

ABC.
Business Sales

QUARTERLY MARKET INTELLIGENCE REPORT

SMALL AND MEDIUM-SIZED ENTERPRISES

JUNE 2024

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SUMMARY

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

- 112 business sales were completed across New Zealand for the Apr 24 - Jun 24 quarter which is 37% ahead of last year (82 completed business sales for Apr 23 - Jun 23). This is the highest ever total for the Apr-Jun quarter based on 37yrs of data.
- Completed business sales in the past 12mths increased by 5% (386 completed business sales).
- The rising number of completed business sales is the direct result of increasing demand for business ownership driven by two distinct groups:
 1. New immigrants to New Zealand are preferring to buy a business rather than taking a salary role; the ethnicity of these immigrants is largely Indian, Filipino and Chinese.
 2. There is an increasing number of redundant ex-corporate employees entering business ownership with the goal of increasing earnings and reducing the risk of being made redundant again.
- The average business sale price has decreased 1% annually to Jun-24. The data clearly shows business prices peaked in Dec-22 and have flattened off in the calendar year of 2023 and the start of 2024.
- The median multiple paid for businesses in New Zealand has experienced a slight decrease (3%), 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 the twelve months being the highest on record, with 20,424 potential purchasers entering the market and a 45% increase compared to June-23.
- The supply of new businesses coming to market remained stable to June-24 and has remained in line with historical levels and has experienced a small increase of 4% compared to June-23.

SIGNED CONFIDENTIALITY AGREEMENTS EXCEED 20K FOR FIRST TIME IN HISTORY

EMERGING TREND

In the past twelve months 20,424 signed confidentiality agreements have been logged with ABC Business Sales, these documents are required to be signed by potential purchasers who are serious about acquiring a particular business. 20,424 is a record number and 45% ahead of Jun-23 numbers and clearly shows demand & inquiry for business ownership are at record levels.

There are three key reasons why we are seeing this material increase in demand/inquiry for business ownership:

1. Immigration remains at elevated levels (>100k) and a high proportion of the new immigrants are Indian, Chinese and Filipino who have a preference for business ownership ahead of being an employee.
2. The increased redundancy levels from corporate and government entities are bringing more people to market who have an interest in business ownership. The job market is especially tight for higher paid roles and these people are now viewing business ownership as the only way they can replicate their lost income.
3. The economic uncertainty that currently exists in New Zealand is causing many New Zealanders to look at options that allow them to be in charge of their own career and financial position; looking into business ownership provides an option that can cure those uncertainties.

PROJECTIONS FOR BUSINESS SALES

PROJECTIONS

This report includes data up to June-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 June-25:

- Business prices to bounce back and start increasing in the final two quarters to Mar-25, we expect a 4%-6% annual increase in business prices in the next twelve months. The key drivers behind increasing business prices will be:
 1. The current immigration levels will continue to fuel demand.
 2. Investors are now feeling more confident about interest rates having reached their peak.
 3. 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 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 the back half of 2024, driven by 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 2025 we expect a material lift in demand to continue which will result in a shift back towards the sellers’ market.

SIGNED CONFIDENTIALITY AGREEMENTS

The twelve months to June-24 show a 45% increase in signed confidentiality agreements completed by potential purchasers compared to June-23. We believe the material increase of 45% 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 feel more confident about the economy with a new business friendly government and interest rates forecasted to start reducing later in 2024.

