Please take a moment to review the valuable content in our newsletter.

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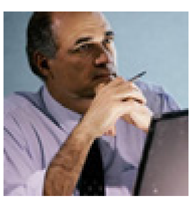
March 2015 - In This Issue:

INDUSTRY KNOWLEDGE & ACCESS TO BUYERS NATIONWIDE



Our presence as a Professional Business Broker is extended nationally as a result of being an affiliate of BHarmony, LLC. We also bring decades of experience and functional expertise in all the popular market segments as a result. Nothing takes the place or value in that of experience.

We partner with our clients to deliver solutions that help solve their most complicated needs prior to, during, and at the conclusion of the selling process. Our services are designed specifically to help small/medium size businesses and at a small business price. We go beyond the norm to

SDE vs. EBITDA vs. Adjusted EBITDA Leads to Multiples Confusion

Many business owners have heard the term "multiple of earnings." In the stock market, the P/E (price/earnings) ratio refers to the market price per share divided by the earnings per share. For the S&P 500, as of April of 2012, the twelve-month trailing P/E was about 15. A great majority of individual public companies' P/E ratios fall in the range of 12 - 18. That's one way the term "multiples of earnings" might be used in conversation. It would be nice if small businesses could be sold for 12 - 18 times "earnings," but that's just not reality.

The multiple of SDE for many small businesses is in the 2 - 3 range

In the previous issue we provided a chart with multiples of earnings based on SDE which showed a range from 1 - 4 times SDE. However, unless your business has SDE below $100,000 or above $500,000, the appropriate SDE multiple likely falls in the 2 - 3 range.

SDE vs. EBITDA vs. Adjusted EBITDA and the related multiples - it's all very confusing - so much so that we have three newsletter issues following this one devoted to the topic to increase your understanding.

"Earnings" must be defined

Yet many business owners have heard of small businesses selling for 5 or 6 times "earnings." The confusion regarding the "multiple" number being referred to in conversation arises from lack of clarity of the term "earnings." If you hear a small business sold for 5 - 6 times "earnings," rest assured the earnings are not based on SDE (Seller's Discretionary Earnings). In that case, the definition of earnings might have been EBITDA or Adjusted EBITDA.

SDE multiple = 3.0, EBITDA multiple = 6.2, Adjusted EBITDA multiple = 4.5

In the next newsletter, we'll provide an example of a business with develop new insights, prepare, market and drive results in the sale, thus insuring you receive the most value at closing. **Learn More**

AVOID COMMON BUSINESS SALES MYTHS

Myth #1 - I Can Sell It Myself
Many owners believe they're qualified to sell their business without professional assistance, but selling a business is not like selling a product or service. If you're looking to sell on your own, confidentiality is lost. If word of a potential sale gets out, there are definite risks of losing clients, employees and favorable credit terms.
Do you really have the time to run your business and compile marketing materials, advertise, screen buyers, give tours and facilitate due diligence? When you're looking to sell, you want to put even greater emphasis on running your business, boosting your sales, and not taking on new challenges.
Myth #2 - I'll Sell When I'm Ready
Certainly, an owner wants to be sure he or she is mentally and emotionally prepared to sell. But personal readiness is just one factor. Economic factors can have a significant impact on the sale of a business.
Sale prices can be affected by industry consolidation, interest rates, unemployment and many other economic measures. Talk with a professional and aim to sell when your personal goals and market conditions align.
Myth #3 - I Know What it is Worth
Some owners will base the company value on what they need for retirement. Others will tell you they want $100,000/year for "sweat equity."
A third party valuation is a good idea for anyone seriously considering the sale of their business. An outside valuation will include a thorough

$90,000 in taxable corporate income and show the computations that result in SDE of $300,000, EBITDA of $145,000 and Adjusted EBITDA of $200,000. It's the same business and the value is about $900,000 regardless of which measure (definition) of "earnings" is used. However, the multiple changes drastically. Under SDE the multiple is 3.0, under EBITDA the multiple is 6.2 and under Adjusted EBITDA the multiple is 4.5.

SDE calculation results in a larger number than EBITDA resulting in a smaller multiple

SDE accounts for owner's compensation (including owner perks) by adding it into "earnings" whereas EBITDA ignores owner's compensation. Therefore, the SDE computation results in a larger number, leading to a smaller multiple being used to value the company. Let's review what was stated in the previous article: *Public companies and middle market businesses are valued as a multiple of EBITDA - Earnings Before Interest, Taxes, Depreciation and Amortization (with no adjustment for owner's compensation). However, smaller businesses are valued as a multiple of Seller's Discretionary Earnings (SDE), which can be defined as EBITDA + Owner's Compensation. Therefore, Seller's Discretionary Earnings is typically the net income (or net loss) on the company tax return + interest expense + depreciation expense + amortization expense + the current owner's salary + owner perks.*

Adjusted EBITDA accounts for "fair replacement value" of owner's compensation

Adjusted EBITDA attempts to adjust owner's compensation to its "fair replacement value" and the excess is included in the Adjusted EBITDA "earnings" number. For instance, if an owner collects $300,000 in salary from his corporation but it is determined that the "fair replacement value" of his services is $100,000, the Adjusted EBITDA computation would include $200,000 of "excess owner's compensation." In this example, considering only the owners' compensation, SDE would be $300,000, Adjusted EBITDA would be $200,000 and EBITDA would be $-0-.

SDE is appropriate for small businesses which are usually acquired by owner-operators

When valuing larger businesses, such as middle market businesses with valuations in excess of $5,000,000, the assumption is the buyer (or acquiring company) making the acquisition will have to pay someone (a CEO) to run the business. Therefore, the business is usually valued based on EBITDA or Adjusted EBITDA. However, buyers of smaller businesses are usually owner-operators who won't need to pay someone else to run the business (but they do want to pay themselves for managing the business). Therefore, the current owner's compensation (and perks) are available to the buyer to consider as "earnings." That's why SDE is usually utilized as the "earnings" number for small business valuations.

analysis of the business and the market it operates in. This will provide a solid understanding of the company's growth potential, not some vague industry average.

Myth #4 - It's Like Selling a House
Selling a company is much more complex than selling a house. A successful business sale usually requires a great deal of pre-planning, at least a year and maybe as long as three years to drive sales, develop key staff, document the operations and control expenses. The average house will sell in less than four months, while the average business sale is nine months to a year. Even after the business is sold, the seller can be expected to put in at least a few months, and possibly years of transition time, helping to make the new owner a success.

IT ALL STARTS WITH YOU

"All personal achievement starts in the mind of the individual. Your personal achievement starts in your mind. The first step is to know exactly what your problem, goal or desire is."

W. Clement Stone

DON'T MISS OUT - Interest rates are low, Strategic Buyers, Family Offices, and Private Equity Groups are very active. It costs nothing to discuss the value of your Business - contact us.

Next Issue

Example of SDE vs. EBITDA vs. Adjusted EBITDA.

Contact Us

WHAT IS MY BUSINESS WORTH?

It will cost you absolutely nothing and there is no obligation in giving us a call or an email to request a simple valuation of your business. Relying on a professional that understands your industry is important. It is also wise to work with someone who is aware of current trends; and that is working with both buyers and sellers daily. This approach insures you plan for and receive the maximum return on the transfer of your business.

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