

"Any business owner, lender, or advisor confused by why the same asset can have multiple "correct" values will find clear answers here."

-Ed Mysogland, CVA, CM&AA, CEPA, CMEA.

BUSINESS AND ASSET VALUES

**HOW OWNERS, BUYERS, SELLERS, LENDERS,
AND ADVISORS SHOULD THINK ABOUT
SMALL BUSINESS & EQUIPMENT VALUE**

DAVID C BARNETT

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Business and Asset Values Book

Alt Text Companion

Final KDP manuscript - image-by-image accessibility review

Purpose. Each section reproduces an image from the final Kindle manuscript and places alt text directly beneath it. Complex charts are described by their main teaching point rather than by reading every label aloud.

Contact David C Barnett and ALP Ltd.

David C Barnett and his team at Advantage Liquidity Partners Ltd. help small business owners, buyers, sellers, lenders, and advisors understand business value, asset value, financing, and deal structure.

For valuation and appraisal services, visit:

www.BusinessAndAssetValues.com

For David's books, courses, consulting, articles, videos, and other resources, visit:

www.DavidCBarnett.com

David's YouTube channel and podcast can be found at:

www.SmallBusinessAndDealMakingPodcast.com

There, you'll find discussions about buying, selling, financing, valuing, and managing small and medium-sized businesses. The audio version is also available through major podcast platforms by searching for "David C Barnett Small Business."

David regularly gives seminars, workshops, and presentations on small business valuation, buying and selling businesses, local investing, financing, and machinery and equipment

appraisal. To discuss a speaking engagement, visit: www.BookDavidCBarnett.com

To arrange a quick phone consultation about a business deal, visit:

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Services

David C Barnett and his team provide:

1. Consulting to help people buy or sell small businesses.
2. Online courses for self-serve education.
3. Books and educational resources.
4. Small business valuation and Most Probable Selling Price reports.
5. Certified machinery and equipment appraisal services.
6. Live workshops, seminars, and virtual training.

More details available in Appendix A of the book.

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Image 1: YouTube QR code

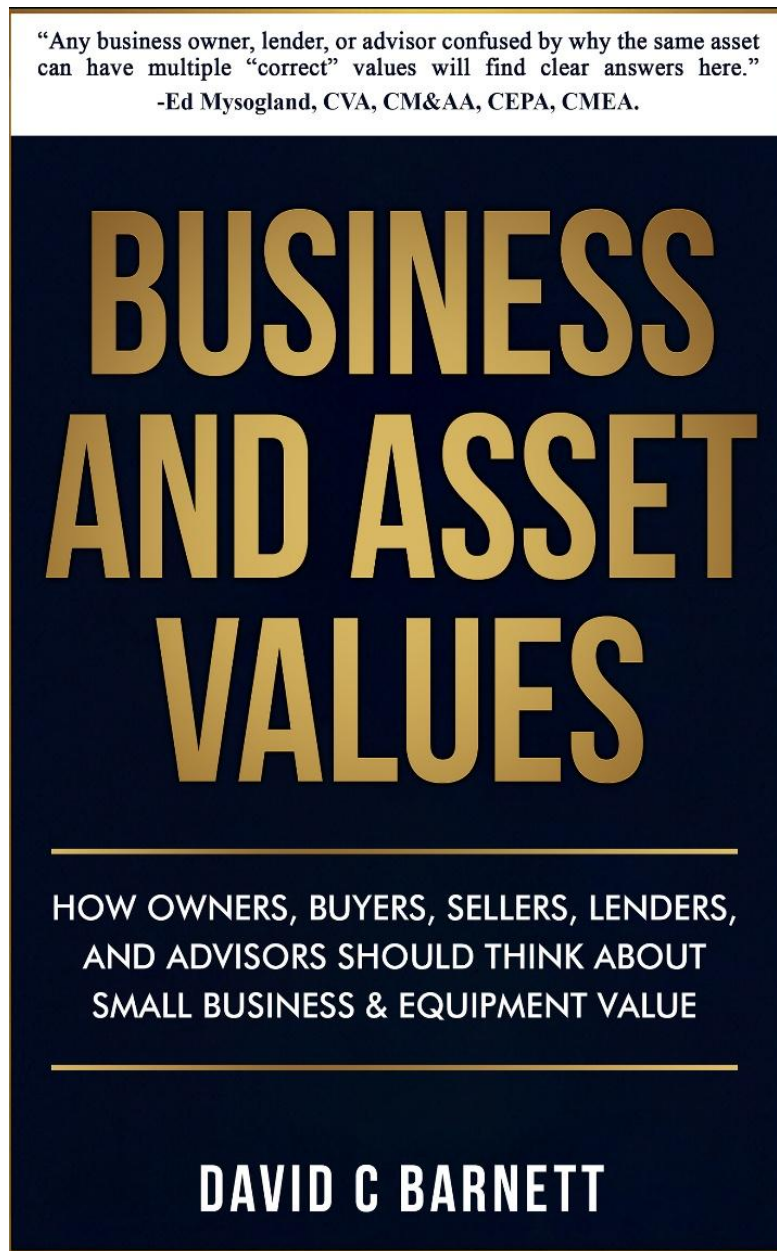
Location cue: *David's YouTube channel and podcast can be found at:*



ALT TEXT: QR code for David C. Barnett's YouTube channel and Small Business and Deal Making Podcast. The QR code links readers to videos and audio discussions about buying, selling, financing, valuing, and managing small and medium-sized businesses.

Source graphic: image1.png

Image 2: Book cover

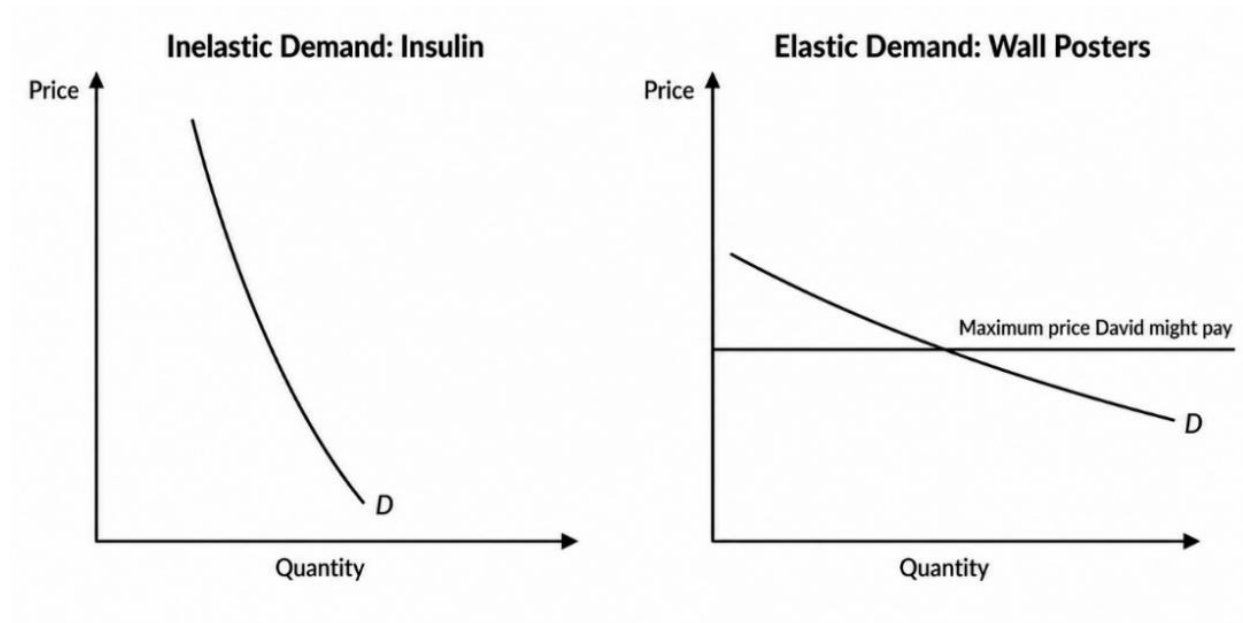


ALT TEXT: Book cover for Business and Asset Values by David C. Barnett. The subtitle is: How Owners, Buyers, Sellers, Lenders, and Advisors Should Think About Small Business and Equipment Value.

Source graphic: image2.jpeg

Image 3: Elastic and inelastic demand

Location cue: *We're going to examine supply and demand from a different point of view in this chapter, one that you likely have not seen before. Most supply and demand discussions look at a market for a good or service from ...*

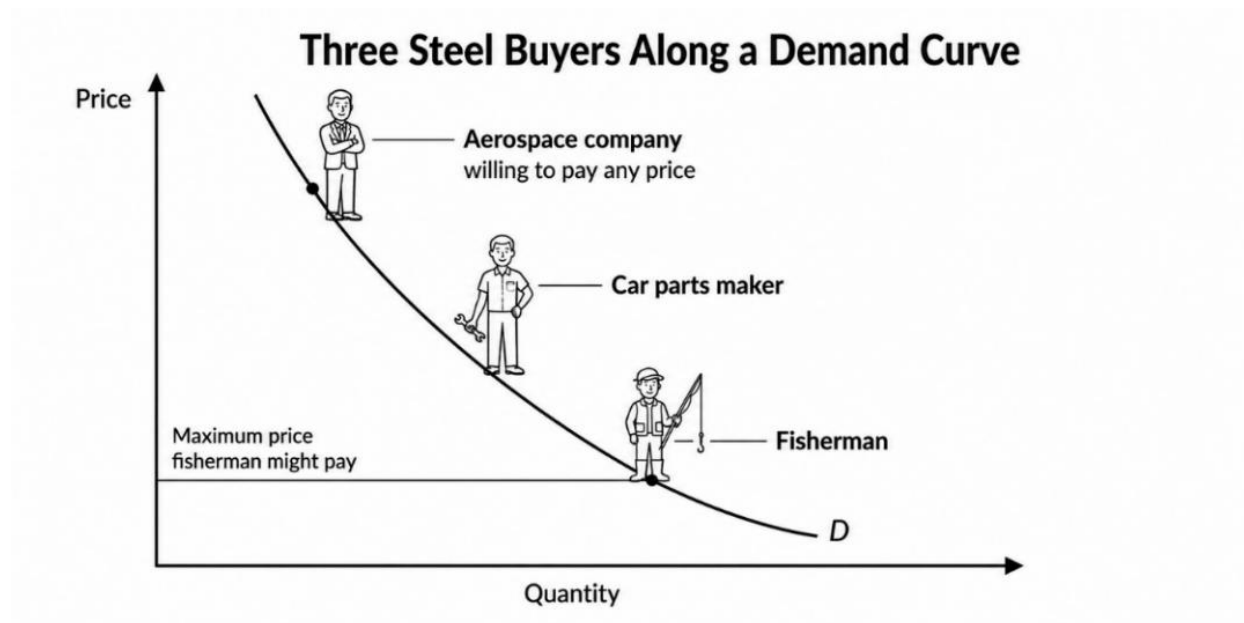


ALT TEXT: Two demand curves illustrate elastic and inelastic demand. The elastic curve slopes sharply downward, showing that quantity demanded changes greatly as price changes. The inelastic curve is much steeper, showing that quantity demanded changes relatively little even when price changes.

Source graphic: image3.png

Image 4: Three steel buyers along a demand curve

Location cue: Now, let's imagine that old-fashioned supply and demand curve again. The people standing along the demand curve at the different price points are real people who have some real mission or need (or not, if it's ...