Signed Confidentiality Agreements							
Per Month							
MONTH	19/20	20/21	21/22	22/23	23/24	24 vs 23	24 vs 19
July	1257	1392	1433	1135	1576	39%	25%
August	1225	1287	1254	1231	1606	30%	31%
September	954	1160	1111	1161	1697	46%	78%
October	1160	1315	1235	966	1531	58%	32%
November	1047	1334	918	1190	1628	37%	55%
December	757	1267	800	768	1361	77%	80%
January	943	1653	1116	1075	1787	66%	90%
February	1190	1379	995	1065	2282	114%	92%
March	861	1493	1172	1255	2121	69%	146%
April	684	1212	976	1109	1324	19%	94%
May	1127	1473	1050	1580	1430	-9%	27%
June	1285	1542	1250	1588	2081	31%	62%
Total	12,490	16,507	13,309	14,123	20,424	45%	64%

TRADEME BUSINESS LISTINGS

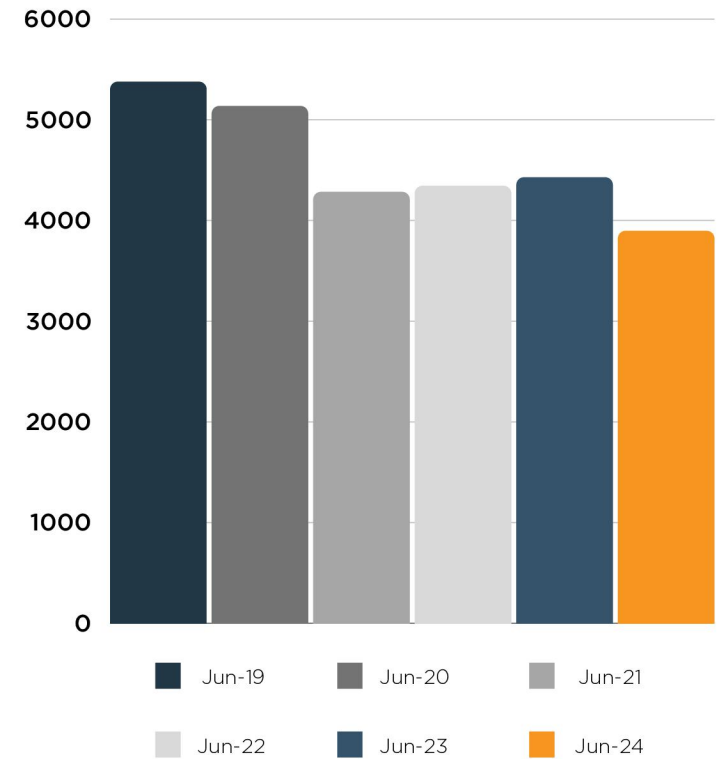
This chart looks at the trend of businesses listed for sale across New Zealand via Trade Me. As you can see the trend is a decrease of 12% year on year and indicates the market has had a material dip in new businesses coming to market.

This trend contradicts the listing trends we are experiencing at ABC Business Sales and our internal evidence shows new businesses coming to market are in line with historical averages.

For the 12 months to June-24, the average listings on the TradeMe website were 3,898, this has decreased by 12% from June-23 where the average listings for this period were 4,430.

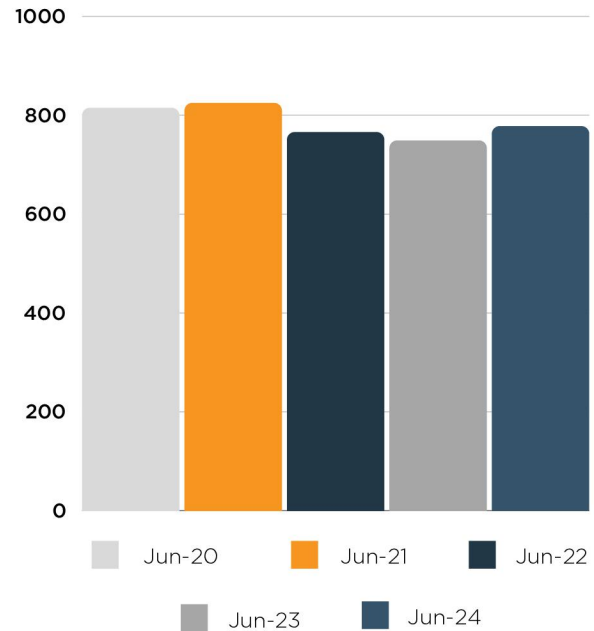
For the 5 years to Jun-24 listings on TradeMe have declined by 28%. (Jun-19 was 5378 Listings and has declined to 3,897 listings as at Jun-24).

