Q4 2021

MARKETPULSE

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

IBBA INTERNATIONAL BUSINESS BROKERS ASSOCIATION.®

M&A Source®

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 Q4 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 Q4 2021 survey was conducted January 1-15, 2022 and completed by 416 business brokers and M&A advisors. Respondents completed 379 transactions this quarter. This is the 39th 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	

Market Outlook Positive for 2022

Deal activity continued at an intense pace in the fourth quarter of 2021, as advisors reported an uptick in both incoming deal flow and completed engagements. More advisors characterized this as a seller's market than nearly any other time in the survey's 10-year history.

Businesses with enterprise value of $5 million to $50 million earned an average multiple of 6.0 (another survey peak), realizing an average final sale price at 113% of benchmark. Meanwhile, time to close shrank in nearly all market segments. Time to close was likely facilitated by the higher rate of buyer competition as well as a push to get deals closed before year-end.

A number of economic factors are driving M&A. High levels of dry powder, the availability of debt, and the favorable cost of debt are key factors contributing to market momentum. The competitive labor market may also be playing a role. When organizations can't find the talent they need to staff expansion plans, acquisition presents an alternate strategy to grow.

Notably, concerns over proposed hikes in the capital gains rate may have driven some sellers to market in 2021. While those tax increases did not come to fruition, some business owners will be watching the 2022 midterm elections to gauge the political winds and time their exit accordingly. Others may still decide to go to market in early 2022 to stay safely ahead of potential changes.

Deal Term Trends in 2021

New this survey, advisors were asked to report on deal terms negotiated in 2021 transactions. The following summarizes current trends in non-compete, seller transition, and seller employment agreements for Main Street and the Lower Middle Market:

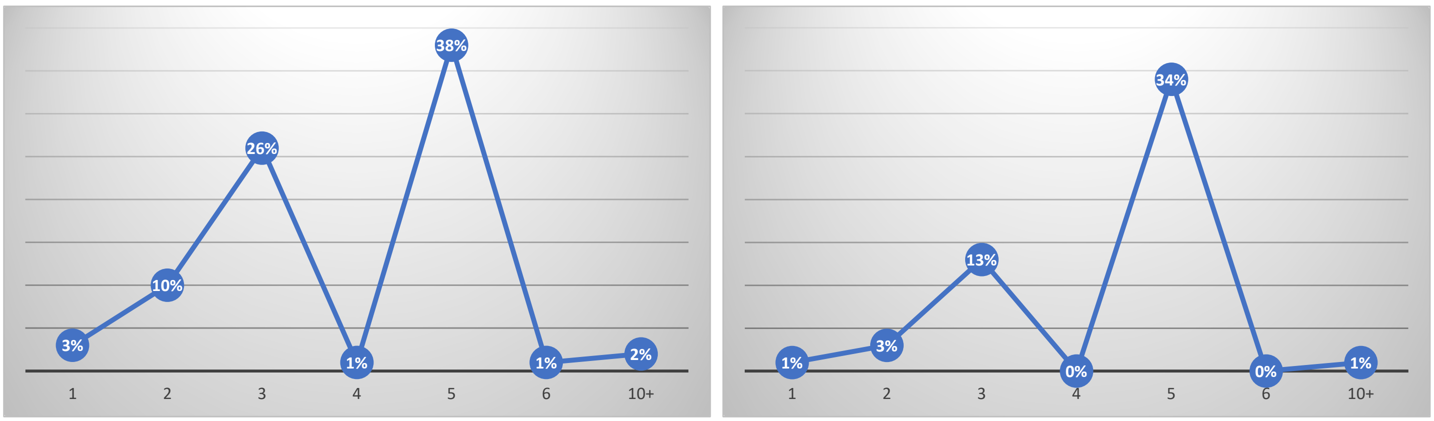
Non-Compete Period

Non-compete clauses restrict a seller's ability to operate or engage in a competing business for a period of time after closing. Survey responses show that three to five years is the prevailing non-compete period.

