

THE IBV™ GUIDE

Business Valuation in Australia

How professional Business Valuers integrate financial performance with risk and value drivers, market evidence and commercial judgement to reach a defensible conclusion of value.

WHAT MAKES THIS GUIDE DIFFERENT

Not a glossary. Not a “multiple × profit” shortcut.
A practical explanation of how Business Valuations actually work.

For business owners, accountants and professional advisers.

IN THIS GUIDE

A 15-minute route through how Business Valuations actually work

Read from start to finish, or jump straight to the issue that matters. The contents below use the same gold section headings you will see throughout the Guide.

Business owner? Start with pages 3, 5, 7, 8, 10 and 11.

Accountant or adviser? Read the full Guide.

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EXECUTIVE SUMMARY

“ A sound Business Valuation does not choose between financial performance and non-financial factors. It integrates the financial numbers with the risks and value drivers that determine how durable and transferable those earnings really are.

The numbers establish the economic foundation; the risk and value drivers tell us how much confidence to place in those earnings; market evidence and professional judgement bring the two together into value.

If you remember only five things from this Guide, remember these

01

Scope before arithmetic

“What is the business worth?” is incomplete until the asset or interest, date, purpose, basis of value and rights are defined.

02

Maintainable EBIT is not reported EBIT

Business Valuers normalise owner-specific, non-recurring and non-commercial items to estimate a sustainable operating earnings base.

03

Risk and Value Drivers balance the numbers

Financial performance shows what the business has achieved. Risk and value drivers help explain the quality, durability and transferability of those earnings, and therefore how much confidence can be placed in their continuation.

04

Methods must be reconciled

Income, market and cost / asset-based approaches answer different questions. Differences should be explained, not mechanically averaged.

05

Enterprise value is not equity value

Debt, surplus assets, working capital and the rights attached to a specific interest can materially change the final equity value.



The expert habit

Do not ask first, “What multiple did you use?” Ask, “What earnings are maintainable, which risk and value drivers matter, and what evidence supports those judgements?”

For business owners: understand why risk and value drivers can move value even when the financial numbers look similar.

For accountants: see where valuation logic departs from accounting presentation and where normalisation, risk and transaction mechanics matter.

For advisers: know which questions expose a weak valuation faster than debating the final number.

For decision-makers: identify which assumptions are sensitive enough to change a sale, succession, tax or ownership decision.

THE FOUNDATION

Before a Business Valuer calculates anything, the valuation question has to be defined

Change the **interest, date, purpose, basis of value or rights** and the answer can legitimately change. Once scope is clear, the conclusion is built by integrating financial evidence, risk and value drivers, market evidence and professional judgement. [3][5]

Five things that must be explicit

- **Subject interest:** operating business, shares, units, goodwill or another asset?
- **Valuation date:** what was known or knowable at that date?
- **Purpose:** sale, tax, succession, dispute, restructure or another decision?
- **Basis of value:** market value or another defined basis?
- **Rights:** control, liquidity, restrictions and share-class economics?

Where judgement enters

- Which years best represent maintainable performance?
- Which adjustments are genuinely non-recurring?
- How credible is future growth?
- Which transactions are really comparable?
- Which risk and value drivers - such as concentration, recurring revenue, owner dependency and management depth - materially affect value?
- Which method deserves most weight?

1 · SCOPE

interest, date,
purpose

2 · ECONOMICS

how money is
really made

3 · EARNINGS

normalise
performance

4 · RISK & VALUE DRIVERS

durability &
transferability

5 · METHODS

income, market,
cost/assets

6 · RECONCILE

cross-check &
conclude

ACCOUNTANT'S LENS

Book value is not market value. Carrying amounts answer accounting questions. **For a market-value valuation**, the question is what economic benefits, risks and rights a market participant would price.

MINORITY-INTEREST REALITY

20% of a company is not automatically worth 20% of the company.

Depending on the **purpose and basis of value**, control rights, liquidity, transfer restrictions and share-class rights can affect the value of a minority interest. Pro-rata value is therefore not automatically the final conclusion.

THE MOST MISUNDERSTOOD STEP

Reported profit is evidence. Maintainable earnings require valuation judgement.

A valuer is rarely paid to copy the P&L. The task is to estimate sustainable earnings consistent with the **applicable basis of value**, after considering owner-specific, abnormal, non-recurring and non-commercial items.

