

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

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MARKET INTELLIGENCE REPORT

Q3 - 2021



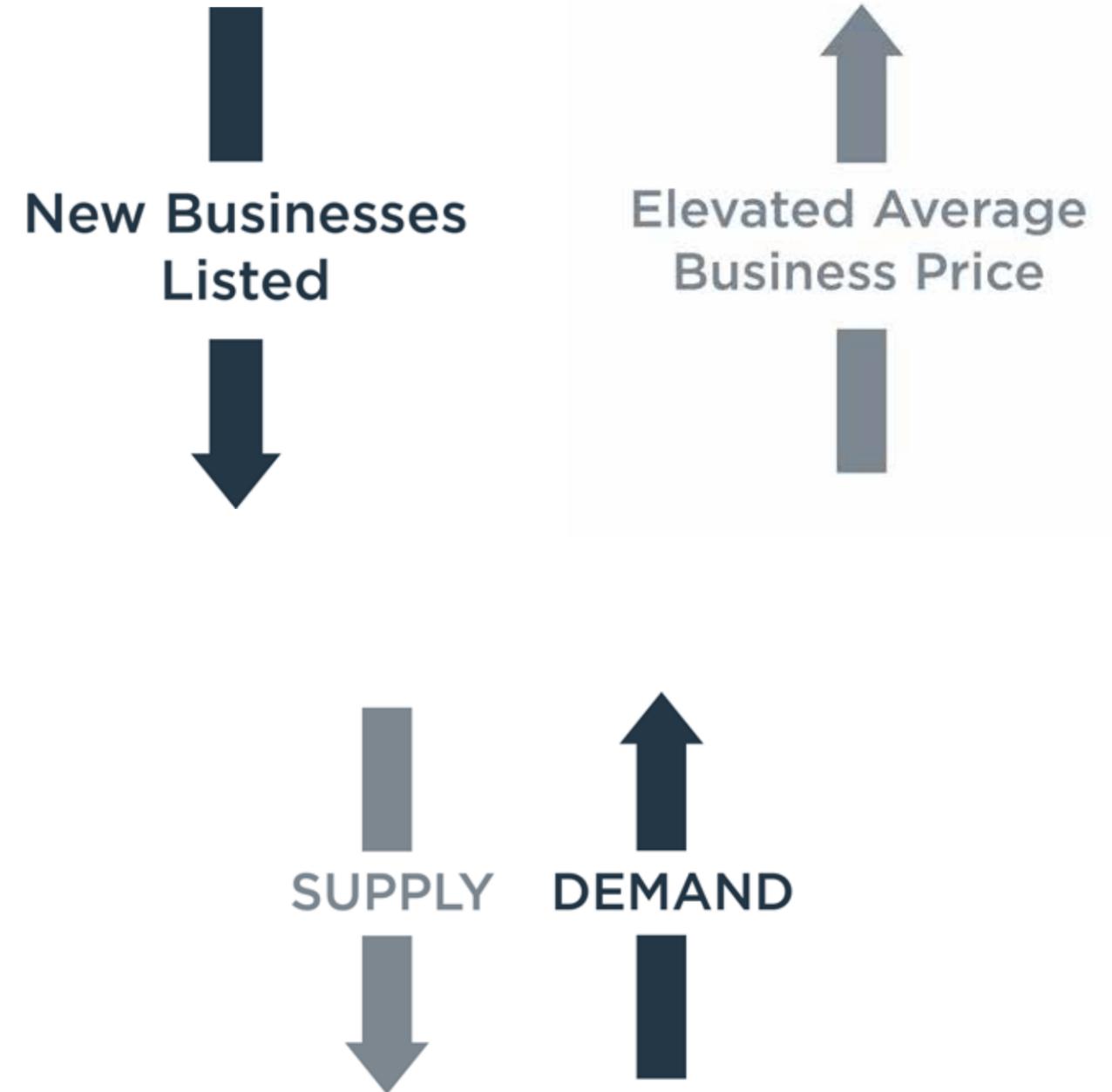
# EXECUTIVE SUMMARY

This is our fourth Market Intelligence Report (1st was Oct-20) and the same trends have held true for the last twelve months. The business sales market is continuing to experience a significant gap between supply and demand and this has remained the case in the last six months.

Demand data points, such as signed confidentiality agreements by prospective buyers and website traffic patterns, are showing significant increases (>25%) compared to the same period last year.

Supply data points, such as new businesses listed for sale, are showing material decreases (10%-15%) 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.





**ABC Business Sales,  
we'll take you there.**

## **Latest lockdown effects and 2022 Projections for Business Sales**

This report includes numbers up to October-21 and hence reflects only two months of the current lockdown so the results have not been heavily skewed by this recent event. History has shown us that the majority of businesses and financial markets bounce back following a sustained period of below normal economic activity driven by lockdowns. We are expecting the same pattern to be evident post this lockdown with pent up demand fueling increased economic activity in December-21 and beyond.

With a high probability of lockdowns no longer being part of the NZ in 2022 and overseas travel likely to be possible by the first quarter of 2022 we believe many business owners will take the opportunity to sell their businesses. Increased certainty will provide investors more confidence to invest in business ownership and vendors will have more motivation to sell given the increased travel & leisure options available to them, this is particularly relevant to the baby boomers who currently own the majority of NZ's privately owned businesses. We believe 2022 has the potential to be a record year for business sales given an element of pent-up supply caused by business owners who weren't comfortable selling their business in a COVID environment. The bounce back to more normal economic settings in 2022 will provide more confidence & certainty to both sellers and purchasers and in our view result in more transactions occurring.

