

Tabak Market Update



From 1 July 2021 new IRD rules will be in use regarding the buyer & seller allocation of the purchase price between stock, tangible assets & intangibles. Where the parties agree on this split then these numbers must be used for tax purposes. Whilst there are IRD-mandated protocols if agreement cannot be reached <https://www.ird.govt.nz/income-tax/income-tax-for-businesses-and-organisations/buying-or-selling-a-business/setting-up-an-asset-sale> Tabak note that all sales and SPA's that we are involved with include agreement on this allocation, so despite this new legislation, we see things very much along the lines of "business as usual".

Intangible Assets

The above segues very well into some thoughts around intangible assets. Whilst bank funding for intangibles may be problematic, **intangibles commonly make up 60-70% of the value of businesses sold by Tabak**. Buyers can often blithely refer to intangibles as "goodwill", an amorphous word that does simply not reflect the very real and measurable value in:

- Existing staff and experience inherent within the business
- Systems & procedures developed over many years to optimise business productivity and endure regulatory compliance
- Supplier relationships and alliances that can be leveraged for competitive advantage
- The cashflow benefit from making sales on Day 1 of new ownership
- The very real cost in acquiring new customers

Amy Gallo from the Harvard Business Review writes:

"Depending on which study you believe, and what industry you're in, acquiring a new customer is anywhere from five to 25 times more expensive than retaining an existing one. It makes sense: you don't have to spend time and resources going out and finding a new client — you just have to keep the one you have happy. If you're not convinced that retaining customers is so valuable, consider [research done by Frederick Reichheld of Bain & Company](#) (the inventor of the [net promoter score](#)) that shows increasing customer retention rates by 5% increases profits by 25% to 95%."

Chances are that the profit multiple a buyer is being asked to pay for the intangible assets will be materially less than the number of years it would take to start a new business from scratch and grow profit to the level of the business they are considering purchasing!

Market Update

Despite suffering a decline of 15% in turnover for the 2021FY (off the back of a record result in 2020FY), Tabak SI is delighted in the results we were able to achieve, during a challenging time both domestically and internationally. This market enthusiasm has continued into this FY where we have achieved our strongest two month start to the year, within our last five years! Sales within the last twelve months include:

Franchise (4)	IT Services	Laundry	Import & wholesale (2)	Irrigation
Service (4)	ECE	Installation	Manufacture & Sales (2)	

CAANZ Zoom Seminar

Our own Sam Cherry, Chartered Accountant and senior business broker, has been asked to present in a few weeks to CAANZ members about the market, and how we value businesses, including some comment on accounting practice sales.

<https://store.charteredaccountantsanz.co.nz/NZ-Sharing-Knowledge-How-would-a-business-broker-value-your-business-or-firm?quantity=1&custcol III eventdate opt=24&custcol III eventyear opt=6&Location=Online%20Session%202&custcol III eventmonth opt=6>

It will be via Zoom, and will be attended by accountants NZ wide, and we welcome your attendance.

As always we are happy to discuss any aspects of business valuation & sale with you or your clients at any time obligation-free.

Best Regards
The Tabak SI Team....

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