



Mastering Business Valuation

What Your Business Is Really Worth, and Who Gets
to Decide





The Number Everyone Wants to Know

Whether you are thinking about buying a business or selling one, valuation is the question at the centre of everything. What is it actually worth? How does anyone arrive at that number? And can you trust it?

For sellers, valuation can feel deeply personal. You have put years of work, money, and energy into building something. Surely that counts for something in the final number. For buyers, valuation can feel like navigating a maze, where every seller seems convinced their business is worth more than the market suggests.

The truth is that business valuation is more art than science. There is no single formula that spits out the right answer. Context matters enormously, market conditions shift constantly, and two businesses that look identical on paper can sell for very different prices. Understanding why is what this guide is about.

How Businesses Are Actually Valued

One of the most common assumptions people bring to business valuation is that there is one standard method everyone uses. There is not.

The approach taken depends on the type of business, its size, the industry it operates in, and what a buyer is actually purchasing. Here are the most common methods used in practice:

Earnings-Based Valuation

The most widely used method for small to medium businesses is an earnings multiple, often applied to EBITDA (earnings before interest, tax, depreciation and amortisation) or to the seller's discretionary earnings. A multiple is applied to the business's adjusted profit to arrive at a value. The size of that multiple depends on a range of factors, which we will get to shortly.

Asset-Based Valuation

For businesses that hold significant tangible assets, such as plant, equipment, property, or inventory, an asset-based approach may be used. This method looks at the value of what the business owns rather than what it earns. It is more common in asset-heavy industries or in cases where the business is not particularly profitable.

Revenue-Based Valuation

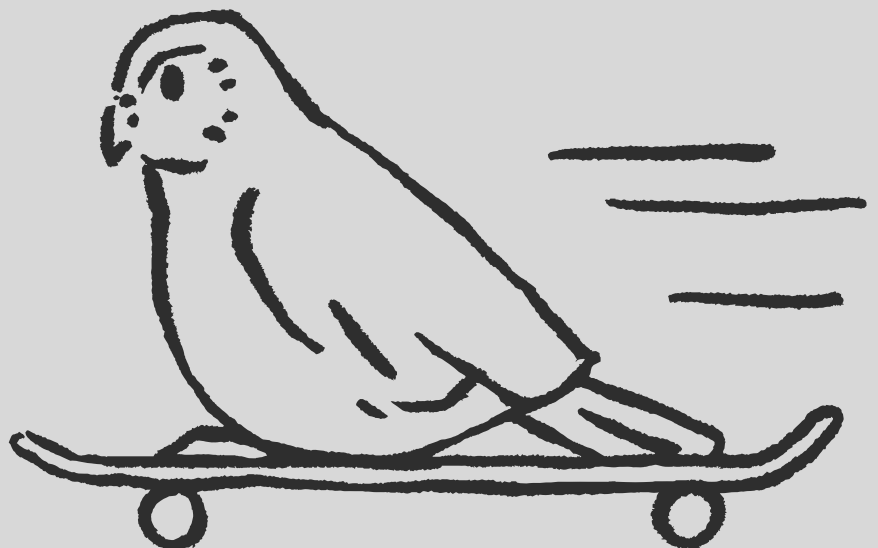
Some industries use a multiple of revenue rather than profit, particularly where margins are relatively consistent across comparable businesses. This is less common but relevant in certain sectors.

Industry-Specific Rules of Thumb

Many industries have their own shorthand methods that experienced buyers and brokers use as a starting point. These are not definitive, but they provide a useful benchmark when assessing whether a listing is in the right ballpark.

One thing worth calling out here: if you have searched for your business valuation online or run it through an AI tool, treat that number with serious caution. Online valuation calculators and AI-generated estimates are notorious for inflating values. In many cases, they are designed to win your business rather than give you an accurate picture. A valuation that flatters you is not a valuation you can take to market. The only number that matters is the one a real buyer in the current market is prepared to pay.

In practice, a well-run sale process considers multiple approaches, uses real comparable sales data, and arrives at a valuation that can be justified to both the seller and to the market.



What Pushes Your Multiple Up or Down

Two businesses with identical profits can sell for very different prices. The multiple applied to those earnings reflects how confident a buyer is in those earnings continuing into the future. Here are the factors that move that number in either direction:

Financial Performance and Trends

Clean, consistent, and growing financials attract stronger multiples. Buyers and their lenders look at the trend line across your last two to three years. A business that has grown steadily year on year tells a compelling story. A business with inconsistent results, or one that has dipped recently after a strong run, creates uncertainty, and uncertainty is priced in.

Owner Dependency

A business that runs well because of the owner is a riskier investment than one that runs well because of its systems, team, and processes. If you are the main relationship holder for every key client, the person making every important decision, or the only one who truly understands how the operation works, buyers will factor that into their offer. Reducing owner dependency before going to market is one of the most effective ways to lift your multiple.

Industry and Market Conditions

The sector your business operates in has a significant bearing on what multiples buyers are prepared to pay. Some industries are in high demand, which drives multiples up. Others attract more cautious buyers, which keeps multiples lower. Market conditions also shift over time, which brings us to an important point for sellers.

The Lease

If your business operates from a physical premises, the terms of your lease can have a dramatic impact on value. A long, secure lease with favourable renewal rights gives buyers confidence. Short leases, leases with demolition clauses, or leases that are close to expiry introduce real risk. A buyer taking on a business needs to know they can continue operating from that location. Where lease terms are uncertain, buyers will either discount their offer or walk away entirely.

