

Q4 2022

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MARKETPULSE

INTERNATIONAL BUSINESS BROKERS ASSOCIATION | M&A SOURCE | FOURTH QUARTER 2022 SURVEY



A full copy of the Market Pulse survey results is available to IBBA and M&A Source members who participate in each quarterly survey. This is a 100-plus page document of up-to-date, relevant information on the state of the marketplace.

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INTERNATIONAL BUSINESS BROKERS ASSOCIATION

AND

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The IBBA and M&A Source Market Pulse

SURVEY REPORT Q3 2022

The quarterly IBBA and M&A Source Market Pulse Survey was created to gain an accurate understanding of the market conditions for businesses being sold in Main Street (values \$0-\$2MM) and the lower middle market (values \$2MM-\$50MM). The national survey was conducted with the intent of providing a valuable resource to business owners and their advisors. The IBBA and M&A Source present the Market Pulse Survey.

The Q4 2022 survey was conducted January 1-15, 2023 and was completed by 493 business brokers and M&A advisors. Respondents completed 392 transactions this quarter. This is the 43rd edition of this report.

FIGURE 1: MARKET SEGMENTS STUDIED

MAIN STREET	LOWER MIDDLE MARKET
Less than \$500K	\$2MM - \$5MM
\$500K - \$1MM	\$5MM - \$50MM
\$1MM - \$2MM	

Working With Experienced Advisor Can Double Chance of Selling

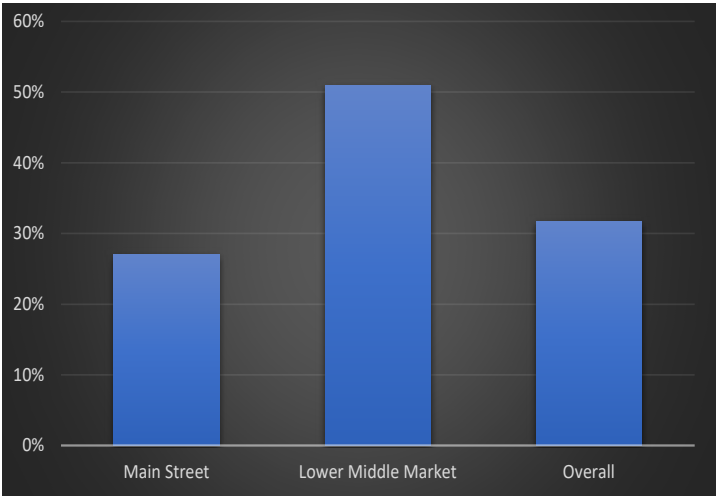
Estimates from the M&A Source and IBBA Market Pulse Report suggest that of those businesses put up for sale on the M&A market, only half will successfully sell – and that’s assuming they have an accredited advisor at the helm.

The industry has long cited a statistic from the Business Brokerage Press’s Tom West that only 25%-30% of businesses will sell to new ownership US. But respondents to the Market Pulse survey report closing ratios of about 50%. This indicates that accredited advisors and those who invest in ongoing education and networking are likely to achieve results far above the industry average.

There are many reasons businesses don’t sell, and it isn’t always a lack of buyer interest. New this quarter, advisors were asked how many of their terminated deals had offers on the table. Overall, for engagements that terminated without a successful closing, advisors reported 33% of them had at least one offer on the table and 32% had multiple offers.

For engagements that terminated with only one buyer, both markets were similar (33% Main Street & 31% LMM). In Main Street market, 27% of terminated engagements had more than one offer while in the lower middle market, just over half (51%) of terminated engagements had offers from two or more buyers.

FIGURE 2: TERMINATED CLIENT ENGAGEMENTS WITH MULTIPLE BUYER OFFERS

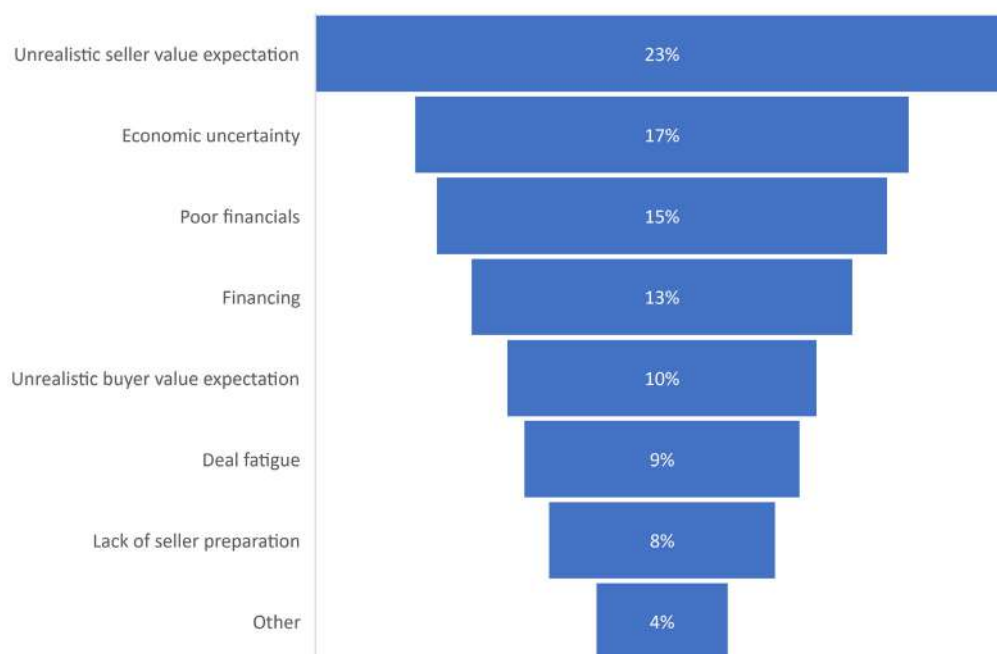


Why Deals Don't Close

Advisors gave a number of reasons that deals failed to close. Overall, 23% of advisors cited 'unrealistic seller value expectation' as the top reason deals fall apart. Economic uncertainty and poor financials were other leading factors.

