Business Valuation Multiples

for $2-$6M Revenue Private Companies

WHAT THE DATA ACTUALLY SHOWS

Prepared by Rospex Holdings LLC

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Executive Summary Edition

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Understanding the Metrics: SDE vs. EBITDA

Valuation multiples are only meaningful when the denominator is defined clearly. Two metrics dominate small-company M&A, and confusing them is one of the most common sources of inflated-looking asking prices.

- Seller's Discretionary Earnings (SDE) = EBITDA + the normalized salary of one working owner. For an owner earning $200K, SDE is $200K larger than EBITDA for the same business.
- Because SDE is larger, the SDE multiple will always look lower than the EBITDA multiple on the same business. A seller quoting "5× cash flow" is likely quoting 5× EBITDA - which may be only 3.5× SDE.
- The $2-$6M revenue range straddles two valuation conventions: deals at the lower end (enterprise value under $2M) tend to be priced on SDE; deals at the upper end increasingly anchor to EBITDA.

> Key distinction for buyers: always confirm whether a broker's 'cash flow multiple' uses SDE or EBITDA as the denominator - and insist on a clean, normalized reconciliation before comparing to any benchmark.

What Closed Deals Actually Show

Multiple independent data sources converge on a consistent range. For privately held businesses with $2-$6M in revenue sold to individual or small strategic buyers, actual closed-transaction medians fall within the following bands:

Metric	Typical Median Range	Upper Range (Best Businesses)
SDE Multiple	2.8× - 3.65× (median ~3.3×)	Up to 4.0×-4.5×
EBITDA Multiple	3.5× - 4.5× (median ~4.0×)	Up to 5.0×-5.5×
Revenue Multiple	0.4× - 0.9×	Varies by industry margins

By industry, PeerComps closed-transaction data (77 transactions, $2M-$5M enterprise value, through May 2025) shows:

Industry	SDE Multiple	EBITDA Multiple
Manufacturing	3.30×	3.77×
Construction / HVAC / Mechanical	3.52×	3.94×
Distribution / Wholesale	3.63×	4.02×
B2B Specialty Services	3.69×	4.23×

At the upper end of the revenue band ($5M-$10M revenue), DealStats median SDE multiples rise to the mid-3s (~3.1×-3.9×) and EBITDA multiples rise to the mid-4s to low 5s (~4.2×-5.3×), reflecting the size premium effect.

The Expectation Gap: Why Brokers Quote 4×-5×+

Seller and broker asking prices of 4×-5×+ SDE are common. Some of this is optimism; some has a legitimate foundation. Buyers need to distinguish between the two.

Structural reasons the gap exists

- Asking multiples consistently exceed sold multiples by 0.5×-1.0× turns. BizBuySell data for wholesale/distribution shows a 3.36× median asking multiple vs. a 2.68× median sold multiple - a gap of 0.68× on the same businesses.
- Only 20-30% of listed small businesses ever complete a transaction. The primary reason for failure is overpricing (Morgan & Westfield). The 94% of-asking-price ratio reported by BizBuySell only counts businesses that actually sold.
- SBA 7(a) lending creates a hard ceiling. At current rates (~9.5-12% variable), a business with $500K SDE can support roughly $2.5M-$3M in debt at a 1.25× debt service coverage ratio, implying a maximum SBA-financed price of approximately 3.0×-3.5× SDE.
- Broker incentive structure: brokers earn success-only commissions (roughly 6-10% for $1M-$5M deals) and have an incentive to win the listing at any price - even an aspirational one.

When 4×-5× is actually supported by data

- Businesses at the upper end of the revenue band ($4M-$6M revenue, $5M+ enterprise value) genuinely trade higher. IBBA Market Pulse Q4 2025 shows the $5M-$50M EV segment averaging ~5.5× EBITDA vs. ~4.1× for $2M-$5M EV.
- PE roll-up add-ons trade at a structural premium of 1.0×-1.5× EBITDA over individual buyer transactions, because the acquirer captures synergies. In HVAC alone, PE grew from 8% to 23% of deals between 2023 and 2024 - and these transactions skew reported averages upward.
- Some manufacturing subsectors reach 4×-5×+ SDE at median. BizBuySell 2025 data shows Industrial/Commercial Machinery at ~4.20× and Rubber/Plastic Products at ~5.11× - confirming these are not theoretical ceilings for the right businesses.
- A seller quoting '5× cash flow' may be quoting 5× EBITDA and calling it SDE. On a $700K SDE/$500K EBITDA business, a $2.5M price is 5.0× EBITDA but only 3.6× SDE - both numbers are technically accurate.

