

Q1 2023

IBBA INTERNATIONAL
BUSINESS BROKERS
ASSOCIATION.®



WITH COMPLIMENTS



MARKET PULSE

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

SURVEY REPORT Q1 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 IBBA and M&A Source present the Market Pulse Survey.

The Q1 2023 survey was conducted April 1-19, 2023 and was completed by 371 business brokers and M&A advisors. Respondents completed 292 transactions this quarter. This is the 44th edition.

FIGURE 1: MARKET SEGMENTS STUDIED

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

SMB Deal-Making Bucks Global Trend

Small and medium businesses continue to sell on-pace in early 2023, despite reports that global M&A had suffered its weakest start in a decade. Respondents to the Market Pulse closed approximately the same deal volume year-over-year, with 292 transactions this quarter.

“We know that global M&A continues to be a challenging environment, and yet we aren’t seeing as big an impact in Main Street and the lower middle market. Small business owners shouldn’t let doom-and-gloom industry reports impact their outlook, as macro trends don’t always trickle down,” said Lee Sheaffer, President of BizReady, Inc.

For example, Market Pulse respondents didn’t see the banking crisis at Silicon Valley Bank or Credit Suisse as a significant factor in M&A activity. Roughly half (53%) said it had no impact on clients. Nearly a quarter (22%) said it made buyers less confident, but only 6% said it lowered business values.

