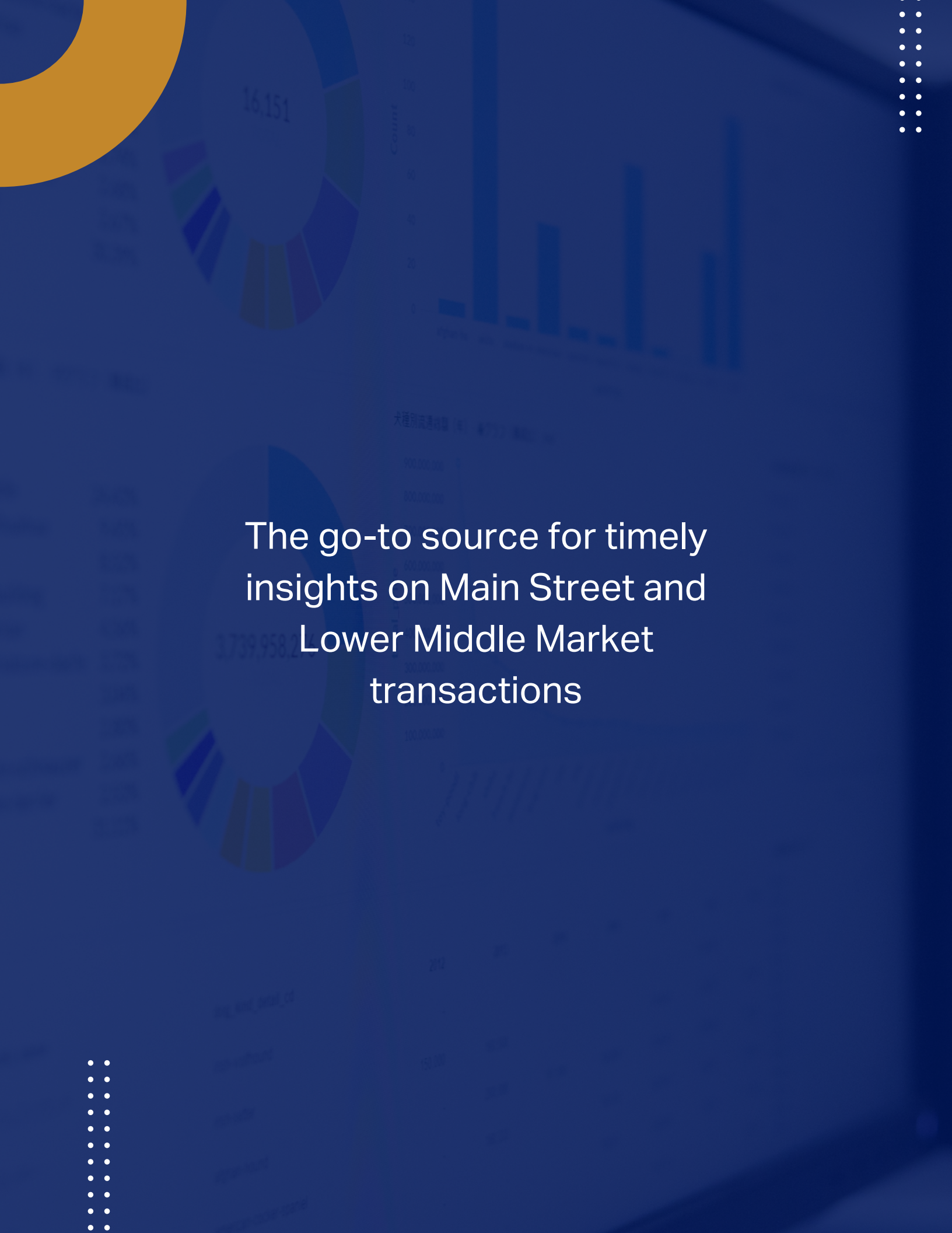




Market **Pulse**

Q1 2024

Executive Summary



The go-to source for timely
insights on Main Street and
Lower Middle Market
transactions

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QUARTERLY INSIGHTS Q1 2024

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.

