

# Selling Your Accountancy Practice

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**T**he 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.

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 or part-time “lifestyle working” in a consultancy 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.

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.

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# Thinking about selling

## 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 your decision 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 vary significantly. A good agent will have a sound grasp of local market conditions and be a strong negotiator for your behalf. 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, in a remote location or with insufficient 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. When there is a bereavement or sudden ill health a quick sale is highly recommended if any value is to be salvaged. The value will drop precipitously after the initial period of good grace any sympathy.

## 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.

Often market condition and the circumstances surrounding the sale will influence the fee arrangements.

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.

## SELLING TO STAFF

The ideal purchaser could be hiding in plain sight. Staff understand how the practice operates, know the clients and hopefully get on well with each other. Selling to staff is seamless aside of course from certain regulatory and legal matters. Some sellers still engage a broker but on a consultancy basis to ensure that everything is dealt with properly as it is a business transaction that is complex with mistakes having potentially catastrophic consequences.

You need to be wary of staff who express an interest but simply cannot raise the necessary funds as you don't want to be strung along pointlessly for many months nor do you wish to alienate them when selling to a third party after discovering they have no funds. Beware of being the funder yourself – you are not a bank and you need to ensure that the risk is not being unwittingly transferred to you until they pay you off over several years, usually out of profits – if there are any!

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 appraised 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.**

## 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 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 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, 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 lax approach - perhaps it is more a case of generosity – may not be something a buyer will countenance.

### ❶ Claims

What is your PI claims history like?

### ❷ Business model

Some practices have a very specific business model that may rely on the principal'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 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 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. Anecdotaly 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. If you do choose to use a solicitor make sure they have the requisite experience for your transaction.

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.

## TYPES OF SALE

**Full** - You sell the practice as a going concern “lock, stock and barrel”. Goodwill or shares

**Partial** - You sell a batch of clients fitting a certain criteria. Goodwill only

**Earn out** - You sell the practice now but are paid over a longer period of time and might be contracted to run the practice in the interim, on behalf of the buyer.

**Shares** - Buyer takes ownership of your limited company. Seamless from client aspect but legally complex.

**Goodwill** - Buyer pays for goodwill. More disruptive for clients but legally straightforward.

## GOODWILL

Goodwill is a word or term that is used frequently in business scenarios and certainly one that accountants come across when preparing balance sheets for clients. But what about when they are looking at the value of their own business - their own accountancy practice, whether in its entirety or a block of fees – or when considering the purchase of an accountancy practice or a block of fees?

Let's start with some standard business orientated definitions:

- ✓ the established reputation of a business regarded as a quantifiable asset and calculated as part of its value when it is sold: [www.investopedia.com/terms/g/goodwill.asp](http://www.investopedia.com/terms/g/goodwill.asp)
- ✓ business: the amount of value that a company's good reputation adds to its overall value: [www.merriam-webster.com/dictionary/goodwill](http://www.merriam-webster.com/dictionary/goodwill)
- ✓ Goodwill is the excess of the purchase price paid for an acquired entity and the amount of the price

not assigned to acquired assets and liabilities:

[www.accountingtools.com/dictionary-goodwill](http://www.accountingtools.com/dictionary-goodwill)

The 3rd definition should come as no surprise to members of the accountancy profession but it does focus the mind somewhat to compare and contrast with the 1st and 2nd definitions.

Typically an accountancy firm's tangible assets are worth a fraction of the price the firm would sell for in its entirety and may not even figure at all in some negotiations, especially if the accountancy practice was to be relocated, but where only a block of accountancy fees is being sold the actual tangible value being acquired is the sum total of zero!

It is exactly this that makes the valuation of goodwill so difficult to tie down precisely in any given circumstance. However, our old friend “the marketplace” does most of the work for us as it usually does. Therefore the only way to know for sure, or as near to sure as one can get, is to find out what the going rate is for the sale and purchase of accountancy fees, either as a standalone block or as an entire practice. But there is no published list of deals that buyers and sellers can refer to, so the most reliable means is to undertake research by speaking to accountancy practice sales agents and brokers, and even then it is difficult to be precise as no two deals are exactly the same.

The value of an accountancy practice is typically defined as a multiple of the gross recurring fees – in other words, the fee income that can be expected to be earned in the following financial year based on the current year. The accountancy profession is fortunate that most clients come back each year for the same service because of the mandatory filing of returns. Unlike a trip to the dentist, a tax return can only be put off for so long!

