

Q2 2023

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BUSINESS BROKERS
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MARKETPULSE

INTERNATIONAL BUSINESS BROKERS ASSOCIATION | M&A SOURCE | SECOND 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.

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

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AND

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The IBBA and M&A Source Market Pulse

SURVEY REPORT Q2 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 IBBA and M&A Source present the Market Pulse Survey.

The Q2 2023 survey was conducted July 1-16, 2023 and was completed by 413 business brokers and M&A advisors. Respondents completed 347 transactions this quarter. This is the 45th edition.

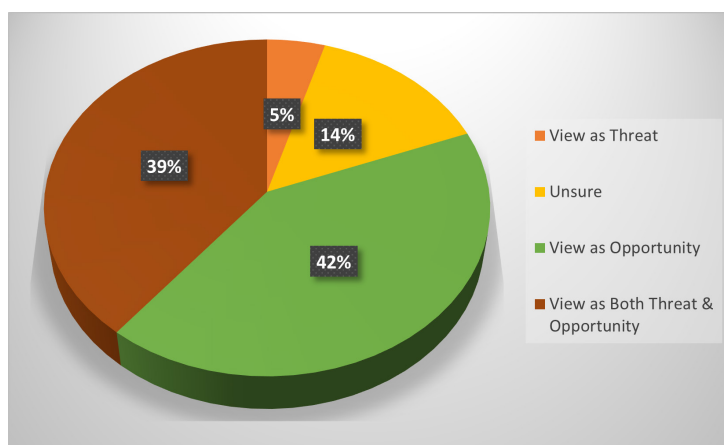
FIGURE 1: MARKET SEGMENTS STUDIED

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

How Advisors are Using AI Tools in 2023

Artificial Intelligence (AI) is becoming a game-changer across industries, and the M&A market is no exception. In the Q2 survey, we explored how our industry perceives AI, the current adoption rates of AI-powered tools, and the diverse ways in which AI could transform the way we work. While some see promise, others remain cautious.

FIGURE 2: ADVISORS' VIEWS ON AI IMPACT FOR INDUSTRY



Risk & Reward: Our survey reveals that nearly half the professionals in our industry (42%) view AI as an opportunity. They recognize its potential to revolutionize processes, improve decision-making, and enhance overall productivity.

On the other hand, 5% of respondents perceive AI as a threat. For them, AI represents an unknown landscape, with uncertainties and potential pitfalls. Striking a more balanced perspective, 39% of respondents see AI as both a threat and an opportunity.

AI Adoption: Despite the growing enthusiasm around AI, the majority of advisors (55%) have yet to utilize this technology. Here's how others are currently using AI:

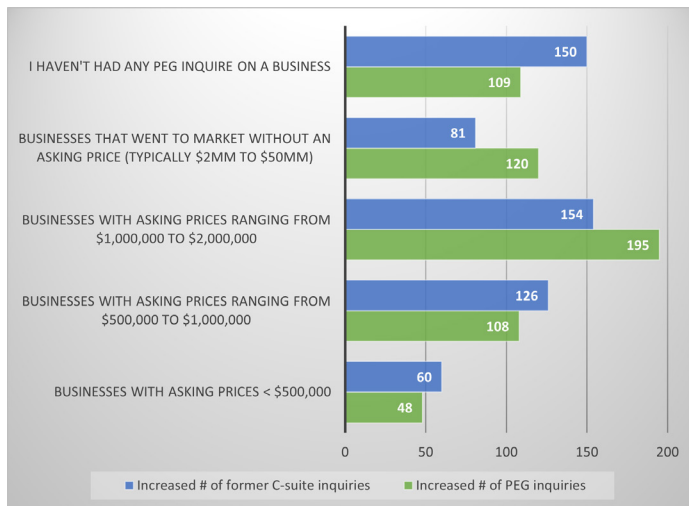
- 10% are using AI for customer service, including chatbots and virtual assistants
- 9% are using AI for natural language processing tasks, such as writing assistance
- 8% have AI incorporated into their customer relationship management (CRM) tools (e.g., Salesforce's Einstein, Zoho's Zia)
- 4% are using predictive or data analytics tools (e.g. RapidMiner, Alteryx)

