

Q2 2021



MARKETPULSE

INTERNATIONAL BUSINESS BROKERS ASSOCIATION | M&A SOURCE | SECOND QUARTER 2021 SURVEY



With Compliments





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 2021

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 2021 survey was conducted July 1-17, 2021 and was completed by 315 business brokers and M&A advisors from 42 states. Respondents completed 269 transactions this quarter. This is the 37th edition of this quarterly report.

FIGURE 1: MARKET SEGMENTS STUDIED

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

Buyers' Top Focus: Employee Team OR Financials

Buyers number one concern in the due diligence process: Employees & Financials. In this edition of the Market Pulse Survey, brokers and advisors were asked to rank the top due diligence items buyers care about most right now. Employees -- specifically longevity, loyalty, and work ethic -- topped the list for buyers closed and under contract for less than \$2M in Asking/Purchase Price.

Buyers other top five due diligence concerns were Operations, Revenue, Customer Concentration, and Management Team/Key Employees, in the less than \$2M in Asking/Purchase Price.

"Businesses are struggling to grow organically because they don't have the talent to lead new divisions or staff an expansion. So they're turning to acquisition for growth instead," said Gregory Michail, Managing Broker of Sunbelt Business Brokers of Pasadena. "But to make that strategy work, buyers need confidence they're getting a full, stable employee team in the deal."

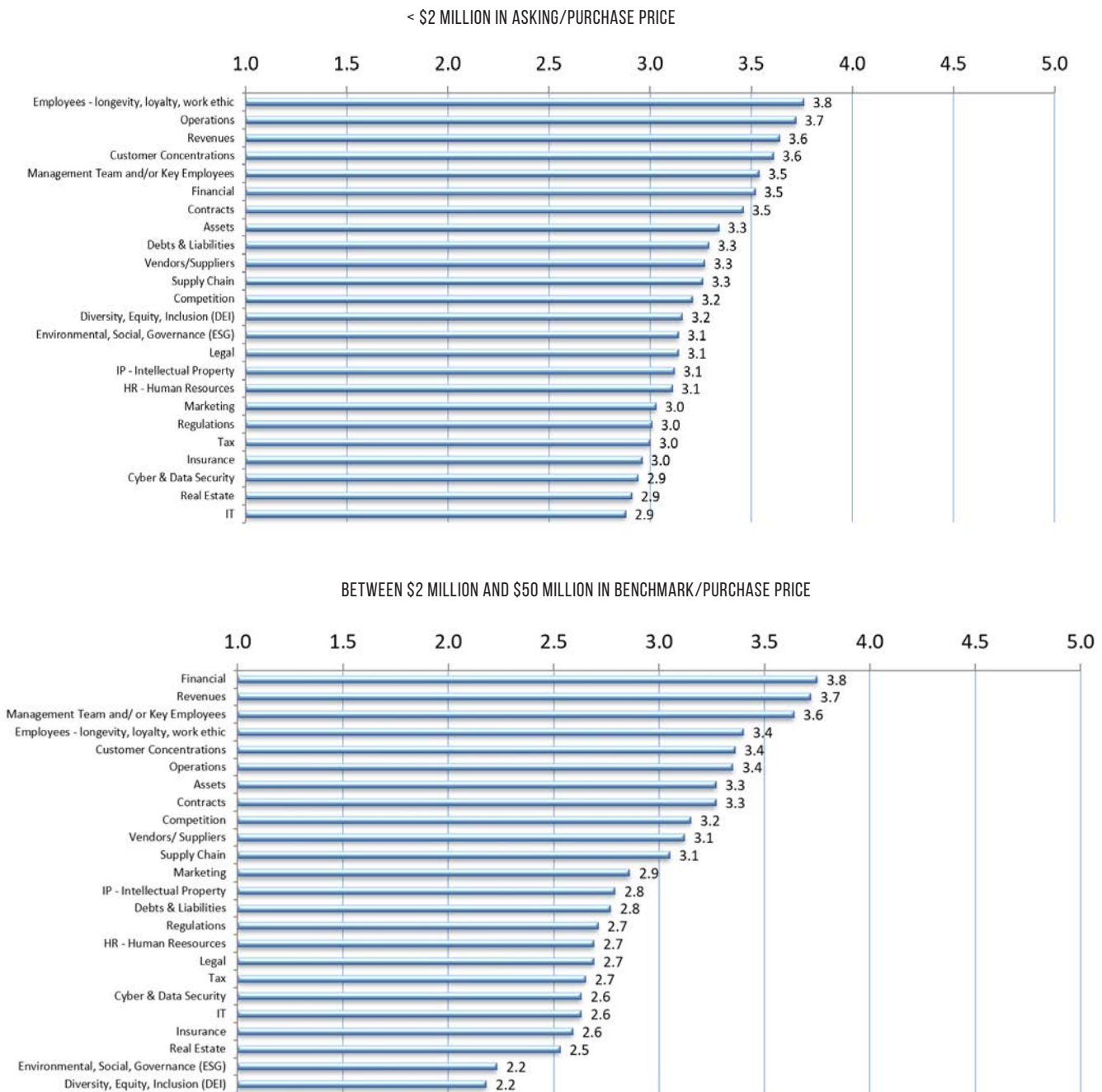
"We've long known that management team is a key consideration for buyers. They want deep bench strength and leadership who can maintain the business in the owner's absence. What's interesting, is that the strength of a business's general overall employee team is now an even higher priority," Michail continued. "Bottom line, your people matter. A lot."

