

The Maximiti Guide to Selling your Accountancy Practice





Introduction

Selling your accountancy practice is probably one of the biggest business decisions of your professional life, certainly financially and most likely emotionally too.

For many accountants it heralds a new era in their life, often ushering in retirement, part-time lifestyle with a new vocation in a consultancy or voluntary role.

Of course, it is entirely possible that you may only be seeking to dispose of a block of fees whilst remaining in practice but most of the contents of this guide will nonetheless hold true in such a scenario.

Whatever your reason for selling it is very easy to turn what should be a straightforward and fairly routine transaction into a nightmare. The aim of this guide is to give you an insight into the basics of what is involved and prevent you from falling into the hidden traps that await the unprepared.

Remember that no two deals are the same and everybody seeks something different from a practice sale, so it pays to be flexible and maintain an open mind where possible, especially as the landscape of a deal can change throughout due diligence and negotiations.

COMMITTING

Normally people don't wake up and declare that today they are going to sell their business. The decision to commit to selling a business, and let's not forget that your accountancy practice is a business, is a culmination of several factors over a period of time.

Invariably it starts following a conversation with a friend or colleague, a throwaway comment at a dinner party, a serious problem in the office involving a client or member of staff, or simply a realisation that you're battle weary and not prepared to confront the rapid and unremitting changes the profession is undergoing.

Other causes are simply that it is time to retire or a life changing event such as illness, bereavement or family relocation forces your hand.

Whatever the catalyst it is important to be 100% sure that you are making the right decision

as there is no turning back once the contract is signed, nor do you want to spend many weeks in preparation and legalities only to wake up one day, look in the mirror and realise you have made a mistake.

It pays to discuss it with people whose judgment you trust, especially as your decision may be emotionally charged during a difficult time in your private life or simply that you have overlooked opportunities within your practice that could easily be exploited with a little planning and perseverance.

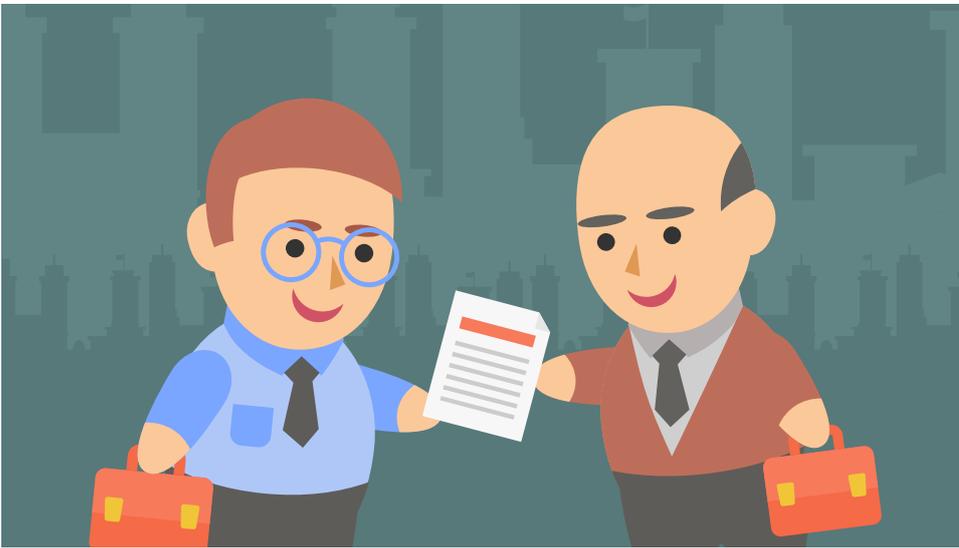
One of the advantages of using an agent or broker is that they will ask you to complete a comprehensive questionnaire about your practice, and this process gives you time to think and reflect about your decision.

HOW MUCH IS MY PRACTICE WORTH?

This is the first question that every potential seller asks. The "smart" answer is that your practice is worth the amount somebody else is willing to pay for it! Deals done in recent months will be the



starting point although one has to take into account a number of variables in order to arrive at the valuation, which can typically vary from 0.75 x GRF to 1.5 GRF, but the standard valuation for a



straightforward deal is around 1.2 x GRF. A GRF multiple is the most popular basis for ascertaining price but others do exist.

