

ABC.
Business Sales
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QUARTERLY MARKET INTELLIGENCE REPORT

SMALL AND MEDIUM-SIZED ENTERPRISES

March - 2023



EXECUTIVE SUMMARY

This is our Ninth Quarterly Market Intelligence Report (1st was Oct-20) and the data shows the following trends in the business sales market:

- The average business sale price has increased 4% annually to Mar-23 and this results in a 19% increase over the last three years. The new data is showing a 3% softening in the average business price when compared to the previous quarter to Dec-22.
- The median multiple paid for businesses in New Zealand has remained very consistent (3.45x) and the variance between years has not exceeded 5%. Given there has been no growth in multiples over the past 3 years it has become very evident price increases are the result of higher volumes of businesses being sold in the \$2m-\$5m range and like the housing market we now have a higher percentage of businesses selling for >\$2m.
- Completed business sales have remained elevated for the twelve months to Mar-23 and was the third highest year on record; however, this was 3% behind Mar-22 which was the highest year on record.
- Demand for businesses has flattened off in the 12mths to Mar-23 and is below the record levels experienced in the twelve months to Mar-22, however the levels are still above pre-covid volumes and are regarded as being above average.
- Supply of new businesses coming to market has remained stable to Mar-23 and has remained in line with historical levels.
- The business sales market has not experienced the huge declines that we have witnessed in the property sector. The key reason is increasing interest rates have a material influence on property prices as they make up the bulk of the costs associated with property investments. Interest costs have less of an influence on business valuations given it's a smaller proportion of the cost base.

SUPPLY DEMAND





Projections for Business Sales - FY24

This report includes data up to Mar-23 and we have used a combination of this information along with our insights & experience to predict some key themes and trends for the new financial year to Mar-24:

- Business Prices to soften by 5%-10% in the first half of the year, however we expect the market to recoup those reductions and accelerate at the end of the year on the back of increased immigration, increased unemployment and election stimulus from whichever party wins the election. In 12months time we expect the average business price to be 5% higher.
- Business multiples to remain flat as they have for the past three years; it had been widely expected that multiples would decline on the back of increasing interest rates and declining valuations in the share market. To date private business multiples have not yet declined and have held their position and we see this continuing.
- Demand for businesses to remain in line with historical averages and experience similar levels to 2022 in the first half of the year. The second half of 2023 we anticipate an acceleration of buyers to hit the market on back of increased immigration & increased unemployment which we are starting to see in the economy. (Sky & Xero have both made significant layoffs in the past month and our expectation is a continuation of large corporates making more staff redundancies)
- Supply of new businesses coming to market to remain at the higher levels experienced in 2022 & 2021 with retiring business owners continuing to be the key contributors.
- In summary we see the first half of 2023 being a slight advantage to buyers with a small softening in prices, but by the back end of 2023 and the start of 2024 when we have clarity on the elected Government, Immigration & unemployment back to normalized historical levels we expect a material lift in demand and shifting back towards a sellers' market.

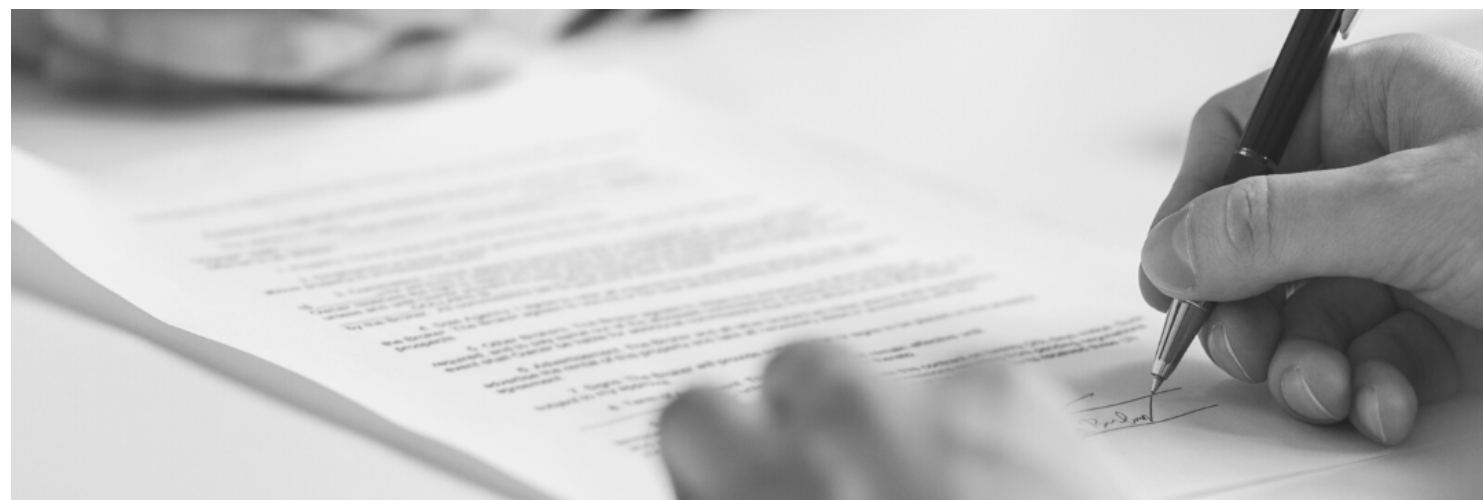
Signed Confidentiality Agreements Per Month						
Month	2020	2021	2022	2023	23 vs 22	23 vs 19
April	941	684	1212	976	-19%	4%
May	957	1127	1473	1050	-29%	10%
June	1116	1285	1542	1250	-19%	12%
July	1257	1392	1432	1135	-21%	-10%
August	1225	1287	1254	1231	-2%	0%
September	954	1160	1111	1161	5%	22%
October	1160	1315	1235	966	-22%	-17%
November	1047	1334	918	1190	30%	14%
December	757	1267	800	768	-4%	1%
January	943	1653	1116	1075	-4%	14%
February	1190	1379	995	1065	7%	-11%
March	861	1493	1172	1255	7%	46%
Total	12,408	15,376	14,260	13,122	-8%	6%

