The Art of the Deal

Joel Sinkin, President
Transition Advisors
Transition Advisors

◊ About Us

• Merger and transition advisors exclusively serving the accounting industry
• Customized solutions
• Hundreds of transactions, over 21 years of experience
• Represent the buyer or seller
• Services include:
  • Buyer-seller introductions
  • Merger and acquisition transaction structure
  • Document preparation/review, valuation and due diligence
  • Post-transaction business planning
  • Partnership agreements, retreats
  • General consulting and coaching

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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
Why Time Kills All Deals

- Adversarial Positions
- Is it your priority
- Messages you send when you are not timely
- The bad always comes out
- Momentum
- The 13th time you read the agreement
- Unexpected competition
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
5. Narrow the field and share non binding offers
6. Perform due diligence
7. Close the deal
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
- 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 (What type)
  • 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
- Partner retention
- Compensation

Items you strongly prefer such as:
- Technology
- Staff retention
- Name

Items you are more flexible about such as:
- Software
- Perks
Identify what your merger partner should look like

Start with the Big Four (C’s that is)

A) Culture
B) Chemistry
C) Continuity
D) Capacity

- Specialties
- Technical skills
- Size
- Location
- Technology
Have your initial meetings

1) Share your firm information, goals and must haves upfront
2) Focus on Four C’s
3) Discuss what success looks like
4) Narrow the playing field into top choice(s), bridesmaids and forgetaboutit
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
Methods to Structuring the Transition of a Practice through an External Sale

1. Straight sale
2. Buy in to a Buy-Out
   • Buyer opts in an interest into the firm
   • Buyer may or may not bring clients into the newly combined entity
3. Merger or Buy-Out
4. Carving or culling out clients
5. Two stage deals
   • Sell equity but stay on
   • Less exposure for Seller than #2 and #3
Five Main Variables for Valuing a Practice for External Sales

1. Cash up front, if any (2013 economy impact)
   • Dependent on time of year
   • The deal’s cash flow
   • Treatment of accounts receivable
   • Time to recover investment

2. Retention clause/guarantee (2013 economy impact)
   • Collection deals, deals by percentage
   • Fixed deals
   • Limited guarantees
   • Economy clause
Five Main Variables for Valuing a Practice

3. Profitability
   • Seller’s current profitability / billing rates
   • Buyer’s anticipated profitability / billing rates
   • Tax ramifications of deal structures
     (goodwill vs current deduction)

4. Length of the payout period
Five Main Variables for Valuing a Practice

5. Multiple
   • Cause vs effect
     • Multiple = effect
     • Balance = cause
   • Basic rule:
     • Lower down payment, longer payout period
     • Higher profitability, longer guarantees = higher multiple
   • Tax clients vs Traditional Accounting clients?
Larger Firms External Sales

• Traditionally go for lower multiple and longer payout period
• Retention periods
  • Brand Versus Partner Loyal
• Traditionally never a total sale but a combination of sale, merger and two stage deal
• Do frequently consider hard assets for additional value
Perform Due Diligence

For the mergee/seller

* Prior track record of successor firm in M & A
* 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...
Perform Due Diligence

For the successor firm or buyer:

- Metrics
- The great mystery of billing rates
- Differences in Profitability ... not always important
- Continuity = retention
- Culture
  - Partner Billable Hours
  - Size of Book managed
  - Marketing
  - Dress Codes
  - Billing ... hourly vs value
  - 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

• Unity of Partners
• Impatience
• IT
• Equity
• Firm Name
• Unneeded ‘must haves’
  • Staff
  • Leases
Roadblocks

• WIIFM
• Leases
• Terms that don’t work
• Equity
• Brand versus Partner loyal
• Poorly trained clients
• Accurate understanding of your firm and its metrics
Other Thoughts

• 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 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?
  
  ITS ALL PACKAGING!

CHANGE IS A DIRTY WORD.
THE EMPHASIS NEEDS TO BE ON CONTINUITY.
NOT THE LOSS OF, BUT THE GAIN OF ........
For More Information

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

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