



SS OWNERS



# How to Price a Business for Sale and Increase Your Chances of a Successful Exit



Tejan Kapoor

Accurately pricing a business for sale is critical to achieving your ideal exit.

If you undervalue your business, you're leaving money on the table — and potentially attracting less experienced buyers who won't help you meet your exit goals, like your exit timeline or finding the right steward for the business.

Overvaluing, on the other hand, is a quick way to push away potential buyers. Even if someone bites at your inflated price, they'll spot the mismatch during due diligence. At that point, you've wasted their time and yours.

But arriving at an <sup>B</sup><sub>U</sub><sup>S</sup> accurate valuation is something most business owners can't do on their own. Pricing a business for sale requires an objective view of its worth, a clear understanding of what's driving its value, and experience <sup>N</sup><sub>E</sub> overseeing similar sales — to see how buyers assess the value of similar businesses.

**In this post, we'll cover:**

- [Common mistakes business owners make when pricing a business for sale \(and how an M&A advisor solves for them\)](#)
- [How to accurately price a business for sale to increase your chances of achieving your ideal exit](#)

## Common Mistakes Business Owners Make When Pricing a Business for Sale

At Axial, we have over 14 years of experience in mergers and acquisitions, with more than 100,000 deals brought to market through our network. We've worked closely with business owners and M&A advisors, giving us deep insight into every aspect of M&A. Sometimes, business owners come to us with a valuation in mind, but after collaborating with an M&A advisor from our network, they realize their estimate was significantly off.

For instance, we once worked with a business owner of a food distribution company who came to Axial thinking their business would be worth 2-3x EBITDA. But after assessing the company and its place in the market, it was clear that this was a severe undervaluation of their business.

Generally, misalignment stems from:

- **Unrealistic expectations**
- **Not understanding what drives business value**
- **Relying on a single valuation method**
- **Inadequate financial preparation**
- **Overlooking deal structures**

### Having Unrealistic Expectations

It's common for business owners to have unrealistic expectations about their company's value. This often arises from focusing on what it took to build the business — in terms of capital, time, and emotional investment — rather than how potential buyers will assess it.

Buyers see your business differently. They're focused on how they can use your company to drive their growth or profit. They'll consider past performance, future potential, and key elements like assets, financials, team, and intellectual property to gauge how these aspects can work to their advantage.

Unrealistic expectations can stem from operational blind spots. Many owners fail to account for their own role in the business when pricing it for sale. As an owner, you likely wear many hats to keep things running smoothly.

When you sell your business, the new owners will need to replace you, often with several hires. Those additional salaries are new expenses the buyer must account for, which can impact the company's future profitability — and ultimately, its value to potential buyers.

When [preparing your business for sale](#), begin addressing key person dependencies early. This helps ensure buyers don't use them to drive down your company's value.

Working with an M&A advisor helps set proper expectations. They offer an objective view of your company's value based on current market dynamics and buyer behavior. They can also identify value you might be overlooking, which we'll cover next.

### Not Knowing What Impacts Your Business's Value

The table below outlines key business valuation factors — and what drives them up or down. Which ones matter most depends on your business type, the kind of [buyer you're targeting](#), and how much work you're willing to put into maximizing value before the sale.

| BUSINESS VALUATION FACTORS      | ↑ RESULTING IN HIGHER VALUATIONS  | ↓ RESULTING IN LOWER VALUATIONS   |
|---------------------------------|---|---|
| <b>Macroeconomic Conditions</b> | Operates well in both stable and volatile macroeconomic environments                      | Highly sensitive to economic downturns, facing reduced demand during recessions |
| <b>Size of Business</b>         | Larger business with economies of scale, broader market reach, and diversified operations | Smaller business with a limited market share, and higher operational risks      |

