

Mergers & Affiliations

McMillan Woods

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Kuala Lumpur

Клуж Румун.
18 Децембер 2014



FRS?
Continuity?
Practice review
Compliance?
....& the list goes on!



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Synopsis

The time is never right but certainly with the evolutionary changes in the accounting profession, it is timely for you to get-together and to take advantage of the many opportunities to embark in a strong affiliation arrangement for growth potentials. Certainly, using the affiliation tools to build a solid foundation for global growth and subsequently progress into a merger arrangement is a long term strategy.

Mergers & Affiliation is termed as **Affiliation, Acquisition & Merger (AAM)**, as a tool for growth potentials and this seminar is aimed to provide an insight into some of the key global trends affecting the accounting and audit profession.

Main objectives

- § To provide you as a member in public practice with critical understanding of the changing regulatory landscape and emerging trends across the accounting profession; and
- § To provide members in public practice to capitalise on the opportunity for using AAM as a prominent economic vehicle for growth potential.

Seminar methodologies

A presentation to reflect the past years' development in the capital market and the auditing standards reform, which serves as a platform for the affiliation, acquisition and merger surge. One will gain valuable insights on the myths, tips and pitfalls for a successful affiliation, acquisition and/or merger arrangement.



What is AAM?

To many of us, M&A should now be in the following prototypes:

- **Affiliation**
A “trial marriage”
- **Acquisition**
A complete take-over exercise!
The alternative is...
- **Merger** – A marriage!

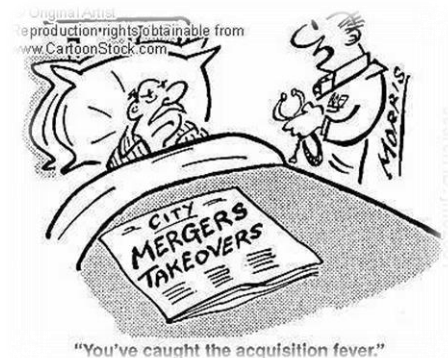


AFFILIATION, ACQUISITION or MERGER?

The 3 options...

Let's consider these 3 options starting with the respective prototypes from:

1. Strategic "**Affiliation**" option, which for the purpose of this discussion covers both local and global affiliations;
2. A possible **Acquisition** option; and
3. **Merger** as the alternate option.



Affiliation, Acquisition or Merger – Drivers of change!



BUT...

What really are the drivers for an Affiliation, Acquisition and/or Merger?

To me, the main drivers or at least the priorities for an affiliation, acquisition and/or merger would be:

- 🌐 **International branding**
- 🌐 **Clients' retention**
- 🌐 **Continuity and/or succession planning**

Why the need for strategic Affiliation

- ASEAN Free Trade Agreement (AFTA) & WTO
and Trans Pacific Partnership Agreement (TPPA)



With AFTA, WTO and TPPA already in place for some time, together with the many arduous challenges coupled with stiff competition that practising firms especially **accounting service providers** are facing; urgent and speedy steps must be taken to strengthen their key intensity.....
competitive edge.

Why the need for strategic Affiliation

Among the rationales given are...

- Size
- Extended range of professional services
- Geographical coverage
- Specialisation, and
- Branding – be it local or international

..... All are equally important.

But **THEN...**

How can a firm strengthen its

competitive edge?



Why the need for strategic Affiliation

Possible solutions... Strategic Affiliation!

Strategic Affiliation can be either:

- 🧠 Local strategic affiliation, or
- 🧠 International strategic affiliation.



Note:

Strategic Affiliation must be on an **affirmative basis** where all participating members are fully committed to one another!

Benefits of strategic Affiliation

° First and foremost, to name a few:

Geographical coverage



With a **local strategic affiliation**, the firm is now seen as having branch offices in different states of the country.

Whilst with an **international strategic affiliation**, the firm is now being affiliated overseas to obtain a wider geographical coverage, taking a cue from **McMillan Woods**.

Affiliation would be seen by clients as having **widen** its **geographical coverage** to provide **better personalised support** to clients' expansion plans hence leading to providing **better personalised services** for the clients.

