

DOCUMENT #15

The Blueprint System™ - Valuation & Analysis Series

Price Justification Formulas

Turn their asking price into your buying price using math they can't argue with

The Master Valuation Formula

Base Value = (Adjusted EBITDA × Industry Multiple) + Asset Value + Working Capital - Risk Adjustments - Required CapEx - Transition Costs = Maximum Purchase Price

Step 1: Calculate TRUE Adjusted EBITDA

Start with Reported Net Income

Reported Net Income	\$250,000
ADD BACK:	
+ Interest	\$30,000
+ Taxes	\$45,000
+ Depreciation	\$25,000

+ Amortization	\$5,000
+ Owner Salary (excess)	\$80,000
+ Personal Expenses	\$35,000
SUBTRACT:	
- Manager Replacement	(\$60,000)
- Normalized CapEx	(\$20,000)
= Adjusted EBITDA	\$390,000

Step 2: Apply the RIGHT Multiple

Business Type	Revenue Size	Base Multiple
Service (Recurring)	< \$1M	2.0 - 3.0x
Service (Recurring)	\$1-5M	3.0 - 4.0x
Service (Project)	< \$1M	1.5 - 2.5x
Construction/Trades	\$1-5M	2.5 - 3.5x
Manufacturing	\$1-5M	3.0 - 4.5x
Distribution	\$1-5M	2.5 - 4.0x

Step 3: Multiple Adjustments (The Negotiation Levers)

Reduce Multiple For:

Risk Factor	Adjustment	Your Script
Customer Concentration >30%	-0.5x	"Single customer risk requires discount"
Declining Revenue	-0.5x to -1.0x	"I'm buying tomorrow's cash flow, not yesterday's"
Owner Dependence	-0.5x	"Transition risk affects value"
Lease Expires <2 years	-0.3x	"Location uncertainty is expensive"
Old Equipment	-0.3x	"CapEx requirements reduce price"
No Management Team	-0.5x	"I have to build systems from scratch"

Step 4: Asset Value Calculations

Fair Market Value (FMV) Method: - Equipment: Get dealer quotes or auction comps - Vehicles: KBB trade-in value (not retail) - Inventory: Cost, not retail - Real Estate: Separate appraisal Liquidation Value Method (for negotiation): - Equipment: 40-60% of book value - Vehicles: 70% of KBB - Inventory: 50-70% of cost - FF&E: 20-40% of book

Working Capital Calculation

Target Working Capital = Current Assets (normalized) -
 Current Liabilities (normalized) - Cash - Debt Typical
 Target: 10-15% of annual revenue Actual vs Target = Purchase
 Price Adjustment

Example Working Capital Negotiation:

Business has \$1.2M revenue

Target WC: \$150,000 (12.5%)

Actual WC at closing: \$80,000

Price Reduction: \$70,000

The "Justifiable Price" Presentation

Your Spreadsheet to Seller:

Adjusted EBITDA	\$390,000
Industry Multiple (base)	3.0x
Risk Adjustments	-0.8x
Adjusted Multiple	2.2x

Enterprise Value	\$858,000
+ Equipment (FMV)	\$120,000
- WC Adjustment	(\$70,000)
- Deferred CapEx	(\$50,000)
Maximum Price	\$858,000

Advanced Justification Tactics

The "Comparable Sales" Attack

Create a table showing:

- 5-10 similar businesses that sold
- Their revenue, EBITDA, and sale price
- Calculate implied multiples
- Show yours is at/above average

Source: BizComps, Pratt's Stats, or broker data

The "Future Cash Flow" Reality Check

Year 1 Cash Flow: \$390,000 - Debt Service (at their price): \$240,000 - Your salary: \$60,000 - Growth CapEx:

\$30,000 = Owner Benefit: \$60,000 ROI at their price: 12%
ROI at your price: 28%

Your line: "I need at least 25% cash-on-cash return for this risk level"

Seller Psychology Price Formulas

Formula 1: The "Walk Away" Number

Their Ask: \$1,200,000 Your Max: \$850,000 Gap: \$350,000
Offer: \$750,000 cash + \$150,000 seller note (5 years) +
\$100,000 earnout = \$1,000,000 "headline price"

They get to say they got \$1M, you pay based on performance

Industry-Specific Adjustments

Industry	Key Metric	Typical Range	Price Impact
HVAC	Service vs Install Mix	Goal: 60%+ service	+0.5x if achieved
Landscaping	Contract vs Residential	Goal: 70%+ contract	+0.3x if achieved
Cleaning	Customer Retention	Goal: 90%+ annual	+0.5x if achieved

Construction	Backlog Coverage	Goal: 6+ months	+0.3x if achieved
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The Ultimate Price Crusher

The "Lender Reality" Move

Your script:

"I want to pay your asking price, but here's the problem: SBA will only lend based on cash flow. At your price, the debt service coverage ratio is 0.9x. They require 1.25x minimum."

"Either we need to find \$100k more EBITDA, or adjust the price to make the lending work."

Result: Blame the bank, not your offer

Quick Reference Multiples

Rules of Thumb by Industry:

- **Plumbing:** 2.5-3.5x EBITDA or 40-50% of revenue
- **HVAC:** 3.0-4.0x EBITDA or 35-45% of revenue
- **Landscaping:** 2.0-3.0x EBITDA or 30-40% of revenue
- **Cleaning:** 2.5-3.5x EBITDA or 50-70% of revenue
- **Auto Repair:** 2.0-3.0x EBITDA + inventory
- **Manufacturing:** 3.5-5.0x EBITDA + equipment

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