Notably, while 'unrealistic seller expectations' was the leading issue overall, it wasn't always the leading reason by deal size. For the smallest Main Street businesses, for example, 'poor financials' was the number one reason advisors gave for deal failure. Likewise, deal financing (the ability to find a lender to support the deal) was also a key problem for Main Street deals.

FIGURE 3: LEADING REASONS DEALS DON'T CLOSE, OVER ALL DEALS



"When selling your business, the market ultimately determines the value, not what you want, what you need, or even what a valuation told you it was worth," said Scott Bushkie, President of Cornerstone Business Services. "If your advisor is running a thorough process and reaching a large pool of capable buyers, then you probably have a true reflection of demand for your business."

"Deals can fall apart for any number of reasons, and market conditions change rapidly" said Lisa Riley, President of Delta Business Advisors, LLC. "Maybe projections looked good when the buyer and seller started negotiations, but now the numbers look different. Also, it's not that uncommon for small business owners to accidentally misstate or misunderstand their financials. That's a big contributor to deal failure too."



“Time kills all deals. It’s important to be prepared with good records and then move quickly,” Riley continued. “Make sure your numbers are in order before you go to market, be ready for due diligence, and keep everyone on task to closing, ideally

FIGURE 4: #1 REASON DEALS DIDN'T CLOSE, BY DEAL SIZE

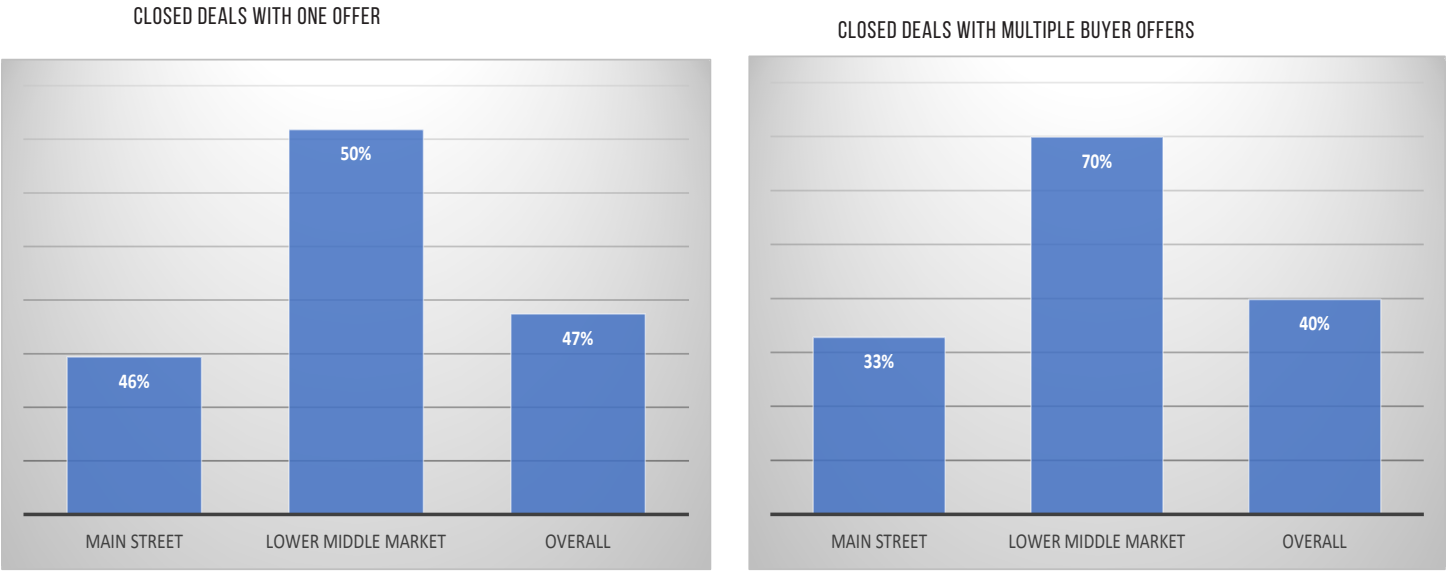
<\$500K	Poor financials (43%)
\$500-\$1M	Financing (26%)
\$1M-\$2M	Financing (22%)
\$2M-\$5M	Unrealistic seller expectations (17%)
\$5M-\$50M	Unrealistic buyer expectations (16%)

“In an ideal world, advisors wouldn’t take on a deal if they knew the seller’s expectations were out of line with reality,” said Kyle Griffith, Managing Partner of The NYBB Group. “But some sellers will convince their advisors to ‘shoot for the moon.’ It’s unfortunate because you can do a lot of harm by testing the market with unrealistic expectations. You can burn through buyers, risk confidentiality, and weaken your own drive and focus to keep the business performing at a high level.”

