Understanding the Essentials of Business Valuation

A plain-English breakdown of how buyers calculate what your business is worth — and how to maximize your final sale price.

Introduction: The Valuation Reality Check

The Emotional Tie

You have likely spent years—maybe decades—building your business. You know the sacrifices it took: the late nights, the missed family dinners, the stress of making payroll in the early days. Because of that journey, you know exactly what your business is worth to *you.*

The Market Reality

But when it is time to sell, we have to face a hard truth: **a buyer does not pay for your past sacrifices. A buyer only pays for their future financial return.**

For founders and first-time sellers, the valuation process can feel like speaking a foreign language. You hear acronyms thrown around, multiples debated, and suddenly, the business you know inside and out is being reduced to a math equation.

The purpose of this guide is to demystify that equation. We are going to translate the financial jargon into plain English and explain exactly how buyers—and the banks that finance them—calculate the size of the check they are willing to write. Once you understand the rules of the game, we can work together to maximize your final sale price.

Part 1: The Three Ways to Value a Business

If you ask five different people how to value a business, you might get five different answers. However, in the world of mergers and acquisitions, there are generally three main approaches. Only one of them truly matters for a thriving, privately owned business.

1

Asset-Based Valuation (What You Own)

This is exactly what it sounds like. We tally up the value of your trucks, your equipment, your inventory, and your real estate, and then subtract your debts.

The Reality: This is often called "liquidation value." It is the bare minimum your business is worth if you closed the doors tomorrow and sold off the parts. Unless you run a heavy-machinery rental company or hold massive amounts of commercial real estate, your business is worth far more than its physical assets. There is what is know as the goodwill or the intangible assets. These are the name/brand, the team, the suppliers and customers. This is the main part of what you have been building for years

2

Future Earnings / DCF (What It Could Produce)

Also known as a "Discounted Cash Flow" (DCF) analysis. This method involves projecting your revenue five or ten years into the future and mathematically "discounting" it back to today's dollars.

The Reality: This requires experienced forecasting experience to accurately determine worth. It is heavily used on Wall Street for massive corporate mergers or high-growth tech startups. For typical Main Street or mid-market businesses, buyers find it too theoretical. They want to see what you are making *now*, not what a spreadsheet says you might make in 2032.

3 Market-Based / Comparables (What others are paying)

This is the **gold standard** for valuing profitable, privately owned businesses.

A business is ultimately worth what someone will actually pay

Think of it like selling a house. How do you know what your house is worth? You look at what the similar house down the street just sold for.

> **The Reality:** We value your business by looking at real-world data of what similar businesses in your industry have actually sold for recently. This approach gives us a "Multiple," which is the cornerstone of how we will price your company.

Part 2: The Accountant vs. The Broker (The Great Mindset Shift)

Before we can calculate your value, we need to completely change how you look at your tax returns. This is often the biggest "aha" moment for first-time sellers.

