



The Deal Room Podcast

Episode 161 – Tips and traps in Selling (or Buying) an Accounting Practice Part 2

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Transcript

Joanna: Hi, it's Joanna Oakey here. And welcome back to The Deal Room podcast, a podcast proudly brought to you by our commercial legal practice, Aspect Legal. Now today we are back with part two of our two-part series, with Mark Attard from Xclusive Business Sales, all about buying and selling accounting practices. Now, if you haven't listened to part one of this two-part series, then make sure you go back to the episode prior to this, where we look at filtering prospects, we looked at due diligence, we look at the classic mistakes that sellers make. In selling their accounting practice. We talk about the benefits of using a broker and we talk about what makes selling or buying accounting practices a little bit different from many other types of businesses that here in this part two of this series, we will be talking about current market conditions before and during COVID. We'll talk about

valuation aspects in relation to business clients versus individual returns and the quality of the accounting clients in your book. We'll talk about committing to the process. And we provide some final tips and takeaways. So buckle in here we go with part two of our two-part series, all about buying and selling accounting practices.

Joanna: So maybe let's switch topics a little bit. And let's look at what current market conditions are looking like at the moment. So what's it looking like out there? Where's the where and we've said, you know, just generally there's more buyer interest, then there are sellers. But how is COVID impacted all of this? What have you seen as a result of COVID?

Mark: During COVID, just generally on business sales. It was very quiet for the first few months of COVID. But the activity level in the last month is just gone through the roof.

Joanna: We have seen exactly the same it's just going mental.

Mark: I've seen it in property, and I've seen it with business sales, the number of enquiries. It's almost like everyone's coming out of hibernation and thinking no, you know, we've got to get on with life. And we want to be doing stuff and reaching a goal. So it's really nice to see things change so quickly. And for the positive.

Joanna: Yeah, yep. Optimism came back. And so what does that mean? You know, so so we've got a lot more activity coming on and have you got much enquiry for accounting practices as part of that activity that's coming on?

Mark: To be honest, we haven't. We haven't had any sellers come to us for accounting practices and in fact, that's happened across a whole range of industries where I think people think that because of COVID, it's not a good time to sell but I don't think it's a bad time to sell. Like I think there are buyers out there wanting to do stuff.

Joanna: Yeah, I think the fear for sellers right now is that they're going to be if they put their business out to market that they're just going to get cut-price offers, you know that they're not going to be able to realize the full value of the practice that they should. But do you know what we've got lots of buyers going on, you know, interest from buyers in for accounting practices that are just, you know, they're not out there trying to assuming they're going to be able to get something at some discounted price, they just ready to grow. They think this is a great way to do it, and they're ready to pay the right price. So you know, my comment is don't be scared about selling because you think you're going to be beaten down on price because of COVID related issues.

Mark: Yes, we're not saying that Joanna, people are willing to pay a fair price for the risk they take. And generally, the market is at the moment from what I'm seeing. We break up our accounting practices book into business type clients, and i-return clients. And obviously, the business clients are more valuable than the

individual clients. So you know, generally 50 to 60 cents we put on, on the i-return type clients and a business client between \$1 and a dollar 20 would be a good range. So depending on your mix between business, and when I say business clients, you group them. So you know if you've got a group of companies and the directors, you group it together It's classed as a business client or business group. Whereas your return is your typical, you know, a client that walks in with a shoebox, you charge them \$250 say, that's your i-return. And obviously, that's less valuable to a client. And I've had some clients that have said, Look, I'll buy the business client off and generally doesn't work, it's pretty messy for a seller to split up.

Joanna: The business and i-returns to someone else. Yes, I can see we've got some buyers who don't want the i-returns, they want the business and not the i-returns but it's hard, right?

Mark: I think I think you have to buy it lock stock and barrel, and then over time, increase the business, you know, the reliance on the business clients and reduce your reliance on the i-return clients by, you know, adjusting fees, because you do see a lot of firms where i-return clients are not giving enough return to cover the costs. Because there's a lot of competition in that space as well, where you've got, you know, people, I don't know, if people are charging as little as \$80 an i-return anymore, but certainly, in the old days, it was. But it's difficult to make money on those sort of clients unless you're running it from a home office or something similar.

Joanna: And just looking at this, you know, this breaks down in the difference between the, in the way of pricing. And, you know, what we were talking before about differences in the accounting industry versus other industries in sales and acquisitions. One is certainly the pricing on the top line here is what we are talking about, rather than a reference to the profit. But there is a point in the size of practice when we move into more conventional pricing based on EBITDA. So what do you have to say about that Mark? Where do you see that that line?

Mark: Well look, on a scale of practice up to about 800 to a million dollars, typically, the top-line pricing dollar for a fee of income generally works. But above that, generally, you move to more traditional ways of valuing a business and that's back to a multiple And generally, you know, we see most businesses, you know, you would look at a multiple of a maximum of three times. And it's probably no different to accounting firm three times multiple of profits after an owners wage. So say you've got practice with 1.2 million in fees and owner salaries 200,000. So the net of the owner salary it's returning, say 300,000 will 300,000 with a multiple of three times the firm's worth around the 900. Mark.

