

**ABC.**  
Business Sales  
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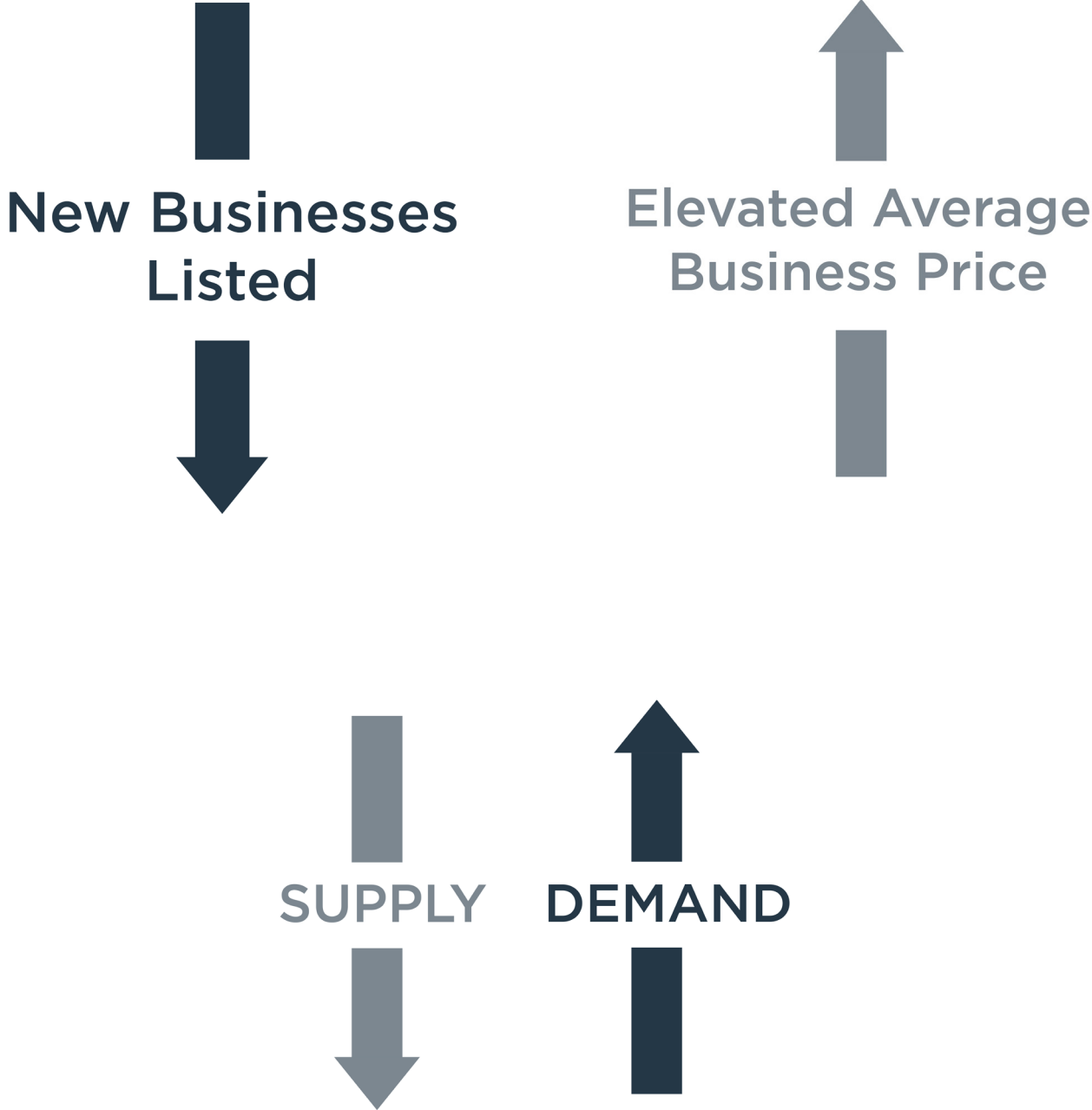
# **SMALL AND MEDIUM-SIZED ENTERPRISES**

MARKET INTELLIGENCE REPORT

Q1 - 2021



# EXECUTIVE SUMMARY



This is our second Market Intelligence Report (1st was Oct-20) and the same trends are very evident and becoming even more pronounced. The business sales market is experiencing a significant gap between supply and demand and this has accelerated in the last six months.

