

WHAT'S YOUR BUSINESS ACTUALLY WORTH?

A Practical Guide for Southern California Business Owners Considering an Exit

2026 EDITION

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Why I wrote this guide

If you've ever wondered what your business is actually worth - not what you hope it's worth, not what your accountant calculated, but what a real buyer would pay tomorrow - this guide is for you.

Most business owners I work with fall into three groups:

- The Curious: 5+ years from selling, but want to understand options early so they can make smart decisions about hiring, investing, or expanding.
- The Planners: 2-4 years from selling, actively positioning the business to maximize sale value when the time comes.
- The Ready: 0-18 months from selling, often triggered by retirement, partner conflict, health, or unsolicited buyer interest.

Wherever you are on that spectrum, this guide gives you the unvarnished truth about how business sales actually work in 2026 - what determines value, what kills deals, what current market multiples look like in your industry, and what to do next.

No fluff. No pitch. Just the data and the playbook.

"The single biggest reason owners leave money on the table at sale is that they didn't understand the value drivers two years before listing. By the time they did, it was too late to fix them."

Section 1 - How brokers actually value businesses

Forget what you've read on Investopedia. Real-world business valuation is simpler than most owners think - and more nuanced. Three core methods, used in combination.

Method 1: Multiple of Earnings (used 90% of the time for SMBs)

This is the workhorse. A buyer agrees to pay you a multiple of your annual earnings - usually expressed as 'X times SDE' or 'X times EBITDA.'

The formula: Sale Price = (Annual SDE or EBITDA) x (Industry Multiple)

Example: HVAC company with \$500,000 SDE x 3.5x multiple = \$1.75M sale price.

Method 2: Asset-Based Valuation

Used for asset-heavy businesses (manufacturing, distribution, equipment-intensive operations) where the value of inventory, equipment, real estate, and receivables exceeds the value of the operating cash flow. Less common for service businesses.

Method 3: Market Comparables

Look at what similar businesses sold for recently in your industry. Brokers pull comps from BizBuySell, Pratt's Stats, and DealStats databases. This validates the multiple-based valuation - if comparable HVAC companies sold at 3.2x-3.8x SDE last year, your price should land in that range.

How these combine in practice

A skilled broker triangulates all three to arrive at a defensible asking price. The earnings multiple gives the baseline. Asset value sets a floor. Market comps validate or challenge the multiple based on real recent sales.

Section 2 - SDE vs EBITDA: the most important number you'll calculate

Buyers don't care about your tax return. They care about how much cash this business throws off - adjusted for the way they'll run it. That number is either SDE or EBITDA.

SDE - Seller's Discretionary Earnings

Used for owner-operator businesses (typically under \$2M sale price). It assumes the buyer will replace the owner and run the business themselves.

SDE Formula:

- Net Income
- Plus owner's salary and benefits
- Plus owner's personal expenses run through the business (auto, phone, travel)
- Plus interest, taxes, depreciation, and amortization
- Plus one-time / non-recurring expenses
- Equals SDE

EBITDA - Earnings Before Interest, Taxes, Depreciation, Amortization

Used for businesses sold to private equity, strategic buyers, or any deal over ~\$3M. Assumes the buyer will keep the management team in place - so owner's salary is treated as a real expense, not added back.

EBITDA Formula:

- Net Income
- Plus interest, taxes, depreciation, and amortization
- Plus verifiable add-backs (not owner salary)
- Equals EBITDA

Why it matters

If your business does \$400K SDE as an owner-operator, and a strategic buyer values it on EBITDA after subtracting the cost of replacing your role at market salary, your number could drop to \$250K EBITDA. Same business, two valuations, different buyer pool. The right broker positions your business for the right buyer pool to maximize the multiple.

Reported vs. adjusted earnings

Your tax return shows reported earnings - what you paid taxes on. Buyers want adjusted earnings - what the business really earns once you strip out personal expenses, owner perks, and one-time costs. The gap between reported and adjusted is where most valuation disputes happen during due diligence.

Common legitimate add-backs:

- Owner's salary above market replacement cost
- Personal vehicles run through the business
- Family members on payroll not actively working
- One-time legal or consulting fees
- Excessive owner travel and entertainment
- Personal cell phone and home internet
- Pandemic-era PPP forgiveness or one-time grants

Section 3 - Current 2026 market multiples by industry

These are the multiples real businesses are selling for in 2026, based on closed-deal data from BizBuySell Insight Reports, Pratt's Stats, IBBA Market Pulse, and direct broker-network data. Multiples vary based on size, growth rate, customer concentration, and recurring-revenue mix. They reflect closed transactions, not asking prices, and are current as of Q2 2026.

