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FINDING BUYERS FOR MY BUSINESS

In a recent meeting with the Owner of a Company I was asked "How do you find Buyers?" My typical response to that question is to rattle off - our website, national websites, our network of professionals, research, etc. Not sure why but I didn't say that - but I did say "Exposure Without Disclosure!" My further explanation was that we prepare a Profile that has enough information to intrigue possible buyers - "Exposure" but not so much as to identify the Company - to preserve Confidentiality - "Without Disclosure".

I went on to say that the Profile goes on our web site, national web sites, to our affiliates, and to target groups - Strategic Buyers, Private Equity Groups, Family Offices, and maybe specific targets for whatever reason, including input from the Owner.

The Key is the Profile - to provide

EXAMPLE OF SDE vs. EBITDA vs. ADJ. EBITDA

This newsletter issue attempts to clarify why you might hear a business was sold for "6 times earnings" (without mentioning it was based on EBITDA), while yours will probably sell for only 2 - 4 times "earnings" (based on SDE, not EBITDA). The problem is when you hear "6 times earnings", you are not hearing the definition of those earnings (EBITDA, Adjusted EBITDA or SDE).



For the same company with the same operating results, the example below details multiples of 3.0 (based on SDE), 6.2 (based on EBITDA) and 4.5 based on Adjusted EBITDA

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

The following example is based on a company with \$1,500,000 in sales and \$300,000 in SDE (calculations shown below). Based on that level of "earnings" (SDE), the realistic value of the business is \$900,000, which is a multiple of 3x (SDE multiplier). However, the calculations in the example below also show a multiple of 6.2x (EBITDA multiplier) and 4.5x (Adjusted EBITDA multiplier). Hopefully this example helps explain some of the confusion that arises in the marketplace regarding "multiples of earnings." Let's assume the company's tax return looks like this:

Sales	\$1,500K
Cost of Goods Sold	<u>600K</u>
Gross Profit	<u>900K</u>
<u>Expenses</u>	
Officer's Compensation	150K
Salaries and Wages	300K

enough but not too much **SPECIFIC** information. From our literally decades of advising **Business Owners** - we know that it works.

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.

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

Payroll Taxes	30K
Rent	80K
Interest Expense	40K
Depreciation	10K
Amortization	5K
Employee Benefit Programs	40K
Other Expenses	<u>155K</u>
Total Expenses	<u>810K</u>
Net Income Before Taxes	<u>\$ 90K</u>

Normalizing (also called recasting) calculations (also called adjustments) to determine "earnings" are shown below:

	SDE calculation	EBITDA calculation	Adjusted EBITDA calculation (assume \$100k to hire manager to replace owner)
Earnings (Net Income)	\$ 90K	\$ 90K	\$ 90K
Before			
Interest Expense	40K	40K	40K
Taxes	(N/A - Tax returns shows net income before taxes)		
Depreciation	10K	10K	10K
Amortization	5K	5K	5K
Total of EBITDA	145K	145K	145K
+ Officer's Compensation (100%)	150K		
+ Officer's Excess Compensation			50K (150K - 100K)

price. We go beyond the norm to 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
- Myth #2 - I'll Sell When I'm Ready
- Myth #3 - I Know What it is Worth
- Myth #4 - It's Like Selling a House

We would welcome the opportunity to discuss these myths with you personally. [Email us.](#)

Next Issue

[A Seller's Discretionary Earnings \(SDE\) Worksheet.](#)

[Contact Us](#)

+ Owner's Health Insurance (included in Employee Benefits expense)	5K		5K
SDE ("Earnings")	\$ 300K		
EBITDA ("Earnings")		\$ 145K	
Adjusted EBITDA ("Earnings")			\$ 200K
Realistic Value of Business (based on three times SDE)	\$ 900K	\$ 900K	\$ 900K
"Multiple of earnings"	3.0x	6.2x	4.5x
(Multiple = value/earnings)	SDE (900K/300K)	EBITDA (900K/145K)	Adjusted EBITDA (900K/200K)

"Multiples of earnings" based on SDE vs. EBITDA vs. Adjusted EBITDA causes confusion

If you understand the above chart, it helps clarify why business owners sometimes have misconceptions about the "multiple of earnings" they might expect when selling their business. If, on the other hand, the chart is "clear as mud" to you, it's important to know that a great majority of small businesses sell for 1 to 3 times Seller's Discretionary Earnings (SDE). And if you hear multiples of earnings on small business sales that exceed 4 times "earnings," just realize that it is not an apples to apples comparison of the computation and use of the "earnings" number.

"Multiples of cash flow" also requires clarification

Another word of caution! Multiples are often expressed in terms of "cash flow" (i.e. 3x cash flow). Just as "earnings" need to be further defined for a full understanding of comparability, it's the same with "cash flow." It's a generic term that can have numerous calculations/definitions. When you hear "cash flow" mentioned in conjunction with multiples and the valuation of a business, you can usually mentally substitute "earnings." But, it still requires further clarification to determine if "cash flow" refers to EBITDA, Adjusted EBITDA or SDE. In fact, "cash flow" can have several other meanings as well. Confused? We can't stress enough that you should always try to clarify the user's definition of "earnings" and "cash flow."



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STAY CONNECTED

