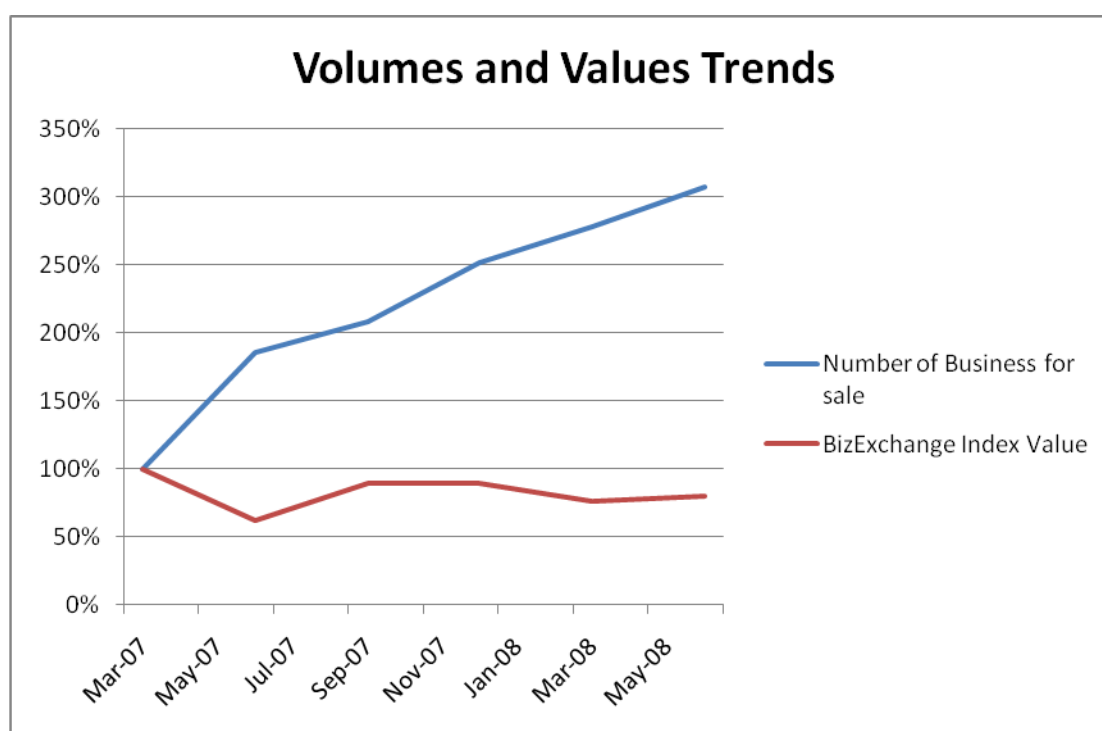


## What is your business really worth?

By David Bird

At this time of year most businesses have a profit and loss statement, tax return and balance sheet for the end of the previous financial year. Technically the balance sheet represents the value of the business. However, when it comes time to actual sell the business, it is the profit and loss statement that may be more relevant.

Australian private business ownership is in a state of transition. In 2003 nearly half of privately owned businesses in Australia were owned by the baby boomer generation, all of whom are due to retire by 2013. We are now half way through that transition period and the volume of businesses listed for sale in Australia continues to grow. This is keeping prices subdued, as reflected in the graph below.

