



# The BizExchange Index

**AUSTRALIAN PRIVATE BUSINESS VALUES**  
**JUNE QUARTER 2009**  
**CONCISE EDITION**

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Detailed reports are available on business values for specific industries and specific business size and also in the Professional edition of the BizExchange Index. These publications can be purchased from:  
[www.valuemybusiness.com.au](http://www.valuemybusiness.com.au)

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WHERE KNOWLEDGE IS POWER



## Bill Facility

Usually a term facility, i.e. 1 year, 2 years or 3 years. Use as required for medium term working capital financed by 90 day, 120 day or 180 day bank bills.

Interest rate varies with short term money market rate each time a bill is discounted.

The bank charges an interest margin over the Bank Bill Rate (BBR) depending on the risk status of the borrower.

Banks charge a per annum line fee as a percentage of the loan facility and interest on funds drawn.

Every time a bill is drawn in effect a new loan is established and when it matures, the principal amount of the bill is repaid.

Bills are 'discounted' – i.e. the interest is deducted up front from the principal amount advanced.

Bills are used generally by companies which have intermittent regular working capital requirements e.g. property developers making progress payments under building contracts.

A bill facility is often part of a long term loan package of larger companies comprising a fully drawn loan, overdraft and bill facilities.

### Services

Overdraft

Bill Facility

Term Loan

Debtor/Invoice Finance

Factoring

Trade Finance

Convertible Notes

Equipment Finance

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### Business Loans Made Easy

Use our simple three step process to find and apply to all major banks all you need is just one application form.

How Much?

What Purpose?

What Industry?

Any Security?

### Business Loans Online

One Application - Many Lenders

BizExchange understands that whether you are buying or selling a business, business financing is a likely consideration. We also know that finding the right person at the bank to deal with your issues is not always as easy as it should be.

This is why we have established relationships with a range of financial providers so that you can complete one form and have it received by the right person at each of the institutions you have nominated. Not only that, we know their lending criteria, so we will only present you with the banks that are prepared to consider your application.

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[www.bizloans.com.au](http://www.bizloans.com.au)

### About BizExchange

BizExchange provides an independent, confidential online marketplace for business owners and advisors to buy and sell, (full or partial) businesses. Established in 2006, BizExchange's Founding Members include: KPMG, William Buck, Jamieson, FINH, Fordham Wealth, and Lloyds Business Brokers. BizExchange is supported by CPA Australia and IBISWorld.

BizExchange is cost effective, listing a business for sale or investment costs less than half the price of an advert for a single day in a national paper and lasts for as long as it takes. Those looking to buy or invest in business can register with BizExchange and set up alerts free of charge.

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IBISWorld is Australia's richest source of business information. We provide independent, accurate, comprehensive, and up to date research on over 500 industries, including statistics, analysis and forecasts. We also have reports on Australia's top 2000 companies and Risk Rating Reports on every industry detailing the factors affecting the operational risk including industry structure, growth and external sensitivities. If you are looking to buy or sell, whichever industry IBISWorld has all the information to help you make better business decisions.

For more information visit  
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or call (03) 9655 3881

### Further Information

The BizExchange Index is published quarterly. This will ensure that the valuations are up to date, and also enable ongoing analysis of trends in valuation across various industries.

This report can be downloaded from  
[www.bizexchange.com.au](http://www.bizexchange.com.au)

# 1. The BizExchange Index

## 1.1 Introducing the BizExchange Index

One of the major impediments to private business sales in Australia is the hidden nature of the market. BizExchange is increasing the liquidity and value of private business by:

- Raising awareness of the market, and facilitating access to business opportunities through listings on its online marketplace – [www.bizexchange.com.au](http://www.bizexchange.com.au)
- Raising awareness of business values through the publication of the BizExchange Index and the website [www.valuemybusiness.com.au](http://www.valuemybusiness.com.au)

All too often buyer and seller, investor and equity raiser have unrealistic expectations of business values. By publishing the quarterly BizExchange Index we hope that current and potential owners will approach future transfers of ownership with more realistic expectations.

