

UK Investment Sector M&A

Annual Review - 2022

February 2023



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- Warren Buffett



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This document can be downloaded in pdf format at: imas.uk.com



Scope

The slides herein analyse M&A transactions announced in 2022 and previous years where the target was a UK investment sector company, based on IMAS's own classification of the entire UK financial services sector, which we have developed over twenty years.

Through our proprietary database *IMAS-Insight*, IMAS records and analyses every M&A transaction involving regulated financial services businesses; by monitoring mandatory PSC notifications made to Companies House we can identify transactions even where they are not publicly announced.

IMAS regularly reviews the M&A activity and other developments within the UK financial services sector, which is summarised in our IMAS M&A Monthly publication. If you would like us to email you a copy of IMAS M&A Monthly and any other papers which we publish, please join our distribution list at <https://imas.uk.com/news/> We treat your information as confidential and do not share it with other parties.

The slides shown are a high-level summary. We have not provided a full listing of the transactions analysed. If you would like to understand more about the data or discuss how IMAS may be able to help you, feel free to get in touch.

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	<i>Page</i>
1. Introduction.....	6
2. Highlights.....	7
3. Overview.....	8
4. Key observations.....	9
5. Transaction volumes by size.....	10
6. Transaction volumes by sector.....	11
7. Transaction values by size.....	12
8. Transaction values by sector.....	13
9. Who bought?.....	14
10. Who sold?.....	15
11. Shifting ownership.....	16
12. Direct investments and exits by private equity funds.....	17
13. Demographics of individuals selling their businesses.....	18
14. Valuations.....	19
15. What next?.....	21
16. About IMAS.....	22
17. Sources of data and definitions.....	26



Welcome to our review of the UK investment sector in 2022. It is the result of IMAS's analysis of all announced transactions in the sector sourced from our own database, *IMAS-Insight*, that has enabled us to publish the data in this document. It focuses on announced transactions in the "investment" sector estimated to be worth £5m or more.

2022 was another year of high levels of M&A activity. Most readers will be aware of the intense consolidation taking place in the IFA sector fuelled by the insatiable appetite for the industry by private equity funds, which is borne out in our analysis.

However, the amount of capital committed by private equity funds last year dropped from the record level seen in 2021. The continuing flow of strategic acquisitions by larger financial groups in the investment sector were not sufficient to make up for the fall and, as a result, deal volumes did not match the all-time high of 2021.

This reflects a more challenging macro-economic backdrop. In the wake of volatile markets, rising inflation and interest rates, projected earnings growth rates and the perceived creation of individuals' net wealth in the UK economy were adjusted downwards. In some cases, it caused negotiations to become more protracted and transactions longer to complete.

That was certainly the sentiment in the public markets where valuations declined across the sector, especially for investment platforms. With pressure on the value of assets under management and advice in a sector heavily reliant on the value of client assets, it would seem logical for expectations to be adjusted downwards.

But, valuations in M&A transactions remained high, most noticeably in acquisitions of wealth managers where we saw average multiples increase significantly. This reflected buyers' confidence in realizing synergies and reaping benefits of economies of scale in their creation of capital value.

We hope you will enjoy reading our review and look forward to staying in touch with you.



Fred Hansson
Partner

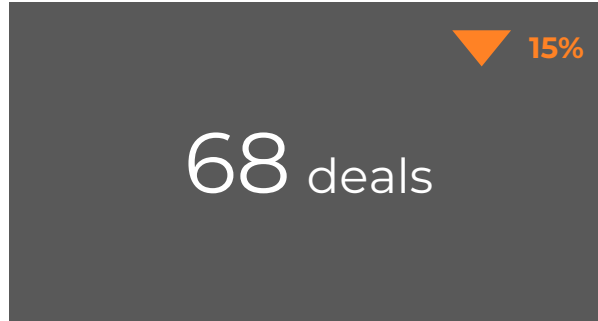
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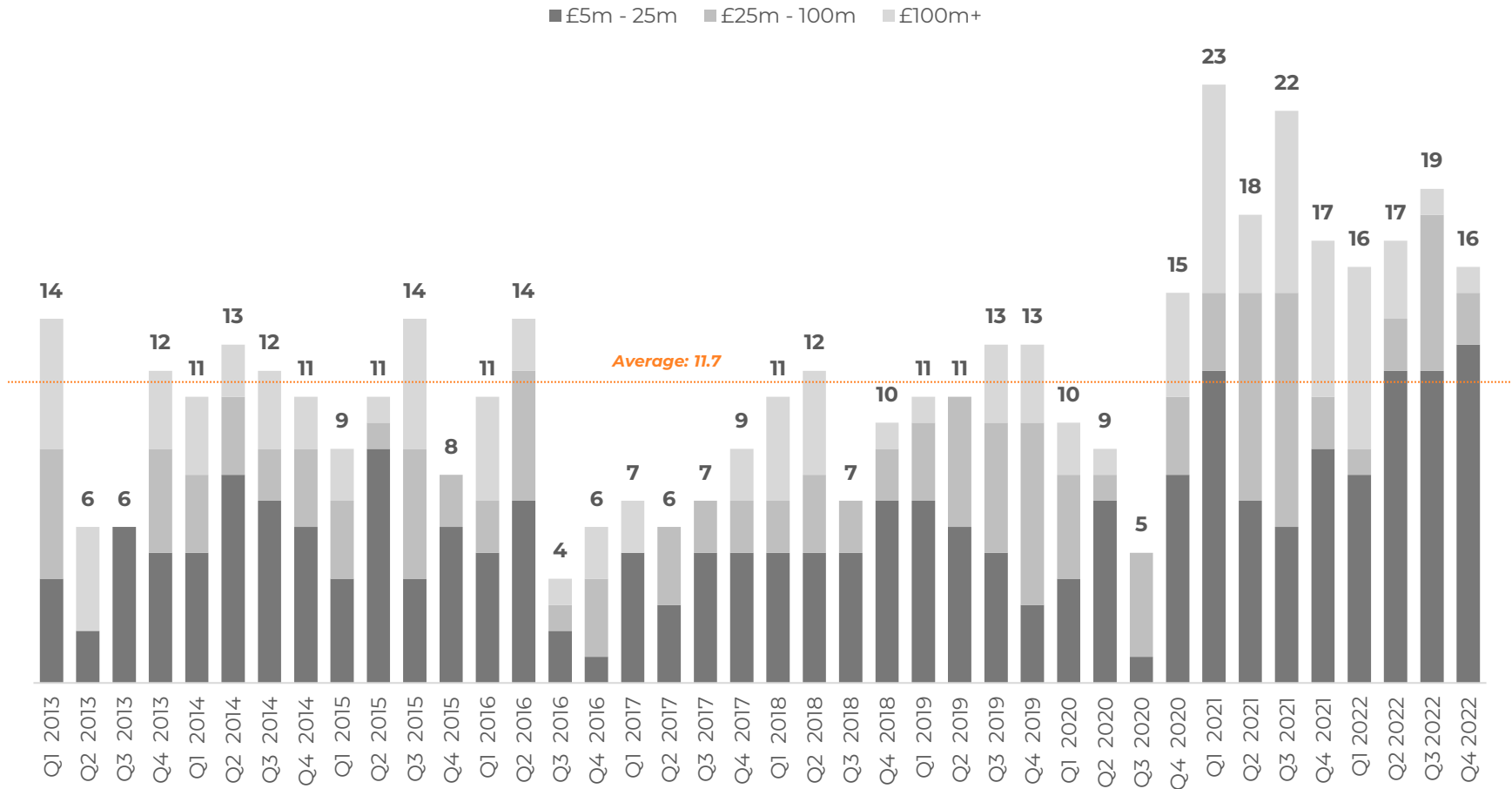
2. IMAS M&A Review 2022 – Highlights