Average Number of Business Listings on TradeMe



ABC NEW LISTINGS

New Business Listings by Year

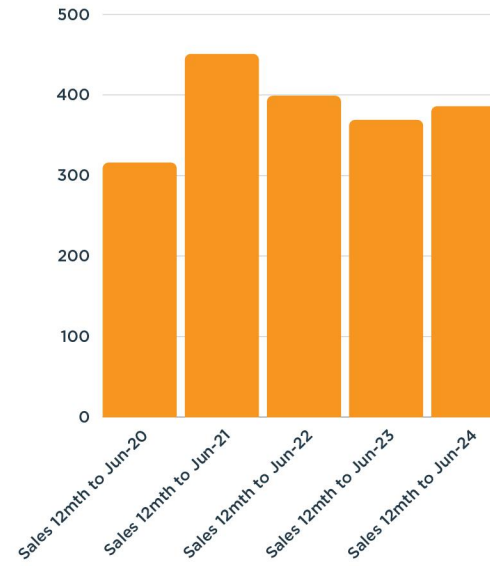


- ABC has experienced a 4% increase in new business listings for the 12 months to June 24 (778) when compared to June 23 (749).
- ABC's data contradicts the overall market data from TradeMe which shows a 12% decline in new listings. The reason for the difference is ABC has grown market share and less vendors are using private sales/TradeMe to exit their businesses given the complexity of the transaction.



ABC COMPLETED BUSINESS SALES BY YEAR & QUARTER

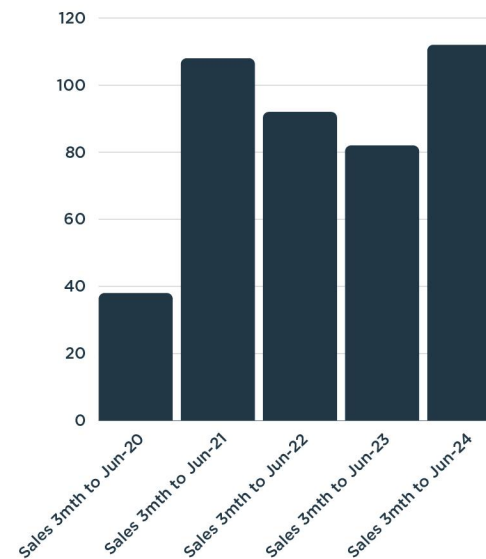
Business Sales By Year



As per the graph, completed business sales for 12 months to June-24 (386) are up 5% compared to June-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 immigrants to New Zealand and ex-corporate employees who have being made redundant.

Business Sales By Quarter



As per the graph, completed business sales for 3 months to Jun-24 (112) are up 37% compared to the Jun-23 (82).

- The June-24 quarter marked the highest volume of completed business sales on record for the first quarter of any year, based on 37 years of data

GENERAL BUSINESS PRICE TRENDS

12 Month Rolling	June-20	June-21	June-22	Jun-23	Jun-24	Jun-24 VS Jun-23	Jun-24 VS Jun-20
General Business Avge Price	\$631,195	\$733,460	\$794,130	\$835,547	\$832,629	(1%)	32%