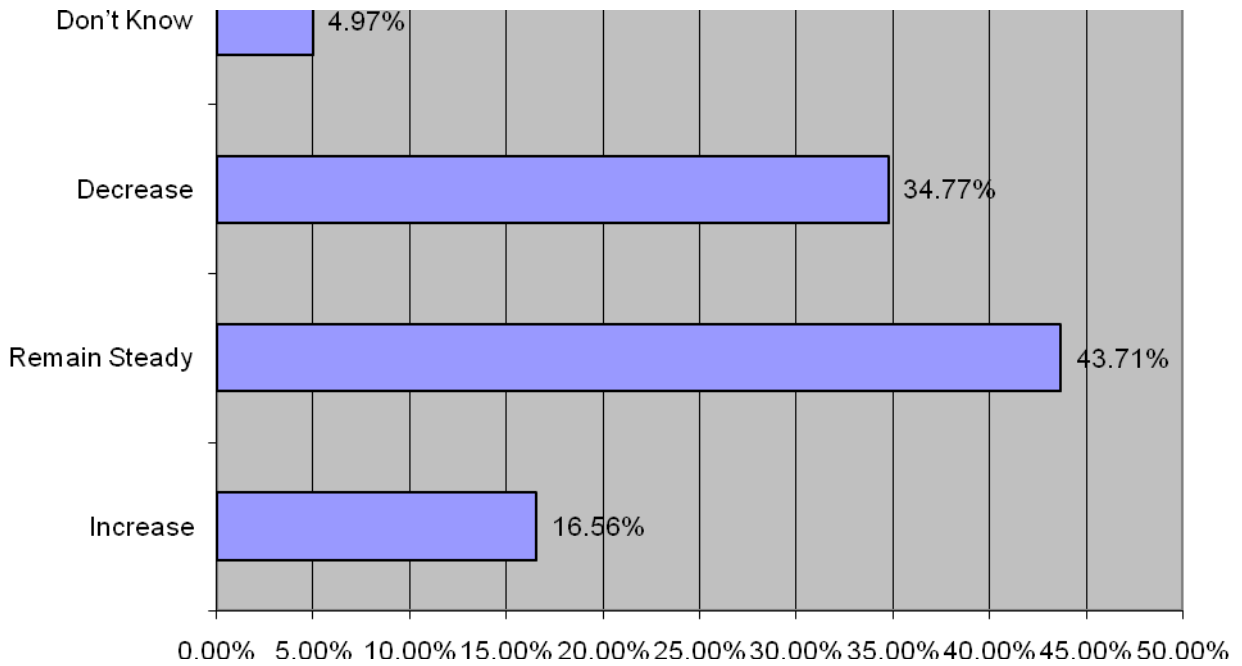


Note that the prices in the June 07 Quarter were significantly affected by the June 30 2007 deadline for large lump sum superannuation contributions.

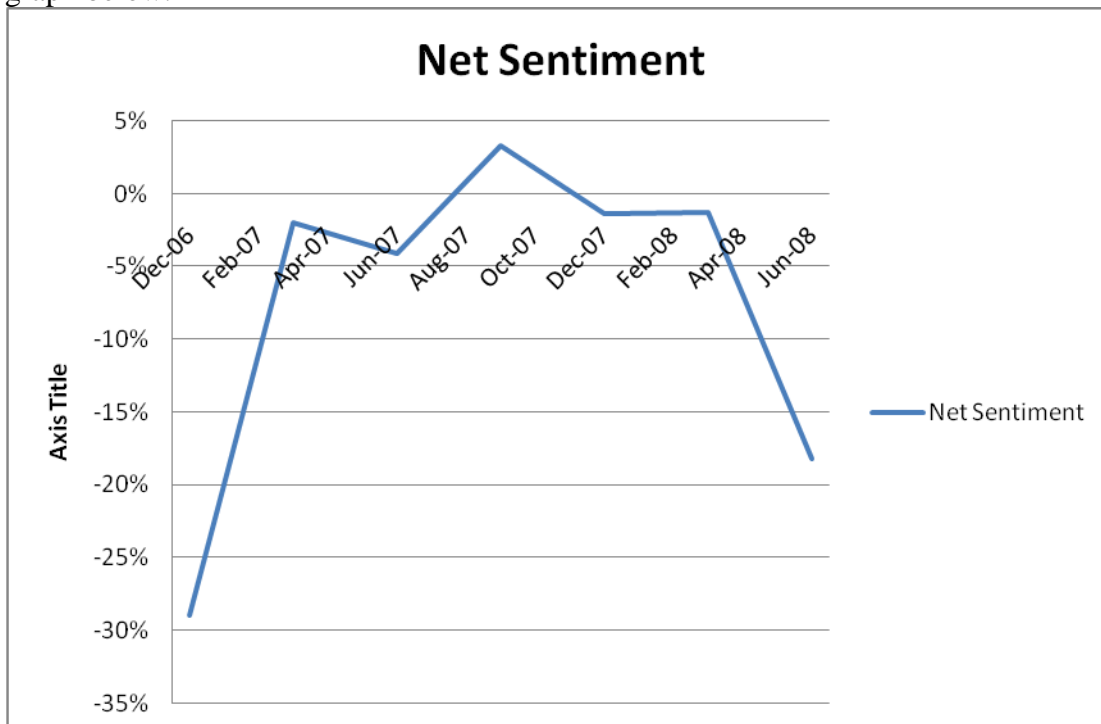
BizExchange has been monitoring Australian Private Business values since March 2006, and publishing the BizExchange Index since September 2006. Over that time there has been significant variance in business values across all industries and business sizes. This has made it difficult to plot a reliable trend line for particular industries. However, across the overall market it is apparent that business values have declined over the period and that there is an overall convergence in values around a norm.

