How PE Values Your Business

- Understanding EBITDA and the basic valuation math
- EBITDA adjustments: what are they?
- Understand what drives price up and down



EXIT CAMP

IMPORTANT NOTICE

This guide is for general educational purposes only. It does not constitute transaction, valuation, investment, legal, tax, or accounting advice, and it does not create an advisory relationship between you and True Bearing LLC.

Every business and every transaction is different. Valuation multiples, EBITDA adjustments, and deal terms depend on facts specific to your company, your market, and your buyer. CoolCo and all figures in this guide are fictional examples meant to illustrate concepts. They are not estimates of what any real business is worth.

Before making decisions about selling your business, responding to a buyer, or signing any agreement, consult qualified professionals who can advise you on your specific situation. That typically means an investment banker or M&A advisor, a transaction attorney, and a CPA.

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SECTION 1

EBITDA in Plain English



When a private equity buyer looks at your business, the first number they look for isn't your sales or your profit. It's **EBITDA**, short for Earnings Before Interest, Taxes, Depreciation, and Amortization.

The name is a mouthful, but the idea is simple. **EBITDA measures your company's capacity to generate cash from its day-to-day operations:** running service calls, installing systems, collecting from customers, and paying your techs and suppliers.

So how do you figure out your EBITDA?

It's simpler than it sounds. You start with **net income**, which is the profit your accountant shows on your financial statements. To get net income, your accountant subtracts all the costs of running your business from your sales.

But remember, a buyer is interested in the cash-generating power of your day-to-day operations, not strictly the accounting profit your company earns. So, PE buyers will actually add back four categories of expenses to arrive at an EBITDA figure for your company. Two of them, **interest** and **taxes**, depend on how you own and finance the business, not how well you run it. The other two, **depreciation** and **amortization**, aren't even cash out the door. They're paper costs your accountant records for wear and tear and for soft assets you bought.

Why buyers leave out those four items

- **Interest:** Your loans are yours, not the buyer's. They'll pay them off when the deal closes and use their own financing.

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- **Taxes:** Your tax bill depends on how your business is set up and your personal situation. The buyer's will be different.
- **Depreciation:** Your trucks and equipment lose value on paper each year, but no cash actually leaves the bank for it.
- **Amortization:** The same idea as depreciation, but for soft assets you paid for, like a customer list you bought from a competitor or a "won't compete" agreement from a business you acquired. Most owner-built businesses that have never bought another company have zero amortization.

COOLCO EXAMPLE

Let's see how it works: CoolCo

CoolCo is a Nashville heating, plumbing, and electrical company with $25 million in yearly sales. Its financial statements show $2.2 million in net income. CoolCo has never bought another company, so its amortization is zero. Here's how a buyer gets to EBITDA:

Net income	$2,200,000
+ Interest on truck loans and line of credit	$250,000
+ Taxes paid by the company	$150,000
+ Depreciation on trucks and equipment	$650,000
+ Amortization	$0
= EBITDA	**$3,250,000**

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OK, that was easy. So why is it important?

Buyers determine a purchase price for your business by using a multiple of EBITDA. They pick that multiple based on what they see other companies like yours selling for in the market. A buyer wants to pay a multiple just high enough to beat out the competition, but not so high that they can't earn a good return when they sell the business later.

So for CoolCo, if a buyer decides that 8 times EBITDA is a fair price, that works out to:

$3,250,000 EBITDA × 8
= $26,000,000 purchase price

So they hand you $26 million, you toss them the keys, and everyone has the best day ever! **But wait, we haven't even begun to play the game yet.**

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SECTION 2

EBITDA Adjustments: What Are They?

Now let's talk about adjustments. Not the chiropractor kind, the EBITDA kind.

Your net income, interest, taxes, depreciation, and amortization are what they are. Your accountant reports them following strict accounting rules, so there's rarely any wiggle room.

But adjustments are where the real value game is played. As the owner, you can propose adjustments, and the buyer can propose adjustments of their own. So how does it work?

COOLCO EXAMPLE

Owner adjustments: raising EBITDA

Let's say CoolCo bought a truckload of air handlers from a new supplier and installed them in customers' homes. Later, CoolCo discovered a manufacturing defect that required unscheduled service calls on every unit, costing CoolCo $85,000 out of pocket.