“What we’re hearing from members is that they’re genuinely intrigued and eager to learn about what these tools can do,” said Kyleene Golubski, Executive Director of the IBBA and M&A Source. *“Generally advisors recognize that AI has the potential to improve efficiency. But not surprisingly, there are concerns about job displacement, ethics, and potential data vulnerabilities. So for now, most are in wait and see mode.”*

Greater Interest from PEGs and Former C-suite Individuals

Anecdotal evidence suggested advisors were fielding greater interest from private equity groups (PEGs) as well as individual buyers alike. Interest appears to be peaking among former C-suite individuals who generally have the net worth, the professional network, and the capabilities to consider business ownership. This quarter’s survey investigated that trend.

FIGURE 3: INCREASED NUMBER OF BUYER INQUIRIES BY DEAL SIZE IN 1ST HALF OF 2023



“We know pretty clearly what’s driving PEG activity in the Main Street and lower middle markets,” said Kyle Griffith, Managing Partner of The NYBB Group. *“Increased demand for deals has many of these buyers moving down market to reduce competitive pressure. And the lending climate is such that it’s easier for these groups to find financing for smaller deals right now. Private equity will consider almost any deal size for a strategic add-on acquisition.”*

“What’s less clear is why we’d be seeing a spike from C-suite individuals,” Griffith continued. “These high-net-worth individuals have always been an active part of the market, as they look to build something of their own and control their own destiny. Maybe we’re seeing some latent impact from the pandemic. Perhaps the Great Resignation is now reaching into the C-suite, as executives imagine a life with greater autonomy and freedom.”

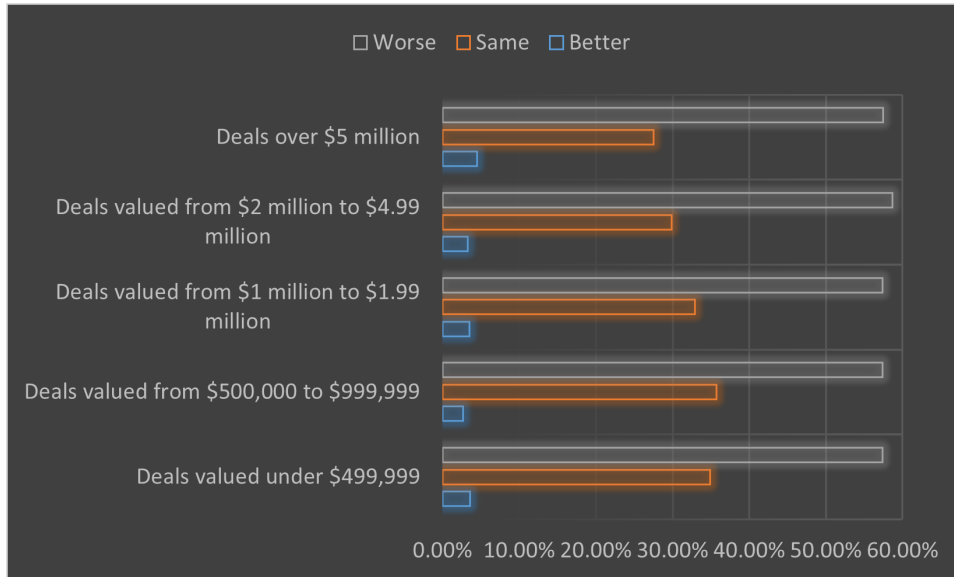
BizBuySell surveyed **700 individuals seeking to purchase a business** from July 2nd to July 10th, 2023. The Insights Report found that: forty-six percent (46%) said they want to leave their current job to be more in control of their future, with an additional 13% newly unemployed saying the same. One potential buyer stated:

“I have zero control over my salary. I haven’t had a raise in three years and it’s likely it won’t change much even if I go to another company. I want to take control over my financial health and earn a better income for the skill sets I have, not because someone else is trying to determine my value. Baby boomers are exiting the landscape and have done an incredible job building profitable, secure, recession-proof businesses.”

Lending Environment Remains a Challenge

A question on the lending environment revealed widespread concern among respondents. Across all deal value segments, the majority (57-58%) perceived the lending climate to have worsened from Q1 to Q2 this year. Only a small percentage (3-4.5%) reported an improvement in lending conditions, indicating caution and potential obstacles for businesses seeking financing in the current market.

