

Australia's secret pots of gold

Small business Trends Franchising

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Matthew Tallent: selling his business for a song.

There are thousands of small businesses on the market at bargain basement prices. But with the economy improving, the window of opportunity to pick up an enterprise at a drastically reduced price is closing fast.

Matthew Tallent is one business owner who knows only too well how flat the market for business sales is. With a swag of businesses to manage he had to make a decision: keep running them all or focus on one or two to give them the attention to let them fly.

Tallent decided on the latter strategy, and so put one of his businesses, café and play centre Huny Joys, in Rosebud West in Victoria, on the market.

Once he'd made his decision he was keen to move the process along, and so advertised his business for substantially less than its market value. Tallent initially advertised it for \$80,000, but says the enterprise's real value is \$120,000. Some time later, keen to generate a quick sale, he dropped the selling price to just \$39,000. He says it expects to turn over \$140,000 this year.

Whoever picks it up and is prepared to market it and build it up – Tallent sunk \$90,000 into a new fitout last year – is getting an absolute bargain. He also implemented new systems to make it easy for a new person to come in and run the place very easily.

The Huny Joy story is hardly unique. Check on any of the popular business for sale websites such as Business for Sale and realbusiness.com.au and you'll find thousands of businesses for sale right now for a substantial discount to their real worth. Many are selling for the same amount they generate in revenue each year or less, whereas prior to the financial crisis they may have fetched up to six times this amount.

Many of these businesses might not be especially sexy. But for the right owner they have the potential to be an incredible goldmine.

Brad Callaghan, a director of accountants and business advisers Callaghan Partners, says baby boomers have contributed to the flood of businesses for sale, which has helped change valuations.

"Baby boomers flooding the market with their businesses has meant more choice for purchasers."

Zoran Sarabaca, an associate with Xclusive Business Sales, says valuations for businesses are depressed because changes in banking policies have made it harder to borrow money to buy a business.

“The inability to raise finance has reduced the number of potential buyers, which has a flow-on effect on demand and valuations. To combat this, sellers are more open to structured sales, earn-outs and vendor finance,” Sarabaca adds.

Another reason prices are so low is because buyers are doing more thorough due diligence and making decisions based on a risk analysis, rather than on the business's potential.

Small businesses also tend to be undervalued because owners don't realise what they're sitting on.

“A small building company may have a successful business that has been operated for many years. But the owners think when they stop, that's it, and the business is worth nothing without them in it. But many builders have repeat custom, and this is the key to the valuation of the business,” says Drue Schofield, a director of 4Front Accountants.

“If they can successfully transition their ownership and all things necessary to continue the business to the next generation, or to a key employee, there is absolutely no reason why this business would have a zero value.”

But don't expect the fire-sale of small businesses to continue indefinitely. There are already signs the market is picking up. According to Craig Hong, a partner with legal firm Hillhouse Burrough McKeown, some buyers are starting to recognise that buying a small business can offer access to markets that complement a larger existing business.

“Those small businesses are often able to negotiate very good prices. We saw a lot of smaller health care and dental practices negotiate great deals in 2013. As the market starts to pick up on the value small businesses can offer, we will see more being acquired by larger businesses, which should see some overall increase in values,” he adds.

But ultimately, as Callaghan points out, a business is only worth what a purchaser is willing to pay. Nevertheless, there are steps owners can take to make an enterprise as attractive as possible to potential buyers.

“A solid business with clean financials will always be worth a premium compared to a business that doesn't present as well,” he says.