IBBA INTERNATIONAL BUSINESS BROKERS ASSOCIATION.®

M&A Source®

Market Pulse

Q4 2024

Executive Summary

INTERNATIONAL BUSINESS BROKERS ASSOCIATION AND M&A SOURCE

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QUARTERLY INSIGHTS

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-$2M) and the Lower Middle Market (values $2M -$50M).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.

MARKET SEGMENTS STUDIED

MAIN STREET	LOWER MIDDLE MARKET
‹$500K	$2M-$5M
$500K-$1M	$5M-$50M
$1M-$2M	

The Q4 2024 survey was conducted January 1-15, 2025 and was completed by 368 business brokers and M&A advisors. Respondents completed 330 transactions this quarter. This is the 51st edition of this report.

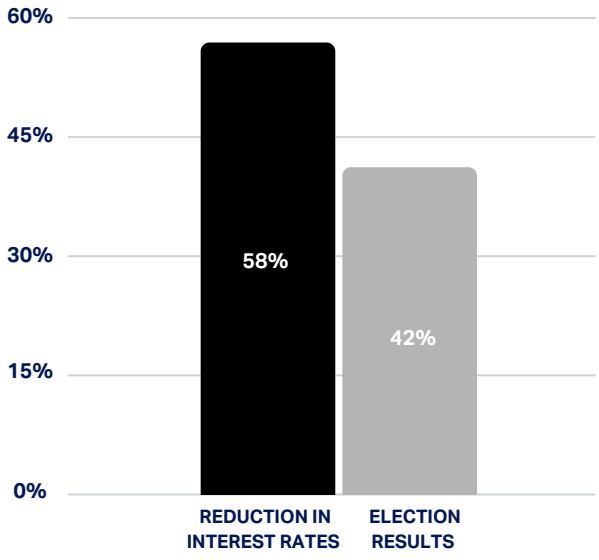
BUSINESS ENVIRONMENT

The Market Pulse survey for Q4 2024 revealed a modest uptick in deal-making. Advisors fielded more offers per deal, sellers got more cash at close, and valuations stayed flat or better.

Cautious optimism exists for 2025, with advisors expecting an increase in M&A activity driven by expected interest rate reductions and a favorable political climate. However, a third of advisors believe potential tariffs will have a negative impact on clients.

After another year of tight lending conditions—which 43% of advisors described as "more restrictive" than 2023's lending slow down—access to capital is still an ongoing concern. The majority of advisors indicate senior debt is hovering between 2.0x to 4.0x EBITDA, indicating a conservative and risk-adverse lending climate.

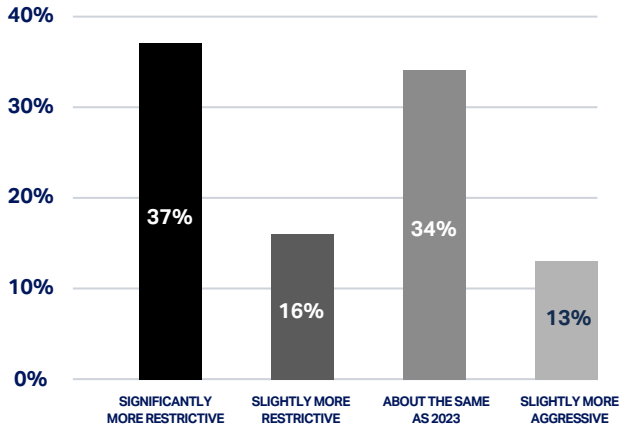
WHAT WILL HAVE THE MOST POSITIVE IMPACT ON THE MARKET?



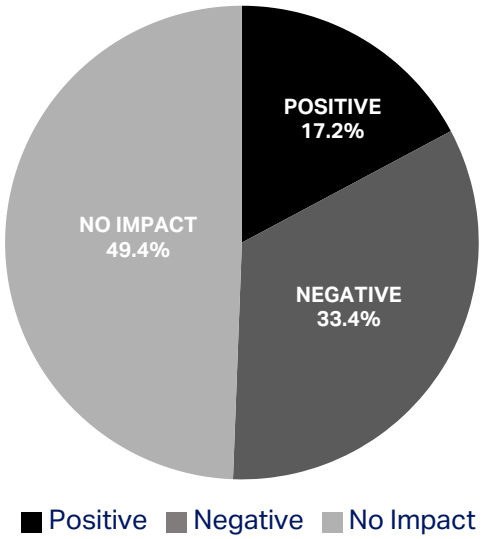
Market confidence remained low in the Main Street market. Nevertheless, these sellers received an average of 2.5 offers per deal and earned an average 94%[1] of their asking price or confidential benchmark.

Meanwhile, confidence is growing in the lower middle market, where sellers averaged 4.5 offers per deal and received 100%+ of their asking price or confidential benchmark. Multiples increased to 6.0x for businesses valued at $5 million or more—only the second time multiples reached 6x or better since Q1 2022.