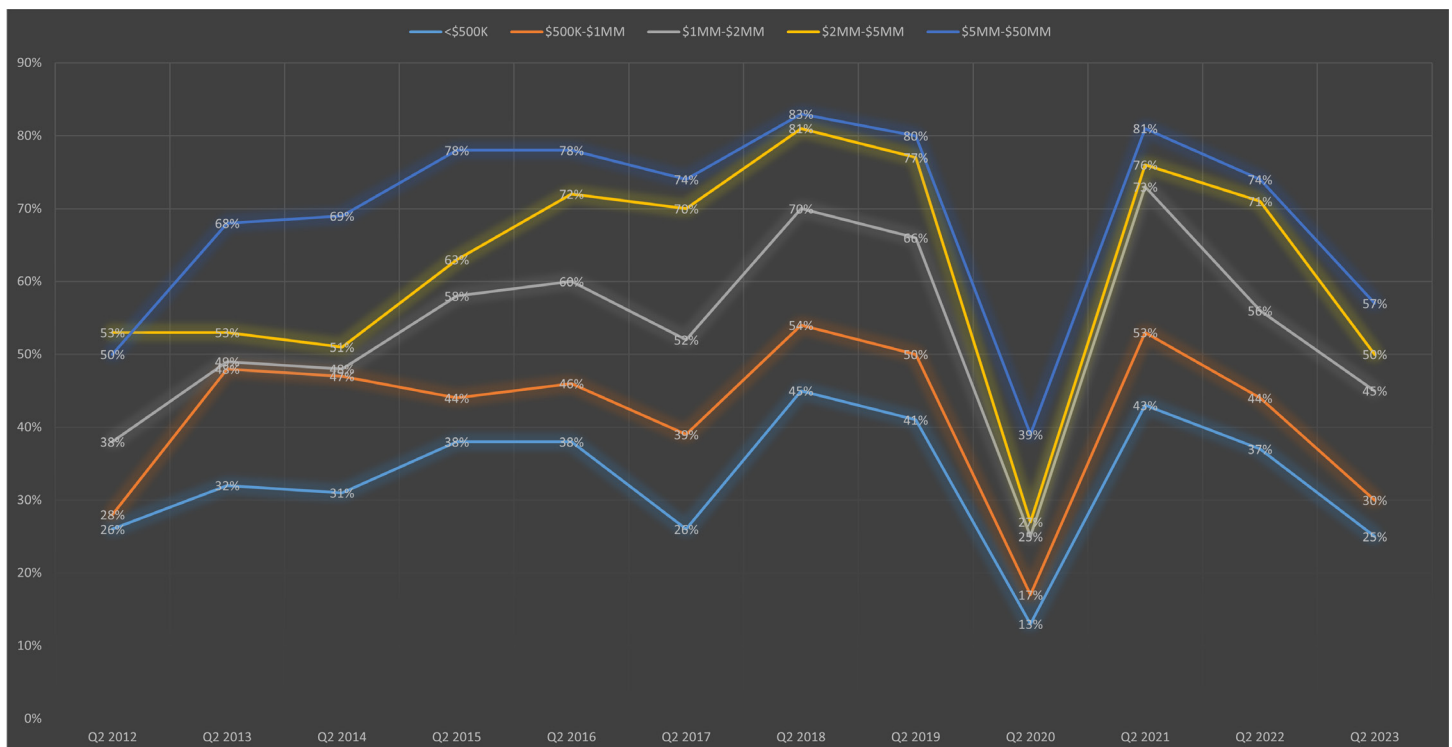
FIGURE 4: Q2 2023 LENDING ENVIRONMENT IMPACT ON DEALS BY SIZE COMPARED TO Q1 2023



