

30 Second M&A Newsletter Tracking Business Perks

Tracking Business Perks

Business owners take any number of discretionary benefits from their businesses, from standard items such as auto expenses, memberships, and insurance plans to extras like entertainment, vacations, or additional family members on the books.

Perks are a way for owners to be further compensated for their hard work. However, they can complicate valuing a business. When you're ready to sell your company, make sure you do one of two things:

- 1) reduce perks to drop money to the bottom line, or
- 2) maintain an excellent paper trail so you can clearly delineate which expenses are needed for operations and which are used as a tax write off.

Be aware that performing a job for "cash" for a client (cash that can't be tracked or proven) can diminish the value of your business. When preparing your business for sale, your advisors will normalize your financials to account for these extras. When perks are adequately documented, we can usually get the majority of their value accepted.

While valuing a business is not a straight calculation, buyers will use SDE (seller's discretionary earnings) or normalized EBITDA (earnings before interest, taxes, depreciation, and amortization) as a tool when arriving at their offer.

For example, a small Main Street business with an SDE of \$200,000 will typically sell at a 2.0 multiple: $\$200,000 \times 2.0 = \$400,000$ in value. A lower middle market business with EBITDA of \$2 million might sell at a 5.0 multiple, or \$10 million.

These are very general guidelines which can be influenced by any number of business factors or market conditions, but it helps show the importance of driving cash to the bottom line in the last few years before you sell. Your discretionary cash is multiplied in a sale, so talk to your advisors about the tax benefits / value tradeoff of certain perks.

Think how perks impact your total compensation and retirement needs, too. For example, if you're pulling \$200,000 as salary, you might think you can comfortably live off that amount in retirement income. But under closer examination, with the discretionary items included, you may actually have an income much higher than that. It's important to know how much you're truly taking out of the business.

Consider family benefits as well. For example, maybe your child works for the company as part-time social media support but receives a salary equivalent to a fulltime marketing manager. Adjustments will need to be made there, too.

Perks are a common way for owners to pull additional value from their business. However, when it's time to sell, your advisors need to be able to account for these items in detail.



[Sara Burden, President](#)
CBI, M&AMI, FMAS, FIBBA, CM&AP
678-277-9951 ext.11 sb@waldenbus.com

Walden Businesses at www.waldenbus.com
9040 Roswell Rd, Suite 410, Atlanta, GA 30350
Founding Member of [Cornerstone International Alliance](#)