Benefits of strategic Affiliation

Branding of bigger “combined” firms

Whether the Affiliation is local or international, both arrangements generally provide:

- 🌐 **A better image**
which results in...
- 🌐 **A bigger size**
due to...
- 🌐 **Combined capability**
hence leading to...
- 🌐 **Better branding.**



Benefits of strategic Affiliation

A platform for specialisation

With combined “merged” forces, **specialisation** is now a reality and this may also lead to possibly expanding to a **Multi-Disciplinary Practice** arrangement with like-minded practising firms.



Benefits of strategic Affiliation

Opportunity for capacity and capacity building such as the pooling of resources

Such affiliations would also lead to greater sharing of *technical information* and allow for *joint staff training programmes with sharing of expertise and experiences* among affiliated firms i.e. availability of other expertise from member firms to meet clients' needs.

Peer review among practice affiliated firms would lead to better quality in working papers and related reports including work programmes among the many compliances, as dictated by the statutory bodies.

Benefits of strategic Affiliation

Better clients' retention capability



Better retention of clients and a wider scope for the expansion of professional services.

The range of professional services may be expanded to a wider scale with a greater ability to fulfill the ever demanding **needs** of clients both locally and worldwide hence leading to **better retention** of clients.

Benefits of strategic Affiliation

Expansion of clients via referrals from member firms

Affiliation of this nature generally involves **referrals of clients** from one to the other member firms as a whole; and this arrangement creates and further expands the **clients' base** of the practising firm.



Benefits of strategic Affiliation

No loss of control of ownership



The firm will continue as it has been operating before other than being seen as belonging to and/or **forming part** of a bigger group of practising firms.

There is no **risk** of a “divorce” and the huge legal and related **costs** involved especially where there is a break-up, as in a merger.

Selection for business partners

Identifying potential “partner(s)”



Like a courtship, at the start of a relationship..

First, you need to **identify** like-minded practising firm(s) who, ideally share the **similar visions** and **mission** as well as the inherent “**values**”, as your own practice firm.

Identify the **form of relationship** (in this case “affiliation-ship”) – Be it **formal** or **informal** that the affiliation arrangement would take place.

Selection for business partners

Terms of Agreement



Upon acceptance by both parties to go on an affiliation arrangement, the **terms of agreement** must be agreed upon to avoid any misunderstanding such as the following:

- Payment of an agreed **fixed annual fee** for the affiliation arrangement (be it local or international);

Note:

In most cases, there is an **agreed fixed annual fee** for the global affiliation arrangement, which is generally consistent for all firms.

Selection for business partners

Terms of Agreement

- # Payment of **licence fee** for the use of “affiliation name” and “affiliation logo” including the global website among the use of standard quality programmes – To distinguish between annual fee, administrative and operational fee, licence fee etc.;
- # Define the **rights and benefits** of the global affiliated membership;

Protection clause:

Ensure that the granting of the global affiliation is for an indefinite period for each country unless due to poor or non-performance and that there is a restrictive covenant on the assignor of the rights in that country. Rights are transferable only by the assignee in the country concerned – **Only one “National Office”** is allowed.



Selection for business partners

Terms of Agreement

- # Define the **territorial rights**;
- # **Terms and conditions** for the admission of new members to the affiliated global group and region;
- # Where possible, clearly spell out the “**Leader**” of the affiliated firms to assume the leadership or management position of the group and/or region;
- # **Regional and practice management** to include any financial arrangements;



Selection for business partners

Terms of Agreement



- ✦ **Marketing** obligations and commitments;
- ✦ **Professional liabilities** in line with the By-Laws of each country bearing in mind the professional independence and Anti-Money Laundering Act;
- ✦ Members' **obligations & restrictions** (if any);
- ✦ Agreed upon the **referral** and **introducers' fee** arrangements (if any); and
- ✦ **Terms** for the termination of membership to include expulsion of members.

Alternative option - Acquisition

As an alternate option to an Affiliation, consider the option of an **Acquisition** for one firm to buy over another firm



Possible questions raised:

- ☺ Valuation?
- ☺ Fair value?
- ☺ Cost approach?
- ☺ Fee income approach?
- ☺ Market approach?
- ☺ Weighted average?
- ☺ Other formulae?

