OLIVEWOOD ADVISORS

WHAT IS MY BUSINESS WORTH?

A Valuation Guide for Business Owners Considering a Sale

The Question Almost Every Owner Asks

As owners progress through the lifecycle of a business, it's common to contemplate what the company might be worth.

Sometimes the question comes up after a competitor sells.
Sometimes a private equity group unexpectedly calls.
Sometimes it presents itself during estate planning or retirement discussions.

Even if the business isn't actively seeking a sale today, the conversation usually starts the same way:

"What would my business sell for in this market?"

Owners often expect a straightforward calculation. Traditionally, the back-of-the-napkin math has been as simple as multiplying earnings against a standard industry multiple.

In reality, valuation works differently.

Buyers evaluate businesses through a structured lens. While earnings matter, they also view operational stability, leadership depth, customer set and growth opportunities as factors in determining a fair market value. The result is usually a **valuation range**, and not a single number.

Understanding how buyers approach valuation can help owners think about their options more clearly.

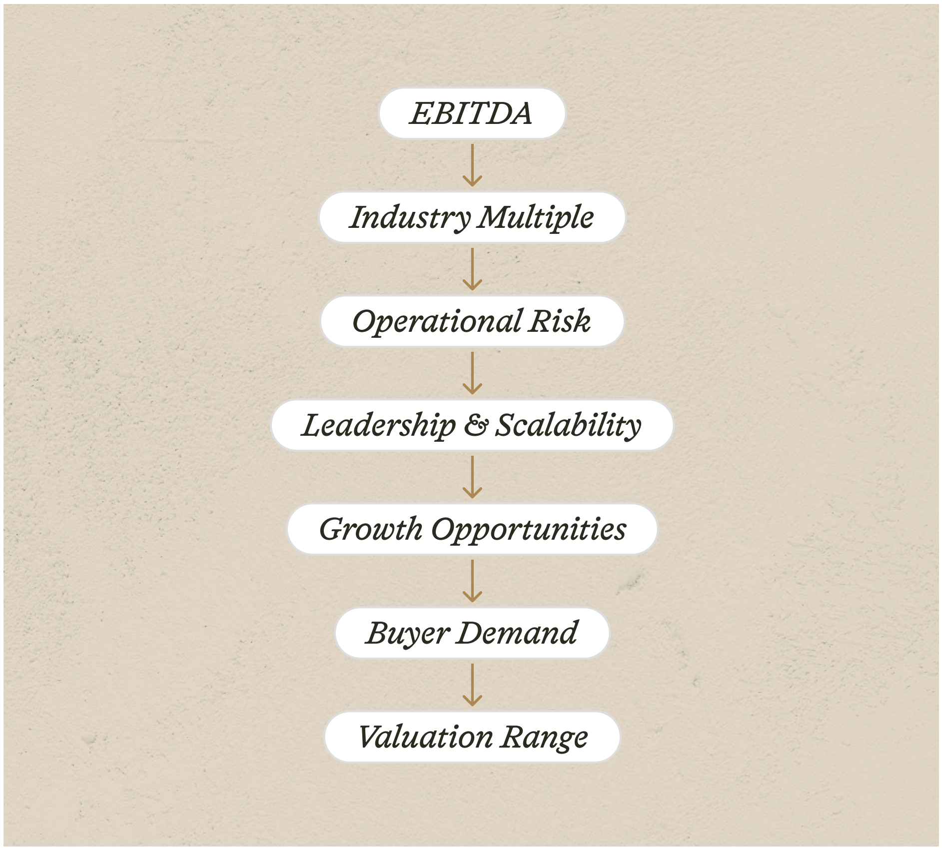
How Buyers Value a Business

The Basic Framework

Most buyers follow a similar framework when evaluating a business. The key steps and components often include:

1. *Determine normalized EBITDA*
2. *Apply an industry valuation multiple*
3. *Evaluate operational risk*
4. *Measure leadership and scalability*
5. *Identify growth opportunities*
6. *Consider buyer demand and competition*

Each of these inputs influence where a company ultimately falls within a valuation range.



