

DEALWISE ADVISORY

The Business Valuation Guide

What your business is actually worth — and why it matters more than you think

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About this guide

Most business owners have no real idea what their business is worth — and many discover the hard way that their number and the market's number are very different things.

This guide gives you a clear, honest framework for understanding business valuation. Whether you are thinking about selling, buying, or simply building something worth more — this is where to start.

It is written by a qualified accountant and M&A adviser who has been inside the engine room of real deals. No theory. No textbook definitions. Just practical insight that you can act on.

What Is Inside This Guide

This guide covers eight core areas of business valuation:

Section	What You Will Learn
1. Why Valuation Matters	The real-world stakes of getting this right
2. The Three Methods	EBITDA multiples, asset value, and comparable sales
3. The Normalisation Game	How to adjust earnings to reflect true performance
4. What Buyers Actually Pay For	The intangibles that move the multiple up or down
5. The Value Killers	What quietly destroys value and how to spot them
6. The Value Builders	What consistently drives higher valuations
7. Quick Valuation Scorecard	A simple tool to score your business today
8. Your Next Steps	How to get a proper valuation and what to do with it

WHO IT IS FOR

Business owners considering a sale or exit. Entrepreneurs evaluating an acquisition. Investors and operators who want to build more valuable businesses.

WHO IT IS NOT FOR

Anyone looking for a purely academic treatment of valuation theory. This guide is practical and commercial, not a finance textbook.

Section 1 — Why Valuation Matters

Most people think about valuation when they are about to sell. That is the wrong time to start thinking about it.

By the time a buyer is sitting across the table from you, the value of your business is largely already determined. The decisions you made — or did not make — in the years before that conversation dictate what the market will pay.

Valuation is not just a number on a page. It is the result of every operational, financial, and commercial decision you have made. Understanding it early gives you something powerful: the ability to influence the outcome.

Three situations where valuation changes everything

Situation	Why Valuation Matters Here
Planning a sale	You need to know what your business is worth before you go to market — not after. Surprises at this stage kill deals.
Buying a business	You need to understand whether what you are paying reflects reality or someone else's wishful thinking.
Growing a business	If you know what drives your multiple, you can make deliberate decisions that increase enterprise value over time.

MY VIEW

I have seen business owners lose hundreds of thousands of pounds at the point of sale — not because of a bad business, but because they had no idea how buyers think. This guide is designed to close that gap.

The good news is this: valuation is learnable. You do not need to be an accountant to understand the fundamentals. You just need someone to explain it clearly.

That is exactly what this guide does.

Section 2 — The Three Main Valuation Methods

There is no single formula for valuing a business. Buyers, sellers, and advisers use several approaches depending on the type of business, the reason for the valuation, and what the numbers look like.

Understanding the three main methods puts you in control of the conversation.

Method 1 — Earnings Multiple (EBITDA)

This is the most common method used in SME acquisitions. It works like this:

$$\text{Business Value} = \text{Normalised EBITDA} \times \text{Multiple}$$

EBITDA stands for Earnings Before Interest, Tax, Depreciation, and Amortisation. It is a proxy for the cash-generating ability of the business before financing and accounting decisions get in the way.

The multiple is determined by factors such as:

- The size of the business
- The sector it operates in
- The quality and consistency of earnings
- The level of risk a buyer perceives
- Market conditions and deal activity

Business Type	Typical EBITDA Multiple Range
Very small SME (under £500k EBITDA)	2x — 4x
Mid-market SME (£500k — £2m EBITDA)	3x — 6x
Larger or recurring-revenue business	5x — 10x+
Highly systemised, scalable business	8x — 15x+

KEY POINT

A £500,000 EBITDA business valued at 4x is worth £2m. The same business at 6x is worth £3m. The difference between a 4x and a 6x multiple is not luck — it is down to specific, identifiable factors that you can influence.

Method 2 — Asset Value (aka The Balance Sheet Method)

This method values a business based on what it owns — property, plant, equipment, stock, debtors, and other assets — minus its liabilities.

It is most relevant for:

- Asset-heavy businesses such as property companies or manufacturers
- Businesses where earnings are low or inconsistent
- Insolvency or distressed sale situations

For most profitable trading businesses, asset value is a floor price rather than the primary metric. A buyer will typically pay more than net asset value if the business generates strong returns.

Method 3 — Comparable Transactions

What have similar businesses actually sold for? This approach looks at recent deals in the same sector with similar financial profiles.

