

WHITE PAPER

WHAT DRIVES BUSINESS VALUE

A plain-English guide to the factors that
increase the value of a privately held business

Written for owners,
CEOs, and leadership
teams who want to
build value long
before a transaction
is on the table.



Core idea: business value rises when earnings are strong, cash flow is dependable, revenue is dependable, and the company can succeed without daily owner rescue.

It explains what buyers reward, what causes value to stall, and which measures are worth tracking if the goal is to build a stronger company and more strategic options.

The language is intentionally practical so the ideas can be used in leadership meetings, planning sessions, and owner conversations.

INTRODUCTION

Too many conversations about business value start in the wrong place. They start with a multiple someone heard at dinner, a rule of thumb from an industry broker, or a hopeful revenue number. That is understandable, but it misses the point. A business is not worth more because the owner worked hard, because the product is clever, or because last year felt strong. It is worth more when a buyer can see future economic benefit, believe that benefit will continue, and trust that it can continue without unusual risk.

That distinction matters. Two companies can produce the same revenue and even the same accounting profit, yet one will command materially more value. Why? Because one has cleaner earnings, better margins, recurring customers, broader customer mix, a stronger management bench, and systems that make performance repeatable. The other depends on heroic owner effort, a few key accounts, thin documentation, and cash that never quite turns into free cash flow. On paper they may look similar. To a buyer they are very different assets.



In plain language, buyers are asking three questions:

- ◆ First, how much true earning power does this business have?
- ◆ Second, how durable is that earning power?
- ◆ Third, how transferable is it?

Most owners spend the bulk of their energy on the first question and too little on the second and third. That is one reason many businesses plateau in value even while the owner stays busy.

This paper is built around a practical idea: **business value is created twice. It is created in the earnings base, meaning the actual profit and cash flow the company produces. It is created again in the multiple, meaning the premium or discount the market applies to that base based on risk, quality, and future confidence.** In a smaller private company, the multiple is often where the silent value gap lives. A business may be profitable, but if its revenue is fragile or the owner is indispensable, buyers will not pay full price for those profits.

The purpose of this paper is to explain what truly drives business.

It will define the key terms, separate the drivers that grow earnings from the drivers that increase buyer confidence, and turn the main ideas into measures leaders can actually track. The goal is not to chase a formula. The goal is to understand how the market thinks so a company can become more valuable long before any formal exit or transaction.

One final point before we begin: **value is not a single permanent truth. It is a reasoned judgment shaped by performance, risk, timing, buyer fit, and deal structure.** That is why smart leaders do not manage only for this year's income statement. They manage to build a business that produces reliable cash, holds its customers, scales without chaos, and can thrive when the owner eventually steps back. That is the kind of company the market rewards.

The market does not pay for effort. It pays for future cash flow that looks strong, dependable, and transferable.



1

WHAT BUSINESS VALUE REALLY MEANS

For purposes of this paper, business value means the amount a rational buyer would pay for the operating business based on the future economic benefit that business is expected to produce, adjusted for risk. In private company conversations, people often jump quickly to a single price. That can be misleading. Price can move because of seller financing, earnouts, tax treatment, timing, or a specific buyer's synergies. Value is the core economic case underneath the deal.

A helpful way to think about it is this: value is a forecast wrapped in confidence. The forecast is about future cash flow. The confidence comes from evidence that the business can keep producing that cash flow. When confidence is high, multiples rise. When confidence is low, multiples compress.

That is also why valuation is never just math. The numbers matter, but judgment matters too. Leaders have to show not only what the business earned, but why those earnings are real, repeatable, and likely to continue.

Deal structure matters too. In an asset sale, the buyer purchases selected assets and usually chooses which liabilities to assume. In a stock sale, the buyer purchases the ownership interests of the company itself. That distinction matters because taxes, liabilities, and what actually transfers can change the seller's net proceeds even when the headline valuation sounds the same.

Reality check: enterprise value is not take-home pay.
Net Proceeds = Enterprise Value - Debt - Taxes - Transaction Fees +/- Working Capital Adjustment

That is why a headline multiple can sound impressive while the seller's spendable cash is much lower.



Key terms in plain English

Term	Definition
Enterprise value	The value of the operating business before subtracting debt and before adding excess cash.
EBITDA	Earnings before interest, taxes, depreciation, and amortization. In plain language, it is a common measure of operating profit.
Adjusted EBITDA	EBITDA after normalizing unusual, one-time, or owner-specific items so buyers can see the business's underlying earning power.
Exit multiple	The number a buyer applies to earnings. It reflects confidence in growth, quality, risk, and transferability.
Recurring revenue	Revenue that is expected to repeat because it is contracted, subscription based, or highly habitual.
Customer concentration	The percentage of revenue tied to one customer or a small group of customers. High concentration means higher risk.
Free cash flow	Cash left after operating needs and capital spending. It is the spendable cash a business actually produces.
Working capital	Cash tied up in receivables, inventory, and payables. Weak working capital discipline can make profits look better than cash feels.
Transferability	The ability of the company to continue performing without depending on the current owner's daily involvement.
Net proceeds	The cash the seller actually keeps after debt repayment, taxes, transaction fees, and any working capital adjustment.
Asset sale vs. stock sale	In an asset sale, the buyer purchases selected assets and liabilities. In a stock sale, the buyer purchases the ownership of the company. The form can change taxes, liabilities, and what the seller ultimately keeps.
Net working capital peg	The agreed 'normal' amount of working capital the seller is expected to leave in the business at closing. If working capital comes in below the peg, price is usually adjusted downward.