HOW HAS SENIOR LENDING CHANGED?



EXPECTED TARIFF IMPACT ON CLIENTS



> *"Overall, the 2025 outlook remains promising. With interest rates declining and election uncertainty behind us, we anticipate a shift from 'cautious wait-and-see' to a more active deal-making landscape."*
> *– Scott Bushkie, CEO, Cornerstone Business Services*

> *"The Main Street market continues to struggle with low market confidence. Yet, the data showing sellers earned 94% of their asking price on average is promising and indicates that opportunities do exist for quality businesses willing to transact during uncertain times."*
> *– Brian Stephens, Founder of Legacy Venture Group.*

BUSINESS VALUE

M&A ACTIVITY

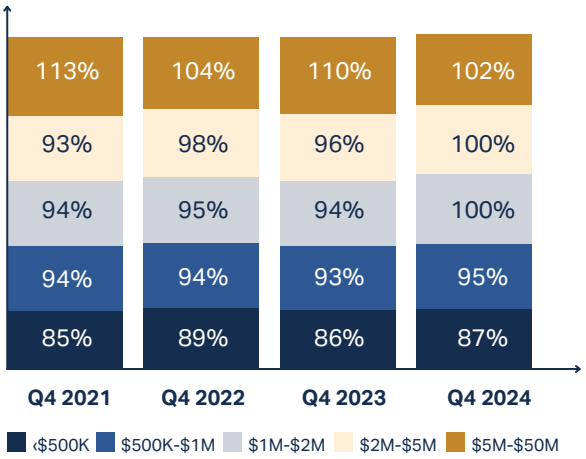
On average, sellers are receiving valuations at 95% of benchmark or better. As is the trend, businesses in the Lower Middle Market performed the best, receiving nearly all or above the private benchmark they set with their advisors before going to market.

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 6.0x EBITDA, on par with the hot market in Q4 2021.

However, averages don't tell the whole story. For example, while deals in the $5-$50M range earned an average multiple of 6.0, some of those deals earned a 4.5 multiple while an equal number earned 8.25. This reflects a wide divergence between valuations for top performers versus (potentially) struggling companies.

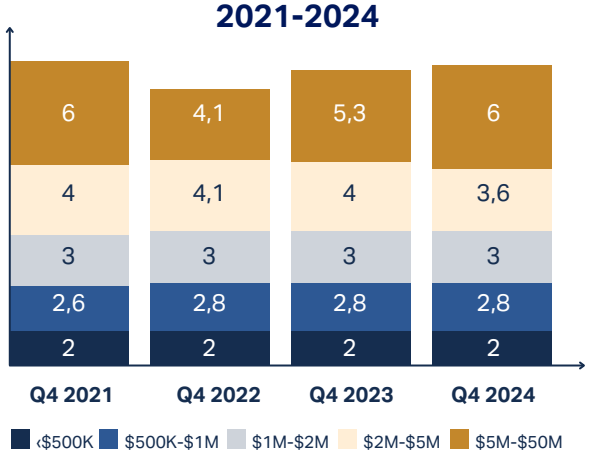
> ***"Sellers are still benefitting from solid valuations in today's M&A market. The lower middle market stands out with businesses with over $5 million in enterprise value exceeding benchmarks. This segment continues to attract keen interest, " stated Lisa Riley, CEO & Founder of Delta Business Advisors. "The focus on quality is increasingly evident. Businesses with solid fundamentals and promising growth trajectories are capturing premium valuations and heightened buyer interest."***

AVERAGE SELLING PRICE AS PERCENT OF ASKING/BENCHMARK 2021-2024



<$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).

