

Q3 2021



MARKETPULSE

INTERNATIONAL BUSINESS BROKERS ASSOCIATION | M&A SOURCE | THIRD QUARTER 2021 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.

To become a member, please contact the IBBA and M&A Source.

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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 Q3 2021 survey was conducted October 18-31, 2021 and was completed by 303 business brokers and M&A advisors. Respondents completed 254 transactions this quarter. This is the 38th 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	

Employee Issues Send Sellers to Market

What's top of mind for owners exiting their business these days? Employee issues – retaining people, hiring people, and managing wage inflation. In this edition of the Market Pulse, brokers and advisors were asked about the important issues driving their buyers and sellers to market in 2021. For sellers, labor issues topped the list, ahead of financial concerns.

According to advisors, buyers seeking an acquisition are primarily looking to expand their customer base, and yet labor issues are a significant concern for them too.

"Labor issues are driving sellers to market, for sure. Labor shortages and employee turnover are a big contributor to seller burnout," said Kyle Griffith, Managing Partner of The NYBB Group. "Businesses have been struggling to find talent for years, but we've reached an inflection point. It's limiting growth and creating risk in succession plans, and those issues are causing some sellers to accelerate their exit plans."

"Staffing issues aren't just a problem on the front lines. Businesses are facing talent shortages in management ranks, too. Some owners who expected to transition their business to internal leaders are finding that they just don't have the management group to make that possible anymore," said Randy Bring, Partner of Transworld Business Advisors.

Figure 2 shows the top issues driving sellers to market, for businesses closed or under contract with enterprise value of less than \$2 million in Q3. After labor issues, some sellers are entering the market because cash flow has not returned to pre-covid levels. Meanwhile, other sellers are entering the market because of their strong financial performance (meaning they'll likely garner higher values).

Tax concerns also appeared as a contributing factor. Some owners are selling now rather than risk having their proceeds taxed at a higher rate if capital gains taxes increase.

FIGURE 2: 2021 SELLER DRIVERS (ENTERPRISE VALUE < \$2M)

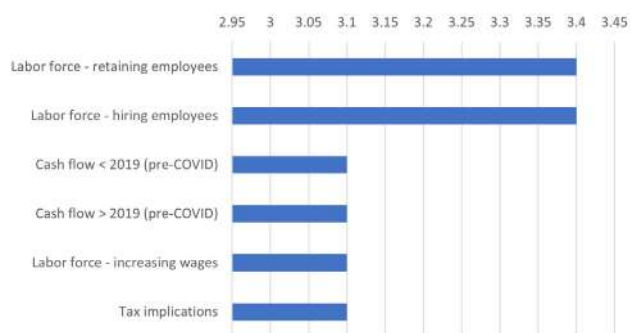


FIGURE 3: 2021 BUYER DRIVERS (ENTERPRISE VALUE < \$2M)

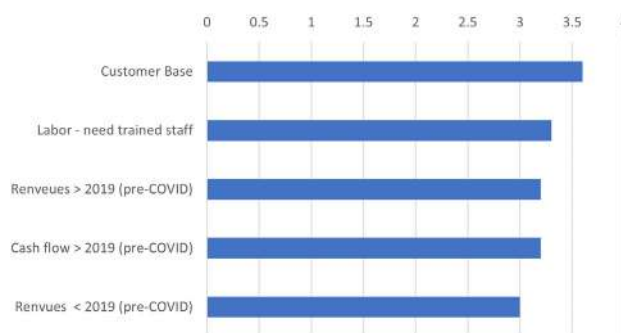


Figure 3 reflects issues driving buyers to market to acquire businesses with enterprise value of less than \$2 million. Figures 4 and 5 reflect lower middle market businesses with values above \$2 million.

