

How to Sell your Accounting Firm

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Industry Update

- Resources
- Technology
- Added value
- Pricing
- PE Backed consolidators
 - Wider ownership
 - Clear exit plans
 - Funding
 - Retirement
 - People
 - Technology rewards scale

Your 'Sell' Options

AN HONEST CONVERSATION IS 'CRUCIAL & CRITICAL' BEFORE YOU DO ANYTHING....

- Do nothing!
 - It's an option
- Sale MBO
- Sale external
- Merge (another word for sell)

Breaking It Down

Split Management, Ownership & Fee Earning

- Management succession
- The number one role of management is to ensure its own succession – IN ANY CASE
- Ownership succession
 - Who to
 - Will they make the right decisions?
 - Timing of your exit can be critical

Breaking it down...

Split Management, Ownership & Fee Earning

- Fee earning succession
 - Choosing the right fee earner
 - Split services
 - Tax, accounting, auditing
 - Wealth management
 - Business advisory
 - Informing the client
 - Remaining at clients' disposal
 - Timing

Looking More Attractive For Sale/Merger

More Attractive

- Profitability
- Talent
 - Fee earners
 - Management
- An advisory focus
- Growth
- Specialism
- Technology aware

Less Attractive

- Outdated use of technology
- Low recovery rates (<80%)
- Owners set in their ways
- Previous PII issues
- Over dependence on a few clients
- Poor WIP & Drs
- Unrealistic buy out expectations

Looking More Attractive (cont.)

- Adjusted profits
- Address profitability – get the sale figure up
 - Chargeable hours
 - Billing frequency
 - Lock up & recoveries
- Clean balance sheet
- Minimise any lease obligations
- Review client base
 - Fewer clients with larger fee v's more clients with low fee volume
 - Analyse your client base for profitability
 - Consider losing the less profitable or loss making client

Looking More Attractive (cont.)

- Clean up your production methods for PII
 - Outside quality assurance review for any specialist or non-recurring work.
 - Ensure all clients have engagement letters,
 - AML procedures up to date
 - Quality control procedures stack up
- Be “Clean” – financials and work documentation up to date
- Review all technology for the most efficient ways
- Governance structure
- Employment contracts
- Have employee documentation and practices reviewed

Factors Affecting Valuation Animations

External or Internal

Ext

Int

Age of remaining team members

5

Business plan & management/leadership

1

Location

GRF

2=

Client profile

2=

Service range

Profitabilty

4

5

Salary and expectations

Culture

2=

1

Technology

Specialisms or niches

Team capabilities & loyalty

2=

4

PII History and QC

Why Merge?

- Critical Mass
 - Loneliness
 - Managing Partner
 - Support
 - Practice Manager
 - Marketing
 - IT
 - HR
 - Client proposition
 - Specialists
 - Range of services
 - Talent war
- De-risking
- Profitability
- Succession planning
- Tech

Why MBO?

- Enough's enough
- Retirement
- Desire to
 - Preserve independence – KNOW the price of independence !!
 - Maintain high client service
 - Keep Team together
- Leadership in next generation

Challenges For Older & Younger Partners

- Affordability for the next generation
 - Do the math's
- Does Goodwill exist ?
 - Custodians' v's owners
 - Value creation ?
- Generation of renters, not owners
- Attitude to Risk v's Reward
 - “Fear of failure” exceeding “Desire for success”

Doing The Maths

- External Valuation
 - Say 1X Fees (or 5 X EBITDA (@20%))
- Internal MBO
 - Discount for internal valuation
 - @ 77%
 - Payable over 7 years
 - Paid out of profit share
 - Does it add up ?
 - Working Capital funding

The Selling Process

- Search & Target potential buyers
- NDA
- Brief Firm Profile (free copy available on request)
- Meetings (Cultural fit)
- Indicative offers subject to....
- Full Prospectus (free copy available on request)

The Selling Process (cont.)

