumers and the need for firms to invest to improve processes and client outcomes.



Demographics

- People are retiring earlier and living longer, leading to a fundamental change in the balance between capital accumulation and decumulation.
- This structural change is driving increasing self-reliance for financial security and a concomitant demand for a widening range of financial solutions and sophisticated financial advice. Pension freedoms are a significant driver in this regard.
- Given this structural change, there is increasing evidence that regulators are playing a more active role in attempting to protect clients from the impact of unsuitable advice, a very recent example being FCA direct intervention in the market for defined benefit pension transfers. There is little doubt that the regulatory burden (and the consequent availability and cost of professional indemnity insurance) will continue to increase.
- The impact on the sector is obvious—whilst the demand for financial advice will increase, small/ medium size Wealth Managers will struggle to operate profitably increasing their propensity to exit.
- A further demographic factor applies to smaller Wealth Management businesses themselves. It is well known that the owners of such businesses are at or approaching retirement age. This, allied with the abovementioned regulatory burden, will increasingly drive exits, probably at a faster rate than in previous years.



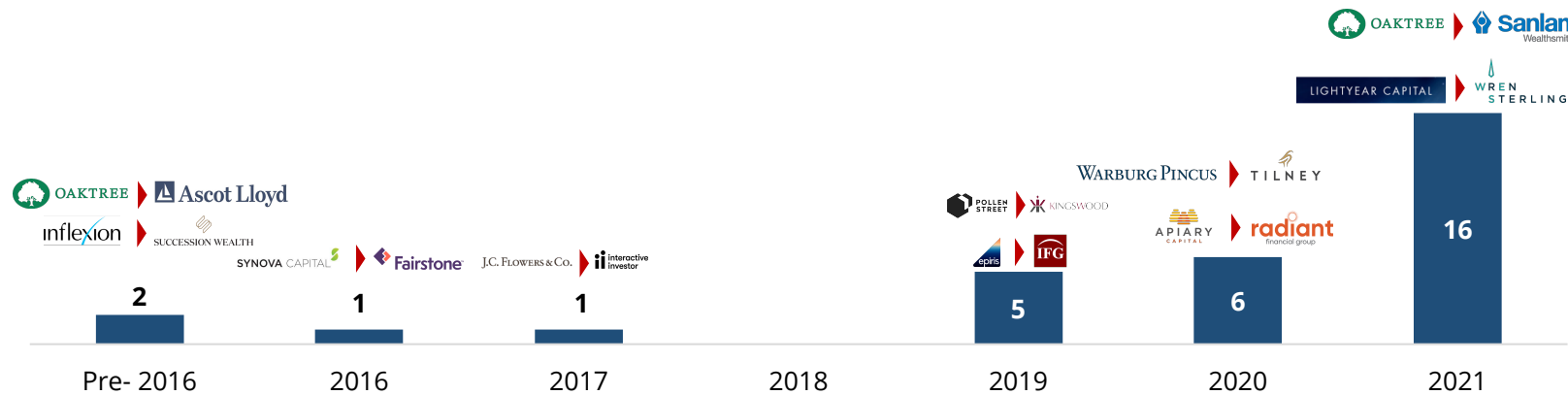
II.

M&A Dynamics

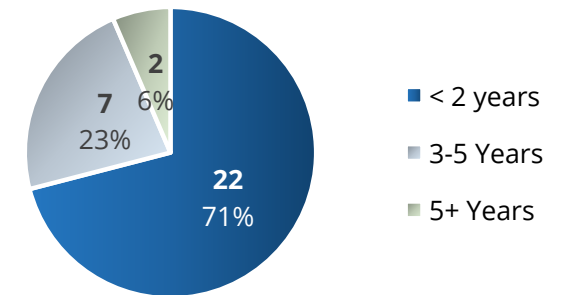
Favourable environment triggered a recent wave of new private equity investments



