

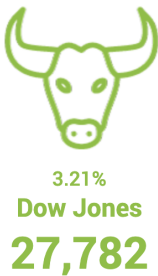
September 2020

## Bizval Indicator

"Business Valuation multiples ease by 0.4%"

Disclaimer

In addition to the four drivers of SME values, the Bizval Indicator is evaluated in the context of six General Economic Indicators.



An independent business valuation compiled by a professional can help. [Contact BIZVAL](#) or order your business valuation today.

## Bizval Indicator Report for September 2020

We like to think of the Bizval Indicator as a 'barometer' of SME valuation multiples providing a perspective of the value of New Zealand small-to-medium sized businesses.

Unlike listed companies, the sale prices of SME's are not readily available. The Bizval Indicator helps monitor movements in the [drivers of SME values](#).

The Bizval Indicator is derived from key drivers of SME values and is then reviewed in the context of a basket of [general economic indicators](#).

### Bizval Indicator

NOW	LAST QUARTER	MOVEMENT
429	431	-0.4%

Source: Bizval, 30 September 2020.

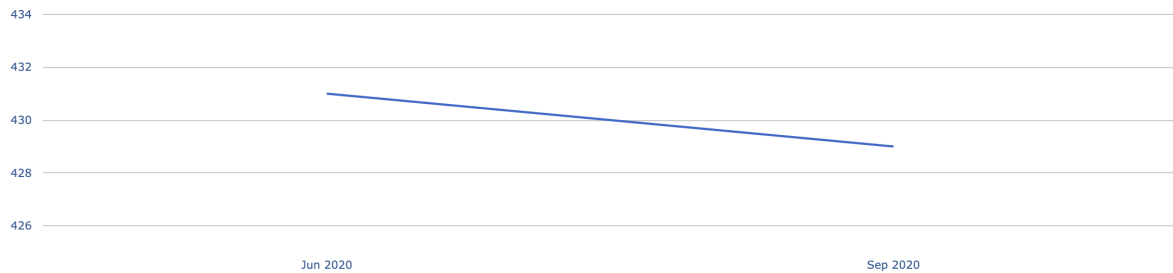
## Bizval Indicator eases 0.4% in the September quarter.

The Bizval Indicator has eased by 0.4% in the September 2020 quarter.

To arrive at the Bizval Indicator a variety of factors are taken into consideration:

- NZX Small Cap P/E Ratios
- Business Loan Interest Rates
- Businesses for Sale
- Bizval Multiples

In the September 2020 quarter the average P/E Ratios of small NZX listed companies contracted slightly. However, in terms of the Bizval Indicator, this was offset by a somewhat unexpected reduction in the number of SME's listed for sale.



## General Economic Indicators

INDICATOR	NOW	1 YEAR AGO	MOVEMENT
NZX 50 NZ <sup>(1)</sup>	11,747	10,925	7.52%
RBNZ Official Cash Rate NZ <sup>(2)</sup>	0.25%	1.00%	-0.75%
GDP NZ <sup>(3)</sup>	-2.00%	2.70%	-4.70%
Dow Jones Industrial Average USA <sup>(4)</sup>	27,782	26,917	3.21%
Inflation (CPI) NZ <sup>(5)</sup>	1.50%	1.50%	0.00%
Unemployment Rate NZ <sup>(6)</sup>	4.00%	4.20%	-0.20%

(1) Source: NZ Stock Exchange, 30 September 2020

(2) Source: Reserve Bank of New Zealand, 23 September 2020

(3) Source: Stats NZ, 17 September 2020 (seasonally adjusted, yearly)

(4) Source: New York Stock Exchange, 30 September 2020

(5) Source: Stats NZ, 30 June 2020

(6) Source: Stats NZ, 30 June 2020 (seasonally adjusted)

## Gross Domestic Product

Largest quarterly fall in New Zealand economy on record.

Economic activity, as measured by gross domestic product (GDP), was down 12.2 percent in the June 2020 quarter. This is the largest quarterly decline in GDP on record. On an annual basis, GDP declined 2.0 percent over the year ended June 2020.

In summary:

- service industries fell 10.9 percent
- primary industries were down 8.7 percent
- goods producing industries fell 16.3 percent
- GDP per capita fell 12.6 percent

## RBNZ Official Cash Rate

The Official Cash Rate (OCR) is 0.25 percent, reduced from 1.0 percent in March 2020. The RBNZ expects it will remain at this level for at least the next 12 months.

The RBNZ has stated that the negative economic implications of the COVID-19 virus continue to rise, warranting further monetary stimulus. Since the outbreak of the virus, global trade, travel, and business and consumer spending have been curtailed significantly. Financial market pricing has responded to these events with declining global equity prices and increased interest rate spreads on traditionally riskier asset classes.

## Drivers of SME Values

***The Bizval Indicator is calculated using a proprietary formula. We research, monitor and evaluate the following components to arrive at the result.***

### NZX Small Cap P/E Ratios

Small Capitalisation companies have greater similarities to private SMEs than large cap stocks. Bizval reviews the mean and median price earnings (P/E) ratios of companies with market capitalization of between \$20 million and \$200 million. We adjust these figures to align them more closely with private SMEs by reducing the P/E ratios to account for differences in size, key-person dependence and ability to easily buy or sell (liquidity).

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### Business Loan Interest Rates

Bizval monitors the advertised interest rates of New Zealand major banks for business loans. Using an average of these rates we then add a risk margin (commonly added to the base rate by banks when lending to small businesses). We also add a hypothetical margin for the SME proprietor to reflect their return on investment. This interest rate is then converted to a multiple.

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### Businesses for Sale

Bizval undertakes a review of the volume of businesses listed for sale across New Zealand, taking into account any movements in this number.

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### Bizval Multiples

We review an average of the multiples used in our business valuations and combine these with multiples from actual business sales (where available).

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***In addition to the four drivers of SME values, the Bizval Indicator is evaluated in the context of six national / international General Economic Indicators.***

### The NZX 50 Index (New Zealand Stock Exchange)

The NZX 50 Index (NZ50) is the primary stock market index in New Zealand. It comprises the 50 biggest stocks by free-float market capitalisation trading on the New Zealand Stock Market (NZSX).

### Reserve Bank of New Zealand Official Cash Rate

The RBNZ sets the target 'cash rate', which is the market interest rate on overnight funds. It uses this as the instrument for monetary policy and influences the cash rate through its financial market operations.

### Gross Domestic Product (New Zealand)

GDP is a monetary measure of the market value of all final goods and services produced over a defined period of time.

### Dow Jones Industrial Average (USA)

The 'Dow' is a US stock market price-weighted index monitoring the share trading performance of 30 large, publicly owned American-based companies.

### Inflation Rate (New Zealand)

The Consumer Price Index (CPI) measures the average change over time in the prices paid by New Zealand households for a fixed basket of goods and services.

### Unemployment Rate (New Zealand)

This indicator is the official unemployment rate for New Zealand. The unemployment rate reflects conditions of the labour market and economy overall. It gives a sense of the number of people seeking work.

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