Multiple Offers

Data shows that of the deals that successfully closed, nearly half (47%) had at least one other offer on the table and 40% had at least two other offers. Notably, the lower middle market businesses were more likely to garner multiple offers than smaller Main Street operations.

FIGURE 5: CLOSED DEALS WITH ADDITIONAL OFFERS



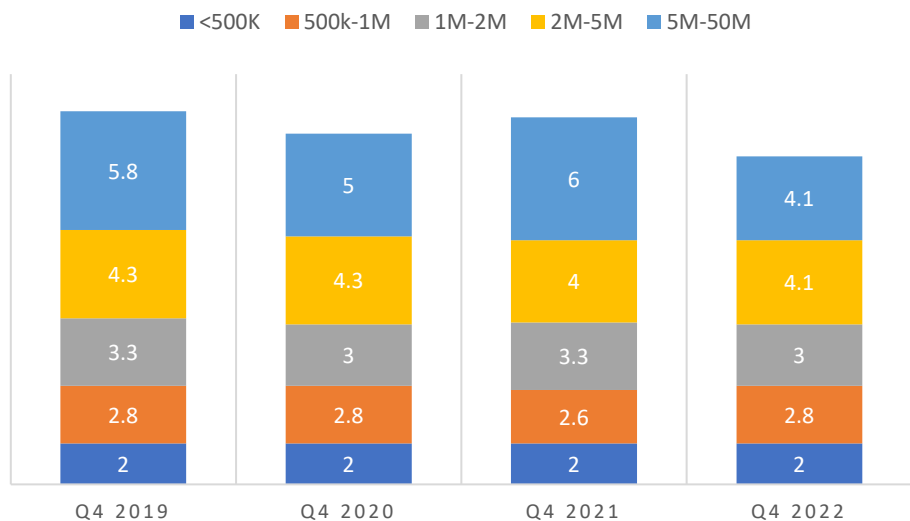
“Competition drives value. An M&A Broker’s ability to run a successful process and create a competitive market is what allows sellers to achieve outcomes in line with their goals and objectives,” said Scott Mashuda, Founding Partner of REAG. “Without a competitive process the seller is unable to unlock the full value of their business and achieve the peace of mind that goes along with that.”

Business Value

On average, sellers are receiving valuations at 89% of benchmark or better. As is the trend, businesses in the lower middle market performed the best, receiving nearly all or above the private benchmark they set with their advisors before going to market.

Multiples remained relatively consistent across market sectors, with one notable exception. Advisors reported that businesses with enterprise value of \$5M-\$50M received an average valuation of 4.1x EBITDA, a notable drop over the past few years. Notably, those sellers also received valuations at 104% of benchmark. This shows the sophistication of a well-trained M&A advisor who understands how quickly markets can shift and educates their client accordingly before going to market

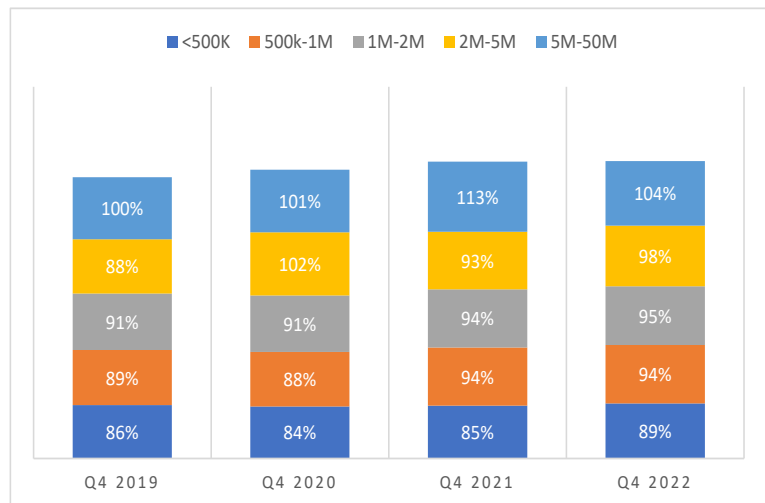
FIGURE 7: AVERAGE MULTIPLES BY DEAL SIZE 2019-2022



<\$500K - \$2M in Purchase Price presented as and typically reflected as multiple of SDE (Seller's Discretionary Earnings);

\$2M-\$50M in Purchase Price presented as and typically reflected as multiple of EBITDA (Earnings Before Interest, Taxes, Depreciation & Amortization).

