

ABC.
Business Sales
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QUARTERLY MARKET INTELLIGENCE REPORT

SMALL AND MEDIUM-SIZED ENTERPRISES

December - 2023



EXECUTIVE SUMMARY

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

- Completed business sales across New Zealand have decreased in the past 12mths by 7%; this has been the result of cautious purchasers delaying decisions and valuation gaps not being resolved between purchasers & vendors.
- The average business sale price has decreased 2% annually to Dec-23. The data clearly shows business prices peaked in Dec-22 and have flattened off in the calendar year of 2023.
- The median multiple paid for businesses in New Zealand has experienced a slight increase (1%) but the variance between years has not exceeded 5% and we don't view this latest trend as a material movement.
- Demand for businesses has had a resurgence in the last twelve months with volumes of confidentiality agreements for 2023 being the highest on record, with 16,951 potential purchasers entering the market and a 30% increase compared to 2022.
- Supply of new businesses coming to market has remained stable to Dec-23 and has remained in line with historical levels and is only experiencing a small decrease of 4% compared to Dec-22.
- The data shows the average business price has increased by 25% over the past three years, the key driver has been the 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.
- Our data clearly shows that multiples have remained flat and are not contributing to higher business prices.





Projections for Business Sales - FY24

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

- Business Prices to bounce back and start increasing in the first quarter of 2024, we expect a 5%-7% annual increase in business prices in the next twelve months. The key drivers behind increasing business prices will be:
 - The ongoing record immigration which will fuel demand,
 - We anticipate a flood of activity that has been on hold due to the last year's election.
 - Investors are now feeling more confident about interest rates having reached their peak.
- Unemployment is expected to be more apparent in FY24 and this will also contribute to higher demand for businesses, especially in the “buy yourself a job” market.
- 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 materially declined and have held their position and we see this continuing.
- Supply of new businesses coming to market to remain at the higher levels experienced in 2023, 2022 & 2021 with retiring business owners continuing to be the key contributors.
- In summary we see business sales activity and prices accelerating in 2024, driven by increased immigration, interest rates forecasted to start declining, sellers & purchasers no longer delaying decision making and increasing unemployment bringing a new group of buyers to the market. By the start of 2024 we expect a material lift in demand which will result in a shift back towards a sellers' market.

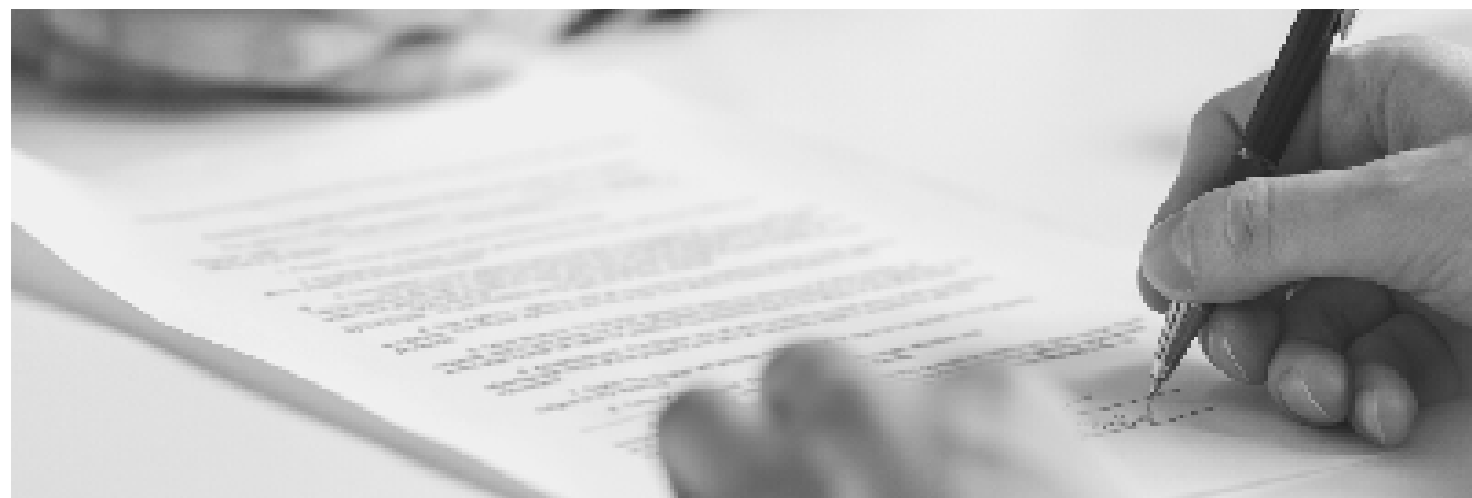
Signed Confidentiality Agreements Per Month						
Month	19/20	20/21	21/22	22/23	23 vs 22	23 vs 20
January	943	1653	1116	1075	-4%	14%
February	1190	1379	995	1065	7%	-11%
March	861	1493	1172	1255	7%	46%
April	684	1212	976	1109	14%	62%
May	1127	1473	1050	1580	50%	40%
June	1285	1542	1250	1588	27%	24%
July	1392	1432	1135	1576	39%	13%
August	1287	1254	1231	1606	30%	25%
September	1160	1111	1161	1697	46%	46%
October	1315	1235	966	1531	58%	16%
November	1334	918	1190	1174	-1%	-12%
December	1267	800	768	1695	121%	34%
Total	13,845	15,502	13,010	16,951	30%	22%