WHY EBIT IN THIS GUIDE?

EBIT is after depreciation and amortisation; EBITDA adds them back. That distinction can matter where the use and replacement of operating assets are economically significant. This Guide uses maintainable EBIT in its worked examples. In practice, the earnings measure must fit the business and be matched consistently to the valuation evidence.

Reported EBIT

starting evidence

±

Normalisations

owner / related-party /
one-off

±

Structural changes

costs or benefits
that persist

=

Maintainable EBIT

valuation input

Good adjustments

- Owner salary above or below market, with evidence
- Genuinely non-recurring legal or relocation costs
- Related-party rent adjusted to market terms
- One-off revenue that will not recur
- Known permanent cost savings already implemented

Dangerous adjustments

- Adding back "one-offs" that happen every year
- Ignoring required replacement management cost
- Annualising a strong month without capacity evidence
- Removing legitimate maintenance expenditure
- Treating ambitious forecasts as established earnings

ACCOUNTANT'S LENS

Think of normalisation as a **quality-of-earnings bridge**. The question is not "can I justify this add-back?" but whether the adjustment recreates sustainable economics appropriate to the valuation basis. **For market-value work**, a useful test is whether a rational buyer would expect the amount to recur after completion.

KEY TAKEOUT

The best normalisation schedule is not the one that produces the highest earnings. It is the one that survives challenge.

THE MATHEMATICS BEHIND THE SHORTHAND

A multiple and a capitalisation rate are two ways of expressing the same relationship

In a simple capitalisation model, value is maintainable earnings divided by a capitalisation rate. The reciprocal of that capitalisation rate is the earnings multiple. This is why apparently small changes in the rate can move value materially.

Capitalisation of maintainable earnings is one application of the income approach.

For illustration, the example below uses maintainable EBIT; in practice, the capitalisation rate or multiple must be consistent with the selected earnings or cash-flow metric. The guide compares the income, market and cost / asset-based approaches on page 9. [3]

IN PLAIN ENGLISH

The more risk a buyer perceives in future earnings, the higher the return they generally require - and the lower the value. Stronger value drivers can increase confidence in the durability and transferability of those earnings.

\$600,000

maintainable EBIT

÷

25%

capitalisation rate

=

\$2.40m

indicative value

Capitalisation rate	Reciprocal multiple	Value on \$600k
20.0%	5.00×	\$3.00m
22.5%	4.44×	\$2.67m
25.0%	4.00×	\$2.40m
27.5%	3.64×	\$2.18m
30.0%	3.33×	\$2.00m

RISK AND VALUE DRIVERS THAT CAN INFLUENCE THE RATE OR MULTIPLE

- Operating risk and earnings volatility
- Customer, supplier and key-person concentration
- Recurring revenue and earnings quality
- Management depth, systems and owner dependency
- Growth quality and transferability of goodwill
- Quality and reliability of the underlying evidence

Illustrative mathematics only. EBIT is used here to show the reciprocal relationship. The appropriate earnings or cash-flow metric and capitalisation rate depend on the valuation basis, method, asset intensity and business economics.

KEY TAKEOUT

If the selected earnings figure already assumes future growth, do not quietly “pay for” the same growth again through an aggressive multiple.

THE MULTIPLE IS AN OUTPUT, NOT A STARTING POINT

Why “industry multiple × earnings” is usually too crude

A market multiple looks simple because it compresses many assumptions into one number. The financial numbers provide the starting evidence; the business-specific **risk and value drivers** help explain the quality, durability and transferability behind those earnings. The professional task is to connect those drivers to relevant market evidence and valuation judgement. [3]

RISK AND VALUE DRIVERS THAT CAN SHIFT PRICING

RECURRING REVENUE	CUSTOMER CONCENTRATION	MANAGEMENT DEPTH	OWNER DEPENDENCY	TRANSFERABILITY
Comparable to what? Industry label alone is weak. Compare size, margins, growth, recurring revenue, geography, customer mix, management, capital intensity and transaction structure.	Comparable on which metric? EBITDA, EBIT, revenue and seller's discretionary earnings are not interchangeable. The multiple must match the earnings definition.	Comparable on which deal basis? Headline transaction prices may include working capital, earn-outs, property, strategic premiums or unusual terms. Normalise the evidence before relying on it.		

