

VALUING A BAKERY



Bakers Delight

Find out more

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HOW ARE BAKERY SALE PRICES DETERMINED?

A number of factors need to be taken into consideration when valuing a bakery. It is important to understand what these factors are and how they relate to the particular bakery when being reviewed.

You might want to value a bakery if you are:

- Considering purchasing a bakery,
- Considering selling a bakery,
- Applying for a loan e.g. for a refurbishment or a re-finance of your current loan(s) - the financier will need to form an opinion as to the value of the bakery, and/or
- If you simply want to keep track of the value as an example for tracking against business plan milestones

GENERAL FACTORS TO NOTE:

- Purchasing or selling a bakery can be an emotional time. It is important that you remain objective and deal in detail with the facts relevant to the particular bakery under review
- Like any type of investment, the purchase of a bakery needs to generate an adequate financial return on the money being invested. A common methodology involves considering 10 years of projected cash flows (after tax) against that of the purchase price
- It is important that a proper due diligence is undertaken. Notwithstanding that a seller must not misrepresent, withhold or otherwise act illegally, it remains the primary responsibility of the purchaser to conduct proper due diligence
- It is strongly suggested to seek the services of an independent qualified Accountant or similar with the experience and expertise to assist through the process. This information is a general guide only to help identify some of the considerations when determining the value of a bakery. It is always recommended that you seek your own independent professional advice

SPECIFIC FACTORS TO BE CONSIDERED WHEN VALUING A BAKERY:

THE BASICS

- Establish the current operating profit of the bakery. This is best taken from the latest set of Accountant Prepared Financials – adjusted for the treatment of certain costs such as, for example Franchisee wages – do the Franchisee's pay themselves via wages and their wage cost is accounted for in the operating profit or, do they pay themselves via "Drawings" which are paid after the operating profit is calculated,
- The Valuation 'Multiple' – this is a standard component of a valuation and expresses the value of a business as a function of operating profit. This typically means considering historically what bakeries have sold for as a multiple of their operating profit. For example, if a bakery sold for \$450,000 with an operating profit of \$180,000 – this means the bakery was valued at a multiple of 2.5 times operating profit. The multiple varies from State to State and over time. Your Commercial Manager can advise an appropriate current multiple

WHAT ELSE CAN EFFECT THE PURCHASE PRICE?

- The length of the current property lease. Are there existing options to extend the lease, and if so what are the terms? Put simply, the value of a business with a lease term of 7 years will generally be worth more than that with a lease of 1 year as the bakery has a longer period of certainty in which to generate profit.
- Does the bakery require a refurbishment - if so when and what is the estimated cost? If a bakery is in need of a refurbishment at the time of its sale, then the valuation should reflect the need to invest more capital to bring the bakery up to standard. Any estimates should be included in a Bakers Delight Sales Pack if one has been prepared.
- The length of the current Franchise Agreement – if the Franchise Agreement has been paid for via lump sum (\$5K p.a. plus GST or pro rata thereof) then there may be some residual value in that the purchaser may not have to pay for the period of time remaining on the existing Agreement
- The composition of sales – for example does the bakery undertake wholesale? If yes then how much to how many customers? What is the risk of losing all or part of these sales? A risk factor may need to be applied to the existing level of these sales.
- Specifications and condition of equipment. Is there any finance on specific items of equipment – generally the seller would payout such finance to give the purchaser clear title and also should leave the equipment in a good state of repair
- What is happening around the bakery that may favourably or unfavourably impact on the bakeries sales and/or operating profit in the future. A level of certainty needs to be gauged around each of these possible impacts. A 'fact' is something that has happened, it is more certain than something that may or may not happen at some future date – you cannot buy blue sky possibilities.

DO NOT CONSIDER THE FOLLOWING WHEN VALUING A BAKERY:

- The amount of debt that is owed on the bakery – this is the responsibility of the current franchisee.
- How much blood, sweat and tears the current Franchisee believes has been put into the bakery
- Beware of what you believe other bakeries have sold for. Direct comparisons are rarely straight forward and carry a number of differences – refer factors noted above
- Blue sky promises – what may or may not happen in the future