

Market Pulse Report Second Quarter 2014

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Irina Shaykhutdinova, Research Analyst

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I. About the Market Pulse Report

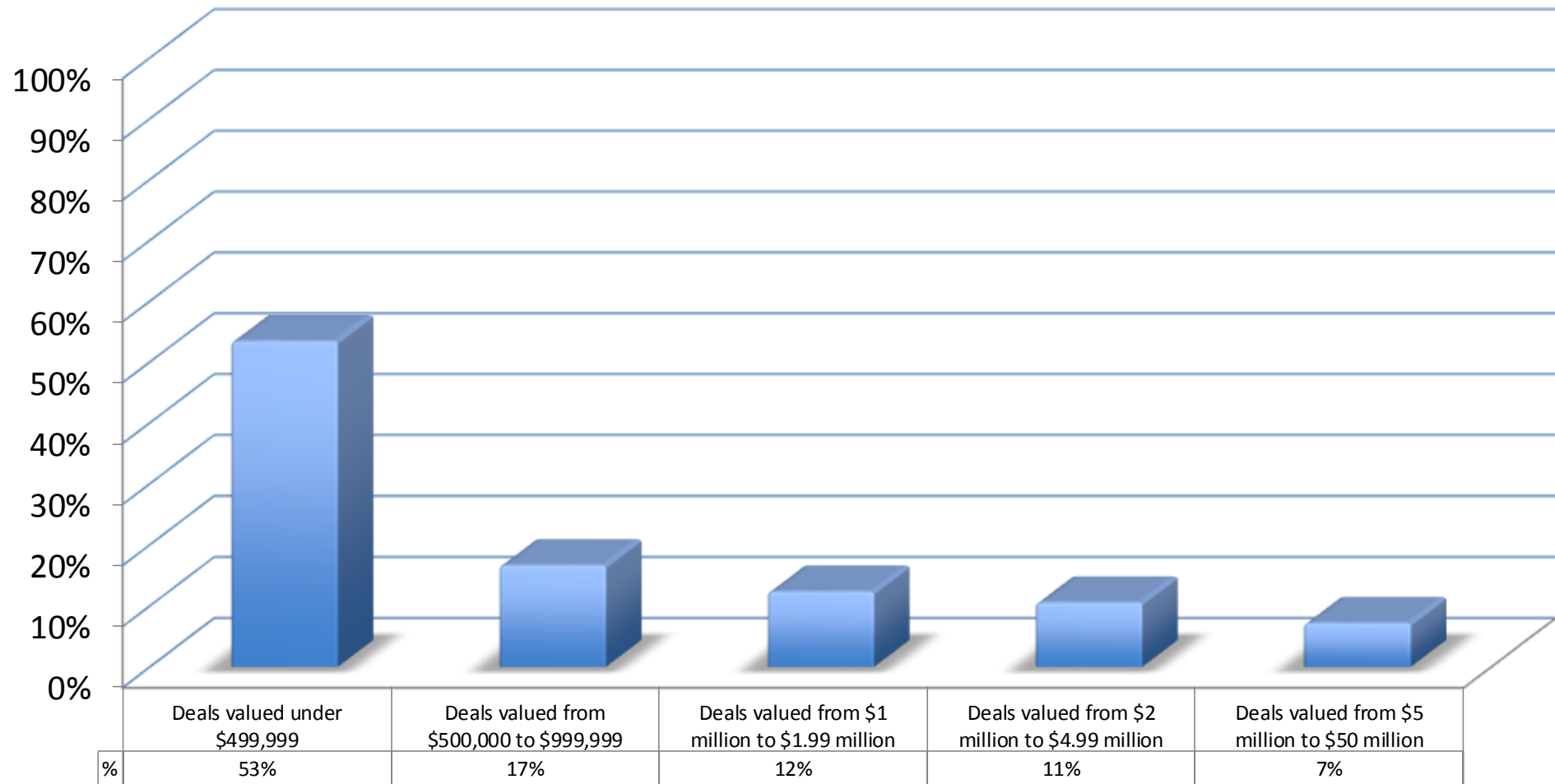
The International Business Brokers Association (IBBA) and M&A Source, in partnership with Pepperdine Private Capital Markets Project, have set a goal to provide quality information on a quarterly basis in order to become the go-to source for Main Street and Lower Middle Market transactions. The “Market Pulse Report” gives you timely and accurate data to help you build and maintain a successful and sustainable business.

About the Survey

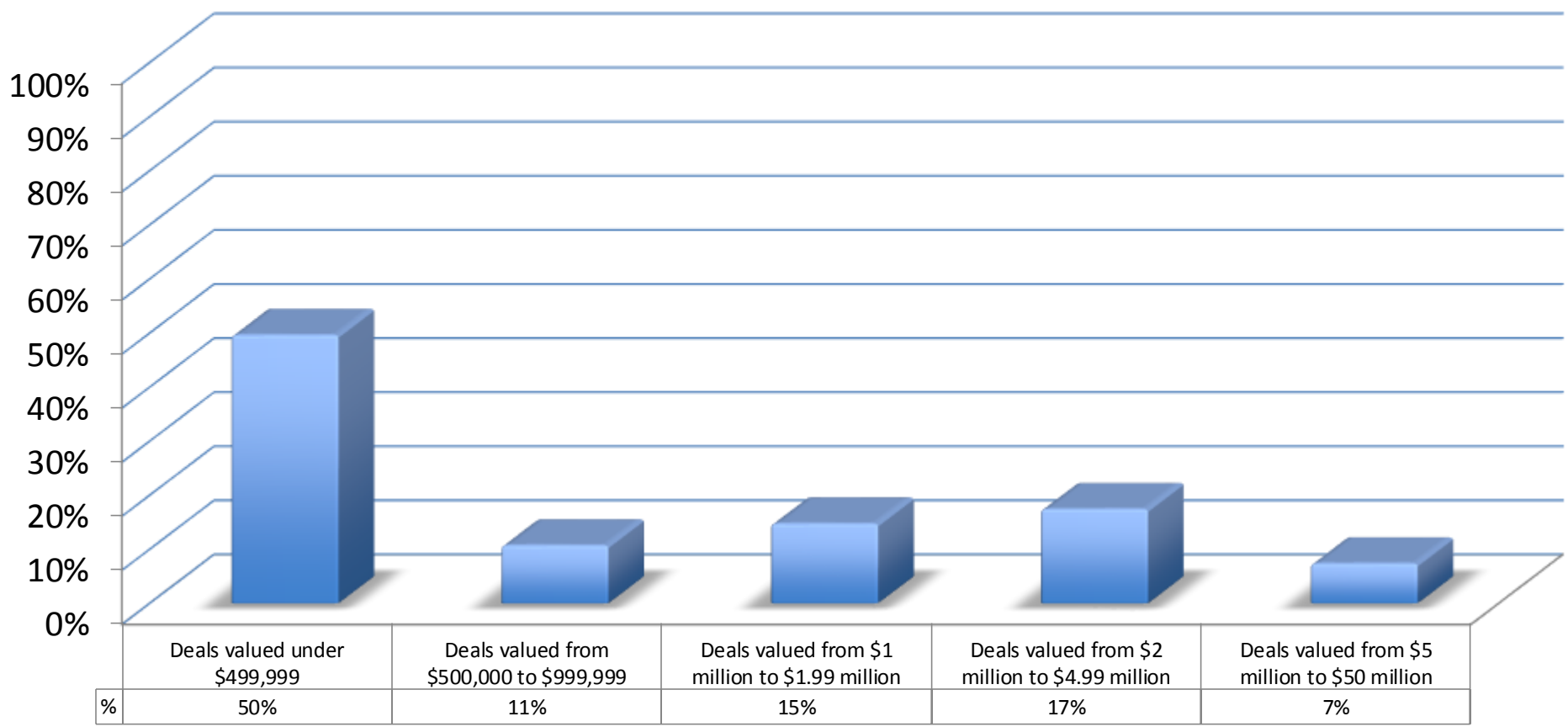
- 25 questions
- Invited participants were members of the International Business Brokers Association (IBBA), IBBA Affiliates/Chapters, and/or M&A Source
- 202 completed responses
- Responses collected from July 1 to July 15, 2014

IV. Current Business Environment

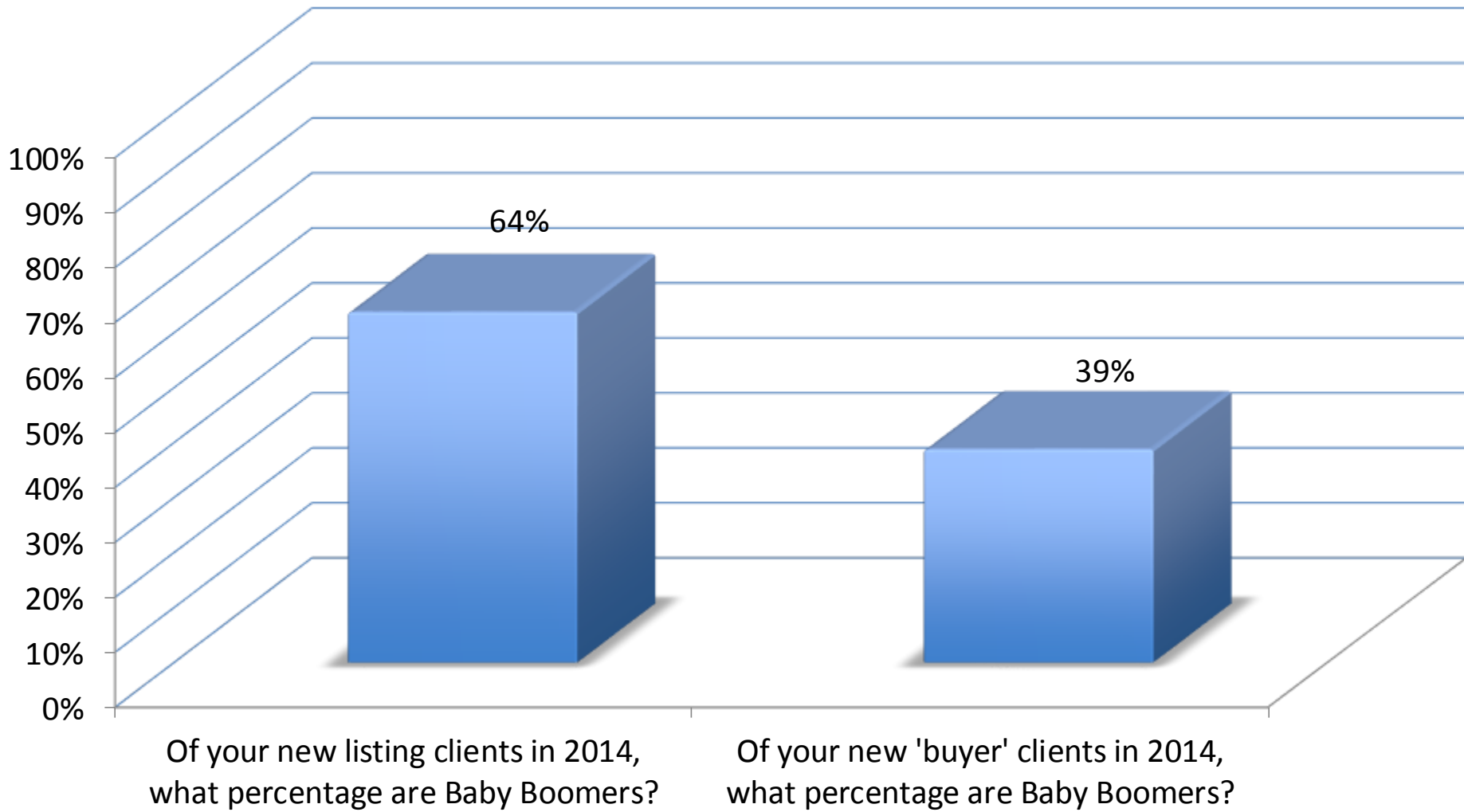
Currently Active Business Transactions / Engagements by Deal Size



Business Transactions That Are Currently in Escrow/Accepted LOI/Due Diligence by Deal Size

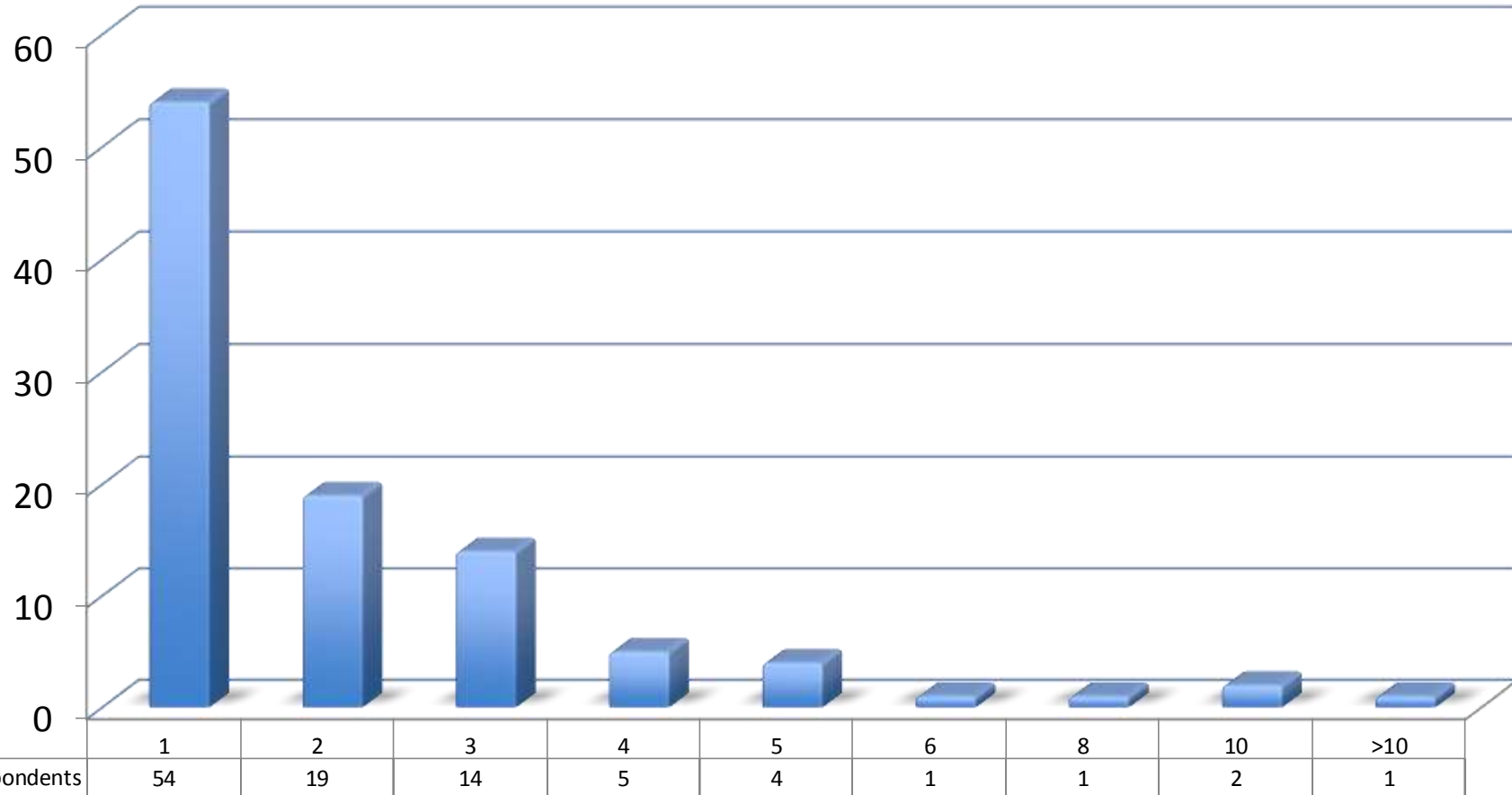


Percentage of Baby Boomers as New Clients



II. Business Transactions Closed in the Last 3 Months

Number of Business Transactions Closed by Respondents in the Last 3 Months

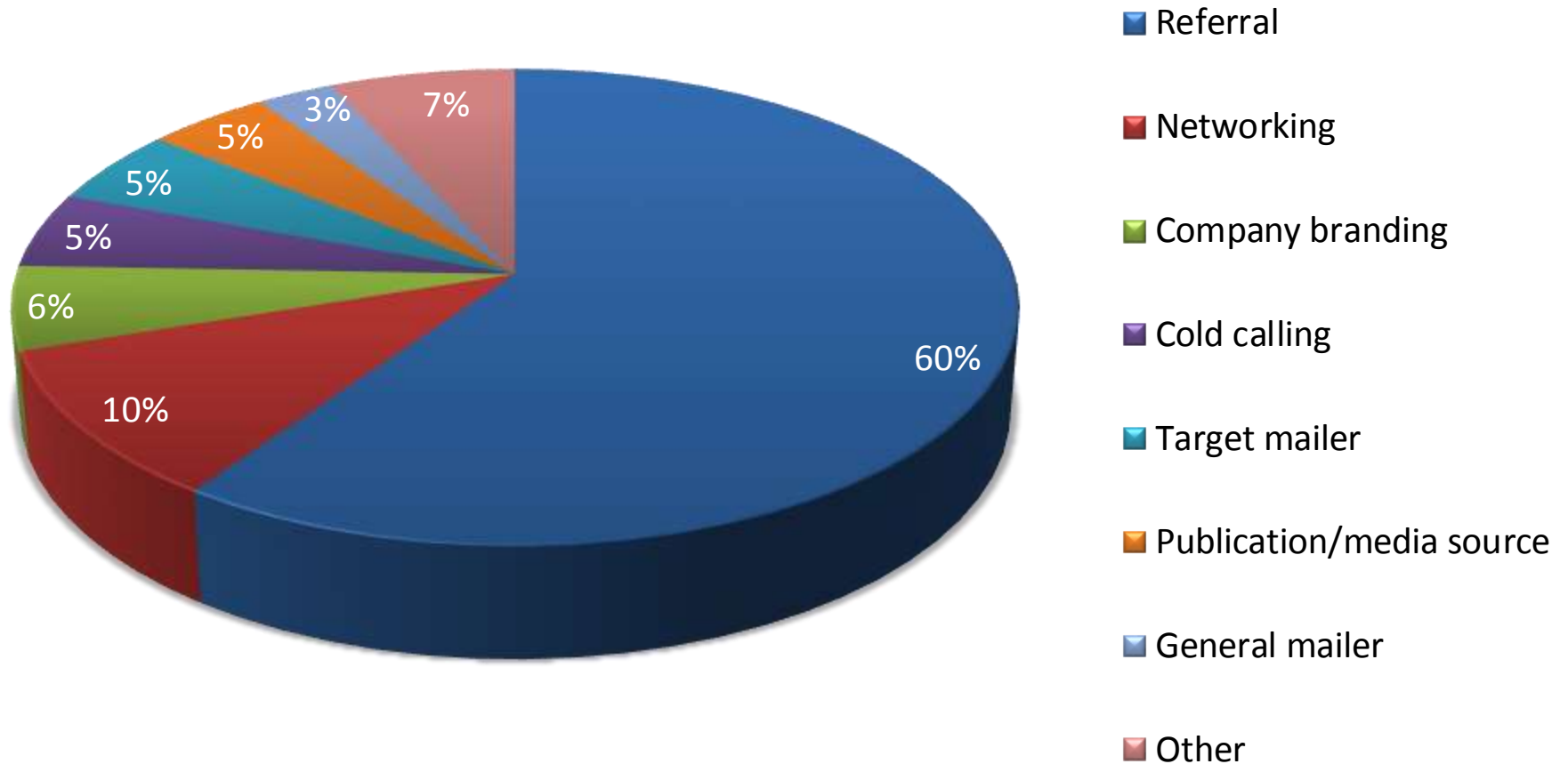


Number of responses = 101

Change in the Number of New Clients by Deal Size in The Last 3 Months

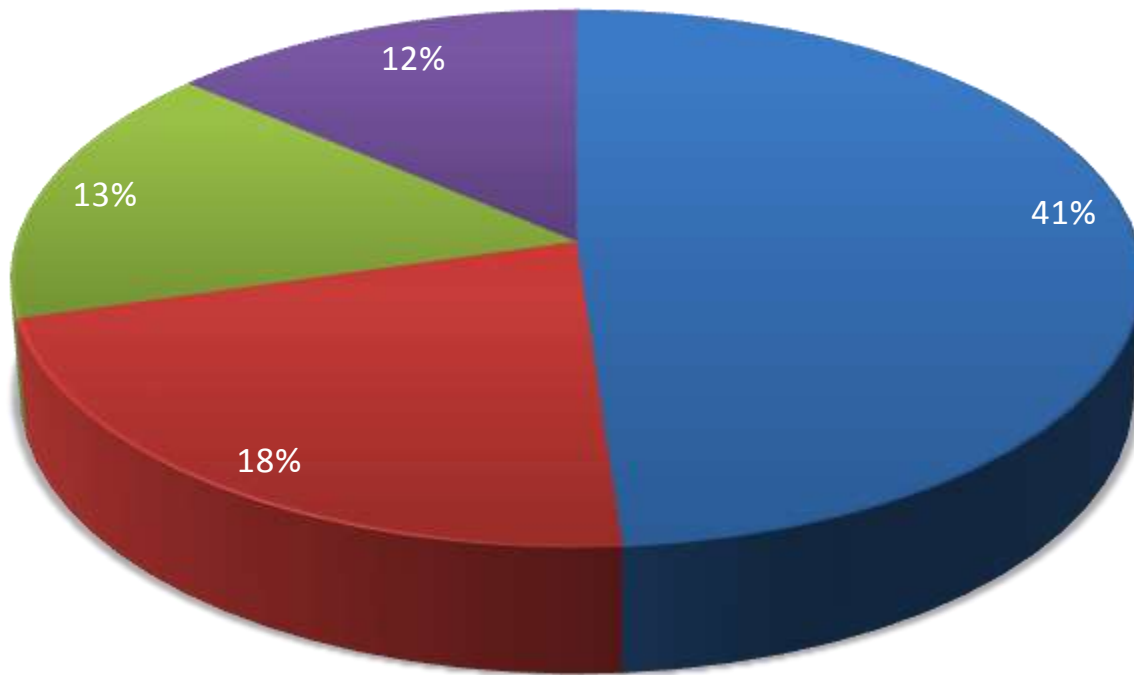
Deal size	Greatly decreased	Decreased	Stayed the same	Increased	Greatly increased	Score (1 to 5)
Deals valued under \$499,999	2%	11%	35%	46%	5%	3.3
Deals valued from \$500,000 to \$999,999	4%	15%	41%	37%	4%	3.5
Deals valued from \$1 million to \$1.99 million	3%	9%	47%	41%	1%	3.6
Deals valued from \$2 million to \$4.99 million	5%	10%	44%	40%	2%	3.5
Deals over \$5 million	5%	12%	36%	40%	7%	3.3

In the Past 3 Months, Best Client Arrived by:



