

Factors That Influence Practice Values

As the baby boomers finally start to list their practices for sale it is interesting to examine why we have so many buyers.

There are many varied reasons why we have such strong interest from buyers including:

- Their current level of organic growth is not enough
- They plan to introduce additional equity partner's) which requires an injection of fees
- They need to acquire more staff at different levels of experience
- A desire to improve the client mix with more high wealth individuals, business clients or SMSF's
- To satisfy the criteria for a consolidator, the practice must reach fees of a minimum level (say \$2M) so they are 'tucking in' a smaller practice to reach the threshold
- Financial Planners are entering the market to gain access to a client database to 'mine' the financial planning potential

Too often practitioners think because their colleagues got dollar for dollar then they are worth the same. The variation in practice prices can be enormous and gross fees are just one factor. Generally speaking, every practice is different and carries its own unique value that varies with time and circumstances.

As I have highlighted before, the EBIT valuation model and cents in the dollar method can produce significant variations in valuations. Supply and demand will ultimately dictate which method is right for firms with fees under \$1M. Some factors that impact the value of a firm include:



- Gross Accounting Fees and the split between compliance and consulting fees
- Client Mix - the mix between I returns and businesses is critical. In metropolitan areas the I's can attract \$0.50 - \$0.60 whilst businesses can pull a \$1+. Country areas generally attract less.
- What percentage of total fees come from your top 10, 20 and 30 clients? Are the top 30 clients profitable and what is the age of the owners?
- Profitability - without a doubt, the key factor
- Systems - Your general ledger can impact on price. If the buyer uses the same system the transfer can be seamless which can add value. The use of paperless office and electronic work papers are definite positive factors because the relocation could be as simple as moving the computer systems. Do staff have dual screens and do you run an intranet system?
- Staff - will they stay on and on what terms? What level of experience do they have and what type of technical training has been given to them over the past few years? When was their last salary review?
- Other income such as Financial Planning (Valued at a multiple of approximately 3.5 times the annual trail income)
- Mortgage Loan Book (Valued at a multiple of approximately 1.5 times the recurring annual trail income)
- Other Sources of Income - Leasing, Work Cover commissions, audit insurance fees, general insurance commissions etc. (These have all been discussed in prior editions of The General Journal.)
- The quality of Workpapers and Filing systems
- Handover Period - how long can the vendor stay on and assist with the transition of key clients? What hourly rate \$?

Continued Overleaf

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- SMSF's - How many do you have? Do you do the audit or outsource it?
- The quality of client records and what software program do most clients use?
- Fittings - What else is being sold? Desks, chairs, furniture, computers (how old) etc.
- Relocation - Is your practice readily relocatable? Again, I returns could be geographically sensitive and what will be the retention rate of business clients if you move?

At the end of the day these are all factors but the 'beauty is in the eye of the beholder'. In other words, one buyer might be attracted to the fact that you have never offered financial planning services but to another group it is a negative. Similarly, the Handisoft suite of programs may be appealing to one buyer but a negative for a MYOB Accountant's Office user.

Remember this - When it's time to sell you are selling your life's work and planning is important. Give yourself a 6 - 12 month window to plan the sale and get your house in order. Skeletons in the closet can bring a sale to a halt very quickly. If you recognise the sale is a process that requires planning rather than just a single event, you will get a much better result. Rome wasn't built in a day so don't try and sell it in a day!



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



Address : 1355 High Street, Malvern Vic. 3144

Phone : (03) 9824 5300 **Fax :** (03) 9824 5359

E-mail : admin@pjcam.com.au

Website : www.pjcam.com.au