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How to Value a Business

The practical guide for business owners

What buyers actually pay for, the factors that lift or cut your value, and a worked example you can follow with your own numbers.

Not a valuation. Everything in this guide is general information and broad, indicative commentary. It is not financial, accounting, tax or legal advice, and no figure in it is a valuation of your business.

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BEFORE YOU START

Who this guide is for

This guide is written for business owners, not accountants. It explains, in plain English, how a business gets valued: the methods used, the factors that move the number, and the mistakes that cost sellers real money. It is also useful if you are on the buying side, because the same maths runs in both directions.

What you will learn

- What a valuation actually measures, and the difference between the value of the business and what you walk away with
- The three methods professionals use, and which one applies to businesses like yours
- How to work out the earnings figure buyers will really use (the normalisation step most owners get wrong)
- How multiples work and what moves them
- The factors that lift a valuation, and the ones that quietly kill it
- A worked example you can copy, and a free calculator to run your own numbers
- How to prepare a business for sale, starting 12 to 24 months before you need to

A note on the numbers in this guide. Every range shown is broad and indicative, for orientation only. Multiples differ between countries and markets. None of it is drawn from your accounts, none of it is a valuation, and none of it is financial, accounting, tax or legal advice. Use it to understand the mechanics, then get a proper valuation when money is on the table.

CHAPTER 1

What a valuation really measures

A business valuation answers one question: what would a willing buyer pay a willing seller for this business today? Not what you hope it is worth, and not what it cost you to build. What someone would actually hand over.

Two distinctions trip up almost every owner at some point:

- **Enterprise value versus what you take home.** If a business is worth $1 million but carries $400,000 of debt, the owner is not $1 million richer at settlement. Buyers and valuers usually quote the enterprise figure, then adjust for debt, cash and other items to reach the equity price. When you compare your number to someone else's, check you are comparing the same thing.
- **Value versus price.** Value is what the business is worth on the evidence. Price is what a particular buyer agrees to pay, and it can sit above or below value because of urgency, competition, or what the buyer plans to do with it. This guide is about estimating value. A negotiation sets the price.

The fastest reality check: value is set by what the earnings will do after you leave, not by what they did while you were running things.

CHAPTER 2

The three ways businesses are valued

Professional valuers draw on three broad approaches. For most profitable small and medium businesses the first one does the heavy lifting, but you should recognise all three.

1. A multiple of earnings (the market approach)

Value = sustainable earnings x a multiple. The buyer looks at what the business earns year after year, applies a multiple typical for businesses of that type and size, and adjusts for anything that makes yours more or less attractive. If a business earns $300,000 in EBITDA and similar businesses trade at 3 to 4 times, the indicative range is $900,000 to $1.2 million. This is the dominant method for profitable private businesses, and the one the free Advisorli calculator uses.

2. Discounted cash flow (the income approach)

A forecast of the cash the business will produce over coming years, brought back to today's dollars using a discount rate that reflects the risk. Done properly this is the most rigorous method, which is why it is common for larger companies, unusual businesses and situations with long contracts or big expected changes. Its weakness for a small business is the forecast itself: small business forecasts are often hope dressed as arithmetic, and a small change in the assumed growth rate swings the answer a long way.

3. The assets (the asset-based approach)

What the land, buildings, equipment, stock and other assets would sell for, less what is owed. This sets a floor for asset-heavy businesses (property, transport, manufacturing) and becomes the whole story for struggling ones, where the going-concern value is lower than the parts. For a profitable services business it usually says little, because most of the value sits in customers, staff and know-how, none of which appear as assets on a balance sheet.

Which one applies to you? If your business consistently earns a profit, buyers will think in multiples of earnings. If it is losing money or just breaking even, the asset approach takes over. Discounted cash flow appears when there is something unusual to model. Most owners can ignore everything except the first one.

CHAPTER 3

Step 1: work out the real earnings

The multiple method prices *sustainable* earnings: what the business can keep producing without special luck. The last year on its own can mislead, so work from at least three years of accounts, weighting the most recent year most heavily. Before you multiply anything, the earnings need to be **normalised**: adjusted so they show the business as a buyer will see it.

The usual normalisation adjustments:

- **Owner salary reset to a market rate.** If you pay yourself $250,000 but the business would need to pay someone $120,000 to replace you, earnings are overstated by $130,000.
- **One-off items removed.** A legal settlement, an insurance payout, a once-in-five-years equipment sale.
- **Personal expenses removed.** The family car, personal travel, the home internet: anything not really a business cost.
- **Related-party rent checked.** If you own the premises and charge the business above a market rent, earnings are understated.
- **Interest, tax, depreciation and amortisation added back** if you are working in EBITDA.