Demand data points, such as signed confidentiality agreements by prospective buyers and website traffic patterns, are showing significant increases (>20%) compared to the same period last year.

Supply data points, such as new businesses listed for sale, are showing material decreases (<20%) both at a total market level and ABC level. This is evidenced in this report by the following tables and graphs.

The excess demand and reduced supply characteristics of the current market have resulted in elevated prices for businesses in all industries apart from hospitality and tourism.



# DEMAND DATA POINTS

## SIGNED CONFIDENTIALITY AGREEMENTS

Signed Confidentiality Agreements Per Month			
Month	2019/20	2020/21	% Change
April	941	684	-27%
May	957	1127	18%
June	1116	1285	15%
July	1257	1392	11%
August	1225	1287	5%
September	954	1160	22%
October	1160	1315	13%
November	1047	1334	27%
December	757	1267	67%
January	943	1653	75%
February	1190	1379	16%
March	861	1493	73%
<b>Total</b>	<b>12,408</b>	<b>15,376</b>	<b>24%</b>

Signed confidentiality agreements completed by potential purchasers have increased by 24% when comparing Mar-20 to Mar-21.

COVID-19's negative impact on purchaser enquiry levels is clear to see. Under level 4 lockdown in April-20, there was a significant drop-off when uncertainty was at its highest.

Post April-20 enquiry levels accelerated to exceed the previous year and this is driven by the three key demand factors at play:

- Returning expats
- Newly unemployed looking to business ownership to replicate lost income
- Low interest rates making business ownership a more attractive investment

# DEMAND OUTWEIGHS SUPPLY



Returning expats 

Increased unemployment 

Low interest rates 

# DEMAND DATA POINTS

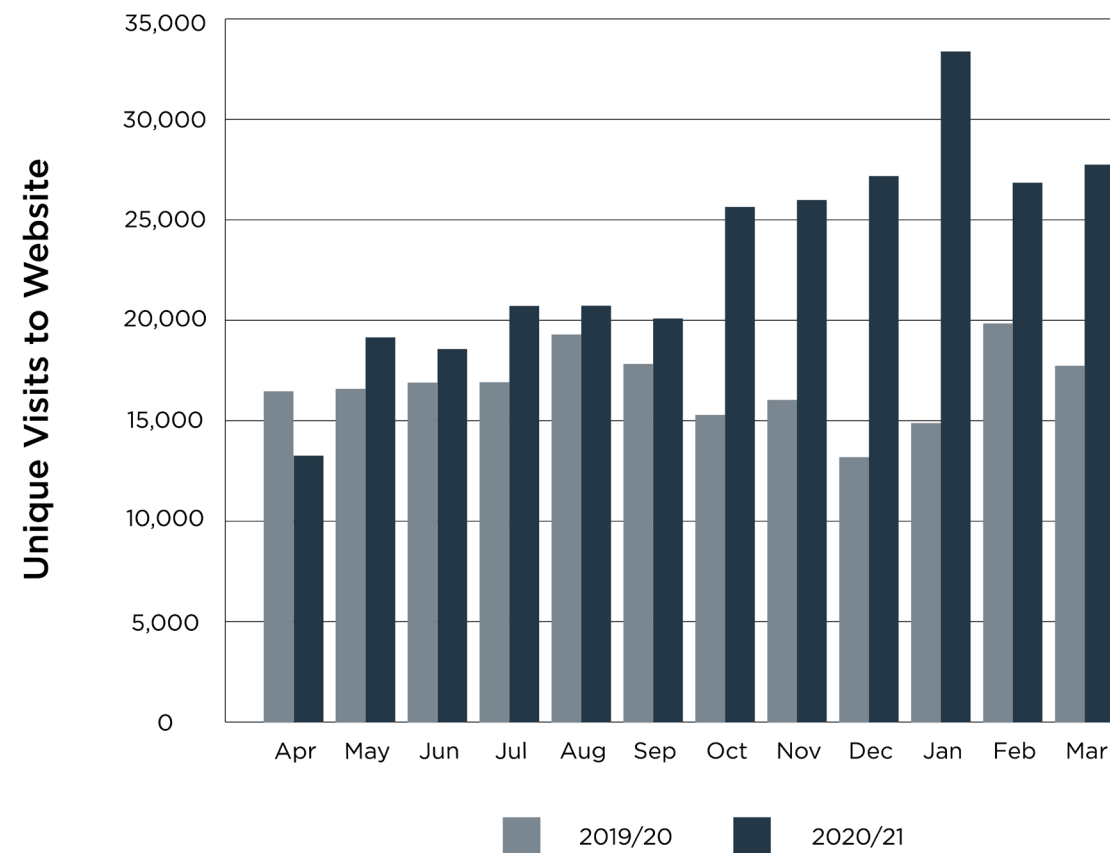
## MONTHLY WEBSITE TRAFFIC - ABC WEBSITE