AVERAGE MULTIPLES BY DEAL SIZE 2021-2024

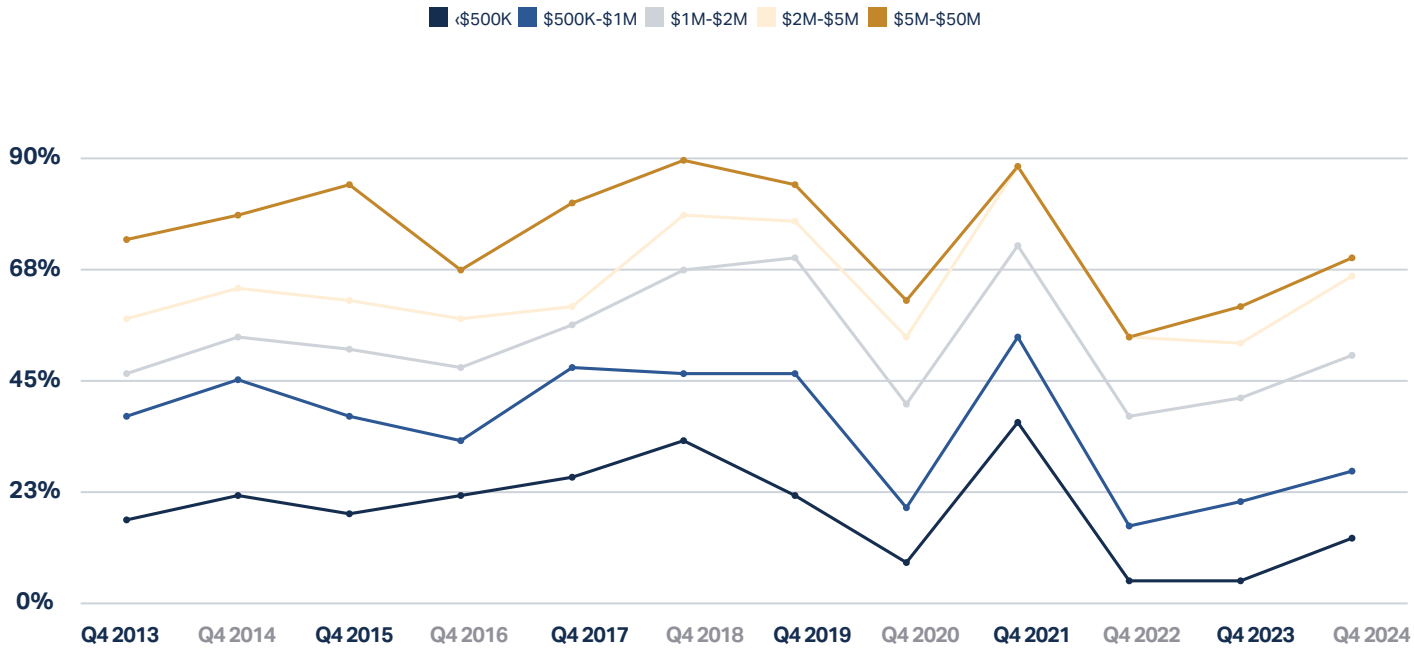


<$1M in Purchase Price typically goes to market with an asking price whereas those in the $5M-$50M typically go to market without an Asking Price, however, with an expectation of what buyers will most likely pay. Those between $1M & $2M may fall in either camp. It greatly depends upon type of Buyer.

MARKET CONFIDENCE

Advisors reported an uptick in seller confidence, although still off previous peaks. (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.)

SELLER'S MARKET SENTIMENT Q4 2013-2024



"Market confidence is on the rise again, and it's a sign of normalization. Buyers remain eager to secure top-performing companies. And now, with the election behind us, we believe sellers will return to the market more decisively, ready to capitalize on renewed interest and favorable conditions."
– Erin Crawford, CII Advisors, Certified Business Intermediary & Chair of the IBBA Board of Governors

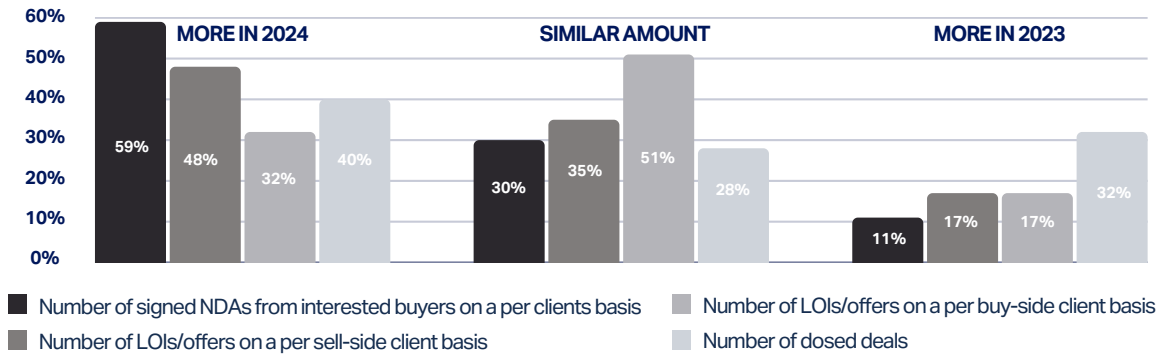
"Trends have been positive since Q4 2022. Things are moving back in the right direction, and we believe market confidence will continue to rise in 2025."
– Joshua Jones, President of Sapphire Mountain Group

BUSINESS VALUE

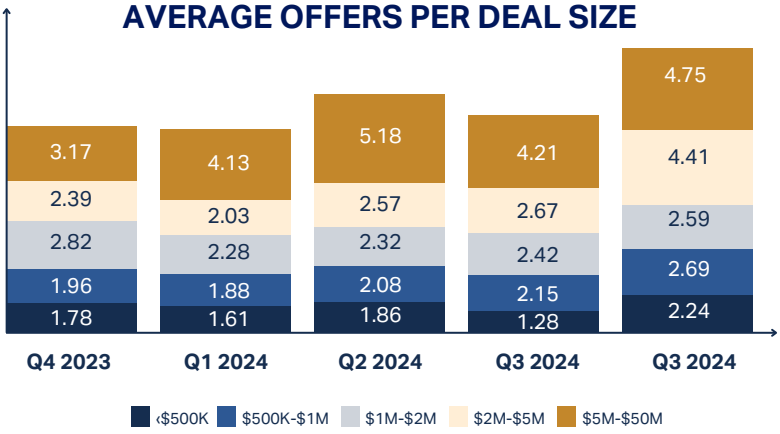
BUYER INTEREST

Overall, most advisors report receiving more NDAs and more LOIs in 2024, along with more successfully closed deals.

