

## Ask a VR Intermediary



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### How Much Should My Business Sell For?

**Louis Foster**  
Lincoln, NE

Dear Louis.

Whether you're a buyer or seller, the question, "How much is this business worth" is equally relevant and extremely important. Keep in mind that this cannot be answered easily since both sides usually have contrasting opinions.

Coming to terms on an offer that both sides can agree with can be a challenge. This is where fair market value comes into play. When you meet with a VR business intermediary, you will be able to determine a fair market price by examining the comparables.

### Formulas Used to Determine a Fair Market Price

No matter what someone thinks a business is worth, the proof is in the sales comparable. Book formulas are one thing, and real life is another. The first question is what should you look at?

**There are two categories:**

- **Price- to- GAS (Gross Annual Sales); and**
- **Price-to-SDE (Seller's Discretionary Earnings).**

Any VR business intermediary can compare a target business to what similar businesses have sold for by researching these two ratios.

### Size Matters in Pricing

It is important to keep in mind that the size of the business is an important factor.

*Smaller Businesses* are dependent on the owner working the business long hours. They are usually not as stable and thus more risky, and there are many more of these available. Therefore, they usually sell for smaller multiples.

*Larger Businesses* usually have much more appeal, they are often more stable, and there are less available. Thus they command a higher multiple.

### Other Factors to Consider

It is important that you also review what the average SDE (or profit) margin is. This one you have to calculate by dividing the SDE by the Gross Sales. The reason this number is important is because if a target business you are comparing has a significantly different profit ratio than the average business, comparing the Price-to-SDE and the Price-to-GAS will give significantly different values.

### Every Business is Different

Whether you're buying or selling a business, you must realize that no comparison or formula is cut in stone.

Some factors account for much of these variances such as:

- Location;
- Leases;
- Assets;
- Length of ownership;
- Validity of books and records; and
- Buyers reason for buying.

More importantly, two different buyers looking at the same business may have two entirely different opinions of the value of the company.

### **Knowing a Party's Motivation**

Remember, if a buyer or seller is not motivated, then no price is going to make sense. If they are motivated, the price becomes secondary.

This is apparent when you look at the way mid-market businesses are usually marketed. Most of the time, they are marketed without a price. The seller may state a range they are looking for, but the price is not fixed. The price will eventually be determined by the motivation of the buyer and the seller at the time an offer is presented and accepted.