Due diligence concerns ranking at the bottom of the list were marketing, regulations, taxes, insurance, cyber/data security, real estate, and IT for buyers in the less than \$2M in Asking/Purchase Price.

For Buyers in the \$2 to \$50 Million Benchmark/Purchase Price, Financials barely edged out Revenue and Management Team/Key Employees for the top spot. Keeping close to to the top, the next 3 tied in importance for buyers: Employees--longevity, loyalty and work ethic, Customer Concentration and Operations.

The talent market was tight before COVID, and it remains a leading business concern today. Buyers are keen to acquire firms with a well-established employee team and a corporate culture that retains key talent," said Mordecai L. Evans, Principle of Abraxas Business Services. "Talent shortages, signs of employee burnout, and excessive turnover can have real potential to kill a deal."

FIGURE 2: DUE DILIGENCE FACTORS RANKED BY IMPORTANCE TO BUYERS:

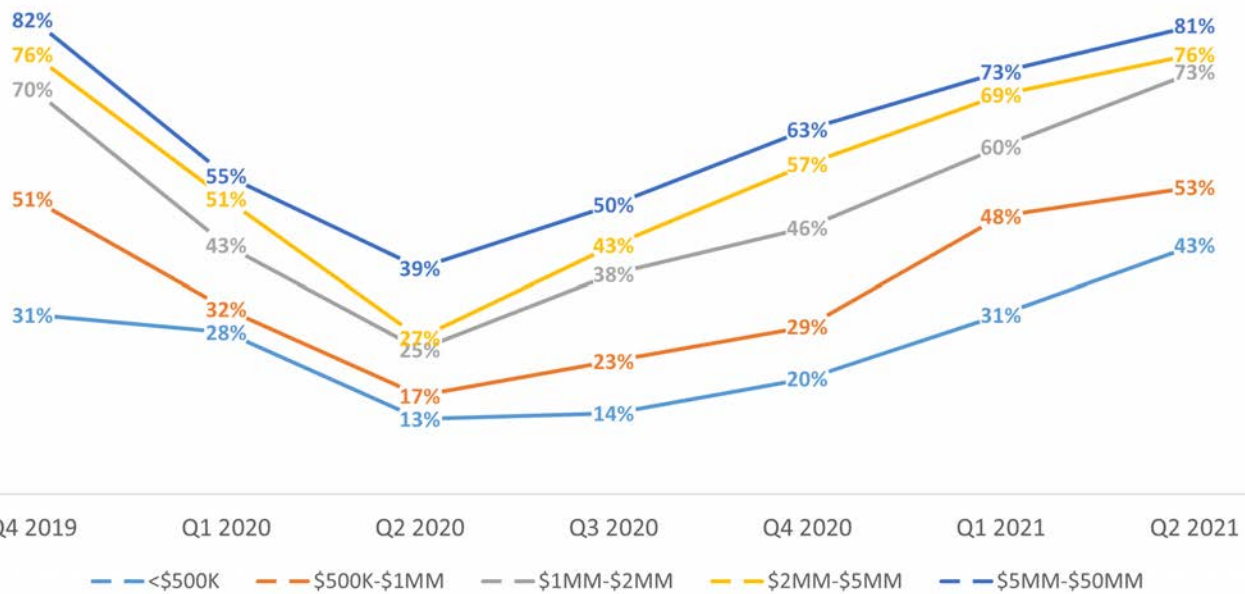


Market Confidence Back in Black

