

ABC.
Business Sales
Licensed REA 2008

MARKET INTELLIGENCE REPORT

SMALL AND MEDIUM-SIZED ENTERPRISES

Q3 - 2022



EXECUTIVE SUMMARY

This is our seventh Market Intelligence Report (1st was Oct-20) and we are seeing business sales replicate trends we are witnessing across all other asset classes; that is investors becoming more hesitant based on more uncertainties in the current economic environment. The business sales market is no longer experiencing the trend of demand exceeding supply and we are now in a more balanced market where both buyers & sellers have time to make sensible investment & exit decisions without characteristics such as FOMO looming in the background.

Demand data points, such as signed confidentiality agreements by prospective buyers, have shown a decline of 21% compared to the same period last year. Supply data points, such as new businesses listed for sale, have flattened with small decreases (1% & 7%) both at a total market level and ABC level. This is evidenced by the tables and graphs featured in the report.

The average business price has continued to increase for the latest 12mth data period at a moderate rate of 5%. The 5% increase is down from 8% in the June-22 quarter and we expect prices to continue to flatten off and stay at existing levels for the short term. Increasing interest rates and more evenly matched demand and supply characteristics are the key factors contributing to asset prices remaining flat for the remainder of 2022.

SUPPLY DEMAND





2022/23 Projections for Business Sales

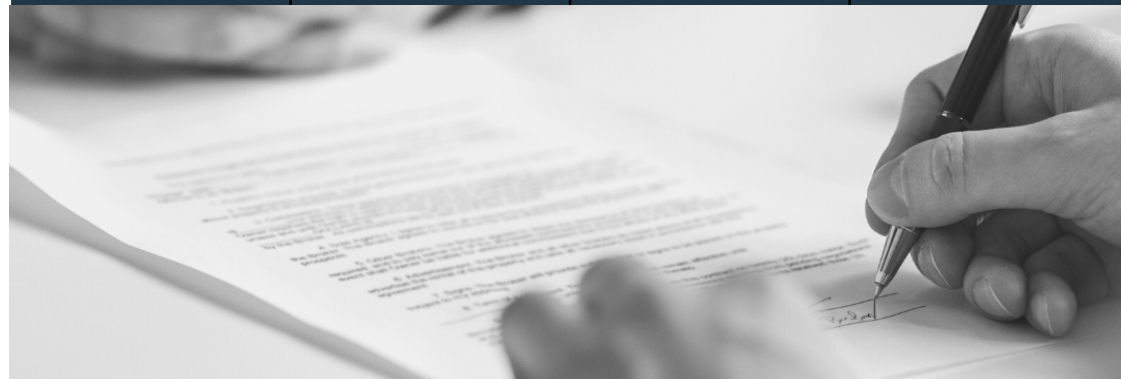
This report includes data up to Sept-22 and the information is indicating the market is experiencing a more normalised level of activity but is not recording the record levels of activity that we saw in 2021. 2021 was a record year for M&A activity in New Zealand across all levels including publicly listed companies down to SME Business Sales, this was fueled by low-interest rates & an abundance of cash in the system looking for a return which equated to excess demand for business sales & acquisitions. The latest data is showing signs of a more balanced market with reduced demand being matched by a small decline in businesses coming to market. The data shows us transaction sales volumes are down 14% (albeit from a record year) and we expect this to continue and be maintained in the short term to the end of Mar-23.

To date business prices have held firm and we have not witnessed the dramatic declines experienced in the housing market, a key reason for this is residential property sales have high elements of emotion attached to any transaction which are materially affected by market sentiment vs business sales are completed on a numbers/yield/multiplier calculation which remains consistent in both high and low periods of the market.

With lockdowns no longer being part of the NZ in 2022/23 and overseas travel now possible we are already seeing many business owners taking the opportunity to divest their businesses, this is particularly relevant to the baby boomers who currently own the majority of NZ's privately owned businesses. We believe 2022/23 will be a steady and balanced year for business sales given an element of pent-up supply caused by business owners who weren't comfortable selling their business in a covid environment. The bounce back to a more normal economic environment post COVID-19 will provide more confidence & certainty to both sellers and purchasers and in our view this will result in a steady level of transactions occurring; but not record amounts that we witnessed in 2021.

