IBBA INTERNATIONAL BUSINESS BROKERS ASSOCIATION.®

M&A Source®

Market Pulse

Q3 2024

Executive Summary

Courtesy of

CROSSROADS ADVISERS

M&A Services & Business Succession Planning

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QUARTERLY INSIGHTS

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 Q3 2024 survey was conducted October 1-15, 2024 and was completed by 340 business brokers and M&A advisors. Respondents completed 277 transactions this quarter. This is the 50th edition.

MARKET SEGMENTS STUDIED

MAIN STREET	LOWER MIDDLE MARKET
‹$500K	$2M-$5M
$500K-$1M	$5M-$50M
$1M-$2M	

ELECTION JITTERS, RATE CUTS, AND A MIXED DEAL FLOW: M&A ADVISORS' TAKE ON Q3 2024

Advisors report an uptick in deal flow in Q3 2024, with the majority stating new client activity has "greatly increased," particularly in the Lower Middle Market (LMM). However, despite the fresh surge of interest, many advisors feel like deal activity has stalled overall.

ELECTION JITTERS

Advisors report that deal activity has been stalled due to the upcoming election, particularly in the Main Street market.

- Sellers holding off: In the Main Street market, 48% of respondents believe sellers are holding off, compared to 38% in the Lower Middle Market. This suggests a higher level of caution among smaller businesses, likely due to uncertainty around potential economic and regulatory changes post-election.

- Buyers also cautious: Similarly, 35% of respondents in the Main Street market and 28% in the Lower Middle Market reported that buyers are waiting until after the election to make purchasing decisions.

DECLINING INTEREST RATES BOOST ACTIVITY

Overall, advisors in both the Main Street and Lower Middle Markets anticipate more deal activity due to declining interest rates. They expect buyers will become more active and are slightly optimistic that more sellers will come to market as well. They're more cautious, however, in their views that valuations will increase or that lenders will become more aggressive—with the majority of advisors adopting a neutral stance.

- Main Street most optimistic: ·A majority (69.1%) of Main Street advisors agreed or strongly agreed that more deals will be completed due to the decline in interest rates. Similarly, 69.3% agreed or strongly agreed that more buyers will emerge.

- LMM also anticipates growth: Nearly two-thirds (65%) of LMM advisors agreed or strongly agreed that more deals will be completed in this market, and 61.6% expect more buyers.

- Cautious on valuation: Only 31.8% of Main Street advisors agreed or strongly agreed that business valuations will rise, slightly below the 37.5% of LMM advisors who share that optimism.

PERCENTAGE HOLDING OFF ON DECISIONS UNTIL AFTER THE ELECTION

"We're seeing a paradox here," said Barbara Kline, CBB, Vice President, Absolute Investment Realty. "While client activity has spiked since the rate cut, the election jitters are keeping deals from fully materializing—there's interest but also hesitation."

"At Cornerstone, our pipeline is larger than ever before, though we have fewer deals on the market than in recent years. However, we're optimistic about the coming year and believe many sellers will be ready to move forward once the election uncertainty is behind us," said Scott Bushkie, president of Cornerstone Business Services.

"The Fed's September rate cut came almost one month before our survey closed, so it's possible we were already seeing that push sellers into the market," Bill White, Regional Director of Murphy Business Sales, Hudson Ohio continues. "Either way, rate cuts are a big confidence booster. We're seeing more sellers dipping their toes back into the market, but the real rush might come after the election."

