

# Business VALUES



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## MARKET UPDATE

In the second half of 2024, the Australian economy experienced modest growth amid easing inflationary pressures and stabilising interest rates. The Reserve Bank of Australia maintained a cash rate of 4.35%, broadly aligned with long-term averages and hinting at the first potential rate cut in February 2025.

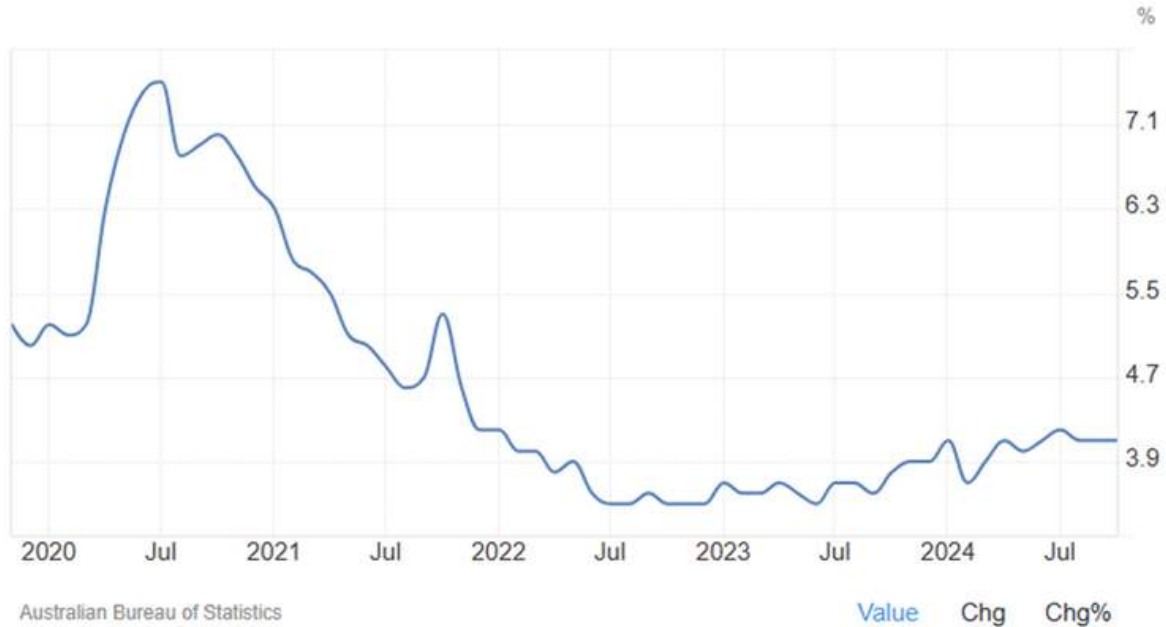
Consumer confidence began to recover, supported by moderating housing costs, tax cuts, and steady wages growth, although bracket creep tempered the impact of tax relief.

Business confidence showed signs of improvement, particularly in states with rising house prices like Perth, Adelaide, and Brisbane, while conditions remained stable or subdued in Sydney, Darwin, Hobart, and Melbourne. GDP growth remained below long-term averages at 1.1% year-on-year however, this is largely on the back of strong Government spending. Private consumption has reduced and on a per capita basis, real GDP continues to decline with Australia effectively in a per capita recession.

## UNEMPLOYMENT

Australia's unemployment rate has remained relatively stable, reflecting resilience in the labour market despite slower economic growth. As of the latest data, unemployment hovers around 4.1%, slightly above historic lows (as shown below). Labour cost growth has eased, pointing to a gradual balancing of supply and demand in the job market.

