

DealStats CASE STUDY

How an experienced business intermediary used comparable transactions to provide a real-world listing price for her client's business

One of the top reasons businesses don't sell quickly is an unrealistic asking price, and it can be difficult to convince a business owner to temper expectations when they place additional sentimental value on the company they built and operated for years. To help bridge the gap between owner expectations and the market, business intermediaries often use comparable transactions to give clients an objective, real-world benchmark. Kate, a business intermediary based in Miami, FL, had success using this approach recently with a business listing.

The Challenge

In early 2018 Kate was contacted by John, an owner of a successful sign manufacturing business in Florida which he established 24 years ago. While John loved his business, he was ready to retire and start traveling with his wife. He knew that he wanted to sell his business, but like most owners, he didn't know what it was really worth.

From their conversation Kate could quickly gather that John held a lot of pride in building his company and was reluctant to let it go. He had very high expectations. From her nearly 15 years of experience selling businesses, Kate knew that sign manufacturing companies generally sold for around 0.5x times annual revenue and 3.0x seller's discretionary earnings (SDE). She also knew that it was going to be important to show real data to John—as well as to any potential buyers—to help support her listing price.

Top reasons **80%** of businesses don't sell when marketed ...

1. Unrealistic seller valuation expectations
2. The owner did not take time to perform exit or succession planning
3. The owner did not utilize the professional services of a business intermediary

Source: Survey of business brokers and M&A advisors listed on floridabizbroker.com



Search...

DealStats by SIC code 3993:
Sign Manufacturing
companies.

200+

sold sign manufacturing
companies were listed in the
DealStats platform.

\$1-3 million

a year in revenue helped Kate
narrow the comps down to
just 38 sold companies.

0.52x

 was the
median selling price/revenue
multiple.

3.1x

 was the median
selling price/SDE multiple.

The Solution

An objective benchmark listing price helps set the right client expectations from the beginning, and avoids placing Kate in an adversarial position. Luckily, Kate is part of BVR's **DealStats Contributor Network**. Every year she contributes anonymized sold business data to DealStats and in exchange receives free access to the platform which allows her to see important financial data on 34,000+ sold businesses in hundreds of industries.

To derive her benchmark, Kate first searched DealStats by SIC code 3993, the industry code for sign manufacturing. This yielded approximately 200 sold sign manufacturing businesses. Next, because John's business is making approximately \$2,000,000 a year in revenue, Kate narrowed her search to companies with revenue between \$1,000,000 and \$3,000,000 a year, leaving her with 38 sold companies. She then further narrowed her search to transactions that occurred in the past 24 months, which gave her a comparable company set of 8 transactions.

Conclusion

Kate reviewed the financial statistics provided from the DealStats platform and found that the median selling price/revenue multiple was 0.52x and the median selling price/SDE multiple was 3.1x. John's sign manufacturing company had annual revenues of \$2,000,000 and annual SDE of \$360,000. Based on the multiple of revenue and the multiple of SDE, a benchmark selling price for John's business was between \$1,040,000 and \$1,116,000.

Kate was able to share this benchmark with John early on in their conversations and it helped frame the process in practical, unsentimental terms so they were able to establish a reasonable listing price and move forward quickly.

About Business Valuation Resources

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