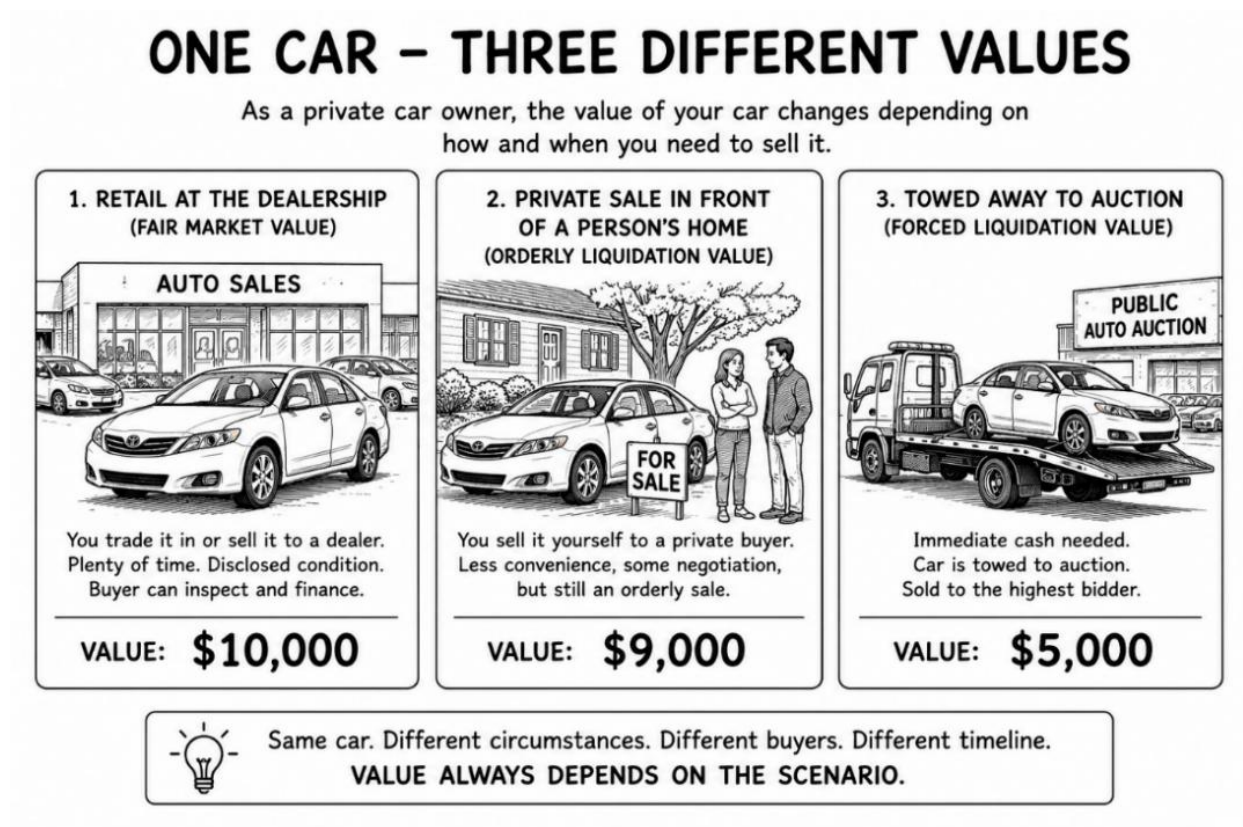


ALT TEXT: A downward-sloping demand curve with three example buyers positioned along it. The aerospace company is near the high-price, low-quantity end because steel is critical to its mission; the car-parts maker is in the middle; and the fisherman is near the low-price, high-quantity end because he can easily substitute another heavy material. The diagram shows that willingness to pay depends on the buyer's intended use and alternatives.

Source graphic: image4.png

Image 5: One car - three different values

Location cue: Likewise, the Forced Liquidation Value is truly only discovered at the auction block. If you did go to the auction, you'd see the used car dealer there. They often attend the auction and buy cars. In fact, what...



ALT TEXT: The same used car shown in three different sale settings, producing three different values. A retail dealer lists the car at about \$10,000, a private seller asks about \$9,000, and a dealer trade-in or auction scenario produces about \$5,000. The illustration demonstrates that one asset can have different valid values depending on the market, time available, and transaction circumstances.

Source graphic: image5.png

Image 6: Equipment value definitions

Location cue: Sometimes, equipment straddles the boundaries between these different categories. I remember one time; I was asked to appraise a flat-bed tow truck that had been damaged in a fire. The date of value was to be t...

	Value Definition	Moveable Equipment	Trade Fixtures/ Installed Equipment	
Abundant Time	Fair Market Value- In continued use	Full Value- including freight/connections	Full Value- including freight/ installation	Business Open
	Fair Market Value	Full Value	Full Value- Ignoring freight & installation Value	
	Fair Market Value- Removed	Full Value- Less Transport & Disconnections	Full Value- Less dis-installation costs & site remediation costs.	
	Orderly Liquidation Value	"Wholesale Value"	"Scrap Equivalent"- Less dis-installation costs & site remediation costs. (Typically, nil.)	
Limited Time	Forced Liquidation Value	Auction Value	Nil	Business Closed
	Liquidation Value- In Place	Auction Value- Less a discount for <i>en bloc</i> transaction	Nil	

ALT TEXT: Matrix comparing value definitions for moveable equipment and installed trade fixtures. With abundant time and an operating business, fair market value generally preserves the greatest value. As time becomes limited or the business closes, values move toward orderly or forced liquidation. Installed equipment can lose especially large amounts of value because removal, disconnection, installation, and site-remediation costs reduce what a buyer will pay.

Source graphic: image6.png

Image 7: Two-year loan IRR example

Location cue: *The amount we are lending is expressed as a negative number because it is moving away from us. The payments from Ralph are positive because they are moving towards us.*

Loan	Year 1	Year 2
-1000	550	550
IRR=	6.60%	

ALT TEXT: Cash-flow table for a \$1,000 loan to Ralph. The lender advances \$1,000 today and receives \$550 after one year and another \$550 after two years. Although the stated interest may appear to be 10 percent, the internal rate of return on the full payment stream is only about 6.60 percent.

Source graphic: image7.png

Image 8: Return by repayment year

Location cue: It says we’re only earning 6.60% on our loan to Ralph. How can this be? It’s because while we may be earning 10% return from the first half of the loan (Year 1 payment of \$550) we are earning a much lower rate ...

Loan	Year 1	Year 2	IRR
-500	550		10.00%
-500	0	550	4.88%

ALT TEXT: The two \$550 payments are separated to show their different returns. The first-year repayment on half of the original loan earns about 10 percent, while the portion repaid after two years earns only about 4.88 percent. The example shows why timing changes the true return on an investment.

Source graphic: image8.png

Image 9: Loan amount required for a 10% return

Location cue: Since 6.60% is not high enough for the risks associated with Ralph’s poor financial management, you decline the loan. Sheepishly, Ralph asks how much you would lend him if he paid you \$550 each year for the nex...

Loan	Year 1	Year 2
-\$ 954.55	\$ 550.00	\$ 550.00

ALT TEXT: Present-value calculation showing that, to earn a 10 percent annual return from two future payments of \$550, a lender could advance only about \$954.55 today. The difference between \$1,000 and \$954.55 compensates the lender for the time and risk of waiting for repayment.

Source graphic: image9.png

Image 10: Ten-year payment stream

Location cue: Excel tells us that in order for the two future payments of \$550 to give us a 10% yield then we can only lend Ralph \$954.55. We need an extra \$45.45 of interest to get the right yield for the Counterparty Risk ...

Loan	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
-\$ 3,379.51	\$ 550.00	\$ 550.00	\$ 550.00	\$ 550.00	\$ 550.00	\$ 550.00	\$ 550.00	\$ 550.00	\$ 550.00	\$ 550.00

ALT TEXT: A ten-year stream of equal \$550 annual payments. The illustration shows that payments received farther in the future contribute progressively less to present value, even though every future payment has the same nominal dollar amount.

Source graphic: image10.png

Image 11: Present value at 10%

Location cue: \$3,379.51. That’s it. 10 years of payments, over 5 times the dollars are worth just a bit more than three times the money today. The reason, of course, is that the payments at the end of the agreement are worth...

	Loan	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
-	\$ 500.00	\$ 550.00									
-	\$ 454.55	\$ -	\$ 550.00								
-	\$ 413.22	\$ -	\$ -	\$ 550.00							
-	\$ 375.66	\$ -	\$ -	\$ -	\$ 550.00						
-	\$ 341.51	\$ -	\$ -	\$ -	\$ -	\$ 550.00					
-	\$ 310.46	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 550.00				
-	\$ 282.24	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 550.00			
-	\$ 256.58	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 550.00		
-	\$ 233.25	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 550.00	
-	\$ 212.05	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 550.00
-	\$ 3,379.51										

ALT TEXT: Present-value table for ten annual payments of \$550 discounted at 10 percent. The first payment is worth \$500 today, and each later payment is worth less; by year ten, the \$550 payment is worth only about \$212 today. The total present value of all ten payments is about \$3,379.51.

Source graphic: image11.png

Image 12: Present value at 1.2%

Location cue: *Just for fun, let’s compare this to the 1.2% yield that we discussed earlier that we would accept from the government. What would 10 years of \$550 payments be worth to us if we only needed a 1.2% rate of return...*

Loan	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
-\$ 5,153.77	\$ 550.00	\$ 550.00	\$ 550.00	\$ 550.00	\$ 550.00	\$ 550.00	\$ 550.00	\$ 550.00	\$ 550.00	\$ 550.00

ALT TEXT: Present-value table for ten annual payments of \$550 discounted at a much lower 1.2 percent required return. Because the assumed risk and required yield are lower, the future payments retain much more of their value and the stream is worth a little over \$5,000 today.

Source graphic: image12.png

Image 13: Cap-rate valuation table

Location cue: This is also referred to as a capitalization, and the rate of return is known as the 'cap rate.'

We often hear this used in the world of real estate investing. For example, an apartment building with a Net Oper...

NOI	Cap Rate	Value	NOI	Cap Rate	Value
\$ 100,000.00	1%	\$ 10,000,000.00	\$ 100,000.00	26%	\$ 384,615.38
\$ 100,000.00	2%	\$ 5,000,000.00	\$ 100,000.00	27%	\$ 370,370.37
\$ 100,000.00	3%	\$ 3,333,333.33	\$ 100,000.00	28%	\$ 357,142.86
\$ 100,000.00	4%	\$ 2,500,000.00	\$ 100,000.00	29%	\$ 344,827.59
\$ 100,000.00	5%	\$ 2,000,000.00	\$ 100,000.00	30%	\$ 333,333.33
\$ 100,000.00	6%	\$ 1,666,666.67	\$ 100,000.00	31%	\$ 322,580.65
\$ 100,000.00	7%	\$ 1,428,571.43	\$ 100,000.00	32%	\$ 312,500.00
\$ 100,000.00	8%	\$ 1,250,000.00	\$ 100,000.00	33%	\$ 303,030.30
\$ 100,000.00	9%	\$ 1,111,111.11	\$ 100,000.00	34%	\$ 294,117.65
\$ 100,000.00	10%	\$ 1,000,000.00	\$ 100,000.00	35%	\$ 285,714.29
\$ 100,000.00	11%	\$ 909,090.91	\$ 100,000.00	36%	\$ 277,777.78
\$ 100,000.00	12%	\$ 833,333.33	\$ 100,000.00	37%	\$ 270,270.27
\$ 100,000.00	13%	\$ 769,230.77	\$ 100,000.00	38%	\$ 263,157.89
\$ 100,000.00	14%	\$ 714,285.71	\$ 100,000.00	39%	\$ 256,410.26
\$ 100,000.00	15%	\$ 666,666.67	\$ 100,000.00	40%	\$ 250,000.00
\$ 100,000.00	16%	\$ 625,000.00	\$ 100,000.00	41%	\$ 243,902.44
\$ 100,000.00	17%	\$ 588,235.29	\$ 100,000.00	42%	\$ 238,095.24
\$ 100,000.00	18%	\$ 555,555.56	\$ 100,000.00	43%	\$ 232,558.14
\$ 100,000.00	19%	\$ 526,315.79	\$ 100,000.00	44%	\$ 227,272.73
\$ 100,000.00	20%	\$ 500,000.00	\$ 100,000.00	45%	\$ 222,222.22
\$ 100,000.00	21%	\$ 476,190.48	\$ 100,000.00	46%	\$ 217,391.30
\$ 100,000.00	22%	\$ 454,545.45	\$ 100,000.00	47%	\$ 212,765.96
\$ 100,000.00	23%	\$ 434,782.61	\$ 100,000.00	48%	\$ 208,333.33
\$ 100,000.00	24%	\$ 416,666.67	\$ 100,000.00	49%	\$ 204,081.63
\$ 100,000.00	25%	\$ 400,000.00	\$ 100,000.00	50%	\$ 200,000.00

ALT TEXT: Table showing how the value of a constant \$100,000 annual income stream changes as the capitalization rate rises. At a 1 percent cap rate the value is \$10 million; at 5 percent it is \$2 million; at 10 percent it is \$1 million; at 20 percent it is \$500,000; and at 50 percent it is \$200,000. Higher required returns produce lower asset values.

Source graphic: image13.png

Image 14: Selected values and cap rates

Location cue: Do you remember that chart in the last chapter about the value of income streams by cap rates? I wonder what it might tell us if we looked up \$2,000,000, \$1,000,000, \$650,000 and \$500,000...