### Australian Unemployment Rate

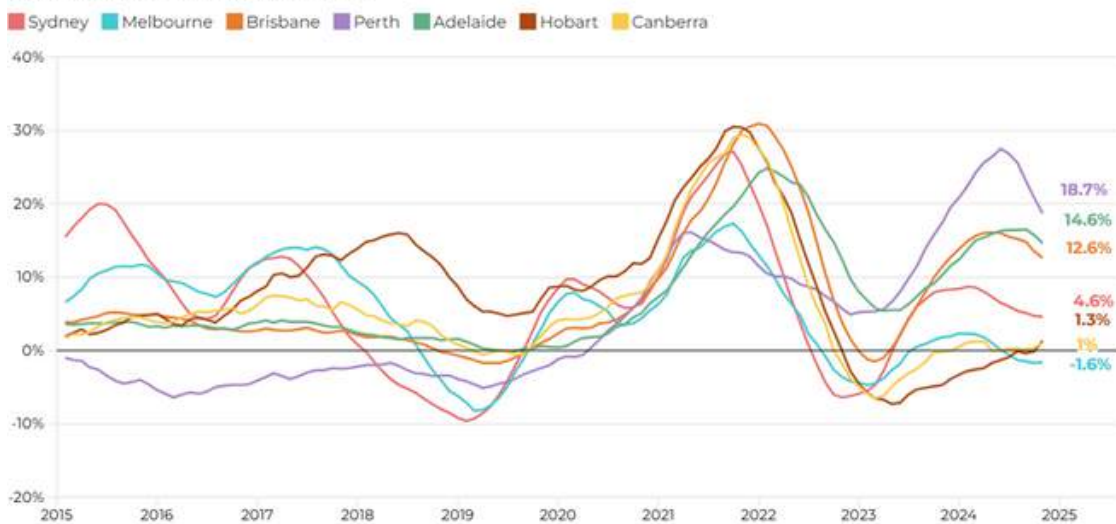


## WEALTH EFFECT

The wealth effect from property prices occurs when rising property values make homeowners feel wealthier, encouraging increased discretionary spending, which boosts economic activity. Conversely, falling property prices can lead to more cautious spending habits as homeowners feel less financially secure. Given the high proportion of household wealth tied to property in Australia, changes in property values significantly influence consumer confidence and economic trends. As such, at Jarot, we keep a close eye on property values around the country. Strong growth rates and high property prices have provided tailwinds for the Australian economy over the past two years however, the following from PropTrack indicates that growth rates appear to have peaked in mid-2024 in most capital cities:

