

ILH: much goodwill but few buyers

Market turmoil is not the only issue for a newly listed Australian law firm, writes **Rachel Nickless.**

Troubled Perth law company Integrated Legal Holdings made history but not money last Friday when it became the second law firm in the world to float.

The difference between its fortunes and those of national plaintiff firm Slater & Gordon demonstrates that listing is not a sure-fire way of lining partners' pockets.

ILH has taken a beating, slipping from its issue price of 50¢ to 38¢ on its first day of trading on the Australian Stock Exchange and it has hovered around the 40¢ mark since. In contrast, Slater & Gordon has made millions for its major shareholders, including managing director Andrew Grech.

It listed on May 21 at a 40 per cent premium to the offer price of \$1 and since then has traded as high as \$1.72 in July.

ILH spokesman Brett Davies blames ILH's "disappointing" price performance on the turbulent sharemarket.

August 17 was indeed an unlucky time for any company to make its debut on the sharemarket, but others have suggested the company has more fundamental challenges.

ILH, which is chaired by former

Labor federal treasurer John Dawkins, has acquired the legal practices of Talbot Olivier Lawyers and Brett Davies Lawyers – two Perth firms with 50 and 4 staff respectively – and Law Central, an internet legal document business.

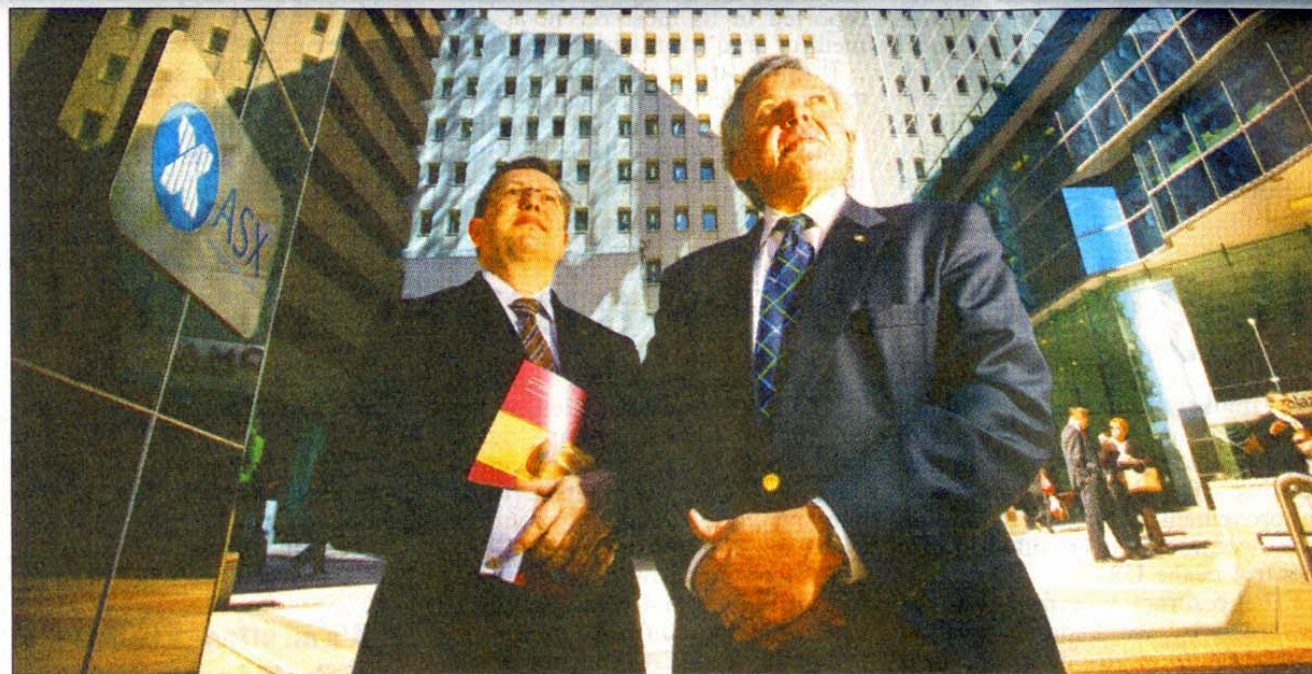
Julian Midwinter & Associates practice development consultant Linda Julian predicts ILH will struggle to produce sufficient shareholder returns, after paying to keep competent professional staff and resource operations, given its current profile and its decision not to focus on niche markets.

"Slater & Gordon has a clear market dominance and brand awareness, which ILH doesn't enjoy," she says.

ILH plans to allow firms that join the company to operate under their own names as a separate business, and is casting its net widely. ILH's Davies says even family and criminal law practices will be considered, if they are profitable and suit the ILH model.

Davies says ILH is hoping to expand rapidly. He says about 89 law firms, property settlement practices and shelf-company manufacturers have contacted ILH. While interest has come from as far afield as the United Kingdom, he says the company will first look to businesses in Victoria, Western Australia and NSW.

"We will look at any law firm which is profitable and that would



ILH's spokesman Brett Davies, pictured with chairman John Dawkins.

include family lawyers, criminal lawyers and commercial firms."

ILH has also created some controversy in the way it has continued to measure goodwill – intangible assets relating to the reputation and skills of its lawyers and business and its client relationships.

The firm calculates it as 59 per cent of the company's total assets.

Julian says: "Under IFRS [international financial reporting standards] goodwill is a tough thing to accurately dimension for any firm, but particularly challenging for one operating in the general market space that ILH is in."

In May, the Legal Practice Board of Western Australia issued an unusual public statement about ILH's calculation of goodwill,

saying it was "not the aggregate goodwill of each of the businesses to be acquired by ILH, but, as the draft prospectus now states, is the merely arithmetic difference between the cost to ILH of acquiring the businesses less the net fair value of ILH's identifiable assets, liabilities and contingent liabilities."

"The board does not consider the sum of \$6,586,543 to therefore reflect goodwill in accordance with the long-established legal definition of that concept".

However, the Australian Securities and Investments Commission has not opposed ILH's method of calculating goodwill and this week WA's Legal Practitioners' Complaints Committee decided not to take the matter further.

One firm, Durack Zilko, backed

out of a plan to join the company as a result of the battle with the practice board, but Davies says ILH has followed "normal accounting procedures and was in line with international accounting standards".

He says joining ILH will help firms retain staff through an employee share plan.

It will also enable partners to make their interest liquid and provide continuing passive income through potential dividends, he says.

"At the moment, lawyers have an 'eat what they kill' mentality and they receive very little value for their practices.

"At the end of the day... that's a terrible position to be in at the end of a life time of work."