

accountingTODAY  
**PE SUMMIT**

# What Drives Value

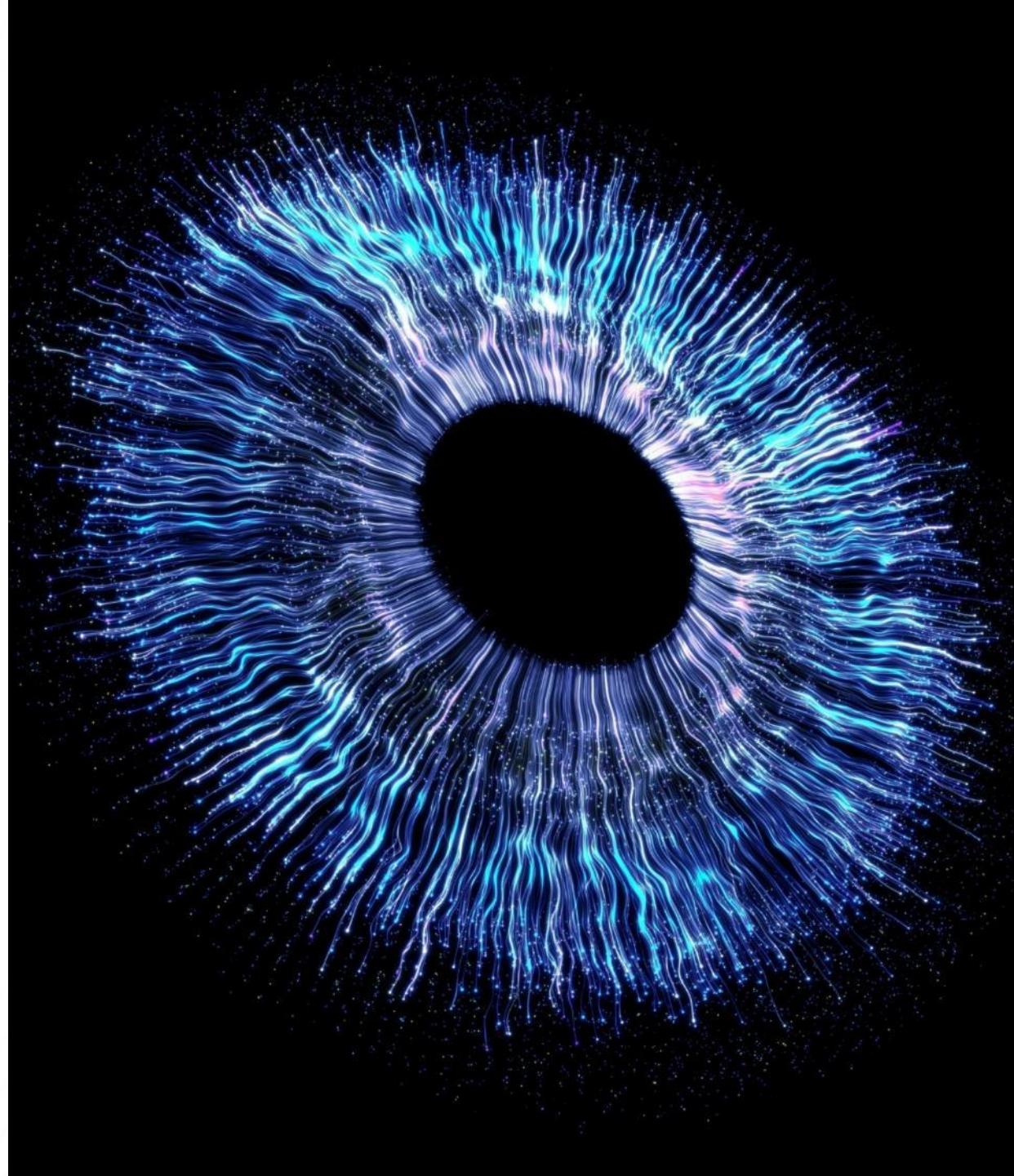
Presented by Bob Lewis of The Visionary Group



# The **Strategy** Battleground

Independence or Transacting  
with a Partner?

