

Q3 2023

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MARKETPULSE

INTERNATIONAL BUSINESS BROKERS ASSOCIATION | M&A SOURCE | THIRD QUARTER 2023 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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AND

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The IBBA and M&A Source Market Pulse

SURVEY REPORT Q3 2023

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 Q3 2023 survey was conducted October 1-17 and was completed by 389 business brokers and M&A advisors. Respondents completed 296 transactions this quarter. This is the 46th edition of this quarterly report.

FIGURE 1: MARKET SEGMENTS STUDIED - PURCHASE PRICE/ ENTERPRISE VALUE

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

Discuss Deal Terms Early

In an M&A transaction, price is critical, but it's not the sole consideration. There are various ways sellers can get paid or extract additional value from the deal. Meanwhile, some considerations, like non-compete agreements, limit how the seller can make money going forward.

According to the Market Pulse survey, the vast majority of advisors talk to their clients about alternative deal terms prior to (60%) or at the time of engagement (27%). However, 13% will wait for a buyer offer to broach the topic. These are the top deal terms advisors and clients are most likely to discuss in advance:

-  Seller Notes
-  Earn Outs
-  Non-Compete Agreements
-  Employment Agreements
-  Real Estate Leases

However, there are a number of other factors that can provide an additional level of financial benefit to sellers in a deal. While these were cited less frequently in the survey, they include maintaining an essential licensure for the business, commissions, consigning inventory, family employment, and health and life insurance.

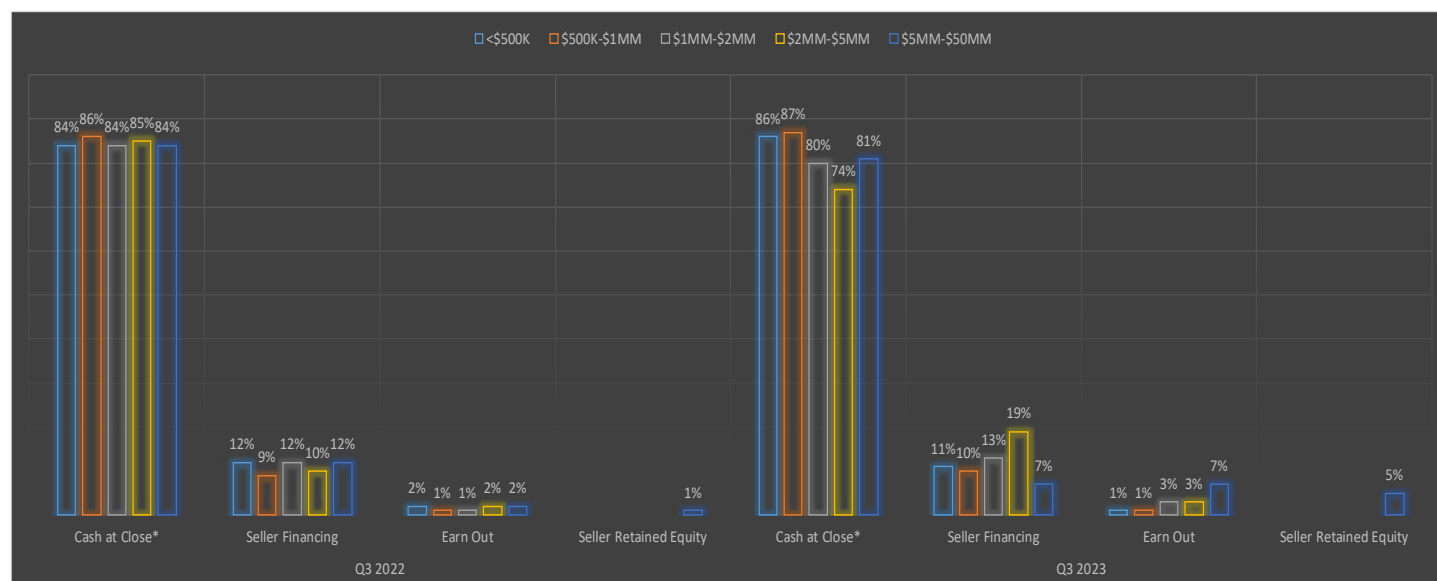
Of those deals that included a seller note, terms were most likely to include a lien on business equipment (32%), business property (26%), or the buyer's personal home (14%). One in five deals move forward without a lien.

