

Q4 2023

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MARKET PULSE

INTERNATIONAL BUSINESS BROKERS ASSOCIATION | M&A SOURCE | FOURTH QUARTER 2023 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.

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AND

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The IBBA and M&A Source Market Pulse

SURVEY REPORT Q4 2023

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 Q4 2023 survey was conducted January 1-15 and was completed by 382 business brokers and M&A advisors. Respondents completed 330 transactions this quarter. This is the 47th edition of this quarterly report.

FIGURE 1: MARKET SEGMENTS STUDIED - PURCHASE PRICE/ ENTERPRISE VALUE

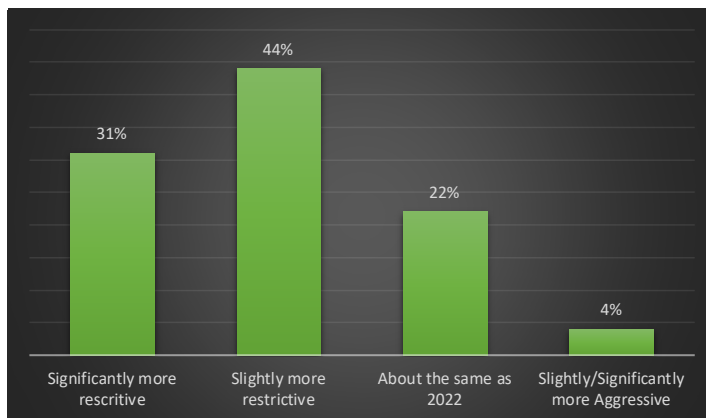
MAIN STREET	LOWER MIDDLE MARKET
Less than \$500K	\$2MM - \$5MM
\$500K - \$1MM	\$5MM - \$50MM
\$1MM - \$2MM	

Business Environment

The Market Pulse survey for Q4 2024 revealed a transitional year for deal-making, with mixed outcomes. Advisors closed a similar number of deals as last year, despite fielding an uptick in buyer interest via nondisclosure agreements (NDAs) and letters of intent (LOIs).

Cautious optimism exists for 2024, with advisors expecting a slight increase in M&A activity if interest rates and inflation drop. But after a year of tight lending conditions—which 75% of advisors described as “more restrictive”—access to capital is still an ongoing concern.

FIGURE 2: LENDING CONDITIONS: HOW HAS SENIOR LENDING CHANGED?



While we didn't see a big shift in Main Street valuations, market confidence remained low in this sector. Sellers received less cash at close, meaning they had to rely on additional seller financing or alternative deal structures.

And while sellers in the lower middle market benefited from a relative rebound in valuations, there too we saw an increase in earnouts and retained equity as tools to bridge the valuation gap.

“We anticipate a robust M&A market for LMM companies in 2024. The demand from strategic acquirers seeking growth, and private equity firms targeting add-on opportunities, coupled with large amounts of investable capital, has created a very high demand situation for quality LMM companies,” said Scott Mashuda, Managing Director of REAG. “As more sellers understand this dynamic, we anticipate that management teams previously focused on rising inflation and higher interest rates will refocus to strategic initiatives such as M&A in 2024,”

Mashuda continued.

“The lending environment is critical,” said Lisa Riley, CEO & Founder of Delta Business Advisors, LLC. “Consumer price inflation has cooled, and analysts predict several interest rate decreases in 2024, potentially starting in March. Once these dynamics shift, we hope to see lenders get a bit more flexible and increase their appetite for risk.”

FIGURE 3: #1 HEADWIND TO CLOSING DEALS IN 2023

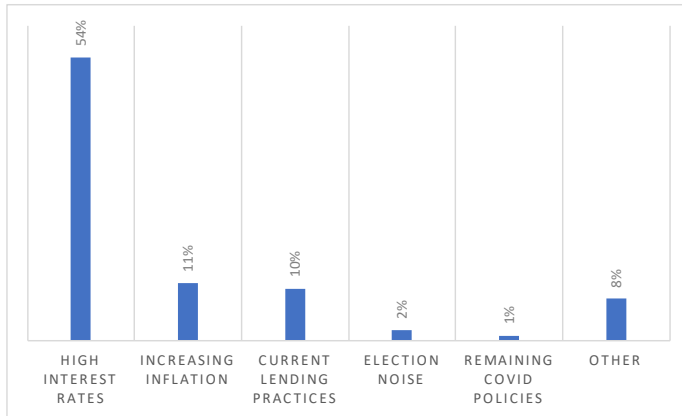
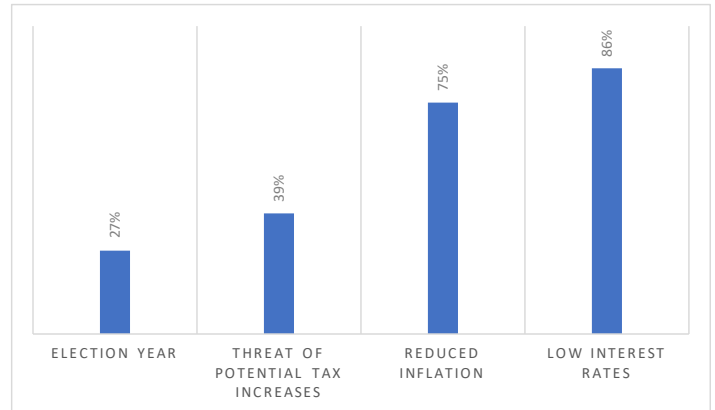


FIGURE 4: WHAT WILL INCREASE M&A ACTIVITY IN 2024?