FIGURE 2: SELLER'S NON-COMPETE PERIOD

YEARS SELLER'S NON-COMPETE PERIOD FOR DEALS <$2M PURCHASE PRICE

YEARS SELLER'S NON-COMPETE PERIOD FOR DEALS $2M - $50MM ENTERPRISE VALUE



Seller Transition Period

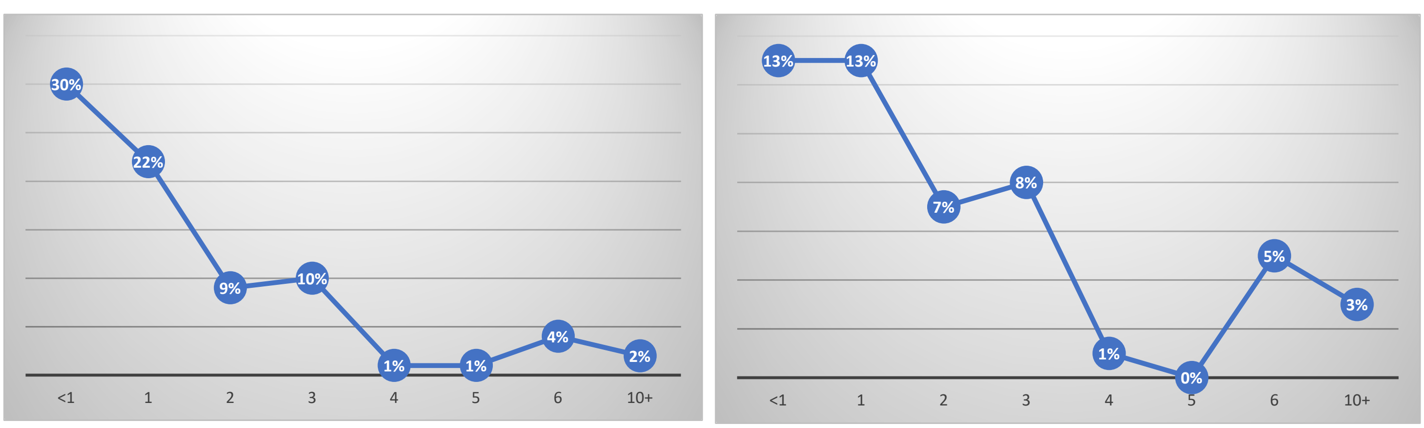
Most sales involve some sort of transition period in which the seller stays on to train the buyer, hand over key relationships, and otherwise set the buyer up for success. In a short term transition of three months or less, many times an arrangement is made as part of the sale price. For longer transition periods, it's often done as a consulting or employment agreement.

In the Main Street market, 30% of sellers provided less than one month of transition support, 22% provided one month, and 27% provided two months or more. In the Lower Middle Market, 13% of sellers provided one month of transition support, and 24% provided two months or more.

FIGURE 3: SELLER TRAINING PERIOD

MONTHS SELLER TRAINING FOR DEALS <$2M PURCHASE PRICE

MONTHS SELLER TRAINING FOR DEALS $2M - $50MM ENTERPRISE VALUE

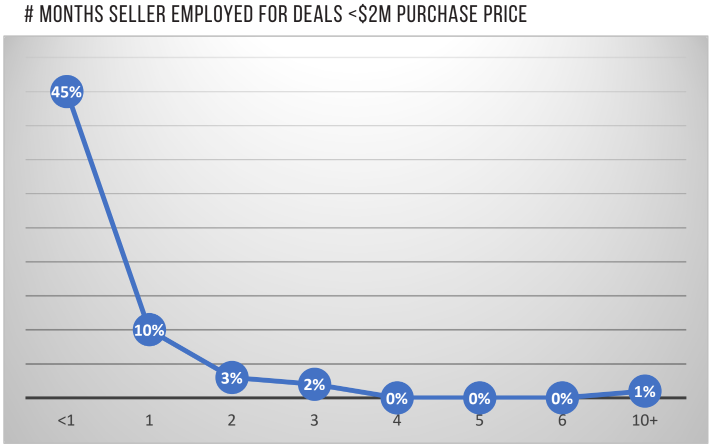


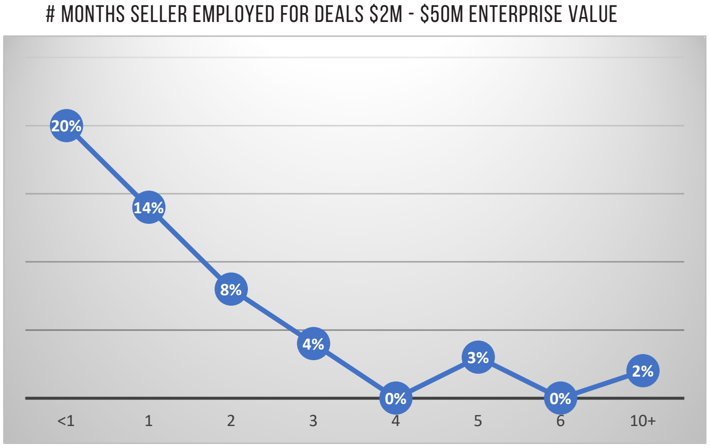
Seller Employment/Consulting

Some agreements involve an extended transition period for which the seller is either designated as an employee, drawing a salary and benefits, or is retained as a consultant. Buyers and sellers may wish to negotiate an employment contract for a variety of reasons, such as when the business is dependent on the owner's knowledge, relationships, or involvement, or when a seller is looking to stay with the business but wants to alleviate the pressures of ownership.

Survey responses show that seller employment agreements (of one month or more) were used in 16% of Main Street deals and 31% of lower middle market transactions.