2

THE TWO ENGINES OF VALUE

In many private company transactions, the practical shorthand is simple:

$$\text{Enterprise Value} = \text{Adjusted EBITDA} \times \text{Exit Multiple}$$

Value is built by improving both engines at the same time



Figure 1. Value rises fastest when the earnings base improves and the exit multiple improves with it.

This formula is not the whole story, but it is the language many buyers, lenders, and advisors use every day. The first lever is the earnings base. If adjusted EBITDA rises, value usually rises with it. The second lever is the multiple. The multiple is not magic. It is a market judgment about how dependable, scalable, and transferable those earnings appear to be.

Adjusted EBITDA matters because raw accounting earnings often do not tell the full story in privately held businesses. Owners may run personal items through the business, take above-market compensation, or incur one-time expenses that a buyer will view differently. The goal of adjustment is not to inflate earnings. The goal is to show normalized earning power with credibility.

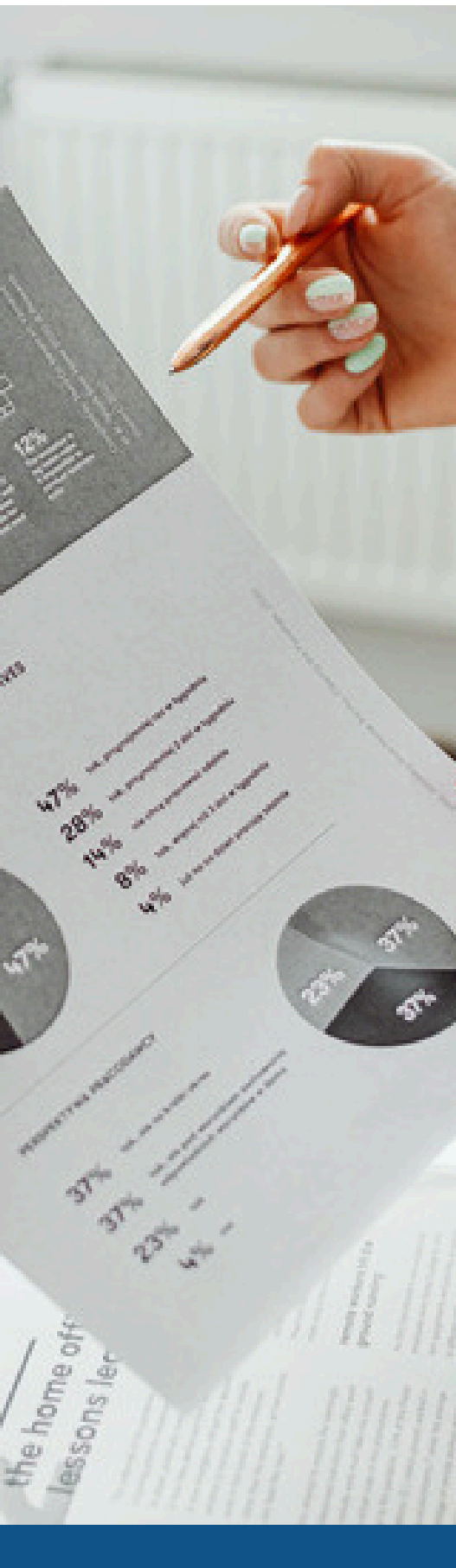
The multiple matters because not all dollars of profit are equal. **A dollar of profit that comes from recurring contracts, diversified customers, strong margins, and a management team that can operate without the owner is worth more than a dollar of profit that comes from project work, price discounting, one key customer, and daily owner firefighting.**

A simple example shows why this matters. A company with \$3 million of adjusted EBITDA at a 5.5x multiple is worth \$16.5 million in enterprise value. The same company at a 7.0x multiple is worth \$21.0 million. The extra \$4.5 million does not come from better arithmetic. It comes from better quality, lower risk, and stronger transferability. That is why owners who focus only on top-line growth can leave serious value on the table.

The three pillars of value creation

Pillar	What it means	Main effect on value
Financial quality	The business produces clean earnings and turns profit into cash.	Strengthens the earnings base and supports the multiple.
Revenue defensibility	Revenue is repeatable, diversified, and protected from easy disruption.	Raises confidence that future cash flow will hold.
Transferability	The company can perform without unusual dependence on the owner.	Expands the multiple because the business is easier to buy and scale.