Joanna: And one of the things that impacts what multiple might be applied to the practice, like for example, I'm an accounting practice owner, I'm looking at selling the next three to five years. What can I do? I'm over the one-mile mark, what can I do to increase the likelihood that I'm going to have the highest multiple possible

Mark: That highest multiple Joanna would apply where you've got the optimum level of risk and reward?

Joanna: I guess, where is it that your buyers? What kind of practice Will you buyers pay the most for?

Mark: Oh okay, so typically a good spreader client.

Joanna: And what do you mean by that?

Mark: So you don't want to have one client that represents 30% of your income?

Joanna: Yeah, right.

Mark: I think if the clients a good friend of the accountant because it's gonna be really hard to step in the shoes of the outgoing Accountant in that case. So, you know, typically, if, you know, if one client represents, you know, five or so percent, that's a good sign. But you know, if you've got a client that represents 20, or 50% of the feeble, it does make it difficult, and it's more likely that your retentions being held is going to be a lot higher. Yeah, that's one situation, but also the age of the clients as well. So if you've got, you know, an accountant, that's, you know, well into his 70s. And most of his clients are, you know, starting to get into their 60s and, you know, retirement years, obviously, they're not going to be wanting to do much going forward, or that they're going to do less than they did when they're in their 30s and 40s. So, you know, it's a less active database to generate income from, but you know, in saying that, you know, a lot of these older clients would probably introduce the kids that are more likely to be doing stuff and generating, you know, income, doing property developments, buying businesses. So, you know, it's just a matter of sort of assessing where the majority of their client base sits.

Joanna: Yep, yep. Brilliant. Okay, wonderful. So, um, Mark, one thing I have heard in the industry, is that accountant sometimes can be one of the more difficult industries in terms of sellers to deal with? And you don't have to say yes or no here and you don't have to agree or not. But can you just let me know if that was the case? What are the things that sellers should be aware that they could possibly be doing in this market? That tripped them up? Like, what are the things that you've seen accounting practice sellers, do that have really caused them problems and maybe turn them into? What can be difficult for clients to deal with?

Mark: Part of the problem there Joanna is the relationship that the selling accountant has with these clients? It's a good thing. But at the same time, you know, breaking that bond that's been there for 30 years, it's a difficult task. So you know, it's not all about the dollars, it's a lot of the soft tissues, it's been, you know, having someone look after the staff. A lot of the times these staff that are working in accounting practices have been there 10 to 20 years. And, you know, any incoming accountant to say, Look, I'm going to buy your firm, but I'm going to outsource all the back office to India or somewhere like that, I think you'll find that there be a number of accounts, a percentage of accountants who would say, I don't

think I like where this is heading, you know, let's find another buyer. And there is always another buyer around. So you know, I don't think it's, it's an issue of, you know, cutting out too many options there.

Joanna: But and I guess it's not, you know, I don't think there are issues caused by the fact that a seller doesn't necessarily want something, you know, they want to make sure that their staff are looked after, and their clients are cared for into the future, what I think creates the problems is when accountants don't realize what a high priority, this is from the beginning, right? And they start down the process, and it only becomes apparent to them later on and causes deals to fall over because they're not being clear with themselves in the beginning.

Mark: Yeah, one of the most difficult deals I had was when a principal came to me, and he wasn't well, and I think that happens quite often with accounting firms. And, you know, you're leaving it so late, that it's difficult to have an orderly transition to a new owner, so you're never going to get full price and that's probably the worst scenario where someone's ill or, you know, or a worse situation than that when is when they pass. And, you know, you're leaving it to the partner to look after, you know, a transition of clients to a new owner. It's not easy. I have been involved with one and you know, had he started a couple of years earlier, it could have happened with a lot less fuss.

Joanna: Yeah, a lot quicker,

Mark: Yeah, quicker, more value and all those things here.

Joanna: So the message here is, start early, start thinking about it early. I think, get educated about the process, don't feel like you're meant to understand the process from beginning to end, just because as an accountant, you've worked on parts of these transactions, you know, there are so many elements that you don't fully appreciate until you're actually in it. Yeah, I think to be honest with yourself in the beginning about what your values are. In, in that sale, in terms of your clients and your staff, as well, you know,

Mark: And you will know when you're ready, you need to be convinced that you are ready, though. You can't go into this process and have some have doubts, I need to know your times you're ready to sell and commit to the process,

Joanna: Commit to the process. That's a really good point, Mark. I love it.

Mark: I always tell people, you know, all the issues that are coming up now are going to be as tedious in 10 years time as they are now or more tedious. So you know, those issues aren't gonna go away. You know, selling a business is probably one of the more difficult processes most people have to go through. And most people come to us, as sellers have not sold a business before. So they don't realize how much how involved it does get and how much like the negotiation of the price is only one small aspect. The rest of the negotiation will come later. And you have to be prepared for that.

