

The results for the fourth Succession Advisory Survey are in!

The question, which had over 150 responses, was:

1. Is your buyout in your firm:	
	Response Percent
Fixed at the time you retire	61.1%
A variable one based on client retention for the first year after you leave	2.5%
A variable one based on client retention for multiple years after you leave	20.4%
Other	15.9%

The approximately 15 percent of firms that responded “Other” were somewhat varied. Many of the multi partner firms did have a fixed buyout but specified that it was predominantly on a multiple based on varying prior year’s average compensation. The multiple ranged from 2X to 2.5X average compensation per partner. Most of balance of the responses had either 100 percent or a significant portion of the buyout based on future client retention, and the next highest amount were sole practitioners who don’t have a firm plan.

According to our experts, Joel Sinkin and Terrence Putney, CPA from Accounting Transition Advisors, the results were not vastly different from current trends. Terry Putney shared that the majority of the large regional and national firms no longer buy out partners based on a multiple of equity but instead base value on a multiple of historical compensation. Firms that fix the liability at the date of retirement are confident that a single partner’s retirement will not cause a significant client loss and therefore diminishment in value. He also shared that “the smaller the firm, the more often you see a retention period added to the buyout terms.”

Joel Sinkin added a fact that cannot be forgotten in this evaluation: partner buyouts are essentially internal sales. Firms with five or fewer partners often mirror the terms in an internal sale with those used in an external sale. Most of those deals are structured with a retention

period. Sinkin went on to say that “Very rarely is a small firm sold for cash let alone without an extended payout period that adjusts the balance due the seller based on actual client collections and retention variables. This is why an external sale even more than an internal sale needs to be planned ahead to assure an effective transition period so client retention is maximized for the benefit of both parties.”

Terry and Joel further explained that the single biggest trend they are seeing in internal succession for three to eight partner firms is a few partners seeking near term succession and or role reduction in five or fewer years while the remaining partners are seeking long term growth, but also lack the capacity to replace the retiring partners. They have implemented a strategy for these firms where the partners seeking to remain active for five years or less enter into a “Two Stage Deal” (http://www.transitionadvisors.com/articles/two_stage_deals.pdf) in an upstream merger which enables them to retain income and reasonable control while the other partners merge into the combined successor firm and exchange equity in their firm for equity in the combined firm. This is also an effective method of structuring a succession plan for firms with one to two partners who are 5 years or less from slowing down.

Our new membership option, Succession Advisory Section, provides assistance to members: a free market valuation of your firm, market updates, and much more critical information to help our members navigate through these type of issues.