Active Private Equity Backed Consolidators by Investment Year

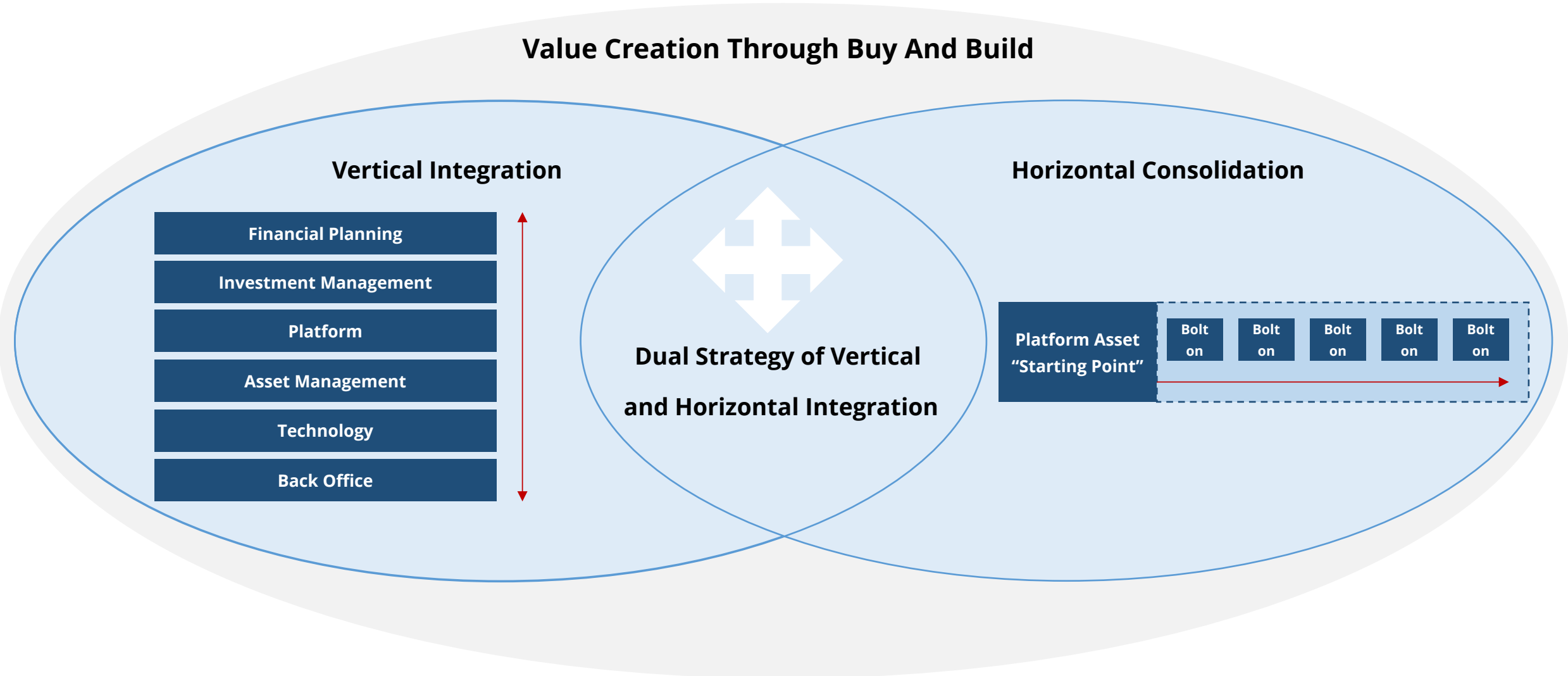


Age of Private Equity backed Consolidators

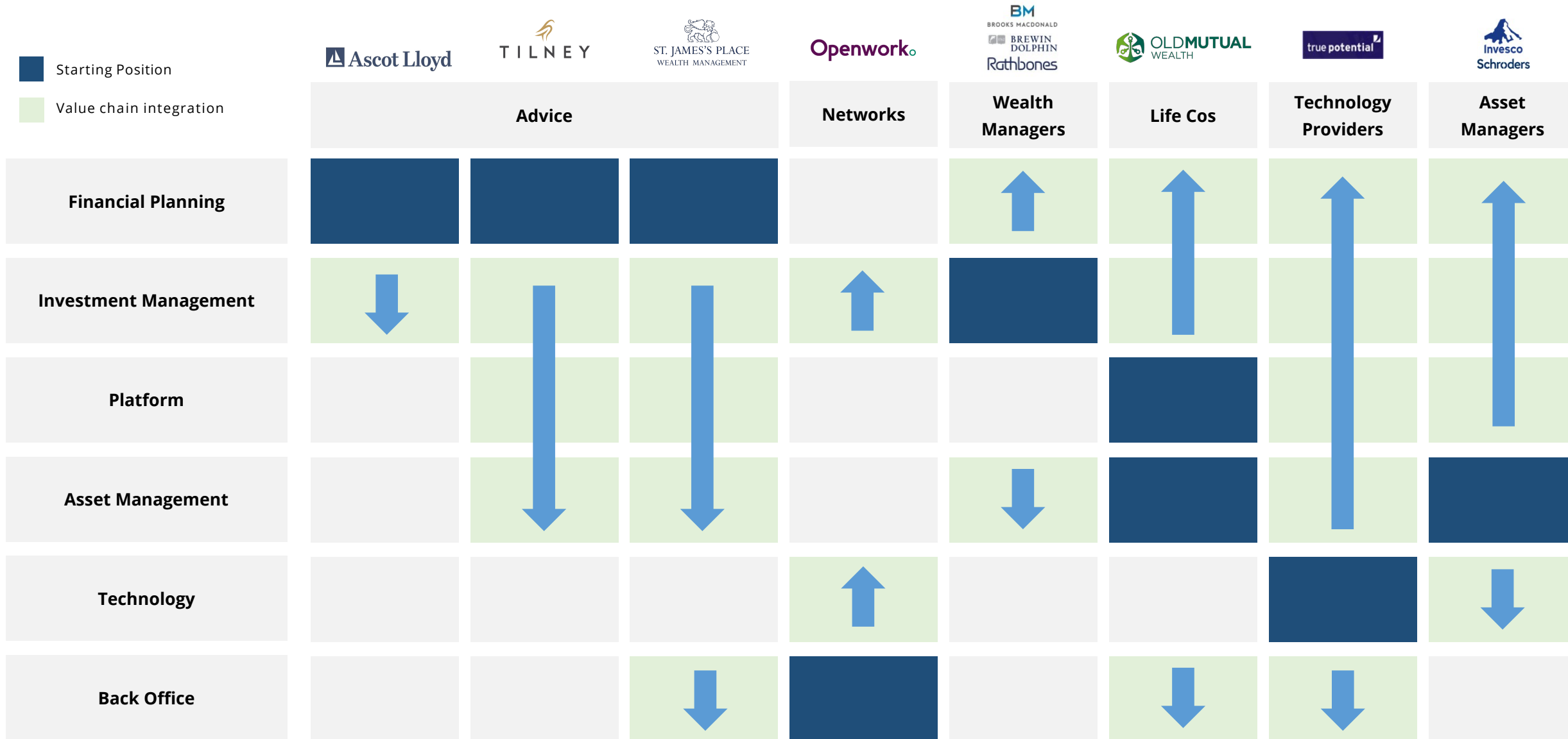


22 out of the 31 active PE backed consolidators (71%) are less than 2 years old. As they are at the beginning of their investment cycle, they will need significant M&A to execute buy-and-build strategies

PE-backed consolidators focus on two strategies (or a combination)



Examples of vertical integration



Examples of horizontal integration on different value chain levels

Financial Planning



Investment Management



Platform



Asset Management



Technology





III.

Valuations Environment

UK Wealth Managers' recent trading performance

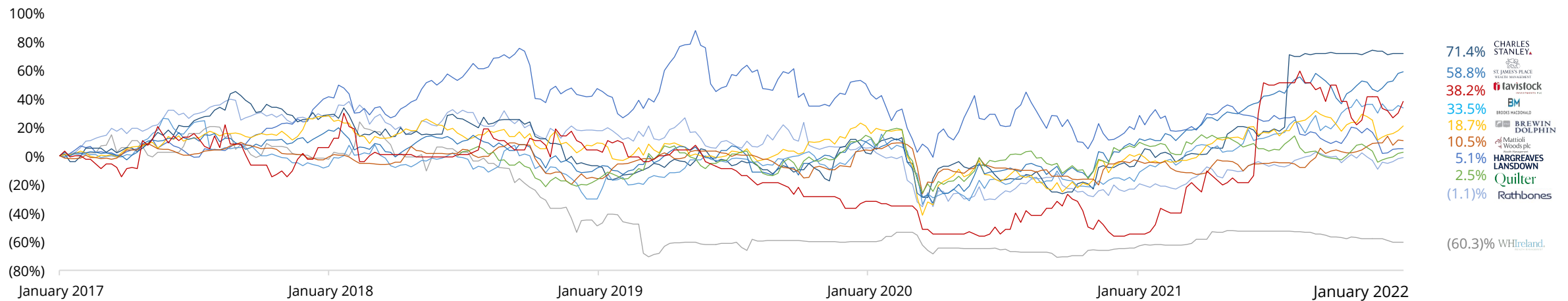
Stock Returns to 1st January 2022 (Cumulative)

Company	1Y	2Y	5Y
