

STATE OF THE MARKET REPORT

2017/2018

THE GMO STORY

GMO, Perth's largest business broking house was founded in 1984 when Graham O'Hehir and Jim Goodwin realised Perth would benefit from a specialist Business Broking House to present businesses for sale in a professional and comprehensive manner.

They assembled a team covering all the popular small and medium sized business categories to offer a specialist broker in each area of industry expertise.

Graham had a banking background and Jim a retail and hospitality background, and most importantly, they both had strong accounting and economics experience.

BUY A BUSINESS

GMO'S BUYER SERVICES:

One of the great advantages in purchasing a business through GMO is that our team of brokers are 'business experienced' – having either owned or operated businesses ourselves.

Our team can profile your needs and purchase criteria and cross match to prospective opportunities, which we then present to you for consideration.

Your decision to buy a business is one of the most exciting and important decisions you will ever make. Be assured we understand this and we will do our utmost to ensure you're given a clear, open presentation of any business that you should be interested in.

The business you buy has to be one you will enjoy running. It must match your interests, skills, income expectations, lifestyle and budget.

- ✓ Assisting Buyers in searching for the "right" business
- ✓ Answering Buyer questions and arranging site visits
- ✓ Assisting Buyers in constructing an offer and negotiating a fair price
- ✓ Assisting Buyers during due diligence and up to settlement
- ✓ Offering efficiency and growth consulting
- ✓ Introducing Buyers to professionals such as accountants, lawyers, stocktakers, finance brokers and conveyancers

Success was immediate, resulting in the firm moving to more substantial West Perth premises in 1991 to become the largest business brokerage and valuing service in WA.

GMO has transacted thousands of small and medium sized enterprises in a wide variety of industries, ranging in value from micro businesses of \$100,000 to larger businesses up to \$15 million dollars.

STATE OF THE MARKET REPORT

As an indication of the level of expertise in our team, GMO produces an annual 'State of the Market' report on business sales in Western Australia.

This guide is considered to be the 'bible of the industry'.

SELL YOUR BUSINESS

GMO'S SELLING SERVICES:

Our philosophy to business sales is that we aim to sell your business for the highest possible price in the shortest realistic time frame and with the utmost confidentiality.

- ✓ Appraising your Business
- ✓ Accurately identifying the tangible and intangible assets of the business
- ✓ Identifying the future maintainable earnings
- ✓ Setting the right price
- ✓ Compilation of a business information profile with all relevant data
- ✓ Target marketing to attract suitable Buyers
- ✓ A pro-active Broker and Seller relationship
- ✓ Negotiating the sale
- ✓ Assistance with Due Diligence
- ✓ Assistance with settlement and handover procedure

TALK TO GMO...

Please make the most of our expertise. We look forward to helping you convert your successful business into cash proceeds which will enable you to build wealth and give you an exciting and rewarding future.