3. Overview



UK Investment Sector M&A – quarterly announced transaction volumes by deal size since 2013



source: IMAS-Insight



1. Another year of high deal activity

- Most of the action took place in the wealth management sector (including independent financial planners and planners with integrated investment management services)
- ... where acquirers pursued synergies with smaller bolt-on targets and vertical integration opportunities.

2. Valuations

- Remained at attractive levels, albeit a mixed picture
- in which businesses providing trusted services to private clients enjoyed valuations at similar or higher levels than last year ...
- ... which was also a year with elevated valuation multiples in the sector.

3. Ownership transitioning to private equity funds

- These institutional investors are driving a seemingly inexorable consolidation of the advisory sector ...
- ... creating growing national brands with broader propositions and deeper capabilities.

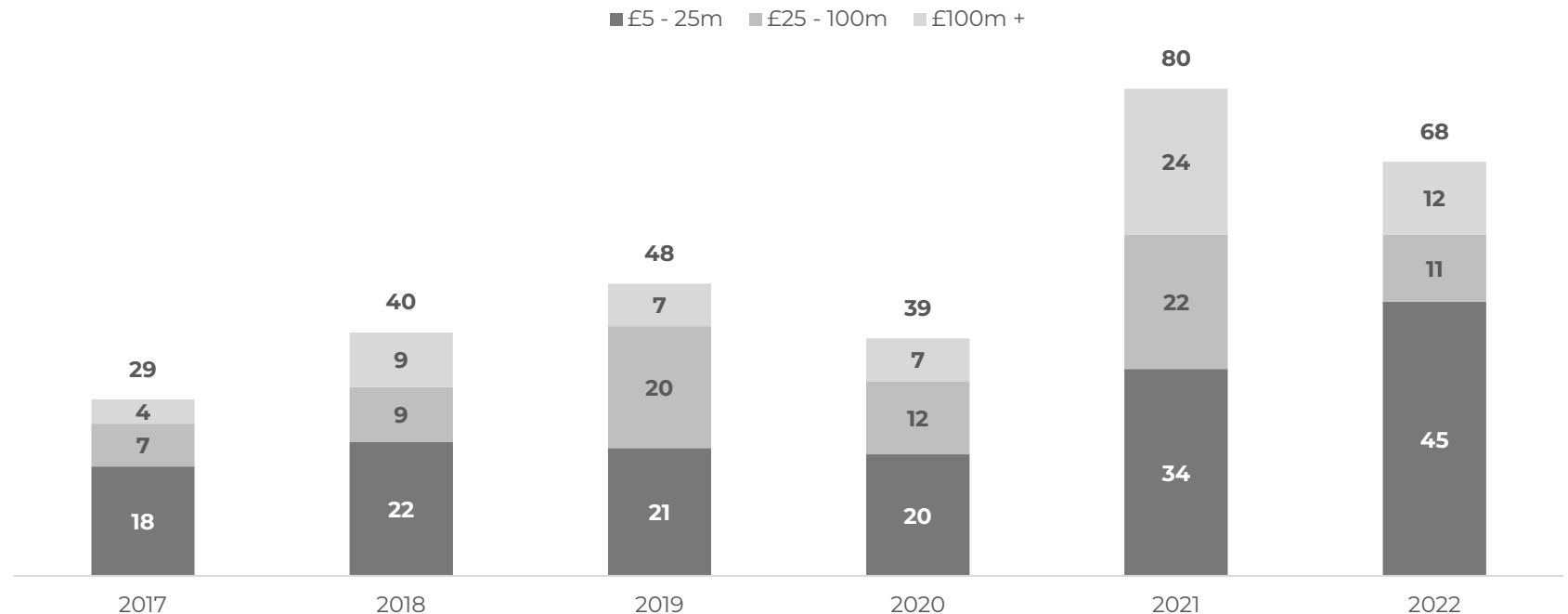
4. Smaller companies proving the most attractive targets for acquirers

- It was smaller businesses that attracted most of the buyers ...
- ... who have raised capital for “buy & build” strategies and geared up to acquiring private businesses
- at lower multiples than they themselves are valued.

5. Transaction volumes by size



UK investment sector M&A – annual announced transaction volumes by deal size since 2017