Data helps make an informed decision,  
no matter what path they pursue.



# Marketplace Options

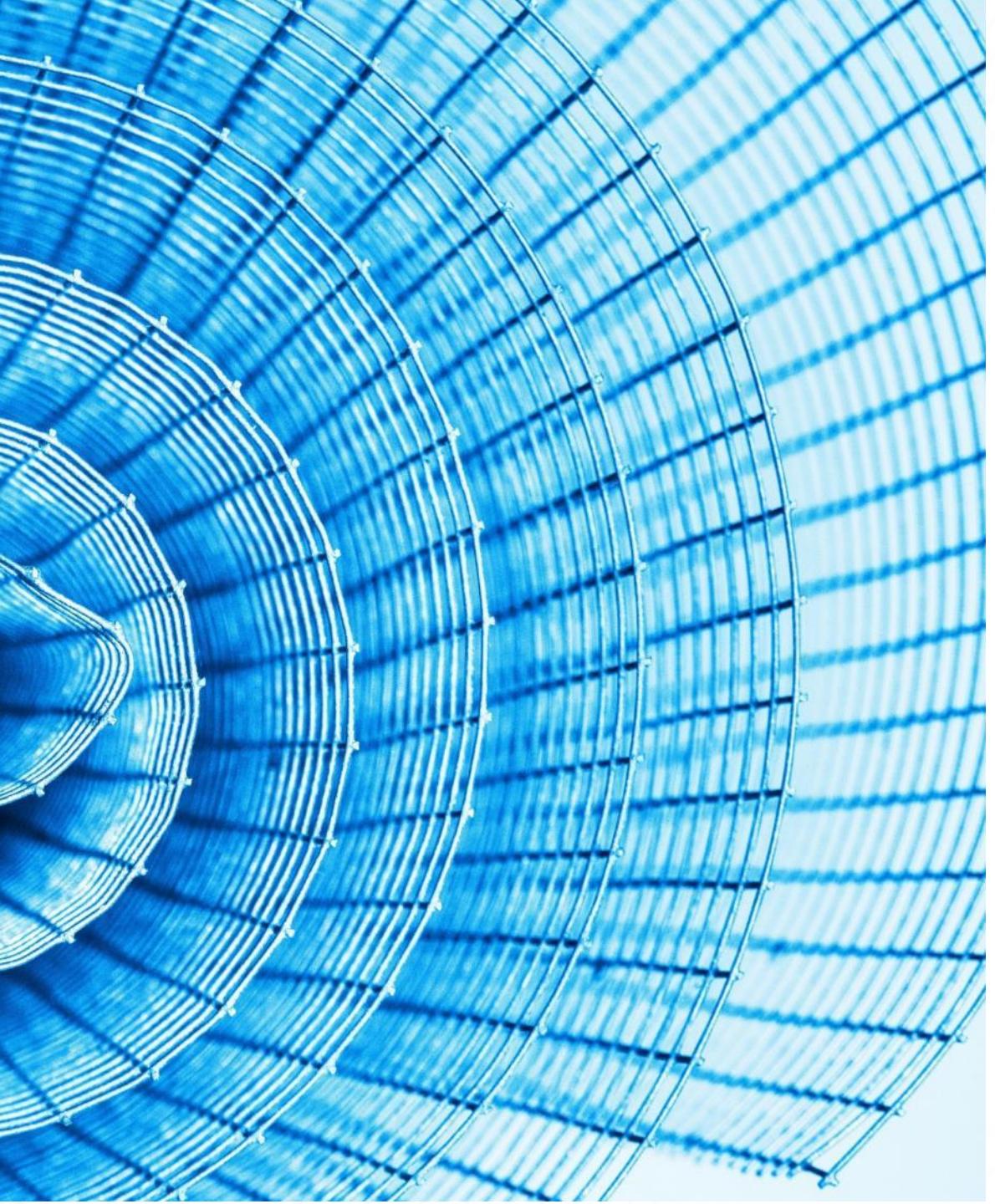
Traditional Firms, Private Equity Groups,  
Capital Backed Firms, ESOP or an IPO

