

What Your Business Is Actually Worth

(And Why You're Probably Wrong)

CoreyParchman.com | Don't Build It — Buy It

Most owners either overvalue or undervalue their business by 30–50%. Here's how buyers actually calculate what they'll pay — and how to close the gap.

Business owners are not objective about their businesses. They've poured their lives into them. That emotional investment makes it nearly impossible to value them accurately without a framework.

Buyers, on the other hand, use a simple and consistent methodology — and they apply it with discipline. Understanding how buyers think is the most valuable thing a seller can know.

How Buyers Value Your Business

The standard valuation approach for small to midsize businesses is the SDE Multiple Method:

$$\text{Business Value} = \text{SDE} \times \text{Industry Multiple}$$

SDE (Seller's Discretionary Earnings) is the total annual financial benefit an owner receives from the business — net profit plus owner compensation plus personal expenses run through the business.

The multiple is determined by industry, size, growth, customer diversification, and operational risk. Most businesses in the sub-\$5M SDE range sell for 2x–5x SDE.

Industry Multiple Benchmarks

INDUSTRY	TYPICAL SDE MULTIPLE
Manufacturing	3.0x – 5.0x
Distribution / Wholesale	2.5x – 4.0x
Professional Services (recurring revenue)	3.0x – 5.0x
Healthcare / Medical Services	3.5x – 5.5x

Home Services / Trades	2.5x – 4.0x
Retail (brick & mortar)	1.5x – 3.0x
Food & Beverage / Restaurant	1.5x – 2.5x
SaaS / Software	4.0x – 8.0x+ (often revenue-based)
Staffing / Recruiting	2.0x – 3.5x

The 5 Things That Inflate or Discount Your Multiple

Factors that push your multiple HIGHER:

- Recurring revenue or long-term customer contracts
- Diversified customer base (no single customer above 15%)
- Strong team that operates without the owner
- Documented systems and SOPs
- Clean, CPA-prepared financials

Factors that push your multiple LOWER:

- Owner-dependent operations
- Revenue concentration in 1–2 customers
- Declining revenue trend
- Messy or unaudited financials
- Pending litigation or undisclosed liabilities

A Quick Calculation Example

Let's say you own a home services company with:

- Net profit: \$180,000
- Owner salary: \$90,000
- Owner personal expenses through business: \$32,000
- One-time legal expense: \$8,000

Recast SDE = \$310,000

At a 3.5x multiple for your industry: **Estimated Value = \$1,085,000**

At a 4.0x multiple (if you have strong systems and diversified revenue): **Estimated Value = \$1,240,000**

That \$155,000 difference is driven entirely by preparation and positioning — not luck.

**Ready to know your real number? Book a free Discovery Call at
CoreyParchman.com**