



'A word in your ear' with Neil Barker

Each month Neil Barker, our Managing Director, will be touching upon some of the most current issues in business broking and offering some of his expertise.

It's that million dollar question: "what is the value of my business?"

For most of us business owners, the question of "I wonder how much my business is worth?" is never far from our minds. We should all be aware of our businesses value - this is what enables us to work towards the end goal of an eventual sale; after all there will come a time when we need to provide for the 'other things' we enjoy.

As with everything, the method of valuing a business comes in many shapes and sizes. When valuing your business we use three different methods, all of which tend to equate to the same answer. Obviously various exceptions do exist, such as if you have exceptionally large stock inventories, or a large and valuable chattel list to operate the business. For the most part, we stick to a multiple on EBPIDT, roughly translated as: Earnings Before Proprietor's Income, Interest, Depreciation and Tax.

Why is this method used? Because every business is unique and most buyers of small businesses / working-owners want to know how much they are going to earn when they work in the business.

So, I hear you all holler - "what is mine worth?" Well this depends on many variables - however, as a rough guide if you have a business operating in the highly-sought after import/distribution industry, with an EBPIDT return of \$200,000 you are looking at a multiple of approx 2.5x - and if

the same business returns \$500,000 then your multiple will grow to 3x. Taking this further still, if the business returns \$1,000,000 then the multiple can be as high as 4.0 - 5.0x. On the other hand, if you have an automotive workshop or any other trade related business where the owner is the main income earner pulling in around \$200,000, then the multiple will be around the 1.0 - 1.5x EBPIDT.

As with any sale, there are many different factors that can make your business more saleable - and may also result in a higher asking price... I think you'll agree that an easy sale is always the preferred option! Let's take a minute to explore of a few of these:

Historical Profit: Does the business have a negative to break-even cash flow or a large, positive cash flow?

Business Type: A key point! A service business with few assets will lower the value vs. a business where the assets are a major component of the sale

Business Growth: Obviously a business with dynamic growth and great potential will be more appealing than a business in the flat-growth or declining stage

Location & Facilities: A desirable and superior location will add value to the business.

Competition: Operating a business in a highly competitive, unstable market will decrease the value - a business with entry barriers and high start-up costs will limit the chance of further competition.

Industry Growth: Is it flat and declining or on the up?

Goodwill Transferability: Businesses with customers who identify

with the company rather than the owner will obtain a higher price.

Employees: Any business that has a small pool of qualified staff that is heavily relied upon poses a risk - a business with plentiful labour and no key personnel is highly desirable.

Income Risk: Is there regular, assured profitability or does the income fluctuate?

Marketability: Is the market limited for the business, or is it bustling with many qualified buyers?

What I would recommend is talking to a good broker who understands all of the above and where your business sale fits. A decent business broker will get your business prepared for a sale - a broker can give you tips on how to make your business more attractive to that prospective purchaser and ensure all the necessities are lined up prior to taking it to the market.

I cannot stress how important it is to ensure everything is in place because make no mistake, any white lies or discrepancies always rear their ugly heads at some point. Be 100% honest with your broker, give them all the details you can and let them decide how best to sell.

Take it from me, this comes with experience. Before becoming a broker myself I tried tirelessly to sell my business for two years - to no avail. Once I got the professionals in, the business was off my hands and sold within 3 months. A good broker will always pay for themselves...