“It’s difficult to say how election cycles impact M&A, as political policies don’t operate in a vacuum,” said Scott Bushkie, President of Cornerstone Business Services. “However, business owners generally expect a Democrat-led government will raise taxes. If the winds appear to be blowing that way, we could see more sellers moving to market before tax policy changes.”

Business Value

On average, sellers are receiving valuations at 86% 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 5.3x EBITDA, a meaningful jump over last year, but still down from the red hot market in Q4 2021.

FIGURE 5: AVERAGE SELLING PRICE AS OF ASKING/BENCHMARK Q4 2020-2023

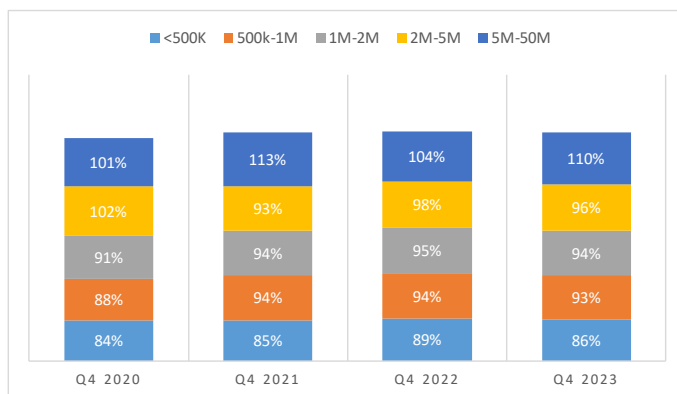
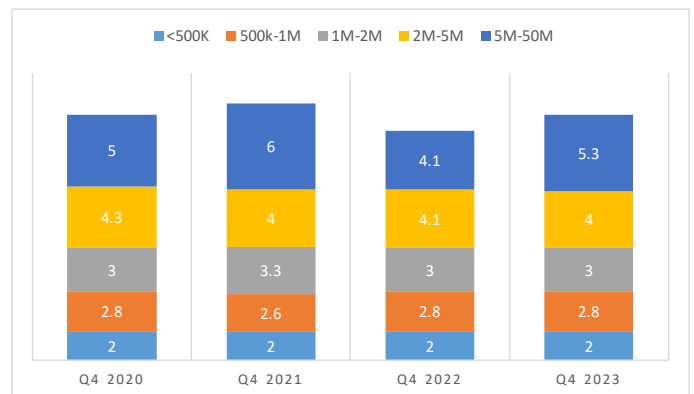


FIGURE 6: AVERAGE MULTIPLES BY DEAL SIZE Q4 2020-2023



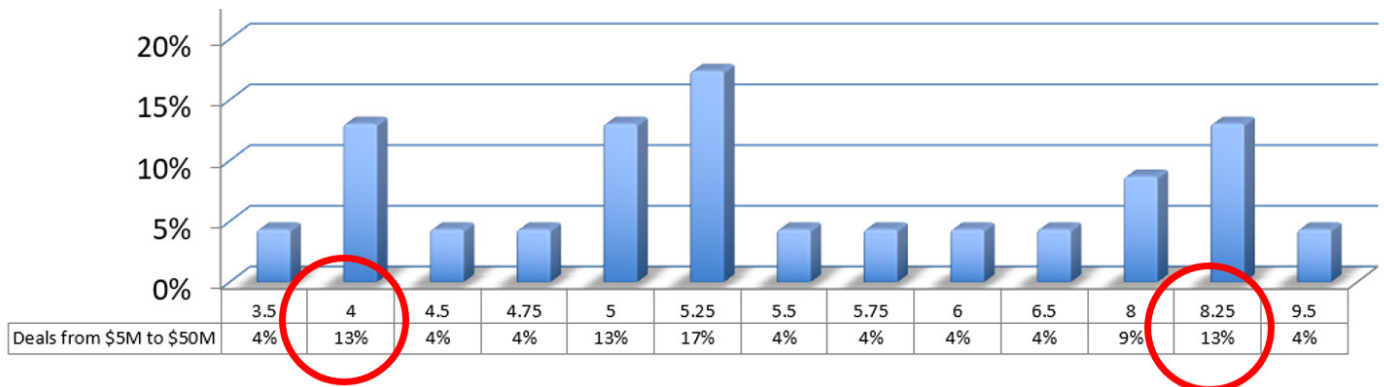
<\$1M in Purchase Price typically goes to market with an asking price whereas those in the \$5M-\$50M typically go to market without an Asking Price, however, with an expectation of what buyers will most likely pay. Those between \$1M & \$2M may fall in either camp. It greatly depends upon type of Buyer.

<\$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).

“Sellers continue to receive strong valuations in the current M&A market,” said Rob Margeton, Cofounder of Ryco Advisors. “The standout is the lower middle market where businesses over \$5 million in enterprise value are exceeding benchmarks. This reaffirms this segment as a sweet spot, with eager competition from private equity buyers and corporate buyers alike.”

However, averages don't tell the whole story. For example, while deals in the \$5-\$50M range earned an average multiple of 5.3, some of those deals earned a 4.0 multiple while an equal number earned 8.25. This reflects a wide divergence between valuations for top performers versus (potentially) struggling companies.