DEMAND DATA POINTS

SIGNED CONFIDENTIALITY AGREEMENTS

The twelve months to Mar-23 shows an 8% decrease in Signed confidentiality agreements completed by potential purchasers compared to Mar-22; however, as the data shows current volumes are still 6% ahead of pre-covid levels. We believe the recent 8% decline is driven by the following factors:

- New Zealand experiencing record lows of 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

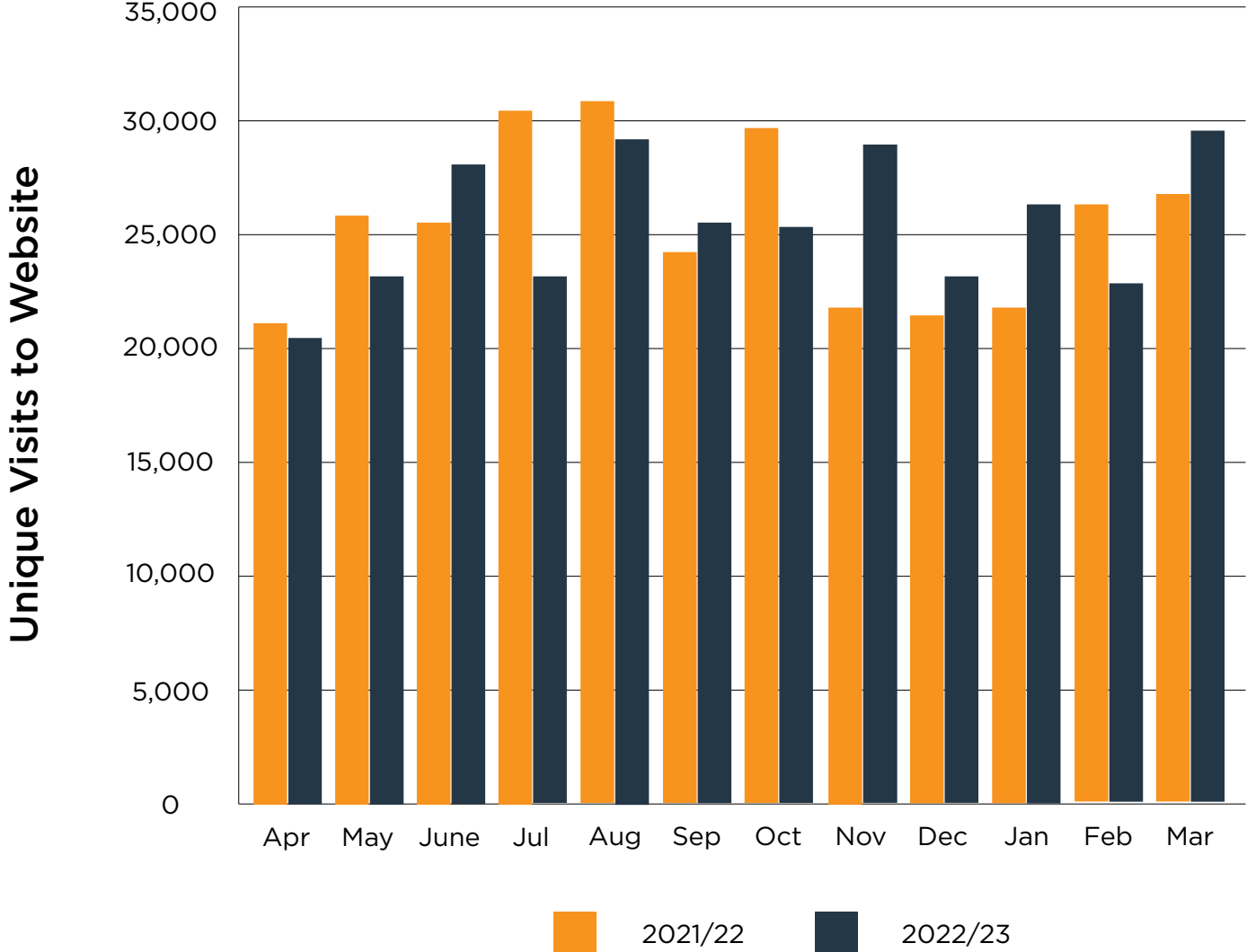
MONTHLY WEBSITE TRAFFIC - ABC WEBSITE

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

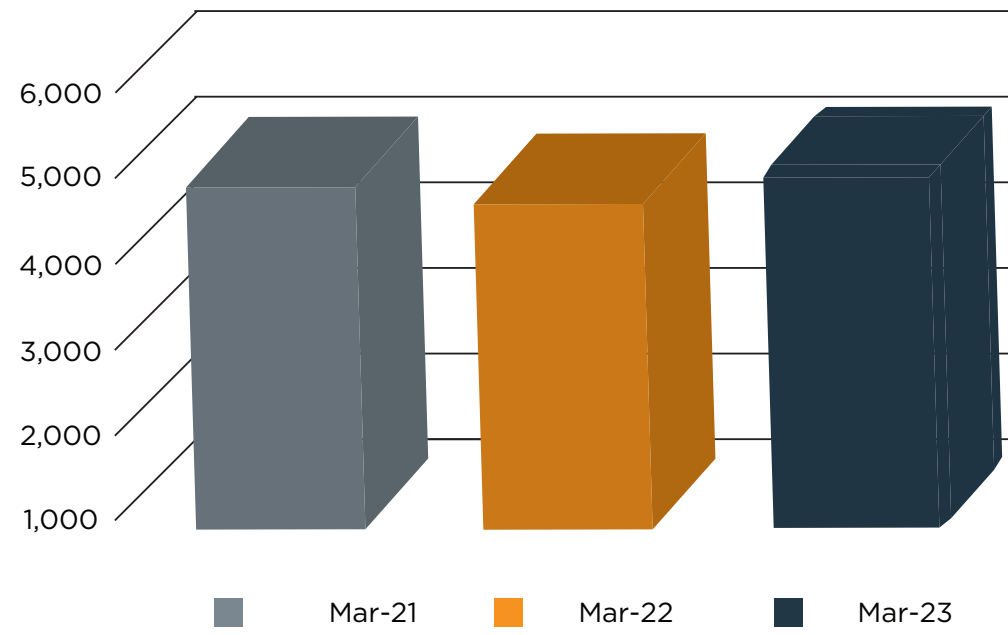
- The twelve months to Mar-23 shows a 1% decrease in visitor traffic to our ABC Business Sales website compared to last year.
- The ABC website had a total of 304,976 visitors for the last twelve months - down from 307,686 for the same period in the last financial year.