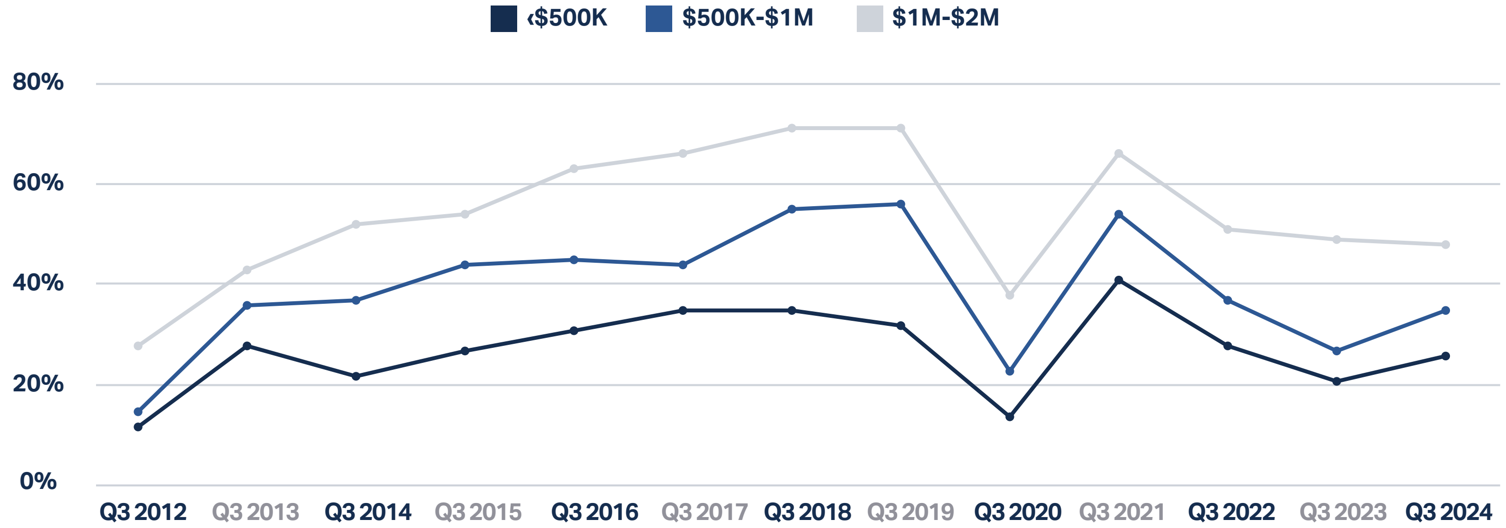
BUSINESS VALUE

BUMP IN MARKET CONFIDENCE

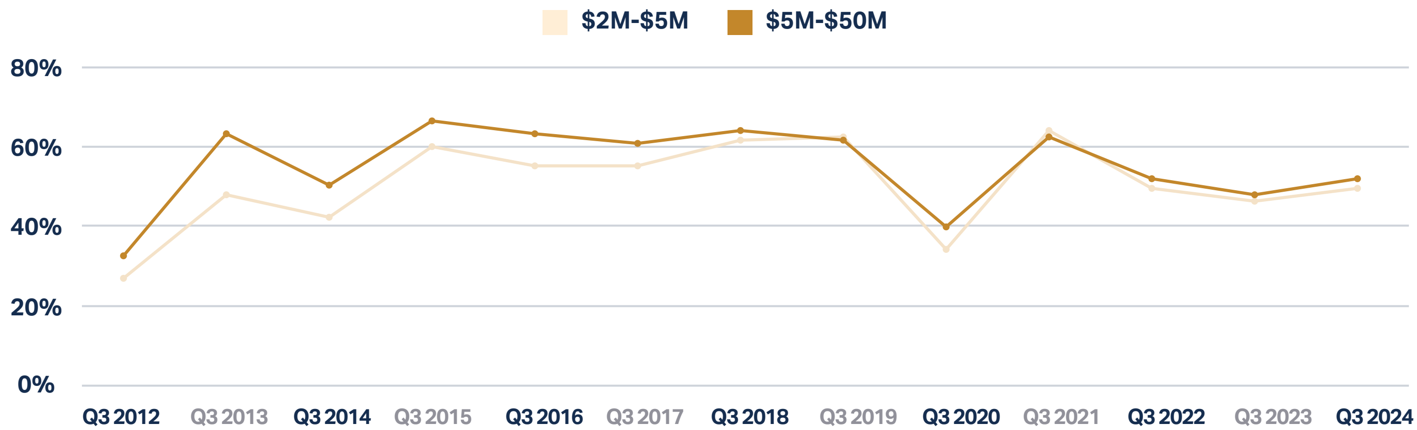
A seller's market is when sellers feel they have an advantage or it's a good time to sell, for instance when demand exceeds supply and there are more interested, active buyers than there are quality deals on the market. In a seller's market, buyer's compete in order to win deals. This typically translates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

Q3 trends show an uptick in confidence year-over-year. Figure 2 below shows that seller market sentiment, while off a peak in 2021, appears to be rebounding.