In Southern California specifically, deal flow has been concentrated in Los Angeles, Orange County, and the Inland Empire. Owner-operator buyers funded by SBA 7(a) and a small but active set of regional PE platforms are competing for the same shops, which has held multiples firm at the upper end of these ranges through early 2026.

Home Services (HVAC, Plumbing, Electrical, Roofing, Concrete)

Business size	SDE multiple	EBITDA multiple	Notes
\$200K-500K SDE	2.5x-3.2x	n/a (use SDE)	Owner-operator pool
\$500K-1M SDE	3.0x-3.8x	4.0x-4.8x	Best owner-operator returns

Business size	SDE multiple	EBITDA multiple	Notes
\$1M-2M SDE/EBITDA	3.5x-4.2x	4.5x-5.5x	PE interest begins
\$2M+ EBITDA	n/a	5.5x-7.0x	PE rollup territory

Value drivers in Home Services:

- Recurring service contracts (maintenance agreements drive premium multiples)
- Multi-truck operations with documented systems
- Owner not on the trucks (replaceable owner role)
- Strong technician retention (low turnover)
- Diverse customer base (no customer above 10% of revenue)

Med Spa / Aesthetic Services

Business size	SDE multiple	EBITDA multiple	Notes
\$300K-700K SDE	2.5x-3.5x	n/a (use SDE)	Solo or 2-provider
\$700K-1.5M SDE	3.5x-4.5x	5.0x-6.0x	Multi-provider, premium location
\$1.5M+ EBITDA	n/a	6.0x-8.0x	PE / strategic rollup territory

Value drivers in Med Spa:

- Subscription / membership revenue base
- Multi-modality services (laser, injectable, body, skin)
- Independent provider model with non-compete agreements
- Diversified service mix (not 80% one treatment)
- Strong online reviews and social media presence

Manufacturing

Business size	SDE multiple	EBITDA multiple	Notes
\$500K-1M SDE	2.8x-3.5x	n/a (use SDE)	Job shop / specialty
\$1M-3M SDE/EBITDA	3.2x-4.0x	4.5x-5.5x	Established mid-market
\$3M+ EBITDA	n/a	5.5x-8.0x	Strategic premium

Value drivers in Manufacturing:

- Long-term customer contracts (3+ year terms)

- Specialized capability or proprietary process
- Modern, well-maintained equipment
- US-based supply chain (reshoring premium)
- ISO or industry-specific certifications

Healthcare (Dental, Veterinary, Specialty Practices)

Practice size	EBITDA multiple	Notes
Solo practice	3.5x-4.5x	Owner-doc dependent. SDE methodology used for sub-\$500K solo practices.
Multi-provider \$500K-1.5M EBITDA	4.5x-6.0x	DSO-acquirable
\$1.5M+ EBITDA, multi-location	6.0x-9.0x	DSO / PE rollup territory

Value drivers in Healthcare:

- Multi-provider model (not single-doc dependency)
- Modern equipment and EMR systems
- Strong insurance contract mix
- Real estate ownership (often sold separately)
- Recall systems and recurring patient base

Source: BizBuySell Insight Reports Q1 2026, Pratt's Stats, IBBA Market Pulse Q4 2025, and closed-transaction data from the Transworld California broker network. Ranges represent typical closed deals; outlier transactions occur in both directions.

Section 4 - Seven ways to increase your sale price

Want a higher multiple? These are the levers that move the needle most. Some take 2 years to fix. Others can be addressed in 90 days.

1. Reduce owner dependency

If the business can't run without you for two weeks, buyers pay less. Document processes, hire a #2, transition customer relationships to your team. A business where the owner takes a month off without revenue dropping commands a 20-30% higher multiple.

2. Diversify customer base

Any single customer over 15% of revenue is a red flag. Over 25% is a deal-killer. Buyers price in the risk of losing that customer. If you have customer concentration, spend 12-18 months actively diversifying before listing.

3. Build recurring revenue

Recurring revenue (maintenance contracts, subscriptions, service plans, memberships) commands a 1.5-2x premium over transactional revenue. Even modest recurring revenue (15-25% of total) materially shifts the multiple.

4. Clean financials

Buyers pay more for businesses with audited or reviewed financials, clean QuickBooks, and clear separation between business and personal expenses. The cost of cleaning up books (\$5K-15K with a CPA) typically returns 5-10x at sale.

5. Document systems and procedures

A written operations manual signals transferability. Standard operating procedures (SOPs), employee handbooks, vendor lists, customer onboarding documents - these convert tribal knowledge into transferable assets.

6. Show multi-year growth

Three years of trailing revenue growth - even modest 5-10% per year - beats a flat or declining business at any size. If your business is flat, buyers ask why and reduce the multiple. Growing? Premium.

