



bizval

**INDICATOR
REPORT**

**QUARTERLY MONITOR OF
SME VALUATION MULTIPLES**

September 2017

Contents

Commentary	3
Results	4
About the Bizval Indicator	5
What is it?	5
What does it measure?	5
How is it calculated?	6
Why is it measured?	6
When is it calculated?	7
What does it mean?	7
Does it apply to all SME's?	7
Can I use it to value my/my client's business?	7
General economic indicators	8
Who is Bizval	9
Disclaimer	10
Contact details	10

Commentary

Bizval Multiple Indicator recovering

The latest Bizval Indicator multiples have increased by 5.6% over the last quarter as an indicator of 3.4 was recorded for the September 2017 quarter, an increase from 3.22 recorded in the June 2017 quarter. The year-on-year change is a decrease of 4% which evidences the recovery from the June quarter year-on-year decrease which was almost 10%.

The data on our own valuation earnings multiples was again steady this quarter but a recovery in Price Earnings (P/E) ratios of listed companies due to increasing small cap share prices and a 9% increase in the number of businesses listed for sale both contributed to the recovery of the Bizval Indicator this quarter.

We are still experiencing increase in the number of business valuations prepared for high quality and franchise businesses at Bizval during the last quarter. As our role is to continue to provide an independent and unbiased valuation service the requests for assessing the asking price or proposed selling price, for business restructuring, estate planning or for partnership changes and Family Law matters are all welcome.

Commentary provided by Lee Barrett
Managing Director of Bizval.

“
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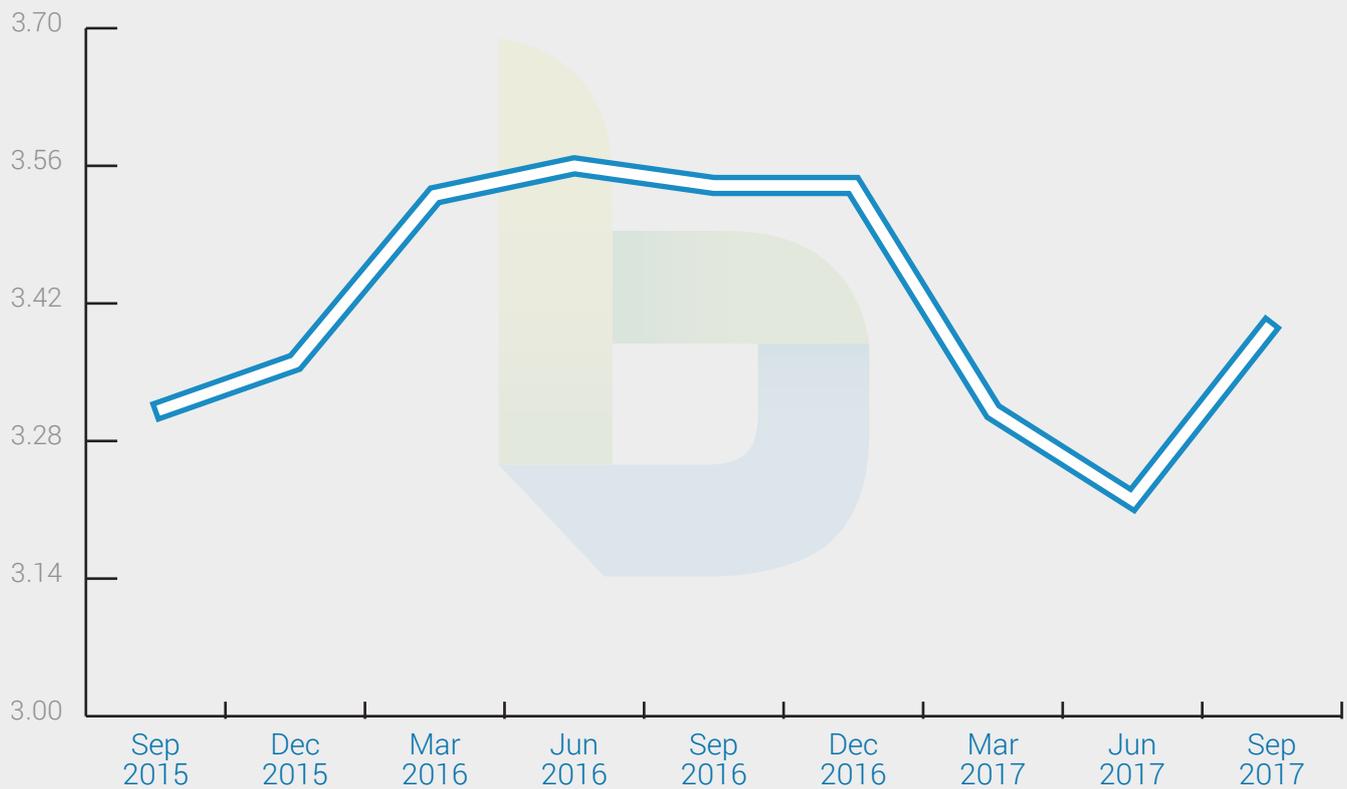
Bizval Indicator

Results – September 2017

Year on Year Change

September 2016	September 2017
3.54	3.4

 **DOWN 4%**



About the Bizval Indicator

What is it?