IBV™ APPROACH · RAVDA

IBV™ uses a structured **Risk and Value Driver Assessment (RAVDA)** to assess material non-financial risks, strengths, dependencies and value drivers alongside the financial analysis. It informs valuation judgement; it is not a separate valuation method.

ACCOUNTANT'S LENS

Multiples can hide accounting differences. Two companies with equal EBIT can still have very different capital expenditure requirements, lease structures, working-capital intensity and cash conversion. A multiple comparison is only as good as the metric being compared.

KEY TAKEOUT · CHALLENGE QUESTION

If you cannot explain why this business deserves this multiple, you do not yet have a valuation conclusion - you have a lookup.

ILLUSTRATIVE CASE STUDY

The P&L says “equal”. The buyer does not.

Both businesses produce maintainable EBIT of \$500,000. The **financial numbers are the same; their risk and value drivers are not**. The key difference is the confidence a buyer can place in the durability and transferability of those earnings.

BUSINESS A

Transferable & resilient

Largest customer	8%
Recurring / contracted revenue	70%
Owner dependence	Low
Second-tier management	Strong
Documented systems	Mature
Illustrative multiple	4.5×

ENTERPRISE VALUE

\$2.25m

BUSINESS B

Concentrated & owner-led

Largest customer	41%
Recurring / contracted revenue	15%
Owner dependence	High
Second-tier management	Limited
Documented systems	Weak
Illustrative multiple	2.8×

ENTERPRISE VALUE

\$1.40m

KEY TAKEOUT · RISK & VALUE DRIVERS

In this illustration, the financial numbers are identical. The \$850,000 value gap reflects different **risk and value drivers** - concentration, recurring revenue, owner dependency, management depth and systems - which change confidence in the earnings and their transferability.

VALUE DRIVERS THAT COULD NARROW THE GAP

- Reduce customer concentration
- Document operating systems
- Increase recurring revenue quality
- Build management depth
- Move owner relationships into the business

Illustrative only. Multiples are hypothetical and are not market evidence for any real business or industry.

METHODS ARE TOOLS, NOT ANSWERS

The three approaches ask different questions

**WHAT THIS MEANS FOR
A BUSINESS OWNER**

You do not need to choose the valuation method. What matters is why it was selected, whether the evidence supports it, and how the business's risk and value drivers are reflected in the analysis.

01

Income approach

Question: What are the future economic benefits worth today?

Strong when: earnings or cash flows can be estimated with reasonable reliability.

Watch: forecast bias, terminal assumptions, mismatch between earnings metric and discount/capitalisation rate.

02

Market approach

Question: What does market evidence imply for a comparable business or interest?

Strong when: transactions or public-company evidence are sufficiently comparable.

Watch: deal terms, scale, timing, metric definitions and strategic premiums.

03

Cost / asset-based approach

Question: What does the value of the underlying assets less liabilities imply for the business or interest?

Strong when: the business is asset-, investment- or holding-company driven, or reliable earnings / cash-flow evidence is limited.

Watch: it is not usually primary for a profitable going concern; consider unrecorded intangibles, contingent liabilities and whether going-concern value exceeds net assets.

IVS terminology: an asset-based / summation method can be an application of the cost approach. [3]

**KEY TAKEOUT ·
RECONCILIATION**

If one method indicates \$3.0m and another \$2.2m, averaging them is not automatically sophisticated. The valuer should ask **why the methods differ** and reconcile the financial evidence, risk and value drivers and market evidence before weighting each method.

Question	Stronger evidence	Weaker evidence
Historical profitability	Stable, reconciled, explainable	Volatile, incomplete, heavily adjusted
Market comparables	Recent, similar, transparent terms	Small sample, stale, opaque deal terms
Forecasts	Board-approved, capacity-backed, prepared contemporaneously	Created for valuation, unsupported, hockey-stick growth

THE BRIDGE MOST OWNERS MISS

A \$4 million business is not necessarily \$4 million to the shareholders

An enterprise-value/EBIT multiple (EV/EBIT), as used in this Guide's worked examples, produces an indication of **enterprise value**: the value of the operating business. To reach equity value, the valuer may need to adjust for debt, debt-like items, surplus assets and the agreed working-capital position.

**WHAT THIS MEANS FOR
A BUSINESS OWNER**

Risk and value drivers help shape the value of the operating business. Debt, surplus assets and other balance-sheet items then determine how that enterprise value bridges to equity value.