3

PILLAR ONE: FINANCIAL QUALITY

The first pillar is financial quality. Buyers want to know whether the business truly earns what the financial statements suggest and whether those earnings convert into cash. This is where revenue growth, margins, and cash discipline matter most.

Consistent growth is more valuable than erratic growth. A company that grows steadily and profitably tells a buyer that demand is real and that leadership understands how to scale. By contrast, a company that bounces between strong years and weak years may still be attractive, but the buyer will price in uncertainty.

Profitability matters because margin is evidence of discipline. Strong margins can signal pricing power, operating efficiency, and the ability to absorb volatility. Weak or declining margins can signal the opposite: rising cost pressure, weak differentiation, or a business that has to discount to keep volume moving.

Cash flow quality matters because profit on paper is not the same as money in the bank. If receivables age badly, inventory builds, or capital spending is constantly deferred, buyers become skeptical. They know that acquisitions are serviced with cash, not with accounting language.

One real-world deal issue deserves explicit attention: the net working capital peg. In plain English, the peg is the normal amount of receivables, inventory, and payables a buyer expects to be left in the business at closing so the company can keep operating. If an owner strips the cupboards bare before a sale, the buyer usually does not admire the move. The buyer lowers the price or forces a closing adjustment so the business can be refilled. That is why working capital trend matters, not just the balance on one convenient date.

Scale also matters. All else equal, larger businesses usually command stronger valuations because they are less fragile, attract a broader buyer pool, and can absorb shocks more easily. Size is not a separate magic lever, but it often magnifies the benefits of getting the fundamentals right.

KPI	Simple formula or measure	Why buyers care
Revenue growth rate	$(\text{Current period revenue} - \text{prior period revenue}) / \text{prior period revenue}$	It shows whether demand is expanding in a consistent, believable way.
Adjusted EBITDA margin	Adjusted EBITDA / revenue	Shows how much normalized operating profit remains after the cost of doing business.
Gross margin	$(\text{Revenue} - \text{direct costs}) / \text{revenue}$	Signals pricing power and control over direct input costs.
Free cash flow margin	Free cash flow / revenue	Shows how much real, spendable cash is left after operating needs and capital spending.
Collections speed (DSO)	$(\text{Accounts receivable} / \text{annual revenue}) \times 365$	Shows how quickly customers pay. Faster collections usually mean stronger cash conversion and less risk.



PILLAR TWO: REVENUE DEFENSIBILITY

Revenue size matters, but revenue quality matters just as much. Buyers pay more for revenue that is likely to keep showing up next month, next quarter, and next year. That is why recurring revenue, retention, customer diversification, and pricing power matter so much in valuation.

Recurring revenue earns a premium because it reduces uncertainty. Contracts, subscriptions, maintenance agreements, repeat service patterns, and long-standing relationships all make future cash flow more predictable. Not every business can become a subscription model, but every business can work to make more of its revenue planned rather than re-hunted every month.

Customer concentration is one of the clearest value suppressors in the lower middle market. When too much revenue sits with one customer or a handful of customers, the business becomes fragile. As a rule of thumb, buyers get uneasy when any one customer represents more than roughly 10 to 15 percent of revenue or when the top customer group dominates the business.

Retention and pricing power matter because they reveal whether customers stay by choice or by inertia. A business that retains customers, expands existing accounts, and raises prices without losing its footing is showing the market that its offering is differentiated. A business that constantly replaces churn and competes mostly on price is showing the opposite.

In some companies, proprietary intellectual property is part of the moat. A patent, proprietary process, protected data set, algorithm, certification path, or other hard-to-copy know-how can support a stronger multiple when it helps the company hold price, retain customers, or stay harder to replace. The label matters less than the economic effect. Buyers care when the secret sauce is real, documented, and owned by the company rather than loosely tied to one employee.

In simple terms, defensible revenue means the company is not starting over every morning. Buyers will pay more for that kind of revenue because it lowers the probability that earnings disappear right after the transaction closes.

KPI	Simple formula or measure	Why buyers care
Recurring revenue percent	Recurring revenue / total revenue	A higher share of repeatable revenue usually means more predictable future cash flow.
Customer retention rate	(Ending customers - new customers) / starting customers	Shows how well the business keeps the customers it already won.
Largest customer percent	Revenue from largest customer / total revenue	High dependence on one account creates a single point of failure.
Top 5 customer percent	Revenue from top 5 customers / total revenue	Shows whether the revenue base is broad or overly concentrated.
Price realization	Average annual price increase compared with inflation or input cost growth	It shows whether the company has pricing power or is trapped in commodity competition.
Average contract length or backlog	Months of committed work under contract or booked orders	Longer visibility reduces revenue risk, especially in project-based businesses.

