A GUIDE FOR FIRST-TIME BUSINESS BUYERS

How many years to make your money back?

The Payback Line

The Business Payback Benchmarks Guide

SDE, multiples, and real transaction data by industry,
so a seller's pitch and the market's reality can be told apart.

Explained simply — the way I'd tell a friend.

JAY PATEL
REAL ESTATE · GREATER TORONTO AREA
@jayp.realestate

What’s inside this guide

Real transaction data, not round numbers someone remembered. Every range here traces back to an actual source, noted as we go.

01 Read this first

If you buy a business today, how many years should it take to make your money back? The honest answer is that it depends heavily on what kind of business it is, and the range across categories is wide enough that a generic answer is close to useless. What isn't useless is understanding the actual mechanism that sets that range, and knowing where real, current transaction data says different categories of small business actually land.

That's what this guide does. It walks through the framework brokers and buyers actually use to price a small business, seller's discretionary earnings and the multiple applied to it, shows how that math converts directly into a payback period, and then gives sourced benchmark ranges by business type, flagging plainly where the data is thinner than others.

> **HOW TO USE THIS GUIDE**
>
> Sections 02 through 05 build the framework. Section 06 is the benchmark table itself. Section 07 is arguably the most important page in the guide, the one factor that swings a valuation more than any single number in the benchmark table.

> **IMPORTANT**
>
> I'm a realtor, not a business broker, appraiser, or accountant. This guide reflects publicly reported industry benchmark data as a starting point for a conversation, not a valuation of any specific business. Every real transaction depends on its own numbers, and should be reviewed with a business broker or accountant before you commit to anything.

IF YOU REMEMBER NOTHING ELSE

The 3 things that matter most

- A payback period and a valuation multiple are the same underlying idea. If a business sells at a 3x multiple of its cash flow, that's roughly a 3-year payback, before financing.
- How dependent a business is on its current owner can swing its actual value by more than the difference between industries. Ask this before you ask about the multiple.
- The seller's stated "cash flow" almost always includes add-backs, adjustments added on top of reported profit. Verify them before you trust the number the payback period is built on.

02 The question underneath the question

"How many years to pay back" and "what multiple did it sell for" sound like two different questions. They're the same question, which is worth understanding before anything else in this guide.

> **IN SIMPLE WORDS**
>
> If a business sells for 3 times its annual cash flow to the owner, and that cash flow stays roughly the same after you buy it, you've committed to a purchase that pays for itself in roughly 3 years, before accounting for any financing costs. The "multiple" a broker quotes and the "payback period" a buyer thinks about are the same number, just expressed two different ways: multiply cash flow by the multiple to get price, or divide price by cash flow to get the payback in years.

This matters because industry benchmark data is almost always reported as multiples, not payback years, since that's the language brokers and sellers use. Once you see they're the same thing, every multiple in section 06 converts directly into the number you actually care about.

03 SDE: the number everything is based on

Before any multiple gets applied to anything, there's a more basic question: cash flow to whom, calculated how? For a small, owner-operated business, that number has a specific name.

> **IN SIMPLE WORDS**
>
> Seller's Discretionary Earnings, SDE, represents the total financial benefit the business provides to a single owner-operator: the business's net profit, plus the owner's salary and benefits added back in, plus other discretionary or one-time expenses added back. It answers a specific question: if you bought this business and ran it yourself, working in it full-time the way the current owner does, what would it actually put in your pocket in a year?

- **Net profit,** the business's bottom line as reported.
- **Plus the owner's salary and benefits,** added back, because a new owner-operator would take that role themselves instead of paying someone else to.
- **Plus other add-backs,** one-time expenses, personal costs run through the business, and similar items. Section 08 covers exactly how much scrutiny this step deserves.

> SDE is not the same as EBITDA, which assumes a paid, non-owner manager running daily operations. SDE assumes you're the one showing up. Confirm which one a quoted number actually is.

04 The multiple: how a price actually gets set

With SDE established, the second half of the equation is the multiple, the number the market assigns to a dollar of that specific business's cash flow.

> **IN SIMPLE WORDS**
>
> Asking or sale price is, in practice, SDE multiplied by a multiple pulled from how similar businesses have actually sold. A business with $150,000 in verified SDE, in a category that typically trades at 2.5 times SDE, is priced around $375,000. The multiple isn't arbitrary, it's the market's collective judgment on how much a dollar of that specific kind of business's cash flow is worth, based on real closed transactions.

Across all small business categories, the broad market average has recently run in the neighbourhood of 2.5 to 2.7 times SDE, based on tens of thousands of tracked listings and closed sales. Most Main Street businesses, the everyday small businesses bought and sold outside the corporate world, land somewhere between 2 and 4 times SDE. The specific number for a given category is what section 06 breaks down.

