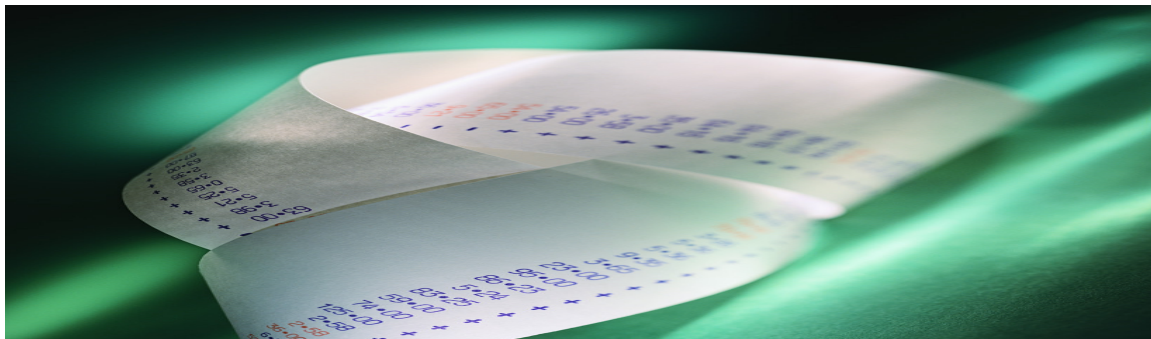




TRANSITIONAL SERVICES, LLC



3475 Ridgewood Road
Akron, OH 44333
(P) 330.376.3300
Fax 330.376.6237
www.SKTransitional.com

An integral part of the pricing formula for a business is cash, defined as Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization, commonly known as EBITDA. So what exactly are these adjustments made to your cash earnings?

Often with a privately held business, the owners' compensation and benefits may be higher than what the buyer may pay for the replacement or the owner(s) may not be replaced. This difference is an allowable adjustment. Other allowable adjustments may include:

- ◆ *Bargain Leases*
- ◆ *Annualized New Cost Reductions*
- ◆ *Non-Occurring Losses or Gains*
- ◆ *Annualized New Revenue Streams*
- ◆ *GAAP Adjustments for Accruals*
- ◆ *Inventory and Receivables Valuations*

A word of caution to sellers, having compiled financial statements (the lowest level of assurance). The last two mentioned adjustments are often made and, more often than not, the adjustments are negative to the earnings.

In many deals the seller *assumes* that the buyers synergies are also adjustments to their earnings. Wrong! Synergies brought to the table by the buyer are reflected in the multiple that the buyer uses to determine the total valuation. Examples of buyer's synergies are:

- ◆ *Purchasing Power Savings*
- ◆ *Personnel Reductions*
- ◆ *Increased Sales Resulting from the Acquisition*
- ◆ *Fixed Cost Reductions Resulting from the Acquisition*

In summary, what the buyer brings to the table remains theirs in regards to adjustment to earnings and what the seller brings, or failed to reflect in earnings, are theirs to adjust.

Joseph E. Palmer, MBA, is a Director of S&K Transitional Services (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 or cell-330-289-1229,