

Q2 2022

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MARKET PULSE

INTERNATIONAL BUSINESS BROKERS ASSOCIATION | M&A SOURCE | SECOND 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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The IBBA and M&A Source Market Pulse

SURVEY REPORT Q2 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 Q2 2022 survey was conducted July 1-17, 2022 and was completed by 355 business brokers and M&A advisors. Respondents completed 299 transactions this quarter. This is the 41st edition. Select data sets include 10 year comparisons from the Market Pulse Survey.

FIGURE 1: MARKET SEGMENTS STUDIED

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

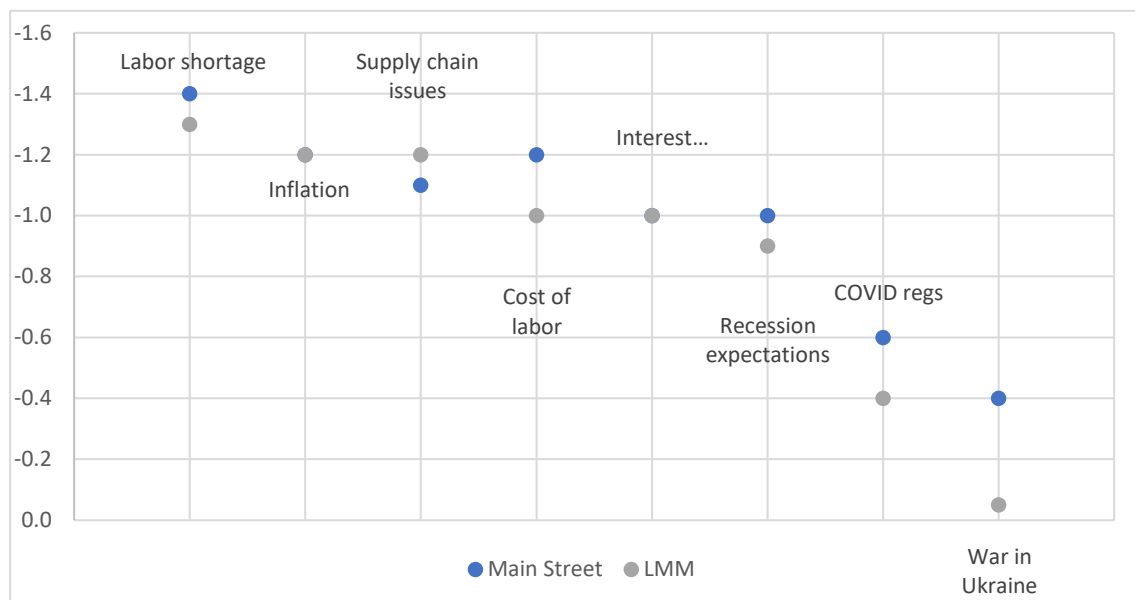
Labor Shortages Impacting M&A

Advisors say that labor shortages have had the biggest impact on deal-making in Q1 2022. In the Main Street market, 92% say its had a negative effect (54% "very negative"). Likewise, 92% say labor shortages are having a negative effect in the lower middle market (47% "very negative").

More than 80% of half of advisors say inflation, interest rate hikes, supply chain issues, and cost of labor are also having a dampening effect.

Meanwhile, advisors say labor costs (44%) and supply chain costs (30%) are having the biggest net impact on sellers' net income, followed by gas costs (8%).

FIGURE 2: SOCIO-ECONOMIC FACTORS AFFECTING MARKET CONDITIONS



Reflects factors having a negative impact on the market, according to a 5-point scale: very negative, somewhat negative, no effect, somewhat positive, very positive, per survey respondents.

