Financial Advice NZ: Australia M&A Update

Forte Asset Solutions

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Market Update

Mass Exodus of Advisers

- 10,000+ advisers have exited the industry since 2018, c.30% decline.
    - However, in 2023 the number of advisers leaving the industry has slowed down. So far throughout 2023, 96 advisers have left the industry.

- There are currently 15,702 registered advisers as at 19th October 2023.
- Between 1/1/21 – 19/10/23, 24.03% of advisers have left the industry.

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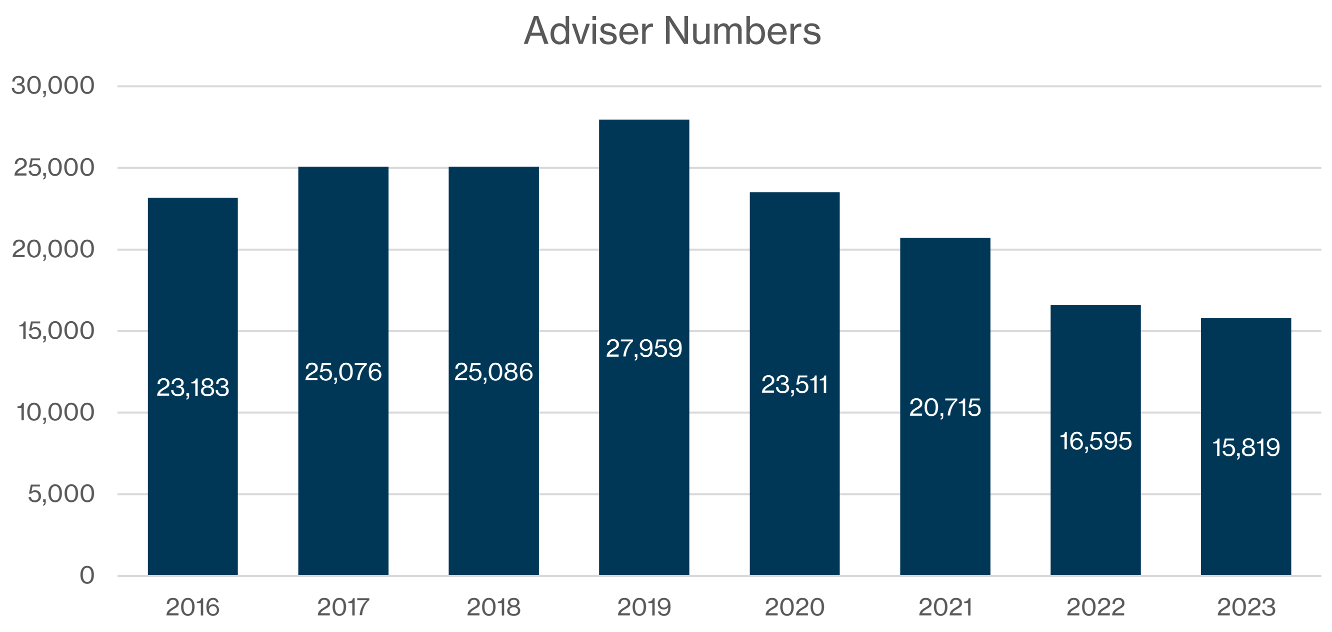
Current Landscape

- As of 15th October 2023, there are 15,702 advisers left in the industry.
- There have been over 327 new entrants join the industry this year.
- Ongoing advice fees charged by advisers on a per advice document basis rose by 33% throughout FY23, from $3,656 to $4,865.
- The demand for advice has been on the rise with 5.6 million Australians looking to seek help from a financial advisor.

Adviser Numbers

- 78% of advisers in stated they had no intention on leaving the industry.
- 12% of advisers are undecided.
- 10% of advisers stated they intend on leaving the industry.



Source: AR Data 2023 Landscape Report

Adviser Exodus Continues

Large proportion of advisers leaving the industry are giving limited levels of financial advice currently.

Accountants – limited advice: 50.91% decrease
Super Fund Based advice: 17.32% decrease
Other – limited advice: 18.15% decrease

	Financial planning	Investment Advice	Accounting - Limited Advice	Accounting - Financial planning	Super Fund Based Advice	Other - Limited	Other
Advisers at Start	12799	3419	1980	993	970	281	229
Current # of Advisers	11088	3099	972	930	802	230	180
Net Change - Advisers	-1711	-320	-1008	-63	-168	-51	-49
Growth in Advisers	-13.37%	-9.36%	-50.91%	-6.34%	-17.32%	-18.15%	-21.40%