source: IMAS-Insight

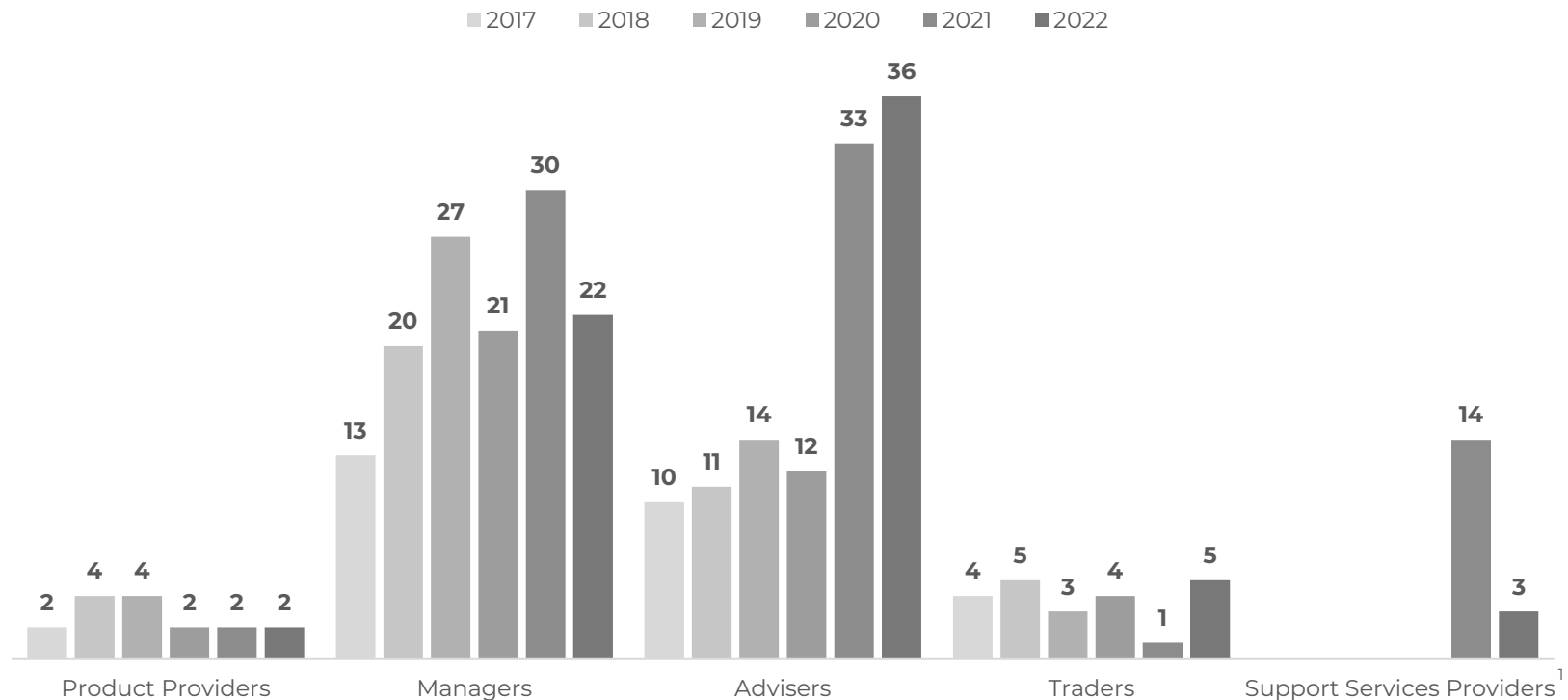
- We recorded **68 M&A transactions** in the UK investment sector with an actual or estimated value of £5m or above in 2022.
- Whilst the deal count **dropped by 15%** to last year, volumes were still considerably higher than in all the previous years.
- The decline was due to a **fall in transactions above £25m** of value, where volumes halved compared to 2021 as activity slowed down in the second half of the year.
- In contrast, the number of transactions **below £25m increased by 32%** from 2021, continuing the strong trend of increasing volumes in this size segment last year.

6. Transaction volumes by sector



- The bulk of the M&A activity (85%) took place in the **wealth management sector** where the volumes remained high among financial planning businesses and discretionary fund managers (as reflected under “advisers” and “managers” in the chart below, respectively).
- This sector includes over **5,500 financial planning entities** that are directly FCA authorised in our records of which **94% are estimated to be worth less than £5m** each. Hence, many transactions in the subsector will have been excluded in our data (being below £5m of value).

UK investment sector M&A – annual announced transaction volumes by subsector since 2017



1. IMAS began recording data for Support Services Providers in 2021

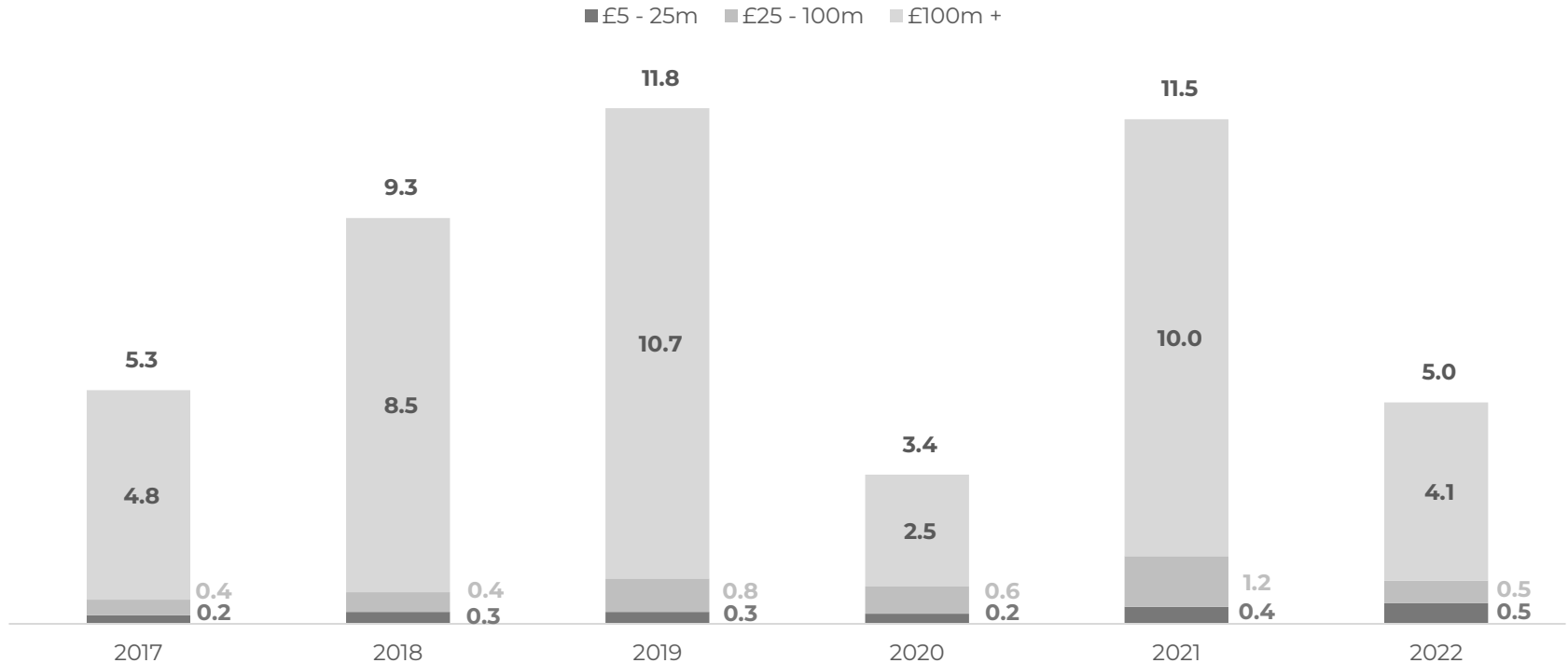
source: IMAS-Insight

7. Transaction values by size



- We estimate that the aggregate value of the 68 M&A transactions in the UK investment sector referred to on the previous pages amounted to **£5.0bn**.
- This is **56% below last year** when the number of transactions above £25m of value was the highest in five years.
- Accordingly, the decline in aggregate values was caused by a **sharp drop in larger transactions**.
- However, the value of transactions below £25m **increased by 20%** against 2021 and reached a **record high of £0.5bn**.

