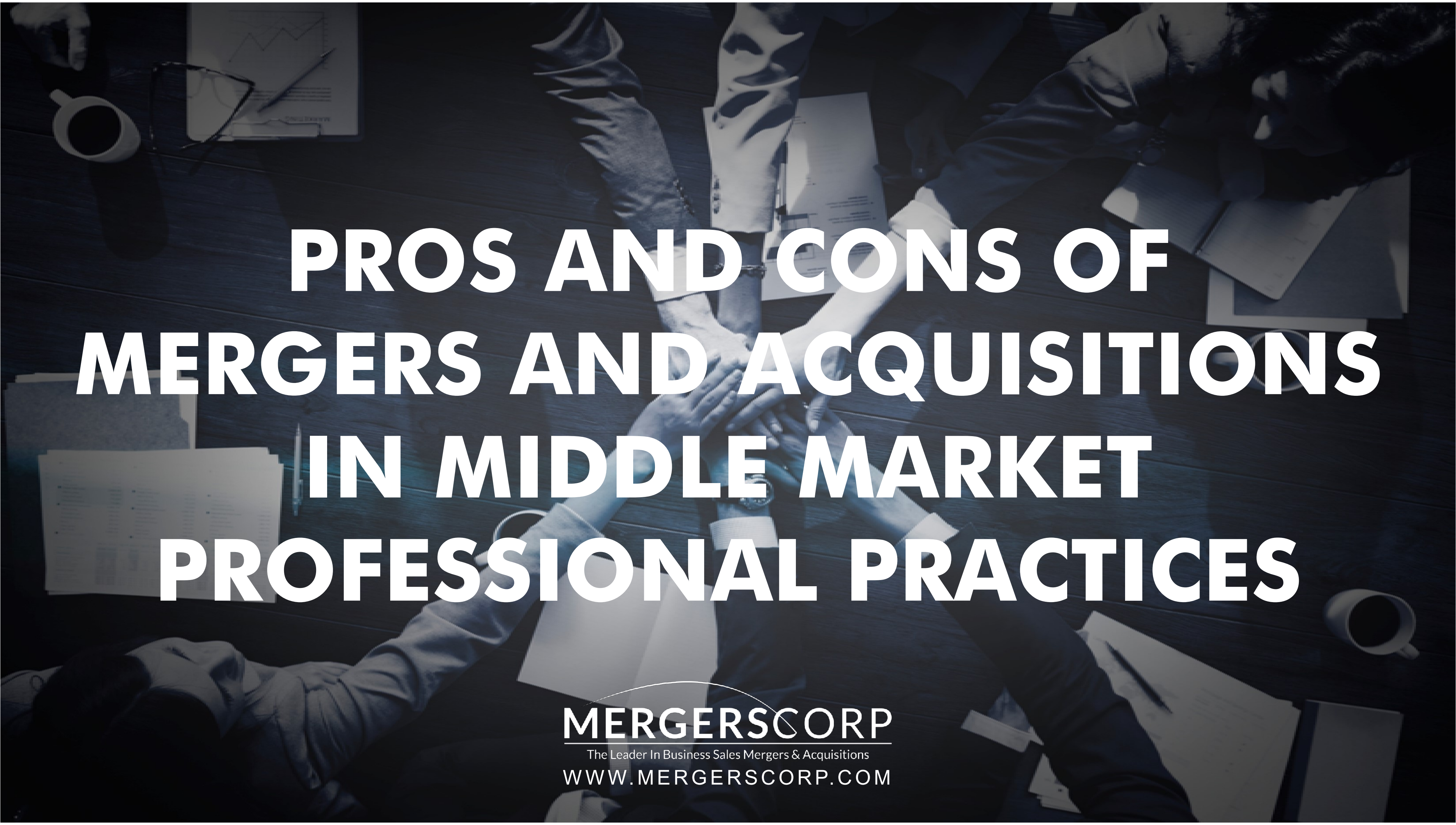
PROS AND CONS OF
MERGERS AND ACQUISITIONS
IN MIDDLE MARKET
PROFESSIONAL PRACTICES
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# PROS AND CONS OF MERGERS AND ACQUISITIONS IN MIDDLE MARKET PROFESSIONAL PRACTICES