Source: Wealth Data – represents data up until March 2022

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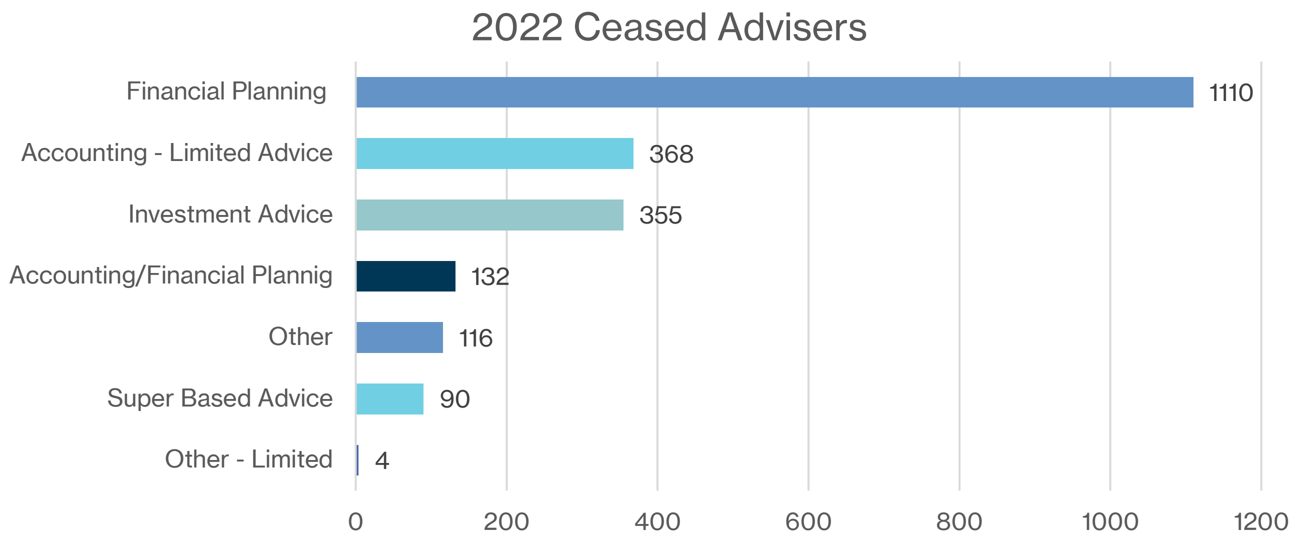
Which advisers have left?

- According to WealthData, 2,171 advisers resigned during 2022, over half of which were directly from the Financial Planning Category. They were split into the following categories:



Adviser Exodus Continues

- The larger AFSLs are seeing the biggest reduction in adviser numbers.
  - The number of advisers representing AFSLs with one or two advisers increased by 0.6 per cent in 2021.
  - AFSLs with three to 10 advisers only decreased by 3.9%.
- Why are advisers leaving? Key factors also include higher levels of stress and burnout.
  - 73% of advisers have high levels of work burnout.
  - 42% are considering leaving financial advices as a result of stress, with compliance the number one cause of stress.

Source: Rainmaker Financial Adviser Report / Wealth Data / Adviser Ratings

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Mental Health

- Forte alongside Phillipa Hunt conducted a survey into the mental health of those within the current Financial Services landscape.
- Questions relate to the participants experiences since the Royal Commission, LIF Review and subsequent government legislation.
- There were 690 participants.

Findings

HEALTH IMPACTS

- 80% reported ‘Significant increase’ to their stress levels.
- 53% a ‘Significant decrease’ to their mental health.
- 96% have lost trust with legislation and outcome of RC.

HEALTH BEHAVIOURS

- 70% were reporting more restless disturbed sleep since the RC.
- 56% said that they were Drinking more alcohol.
- 11% more participants are taking medication relating to anxiety, depression, stress compared to prior to the RC.

BUSINESS IMPACT

- 67% of businesses have experienced a decreased cashflow due to increase compliance costs.
- 23% have let staff go.

Shift in Metrics for Financial Planning Practices

2021		2023
$1.1 Mil	Total Revenue	$1.6 Mil
133	Clients per adviser	129
6	Client Meetings per week	5.8

2021		2023
$12.9k	Technology spend per employee	$10.4k
6.8	Total staff	5.6
$83.4 Mil	FUM per adviser	$78.8 Mil

What does the average adviser look like?

Personal

- 39% have 20+ years experience, 37% have between 10-19 years and the remainder had less than 10.
- 18% of advisers plan to leave the advice profession in the next five years whilst 56% intend to remain over the same period.

Business

- 69% are not taking new clients in the next 12 months.
- One third provide aged care advice and 59% estate planning.
- 47% have up to five other advisers in their practice, 29% were the sole adviser and 13% have between six to 20 advisers.

SOA's

- The typical length of an SOA provided to clients was 41-80 pages. The desired length is 11-20 pages.
- Advisers felt SOAs should be decreased as "clients do not value them", they "do not add value" and "too costly and time-consuming to prepare"

Survey of 3,300 advisers (ORIMA Research)

What does the average adviser look like?

- 51-year-old male from Inner city Melbourne.
- Degree qualified on an annual salary of $135,000 before super.
- Client Type: Average age of 60 on an annual fee of $4,000.
- Client Base: $79 Mil FUM, 88 recurring clients, 27 one-off clients and insured by TAL.
- Their practice: Privately owned licensee, under 10 advisers and practice having $200 Mil in FUM.
- Mostly uses model portfolios and listed investments, Morningstar for research and Lonsec for Investment Consultant.

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Life Insurance

- Annual Life Insurance Commissions pre 2018 were up to 130% of the first year's premium.
- From January 1 2018, upfront commissions reduced to 80%, and ongoing commissions were capped at 20%.
- From January 1 2020, upfront commissions were reduced even further to 60% and ongoing commissions were capped at 20%.
- There is still a level of legislative uncertainty surrounding the risk industry.

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Consumers Demand for Increasing Costs

Consumers capacity for advice has increased:

- 19% of consumers now sit in the $2,500 - $5,000 range compared with 4% in 2021.