7. Strong technician / employee retention

Especially in trades, services, and healthcare - a buyer's biggest fear is your team walking after close. Long-tenured employees with non-compete or stay-bonus agreements add measurable value. Document tenure clearly in your CIM.

Section 5 - Five deal-killers in due diligence

Most deals don't fall apart over price. They fall apart in due diligence - when buyers find issues that weren't disclosed up front. Here are the five that kill deals most often.

1. Books don't match the tax return

The single most common deal-killer. Your QuickBooks shows one number, your tax return shows another, your bank deposits don't tie out to either. Buyers walk. Fix this BEFORE listing - get a Quality of Earnings report or have a CPA review your books.

2. Undisclosed customer concentration

You said your largest customer was 12% of revenue. Due diligence reveals it's 31%. Buyer concludes you misrepresented and walks. Always disclose concentration upfront - savvy buyers will discover it anyway.

3. Pending litigation or tax issues

Lawsuits, tax liens, employee complaints, regulatory investigations - anything pending must be disclosed. Buyers will pull your court records, IRS letters, and CCB or licensing records. If they discover something you didn't disclose, the deal dies.

4. Lease issues

Your business has 14 months left on a lease that the landlord won't extend. Or the landlord agrees to extend, but only at a 40% increase. Either way, the buyer's purchase math just changed materially. Address lease terms 18+ months before sale.

5. Key employee or vendor risk

Your top performer is your spouse, who's leaving with you. Or your single supplier just had a fire and won't be operational for 6 months. Single-point-of-failure risks must be disclosed and ideally mitigated before listing.

Section 6 - The sale process: what to expect

From the day you sign a listing agreement to the day the wire hits your account, the typical timeline is 6-12 months. Here's what happens and what your time investment looks like.

Phase 1: Pre-Listing (4-8 weeks)

- Broker valuation and pricing strategy
- Financial recasting and add-back documentation
- Confidential Information Memorandum (CIM) preparation
- Decision on sale process: open market vs. targeted outreach
- Your time: ~10-15 hours providing documents and answering broker questions

Phase 2: Marketing and Buyer Outreach (8-16 weeks)

- CIM distributed to buyer pool under NDA
- Initial buyer calls and management presentations
- Indication of Interest (IOI) and Letters of Intent (LOI) collected
- Best LOI selected, exclusivity granted to one buyer
- Your time: ~20-30 hours of management presentations and Q&A

Phase 3: Due Diligence (45-90 days)

- Buyer's accountant reviews 3 years of tax returns and financials
- Quality of Earnings (QoE) report typically commissioned

- Buyer's attorney reviews contracts, leases, employee files
- Operational due diligence: site visits, customer references, employee interviews
- Your time: ~30-50 hours of document production and Q&A

Phase 4: Definitive Agreement and Closing (30-60 days)

- Asset Purchase Agreement (APA) negotiated and signed
- Lender financing finalized (SBA or bank) - typically 60-90 days
- Working capital adjustment and earn-out terms set
- Closing day: documents signed, funds transferred, business changes hands
- Your time: ~15-25 hours of legal review and document execution

Common questions buyers will ask you

These come up early - in the management presentation - and again in due diligence. Have crisp answers ready, and you'll signal a transferable, well-run business. Stumble on them, and the multiple drops.

- Why are you selling? (Be honest. "Retirement," "health," and "next chapter" all work. "Business is declining" is fine if true; just say it.)
- What's your largest customer's percentage of revenue? (Have it ready - they'll verify in DD.)
- How long is your lease and what are the renewal terms?
- How dependent is the business on you personally? What would break if you took 4 weeks off?
- What are your top 3 employees making and how long have they been with you?
- What's the realistic growth path for the next owner? (Buyers want a plan, not just history.)
- Are there any pending lawsuits, tax issues, or regulatory matters?
- What's your seller-financing position? Will you carry a note? An earn-out?

Section 7 - How buyers finance the purchase in 2026

Understanding how buyers fund acquisitions matters because it directly affects what they can pay you, how much cash you get at close, and how the deal is structured.

SBA 7(a) Loans (most common for sub-\$5M deals)

- Buyer puts down 10% of purchase price
- SBA 7(a) loan funds 75-80%
- Seller note typically required for remaining 10-15%
- Approval process: 60-90 days (lender + SBA)
- Seller proceeds at close: 85-90% (rest as seller note paid over 5-7 years)

SBA 504 (for deals that include real estate)

When the seller is selling both the business and the building, the 504 program is often the better path. It pairs a bank first mortgage with a CDC second on the real estate, while the operating business is financed through 7(a). Lower buyer down payment, longer amortization on the real estate, and a cleaner separation between operating and property cash flows. Common in home services and manufacturing transactions in Southern California where the building is part of the deal.

