Case Study Number 10: A 4-partner firm with two partners who seek near term succession and two who seek professional and financial growth

The Firm

Firm A was a firm generating $5,000,000 in annual traditional accounting compliance revenues with a niche working with Law Firm. Although they had good staff, which included one manager, a few seniors and juniors, they did not feel they had anyone on their bench strong enough to replace the two partners (who each owned 30% of the firm) seeking to reduce their role. One of those partners handled much of the audit work and the other was the managing partner who had a small book but oversaw the administration, quality control, and the other traditional obligations of the managing partner. The two partners seeking growth were both tax partners with significant books and relatively little capacity. The firm was very profitable and the current partners were netting 40% of the gross revenues.

The Consultative Deal Structure Process

Transition Advisors (TA) was hired by Firm A to develop a larger firm to merge with. The goals of the merger were to enable the two senior partners to gradually reduce their role and seek succession (one wanted to be part time within 2 years, the other 4 years). The deal TA recommended was a Two Stage Deal for the two partners seeking near term succession and a merger for the two others. ATA identified a small regional firm who had excess capacity on a partner and manager basis.

Deal Structure

All the clients and most of the staff were transferred to the successor firm. The deal was held out to the clients as a merger, not a sale. The successor firm agreed to keep the two senior partners seeking succession whole in income, providing their revenues and time commitment remained steady. In the event their revenues or time commitment reduced in the first year in the first year, their comp would be adjusted pro rata. On the first of the following events, stage one would terminate and stage two would commence:

The end of year 2 for one partner, year 4 for the other

At the time either of them reduce their time commitment to the firm below 60% of current efforts

Death or disability

Terms of stage two: Upon the effective date for each partner of the termination of Stage One and the commencement date of Stage Two

Each partner was to receive a 1X valuation multiplied by 30% (their equity ownership) of the actual average collections from their firms original clients over the subsequent 3 years, paid out over 10 years, structured in a manner that provided the successor firm a current deduction.

Each retired partner was offered a new business development program wherein if they developed a new client that the successor firm retained, they were paid a new business referral bonus equal to 15% of collections for three years

The terms included reasonable transitional assistance. However, if the retired partners were asked to perform chargeable work, they were to be paid 33% of what they were billed out for on each such mutually agreed upon task.

The partners remaining on:

Each of the two partners staying on exchanged equity in their original firm for equity in the combined successor firm based on a fraction where the numerator was their ownership interest in their original firm multiplied by the repetitive business of those clients and the denominator was the two firms combined repetitive revenues. They were kept whole in income and placed in line to participate as partners in the growth of the combined successor firm. These new partners contributed their share of the A/R and WIP to the successor firm establishing their capital account, which will be returned to them along with a buyout when they retire in the future.

Certain facts and descriptions have been altered to protect the confidentiality of the parties involved in the above transaction.