Dip in Market Confidence

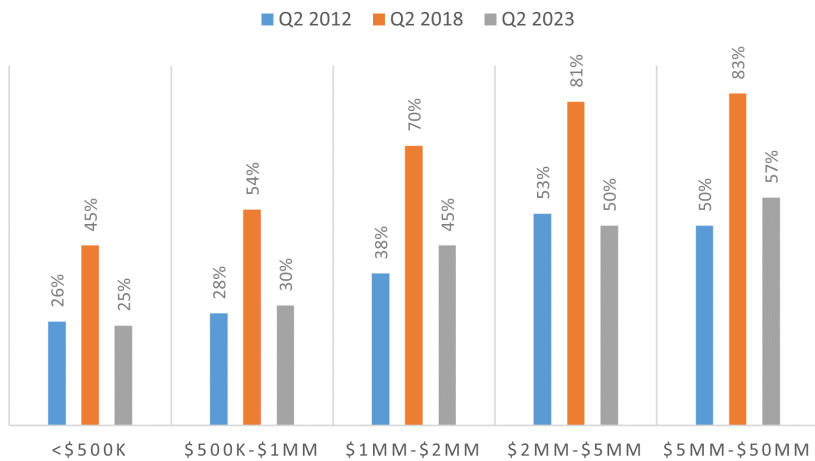
A seller's market is when sellers feel they have an advantage or it's a good time to sell, for instance when demand exceeds supply and there are more interested, active buyers than there are quality deals on the market. In a seller's market, buyers compete in order to win deals. This typically translates to increased values and more favorable deal terms for the seller.

FIGURE 5: SELLER MARKET SENTIMENT Q2 2012-2023



Q2 trends shows a downtick in confidence year-over-year. This could be due to any number of market headwinds, including high interest rates, tightened lending, and concerns over a soft recession ahead in 2024.

FIGURE 6: SELLER'S MARKET SENTIMENT, Q2 2012, 2018, 2023 BY DEAL SIZE



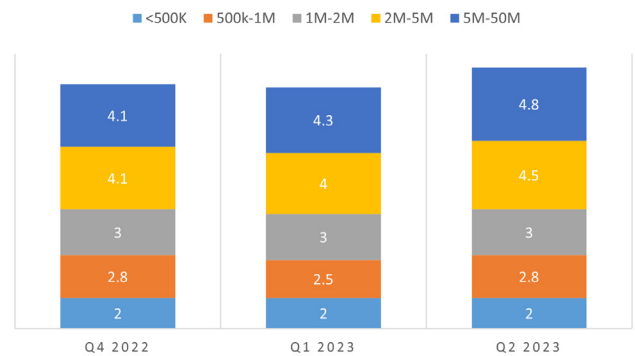
“Seller confidence is tracking close to 2012 levels, just when we were starting to emerge from Great Recession. Five years ago, confidence was at an all-time high. It just shows what we all know, the M&A market is cyclical,” said Lisa Riley, CEO & Founder of Delta Business Advisors LLC. *“It will be interesting to watch how market sentiment reacts to interest rates in the year ahead.”*

Business Value

Business valuations held steady in the Main Street market. Looking at the last three quarters, we see a stable trend. However, Q2 2023 median multiples in the \$5-50MM enterprise value are down (Figure 6), year-over year, suggesting interest rates or other factors are affecting the market as well as a rebound in the \$2-5MM enterprise values.

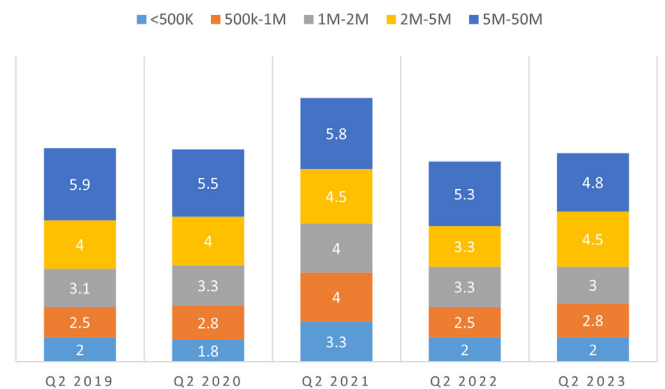
It appears that Buyers are paying much more in interest now. Thus, they either put in a lower price or accepted smaller returns, and right now the lower price appears to be winning.