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If you are the owner of a middle market professional practice and want to make sure you are financially secure, then you need to know what options are open to you in these difficult times.  The possibilities include selling, merging, growing by acquisition or just continue on and see how things pan out. This last option is probably the least advisable especially if you need stability in your finances.

Ideally merging or growth through acquisition is the best way to move forward and increase financial security. However, if you do not have the time, energy or skills that are needed to make that a success, selling may be the best option for you.

In this article we will be looking into mergers, which include growth by acquisition and also reorganization of the practice. Merging practices creates a bigger practice, which can have a number of benefits:

- **Combined resources.** Merging practices will mean that there are combined resources such as equipment, administration, professional knowledge and training.  All these can be shared and enable a higher standard of practice with greater efficiency.

▪ **Cost efficiency.** With the right structure in place costs are cut across the board with the joint use of administration, staff, space equipment and systems. These all make the business more efficient and more profitable.

▪ **Better coverage.** With more professionals available, there is the opportunity for greater flexibility for coverage of one another. This enables service to the customer to continue whilst allowing for time off.

▪ **Attracting customers.** A wider range of services can be offered with a bigger practice, which in turn will pull in more customers. Advertising can also be more effective as resources are pooled together.

▪ **Greater market share.** With the combined customers from the separate practices, the percentage of the market share is increased. This can in itself lift the practice into a higher sphere and bring in more custom.

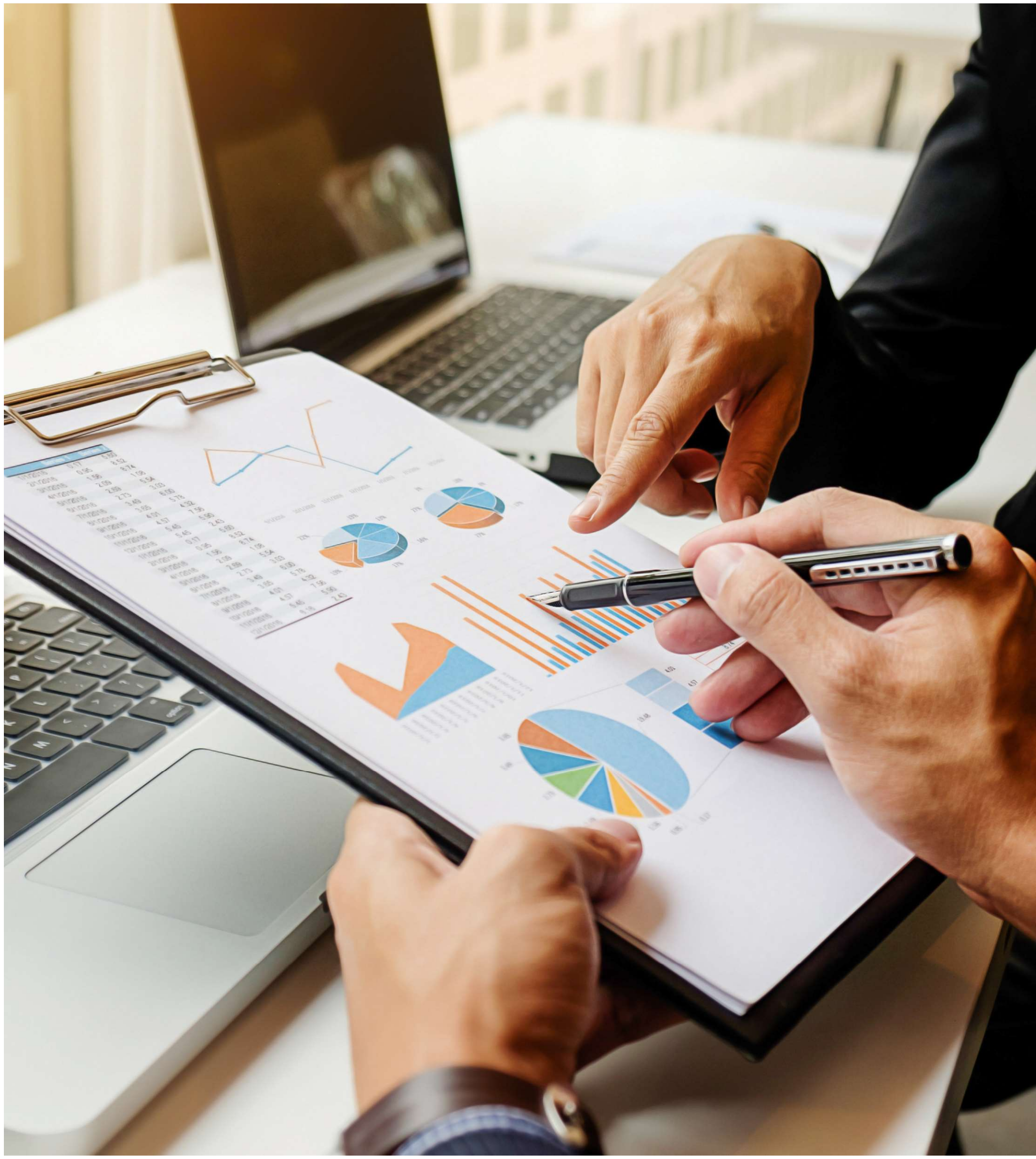
▪ **Better deals with suppliers.** Suppliers will be willing to make better offers where there is greater demand. A larger practice may even be able to find new and better channels for their supplies as their revenue stands at a higher level.