Alternative option - Acquisition

Valuation techniques

- A firm will use various valuation techniques under the “buy” & “sell” circumstances, based on available data to measure *fair value* with the intention to maximise the use of relevant observable inputs and minimise the use of unobservable inputs.
- The key objective of using a valuation technique is to estimate a price between a willing buyer and a willing seller; at which an orderly transaction to sell assets and/or to transfer liabilities; is to take place between market participants and the “measurement” under the current market conditions.



Alternative option - Acquisition

Single valuation technique



- **Cost approach** – reflects an amount that is required at the present circumstances to replace the service capacity of an asset i.e. the replacement cost.
- **Fee income approach** – converts future amounts i.e. cash flows or income and expenses; to a single current (usually a discounted amount to reflect the current expectations of those future amounts).
- **Market approach** – uses prices and other relevant information generated by market transactions, involving identical or comparable or similar assets, liabilities of a similar firm.
- **Simply weightage approach** – A combination of the above techniques.

Alternative option - Acquisition

° MFRS 13 defines Fair Value as...

“The price that would be received to sell an asset or paid to transfer a liability in an **orderly transaction** between **market participants** at the measurement date.”



Alternative option - Acquisition

Hence, Fair Value...

...is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing buyer and seller (parties) in an arm's length transaction!



3rd Option - Merger

As an alternate option to both an Affiliation and Acquisition, is Merger...

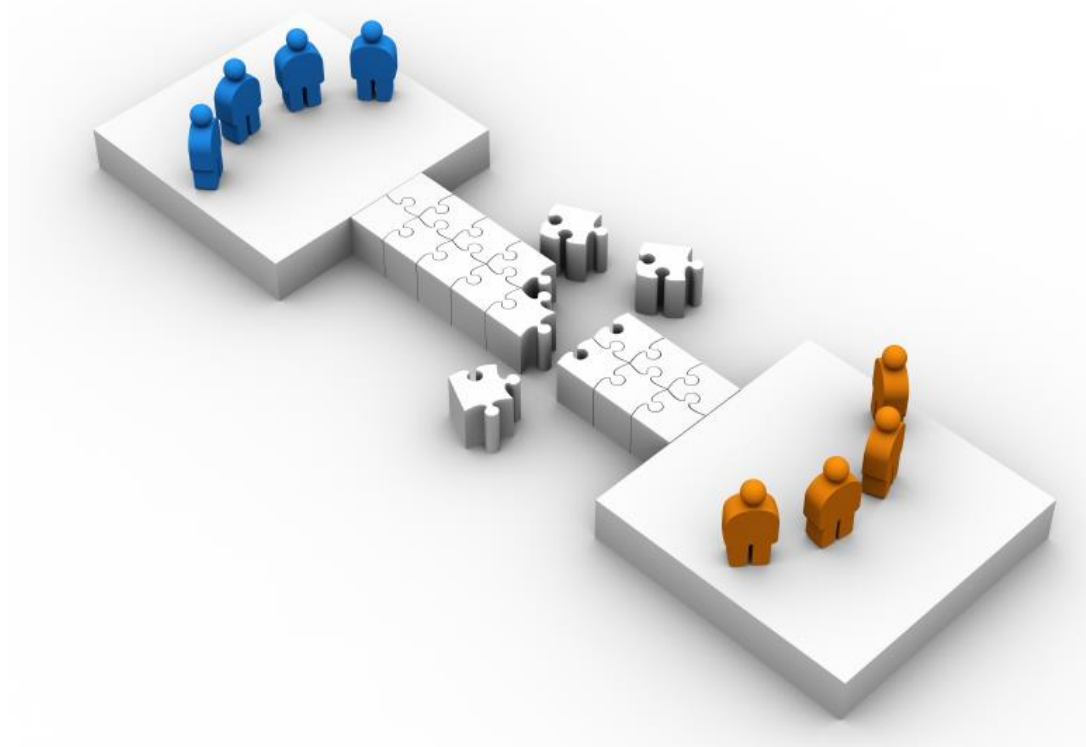


From the Editor

What is a MERGER?

