INDUSTRY UPDATE

ACCOUNTING SERVICES FIRMS

Realising the value in planning?

2015/16

NOT KNOWING WHERE TO START OR SIMPLY NOT HAVING THE TIME. THOSE ARE THE MOST COMMONLY CITED REASONS FOR WHY 81% OF ACCOUNTING SERVICES FIRMS DO NOT HAVE A SUCCESSION PLAN IN PLACE.[1] THOUGH ON TOP OF PLANNING FOR CONTINGENCIES, THERE IS THE MATTER OF REALISING THE VALUE BUILT UP OVER THE YEARS.

The movement of baby boomer owners closer to retirement makes succession a topical issue across many industries; and especially in accounting services where over 50% of firms with multiple partners are expecting at least one partner to retire over the next five years.

Some available data suggests some shifts taking place: partner median age declining slightly from 49 in 2011-12 to 46 in 2013-14.[2]

Even if the majority of firm owners still have no intention of exiting in the short term, a lack of appropriate planning could lead to unwelcome issues such as being unable to

- realise the maximum value from a sale,
- get the most tax effective outcome, or
- influence the direction and ensure the best outcome for staff and clients.

Accounting firms that have sound fundamentals and represent good value will remain an attractive option for prospective buyers and new entrants.

Valuation multiples for accounting firms are typically based on fee revenues or maintainable earnings. Multiples have not moved significantly over recent years, according to observers:

Table: Indicative range for valuation multiples

Service line	Fee multiple	
	Min.	Max.
Accounting	0.80	1.10
Tax	0.80	1.10
Audit	0.80	1.10
Company secretarial	0.80	1.10
SMSF	1.00	1.20

Source: Practice Exchange

VALUATIONS ARE MORE LIKELY TO FALL TOWARDS THE TOP END OF THE RANGE WHERE THE SELLERS HAVE PUT ROBUST PROCESSES IN PLACE TO MANAGE WORK-IN-PROGRESS AND DEBTORS AS WELL AS SAFEGUARD CONTINUITY OF CLIENTS AND STAFF.

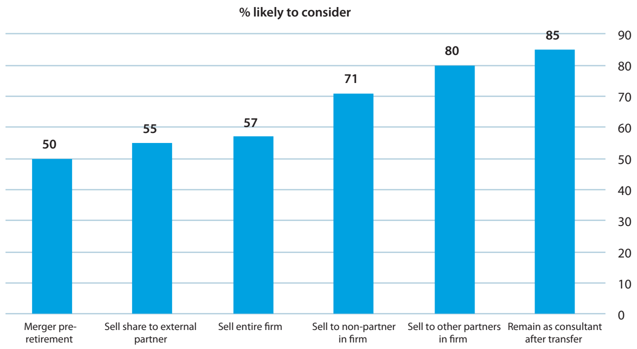
Yet firm owners should be aware that they are in a position to positively influence valuation outcomes—and, by extension, support possible growth or exit plans.

After prospective sellers get clear on their own personal goals and objectives, with knowledge of the opportunities and challenges facing their firms, considering the legal and taxation implications of exit options is a next step.

Whether the prospective seller wants to maintain some ongoing involvement or not, options are typically

- sell to an external party,
- merge with another firm, or
- pass ownership on to family or employees.

A staged exit during which the seller stays on in an advisory capacity, or a sale to incumbent partners remain the most likely but not the only potential exit route:



Source: GAA Succession Planning Survey

SOME EFFORT NEEDS TO GO INTO PREPARING FOR DUE DILIGENCE, ESPECIALLY IF THE PROSPECTIVE BUYER IS AN EXTERNAL PARTY. GATHERING INFORMATION THAT DETAILS THE FIRM'S CAPABILITIES, RATES, PERFORMANCE, CLIENT BASE, SYSTEMS AND PROCESSES IS PART OF THAT PROCESS.

Part of the effort is also in reassuring prospective buyers that the firm's client base is intact: that the clients too are not also about to exit taking anticipated fees.

Stepping back and looking at the big picture, and making the time to plan sooner than later is critical.

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1800 309 379

ANZ INDUSTRY SPECIALISATION TEAM: email - isteam@anz.com

Sources: 1. Peters, M & Holmes, C 2015, 'Succession Planning - does this sound familiar….' paper presented at the CAANZ Public Practitioners Conference 2015, Melbourne; indicative valuation multiples from Practice Exchange; percentage of multiple practitioner firm owners responding to GAA Succession Planning Survey. 2. Business Fitness

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