In practice, this is used to sense-check an EBITDA multiple. If businesses in your sector are consistently trading at 5x and someone is offering you 3x — or claiming 8x — you now have context to push back or probe further.

Dealwise tracks sector deal activity to help clients understand where their business sits within the market — which is part of what makes an independent valuation so valuable.

Section 3 — The Normalisation Game

Raw profit figures rarely represent what a business truly earns. Before applying any multiple, the numbers may need to be adjusted. This process is called normalisation — and it is one of the most misunderstood parts of valuation.

Get it wrong and you significantly overstate or understate what the business is worth.

What Normalisation Involves

Normalisation adjusts the reported profit to reflect the true, sustainable, underlying earnings of the business. It removes one-off items, owner-related distortions, and accounting quirks that do not represent ongoing performance.

Adjustment Type	Example
Owner's salary above / below market rate	If the owner pays themselves £120k but market salary is £60k, add back £60k
Personal expenses through the business	Car, insurance, travel, entertaining with no commercial purpose
One-off costs that will not recur	Legal costs from a dispute, redundancy programme, one-time marketing spend
Related party transactions	Rent paid to a connected party above or below market rate
Non-recurring income	A one-time grant, insurance receipt, or exceptional contract
Depreciation policies	Adjust if depreciation does not reflect economic reality

WHY IT MATTERS

A business reporting £200k profit might have a normalised EBITDA of £350k once adjustments are made. That is a valuation difference of over £600k at a 4x multiple. These are not small numbers.

Who Makes The Adjustments?

In a sale process, the seller's adviser will typically prepare a normalisation schedule — effectively an argument for why the true earnings are different to what reported figures suggest.

The buyer's adviser will scrutinise those adjustments and challenge anything that does not stand up. Some adjustments will be accepted. Some will be rejected. The negotiation of this schedule is often where significant value is won or lost. **This is not an area to tackle without experienced support.**

Section 4 — What Buyers Actually Pay For

Two businesses with identical EBITDA can attract very different valuations. The multiple is not purely about profit — it reflects a buyer's confidence in the future.

These are the qualitative factors that buyers evaluate when deciding what multiple is appropriate.

The Multiple Drivers

Factor	Impact on Value	Notes
Revenue quality and predictability	High +	Recurring contracts command premium multiples
Customer concentration	High -	One customer > 30% of revenue = significant discount
Management team strength	High +	Will the business survive without the owner?
Owner dependency	High -	Key-person risk crushes value at exit
Market position and competitive moat	High +	Leaders in niche markets attract stronger bids
Growth trajectory	High +	Buyers pay for momentum, not just current profit
Systems, processes, and documentation	Medium +	Reduces integration risk for acquirers
Quality of financial reporting	Medium +	Clean books build trust and reduce deal risk
Staff quality and retention	Medium +	High churn or key staff risk reduces confidence
IP, brand, and customer relationships	Medium +	Intangible assets that are hard to replicate

The Most Important Question a Buyer Asks

"What happens to this business if the owner walks out on day one?"

If the honest answer is "it falls apart" — the multiple will reflect that. Businesses that run independently of their owner consistently achieve higher multiples than those where the owner is the business.

This is one of the most valuable things you can work on in the years before a sale.

Section 5 — The Five Value Killers

These are the factors that consistently suppress valuations — often quietly, without the owner realising until a buyer points them out.

1. Owner Dependency

If you are the primary customer relationship, the rainmaker, and the operational decision-maker — and there is no one else who can fill those roles — a buyer is not buying a business. They are buying a job that collapses the moment you leave.

2. Customer Concentration

One or two customers representing the majority of revenue is one of the most common deal issues in SME transactions. Buyers see concentrated revenue as fragile. A contract not renewed post-acquisition could destroy the investment thesis overnight.

RULE OF THUMB

Any single customer representing more than 20-25% of revenue will attract buyer scrutiny. Over 40% can kill a deal or trigger a significant price adjustment.

3. Messy, Unreliable or Unaudited Financials

Buyers need to trust your numbers. If the books are hard to follow, contain unexplained items, or shift significantly year on year without clear explanation — confidence evaporates. Poor financial reporting does not just create risk; it signals a lack of commercial control.

4. No Clear Growth Narrative

A business that has plateaued with no credible story about how it grows gives a buyer limited reason to pay a premium. Buyers are not just paying for what exists — they are paying for what they can build. If you cannot articulate the opportunity, you will not get the multiple.