05 Why multiples differ so much by industry

The gap between the highest and lowest multiple categories isn't random, it tracks a small number of consistent underlying factors.

- **Recurring revenue.** A business with predictable, repeat income is worth more per dollar of cash flow than one that has to win every sale from scratch.
- **Labour intensity.** Businesses that need relatively little staff to operate, and are less dependent on finding and keeping skilled labour, tend to command higher multiples.
- **Barriers to entry.** A business that's hard for a new competitor to replicate quickly, real estate, licensing, specialized equipment, holds its value better than one anyone could start next month.
- **Asset base.** Categories with real, transferable equipment or property value tend to price higher than pure service businesses with little behind them but the owner's relationships.

WHY THIS EXPLAINS THE SPREAD IN SECTION 06

The categories you'll see trading at the highest multiples in section 06, laundromats and car washes among them, score high on nearly every factor above: sticky, repeat local customers, minimal staffing, and real equipment behind the price. The categories at the lower end, like hair salons, tend to be highly dependent on the specific people doing the work and easy for a client to simply follow to a new location if that person leaves. Same underlying math, very different inputs.

06 Payback and multiples by business type

These ranges come from industry benchmark reports built on actual closed transactions, tens of thousands of them, tracked by business-for-sale marketplaces and specialty valuation firms. They're a starting reference point, not a quote for any specific business, real deals move within and sometimes outside these ranges based on the exact business.

IN SIMPLE WORDS

Read each range as roughly convertible both ways: a 2 to 3 times SDE multiple is roughly a 2 to 3 year payback, before financing costs. The wider a category's range, the more that specific business's individual quality, location, and owner-dependency matters relative to its industry label.

- **All small businesses, blended average:** roughly 2.5 to 2.7 times SDE, based on well over 9,000 tracked transactions. Most Main Street businesses fall somewhere in a 2 to 4 times range. This is the number to anchor to before looking at any specific category.
- **Laundromats:** among the highest multiples of any small business category, commonly cited around 4 times SDE, roughly a 4 year payback. Low staffing needs and a sticky, repeat local customer base explain the premium.
- **Convenience stores:** commonly reported in a roughly 2.2 to 3.3 times SDE range, in the ballpark of a 2 to 3 year payback, per specialty valuation data.
- **Restaurants:** a genuinely wide range, single-unit independents have been reported anywhere from about 1.5 to 5 times SDE depending on concept, lease terms, and financial clarity, with plenty of real transactions landing in the 2.5 to 3 times area. Restaurants are one of the categories where the specific deal matters more than the category average.
- **Gyms and fitness studios:** specialty valuation sources for this category put the typical range closer to 1 to 2.5 times SDE, roughly a 1 to 2.5 year payback, with well-run, fully owner-independent gyms occasionally approaching 3 times.

BEING HONEST ABOUT A GAP

Hair and nail salons didn't turn up a single clean, specific multiple in the sources this guide draws from, the way gyms, laundromats, and convenience stores did. What the data does show clearly is that salons sit toward the lower end of the small-business multiple spectrum, generally below the 2.5 to 2.7 times all-industry average, for the same reason discussed in section 05: value that's tied closely to a specific stylist or technician a client could simply follow elsewhere. Treat any specific salon multiple you're quoted as something to verify against a broker's current data, not something to take from this guide.

07 The single biggest swing factor

Before comparing multiples across categories, there's a question worth asking about any single business that can matter more than which category it's in at all.

IN SIMPLE WORDS

Ask directly: who is actually going to run this business day to day, after the sale? If the answer is "you, personally, full-time," the SDE-based multiples in this guide are the right lens. If the current owner is the reason the business runs well, and you'd need to hire a manager to replace what they do, that manager's salary needs to come out of the cash flow before you apply any multiple, and that single adjustment can cut the real value of a deal dramatically.

> A business that looks like a $150,000 acquisition at face value can become closer to a $40,000 one once the true cost of replacing the owner is actually subtracted out. This is consistently the largest single swing factor in a small business valuation, larger than the difference between most industry categories.

Always ask two questions together, not one: how much does this business make, and how much of my own time does making that require? A business that generates less but runs largely without you is frequently the better financial decision than one that generates more but is really buying yourself a demanding full-time job.

08 Add-backs: where the numbers get inflated

Since SDE is built by adding things back to reported profit, it's also the easiest number in a business-for-sale listing to inflate, sometimes without any bad intent at all.