FIGURE 6: AVERAGE SELLING PRICE BY ASKING/BENCHMARK PRICE 2019-2022



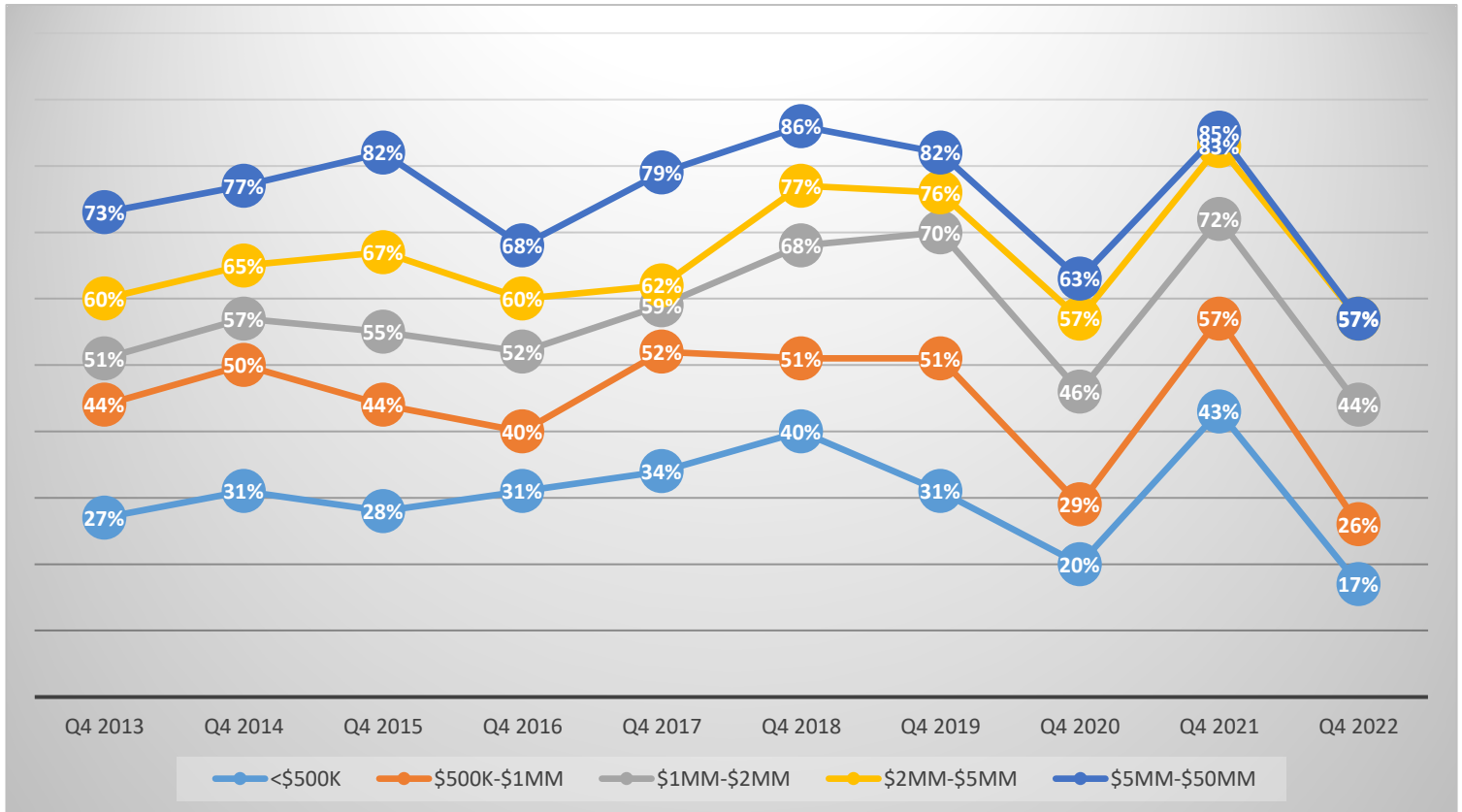
<\$1M in Purchase Price typically goes to market with an asking price whereas those in the \$5M-\$50M typically go to market without an Asking Price, however, with an expectation of what buyers will most likely pay. Those between \$1M & \$2M may fall in either camp. It greatly depends upon type of Buyer.

“The larger the deal, the more rising interest rates may affect value,” said Jeff Swiggett, President of VR Business Sales Mergers & Acquisitions. “At the end of the day, it’s just math. As the buyer pays more in interest, they either have to pay less in principle or adjust their expected returns.”

Market Confidence

Despite the solid performance evidenced in the business values above, advisors are reporting a significant drop in seller market sentiment. (A seller's market occurs when demand exceeds supply. In a seller's market, buyers compete in order to win deals. This typically translates to increased values and more favorable deal terms for the seller.)