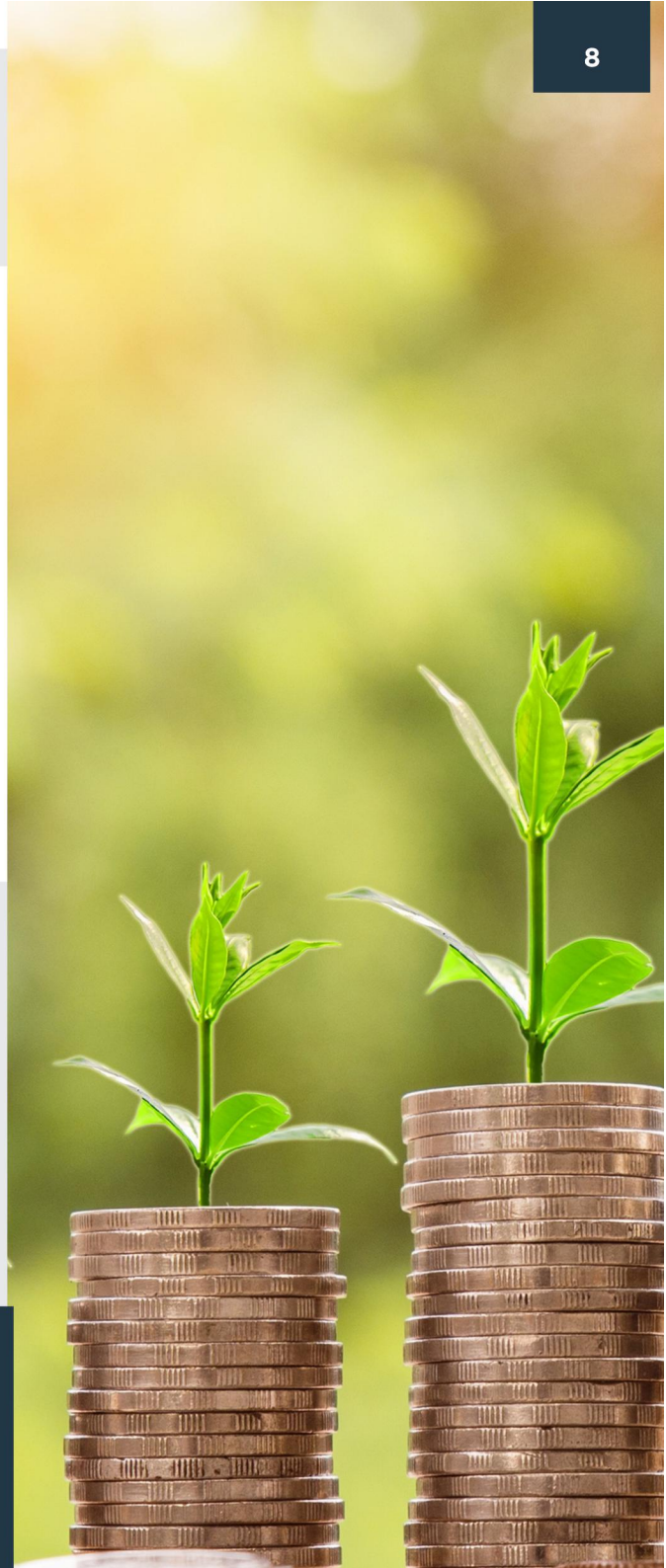
3 Month Rolling	June-23	Sept-23	Dec-23	March-24	Jun-24	Jun-24 VS Mar-24	Jun24 VS Dec-23
General Business Avge Price	\$835,547	\$834,329	\$851,923	\$835,235	\$832,629	(1%)	(2%)

What the data tells us:

- Overall, the average price for SME businesses (\$0-\$10m) excluding Hospitality has decreased by 1% for the 12 months to June-24.
- Business prices peaked on Dec-22 (\$868k) and have remained in a flattening off trend since this date. The key reason for this is increasing interest rates restricting the ability of purchasers to pay higher multiples/prices, as well as the backdrop of a recession within the NZ economy.
- 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 32% increase from June-20 to June-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.



