

ABC.
Business Sales
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MARKET INTELLIGENCE REPORT

SMALL AND MEDIUM-SIZED ENTERPRISES

Q1 - 2022



EXECUTIVE SUMMARY

This is our fifth Market Intelligence Report (inaugural report Oct-20) and for the first time since this report was initiated, we have witnessed new market trends. The business sales market is no longer continuing to experience a significant gap between supply and demand which has previously been the case.

Demand data points, such as signed confidentiality agreements by prospective buyers, have shown a small decline compared to the same period last year.

Supply data points, such as new businesses listed for sale, have shown a small increase both at a total market level (1%) and ABC level (7%). This is evidenced in this report by the following tables and graphs.

The market conditions historically showed excess demand and reduced supply characteristics. The new data is showing early signs of this trend being reversed with more businesses coming to market, and demand trends declining year on year.

The average business prices have continued to increase for the latest data period, but we expect this to flatten off with supply now starting to match demand, and external factors - such as increasing interest rates - keeping asset prices flat for the remainder of 2022.





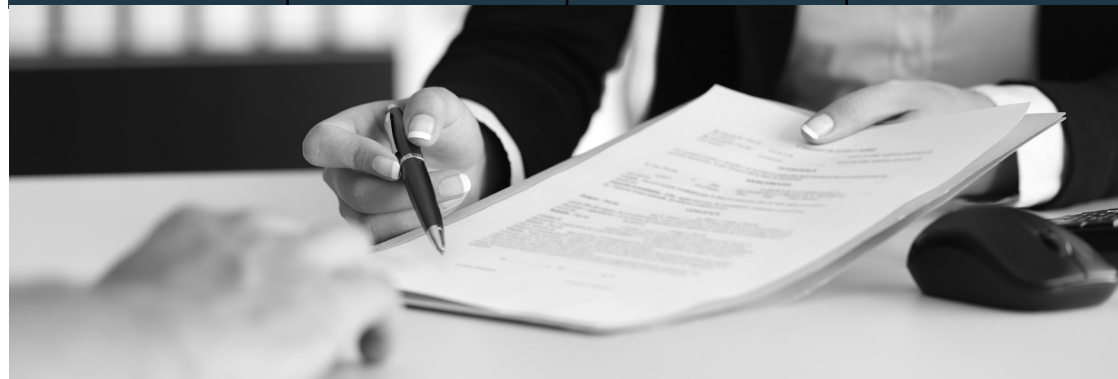
2022/23 Projections for Business Sales

This report includes data up to March-22 and it has been well-documented (by various third-party reports) that it has been a record year for M&A activity in New Zealand. ABC data reflects this statement hence the real question is, will these record levels of business sales activity continue for 2022/23? We have no early warning signs to suggest we will experience a material drop-off this year in activity. The current data in regards to supply and demand drivers confirms we no longer have a mismatch (demand exceeding supply) and there will be a more evenly balanced marketplace between sellers and buyers i.e. less of a sellers' market.

With a high probability of lockdowns no longer being part of New Zealand's COVID toolbox response in 2022/23, and overseas travel now possible by the first quarter of 2022, we believe many business owners will take the opportunity to divest their businesses. Increased certainty will provide investors more confidence to invest in business ownership and vendors will have more motivation to sell given the increased travel & leisure options available to them. This is particularly relevant to the baby boomers who currently own the majority of NZ's privately-owned businesses. We believe 2022/23 has the potential to be another record 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 more normal economic settings in 2022/23 will provide more confidence & certainty to both sellers and purchasers and, in our view, result in more transactions occurring.

Signed Confidentiality Agreements Per Month

Month	2020/21	2021/22	% Change
April	684	1212	77%
May	1127	1473	31%
June	1285	1542	20%
July	1392	1432	3%
August	1287	1254	-3%
September	1160	1111	-4%
October	1315	1235	-6%
November	1334	918	-31%
December	1267	800	-37%
January	1653	1116	-32%
February	1379	995	-28%
March	1493	1172	-22%
Total	15,376	14,260	-7%