FIGURE 4: SELLER EMPLOYMENT/CONSULTING





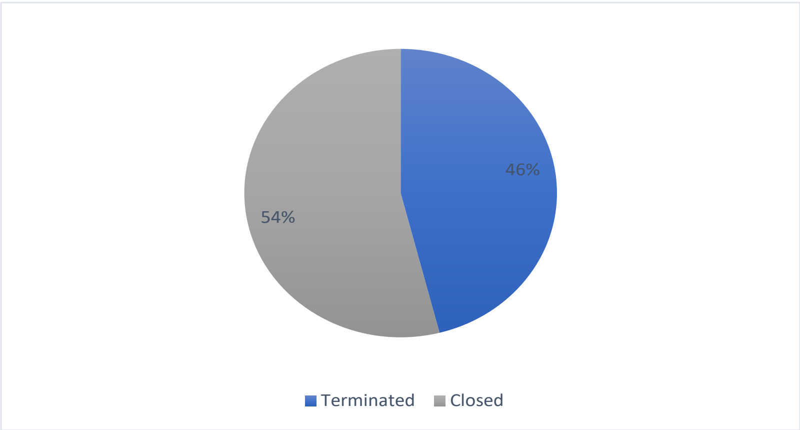
"We expect extended seller transition periods to become more common, as long as the labor market remains tight," said Lisa Riley, President of Delta Business Advisors, LLC. "Succession planning has become more challenging as business owners struggle to recruit and retain the kind of experienced, empowered management teams that buyers like to see in a transition."

"One way business owners can make their companies more salable is by committing to an employment contract or consulting agreement. These reduce pressures on the buyer to find high-level replacements immediately," Riley continued. "Business owners who stay on with performance incentives or equity positions will gain even more buyer interest, as it demonstrates they're taking an active stake in the buyer's future success."

M&A Activity

Advisors reported that 46% of their engagements terminated without closing in Q4 2021. This is one of the lowest termination rates reported 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.

FIGURE 5: PERCENT OF TRANSACTIONS CLOSING



"An increase in closure rates could be reflective of increased competition in the M&A market. Buyers may be willing to pay more (meeting seller's valuation expectations) or they may be more willing to take on distressed operations in a time of strong economic confidence," said Kyle Griffith, managing partner, The NYBB Group.

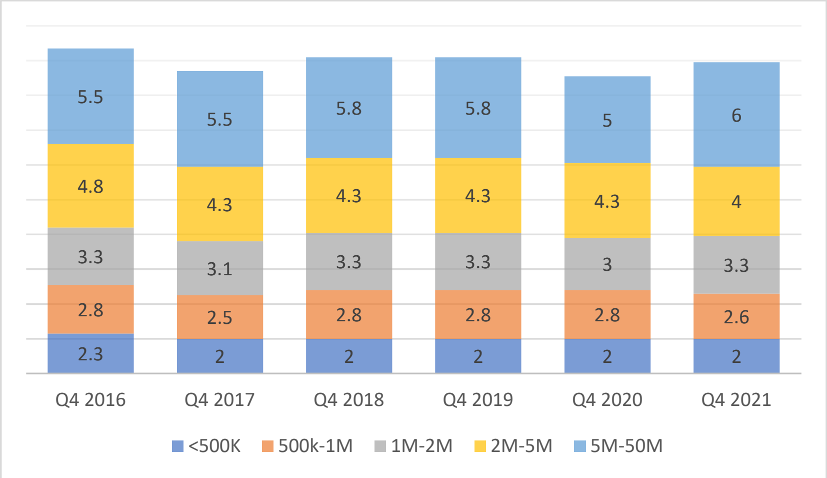
"Also possible, however, is that the increased rate of deal flow has changed how advisors vet and accept new clients. When the number of new clients coming to market is strong, as it was in 2021, advisors may be less likely to take on engagements that are either unlikely to sell or unlikely to meet a seller's inflated price expectations," Griffith continued.

Business Value

On average, business valuations have held relatively steady in the Main Street market, varying from 2.0-3.3x 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.

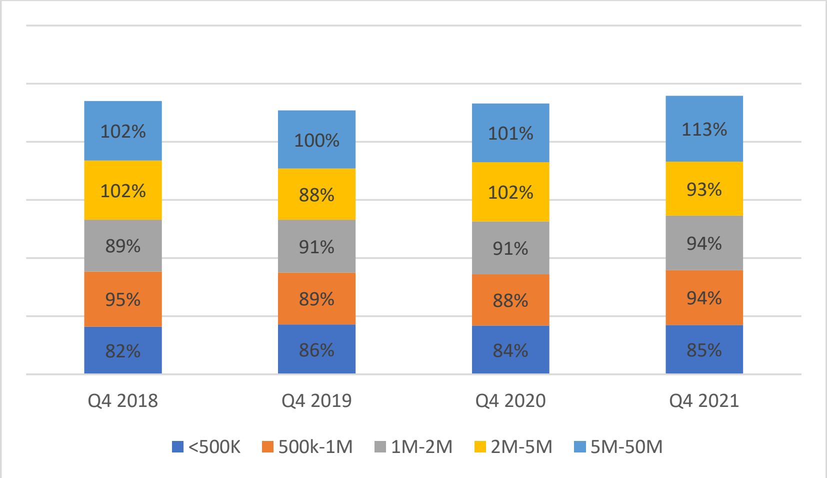
Businesses with enterprise value of $5 million to $50 million earned an average multiple of 6.0x EBITDA (a survey peak) and realized an average final sale price at 113% of benchmark.

