Business VALUES

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Current Prices

The following table outlines the current prices and Return On Investment (ROI) ranges for a variety of industries. Please be aware that these figures are only a guideline and based on mainly capital city market information. Coastal city and town prices are generally within + or - 10% of these prices. Professional advice should always be sought before placing a price on a particular business.

INDUSTRY	Net Profit	(a) Current ROI % Range	Approx.Price (b) June 2023	Buyer Demand
Bakery (Non-franchise)	150,000	80-110	160,000	Weak
Bakery (Franchise)	150,000	60-80	210,000	Fair
Bakery (Franchise)	250,000	55-75	380,000	Fair
Boutique	150,000	80-110	160,000	Poor
	250,000	70-90	310,000	Poor
Caravan Park (Leasehold)	250,000	25-35	830,000	Fair
Childcare Centre	150,000	40-55	330,000	Fair
	250,000	35-45	860,000	Good
Cleaning	150,000	60-80	210,000	Fair
	250,000	50-70	420,000	Fair
Coffee Shop (Non-Franchise)	150,000	65-100	180,000	Fair
Coffee Shop (Non-Franchise)	250,000	45-75	420,000	Fair
Coffee Shop (Franchise)	250,000	45-75	420,000	Fair
Delicatessen/ Convenience	150,000	75-100	170,000	Fair
	250,000	70-80	330,000	Fair
Drycleaning	150,000	65-75	210,000	Fair
	250,000	55-70	400,000	Fair
Fast food (Non- Franchise)	150,000	60-85	210,000	Weak
Fast food (Non- Franchise)	250,000	55-65	420,000	Fair
Fast food (Franchise)	250,000	45-65	450,000	Fair
Fruit and Veg	150,000	70-90	190,000	Weak
	250,000	65-85	330,000	Fair
Gyms (Franchise)	150,000	50-65	260,000	Weak
	250,000	45-55	500,000	Weak
Hairdresser	150,000	85-120	150,000	Weak
	250,000	70-100	290,000	Fair

INDUSTRY	Net Profit	(a) Current ROI % Range	Approx.Price (b) June 2023	Buyer Demand
Hardware	150,000	80-90	180,000	Poor
	250,000	60-80	360,000	Fair
Hotel* (Leasehold)	250,000	35-45	630,000	Fair
Lawnmowing	100,000	110-130	80,000	Weak
Liquor Store	150,000	35-45	380,000	Good
	250,000	28-35	780,000	Good
Lotto Kiosk	150,000	40-60	300,000	Fair
Lunch Bar	150,000	60-90	200,000	Weak
	250,000	50-70	420,000	Fair
Manufacturing	250,000	40-60	500,000	Fair
Newsagency (Franchise)	150,000	60-70	230,000	Fair
	250,000	45-65	450,000	Fair
Printing	250,000	55-85	360,000	Weak
Restaurant	150,000	70-100	180,000	Weak
	250,000	60-80	360,000	Weak
Retail (General)	150,000	80-120	150,000	Poor
Retail (General)	250,000	60-90	330,000	Fair
Retail (Online)	250,000	50-70	420,000	Good
Roadhouse	250,000	65-90	320,000	Fair
Service	150,000	80-100	170,000	Weak
	250,000	60-80	360,000	Fair
Service Station	250,000	65-85	330,000	Fair
Supermarket (Franchise)	250,000	30-43	680,000	Good
Trades	150,000	80-120	150,000	Poor
	250,000	75-90	300,000	Fair
Wholesaler	150,000	40-70	270,000	Fair
	250,000	35-55	560,000	Good

Subscribers can calculate a ballpark estimate of a business's value using the above ROI table noting points (a) and (b) below:

(a) Return on Investment (%) $= \frac{\text{Profit (\$pa)} \times 100}{\text{Purchase Price}}$

(b) The approximate price includes plant, stock and goodwill for an average business making a profit of $150,000 or $250,000 before an owner takes out a salary. These figures are only a guideline.

* Does not apply to hotels with gambling facilities.

The ROI ranges in the table are mainly for independent businesses (unless otherwise noted) - It is noted that good franchise businesses in the same category can often achieve higher prices, based on ROI's around 10% lower than a similar independent business.

