

## When selling a business, the price must be right

*A variety of calculation methods, progressive business planning and avoiding common mistakes are key considerations when selling your business.*

**Business sellers want to achieve a good result for themselves in terms of sale price and terms. They also want favourable outcomes for the buyers to ensure the on-going success of the business for all stakeholders including customers, suppliers and staff.**

But this can be a tall order especially if a seller hasn't prepared the business for the inevitable (i.e. exiting) and has little evidence, to substantiate an ambitious asking price.

Further, going it alone without the help of a professional broker may mean selling the business short, in more ways than one.

One of the primary things a professional broker should advise on, is the business value. There are countless ways to calculate value, but a good advisor will guide you towards one most relevant, ensuring maximising the selling potential and be able to justify it.

For example, experts say there are two main methods to valuing an owner-operated business; the asset and earnings approaches.

### Balance sheet

The asset approach uses the company's balance sheet to establish overall value. This is a more simplistic approach involving an add-up of the total worth of assets, then subtracting the total liabilities to derive a figure. Some believe this method is more appropriate for businesses with a large fixed asset base.

However, the most common method used to value a business is still the earnings approach (or variations of). The earnings approach assumes that worth is based on what a business earns.

It uses the company's historical earnings and a capitalisation rate to determine value.

Capitalisation rates vary for each industry and is affected by the riskiness of the company's earnings. A professional broker with experience in your industry should provide the determinants in calculating a capitalisation rate for your business.

Technical calculations whilst important, can only do so much. In the end, it is the buyer's perception of risk versus the potential return on investment that counts. So how do sellers maximise perceived value of their business?

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## Welcome

**Welcome to this first edition of our new format newsletter.**

As you may have noticed, our newsletter has upgraded to this new colour format and now includes articles and case studies which we hope will assist you in buying or selling a business.

In this edition, we shed some light on how to evaluate your business to ensure that your business value is at its optimum when you're ready to move on.

Our article on succession and exit

planning will provide you with some fundamental practices you can adopt while the story on hot industry sectors will provide insight into the most popular businesses that entrepreneurs seem always eager to buy.

The *Jamieson* has also highlighted our business opportunity of the month on the back page.

We hope you find this edition of *The Jamieson* useful to your business endeavours.

## Changing insurance regulations see brokers merging

Recent changes to finance industry governance has placed mounting pressure on the insurance broking industry across the board.

Changes to insurance underwriting and the introduction of a new financial services licensing regime has driven many operators towards merging as a means to contain increasing regulation costs.

As such, there is strong buyer interest in small to medium sized insurance brokers particularly as in-trade buyers are keen on expanding their client portfolio quickly in order to “divvy up” the increased costs.

Consolidation seems to be the way forward for the insurance broking industry. This is further supported by the tailored packages now available from lenders that specifically assist those seeking finance for the purposes of acquisition and business growth.

We have seen increased buyer interest in insurance broking businesses first hand - and have advised three successful purchaser transactions recently which include:

- a.) Insurance broker income level \$1m-\$2m, price range \$2.5m - \$3.5m
- b.) Insurance broker income level \$2m-\$3m, price range \$4m - \$5m
- c.) Insurance broker income level \$0.5m-\$1.5mm, price range \$1m - \$2m

We have been involved in valuations, sales, mergers and acquisitions of insurance brokers for close to 15 years.

Please contact us should you have an interest in purchase or sale of insurance brokers.

# Customs and freight businesses unite as demand grows strong



**Customs brokers and freight forwarders have traditionally been two links in the import/export chain.**

The former is responsible for attaining government clearance on goods shipped while the latter manages the logistics.

But due to world events, the Australian Federal Government has ramped up its regulations on import management and implemented tighter security measures.

At the same time, the increase in trade agreements between countries has encouraged commerce, creating a greater demand for customs and freight services. As such, the industry is under great demand in more ways than one.

### Response

The customs and freight industries have responded to the changing environment.