FIGURE 6: 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 7: AVERAGE SELLING PRICE AS % OF ASKING/BENCHMARK PRICE



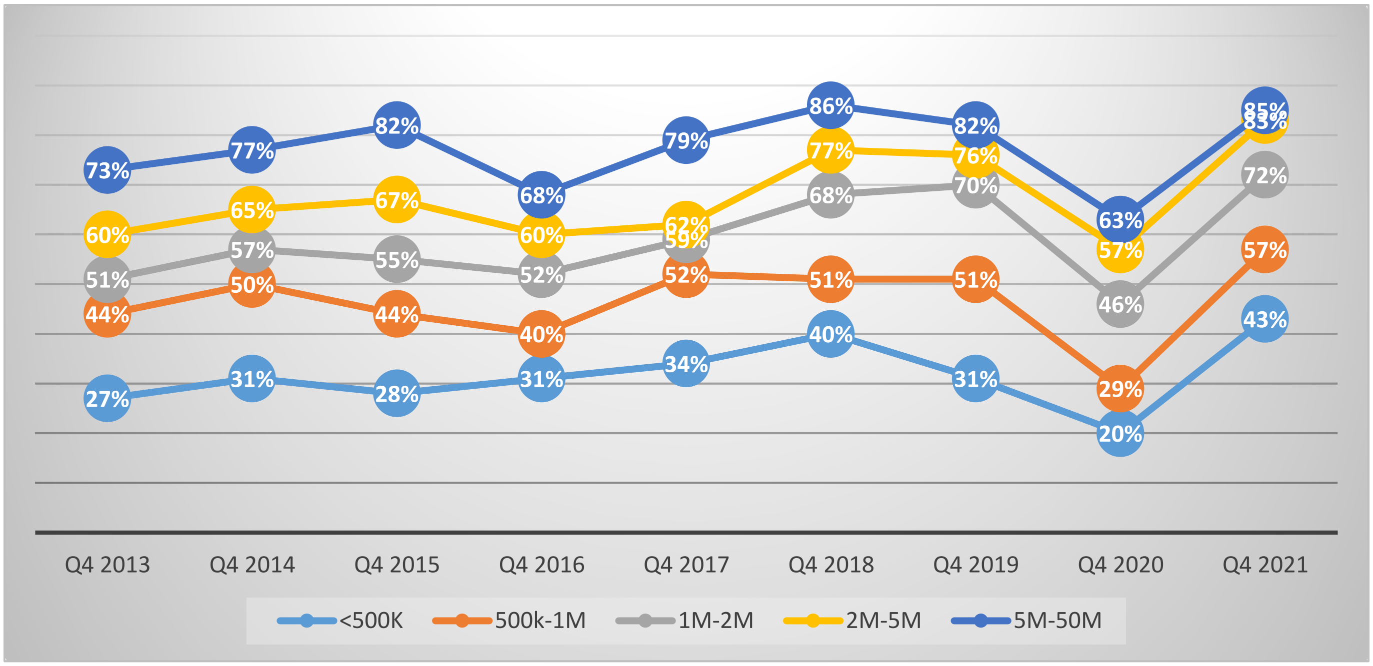
Seller's Market

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.

In Q4 2021, seller market sentiment rebounded, setting a new peak in all but the $5M-$50M sector.

"Business confidence, and competition, is high. It's amazing how fast we rebounded to record levels," said Anthony Citrolo, managing partner of The NYBB Group. "This is the strongest upward swing we've seen in any 12-month period."

FIGURE 8: SELLER MARKET SENTIMENT, 2013-2021 Q4



Time to Close

The average time to sell a small business shrunk slightly in Q4 2021, varying from six to 10 months. Of that time roughly 60 to 120 days are spend in due diligence and execution, after a signed letter of intent or offer.

"The end of the year is always a time of heightened activity as parties on both sides of the table work to meet self-imposed deadlines, and yet the due diligence period has remained fairly consistent," said Jeff Swiggett, President of VR Business Sales Mergers & Acquisitions. "Businesses are selling faster in this market, and that's a function of the increased competition we're seeing."

