



BUSINESS VALUES NEWSLETTER

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T/A Jarot Business Valuations

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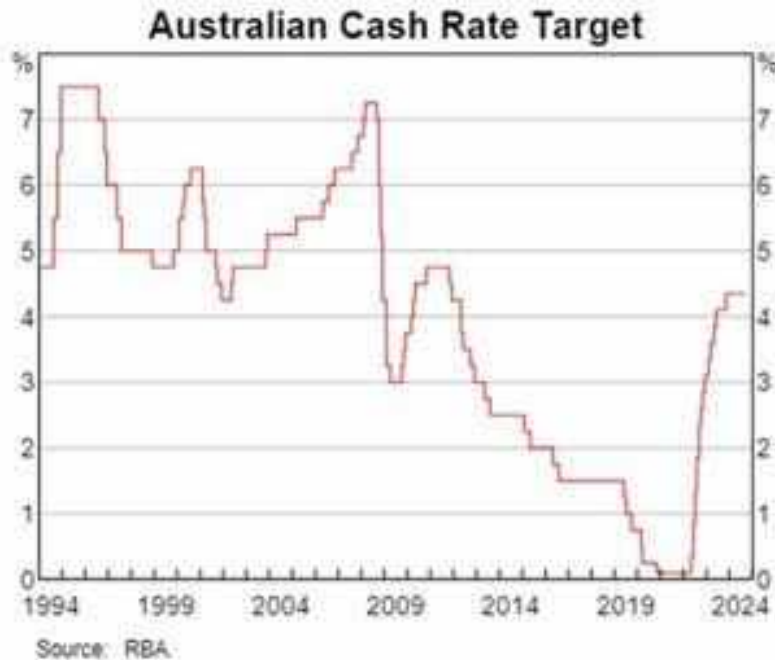
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MARKET UPDATE

The past 12 months have seen significant reductions in consumer confidence and spending. This has flowed through to falls in business confidence. However it can be argued these factors are more of a “hangover” reaction from Covid-19 stimulus injected into the economy, inclusive of record low interest rates. The reality is that the current RBA cash rate at 4.35%, is in fact broadly in line with long-term averages – as are mortgage interest rates.

It is likely that forecast improvements in consumer spending and business confidence going forward, will come from moderating inflation and housing costs, as well as tax cuts and wages growth. There will also have to be some acceptance that only moderate interest rate relief will be forthcoming.





RBA CASH RATE / INTEREST RATE FORECASTS

As can be seen in the above graph, the current RBA cash rate of 4.35% is close to the 30 year cash rate average. However it must be said, that the trendline for the cash rate over this period, does have a general downward bias. The point here, is that some politicians and sections of the media, are portraying the current cash rate as exceptionally high. They are building expectations for mortgage holders, that significant mortgage rate relief will be on the way, in the next year or two.

The reality is that the cash rate is not particularly high – it is just that it increased to the current levels rapidly, from a particularly low base. The low rates in 2020 to 2022 were in effect an “emergency setting” by the RBA, to stimulate the economy during the COVID-19 pandemic. The “hangover effects” of this are as follows:

- New entrants to the housing market during 2020 – 2023 were encouraged to pay high prices and take out large mortgages – this has put them under financial pressure.
- During the period of emergency low rates, as well as other pandemic stimulus measures, households got used to an extraordinary level of discretionary spending capacity and thus elevated consumption. Both consumers and business owners benefited from this, though it is now very much the opposite.

To give perspective, a recent survey of the big four banks, shows the range of RBA cash rate falls by the end of 2025, to be a reduction of between 0.75% and 1.25%. It is noted that three of the banks predicted only a 0.75% reduction, to a cash rate of 3.6%. On this basis, mortgage rates are predicted to fall by a similar amount to in the order of 5.62% to 6.37%.