Signed Confidentiality Agreements Per Month

Month	2020/21	2021/22	% Change
October	1315	1235	-6%
November	1334	918	-31%
December	1267	800	-37%
January	1653	1116	-32%
February	1379	995	-28%
March	1493	1172	-22%
April	1212	976	-19%
May	1473	1050	-29%
June	1542	1250	-19%
July	1432	1135	-21%
August	1254	1231	-2%
September	1111	1161	5%
Total	16,465	13,039	-21%

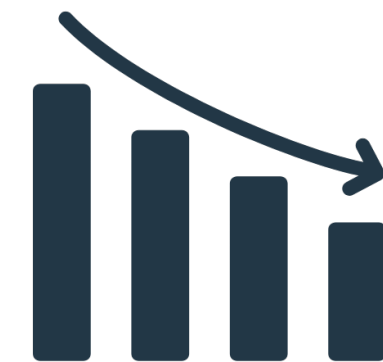


DEMAND DATA POINTS

SIGNED CONFIDENTIALITY AGREEMENTS

Signed confidentiality agreements completed by potential purchasers have decreased by 21% when comparing the twelve months to Sept-22, we believe this is driven by the following factors:

- New Zealand experiencing record lows in unemployment.
- The introduction of higher interest rates to New Zealand's economy has reduced the demand for all investment asset classes across the board.