Number of responses = 176

Types of Referrals



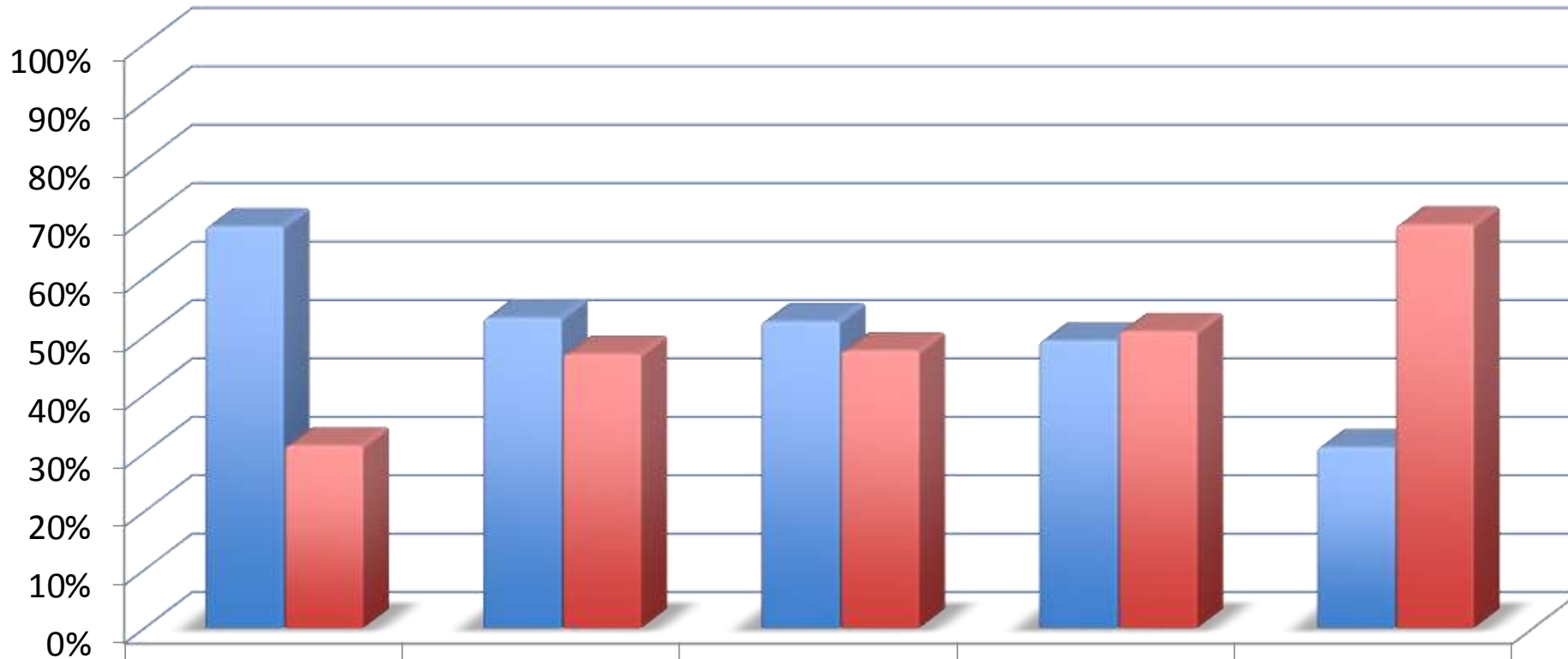
■ Past client

■ Attorney

■ Financial advisor

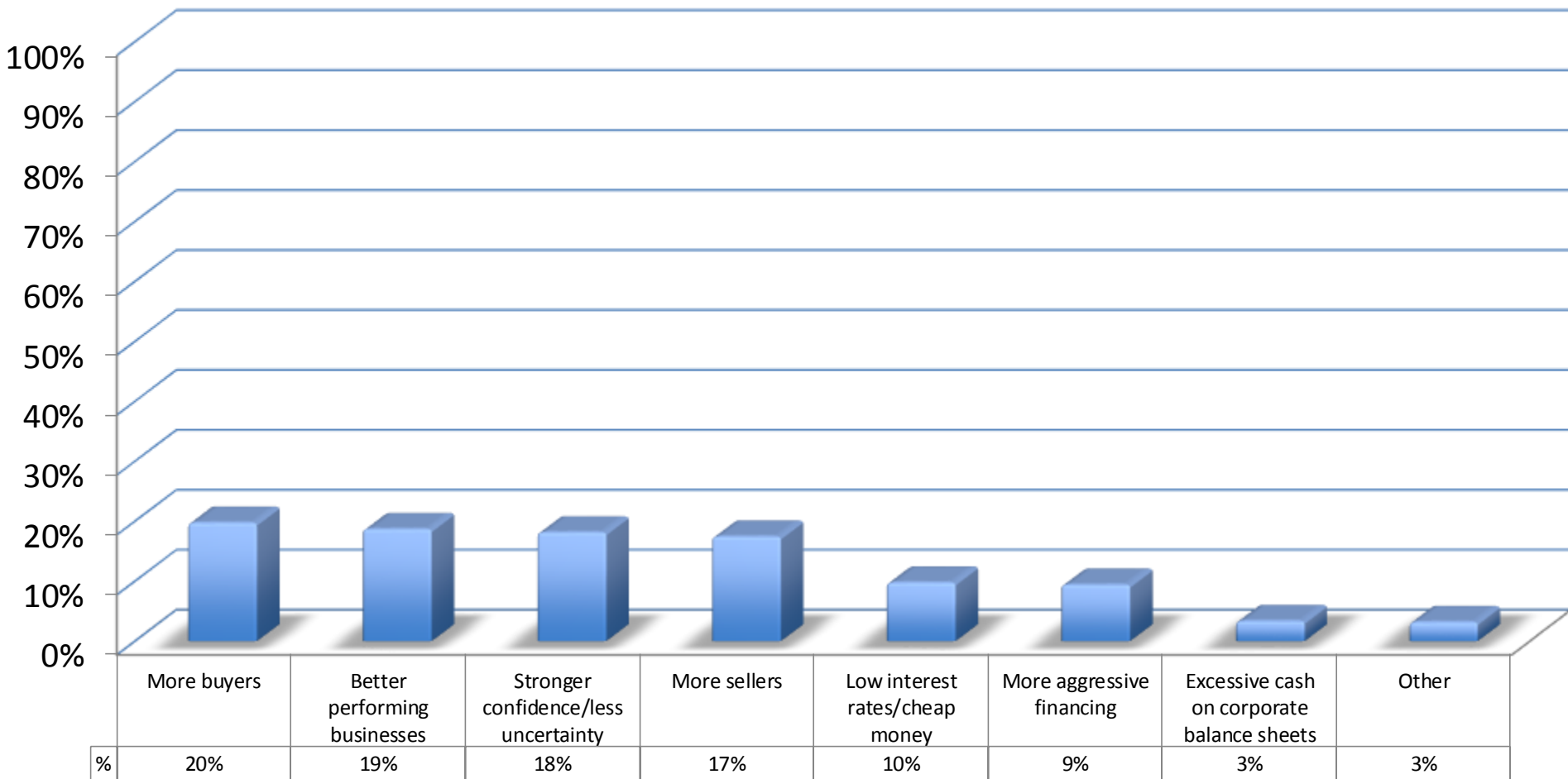
■ Accountant

Was it Buyer's or Seller's Market in the Last 3 Months?

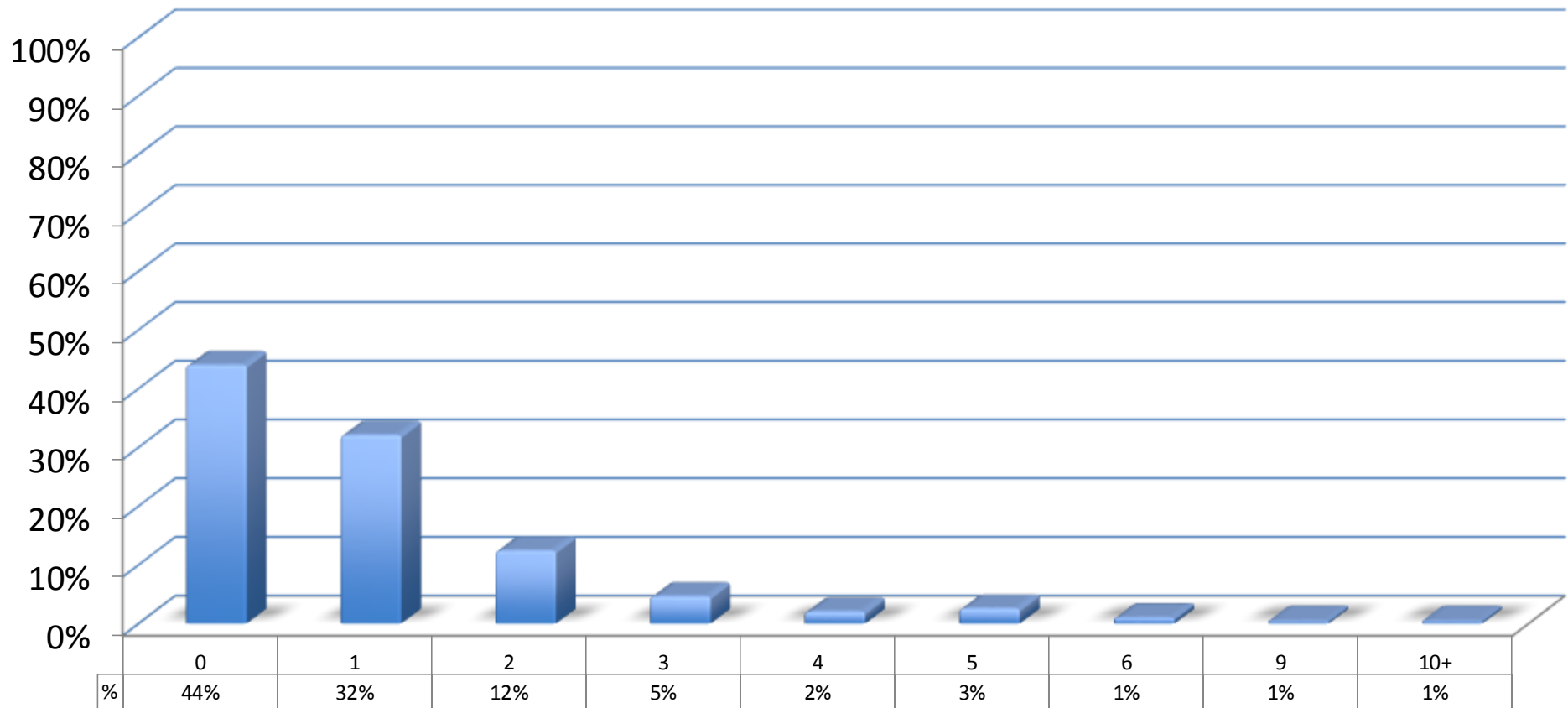


Buyer's market	69%	53%	53%	49%	31%
Seller's market	31%	47%	48%	51%	69%
Number of responses	96	81	80	63	42

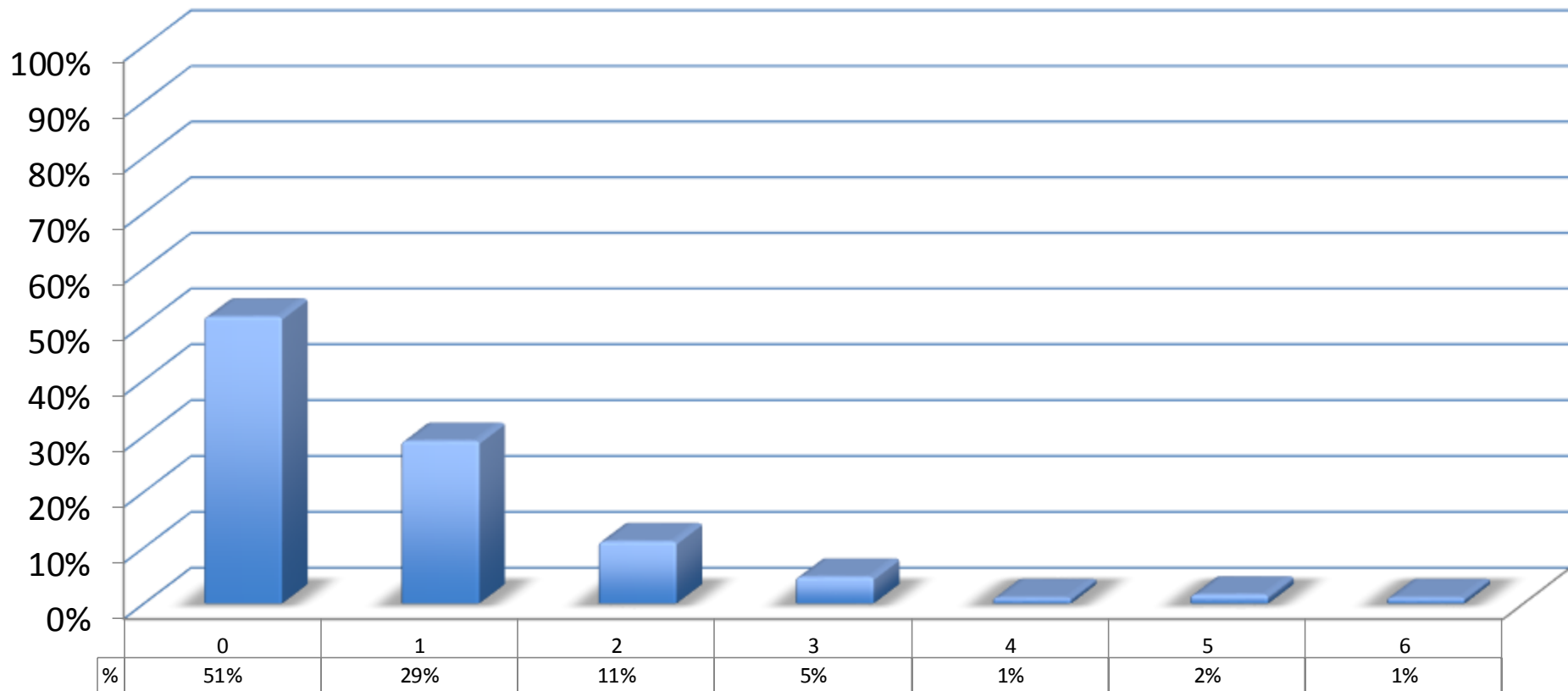
Reasons For The Robust Activity In Today's Market



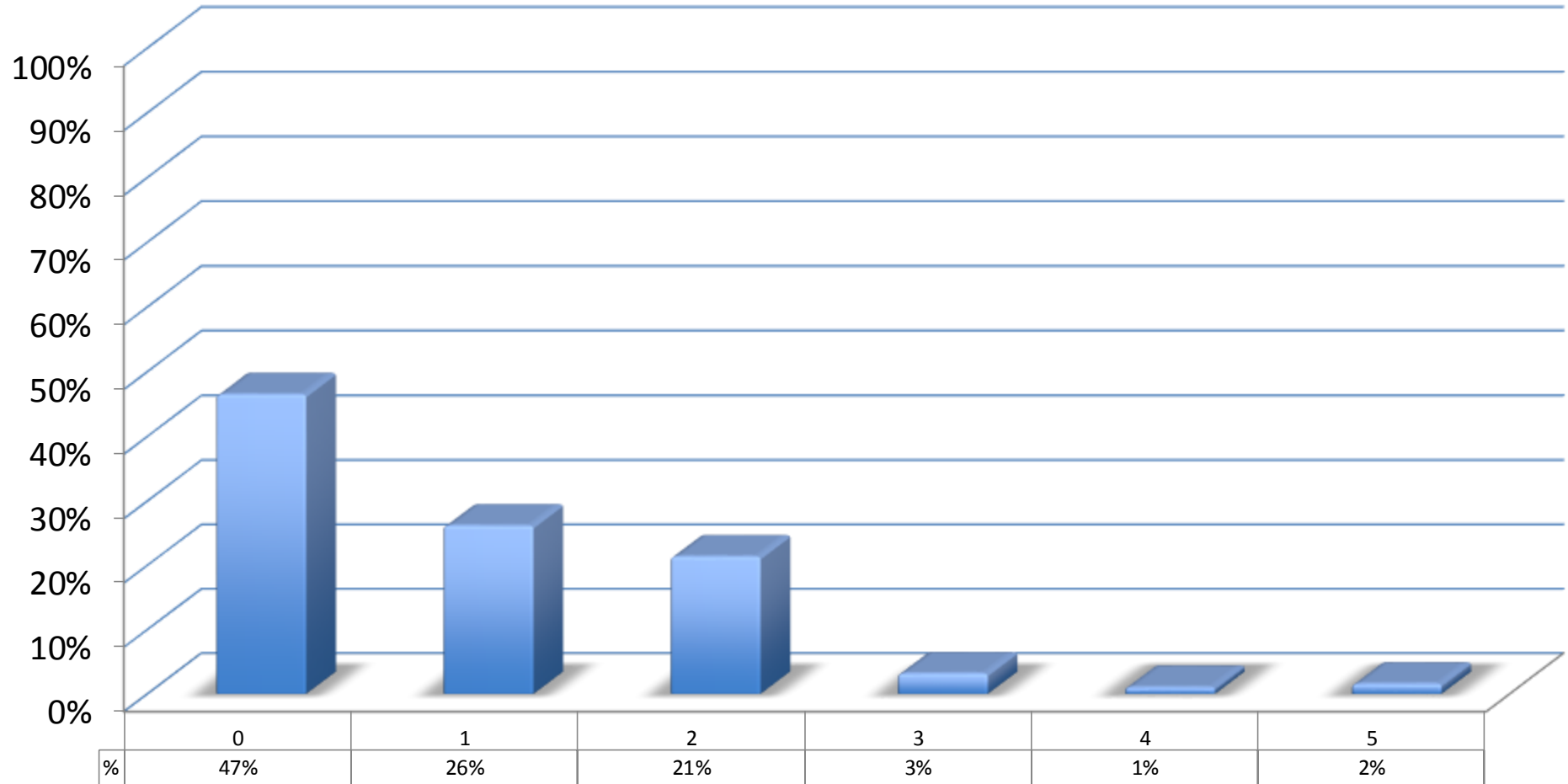
Number of Clients Who Tried to Sell Their Business On Their Own Prior to Contacting Respondents



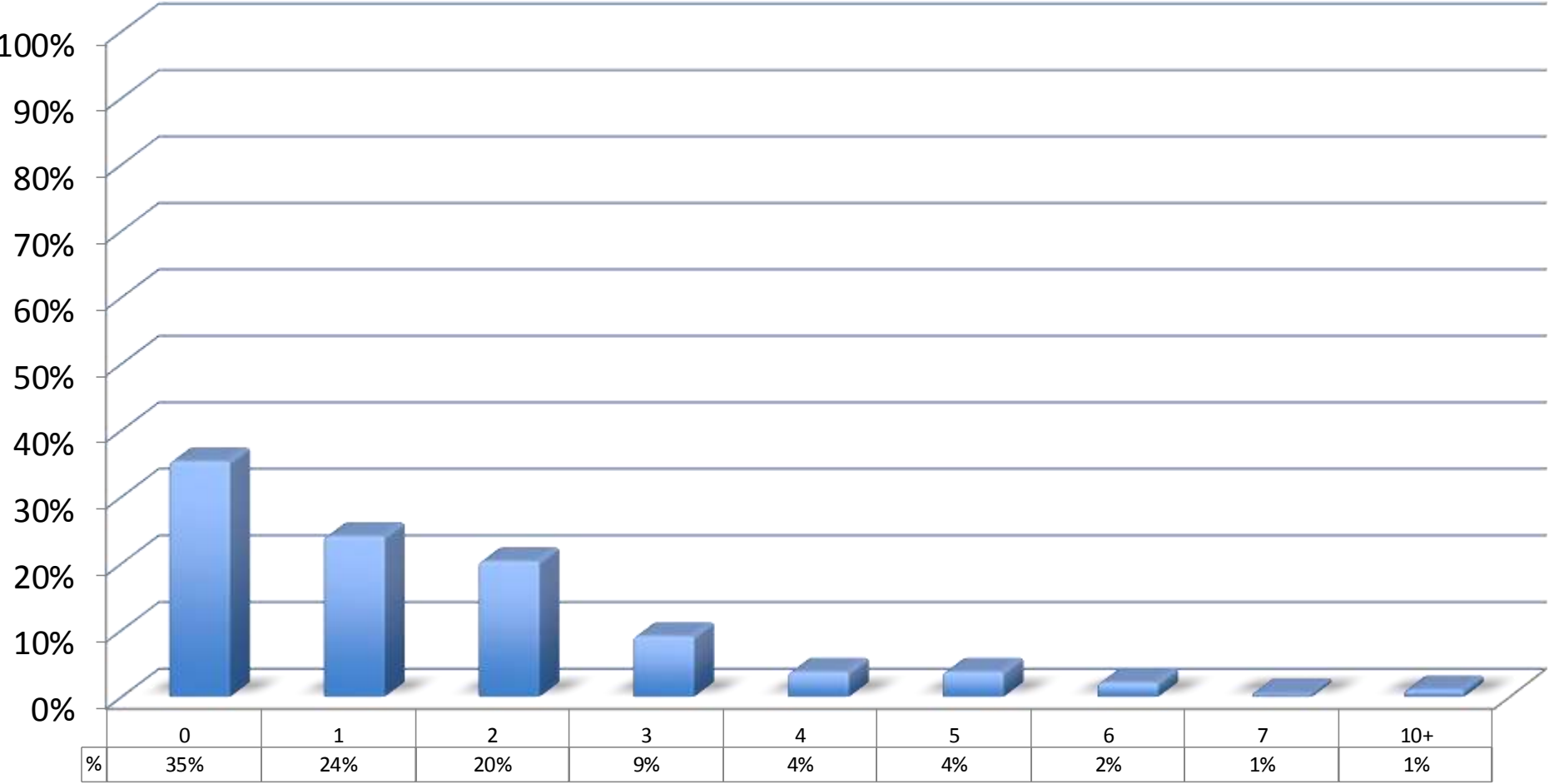
Number of Clients Who Tried to Sell Their Business Via Another Broker Prior to Contacting Respondents



