

Calculating the Value of Your Business

This form will help you calculate an estimated value of your business. To complete the form just input all of the numbers that are relevant to your business in the appropriate fields and it will automatically calculate your estimated business value. If you need to better understand what to input into one of the fields you may skip down to the instructions below the form, which will show you how to value a business in three steps.

Business Revenue (Yearly)	
Business Expenses (Yearly)	
Add-Backs:	
Owner's Salary	
Owner's Travel or Perks	
Family Member's Salary in Non-Essential Roles (or Salary Above Average of Position)	
Leisure Activities (Company Outings, Parties, or Retreats)	
Charitable Donations	
Personal Purchases on Business Tax Return (Like an Owner's Personal Vehicles)	
Non-Essential Business Travel	
One-Time Expenses (Like Expenses to Sell the Business)	
Seller's Discretionary Earnings (SDE)	
Multiplier	
Value Before Assets/Liabilities	
Other Business Assets:	
Owned Real Estate Value	
Estimated Value of Furniture, Fixtures & Equipment	
Current Cash on Hand	
Current Accounts Receivable	
Current or Average Inventory	
Any Other Assets	
Current Business Liabilities	
Business Estimated Value	



How to Value a Business in 3 Steps

Step 1: Calculate Seller's Discretionary Earnings (SDE)

Most experts agree that the starting point for valuing a small business is to normalize or recast the business' earnings to get a number called **Seller's Discretionary Earnings (SDE)**. SDE gives you a good idea of a business' true revenue potential, that you can then use to estimate the value of the business.

Small businesses report expenses on their tax returns with an eye towards reducing their tax burden. For this reason, using revenue numbers from a business' tax return can underestimate how much revenue the business actually produces.

SDE gives you a better idea of the business' true revenue potential by adding back in expenses listed on the tax return that are not necessary to run the business. It also adds back in the owner's salary and one-time expenses that are not expected to recur in the future. This increases the net income of the business and gives you a good idea of its true profit potential.

According to Wayne Quilitz, [President of business brokerage firm Murphy Business and Financial Corporation](#), here are some examples of things that would be added back into the net income reported on the business' tax return to calculate SDE:

- Owner's salary and perks
- Family members on payroll
- Non-cash expenses such as depreciation and amortization
- Leisure activities, such as business golf outings
- Charitable donations
- Any personal expenses, such as the purchase of a personal vehicle, that were noted as expenses on the business tax return
- Business travel that's not essential to running the business.
- One-time expenses that are unlikely to recur after the sale of the business, such as the settlement of a lawsuit

In general, one-time expenses and anything that's not essential to running the business should be added back to the business' income to calculate SDE.

Step 2: Find Out the SDE Multiplier

Generally, businesses sell for somewhere between 1 and 3 times SDE. This is called the SDE multiple or multiplier. Finding the right SDE multiple is really more of an art than a science because it varies based on industry and geographic trends (market risk), company size, the business' tangible and intangible assets, independence from the owner (owner risk), and many other variables.

The biggest factor influencing the SDE multiple is usually owner risk. If the business is highly dependent on the owner, it cannot be easily transferred to new ownership, and the business' valuation will suffer. Market risk is also important. If you're buying or selling a business in an industry and/or area that is expected to grow in the near future, the SDE multiple will be higher.

You can find out the approximate SDE multiple to use by looking at BizBuySell's media insights [quarterly report](#). BizBuySell provides multiples for different industries based on reported business sales data (after clicking the link above, scroll to the very end of the page and look at the far right column in the last table to see the SDE multiple for each industry. It's called cash flow on BizBuySell but is the same thing as SDE). For a more personalized estimate of the multiple, you can also consult a business broker or appraiser.

Step 3: Add Other Business Assets and Subtract Business Liabilities

The final step of how to value a business is to account for business assets and liabilities that aren't already included in the SDE multiple. Most small business sales take the legal structure of an "asset sale." The purchaser is buying a bunch of assets or things that make up the business. Typically, the seller retains liabilities. What is purchased will vary from sale to sale.

Intangible assets of a business (e.g. goodwill, reputation, trademarks, etc.) are typically included in the SDE multiple. Similarly, inventory and fixtures, furnishings, and equipment (FFE) are usually accounted for in the SDE multiple. However, according to Wayne Quilitz, "SDE multiples from different databases may include different assets in valuing a business." For example, a popular database called [BizComps](#) does not include inventory in its SDE multiples, so inventory must be added into the valuation separately.

Other assets like real estate (if the business owns any property), accounts/receivables, and cash on hand are generally not included in the SDE multiple. These assets should be added into the valuation separately (as shown below) if you are purchasing them. The final step to calculating the value of a business is to subtract any liabilities that are included in the sale, such as debt and interest payments (as shown below).

Final Business Valuation Formula

SDE * Industry Multiple
+ Real estate
+ Accounts/receivables
+ Cash on hand
+ Any other assets not included in the SDE multiple
- Business liabilities
= Business' Estimated Value

For a quick estimate, you can also use our [Business Valuation Calculator](#).