FIGURE 4: 2021 SELLER DRIVERS (ENTERPRISE VALUE > \$2M)

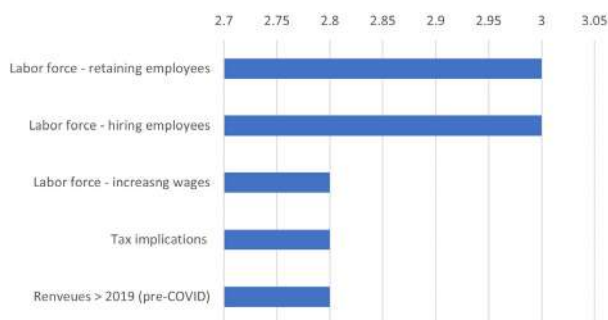
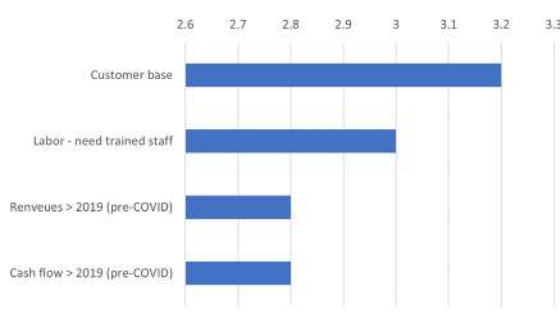


FIGURE 5: 2021 BUYER DRIVERS (ENTERPRISE VALUE > \$2M)



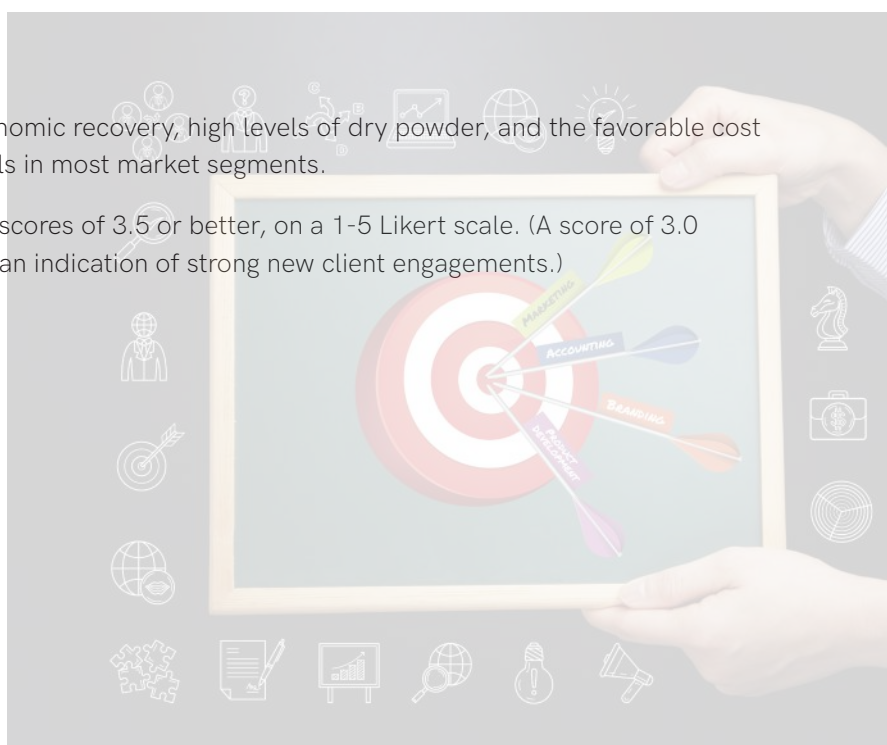
M&A Activity

Deal activity continued strong in Q3, driven by the economic recovery, high levels of dry powder, and the favorable cost of debt. Multiples have returned to pre-pandemic levels in most market segments.

In terms of new deal flow, advisors generally reported scores of 3.5 or better, on a 1-5 Likert scale. (A score of 3.0 indicates consistent/flat deal flow, and 3.5 or higher is an indication of strong new client engagements.)