FIGURE 7: MEDIAN MULTIPLES, LAST THREE QUARTERS



*<\$500K - \$2M enterprise value is typically reflected as multiple of SDE (sellers discretionary earnings);
\$2M-\$50M enterprise value is typically reflected as multiple of EBITDA*

FIGURE 8: MEDIAN MULTIPLES, YEAR-OVER-YEAR, Q2 2019-2023



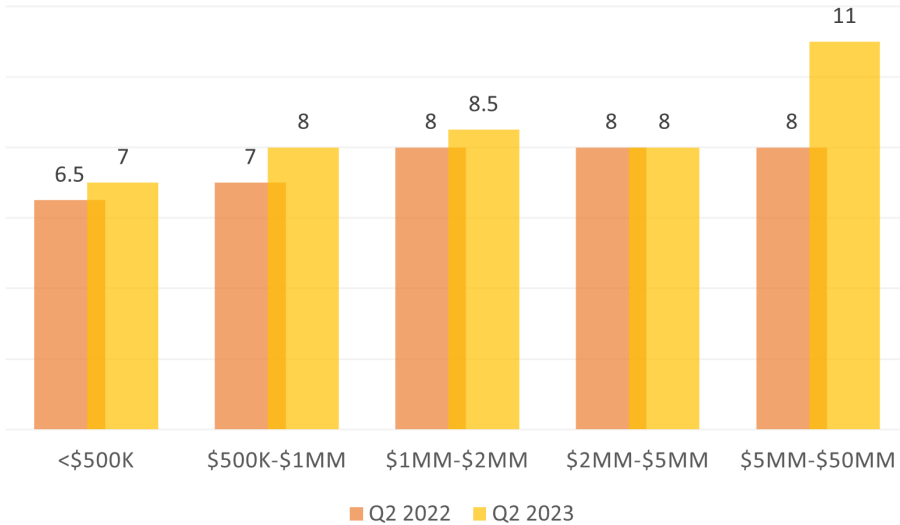
*<\$500K - \$2M enterprise value is typically reflected as multiple of SDE (sellers discretionary earnings);
\$2M-\$50M enterprise value is typically reflected as multiple of EBITDA*

“The data indicates there has been some multiple compression in Q2 which is not unexpected. When interest rates rise, valuations are negatively affected at some level,” said Scott Mashuda, Founding Partner of REAG. *“However, we expect the decline to be modest and short lived as large amounts of investable capital remain on the sidelines ready to be put to work. This demand driven market should keep markets and valuation strong for the foreseeable future.”*

Time to Close

The average time to sell a small business increased across most deal sectors, with a significant jump for businesses valued at \$5 million or more. Of that time roughly 60 to 120 days are spent in due diligence and execution, after a signed letter of intent or offer.

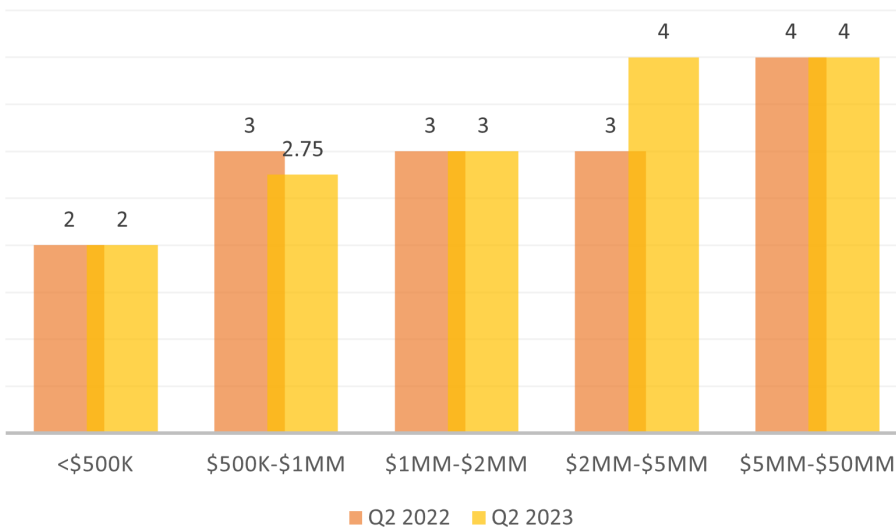
FIGURE 9: AVERAGE # OF MONTHS TO CLOSE FROM ENGAGEMENT OF ADVISOR BY DEAL SIZE



“The delays in the lower-middle-market can be almost entirely attributed to the current lending climate,” said Eric Gall, President and Founder of Edison Business Advisors. *“Buyers are having to work much harder to pull together the money they require to complete a transaction.”*

