WHAT A SMALL BUSINESS REALLY PAYS ITS OWNER, AND THE TEST TO RUN BEFORE YOU SIGN

BUYING A JOB

WALT HAUGEN



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Preface

For thirty years I did other people's sums. Every February the shoeboxes came in, from the diner, the body shop, the motel out by the highway, and every April I could tell the people who owned them, to the dollar, what the year had paid. Most of them already knew. A few did not want to.

Then I bought two restaurants myself. I knew the numbers better than anyone who ever sold me a franchise, and I bought anyway, because I believed my own arithmetic would come out differently from everybody else's. It did not. I ran them for twelve years and sold them for less than I put in, and afterwards I sat down with a pencil and did for myself what I had done for my clients. This book is that pencil, handed to you before you sign instead of after.

I am not against owning a business. I have seen it make good lives, and I have done the returns of people who would not have traded their shop for any job in the county, and meant it. What I am against is buying one without counting: without writing down what it will pay you for each hour you give it, and what the same money and the same hours would have done without it. The people selling the dream are mostly honest; they have simply never had to fill in your hours column.

So this is a book of sums, kept as plain as I can keep them. Every number in it comes from a public source or from arithmetic you can check, and where an answer rests on an assumption I have said which one. Where the evidence runs against me, and in places it does, I have put it in.

One caution, because it is your money and your house. This book is not tax, legal or financial advice for your situation. Before you sign anything, take your own numbers to an accountant and a lawyer who are paid by you and nobody else, and ask them the questions in the last chapter.

Walt Haugen

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1

The Pitch

You have heard the pitch, or you would not be holding this book. Quit working for somebody else. Buy a business that already makes money, a laundromat or a plumbing outfit or a cleaning company, from an owner who is ready to retire and has nobody to leave it to. Let the bank lend you most of the price. Stop being owned, and own.

I spent 30 years on the other side of that pitch, at kitchen tables. Every February the shoeboxes came into my office: receipts, bank statements, the mileage written down on whatever had been handy at the time. Every April I could tell the people who owned the diner, the body shop and the motel out by the highway what their year had paid them, to the dollar. I liked those people. A good many of them had good lives. I also learned that the bottom line of an owner's tax return is the most honest number in America, because it is the one place nobody can round up.

I am not writing from above the table. At 47, knowing more about small-business arithmetic than anyone who ever sold me anything, I signed for two franchise restaurants out on the interstate, and I did the honest sum on them afterwards, which is the wrong order.

The people selling the dream today are mostly not lying. They are counting from the top of the page: the sales, the profit, the price, the millions of owners about to retire, the trillions said to be changing hands. You will live at the bottom of the page. Down

there is a column the brochures leave blank, the hours column, and a question none of them asks.

When you have paid for the business, paid the bank, paid yourself something to live on and worked the hours it takes, what does it pay you, by the hour, against what the same savings and the same hours would have paid you without it?

Some owners can answer that and come out well ahead. I kept their books and was glad for them. Most never write the answer down. Before you sign anything, you should. Get a pencil.

Six Million Owners

Start with the number, because the pitch does.

On September 18, 2026, a press release announced Codie Sanchez's second book. It gave the reason the moment was ripe, and it named its source, a large consulting firm. Over the decade from 2026 to 2035, the release said, roughly 6 million American small businesses would change hands, a transfer of some $5 trillion in value.

You have likely met that sentence before, or one of its cousins. It runs through the short videos and the podcasts and the blogs that copy each other, and it does the same work everywhere it goes. There are millions of businesses coming loose, it says, and trillions of dollars with them, and somebody is going to buy them. Why not you? It is the floor the whole pitch stands on. If the floor is sound, the rest is a matter of finding your business. If it is not, you had better know before you put weight on it.

I did what I would have done if a client had brought that sentence into my office stapled to a loan application. I went and read the study.

The consulting firm published it on February 26, 2026. Its own summary says something close to the release, and the difference is all in the small words. By 2035, it says, about 6 million small and medium-size businesses will face ownership tran-

sitions as the baby boomers retire. Small and medium-size here means fewer than 500 employees, which is a wide net; it takes in the corner barber and a factory with a parking lot. Then comes a second sentence, the one the release folded into the first. More than 1 million of those firms, the study says, are viable candidates for sale, and they represent up to $5 trillion in enterprise value.

Read slowly, that is two numbers attached to two different groups. Six million businesses will see their owners leave. A little over 1 million of them are judged worth selling. The $5 trillion belongs to the 1 million, not to the 6, and it is a ceiling, not a count. The study says up to. The release dropped those two words, and two words were all that held the sentence to the ground.

The body of the study is plainer still. It says roughly 6 million small businesses will exit ownership over the coming decade, up from about 4.5 million in the decade before. Exits in a single year, it says, could reach as many as 665,000, which would be 42 percent above the level of 2011.

Here is the first sum, and it fits on the back of an envelope. Six million exits in the coming decade. Four and a half million in the decade just past. The retirement wave, which the movement likes to call a silver tsunami, adds about 1.5 million exits to a decade that would have had 4.5 million anyway. That is a real increase. It is a busier decade than the last one. It is not a new world.