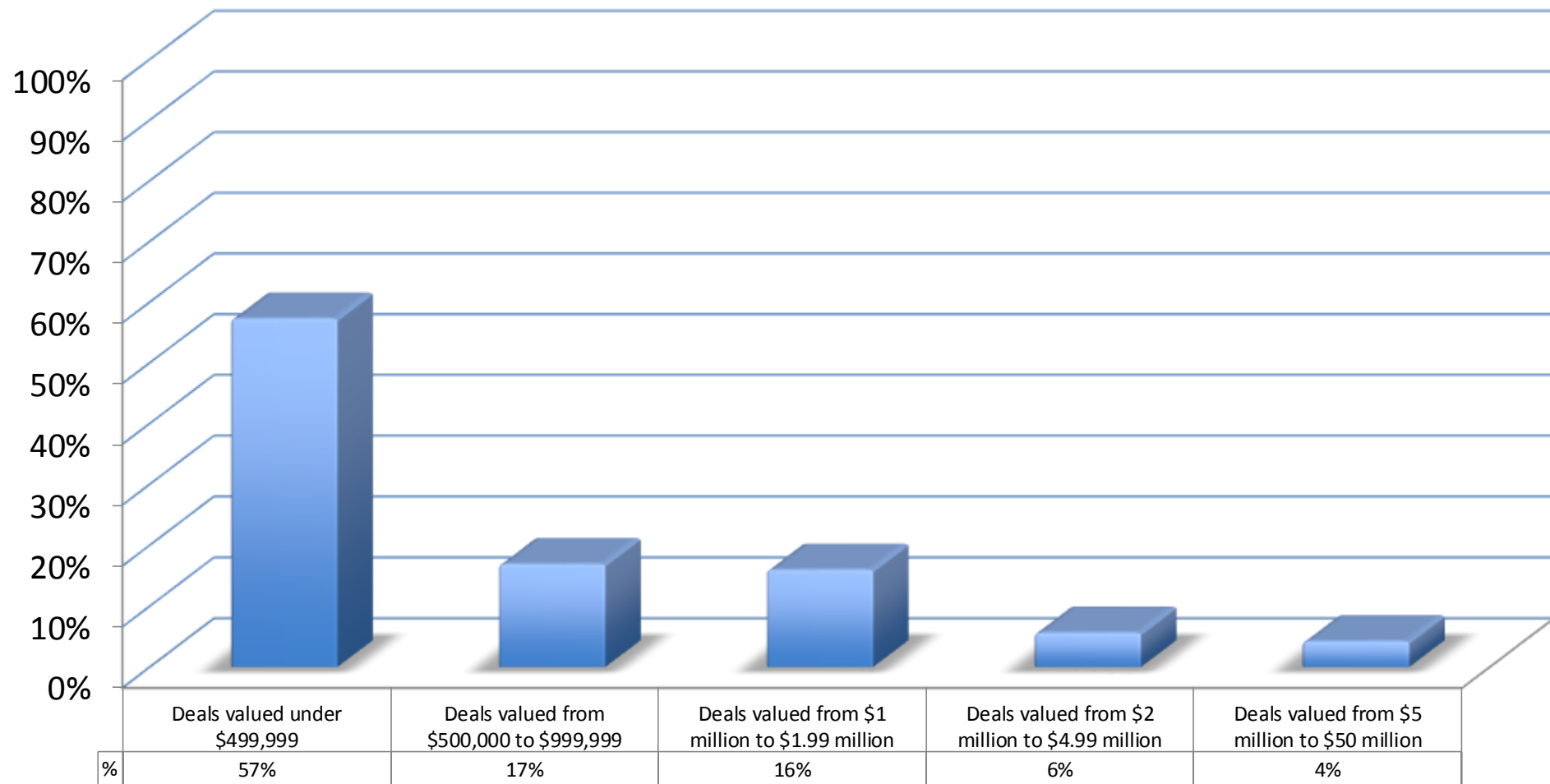
Number of Clients Who Approached by a Buyer Prior Contacting Respondents



Number of Clients Who Approached by Another Broker Prior to Contacting Respondents

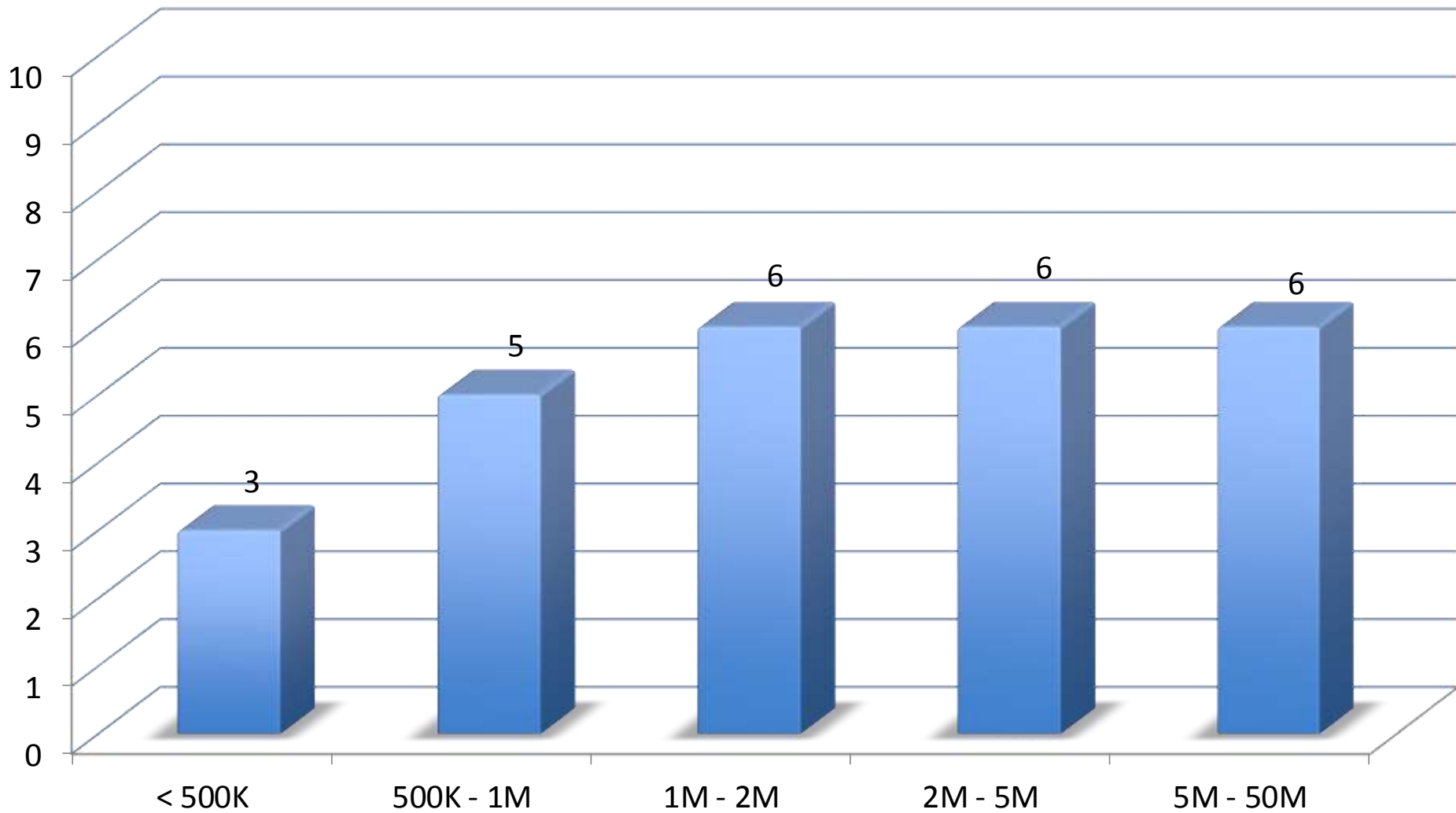


Business Transactions Closed in the Last 3 Months by Deal Size

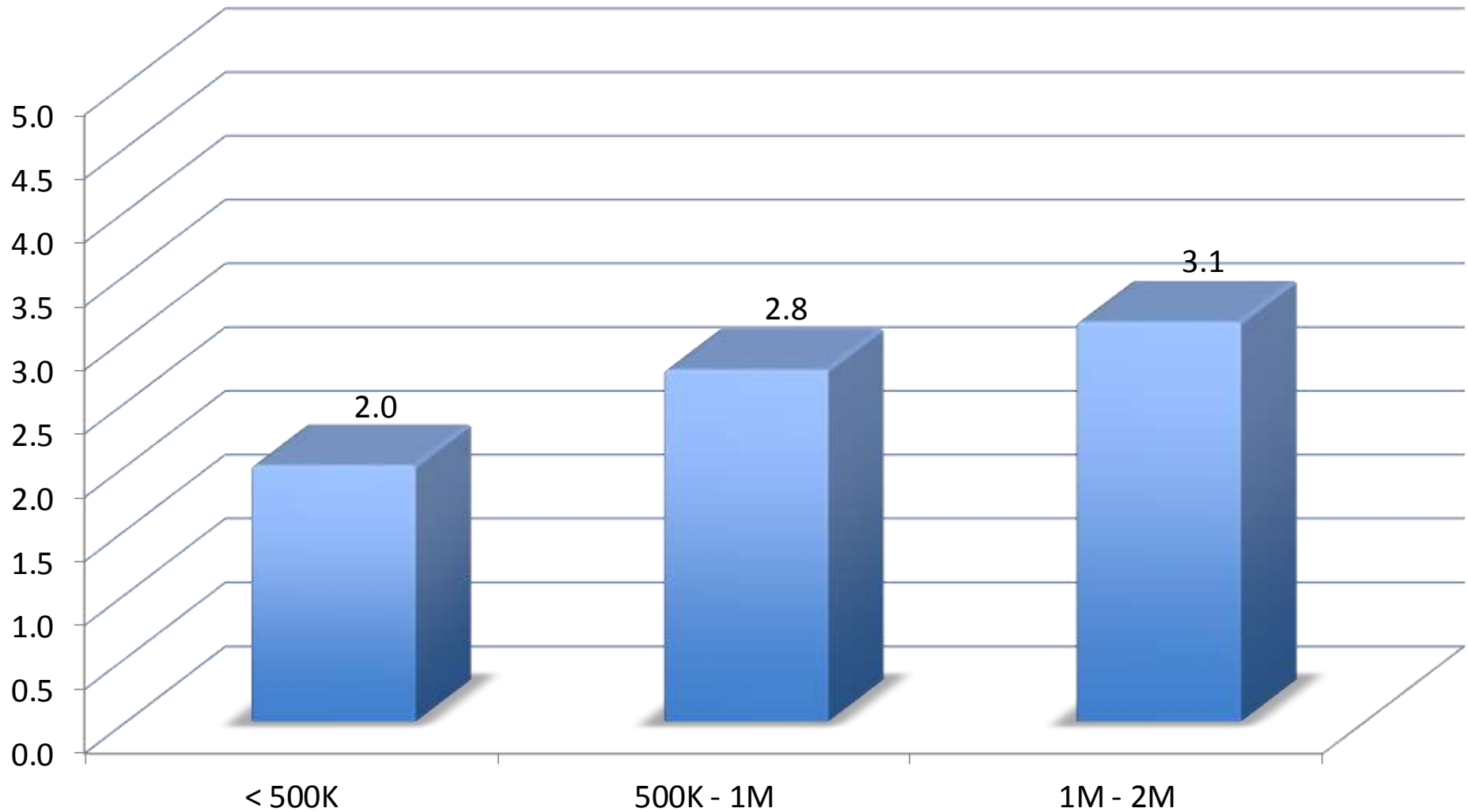


Business Transactions of All Sizes, Comparison

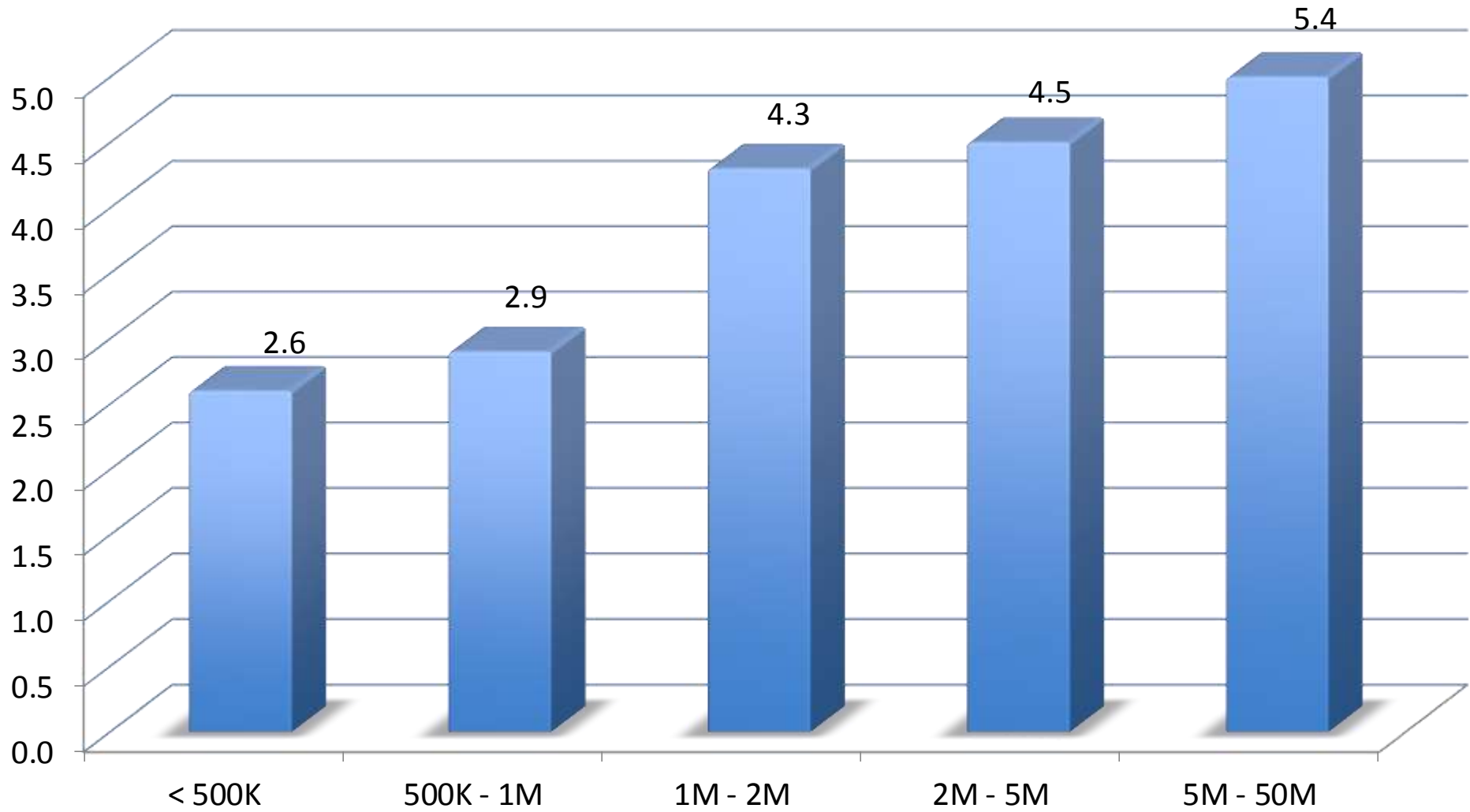
Median Time to Close a Deal (Months)



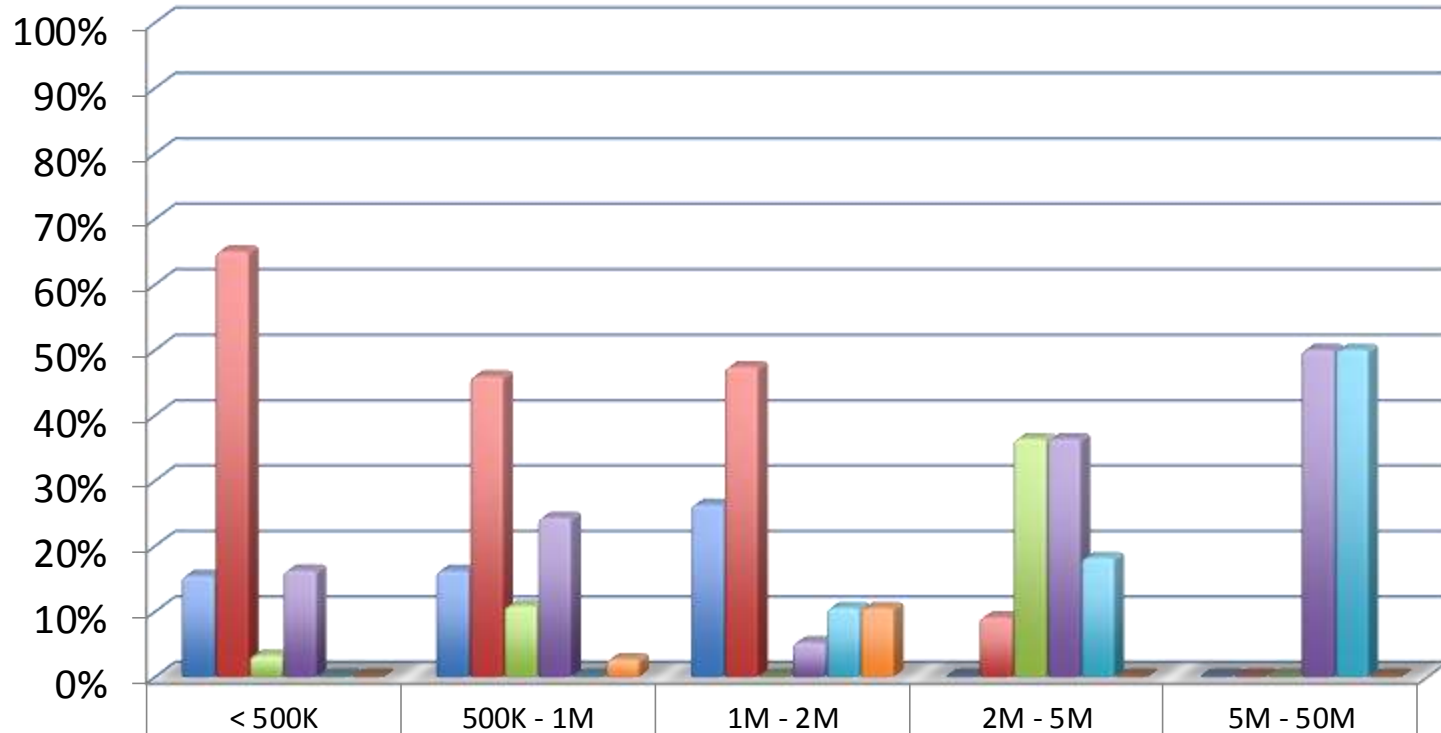
Median SDE Multiple Paid



Median EBITDA Multiple Paid

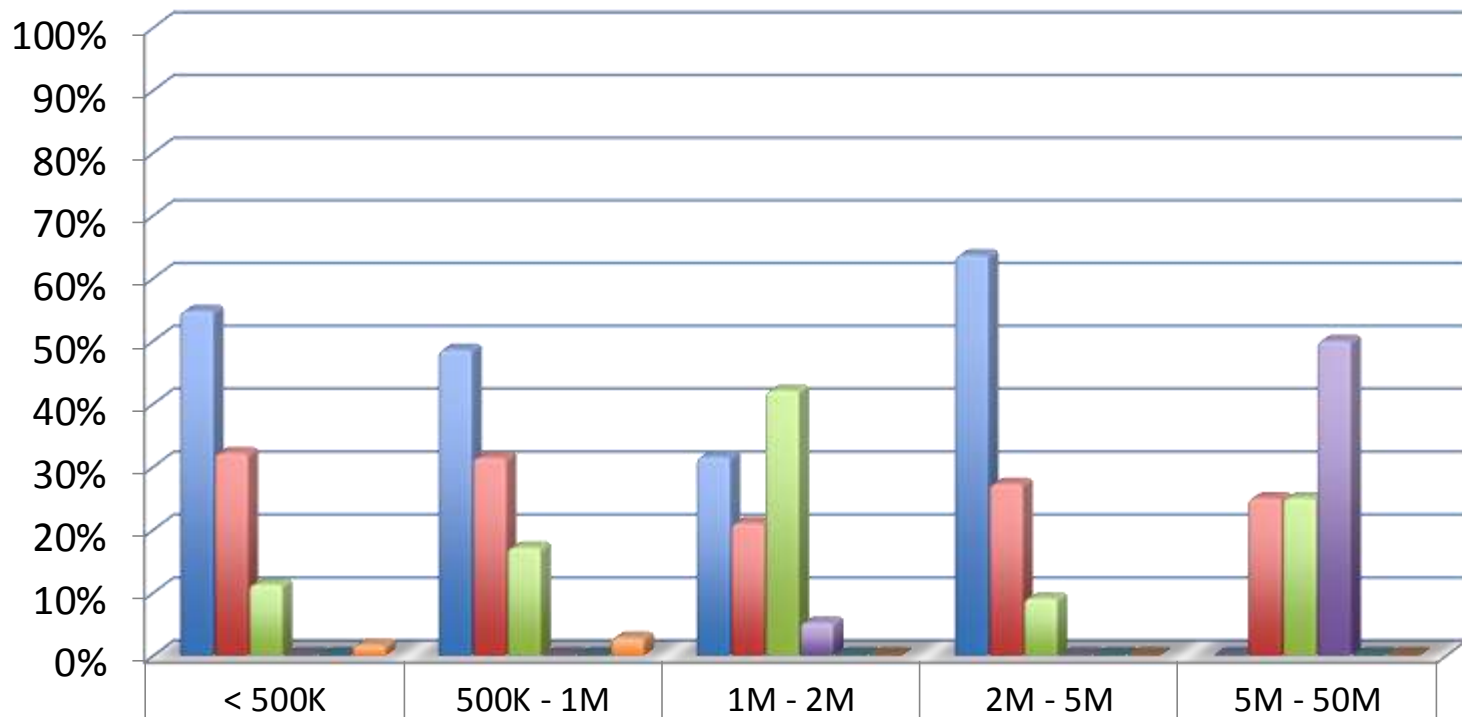


Multiple Type



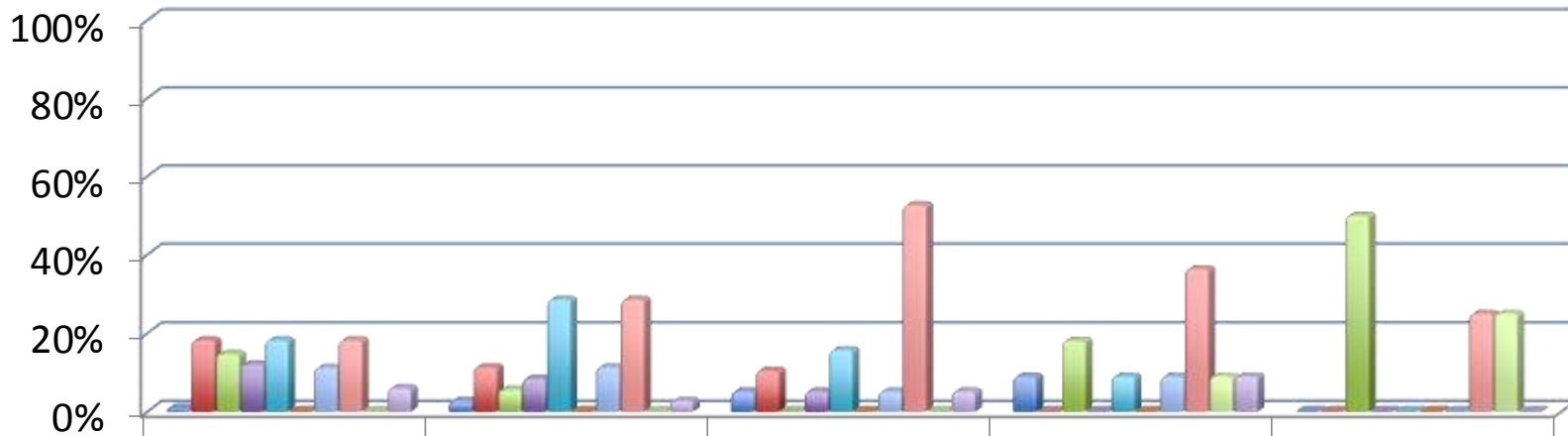
	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
■ SDE including working capital	15%	16%	26%	0%	0%
■ SDE not including working capital	65%	46%	47%	9%	0%
■ EBITDA including working capital	3%	11%	0%	36%	0%
■ EBITDA not including working capital	16%	24%	5%	36%	50%
■ TTM EBITDA including working capital	0%	0%	11%	18%	50%
■ TTM EBITDA not including working capital	0%	3%	11%	0%	0%

