Case Study Number 3: An Immediate Sale and Transition of a Practice

The Seller

The seller, located in a densely populated area of the country, is a two-partner firm with three staff and 1 clerical person generating approximately $1,000,000 in annual revenues. Although the practitioners felt they had a strong staff, none of them could be step up to adequately be their replacements. Their goal was to immediately reduce their role and time commitment to the firm but remain available for a proper transition. The practice was predominantly compilation and tax oriented with a few non-profit audits. These sellers were netting a combined 55% of revenues including salary, perks and most of their benefits.

The Buyer

The buyer is a multi-partner firm generating $10,000,000+ in annual revenues. It is a diversified firm that also provides various types of business and financial consulting. The firm had additional capacity in their offices. They also felt their partners could absorb a practice of this size without adding new partners. The firm was not able to provide much additional production from its existing staff without hiring new staff. The firm's goal for any acquisition included acquiring a practice that had existing junior and senior level staff to avoid having to hire a lot of people at one time.

Deal Terms

The buyers agreed to pay the sellers a 1.05 multiple of fees as follows: 1) The payments would be made over 7 years structured 20% as a sale of intangible and tangible assets and 80% consulting (allowing the buyer a current deduction). 2) The sellers received $50,000 at closing as a down payment. 3) The payments would be based on paying the sellers 15% of gross collections received from the clients acquired for the seven years. 4) The first $25,000 the sellers would have been entitled to in years one and two would be credited against the down payment. The above payments included the hard assets and one to two personal introductions by the sellers to the buyers for each business client, participation by the sellers in approval of an announcement letter, an orientation to the files and reasonable communication between the sellers and buyers as well as the sellers and their former clients. The sellers retained their accounts receivable, work in process, cash, and other assets. If the sellers were requested to go beyond these included transition services, additional compensation was required based on paying the sellers a guaranteed minimum hourly rate or one third of what they were billed out for, whichever was higher. The sellers were also provided a new business incentive program rewarding them for referrals of new clients they developed post-closing.

Benefits to both parties

The successor firm increased their pool of clients, revenues and their talent depth as the seller had the three quality staff members that were part of the deal. The successor firm is also stronger due to a larger client base, will be able to pay for the practice out of the current cash flow it will create, and the firm's partners should enjoy increased compensation immediately.

The sellers found a quality home for their clients and staff, received premium compensation for their years of sweat equity from a solid firm who made them feel secure in the buyout. The sellers were also in a position to benefit in the buyout compensation from the potential and expected growth of their practice in the successor firm. Plus their ability to refer new business to this firm even after they left active practice created upside as well.

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