Your Accountant's Job: Tax Shielding

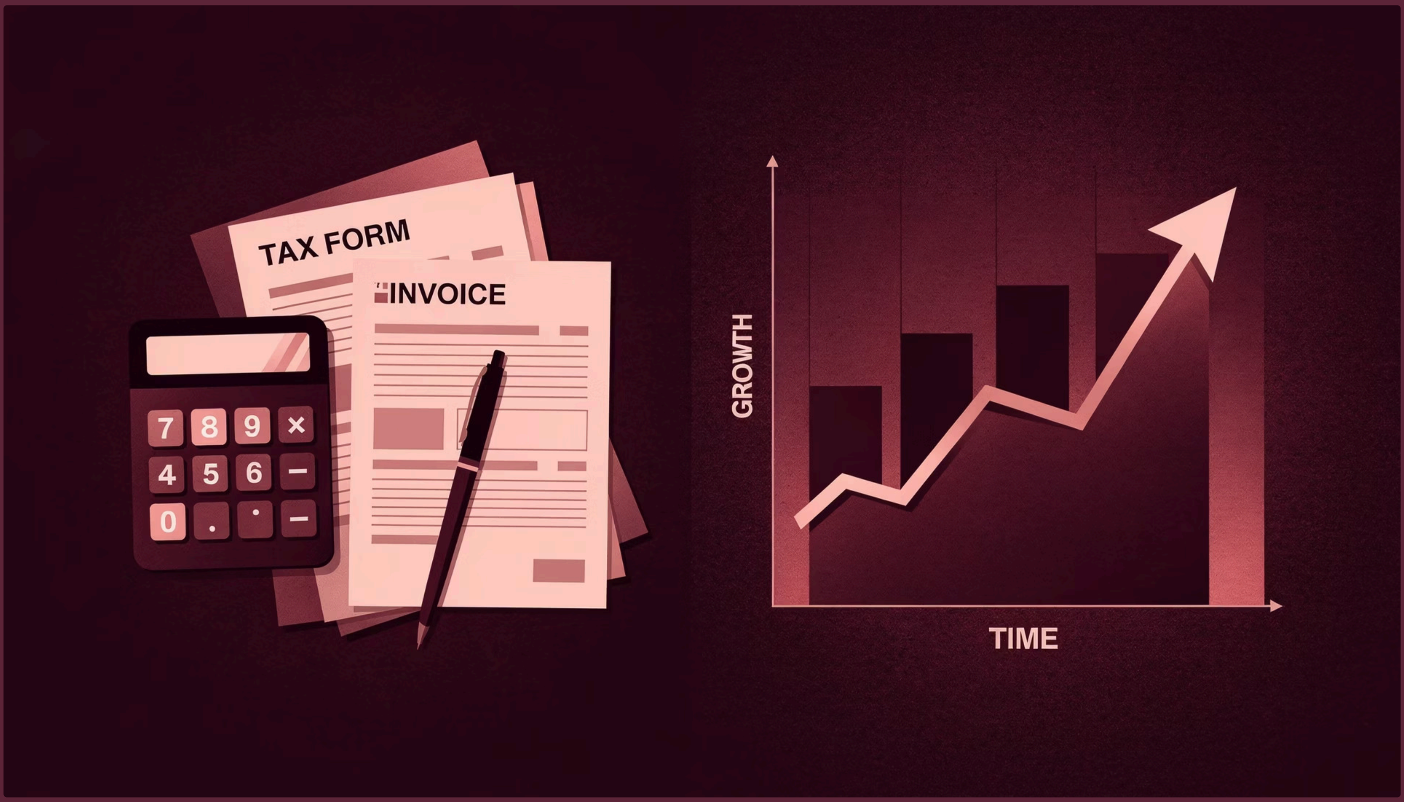
For years, you have paid a tax accountant in the US or Australia to do one primary job: legally minimize your tax bill. To keep money out of the hands of the IRS or the ATO, your accountant has accelerated the depreciation on your equipment, aggressively expensed your travel and meals, and utilized every legal loophole to drive your "Net Profit" down as close to zero as possible.

Your Broker's Job: Profit Revealing

When it is time to sell, a low profit is a disaster. Buyers value businesses based on how much profit they generate.

Therefore, my job as your broker is the exact opposite of your accountant's job. My job is to dig through your financials and unearth every single dollar of true earning power your business generates to justify the highest possible sale price.

Do not panic if your tax returns show very little profit. That just means you had a good accountant. Together, we are going to rebuild those financials to show the truth.



Part 3: Decoding the Alphabet Soup (EBITDA, PEBITDA, and SDE)

When buyers look at your rebuilt financials, they use specific acronyms to define your true profit. Depending on the size of your business and your role in it, they will use one of the following terms:

EBITDA

Earnings Before Interest, Taxes, Depreciation, and Amortization

This is the true, raw operating profit of the business before the government (taxes), the bank (interest), or accounting rules (depreciation) get involved.

Who it is for: EBITDA is generally used for larger companies (usually doing over $2M-$3M in profit) where the owner is an investor, and there is a full management team running the day-to-day operations.