Graham O'Hehir
Managing Director



STATE OF THE MARKET 2017/2018

Category	Buyer Demand	Typical Approx. Total Sale Price	Nominal Owner Operator Net Profit	Approx. Return on Investment	Nominal Net Profit Under Management *	Approx. Return on Investment *	State of the Market
Accountancy Practices (Large)	Strong	75c - 115c in \$	N/A	N/A	N/A	N/A	Continuous buyer demand from expansion practices. Opportunities becoming available as baby boomers contemplate their exit strategy. Join GMO's Accountancy Practice BUY/SELL/MERGE REGISTER. Contact Graham O'Hehir.
Accountancy Practices (Small)	Strong	60c - 105c in \$	N/A	N/A	N/A	N/A	Small tax return fee packages & bookkeeping fees sell at a discount to high net wealth management fees.
Bars (Small)	Light	\$300,000	\$150,000	45% - 55%	\$50,000	15% - 20%	Not as rowdy as a pub, nor as fickle as a restaurant. A manageable licence limit of 120 people. Demand has steadied somewhat – small bars are no longer the "flavour of the month". Larger bars are more sought after.
Bars (Large)	Light	\$565,000	\$250,000	40% - 45%	\$150,000	20% - 30%	
Bakeries (Speciality Franchise)	Light	\$275,000	\$150,000	45% - 70%	\$50,000	12% - 18%	New potential franchisees emerging due to weak employment market.
Book Stores	Weak	\$300,000	\$160,000	50% - 60%	\$50,000	10% - 20%	Amazon.com competition erodes book store market share.
Boutiques	Weak	\$200,000	\$150,000	70% - 80%	\$50,000	20% - 30%	Dozens to choose from including some excellent businesses. Market usually resistant to paying goodwill. Online competitors a threat.
Cafés - 5 day	Good	\$400,000	\$200,000	40% - 60%	\$100,000	20% - 35%	In solid demand. Premium on 5 days. Quality presentation a must.
Cafés - 7 day (Small)	Good	\$200,000	\$100,000	50% - 60%	N/A	N/A	Shopping centre cafés experiencing patchy demand. Shopping centre leases a difficulty, but values strong for trendy upmarket suburban locations.
Cafés - 7 day (Large)	Good	\$450,000	\$200,000	40% - 50%	\$100,000	20% - 25%	
Caravan Parks (Freehold)	Good	\$3,000,000	\$450,000	12% - 18%	\$350,000	11% - 15%	Coastal locations popular. For inland locations - look for high returns. Interest shown by developers. Highest and best use of land may not be for a Caravan Park. Very few available - numbers are diminishing.
Caterers	Light	\$300,000	\$200,000	55% - 75%	\$100,000	30% - 35%	Industry insiders reluctant to pay goodwill.
Child Care Centres Leasehold (Large)	Strong	\$1,400,000	\$300,000	20% - 25%	\$200,000	12% - 16%	Strong demand from national industry players. Smaller centres selling well. Centres with freeholds highly sought after.
Cleaning Businesses (Large)	Light	\$455,000	\$250,000	40% - 70%	\$150,000	30% - 35%	Large contractors of interest to corporate buyers. Continuous struggle for good staff a factor. Controlling legal wage costs an issue.
Consultants	Selective	Variable	\$140,000	Variable	\$40,000	Variable	Sell for 10 - 50 cents per dollar of gross fees.
Country Hotels (Leasehold)	Light	\$360,000	\$160,000	50% - 60%	\$60,000	Variable	Country pubs need to balance bottle shop trade with a strong food trade to achieve good profits.
Country Hotels (Freehold)	Light	\$1,000,000	\$160,000	15% - 25%	N/A	Variable	
Drycleaners	Light	\$200,000	\$120,000	50% - 70%	\$20,000	8% - 12%	Buyer interest is light but these are solid businesses.
Fast Food (Large)	Light	\$365,000	\$200,000	50% - 70%	\$100,000	25% - 33%	Quality business more likely to sell. Availability of labour/staff improving. Weekend penalties still an issue.
Food Hall Businesses	Light	\$200,000	\$130,000	50% - 80%	\$30,000	12% - 18%	High fit out costs are a challenge and hard to recover when selling.
Hairdressing Salons (Large)	Light	\$400,000	\$250,000	60% - 70%	\$150,000	35% - 45%	Too many outlets to easily justify strong goodwill unless the outlet is large with a big team.
Management Rights (Resorts)	Good	\$1,200,000	\$500,000	30% - 40%	\$150,000 - \$200,000	30% - 35%	Management rights are under-estimated and misunderstood business. Great combination of life-style and low overhead business model makes them a business to be considered.
Lotto Kiosks	Light	\$450,000	\$225,000	45% - 55%	\$125,000	25% - 35%	Businesses which appeal to business migrants. Demand is lessening as consumers trends towards online play.
Lunch Bars	Light	\$170,000	\$120,000	60% - 80%	\$20,000	10% - 15%	Steady sellers often good value for money.
Manufacturing (Small)	Moderate	\$560,000	\$270,000	40% - 60%	\$170,000	28% - 33%	Quality purchasers available for \$1m+ businesses. Smaller manufacturers in some demand from business migrants.