The BizExchange Index is generated from actual vendor data as well as the collation of expert opinion. Values are only included where sufficient data is available.

The BizExchange Index is applicable to over 95% of businesses in Australia.

The BizExchange Index is published quarterly. This ensures that the valuations are up to date, and also enables ongoing analysis of trends in valuation across various industries.

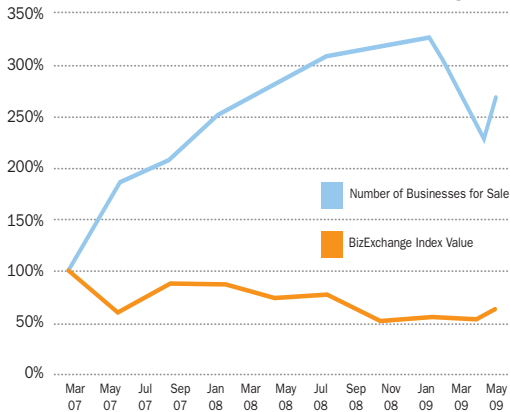
The BizExchange Index provides a guide to business values based on the earnings multiple for industries and business size. However other factors need to be considered when assessing an individual business. Some of the important factors are:

- Type of Income
- Profit Margins
- Stability
- Competitive Advantage
- Industry lifecycle
- Reliance on owner operator
- Market Fluctuations

A number of these will be more or less important depending on the specific industries and organisations.

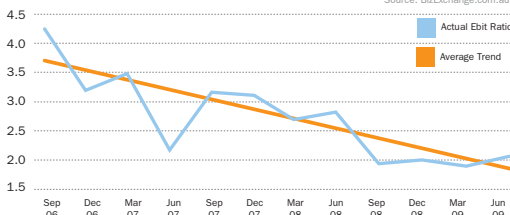


### Volume and Values Trend

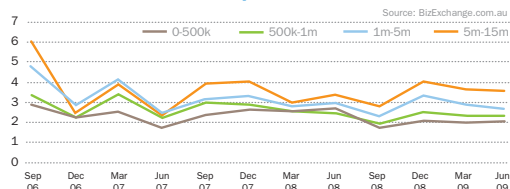


Note: It is worth noting that the prices in the June 07 Quarter were significantly affected by the June 30 2007 deadline for large lump sum superannuation contributions.

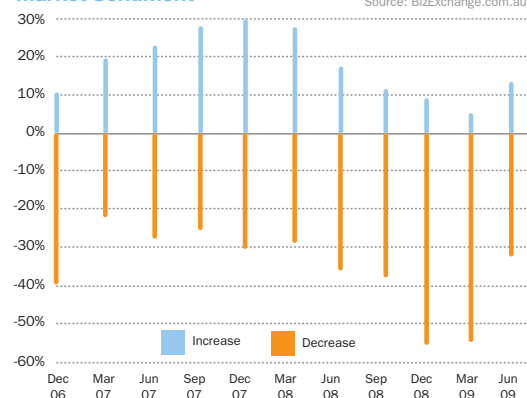
### EBIT Ratio's Over Time



### Business value as multiple of EBIT



### Market Sentiment



## 2. Key findings for the June Quarter 2009

1. The market in the June quarter has come back to life after being effectively frozen early in the year. There was a substantial increase in the number of listings after the dramatic drop in the previous quarter.
2. The ongoing refusal of business owners to sell at anything lower than current prices continues to provide a floor in Private Business prices. With prices holding relatively steady over the last 3 quarters despite substantial variations in volume.
3. The growth in the volume of businesses listed for sale in Australia has risen again after the sudden drop last quarter. This is reflected in the graph to the left.
4. The overall market trend of declining values continues with some fluctuation between quarters resulting from variations in the type and quality of businesses on offer.
5. The value of businesses continues to be aligned with turnover across all industry sectors.
6. The number of businesses advertised for sale for less than a year's earnings continues to increase. This reaffirms a longer term trend that had business sales at these low multiples first seen just over 2 years ago.
7. The number of businesses listed for sale with a turnover of greater than \$5 Million has decreased dramatically in the last two quarters. This is evident in the dramatic decrease in the number of industries for which there was sufficient data to calculate an index value in this price range.