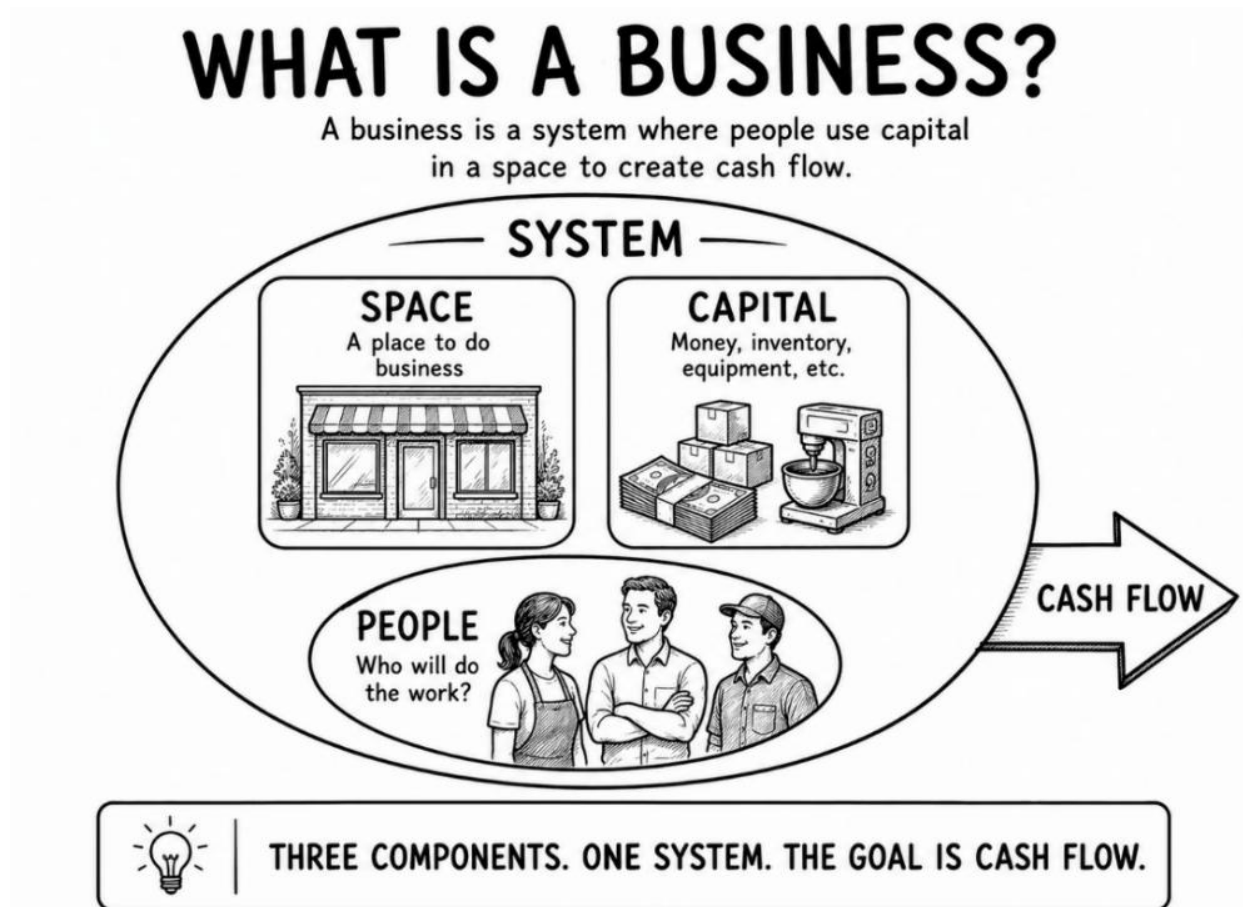
NOI	Cap Rate	Value	
\$ 100,000.00	1%	\$ 10,000,000.00	\$ 1
\$ 100,000.00	2%	\$ 5,000,000.00	\$ 1
\$ 100,000.00	3%	\$ 3,333,333.33	\$ 1
\$ 100,000.00	4%	\$ 2,500,000.00	\$ 1
\$ 100,000.00	5%	\$ 2,000,000.00	\$ 1
\$ 100,000.00	6%	\$ 1,666,666.67	\$ 1
\$ 100,000.00	7%	\$ 1,428,571.43	\$ 1
\$ 100,000.00	8%	\$ 1,250,000.00	\$ 1
\$ 100,000.00	9%	\$ 1,111,111.11	\$ 1
\$ 100,000.00	10%	\$ 1,000,000.00	\$ 1
\$ 100,000.00	11%	\$ 909,090.91	\$ 1
\$ 100,000.00	12%	\$ 833,333.33	\$ 1
\$ 100,000.00	13%	\$ 769,230.77	\$ 1
\$ 100,000.00	14%	\$ 714,285.71	\$ 1
\$ 100,000.00	15%	\$ 666,666.67	\$ 1
\$ 100,000.00	16%	\$ 625,000.00	\$ 1
\$ 100,000.00	17%	\$ 588,235.29	\$ 1
\$ 100,000.00	18%	\$ 555,555.56	\$ 1
\$ 100,000.00	19%	\$ 526,315.79	\$ 1
\$ 100,000.00	20%	\$ 500,000.00	\$ 1
\$ 100,000.00	21%	\$ 476,190.48	\$ 1
\$ 100,000.00	22%	\$ 454,545.45	\$ 1

ALT TEXT: Excerpt from the capitalization-rate table connecting four example values for a \$100,000 income stream. A value of about \$2 million corresponds to a 5 percent cap rate, \$1 million to 10 percent, roughly \$650,000 to about 15 percent, and \$500,000 to 20 percent. The comparison shows how perceived risk and required yield drive value.

Source graphic: image14.png

Image 15: What is a business?

Location cue: We may not be able to photograph a business, but we can make drawings that demonstrate how these orchestrations of human activity function and their requisite components...



ALT TEXT: Diagram titled 'What Is a Business?' A business is shown as a system made from three broad groups of assets: space or premises, capital such as equipment and working capital, and people such as owners, employees, customers, suppliers, and relationships. The system produces cash flow, emphasizing that business value comes from the coordinated use of many tangible and intangible components.

Source graphic: image15.png

Image 16: SDE versus EBITDA

Location cue: *Notional means ‘made up’ because you won’t find these terms on any accountant-prepared financial statement or on any government tax return. The purpose of using SDE and EBITDA are to allow us to better compare ...*

What You Need to Pay from Each of These Notional Cash Flow Measures

EBITDA	SDE
Debt service payments (Principal & Interest)	A fair market wage for the owner-operator.
Income taxes	Debt service payments (Principal & Interest)
A return on the equity contributed	Income taxes
Capital Expenditures required to replace fixed assets & equipment	A return on the equity contributed
	Capital Expenditures required to replace fixed assets & equipment



SDE includes the owner-operator benefit, but both measures still need to cover debt, taxes, equity return, and replacement capital.

ALT TEXT: Comparison of Seller's Discretionary Earnings, or SDE, and EBITDA. The table shows which expenses are normally paid from each measure of cash flow. SDE is commonly used for owner-operated Main Street businesses and includes one owner's compensation, while EBITDA is used for larger businesses where professional management compensation remains an operating expense.

Source graphic: image16.png

Image 17: Cap-rate and multiple conversion table

Location cue: \$1,000,000 is 10 times \$100,000. So, we could also say that this building will sell for 10x it's cash flow. This is the nomenclature for business valuation. So, just to help you out, I've re-written our cap rat...

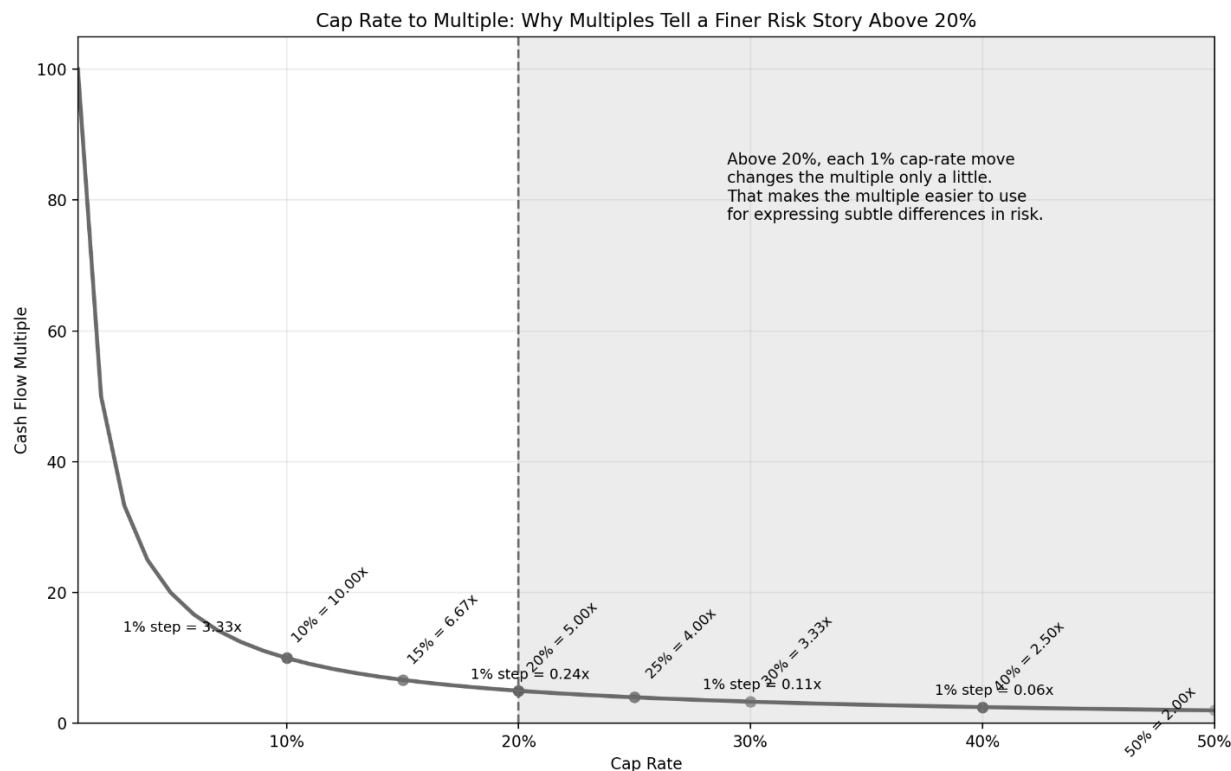
NOI	Cap Rate	Value	Multiple	NOI	Cap Rate	Value	Multiple
\$ 100,000.00	1%	\$ 10,000,000.00	100.00	\$ 100,000.00	26%	\$ 384,615.38	3.85
\$ 100,000.00	2%	\$ 5,000,000.00	50.00	\$ 100,000.00	27%	\$ 370,370.37	3.70
\$ 100,000.00	3%	\$ 3,333,333.33	33.33	\$ 100,000.00	28%	\$ 357,142.86	3.57
\$ 100,000.00	4%	\$ 2,500,000.00	25.00	\$ 100,000.00	29%	\$ 344,827.59	3.45
\$ 100,000.00	5%	\$ 2,000,000.00	20.00	\$ 100,000.00	30%	\$ 333,333.33	3.33
\$ 100,000.00	6%	\$ 1,666,666.67	16.67	\$ 100,000.00	31%	\$ 322,580.65	3.23
\$ 100,000.00	7%	\$ 1,428,571.43	14.29	\$ 100,000.00	32%	\$ 312,500.00	3.13
\$ 100,000.00	8%	\$ 1,250,000.00	12.50	\$ 100,000.00	33%	\$ 303,030.30	3.03
\$ 100,000.00	9%	\$ 1,111,111.11	11.11	\$ 100,000.00	34%	\$ 294,117.65	2.94
\$ 100,000.00	10%	\$ 1,000,000.00	10.00	\$ 100,000.00	35%	\$ 285,714.29	2.86
\$ 100,000.00	11%	\$ 909,090.91	9.09	\$ 100,000.00	36%	\$ 277,777.78	2.78
\$ 100,000.00	12%	\$ 833,333.33	8.33	\$ 100,000.00	37%	\$ 270,270.27	2.70
\$ 100,000.00	13%	\$ 769,230.77	7.69	\$ 100,000.00	38%	\$ 263,157.89	2.63
\$ 100,000.00	14%	\$ 714,285.71	7.14	\$ 100,000.00	39%	\$ 256,410.26	2.56
\$ 100,000.00	15%	\$ 666,666.67	6.67	\$ 100,000.00	40%	\$ 250,000.00	2.50
\$ 100,000.00	16%	\$ 625,000.00	6.25	\$ 100,000.00	41%	\$ 243,902.44	2.44
\$ 100,000.00	17%	\$ 588,235.29	5.88	\$ 100,000.00	42%	\$ 238,095.24	2.38
\$ 100,000.00	18%	\$ 555,555.56	5.56	\$ 100,000.00	43%	\$ 232,558.14	2.33
\$ 100,000.00	19%	\$ 526,315.79	5.26	\$ 100,000.00	44%	\$ 227,272.73	2.27
\$ 100,000.00	20%	\$ 500,000.00	5.00	\$ 100,000.00	45%	\$ 222,222.22	2.22
\$ 100,000.00	21%	\$ 476,190.48	4.76	\$ 100,000.00	46%	\$ 217,391.30	2.17
\$ 100,000.00	22%	\$ 454,545.45	4.55	\$ 100,000.00	47%	\$ 212,765.96	2.13
\$ 100,000.00	23%	\$ 434,782.61	4.35	\$ 100,000.00	48%	\$ 208,333.33	2.08
\$ 100,000.00	24%	\$ 416,666.67	4.17	\$ 100,000.00	49%	\$ 204,081.63	2.04
\$ 100,000.00	25%	\$ 400,000.00	4.00	\$ 100,000.00	50%	\$ 200,000.00	2.00

ALT TEXT: Reference table converting capitalization rates into equivalent cash-flow multiples. The relationship is reciprocal: a 10 percent cap rate equals a 10-times multiple, a 20 percent cap rate equals 5 times, a 25 percent cap rate equals 4 times, and a 50 percent cap rate equals 2 times. As required yield rises, the multiple paid for the same cash flow falls.

