

A sales multiple is the sale price divided by some variable, usually derived from adjusted net earnings, but sometimes from sales.

Different types of buyers will use different multiples on the same company.

Usually a sales multiple reflects the degree of risk implied by the buyer.

Sales multiples can be reduced by :

*The owner drives the business*

*Lack of tangible assets*

*Businesses providing discretionary services and products*

*Requirement for special skills and/ or licensing*

*New business (opened last 5 years)*

*Lack of competitive advantage in the market*

*Declining or fluctuating earnings*

*Questions about integrity of financial reporting*

*Unclear reason for sale*

*Share sale (as opposed to asset sale)*

*Lack of contract revenue*