

## The Business Sales Market

# Buyers showing interest across a range of businesses

**T**oday's business sales market for small to medium size businesses can best be described in one word – "patchy". Not all businesses are in demand and buyers are very selective!

Based on our current buyer enquiries we have been able to identify industries attracting the most interest. The table outlines some of our observations in relation to buyer interest across the industries we specialise in:

Level of interest		
High	Average	Low
» Accounting, IT services, aged care/ personal care	» Wholesale, niche manufacturing, online businesses	» General retail, health and beauty, home and trade services
» Profitable businesses operating under management	» Generally, businesses with a profit BOS* of \$100,000 - \$150,000	» Generally, businesses with a profit BOS* of less than \$80,000

\* Before Owner's Salary

A positive development is the increasing buyer interest from cashed up professional investors and corporate entities seeking quality businesses delivering a sustainable profit.

This increasing level of interest can be attributed to the improving economic outlook when compared to the fears and uncertainties that existed earlier. This greater level of activity has yet to translate into improved transaction multiples and higher sale prices. However, it should

improve overall market confidence if sustained throughout the rest of the year.

**In this "patchy" market, we would advise business owners to start planning ahead if they are contemplating the sale of their business. Putting in the effort to prepare and market the business for sale will increase the chances of locating the ideal buyer; allowing for the owners to exit the business on their terms.**



### INSIDE THIS ISSUE

The business sales market	1
Profit calculation	2
Trends in the current market	2
What is a typical wholesale/distribution business worth?	3
Don't risk making this mistake	3
Why use Hurst Partners?	3
Buyer's Profile For Accounting Practices	4
Do you have a business "Wanted by these qualified buyers"?	4

## Market Appraisal For Business Owners

Are you thinking of selling? Do you know what your business might be worth in the current market? Contact Hurst Partners to arrange for a totally confidential discussion.

### Valuations – Business Sales – Mergers & Acquisitions

## Hurst Partners

Suite 4 - 391 High St, Ashburton VIC 3147  
T: +61 3 9813 8299 F: +61 3 9813 8699

E: [info@businessbrokers.com.au](mailto:info@businessbrokers.com.au)

Web: [www.businessbrokers.com.au](http://www.businessbrokers.com.au)



*The information in this publication is general in nature, and is not to be taken as legal or financial advice. Readers are advised to seek input from professionals.*

# How do you determine which profit to use when selling a business?

**N**ot surprisingly, the number of answers you will get to this question depends on the number of people you ask!

It seems almost everyone has a different opinion about how profit should be calculated when determining the value of a business.

Some of those answers could be:-

- » The profit left after paying for all the expenses, including wages to the owner or owners?
  - » The profit left before paying the owners.
- But then there will be even more questions:
- » What about depreciation?
  - » What about interest and hire purchase expenses?
  - » What about personal expenses?
  - » Is the profit calculated on gross takings or after expenses in the financial statements?

The answer to these questions usually depends on the size of the business and the industry it operates in. While figures in the financial statements are usually used to determine the profit, buyers of some small businesses such as cafes and fast food outlets, will place more emphasis on takings

The current Victorian Form 2, which must be completed prior to the sale of a business priced at \$350,000 or less, gives us no clear definition of profit.

Most people believe that to arrive at a realistic profit, it is acceptable to add back the vendor's personal expenses, such as personal vehicle expenses and voluntary superannuation contributions. Once again, there is no unanimity when it comes to the treatment of depreciation, which is often added back for smaller businesses.

There are no generally accepted rules for the treatment of capital investment, working capital and loans, though in small businesses profit is usually not adjusted for these items.

However, it is generally accepted that interest on borrowed monies for either the purchase

of the business or hire purchase payments can be added back to increase the profit.

For the majority of small businesses which turnover less than \$2m, have fewer than five employees and earn a profit of less than \$300,000 (before accounting for a hands-on owner's wage), the practice is to add back the owner's wage to the profit. This is referred to as the Adjusted Profit to One Working Owner or Adjusted Profit before an owner's salary.