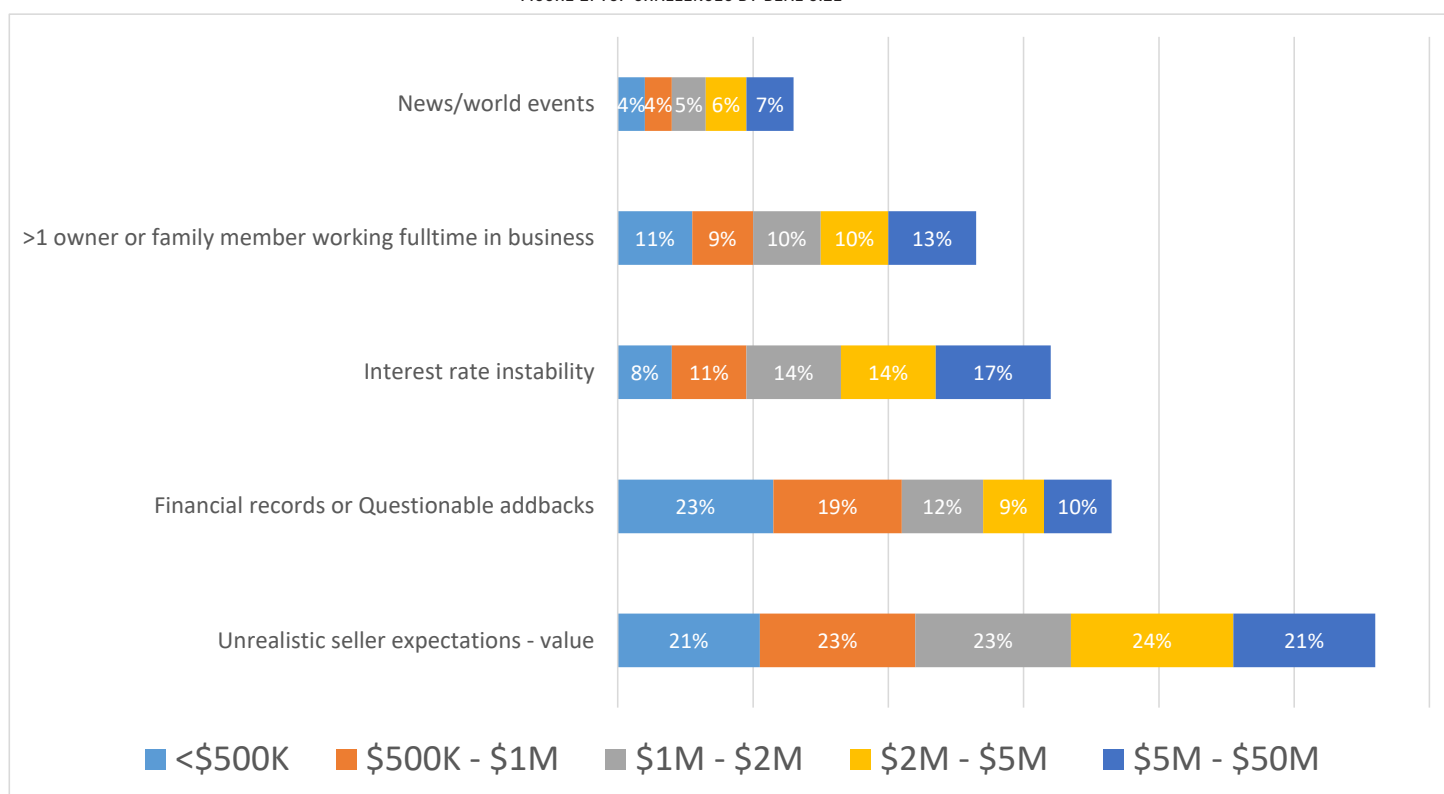
Top Challenges by Deal Size

New this quarter, respondents were asked to rank the top challenges complicating business sales. Unrealistic seller value expectations ranked as the number one challenge across every deal size with almost 1/4 in each deal size!

In the Main Street market, poor financial recordkeeping or questionable addbacks ranked high. In the lower middle market, advisors pointed to current interest rate instability.

Notably, news/world events were of limited concern across the board. Again, this suggests that certain geopolitical issues are less likely to affect this sector, compared to global M&A dealmaking.

FIGURE 2: TOP CHALLENGES BY DEAL SIZE



Not shown: Reasons selected by 10% or less: Unrealistic Expectations – Time to Sell | Unrealistic Expectations – Buyer Type | High Customer Concentration

Seller expectations: *“Too many business owners believe their company is worth more than the market is willing to pay. This is a dangerous disconnect that can put a business owner’s financial future at risk,”* said Ryan Hemmert, Founder of Washington Business Brokers. *“It’s important to get an estimate of value, or some kind of business valuation, on a regular basis. That’s the only way business owners can know if a sale can realistically support their retirement or other future goals.”*

Financial records: *“Poor financial recordkeeping is a bigger issue in the Main Street market where it’s common for businesses to operate under their own bookkeeping standards,”* said Sara Vazari, President of Zoom Business Brokers. *“In the lower middle market, sellers are more likely to have a controller or CFO, or an outside accounting firm that reviews their numbers monthly. We’re even seeing some sellers get audited financials or a quality of earnings report before going to market, and that gives buyers a boost of confidence in their numbers.”*

Interest rates: *“It’s not surprising that interest rate instability became a bigger issue in the lower middle market. That’s where private equity tends to play, and those financial buyers have been hit hardest by the recent shakeup in debt financing,”* said Carrie Duval, CEO of 1st & Main Partners. *“Buyers can’t get the financing they’re used to, and that’s complicating dealmaking.”*

Owner/family fulltime: *“This isn’t about having family members working in the business; it’s about succession planning,”* said Lisa Riley, President of Delta Business Advisors, LLC. *It’s a plus anytime you have experienced managers who intend to stay and support the owners—whether they’re family or not. “The issue is when you have EXITING owners who are active in day-to-day operations, as that presents continuity issues and risk,” Riley continued. “Start grooming your next generation leaders. Buyers want to know the business can continue to operate successfully, even after the owners are gone.”*