Source graphic: image17.emf

Image 18: Cap-rate-to-multiple compression curve

Location cue: It is illustrated visually in this compression table:

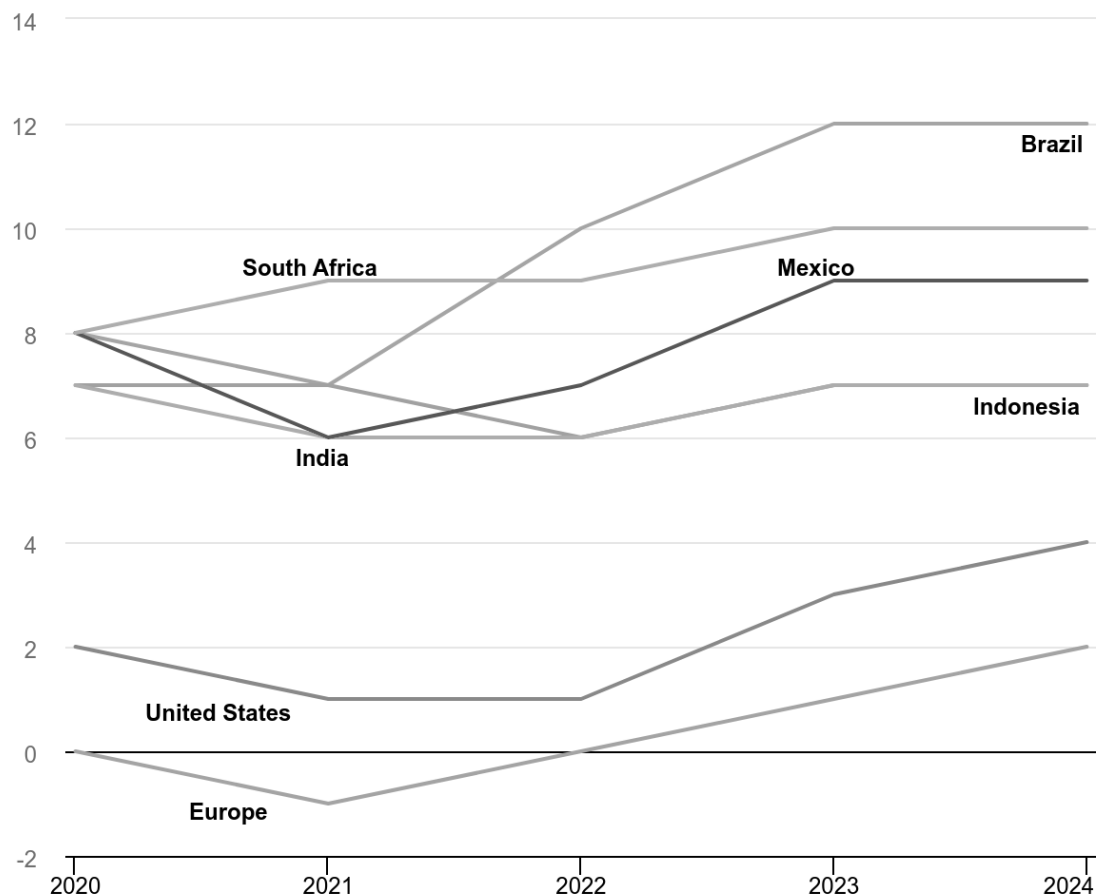


ALT TEXT: Curve showing the inverse relationship between capitalization rate and cash-flow multiple. The curve drops steeply at low cap rates and becomes flatter above roughly 20 percent. Examples include 10 percent equals 10 times cash flow, 20 percent equals 5 times, 30 percent equals 3.33 times, 40 percent equals 2.5 times, and 50 percent equals 2 times. The chart explains why multiples can communicate small risk differences more clearly in high-risk assets.

Source graphic: image18.png

Image 19: Government bond yields

Location cue: I found this chart of average government bond yields over the last few years published by the International Energy Agency...



ALT TEXT: Line chart of government bond yields across selected developed economies over recent years. Yields remain relatively low but rise noticeably after the pandemic period, with the United States reaching roughly 4 percent while several European markets remain lower. The chart is used as a baseline for comparing the required returns of riskier assets.

Source graphic: image19.png

Image 20: Cap-rate and multiple conversion table, repeated

Location cue: To reflect back on our cap rate vs. multiples chart from the last chapter, a 2% European bond yield means that investors are paying 50x the coupon rate for this asset. For the US bond yielding a 4% rate of return...

NOI	Cap Rate	Value	Multiple
\$ 100,000.00	1%	\$ 10,000,000.00	100.00
\$ 100,000.00	2%	\$ 5,000,000.00	50.00
\$ 100,000.00	3%	\$ 3,333,333.33	33.33
\$ 100,000.00	4%	\$ 2,500,000.00	25.00
\$ 100,000.00	5%	\$ 2,000,000.00	20.00
\$ 100,000.00	6%	\$ 1,666,666.67	16.67

ALT TEXT: Reference table converting capitalization rates into equivalent cash-flow multiples. The relationship is reciprocal: a 10 percent cap rate equals a 10-times multiple, a 20 percent cap rate equals 5 times, a 25 percent cap rate equals 4 times, and a 50 percent cap rate equals 2 times. As required yield rises, the multiple paid for the same cash flow falls.

Source graphic: image17.emf

Image 21: Cap-rate and multiple conversion table, repeated

Location cue: If you refer back to the cap rate/multiple chart, this ‘high teens to low twenties’ multiple range would equate a 4-6% cap rate. Literally, stacking in line after European and US government bonds. Businesses ar...

NOI	Cap Rate	Value	Multiple	NOI	Cap Rate	Value	Multiple
\$ 100,000.00	1%	\$ 10,000,000.00	100.00	\$ 100,000.00	26%	\$ 384,615.38	3.85
\$ 100,000.00	2%	\$ 5,000,000.00	50.00	\$ 100,000.00	27%	\$ 370,370.37	3.70
\$ 100,000.00	3%	\$ 3,333,333.33	33.33	\$ 100,000.00	28%	\$ 357,142.86	3.57
\$ 100,000.00	4%	\$ 2,500,000.00	25.00	\$ 100,000.00	29%	\$ 344,827.59	3.45
\$ 100,000.00	5%	\$ 2,000,000.00	20.00	\$ 100,000.00	30%	\$ 333,333.33	3.33
\$ 100,000.00	6%	\$ 1,666,666.67	16.67	\$ 100,000.00	31%	\$ 322,580.65	3.23
\$ 100,000.00	7%	\$ 1,428,571.43	14.29	\$ 100,000.00	32%	\$ 312,500.00	3.13
\$ 100,000.00	8%	\$ 1,250,000.00	12.50	\$ 100,000.00	33%	\$ 303,030.30	3.03
\$ 100,000.00	9%	\$ 1,111,111.11	11.11	\$ 100,000.00	34%	\$ 294,117.65	2.94
\$ 100,000.00	10%	\$ 1,000,000.00	10.00	\$ 100,000.00	35%	\$ 285,714.29	2.86
\$ 100,000.00	11%	\$ 909,090.91	9.09	\$ 100,000.00	36%	\$ 277,777.78	2.78
\$ 100,000.00	12%	\$ 833,333.33	8.33	\$ 100,000.00	37%	\$ 270,270.27	2.70
\$ 100,000.00	13%	\$ 769,230.77	7.69	\$ 100,000.00	38%	\$ 263,157.89	2.63
\$ 100,000.00	14%	\$ 714,285.71	7.14	\$ 100,000.00	39%	\$ 256,410.26	2.56
\$ 100,000.00	15%	\$ 666,666.67	6.67	\$ 100,000.00	40%	\$ 250,000.00	2.50
\$ 100,000.00	16%	\$ 625,000.00	6.25	\$ 100,000.00	41%	\$ 243,902.44	2.44
\$ 100,000.00	17%	\$ 588,235.29	5.88	\$ 100,000.00	42%	\$ 238,095.24	2.38
\$ 100,000.00	18%	\$ 555,555.56	5.56	\$ 100,000.00	43%	\$ 232,538.14	2.33
\$ 100,000.00	19%	\$ 526,315.79	5.26	\$ 100,000.00	44%	\$ 227,272.73	2.27
\$ 100,000.00	20%	\$ 500,000.00	5.00	\$ 100,000.00	45%	\$ 222,222.22	2.22
\$ 100,000.00	21%	\$ 476,190.48	4.76	\$ 100,000.00	46%	\$ 217,391.30	2.17
\$ 100,000.00	22%	\$ 454,545.45	4.55	\$ 100,000.00	47%	\$ 212,765.96	2.13
\$ 100,000.00	23%	\$ 434,782.61	4.35	\$ 100,000.00	48%	\$ 208,333.33	2.08
\$ 100,000.00	24%	\$ 416,666.67	4.17	\$ 100,000.00	49%	\$ 204,081.63	2.04
\$ 100,000.00	25%	\$ 400,000.00	4.00	\$ 100,000.00	50%	\$ 200,000.00	2.00

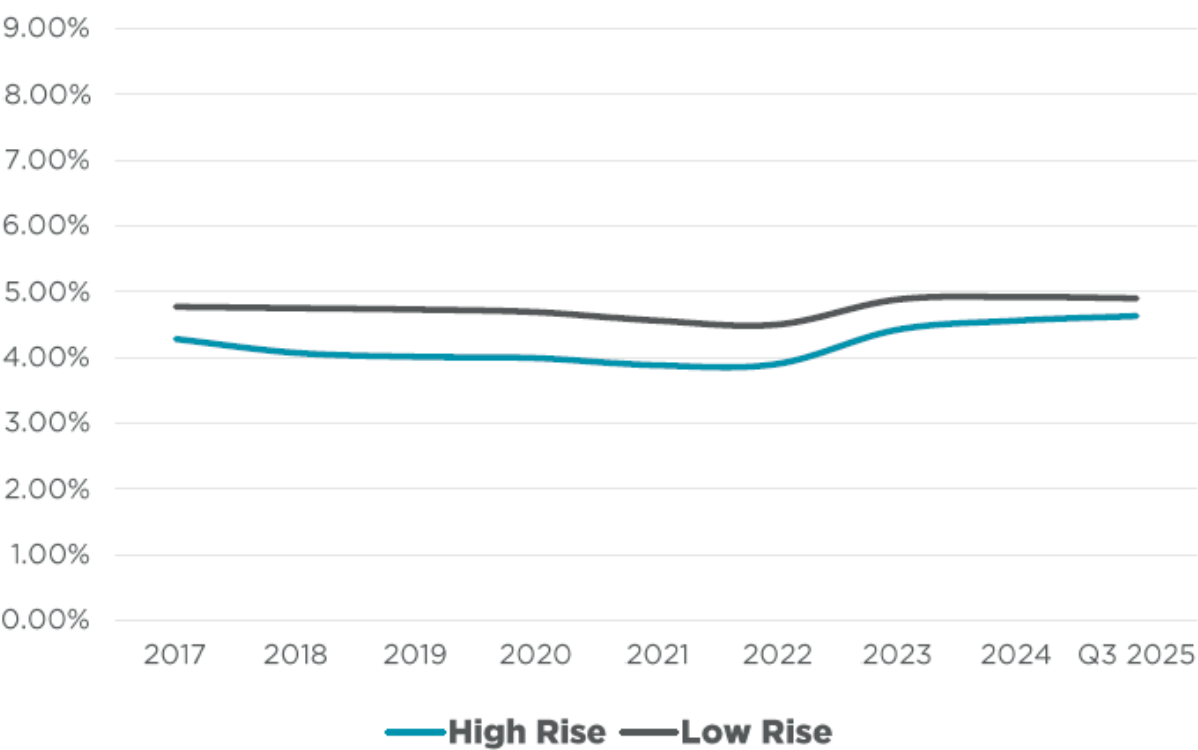
ALT TEXT: Reference table converting capitalization rates into equivalent cash-flow multiples. The relationship is reciprocal: a 10 percent cap rate equals a 10-times multiple, a 20 percent cap rate equals 5 times, a 25 percent cap rate equals 4 times, and a 50 percent cap rate equals 2 times. As required yield rises, the multiple paid for the same cash flow falls.

Source graphic: image17.emf

Image 22: Apartment cap rates

Location cue: First, let's look at apartment buildings...

