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Under Management vs Owner Operator

Purchasers of businesses of more than \$1M often discount the value of a business if it is not under management. At this price level and higher, investors will find a business less attractive if they have to work in it or install new management on takeover.

Conversely, most purchasers of businesses of less than \$500K seem prepared to pay a premium for the job that comes with the business. Their reason for buying often relates to employment. Also, many businesses of this size will not function successfully without hands-on owner-operators because systems are inadequate.

This explains why smaller businesses are often quoted as having a Net Profit to owners, rather than an EBITDA, which is earnings after all labour costs, interest, tax, depreciation and amortisation.

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