Value of announced UK investment sector M&A (all deals above £5m value) 2017-2022 – by size in £bn

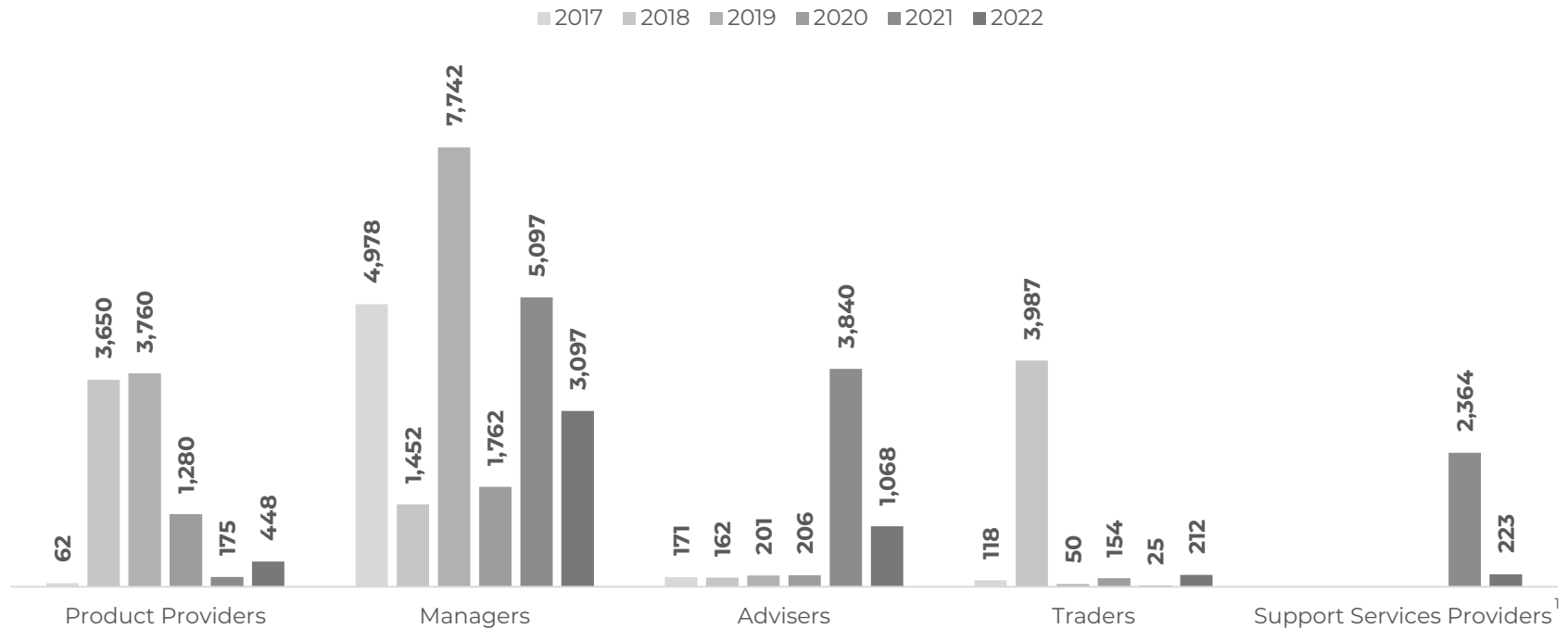


source: IMAS-Insight

8. Transaction values by sector



Value of announced UK investment sector M&A (all deals above £5m value) 2017-2022 – by subsector in £m



- The largest values were realised among the **managers of funds**. This included active managers of retail funds and alternative managers of institutional funds, as well as discretionary managers of private clients' funds.
- **Advisers also enjoyed a strong year** albeit below 2021, which saw an extraordinarily high aggregate value for deals in the advisory sector.
- Deal values and volumes in the other subsectors were relatively depressed compared to previous years.

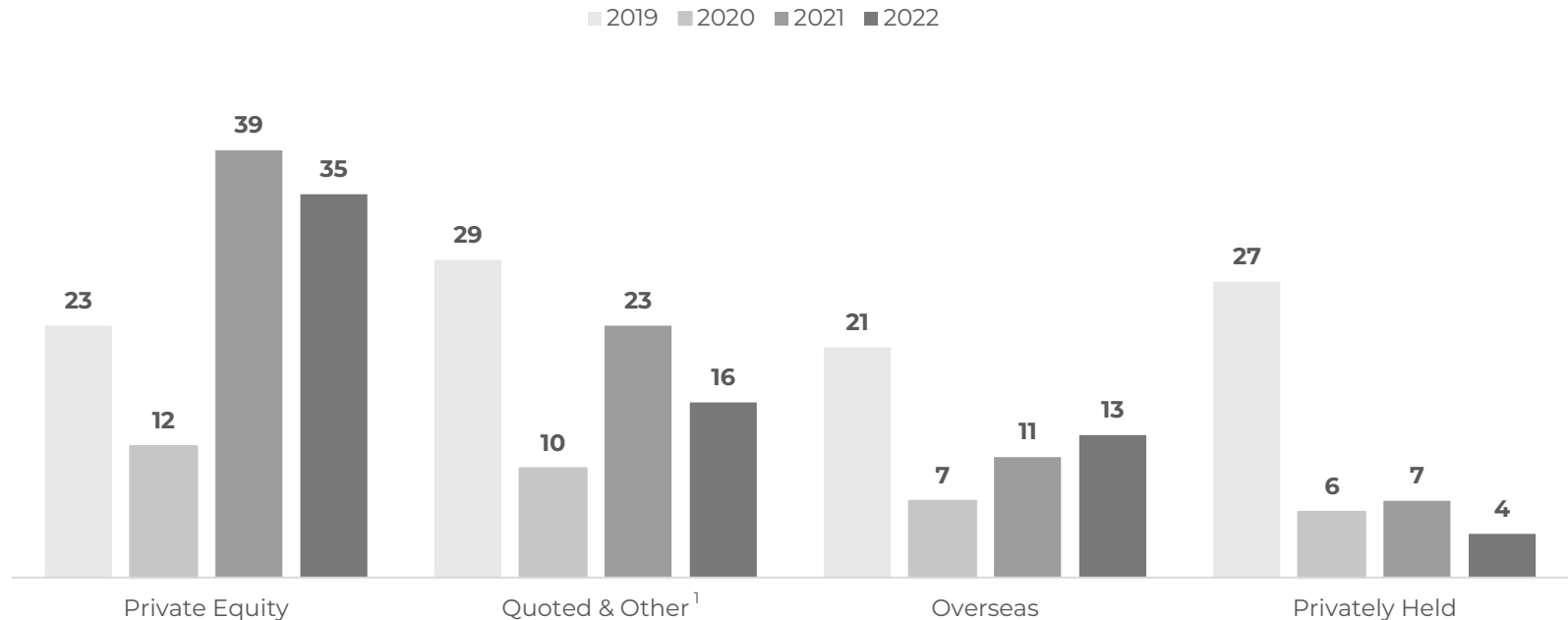
1. IMAS began recording data for Support Services Providers in 2021

source: IMAS-Insight

9. Who bought?



UK investment sector M&A (deals above £5m) 2019-2022 – M&A volumes by type of acquirer



- **Private equity**, either investing directly or via their portfolio companies, have **remained the most active acquirers** in the sector, accounting for over **half of all deals** recorded. Many private equity funds supported multiple transactions via 30+ consolidators during the year, including The Carlyle Group, Pollen Street and Further Global Capital.
- **Public companies**, represented by large groups such as M&G, Lloyds Banking Group and Brooks Macdonald, were **also active** but not to the same extent as in 2021 and 2019.
- **Interest from overseas companies continued to rise** but was dominated by groups with existing substantial operations in the UK, including Canaccord Genuity, RBC and Investec.

