BVR
What It's Worth

2017/2018 edition

EXECUTIVE SUMMARY

The BVR
Private Company Value
BENCHMARK GUIDE

Data on the sales of companies by major industry

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Guide Overview

Merger and acquisition (M&A) activity reached record-setting highs in recent years. According to Bloomberg, buyers spent $3.8 trillion on M&A activity in 2015. This is the highest amount ever spent, surpassing the previous record set in 2007, before the financial crisis. The flurry of transactions can be attributed to a number of factors including buyers' optimism about overcoming concerns about political and financial instability, the Federal Reserve's decision to keep rates low, and slow economic growth. Large M&A deals make the news and excite investors, but what has the increased activity meant for the small to middle market?

The small to middle markets are the segments into which the majority of U.S. businesses fall. In fact, the most recent U.S. Census Bureau data find that 97.9% of all U.S. businesses have fewer than 20 workers. According to a report from the SBA's Office of Advocacy, "Small businesses continue to be incubators for innovation and employment growth during the current recovery. Small businesses play a vital role in the economy of the United States. They produced 46% of the private nonfarm GDP in 2008 (the most recent year for which the source data are available)."

These smaller private businesses include mom-and-pop shops, family-owned businesses, and startups, which are the playground for many private equity buyers. Business Valuation Resources (BVR), the leading publisher for the business valuation profession, publishes the most robust data on transacted small-to-medium private businesses in its *Pratt's Stats* private-company transaction database. *Pratt's Stats* contains complete financial details on sold private companies, with up to 150 data points per business acquisition. As of the date of this publication, *Pratt's Stats* contained financial details on more than 26,000 sold private companies.

Now, for the first time, we are presenting the *Pratt's Stats* data in aggregate in this publication. We are proud to provide this one-of-a kind reference to assist you in benchmarking the value of an individual small-to-medium-sized business within its industry and also compare a specific industry's financial metrics to other industries.

A primer, which follows this introduction, provides instructions on how to use the information in this book to benchmark the value of a business by looking at prices for which similar business were sold. Although this is not a business valuation methodology text per se, we have included additional information in a following chapter on the market approach to business valuation, which is one of three methods business appraisers traditionally use to value businesses. As part of the market approach, business appraisers utilize data sources such as *Pratt's Stats* in their analysis to determine the value of a business.

We have also included a private-company sales price index, titled "What's Your Company Worth?" on page 10. This index provides a snapshot of all the companies analyzed, segmented by industry, based on the ratio of their selling price to their revenue. Each industry bubble is scaled to represent the median and mean value of the selling price-to-revenue multiple.

This book was created for business owners, M&A advisors and brokers, private equity professionals, venture capitalists, investment bankers, wealth managers and consultants, students studying private-company sales, and any professional who has an interest in learning more about benchmarking a private company's value. The analysis includes:

- *A NAICS business sector compared to all other business sectors*. For example, the manufacturing sector (NAICS 31-33) compared to all other business sectors *except* manufacturing. You can benchmark your selected sector compared to other sectors to analyze the financial details pertaining to summary statistics, selling price multiples, profit margins, company types, sale types, and operating ratios.

- *A unique NAICS code compared to other companies in that NAICS code's sector*. For example, software publishers (NAICS code 511210) compared to all information businesses (businesses in the sector starting with "51") *excluding* software publishers. You can benchmark your selected six-digit code compared to other six-digit codes in the same sector to analyze the financial details pertaining to summary statistics, selling price multiples, profit margins, company types, sale types, and operating ratios.

> Each *Pratt's Stats* transaction is classified by industry using North American Industry Classification System (NAICS) codes; this classification assists readers in finding their industry of interest. A NAICS sector is a two-digit code and represents an industry type. For example, the manufacturing sector includes all six-digit NAICS codes that begin with "31," "32," and "33." The six-digit NAICS code is the most specific code and defines a unique business type. For example, NAICS code 311211 defines flour milling and is classified in the manufacturing sector because it begins with "31."

This book analyzes a total of 14,529 private companies acquired between 2006 and 2016 and reports the specific transaction details for a total of 2,997 acquisitions in the "Private Company Transaction Rosters" sections of the publication. Each "Private Company Transaction Roster" includes 12 of the most useful fields from the *Pratt's Stats* database:

- ID—this field identifies the unique transaction in the *Pratt's Stats* database;
- NAICS code;
- Target business description;
- State (U.S. state in which the business operated);
- Net sales (also referred to as revenue);
- Gross profit;
- Net income;
- Sale date;
- Selling price;

- Price to sales (also referred to as revenue to sales)—valuation multiple computed as selling price divided by sales;

- Price to gross profit—valuation multiple computed as selling price divided by gross profit; and

- Price to EBITDA—valuation multiple computed as selling price divided by earnings before interest, taxes, depreciation, and amortization.