## Signed Confidentiality Agreements Per Month

Month	2019/20	2020/21	% Change
November	1047	1334	27%
December	757	1267	67%
January	943	1653	75%
February	1190	1379	16%
March	861	1493	73%
April	684	1212	77%
May	1127	1473	31%
June	1285	1542	20%
July	1392	1432	3%
August	1287	1254	-3%
September	1160	1111	-4%
October	1315	1235	-6%
<b>Total</b>	<b>13,048</b>	<b>16,385</b>	<b>26%</b>



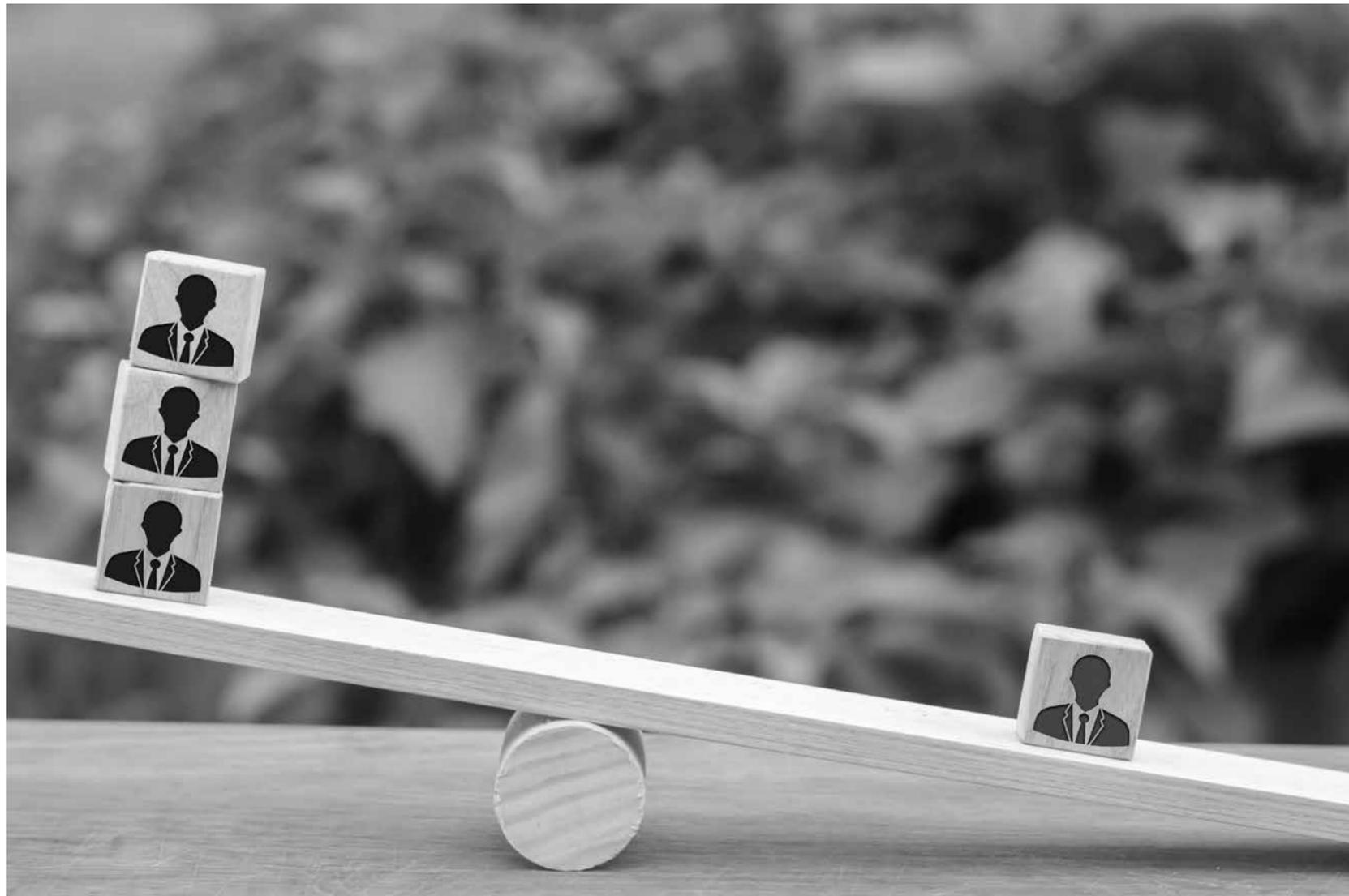
# DEMAND DATA POINTS

## SIGNED CONFIDENTIALITY AGREEMENTS

Signed confidentiality agreements completed by potential purchasers have increased by 26% when comparing the twelve months to October-21.