Buyer Type



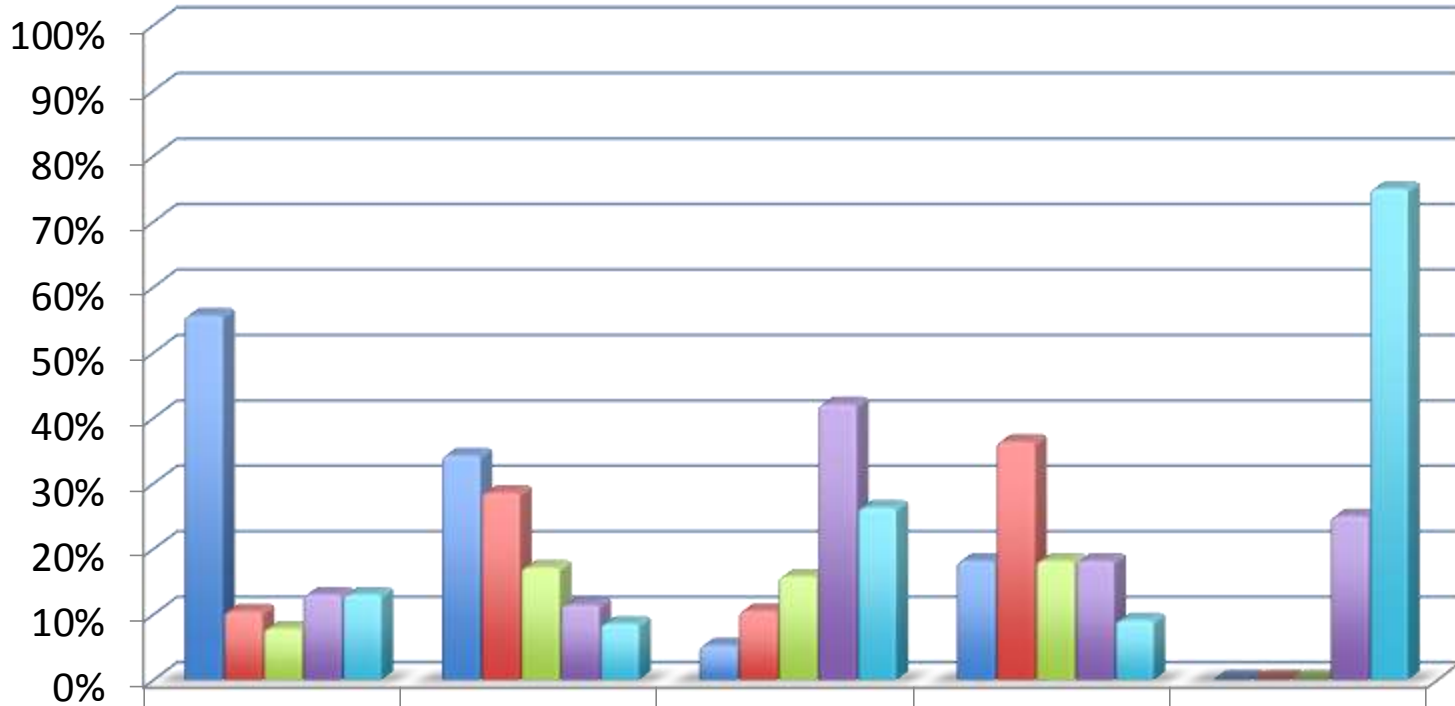
	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
1st time individual	55%	49%	32%	64%	0%
individual who owned a business	32%	31%	21%	27%	25%
existing company/strategic buyer	11%	17%	42%	9%	25%
PE firm - Platform	0%	0%	5%	0%	50%
PE firm - Add-on	0%	0%	0%	0%	0%
Other	2%	3%	0%	0%	0%

#1 Reason for Seller to Go to Market



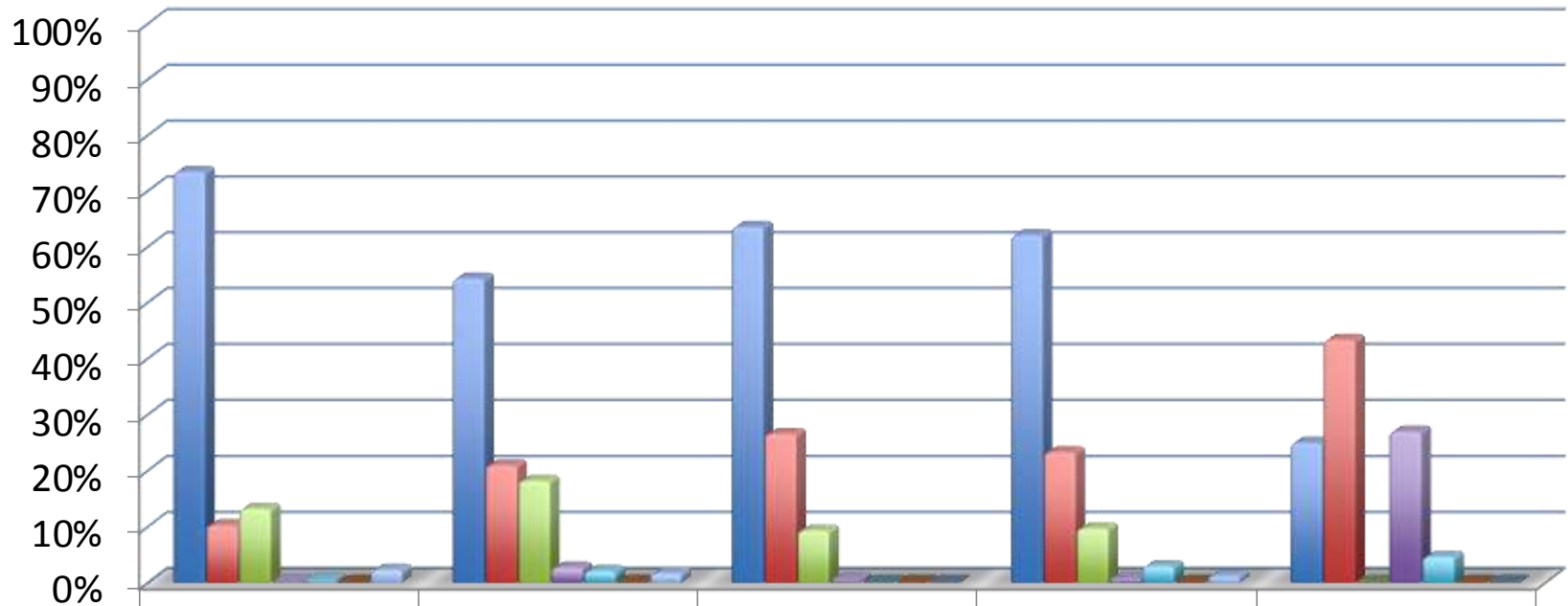
	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
Acquisition	1%	3%	5%	9%	0%
Burnt out	18%	11%	11%	0%	0%
Family issues	15%	6%	0%	18%	50%
Health	12%	9%	5%	0%	0%
New opportunity	18%	29%	16%	9%	0%
Potential taxes increases	0%	0%	0%	0%	0%
Relocation/moving	11%	11%	5%	9%	0%
Retirement	18%	29%	53%	36%	25%
Unsolicited offer	0%	0%	0%	9%	25%
Other	6%	3%	5%	9%	0%

#1 Motivation for Buyer



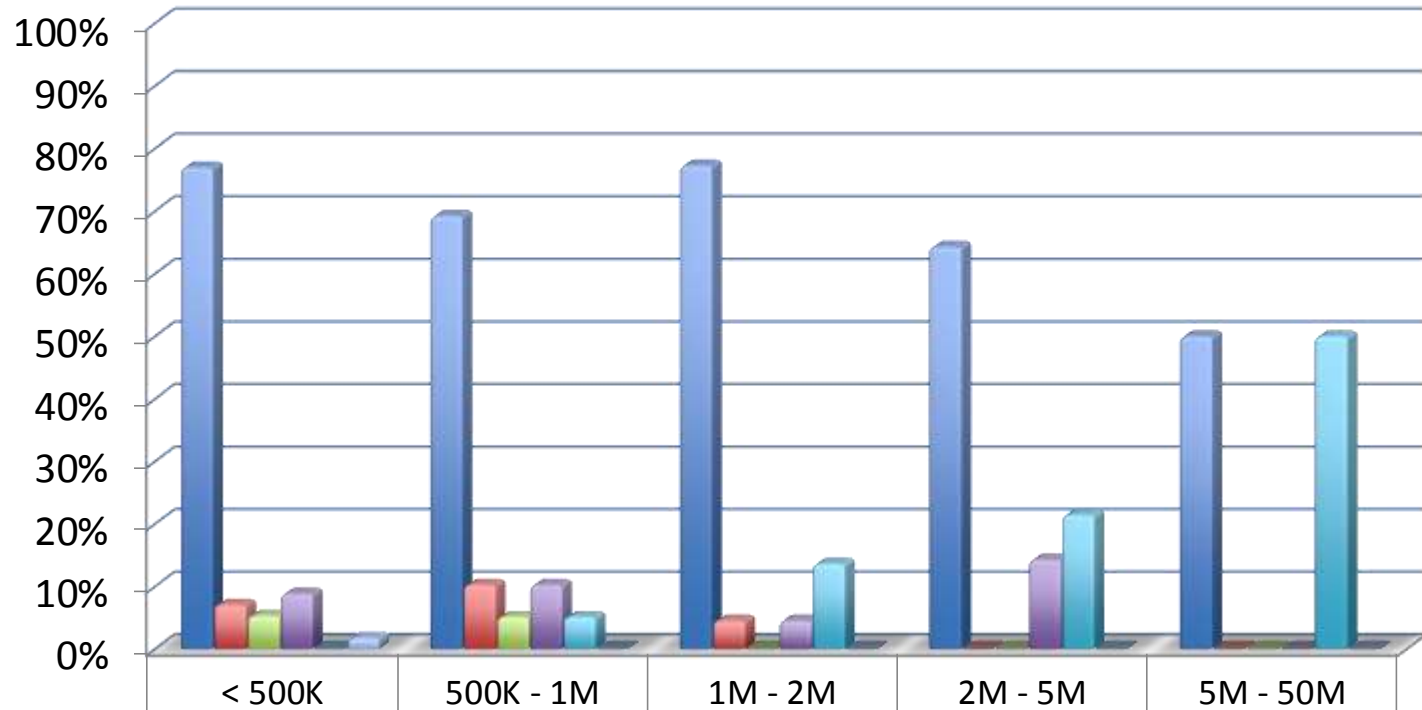
	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
Buying a job	56%	34%	5%	18%	0%
Better ROI than other investment	10%	29%	11%	36%	0%
Vertical add-on	8%	17%	16%	18%	0%
Horizontal add-on	13%	11%	42%	18%	25%
Other	13%	9%	26%	9%	75%

Financing Structure



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
Buyers equity	73%	54%	64%	62%	25%
Senior debt	10%	21%	27%	23%	43%
Seller financing	13%	18%	9%	10%	0%
Earn out	0%	3%	1%	1%	27%
Seller retained equity	1%	2%	0%	3%	5%
Mezzanine financing	0%	0%	0%	0%	0%
Other	2%	2%	0%	1%	0%

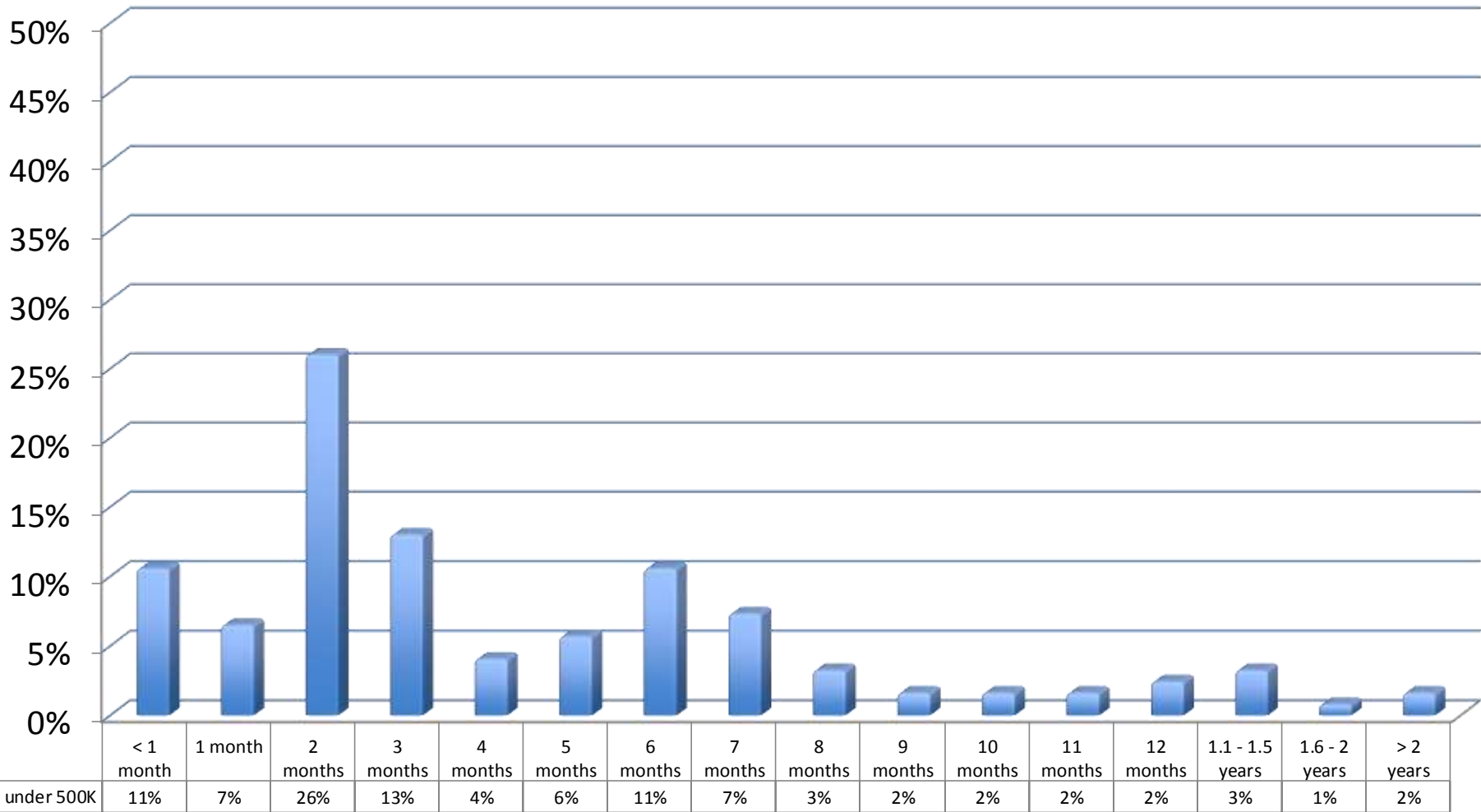
Source of Buyers Equity



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
■ Cash	77%	69%	77%	64%	50%
■ 401K/IRA Rollover	7%	10%	5%	0%	0%
■ Home Equity Line of Credit (HELOC)	5%	5%	0%	0%	0%
■ Investors - family/friends	9%	10%	5%	14%	0%
■ Investors - other	0%	5%	14%	21%	50%
■ Other	2%	0%	0%	0%	0%

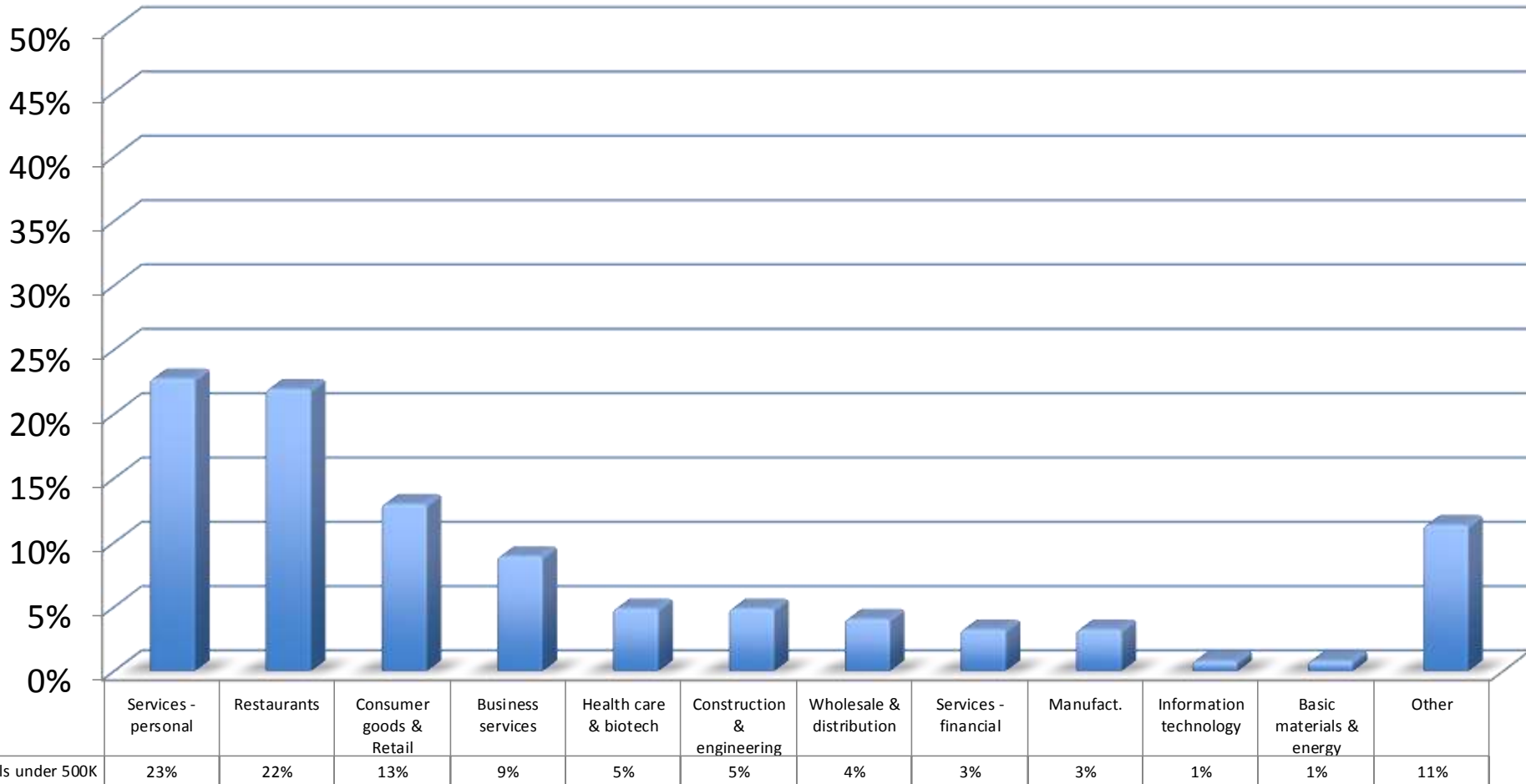
II-I Business Transactions Valued under \$499,999

