

Introduction

This email newsletter briefly covers the current business sales environment and then we touch on several key areas that are critical whenever one of your clients decides that they want to sell or purchase a business.

The Business Sales Market

After a record FY ending March 2022 Tabak SI's expectations for this FY were definitely for a slowdown, due to a number of factors including rising interest rates, difficulty in securing funding, international events and simply "the mood of the nation....." through Autumn & Winter. Despite this we have now actually confirmed only two sales less than at the same time last year, and we do have two businesses currently under offer, and several close to an offer.

There is still demand for good businesses, and we are finding that if the basics are in place (financial performance, reporting systems; spread of risk) then buyers will see past some of the more pessimistic short term economic forecasting. It is also pleasing to note that more recent economic commentary references an increasing possibility of a "soft landing" and also the fact that underlying circumstances in the current "slow down" are very different to the factors that were in play during the GFC of 2009.

Redundancy Provisions

In the last twelve months we have seen several instances of businesses with very established workers, with an old Employment Agreement that contained redundancy provisions, that has created definite tension and concern at the time of sale, based on an asset sale of a going concern. Workers are legally being terminated and then re-employed and there is a range of solutions and/or variables that need to be considered in respect of a redundancy liability – and this is best done in advance, rather than during the mid or late stages of a due diligence exercise. Something worth checking when your clients tell you they are thinking of selling.

Franchisors

It is becoming increasingly common for Franchisors to nominate or mandate "further terms of sale" within the Sale & Purchase Agreement that best suit their perceived requirements. These can include transfer payments; training expenses; WIP methodology; a convoluted and time-consuming franchise approval process etc. that can clearly impact on either the likely sale of the business or the overall financial outcome of the sale for the franchisee vendor. Franchisors determine their policies and procedures as they see fit, and these are unlikely to change within a franchisee sale environment, so for your franchise clients just ensure that they are fully aware of the impact and process of the franchise sale protocols determined by their Franchisor.

Funding

The CCCFA and rising interest rates, along with the economic headwinds around the globe (including supply chain and labour issues), have made the current funding environment very different to a year ago. If you have a buyer wanting to purchase a business, they will need to remain vigilant as to the current lending environment – as an approval in principal twelve months ago could look very different to now. Again it is best to understand the likelihood of funding approval well before going into an SPA, then having to scramble around at the last minute in due diligence to try and find a lender.

Many of you will be assisting your clients in this aspect of their business search, and at risk of taking “coals to Newcastle” we came across an article that we believe could have some real value for any of your clients wishing to borrow money for business (or other) purchases - <https://www.financenz.co.nz/news/why-you-need-care-about-your-credit-score>. Our thanks to Finance NZ for allowing us to reference this article.

In closing, our team are always happy to discuss any aspects of business valuation & sale with you or your clients at any time, obligation free. If you do not wish to receive occasional emails regarding the business sales market, please advise and we will unsubscribe you.

Thanks & Regards

The Tabak SI Team – Damien, Sam, Kevin & Diane

Damien Fahey
Partner
Tabak Business Sales
www.tabak.co.nz
www.tabakchch.billboardme.co.nz

Phone: +64 3 377 7491
Mb 027 685 3536
Email: damien@tabak.co.nz

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