The Deal Room Podcast

Episode 140 – All about Bizstats - statistics for business valuations

Note: This has been automatically transcribed so will be full of errors! We are not providing it to you as a word-perfect version of the podcast but just as an easy way to provide you with a different way to be able to see or scan what kind of information that might be relevant to you if you are the kind of person that likes a transcript.

Transcript

Joanna: Hi, it's Joanna Oakey here and welcome back to The Deal Room podcast, a podcast proudly brought to you by our commercial legal practice Aspect Legal. Now today we have a very interesting show. Well, by your ways you might be saying, but today we are looking at Bizstats which is a valuation software and database that's backed by AIBB the Australian Institute of Business Brokers and today to talk about Bizstats we have on the show, Richard Hemingway from Mandanex Capital now just to give a little quick background of Richard even though he's not talking about his business today, but that doesn't stop me talking about it. Richard has over 30 years of business experience and CFO roles in large listed corporates, living and working throughout Australia, Asia and New Zealand and he's been involved in the valuation the acquisition the divestments and the post acquisition integration of businesses ranging from major corporates to small family owned companies. And so that gives him a rich background from which to talk about business debts, which is all about statistics in relation to business sales activity across Australia.

In the SME sector, Richard established the Mandanex Group just over five years ago and the group's guiding philosophy is facilitating cross border business in the middle market, and at the moment, it has operations in Australia, New Zealand, Indonesia. Singapore and representatives or partners in India, Southern Africa, Germany and the US and he does a lot of work in business valuation, capital raisings, m&a and corporate advisory. And so he brings a wealth of experience in talking about this concept of business valuations and why it's so useful for, I guess, software and tools like Bizstats to be around gathering data. So without further ado, let's bring Richard on to the show to talk all about Bizstats. Here we go.

Joanna: Richard, thank you very much for coming on to The Deal Room podcast today,

Richard: Joanna it is my pleasure.

Joanna: Fabulous. All right. So let's just launch straight into it. How about we just kick it off with talking about what Bizstats is?

<h2>What is Bizstats?</h2>

Richard: Yeah, thanks Joanna. Bizstats Joanna is a data collection portal for the Australian Institute of Business Brokers, the AIBB, it was started around about a bit less than 10 years ago by the AIBB and has developed over the years into probably Australia's most comprehensive database of private business sale transactions in the market. It carries a range of valuable and important information for for the brokerage community and and I'd say it's a member member only tool. And so a great reason to join the AIBB for anyone out there who were thinking about whether they should or shouldn't be part of the AIBB very key benefits of membership.

It has developed over the years and I'd say had a bit of a hiatus A number of years ago where contribution levels into the database are stalled. We have over the last you know, one to two years had a strong push within the AIBB from the leadership of the AIBB to reignite the database and and to encourage members to actively contribute the sales data. And I'm happy to report that there's a real forward momentum within the database at the moment and and every month, our member community is contributing sales, I'd have to say not every member and every sale. But as I say, this is good, strong forward momentum in the database at the moment. Any members, any brokers out there in the in the brokerage community who who are thinking of joining, please do so.

Joanna: So obviously, as you said, it's Australia's most comprehensive database of business sale data. So what are some of those data points that are collected in the Bizstats data set?

<h2>What data points are collected in Bizstats?</h2>

Richard: Yeah, that's a good question Joanna, relatively and we might talk a little bit later about, you know how quick and easy it is for for the brokerage community to contribute their data, because it's, I think about about eight data points for each sale. So we capture information on the business type and location, I would say that it's an unknown As contribution and so both brokers in terms of not quite rightly, not

necessarily wanting their individual profiles to be highlighted through the stats database, the contributions are anonymous, both from identifying the broker involved as well as identifying the business itself, of course.

So confidentiality is a real key within the data contribution. So it's business location and type. And various key KPIs, if you like, against each sale, so we'll be sales revenue, gross profit, EBITDA. Let me talk about that for a second. So it's the normalized view of profit that brokers will typically use in terms of appraising the value of a business is based on EBITDA, which is the earnings before proprietors, drawings and wages, interest, tax, depreciation, and amortization. Now you can tell I'm a chartered accountant.

Joanna: I was getting that feeling again.

Richard: But so it captures the data and then then obviously that is information about the business itself. And then it switches over to information about the sale transaction. So the value of the sale which is broken down into tangible assets, plant and equipment sort of thing. Stock and goodwill to be the total composition of the sales price. So, the key data points that will allow brokers as they're appraising businesses. So what value is the valuing them to get a sense for the sorts of multiples that are businesses are being traded at?

