



transitionadvisors LLC



Leading CPAs Through Transition With Succession and M & A Strategies

Seven Step Roadmap to Closing Your Deal and Navigating Roadblocks



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Transition Advisors, LLC

National Consulting Firm working exclusively with accounting firms on issues related to ownership transition



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If there are 50 things you need to think about in a transaction.....



.....the smartest of us will think of only 35



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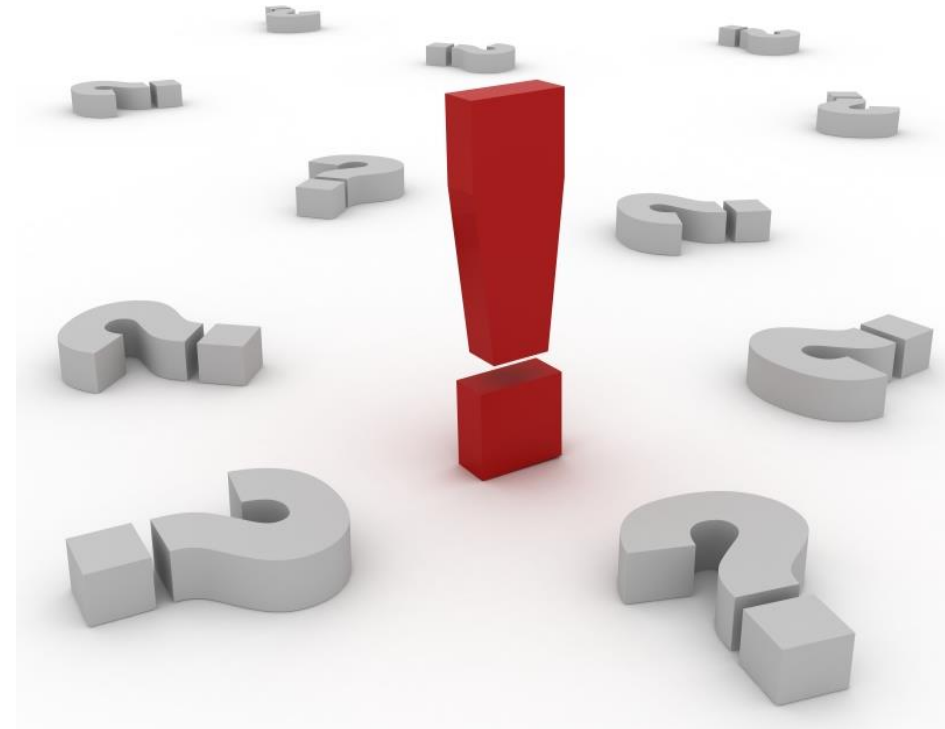
Reasons Why Firms Merge

Firms fall into 2 categories:

1. Firms seeking growth by combining with another firm
2. Firms seeking to solve a problem (succession, IT...)

Know your reasons...

Know the other firm's reasons...



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Will it be a buyers' or sellers' marketplace?

All about supply and demand

Prior to Coronavirus Economy-

Sellers were outstripping buyers in many cases

Trend was clearly to a buyer's market

Result was more selective buyers and tighter terms



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Will it be a buyers' or sellers' marketplace?

All about supply and demand

In the Coronavirus Economy...

Overall we see a shift to a more
balanced market

Small sellers in high population
areas

Niches still likely to get premium

Big firms still face limited buyer
pool



Will it be a buyers' or sellers' marketplace?

In 2008-

Firms could not depend on organic growth
in a flat economy...and

Followed closely the end of the
consolidation era

Therefore...

M &A became the option to maintain
growth

Significant uptick in deal activity as a result



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Will it be a buyers' or sellers' marketplace?

In the Coronavirus Economy...

Some buyers will hunker down

Some buyers will ramp up to increase
lost revenues

Savvy buyers will see the opportunity to do
deals in a “down market”

Therefore...

