

HOW TO CALCULATE SDE?

Seller Discretionary Earnings (SDE) shows the total financial benefit a full-time owner could expect from the business in a typical year — and it's one of the first numbers buyers look at. SDE gives buyers a clearer picture of the true income the business generates for a full-time owner-operator.

SDE starts with your net profit and adjusts for things that don't reflect the business's core, ongoing performance — like your salary, one-time costs, and personal perks. Exact add-backs vary case by case and must be documented and verifiable.

$$\text{SDE} = \text{Net Profit} + \text{Add-Backs} - \text{Subtracted Items}$$

Example

$$\$100,000 \text{ (Net Profit)} + \$35,000 \text{ (owner salary + personal vehicle + travel)} - \$5,000 \text{ (one-time legal fees)} = \textbf{\$130,000 SDE}$$

Common Add-Back Categories

Category	Examples
Owner Compensation	W-2 salary, distributions, guaranteed payments
Owner Perks	Health insurance, meals, travel, retirement contributions
Discretionary Expenses	Personal vehicle, cell phone, home office, family payroll
Non-Recurring Expenses	One-time legal fees, storm damage, moving costs
Depreciation & Amortization	Non-cash accounting charges from fixed assets
Interest Expense	Business loan interest not passed to buyer

Common Subtracted Out Categories

Adjustment Type	Examples
Non-Operating Income	Rental income, investment gains, unrelated passive income
Multiple Owner Salaries	If more than one full-time owner is needed to run business
Revenue Windfalls	Asset sales, grants, or other one-time revenue spikes
Contract or Client Risk	Income tied to short-term or non-transferable agreements

How to Use This Worksheet

Use the worksheet on the next page to calculate your own SDE. Start with net profit for each year, add back personal or one-time expenses, and subtract out unusual income or items that won't continue under a new owner. The result is your SDE — a clear measure of your business's true owner benefit.

SDE WORKSHEET

Category	Description	Partial Year	Year 1	Year 2	Year 3	Average	Notes
Net Profit	From your tax return or P&L (bottom line profit for the year)						
Addbacks (+)							
Owner Salary & Compensation	W-2 salary, distributions, guaranteed payments						
Owner Perks	Benefits paid by business (health insurance, meals, owner's retirement)						
Family Payroll / Discretionary	Wages to family not critical to operations						
Vehicle / Travel / Perks	Personal expenses run through business (car lease, travel, home office)						
Non-Recurring Expenses	One-time or unusual costs (storm damage, lawsuit fees)						
Depreciation & Amortization	Non-cash accounting expenses						
Interest Expense	Loan interest not assumed by buyer						
Non-Business Professional Services	Personal legal/accounting (e.g., personal tax prep fees)						
Total Add-Backs	Add together all rows above						
Subtractions (-)							
Non-Operating Income	Income not from business operations (rental income, investments)						
Multiple Owner Salaries	If more than one full-time owner is required						
Revenue Windfalls	One-time income spikes (PPP forgiveness, asset sales, grants)						
Contract / Client Risk	Revenue tied to short-term or non-transferable						
Total Subtractions	Add together all rows above						
Final SDE							
Total SDE	SDE = Net Profit + Total Add-Backs - Total Subtractions						