On the other hand, the pace of main street businesses deals generally remained the same. “The SBA remains a strong lending partner for main street businesses, and this is helping keep the market active and the time to close a deal relatively unchanged,” continued Gall. *“In addition, at any given time, there are approximately 9 million Americans looking to buy or start a business. This continual influx of people looking to enter the entrepreneurial world is keeping the main street businesses in high demand thus shortening their time to sell.”*

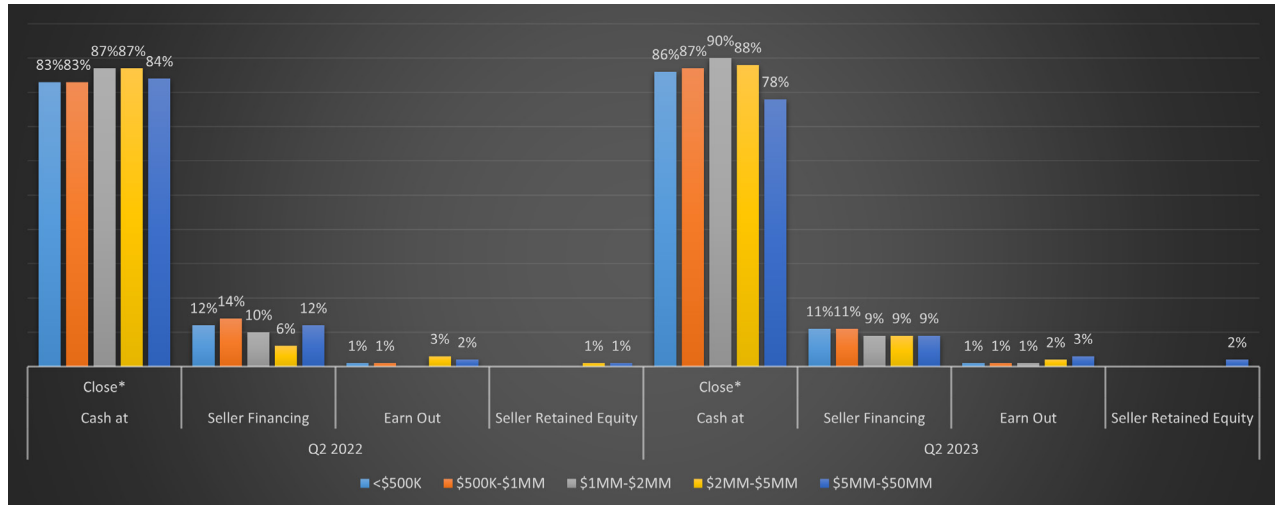
FIGURE 10: AVERAGE # OF MONTHS FROM LOI TO CLOSE BY DEAL SIZE



Financing Deals in 2023

Year-over-year trends show an increase in cash at closing with the exception of companies which sold between \$5MM to \$50MM.