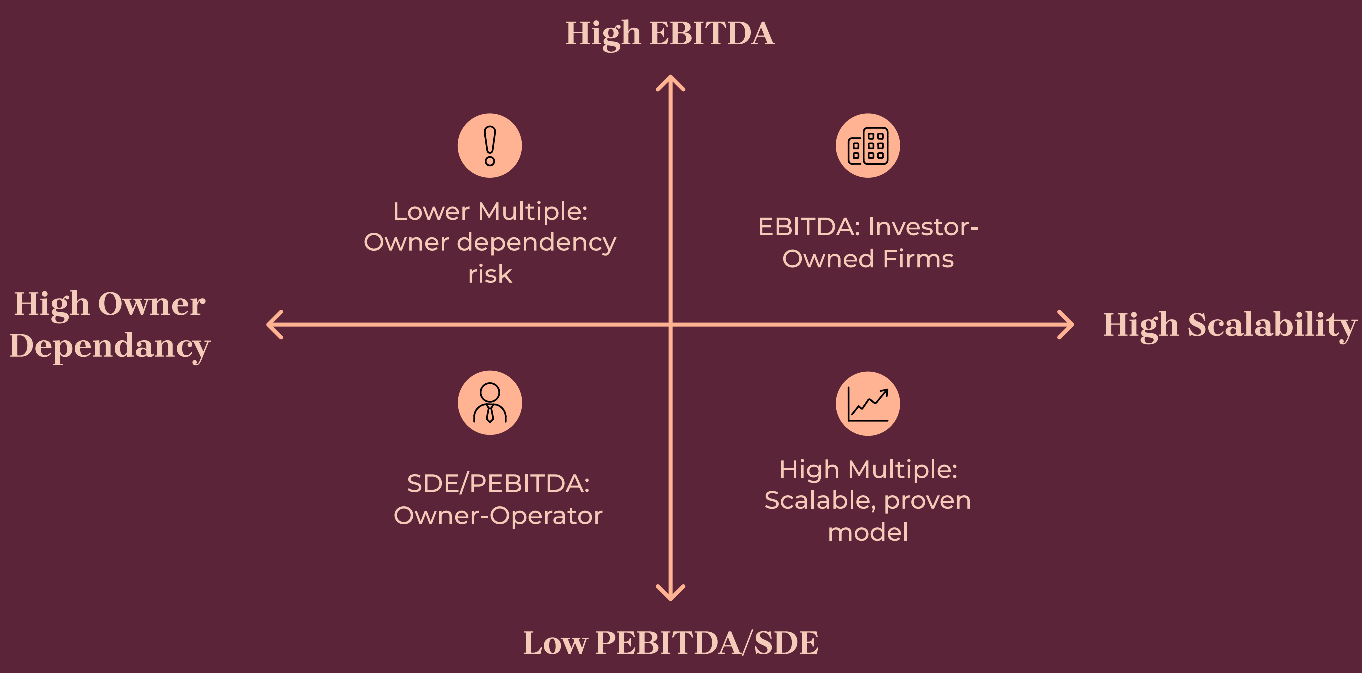
SDE and PEBITDA: The Owner-Operator Metrics

SDE / PEBITDA

Seller's Discretionary Earnings / Proprietor's EBITDA

These terms are used interchangeably depending on if you are dealing with US (SDE) or Australian (PEBITDA) buyers, but they mean the exact same thing. It represents the total financial benefit that one working owner derives from the business.

Who it is for: If you work in your business full-time as the general manager, buyers will look at your SDE/PEBITDA. It takes the core profit of the business and adds back your personal salary and benefits, showing a buyer exactly how much cash is available to them if they step into your shoes.



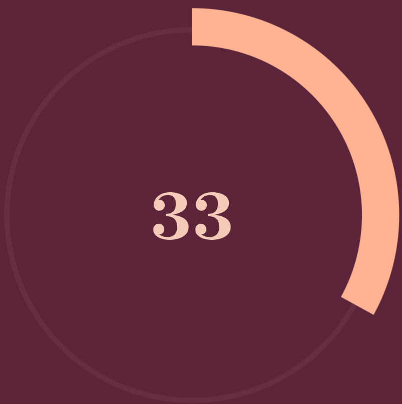
Choosing the right metric is critical - it determines the baseline from which your entire valuation is built.