Conventional Bank Financing

- Buyer puts down 25-35%
- Bank funds 65-75%
- Faster approval (30-45 days), no SBA red tape
- Typical for established buyers with strong personal balance sheets

Private Equity / Strategic Buyer

- Cash plus roll-over equity (you keep a minority stake)
- Used for \$2M+ EBITDA businesses in PE-active industries
- Speed of close: 90-180 days
- Typically a partial liquidity event with a second exit in 3-5 years

Seller Financing (when necessary)

- Used when buyer can't fully finance or to bridge valuation gaps
- Typical terms: 8-10% interest, 5-7 year amortization
- Earn-outs tie a portion of purchase to post-close performance
- Risk to seller: collection if buyer underperforms

2026 SBA update

SBA 7(a) lending is back in full swing after 2024-25 tightening. Lender appetite is strong, especially for asset-light service businesses with consistent earnings. SBA Express loans up to \$500K close in 30 days. SBA 7(a) loans up to \$5M are the workhorse for SMB acquisitions, and 504 has become the cleanest path for any deal with \$1M+ in associated real estate.

Section 8 - Five mistakes owners make selling their business

Mistake 1: Selling without a broker to save commission

Owners attempt FSBO sales to save 8-12% commission. Industry data show broker-represented businesses sell for 15-25% more on average - and close 3x more often than FSBO listings. The broker fee is paid for many times over by the price uplift.

Mistake 2: Listing before cleaning the books

Listing with messy financials means lower asking price, longer time to close, and 40%+ chance of dropping out in due diligence. Spend \$5K-\$15K on a CPA cleanup BEFORE listing. ROI is 10-20x at sale.

Mistake 3: Anchoring on a number without justification

"I want \$3M for it." Why? Because you saw a competitor sell for that, or your accountant calculated book value. Buyers don't care. They pay based on cash flow and risk. Anchor on what your specific cash flow times your industry multiple actually justifies.

Mistake 4: Not maintaining the business during the sale

Once a deal is in motion, owners often check out - revenue dips, customers leave, employees worry. Buyers see the slowdown in due diligence and renegotiate the price downward. Maintain or grow performance until close.

Mistake 5: Picking the wrong buyer

The highest offer isn't always the best deal. The right buyer has the financing capacity, the operational fit, and the cultural respect for your team. The wrong buyer can blow up in due diligence, fail SBA underwriting, or destroy what you built within 18 months. A good broker helps you evaluate buyers, not just price.

Section 9 - What to do next

If you're 5+ years from selling

- Start tracking SDE / EBITDA monthly using clean books
- Reduce owner dependency in operations
- Diversify customer concentration
- Build recurring revenue streams
- Document SOPs as you go
- Get a baseline valuation today, then again every 12 months

If you're 2-4 years from selling

- Engage a broker for a strategic valuation and exit roadmap

- Begin financial cleanup with your CPA
- Address any deal-killer issues identified above
- Build the management team that can run the business post-sale
- Position your customer base to reduce concentration

If you're 0-18 months from selling

- Get a current valuation immediately
- Engage a broker to run a structured sale process
- Commission a Quality of Earnings (QoE) review
- Maintain or grow business performance until close
- Don't sell yourself short - proper marketing typically increases price 15-25%

About Bryant Hoover

Bryant Hoover is a Senior Investment Advisor with Transworld Business Advisors, focused on the sale of small to mid-sized businesses (\$500K-\$5M sale price) and commercial real estate transactions across Southern California - Los Angeles, Orange County, and the Inland Empire.

His practice concentrates on home services, manufacturing, healthcare, and professional services - the same industries this guide covers. He works directly with business owners through every stage of the sale process: valuation, packaging, buyer outreach, due diligence, and closing.

Ready to talk?

If you're considering a sale - now or in the next few years - and want a confidential, no-pressure conversation about what your business is actually worth in today's market, here's how to reach me.

Free 30-minute valuation call

Book a confidential call to walk through your business and get a realistic valuation range based on current market conditions.

Schedule at: calendly.com/bryanthoover-tworld/valuation

Free online valuation tool

Get a quick valuation estimate in 5 minutes using the online tool. No call required.

Use it at: bryanthoover.com/valuation

Direct contact

- Email: bryanthoover@tworld.com

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If you're considering a sale, the conversation costs you nothing and tells you what you actually have. Reach out when you're ready.

This guide is for informational purposes only and does not constitute legal, tax, or financial advice. Specific business valuations require detailed analysis of your individual circumstances. Multiples and market data current as of Q2 2026 and subject to change.

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