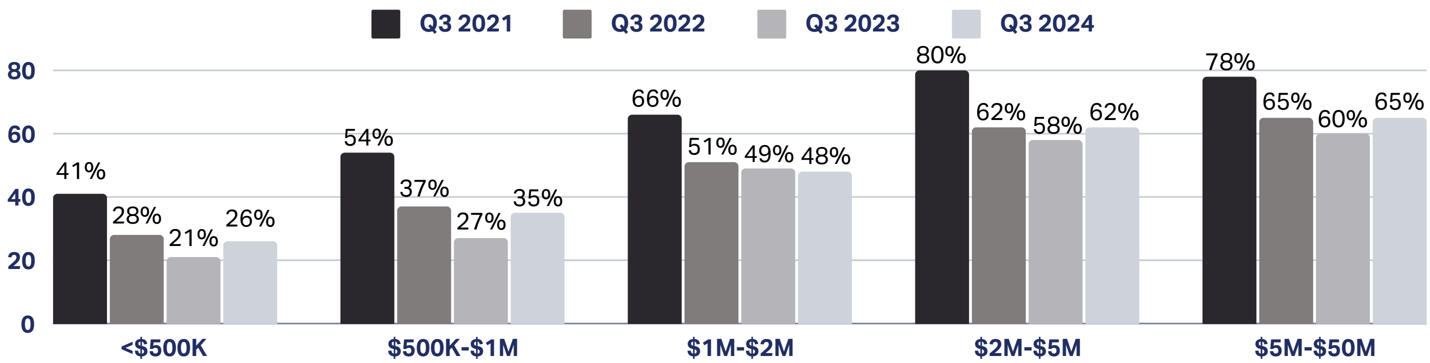
MAIN STREET SELLER MARKET SENTIMENT Q3 2012-2024



LMM SELLER MARKET SENTIMENT Q3 2012-2024



SELLER'S MARKET SENTIMENT, Q3 2021, 2022, 2023, 2024



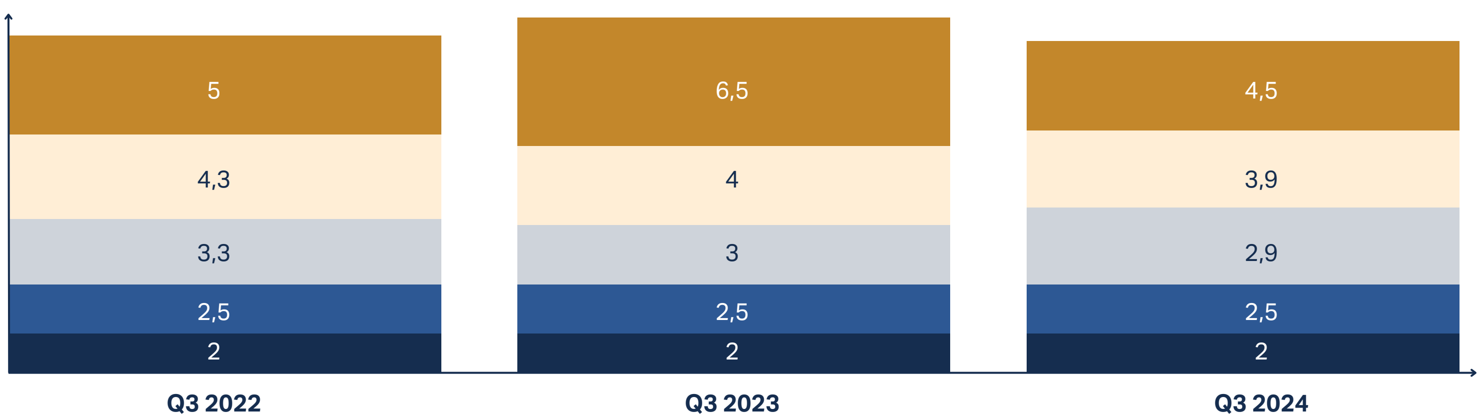
> *"The Fed had already been signaling a series of rate cuts prior to September's surprisingly large decrease, so this uptick in confidence could be attributed to both real and anticipated changes," said Tanya Popov, Founder of INIX Consulting & Brokerage, LLC. "Declining interest rates make it less expensive for buyers to finance deals, which should, in theory, boost both activity and valuation. Altogether, it's a more favorable economic environment for transactions."*

> *I think we can all agree that 2021 was an exceptional year," said Ryan Hemmert, M&A Advisor and Founder at Washington Business Brokers. "It looks like the drop from that record high has bottomed out, and confidence is on the rebound."*

BUSINESS VALUE

While multiples for businesses under $1M have remained relatively constant, we've seen some fluctuation in larger deals. Valuations were modest in Q3 2024, a likely reflection of high interest rates and the cautious lending climate.