“Discussing potential deal terms is a crucial step in the M&A process. It allows us to pursue the right buyer and tailor the transaction to our client’s unique financial goals,” said Lisa Riley, Founder of Delta Business Advisors, LLC. “We’re also preparing sellers for what’s realistic, to lessen the risk of a big surprise when offers start coming in. Because no one likes surprises at that stage in the game.”

Financing Deals in 2023

Most Main Street and lower middle market deals carry some kind of seller financing, and seller financing typically accounts for 10-20% of the overall deal. Cash at close has decreased for lower middle market deal, spurring increases in seller financing and earnouts.

FIGURE 2: LOWER MIDDLE MARKET EXPERIENCED LESS CASH AT CLOSE YOY



*Cash at close reflects a combination of buyer’s equity and senior debt.

“Looking at a company’s financial performance, buyers are still asking, ‘Was that a covid bump? How do we know this is sustainable.’ Earnouts are a way to bridge that uncertainty,” said Scott Bushkie, President of Cornerstone Business Services.

“Everyone hates earnouts; it’s a recipe for conflict later on. And yet, earnouts are up and expected to increase,” Bushkie continued. **“A buyer is going to want to do earnout on cash flow; the seller wants it on sales. We recommend using gross profit as the basis, as there’s less room for either party to manipulate the numbers.”**

“Seller financing has been around a long time, the way they’re structured is really changing,” said Brian Stephens of Legacy Venture Group.

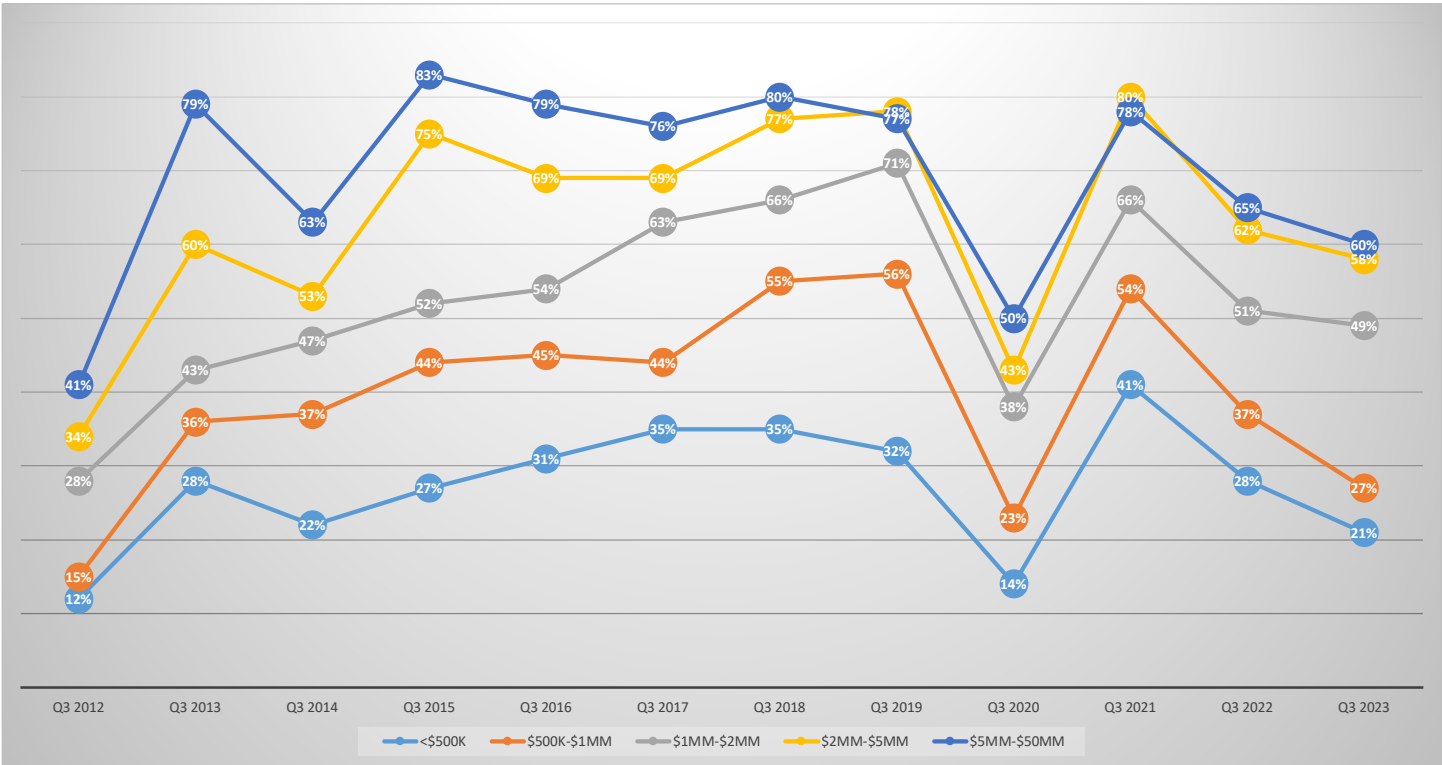
“Most seller notes sit behind the senior lender. In a low interest rate environment, seller notes would be 1-2 points higher than the bank note. The rationale is that if the buyer had extra money, they’d pay the seller first. Now in a high interest rate environment, that’s flipped. Sellers are offering interest rates 2-3 points lower. It’s a way to drive the value that the seller wants but keep interest down for the buyer over time.”