Joanna: Yeah, that's correct. And I can imagine it's particularly useful. I mean useful for anyone who's not part of a very large team to ensure they're staying on top of understanding where the market is, and particularly I guess, if they're dealing across industries as well to get a feeling for You know, it's something that might be in an industry that they don't normally deal with, you know, perhaps, absolutely spread of industry data within within the database. As you would expect, just by the sheer volume of numbers, a significant percentage of the sales in there relate to sort of hospitality and those sorts of businesses. But there's a good representation across most industries within the database. Interestingly, as you say, where where someone is operating in a larger team, I sort of argue that it's nonetheless really interesting for those people to be able to both contribute their data and draw on data that other brokers are also seeing transactions in the market.

<h2>What are the benefits of the Bizstats database to brokers?</h2>

Joanna: Absolutely. Look, that's a really good point. Why don't we really drill into what the benefits are to brokers? So you've made a really good point here, it's not just for you know, the smaller brokerage firms is also for the larger one. So let's drill into what the benefits are. Because maybe this is something that is really useful to dig into.

Richard:
So you look there's there's a range of benefits Joanna in terms of the industry as a whole actively and the membership in particular the participating in contributing as much of the data as, as is possible into the database the as a precursor to that, from a regulatory point of view. It's a little bit different state to state across Australia but basically the international valuation standards which have come into force as of January this year, make it mandatory for those performing valuation work which would typically include appraisal work to take note of and use market data where,

where that is available, and comparable, that is underpinned or echoed by the various state regulations and I have one on my screen here for example, the WA real estate and business agents code makes it mandatory for people providing appraisals and market value If available information regarding the sale of similar businesses must support the opinion of value. So that's basically a common thing. So we kind of have to do this.

<h2>Reasons to contribute to the database</h2>

Richard: But there's reasons beyond that to do it as well job. One is that it protects clients. You know, we we all value our clients and want to provide the best level of service for them. And I wanted to talk also about professionalism within the brokerage brokerage industry providing accurate market appraisals to clients is a very important part of the industry maintaining those standards for our clients providing realistic and not false expectations either on the high or low side of where they should expect the value of the business to sit in the map is a very sort of key pillar to that the more data there is for brokers generally to draw on the better, the better those opinions of value can be the standards, the International valuation standards, and anyone who's learned valuations will know that there are various sources of data that we, as we're doing valuations and appraisals that we can draw on the best. The best source of information is where you yourself have direct and personal knowledge of comparable transactions in the market.

And so some of the larger brokerages probably have relatively rarely access to those sorts of that sort of information. But generally then it tears down from from direct information to almost market rumor type of time, and obviously, the waiting on direct information is far higher in terms of allowing a broker to understand special circumstances that that have driven a sale to be a previous sale to be at a certain value, whereas within the Bizstats database, what we get is truly consistent information that has been checked prior to being activated.

So the process within sort of contributing data is that a broker will go in and put their information in and myself or one of my colleagues in in the Bizstats will will check that information and ask questions back to the to the contributing member prior to that becoming alive and all accessible, it's really important and you know, in terms of what multiple of profit a business may have transacted, let any of us have done this for any period of time, we'll understand that there's profit and this profit, and that number can vary wildly depending on what's included and excluded in that figure.

Joanna: So what you're saying is he you know, they these points of quality assurance, I guess, through the collection of the data before it is displayed in the Bizstats data set, that there are actually people here who are cross checking the information that's coming in to ensure that whoever is inputting the information and providing the information is properly understood and is providing the data in accordance with the rest of the data that's been collected.

Richard: Well summarized. Absolutely and when you're looking at these steps, you know that EBITDA is EBITDA and not just some other number. And that's really important.

Joanna: Yeah, I think that's super important. Because, you know, as you say, there's

many different ways of looking at profit. And you know, the figures themselves become a bit useless if there's not a standardization. So obviously, the benefit of the sort of process is the standardization that you're applying to data as it's coming in as well.

Richard: And one other benefit in the Joanna and this is a young in a sense, a little bit of a selfish benefit around the broker community is it acts as a some level of protection of income, if you like, if I can put it that way. It keeps brokers...when there's a body of data that demonstrates that the right value for a business is a certain level, then it's difficult to launch an argument that says that we should be telling our client that it's a significantly different value to that. What that means is that as we brokers are our marketing businesses. We're doing it at a realistic and right level for our clients that the expectations are set correctly. And that will lead to more sales, if you like that benefits both clients but also benefits brokers in as much as you you won't be soldiering away on an unrealistic value expectation.