Part 4: The Magic of Multiples

Once we have determined your true profit (your SDE or EBITDA), we multiply that number by a "Market Multiple" to find your valuation.

> ### The Formula
>
> **True Profit × Market Multiple = Business Value**
> *e.g., $500,000 Profit × 3 Multiple = $1,500,000 Valuation*

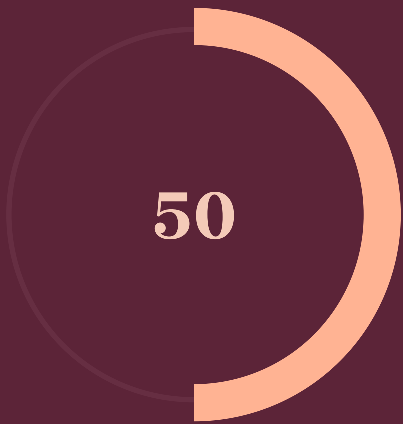
But where does the multiple come from? Multiples are driven by the market and based on risk. The riskier the business is to a buyer, the lower the multiple. The safer and more robust the business is, the higher the multiple.



2x

Lower Risk Threshold

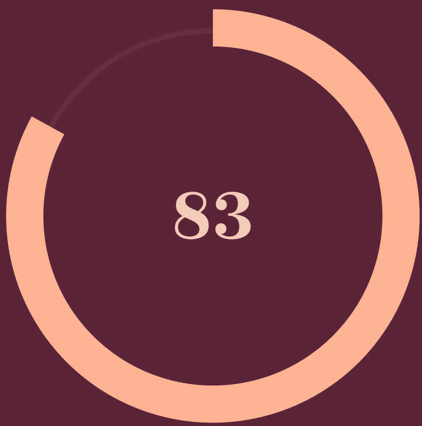
Smaller or less predictable businesses



3x

Mid-Market Range

Stable, well-run businesses with solid systems



5x

Premium Multiple

Larger, scalable, low-risk businesses

The Big Three Baseline Factors

Multiples are not arbitrary — they are anchored by three core baseline factors that every buyer considers.

1

Earnings Tier (Size Matters)

Larger businesses get higher multiples. A business making $1.5M in profit might get a 4x or 5x multiple, while a business making $150k in profit might only get a 2x multiple. Buyers pay a premium for scale because bigger businesses usually have better systems and are less likely to fail if one client/employee leaves.

2

Industry

A software company with guaranteed, recurring monthly subscriptions will command a much higher multiple than a retail store or a seasonal construction company. Predictability equals premium pricing.

3

Geography

A business located in a booming metropolitan hub (like Sydney or Atlanta) often commands a slight premium over a remote, rural operation, simply because there is a larger pool of potential buyers and specialized staff available.

The Fine-Tuning Dials (What You Can Control)

Once the baseline multiple range is set by the market, specific dynamics within your business will push your multiple up or down within that range.

⬇️ Customer Concentration

If 40% of your revenue comes from one client, your multiple **drops**. That is a massive risk for a buyer.

⬆️ Management Depth

If you have a trusted second-in-command who is staying after the sale, your multiple **goes up**.