5. Undisclosed or Deferred Problems

Operational issues, pending litigation, HR problems, lease renewals, supplier disputes — buyers will find these during due diligence. Anything that surfaces late in a process damages trust and often triggers price reductions or deal withdrawal.

The smartest sellers identify and resolve these issues before going to market, not during it.

Section 6 — The Six Value Builders

Valuation is not fixed.

It can be deliberately engineered over time if you know what to focus on. These are the six highest-impact areas to build before any sale or investment process.

1. Build Recurring or Contracted Revenue

Recurring revenue — subscriptions, retainers, long-term contracts, or service agreements — is the single biggest driver of multiple expansion. Predictable income reduces buyer risk. It also makes your EBITDA more defensible in negotiation.

2. Reduce Owner Dependency Systematically

Document your processes. Develop your management team. Delegate client relationships. Move yourself from operator to owner. Each step you take in this direction adds demonstrable value to the business.

3. Diversify Your Customer Base

If one or two customers dominate your revenue, work on broadening the base. Even modest diversification — reducing your top customer from 50% to 30% of revenue — can make a material difference to how buyers price the risk.

4. Clean Up Your Financials

Invest in good accounting. Get management accounts produced monthly. Reconcile your balance sheet. Understand your working capital cycle. The quality of your financials is often read by buyers as a proxy for the quality of management.

5. Articulate a Clear Growth Strategy

Buyers want to see what they are acquiring and what they can build. Document your market opportunity, competitive positioning, and growth levers. This is not about selling a dream — it is about giving an acquirer a credible platform.

6. Address Risks Before They Become Deal Issues

Conduct a pre-sale health check. Identify and resolve legal, HR, commercial, or operational vulnerabilities before they surface in due diligence. Doing this work early typically costs far less than the price reduction it prevents.

Section 7 — Quick Valuation Readiness Scorecard

Use this scorecard to assess where your business sits today. Score each area 1 (weak) to 5 (strong) and total your score at the end.

Area	Score 1–5	Notes
Profitability — consistent EBITDA over 3+ years	/5	
Revenue quality — recurring or contracted income	/5	
Customer spread — no dangerous concentration	/5	
Owner independence — business runs without you	/5	
Management team — can operate day-to-day	/5	
Financial reporting — clean, timely, reliable	/5	
Systems and processes — documented and scalable	/5	
Growth story — credible plan and market opportunity	/5	
Risk profile — no material hidden or unresolved issues	/5	
Deal readiness — you understand how a sale process works	/5	

Your Score	What It Means
40 — 50	Strong. You are well positioned for a quality sale process or acquisition.
28 — 39	Good foundations. Targeted improvements can make a material difference to your multiple.
15 — 27	Work to do. Focus on the lowest-scoring areas before going to market.
Under 15	Early stage. Build the fundamentals first — a sale attempt now is likely premature.

Section 8 — Your Next Steps

You now understand the fundamentals of how businesses are valued, what drives multiples up and down, and where your business stands today.

Knowledge is the first step. The question is what you do with it.

If You Are Thinking About Selling

Do not go to market blind. A proper pre-sale advisory process will identify where your value is being suppressed and give you a clear plan to address it — ideally 12 to 24 months before you want to transact.

The businesses that achieve the best outcomes are the ones that have prepared deliberately. Not the ones that simply hope a buyer will see what they see.

If You Are Thinking About Buying

Understanding valuation from a seller's perspective makes you a sharper buyer. You will ask better questions, structure more creative deals, and identify the gaps between what a seller believes their business is worth and what the numbers actually support.

If You Are In Building Mode

Use the scorecard from Section 7 as your working document. Identify your two or three lowest-scoring areas and build a specific plan to improve them over the next 12 months. Small, deliberate improvements in value drivers compound significantly over time.

How Dealwise Advisory Can Help

Dealwise Advisory works with business owners, acquisition entrepreneurs, and investors who want clarity in their deals and decisions.

We provide:

- Independent business valuations with a full normalisation schedule
- Pre-sale advisory and value creation planning
- Acquisition analysis and deal structuring support
- Due diligence guidance for buyers
- Financial engineering and post-acquisition planning

Everything we do is grounded in real deal experience — not theory.

Ready to understand what your business is really worth?

Book a no-obligation 30 minute discovery call with us and get an honest, experience-driven assessment of your position.

To book a call, [click here](#)

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