**EP 127 Market Trends in Business Sales transcript**

**Joanna** [00:00:24] Hi, it's Joanna. Oakey here. And welcome back to The Deal Room Podcast, a podcast proudly brought to by our commercial legal practice Aspect Legal.

[00:00:33] Now, in today's episode, we are speaking to Denise Hall, who is from Xcllusive Business Sales Melbourne. Denise is here talking to us today all about the current market trends that she is seeing through Xcllusive in Melbourne in their client's space of clients who are in the SME space of up to about 10 million in revenue.

[00:00:56] So we're talking to Denise today about these current market trends, about what they're seeing in terms of industries that are hot at the moment in the market and industries that they're seeing really potentially struggling. We also talk a bit about the concept of business owners coming in at that point of exit and being disappointed by sale value. We talk a little bit about what that means in terms of forward planning for business owners and how that potentially has changed over time. So buckle in. Here we go. Let's talk to Denise.

[00:01:35] Denise, hello. Welcome along to the Deal Room Podcast.

**Denise** [00:01:39] Thank you very much for having me.

**Joanna** [00:01:40] Absolutely fabulous to have you onboard, Denise. Okay.

[00:01:43] So today we're talking about current market trends and particularly Melbourne where you're based. So maybe hit us with Denise. What are you seeing at the moment in the market? And I guess I just want to clarify, when we're talking about the market, we're talking here about sort of businesses who are in the sub 10 million dollar space. So we're talking about the SME market.

**Denise** [00:02:08] Absolutely.

**Joanna** [00:02:09] So what are you seeing, Denise?

**Denise** [00:02:10] Well, what we're seeing is that there seems to be a certainly retail is taking a hit. There's no surprise there. And even other businesses that are coming to us, I guess part of my question live is for every business owner to have some sense of what their businesses worth on the way through, rather than just trying to find out at the end then when they come to speak to us, because unfortunately what's happened is, is that when they do come and have an appraisal done around salability and as tempting to do that in the short term, most of them are not liking the answer. And so the question then is what can you do about it and what time do you have? Right. Because typically a business owner kind of got three reasons why they're looking to sell. Generally speaking, one would be payday. You know, how much money do I get? One would be freedom. And how important freedom is in its health is a concern. And freedom is really, really important. And then the other party's legacy, legacy around some businesses. Does it matter if I continue? Maybe not so much where others have a deep history. They have a lot of clients they look after. It's important that they continue. And so to not contemplate understanding the value of this from the saleability point of view or leaving it to the end or leaving to the point where you might be forced to sell doesn't allow you the time to possibly make differences in what that paid a price might be.

**Joanna** [00:03:32] And look, of course, that's you know, it's a thread that we talk about a lot here in The Deal Room. And I think, you know, probably all of us who are here in the industry completely understand the difference. But forget perhaps businesses who don't have everyday exposure to business sales and acquisitions like what we do, you know, perhaps don't appreciate the massive difference that proper prep for sale makes to an in value and the regularity of speaking to people who have a different idea of what their business is worth to what the market is actually tracking at. At the at the moment.

**Denise** [00:04:10] Absolutely. And what I know is, is that there's a whole lot of opinion out there. And I look up Dr. Google and get a whole different money then. And unless it can be based on some kind of market evidence, then it's guestimate only at best.

[00:04:25] If you're starting to make life decisions following, you know, because you think it's going to look one way and it doesn't. What does plan B, C, and D look like? Because what I know for sure is exit is inevitable. Full stop. Right. So the question then is how planned is that? Now we can roll with whatever you want to do, but if you then have commitments that you need to meet, even from a I made X amount of money from my business to be able to make commitments. You know, the market's not going to give you that because it feels sorry for you, the P&L needs to stack up and support what the sale price is and if it doesn't support the numbers that you need. We've got work to do.

**Joanna** [00:05:09] Yeah. So then I guess coming back to that concept, if we looking at you talked both about the importance of having market evidence for pricing rather than hope of pricing.

[00:05:22] And of course, today we're also talking about the topic of market trends. But where are you seeing is perhaps a big change? Or have they been big changes? Let's talk about the last 12 months and then let's go further. Maybe the last five years, changing conditions that have led to owners having the wrong perception of the value of the business because of these trends that are going on. What's going on that people may not know about?

**Denise** [00:05:52] So most of the rules of thumb that once applied really are struggling to stand out.

**Joanna** [00:05:58] So when we say those once rules of thumb and you're talking about that three times, multiple rules of thumb.

