

We Are All Going To Leave Our
Business One Way Or Another

Best To Leave It On Our Terms
When And How We Choose

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The Sunbelt Business Brokers®
Guide To

**Selling a Small or Medium
Sized Law Firm**

By

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SME Value Drivers

- Businesses are typically valued by a MULTIPLE of SDE or EBITDA.
- Every business owner who plans to sell their business should try to increase **maintainable** SDE/EBITDA.

What are buyers looking for?

- Consistent financial performance
 - Minimum of three years financial statements
 - Solid/growing revenue and SDE/EBITDA
- Management independent of ownership
- Skilled/experienced employees
- Well diversified customer base
- Businesses with growth opportunities

THESE INFLUENCE WHAT SDE/EBITDA MULTIPLE A BUYER WILL PAY.

What are buyers looking for?

- Well established and documented systems and processes
- Strong and sustainable market positioning and brand recognition
- Strong referral base of happy clients
- Effective technology that is used to best advantage
- Ongoing marketing programs that work

THESE INFLUENCE WHAT SDE/EBITDA MULTIPLE A BUYER WILL PAY.

Actions to maximize exit value

1. Eliminate discretionary spending in the business and adjust owners salary to a market rate salary.
2. Eliminate all unnecessary costs.
3. Settle/Resolve any outstanding litigation.
4. Proactively manage pricing. Small increases in pricing can significantly increase EBITDA.
5. Sell off all unnecessary assets.

Actions to maximize exit value

6. Enter Long Term Contracts
 - Key customers if appropriate
7. Avoid Long Term Commitments
 - Large IT projects
 - Vehicle Leases
 - Property leases with no break clause
8. Clean and Freshen up the business
 - First impressions count for a lot.

Actions to maximize exit value

9. Pro actively manage working capital
 - Speed up debtor collections
10. Groom a competent management team
 - Office Manager, Financial Controller, Business Development Manager, etc.
11. Keep financials and a 3 year business plan up to date.
12. Ensure annual financial statements are produced and filed promptly.

Actions to maximize exit value

14. Ensure no outstanding issues with CRA.
15. Ensure no outstanding issues with Licensing.
16. Ensure HR policies and procedures are in place with compliant contracts of employment for all staff etc.
17. Ensure Health and Safety records, licenses and/or permits are up to date.
18. Get tax planning and wealth management advice early in the process. Avoid paralysis. Fear can prevent action.
19. Track the changes made re Covid-19 and the financial impacts
- 20. Due diligence is coming – prepare now.**

Valuation Guidelines

- Rules of Thumb are **NOT** to be relied on. The best rules of thumb are a rough ball park starting point, the worst can be baseless and very misleading.
- Buyers buy future not past profits. Past profits *may* be a guide to future profits and heavily influence price.
- A Law Firm Purchase must provide the new owner with a market salary & enough excess cashflow to pay for the business in 3-5 years. Businesses with asking prices which don't meet these two criteria are unlikely to sell.

Valuation & Terms - Reality Check

- Individual buyers will have limited funds to invest. 30% of the selling price is common.
- TD Bank has a professional service acquisition program that will help
- Sale structures of 30/30/40 where the buyer invests 30% of the selling price (normally everything they have), the Bank finances 30% and the seller finances 40% via deferred payments over X years are possible.
- **All cash on completion is very rare.**

Valuation & Terms - Reality Check

- Depending on the nature and size of the practice there are many variations of deal structure however they usually involve an earnout for part of the purchase price, they usually require the seller to participate in a smooth transfer of the files and clients, they often provide an incentive for the seller to continue to bring in new business, and they usually have an incentive for client retention. The big issue here is WIP, and consistency of revenue from repeat clients.

Valuation & Terms - Reality Check

Example 1 - Personal Injury Firm - Very large WIP, No repeat business, Very difficult to predict revenue and profits.