Hargreaves Lansdown	(10.1%)	(29.3%)	5.1%
St James's Place	48.5%	44.3%	58.8%
Quilter	(3.3%)	(10.3%)	N/A
Rathbone	28.8%	(4.5%)	(1.1%)
Brewin Dolphin	21.3%	0.1%	18.7%
Brooks MacDonald	62.6%	21.6%	33.5%
Mattioli Woods	13.8%	6.1%	10.5%
Charles Stanley	85.0%	68.0%	71.4%
WH Ireland	11.5%	(1.0%)	(60.3%)
Tavistock	203.6%	102.4%	38.2%
Median	25.1%	3.1%	18.7%
FTSE 250	16.6%	6.8%	28.0%

Price / Earnings















Company	2018	2019	2020	2021
Hargreaves Lansdown	37.3x	37.2x	23.1x	21.7x
St James's Place	32.9x	41.6x	21.7x	44.6x
Quilter	N/A	21.2x	51.1x	41.2x
Rathbone	19.8x	48.9x	26.4x	24.9x
Brewin Dolphin	17.1x	22.4x	19.4x	20.1x
Brooks MacDonald	39.6x	48.1x	38.1x	21.4x
Mattioli Woods	21.4x	26.2x	20.3x	173.0x
Charles Stanley	19.5x	14.4x	13.0x	25.7x
WH Ireland	N/A	N/A	N/A	27.3x
Tavistock	228.6x	116.7x	N/A	0.7x
Median	27.2x	37.2x	22.4x	25.3x