1. Other includes mutual societies or friendly societies

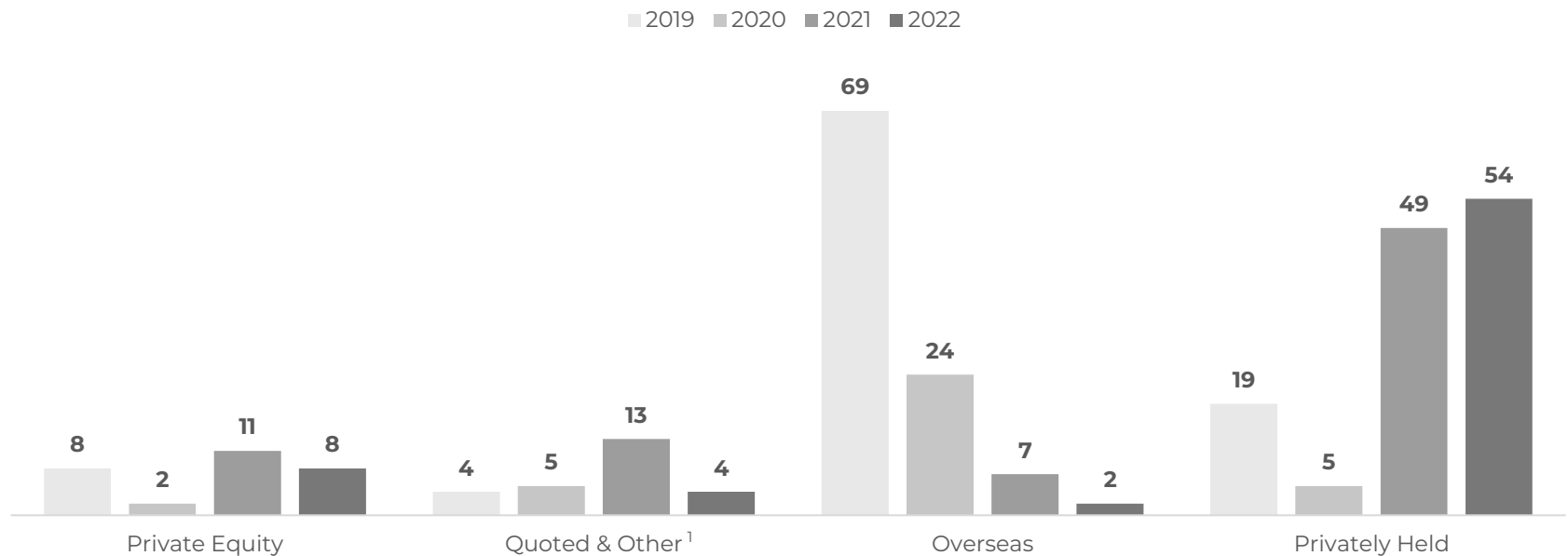
source: IMAS-Insight

10. Who sold?



- Unsurprisingly, the largest cohort of sellers by far were private owners of businesses in which they, in many cases, were also involved in as managers. No less than **54 privately held companies** with a value of over £5m were sold during the year, accounting for **almost 80% of all deals**.
- The second largest group of sellers were **private equity funds which took the opportunity to exit** their investments on the back of strong demand from other private equity funds and strategic acquirers.
- A **few public companies were taken private**, including Brewin Dolphin and River & Mercantile, contributing to the continuing decline in listed companies in the sector.
- The number of ultimately **overseas owned companies sold continued to decline** from the very high levels seen in the immediate aftermath of Brexit.

UK investment sector M&A (deals above £5m) 2019-2022 – M&A volumes by type of seller



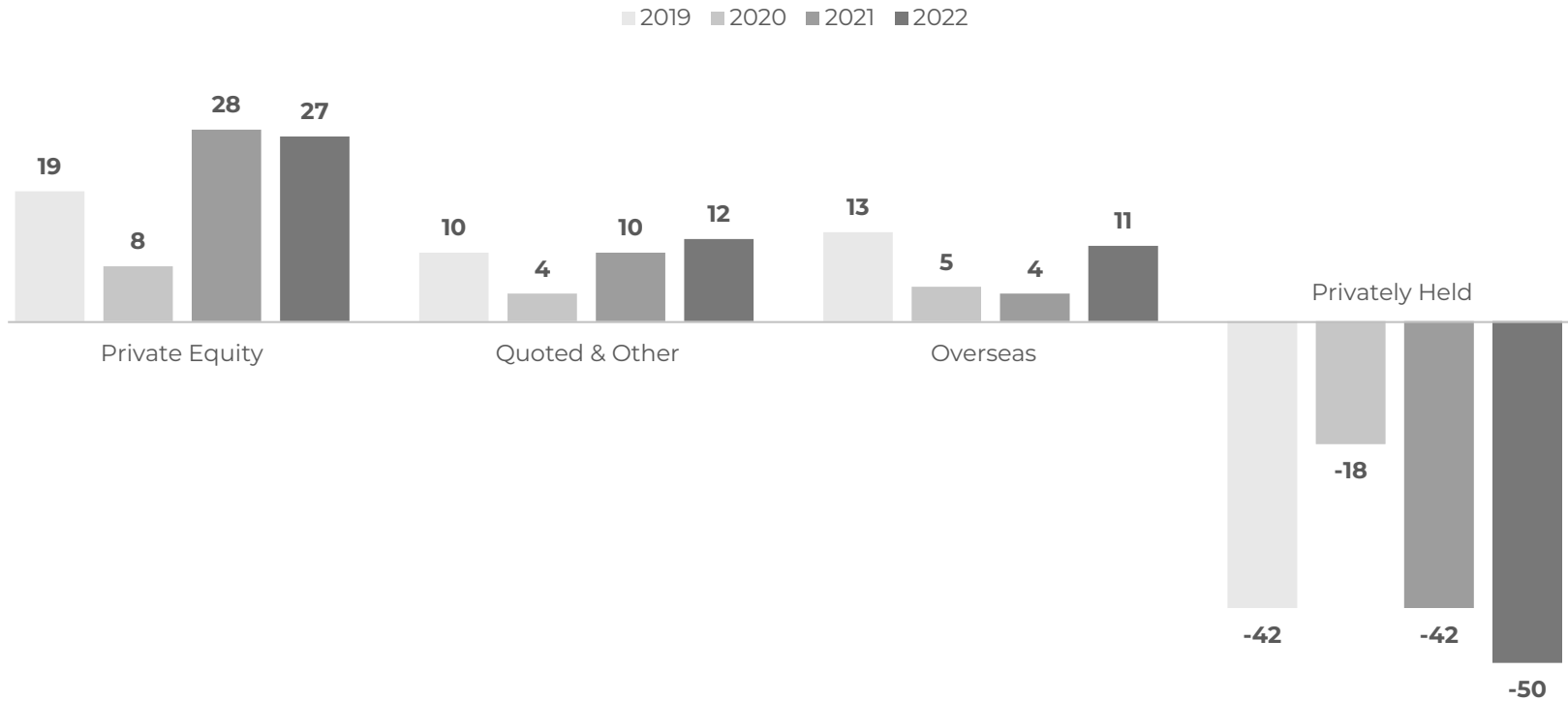
1. Other includes mutual societies or friendly societies

source: IMAS-Insight

11. Shifting ownership



UK investment sector M&A (deals above £5m) 2019-2022 – net result of the transaction flows of buyer categories