Dip in Market Confidence

A seller’s market is when sellers feel they have an advantage or it’s a good time to sell, for instance when demand exceeds supply and there are more interested, active buyers than there are quality deals on the market. 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.

Q3 trends show a downtick in confidence year-over-year. This could be due to any number of market headwinds, including high interest rates, inflation, and geopolitical uncertainty. And yet, as we’ll see in the next section, business valuations remain strong.

FIGURE 3: SELLER MARKET SENTIMENT Q3 2012-2023



“Middle market news can affect seller confidence, even though those trends don’t always flow downstream,” said Tawnya Gilreath, Founder of LA Business Pros. “The macro market has been talking about how dealmaking ‘dried up’ this year. But the Market Pulse shows that Main Street and lower middle market activity is actually up.”



Business Value

The Main Street market is rarely affected by the larger dealmaking environment. For example, over the last 40+ Market Pulse surveys, the median multiple for businesses valued under \$500,000 hasn't shifted beyond 2.0X to 2.3X.

However, we're seeing a resurgence in value in the \$5 million+ sector. It's worth noting that the Q3 2021 multiple of 6.8 in this sector represented an all-time high in the 10-year history of the Market Pulse Report. Now, with a median EBITDA multiple of 6.5 in Q3 2023, we may be seeing a return to an M&A bull market.