### Home Price Growth

Annual, PropTrack Home Price Index



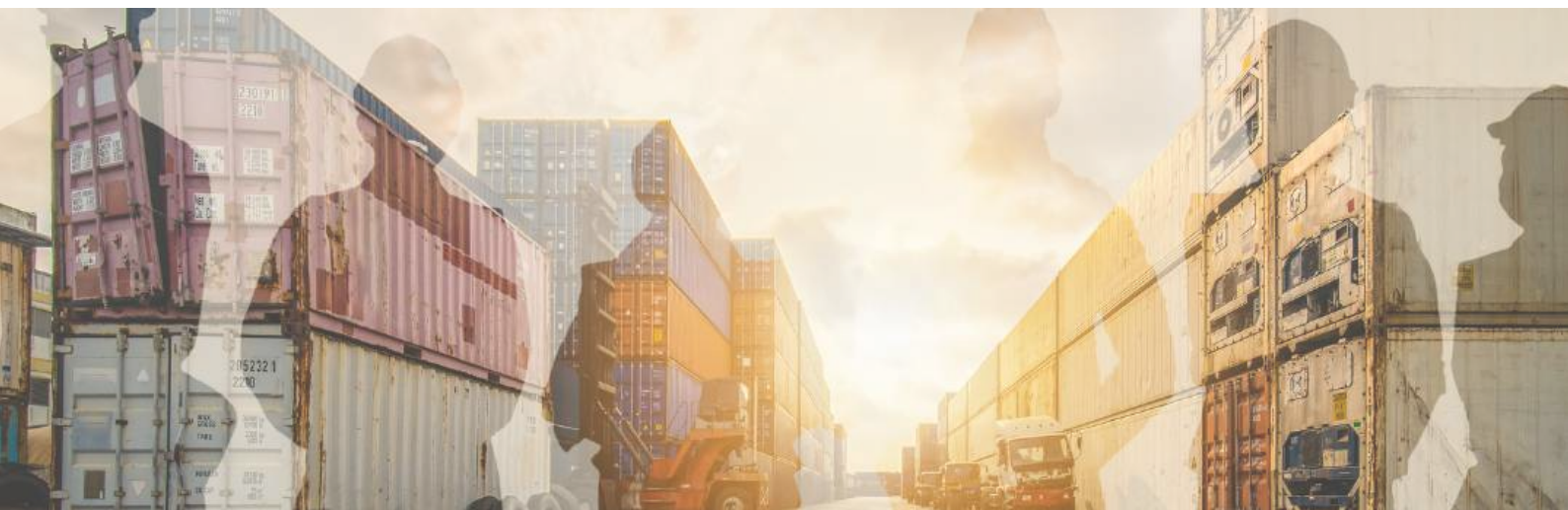
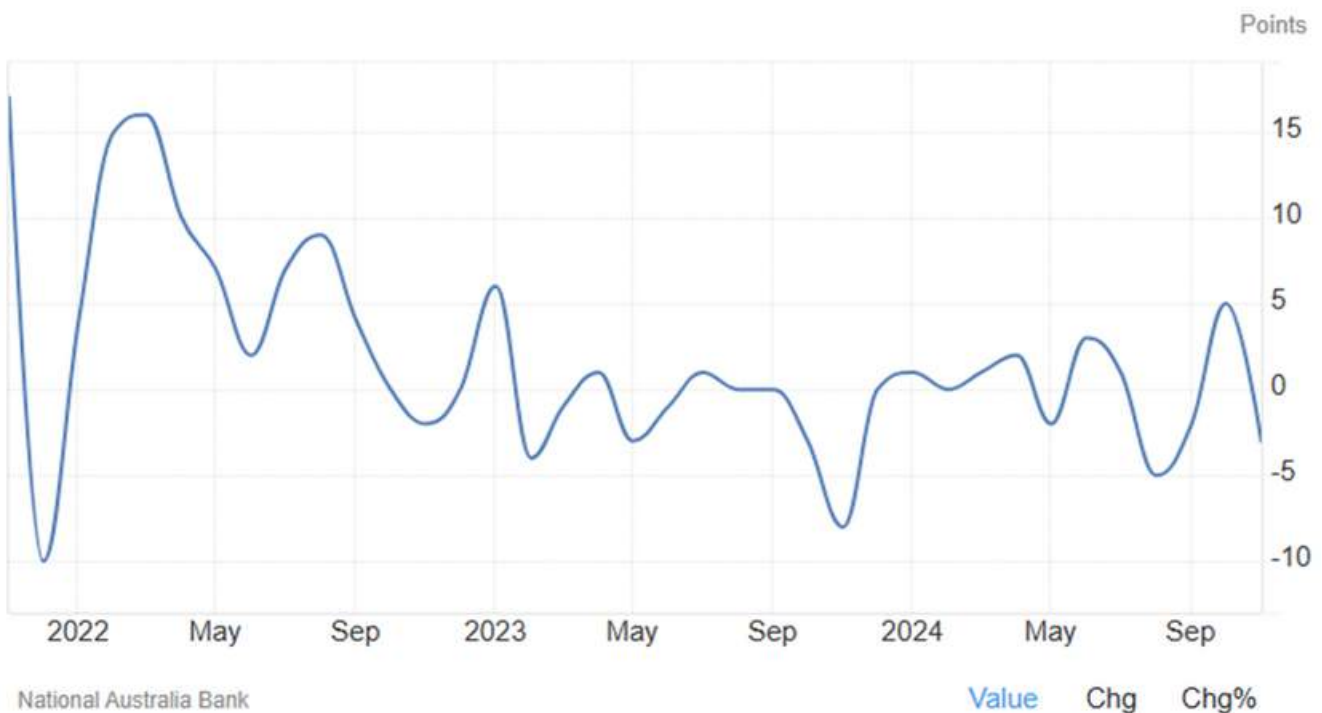
Source: Proptrack

## BUSINESS CONFIDENCE

The November 2024 NAB Monthly Business Survey reveals a decline in business confidence and conditions as the year concludes. Business confidence dropped sharply by 8 points to -3, reversing gains from October and settling well below the long-term average. Business conditions also softened, with declines in trading, profitability, and employment metrics. Forward orders remained weak, especially in mining and retail sectors.