OFFER TO CLOSURE COMPARISON



AVERAGE OFFERS PER DEAL SIZE



It's a fairly linear increase. The higher the valuation, the more buyers are competing for the deal. While smaller deals under $500k frequently receive just one or two bids, the bidding war heats up for larger assets. More than 40% of deals over $5 million attract at least 3 offers, and this quarter advisors reported 21% received considerable competition with 10 offers or more.

> *"Buyers remained motivated and keen on acquisitions throughout 2024, but the tight financing environment continued to pose challenges. That, plus political uncertainty, kept many sellers holding back. Encouragingly, we've seen a significant uptick in interest. We received more seller inquiries post-election to year-end than we did the entire six months prior."*
> *– Scott Bushkie, CEO, Cornerstone Business Services*

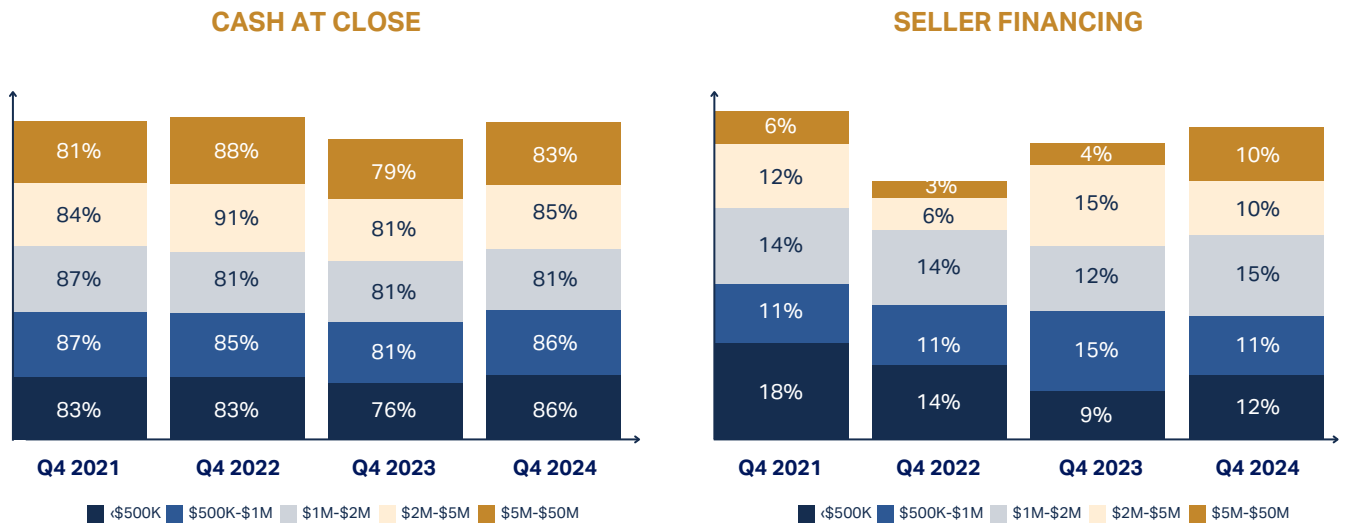
> *"Transaction volume was down in 2024, but the data shows there are still many more buyers than sellers. Even with all the headwinds, more buyers fought over fewer deals. Going into 2025, interest rate cuts, a better lending climate, and more political confidence should all create more activity. Because there's still such an imbalance between buyers and sellers, valuations could increase—even with more sellers coming to market." – Jeff Snell, LMCBI, M&AMI, CM&AP, ENLIGN Advisors, Principal Broker*

FINANCING TRENDS

FINANCING DEALS IN 2024

Sellers received more cash at close in Q4 2024. On average, sellers can expect to receive about 84% of total consideration as cash at close. (Cash at close includes senior debt and buyer equity.) Seller financing accounts for 15% or less of most deals.

