

Growth Through Acquisitions

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- How firms are strategising the strengths of potential targets v's the weaknesses of your own firm
 - Critical Mass
 - Client proposition
- Team capabilities
- Other reasons for buying/ reasons for Selling
- Approaching potential targets
- How to gather information
- Negotiating acquisition terms
- Taking a leaf out of “PE Houses”



Contents – process of buying - checklist

- Identifying firms that are perfect for acquisition
- Size of firm
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- Client average fee
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Industry Update

Why are PE backed consolidators crawling all over us ?

- Last bastion of trust in business
- 20% growth
- Reliable income stream
- Demand & supply
- 20% EBITDA
- Technology rewards scale
- Capital/finance – Invest in people – supply lead industry
- Wider share ownership

Industry Update – 27 PE backed consolidators

- Ascendant – sub £2m acquisitions UK
- Cow Corner – Galloways & Mitchell Charlesworth (>£30m t/o)
- Wilson partners – 5 offices around London
- TC Group – 50 offices UK
- Sumer – 9 acquisitions across UK (>£100m t/o)
- Gravita – 4 acquisitions London
- ETL – 17 offices UK
- Asets - > £500m UK
- Xeinadin - >100 offices UK & Ireland
- Mitten Clark, Dains, Shaw Gibbs, Cooper Parry & Kingston Smith, AAB & Sagars, Duncan Topliss, Kreston Reeves, BKL, BK Plus

Strategising - Strengths Of Potential Targets V's The Weaknesses Of Your Own Firm

- Age profile of partners (& team)
- Critical Mass - PTO
- Client Loyalty
- Team Loyalty
- Team skills
- Client Proposition
 - Wealth Management, Tax Planning, Corp Fin, Cloud proposition, Auditing....
- Office
 - Location, size & suitability (Virtual office environment)
- Delinquent work/poor PR

Critical Mass

- Technology rewards scale
- Scale attracts talent
- Client proposition & Team capabilities
 - Compliance
 - IT lead, workflow, efficiencies
 - Added Value
 - Tax
 - Business Advisory
 - Wealth Management
 - Funding as a service
 - FX – the NEW one
 - Corporate Finance & Restructuring
 - Systemising businesses

Other Reasons For Buying

- Penetrating a new market
- Creating a larger presence in current market
- Gaining critical mass
- Obtaining client base
- Obtaining expertise
- Obtaining people
- Obtaining resources
- To reinforce market dominance
- To improve profitability

Reasons For Selling (potential targets)

Look out for firms with these features

- Retirement age
- NO obvious Succession
- Staffing/Resourcing
- Struggling with monthly subscriptions
- Leadership succession or Loneliness
- Capital shortage
- Technologically challenged
- Regulation – Auditing, GDPR, AML, Wealth Management
- Just “had enough”

Approaching Potential Targets

- Tentative “non offensive” email, letter, phone call
- Use of brokers, 2020, or 3rd parties (local solicitors, estate agents, IFA’s etc)
- LinkedIn
- Exploratory meeting
 - Off site
 - Lunch/supper
 - Agenda
 - Issues & succession planning

Dear David

Can we talk ?

For all the right reasons, I have been asked to help a 2020 member address their succession plans – One approach is to see if there are any like minded firms in the area with potentially similar concerns – how are we dealing with;

the next generation,
ownership and management succession,
Finding the capital to support
the ownership transition,
investment in technology and, of course
Talent and resources

My client is very willing to, and already has, engaged with like minded firms with an open mind – 1+1 doesn't have to add up to 2 & in fact, if done correctly, it should be much more than that.

I hope you will forgive me approaching you as you may have your own succession plans sorted and in hand. However if this conversation sounds interesting, there is nothing to lose by chatting and seeing if it makes sense for you.

Please do let me know whether this might be of interest to you and I will progress matters.

Very best wishes

Gordon

Information Gathering



Cultural fit Alpha Dog
Profitability Name of Firm

3. Completion

Executive Summary

The executive summary should be brief and directly relevant to the purpose of the review. It should enable a senior executive of the client to address quickly the principal findings from the review and should be cross referenced to the detailed report. The main features of an executive summary might be structured as follows:

- Brief description of the business activities;
- Analysis of critical success factors strengths/weaknesses of the business;
- Areas requiring attention and action to be taken – in connection with the transaction and those to be addressed post acquisition;
- Assessment of business risks;
- Management style, strengths and weaknesses;
- Quality and reliability of management information;
- Summary trading results, comprising historical and forecast information;
- Assessment of earnings, working capital and cash flow;
- Assessment of capital expenditure requirements;
- Key sensitivities;
- Summary of the current tax position.

Firm Details:	
Firm Name:	
Date:	
Address:	

Partner's Names	Age	Profit Share / Salary	Professional Body ICAEW, ACCA	Comments

*Indicates managing partner or contact partner

Composition of Team	Number	Salary Range
Partners		
Consultants		
Qualified fee earners		
Unqualified fee earners		
Total Professionals		
Administration/Support		
Total		

Gross Recurring fees for the last 3 years	£	£	£

Breakdown of Fees	£	£	£
Accounts			
Audit			
Tax Compliance			
Tax Consultancy			
Management Accounts			
Payroll			

Corporate Finance			
IT			
Forensic			
General Business Advice			

Breakdown of Fees	£	£	£
Annual Recurring			
Consultancy			

Professional Indemnity Insurance	
Cost	
Cover	
Excess	
Renewal Date	

Further Details	
Property: Freehold / Lease/ Expiry (comment with further details)	
IT Systems Provide further details of IT setup and software	
Other Information considered relevant	

Negotiating Acquisition Terms- Key Considerations

- Size
- Location
- Type of practice
- Fees
- Average fee size
- Profitability
- Compliance v's Added value
- IT
- Gearing
- People
- Retirement obligations
- Sellers' skill sets
- Dependency

Deal Points

- Price
- Payments & period
- Clawback
- Interest
- Tax
- Non-compete
- Advising clients and contacts
- Fees
- Equipment
- People
- Leases
- Delinquent work
- Access to office
- Name of firm
- Managing Partner
- “PUT” options
- PI
- Goodwill variations

Approach to Valuing Small Firms

- Age
- Location
- GRF
 - This year, last year, next year, year after next
 - Clawback
 - Multiplier range
- Profit – Adjusted EBITDA
- Salary
 - Consultancy arrangements
- Surplus cash

Taking A Leaf Out Of PE Houses

Valuation

- EBITDA – adjusted for the new owner
- Multiple of EBITDA
 - <£3m t/o 4 to 5
 - <£10m t/o 6 to 8
 - <£20m t/o 8 to 10
 - >£20m t/o 10 to 15

Arbitrage to higher Multiple for larger firms

- >£20m t/o & 20% EBITDA = £4m profit – 10 to 15 Multiple

Taking A Leaf Out Of PE Houses

- Roll over normally 20% - 33% “sweet” equity
 - 33% cash on completion
 - 33% IOU’s over 2 years – vendor finance
 - 33% -roll over
 - “2nd sale” – higher multiple > 10
 - When does the 2nd sale come ?
- Clawback ?
 - Yes/no ? Back yourself ?
 - Client
- “Below the line (EBITDA) share options and growth shares”
 - NET take home pay after CGT (rather than IT)
- The 2 D’s – No **D**istractions and **D**eclutter

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