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

The twelve months to Mar-21 shows a 39% increase in visitor traffic to our ABC Business Sales website compared to last year. The acceleration of increased interest in business investment is illustrated by a 73% increase in website traffic for the final two quarters of this financial year.

The ABC website had a total of 165,751 visitors for the last six months - up from 95,976 for the same period in the last financial year (a 73% increase).

Monthly Website Traffic ABC Website



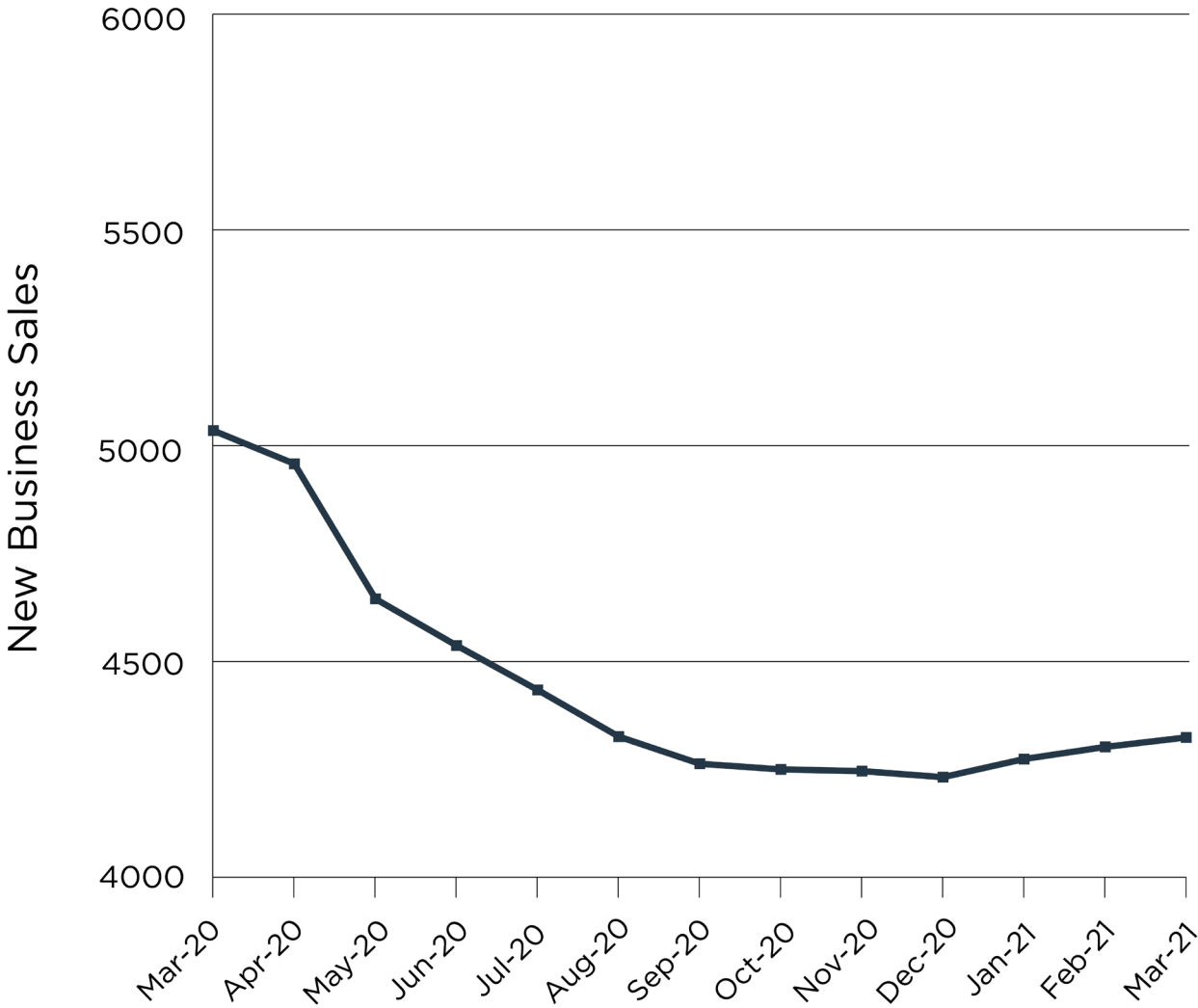
# SUPPLY DATA POINTS

## 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, there is a negative trend which shows a decline in businesses coming to market which started in April-20 post-COVID-19.

For the 12 months to March -21, new listings on TradeMe have declined 16.5% (March-20, 5,105 listings reducing to 4,275 as of March-21).

Businesses Listed for Sale - TradeMe



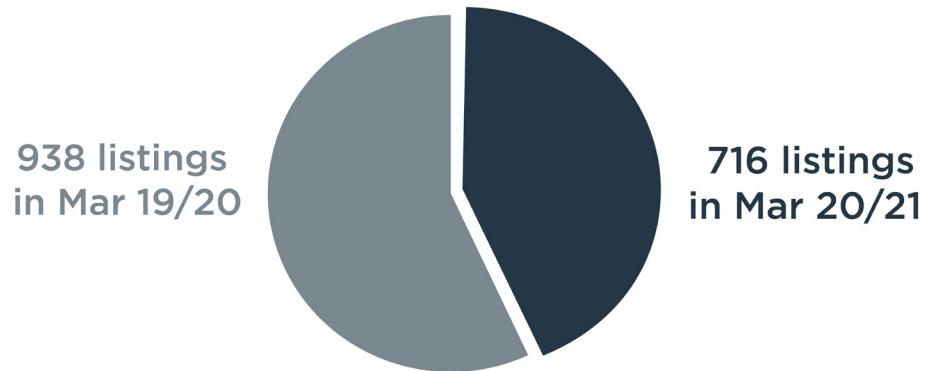
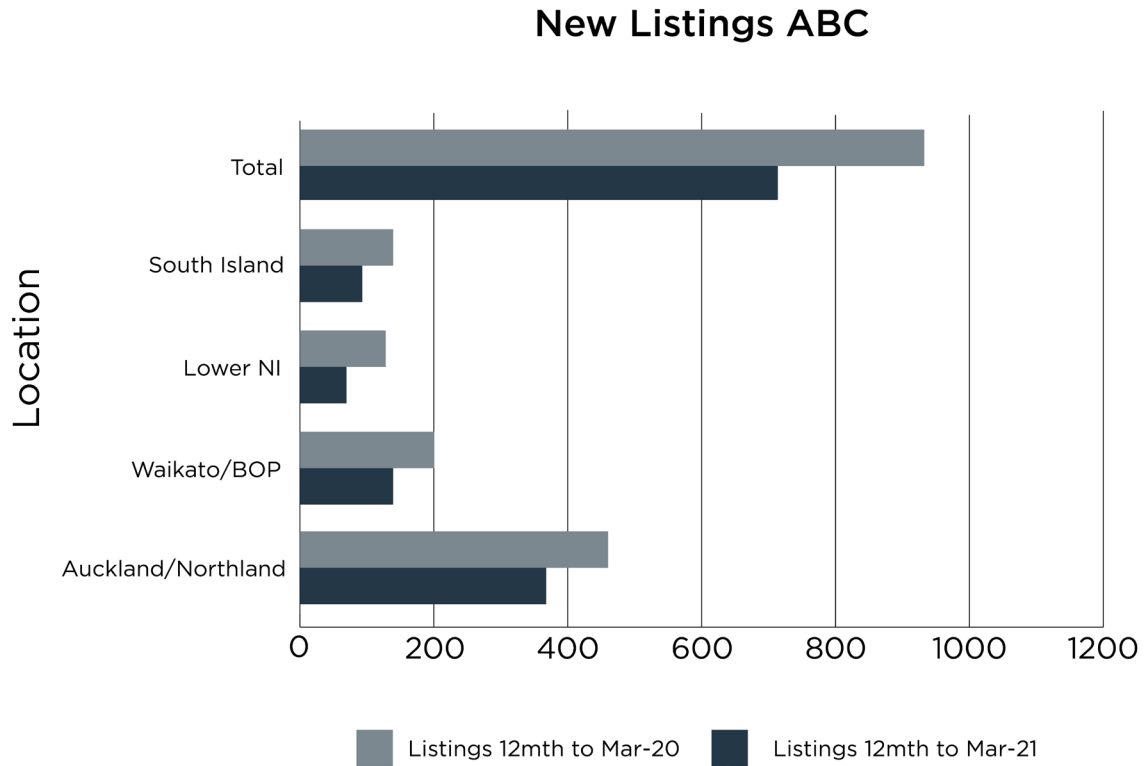
# SUPPLY DATA POINTS

