7 Factors That Drive Business Valuation

A guide to maximizing the multiple your business will sell for

THE TURN BUSINESS ADVISORS

Welcome

If you're reading this, you've probably started to think about what selling your business might look like.

For most owners, it doesn't start with a plan—it starts with a question:

- "What is my business actually worth?"
- "What would a sale even involve?"

The answers aren't always as simple as they seem.

This guide is meant to give you a clear, straightforward look at how buyers evaluate businesses, what drives value, and where things tend to shift once a process begins.

The goal is to provide clarity so you can understand your options and think about the next step the right way.

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IMPORTANT:
Before Reading

Most business owners assume their business value is just a multiple of profit.

You've probably heard some version of it before- take your earnings, apply a multiple, and that's roughly what your business is worth.

And at a high level, that's not wrong.

But in real transactions, that number is rarely that simple.

And this is where many owners get caught off guard—because the number they have in mind and the number a buyer is willing to support aren't always the same.

What actually happens is that buyers—and often lenders—start with that baseline and then begin adjusting it. They look at how reliable that profit is, how dependent the business is on the owner, how concentrated the customer base is, and how easily the operation can be transferred to someone else.

That's where valuations begin to move.

Two businesses with similar profit on paper can end up with very different outcomes depending on how those factors are interpreted.

Even the type of buyer matters. A hands-on operator, a strategic buyer, and a financially-backed buyer may all look at the same business and come to different conclusions about what they're willing to pay—and why.

So while multiples are often used as shorthand, they're not fixed.
They're influenced by how your business is perceived when someone else steps into your shoes and evaluates it as an investment.

The multiple isn't fixed—it's earned based on how your business is perceived.

WHAT IS
a Business Valuation

At a basic level, most small to mid-sized businesses are valued using a multiple of their cash flow.

Depending on the structure of the business, you'll typically hear terms like SDE (Seller's Discretionary Earnings) or EBITDA. Both are ways of representing the true earnings power of the business—adjusted to reflect what a new owner could expect to take from it.

From there, a multiple is applied.

So at a glance, the formula looks straightforward:

- Determine earnings
- Apply a multiple
- Arrive at a valuation range

That's the simple version—and it's a useful starting point.

It's also where most valuation conversations stop—and where misunderstandings tend to begin.

But in real transactions, that number is just the beginning.

Buyers don't simply accept the earnings figure at face value. They dig into how it's constructed, what's included, and whether it holds up under scrutiny.

Add-backs—expenses that an owner considers discretionary—are reviewed and often challenged. Some are accepted, some are partially accepted, and some are rejected entirely depending on how well they're documented and how reasonable they appear to a third party.

At a basic level, most small to mid-sized businesses are valued using a multiple of the At the same time, buyers are evaluating risk.

They're asking:

- Is this revenue consistent?
- How dependent is this on the current owner?
- Are there any vulnerabilities that could impact performance after the transition?

And beyond that, they're looking at sustainability—whether the current level of earnings is likely to continue once ownership changes.

All of this influences how that initial "earnings number" is interpreted—and ultimately what multiple a buyer is willing to apply.

Two businesses with the same profit on paper can sell for very different prices depending on how that profit is validated and how risky it appears to a buyer.

Key Points

✓ Valuation starts with a multiple of earnings—but that number is only a starting point, not the final answer.

✓ Buyers don't accept your numbers at face value—they validate, adjust, and often challenge how your earnings are calculated.

✓ Two businesses with the same profit can sell for very different prices depending on risk, sustainability, and how well the numbers hold up under scrutiny.

THE 7 DRIVERS THAT IMPACT What A Buyer Will Pay

At a high level, valuation comes down to how a buyer interprets two things:

- How reliable the cash flow is
- How risky it is to take over

The following drivers are what typically move that perception—and ultimately the multiple—up or down.

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1. Revenue Quality

Most owners think: Revenue is revenue.

If the top line is strong and growing, that should translate directly into value.
But buyers look at it differently.

They care less about how much you made—and more about how confident they are it will continue.

Recurring or contracted revenue is viewed very differently than one-off or transactional sales. A business with stable, repeatable income tends to feel more reliable than one that has to constantly re-win its customers.
Where value is gained or lost comes down to consistency.

The more predictable the revenue, the more confident a buyer can be in future performance—and that confidence typically supports a higher multiple.

2. Customer Concentration

From an owner's perspective, having a few large customers can feel like a strength.

From a buyer's perspective, it introduces a key question:

What happens if one of those customers leaves?