A **Merger** is like a marriage!

It's more than merely an agglomeration of two or more firms!"



What are the myths of a **MERGER?**

Myths – There are many... but let's us look at the common illusions and possibly one nagging thought!

The **illusions** may be...

- Less work
- Shorter hours
- But higher income & better lifestyle!
(Oops! Wishful thinking!)

The **one nagging thought** is...

- Possible loss of control of your own practice!

True or false? Let's discuss them in the brainstorming session...



A MERGER will take care of...

For a start...

Member firms automatically comply with Part B, *Section 520* of the MIA By-Laws on “Incapacity or death of a **sole practitioner.**”

Surely, a merger would take care of this basic requirement with minimum disruption to the members’ practices.

Note:

Likewise, an Affiliation too complies with this requirement.

How do you make better ethical decisions at work?



Compliance is Just the Beginning

Program 1
3 Steps to Ethical Decisions

Program 2
Ethical Situations to Consider

Why the need for a MERGER?





Opportunity for capacity and capacity building such as the pooling of resources

- Staff pooling of expertise resulting in an opportunity for **specialisation**;
- Leading to better **staff retention**, as a result of larger staff force in terms of size;
- Better sharing of technical information;
- Allow for better training programmes to be undertaken.



Why the need for a MERGER?

Wider scope for the expansion of range of services

-  Other than the **traditional professional services**, namely audit, tax, accounting and secretarial, the range of other related professional services can also be expanded to a bigger and wider scale;
-  Greater and better ability to fulfill the **needs of clients** with the expanded range of professional services;
-  **Quality** and **cost efficacy** due to greater efficiency; and
-  Ultimately, resulting in **better** assurance and compliance.

Why the need for a MERGER?



Geographical coverage

- With a merger, the bigger “merged” firm may now be able to have **branch offices** in different States across the country and possibly overseas to obtain a wider geographical coverage; and
- Better **ability to support** the clients’ expansion to different geographical locations hence leading to **better services** for the clients, which lead to better **retention of clients**;

Why the need for a MERGER?

Branding of a bigger firm

- ➔ Better and improved image as a result of bigger size due to combined capability; and
- ➔ With a bigger size and wider geographical coverage leads to better branding.



Why the need for a MERGER?

A platform for specialisation

- As a result of combined capability, this would result in a **larger staff force** hence specialisation is now a reality; and
- Possibly, **expanding** to other related professional arrangements such as a Multi-Disciplinary Practice arrangement.

**STAFF
FORCE**

Why the need for a MERGER?

Practice continuity

To reinforce what was mentioned earlier...

- The combined merged firm will continue even with the **exit** of a partner or indeed if there is a **change in ownership**;
- Admission of additional partners is made easier since the “partnership structure” is already put in place;
- With a practice continuity in place, clients feel more at ease.



Why the need for a MERGER?



Greater financial security

- Generally, the **combined financial investment** is greater ultimately leading to better financial security;
- **Better management systems** can be put in place in view of better financial security;
- More **advanced** technological & computerised systems too can be put in place with larger financial investments;
- Generally, leading to **better financial returns** to partners.

Why the need for a MERGER?

Other significant reasons

- Focus may be placed on practice management and development;
- Better career development and advancement for staff members;
- Better personal development programmes for both staff and management alike;
- Value-added service.



Why the need for a MERGER?

Retirement planning

I'm
Retired

Not Expired

→ An avenue for exit opportunity should the retiring partner wishes to do so without jeopardising the future of the practice;

→ Creating a **value** for the retiring partner.

Pitfalls of a MERGER?

Common traps shared among failed merger are:

- ⚠ **Lack of planning** and the failure to obtain full support and commitment from all participating members;
- ⚠ **Unsuitable candidates**, the short-sightedness of participating members and personality clashes;
- ⚠ **Differing** viewpoints, concepts and corporate culture;
- ⚠ Distorted and **unclear** visions and missions of participating firm's objectives,
- ⚠ **Valuation of financial asset** worth and possible goodwill of individual firms;

Pitfalls of a MERGER?