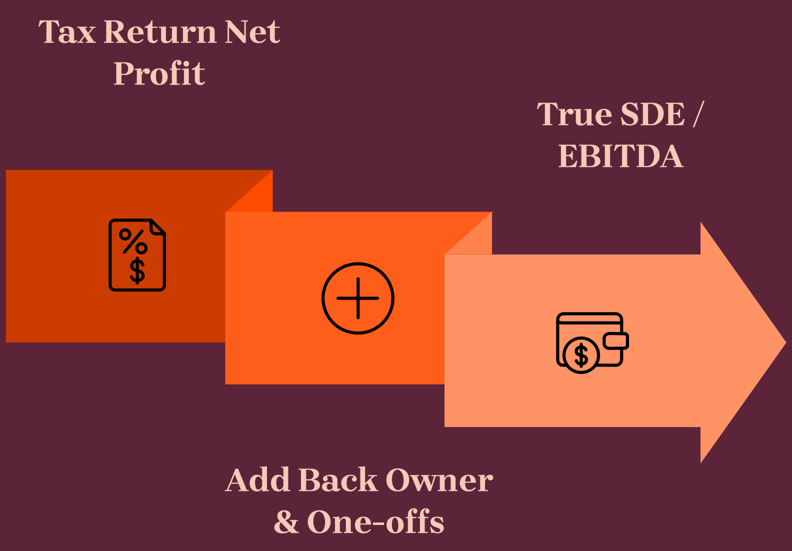
⬆️ Clean Data

Messy books **lower** your multiple. Clean, audited financials **raise** it.

Part 5: Finding the Hidden Cash (Normalization and Add-Backs)

Remember how we discussed reversing your accountant's tax-shielding work? We do this through a process called **"Normalization,"** using **"Adjustments/Add-Backs."**

> An adjustment/add-back is a legitimate business expense that a new owner will not have to pay, or a personal perk you ran through the business. We take these expenses and literally *add them back* to your bottom line to reveal the true EBITDA.



This process is where significant hidden value is uncovered — and it is one of the most important things a broker does for you.

The Master List of Common Add-Backs

Owner's Salary & Retirement

Your base salary, plus any personal Superannuation (Aus) or 401k/IRA contributions (US).

Personal Vehicles & Travel

The company car you drive, the fuel, the insurance, and the "business trip" that was actually a family vacation.

Family on Payroll

The salary paid to a spouse or child who does not actually work in the business (or paying them $80k for a job a $40k admin assistant could do).

One-Off Expenses

A major lawsuit settlement, an unusual equipment breakdown, or a massive one-time rebranding campaign. Since a buyer won't have to pay this next year, we add it back to the profit.

Personal Expenses

Mobile phone bills, health insurance, home internet, or personal meals run through the corporate card.

Doantion

This is where the company made a donation or sponsored an event or team that was more personally aligned than good business sense.   An unnecessary marketing expense.

Worked Example: The $50k Profit That Was Actually $250k

Let's look at how normalization transforms a business on paper. Here is a fictional owner who thinks their business is only worth a tiny amount because their tax return shows a $50,000 Net Profit.

