AP CAPITAL RESEARCH

M&A Deal of The Week Hargreaves Lansdown

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DATE

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Executive Summary

M&A DEAL OF THE WEEK

Deal Summary

- On September 14, 2024, CVC Capital Partners, Nordic Capital, and the Abu Dhabi Investment Authority (ADIA) finalized their agreement to acquire Hargreaves Lansdown, following the initial deal announcement on August 9, 2024.

- The acquisition, structured as a cash transaction, values Hargreaves Lansdown's equity at approximately £5.4 billion, equating to £11.40 per share. The total enterprise value, including net debt, is estimated at £4.6 billion.

- Shareholders will receive £11.40 per share in cash, reflecting a 22% premium over the company's closing price of £9.34 before the announcement. The deal encompasses Hargreaves Lansdown's entire wealth management and investment operations, including its leading digital platform in the U.K. and associated advisory services.

- The consortium intends to retain the company's operations in Bristol, focusing on strengthening its digital infrastructure and customer service capabilities.

- This acquisition is expected to bolster Hargreaves Lansdown's position in the U.K. wealth management market while facilitating further expansion into fintech. The consortium aims to drive growth through enhanced digital offerings, ultimately improving the customer experience.

- Rothschild & Co. is serving as the lead financial advisor to Hargreaves Lansdown, with Slaughter and May acting as legal counsel. Goldman Sachs & Co. LLC and Evercore Inc. are advising the consortium, supported by Freshfields Bruckhaus Deringer LLP as legal counsel.

Key Figures

HL Deal Premium: 22%
HL Price-to-Earnings (P/E): 17.93x (TTM)
HL Price-to-Book (P/B): 6.44x
HL Debt-to-Equity (D/E): 1%
HL Enterprise Value (EV): £4.6 billion
HL EV/EBITDA: 11.66x (TTM)
HL EV/Sales: 6.03x (TTM)
HL Market Capitalization: £5.24 billion
HL Revenue 3Y CAGR: 6.62%

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Company Information

M&A DEAL OF THE WEEK

Hargreaves Lansdown (LON: HL)

- Founded in 1981 and headquartered in Bristol, Hargreaves Lansdown is the UK's biggest stockbroker, with almost 1.9 million customers and £155 billion AUA (assets under administration). As well as providing products tailored to individual investors such as ISAs and SIPPs, the company also provides financial advice to employers seeking to encourage beneficial financial decisions amongst employees.
- The company was first listed on the London Stock Exchange in 2007. As of August 2024, in the past 5 years, its stock price has fallen by approximately 46% to £11.75. This issue was criticised by the co-founder, Peter Hargreaves himself, in 2023.
- Between June 2023 and June 2024, Hargreaves Lansdown encountered a fall in profit before tax from £402.7 million to £396.3 million. This decline is also reflected by a fall in earnings per share (EPS) by 10% in the same period. Despite this, total revenue increased by 4% to £764.9 million, suggesting a proportionately greater rise in costs. This is confirmed by operating costs increasing by 7.6% to £338.5 million within this timeframe.
- Hargreaves Lansdown's key future strategies include enhancing the digital experience for clients, enabling staff to use AI to provide better customer service, and leveraging economies of scale to mitigate the costs of further growth.

Consortium of CVC, Nordic Capital, and the Abu Dhabi Investment Authority (ADIA)

- Based in Luxembourg, CVC is one of the largest private equity firms in the world, raising £26 billion worth of private equity in 2023. Its fund also had an exceptionally strong year of growth in 2023, with a 22.8% return for GBP investors, the highest since the fund's IPO.

- Nordic Capital is based in Sweden and mainly focuses on investments in Northern Europe. The company has 56 companies in its current portfolio, which has generated a revenue of €17.9 billion. Its investments are particularly skewed towards healthcare, technology, and financial services.

- ADIA invests on behalf of the Government of Abu Dhabi and notably manages the city's oil reserves. Though its projects have been regarded as secretive, it is known that the fund manages assets almost worth $1 trillion. It is also believed that ADIA will be a financial investor rather than a strategic investor in this takeover, suggesting low levels of involvement in the day-to-day operations of Hargreaves Lansdown.

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Deal Rationale and Risk

M&A DEAL OF THE WEEK

Strategic Investment for Technological Advancement and Market Leadership

- The acquisition of Hargreaves Lansdown by the consortium of CVC Capital Partners, Nordic Capital, and Abu Dhabi Investment Authority marks a significant moment in the U.K. wealth management sector. Valued at £5.4 billion, the deal highlights private equity's growing interest in larger firms. With over £155 billion in assets under management, Hargreaves Lansdown holds a dominant share of the U.K. retail investment market, making it an attractive acquisition target.

- The consortium's primary focus will be on upgrading Hargreaves Lansdown's technology platform, an essential move in the face of competition from digital-first platforms like Vanguard and Robinhood. This modernization aims to improve operational efficiency and client offerings, positioning Hargreaves Lansdown to meet market demands better.

- The backing of co-founders Peter Hargreaves and Stephen Lansdown provides additional confidence in the firm's direction. Their involvement reassures clients and investors during this transition, strengthening the company's foundation as it shifts to private ownership. The deal reflects private equity's confidence in the future of the wealth management sector, particularly in companies that can innovate and adapt to changing industry dynamics.

Risk

- The acquisition comes with several risks. Competition in the wealth management sector is intensifying, with digital platforms gaining ground. Hargreaves Lansdown must implement the planned technology upgrades quickly to retain its market position. A failure to do so could lead to a loss of competitiveness, especially as clients increasingly seek digital services.