FIGURE 6: CHANGE IN THE NUMBER OF NEW CLIENTS BY DEAL SIZE IN THE LAST 3 MONTHS

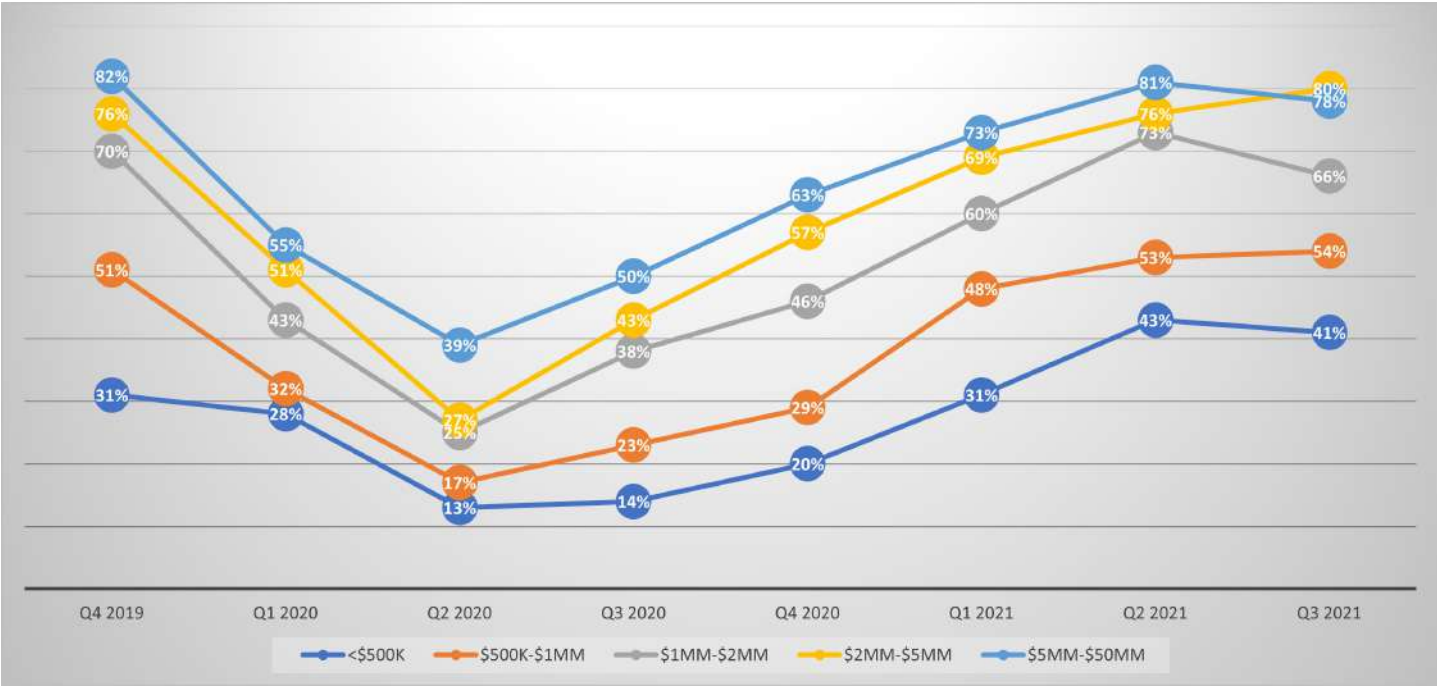
<\$500K	3.5
\$500K-\$1MM	3.6
\$1MM-\$2MM	3.5
\$2MM-\$5MM	3.5
\$5MM-\$50MM	4.1



