Chapter 1 – Acquisition Strategies

You can have it all – Just Ask

Before an acquisition strategy can be implemented, the objective(s) for pursuing a transaction needs to be defined. Whether the plan is business expansion or a divesture, a merger or acquisition is usually the most efficient way to achieve one or more of the following goals:

- A lucrative exit strategy either long or short-term
- Create buy-in and buy-out opportunities for staff members
- Increase the value of a practice for subsequent merger or sale
- Increase cash flow, economies of scale and profitability
- Gain market share quickly and efficiently
- Add new services; financial planning, information technology, consulting, value niches, and investment advisory services
- Acquire and attract professional talent and potential partners
- Attract superior clients with greater resources

Choosing the Appropriate Strategy

The first step in the merger or acquisition of an accounting/CPA firm is to determine an appropriate exit strategy, based on the partners' goals and objectives. Each strategy has specific marketing, valuation, negotiation, pricing, transaction and legal requirements for structuring the transaction. The following is a list of transactions based on specific exit strategies.

1) **Acquisition** - Selling 100% of the equity with an exit strategy targeted between three and five years.

2) **Buy-In** - Selling less than 100% equity interest (usually less than a majority) to a partner for long-term growth with an eventual exit strategy (5 to 10 years)

3) **Buy-Out** – Selling out one, or more, of the retiring partners' interests while the others remain with the firm. Retiring partners' exit strategy is within one to two years.

4) **Merger** – Two firms joining resources, not necessarily exchanging any cash, and redistribution of equity for long-term growth and market share. These transactions usually represent long-term exit strategies; more than 10 years.

5) **Smaller Firms buying Larger Firms** - When junior partners do not exist (or qualify) to succeed the existing partners, having a smaller firm (with its own book of business) buy-in to a practice provides a long-term exit strategy, along with cash flow. This strategy allows the larger firm to maintain control over its practice while grooming a successor.

6) **Larger Firms buying Smaller Firms** – In this instance, the larger firm almost always purchases 100% of the equity. A pay-out structure that includes sharing in the upside of any growth is usually part of the deal, with an exit strategy that can be either long, or

short-term. In either instance, the selling partners are trading resources and an exit strategy for control over their firm.

The exhibits in this chapter cover issues relating to each of the strategies outlined above. By reviewing them carefully one can determine which transaction is appropriate for ones exit strategy while beginning to grapple with the issues that characterize each option.

Sellers Can Have It All!

Many sellers are reluctant to engage in the M&A process because they have pre-conceived notions that they cannot get 'exactly' what they want from the transaction. Not only with respect to price, but also the terms, the amount of time the seller may stay with the firm, the direction of the firm after their divestiture, etc. What they don't realize is that they are in the driver's seat. Sellers can structure a transaction any way they want, provided their practice is attractive. Even the idea of finding the right buyer is easier and more viable than most sellers believe (with a marketing plan).

Some of the traditional myths and practices that have characterized the M&A market for CPAs are simply defunct in the present-day, dynamic, market place.

<u>Myths and Truths</u>

1) Myth - Firms could only be purchased by firms that are larger than themselves. **Truth** = Small firms buy into larger firms and are groomed to take over upon the seller's retirement.
2) Myth - Buyers require a substantial down payment, in cash, to purchase a practice. **Truth** = Often the entire practice can be financed.
3) Myth - Sellers have to finance a portion of the transaction. **Truth** = Buyers can finance the entire transaction through a bank.
4) Myth - Sellers are forced out of the firm in a short time-frame. **Truth** = Sellers can stay with their firm for as long as they want, it is ALWAYS their choice.
5) Myth - Sellers lose control of their firm and buyers change things dramatically. **Truth** = Sellers can maintain control when they sell to a small firm who will maintain and support the seller's corporate culture.
6) Myth - Sellers' compensation will be reduced after the sale if they stay with the firm. **Truth** = Seller's often increase their compensation after the sale since they are relieved of their administrative responsibilities.
7) Myth - Finding a buyer that is compatible with a seller's clientele, employees, and corporate culture is impossible. **Truth** = This is the most important aspect of the transaction, and we have found that with some patience and the right approach, the perfect buyer exists for each seller.
8) Myth - Many clients with leave the firm after the transaction. **Truth** = Very few clients leave the firm if the transition is organized and executed properly.