Links Capital's Perspectives

Accounting Firms and Client Retention

Visit us at www.linkscap.com

ACQUISITIONS
DIVESTITURES
FINANCINGS

RON CHICOYNE, CFA, CF, ICD.D
MANAGING DIRECTOR, LINKS CAPITAL PARTNERS LTD.

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.

TIGER
CALCIUM SERVICES INC.

North America's only vertically integrated producer, manufacturer, distributor and applicator of calcium chloride products

operational shareholder has acquired 100% of shares in Tiger Calcium Services Inc. and has divested of all their shares in

KEGRIVER

A manufacturer of plant nutrient sulfur fertilizers & consumer ice-melt

Links Capital acted as financial advisor to Tiger Calcium Services Inc. in the acquisition of shares and the structuring and negotiating of the divestiture of Keg River Chemical Corp.

Links Capital

Links Capital
Divestitures • Acquisitions • Financings