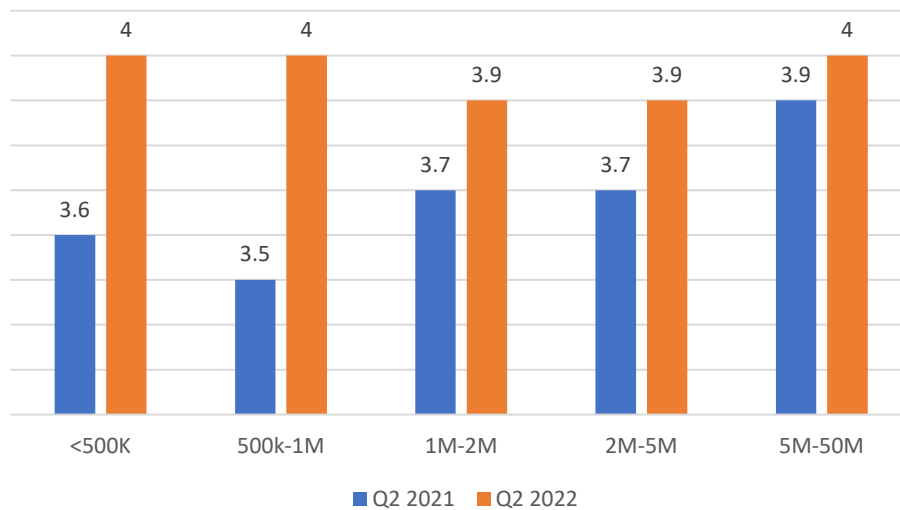
“On the one hand, labor shortages are helping drive acquisitions right now. Companies are looking to buy skills rather than build them,” said Lisa Riley, President of Delta Business Advisors, LLC. “However, sellers know that talent shortages have constrained their growth. They’re paying more to keep their people, they’re having to turn away work, and they can’t expand like they wanted.”

Despite concerns over market headwinds, most advisors are seeing a strong influx of new engagements. Roughly two-thirds (67%) say they’re seeing more Baby Boomer business owners trying to exit before the next downturn or macro event.

Advisors are also reporting a strong uptick in the number of new clients coming to market. More than 54% of said their number of clients “greatly increased” in Q2 2022.

“Buyers are paying attention to people risk right now, and some sellers aren’t holding up well under that scrutiny. Businesses with high turnover, or those with a high percentage of retiring talent, aren’t necessarily reaching their full potential in today’s market,” said John Shamoun, Business Broker of RE/MAX One Commercial.

FIGURE 3: CHANGE IN NEW CLIENT ENGAGEMENTS LAST QUARTER, 5-POINT SCALE



“It’s not entirely a surprise that we’re seeing more owners come to market right now. The number one reasons owners sell is retirement, followed by burnout. A lot of owners get out when things aren’t fun anymore,” said Lee Sheaffer of BizReady, Inc. “With employee shortages, inflation, and ongoing supply chain issues, it makes sense that people would come to market – especially if they understand that multiples are still strong.”

Slight 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, buyer's compete in order to win deals. This typically translates to increased values and more favorable deal terms for the seller.

Q2 trends shows a slight downtick in confidence year-over-year. However, seller sentiment is currently higher or equal to the market dip in 2017 and higher than recession-era sentiment in 2012 when the survey began. Confidence is also significantly higher than it was two years ago, with the dip in 2020.

Given the market headwinds, advisors are anticipating a slight decrease in business valuations ahead (see figure 7).