## How to Price a Business for Sale and Increase Your Chances of a Successful Exit

| BUSINESS VALUATION FACTORS          | ↑ RESULTING IN HIGHER VALUATIONS   | ↓ RESULTING IN LOWER VALUATIONS   |
|-------------------------------------|--|---|
| <b>Historic Financial Stability</b> | Business has predictable recurring revenue or high-profit margins                | Irregular revenue with low or volatile profit margins                       |
| <b>Capital Expenditures (CAPEX)</b> | Low CAPEX requirements, allowing for higher cash flow                            | High CAPEX needs, reducing available cash flow for growth                   |
| <b>Working Capital Efficiency</b>   | Low net working capital needs, optimizing cash use                               | High working capital needs, tying up cash in inventory and receivables      |
| <b>Customer Contracts</b>           | Long-term contracts or subscription models providing recurring revenue           | Lack of formal agreements or contracts with clients, leading to uncertainty |
| <b>Business Model</b>               | Scalable and easily adaptable model with room for expansion                      | Limited scalability, constrained by resources or infrastructure             |
| <b>Product/Service Offering</b>     | Differentiated products/services, with patents, trademarks, or barriers to entry | Lacks product/service differentiation; no unique market moat                |

Let's say you're running a profitable HVAC business, but it depends on a few high-dollar contracts. When [valuing your HVAC business to sell](#), those contracts look like assets — but a buyer also sees risk. High customer concentration means if one major client leaves post-exit, the new owner loses a big chunk of recurring revenue. You can increase your company's value by diversifying your customer base.

Now let's say you're talking to a private equity firm interested in buying your business. They see the growth potential, but you're sourcing materials from China and facing record-high tariffs, which led them to lower their offer. Instead of accepting that, you could target a competitor who values your customer contracts. Since they don't rely on your supply chain, they might pay more — without you changing a thing about your business. Just know that [selling to a competitor](#) might not align with your exit goals if you're looking to preserve your legacy.

When you [hire an M&A advisor](#), they can provide strategic guidance to help [maximize the value of your business](#) in the eyes of buyers. This can include:

- Solving key person dependencies
- Making operational changes to reduce costs
- Targeting buyers who will better recognize your business's value

### Failing to Use Multiple Valuation Methods

There is no one-size-fits-all approach to business valuation. The best methods will vary based on your business type and industry. These may include:

- Asset-based valuation methods
- Market-based methods
- Presenting your valuation as a multiple of Seller's Discretionary Earnings (SDE-- *typically for small businesses with annual EBITDA under \$1 million.*)

When a buyer conducts due diligence, they'll assess the value of your business from multiple angles.

To improve your chances of selling, you need to confidently justify your asking price — explaining how you arrived at your valuation and what it's based on. This includes using multiple valuation methods and supporting your numbers with relevant external data points.

An M&A advisor can be invaluable here. They typically employ three methods to price your business as accurately as possible and leverage their recent M&A experience to fine-tune the analysis.

### 3 Commonly Used Valuation Methods for Pricing a Business for Sale

$$\text{Discounted Cash Flow} = \frac{CF^1}{(1+dr)^1} + \frac{CF^2}{(1+dr)^2} + \dots + \frac{CF^n}{(1+dr)^n}$$

CF=Cash Flow  
dr= discount rate

### 1. Discounted Cash Flow (DCF)

The Discounted Cash Flow method estimates the value of a business based on its expected future cash flows. It involves forecasting the profits your business will generate and then “discounting” those cash flows to their present value using a discount rate. The discount rate reflects the risk and predictability of your business’s future profits, while also adjusting for inflation to show how much future profits are worth today.

To effectively support the assumptions and defend your growth rate, an advisor will assess historical performance, company-specific factors, and macroeconomic conditions.

### 2. Comparable Company Analysis (Comps)

Comparable Company Analysis finds your company’s market value by comparing its financial metrics and valuation multiples to similar businesses that are publicly traded. Factors such as industry, size, growth, geography, capital structure (how much debt a business has), and lifecycle stage (whether the business is a startup, in its growth phase, or has reached maturity) are considered.

