



QUARTERLY MARKET INTELLIGENCE REPORT

SMALL AND MEDIUM-SIZED ENTERPRISES

September - 2024

WWW.ABCBUSINESS.CO.NZ





1	7820
2	1520
3	28546
4	31175
5	18234
6	1886
7	2313
8	2138
9	2223
10	44025
11	2346
12	346
13	8135
14	5
15	2404
16	34
17	5855
18	56
19	813
20	13
21	2126
22	36
23	6823
24	23
25	7845
26	4525
27	1035
28	340
29	10
30	8125
31	34
32	1322
33	56
34	13
35	14
36	15
37	16
38	17
39	18
40	19
41	20
42	21
43	22
44	23
45	24
46	25
47	26
48	27
49	28
50	29
51	30
52	31
53	32
54	33
55	34
56	35
57	36
58	37
59	38
60	39
61	40
62	41
63	42
64	43
65	44
66	45
67	46
68	47
69	48
70	49
71	50
72	51
73	52
74	53
75	54
76	55
77	56
78	57
79	58
80	59
81	60
82	61
83	62
84	63
85	64
86	65
87	66
88	67
89	68
90	69
91	70
92	71
93	72
94	73
95	74
96	75
97	76
98	77
99	78
100	79

A photograph showing the hands and forearms of two people in business attire shaking hands. The person on the left is wearing a grey suit jacket and a blue shirt. The person on the right is wearing a dark blue suit jacket and a light blue shirt. The background is blurred, suggesting an office or meeting environment.

CONTENTS

Pg	
4	Executive Summary
5	New Market Trends for Business Sales
6	Twelve Month Outlook for Business Sales
7	Demand Indicators for Business Sales (ECA Volumes)
8 - 9	Supply Indicators for Business Sales (New Listing Volumes)
10	Business Sales Volumes
11 - 12	Business Price Trends (General & Hospitality Sectors)
13 - 14	Business Multiple Trends (General & Hospitality Sectors)
15	Selection of Twenty Recent Business Sales (Sector, Location, Price Multiple)

EXECUTIVE SUMMARY

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

- Business sales volumes across New Zealand have increased in the past twelve months by 8%; this has been the result of increasing demand for business ownership.
- The average business sale price has increased 5% annually to Sept-24 (\$874k). The data clearly shows business prices had been declining since Dec-22 and this is the first time the average business price has jumped ahead of Dec-22 (\$864k).
- The median multiple paid for businesses in New Zealand has experienced an increase (6%) but the variance between years has not exceeded 6% 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 the twelve months being the highest on record, with 22,404 potential purchasers entering the market and a 45% increase compared to Sept-23.
- The supply of new businesses coming to market remained stable to Sept-24 and has kept in line with historical levels and has experienced a small increase of 2% compared to Sept-23.

AVERAGE BUSINESS PRICE HITS RECORD NUMBER

In the past twelve months the average business price has climbed 5% to be \$874,182, this is a record price and 1% higher than the previous record price of \$868,102 which was achieved in Dec-22. When we review the data we can see that increased demand for quality businesses has been the driving factor with a high percentage of businesses having multiple offers resulting in higher sales prices for business owners.

The data also shows us that the average price has increased 5% compared to the most recent quarter (Jun-24) and is the first substantial increase for the average business price since Dec-22. It is our view that the average business price is emerging from the bottom of cycle and recent interest rate cuts. Along with an expectation that there are more to come will fuel a bull run for business prices in the short to medium term.

There are three key reasons why we are seeing this material increase in the average business price:

1. Demand for business ownership is at record levels which is supported by our ECA levels and is the result of migrant arrivals continuing to be at elevated levels (>200,000), and a high proportion of the migrant arrivals are Indian, Chinese and Filipino who have a preference for business ownership ahead of being an employee.
2. The first Interest rate cut alongside the expectation of a steady decline in interest rates over the short to medium term, has provided purchasers and investors with extra confidence to acquire businesses given the returns are now looking more favourable with the back drop of lower rates.
3. We continue to see a high proportion of the businesses coming to market for sale are from the baby boomer generation who are wanting to retire. These businesses are often substantial businesses with >10 employees and values in excess of \$2m. A higher proportion of businesses selling for >\$2m has contributed to the average business price increasing for the 12mths to Sept-24.