- The shift to private ownership may also cause some disruption. Shareholders who cannot or prefer not to hold shares in a private entity might sell, potentially leading to volatility. Additionally, the financial burden of the acquisition and the necessary technology investments could stretch the company's resources, particularly if market conditions worsen or improvements don't deliver the expected results

- Finally, private equity ownership often brings pressure for strong returns, which could prompt cost-cutting or strategic changes that risk alienating clients. Since trust is key in the wealth management industry, any significant changes to service or strategy could harm client relationships. Managing these risks will be critical to ensure the success of the acquisition.

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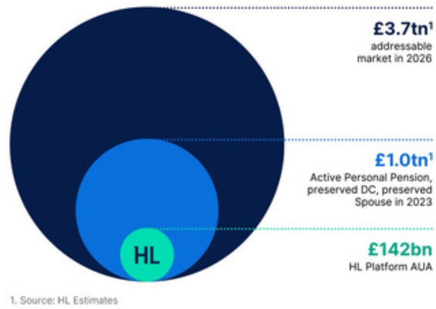
Industry Analysis

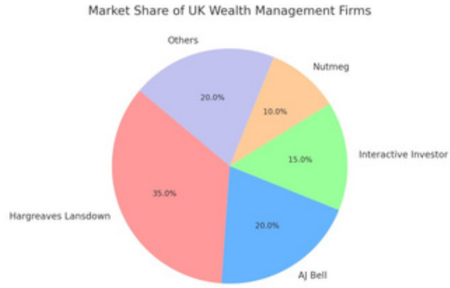
M&A DEAL OF THE WEEK

Financial Services and Wealth Management Industry



Digitisation, fintech innovation, and shifting client preferences are driving significant transformations in the wealth management business. Global wealth management is projected to grow, but it will face increased competition from fintech companies, robot advisors, and direct-to-consumer platforms that offer lower fees and better digital experiences.

Hargreaves Lansdown has historically dominated the UK industry, but rivals such as AJ Bell, Interactive Investor, and digital-first platforms like Nutmeg are quickly gaining traction. The increased adoption of digital solutions and personalized financial advisory services by younger generations is leading to heightened demand for innovation and cost efficiency.



Key Industry Trends

1. Fintech Disruption: Digital platforms offer personalised investment instruments at lower costs.
2. ESG Investments: Investors seek portfolios that match with Environmental, Social, and Governance (ESG) aspects, driving organisations to include ESG services into their platforms.
3. Hybrid Models: Many firms are transitioning to hybrid advisory models, blending automated investment solutions with human advisory services to cater to a wider demographic of clients.

Key Threats and Hargreaves Lansdown's Strategic Position

Increased Competition from Fintech Startups

Fintech firms pose a serious threat since they provide low-cost, user-friendly digital platforms, frequently targeting underserved demographics such as millennial and Generation Z investors. Interactive investor, Nutmeg, and Moneybox offer a streamlined digital experience that draws new investors with low fees and creative tools.

Customer Retention and Trust

Hargreaves Lansdown has a loyal clientele that relies on its platform for reliable, user-friendly financial advice and investment solutions. However, private equity ownership generally results in cost-cutting initiatives. If CVC, Nordic Capital, and the Abu Dhabi Investment Authority decide to reduce HL's operations or change its price structures, it may lose existing clients.

Hargreaves Lansdown's Position

The acquisition is an opportunity to utilise Hargreaves Lansdown's massive customer base and strong exposure to grow into more diverse financial services, incorporating cutting-edge technology such as robo-advisory and algorithm-driven portfolio management. Strategic initiatives are frequently used by private equity firms to streamline operations, reduce costs, and accelerate growth. The consortium could advocate for faster technological adoption in order to improve user experience, cut expenses, and increase market share.

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Final Thoughts

M&A DEAL OF THE WEEK

Adithya Praveen.
Recent months have seen a notable uptick in mergers and acquisitions within the wealth management sector, exemplified by high-profile deals such as Société Générale's recent sale of their wealth management arm and now with the acquisition of Hargreaves Lansdown. This surge in activity may reflect broader strategic responses to the evolving landscape shaped by the U.K. government's labour laws and regulations. As these regulations potentially introduce new compliance costs and operational constraints, they could pose significant hurdles to growth.

Moomal Sethar.
In recent years, the UK has witnessed significant competition in its wealth management sector. Bidders like Nordic Capital and CVC, with their experience in technological investments, present an opportunity for Hargreaves Lansdown to improve its technological capabilities and potentially reduce costs, strengthening its competitive position. This is particularly important in light of the criticism from Hargreaves Lansdown's co-founder, Peter Hargreaves, who pointed out concerns over the company's rising operational expenses and declining stock price.

Genendra Gurung.
The acquisition of Hargreaves Lansdown presents immediate access to a leading wealth management platform, with the potential to optimize operations through technological integration. Short-term benefits from this acquisition are undoubtedly increased customer satisfaction and operational efficiencies, which will increase Hargreaves Lansdown's digital offerings. Long-term advantages include the potential of growing the business globally and profiting from emerging industries like fintech and robo-advisors while preserving Hargreaves Lansdown's renowned reputation.

Samuel Thompson.
The acquisition of Hargreaves Lansdown by CVC Capital Partners, Nordic Capital, and ADIA seems mutually beneficial, especially with the challenges the company has been facing around operational costs. By bringing in the consortium's expertise, there's a good chance Hargreaves Lansdown can really boost its digital capabilities and streamline its processes. This move could make the company more competitive in a fast-changing market, while also exploring new growth areas like fintech. It feels like a solid step towards not only improving day-to-day operations but also ensuring long-term growth and innovation for both customers and shareholders.

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