However, for small businesses, conducting a comparable company analysis can be challenging. Large publicly traded companies may not provide suitable references due to significant size differences. Simply comparing your business to a larger one will lead to an inaccurate valuation. To address this, your M&A advisor will analyze comparable (albeit larger) companies and adjust their valuations to account for the size differences, bridging the gap between their value and your business’s value.

### 3. Precedent Transaction Analysis

Precedent transaction analysis uses the prices paid for similar companies in **completed past sales** to value a business. This method differs from analyzing stock prices and trading values. When examining completed sales, you’re often seeing higher prices, as these figures include additional amounts buyers are willing to pay during the bidding process for the business.

The advantage of using precedent transaction analysis is that it relies on real-world exit valuations of previously sold companies, providing concrete data that enhances certainty in negotiations. However, gathering this information for small businesses can be difficult because transaction details are often private. Recency is also crucial, as outdated transactions don’t reflect current market conditions.

When you work with an advisor from our network, they can leverage their insider knowledge of former clients’ deals, effectively utilizing recent transaction data.

A key element of accurately valuing a business is having recent, relevant experience in selling similar businesses. That’s why one of the criteria we use when evaluating M&A advisors is recent deal experience. This experience helps them understand the nuances of historical performance, market conditions, company-specific factors, and macroeconomic factors. When it comes time to negotiate with buyers, they can speak confidently to the valuation and help prevent misalignment between you and the buyer.

## Not Preparing Financials Properly

When we surveyed investment bankers to [identify key factors](#) that can derail a business sale, one of the main reasons cited was weak valuation knowledge due to incomplete financials. These can result from missing financial records or how the books have been kept by you, the business owner.

To ensure a smooth sale process, you'll need to adhere to standard accounting practices that are widely accepted and reliable. Buyers will thoroughly review your financials to decide whether they want to make an offer. This means you'll want to:

- Use accrual-based accounting practices, rather than “cash in, cash out.”
- Separate personal expenses that aren't relevant to the buyer. For example, if you've treated your personal car as a business expense, it inaccurately deflates the value of your business.
- Keep up-to-date and accurate records of all transactions, assets, liabilities, and inventory.

Without standard accounting practices, business owners often make common mistakes, like incorrectly calculating EBITDA or failing to determine the working capital tied up in daily operations. These errors can significantly skew your valuation.

Specifically, you'll need three audited financial statements:

- **Balance sheet:** A snapshot of your business's assets (what you own) and liabilities (what you owe).
- **Income statement:** Tracks revenue, expenses, gains, and losses to reflect true profits over a specific period.
- **Cash flow statement:** Outlines incoming and outgoing cash, giving an alternative view of your financial health, liquidity, and operational efficiency.

## Thinking in Terms of Cash and Close

Many business owners assume that if their company is valued at \$5 million, they'll walk away from the closing table with a \$5 million check. That's rarely how it works.

Most deals are structured as a mix of cash at close and payments over time. A common example is seller financing, where the buyer pays part of the sale price upfront and finances the rest directly with the seller. In this setup, the seller effectively becomes a lender — receiving scheduled payments over a set term, often with interest.

This arrangement can make deals more feasible for buyers and provide ongoing income for sellers, potentially increasing total proceeds. But it comes with risk — those future payments hinge on the buyer's ability to successfully run the business and meet financial obligations.

Another tool often used is an earnout, designed to bridge a valuation gap between buyer and seller. If a buyer values your business lower than you do, an earnout ties additional payments to future performance metrics. You get less upfront, but potentially more if the business hits agreed-upon targets.

An experienced M&A advisor can help you evaluate these offers objectively, leveraging their knowledge of your business and the market landscape to determine the structure that works best for you. They know when to push for more, where to stand firm, and where to compromise — ensuring you get the best possible outcome.

## How to Price a Business for Sale & Achieve Your Ideal Exit

If you're in the early stages of selling and not yet ready to work with an M&A advisor, our [free business valuation calculator](#) can give you an estimate of your company's value using an industry-specific DCF methodology.