EBITDA refresher. EBITDA is earnings before interest, tax, depreciation and amortisation. It is usually higher than net profit because it adds back financing and accounting costs. Buyers of profitable businesses usually price off EBITDA. Net profit works as a more conservative stand-in if you do not know your EBITDA.

Normalisation is where amateur valuations most often go wrong, usually in the owner's favour. It is also why two people can look at the same accounts and get very different answers.

CHAPTER 4

Step 2: choose the multiple

An industry multiple is a market cross-check, not a formula. It shows roughly where businesses like yours have traded, not what yours is worth. Two businesses in the same industry can sell at very different multiples because of size, growth, recurring revenue, customer concentration, owner dependence, depth of management, quality of earnings, equipment needs, market position and the deal climate.

Compare like with like

- **EBITDA:** earnings before interest, tax, depreciation and amortisation, after paying the owner a market salary. The basis used throughout this guide and in the free calculator.
- **EBIT:** like EBITDA but after depreciation too, so the multiple is higher for the same price.
- **SDE:** seller's discretionary earnings adds the owner's whole salary back. Common for small owner-operated sales, especially in the US. Never mix SDE and EBITDA multiples.
- **Revenue:** price divided by sales. Mostly used for fast-growing or loss-making businesses; it cannot be converted to an earnings multiple without the margin.

Size matters more than most owners expect

Larger, professionally managed businesses attract higher multiples, because buyers see less risk and more reliable earnings. Published UK mid-market research shows the same pattern: across the businesses it tracks, the multiple rises steadily as deal size grows (Dealsuite, UK&I M&A Monitor, August 2026). Treat it as an illustration of the size effect, not a benchmark for your business. Figures drawn from private equity backed and mid-market deals typically sit above ordinary owner-operated sales and should not be applied to a small business directly.

What Australian market commentary says

Published Australian benchmark commentary describes established, profitable small and medium businesses changing hands for a low-to-mid single digit number of years' earnings, measured as enterprise value against normalised EBITDA, debt-free and cash-free, on a going-concern basis. Healthcare, IT and managed services, and professional services generally sit toward the upper end of those levels. Construction and trades, retail and hospitality generally sit toward the lower end. Within any industry, a larger business with a management layer below the owner sits above a smaller owner-operated one.

These are broad levels for orientation, drawn from published market commentary rather than from your accounts. Source: Oliver Group, EBITDA Multiples by Industry Australia, a source that rates its own confidence as medium for most sectors and low for wholesale and retail.

New Zealand

Established New Zealand businesses are generally valued on the same EBITDA basis, and published market commentary places most owner-operated and mid-sized sales in broadly similar ranges to Australia. As everywhere, the profile of the individual business matters more than its industry label.

Important: indicative commentary only. Multiples vary materially by business size, country, growth, recurring revenue, customer concentration, owner dependence, management depth, earnings quality and market conditions. This is a cross-check, not a substitute for a valuation of your business, and not financial, accounting, tax or legal advice. For a number you can rely on, use a qualified valuer or your accountant.

Within the range, three factors push you up or down faster than anything else: **owner dependence** (can the business run without you?), **customer concentration** (one customer at 30% or more of sales cuts the multiple) and **growth trend** (growth supports the upper end, decline drags the whole range down).

CHAPTER 5

What lifts your value, and what cuts it

Beyond the headline multiple, buyers price risk. These factors show up in almost every small business transaction.

Value lifters

- Recurring revenue: subscriptions, retainers, service contracts or repeat customers who come back without being chased
- Margins above the industry norm, sustained over several years
- Growth that does not depend on the owner working more hours
- A team and documented systems, so the business runs without you
- Customers spread across many names, none over about 10% of sales
- Clean, accurate, up-to-date accounts a buyer can trust
- Written agreements: leases, contracts, supplier terms

Value killers

- Key person risk: the business stops, or slows badly, if you step away
- One customer dominating sales, or a handful that could leave together
- Revenue in decline, or growth bought with shrinking margins
- Owner salary set far above or below a market rate, distorting earnings
- One-off events dressed up as earnings: a big job, an insurance payout, a grant
- Messy books, missing records, or figures that only you can interpret
- Unrecorded liabilities: overdue super, holiday pay, tax debts, disputed invoices

Notice the pattern: almost every lifter is about reducing the buyer's risk and proving the earnings will continue without you. That is the whole game.

CHAPTER 6

A worked example you can copy

Here is the method end to end with simple numbers. The free Advisorli calculator does exactly this arithmetic.

The business: a professional services firm. The owner makes the big decisions but the team runs the day to day. No customer is more than about 10% of sales.