### 3. Trend Analysis



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. From March 2007 to September 2008, business values in many sectors almost halved due to an oversupply of new listings combined with worsening business conditions. However the last nine months have seen a reduction in the number of listings and relatively stable values. So it appears that there may be a floor in business values which will prevent them falling significantly further.

The number of businesses advertised for sale has increased again, although it is still below the peak. This follows a fall of nearly 33% in the March quarter. Anecdotally this appears to be due to business owners' reluctant acceptance that current prices may continue for some time. The impact of the global financial crisis has had relatively little impact on business prices, particularly in comparison to impact of the generational shift in business ownership from Baby Boomers to the younger generations.

The volume of business owners considering putting their business up for sale is expected to continue to increase in the medium term as the number of baby boomers entering retirement increases. It will be interesting to see how long some of these business owners are able to delay the sale of their business, or whether they are simply closing their businesses without selling.

The actual market value of businesses is likely to be less than that published as 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 has been a significant improvement in market sentiment, with less people predicting a decrease, and more predicting an increase, the majority of buyers and sellers are predicting pricing to continue at current levels. However the net sentiment is still predominantly negative with far more people predicting prices will fall than those predicting prices will rise.





## 4. Commentary

Prior to the global financial crisis, BizExchange 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 would result in businesses either taking longer to sell, selling for less money, or both. While many expect the global financial crisis and the related credit crunch to accelerate this prediction, to date all it appears to have done is temporarily frozen the market during the March Quarter. With the market coming back to life during the June Quarter, prices have remained relatively steady.

This is because there is a price point at which a retiring business owner would rather not sell the business than sell it for less than they believe it is worth. So while there is little doubt that there are businesses for sale at historically low prices, and any business forced to sell at this time will find the going tough – the over-riding sentiment of business owners is that they would rather obtain their retirement income by working longer, than selling out. This is effectively putting a floor under the market.

Potential buyers are once again able to raise sufficient capital to fund the purchase of a business, however the lenders are likely to be looking for more stringent due-diligence, and strong balance sheets in the targeted business. Subsequently businesses will need to be in good health with well maintained and presented accounts if they are to obtain premium prices.

The small business owner is likely to be reliant on selling their business to an owner operator. With Gen X and Gen Y unable to access their superannuation savings to purchase their own business, and already heavily in debt due to high housing prices, funding of the business purchase is going to be an ongoing issue.

Another factor beginning to impact on business sales is the possible implications of a slower economy on future revenue projections. In a buyer's market this directly translates into lower prices as the EBIT ratios will be calculated based on future rather than historic earnings. This is also likely to increase the number of sale transactions involving an "earn-out".

The very strong expectation in the market for further falls in prices and the apparent floor in business prices are currently at odds. In December we predicted that this would result in reduced transaction volumes until the market adjusts to a new norm. This was clearly evident in the March quarter as the volume of listings and transactions fell away while prices remained steady. With the volume of businesses listed for sale increasing again it will be interesting to see how long the current prices will be maintained.



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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 the majority of them are postponing retirement plans until the market improves.

A growing awareness and acceptance of EBIT multiples as a valuation method and the exclusion of property from sales figures is making the numbers more consistent. However, the treatment of owner salaries remains problematic for micro businesses. Particularly as they are trying to compete with franchisors for potential buyer attention and franchisee incomes usually include salary.

It is pleasing to see that a wider variety of businesses are listing as going concerns. Retail and hospitality businesses continue to be over represented as these industries have traditionally had higher churn rates, with some businesses changing owners several times in a decade. In contrast a professional consultancy may be sold once in a lifetime. With this in mind it is perhaps not surprising to find that the most under represented industry segment is Business Services - just 4% of listings whilst representing 25% of all businesses.

It is expected that over the longer term the number of businesses for sale will continue to grow, and that the variation in pricing (as a multiple of EBIT) will continue to converge.

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*advertise in the newspaper...*

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