	2022	2021
<$500	63%	64%
$500 - $1,000	21%	10%
$1,000 - $2,000	6%	9%
$2,500 - $5,000	19%	4%
$5,000 +	2%	2%

Rising Fees

- Over 93% of advisers at the beginning of 2023 say that the plan to increase their fees next year, according to Adviser Ratings.
- Median advice fees have risen 8% since last year and have risen 40% since 2018.
- The increase in fees has made firms more selective on the clients they worked with in order to remain profitable.
  - The average FUM per client is now at $785k, which is up from $643k in 2018.

Source: Laura Dew of Money Management 8/12/2022

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Volume of Potential Clients

- Population growth combined with shrinking number of advisers means there has been a 74% rise in the number of people per adviser, presenting an opportunity for those remaining in the industry.
- In the past four years, Australian population has increased by 1.6 million however the number of advisers has fallen by over 8,000.
- These two factors combined has led to a 74% increase in the number of people per adviser.

Source: Money Management – Laura Dew 9/12/2022

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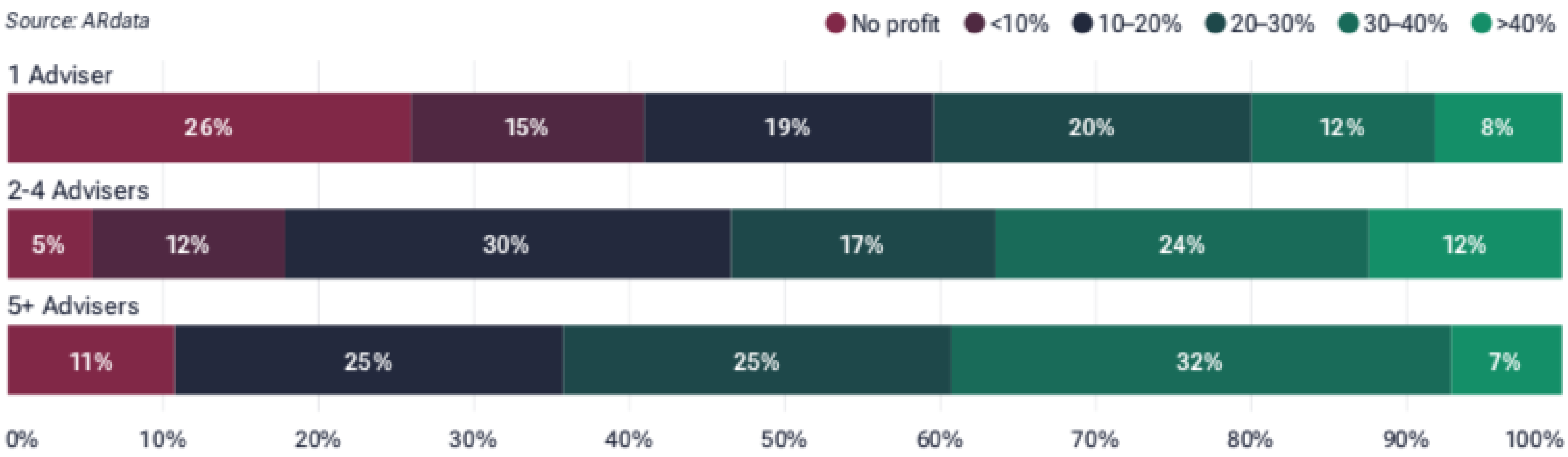
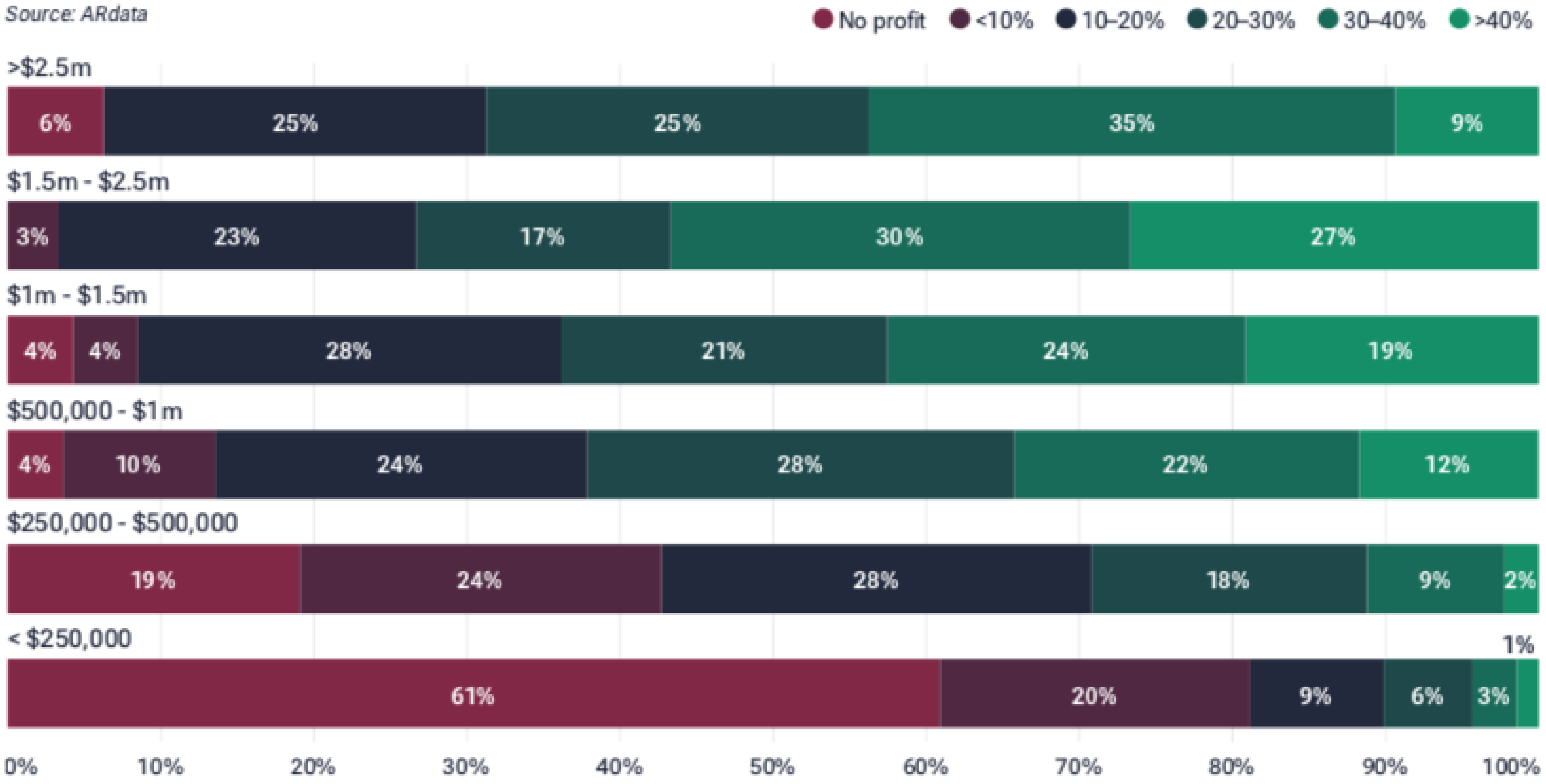
Profitability by adviser numbers



