BVC

FUNDAMENTALS

Business Valuation 101

The complete beginner's guide to understanding what a business is really worth — SDE, multiples, and the methods PE firms actually use.

FREE BUYER'S GUIDE

From the makers of the free AI valuation toolkit at businessvaluationcalculator.com

What's Inside

CHAPTER 1

Why Valuation Is the Whole Game

Almost every mistake a first-time buyer makes traces back to one root cause: paying the wrong price. A business bought at the right price can survive rough patches, clumsy transitions, and a soft first year. A business bought at the wrong price punishes you monthly, because your loan payment was sized to a fantasy.

~20%
of asking prices are at or below fair value (broker-listed deals)

3-4x
SDE is the center of gravity for main street deals

10 yrs
typical SBA loan term your price gets baked into

Sellers anchor high. Brokers are paid on price. Nobody in the transaction has a stronger incentive to get valuation right than you do. The good news: small business valuation is not mysterious. It is a small set of learnable mechanics, and this guide covers all of them.

REAL NUMBERS

What overpaying actually costs

Pay $2.8M for a business worth $2.4M with 10% down on an SBA loan and you borrowed an extra $360K. At roughly 10.5% over 10 years, that is about $58K per year in extra debt service — real cash that comes out of your pocket every year for a decade.

> *Price is what you pay. Value is what you get.*
>
> **— Warren Buffett**

CHAPTER 2

SDE vs. EBITDA vs. Net Profit

Small businesses are priced on Seller's Discretionary Earnings (SDE): the total financial benefit one working owner takes from the business. Start with pre-tax profit, add back the owner's salary and payroll taxes, then add interest, depreciation, amortization, and legitimate one-time or personal expenses run through the books.

Metric	What it is	Used for
Net Profit	What's left after every expense on the tax return	Taxes — usually understates true earnings
SDE	Net profit + owner salary + addbacks + D&A + interest	Businesses under ~$5M where the buyer replaces the own
EBITDA	SDE minus a market-rate manager salary	Larger deals with management staying in place

RED FLAG

The addback game

Sellers inflate SDE with aggressive addbacks: a spouse on payroll who actually works, 'one-time' expenses that recur every year, personal travel that was really client-facing. Verify every single addback against bank statements and ask: will this expense truly disappear when I own it?

Rule of thumb: the same business can show $150K net profit, $310K SDE, and $240K EBITDA. If a listing quotes 'cash flow,' always ask which metric it means — the multiple that applies depends entirely on the answer.

PRO TIP

Recast it yourself

Never accept the broker's SDE calculation. Rebuild it from the tax returns line by line. If your number lands within 5% of theirs, great. If it is 20% off, you just found your first negotiation lever.

CHAPTER 3

The Multiple Method

Nearly every main street deal is priced the same way: Value = SDE x Multiple. The multiple is set by the market — what similar businesses in that industry, at that size, have actually sold for. Think of it as the market's price for a dollar of transferable earnings.

Why multiples instead of discounted cash flow? DCF depends on 5-year projections that are pure guesswork for a 12-person plumbing company. Multiples are grounded in completed transactions. Sophisticated buyers use DCF only as a sanity check on the multiple-based answer — and your BVC analysis does exactly that.

PRO TIP

Multiples price risk, not just profit

A 2.5x business and a 4.5x business might have identical SDE. The difference is durability: recurring revenue, a manager in place, diversified customers. When you improve those factors after buying, you are not just growing profit — you are expanding the multiple you will sell at.

CHAPTER 4

What Moves a Multiple Up or Down

Pushes the multiple UP

- Recurring or contract revenue (maintenance plans, subscriptions)
- Manager or strong second-in-command runs daily operations
- No customer over 10% of revenue
- 3+ years of clean, consistent, documented financials
- Growing industry with tailwinds

Drags the multiple DOWN

- Owner personally holds key licenses or relationships
- Top 3 customers over 40% of revenue
- Declining or flat revenue trend
- Messy books, cash sales, or unverifiable addbacks
- Deferred maintenance and aging equipment

Score the business honestly against both columns. Three or more items from the right column means the deal should price in the bottom half of its industry band — no matter what the asking price says.

REAL NUMBERS

The swing is worth real money

On $400K of SDE, the difference between a 2.8x and a 3.6x is $320,000. Every item in the right-hand column is a documented, evidence-based argument for the lower number. That is what negotiating with data means.