The current M&A market is incredibly active, with North American deal volume hitting near-record peaks. Buyers, constrained by a relatively low number of sellers who went to market during the COVID-19 pandemic, continue to search for expansion and growth opportunities.

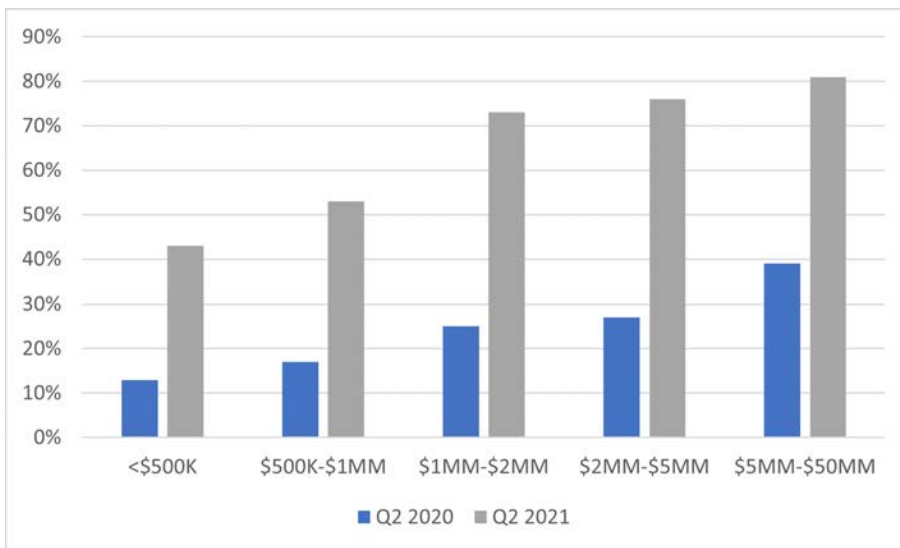
It's a seller-friendly market and that confidence shows in this quarter's Market Pulse Survey. Seller-market sentiment is back to levels reported before the pandemic.

FIGURE 3: SELLER SENTIMENT, Q4 2019 TO Q2 2021



"We're looking at any number of factors driving seller confidence in Q2 2021," said David Ryan, Advisor, Upton Financial Group in California. "Generous business stimulus, declining unemployment, low interest rates, and more buyers than sellers are all raising spirits among business leaders and investors. That healthy outlook is helping drive M&A activity."

FIGURE 4: SELLER MARKET SENTIMENT, YEAR OVER YEAR



"We also know that private equity has continued to outperform other asset classes, and more money continues to flow into their coffers. They have record amounts of dry powder they need to put to work in the market," continued Ryan. "Those firms are competing for quality opportunities and it's pushing activity lower into the market."

