

### Business Update

Firstly a quick “heads up” on the business sales market. The current FY is gaining momentum with a solid pipeline of genuine vendors, and a long list of buyers who have access to funding and a strong desire to either “do their own thing” or enjoy the ROI available from owning your own business. With six confirmed sales in Q1 and another two in due diligence, indications are that the 2020FY will be another positive year for Tabak South Island. However we are starting to see some unusual behaviours in the marketplace in regard to valuations.....so here is our perspective.

### The Art Of Business Valuation

All vendors want to optimize their sale price – that is understandable and natural. To assist in nominating the highest realistic value that can be achieved, Tabak has market data from literally hundreds of sales that we have achieved, and also more generic BizStats data, albeit the latter provides only minimal context on the individual businesses.

Business value depends on a range of factors such as location, cashflow, profitability, number of staff, trading hours, business risk assessments, industry metrics etc. etc. Owner income (EBPITD) multiples will differ from EBIT multiples and Tabak takes all these factors into account when advising prospective vendors what we believe their business will sell for. However business valuation can be as much an art as a science, relying on brokers’ experience within a particular market and understanding the nuances of industry etc.

***Valuation is not a “tick box” exercise to be entrusted to computer algorithms that have no sense of context or the dynamics within a particular business. Tabak enjoys a ratio of successful sales to listings exceeding 80%, with values being realised that are on average within 5% of our valuation price. How do we know this? We monitor our results, we have done for 15 years and we are proud of them and stand by them.***

Let’s say our vendor manufactures and sell widgets. Let’s suggest that they increase the price of their widgets by 20%, to see if they might “get lucky” and sell more and/or make more money. Chances are they will respond as follows “I know my market. You are wasting my time, damaging the market and undermining my company’s goodwill and customer trust”. Why should it be any different when it comes to selling their business as a whole, so there is a real and present danger in “gilding the lily” too much when establishing business value.

Tabak vendors are happy as they achieve their primary objective (a sale) and they can be confident that through Tabak’s processes and experience, they enjoy a strong level of comfort as to what their sale price will be. Not infrequently we are contacted by accountants seeking guidance on value multiples for specific clients and we are happy to provide advice and even be “the Devil’s advocate” as required.

Thanks for all your referrals and continued support, and all the best for the rest of the FY. We are happy to help you or any of your clients in regard to valuation and/or sale of their businesses. As always, if you do not want to receive occasional emails in regard to the business sales market, please advise and we will unsubscribe you.

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