## NEW LISTINGS

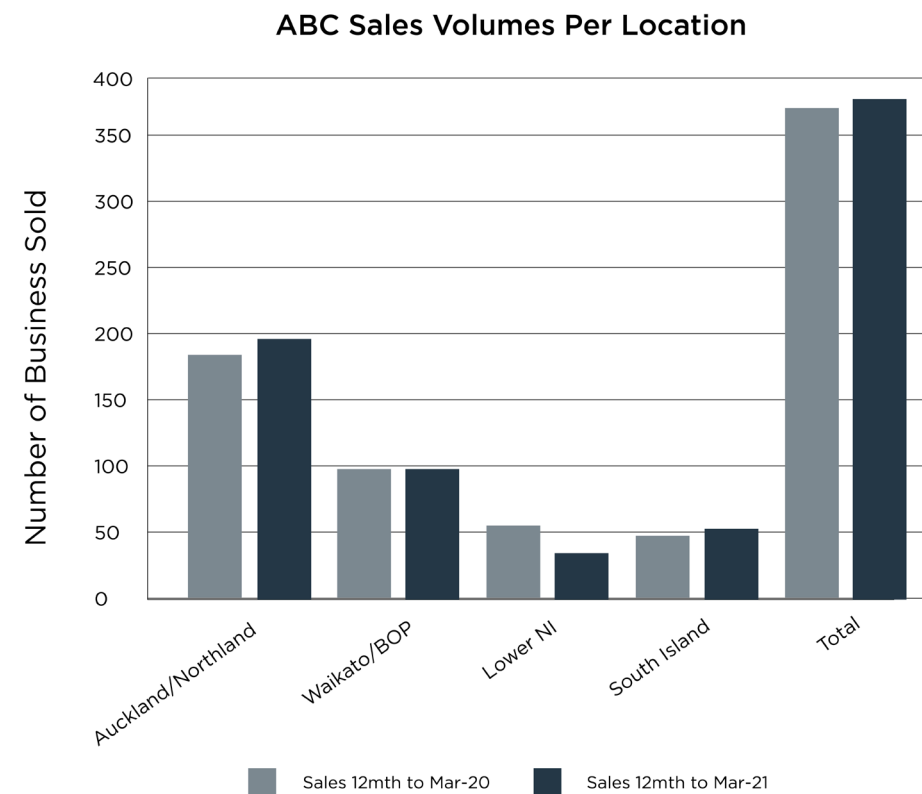
ABC has experienced a 24% drop in new business listings for the 12 months to March 2021.

In total, we have had 716 new businesses listed for sale for the twelve months to March 2021 vs 938 new listings for the corresponding period last year.

The lower North Island region (40%) and the South Island region (24%) have experienced the biggest declines. Both of these regions have historically had a high concentration of hospitality and tourism businesses which contributes to the reduction in business for sale.