5

PILLAR THREE: TRANSFERABILITY

The third pillar is transferability, and it is where many smaller businesses lose value. If the owner is the primary rainmaker, chief problem solver, operational hub, and keeper of the customer relationships, the buyer is not purchasing a self-sustaining company. The buyer is purchasing a job with extra risk attached to it.

Transferability improves when a capable management team can run the business, when customer relationships are institutional rather than personal, and when important processes are documented instead of living in one person's head. This is not bureaucracy. It is conversion. It turns tribal knowledge into company property.

Operational scalability also matters. Buyers want to see that the company can grow without cost rising in perfect proportion. That usually requires clearer processes, stronger middle management, better systems, and enough capacity to absorb new demand without chaos.

The practical question is simple: if the current owner stepped away for ninety days, what would happen? The more stable the answer, the higher the transferability. The less stable the answer, the more the multiple will suffer.

KPI	Simple formula or measure	Why buyers care
Owner-originated revenue percent	Revenue tied directly to owner relationships / total revenue	It shows how much sales volume would be at risk if the owner stepped back.
Owner hours in weekly operations	Tracked count of weekly hours spent in day-to-day operating work	Lower dependence on the owner usually means better transferability.
Management retention rate	Key managers retained over a defined period	A stable leadership bench reduces continuity risk for a buyer.
Documented process coverage	Critical processes with written SOPs / total critical processes	Shows whether the company can perform consistently without tribal knowledge.
Revenue per employee	Annual revenue / full-time equivalent employees	Helps show labor efficiency and whether the model scales productively.
Capacity utilization	Actual output / practical maximum output	It shows whether there is room to grow without immediate new fixed investment.

A practical field test is the 4-week vacation test. If the owner were unreachable for a month, would sales slow, decisions stack up, or customers get nervous? The answer tells a leadership team more about transferability than an org chart does.

6

WHAT SUPPRESSES VALUE

Just as some conditions expand value, others reliably compress it. The clearest suppressors usually fall into two groups: commercial and leadership risks, and financial and execution risks.

Commercial and leadership risks

Common suppressor	Why it hurts value
Heavy owner dependence	If the company relies on the owner to sell, solve, decide, and maintain relationships, the buyer sees fragility and discounts the multiple.
Customer concentration	Too much revenue in one customer or a few accounts means a small change in one relationship can damage the whole business.
Commodity positioning	If the company mostly wins on price and not on differentiation, buyers assume margin pressure will continue.

Financial and execution risks

Common suppressor	Why it hurts value
Weak financial credibility	Messy reporting, inconsistent statements, or unsupported adjustments make buyers question the earnings base itself.
Aggressive add-backs	Add-backs are expenses the seller asks a buyer to ignore. If those adjustments feel stretched, trust falls quickly.
Poor cash conversion	When profit does not turn into cash because of receivables, inventory, or hidden capital needs, buyers lower their confidence.
Deferred maintenance or underinvestment	Skipping needed equipment, technology, or people may help short-term earnings while quietly creating a future problem for the buyer.

A multiple is often just a compressed expression of risk. When risk rises, the multiple falls.

7

WHY CONTEXT STILL MATTERS

The drivers above are durable, but they do not operate in a vacuum. Industry, company size, capital intensity, buyer type, and deal structure all affect how strongly the market rewards each driver.

A strategic buyer may pay more than a financial buyer because the business creates synergies, fills a market gap, or brings valuable customers or capabilities into an existing platform. An asset-heavy company may have a stronger valuation floor because its underlying assets carry value even when earnings are modest. A service business, by contrast, usually lives or dies on cash flow quality, customer stability, and transferability.

This is why industry averages should be treated as a reference point, not an answer. Two businesses in the same industry can receive very different valuations because one has cleaner earnings, stronger recurring revenue, better diversification, and lower owner dependence. The market does not reward labels. It rewards evidence.



HOW TO USE A VALUE DASHBOARD

The point of measurement is not to create a prettier spreadsheet. It is to focus leadership attention on the handful of metrics that move earnings quality, revenue durability, and transferability in the right direction. A practical dashboard should be simple enough to review regularly and specific enough to drive action.

- 1 Track a focused set of metrics. For most private companies, ten to twelve well-defined measures are enough. More than that often creates noise instead of clarity.
- 2 Use consistent definitions. If adjusted EBITDA, recurring revenue, or retention are calculated differently every quarter, the trend line becomes meaningless.
- 3 Review trends, not isolated months. Buyers want to see an improving pattern over time, ideally across several years, not one polished quarter.
- 4 Link every metric to an owner and an action plan. If customer concentration is too high, the dashboard should point to the diversification strategy, not merely report the problem.
- 5 Translate operational metrics back to value. Every measure on the dashboard should connect to one of three outcomes: stronger earnings, lower risk, or better transferability.

The practical timeline matters as much as the metrics themselves. Value creation is more believable when the improvements are visible over twenty-four to thirty-six months than when they appear only at the moment a business goes to market. Buyers trust trend lines far more than one-time cleanup efforts.