DEMAND DATA POINTS

MONTHLY WEBSITE

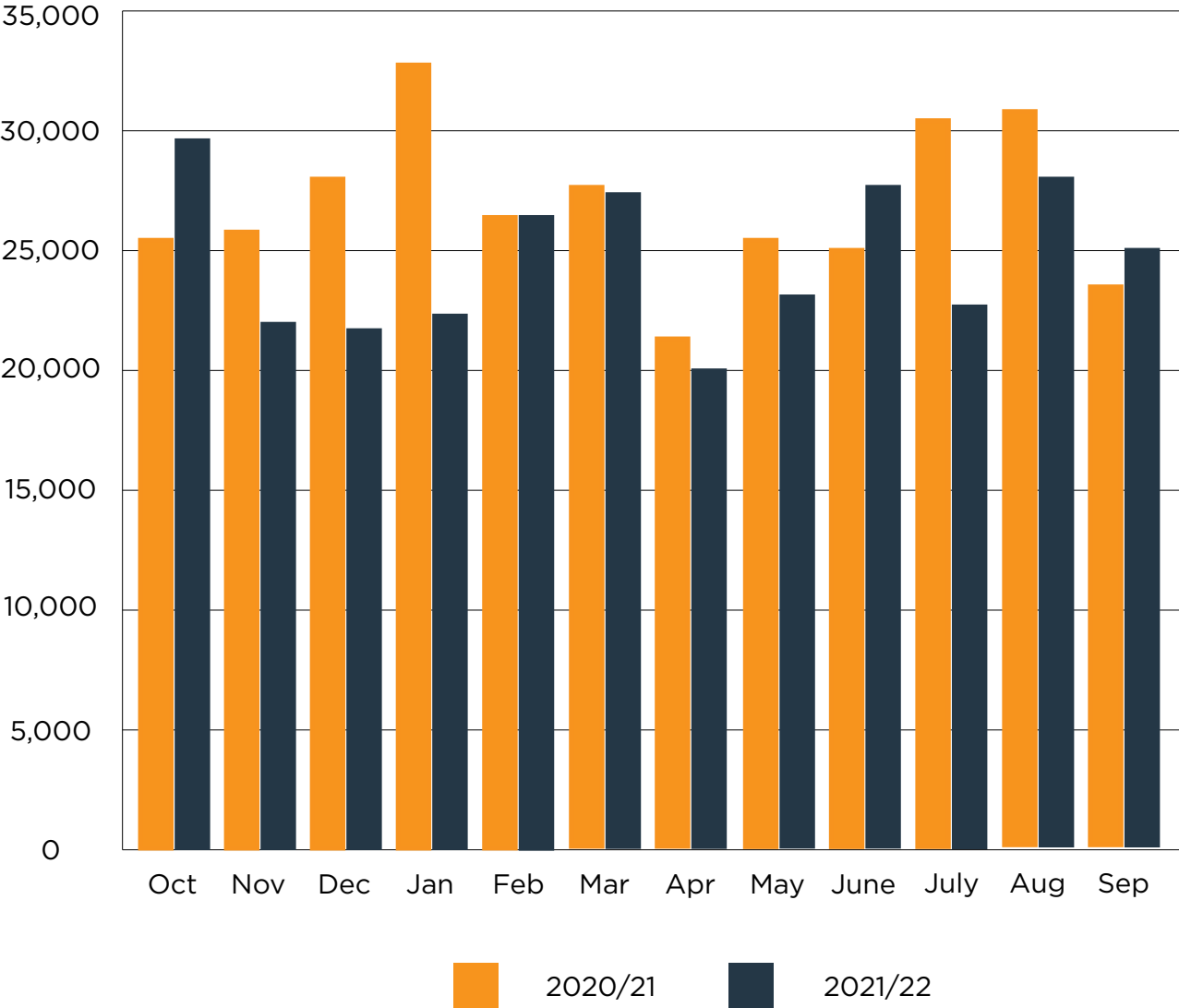
TRAFFIC - ABC WEBSITE

This chart shows the monthly website traffic to the ABC website - a measure of people investigating business ownership.

The twelve months to Sept-22 show an 8% decrease in visitor traffic to our ABC Business Sales website compared to last year.

The ABC website had a total of 298,261 visitors for the last twelve months - down from 323,814 for the same period in the last financial year.