# Starting a Transaction Process

Understanding Your Potential Value

Identifying Possible Partners

Assessing Their Fit



## Values Historically

Deals like this are **infrequent** today

- Based on a **multiple** of revenue
- Little or no **cash**
- 5+ year **payout** on client retention

## Values Today

More **stock**-based deals

- Based on **adjusted** EBITDA
- Increased **cash** in deals
- **Rolled** equity

# The Valuation Model

In the simplest terms

## The Calculation Pieces

- **Math.** Adjusted EBITDA is numerical
- **Art.** Multiples are more intangible

## Two Core Elements to Adjusted EBITDA

- The “scrape”
- Addbacks



# Firm Value Prediction & Enhancement Model

<b>Revenue</b>	\$20,000,000
<b>EBITDA (30%)</b>	\$6,000,000
<b>Partner Comp</b>	\$5,700,000
<b>Comp Reduction (50%)</b>	<b>\$2,850,000</b>
<b>Other Addbacks</b>	<b>\$725,000</b>
<b>Net Adjusted EBITDA</b>	<b>\$3,875,000</b>

<b>Multiple</b>	<b>8</b>	<b>9</b>	<b>10</b>
<b>Firm Value</b>	\$31,000,000	\$34,875,000	\$38,750,000
<b>Rev % Conversion</b>	<b>155.00%</b>	<b>174.38%</b>	<b>193.75%</b>

# The Purchase Price Boost – Part 1

Adjusted EBITDA	\$3,875,000
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	What If?	Hours	Additional EBITDA
<b>Billable Hours</b>	Increase the RDH of <b>\$200</b> by <b>\$5</b>	100,000	<b>\$500,000</b>
<b>Non-Billable Hours</b>	<b>Convert 5%</b> of Non-Billable to Billable at <b>\$205</b> an Hour	95,000 5% = 4,750	<b>\$973,750</b>

Boost Addition	\$1,473,750
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# The Purchase Price Boost – Part 2

**New Adjusted EBITDA**

**\$5,348,750**

Multiple	8	9	10
<b>Boost Value (38%)</b>	<b>\$11,790,000</b>	<b>\$13,263,750</b>	<b>\$14,737,500</b>
<b>Firm value</b>	\$42,790,000	\$48,138,750	\$53,487,500
<b>Rev % Conversion</b>	<b>213.95%</b>	<b>240.69%</b>	<b>267.44%</b>

# Other Value “**Considerations**”

## **Financial**

- Earnout targets
- Working capital
- Ongoing compensation
- Bonus structures
- Management fees
- Preferred dividends