Profitability based on practice revenue size



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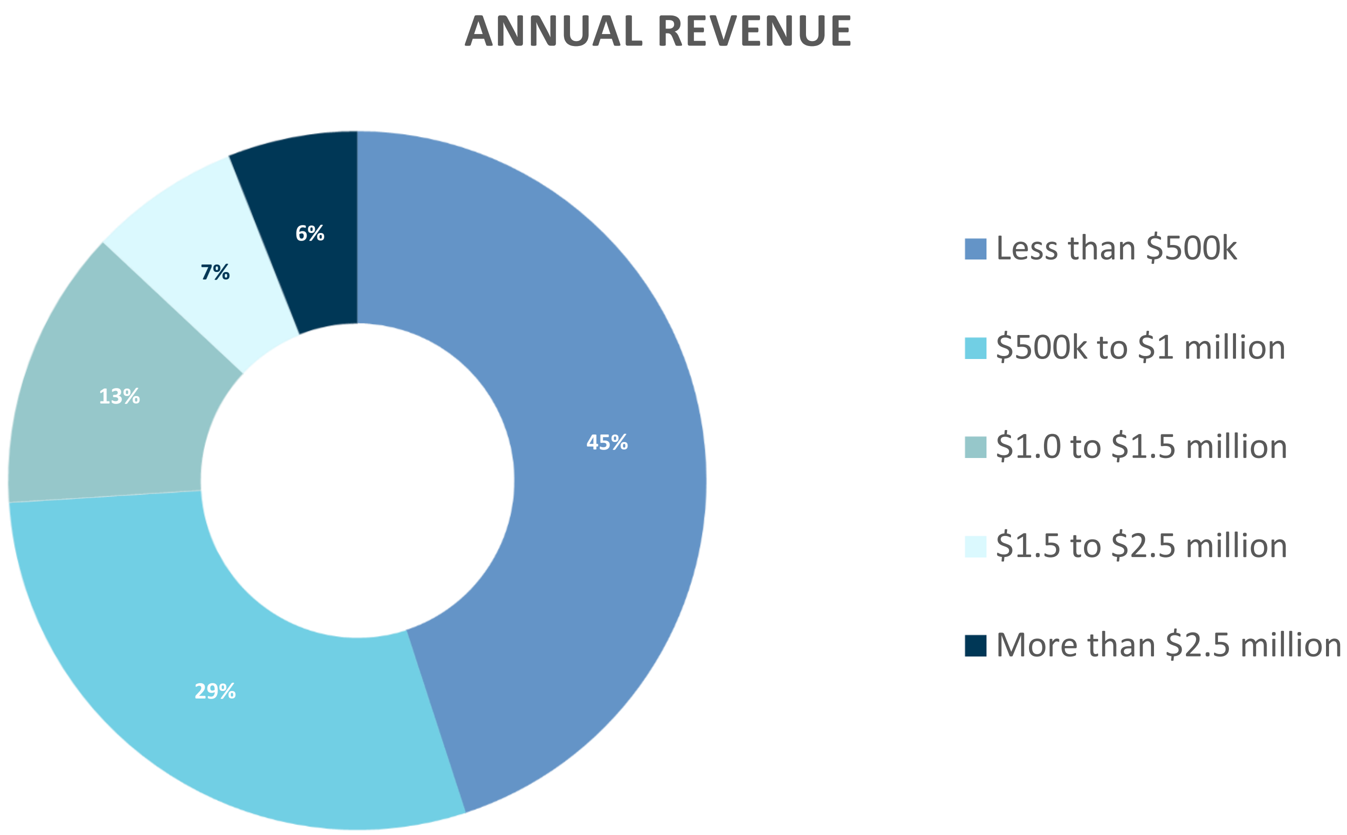
Annual Fees