The Bizval Indicator is an indicator of the value of Australian small to medium sized private businesses. We like to think of it as a 'barometer' of SME valuation multiples.

Most Small and Medium Enterprises (SME's) are valued using a business valuation method known as the Capitalisation of Earnings method. This valuation technique works by taking the earnings (before interest and tax – or EBIT) of a business and multiplying them by what is known as a multiple.

Capitalisation of Earnings Method:

$$\text{EARNINGS (EBIT)} \times \text{MULTIPLE} = \text{ENTERPRISE VALUE}$$

Determining the appropriate multiple is often the most difficult task in valuing a business. It is not uncommon to have different opinions on the appropriate multiple for the same business. That said, most Accountants and business valuers would agree that an appropriate multiple for the majority of Australian SME's would be between one (1) and five (5).

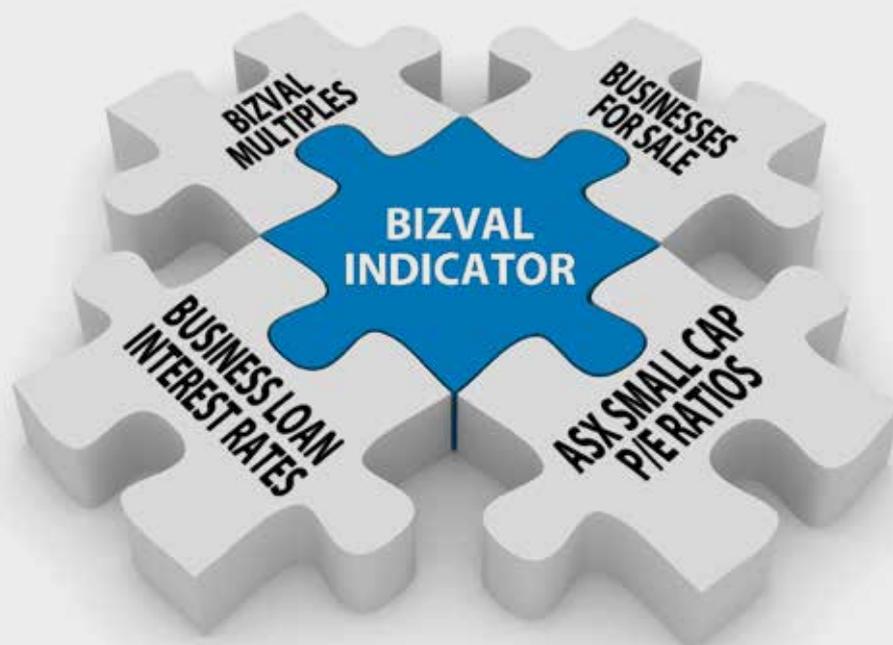
What does it measure?

It is an indicator of the value of Australian small businesses. By way of example, the All-Ordinaries Index measures the value of the 500 largest companies listed on the Australian Stock Exchange. The Bizval Indicator forecasts movements in the valuation multiples of privately owned Australian Small & Medium sized businesses. Over time we believe the monthly movement, or trend, of the number will become more important than the number itself.

How is it calculated?

It is calculated by a proprietary formula developed by Bizval Managing Director - Lee Barrett. An array of research and calculations are undertaken to arrive at the final Bizval Indicator each quarter. Bizval research, monitor and evaluate the following items:

- ASX Small Cap P/E Ratios. We only use Small Capitalisation companies as we believe these companies have greater similarities to private SME's than large cap stocks. The mean and median price earnings (P/E) ratios of companies with market capitalisation of between \$20 million and \$200 million are determined. We then adjust these figures to align them more closely with private SME's 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. We monitor 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. We undertake a review of the volume of businesses listed for sale across Australia and then make any adjustments for movements in this number.
- Bizval Multiples. We use an average of the multiples used in our actual business valuations and also include multiples from actual business sales (where available).



Why is it measured?