▪ **Greater worth to each practitioner.** If the terms are well written then a practitioners financial status will be better than if they had continued in a small practice. This requires a well thought through strategy for when a practitioner comes to the end of his career or wants to pull out

▪ **Higher value.** When a larger practice has a good management structure it invariably commands a higher valuation than the combined smaller practices.

With all these advantages in Mergers or Acquisitions, it is also necessary to point out that it is not all a bed of roses and you need to be aware of some of the disadvantages that are involved. There are strategies that can be used to help avoid or cope with these. Here are some of the disadvantages and ways to help with them :

▪ **Lack of control:** All parties may feel to some extend that they no longer hold the reins and are in control of the direction of the practice in the way they were in their smaller practice. When this loss is perceived to be greater than the benefits of the merger, this becomes a problem. Careful planning beforehand is necessary with a detailed agreement made about the roles and responsibilities of each party in order to reduce this risk. It is also crucial that a comprehensive buy-sell agreement is made should problems arise and if in the end the problem remains unsolvable.



▪ **Dissatisfied parties.** It is easy for mergers to not work out as expected for those involved and this is often because the goals of the merger have not been clearly defined. Before a merger takes place it is important that the purpose and strategy of the merger is clearly defined and worked through.  For instance whether the aim is to provide more comprehensive service to the customers or to broaden the customer base etc.  As long as the aims are clearly defined then there is a much better chance of a successful merger.

▪ **Disagreement on financial structure.**  There can be a lack of agreement on both the financial structure and the control.  A retiring practitioner may well be more concerned about the finance whilst another up and coming practitioner with his career ahead of him, will be looking to grow the business and will be concerned about the control.  It is important, therefore, to make sure that the financial structure is not linked to voting rights.  There also needs to be a clear set of rules clarifying what needs to be passed by the board or shareholders or management.