For more details on how to use the ROI table, please refer to the "How to calculate an estimate of business value using BVN price list document" in the Jarot Business Valuations online members library. BVN subscribers can also refer to the Index Sheet to find the latest article about a particular business type.

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MARKET UPDATE

Economic growth in Australia is slowing, though unlikely to move into a technical recession through 2023 and 2024, according to the OECD. It is likely that labour market pressures/ wages growth will ease, given both increasing net migration to Australia, as well as the return of international students. These factors provide additional labour resources to the economy. At this stage, the small business marketplace remains resilient, even as some economic headwinds approach.

SUMMARY OF AUSTRALIAN ECONOMY:

- Unemployment remains near historic lows of 3.5% - it is forecast to increase to around 4.4% during 2024.
- Inflation may have peaked at just under 8% at the end of 2022. It currently sits at around 7% and forecast to fall to in the order of 5.5% by the end of 2023, then further to 3.3% by the end of 2024.
- Current economic growth of around 2.3% is forecast to slow further to around 1.4% by the end of 2024.
- The Reserve Bank cash rate is currently at 4.1%. Most economic forecasters are predicting a peak of between 4.1% and 4.6% and to remain at these or similar levels until around mid-2024. By this time it is hoped that inflation will be closer to the target range of 2% to 3%.

Stronger population growth, fuelled by net international migration, as well as backpackers/international students, is having effects of:

- Reducing labour market pressure and wages growth;
- Supporting economic growth;
- Supporting house prices that would otherwise be in decline, given hikes in mortgage rates.

SUMMARY OF GLOBAL ECONOMY:

- Global inflation is projected to decline from a peak of 9.4% in 2022 to 4.3% in 2024, as central banks continue to increase cash rates.

- Global growth is expected to remain in the band of 2.7% to 2.9% over the next two years. This includes some significant variation between individual countries, such as:
  - USA forecast to fall from 1.6% in 2023 to 1% in 2024;
  - Europe forecast to rise from 0.9% in 2023 to 1.4% in 2024;
  - China to fall from 5.4% in 2023 to 5.1% in 2024;
  - Japan to fall from 1.3% in 2023 to 1.1% in 2024;
  - India to rise from 6% in 2023 to 7% in 2024.

China's relatively strong economic growth is partially due to the government exiting out of the Zero COVID Policy – this growth is providing a big support to overall global GDP.

The decline in global inflation is facilitated by tighter monetary policy and lower prices of goods as COVID-19 induced supply chain bottlenecks recede. In particular, falling prices for energy commodities of oil, coal and gas are leading the overall decline in prices.

AUSTRALIAN SMALL BUSINESS CLIMATE:

The National Australia Bank Small Business Sentiment Survey, had ranged between +2 to around +20 over most of 2021 and 2022. This has since fallen to -2 to -2.5 over the early parts of 2023. The survey includes averages of trading, profitability and employment information. As such, it provides an overall trend, indicating decreasing business confidence over the past 12 months.

The decreasing sentiment is not unexpected, as small businesses have encountered economic headwinds of:

- Increased inflation;
- Tighter labour market/increasing wages;
- Consumer purchasing power reducing as mortgage rates increase.

Banks have significantly tightened their credit policies over the past 6 months probably with a view to countering the impacts of what looks like a more difficult economic climate over the next 12 months. As such business purchasers now not only have to deal with a higher cost of finance, but also greater difficulty in securing it.

However, overall sentiment is forecast to improve to a range of +4 to +10 over 2023 and 2024. This is likely due to the aforementioned population growth supporting economic growth, as well as sustaining housing prices. If inflation subsides and cash rate/mortgage payments also decline in 2024, this will provide a better economic outlook for small businesses.

It is noted that lower predicted economic growth in Australia, of around 1% to 2% over the next two years, may actually represent a per capita recession. i.e., if total GDP is divided by the number of persons in Australia, it would represent a falling GDP per person.

SMALL BUSINESS SALES MARKET:

The main themes for the small business sales market at the current time are of solid purchaser demand, though stable prices give an adequate supply of businesses listed for sale. The ongoing supply of business listings is being facilitated by the Baby Boomer exit. Brokers are reporting a far greater percentage of transactions done on terms where less than 100% of purchase price is paid at settlement ie. involving portion of purchase price being paid in the year or 2 following settlement and also being subject to handover arrangements etc.