So where does that leave us then? Well, at the time of writing (Summer 2021) sale prices have been creeping up for “good” practices, whether for a block of accountancy fees or the sale of an accountancy practice in its entirety. If we were to plot a distribution curve it would peak between these figures with a sharp drop off and a long tail on either side, perhaps stretching to almost zero on the left and possibly as much as two times or more, to the right in exceptional circumstances.

Given that a typical practice (with the exception of a true one-man band practice without any assistance) will post a net profit of around one third of its turnover, their valuation can be seen in perspective when compared to the multiple of around three to five

times net profit that the average trading business would be aiming to achieve were it to be sold, in normal circumstances.

At the one extreme is a fire-sale, where a firm is essentially sold at a knockdown price very quickly, perhaps due to illness or insolvency (or even in my experience due to imprisonment of a very naughty accountant). At the other is a firm with a laser sharp focus in a particular field of expertise with a longstanding contractual relationship to service members of a trade body or membership organisation, causing the valuation to deviate from a strictly professional one towards that of an “ordinary” trading business.

With any given firm there will be many intrinsic factors that could affect the valuation of the goodwill. These would typically be: charging basis, level of fee recovery, location, staffing, adverse publicity, claims history, average fee size, client profiles, ethnicity of staff or clients, opportunity for value added and opportunities that may be peculiar to a particular buyer.

At this point it is worth reminding ourselves that the only thing an accountancy practice has available to sell is its goodwill. It cannot and never sells its clients – slavery was abolished a very long time ago and the accountant has absolutely no control over the freedom of their clients to walk away and choose another accountancy practice to act for them.

So, in light of this timely reminder, why pay anything for a block of fees if there is nothing to prevent your “asset” or perhaps more precisely, your “expected income stream” vanishing into the ether? Simply put,

the facts on the ground are that if the sale is handled properly the overwhelming majority of clients will stay with the accountancy practice (if sold in its entirety) due a combination of inertia and goodwill built up.

Where a block of fees is sold the same holds true although it needs handling in a slightly different manner as the practice name itself is not necessarily taken by the purchaser, but there are safeguards in place to ensure that the seller of the accountancy fee block has carefully selected the accountancy fees (i.e. the clients) they are divesting themselves of and will take every step to ensure that the clients are satisfied with his or her choice of purchaser.

Whether a client bank sale or the sale of an entire accountancy practice, the buyer is protected via a contractual and payment mechanism known as “clawback”.

For most sellers and buyers of accountancy practices or accountancy fees blocks, only one big question remains outstanding. Namely, if the demand for accountancy practices outstrips supply of accountancy practices on the market why has the multiple not increased dramatically in line with the fundamental economic law of supply and demand?

I refer you to our old friend - “the marketplace” – who has decided thus, based on a host of factors ranging from interest rates to the general perception of traditional business loyalties or pricing pressures in the broader economy. What this does mean however, is that sellers can pick and choose with whom they wish to deal, especially if the goodwill they have accrued truly is goodwill and not simply a list of clients.



# Terms and definitions

## • 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.



# Five costly errors to avoid when selling

## 1 FAILING TO UNDERSTAND WHAT YOUR PRACTICE IS WORTH

Often potential sellers approach brokers too late in the day to maximise the value of their practice, which is possibly their largest asset after their home. They fail to realise that they have a valuable intangible asset that if marketed properly can attain high prices, and the time to start thinking about selling can in certain cases be up to 4 or 5 years prior to the desired exit date.