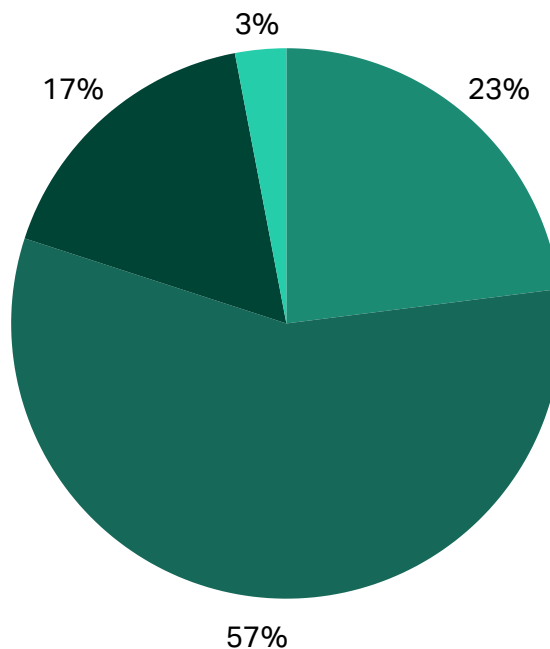
The Q1 2024 survey was conducted April 1-15, 2024 and was completed by 321 business brokers and M&A advisors. Respondents completed 254 transactions this quarter. This is the 48th edition of this report.

MARKET SEGMENTS STUDIED	
MAIN STREET	LOWER MIDDLE MARKET
█ <\$500K	█ \$2M-\$5M
█ \$500K-\$1M	█ \$5M-\$50M
█ \$1M-\$2M	

BUYERS LARGELY UNCONCERNED WITH COVID SLUMPS AND BUMPS

The Q1 2024 survey results indicate that the vast majority of M&A advisors believe buyers are largely disregarding the financial impact, whether positive or negative, that COVID-19 had on acquisition targets. A combined 80% of respondents agreed or strongly agreed that buyers are mostly ignoring any "COVID slump" or "COVID bump" when assessing a company's financials.

Only 20% of M&A advisors disagreed, indicating some advisors believe that buyers are still putting significant weight on how companies performed during the COVID crisis.



█ Strongly Agree █ Agree █ Disagree █ Strongly Disagree

"Rather than focusing on financial anomalies during the heart of the pandemic, most buyers are taking a longer-term view," said Scott Bushkie, President of Cornerstone Business Services. "Strong companies that may have taken a temporary hit during the pandemic aren't being penalized by buyers. At the same time, companies that saw a fleeting boost from COVID-related tailwinds likely won't get outsized valuations from acquirers."

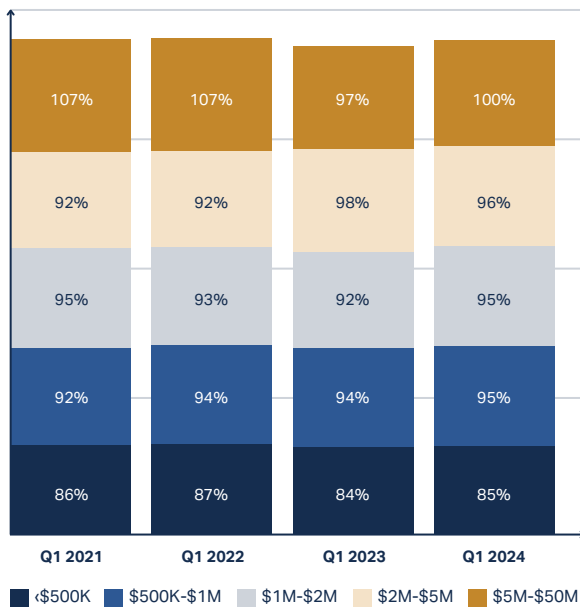
"Historically buyers would go back and look at three years' worth of financials, but because that's on the tail of COVID, many are asking for 2019 to current," said Lisa Riley, CEO & Founder of Delta Business Advisors, LLC. "So many sellers are being asked to provide five years of financials instead of three."