Monthly Website Traffic ABC Website



Average number of business listings TradeMe

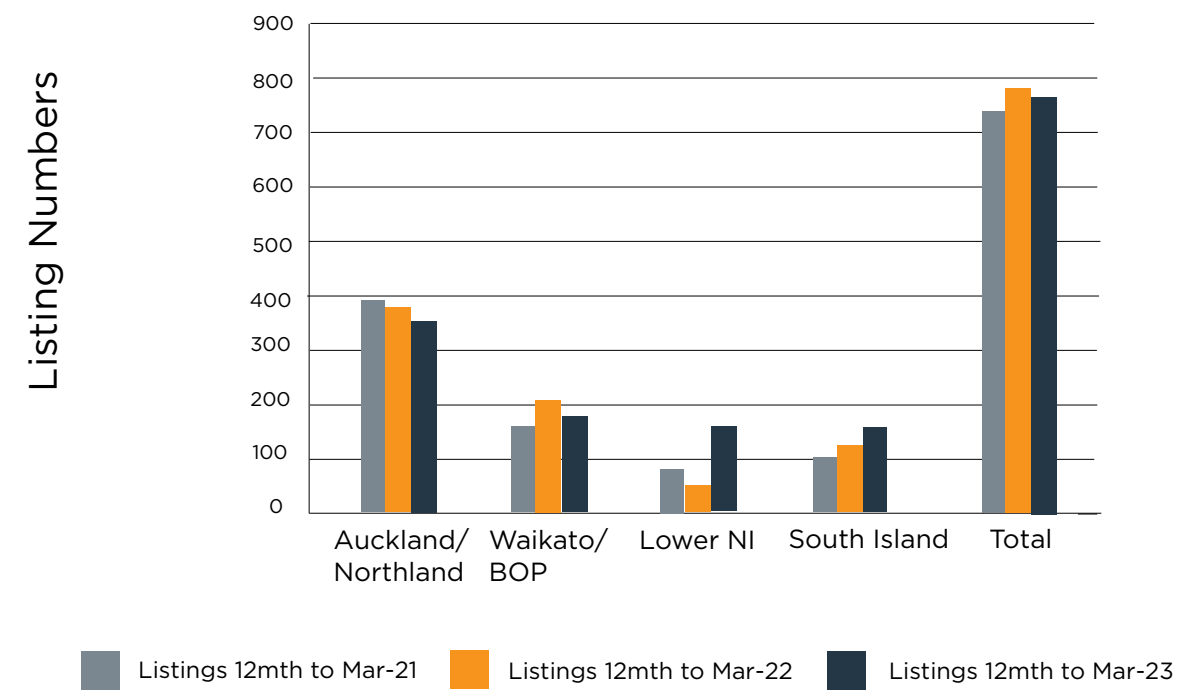


SUPPLY DATA POINTS

BUSINESSES LISTED FOR SALE - TRADEME

The top bar graph chart looks at the trend of businesses listed for sale across New Zealand via Trade Me. As you can see the trend is a slight increase of 4% 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.

