

Offshore investors are looking to benefit from Australian planners' high profit margins

By [Glenn Freeman](http://www.professionalplanner.com.au/author/glenmf/) (http://www.professionalplanner.com.au/author/glenmf/) | July 12, 2015

Despite persistent complaints about threats to their profitability, Australian financial planners' profit margins are high relative to other areas of financial services, and foreign players are watching closely.

"You're closest to the client," says Greg Quinn, a director of Chase Corporate Advisory.

"So while the fundies are getting squeezed on MERs [management expense ratios] and the platforms are getting squeezed on costs, the adviser, despite all the complaining, is actually holding up pretty well.

"Yes, we're seeing it already. There's definitely significant foreign interest in this market. The offshore players can all see it, the margin in that [part of the] industry is most likely to be maintained," he says.

Chase is an investment bank and consultant on mergers and acquisitions – particularly from the sell side – for medium to large financial services companies, including financial planning businesses. Quinn says it has some significant deals in the pipeline, involving foreign companies buying into local dealer groups, which he expects will come to fruition within the next six months.

"They're predominantly interested in financial advice...in a small number of large business with more than \$1 billion in funds under advice," he says, without revealing details, due to commercial sensitivities.

[Next Generation Advisory Group, headed by Paul Barrett with financial backing from Italian fund manager Azimut](http://www.professionalplanner.com.au/featured-posts/2014/11/10/barrett-returns-with-100-million-and-a-vision-for-financial-planning-32218/) (http://www.professionalplanner.com.au/featured-posts/2014/11/10/barrett-returns-with-100-million-and-a-vision-for-financial-planning-32218/), is one of the first structures marrying foreign capital with local planning businesses. Quinn says there will be others, "involving large, high profile, non-aligned businesses. I think that'll be an emerging trend."

A seller's market

He believes a variety of factors, including market conditions and the regulatory environment, are driving merger and acquisition activity between locally-based financial planning groups.

“The culmination of [the Future of Financial Advice framework’s] grandfathering provisions being sorted, cheap debt, and markets holding up is providing a pretty good environment for people that do want to sell,” Quinn says. “There are still more buyers than sellers, significantly more, but it does depend on the size.”

For deals valued at less than \$5 million, he estimates Chase has between five and seven interested buyers for every vendor, with this number declining as the transaction scale increases.

Quinn says merger and acquisition activity between accounting firms and planning businesses is also ramping up. He attributes this more to the demographics of their senior management teams than to other factors, such as the new licensing regime set to take effect from July 1, 2016.

Chase helped broker the [\\$200 million transaction between ASX-listed accounting firm Crowe Horwath and Findex Group](#), and also the [\\$130 million sale of Centric Wealth](#) (<http://www.professionalplanner.com.au/featured-posts/2015/04/27/the-volkswagen-of-financial-services-revs-up-as-findex-drives-efficiency-gains-from-acquisitions-36144/>).

Anecdotally, 55 is the average age of Australia’s financial planning practice principals, and Quinn suggests accounting practice heads are around the same age or older. “Generally there’s a trigger event around succession or a health scare, a divorce, a partnership breakup,” he says.

Quinn sees inertia on the part of principals, rather than competition from other brokerage consultants, as his core challenge. He believes accountants are often even less prepared for succession than their financial planning counterparts. “Just the other day, I was speaking with a 66-year-old accountant who still had no plan,” he says.

Quinn says a similar convergence trend, with accounting and financial planning practices partnering up, is also taking hold at a smaller practice level. He is currently working with one hybrid business that has around \$1 million of planning revenue and \$1.5 million of accounting revenue, “and there’s a lot of those out there.”

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Glenn Freeman is a senior journalist for Professional Planner. He has around three years' experience in financial services journalism, having also covered broader areas of business including M&A activity and energy. His journalistic experience includes five years spent abroad, where he was editor of an oil and gas title in the United Arab Emirates along with other in-house and freelance projects, which included stints in motorcycle and automotive journalism.