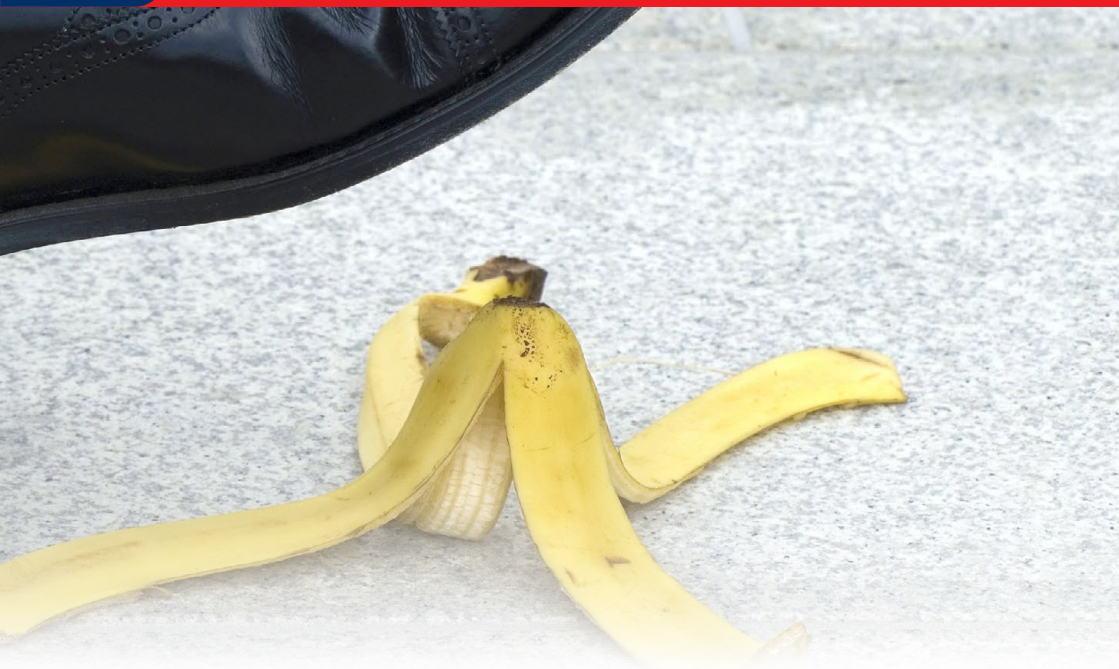
The value of the practice lies in the fees that clients pay, not the clients themselves, who are of course free agents and not bound to you – something that while obvious still needs pointing out. You are selling this income stream as goodwill and it has a value, based on the gross recurring fees (GRF) that these clients can be expected to generate, based on historical performance.

## 2 BEING UNPREPARED FOR SALE

You wouldn't sell a car without cleaning it and preparing the service history and neither should you put your practice up for sale without ensuring that it is well presented. Too often we see that "the cobbler's children are going barefoot", without the practitioner realising the state of his or her own records. Buyers will expect, as a minimum, to see ; A detailed client list with their age, trade and respective fees and most importantly what services you perform for them, details of non-recurring work, VAT returns, bank statements, wages records, lease details for rented property and equipment.

## 3 INFLEXIBILITY ON CLAWBACK PERIODS

Unless you are paying a very low multiple, typically in a "fire sale" scenario, you can expect a clawback period as standard. Many practitioners believe that the clawback period is strictly 12 months but it can extend beyond this depending on client billing cycles, timing of the payments and the seller's departure after the sale. Refusal



to be flexible on this could undermine a sale, and it is always possible to achieve a different concession without undermining the buyer's confidence in the deal, which is backed up by the clawback.

## **4 NOT PRIORITISING YOUR REQUIREMENTS**

Usually there are a number of variables driving the need to sell, but not each one will necessarily be compatible with the desires of the buyer. It is therefore crucial to recognise, understand and prioritise your requirements, so that the deal is a “win-win” for both parties. Decide early on what is important and what is not important, always maintaining flexibility to reconsider and remembering that there are two parties to the transaction and in the grand scheme of things some requirements are not worth sacrificing the deal for.

## **5 REFUSING TO USE A BROKER**

Occasionally you can pull off a quick deal with a friend or colleague and all is well. Otherwise you'll need a broker to ensure the deal goes smoothly and completes successfully. In particular, when you wish to push for a point it is much easier to cause offence when negotiating directly instead of using a third party, who can explain your stance in a more sensitive and less confrontational manner. A good broker will have pre-vetted both sides and understand the background of each party and what they want out of the deal, drawing on experience of completed deals and is usually able to suggest innovative solutions in trickier deals.



# The best time to sell

## 6 KEY FACTORS TO CONSIDER

- You have “had enough” and are losing interest
- You are thinking about retiring within 5 years
- Your practice is performing strongly
- The economic cycle is favourable
- You foresee regulatory or taxation changes that worry you
- The sector is consolidating and good multiples are currently achievable

## Unlocking the hidden value in your practice







## What buyers look for in a practice

- ✓ Diversified client base
- ✓ Ongoing growth
- ✓ Longstanding client relationships
- ✓ Visible online presence
- ✓ Good reputation
- ✓ Opportunities to cross-sell or up-sell
- ✓ Survival beyond retirement of the vendor
- ✓ Reliable cash flow
- ✓ Consistent profitability over the years
- ✓ Good staff relations
- ✓ Good regulatory compliance record
- ✓ A clean, tidy and organised office
- ✓ Neat files that are up to date
- ✓ Contemporary IT
- ✓ Sustainable profitability

## We know what you REALLY want to ask!

### THE BURNING QUESTION THAT MOST PRACTICE SELLERS HAVE IS: “HOW MUCH IS MY PRACTICE WORTH?”

You've probably heard figures ranging from 0.5 to 1.5 times your gross recurring fees (GRF). The answer, as often is the case, is that the true figure lies somewhere in between.