Enquiry levels accelerated to exceed the previous year and this is driven by the four key demand factors at play:

- Returning expats
- High amounts of domestic and international capital circulating in the system looking for attractive yields and returns
- COVID has made many people re-think their working and living situation and has resulted in business ownership becoming a popular alternative to the standard salary/employee option.
- Low interest rates have made business ownership a more attractive investment



# DEMAND STILL CURRENTLY OUTWEIGHS SUPPLY

Returning  
expats 

Increase in domestic  
& international capital



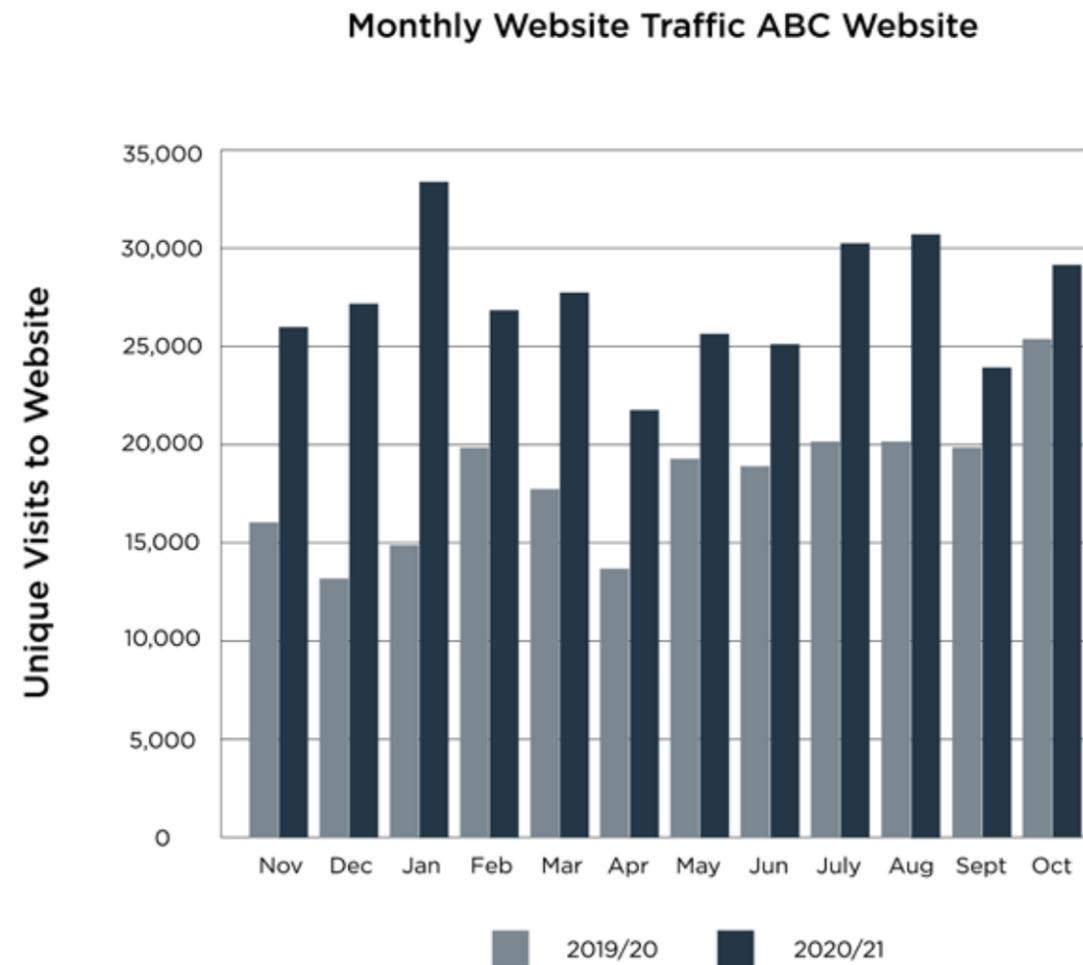
Low interest  
rates 

Business ownership  
becoming more popular



# 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 October-21 shows a 50% increase in visitor traffic to our ABC Business Sales website compared to last year.

The ABC website had a total of 327,466 visitors for the last twelve months - up from 217,895 for the same period in the last financial year.