MEDIAN MULTIPLES, LAST THREE QUARTERS

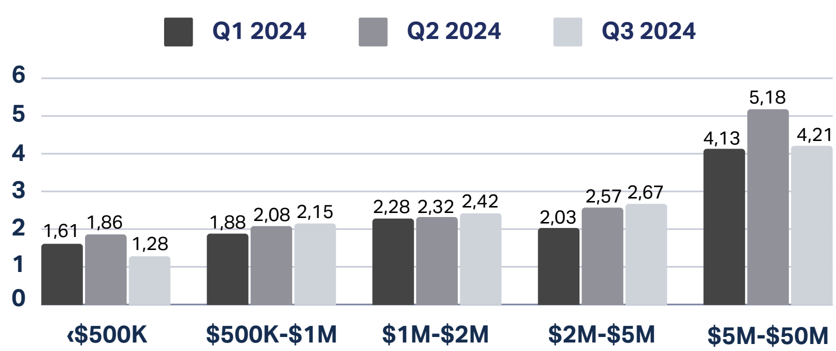


*<$500K - $2M reflected as multiple of SDE; $2M-$50M as multiple of EBITDA

> *"Survey results show that advisors aren't bullish on valuation increases—yet. We know the Feds expect to cut rates again in 2024 and 2025, so we're optimistic that lower middle market valuations will start to climb as financing becomes more affordable and demand picks up," said Kathlene Thiel, President, Thiel Group, LLC.*

OFFERS PER DEAL, LAST THREE QUARTERS

The number of offers per deal serves as a key indicator of market competitiveness and buyer interest in the M&A landscape. On average, deals typically receive between 2 to 3 offers, with larger deals attracting more interest.