FIGURE 4: MEDIAN MULTIPLES, LAST FOUR QUARTERS

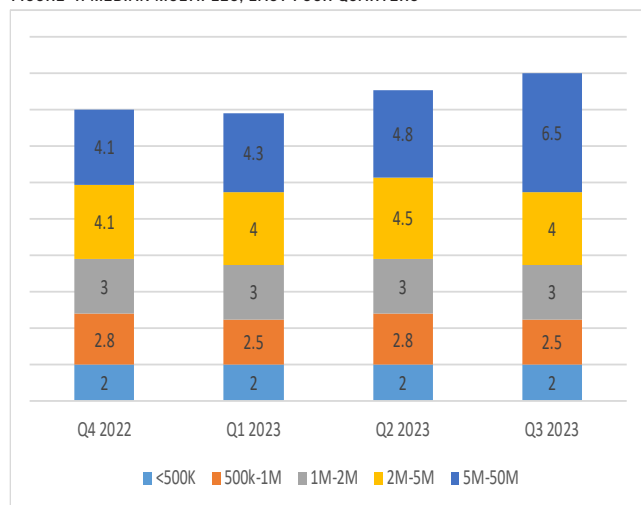
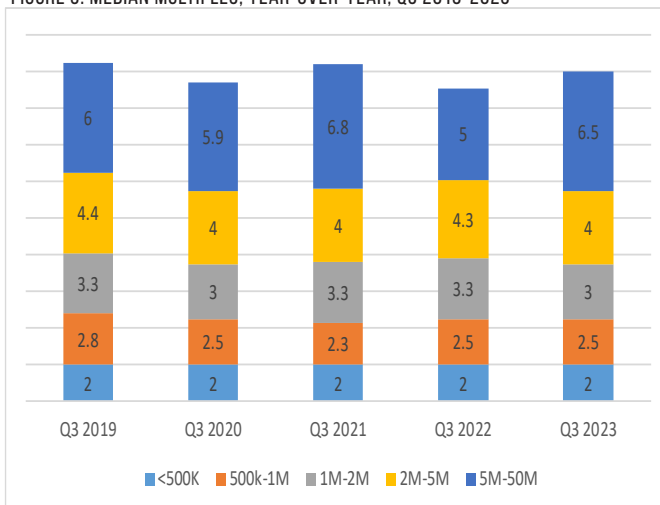


FIGURE 5: MEDIAN MULTIPLES, YEAR-OVER-YEAR, Q3 2019-2023



<\$500K - \$2M enterprise value is typically reflected as multiple of SDE (sellers discretionary earnings);
 \$2M-\$50M enterprise value is typically reflected as multiple of EBITDA

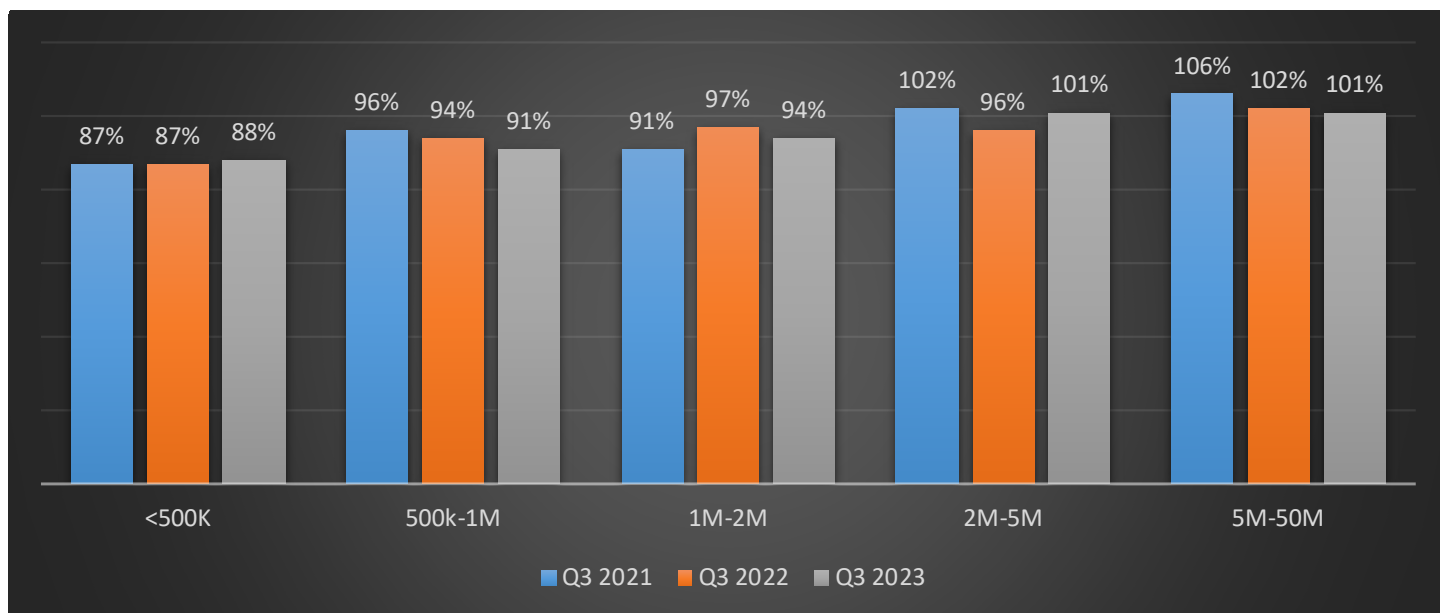
“What we’re seeing now is that private equity firms as a group are doing fewer platform deals in the middle market, but they’re spending more of their time and attention on add-ons. That, along with strong demand from strategic acquirers has maintained activity in the lower middle market,” said **Scott Mashuda**, Founding Partner of REAG.