BUSINESS VALUE

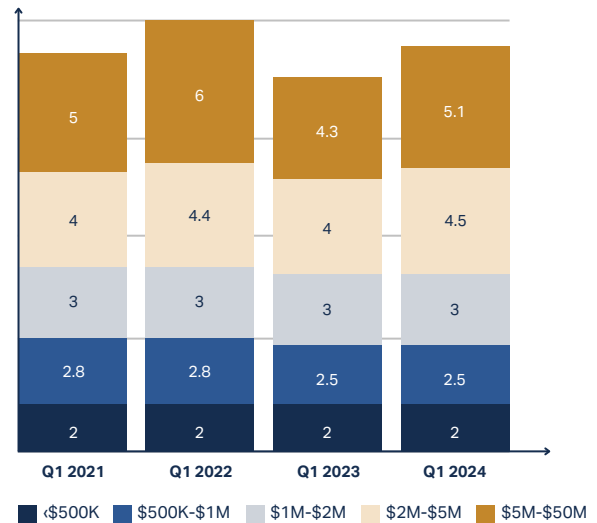
On average, sellers are receiving valuations at 85% of benchmark or better. As is the trend, businesses in the Lower Middle Market performed the best, receiving all or nearly the private benchmark they set with their advisors before going to market.

Multiples remained consistent across the Main Street market. Meanwhile, advisors reported a meaningful increase in multiples (up a half percentage point or better, year over year) in the Lower Middle Market.

AVERAGE SELLING PRICE TO ASKING/BENCHMARK RATIO 2021-2024



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.

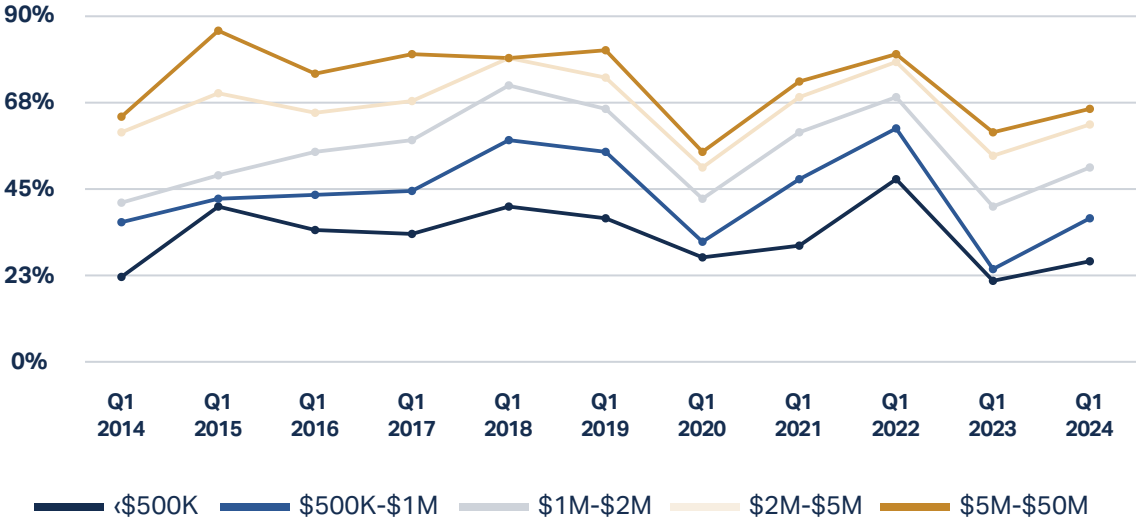
<\$500K - \$2M in Purchase Price reflected as multiple of SDE (Seller's Discretionary Earnings); \$2M-\$50M as multiple of EBITDA (Earnings Before Interest, Taxes, Depreciation & Amortization).