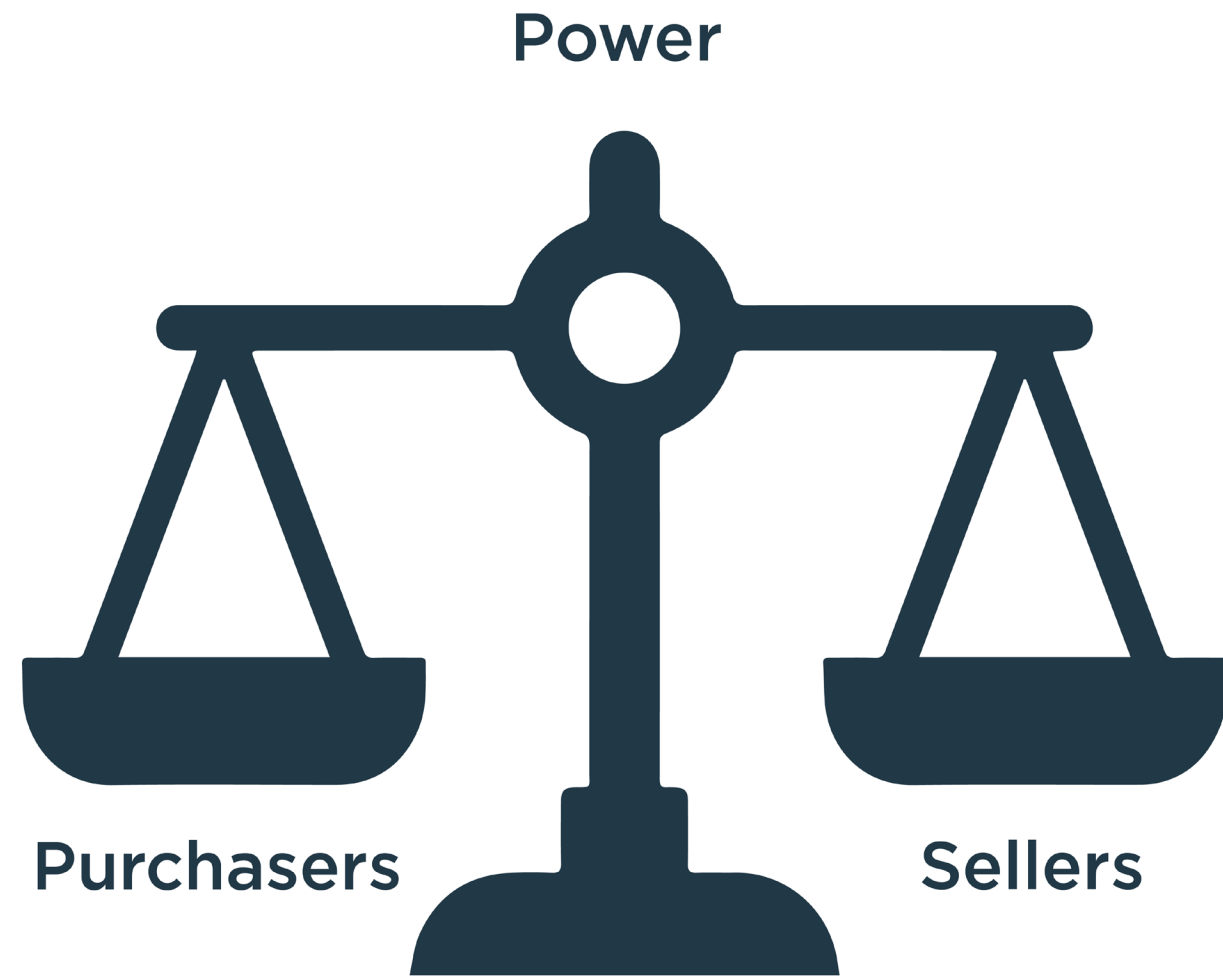


DEMAND DATA POINTS

SIGNED CONFIDENTIALITY AGREEMENTS

Signed confidentiality agreements completed by potential purchasers have decreased by 7% when comparing the 12 months to March-21, we believe this is driven by the following factors:

- A highly-employed population with New Zealand experiencing record lows of unemployment.
- The Mar-21 period had record levels of expats returning post the initial COVID outbreak and they were actively seeking properties, cars, and business purchases. The expat returnee levels flattened off for the Mar-22 year.
- The introduction of higher interest rates to New Zealand's economy has reduced the demand for all investment asset classes across the board.



IS THE TIDE TURNING?

Expat returnee
levels flattening off 

Record lows
of unemployment 

Higher interest
rates 

DEMAND DATA POINTS

MONTHLY WEBSITE

TRAFFIC - ABC WEBSITE

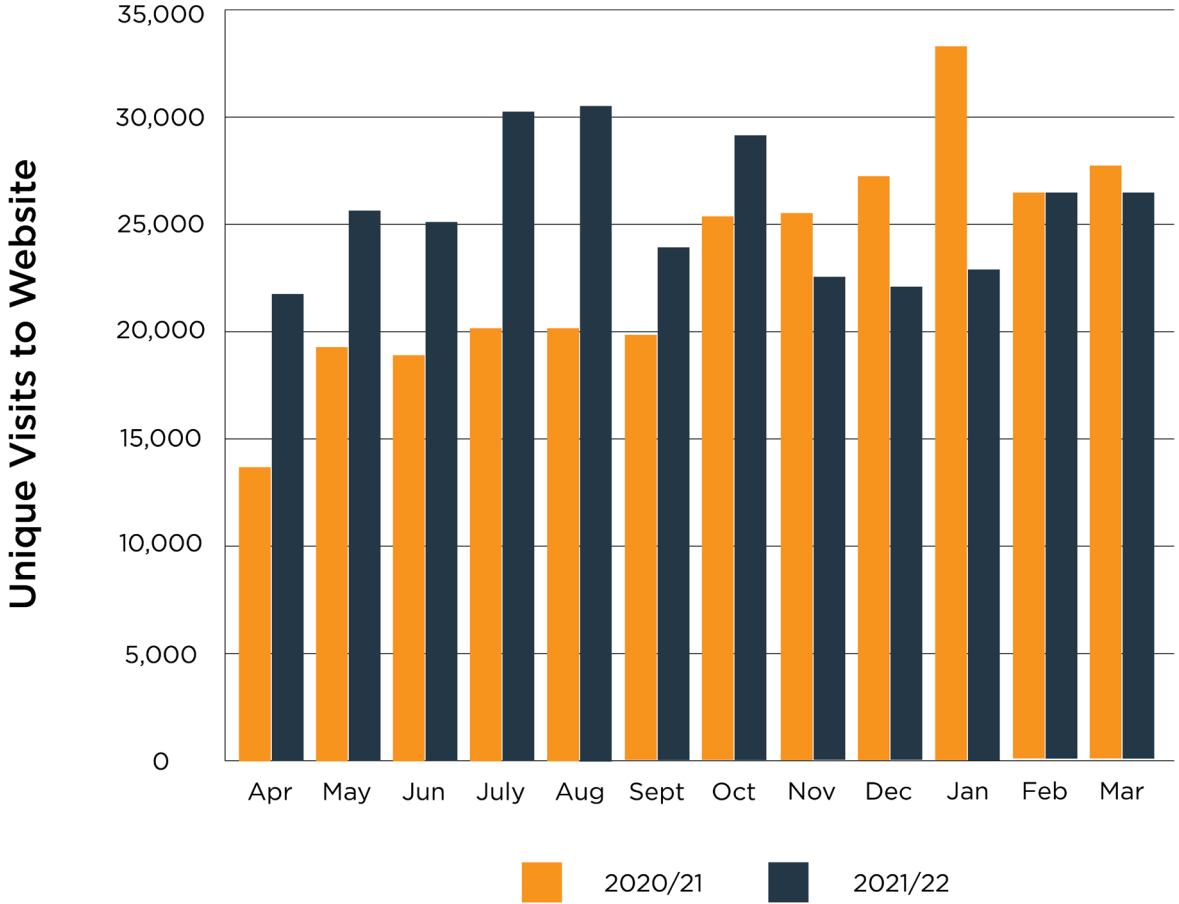
This chart shows the monthly website traffic to the ABC website - a measure of people investigating business ownership.

