

Business Valuation 101

Blueprint Document #11 of 20 | Starter Pack

Know what to pay in 5 minutes (and why sellers are usually wrong)

The Only Numbers That Matter

Forget what sellers tell you. Forget what brokers claim. **There are only 3 numbers that determine value:**

1. **SDE** (Seller's Discretionary Earnings)
2. **Multiple** (Based on risk and size)
3. **Working Capital** (Often ignored, always important)

Step 1: Calculate True SDE

$$\text{SDE} = \text{Net Profit} + \text{Owner Salary} + \text{Owner Perks} + \text{One-Time Expenses}$$

Start with: Tax Return Net Profit Add back: + Owner salary/draws + Owner health insurance + Owner car payments + Owner cell phone + Family members

on payroll + Personal travel as "business" + One-time legal fees + One-time repairs + Depreciation + Interest = True SDE (what you'll actually make)

Real Example: Painting Company

| Line Item | Amount |
|-----------------------------|------------------|
| Net Profit (tax return) | \$87,000 |
| Owner Salary | \$65,000 |
| Wife "Admin" (does nothing) | \$35,000 |
| Owner Health Insurance | \$18,000 |
| "Company" F-150 | \$12,000 |
| One-time lawsuit settlement | \$25,000 |
| Depreciation | \$15,000 |
| True SDE | \$257,000 |

Seller claimed: "Barely profitable!"

Reality: \$257K in owner benefit

Step 2: Apply The Right Multiple

Service Business Multiples (2024)

| SDE Range | Typical Multiple | Why |
|---------------|------------------|------------------------|
| Under \$100K | 1.5-2.0x | Basically buying a job |
| \$100K-\$250K | 2.0-2.5x | Sweet spot for SBA |
| \$250K-\$500K | 2.5-3.0x | Real business |
| \$500K-\$1M | 3.0-3.5x | Systems in place |
| Over \$1M | 3.5-4.5x | True enterprise |

Multiple Adjustments

Add 0.5x for:

- 90%+ recurring revenue
- No owner involvement (<10 hrs/week)
- 5+ year track record
- Growing 10%+ annually

Subtract 0.5x for:

- Customer concentration (>30% one client)
- Declining revenue
- Owner is the business
- Expiring lease/contracts

Step 3: The Working Capital Trap

⚠ **Most buyers miss this and overpay by \$50-100K**

Working Capital = Current Assets - Current Liabilities

You need to SUBTRACT missing working capital from purchase price!

Example:

- Accounts Receivable: \$80,000
- Accounts Payable: \$50,000
- Normal WC needed: \$75,000
- Actual WC: \$30,000
- **Shortage: \$45,000** (reduce price by this)

The 5-Minute Valuation Formula

Quick Valuation = (True SDE × Multiple) - WC Adjustment - Repairs

Our Painting Company:

- True SDE: \$257,000
- Multiple: 2.5x (standard for this size)
- Base Value: \$642,500
- WC Shortage: -\$45,000

- Deferred Repairs: -\$20,000
- **Fair Value: \$577,500**

Seller asking: \$850,000

Our offer: \$575,000

Savings: \$275,000

Negotiation Ammunition

When seller balks at your "low" offer, show them:

1. Their tax returns (not their "recast" fantasy)
2. Comparable sales (from BizComps)
3. Bank lending limits (they'll finance based on YOUR calculation)
4. Time on market stats (avg 270 days)

The killer phrase: "I'm offering what the bank will lend on. If you think it's worth more, find a cash buyer."

Quick Sanity Checks

Walk away if:

- Price > 3x SDE (unless truly passive)
- "Pro forma" projections used for pricing
- No tax returns provided
- Multiple "adjustments" exceed 50% of claimed SDE
- Seller won't provide 3 years of data

Your Next Action

1. Find a listed business in your target industry
2. Request their last 3 tax returns
3. Calculate true SDE using this framework
4. Compare to asking price
5. Make an offer at the RIGHT valuation

Remember: Sellers price on hope. Banks lend on reality. Buy on reality and let them keep their hope.

This is document 11 of 20 in the Blueprint Starter Pack. The complete Blueprint System contains advanced valuation models, industry-specific multiples, and negotiation scripts that routinely cut 30-50% off asking prices.

Ready for everything? Visit myleskameron.com/blueprint

P.S. Just saved \$100K+ using this framework? That's worth celebrating. Reply and tell me about it.