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Manufacturing (Large)	Moderate	\$2,500,000	\$1,000,000	35% - 45%	\$900,000 under management	30% - 40% EBITDA 2.6-3.3	Demand from listed public companies easing. Resource boom ending causing order books to be only half-full.
Mechanical Workshops	Light	\$250,000	\$170,000	60% - 90%	\$70,000	25% - 35%	Buyer demand strengthening as ex FIFO workers looking to buy businesses
Motels Freehold (City and Country)	Strong	\$2,000,000	\$330,000	14% - 20%	\$230,000	9% - 14%	It is still difficult to market motels away from the coast. Broome and Margaret River still competing with cheap Asian airfares.
Newsagencies (Large)	Weak	\$800,000	\$350,000	40% - 50%	\$250,000	30% - 35%	A surplus of stores for sale. There are fewer buyers and a premium can no longer be justified.
Newsagencies (Medium)	Weak	\$300,000	\$170,000	50% - 60%	\$70,000	20% - 25%	Many outlets available.
Online Businesses	Increasing	\$300,000	\$100,000	30% - 40%	N/A	N/A	It's all about maximising the potential. If the concept is good a sale is possible. Some buyers are bundling multiple websites.
Post Offices	Light	\$400,000	\$180,000	40% - 50%	\$80,000	15% - 25%	Package mail growing due to delivery of online goods. Consumer habits changing.
Professions - Accounting	Good	60-115c in \$	N/A	N/A	N/A	N/A	Strong continuing demand.
Professions - Lawyers	Light	0-25c in \$	N/A	N/A	N/A	N/A	Occasional demand
Professions - Doctors	Moderate	0-25c in \$	N/A	N/A	N/A	N/A	Steady demand
Professions - Vets	Strong	60-90c in \$	N/A	N/A	N/A	N/A	Strong demand from ES Public Listed Vet companies
Professions - Insurance Brokers	Light	100-250c in \$	N/A	N/A	N/A	N/A	Will superannuation eventually replace need for life policies?
Professions - Mortgage Brokers	Moderate	150-250c in \$	N/A	N/A	N/A	N/A	Banks continue to squeeze mortgage brokers margins. ASIC review of mortgage sector complete.
Professions - Financial Planners	Light	2% to 3% *	N/A	N/A	N/A	N/A	FOFA legislation now stabilised, some future doubts remain. * this means 2-3% of total funds under management
Publishing/Printing (Medium)	Moderate	\$800,000	\$450,000	50%-60%	\$350,000	40%-50%	Growing interest from industry managers. Retirement of old owners is consolidating the industry.
Publishing/Printing (Large)	Moderate	\$1,800,000	\$900,000	45%-55%	\$800,000	40%-50%	
Real Estate - Property Management (Residential)	Moderate	2.3 - 3.1	Variable	Variable	Variable	Variable	Sell on a multiple of net management fees. Slowing population growth reducing buyer desire to pay previous high multiples. Vacancy rates, lower rents and landlord contact expiries also determine sale multiples.
Real Estate - Property Management (Commercial)	Moderate	1.8 - 2.2	Variable	Variable	Variable	Variable	
Recruitment (Medium)	Light	\$1,000,000	\$500,000	40% - 55%	\$400,000	40%	Corporate and industry demand has lightened. Buyer interest for financial/executive firms and health care sectors.
Recruitment (Medium Plus)	Light	\$3,000,000	\$1,200,000	33% - 45%	\$1,100,000	30% - 35%	
Resource Services	Selective	\$2,000,000	\$1,000,000	45% - 55%	\$900,000 under management	40% - 50% EBITDA 2.0-2.5	WIP an issue to consider and tender competition is fierce.
Restaurants (Casual Dining)	Weak	\$150,000	\$100,000	65% - 75%	\$50,000	25% - 40%	7 day/night restaurants are physically demanding and have a "burnout factor". Staff issues and penalty rates are a big issue.
Restaurants (Large Casual)	Weak	\$350,000	\$200,000	55% - 65%	\$100,000	25% - 35%	
Retail (General)	Weak	\$260,000	\$170,000	60% - 90%	\$70,000	23% - 33%	Shopping centre leases a problem area. Consumers shopping online?
Supermarkets (Large)	Light	\$1,500,000	\$500,000	30% - 40%	\$400,000 under management	25% - 33% EBITDA 3.0-4.0	Aldi expansion into WA an issue. Top operators looking for strategic bargains.
Supermarkets (Small)	Weak	\$600,000	\$275,000	40% - 50%	\$175,000	25% - 35%	Migrant community showing interest.
Transport Businesses (Small)	Light	\$135,000	\$100,000	60% - 90%	N/A	N/A	Some demand for trucks with written contracts netting \$130k+. Join the GMO Transport BUY/SELL REGISTER. Call Tony Batista
Travel Agencies (Small)	Weak	\$100,000	\$90,000	90% - 110%	N/A	N/A	Occasional buyer activity. On line self-service consumer activity, a growing threat to travel agents. Cruise line travel agents are doing well
Travel Agencies (Medium)	Weak	\$240,000	\$180,000	60% - 80%	\$80,000	30% - 35%	
Travel Agencies (Large)	Weak	\$400,000	\$280,000	65% - 75%	\$180,000	40% - 50%	
Wholesale (Large)	Selective	\$2,500,000	\$1,000,000	35% - 45%	\$900,000 under management	30% - 40% EBITDA 2.5-3.0	Strong interest from Eastern state operators seeking a footprint in WA market.
Wholesale (Small)	Selective	\$700,000	\$300,000	35% - 50%	\$200,000 under management	25% - 35% EBITDA 3.0-4.0	Still in demand. Business migrants still active. Firms with quality agencies and contracts sought after.

