



# How Australia's Most Trusted Business Valuations Are Built

Replicable and Defensible SME Business Valuations

# Executive Summary

## Introduction

Business valuation for SMEs and Family-Owned Businesses is no longer driven by opinion, rules of thumb, or isolated financial metrics. Increasingly, valuation outcomes must be supported by evidence, disciplined methodology, and independent benchmarking to ensure they are both replicable and defensible.<sup>1</sup>

This white paper outlines how robust valuation frameworks combine professional judgement with large-scale financial and non-financial data to reduce subjectivity, improve accuracy, and withstand scrutiny from tax authorities, buyers, courts, and stakeholders.<sup>2</sup>

Valuations built on this foundation deliver clearer insights for owners, reduce dispute risk, and support better commercial decision-making across the business lifecycle.



### References

1. International Valuation Standards Council (IVSC), IVS 104 Data and Inputs, effective 31 January 2025.
2. Australian Taxation Office, Market Valuation for Taxation Purposes Guide C3, February 2025.

## Background

# Why SME Valuations Are Different

Valuing SMEs and Family-Owned Businesses presents challenges not typically encountered in large or listed enterprises.<sup>1</sup> SMEs often exhibit high owner reliance, informal governance, non-commercial remuneration structures, and financial statements that require significant normalisation to reflect true economic performance.

Despite this, many valuation benchmarks continue to be drawn from publicly listed companies, overseas datasets, or unadjusted financial information that is not comparable to SME operating realities. This disconnect introduces risk, increases subjectivity, and weakens valuation defensibility.

A disciplined valuation approach acknowledges these structural differences and applies methodologies, benchmarking data and valuation assumptions specifically calibrated to Small-Family-SME businesses. This improves consistency, enhances defensibility and provides stakeholders with greater confidence in the valuation outcome.



### References

1. International Valuation Standards Council, IVS 200 Businesses and Business Interests.
2. Bstar White Paper: Judgement & Data – Replicable and Defensible Small-Family-SME Business Valuations, 2025.

## Insight #01

# Judgement Must Be Supported By Evidence

Professional judgement remains central to every business valuation. However, modern valuation standards increasingly require that judgement be transparent, documented, and supported by relevant evidence.<sup>1</sup>

The Australian Taxation Office notes that valuations used for taxation purposes should be both replicable and defensible.<sup>2</sup> Likewise, the International Valuation Standards require valuers to explain, justify and document the source, selection and use of significant data inputs.<sup>3</sup>

Robust valuations therefore clearly document:

- The methodology adopted
- The inputs selected
- The assumptions relied upon
- How assumptions were derived and validated
- Why specific valuation conclusions were reached

Where judgement is exercised without supporting evidence, valuation outcomes become vulnerable to challenge in taxation, succession, family law, shareholder dispute and transaction contexts.

### Key Insight:

Trusted valuations combine professional judgement with independently verifiable evidence.

#### References

1. International Valuation Standards Council, IVS 105 Valuation Models.
2. Australian Taxation Office, Market Valuation for Taxation Purposes Guide C3, February 2025.
3. International Valuation Standards Council, IVS 104 Data and Inputs, paragraph 50.01.

## Insight #02

# Financial Data Is Not Enough

For decades, business valuations have relied heavily on financial statements, profit trends, balance sheets and cash flow performance. While these measures remain essential, they tell only part of the story.

Two businesses with identical revenue, profit and asset positions can produce vastly different valuation outcomes. The difference often lies in factors that do not appear in the financial statements.

Research based on more than 2,500 Australian SME Risk and Value Driver Assessments found that 42% of business owners were unsure of the value of their business, while 83% expected the eventual sale of their business to contribute toward funding retirement.<sup>1</sup>

These findings highlight the importance of understanding the non-financial drivers of business value.

Examples include:

- Owner reliance
- Customer concentration
- Management capability
- Systems and processes
- Succession readiness
- Recurring revenue
- Growth opportunities

Modern valuation frameworks increasingly incorporate these factors because they directly influence business risk, transferability and future earnings sustainability.<sup>2</sup>

### Key Insight:

The value of a business is not determined solely by what it earns today. It is also influenced by how reliably those earnings can be sustained into the future.