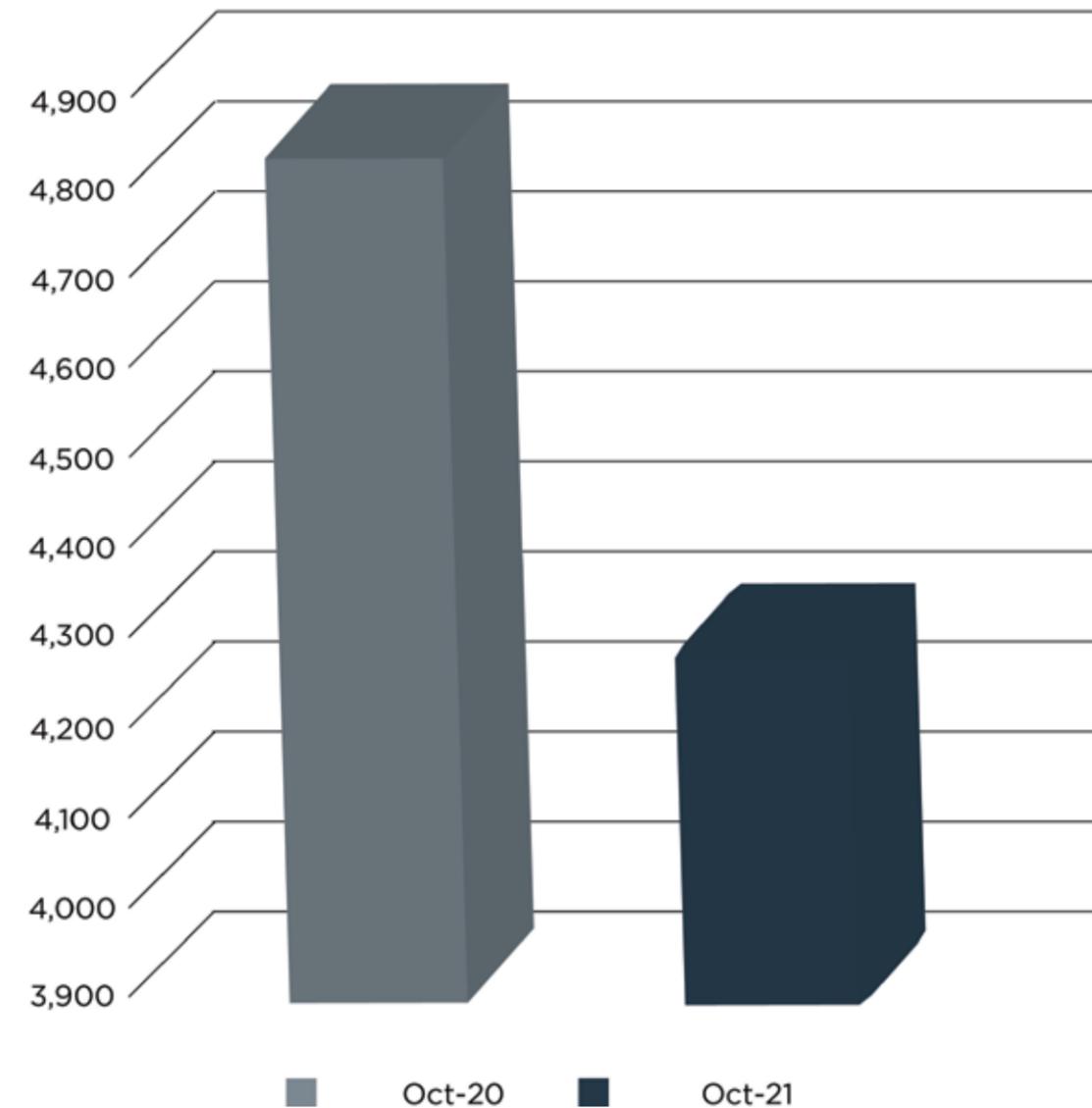
# SUPPLY DATA POINTS

## 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.

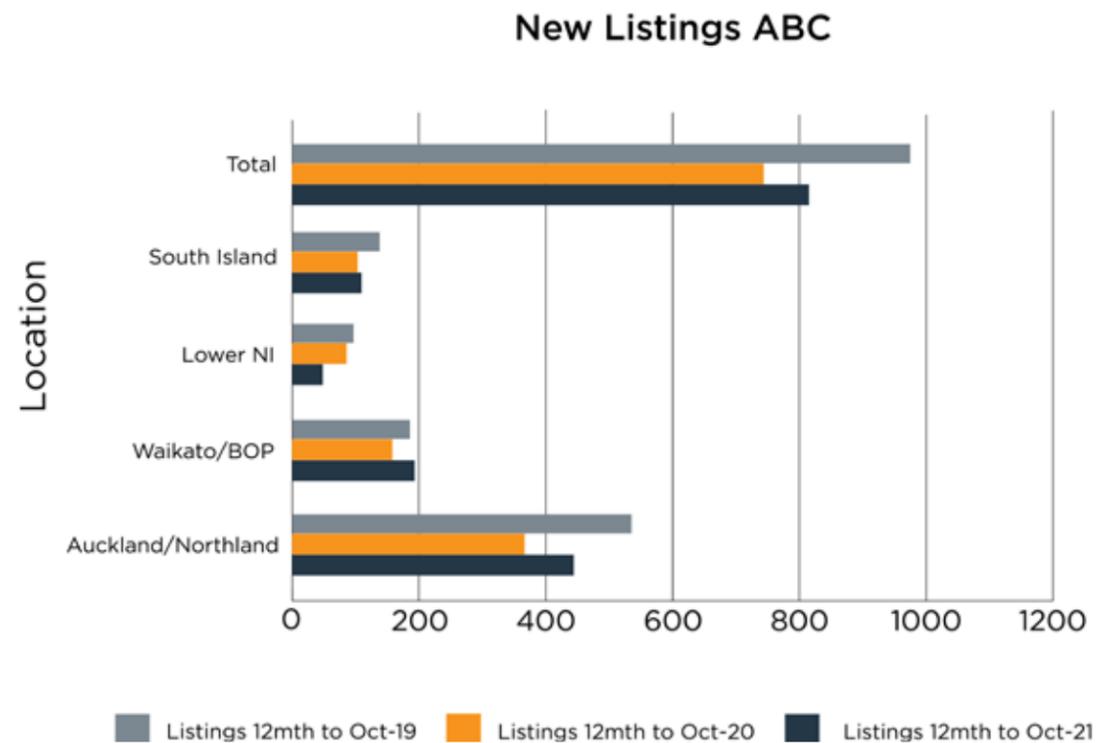
For the 12 months to October-20, the average listings on the website were 4,805 this has declined by 11% as the average listings were 4,256 for the 12 months to October-21.