“Investors are increasingly recognizing the resilience and growth potential of smaller businesses, especially those that have adapted well to post-pandemic market dynamics,” said **Kyle Griffith**, Managing Partner of The NYBB Group. *“The lower middle market offers a wealth of opportunities for strategic acquisitions and are proving to be attractive targets.”*

“Multiples really are a tale of two deals. The ‘A’ deals get premium deal structure and values. But the ‘B’ and ‘C’ players are getting beat up a bit on valuation. Those sellers are also taking on more of the risk with alternative financing options,” said **Jim Cumbee**, Tennessee Valley Group.

Overall, businesses received 92% of the selling price or internal benchmark set before going to market. Businesses in the \$5 million+ sector tend to outperform benchmark.

FIGURE 6: AVERAGE SALE PRICE REALIZED TO ASKING/BENCHMARK PRICE BY DEAL SIZE

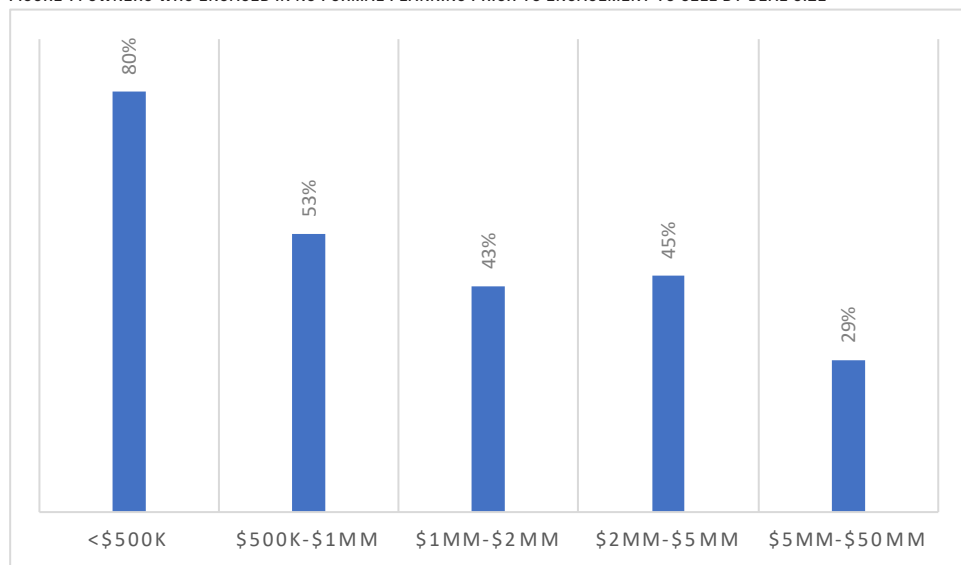


<\$1M in purchase price typically goes to market with an asking price whereas those in the \$2M-\$50M typically go to market without an asking price, however, with an expectation of what buyers will most likely pay (benchmark). Those between \$1M & \$2M may fall in either camp.