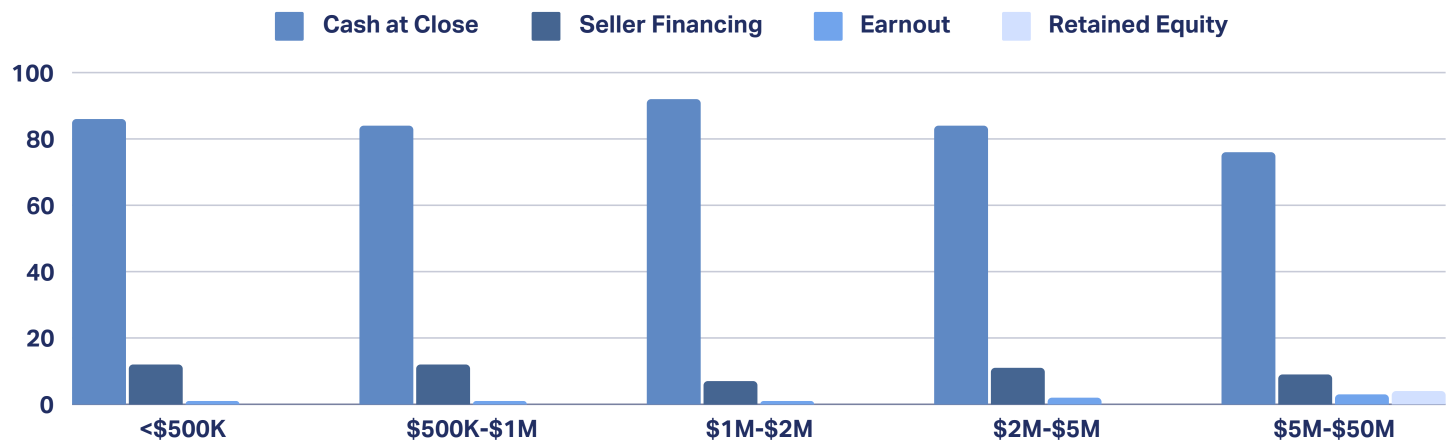


FINANCING TRENDS

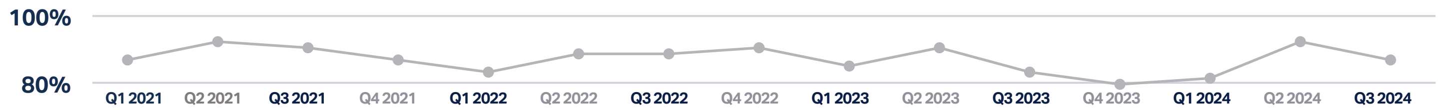
FINANCING DEALS IN 2024

Few sellers receive all cash at close. In Q3 2024, sellers averaged 76% to 92% cash at close. The $5M-$50M sector received the lowest in upfront payments, with seller financing, earnouts, and retained equity helping make up the balance. Historically, average cash at close has remained fairly stable, hovering around the mid-80% range.

Q3 2024 DEAL STRUCTURE BREAKDOWN BY DEAL SIZE



AVERAGE % OF CASH AT CLOSE



“We’re seeing more creative deal structures in 2024, especially in the $5 million-plus sector,” said Brian Stephens, Founder of Legacy Venture Group . “Some sellers still want those 2021 prices, so buyers are using creative terms to hit those stronger valuations.”

“Sellers are becoming more comfortable with taking a bit less cash up front, especially if it means they can negotiate better terms on the back end,” said Josh Jones, President of Sapphire Mountain Group. “If the business performs well after the sale, the seller can receive more than the initial cash offer. An earnout allows them to capture upside if revenue, EBITDA, or other agreed-upon milestones are met or exceeded. Earnouts and retained equity can create solid win-wins for both parties.”

FINANCING TRENDS

WHAT DRIVES BUSINESS OWNERS TO MARKET

Retirement remains the top reason for sellers to exit, particularly in larger deals. Smaller deals are more likely to be driven by burnout, new opportunities, and personal reasons such as family issues and relocation. Larger deals, on the other hand, show a notable trend toward recapitalization, which could reflect growth goals or a seller strategy to take some chips off the table.

Retirement is the most common reason for going to market across all deal sizes, and its importance grows with deal size. For deals under $500K, 38% of advisors cite retirement as the reason these sellers went to market, while this figure jumps to 74% in deals $5M-$50M. This suggests that smaller owners are more likely to exit before their retirement years.

Burnout is a significant driver for smaller deals, especially in the <$500K range where 19% cite it as the reason for selling. However, this drops sharply to 5% or less in larger deals.

New opportunities play a bigger role in deals between $500K-$2M, peaking at 17% in the $1M-$2M range, indicating that mid-sized business owners are more likely to sell to pursue new ventures compared to those managing larger enterprises.

Recapitalization (recap) is a notable reason in the $5M-$50M category, where it represents 16% of sales and the second most common reason these sellers went to market.

Family issues and relocation appear mostly in smaller deals, with 11% of sellers in the <$500K range citing family issues. Relocation is also a more frequent factor for smaller sellers but drops to zero in the largest deal sizes.

"In the smaller deal sizes, burnout is a huge factor," explains Lee Sheaffer, President of BizReady, Inc "For business owners in the <$500K range, the daily grind of running a business with fewer resources can take its toll. We see a lot of these owners decide to exit when they feel overwhelmed, especially when they have fewer staff or financial buffers to help ease the pressure."

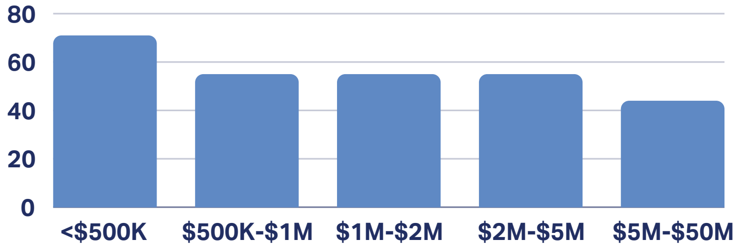
"The larger the deal size, the more retirement plays a central role in the decision to sell," said Lauren Drummond-Dale, CEO of Coastal Consultants LLC. "It makes sense when you consider different lifecycles and scale. In smaller businesses, owners might be more likely to sell due to flexibility in exploring new ventures or shifting personal goals."