MARKET CONFIDENCE

Advisors reported an uptick in seller confidence, although still well 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 Q1 2014-2024



"While the current rise in seller confidence is a positive sign, sellers remain somewhat cautious," said Pino Bacinello, President of Pacific Mergers & Acquisitions, Inc. "This could be attributed to various factors such as high interest rates, economic uncertainty, or the coming election. Regardless, this uptick on confidence is a positive sign and could translate into increased deal flow in the coming months."

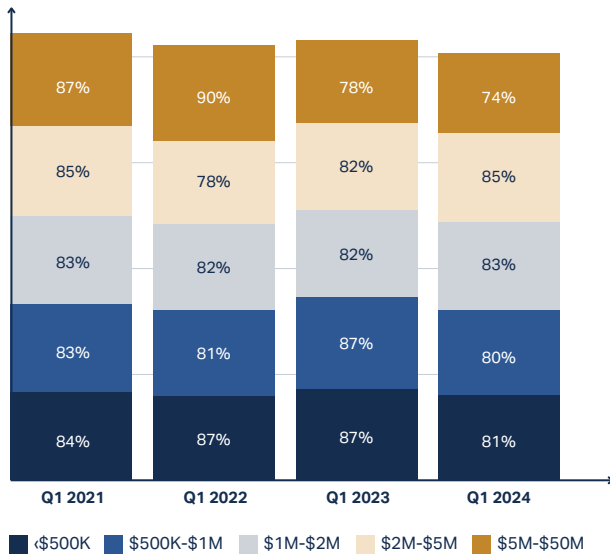
FINANCING TRENDS

Sellers received slightly less cash at close in Q1 and were asked to carry additional seller financing. On average, sellers can expect to receive about 80% of total consideration as cash at close.

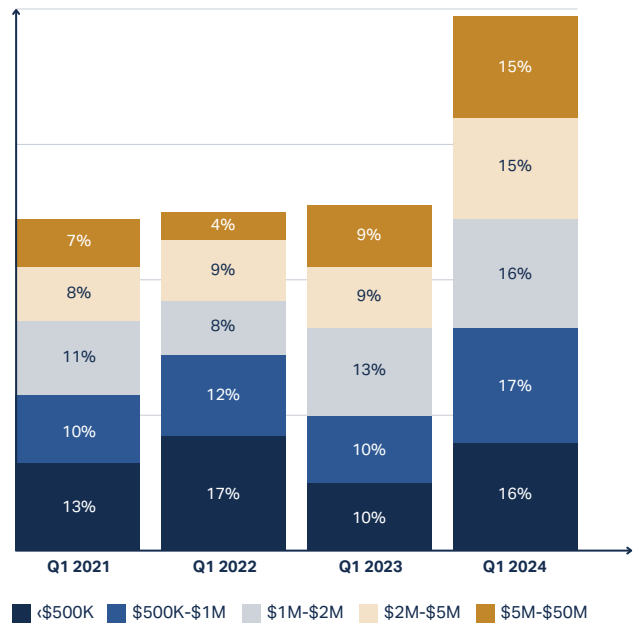
Cash at close includes senior debt and buyer equity. Seller financing accounted for 15%-17% or more of most deals in Q4 2024. For deals valued between \$5 million to \$50 million, earnouts (6%) and retained equity (3%) also played a meaningful role in financing.

"While sellers may prefer all-cash deals, that's not the reality of today's market," said Valerie Vaughn, Senior Advisor of Apex Business Advisors. Higher interest rates make borrowing more expensive, and that's impacting the cash buyers can offer at close. To bridge the gap, buyers are increasingly turning to sellers to provide a larger portion of the deal financing."

