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What Drives Value

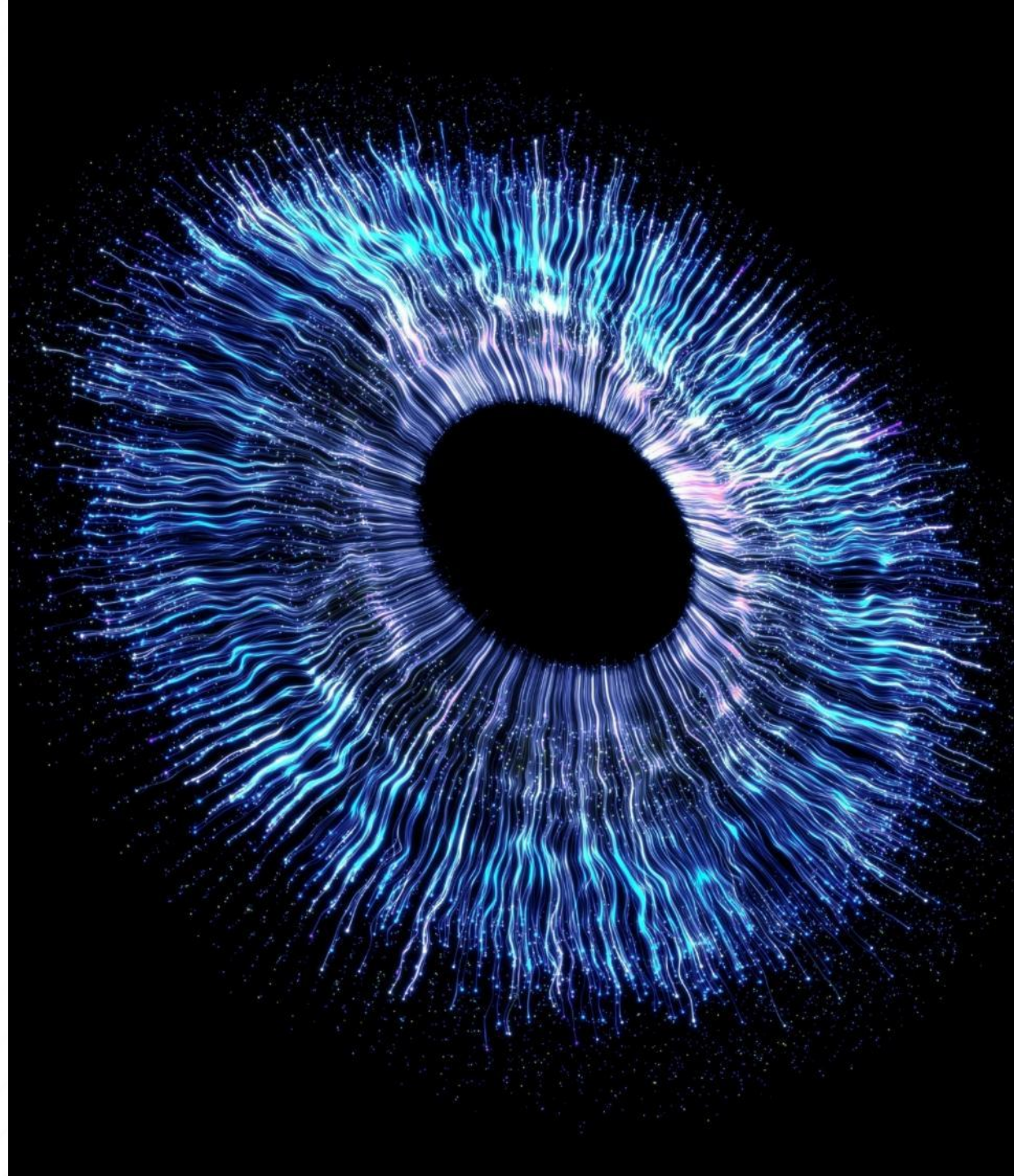
Presented by Bob Lewis of The Visionary Group



The **Strategy** Battleground

Independence or Transacting
with a Partner?