Robust Deal Activity Expected

Recognizing the strong momentum in the market, most brokers and M&A advisors are reporting optimism for the rest of 2021. There was a much more positive outlook for rising deal activity for the quarter ahead. Likewise, advisors also expect lifts in valuation.

"Deal flow is being driven by market confidence, fear of looming capital gains, age, burnout, and post-COVID struggles," said Kyle Griffith, Managing Partner of The NYBB Group. "We have business owners who delayed a 2020 exit and now see this is a good time to sell. We have owners who preserved through COVID only to emerge fatigued and anxious to be done. And we have those racing against the clock to beat potential tax changes. All in all, there are any number of reasons business owners are accelerating their exit plans."

FIGURE 5 : EXPECTATIONS FOR NEW CLIENTS IN THE NEXT 3 MONTHS, 5-POINT SALE

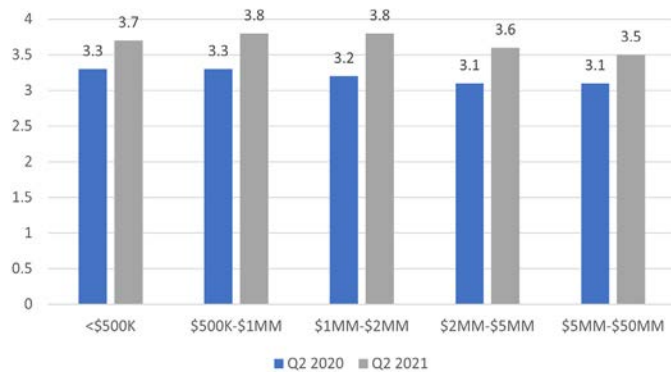
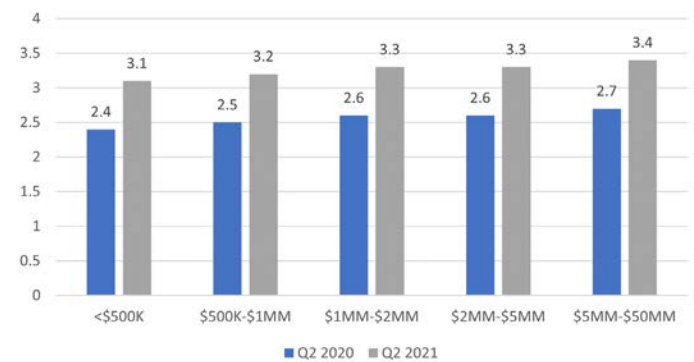