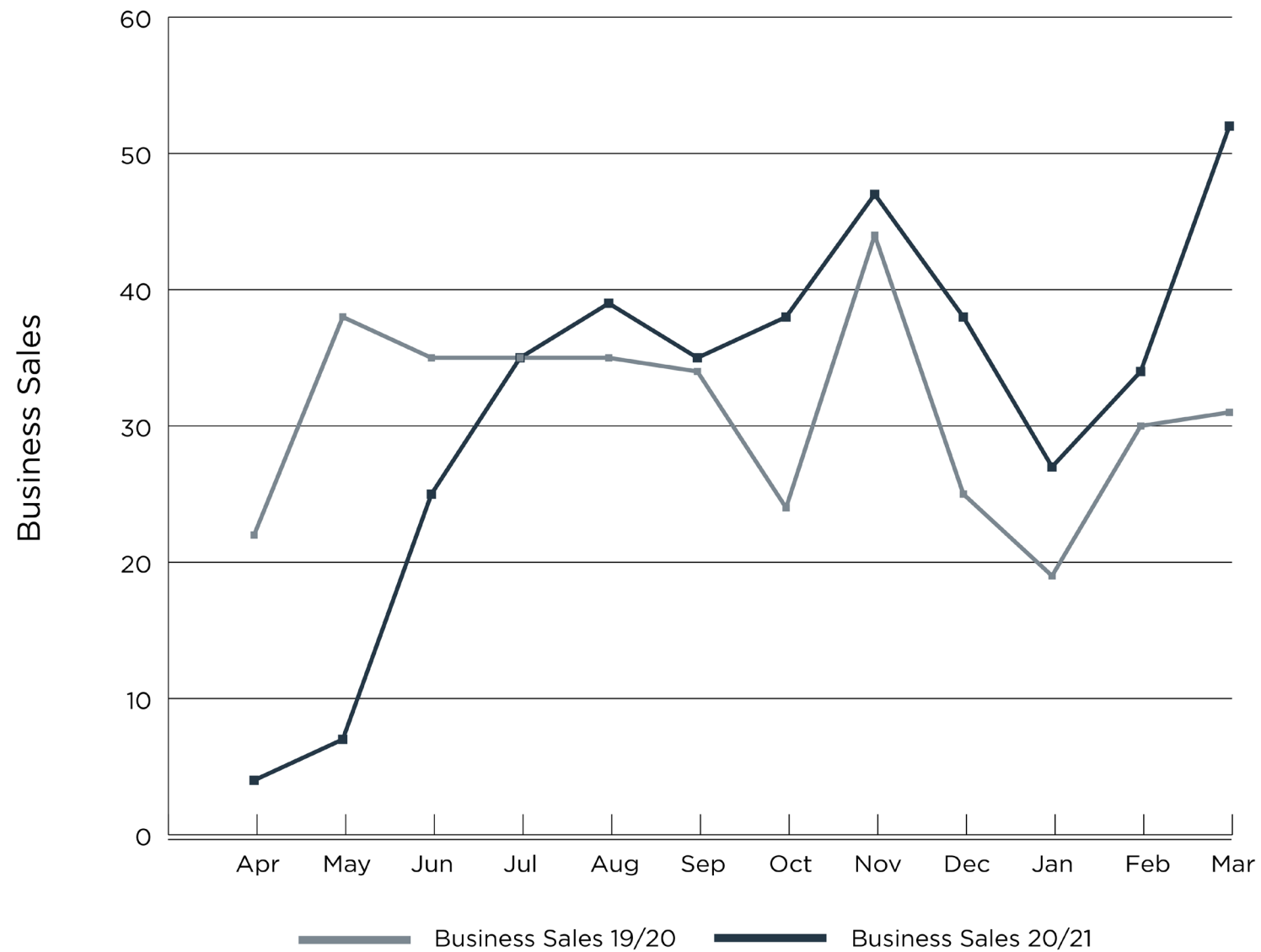


# ABC BUSINESS SALES VOLUMES PER LOCATION



As per the above graph, ABC Business Sales volumes for 12 months to March 2021 are up 2%. This is the result of a very strong market where the majority of businesses listed for sale are being sold. The last six months of confirmed sales are 36% up (235 vs 172) for the same period last year, with many businesses being sold at above asking price and getting offers within the first 10 days of the marketing campaign. For the twelve months to March 2021, ABC sold 380 businesses vs 371 for the same period last year.