To give readers an example of the transactions used in the analysis in this publication, the editors have chosen to include summary information of 20% of the overall transactions used in the aggregated analysis for each industry sector in the Private Company Transaction Roster (see Exhibit 4 in Chapter 1 for an example). Please note the following footnotes to the rosters:

> The summary tables, charts, and graphs in this publication include analysis of all 14,529 sold company transactions in the *Pratt's Stats* database from 2006 to 2016 whereas the roster only includes companies with a net sales range of $1 to $100 million, located in the United States, purchased by a private buyer (versus a public company), with valuation multiples less than 100 and not in the NAICS 92 sector (public administration).

As a result of these filters, some two-digit NAICS codes are not included in the roster but are included in the summary tables, charts, and graphs.

We hope you will find this publication to be a helpful tool as you benchmark the value of a small-to-medium-sized private company. We are committed to customer satisfaction and are available at info@bvresources.com for questions and comments about the material in this book.

Sincerely,

Adam Manson
Director of Valuation Data
Business Valuation Resources

How to Benchmark the Value of a Business

"What is a reasonable selling price for this business?" is a question that arises for many small business owners and others interested in pricing a business. To some degree, every business is unique, and therefore there are no formulaic one-size-fits-all models to determine value. If you are a business owner and want to know the value of your business and are interested in selling in the near future, your best option is to contact a skilled and trustworthy business broker who works in your area. Business brokers can be found using the International Business Broker Association's Find a Business Broker search tool. Not only can a business broker help price, market, and sell your business, he or she can also walk you through all the necessary paperwork and steps in the transaction. Business brokers, like real estate agents, work on a commission basis. Ultimately, your business is worth what someone will pay for it.

While generally accepted methodologies can be used to determine a business's value, such a determination is an opinion, and an appraiser utilizes his or her professional judgment, experience, and analysis to reach a conclusion. Business appraisers work on a fee based on the amount of time and analysis you require or desire.

But what if you want a general ballpark value of what a specific business is worth? One way to determine this is to look at how much others have paid for businesses similar to the one of interest relative to different earnings measures. We consider three financial metrics in this publication:

- *Revenues:* The total amount of money that is brought into a company by its business activities. Sometimes referred to as the "top line" and is prior to any expense deduction, including materials.

- *EBITDA:* An acronym for earnings before interest, taxes, depreciation, and amortization. These are the earnings of the business before the aforementioned expenses.

- *Seller's discretionary earnings:* One measure of earnings to an owner/operator of a business. This figure is calculated by adding owner's salary to EBITDA.

When benchmarking the value of a business, we compare the above earnings measures to selling prices of a similar business to create a ratio, also known as a business valuation multiple. Selling price to revenue (or selling price/revenue) is the selling price of the sold business divided by that business's revenue. If a benchmark company sold for $1,000,000 and it had yearly revenues of $2,000,000, we would say it sold for 0.50 times revenue ($1,000,000/$2,000,000). Said another way, the selling price/revenue business valuation multiple is 0.50. You can use this metric as an estimate or benchmark for a specific business's worth. For example, if a business had $3,000,000 in revenue and a 0.50 selling price/revenue business valuation multiple was selected from a benchmark company, you could estimate that business's worth to be $1,500,000 ($3,000,000 × 0.50).

But we don't typically look at one business sale in isolation. Rather, we consider a median valuation multiple for a group of businesses in an industry or part of an industry. A median is the middle number in a set, where half of the numbers are greater than the middle and half are lower than the middle. Many prefer the median to the average, as outliers can skew the average—the median is less susceptible to the effects of outliers.

Business appraisers use median (and sometimes average) selling price ratios for an industry to create a general ballpark value for the company of interest. Exhibit 1 shows how you can use the data to find a general ballpark value for a business. Some take an average of the results, some select the median value, and others select the specific value that is most meaningful given the industry and/or size of the business. As mentioned earlier, there is no substitute for the specialized advice and guidance of a trustworthy business broker or thorough business appraiser. Note that the median ratios in Exhibit 1 are based on the benchmark information in this publication and the business earnings are from the business you are benchmarking. Each ratio creates a unique estimated value. You may then choose to apply a weight to each estimated value to determine a final value. For some circumstances, revenues or EBITDA of a business may be more important than either earnings measure so more weight may be applied to that value.