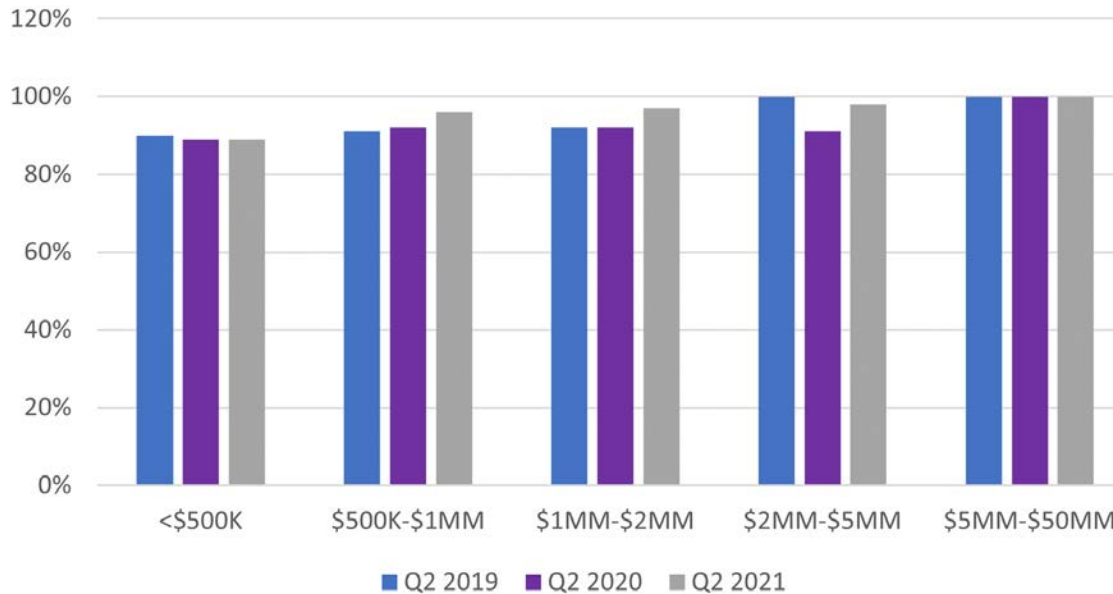
FIGURE 6: EXPECTATIONS FOR DEAL MULTIPLES IN NEXT 3 MONTHS, 5-POINT SCALE



WHERE ARE BUSINESS VALUES TRENDING?

Year over year, multiples climbed in the lower middle market. The \$2 million to \$5 million sector saw the biggest jump, with multiples climbing half a point. Much of the increase in multiples in the lower middle market .

FIGURE 7: FINAL PRICE REALIZED VS. ASKING/BENCHMARK PRICE, Q2: 2019-2021



Multiples - For Purchase Price of Q2 Businesses

Year over year, multiples climbed in the lower middle market. The \$2 million to \$5 million sector saw the biggest jump, with multiples climbing half a point. Much of the increase in multiples in the lower middle market is due to the number of buyers competing for quality deals. They continue to outbid each other to be able to put money to work or deploy capital.

FIGURE 8: MEDIAN MULTIPLES CLIMBING IN LOWER MIDDLE MARKET

	2021 Q2	2020 Q2	2019 Q2	2018 Q2	2017 Q2	2016 Q2	2015 Q2
Median Multiple Paid in Main Street Business Sales (SDE)							
<\$500K	2	1.8	2	2	2	2.3	2
\$500K - \$1MM	2.5	2.8	2.5	2.5	2.3	2.8	2.5
\$1MM - \$2MM	3.3	3.3	3.1	3.3	3.3	3.3	3
Median Multiple Paid in Lower M&A Transactions (EBITDA)							
\$2MM - \$5MM	4.5	4	4	3.8	4.3	4	4
\$5MM - \$50MM	5.8	5.5	5.9	5.9	5.4	5.1	5

Cash at Close

Year-over-year trends show an uptick in cash at close in most sectors.

FIGURE 9: EARNOUTS UP OVER 2020

	Q2 2021			Q2 2020		
	Cash at Close*	Seller Financing	Earn Out	Cash at Close*	Seller Financing	Earn Out
<\$500K	85%	11%	2%	76%	12%	1%
\$500K-\$1MM	92%	6%	-	87%	10%	-
\$1-\$2MM	91%	7%	2%	85%	8%	3%
\$2-\$5MM	86%	10%	2%	87%	8%	-
\$5-\$50MM	81%	3%	11%	84%	4%	1%

