Q1 2022

IBBA INTERNATIONAL BUSINESS BROKERS ASSOCIATION.®

M&A Source®

MARKETPULSE

INTERNATIONAL BUSINESS BROKERS ASSOCIATION | M&A SOURCE | FIRST 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 Q1 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 Q1 2022 survey was conducted April 1-15, 2022 and was completed by 360 business brokers and M&A advisors. Respondents completed 317 transactions this quarter. This is the 40th edition – marking 10 years of 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	

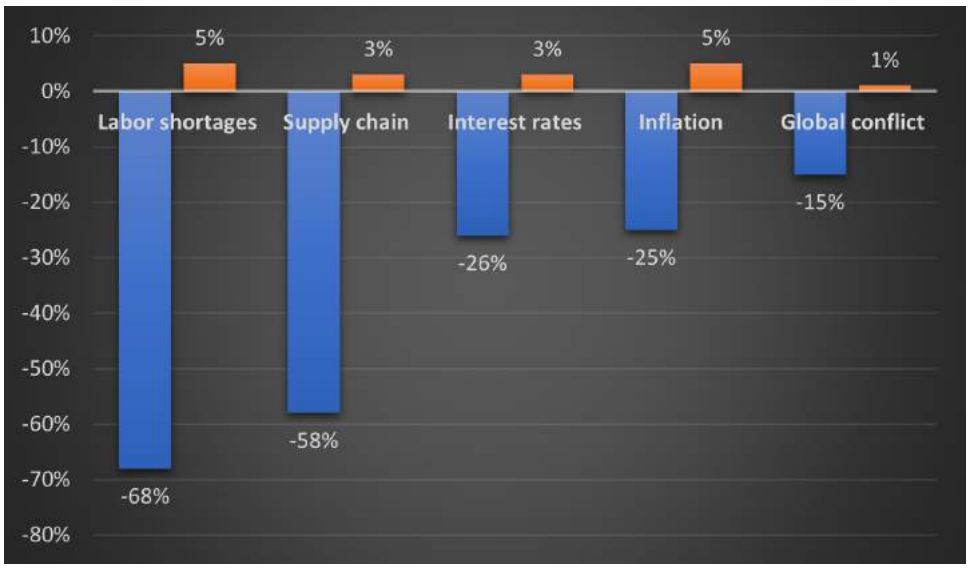
Market Headwinds

The M&A market faced headwinds over the last several months as global conflict and rising inflation may have caused some buyers to reevaluate their deal strategy. Talent and supply chain issues remain persistent concerns.

Advisors say that labor shortages have had the biggest impact on deal-making in Q1 2022. Sixty-eight percent (68%) say it's had a dampening effect on Main Street and lower middle market M&A. And of those, 5% say it's actually caused deal terminations.