Year	Revenue	EBITDA
Most recent year	$1,200,000	$240,000
Two years ago	$1,100,000	$210,000
Three years ago	$1,000,000	$180,000

- **Step 1: Weight the earnings 3 : 2 : 1 toward the most recent year.** (240,000 x 3) + (210,000 x 2) + (180,000 x 1) divided by 6 = $220,000 of weighted EBITDA.
- **Step 2: Check the growth trend.** Revenue has grown about 9.5% a year: positive, but not enough to trigger a growth adjustment.
- **Step 3: Start from a broad indicative range and adjust.** For a firm like this we use a broad indicative range of 2.25x to 3.75x, our own illustrative assumption rather than a sourced benchmark. Owner dependence is moderate (no adjustment), concentration is low (+0.25x), and growth of 9.5% does not trigger an adjustment. Multiple range: 2.5x to 4.0x.
- **Step 4: Multiply.** Low: 220,000 x 2.5 = $550,000. Mid: 220,000 x 3.25 = $715,000. High: 220,000 x 4.0 = $880,000.
- **Step 5: Read the result honestly.** A wide range is normal. The point of the exercise is not the midpoint, it is understanding which end you are closer to and why.

CHAPTER 7

If you are the buyer, the maths runs the same way

Everything in this guide works from the other side of the table too. When you value a business you want to buy, you estimate its normalised earnings, apply a multiple, and stress-test every assumption. Two things deserve extra attention as a buyer:

- **Earnings quality.** Ask for three years of accounts and tax returns, and trace the numbers back to bank statements. Look for revenue that only exists because of the owner's personal relationships, sales that are really one-off projects, and costs that will not disappear just because the business changed hands.
- **What happens after settlement.** The premium multiples go to businesses that keep performing without the seller. Negotiate a handover period, get the key relationships documented or contracted, and price the risk of anything that depends entirely on the person you are buying from.

A buyer's rule of thumb: whatever number you negotiate, keep enough cash aside for the surprises. The purchase price is not the total cost of owning the business.

CHAPTER 8

Selling one day? Start preparing now

The businesses that sell well prepared for it years ahead, not weeks. Use this checklist as a starting point:

- Clean up your accounts and keep them current; buyers discount figures they cannot verify
- Reset your salary to a market rate and stop running personal costs through the business
- Reduce customer concentration by winning new names before you need to
- Write down how the business actually runs: systems, supplier terms, key contacts
- Get recurring revenue in writing: contracts, retainers, subscription terms
- Fix known problems early: disputed invoices, overdue tax, unfinished employment matters
- Build at least one person who can run things without you, and let them
- Get a proper valuation 12 to 24 months out so there is time to act on what it says

CHAPTER 9

From an estimate to a number built on your real accounts

Everything in this guide is arithmetic on numbers you type in by hand. Advisorli takes it further: connect your accounting (Xero, QuickBooks, MYOB, Sage or Reckon) or upload a spreadsheet, and the same valuation thinking runs on your actual figures.

- **A real valuation.** A rolling 12-month valuation from your connected accounting data, refreshed as your numbers change.
- **Business Health Score.** A 0 to 600 score built on the Altman Z-Score, showing the financial strength buyers and lenders actually look at.
- **What to fix first.** AI recommendations that show what is pulling your value down and what to do about it.
- **13-week cash flow.** A rolling operational forecast, so the cash side of a sale or purchase decision is not a guess.

Free for 48 hours. Start at advisorli.com and get your full health score, valuation and next steps. No credit card required.

Try the free calculator first. The indicative calculator at advisorli.com/business-valuation-calculator needs no account: enter three years of revenue and profit and see a range in about a minute.

IMPORTANT NOTICE

Please read before relying on anything in this guide

This guide is general information only. The commentary and ranges it describes are broad, indicative estimates produced by simple formulas and general market observation. They are not a business valuation of any particular business, and they are not financial, accounting, tax or legal advice.

- Do not use any figure in this guide for any transaction, negotiation, dispute, tax position, accounting treatment, reporting requirement or legal purpose.
- It is not suitable as evidence in court, arbitration or mediation, and it would not withstand scrutiny by a lender, investor, the ATO or any regulator.
- The commentary shown differs between countries and markets, is not drawn from your actual accounts, is not independently verified, and may not suit your business, industry or circumstances.
- If you need a number you can rely on, obtain a formal valuation from a qualified valuer or seek advice from your accountant, solicitor or licensed financial adviser.

Sources of the market commentary referred to

- Oliver Group, *EBITDA Multiples by Industry Australia* (olivergroup.com.au)
- Dealsuite, *UK&I M&A Monitor, August 2026* (dealsuite.com)

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