



Practice Valuation:

Key Factors in the Valuation of a CPA Practice

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Your practice does
HAVE VALUE...

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But selling your
PRACTICE WON'T
make you rich.

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The seller may determine the asking price, but the buyer determines the value.

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Audience Question #1

- What are practices worth in Houston?
 - 1.00 times gross revenues
 - 1.25 times gross revenues
 - 3.00 times net income
 - 2.00 times EBITDA
 - 1.50 times gross revenues

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Asking what practices are worth is like asking what houses are worth.

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Practice value

• Primary factors

1. Gross
2. Location
3. Profitability
4. Client mix
5. Terms
6. Size and age of practice
7. Various other negative factors

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Value factors: gross

• accounting practices sell on gross

- 1x gross: prevalence of view
- 1x gross: guideline, not a rule

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Value factors: Location

• "LOCATION, LOCATION, LOCATION"

- Across the country
- Rural/small city vs. large city
- Within a metropolitan area
- Effects of owning office building
- Working out of the home

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Value factors: profitability

- **CASH FLOW IS A FACTOR, BUT NOT "THE" FACTOR**
- Relation to billing rates
- The big two: labor & rent
- franchise

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Audience Question #2

Sold Practices

#	Gross	Owner Cash Flow %	% Received as Cash at Closing
1	\$175,000	56%	100%
2	\$300,000	57%	33%
3	\$450,000	68%	83%
4	\$750,000	40%	40%

Which sold for the highest multiple?

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Audience Question #2

Sold Practices

#	Gross	Sales Price	Sales Price Multiple	Owner Cash Flow %	% Cash Rec @ Closing
1	\$175,000	\$215,000	1.23	56%	100%
2	\$300,000	\$330,000	1.10	57%	33%
3	\$450,000	\$580,000	1.27	68%	83%
4	\$750,000	750,000	1.00	40%	40%

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Value factors: Client mix

- Recurrence of revenues
- Tax consulting vs. tax compliance
- Investments; business valuations
- Tax vs. write-up
- Pool of buyers

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Value factors: Terms

- Four ways practices are sold
 1. Cash Pricing
 2. Collection pricing
 3. Fixed Seller financed Pricing
 4. Look-Back pricing

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Cash vs. collection pricing

- **Cash Pricing:**
 - 100% of sales price is paid at closing to seller
- **Collection Pricing:**
 - 20% down
 - 20% of collections paid to seller each year over 4 years

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Value factors: Terms

- Four ways practices are sold
 1. Cash Pricing
 2. Collection pricing
 3. Fixed Seller financed Pricing
 4. Look-Back pricing

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Look-Back pricing

- Sales price can be larger than gross revenues
- Period of time
 - 12 months used often
- Price adjustment
 - Dollar for dollar
 - Sometimes 50 cents for each dollar
- Min/max potential price
 - Sometimes no change if less than 10% increase/decrease

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Look-Back pricing

- Shared risk between buyer and seller
- **SELLER'S RISK**
 1. Shorter period of time guaranteeing revenues
 2. Get clients in the door to give buyer a chance
- **BUYER'S RISK**
 1. TAKE CARE OF CLIENT'S NEEDS SO THEY KEEP COMING BACK year after year

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SBA Financing Terms

- Buyer puts down 10% to 15%
 - Seller can finance 0% if buyer has full amount
 - If buyer only has 5% or bank requires more equity injection, then seller might have a seller note of 5% to 10%
- Floating interest rate between 6% and 7%
- 10 year note
- Terms can be extended up to 25 years if real estate is involved

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SBA Financing Terms

- Seller note is on full standby for the length of **TIME THE BUYER'S NOTE IS WITH THE BANK**
 - In other words, seller note is also for 10 years
 - Seller note can accrue interest during 10 year period after closing, but P&I payments cannot be made until bank note is paid off.
- Possible to have separate seller note that is not on standby - but buyer must put down 10%

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Conventional Financing Terms

- Buyer puts down 10% to 20%
- Almost all loan sizes
 - Minimum amount: \$25,000
 - Maximum Amount: \$5,000,000
- Lower interest rates than SBA
 - 4.5% to 5.5%
- Quick Approval & Closing Times
- No SBA Fees


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Practice Sales (Outside All Cash at Closing)


#	Gross	Cash Flow	%	Sales Price	Multiple	\$ Paid to Seller at Closing	% Cash Paid @ Closing	Look-Back	Look-Back Term	Min Price	Seller Finance Length
1	\$475,000	\$273,000	57%	\$575,000	1.21	\$403,000	70%	Yes	1 yr	\$402,500	1 yr
2	\$240,000	\$102,000	43%	\$247,000	1.03	\$82,000	33%	Yes	1 yr	\$155,000	2 yrs
3	\$340,000	\$124,000	36%	\$340,000	1.00	\$320,000	94%	No	N/A	N/A	7 yrs
4	\$210,000	\$130,000	62%	\$210,000	1.00	\$156,000	74%	No	N/A	N/A	2 yrs
5	\$1,700,000	\$1,200,000	71%	\$2,400,000	1.41	\$1,100,000	46%	No	N/A	\$1,850,000	5 yrs
6	\$475,000	\$300,000	63%	\$575,000	1.21	\$100,000	17%	No	N/A	N/A	3 yrs
7	\$280,000	\$90,000	32%	225,000	0.80	\$200,000	89%	Yes	1 yr	\$200,000	1 yr

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Value factors: size & age

- Limited number of large practices
- Small practices may lack cash flow
- Manageable size (individual vs. firm buyers)
- Age of practice
- Reason for exiting
- Age of clients

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Value factors: negatives

- Poor records
- Long-term lease
- Personality of seller
- Curb appeal
- Large clients
- Employee problems
- Declining growth

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Audience Question #3


Houston Area practices

#	Gross	Cash Flow	Cash Flow %
1	290,000	218,375	75%
2	340,000	123,740	36%

Which received more cash at closing?

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Audience Question #3

Houston Area practices

#	Gross	Cash Flow	Cash Flow %	% Cash at Closing
1	290,000	218,375	75%	10%
2	340,000	123,740	36%	95%

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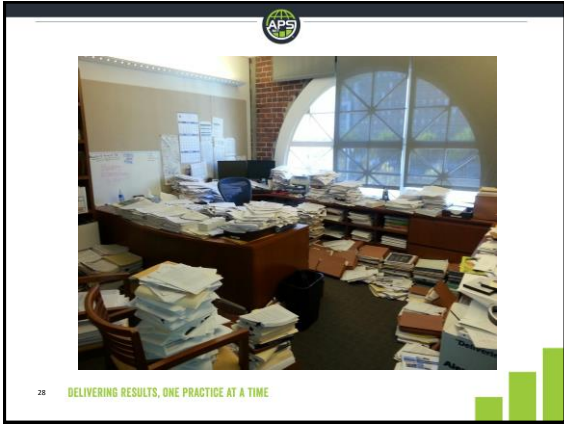


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