However, purchaser demand is not uniform throughout all sectors of the small business market. Examples of variations in demand are as follows:

Weaker Demand:

- Businesses with profits to one owner of less than $150,000. This is likely due to the current economic situation of increasing living expenses, where a higher income is now required. Also the higher level of employment means that the “buy a job” market is weaker.
- Discretionary retail businesses – business purchasers see higher risk in these, given a weakening economy.
- Hospitality and trades businesses where there is a high staffing requirement – the difficulty of attracting or simply retaining the level of staff required, is a concern for business purchasers.

Stronger Demand:

- Businesses with profits of over $300,000 to the owner.
- B2B (Business to Business) ie enterprises which have business customers including manufacturers, wholesalers, services businesses etc
- Online businesses – particularly those with lower staffing requirements.
- Regional businesses – particularly in popular coastal towns. The growth in population of some regional towns, as people migrate out of the major cities to escape the high cost of living/fast paced lifestyle. Where towns have a lower cost of living, business purchasers are also more likely to look at those with profits of less than $200,000 to one owner.

For more detail on the level of demand for specific business types, refer to the “Businesses in Demand” and Current Price Chart within this newsletter.

THE NUMBER OF BUSINESSES LISTED FOR SALE

Business Values Newsletter uses data from leading business listing website "Seek Commercial," to report on the number of listings in each state of Australia. It is noted that Seek does not pick up all listings and that some listings are duplicated. What it does provide however, is a consistent basis of data with which to measure change.

	Jun-22	Mar-23	Jun-23	Mar 23 to Jun 23 % Change	Jun 22 to Jun 23 % Change
NSW	3432	3064	2991	-2.38%	-12.85%
VIC	5923	5423	5619	3.61%	-5.13%
SA	339	348	368	5.75%	8.55%
TAS	140	153	170	11.11%	21.43%
QLD	2420	2387	2425	1.59%	0.21%
WA	762	810	800	-1.23%	4.99%
NT	58	64	66	3.13%	13.79%
ACT	82	91	102	12.09%	24.39%
Australia	**13156**	**12340**	**12541**	**1.63%**	**-4.67%**

This table reports the number of businesses listed for sale on the Seek Commercial website with listing prices of $50,000 or greater (excluding new franchises/licences)

BUSINESSES IN DEMAND

The following business types are currently in demand or proving difficult to sell:

IN DEMAND

- Accountancy Practices
- Medical Practices
- NDIS Businesses
- Caravan Parks (Large, profits over $400,000)
- Service (5 Days)
- Online businesses/ work from home
- Information Technology Businesses (with strong maintenance contracts)
- Manufacturing – selected sectors
- Mining Fabrication and Maintenance
- Labour Hire
- Supermarkets
- Liquor Stores
- Service Stations
- Real Estate Rent Rolls

DIFFICULT TO SELL

- General Discretionary Retail
- Clothing Boutiques
- Bookstores
- Newsagencies
- Travel Agencies
- Hospitality/ Entertainment
- Restaurant/ Café
- Non- Franchise Bakery
- Gyms
- Printing
- Profits less than $150,000

THE IMPORTANCE OF CORRECTLY ASSESSING PLANT AND EQUIPMENT VALUE WHEN VALUING SMALL BUSINESSES

Plant and Equipment was last covered in Business Values Newsletter 111 in 2010. However, with the Australian Taxation Office's various accelerated depreciation incentives allowed over the Covid-19 period, written down values of plant and equipment have probably never been so divergent from actual market value. So this article covers the practical approaches to assessing plant and equipment value, as part of assessing the overall market value of the small businesses.

Why is it Important to Correctly Assess Plant and Equipment Value?