FIGURE 9: AVERAGE# MONTHS TO CLOSE FROM ENGAGEMENT

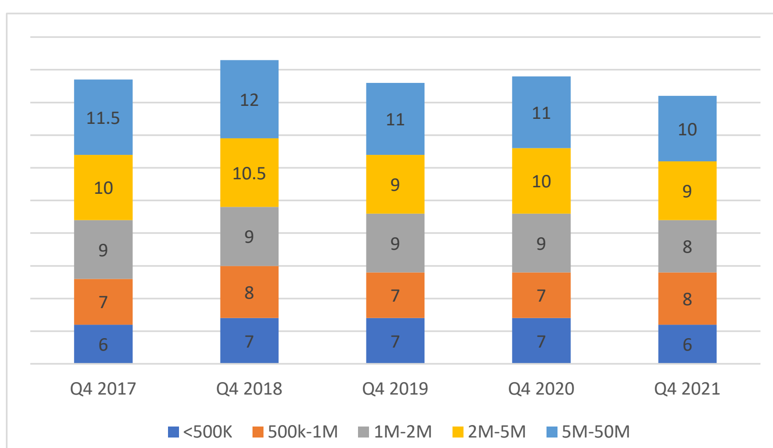
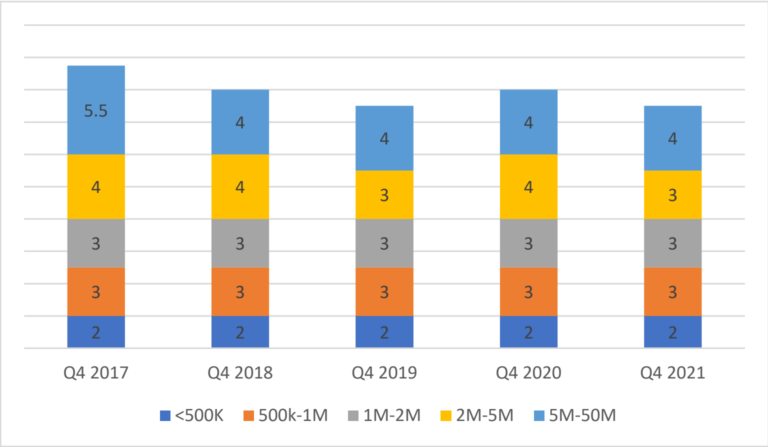


FIGURE 10: AVERAGE# MONTHS TO CLOSE FROM OFFER (LOI/PURCHASE AGREEMENT)

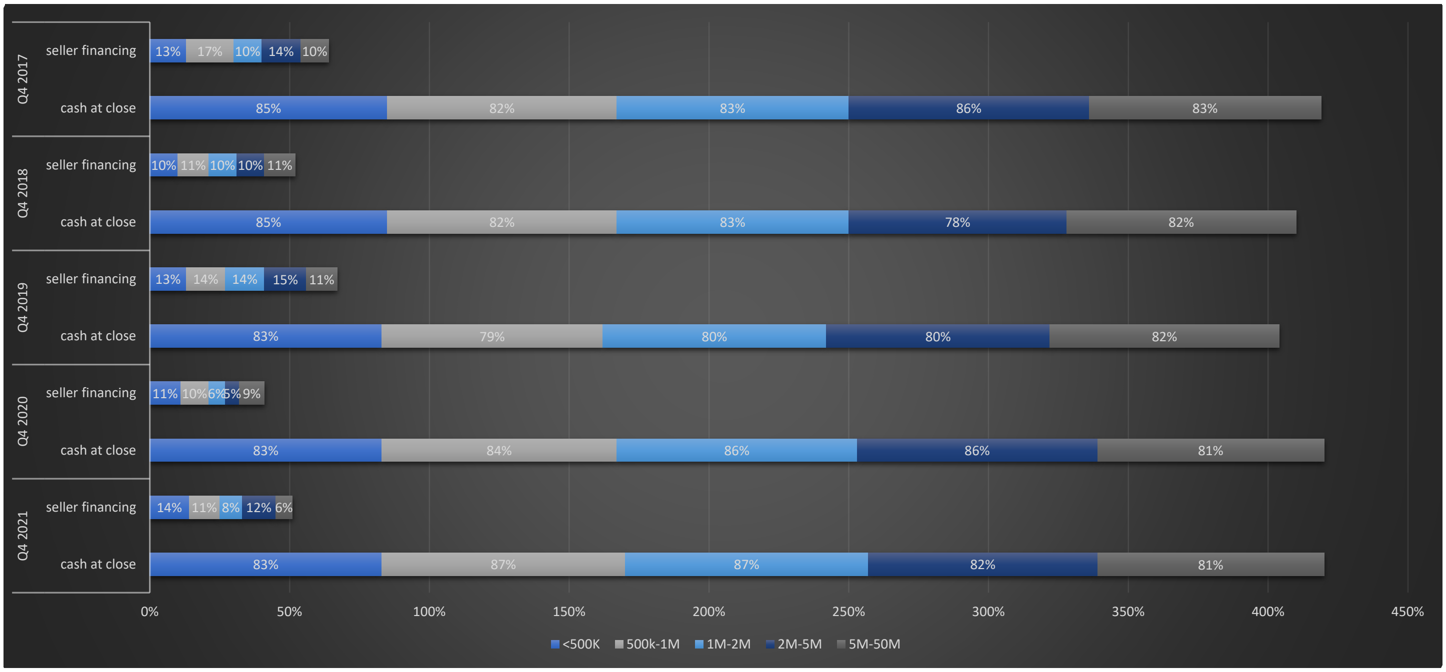


"It's not simply that buyers are moving faster. It's that in times of heightened competition, sellers are free to set tighter deadlines that keep deals moving forward," said Scott Bushkie, Founder, Cornerstone Business Services Inc. "Buyers that want to acquire a business in this market need to be well organized with their financing and advisory teams lined up and ready to go. Buyers need to vet and respond to opportunities quickly, or risk losing out to other players at the table."