FIGURE 7: EBITDA MULTIPLES \$5-\$50M



“The flight to quality is more apparent than ever in today’s market,” said Lee Sheaffer, President of BizReady, Inc. “Well-run businesses with strong fundamentals and growth prospects continue to receive premium valuations and buyer interest. But weaker companies are getting left behind.”

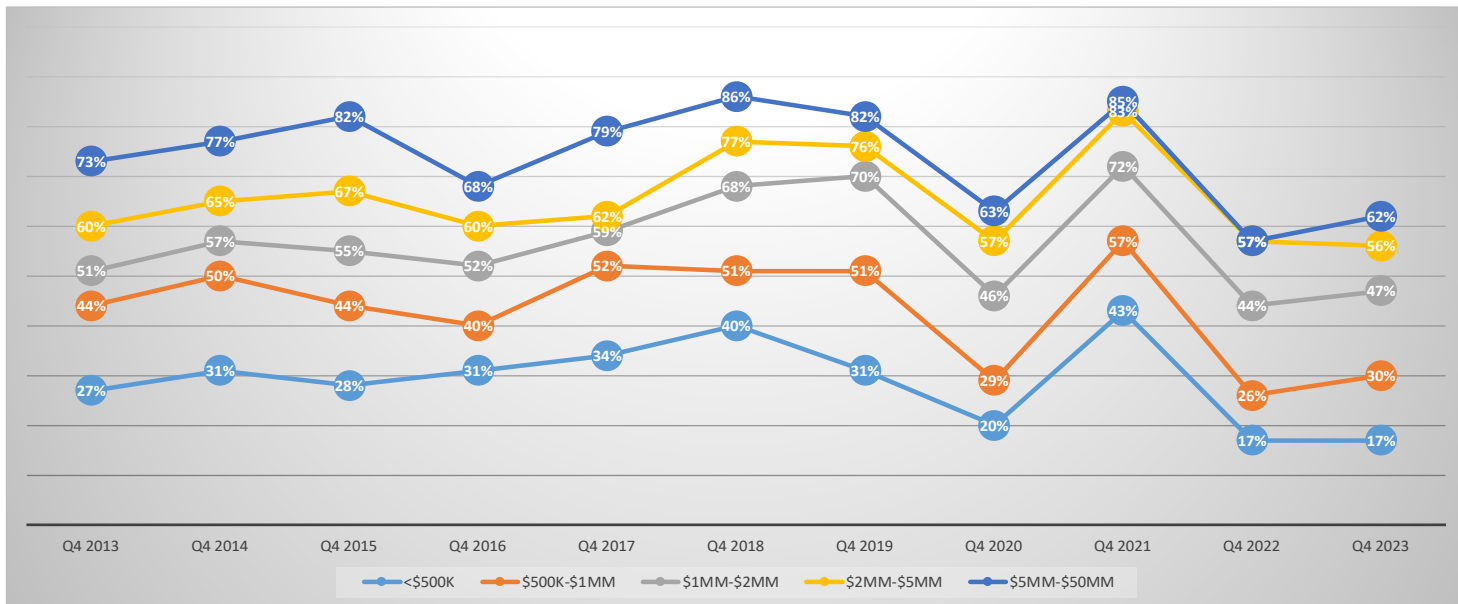
Sheaffer added, *“Preparation is key in this environment. Owners need objective assessments of their business’s strengths and weaknesses before going to market. The companies commanding high multiples are ones who made the investments to optimize operations, growth, and financials ahead of a sale.”*



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.)

FIGURE 8: SELLER'S MARKET SENTIMENT Q4 2013-2023

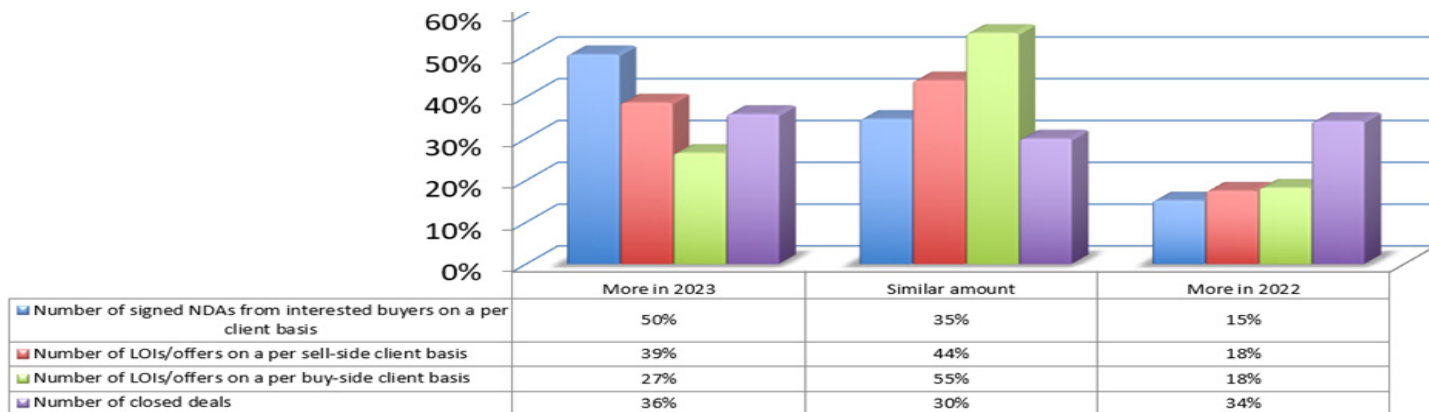


“Sentiment seems to be diverging from actual deal activity and pricing,” observed Brian Stephens of Legacy Venture Group. “While the global M&A market saw a slowdown in 2023, the data shows quality opportunities continue to command healthy valuations and buyer interest. We may be experiencing a normalization, but motivated buyers are still competing for the best companies.”