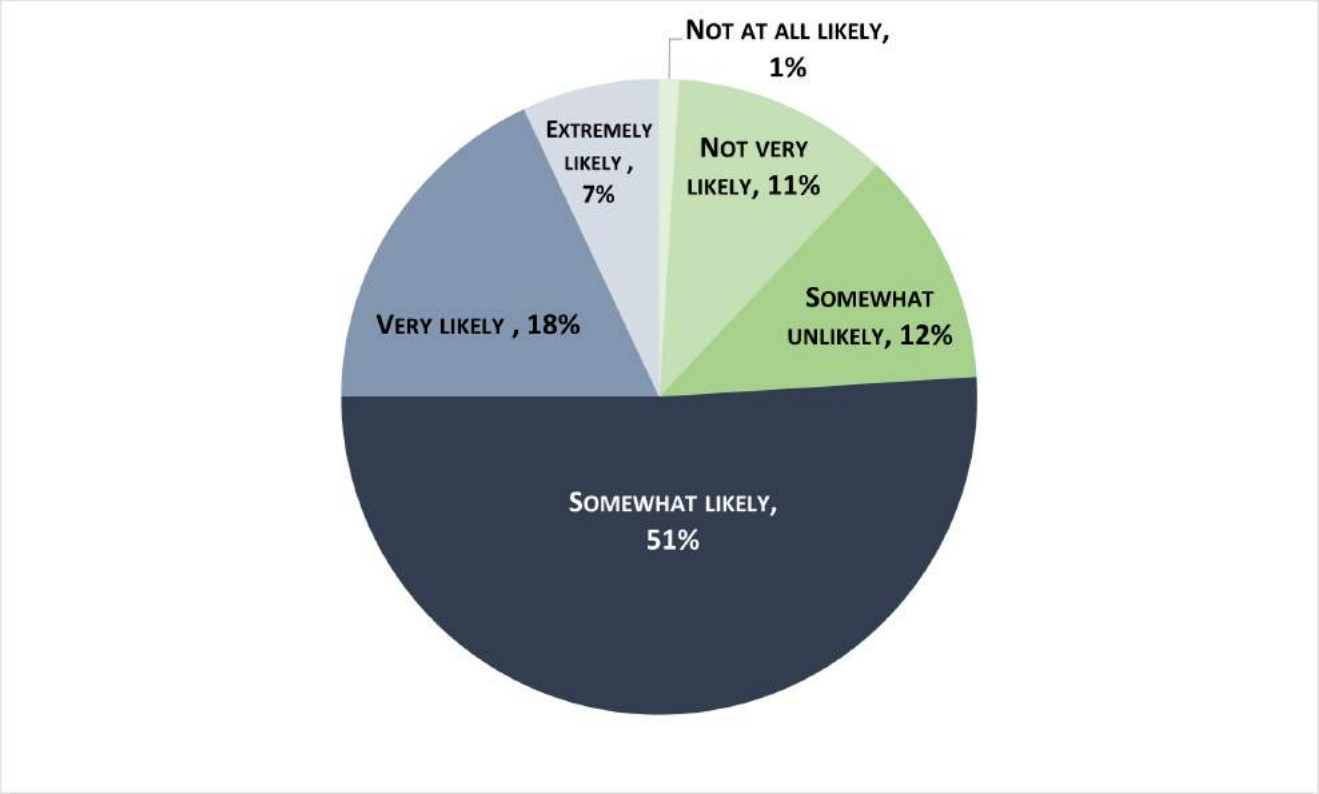
More than half of advisors (58%) say supply chain issues are having a negative impact on the market and 15% say the Russia-Ukraine conflict has hurt deal activity.

FIGURE 2: ADVISORS SAY CURRENT EVENTS HAVING MORE NEGATIVE THAN POSITIVE IMPACT ON DEALMAKING



Meanwhile most advisors (76%) believe a recession is at least somewhat likely in the next 12 months, with 25% predicting it's either "very likely" or "extremely likely."

FIGURE 3: MOST ADVISORS SEE RECESSION AHEAD



"While these continue to be turbulent times, many fundamental drivers of dealmaking activity are still at play," said Scott Bushkie, president of Cornerstone Business Services. "Corporate balance sheets are strong, capital is plentiful, and interest rates are still comparatively low. We continue to have more buyers looking for transformative deals than we have available opportunities on the market."

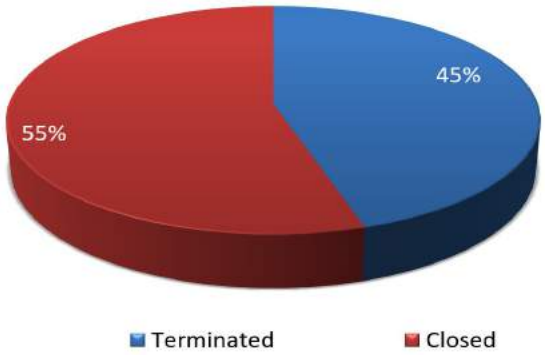
"Global conflict, supply chain, talent issues, and increasing inflation will present challenges for many companies," said Jeff Swiggett, President of VR Business Sales Mergers & Acquisitions. "And yet there are plenty of compelling reasons for sellers to stay positive. Between private equity fundraising and the excess cash on corporate balance sheets, valuations should stay strong for the year ahead."

M&A Activity

Advisors reported that 45% of their engagements terminated without closing in Q1 2022. For the second quarter in a row, this marks one of the lowest termination rates in survey history. Engagements terminate for a variety of reasons, including unrealistic seller expectations, distressed business performance, or other factors that make the business unsalable.

Meanwhile, advisors are also reporting a strong uptick in the number of new clients coming to market in Q1 2022. More than 50% of Main Street advisors said their number of clients "greatly increased" while over 60% of lower middle market advisors said the same.

FIGURE 4: PERCENT OF TRANSACTIONS CLOSING



"Strong closure rates can indicate a highly competitive M&A market. Buyers are looking for deals and may be more willing to invest in non-prime performers right now," said Lisa Riley, President of Delta Business Advisors, LLC.

