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Why use a Business Broker?

Selling or buying a business is one of the biggest decisions a business person can make. Much more complex than selling a house, transfers of business ownership demand considerable time and effort. Usually, business owners are so busy with their daily operations that they are not able to expend the time and effort necessary to sell their business for a reasonable price. All too often, the owner who attempts to sell his own business ends up with much less than it is actually worth, or worse, cannot sell it at all.

This is where the business broker steps in. A business broker represents the seller and arranges the sales transaction: assessing the value of the business, packaging, marketing, qualifying buyers, negotiating and closing the deal.

Selling a business can be a complex and emotional process. There are countless issues that can arise from marketing your business, valuing your business, negotiating the terms and price, structuring the transaction, understanding important legal and tax issues and maintaining your confidentiality.

Even multi-million dollar business owners would prefer to utilise the service of ACI not because larger transactions are more complex, but rather because of the inherent value, peace of mind and confidence in having an objective, third-party advisor directing and completing the sale process smoothly and professionally.

A lot of studies in the US and Australia had shown that using a good business broker will not only increase the likelihood of a successful transaction, but also achieve a better price for your business due to the fact that Business Brokers market and present your business more professionally and to a larger number of potential buyers.

The difference between ACI and the other brokers is that we have the best professional business brokers in Queensland. Many of our staff members have specialised expertise in a number of industries. We provide more personalized service with high standards of professionalism.

Valuation:-

There are number of valuation methods used by experienced business valuers and accountants. Vendors should seek their professional advice in valuing their businesses.

There are 2 common valuation methods:

- Capitalization of Income Valuation
- Multiplier or Market Valuation

Valuing a company is hardly a precise science and can vary depending on the type of businesses. In general, the value of the business will rely on an analysis of the company's cash flow. In other words, its ability to generate consistent profits will ultimately determine its value.

Capitalization of income valuation method
This valuation method uses adjusted * net profit before tax divided by an appropriate "capitalization rate" to determine the value of a business. The difficulty about this method is in choosing the appropriate "capitalization rate". There are a number of factors that valuers take into consideration in determining the "capitalization rate" and they are:

- Owner's reason for selling
- Length of time the company has been in business
- Length of time current owner has owned the business
- Degree of risk
- Profitability
- Location
- Growth history
- Competition
- Entry barriers
- Future potential for the industry
- Customer base
- Technology

This method is rather complex and difficult for the vendors to apply. It is best used for non-asset intensive businesses like service companies as this method places little value on fixed assets such as plant & equipment.

Multiplier or market valuation method
This approach uses an "industry average" sales or net profit before tax figure as a multiplier. This industry average number is based on what comparable businesses have sold for recently. Gross sales multiples are sometimes used for a quick estimate. Whereas Earning or Cash Flow Multiples are more accurate methods.

<u>Earning Multiples Rule of Thumb</u>

Business brokers often use Adjusted Earning Multiples Rule of Thumb that applies for different industry categories. You may wonder what adjusted earning means? Here in Australia, it means 'normalized' (i.e. maintainable) net profit before tax but after the following adjustments:

1. Add-backs: Interest, depreciation, amortization, extra-ordinaries and/or abnormal, any private expenses such as owner’s superannuation, motor vehicles, insurance, mobile phone, etc, owners' wages and over-stated rental.
2. Deductions: Comparable manager wages and understated rental.

Most small businesses in Australia sell in the multiple range of 1-2 times adjusted net profit before tax. There are some industries that tend to sell at higher multiple such as child care centers (approx 4 times), news agencies (approx 3-4 times), post offices (approx 4-5 times), and management rights (approx 4.5 times). There are situations where businesses sell at higher than their own industry norm multiple for a number of reasons:

1. Businesses that are under management
2. Businesses that have less than 5 working days
3. Businesses that are under a franchise or licenses
4. Businesses have some form of exclusivity, licensing right and/or territorial protections

However vendors and buyer should note that there are also circumstances when businesses do not sell near the industry average multiples because:

1. The earnings have been highly volatile or in a downward trend
2. The lease is about to run out and there is no option for renewal
3. The business is reliant on the special skill or reputation of the vendor
4. There was no active market for the business, in which case a buyer may pay a price which could be considerably above or below the norm, depending on the particular circumstances of the buyer.

If there are any questions you might still have, please call the office and one of our friendly broker will be more then happy to clarify it for you.