Time to Close



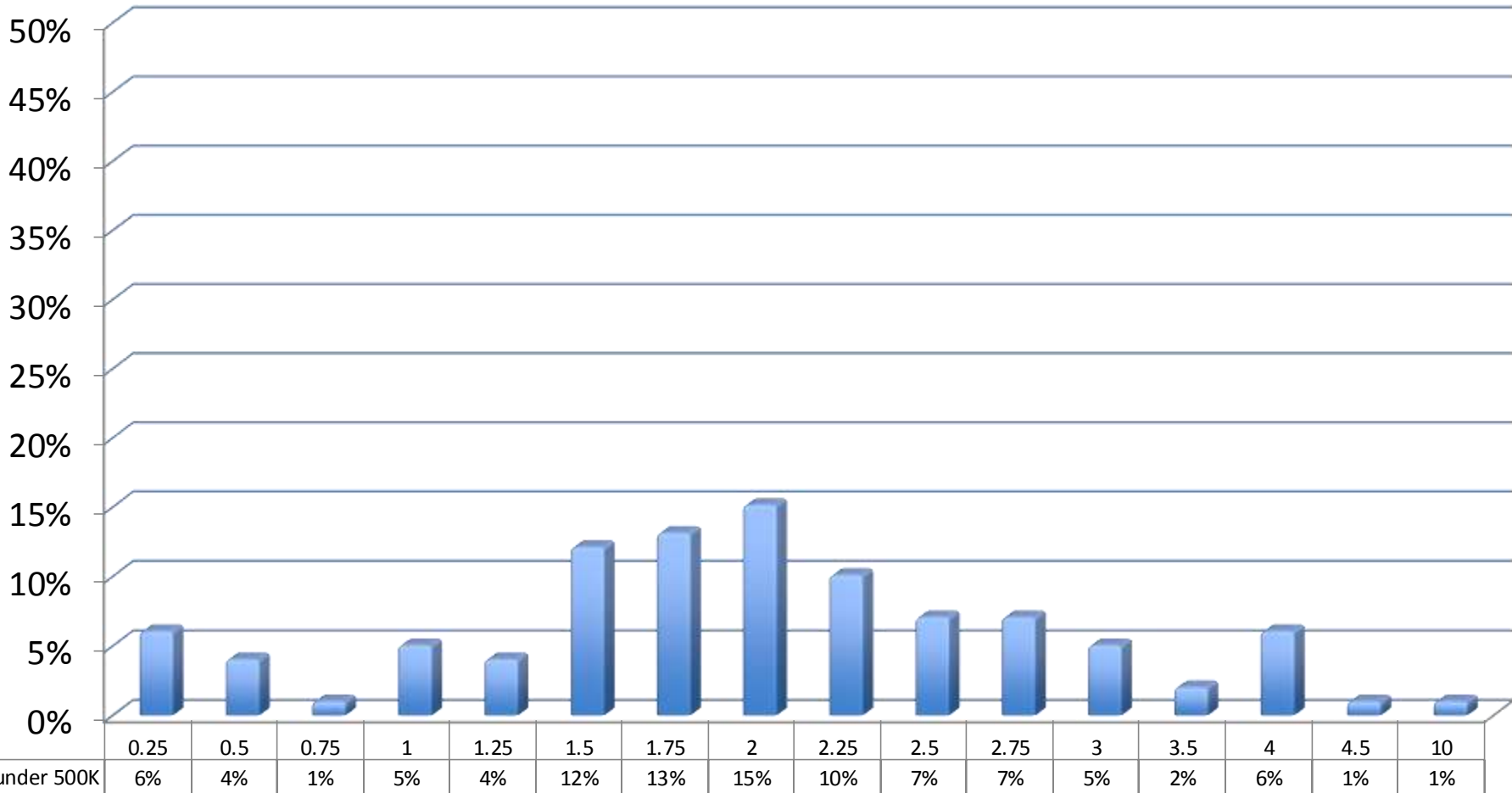
Number of closed transactions = 123

Industry



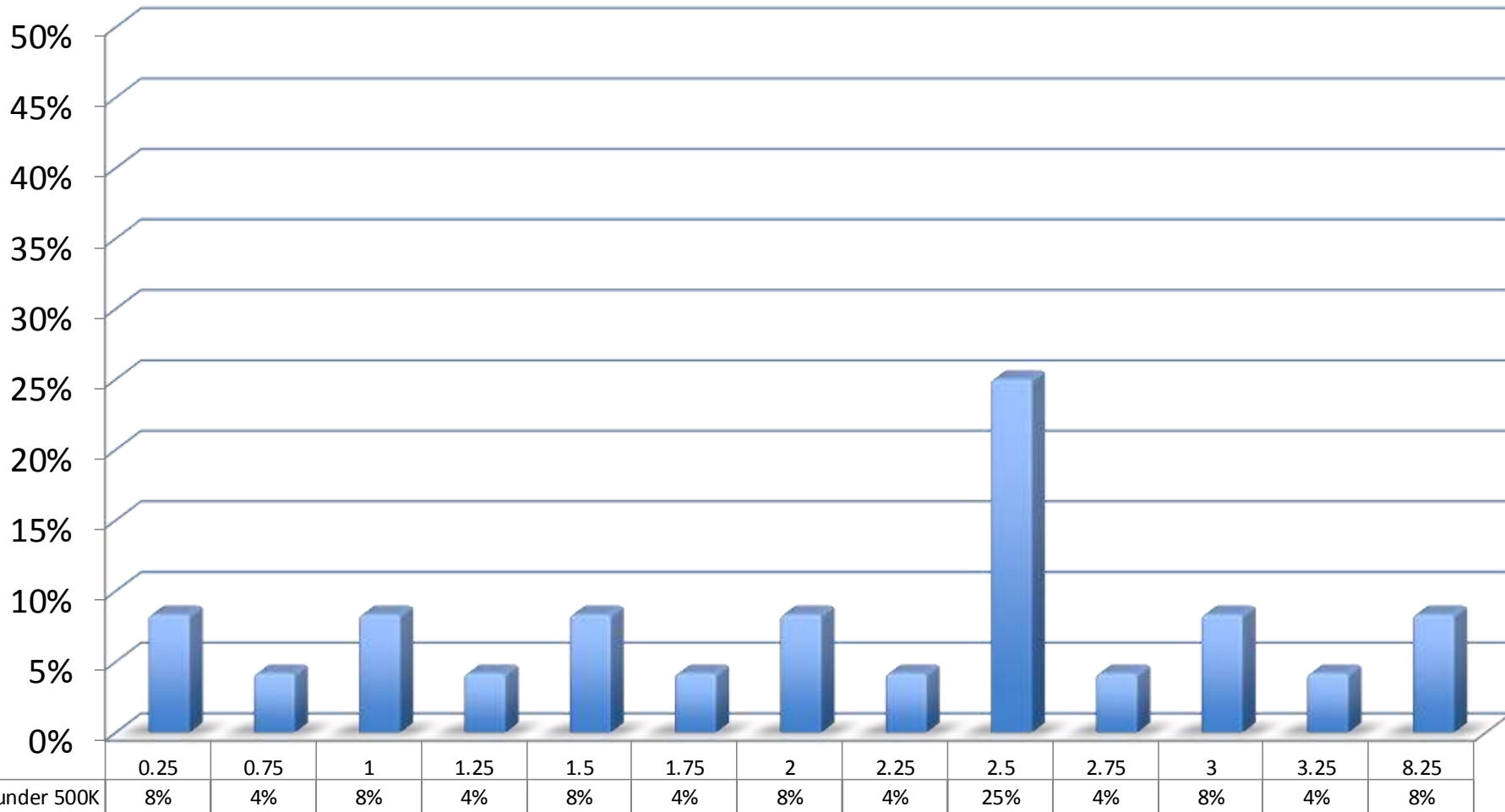
Number of closed transactions = 123

SDE Multiple Paid



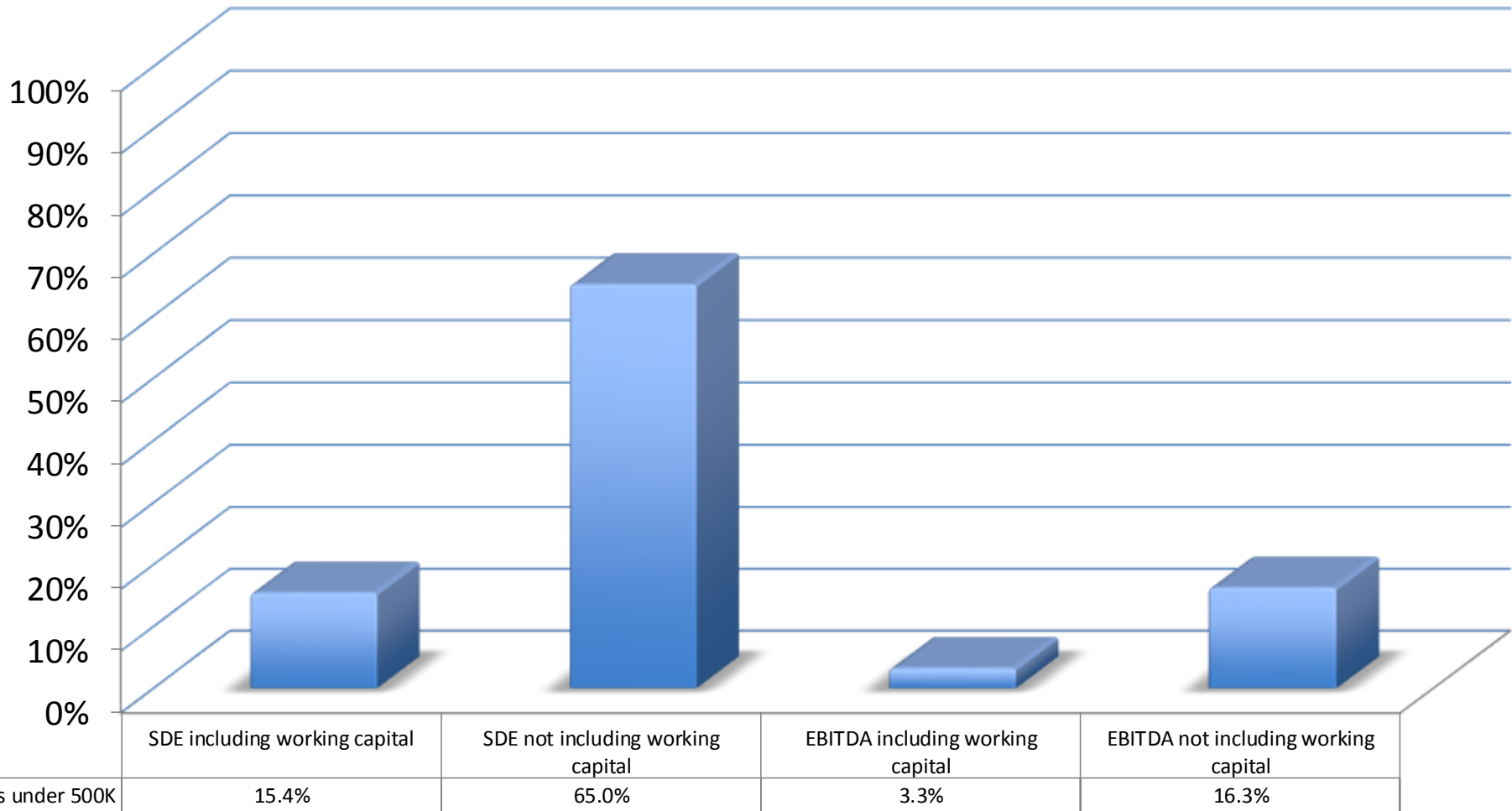
Number of closed transactions = 99

EBITDA Multiple Paid



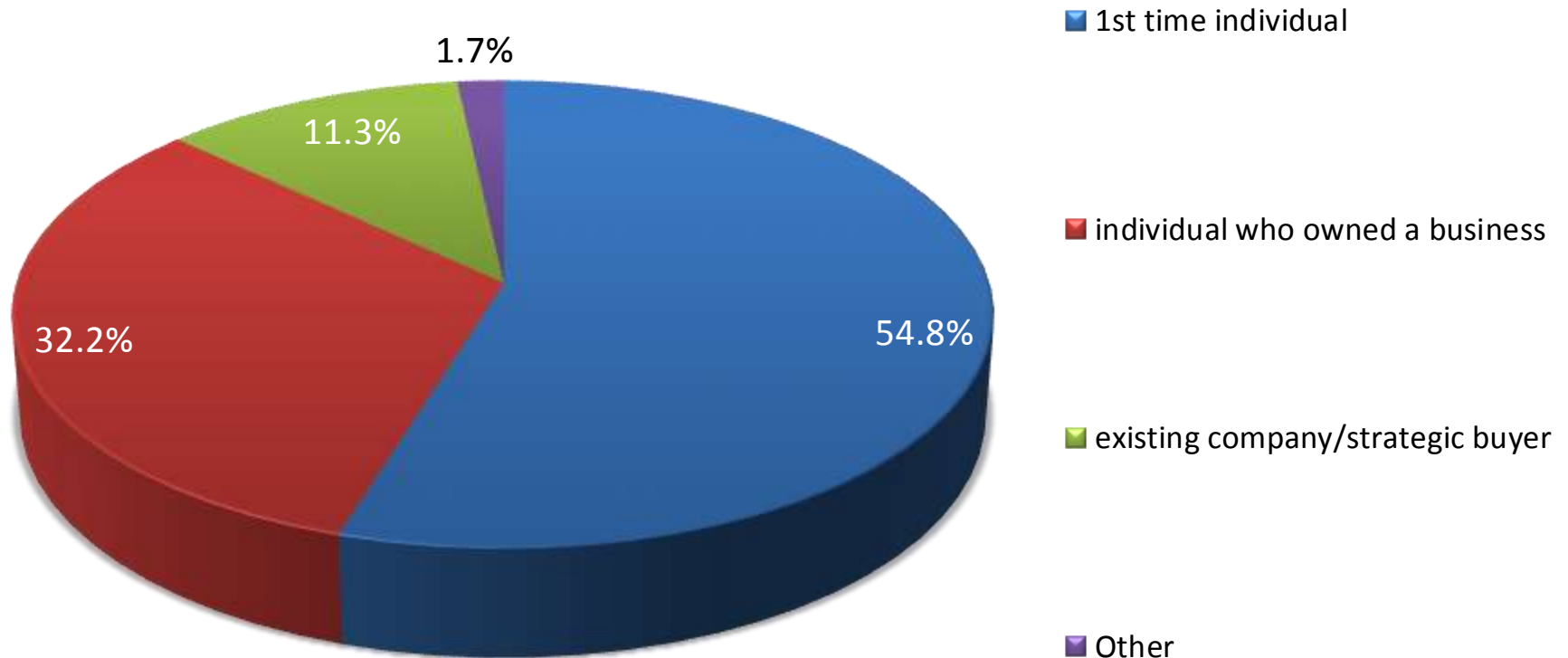
Number of closed transactions = 24

Multiple Type



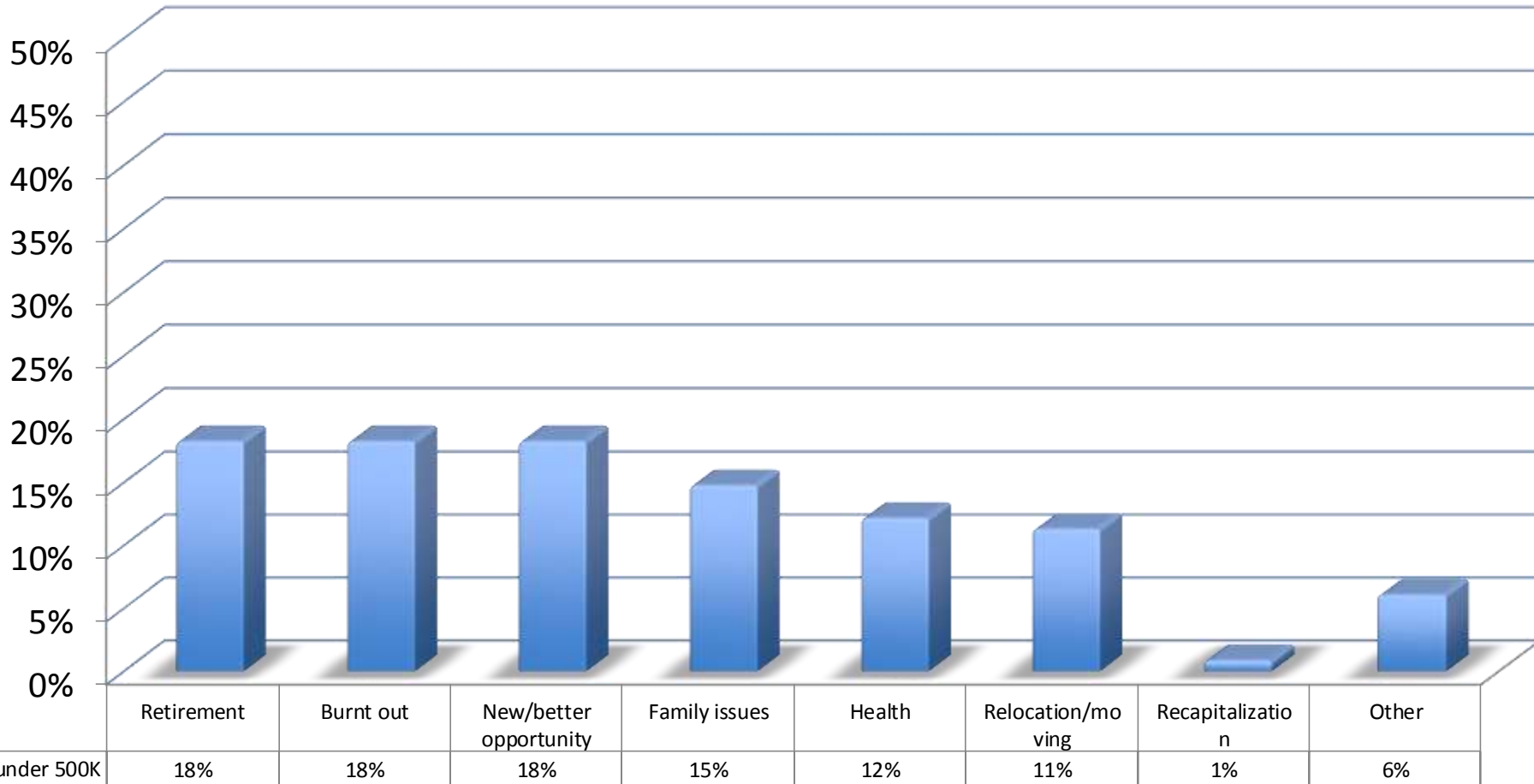
Number of closed transactions = 123

Buyer Type: Deals <\$500,000



Number of closed transactions = 115

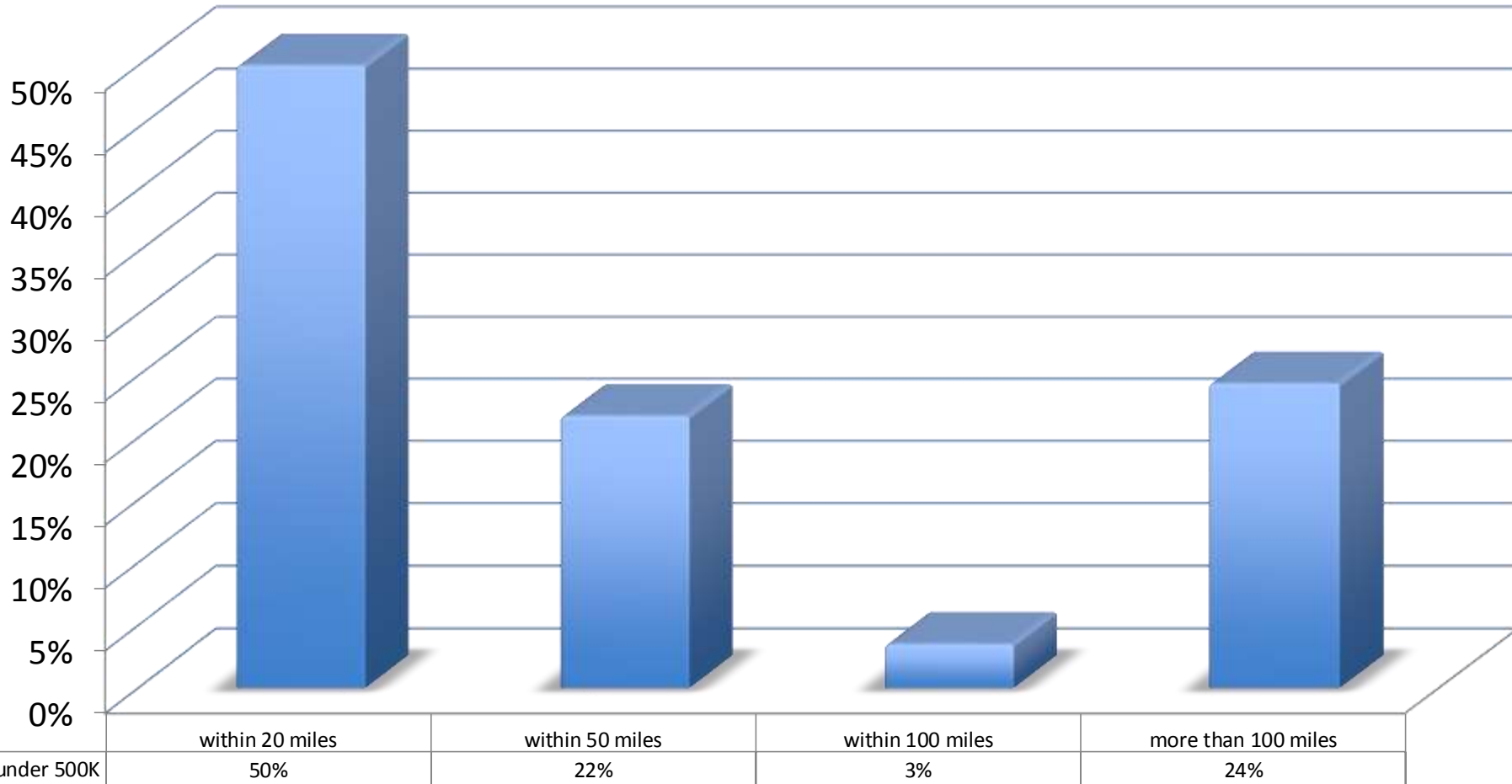
#1 Reason for Seller to Go to Market



Deals under 500K

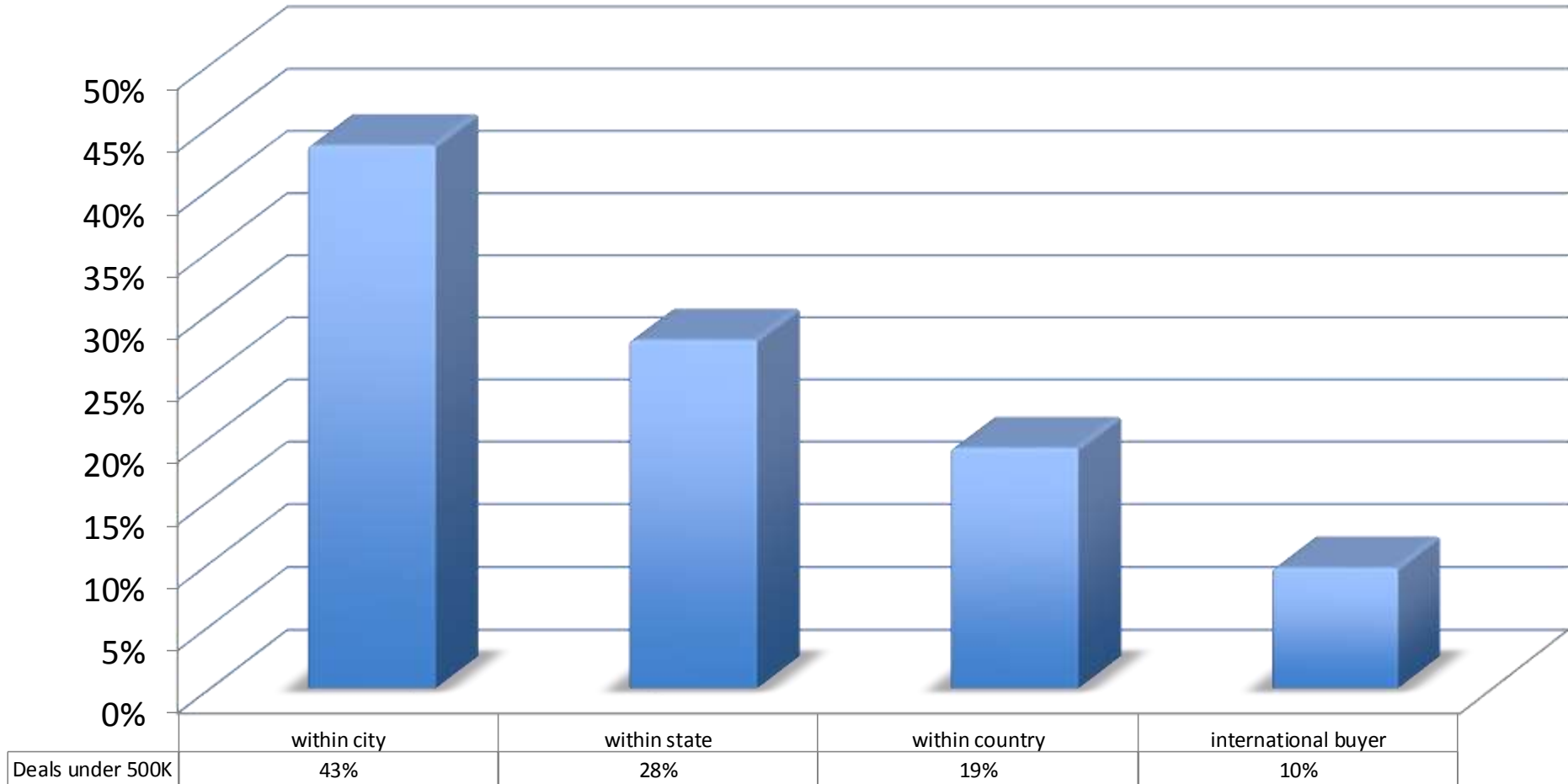
Number of closed transactions = 115

Buyer Location (Distance)



