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Preparing your Practice for Sale

If you are considering selling your practice, like any project the adoption of a planned approach to the task should reap rewards in terms of a successful outcome. In this article, Colm Divilly outlines such an approach.

To maximise the valuation of your practice, you should beginning planning the possible sale well in advance of the expected sale date. Ideally the adoption of a four/ five year planning time frame will allow you to prepare your firm for sale. In this period you should address the following issues:

Weaknesses in your firm

Common weaknesses that are likely to have a negative impact on the valuation of your firm are:

- Over reliance on one sector or industry for clients. Over a number of years this weakness can be addressed. A firm with clients in the following sectors/ professions will be attractive to potential purchasers:
  - Medical professionals.
  - Technology companies.
  - Clients in the agri-food and related sectors.
  - Successful and profitable family owned companies.
  - High net worth individuals.
- Low average annual fees per client will have a negative impact on the valuation of your firm. Work to improve the average fee per client over a number of years.
- Staff legacy issues should be addressed. Potential redundancy costs are a significant contingent liability on the transfer of a business. If your practice has a number of employees with long service, a buyer is going to have regard to the redundancy contingent liability in the valuation of your practice. Staff legacy issues can often be resolved to the employer and employees satisfaction but to achieve this outcome can take a number of years.
- A firm with a good compliance record in all compliance areas (tax, audit, accounting and company law) will be attractive to a buyer. A buyer does not want to have to deal with compliance legacy issues after acquiring the practice.
- The age profile of your client base will have a significant bearing on the valuation of your practice. This is something that can be improved over a number of years by a new market focus.

Consider the market for your firm

Consider the potential market that exists for your firm. Small firms have an advantage as practices with gross fee income of up to €300,000 are in high demand. The larger practice may have a smaller number of potential purchasers. In a large firm (gross fee income circ. €1 million), the realisation of the owners equity may be best achieved by a merger of the practice with another firm followed by the planned retirement of partners from the newly merged firm over an extended period of time.

Your geographical location will be a significant factor in determining the number of potential buyers. In the major cities and larger county towns a strong market exists for suitable sized practices. In rural locations that demand can be limited and the best strategy may involve the sale of the practice to an existing senior employee.

Planning the sale

A year in advance of the planned sale of your practice you will need to start detailed planning for the proposed transactions. The following steps are recommended:

- Prepare an information memorandum for potential purchasers. This memorandum should provide comprehensive information about your practice.
- Decide on a method of marketing the firm. Some options available are:
  - Advertising the sale in a local newspaper/ professional journal using a box number or sales agent to receive replies. This will allow you to reach a preliminary assessment on the potential purchasers.

  - Appoint a selling agent to make contact with firms likely to be interested in acquiring the practice.
  - Use the services of your Institute to gain access to potential purchasers.
- Create an outline timetable for the proposed sale transaction and adhere strictly to the timetable. Once you go to market, the word will quickly spread that your firm is for sale. This will create uncertainty among your clients about your firm and ultimately could damage your firm's reputation. The time period between going to market and closing a sale of your practice needs to be kept to a minimum.
- Prepare a draft confidentiality agreement that all potential purchasers will be asked to sign.
- Prepare a draft sale agreement that will be used to form the basis of the sale agreement.

The sale transaction

Aim for a swift sales process. Having identified potential purchasers, prepare a short list of preferred bidders. Open negotiations with the preferred bidders for a defined period, agree outline heads of agreement and then provide the purchaser with a limited time period to complete their due diligence and sign the final purchase agreements.

The price

Having been involved as an adviser in the sale and purchase of a number of practices, the one truth I have learnt is that the sale of any practice is unique and the application of standard valuation formulas to arrive at the value of the practice never works. In truth your practice is worth what a willing buyer and willing seller are prepared to agree in a sale transaction.

The deal

Some issues that are likely to arise in reaching an agreement with a buyer can be predicted and these should be considered by the seller at the planning stage. These issues are:

- The payment period over which you are prepared to accept payment for the business.
- Your position on deductions to be made from the final payment for any clients that have ceased to be clients of the practice during the payment period.
- Your role in the practice during the payment period and the level of remuneration you wish to receive for this work.
- During your involvement with the practice in the payment period, it is important that where you contribute to the growth of the practice through the acquisition of new clients that you are rewarded. The agreement should set out the commission you will receive for such introductions or alternatively that you can substitute new client recurring fees in place of fees lost in arriving at the final recurring fee income figure.
- You and the buyer must have a clear definition of what you mean by recurring fees and how these will be measured at the end of the payment period. Ultimately this will determine the price paid.

Making a success of the sale

In many situations the seller will be retiring and will wish to claim Capital Gains Tax retirement relief to maximise the after tax return from the sale. As an accountant and a tax expert the danger is that you neglect your own tax planning as you expertly manage your clients tax affairs. The use of an outside tax consultant to independently examine the tax implications of the proposed transaction may well be advisable.

Accountants have a high degree of loyalty to their clients and the sale of the practice may raise concerns for them as to how the clients will cope with the change in accountant. Normally clients will quickly adapt to the change but in seeking a suitable buyer for your practice, I would advise a seller to do due diligence on possible buyers and if this indicates a poor quality of client service by the potential buyer, consider looking for another buyer. You do not want to spend your retirement meeting former clients who are complaining about how they were treated by the successor firm.

Conclusion

The sale of an accountancy practices is like the sale of any business, where the market place will ultimately determine the price you achieve. I hope it is a market place that is kind to you.