New Listings ABC



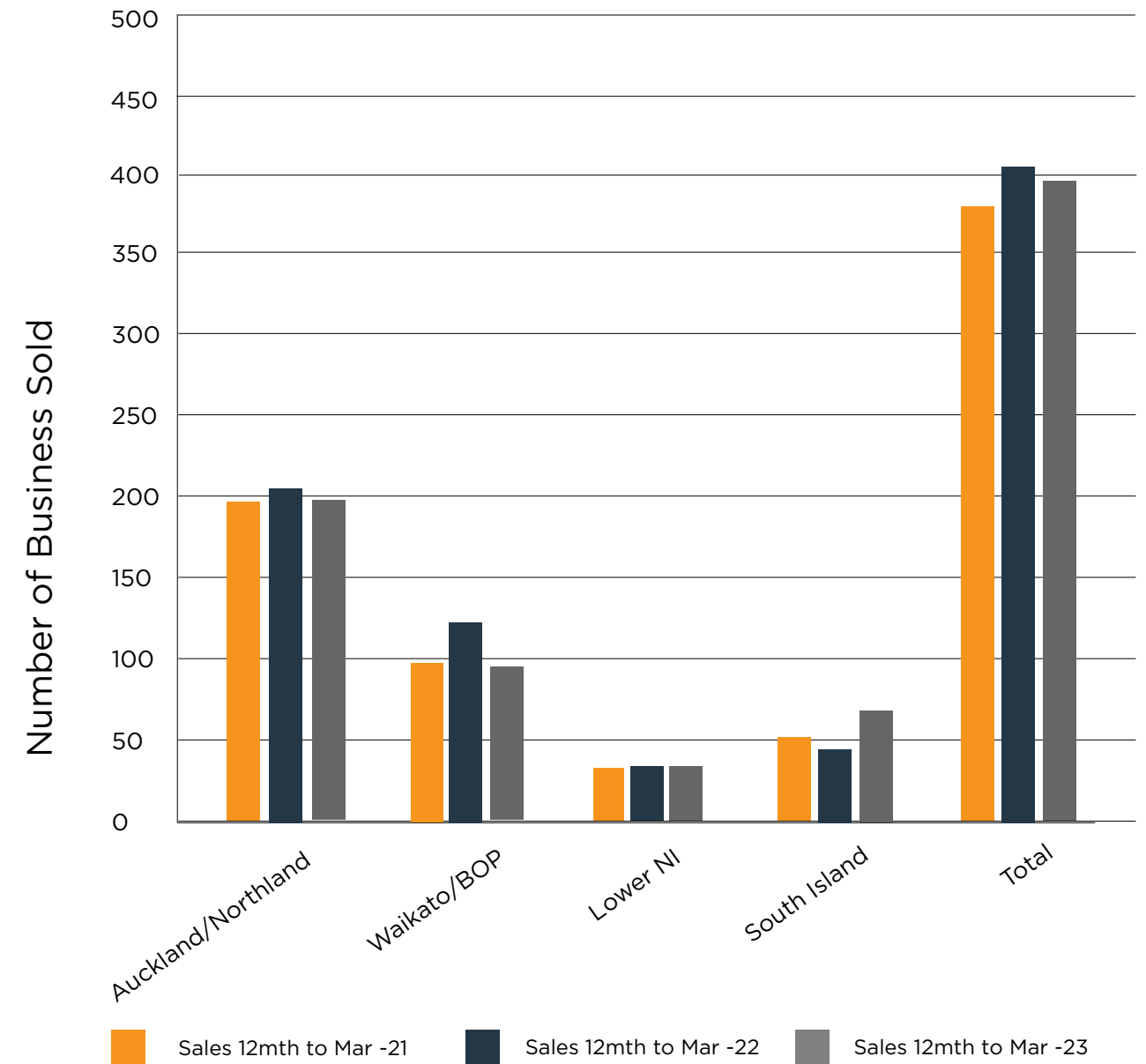
ABC NEW LISTINGS

- ABC has experienced a 3% decrease in new business listings for the 12 months to Mar-23 when compared to Mar-22.
- ABC's data is in line with the overall market where we are seeing no more than 5% movements up or down in new listings and supports the statement business sales is currently in a steady/balanced market.

ABC COMPLETED BUSINESS SALES BY REGION

- As per the graph, completed business sales by region for 12 months to Mar-23 are down 3% compared to Mar-22 and 4% ahead of Mar-21. The data supports the conclusion that Mar-22 was a record year and Mar-23 is reverting back to a more normalized market at more sustainable volumes.
- It needs to be noted that Mar-23 was the third best sales year in 36yrs of trading for ABC behind the record year of Mar-22; hence we would still state that Mar-23 was an elevated year for business sales volumes.
- 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 Mar-23 conversion rate is totals sales 394/new listings 763 = 52%.

ABC Sales Volumes Per Location