OTHER FACTORS AFFECTING CONSUMER SPENDING/CONSUMER CONFIDENCE

The main factors affecting consumer spending and business confidence in the short-term are as follows:

- Tax cuts from 1 July 2024 will provide more net income to households. However, this will probably not have as substantial an impact as face value suggests, given it is really just compensating for bracket creep. In addition, the ATO is targeting both employees and businesses for tax avoidance, so total tax take may not reduce.
- Inflation – has been cutting into consumer purchasing power. Though it looks to be moderating, it is still not under control.
- Wages growth has been around 4% over the past 12 months, partly offsetting inflation and thereby supporting household consumption. However, this has also increased operating costs to businesses, further denting business confidence.

In summary, the above factors result in the Australian economy growing at only 1.1% over the past 12 months and barely moving at 0.1% in the first quarter of 2024. However with the benefit of government spending, lower interest rates and tax cuts, GDP growth is expected to increase to around 2.4% by the end of 2025.

SME BUSINESS MARKET CONDITIONS

SME market conditions have remained broadly stable over the past three to six months. State by state demand looks to have some correlation to median house price direction in each state. This factor appears to impact both business and consumer confidence.

In states where median house prices have risen over the past 12 months, including capital cities of Perth, Adelaide and Brisbane, overall purchaser demand has been stronger. In Sydney and Darwin the median house price has remained relatively stable, as has purchaser demand for businesses. A slight reduction in house prices in Hobart sees demand for business purchases moderating slightly. Melbourne has had a 1.4% reduction in median house prices and this has flowed through to lower demand from business purchasers, particularly in the consumer goods and services niche.

In all states, larger businesses with corporate customers, are attracting strong demand. The stronger demand starts from businesses with EBITDA profits of over \$500,000. It elevates further, in the investor market for businesses having EBITDA profits in excess of \$2 million.

It is expected that general business conditions will slowly improve over the next 12 months. This includes for the discretionary goods and services business niche. Potential mortgage rate reductions, tax cuts and wages growth forecasts going forward are key drivers to improving demand. However, there is likely to be moderate improvement only and not to the levels of extraordinary consumer spending in 2020/2021 and 2021/2022. At some point in time, business purchasers are expected to recognise improvement in discretionary consumer businesses and stronger purchaser demand for them should follow.

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 from which to measure change.

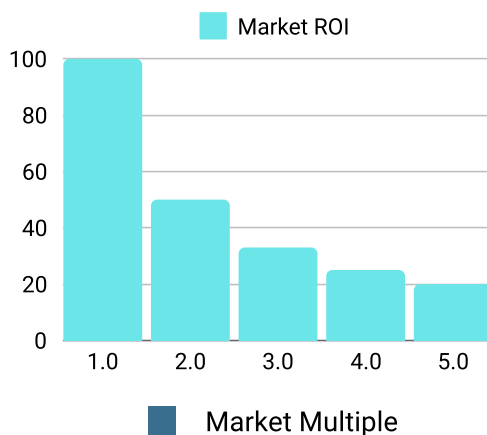
	Sep 23	Jun 24	Sep 24	Jun 24 to Sep 24 % Change	Sep 23 to Sep 24 % Change
NSW	2961	2902	2833	-2.38	-4.32
VIC	5114	5061	5011	-0.99	-2.01
SA	357	353	373	5.67	4.48
TAS	169	170	204	20.00	20.71
QLD	2376	2476	2339	-5.53	-1.56
WA	768	808	835	3.34	8.72
NT	70	59	53	-10.17	-24.29
ACT	97	108	98	-9.26	1.03
AUSTRALIA	11912	11937	11746	-1.60	-1.39

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) As can be seen, there has been a slight decrease in listing numbers on an Australia wide basis over the past 12 months.



HOW TO ESTIMATE A BUSINESS VALUE USING BVN PRICE CHART – (Update To Using Multiples)

Business Values Newsletter has changed from expressing the market multiple ranges as Return On Investment (ROI) percentages, to simply using number multiples. The change is to reflect how business brokers, buyers and sellers of SME businesses are now most commonly referring to the multiples.