**Denise** [00:06:06] Well, that but there's also certain industry rules of thumb.

**Joanna** [00:06:10] Okay, so I talk a little bit about that. What's changed?

**Denise** [00:06:13] Yeah. So, for example, we don't do a lot of retail. But what I do know is that, for example, a fruit shop that a large fruit shop type, shop, deli thing that we're looking at the moment, their standard valuation, if you like, all the standard kind of price point was 10 times weekly earnings. Now when we look at it today and I'm doing an appraisal on the pain now, doesn't actually support that price point. Right. So then it depends who's looking, if it's somebody from within an industry. They may also and you know, the same rule of thumb and be okay to pay it. Right, because it's they've grown up with it that both sides understand where that's come from and why it's always been there. But if it's an external or wanting to get into the industry, they'll base it on the pay. Now, they won't care about what the rule of thumb says.

**Joanna** [00:07:03] And so you're saying in that type of industry, we moving away from what we used to see as a as an industry rule of thumb.

**Denise** [00:07:11] As an industry rule of thumb. Many of them it's not that they'll go away, but the P&L and the numbers still have to support it. It won't just be paid because that's what we've always done.

**Joanna** [00:07:23] And what's an example when you say just like that, we can step this out for our listeners.

[00:07:27] When you say, you know, the P&L has to still support it, like, let's break that down, what does that mean to a business owner who's listening in?

**Denise** [00:07:37] When I'm doing an appraisal on a business to work out by salability and indicative price range, I've actually only got to levers pretty much, you know, for the main one lever is profitability. And the other lever is what is called the multiple. Now the profit lever, other financial and the P&L, the profit and loss informs that profitability question. Then we're multiplying that by a multiple. Now multiple is in today's market ranges anywhere between one and three, maybe three and a half.

[00:08:09] Whereas, for example, Pre GST you were looking at maybe fives so 10 years old..

**Joanna** [00:08:16] Sorry, just want to stop just for the listeners benefit, because in our fruit shop scenario, we're talking about weekly multiples.

[00:08:23] But here we talking about, of course, when you're talking about the 1.5 to 3, we're talking about annual. Yeah. So, when we're talking about annual figures, pre GSC being five and now being through, I mean, that's a big difference, isn't it, particularly if you know, if you're down at the 1.5 into the range rather than 3.

**Denise** [00:08:48] And this is the thing. So so the thing about the GSC is good prices. We're being paid previously, but still a good business, right? I mean if you're not so good, then, you know, buyers aren't silly either. Right. But it's a good business. There were multiple or better multiples being paid, Pre GSC said. Now, what's happened is 10 years on from GSC are the people who had even been thinking about selling them, but realized after GSC that there is no way that they were going to get anywhere near the price that they would have liked. They waited. Now they can't wait any longer. Especially if we're now 10 years on. The market hasn't bounced back to where it was before. Depending on the industry, there are a few fixed industries, but most of them kind of as a standard that hasn't bounced nearly as high as what it was previously.

**Joanna** [00:09:36] So what's an example then like back to these trends idea? Then what's an example of some industries that have bounced better than others?

**Denise** [00:09:44] Well, certainly. So when I talk about the profit and the multiple. And then that gives us an indicative price range. Now that multiple what sits in that multiple are all the more intangible things, you know, like age, location, client list, all of the ones that are not directly related, I guess, to the P&L. And this is where brand, the likes of the brand and that seats as well. Now what we know is that I will be given a really good story about how good the business is and the branding. The branding would have value and and once upon a time maybe would have done so.

[00:10:22] But we then view the profit and loss as the scorecard of how well all of that has worked for you as a business owner. Right. And so it's all very well to tell me about industry potential and the branding. And, you know, my customers love it. And a lot of them come back and all the rest of it. But if that's not reflected in the scorecard, i.e., the profit and loss, then there's a disconnect between the story and what can be proven.

**Joanna** [00:10:50] And within that, though, are the industries at the moment that are harder than others.

**Denise** [00:10:55] And there are.

**Joanna** [00:10:56] And I guess what's harder? What's harder where we've got we get more buyer interest?

**Denise** [00:11:01] Absolutely.

[00:11:01] And so industries like that at the moment are definitely service-based. Service-based online. Look, there is still definitely interest in manufacturing and wholesaling and so forth. This just, I guess, less of them, which kind of dictates that to some extent. But, you know, if it's still a good business and it's still making good money, then there is interest in it. Yeah, but the ones that are of particular interest are, as I said, professional services.