STRATEGIC PLANNING

Typically an accountant looking to sell up will have given it several months of thought but there is no reason why you cannot make the decision now to sell a couple of years down the line. The earlier you have clarity about where you want to be within a particular timeframe the easier the process will be. If you are using a practice sales broker they should understand the need for a long lead time and will not put any pressure on you to sell earlier.

HOW LONG WILL IT TAKE TO FIND A BUYER?

Finding a buyer can take from minutes to years, depending on the state of the economy, how specialised a particular practice is but most importantly the location and size of the practice. Often a practice will be put up for sale and the owner is adamant that they will not accept less than a certain sum, which therefore means that it will take much longer for them to sell their practice, assuming they can sell it at all if their price is not realistic. Similarly a practice with a bad history and "negative" goodwill may take a long time to find a buyer or could be virtually unsellable.

HOW LONG DOES A DEAL TAKE?

A deal can complete in days or months. Typically though, a deal will take around three months, although in a distressed sale where a low price is being sought, the deal will move much faster, often in a couple of days, and the buyer will accept that the lack of due diligence is part of his or her risk and is being reflected in the price.

BROKER OR DIY?

Like selling your house, there is no procedural reason why you cannot sell your practice yourself and this does take place, usually to a friend or family member. However, it is important to make up your mind early on which route you will take – the DIY way or the traditional route via a broker – as bringing in a third party once you have started and had regrets is messy and can cost you a sale.

Sometimes either or both parties match themselves up but request a broker to assist

them from the outset. Obviously you can expect to pay less in professional fees as the hardest part – the matchmaking - has been done. Many DIY jobs end up using a broker somewhere along the line and two of the main advantages are:

- Knowledge of contractual pitfalls and procedures specific to practice disposals
- Emotional detachment, allowing potential stumbling blocks to be removed or resolved

Using a broker from the outset has the added advantages of:

- Speed in finding a buyer
- A vetting process to root out timewasters
- Wider choice of candidates to choose from
- Better ability to make comparisons and guidance as to price

FEES TO THE AGENT / BROKER

The \$64,000 question – “how much should I pay in fees to the broker?”

Some charge the seller, some charge the buyer and some

charge half to each, and some even charge a commitment fee.

The main advantage of the shared fee model is that the broker is working on behalf of both parties to achieve a fair outcome, avoiding situations whereby posturing on behalf of one party to call somebody's bluff or demonstrate relative strength can derail the process.

Ultimately it is not about who is paying and feels that they are in the driving seat but rather a case of ensuring the broker or agent can actually get the deal done professionally and efficiently, without sweeping problems under the carpet so they only become apparent once the ink has dried and their fee has been paid.

WHAT ABOUT THE STAFF?

If you employ staff, their position should play a prominent part in your initial planning, both from the aspect of their own welfare and also because they are an important and integral aspect of your business with the ability to derail the deal prior to completion or create serious problems after the deal is sealed.

No two situations are the same and choosing which staff members to advise of your intentions and at what stage to do so is a delicate balancing act that needs considered judgment. Typically key staff members would be brought “on board” at an early stage and kept apprised of developments throughout.





Preparing for Sale

Whilst you may think that everything in your practice is shipshape an outsider may take a different view. It's similar to selling your car or your house – there are defects that you have grown used to and can live with quite happily, but when it comes to showing prospective purchasers around they'll be scared off.

SO WHAT ARE THE MAIN AREAS TO CONSIDER?

◆ Bookkeeping

As you are an accountant you shouldn't need reminding that all the necessary figures required to value the business should be up-to-date and accurate. The buyer will want to pore over the books and records as part of the due diligence process

to help them understand the financial workings of the business being acquired. It is the seller's responsibility to ensure that all records are in suitable condition for the buyer to examine, not the broker's.