Market ROI	Market Multiple
100%	1.0
50%	2.0
33%	3.0
25%	4.0
20%	5.0

The process to estimate a business value using the BVN price chart is as follows:

- ① Calculate the business profit – the profit estimate should be based on what is considered the maintainable profit for the business after adjusting for non-recurring/ extraordinary incomes or expenses. In addition, adjustments for owners salaries should be done for PEBITDA or EBITDA standards of profit, as per points 2 and 3 below.
- ② For small businesses with profits of less than around \$500,000, the industry standard for most business types is to use an “Owner Profit” or “PEBITDA” (Proprietors Earnings Before Interest Tax Depreciation and Amortisation). This is the profit prior to one of the working owners being paid a salary. Allowances must be made for 2nd and 3rd working owners to be paid market salaries.
- ③ For a larger businesses with profits of over \$500,000 either a PEBITDA or EBITDA standard of profit can be used – though when profit is over \$1,000,000, EBITDA profit is the most common industry standard. Where the EBITDA standard of profit is calculated, this should be done after adjustments to allow for all working owners to be paid fair commercial replacement salaries, within the business expenses.
- ④ Look up the business type in the BVN price list, which is closest to your business type, in order to find the Market Multiple range that applies – note the Market Multiple range is also sensitive to the level of profit and standard of profit (ie PEBITDA or EBITDA). Therefore it is important take care look for the profit level and type on the price list that is closest to your businesses profit. For larger businesses, use the price list in each years April edition of the newsletter – other smaller business types are in the January, July and October editions.
- ⑤ Now that you have the profit and market multiple, apply these using the following formula:

Profit x Market Multiple = Business Value

Example: \$200,000 x 2.00 = \$400,000



The business price includes goodwill, average stock, work in progress, plant and equipment. ie. the business assets – as these are most commonly the only assets sold in transactions of Small To Medium Enterprise (SME) businesses. It does not include other company assets or liabilities on the balance sheet, such as cash at the bank, trade debtors, trade creditors or loans, which would form part of either an enterprise value or a company share valuation.

Note: The Market Multiple ranges provided in the BVN are for typical businesses in each industry type only. Any calculations done using this information and the formula shown above should be considered to provide a broad estimate only. If financial decisions are to be made in respect of a business value, professional valuation advice should be obtained. Jarot Business Valuers would be happy to provide a quote for a professional valuation report.

CURRENT PRICES – SEPTEMBER 2024

The following table outlines the current prices and market multiples for a range of businesses based on Proprietors Earnings Before Interest, Tax, Depreciation and Amortisation (PEBITDA) profit. ie. effectively the profit prior to one owners salary being allowed for.

Please be aware that these figures are only a guideline and based on mainly capital city market information. The multiples used apply to the profit level. i.e. higher profits will typically attract higher multiples, as shown in our April Newsletter which includes a price chart for larger businesses. 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.

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

(a) Market Multiple = Purchase Price Divided By PEBITDA Profit

(b) The approximate price includes only business assets of plant, stock/ work in progress and goodwill, as is typical in transactions of SME businesses.

These figures are only a guideline.

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

Given the change from using market ROI percentages to market multiples, a copy of the *"How to calculate an estimate of business value using BVN price chart document"* is included in the previous pages.