Buyer Interest

Overall, most advisors report receiving more NDAs and more LOIs than they fielded in 2022. And yet, closure ratios remained relatively flat.

FIGURE 9: OFFER TO CLOSURE COMPARISON

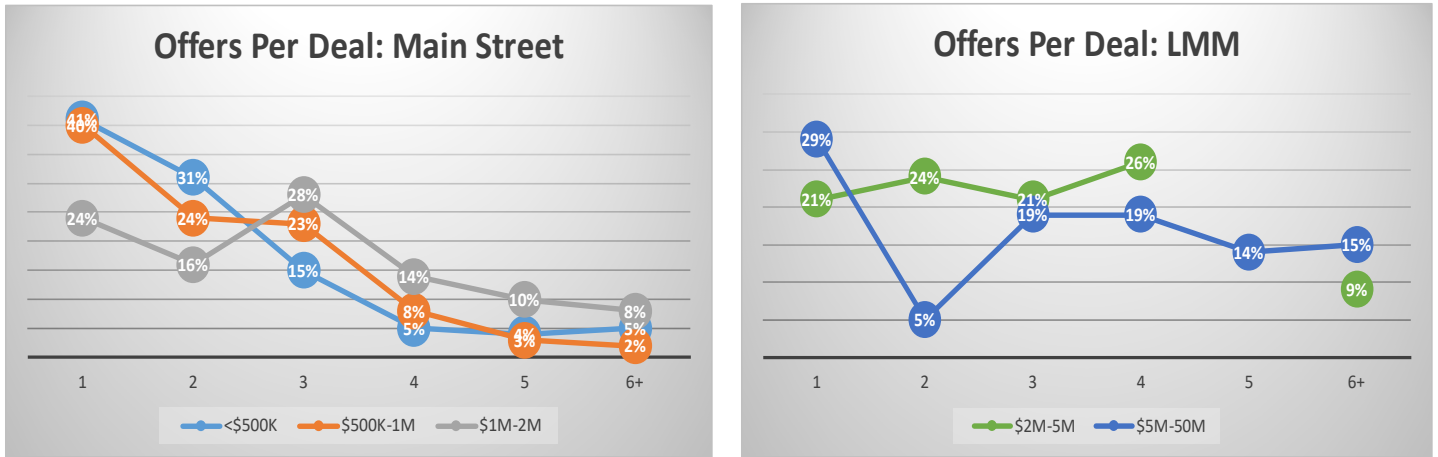


“Buyers were clearly motivated and interested in making acquisitions in 2023. Unfortunately, the financing environment provided a real obstacle to getting deals done,” said Kyle Griffith, Managing Partner of The NYBB Group. “Valuation expectations didn’t line up with financing realities, and that stalled some deals.”

The survey data highlights the enduring competition for larger, more valuable companies in the current M&A market.

While smaller deals under \$500k frequently receive just one or two bids, the bidding war heats up for larger assets. Two-thirds of deals over \$5 million attract at least 3 offers, with 15% drawing 6 or more interested parties.

FIGURE 10: # OF OFFERS PER DEAL - LARGER DEALS RECEIVE MORE OFFERS



“Generally the larger the company, the greater buyer interest,” said Pino Bacinello, President of Pacific Mergers & Acquisitions, Inc. “There’s an abundance of capital targeting larger companies. As deal size increases, so does the pool of financial and strategic buyers able and willing to pay premium prices.”

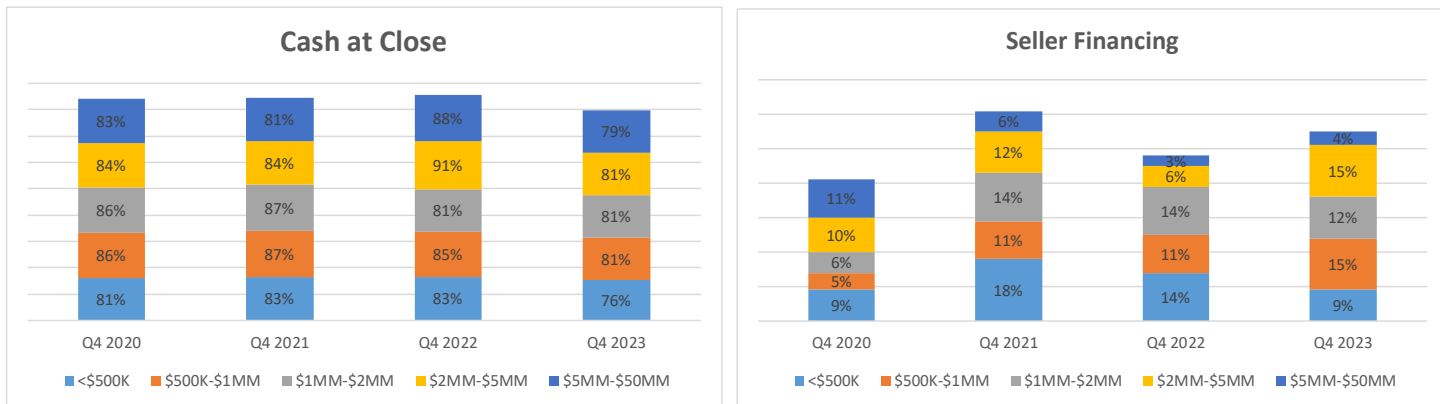
FIGURE 11: AVERAGE NUMBER OF OFFERS PER DEAL SIZE



Financing Deals in 2023

Sellers received slightly less cash at close in 2023. 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 accounts for 15% or less of most deals. For deals valued between \$5 million to \$50 million, earnouts (10%) and retained equity (6%) play a significant role in financing.