Now the word itself. *Exit* is a roomy word, and the study is honest about what goes into it. It estimates that 510,000 small and medium-size businesses exited in 2022. Out of every hundred, 92 closed. Five were sold. Three passed to new owners some other way, often to family. The study says it in so many words: most exits end in closure rather than in a transfer to someone else.

So put the two readings side by side. The press release says 6 million businesses will change hands. The study says 6 million owners will leave, and if the recent past is any guide, most of them will leave by turning off the lights. The difference between those two sentences is the difference between a closing and a closure.

3

The Price of a Job

If you have a listing for a business in front of you, find the line called cash flow, or discretionary earnings, or SDE. Then find the asking price. Divide the price by the earnings. You will get a small number, most likely two or three, and the listing would like you to read it as years. In two or three years the business pays for itself. After that, it is yours.

I have looked at that small number more times than I can count, first for clients and then, when I bought two restaurants, for myself. It is not a lie. It is an honest answer to a question you did not mean to ask. The earnings in the listing include the wage of the person who runs the place, and after you buy it, that person is you. The price is set on your own pay. The loan you take to meet the price is guaranteed with your name, and very likely with your house. And the payment on that loan comes out of the business every month before you do.

None of this is hidden. This month, October 2026, new rules took effect for the government-guaranteed loans most small buyers use, and the rules are public. So are the price lists that franchisors must hand you, and the annual reports of the companies that run franchised restaurants by the hundred. The trouble is the order the numbers come in. The listing gives you the earnings first and the price second. The lender gives you the rate. The franchisor gives you the sales. Nobody gives you the bottom line, the one with your name on it, because nobody has to. So we will write

it ourselves, in the order a banker would: what you pay, what you borrow, what you sign, and what is left for you when the bank has been paid.

What SDE Hides

The last chapter looked at what owners earn. The tax return said it plainly, the economists said it carefully, and the hours column, once somebody filled it in, said it per hour: the typical owner takes home less than he would earn working for someone else, and the difference is not small. That was the earning side of the ledger. This chapter is the paying side. Before you earn a dollar as an owner you have to buy the place, and the price is set on a number that already has your wage inside it.

The number is called seller's discretionary earnings, SDE for short. Here it is plainly. Start with the business's profit. Add back the owner's whole pay: his salary if he drew one, his draw if he did not, and the benefits that came with it. Add back the interest, because the buyer will have his own loan. Add back the depreciation, because it is an accounting charge and not this year's cash. Then add back what the trade calls the add-backs: the personal expenses the business paid for the owner, and the costs he says will not happen again. What is left at the bottom is SDE. It is the profit before anyone has been paid to run the place.

The business brokers' trade association publishes the formal definition in its glossary, and I will give you the whole of it in my own words, because the whole of it matters. Discretionary earnings, it says, are earnings before income taxes, before non-operating and non-recurring income and expenses, before depreciation and amortization, before interest, and before one owner's entire compensation, including his benefits and any personal or non-business expenses the business paid for him. It lists three other names for the same thing: seller's discretionary earnings,

seller's discretionary cash flow, and adjusted net. When a listing says cash flow, this is often what it means.

Read the last part of that definition again. One owner's entire compensation. The definition puts the owner's pay inside the earnings, and then the earnings get multiplied to make the price. When you pay three times SDE, you are paying three times a figure that holds a full year of the seller's wage. You are paying in advance for the right to earn that wage yourself.

I want to be fair to the brokers, because there is a reason the convention exists. In a business small enough for one person to run, the owner's pay and the business's profit are not two separate things. He can take money out as salary or as profit, and his tax adviser often decides which. A buyer needs one number that does not depend on those choices, and SDE is that number. Joseph Turley, in a 2026 doctoral dissertation at Marshall University, tested it on 5,499 completed sales of very small American businesses between 2014 and 2024. He found that prices predicted from SDE came closer to the real ones, and more consistently, than prices predicted from EBITDA, earnings before interest, taxes, depreciation and amortization, the measure larger deals use, which counts a manager's pay as a cost. The convention is not foolish. It describes how these businesses are priced, and it describes it well.

He found one more thing. SDE's accuracy falls as a business's profit margin rises. That is what you would expect if SDE works best where the owner's wage is most of what there is to sell.

That is my whole point in one sentence. SDE is a good way to describe the price and a poor way to describe what you get for it. What you get, after you buy, is SDE less the wage of whoever does the work. If that person is you, then part of what you bought is a job, and you pay for it twice: once at the closing, in the price, and again every day after, in the hours.

Now the add-backs. When a seller's accountant sits down with a broker, the tax return shows a net profit, and the work is to get

MOST BUYERS BUY A JOB. DO THE SUM FIRST.

Quit your job. Buy a business that already makes money. Let the bank lend you most of the price. Own, don't be owned.

The pitch is everywhere, and some of it is true: a minority of owners do very well. *Buying a Job* asks the question the pitch skips: what does the business pay the person who runs it?

The numbers are public and plain. A third of sole proprietors report no net income at all. The price of a small business is set on earnings that include the owner's own wage. The loan is guaranteed with your house. Run through the arithmetic, the median purchase pays its owner about what he could earn managing the same kind of business for someone else.

For thirty years Walt Haugen did the books of small-business owners in northeast Iowa. Then he bought two franchise restaurants himself, and sold them twelve years later for less than he paid. This is the sum he should have done first, with a worksheet you can fill in before you sign.

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