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



Marketplace Options

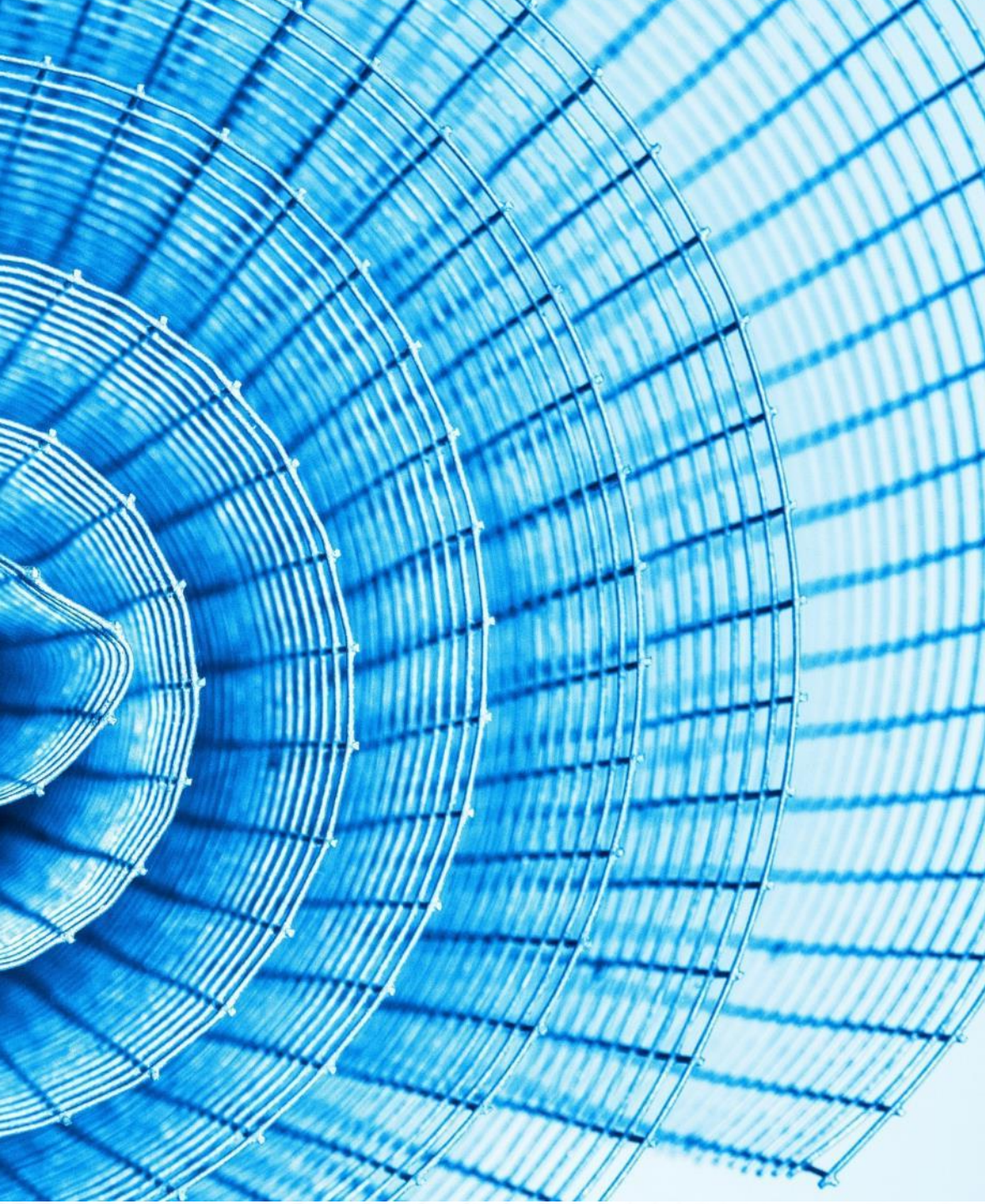
Traditional Firms, Private Equity Groups,
Capital Backed Firms, ESOP or an IPO

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

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

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

The Purchase Price Boost – Part 1

Adjusted EBITDA			\$3,875,000
	What If?	Hours	Additional EBITDA
Billable Hours	Increase the RDH of \$200 by \$5	100,000	\$500,000
Non-Billable Hours	Convert 5% of Non-Billable to Billable at \$205 an Hour	95,000 5% = 4,750	\$973,750
Boost Addition			\$1,473,750