The 12 months to Mar-22 show a 10% increase in visitor traffic to our ABC Business Sales website compared to last year. However, if we break this into six-month increments, the last six months have experienced a 10% decline in website traffic vs the first six months which was up 42%.

Key reason for the 10% decline are low unemployment, increasing interest rates and lower volumes of expats returning during the Oct-21 to Mar-22 period.

The ABC website had a total of 307,686 visitors for the last 12 months - up from 277,320 for the same period in the last financial year.

Monthly Website Traffic ABC Website



SUPPLY DATA POINTS

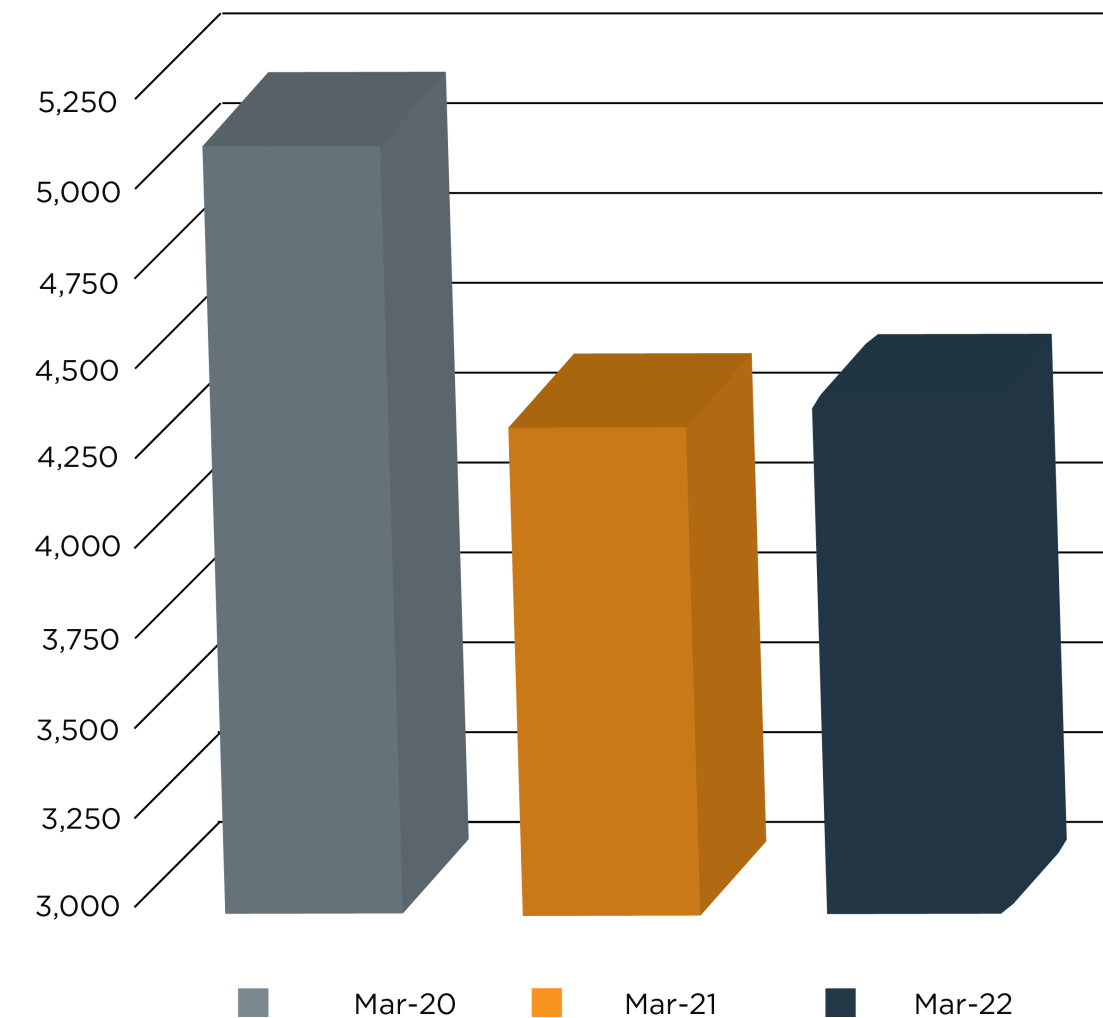


BUSINESSES LISTED FOR SALE - TRADEME

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 this has deviated from a negative trend that saw new listings dropping over the last two years. The latest data indicates we have hit our lowest point for new business listings and we can expect increases going forward.



