



**Arizona Business Sales Statistics
Business Broker Sales**

2004 - 2010

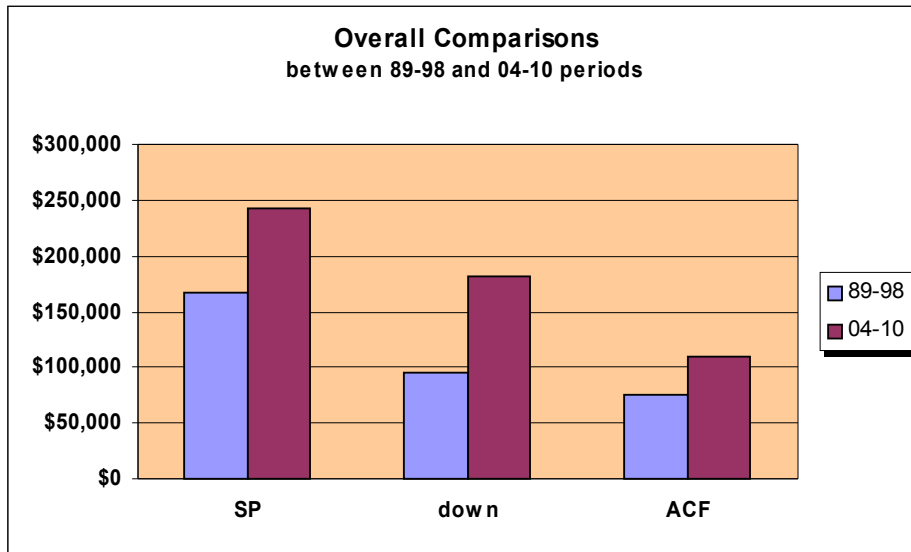


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INTRODUCTION

While the detailed statistics provided by BIZCOMPS and the *Business Reference Guide* by Tom West are invaluable for the detailed, micro-analysis of business ratios. They serve as a guide to pricing a business for a potential sale, this study represents a broader, macro view of selected business parameters applicable to businesses of all sizes.

This is the second study of business brokers sales for Arizona, the first being a study of the BIZCOMPS 1989- 1998 Western States data (1571 sales), undertaken in 2000. This study is based on the Sold data from the Arizona Business Brokers Association, AZBBA, as of June 13, 2010, and contains sales data from 2004 - 2010 (1181 sales). The Overall Comparisons graph shows the selling prices, down payments and ADJ, Adjusted Cash Flow, for these



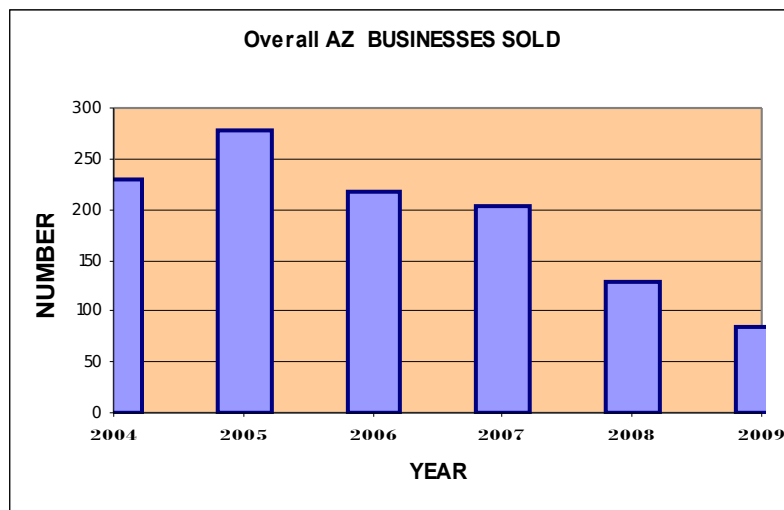
periods. Each ratio shows an increase over the earlier period.

As reported in the BIZCOMPS 2009 User Guide, certain data were eliminated as being outside the range, "outliers", which is most likely the result of errors. While the Guide reports the

selling price to gross sales ratio as ranging from 30% to 100%, this AZ study shows a range of 40% to 83%; and SDE (P/E) ranging from 1.5 to 3.5 times, this study shows a range of 1.2 to 3.2 times.

