



VALUATION DRIVERS GUIDE FOR TRADE OWNERS

What Actually Moves the Needle on Your Business Value — and What Kills It

Most trade business owners think revenue is what drives valuation. It's not. Buyers, PE firms, and lenders look at a specific set of factors that determine whether your business commands a premium multiple or gets discounted. This guide breaks down the 8 drivers that matter most — what they are, why they matter, and where most trades businesses fall short.

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HOW TRADE BUSINESSES ARE VALUED

Trade businesses are typically valued on a multiple of EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) or Seller's Discretionary Earnings (SDE). The multiple applied depends entirely on the quality drivers in this guide. A typical range for trades is 3x–6x EBITDA. The difference between a 3x and a 6x on a \$500K EBITDA business is \$1.5 million. That gap is not luck — it's structure.

DRIVER 1: RECURRING & CONTRACTED REVENUE**Why It Matters**

Recurring revenue is the single most powerful valuation driver in trades. Maintenance contracts, service agreements, and subscription-based service models create predictable cash flow — which is what buyers are actually paying for. A business with 60%+ contracted revenue commands materially higher multiples than one dependent on one-time project work.

What Buyers Want to See

- Contract retention rate above 85% annually
- Revenue mix weighted toward recurring vs. one-time
- Average contract length of 12+ months
- Clear documentation of renewal rates and churn

Where Most Trades Fall Short

Most trades businesses treat service agreements as an afterthought. Revenue is project-driven, seasonal, and unpredictable. This is the #1 gap that separates a 3x business from a 5x business.

DRIVER 2: OWNER INDEPENDENCE**Why It Matters**

If the business can't run without the owner for 30 days, it's not a business — it's a job. Buyers apply a direct discount (often 1x–2x off the multiple) for owner-dependent operations. The owner should be replaceable in every operational function.

What Buyers Want to See

- Operations run by a management team, not the owner
- Owner's role is strategic — growth, relationships, vision
- Key-man risk is mitigated with documented succession
- Decision-making authority distributed, not centralized

Where Most Trades Fall Short

The owner is the estimator, the closer, the project manager, and the one customers call when something goes wrong. Every one of those roles needs a person or a system behind it.

DRIVER 3: FINANCIAL TRANSPARENCY**Why It Matters**

Messy books kill deals. Period. If a buyer has to spend months cleaning up your financials to understand the real picture, they'll either walk away or discount heavily. Clean, GAAP-aligned, separated financials are table stakes.

What Buyers Want to See

- 3+ years of P&L, balance sheet, and cash flow statements
- Owner compensation and perks clearly normalized
- Revenue and margin tracked by service line
- Monthly financial reviews — not just annual tax prep

Where Most Trades Fall Short

Commingled personal and business expenses. Financials prepared only at tax time. No monthly review cadence. No understanding of true net margin by job type.

DRIVER 4: CUSTOMER CONCENTRATION RISK**Why It Matters**

If any single customer represents more than 15% of revenue, buyers see it as a risk — because if that customer leaves, a meaningful chunk of revenue disappears overnight. Diversified revenue across a broad customer base signals stability.

What Buyers Want to See

- No single customer above 15% of total revenue
- Top 10 customers represent less than 50% of revenue
- Mix of residential, commercial, and/or municipal clients
- Low customer churn — retention above 80%

Where Most Trades Fall Short

Many trades businesses are built on a few large accounts or GC relationships. It feels like stability until one of them leaves.

DRIVER 5: DOCUMENTED OPERATIONS**Why It Matters**

Tribal knowledge is the enemy of valuation. If your processes live in people's heads, your business is fragile and untransferable. Documented SOPs, workflows, and systems prove the business can operate and scale without specific individuals.

What Buyers Want to See

- Written SOPs for core job types and workflows
- Scheduling, dispatch, and CRM systems in active use
- Job costing and project tracking standardized
- Training materials that allow new hires to ramp quickly

Where Most Trades Fall Short

The owner or a key foreman 'just knows' how things work. Nothing is written down. When that person leaves, institutional knowledge walks out the door.

DRIVER 6: WORKFORCE STABILITY**Why It Matters**

Skilled labor is the engine of every trade business. High turnover signals management problems, compensation gaps, or cultural issues — all of which are red flags for buyers. A stable, tenured workforce signals operational health.

What Buyers Want to See

- Average employee tenure of 3+ years for key roles
- Turnover below industry average (trades average is ~25-30%)
- Competitive compensation and benefits structure
- Active recruitment pipeline — not scrambling to hire reactively

Where Most Trades Fall Short

Constant hiring and firing. No formal onboarding. Compensation is reactive, not strategic. Buyers see high turnover as a hidden cost that erodes EBITDA.

DRIVER 7: GROWTH TRAJECTORY

Why It Matters

Buyers don't just value where you are — they value where you're going. A business growing 10-15%+ annually with a clear plan commands a higher multiple than a flat or declining business, even at the same EBITDA.

What Buyers Want to See

- 3-year revenue CAGR of 10%+ (or clear explanation of strategic flat periods)
- Defined growth plan with targets, timelines, and investment areas
- Pipeline of new services, markets, or territories
- Marketing and sales infrastructure that drives growth systematically

Where Most Trades Fall Short

Growth is accidental — driven by referrals and market conditions, not by strategy. No formal plan, no pipeline, no marketing system.

DRIVER 8: LEGAL & COMPLIANCE READINESS

Why It Matters

Legal risk is deal-killing risk. Unresolved compliance issues, missing contracts, lapsed insurance, or improper entity structure create liability that buyers will not absorb. Clean legal posture is a prerequisite, not a bonus.

What Buyers Want to See

- Entity properly structured with current operating agreement
- All customer, vendor, and employee contracts signed and on file
- Insurance coverage reviewed annually — GL, WC, umbrella current
- Licenses, permits, and certifications up to date across all jurisdictions

Where Most Trades Fall Short

Handshake deals with subs. No written employment agreements. Insurance hasn't been reviewed in years. Operating agreement is the default template from formation.

VALUATION IMPACT SUMMARY

Driver	Strong = Premium	Weak = Discount
Recurring Revenue	+0.5x to +1.5x multiple	-0.5x to -1.0x multiple
Owner Independence	+0.5x to +1.0x	-1.0x to -2.0x (biggest penalty)
Financial Transparency	Table stakes — no bonus, but fatal if missing	Deal killer — walk-away risk
Customer Concentration	+0.25x to +0.5x	-0.5x to -1.0x
Documented Operations	+0.25x to +0.75x	-0.25x to -0.5x
Workforce Stability	+0.25x to +0.5x	-0.25x to -0.75x
Growth Trajectory	+0.5x to +1.0x	Flat = no impact, declining = -0.5x to -1.0x
Legal Readiness	Table stakes	Deal killer — walk-away risk

THE BOTTOM LINE

The difference between a 3x and a 6x multiple on a trades business is not revenue — it's structure. Every driver in this guide is something you can fix, improve, or build. The owners who do that work before they need to are the ones who exit on their terms, raise capital from a position of strength, and scale without chaos.

Ask yourself these 3 questions:

1. If I disappeared for 30 days, would my business run?
2. Could I produce 3 years of clean financials by Friday?
3. Do I know my exact customer concentration and contract retention rate?

If the answer to any of these is no — you have work to do. The good news: it's all fixable.

Ready to find out what your business is actually worth?

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