The Purchase Price Boost – Part 2

New Adjusted EBITDA

\$5,348,750

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

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

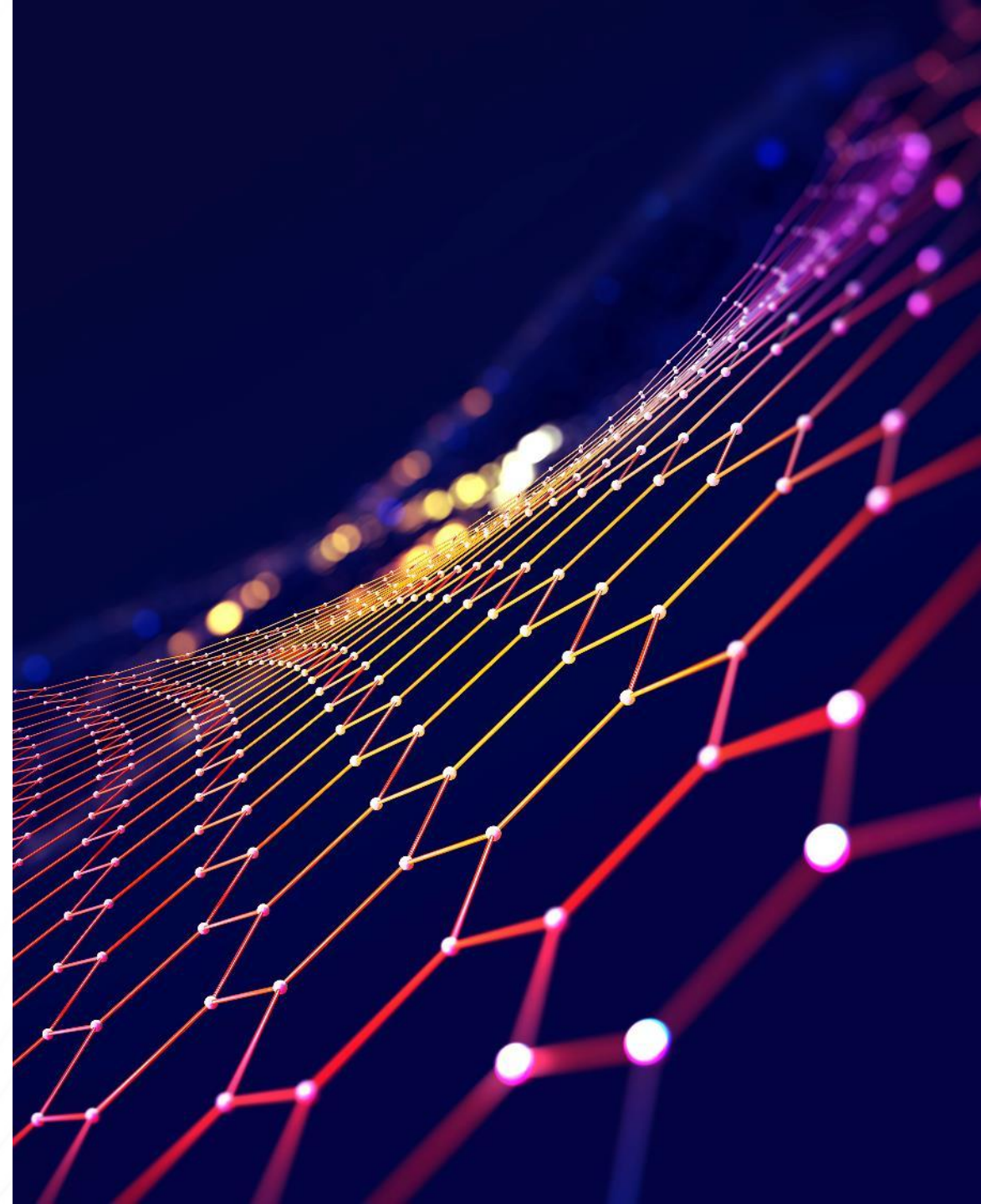
Rolled Equity

Not all equity is equal – remember Sears

Value Drivers

Items that build firm value

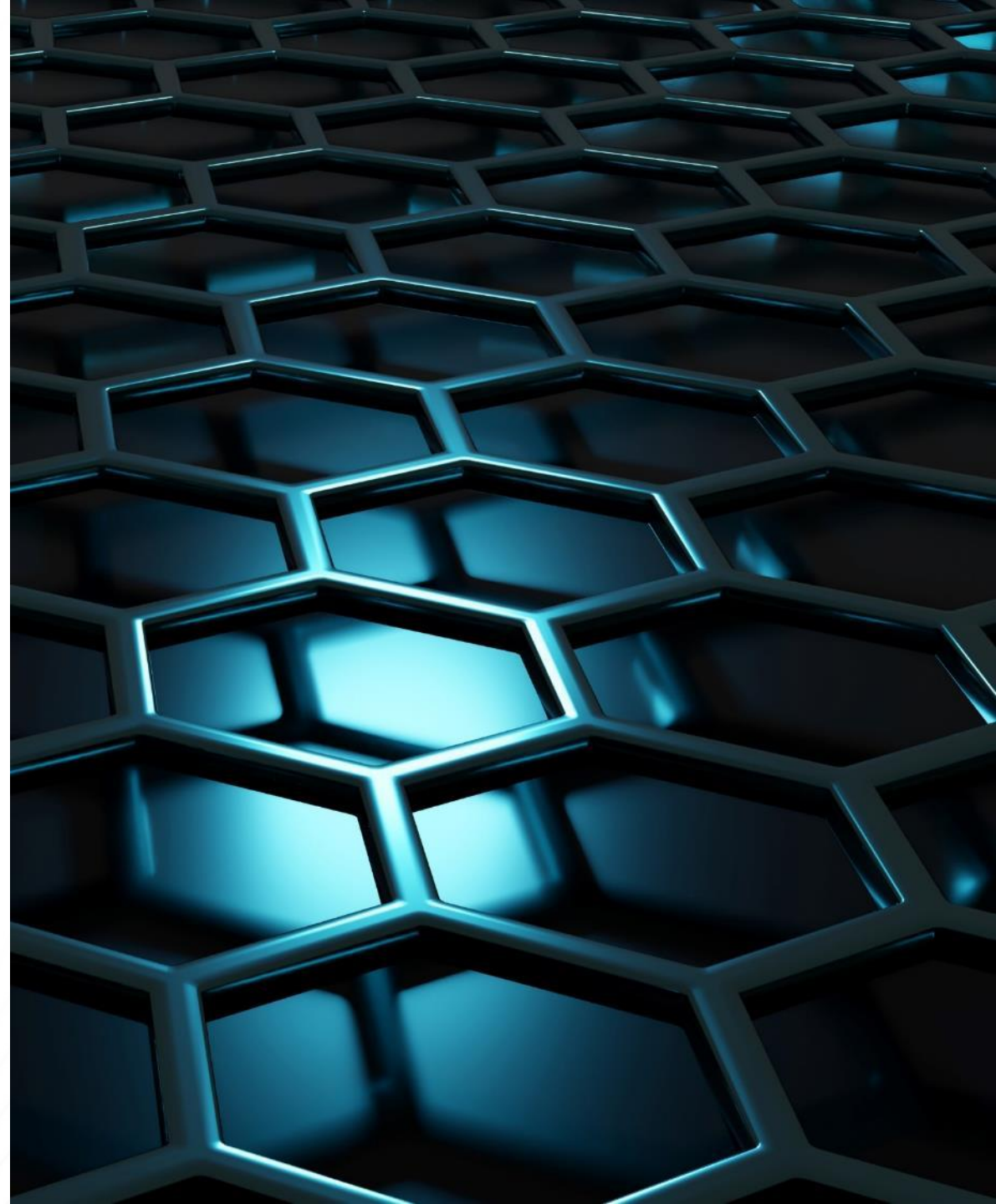
1. Sustainable EBITDA growth
2. Driving revenue per professional head (RPH) up
3. Increasing realized dollars per hour (RDH)
4. Managing write downs: partners & departments
5. Continuous upward client scaling
6. Developing niches
7. Eliminating capacity burning clients
8. Monitoring the 80/20 rule
9.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