Even if that customer has been with you for years, a buyer still has to underwrite what happens if they're not.

If a meaningful portion of revenue is tied to a small number of relationships, the business becomes more fragile in the eyes of a buyer.

Buyers aren't just paying for performance—they're pricing in risk.

Higher concentration often leads to more conservative valuations, while diversified revenue tends to support stronger pricing.

3. Owner Dependency

This is one of the most common—and most impactful—factors in small to mid-sized businesses.

Many owners are deeply involved in operations, sales, or key relationships. While that may have helped build the business, it can create friction when it comes time to sell. If the business depends heavily on you, a buyer isn't just buying a business—they're inheriting a job.

From the buyer's perspective, that introduces uncertainty:

- Can the business perform without the current owner?
- How difficult will it be to replace that role?

The more transferable the business is—meaning it can operate without heavy owner involvement—the more attractive it becomes. When that dependency is high, buyers tend to discount for the additional risk and effort required.

4. Financial Clarity

Most owners have a general sense of their numbers.

Buyers expect something more precise.

Clean, organized financials build confidence. Messy or inconsistent financials create friction and slow down the process. More importantly, they make it harder for a buyer to fully trust what they're seeing.

This becomes especially important when it comes to add-backs.
There's a difference between what an owner considers discretionary and what a buyer—or lender—will actually accept.

Some adjustments are straightforward and well-supported. Others may be questioned or discounted if they're not clearly documented or don't appear to be truly non-recurring.

Where value is gained or lost here is in how well the financial story holds up under scrutiny. The clearer and more defensible it is, the easier it is for a buyer to get comfortable—and the stronger the valuation tends to be.

5. Growth Profile

Owners often look at what the business has done historically.

Buyers are focused on what it's likely to do going forward.

A business that shows consistent growth tends to attract more interest and stronger pricing. It suggests momentum and future opportunity. On the other hand, flat performance may still be attractive—but typically commands a more moderate multiple. Declining trends often raise concerns and can lead to more conservative offers.

It's not just about the numbers—it's about the narrative behind them.
Why has the business grown (or not grown), and what does that imply for the future?

Where value is gained or lost is in how that forward-looking picture is interpreted.

6. Systems & Operations

From the inside, many businesses run on experience, relationships, and "how things have always been done."

From the outside, buyers look for structure.

Businesses that have documented processes, defined systems, and clear workflows are easier to understand—and easier to take over. When operations rely heavily on informal knowledge or unwritten processes, it creates uncertainty around how the business will function post-transition.

Buyers generally place a premium on businesses that feel organized and repeatable. The easier it is to step in and operate, the lower the perceived risk.

7. Market & Positioning

Not all businesses are valued equally—even if their financials look similar.

Industry demand, competitive positioning, and overall market trends all play a role in how buyers evaluate an opportunity.

Some industries naturally attract more buyers due to stability, growth potential, or financing availability. Others may be viewed as more volatile or harder to scale, which can impact demand.

Within that, how your specific business is positioned matters:

- Do you have a clear niche?
- Are you competing on price or differentiation?
- Is there room to grow within your market?

Where value is gained or lost is often tied to how desirable the business feels within its space. Higher demand and stronger positioning tend to support stronger valuations.

Across all of these drivers, the common thread is perception.

It's not just what your business has done—it's how a buyer interprets the reliability, risk, and transferability of what you've built.

Key Points

- Valuation isn't driven by one factor—it's shaped by how buyers interpret the reliability, risk, and transferability of your business.
- Each of these drivers either increases or decreases buyer confidence—and that confidence is what ultimately moves the multiple.
- Strong performance alone isn't enough—how sustainable, diversified, and transferable that performance appears is what determines what buyers are willing to pay.

WHERE DEALS Actually Change

Up to this point, it’s easy to think of valuation as a range.

You look at your earnings, apply a multiple based on what you’ve seen in the market, and arrive at a number that feels reasonable.

And that number might not be far off—as a starting point.

But where deals actually take shape isn’t in that initial estimate.

It’s in how that estimate holds up once a buyer—and often a lender—begins to evaluate the business in detail.

This is where the gap tends to show up:

- The valuation you believe your business supports
- vs.
- The valuation a buyer can actually justify and get approved

One of the first areas this shows up is in add-backs.

On paper, certain expenses may feel clearly discretionary. But once they’re reviewed by a third party, they’re often evaluated more conservatively. If something isn’t well-documented, clearly non-recurring, or easily understood, it may be reduced—or removed entirely from the calculation.

