Before you buy a café.

Australia has nearly 28,000 cafés and coffee shops. It is a mature industry, competition is high and rising, and the barriers to entry are low — which changes what you are actually buying, and what it can rationally be worth.

THE INDUSTRY, IN FOUR NUMBERS

Revenue across the sector runs about **$15.9 billion** shared between **27,821 businesses** — roughly **$571,000 each**, with about five staff. Total industry profit is **$526 million**, which works out at around **$18,900 per business per year** before the owner's own wage is considered. Margin sits at **3.3%**. It has held steady for five years, which is the good news — this is a thin industry, not a collapsing one. But it is thin.

The test that should decide your price

In an industry with **low barriers to entry**, goodwill has almost no moat. Someone can open across the road next year for the cost of a fit-out. So the honest question on every café you look at is not "what is it earning" — it is:

What would it cost me to build an equivalent shop across the road?

That number is the ceiling on what goodwill can rationally be worth. If a café is priced at $400,000 and you could fit out an equivalent site for $250,000, you are paying $150,000 for a customer base — in a market where a competitor can arrive next month. Sometimes that is worth it: an irreplaceable corner, a locked-in lease below market, a genuinely established trade. Often it is not. **Do the sum before you fall for the place.**

WHAT MAKES GOODWILL REAL IN THIS INDUSTRY

A site that cannot be replicated nearby · a long lease with options at a rent you could not get today · a trade that is habitual rather than novel · systems and staff that run without the owner. Anything else is a fit-out with customers attached.

The rebuild — illustrative	Amount
PEBITDA as advertised	**$140,000**
A manager to run it at market wage	– $78,000
A second unpaid role the owners cover	– $22,000
Rent under the lease **you** will sign	– $11,000
Equipment due inside 24 months	– $7,000
What the lender assesses	$22,000

Cafés are advertised on **PEBITDA** — earnings before the owner's own wage is taken out, because the buyer is assumed to work in the business. In a 3.3% margin industry that add-back is not a minor adjustment. Two owners working sixty hours a week between them can be most of what is being advertised as profit.

WHERE THE MONEY ACTUALLY COMES FROM

Coffee is **59%** of industry revenue, food **21%**, other drinks **20%**. Coffee carries the margin; food carries the labour and the waste. A café that looks busy on brunch and quiet on coffee is a different business from one that looks the same on the takings sheet — ask for the split before you assume.

Sit in it before you buy it.

Two hours in a café tells you more than any information memorandum. Go at 7:30am, go again at 2pm, and take a notebook.

What to count while you're there

- ☐ **Cups an hour, in the peak and in the trough.** Coffee is 59% of the revenue in this industry — count the actual cups, not the vibe.
- ☐ **How many customers are regulars.** Watch whether staff start the order before it's given. That is the goodwill, visible.
- ☐ **Staff on the floor against customers served.** Wages run about a quarter of revenue industry-wide. Overstaffed at 2pm is a margin problem you inherit.
- ☐ **Food coming out, and food going in the bin** at close. Food is the wasteful 21%.
- ☐ **The seats outside**, and whether the permit for them is on the wall.
- ☐ **Who else sells coffee within 200 metres**, and how good it is.

What to ask the owner, face to face

- ☐ **Years left on the lease, including options?**
- ☐ **Is the coffee machine yours, or is it on a supply agreement?** If beans come with the machine, you are buying a contract as well as a café.
- ☐ **Who makes the coffee, and are they staying?**
- ☐ **What's your food cost and your wastage?** If nobody measures it, that's the answer.
- ☐ **What's changed in the last twelve months?** Rent, a new competitor, a lost office block, a road works project.
- ☐ **What have you stopped spending on?**
- ☐ **Why this price?**

Score them side by side — you will look at several

	Café A	Café B	Café C
Asking price			
Fit-out cost to build an equivalent			
PEBITDA advertised			
Rebuilt earnings — after a real wage			
Coffee / food / other split			
Lease: years left including options			
Occupancy cost as % of revenue			
Coffee supply agreement tied to the machine?			
Who makes the coffee — and are they staying?			
Deal-killers found — how many			

The café you remember most fondly is rarely the one that stacks up best on paper. Fill this in the same day you visit, while the coffee is still fresh in your memory and the numbers are still fresh in your notes.

