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**White Paper**

# **The Pricing of SMEs**

**what's going on with  
SME Valuations**



**KERR CAPITAL**  
business brokers & advisors

## The Pricing of SMEs: what's going on with SME valuations

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## Introduction

Our research and analysis covered publicly available information published by SME service organisations like ACCI, ASIC, Sensis, MYOB as well as a major business sale listing company.



Our intent was to

- ❑ determine any significant longitudinal trends for pricing in the SME sale market,
- ❑ observe factors determining revenue and profit and
- ❑ analyse current practice in SME sale pricing.

Much of the raw data was based on the **asking price** for businesses currently for sale, as there is very little quality data available on the sales prices that SME eventually transact at. Nevertheless, the analysis of asking prices, combined with our own anecdotal experience, has yielded some very helpful insights which we cover in this white paper. (We anticipate that the actual research paper with all supportive data will be published in the next six to eight months.)

## Insights

Did you know that approximately 40% of SMEs are estimated to be coming on to the market in the next decade?

We believe the findings and insights from our research will be very valuable for SME sellers, buyers and advisors in the near future.

From the first stage of this research we uncovered the following very interesting insights.

## Company Size



Smaller and less profitable companies are over represented in the SME market. If you are selling a small business, you need to consider how you are going to stand out from the crowd.

Larger companies appear to be able to attract a sale price premium, so you might want to consider **acquiring another SME** prior to exiting your business.

## Location

The golden rule of the real estate “Location, Location, Location” seems to be surprisingly irrelevant in the SME context.

In the current market we did not observe any correlation between SME valuation and differences explained by urban or rural location.



## Staff

Most small businesses employ a single professional.

Ancillary staff are expected to stay on post-sale.

There is an approximate ration of 1:3 professional/ancillary staff.



## Competition



Most companies claim:

- ☒ positional or sectorial exclusiveness,
- ☒ specialist, technical or product specific expertise.

Again, what strategy do you have in place to make sure your business stands out from the crowd?

## Implications

These insights have implications for SME sellers and buyers.

### For Sellers

Are you using quality advisors to help you understand the likely value of your business? ***What are your advisors doing:***

- ❖ to 'dig deeper' to find more relevant information to help in valuing your business?
- ❖ to avoid the traps from relying on the limited availability information on SME pricing?
- ❖ to actually identify and target the potential buyers who may be prepared to pay more for the business?



Are you wasting time, money and energy on your current business sale program if the asking pricing isn't likely to attract buyers?

There are a small number of dominant business sale listing sites and our advice would that the bigger the business the more you need to look for alternative marketing strategies to sell the business.

## For Buyers

Notwithstanding the variability in quality of the basic financial information provided, there are some quick and effective ways to 'sort the wheat from the chaff'.

Given the general lack of consistent information available, **develop a checklist of information** that you require from any seller. This also sends a clear signal that you know what you are doing and will save you lots of time.



You need to broaden your search beyond the market leading business sale listing sites to identify better quality businesses.

## Observations about SME Listings

During our analysis of SME listings we found that:

- ✘ only 67% of businesses for sale had an asking price advertised;
- ✘ only 50% produced any earnings or profit data;
- ✘ only 33% provided any information on the multiple or P/E ratio used to calculate the asking price.

From our experience we also know that there are wide interpretations of what constitutes earnings or profit and often it is very unclear whether simple items such as owners wages are or aren't included.

For some kind of businesses and in particular circumstances there may be good reason to withhold some or all financial information in advertising. However, for the typical SME business (and based on our own experience) it is usually more effective to provide as much information as you can to help the buyer. This disclosure of information allows you to position the business better than your competitors and implies a level of confidence in the business.

## Conclusion

As we observed a lot of noise in the current SME sale market data, it does not surprise us that more than 80% of all business sale deals fail in the current market. The reason for this very high failure rate is the lack of pre-sale planning.

Our analysis of the current SME sale market and the insights covered previously in this white paper reinforce the need for business owners to prepare well in advance for up-coming transaction.

If you are considering exiting your business in the near future, contact us at [info@kerrcapital.com.au](mailto:info@kerrcapital.com.au) or call **1300 53 77 22** to find out how to successfully prepare for your business exit.