[00:11:29] And within that anything in the I.T. managed service provider type space and medical centres, see what's going on with a lot of these top industries where there would be many loans or much smaller players. There's a whole lot of consolidation going on. And they're rolling up into bigger concerns. Now, part of that then is, let's say from a managed service provider perspective, it's a bit like banks, it's a bit like a phone where you've got your phone and so forth. It's kind of deemed to be hard to move. So if you're satisfied with your providing, you tend not to shift. Right. And every business owner now will have their own many service provider brought in their host and all the rest of it. Yeah. And so for business within that industry, for them to grow, they either have to have really deep pockets from the marketing perspective and kind of go and steal from others or buy them. And so there is certainly a level of interest in that aspect. Like if a managed service provider is available to be purchased. Right. What they're buying is buying time around, taking on the client list, but also taking on new staff as well. The skillset. And medical centres are quite similar. We dotted all around with individual service providers, you know, practitioners or smaller practices. Right. Unlike pharmacy, you don't have to be a doctor to own medical practice. And there are a number of doctors now who just want a doctor. You know, once upon a time, the way you may do money was to run your practice. Right now, it's probably still the case, but especially they've had a go at it or whatever. And I just I think that just want a doctor. I just want to talk. You know, I had conversations with people that are on loans and help them. And they don't want the day to day hassle of the business operational component that has to go with running a practice. Yes. And so then you've got consolidation going on there where you've got people that are coming into bad practices and now run the business by enabling the doctors to do the doctoring.

**Joanna** [00:13:45] Yeah. Okay. All right. And so that sort of leads me on to thinking about whether you see any particular areas where you have businesses coming in that is using acquisition as a growth strategy.

[00:14:00] Is there any I mean, how many buyers that come into Xcllusive sort of fit that category?

**Denise** [00:14:06] So. Well, if I use the two that I just mentioned for every business that we sell put to take to the market, let's say in the auto space, every business that we take to market, we would probably get upwards of 50 inquiries like legitimate inquiries, which is higher. And some of them are being way higher than them. And even to the point where I'm one of them that I know of, we had six offers. Now that's you know, that's a lot. And then in the medical space as well, an ad goes out inundated with an inquiry. Straight out.

[00:14:42] Yeah. Because I guess it all they also know that if you come to Xcllusive and you're on our database, for example, out by database and we're running a database now. Twenty-thousand plus. So and that's around Australia from a buyer pool perspective. And the thing about that is you can unsubscribe at any time, and that database is growing, growing. Right. So there are people there they want to buy. There is money around. It's a question of us being able to fund this stock in a better word to put in front of it.

[00:15:11] Because we know that especially in the ones where we know we've gone to the market before and had a really good response. Well, you know, there's only one buyer. So I've had 50 enquirers of value. I've only got one buyer in them.

**Joanna** [00:15:26] Good place for the vendor to be in though isn't it?

**Denise** [00:15:28] Yep.

**Denise** [00:15:29] So just to that point though, which means then that sometimes we can tip higher on that multiple because you're in demand. Yeah, but there are other obviously not so industries not so interesting to the buyer pool.

**Joanna** [00:15:43] I'm glad you mentioned that because I was about to go there today. The industries where there's not as much demand. So he hit us with that. You've already talked about retail.

**Denise** [00:15:54] Anything on the high street standing? You know, we have hospitality.

**Joanna** [00:15:58] Yep, that's right. That's not necessarily, I guess, just about what's happening right now. It's a tricky space. Just generally isn't it.

**Denise** [00:16:10] It's been building. I mean we've got to the point. Well, I've got to the point. I can't say that right across the board, but I've certainly got to the point now that unless it's a real kind of stand out operation, we can't help them because our buyers will not look at them. And I'm not one to just take them on. So I can paid some kind of a fee to be able to stick them on a website and hope someone finds them. I mean, the point was someone engages us to sell the business. You know, when they say they want to sell and they come and see us, I believe them. Right. So that's what they come to see us and if I don't, you know, I'm becoming more selective about the type of businesses we'll take on now as well in regard to if we don't think that we are able to do the sale justice and actually find genuine inquiry, that's not helping either of us.

**Joanna** [00:16:59] So other areas, you know, let's sort of cast our mind back through the last sort of six months, maybe a year. Where you've seen businesses come in that you thought would probably have been quite saleable.

[00:17:12] But now in the current market, just as you hit the market, suddenly have been a lot slower than you'd expected.

