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What Makes a Business Valuation Firm an Attractive Acquisition Target?

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For the last several years, it seems as if everyone I talk to in our profession is trying to figure out a growth plan. Talk of growth is not new, of course—all of us have been trying to achieve it for years. In the early years, it came fairly easily: Valuation was effectively a brand new profession, with seemingly endless opportunities for those who jumped in the game ahead of the curve. Like any profession, we've evolved: The processes we use have grown in complexity, the data we rely on have gotten more extensive and reliable, and the courts have become exponentially more sophisticated, expecting the same of the experts who testify before them.

Many valuation analysts started their careers in large CPA firms. Understandably, these large CPA firms traditionally focused their energies on their bread and butter services: audit and tax. Valuation, with its almost "Wild West" feel and lack of recurring work, didn't quite fit into the repeat business model found in the compliance world of a traditional CPA firm. As a result, many of us left the large CPA environment to start our own firms, such that our profession is now largely comprised of small to midsized boutique valuation and litigation firms. For many of us, for much of our careers, this made great sense. Simply put, we don't operate like a CPA firm; rather, we are more akin to a law firm, with the nuances of discovery and record keeping attendant thereto. More importantly, lawyers engaging valuation and litigation analysts want to hire people they know are solely focused on the work they need done for their case—i.e., exactly the specialty, boutique firms we made ourselves into. The problem is that a small, boutique firm performing valuations and providing litigation support can only grow so much, due to lack of staff to handle large, sophisticated cases.

This leads us back to the discussion so many have been having over the last several years about growth: How do we achieve it? How do we provide meaningful and significant opportunities for our staff to grow their careers? For the partners at my firm, Meyers, Harrison & Pia LLC (MHP), the answer was to be acquired by the very type of firm we all "used to" work for—a large, national CPA firm: Marcum LLP.

We were not looking to be acquired; in fact, at the time Marcum approached us, we were (and still are) in the process of identifying and making moves to acquire other valuation practices. "Acquire or be acquired" was the path we seemed to be on. Based on many conversations I've had with my colleagues over the last few years, so are many of you.

So, what makes a valuation and litigation practice an attractive target? And just as importantly, what makes the buyer attractive to the valuation and litigation practice? Marcum wasn't the first firm to come courting us: we'd turned others down. So, what was it about this firm that was different?

Let's start with what made our firm attractive to a potential buyer. Marcum focused on five key attributes of MHP:

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1. Our deep bench of experienced partners and staff;

2. Year after year of revenue growth and high profits;

3. Our well-established processes, procedures, and best practices;

4. The scalability of our work; and

5. The abundant cross-selling opportunities.

Each of these will be discussed briefly below:

- *Our deep bench of experienced partners and staff:* As we all know from our valuation experience, the creation of value requires depth of experience beyond what any one person can provide. MHP had four partners in its litigation practice, with a combined 100 years of experience in valuation and litigation support. Our staff of 15 professionals was solely dedicated to valuation and litigation support, allowing the team to fully develop the skills necessary to build a sophisticated practice.

- *Year after year of revenue growth and high profits:* When I merged my small firm, Fannon Valuation Group, into MHP in 2012, I was astounded at the metrics: highly billable up and down the organization, extraordinarily high realization across the board, and no debt. The firm was laser-focused on doing great (billable) work. Minimal downtime was spent on nonbillable activities—with the notable exception of continuing education and marketing, the latter of which is, after all, best achieved by doing great work.

- *Our well-established processes, procedures, and best practices:* As a firm solely devoted to valuation and litigation, MHP had established sophisticated valuation workbooks and templates, as well as a thorough quality control process. The complexities of valuation were regularly hashed through,

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establishing best practices and consistency of execution across the firm.

- *The scalability of our work:* For many years, each of the partners and senior staff focused on projects that small teams could perform. However, over time, we began to get larger and more complex projects, which required a greater number of staff for longer periods of time. Due to our relatively small size, we could only handle one or two of these projects a year. These projects tend to require significant amounts of junior staff time. Marcum saw the opportunity to leverage its staff of 1,500 professionals, allowing us to acquire more of these larger projects.

- *The abundant cross-selling opportunities:* Marcum believes its clients, contacts, and referral sources are hungry for valuation and litigation support services. Our merger allows us to cross-sell services across the breadth of the combined organization, leading to exponential growth opportunities for everyone.

But a deal is a two-way street. We had to be sure it was a good fit for MHP as well as for Marcum. Our considerations of whether or not to join with Marcum included many of the same factors Marcum considered, including Marcum's past financial success and stability and the future growth we believed we could achieve through scalability and cross-selling opportunities, as described above.

In addition to these shared concerns, two other issues were key to MHP's decision to sign on with Marcum, including:

1. Availability of career advancement opportunities for staff; and

2. Ability to operate autonomously.

As to each of these:

- *Availability of career advancement opportunities for staff:* A firm can only grow and promote staff if the growth of the firm allows it. MHP was doing this: Our revenues and profits had grown for many consecutive years, and we were actively seeking valuation firms to acquire in order to maintain our growth trend. However, Marcum presented an opportunity for *exponential* growth, far beyond what we believe we could have achieved on our own, as a small, boutique firm. In turn, this presents extraordinary career opportunities for our staff, "in at the ground floor" of what we intend to build into a significant national practice.

- *Ability to operate autonomously:* Marcum wanted to acquire us because we were already successful. Key to the partners was the ability to continue to operate under the direction of the superior leadership of Mark Harrison, under whom we had achieved that success. The MHP partner group all came from "Big Four" accounting firms ("Big Eight" for some of us!), and we well remember what didn't work and why we left. The ability to continue to operate as a successful valuation and litigation practice, branded and recognized as such by the marketplace we serve, was critical to us in order to continue our success. Marcum assured us that autonomy will continue.

Change always takes work and is at times uncomfortable, but both acquirer and acquiree are excited about the opportunities ahead of them. We continue to seek extraordinary valuation professionals and firms to add their expertise to our practice and grow with us (like you?!). Finally, we look forward to our staff having long and successful careers with Marcum. ◆

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