



One Tweak That Can (Instantly) Add Millions to the Value of Your Business

If you're trying to figure out what your business might be worth, it's helpful to consider what acquirers are paying for companies like yours these days.

A little internet research will probably reveal that a business like yours trades for a multiple of your pre-tax profit, which is Sellers Discretionary Earnings (SDE) for a small business and Earnings Before Interest Taxes, Depreciation and Amortization (EBITDA) for a slightly larger business.

Obsessing Over Your Multiple

This multiple can transfix entrepreneurs. Many owners want to know their multiple and how they can jack it up. After all, if your business has \$500,000 in profit, and it trades for four times profit, it's worth \$2 million; if the same business trades for eight times profit, it's worth \$4 million.

Obviously, your multiple will have a profound impact on the haul you take from the sale of your business, but there is another number worthy of your consideration as well: the number your multiple is multiplying.

How Profitability is Open to Interpretation

Most entrepreneurs think of profit as an objective measure, calculated by an accountant, but when it comes to the sale of your business, profit is far from objective. Your profit will go through a set of "adjustments" designed to estimate how profitable your business will be under a new owner.

This process of adjusting—and how you defend these adjustments to an acquirer—is where you can dramatically spike your company's value.

Let's take a simple example to illustrate. Imagine you run a company with \$3 million in revenue and you pay yourself a salary of \$200,000 a year. Further, let's assume you could get a competent manager to run your business as a division of an acquirer for \$100,000 per year. You could safely make the case to an acquirer that under their ownership, your business would generate an extra \$100,000 in profit. If they are paying you five times profit for your business, that one adjustment has the potential to earn you an extra \$500,000.

You should be able to make a case for several adjustments that will boost your profit and, by extension, the value of your business. This is more art than science, and you need to be prepared to defend your case for each adjustment. It is important that you make a good case for how profitable your business will be in the hands of an acquirer.

Some of the most common adjustments relate to rent (common if you own the building your company operates from and your company is paying higher-than-market rent), start-up costs, one-off lawsuits or insurance claims and one-time professional services fees.

Your multiple is important, but the subjective art of adjusting your EBITDA is where a lot of extra money can be made when selling your business—and that is precisely where a professional M&A Advisor can be invaluable at getting you the highest price available in the market. Experienced advisors will help you to discover and calculate favorable adjustments, while understanding exactly which adjustments can be convincing to a buyer, versus those that will be rejected and will also undermine your credibility as a seller.