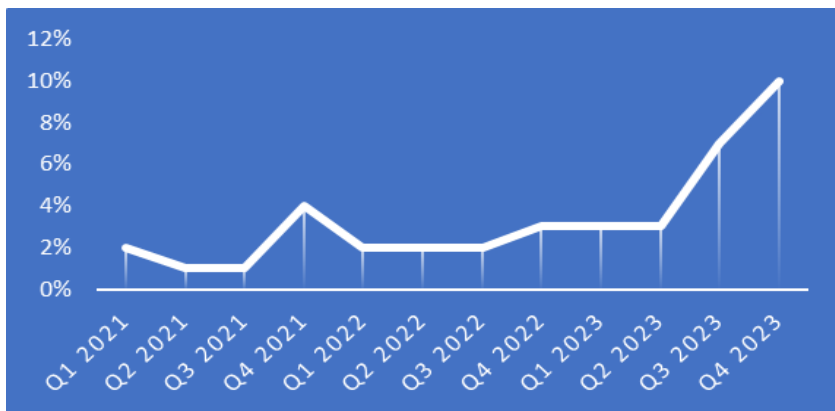
FIGURE 12: PERCENTAGE OF DEALS RECEIVING CASH AT CLOSE VS PERCENTAGE RECEIVING SELLER FINANCING Q4 2020-2023



“We saw an interesting dynamic this year in regards to interest rates and seller financing. Traditionally, the interest on seller financing is a point or two higher and shorter term, incentivizing buyers to pay off that debt sooner. But with the cost of financing being so high, we saw the equation flip,” explained Charles Spickert, CBI, President & Managing Broker of Touchstone Business Advisors. “Some sellers were offering lower interest rates as a tool to help buyers close the deal.”

The survey revealed earnouts becoming more prevalent in the lower middle market, with usage jumping to 7% of \$5-50 million deals in Q3 2023 and 10% in Q4. 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.

FIGURE 13: % EARNOUT BY QUARTER 2021-2023 FOR DEALS \$5 MILLION TO \$50 MILLION ENTERPRISE VALUE



“Earnouts have become more appealing as interest rates rise,” said Don Phippen, Owner of Sunbelt Lafayette. “Unlike debt financing, earnouts allow buyers to defer payments interest-free. There’s no cost of capital tied to an earnout.”

“Sellers maintain their valuation expectations, but buyers need additional financing support to make that happen in today’s lending environment. Earnouts are a compromise – sellers get the higher valuation they seek, and buyers reduce their financial risk. If conditions improve, both parties are rewarded,” said Valerie Vaughn, Senior Advisor of Apex Business Advisors.

Time to Close

The average time to sell a small business stayed relatively consistent in Q4 2023, varying from seven to 10 months. Of that time roughly three to four months are spent in due diligence, after a signed letter of intent or offer.

FIGURE 14: MEDIAN # OF MONTHS FROM ENGAGEMENT OF ADVISOR TO CLOSE BY DEAL SIZE

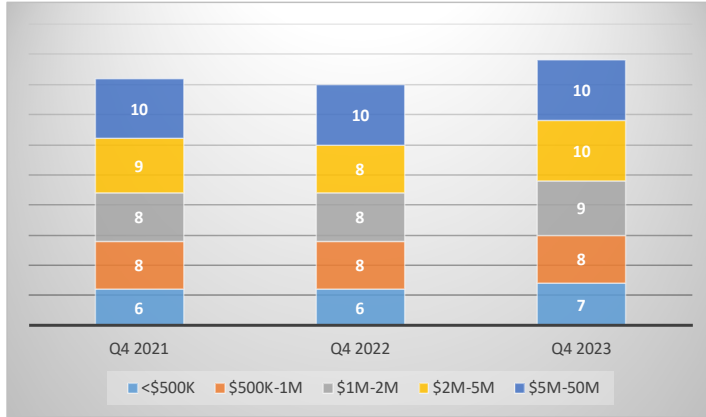
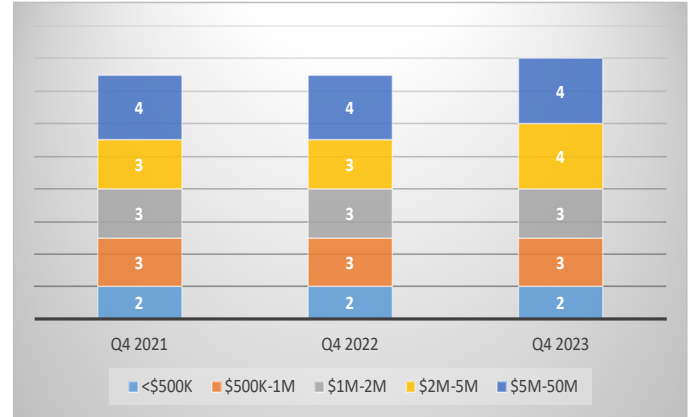


FIGURE 15: MEDIAN # FROM OFFER TO CLOSE BY DEAL SIZE



“Selling a business is a marathon, not a sprint,” cautioned Kathy Thiel, Founder of ThielGroup, LLC. “Just like runners hit the wall in a marathon, sellers can grow weary of the due diligence, negotiations, and legal work it takes to get a deal across the finish line. It’s vital they stay focused on driving the business forward those final few miles. The last year of financial performance will have a meaningful impact on the amount of money you take home after a sale.”