Deal Value

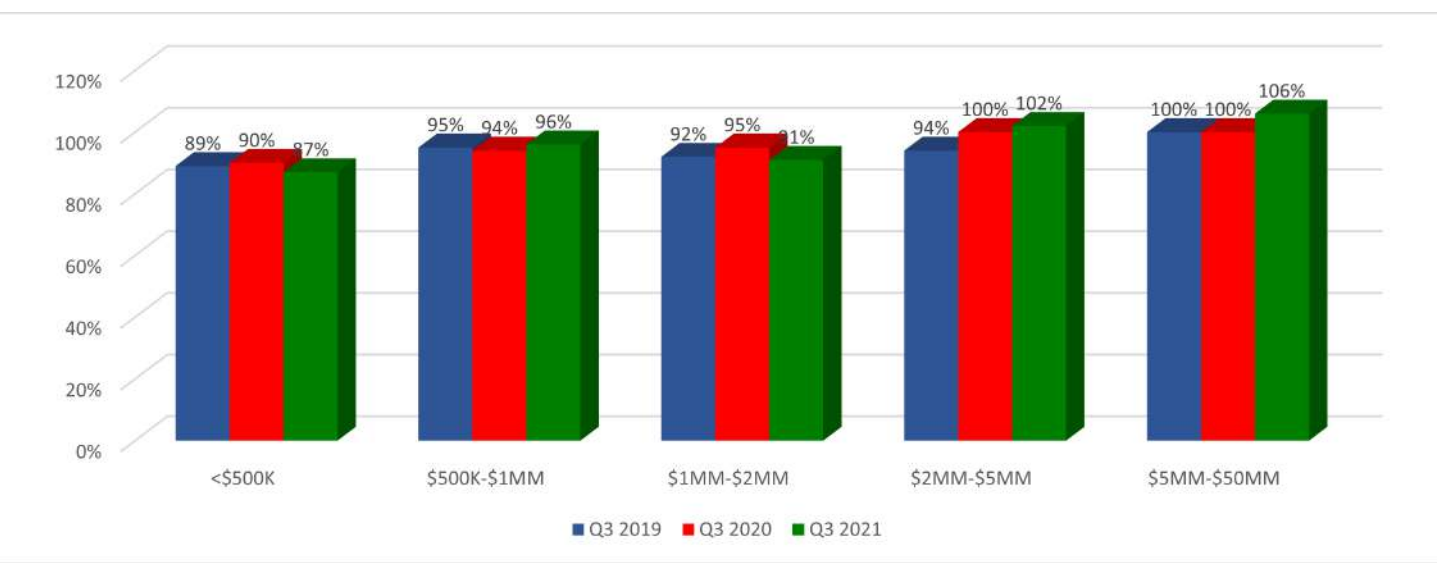
Seller-market sentiment is back to levels reported before the pandemic. Market confidence is further reflected in the final sale prices sellers received in Q3. In fact, sellers in the \$5 million to \$50 million sector realized, on average, a sale price that was 106% of benchmark. Overall, across all sectors, businesses received 96% (average) of benchmark in Q3 2021.

FIGURE 7: SELLER SENTIMENT, Q4 2019 TO Q3 2021



"We believe valuations will continue to increase," said Scott Bushkie, President of Cornerstone Business Services. "There's a record amount of dry powder in the market, and private equity buyers are continuing their assertive approach to winning deals. Meanwhile, corporate buyers are finding new equilibrium post-pandemic, and we should see them take a renewed focus on growth ahead."

FIGURE 8: AVERAGE SALE PRICE REALIZED TO ASKING/BENCHMARK PRICE



"Private equity has been leading the pack throughout most of the pandemic, but we expect corporate buyers are going to re-enter the fray," said David Ryan, Advisor, Upton Financial Group in California. "We know that labor issues are top of mind for buyers. It's hard to grow organically when you can't find new talent, so businesses are going to look to acquisition as a means to growth."

"Thanks to low corporate taxes and strong earnings, many corporate balance sheets have never been stronger," Ryan continued. "Many business leaders believe that growth through acquisition represents less risk than other forms of expansion or investment. Plus, we're going to see businesses looking to acquisition as a way to take back some control over their supply chain."

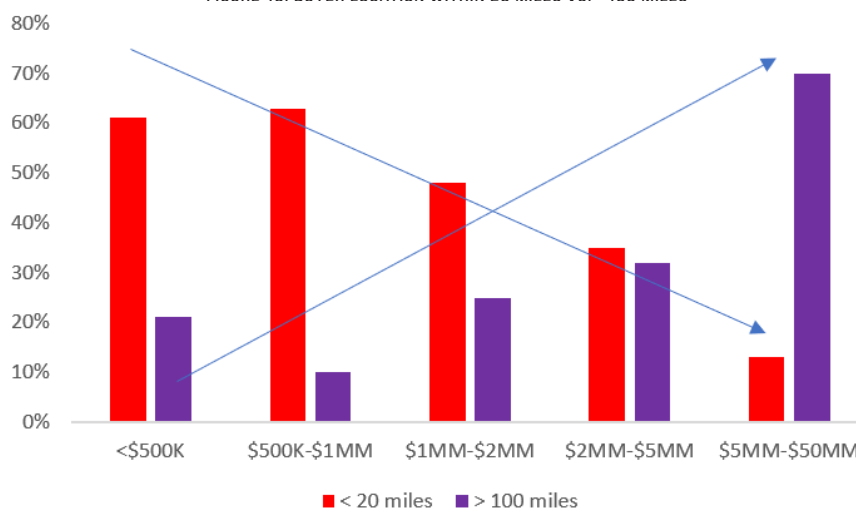
\$5+ Million Deals Hit Record Multiple

The latest data from the Market Pulse survey reflects the growing premiums business owners get as the size of their company increases. Multiples typically increase as businesses get larger. And these businesses are more likely to draw buyer interest from the widest geographic radius.