It is also worth keeping in mind that the actual market value of businesses is likely to be less than that published. This is because a significant number of business listings are being carried over from previous quarters, indicating that they are having difficulty attracting buyers at their advertised price.

There is also a fundamental change in market sentiment in relation to the future value of businesses, evident in a widespread and fundamental downgrade in pricing expectations.



This is the most negative that the market has been since December 2006 as outlined in the graph below.



BizExchange has previously reported that the continued increase in the volume of businesses for sale due to baby boomer retirement, combined with a shortage of funding available to Gen-X and Gen-Y potential buyers, would result in businesses either taking longer to sell, selling for less money, or both. This prediction is increasingly evident in the market.

## ***So what does this mean to you?***

A key consideration is the size and type of your business. The continued growth in the number of businesses for sale is particularly apparent at the smaller end with the number of businesses with a turnover of less than \$1Million representing approximately 80% of the market. It is also this sector of the market that is the most vulnerable to the demographic changes apparent in the business landscape.

The small business owner is likely to be reliant on selling their business to an owner-operator. With Gen X and Gen Y already heavily in debt because of high housing prices, and unable to access their superannuation savings to purchase their own business, funding of the business purchase is going to be an ongoing issue. At the same time the number of baby boomers looking to sell is increasing, which is likely to put further downward pressure on already low prices. Perhaps the most striking evidence of this was that the number of businesses advertised for sale for less than a year's earnings continues to grow, representing over 13% of all listings for which the data was available. This is up from less than 1% just 18 months ago.

The large negative swing in market sentiment is possibly the major concern for business owners. While it is not surprising, given that the market is over-stocked and the potential buyers appear to be underfunded, it is painting a very gloomy retirement picture for the many baby boomer business owners who were relying on the sale of their business to fund their retirement.

The reduction in the number of middle market businesses for sale appears to be a prudent response to a tightening of finance available for potential buyers in this sector. With the owners of these businesses better able to take a less active role in the day to day running of these businesses, it appears a number of them are postponing retirement plans until the market improves.

In property, the generic valuation guide is dollars per square metre for various neighborhoods, but other factors need to be considered when assessing an individual property. In business the generic valuation guide is the earnings multiple for industries and business size. However other factors need to be considered when assessing an individual business.

## ***Factors Affecting Value***

In addition to market fluctuations there are a number of factors that impact on the value of a business these include:

- Type of Income
- Profit Margins
- Stability
- Competitive advantage
- Industry Lifecycle
- Reliance on owner operator

However, at this time the dominant factor in the market appears to be the market itself. There is an oversupply of businesses for sale, and most of the potential buyers are underfunded.

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Acknowledgement

David Bird is the Chairman of BizExchange an independent marketplace for the buying and selling of privately owned businesses in Australia. [www.bizexchange.com.au](http://www.bizexchange.com.au)

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### ***Breakout Box***

More information on business valuation methods is available from the [Bendigo Bank Reference Sheet: Business Valuation Methods](#), and from the website [www.valuemybusiness.com.au](http://www.valuemybusiness.com.au)