



# KHANDOKAR & CO.

1 CORNHILL LONDON EC3V 3ND

INFO@KHANDOKAR.CO.UK

## RETAINER/ENGAGEMENT FEES

Often, and sometimes surprisingly, one of the most hotly debated fees in at least the lower mid-market is the client engagement and retainer fee. This fee can either be charged up front as a standard flat fee or is often drawn-out and invoiced on a monthly basis, with at least some larger portion of the fee due upfront. Depending on the depth of experience within the firm, the size of the transaction and thus the amount of up-front work required to take the opportunity to market, retainer fees may range anywhere from £30,000 to over £100,000. Sometimes such fees may be exacted up-front, while other firms may allow for monthly invoicing of say £5,000 to £15,000 per month.

We will typically never go below £5,000 for a monthly retainer, regardless of the size of the particular deal in question. Those on the lower end of the size spectrum, typically have more of an issue in taking a retainer fee when doing the deal. This is true for a number of reasons. First, they do not like paying out a decent amount month-over-month with no guarantees of eventual deal closure. In addition, some owners are wary of the finance-types coming in and slapping them with large fees. Finally, some owners do not like the idea of feeling overly committed to a deal. In other words, nothing lost, nothing gained gives issuers a greater reason to back out if something goes awry. The following key points outline some of my most compelling reasons for not balking too hard at paying a retainer fee:

- *It commits the seller to the course of action.* Like earnest money when buying a house any deal-maker wants to

know the seller has some skin in the game. It's a way of committing to the particular course of action. In this way, the retainer fee should not be too small to make it easy to walk away. That is why some larger banks will charge larger fees for larger clients. Charging a larger fee is done not because it requires that much more marginal work than a similar, smaller client, but the larger fee is often used as a psychological tool. The logic there is: the more it stings, the more committed the seller is to sell. If the seller has no skin in the game, s/he can back out at any moment and ultimately the advisor and his firm is left holding the proverbial bag.

- *It helps to cover the intermediary's fixed costs.* Despite what the seller may think, the intermediary typically has his own high fixed costs inherent in prepping and working each deal. Most retainers are not usurious by any means. They are simply a way of helping to assuage the total costs of running a business that's highly human-capital-intensive, not to mention the cost of compliance. Most advisors and bankers do not make their money by charging retainers, it just helps them not to lose it.
- *It incentivizes the intermediary.* If an intermediary and his/her team were working several deals at the same time.

Other upfront and ancillary expenses may be charged with the retainer fee. In addition, expenses inherent to travel, etc. will typically be invoiced separate from the retainer fees, but everything—of course—is subject to negotiation.

## **SUCCESS/BACK-END FEES**

The amount you pay in a success fee, ranges and typically is most dependent on the valuation and/or size of your company. It's great news for larger businesses, as larger companies tend to pay much less per marginal dollar in deal size than the smaller businesses. This is true for a number of reasons.

First, smaller businesses are typically just as much or more work than the larger clients (thanks to both shareholder's and general deal risks).

Second, larger, more established firms with consistent cash flows are frequently much easier to sell. If a business is successfully performing, it is generally much easier to find a buyer.

**Khandokar & Co**

**Success Fee**

%	Purchase Price
1.75%	Up to 1st £50,000
2.50%	Between £50,000 - £60,000
3.50%	Between £60,000 - £70,000
4.00%	Above and beyond £70,000 +



KHANDOKAR & CO.  
LIMITED