

The background is a dark, abstract composition. It features a grid of small, glowing blue and green dots, resembling a digital or data visualization. Overlaid on this are larger, out-of-focus circular bokeh lights in shades of orange, yellow, and blue. The overall effect is a sense of depth and technological complexity.

Accounting Practice Fee Sales The state of the market

Covisory - June 2020

Covisory Accounting Sales & Advisory

Who are we?

- **Nigel Smith, CA**
 - Extensive experience in and knowledge of CA firms
 - Long term practice adviser
- **Mike Bradley, CA**
 - Experienced in business sales both generally and CA firm interests
- **Brian Freestone**
 - Extensive history in management, advisory and M & A deals
 - Deep experience in advising professional practices

Let's take a look at your Career



Where to from here with your practice?

- Buy or Sell or Harvest
- What is best for you?

Goals and Plans

- I'm thinking about partnership
- I/We am a partner in a practice
 - I want to grow my practice
 - Its time to take stock
 - I want to exit
 - There's a problem
- I'm a sole Practitioner
- I want to sell my interest
 - What is it worth
 - How do I maximise the sale
 - How long will it take

Practice health check

Benchmark

Strategy, people and structure

Action plan

- Business growth
- Profitability
- Succession and development plans for staff
- And/or recommended sales strategy

Valuation

Business sale

Internal dispute –arbitration service?

Covisory products



The CA fee and practice market

Whats going on?

Market Summary

- Overall low volume/supply
- High demand, especially for fee blocks to bulk up existing practices
- Quality has been at average to lower end of market
- Prices asked are over valued relative to quality and profitability in our experience
- Split Market – practice sales and fee block sales have different characteristics and should have different pricing

Fee Block Sales

- Sale of a list of clients
- Typically fee paid is retention based unless on death/health event of vendor
- Purely buying a future income stream potential
- No business goodwill or other assets
- Tend to be smaller blocks of excess fees, or on retirement of ageing practitioner

Fee Block Sales cont...

- Usually low-quality fees:
 - Ageing clients
 - Little opportunity to add value
 - Tend to be simple accounts and returns
- Sought after as bite sized and easy to add onto an existing fee base or practice, and often enough to start out a new practitioner needing more fees to get started

Fee Block Sales cont...

- Tend to suit younger generations who don't like partnerships and structures
- Note non-deductible for both cost of purchase and of any WIP purchased

Practice Sales

- Can be profit, cost or equal profit-sharing practice. Need to understand how it works.
- Buy into existing structure, overheads and facilities
- Turn-key
- Very good option for someone starting out as a practitioner as provides mentoring and support

Practice Sales cont...

- Need to determine:
 - Quality of other partners
 - Future partners for succession
 - Compatibility personally, professionally and for marketing/image
 - Cultural fit is critical to success
- Buying business goodwill, name and systems, not just a list of customers

Practice Sales cont...

- Due diligence needs to be extensive:
 - Insurance
 - Debtor collection
 - WIP/write offs
 - Practice review

Practice Sales cont...

- Further factors to focus due diligence on:
 - Nature and split of services
 - Age of Clients
 - Track record regarding 'churn' of clients
- How are Practice Sales and Purchases transacted?
- How does this differ from the equity value of Practices?
- What is happening in the market place for 'retention sums' and payment of consideration structures?

Practice Sales cont...

- Much harder to find buyers
- Internal succession of staff or other partners is norm
- Often better alternative is to merge whole practice into/with another
- Many practitioners do not have a high enough fee base to be able to generate decent profits, even if efficiently run
- Quality of practice, systems and profits often a problem

General Market Observations, Comments

- Bulking up
 - More fee \$ per partner
 - Allows higher profits and more efficiency
 - You need more than \$1m of fees per partner
- Wage cost pressure continues along with lower productivity and higher write offs
- Driving a move to outsourcing when can't get staff or as a means of improving profit
- Accounting is becoming a fixed price commodity
- Value add is in the advice you give

General Comments cont...