FIGURE 11: SELLER FINANCING REMAINS COMMON PRACTICE



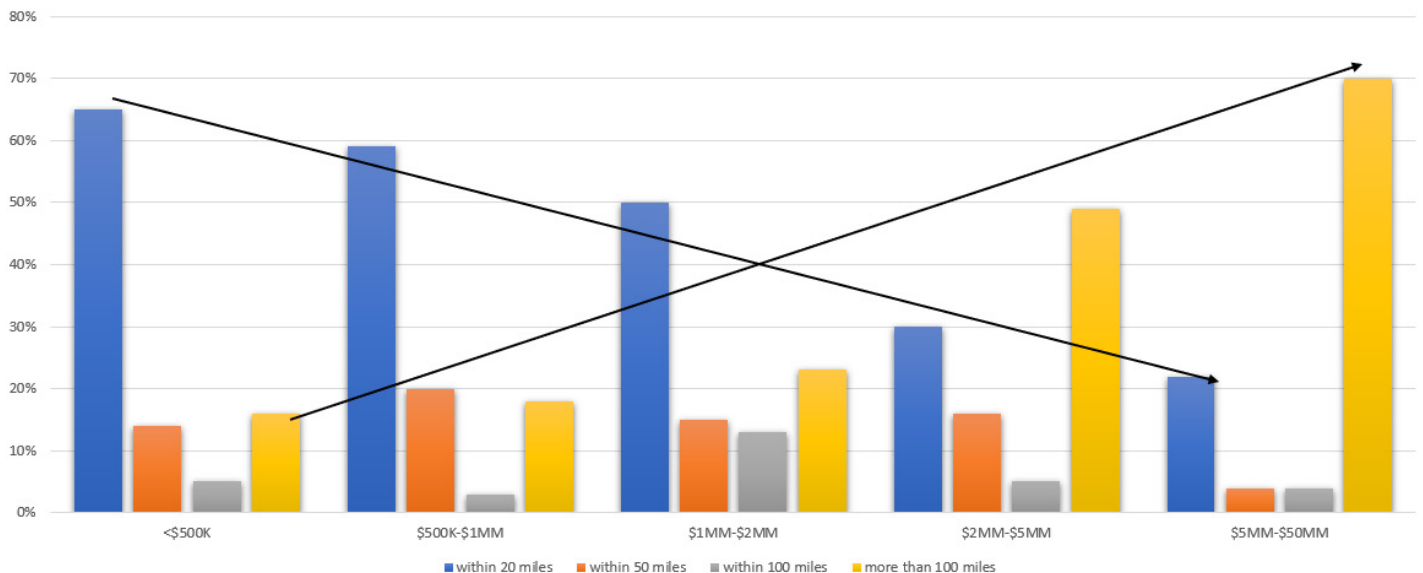
*Cash at close reflects a combination of buyer's equity and senior debt.

“Lenders are more reluctant to finance larger transactions, right now. That’s a factor of risk and declining economic confidence,” said Lee Sheaffer, President of BizReady, Inc. “Financing has generally been easier for the smaller deals, which is why we’re seeing more buyers move down market. The larger the deal, the more likely a buyer is going to need alternative financing options in order to bridge any valuation gaps.”

Know Your Buyer

The data shows that first-time buyers are more active in the Main Street market, while strategic buyers and PE firms become more prominent as the deal size increases. Buyer motivations also shift, with a focus on job acquisition in the lower value ranges and an increasing emphasis on strategic expansion in the higher value segments. Additionally, location preferences appear to shift with deal values, suggesting that proximity to sellers may be more critical for smaller deals.

FIGURE 12: BUYER LOCATION VARIES BY ACQUISITION PRICE



Know Your Buyer

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

- First-time buyer (47%), or serial entrepreneurs (37%)
- Motivated to buy a job (42%), gain a horizontal add-on (23%)
- Located within 20 miles (64%) or more than 100 miles (16%) of the seller's location

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

- First-time buyers (45%), serial entrepreneurs (30%), or existing companies (24%)
- Motivated to buy a job (40%), gain a horizontal add-on (29%)
- Located within 20 miles (59%) or within 50 miles (20%) of the seller's location

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

- Serial entrepreneurs (33%), strategic buyers (31%), first-time buyers (29%),
- Motivated to buy a job (33%), gain a horizontal add-on (25%), better ROI than other investment (23%)
- Located within 20 miles (50%) or more than 100 miles (23%) of the seller's location

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

- Strategic buyers (33%), serial entrepreneurs (30%), or first-time buyers (23%)
- Motivated to gain a horizontal add-on (40%), better ROI than other investment (21%), buy a job (19%)
- Located more than 100 miles (49%) or within 20 miles (30%) of the seller's location

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

- Strategic buyer (39%), PE firms seeking add-on (22%), or PE firms seeking platform (17%)
- Motivated to acquire a horizontal add-on (52%), vertical add-on (26%)
- Located more than 100 miles (70%) or within 20 miles (22%) of the seller's location

What Are They Buying?

Every quarter, Market Pulse data highlights the dynamic landscape of business sales across different deal values. Construction/engineering transactions, which have already been active for several quarters, dominated across most market sectors.