Exhibit 1. Example Business					
	Median Ratio		Business Earnings		Estimated Value
Selling price/revenue	0.70	×	$2,000,000	=	$1,400,000
Selling price/SDE	3.00	×	$450,000	=	$1,350,000
Selling price/EBITDA	5.70	×	$325,000	=	$1,852,500

Data included in this book. The data analyzed in this publication is derived from the *Pratt's Stats*[1] database, which contains financial details on sold private businesses, organized by major NAICS code. We examine business sales from *Pratt's Stats* to find median selling price multiples for various industries. See Exhibit 2 for an example.
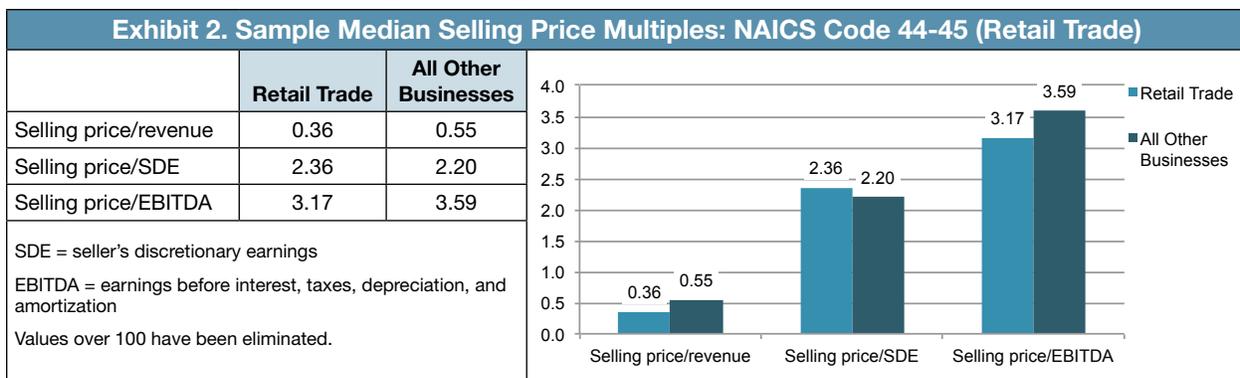
Exhibit 2. Sample Median Selling Price Multiples: NAICS Code 44-45 (Retail Trade)			
	Retail Trade	All Other Businesses	
Selling price/revenue	0.36	0.55	
Selling price/SDE	2.36	2.20	
Selling price/EBITDA	3.17	3.59	
SDE = seller's discretionary earnings			
EBITDA = earnings before interest, taxes, depreciation, and amortization			
Values over 100 have been eliminated.			

In addition, we compare the selling price ratios of specific business types to other businesses in the same industry. For example, this publication reports benchmark data for general industries (retail trade, for example) compared to all other general industries but also reports benchmark data for specific business types (such as gasoline stations with convenience stores) to all other businesses in that business's general industry (retail trade excluding gasoline stations with convenience stores). See Exhibit 3 for an example.

Exhibit 3. Sample Median Selling Price Multiples: NAICS Code 44-45 (Retail Trade) Compared to NAICS 447110 (Gasoline Stations With Convenience Stores)			
	Gasoline Stations With Convenience Stores	All Other Retail Trade Businesses	
Selling price/revenue	0.10	0.36	
Selling price/SDE	1.67	2.55	
Selling price/EBITDA	1.82	3.64	

SDE = seller's discretionary earnings

EBITDA = earnings before interest, taxes, depreciation, and amortization

This publication includes analysis on: (1) all 19 general business types compared to all other business types; and (2) the top 10 most sold specific business types from the *Pratt's Stats* database compared to all other business sales in that company's respective industry. In addition to this analysis, you will find limited details from each business sale in the Private Company Transaction Roster section for each chapter. See Exhibit 4 for an example.