Demand side will overall improve



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Will it be a buyers' or sellers' marketplace?

In the Coronavirus Economy...



Some sellers will delay due to the stock market

Other sellers...will see risk due to sudden decrease in fees

Poor succession plans...will continue to drive M & A and niches

Overall we see the supply side of the equation remaining a push

How this may impact mandatory retirement

The 7 Steps in a Deal

1. Author a generic practice information including your goals
2. Organize your must haves
3. Identify what your merger partner should look like
4. Have your initial meetings (Video or face to face)
5. Narrow the field and share non-binding offers
6. Perform due diligence
7. Close the deal



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Author a Generic Practice Information Including Your Goals

- Metrics: revenues, services rendered, rates, staff, profitability, etc...
- Add lease info, timing for partners who may be seeking **role reductions**
- Technology
- What the goals are for the deal
- Individual goals for some partners if different
- Comp
- Aging of the partners/staff
- What success looks like



Author a Generic Practice Information Including Your Goals

List the deal structure you are seeking:

- Sale
- Merger
- Two Stage Deal
- Combination

List the value you seek:

- In compensation
- Valuing your equity



Organize Your Must Haves

Items that are absolute breakers such as:

- Location: determining how much it matters
- Partner retention
- Compensation
- Equity

Items you strongly prefer such as:

- Technology
- Staff retention

Items you are more flexible about such as:

- Software
- Name
- Perks

Limit your must haves as much as possible



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Identify What Your Merger Partner Should Look Like Based on Goals

Start with the Big Four (C's that is)

1. Culture
 2. Chemistry
 3. Continuity
 4. Capacity
- Specialties
 - Technical skills
 - Size, capacity
 - Location
 - Technology
 - License



Have Your Initial Meetings

- Share your firm information, goals and must haves upfront
- Focus on Four C's
- Discuss what success looks like
- Narrow the playing field into top choice (s), bridesmaids and fuhgeddaboudit



Ask for a Non-Binding Offer

- You have already told them what you have and what you want
- Require a non-binding offer that shares with you what the deal looks like philosophically and financially, pending due diligence
- Make sure the terms are complete as to must haves, deal structure and terms
- Do not negotiate in pieces



Due Diligence

Prior to entering a Merger or Acquisition between two Accounting Firms



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When to start the process of due diligence:

1. Many firms feel that prior to getting involved in negotiating a buy/sell with another accounting practice, due diligence is a first step. That is not necessarily correct as the due diligence process reveals significant confidential information, is very time consuming and increases the risk that staff and potentially clients find out change is in the works.



When to start the process of due diligence:



2. We recommend that prior to investing the time into due diligence, the two firms should have at least a framework of a deal crafted. This can be accomplished by the firms providing each other generic (no names of actual clients) but specific detailed information about the two practices. If based on this information an agreement can be reached, then that will be an appropriate time to commence due diligence.

Prior to exchanging actual names and sensitive information prepare a non-discloser agreement.

A non-disclosure agreement should include:

- A definition as to what cannot be shared with anyone outside the agreement.
- All information from one party to the other shall be safeguarded and promptly returned or destroyed, as directed by the other.
- Penalties for violating the non-disclosure of information or soliciting clients from one another.
- A time frame as these items cannot be confidential or have a non compete last forever.



Perform Due Diligence



For the mergee/seller:

- Background checks: professional, financial, legal, malpractice, licenses, peer review
- Metrics
- Their own retention rates
- Technical skills
- In a merger a key document is the partnership agreement of the successor firm
- Your practice special needs i.e. language, licenses, niches...
- Any impact from virus?