Exiting Without A Plan

Even though retirement is far and away the biggest reason sellers go to market, most business owners are doing little to no exit planning. The smaller the business, the less likely owners are to plan. Of those owners who did plan, most started less than a year before putting their business on the market.

FIGURE 7: OWNERS WHO ENGAGED IN NO FORMAL PLANNING PRIOR TO ENGAGEMENT TO SELL BY DEAL SIZE



“A business owner typically has 70-90% of their net worth tied up in their business. Most of them are doing no advance planning before going to market with their largest asset. It’s astonishing! And frankly, it can have a tragic outcome, with a significant loss in value or the inability to sell at all,” said Tanya Popov, Managing Partner, INIX Consulting & Brokerage.

Top reasons sellers go to market:

- **Retirement** - #1 across all market sectors
- **Better opportunity** - #2 in most Main Street sectors
- **Burnout** - #2 in Lower Middle Market
- **Unsolicited offer** – #2 (17%) of \$5-50M+ engagements
- **Health** - #2 (10%) of <\$500,000 engagements

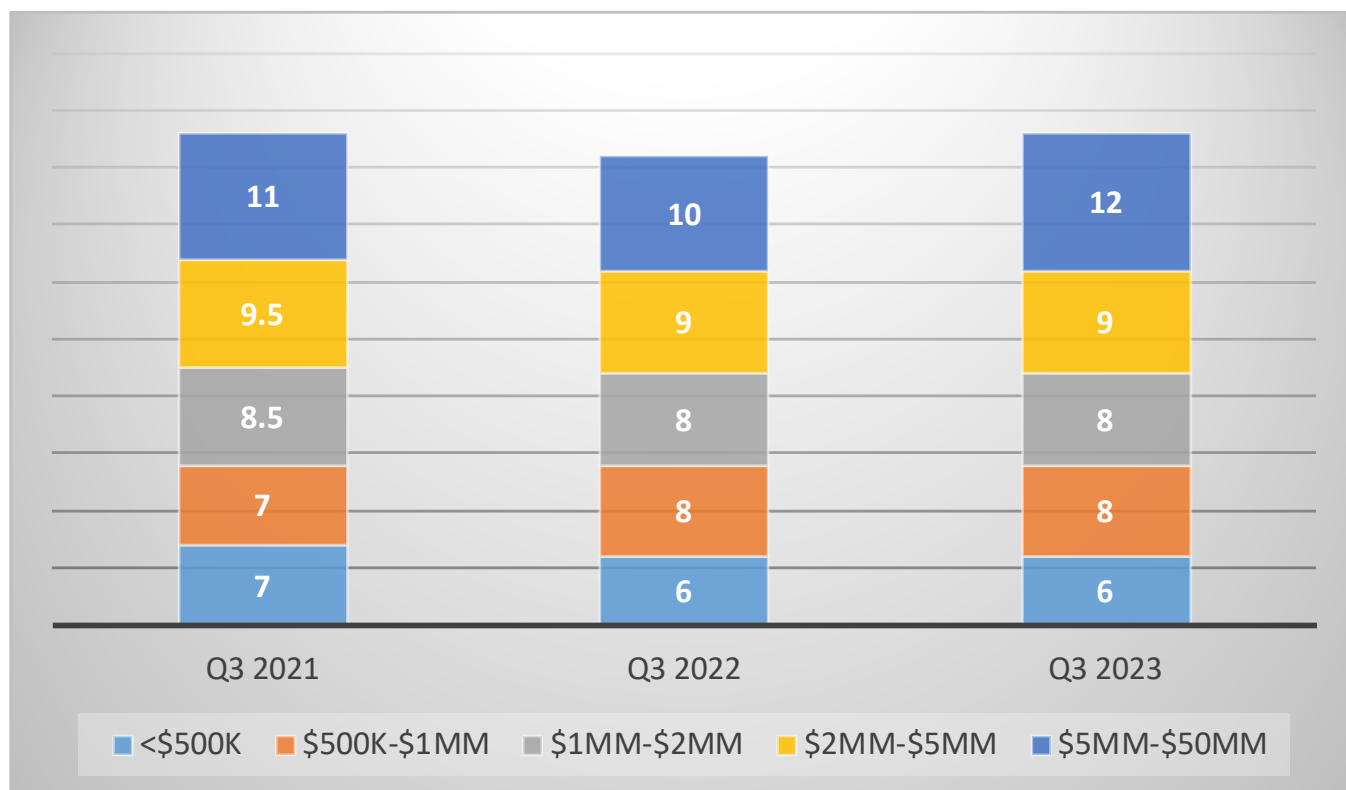
“Planning ahead for the sale of your business allows you to optimize the value, address potential issues, and position it attractively in the market,” said Lisa Riley, Founder of Delta Business Advisors, LLC. “It’s about ensuring that when the timing is right – or the right opportunity arises – you’re fully prepared to capitalize on it.”