PRICE CHART AT OCT 2024

Industry	Net Profit (PEBITDA)	(a) Current Multiple Range	Approx.Price (b) Sept 2024	Buyer Demand
Advertising Agency	250,000	1.0 To 1.4	300,000	Poor
Auto Workshop	150,000 250,000	1.0 To 1.4 1.3 To 1.7	180,000 360,000	Fair Fair
Bakery(Non-Franchise)	150,000 250,000	0.9 To 1.3 1.1 To 1.4	160,000 320,000	Weak Fair
Bookshop	150,000 250,000	1.2 To 1.5 1.5 To 2.0	200,000 440,000	Poor Fair
Boutique	150,000 250,000	0.9 To 1.3 1.1 To 1.4	160,000 320,000	Poor Poor
Butchers	150,000 250,000	1.3 To 1.7 1.4 To 1.8	230,000 410,000	Fair Fair
Car Dealer	150,000 250,000	1.3 To 1.8 1.4 To 2.0	240,000 430,000	Weak Fair
Caravan Park (Leasehold)	150,000 250,000	2.0 To 2.5 2.3 To 2.8	340,000 640,000	Weak Fair
Caterers	150,000 250,000	0.9 To 1.4 1.1 To 1.7	180,000 350,000	Poor Fair
Childcare Centres	150,000 250,000	1.8 To 2.5 2.2 To 2.9	320,000 640,000	Fair Good
Cleaning	150,000 250,000	1.3 To 1.7 1.4 To 2.0	220,000 430,000	Fair Fair
Coffee Shop(Non-Franchise)	150,000	1.0 To 1.5	190,000	Fair
Coffee Shop(Non-Franchise)	250,000	1.5 To 2.0	440,000	Fair
Coffee Shop(Franchise)	150,000	1.5 To 2.0	260,000	Fair
Coffee Shop(Franchise)	250,000	2.3 To 3.0	660,000	Fair
Consultants	150,000	0.9 To 1.4	180,000	Weak
Couriers	100,000	1.0 To 1.4	120,000	Fair
Delicatessen/ Convenience	150,000 250,000	1.0 To 1.3 1.3 To 1.4	180,000 330,000	Poor Weak
Equipment/ Machinery Dealer	150,000 250,000	1.5 To 2.2 1.9 To 2.6	280,000 560,000	Fair Fair
Fast food (Non- Franchise)	150,000	1.2 To 1.7	210,000	Weak
Fast food (Non- Franchise)	250,000	1.5 To 1.8	420,000	Fair
Fast food (Franchise)	150,000	1.7 To 2.0	280,000	Fair
Fast food (Franchise)	250,000	2.3 To 3.0	660,000	Fair



PRICE CHART AT OCT 2024

Industry	Net Profit (PEBITDA)	(a) Current Multiple Range	Approx.Price (b) Sept 2024	Buyer Demand
Fish and Chips	150,000	1.0 To 1.5	190,000	Fair
Florists	150,000	1.2 To 1.5	200,000	Weak
Foodhall Stalls	150,000	1.2 To 1.8	220,000	Poor
Footwear - Retail	150,000	1.1 To 1.3	180,000	Fair
Fruit and Vege	150,000 250,000	1.1 To 1.4 1.2 To 1.5	190,000 340,000	Weak Fair
Gyms (Franchise)	150,000 250,000	1.2 To 1.8 1.7 To 2.1	230,000 480,000	Weak Weak
Hairdresser	150,000 250,000	0.8 To 1.2 1.0 To 1.4	150,000 300,000	Weak Fair
Hardware	150,000 250,000	1.1 To 1.3 1.3 To 1.7	180,000 360,000	Poor Fair
Health Food	150,000	1.1 To 1.4	190,000	Fair
Hire - Equipment	150,000	1.4 To 2.0	260,000	Fair
Hotel (leasehold, no gambling)	150,000	1.8 To 2.2	300,000	Good
Hotel (leasehold, gambling)	250,000 250,000	1.8 To 2.9 2.2 To 2.9	580,000 630,000	Weak Fair
Icecream Parlour	150,000	1.3 To 1.5	210,000	Weak
Jeweller	150,000	1.1 To 1.3	180,000	Poor
Laundromat	150,000	1.7 To 2.5	310,000	Fair
Lawnmowing	75,000	0.8 To 0.9	60,000	Weak
Liquor Store	150,000 250,000	2.2 To 2.9 2.8 To 3.5	380,000 790,000	Fair Good