HISTORICAL APARTMENT CAP RATES



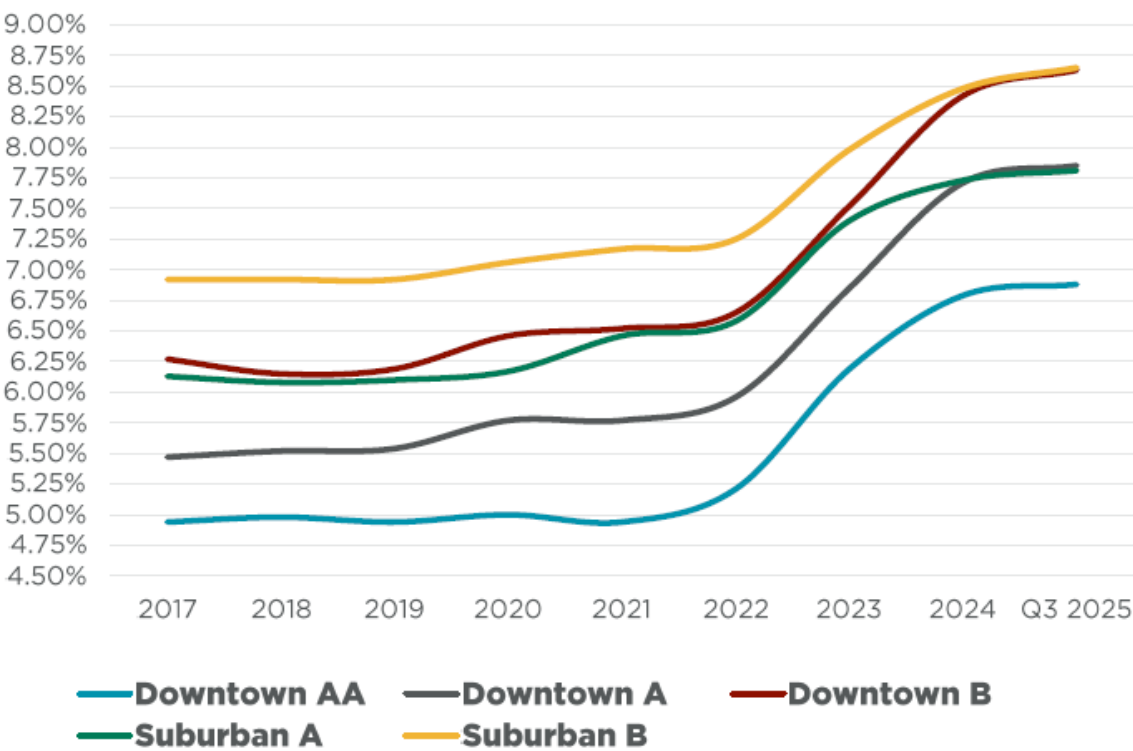
ALT TEXT: Historical apartment capitalization rates by property quality. The lines remain comparatively stable, generally around the mid-single digits, with higher-quality apartments carrying lower cap rates and lower-quality properties somewhat higher cap rates. The narrow spread reflects the relatively predictable demand for housing.

Source graphic: image20.png

Image 23: Office cap rates

Location cue: Now, let's look at this chart for office buildings...

HISTORICAL OFFICE CAP RATES



ALT TEXT: Historical office capitalization rates by building class. Premium downtown office properties have the lowest cap rates, while lower-grade suburban or secondary office space has higher cap rates. Rates rise sharply in the post-pandemic years, especially for weaker office categories, indicating greater perceived risk and lower values.

Source graphic: image21.png

Image 24: Industrial cap rates

Location cue: So, according to the multiples, it would seem that these office spaces are valued the same as the publicly traded stocks that we saw earlier. Maybe. While the value investors are willing to pay is definitely re...

HISTORICAL INDUSTRIAL CAP RATES



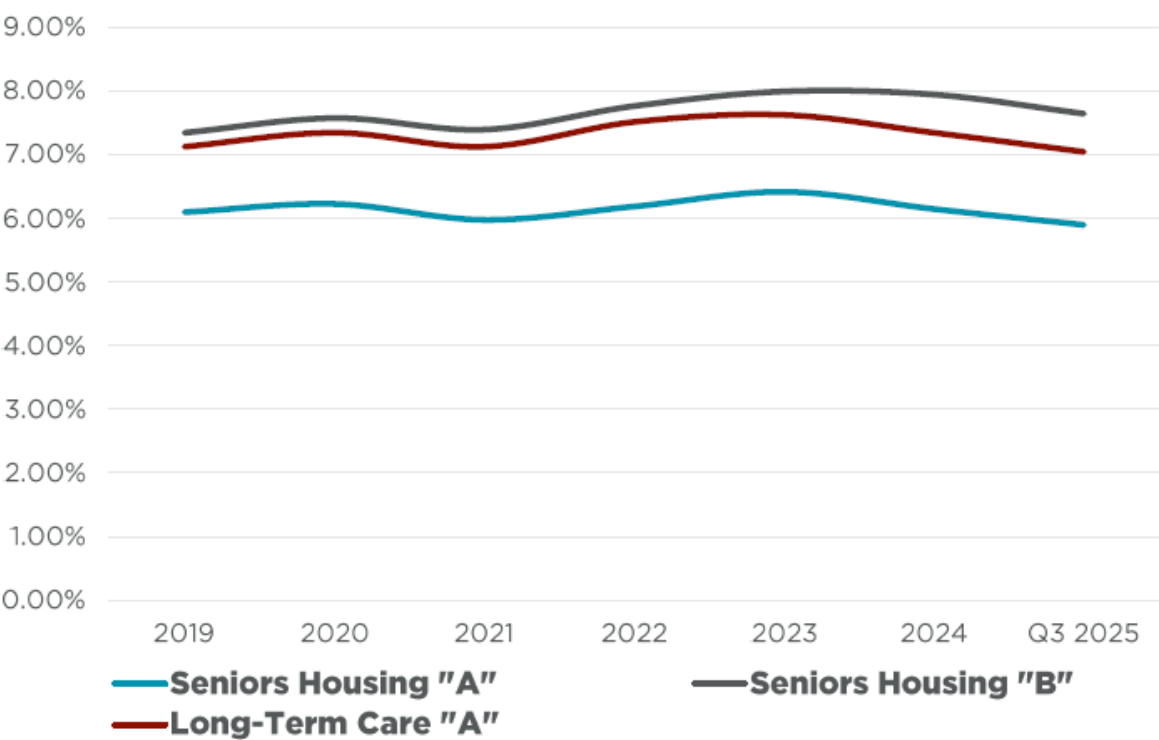
ALT TEXT: Historical industrial real-estate capitalization rates for Class A and Class B properties. Cap rates decline around 2020 to 2022 as demand for industrial and logistics space strengthens, then rise again as the market normalizes. Class A properties consistently carry lower cap rates than Class B properties.

Source graphic: image22.png

Image 25: Seniors housing and health-care cap rates

Location cue: *Let’s look at one more since this report is so fascinating...*

HISTORICAL SENIORS HOUSING & HEALTH CARE CAP RATES



ALT TEXT: Historical capitalization rates for seniors housing and health-care real estate. The lines are relatively stable but generally higher than prime apartment or office cap rates, reflecting the additional operating and staffing complexity of these facilities. Different senior-care property types occupy somewhat different risk and return ranges.

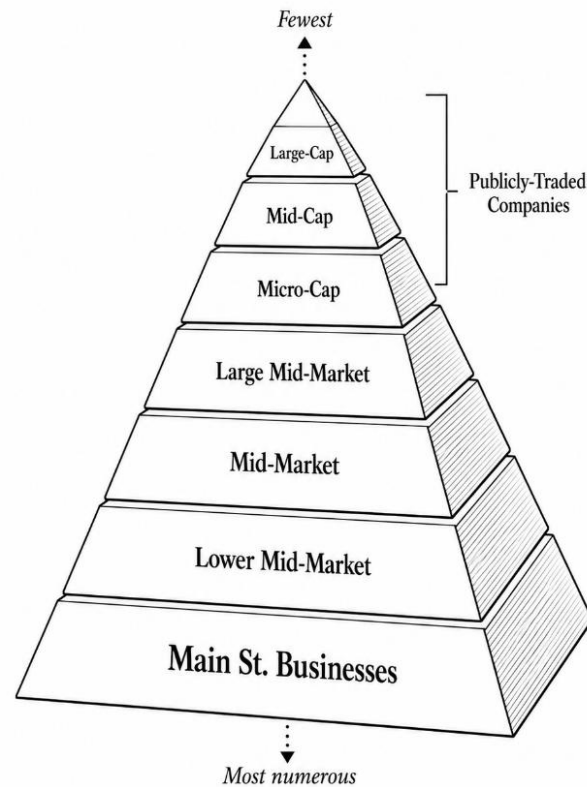
Source graphic: image23.png

Image 26: Private-business market pyramid

Location cue: You will not find a definitive definition of the different parts of the private business market. Some people define it by revenue levels, some by employee headcount. I like to define the frontiers of mid-market...

Most Businesses Are Private

Illustrative pyramid of organizations by relative count



ALT TEXT: Pyramid of private businesses by size. The broad base contains numerous Main Street businesses, above them are lower-middle-market companies, then middle-market companies, and at the narrow top are the largest private businesses. As companies become larger, there are fewer of them and they generally have more professional management, diversification, and transferability.

Source graphic: image24.png

Image 27: Lower-middle-market multiples

Location cue: Historically, lower mid-market businesses have traded in these ranges...

≡ Mid-Market Businesses: Multiples of EBITDA ≡

Business Type	World Multiple	World Cap Rate	USA Multiple	USA Cap Rate
Service Businesses	3 - 3.5x	28 - 33%	3 - 4x	25 - 33%
Machinery & Equipment Intensive	4 - 5x	20 - 25%	4.5 - 6.5x	16.5 - 22%
Proprietary products with patents, trademarks in place	5 - 6x	16.5 - 20%	5 - 8x	12.5 - 20%

ALT TEXT: Table of historical lower-middle-market EBITDA multiples and equivalent cap-rate ranges for three business types. Service businesses trade at the lowest multiples, machinery- and equipment-intensive businesses trade higher, and businesses with proprietary products or strong legal protections trade highest. The progression illustrates how barriers to competition and transferability can reduce perceived risk and increase value.

Source graphic: image25.png

Image 28: Main Street business multiples

Location cue: Historically, here are the selling price ranges for Main St. businesses as a factor of SDE and the implied cap rates... (again, the higher prices in the USA are linked to the greater availability of financing for...

⇒ Main St. Businesses: Multiples of SDE ⇐

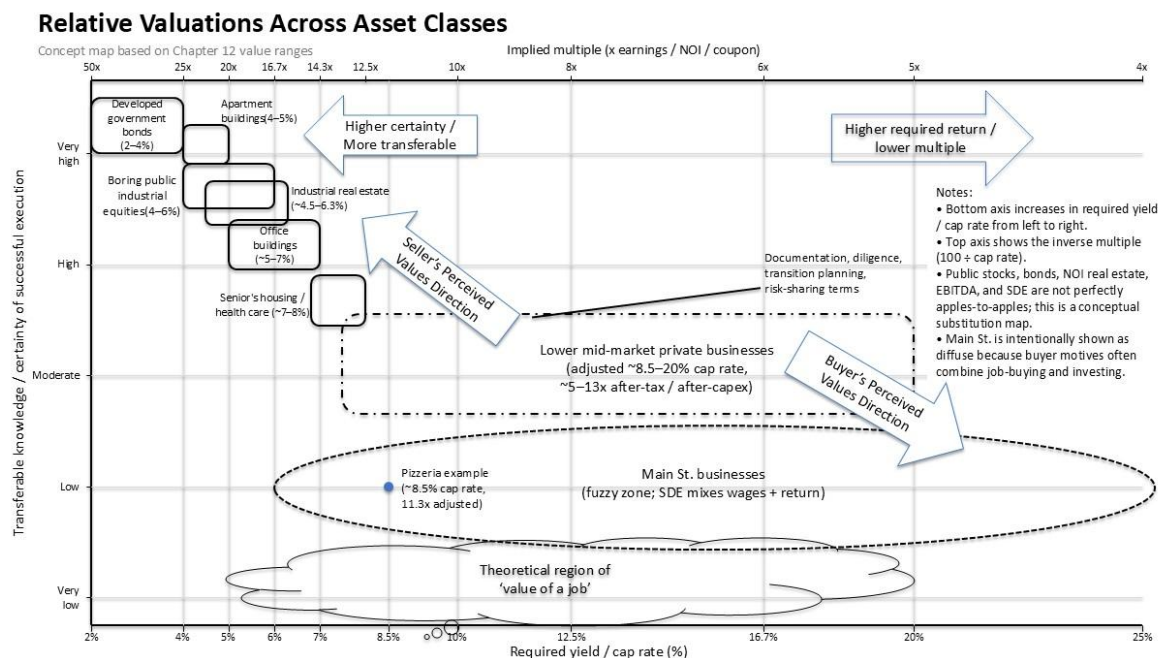
Business Type	World Multiple	World Cap Rate	USA Multiple	USA Cap Rate
Service Businesses with few barriers to entry	1.5 - 2.2x	45 - 66%	1.8 - 2.6x	38 - 55%
Long established with hurdles to new entrants	1.8 - 2.5x	40 - 55%	2.3 - 2.7x	37 - 44%
Equipment or inventory intensive businesses	2 - 3x	33 - 50%	2.4 - 2.9x	34 - 42%

ALT TEXT: Table of historical Main Street business selling-price multiples based on Seller's Discretionary Earnings, with corresponding cap-rate ranges for the world and the United States. Service businesses with few barriers to entry have the lowest multiples, established businesses with hurdles to new entrants are higher, and equipment- or inventory-intensive businesses are generally higher still. U.S. multiples are somewhat higher, reflecting greater acquisition-financing availability.

