

DKN Case Study

Practice 'ABC' were known to DKN and had always been considered a strong practice in respect of people and their client base. They wrote quality business.

The largest shareholder had begun to put in training a succession plan which was based around offering the two senior advisers equity in the practice. This transaction occurred and the two senior advisers took up shareholdings in the business.

While the business continued to perform at a reasonable level the largest shareholder decided that he was at the age and stage of life where he wanted to exit. This suited the other equity holders as they were engaged and committed to the business and wanted to drive its growth forward. They were not just content with relying on the businesses solid recurring revenue base to continue to translate to profits. They wanted to step up and drive the organic growth as well as being able to take advantage of strategic acquisition opportunities as they arose.

The main issue for these remaining two shareholders was that they were not in a position to comfortably buy out the exiting partner and put in place the plans they had for the business. It was a stretch too far from a financial comfort position and would not leave them any reserves to act on opportunity or continued investment in the business.

At the same time they were not keen to be incorporated into an institutional network as they valued their independence.

DKN became aware of this situation and began discussions with the remaining shareholders. These centred around DKN undertaking a minority equity position in the business which would allow the exiting shareholder to be paid out and also allow the remaining two partners to increase their shareholding but not stretch themselves financially. We were impressed by the entrepreneurial nature of the principals and their desire to continue to maximise both organic and acquisitive growth channels. At the same time the business was seeking to implement operational efficiencies which would free up the advisers time to generate income. This included formalisation of the Board Meetings (structure and reporting) and financial reporting and assessment.

As part of the transaction DKN was also able to assist the remaining shareholders in the appropriate valuation of the business, negotiation with the exiting partner, project management of the deal, and through our contacts and by having a 'seat' at the table, to assist the remaining shareholders with sourcing finance. This meant that the remaining equity partners were able to continue to work in the business and not be 'too' distracted by this process.

From the time of our investment, until the current date, the business has continued to grow strongly and has provided a growing return on investment for all shareholders. EBIT has grown at an accelerated rate and this has translated to increased dividend and capital returns to all shareholders.

Over this time the practice has lifted its 'Net Profit Margin', 'Recurring Income' ratio and 'New Business' ratio. 'Profit per partner' is above industry benchmarks.

DKN's role has allowed the business to maximise opportunity and while no additional acquisitions have as yet been completed, the business has assessed a number and is likely to finalise a key opportunity in the short term. DKN has provided valuable support (legal and financial) as part of these assessments. The business has increased its services offered (and thus diversified its income) to encompass direct broking, risk and finance as well as traditional financial planning revenues.

Throughout this backdrop of change, client retention has been strong and staff turnover low. A further sell down of shareholding also occurred with two additional members of the business stepping up to take on an equity position. This enabled the business to lock in two key staff members who have a vested interest in the business growth. It is also a small step towards ensuring that there is a succession strategy for themselves and has help to dilute key person risk. As part of DKN's initial buy-in the corporate structure of the business was streamlined to ensure these events are easily handled by the business and a platform for participation has been agreed to.

The business clearly fits DKN's ideal partner – a practice who seeks to outperform industry averages for business profitability and business efficiency and who know and understand the dynamic environment they operate within.

Our ideal partner is collaborative, commercial, service oriented and client focussed. They are seeking a business partner, as we are, who understands our value proposition. They recognise opportunity and want to be in a position to capitalise on the same.