"In contrast, larger businesses often represent the culmination of years, even decades, of work," Scott Mashuda, Managing Director of REAG continued. "These owners aren't looking for an early exit, but rather a planned transition after a successful career. Additionally, with larger businesses, owners are more likely to have developed support teams or systems that allow them to continue running the company profitably, with less risk of burnout."

EXITING WITHOUT A PLAN

Even though retirement is the number one 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.

OWNERS WHO ENGAGED IN NO FORMAL PLANNING PRIOR TO ENGAGEMENT TO SELL



"Business owners often have 70-90% of their net worth locked up in their companies, but surprisingly, many of them don't put a plan in place before trying to sell. It's remarkable—and risky. Without careful preparation, they could face a significant loss in value or even find themselves unable to close a deal," said Lisa Riley, CEO & Founder of Delta Business Advisors, LLC. "Failing to plan means missing out on the full potential of a well-earned exit."

KNOW YOUR BUYER

The data shows that individual buyers (first-timers and those who've purchased a business before) make up the bulk of activity in the Main Street market. Strategic buyers are a more active presence in the Lower Middle Market, where they make up more than a third (37-39%) of buyers.

We can also see a pretty clear story about business expansion strategies. Smaller businesses are typically acquired as horizontal add-ons—where the buyer seeks to expand market share by acquiring a company in the same industry or offering similar products or services. However, once a business reaches the $5 million valuation mark or higher, buyers often shift their focus toward vertical add-ons, integrating companies within the same supply chain.

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

- *First-time buyer (52%), serial entrepreneurs (33%)*
- *Motivated to buy a job (43%), horizontal add-on (21%)*
- *Located within 20 miles (67%) of the seller's location*

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

- *First-time buyers (38%), serial entrepreneurs (35%), or strategic buyers (23%)*
- *Motivated to buy a job (40%), horizontal add-on (30%)*
- *Located within 20 miles (63%) or within 50 miles (15%) of the seller's location*

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

- *First-time buyers (50%), serial entrepreneurs (25%), or strategic buyers (22%)*
- *Motivated to buy a job (42%), horizontal add-on (25%)*
- *Located within 20 miles (56%) or more than 100 miles (19%) of the seller's location*

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

- *Strategic buyers (39%), first-time buyers (33%), serial entrepreneurs (25%)*
- *Motivated to buy a job (31%), horizontal add-on (28%), better ROI than other investment (19%)*
- *Located more than 100 miles (50%) or within 20 miles (36%) of the seller's location*

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

- *Strategic buyers (37%), PE firms (32%), serial entrepreneurs (16%)*
- *Vertical add-on (39%), horizontal add-on (28%)*
- *Located more than 100 miles (47%) or within 20 miles (32%) of the seller's location*

> *"Understanding whether buyers are seeking horizontal or vertical add-ons could help sellers position their business more effectively," said Pino Bacinello, President of Pacific Mergers & Acquisitions, Inc. "Smaller businesses can focus on highlighting market share potential, while larger businesses might emphasize their role in the supply chain."*

TOP INDUSTRIES

Overall, this quarter's M&A activities display a diverse range of industries attracting investment. Personal services and consumer goods remain strong players in the <$2M markets, likely driven by consistent consumer demand and resilience in industries that meet everyday needs.

Construction and engineering's prominence in the $2M-$50M range suggests that infrastructure development and real estate-related services continue to attract investment as these industries grow.

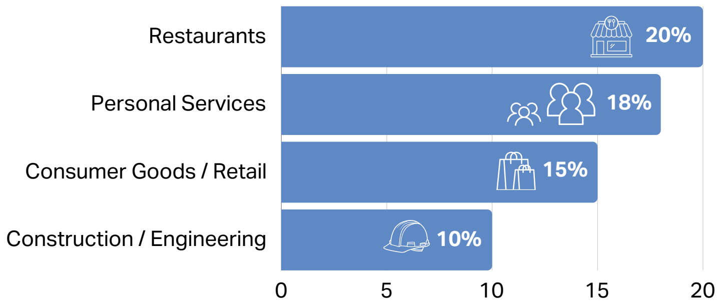
Meanwhile, manufacturing is present across multiple price segments, signaling that buyers are seeking to capitalize on ongoing supply chain shifts and increased domestic production.