Common traps shared among failed merger are:

⚠ **Nepotism and favouritism;**

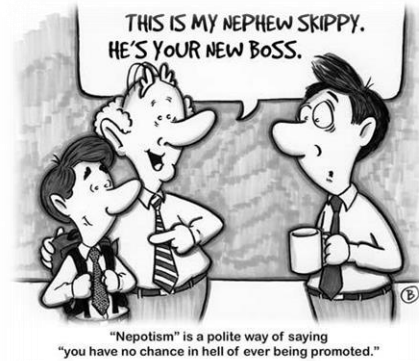
⚠ Financial constraints
– The other extreme angle;

⚠ Non-audit services
– Failure to expand its range of professional services;

⚠ Autonomy and autocracy;

⚠ Failure to deliver the ultimate “promise” i.e. synergy attainment.

⚠ **Risk mitigation** – Where senior partners are passing most of the risks to the younger partners to avoid practice review or AOB onslaught!



MERGER – The myths, the whys & pitfalls?

Until here...

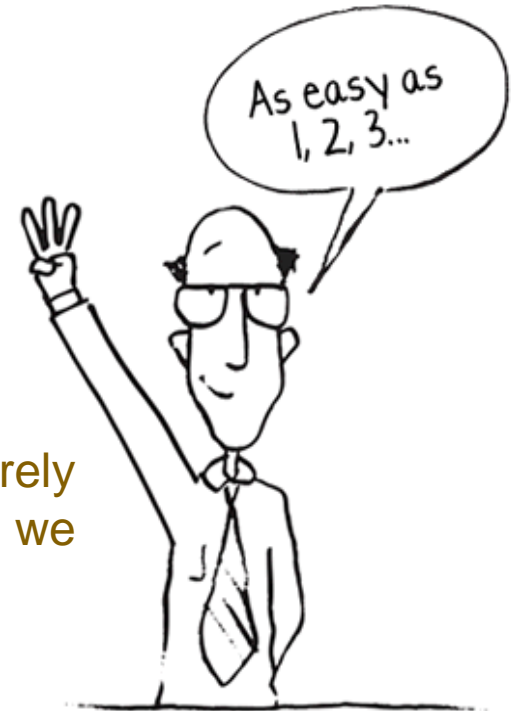
I have only highlighted the following:

- “The myths”,
- “The whys” and also
- “The pitfalls” or “The traps” of a merger.

Naturally, a successful merger goes beyond merely understanding these pertinent pointers. Here, we need to understand “The How” factor too!

You need to be mindful of the

- 🕒 **Pre-Merger,**
- 💣 **During-Merger ...and**
- 😊 **Post-Merger!**



Conclusion...

◦ It's timely to take stock of where you are now...

Affiliation, Acquisition or Merger (AAM) arrangements are all **viable options** in *moving forward* but you need to weigh out your own personal firm requirements.

All 3 options offer you many advantages although you need to weigh out the consequences in the unfortunate event of a “divorce” or break-up!

Mergers – The legal costs can be exorbitant.



Affiliation – Cost of the membership and related fees.

Note: Once you are in it, BE COMMITTED!

The Global experience.....



Ladies & Gentlemen

We shall share experiences during the discussion session!



The power of advertisement



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"The Business Mind"



The Power of A Global Network

McMillan Woods, one of the fastest growing professional services networks, strongly believes that the time has come for practising firms to either merge and/or be strategically affiliated to strengthen their competitive edge and to face yet another wave of changes.

McMillan Woods can offer your firm access to an unrivalled pool of technical and industry specialists and support wherever you go globally. One of our core values is the Standard of Excellence – The 1st choice of the most sought-after clients attracted by the breadth and depth of our world-class service.

For all aspiring practitioners who have the foresight to move forward and take the plunge please email to info@mcmillanwoods.com

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McMillan Woods

Professionalism
at the forefront



McMillan Woods going beyond borders of business...



Every practising firm or organisation has a role to play, in not only raising awareness of its corporate social responsibility (CSR) initiatives but to walk the talk.