- The net deal flows demonstrate how **ownership is being transitioned to private equity funds**. They have been consistent net buyers of businesses for the last four years.
- We have also seen a gradual **increase in ownership by public and overseas companies**. With good access to capital, they

have been making strategic acquisitions and taken advantage of the weakened pound sterling.

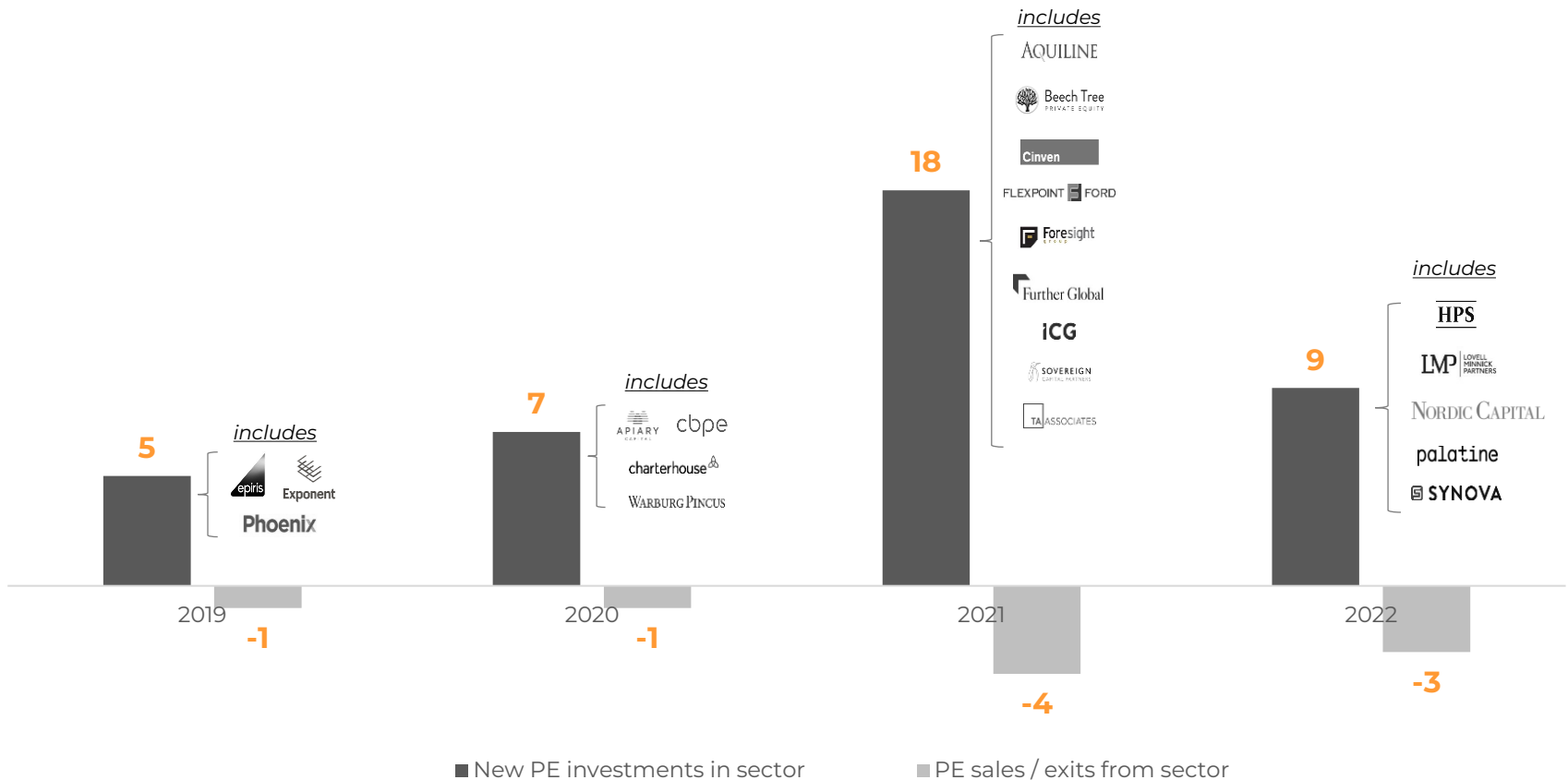
- As in previous years, the clear **net sellers of businesses have been private individuals**. A **record net number of 50** privately owned companies were sold during the year.

source: IMAS-Insight

12. Direct investments and exits by private equity funds



Number of deals announced by private equity funds directly investing and disinvesting in the sector

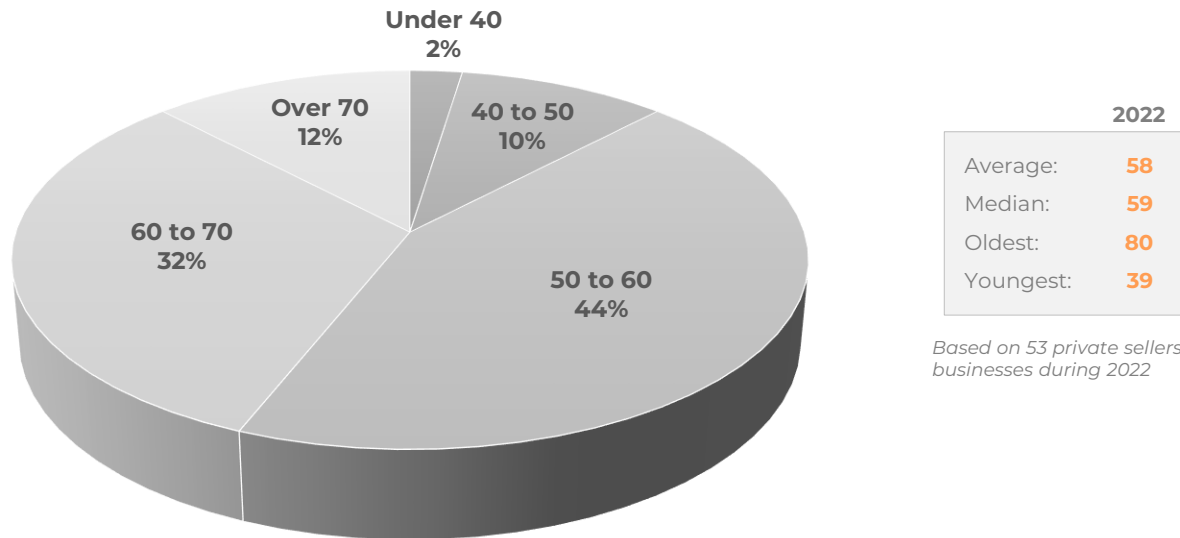


source: IMAS-Insight

13. Demographics of individuals selling businesses



Age of private owners who sold UK investment sector businesses during 2022 – proportion of total & age bracket