TOP INDUSTRIES BY MARKET SECTOR

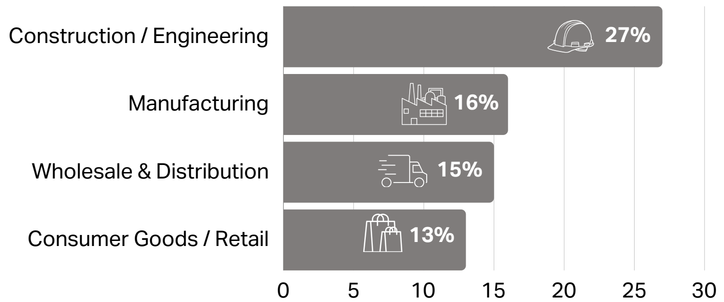
‹$500K	Restaurants 30%	Personal Services 17%	Consumer Goods 15%
$500K-$1M	Personal Services 18%	Construction/Engin. 12%	Consumer Goods / Retail 12%
$1M-$2M	Consumer Goods / Retail 22%	(tie) Personal Services & Manufacturing 17%	
$2M-$5M	Construction/Engin. 31%	Consumer Goods / Retail 17%	(tie) Wholesale & Mnfg 14%
$5M-$50M	(tie) Construction/Engineering & Manufacturing 21%		Wholesale distribution (16%)