CONCLUSION

Business value does not suddenly appear when an owner decides to sell. By that point, the market is mostly revealing what has already been built or neglected over the previous several years. That is why the most useful way to think about value is not as a transaction event, but as an operating discipline.

At the highest level, the pattern is straightforward. Strong businesses create value by producing real earnings, turning those earnings into dependable cash, protecting the revenue stream from obvious shocks, and building an organization that can perform without unusual dependence on the owner. Those four ideas explain most of what buyers reward in practice.

The most common mistake leaders make is to focus almost entirely on growth and not enough on risk. Growth matters, but revenue that has to be re-won constantly, that sits in a few large accounts, or that depends on the owner's personal heroics does not deserve the same valuation as revenue that is recurring, diversified, and institutionalized. The multiple is simply the market's shorthand for that difference in confidence.

This is also why operational work and valuation work cannot be separated. Pricing discipline, margin improvement, collections, documentation, management depth, customer mix, and process quality may look like operating issues inside the company. In the market, they become value issues. They shape both the earnings base and the buyer's willingness to pay a premium for those earnings.

For owners and leadership teams, the implication is clear. The goal is not merely to produce a good year. The goal is to build a company that becomes easier to trust, easier to transfer, and easier to scale.

A company that can do those things commands better options whether the owner plans to sell, recapitalize, bring in investors, or simply build a more durable enterprise.

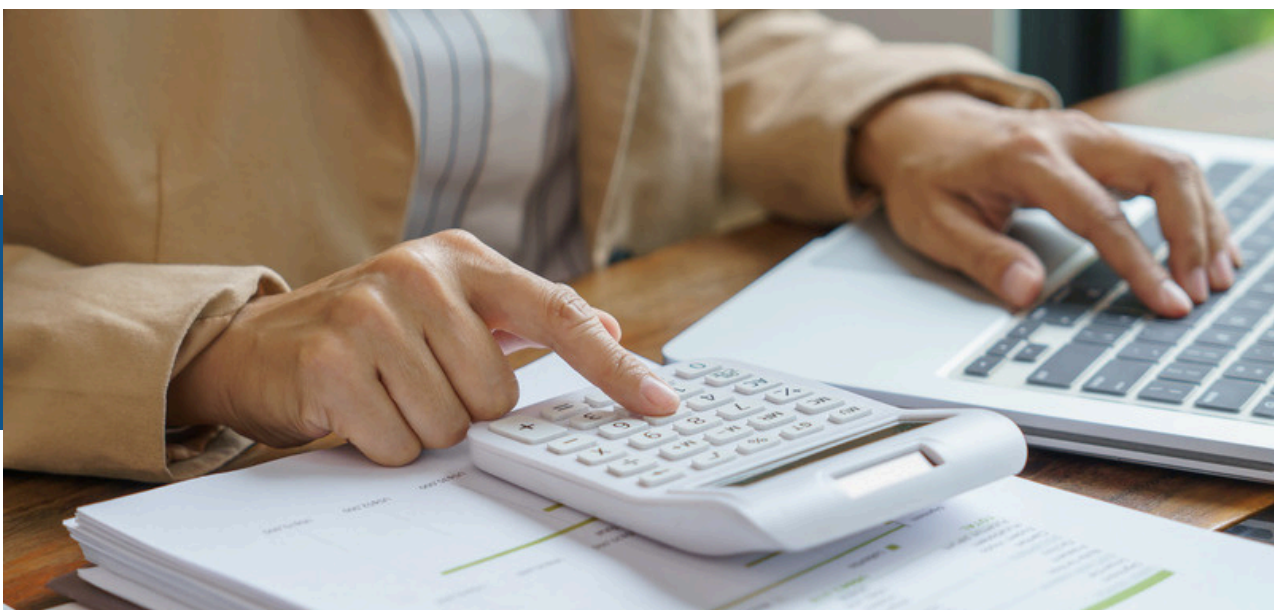
That is why the appendices that follow matter. The checklist is meant to help a leadership team have a more honest conversation. The action plan is meant to turn insight into priorities. The dashboard is meant to keep value-building visible in the normal operating rhythm of the business. A company rarely drifts its way into a premium valuation. It earns one by reducing risk on purpose.

None of this requires a sale process to begin tomorrow. In fact, value is often easier to build when there is no immediate transaction pressure.

That is when leaders can improve reporting, reduce concentration, delegate real authority, strengthen systems, and create a performance record the market will trust. Value is easier to increase when it is managed early than when it is polished late.

In the end, business value is the market's vote on the future. The companies that win that vote are not always the ones with the loudest story. They are the ones with the cleanest evidence: real earnings, reliable cash, defensible revenue, and a business model that can thrive without constant owner rescue. That is what drives business value, and that is what leaders should build on purpose.