Joanna: Yeah, I mean, it's an interesting point as well, isn't it because I hear brokers talk a lot about, you know, the difficulty in the market of dealing with you know, potential clients. So a seller, giving them what their belief is about the market value or the likely market value of the business and having difficulty with perhaps others in the market coming up with a much higher viewpoint and therefore taking, you know, the listing, I guess, something like Bizstats, gives a broker and ability to point to the independence of the information that they're providing or the appraisals that they're providing for A business to help deal with that situation where maybe there might be suggestions that there might be, you know, marketing that's a little bit misleading or deceptive, perhaps.

Richard: Yeah, I personally wouldn't pick those last two words. But But yes, now Absolutely. And we're out in the in the market and you are able to produce for your potential client a body of evidence that, as I say, has been checked that demonstrates that not dissimilar businesses are trading at a certain level than if they're being given an entirely different expectation on the low or the high side by another participant in the market, then you'd expect most clients go back and challenge the other participant to try and produce such you know, evidence to support that. So let's look there can be no I can't see any downside in in just building this database to the best it possibly can be.

Joanna: Yeah, so and then I guess the the flip side of that is also ensuring that you have a wide level of contributions spread, you know, geographically across industries, as we've been talking about, and one of the things that I guess we should reiterate, because I thought it was an important point when you mentioned it is the ability for anonymity when contributing data. So really, there is no downside to contributing data, you're contributing to the greater good. And then, you know, having the ability to use that broader data set yourself. But yeah, just coming back to it. Obviously, when brokers providing the data, there's nothing that identifies them and the transaction as a whole. Is that right?

Richard: That's correct. Yeah, that's absolutely correct. The obviously the within the couple of us who who check the the data as it's going into in the back end of the system, at the administrator level is there is the ability and because we need to be able to ask questions of the one contributing. So within that level of the database,

there is but to anybody using the database. Now the contributing broker is blind is anonymous and even at the admin level, The the identity of the business in question is not ever made available nor should it be. There's some real privacy for privacy reasons, of course. And so we monitor that very, very closely.

Joanna: Okay, fabulous. And so then maybe we can just take a little moment to look globally at what, what is happening with similar databases. Maybe if you can talk about that for us, you know, what's happening globally, are they similarly, databases globally or...

Richard: That's an interesting thing, Joe, and so Bozstats here in Australia has been going as a thing I mentioned earlier, sort of, you know, close to 10 years now. There is a similar database in the US which I'm not 100% sure, but I think it's been going roughly a similar amount of time and, and one in New Zealand that I'm aware of also known Bizstats which has been For a similar amount of time, so here in Australia, we're certainly not the only market that has has recognized the need for the brokerage community to have access to data in order to properly work for for their clients.

So those, those two international databases gained strong industry support which which is which is great and further afield. Other other jurisdictions probably suffer a little bit from a lack of that sort of information, most of the data within this that's here in Australia and those other comparable databases are at the sort of the the SME sort of level of databases which seek to capture larger mid market you know, truly mid market type type actions such as the US Pitchbook database which which will catch both publicly traded and private data, forming market transactions. And there's a range of those sorts of databases out there.

Joanna: And so how does it do you know, any of the background of pitchbook in relation to how it is that it captures its data?

Richard: Well, not not specifically other than, again, well, the publicly traded information that it has teams of researchers out there that are...

Joanna: So, scraping, just scraping information, basically.

Richard: But they're also contributing members to that database, I believe.

Joanna: That's one of the benefits something like beads debts that comes from, you know, where the information comes from contributions as opposed to scrape data scrape data, I guess, you know, sometimes can lose the context of, you know, maybe other things that have happened in the transaction. And one would think the data checking processes that are going on with big steps in the contributed data where you're able to cross check it Against data that's been provided.

Richard: And it's very important to understand that the public, you know, any listed companies that are executing sort of m&a transactions, you'll see in any public company's annual report where they've acquired a private, a privately held entity out of the group, the details of that transaction will be disclosed within them, they published accounts. And so that sort of information is relatively easy and easy to discern, and, and accurate because of the processes that sit around sort of public

company disclosures. However, most transactions are between private and private.

Joanna: Yes, well, that's what I was gonna say, you know, it's fine way where you've got that, you know, the involvement of the listed entity, but if you don't, then you know, I guess the problem is, and, you know, the issue is that acquisitions by listed entities aren't necessarily going to provide the same results in multiples of acquisition that you know, privately held companies between themselves will be trading it you know and so, I just wonder...

Richard: Often public company acquisitions have synergistic benefits which would in valuation terms, good demeanor and you know a multiple range that may or may attract a sort of a special circumstance which which might increase to multiple beyond one a value. So, the ultimate as comparability is certainly certainly an issue and as transactions reducing value, in a sense, they become harder to, to track there would be a range of sort of mid market transactions even between private companies that that get announced publicly not in granular detail, but, but, but as the value of those transactions become less than Then the contribution by the brokerage community to databases such as Bizstats becomes more and more important. Yeah, yeah. It's a community protect the client's interests.