Source graphic: image26.png

Image 29: Detailed value and transferability map

Location cue: If we were to create a chart with required yield and multiple of earnings along the x axis and degree of transferability along the Y axis we could demonstrate the values of bonds, public companies, office build...

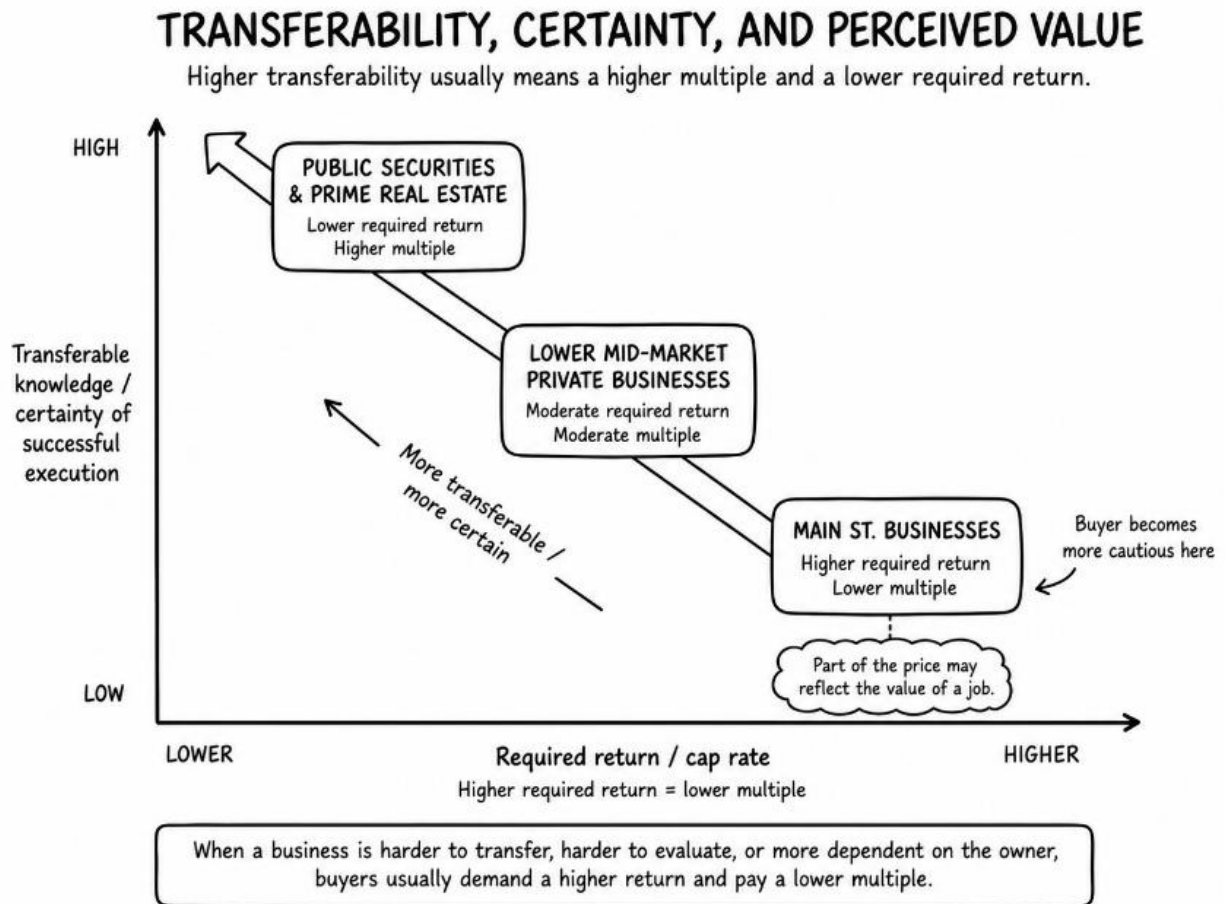


ALT TEXT: Detailed value map plotting assets and businesses by required yield or earnings multiple on the horizontal axis and transferability or certainty on the vertical axis. Government bonds and highly transferable assets appear toward the safer, higher-multiple side, while smaller private businesses appear in riskier, lower-multiple regions. Arrows show sellers tending to perceive stronger value because of familiarity and buyers tending to demand discounts for uncertainty and transfer risk.

Source graphic: image27.jpg

Image 30: Simplified transferability and perceived-value map

Location cue: Notice the arrows in the chart. Items to the left are higher safety and items towards the top are more reasonably transferable to a new owner. This is why the 'Seller's Perceived Values' arrow points upwards to...

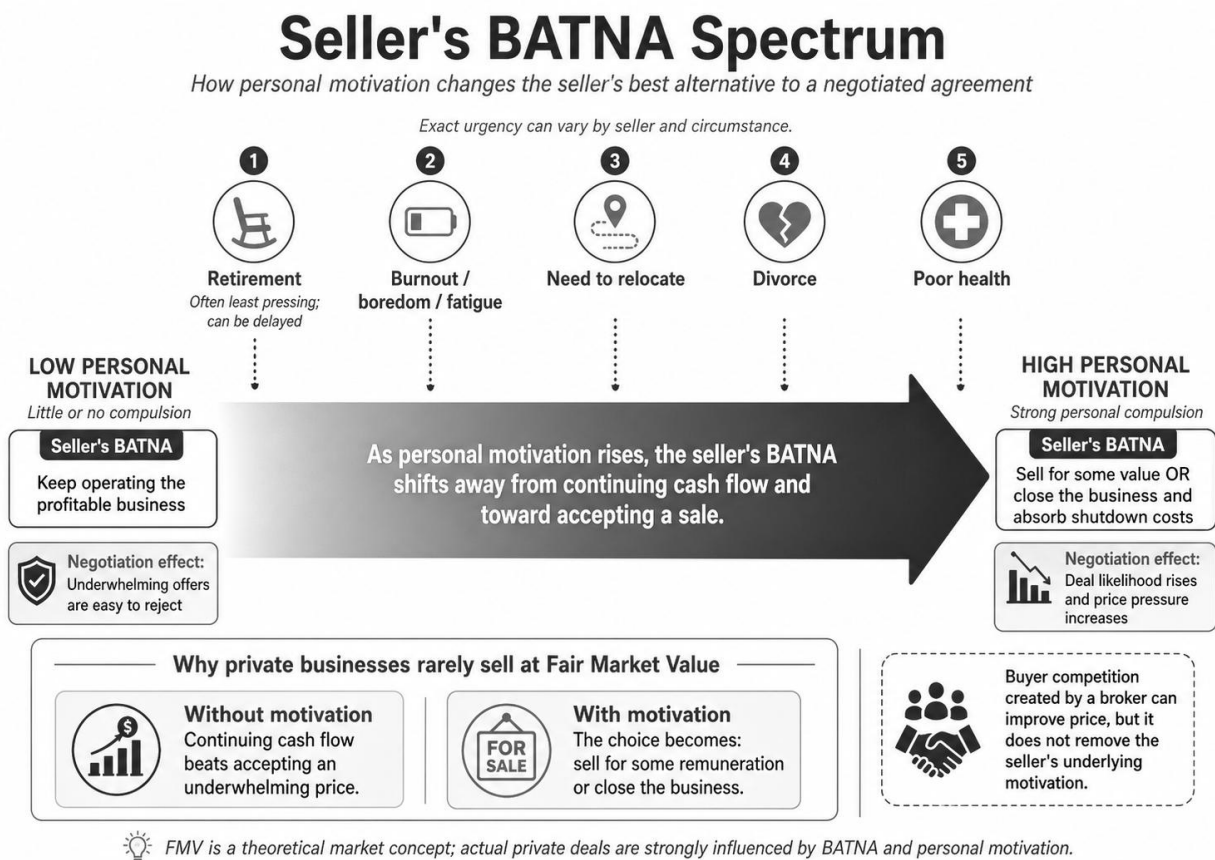


ALT TEXT: Simplified diagram linking transferability, certainty, and perceived value. Moving upward and to the left represents greater transferability and certainty and therefore stronger value or lower required yield. A seller who knows the business well tends to perceive value toward that direction, while a buyer facing unfamiliar risks tends to perceive lower value and demand a higher return.

Source graphic: image28.png

Image 31: Seller's BATNA spectrum

Location cue: If a buyer enters a market and has motivations to make deals happen that otherwise would not, then we can say that the buyer is telegraphing compulsion. An example of this might be a company that wants to fill ...

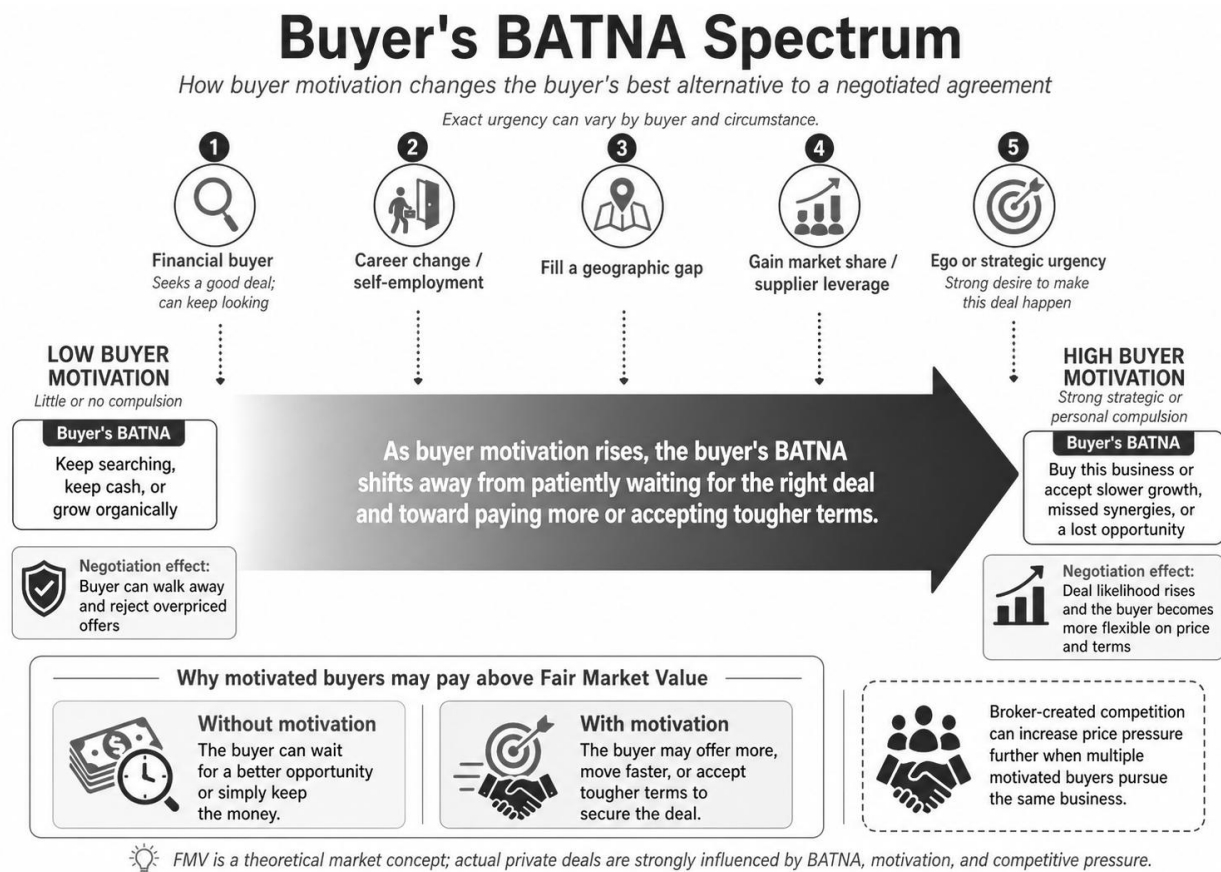


ALT TEXT: Seller's BATNA spectrum showing alternatives available to an owner if a desired business sale does not occur. Options range from continuing to own and operate the company, changing the sale strategy or terms, selling to insiders or other buyers, through to winding down or liquidating. The seller's negotiating strength depends on how attractive these alternatives are compared with the proposed deal.

Source graphic: image29.png

Image 32: Buyer's BATNA spectrum

Location cue: Now that we have an idea of what these businesses may be worth, what do they come with, exactly, on closing day? It turns out that sellers and buyers often don't agree and this can lead to another entire negoti...