FIGURE 8: SELLER'S MARKET SENTIMENT Q4 2013-2022



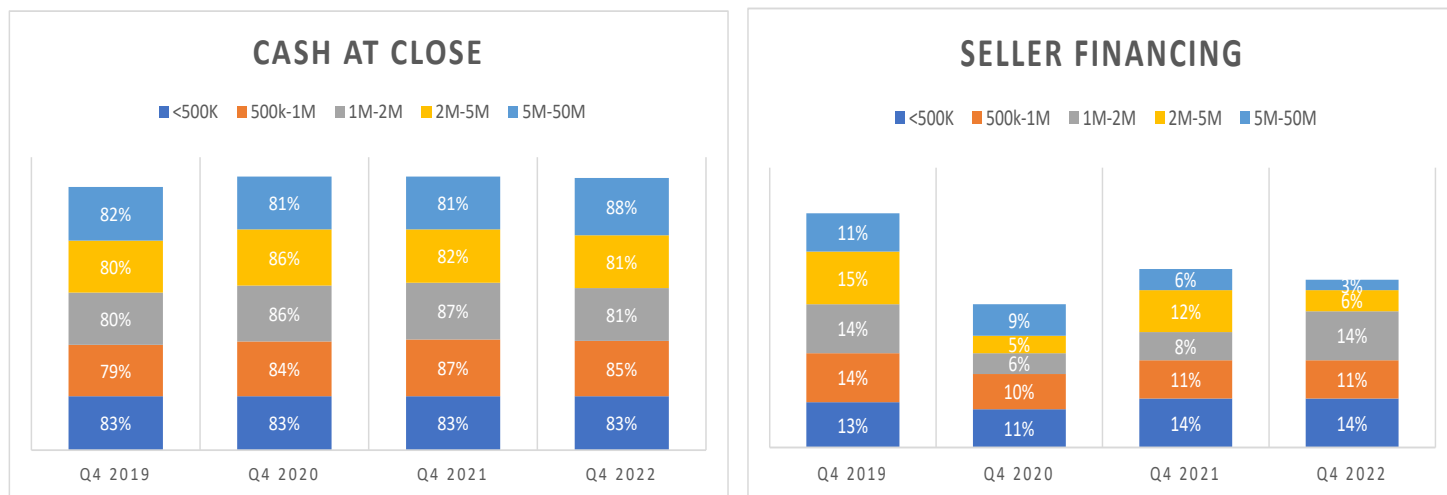
"I think we're seeing a bit of a disconnect between what people 'feel' about the market and what is actually happening with business values," said Neal Isaacs, Managing Partner of VR Business Brokers. "After years of heavy competitive buyer demand, we may be seeing a rebalancing in the market. But it's clear that there are still qualified, motivated buyers at the table and business owners are still getting strong valuations."

"It's true the values are off peak, but they're still above the trend line," continued Isaacs. "We're off peak, but sellers are still getting good values. Buyers are getting a little more selective, but businesses with strong fundamentals are still doing well."

Financing Deals in 2022

Deal financing has not changed significantly since before the pandemic. On average, sellers continue to receive 80% or more of total consideration as cash at close. (Cash at close includes senior debt and buyer equity.) Seller financing accounts for 14% or less of most deals.

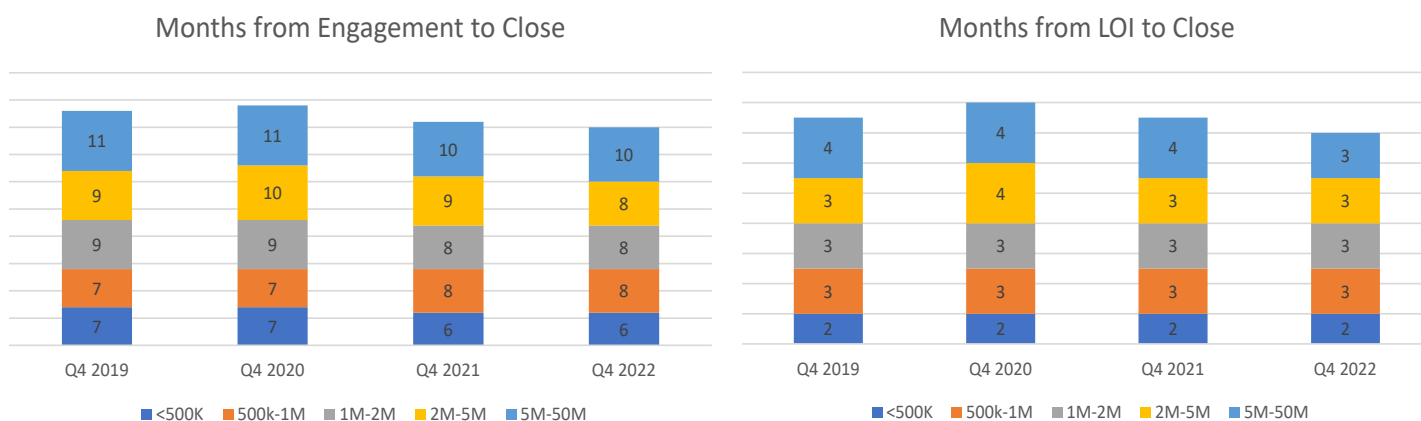
FIGURE 9: CASH AT CLOSE VS SELLER FINANCING Q4 OF 2019-2022



Time to Close

The average time to sell a small business stayed relatively consistent in Q4 2022, varying from six to 10 months. Of that time roughly 90 days are spent in due diligence, after a signed letter of intent or offer.

FIGURE 9: TIME TO CLOSE BY PURCHASE PRICE- Q4 YEAR OVER YEAR



*“During the due diligence process, buyers are confirming information and making sure the business was represented accurately,” said Marquita Wiley, CEO of Trenier Enterprises, LLC. “It’s important that **no surprises come up during due diligence**. Your advisor team can help you prepare ahead of time and coach you on good faith disclosures, so this process can go as smoothly as possible.”*

*“Buyers are always working to get the best deal possible. If information and communications aren’t clear and precise, buyers may use this as an opportunity to renegotiate the deal,” said Al Statz, President of Exit Strategies Group, Inc. **“Working capital, for example, can be a hotly contested point of negotiation.** It’s important to work with experienced M&A advisors who know how to present facts and iron out details at the letter of intent stage, **before due diligence.**”*

Exit Planning

In 2022, retirement led as the number one reason sellers put their company on the market. Yet even though retirement is a foreseeable milestone, most buyers do not engage proactive planning to sell their business, particularly in the Main Street market. Generally, the smaller the business, the less likely the owners are to do any planning prior to going to market.

