Links Capital's Perspectives

Accounting Firms and Client Retention

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ACQUISITIONS
DIVESTITURES
FINANCINGS

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In the fall of 2017, the Business Development Bank of Canada completed a study on business transitions.

"41% of all entrepreneurs are likely to leave their businesses within the next five years and 52% of them expect to sell or transfer their business outside the family."

"Entrepreneurs looking to exit are slowing down too soon: 71% are reluctant to take risks to improve their business performance and 52% have little interest in expanding their business, which may cause them to sell below market value."

Accounting firms work hard to build their book of business over time and provide many ancillary services to their clients. There comes a time when their clients choose to transition their business to the next generation, a new management team, or an entirely different party. Not all accounting firms have the expertise in-house to successfully manage the process of helping their client divest of their business.

No two transactions are the same, which makes it more difficult for the typical accounting practice to gain expertise unless they are involved in day-to-day corporate finance transaction services. Deal expertise is important for a transaction process that will ensure the client is not only protected, but also able to extract the maximum value out of the transaction.

I like to draw the analogy of someone building a shed versus a house. You may be handy and able to build a backyard shed, but are you capable of engineering and building a two-storey house, with heating, ventilation, electrical, plumbing, framing and so on so that it doesn't fall down? The skillsets are similar yet the process and outcomes are very much different. This analogy closely parallels the difference between accounting and corporate finance professionals when divesting of a business.

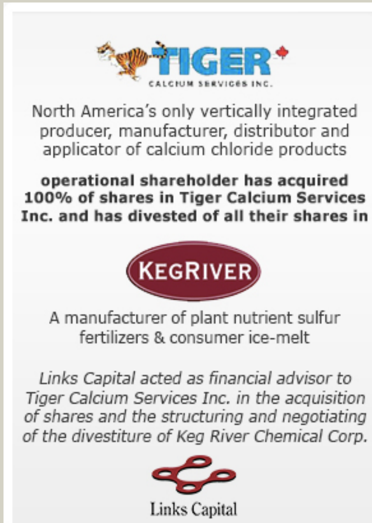
How does one position a company to be sold? What are the most important aspects, and how do I market the company to attract credible buyers? Some advisors may feel that since their client has a buyer, the price only needs to be negotiated between the buyer and client. However, negotiation of the price is just one aspect of the deal; it is in all the other areas of the deal structure where value can be gained or lost. So, how can someone be sure they are acting in the client's best interest? A good place to start is with asking the following questions:

- What are commercially reasonable representations and warranties?
- How to structure a potential shareholder's agreement and all its clauses, including drag-alongs and piggybacks?
- How is consideration going to be paid out? Are there earnouts, bonuses, consulting contracts, share awards, non-competes? How are these structured and taxed?
- Is the vendor rolling over equity into the business and how is that being structured?

Links Capital specializes in the divesting and financing of businesses in the Canadian middle market.

Links Capital's philosophy is to preserve value throughout the entire transaction process. Senior partners handle all aspects of the transaction from inception to close and beyond, maximizing proceeds.

Being experts in private equity markets and corporate finance enhances value to our clients through extensive buy and sell-side experience.



Links Capital
Divestitures • Acquisitions • Financings

Links Capital are specialists working with private equity firms, institutional investors and strategic purchasers in raising capital and divesting of businesses

- What EBITDA multiple should be applied and how is that supported? Where do I find the multiple, and should my client be at a premium or a discount multiple and why?
- What are the historical transactions on this type of business and where do I find them?
- What is the appropriate amount of working capital in the business, and if there is a surplus or deficit, then what?
- Is there a better time of year for the business to close if it is seasonal?
- If the business owner is staying post transaction, what is an appropriate leverage ratio for the company?
- What is an appropriate indemnification cap and how long should the term be?
- Should there be a basket amount on the indemnification and where should that start?
- How are slow moving inventory, redundant assets, and aged receivables dealt with?
- What is an appropriate escrow/holdback period and what releases it?
- What happens if the purchaser sells all or a portion of the combined business post transaction during the earnout period?
- What kind of transaction insurance should you be looking at, if any?
- Is it going to be an asset, share or hybrid sale and what are the tax implications?
- How do you structure the non-compete agreements, terms, geographic, restrictions, value, etc.
- What kind of process is in place for a quality of earnings report?
- How well do you know the industry, competitors and drivers and where do you find this information?
- Maybe most importantly, ask, “What am I missing?”

This is just scratching the surface on some of the issues that have to be addressed when looking at transactions, which are inherently fluid in nature.

Links Capital will work with accounting firms and their clients to position their company for the monetization event they have likely been working towards for their entire life. This divestiture process is done over a period of time to ensure potential issues can be addressed and other areas of expertise within the company can be promoted. One should expect to see companies make fundamental changes in some of their processes or structures that will enable them to extract more capital in a sale, and Links Capital works with accounting firms and management teams to make this happen.

Links Capital works exclusively on divesting and financing of businesses and doesn’t focus on your core business of accounting. However, we are interested in working with boutique accounting firms to protect their years invested in their clients. Even after the transaction you maintain your working relationship with your client setting up new holding companies, tax planning and end of year tax filing. This could mean lost revenue if your client pursues expertise outside of your firm and establishes a new relationship with another accounting firm. We want to eliminate some of this risk for your firm and create a mutually beneficial working relationship.

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