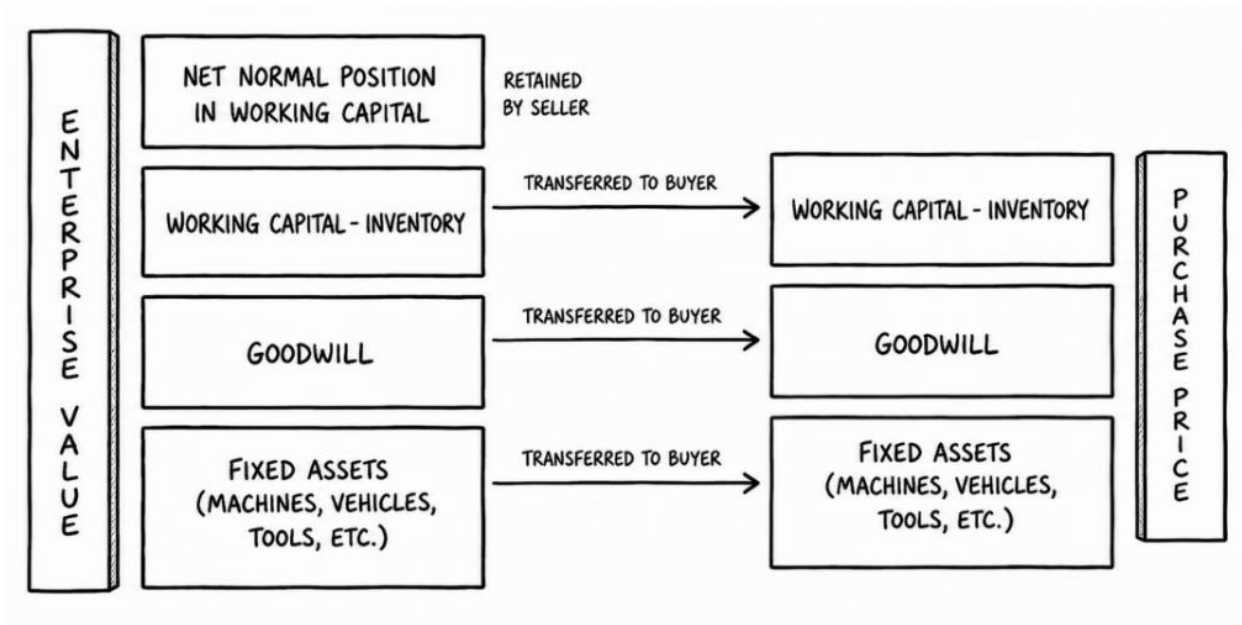


ALT TEXT: Buyer's BATNA spectrum showing alternatives available if a proposed acquisition does not close. The buyer may keep searching, buy a different company, start a business, invest elsewhere, remain employed, or pursue other strategic options. A buyer with attractive alternatives has less reason to overpay and therefore a stronger negotiating position.

Source graphic: image30.png

Image 33: Enterprise value versus transaction value

Location cue: *If there were surplus operating capital assets that were being left, the seller could negotiate a higher price for the shares if they had a reason to do so. (If the shares could be sold tax-free because of tax ...*

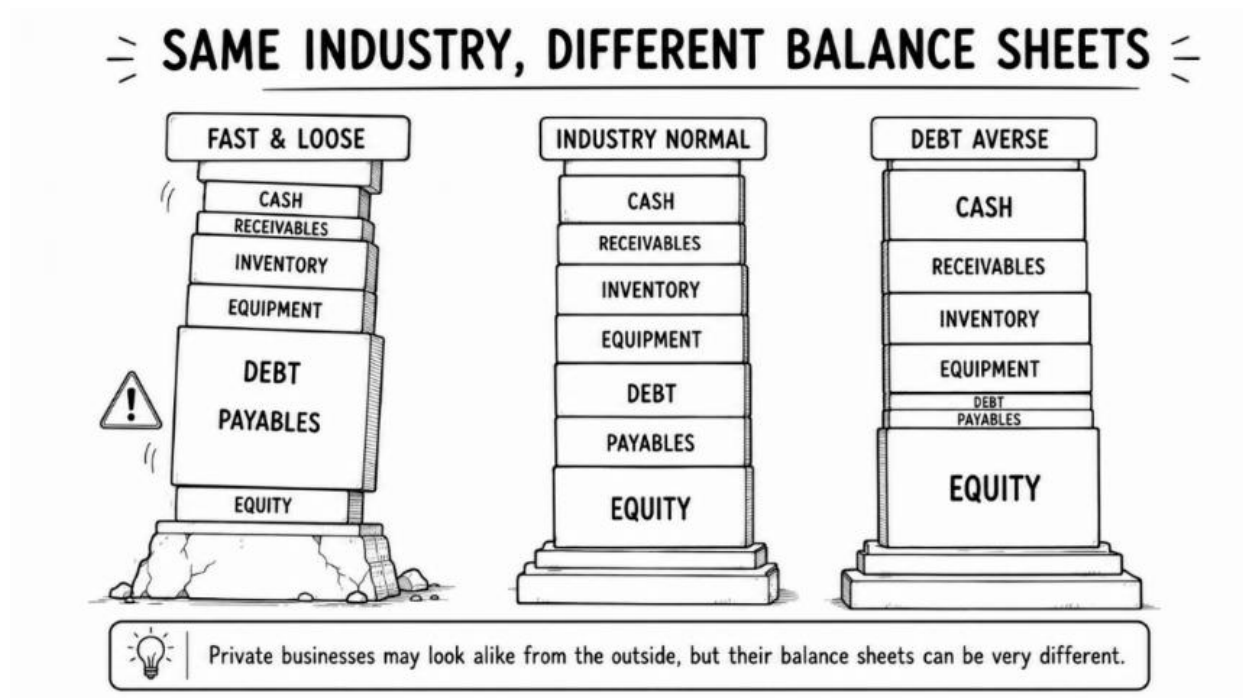


ALT TEXT: Diagram distinguishing enterprise value from transaction value in a business sale. Enterprise value includes the operating system required to produce cash flow, including fixed assets, goodwill, and a normal level of working capital. Transaction value changes when some assets or liabilities, such as cash, accounts receivable, accounts payable, or excess working capital, are retained by the seller or added by the buyer.

Source graphic: image31.png

Image 34: Same industry, different balance sheets

Location cue: So, in reality, this business should be selling for $\$86,000 \times 3 = \$258,000$ with $\$100,000$ of inventory included in that price given the normal inventory required being $\$1M$. This would take the total asking price...

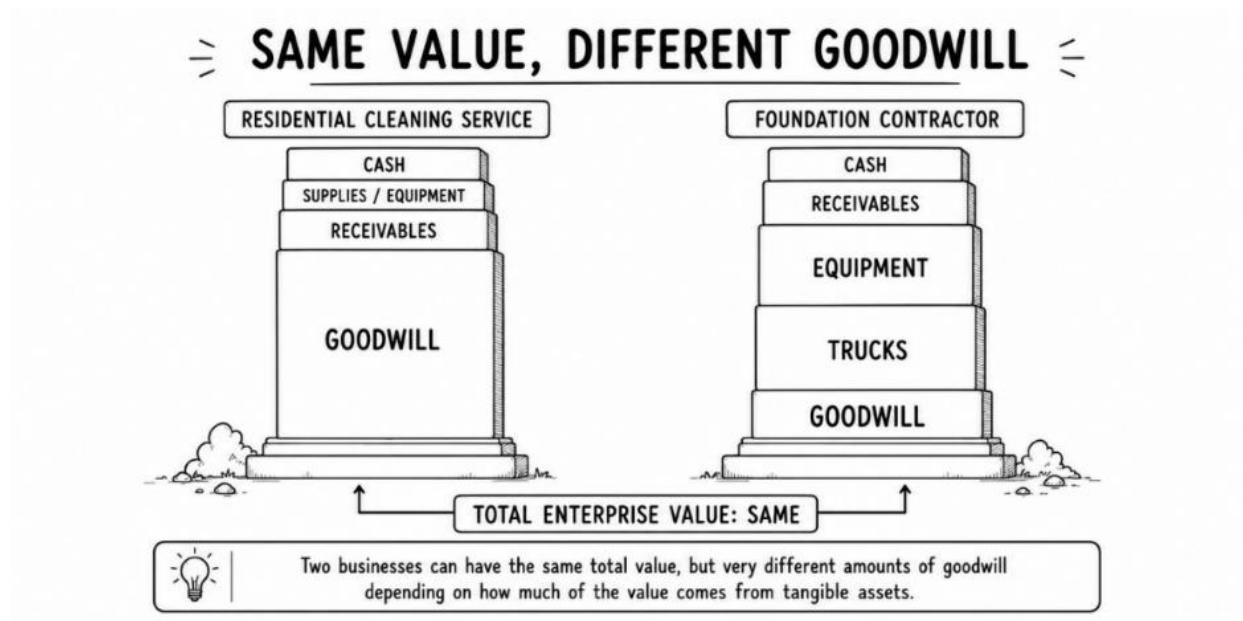


ALT TEXT: Two simplified balance sheets for businesses in the same industry show that identical operating performance does not guarantee identical transaction economics. Differences in inventory, receivables, payables, debt, and other working-capital accounts can materially change what must be transferred or financed even when the businesses appear similar from an earnings perspective.

Source graphic: image32.png

Image 35: Same value, different goodwill

Location cue: Goodwill is often a topic that comes up when small businesses are bought and sold. Back in chapter 10, when we discussed the valuation of the small pizzeria, I explained that goodwill is the difference between ...



ALT TEXT: Two businesses with the same overall enterprise value but different compositions of value. One has a larger share of tangible assets and less goodwill, while the other has fewer tangible assets and more goodwill. The diagram shows that equal business values can create very different collateral and financing profiles.

Source graphic: image33.png

Image 36: Equipment value definitions, repeated

Location cue: Most business owners balk at this. I often hear the reply ‘Well, then I’ll just liquidate the business and end up with more. I can understand the frustration. The problem is that liquidation and wind-up can oft...

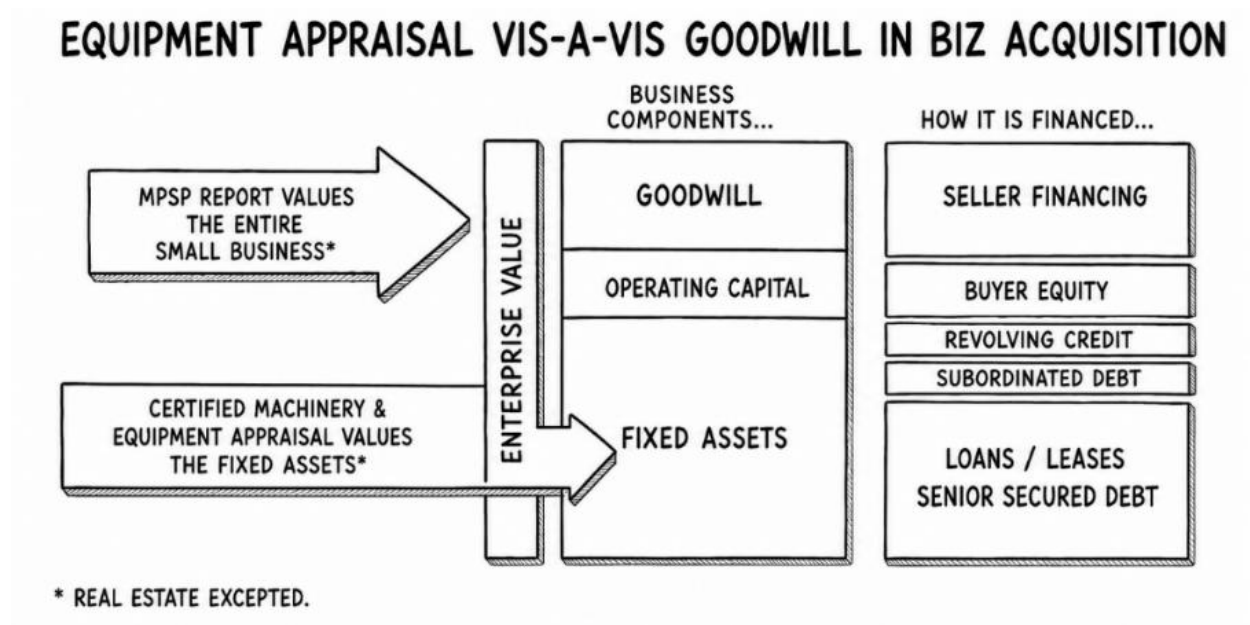
	Value Definition	Moveable Equipment	Trade Fixtures/ Installed Equipment	
Abundant Time	Fair Market Value- In continued use	Full Value- including freight/connections	Full Value- including freight/ installation	Business Open
	Fair Market Value	Full Value	Full Value- Ignoring freight & installation Value	
	Fair Market Value- Removed	Full Value- Less Transport & Disconnections	Full Value- Less dis-installation costs & site remediation costs.	
	Orderly Liquidation Value	"Wholesale Value"	"Scrap Equivalent"- Less dis-installation costs & site remediation costs. (Typically, nil.)	
Limited Time	Forced Liquidation Value	Auction Value	Nil	Business Closed
	Liquidation Value- In Place	Auction Value- Less a discount for <i>en bloc</i> transaction	Nil	

ALT TEXT: Value-definition matrix for machinery and equipment, comparing fair market, orderly liquidation, forced liquidation, and liquidation-in-place concepts for movable and installed assets. The diagram emphasizes that value falls as selling time shortens and as an operating business moves toward closure, with installed fixtures especially vulnerable to removal and remediation costs.

