



The Association of
Accountants and
Financial Professionals
in Business

The

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DAYTON CHAPTER



Balance Sheet

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DAYTON CHAPTER

The Dayton Chapter Board would like to wish you a Happy Holiday Season!

Chapter HOLIDAY Social

Please join us for our thirteenth annual holiday social.

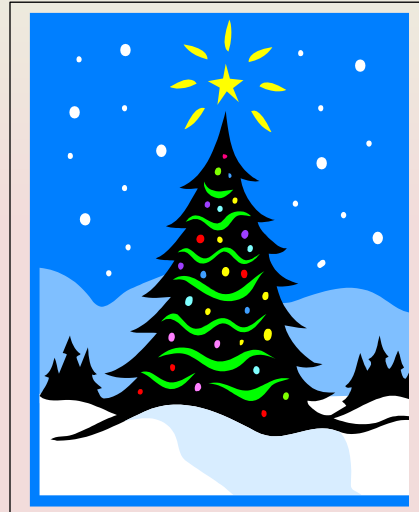
When: December 14th, 2023, 6:00 p.m.

Where: Jimmies Ladder 11 (upstairs)
936 Brown Street
Dayton, OH 45409

Why: Have fun and network

Please join us for a night of socializing. We'll provide appetizers and a drink. Feel free to bring a guest. You would just be on your own if you wanted to order dinner or another drink.

I plan to be there before 6:00 pm. to help ensure seating for us. RSVPs are not required but appreciated to make sure that we have enough seating for everyone.



Interest Rates and Valuation

By Ron DiMattia, Corporate Value Partners - We are about 18 months into the Federal Reserve Bank's (the "Fed") efforts to tamp down inflation in the United States. The Fed goes about fighting inflation in a couple ways, with the most visible result being a significant increase in interest rates throughout the economy. Both short-term and long-term interest rates have increased sharply as a result of the Fed's policies.

Interest rates are important in our economy because they affect everybody, including businesses. A direct effect is an increase in interest expense which reduces earnings. A less direct effect is that rising interest rates can also reduce the value of a business.

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Visit the web-site at <http://www.dayton.imanet.org/>

PRESIDENT'S MESSAGE

The holiday season seems to be well underway. I hope that you are finding time to spend with family and friends among the busy year-end schedule that we office find with the office as well. At least we can't complain about the weather, unless you like some snow to keep your holiday spirits going.

We are excited to be hosting our 13th annual holiday social. We are headed back to Jimmie's Ladder 11, on Thursday, December 14th, 6:00 p.m. I hope you can take some time out of your busy December schedule to join us for a complimentary drink (details in the newsletter and website). It continues to be one of my favorite events of the year to connect with members.

Just a reminder that our January session will be virtual and will include our annual Federal Tax Update and we will be trying something new in February for our annual Student Event.

I am thankful for the assistance of the Dayton Chapter board and the events we have been able to offer this year. We appreciate your continued membership and engagement. May you and your families have a Happy Holiday season!

Paul Myers
Dayton Chapter President

IMA Launches Certification Focused on Foundational Financial and Managerial Accounting Knowledge

Montvale, N.J., November 29, 2023— [IMA®](#) (Institute of Management Accountants), the worldwide association of accountants and financial professionals in business, today announced the launch of a new foundational certification in the accounting and finance profession. The [FMAA™ \(Financial and Managerial Accounting Associate\)](#) instills the fundamental knowledge and competencies in accounting and finance, allowing professionals early in their careers to showcase their expertise to employers and build a foundation to expand their skills.

"The FMAA provides a flexible and practical path for individuals who want to prove their ability to speak the language of business with current and future employers," said Mike DePrisco, president and CEO of IMA. "As knowledge of accounting fundamentals becomes more critical for businesses and coupled with the shortage of professionals pursuing accounting and finance careers, the FMAA minimizes traditional barriers to entry and opens opportunities to others from across other professions and industries."

Those who acquire the FMAA will build knowledge in five content domains: general accounting and financial management, financial statement preparation and analysis, planning and budgeting, cost management and performance metrics, and professional ethics. The two-hour exam includes 80 multiple choice questions. The FMAA has no prerequisites to pursue the certification.

Registration for the FMAA will open in January 2024 for the initial testing windows of March 2024 in English and May 2024 in Chinese. Exams will take place globally at Prometric testing centers.

For more information about the FMAA, visit <https://www.imanet.org/FMAA-Campaign>.

