Selling Your Law Firm

I was thinking about selling my law firm. Any ideas about valuation? I was told today by someone that law firms typically sell for around 1.0 x annual fee revenue. If that's true, I don't think I'd ever sell my firm. That's like selling a goose that lays egg for one egg! What am I missing?

There's a webinar from ABA featuring Prof. Gary Bauer called "Valuing Your Solo or Small Firm Practice: A Cornerstone of Your Succession Plan" produced by GPSolo and available on demand:

https://www.americanbar.org/events-cle/ecd/ondemand/388741088/

Also, Prof. Bauer wrote a book "Hire and Retire: A Plan for a Continuing Income Stream in Retirement from Any Practice" that might be useful. Also from ABA GPSolo:

https://www.americanbar.org/products/inv/book/376475489/

Deian McBryde, New Mexico

Before I launched my practice, I looked into the possibility of buying a retiring lawyer's practice. I learned that most lawyers think their practice is valued more highly than it actually is because, apart from assets and receivables, the only other component of value is goodwill.

There's no guarantee that your client base will continue to use the buyer's services; in fact, your departure may prompt existing clients to seek help elsewhere. Now, maybe you can work out a deal in which you stick around for a transition year or so, maybe mentoring the buyer (if necessary) and making your clients comfortable with the new lawyer. Such a deal might increase the value of your practice since the buyer is getting more than just your furniture, computers, and a list of clients.

Just my $0.02.

Andrew C. McDannold, Florida

I expect you'll get as many opinions as you get responses: It depends.

* Is your practice area one that lends itself to repeat clients? You can only go on Social Security Disability once, so the value there is not the client base, so much as the reputation and the ability to process a claim cost-effectively. You'll note, if you watch the market, that most of the larger, well-known disability and PI firms will tend to go through transitions of A & B Injury Law being replaced over time with B & C Injury Law, and later, C & D Injury law, as the senior partner retires, pulls out equity, and leaves The Machine and the brand to the new senior partner. I know I've watched it happen at least half a dozen times in the last 10 years with the largest regional PI/SSDI firms. (Of course, those firms, if managed well, are cash cows, so presumably the partners are socking away those million-dollar settlements…)

* Solo firms tend to market ourselves on the personal brand and personality; a multi-member firm makes it easier to cash out of the partnership and retire without disrupting the continuity of the firm. That being said, as an "insider" in the local small-firm marketplace, I've been surprised at how often mid-sized firms tend to rearrange and reconfigure themselves, at least around here.

* If you have a general practice with a recognized name, as mentioned, you might find that "handing over" the practice, rather than selling it outright, allows you to add more value by spending a year or two doing a knowledge transfer and engaging client continuity with the new partner(s), tapering off your active time, and perhaps even continuing to lend your name to the firm "of counsel" after you semi-retire.

* If you have a plan for selling your firm "down the road," consider rebranding with a more general name than just your own. My firm is "me," and I don't have any associates, so it's not clear what I'd be selling beyond a client database and tangible assets (that have negligible value).

* While a client database, even with several thousand names, has some value, that value will depend on how much intelligence you have about those clients, and how well it's organized for your successor to use to market and drive new business. Again, if you're thinking of selling, look seriously at what it is about your business that you'd want to buy if you were starting out. A list of names? Well, I can download the voter rolls, county tax database, etc. (and I have), and get hundreds of thousands of *unqualified* names for free. If you don't have information in your CMS (or if you don't have a CMS...) that adds value and depth to that information, there's not a whole lot of marketing value there. If I sell my client history, you get phone call notes

from 2008 forward, records of people who called about practice areas I don't personally serve, etc.…

*   Goodwill is ephemeral. Unless you're big and have a well-known, well-established brand identity backed by substantial infrastructure, it's not going to be valuable; for a solo, your biggest goodwill asset is you, personally, and you can't just sell that, you have to pass it on carefully.

*   If you are a solo, unless you have some valuable specialty, I would not base my retirement plans on selling my firm.