## **Non-Financial**

- Cultural fit
- Partner exit timelines
- Infrastructure



# A Key Value Factor

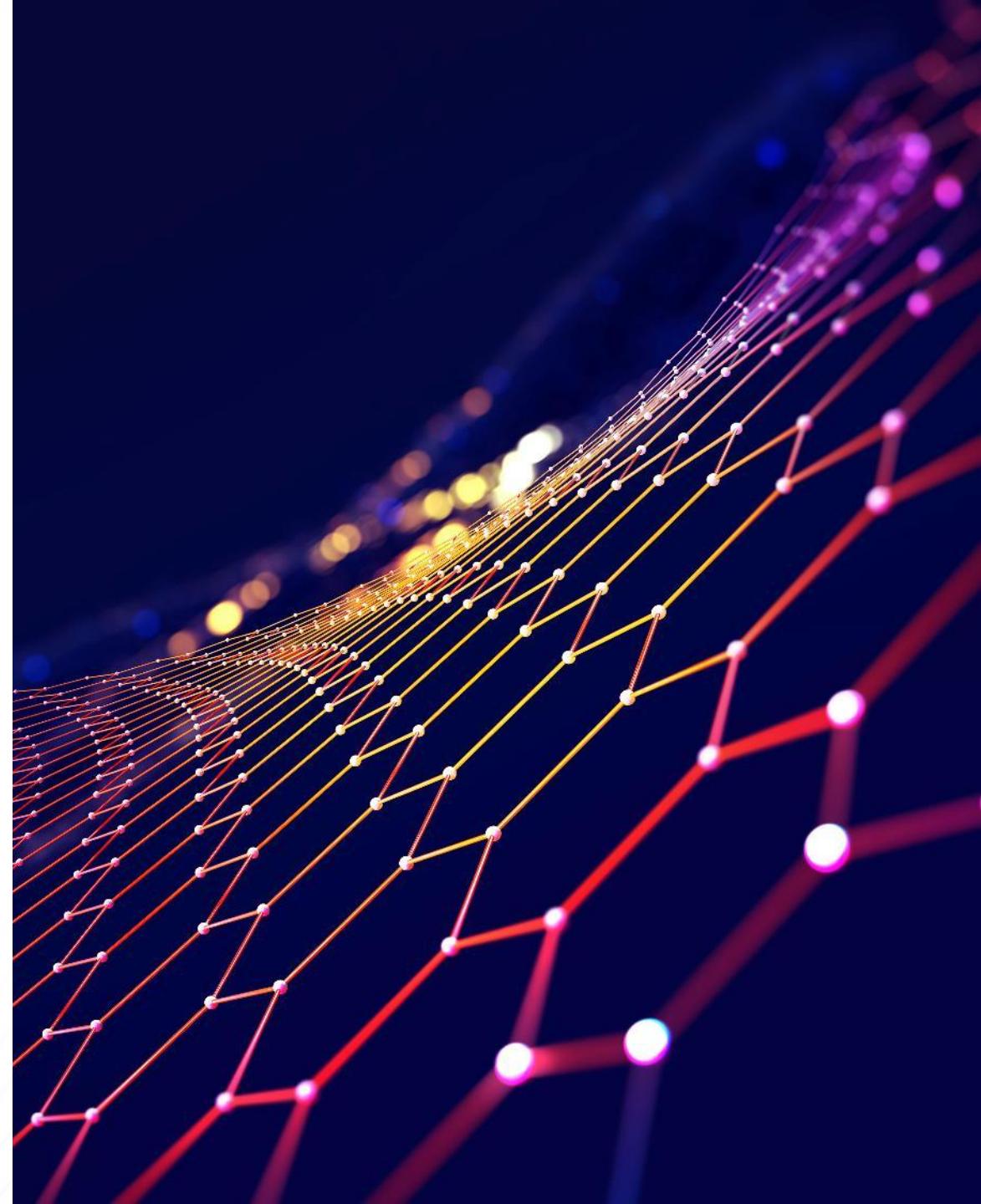
Rolled Equity

*Not all equity is equal - remember Sears*

# Value Drivers

## Items that build firm value

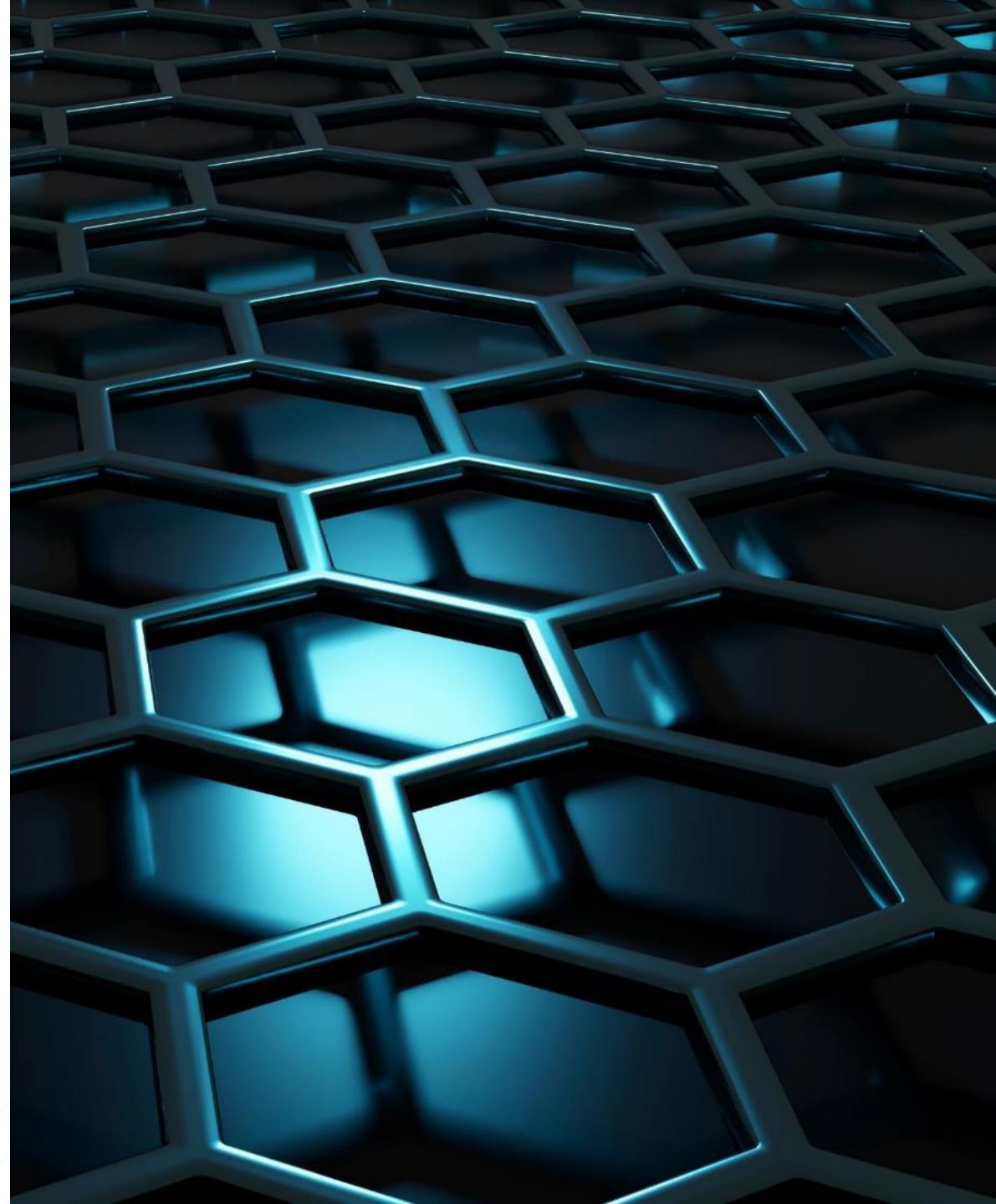
1. Sustainable EBITDA growth
2. Driving revenue per professional head (RPH) up
3. Increasing realized dollars per hour (RDH)
4. Managing write downs: partners & departments
5. Continuous upward client scaling
6. Developing niches
7. Eliminating capacity burning clients
8. Monitoring the 80/20 rule
9. Adding advisory



# Value Killers

**These will reduce the value in any deal**

- **1040s**
  - High volume
  - Low minimum or average fee
  - Not tied to a business client
- High billable **hours** by partners
- Eat what you **kill** models
- **Smaller** business clients
- Not **tracking** hours
- Lack of **bench** depth



# Advisory: The EBITDA Opportunity

**Many firms have less than 10% in advisory revenue. Why?**

- Lack of time & limited experience in consulting
- Limited resources to make investments in advisory

**What are advisory services?**

- Exit planning/investment banking/brokerage
- Wealth management & family offices
- Human resources, technology, etc.

# Advisory: The EBITDA Math

## **The Potential** – Assume 1,000 business clients

- Assume 50% have no needs = 500 potential prospects
- 10% success rate = 50 consulting opportunities
- $50 \times \$10,000$  per opportunity (**low**) = **\$500,000**
- **Realistically**
  - Some will be \$100,000 or more or in-between
  - Assume  $50 \times \$25,000$  = **\$1,250,000**

# The Value Impact

## Let's go low (at 8x)

- \$500,000 more in revenue at a 30% profit
- = \$150,000
- X a multiple of 8
- = **\$1,200,000 increase in firm value**

## Let's go high (at 10x)

- \$1,250,000 more in revenue at a 30% profit
- = \$375,000
- X a multiple of 10
- = **\$3,750,000 increase in firm value**



# The Key to Everything

Clients



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