FIGURE 9: MEDIAN MULTIPLES INCREASE WITH COMPANY SIZE



FIGURE 10: BUYER LOCATION WITHIN 20 MILES VS. >100 MILES



Multiples - For Purchase Price of Q3 Businesses

Companies with enterprise value of \$5 million or more saw a strong valuation jump this quarter, reaching a medium multiple of 6.8. That's an all time high for the Market Pulse since the survey began in 2013.

FIGURE 11: Q3 MEDIAN MULTIPLES

	2021 Q3	2020 Q3	2019 Q3	2018 Q3	2017 Q3	2016 Q3
Median Multiple Paid in Main Street Business Sales (SDE)						
<\$500K	2	2	2	2	2	2.3
\$500K - \$1MM	2.3	2.5	2.8	2.8	2.5	3
\$1MM - \$2MM	3.3	3.1	3.3	3.3	3.1	3.3
Median Multiple Paid in Lower M&A Transactions (EBITDA)						
\$2MM - \$5MM	4	4	4.4	4	4.5	4.5
\$5MM - \$50MM	6.8	5.9	6	5.4	5	5.8



Cash at Close

Cash at close is up year over year in all but one category. That can be attributed to strong competition in the marketplace and a positive lending environment.

FIGURE 12: CASH AT CLOSE

	Q3 2021					Q3 2020			
	Cash at Close*	Seller Financing	Earn Out	Retained Equity		Cash at Close*	Seller Financing	Earn Out	Earn Out
<\$500K	84%	10%	4%	-		83%	11%	2%	1%
\$500K-\$1MM	83%	8%	1%	-		86%	14%	1%	-
\$1-\$2MM	85%	13%	1%	-		83%	6%	1%	-
\$2-\$5MM	89%	9%	-	-		86%	13%	-	-
\$5-\$50MM	88%	6%	1%	3%		81%	6%	1%	3%

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

"Banks are lending, despite the uncertainty of the last 20 months," said Sondra Yarbrough, President of Baltimore Washington Business Brokerage. "In many cases, Banks have eased their lending standards. They know consumers are out there spending, so the outlook for business looks healthy."

What Are They Buying?

Construction/engineering firms topped the list of hot industries this quarter. Business services also had a strong showing in the Main Street market, while manufacturing deals were active in the lower middle market.

FIGURE 13: TOP 3 INDUSTRIES BY MARKET SECTOR

< \$500K	Personal Services 20%	Consumer Goods 17%	Business Services 11%
\$500K - \$1MM	Construction/Eng. 19%	Business Services 17%	Health Care/Biotech 13%
\$1MM - \$2MM	Business Service 20%	Construction/Eng. 18%	Wholesale/Distribution 13%
\$2MM - \$5MM	Construction/Engineering 26%	Manufacturing 24%	Consumer Goods 12%
\$5MM - \$50MM	Manufacturing 39%	Health Care/Biotech 22%	(tie) Wholesale/Dist. 22%