Key industry insights show that manufacturing and retail continue to struggle, with confidence and conditions weakest in these sectors. In contrast, construction and mining experienced slight improvements. On a state level, Queensland leads with the strongest conditions.

### NAB Business Confidence index



## OUTLOOK FOR SME MARKET INTO 2025

The SME market remains resilient. Business demand varies across states, correlating with house price trends. Larger businesses with EBITDA profits over \$500,000 continue to attract strong interest, with especially high demand for those with EBITDA exceeding \$2 million. Market conditions are expected to improve moderately over the next 12 months, although not to the extraordinary levels seen in 2021–2022.

Banks have tightened credit policies, restricting the availability of finance. As such, brokers advise that businesses must be priced well to sell, often including some form of vendor terms where often less than 100% of the purchase price is paid at settlement.

**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 BUSINESS 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.**

As can be seen below, the number of businesses listed for sale has increased on a quarterly and annual basis into December 2024.

	Dec-23	Sep-24	Dec-24	Sept 24 to Dec 24 % Change	Dec 23 to Dec 24 % Change
NSW	2815	2833	2784	-1.73%	-1.10%
VIC	4750	5011	5105	1.88%	7.47%
SA	309	373	352	-5.63%	13.92%
TAS	140	204	180	-11.76%	28.57%
QLD	2278	2339	2390	2.18%	4.92%
WA	740	835	834	-0.12%	12.70%
NT	57	53	51	-3.77%	-10.53%
ACT	92	98	120	22.45%	30.43%
<b>Australia</b>	<b>11181</b>	<b>11746</b>	<b>11816</b>	<b>0.60%</b>	<b>5.05%</b>

***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)***



## CURRENT MULTIPLES – JANUARY 2025

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. This is 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. Higher profits will typically attract higher multiples, as shown in our April Newsletter which includes a multiple chart for larger businesses. Coastal city and town prices are generally within + or - 10% of these multiples. 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% higher than a similar independent business.

Given the change from using market ROI percentages to market multiples, readers should refer to "How to calculate an estimate of business value using BVN price chart document" included in previous newsletter, issue no. 169.



## PRICE CHART AT JANUARY 2025

Industry	Net Profit (PEBITDA)	(a) Current Multiple Range	Approx. Price (b) Dec 2024	Buyer Demand
Bakery (Non-Franchise)	250,000	1.1 to 1.4	310,000	Weak
Bakery (Franchise)	250,000	1.3 to 1.8	390,000	Weak
Boutique	250,000	1.1 to 1.4	310,000	Poor
Caravan Park (Leasehold)	250,000	2.9 to 4.0	860,000	Weak
	400,000	3.0 to 4.3	1,460,000	Fair
Cleaning	250,000	1.4 to 2.0	430,000	Fair
	400,000	1.4 to 2.0	680,000	Fair
Coffee Shop (Non-Franchise)	250,000	1.5 to 2.0	440,000	Weak
Coffee Shop (Franchise)	250,000	2.2 to 3.0	650,000	Fair
	400,000	2.5 to 3.2	1,140,000	Fair
Delicatessen/Convenience	250,000	1.3 to 1.8	390,000	Weak
	400,000	1.5 to 2.2	740,000	Fair
Drycleaning	250,000	1.4 to 1.8	400,000	Weak
	400,000	1.7 to 2.2	780,000	Fair
Fast food (Non-Franchise)	250,000	1.5 to 1.8	410,000	Weak
Fast Food (Franchise)	250,000	2.3 to 3.0	660,000	Fair
	400,000	2.5 to 3.2	1,140,000	Fair
Fruit and Veg	250,000	1.2 to 1.5	340,000	Weak
	400,000	1.3 to 2.0	660,000	Fair
Hairdresser	250,000	0.9 to 1.2	260,000	Fair
	400,000	1.2 to 1.6	560,000	Fair
Hotel* (Leasehold)	400,000	2.5 to 3.0	1,100,000	Fair
Laundromat	250,000	2.0 to 2.7	590,000	Fair
Liquor Store	250,000	2.9 to 3.6	810,000	Fair
	400,000	3.3 to 5.0	1,660,000	Good
Lotto Kiosk	250,000	1.9 to 2.5	550,000	Fair
Lunch Bar	250,000	1.4 to 2.0	430,000	Weak
	400,000	1.6 to 2.3	780,000	Fair
Manufacturing	250,000	1.7 to 2.4	510,000	Weak
	400,000	1.9 to 2.5	880,000	Fair
Newsagency	250,000	1.5 to 2.1	450,000	Weak
	400,000	2.0 to 2.7	940,000	Weak
Restaurant/Cafe	250,000	1.1 to 1.7	350,000	Weak
	400,000	1.3 to 1.7	600,000	Fair
Retail - General	250,000	1.1 to 1.6	340,000	Poor
	400,000	1.3 to 1.7	600,000	Weak
Retail - Online	250,000	2.0 to 2.5	560,000	Good
	400,000	2.0 to 3.3	1,060,000	Good
Roadhouse	250,000	1.1 to 1.5	330,000	Poor
	400,000	1.5 to 2.3	760,000	Fair
Service	250,000	1.5 to 2.2	460,000	Fair
	400,000	1.8 to 2.2	800,000	Good
Service Station	250,000	1.3 to 1.8	390,000	Fair
	400,000	1.7 to 2.5	840,000	Good
Supermarket (Franchise)	250,000	2.3 to 3.3	700,000	Fair
	400,000	2.3 to 3.3	1,120,000	Good
Wholesaler	250,000	2.0 to 2.9	610,000	Fair
	400,000	2.0 to 2.9	980,000	Fair