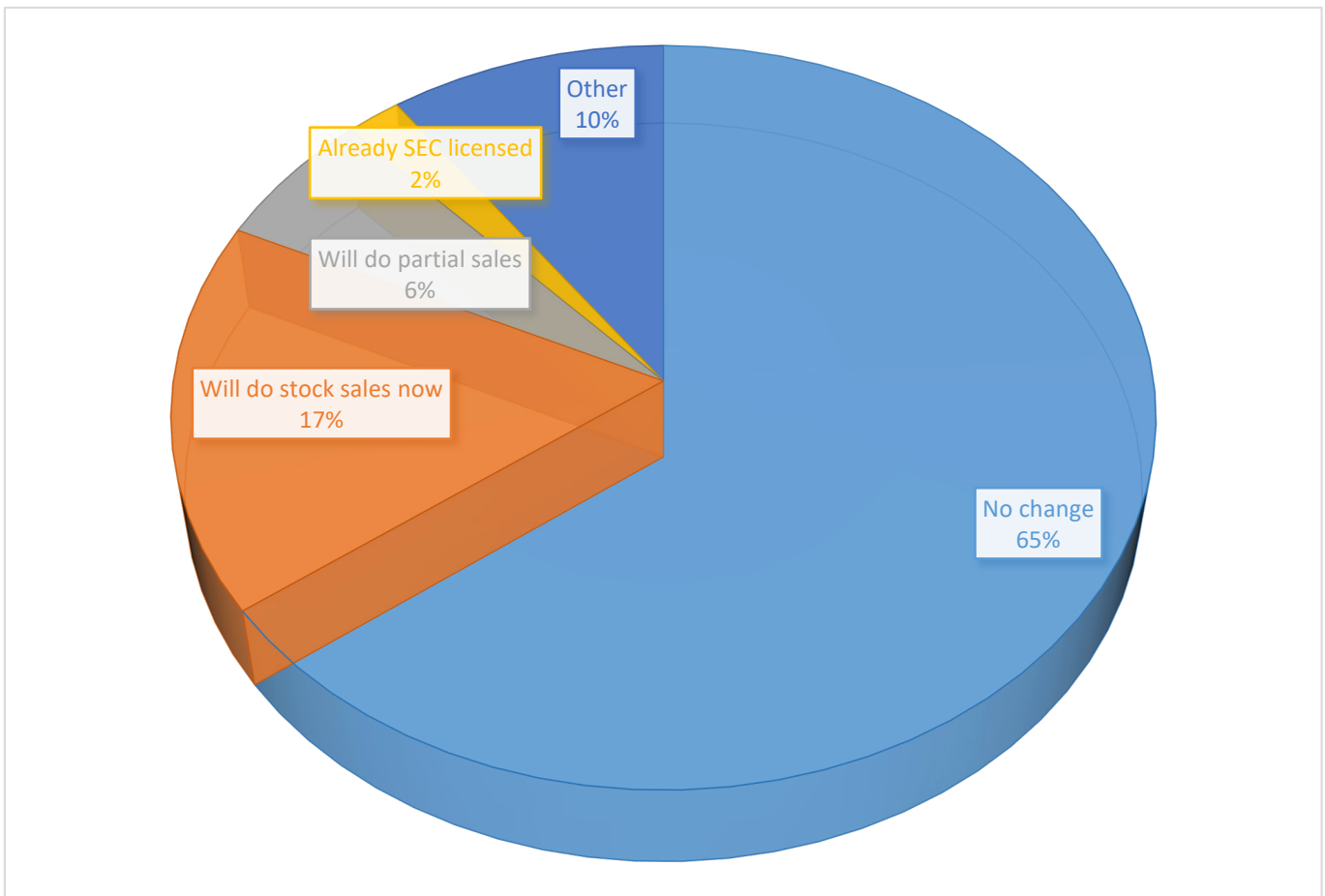
Broker Simplification Act

Effective March 29, 2023, certain M&A brokers are no longer required to register as broker-dealers with the US Securities and Exchange Commission (SEC). The new exception to the Securities Exchange Act will allow an M&A broker to engage in a securities transaction connected to the sale and purchase of an eligible privately held company.

The change removes grey area from the law, reduces costs and paperwork, and provides greater assurances to the seller that their advisors are operating under the letter of the law.

In the Q1 2023 survey, nearly two-thirds of Market Pulse respondents (65%) said the exemption won't change a thing about how they do business. Another 17% said they'll broker business transactions that would qualify as a "stock sale" now. Another 6% said they'll broker partial sales now. Only 2% of respondents indicated they were already SEC licensed.