GENERAL BUSINESS PRICE TRENDS

12 Month Rolling Average	Mar-23	Mar-22	Mar-21	Mar-23 vs Mar-22	Mar-23 vs Mar-21
General Business Avge Price	\$839,486	\$810,255	\$703,701	4%	19%
12 Month Rolling Average	Mar-23	Dec-22	Sep-22	Mar-23 vs Dec-22	Mar-23 vs Sep-22
General Business Avge Price	\$839,486	\$868,102	\$789,314	(3%)	6%

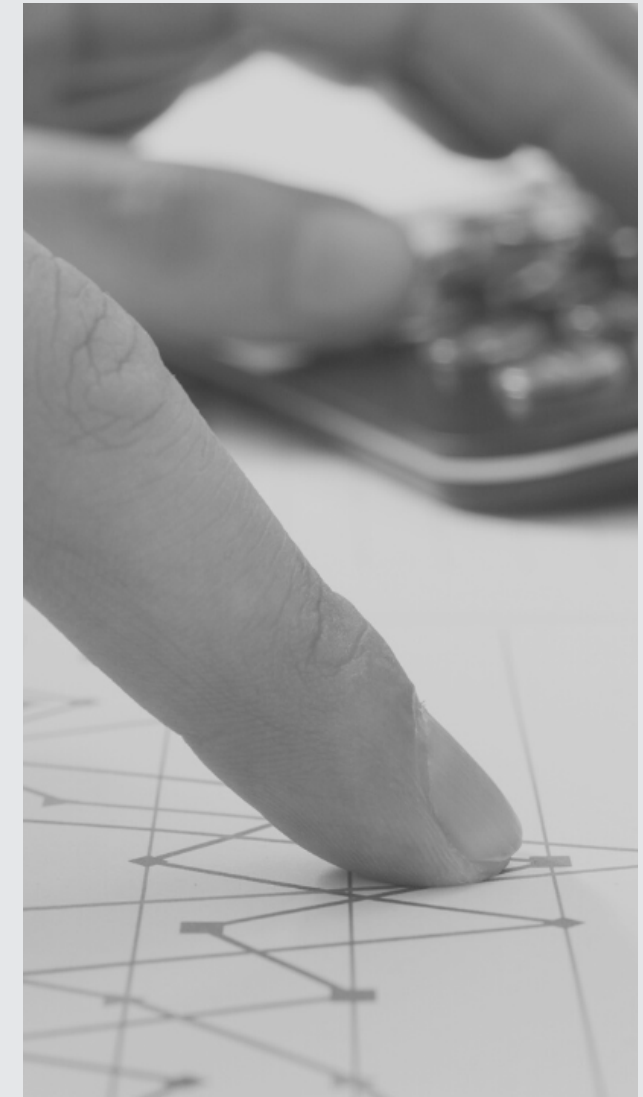
Here's what this table tells us:

- Overall, the average price for SME businesses (\$0-\$5m) excluding Hospitality has increased by 4% for the 12 months to Mar-23.
- The latest quarter to Mar-23 had lower volumes of businesses with values >\$2m which contributed to the decrease of 3% for the average business price when comparing to the Dec-22 quarter.
- The 3% decrease when comparing the most recent quarters is the first sign of a softening in the average business price since pre-covid periods.
- For the past three years we have had a substantial increase in volumes of businesses coming to market with values >\$2m which has been driving the increasing average business price and resulted in a 19% increase from Mar-21 to Mar-23.