CASH AT CLOSE VS. SELLER FINANCING 2021-2024



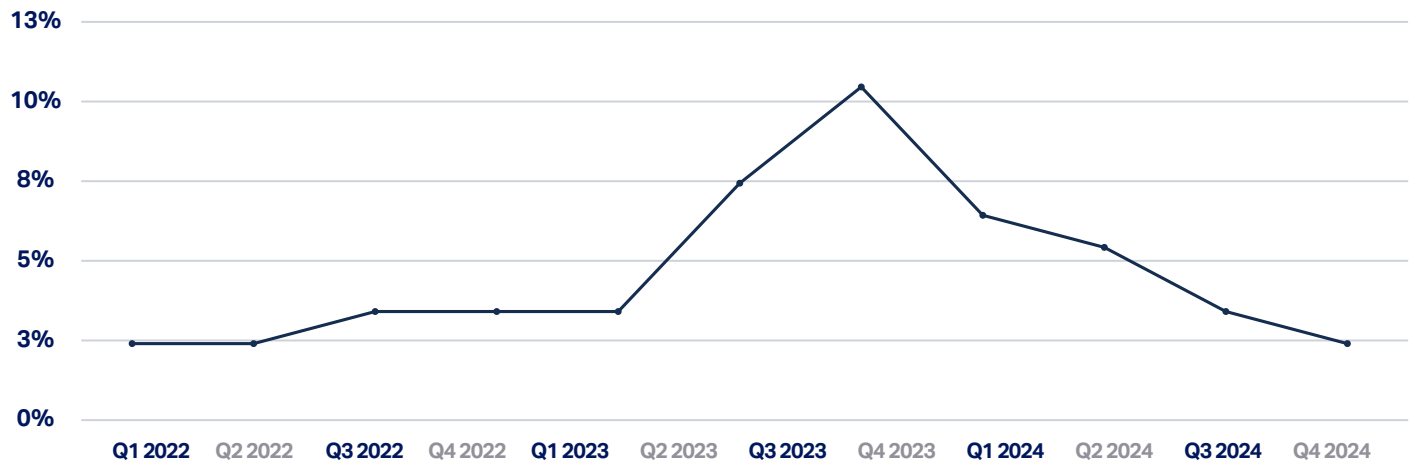
> *"We observed an intriguing trend starting in 2023 and continuing through 2024 concerning interest rates and seller financing. Typically, seller financing interest rates are a point or two higher than senior debt, encouraging buyers to repay that debt quickly. However, with financing costs soaring, the dynamics shifted. We saw some sellers offering lower interest rates to facilitate deal closings. Now, if general interest rates decline and market activity picks up, we may see a traditional approach to seller financing return, where interest rates on seller financing are again set higher to incentivize quicker payoffs. This shift will likely encourage more sellers to enter the market."*
> *– Michael D. Pfeffer, MBA, CBA, CM&AP, Senior Intermediary*

FINANCING TRENDS

On another positive note for sellers, the survey showed a return to normalcy for earnouts. Earnouts had become more prevalent in the Lower Middle Market, jumping to 10% of $5-50 million deals in 10% in Q4 2023. In Q4 2024, however, earnouts dropped back to an average of 2% of deal financing.

Earnouts can help bridge widening valuation discrepancies between buyers and sellers. Buyers might offer a lower upfront price but include an earnout to increase the potential total payout if the company performs well.

EARNOUTS: DEALS $5-50M



> *"The decline in earnouts indicates a more balanced negotiation environment. It suggests that sellers are receiving more favorable upfront offers, reflecting healthier market conditions and aligning closer with seller expectations." – Joe Shemansky, Principal, Broker and Founder of We Sell Construction Businesses*

> *"With all the headwinds in 2024 and sellers wanting strong values, earnouts were used to bridge the gap—putting more risk on the seller. That risk has now been shifted back to the buyer in a more traditional format." – Valerie Vaughn, Senior Advisor, Apex Business Advisors*

TIME TO CLOSE

The average time to sell a small business stayed relatively consistent in Q4 2024, varying from six to 10 months. Of that time roughly three to four months are spent in due diligence, after a signed letter of intent or offer.

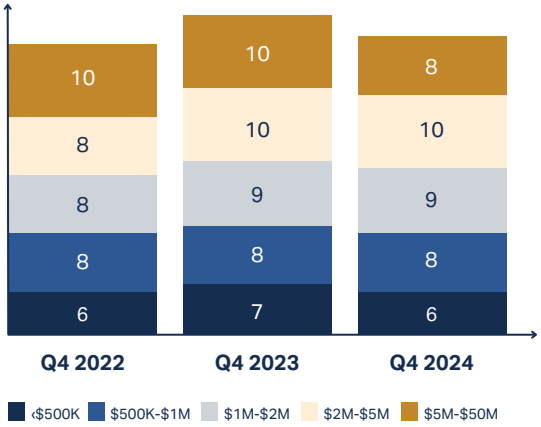
> *"With reduced deal volume in 2024, deal teams had more capacity and could get through diligence quicker. That, and with buyers looking at fewer deals, they knew they had to be more responsive to the opportunities they were truly interested in. Overall, M&A advisors were able to generate auction environments in a shorter period of time."*
> *– Kathlene Thiel, President, Thiel Group, LLC.*

