



# A Graceful

Options for Exiting  
&  
Navigating Seller/Buyer Concerns





# Presenter Bio

## Trent Holmes

- Sales and acquisitions specialist with Accounting Practice Sales (APS), the nation's largest marketer of accounting firms and tax practices.
- Started with APS in 2005 and has been a partner of APS Holmes Group since 2010 which is an independent franchise of APS.
- Has brokered the Sale/Merger of nearly 300 practices ranging from small sole proprietorships in the \$150K - \$200K range to medium size \$3M - \$5M firms.





# Options for Exiting

- Die at Your Desk
- “Pick up Your Files”
- Groom a Successor or Partner
- Merge or Be Acquired
- Sell the Practice





Getting out is not a matter of “if.” It is a matter of “when.”





# Die at Your Desk

## Advantages

- A. Easy; no planning on your part

## Disadvantages

- A. No value for your business
- B. Clients may not be taken care of
- C. Burden left for family

## Planning for Death

- A. Wills/Instructions
- B. Buy/Sell Agreements





# Options for Exiting

- Die at Your Desk





# Options for Exiting

- Die at Your Desk
- “Pick up Your Files”





# Your practice does have value...







...but selling your  
practice won't  
make you rich.





# Options for Exiting

- Die at Your Desk
- “Pick up Your Files”
- Groom a Successor or Partner





# Successor or Partner

## Advantages

- A. Clients taken care of
- B. Value received for your business
- C. Smooth transition
- D. Ease into retirement

## Disadvantages

- A. Finding the right person
- B. Compatibility
- C. Time involved to make work
- D. Paying for this person
- E. Arranging the payout for you





# Options for Exiting

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- Merge or Be Acquired





# For our purposes, the differences between a sale and a merger are:

1. In a merger the owner stays on and works in some capacity
2. In a merger the owner may be getting stock or equity rather than cash





# Merge or Be Acquired

## Advantages

- A. Clients taken care of
- B. You continue to work

## Disadvantages

- A. Difficulty in finding right situation
- B. Partnership problems
- C. You continue to work

## Problems with Continuing to Work

- A. Do you really want out?
- B. Giving up control
- C. Paying for your transition





# Options for Exiting

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# Sell the Practice

## Advantages

- A. Usually a clean break
- B. Cash or equivalent value

## Disadvantages

- A. Usually a once-in-lifetime event
- B. Will the transition work?

## Advantages to selling on your own

- A. Don't need to find a broker
- B. No fee to a broker
- C. Possibly a known buyer







# Sell the Practice

Is this your best value?





# Sell the Practice

## Advantages to selling with a broker

- A. Confidentiality
- B. Large pool of buyers/better price
- C. Broker should know the market/prices
- D. Broker does most of the work
- E. Experience in all phases of process
- F. Broker should pay marketing costs





# Seller/Buyer Concerns

- Confidentiality





# Confidentiality

- Seller's Three Worries
  - a. Risk of competitors knowing
  - b. Risk of clients knowing
  - c. Risk of employees knowing
- Confidentiality agreements
- Use of third party
- Notifying employees





# Seller/Buyer Concerns

- Confidentiality
- Due Diligence





# Due Diligence

- Verification
- Steps in the process
- Seller concerns
  - a. Is the buyer competent?
  - b. Is the buyer interested?
  - c. Can the buyer pay?
- Buyer concerns





# Seller/Buyer Concerns

- Confidentiality
- Due Diligence
- Employees





# Employees

- Cannot protect completely
- Employment contracts
- Employee non-compete







# Seller/Buyer Concerns

- Confidentiality
- Due Diligence
- Employees
- Furniture, Equipment, WIP, AR





# Furniture, Etc

- Be clear on what is included
- What are some used desks and used computers worth?
- Pro-ration of work-in-process
- A/R collections





# Seller/Buyer Concerns

- Confidentiality
- Due Diligence
- Employees
- Furniture, Equipment, WIP, AR
- Contract, Non-Compete Covenant





# Contract, Non-compete

- Always use an attorney!
- Make sure everything is clear
- Seller financing clause
- Non-compete for geography, time and/or specific clients
- Seller retaining clients





# Seller/Buyer Concerns

- Confidentiality
- Due Diligence
- Employees
- Furniture, Equipment, WIP, AR
- Contract, Non-Compete  
Covenant
- Transition





# Transition

## Problems with Extended Transition

- a. Compatibility
- b. Financing
- c. No transition until seller leaves

## Main duties of seller

- a. Client notification
- b. Buyer recommendation
- c. Availability





# Seller/Buyer Concerns

- Confidentiality
- Due Diligence
- Employees
- Furniture, Equipment, WIP, AR
- Contract, Non-Compete Covenant
- Transition
- Risk & Client Retention





Point to remember:  
We are selling something that  
doesn't even belong to us!







# Risk & Client Retention

Somebody has to take the risk

Clients can be retained but it takes both  
buyer and seller

There will be client loss

Buyer fear of losing 50%+





# Risk & Client Retention

## Risks

- A. Normal operations
- B. Ownership change
- C. Non-cooperative seller
- D. Employee taking clients
- E. Incompetent buyer





# Risk & Client Retention

## Mitigating Risks

- A. Trust between buyer & seller
- B. Duties of seller & buyer are clear
- C. Non-competes/employee contracts
- D. Some seller financing
- E. Pay-outs based on collections
- F. Look backs (earn-outs)





# Seller/Buyer Concerns

- Confidentiality
- Due Diligence
- Employees
- Furniture, Equipment, WIP, AR
- Contract, Non-Compete Covenant
- Transition
- Risk & Client Retention
- Practice Valuation





The seller may determine the asking price but the buyer determines the value.





Asking what practices are worth is like asking what houses are worth.





# Practice Value

## Primary Factors

- A. Gross
- B. Location
- C. Profitability
- D. Client mix
- E. Size & age of practice
- F. Various other negative factors
- G. Terms





# Value Factors: Gross

Accounting practices sell on gross

1 X gross: prevalence of view

1 X gross: guideline not a rule







# Value Factors: Location

- “Location, location, location”
- Across the country
- Rural/small city vs. large city
- Within metropolitan area
- Office building





# Value Factors: Profitability

- Cash flow is a factor but not “the” factor
- Relation to billing rates
- The big two: labor & rent





# Value Factors: Client Mix

- Recurrence of revenues
- Tax consulting vs. tax compliance
- Investments; business valuations
- Tax vs. write-up
- Pool of buyers





# Value Factors: Size & Age

- Sized of Practice
  - Limited number of large practices
  - Small practices may lack cash flow
  - Manageable size (individual vs. firm buyer)
- Age of practice
  - Well-established vs. new clients
  - Age of clients
  - Reason for exiting





# Value Factors: Negatives

- Poor Records
- Long-term Lease
- Personality of Seller
- Curb Appeal
- Large Clients
- Employee Problems
- Declining Growth





# Value Factors: Terms

## Four Ways Practices are Sold

- a. Collection Pricing
- b. Look-back Pricing
- c. Cash Pricing
- d. Fixed Seller Financed Pricing





# A Graceful Exit:

## The End:

Options for Exiting  
&  
Navigating Seller/Buyer Concerns





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