**Denise** [00:17:20] We're certainly seeing businesses that are not as attractive and so they're harder to move.

**Joanna** [00:17:28] Right. And I guess, you know, that's couched in a business that's not as attractive. You know, it will always have been harder to move.

**Denise** [00:17:37] Always.

**Joanna** [00:17:37] So you're saying, well, for the current market, it's even harder.

**Denise** [00:17:42] Yeah. Anything in that retail, honestly, anything in that retail space public-facing kind of space. But if they've been able to move online or have an online presence as well. No, you can't do that with cafe food, right? Well, not necessarily. You can if you wholesale I guess depending on what you're doing.

**Joanna** [00:17:57] That'd be innovative.

**Denise** [00:18:04] That's it. And this is the thing. So really realistically for a business to be seen to be really attractive would be running both an online market and an offline market.

[00:18:17] Now, they're actually two completely different business models. You know one isn't just a carbon copy of the other run on a different platform. They're actually different business models. And so to try and expect to see that as well within one small business, you know, that's actually a little unfair, I think, especially if you've only got the one or two kinds of owners that are trying to drive all this at the same time. But therein lies the opportunity, right?

[00:18:44] From a buyer's perspective, if I'm off-line and I can purchase something from online that is complementary to what I do and bolt the two together, there's real value in that. But then again, that but that also then takes time to bring it in, in the editing and get it to the point where it's well and truly anchored so that it works.

**Joanna** [00:19:04] Yeah. Okay. All right. I guess one of my last couple of questions, distressed sales. Are you seeing any sort of uplift in that at the moment?

**Denise** [00:19:13] Yes. Full stop.

**Joanna** [00:19:17] Yeah, I'm hearing that every day. That's why I asked.

**Denise** [00:19:20] And what we're so the way we're trying to help support this and some of the ones we say should actually be going down that path. Yeah. So where we are assisting in that is that we're working closely with liquidators and receivers. Because, for example, they can access our 20000 plus buyer pools. They can't do that on their own. They don't have or run those databases.

**Joanna** [00:19:47] And, you know, with distressed sale more than any other sale, even though every sale, almost every sale is is all about speed. Although we had a new manager. Okay, and I tell you what, for the first time in a long time, someone said to me, you know what? Time isn't really an issue at any point.

[00:20:12] It's more even more important than the average sale.

**Denise** [00:20:17] It is. And so we've run what we call a stray weight program. But the point being is that we are there to assist them to get these business receivers and liquidators, to get the business out in front of as many people as possible in a really short timeframe and then be able to generate inquiry which will either work or it won't get, you know, one or the other.

**Joanna** [00:20:39] Okay. And I guess my second last question to round it up is what proportion would you say of sellers who come in to see you are surprised when they find out what the market value really is for their business?

**Denise** [00:20:59] 90 %.

**Joanna** [00:21:00] Yeah, isn't that interesting.

**Denise** [00:21:02] Which is really hard because we are the last person they come and speak to about these and they've always thought that the value of their business was a certain amount. And then we do an appraisal on it and it's kind of nowhere near that.

[00:21:18] You know, I'm often got vendor's in front of me in tears and which really upsets me because that conversation should not be happening now. Yeah, that should have been happening way earlier. Yeah, especially if they have to you know, they've got that need for speed is important to them. And the thing used is because like even I will talk, dare I say, and I'm not strong financial planners who under the bus at all.

[00:21:43] But every single financial planner I have spoken to in the last six to 12 months and I've kind of made it a point of doing so is where they have got small business owners and they are genuinely putting together our fight, our long term financial plan to these small business owners. I ask them, where do you where is it that you get the value of the business from the value of that asset? And what's the answer? Either the owner or the accountant. Give me what I think it's worth. Now, seriously, like this is a financial plan.

**Joanna** [00:22:17] Yeah, we have a lot of accountants who listen to us. So maybe here's the opportunity maybe to speak to the accountants and sort of give some sort of pointers as to that's a common issue that you've seen that maybe. And why is it why do you think that accountants maybe come up with a value that might be different to what you guys perceive the market is or where the market then ends up.