Source: ARData

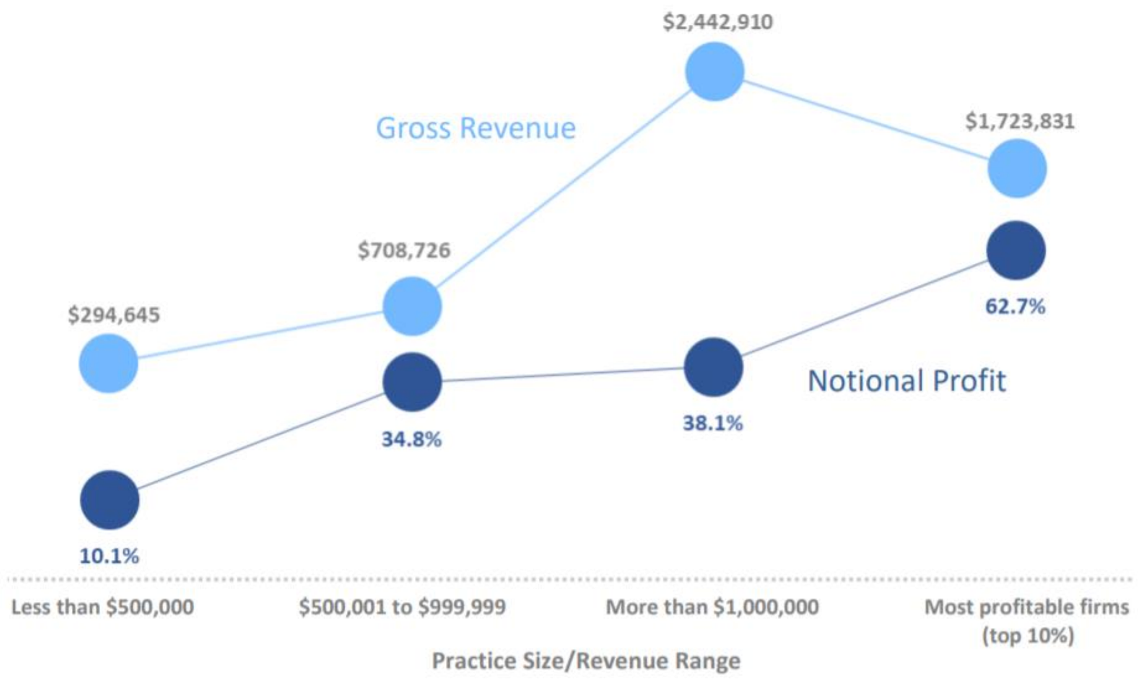
Here’s why Australian Advice practices are vulnerable

- 70% of Australian advice firms are single principal.
- One in two owners report if they weren’t there, their business could not operate effectively.
- 89% report their business could not grow and develop without them.
- 64% of clients say they would not be comfortable dealing with anyone else from the practice other than their current adviser.
- 65% of firms have not documented all of their systems and processes.
- 76% of Australian advice firms do not have a business succession plan or a successor agreement in place.

Source Business Health

Size and Scale

- The cost to run a financial advice practice continues to grow. Scale is now key to the financial viability of financial services practices.
- In-organic growth through M&A is one strategy that practices are using to reach their target size.



Source: Business Health

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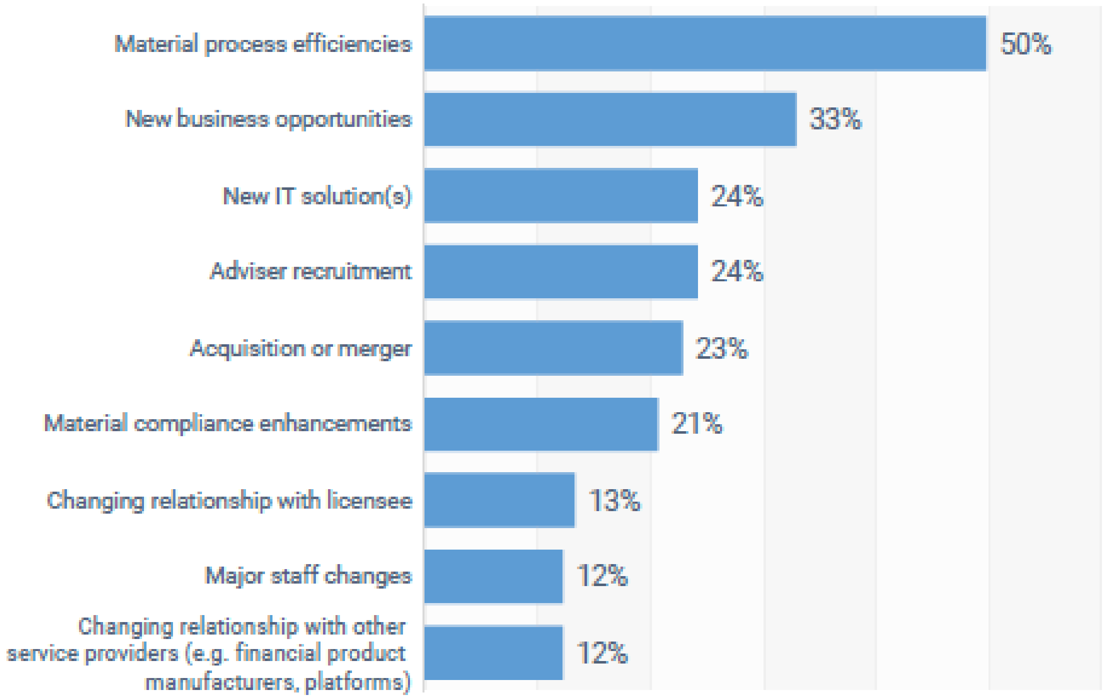
Looking for efficiencies