Value vs. Price

Why The Numbers Are Different

Owners often hear general statements about valuation. For example, you might hear something like, “Companies in this industry sell for seven times earnings.”

That may provide a starting point, but the final transaction price often reflects additional factors. Three numbers usually appear during a transaction: Estimated Value, Buyer Offers and Final Transaction Price.

1 *Estimated value*

A preliminary valuation range based on financial performance and comparable transactions.

2 *Buyer offers*

The range of prices buyers are willing to pay, often in the form of Indications of Interest (IOI) or Letters of Intent (LOI).

3 *Final transaction price*

The negotiated outcome after structure, terms, and competition among buyers. Transaction structure can also affect the final outcome. Deals often include elements such as:

- Rollover equity
- Earn-outs
- Management incentive equity
- Working capital adjustments

These components can materially affect the overall economics of a transaction, beyond the “headline number” of the offered price.

The Two Numbers Where Buyers Focus

Buyers usually begin their evaluation with two financial metrics: Revenue and EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization).

Revenue

Revenue reflects the scale of the business. It also is a metric to determine the historical performance of a company (indicated by growing, declining or flattening top-line trends in revenue).

Larger companies often attract broader buyer interest because they have more infrastructure and operational depth. To some degree, more revenue can suggest a higher level of durability and maturity of a company, which can positively impact the multiple for a given business.

However, revenue alone rarely determines valuation.

EBITDA

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION, AND AMORTIZATION

Buyers typically focus on EBITDA, which represents operating profitability before financing and accounting adjustments. EBITDA serves as the starting point for most acquisition valuations; knowing this number is critical for interacting with buyers.

How Buyers *Actually* Calculate EBITDA

The EBITDA from your internal financial statements is rarely the final number buyers use. Buyers (and sellers) often adjust EBITDA to estimate the company's true operating performance. These adjustments are commonly referred to as **add-backs**.

> EXAMPLE
>
> **Revenue:** $50,000,000
> **Reported EBITDA:** $7,500,000

Buyers review expenses to determine whether adjustments are appropriate.

Common EBITDA Adjustments

1 *Owner compensation adjustment*

Owners oftentimes pay themselves above or below market compensation. Under new ownership, the buyer will normalize this amount.

EXAMPLE

Owner compensation: $1,200,000
Market replacement salary: $450,000

Adjustment to EBITDA: +$750,000

2 *Personal or discretionary expenses*

Privately held companies sometimes include expenses that are not required to operate the business.

Examples may include:

- Personal travel
- Non-critical family payroll
- Family vehicles
- Discretionary consulting arrangements
- Membership dues or fees

These items are often evaluated as potential add-backs to the EBITDA number.

3 *One-time expenses*

Buyers also review costs that are unlikely to recur.

Examples may include:

- Legal settlements
- Facility relocation costs
- Unusual consulting projects

Adjusted EBITDA Example

Item	Amount
Reported EBITDA	$7,500,000
Owner compensation adjustment	+$750,000
Discretionary expenses	+$180,000
One-time legal expense	+$120,000
	$8,550,000

Buyers usually will apply valuation multiples to an agreed upon adjusted EBITDA, not the reported number.

The Role of a Sell-Side Quality of Earnings Review

Before committing capital, most buyers will hire an accounting firm to review and validate the company's financials, and confirm how those earnings are calculated. This review is commonly known as a Quality of Earnings analysis, or QoE.

While buyers will typically perform their own diligence, sellers often choose to commission a sell-side QoE before launching a transaction process. This analysis is typically prepared by independent CPA firms with transaction expertise.