But when it's time to sell, partnering with an M&A advisor is essential. Here's how an advisor from our network can help:

- **Accurately price your business.**
- **Leverage key value drivers** that impact your business valuation. For example, if your business shows consistent 30% year-over-year growth in a normally slow-growth industry, your advisor will highlight this as a key factor, rather than using standard industry multiples.
- **Use industry experience and past deal data** to inform your business valuation, making sure it's grounded in real-world context.

With this valuation estimate, you can confidently take your business to market. As buyers show interest, and begin to inquire about your business, your advisor can speak to the factors that resulted in your valuation. Further, they can craft a narrative around your business's value, so buyers are more likely to see how acquiring your business would be in their best interest.

### Achieving Your Ideal Exit

Accurately pricing your business is crucial to achieving your ideal exit.

But your exit is about more than just the sale price. It also includes your preferred exit timeline and the future direction you envision for your business.

An M&A advisor can increase the chances of you achieving your ideal exit by:

#### 1. Increasing Buyer Coverage

When we recommend an advisor, we're recommending one with a network of buyers that are a good fit for your business. This increases buyer coverage and gives you more options.

There's no magic number of how many buyers you should attract, but here's an example that illustrates the importance of increased buyer coverage. The owner of SunPro was looking for his ideal exit and worked with an advisor we recommended. In total, SunPro received 290 interested buyers. From that 290, they received 60 [Indications of Interest \(IOIs\)](#). From those 60, SunPro arrived at a list of 12 potential buyers. From those 12, they were able to find one that gave them the exit deal they wanted.

#### 2. Handling Buyer Distribution

Managing interested buyers takes a significant time and effort. To maximize your exit, it's best to have 5-10 interested buyers at the table, not just one. Advisors leverage their network to make this happen while ensuring sensitive data is protected and disclosed at the right time under appropriate [NDAs](#).

#### 3. Negotiating

An advisor serves as a calm, objective voice in negotiations. They understand what matters most to you and can guide you on when to push for more, when to accept what's offered, and when to walk away.

These benefits of working with an advisor help you secure a higher sale price and achieve your ideal exit.

## FAQs

### How Do You Price a Business for Sale?

Determining your business's worth starts with a comprehensive valuation that accounts for both tangible and intangible assets.

A professional valuation typically combines three key approaches:

- **Income-based methods:** Analyzing cash flow and earnings potential.
- **Market comparisons:** Examining similar business sales.
- **Asset-based valuations:** Valuing equipment, inventory, and property.

Often, your most valuable assets are intangible and don't appear on balance sheets — such as your customer base, proprietary processes, brand recognition, and market position.

When pricing your business for sale, working with an experienced M&A advisor or investment bank is crucial. These professionals bring industry expertise and access to comparable sales data that most business owners lack. They'll help identify your operation's unique value drivers, properly weigh factors like recurring revenue and growth potential, and calculate a realistic selling price that attracts qualified buyers while maximizing your return.

The goal is to establish a price that reflects not just your business's current value but also its potential as an investment for the right buyer.

### What Are Common Business Valuation Methods?

The most widely used methods include the:

- **Market Approach:** Comparing your business to similar, recently sold companies.
- **Income Approach:** Calculating the present value of expected future cash flows.
- **Asset Approach:** Determining the fair market value of all assets minus liabilities.

Each method provides a unique perspective on your business's worth, which is why professional valuers often use multiple methods for a comprehensive assessment.

The **Earnings Multiple** method is particularly common for small to medium-sized businesses. It calculates value by multiplying your annual earnings (usually EBITDA - Earnings Before Interest, Taxes, Depreciation, and Amortization) by an industry-specific multiplier, typically ranging from 3-8 times earnings depending on your industry, growth rate, and risk profile.

**Discounted Cash Flow (DCF) analysis** is another sophisticated approach. It projects future earnings and discounts them to present value.

These methodologies work together to establish the **fair market value** — the price a business would command in an open market, where both the buyer and seller are well-informed and not under pressure to act.