

Market Update

Issue 17

Navigating a shifting Australian business market

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Scalability: Is the Business You're Interested in Set Up for Growth?

When it comes to investing, it's crucial to look beyond a business's current performance and assess its future potential under your leadership.

Understanding Your Business Valuation

A business valuation is a critical step to empower you to make goals for the future and set expectations for your business sale.

Recent business sales



SOLD

Colombian Restaurant

MELBOURNE
\$79,000



SOLD

Business and Property

BRISBANE
\$265,000



SOLD

Leisure/Entertainment

BRISBANE
\$145,000



SOLD

Hair Salon

MELBOURNE
\$128,000



SOLD

Sheds, Patios & Carports

BRISBANE CITY
\$250,000



SOLD

Cleaning Services

GOLD COAST
\$275,000



SOLD

Spirit Distillery

BRISBANE CITY
\$300,000+GST



SOLD

Mechanical Workshop

BRISBANE CITY
\$1,465,000+SAV



SOLD

Beachside Pizzeria

GOLD COAST
\$180,000



SOLD

Industrial Manufacturing

SYDNEY
\$2,450,000

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Navigating a shifting Australian business market

Over the past couple of months, Australia's business landscape has experienced notable shifts, marked by a slight slowdown in activity and tightening financial conditions. According to Vince Konig, Sales Manager at LINK Brisbane, these mid-year changes are reshaping current market dynamics, creating conquerable challenges and promising opportunities for business sellers and buyers alike.

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Buyer enquiries remain consistently high, and we're seeing huge interest in diverse opportunities.

"In the past few months, we've noticed a more deliberate approach to transactions," Vince observes. He expertly attributes this to bank finance becoming more stringent as of late, impacting the pace of deals. Despite the softened speed of business sales, buyer enquiry remains strong, proving that demand for quality businesses is very much alive.

Vince provides some insight to sellers to help move these deals beyond initial interest. "First and foremost, you should carefully price your business from the outset," he says. "It's essential to realistically evaluate current financial performance against previous years' figures. A well-calibrated pricing strategy can and will attract qualified buyers even in a more cautious market environment."

Vince also encourages sellers to leverage current market conditions effectively. "It's crucial to demonstrate the resilience and profitability of your business," he advises. "Highlighting consistency and potential for growth can instil confidence and drive competitive offers from serious buyers who recognise long-term value."

Working with an experienced business broker early on will help sellers to best position their business for a successful sale. "Simply put, if you want to maximise your business's value and ensure its legacy is handed to a genuine buyer, aligning with LINK's industry experts is the only way."

Across the LINK Australia network, many exceptional businesses have come to market as baby boomers enter retirement. Although the current market conditions may seem tough to navigate for buyers, Vince expertly predicts that these trends will translate into advantageous buying opportunities for savvy investors.

"For prospective buyers, the period we're in right now presents a great opportunity to secure valuable assets at potentially favourable prices," he says. Those who have the funding available stand to benefit significantly.

On the other hand, for aspiring entrepreneurs who may not have the capital, working with a finance broker who specialises in securing funding for business transactions is vital. Finance brokers are an invaluable tool that should never be overlooked, engage with one well in advance of purchasing a business and this will set you on a path to a successful acquisition."

Looking ahead, Vince remains optimistic about the resilience of Australia's business sector. "The fundamentals of many businesses remain strong, and Australians are enthusiastic about pursuing ownership, whether it's their first business or portfolio diversification," he remarks. "Strategic investments made now could yield substantial returns as economic conditions stabilise."

While the current business scene has its challenges, it's important to understand that it certainly offers golden opportunities for those prepared to navigate it wisely.

Scalability: Is the Business You're Interested in Set Up for Growth?

So, you've come across a business that seems to tick all the boxes... but how do you know it's primed for growth? When it comes to investing, it's crucial to look beyond a business's current performance and assess its future potential under your leadership.

Scalability—the ability of a business to expand without being constrained by its structure or resources—is a factor you should carefully evaluate before making the transaction. There are a few steps you can take to help determine if the business you're interested in is set up for growth.