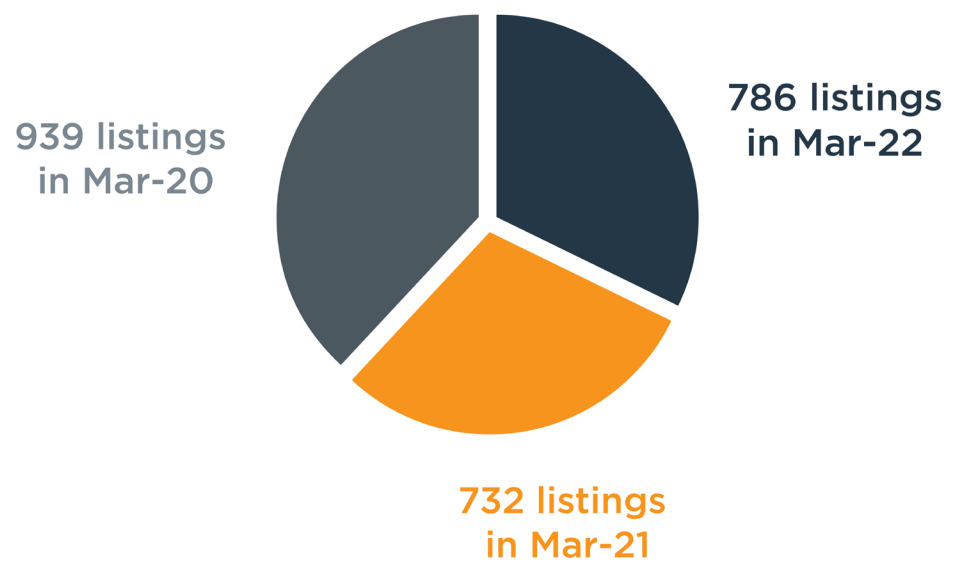
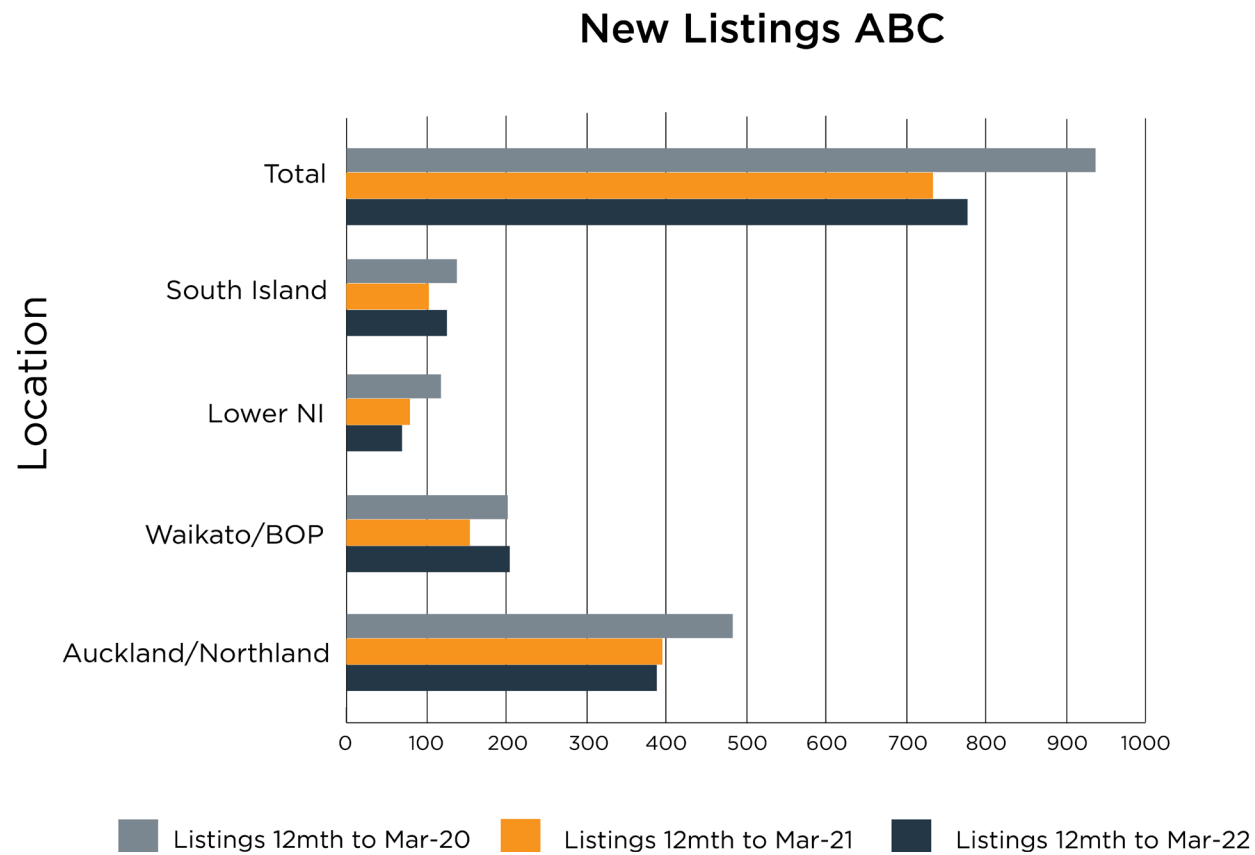
Average number of business listings TradeMe



For the 12 months to Mar-20, the average listings on the website were 5,105. This declined by 16.5% to Mar-21 as the average listings for this period were 4,275 and they have now flattened off to 4,300 for Mar-22.

SUPPLY DATA POINTS

NEW LISTINGS



ABC has experienced a 7% increase in new business listings for the 12 months to Mar-22 when compared to Mar-21. This is the first time since COVID started we have had an annual increase in new businesses being listed for sale.