Financing Deals in 2021

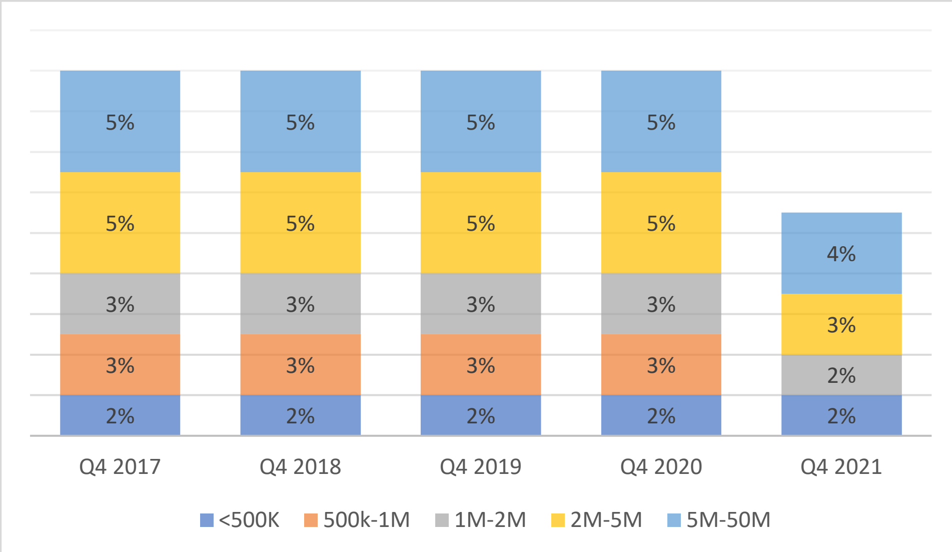
Deal financing has not changed significantly since before the pandemic. On average, sellers continue to receive 80% or more of total consideration as cash at close. (Cash at close includes senior debt and buyer equity.) Seller financing accounts for 15% or less of most deals.

FIGURE 11: CASH AT CLOSE VS SELLER FINANCING



Other studies focused on the middle market have shown an increase in earnouts in 2020 and 2021 (likely due to uncertainties caused by COVID-19). However, according to Market Pulse results, advisors in the Main Street and lower middle markets have not seen an uptick in earnouts over the course of the pandemic.

FIGURE 12: EARNOUTS REMAIN CONISTENT IN MAIN STREET & LOWER MIDDLE MARKET



37%

of lower middle market deals came from the Manufacturing and Construction industries

2021 Top Industries

Looking at data for the whole year, personal services, construction, business services, and consumer goods/retail led the Main Street market in 2021, while manufacturing, construction and wholesale/distribution led in the lower middle market.

Survey results for the Main Street market remained fairly consistent year over year: Personal services 15% in 2021, 16% in 2020; Construction/engineering 12% in 2021, 10% in 2020; Business services 12% in 2021, 11% in 2020, Restaurants 11% in 2021, 15% in 2020.

In the lower middle market, manufacturing led at 21% of transitions, followed by construction at 16%, wholesale/distribution at 12%, and business services and consumer goods, both at 9%. This represents a slight increase in manufacturing over 2020 (17%), with most other categories relatively on trend.

FIGURE 13: 2021 BUSINESS SALES BY INDUSTRY - MAIN STREET

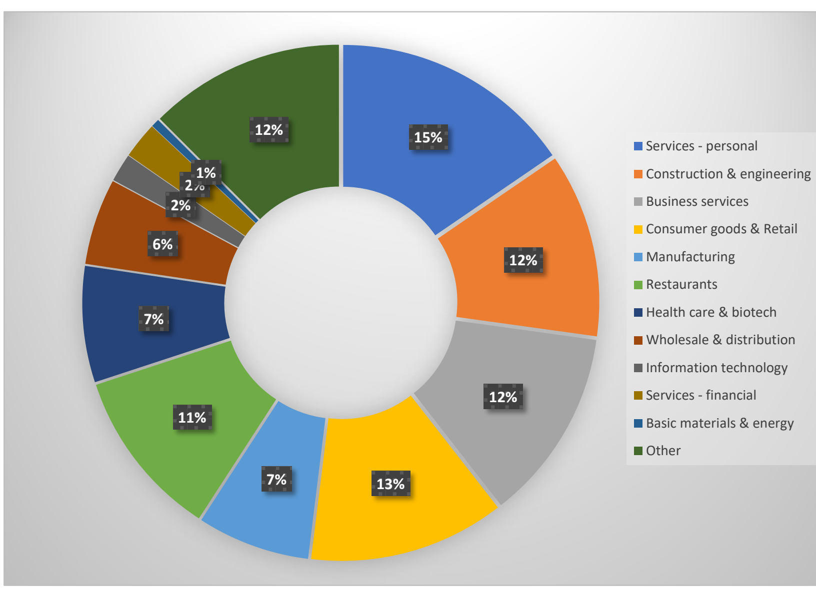
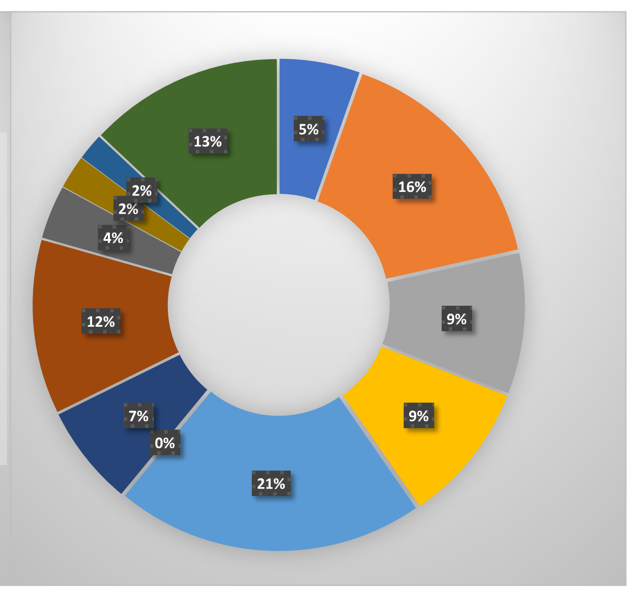


