

Learnings from the field: IFA mergers and acquisitions

In my role at Carmel Wealth, I work closely with top IFA practices, supporting them with succession and growth. In doing so, I've noticed some interesting patterns in the IFA M&A space.



Minority shareholding is popular

In a market where many buyers follow a vertical integration model and require control to drive it, transactions that support a minority shareholding are rare. What we are seeing more often is established firms looking for a minority capital partner. Someone who can support their growth and succession ambitions without seeking corporate control or rigid oversight of the firm's operations.

A minority stake also allows trust to build, giving both parties the chance to prove themselves before considering a larger shareholding. Founding shareholders often prefer this path, knowing that their eventual retirement or succession plan is backed by a partner with the balance sheet and support infrastructure to deliver on it. For clients and staff, it is a positive

story too: the firm takes on a partner that supports its strategy without changing its ethos, brand or client service.

Young successors seek equity

We are regularly asked to structure transactions so that younger, next-generation leaders within the business can obtain ownership. Having your future drivers invested alongside you is a win-win. Their motivation is aligned with that of the founders and key shareholders, thereby retaining top talent in future leaders who carry forward the culture and ethos that made the business successful in the first place.

Top advice practices can be very valuable, which makes it difficult for younger team members to afford a buy-in. This is why leaning on an external partner, such as a strategic

shareholder to support and fund the buy-in, is becoming a popular requirement.

Compliance support and technology enablement are urgent

From Carmel's full suite of business support services, which include compliance, technology enablement, human capital, finance, payroll, company secretarial and more, the most urgent support needs in top IFA practices are compliance and technology.

Many firms outsource compliance, but principals often complain that providers give them blank templates which they still need to interpret and complete. For compliance services to be effective and save business leaders time, the provider needs to know the practice well enough to draft the policies, procedures and implement them within the business. The principals should be reviewing and approving, not doing the work from scratch or driving compliance projects to completion.

On technology, leaders are often relatively comfortable with their advice tools and CRM systems, but adequate cyber-security infrastructure and data management remain common gaps. Cyber-security weakness poses serious risk, for example if client data is compromised. It is unrealistic to expect a practice leader to be an expert CEO, wealth manager or business developer, and at the same time cover cybertech and regulatory requirements at a specialist level. Increasingly, we are seeing mid-sized practices prioritising robust client reporting and data analytics by hiring full-time data analysts as a back-office role, sometimes even before appointing a practice manager or a full-time in-house compliance manager.

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Buying an IFA business is complex

It is more the exception than the rule that small to medium-sized practices can rely on M&A as their core growth strategy. Sourcing acquisition opportunities, building trust, agreeing terms, running due diligence, contracting and securing funding can be a full-time job. It can take many months just to sign the paperwork, and then the real work begins with effecting the transition.

In many cases it is a better use of time and money to win and retain clients organically. Just as many advisors outsourced investment functions to DFM's over the past 15 years to scale

more effectively, I expect practices looking to grow by acquisition will increasingly do so with a strategic partner who has the expertise and capacity to deliver.

Specialisation supports growth

Practices that specialise in a clear client profile or market segment and adapt their service model, client engagement and operations around that group tend to perform better. Whether it is retirees in a certain wealth bracket, divorcees, high-net-worth entrepreneurs or specific professions like doctors or accountants, those who focus their offering deliver stronger results. Knowing who you are for, and who you are not for, usually makes a practice more profitable and sustainable than those without a clear delivery strategy. This shows up clearly in financial results and business valuations.

Final thought

In our work, we support leading firms with their succession and growth while retaining structural independence. As the market evolves, we have a front-row seat to emerging trends in the M&A space. Rising costs of running advice practices and the age profile of many principals will continue to drive consolidation. However, even firms that are not actively considering M&A can benefit from the lessons of others, and it is a real advantage to partner with a specialist who brings both M&A expertise and experience in scaling practices, along with insights from multiple firms, rather than relying on the narrower perspective of a single business. ■



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