

Business Valuation Readiness Guide

A practical guide for U.S. business owners preparing for a valuation, M&A process, or shareholder transaction

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This guide is for informational purposes only and does not constitute legal, tax, or investment advice. Each company is unique; consult a qualified professional before making transaction decisions.

1. Why Valuation Readiness Matters

A business valuation is never just a number. It is a story told with numbers — about historical performance, future potential, risk profile, and market comparability.

Small preparation gaps often become large valuation gaps. A missing contract, an unexplained revenue spike, or an under-documented add-back can delay diligence, invite price renegotiation, or kill a deal.

This guide helps you prepare before a professional valuation or a buyer's Quality of Earnings (QoE) review. It focuses on the questions we see most often in lower and core middle-market transactions: companies typically valued between \$5 million and \$150 million in enterprise value.

2. Normalizing EBITDA and Identifying Add-Backs

Most buyers value a company on a multiple of adjusted EBITDA. The first step is to separate owner-specific expenses, one-time events, and non-operating items from ongoing business performance.

- Owner compensation above/below market rates
- Discretionary travel, entertainment, or vehicle expenses
- One-time legal or professional fees
- Non-operating assets (e.g., real estate, vehicles) inside the business
- Extraordinary bad debt or one-time gains/losses
- Related-party transactions that will not continue

Rule of thumb: every add-back must be documented, defensible, and explained. If you cannot prove it, do not expect a buyer to accept it.

3. Documents Buyers and Valuation Professionals Will Request

Before a valuation begins, gather the records that support your numbers. A prepared seller shortens the process and signals professionalism.

- Last three years of financial statements (income statement, balance sheet, cash flow)
- Monthly or quarterly financials for the last 12-24 months
- Tax returns for the last three years
- Aging of accounts receivable and payable
- Inventory detail and obsolescence reserves
- Fixed asset register and depreciation schedule
- Customer list and revenue concentration analysis
- Employee roster, roles, and compensation summary
- Material contracts, leases, and debt agreements
- Insurance policies and litigation history

4. Common Red Flags That Reduce Value

Certain patterns will attract buyer scrutiny and, often, lower multiples. Address them before the process begins if possible.

- Customer concentration: one client generates more than 15-20% of revenue
- Revenue concentrated in a single supplier or distributor
- High owner dependence without a documented management team
- Inconsistent or declining gross margins
- Poor working capital management (e.g., extended receivables, aging inventory)
- Unrecorded or informal liabilities
- Material customer churn or revenue concentration risk
- Environmental, regulatory, or litigation exposure

5. Value Drivers That Increase Multiples

Value is not just about size. It is about quality, predictability, and transferability.

- Recurring or contracted revenue (subscriptions, multi-year agreements, repeat customers)
- Diversified customer base and end markets
- Strong, stable margins and visible unit economics
- Scalable operations with limited capital intensity

- Documented processes and a second-tier management team
- Proprietary technology, brands, or regulatory advantages
- Clean financial records and robust internal controls
- Clear growth path through new products, geographies, or channels

6. Valuation Methods at a Glance

A business valuation is not a single formula. Professionals choose the method that best fits the company and the purpose of the report.

- Income approach (DCF): Projects future cash flows and discounts them to present value. Best for stable, cash-generative businesses with predictable growth.
- Market approach (comparable transactions): Uses multiples from similar companies sold in the same sector. Best when reliable transaction data exists.
- Asset approach: Values the company's assets minus liabilities. Most relevant for asset-heavy businesses or liquidation scenarios.

Most valuation reports use a weighted blend of methods. The most common result for going concerns is a range of enterprise value, not a single point estimate.

7. Preparing for a Quality of Earnings (QoE) Review

A QoE analysis is one of the first things a serious buyer commissions. It tests whether your EBITDA is real, repeatable, and free of distortions.

- Reconcile management reports to tax returns and audited/reviewed statements
- Document revenue recognition policies and cut-off procedures
- Explain any unusual fluctuations in revenue, expenses, or working capital
- Calculate true EBITDA by removing one-time and non-operating items
- Analyze net working capital trends and seasonality
- Identify related-party transactions and confirm arm's-length terms

The goal of a QoE is not to find problems — it is to confirm the truth. The more transparent you are, the smoother the process.

8. Working Capital, CapEx, and Cash Flow Adjustments

Enterprise value is not the cash you will receive. Several adjustments sit between headline value and proceeds at closing.

- Net working capital peg: Buyers typically expect a normal level of working capital at closing. Surplus or deficit may adjust the price.
- Capital expenditures: Maintenance CapEx should be reflected in cash flow; growth CapEx should be modeled separately.
- Debt and debt-like items: Bank debt, deferred compensation, and seller notes are usually deducted from enterprise value to arrive at equity value.
- Transaction costs: Legal, accounting, QoE, and advisory fees reduce net proceeds.

9. 30-Day Pre-Valuation Action Plan

Use this checklist as a working plan with your CFO, accountant, or advisory team.

- Confirm the purpose of the valuation (M&A, shareholder transaction, tax, litigation, ESOP)
- Gather the last three years of financial statements and tax returns
- Prepare a clean trailing-twelve-month (TTM) EBITDA analysis
- List and document all owner-related and non-recurring adjustments
- Analyze customer concentration and revenue recurrence
- Review material contracts for change-of-control or termination clauses
- Compile employee and compensation data
- Identify all related-party transactions and assets inside the business
- Reconcile cash flows and bank statements to your accounting records
- Prepare a concise narrative explaining the business model, market position, and growth plan

10. When to Bring in an Advisor

You can do a great deal of preparation internally. But certain moments warrant professional support.

- You are considering a sale in the next 12-24 months
- Shareholders need a defensible valuation for a buyout or estate plan
- You have received an unsolicited offer and want to understand its fairness
- You need a formal opinion for tax, litigation, or ESOP purposes
- You want to compare your company's valuation to recent market transactions
- You are planning a cross-border transaction involving U.S. and European parties

Next Step

If you are a U.S. business owner considering a valuation, M&A process, or shareholder transaction, we are happy to provide a confidential, no-obligation conversation about your specific situation.

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