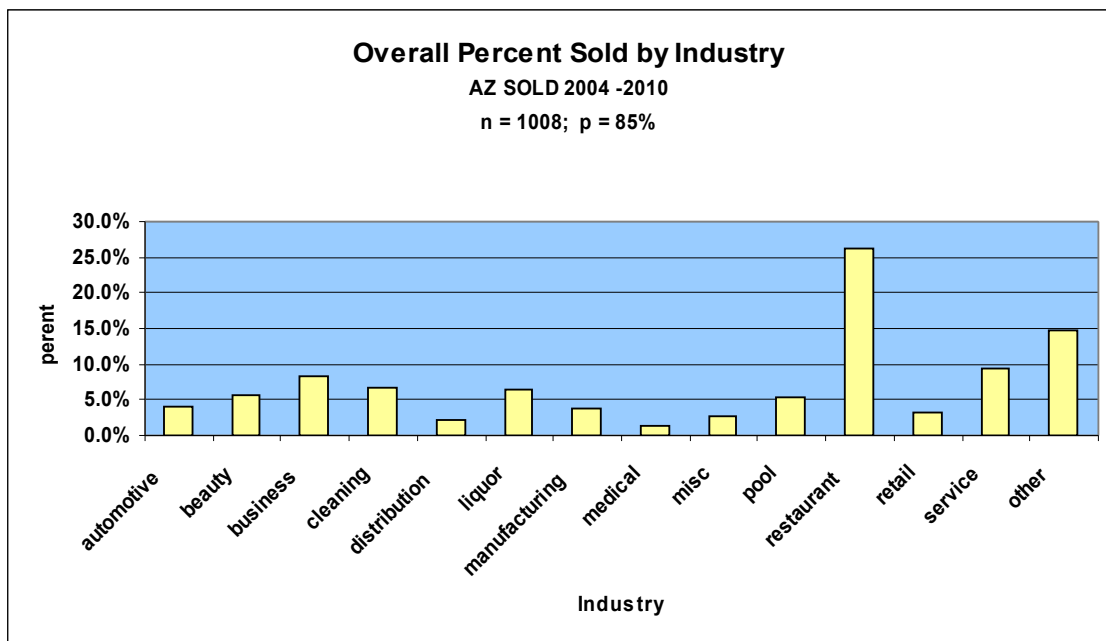
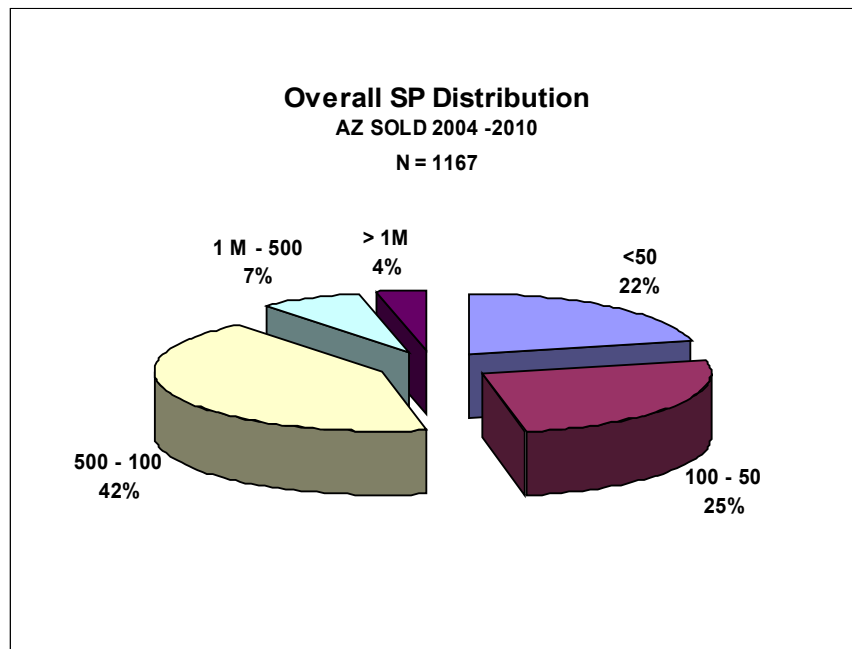
OVERALL AZ STATISTICS