“From financial readiness to operational efficiencies, a well-thought-out plan can make the difference between a successful, lucrative transaction and a missed opportunity,” said Jim Parker, President of Boss Goup International. “The planning process is your chance to shape the narrative of your deal and secure your financial legacy.”

Time to Close

Median time to close remains somewhat consistent year-over-year, with businesses generally selling within one year of a listing engagement. Main Street deals typically close faster due to reduced due diligence demands.

FIGURE 8: MEDIAN # OF MONTHS FROM ENGAGEMENT OF ADVISOR TO CLOSE BY DEAL SIZE



Know Your Buyer

<\$500,000: Buyers in this sector were:

- First-time buyer (49%), or serial entrepreneurs (32%)
- Motivated to buy a job (45%), gain a horizontal add-on (24%)
- Located within 20 miles (66%) or more than 100 miles (13%) of the seller's location

\$500K-\$1MM: Buyers in this sector were:

- First-time buyers (43%), serial entrepreneurs (36%), or strategic buyers (17%)
- Motivated to buy a job (38%), gain a horizontal add-on (29%)
- Located within 20 miles (64%) or within 50 miles (16%) of the seller's location

\$1MM-\$2MM: Buyers in this sector were:

- First-time buyers (43%), serial entrepreneurs (28%), strategic buyers (25%)
- Motivated to buy a job (30%), gain a horizontal add-on (28%), vertical add-on (18%)
- Located within 20 miles (45%) or more than 100 miles (33%) of the seller's location

\$2MM-\$5MM: Buyers in this sector were:

- Strategic buyers (46%), first-time buyers (24%), or serial entrepreneurs (17%)
- Motivated to gain a horizontal add-on (39%), vertical add-on (27%), or buy a job (22%)
- Located more than 100 miles (49%) or within 20 miles (32%) of the seller's location

\$5MM-\$50MM: Buyers in this sector were:

- Strategic buyer (44%), PE firms seeking add-on (33%)
- Motivated to acquire a vertical add-on (39%), horizontal add-on (28%)
- Located more than 100 miles (83%) of the seller's location

"We see a couple of trends in this quarter's buyer data. First, we're seeing significantly more interest in vertical add-ons," said Lee Sheaffer, President of BizReady, Inc. "The lessons of the pandemic are still fresh, and people are looking to shore up their supply chains."

"We can also see a pretty clear story about buyer geography. If you have a small business, your buyer is likely to come from your local area. But if your business is worth \$5 million or more, your buyer will be further afield. As a business owner, that can help you decide whether to bring on an advisor with a great local presence or a firm with a strong national or international reach."

What Are They Buying?

