

BUYER FAQ INFO SHEET

PRE-INTRODUCTION

1. Q: DOES THE BUYER NEED TO BE AN EA OR CPA?

A: Generally, yes. The Buyer needs to understand income tax preparation to either prepare the types of tax returns that are needed or oversee the office and know the work is being completed properly. It is possible, although rare, that the Buyer is not an EA/CPA but has EAs/CPAs on staff with extra capacity. If those tax professionals are experienced with similar types of tax returns that the business currently prepares then, it could work. *The Seller will always want to speak with the individual(s) who will be preparing the returns to ensure competency.*

2. Q: CAN THE PRACTICE BE RUN REMOTELY?

A: Most firms are moving to a hybrid or exclusive remote working environment. However, it's very common for a local, physical, presence to be maintained, especially if there are still clients that like to come in for an appointment, or clients with complex issues who want to meet in person. For hybrid-style firms, an office located in a co-working space is usually sufficient. Pure 100% remote firms do exist but currently represent only a fraction of total firms, while hybrids represent a majority. This is still very much a relationship driven business and clients want personal interaction whether it's on the phone, email or occasionally in person. Finding a practice that fits what you are looking for is important. If you are willing to maintain an office during tax season to see 10-20% of the clients in person then it definitely opens your options.

3. Q: WILL THE SELLER FINANCE? IF SO, HOW MUCH?

A: It depends on your down payment, license, qualifications, experience, background, terms offered, offer price, credit and more. Most Sellers do not want to carry a note for an extended period of time, if a Seller is willing to finance then it's usually a 1-3-year term (depending on the price). Sellers willing to finance also want to ensure the Buyer has some skin in the game and will want 30%-50% down with the remainder financed over the set period. Most sales will contain a revenue guarantee clause (see below #10) which is something that can adjust the Seller Note. Bank Financing is always a good option for firm acquisitions; you can purchase with down payments as low as 10% and repayment terms up to 10 years, plus retain revenue guarantee adjustments (depending on lender). SBA loans have the lowest down and longest terms, but there are other loan options which have lower interest rates with down payments of around 20% and terms from 5-10 years.

4. Q: HOW MUCH TAX PREP BACKGROUND AND EXPERIENCE IS NEEDED?

A: A Seller wants to know that the individual taking over the practice has enough experience to perform the same service, at the same level, that the Seller does. It depends on your education history, work history and what types of services you are proficient with. A CPA that has only extensive Audit experience would still have a difficult time taking over a practice that is heavy in complex individual tax preparation. Your ability to work with clients, create a comfortable atmosphere, and infer a sense of knowledge and professionalism will help offset any specific services you may be inexperienced with; all while understanding and knowing how to relay that research is needed, without looking untrained.

5. Q: WHAT IS THE FIRST STEP? HOW CAN I SPEAK WITH THE SELLER?

A: By now you should have taken the first step, which was to fill out the “Buyer Profile and NDA” on our website (www.atbcal.com/buyerprofile). Once that’s complete you can log-in to our website to download the Profile on any practice that you are interested in, at any time. After signing up, you will receive an automatic welcome email. Future, limited, emails containing new listings that are within your predefined search area (set by you while filling out the Buyer Profile) will be sent out as they become available. We do not send any other types of emails, please reach out to us if there is a firm that you are interested in that wasn’t automatically sent to you. Once you find a practice you are interested in, or have more questions on, please contact us via email, or give us a call at (855) 428-2225 to discuss. If you decide to move forward on a specific practice, we will coordinate an introductory call between you and the Seller. Please note, during this time, more background information may be asked of the Buyer.

6. Q: WHY IS THE SELLER SELLING THEIR PRACTICE?

A: Most of the time Sellers are looking to retire or work less. The Practice Profile will generally mention if the Seller is looking to fully retire or wants to continue working with the Buyer for a set period of time. Some Sellers have medical issues they are not willing to discuss until getting to know a buyer better, some sellers are moving, some Sellers are switching industries, and some Sellers are switching their focus but still in the accounting industry. It’s also possible that a Seller wants to wind down and ease into retirement with a partial practice sale and continue to work on a limited basis. And finally, some sellers simply took on too much, are overworked, and want to sell some clients.

7. Q: CAN THE BROKER ALSO REPRESENT THE BUYER?

A: Unfortunately, no. In our specific niche industry, all Brokers only represent the Seller. However, the work we do does not change and we want both the Buyer and Seller to have the best experience possible. We are involved during the entire process to help move the transaction, answer questions, and let you know what we are seeing in the industry today. We suggest that the Buyer and Seller both retain an Attorney to review the Purchase Agreement, ensure you are protected, and everyone has properly agreed to the terms. We may be able to refer you to a few attorneys in your area that represent Buyers in such scenarios.

8. Q: WHAT MULTIPLE IS USED TO FIND THE LISTING PRICE OF A PRACTICE?

A: The Broker and Seller determine the listing price using several data points of the practice. These data points include but are not limited to; types of client services provided, demographics, location, average fees, net income, gross income, current staff, percentage of clients in-person vs remote, willingness to seller finance, down payment requirement, among many other things. In this current market, this usually puts the listing price between 2 -2.5 x SDE income and in the range of 1.0 - 1.3 x gross income. Generally, if a firm is sold with bank financing, the lender will order a valuation; and valuation firms tend to use the net income multiple after Seller Discretionary Expenses rather than the gross income multiplier.

9. Q: WHAT KIND OF QUESTIONS CAN I ASK IN THE INTRODUCTORY CALL?

A: The introductory call is used as a meet-and-greet type of call where the Buyer and Seller get to know each other and see if there is an initial fit. You may ask the Seller anything, apart from practice pricing or terms which should be directed to the Broker after the introductory call. Some common topics include the history of each other's practices, questions about work background/experience, current staff, relationships with clientele, types of clientele, how the seller works, types of industries, hardest returns, etc.

10. Q: HOW DOES A REVENUE GUARANTEE CLAUSE WORK?

A: On your LOI, submitted to acquire the practice, you will negotiate the revenue guarantee maximum percentage, which is usually between 10% and 20%.

Example: The sale price is \$220,000 with a 1-year revenue guarantee and the prior year gross revenue was \$190,000, with a 10% maximum adjustment.

This sale is subject to a 1-year Revenue Guarantee with a 10% (\$22,000) maximum adjustment. Therefore, should the actual revenues (including WIP, AR and prior year value of returns on extension) between the date of Closing and the first anniversary of Closing be lower than \$190,000 then the purchase price shall be adjusted downward by the same ratio as the purchase price bore to the prior year collected revenue $\$220,000$ (purchase price)/ $\$190,000$ (revenue) or 1.157 dollars for each dollar below the guaranteed revenue of \$190,000. However, under no circumstance shall any adjustment exceed \$22,000. Within 15 days of the first anniversary date of Closing, Buyer will provide Seller with a detailed accounting of all accrued revenue in addition to the prior year fees of any tax returns on extension for all Clients of Seller, new Clients referred by Seller, or Seller's existing Clients.

To the extent that the total sum of such accounting falls below \$190,000, Buyer is entitled to reduce the amount due to Seller up to but not exceeding \$22,000.

Example, if the revenue comes in at \$180,000 then the adjustment would be $\$10,000 * 1.157 = \$11,570$. That \$11,570 would retroactively adjust any notes and therefore also interest paid.