Chart 3.2: Changes practices are looking to make



Source: ARdata

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High Performers

Characteristics of the top 10% of businesses:

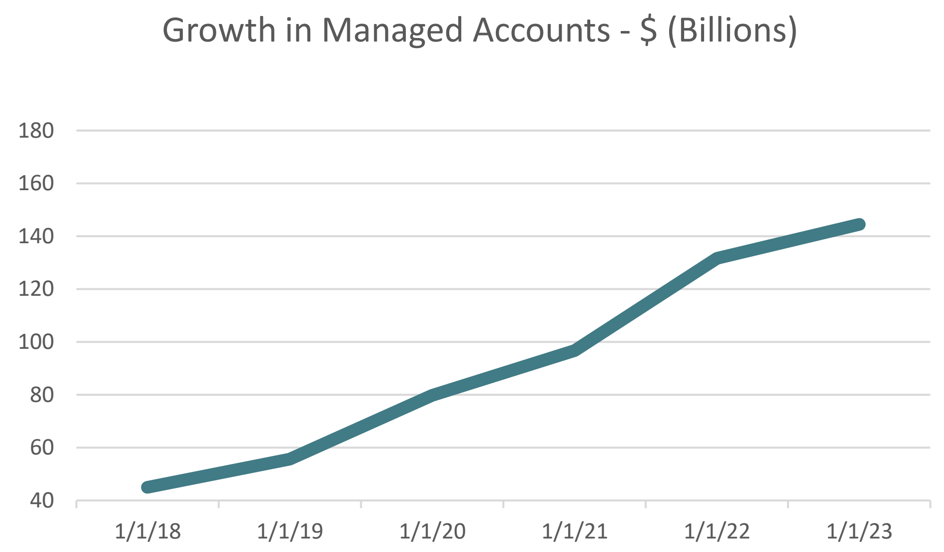
- $1,615,928 Gross Revenue
- $6,384 Revenue per client
- 130 clients per adviser
- 1.1 support staff per adviser
- 7.4 client appointments per adviser per week

Source: 'Future Ready IX' Report – Business Health, sponsored by Midwinter

Growth in Managed Funds

We will continue to see consolidation in the area of platforms, especially with the growth of the sector and strength of balance sheets and market confidence.

As at 1/1/23, this amount grew further to **$144.5 Billion** meaning a growth of **9.8%** from the previous year.



Source: The census collected data from some 47 organisations, including Praemium, HUB24, Netwealth, Mason Stevens, DASH, and Insignia. Collected by Institute of Managed Accounts Professionals (IMAP).

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Managed Funds

Benefits of using a managed account:

- **87%** report reduced administration
- **73%** reported improved client engagement as well as improved client investment outcomes
- **70%** reported an improvement to risk control of portfolios.

Business Performance:

	Industry Average	With Managed Accounts
Clients per adviser	142	168
FUM Per adviser	$50.8 Mil	$64 Mil
Gross Revenue	$1.2 Mil	$1.5 Mil
Profitability*	27%	34%

*Adviser Salary used in calculations is $100k + Super. We tend to use $150k in our Valuations.

Source: Colonial First State – Managed Accounts. Data from Business Health

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Low Supply

We have been noticing low supply of financial service businesses looking to be sold. A few reasons for this:

- The 10,000+ advisers who have left the industry has created a false assumption that supply is high.
- Business owners have had to reengineer their business.
- Many businesses are still in transition regarding annual fees.
- Rebuilding after the cessation of grandfathered revenue.
- Principals have not had the headspace or time to contemplate a sale and have deferred their retirement timeframes.

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Valuations

Supply and Demand

Demand

- Current demand levels are close at all time highs for financial planning businesses due to the low interest rate environment and the increasing fixed costs for advice business.
- Businesses brought to market in 2023 have received 20 – 40 registered interests.
    - An average of 4 non-binding offers per business brought to market.

Supply

- In 2020 we saw some of the lowest supply levels as business owners grappled with the impact of COVID-19.
- Despite the large exodus in the number of advisers, this hasn't translated to a large increase in supply of businesses for sale as these advisers have predominantly been salaried advisers.
- In 2023, we have seen a growing number of businesses looking to be sold.

