



December 2018

Bizval Indicator

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[Disclaimer](#)

In addition to the four drivers of SME values, the Bizval Indicator is evaluated in the context of six General Economic Indicators.



-7.30%
All Ords
5,176



+0%
RBA Cash Rate
1.50%



+0%
GDP
2.80%



-6.70%
Dow Jones
23,062



+0.10%
Inflation Rate
1.90%



-0.30%
Unemployment
5.10%

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Bizval Indicator Report for December 2018

We like to think of the Bizval Indicator as a 'barometer' of SME valuation multiples providing a perspective of the value of Australian small-to-medium sized businesses.

Unlike listed companies, the sale prices of SME's are not readily available. The Bizval Indicator helps monitor movements in the [drivers of SME values](#).

The Bizval Indicator is derived from key drivers of SME values and is then reviewed in the context of a basket of [general economic indicators](#).

Bizval Indicator

NOW	1 YEAR AGO	MOVEMENT
305	351	-13.20%

Source: Bizval, 31 December 2018.

Bizval Indicator in alarming fall.

An indicator of 305 was recorded for the December 2018 quarter, a decrease from 318 for the quarter ending September 2018. This is the second consecutive quarter-on-quarter decline.

The last time we witnessed this type of consecutive downward trend was in the March & June 2017 quarters.

Further, and perhaps more importantly, the current indicator of 305 is the lowest recorded value in over six years (previous minimum was 302 in August 2012).

Year-on-year the indicator has decreased by a significant 13.2%.

The predominate driver of this fall was declining Price Earnings (P/E) ratios of small cap listed companies. Data garnered from our own valuations revealed a decrease in SME valuation multiples, however by a much smaller level. Our research suggests the supply of businesses for sale is far outweighing the demand, leading to lower multiples being agreed upon in current market activity.

During the quarter Bizval maintained a consistent number of valuations prepared, with the most common purposes being tax related restructures and family law matters.



General Economic Indicators

INDICATOR	NOW	1 YEAR AGO	MOVEMENT
All Ordinaries Index AU ⁽¹⁾	5,716	6,167	-7.31%
RBA Cash Rate AU ⁽²⁾	1.50%	1.50%	0.00%
GDP AU ⁽³⁾	2.80%	2.80%	0.00%
Dow Jones Industrial Average USA ⁽⁴⁾	23,062	24,719	-6.70%
Inflation Rate AU ⁽⁵⁾	1.90%	1.80%	0.10%
Unemployment Rate AU ⁽⁶⁾	5.10%	5.40%	-0.30%

(1) Source: Australian Stock Exchange, 28 December 2018

(2) Source: Reserve Bank of Australia, 5 December 2018

(3) Source: Australian Bureau of Statistics, 30 June 2018 (seasonally adjusted, yearly)

(4) Source: New York Stock Exchange, 28 December 2018

(5) Source: Australian Bureau of Statistics, 30 September 2018 (headline, yearly)

(6) Source: Australian Bureau of Statistics, 30 November 2018

The All Ordinaries Index (Australian Stock Exchange)

Equity markets were hit hard in the December 2018 quarter with the ASX All Ordinaries Index dropping to 5,716. This represented a decline of 7.3% over the 12 month period. Investors experienced a volatile year in 2018 with the index starting the year at 6,167 climbing to a peak of 6,460 in August, only to then descend steadily to 5,716 by the end of December.

RBA Cash Rate

Little can be said about the RBA Cash Rate, as most of our readers are aware it hasn't moved since August 2016 when it was reduced from 1.75 to 1.50%. The RBA mentioned in their latest statement that the Australian economy is performing well with 'GDP growth expected to average around 3½ per cent over this year and next, before slowing in 2020 due to slower growth in exports of resources'. They also reported that 'business conditions are positive and non-mining business investment is expected to increase'.

Unemployment Rate

The headline Unemployment Rate contracted to 5.10% in December 2018, its lowest level since early 2012. Employment increased 28,800 to 12,694,800. Full-time employment increased 19,300 to 8,692,500 and part-time employment increased 9,500 to 4,002,300. Interestingly, the Participation Rate increased less than 0.1 pts to 65.7%, the highest trend participation rate ever.

Drivers of SME Values

The Bizval Indicator is calculated using a proprietary formula. We research, monitor and evaluate the following components to arrive at the result.

ASX Small Cap P/E Ratios

Small Capitalisation companies have greater similarities to private SMEs than large cap stocks. Bizval reviews the mean and median price earnings (P/E) ratios of companies with market capitalization of between \$20 million and \$200 million. We adjust these figures to align them more closely with private SMEs by reducing the P/E ratios to account for differences in size, key-person dependence and ability to easily buy or sell (liquidity).

Business Loan Interest Rates

Bizval monitors the advertised interest rates of Australian major banks for business loans. Using an average of these rates we then add a risk margin (commonly added to the base rate by banks when lending to small businesses). We also add a hypothetical margin for the SME proprietor to reflect their return on investment. This interest rate is then converted to a multiple.

Businesses for Sale

Bizval undertakes a review of the volume of businesses listed for sale across Australia, taking into account any movements in this number.

Bizval Multiples

We review an average of the multiples used in our business valuations and combine these with multiples from actual business sales (where available).

In addition to the four drivers of SME values, the Bizval Indicator is evaluated in the context of six national / international General Economic Indicators.

The All Ordinaries Index (Australian Stock Exchange)

The 'All Ords' is the oldest index of shares in Australia, dating from 1980. It is derived from the share prices of 500 of the largest companies listed on the Australian Securities Exchange (ASX).

Reserve Bank of Australia Cash Rate

The RBA sets the target 'cash rate', which is the market interest rate on overnight funds. It uses this as the instrument for monetary policy, and influences the cash rate through its financial market operations.

Gross Domestic Product (Australia)

GDP is a monetary measure of the market value of all final goods and services produced over a defined period of time.

Dow Jones Industrial Average (USA)

The 'Dow' is a US stock market price-weighted index monitoring the share trading performance of 30 large, publicly owned American-based companies.

Inflation Rate (Australia)

The Consumer Price Index (CPI) measures the average change over time in the prices paid by Australian households for a fixed basket of goods and services.

Unemployment Rate (Australia)

The proportion of unemployed persons in the labor force is seasonally adjusted to take account of changes in demand for agricultural labor, students seeking employment after completing education, and so on.

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