

# HOW TO VALUE YOUR STAFFING COMPANY



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by Bob Cohen and Sam Sacco

Most profitable staffing firms will be valued at a multiple of adjusted EBITDA, which is *Earnings Before Interest, Taxes, Depreciation and Amortization*. Some valuations include working capital (the difference between current assets less current liabilities) as part of their multiple particularly in Professional Staffing Service sectors.

So when discussing multiples it is vital to know what the Buyer is or isn't including in their multiple number to be sure you are making fair comparisons between buyers. Another area often open to interpretation is which of your adjustments will be acceptable to a given Buyer as stated. In other words and as an example, there may be an adjustment (add back) to normalize the owner's compensation with a replacement amount i.e. the owners compensation package is \$500,000 annually while a replacement package cost is believed by the seller and his/her Advisor that the appropriate replacement cost should be \$150,000 per annum. One specific Buyer may accept this figure and allow an add back of \$350,000, while another Buyer may believe the replacement cost is closer to \$200,000 and a third buyer could argue that they feel they would need to pay \$250,000 to hire a similarly qualified replacement manager in that market.

The bottom line is that the multiple is just an expression in dollars that is used to arrive at the appropriate valuation of the business. So, one Buyer's multiple of 5X EBITDA could represent fewer dollars than a different Buyer's multiple of 4X EBITDA. This is why it is important to truly understand what the multiple means for each Buyer.

An experienced Staffing Industry Advisor can assist you in many ways to ensure you maximize the valuation of what is often your largest asset.

### To determine the EBITDA of your business:

**Start With:** *Earnings Before Taxes*

**Exclude:** *Interest Expense, Financing Cost, Depreciation, Amortization, Donations, Interest Income, Gains or Losses on Asset Sales*

**Remove:** *Unusual Professional Fees (i.e., Acquisition, Divestitures, One Time, or Personal)*

**Normalize:** *Management Compensation to Market Value (Salaries, Wages, Bonuses, Perks, Travel, Entertainment, Automobile, Insurance, Management Fees, etc.)*

***Note—Not all changes bring EBITDA up, some may bring EBITDA down.***

There are other methods of determining the value for less profitable or newer staffing operations which are often expressed in a percentage of annual gross margin dollars generated. ■

Sam Sacco and Brian Kennedy operate R.A. Cohen Consulting, a trusted M&A Advisory service that caters exclusively to the staffing industry. Since 1991, we have advised on hundreds of successful transactions.

Call us at 910.769.4057 or 416.229.6462 respectively.

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