SUNBELT®
BUSINESS SALES
MERGERS & ACQUISITIONS

"Confidential Business Sales"

Selling Your Business – 101

Selling your business is not like selling residential or commercial real estate. With real estate, value is primarily about location, square footage and comparable sales. If real estate in your neighborhood is selling for $X/per foot, your building will likely sell for $X/per foot, plus or minus 10% to 15% - seldom more or less. Appraisers value real estate based on its Fair-Market-Value ("FMV") which is defined as, "The Amount at which a business would change hands between a willing seller and a willing buyer when neither is acting under compulsion and when both have reasonable knowledge of the relevant facts."

Valuing a business is significantly different. Business values are based on its Most Probable Sales Price ("MPSP") which is defined as, "That price for the assets intended for sale which represents the total consideration most likely to be established between a buyer and seller, considering compulsion on the part of either the buyer or the seller, and potential financial, strategic, or non-financial benefits to the seller and probable buyers."

The difference between FMV and MPSP is that the later takes into consideration the compulsion/motivation, or lack thereof, of the buyer and seller in addition to a large number of other factors that affect value – the primary one being the financial results of the business, absolute value as well as the trend. At your request, I will email you my list of the 21 Factors Affecting the Salability & Value of a Business.

In determining the value of a business, the business broker calculates the business' "Sellers Discretionary Earnings" ("SDE"). SDE is the sum of the business' taxable income before interest, income taxes, depreciation and amortization (This gets us to EBITDA). EBITDA plus the owner's benefits and discretionary expenses charged to their business (owner's salary, write off of a company car, health insurance, country club membership, boat, contributions, etc.) gets us to SDE – which is typically very much larger than the company's taxable income.

Most businesses are valued as a multiple of SDE with the base multiple varying by industry. The business broker will then weight the factors that affect the value and adjust the multiple up or down based on their experience and judgment. Examples of factors that will value the multiple up are: increasing sales, margins and profits, repeat/referral customers, location, the seller's willingness to carry a seller note and the business' upside potential. Examples of factors that will value the multiple down are: declining revenue, margins and/or net, customer concentration, competitive threats, short time in business and an above market facility lease rate.

You may Contact D. Joe Atchison (951.277.4002 or j.atchison@sunbeltnetwork.com) for a no-obligation consultation regarding your business or a business that you are considering acquiring. Joe is a licensed Business Broker, a Certified Business Intermediary (International Business Brokers Association), a Certified Business Broker (California Business Brokers Association), a CMMBI (Certified Middle Market Business Intermediary), a Certified Public Accountant – inactive, and earned a MBA - Finance.

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