- The default should be to merge up not down
- Succession has often not been addressed at all or too late by most practices:
 - It's a 3-5 year time frame
- Continued issues with younger generations:
 - Debt and responsibility averse
 - Well/over paid
 - Lifestyle focus over work/career
 - Happy to be highly paid staff/manager and to go home at 5

General Comments cont...

- Practitioners increasingly becoming their own worst clients
- Longer hours, less profit, excessive lock up
- Equates to lower practice value and harder to sell
- Many practitioners running their practices into the ground

Show me the \$ - Market Pricing

- One sale does not set a market price
- Is yours really equal to the best house (practice) in the street (market)?
- Everyone expects top dollar when they come to sell but:
 - They don't understand objectively the value of their practice
 - They fail to stage the sale properly
 - Poor sales process often with an uncontested sale with only a single buyer bidding



Show me the \$ cont...

- Poor practice management and profitability, will lower the price
- You need to prepare your practice for sale and stage the sale
- What can you do to make the sale look better?



How we Value

- 3 different ways for practices
- Compare the results of each to come to overall answer
- Traditional cents per \$, also solely used for fee block sales
- PE multiplier
- Pay back period

How we Value cont...

- Valuation methods
 - 'Rules of Thumb'
 - Pay-back Period
 - EBIT Multiplier
- Transactional Data
- The 'Arithmetic'

Traditional cents per \$

- Need to have regard to a variety of factors:
 - Region/location
 - Profitability
 - Nature/type of work
 - Scope to add value/new services
 - Age of client
 - Niche/specialisation
 - Write offs
 - Average fee per return

Traditional cents per \$ cont...

- This is a subjective factor
- We see fees in Auckland ranging from \$0.60 or less to over \$1.25
- Most are at the lower end of the scale
- Fee block sales will typically be lower than practices

PE Multiplier

- Allow wage for senior staff member of associate to service
- Stability of income and future growth (blue sky) drive multiplier up
- Normalisation – can be done but better to get the private costs out or clearly identified and verifiable
- PE of 4 for a good practice, higher for great

Payback

- Clients don't stay forever
- Buying an income stream
- You are not paying to go and find yourself new clients
- Especially relevant for fee blocks
- Again allow cost for servicing
- Payback 3-4 years for fee block, 5 year max for practice interests
- Calculated after tax and interest so that purchase price/debt fully repaid within these time frames

Staging the sale to get a better price

- Takes 6-12 months of hard work
- Tidy up WIP
 - Write off old
 - Improve billing frequency so WIP reduces
- Aggressively collect debtors
 - Payment plans for troubled clients
 - Change to part up front, balance on delivery
 - Credit card payment
- Look hard at whether you are charging enough

Staging the sale to get a better price cont...

- Tidy up staff
 - Get rid of under performers
 - Outsourcing
 - Decent employment contracts
- Review overheads
- Upgrade IT systems and software
- Tidy up the office
- Understand your competitive advantage
- Website and marketing profile

Staging the sale to get a better price cont...

- When you go to market do it properly
 - Information Memorandum with key summarised data
 - Term sheet for sale – what do you want the contract to say
 - Create a competitive process with multiple bidders
 - Work out in advance who will pay more for what you are selling

Staging the sale to get a better price cont...

- What does an acquirer look for?
- Does the acquirer have the capability to absorb the acquiree?
- What about the respective 'cultures'?
- 'Relationships' are key.

Who should sell it?

- You don't sell your own home or properties, so why sell your own business/practice?
- Get assistance to prepare, stage and sell it as you are usually too busy to do it yourself and you want to maximise the price
- But be realistic
 - Start early
 - It's a 1-2 year process to do it properly

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How can we help?

Advice on

- Valuing your practice
- How to increase the sale price
- Development of key staff into purchasers/succession plans
- Marketing and sale of fee blocks and practices in a competitive sale process
- Honest feedback
- Practice health check or strategic planning
- Practice disputes / claims

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