This chart clearly shows the impact COVID-19 has had on ABC Business Sales volumes; April/May 2020 are 76% lower than for the same period last year. The chart also illustrates the bounce back in business sales which started in June when the move back to alert level one occurred.

From July 2020 onwards, business sales volumes started exceeding the volume for the same period last year with a cumulative growth rate of 24% which confirmed a V-shape recovery for the industry.

# ABC BUSINESS SALES VOLUMES PER MONTH

# BUSINESS PRICE TRENDS

Divisions	Mar-20	Mar-21	% Change
General Business Avge Price	\$652,317	\$703,701	8%
Hospitality Business Avge Price	\$193,370	\$177,255	(8%)

Here's what the table tells us:

Overall, the average price for SME businesses (\$0-\$5m) excluding Hospitality has increased by 8% for the 12 months to March 2021. The 8% price increase has been driven by a buoyant market with demand exceeding supply for quality businesses and forcing purchasers to pay higher prices.

The average price for Hospitality businesses (\$0-\$5m) has seen an 8% decrease for the 12 months to March 2021. It has been well documented the adverse effects COVID-19 has caused this industry and the data presented backs up those thoughts. We expect Hospitality prices to increase in the next 6-12 months as COVID-19 becomes less of an influence on the industry.

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 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 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.

# Private Business Ownership vs NZX 50

Segment	Mar-20	Mar-21	% Change
General Business Avge Price (NZ)	\$652,317	\$703,701	8%
NZX 50 Index	11,425	12,560	10%

Segment	Mar-21	Avge Return	% Return	Avge EBITDA Multiple
General Business Avge Price (NZ)	\$703,701	\$201,057	29%	3.5x (Privately Owned Businesses)
Cash invested in NZX 50 Index	\$703,701	\$29,555	4.2%	14.5x (NZX 50)

The average business price is currently \$703,701 and based on an EBITDA market average multiplier of 3.5x the pre-tax yield equates to 29%.

The NZX 50's current EV/EBITDA multiple is 14.5x and the average pre-tax yield is 4.2%.

Clearly, there is a material difference in the annual yields, with private business ownership returns being seven times higher than NZX 50 annual returns (dividends). This analysis excludes any capital gains for each asset class. 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 the NZX 50 but we don't believe the risk premium for investing in a private business is anywhere close to seven times higher than investing in larger businesses listed on the NZX 50.

Based on this data, we expect privately owned business values and multiples to continue growing and bridging the valuation gap with the NZX 50.



# AUSTRALIA

## CURRENT ACTIVITY IN THE SMALL BUSINESS SECTOR

The current activity in the small business sector in Australia closely aligns with the New Zealand business sales market. The number of businesses listed for sale in Australia has dropped by 14.10% from Mar 20 to Mar 21, following the same trend as New Zealand (-16.5%). The type of businesses that are currently in demand or proving difficult to sell in Australia also align very closely to the NZ market.

Number of Australian Businesses Listed For Sale			
	Mar 20	Mar 21	% Change
NSW	4007	3602	-10.11%
VIC	6183	5012	-18.94%
SA	278	256	-7.91%
TAS	95	101	6.32%
QLD	2306	2019	-12.45%
WA	537	552	2.79%
NT	28	37	32.14%
ACT	112	57	-49.11%
<b>Australia</b>	<b>13,546</b>	<b>11,636</b>	<b>-14.10%</b>

### Businesses in Demand

- Accountancy Practices
- Veterinary Practices
- Health and Medical – selected sectors
- Service – Selected repeat client sectors
- Online businesses
- Work from home businesses
- Technology Businesses
- Wholesale – Non-Discretionary Products
- Manufacturing – selected repeat client sectors.
- Supermarkets
- Liquor Stores
- Businesses not negatively affected by COVID-19
- Franchise Fast Food

### Difficult to Sell

- General Retail – Discretionary Spend
- Clothing Boutiques
- Bookstores
- Newsagencies
- Lotto Kiosks
- Travel Agencies
- Restaurants / Cafés
- Businesses negatively affected by the COVID-19
- Profits less than \$100,000

# 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](mailto: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](mailto:steves@abcbusiness.co.nz)