#### References

1. Bstar Data Mining App, 2,554 SME Risk and Value Driver Assessments, revenue range \$1m-\$5m, July 2020 to October 2025.
2. International Valuation Standards Council, IVS 200 Businesses and Business Interests.

## Insight #03

# The Hidden Value Drivers Buyers Pay For

When buyers assess an acquisition opportunity, they are purchasing more than current profits. They are purchasing confidence.

Research across 2,587 Australian SME Risk and Value Driver Assessments (RAVDAs) identified a number of recurring non-financial factors that materially influence business value.<sup>1</sup>

### Owner Independence

Analysis found that 82% of SMEs reported medium or higher owner reliance.<sup>2</sup> Businesses capable of operating independently of the owner are generally more attractive to buyers and often achieve stronger valuation outcomes.

### Owner and Stakeholder Alignment

Research found that 53% of SME owners reported strong alignment and motivation regarding the future direction of their business.<sup>3</sup> Misalignment between owners or stakeholders can increase uncertainty and business risk.

### Customer Diversification

Heavy reliance on a small number of customers increases concentration risk. Businesses with broader customer bases and recurring revenue streams are generally viewed more favourably.

### Systems and Processes

Documented systems, management reporting and governance processes reduce reliance on individuals and improve business transferability.<sup>4</sup>

#### Key Insight:

Buyers pay premiums for businesses that are transferable, scalable and less dependent on individuals.

#### References

1. Bstar Data Mining App, 2,587 SME Risk and Value Driver Assessments, July 2020–October 2025.
2. Bstar Data Mining App, Degree of Owner Reliance analysis.
3. Bstar Data Mining App, Owner/Stakeholder Alignment and Motivation analysis.
4. International Valuation Standards Council, IVS 200 Businesses and Business Interests.

## Insight #04

# Why Comparable Data Matters

One of the greatest challenges in SME valuation is finding truly comparable information. Many publicly available benchmarks are derived from listed corporations, overseas datasets or enterprises operating at vastly different scales. While useful for macroeconomic context, they frequently provide limited relevance to privately owned SME businesses.<sup>1</sup>

International Valuation Standards require valuers to explain, justify and document the source, selection and use of significant valuation inputs.<sup>2</sup> This means that benchmarking should seek to compare businesses with similar:

- Industries
- Revenue ranges
- Operating models
- Geographic markets
- Ownership structures

The objective is simple: compare like with like. SME valuations often require financial statements to be normalised before meaningful comparisons can be made. Common adjustments may include:

- Owner remuneration adjustments
- Related-party transactions
- Non-recurring expenses
- Personal expenses recorded through the business
- One-off gains or losses

Without these adjustments, profitability measures can become distorted and valuation conclusions may not reflect the true economic performance of the business.<sup>3</sup>

### Key Insight:

Comparable data does not mean more data. It means more relevant data.

#### References

1. Bstar White Paper: Judgement & Data, Comparable Business Data.
2. International Valuation Standards Council, IVS 104 Data and Inputs, paragraph 50.01.
3. International Valuation Standards Council, IVS 103 Valuation Approaches.

## Insight #05

# Every Assumption Must Be Defensible

Every valuation contains assumptions.

- Future maintainable earnings.
- Growth rates.
- Risk assessments.
- Capitalisation rates.
- Valuation multiples.

The challenge is not avoiding assumptions. The challenge is validating them.

The International Valuation Standards require significant valuation inputs to be explained, justified and documented.<sup>1</sup>

Likewise, the Australian Taxation Office emphasises that market valuations should be based on the most relevant and reliable information available at the valuation date.<sup>2</sup> For this reason, high-quality valuations seek to validate assumptions using independent benchmarking data wherever possible.

Examples include:

- EBIT and Future Maintainable Earnings benchmarks
- Industry profitability data
- Cash flow performance metrics
- Risk and Value Driver benchmarks
- Comparable transaction evidence

Independent validation strengthens confidence in the valuation conclusion and improves its ability to withstand scrutiny from buyers, auditors, taxation authorities and other stakeholders.

### Key Insight:

The strength of a valuation is often determined by the strength of the assumptions supporting it.