FIGURE 3: IMPACT OF BROKER SIMPLIFICATION ACT ON BROKERS' BUSINESSES

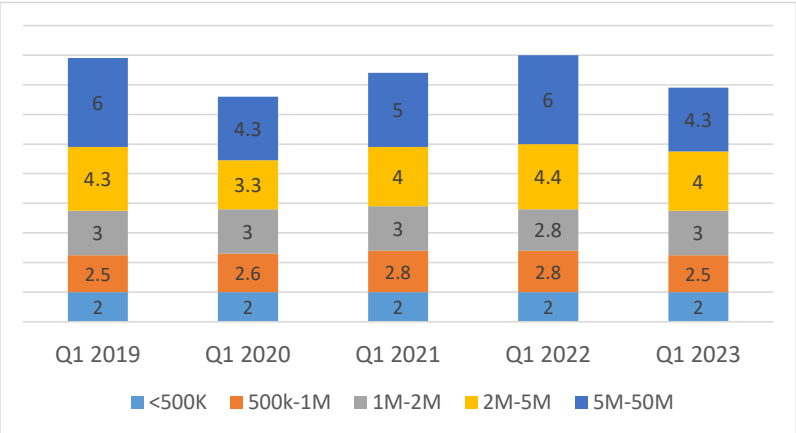


“When it comes to valuations, the Main Street market holds relatively steady, despite macro trends and geopolitics. That’s why small business owners should take global M&A news with a grain of salt. It’s more important to talk to an experienced M&A advisor to find out what the market is doing in your industry, than to try to time the market based on big market trends,” said Tanya Popov, Managing Partner, INIX Consulting & Brokerage.

MARKET CONDITIONS

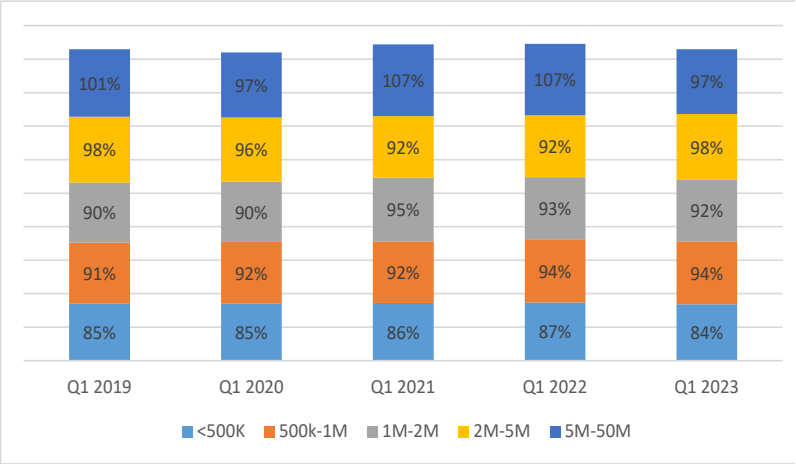
Historically, business valuations hold steady in the Main Street market, with multiples from 2.0-2.8x SDE. Shifts are more likely in the lower middle market as businesses become more attractive targets to financial and strategic buyers alike.

FIGURE 4: MEDIAN MULTIPLES Q1 2010-2023



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

FIGURE 5: AVERAGE SELLING PRICE AS % OF ASKING/BENCHMARK PRICE



“Once deal value exceeds \$5 million, that’s when we start to see macro issues like the financing market have an impact. Banks have raised interest rates, and private equity buyers have been forced to revamp their strategies,” said Kyle Griffith, Managing Partner of The NYBB Group. “Private equity typically puts long-term debt on about 50% of a transaction. With interest rates up, either principle has to come down or they have to adjust their return expectations in order to get a deal done.”

“We saw a slump in private equity activity in this quarter’s results. And yet we’re expecting this to be a temporary blip. Private equity is still sitting on a lot of dry powder, and they still have investor commitments to meet,” continued Griffith. “We expect they’ll kick back into gear quickly.”

Seller's Market

A seller's market occurs when demand exceeds supply. 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.

Q1 2023 shows a significant dip in seller market sentiment. These are the lowest levels seen since the pandemic and are relatively on par with numbers we saw in early 2013 and 2014 as we were recovering from the Great Recession.