FIGURE 13: TOP 3 INDUSTRIES PURCHASED IN 2023 Q2 MAIN STREET MARKET SECTORS BY PURCHASE PRICE

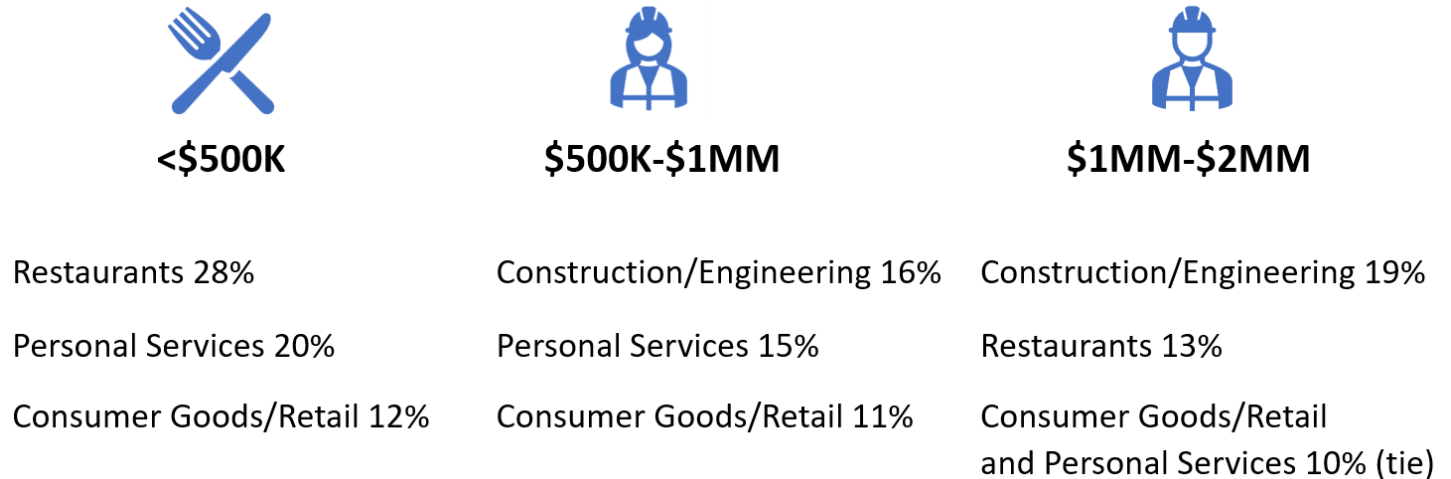
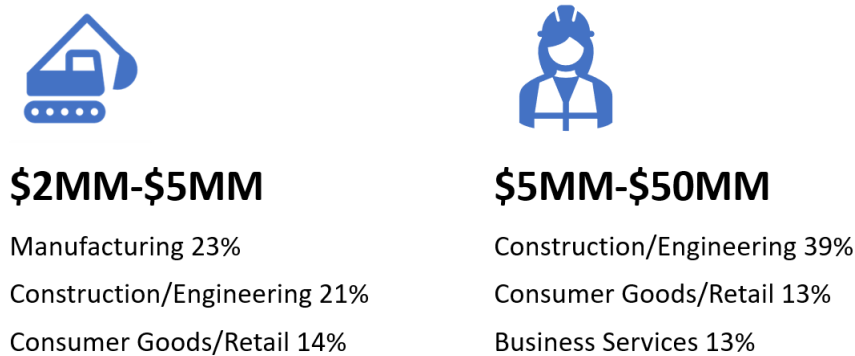


FIGURE 14: TOP 3 INDUSTRIES PURCHASED IN 2023 Q2 LOWER MIDDLE MARKET SECTORS BY PURCHASE PRICE



“There are a few factors driving M&A activity in construction and engineering right now. Most importantly the \$1.2 trillion Infrastructure Investment and Jobs Act, signed into law back in November 2021, is expected to create a significant amount of demand for construction services. That’s driving up valuations for these businesses and prompting sellers to exit,” said Scott Bushkie, President of Cornerstone Business Services.

“This is also an industry driven by the need for scale. In order to compete in this competitive market, businesses are looking to grow through acquisition, rapidly expanding their geographic reach, diversifying their service lines, and reducing their costs,” Bushkie continued.

ABOUT INTERNATIONAL BUSINESS BROKERS ASSOCIATION

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