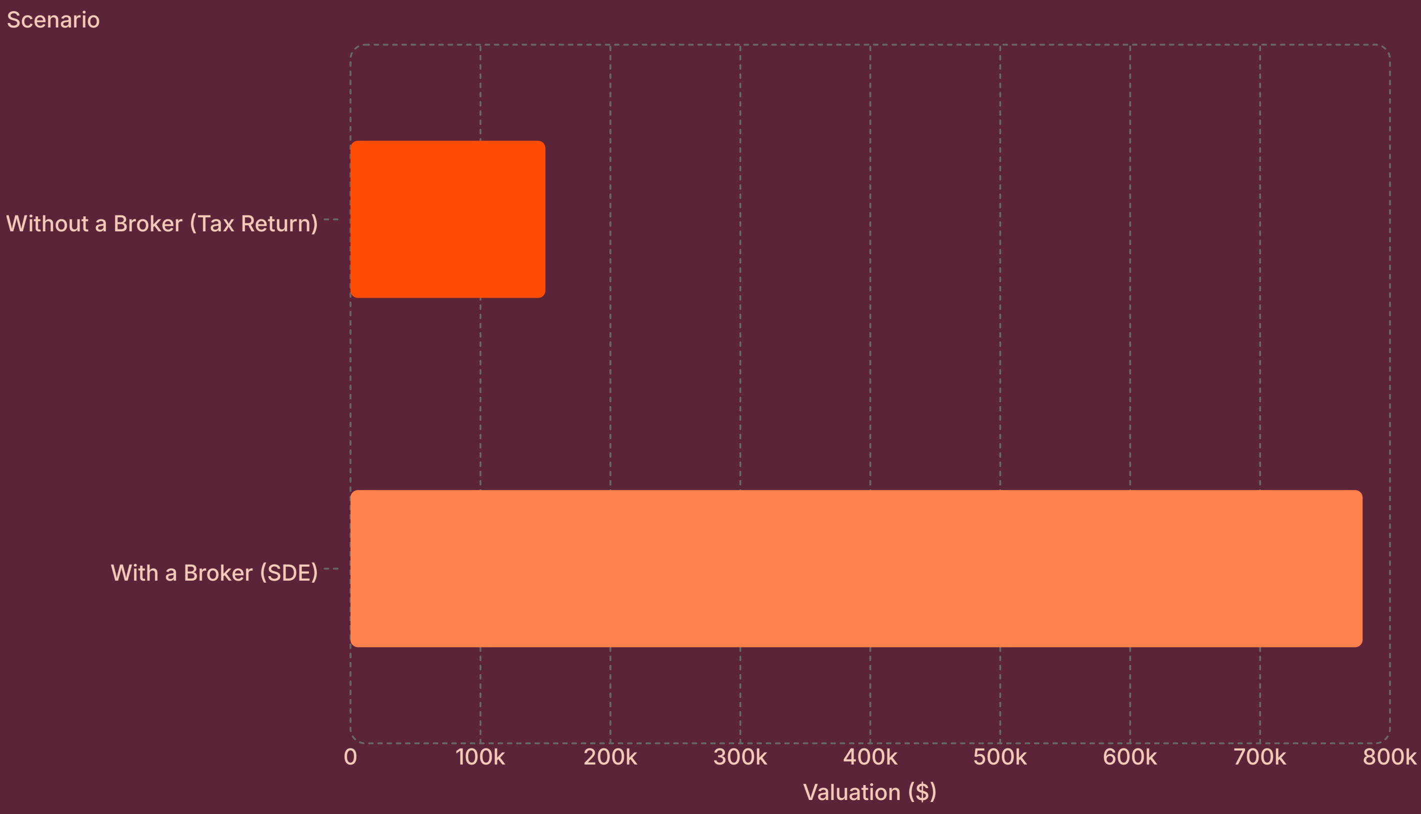
Financial Item	Amount	Why We Adjust It
Reported Net Profit (From Tax Return)	**$50,000**	What the ATO/IRS sees.
(+) Owner's Working Salary (ONLY ADDED INCASE OF PEBITDA/SDE)	$120,000	The buyer will take this money.
(+) Owner's Retirement (Super/401k)	$12,000	Discretionary owner benefit.
(+) Personal Car Lease & Expenses	$15,000	The buyer won't inherit your car.
(+) Non-Working Spouse Salary	$20,000	Phantom expense for tax purposes.
(+) One-Off Legal Fee (Trademark)	$13,000	A one-time event that won't repeat.
(+) Corporate Sponsorship unrelated	$20,000	Sponsorship of a personal nature more than business
True Adjusted Profit (SDE / PEBITDA)	**$250,000**	**The true earning power of the business.**

The Impact: A $600,000 Difference

If similar businesses in the market are selling for a 3x multiple:

Without a Broker	With a Broker
Valuing the business on the tax return:	Valuing the business on SDE:
$50,000 × 3 = **$150,000 Valuation**	$250,000 × 3 = **$750,000 Valuation**

That is a $600,000 difference simply by knowing how to correctly present the financials to a buyer.



Conclusion: Preparing for the Valuation

Valuing a business is both an art and a science. It requires market knowledge, financial forensics, and an understanding of buyer psychology.

> You do not need to be a financial expert to sell your business; you just need to partner with someone who is.

Your Next Step

The first step in our journey together is to gather your data. We will need your last three to five years of clean Profit & Loss statements and your filed tax returns.

Once you provide the data, I will do the heavy lifting. We will find the hidden value, build a defendable case, and ensure that when we go to market, we are demanding a price that honors the legacy you have built.

Let me help you reveal your true value in your business!

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Ready to find out what your business is truly worth? Reach out to Shane today to begin your confidential valuation conversation.

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