Exhibit 4. Example Transaction Roster											

NAICS 44-45—RETAIL TRADE:
PRIVATE COMPANY TRANSACTION ROSTER

ID	NAICS Code	Target Business Description	State	Revenue	Gross Profit	Net Income	Sale Date	Selling Price	Selling Price to Sales	Selling Price to Gross Profit	Selling Price to EBITDA
18794	441110	Trucks, Trailers and Trailer Accessories Dealer	NC	$1,603,981	$670,226	$82,617	10/28/11	$600,000	0.37	0.90	7.18
12079	441110	New and Used Automobile Brokerage	TN	$4,356,000	$345,000	$57,000	4/30/08	$300,000	0.07	0.87	5.00
18783	441110	Chevrolet Buick GMC Dealership	IL	$6,183,423	$880,405	$25,871	2/23/11	$2,442,801	0.40	2.77	50.23
10551	441110	Auto Dealership	FL	$6,665,780	$2,308,883	$885,000	11/20/07	$1,250,000	0.19	0.54	N/A
12853	441110	Auto Broker	GA	$7,091,830	$469,792	-$283,799	2/29/08	$183,186	0.03	0.39	N/A
11176	441110	New Truck Sales and Service (Class 5-8)	N/A	$16,000,000	$3,500,000	$758,700	5/1/08	$5,089,200	0.32	1.45	4.90
30916	441120	Used Car Dealership	FL	$1,518,299	$585,208	$443,114	11/6/13	$80,000	0.05	0.14	0.18
11799	441120	Used Auto Dealer	FL	$2,429,728	$401,732	$68,384	9/20/07	$190,000	0.08	0.47	2.72
31731	441120	Luxury Preowned Autos	CO	$3,371,511	$353,481	$6,908	11/15/10	$180,000	0.05	0.51	3.84
11405	441120	Used Vehicle Dealer, Service, Parts, and Sales	NV	$4,902,427	$1,112,809	$104,224	2/4/08	$588,510	0.12	0.53	5.65
15538	441120	Used Car Sales	FL	$8,270,257	$432,315	$30,290	1/2/10	$385,000	0.05	0.89	4.72
12454	441210	Recreational Vehicle Rentals and Sales	CO	$1,027,262	$397,173	$90,960	10/21/08	$240,000	0.23	0.60	2.89

As noted in the introduction, to provide readers with a sample of the data analyzed in this publication, we have included 20% of the overall data set used for the analysis in the roster. The filter used for the roster appears as a footnote to each roster as follows:

> The summary tables, charts, and graphs in this publication include analysis of all 14,529 sold company transactions in the *Pratt's Stats* database from 2006 to 2016, whereas the roster only includes companies with a revenue range of $1 to $100 million, located in the United States, purchased by a private buyer (versus a public company), with valuation multiples less than 100 and not in the NAICS 92 sector (public administration).

You will note that the transaction ID is one of the fields in the roster. The transaction ID (see far left column of Exhibit 4) corresponds to the transaction ID in the *Pratt's Stats* database. *Pratt's Stats* collects more detail than is included in the roster. Should you require more details on specific company sales, you can subscribe to the *Pratt's Stats* database here. Exhibit 5 is a sample transaction report; this sample includes all details for a representative *Pratt's Stats* transaction from the database itself.

In addition to the transaction ID described above, other items that appear in each roster record are defined below:

- *NAICS code*—North American Industry Classification System is the standard federal statistical agencies use in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy.

- *Target business description*—the description of the acquired business.

- *State*—the geographic location in the United States of the acquired business.

- *Net sales* (also referred to as revenue)—annual gross sales, net of returns and discounts allowed, if any, for the acquired business.

- *Gross profit*—equals net sales minus cost of goods sold.

- *Net income*—equals earnings before taxes minus tax expense plus tax benefit.

- *Sale date*—date the sale of the acquired business was finalized.

- *Selling price*—the selling price is the total consideration paid to the seller and includes any cash, notes, and/or securities that were used as a form of payment plus any interest-bearing liabilities assumed by the buyer. The selling price includes the noncompete value and the assumption of interest-bearing liabilities and excludes: (1) the real estate value; (2) any earnouts (because they have not yet been earned, and they may not be earned); and (3) the employment/consulting agreement values.

- *Selling price to sales* (also referred to as revenue to sales)—equals the selling price of the acquired business divided by the net sales of the acquired business.

- *Selling price to gross profit*—equals the selling price of the acquired business divided by the gross profit of the acquired business.

- *Selling price to EBITDA*—equals the selling price of the acquired business divided by the earnings before interest, taxes, depreciation, and amortization of the acquired business.

Summary

If you are a business owner and are looking to sell your business, a competent business broker is probably your best bet. If you're looking for individualized analysis and determination of the value of a business, you'll want to contact a certified business appraiser. But if you're interested in a ballpark value based on the industry median, or are curious to see what other businesses have sold for, this publication and the *Pratt's Stats* database can serve as valuable resources.

