

Media Release

Practice owners continue to base business sale price expectations on bygone years

Monday May 19, 2014. The price expectations of financial advisers are no different to those of any vendor that is about to sell a prize asset (whether it be the family home, car or business) said Connect Financial Service Brokers (Connect) CEO Paul Tynan. They see the value through their own eyes and in doing so, are creating a major issue for themselves.

As he travels across Australia coaching and assisting principals to restructure or make their practices ready for sale, far too often Paul Tynan encounters vendors of financial planning practices that are still pricing and valuing their businesses based on emotion and prices that were received in past years.

“The reality is there is far more buyers than sellers currently in the marketplace. The majority of small financial planning books and businesses where the revenue is less than \$1m are still being sold on a recurring income multiple and larger businesses (or internal business sales) are based on a profit valuation method,” said Paul Tynan.

As a business broker, the first and most important aspect of the process Tynan discusses with the vendor are the realities of the market and the forces at play that will determine the source of prospective buyers and sale price.

“It’s natural for sellers to over value their business. It’s been their life, blood, sweat and tears and now selling that life time of work is an emotional undertaking – but ultimately it is the current market that determines price,” added Paul Tynan.

“The FoFA legislation has been the catalyst for a shift towards a higher standard of professionalism with remuneration for advice based on fee for service. Furthermore, FoFA has brought transparency and a need for planners to demonstrate value and the importance/benefit of on-going personalised advice.”

The practices most in demand that Connect is engaged to source for buyers are well run and efficiently administered enterprises with solid, sustainable revenue streams supporting a carefully considered target market.

The key factors the practice is judged on are all client centric:

- the client value proposition,
- the client service experience, and
- the value clients place on the advice they receive.

The sustainable and ongoing revenue sought by buyers is not product based but service based – this is why more valuations in the future will move to a profit based formula. The move to profit based valuations will see more accounting and financial planning firms move to the one business structure.

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So for practice owners seeking to sell their business in this new world, Paul Tynan offers the following:

1. Be realistic when it comes to price
2. Understand that valuation methods are changing
3. Sustainability of income is important
4. Good businesses are based on maintainable profits and a great client service offering
5. Sellers must let go of their current business as all buyers will have new service ideas, management culture and value proposition
6. Always use a solicitor that has experience in the financial service sector
7. Start now!

ENDS

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