

# M & A is Hot – Brand New Info From the PCPS Succession Survey

By Gary Adamson, CPA

The 2012 PCPS Succession Survey is out and provides us with data from almost 1000 firms across the US on how they are dealing (or not) with succession. The survey also reveals a lot of information that we can use to help us navigate our firms through the Merger and Acquisition waters. There is no question that M & A is hot. Take a look at any industry publication. It is unusual if Accounting Today's daily edition doesn't report a sizable deal.

The survey asked the multi owner firms (509 participants) whether they had been in active M&A discussions in the last 24 months and/or if they were planning to be active in the next 24 months. Forty four percent said yes! This is where it starts to get interesting.....of those 224 active firms, 64% said that they were the buyer, 15% said that they were the seller and 21% said that they could be both. Think about that last number. We have more firms today than ever before opening their minds to a transaction that will solve their problem(s) and being willing to look at all options.

One of the most interesting tidbits from the survey was a question directed to the 432 responding sole practitioners (solo) about practice continuation agreements. In case you are not familiar with this type of agreement, it is a document that most consultants (including this one) have been recommending to their CPA firm clients for years. The idea is that the solo enters into an agreement with a larger friendly firm to "step in" and acquire the practice in the event of the solo's death or disability. It avoids the fire sale and provides some order and planning to what will happen. Makes a lot of sense for both parties. Right?

Ninety four percent of the solos said that they do not have a practice continuation agreement with another firm. That is actually up from 91% in the 2008 survey and is in spite of larger firms pushing the concept for years. Your initial reaction to the numbers might be that there is a big opportunity here and you should contact all of the solos in your area and start getting these negotiated and in place. That would be the logical but incorrect answer. After many conversations and interviews with solos I can tell you there is something else going on.

The message here is that there is just something about the sole practitioner, perhaps that deep down independence that makes them want to practice as a solo in the first place, that gets in the way of executing something that seems to make so much sense. The apathy is even more interesting given the aging of the Baby Boomers and the need to do something, soon. Rather than fight it, my

suggestion is that if you are a larger firm you probably should look to other options besides chasing practice continuation agreements.

One option to consider that is a relatively new approach is the concept of a two step deal. It works if the solo is nearing retirement and it might give you a new reason to talk. The basic notion is that in step one the solo and the larger firm cohabitate while the solo maintains quite a bit of the desired independence and continues to serve the clients. Step two is down the road in two or three years and is when the buyout really begins.

The survey did provide some guidance on deal multiples and terms from the perspective of those same sole practitioners. These are expectations, not necessarily what they have been offered. When asked “what value do you expect for your practice when you retire”, 48% answered 100% of billings, 10% said 110% of billings and 11% said 120% of billings. The category receiving the next highest number of votes was 150%+ at 8%. Good luck on that! Although beyond the scope of this article there are a lot of factors in any deal that influence the multiple including things like geography, projected profitability in the acquiring firm, up front cash, retention/guarantee clauses, payout periods and the overall size of the transaction.

The answers to a second question on the number of years over which they would expect to be paid out were a little more diverse. Three years or less won 36% of the votes, five years was the most popular with 43% and the rest were scattered. Experience tells us that for most deals under two million dollars, four to six years is fairly common and we see most multiples ranging from 1 to 1.25.

A final thought if you are reading this and thinking about getting in the M&A game. I have heard a lot of partners say that they don't want to do a particular deal with this firm or that firm because they will be fixing someone else's problems. I've got news for you. If you are the acquirer, you are always fixing someone else's problems. Make sure that you fully understand what they are.

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