5-Year Share Price Performance



Source: Morningstar, Yahoo Finance and Companies own Annual Reports

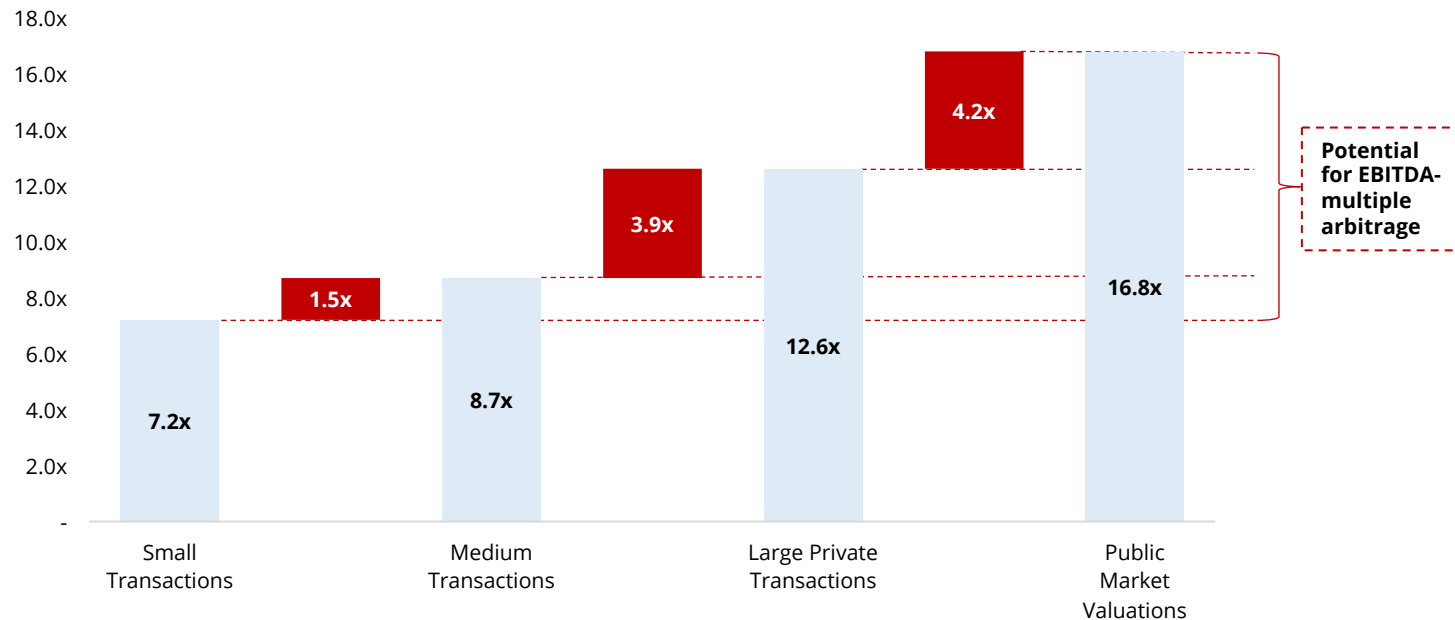
UK Wealth Management trading comparables

	Company	Market Cap (£m)	Enterprise Value (£m)	EBITDA	AUM (£m)	Market Cap / AUM	EV / AUM	Market Cap / EBITDA	EV / EBITDA	Price / Earnings
		As at 04/01/2022	As at 04/01/2022	Latest	Latest	Latest	Latest	2021	2021	2021
Traditional Wealth Managers	Rathbones	1,249	1,210	67	54,700	2.28%	2.21%	18.8x	18.2x	24.9x
	 BREWIN DOLPHIN	1,142	979	100	43,800	2.61%	2.23%	11.5x	9.8x	20.1x
	 BM BROOKS MACDONALD	442	383	36	16,500	2.68%	2.32%	12.4x	10.7x	21.4x
	 CHARLES STANLEY	267	179	20	3,800	7.02%	4.72%	13.5x	9.1x	25.7x
	 WH Ireland	30	22	2	2,100	1.43%	1.04%	12.0x	8.7x	27.3x
	Median	442	384	36	16,500	2.6%	2.2%	12.4x	9.8x	24.9x
Vertically Integrated Wealth Managers	 ST JAMES'S PLACE WEALTH MANAGEMENT	9,357	2,610	436	129,300	7.24%	2.02%	21.5x	6.0x	44.6x
	 Quilter	2,538	1,410	151	117,800	2.15%	1.20%	16.8x	9.3x	41.2x
	 Mattioli Woods plc	443	419	11	12,100	3.66%	3.46%	39.4x	37.2x	173.0x
	 favisfock INVESTMENTS PLC	23	8	3	1,150	2.04%	0.70%	8.2x	2.8x	0.7x
	Median	1,491	915	81	64,950	2.9%	1.6%	19.1x	7.7x	42.9x
Direct Platforms	 HARGREAVES LANSDOWN	6,501	5,940	382	135,500	4.80%	4.38%	17.0x	15.6x	21.7x
Advised Platforms	 IntegraFin	1,851	1,680	98	41,093	4.51%	4.09%	19.0x	17.2x	36.4x
	 AJ Bell	1,593	1,480	60	72,800	2.19%	2.03%	26.7x	24.8x	35.6x
	 CURTIS BANKS	174	(125)	N/A	N/A	N/A	N/A	N/A	N/A	27.4x
	Median	1,722	1,580		72,800	4.5%	4.1%	19.0x	17.2x	31.5x
Retail Asset Managers	 Clabrdn	5,408	5,890	N/A	535,000	1.01%	1.10%	N/A	N/A	3.7x
	 JUPITER	1,469	1,050	182	60,300	2.44%	1.74%	8.1x	5.8x	11.2x
	Median	3,439	3,470		297,650	1.7%	1.4%	8.1x	5.8x	7.4x
	Total Median	1,249	1,050		49,250	2.5%	2.1%	16.8x	9.8x	25.7x