▪ **Disagreement on income.** How income is divided between the owners and personnel can be a cause of friction.  This must be thought through carefully, taking into consideration tax impact and avoiding any abuse of the system.

▪ **Discrepancy in benefits.** Different practices will have different benefits and ill feeling can be caused if these are changed without prior knowledge. It is necessary to synchronize these across the board and for these to be agreed upon before the merger in order to avoid disharmony.

▪ **Incongruent specialities.** There can be instances where the specialists that are making up the merger, are not compatible with the areas that are needed. Consideration must be given ahead of time to work out if the combining of these specialist areas is compatible and beneficial.

▪ **Friction over offices and personnel.** Merging of different offices and personnel is open to friction, so combining these resources needs to be planned carefully. If finalising of this is expected after the merger has occurred then comprehensive rules need to be drawn up to make sure an agreeable outcome is made for all parties.

▪ **Unaddressed liability issues.** To address these issues liabilities predating the merger should be indemnified. This should address both the organization and individual needs.

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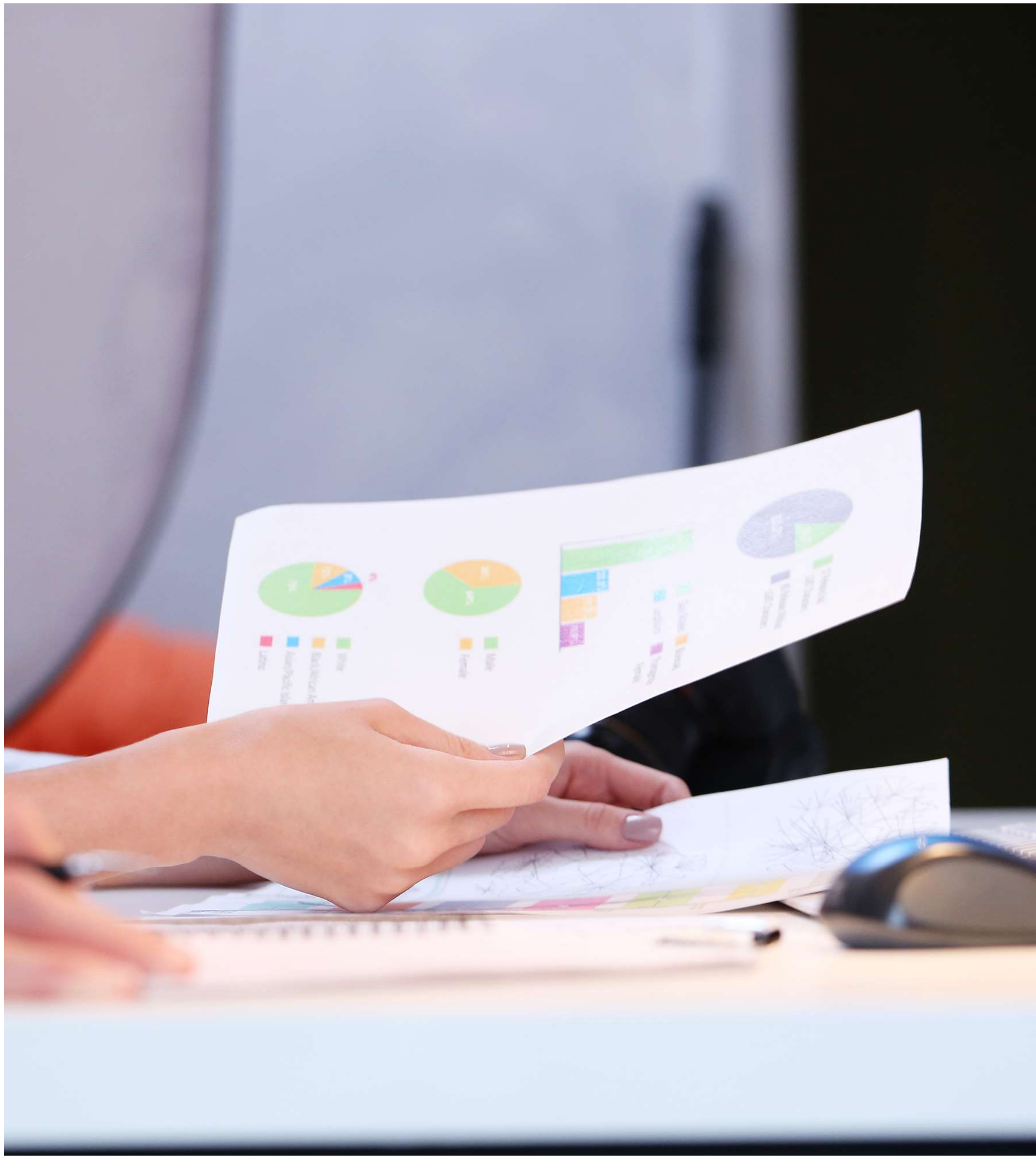
**Discrepant supplier or customer contracts.** Contracts with customers and suppliers need to be checked over and where there are different contracts with the same customer or supplier these need to be reconciled to avoid confusion.