Average number of business listings TradeMe



# SUPPLY DATA POINTS

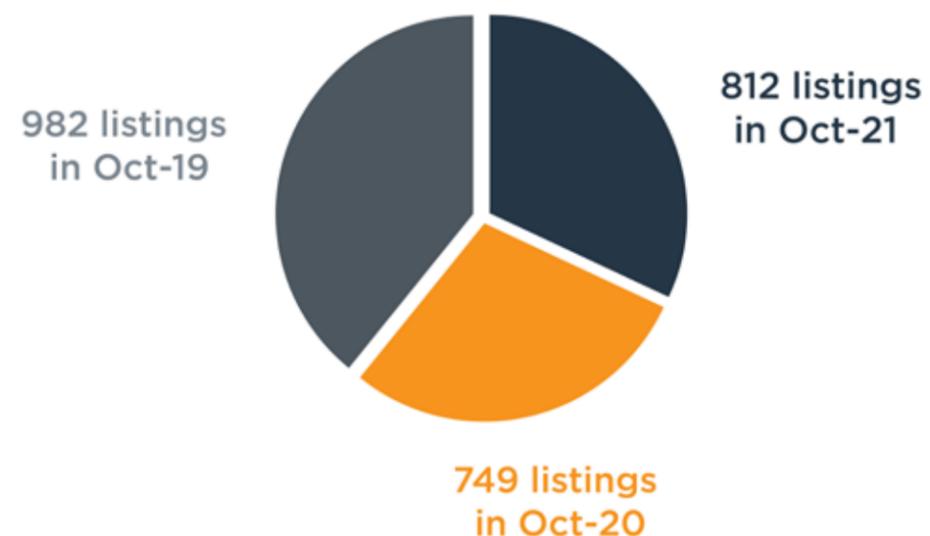
## NEW LISTINGS



ABC has experienced a 17% decrease in new business listings for the 12 months to October 2021 when compared to October-19.

In total, we have had 812 new businesses listed for sale for the twelve months to July 2021 vs 982 new listings for the October-19 period.

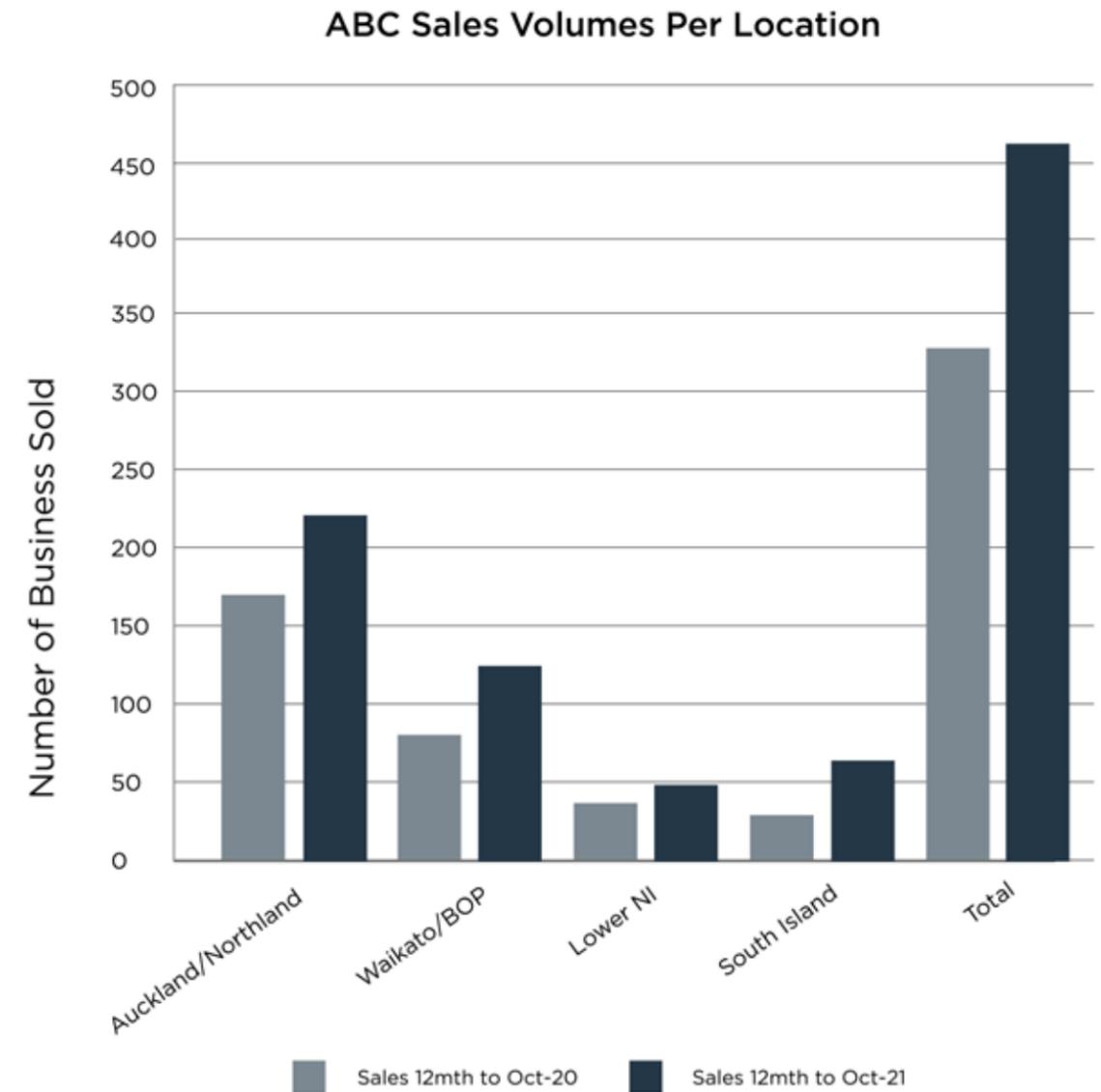
We believe a comparison to Oct-19 is a more accurate picture of current market conditions given the Oct-20 period was heavily influenced by COVID particularly April/May-20 when the country and all business activity ground to a halt.



# ABC COMPLETED BUSINESS SALES VOLUMES PER LOCATION

As per the graph, completed business sales volumes for 12 months to October 2021 are up 42% compared to October-20 and 21% compared to October-19. This is the result of a very strong market where the majority of businesses listed for sale are being sold. A number of businesses are being sold at above asking price and getting multiple offers before the full marketing campaign takes place.