Monthly Website Traffic ABC Website



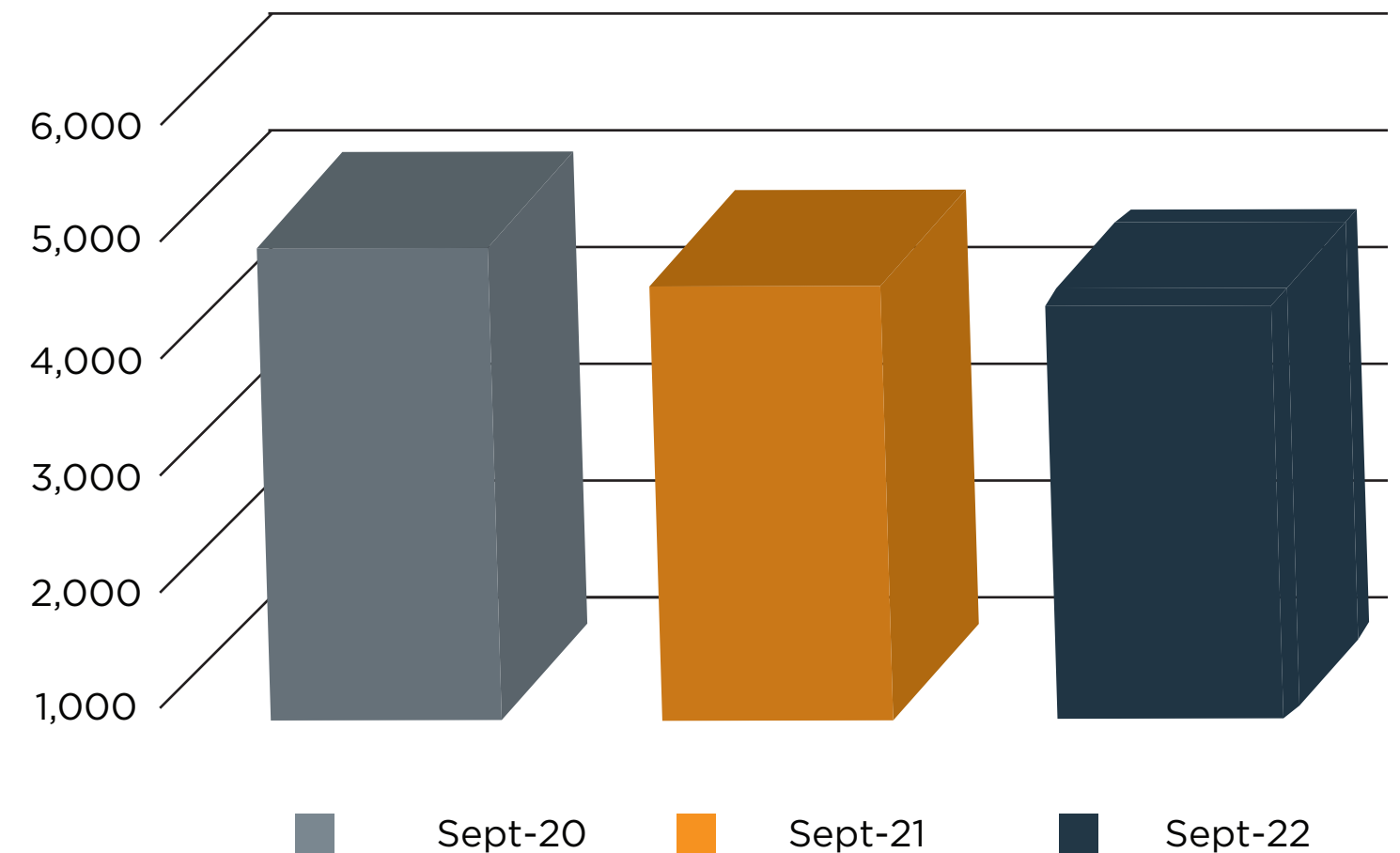
SUPPLY DATA POINTS

BUSINESSES LISTED FOR SALE - TRADEME

This chart looks at the trend of businesses listed for sale across New Zealand via TradeMe. As you can see the trend is flat year on year and indicates we are now in a more normalised and balanced market with less variability in volumes of new businesses coming to market.