FIGURE 4:SELLER MARKET SENTIMENT Q2 2012-2022

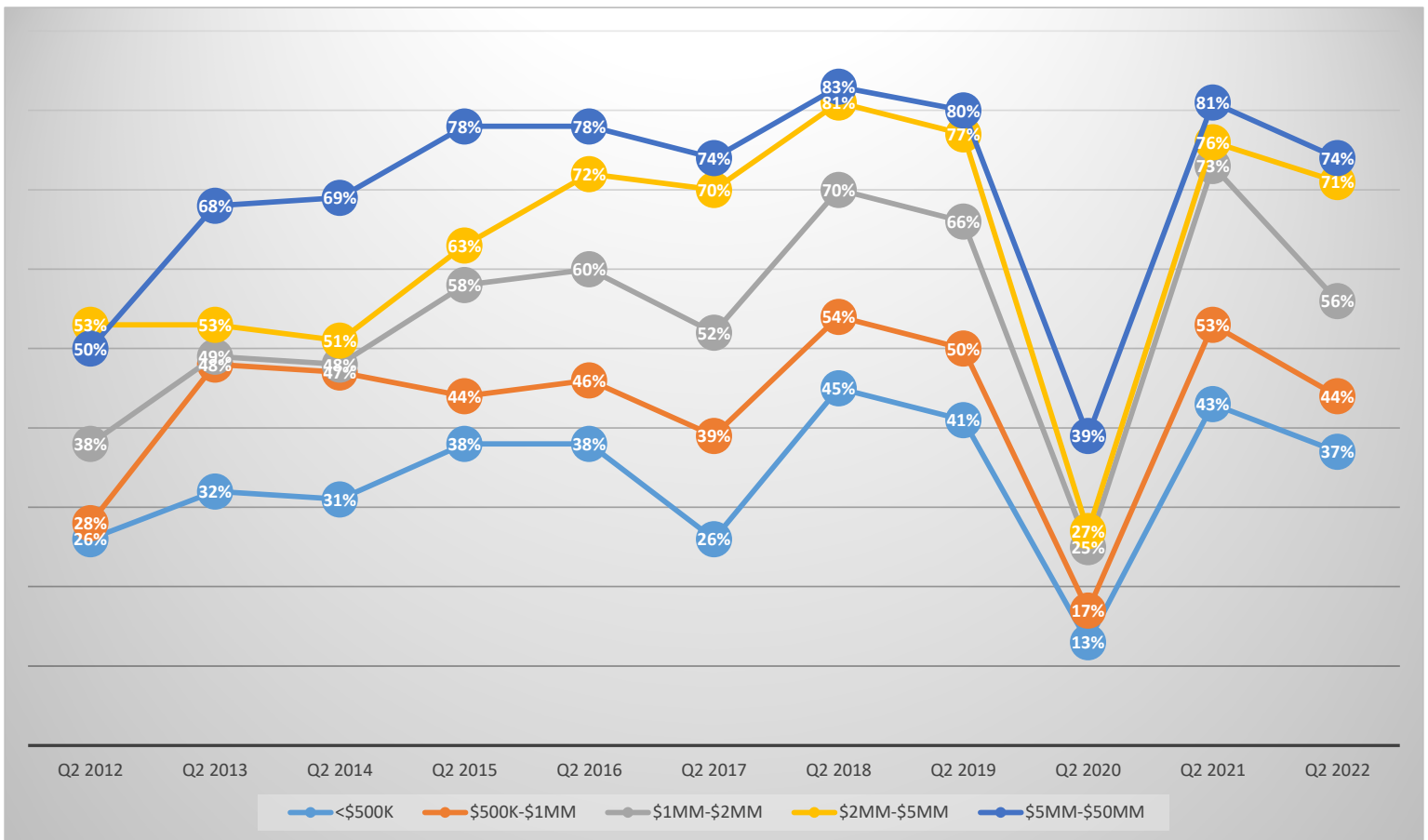
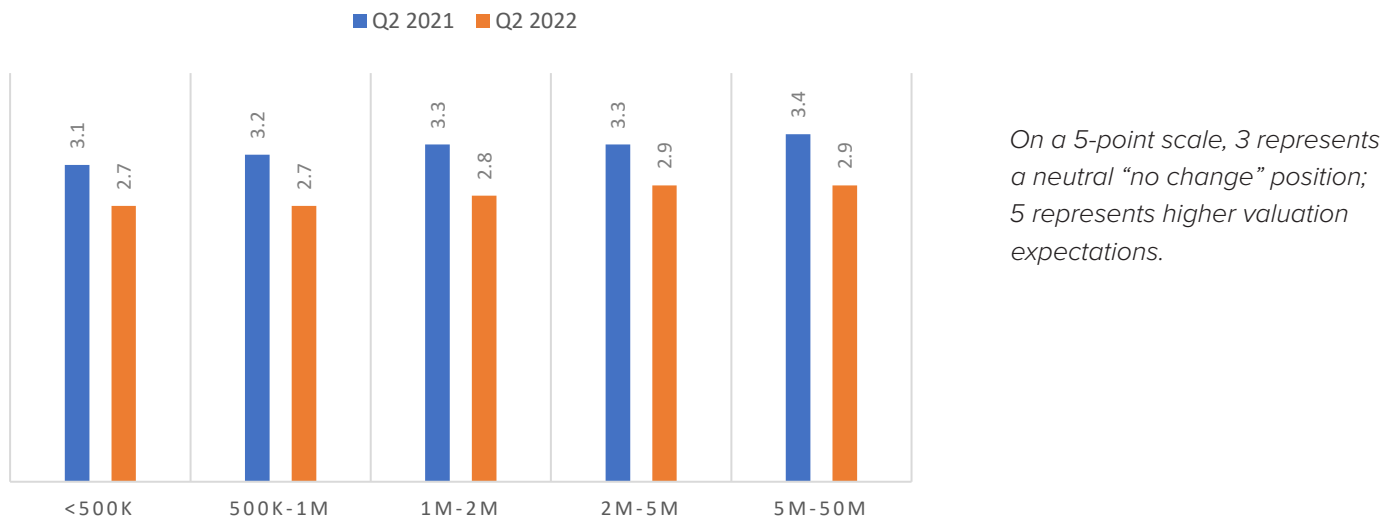