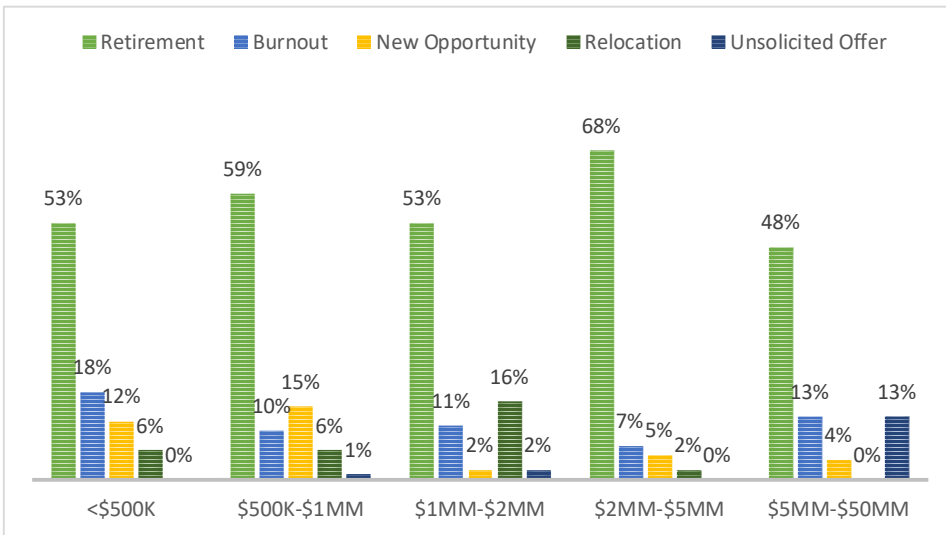


Exit Planning

In 2023, 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.

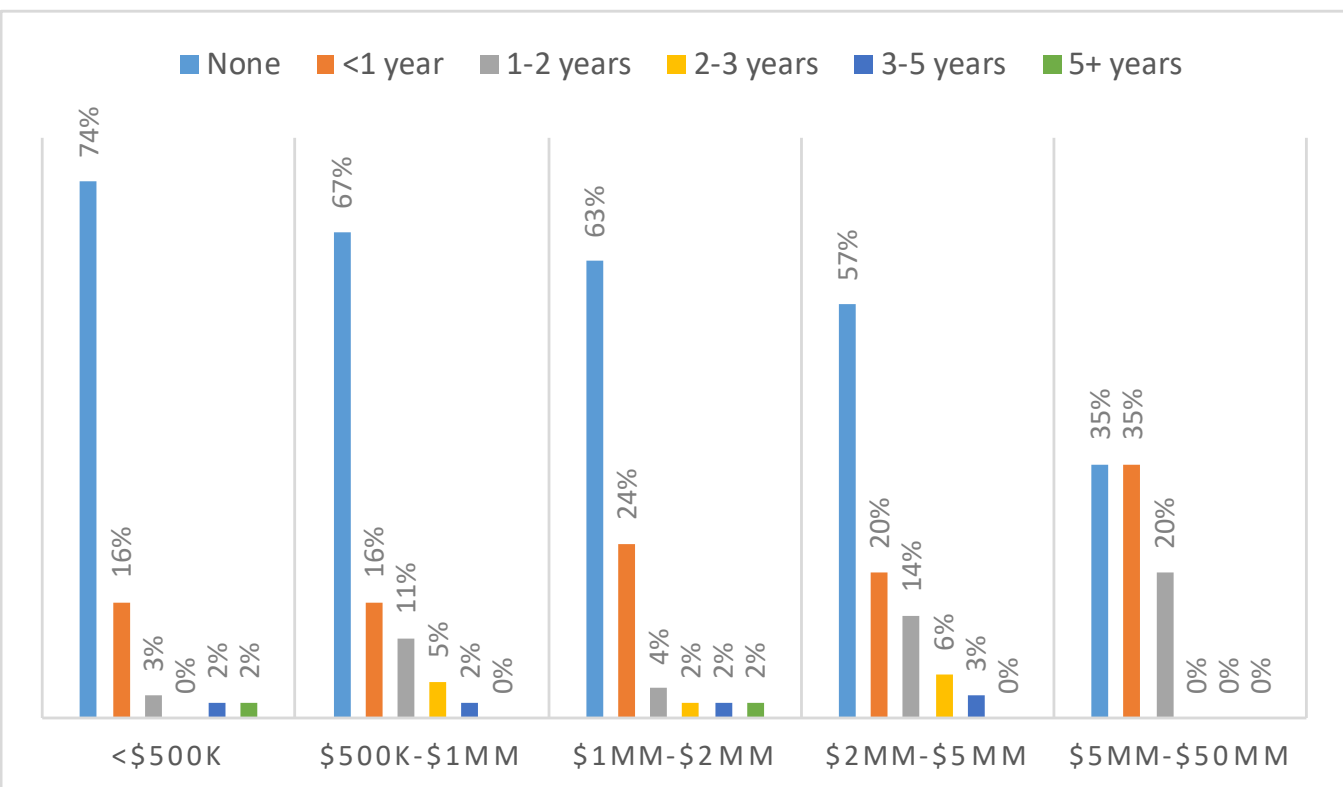
Of the sellers that do plan ahead, many are still moving through the exit planning process at a rapid pace, with less than a year between initial consultation and market listing.