DEMAND DATA POINTS

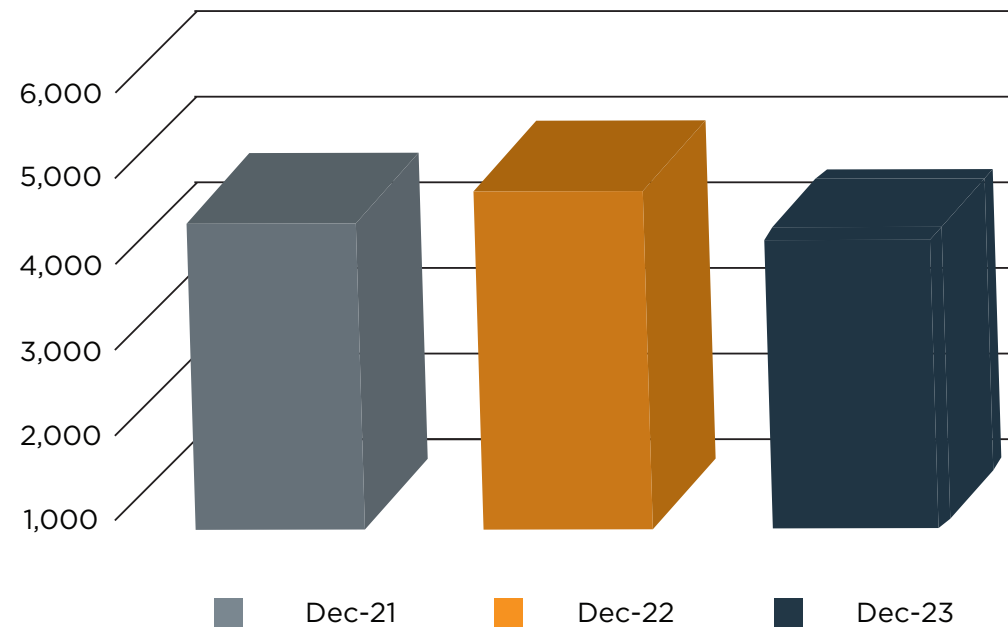
SIGNED CONFIDENTIALITY AGREEMENTS

The twelve months to Dec-23 shows an 30% increase in Signed confidentiality agreements completed by potential purchasers compared to Dec-22. We believe the material increase of 30% is driven by the following factors:

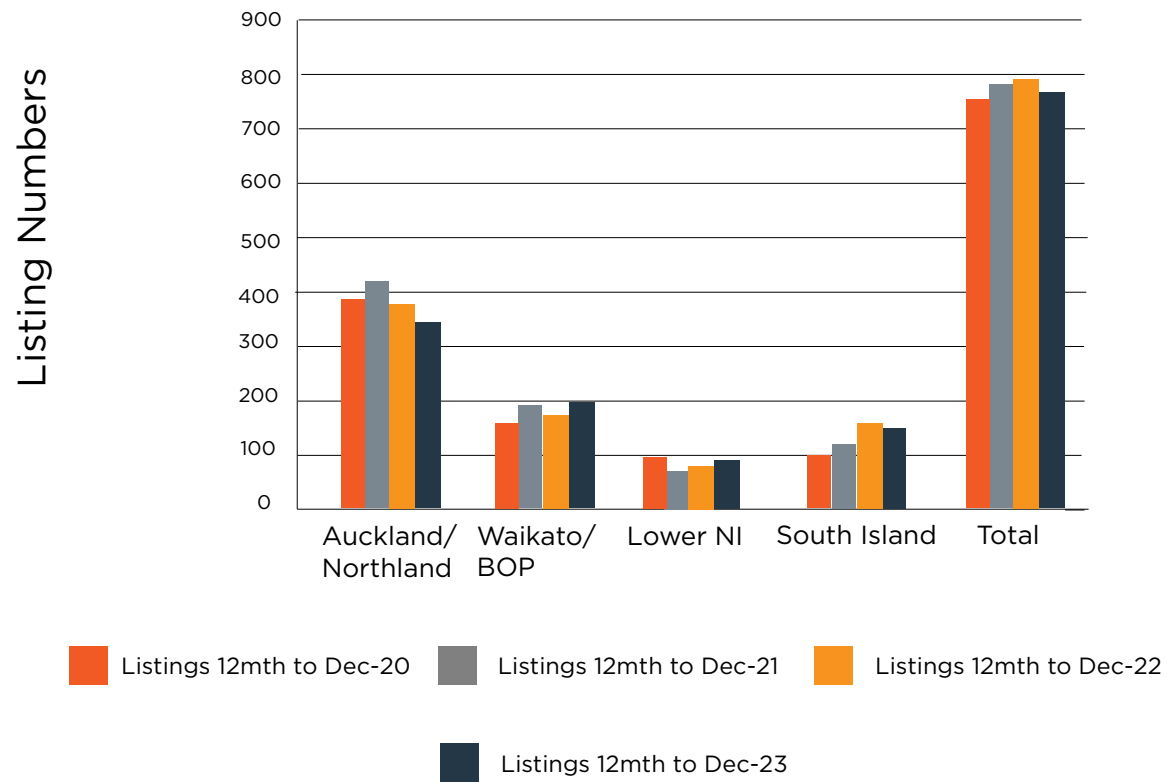
- New Zealand experiencing new record levels of immigration (back to its record levels of >100k)
- Unemployment rates are starting to increase with more companies looking to reduce staff levels, which in turn is providing more potential purchasers or people looking to buy businesses and effectively buy themselves a job.
- Investors feeling more confident about the economy with a new business friendly Govt and interest rates forecasted to starting reducing later in 2024.



Average number of business listings TradeMe



New Listings ABC



SUPPLY DATA POINTS

BUSINESSES LISTED FOR SALE - TRADEME

This 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 decrease of 4% year on year and indicates we are in a flat market.

For the 12 months to Dec -23, the average number of listings on the trademe website was 4,189 this has decreased by 4% from Dec-22 where the average listings for this period were 4,382.