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ABOUT THIS REPORT

Our Market Review compares the current prices for a range of industries in general market terms only. Please be aware that these figures are only a guideline and are based on sales in the Perth market. Professional advice should always be sought before putting a price on a particular business. Goodwin Mitchell O’Hehir & Associates (GMO) disclaims responsibility for any specific circumstances.

* **Nominal Salary** of \$100,000 per annum allowed for manager or the proprietors labour, in all examples resulting in lower return on investment for an under management operation. Buyers and accountants should adjust management salary to suit the individual business under review. In some industries a manager costs more than \$100,000 and in others less than \$100,000.

***Return on Investment (%)** = Net profit before tax divided by purchase price, times 100.

IMPORTANT FACTORS WHEN BUYING: CRITERIA THAT INFLUENCE GOODWILL & PRICE

GMO believes it is important for you to ensure the business of interest matches your lifestyle criteria as well as “measuring up” in respect to the ‘business performance’ you require.

Please consider some following points of measurement:

1. Length and history of business
2. Net profit stability and gross profit trend-lines
3. Reasons for variations in sale levels
4. Stability and quality of staff
5. Performance of business compared to peer group
6. Diversity of customer base
7. Diversity of products and services
8. Data base size and quality
9. Systems and manuals of the business
10. Strategic location of the business
11. Licences or franchises held by the business
12. Quality and efficiency of “Stock Turn” patterns
13. Cash flow requirements
14. Premises Lease rent, length and conditions
15. Barriers to entry
16. Strength of exclusivity (unique buying proposition)
17. Technology opportunities for the business
18. Supplier diversity
19. Preferred supplier status
20. Supplier contacts held
21. Government panels and tender qualifications held
22. Government approved licenses held
23. Brand equity
24. Social media exposure and rankings
25. Foreign exchange risk
26. Intellectual property

An intelligent Buyer will consider all these points and more. They can then compare more than one business and find the “ONE” which not only suits their lifestyle criteria, but also passes this point test with flying colours!

Your GMO Broker can provide you with an assessment matrix to complete on all the business you consider- so remember, you can profit from our experience!

Contact GMO, WA's Business Broker

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