The most underappreciated value lever is not another sale. It is reducing the risk that current profits disappear when conditions change or the owner eventually steps back.





APPENDIX A. LEADERSHIP CHECKLIST

Use this as a quarterly leadership discussion tool. The point is not to score perfectly. The point is to force clarity on the questions that most directly affect earnings quality, risk, and transferability.

Financial quality and cash discipline

Leadership question	What a strong answer sounds like
Can we explain normalized earnings cleanly and credibly?	Leadership can show where reported earnings differ from true earning power, and every adjustment is supportable.
Do profits turn into cash with reasonable consistency?	Collections are timely, working capital is managed, and cash generation does not lag profit quarter after quarter.
Do we know where margin is earned, protected, and lost?	The team can explain gross margin and EBITDA margin by line, customer type, or offering rather than treating margin as a mystery.
Are our books decision-ready quickly each month?	Financial statements are accurate, timely, and useful enough to drive action rather than arrive too late to matter.

Revenue quality and market position

Leadership question	What a strong answer sounds like
How much of our revenue is recurring, contracted, or reliably repeat?	A meaningful share of revenue shows up because customers stay, renew, reorder, or remain under contract.
Is too much revenue sitting with one customer or a small group of customers?	No single customer or small cluster could materially damage the company if the relationship changed.
Can we hold price without immediately losing the business?	The company shows pricing power because customers stay for value, not just for the lowest bid.
Do customers stay because of the company or because of the owner?	Relationships are institutional enough that the business does not reset every time the owner steps back.

Transferability and leadership depth

Leadership question	What a strong answer sounds like
Would sales, service, and operations keep moving if the owner were gone for ninety days?	The business would not be perfect, but it would remain stable because authority and accountability are distributed.
Do we have managers who can run the business instead of escalating everything upward?	Key leaders own decisions, solve problems, and keep execution moving without constant owner rescue.
Are critical processes documented and actually followed?	Important work lives in repeatable processes, systems, and standard operating procedures instead of in one person's memory.
Do we have a credible backup for every critical role?	The team has bench strength, cross-training, and continuity plans for the roles that matter most.



APPENDIX B.

VALUE-BUILDING ACTION PLAN

This is a practical action map, not a theoretical wish list. Each initiative should have an executive owner, a due date, and a measurable result. Most companies do not need ten new projects. They need a short list of moves that clearly improve earnings quality, revenue durability, and transferability.

Priority area	First move	What good looks like in 12 months	Metrics to watch
Financial credibility	Tighten monthly close, clean up chart of accounts, and define a disciplined add-back policy.	Statements are timely, clean, and believable enough to support a buyer conversation.	Close speed; adjustment support rate; forecast accuracy
Cash conversion	Review receivables aging, inventory discipline, and payment terms with the same urgency as sales.	Profit converts into cash more consistently and working capital stops absorbing avoidable value.	DSO; inventory turns; free cash flow margin
Margin and pricing discipline	Identify low-quality revenue, price leakage, and the products or customers that quietly destroy margin.	The company keeps more of what it earns and can explain where profitable growth really comes from.	Gross margin; adjusted EBITDA margin; price realization

Priority area	First move	What good looks like in 12 months	Metrics to watch
Recurring or contracted revenue	Find ways to move more work into contracts, service agreements, subscriptions, retainers, or repeat programs.	A larger share of next quarter's revenue is visible before the quarter starts.	Recurring revenue percent; backlog months
Customer diversification	Build a plan to reduce dependence on any one customer, channel, or end market.	Revenue risk is spread more broadly, and the company is less fragile.	Largest customer percent; top 5 customer percent
Management depth	Shift selling, operating, and customer authority out of the owner and into the management team.	The company becomes easier to run, easier to scale, and easier to transfer.	Owner-originated revenue percent; management retention rate
4-week vacation test	Choose a month, delegate decision rights, and make the owner unreachable except for true emergencies.	The business keeps moving, escalation paths work, and hidden dependence on the owner becomes visible enough to fix.	Escalations to owner; decision turnaround time; customer issues during absence
Process discipline	Document the handful of critical processes that make the company work and make sure people use them.	Execution becomes more repeatable and less dependent on tribal knowledge.	Documented process coverage; error/rework rate
Exit readiness	Organize contracts, legal documents, KPI definitions, and reporting files before a process starts.	The business can respond quickly and credibly when outside diligence begins.	Data room readiness; policy completion rate



APPENDIX C. RECOMMENDED VALUE DASHBOARD

A dashboard should be clear enough to review in ten minutes and meaningful enough to change behavior. For each measure, define one formula, one owner, one review cadence, one target, and one red-yellow-green threshold. If a metric cannot be linked to stronger earnings, lower risk, or better transferability, it probably does not belong here.