TWELVE MONTH OUTLOOK FOR BUSINESS SALES

This report includes data up to Sept-24 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 Sept-25:

We are forecasting Business Prices to continue increasing as we have experienced in the most recent quarter. Sept-24 was up 5% vs June-24; we expect the annual growth to Sept-25 to be high single digits (7%-9%) . The key drivers behind increasing business prices will be:

1. The current migrant arrival levels (>200k) will continue to fuel demand,
 2. Investors are now feeling more confident after experiencing consecutive rate cuts.
 3. Unemployment is expected to be at elevated levels for the remainder of FY24 and for the first half of F25 and this will also contribute to higher demand for businesses, especially in the “buy yourself a job” market.
- For the first time in three years we are predicting business multiples to start increasing in 2025 on the back of declining interest rates and improved investor confidence. To date, private business multiples have not moved materially and have held their position, and we see this changing in 2025 and expect a 10-15% increase.
 - Supply of new businesses coming to market to remain at the higher levels experienced in 2022-24 with retiring business owners continuing to be the key contributors.
 - In summary we see business sales activity and prices accelerating for the remainder of 2024 and into 2025, driven by high levels of migrant arrivals (>200k) and interest rates declining at a faster rate than anticipated. By the start of 2025 we expect a material lift in demand to continue which will result in a shift back towards a sellers’ market and the end result being increasing multiples/prices.

PROJECTIONS

SIGNED CONFIDENTIALITY AGREEMENTS

The twelve months to Sept-24 show a 45% increase in Signed confidentiality agreements completed by potential purchasers compared to Sept-23. We believe the material increase of 45% is driven by the following factors:

- New Zealand experiencing record levels of arriving migrants (back to its record levels of >200k)
- 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 feel more confident about the economy with interest rates now forecast to decline rapidly.

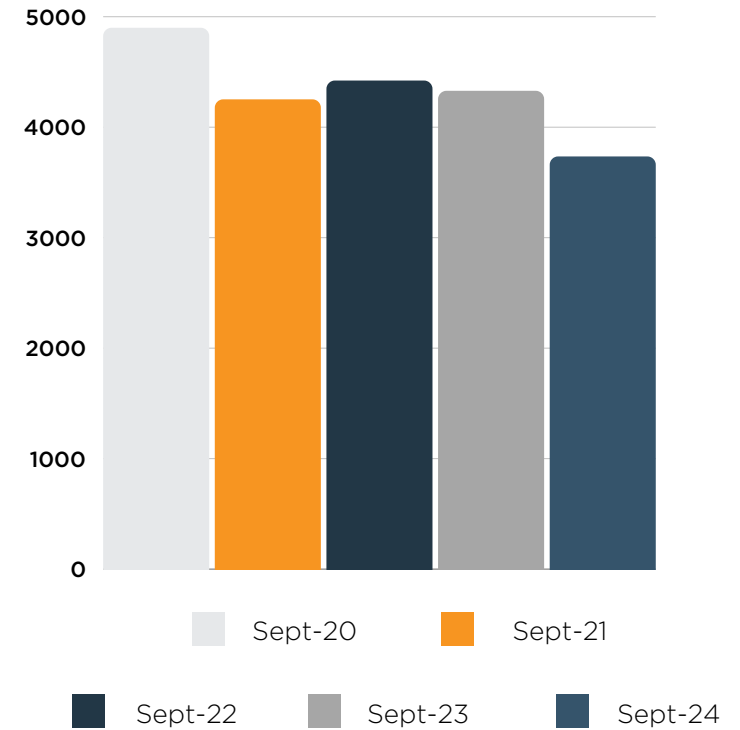
Signed Confidentiality Agreements						
Per Month						
MONTH	19/20	20/21	21/22	22/23	23/24	24 vs 23
October	1160	1315	1235	966	1531	46%
November	1047	1334	918	1190	1628	48%
December	757	1267	800	768	1361	74%
January	943	1653	1116	1075	1710	57%
February	1190	1379	995	1065	1809	75%
March	861	1493	1172	1255	2051	68%
April	684	1212	976	1109	2003	92%
May	1127	1473	1050	1580	2064	46%
June	1285	1542	1250	1588	2102	41%
July	1392	1432	1135	1576	2121	48%
August	1287	1254	1231	1606	2063	37%
September	1160	1111	1161	1697	1961	23%
Total	12,893	16,465	13,309	15,475	22,404	45%

TRADEME BUSINESS LISTINGS

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 decrease of 14% year on year and indicates the market has had a material dip in new businesses coming to market.