Every quarter, Market Pulse data highlights the dynamic landscape of business sales across different deal values. Overall, this quarter’s M&A activities display a diverse range of industries attracting investment.

FIGURE 9: TOP 3 INDUSTRIES PURCHASED IN 2023 Q3 MAIN STREET MARKET SECTORS BY PURCHASE PRICE

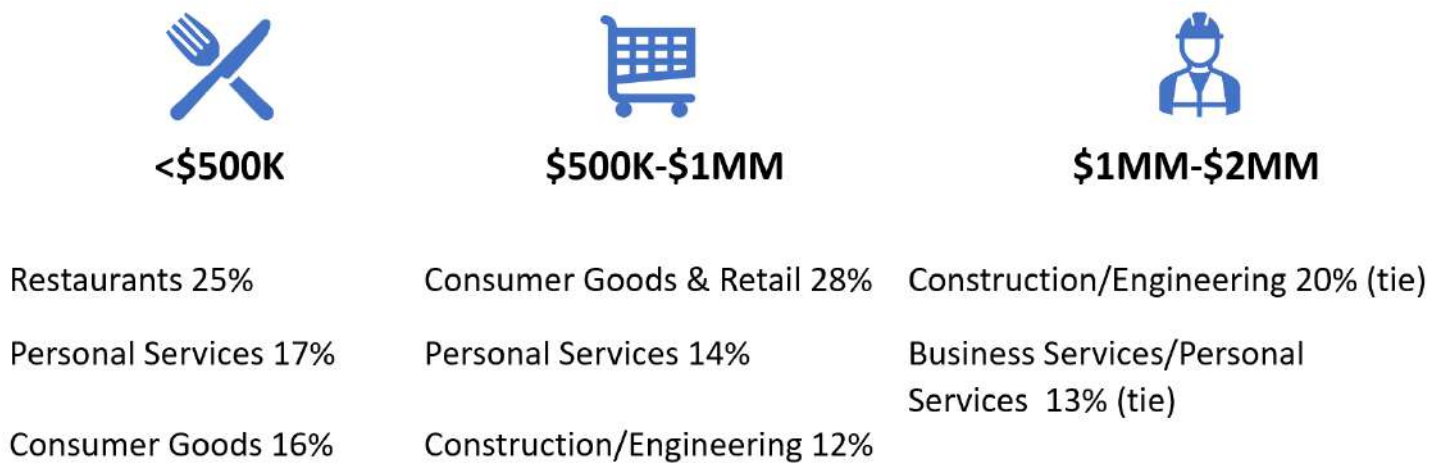
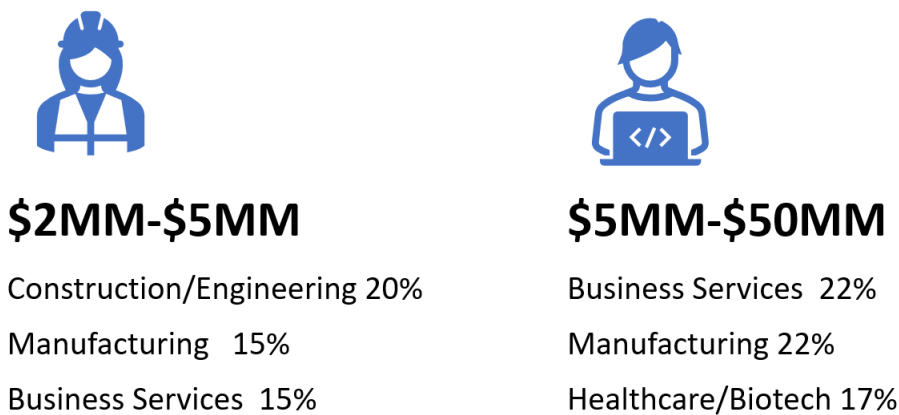


FIGURE 10: TOP 3 INDUSTRIES PURCHASED IN 2023 Q3 LOWER MIDDLE MARKET SECTORS BY PURCHASE PRICE



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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