CHAPTER 5

Multiples by Industry

Bands below reflect typical SDE multiples for main street and lower-middle-market deals ($200K–$1.5M SDE). Within each band, the quality factors from Chapter 4 decide where a specific business lands.

Industry	Typical SDE band	What pushes it high
HVAC / Plumbing / Electrical	2.5x – 4.5x	Service agreements, techs on staff
Landscaping	2.0x – 3.5x	Commercial maintenance contracts
E-commerce	2.5x – 4.0x	Owned audience, diversified traffic
SaaS	3.0x – 5.0x	Low churn, growth, small founder role
Restaurants	1.5x – 2.5x	Multi-unit, franchise, strong lease
Healthcare practices	2.5x – 5.0x	Associate providers, insurance mix
Manufacturing	3.0x – 5.0x	Proprietary products, backlog
Professional services	2.0x – 3.5x	Retainers, low key-person risk
Laundromats	3.5x – 5.0x	Newer equipment, long lease
Franchise resales	2.0x – 3.0x	Strong brand, prime territory

WATCH OUT

Bands drift

Multiples move with interest rates and buyer demand. When SBA rates climb, multiples compress because deals must still cash-flow after debt service. Check current comps before anchoring on any number — the Industry Research tool pulls fresh data for exactly this reason.

CHAPTER 6

A Worked Example

Meet Desert Air Mechanical, a fictional but realistic HVAC company listed at $1,395,000. The tax return shows $182K net profit. Recasting: add the owner's $95K salary, $14K payroll taxes, $22K depreciation, $9K interest, and $28K of verified one-time and personal expenses. SDE = $350K.

$350K	3.0x	$1.05M
Verified SDE after recast	Quality-adjusted multiple	Indicated value — 25% below ask

Why 3.0x and not the 4.5x top of band? Two drags: the owner personally sells 40% of new installs, and the top customer (a property manager) is 18% of revenue. One boost: 55% of revenue is maintenance-agreement recurring. Net: middle of band.

1. **Recast the earnings**
   Rebuild SDE from tax returns, not the broker packet: $350K.
2. **Place it in the band**
   HVAC band 2.5x–4.5x; quality factors point to 3.0x.
3. **Cross-check**
   $1.05M is about 0.9x revenue — normal for HVAC. DCF at 20% discount agrees within 10%.
4. **Set your walk-away**
   Offer $950K, justify every deduction with evidence, walk at $1.15M.

CHAPTER 7

The 5 Valuation Mistakes Buyers Make

1. **Valuing potential instead of history**
   You are buying the earnings that exist. Upside you create belongs to you — never pay the seller for it.

2. **Trusting the broker's cash flow number**
   It is a marketing figure. Rebuild it from tax returns every time.

3. **Using the wrong metric's multiple**
   Applying an SDE multiple to EBITDA (or vice versa) misprices the deal by 20-40% instantly.

4. **Ignoring working capital**
   A price that excludes the inventory or receivables you need to operate is a hidden price increase.

5. **Anchoring on the asking price**
   Value the business as if no ask existed, then compare. Never negotiate down from their number — negotiate up from yours.

PRO TIP

The discipline that saves you

Write down your valuation and walk-away number before your first serious conversation with the seller. Decided in advance, in writing, is the only version of discipline that survives deal fever.

CHAPTER 8

Your Valuation Checklist

Run every deal through these twelve checks before trusting any price:

- ☑ Got 3 years of business tax returns (not just P&Ls)
- ☑ Rebuilt SDE myself, line by line
- ☑ Verified every addback against bank statements
- ☑ Confirmed which metric the asking price is based on
- ☑ Placed the business honestly within its industry multiple band
- ☑ Checked revenue trend: growing, flat, or declining
- ☑ Measured customer concentration (top 1 and top 5)
- ☑ Assessed how much revenue depends personally on the owner
- ☑ Estimated deferred capex and equipment replacement cost
- ☑ Confirmed what working capital is included in the price
- ☑ Cross-checked with a revenue multiple and rough DCF
- ☑ Wrote down my max price before negotiating

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Ready to Analyze a Real Deal?

Put this guide to work. Upload any CIM or financial statement and get an institutional-grade valuation, risk analysis, and deal recommendation in under five minutes — free.

Start Your Free Analysis

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- ✓ Market Opportunity Analyzer
- ✓ Forecast Analyzer + Excel Model
- ✓ Buyer Readiness Assessment