



Dispelling the myths of selling your law firm

2021

The law firm mergers and acquisitions market is on a positive upward trend, and many partners and owners are now looking for opportunities to sell.

Hazlewoods Legal Team works with law firms every day, and whilst talking to those who have an interest in selling, we find that there are some common misconceptions surrounding the selling process.

We have summarised the eight most common myths below, with our reasons as to why they should not deter you from addressing the succession of your firm.

1. YOU HAVE TO SELL THE WHOLE FIRM.

Selling your whole business is becoming less 'the norm'. There are so many options available for law firms looking to sell. A large number of active acquirers are looking for people and teams, and it is often the case that this type of deal is turned around quicker. Not selling the whole firm also opens up potential ownership opportunities for your employees.

2. I SHOULD WAIT TO BE CONTACTED FROM BUYERS.

There tends to be three types of approaches: direct approaches from experienced acquirers; brokers; and the conversation with the friendly firm that you have known for a while. If you plan to sell, and you have identified who you want to talk to, then don't wait for them to approach you. Take the lead. But do your homework first on what you want. Take advice on what you can expect to receive, and be prepared to negotiate.

3. I SHOULD NOT EXPECT ANY VALUE.

There is so much talk that there is no goodwill in law firms. Value should not be just focused on goodwill. Every deal is different, and value can be obtained. It's just a case of understanding how a deal can be structured to benefit both parties, so that both come through it feeling happy with the outcome.

4. IT IS ALL ABOUT THE MONEY.

Before you think about your own succession, you need to know where you would be happy with your firm going. People are the biggest asset for law firms, and culture plays a hugely vital role in successful mergers and acquisitions. If you do not get the fit right, there will probably be problems down the road. Ideally, the process of selling your firm should be started a number of years before you do so.

5. I WILL HAVE TO ACCEPT THAT I WILL NEED TO PAY FOR RUN OFF COVER ON MY PROFESSIONAL INDEMNITY INSURANCE.

Not necessarily. Every deal is different, and it will depend upon several factors such as your claims history, the impact your firm will have on the acquirer's ongoing premium, and the market for ongoing professional indemnity insurance. It's all part of the negotiations. Naturally, the acquirer would prefer not to become successor practice, but in many cases they do.

6. I CAN LEAD THE WHOLE PROCESS MYSELF.

Whilst strictly speaking, it is possible to do it all yourself, you are likely to benefit enormously by having dedicated experts at your side. Accountancy firms that specialise in the legal sector have a wealth of experience in law firm M&A activity, and can help you to explore the best deal for you and your firm. They will also help you to ensure you maximise your value and minimise your liabilities. A lawyer will of course also be involved for drafting the appropriate agreements.

7. NEGOTIATION IS OVER ONCE YOU SIGN HEADS OF TERMS.

This is absolutely not true. Although the Heads of Terms set out the main principals of the deal, they never cover all of the detail. The share purchase or

asset purchase agreement will create a lot of debate! WIP valuations and recoverability of debtors are likely to cause much of this, and you must be able to stand by any amounts you present in your balance sheet.

8. ON DAY ONE OF THE MERGER, THE WORK IS DONE.

The first 100 days of a new merger or acquisition always throw up a number of tests, be it employees, clients, suppliers, owners and other stakeholders. There are some real challenges, and if these issues are not foreseen prior to the merger they can result in a large amount of disruption. Part of the negotiations should include planning the first three months of the new venture, and ideally longer!

Hazlewoods Legal Team has many years' experience in selling law firms and preparing them for sale, and are ready to work with you to achieve your exit plan. We can support you with:

- Finding a buyer;
- Advising throughout negotiations;
- Working on the asset/sale purchase agreement; and
- Concluding the transaction with transparent completion accounts for all parties.

If you are interested in selling your law firm, please get in touch with one of the team below.

MEET THE TEAM



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