There is no doubt we are currently in a “Seller Market” given the dynamics at play and it is following very similar trend to the housing market which shows listings are at all-time lows. For the twelve months to October 2021, ABC sold 461 vs total listings of 821 equating to a conversion rate of 57%, this is a record rate given historically conversion rates have been in the region of 35-40%. The high conversion rate, reiterates the trend we are in a sellers market with the majority of businesses coming to market being sold.



# BUSINESS PRICE TRENDS

Divisions	Oct-19	Oct-20	Oct-21	Oct-21 vs Oct-20	Oct-21 vs Oct-19
General Business Avge Price	\$628,491	\$653,834	\$749,729	15%	19%
Hospitality Business Avge Price	\$192,821	\$196,635	\$243,952	24%	27%

## Here's what this table tells us:

Overall, the average price for SME businesses (\$0-\$5m) excluding Hospitality has increased by 15% for the 12 months to October 2021. The 15% price increase has been driven by a buoyant market with demand exceeding supply for quality businesses and forcing purchasers to pay higher prices. A number of other data sources (Recent PWC M&A Report) endorse this trend of business assets increasing in value and are all driven by the same factors; increased buyer demand chasing a scarcity in supply of quality businesses. The increased demand is driven by investors chasing higher yields and an abundance of capital in the hands of retail and wholesale investors.

The average price for Hospitality businesses (\$0-\$5m) has seen a 24% increase for the 12 months to October 2021. It has been well documented the adverse effects COVID has caused this industry in the initial lockdowns which form part of the October-20 numbers. It must also be taken into account that this data is for the period up to October-21 and hence is not materially affected by the latest lockdown. The 2021 year up to August had shown a material pick up for hospitality revenues and profits and this has been reflected in the business sales numbers. We believe Hospitality will bounce back strongly in December-21 when the sector is likely to re-open.

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.

# Bank Term Deposit Rates vs Privately Owned Business Returns

Segment	Oct-21	Avge Return	% Return
General Business Avge Price (NZ)	\$749,729	\$214,208	29%
Cash invested in Bank Term Deposits	\$749,729	\$14,995	2%



The average business price is currently \$749,729 and based on an EBITDA market average multiplier of 3.5x the pre-tax yield equates to 29%.

The average term deposit rate with one of New Zealand's major banks for one year is currently 2.0% and if interest rates continue to increase, this rate is forecasted to be at 3.0% by the end of 2022.

Clearly, there is a material difference in the annual yields, with private business ownership returns being 14.3 times higher than current term deposit rates. This analysis excludes any capital gains for business ownership. 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 bank term deposits, but we don't believe the risk premium for investing in a private business should be 1,430% higher than term deposits.

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.

# Xero Small Business Index

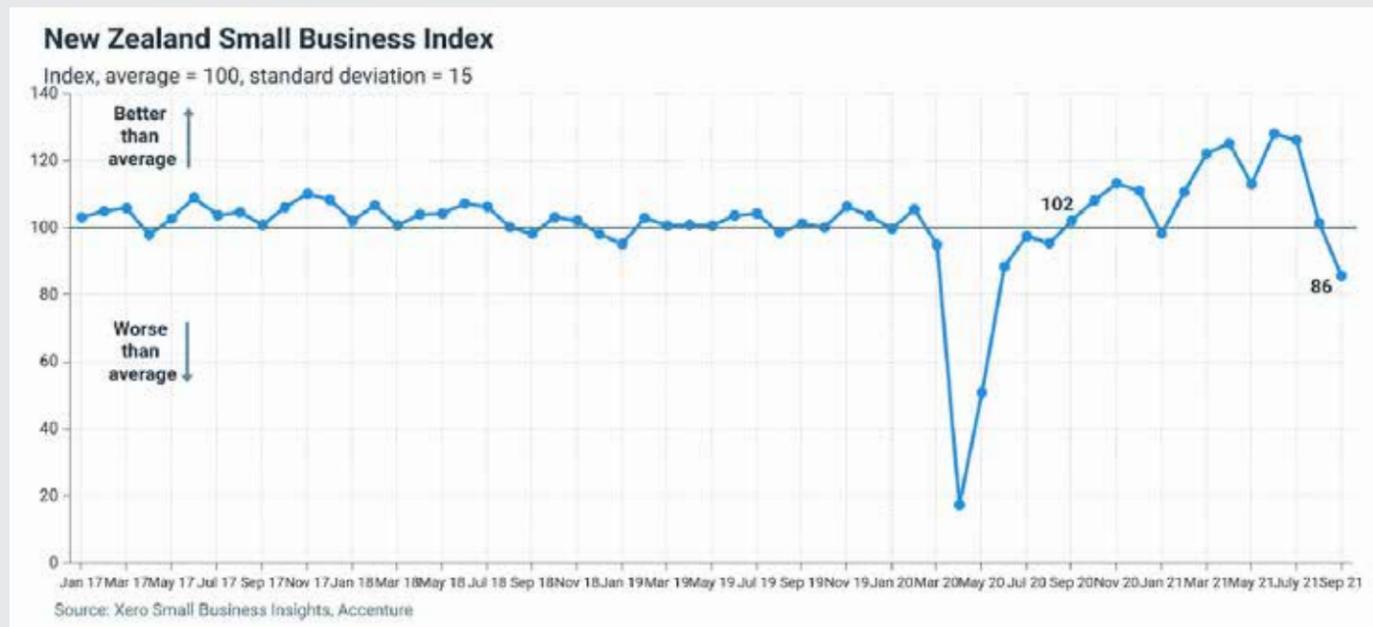
## NZ Monthly Update Sept 2021



The New Zealand Small Business Index, part of Xero Small Business Insights, fell 16 points in September to 86 points. This is the third consecutive monthly fall, the lowest level since May 2020 and the first time the Index has been below 100 (representing average conditions) since January 2021. The decline was led by Auckland, which spent most of the month under strict Level 4 lockdown. Alert Levels eased during September for the rest of New Zealand, which helped sales and jobs outside Auckland. But this was not enough to counter the impact of the strict conditions in the country's largest city.