Debt-like is broader than bank debt

Depending on the transaction and basis of value, items such as shareholder loans, unpaid tax, deferred consideration, abnormal provisions or unfunded obligations may need analysis.

Working capital can move proceeds

A business may be valued on the assumption that a normal level of working capital is delivered. A shortfall at completion can reduce proceeds even if the enterprise value is unchanged.

ACCOUNTANT'S LENS

This is where valuation and completion mechanics meet. **Do not mix operating performance with financing structure.** First understand what the multiple is valuing; then bridge to the specific equity interest.

KEY TAKEOUT

Never debate “the value” until everyone is talking about the same layer of value.

THE HIDDEN QUESTION BENEATH PRIVATE-BUSINESS VALUE

What survives when the owner leaves?

For valuation purposes, goodwill is more than simply the residual between price and net assets. In a private business, the critical commercial question is whether customer relationships, reputation, know-how, systems and earnings capacity are attached to the **enterprise** or to a particular individual.

**WHAT THIS MEANS FOR
A BUSINESS OWNER**

Transferability is a major value driver. The less the business depends on you personally, the more of its earning capacity may be capable of transferring to a buyer.

Enterprise-attached

- Brand recognised independently of owner
- Contracts sit with the entity
- Team owns customer relationships
- Systems and IP are documented
- Management can operate independently

Transferability test

If the owner disappeared for 90 days, what revenue, capability and customer confidence would remain?

Person-attached

- Owner is primary rainmaker
- Key clients follow the individual
- Know-how is undocumented
- Licences or reputation are personal
- No credible management successor

WHY BUYERS CARE

Transferability is a key **Value Driver** that affects both **earnings** and **risk**. If replacing the owner requires a \$180,000 general manager, maintainable earnings may fall. If customers may leave anyway, the multiple may also fall. One issue can affect both sides of the valuation equation.

ACCOUNTANT'S LENS

Owner dependency should not be dealt with only through an add-back schedule. It can require a **replacement-cost adjustment**, a **risk adjustment**, or both - provided double counting is avoided.

**KEY TAKEOUT ·
DOUBLE-
COUNTING TRAP**

If you reduce earnings for a replacement manager and also apply a lower multiple because “management depth is weak”, make sure you are not penalising the same risk twice without justification.

FOR ACCOUNTANTS AND ADVISERS

Six valuation distinctions worth carrying into every client conversation

1

EBIT is not cash flow

EBIT is after depreciation and amortisation, but it is not cash flow. Capital expenditure, working capital, lease economics, asset intensity and cash conversion can still materially change the economics.

2

Normalisation is not advocacy

An adjustment should recreate economics appropriate to the valuation basis, not maximise the client's earnings base.

3

A multiple must match the metric

Do not apply a transaction multiple derived from one earnings definition to another.

4

Enterprise value is not equity value

Debt, surplus assets and working-capital assumptions can materially change shareholder value.

5

Forecasts need contemporaneous credibility

A forecast prepared later with hindsight is not equivalent to a plan that existed at the valuation date.

6

Scope changes the service

APES 225 distinguishes valuation, limited-scope valuation and calculation engagements; users should understand the difference.[4]

APES 225 IN PLAIN ENGLISH

For members of Australian professional accounting bodies, APES 225 places obligations around valuation services, reporting and documentation. A calculation engagement is not simply a cheaper full valuation; it is a different valuation service involving the **agreed application of Valuation Approaches, Valuation Methods and Valuation Procedures**. [4]

Quick report audit	What good looks like	Warning sign
Earnings	Material normalisations are quantified, explained and tied to economics appropriate to the valuation basis.	Large add-backs with little evidence or no replacement-cost logic.
Risk & Value Drivers	Material non-financial risks and value drivers are identified and their treatment in earnings, rate, multiple or reconciliation is transparent.	Generic driver lists with no link to the valuation conclusion, or the same factor counted twice.
Market evidence	Comparable transactions use compatible metrics, dates, scale and deal terms.	A headline multiple is copied from an incomparable deal or industry rule of thumb.

KEY TAKEOUT

A strong valuation connects the **financial numbers, risk and value drivers, market evidence and judgement** clearly enough for another informed professional to challenge the conclusion intelligently.

PUTTING THE LOGIC TOGETHER

From reported accounts to equity value

A private service business reports EBIT of \$540,000. The valuer identifies three material adjustments and concludes maintainable EBIT of \$650,000. The point is not the answer – it is to show **where judgement enters**.