Sample Transaction Report
From the *Pratt's Stats* Database

Pratt's Stats® Transaction Report Prepared: 1/5/2016 9:37:31 AM (PST)

Seller Details

Company Name:	N/A
Business Description:	Sales, Installation and Service of New & Retrofit Gutters and Downspouts. Residential and some Commercial.
Sale Location:	TN, United States
Sale Region:	East South Central
Company Type:	LLC

Years in Business:	23
Number Employees:	13

Source Data

Broker Name:	N/A
Broker Firm Name:	N/A

Contact Broker (Retrieve broker contact information from BVR's "Find a Broker" database.)

SIC Codes
1761 - Roofing, Siding, and Sheet Metal Work

NAICS Codes
238170 - Siding Contractors

Transaction Data

Date Sale Initiated:	3/1/2015	Asking Price:	N/A	Amount of Down Payment:	$1,218,537
Date of Sale:	8/1/2015	Market Value of Invested Capital*:	$1,218,537	Stock or Asset Sale:	Asset
Days to Sell:	153	Debt Assumed:	$0	Transaction Costs:	N/A

*Includes noncompete value and interest-bearing debt; excludes real estate, employment/consulting agreement values, and all contingent payments.

Income Data

Data is "Latest Full Year" Reported	Yes
Data is Restated (see Notes for any explanation)	No
Income Statement Date	12/31/2014
Net Sales	$1,537,517
COGS	$661,825
Gross Profit	$875,692
Yearly Rent	$27,600
Owner's Compensation	$96,933
Other Operating Expenses	$524,164
Noncash Charges	$39,275
Total Operating Expenses	$687,972
Operating Income	$187,720
Interest Expense	$0
Interest Income	$0
Other Expense	$0
Other Income	$0
Earnings Before Taxes	$187,720
Tax Expense	$0
Tax Benefit	$0
Net Income	$187,720

Balance Sheet Data

Balance Sheet Date	N/A
Cash Equivalents	N/A
Trade Receivables	N/A
Inventory	N/A
Other Current Assets	N/A
Total Current Assets	N/A
Fixed Assets	N/A
Real Estate	N/A
Intangibles	N/A
Other Noncurrent Assets	N/A
Total Assets	N/A
Current Liabilities	N/A
Long-term Liabilities	N/A
Total Liabilities	N/A
Stockholder's Equity	N/A

Purchase Price Allocation Data

PPA Date	8/1/2015
Cash Equivalents	$0
Trade Receivables	$0
Inventory	$58,537
Other Current Assets	$0
Total Current Assets	$58,537
Fixed Assets	$91,250
Real Estate	$0
Identifiable Intangibles	
Customer Related	N/A
Backlog	N/A
Developed Technology	N/A
In-Process R & D	N/A
Tradenames/marks	N/A
Non-Compete	$500
Other Intangibles	N/A
Total	N/A
Goodwill	N/A
Total Intangibles	$1,068,750
Other Noncurrent Assets	$0
Total Assets	$1,218,537
Interest-Bearing Liabilities	$0
Total Liabilities	$0

Additional Transaction Information

Deal Terms: Consideration: Cash in the amount of $1,218,537 with $120,000 being held in an escrow account to be paid at end of sellers 4 months training and transitioning period.

Was there a Note in the consideration paid?	No	Was there a Noncompete Agreement?	Yes	Was there an Employment/Consulting Agreement?	No
Was there a personal guarantee on the Note?	No	Noncompete Value:	$500	Employment Agreement Value:	N/A
Amount Seller Financed:	$0	Noncompete Length (Months):	84	Assumed Lease (Months):	12

Terms of Lease: N/A

Noncompete Agreement: 100 mile radius for 7 years.

Employment/Consulting Agreement: 4 month training and transitioning period.

Additional Notes: Allocation of the Purchase Price: Inventory $58,537, Fixed assets $91,250, Noncompete $500, Other intangibles $1,068,250, Total assets acquired $1,218,537.