A sell-side QoE provides a detailed review of the company's financial performance, including:

- Validation of EBITDA and potential adjustments
- Analysis of revenue recognition and margin trends
- Review of customer concentration
- Examination of working capital patterns

Preparing this analysis in advance can help professionalize the process and give buyers greater confidence in the company's financial reporting. In many cases, the work also identifies EBITDA adjustments that may not have been fully reflected in internal financial statements. When those adjustments are applied to a valuation multiple, the impact on enterprise value can often exceed the cost of the analysis itself.

Just as important, addressing financial questions early can make the diligence phase more efficient and help reduce surprises once buyers begin their review.

In many middle-market transactions, particularly those involving private equity buyers, a sell-side QoE has become common practice in preparing the business for market and presenting a clear financial story to potential buyers.

What Actually Drives Valuation

Business owners often associate valuation multiples with their specific sector. And for good reason: industry dynamics play a role in how buyers evaluate a business.

Certain sectors tend to attract stronger buyer demand than others. Industries with consistent growth, recurring demand, and favorable long-term trends often see broader interest from both strategic buyers and private equity investors. When multiple buyers are actively pursuing companies in the same sector, that demand can translate into stronger valuation multiples.

Industry conditions can also shift over time. Changes in technology, regulation, supply chains, interest rates, or broader economic cycles can create tailwinds or headwinds for different sectors. As a result, valuation levels in a particular industry may rise or fall depending on market conditions at a given point in time.

While industry context matters, buyers ultimately focus more closely on the characteristics of the individual business. Companies with strong leadership teams, diversified customers, consistent financial performance, and clear growth opportunities often attract stronger interest regardless of the broader industry averages.

In addition to industry classification, there are several factors that consistently influence valuation.

1 *Company scale*

Larger companies often attract more buyers.

This broader buyer universe often leads to stronger interest, offers and purchase price.

2 *Customer diversification*

Buyers review customer concentration carefully.

They often analyze the top ten customers and their share of revenue. Each buyer may have a different threshold for concentration risk (for example, many investors will pass on businesses that have 15% revenue concentration from a single customer or two).

Diversified customer bases generally reduce perceived risk.

3 *Leadership team*

Buyers expect a management structure capable of operating the business after the owner exits.

Companies with experienced leadership teams often attract stronger interest. Documenting the company's organizational chart with key roles and responsibilities helps communicate the depth and breadth of the management team; ultimately, buyers will want to meet and evaluate key members to help codify the team's ability to operate and grow into the future.

4 *Revenue visibility*

Predictable revenue streams tend to increase buyer confidence.

Repeat business and long-term customer relationships can contribute to stability. Some industries are project-based by nature and have difficulty demonstrating recurring revenue; in these instances, repeat customers can help signal a strong and stable revenue mix for future periods when true recurring revenue is absent.

5 *Growth opportunities*

Buyers often evaluate whether the business can grow through:

- Geographic expansion
- Additional services (revenue synergies)
- Operational improvements (cost synergies)
- Acquisitions

Growth potential can influence how buyers evaluate future earnings by providing confidence in the company's ability to perform beyond the transaction.

Five Things That Quietly Reduce Valuation

In the same way that valuations can increase, there are instances where a company's value can be reduced. These discounts often stem from issues the buyer perceives as a risk. Fortunately, many of these risk factors can be addressed with focused preparation.

1 *Leadership gaps*

When the owner handles most strategic and operational decisions, buyers may question the company's ability to perform without them. In both founder-led and family enterprises, the owner often has key customer relationships, industry IP, and/or control of key processes and decisions.

Owner dependency is a red flag for buyers looking to scale and expand a company. Businesses with defined leadership roles and secondary depth can attract stronger offer and valuation ranges.

2 *Heavy customer concentration*

Buyers often review the top ten customers and their respective revenue share.

Customer	Revenue Share
Customer A	22%
Customer B	14%
Top 10 Customers	61%

Buyers evaluate the stability of these relationships carefully. Every buyer has a different threshold for what constitutes a customer concentration risk; however, an M&A standard is to view any customer generating ~15% as "concentrated" and 20%+ as "high risk". With preparatory work, there are ways to mitigate the risk of concentration, such as long term contracts or multiple points of contact/buying units within the key customer relationship.