Unlike listed companies, the sale prices of SME's are not readily available. Bizval specialises in valuing SME's so we wanted to develop an indicator that we could track monthly to monitor movements in the drivers of SME's values.

When is it calculated?

The Bizval Indicator is calculated on a quarterly basis and released by the 15th day of the month following the end of the quarter.

What does it mean?

First, it is important to highlight that the Bizval Indicator is only an indicator of business valuation multiples. It does not mean that all SME's have the same valuation multiple. It is one factor that can be used when determining a business' value. Many SME's will have valuation multiples lower than it and many will have multiples higher than it – it all depends on the business in question and its risk profile. Tracking the Bizval Indicator over time is where we believe the most valuable information will be found. For example, assume a business was valued with a multiple of 5 at some point in the past and all parties were satisfied that that multiple was fair and reasonable. If the Bizval Indicator has increased 10% since that time, then it would be a reasonable starting point to use 5.5 when determining the business' current multiple - ceteris paribus (assuming all other things being equal). Things are not always this simple as there are a large number of factors that can affect the adoption of an appropriate valuation multiple. These factors include - the risk profile of businesses, the industries they operate and the general economy.

Does it apply to all SME's?

No. A single number cannot possibly apply to every business. However, on the whole we think it will provide valuable information about movements in the valuation multiples and consequently the values of most SME's.

Can I use it value my / my client's business?

The Bizval Indicator can only be used as a starting point to determining a business' valuation multiple. When valuing a business there are a vast number of factors which need to be considered before an appropriate multiple can be determined.

When determining an appropriate multiple for a business, we look at a large number of factors which can either increase or decrease the multiple. Here is a list of some of those factors:

- How long the business has been established
- Reliance on key person(s)
- Lease agreement terms
- Franchise or licence agreement terms
- Number of staff
- Size of business
- Industry in which the business operates
- Economic factors
- Capital intensity
- Skills or qualifications required to run the business
- Contracts & relationships with suppliers
- Contracts & relationships with customers
- Geographic location
- Barriers to entry

General Economic Indicators

Apart from the Bizval Indicator, we also think it is important to monitor other general economic indicators. We believe these indicators provide a great snapshot of the health of the economy at any given time. Below is a table of these general economic indicators for your reference, along with comparisons to the prior year.

The Consumer Price Index (CPI) rose 0.2% in this quarter, compared with a rise of 0.5% in the March quarter 2017 and it rose 1.9% over the twelve months to the June quarter 2017, compared with a rise of 2.1% over the twelve months to the March quarter 2017.

The unemployment rate remained steady at 5.6% while employment increased 54,200 to 12,269,000 with unemployment decreased 1,100 to 727,500 and the participation rate increased by 0.2 pts to 65.3% as the number of unemployed persons looking for full-time work increased 6,400 to 501,600.

The national accounts show the Australian economy grew by 0.8% in seasonally adjusted chain volume terms in the June quarter with household final consumption expenditure increased 0.7% and government final consumption expenditure increased 1.2% and exports of goods and services rose 2.7% for the quarter.

Lee Barrett, Managing Director of Bizval.

“
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INDICATOR	1 YEAR AGO	NOW	MOVEMENT
1 ASX All Ordinaries Index	5,525	5,744	3.96%
2 Dow Jones Industrial Average	18,308	22,405	22.38%
3 RBA Cash Rate	1.50%	1.50%	0.00%
4 Inflation (headline, yearly)	1.00%	1.90%	0.90%
5 Unemployment Rate	5.70%	5.60%	-0.10%
6 GDP (seasonally adjusted, yearly)	3.30%	1.80%	-1.50%

Sources:

- 1) Australian Stock Exchange, 29 September 2017
- 2) New York Stock Exchange, 29 September 2017
- 3) Reserve Bank of Australia, 4 October 2017
- 4) Australian Bureau of Statistics, 30 June 2017
- 5) Australian Bureau of Statistics, 31 August 2017
- 6) Australian Bureau of Statistics, 30 June 2017

Who is Bizval?

Bizval is a Chartered Accounting firm with a reputation for preparing quality valuation reports for small to medium-sized firms. This is all we do.

Our focus on small to medium sized businesses allows us to draw upon a wealth of comparative valuation experience across all industry segments.

Importantly, every Bizval valuation report is independent and free of bias, compiled by a qualified Chartered Accountant and registered tax agent with extensive experience in business administration.

We believe in charging fair fees with rates corresponding to the size of your business. Every client receives a quote before work starts and our fixed-rate fees mean there are no hidden surprises.

- You have the surety of knowing the total fee upfront
- You can be confident there will be no hidden surprises
- You receive maximum value for the investment made
- You receive your valuation report usually within 7 business days



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