FIGURE 5: SELLER'S MARKET SENTIMENT, Q2 2021 VS Q2 2022



“Seller sentiment is still strong in the lower middle market. However inflation, employee shortages, a volatile stock market, and worries over a looming recession means confidence has cooled off over the last year,” said Kyle Griffith, Managing Partner of The NYBB Group. “As always, shifts in pricing and valuations will affect certain industries more than others.”

FIGURE 6: EXPECTATIONS FOR BUSINESS VALUATIONS, 5-POINT SCALE

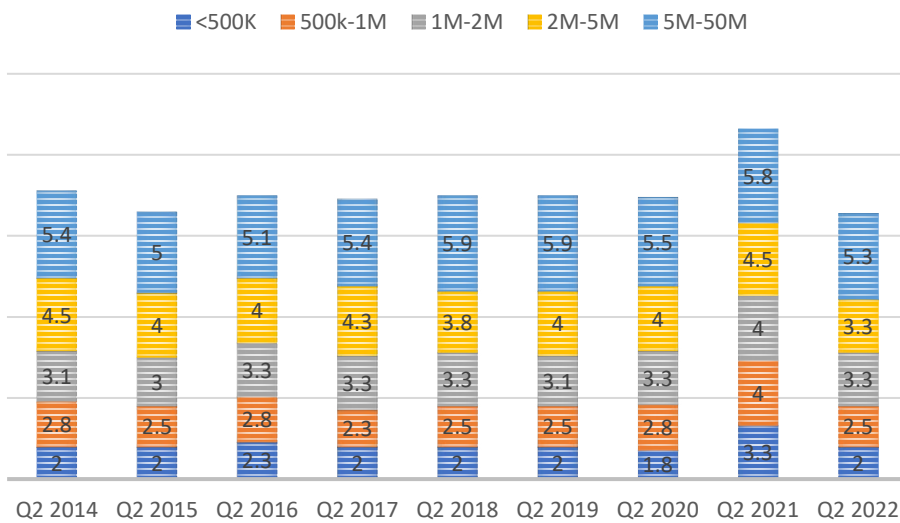


Business Value

On average, business valuations held steady in the Main Street market. Last year, Q2 2021, appears as something of an outlier in multiple trends. Responses in Q2 2022 suggest Main Street multiples have returned to normal.

Shifts are more likely in the lower middle market, as businesses become more attractive targets to financial and strategic buyers alike. Q2 results in the LMM are off-trend, suggesting a weakening in seller performance and/or buyer confidence. Nevertheless, valuations are still strong as lower middle market sellers are receiving 100-106% of benchmark price.