ABC NEW LISTINGS

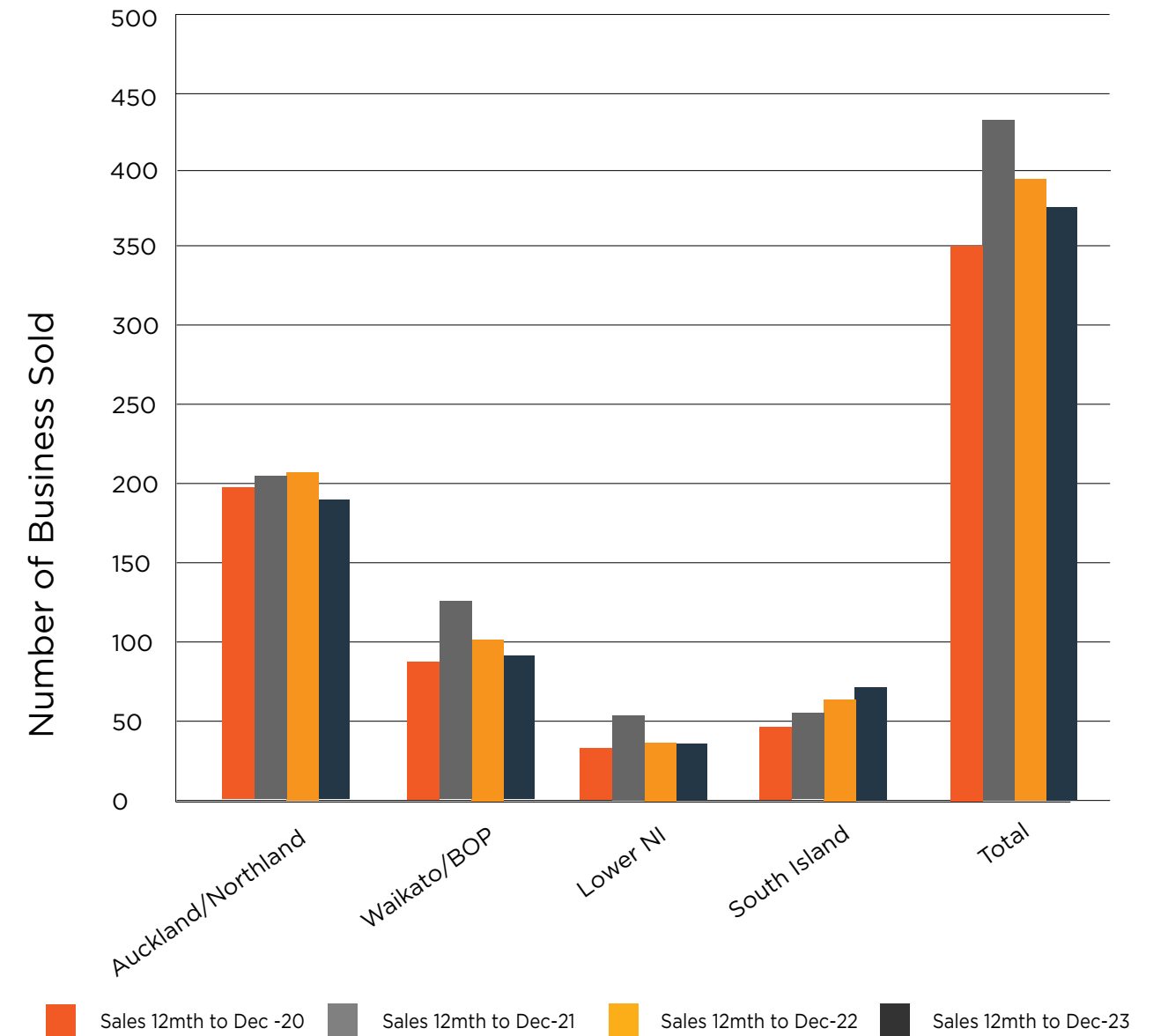
- ABC has experienced a 4% decline in new business listings for the 12 months to Dec-23 (761) when compared to Dec-22 (790).
- ABC's data is in line with the overall market where we are seeing no more than 5% movements up or down in new listings and supports the statement business sales is currently in a steady/balanced market.