The key reasons provided by business owners wanting to sell their businesses are as follows:

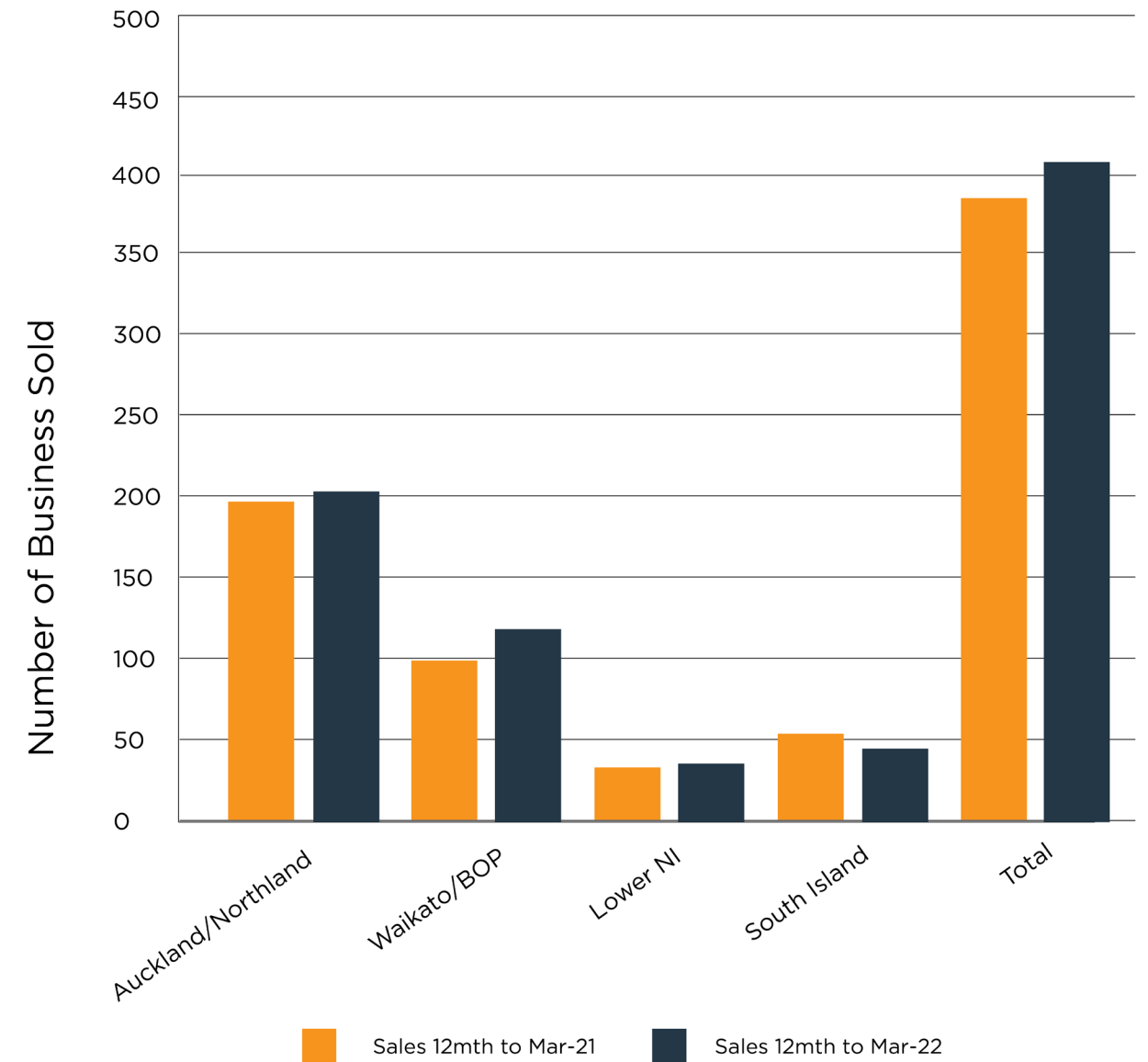
- The COVID environment has generated (for a number of industries) above-normal financial returns, and business owners are looking to cash in on these financial results with a successful business sale.
- COVID has resulted in a higher frequency of difficult situations to manage in regards to staff and suppliers, which for older business owners has been a key contributor for wanting to sell the business.
- A number of older business owners held onto their business 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 March 2022 are up 7% compared to March-21 and 9% compared to March-20. This is the result of a very strong market where the majority of businesses listed for sale are being sold. A number of businesses are being sold at above asking price and getting multiple offers before the full marketing campaign takes place. There is no doubt we have been in a “Sellers’ Market” given the dynamics at play. For the 12 months to March 2022, ABC sold 405 vs total listings of 786 equating to a conversion rate of 52%. This is a record rate given historically conversion rates have been in the region of 35-40%.

What will be interesting to gauge is if these high conversion rates continue for the 2022/23 year with recent data suggesting new businesses listed for sale are increasing and the demand statistics are decreasing. If this scenario continues, we may be in the early stages of moving to a buyers’ market.

ABC Sales Volumes Per Location



BUSINESS PRICE TRENDS

Divisions	Mar-20	Mar-21	Mar-22	Mar-22 vs Mar-21	Mar-22 vs Mar-20
General Business Avge Price	\$652,317	\$703,701	\$810,255	15%	24%
Hospitality Business Avge Price	\$193,370	\$177,255	\$304,994	72%	58%