Metric	Definition	Cadence	Primary owner	Value link
Revenue growth rate	Current period revenue vs. prior period	Monthly / quarterly	CEO or CRO	Both
Adjusted EBITDA margin	Adjusted EBITDA divided by revenue	Monthly	CEO / CFO	Both
Gross margin	Revenue minus direct costs, divided by revenue	Monthly	COO / CFO	Earnings base
Free cash flow margin	Free cash flow divided by revenue	Monthly / quarterly	CFO	Both
Days sales outstanding (DSO)	How quickly receivables are collected	Monthly	CFO / controller	Risk

Metric	Definition	Cadence	Primary owner	Value link
Net working capital trend	Net working capital as a percent of revenue, plus the pattern in receivables, inventory, and payables over time	Monthly	CFO / controller	Both
Recurring revenue percent	Recurring or contracted revenue divided by total revenue	Monthly / quarterly	CRO / CEO	Multiple
Customer retention rate	Percent of customers or revenue retained	Monthly / quarterly	CRO / CS lead	Multiple
Largest customer percent	Largest customer revenue divided by total revenue	Monthly / quarterly	CEO / CRO	Multiple
Backlog or contract coverage	Months of committed work already under contract	Monthly	COO / CRO	Multiple
Owner-originated revenue percent	Revenue that depends directly on the owner	Quarterly	CEO	Multiple
Management retention rate	Retention of key leaders over a defined period	Quarterly	CEO / HR leader	Risk
Documented process coverage	Critical processes documented and followed	Quarterly	COO	Transferability



APPENDIX D. BENCHMARKING AND VALUATION RESOURCES

No single benchmark tells the whole story. Use several sources, compare their signals, and remember that private-company value is not the same thing as a public-market multiple copied from the internet. The best external benchmark is still less useful than three years of clean internal trend data, but these resources help ground the conversation.

Resource	Best use	Main strength	Watch-out
Pepperdine Private Capital Markets Report	Market sentiment, capital availability, and private-market expectations	Good reality check on the broader private capital environment	It reflects survey-based market views, not a direct database of your exact deal
GF Data	Lower middle market transaction multiples and leverage benchmarks	Highly relevant for completed lower middle market private-equity-backed deals	Best used as a directional benchmark, not a promise of what one company will fetch

Resource	Best use	Main strength	Watch-out
IBBA / M&A Source Market Pulse	Quarterly deal trends by size band and market segment	Useful for framing buyer behavior, cash-at-close trends, and general market tone	Segment averages can hide big quality differences from one company to the next
DealStats (BVR)	Private-company transaction database for comparable deals	Helpful for building a market-based valuation view from actual transactions	Comparable transaction quality matters more than database size
RMA Annual Statement Studies	Industry financial ratio benchmarks from private-company statements	Useful for comparing margins, liquidity, leverage, and working capital performance	Financial ratios explain operating position, not the whole valuation story
First Research or Vertical IQ	Industry operating context, trends, and benchmark ranges	Helpful for framing what is normal in a given sector before judging performance	Good context source, but not a substitute for transaction data
PitchBook private market benchmarks	Broader private-market deal and performance context	Useful when the company is large enough to sit near institutional-quality private market comparisons	Can be less directly applicable to smaller owner-led businesses

The practical rule is to triangulate. Start with your own trend data, compare it to industry operating benchmarks, then test it against transaction and market resources. That sequence produces better judgment than relying on one headline multiple.

SOURCE MATERIAL CONSULTED

This paper is intentionally written in original, plain-English language. The materials below informed the substance of the analysis, examples, and frameworks, but the paper itself has been restated rather than quoted so it reads as one coherent piece. The cross-reference that follows lists both the principal source documents and the individual studies, reports, and frameworks that appear within those materials.



Source material	Type	How it informed this paper
Economic drivers of lower middle market company value	Research memo	Primary background on the economic, operational, and market factors that influence lower middle market value.
Deep Background Research on Business Value Levers	Research memo	Primary background on the recurring value levers, KPI logic, and distinctions between earnings drivers and multiple drivers.
Defensible Business Valuation	Reference PDF	Used to reinforce the themes of valuation credibility, quality of earnings, and the need for supportable assumptions.
Engineering the Exit Multiple	Reference PDF	Used to reinforce the themes of multiple expansion, transferability, and risk reduction before a transaction.



Referenced studies and reports appearing within the source material

Traceability note: the items below are listed as they appear in the provided source materials. They are included so a reader can see the underlying studies, reports, and frameworks that informed this paper through those materials. Where a source was used as a standalone reference text, that is stated directly.



