

2026 Valuation Guide

How buyers price a business doing \$2M or more in revenue: the earnings they accept, what moves the multiple, and how competition sets the final number.

For owners of companies doing \$2M or more in revenue

Prepared by the Vanla Group team from transactions we have advised on. General guidance, not an appraisal of any business.

Most of the price is set before a buyer sees the business

Most owners start with a number they heard: a multiple a friend got, a figure from a trade show, a rule of thumb for the industry. Buyers start somewhere else.

They rebuild your earnings from the ground up, decide how much risk sits inside those earnings, and then look at who else is bidding. This guide walks through each of those steps the way our advisors do when we prepare a company for market, so that the first number you hear from a buyer is not the first time you have seen it.

1

The recast sets the base

Your tax return minimizes income. A buyer's model finds sustainable cash flow. The gap is where much of the price is decided.

2

Risk sets the range

The multiple measures how sure a buyer is that the earnings survive three years without you.

3

Competition sets the number

Several qualified offers in the same week settle the price higher in the range, sometimes above it.

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Earnings, as a buyer reads them

Buyers of companies doing \$2M or more in revenue price the business on adjusted EBITDA: earnings before interest, taxes, depreciation and amortization, restated to show what the company earns for an owner who is not you.

Your tax return was built to minimize taxable income. The buyer's model is built to find sustainable cash flow. The distance between those two numbers is the recast, and it is where a large share of the final price is decided before anyone discusses a multiple.

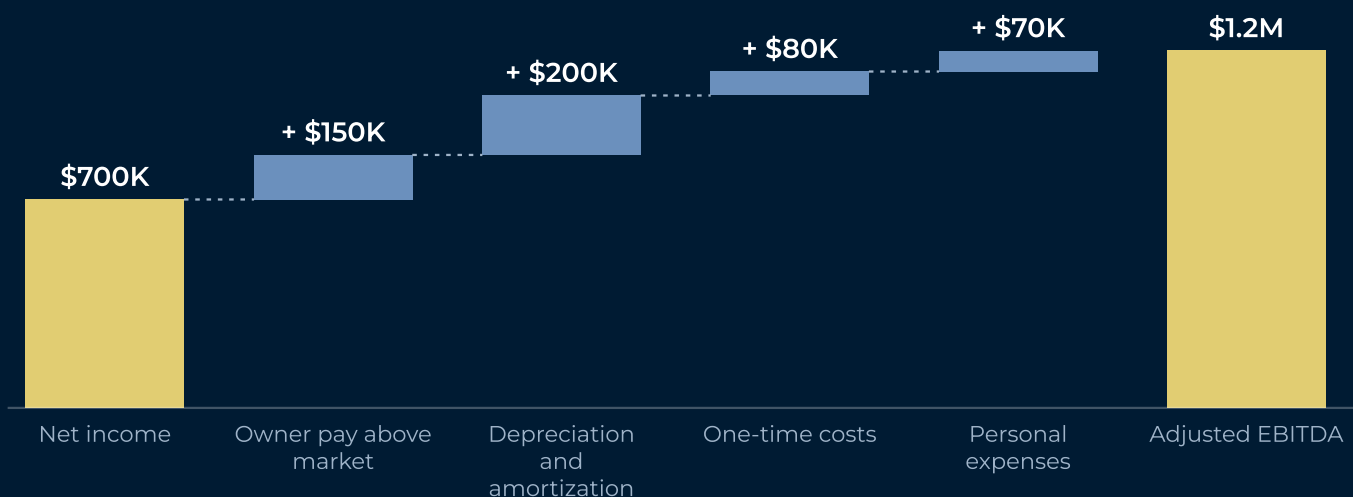
Owner compensation

If you pay yourself \$400,000 and a general manager who could do your job would cost \$180,000, the difference is added back. If you pay yourself \$60,000 and the same manager would cost \$180,000, the difference is subtracted. Buyers run this in both directions, and so do we. Family members on payroll are treated the same way: added back if they do not work in the business, adjusted to market rate if they do.

One time costs

A lawsuit settled last year, a recruiting fee for a role that is now filled, the cost of moving facilities, a consulting project that is finished: these are legitimate add backs if they are documented and will not recur. The test a buyer applies is simple. Would the next owner face this cost again in a normal year? If the answer is no, and you can show the invoice, it survives.

How a recast builds



The worked example later in this guide: \$700K of net income on the tax return becomes \$1.2M of adjusted EBITDA.

Add backs that survive a quality of earnings review

Buyers at this size commonly commission a quality of earnings review: an accountant's examination of your numbers that is narrower than an audit and far more skeptical. Here is how common adjustments tend to fare.

Adjustment	Usually survives	Why
Owner salary above market rate	Yes	Verifiable against payroll and a market replacement cost
Owner health insurance, vehicle, phone	Yes, if documented	Clearly personal, clearly traceable
Documented one time legal, recruiting or relocation costs	Yes	Invoice in hand, cause will not recur
Depreciation and amortization	Yes	Non cash by definition, but expect a question about replacement capital spending
Travel and meals labeled personal without receipts	Partly, or not at all	The reviewer cannot separate personal from business
Marketing labeled discretionary that the buyer will still need	No	If the spending produced revenue, it is a real cost
Rent below market paid to an owner's entity	Reversed against you	The buyer will pay market rent, so earnings go down
Projected savings from changes not yet made	No	Buyers pay for earnings they can verify, not for plans
Unreported cash revenue	No	Cannot be verified, and it raises questions about everything else

The rule our advisors use. If an add back would make you uncomfortable explaining it to the buyer's accountant, leave it out of the recast and mention it in conversation instead. An aggressive schedule that collapses in diligence costs more than the add backs were ever worth, because every other number is now in doubt.