◆ Client records and files

What sort of picture does your working papers and client correspondence paint? Whether it is paperless or in a filing cabinet

the buyer will expect to see completeness and structure. Are you storing client telephone numbers in your mobile or in your head or are they easily accessed in a proper database?

◆ Tax and accounts

Your records and bookkeeping may be acceptable but do you actually submit your own tax returns and prepare your own year end accounts in a timely

manner? If so, are your payments up to date or is this a case of the "cobbler's children going barefoot". No single omission on its own will necessarily see a buyer turn on their heels and disappear faster than you can say "HMRC", but a taken in aggregate several small items could set off alarm bells. You may still get the sale but at what price?

◆ Staff

Your workers are a vital part of your business but are you the captain of a happy ship or are there ongoing disciplinary issues or problems with the quality of their work?

Or perhaps a key member of your team has announced their intention to leave, which will severely affect other staff members and client relationships.

◆ Premises

Are you tied into a lease that the buyer may not wish to take over? Is your lease coming to an end and not being renewed, causing issues with relocation that may drive clients away or

lose passing trade? Perhaps you own the building and wish to sell or let it to the buyer as part of the package. Do you actually have a copy of your lease and are you aware of any significant clauses that may give rise to problems?

◆ Fees

Do you have a clear charging structure that is understandable to a buyer? Are you over or undercharging? Assuming that your fees are correctly pitched and fairly charged, do your clients actually pay up in a reasonable time or is the book debt swelling slowly but surely? Your tax approach - perhaps it is more a case of generosity - may not be something a buyer will countenance.

◆ Claims

What is your PI claims history like, both past and current?

◆ Business model

Some practices have a very specific business model that may rely on the principle's specialist knowledge or ability to reel in and nurture new clients, leaving

open the question as to how a buyer will be able to replicate this post-sale.

There are many types of practice out there and the buyer often feels he or she has the ability to learn new skills. While this may indeed be true, if one is entering into uncharted waters without any support or understanding of a marketplace, they should remember that it is usually a recipe for disaster. An experienced accountant who has exceptional talent and wishes to go into a new field, should ask of the seller to remain behind for some time to teach them the ropes so they can pick up the business. This is often a good idea for a seller who is struggling to find a buyer but we would advise the seller to ensure that they do not get pulled into the business for too long without a properly agreed remuneration structure.

WHAT TO EXPECT

You can expect the initial meeting to be an informal affair, not unlike a first date. Normally this will establish whether there is chemistry between the buyer and seller that will enable them to conclude the deal and work together post-sale as is usually required.

Thereafter the buyer will have a list of questions, many of which will only become apparent during the due diligence process, and you'll have to be patient and ensure that you understand what lies behind their line of questioning.

At all stages the broker should be available to help you deal with requests and questions that you may be uneasy answering or may not be familiar with, bearing in mind that some buyers purchase practices regularly but this is your first sale.

As mentioned earlier you will have to open all your own books and ledgers so the buyer can corroborate your claims, and they

will also wish to check that your client files and procedures are in order which means inspecting some of them.

Although they may wish to speak to your staff this should be resisted in most cases, and care needs to be taken to allow the buyer's enquiries to take place without the "wrong" members of staff finding out, in order not to rock the boat. This is probably the trickiest part of the process and there is no "one rule fits all" that can be applied.

Naturally all contractual obligations of the firm that will affect the buyer need to be examined and missing paperwork is understandably not acceptable.

The process can run from days to months, depending on the complexity of your practice and the available time for both yourself and the buyer.

Expect stress, ups and downs and the occasional bout of panic. Many deals wobble at an advanced stage but if they

are handled appropriately, especially with a neutral go-between such as a broker, these potential deal-killers can usually be dealt with – often they are down to misunderstandings.



A WORD OF WARNING

Whilst it is up to the buyer to perform his or her own due diligence you need to ensure that not only does everything appear right, you need to make sure that you are not misleading them on any points or withholding material information that could sway their decision.

As sure as night follows day, if there are any suspicions of

dishonesty or lack of integrity, post-sale you will become embroiled in a bitter and costly lawsuit with the prospect of not being paid the next instalment due from the buyer, and in the meantime you no longer have your practice.