CoolCo could argue that the $85,000 was just an unusual, one-time expense and could propose adding that $85,000 back to EBITDA, for an adjusted EBITDA of $3,335,000. At the buyer's proposed multiple of 8, that one adjustment raises the selling price by $85,000 × 8, or **$680,000!**

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COOLCO EXAMPLE

Buyer adjustments: lowering EBITDA

On the flip side, let's say your spouse works as the company's bookkeeper but doesn't take a salary. A buyer will see that as a job they'll need to fill with someone drawing a real salary of $65,000. The buyer would likely propose a downward adjustment of $65,000 to EBITDA, which reduces the purchase price by **$520,000.**

This tug-of-war over EBITDA adjustments adds up to real money. It's an area where you, your accountant, and your advisors should really dig in and focus on the details. Here are the adjustments owners and buyers most often argue over:

Common EBITDA Adjustments

What owners try to add back
Personal vehicles, phones, and travel paid by the company
Family members on payroll who don't work in the business
One-time lawsuit settlements or legal fees
One-time repairs, like storm damage or defective equipment callbacks
Moving to a new shop or opening a new location
Owner salary above what a hired manager would cost
Club memberships, donations, and other owner perks
Consultants or fees for a project that won't repeat
Startup costs for a new service line that isn't fully up and running

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What buyers try to discount
Owner salary below what a hired manager would cost
Family members working for free or below fair pay
Under-market rent paid to an owner who also owns the buildings
One-time gains, like selling old equipment or an insurance payout
Repairs and upkeep put off that a new owner will have to pay for
Raises needed to bring tech pay up to market and keep the team
Customer discounts or deals that won't last after the sale
Costs the owner covers personally that the business will need to pay, like his own health insurance
Warranty or callback costs that keep coming back, not one-time

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COOLCO EXAMPLE

Putting it together: CoolCo

Here's how a typical set of adjustments might play out for CoolCo, including the two examples above:

Adjustment	EBITDA	Price at 8×
Starting EBITDA	**$3,250,000**	**$26,000,000**
PROPOSED BY THE OWNER		
+ Defective air handler service calls (one-time)	$85,000	$680,000
+ Owner's personal truck and family phones	$40,000	$320,000
+ Country club membership paid by the company	$18,000	$144,000
+ One-time lawsuit settlement	$110,000	$880,000
+ One-time cost of moving to a new shop	$45,000	$360,000
Owner's view of EBITDA	**$3,548,000**	**$28,384,000**
PROPOSED BY THE BUYER		
- Spouse working as bookkeeper with no salary	($65,000)	($520,000)
- Owner salary below what a hired manager would cost	($125,000)	($1,000,000)
- Under-market rent paid to the owner, who also owns the buildings	($60,000)	($480,000)
- One-time gain from selling old equipment	($35,000)	($280,000)
Adjusted EBITDA after both sides	**$3,263,000**	**$26,104,000**

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So, significant value can change hands during this important part of the negotiation, and you'll need to back it up or risk losing it.

How buyers check your adjustments

Every adjustment has to be proven. Before closing, the buyer will usually hire accountants to go through your books in detail. You'll hear this called a **quality of earnings review**. Any add-back you can't back up with receipts, payroll records, or invoices will likely get thrown out.

And be careful not to overreach. Stretching your add-backs is one of the fastest ways to lose a buyer's trust, and once that trust is gone, they'll question everything else you tell them.

THE LESSON

Know your adjustments in both directions before a buyer finds them. An owner who walks in with a clean, documented list controls the conversation. An owner who doesn't is negotiating against the buyer's list.

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SECTION 3

What Moves Your Multiple Up or Down



Many factors influence the range of EBITDA multiples a buyer will apply to your business. In general, though, they boil down to five categories:

1	**Growth** Is it consistent, or did you just have a good year?
2	**Margins** Are they predictable and under your control?
3	**Retention** Do your customers keep coming back, or do you constantly have to fight for new ones?
4	**Moat** Do you have a lasting advantage over competitors in your market?
5	**Risk** Are there things, like key employees or supplier relationships, that could cripple the business if they went away?

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DON'T OVERLOOK THIS

One more factor: your management team

Buyers also look hard at the people who run your business day to day. A strong, stable team that can run the company without you is one of the biggest drivers of value in any deal, and a weak one is one of the most common reasons buyers lower their price.

It's a big enough topic that we don't cover it in this guide. Exit Camp walks you through how buyers size up your team and how to get your people ready.