Source: Morningstar and Companies own Annual Reports

Multiple arbitrage of more than 130%

EBITDA-multiples for recent transactions by value



- We have analysed more than 60 recent transactions in the UK Wealth Management Industry. Segmenting the deals by size, shows clear differences between small, medium, large and listed businesses and an overall **MULTIPLE ARBITRAGE POTENTIAL OF OVER 130%**

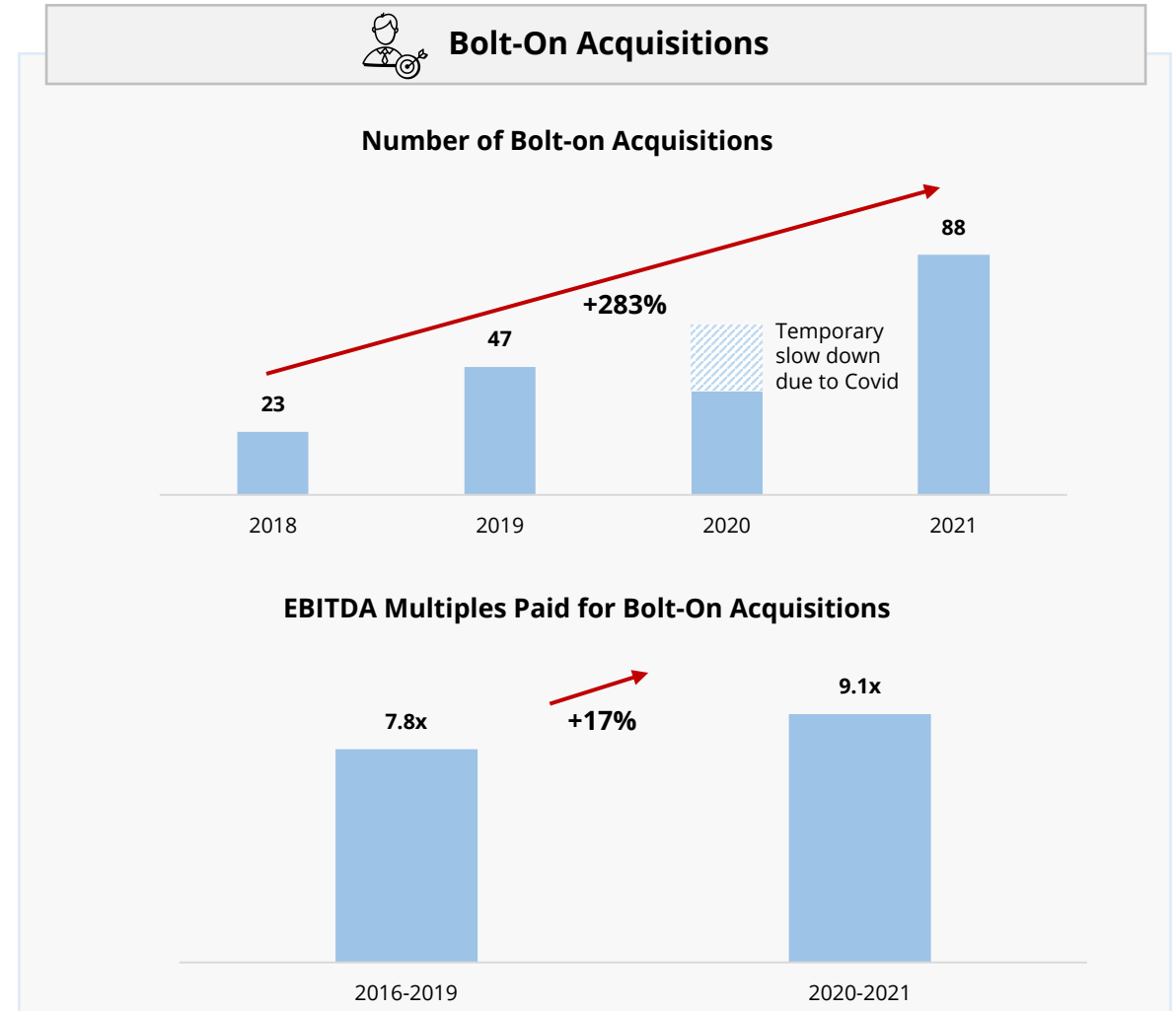
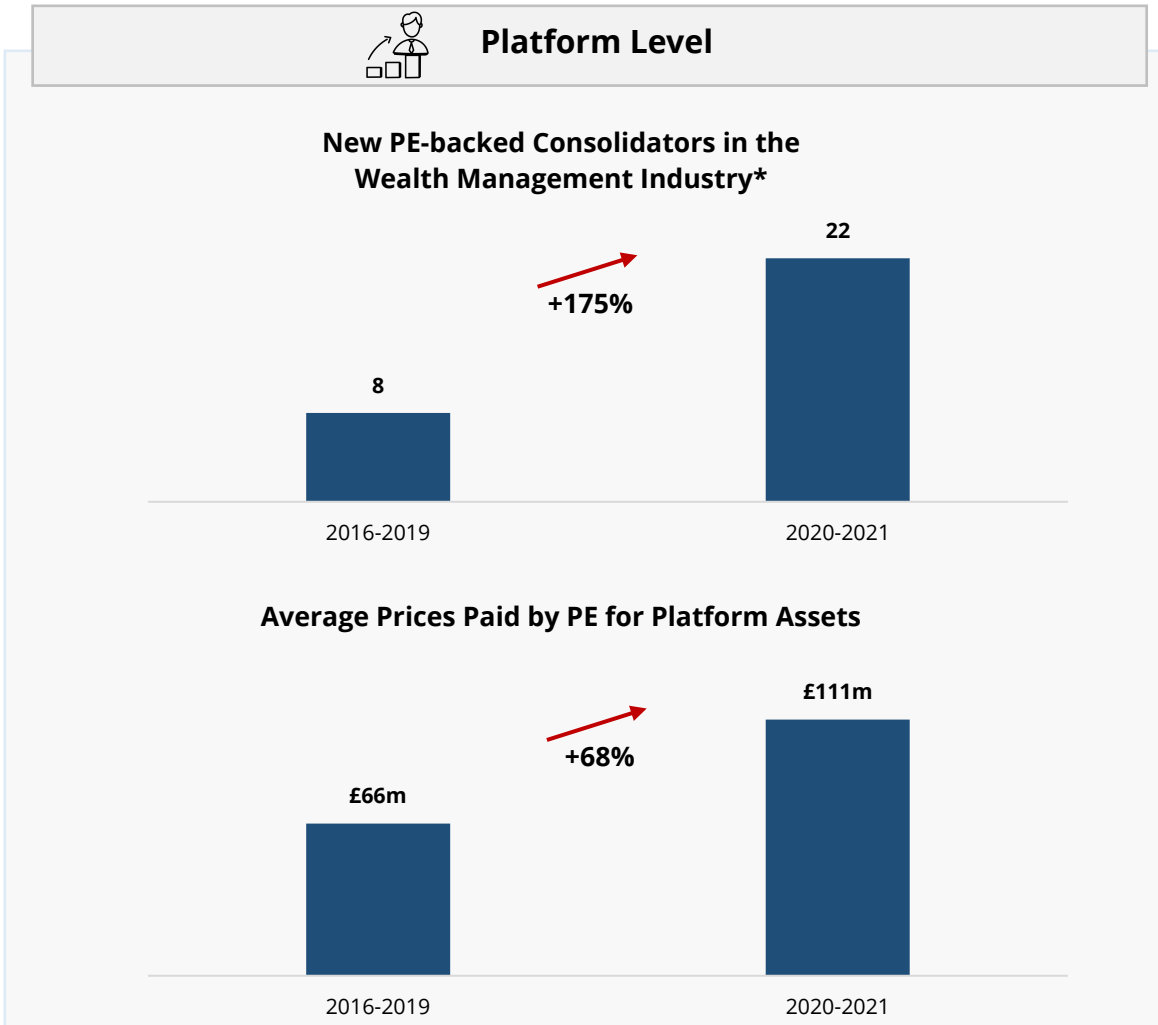
Deal Size	Median EBITDA x	Premium	Premium (cum.)
Small	7.2x	-	-
Medium	8.7x	+21%	21%
Large Private	12.6x	+45%	75%
Large Listed	16.8x	+33%	133%

- It doesn't come as a big surprise that the biggest delta is between medium and large transactions, as most Private Equity buyers will need a certain **level of scale** and would not be interested in businesses below a certain size
- The size of the overall valuation gap of 133%, however is surprising and **much bigger than observed in other industries**, which is estimated around 45% according to research from Bain

Small Transactions (Less than £1m EBITDA)		Medium Transactions (£1m - £3.5m EBITDA)		Large Transactions (Over £3.5m EBITDA)		Public Market Listed / ~£20m+ EBITDA	
N	= 38	N	= 16	N	= 12	N	= 13
1 st Quantile	= 5.4x	1 st Quantile	= 7.0x	1 st Quantile	= 11.8x	1 st Quantile	= 12.0x
Median	= 7.2x	Median	= 8.7x	Median	= 12.6x	Median	= 16.8x
3 rd Quantile	= 8.7x	3 rd Quantile	= 11.1x	3 rd Quantile	= 14.0x	3 rd Quantile	= 19.0x

Source: Dyer Baade
Listed businesses as of 4th January 2022

Prices for Platform Assets and Bolt-On Acquisitions are expected to continue to rise in 2022



The influx of private capital has led to more competition, increasing deal activity and prices across all levels

Source: Dyer Baade
 *2016-2019 incl. Mobius' Investment in Ludlow which was exited in 2021.