To the dismay of almost everyone, this current six-year period shows a steady decline in business broker assisted

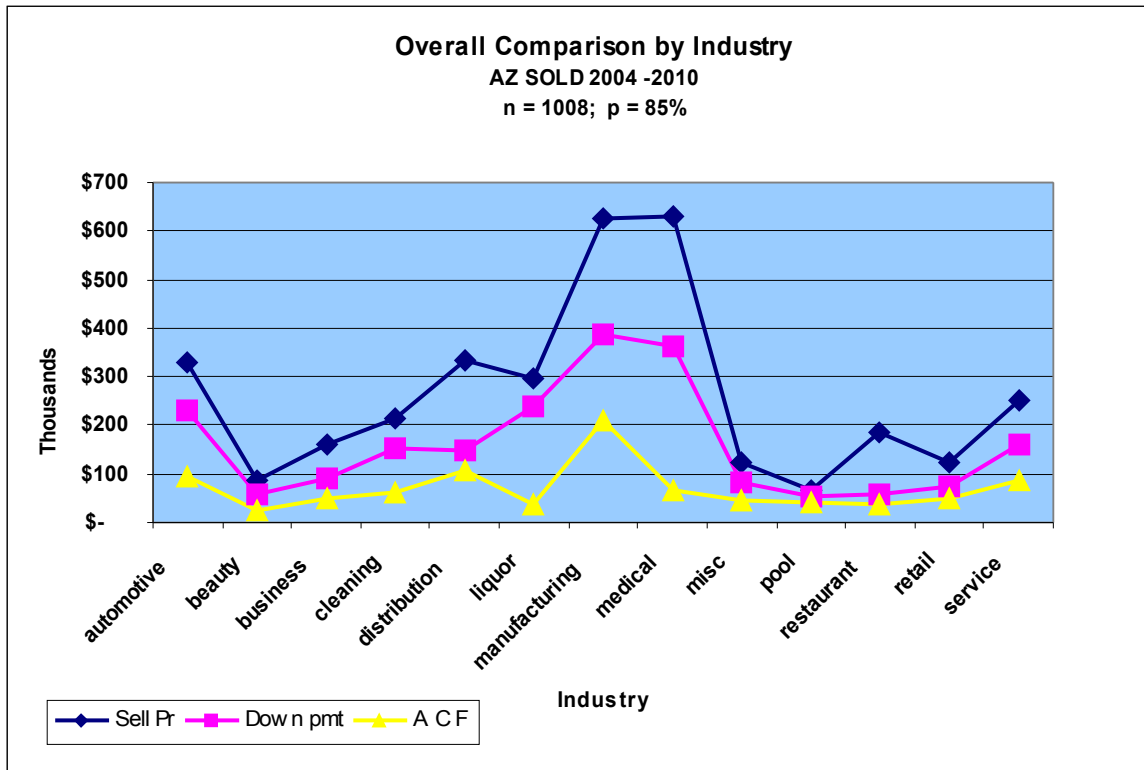


business sales from a high in 2005. The Overall Sold chart shows the average SP. The Overall SP Distribution pie chart shows almost equal percentages for business sold under 100K and those sold between 100K - 500K, 47% and 42%, respectively. Notice, too, the almost identical percentages for business sold under \$50K and those sold between 50K - 100K, 22% and 25%, respectively.

