FIRM MANAGEMENT

The Baby Boomer's Guide to CPA Firm M&A Happiness

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Succession is a front-and-center issue for "baby boomer" CPA firm owners looking toward retirement. For many, however, internal succession is not an option. So, they look to M&A with another firm to secure an exit.

The harsh reality in today's M&A market? Too many other baby boomer firm owners are crowding the market! And they're hungry to sell. The supply of practices owned by older firm owners is large and the demand for them is shrinking. Valuations for firms are under pressure and boomers have many reasons for gloom.

So, what is a worried owner-seller to do?

There is a road to happiness in the current conditions. However, it may not be easy—and may not include avenues that have been successful in the past. Here are the 8 most important ways baby boomers can find M&A happiness.

1. **Pursue a transaction five years earlier than you anticipated launching your exit strategy.** In many cases, successors are stretched to transition their own Boomers. The more time you allot, the better.

2. **Consider a serial transition and transfer.** If you are a seller with a practice you think is worth a certain dollar figure, work out a deal with the acquirer to take on a percentage now and the rest in a few years based on mutual plans. The effect of a serial transition is that it does not create an immediate strangulation of a successor dealing with their own staffing, financial, or other issues.
3. **Accept alternate valuations and deal terms for different client categories.** Some engagements are more profitable than others and different types of clients are more desirable than others. Two typical categories on the radar screen of acquirers are 1040s and large engagements. A buyer may not be as interested in a large number of 1040 clients in a lower fee range. That business might be valued lower. Larger engagements in the seller's portfolio may comprise a substantial percentage of the total revenues. The buyer could see risk due to the concentration. A buyer might attach a higher value to the larger clients but look for a longer retention or require hitting certain engagement benchmarks for a value with no change in length of retention. Sellers should be flexible in packaging the elements enticing to the buyer.
4. **Incentivize your staff to remain post-merger.** If the seller expects key players at the firm to leave in the first year after the merger, they should figure out an incentive plan such as a staying bonus with proceeds from the sale to get them to stay. Providing the buyer and the clients of the seller with personnel continuity is an advantage to retention of staff, business, and growth.
5. **Emphasize performance in the compensation deal structure.** A game-changer for getting to the closing table will be deferral of a component of compensation to a later date and using incentive performance with limited guarantees on compensation for the sellers. The more the seller could be a true partner, the more desirable the firm will be. The more confident the seller, the more creative and interested the buyer will be. Of course, a healthy and realistic mix to the compensation components is a must.
6. **Extrapolate potential.** The seller should estimate growth in the practice—and be ready to communicate that to the next owner. For example, a seller might routinely refer out existing clients' work because the firm doesn't provide those services. However, that is a potential value point for a buying firm that *does* provide those services. Know the potential in selling services to existing clients and quantify it. If the potential is strong, express it early in the conversations.
7. **Clean house of certain clients.** Eliminate poorly performing engagements ahead of marketing your firm—or create improvements early. Buyers are not looking for fixer-upper practices. Explore the acceptable engagement

performance range and use it to guide changes. The better the metrics look, the more encouraging the options for M&A will be.

8. **Be well-coached for communicating.** Every meeting is an opportunity to make the right impression. Rehearse responses with a communications expert and with your partners or someone you trust. Be fluent in the metrics of your business and be sure that all emails are polished and proofed. Timely and impressive communications will gain the right kind of attention from buyers.

Be aware of the marketplace and your firm's performance and competitive advantages. Baby boomers must be opportunistic and aggressive about the strengths of their firm—but, at the same time, must not be too aggressive, which reads as desperation. Flexibility, creativity, and market intelligence are the keys to success in today's M&A market for baby boomers.

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