WESLEYAN BANK

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GETTING THE FUNDAMENTALS OF ACQUIRING A PRACTICE RIGHT

Whether it is the chance to grow the client base, provide new services, strengthen sector expertise or even extend geographic reach, an acquisition can be the start of an exciting journey.

It's important that throughout the acquisition process you draw on your professional experience and don't get caught in the thrill of the chase. Make sure that your senior management team share the vision that investing in another practice will deliver benefits for all.

When it is agreed that an acquisition is the right move, careful research will show whether the target practice is the right one for you and any due diligence will find whether it meets your vison for the future.

Wesleyan Bank is drawing on its experience of successful accountancy acquisitions to provide a guide through the complex processes involved in buying another practice.

FINDING THE RIGHT PRACTICE

As with any other purchase, caveat emptor applies to the acquisition of a practice.

Find out at an early stage the reasons why the partners or directors at the 'target' practice are looking for a sale. Do they need support to grow the business; are they wanting to exit the business; or even are there underlying issues in what is an otherwise a seemingly sound business.

If your research has found a practice which is not known to be on the market, consider the benefits that you can add which will tempt its management team to consider selling to you.

For both scenarios ask the following questions:

- Does the potential practice share common sectors? How will the acquisition grow your existing business, and does it bring new or complementary services to your offer?
- Will it provide the opportunity for you to upsell and cross-sell services to their existing clients?
- Are the clients a good 'fit'? The number of retained clients maybe impressive but does their size and sectors reflect your current client base and can they be successfully integrated?
- Do the initial financials tell the whole story? Do they come from regular or project fees? Does the practice have a strong track record in referrals either from clients or other professional advisors?
- Is there regular or irregular income and is it weighted towards a couple of clients or evenly spread across the business?
- Do the staff have the right skills and is the business culture one which will make for an easy transition?
- Will IT systems easily integrate or is an investment in technology needed to support a merger?

Having decided that this practice is worth further consideration put in a place a non-disclosure agreement to enable confidential discussions and a due diligence process to start. This will help inform the decision as to whether this is the practice for you and inform the valuation you put on the business.

Consider engaging another firm to carry out the due diligence. This will give you an independent view of the business.

UNDERSTANDING THE BUSINESS

The due diligence process provides the story behind the practice and will also help to find any danger signals there may be about the business.

During the process the key information to access includes:

- Full financial disclosure with the last three years audited accounts and access to bank accounts
- Client files to understand service and fee levels and seek detailed information on the top 10 clients
- Statistics on client losses and the reasons behind them
- Hourly charge rates
- Breakdown of fees versus project fees
- All work in progress
- Staff salaries and remuneration packages
- Total partner drawings and whether profit share is proportionate to equity held
- Partnership agreements and staff contracts
- All leases and rental agreements for property and equipment
- Book values of all fixtures, fittings and other assets
- PI insurance track record and information on any recent claims or those pending

Having gained this information how do you arrive at a valuation for the business?

Buying an accountancy practice differs from other similar commercial transactions where the valuation takes in to account underlying profitability. In accountancy the valuation – or goodwill – is based upon the sustainable turnover including recurring fees and special fees.

The value is reached by putting a multiple to that figure which averages between 0.9 – 1.2 times and will be based on the buyer and the seller reaching an agreed figure.

It is also important to take the practice's client retention rate into account in the valuation. The Institute of Chartered Accountants for England and Wales puts levels at around 85%. Does the practice meet that?

You should also understand what allegiances clients have towards individual partners. Are clients tied into a contract or could they disappear with a change of ownership, particularly if that partner leaves?

STRUCTURING THE DEAL

Agreement on the structure of payment terms needs to be reached. In accountancy practice sales, these are usually paid in three stages - 40% on completion; 30% in the second year; and the final 30% in year three.

The payments will be contingent on achieving the fees which are expected and agreed with the seller and based upon the due diligence process.

If the fees don't materialise then having a clawback agreement in place means being able to deduct those fees from the outstanding purchase price.

Not having a clawback agreement in place is a risk however, if the seller is looking for a clean break with the business, they may prefer not to have a clawback provision.

Details of any clawback must be clear in the final contract with the circumstances clearly set-out for when it will be invoked. If the clawback is applied, the seller has the right of discovery to ascertain that the claim is correct.

Sale agreements are complex and can catch out the unwary. While it may be tempting to negotiate the purchase yourself, it is important for peace of mind to work with experienced financial and legal advisers, who have experience in the purchase and sale of accountancy practices.

This will ensure that the pre-sale preparation is correct and help to prevent exposure to risk after the deal is concluded.

SECURING FINANCE

Having agreed on a figure, depending on the size of your practice, it is unlikely that you will want to use your reserves to fund the acquisition.

A finance provider who specialises in working with professional services firms will be able to offer support and advice to make the process as streamlined as possible.

Their experience will help to identify the best financial solution for your situation. The package terms are likely to range to periods of up to 20 years which will help you grow and achieve your ultimate professional and business ambition.

You'll be ready to go once you have secured your finance and completed all the necessary administrative and regulatory requirements.

As part of the plans it is important that you put in place a transition plan which addresses the needs of clients and staff. Make sure that you use face-to-face meetings to build relationships and don't become the faceless new owner.

While buying a practice does come with risk and rewards, careful planning and support from legal and financial practitioners and the active involvement of both practices' management teams it can be a real springboard to success.

Wesleyan Bank can provide the step-by-step financial support for acquiring a practice. As well as being able to provide funding for the acquisition, it can offer flexible loans for investment in new equipment, short-term capital loans and even commercial mortgages when you want to expand.

To learn more about how we could help you call the team on **0800 980 9348** or visit **www.wesleyanbank.co.uk.**

To find out more:

- 0800 980 9348
- wesleyan.co.uk/accountantcommercial

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