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BUSINESS BROKERS

HOW TO VALUE YOUR BUSINESS

A buyer's perspective on earnings, cash flow, risk and value

AUSTRALIAN SME VALUATION GUIDE | SEPTEMBER 2026

How to Value Your Business - A Buyer's Perspective

When considering the value of a business, it is useful to look at the transaction from the buyer's perspective. A buyer is not simply purchasing the current profits of a business. They are investing capital today in exchange for expected future cash flows, while accepting the risks associated with owning and operating the business.

This guide uses an illustrative Australian SME with annual revenue of $4,500,000. It shows how maintainable earnings, free cash flow, risk and market multiples can be considered together. It is an educational example, not a valuation of any particular business.

Illustrative buyer assumptions

Assumption	Illustrative basis
Opportunity cost	A market-based management salary of approximately $180,000 per annum is allowed for in the forecast.
Funding	The buyer may use a mix of debt and equity. Financing costs are buyer-specific and are excluded from EBITDA and enterprise value.
Company tax	A 25% company tax rate is used for illustration, assuming the company qualifies as an Australian base rate entity. Other companies may be taxed at 30%.
Growth	Revenue is forecast to grow conservatively at approximately 4% per annum.
Assessment period	The buyer considers forecast performance over five years.
Required return	The return required will depend on the quality and risk profile of the business. A 20% discount rate is used solely to illustrate discounted cash flow.

Key principle: a highly systemised business with recurring revenue and limited owner dependence will generally attract a stronger valuation than a business heavily reliant on its owner or a small number of customers.

Worked Example: Established Australian SME

Assume the business has a capable management team, a diversified customer base and a history of consistent profitability. The following forecast uses full dollar amounts for clarity.

	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue	$4,500,000	$4,680,000	$4,867,000	$5,062,000	$5,264,000
Operating expenses	$3,180,000	$3,307,000	$3,440,000	$3,577,000	$3,720,000
Management salary	$180,000	$185,000	$191,000	$197,000	$203,000
Depreciation	$80,000	$82,000	$84,000	$86,000	$88,000
EBIT	$1,060,000	$1,106,000	$1,152,000	$1,202,000	$1,253,000
Indicative company tax @ 25%	$265,000	$277,000	$288,000	$301,000	$313,000
Indicative profit after tax	$795,000	$829,000	$864,000	$901,000	$940,000

What the forecast tells a buyer

The forecast is not a promise. A buyer will test whether the assumptions are supported by trading history, contracts, customer retention, pipeline, pricing, margins, staffing and realistic cost increases. Forecasts normally carry less weight when they are inconsistent with historical results or rely on changes not yet implemented.

A note on tax

The 25% rate applies only where the company qualifies as a base rate entity. Broadly, this requires aggregated turnover below $50 million and no more than 80% of assessable income to be base rate entity passive income. Companies that do not qualify generally pay 30%. The tax consequences of an acquisition also depend on structure and the circumstances of the buyer and seller.

Understanding EBITDA

EBITDA means earnings before interest, tax, depreciation and amortisation. It provides an indication of operating earnings before financing decisions, taxation and certain non-cash accounting expenses.

Year 1 EBITDA calculation

EBITDA calculation	Year 1
EBIT	$1,060,000
Add back: depreciation	$80,000
Normalised EBITDA	$1,140,000

In this example, the business generates approximately $1,140,000 in normalised EBITDA.

Normalised or adjusted earnings

Privately owned businesses often include income or expenses that would not continue on the same basis under new ownership. Normalising the accounts aims to estimate the sustainable earnings available to a buyer.

Potential adjustments may include: excessive or below-market owner salaries; personal motor vehicle or travel costs; one-off legal or consulting costs; abnormal repairs; non-recurring income; related-party charges above or below market; and other genuine owner-specific expenses that will not continue.

An add-back should be reasonable, supportable and genuinely non-recurring or discretionary. Buyers and their advisers will scrutinise all adjustments during due diligence.

EBITDA is not cash flow

EBITDA does not account for tax, debt service, changes in working capital or the cash needed to replace and maintain assets. Those items can materially affect the return available to the buyer.

Understanding Free Cash Flow

A buyer is ultimately interested in the cash the business can generate. Accounting profit and EBITDA are useful, but neither necessarily equals the amount of cash available to the owner.

Free cash flow = operating cash generated - tax - required capital expenditure - other necessary cash commitments

Indicative free cash flow

	Year 1	Year 2	Year 3	Year 4	Year 5
Indicative free cash flow	$760,000	$790,000	$822,000	$855,000	$889,000

These figures are illustrative. A proper calculation must reflect the business's actual working-capital cycle, tax profile, lease commitments, debt arrangements and capital expenditure required to maintain earnings.