IV.

Solving the M&A Dilemma

The M&A dilemma in the UK Wealth Management industry



71%

Of (22 out of 31) PE backed consolidators are at the beginning of their investment cycle with strategies that rely heavily on bolt-on acquisitions.



89%

Of potential acquisition targets have 5 advisers or less. Acquirers will therefore either need to acquire large numbers of small firms, or face increasing competition for larger targets.



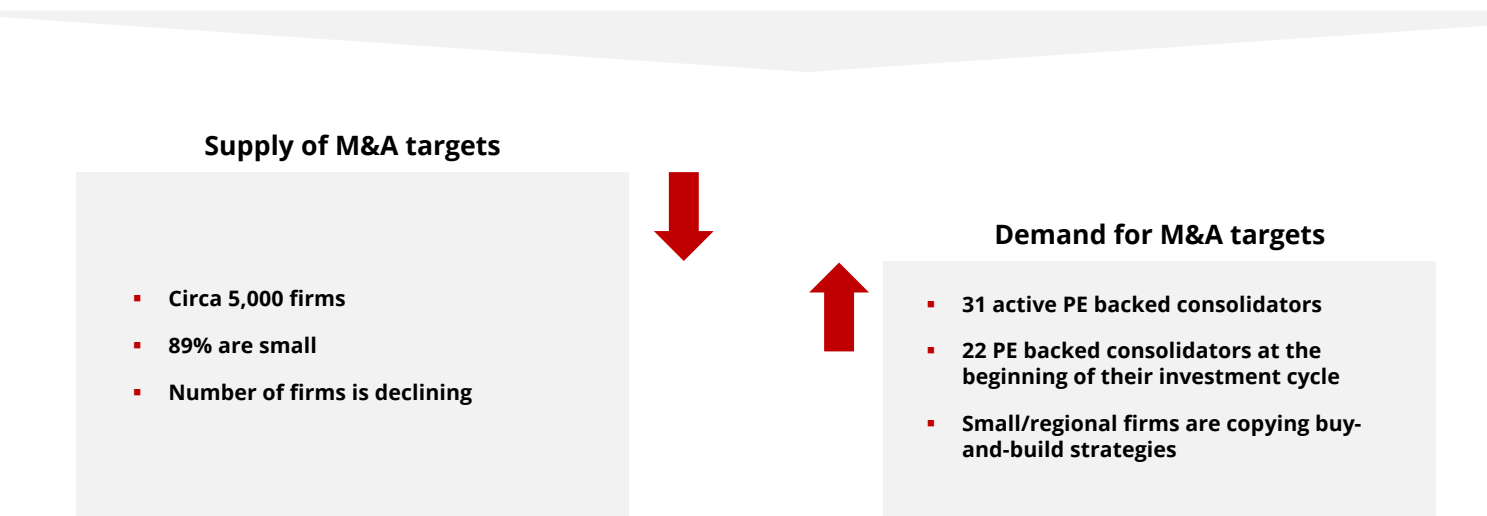
17%

Increase in median prices for bolt-on acquisitions in the last 12 months.