Of the sellers that do plan ahead, many are still moving through the exit planning process at a rapid pace, with less than a year between initial consultation and market listing.

FIGURE 10: #1 REASON SELLER WENT TO MARKET IN 2022

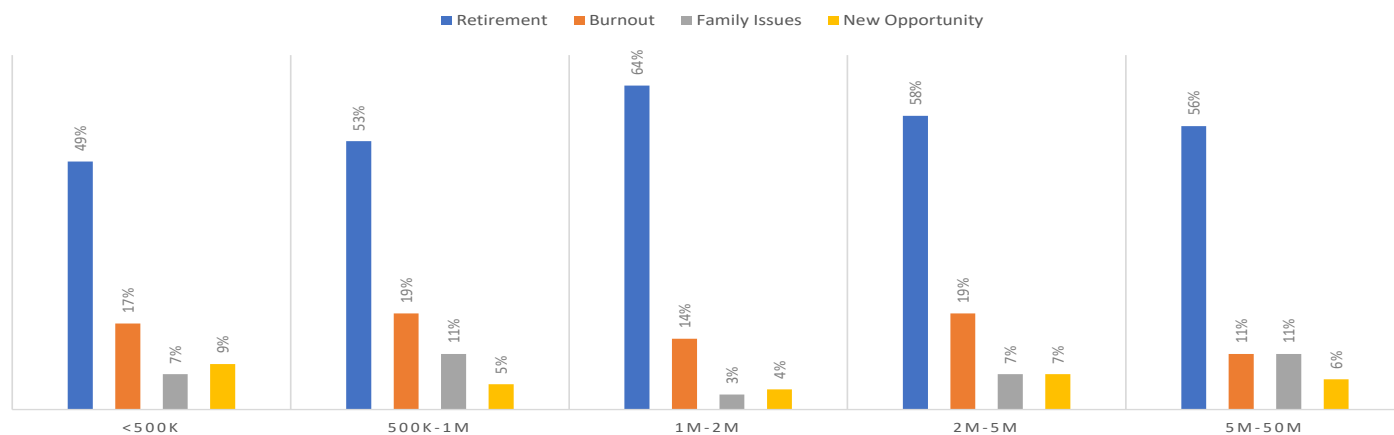
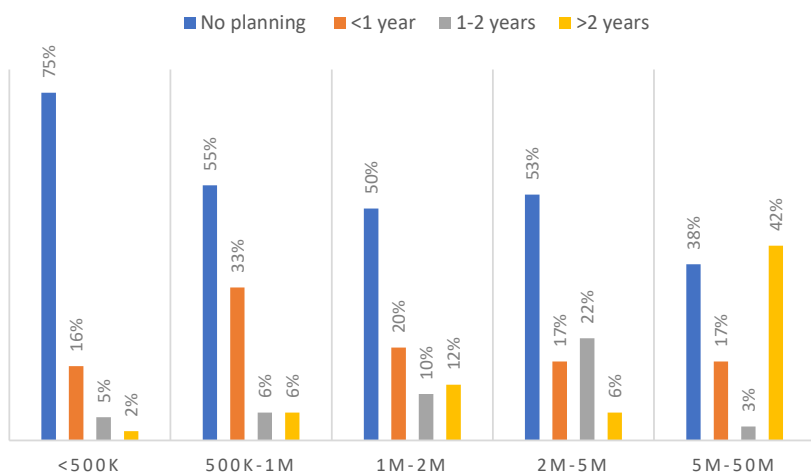


FIGURE 11: ADVANCE EXIT PLANNING PRIOR TO SALE



“The three biggest mistakes a seller can make is not planning enough, sticking to unrealistic expectations, and not working with a team of specialists,” said Lee Sheaffer, President of BizReady, Inc. “Any one of those can jeopardize their ability to sell their business. And if they do sell, it’s likely they left money on the table.”

*“Sellers can gain so much value when they **plan ahead** for the sale of their business,” said Laurie Cole, Business Broker with BTI Group. “There are simple things they can do to make their company more attractive to potential buyers and to take home more cash at their exit. The earlier they start talking to an advisor, the happier they’ll be with their results.”*

2022 Top Industries

Looking at data for the whole year, most Main Street transactions occurred in the following industries: Restaurants (18%), personal services (17%), business services (13%), and consumer goods/retail (13%).

In the lower middle market, most transactions occurred in these industries: Construction/engineering (21%), manufacturing (16%), personal services (10%), and consumer goods (10%).