#### References

1. International Valuation Standards Council, IVS 104 Data and Inputs.
2. Australian Taxation Office, Market Valuation for Taxation Purposes Guide C3, February 2025.

## Insight #06

# Replicable Valuations Build Trust

A valuation should not produce dramatically different outcomes simply because a different practitioner performs the engagement.

While professional judgement remains essential, the Australian Taxation Office notes that the acceptability of a valuation often depends more on the valuation process undertaken than on the individual conducting it.<sup>1</sup>

A structured methodology promotes consistency by ensuring financial adjustments, risk assessments, benchmarking data and valuation assumptions are applied systematically and transparently.

Replicable valuations typically include:

- Standardised valuation processes
- Consistent financial normalisation
- Independent benchmarking
- Documented risk assessments
- Transparent reporting

This consistency strengthens confidence in the valuation outcome and reduces the likelihood of disputes between owners, buyers, regulators and other stakeholders.

### Key Insight:

Consistency creates confidence. Confidence creates trust.

#### References

1. Australian Taxation Office, Market Valuation for Taxation Purposes Guide C3, February 2025.

# How Trusted Valuations Are Built

Analysis of thousands of SME valuation engagements and Risk & Value Driver Assessments demonstrates that trusted valuations consistently follow a disciplined framework. While every business is unique, the strongest valuations share five common characteristics.<sup>1</sup>

## 1. Multiple Methodology

Valuation conclusions should not rely solely on a single metric or rule of thumb. Multiple approaches provide validation and context.

## 2. Risk, Profit and Value Driver Analysis

Both financial and non-financial factors influence value. Factors such as owner reliance, customer concentration, management capability and succession readiness can materially affect valuation outcomes.

## 3. Comparable Business Data

Valuations should be supported by benchmarking against businesses of similar size, industry and operating characteristics.

## 4. Validating Assumptions

Every valuation contains assumptions. Independent benchmarking helps validate those assumptions and improve confidence in the final outcome.

## 5. Standards Compliance and Independence

Valuation processes should align with recognised professional standards and be supported by evidence independent of both the client and the valuer.

### Key Insight:

Trusted valuations combine judgement, data and methodology to produce outcomes that withstand scrutiny.

#### References

1. Bstar Data Mining App, 2,500+ SME Risk & Value Driver Assessments, July 2020–October 2025.
2. Bstar White Paper, Judgement & Data – Replicable and Defensible Small-Family-SME Business Valuations, 2025.
3. International Valuation Standards Council, IVS 103 Valuation Approaches.
4. International Valuation Standards Council, IVS 104 Data and Inputs.
5. International Valuation Standards Council, IVS 200 Businesses and Business Interests.
6. APES 225 Valuation Services.
7. Australian Taxation Office, Market Valuation for Taxation Purposes Guide C3, February 2025.

# Conclusion

The future of SME valuation lies in the combination of professional judgement and independent data.

Neither is sufficient on its own.

Judgement without evidence becomes opinion.

Data without interpretation lacks commercial context.

The strongest valuations combine both.

By integrating financial performance, non-financial value drivers, comparable business benchmarking and transparent methodology, modern valuation frameworks provide outcomes that are more accurate, more defensible and more useful for decision-making.<sup>1</sup>

For business owners, this creates clarity.

For accountants, lawyers and advisers, it creates confidence.

For buyers, it creates trust.

And for all stakeholders, it delivers a valuation that is transparent, defensible and capable of withstanding scrutiny when it matters most.

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## References

1. International Valuation Standards Council, IVS 103, IVS 104 and IVS 200.



At Wood Associates, we believe business valuations should be more than a compliance exercise.

A quality valuation provides insight into the factors driving value, identifies opportunities for improvement, and helps owners make informed decisions about growth, succession, investment, and exit planning.

We work alongside accountants and advisers to provide independent business valuations while helping their clients improve performance, build value, and prepare for future succession or sale.

Whether you are preparing for sale, assessing succession options, resolving a shareholder matter, or simply seeking to understand your current position, an independent valuation can provide a powerful foundation for future decisions.

To discuss your business valuation requirements, your clients' needs, or to request a confidential consultation or Industry Top Performers Report, contact Mark Hall, Head of Advisory, on 03 5259 9970.



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