Personally, part of my plan was the ability to reduce my workload to supplement Social Security someday, if my student loans are paid off before I die. Maybe I'll be able to cut back to just 40-50 hours per week…

Richard J. Rutledge, Jr., North Carolina

I agree with Rick.   Most solo law firms are not going to be worth an enormous amount of money in an outright sale. Goodwill is fine but it can evaporate quickly. Existing client base is fine, but unless it is the type of thing where you get a bunch of repeat business it's more of a potential marketing list than any sort of steady income stream. It depends on the nature of the practice;   in my case I've done something like 2000 wills over the years, every single one of them has my name and phone number on it; a certain percentage of them will 'come back to me' for the probate IF in fact a probate is needed; on the other hand, they certainly have a long tail on average, 15 or 20 years or more and if people move or redo their will there's no guarantee they'll come back to me. Is that worth something? Yes. Is the phone number worth something? Yes. But in most cases, it's not worth an enormous amount of money. How much? I don't know, $20,000, maybe $30,000 at best. Certainly not anything that you could plan on retiring on. Unless you've got other assets, i.e., a building or such.   And I agree that you may be better off picking someone up with an eye to transitioning to them down the road, maybe you remain of counsel, maybe declining percentage of income,   I've seen that happen.

Ronald A Jones, Florida

Generally speaking, when a professional practice is sold, the purchase is usually contingent upon retention. So you might sell for $200K, but you don't get that up front. You get $100K in year 1 if X% of the clients stay, and another $100K in year 2 if Y% (usually somewhat lower than X%, but not much lower) stay. I've seen 90/80, 95/85, and so on - the possibilities are limitless, and driven by the type of business, etc.

You may or may not be asked to stay on, but you will have a noncompete (the kind CA does uphold), and you are likely to have a percentage retention provision to prevent you from stealing away any clients (and to prevent someone for paying for a practice that vaporizes as soon as the transaction closes).

Greg Zbylut, California

In the consumer bankruptcy world, we look at money in the pipeline.

- Active 13s with money still to come in are a positive (subtracting out the 1-2 hours of wrap up work at the end of every case).

- Active 13s with no more money coming in are negative.

- Other cases in the pipeline will be a positive, but not the entire amount currently held in trust, since some folks don't end up filing.

We also look at long-term leases, fixtures, etc. Most of the bk folks who retired in the past few years either closed their offices (stopped taking 13s 5 years before they planned on retiring, focused on 7s and contract work, etc.) or sold to other experienced attorneys who knew what to do to close out the cases, so those clients didn't come back and sue the original attorney 3 years down the line.

For your business, you probably have cases in the pipeline that might have a positive value as well as wrap up work on cases that might be a negative. You should also look into malpractice insurance (I think it's called tail coverage) on those cases.

Corrine Bielejeski, California

Yeah, but, if you have 70-90 new clients a year, and not even five of them have been your client for more than three years, then the retention theory doesn't work.

In other words, if you help the little people, and disdain the big clients, then you have a different form of practice.

Still worth a lot of money. But then, the pattern of success over time is measured, and the systems that assure continued clients, not the retention of particular clients. Nobody wants your old stinky relations anyway. LOL

Art Macomber, Idaho

Right. If you have a steady base of clients with whom you regularly do business, you're looking at a retention-type plan.

OTOH, if you have a bunch of one-and-dones, then you're looking not at your client list, but the IP behind the client list - where the clients are coming from, and can it work with just anyone, or is it dependent upon you?

IF the former, you'll get some value, but if it's the latter, you'll have to deal with a discounted sales price. Obviously, if you have associates who help make the rain fall, that's another factor.

Greg Zbylut

No, no, you cannot depend on the person. The SYSTEM must be able to generate the business. The person dies, the system runs on, because potential clients learn that it is the system that handles their legal matter, not just one person.

That's the answer.

Art Macomber

Gene:

Isn't it true that people come to the Gene Lee law firm just for you and no one else?

And aren't they one-off clients without repeat business?

Why would a client come to the Gene Lee law firm if Gene Lee had moved to Idaho to grow potatoes and no longer operated the firm?

Roger M. Rosen, California

Ed Poll is an expert in selling law practices. See https://www.lawbiz.com/selling_a_law_practice.html.

Lisa Solomon, New York

Today's episode of the Lawyerist podcast talks about this exact issue (along with many others):

https://lawyerist.com/podcast/

Dave Rakowski, Pennsylvania