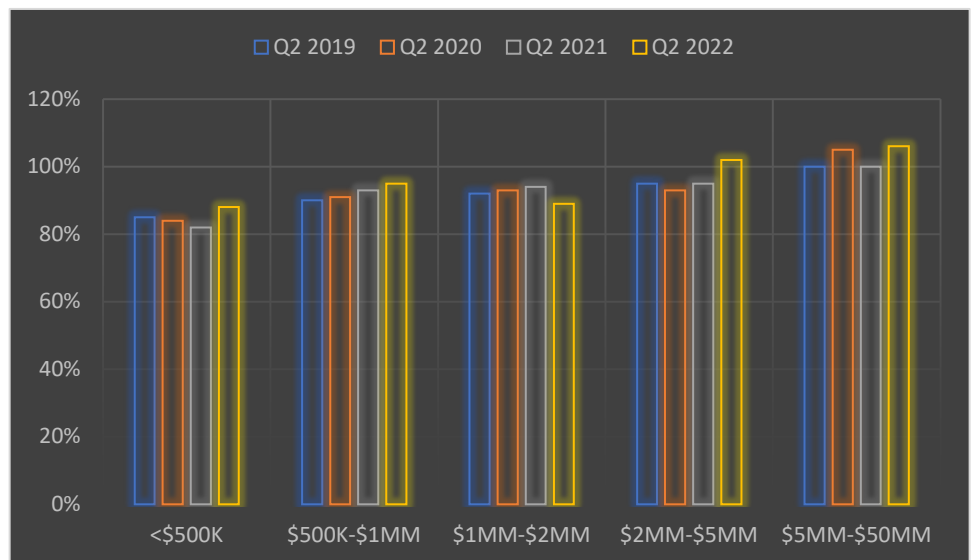
FIGURE 7: MEDIAN MULTIPLES OF SOLD COMPANIES Q2 2014-2022



<\$500K - \$2M in Purchase Price reflected as multiple of SDE (Seller's Discretionary Earnings); \$2M-\$50M as multiple of EBITDA (Earnings Before Interest, Taxes, Depreciation & Amortization).

FIGURE 8: AVERAGE (MEAN) FINAL PRICE VS. ASKING/BENCHMARK PRICE, Q2 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.



Time to Close

The average time to sell a small business shrunk, varying from 6.5 to 8. Of that time, roughly 60 to 120 days are spent in due diligence and execution, after a signed letter of intent or offer.

FIGURE 9: AVERAGE# MONTHS TO CLOSE FROM ENGAGING BROKER/ADVISOR

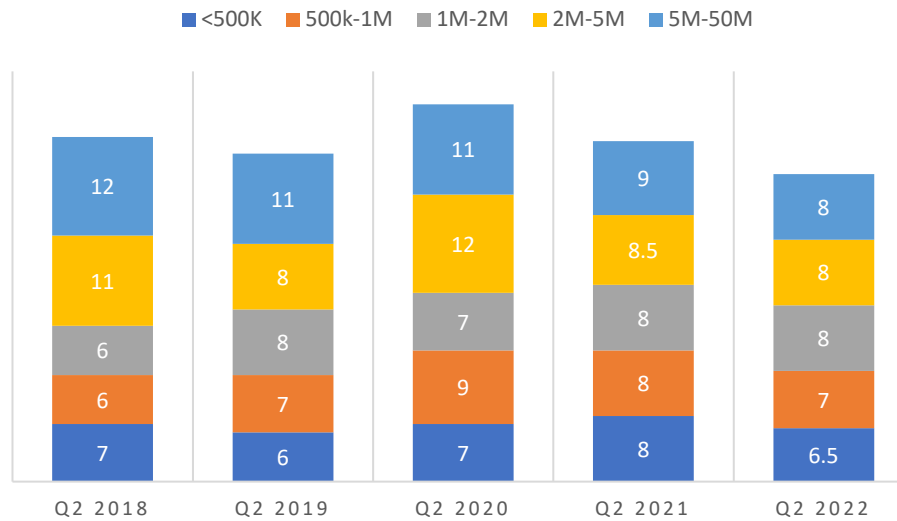
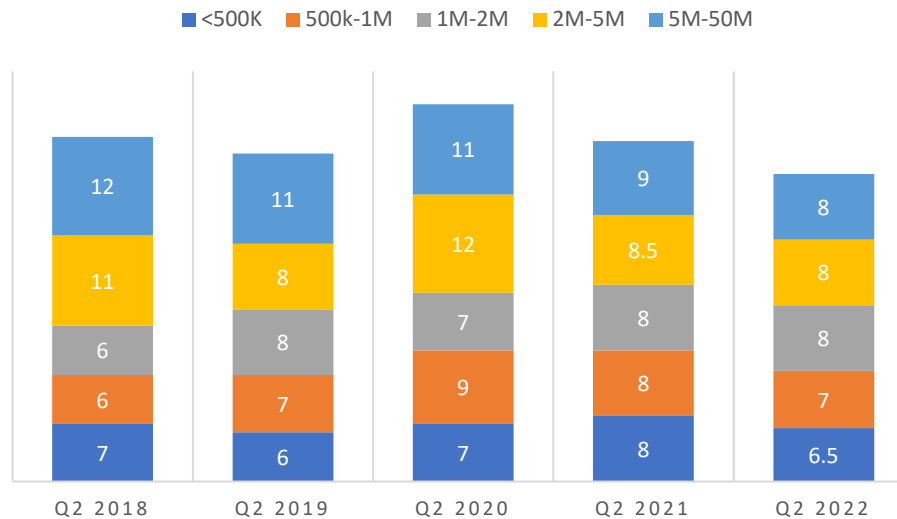