FIGURE 6: SELLER MARKET SENTIMENT, Q1 2014-2022

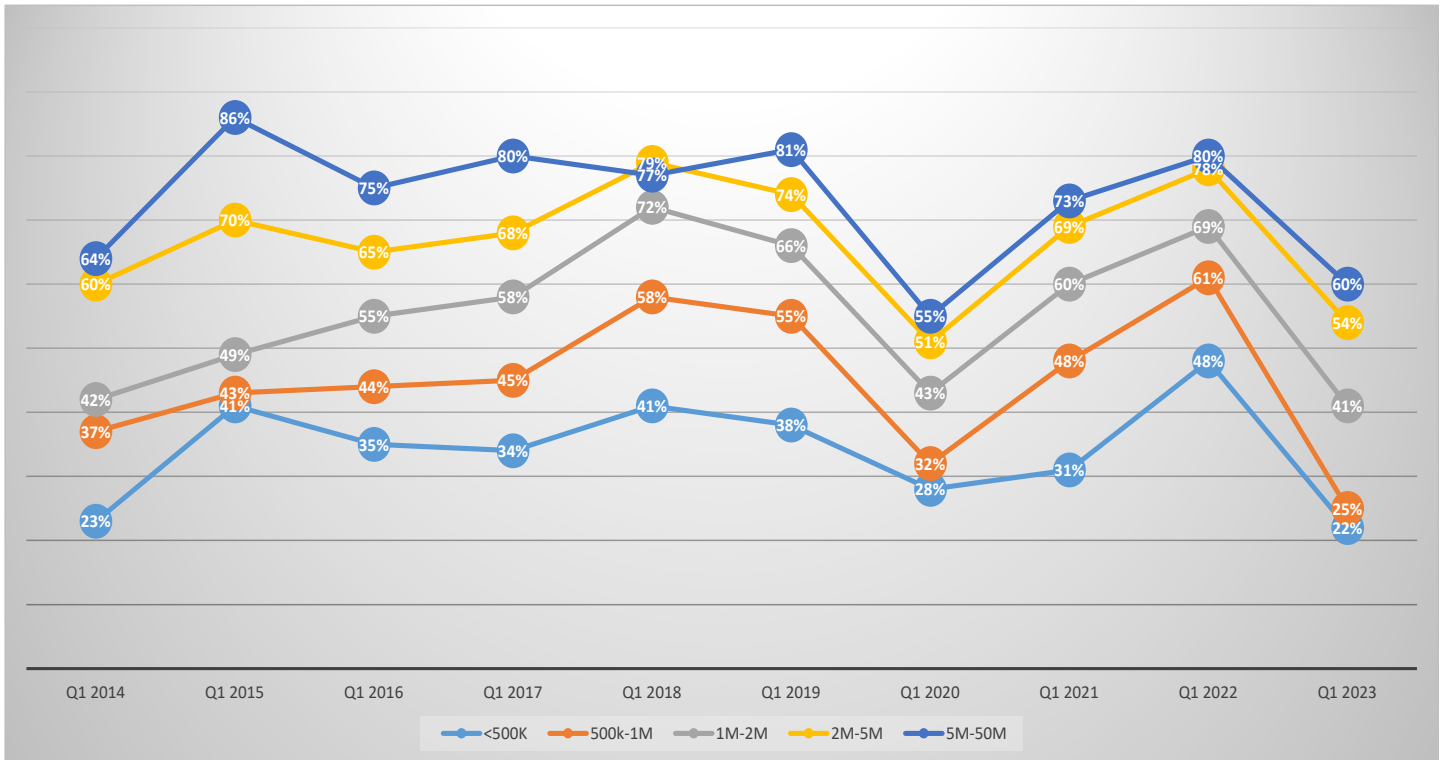
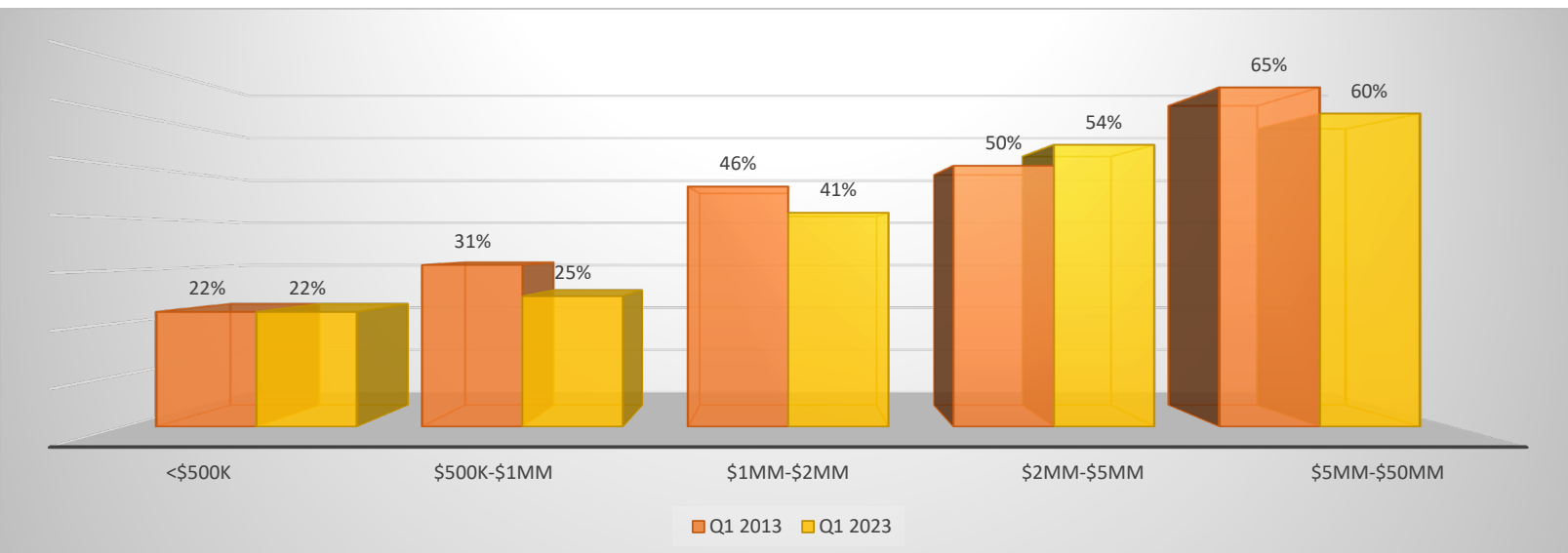