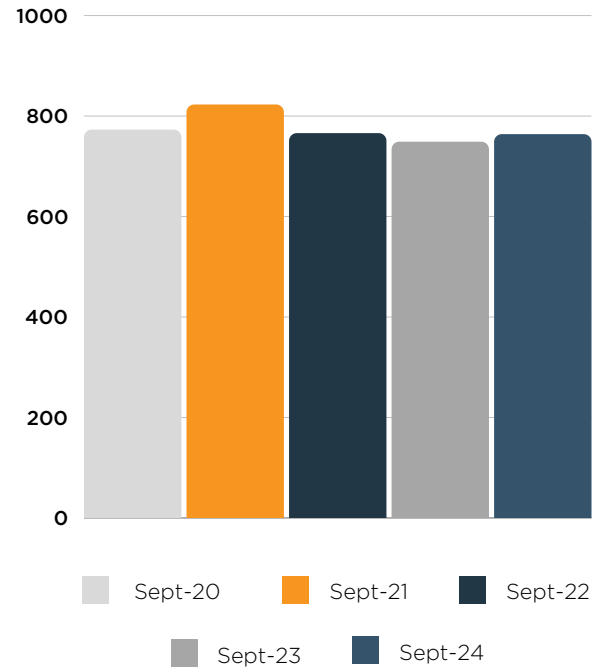
If we look back five years the number of new business being listed for sale has decreased materially from an average of 4,900 in 2020 to 3,735 in 2024 (24% decline).

Average Number of Business Listings on TradeMe



ABC NEW LISTINGS

New Business Listings by Year



- ABC has experienced a 2% increase in new business listings for the 12 months to Sept-24 when compared to Sept-23.
- ABC's data contradicts the overall market data from Trade me which shows a 14% decline in new listings. The reason for the difference is ABC has grown market share and less vendors are using private sales/trade me to exit their businesses given the complexity of the transaction.



BUSINESS SALES VOLUMES BY YEAR

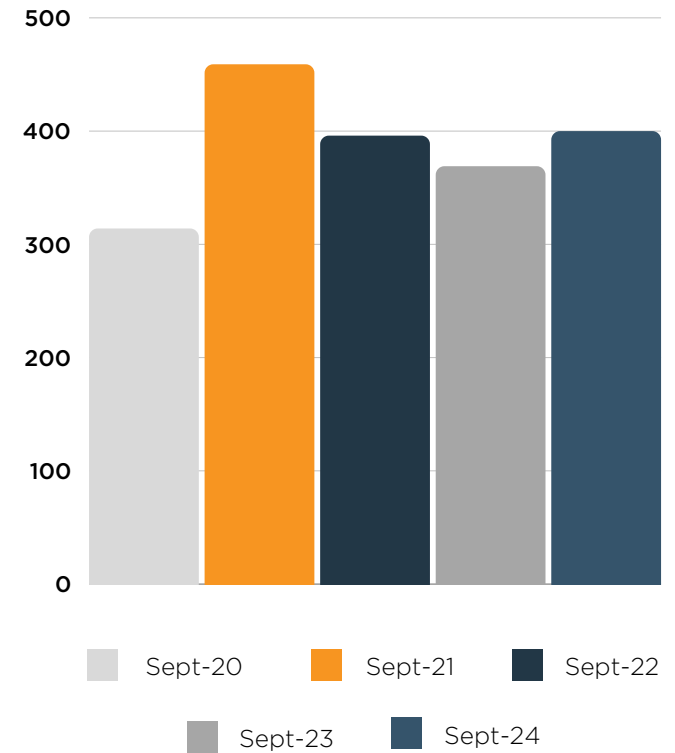
As per the graph, completed business sales for 12 months to Sept-24 (400) are up 8% compared to Sept-23 (369).

The data supports the theme of increasing demand (45% increase in ECA's) translating to more completed sales.

There are two key buying groups which are fueling demand;

- New migrant arrivals to New Zealand
- Employees who have being made redundant.

Business Sales by Year



AVERAGE BUSINESS PRICE TRENDS (GENERAL)

12 Month Rolling	Sep-20	Sep-21	Sep-22	Sep-23	Sep-24	Sep-24 VS Sep-23
General Business Average Price	\$653,834	\$749,729	\$789,314	\$831,329	\$874,182	5%
3 Month Rolling	Sept-23	Dec-23	Mar-24	Jun-24	Sep-24	Sep-24 VS June -24
General Business Average Price	\$834,329	\$851,923	\$835,235	\$832,629	\$874,182	5%

What the data tells us:

- Overall, the average price for SME businesses (\$0-\$10m) excluding Hospitality has increased by 5% for the 12 months to Sept-24.
- Business prices had previously peaked as at Dec-22 (\$868k) and Sept-24 (\$874k) is the first quarter to have eclipsed that period and set a new record price. The key reason for record price is elevated demand (ECAs up 45%) and increased business confidence on the back of declining interest rates.
- For the past four 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 34% increase from Sept-20 to Sept-24.