Prior track record in Mergers and Acquisitions

Perform Due Diligence

For the successor firm or buyer:

- Metrics/ Virus impact
- How long the clients have been clients
- The great mystery of billing rates
- Differences in Profitability ... not always important
- Continuity = retention
- Culture: 3 tests plus
 - Partner Billable Hours, flex hours
 - Size of Book managed
 - Marketing
 - Dress Codes
 - Billing ... hourly vs value; PTO, remote access
 - Compensation ... proxy for culture
 - Technology i.e. the cloud



Close the Deal

- Now is the time to bring in lawyers
- What is the goal of a contract
- Lawyer that makes deal versus breaks deal



Roadblocks

- Time
 - Adversarial nature
 - Messages you send
 - Leaking pending to merger to marketplace, clients, staff
 - The 13th time you read the agreement
 - Opening door to competition



Roadblocks

- Unity of Partners
- Capacity
- Impatience
- Transition Issues
 - Staff
 - Clients
- IT



Roadblocks

- Equity
- Firm Name (options)
- Communication, increasing usage of video
- Unneeded 'must haves'
 - Staff
 - Leases



Some cultures tougher to mix then others:

- eat what you kill versus one firm client.
- Retainers, fixed fees, time and billing, value billing

Making Your Firm Beautiful for a Merger or Sale

- Technology:
 - Paperless
 - The Cloud
- Brand versus Partner loyal
- Trained clients
- Accurate understanding of your firm and its metrics
- Realistic terms
- Niches



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The Four C's

- General “chemistry” between the parties
- Continuity/Culture of relationships will help retain clients
- Capacity to take over the roles being diminished
- A *good* deal is a *fair* deal
- Remember, it's the package, not the individual variables
- Staff merging



Transitioning Staff

What are the Staff's fears?

- Compensation
- Security
- Role Changing
- But what would happen if firm didn't merge?

A word cloud centered around the theme of staff retention. The words are arranged in a circular pattern, with 'Staff' and 'Retention' being the largest and most prominent. Other words include 'Monitor Time', 'Believable', 'Recognized Effort', 'Empire', 'Ask Questions', 'Listen', 'Share Information', 'Support Growth', 'Celebrate Success', 'Lickon's Club', 'Coach them', 'Empower', 'Recognize Effort', 'Reward Practices', 'Autonomy', and 'Create Opportunities'.

CHANGE IS A DIRTY WORD.

THE EMPHASIS NEEDS TO BE ON CONTINUITY.

NOT THE LOSS OF, BUT THE GAIN OF



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Transitioning Staff

Who to tell, when and what to say ?

- Very few if any are told prior to closing - Risks
- Firm wide meeting
- Group meeting
- Creation of mentoring teams
- Creating clear goals that are measurable
- Employment agreements.

What's reasonable?

- Overcoming compensation differences
- Retention: who is higher priority to retain at least through the initial transition



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Transitioning Clients

- Who gets a phone call
- Who gets a visit
- Who gets a letter
- Firm Name options



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Transitioning Clients

Messages to Send

- Age of specialization
- How phone is answered
- Same voices where possible on voice mail, etc.
- Parties
- Teaching sessions: lecturers from new team
- The announcement letter
 - Envelope
 - Timing
 - Overcoming objections prior to receiving them



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Transitioning Clients

What are the Client's fears?

- Is the Partner/Owner I trust still there?
- Is it going to cost me more money?
- Do I have to travel far to meet with my new accounting firm?
- Is the staff I am accustomed to working with part of the successor firm?

TRANSITION

ITS ALL PACKAGING!