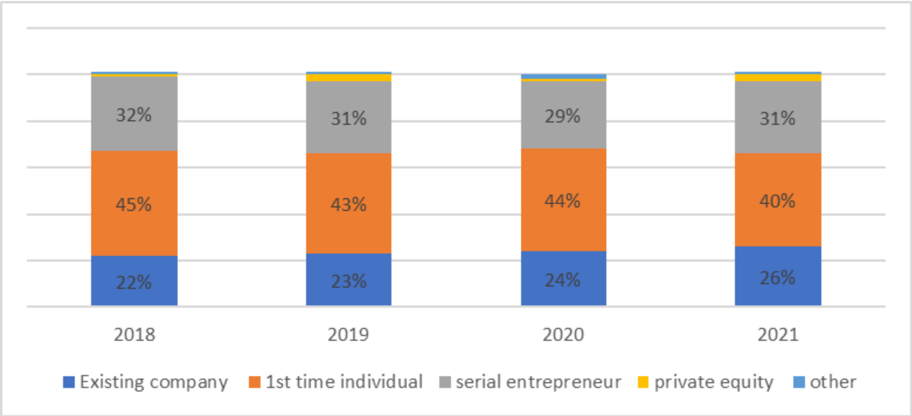
FIGURE 14: 2021 BUSINESS SALES BY INDUSTRY - LOWER MIDDLE MARKET



2021 Active Buyers

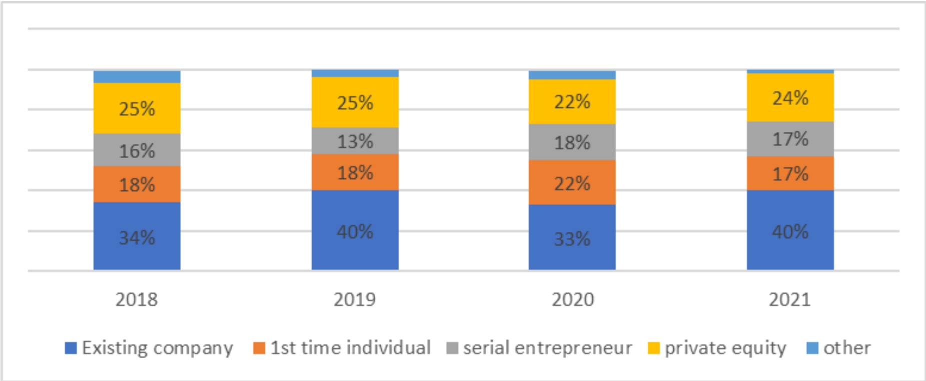
First time buyers dominated the Main Street market, followed by serial entrepreneurs and existing companies. In the Main Street market, individuals made up 74% of business buyers (40% first time buyers, 31% serial entrepreneurs).

FIGURE 15: ACTIVE BUYERS - MAIN STREET



In the lower middle market, 40% of buyers were existing companies. That makes sense as balance sheets are strong, and the lending environment is still conducive to acquisitions. With the labor market what it is, companies are having trouble finding the talent they need to grow organically, and that's driving businesses to look to acquisition for growth.