FIGURE 12: MAIN STREET BUSINESS SALES BY INDUSTRY 2022

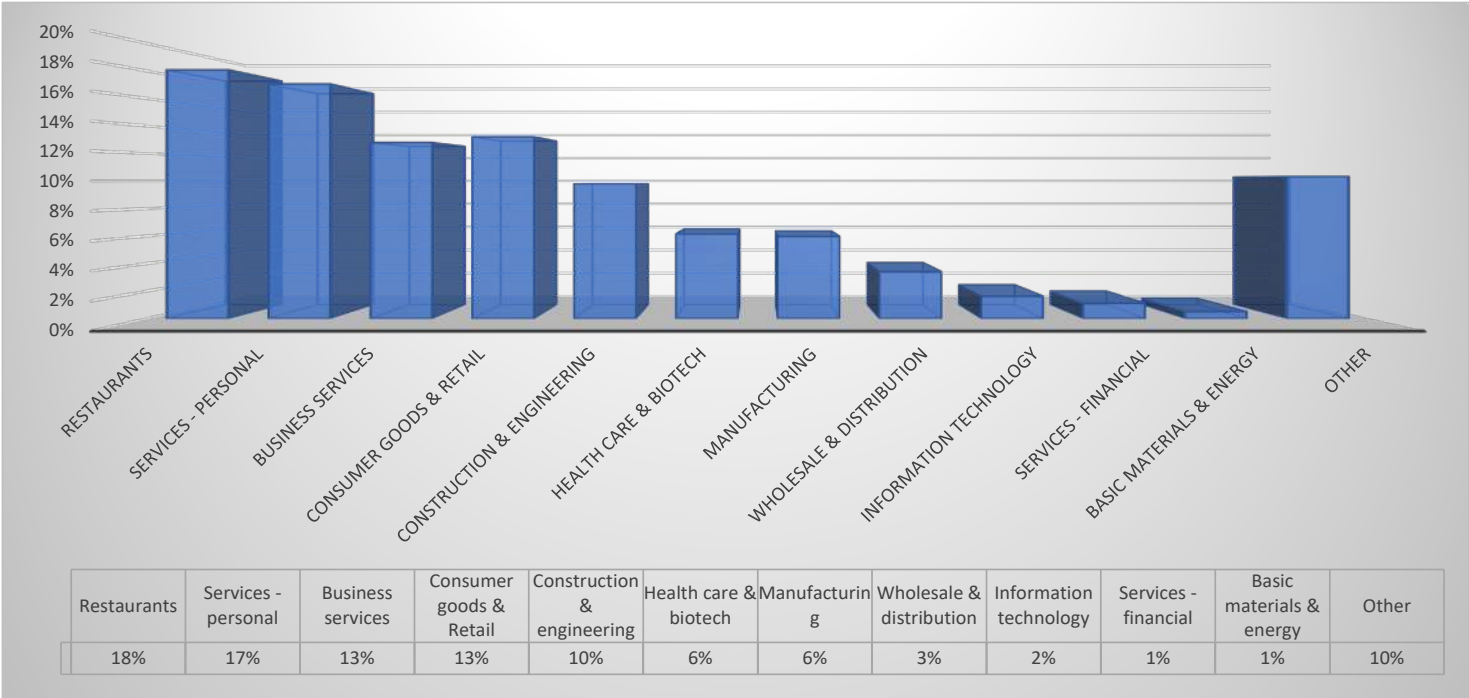
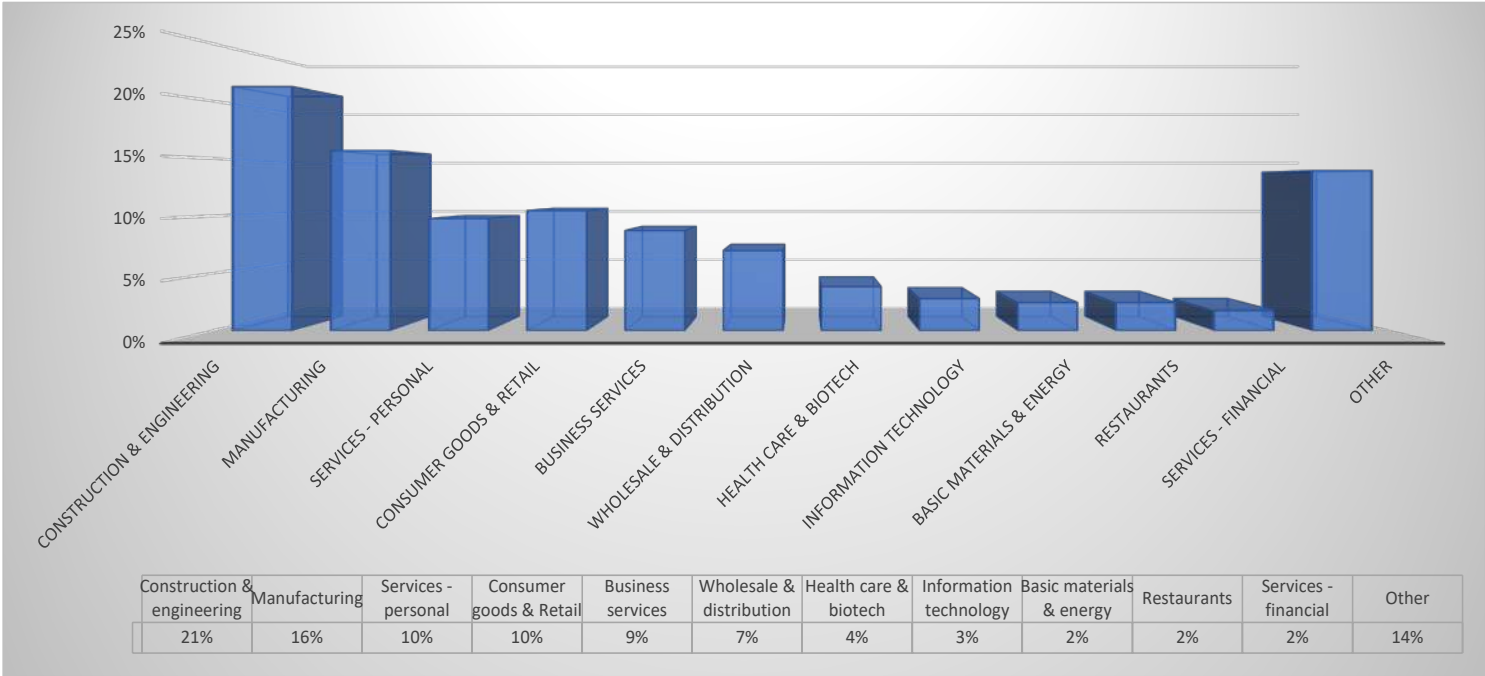