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Transitioning Clients



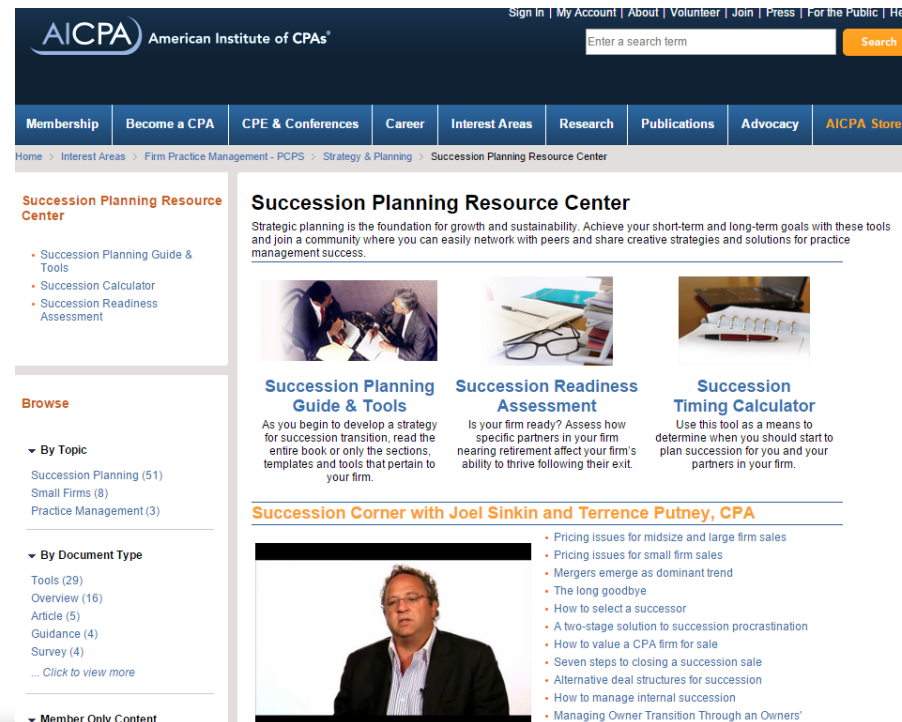
How Long it Takes

- How often you see clients in person
- How many hours a year are you in front of clients
- Are they brand loyal or Partner loyal
- How loyal are your clients

For More Information

Visit the AICPA Succession Planning Resource Center

<https://www.aicpa.org/interestareas/privatecompaniespracticesection/strategy-planning/center.html>



The screenshot shows the AICPA Succession Planning Resource Center. The header includes the AICPA logo and navigation links like Sign In, My Account, About, Volunteer, Join, Press, For the Public, and Help. A search bar is also present. The main navigation bar lists various categories: Membership, Become a CPA, CPE & Conferences, Career, Interest Areas, Research, Publications, Advocacy, and AICPA Store. The breadcrumb trail indicates the path: Home > Interest Areas > Firm Practice Management - PCPS > Strategy & Planning > Succession Planning Resource Center. The page title is "Succession Planning Resource Center". Below the title, a brief description states: "Strategic planning is the foundation for growth and sustainability. Achieve your short-term and long-term goals with these tools and join a community where you can easily network with peers and share creative strategies and solutions for practice management success." Three featured tools are highlighted: "Succession Planning Guide & Tools", "Succession Readiness Assessment", and "Succession Timing Calculator". Each tool has a brief description and a "Browse" button. The "Succession Planning Guide & Tools" section lists: "As you begin to develop a strategy for succession transition, read the entire book or only the sections, templates and tools that pertain to your firm." The "Succession Readiness Assessment" section lists: "Is your firm ready? Assess how specific partners in your firm nearing retirement affect your firm's ability to thrive following their exit." The "Succession Timing Calculator" section lists: "Use this tool as a means to determine when you should start to plan succession for you and your partners in your firm." Below these tools, there is a section titled "Succession Corner with Joel Sinkin and Terrence Putney, CPA". It features a video of Joel Sinkin and a list of topics: "Pricing issues for midsize and large firm sales", "Pricing issues for small firm sales", "Mergers emerge as dominant trend", "The long goodbye", "How to select a successor", "A two-stage solution to succession procrastination", "How to value a CPA firm for sale", "Seven steps to closing a succession sale", "Alternative deal structures for succession", "How to manage internal succession", and "Managing Owner Transition Through an Owners'".



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For More Information

Please visit our website for resources including
FREE reports, whitepapers and case studies.

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