using multiples for value

most advisors think that by applying a **2x multiple of revenue** to determine the value & selling price of their business is close enough

but is it?

Your revenue comes from many different sources, some are **recurring** & some are **nonrecurring**. The percentage of nonrecurring to recurring revenue sources is **ONE OF THE LARGEST FACTORS WHEN DETERMINING VALUE.** And it is **only one of many** value drivers.

Depending on your clients and the structure of your investment vehicles, revenue sources can be either recurring or nonrecurring, but in general each source tends to skew a certain way.

RECURRING revenue

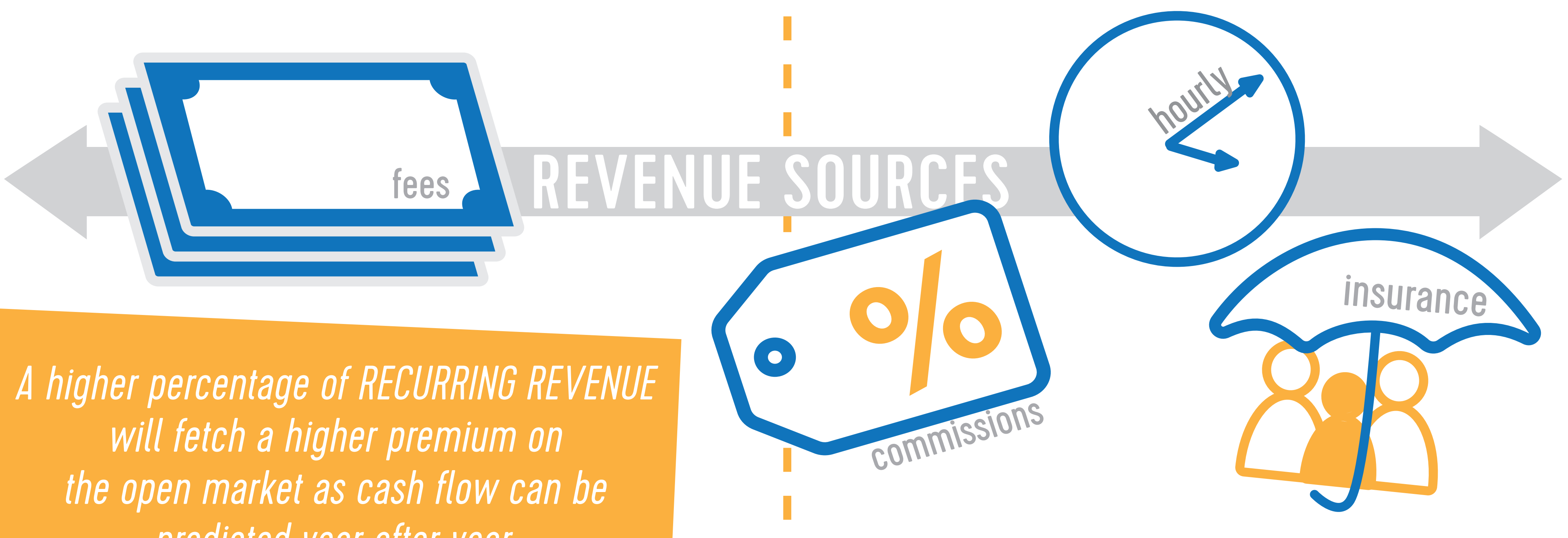
is revenue that one can expect to collect year after year due to annual billing.

FOR EXAMPLE revenue from any fee based service, annual commission payments, & yearly tax/accounting services.

NONRECURRING revenue

is collected on a single service event and the amount is determined likewise.

FOR EXAMPLE revenue from serivces billed hourly, insurance administration, & stocks and bond sale commissions.



A higher percentage of RECURRING REVENUE will fetch a higher premium on the open market as cash flow can be predicted year after year.