Many customs brokers and freight forwarders have merged because it's good business sense.

Administrative and logistic errors, which are costly to both the industry and their customers, are minimised when there is only one port of call.

This is especially vital in light of increased government regulations.

More importantly, the increased demand for customs and freight services has encouraged operators to provide a hassle-free, end-to-end solution to their clients.

The merging of customs broking and freight forwarding seemed only a natural response to the changes and growth of international trade.

The level of buyer interest in the customs broker and freight forwarders industry is strong and likely to continue.

Due to the current environment, many believe purchasing a portfolio of clients is the most effective way to grow a business in this industry.

We have advised on the sale of several customs broking businesses to achieve great results for the purchaser and provide the seller with a favourable price and terms for on-going employment for staff.

Some such transactions include:

Business Type	Location	Income p.a.
Customs Broker	Syd	\$500-600K
Customs Broker	Syd	\$200-300K
Customs Broker/ Freight Forwarder	Melb	\$300-400K
Specialised Freight Forwarder	Syd	\$400-500K
Customs Broker/ Freight Forwarder	Syd	\$3-4M
Customs Broker	Syd	\$200-300K

Jamieson has been involved in valuations, sales, mergers and acquisitions of customs broking businesses for over 15 years. Please contact us should you have an interest in buying or selling a customs broking business.



# Hot Industry Sectors

Due to recent regulatory and economic changes, there is a noticeable trend towards certain industry sectors amongst business buyers.

One of the more notable trends is the move away from purchases of manufacturing businesses towards those relating to import and distribution.

Jamieson has many years of experience in most of today's well sought after industries. Some of these industries include:

- Import and distribution
- Customs broking/freight forwarding
- Fashion
- Finance- insurance broking and financial planning
- Injury/rehabilitation management

We have recently been involved in valuations, sales and acquisition searches of SME private businesses in these industries.

Please contact us for more information on today's popular industries.



# Planting the Seed for Succession



**Newspoll surveys show that nearly a quarter of people aged from 18 to 34 are seriously considering buying a business.**

Baby boomers need to be well prepared if they are to reap the rewards from this young and eager buying market.

Experts believe business owners need to factor in more than the traditional considerations in their succession planning.

Yes, documenting your business processes, good record-keeping and having a progressive plan to transfer your goodwill are all very important in ensuring that your business fetches a high value when you're finally ready to sell. As is having a good business broker that understands your industry and has a strong track record for negotiating deals.

However, there now seems to be another important consideration- psychology.

Because younger people are likely to buy businesses, astute sellers will make an effort to understand what makes them tick.

Studies show that Generation Y expect more than just a job; they expect to fulfil multiple expectations including work variety, fun and opportunity. The younger generation hunger for challenges over and above all.

Instilling flexibility in the workplace and allowing for growth opportunities will make your business more attractive to young buyers. A good way to start preparing your business for a thriving succession might be to encourage an environment where different ages can mix and share ideas.

## *Free pre-sale business assessment and value appraisal*

**Jamieson Corporate Services is currently offering free preliminary pre-sale assessments and market value appraisals of businesses in certain industries.**

Please contact us for guidance on maximising the value and transferability of your business prior to selling.

# About Jamieson Corporate Services

**Jamieson Corporate Services provides personalised and confidential business valuation and broking service to owners and managers of private businesses.**

For broking assignments, we only take on a small number of carefully selected business sale or acquisition transactions at any one time. This focussed approach allows us to achieve successful results for our clients.

Our team consists of experienced business brokers.

Our principals are licensed as business agents by the NSW Office of Fair Trading. Jamieson is also a member of the Australian Institute of Business Brokers (AIBB) and

the Real Estate Institute of NSW (REINSW).

Generally, business agents or accounting firms are unable to offer the scope and depth of practical business experience that Jamieson brings in advising proprietors on the sale of their businesses.

Jamieson's principals have financial and technical backgrounds and are experienced as industrial managers, directors and shareholders of medium-sized companies. This provides a sound base for advice to owners planning to sell their business.