GRF is the most commonly used basis for working out the value of the goodwill within a practice – and remember that it is only the goodwill that you are selling, as you cannot sell clients.

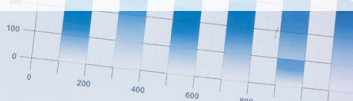
The lowest figure would be for a fire sale, such as a bereavement or sudden serious illness, and the highest figure may be achieved by a highly profitable practice with ideal client profiles that enjoys a sterling local reputation.

The multiple is also affected by location, with large cities typically holding up well and rural practices fetching lower multiples. There are also regional variations to add into the mix.

The number of partners and their plans for retirement, as well as how involved they are on a day to day basis will also influence what can be achieved.

All of the above will be taken into consideration when deciding what multiple to pitch your practice at, in addition to whether or not there are any potential problems lurking beneath the surface that need to be declared.

Year	Revenue	Profit	GRF	Multiple	Value
2018	100,000	20,000	200,000	1.0x	200,000
2019	120,000	24,000	240,000	1.2x	288,000
2020	150,000	30,000	300,000	1.5x	450,000
2021	180,000	36,000	360,000	1.8x	648,000





# Three reasons deals fall through

## 1 SKELETONS IN THE CUPBOARD

Whatever it is that you are failing to disclose was probably a historic event, perhaps a former partner being struck off, a member of staff imprisoned for embezzlement of client funds, a disciplinary matter or you yourself being wrongly accused of something publicly. Either way, you weathered the storm at the time so why won't you weather it now when coming clean with the buyer? Of course there is certainly more than just a theoretical risk when making a full and frank disclosure at the time of sale and exactly when to bring it up requires careful consideration; too early and you'll never see the buyer again, too late and the last you'll ever hear of them is the sound of a phone being put down. But balance all this against the fallout of not making disclosure and the buyer finding out – all trust will immediately evaporate and if you are tied into a service contract or awaiting a final payment it isn't going to be pretty. Even if you do nothing and think you've pulled it off, if the business runs into trouble the discovery could well come back to bite you, however robust your contract drafting may be. So it's down to timing but that's where a face to face meeting, perhaps with the sales broker present, is your strongest gambit – if everything else is going swimmingly an honest unprompted disclosure is unlikely to derail a deal, and in fact is likely to strengthen trust.

## 2 STAFF ISSUES

For many employees the sale of their employer's business can present a golden opportunity to "get even" or extort concessions. Careful planning needs to go into who to tell what and at which stage in the process. If they are in line for a windfall it is much easier to keep them sweet and co-operative and in any event senior or trusted employees need to be made aware of your plans and kept up to speed more than others. If you treat the sale like a state secret something is bound to go wrong just when you don't need the headache. It simply means that you need to think your tactics through most carefully and build in flexibility and quick answers because more often than not excluded staff will work it out or there will be a leak, even if unintentional. There may be pay, promotion or disciplinary issues that are simmering just below the surface, so prior to commencing the sales process it is advisable to tackle these issues head-on with a sustainable and meaningful result that defuses the matter and neutralises "bad apples".





### 3 FAILURE TO COLLECT DEBTS

You have a very profitable practice but your cash generation is lousy. Usually it's because the tail is wagging the dog and your clients have you round their little finger because you are a softie and haven't got what it takes to "demand" your money. Or it could simply be because your practice is inefficient and nobody deals with chasing debt. An accumulated debtors list that is even 30% of last year's fees is going to scare off a buyer for the simple reason that when they take over and ask for payment on demand or monthly instalments these clients are likely to turn on their heels. So it is up to you to train them in advance that bills need paid. One proven way to manage old debt is to ring fence it and perhaps offer a hefty discount for immediate settlement. It works in tandem with implementing a robust and workable method for collecting ongoing fees. It isn't necessarily easy and of the causes of failure it is probably the most difficult to tackle as it impacts directly on your client relationships and takes much time and energy to get right but with the right advice, support and attitude it is definitely achievable.

*The bottom line is that you can of course decide to do nothing about the above potential deal breakers and you may well pull it off, especially if a buyer fails to perform adequate due diligence or perhaps their desire for your fees outweighs any other consideration. Perhaps you'll take a calculated risk, but accountants are traditionally a cautious bunch. Ultimately it all boils down to a single question – "how lucky are you feeling today?"*



To discuss your requirements further, please ring or e-mail us.

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