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; many of the businesses with 1-19 employees would be valued between \$0-\$10m.

AVERAGE BUSINESS PRICE TRENDS (HOSPITALITY)

12 Month Rolling	Sep-20	Sep-21	Sep-22	Sep-23	Sep-24	Sep-24 VS Sep-23
Hospitality Business Average Price	\$196,635	\$243,952	\$254,115	\$248,956	\$202,090	(19%)
3 Month Rolling	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Sep-24 VS June -24
Hospitality Business Average Price	\$248,956	\$236,964	\$235,332	\$210,266	\$202,090	(4%)

What the data tells us:

- The average price for Hospitality businesses (\$0-\$10m) has seen a 19% decrease for the 12 months to Sept-24.
- We are now seeing higher volumes of hospitality businesses selling but most of these transactions are in the below \$300k price range, and this is driven by new migrants being the purchasers with reduced budgets and hence the average price is declining.
- The material decline of 19% has brought the average price down to levels not experienced since 2020. The tough economic conditions for Hospitality businesses combined with higher volumes of business selling in the below \$300k market have been the major contributors of this price decline.

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; many of the businesses with 1-19 employees would be valued between \$0-\$10m.

GENERAL BUSINESS MULTIPLES (MEDIAN)

12 Month Rolling	Sep-20	Sep-21	Sep-22	Sep-23	Sep-24	Sep-24 VS Sep-23
Managed EBITDA Median Multiple	3.49	3.47	3.53	3.39	3.59	6%

Here is what the data 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 3.59x. The EBITDA number is based on all the businesses being fully managed.
- As the table shows this is the first time we have experienced a multiple uplift >5% in five years and we believe this is the start of a bull run for privately owned business multiples. Key contributors to business multiple increases has been the interest rate cuts supported by elevated demand for privately owned businesses.
- 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 2020-24 (~1,600 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	Sep-20	Sep-21	Sep-22	Sep-23	Sep-24	Sep-24 VS Sep-23
Hospitality EBITPDA Median Multiple	1.92	1.95	2.02	1.97	1.98	1%

Here is what the data tell us in regard to multiples paid for NZ Hospitality businesses:

- The median EBITPDA multiple being paid for Hospitality businesses as at Sept-24 is 1.98x. The EBITPDA number includes 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 1.85x-2.10x range in the last four years and has stayed relatively stable in what has been a very challenging market for hospitality given the covid effect and recent cost of living crisis.
- 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.

SELECTION OF ABC BUSINESS SALES TO SEPTEMBER 2024

Industry	Location	Revenue	EBPITDA	Sale Price	Multiple
Other Manufacturing	Auckland	\$1,851,638	\$465,897	\$1,400,000	3.0
Agriculture/Farm Machinery Sales	Hamilton	\$2,500,000	\$864,000	\$1,500,000	1.7
Software and Computers	Auckland	\$1,860,236	\$469,000	\$1,250,000	2.7
Hardware	Wellington	\$1,355,965	\$290,492	\$1,750,000	6.0
Motels Leasehold	Christchurch	\$340,190	\$102,960	\$330,000	3.2
Service Stations	Hamilton	\$7,245,108	\$273,201	\$1,165,000	4.3
Other Service	Dunedin	\$1,707,378	\$695,713	\$1,350,000	1.9
Building and Contracting	Hamilton	\$7,500,000	\$1,800,000	\$4,500,000	2.5
Graphics Service	Hamilton	\$1,081,000	\$436,000	\$1,000,000	2.3
Cafes (unlicensed)	Dunedin	\$2,200,000	\$374,394	\$1,015,000	2.7
Insurance Brokers/Agencies	Christchurch	\$256,000	\$165,000	\$565,000	3.4
Light Engineering	Palmerston North	\$3,495,158	\$525,698	\$1,475,000	2.8
Surveyors	Auckland	\$2,006,716	\$702,731	\$875,000	1.2
Agriculture/Farm Machinery Sales	Christchurch	\$871,000	\$423,000	\$1,155,000	2.7
Transport	Auckland	\$1,871,460	\$725,000	\$2,525,000	3.5
Engineering Production	Auckland	\$476,549	\$728,000	\$2,500,000	3.4
Building and Contracting	Hamilton	\$24,000,000	\$1,700,000	\$3,700,000	2.2
Wooden joinery Cabinet Makers	Palmerston North	\$2,887,640	\$240,618	\$765,000	3.2
Garden Centres	Wellington	\$6,132,737	\$709,829	\$1,850,000	2.6
Timber Processing	New Plymouth	\$17,214,917	\$1,461,392	\$6,035,000	4.1

WWW.ABCBUSINESS.CO.NZ