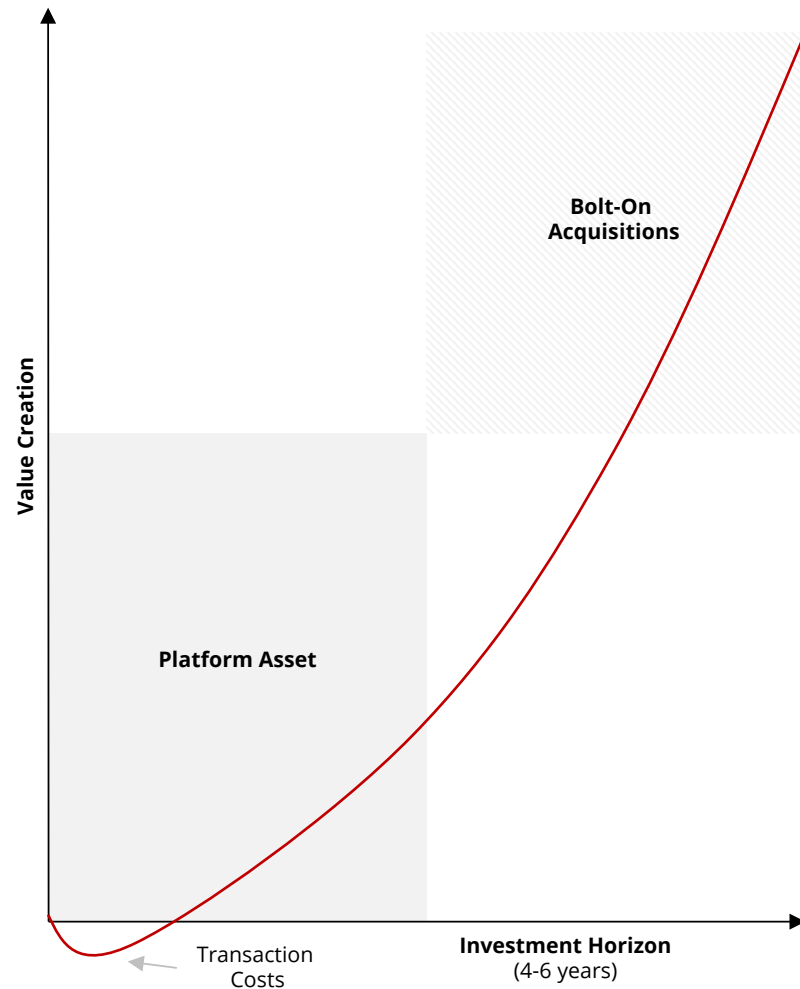
Small/regional firms

Started to raise acquisition finance, emulating buy-and-build strategies from larger/PE-backed firms, leading to more competition at a local level.



Changes in supply and demand make it harder to create value through buy-and-build M&A strategies

The most successful buy-and-build strategies create value through multiple levers



Cost Synergies & Operational Improvements

- Cost savings across support functions, premises, regulation etc. are the most obvious form of value creation.
- Scale leads to greater bargaining power with suppliers and is therefore also relatively low hanging fruit.
- Very often overlooked, but still significant, are potential benefits arising from sharing and adopting best practice, bench-marking and access to an extended knowledge base.

Top-line potential

- Integrating different parts of the value chain or migrating assets to an in-house DFM can be highly value generative.
- Further, using benefits gained from greater bargaining power to increase prices whilst keeping overall client costs the same can be very attractive.

Using Leverage

- Access to debt funding can supercharge the value creation potential of any buy-and-build strategy. It is clearly a key lever for Private Equity backed buy-and-builds, but increasingly also for small and medium sized owner-managed businesses.

Multiple Arbitrage

- Although the potential for Multiple Arbitrage is declining, it can still be meaningful.

A clear and coherent growth agenda is key to realising full potential

Growth Agenda:



- A clear and coherent growth agenda should be in place as early as possible to realise the full potential. It should be based on a simple and tested investment thesis and should cover an immediate post-acquisition action plan as well as a comprehensive ongoing value creation plan.



Platform Level

Management:



- It is an enormous benefit to start with a strong existing management team that has already demonstrated its ability to pull off acquisitions.

Infrastructure:



- The platform needs to have the right systems and processes in place to be able to integrate acquisitions seamlessly and create scalable growth.

Products & Propositions:



- Whilst product offerings, client propositions and investment propositions could be changed (to a certain extent), it can be a significant growth blocker if the start point is less than ideal and has, for example large exposure to DB Pension risks.



Bolt-On Acquisitions

Strategic Fit



- The potential to create value can vary widely, depending on how easy it is to integrate the business successfully across all back-office and client facing processes.

Top-line Potential:



- The potential to add complementary services across the value chain (advice, wrapper, platform, DFM, investment management) and improve go to market strategies.

Cost Synergies:



- Most back-office services and functions tend to be very scalable and there should be significant synergies across the support functions as well as general operational improvement potential resulting from benchmarking and sharing best practices.



V.

Credentials

EXCEPTIONAL
CORPORATE FINANCE

Dyer
Baade
& Company

We are dedicated M&A experts in the Wealth Management sector

Some of our most recent mandates included:



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Year	Client	Size	Type	Counterparty	Description
2021	 OAKTREE	£140m EV	Platform Asset (Buy-Side)		Oaktree was advised by Dyer Baade & Company and Sanlam was advised by Rothschild & Co
2021		Not disclosed	Platform Asset (Buy-Side)		Advised Copper Street Capital on the investment in One Four Nine Group
2021		£800m AUA	Bolt-on (Sell-side)		Advised Central Investment on the sale to Ascot Lloyd
2021		Not disclosed	Bolt-on (Sell-side)		Advised Prolific on the sale to Perspective
2021		£300m AUA	Bolt-on (Sell-side)		Advised PMN Financial Management on the sale to Close Brothers Asset Management
2021		£500m AUA	Vertical Integration (Buy-Side)		Advised Waverton Investment Management on the acquisition of Cornerstone
2021		Not disclosed	Fundraise		Advised Elevation on the debt raise for an extensive acquisition program
2020		Not disclosed	Bolt-on (Buy-side)		Advised Ascot Lloyd on the acquisition of Executive Benefit Consultancy (EBC)
2020		£800m AUA	Platform Asset (Buy-Side)		Advised Apiary Capital on the investment in Radiant Financial Group

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