PRICE CHART AT OCT 2024

Industry	Net Profit (PEBITDA)	(a) Current Multiple Range	Approx.Price (b) Sept 2024	Buyer Demand
Lotto Kiosk	150,000	1.7 To 2.5	310,000	Fair
Lunch Bar	150,000 250,000	1.0 To 1.5 1.4 To 2.0	190,000 430,000	Weak Fair
Manufacturing	150,000 250,000	1.3 To 1.8 1.7 To 2.3	240,000 500,000	Fair Fair
Newsagency (Franchise)	150,000 250,000	1.2 To 1.4 1.4 To 2.0	230,000 470,000	Fair Fair
Plant Nursery	150,000 250,000	1.2 To 1.8 1.2 To 1.8	200,000 430,000	Weak Fair
Pest Control	150,000 250,000	1.3 To 1.7 1.7 To 2.0	220,000 460,000	Fair Fair
Registered Training Provider	250,000	1.3 To 1.7	360,000	Fair
Restaurant	150,000 250,000	0.8 To 1.2 1.0 To 1.5	150,000 310,000	Weak Weak
Retail (General)	150,000 250,000	0.8 To 1.2 1.1 To 1.5	150,000 330,000	Poor Fair
Retail (Online)	150,000 250,000	1.4 To 2.0 1.5 To 2.0	260,000 440,000	Fair Fair
Roadhouse	250,000	1.1 To 1.5	330,000	Fair
Secretarial Service	75,000	1.0 To 1.3	80,000	Weak
Service	150,000 250,000	1.0 To 1.4 1.2 To 1.6	180,000 350,000	Fair Good
Service Station	150,000 250,000	1.1 To 1.3 1.2 To 1.5	180,000 340,000	Fair Fair
Supermarket(Franchise)	150,000 250,000	1.8 To 2.5 2.5 To 3.0	320,000 690,000	Fair Good
Trades	150,000 250,000	0.8 To 1.3 1.1 To 1.3	160,000 310,000	Poor Fair
Travel Agency	150,000 250,000	0.9 To 1.1 1.3 To 1.7	150,000 360,000	Poor Weak
Wholesaler	150,000 250,000	1.4 To 2.2 1.8 To 2.5	270,000 540,000	Fair Good
Wrecking Yard	150,000 250,000	1.1 To 1.3 1.3 To 1.5	180,000 350,000	Weak Fair





FAST FOOD AND COFFEE SHOP FRANCHISE BUSINESSES

This article covers fast food and coffee shop franchise businesses in Australia. Whilst the franchising concept has had a tarnished reputation over the past 10 years, these businesses are set to benefit from an improving Franchising Code of Conduct. The improved Code is yet to be fully implemented, though as it progresses, it will provide greater protection for franchisees.

This article benefits from the input of leading franchise business broker, Rajiv Rajan of Benchmark Business Sales. In particular, his input in the section on Market Demand Trends and Multiples Being Paid, towards the end of this article is invaluable. Rajiv has around 14 years' experience focussed on sales and marketing of franchise businesses. He is an AIBB, Certified Practising Business Broker and Certified Franchise Executive. Rajiv has been a committee member of the Franchise Council of Australia since 2014 and has spoken several times at events on franchise recruitment and sales.

GENERAL UPDATE ON THE FRANCHISING INDUSTRY

The 2018 Australian Senate Inquiry into the Franchising Code of Conduct essentially found systemic issues around unfair business practices by franchisors and wage underpayment scandals. Ongoing consultation with the industry in recent years, has led to the Australian Government announcing support for 23 recommendations outlined from 2023 Review of the Franchising Code of Conduct. In summary, the recommendations will provide benefits/increased protection to franchisees including:

- Simplify pre-entry information given to prospective franchisees;
- Limit use of unreasonable restraints of trade in franchise agreements;
- More assistance to franchisees in dispute resolution, including lower cost legal advice; and
- Increased scope of investigative powers, infringement notices and penalties.

Essentially, franchisors will have to do major updates to existing franchise agreement documentation, prior to April 2025, in order to comply with the new Franchising Code. The overhaul of the Code is designed to address the previous power imbalance between franchisors and franchisees, as well as improving transparency and fairness.

