

# How Much Is My Company Worth?



## Focus On Earnings

The most common measure is **EBITDA** – Earnings Before Interest, Taxes, Depreciation, and Amortization.



**EBITDA is an attempt to measure cash flow from the business on an apples-to-apples basis.**

Because a buyer may have a different tax rate and a different capital structure, they exclude your unique tax rate and interest payments. Similarly, depreciation and amortization are non-cash expenses, and companies may have varying accounting policies regarding how items are depreciated or amortized, so buyers typically look at earnings before these non-cash expenses.

## Calculate EBITDA

In order to calculate EBITDA start with your net income before corporate taxes, add back your interest expense, depreciation, and amortization, if any, to arrive at EBITDA.

**EBITDA =**

Net Income Before Corporate Taxes



Interest Expense



Depreciation



Amortization

## Adjusted EBITDA

Starting with your financial statement EBITDA, you must adjust for expenses that won't occur under a new owner, such as over-paying your family members working in your business, that one-time legal expenses. There are many others, and it takes a thorough review of your financials to prune out these unusual or non-operating expenses or income items.

## Rule of Thumb Valuation Formula

For smaller businesses, applying the table multiple below provides a rough estimate of what your business may be worth. **Caution:** this "rule of thumb" type estimate provides an average price based on an average characteristics within its industry and size parameters. In reality, there are many other factors that can drive a price significantly higher, or lower.

Total Enterprise Value (TEV)/EBITDA - By Industry & EBITDA Size

EBITDA MULTIPLES BY INDUSTRY & EBITDA SIZE						
Industry	\$0- 1M	\$1M - \$5M	\$5M - \$10M	\$10M - \$25M	\$25M - \$50M	\$50M +
Manufacturing	4.0x	6.0x	6.3x	7.0x	7.3x	10.0x
Construction & Engineering	3.5x	4.5x	5.5x	6.3x	8.0x	9.0x
Consumer Goods & Services	4.3x	6.0x	6.5x	7.0x	7.5x	8.0x
Wholesale & Distribution	4.0x	5.3x	5.5x	5.5x	7.0x	7.3x
Business Services	4.0x	6.0x	6.3x	7.0x	8.0x	8.5x
Basic Materials & Energy	3.0x	4.0x	6.5x	6.5x	-	-
Health Care & Biotech	2.5x	6.3x	4.8x	6.5x	8.5x	10.0x
Information Technology	4.5x	5.5x	6.8x	7.0x	9.0x	10.0x
Financial Services	4.5x	5.0x	6.3x	8.5x	8.5x	10.0x
Media & Entertainment	5.0x	6.0x	7.0x	8.5x	9.0x	10.0x
Average	3.9x	5.5x	6.1x	7.0x	8.1x	9.2x

Source: Pepperdine University 2020 Private Capital Markets Report