CASH AT CLOSE



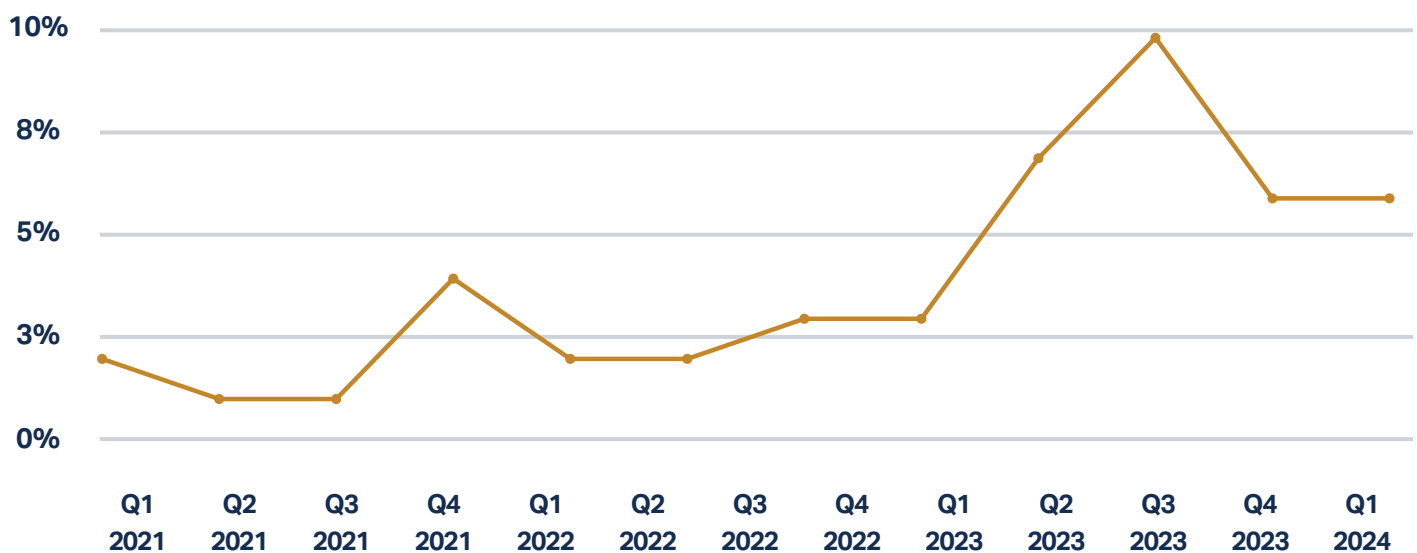
SELLER FINANCING



"Not only are we seeing an uptick in seller financing, but sellers are now offering lower interest than the banks and other senior lenders. It's a way to get the deal done without sacrificing overall value," said Tanya Popov, Managing Partner, INIX Consulting & Brokerage. "That said, sellers should carefully consider the terms of any seller financing, including the length of the deferral period, interest rates, and security provisions, to ensure they are comfortable with the arrangement."