The 12 deal-killers.

Run every café you look at past this list. One is a negotiation. Three is a walk — and in an industry this thin, walking away costs you almost nothing at this stage.

1 **Goodwill priced above what you could build it for.** Low barriers to entry mean a competitor can open across the road for the cost of a fit-out.

> → **Price goodwill against build cost. Anything above needs a reason.**

2 **A lease shorter than the loan.** Term plus options running out before your facility does — and no lease means no café.

> → **Fix the term before the contract. It sets the funding.**

3 **Occupancy cost eating a 3.3% margin.** Rent, outgoings and levies climbing as a share of revenue in a very thin industry.

> → **Model the next review. Reprice, renegotiate, or walk.**

4 **PEBITDA taken at face value.** Two owners working sixty hours between them, inside the advertised figure.

> → **Rebuild it. Price and borrow on that number.**

5 **The coffee machine that isn't yours.** A "free" machine tied to a bean supply agreement at a set price for years.

> → **Read the supply contract before the sale contract.**

6 **The barista is the business.** Coffee quality — and therefore the regulars — walks out with one person.

> → **Secure them before settlement, or reprice the risk.**

7 **Food margin and wastage unmeasured.** Food is a fifth of revenue and most of the waste. No records means no control.

> → **Treat as unmanaged loss and price the uncertainty.**

8 **The outdoor seating isn't guaranteed.** Footpath permits are council-granted, conditional, and not automatically transferable.

> → **Confirm with council. Condition the contract on it.**

9 **Unpaid super or casual-award exposure.** A heavily casual workforce, penalty rates, and entitlements behind.

> → **Quantify, indemnify, adjust at settlement. Or walk.**

10 **Equipment on finance.** Machine, grinder, fridges or ovens already secured to a financier.

> → **PPSR by serial number. Payouts at settlement.**

11 **A royalty that outruns the margin.** A percentage-of-revenue fee in an industry averaging 3.3% profit.

> → **Do the arithmetic on page 4 before you sign anything.**

12 **No restraint, no handover.** The owner stays local and keeps the regulars, and nothing stops them.

> → **No restraint, no deal.**

ANYTHING TOUCHING THE LEASE COUNTS DOUBLE

A café is a fit-out bolted to a floor with a customer base built on convenience. Everything you pay for location assumes the business keeps trading from that address — so a lease problem is not one finding among twelve, it is the finding.

TWO SEARCHES, TEN MINUTES

Run a **PPSR search** on the vendor entity and by serial number for the machine, grinder and refrigeration — equipment you assumed came with the café is very often financed or supplier-owned. And read the **reviews all the way back**: you are looking for when the reputation changed, and whether it names a person.

Score it — one column per café you inspect

1 ____	2 ____	3 ____	4 ____	5 ____	6 ____
7 ____	8 ____	9 ____	10 ____	11 ____	12 ____

The royalty has to earn its keep.

Buying into a café system is a genuinely different transaction — a licence to trade under someone else's brand, inside their rules, for a defined term. In a 3.3% margin industry, the arithmetic deserves to be done first.

Do this sum before anything else

On industry-average economics — about $571,000 revenue and roughly $18,900 of profit before the owner's wage — **a percentage-of-revenue royalty can exceed the entire average profit.** At 4% of revenue it is around $22,900. At 6% it is around $34,300. Those are not small line items in a business averaging under nineteen thousand dollars of profit.

That does not make franchised cafés bad businesses. It means the system has to deliver enough extra revenue, or enough better margin, to pay for itself and then leave you ahead. Plenty do — through buying power, brand draw, site selection, training and systems an independent would take years to build. Your job is not to assume it works, or assume it doesn't. It is to **test whether this particular system delivers it** — and there is only one reliable way to find out.

Ring the other franchisees. Current and former.