Our 20 years of experience as business brokers enables us to demonstrate to purchasers how they can achieve a good fit and profit from a business acquisition.



It is fundamental to the Jamieson process to maintain confidentiality of the business sale process and to act only when we have attained clear authority.

Please contact Paul de Rome or Rodger Williams for a confidential and obligation-free discussion on the sale of your business.

Further information about our people and services is available on our website [www.jamiesons.com.au](http://www.jamiesons.com.au)

# New superannuation measures create unique opportunity for business sellers

**Thanks to a special provision created in the Federal Government's new superannuation and retirement measures, the remaining months of 2006/2007 present a unique window of opportunity for anyone who is highly cashed up or will be cashed up through selling their business.**

It is a unique opportunity for anyone wanting to sell their business and retire.

The unique circumstances expiring on June 30, 2007 are the result of reforms made by the Federal Government to the superannuation and retirement system.

A report dated September 5, 2006, released by the Federal Treasurer outlines the outcomes of the changes initially announced on May 10. It indicates that a few people could be disadvantaged through the modification of limiting undeducted superannuation contributions to \$150,000 per year or \$450,000 over a three year period from the previously unlimited amount.

It meant that some people who planned to retire at or before June 30th 2007 would

suffer some disadvantage by not being able to place larger amounts into their superannuation.

As a consequence, a transitional measure allows people to put up to \$1 million of post-tax contributions into their superannuation fund during the period between May 10, 2006 and June 30, 2007.

The \$150,000 and \$450,000 cap on post-tax contributions will begin on July 1 2007.

In essence, what this means is that a business owner who has successfully sold his business could put \$1 million of his after tax sales proceeds into super by June 30, 2007, then \$450,000 on July 1, 2007 - but no more after-tax contributions until July 1, 2010.

It's an interesting opportunity as putting money into superannuation in this circumstance is better than putting the money into an investment like shares because superannuation fund earnings, are exempt from tax once the member retires and commences living off the fund.

So \$1 million earning 7% or \$70,000 on itself, inside super would in essence be tax

free when paid to the fund member whereas a share portfolio outside of superannuation earning \$70,000 would be subjected to the taxpayer's marginal rates.

If business owners are to take this opportunity they need to implement a good business sale action plan quickly as there is not much time left.

## Opportunity of the month

### EDUCATIONAL PRODUCTS DISTRIBUTOR

Niche education market business trading over 20 years and serving a national customer base. Long history of continued growth and profitability.

Holds exclusive licences and earns high return on sales of over 20%. Could be run from home office. POA.

Please see [www.jamiesons.com.au](http://www.jamiesons.com.au) for other opportunities.

# When selling a business, the price must be right

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The key is planning ahead. The more homework done, the more people are willing to pay for it.

If you have considered where the key value of your business lies well in advance, and you have taken time to nurture, protect and even document this value, it becomes much more transferable to a potential buyer. Good selling preparation involves bedding down processes for ease of succession.

Another key factor you need to consider early on in your business is developing strong relationships with partners and

industry bodies. Most business sales are "in-trade" sales which means that the acquirer is usually someone from your industry.

Building a good reputation and developing strong rapport with suppliers, partner companies and even competitors is not only good for current but future business too.

Planning ahead is indeed vital to the final sale price of your business. Not planning ahead and waiting too long to start the process often means selling the business at liquidation rates.

There are other common mistakes that get in the way of a successful sale.

Not engaging a professional broker and appropriate advisors may result in:

- Incorrect pricing for your industry
- Loss of confidentiality
- Not understanding tax consequences
- Allowing the buyer to control the process
- Neglecting the business during the sale process

Take a step back and look at your business in relation to where you'd like to be in the future. Be prepared right from the beginning and you'll improve your chances of securing a desired selling price for your business.



**Merry Christmas and Happy New Year**  
The directors and staff of Jamieson Corporate Services send their best wishes for the fast approaching festive season.