Based on 53 private sellers of businesses during 2022

source: IMAS-Insight

- Many private individuals who sell their businesses are in the age groups when **retirement plans** start to develop.
- But there are plenty of other reasons why business owners opt to sell at that age. The growth of the business may **begin to mature** or has reached a size when it is becoming **increasingly complex** to manage.
- In the natural cycle of development of a business that may not happen until it has been **established over a couple of decades** or more.
- Perhaps more importantly of late has also been the **change in capital gains tax legislation**. This may have prompted owners to bring forward their plans to sell and allowed buyers to accelerate the execution of transactions.

14. Valuations



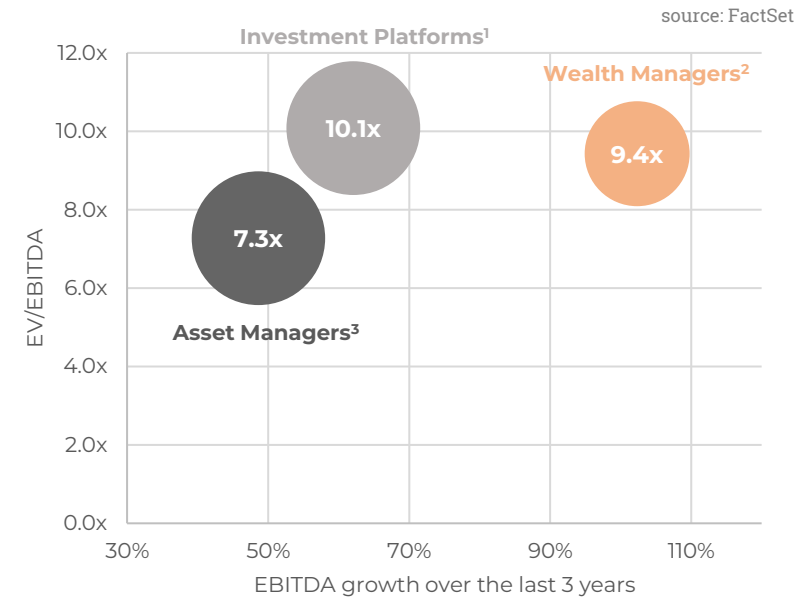
14.1 Quoted companies in the investment sector

- During 2022, valuation **multiples declined** across the sector. This was most noticeable among the investment platforms, where both Transact and Hargreaves Lansdown faced significant negative sentiment (and saw their share prices drop by 46% and 37%, respectively). This can be seen in graph below showing the enterprise values (EVs) of the public companies against the brokers' forecast revenues falling by over 40% in the **challenging market conditions** during the year.
- This negativity was reflected in other parts of the sector that are also **reliant on AUM** for most of their earnings. Here, EV to expected revenues fell by over a quarter during the year.
- Despite their superior growth record, the market is not pricing the wealth managers' EBITDA as highly as in other sectors. It would seem that **the multiple is discounted for the growth being boosted by acquisitions**, which has required capital spending that is deducted in the cash proxy of EBITDA.

Development of EV/forecast revenue in 2022



EV/forecast EBITDA vs EBITDA growth record



1. Investment Platforms: AJ Bell, IntegraFin, and Hargreaves Lansdown
 2. Wealth Managers: St James's Place, Brooks Macdonald, Mattioli Woods, Frenkel Topping, Kingswood, and Rathbones
 3. Asset Managers: Abrdn, Ashmore, Impax, Jupiter, Liontrust, M&G, Man Group, Nintey One, Polar Capital, Premier Miton, Schroders, and Tatton

14. Valuations



14.2 Transaction multiples in the investment sector

- We have chosen a sample of M&A transactions¹ in which we have good insights and access to accurate data on the terms of the deals and compared to our similar analysis in 2021.
- It shows a **sharp increase in average valuation multiples for wealth managers** while deals in the asset management industry have been agreed at lower multiples. Valuations for financial planning businesses did not change during the year.
- We would caution drawing definitive conclusions from the comparison as the sample sizes for both wealth managers and asset managers are limited.
- In addition, the EV/EBITDA multiples below show the maximum achievable and **do not reflect the contingencies** in the transaction structures that varied considerably across the deals.

UK Investment M&A – EV/EBITDA multiples in selected M&A transactions¹



1. Include: Kingswood's acquisitions of Strategic Asset Managers; Joseph Lamb FA; and EBS; Aviva's acquisition of Succession Wealth; Tavistock's investment in LEBC; AssetCo's takeover of River & Mercantile and SVM Asset Management; Tatton AM's acquisition of 8AM Global, Argentis's acquisition of Metis WM and Metis AM; Hawksmoor's acquisition of Core Brown IM; RBC's takeover of Brewin Dolphin and Investec Wealth & Investment's purchase of Murray Asset Management.



Trends to look out for

1. Valuation multiples remaining high

- The wall of money being committed to consolidation of the advisory sector will help maintain liquidity and support multiples at attractive levels for owners of, not only large strategic targets, but also smaller bolt-on targets ...
- ... However, declining risk appetite among acquirers may cause transaction structures to become more biased towards contingent earn-outs.

2. More institutional ownership

- Private equity funds involvement will transform parts of the sector from being predominantly a “cottage industry” to becoming more “institutionalised”.....
- ... which could have a profound impact on the sector in the medium term as it becomes governed by a different set of decision-makers and accountable to more stakeholders.

3. Consolidation of the consolidators

- Private equity investors may review their exit options where sufficient scale has been achieved and valuation multiples remain high, especially if ...
- the multiple arbitrage of buying small for small multiples and sell large for large multiples may diminish if valuations of smaller businesses increase.

4. Organic growth increasingly in focus

- The “buy & build” model will be tested by its ability to successfully create growth from integrating acquired businesses and ...
- be valued higher if it can demonstrate underlying organic growth supported by coherent sales and marketing strategies.

5. Consumer Duty obligations will start to have an impact

- Advisers will broaden their propositions and define strategies to cater for clients with different needs and sizes of wealth.
- Systems and technology will play an increasingly important role in addressing the pressures of costs in managing clients’ assets and compliant advisory processes.
- Providers will continue to review their distribution channels and consider direct to consumer solutions.