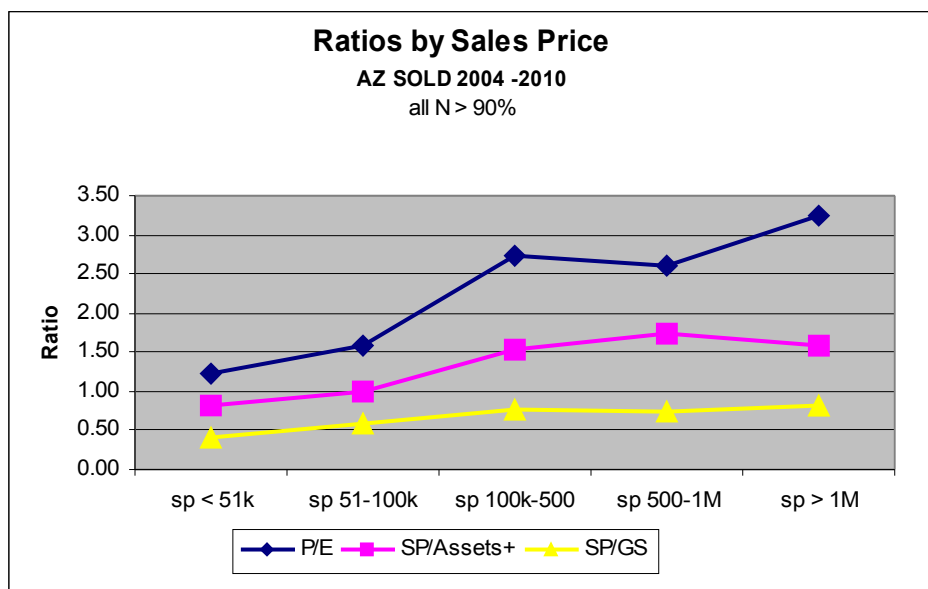
Several industry categories were selected and are shown in the Overall Industry chart. The shown categories were used as criteria for the category, and could appear anywhere in the AZBBA stated category. For example, that would make "service" and "retail" overlap as in "service/retail." Note that Restaurants constituted over 25% of the sales.



Another look at the distribution by Industry compares the respective selling price, actual down payment and adjusted cash flows for each category.



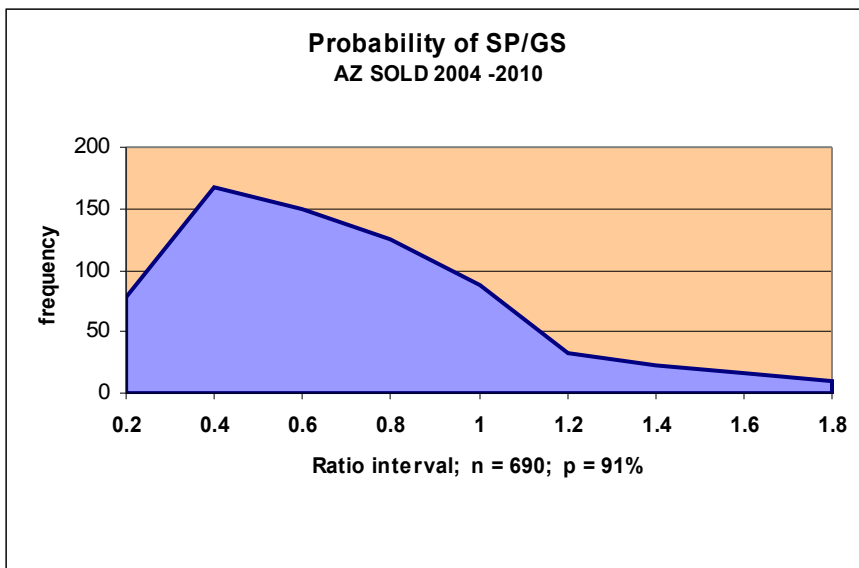
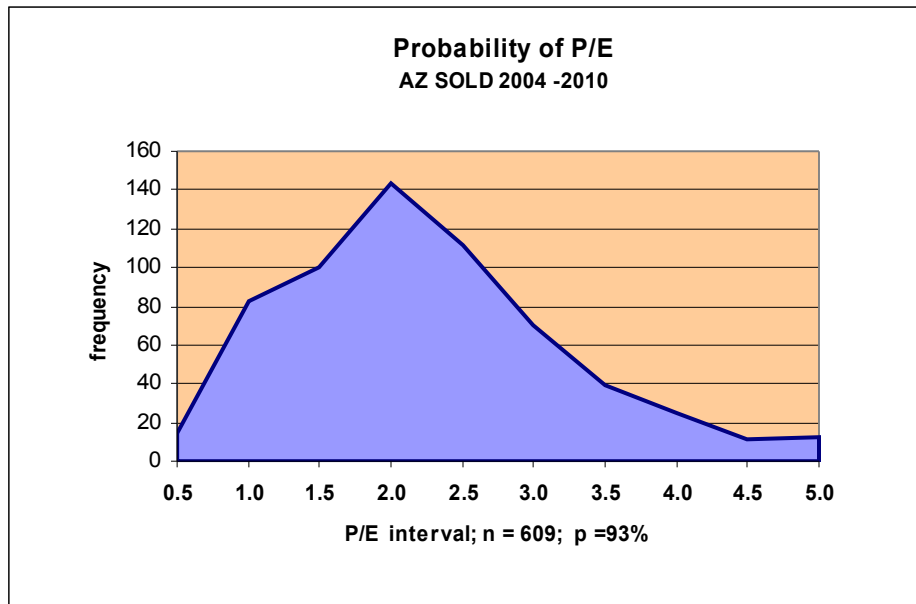
SELECTIVE RATIO ANALYSIS