EARNOUTS: DEALS \$5M-\$50M

Percentage of \$5M-\$50M Deals Financing by Earnouts 2021-2024



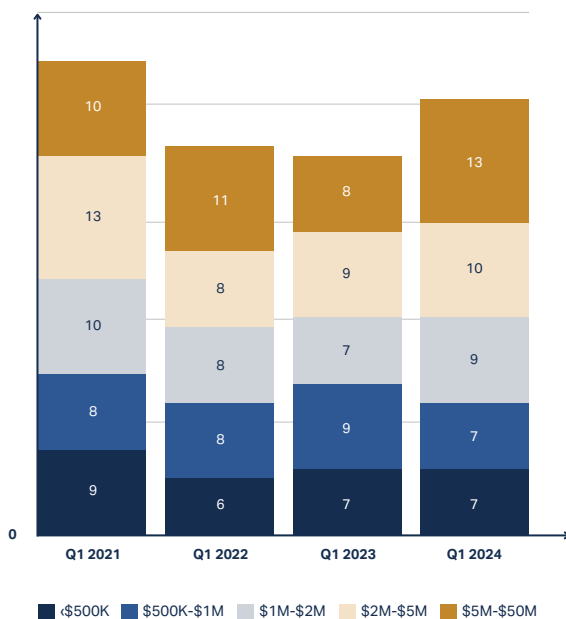
"We expected to see earnouts rise as a response to COVID-19 bumps and slumps, but it's been interest rates that have really been the driver," said Simon Harrison, Senior Advisor of Boss Group International. "Earnouts can be a way for sellers to receive their desired valuation, while buyers mitigate their risk. If the business performs well post-acquisition, it's a win-win."

"The appeal of earnouts has grown as interest rates have climbed," said Brian Stephens of Legacy Venture Group. "Earnouts provide a way for buyers to defer a portion of the purchase price without incurring additional borrowing costs. Unlike traditional debt financing, there's no interest expense associated with an earnout, making it an attractive option in a high interest rate environment."

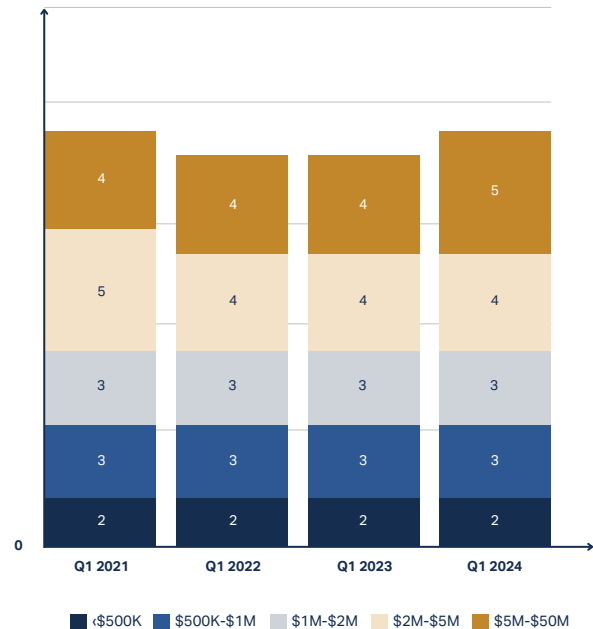
TIME TO CLOSE

The average time to sell a Main Street business varies from 7 to 9 months. Businesses in the Lower Middle Market, however, saw an uptick in time to sell. Businesses in the \$5M-\$50M sector took 13 months to sell, on average. That matches the peak average reported during the pandemic.

FROM ENGAGEMENT TO CLOSE



FROM OFFER TO CLOSE



Scott Mashuda, Managing Director of REAG said, "Valuations have sustained due to the basic laws of supply and demand, but deal structures have gotten more creative as a means to converge value with the higher costs of capital in today's market."

"Meanwhile, Main Street businesses are selling around their usual pace. These deals have been less affected by the tighter lending conditions that are affecting the lower middle market," said Lee Sheaffer, President of BizReady, Inc. "While borrowing costs have increased across the board, the smaller scale of Main Street transactions makes them more palatable for local lenders and the SBA."