HOSPITALITY BUSINESS PRICE TRENDS

12 Month Rolling	June-20	June-21	June-22	Jun-23	Jun-24	Jun-24 VS Jun-23	Jun24 VS Dec-23
Hospitality Business Avge Price	\$185,479	\$202,774	\$284,050	\$223,124	\$210,266	(6%)	13%

3 Month Rolling	June-23	Sep-23	Dec-23	Mar-24	Jun-24	Jun-24 VS Mar-24	Jun24 VS Dec-23
Hospitality Business Avge Price	\$223,124	\$248,956	\$236,964	\$235,332	\$210,266	(11%)	(11%)

What the data tells us:

- The average price for Hospitality businesses (\$0-\$10m) has seen a 6% decrease for the 12 months to June-24.
- 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 and hence the average price is lower.
- Overall, we can be confident that Hospitality business prices have increased during the last four years as that is very clearly indicated by the data which shows a 13% increase over that period.

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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.

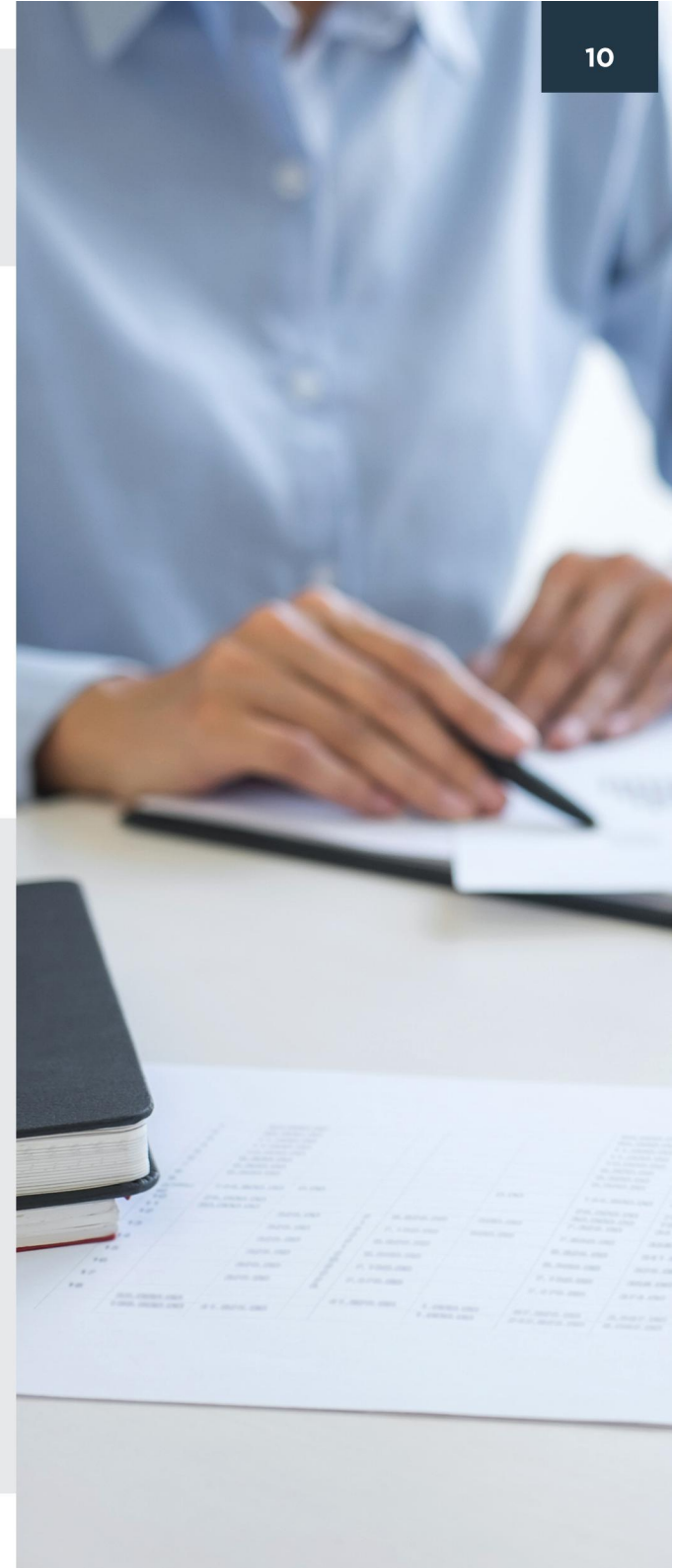


GENERAL BUSINESS MULTIPLES (MEDIAN)

12 Month Rolling	Jun-20	Jun-21	Jun-22	Jun-23	Jun-24	Jun-24 VS Jun-23	Jun-24 VS Jun-20
Managed EBITDA Median Multiple	3.49	3.45	3.51	3.41	3.32	(3%)	(5%)

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 3.32x. 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 four years and the market has not experienced any material differences during this period.
- 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.