Data Source:

The data set used for the average price calculations are all the transactions completed by 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.



HOSPITALITY BUSINESS PRICE TRENDS

12 Month Rolling Average	Mar-23	Mar-22	Mar-21	Mar-23 vs Mar-22	Mar-23 vs Mar-21
Hospitality Avge Price	\$222,356	\$304,994	\$177,255	(27%)	25%
12 Month Rolling Average	Mar-23	Dec-22	Sep-22	Mar-23 vs Dec-22	Mar-23 vs Sep-22
Hospitality Avge Price	\$222,356	\$249,296	\$254,511	(11%)	(13%)

Here's what this table tells us:

- The average price for Hospitality businesses (\$0-\$5m) has seen an 27% decrease for the 12 months to Mar-23 & 25% increase when compared to Mar-21.
- The elevated price for Hospitality business in Mar-22 was driven by a higher percentage of deals being completed above \$500k, which has not been repeated in the 12months to Mar-23.
- Overall, we can be confident that hospitality business prices have increased during the last three years as that is very clearly indicated by the data.
- The rationale for prices increasing during what has been an unprecedented time for hospitality businesses has been the “flight to quality”. Purchasers have had less motivation to buy smaller/startup hospo businesses and have had a preference to spend more on existing/proven hospo businesses to reduce their risk in what have been uncertain times for the industry.
- The average hospitality price has been in a range from \$220k - \$300k for the past two years which is materially higher than the average price of \$177k in Mar-21

Data Source:

The data set used for the average price calculations are all the transactions completed by 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.



GENERAL BUSINESS MULTIPLES (MEDIAN)

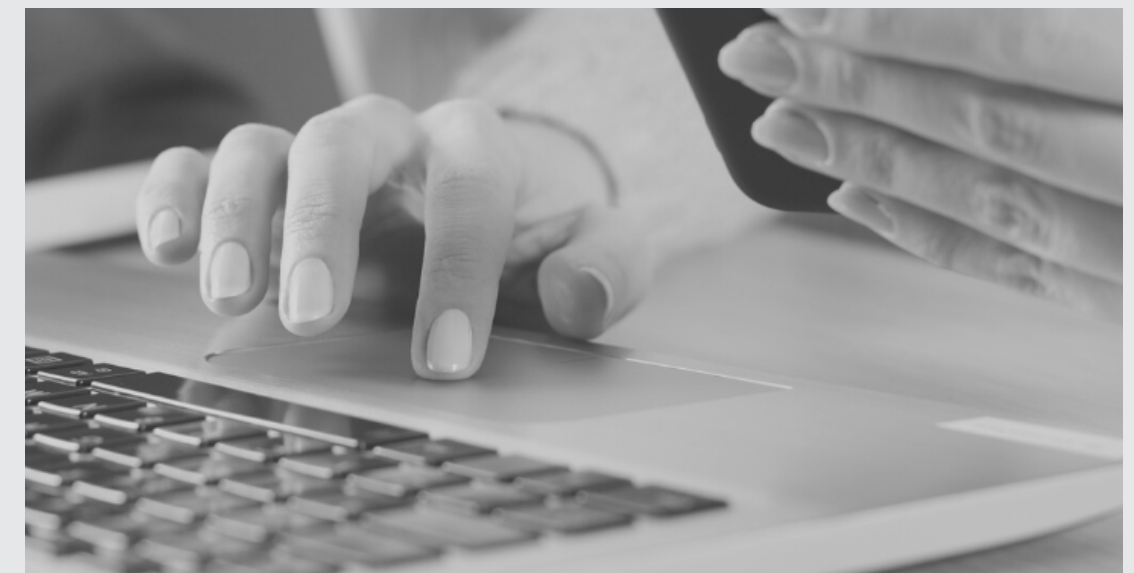
12 Month Rolling Average	Mar-23	Mar-22	Mar-21	Mar-23 vs Mar-22	Mar-23 vs Mar-21
Managed EBITDA Median Multiple	3.45	3.62	3.54	(5%)	(3%)

Here is what the table tells us in regard to multiples paid for NZ businesses (excluding hospitality):

- The median EBITDA business multiple being paid for privately owned NZ businesses is currently 3.45x. The EBITDA number is based on all the businesses being fully managed.
- As the table shows the median multiple has stayed flat for the last three years and the market has not experienced any material differences during this period.