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Current Market

Current Market Guide

Revenue Type	Recurring Revenue - Now	Recurring Revenue - 2020
Financial Planning General	2.5 – 3.3 x	2 – 2.8 x
Financial Planning 35%+ of clients 70+	2 .5 - 2.75 x	2 – 2.5 x
Large Financial Planning	5 – 7 x EBIT	5 – 6.5 x EBIT
Risk	2-2.5x (Less demand/ less supply)	2-2.5x (Substantially less demand)
Accounting with FP	1 - 1.5 x (Maintainable Earnings), SMSF Admin 1 x or 4 x EBIT	1 x (Maintainable Earnings), 4 x EBIT
Mortgage	TBA (historically 2 – 2.5 x) recent transaction 2.62 in multi disciplined practice	TBA (historically 2 – 2.5 x)

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Segmenting Revenue

- We observe acquirers have been segmenting revenue by type (e.g. brokerage, risk, advice) and by age. Below is an example from how a buyer recently segmented their offer according to age demographic.

Age Band	Multiple
80+	2.25 x RR
70 – 80	2.50 x RR
60 – 70	2.75 x RR
50 – 60	3 x RR
40 – 50	3 x RR
< 40	3+ x RR

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EBIT Valuations

- Internal succession
- External succession
- Additional business locations
- Buyer is listed or aspires to list

Premium and Discount Factors

Premium

1. Profitability
2. Fixed Fee
3. Good age demographics
4. HNWs
5. Target Market
6. Cultural Alignment
7. Engaged clients
8. Systems and processes

Discount

1. Regional (lower demand)
2. Aged client base
3. Low average FUM
4. Low fee & profitability
5. Poor systems and process
6. Negative or no growth
7. Poor Compliance

Fixed Fees

- Improves business value due to certainty of revenue & profit uncoupled from market and economic movements.
- Profit per client ➔ large clients don't sponsor small clients.
- McKinsey style time and motion pricing.
- Annual fees means engaged and active clients
- Clients seek transparency and clear value propositions based on needs.

The Future

The future beyond 2026

- **Restoration of Trust** -
  - Exit of Banks
  - Degree Qualified Advisers with experienced CEO's/Chairpersons
  - Vigilant authorities
  - Removal of conflicts and improved transparency

- **Better Businesses**
  - Uncoupled to market influences
  - Clear pricing and value proposition
  - Profit per client
  - Lower platform/product fees
  - Greater governance and compliance –individually licensed?
  - Better client experiences and outcomes.
  - The number of Australians who meet the sophisticated / wholesale investor test has increased more than 16% of the population (3m people).

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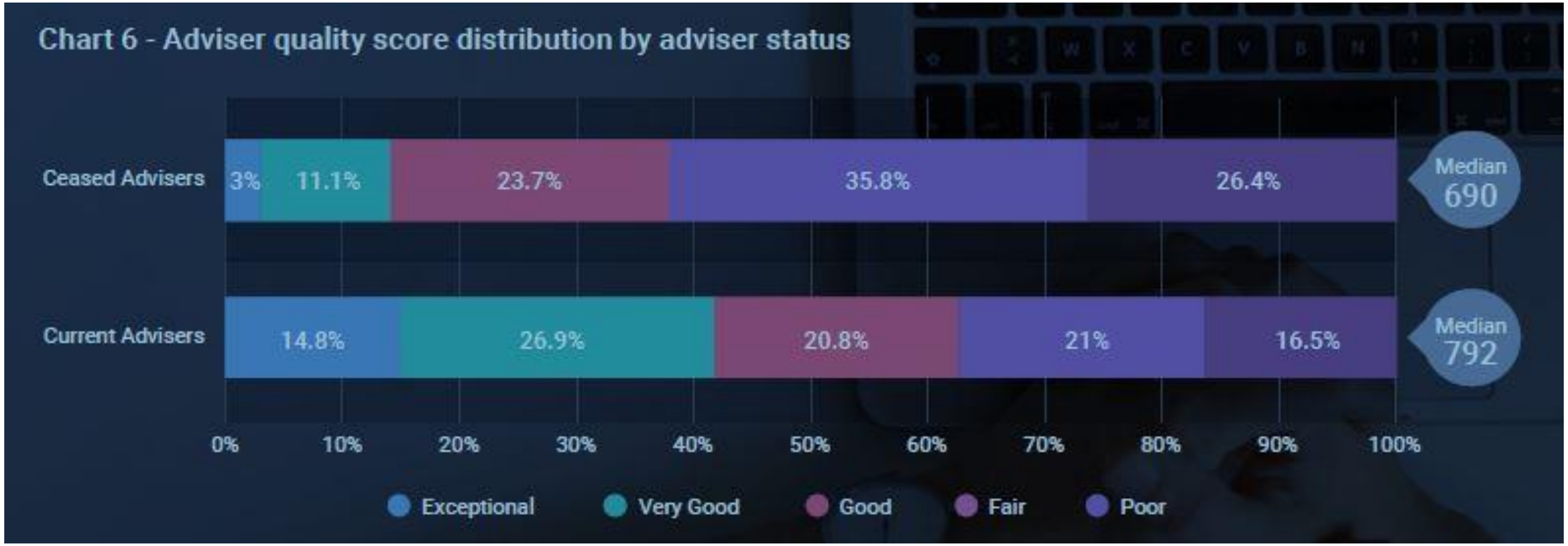
The future beyond 2026

- ARdata's 'quality score' system for advisers shops a median rating of 792 for remaining advisers as opposed to a score of 690 for ceased advisers.
- The breakdown of these scores can be found below:



Source: ARdata

The future beyond 2026

- The amount of ‘exceptional’ advisers, for example, is 14.8 per cent for current advisers while only three per cent of the advisers that have left the industry had the same rating. On the next highest band, 26.9 per cent of remaining advisers are rated ‘very good’ while only 11.1 per cent of ceased advisers did.
- On the lower end of the scale, 37.5 per cent of remaining advisers had a quality score of either ‘poor’ or ‘fair’ while 62.2 per cent of advisers who’ve left the industry fell into these two categories.