Example 2 - Litigation Firm - Large WIP, Some repeat Clients, difficult to forecast revenue and profit but not as bad as example 1

Example 3 - Real Estate Law Firm - steady flow of relatively quick transactions resulting in fairly steady and predictable revenue and profits. Market dependant but not high risk, low WIP

Example 4 - Wills, estates, and tax - fairly predictable revenue and profits, Low WIP.

Example 5 - Corporate Law - Pretty steady, repeat clients, predictable cash flow, low WIP

When and Why Evaluate a Business

- Be prepared for the unexpected.
- Get ready for Change.
- Keep the information up to date.
- If you can measure it you can manage it.
- Learn what drives value.
- If you know where you stand today and where you want to be tomorrow you can plan to get there.

Value Drivers: Financial

- Prepare reasonable future business projections – set goals with detailed steps to get there
- Get a business valuation now
 - Tells you where you are now vs. where you want to be x years from now
 - Gives you an indication of what you need to change to drive the business value up

Value Drivers: Financial

- Clean up the Balance Sheet
 - Current or potential legal issues or law suits
 - Excess cash in the business
- Vendor financing - translates into higher business value

Value Drivers: Organizational

- Org Chart with defined positions, report lines, duties
- Right people for the right positions (Business & Financial Management, Office Admin)
- Work ON the business and not just IN the business
- Owner's role:
 - Expanding operations
 - Improving revenues and profits
 - Planning future growth

Value Drivers: Organizational

- Prepare a business plan
- Review and update regularly (even if you don't need financing!)
- Prepare an honest SWOT analysis as part of your business plan
- If Large enough -Fire yourself – get employees to replace you in your day-to-day job. Make yourself dispensable (as hard as it may be!)
- Delegate and empower

Value Drivers: Operational

- Operations Manual
 - Company-general Information
 - Position-specific Information (Job Description, duties, results expected, etc.)
- Mission, Vision, Goals & Values (MVGV)
 - Who are you
 - Why are you in business
 - What do you do – Why should clients come to you?
 - How do you do business
 - What do you want to achieve

Value Drivers: Operational

- Clean documentation, records, minutes and financials
(Audited or Review Engagement better than Notice to Reader)
- Clean up the office, etc.
- Clean up operations
 - Non-performing or unsatisfactory employees
 - The goal is procedures that produce consistent results.