ABC COMPLETED BUSINESS SALES BY REGION

- As per the graph, completed business sales by region for 12 months to Dec-23 (371) are down 7% compared to Dec-22 (399). The data supports the theme of purchasers having a more cautious attitude to buying businesses due to uncertain economic factors and the valuation gap between vendors and purchasers remaining wider than previous periods.
- There is also a strong regional trend evident in the data which shows the South Island have increased their volumes but the North Island regions have declined in the past 12mths.



ABC Sales Volumes Per Location



GENERAL BUSINESS PRICE TRENDS

12 Month Rolling Average	Dec-20	Dec-21	Dec-22	Dec-23	Dec-23 vs Dec-22	Dec-23 vs Dec-20
General Business Avge Price	\$678,834	\$775,729	\$868,102	\$851,923	(2%)	25%
12 Month Rolling Average	Mar-23	Jun-23	Sep-23	Dec-23	Dec-23 vs Sep-23	Dec-23 vs Mar-23
General Business Avge Price	\$839,846	\$835,547	\$831,329	\$851,923	2%	1%

Here's what this table tells us:

- Overall, the average price for SME businesses (\$0-\$10m) excluding Hospitality has decreased by 2% for the 12 months to Dec-23.
- The twelve months to Dec-23 had lower volumes of businesses with values >\$2m which contributed to a decrease of 2% for the average business price when comparing the Dec-22 quarter.
- The 2% increase when comparing the most recent quarter (Sep-23). This is the first sign of a rebound in the average business price and we expect this trend to continue into 2024. The data supports our view that business prices peaked in Dec-22 and declined in 2023 with a bounce back expected in 2024.
- 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 25% increase from Dec-20 to Dec-23.

Data Source:

The data set used for the average price calculations are all the transactions completed by the ABC Group in the \$0-\$10m 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-\$10m 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-\$10m.



HOSPITALITY BUSINESS PRICE TRENDS

12 Month Rolling Average	Dec-20	Dec-21	Dec-22	Dec-23	Dec-23 vs Dec-22	Dec-23 vs Dec-20
General Business Avge Price	\$186,524	\$274,352	\$249,296	\$236,964	(5%)	27%
12 Month Rolling Average	Mar-23	Jun-23	Sep-23	Dec-23	Dec-23 vs Sep-23	Dec-23 vs Mar-23
General Business Avge Price	\$222,356	\$223,124	\$248,956	\$236,964	(5%)	7%

Here's what this table tells us:

- The average price for Hospitality businesses (\$0-\$10m) has seen a 5% decrease for the 12 months to Dec-23.
- We are now seeing higher volumes of hospitality businesses selling but most of these transactions are in the below \$500k price range, and this is driven by new migrants being the purchasers with reduced budgets.
- 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 which shows a 27% increase over that period.

Data Source:

The data set used for the average price calculations are all the transactions completed by the ABC Group in the \$0-\$10m 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.

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GENERAL BUSINESS MULTIPLES (MEDIAN)

12 Month Rolling Average	Dec-21	Dec-22	Dec-23	Dec-23 vs Dec-22	Dec-23 vs Dec-21
Managed EBITDA Median Multiple	3.49	3.51	3.56	1%	2%

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 3.56x. 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 2021-23 (~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	Dec-21	Dec-22	Dec-23	Dec-23 vs Dec-22	Dec-23 vs Dec-21
Hospitality EBITPDA Median Multiple	2.19	1.94	1.92	(1%)	(12%)

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 Dec-23 is 1.92x. 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-2.2x 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 has declined for 2023 due to higher volumes of smaller hospitality businesses being sold to migrants (our data clearly shows smaller businesses have smaller multiples).