EXIT PLANNING

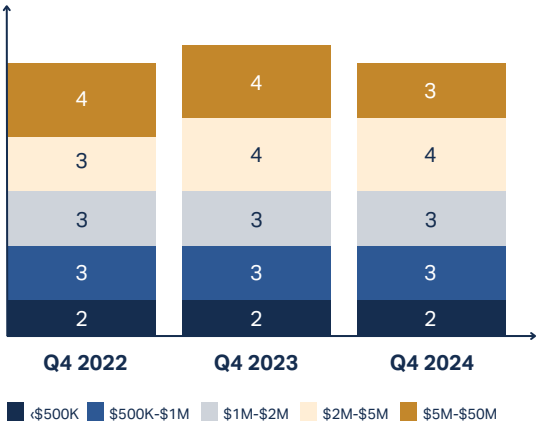
In 2024, retirement led as the number one reason sellers put their company on the market. Yet even though retirement is a foreseeable milestone, most buyers do not engage in proactive planning to sell their business, particularly in the Main Street market. Generally, the smaller the business, the less 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 going to market.

MONTHS TO CLOSE

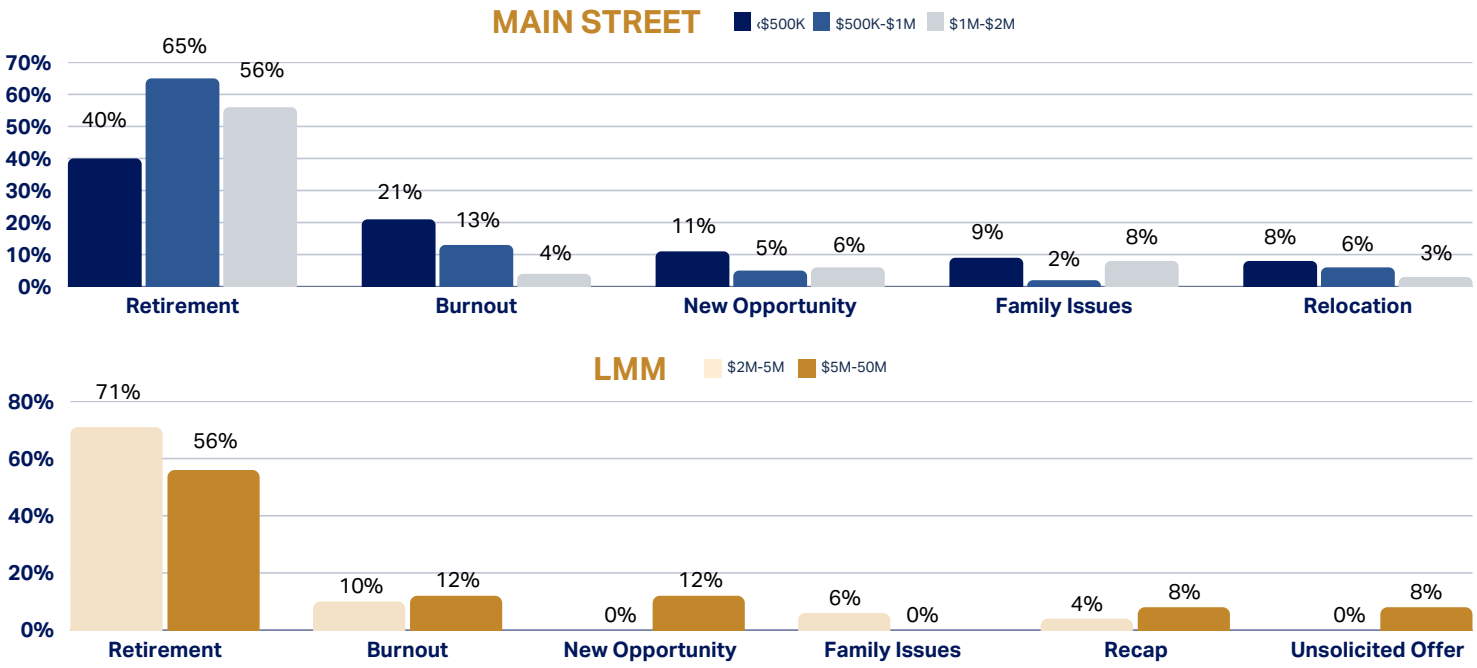


LOI TO CLOSE



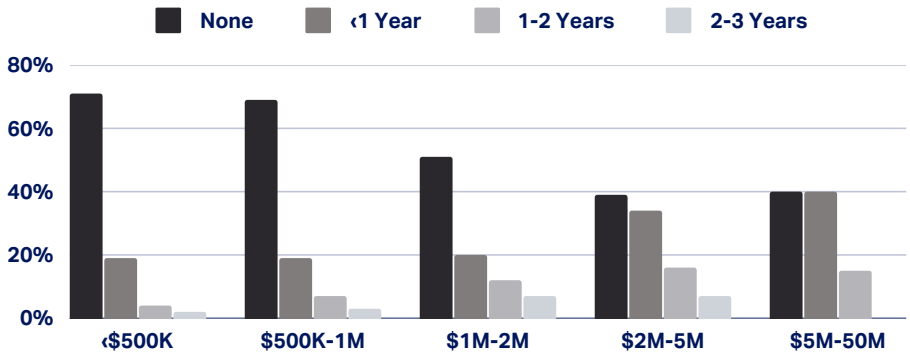
TIME TO CLOSE

#1 REASON SELLER WENT TO MARKET



> *"Strategic exit planning allows business owners to significantly increase their company's value when they're ready to sell. By organizing financials, enhancing management structures, and pinpointing value drivers, owners can present a more attractive proposition to buyers. Additionally, working with an experienced M&A advisor provides a competitive edge, ensuring a well-timed and favorable exit that aligns with the owner's objectives and market conditions."*
> *– Tanya Popov, Founder of INIX Consulting & Brokerage*

TIME SPENT IN EXIT PLANNING