## COMPANY SHARE SALE V BUSINESS ASSET SALE (KEY DIFFERENCES, ADVANTAGES AND DISADVANTAGES OF EACH)

Buyers and sellers of SME businesses usually have the option of a company share, or business assets transaction. So what are the main differences between these two options and the key advantages/disadvantages of each? The best way to examine this topic, is to go straight to the coalface of experts involved in assisting clients with business sale transactions.

David Screaigh from Zircom Business Brokers has been selling SME businesses for around 20 years. His background as a chartered accountant, CEO of large businesses, business coach and mentor, sees him excel in negotiations to construct the optimal transaction terms for both buyers and sellers.

Tamra Seaton is a highly experienced commercial lawyer and the consulting principal of Keypoint Law in Western Australia. She has particular expertise in SME transactions, from both the buyer and seller sides.

Your author sat down with David and Tamra to discuss this topic.

### Definitions

**Share Sale** – A transaction involving taking over the company in its entirety, inclusive of all assets, liabilities, obligations and associated risks.

**Business Assets Sale** – A transaction involving buying the operating assets of the business. For SME businesses, this most commonly includes stock, WIP, plant/ equipment and goodwill. It normally excludes other assets on the balance sheet as well as liabilities, loans etc.

Below is a list of main disadvantages and advantages of transacting with each method.

### Share Sales

#### **Disadvantages**

- Potential exposure for the purchaser to any unknown/contingent liabilities and risks. For example, in a construction company any faults in buildings previously built by the company. Other matters such as historic underpayment of employees can also be an issue.
- Sellers have to remember to make sure all personal guarantees for directors are released.
- No access to small business capital gains tax concessions for the seller.
- Requires fully up to date financials including balance sheet – essentially needs a “clean-up of the balance sheet in relation to shareholder loans, payment of dividends to shareholders (reduce cash at bank to a minimum), resultant tax etc prior to settlement. The clean-up is required to provide the best estimate of adjustments for the prices to be paid at settlement, such that monies can be held in trust for the “net asset adjustment.” The net asset adjustment is the amount to be paid in excess of the business assets (Plant, Equipment, Stock/ WIP and Goodwill).
- “Whitewash Process” – Often purchasers will be using shares/ company equity value as security – this requires notifications to ASIC, a shareholders meeting to be conducted and a waiting period of 21 days.
- Given the aforementioned risks, typically requires far greater levels of due diligence/legal advice, to ensure necessary warranties and protections are in place for the purchaser.