FIGURE 16: ACTIVE BUYERS - LOWER MIDDLE MARKET

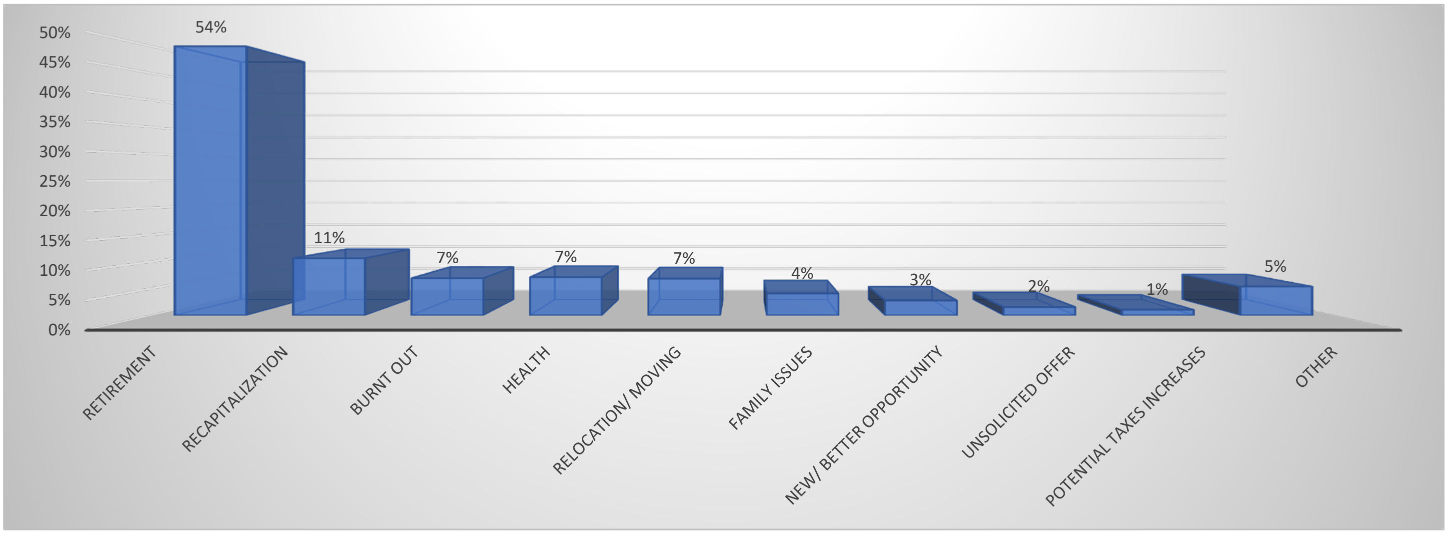


"Individual buyers drive the Main Street market, even in job markets like today. We're in a job market like we've never seen before, one in which people can command higher wages and benefits. And yet, people still want to own and build something themselves. People want the autonomy and control that comes from ownership," said Randy Bring, Senior Associate/Partner of Transworld Business Advisors.

Exiting Without a Plan

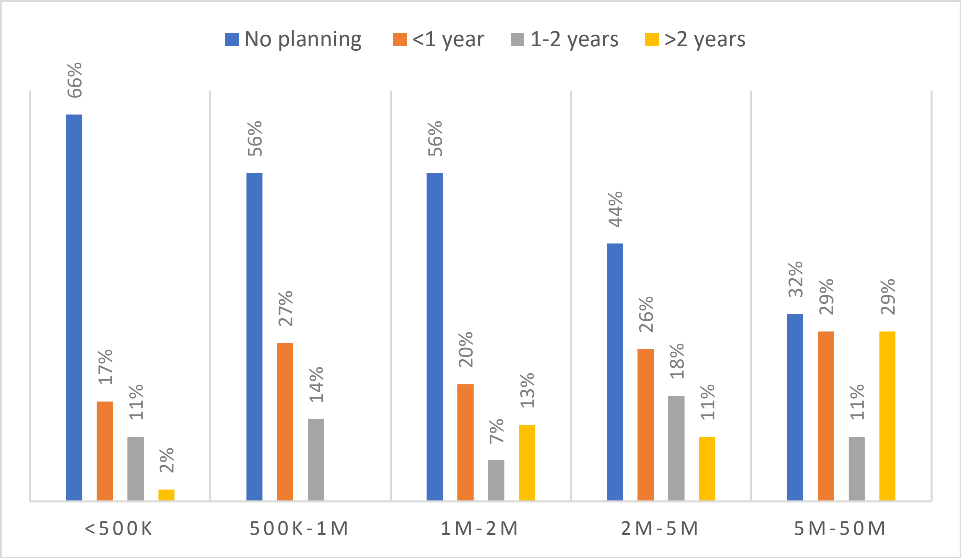
In 2021, more than half (54%) of all small business sellers were planning to retire. Yet even though retirement leads as the number one reason for sale, most buyers do not engage in a proactive planning process, particularly in the Main Street market. Generally, the smaller the business, the less likely the owners are to do any planning prior to going to market.

FIGURE 16: REASONS SELLERS WENT TO MARKET IN 2021



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 market listing.

FIGURE 17: LITTLE TO NO PLANNING OCCURS



"We really do need to find a way to reach business owners earlier in the process," said David Ryan, Advisor, Upton Financial Group in California. "This is likely the largest transaction of a business owner's life, and they're not planning for it in a strategic way that will increase both value and their exit options."

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.