Their contact details are in the disclosure document for exactly this reason, and it is the most useful hour you will spend on the whole deal. Ask what they actually take home, what the last refit cost, whether the marketing fund shows up in their trade, how much support arrives in a bad month, and whether they would buy again. Ring the former ones too — people who have left are the least filtered source available to you.

The Code runs clocks you cannot sign away

- ☐ A **consideration period** after you receive the disclosure document, before you can enter
- ☐ A **deemed-consent period** on the franchisor's response to a transfer request
- ☐ A **cooling-off period** after entry
- ☐ Build all of them into the contract timetable from day one, not the last fortnight

Get these in full, before you offer

- ☐ The **current** disclosure document and the agreement **you** will sign — not the outgoing franchisee's
- ☐ The Franchise Disclosure Register entry for the system
- ☐ Royalty, marketing fund, and any margin the franchisor makes on supply to you
- ☐ Mandated suppliers, and what you must buy from them
- ☐ Territory rights, and what protects you from a new store nearby
- ☐ Renewal terms, and exactly what triggers a refit
- ☐ Transfer fees, training requirements, and how long training takes
- ☐ Whether the lease sits with you or with the franchisor

ONE THING THAT GENUINELY FAVOURS A SYSTEM

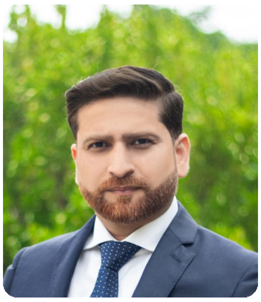
Some networks hold lender accreditation, which can mean better gearing and pricing than a standalone café of identical size. Tell your broker the brand in the first conversation rather than the last.

WORTH NOTICING

Australia's café industry is roughly **99% independent operators**. That is not an argument against franchising — but it tells you that in this category, unlike fast food, systems have had to work hard to prove their value. Make the one you are considering prove it to you.

Send the pack. Get an answer in 24 hours.

Funding is decided on the quality of the submission, not only the quality of the deal. Send these to **priyank@prevailfinance.com.au** and a written action plan comes back within one business day.



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With gratitude

About the café

- [ ] The lease in full, with outgoings and any option notices
- [ ] Financials and tax returns — three years minimum, five if held
- [ ] The PEBITDA worksheet, with every add-back evidenced
- [ ] POS reports — monthly, with the coffee, food and drinks split
- [ ] The coffee supply agreement, and any equipment tied to it
- [ ] Equipment register, showing what is financed
- [ ] Franchise pack, if applicable — agreement, disclosure, register entry
- [ ] Asking price and how it was built

About you

- [ ] Two years' tax returns and notices, plus entity financials
- [ ] Assets and liabilities, with an equity source
- [ ] Six months' loan statements, three months' transactions
- [ ] Photo ID · any hospitality or food safety qualifications
- [ ] A short work history — credit assesses **your** capacity too
- [ ] Proposed buying entity and transition plan

Why the pack decides the outcome

Complete pack (everything, first time) → **One clean submission** (the story holds together) → **Credit reads it once** (confidence, not questions) → **Room to negotiate** (gearing, pricing, exceptions)

Partial pack (sent in pieces) → **Questions, then re-work** (days lost each round) → **Credit reads it twice** (doubt attaches to the file) → **Conditions and delay** (and a finance clause running out)

Same deal, same buyer, same lender. The only variable is what arrived in the first email — and it moves the terms, not just the timeline.

Within 24 hours of a complete pack

- [ ] A written action plan — what happens, in what order
- [ ] The funding pathway scoped for this café
- [ ] An indicative pricing band
- [ ] The finance clause date your contract needs
- [ ] Pre-approval process under way

And one thing to do today, before you find one

Get your borrowing capacity assessed **before** you start negotiating. It costs nothing, and it changes everything: you learn your real ceiling, which lenders back hospitality, and how the lease term affects what you can borrow — so when the right café appears you negotiate like someone who can settle. Almost nobody does this first.

We're paid when a deal settles. If the numbers say walk, we'll still tell you to walk. **With gratitude — Priyank**