**All of the above will typically see a share sale being more complex and taking longer to complete.**

#### **Advantages**

- There are often clients and suppliers which have contracts with a business, signed in the name of the company being sold. It is easier to retain these contracts with a share sale, as the company name does not change.
- Offers greater flexibility in terms of being able to transact partial equity, or a staged purchase of equity over time.
- Potential stamp duty saving for the buyer compared to a business asset sale (State dependent rules apply).

## **Business Assets Sale**

### **Disadvantages**

- The seller is left with liabilities and risks associated with the company.
- Potential for buyers to have to pay stamp duty on sale (State dependent rules apply).
- Less flexible in terms of partial sale of business.
- Potential tax issues for the seller, if the market value of plant and equipment is higher than the written down value.
- Requires consent of third parties to assign or transfer customer/supplier contracts/leases etc.
- Additional complications for the seller typically having to terminate employee contracts and for the buyer having to provide new employee contracts.

### **Advantages**

- From a buyer's perspective, more of the liabilities and risks are left with the vendor.
- Typically a far lower risk transaction for the purchaser, which requires less due diligence and legal costs.
- Seller is commonly able to access small business capital gains tax concessions on the goodwill value component.
- Overall, it tends to be the simplest form of transaction.

### **Summary**

It must be remembered that the price for the business goodwill remains the same under both a business asset sale and share sale. The variance in assets/ liabilities transferred is the reason the overall transaction price changes.

However, there are other substantial differences, with each approach varying outcomes in terms of:

- taxation considerations;
- purchaser and vendor risk; and
- practical elements, such as transfer of employees, client/supplier contracts etc.

For the above reasons, it is very important that business purchasers and vendors get professional advice to suit their specific circumstances. This advice can best come from a "transaction team" working together, including lawyers, settlement agents, business brokers and accountants.

*Many thanks to Tamra Seaton of Keypoint Law WA and David Screaigh of Zircom Business Brokers for their insights in this article.*





## BUSINESSES 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

Welcome to 2025. It promises to be a very interesting year with a range of significant events ranging from the inauguration of Donald Trump as the US President with all eyes focused on whether he implements his election promises and what the impact might be, the ongoing conflicts in Ukraine and Gaza (to only mention two), whether the RBA will cut the cash rate to more mundane events such as the looming State and Federal elections.

The commercial finance market remains buoyant with strong demand for quality businesses and property. The strongest demand for commercial property remains the owner occupier market with many business owners making the decision that they would rather be paying a mortgage than paying rent. This is being assisted by the major banks providing strong support for this strategy with competitive rates and reduced equity required.

The residential market is showing signs of lower activity from buyers, though prices have held firm and many market commentators are predicting solid growth in property values in 2025. The lower activity from buyers is likely to be due to the concerned about just when the RBA will cut the cash rate.

Interest rates overall have held steady over the past few months though lenders are focused on the owner occupier market rather than the investor market which is evidenced by the higher rates applicable to investor loans. The market is still pricing in rate reductions in 2025 but more likely to be mid-year and more modest cuts than previously expected.

Rates quoted below are indicative as at 21/01/25 and subject to a formal application meeting the lender's credit criteria. Hadmor Pty Ltd t/as Southshore Finance ACL 393334

**The following borrowing rates, as at 21st January 2025 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. The actual rate will vary depending on market conditions and aspects of the finance application including credit worthiness, capacity to service and security offered.

COMMERCIAL LOANS - PROPERTY SECURED JANUARY 2025		
Variable		6.50% pa.
Fixed	1 Year	6.50% pa.
Fixed	3 year	5.25% pa.
Fixed	5 year	6.20% pa.
Chattel Mortgage (equipment)		6.75% pa.

RESIDENTIAL - OWNER OCCUPIER - PRINCIPAL & INTEREST		
Variable		6.14% pa.
Fixed	1 Year	6.09% pa.
Fixed	3 year	5.89% pa.
Fixed	5 year	5.89% pa.

RESIDENTIAL - INVESTOR - PRINCIPAL & INTEREST		
Variable		6.30% pa.
Fixed	1 Year	6.24% pa.
Fixed	3 year	6.09% pa.
Fixed	5 year	6.09% pa.

## CONTACT US

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