Source graphic: image34.png

Image 37: Equipment appraisal versus goodwill

Location cue: The proportion of money received at the closing table to the amount received in the future and the length of time that the seller must wait to be paid have a material impact on the value received for the business...

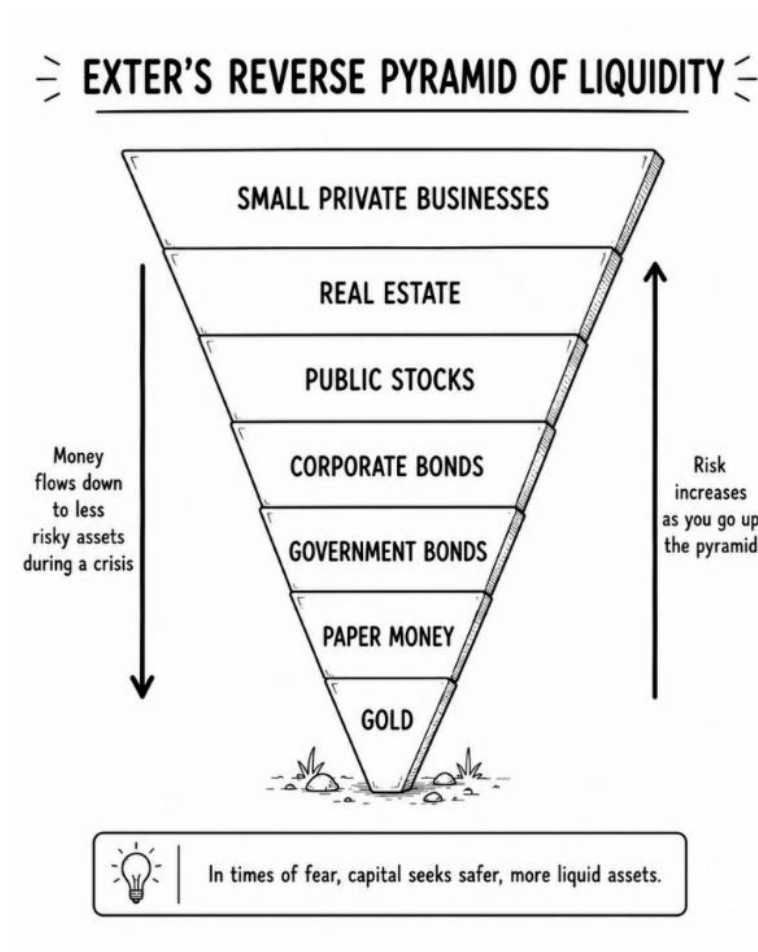


ALT TEXT: Diagram showing how goodwill is isolated in a business acquisition. A Most Probable Selling Price evaluation determines the value of the operating business as a whole, while a certified machinery and equipment appraisal determines the value of fixed assets. After accounting for normal operating capital, the remaining portion of enterprise value is goodwill.

Source graphic: image35.png

Image 38: Exter's inverse pyramid of liquidity

Location cue: Exter put gold at the bottom of the pyramid because it's one of the few financial assets with no counterparty risk. He put small private businesses at the top. According to Exter, private businesses are riskier...



ALT TEXT: Exter's inverse pyramid of liquidity, with small private businesses near the wide top as relatively risky and illiquid assets and gold near the narrow bottom as highly liquid with little or no counterparty risk. Between them are categories such as real estate, public stocks, corporate bonds, government securities, and cash. The pyramid illustrates movement toward safer, more liquid assets during financial stress.

Source graphic: image36.png

Image 39: Author portrait

Location cue: *About the Author.*



ALT TEXT: Portrait photograph of author David C. Barnett, wearing a dark blazer and seated against a neutral gray background.

Source graphic: image37.jpeg

Image 40: ALP Ltd. logo

Location cue: *ALP Ltd. Products and Services.*

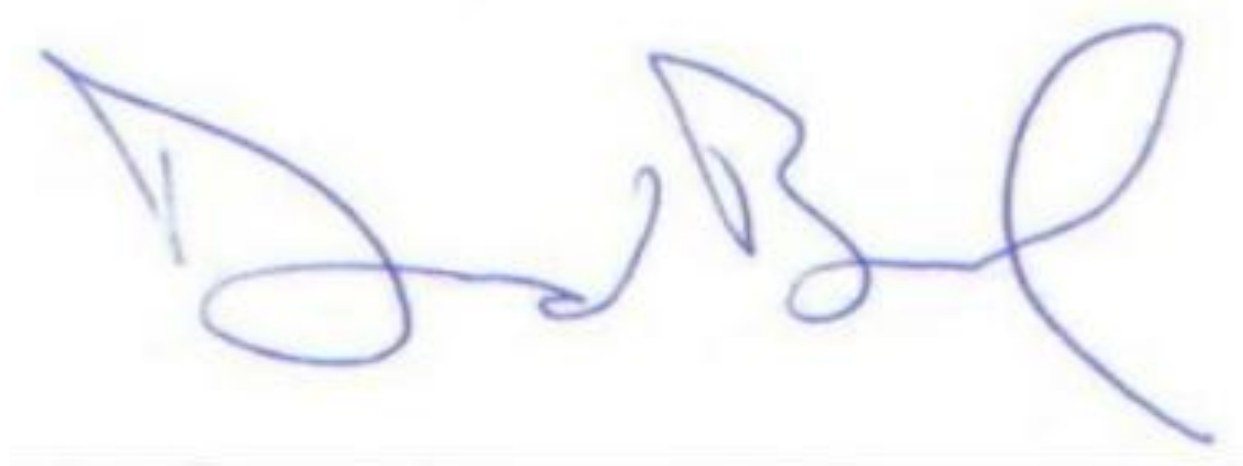


ALT TEXT: Blue ALP logo for Advantage Liquidity Partners Ltd., formed from stylized overlapping capital letters A, L, and P.

Source graphic: image38.jpeg

Image 41: David C. Barnett signature

Location cue: *Cheers and good luck!*

A handwritten signature in blue ink, appearing to read 'D. C. Barnett'. The signature is fluid and cursive, with a large initial 'D' and a stylized 'B'. The ink is a vibrant blue, and the signature is set against a plain white background.

ALT TEXT: Handwritten signature of David C. Barnett in blue ink.

Source graphic: image39.png

Image 42: Machinery and Equipment Appraiser Scorecard

Location cue: *Guide to Hiring an Equipment Appraiser*



Machinery & Equipment Appraiser Scoring Tool

Rate whether the appraiser is qualified and whether the report is likely to be useful, defensible, and accepted by the intended user.

Appraiser:	Assignment:	Intended user:	Date:
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Scoring: 0 = missing/concerning, 1 = weak, 2 = acceptable, 3 = strong. Award up to the maximum points shown. Maximum score = 100.

#	Category	What to look for	Max	Score
1	Intended user and purpose	Engagement names who will rely on the report and why. The payer may not be the client; lender, lawyer, insurer, trustee, court, buyer, or seller needs are clear.	10	___
2	Correct value definition	The report uses the right definition for the assignment: FMV, FMV-in-continued-use, installed/removed value, OLV, FLV, or another defined value. No vague use of "value."	12	___
3	Lender/report-user requirements	Before starting, the appraiser confirms required value definition, inspection method, report format, named intended user, and any lender or legal requirements.	10	___
4	Qualifications and experience	Training, designation, independence, and experience fit machinery and equipment appraisal. Equipment familiarity alone is not treated as qualification.	9	___
5	Recognized standards and ethics	Report follows USPAP or another recognized standard, including appraiser certification, assumptions, limiting conditions, and has no fee tied to value or loan approval.	10	___
6	Sample report quality	An anonymized sample report shows methodology, assumptions, scope, data sources, photos/asset schedule, qualifications, and plain-English explanations.	12	___
7	Asset data and inspection method	Process captures make, model, serial number, year, capacity, condition, ownership, installed/portable status, photos, and whether site visit, desktop, or remote video was carried out.	10	___
8	Research and comparables	Appraiser explains how market evidence will be found, especially for rare, custom, obsolete, specialized, or limited-market equipment.	9	___
9	Condition limits disclosed	The report does not <u>pretend</u> to be a mechanical inspection. It discloses reliance on owner statements, maintenance records, photos, inspection limits, or technician input.	8	___
10	Complete defensible report	Final report identifies client, intended user, intended use, purpose, effective date, scope, value definition, data sources, methodology, asset schedule, conclusion, certification, and qualifications.	10	___

TOTAL: ___ / 100	Decision: Hire / More diligence / Do not hire	Next step: Confirm scope, timing, fee, and sample report.
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Score interpretation:

85-100 strong;

70-84 usable but clarify weak areas;

50-69 significant risk;

below 50 do not rely on this appraiser for an important decision.

Immediate red flags:

- ☐ Promises a number before understanding the assignment
- ☐ Fee depends on value or loan approval
- ☐ Cannot provide a sample report
- ☐ Cannot explain assumptions, methodology, or inspection limits.

Tip: A professional appraisal defines the assignment, researches the market, documents assumptions, and defends the conclusion. It is not a mechanical inspection or a number chosen to make a deal work. Learn more about this tool and the book that inspired it at www.BusinessAndAssetValues.com/book (c) 2026 David C Barnett

ALT TEXT: Preview image of the downloadable Machinery and Equipment Appraiser Scorecard. The worksheet lists questions and warning signs for comparing prospective appraisers, including report quality, qualifications, independence, value definitions, intended users, methodology, and sample-report review.

Download the tool at <https://www.BusinessAndAssetValues.com/book>

Source graphic: image40.png

Image 43: Small Business Appraiser Hiring Tool

Location cue: *Guide to Hiring a Small Business Appraiser*



Small Business Appraiser Scoring Tool

Use this before hiring a valuation professional. Ask for an anonymized sample report, then score the person and the report evidence.

Appraiser / Firm:	Date:	Purpose:
-------------------	-------	----------

Scoring: 0 = missing or weak, 5 = acceptable but incomplete, 10 = strong and well-supported. Total possible score: 100.

Criteria	What good evidence looks like	Notes / evidence seen	Score	Pts
1. Sample report provided	They willingly provide a complete anonymized sample report, not just a brochure, certificate, or verbal assurance.		0 5 10	
2. Small business fit	They regularly value owner-operated businesses like the subject company, not only public companies, estate freezes, litigation, or large corporate transactions.		0 5 10	
3. Assignment clarity	The report states the purpose, intended user, valuation date, standard/type of value, and whether the business is valued as a going concern.		0 5 10	
4. Transaction assumptions	The report explains whether it assumes an asset sale, share sale, or other structure, and what assets/liabilities are included or excluded.		0 5 10	
5. Financial normalization	The report recasts statements for owner pay, personal/family expenses, one-time items, related-party rent, and other distortions.		0 5 10	
6. Owner labour treatment	The valuation charges the business for required owner/manager labour instead of pretending the owner works for free.		0 5 10	
7. Cash needs after closing	Working capital, inventory, receivables, seasonality, capital expenditures, and equipment replacement are considered.		0 5 10	
8. Goodwill logic	Goodwill is explained as transferable value above tangible assets and required operating capital, not treated as magic.		0 5 10	
9. Market and risk support	Market data, benchmarks, industry comparisons, buyer economics, risk, and small business deal realities are explained.		0 5 10	
10. Plain-English usefulness	The conclusion is understandable, defensible, and decision-useful; it is not merely a spreadsheet with a cover page.		0 5 10	

Interpretation

85-100: Strong candidate. Still confirm independence, scope, fee, timing, and who may rely on the report.

70-84: Possible candidate. Ask follow-up questions and review weak areas before hiring.

50-69: Caution. The report may not support a serious decision without significant clarification.

Below 50: Do not rely on this person for a meaningful small business valuation decision.

Automatic red flags **Total Score:** ____ / 100 **Decision:** ☐ Hire_ ☐ Maybe_ ☐ Do not hire

☐ Refuses to provide a real anonymized sample report.

☐ Cannot explain the value standard, intended user, or transaction assumptions.

☐ Uses a simple multiple without explaining risk, buyer economics, and deal structure.

☐ Ignores owner ~~labour~~, working capital, capital expenditures, or transferable goodwill.

☐ Seems mainly interested in producing the number the client wants.

Tip: A professional appraisal defines the assignment, researches the market, documents assumptions, and defends the conclusion. It is not a mechanical inspection or a number chosen to make a deal work. Learn more about this tool and the book that inspired it at www.BusinessAndAssetValues.com/book (c) 2026 David C Barnett

ALT TEXT: Preview image of the downloadable Small Business Appraiser Hiring Tool. The worksheet provides questions and criteria for evaluating a prospective business appraiser, including experience with small private companies, understanding of transaction realities, normalization, goodwill, valuation methods, assumptions, credentials, and the quality of a sample report.

Download the tool at <https://www.BusinessAndAssetValues.com/book>

Source graphic: image41.png