



EXIT! JOURNEY

Your One Page Valuation Worksheet

Let's begin the journey of determining what the potential market value of your company is. You may be thrilled with the result, or you may be unhappy about the truth. This simplified process will serve as an excellent "Back-of-the-Envelope Valuation" for your own peace of mind, but when you are ready to actually sell, make sure you have your business valued by a qualified business broker or Certified Business Appraiser.

Broker's Secret >>> The 1x Myth

Contrary to popular belief, a business is rarely valued at 1 times revenue! Don't have your business valued by your accountant (unless they are accredited in business valuation) or your attorney. They may not have access to market comparables (comps) or an understanding of how the business-for-sale market is currently trading.

The foundation of your valuation begins by establishing your "Adjusted Net Profit" or "Seller's Discretionary Earnings" (SDE) based on your earnings plus other key factors. Businesses with revenues over \$10,000,000 are often valued on a multiple of EBITDA (earnings before interest, taxes, depreciation, and amortization); however, for our purposes, we will focus on SDE.

Seller's Discretionary Earnings or **SDE** is the heart of the valuation. Unless the business value is based on proprietary intellectual property—a technology company, for example—all small businesses will sell for a multiple of Seller's Discretionary Earnings or SDE. SDE is calculated by adding owner's salary, owner's payroll taxes, health benefits, retirement benefits, financial perks,

depreciation, amortization, and non-reoccurring expenses (a one-time expense) to the net income stated on the profit and loss statement or preferably the tax returns (because a bank will base its valuation of your business on tax returns). By adding these items back to the financial statement (called “add-backs” or “adjustments”), a buyer will have a better idea of how much income he or she can expect to receive when he or she takes over the company.

Okay, the moment you have been waiting for...

The Back-of-the-Envelope Valuation Formula

$$\begin{aligned} &\text{Profit} + \text{Owner Benefits} + \text{Depreciation} + \\ &\text{Amortization} + \text{Interest} = (\text{SDE}) \times 2\text{x to } 4\text{x Multiple} \\ &= \text{Fair Market Price Range} \end{aligned}$$

Now I can almost hear you saying, “This is great Julie, but how do I know if I should multiply the SDE by two, three or four?”

Most small businesses sell on a multiple of 2.5 to 3 times SDE. In fact, there was a study that showed that the average sold multiple for small businesses is 2.3 and hasn’t changed since the 1960s.

While this is a true statistic, if your business has an easily verifiable SDE of \$100,000 or more (no marginal owner perks added to the net profit such as visits to big box retailers, salaries for nannies, trips that weren’t even in the convention city—I have seen it all), you can be very confident of a 3x multiple, and possibly push it to 4 (or maybe even 5 for certain industries) if your SDE is \$1,000,000 or greater.

**OK, now it’s time to put
YOUR numbers on the back
of the envelope!**





One Page Valuation Worksheet by ExitJourney.com

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One Page Valuation Worksheet

Today's Date: 05/08/17 (MM/DD/YY)

	Yr-to-Date 2017	Prior Yr 2016	Prior Yr 2015	Prior Yr 2014
Sales				
Cost of Goods Sold/Cost of Sales				
Gross Profit	0	0	0	0
Other Income				
Expenses				
Net Income	0	0	0	0
ADJUSTMENTS*				
Depreciation				
Amortization				
Interest on Loans to Business from Lenders				
Officer's / Owner's Salary				
Officer's Payroll Taxes				
Second Owner / Partner Salary				
Second Owner / Partner Payroll Taxes				
Auto				
Insurance for Owner: Auto				
Insurance for Owner: Health				
Insurance for Owner: Life				
Retirement Contributions for Owner(s)				
Second Owner Salary Adjustment				
Fair Market Rent Adjustment				
Contributions & Donations				
Meals & Entertainment				
Travel				
One-Time Expenses (Renovation, Equip Purchase, Legal)				
TOTAL DISCRETIONARY ADJUSTMENTMENTS	0	0	0	0
NET INCOME (Insert from Net Income line above)	0	0	0	0
TOTAL SELLER'S DISCRETIONARY EARNINGS	0	0	0	0
AVERAGE OF LAST 3 YEARS SDE:		0		
SDE X 2:		0		
SDE X 3:		0		
SDE X 4:		0		

Today's Back-of-the-Envelope Valuation: \$

If you are selling your real estate with the business, add the value of the real property to your valuation!

*Adjustments may be positive or negative. For example, if you own your building and charge yourself below market rent, but plan to charge the buyer market you plan to charge the new tenant (buyer). Don't forget to annualize this number!

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Now What?

After determining your Back-of-the-Envelope Valuation, compare the current value of your business to your target exit date and premium price expectations. Is your premium price realistic? Is the time frame realistic to reach the necessary sales levels and profitability to achieve that price? In order for you to reach your goals, all of these elements must come together.

If the pieces of the puzzle don't fit, prepare a SWOT (Strengths, Weaknesses, Opportunities and Threats) Analysis for your business. With the information gleaned for your analysis, put a plan in place to improve the profitability and goodwill of your company ASAP to achieve your ultimate selling goal—maximum market price—which is the price you deserve!

Going forward, be sure to value your business quarterly at minimum. By doing so, you will always understand your worth and can add value and improvements to enjoy your business more and reduce your stress TODAY instead of waiting to fluff up your business for someone else tomorrow.

Remember...

Value Your Business, Value Yourself!

Congratulations on taking the first step...

Today is your day!

Go deeper and discover all of the 12 Steps in the bestselling EXIT! book available in paperback or kindle at Amazon.com!



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