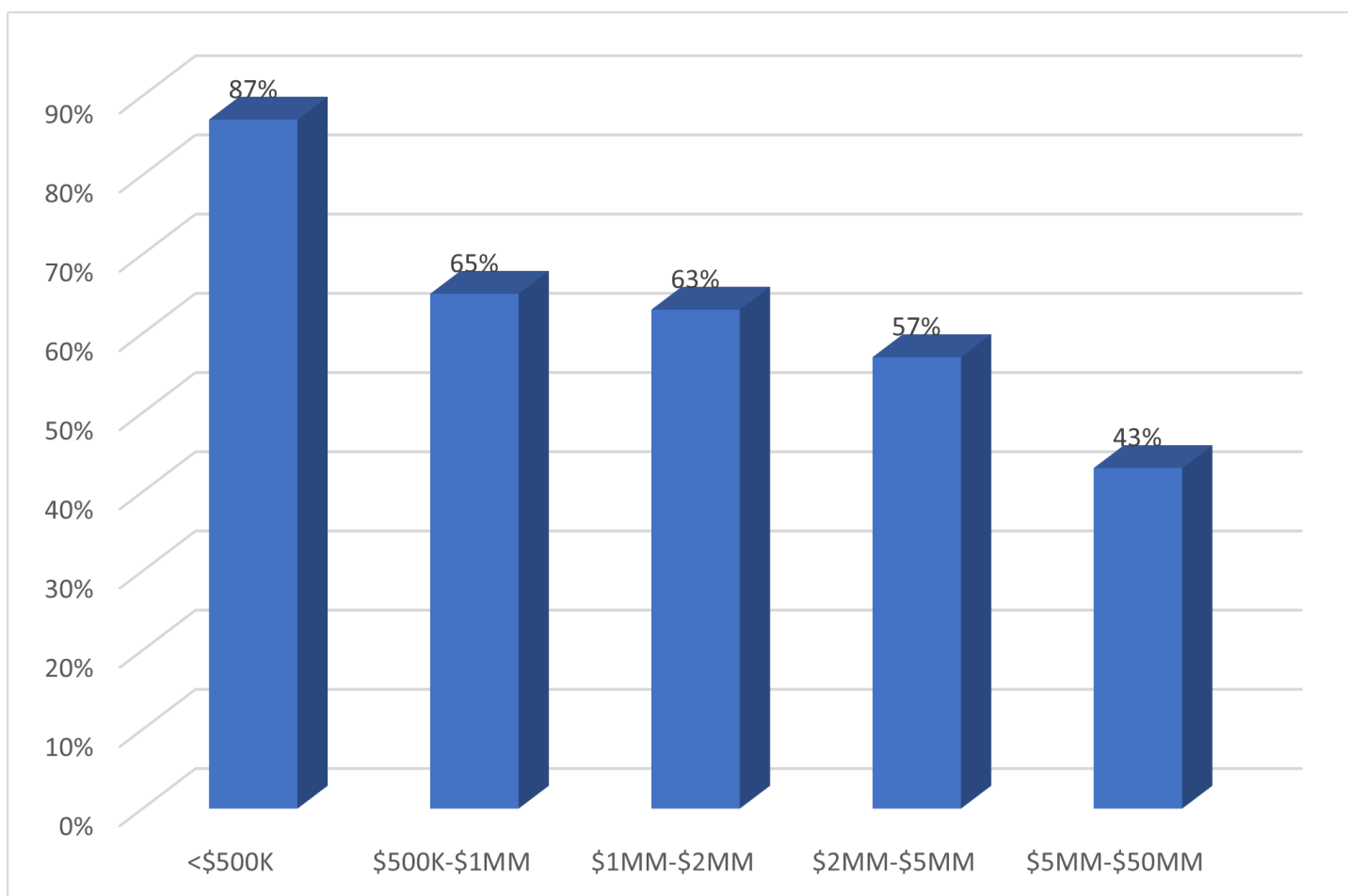
Exiting Without a Plan

Even though retirement is far and away the biggest reason sellers go to market, most business owners are doing little to no exit planning. The smaller the business, the less likely owners are to plan. Of those owners who did plan, most started less than a year before putting their business on the market.

"We know that labor conditions and impending tax issues caused some sellers to accelerate their exit plans. There's often a trigger issue that sends sellers to market, and unfortunately that means a lot of sellers don't get the advantage of advance planning," said Lisa Riley, Principal of Delta Business Advisors, LLC.

"We all know that market conditions can change on a dime. The pandemic drove that home for today's business owners. But working with their advisors in advance and having various exit plans and succession plans on the table can help business owners respond faster when the market shifts," Riley continued. "Sellers have more options and are generally positioned to get a higher value when they make exit planning an ongoing part of their business plans."

FIGURE 14: OWNERS WHO ENGAGED IN NO FORMAL PLANNING PRIOR TO ENGAGEMENT TO SELL



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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