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Interest Rates and Valuation (cont'd from p1)

A Little Theory

The discounted cash flow (DCF) method is a touchstone for valuation analysts because it directly captures corporate finance theory that we rely on. An important part of the DCF method is a discount rate (or rate of return), that is a weighted average of the cost of equity (K_e) and the cost of debt (K_d), which is often referred to as the WACC (weighted average cost of capital). As a formula, it looks like this:

$$\text{WACC} = (K_e * W_e) + (K_d \{\text{after tax}\} * W_d)$$

(Where W_e and W_d are the weightings of equity and debt in the capital structure. We use the cost of debt on an after-tax basis because interest expense is tax deductible)

The cost of debt represents the interest rate on long-term debt for a business and is directly affected by increases in interest rates. Many companies have seen steep increases in their interest expense. As interest rates go up, the K_d goes up, which causes the WACC to increase. But the effect of rising interest rates on WACC does not stop here.

The cost of equity is also affected by interest rates, because we believe that the starting point in calculating K_e is a risk-free, interest-bearing security which we call R_f . Many analysts use a 20- year constant-maturity US Treasury Bond as their R_f , which has also seen significant increases in its yield. We calculate K_e using a Nobel Prize-winning theory called the capital asset pricing model, which looks like this:

$$K_e = R_f + (B * RP_m)$$

(Where B is beta {a measure of riskiness} and RP_m is the risk premium that investors require to buy stocks instead of US Treasury Bonds)

The formula for K_e shows that as interest rates for long term US Treasury Bonds increase, so does the cost of equity. As a result, WACC has increased significantly in recent months due to a combination of a higher cost of debt and a higher cost of equity.

How it Affects

Value Importantly, as WACC increases, the value of a business decreases using the discounted cash flow method (all else equal). That is because the DCF method is based on the cash flow that a company is expected to generate in the future. When interest rates go up, that means a dollar earned in the future is not worth as much today compared to when interest rates are lower. Think of it as the power of compounding interest, but in reverse.

While the DCF method is theoretically correct, most people in business like to use multiples of EBITDA (earnings before interest, taxes, depreciation, and amortization). There is a relationship between the assumptions in the DCF method and EBITDA multiples. If you think of all the assumptions and theory in the DCF method getting collapsed into a single number, the result would be an EBITDA multiple. As the WACC increases the EBITDA multiple would fall (all else equal), which would result in lowering the value of a business.

It is hard to tell how long rates will remain elevated. If they remain elevated, there will be continuing downward pressure on EBITDA multiples and the value of businesses. But remember, the value of a business can improve during periods of rising interest rates if the company's cash flow improves to a greater extent. Interest rates and EBITDA multiples are out of a company's control, but operations and the ability to generate cash flow are largely controllable by a company. That is where our focus should always be, because it is the only sure way to increase a company's value.

UPCOMING WEBINAR SCHEDULE

INSIDE TALK

2024 Predictions: Understanding the Finance & Accounting Landscape

Wednesday, December 13, 2023 from 1 p.m. to 2:00 p.m. (EDT)

Field of Study – Information Technology – Technology & Analytics

It's been a wild year! We've seen crypto's rollercoaster, rising rates, banking drama, the AI revolution, and so much more. We may not have a crystal ball, but our roles in finance and accounting continue to evolve to support business strategy. Join Jim Tilk and Jessica McKeon from BlackLine as he "looks beyond" and explores finance and accounting trends of the future, including generative AI and global minimum tax. He'll also share predictions on what you can expect in the world of finance and accounting in 2024.

It's 'Accrual' World: Personal Branding for Accountants

Monday, January 8, 2024 from 11 a.m. to 12:00 p.m. (EDT)

Field of Study – Personal Development – Leadership

Join Dr. Philip J. Slater and Dr. Donald W. Caudill as they discuss the core elements of effective personal branding. They will dive into the art of personal branding, exploring its key attributes and the transformative Life Balance Branding Pyramid model. Learn how to stand out in a crowded marketplace, build trust, and create a brand that's authentically you.

To stay current on all upcoming webinars, please bookmark this link:

<https://www.imanet.org/education-center/webinars>

Just a reminder that you can watch archived webinars if there is a topic that you would like to learn more about to further your knowledge and/or support your organization.

You can link to those on the same page with the link above.

IMA Gives Members More Free CPE

Communicating in the 21st Century

Strong communication skills of all kinds are critical to be a strong leader. The higher up in an organization a person rises, the greater the need for excellent communication skills to ensure there is little scope for any misunderstanding, to motivate others, and to conduct the everyday business of the organization. This course looks at some basics of communicating and how technology has changed how we communicate, as well as how to overcome obstacles to effective communication and identify how communication enhances leadership. In this digital age, communication has changed greatly, and it is time to update your communication skills to stay competitive. The goal of this course is to consider how communication has rapidly changed in recent decades. We will then strategize on how we can capitalize on these changes and communicate more effectively in the 21st Century.

This course will expire one (1) year from the date of purchase.



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