In summary, there are many benefits from merging professional practices, not least the better financial stability that comes with a bigger more diverse practice.  However, a lot of planning needs to go into preparing the merger, covering many aspects of the business, in order to create a harmonious outcome that leads to a successful practice for all involved.This all takes a considerable amount of time and negotiation, often needing anything from six to eighteen months to complete.

Keywords: Mergers and Acquisition, middle market practices, professional practices, advantages of mergers, disadvantages of mergers, middle market businesses, combining companies



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# Our M&A Process

| TARGET APPRAISAL | APPROACH | DUE DILIGENCE | NEGOTIATION & CLOSE | POST MERGER INTEGRATION (PMI) |
|---|---|---|---|---|
| **Key Areas** | | | | |
| ▪ Target & market analysis;<br>▪ Initial assessment of synergies & value drivers;<br>▪ Indicative valuation;<br>▪ Go or No-Go decision;<br>▪ Preparation of transaction documents (NDA – Non-disclosure Agreement/LOI-Letter of Intent);<br>▪ Select Transaction team;<br>▪ Appoint advisors;<br>▪ Consider funding ability. | ▪ Initial approach letter;<br>▪ Signing of NDA;<br>▪ Prepare & share initial information requests;<br>▪ Formulation of LOI (Letter of Intent) & possible negotiations;<br>▪ Initial meeting and Q&A;<br>▪ Circulate information on the Target to the Transaction team. | ▪ Set scope of due diligence;<br>▪ Set up VDR (virtual data room);<br>▪ Coordinating of due diligence, further meetings and Q&A sessions;<br>▪ Consider points relevant to the Post-Merger (PMI) phase; | ▪ Revisit indicative valuation & prepare detailed valuation based on due diligence findings;<br>▪ SPA negotiations with the seller;<br>▪ Development of final structure (share/asset deal) and final valuation;<br>▪ Approvals;<br>▪ Signing of SPA & Close. | ▪ Consider the extent of integration;<br>▪ Development of 100 Day PMI Plan;<br>▪ Consider short & long term objectives;<br>▪ Estimate requirements to capture synergies;<br>▪ Determine resource needs & optimal allocation. |
| **Parties Involved** | | | | |
| ▪ CFO;<br>▪ Head of M&A;<br>▪ Accountants;<br>▪ Corporate finance advisors;<br>▪ Consultants. | ▪ Senior management;<br>▪ CEO, CFO, CTO;<br>▪ Strategy director;<br>▪ Head of M&A;<br>▪ Head of Business Development;<br>▪ Consultants. | | ▪ Company general counsel;<br>▪ Lawyers;<br>▪ Senior management. | ▪ Company general counsel;<br>▪ Lawyers;<br>▪ Senior management/HR. |


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