Capital expenditure and depreciation

Depreciation is a non-cash accounting expense. Capital expenditure is actual cash spent on assets. A business may therefore report strong EBITDA while requiring significant ongoing cash investment in vehicles, plant, equipment or technology.

The tax treatment of capital expenditure varies according to the asset, business structure and tax rules applying at the time. Business owners should obtain advice from their accountant or tax adviser regarding depreciation and available deductions.

Discounted Cash Flow Valuation

A discounted cash flow, or DCF, valuation estimates future cash flows and converts them into today's dollars. A dollar received in the future is worth less than a dollar received today, particularly where there is uncertainty about whether the forecast will be achieved.

Illustrative five-year DCF at 20%

	Year 1	Year 2	Year 3	Year 4	Year 5
Forecast free cash flow	$760,000	$790,000	$822,000	$855,000	$889,000
Discount factor @ 20%	83.3%	69.4%	57.9%	48.2%	40.2%
Present value of cash flow	$633,000	$549,000	$476,000	$412,000	$357,000
Cumulative present value	$633,000	$1,182,000	$1,658,000	$2,070,000	$2,427,000

The five-year present value of $2,427,000 is not automatically the value of the business. A complete DCF normally also includes the value of cash flows beyond Year 5, usually through a terminal value. It may also require adjustments for surplus assets, debt and other transaction-specific items.

Choosing a discount rate

There is no single correct discount rate for every Australian SME. It should reflect earnings stability, owner reliance, customer concentration, recurring revenue, management depth, competitive position, industry risk, capital requirements and forecast growth. The 20% rate above is an example only.

DCF is one method, not an automatic formula

Small changes to growth, margins, capital expenditure or the discount rate can materially affect a DCF result. It is therefore best used alongside market evidence and an earnings-multiple analysis.

EBITDA Multiples and Indicative Value

A common market approach applies a multiple to normalised EBITDA. The multiple is a shorthand expression of the business's quality, scale, transferability, growth and risk. It should never be applied mechanically.

Illustrative sensitivity using $1,140,000 EBITDA

EBITDA multiple	Indicative enterprise value
3.0x	$3,420,000
3.5x	$3,990,000
4.0x	$4,560,000
4.5x	$5,130,000
5.0x	$5,700,000
5.5x	$6,270,000
6.0x	$6,840,000

At 4.0 times EBITDA, the illustrative enterprise value is $4,560,000. This is a sensitivity point, not a conclusion that the business is worth exactly that amount.

What can support a stronger multiple?

Recurring or contracted revenue; a capable management team; diversified customers and suppliers; defensible market position; reliable historical growth; documented systems; low owner dependence; and limited near-term capital expenditure.

What can reduce a multiple?

Customer concentration; inconsistent earnings; dependence on the owner; weak systems; unresolved legal or compliance issues; short leases; key-person risk; ageing assets; poor-quality financial records; and forecasts unsupported by history.

Bringing the Valuation Together

There is rarely one calculation that determines exactly what an Australian business is worth. A properly considered valuation combines maintainable earnings, cash flow, industry evidence, business risk, growth, transferability and current buyer demand.

Worked-example summary

Valuation measure	Illustrative result
Normalised EBITDA	$1,140,000
3.0x EBITDA	$3,420,000
4.0x EBITDA	$4,560,000
5.0x EBITDA	$5,700,000
6.0x EBITDA	$6,840,000
Five-year discounted cash flows*	$2,427,000

*Before terminal value and any transaction-specific adjustments.

Enterprise value is not necessarily the amount the seller receives

An EBITDA multiple normally indicates enterprise value: the value of the trading business before allowing for debt, surplus cash and other agreed adjustments. The seller's equity proceeds may differ after applying the transaction's cash, debt and working-capital terms.

The market ultimately decides

A DCF may indicate one value, an EBITDA multiple another, and comparable transactions or buyer demand may provide further evidence. A profitable business that can operate successfully without its owner will generally be more attractive than an equally profitable business where goodwill and customer relationships reside predominantly with the vendor.

A strong valuation is built on credible earnings, transferable operations and evidence that the result can continue under new ownership.

Important Information

This publication is general information only and has been prepared for educational purposes. It does not constitute a formal valuation, accounting, taxation, legal, investment or financial advice. The figures, rates and assumptions are illustrative and may not apply to a particular business or transaction.

Business values and transaction structures vary materially. Before acting, business owners and buyers should obtain advice suited to their circumstances from appropriately qualified advisers.

Reference points

Australian Taxation Office: Company tax rates and base rate entity eligibility. ato.gov.au/tax-rates-and-codes/company-tax-rate-changes

Reserve Bank of Australia: Lending rates and interest-rate statistics. rba.gov.au/statistics/interest-rates

Tax rules, lending conditions and market valuation evidence can change. This guide should be reviewed periodically and before material republication.

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Helping Australian business owners prepare, position and sell their businesses.

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