FIGURE 10: AVERAGE# MONTHS TO CLOSE FROM OFFER (LOI/PURCHASE AGREEMENT)



“Due diligence periods aren’t shifting, and yet businesses are selling faster. That’s a sign that market competition,” said Randy Bring, Senior Associate/Partner of Transworld Business Advisors. “Seller teams can set out tighter timeline expectations and buyers respond. They know what it takes to win in today’s marketplace. If you’re looking to buy, have your deal team ready and your plans in place.”

Financing Deals in 2022

Year-over-year trends show an increase in seller financing across most market sectors.

FIGURE 11: SELLER FINANCING TICKING UP

	Q2 2012		Q2 2021		Q2 2022	
	Cash at Close*	Seller Financing	Cash at Close*	Seller Financing	Cash at Close*	Seller Financing
<\$500K	78%	16%	85%	11%	83%	12%
\$500K-\$1MM	53%	19%	92%	6%	83%	14%
\$1MM-\$2MM	54%	22%	91%	7%	87%	10%
\$2MM-\$5MM	54%	13%	86%	10%	87%	6%
\$5MM-\$50MM	61%	12%	81%	3%	84%	12%

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

“Whenever we see more than 80% cash at close, that tells us we have a strong market. Buyers have to come to the table with more equity and senior debt, and less alternative financing, in order to win a deal,” said Scott Bushkie, president of Cornerstone Business Services. “It will be interesting to see where cash at close trends in the year ahead. Normally, economic headwinds like these should trigger a decline, but the sheer amount of cash in the market right now could keep those numbers high.”

Know Your Buyer

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

- First time buyer (41%), serial entrepreneurs (38%)
- Motivated to buy a job (41%), gain a horizontal add-on (26%)
- Located within 20 miles (70%) or more than 100 miles (16%) of the seller's location

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

- First time buyers (38%), serial entrepreneurs (30%), or existing companies (25%)
- Motivated to buy a job (41%), gain a horizontal add-on (18%), gain a better ROI than other investment (16%), gain a vertical add-on (16%)
- Located within 20 miles (48%) or within 50 miles (18%) of the seller's location

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

- Strategic buyers (51%), first time buyers (29%)
- Motivated to gain a vertical add-on (31%), horizontal add-on (29%), buy a job (26%)
- Located within 20 miles (40%) or within 50 miles (17%) of the seller's location

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

- Strategic buyers (51%), first time buyers (29%)
- Motivated to gain a vertical add-on (31%), horizontal add-on (29%), buy a job (26%)
- Located within 20 miles (40%) or within 50 miles (17%) of the seller's location