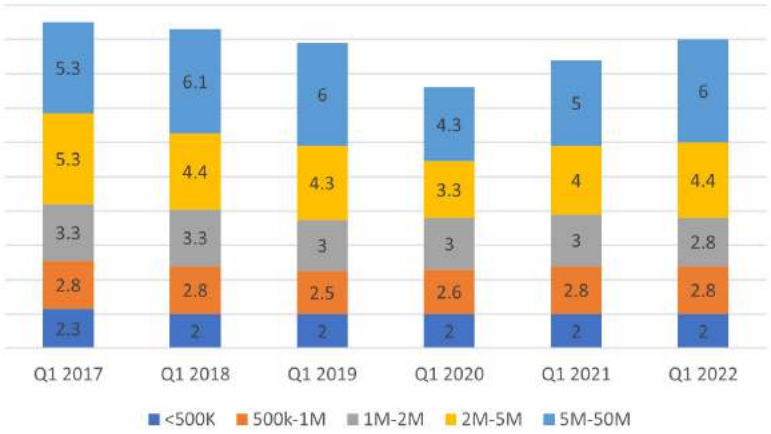
"It's also possible that advisors are being more selective in onboarding new clients," Riley continued. "Due to increasing demand from sellers, advisors may be declining distressed deals or pushing back on unrealistic price expectations."

Business Value

On average, business valuations have held relatively steady in the Main Street market, with multiples from 2.0-2.8x SDE. These multiples have remained fairly consistent over the history of the survey. Shifts are more likely in the lower middle market, however, as businesses become more attractive targets to financial and strategic buyers alike.

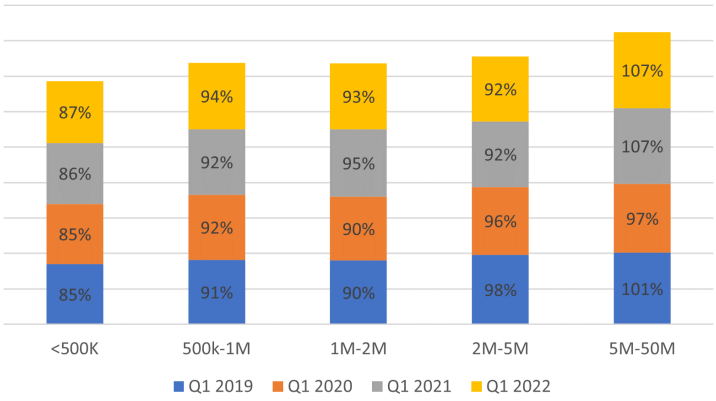
Businesses with enterprise value of $5 million to $50 million earned an average multiple of 6.0x EBITDA and realized an average final sale price at 107% of benchmark.