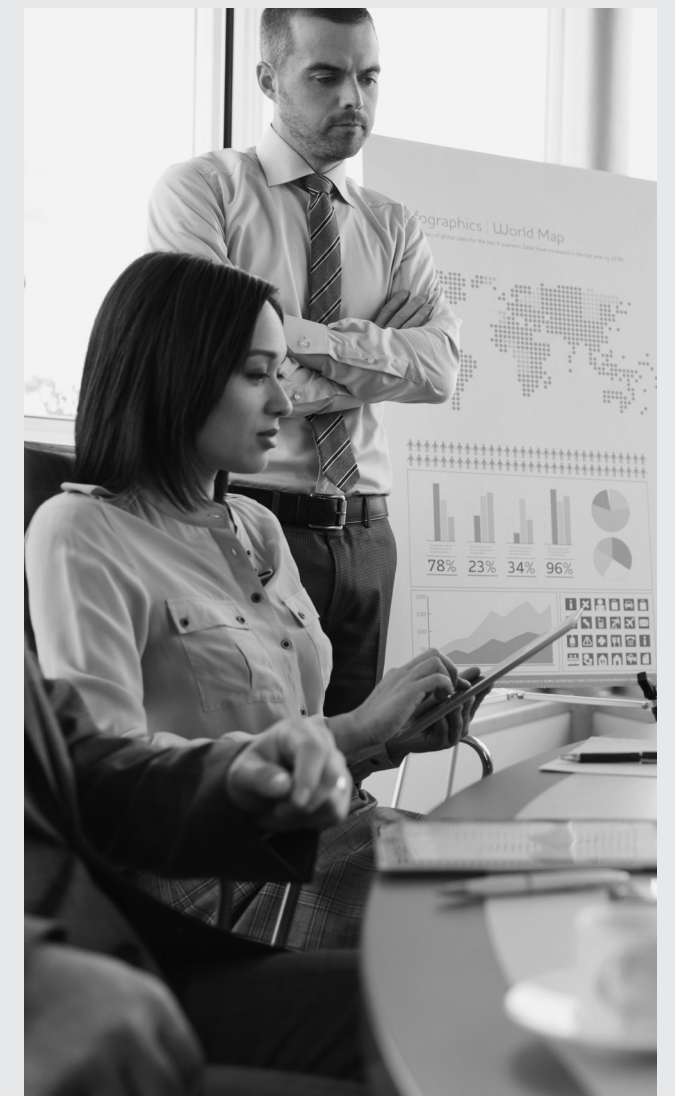
Here's what this table tells us:

Overall, the average price for SME businesses (\$0-\$5m) excluding Hospitality has increased by 15% for the 12 months to March 2022. The 15% price increase has been driven by a buoyant market with demand exceeding supply for quality businesses and forcing purchasers to pay higher prices. A number of other data sources (Recent PWC M&A Report) endorse this trend of business assets increasing in value and are all driven by the same factors; increased buyer demand chasing a scarcity in supply of quality businesses. The increased demand is driven by investors chasing higher yields and an abundance of capital in the hands of retail and wholesale investors.

The average price for Hospitality businesses (\$0-\$5m) has seen a 72% increase for the 12 months to March 2022. It has been well-documented the adverse effects COVID has caused this industry in the initial lockdowns which formed part of the March-21 numbers. The data clearly shows a bounce back in hospitality prices. We believe this is the direct result of hospitality prices coming off a very low base price that was caused by the initial COVID lockdowns in the period to Mar-21. The Mar-22 average hospitality price of \$304,994 is more reflective of a normal market, and we believe these prices will be sustained going forward.

The data-set used for the average price calculations are all the transactions completed by ABC Group in the \$0-\$5m price range. It should be noted that ABC Group has approximately 35%-40% 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 one 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.



Bank Term Deposit Rates vs Privately Owned Business Returns

Segment	Mar-22	Avg Return	% Return
General Business Avg Price (NZ)	\$810,255	\$234,974	29%
Cash invested in Bank Term Deposits	\$810,255	\$20,256	2.5%



The average business price is currently \$810,255 and based on an EBITDA market average multiplier of 3.5x the pre-tax yield equates to 29%.

The average term deposit rate with one of New Zealand's major banks for one year is currently 2.5% and if interest rates continue to increase this rate is forecasted to be at 3.0% by the end of 2022.

Clearly, there is a material difference in the annual yields, with private business ownership returns being **11.6** times higher than current term deposit rates. This analysis excludes any capital gains for business 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 bank term deposits but we don't believe the risk premium for investing in a private business should be **11.6** times higher than term deposits. Business ownership has further upside when compared to term deposits given the uncapped capital appreciation that can occur for this asset class (term deposits are capped at growth of 2.5%).

Based on this data we expect business values to continue growing and more investors to realise this asset class can be extremely rewarding and lucrative.

Xero Small Business Index

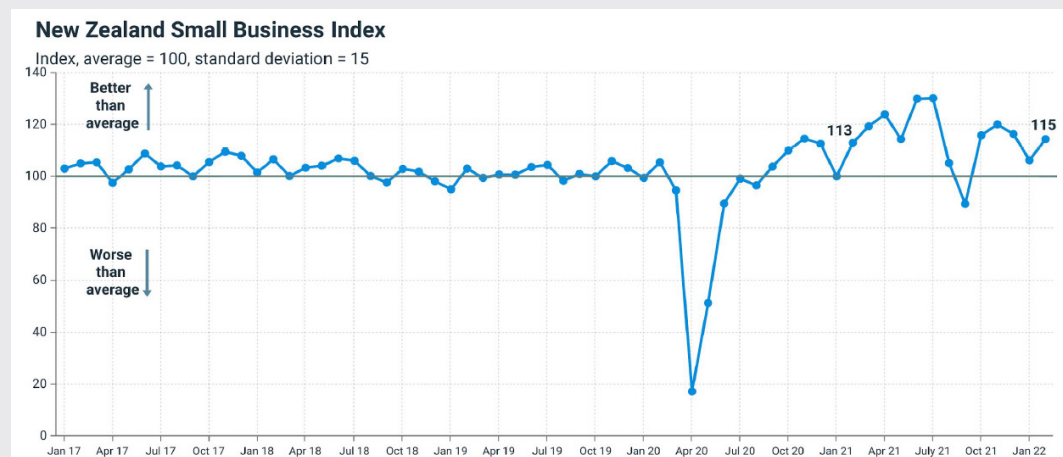
NZ Monthly Update February 2022



The New Zealand Small Business Index, part of Xero Small Business Insights, rose 8 points to 114.5 points in February. Upward revisions to sales and jobs data meant that January's Index was also revised up, to 106 points (9 points higher than the initial reading). This combination of results means overall performance has been above the long-term average for five consecutive months.