**The main reasons for using this approach are:**

- » Prospective purchasers of such businesses are seeking an income, so the focus is on the "total financial benefit" from owning and working in the business.
- » Such businesses depend on the ongoing involvement of the owner as they lack the scale to attract or employ a professional management team.

For businesses that are for sale at \$350,000 or less, the Net Profit for the business (Item 4 in Form 2) may include depreciation and all personal expenses. However, if correctly prepared these amounts should be identified in items 5, 6 & 7 to arrive at the Adjusted Net Profit at item 8. There is no definitive approach on how to treat the expenses of additional owners or associated parties.

As a business increases in size, **Earnings Before Interest and Taxes (EBIT)** is the formula often used for determining the profit. The EBIT reflects the profit of the business after deducting common expenses (including the salaries of the owner) from sales and other income (excluding interest).

An associated profit measure is the **Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA)**, where depreciation and amortisation expenses are not included in the expenses.



## Did you know?

## Trends in the current market

The following are some trends that we regard as contributors to the "mismatch" which we are seeing in today's market:

- » **Capital** – banks are imposing relatively tight conditions on business lending. This tends to lower the value of businesses across the board;
- » **Larger market transactions.** There is increasing interest from corporate entities and professional investors with strong balance sheets who are returning to the market as buyers. The interest is mainly in businesses with an EBIT above \$1 million and with a management team in place;
- » **Skills.** There is a shrinking pool of buyers for some industries due to lack of the skills to effectively operate such businesses. Without the required skills such businesses represent a substantially increased business risk to buyers;
- » **Migrants.** The majority are not making a serious commitment to a business as they are just buying a "job" or "visa". Also the majority of migrant buyers are not willing to "pay big prices". Stories of migrants paying inflated prices are merely an urban myth; a nice tale for the seller's ego but the truth is that migrant buyers are rarely "fat cats" in the market.

# What is a typical wholesale/ distribution business worth?

**W**holesale and distribution businesses span across all industry sectors in the economy. They can generally be categorised into the following groups:

- » Agriculture
- » Mining
- » Manufacturing
- » Building/construction
- » Hospitality/food related
- » Manufacturing
- » Printing
- » Clothing and footwear
- » Leisure industries
- » Health & medical

Wholesale and distribution businesses often deal with locally manufactured products in which case their sectors can mirror the local manufacturing industry. However, they also operate extensively with imported goods and machinery.

Typical buyers are after businesses with special product lines or agency agreements.

Note: from the outset, it is important to point out that the information provided in this article is general in nature and is presented as a guide only. Every business has its own unique qualities. This article does not take into account the specific characteristics of a particular business and the market conditions that exist at the time of transaction.

**The following are characteristics that determine the value of wholesale/ distribution businesses. Their value can, however, also be influenced by drivers that are industry specific:**

- » Ownership of established brands will have a distinct impact on the level of goodwill for the business.

- » Uniqueness of the products.
- » Exclusive arrangements.
- » Level of technical expertise.
- » Predictable level of demand.
- » Length of the agency agreement.
- » Gross margin.
- » Average level of stock and working capital.
- » Source of new business.

Each industry has its perceived desirability. Often it is necessary to carry high levels of stock, particularly in importing businesses where there can be a long lead time between ordering and receiving new stock. High stock levels and the need to extend credit to customers, mean that working capital can form a major part of the investment required to operate a wholesale/ distribution business.

For smaller wholesale/distribution operations, the businesses generally are sold with a **Return of Investment in the range of 40% to 80%** to a working owner. This is reflected by the need for the owner to work in the business. A majority of goodwill can be attributed to the close personal relationship with suppliers and customers.

Larger businesses, especially those representing established brands, with exclusive supplier/client agreements and management teams in place, are generally sold with a **Return of Investment in the range of 25% to 50%**. They are attractive as they can:

- » Be operated under semi/full management.
- » Have more predictable revenue and profit margins.