FAST FOOD FRANCHISE BUSINESSES

This industry includes businesses providing fast food in typical takeaway style premises, as well as food courts. A broad summary of industry makeup is as follows:



Burgers 42%



Pizza 16%



Cooked chicken based products 20%



Sandwiches, salads and juices 8%;



Desserts and confectionery 6%;



Other 8%

CURRENT STATE OF THE INDUSTRY



Essentially, the industry as a whole remains fairly resilient to the current weaker economic conditions of higher interest rates and lower household spending capacity. This is due to consumers opting to spend on fast food meals, in preference to paying for full dine-in meals at restaurants.

In addition, consumers have rapidly adopted the use of online delivery platforms. Whilst these platforms take commission of up to 35% of order value, it has increased, or at least supported revenue. Businesses have also increased prices to cover this, as well as higher costs of food inputs, labour and associated business costs.

Resulting financial performance for the industry is as follows:

- Revenue has increased on average around 1.3% per annum over the past five years;
- Profit margin on an EBIT basis, has increased by 1.4% in total to around 8.1% over the same period (commonly equates to a 20-30% one owner (PEBITDA) profit margin).



INDUSTRY TRENDS

The following is a summary of main industry trends:

- Increased demand and provision of healthier fast food options;
- Restaurants/cafes increasing their take-away food offering, adding to competition;
- Online platforms have expanded their services, allowing a larger number of restaurants/cafes to compete with more traditional take-away businesses;
- Supermarkets increasing fast food substitutes, adding to competition;
- Gourmet burgers and pizzas increasing revenue within the marketplace, in lieu of the more traditional volume-based, products.

INDUSTRY OUTLOOK

On an overall basis, industry revenue is forecast to slightly increase an average rate of 1.2% per annum over the next five years. Other trends within the industry are summarised as follows:

- Premium products such as gourmet burgers and pizzas, as well as sushi to grow in demand;
- Vegetarian, vegan, dairy-free and lactose-free options to grow based on consumer demand;
- Franchisors of fast food stores likely to re-franchise more corporate owned stores to maintain profit margins – many of the franchisors have a preference to sell to existing proven operators, such that there is an increasing incidence of multi-site operators.
- In addition, some franchisors provide vendor terms funding to store managers, to facilitate them into ownership.

COST STRUCTURE

Typical cost structures for businesses in the industry are summarised as follows:

- **Purchases 25% - 30%**
- **Wages 22% - 28%**
- **Rent 5% - 10%**
- **Other 23% - 30%**
- **Profit (EBIT basis) 7% - 10%. Commonly equates to a 20-30% one owner (PEBITDA) profit margin.**

KEY SUCCESS FACTORS

Typical factors leading to business success and growth include the following:

- Provision of high quality food and service to secure repeat business;
- Customer loyalty programs to secure repeat business;
- Excellent location/good access for customers; and
- Online platform connections to reach a broader number of consumers.

COFFEE SHOP/CAFÉ FRANCHISE BUSINESSES

This includes franchised coffee shops and cafes, where customers are typically ordering and consuming on premises. The breakup of overall revenue for this industry segment is as follows:



Coffee beverages 60%



Food 19%



Other beverages 21%

CURRENT STATE OF THE INDUSTRY

Despite current weak economic conditions and generally lower consumer spending on discretionary goods, many households treat coffee as a required luxury. This is likely due to the relatively low cost of coffee beverages, which are consumed in social settings as part of the Australian coffee culture.

Industry revenue over the past five years has increased on average 4.6% per annum. This includes even managing a small increase in 2023/2024 of around 0.8%, in what was generally a year of significantly declining consumer spending. Profit margin on an EBIT basis remains at 5.3%, being marginally higher than pre-pandemic levels. This equates to a margin of around 18-25% on a one owner (PEBITDA) profit basis.