FIGURE 5: MEDIAN MULTIPLES INCREASE WITH COMPANY SIZE/ENTERPRISE VALUE



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

FIGURE 6: AVERAGE SELLING PRICE AS % OF ASKING/BENCHMARK PRICE

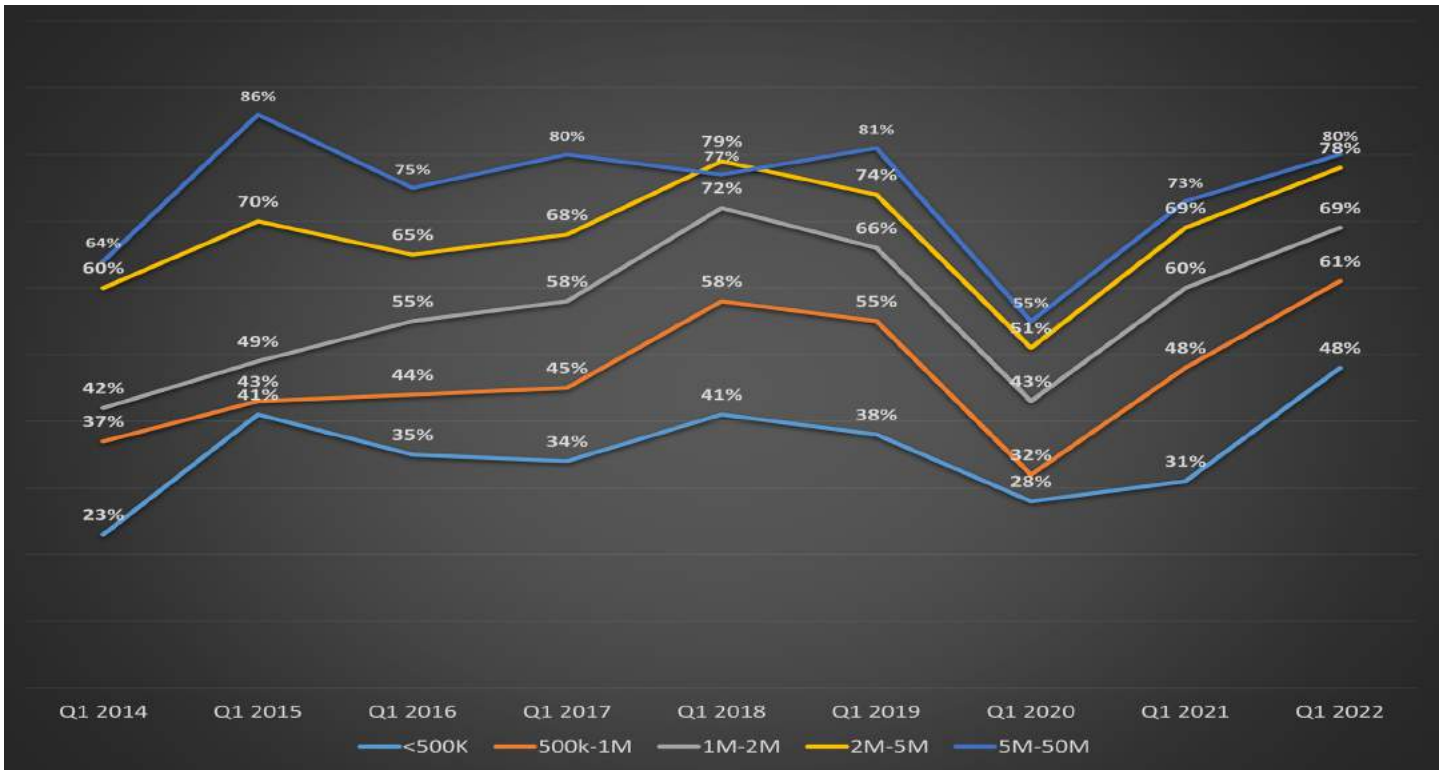


Seller's Market

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 trends shows an ongoing rebound in confidence since the start of the pandemic. In fact, this quarter shows the highest Main Street confidence we've seen since the start of the Market Pulse survey in 2012.

FIGURE 7: SELLER MARKET SENTIMENT, Q1 2014-2022



Time to Close

The average time to sell a small business shrunk slightly, varying from six to 11 months. Of that time roughly 60 to 120 days are spend in due diligence and execution, after a signed letter of intent or offer.

"Due diligence periods remain relatively consistent. That means businesses are spending less time in the marketing and negotiation stage. That's typically a function of a competitive marketplace," said Charles Spickert, President of Touchstone Business Advisors. "Buyers who want to win in this market need to know what they're looking for and be ready to move when the right opportunity presents itself."

FIGURE 8: AVERAGE# MONTHS TO CLOSE FROM ENGAGEMENT

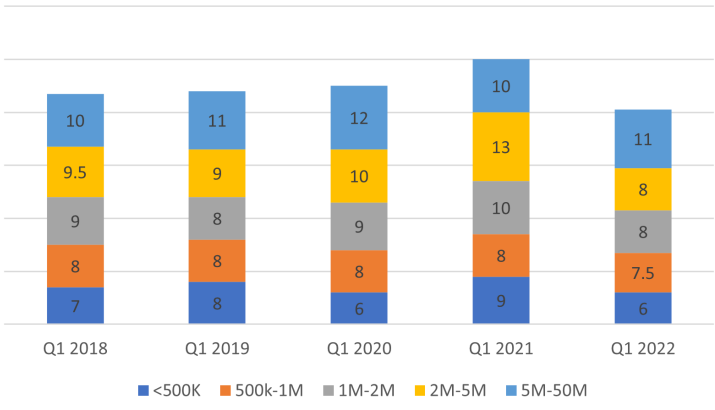
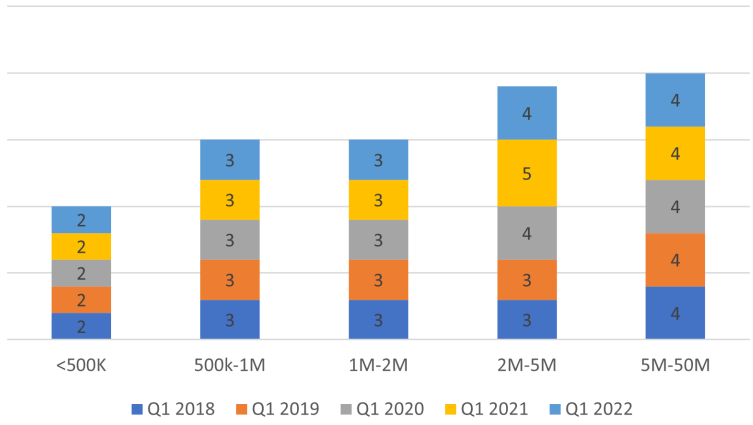