Data Source Details:

- The median was used to get an accurate measure of what is the midpoint for business multiples being paid across all industries (excluding hospitality)
- The data used for calculating the median multiple were all business sales in 2020-23 (~1,200 transactions) across all industries excluding hospitality for businesses with a value range of \$0-\$10m
- A salary of \$120k has been removed from the reported EBITPTA to calculate a fully managed EBITDA number.



HOSPITALITY BUSINESS MULTIPLES (MEDIAN)

12 Month Rolling Average	Mar-23	Mar-22	Mar-21	Mar-23 vs Mar-22	Mar-23 vs Mar-21
Hospitality EBITPDA Median Multiple	1.90	2.09	1.88	(9%)	1%

Here is what the table tells us in regard to multiples paid for NZ Hospitality businesses:

- The median EBITPDA multiple being paid for Hospitality businesses as at Mar-23 is 1.90x. The EBITPDA number excludes the owner’s salary and as such is the full return paid to a working owner which is industry standard for hospitality businesses. (Different to managed EBITDA)
- The table shows the median multiple has not moved out of the 1.9x-2.1x range in the last three years and has stayed relatively stable in what has been a very challenging market for hospitality given the covid effect.
- Our insights suggest the multiple for hospitality did not decline during the covid period as owners held onto their businesses rather than selling at reduced multiples and the hospitality businesses that were selling were higher quality and able to sell at the standard multiple.



Data Source

- The EBITPDA number excludes the owner’s salary and as such is the full return paid to a working owner which is the industry standard for hospitality businesses. (Different from managed EBITDA)
- The data used for calculating the median multiple were all business sales in 2020-23 (~500 transactions)



Privately Owned Business Yields vs Other Investments

Segment	Capital Invested	\$ Return	% Yield
Privately Owned Business Yield	\$500,000	\$142,857	29%
Investment Property Yields	\$500,000	\$20,000	4%
Term Deposit Yield (12mths)	\$500,000	\$25,000	5%
NZ Share Market Average Yield	\$500,000	\$20,000	4%



- The average pre-tax yield for investing in a privately owned business equates to 29%. The average residential investment property yield is 4%, term deposit 5% and the average yield from the NZ Share market is 4%.
- Clearly, there is a material difference in the annual yields, with private business ownership returns being 500% higher than other investment segments available to New Zealanders.
- The 29% pre-tax yield for business ownership is based on the company being fully managed with limited input from the investor. The 29% yield is derived from the average business multiple which is 3.45x EBITDA. ($1/3.45x = 29\%$)
- This analysis excludes any capital gains for business ownership or any of the other asset classes.
- It needs to be acknowledged that private business ownership has a higher risk profile than investing in the comparison investment classes but we don't believe the premium for investing in a private business should be 500% higher than investing in property, term deposits or the NZ share market.
- 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.

Selection of ABC Business Sales to March 2023

This is a sample of 20 from a total of 394 Business Sales for the twelve months to March 2023

Industry	Location	Revenue	EBITPDA	Sales Price	Multiple
Aged Care	Auckland	\$9,250,000	\$1,560,000	\$28,000,000	17.9
Physiotherapist	South Island	\$440,000	\$140,328	\$214,000	1.5
Import/Distribution	Auckland	\$11,350,000	\$3,424,658	\$25,000,000	7.3
Building Materials	Auckland	\$7,135,072	\$733,846	\$2,914,000	4.0
Light Engineering	Lower NI	\$6,798,648	\$1,326,601	\$3,000,000	2.3
Service Stations	BOP/Waikato	\$13,576,703	\$620,508	\$2,801,050	4.5
Software and Computers	BOP/Waikato	\$1,290,000	\$359,007	\$1,000,000	2.8
Other Retail	South Island	\$2,316,228	\$618,559	\$1,025,000	1.7
Manufacturing	South Island	\$2,450,000	\$580,560	\$3,100,000	5.3
Transport	Auckland	\$2,041,900	\$559,000	\$1,960,000	3.5
Books/Stationery	BOP/Waikato	\$1,448,861	\$183,105	\$600,000	3.3
Building and Contracting	Auckland	\$1,440,139	\$382,841	\$765,000	2.0
Light Industrial Equipment/Supplies	BOP/Waikato	\$592,584	\$202,838	\$650,000	3.2
Other Retail	South Island	\$3,795,954	\$880,081	\$879,009	1.0
Software and Computers	Auckland	\$893,910	\$236,310	\$616,000	2.6
Other Manufacturing	BOP/Waikato	\$1,350,000	\$273,000	\$520,000	1.9
Light Industrial Equipment/Supplies	Auckland	\$2,297,772	\$580,084	\$1,680,000	2.9
Gym, Health and Fitness	Auckland	\$528,863	\$330,439	\$600,000	1.8
Service Stations	Auckland	\$13,988,590	\$927,640	\$3,400,000	3.7
Hardware	South Island	\$3,110,000	\$570,000	\$900,000	1.6

ABC MEDIA ACTIVITY



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.