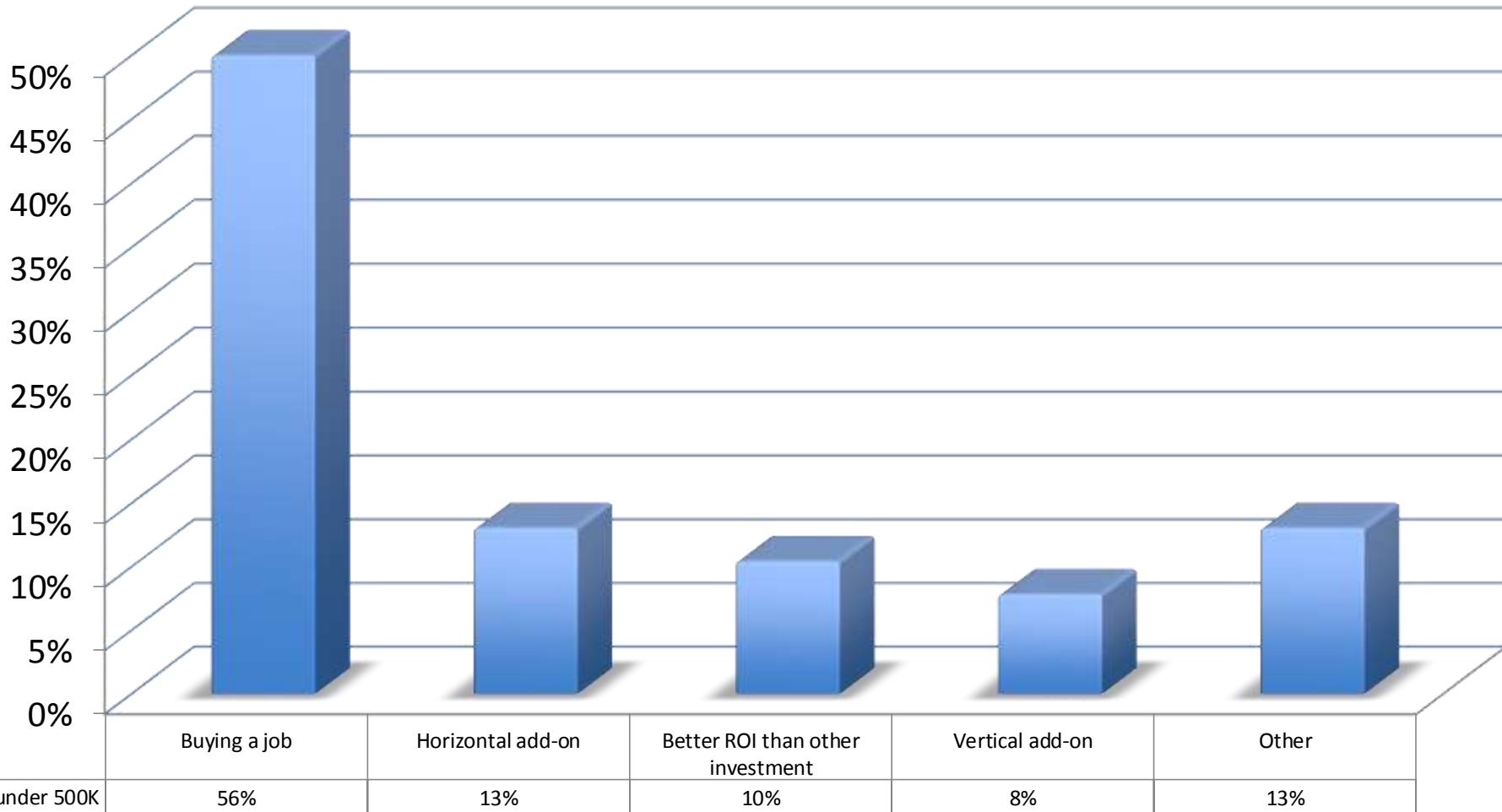
Number of closed transactions = 115

Buyer Location (Global)



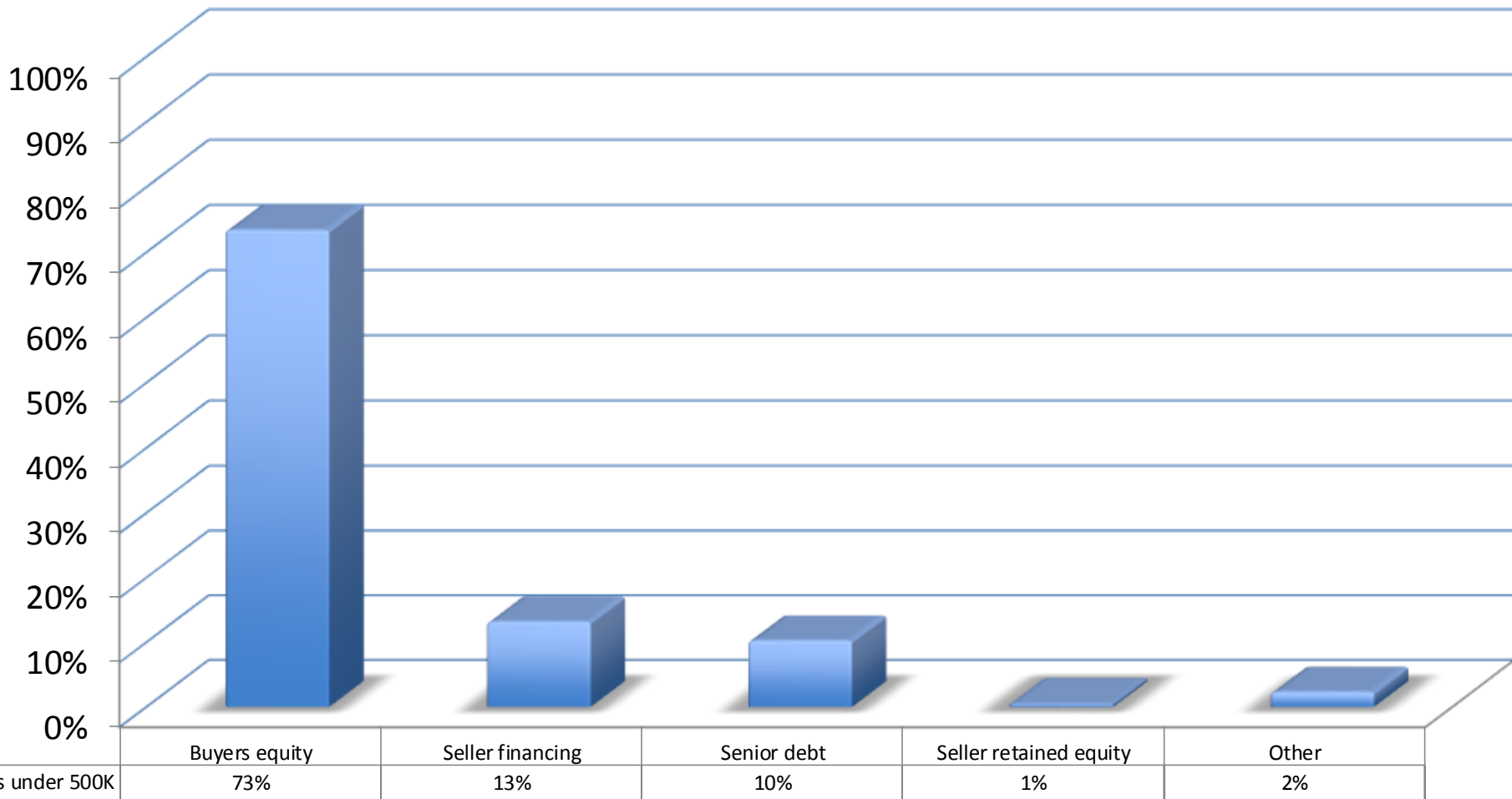
Number of closed transactions = 115

#1 Motivation for Buyer



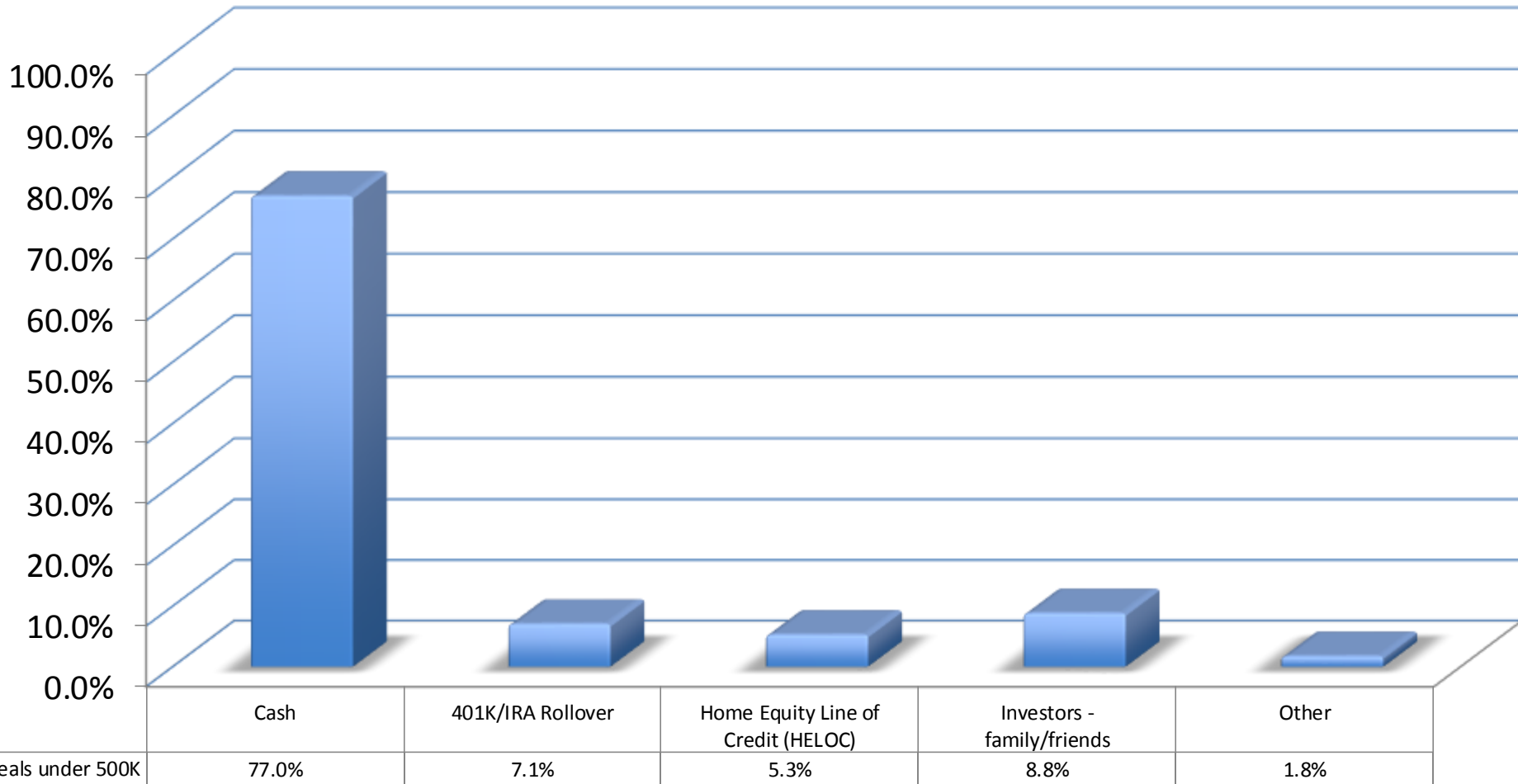
Number of closed transactions = 115

Financing Structure



Number of closed transactions = 112

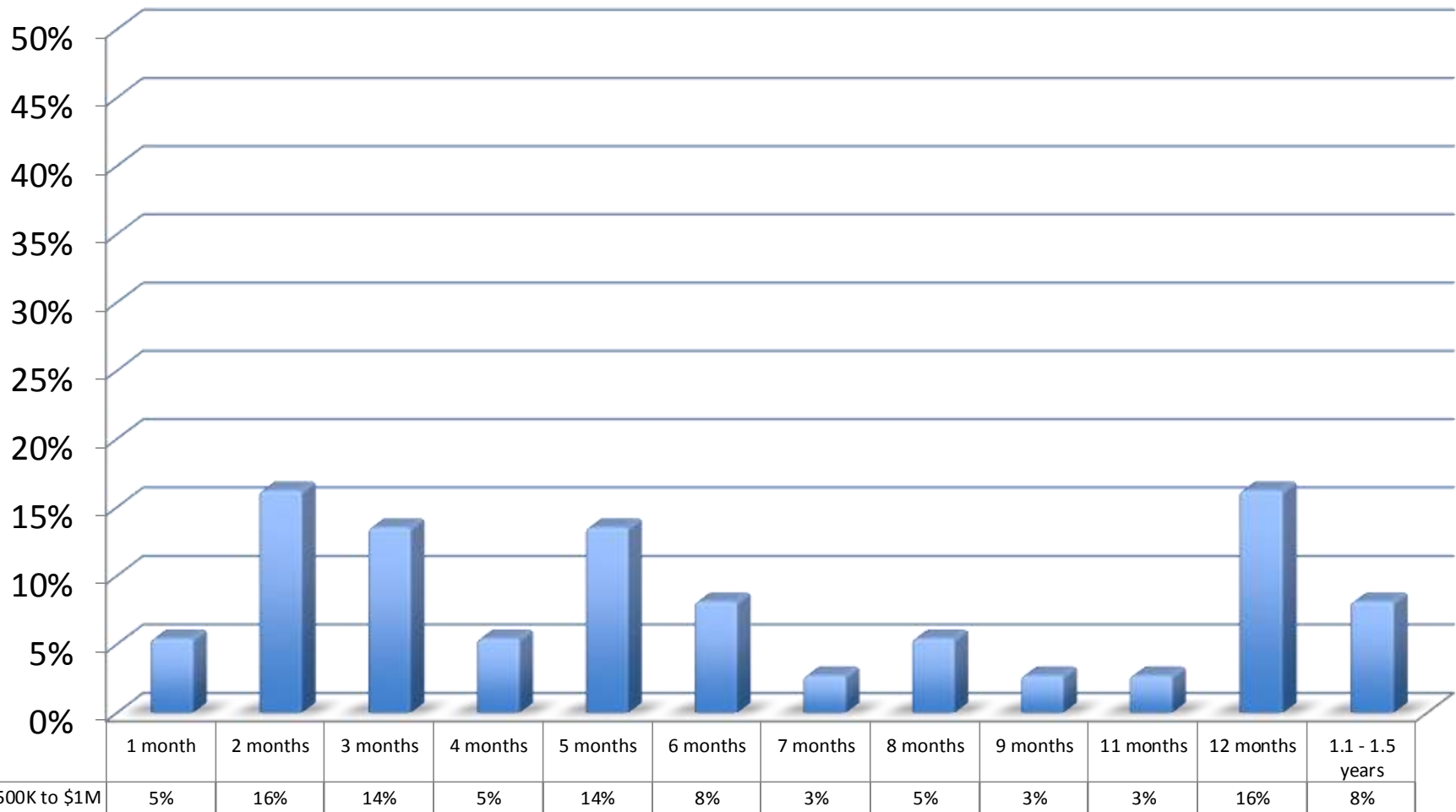
Source of Buyers Equity (Multiple Choices)



Number of responses = 113

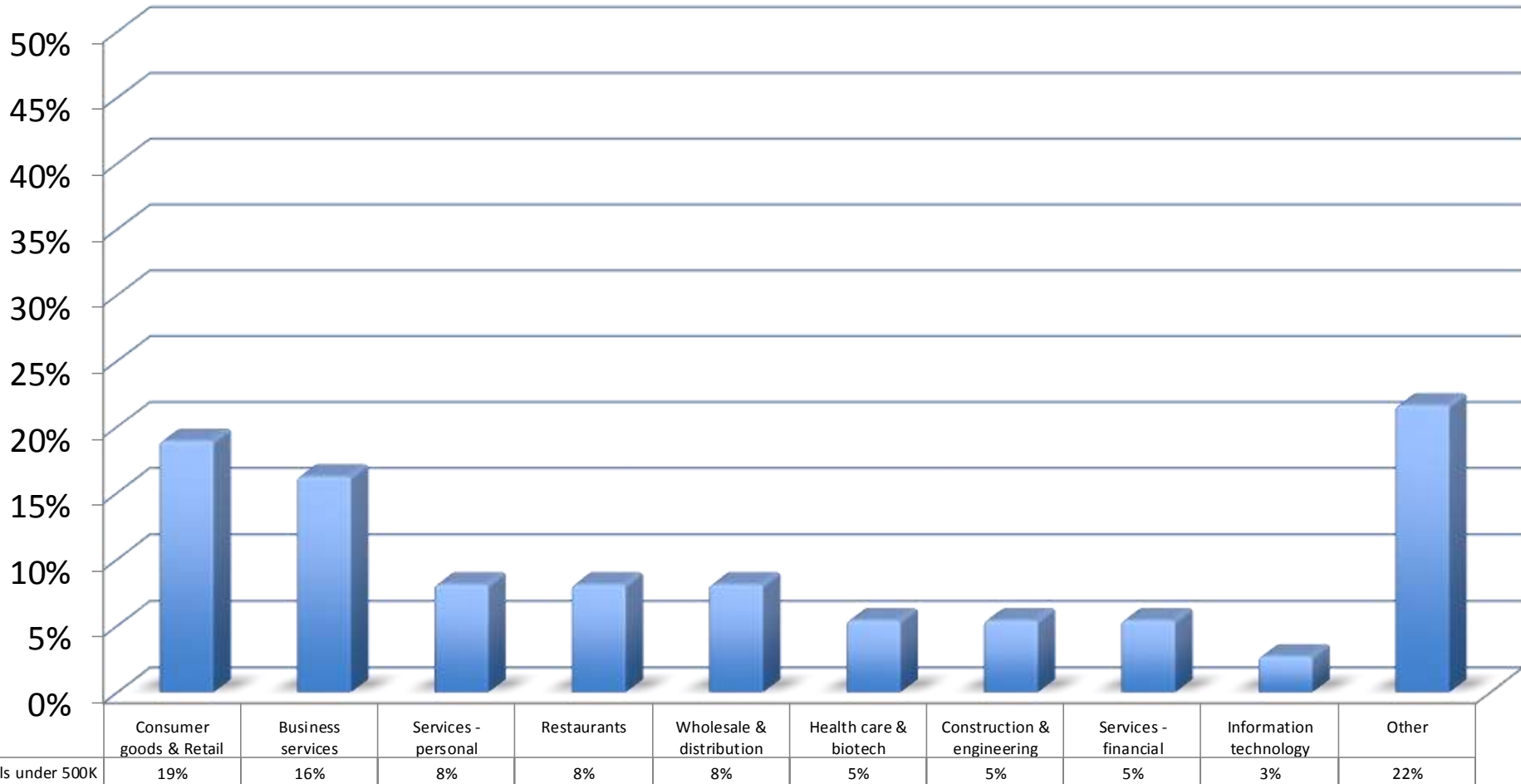
II-II Business Transactions Valued from \$500,000 to \$999,999

