



## Case Study Number 2: A Multi-Partner Firm with Dissimilar Retirement and Career Goals

### The Mergeree

The 4 partner firm seeking the upstream merger (the "mergeree") was generating \$3,500,000 in annual fees and quality staff members. However, two young and talented managers were not ready to be promoted so they couldn't become part of a short term internal succession solution. The most senior partner, who was seeking an immediate role reduction, handled much of the management of the firm and performed the least amount of billable hours. The other three partners averaged 1,300+ billable hours annually.

We started the process by requesting information from the mergeree that described the practice in sufficient detail for prospective successor firms to make a preliminary evaluation of interest. We also helped the mergeree determine what each partner's personal goals for a merger were. With our assistance, parameters were established for the type of successor firm to consider based on size, culture, location and other important variables. The key thing we learned from the mergeree was that one partner was seeking to reduce his role immediately, another partner wanted to work three more years and then retire. The last two partners were young and desired to work indefinitely.

### The Successor firm

The successor firm was an eight partner firm generating \$9,500,000 in annual revenues prior to the transaction. It is a diversified firm that also provides a lot of consulting for its clients in addition to compliance services. The firm had the capacity to replace any professional resources in the mergeree firm that would be lost due to retirements or otherwise following the merger. The firm also was able to create enough office space to move the mergeree into their offices. Finally, the successor firm had a clear and concise business plan that emphasized long term growth. The successor firm's goals were to create growth, add more talent to the firm, and improve their competitive position in the market. Although the mergeree wasn't able to fully develop the two young managers in time to create a succession team, the successor firm targeted them as fast-track partner candidates.

### Negotiation Process

After initially meeting a few firms of varying sizes ranging from \$5,000,000 to \$100,000,000, the mergeree narrowed the field to the firm we introduced and described above. We assisted in drafting a proposal and a verbal agreement was reached. We prepared a letter of intent and due diligence lists (provided by us to the parties) were exchanged. The parties conducted field reviews. We provided first drafts of contracts and a transition plan. The time from introduction to having the terms resolved was approximately 13 weeks.

### Deal Terms

Because each of the mergeree partners as a group had three different career goals and timeframes for their succession, Transition Advisors recommended that a different deal with the successor firm be created for each partner. Creating customized deal structures is a specialty of Transition Advisors. The deal was structured as a combination of the following three approaches:

An Outright Sale (see Case Study Number 3) for the most senior partner

A Two-Stage Deal (see Case Study Number 1) for the partner 3 years from reducing his time commitment to the firm

A Merger (see Case Study Number 4) for the two partners seeking to remain active indefinitely

### *The senior partner seeking an immediate role reduction*

This partner was bought out based on a 1.0X multiple with a limited retention period. The payments were structured to be deductible for the buyer as paid (in the form of retirement payments). The payout period was 8 years, but the first payment was deferred for six months while this former partner was paid 60% of his past normal compensation for devoting 60% of his time (compared to past efforts) to assist with transition and provide a hands-on orientation to his clients. His share of his firm's capital was retained by him as it was liquidated, primarily due to the collection of accounts receivable.

### *The partner seeking to work three more years and then retire*

Although this partner was held out to clients, staff and other partners as a Principal, he did not want the liability of ownership and accepted no equity in the successor firm. He became, in essence, a contract partner. He wanted to remain on for the three years and he received roughly the same compensation package he enjoyed as a partner of his old firm, as long as his book of business and hours devoted to the firm remain the same. If he elected to reduce his time commitment to the practice prior to the end of the third year, he agreed to accept pro rata reductions in his compensation package. His portion of the buyout payments, which were determined in an identical fashion as the senior partner's payments, were deferred until the first of the following events:

The date he reduced his time commitment to the practice below 60% of his past "full-time" efforts (due to his voluntary election, death, or disability)

The end of the third year

### *The partners seeking to work indefinitely*

These partners became equity partners of the successor firm. Their equity was established based on their equity in the old firm adjusted pro rata by the relative revenues of the two firms. Their compensation package remained whole with what they were earning at the time of the merger and entitled them to profit sharing, retirement benefits, and all the other perks and benefits other partners of the successor firm are entitled to. We assisted in modifying the successor firm's operating agreement to admit them as partners.

## **Benefits to Both Parties**

The successor firm added two equity partners, staff and additional clients (and the attendant revenue). The transition was extremely smooth. The firm increased their stature as a strong local firm in the market. The mergeree was able to obtain a solution to their succession needs and each partner accomplished their personal, financial, and professional goals.

## **Results Thus Far**

This deal is in its second year. Because of the detailed transition plan we worked out prior to closing, no client has been lost for reasons other than the natural attrition every firm experiences. The first partner has now retired but remains "of counsel" to the firm and shortly the second partner shall do same. All of the mergeree's professional staff members, other than one person, have been retained. The successor firm's increased profile is paying off as expected. The mergeree has found that their referral network is now much more willing to refer them larger opportunities due to their being part of a richer service environment. The mergeree's clients are utilizing more services as well. Their new business development in the first year was about 30% of the volume they brought to the successor firm.

We helped the firms to come to the agreement detailed above including creating the deal structure, valuing the respective practices, identifying means of handling liability issues, addressing firm name, a transition plan for clients and staff, treatment of accounts receivable, work in process, due diligence, partner compensation, documentation of the deal in the form of final agreements, and negotiations.