Average number of business listings TradeMe

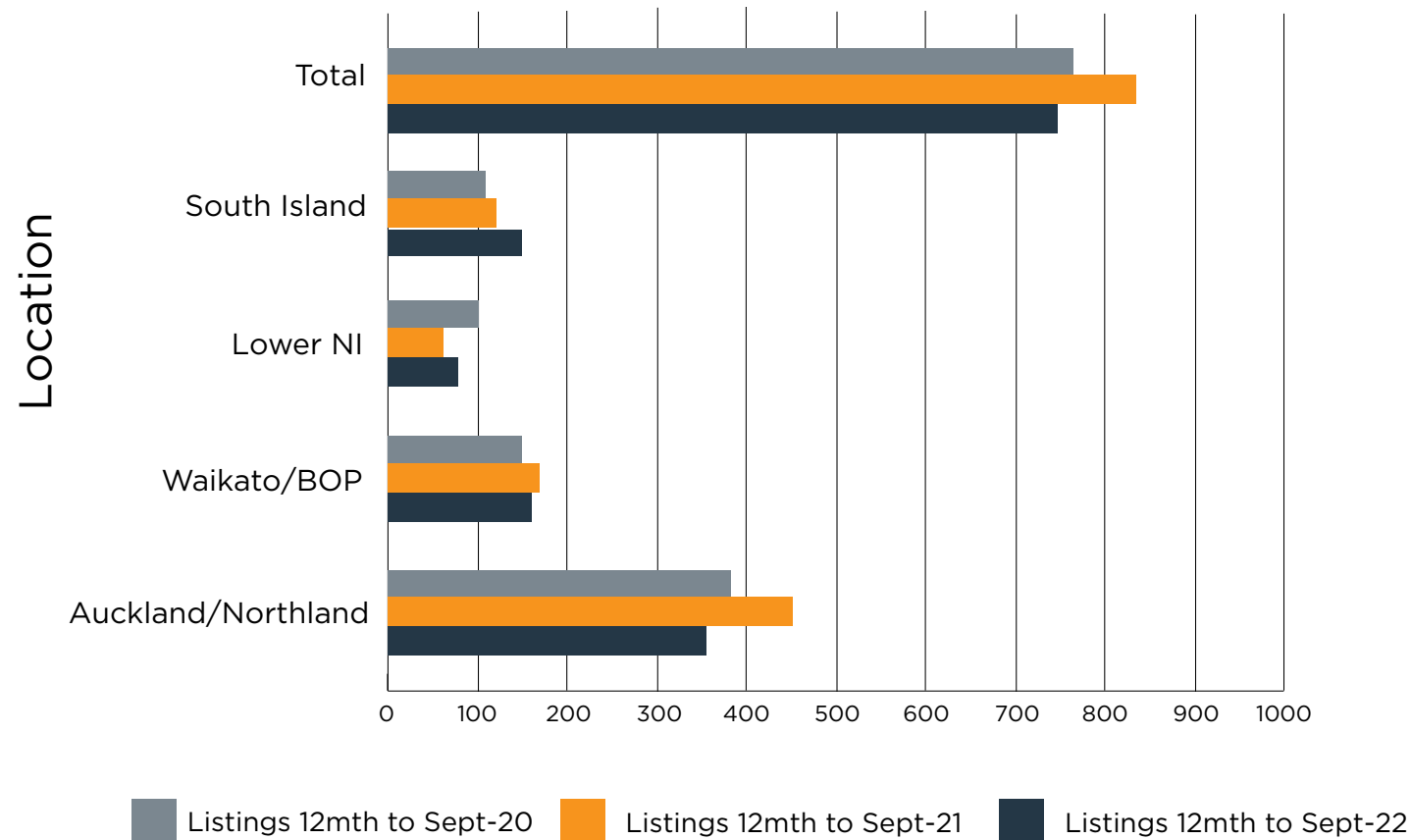


For the 12 months to Sept -22, the average listings on the website were 4,219 this has declined by 1% from Sept-21 where the average listings for this period were 4,252.

SUPPLY DATA POINTS

NEW LISTINGS

New Listings ABC



ABC has experienced a 7% decrease in new business listings for the 12 months to Sept-22 when compared to June-21. The 7% decrease is based on a very strong Sept-21 period and we believe the current volume is at a more normalised level which is in tune with more measured and balanced market conditions. The key reasons we are hearing as to why a business owner is wanting to sell have not changed and are as follows:

- The Covid environment has generated above-normal financial returns for a number of industries and business owners are looking to cash in on these financial results with a successful business sale.
- Covid-19 has resulted in a higher frequency of difficult situations to manage in regards to staff and suppliers, which for older business owners has been a key contributor to wanting to sell the business.
- A number of older business owners held onto their businesses during the early stages of Covid to ensure their sustainability but are now ready to retire and enjoy a post covid world.

