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## TRANSITIONAL SERVICES, LLC



# HOW IS MY BUSINESS PRICED?

**H**ow is my business priced? Or, alternatively, how much is my business worth? These are great questions with no simple answers.

Start to view your business as an investment. Imagine yourself as the buyer. How much will you pay to receive the cash generated by your company? (Yes, it is all about “cash” — now and in the future!)

Next, look thoroughly and realistically at the stream of future cash flows. Buyers define that stream as the adjusted and sustainable earnings before interest, taxes and non-cash expenses less annual capital expenditures. (EBITDA minus CAP-X)

Finally, what rate of interest – or return – do you wish to receive? Listed to the right are a sampling of the critical factors influencing the return rate, also referred to as the “multiple.”

In simple language, these are just a few of the many issues a buyer of your business will consider when making an offer. Likewise, they are the basis I use in answering a client’s general questions about matters of pricing and valuation. Of course, an in-depth review of your company’s financial condition and operation by an M&A professional is required to obtain a more precise estimate for your individual business.

Joseph E. Palmer, MBA, is a Director of S&K Transitional Services LLC (<http://www.sktransitional.com>). The firm specializes in assisting owners of independent businesses throughout the United States who are interested in successfully transitioning their enterprises to new ownership. For questions about this article or related matters, Joe is available for a 30-minute, no-obligation telephone consultation. Phone 330-572-1332; cell 330-289-1229; email: [joeepalm@aol.com](mailto:joeepalm@aol.com).

- **SIZE**  
Yes, size does matter. The larger the dollar amount of the stream of cash flow in relationship to the gross revenue generated, the higher the multiple.
- **GROWTH**  
Can the stream of cash flow be increased and at what cost?
- **PEOPLE**  
Are the key personnel in place to manage the growth?
- **CAPITAL**  
A buyer’s own cash comes at a high- risk premium. If capital can be layered by debt financing, the multiple increases.
- **INDUSTRY**  
Are you on the “right” side of the curve? Is your industry expanding?