Sales transactions of small businesses most commonly include the sale of the unencumbered operating assets of goodwill, stock/work in progress, plant and equipment. By way of example, if a manufacturing business has an EBITDA profit of \$1m, and it is valued at a multiple of 3, this equates to a business value of \$3m. If the plant and equipment value was just adopted at its written down value of say \$250,000, stock value was \$1m, then the remaining goodwill component is \$1,750,000, calculated as follows:

•	Plant and equipment	\$ 250,000
•	Stock	\$1,000,000
•	Goodwill	\$1,750,000
	Total business value	\$3,000,000

The goodwill portion of a business value is considered by purchasers and their banks as the riskiest portion of a business value. i.e., if the business were to fail, stock, plant and equipment can still be sold off, but the goodwill component will most likely reduce to a zero value. For this reason, when considering the overall sale price of a small manufacturing or industrial sector business, brokers will often state that it is difficult to achieve more than 1.5 to 2.0 x EBITDA profit, as the goodwill component value. This is due to:

- Purchasers concerned about paying too much for the goodwill component, as this carries the highest risk.
- Banks effectively having lower lending ratios for the goodwill component, as they see the plant, equipment and stock as having higher security value.

In the above business value calculated at 3M, the goodwill component of \$1,750,000 represents 1.75 x the EBITDA profit. But, what if rather than simply adopting the written down value of \$250,000 for plant and equipment, it was correctly assessed at its market value of say \$1m? On this basis, if the overall business value stayed the same, then the allocation between value components would change as follows:

•	Plant and equipment	\$1,000,000
•	Stock	\$1,000,000
•	Goodwill	\$1,000,000
	Total business value	\$3,000,000

i.e. in this circumstance, the goodwill component represents only 1 x profit at \$1m.

However, it is more likely that the purchaser would now see this business as having a lower risk profile and, as such, be prepared to pay a higher multiple of say 3.5 x 1M profit = \$3.5M. On this basis, the value components change as follows:

•	Plant and equipment	\$1,000,000
•	Stock	\$1,000,000
•	Goodwill	\$1,500,000
	Total business value	\$3,500,000

A purchaser is likely to pay a higher value of \$3.5M for the business, now that it has a higher plant and equipment value. This is due to the following main reasons:

- The business has a lower goodwill component value, with the goodwill component being seen as the riskiest component of overall value.
- The purchaser's bank will lend a higher amount against the plant and equipment.
- The purchaser will receive significant depreciation benefits, i.e., higher depreciation write-offs against the profit in subsequent years.

From the vendor's perspective, they have the potential to achieve an additional \$500,000 in the sale price, through having the plant and equipment correctly assessed at market value, rather than written down value.

However, It is pointed out that the vendor may also have some tax implications, where the plant and equipment is sold at a higher level than written down value.

Note: For the correct assessment of the other tangible assets of stock/work in progress in business valuations, refer to previous Business Values Newsletter 111.

How To Assess The Market Value Of Plant And Equipment

In a practical sense, when brokers are selling small businesses, they will ask the vendor to provide an estimate of the market value of plant and equipment. Often with vehicles, Red Book values are used and with other equipment, business owners often have good information as to what second-hand values are being achieved. Insurance schedules can also be used if these are based on second-hand values, rather than new replacement cost.

As long as the vendor can demonstrate reasonable evidence of market value, such that it is acceptable to the purchaser, Australian Taxation Office, etcetera, this approach may be all that is required. i.e., particularly where the plant and equipment value does not form a major portion of the overall business value.

Where plant and equipment has a relatively high value or makes up a significant portion of overall business value, it is recommended that a professional plant and equipment valuer be engaged. This will ensure that the correct principles of market value are adhered to.

Ashton Lloyd, Senior Plant and Equipment Valuer at Pickles advises that:

Fair Market Value (FMV) is the most common definition used for the majority of valuations they conduct, which includes Sale Transactions, Capital Gains Tax assessments and Family Law type valuations."

"For the large financiers, they are generally asked to provide a valuation on the basis of Fair Market Value (FMV) and Orderly Liquidation Value (OLV). Sometimes the financiers will request Fair Market Value – Installed (FMV-I) as well. Lower tier financiers often request FMV & OLV too as the basis for the valuation, however, some prefer to swap OLV for Forced Liquidation Value (FLV).

Pickles advise that commonly used definitions are as follows:

Fair Market Value

An opinion expressed in terms of money, at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts, as of a specific date. (this definition does not include allowance for any installation costs).

Orderly Liquidation

An opinion of the gross amount, expressed in terms of money, that typically could be realized from a liquidation sale, given a reasonable period of time to find a purchaser (or purchasers), with the seller being compelled to sell on an as-is, where-is basis, as of a specific date.