Understand the Market

The first step in evaluating scalability is to understand the market that your business of interest occupies. Consider the size of the market, its growth rate and potential. A business operating in a rapidly expanding market has a greater chance of scaling successfully. Look at the target demographics and whether they are likely to grow or diversify, keeping in mind that businesses that cater to a broad or expanding audience are inherently more scalable. Analysing the competitive landscape is also important. While a saturated market might limit growth opportunities, a market with fewer competitors might offer more room for expansion.

Business Model

A scalable business model is essential for growth. It should be designed to handle increased demand without significant changes to its structure. Examine the revenue streams of the business—multiple revenue sources can enhance scalability. A business relying on a single product or service may find it harder to scale compared to one with diversified income streams. Operational efficiency is another critical factor. Scalable businesses operate efficiently at larger scales, so assess whether the current processes can be streamlined or automated.

Technology & Infrastructure

Technology plays a vital role in enabling scalability. Robust IT systems that can handle increased transactions, data, and customer interactions are essential. Investigate whether the business uses scalable software solutions. Additionally, evaluate the current production capacity and infrastructure. Can the business increase production without significant delays or costs? Logistics and supply chains should also be examined to ensure they can support higher volumes efficiently.

Financial Health

The financial health of a business directly impacts its ability to scale. Determine the funding required for growth and whether the business has access to capital or a clear plan for securing it. Healthy profit margins indicate that a business can sustain growth without compromising profitability. It's also essential to evaluate the business's debt levels. High levels of debt can impede growth, so examine the debt-to-equity ratio and overall financial stability.

Investing in a scalable business not only promises immediate returns but also ensures long-term success and profitability. When considering your next business acquisition, make sure scalability is at the forefront of your evaluation process. A business poised for growth is not just a smart investment—it's a gateway to sustained success!

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Understanding Your Business's Valuation

A business valuation is a critical step to empower you to make goals for the future and set expectations for your business sale that are well-informed, realistic, and offer you the best return on your investment.

What is a Business Valuation?

A business valuation is a process that identifies the true value of your business, rather than its cost or current market value. For a business sale, a valuation is also used to analyse the future earning potential a business has.

For a business valuation to be of value, it needs to be accurate and transparent. However, the process of a business valuation, while a crucial exercise, is not always a simple one, and determining a business's true value can vary depending on the complexity and nature of a business. Two key methods of determining your business's value are through cash flow or earnings, and assets.

Cash Flow & Earnings

Cash flow and earnings for a business valuation are often determined by multiplying a business's earnings before interest, taxes, depreciation, and amortisation (EBITDA) or another key metric like revenues. For example, if a company's EBITDA is \$900,000 and it's valued at four times that amount, it's worth would be \$3.6 million.

Assets

Asset-based valuation measure the value of any assets owned by the business, on the business premises, through your plant and equipment, stock, debtors, or intangible assets such as IP, and through any debts or liabilities the business may have. As industries have evolved and new developments have emerged, particularly through technology based business, and technological

advancement incorporated in a significant number of industries, businesses values are increasingly weighed and valued against intangible assets.

Financial Statements & Normalisation

Financial statements are an integral part used for business valuation analysis, including financial comparison and ratios to analyse a business's performance. When including financial statements and ratios, normalisation is key to reflect the true value.

Why is a Business Valuation Important?

When looking to sell your business, a business valuation offers you the chance to sell your business with confidence and allows you to sell your business from a position of strength and knowledgeability.

From a selling standpoint, a business valuation empowers you to price your business fairly, maximising the return on your investment and gives you negotiating power to leverage.

Understanding the importance of a business valuation and how this can empower you as you navigate the sale of your business, or plan ahead, can help you to ensure you maximise the value of your investment into your business. It offers you the tools to price your business appropriately, and to enter negotiations and conversations with genuine buyers from a position of knowledgeability and strength.

The numbers just keep getting **better and better**



\$2b+

of businesses listed on our global websites

250+

businesses sold globally per month (avg)

3,000+

businesses for sale internationally

73%

of buyers think about buying a business for up to three years

79%

of buyer prefer an established business

Maximise your return with a comprehensive business valuation.