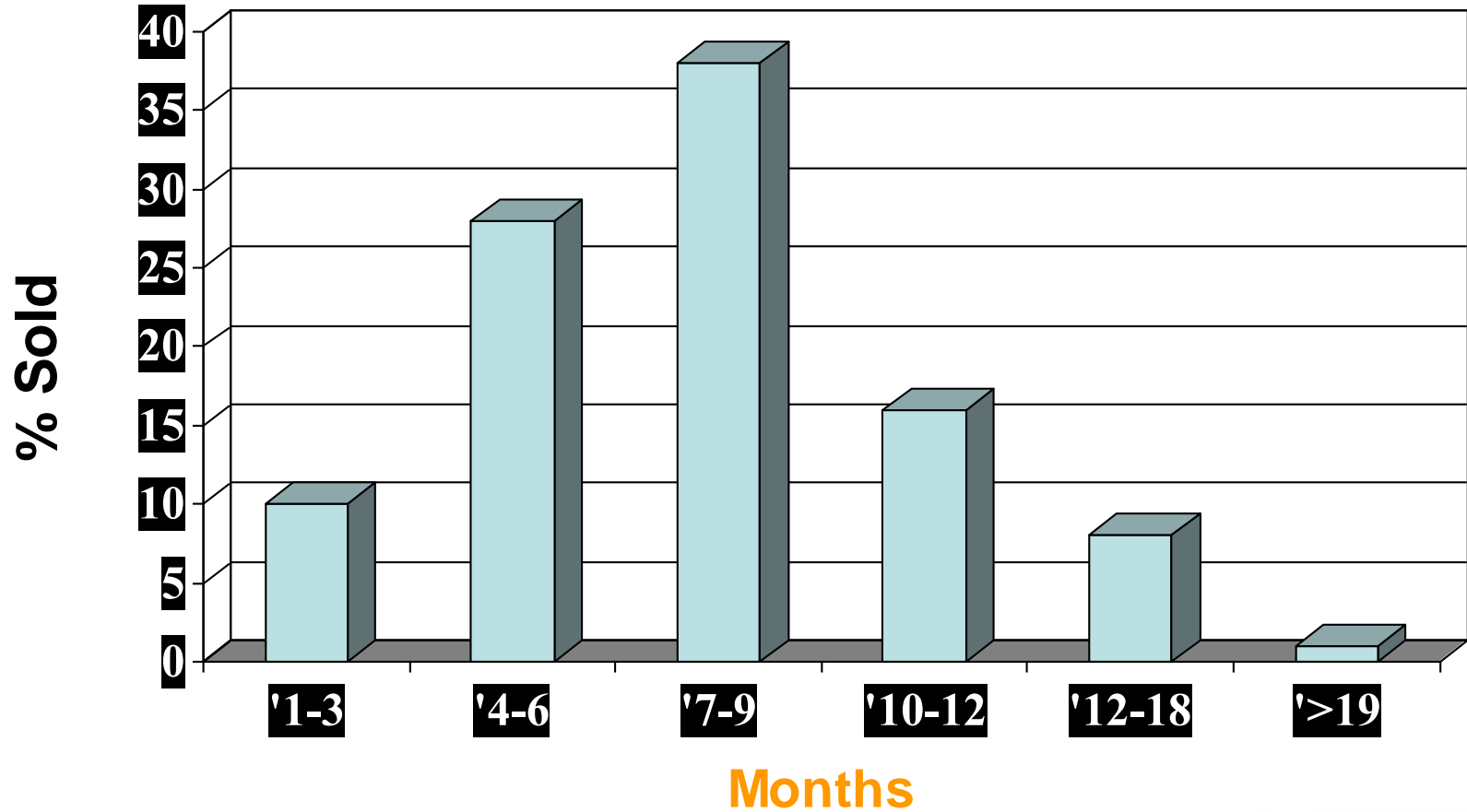
Value Drivers: Other

- Develop your Elevator Pitch
- Employee retention agreements & bonuses
- How long are you willing to stay on to allow for a smooth transition?
- Prepare for the non-financial due diligence (customer satisfaction, reputation in the market, how helpful the employees are, etc.)
- Long-term lease with good terms and a break clause.
- Get advisers (Lawyer, Accountant, Business Coach, Exit Planner, etc.) early in the game and work with them

Value Drivers: The Right Business Broker

- Adds significant value to your selling price
 - Financial recasting
 - Research and valuation
 - Proper documentation
 - Marketing
 - Buyer screening & matching
 - Business presentation
 - Offer drafting and negotiations
 - Creative financing
 - Managing Due Diligence process
 - Managing closing process

How Long Does it Take to Sell?



Sunbelt Business Brokers

“Our job is to **confidentially** sell your business for the maximum amount, in the shortest possible timeframe with the least risk.”

The Sunbelt Five Step Sale Process

Accept the
best offer
and complete the sale

Screen enquiries &
manage negotiations

Confidentially market the
business

Prepare key documents
1. A one page 'blind' teaser
2. A Confidential Business Profile

Produce a detailed valuation of the business to
identify the Most Probable Selling Price

Why use Sunbelt Business Brokers to sell your Business?

1. We specialize in selling small to medium sized businesses nationwide.
2. We search nationally & internationally to find the best buyer for your business.
3. We have the skills, knowledge, systems & experience to confidentially sell your business.
4. We have a proven track record.
5. We only get paid for selling the business when the business is actually sold.
6. You only get one chance to sell your business.

What is the Rush

- My husband thought it was a joke to say he'd 'die at his desk and leave me wealthy and in charge of the business.'" Her voice broke. "It was no joke when my ability to grieve his unexpected death was sidelined by all the clients, staff and vendors who needed my attention.

Take the first step towards
selling your business today.

Speak with a Broker
in your area

in complete confidence
without obligation.

Contact Information

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