

THE SUCCESSION TEAM - SUCCESSION FOR LAWYERS

Background

There is a growing tide of companies facing the need to deal with succession as senior personnel and owners look towards retirement. The 'baby boom' generation is approaching 65. This is not anything new, as people have been retiring forever. However, this is in fact a huge change. The baby boom generation is the largest generational wave in history and has changed society at every stage of its advancement. As the wave now reaches retirement, significant impact is forecast on travel, house sales, pensions and health care.

Another major impact is the nature of succession. In the past a common exit route was a trade sale to a competitor. This route is becoming ever more difficult, particularly for smaller companies. The following generational waves, Gen X and Gen Y are much smaller and many are reluctant to acquire businesses, preferring to start their own. The balance of buyers and sellers has changed with more sellers and fewer buyers. This makes it a buyers' market for the first time and puts downward pressure on sale values. This leaves exiting owners with a dilemma. How to secure their equity value and who to sell to?

Another route has been to sell to their junior management team, although this group rarely has enough capital to buy out the owner immediately and at full value.

The Succession Team has created a framework and working relationship with many banks that allows such a sale to be by way of a VIMBO (Vendor Inspired Management Buy Out) with support from the incumbent bank. Historically, banks have been wary of traditional MBOs due to the loss of the experienced departing owners and significant financial risk in many such structures.

This brief note suggests a solution for business owners looking to secure their equity value and have a continuing stake in the new company.

Succession for Law Firms

Structure

Traditionally SME Law firms have often been structured as partnerships and the traditional exit route is through a partner's account. These are often underfunded. In recent years many SME law firms have converted from a partnership to an LLP, making partners equity holders and allowing an easier and more tax efficient exit. Our framework works well with this structure.

Valuation

We assess the ongoing revenues likely for the firm based on previous performance and expectations and create a high level forecast incorporating profit and cash generation. Discussions are held with exiting owners with respect to anticipated exit value and we ensure that the needs/wants are in alignment with the reality of the forecasts and future cash generation.

Gap Analysis

This needs to take into account the impact of losing the exiting shareholders and what needs to be done to ensure that their roles are covered going forward. This usually includes strategic and management roles, fee generation, business development and other things. The funding bank is most interested in how this exit/transition is managed and how risks are mitigated. This is generally more important than the quantum of finance borrowed.

Our Framework

The Succession Team, a division of CRM Corporate Solutions Limited, has designed a framework and detailed programme specifically to help business owners seeking to secure their equity value either at point of exit or earlier. This is developed to work in conjunction with the bank and secure their support. The key element here is the coaching programme designed to ensure continuity of the business and to backfill any skills and functions the departing shareholders provided. It is the loss of these skills, connections, client base and other matters that has a material effect upon a business and makes bank's nervous to provide debt.

Our programme reduces the risk for the bank, increases their appetite for lending, builds a new management team and provides the funding stream for the departing owners securing their hard-earned wealth.

How to Progress?

We offer an initial free consultation with respect to how this may work for exiting owners and their replacement management teams.

The Succession Team

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The Succession Team is a trading division of CRM Corporate Solutions Limited.