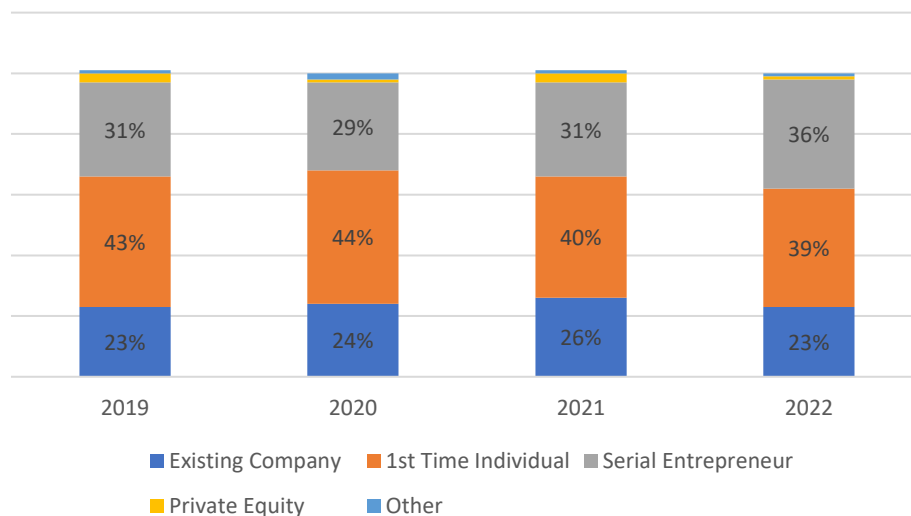
FIGURE 13: LOWER MIDDLE MARKET BUSINESS SALES BY INDUSTRY 2022



Active Buyers

Individual buyers dominated the Main Street market in 2022. Calculating survey responses for all four quarters, we see that first time buyers made 39% of Main Street acquisitions followed by serial entrepreneurs (buyers who'd owned a business before) at 36%. This is relatively on trend.

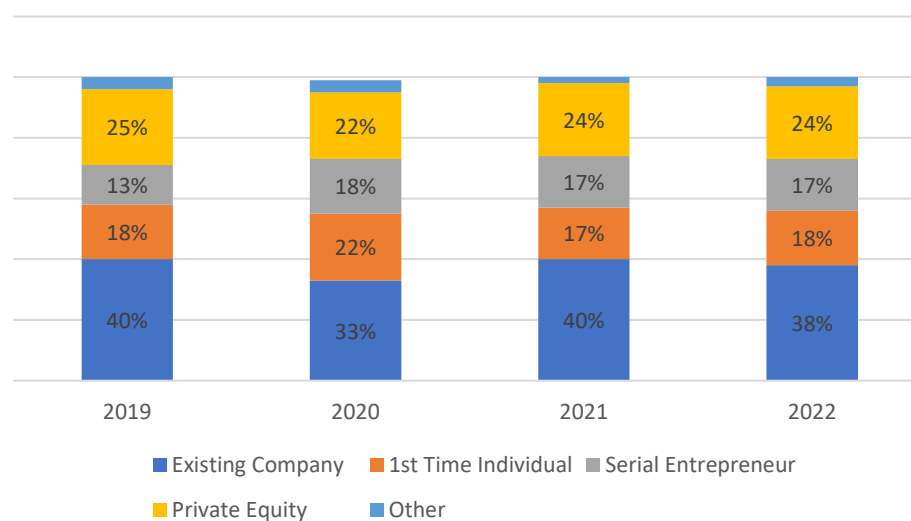
FIGURE 14: ACTIVE BUYERS IN 2022 – MAIN STREET



“Individual buyers are the heart and soul of the Main Street market. There’s a significant number of people out there who want to control their own destiny,” said Randy Bring, Senior Associate/Partner Transworld Business Advisors. “They want the sense of freedom and autonomy that comes from owning their own business.”

Individual buyers made their mark in the lower middle market as well, at 35% of acquisitions (18% first time buyer, 17% serial entrepreneurs). Once again, private equity made about a quarter of the acquisitions in this market.

FIGURE 15: ACTIVE BUYERS IN 2022 – LOWER MIDDLE MARKET



ABOUT INTERNATIONAL BUSINESS BROKERS ASSOCIATION

Founded in 1983, IBBA is the largest non-profit association specifically formed to meet the needs of people and firms engaged in various aspects of business brokerage, and mergers and acquisitions. The IBBA is a trade association of business brokers providing education, conferences, professional designations and networking opportunities. For more information about IBBA, visit the website at www.ibba.org or follow the IBBA on [Facebook](#), [Twitter](#), and [LinkedIn](#).

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