- Negotiation
- Heads of Terms
- Due Diligence & CULTURAL FIT
- Legal agreements
- Post deal implementation
 - Communication
 - Team
 - Clients
 - Suppliers
 - Professional contacts

Negotiating The “best” Price

COMPETATIVE TENSION

- Generate several indicative offers

- Headline price
- Payment Terms
- Ongoing consultancy
- Clawback
- Team retention
- Client retention

Negotiating The “best” Sale (cont)

- Fee Multiplier range
 - EBITDA Multiplier
 - Smaller firms < £3m t/o @ 4-5
 - Medium firms £3-8m t/o @ 6-8
 - Larger firms > £20m t/o @ 10
 - Azets & Xeinaidin sold @ 12-15
- Approach to EBITDA
 - Adjusted to reflect new owner
- Payment dates and amounts
 - Typically 2 years

Negotiating The “best” Sale (cont)

- Clawback period and amount
 - Typically 2 years
 - TOTAL client list & TOTAL fee income
 - Cap & Collar
- Tax – mismatch
 - Split the difference?
- Interest
- Consultancy agreement for “retiring” partner?
 - “Put” options – choice to retire an acquired partner

Summary

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Appendices

- Client transition letter
- Governance Structure
- Assessment of team members
- Leadership Development course
- Managing Partner Job Spec

Client Transition – Best Practice

Dear John

I am pleased to say I will be retiring over the next 2 years.

In order to make sure you continue to be properly taken care of, I would like to introduce you to Sally. My plan is that she will take over from me and take care of you.

She will be in touch within a couple of days to introduce herself as she has familiarised herself with your affairs as we all want to ensure a smooth transition

In any case, I remain at your disposal should the need arise

Best

Gordon

Governance Structure

- Ownership – wider is better
- Management
- Fee Earning

- Remuneration
 - Salary
 - Objective bonus
 - Subjective bonus
 - Share Options (NET take home pay)
 - Equity profit share

Assessment Of Existing Team Members

Potential partner attributes

- Completed a minimum of eight years of accounting experience
- Earned a CA certificate (or other appropriate professional certifications)
- Expressed interest in a specialisation that meets the firms needs
- Set managerial goals and met them based on their expressed interest or specialisation
- Demonstrated an ability to charge – and collect – an acceptable hourly billing rate (by market)
- Completed a series of professional development courses, from basic levels to executive management

Assessment Of Existing Team Members (Cont.)

- Participated in practice development activities such as;
 - Joining professional, civic or social organisations
 - Attending professional meetings
 - Holding office or directorship in civic, professional or alumni organisations
 - Speaking or making other professional appearances
 - Meeting with prospective clients and other business contacts
 - Developing new business from existing clients
 - Keeping clients informed on matters of importance to them.
- Displayed acceptable moral and ethical character
- Demonstrated temperate health habits
- Obtained the support of his or her spouse
- Shown responsibility in personal financial affairs
- Have personal goals that don't conflict with firm goals
- Developed good interpersonal skills
- Gained the respect of partners, staff and client

Leadership Development 2020's 9 module programme

- What makes a great firm tick
- Client development to improve firm profits
- Understanding Great Performance and Key Performance Target Setting
- Converting Leads into Clients –Personal Selling Skills
- Moving to a Leadership Position and Building a High-performance Team
- Taking Clients from 'Compliance' to 'Added Value' Services
- Successful Pricing skills
- Action Planning for Your Personal Development
- Optional extra – 4 D's in a partnership/shareholder agreement

Managing Partner's Job Spec

- Management team
 - Succession #1 Goal
- Visionary leadership
- Implementation of plan
- Quality work – compliance and client satisfaction
- Marketing & selling - growth
- Mergers – buy & grow
- Partner conflicts
- Great place to work – team recruitment & retention
- Routine matters
 - Timesheets, WIP & debtors, recoveries, cash, support staff

Managing Partner's Job Spec (Cont.)

- Partner accountability
- Strong profitability
- Partner compensation
- Partner development/coaching/mentoring etc
- Open door policy, transparency
- Decision making prompt, problem solving
- Building census amongst partners
- Partner communication
- Visible in the community/flied the flag/leads by example
- Firm, office, self – in that order

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