What Your Business Is Actually Worth

Most owners walk into their first serious conversation with a number in their head. It usually comes from a trade association benchmark, a competitor's rumored sale price, or a broker's optimistic letter. Then a buyer says a different number, and the conversation gets tense fast. This guide explains how a buyer actually arrives at a price — the arithmetic, the adjustments, and the factors that move the multiple. Our goal is that you can run the math yourself before you ever talk to us.

The Formula Nearly Every Buyer Uses

Strip away the jargon and almost every offer for a business your size is built the same way: normalized earnings multiplied by a multiple, then adjusted for debt and working capital. That is it. The disagreements between buyers and sellers are almost never about the formula — they are about what goes into "normalized earnings" and what multiple is fair.

> *Normalized Earnings × Multiple = Enterprise Value. Then: Enterprise Value − Debt repaid at closing ± Working capital adjustment = What the deal is worth to you.*

Two things surprise sellers here. First, "enterprise value" is typically quoted on a cash-free, debt-free basis — meaning any bank debt, equipment loans, or lines of credit on the business are paid off out of that number, not on top of it. Second, the earnings figure a buyer uses is rarely the one on your tax return.

SDE or EBITDA? The Mix-Up That Costs Sellers the Most

This single confusion causes more failed conversations than any other. They are two different measures of earnings, and each carries its own multiple range. Comparing one to the other inflates expectations dramatically.

	SDE (Seller's Discretionary Earnings)	EBITDA
What it includes	Earnings before interest, taxes, depreciation, amortization — plus one owner's full compensation and benefits	Earnings before interest, taxes, depreciation and amortization, after paying market-rate management
Typically used for	Smaller, owner-operated businesses	Businesses with a management layer in place
Assumes	The buyer will work in the business full time	The business pays someone to run it
Typical multiple range	Lower — often in the low single digits	Higher for the same business

Here is why it matters. Suppose your business earns $900,000 before your own compensation, and a competent general manager to replace you would cost $180,000 in salary and benefits. Your SDE is $900,000. Your EBITDA is $720,000. If you take an EBITDA-based multiple you heard somewhere and apply it to your SDE number, you will arrive at a price no buyer will pay — and you may conclude that every buyer is lowballing you when they are not.

> *Before you compare your number to anyone else's, confirm which measure you are both using. Ask directly: "Is that multiple on SDE or on EBITDA?"*

Normalization: Which Add-Backs Actually Survive

Normalization means adjusting reported earnings to reflect what the business truly produces for an owner. Legitimate add-backs raise your price. Aggressive ones destroy your credibility — and once a buyer or a lender catches one, every other number you present gets discounted. Be conservative here on purpose; it is worth more than the add-back itself.

Usually survives scrutiny	Usually does not
Owner compensation above what a replacement manager would cost	The full owner salary, when the buyer will still need to pay someone to do that job
Genuinely personal expenses run through the business — personal vehicle, personal travel, personal insurance	Expenses labeled "one-time" that appear in three consecutive years
Family members on payroll who do not work in the business	Deferred maintenance or postponed capital spending
A true one-time event: a legal settlement, a facility move, a discontinued product line	Cash sales that were never recorded or reported
Professional fees incurred specifically to prepare for the sale	Projected savings or synergies the buyer would have to create
Rent paid to yourself above market rate for a building you own	Below-market rent you pay yourself, without adjusting up to market

One line in that table deserves special attention: unreported cash income. It cannot be used. Not because a buyer doubts you, but because a lender cannot finance an amount that does not appear on a tax return, and no buyer can pay for earnings they cannot document. Owners are frequently told otherwise. It is not true in an SBA-financed transaction.

What Moves the Multiple

Two businesses with identical earnings can be worth meaningfully different amounts. The multiple is a judgment about risk and durability — how confident a buyer is that those earnings will still be there in three years without you.

Factor	Pushes the multiple up	Pushes the multiple down
Customer concentration	No customer over 10–15% of revenue	A single customer above 25%
Revenue quality	Contracts, recurring service, repeat purchasing	Project-by-project, one-time, or bid work
Management depth	A team that runs the business without the owner	Owner makes every meaningful decision
Earnings trend	Three years of steady or growing profit	Declining or erratic results
Records	Accrual-basis, reviewed, reconciled monthly	Cash-basis, behind, or reconstructed
Assets	Real property and well-maintained equipment	Aging equipment with deferred replacement
Size	Larger earnings base	Smaller earnings base
Employees	Stable, tenured, under written agreements	High turnover or undocumented key people

For most healthy lower-middle-market businesses, the range that clears an SBA-financeable structure tends to fall in the mid-single digits on normalized EBITDA. A business at the top of that range has usually earned it on the factors above — not by negotiating harder.

Run Your Own Bridge

Fill this in with your last full fiscal year. It will take an hour with your accountant and it is the single most useful hour you can spend before talking to any buyer.

Line	Amount
Net income (as reported)	
+ Interest expense	
+ Taxes	
+ Depreciation	

Line	Amount
+ Amortization	
= Reported EBITDA	
+ Owner compensation above a replacement manager's cost	
+ Documented personal expenses run through the business	
+ Non-working family payroll	
+ True non-recurring items (list them separately)	
± Rent adjustment to market rate	
= Normalized EBITDA	
× Multiple (see the factors above)	
= Indicative enterprise value	
− Debt repaid at closing	
= Indicative value to you, before working capital and taxes	

Why Two Honest Buyers Give You Two Different Numbers

It is rarely because one is trying to take advantage of you. Different buyers genuinely value different things, and their financing structures impose different limits.

- **A strategic buyer or competitor:** may pay more because they can eliminate duplicated costs or gain your customers. Their number can exceed what the business is worth on its own.
- **A private equity buyer:** is solving for a return over a defined holding period, and often for how you fit a larger platform. Their number reflects that model, not just your earnings.
- **An individual or operator-buyer using SBA financing:** is constrained by what a lender will underwrite and by a debt payment they must personally guarantee. That caps the top end but usually means real certainty of closing.

The highest number is not automatically the best deal — it may carry an earnout, a longer holdback, or a lower probability of ever closing. Compare structures, not just headlines. The next guide in this series covers exactly that.

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