Three important ratio parameters were calculated for the selected selling price ranges shown above: P/E (SDE), Selling price to assets plus R.E., and selling price to gross sales. As expected, and presented in the BIZOMP Guide, the ratios increase as the

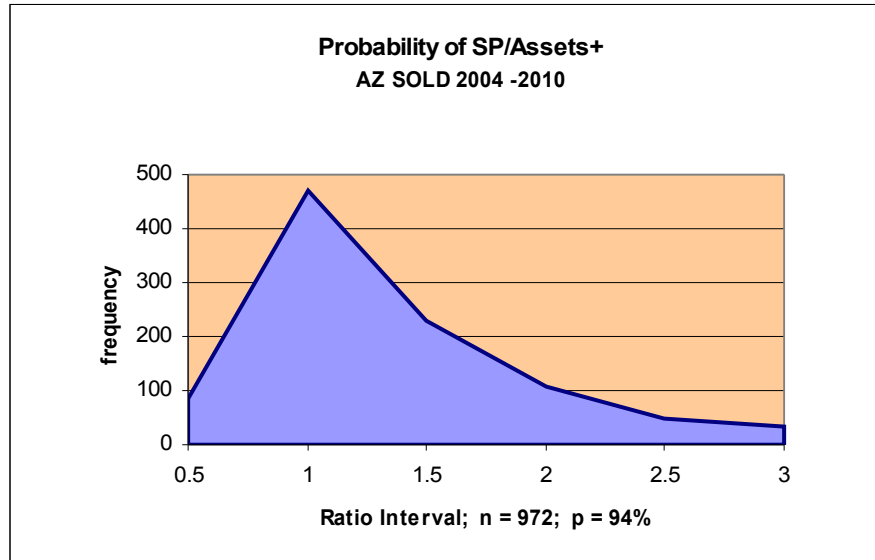
selling price increases.

As a curiosity, frequency (probability) graphs were generated for each of the ratios. Understand that while "outliers" were eliminated, each ratio is still based on more than 90% of all the "acceptable" sales transactions. Many sales were first eliminated because one factor or another was missing; the resulting transactions constituted the base for a second filtering, the removal of the "outliers." The "N" shown on the graphs reflects the acceptable sales after all filtering, and the "P" represents that percentage of the base after removing the "outliers." The graphs are for all transactions.



For those of you familiar with statistics, here are the values for the mean and standard deviations for each graph. You can add the Z-scores for 68% to get a "comfy" feeling. For those not quite so familiar, draw a vertical line at the sum of the mean and std on each chart, which says that any ratio above -- to the right -- has less than a 1/3 chance of selling. Above 2 z-scores, there's only a 5% chance of a sale. All other things notwithstanding.

Example: In the Asset graph, an SP/A ratio of more than 1.6 will fall into the 32% chance of selling, and above a ratio of 2.3 has less than a 5% chance of selling.



	P/E	SP/A+	SP/GS
chart mean	2.0	1.1	0.6
chart std	0.9	0.6	0.4

COMMENTS

As we are all well aware, there's no causal relationship between any statistic and any real-life event. I recall the college student presenting his study on temperature and ice cream sales, giving his conclusion that as ice cream sales went up so did the temperature.

As with most of those sports statistics, they point to the odds, not guarantees, of an event happening. And we all want the odds on our side. Given all the other human factors involved in a closing of a business, we should aim to get these ratios into the "highly likely" to close area.