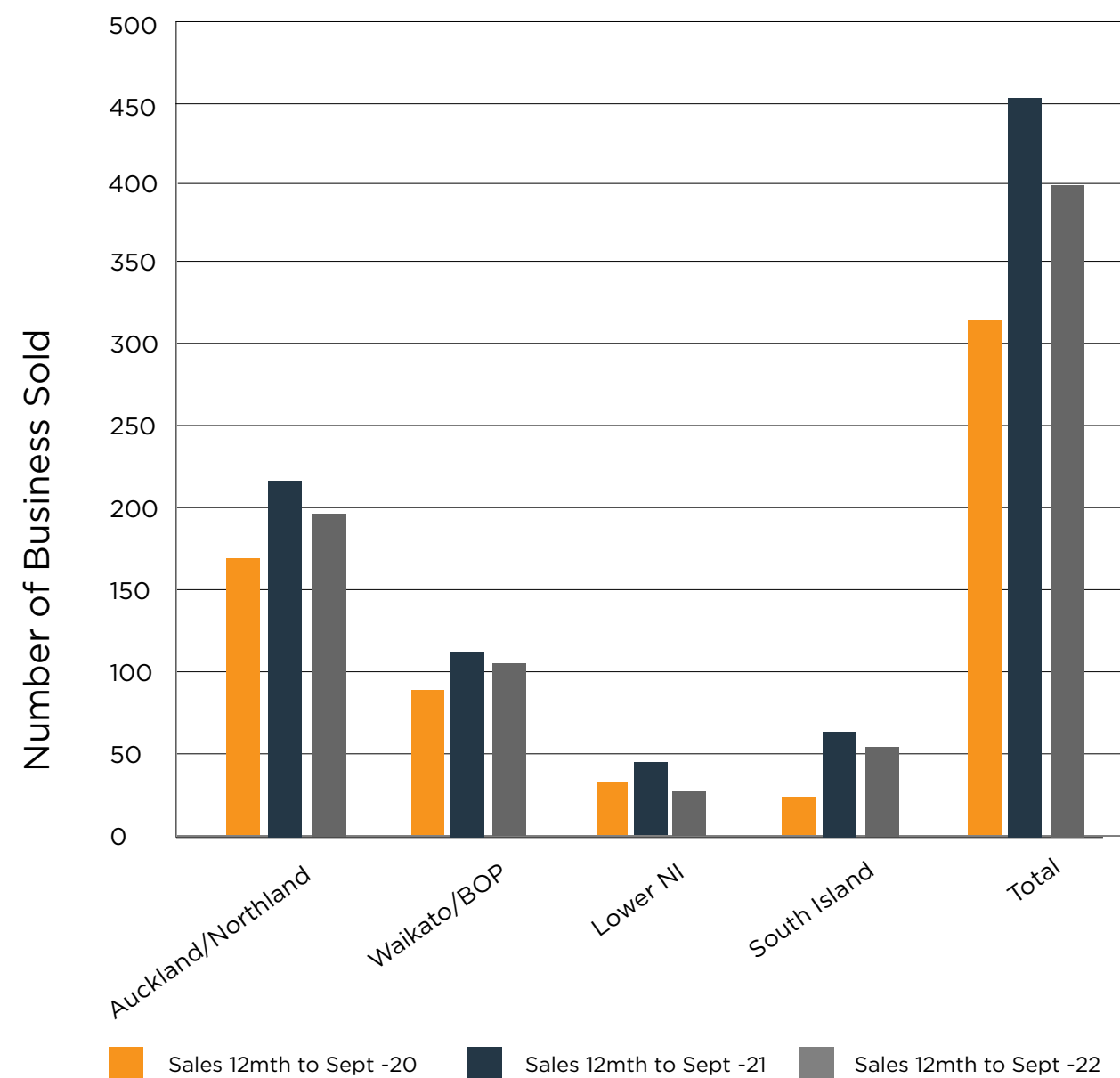
ABC COMPLETED BUSINESS SALES VOLUMES PER LOCATION

As per the graph, completed business sales volumes for 12 months to Sept 2022 are down 14% compared to Sept-21 and 26% ahead of June-20. The data supports the conclusion that 2021 was a record year and 2022 is reverting back to a more normalised market at more sustainable volumes.

There is no doubt we had been in a “Sellers’ Market” in 2021, with historical data confirming demand factors were exceeding supply. Demand levels have declined and normalised and this has contributed to total business sales reducing from 459 (Sept-21) to 396 for the year to June-22.

The high conversion rates of >50% (sales/new listings) are being maintained in the current market, this data reiterates our thoughts that quality businesses are always in high demand and sell quickly and effectively if taken to market via a professional sales process. ABC’s Sept-22 conversion rate is totals sales 396/new listings 766 = 52%.

ABC Sales Volumes Per Location



BUSINESS PRICE TRENDS

Divisions	Sept-22	Sept-21	Sept-20	Sept-22 vs Sept-21	Sept-22 vs Sept-20
General Business Avge Price	\$789,314	\$749,729	\$653,834	5%	21%
Hospitality Business Avge Price	\$254,511	\$243,952	\$196,635	4%	29%

Here's what this table tells us:

Overall, the average price for SME businesses (\$0-\$5m) excluding Hospitality has increased by 5% for the 12 months to Sept 2022. The 5% price increase is down from last quarter which was 8% and we believe the current market is more balanced between supply and demand with the 5% increase being a sustainable rate and in line with our current inflation rate. Our expectations for the remainder of 2022 are that business prices will flatten off and annual price growth will be in the range of 1%-5%.