The range, and what moves it

With adjusted EBITDA settled, the buyer applies a multiple. For established companies in the lower middle market, the multiple is a measure of risk: how confident the buyer is that the earnings will still be there in three years, under new ownership, without you. Six factors do most of the moving.

Size

Larger earnings attract more buyers, including private equity groups that will not look below a certain EBITDA floor. A different group of buyers is at the table.

▲ More EBITDA, more buyer types

▼ Below a buyer group's floor

Recurring revenue

Contracts, maintenance agreements, subscriptions and repeat customers give a buyer visibility into next year. Two companies with the same EBITDA can sit a full turn apart on this alone.

▲ Contracts and repeat customers

▼ Work won again every quarter

Customer concentration

A single account above roughly 20% of revenue gets noticed; above 30% it starts to shape the structure of the deal, often through an earnout.

▲ No account above 20%

▼ One account above 30%

Owner dependence

If the top relationships, pricing and supplier terms all live with you, the buyer is purchasing a business that changes the day you leave.

▲ Runs without you

▼ Key accounts are yours

Team depth

A second layer of management that can hire, quote, deliver and collect is what lets a financial buyer say yes without putting their own operator in on day one.

▲ A second layer of managers

▼ Every decision escalates

Growth

Three years of steady growth earns a premium. A decline in the most recent year invites hard questions about whether trailing earnings are the right base.

▲ Three steady years up

▼ A dip in the latest year

6x EBITDA

\$28M heavy industry engineering company, Texas

4.2x EBITDA

\$2.5M screen printing company, California

Two closed Vanla transactions. Size alone put a different group of buyers at each table.

A worked example

Take a hypothetical services company with \$9M of revenue. The tax return shows \$700,000 of net income.

The recast adds back \$150,000 of owner compensation above market, \$200,000 of depreciation and amortization, \$80,000 of documented one time costs and \$70,000 of owner personal expenses run through the business. Adjusted EBITDA is \$1.2M.

Now the range. Suppose comparable companies in this sector trade between 4x and 5.5x adjusted EBITDA. The company has one customer at 28% of revenue and the owner still handles the three largest accounts personally. Buyers will anchor toward the low end: 4x to 4.5x, or \$4.8M to \$5.4M, likely with an earnout tied to the large customer.

Take the same company two years later. The owner has hired a sales lead who now owns those three accounts, the large customer is on a three year contract, and revenue has grown 10% a year. Same industry, similar EBITDA, but the risk profile has changed. The same buyers now see 5x to 5.5x, or \$6.0M to \$6.6M, with more of it in cash at close.



Nothing about the product changed. The way the earnings are perceived did. The recast decides the base. The risk factors decide the range. Both are substantially in the owner's hands before any buyer is contacted.

Competition sets the price

Everything above produces a range. What settles the number inside that range, or occasionally above it, is how many qualified buyers are competing for the company at the same time.



One buyer

Prices against your alternatives, and if your only alternative is not selling, they know it. The first offer sits at the bottom of the defensible range, and every diligence finding becomes a reason to move it lower.



Three or four buyers, same week

Each one prices against the others, not against your patience. Terms improve alongside price: more cash at close, a smaller earnout, a shorter exclusivity period.

This is why we run every engagement as a process, across our network of 8,100+ buyers and the major marketplaces, rather than introducing one buyer at a time. In both deals below, the range was set by the earnings and the risk factors; the final number was set by buyers competing against each other.

Above asking

\$28M heavy industry engineering company, Texas

Above asking

\$2.8M marketing company, Florida

The trade off is real: a process takes longer to prepare than accepting an offer that is already on the table, and it asks for discipline in holding buyers to the same timeline. Most of our clients receive a letter of intent within 60 days of going to market, and most transactions close in 6 to 9 months. We think the weeks are worth it.

What to do next

1 Recast last year's earnings

The recast worksheet on our site turns seven numbers from your tax return into the EBITDA a buyer prices, then gives you a range for your industry.

[Open the recast worksheet](#)

2 Get your Exit Readout

A price range from six sources, the buyers whose stated criteria fit a business like yours, and closed deals near your size. About two minutes, with nothing to send and no call.

[Get your Exit Readout](#)

3 Have an advisor check the work

A confidential call where we go through your actual financials, test every add back and tell you where we would start the asking price.

[Book a confidential call](#)

The team behind this guide

Vanla Group is an M&A advisory firm and business brokerage for owners selling companies. We are paid a success fee at closing, with no retainer and no upfront fees.



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HR and PR Director



Nik Avendano
Operations Director

\$182M+

Closed, US and Canada

8,100+

Buyers in our network

6 to 9

Months to close, typical

Questions about your own business? Reply to the email this guide came with. A real person on our team reads every message.