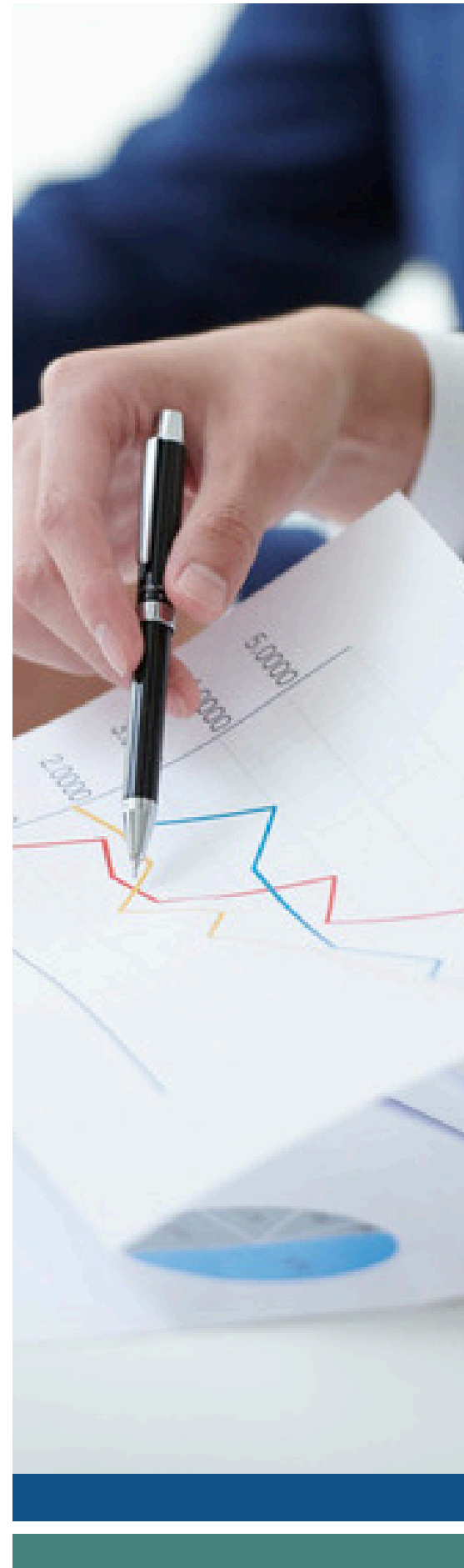
Economic drivers of lower middle market company value

- ◆ Pepperdine Private Capital Markets Report - used in the source memo for private capital market expectations, valuation ranges, and financing conditions.
- ◆ Capstone Partners Middle Market M&A Valuations Index - used in the source memo for middle market valuation trends and sector-level multiple context.
- ◆ CAIA / FS Investments research - used in the source memo for the distinction between value creation and multiple expansion.
- ◆ Aswath Damodaran (NYU) datasets and valuation work - used in the source memo for valuation logic, market comparability, and risk framing.
- ◆ McKinsey SaaS / Rule of 40 research - used in the source memo for evidence on which recurring-revenue metrics correlate most strongly with valuation.
- ◆ Morgan Stanley research on ROIC and value - used in the source memo for the link between returns on capital and enterprise value.
- ◆ ScienceDirect working capital research - used in the source memo for evidence connecting cash conversion cycle discipline to value and return outcomes.
- ◆ Yale SOM working capital paper - used in the source memo for the relationship between working capital efficiency and returns.
- ◆ SaaS Capital / Benchmarkit research - used in the source memo for recurring-revenue, retention, and benchmark context.
- ◆ Raincatcher / First Page Sage EBITDA multiple tables - used in the source memo as directional lower middle market multiple references.



Deep Background Research on Business Value Levers

- ◆ Windsor Drake - used in the source memo for the practical enterprise value equation linking adjusted EBITDA and the multiple.
- ◆ Exit Planning Institute Value Acceleration Methodology - used in the source memo for the broader framework around building transferable value before a transaction.
- ◆ Business Enterprise Institute and its 9 Value Drivers framework - used in the source memo for practitioner guidance on value-building priorities.
- ◆ BMI Mergers concentration analysis - used in the source memo for case-based evidence on how customer concentration affects deal outcomes.
- ◆ Springer systematic literature review (Fajarika et al.) - used in the source memo for the academic view that value drivers exist but are broader and less operationally specific.
- ◆ Value Builder System - used in the source memo as a practitioner framework, with explicit caution that its premium claim is self-reported.
- ◆ Clemon Consulting - used in the source memo as a practitioner synthesis of common M&A value drivers.
- ◆ Morgan Stanley / Mauboussin work on multiples and fundamentals - used in the source memo for valuation theory and the connection between operating drivers and multiples.
- ◆ M&A Source practitioner value-driver lists - referenced in the source memo as a market-facing view of what buyers most often reward or discount.





Defensible Business Valuation

- ◆ Used in this paper as a standalone reference PDF on valuation credibility, quality of earnings, defensible assumptions, documentation discipline, and the importance of supportable financial narratives.
- ◆ This paper relied on the PDF as a whole reference text rather than extracting a separate internal bibliography from it.



Engineering the Exit Multiple

- ◆ Used in this paper as a standalone reference PDF on multiple expansion, de-risking, transferability, owner dependence, and the operational work required before going to market.
- ◆ This paper relied on the PDF as a whole reference text rather than extracting a separate internal bibliography from it.