The average price for Hospitality businesses (\$0-\$5m) has seen a 4% increase for the 12 months to Sept 2022 & 29% when compared to Sept 2020. It has been well documented the adverse effects for this industry as a result of COVID-19 in the initial lockdowns formed part of the Sept-21 & Sept-20 numbers. The data clearly shows a bounce back in hospitality prices, which we believe is a direct result of hospitality prices coming off a very low base price that was caused by the initial covid lockdowns in the period to Sept-20. The Sept-22 average hospitality price of \$254,511 is more reflective of a normal market and we trust these prices will be sustained going forward.

The data set used for the average price calculations are all the transactions completed by that the ABC Group in the \$0-\$5m price range. It should be noted the ABC Group has approximately 40%-45% market share of this segment and hence this data is regarded as accurate and meaningful.

The proportion of NZ businesses in the \$0-\$5m segment is approximately 89% of all businesses in New Zealand. As per Stats NZ, 189,384 entities have 1 employee or more and 167,790 of these entities have between 1-19 employees; the majority of the businesses with 1-19 employees would be valued between \$0-\$5m.



Investment Property Yields vs Privately Owned Business Returns

Segment	Sept-22	Avg Return	% Return
General Business Avg Price (NZ)	\$789,314	\$228,901	29%
Investment Property Yields	\$789,314	\$31,572	4%



The average business price is currently \$789,314 and based on an EBITDA market average multiplier of 3.5x the pre-tax yield equates to 29%. The average residential investment property yield is 4.0%

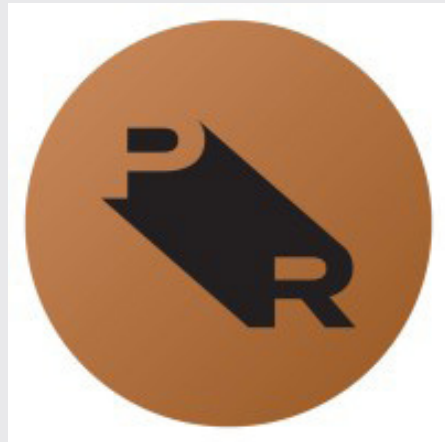
Clearly, there is a material difference in the annual yields, with private business ownership returns being 625% higher than investment property yields. This analysis excludes any capital gains for business ownership or investment property ownership. The pre-tax profit for business ownership is based on the company being fully managed with limited input from the investor.

It needs to be acknowledged that private business ownership has a higher risk profile than investing in residential property but we don't believe the premium for investing in a private business should be 625% higher than investment property yields.

Based on this data, we expect business values to continue growing and more investors to realize this asset class can be extremely rewarding and lucrative compared to other asset classes.

ABC MEDIA RELEASES

ABC Business Sales prides itself on being a respected thought leader within the business sales industry. Here is a selection of our recent media exposure with ABC Business Sales identifying trends and sharing our insights and knowledge.



Interview with the Mike Hosking Breakfast Show on Newstalk ZB
Follow the link to listen: <https://bit.ly/3EvlaB3>

Business expert argues young Kiwis should invest in business rather than housing

ON AIR MIKE HOSKING BREAKFAST

Newstalk ZB, Thu, 7 Jul 2022, 7:46am

iHeart

Chris Small: ABC Business Sales MD argues young Kiwis should invest in b...

The Mike Hosking Breakfast

Business Desk's Podcast interview
Managing Director Chris Small talks with Frances Cook about why investing in a business can be a better option than residential property

Follow the link to listen: <https://spot.fi/3eptR5k>



Podcast Interview with The Spinoff's Business commentator
Bernard Hickey

Managing Director Chris Small talks to Bernard Hickey about why so few small businesses make the leap to becoming better, fast-growing engine rooms for our economy, and how that could change

Follow the link to listen: <https://spot.fi/3COWNwJ>



AUTHORS



CHRIS SMALL

Managing Director

- Former Head of ASB Regional Corporate Banking
- Completed over 100 M&A deals in the corporate and commercial banking market
- Twenty years of experience in the banking sector

021 996 834

chriss@abcbusiness.co.nz



STEVE SMITH

Chief Executive Officer

- Founder and CEO of ABC Business Sales
- An associate of the Real Estate Institute of New Zealand

021 940 779

steves@abcbusiness.co.nz