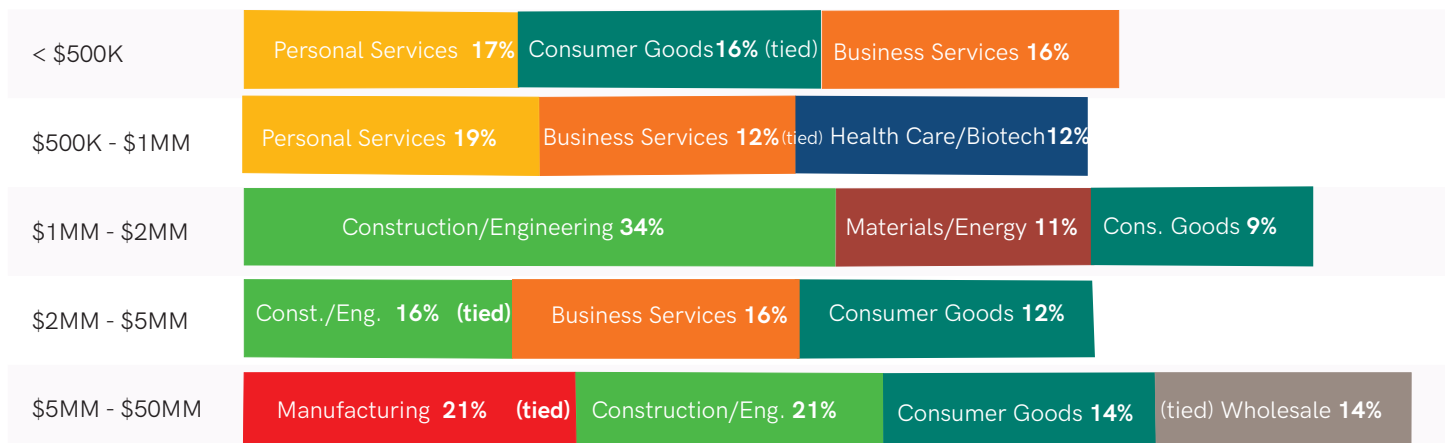
* Cash at close reflects a combination of buyer's equity and senior debt.

"Buyers are in a strong financial position and that means sellers are enjoying more cash at close," said Scott Bushkie, President of Cornerstone Business Services. "Earnouts are being used to bridge valuation gaps where businesses took a temporary hit due to COVID-19. Buyers are paying cash for the value of the business today and providing earnouts for under the assumption business will return to normal along with the economy."

What Are They Buying?

In the Main Street market, personal services led business transitions. In the lower middle market, construction/engineering, manufacturing and consumer goods were dominant.

FIGURE 10: TOP 3 INDUSTRIES BY MARKET SECTOR



Who Is Buying?

<\$500,000

Buyers in this sector were:

- First time buyers (50%), serial entrepreneurs (28%), or existing companies (22%)
- Motivated to buy a job (43%), gain a horizontal add-on (27%)
- Located within 20 miles (61%) or more than 100 miles (19%) of the seller's location

50%

<\$500K-\$1MM

Buyers in this sector were:

- First time buyers (39%), existing companies (33%), serial entrepreneurs (28%)
- Motivated to buy a job (35%) gain a horizontal add-on (28%)
- Located within 20 miles (56%) or within 50 miles (25%) of the seller's location

39%

\$1MM-\$2MM

Buyers in this sector were:

- First time buyers (34%), existing companies (31%), serial entrepreneurs (31%)
- Motivated to buy a job (37%) gain a horizontal add-on (23%)
- Located within 20 miles (40%) or more than 100 miles (29%) of the seller's location

34%

\$2MM-\$5MM

Buyers in this sector were:

- Existing companies (44%), serial entrepreneurs (24%), or private equity (20%)
- Motivated to acquire a horizontal add-on (44%), vertical add-on (20%)
- Located more than 100 miles (48%) or within 20 miles (36%) of the seller's location

44%

\$5MM-\$50MM

Buyers in this sector were:

- Existing companies (43%) or private equity (28%)
- Motivated to acquire a horizontal add-on (36%)
- Located more than 100 miles (79%) of the seller's location

43%

1st Timers

Existing Cos.

*"First time buyers are finding opportunities in the **Main Street** market. These individuals may be using a combination of stimulus dollars and favorable SBA funding," said Lisa Riley, President of Delta Business Advisors. "The SBA has offered once-in-a-lifetime incentives to help borrowers acquire a business - covering the first six months of payments of principal and interest PLUS loan origination fees for borrowers who have loans approved by September 30, 2021 or until funding runs out. That's definitely fueling the push in Main Street."*

*"On the other hand, **strategic buyers** are dominating the **Lower Middle** market. There are plenty of covid-proof businesses with healthy balance sheets who see the post-pandemic marketplace as a rare opportunity to expand through acquisition," concluded Riley.*

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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