What Moves Multiples - Key Drivers

Within any industry, the spread between the bottom quartile and top quartile of closed deals is typically 1.5×-2.0× SDE. The factors below explain most of that variance.

Factor	Direction	Estimated Impact
Owner / key person dependency	Compresses	Up to -50% of value; owner-dependent businesses achieve 3-4× EBITDA vs. 7-8× for independent ones
Customer concentration >30%	Compresses	-20-35% discount; above 40%, many buyers decline
Recurring vs. project-based revenue	Expands	+0.5×-1.5× EBITDA for strong recurring revenue base
Professional management depth	Expands	Businesses with independent management sell ~70% more than owner-operated (Value Builder data)
EBITDA margin >20%	Expands	+1.5×-2.0× multiple vs. single-digit margin peers
Revenue growth 15%+ (3 years)	Expands	+0.5×-1.0× EBITDA
Proprietary IP / defensible niche	Expands	+0.5×-2.0× EBITDA for patented processes or exclusive distribution
Revenue scale ($2M→$6M range)	Expands	~+0.5×-1.5× as business crosses from Main Street to lower middle market

> The compounding effect matters: a business that reduces owner dependency, adds recurring revenue, and demonstrates growth can realistically move from the bottom quartile (2.5× SDE) to the top quartile (4.0×+ SDE) of its industry - approximately doubling the proceeds at the same earnings level.

Practical Framework for Evaluating a Multiple

When a broker or seller quotes 4×-5× for a $2-$6M revenue business, the following four-step check clarifies whether the expectation is grounded in data or aspirational.

- Step 1 - Clarify the earnings definition: Is the denominator SDE or EBITDA? What owner compensation is assumed in the normalization? These questions alone can reveal apparent 'multiple inflation' of 1.0× or more.
- Step 2 - Match the right benchmark: Use DealStats or PeerComps for industry-specific closed-deal comparables, IBBA Market Pulse for directional trend, GF Data as a PE-buyer ceiling reference, and BizBuySell sector benchmarks for asking-vs.-sold comparisons.
- Step 3 - Quantify quality discounts: Apply explicit adjustments for owner dependency, customer concentration, and revenue type - these are the three factors with the largest documented impact on where within the range a deal closes.
- Step 4 - Translate into deal structure: When sellers insist on top-quartile multiples, buyers often mitigate risk through earnouts, seller notes, or working-capital adjustments rather than walking away. The multiple and the structure are interdependent.

Bottom Line

The evidence across multiple independent sources is consistent:

- For a typical \$2-\$6M revenue business, actual closed-deal SDE multiples cluster around 2.8×-3.65× with a median near 3.3×. The corresponding EBITDA range is 3.5×-4.5×.
- A 4×-5×+ SDE asking price is not supported by median closed-transaction data across any industry at this revenue level, but it can represent legitimate market reality for businesses at the upper end of the revenue band, in premium sectors, with strong recurring revenue and professional management.
- The expectation gap is structural - driven by asking-vs.-sold dynamics, broker incentive misalignment, and PE roll-up activity that selectively inflates certain data points.
- Buyers have measurable leverage: the 70-80% listing failure rate, the SBA debt service ceiling, and the decline in deal volume since 2022 all reinforce a buyer-advantage environment for average businesses in this range.

> The most important analytical discipline: always match the data source to the question. Closed-deal databases (DealStats, PeerComps) for benchmarks. Broker surveys (IBBA Market Pulse) for trend direction. PE data (GF Data) only as an upper-bound reference - not as a realistic target for individual buyers.

Full research report with detailed data and complete citations available upon request from Rospex Holdings LLC.

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