FIGURE 16: #1 REASON SELLER WENT TO MARKET BY DEAL SIZE



“By taking strategic steps early on business owners can maximize value when they eventually decide to sell,” said **Tanya Popov, Managing Partner, INIX Consulting & Brokerage.** *“Simple preparations like getting your books in order, building out management, and understanding your value drivers go a long way. Partnering with an experienced M&A advisor ensures you can exit your business on the right timeline and terms.”*

FIGURE 17: PERCENT BUSINESS OWNERS WHO ENGAGED IN EXIT PLANNING PRIOR TO Q4 2023 SALE BY DEAL SIZE



2023 Top Industries

According to the survey, the top industries for transaction activity for all of 2023 were:

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

FIGURE 18: MAIN STREET BUSINESS SALES BY INDUSTRY 2023

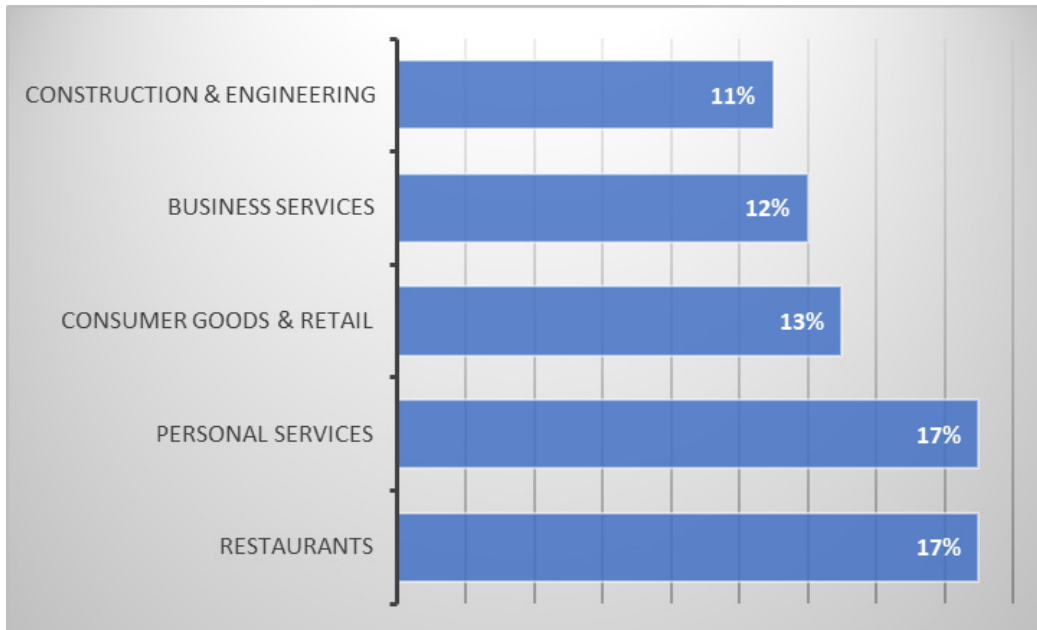
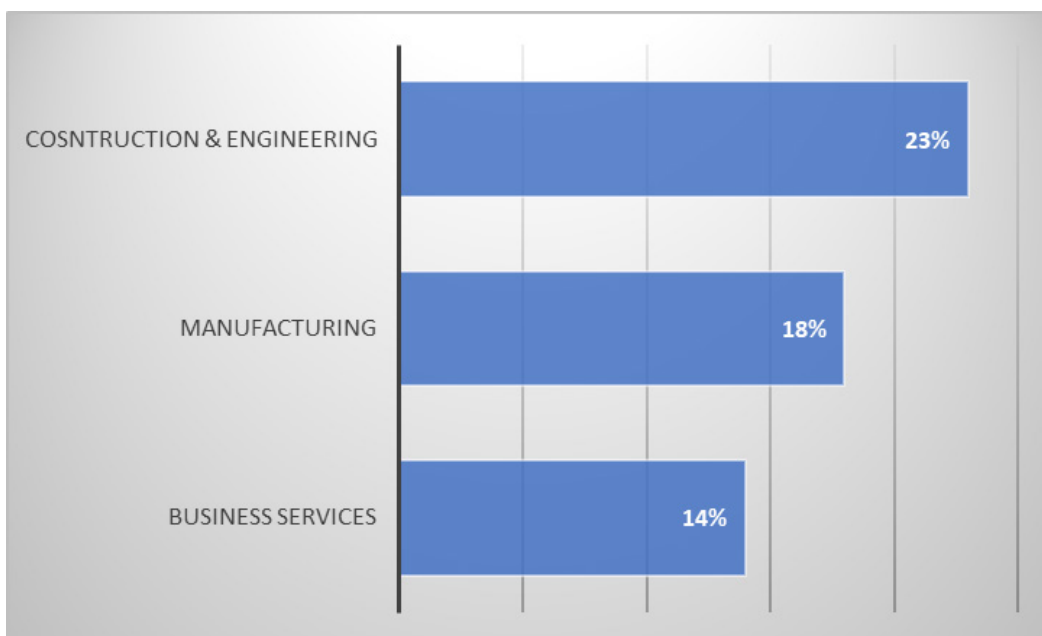