Other standards of value/ definitions used less frequently are:

Fair Market Value—Installed

An opinion, expressed in terms of money, at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts, considering market conditions for the asset being valued, independent of earnings generated by the business in which the property is or will be installed, as of a specific date. (this definition takes into account an allowance for installation costs).

Forced Liquidation Value

An opinion of the gross amount, expressed in terms of money, that typically could be realized from a properly advertised and conducted public auction, with the seller being compelled to sell with a sense of immediacy on an as-is, where-is basis, as of a specific date." (essentially allows for a shorter timeframe to sell compared the "Orderly Liquidation").

Other Points To Note/Summary

Your author notes that from a business valuation perspective, other points to consider are as follows:

- The above liquidation value definitions will typically come into play if a business is making losses or has very low profits, such that it is unlikely to continue to operate.
- Banks and business purchasers are unlikely to include building fixtures, such as air conditioners, built-in furniture, floorcoverings, shop/ restaurant fit out etcetera, as these are difficult to sell/ cannot be reasonably removed from the premises, if the business were to move. As such, fixtures of this nature typically have a low sale value.
- Specialised plant and equipment, particularly where it has significant installation costs, can have a far lower value where a business is not profitable/not likely to continue.
- Where plant and equipment has a high value and makes up a significant portion of business value, a professional plant and equipment valuer should be engaged.

Given the various accelerated depreciation on plant and equipment which small businesses have been able to take advantage of in recent years, written down value is more likely to be far lower than if assessed using various definitions of market value. This is particularly the case with motor vehicles, trucks, earthmoving equipment etc which have been in short supply and held higher 2nd hand values in recent years, due to Covid-19 supply chain issues.

Correctly assessing the plant and equipment value can have significant impacts on:

- Ability to secure finance for business
- Tax implications for the vendor and depreciation/ tax offset benefits for a business purchaser in a sale transaction.
- Business risk profile and thus business value

Note: This article focusses on the sale of business operating assets rather than company equity/share value where different tax implications may apply.

FINANCE RATES – Commentary from Southshore Finance.

The RBA (Reserve Bank of Australia) paused the rate tightening cycle again in July with there being evidence that the inflation rate is starting to ease. The decision to hold the cash rate at 4.10% has provided some comfort to both businesses and households during a period of uncertainty and acknowledges that the full impact of the increases over the past 13 months has not been fully felt across the economy. There are growing calls for the government to seek alternative methods to rein in inflation rather than relying on the RBA which only has the interest rate lever at it's disposal.

We are dealing with home loan borrowers on a daily basis that are deeply concerned about their fixed rate mortgage loans that are due to increase from 2% to 7%pa in coming months. We are assisting them in adjusting their household budgets and renegotiating their home loan rates.

The banking industry has reacted to the pressures being felt by consumers, and the flow on affect to retail spending, by tightening access to credit. Some are referring it to a de facto credit squeeze with lenders starting to tighten credit policy and lifting the bar for borrowers to qualify for loans. However, banks are continuing to lend with a strong focus on businesses with good management, sustainable cashflows and good prospects. This makes it even more important than ever for borrowers to have a clear strategy when seeking new credit or renegotiating existing facilities.

The following borrowing rates, as at 5 July 2023 were provided by Hadmor Pty Ltd t/as Southshore Finance ACL 393 334 (Phone 08 9474 1999).

Interest rates are indicative at the above date and subject to a formal application meeting the lenders criteria.

	July 2023
Business Loan - Secured	
Variable	6.50
Fixed 1 Year	6.65
Fixed 2 Year	6.45
Fixed 3 Year	6.65
Leasing	
Chattel Mortgage (Equipment)	7.50
Commercial Property	
Variable	3.50
Fixed 1 year	6.70
Fixed 2 Year	6.80
Fixed 3 Year	6.70

	July 2023
Residential Property	
Owner Occupier - Principal & Interest	
Variable	5.80
Fixed 1 Year	6.44
Fixed 2 Year	6.54
Fixed 3 Year	6.34
Residential Investor – Principal and Interest	
Variable	5.99
Fixed 1 Year	6.54
Fixed 2 Year	6.60
Fixed 3 Year	6.44

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