INDUSTRY TRENDS

Franchised coffee shop chains have had restricted growth over the past five years. This is due to consumers generally associating an experience of quality and ambiance, with boutique, independent coffee shops.

The industry as a whole is changing its food product mix to a more premium offering. In particular, gourmet pastries are increasing, with boutique bakeries also transitioning to position themselves as more of a coffee café feel. There is also increased demand for premium, ethically sourced coffee, for which consumers are willing to pay higher prices.

In summary, despite a tighter economy with lower discretionary spending, coffee shops in general have shown to be resilient in financial performance. However, the franchised coffee shop segment of the market, has seen increasing competition from independent stores, such that the growth in their store numbers is diminished.

INDUSTRY OUTLOOK

Overall, industry revenue is forecast to grow at a slower rate of around 1.1% per annum over the next five years. This is not a bad result considering the current tightening nature of the economy.

The total number of businesses in the market is expected to plateau – in particular, for franchise groups who are struggling to maintain market share. However, with the improved Franchise Code of Conduct, this is expected to give purchasers of franchise businesses, more confidence in taking on a franchised shop.

Increasing household discretionary income, driven by recent tax cuts, wages growth, as well as expected lower mortgage rates in the next few years, are predicted to allow for the forecast revenue increases. Franchise groups will remain challenged to increase their quality of product, service and ambiance, to meet growing competition from independents. However, ongoing consumer demand, even in tougher economic conditions, is a positive for the industry.

COST STRUCTURE

Main cost categories as a percentage of revenue are typically as follows:

- **Purchases: 28% - 32%**
- **Wages: 23% - 28%**
- **Rent: 5% - 9%**
- **Other Costs: 23% - 28%**
- **Profit (EBIT basis): 4% - 7%. Commonly equates to an 18 – 25% one owner/ PEBITDA profit margin.**

KEY SUCCESS FACTORS

A summary of common factors for success are as follows:

- Well-trained staff in use of coffee machines to produce a good product.
- Quality coffee beans and service essential as Google reviews have impact.
- Premium food offerings.
- Concentrating on minimalizing cost and wastage – particularly on food items.
- Locations with heavy foot traffic for weekday workers, as well as weekend shoppers.

Staff wages control with great mix of casuals/permanents and timing of shifts to cope with peak and low times of demand.

MARKET TRENDS/MULTIPLES PAID – FAST FOOD AND COFFEE SHOPS

Rajiv Rajan of Benchmark Business Sales, advises that key factors affecting the value of franchise businesses include the following:

- Length of lease/ Franchise Term Remaining – the longer the better. Significant discount to prices paid can occur, where there is less than 4 years to run on either lease or franchise agreement.
- Ability to secure finance – whilst lenders will look at length of lease to run and ability of purchaser and business to service a loan, they also have preference to lend on proven brands. A change in lending practices has had a significant impact on the market over the past 5-10 years. During this period, lenders have typically reduced loan to value ratios, from 70-80% for good brands, to now being around 50%.
- Quality of Brand – is the franchise brand currently popular in the market and/ or with a history of trading success. Or is it a waning brand, that is no longer competitive in terms of consumer demand.
- Territory Protection – A “territory” is a geographical area denoted in a franchise agreement, where the franchisor has agreed not to add another store. Some franchisors, on expiry of an existing franchising agreement, have “cannibalised” the territories of existing franchisees, by reducing territory boundaries and adding more stores.
- Level of Saturation – partly related to territory protection, where a franchisor allows too many stores in geographical localities, the brand can become oversaturated. This can also occur if similar brands open too many locations, such that there is too much competition. An example of this has been the rapid spread of 24 hour gym brands.