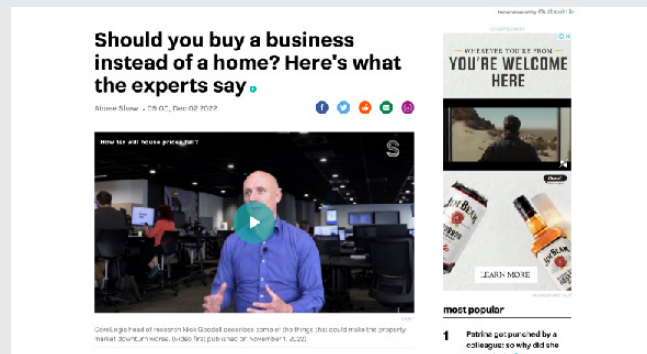
Bay of Plenty Times & Rotorua Daily Post

ABC Business Sales Bay of Plenty business broker Murray Kidd spoke about how owning a business helps give people the freedom to work from home.



RNZ Radio Interview & Online Article

ABC Business Sales business broker Ben Smith spoke to RNZ about the business' expansion into brokering mid-market businesses with values in range of \$5million-\$50million, including the recent sale of Medical Supplies distributor Toomac to British-based global company Bunzl.

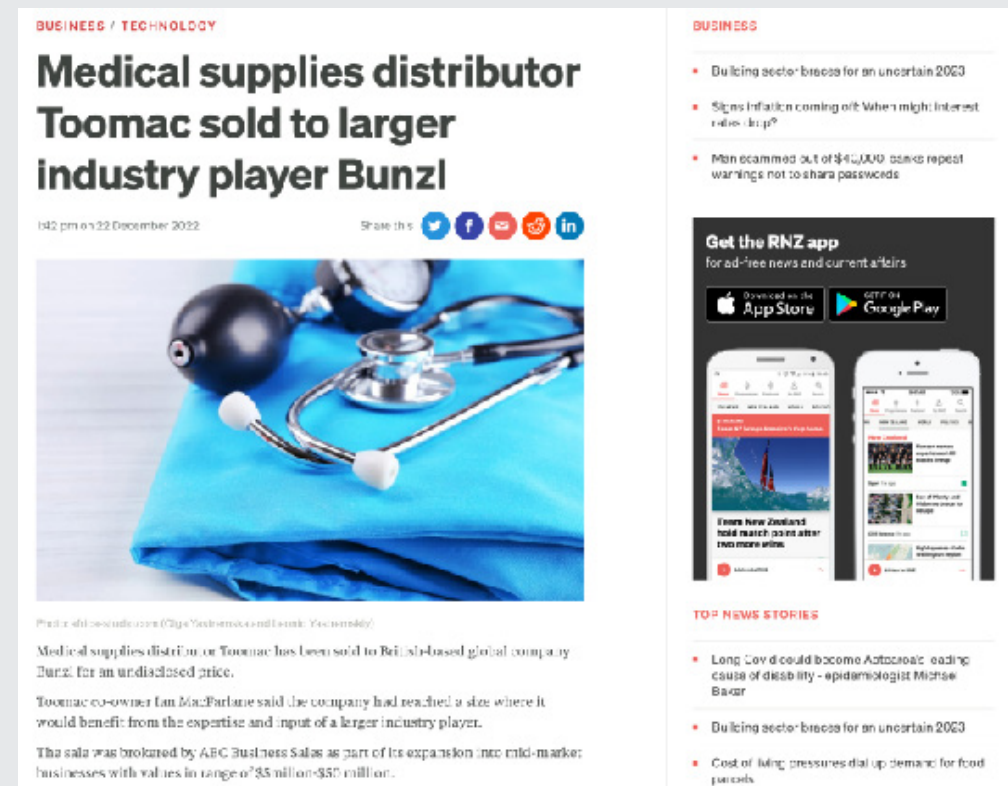


Stuff Article

ABC Business Sales Managing Director Chris Small spoke to Stuff about the benefits of buying a business instead of a home.

NBR Article

The sale of Toomac to Bunzl was also featured on NBR.co.nz's 'Quick Takes of the Week'



AUTHORS



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