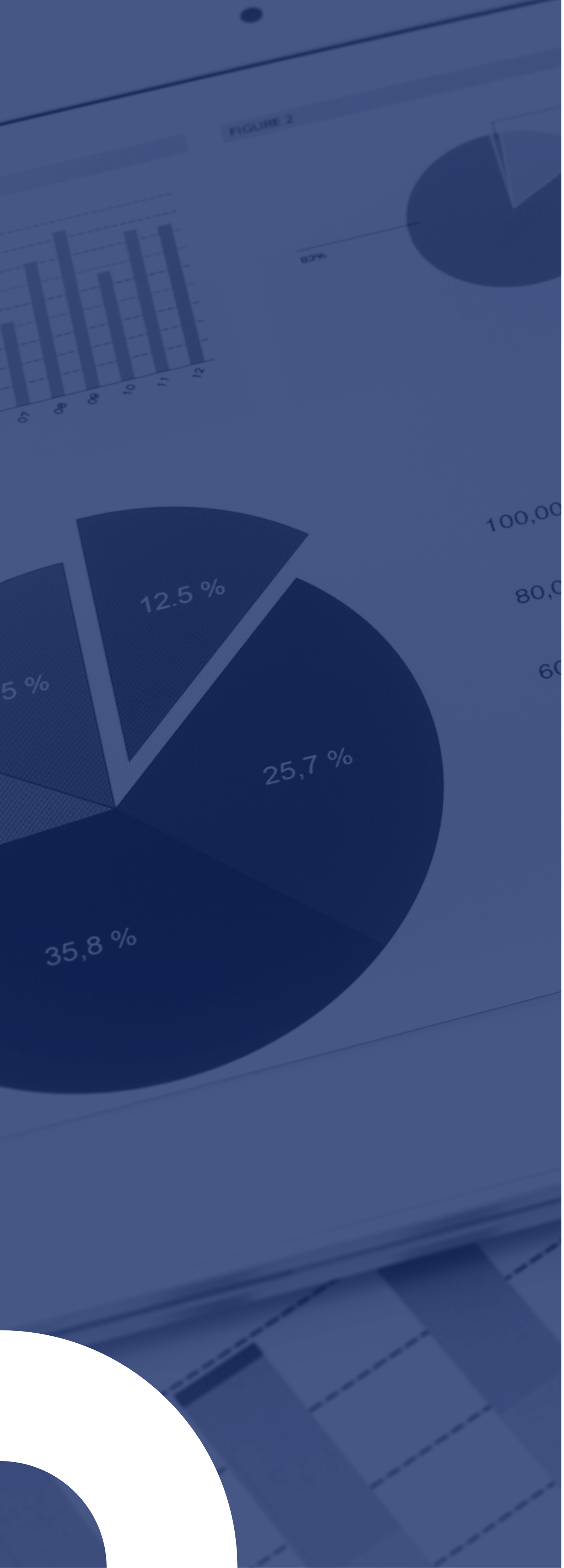
TOP INDUSTRIES FOR M&A ACTIVITY Q3 2024

MAIN STREET



LMM



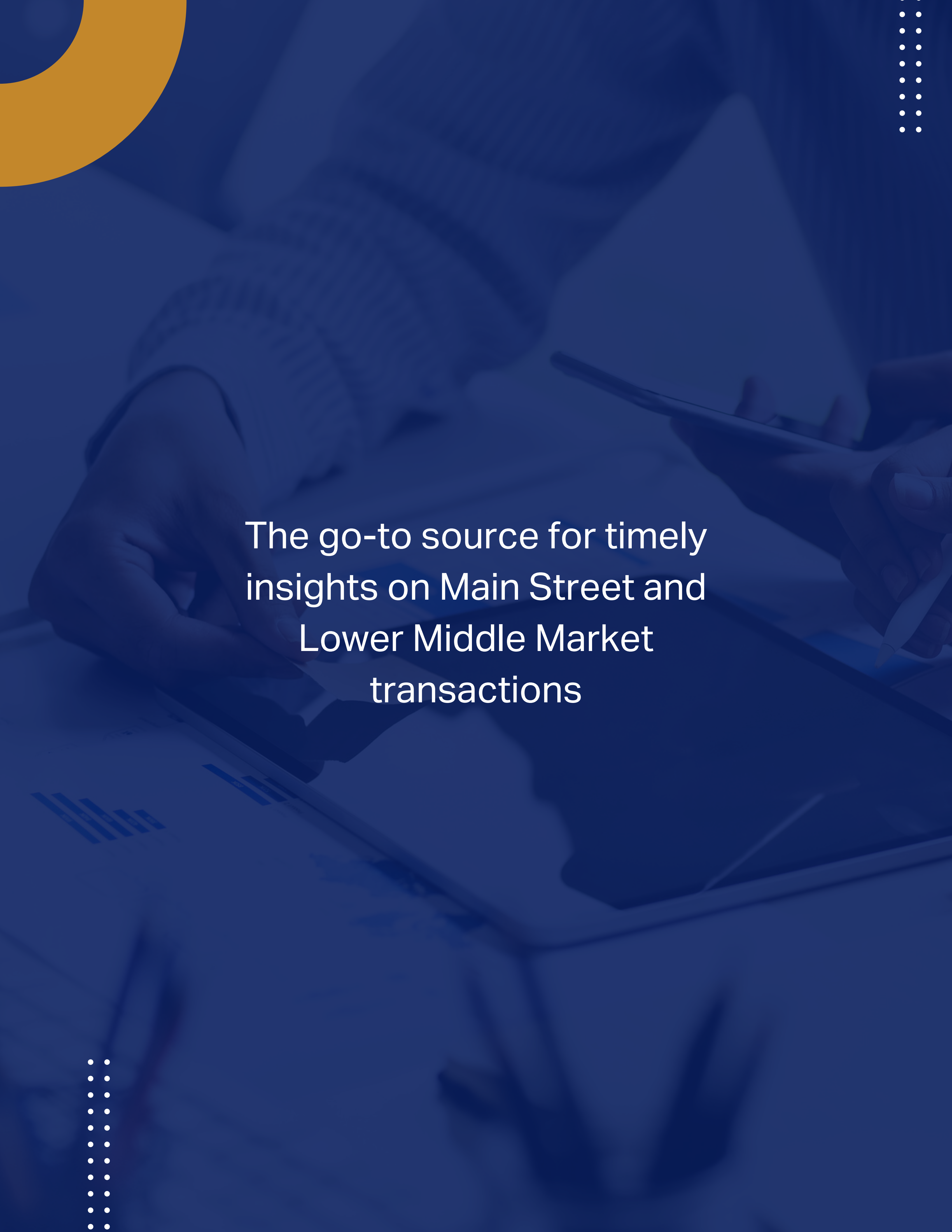


ABOUT INTERNATIONAL BUSINESS BROKERS ASSOCIATION

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, X, 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 X.



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