

BUY A BUSINESS

What is SDE, and how do buyers use it to price a business?

By Ayodele Olasiji, Optimax Commercial · Updated October 18, 2026 · 2 min read · Online at [optimaxdeals.com/guides/what-is-sde](https://www.optimaxdeals.com/guides/what-is-sde)

SHORT ANSWER

SDE, or seller's discretionary earnings, is what a small business earns for one owner who runs it. Start with net profit on the tax return, then add back the owner's own salary, depreciation, interest, one time costs and personal costs run through the business. Buyers and brokers price most small businesses as a multiple of SDE, so checking every add back matters.

How to, at a glance

1. Start with net profit on the tax return
2. Add the owner's salary or draws
3. Add depreciation, amortization and interest
4. Add one time and personal costs you can document
5. Subtract a manager's pay if you will not run it yourself

Questions buyers ask

Is SDE the same as EBITDA?

No. EBITDA does not add back the owner's salary. SDE is used for owner operated businesses, EBITDA more for larger ones with managers in place.

Why does the multiple matter?

Price is often quoted as SDE times a multiple. A higher SDE or a higher multiple means a higher price, which is why both get checked.

Can a seller inflate SDE?

Yes, with add backs that are not real. Ask for documents behind each one and compare to bank deposits.

A simple example

Line	Amount
Net profit on the tax return	\$90,000
Owner's salary	\$60,000
Depreciation	\$20,000
Interest on business loans	\$8,000
One time repair that will not repeat	\$7,000
SDE	\$185,000

Illustration numbers, not a real business.

Check every add back

- Ask for proof: receipts, invoices, bank records.
- Make sure one time costs really are one time. A repair every year is not.
- Personal costs should be clearly personal, like a family car or phone.
- Cash income not on the tax return is not SDE. Lenders will not count it.

SDE is not your take home pay

SDE is before your loan payments, equipment replacement and taxes, and it assumes you do the owner's job. If you will hire a manager, subtract their pay first. What is left after the loan payment is what you actually keep.

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