Time to Close



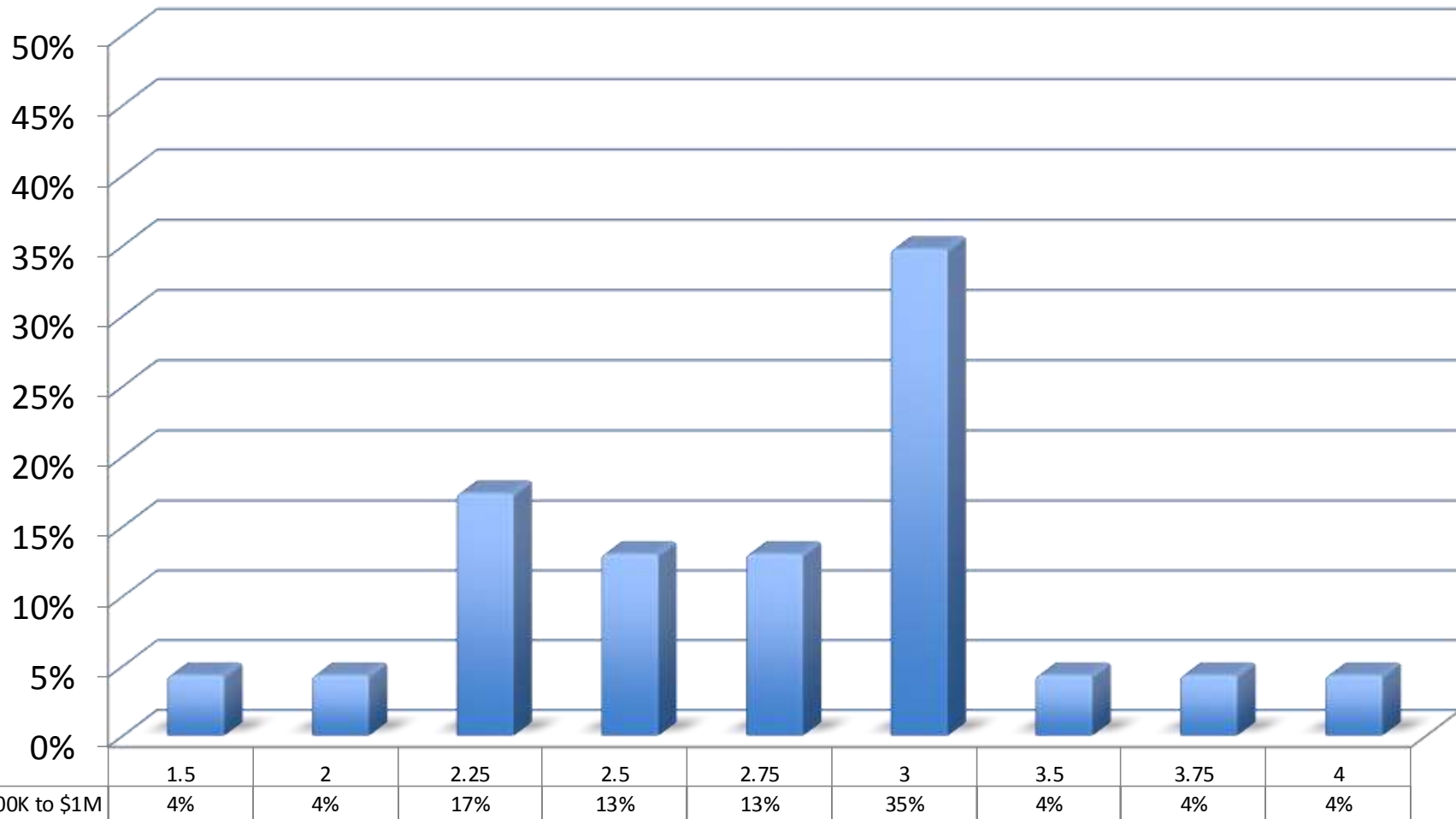
Number of closed transactions = 37

Industry



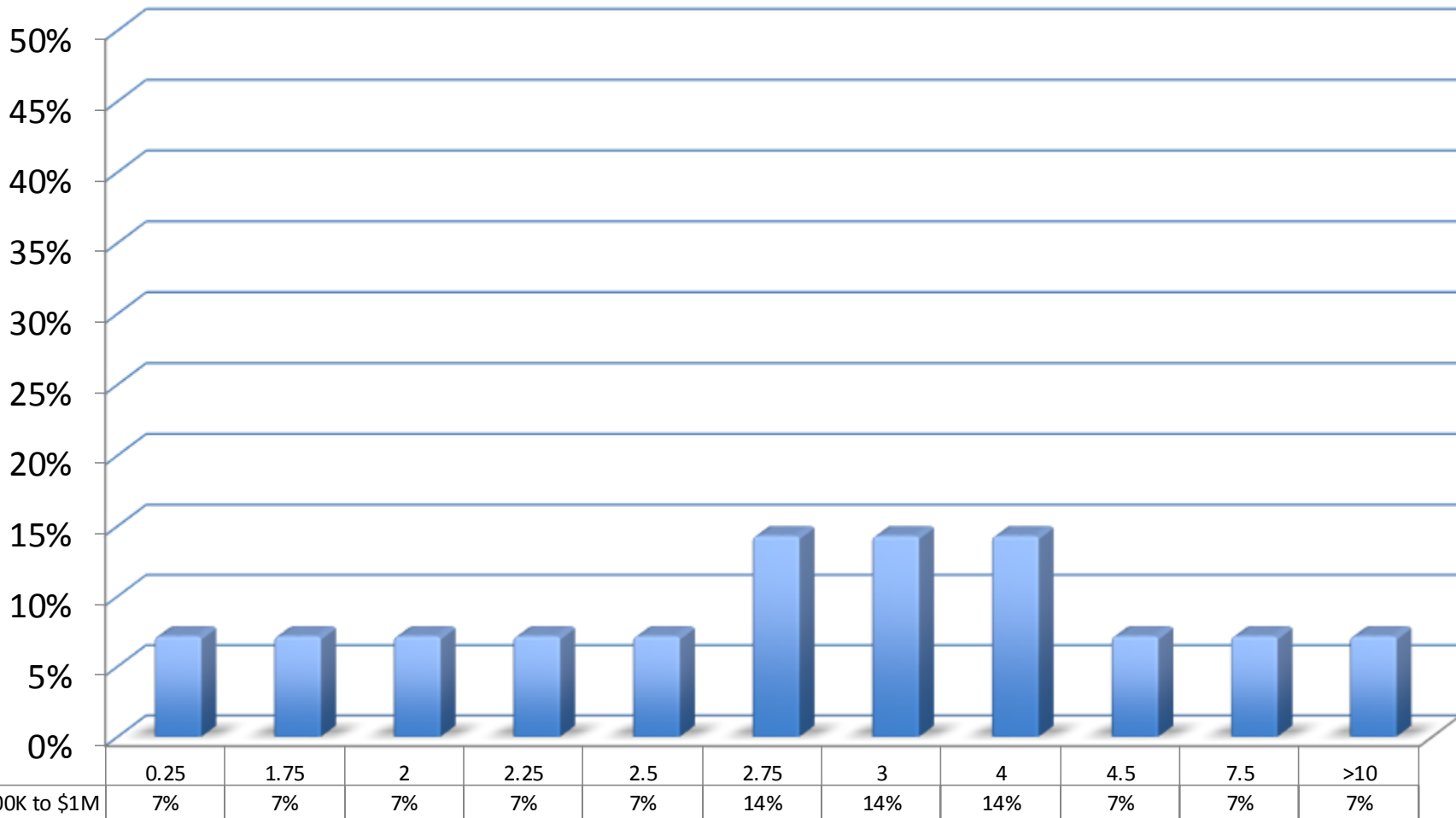
Number of closed transactions = 37

SDE Multiple Paid



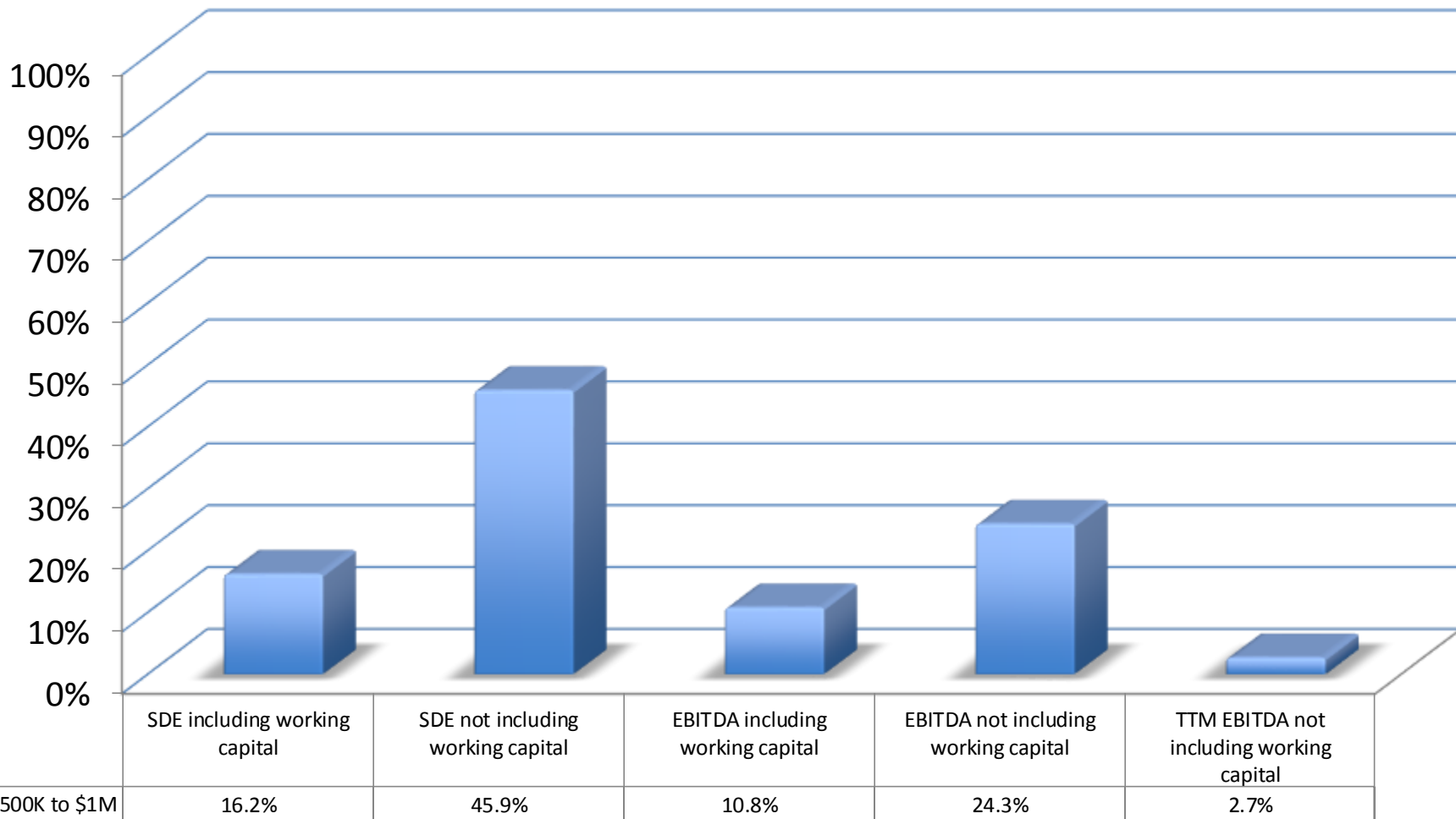
Number of closed transactions = 23

EBITDA Multiple Paid



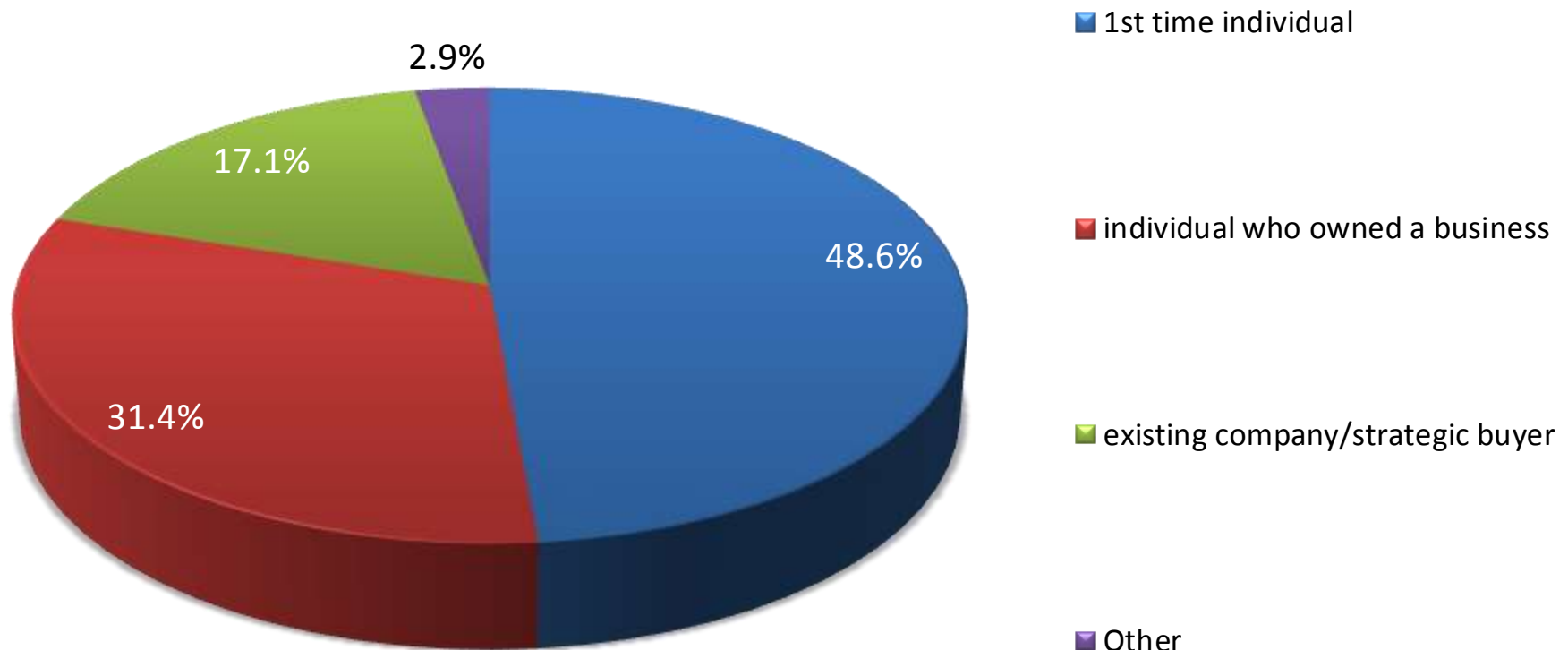
Number of closed transactions = 14

Multiple Type



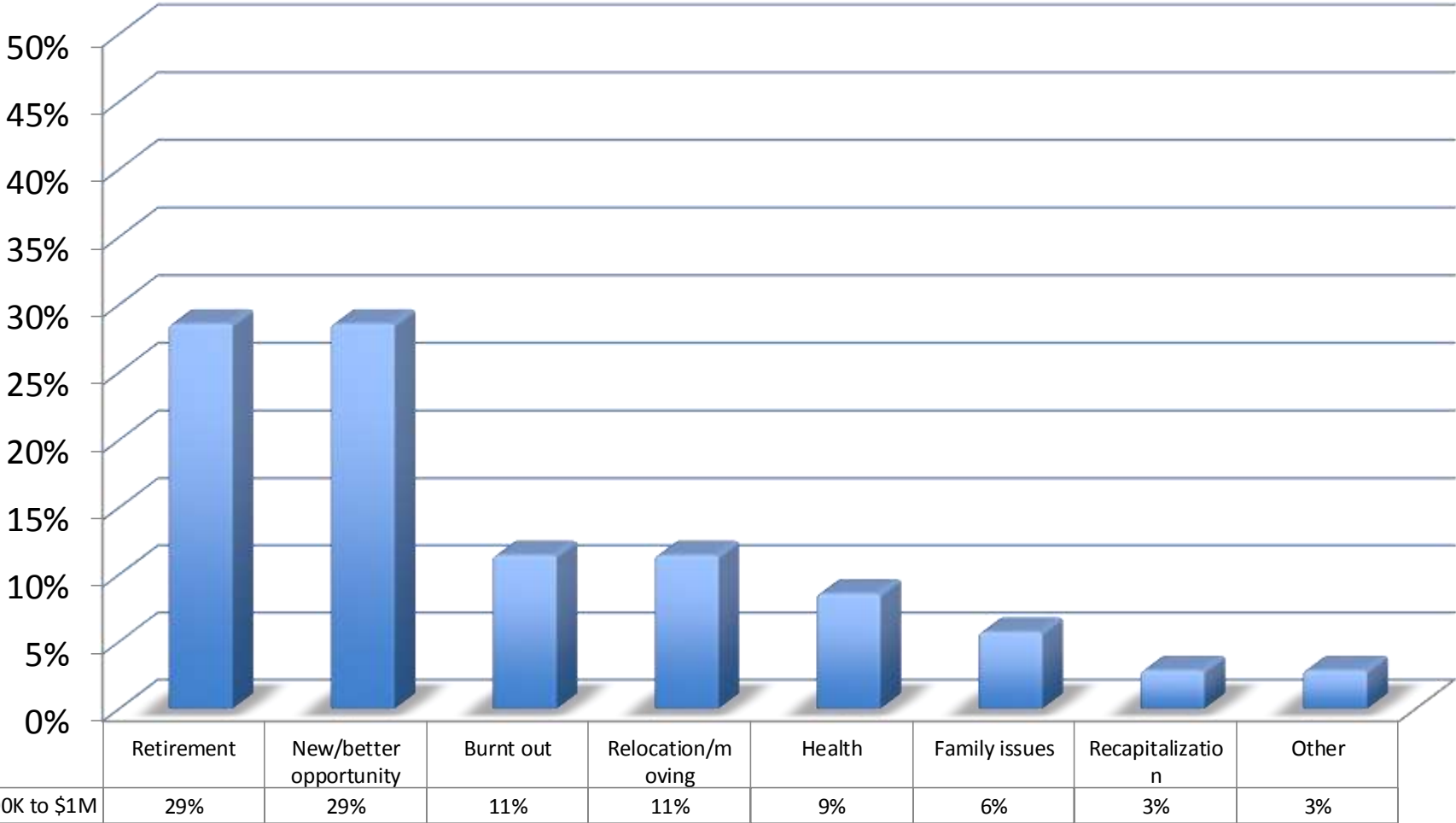
Number of closed transactions = 37

Buyer Type: Deals \$500,000 - \$999,999



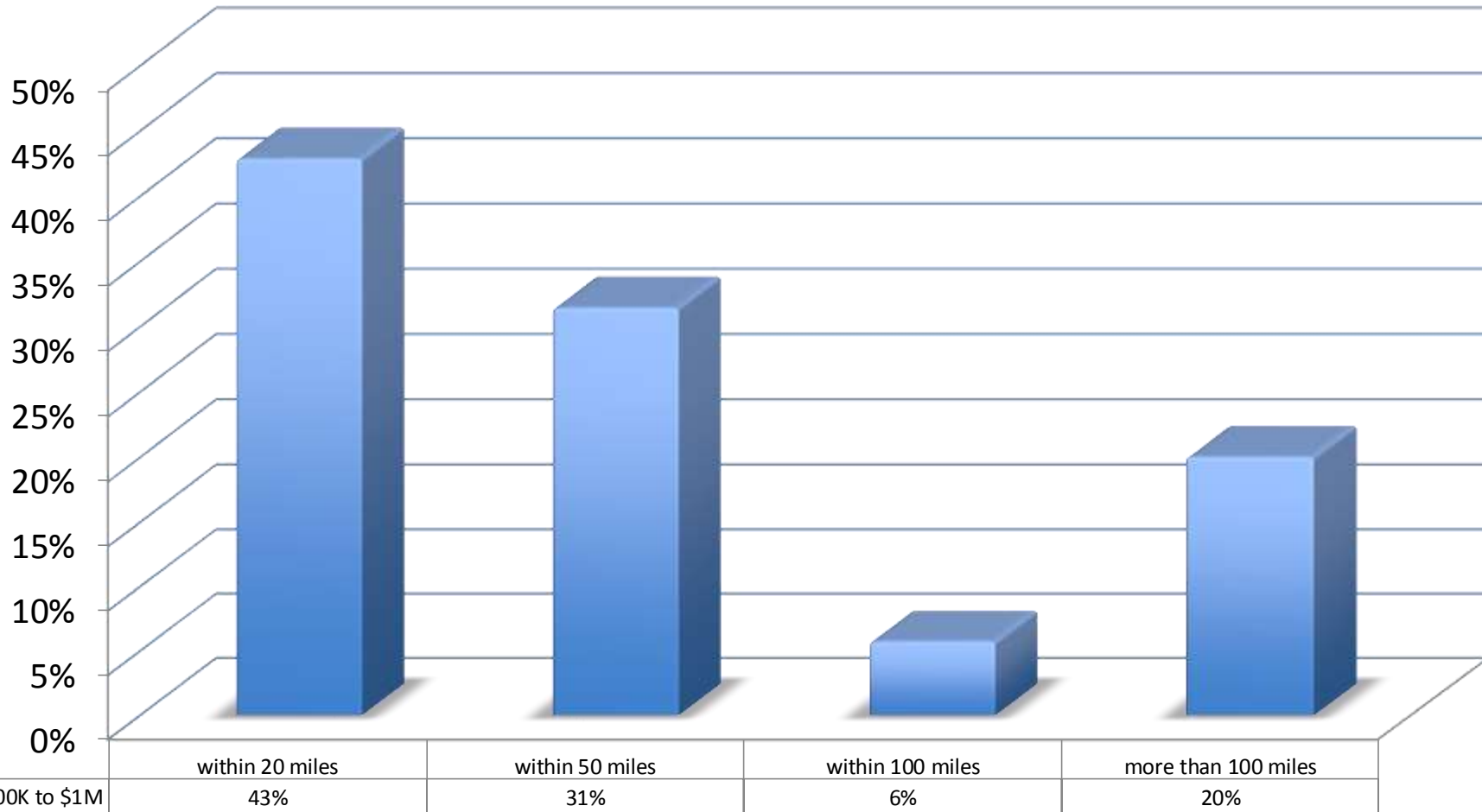
Number of closed transactions = 35

#1 Reason for Seller to Go to Market



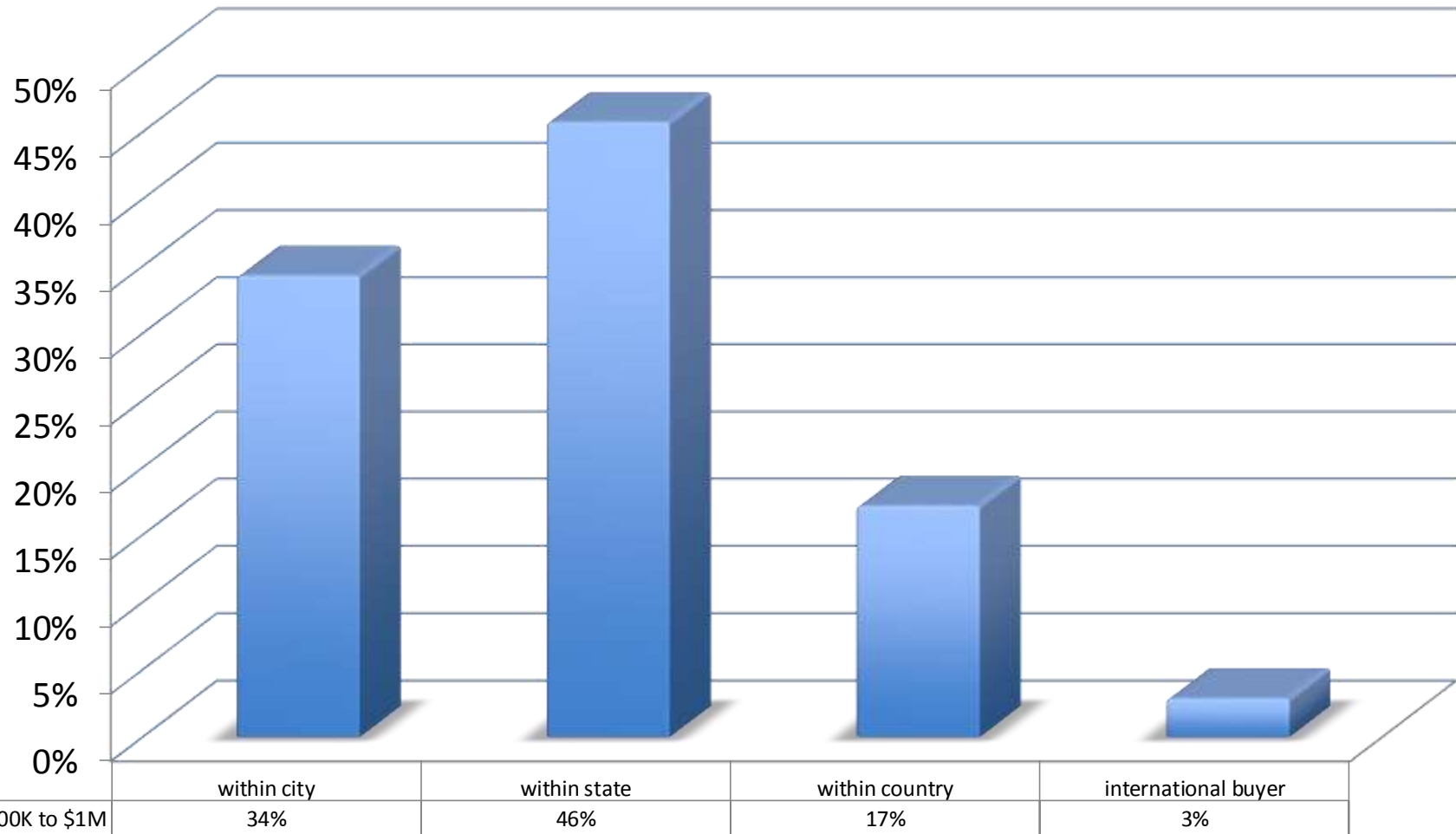
Number of closed transactions = 35

Buyer Location (Distance)