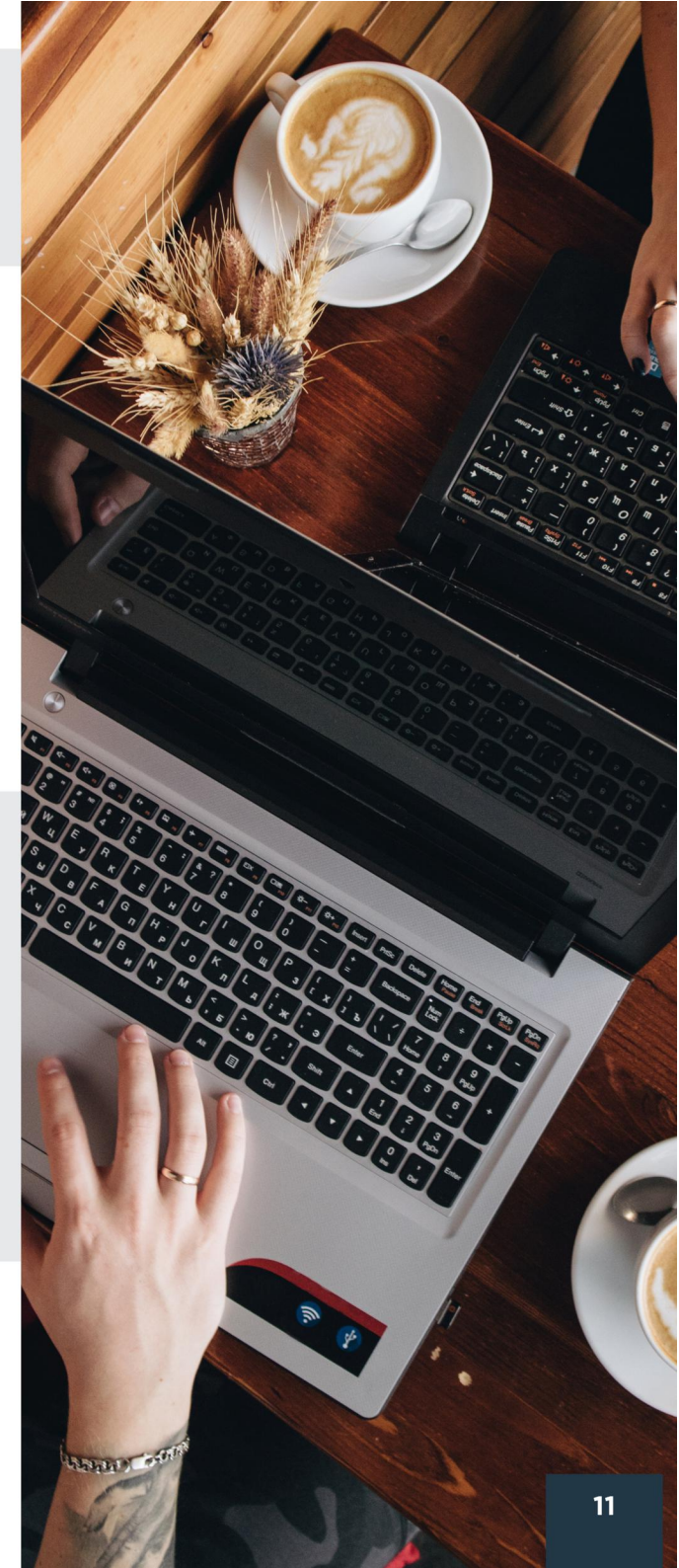


HOSPITALITY BUSINESS MULTIPLES (MEDIAN)

12 Month Rolling	Jun-20	Jun-21	Jun-22	Jun-23	Jun-24	Jun-24 VS Jun-23	Jun24 VS Jun-20
Hospitality EBITDA Median Multiple	1.92	1.96	2.04	1.95	1.89	(3%)	(2%)

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 June-24 is 1.89x. 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 1.85x-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.