Recurring vs. Transactional Revenue

Businesses with contracted, recurring revenue are easier to value with confidence and attract stronger multiples as a result. Businesses where every dollar has to be re-earned from scratch each period carry more risk, and valuations reflect that.



The Market Always Wins

Here is something every seller needs to understand, and it is perhaps the most important lesson in this entire guide.

Multiples are not fixed. They move up and down with the market. What a business in your industry sold for two years ago is not necessarily what it will sell for today. Buyer appetite changes. Interest rates move. Economic conditions shift. The pool of qualified buyers at any given moment is never the same.

A seller can believe their business is worth a certain number. A business broker can form a view on what it should achieve. But neither of those opinions is the final word. The market is.

The sellers who get the best results are the ones who price their business in the market, not on top of it. A business listed above what the market supports will sit. Months pass. Listings go stale. Buyers who saw it early move on to other opportunities. And eventually the price has to come down, often below where it would have sold if it had been priced correctly from the start.

Getting the pricing right from day one is not about selling yourself short. It is about attracting the right buyers at the right moment and creating the conditions for a competitive, well-run sale process.

What Buyers Need to Know

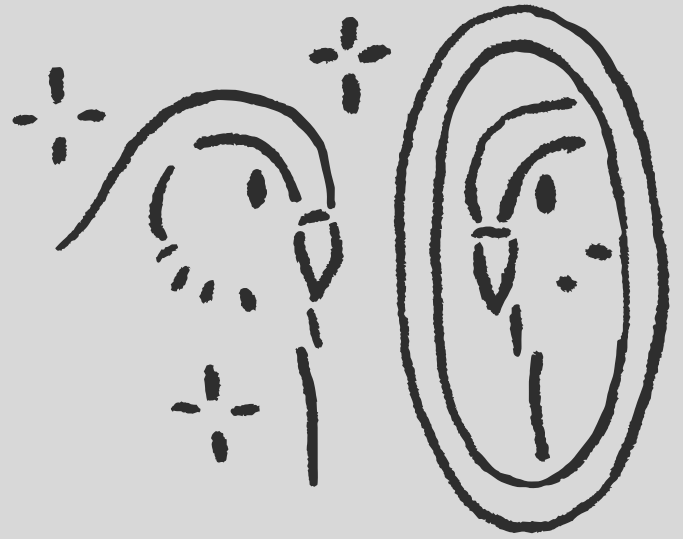
For buyers, valuation works differently. You are not trying to maximise a number. You are trying to make sure the number in front of you makes sense.

The best approach combines three things. First, understand what comparable businesses have actually sold for, not just what they are listed at. Listed prices are asking prices. Sold prices are the truth. A good broker or advisor can give you access to real comparable sales data.

Second, work backwards from the earnings. If you know what the business earns, and you understand what multiple is reasonable for that type of business in the current market, you can quickly assess whether the asking price is in the right territory. If the numbers do not stack up at the asking price, that is a conversation to have, not a reason to walk away immediately.

Third, get independent advice. An accountant who understands business sales can review the financials and sense-check the numbers. A business broker can tell you whether the pricing reflects current market conditions. These are investments worth making before you commit to a purchase of this scale.

Here is something that does not get talked about enough when it comes to negotiation: do not try to win at the seller's expense. The person selling you their business holds an enormous amount of knowledge in their head, relationships that are not written down anywhere, and institutional knowledge that no information memorandum can fully capture. You will need them during the handover period. You will need them to introduce



you to key clients, walk you through the operation, and help ensure business continuity. A seller who feels burned by the negotiation is not going to show up to that handover with the same goodwill as one who feels the outcome was fair. Sometimes it is worth paying a little more, or conceding on a condition, to make sure both sides walk away feeling like they won. Nobody benefits when one party is left feeling like they lost.

And then there is one more thing, one that does not show up in any financial model but that the most successful business owners will tell you matters enormously.

Buy something you are passionate about.

Business ownership is a rollercoaster. There will be periods that test your resilience, your patience, and your confidence. The business owners who come through those periods strongest are almost always the ones who love what they do. They love coming to work. They love their team. They care deeply about what they have built or are building. When times get tough, and they will, that passion is what keeps you going. No spreadsheet can measure it, but it is one of the most important variables in the equation.

What This All Means in Practice

There is no single formula for valuing a business. The right number depends on the type of business, the state of the market, the quality of the financials, the strength of the lease, the level of owner dependency, and the confidence a buyer can have in future performance.

For sellers, the most important things to take away are these: you can prepare your business to achieve the best possible result within the range the market allows, but the market ultimately sets the price. Price yourself in it, not above it.

For buyers, the most important things to take away are these: do your homework, validate the numbers independently, understand what comparable businesses have sold for, and make sure you are buying something you genuinely want to own and build.

Business valuation is part science, part market, and part judgement. Getting the right advice from people who understand all three is how you get it right.



Want to Know What Your Business Is Worth?

Whether you are a seller wanting a clear-eyed view of what your business could achieve, or a buyer wanting to know if the price stacks up, the team at Kakapo Business Sales can help.

We bring real market knowledge, comparable sales data, and years of experience to every valuation conversation. There is no obligation, just an honest conversation about where things stand.

Get in touch with the team at Kakapo Business Sales

P 0800 494 449

E support@kakupobusiness.co.nz

W www.kakupobusiness.co.nz