At the same time, risk adjustments begin to take shape.

Things like customer concentration, owner involvement, inconsistent financials, or operational gaps don’t always stand out in an initial conversation—but they become more prominent as diligence progresses. Buyers begin to factor in what could go wrong, not just what has gone right.

Then there's the role of financing.

Even if a buyer is comfortable with a certain price, the deal often still needs to be supported by a lender. That introduces another layer of scrutiny. Lenders will look closely at cash flow, question assumptions, and ensure the business can realistically support the debt being used to acquire it.

All of this happens after expectations have already started to form.

Which is why this stage tends to be where deals shift—not at the beginning, but in the middle, when numbers are tested, assumptions are challenged, and risk is fully evaluated.

It's not uncommon for initial expectations and buyer-supported valuations to differ—sometimes significantly—based on how the business holds up under scrutiny.

For many owners, this is the point where the process becomes more complex than anticipated.

Key Points

- ✓ Your initial valuation is a starting point—but the real number is determined by what a buyer (and lender) can actually justify under scrutiny.
- ✓ Add-backs, risk factors, and financial assumptions are often adjusted during diligence—and those adjustments directly impact valuation.
- ✓ The biggest shifts in deals don't happen at the beginning—they happen in the middle, when numbers are tested and expectations meet reality.

THE HIDDEN FACTOR: Lenders

One layer that often gets overlooked in valuation discussions is financing.

Many business sales involve some form of third-party lending. Even in situations where a buyer is confident in the business and comfortable with a certain price, that deal often still needs to be supported by a lender.

And lenders don't evaluate deals the same way owners—or even buyers—do.

Their primary focus is simple:

- Can this business reliably support the debt used to acquire it?
- Is the cash flow stable, defensible, and sufficient under conservative assumptions?

That's where another level of scrutiny comes in.

Lenders will closely review the financials, often with a more conservative lens. Add-backs that seemed reasonable in earlier discussions may be adjusted or excluded if they aren't clearly documented or consistently justifiable. They're not evaluating best-case scenarios—they're underwriting risk.

They also look at how sensitive the business is to change:

- What happens if revenue dips?
- What if a key customer leaves?
- How dependent is performance on the current owner?

All of this feeds into whether the deal can be financed—and at what level.
In many cases, this ends up influencing not just whether a deal gets done, but how it gets structured. Purchase price, down payment, and terms can all shift based on what a lender is willing to support.

Even if a buyer is willing to pay a certain price, the deal still has to be supported by financing—and that introduces another layer of evaluation.

For many owners, this is a part of the process they don't fully see until they're already in it—when the numbers are no longer just being discussed, but formally tested.

Key Points

- ✓ A deal isn't just negotiated between a buyer and seller—it often has to be approved by a lender.
- ✓ Lenders evaluate cash flow more conservatively, often adjusting add-backs and assumptions to account for risk.
- ✓ Even if a buyer agrees on price, the final structure and terms are shaped by what the business can support under financing.

WHAT THIS Means for You

At a glance, valuation can seem relatively straightforward.

But as you've seen, small differences in how a business is presented and evaluated can lead to very different outcomes.

It's not just about the numbers themselves—it's about:

- How those numbers are constructed
- How they're documented
- How they're ultimately interpreted by a buyer and a lender

Two businesses with similar performance can end up in very different positions depending on how clearly their financials are presented, how well adjustments are supported, and how much risk is perceived in the transition.

Even subtle gaps—unclear add-backs, inconsistent reporting, or operational dependencies—can introduce hesitation. And hesitation often shows up in the form of lower offers, more conservative deal structures, or extended negotiations.

On the other hand, when a business is well-prepared—where the financial story is clear, the risks are understood, and the operation is transferable—it tends to move through the process with more confidence on the buyer's side.

That confidence matters.

Because ultimately, valuation isn't just determined by performance—it's shaped by how that performance holds up under scrutiny.

There's more nuance here than most owners realize until they're already in a deal.

Next Steps...

If you're curious how these factors apply to your business, the next step isn't just applying a generic multiple—it's understanding how a buyer would actually evaluate your specific situation.

A structured valuation can give you a clearer picture of where you stand today—and just as importantly, what could be improved before going to market. In many cases, small adjustments made ahead of time can meaningfully change how your business is perceived and what buyers are willing to pay.

If helpful, we're happy to take a look and walk you through it.

Dylan

Steve

Do You Need More Help?

Get Your Valuation

This is a no pressue, exploratory call to understand your situtation, your business, and what you're looking for.