

## “Valuing an Accounting Practice”

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## Valuation Purpose

- ✓ Purchase / Sale
- ✓ Merger
- ✓ Admit / Remove Partner
  - Death
  - Disability
  - Retirement
  - Disagreement
- ✓ Roll-up

## Prevailing Theory

- ✓ Value is based on a multiple of Revenues
- ✓ Historically quoted rule of thumb = 1 to 1.5 times Revenues

## Research Suggests the Following Table:

- |            |      |
|------------|------|
| ✓ Tax      | 1.0X |
| ✓ Audit    | 1.2X |
| ✓ Write-up | 1.4X |

## Additional Research Suggests:

- |                     |       |
|---------------------|-------|
| ✓ Audit             | 1.5X  |
| ✓ Review            | 1.25X |
| ✓ Compilation       | 1.0X  |
| ✓ Tax Planning      | 2.0X  |
| ✓ Tax Compliance    | 1.0X  |
| ✓ Industry Oriented | 2.0X  |
| ✓ Repeat Consulting | 1.0X  |

## Flaws in Revenue Approach

- ✓ Profitability of Practice
- ✓ Stability of Client Retention
- ✓ Cost of Providing Revenue Mix

## Valuation Should be Based on Common Business Theory

- ✓ Market Approach
- ✓ Income Approach
- ✓ Asset Approach

## *Market Approach*

- ✓ Other Transaction Data
  - Compare to Completed Deals
- ✓ Guideline Company Data
  - Compare to Publicly Held Data
  - Price to Earnings
  - Price to Sales

## *Income Approach*

- ✓ Discounted Cash Flow
  - May Need to Adjust for Control or Minority
- ✓ Capitalized Earnings
  - Pay Attention to Earnings Stream...
    - Pretax?
    - Adjusted for Ownership?

## *Asset Approach*

- ✓ Value of Equipment / Facilities
- ✓ Accounts Receivable
- ✓ Work in Process

## Operating Factors to Consider

- ✓ Practice Size by fees
- ✓ Net Income
- ✓ Cash Flows
- ✓ Client Matrix
- ✓ Transferability
- ✓ Purchasers Competence
- ✓ Billing Rates
- ✓ Staff Retention
- ✓ Revenue Per Client
- ✓ Billable Hours
- ✓ Revenue per Partner / EE
- ✓ Income per Partner / EE
- ✓ Income per Practice Area
- ✓ Client Penetration

## Other Factors

- ✓ Size of Ownership Block
- ✓ Valuation Purpose



## Importance of Capitalization Rate

- ✓ Consider Application of Weighted Average Cost of Capital
- ✓ WACC considers the interest rate associated with leverage



## Importance of Capitalization Rate

- ✓ Especially important if seller financed
- ✓ Often purchaser borrows funds personally
- ✓ Although capital is at risk, terminal value exists



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Thank You ...

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