Earnings bridge	\$000
Reported EBIT	540
Add: excess owner remuneration	+85
Add: one-off relocation cost	+45
Less: replacement systems manager	-20
Maintainable EBIT	650

RISK AND VALUE DRIVERS

These business-specific drivers complement the earnings analysis by testing durability, risk and transferability.

- Recurring revenue: strong
- Customer concentration: moderate
- Owner dependence: reducing but present
- Management depth: satisfactory
- Historical margins: stable
- Growth outlook: credible, not fully contracted

Illustrative multiple range: 3.75× to 4.25×

Evidence logic in a real valuation: the selected range would require support from relevant market evidence, an income-approach analysis and/or other appropriate valuation evidence. The range shown here is hypothetical and not a benchmark.

\$2.44m

3.75× \$650k
lower end

\$2.60m

4.00× \$650k
central case

\$2.76m

4.25× \$650k
upper end

\$2.60m

enterprise value

–

\$0.35m

net debt

=

\$2.25m

illustrative equity value

KEY TAKEOUT · UPSTREAM

Do not start by debating whether 4.00× “looks right”. Ask whether **\$650,000 is genuinely maintainable**, whether the **risk and value drivers and market evidence justify the range**, and whether the **\$350,000 net-debt adjustment is correctly defined**.

ACCOUNTANT'S LENS

One \$50,000 normalisation moves enterprise value by \$200,000 at a 4.0× multiple. The quality of the earnings bridge **and the Risk and Value Driver analysis** can matter as much as the argument over the multiple.

WHAT TO DO NEXT

Use the guide to ask better valuation questions

A valuation becomes useful when it improves a decision. Before commissioning or relying on one, work through these six questions.

1 What decision will this value support?

2 What exactly is being valued?

3 What is the valuation date?

4 Which earnings measure is appropriate - and what is genuinely maintainable?

5 Which risk and value drivers actually move value?

6 What would materially change the conclusion?

KEY TAKEOUT

Do not buy a valuation number. Buy a clear, supportable explanation of the **financial numbers, risk and value drivers, market evidence and judgement** behind it.

CONFIDENTIAL FIRST STEP

Book a Free Valuation Conversation

Speak directly with a Certified Business Valuer about what you are trying to achieve, whether a valuation is appropriate, the likely scope and the information that would be required.

No obligation.

BOOK A FREE VALUATION CONVERSATION

1300 270 940

independentbusinessvaluations.com.au

IMPORTANT INFORMATION

Disclaimer, scope and selected references

IMPORTANT DISCLAIMER

This guide provides **general educational information only**. It does not constitute tax, legal, accounting, financial-product or investment advice, and it is not a valuation of any specific business, company, shares, units, goodwill or other interest.

Business Valuations are purpose-, date- and fact-specific. The appropriate basis of value, scope, methodology, assumptions and evidence depend on the engagement and circumstances. No example, multiple or case study in this publication should be relied upon as a substitute for a specific valuation engagement. Obtain current professional advice before acting.

SELECTED REFERENCES

[1] **Australian Taxation Office**. [Market valuation of assets](#). Guidance addressing market value, professional valuers and supporting evidence.

[2] **Australian Taxation Office**. [Market valuation for tax purposes](#). Legal Database. Guidance on objective and supportable valuation, methods, assumptions, evidence and documentation.

[3] **International Valuation Standards Council**. [International Valuation Standards](#), effective 31 January 2025, including IVS 100-106 and IVS 200 Businesses and Business Interests.

[4] **Accounting Professional & Ethical Standards Board**. [APES 225 Valuation Services](#) (2024), effective 1 January 2025, and APES GN 20 [Scope and Extent of Work for Valuation Services](#) (2025), effective 16 January 2025.

[5] [Spencer v Commonwealth \[1907\] HCA 82; \(1907\) 5 CLR 418](#). Foundational Australian authority associated with the willing-but-not-anxious buyer and seller conception of market value.

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IBV™ supports accountants and professional advisers Australia-wide with independent, referral-safe Business Valuations. IBV™ uses its **Risk and Value Driver Assessment (RAVDA)** as a structured evidence-building methodology alongside financial and market analysis; it is not a separate valuation method or external standard. Standards, guidance and law can change. Obtain current professional advice before relying on an external authority referred to here.