Joanna: Right. Okay. So I think we've, we've really covered some of the most important areas that I thought would be interesting to understand about Bizstats. We've talked a bit about the the background, the reasons for contribution, the framework that they fit into other any other areas, Richard, that, you know, you think it's important for us to be conveying to our listeners, here.

Obstacles to contributing

Richard: Wouldn't mind just talking for a couple of minutes about the perceived obstacles as to why is the brokerage community might not contribute data, and the first of them is something that each and every one of us know very well. And that's the fact that there simply aren't enough hours in the day. I'm not sure who thought that there should only be 24 hours in a day.

Joanna: I'm with you there, Richard. Oh, my goodness, I'm so with you.

How to contribute data

Richard: And I'd say what we've worked very hard and within the AIBB Bizstats area to make sure that we've really thought through the minimum necessary number of data points that need to be captured for the database to be meaningful and provide good information back. And as I enter a sale into the database, it may take you a little bit longer for the first couple of sales that you enter because, as with anything in life, you kind of get your own and get into the zone of doing it. But if you've got your sales data with you, you're logged into the into the database, it should take you less well, less than five minutes to enter a sale.

Joanna: Oh, wow. Okay, well, that's easy. Come on, who cannot afford five minutes,

Regulatory framework which Bizstats operates within

Richard:
as I'm sure the first time first time a broker tries to do it, it will take them probably significantly longer than that. But I assure you that once you got into the zone of doing it and you organize yourself to have the key information available, it should not take long that way also created a spreadsheet for those who would prefer you know, you can either directly Enter directly through your login to the database as a member of the AIBB or you can enter it on a data entry spreadsheet.

Either way, takes about the same amount of time. The other reason, I guess is, is procedure, you know, some level of sacrificing competitive advantage by contributing your data, you may either be a niche broker who operates in one particular industry vertical or you might be a larger broker who has a range of data internally available to them probably argue, probably I definitely argue in either case, that it's probably a fallacy to think that that is an area of competitive advantage for you. It seems to be in everyone's interest for as we've discussed for this test to become as comprehensive a picture of the private sales business sales market within Australia. I don't believe that, you know, for example, let's take the example of a niche broker who operates in you know, one particular industry your competitive advantage is different You've worked for years to know pursue in that industry to develop a network of contacts.

So, you know, in the buyer and seller side where you can bring true value add to your clients and potential clients, those eight to 10 data points contributed anonymously to a an overall major database simply aren't your competitive advantage in the marketplace. And in fact, I'd argue the opposite that that where you have a new broker coming along, wanting to break into a space that that you operate in the risk by not contributing data in that in that area, is that you allow that new broker to, in a sense, not make up a value that would be wrong for me to say that but to, you know, healthily, appraise the value of the business, having cold hard data that shows that that shouldn't be the value of the business, they were able to maintain that argument and potentially, potentially win cancers as a result, so But you know I'd argue very strongly that's it. It's in everybody's interest no matter what your circumstance to be a member of the AIBB and to be a contributor to Bizstats.

Joanna: Okay absolutely love it. Well Richard, thank you so much for coming on the show today to talk all about Bizstats. I thought it was really interesting hopefully very interesting to our listeners out there. So if our listeners want to get involved by being a contributor and also in then using the data out of Bizstats, what's the message? Join AIBB, I think that's mostly just that right?

Richard: Join AIBB and any current members of AIBB who listened to the podcast and this has acted as as a memory jogger for them to start, contributing the next sale then happy for anyone to contact me directly or to go by the AIBB which is info@aibb.org.au.

Joanna: Brilliant, okay, all right. We'll put that link up on the site and I just to say an absolutely massive thank you, Richard, thanks for coming onto the show.

Richard: It was a pleasure Joanna. I look forward to talking again.

Joanna: Well, that's it for this episode of The Deal Room podcast all about, of course, the topic of Bizstats. Now if you'd like more information about this topic, then

just head to our show notes or over to our website at thedealroompodcast.com. There, you'll be able to download a transcript of this podcast episode if you would like to read it in more detail. And of course, we will link straight through to the AIBB where you can find out more about Bizstats. Or if you're not a member, you can find out how to become a member there, you'll be able to also make contact with Richard if you'd like to pick his brains a little bit more about some of the benefits of getting onto this Bizstats bandwagon, being a contributor yourself and also getting access to the data that comes out of it. Well, thanks again for listening in. I hope you enjoyed what you heard today. And if you do Don't forget to press that subscribe button. Well thanks again we will see you next week. You've been listening to Joanna okie and the deal room podcast, a podcast proudly brought to you by a commercial legal practice Aspect Legal. See you next time.