FIGURE 7: SELLER'S MARKET SENTIMENT, 10-YEAR COMPARISON, Q1 2013 TO Q1 2023



Time to Close

Deals took slightly longer to close in the Main Street market, but closed faster in the lower middle market. The shift came entirely in the listing/marketing stage, as time from LOI to close did not change.

This suggests Main Street businesses had a harder time finding a buyer, while lower middle market deals were quicker to catch buyer interest.

FIGURE 8: AVERAGE# MONTHS TO CLOSE FROM ENGAGEMENT

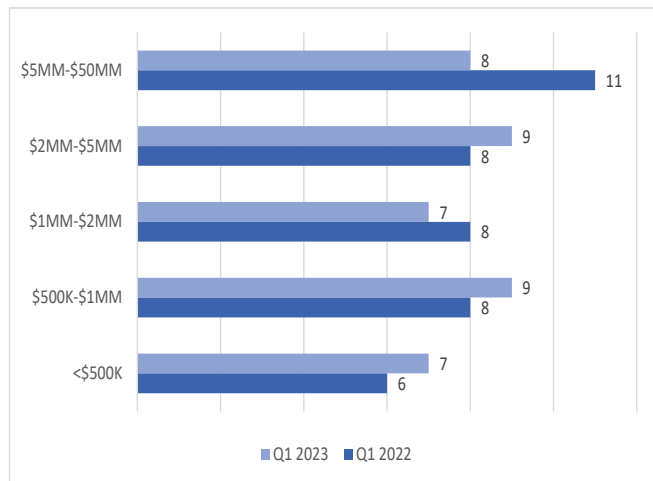
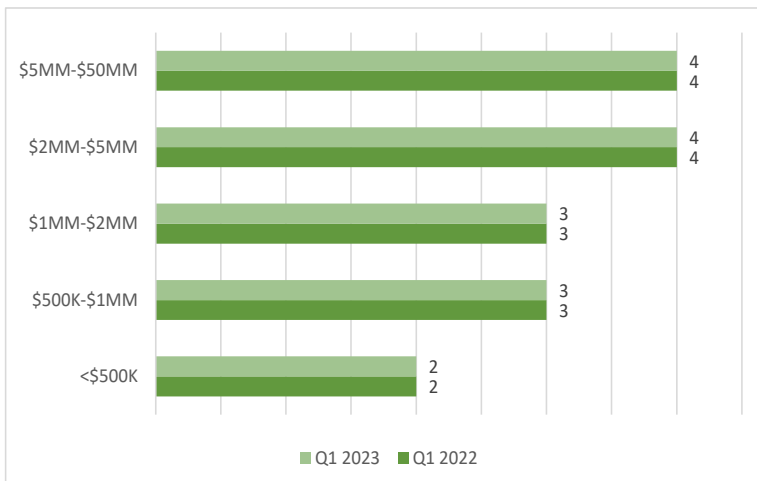