At McMillan Woods, we pledge our continual commitment to CSR drive. On 19 January 2013, **McMillan Woods** planted 201 trees at the Forest Research Institute Malaysia (FRIM) in support of Mother Earth, taking the cue that "Every little step helps to save this planet of ours!", with the theme "McM cares for the environment" – www.mcmillanwoods.com



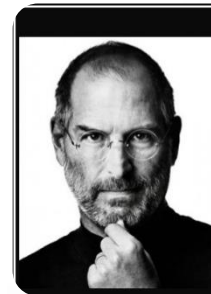
↑ OUR HEARTFELT GRATITUDE AND THANKS
TO THE DEPUTY MINISTER OF FINANCE,
YB SENATOR DATO' IR. DONALD LIM SIANG CHAI
FOR OFFICIATING THE TREE PLANTING CEREMONY. ↓

We would also like to invite interested firms & candidates to share with us the following:

- + Like-minded firms to join our fast expanding global network; and
- + Suitably qualified professionals and graduates to build their career with us both locally and globally.

McMillan Woods can offer you, your career and your firm access to an unrivalled pool of technical and industry specialists and support wherever you go globally. One of our core values is the Standard of Excellence – the most sought-after attribute that speaks volumes of the breadth and depth of our world-class services.

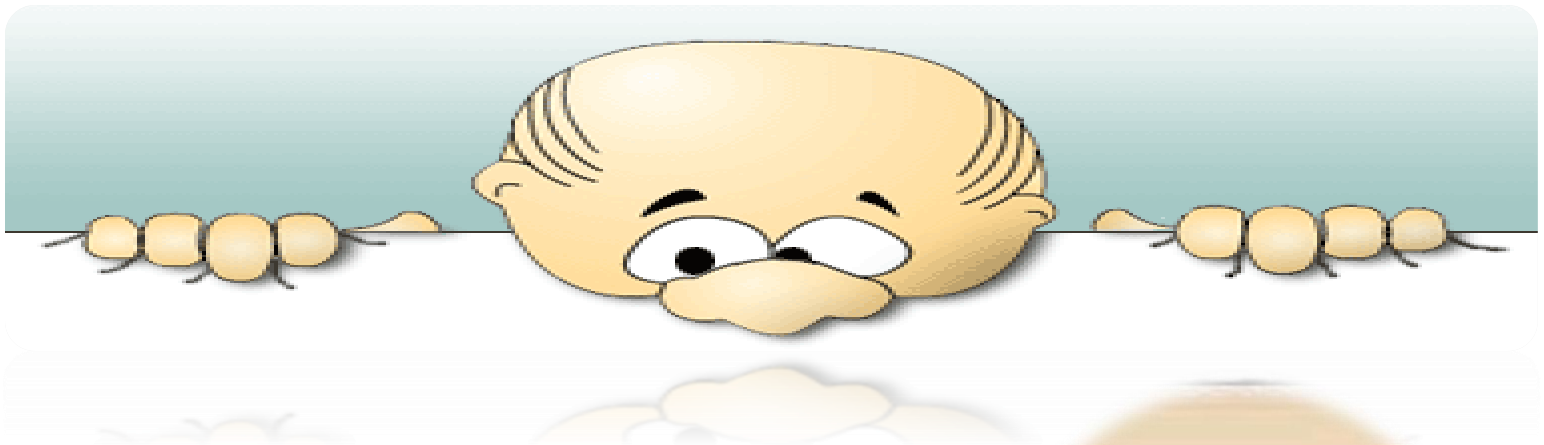
To take the plunge email us today and find out more at info@mcmillanwoods.com



Creativity is just connecting things. When you ask creative people how they did something, they feel a little guilty because they didn't really do it, they just saw something. It seemed obvious to them after a while. That's because they were able to connect experiences they've had and synthesize new things.

(Steve Jobs)

Winners
are not people who
never fail,
but people who
never quit



“To become successful, you must be a person of action. Merely to know is not sufficient. It is necessary to know and to do.”

Napoleon Hill



Reminder

To practitioners and member firms who are ignorant and still deny to acknowledge these imminent global challenges, they will eventually find their practices unable to withstand the onslaught.

Take the bait or be the bait!

ACT NOW...

 **McMillan Woods**

PROFESSIONALISM AT THE FOREFRONT

...one of the fastest growing unique global network!

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