The drop in the Index in September was driven by a 7.1% y/y decline in sales. Jobs growth also slowed during the month, to be 3.3% y/y after being above 5% y/y for the previous four months. Time to be paid also dragged on the Index, rising 1.8 days to 26.2 days.

Auckland, which is almost 40% of the national economy, was the weakest region. Sales fell 18.4% y/y, jobs rose just 0.7% y/y and time to be paid increased by 4.4 days. Looking ahead, Auckland's move to Alert Level 3 on September 21 should provide some modest relief for those small businesses able to re-open in October.



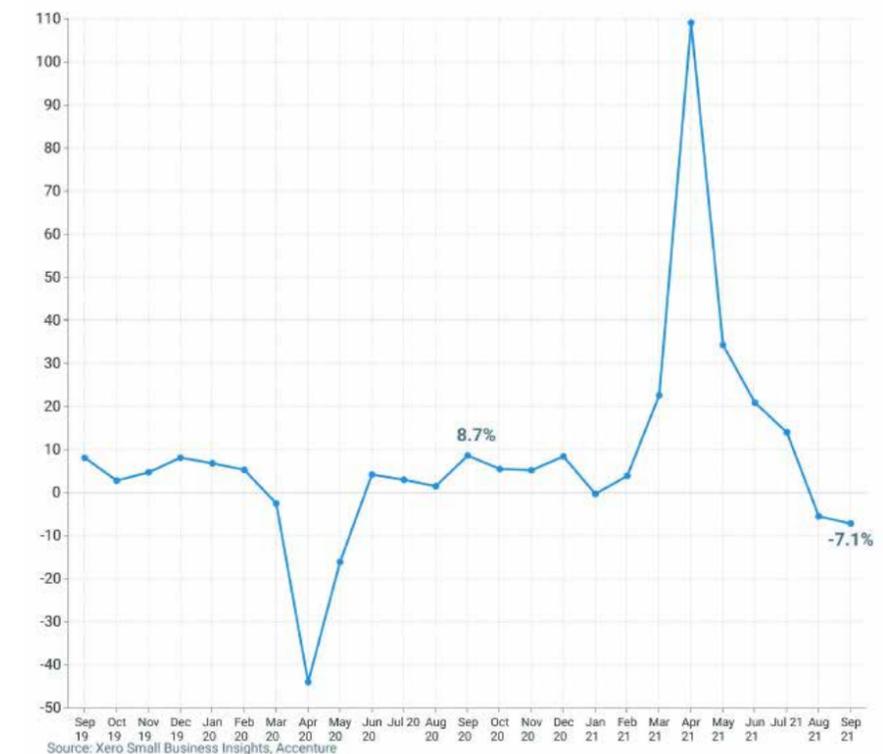
Small business sales fell 7.1% y/y, the weakest result since May 2020.

The decline was led by Auckland, where sales fell 18.4% y/y. This was the weakest result since April 2020 for the region, although considerably better than the 44.4% y/y fall in sales in April 2020. This was partially offset by rises in other major cities, less impacted by restrictions, such as Canterbury (+3.3% y/y) and Wellington (+2.1% y/y).

Most industries recorded a fall in sales, led by hospitality (-16.8% y/y) and construction (-12.9% y/y). Only professional services recorded positive growth of +0.3% y/y - reflecting its work-from-home capability.

**Small business sales**

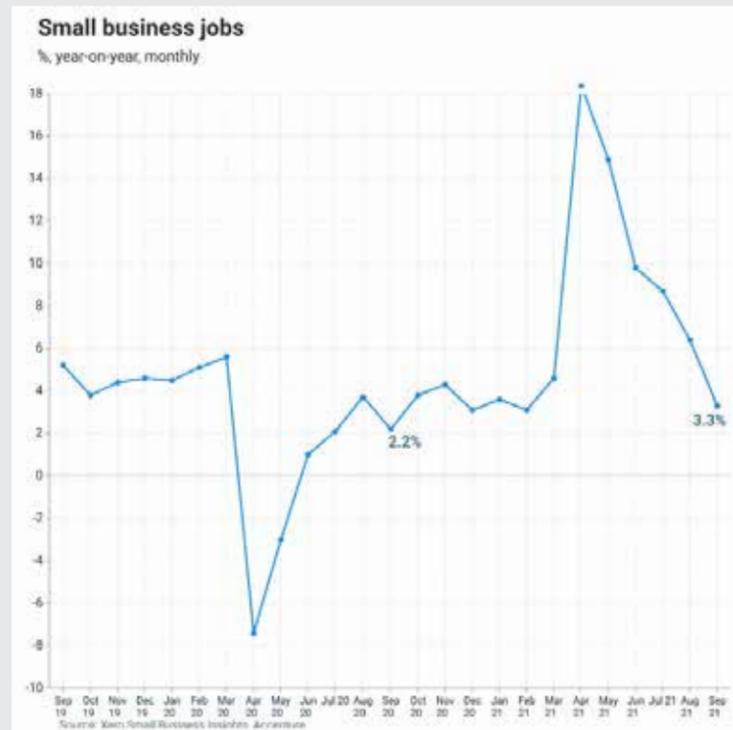
% , year-on-year, monthly



\* Data taken from Xero Small Business Index New Zealand Monthly Update September 2021