FIGURE 19: LOWER MIDDLE MARKET BUSINESS SALES BY INDUSTRY 2023

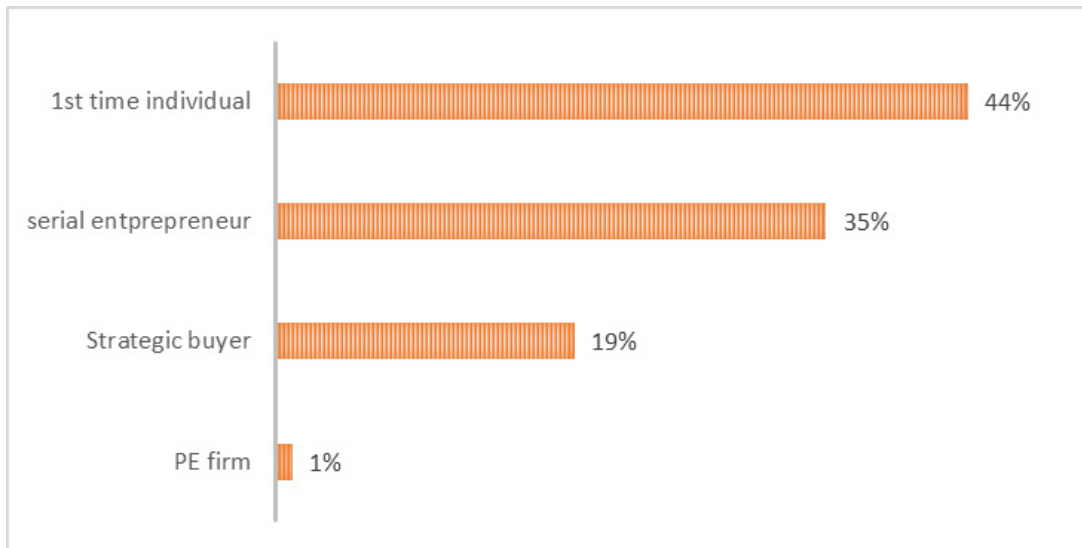


2023 Active Buyers

Individual buyers dominated the Main Street market in 2023. Calculating survey responses for all four quarters, we see that first time buyers made 44% of Main Street acquisitions followed by serial entrepreneurs (buyers who'd owned a business before) at 35%. This is on trend.

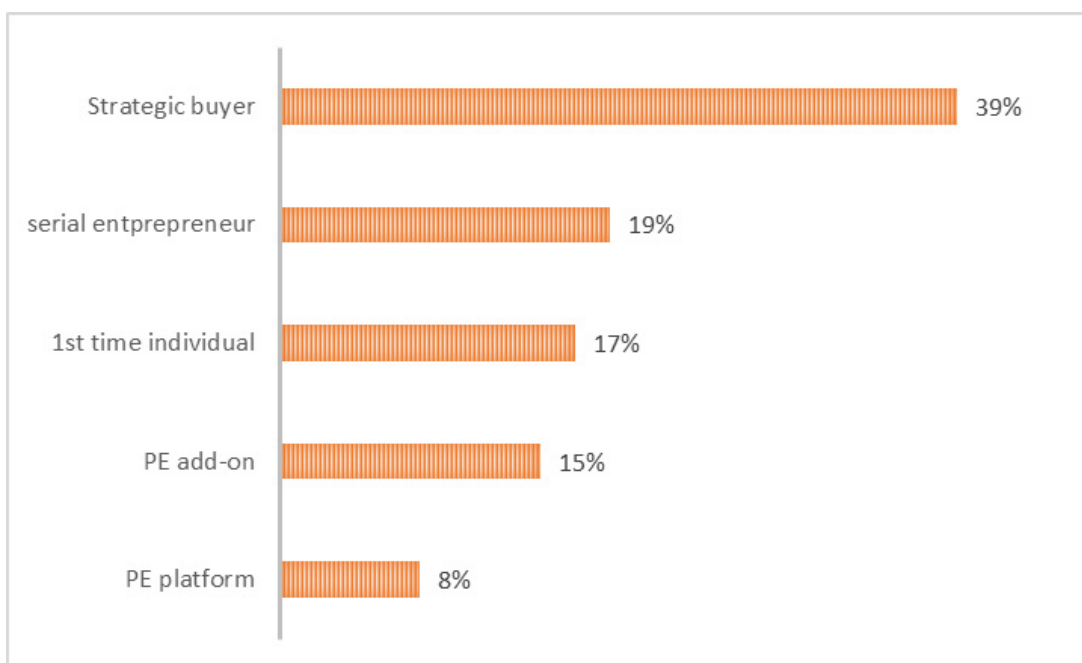
*“Owning a small business remains a path to freedom and self-determination for many,” said **Kathryn Guthrie, Managing Broker of The Liberty Group.** “Even when market dynamics shift, that motivation remains unchanged. It bodes well for Main Street sellers, even in uncertain times.”*

FIGURE 20: MAIN STREET MOST ACTIVE BUYER TYPES IN 2023



Individual buyers made their mark in the lower middle market as well, at 36% of acquisitions (17% first time buyer, 19% serial entrepreneurs). Once again, private equity made about a quarter (23%) of the acquisitions in this market.

FIGURE 21: LOWER MIDDLE MARKET MOST ACTIVE BUYER TYPES IN 2023



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