

The Case for Mergers in This Tough Economy

December 3, 2008

Many firms are wondering how the economy should impact a decision to go forward with M & A deals right now or in the near future. We believe there are several things for you to consider based on what we are hearing from firms that are interested in growing through M & A deals.

Our clients are telling us:

Collections problems. Many firms are experiencing difficulty collecting client fees which can quickly lead to cash flow issues.

Client Attrition. Clients are going out of business or are selling their businesses.

Reduced billings and fees. Clients are carefully watching fees spent on professional services that impact a firm's revenue stream.

Slowing firm business development. New client development has decreased because new business start-ups and changes in clients' businesses which normally require a need for new accounting services have slowed considerably.

Is it all doom and gloom? We don't think so.

Here are a few things you need to think about *now*.....

Timing is everything. The old adage of "buy low and sell high" can be applied to M & A activity as well. Many potential sellers are more motivated now due to the uncertainty of the economy in the next few years. Motivated sellers lead to better terms for the buyer. But remember, due to the uncertainty, the terms of the deal are now more important than ever before.

Acquiring another firm is a surefire way to grow your practice. You can overcome the lack of growth, or even contraction, in your practice through a merger or acquisition. Practice development, while important to the long term vitality of your firm, has always been a one-client-at-a-time proposition. The effort and cost to grow your practice by 20% to 50% through a merger or acquisition is a fraction of what you spend on practice development and the outcome of practice development activities has never been more uncertain.

Transaction structures are key. Keep the deal either based on collections for the whole payout period or at least have a long enough retention period to make sure you not only keep the seller motivated to properly transition the client base to you, but also to make sure the clients will stay around to support the transaction value. Protect yourself by making sure your deal keeps you from paying the seller for lost clients.

Firm values are rapidly changing. History tells us we may soon see a slight increase in the value of firms. We saw this in the early '90s and following 9/11 during similar economic times. As firms realize that M & A is now a better option for growth, they tend to push the values up in an effort to make sure they're the firm that successfully closes the deal. Values have been dropping the past two years leaving acquiring firms in the position now of buying low, but you can't guarantee the market will stay that way.

Take advantage of the good opportunities that come along. When the owner of a firm indicates he has \$X of repetitive revenues that he is willing to sell or retire from and he is willing to do so based on a buyer's ability to retain the clients, there is hardly any downside for the buyer. What can go wrong? You only pay for what you get and the profit margin is built in.

Take a second look at declined deals. Opportunity may exist in deals that you previously declined. Take a second look at deals you may have said "no" to earlier. A deal that wasn't viable just a few months before might be a great one now.

Closing a deal now is one way of locking the deal value today and securing your firm's future. If you feel you are too close to the upcoming tax season, consider closing it now, even if you cannot operationally manage it until after tax season. We would be pleased to talk to you at your convenience about how Accounting Transition Advisors can assist you with your desire to grow through merger or acquisition. You can find out more about us including how to contact us at www.transitionadvisors.com.