- ✓ **Legitimate add-backs** include the owner's own salary and benefits, genuine one-time expenses (a single lawsuit, a one-off equipment failure), and personal expenses clearly run through the business that a new owner simply wouldn't incur.
- ⚠ **Questionable add-backs** include expenses labelled "one-time" that actually recur most years, generous estimates of "personal use" that are hard to substantiate, and any add-back the seller can't point to a specific line item or receipt for.

> **INSIDER TIP**
>
> Ask for the add-back schedule itself, not just the final SDE number, and check whether each item is documented with an actual invoice or statement. A seller or broker confident in their numbers will have this ready. Reluctance to itemize add-backs is itself useful information.

09 A worked example

Running one deal through the full framework end to end makes it concrete. The numbers below are illustrative, chosen to show how the pieces connect, not to predict any real listing.

THE SCENARIO

You're looking at a small service business. All-in purchase price, including the business, initial equipment or leasehold work, legal costs, and starting working capital, comes to $100,000. The seller reports $33,000 a year in SDE, and you'll be running it yourself, full-time.

1. Verify the SDE. Ask for the add-back schedule from section 08. Confirm the $33,000 is real, documented cash flow, not optimistic rounding.

2. Ask the section 07 question. Confirm this is genuinely a business you can run yourself, not one quietly dependent on the current owner's specific relationships or expertise.

3. Do the math both directions. $100,000 price divided by $33,000 SDE is a 3.0 times multiple, and a payback of just over 3 years. Compare that multiple to where this specific category sits in section 06, is 3.0x reasonable for this kind of business, or high, or low?

4. Remember what payback doesn't include. Financing costs if you're borrowing part of the purchase, taxes on the income, and your own opportunity cost, what else that money or your time could have earned, all sit outside this simple payback number.

Around three years later, you've earned back your original $100,000. That's what a broker means by "roughly 3x, roughly a 3-year payback." It's a starting frame for the decision, not the whole decision.

10 Shorter payback doesn't mean better

It's tempting to treat the shortest payback period as automatically the best deal. The market itself doesn't price it that way, and there's a reason.

IN SIMPLE WORDS

A short payback period is often the market's way of pricing in real risk, less predictable revenue, high owner-dependency, low barriers keeping competitors out, rather than a hidden bargain nobody else noticed. A business with stable customers, documented systems, and revenue that doesn't depend entirely on the current owner will often sell for a higher multiple, and a longer payback, precisely because it's a safer, more transferable asset.

This is why comparing two businesses purely on payback years, without asking why one is faster than the other, is one of the most common mistakes a first-time buyer makes. The right question isn't "which pays back fastest." It's "given what I now understand about why this multiple is what it is, is this the right business and the right price for what I actually want."

11 Questions to ask before you buy a business

Copy these into a message to the seller or listing broker before you go further than a first conversation.

- Can I see the add-back schedule behind the reported SDE, with documentation for each item?
- Who currently runs the day-to-day operations, and would that change under new ownership?
- What multiple is this asking price actually based on, and how does that compare to recent sales in this specific category?
- How much of the revenue is repeat or recurring versus one-time or seasonal?
- What would it cost to hire a manager if I didn't want to run this myself full-time?
- Are there any real barriers stopping a new competitor from opening nearby and taking customers?
- What does the lease or property situation look like, and how long is it secured for?
- Has a business broker or accountant reviewed these numbers independently of the seller?

12 Glossary

Every term in this guide that can sound intimidating, in everyday language.

Seller's Discretionary Earnings (SDE)
The total financial benefit an owner-operated business provides to its owner: net profit, plus the owner's salary and benefits, plus other add-backs.

EBITDA
Earnings before interest, tax, depreciation, and amortization, a cash flow measure that assumes a paid, non-owner manager runs the business, distinct from SDE.

Multiple
The number a business's SDE (or EBITDA) is multiplied by to arrive at its sale price, set by how similar businesses have actually sold.

Payback period
How long it takes for a business's cash flow to return the original purchase price, mathematically the inverse of the multiple.

Add-back
An expense added back to reported profit when calculating SDE, on the basis that a new owner wouldn't incur it the same way.

Main Street business
Industry shorthand for small, typically owner-operated businesses, as distinct from larger, professionally managed companies.

Owner-dependency
The degree to which a business's performance relies on the specific skills, relationships, or presence of its current owner.

Recurring revenue
Income that repeats predictably, from repeat customers or contracts, as opposed to one-time sales that must be won fresh each time.

Barriers to entry
Factors, licensing, capital cost, specialized equipment, that make it difficult for a new competitor to enter a market quickly.

The multiple someone quotes you is a starting point.
Now you know what actually built it.

Looking at a business, or a commercial property to house it?

Send me your questions, happy to point you in the right direction. Reach out on Instagram **@jayp.realestate**.

JAY PATEL

Real Estate · @jayp.realestate