Valuation Multiples

MVIC/Net Sales	0.79
MVIC/Gross Profit	1.39
MVIC/EBITDA	5.37
MVIC/EBIT	6.49
MVIC/Discretionary Earnings	3.76
MVIC/Book Value of Invested Capital	1.00

Profitability Ratios

Net Profit Margin	0.12
Operating Profit Margin	0.12
Gross Profit Margin	0.57
Return on Assets	0.15
Return on Equity	0.15

Leverage Ratios

Fixed Charge Coverage	N/A
Long-Term Debt to Assets	0.00
Long-Term Debt to Equity	0.00

Earnings

EBITDA	$226,995
Discretionary Earnings	$323,928
Gross Cash Flow	$226,995

Liquidity Ratios

Current Ratio	N/A
Quick Ratio	N/A

Activity Ratios

Total Asset Turnover	1.26
Fixed Asset Turnover	16.85
Inventory Turnover	26.27

N/A = Not Available

What's Your Company Worth?
A Visual Executive Summary

BVR
What It's Worth

This chart is sourced from 10 years of *Pratt's Stats'* data[1] and is based on the 2012 North American Industry Classification System.

BEST PREDICTOR OF SALES PRICE

The bubble's color indicates the multiple that is the best predictor of sales price.

- Price/net sales
- Price/disc. earnings
- Price/EBIT
- Price/EBITDA
- Price/gross profit
- Price/BVIC[2]

VALUATION MULTIPLE

For each industry, the size of the bubble is scaled to the statistically best valuation multiple (indicated by its color)

Median value (inner circle) **Mean value** (outer circle)

- **0.36** (Retail trade, median)
- **1.94** (Management…, median)
- **7.85** (Agriculture…, median)
- **14.22** (Professional…, mean)
- **19.92** (All companies, mean)

MEDIAN SALES PRICE ($000s)

200,000
100,000
50,000
20,000
10,000
5,000
2,000
1,000
500
200
100

Management of companies & enterprises
Only 53 companies in this sector with half over $100 million in sales

Mining, quarrying & oil & gas extraction
High median gross profit of 60% for these 113 company sales

Information

Utilities *One of the larger average net sales, at $747 million, and one of the smaller company counts, at 31*

Finance & Insurance

Manufacturing
Large number of represented companies at 2,001 sales with half over $2.5 million in net sales

Professional, scientific & technical services

Agriculture, forestry, fishing and hunting
Median gross profit margin of 40% for these 35 company sales

Health care & social assistances
9% net profit margin on average net sales of $14.3 million

Wholesale trade

Construction

Transportation & Warehousing

Arts, Entertainment & Recreation

All companies

Real estate & rental & leasing

Retail trade

Administrative & support & waste management & remediation services

Educational services

Accommodation & food services
2,360 business sales with average net sales of $1.1 million and 67% median gross profit margin

Other services[3]

| 200 | 500 | 1,000 | 2,000 | 5,000 | 10,000 | 20,000 | 50,000 |

MEDIAN REVENUE ($000s)

For additional valuation resources, please contact BVR at 503-291-7963 x2 or email info@bvresources.com

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Meaningful data and analysis on private company valuations by industry and key financial metrics
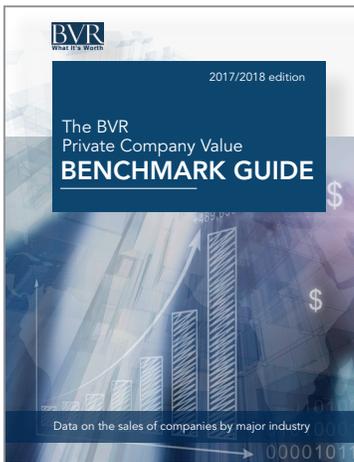
Valuation resources abound – except for data and analysis on privately held businesses. BVR is the premier source for intelligence on non-public companies. The **BVR Private Company Value Benchmark Guide** is a one-of-a kind tool designed specifically for the private equity library. In the guide we aggregate our most meaningful data and analysis and present private company valuations by industry and key financial metrics. Add the guide to your valuation research team today.

Highlights of the guide include:

- Truly unique data not available anywhere else - private company data reveals financial details on sold businesses
- Handy "transaction rosters" you will keep within easy reach – the rosters include in depth data related to individual company sales such as net sales, gross profit, net income, selling price, etc.
- Benchmark your target against industry peers by selling price multiples - the guide captures close to 30 financial data points in aggregate on over 14,500 businesses

Take a look inside the guide and order your copy at:
bvresources.com/privatecompanydata

If you prefer, fax this form to our secure line: (503) 291-7955 or call (503) 291-7963

❏ **Yes!** I'd like to order The BVR Private Company Value Benchmark Guide (PDF $1,995.00)

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