HOW BUSINESSES ARE VALUED WHEN THEY'RE SOLD

How buyers put a price on a business, using earnings multiples, revenue multiples and assets, with worked examples.

TYPE: GUIDE REVIEWED: NOVEMBER 2026 TIME: 10 MINUTES LEVEL: INTERMEDIATE

AT A GLANCE

- Most profitable small businesses are valued as a **multiple of earnings**: what the business earns each year, times a number based on risk and growth.
- Small owner-run businesses often use **SDE** (seller's discretionary earnings). Larger businesses usually use **EBITDA**. Fast-growing tech companies are often valued on **revenue**.
- Multiples vary widely by industry, size, risk and market conditions. A valuation professional or experienced broker can give you a real range.

Why it matters

Knowing how buyers think about value helps you see what increases your price, and spot offers that are too low. Small changes in earnings or risk can change the price by a lot.

Three common approaches

Approach	Used for	How it works
Earnings multiple	Most profitable small and medium businesses	SDE or EBITDA × a multiple
Revenue multiple	Fast-growing tech and subscription businesses	Yearly revenue or ARR × a multiple
Asset value	Businesses with little profit, or asset-heavy ones	The value of equipment, inventory, real estate, minus debts

SDE: for owner-run businesses

Seller's discretionary earnings = profit + the owner's salary and benefits + certain one-time or personal expenses run through the business (called **add-backs**).

EXAMPLE

Marisol's taquería shows **$120,000** in profit. She pays herself **$60,000** in salary, and there were **$10,000** of one-time costs (a legal dispute that's settled). Her SDE is **$190,000**. If similar businesses sell for around **2.5 times SDE**, her business might be worth about **$475,000**. These numbers are illustrative only.

EBITDA: for larger businesses

EBITDA is profit before taxes, interest, and accounting adjustments, after paying a market salary to management. Buyers apply a multiple that's usually higher for bigger, steadier, faster-growing businesses.

EXAMPLE

Rosa's cleaning company has **$400,000** in EBITDA. If a buyer offers **5 times** EBITDA, the business value is about **$2,000,000**. If she can show $500,000 in EBITDA next year with the same multiple, the value would rise to about **$2,500,000**. Again, illustrative only.

What moves the multiple

Raises the multiple	Lowers the multiple
Growing earnings	Shrinking or uneven earnings
Recurring revenue and contracts	One-time sales
Many customers	Customer concentration
A team that runs it without the owner	Owner dependence
Clean, reviewed financials	Messy books
Strong market position and brand	Easy to copy
Larger size	Very small size

Price vs. what you take home

The headline price isn't what you keep. It may be reduced by:

- **Debt** the business owes
- **Working capital** adjustments
- **Seller financing** paid over time, and **earn-outs** paid only if targets are hit. See **X-07 Letters of Intent and Purchase Agreements**.
- **Fees** to brokers, lawyers and accountants
- **Taxes.** See **X-10 Taxes When You Sell**.

Common mistakes

- **Using a friend's sale price** as your benchmark.
- **Overstating add-backs.** Buyers check them.
- **Ignoring how deal terms** change the real value.
- **Not getting a professional valuation** before negotiating.

Your checklist

- ☐ Calculate your SDE or EBITDA for the last 3 years
- ☐ List add-backs with proof
- ☐ Research typical multiples for your industry with an advisor
- ☐ List the factors raising and lowering your multiple
- ☐ Consider a professional valuation

Key words, explained

Word	What it means
SDE	Profit plus owner pay and certain add-backs.
EBITDA	Profit before taxes, interest, and accounting adjustments.
Multiple	The number earnings or revenue is multiplied by to estimate value.
Add-backs	Personal or one-time expenses added back to show true earnings.

Where to go next

- **X-04 Getting Your Business Ready to Sell**
- **R-15 Valuation: What Your Business Is Worth to Investors**
- **X-10 Taxes When You Sell**

IMPORTANT
This guide is general education from the Project Underdogs Founder Library. It is not legal, tax, accounting, immigration or investment advice, and it is not an offer of investment or a promise of funding. Figures are general examples and ranges, not quotes. Rules change and every business is different, so check your situation with a qualified professional. Full terms: LIB-03 Disclaimer and Terms of Use.