The rise in the Index was driven by faster wages growth, accelerating to 4.3% y/y from 3.7% y/y in January. Strong sales growth also pushed the Index higher, up 13.3% y/y after an 11.9% y/y rise in January. These gains were partially offset by a slowdown in jobs growth to a still healthy 3.3% y/y, after a 6.0% y/y rise in January. The length of time small businesses waited to be paid was largely unchanged.

This result is a positive, early sign that small businesses have adapted to the surge in community COVID cases that began in mid-February and continued to rise over the rest of the month. This is in contrast to the Australian experience, where the jobs metric in particular was heavily impacted when cases were historically high over the summer months. Looking ahead, the challenge will be how long small businesses can continue coping in a high-case environment where more staff are likely to be unwell than at any other time in the pandemic. In a positive sign, cases appear to have peaked in the first week of March, although they remain at elevated levels by New Zealand standards, and workforces are likely to continue to have been disrupted for at least the remainder of March.



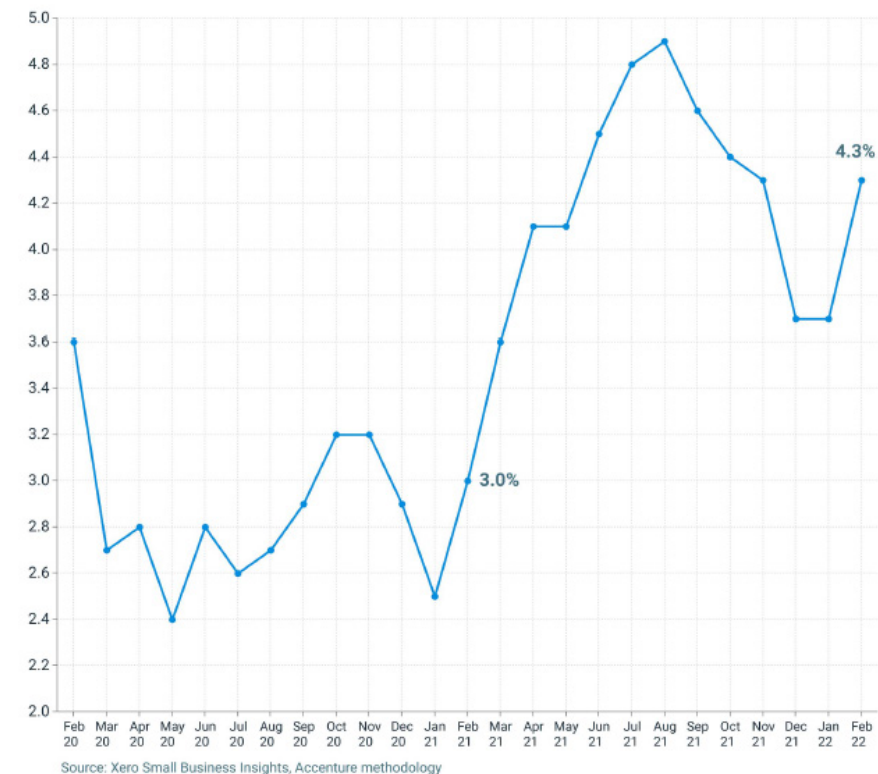
Wage growth accelerates sharply

Wages rose 4.3% y/y in February, after a 3.7% y/y rise in January.

This result is below the most recent peak of 4.9% y/y in August 2021, but that result was in part due to a weak pandemic affected result in August 2020. These 'base effects' have now eased and the results for more recent months reflect genuine growing wages pressure as competition for staff intensifies.

All sectors recorded faster wages growth, led by construction (+5.1% y/y) and hospitality (+5.0% y/y).

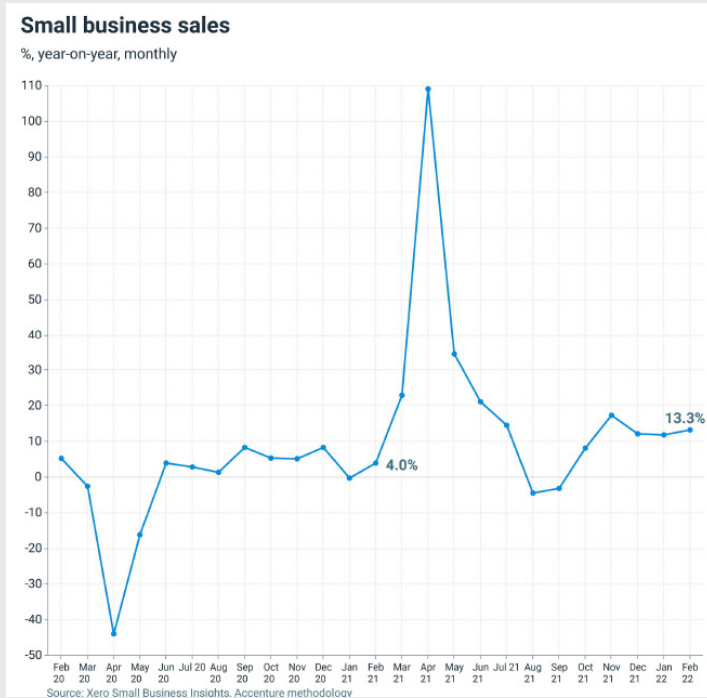
Employee hourly earnings
%, year-on-year, monthly



* Data taken from Xero Small Business Index New Zealand Monthly Update February 2022

Sales growth powers ahead

Small business sales rose a very strong 13.3% y/y. This comes after a healthy 11.9% y/y rise in January (revised up from +4.6% y/y). All regions recorded strong sales growth, led by Auckland (+17.1% y/y). The smallest increase was in Otago, with a still healthy 8.9% y/y. Construction (+16.8% y/y) and manufacturing (+15.7%) were the strongest industries in terms of sales. The only sector to record a decline was hospitality, down 3.0% y/y. This most likely reflects the reluctance of people to holiday or eat out while COVID case numbers are high.