*for example

60 yrs – RIA – single owner

$630,000 total revenue

97 clients

36% overhead

MARKET VALUE
comprehensive analysis
$1,542,000

ESTIMATED VALUE
2x *multiple*
$1,260,000

$282,000 difference

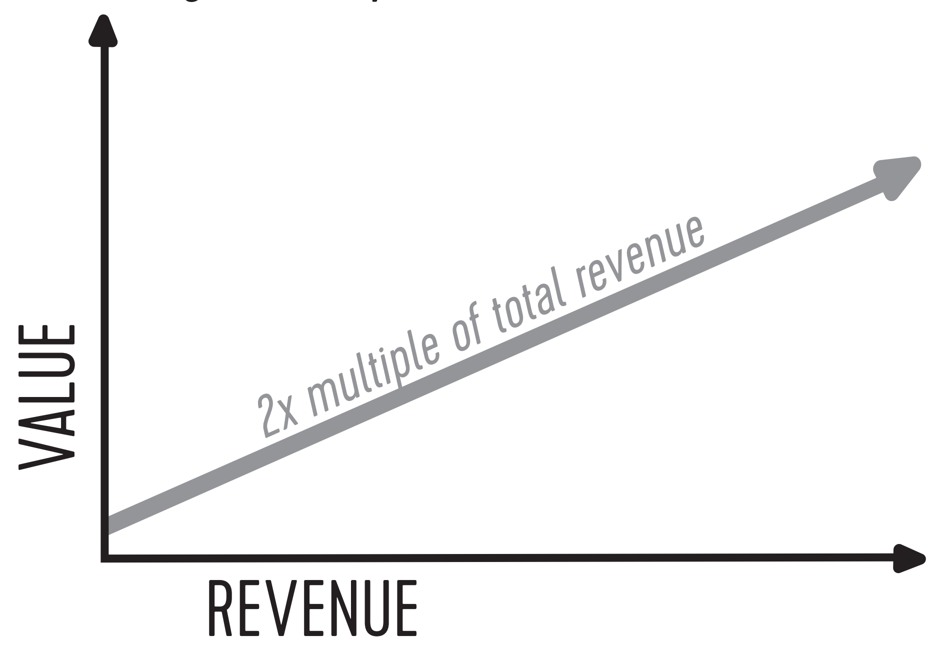
18% value LOST using a multiple of revenue

A true comprehensive valuation examines many business factors** against market demand—beyond just revenue figures.

An estimate of value based solely on a total revenue number is **UNRELIABLE.**

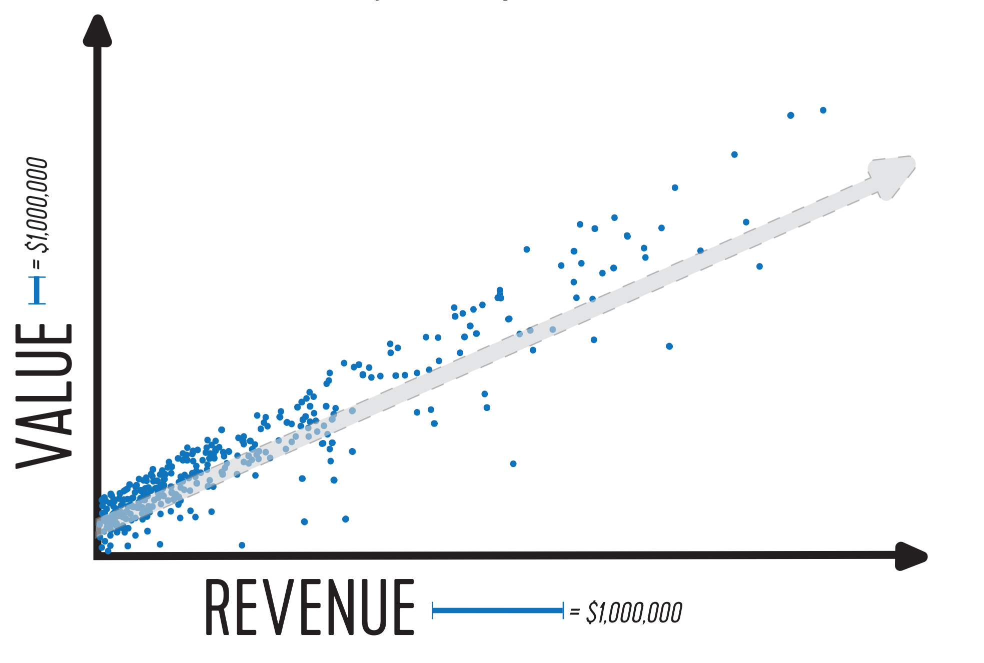
ESTIMATED value

using a multiple of revenue



MARKET value*

*determined by comprehensive valuation***



multiples are risky

as a *seller* you risk leaving HUNDREDS OF THOUSANDS OF DOLLARS on the table

45% of 2015/16 valuations* were at least **$50,000 above** a 2x multiple of estimated value

flipside

as a *buyer* you risk GROSSLY OVERPAYING for an acquisition

only **23%** of 2015/16 valuations* were within **$50,000** of 2x multiple estimated value

*actual data from FP Transitions' 2015/16 Valuation Database

**the FP Transitions Comprehensive Valuation evaluates financial practices on 60+ data points & value drivers, including: location, business expenses, recurring & non recurring revenues, staff, technology, client demographics, client growth, & more.