# Don't risk making this mistake

**Some time back, we conducted an appraisal of a business and provided the vendor with our opinion of the likely selling price based on our access to comparable market sales data, interaction with active buyers on what they are willing to pay, and our experience. Our suggested price was \$400,000 plus stock.**

The vendor's price expectation was much higher. So he opted for another broker who had indicated that the business was indeed worth the price the vendor was seeking - some \$600,000 plus stock.

This broker indicated to the vendor that they would be able to achieve this price by selling the business to "overseas buyers who needed to buy a business in order to migrate to Australia".

The vendor was told that to realise a sale, an "extensive marketing campaign" had to be conducted at a cost of \$8,000.

After being on the market for some 12 months during which time "minimal interest" was shown in the business, and going through considerable stress as the months went by with no sign of "overseas buyers", the vendor decided to engage us.

We implemented a marketing campaign specifically aimed at targeted buyers. The business was sold at a price and on terms that were acceptable to the business owner. Needless to say that this price was more in line with the market expectation, and our vendor acknowledged that he could have avoided wasting the time, unnecessary stress and extra marketing expenses.

He admitted that he was "being unrealistic with his price expectation" as he knew from the start that the price that was promised by the first broker was "beyond what a logical person, including himself would pay for the business".

## Why use Hurst Partners?

**Welcome to this up to date report on developments in the business sales market.**

The team at Hurst Partners has a wealth of experience in business valuation, sales, and mergers & acquisitions across a broad range of industries. Our commitment to providing a high level of customer service, understanding the requirements of individual business sellers and buyers, attending to them personally, maintaining the integrity and confidentiality of the process, have delivered win/win outcomes for both business sellers and buyers.

The sale of a business is a complex and sensitive process which is why we are the first choice of sellers and buyers seeking the peace of mind of knowing they are dealing with a team of brokers with the industry exposure and transaction experience to successfully navigate the business sale and acquisition process.

Hurst Partners is committed to continual professional development to ensure we continue to provide the highest possible level of service. We are active members of the Business Brokers Chapter of the Real Estate Institute of Victoria, and the Australian Institute of Business Brokers.



# Registered Buyers Profile helps us target the right buyers for accounting practices/fees

**H**urst Partners maintains a business buyers' database of more than 1300 contacts across a range of industries and prices.

An analysis of this database reveals some valuable insights, enabling us to better target buyers for each of the businesses on our books.

As an example, we recently reviewed our database of buyers interested in accounting practices/fees in order to identify what motivated

them to seek out opportunities in this sector.

A majority of registered buyers for accounting practices/fees on Hurst Partners database are motivated to "own their own practice" or "a partnership position in an established practice".

Currently, there are 129 contacts in our database interested in buying an accounting practice or fee parcel in metropolitan Melbourne, with the majority of investment budgets between \$100,000 and \$1,000,000.

Buyer's Budget (For Accounting Practices/fees)	Percentage of Registered Buyers (129 contacts)
Below 100k	8%
100k to 300k	40%
300k to 600k	15%
600k to 1 million	18%
1million plus	8%
Unknown	11%

## Opportunity Alert!

Contact Hurst Partners on 03 9813 8299 or [info@businessbrokers.com.au](mailto:info@businessbrokers.com.au) for further information or visit our website [www.businessbrokers.com.au](http://www.businessbrokers.com.au) for other business opportunities available.

### DEMOLITION & EXCAVATION

Leading Victoria business specialising in capital works projects (demolition, excavation and earthworks) for both government and the private sector. Has an "Open Demolition Practitioners Number" and impressive list of plant & equipment.

Asking Price of \$1,700,000 including all equipment, contracts in hand etc.

### MANUFACTURING

Long established business specialising in aluminium fencing, balustrading & pool fencing. Reputation for quality products, some with exclusive patents. Has Australia wide distribution network. Turnover \$2.5 million to \$3 million per annum, senior management staff in place and a team of experienced, loyal production staff.

Asking price \$1.58 million plus SAV.

