

Valuations - EBIT vs Recurring Revenue

Why they are not the same thing, and when each should apply

Valuation is one of the most misunderstood parts of business ownership. Not because it's complicated, but because different things are often being valued as if they're the same when they're not.

The first question in any valuation conversation shouldn't be "What multiple are you paying?" It should be "What exactly is being sold?" Because there's a fundamental difference between selling a client base and selling an ongoing business.

THE KEY DISTINCTION

A recurring revenue valuation prices a client base, the revenue it generates, and the likelihood clients will stay. An EBIT valuation prices the whole enterprise profitability, risk, sustainability, and how well the business is run. They are not competing offers. They are pricing different assets.

Recurring Revenue Valuation	EBIT Valuation
– Client base is being purchased and transferred	– Ongoing business is being valued as a whole
– Buyer already has infrastructure, systems, and people	– Business continues operating with its people and culture
– Seller is not selling the operating business itself	– Prices in cost base, risk, and management depth
– Staff, systems, and technology not included in deal	– Reflects operational maturity and leadership depth
– Usually a one-time, transactional event	– Supports continuity and long-term value compounding

The Hidden Trade-Off

With a recurring revenue sale:

- You usually exit completely
- The business stops existing
- Staff may or may not transition
- Clients are absorbed elsewhere

One is transactional. The other is structural. Both are valid as long as you understand the difference.

Why Broadleaf Uses EBIT

Broadleaf partners with ongoing businesses not client bases to merge into a central platform. We invest in enterprises that continue operating independently, retain their people and culture, and are designed to last.

EBIT valuations keep incentives aligned:

- We benefit when the business is well run
- We share in both upside and downside
- Long-term quality matters, not cost stripping

A valuation isn't just a number. It's the foundation of the relationship that follows.

Sets clear expectations

A good valuation framework reflects reality and supports long-term outcomes. It doesn't rely on fine print or become a sales tool.

Applies the right method

The right approach depends entirely on what is being sold, not what creates the most attractive headline number on day one.

Ensures trade-offs are understood

Every valuation method has trade-offs. Our goal is to make sure everyone understands them before the relationship begins.

"A recurring revenue multiple can look attractive but it is pricing a narrower asset. An EBIT valuation reflects the whole business: cost discipline, operational maturity, leadership depth, and resilience. Understanding the difference is the foundation of any good deal."