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

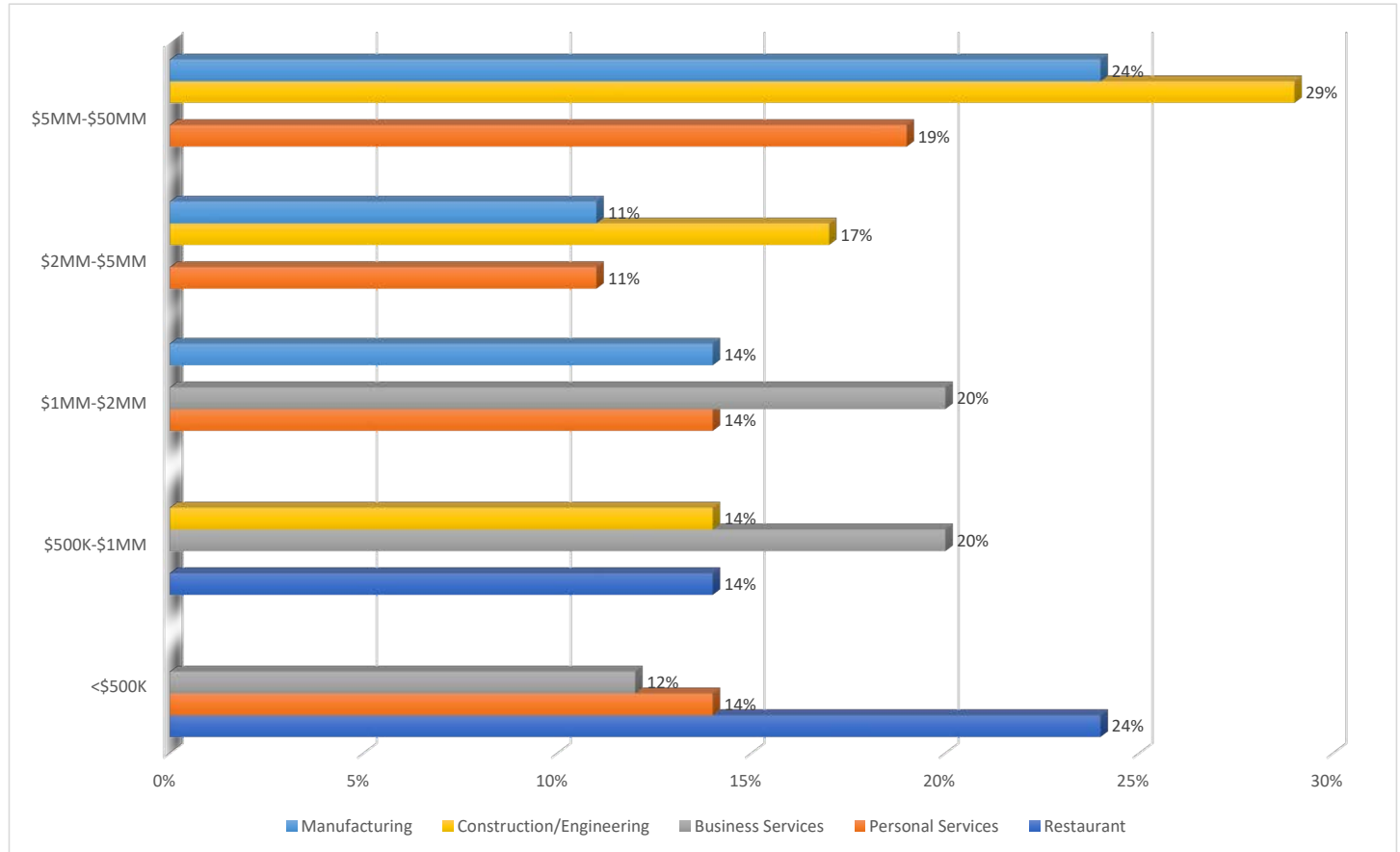
- Strategic buyer (43%), PE firms seeking platform deal (24%), or PE firms seeking add-on (19%)
- Motivated to acquire a horizontal add-on (57%), vertical add-on (19%)
- Located more than 100 miles (52%) or within 20 miles (33%) of seller's location

“Private equity continues to buck tradition by looking at the lower middle market. This shift has opened doors to companies seeking additional exit options,” said Jeff Swiggett, President of VR Business Sales Mergers & Acquisitions. “If you have a business making \$10 million or more in revenue, you may be able to attract this kind of investment. That’s good news for Boomers looking for an alternative succession plan and for next generation leaders ready for an ownership stake – without the pressures of full ownership.”

What Are They Buying?

In the Main Street market, business services appeared in the top three industries across each sector. In the lower middle market, construction/engineering, manufacturing, and personal services dominated industry transitions.

FIGURE 12: TOP INDUSTRIES BY MARKET SECTOR



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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