16.1 Experienced M&A professionals in the investment sector



Fred Hansson
Partner

Background:

- JPMorgan Cazenove
- Handelsbanken
- Touche Ross
- BA, Durham University



Krzysztof Owerkowicz
Partner

Background:

- Pakenham Partners
- Jefferies
- Putnam Lovell
- MBA, Berkeley, California
- MA, BA, Harvard University



Foivos Lagios
Associate Director

Background:

- Pakenham Partners
- Eurobank Group
- MSc, Imperial College



Raihaan Afzal
Associate

Background:

- Albourne Partners
- MSc, Imperial College

IMAS is an independent specialist adviser across UK financial services with an excellent reach across the investment sector and a highly skilled team with a comprehensive coverage of major buyers in the investment platform, wealth and asset management sectors, as well as adjacent markets:

- Training from major financial institutions and focus on M&A
- Specialist sector knowledge and expertise in financial services and wealth and asset management, in particular
- Strong project management capabilities and successful execution record

In addition to the investment sector coverage, the business has partners and other senior personnel focused on M&A advisory in the insurance and other segments in financial services.

16. About IMAS



16.2 One of the most active advisers in UK investment sector M&A





























<p>MAM MURRAY ASSET MANAGEMENT</p> <p>Sale to</p> <p>Investec</p>	<p>metis</p> <p>Sale to</p> <p>Hurst Point GROUP</p>	<p>GBIM GORE BROWNE INVESTMENT MANAGEMENT</p> <p>Sale to</p> <p>HAWKSMOOR INVESTMENT MANAGEMENT</p>	<p>Mattioli Woods plc</p> <p>Acquisition of</p> <p>LUDLOW</p>	<p>Appian Asset Management</p> <p>Sale to</p> <p>Gresham House</p>	<p>radiant financial group</p> <p>Sale to</p> <p>APIARY CAPITAL</p>
<p>PWM</p> <p>Partners Wealth Management</p> <p>Sale to</p> <p>7IM</p>	<p>BROWN SHIPLEY A QUINTET PRIVATE BANK</p> <p>Sale of EBC business to</p> <p>Becketts</p>	<p>MOBIUS LIFE</p> <p>Sale to</p> <p>Phoenix Equity Partners</p>	<p>Souter INVESTMENTS</p> <p>Investment in</p> <p>LIKEZERO</p>	<p>THOMAS MILLER INVESTMENT</p> <p>Wealth Management</p> <p>Sale to</p> <p>cg/Canaccord Genuity Wealth Management</p>	<p>CS FINANCIAL SOLUTIONS</p> <p>Sale to</p> <p>BROADSTONE</p>
<p>PORTUS</p> <p>Sale to</p> <p>AON</p>	<p>C. Hoare & Co. PRIVATE BANKERS SINCE 1872</p> <p>Sale of investment platform to</p> <p>cg/Canaccord Genuity Wealth Management</p>	<p>Rowanmoor GROUP PLC</p> <p>Sale to</p> <p>embark group</p>	<p>MOBIUS LIFE</p> <p>Sale of DC book to</p> <p>Scottish Friendly</p>	<p>THOMAS MILLER INVESTMENT</p> <p>Acquisition of</p> <p>BROADSTONE WEALTH MANAGEMENT</p>	<p>SKIPTON BUILDING SOCIETY</p> <p>Sale of PHP to</p> <p>Punter Southall</p>

Note: – full list of credentials can be seen at www.imas.uk.com

16. About IMAS



16.3 An active adviser in UK insurance distribution M&A

 <p>Cash offer by</p> 	<p>Fleet and Commercial Insurance Brokers</p>  <p>Sale to</p> 	<p>Christopher Trigg INSURANCE BROKERS</p> <p>Sale to</p> 	 <p>Sale to</p> 	<p>ProAktive</p> <p>Sale to</p> 	 <p>Sale to</p> 
 <p>Sale to</p> 	<p>MANCHESTER UNDERWRITING MANAGEMENT</p> <p>Sale to</p> 	 <p>Sale to</p> 	<p>N&R NOWELL & RICHARDS</p> <p>Sale to</p> 	<p>MS amlin Haven Knox-Johnston</p> <p>Sale to</p> 	 <p>Sale to</p> 
<p>MS amlin irs</p> <p>Sale to</p> 	 <p>HIGHWORTH INSURANCE</p> <p>Sale to</p> 	<p>COBRA INSURANCE BROKERS LTD</p> <p>Sale to</p> 	 <p>Sale to</p> 	<p>AstonScott Group plc</p> <p>MBO backed by</p> 	 <p>Stackhouse Poland</p> <p>MBO backed by</p> 

Note: – full list of credentials can be seen at www.imas.uk.com

16. About IMAS



16.4 IMAS-Insight

Our database:

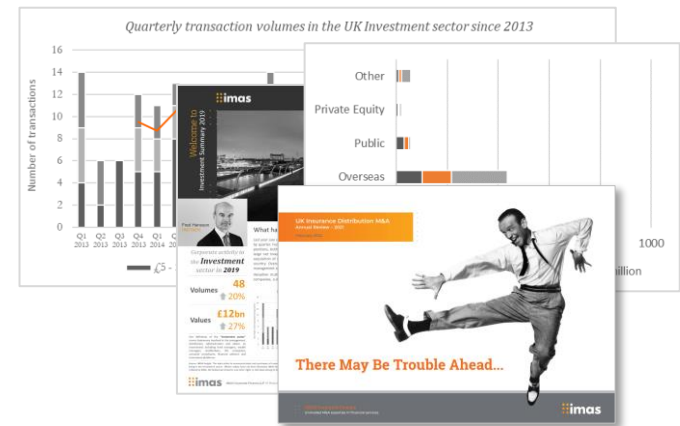
- Unique internally developed database maps the entire financial services landscape in the UK
- Pulls in real time data from FCA and Companies House
- Records all changes of control, enabling close insights into M&A developments
- Factual data overlaid with >60,000 cross-referenced qualitative inputs

In figures:



What this means for our clients:

- Comprehensive sector view – every potential buyer is captured
- We share IMAS sector knowledge – insights built up over many years
- Powerful tool for analysing the sector – backed up by our experience and relationships
- Ideas and insights on buyers – unmatched by peers



17. Sources of data and definitions



This review is based on IMAS's analysis of transactions that were announced in the investment sector in the UK sourced from our own database, *IMAS-Insight*, as described on page 25.

All the data in this document refers to announced sales and purchases of companies and businesses, each with an actual or estimated value of £5m or more, based in the UK and defined as being in the "investment sector".

Where values have not been disclosed, IMAS has estimated the values based on available data. The data used in *IMAS-Insight* has been obtained, verified and collated by IMAS. All intellectual property and other rights in that data belong to IMAS and you may not exploit our data without our express written consent.

Our definition of the "investment sector" covers businesses involved in the management, distribution, administration and advice on investments, as well as providers of support services to the sector, including:

- Asset Managers;
- Wealth Managers;
- Stockbrokers;
- Life Companies and Mutuals;
- Actuarial Consultants;
- Employee Benefits Consultants;
- Financial Advisers;
- Pension and Fund Administrators; and
- Investment Platforms.