> *"It's disheartening that for companies in the $5-$50 million range, not one business owner spent more than two years planning for that exit. For the vast majority of owners, this is their largest financial asset and they get one chance to exit and do it right. That's one of the reasons we created the Market Pulse—to help educate business owners and give them the best chance of success."*
> *– Emmet Apolinario, CEPA, Principal-In-Charge, International Resource Group, Inc.*

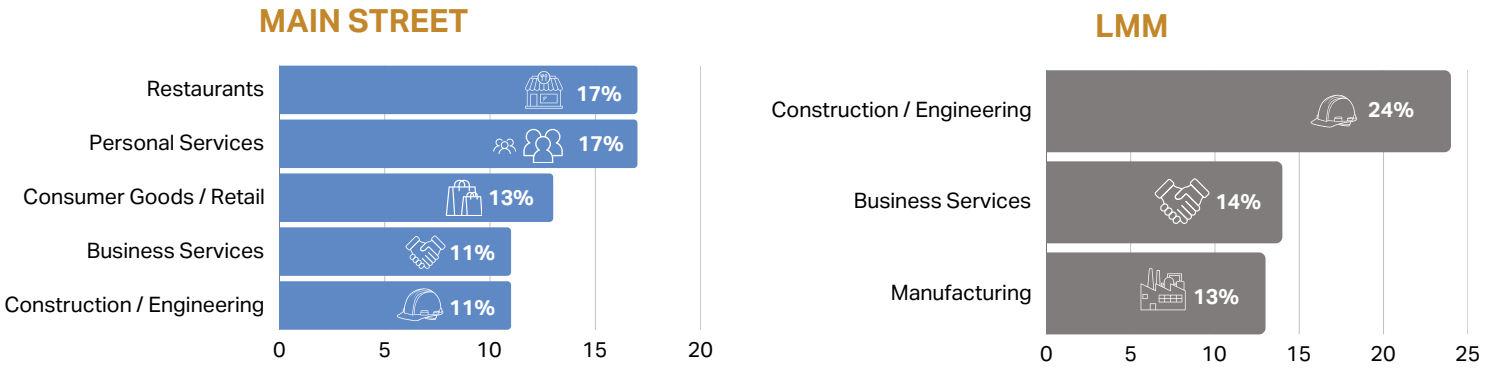
KNOW YOUR BUYER

2024 TOP INDUSTRIES

According to the survey, the top industries for transaction activity for all of 2024 were:

- Restaurants – a consistent mainstay of Main Street transactions
- Personal services – salons and spas, childcare, pet grooming, dry cleaning, gyms, etc.
- Consumer goods – primarily specialty retail
- Business services – a leading area of activity for both Main Street and the LMM
- Construction – #1 in LLM and a leading area of activity for Main Street; this industry is seeing significant rollups
- Manufacturing – not among the top five in Main Street activity, but a leading player in the LMM