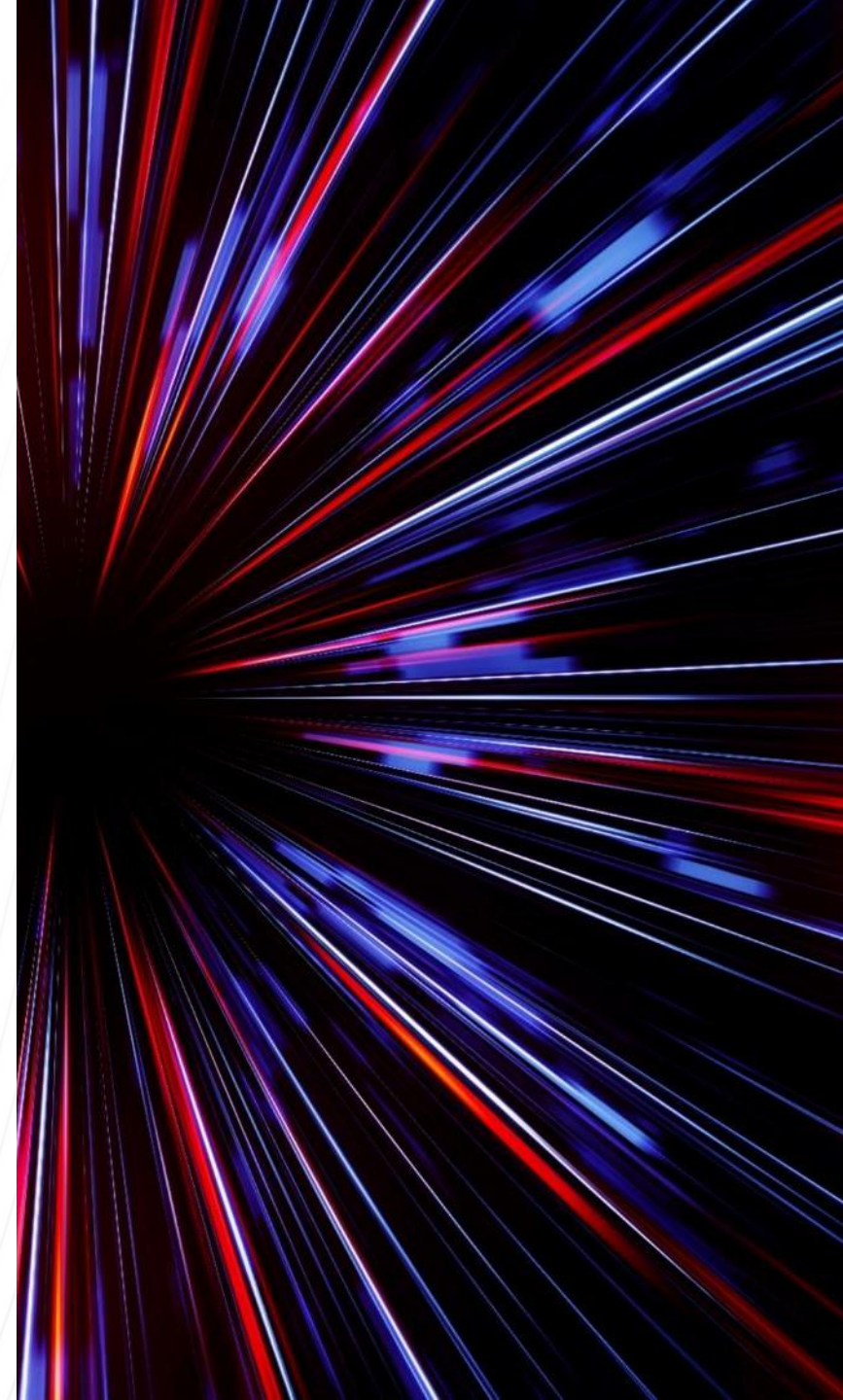
The Value **Impact**

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**



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