SHOULD I USE A SOLICITOR?

This is a very commonly asked question by accountants prior to the sales process but in my experience the vast majority of deals between accountants do not use the services of a solicitor, which begs the question as to why this is, bearing in mind that for all other business sales it is almost unheard of not to use a solicitor.

The role of the solicitor is to ensure that all documentation is in order and all facts are disclosed properly, within a contract which will be enforceable. I would always counsel accountants to use a solicitor but I suspect that the reason why this guidance is observed mainly in the

breach is that there is a belief that an accountancy practice is a straightforward business and that as both parties are regulated they can trust each other. Anecdotally this is coupled with a professional suspicion of solicitors, who have a reputation for charging vastly higher fees than accountants and "who go looking for problems" and slow deals down unnecessarily.

Some brokers and agents provide a template contract as an optional "free extra" over and above their core service and let the accountants negotiate it amongst themselves, which will work in the overwhelming majority of transactions.

As they say in legal circles "caveat emptor", but it will apply equally to both parties.



A FEW IMPORTANT TERMS THAT YOU'LL COME ACROSS DURING THE SALES PROCESS

◊ GRF - Gross recurring fees

This refers to fees that can be expected to recur year on year and excludes one-off assignments that are performed for a client that cannot be expected to be repeated such as cash flow reports and loss of earnings reports. Typically recurring fees consist of annual accounts and tax return preparation. If a practice that specialises in one-off assignments has a regular flow of these, then they have to be valued differently to a GRF basis.

◊ Clawback

This is the period during which if a client leaves the buyer is refunded the relevant amount paid for that client's fees as a portion of the sale price.

Clawback terms are not set in stone and like the rest of the deal are fully negotiable and can be flexibly written to allow for uncertainties or peculiarities of a deal.

◊ Billing cycle

This is a period in which clients are normally charged. Typically it is on an annual basis but for some practices or services it may be monthly or quarterly.

◊ Disclosure

It is essential that the seller makes known to the buyer any matters which they think could scupper the deal or have a material impact on the sale price, such as pending regulatory action or imminent loss of a major client.

The contract will normally provide for such eventualities to have been disclosed, with failure to do so rendering the seller liable to be sued. Although a good negotiator will ensure that only that which has to be known is revealed, careful thought should be given to what falls into the category of requiring revelation, especially as you will most likely need to work with the buyer post-sale as part of your contractual liabilities.

Similarly, the buyer should make it clear from the outset that they are in a position to complete the deal rather than wasting everybody's time if they have no realistic chance of raising the finance. They could be liable for losses incurred by the seller if they have negotiated in bad faith, although in practice it is rare.

◊ Structure

There are many ways of arranging a deal, from straightforward handing over of cash

in a lump sum to staged payments, perhaps based on future performance, and even future commissions for bringing in new business.

Most deals are straightforward and paid for in cash but ultimately the way the deal is done will depend on the particular requirements of each party, including any clawback and whether or not the seller is to remain in the business post sale.

◆ Goodwill

Normally this is the amount which you are paying over and above the value of assets and stock. With a practice sale almost all of the payment is goodwill as in reality you are not actually selling anything tangible nor can you sell your clients per se – they are not slaves nor are they beholden to your practice.

◆ Lock in

This refers to the time during which the seller is obliged to continue assisting the buyer. Normally this will run alongside the clawback period as it is in the seller's interest to co-operate, but direct involvement should diminish rapidly shortly after the handover of files at exchange of contracts.

◆ Lock out

This refers to the period during which the seller is blocked from competing with the buyer, either in outright terms, a field of expertise or in a geographical area, depending on the agreement. It should be noted that any restraint of trade which is deemed to be unreasonable will not be upheld in court and specialist legal advice may be advisable before agreeing any restrictions.

Maximiti has a wide range of ideas and strategies to assist accountants who are at the starting point of the journey to sell their practice, whether they have made the commitment to sell or want to explore their options.

Call us for a no obligation chat on 0800 2800 321

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