FIGURE 9: AVERAGE# MONTHS TO CLOSE FROM OFFER (LOI/PURCHASE AGREEMENT)



"Get your deal team pulled together and on the same page, so you can move efficiently and effectively," said Kyle Griffith, Managing Partner of The NYBB Group. "You can waste a lot of time and money in a market like this if you're not prepared and working together as a team."

Financing Deals in 2022

Year-over-year trends show an increase in seller financing in the Main Street market. The lower M&A market remains steady, however, there were fewer earnouts.

FIGURE 10: SELLER FINANCING TICKING UP IN MAIN STREET

	Q1 2021			Q1 2022			
	Cash at Close*	Seller Financing	Earnout	Cash at Close*	Seller Financing	Earnout	Retained Equity
<$500K	84%	13%	2%	80%	17%	-	-
$500K-$1MM	83%	10%	2%	81%	12%	1%	2%
$1MM-$2MM	83%	11%	4%	82%	8%	1%	-
$2MM-$5MM	85%	8%	-	78%	9%	1%	1%
$5MM-$50MM	87%	7%	2%	90%	4%	2%	4%

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

Know Your Buyer

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

- Serial entrepreneurs (44%), or first time buyer (40%)
- Motivated to buy a job (35%), gain a horizontal add-on (33%)
- Located within 20 miles (73%) or more than 100 miles (16%) of the seller's location

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

- First time buyers (41%), serial entrepreneurs (32%), or existing companies (24%)
- Motivated to buy a job (35%), gain a horizontal add-on (27%)
- Located within 20 miles (54%) or more than 100 miles (22%) of the seller's location

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

- Strategic buyers (40%), first time buyers (34%), serial entrepreneurs (20%)
- Motivated to gain a horizontal add-on (36%) or buy a job (26%)
- Located within 20 miles (52%) or more than 100 miles (30%) of the seller's location

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

- Strategic buyers (44%), serial entrepreneurs (19%), or first time buyers (19%)
- Motivated to gain a horizontal add-on (53%)
- Located more than 100 miles (47%), or equally within 20 miles (22%) or within 50 miles (22%) of the seller's location

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

- Strategic buyer (45%), PE firms seeking an add-on deal (25%), or first time individual (15%)
- Motivated to acquire a horizontal add-on (40%), vertical add-on (25%)
- Located more than 100 miles (60%) of the seller's location

"Strategic buyers looking for horizontal add-ons led the market in Q1 2022," said Randy Bring, Senior Associate/Partner of Transworld Business Advisors. "Companies will struggle to expand in a tight labor market. That makes acquisition a highly attractive growth strategy for strategic buyers right now."

What Are They Buying?

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

FIGURE 11: TOP INDUSTRIES BY MARKET SECTOR

<$500K	Restaurants 28%	Personal Services 23%	Business Services 13%
$500K-$1MM	Consumer Goods 16%	(tie) Personal Services 14%, Business Services 14%	
$1MM-$2MM	Construction/Engineering 24%	Personal Services 18%	Health 10%
$2MM-$5MM	Construction/Engineering 22%	Consumer Goods 16%	Manufacturing 9%
$5MM-$50MM	Manufacturing 30%	Construction/Engineering 15%	Health 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.

ABOUT THE M&A SOURCE

Founded in 1991, the M&A Source promotes professional development of merger and acquisition professionals so that they may better serve their clients' needs, and maximize public awareness of professional intermediary services available for middle market merger and acquisition transactions. For more information about the M&A Source visit www.masource.org or follow The M&A Source on Facebook, LinkedIn, or Twitter.