OTHER CONSIDERATIONS THAT IMPACT FRANCHISE SALE TRANSACTIONS

- Fit out Renewal Costs – franchise agreements commonly require franchisees to pay for a fit out renewal every 5-7 years. This can be a significant cost in the range of \$100,000 to \$200,000. However, some franchisors have reduced requirements, to lower amounts of just updating signage – often on a case by case basis depending on needs. If there is less than 4 years until a new fit out is required, purchasers will allow for this by allowing for a reduction of profit amount in each year, to effectively form a sinking fund to finance the new fit out.
- Franchise assignment fee – often \$10-15K
- Approval of Franchisor in regard to business purchaser/ new franchisee – the franchisor is looking to protect their brand and will not let any prospective purchaser take over a store
- Level of ongoing franchise fees – typically in the range of 7-10% of sales revenue
- Marketing Contribution – Typically 1-3% of sales revenue
- Level of other fees for software subscriptions, training etc

There is a significant level of franchise specific knowledge required to efficiently market and transact a franchise business. Rajiv Rajan advises that early and ongoing communications with the franchisor is essential. Knowledge of requirements that each franchisor will accept as a business purchaser and negotiating on this point by the broker, is very important in successfully transacting. It is also important that the broker makes purchasers fully aware of all costs to the incoming purchaser and works to make sure there is full disclosure from the franchisor in the franchise agreement.

MARKET MULTIPLES

Market multiples for these types of franchise businesses are now typically less than they were 5 years ago. This is likely due to a somewhat tarnished reputation of the franchise industry which was seen as largely having franchise agreements weighted too heavily in favour of the franchisors. There has also been a lowering of loan to business value ratios by the banks.

On a positive note, purchasers are now able to secure businesses at lower prices. With the work currently underway in improving the Franchise Code of Conduct, they will also typically benefit from far more evenly balanced franchise agreements going forward.

MARKET MULTIPLES		
Profit Level Range	Fast Food Typical Multiple Range	Coffee Shops Typical Multiple
\$150,000	1.75 – 2.00	1.50 – 2.00
\$250,000	2.25 – 3.00	2.25 – 3.00

MARKET MULTIPLES

(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 Services - Fabrication and Maintenance
- Labour Hire
- Supermarkets
- Liquor Stores
- Service Stations
- Real Estate Rent Rolls, most states/ territories of Australia

(DIFFICULT TO SELL)

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



FINANCE RATES: COMMENTARY FROM SOUTHSHORE FINANCE

The running battle between the RBA on one side and the banks, economists and politicians on the other, continues to play out. The RBA is sticking to the line that inflation is “sticky” and that there may need to another rate increase, but the market is well and truly factoring in several rate reductions in 2025.

There has been a modest reduction in variable rates, primarily driven by competition in the market. There has also been a significant reduction in the fixed rates on offer. This is a clear sign that the market is expecting the cash rate to fall in 2025. Just when and how much is still yet to play out. The prospect of lower rates is helping some potential buyers to make their investment decisions for both commercial property and business acquisition. Whilst current yields on some investments are not attractive, that could change very rapidly, when borrowing costs reduce.

Lenders remain very active and keen to lend, however, turnaround times continue to stretch out as banks get caught up in the ever-increasing need to meet compliance hurdles.

As always, if seeking finance, it is best to plan well in advance and have all your ducks lined up in a row.

The following borrowing rates, as at 1 October 2024 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.

COMMERCIAL LOANS- PROPERTY SECURED OCTOBER 2024		
Variable		6.45% pa.
Fixed	1 year	5.95% pa.
Fixed	3 year	6.45% pa.
Fixed	5 year	6.15% pa.
Chattel Mortgage (equipment)		6.75% pa.





BUSINESS VALUES NEWSLETTER

COMMENTARY FROM SOUTHSORE FINANCE

RESIDENTIAL – OWNER OCCUPIER- PRINCIPAL AND INTEREST

Variable		6.20% pa.
Fixed	1 year	5.79% pa.
Fixed	2 year	5.89% pa.
Fixed	3 year	5.89% pa.

RESIDENTIAL – INVESTOR – PRINCIPAL AND INTEREST

Variable		6.40% pa.
Fixed	1 year	5.95% pa.
Fixed	2 year	5.79% pa.
Fixed	3 year	6.09% pa.

CONTACT US

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