

Webinar Name

Buying, Selling and Valuing Accounting Firms

Actual Start Date/Time

Sep 09, 2008 01:02 PM EDT

Q: Do you ever see longer payout deals being in any way secured as to the seller?

A: The most security I have seen in the deals we have done is a personal guarantee and of course the practice and it's a/r

Q: Would you please review the limited guarantee example you gave where a client goes out of business or moves, or otherwise no longer needs a local CPA. Thank you

A: in some deals, when the full retention period ends, there is a limited retention period wherein if a client is lost because it no longer needed the services of another local accountant (death, sale, relocation, etc...) there is still an adjustment made in the balance due. Clients lost to another local accountant after the full retention period ends have no adjustments.

Q: Talking about limited guarantees. Joel mentioned a scenario where the acquiring firm loses a client because the client goes out of business or moves and no longer needs a local accountant and that w/a limited guarantee provision in the buyout agreement, there would be an adjustment to the payment for this loss. Can you give an example? Thank you.

A: the above addresses the same but here is an example of how it may work. Let's say the deal is based on 1.25X multiple paid out over 5 years and the full retention was 2 years but there was this limited retention agreement for year three. If a client goes out of business in year three we will still owe the seller 25% of what we collected up to such point, but if the value was based on 1.25X, that would mean the buyer gets a credit. The 25% came from the concept that 25% for 5 years would be 1.25X. Thus if a client was a \$1,000 per year and after year two the price locked for that client as \$1,250 but in year three, prior to any fee being collected the client went out of business, the adjustment would be \$2000 times 25% = \$500. The client was valued at \$1,250 therefore the buyer gets a credit of \$750

Q: What is the link to the PowerPoint presentation?

A: <http://www.cpaleadership.com/public/1417.cfm>

Q: To what degree has the recent IRS penalty regime overhaul (Circ 230 and IRC Section 6694) depressed the value of tax practices? Has this increased the supply of tax practices for sale?

A: it has had no impact that we have seen whatsoever.

Q: What is the typical payout time frame for a retiring partner? Do you pay them interest? Do you have a retention component?

A: For internal sales the payout periods we have seen have run from 5 to 15 years with the majority between 6 and 10 for larger firms, 5 and 7 for smaller ones. Very rarely have I seen interest but occasionally I do, in very larger firms there is no retention period but in smaller ones there is typically some. Remember, if they are loyal to the brand, the need to a retention period is less than if they are loyal to the individual!

Q: Talking about payouts based on comp times a multiple...what are the other most common payout structures/plans being seen?

A: For larger firms, I would say the most often I have seen recently has been 3X the average of the prior two years paid out over 8 in a manner that provides the firm a current deduction plus the capital account

Q: Generally, What is the ratio of gross billings to partner?

A: The larger the firm the larger the ratio. Regional firms typically have over \$1M per partner, smaller firms can have much less

Q: To clarify, typically what are the gross billings required to bring on a new partner in a \$5 million firm.

A: Not all firms will attribute only book of business to make a partner. If that firm of \$5M has 10 partners, therefore an average of \$500K each, something within 25% should work. There are interim steps such as contract partner, profit partner, principal. Sometimes someone bring a niche, needed excess capacity, other aspects to overcome the lack of an adequate book....

Q: Do you see personal guarantees from successor buyers on internal buyouts?

A: sometimes, yes...

Q: did you say that in an internal buyout where you pay at the compensation level, you also buy the capital account in addition to the compensation

A: In most of them yes. That said, if the multiple is high enough, it may include the capital accounts for certain deals (or the payout is faster, the tax treatment is better...) remember, these are packages and one variable impacts the others.