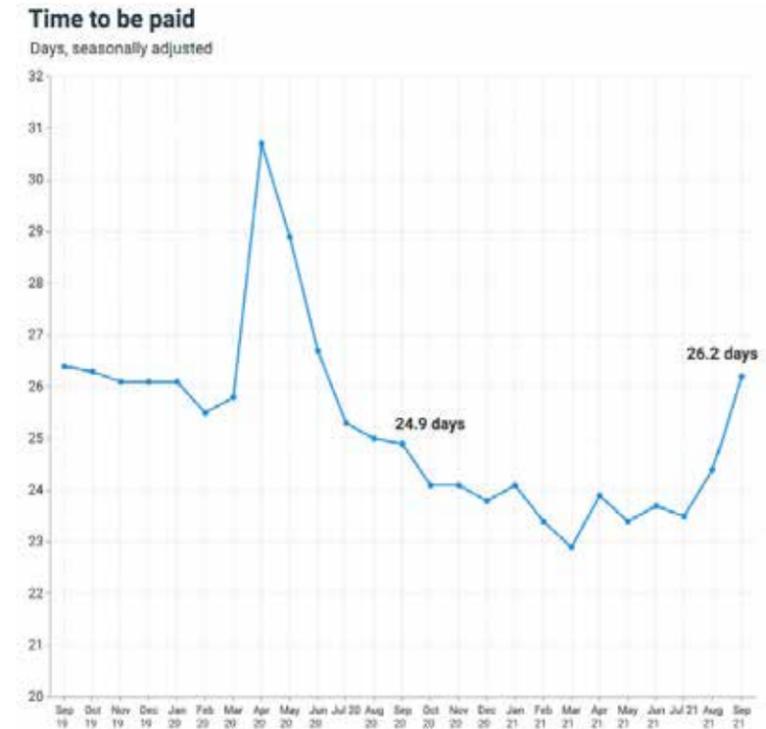
## Jobs growth slowest since February

Jobs rose just 3.3% y/y in September, the slowest pace of growth since February 2021. This follows four months of national jobs gains above 5% y/y. Auckland was the softest region, where jobs rose just 0.7% y/y. In contrast, other regions continued to record above average rises - such as Wellington (+7.0% y/y), Waikato (+6.1% y/y) and Canterbury (+5.4% y/y). There were also differences across industries. Hospitality jobs fell 7.9% y/y. But this was offset by still strong results for professional services (+10.8% y/y), manufacturing (+8.1% y/y) and retail trade (+5.6% y/y).



## Time to be paid longest since June 2020

New Zealand small businesses waited an average of 26.2 days to be paid in September. This is 1.8 days longer than in August and 2.7 days longer than in July. This metrics is now at its highest level since June 2020, although it is still below the peak of 30.7 days set in April 2020. The rise in wait times was again driven by Auckland small businesses, which saw an increase of 4.4 days to 29.6 days. In contrast, Wellington small businesses were the quickest to be paid at 23.3 days, a rise of 0.9 days. The late payments measure, which tracks the average number of days late that invoices are paid, pushed out to 8.2 days which is also the longest since June 2020.



## Wages growth around recent highs

Wages rose 4.5% y/y, up marginally from 3.8% y/y in August (last month was still adjusted for base effects). Wages growth was still soft in September 2020, at just 2.2% y/y, so this latest result is still slightly inflated due to base effects. Nevertheless, wages growth has clearly been accelerating in 2021 and is above its long term average of 3.9% y/y.





# AUSTRALIA

## CURRENT ACTIVITY IN THE SMALL BUSINESS SECTOR

The current activity in the small business sector in Australia has bounced back more quickly than New Zealand in regards to listings with an annual growth rate of 5.62%. Australian business brokers have stated the increased listings are largely due to a recovering economy that has translated to improved financial performances for many business owners. Business owners are now more willing to enter a sales process given their most recent financials are showing a stronger performance (this was not the case twelve months ago).

Number of Australian Businesses Listed For Sale			
	Sep 20	Sep 21	% Change
NSW	3335	3397	1.31%
VIC	4771	4931	3.35%
SA	244	277	13.52%
TAS	96	128	33.33%
QLD	2067	2270	9.82%
WA	544	680	25%
NT	36	56	55.56%
ACT	79	80	1.27%
<b>Australia</b>	<b>11,190</b>	<b>11,819</b>	<b>5.62%</b>

### Businesses in Demand

- Accountancy Practices
- Larger GP and Dental Practices  
(in states not impacted by COVID-19 lockdowns)
- Caravan Parks (Large, profits over \$400,000)
- Service (5 Days)
- Online businesses / work from home
- Information Technology Businesses  
(with strong maintenance contracts)
- Manufacturing - selected sectors
- Labour Hire
- Supermarkets
- Service Stations
- Business types that have been resilient to COVID-19

### Difficult to Sell

- General Retail
- Clothing Boutiques
- Bookstores
- News Agencies
- Lotto Kiosks
- Travel Agencies
- Non- Franchise Bakery
- Profits less than \$100,000
- Business types that were forced to shut down due to the Coronavirus.

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- Completed over 100 M&A deals in the corporate and commercial banking market
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