The future beyond 2026

- Superannuation
  - 2017: $2.3 trillion
  - 2027: $4.8trillion
  - As of September 2022, there were $3.3 Trillion of super in Australia, which equates to $201 Million per adviser.
    - This had more than doubled from 2018 when it was $88 Million per adviser.

- $3 trillion multi generational wealth transfer
  - This amount is expected to be passed down to millennials over the next generation.
  - Across the world, this figure is expected to be $100 trillion by 2050.

Source: The Guardian, and Money Management – Laura Dew 9/12/2022

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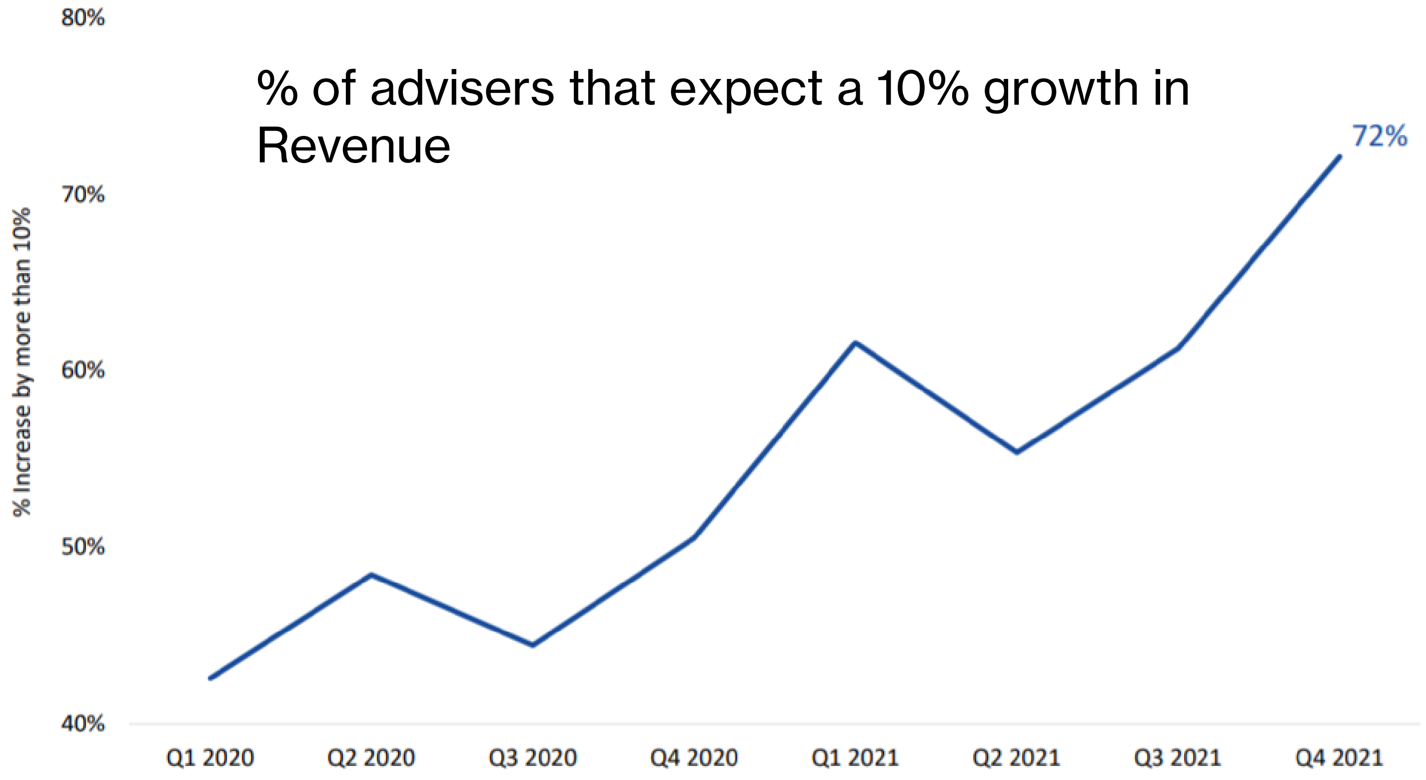
The future beyond 2026

- 700 Australians retire everyday
- $70 Billion transfer from accumulation to retirement per annum
- By 2026, according to the ABS, we’re going to have 137,000 Australians every year turning 65.

Source: Australian Bureau of Statistics (ABS)

Revenue Expectancy



- 72% of advisers expect revenue to grow by 10% in the next 12 months.
- 25% are expecting an increase of 20%.
- 21% believe revenue will not materially change.
- Onboarding new clients will become the "engine room" of this new growth.

Source: CoreData – Professional Planner (Chris Dastoor) 2/2/22

Questions?