PRIVATELY OWNED BUSINESS YIELDS VS OTHER INVESTMENTS

Segment	Capital Invested	\$ Return	% Yield
Privately Owned Business Yield	\$500,000	\$150,602	30%
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 30%. 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 30% pre-tax yield for business ownership is based on the company being fully managed with limited input from the investor. The 30% yield is derived from the average business multiple which is 3.32x EBITDA. ($1/3.32x = 30\%$).
- 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 JUNE 2024

This is a sample of 20 from a total of 386 Business Sales for the twelve months to June 2024.

Industry	Location	Revenue	EBPITDA	Sale Price	Multiple
Liquor Outlets	Dunedin	\$2,945,433	\$410,907	\$1,320,000	3.2
721 Service Centres/Workshops	Tauranga	\$16,297,553	\$1,107,773	\$5,800,000	5.2
706 Carrying	Auckland	\$2,575,126	\$310,332	\$900,000	2.9
605 Aluminium Joinery	Auckland	\$3,795,510	\$831,478	\$1,950,000	2.3
395 Other Service	Rotorua	\$1,250,000	\$570,000	\$1,675,000	2.9
745 Rental Cars/Trucks/Vans	Auckland	\$1,719,000	\$780,000	\$2,021,150	2.6
121 Hardware	Wellington	\$1,355,965	\$290,492	\$1,750,000	6.0
140 Books/Stationery	Auckland	\$2,721,061	\$295,578	\$895,000	3.0
359 Building and Contracting	Hamilton	\$7,500,000	\$1,800,000	\$4,500,000	2.5
617 Light Engineering	Palmerston North	\$3,495,158	\$525,698	\$1,475,000	2.8
200 Bars	Christchurch	\$2,066,402	\$153,270	\$495,000	3.2
325 Commercial Cleaner	Auckland	\$1,212,703	371320	\$455,000	1.2
135 Agriculture/Farm Machinery Sales	Christchurch	\$871,000	\$423,000	\$1,155,000	2.7
305 Dentists	Auckland	\$992,534	\$426,332	\$1,100,000	2.6
709 Owner Drivers	Auckland	\$1,871,460	\$725,000	\$2,525,000	3.5
370 Opticians	Auckland	\$1,024,000	\$230,000	\$755,000	3.3
359 Building and Contracting	Hamilton	\$24,000,000	\$1,700,000	\$3,700,000	2.2
130 Garden Centres	Wellington	\$6,132,737	\$709,829	\$1,850,000	2.6
368 Education	Auckland	\$2,354,942	\$662,690	\$2,000,000	3.0
503 Electrical Products	Wellington	\$1,200,000	\$310,000	\$900,000	2.9

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.

RNZ Radio

ABC Business Sales Managing Director Chris Small discussed Vendor Financing.

- Vendor financing in business sales has surged, now closing one in ten transactions, up from one in a hundred previously.
- Younger buyers are driving this trend, relying on vendor financing to bridge financial gaps and purchase businesses they couldn't afford outright.
- Despite economic challenges like high interest rates, vendor financing remains attractive due to flexibility and vendor confidence in their businesses.



RNZ online & MSN New Zealand

ABC Business Sales Managing Director Chris Small highlighted a key theme of Vendor Financing.

Vendor financing has helped close the deal in one out of 10 business sales over the past year, compared with about one-in-100 deals the year earlier.



AUTHOR



CHRIS SMALL

Managing Director

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