FIGURE 9: AVERAGE# MONTHS TO CLOSE FROM OFFER (LOI/PURCHASE AGREEMENT)



“The market sent some mixed signals for those \$5 to \$50 million deals. Time to close shrank, which is typically a sign that buyer competition is strong. And yet deal multiples decreased. It’s possible we had some buyers working overtime to complete an acquisition before interest rates jumped again—along with responsive sellers who were committed to helping them make that happen,” said Scott Bushkie, President of Cornerstone Business Services. “Ironically, faster time to close could also be a sign of a slowdown in the market. As things cool off, workloads ease up and buyers can be more responsive to quality deals. In fact, everyone involved in the process—lawyers, accountants, environmental engineers, you name it—everyone has a bit more breathing room now, and that can help keep deals moving.”

Financing Deals in 2022

Year-over-year trends show a decrease in seller financing in the Main Street market. Meanwhile, deals in the lower middle market leaned a bit heavier toward seller financing and other alternative financing arrangements.

FIGURE 10: SELLER FINANCING TICKING UP IN LOWER MIDDLE MARKET

	Q1 2022				Retained Equity	Q1 2023			
	Cash at Close*	Seller Financing	Earnout	Retained Equity		Cash at Close*	Seller Financing	Earnout	Retained Equity
<\$500K	80%	17%	-	-		87%	10%	2%	-
\$500K-\$1MM	81%	12%	1%	2%		87%	10%	1%	-
\$1MM-\$2MM	82%	8%	1%	-		82%	13%	2%	-
\$2MM-\$5MM	78%	9%	1%	1%		82%	9%	2%	1%
\$5MM-\$50MM	90%	4%	2%	4%		78%	9%	3%	2%

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

Know Your Buyer

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

- First time buyer (44%), or serial entrepreneurs (38%)
- Motivated to buy a job (41%), gain a horizontal add-on (24%)
- Located within 20 miles (71%) or more than 100 miles (18%) of the seller's location

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

- First time buyers (47%), serial entrepreneurs (24%), or existing companies (22%)
- Motivated to buy a job (35%), gain a horizontal add-on (28%)
- Located within 20 miles (50%) or more than 100 miles (33%) of the seller's location

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

- Strategic buyers (41%), serial entrepreneurs (30%), first time buyers (25%),
- Motivated to gain a horizontal add-on (34%) or buy a job (25%)
- Located within 20 miles (41%) or more than 100 miles (25%) of the seller's location

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

- Strategic buyers (37%), serial entrepreneurs (27%), or first time buyers (18%)
- Motivated to gain a horizontal add-on (43%)
- Located more than 100 miles (49%) or within 20 miles (22%) of the seller's location

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

- Strategic buyer (57%), PE firms seeking an add-on deal (14%),and first time individual (14%)
- Motivated to acquire a vertical add-on (43%), horizontal add-on (29%)
- Located more than 100 miles (43%) or within 20 miles (33%) of the seller's location

"In Q2 2022 private equity accounted for 30% of acquisitions for deals over \$5 million. What we're seeing here is likely a temporary slowdown in activity as they reevaluate their acquisitions and leverage strategies in light of the current financing market," said Scott Mashuda, Founding Partner of REAG.

What Are They Buying?

In the Main Street market, business services and consumer goods trended throughout the sector. In the lower middle market, construction/engineering and manufacturing dominated industry transitions.

FIGURE 11: TOP 3 INDUSTRIES PURCHASED IN 2023 Q1 MAIN STREET MARKET SECTORS BY PURCHASE PRICE



<\$500K

- Restaurants 35%
- Personal Services 22%
- Consumer Goods 12%



\$500K-\$1MM

- Consumer Goods 28%
- Business Services 19%
- Construction/Engineering 17%



\$1MM-\$2MM

- Business Services 27%
- Personal Services 16%
- Construction/Engineering 16%

FIGURE 11: TOP 3 INDUSTRIES PURCHASED IN 2023 Q1 LOWER MIDDLE MARKET SECTORS BY PURCHASE PRICE



\$2MM-\$5MM

- Construction/Engineering 33%
- Business Services 20%
- Manufacturing 14%



\$5MM-\$50MM

- Construction/Engineering 29%
- Manufacturing 14%
- Wholesale/Distribution 10%

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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