



**ONTARIO COMMERCIAL GROUP**

BUSINESS SALES & ACQUISITIONS | COMMERCIAL REAL ESTATE | FINANCING  
KHALED BARANBO, BROKER

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# BUSINESS VALUATION WHITEPAPER

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Whether you are in the process of selling your business, planning to sell, or simply wanting to know the steps involved, this guide from Ontario Commercial Group has you covered.

Every business owner wonders what their business is worth, and sometimes, because of personal attachment or various other reasons, owners incorrectly value their business as being worth more than they actually are. The truth is, businesses are only worth what a buyer will pay for it, which is why it is imperative to enlist the services of an impartial party, like a business broker.

The best tool to obtain maximum selling price is a formal business valuation. Without a professional valuation, a business owner must be prepared to defend his opinion of value.

For over 20 years, our team has accurately valued hundreds of businesses, guiding businesses owners through each step of the process. Our depth of experience coupled with a vast knowledge of valuation will result in an expert opinion of value, delivered in a responsive, timely and efficient manner.



# SMALL/MID-SIZED BUSINESSES TYPICALLY DEPEND ON FOUR KEY VALUE FACTORS:

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- 01** Seller's Discretionary Earnings (SDE)
- 02** Risk
- 03** Terms of Sale
- 04** Industry



# SELLER'S DISCRETIONARY EARNINGS

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The main factor in determining value for small and mid-sized businesses is the total cash flow benefiting the owner, also known as *Seller's Discretionary Earnings (SDE)*.

SDE is calculated using the following six categories:

- 01** Profit or loss as reported
- 02** Owner's Salary
- 03** Discretionary Expenses
- 04** Non-recurring Expenses
- 05** Non-cash Expenses
- 06** Interest Expenses
- 07** Expenses not included in the P&L

Once these categories are added together and an SDE is developed, a multiplier is applied. The multiplier can range from one to five (or more), depending on many factors, to arrive at the appropriate value for the business.

# RISK

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The second valuation factor is the level of risk. Factors in this category include:

- Years in business and with the current owner;
- Profit trend;
- Quality of books and records;
- Franchise membership;
- Brand recognition/strength;
- Level of competition;
- Dependence on current owner;
- Strength and tenure of employees;
- Diversification of customer base;
- Lease length and terms; and
- Asset value





# TERMS OF SALE

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This is the one source of value that the business seller can almost completely control. Components of the terms include:

- Down payment;
- Interest rate;
- Monthly payment;
- Non-compete agreement; and
- Seller training of buyer

The majority of sales require the seller to provide some level of financing to the buyer of the business. With seller financing, the seller receives part of the purchase price at the time of the sale (“the down payment”) and the remainder over several years. The buyer uses the cash flow from the business to pay off the debt. Structuring a sale with attractive terms can significantly increase the value of a business.



# INDUSTRY

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Certain businesses are valued at five (or more) times the seller's discretionary earnings while others are only valued at one times the SDE. An important reason in determining the multiple of SDE is the industry of the business. Certain industries are more desirable than others. Factors influencing desirability include:

- The fun and ease of operating the business;
- Location;
- Facilities;
- Employee relations;
- Operating hours; and
- Growth potential.



A hand holding a pen over a calculator and documents, symbolizing business valuation.

# VALUING YOUR BUSINESS

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# VALUING YOUR BUSINESS

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To estimate the value of your business, so you can then, in turn, sell for the best price point possible, business brokers will consider all of the above factors, as well as the selling prices of comparable businesses, and other factors unique to your particular business that may make it more valuable.

Business brokers will use a few different calculation methods to determine value. Some of these valuation approaches are:

- Asset Approach
- Market Approach
- Income Capitalization Approach

Business brokers may use one, or a combination of a few methods to develop an accurate valuation.

## ASSET APPROACH

The asset approach, which may be the most common approach, uses the asset value to determine overall worth. Asset value will include anything that produces a cash flow within the business.

## MARKET APPROACH

The market approach utilizes the marketplace to attach value. Under the market approach, we analyze current and future industry predictions, historical data, and market trends to assign value to your business.

## INCOME CAPITALIZATION APPROACH

Under the income capitalization approach, business brokers will use the company's ability to generate economic benefit to determine worth. This appraisal method is used to predict future income, which is based on historical data, company records and some assumptions.

Thank you for your interest in our support with one of the most important business decisions of your life – the sale of your company. As a Business Intermediary and a member of the International Business Brokers Association, our specialty is mediating transactions of privately held companies between \$250K and approximately \$10M.

On a daily basis, we are involved in assisting business owners in the planning, valuation, confidential marketing, negotiation and ultimate closing of transactions of small to medium sized privately-held businesses.

If you're considering selling or would just like to have a handle on what your business is worth, contact us for a no-obligation estimate and consultation.

**KHALED BARANBO, B. COM, CM&AA, CBI, CPES, CFC**  
**BROKER | CERTIFIED M&A ADVISOR | CERTIFIED BUSINESS INTERMEDIARY**

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