COOLCO EXAMPLE

Making your case

Let's say the buyer comes in at 8 times EBITDA and backs it up with, "Well, that's what we just paid for Desert Comfort Kings in Arizona, and they were the same size as you."

But you step back and point out that you've grown six of the last seven years, and you're taking share from competitors on the strength of your brand and your 5,000 five-star Google reviews. You haven't had to hire many new office staff to support that growth, so your margins go up with each new dollar of sales. You have 60% of your customers on recurring maintenance plans, and two months of sold jobs already on the books.

That makes you a premium business compared to Desert Comfort Kings, whose owner only sold because he was retiring and his kids weren't interested in the business. You make the case that the buyer should be willing to add another "turn," which is what buyers call one more times EBITDA. That's another **$3,263,000** on the price.

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COOLCO EXAMPLE

The buyer pushes back

On the flip side, the buyer might point out that fuel prices are expected to rise sharply over the next several years, which will cut into your margins. That might cause the buyer to dial the price back by a whole turn, or part of one. Half a turn alone is worth more than **$1.6 million.**

Here's a quick way to see where your business stands in each category:

Growth	
Could support a higher multiple	Steady growth year after year; gaining share from competitors
Might hurt the multiple	One big year that looks like a fluke; sales flat or shrinking

Margins	
Could support a higher multiple	Margins rising as sales grow; pricing you control
Might hurt the multiple	Margins that swing year to year; costs you can't control, like fuel or equipment prices

Retention	
Could support a higher multiple	Lots of customers on maintenance plans; repeat customers and referrals
Might hurt the multiple	Most sales come from one-time jobs; heavy spending on ads just to stay even

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Moat
Could support a higher multiple Strong local brand; top online reviews; a well-trained, stable team
Might hurt the multiple Competing mostly on price; few reviews; easy for a competitor to copy

Risk
Could support a higher multiple A management team that runs the business without the owner; many suppliers to choose from
Might hurt the multiple The owner does the selling and estimating; one key tech, supplier, or builder accounts for much of the business

SECTION 4

Putting It All Together



Let's look back at what we've covered. A buyer's price for your business comes down to one simple formula:

Adjusted EBITDA × Multiple = Purchase Price

It looks simple. But as you've seen, every part of that formula is up for negotiation:

- **EBITDA** starts with your net income and adds back four costs that don't reflect the cash power of your day-to-day operations.
- **Adjustments** are the tug-of-war. You propose add-backs, the buyer proposes discounts, and every dollar either way gets

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multiplied.

- **The multiple** depends on how the buyer sees your growth, margins, retention, moat, and risk, the strength of your management team, and how well you make your case.

COOLCO EXAMPLE

Here's what that means for CoolCo

Scenario	EBITDA × multiple	Price
Owner's best case: all his add-backs, premium multiple	$3,548,000 × 9	$31,932,000
After both sides' adjustments, owner wins the premium argument	$3,263,000 × 9	$29,367,000
Buyer's first offer	$3,250,000 × 8	**$26,000,000**
After both sides' adjustments, buyer wins the fuel-cost argument	$3,263,000 × 7	$22,841,000

Same company. Same trucks, same techs, same customers. **A difference of more than $9 million**, depending on how well each side understands the game and argues its case.

The buyer has done this dozens of times. They have accountants, attorneys, and deal teams who negotiate adjustments and multiples for a living. Most owners do this once in their life.

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About the Author

Doug Milner has spent 40 years as an operator, including roles as a private equity–backed CEO and as an operating partner. Along the way, he has helped lead more than $2.5 billion in company exits, in roles from CEO to division president.

Today, as founder of True Bearing LLC, Doug advises management teams on value creation strategies in the context of a private equity investment hold period. He created Exit Camp to give business owners the playbook that buyers already have.

NEXT STEP

That's Why We Built Exit Camp

This guide covered how buyers value your business. But price is only part of the story. What you actually take home also depends on how the deal is structured, what you agree to in the letter of intent, and how you handle the buyer's review of your business.

Exit Camp is an online course that walks you through the entire process, from the first phone call to closing day, using CoolCo as a real-world example. You'll learn how to:

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- Get your numbers and adjustments ready before a buyer ever sees them
- Make the case for a higher multiple
- Understand deal terms that can quietly cut what you take home
- Handle a buyer's tough questions with confidence

The buyer has done this 50 times. You've done it once.
Exit Camp evens the odds.

Enroll today – just $299

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