

FREE GUIDE · 03

How to Value a Small Business in Australia

Valuation is a range, not a number. This guide explains the frameworks buyers and vendors actually use, how earnings are normalised, and the factors that move a multiple up or down.

Start with normalised earnings

Almost every small business valuation begins with an adjusted earnings figure. Two measures dominate:

- **SDE (Seller's Discretionary Earnings)** — net profit plus one owner's salary, interest, depreciation and genuine one-off or personal expenses. Used for owner-operated businesses.
- **EBITDA** — earnings before interest, tax, depreciation and amortisation, with a market-rate manager's salary deducted. Used for businesses that run under management.

Legitimate add-backs

- Owner's wages and superannuation above a market replacement rate.
- Interest on debt that will not transfer.
- Depreciation and amortisation.
- One-off legal, relocation or setup costs that will not recur.
- Clearly personal expenses run through the business, with evidence.

Add-backs that should be challenged

- Repairs and maintenance the business genuinely needs each year.
- Marketing described as discretionary that in fact drives revenue.
- Family wages where the family member does real work.
- "Cash sales" that cannot be evidenced. Unverifiable income has no value.

Method 1: Capitalisation of earnings (multiple)

The most common approach. Value = normalised earnings × multiple. Multiples reflect risk and transferability, and vary widely by industry, size and quality.

Business profile	Typical SDE / EBITDA multiple
Owner-dependent micro business, under \$150k earnings	1.0 – 2.0×
Established owner-operated business, systems in place	2.0 – 3.0×
Business running under management, diversified customers	3.0 – 4.5×
Contracted or recurring revenue, low owner reliance	4.0 – 6.0×

Business profile	Typical SDE / EBITDA multiple
Specialist, licensed or high-barrier operations	Case by case, often higher

Indicative ranges only. Actual multiples depend on industry, location, scale and terms.

Method 2: Asset-based valuation

Suitable where earnings are thin or the value sits in equipment, stock or property. Value = market value of plant, equipment, fit-out and stock, less liabilities assumed. This sets a practical floor: a business rarely sells below the realisable value of its assets.

Method 3: Market comparison

Comparable recent sales in the same industry and region, adjusted for size and quality. Useful as a sanity check, but small business comparables are imperfect and often unverified.

What moves the multiple

Upward pressure

- Contracted or subscription revenue
- Low owner involvement and capable management
- Diversified customer base
- Documented systems and clean financial records
- Long lease with options, or freehold included
- Consistent or growing margins

Downward pressure

- Revenue tied to the owner's relationships
- One customer above 25% of revenue
- Short lease or relocation risk
- Declining margins or unexplained volatility
- Deferred maintenance or ageing equipment
- Award compliance or underpayment exposure

A worked example

A suburban services business reports net profit of \$95,000. The owner takes \$70,000 in wages, the business carries \$12,000 of interest on a loan that will not transfer, and depreciation is \$18,000. A market replacement manager would cost \$85,000.

- $SDE = 95,000 + 70,000 + 12,000 + 18,000 = \textbf{\$195,000}$
- $EBITDA \text{ after a manager} = 195,000 - 85,000 = \textbf{\$110,000}$
- At 2.5× SDE for an owner-operated business: goodwill of roughly **\$487,500**, plus stock at value.
- If the buyer intends to employ a manager, the 110,000 figure is the honest basis, not 195,000.

Price is not the same as value

Terms often matter more than headline price: deposit, vendor finance, earn-out, restraint, handover period and what happens to leave entitlements at settlement. A lower price on poor terms can cost more than a higher price on good ones.

Next step

Before you make an offer, have the earnings independently normalised. Most negotiations are won or lost on the add-backs.

Book a confidential conversation at nextgoaladvisory.com.au or email hello@nextgoaladvisory.com.au.

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