Joanna: That's such a good point. because quite often they think it's the price and ultimately, it's everything else.

Mark: Yeah, well, like when we take a deposit off someone for a business. I say "Great we are 10% of our the way there." and they don't believe it that they think you know, it's like selling your house. I've got a deposit down. It's gonna happen. It's not always the case, you know, lots of things happen between taking a deposit and taking Business off the market. Basically, when you take any puzzle out of business, you're taking it off the market to allow someone to do some due diligence work out whether it's through them or not. And I would say, generally speaking, you know, what, you're taking the positive 20% of the way there, you've got a long way to go to get it across the line. So yeah, and that's, that comes back to having a broker that can negotiate between parties, yeah, you know, and take the emotion out of the deal.

Joanna: Yep, take the emotion out of the deal and have your deal team in place who are used to moving these deals along. So I can't stress enough a deal team that you trust, you know, you really need a broker and a lawyer who you trust and understands your practice, you know, understands the industry, understands how to find the right match for you, and understands how to make the process and how to move the process along. So that, you know, conservative nature of the industry doesn't have the effect of calling causing stalls in the sale. Right?

Mark: So true. Another challenge with selling accounting practices is everyone's got their own relationship with a local solicitor. But you know, the question needs to be asked how often that solicitor is handling a business sale?

Joanna: And accounting practice sale.

Mark: And the more you do it, the better you get a bit, you know, if you haven't done it before, we've done it only once before, it's gonna be a hard process to go through the legal. So, you know, I'd recommend someone that's selling an accounting firm goes to someone like Aspect Legal to handle the sale process for them, it'll

Joanna: Mark, you're amazing. I promise I did not pay him to say that. Hahaha

Mark: Hahaha I don't want to listen to this podcast afterwards, hahaha. Whatever you placed in there is fine.

Joanna: Hahaha This has just been absolutely fabulous. I knew I was gonna love having this chat.

Mark: Thank you, Joanna.

Joanna: It's an industry that I'm really passionate about because we've dealt with lots of, you know, accounting practice acquisitions and sales. I love to see it when it

works well. And it pains me greatly when I see mistakes that are made that could have been avoided from the beginning. If only, you know, the practice owners had a bit of an understanding of the process more than perhaps they'd had sitting in the advisor seat, and having the right people on board to help them. So Mark, I just want to say a massive thank you for coming today to talk about all of these issues. And I just want to say before we leave off is that was there anything else that we left unsaid? Was there anything else that, you know, you thought we should mention to our accounting practise owners who I'm sure are listening in here and wanting to know what it is that they should be aware of when they're preparing for sale?

Mark: Look, Joanna, I'd like to put an invitation and if someone wants to contact me, they can contact me at mark@xclusive.com.au. I'm not sure if we can take that in somehow.

Joanna: That'll get your show notes.

Mark: Or reach out to me on phone. 0430599001. I'm happy to have an initial discussion at businesses about people reaching out to lots of people. And if someone's got a thought in mind about buying or selling practices, please reach out.

Joanna: Brilliant. Okay, absolutely lovely Mark. Well, of course, as always, if you're running along the beach while listening to this on your commute into work, I mean, probably not. I don't know, I guess it depends where you are in the country. But if you don't have a pen and paper handy, don't worry, because we've got links through to mark right in the show notes and on our website at thedealroompodcast.com, Mark, thank you so much for joining us on the show. It's just been an absolute pleasure having you and talking about all of these issues and insights that I so love to talk about.

Mark: Thanks so much, Joanna for having me on your show.

Joanna: Well, that's it the last episode of our two-part series all about buying and selling accounting practices. I hope you really enjoyed this two-part series. I certainly enjoyed recording it as always. Now if you want to find more details about Mark Attard at Xclusive Business Sales, all you need to do is head over to our website at www.thedealroompodcast.com. And there as I said, you'll be able to link straight through to Mark Attard but you will also be able to download a transcript of this podcast episode if you're the kind of person who just likes to read through this type of thing in more detail at the website you'll also be able to find details of how to contact our legal Eagles at Aspect Legal if you are interested in looking at gearing up for a sale of your accounting practice, or perhaps you're on that path of acquisition, which is such a great idea, grow through the acquisition of other accounting practices, you can set up a time to have a free discussion with our legal Eagles about what it is that you're looking to do so that we can help provide a little bit of direction. Well, that's it for today. I really hope you enjoyed this two-part series with Mark Attard from Xclusive Business Sales and if indeed you did enjoy

what you heard, then I'd encourage you to head over to your favourite podcast player and firstly, hit subscribe to make sure we're delivered to your phone every week as we release and maybe you be so kind as to leave us a review we really appreciate it the reviews help us reach a wider audience. But other than that, that's it I just want to say a very big thank you once again for listening in. You've been listening to Joanna Oakey and The Deal Room podcast, a podcast proudly brought to you by our commercial legal practice Aspect Legal See you next time.