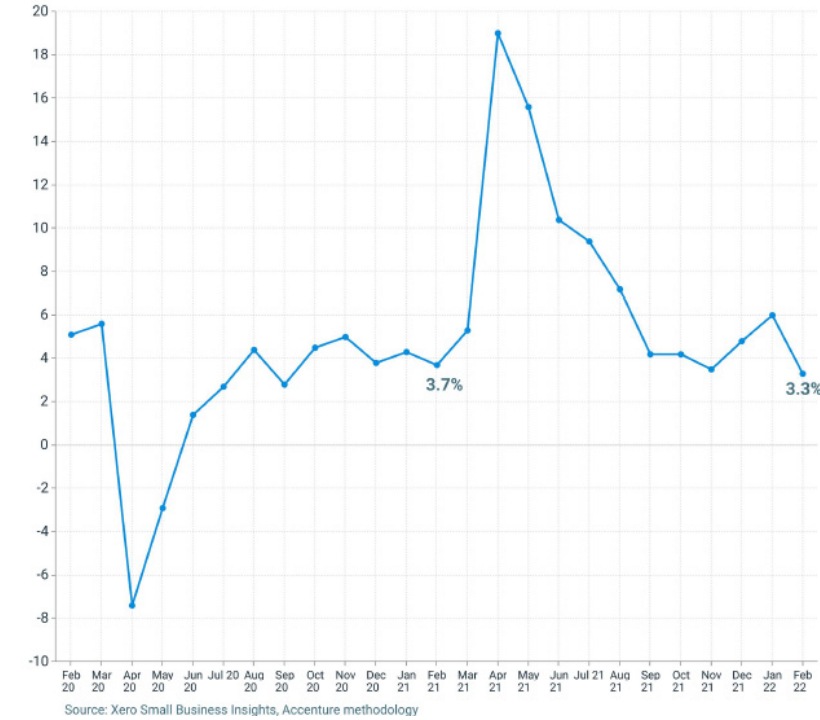
Jobs growth slows but still solid

Small business jobs grew 3.3% y/y, after a 6.0% rise in January (revised up from 4.1% y/y). This is an impressive result considering the disruption to workforces that rising COVID cases are causing. The result is in contrast to the experience of Australia, which saw a bigger slowdown (and even a decline) in jobs when COVID cases rose over the summer. The strongest region for jobs growth was Otago (+5.5%). This, in part, is due to the weak result in February 2021 when jobs rose just 0.5% y/y. Wellington (+4.8% y/y) and Canterbury (+4.7% y/y) both recorded solid results. The jobs gains were led by professional services (+9.2% y/y) and construction (+5.7% y/y). One of only two sectors to record a decline in jobs during February was agriculture (-4.0% y/y). This was the fourth consecutive decline in jobs in the sector, potentially reflecting the ongoing difficulty in attracting staff while some international border restrictions remain in place.



Small business jobs

% year-on-year, monthly



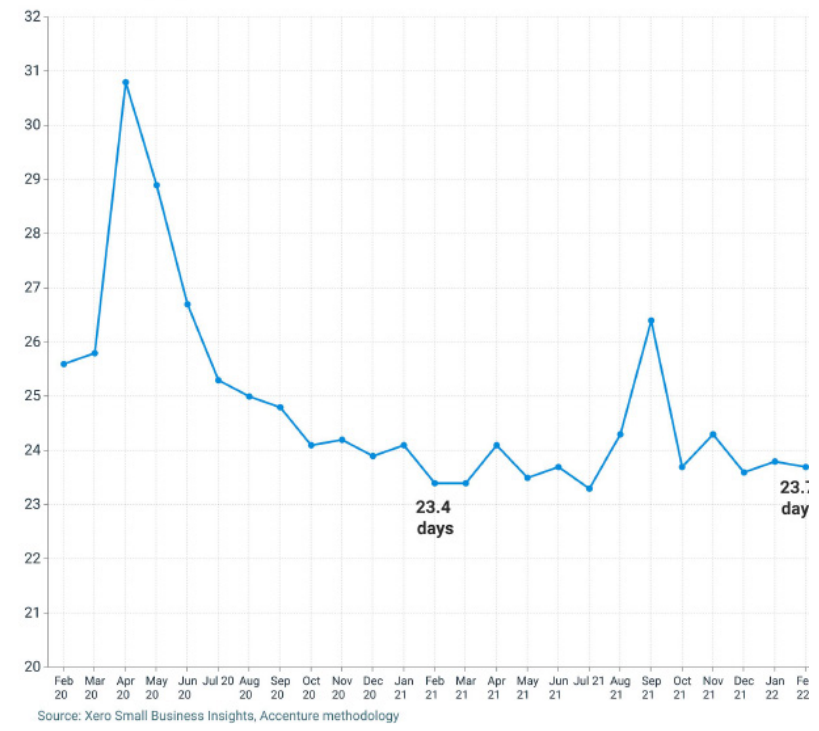
Time to be paid little changed

Small businesses waited an average of 23.7 days to be paid in February - similar to the 23.8 days in January.

There was, however, a rise in late payments from 5.9 days to 7.0 days. The lack of a similar shift in time to be paid suggests this is likely to be temporary and due to a compositional shift in the sample's payment terms for this month.

Time to be paid

Days, seasonally adjusted



* Data taken from Xero Small Business Index New Zealand Monthly Update February 2022

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