3 *Financial reporting challenges*

Buyers expect clear financial reporting, which is indicative of an accurate and professional finance function. They will request:

- Monthly financial statements
- Margin trend visibility
- Documentation of EBITDA adjustments
- Customer-level metrics
- Sales and go to market performance
- Inventory and asset management

Limited or inconsistent reporting can slow diligence and affect buyer confidence, leading to a discounted view of a company's overall health to operate and grow.

4 *Limited growth*

Companies with flat performance may still attract buyers, but the buyer pool may be narrower. Growth can vary by stage of the company and the lifecycle of an industry, but buyers commonly look at a blended growth rate across a two- or three-year period to signal future earnings potential. Demonstrating a widening available market, and the ability to execute, offers confidence in the future trajectory of a company.

5 *Operational complexity*

Businesses relying heavily on undocumented processes or informal systems may appear harder to scale. Defined systems and processes often increase buyer confidence, as it reduces the risk around key institutional knowledge that is hard to transfer or activate. Playbooks, process maps and protocols help underscore the stability of current, and future, operations.

Why Similar Companies Sell for Different Prices

Two companies may generate similar revenue and EBITDA, but sell for different prices.

Factor	Company A	Company B
Management team	Established leadership	Founder dependent
Customer base	Diversified	Concentrated
Financial reporting	Consistent	Limited visibility
Growth trajectory	Expanding	Flat
Estimated valuation	~7.5 x EBITDA	~5 x EBITDA

Buyers generally pay more when earnings appear predictable and operational risk appears lower.

The Role of Buyer Competition

Buyer competition can significantly influence transaction outcomes. Within an auction process, owners can gain leverage from the competitive tension and interest of pursuing multiple buyers.

When multiple buyers evaluate the same opportunity:

- Initial offers may increase
- Deal terms and overall structure may improve
- Timelines may accelerate

Compared to a single unsolicited offer or buyer conversation, structured sale processes help create broader buyer interest and allow owners to evaluate multiple options.

CHAPTER 9

The First Valuation Conversation

What Owners Usually Learn in the First 15 Minutes

When owners begin discussing valuation, the conversation often starts with a few practical questions.

What Does the Business Actually Earn?

The first step is determining normalized EBITDA.

Once that number is clear, a preliminary valuation range becomes easier to estimate.

How Dependent Is the Business on the Owner?

Buyers evaluate how the company operates day to day.

They look for leadership capable of managing the business after closing.

How Concentrated Are the Customers?

Buyers often review the top ten customers and their share of revenue.

They focus on the stability of those relationships.

What Does the Growth Story Look Like?

Buyers consider where earnings may go next.

They evaluate historical growth, expansion opportunities, and market dynamics.

What Does the Owner Want From a Sale?

Some owners plan to retire.

Others want to remain involved and grow the business alongside a partner.

Those priorities often shape how a transaction is structured. Most transactions will require the owner (and key management) to remain with the company through a transition period, which is reflected in the financial structure of the deal.

Closing Thoughts

Understanding how buyers evaluate businesses can help owners approach these conversations with clearer expectations.

Valuation reflects more than a formula. It reflects financial performance, leadership depth, customer relationships, growth prospects, and how the opportunity is presented to buyers.

Many owners begin exploring these questions years before they ultimately decide to sell. That time can be valuable. It allows owners to strengthen financial reporting, deepen the leadership team, diversify customers, and position the company more effectively for the market.

Even a short conversation can often provide a helpful perspective.

Owners frequently find that an initial discussion helps answer a few practical questions:

→ *How would buyers likely view the business today?*

→ *What factors might influence valuation the most?*

→ *Are there steps that could strengthen the company before exploring a sale?*

In many cases, the most productive next step is simply gaining an informed view of the business from a buyer's perspective. That understanding can help owners make better decisions about timing, preparation, and long-term planning for the company they have built.

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