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 2021-23 (-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	\$30,000	6%
NZ Share Market Average Yield	\$500,000	\$15,000	3%



- 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 6% and the average yield from the NZ Share market is 3%.
- 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 3.5x EBITDA. ($1/3.5x = 29\%$)
- 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 do not 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 December 2023

This is a sample of 20 from a total of 371 Business Sales for the twelve months to December 2023

Industry	Location	Revenue	EBITPDA	Sales Price	Multiple
Building and Contracting	Auckland	\$2,795,035	\$431,288	\$1,090,000	2.53
Other Manufacturing	Auckland	\$11,570,340	\$2,120,245	\$7,250,000	3.42
Service Stations	Tauranga	\$13,449,645	\$579,928	\$2,400,000	4.14
Food Products	Christchurch	\$2,400,000	\$299,371	\$765,000	2.56
Furniture	Auckland	\$1,256,475	\$158,273	\$683,000	4.32
Other Products	Auckland	\$6,800,000	\$1,800,000	\$4,800,000	2.67
Service Centres/Workshops	Tauranga	\$16,297,553	\$1,107,773	\$5,800,000	5.24
Engineering	Dunedin	\$2,225,000	\$324,532	\$1,315,000	4.05
Aluminium Joinery	Auckland	\$3,795,510	\$831,478	\$1,950,000	2.35
Building and Contracting	Tauranga	\$3,700,000	\$686,000	\$1,250,000	1.82
Rental Cars/Trucks/Vans	Auckland	\$1,719,000	\$780,000	\$2,021,150	2.59
Agriculture/Farm Machinery Sales	Waikato	\$2,500,000	\$864,000	\$1,500,000	1.74
Software and Computers	Auckland	\$1,860,236	\$469,000	\$1,250,000	2.67
Hardware	Wellington	\$1,355,965	\$290,492	\$1,750,000	6.02
Service Stations	Waikato	\$7,245,108	\$273,201	\$1,165,000	4.26
Other Service	Dunedin	\$1,707,378	\$695,713	\$1,350,000	1.94
Building and Contracting	Waikato	\$7,500,000	\$1,800,000	\$4,500,000	2.50
Auto Parts/Accessories	Waikato	\$1,650,000	\$450,000	\$900,000	2.00
Graphics Service	Wellington	1,081,000	\$436,000	\$1,000,000	2.29
Insurance Brokers/Agencies	Christchurch	\$256,000	\$165,000	\$565,000	3.42

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.

Newstalk ZB Radio and Online

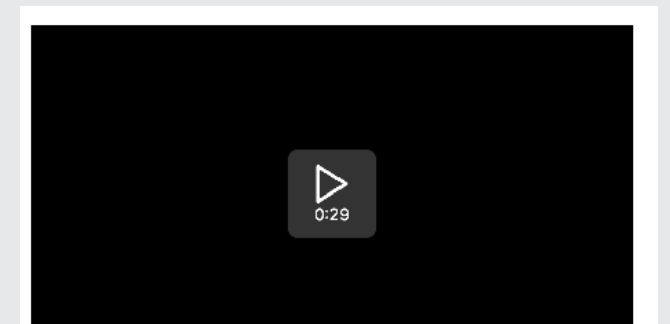
ABC Business Sales Managing Director Chris Small discussing sales of small businesses being down 10% over the past few months



Newstalk ZB Radio

ABC Business Sales Managing Director Chris Small discussing a number of topics in regards to hospitality business sales

- Inquiries from potential owners to start a Hospo Business nearly doubled
- Hospitality is bouncing back and people want in
- New arrivals to NZ are fuelling demand to own a hospo business
- ABC Business Sales reporting twice as many inquiries in hospo businesses

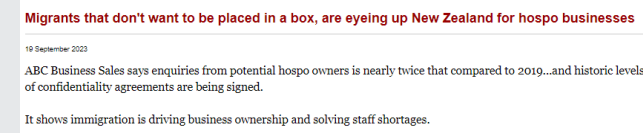


RNZ Radio and Online, MSN

ABC Business Sales Managing Director Chris Small spoke to RNZ on how there is high interest in business buying but sales dip due to upcoming election.



Migrants that don't want to be placed in a box, are eyeing up New Zealand for hospo businesses



NZCity Online

ABC Business Sales Managing Director Chris Small discusses about migrants eyeing up NZ Hospo Business opportunities

AUTHORS



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- Twenty years of experience in the banking sector

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