

# Are You Ready To Sell?

Vendors continue to make a number of mistakes when selling their practices including:

- They leave it to the last moment and think the event will be quick and easy. In actual fact it is a process that can take months. Remember, it took years to build and you generally don't sell your life's work in 2 weeks.
- Another common mistake is that they don't provide the key information quickly enough. If your 2007 financials aren't finalised and you haven't done interims for March 2008 (or at least projected June 2008 fees) you're simply not ready to sell. You can't sell fresh air and a promise!
- They over value their practice. If you think you're worth \$1.20, think again. It can happen but you need to be exceptional.

## What's Your Practice Really Worth?

No doubt there will come a time when you'll want to cash in on your life's work and sell your practice. For most accountants it is something you will only do once and selling can be either a positive or devastating experience.

I have been inundated with queries about the value of accounting practices since I gave a presentation at a recent accountant's conference. In recent months some interesting trends have started to emerge as more practices come onto the market.



For 'smaller' practices (less than \$500k in fees) the traditional 'cents in the dollar' valuation method still applies, however, I'm convinced that this method will come under the microscope over the next 3 years when the baby boomers finally start to sell. Realistically, valuation based on a multiple of EBIT (after allowing for a reasonable salary for the partners/principal) is a far more accurate way to value an accounting practice.

A number of sources are predicting a 'domino effect' with baby boomer practitioners. As more sellers come onto the market the buyers will gravitate towards the more profitable and systemised practices. The poorer quality, less profitable 'compliance sweatshops' will be at the mercy of the market and the value of their practices will almost certainly fall.

It's very easy to get complacent in a market where I have 66 registered buyers but only 2 sellers. To illustrate the potential downside and variance in valuation let's look at a simple case study:

Gross Fees		\$350,000
Notional Principal Salary	\$120,000	
Wages - Staff	90,000	
Staff Super & On Costs	10,000	
Operating Costs	30,000	
Rent & Outgoings	<u>25,000</u>	<u>\$275,000</u>
Earnings Before Interest & Tax (EBIT)		\$ 75,000

*Continued Overleaf*

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Valuations	(1) \$0.90 cents in the dollar	- \$315,000
	(2) EBIT at a multiple of 2	- \$150,000 (equal to 43 cents in the dollar)
	(3) EBIT at a multiple of 3	- \$225,000 (equal to 64 cents in the dollar)

The message is clear. If you are planning to sell in the next 5 years it is vital that you focus on improving your profitability now. An excellent starting point is to undergo a 'Practice Profitability Diagnostic' that examines 15 ways to generate additional income in your practice. It will cost you nothing but an hour of your time and if you're serious about increasing the value of your practice call me for an obligation free chat.



Thinking of selling your practice? We are dedicated to 'Helping Accountants Succeed' and call us today on (03) 9824 5300 for an obligation free discussion.

*Pat Camm*



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