**Denise** [00:22:47] This takes us back to where we were before this notion of three times.

[00:22:52] Yeah. So what's kind of being bent around and it's been around since the 50s. Is my instinct now that in and of itself, find it three times what? We can do three times, but it has to be three times on EBITDA. For example, for all you accountants out there. It's not three times revenue. It's not three times owners' income to a working owner, not including their salary has not been taken out like an EBITDA. So it's three times what? And so what's really important then is where you look for evidence. And so what's happening now is that how we can support accountants and financial planners is that we can provide them with the number that is market evidence based. Now, it's still indicative, but it's a whole lot closer to industry and timing and market reality than a commentary around three times.

**Joanna** [00:23:51] Yep. And you know, how often should businesses update valuations?

[00:23:58] How often does the market change so much that the parameters around which, you know, the market is is coming up with a value for that particular industry, you know?

**Denise** [00:24:10] Yeah, so unless you kind of know that your industry shifted on or you get a sense that there's a shift going on. Look, I would have thought that every 18 months, 24 months would probably get it at appraisal done. We'll do an appraisal for you. There's certain information we get. We drop it in. We produce a 10-page report. And that appraisal is definitely around indicative price range in today's market. It's not a full-blown valuation. It's around salability question. Now part of that would be, yes, to know what your business is worth, but what a number of our clients are also doing is using that as a way to. Okay. This is the number as of today. How do I shift the number? Right. And using it as almost a, dare I say coaching mechanism and sometimes accountants are helping their clients use these to do that if they want a bigger payout. Assuming the market stays the same. What did they really need to do from a gross and in expenses point of view to get that number close to the way they want it. And then that goes to how to increase revenues so that you can actually plot out a mechanism, a way, a plan. It could be seen as an exit plan. But it could also actually be seen as a growth plan as well. So they can work hand-in-hand. And so they need to check that in, what you could do with an appraisal is, it's again, a kind of a version of a scorecard. Do it today. Okay. I like it, I don't like it if I don't like it. Okay. What do I need to do over the next six to 12 months to see a shift in that? And maybe it's a bit longer because sometimes some of the sales, the revenue work that you'll do does take time to flow through. I do get that. So maybe every two years, something like that.

**Joanna** [00:25:56] Brilliant. Okay. All right. Well, look, that has been very interesting. Thank you so much tonight for coming on to the show today. My pleasure. If any of our listeners want to get in touch with you or exclusive business sales, Melbourne, how do they go about doing that tonight?

**Denise** [00:26:13] So you can either contact me on 0406000714. You can email me, now the way Xcllusive is spelt is X-C double L U S I V E.. But no doubt you'll have that in the credits as well.

**Joanna** [00:26:30] We will have that in our show notes. Don't fear.

**Denise** [00:26:35] Perfect, and you can find me in Linkedin. I'm always in Linkedin. So you can find me there as well.

**Joanna** [00:26:38] Fabulous. All right. Well, we'll put all of those links in our show notes on our web page as well, so that if you were running along the beach good on you or on your drive into or on the way back home from work, you can just check on your phone later and find the links straight through to the all of those.

[00:27:01] Thank you, Denise. Thanks so much for coming onto the show today.

**Denise** [00:27:04] Thank you.

**Joanna** [00:27:05] Well, that's it for our episode of The Deal Room Podcast for today with Denise Hall from Xcllusive Business Sales. So just as a quick recap, if somehow you missed the last 20 minutes, industries that are hot at the moment are service-based businesses, in particular, IT managed services, online businesses, manufacturing, wholesale, medical centres. So if you're in one of these industries, then be aware that these are a bit hotter than the average industry at the moment. On the flip side, some of the industries that are struggling a bit at the moment, retail and hospitality, and we also heard about distressed sales, it being something that has been on the rise as well. So hopefully the information that we covered today was useful to you. If you'd like to get more information about this topic or if you would like direct links to contact Denise Hall or Xcllusive business sales, then just head to the show notes or over to our website at thedealroompodcast.com and at that website you will also be able to find details of how to contact our lawyers at Aspect Legal. If you or your clients would like to discuss any legal aspects of sales or acquisitions, we work with clients both big and small and have different types of services depending on sise and complexity. So don't hesitate to book an appointment if you want to find out how we can assist. And finally, if you enjoyed what you heard today, then I'd love it if you could possibly pop over to your favourite podcast Play Out where you have been listening to this. I believe it's a review. It only takes a minute. Not too hard and we'd be ever so grateful. And of course, make sure you've hit that subscribe button. Well, thanks again for listening in. I'll see you next time. Or you'll hear me next time. I guess that's probably more appropriate. You've been listening to Joanna Oakey and The Deal Room Podcast. A podcast proudly brought to you by our commercial legal practice Aspect Legal. See you next time.