KNOW YOUR BUYER

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

- First time buyers (44%), serial entrepreneurs (32%)
- Motivated to buy a job (40%), gain a horizontal add-on (18%)
- Located within 20 miles (68%) or more than 100 miles (17%) of the seller's location

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

- First time buyers (56%), serial entrepreneurs (21%), or strategic (existing) companies (21%)
- Motivated to buy a job (38%), horizontal add-on (26%)
- Located within 20 miles (59%) or within 50 miles (21%) of the seller's location

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

- First time buyers (42%), serial entrepreneurs (36%), strategic company (19%)
- Motivated to buy a job (30%) or better ROI than other investment (26%)
- Located within 20 miles (51%) or more than 100 miles (26%) of the seller's location

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

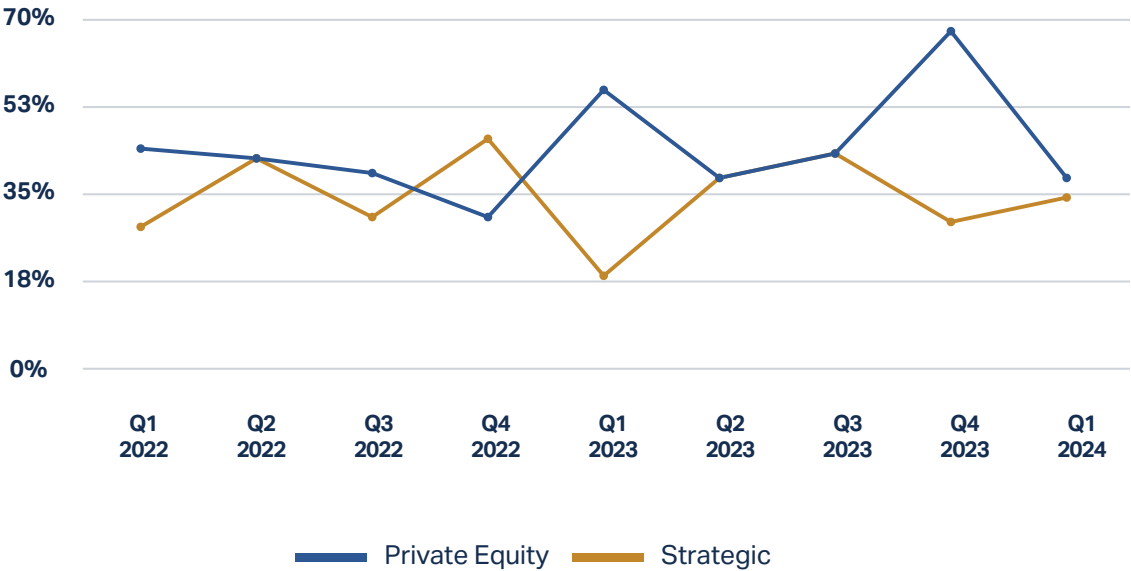
- First time buyers (38%), strategic company (35%), serial entrepreneur (15%)
- Motivated to gain a horizontal add-on (29%), vertical add on (26%), buy a job/better ROI (tie, 18%)
- Located within 20 miles (44%) or more than 100 miles (29%)

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

- Private equity (39%), strategic company (35%), first time individual (17%)
- Horizontal add-on (48%), vertical add-on/better ROI (tie, 22%)
- Located more than 100 miles (61%) of the seller's location

Over the last eight quarters, private equity has captured an average 41% of the deals in this sector while strategics accounted for 40% of buyers (see figure below)

PERCENTAGE OF \$5M-\$50M DEALS CAPTURED BY PRIVATE EQUITY VS STRATEGIC BUYER



WHAT ARE THEY BUYING?

In the Main Street market, restaurants and personal services trended throughout the sector. In the Lower Middle Market, construction/engineering and manufacturing dominated transactions.

TOP INDUSTRIES BY MARKET SECTOR

<\$500K	Restaurants 22%	Consumer Goods 17%	Personal Services 15%
\$500K-\$1M	Personal Services 18%	Restaurants 18%	Health & Biotech 15%
\$1M-\$2M	Personal Services 19%	Construction/Engin. 13%	Business Services 9%
\$2M-\$5M	Construction/Engin. 26%	Restaurants 18%	Manufacturing 15%
\$5M-\$50M	Construction/Engin. 22%	Manufacturing, Business Services (tie) 17%	



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