TOP INDUSTRIES 2024

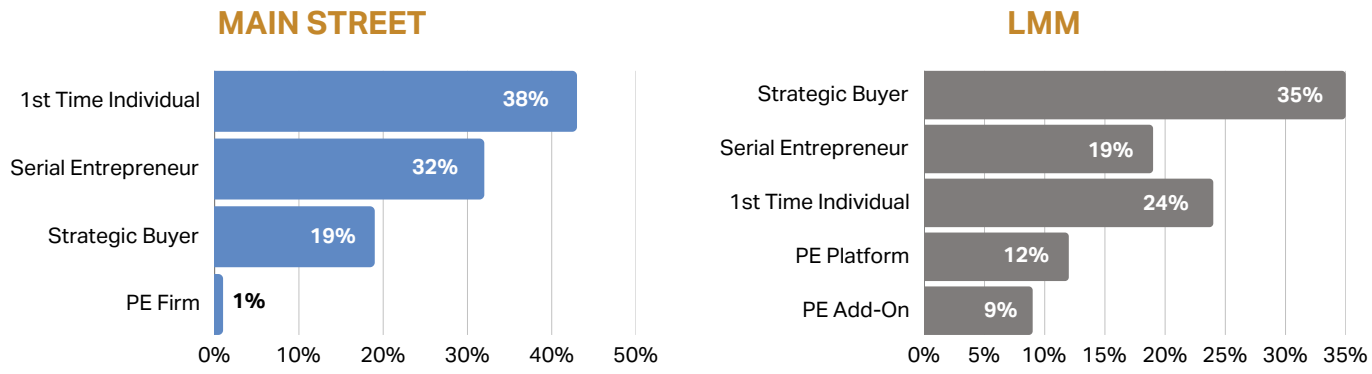


KNOW YOUR BUYER

2024 ACTIVE BUYERS

Individual buyers dominated the Main Street market in 2024. Calculating survey responses for all four quarters, we see that first time buyers made 43% of Main Street acquisitions followed by serial entrepreneurs (buyers who'd owned a business before) at 32%. This is on trend.

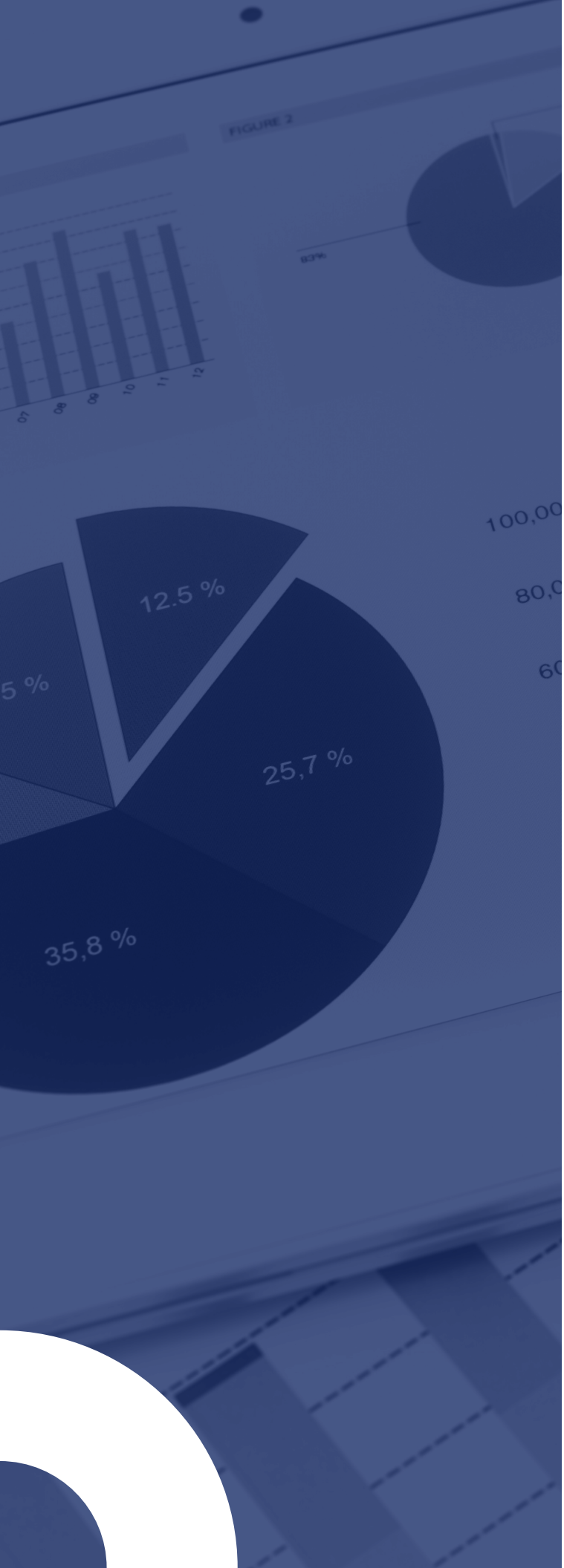
MOST ACTIVE BUYERS 2024



Individual buyers made their mark in the Lower Middle Market as well, at 36% of acquisitions (24% first time buyer, 19% serial entrepreneurs). Private equity made about a fifth (21%) of the acquisitions in this market, ticking just slightly below trend.

> *"Owning a small business is still a powerful gateway to control your destiny. This fundamental appeal persists, even as market conditions fluctuate. It signals positive prospects for Main Street sellers, even in uncertain times."*
> *– Lauren Drummond Dale, Master CBI, Coastal Consultants LLC*

> *It's interesting to see private equity so low compared to strategic buyers. This could be due to higher interest rates and a lack of available debt to financially structure these deals in a way that makes sense for their models. Meanwhile, with unemployment still low, strategic buyers see acquisition as the best path to growth. Their balance sheets are strong, and they can take a longer-term view in terms of returns and the future of their companies."*
> *– Lee Sheaffer, President of BizReady, Inc.*



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, X, and LinkedIn.

ABOUT THE M&A SOURCE

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