Valuation Gaps in M&A: Why Buyers and Sellers See Value Differently



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Most valuation disagreements in M&A aren't caused by unrealistic sellers or opportunistic buyers. They happen because each side is measuring value using a different yardstick.

Some owners undervalue what they've built. Others overvalue it. Neither is unusual. What matters is recognizing that valuation isn't a single number — it's a function of assumptions, risk, and perspective.

For business owners, enterprise value often reflects years of growth, relationships, reputation, and future potential. For buyers, value is grounded in what can be reliably transferred, scaled, and financed — in other words, risk-adjusted, transferable cash flow.

Getting this wrong is expensive in either direction. Undervaluing a business can leave millions of dollars on the table. Overvaluing it can be just as costly, preventing a transaction altogether and leaving significant liquidity unrealized because expectations drift beyond what the market will support.

Understanding this distinction is critical — especially in today's more disciplined deal environment.

Sellers Sell Performance. Buyers Buy Durability.

Most valuation gaps stem from one core issue: sellers focus on what the business has achieved; buyers focus on how reliably those results will continue.

A record revenue year may signal strength to an owner. A buyer may see normalization risk.

Adjusted EBITDA may reflect operational realities to management. A buyer may question the sustainability of add-backs or the true cash flow conversion.

Future growth opportunities may feel obvious to a founder. A buyer discounts what isn't proven, contracted, or systematized.

The market pays for durability, not optimism.

Risk Is Priced — Whether You Acknowledge It or Not

Another common disconnect lies in perceived risk.

Owners understand their top customers, their supplier relationships, and their operational nuances. Buyers evaluate from the outside. If revenue is concentrated, reporting is inconsistent, or leadership is overly dependent on one individual, that uncertainty gets priced into the valuation.

Risk doesn't always kill a deal — but it often compresses the multiple, or, significantly alters the payment terms and considerations I a way where a seller will bear a substantial risk post-close.

The more transferable and institutional the business appears, the narrower the valuation gap becomes.

Emotional Value vs. Market Value

For many founders, the business represents decades of personal investment. That emotional equity is real — but it is not a line item in an underwriting model.

Buyers are evaluating:

- Sustainable earnings
- Cash flow conversion
- Scalability
- Leadership continuity
- Exit potential

When sellers conflate personal value with market value, expectations widen — and negotiations become strained.

Closing the Gap Before the Process Begins

The most successful transactions aren't the ones where the buyer "comes up" to meet expectations. They're the ones where the seller has prepared early enough to remove uncertainty, and, they've worked with an advisory team to understand an intellectually honest valuation that is stooped in both academic forms of valuation and real time market intelligence.

That preparation often includes:

- Cleaning up financial reporting
- Reducing customer concentration
- Building second-tier leadership
- Documenting processes
- Stress-testing growth assumptions
- Selecting an M&A Advisor / Investment Banker that will eventually guide you through a process that can provide you honest feedback.

Enterprise value is rarely created during negotiations. It is built in the years leading up to a transaction.

In today's M&A market, buyers are active — but disciplined. Premium valuations are still achievable. But they are earned through clarity, durability, and preparation.

At Dean Dorton M&A Advisory, we help business owners move from assumption to alignment — translating performance into market-backed value. We don't just estimate what your company is worth; we help you understand how buyers will underwrite it and where value can be strengthened before you go to market. We put this advice on the line by also aiding and assisting our clients with the market execution process.

If you're considering a transaction in the next one to three years (or sooner), now is the time to evaluate your value drivers. Connect with a Dean Dorton M&A advisor to start the conversation.

Connect with an M&A Advisor