### AGENCY STYLE BUSINESS

Current owner is retiring after more than 20 years of operating a highly successful agency business specialising in Home, Aged, Child and Family Care as part of a highly visible national franchise network. The business has a team of experienced employees in place and training and support will be provided to new owners by head office.

An opportunity not to be missed for \$685,000.

### IT BUSINESS

- Long established supplier of branded IT hardware with broad business client base.
- Infrastructure to support substantial operation.
- Database in excess of 18,000 contacts.

Vendor's Statement showing gross margin of 30% with adjusted profit of \$200,000+ before owner's salary (from FY2010 revenue of \$1.54 million).

The business is for sale at \$320,000 plus stock.

### WORK/LIFESTYLE BALANCE

Established web design and development business with more than 10 years of trading history. Majority of clients are medium to large businesses. Business is currently based in the beautiful Yarra Valley and can be relocated.

This will be perfect for the professional with either technical or project management skills seeking a work/lifestyle balance.

Asking price \$249,000.

## Businesses Wanted for qualified buyers

### PARTNER/INVESTOR

We have business buyers/investors that are after the following businesses:

- Established business with revenue up to \$15 million.
- Minimum profit of \$200,000pa.
- Prefer minimum of 5 years trading history.
- Existing owner/manager willing to stay on for minimum of 2 years.
- Import, wholesale, distribution, manufacturing, retail (min of 3 stores).

### ACCOUNTING PRACTICES/FEES

We have registered buyers seeking to acquire accounting practices/fees as follows:

- Yearly gross revenue \$100,000 to \$1.5 million.
- Located in Metropolitan Melbourne.
- Prefer majority of revenue from business services.
- Take over existing practice with employees or client base only.

### HEALTH CARE RELATED

Following the recent sale of a Health Care Agency business, we have keen buyers for:

- Nursing/care personnel agency.
- Ideally would have trained employees.
- Database of nurses/personal care staff.
- Must have established/regular client base.

### RECRUITMENT AND PLACEMENTS

We have buyers within our database who are after:

- An established business with quality clients.
- Blue/white collar (non executive).
- Temporary or contract placement.
- Minimum gross profit of \$300,000.

For a confidential discussion, please contact Hurst Partners on 03 9813 8299.

## Interstate Business Opportunities

### [WA] BUS & COACH SERVICES

Importer with sole Australian distribution rights with manufacturer:

- In demand product.
- Perth based but poised for national distribution.
- Huge growth potential.
- Listing Price: \$2,750,000.

Contact : Miles McNaughton – Goodwin Mitchell O'Hehir.

Tel: 08 9481 4422

### [WA] PHARMACEUTICALS

Pharmaceutical manufacturer, importer and distributor in Australia, Asia and Europe :

- Offices in Australia and Europe.
  - Own trademarks in place.
- Opportunity for a 50% active partner. Funds of \$2.5 million required.

Contact: Dennis Brede- Goodwin Mitchell O'Hehir.

Tel: 08 9481 4422

### [NSW] TOURISM RELATED

Major tourist attraction based on Sydney harbour. High-profile business. Turnover of just under \$2m last financial year with profits of \$690,000 after owner's wages. Established over 10 years. Can be run under management. Asking price: \$2,150,000 inc fixtures, fittings and equipment. Training on offer.

Contact : Xclusive Business Agency.

Tel: 02 9817 3331

### [NSW] STRONG NICHE RETAIL

Wedding Stationery and Gift Store with strong retail and online presence. Business in operation for 10 years, and achieved \$1.5m turnover last financial year with a profit of \$430,000 after the manager's wage. Only \$1100 p/w rental (incl. outgoings). Owner seeking expressions of interest over \$1,000,000 + stock.

Contact : Xclusive Business Agency.

Tel: 02 9817 3331

Information relating to the above Interstate Business Opportunities has been supplied to us by our associated offices interstate. Hurst Partners makes no representation as to its accuracy. Interested parties need to conduct their own due diligence.