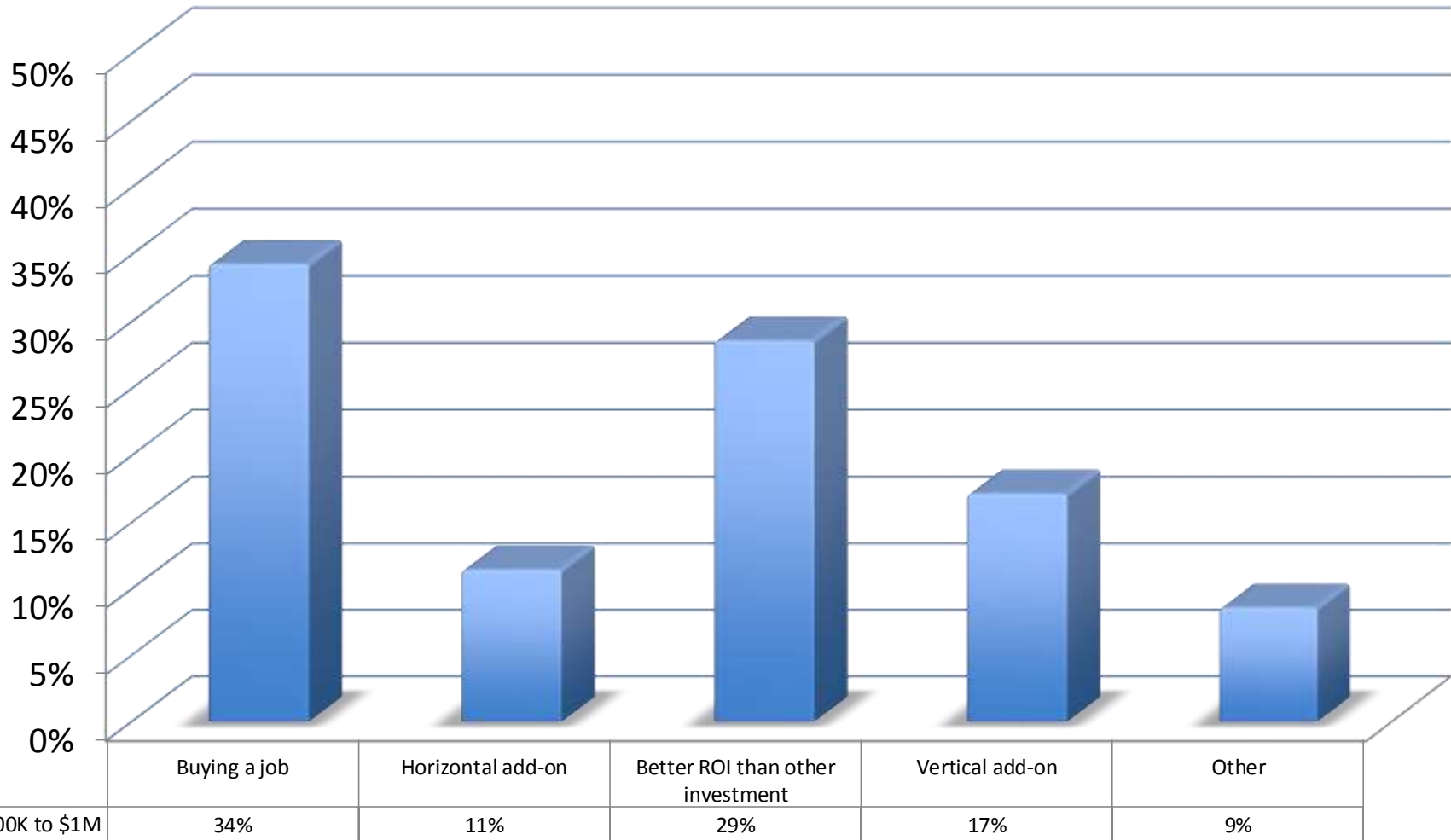
Number of closed transactions = 35

Buyer Location (Global)



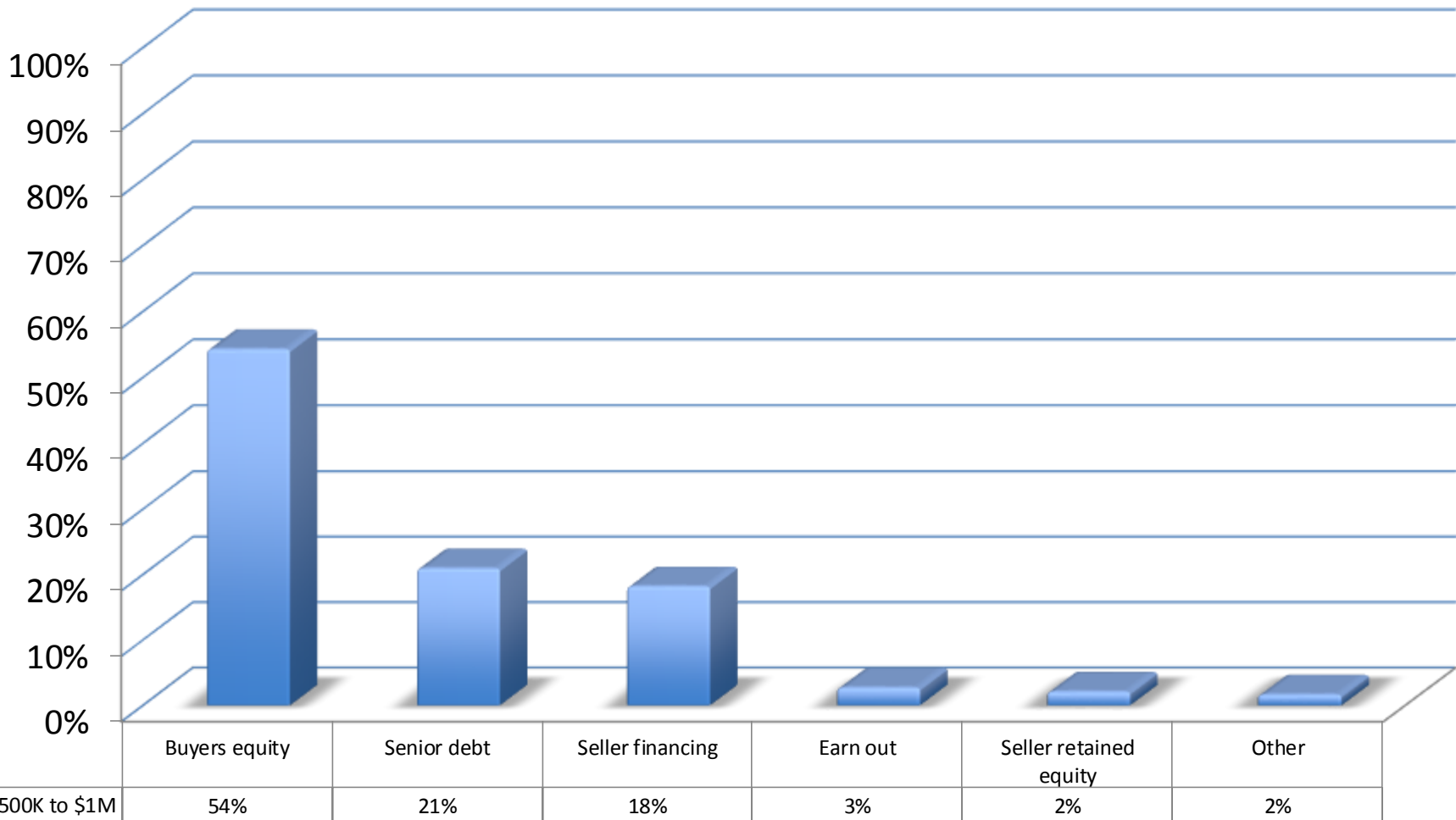
Number of closed transactions = 35

#1 Motivation for Buyer



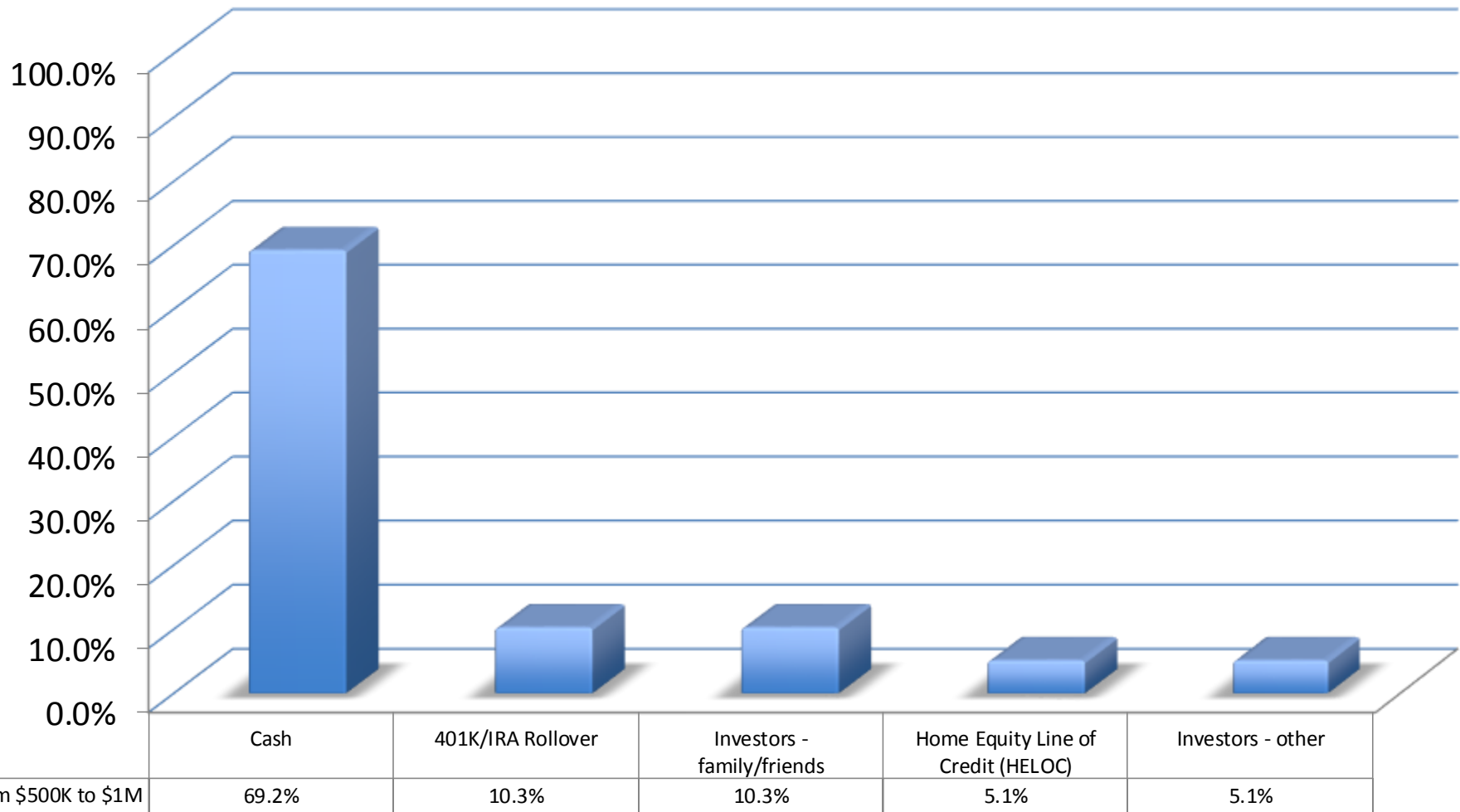
Number of closed transactions = 35

Financing Structure



Number of closed transactions = 34

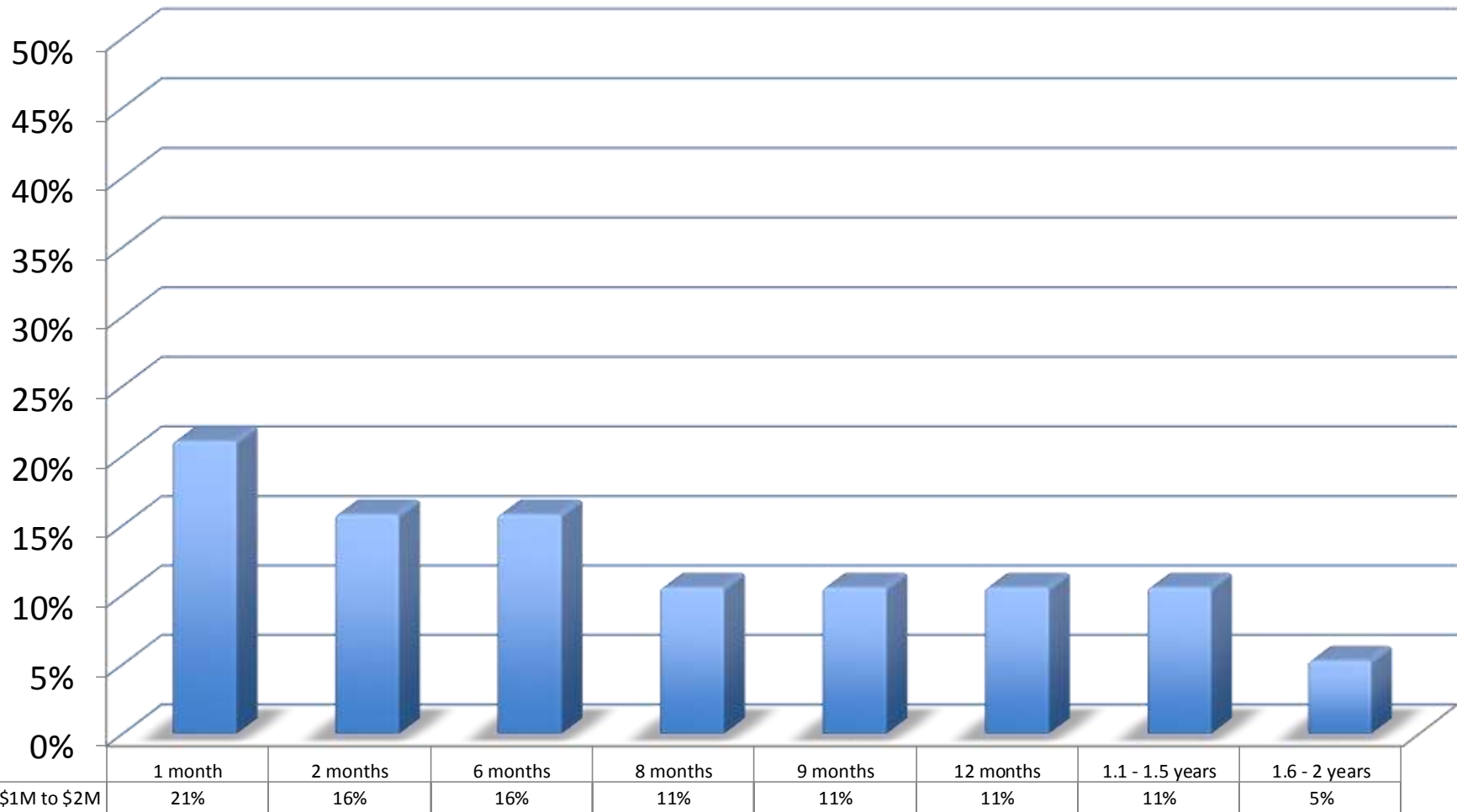
Source of Buyers Equity



Number of responses = 39

II-III Business Transactions Valued from \$1 Million to \$1.99 Million

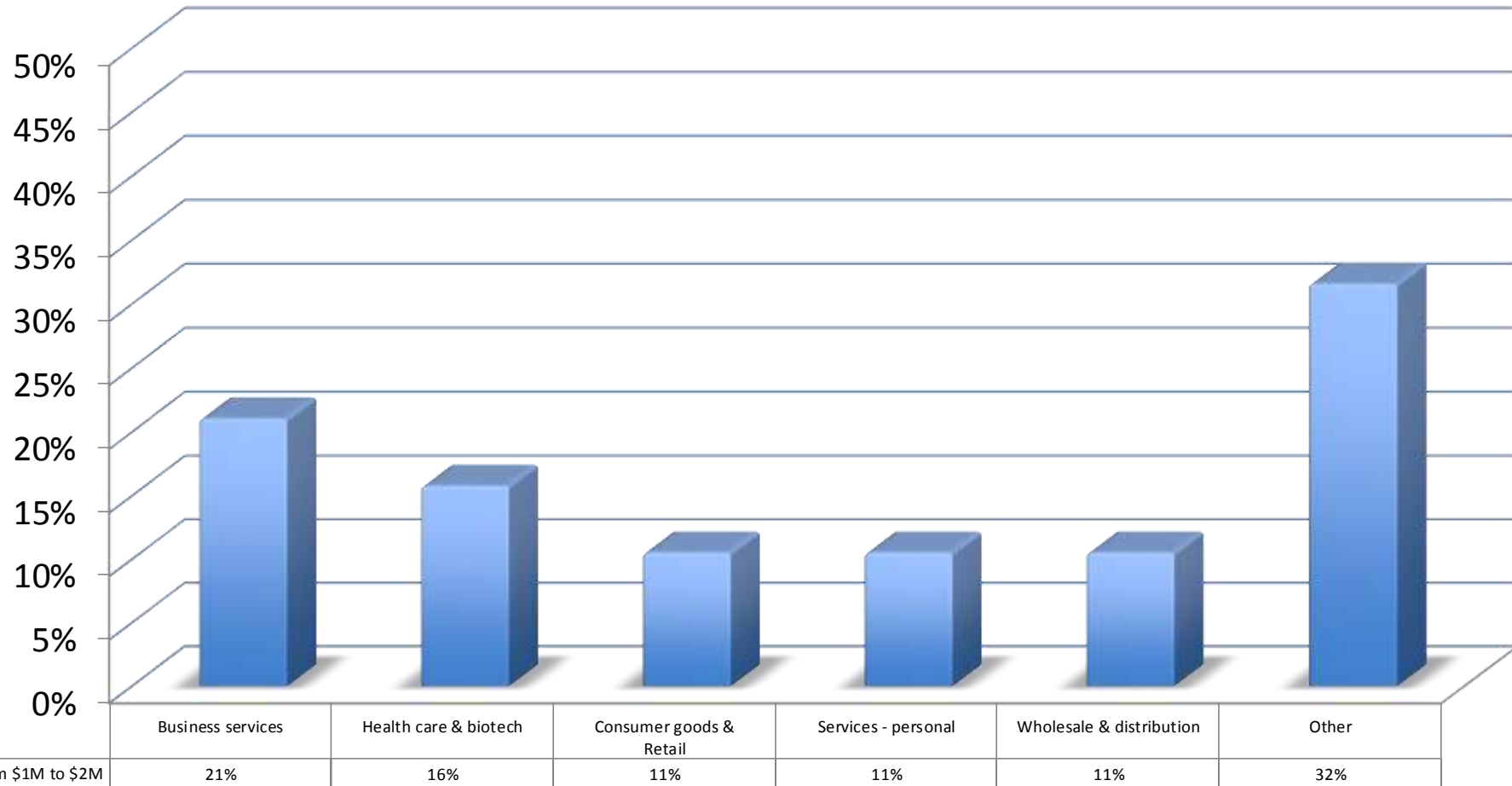
Time to Close



Deals from \$1M to \$2M

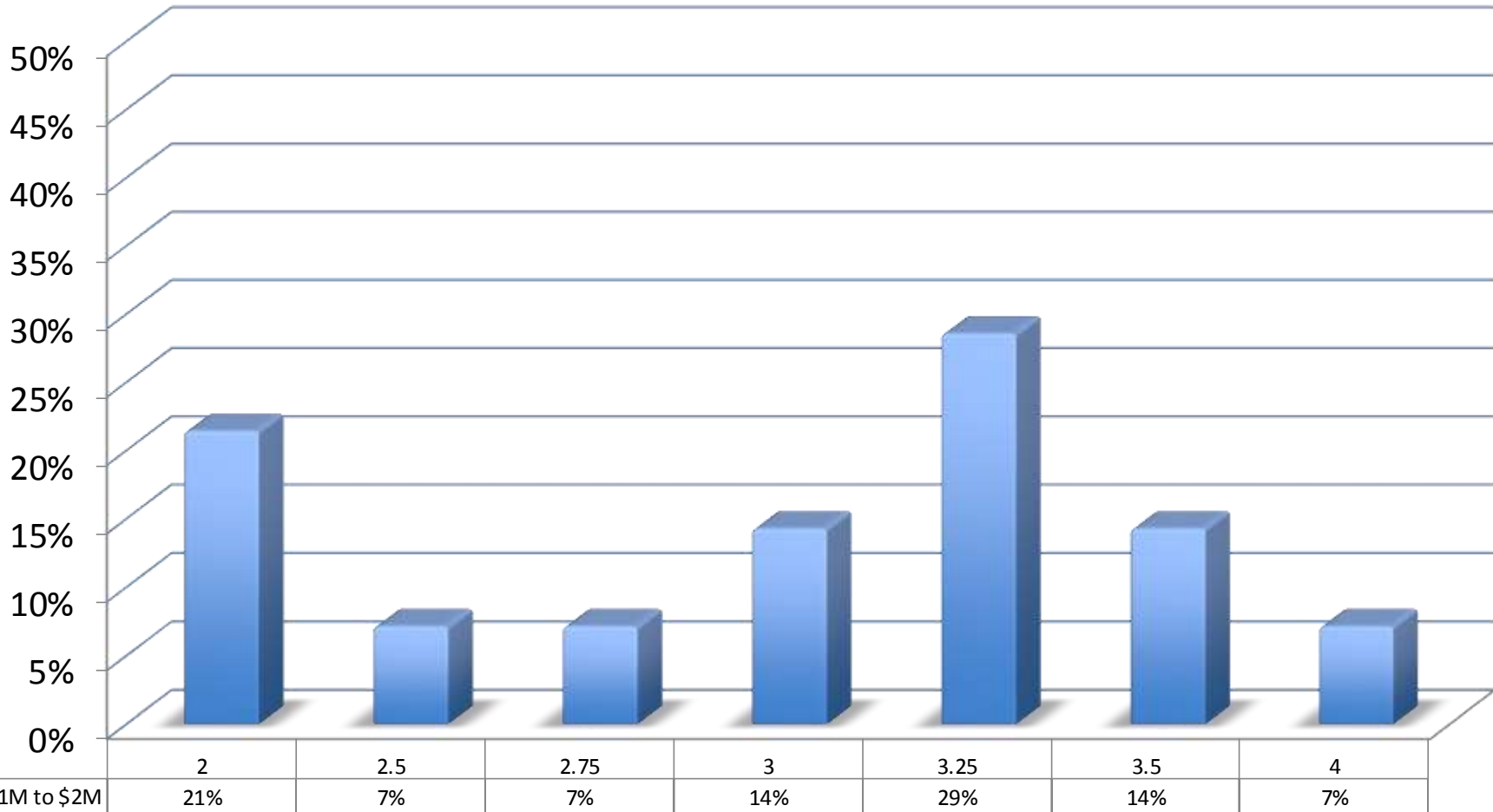
Number of closed transactions = 19

Industry



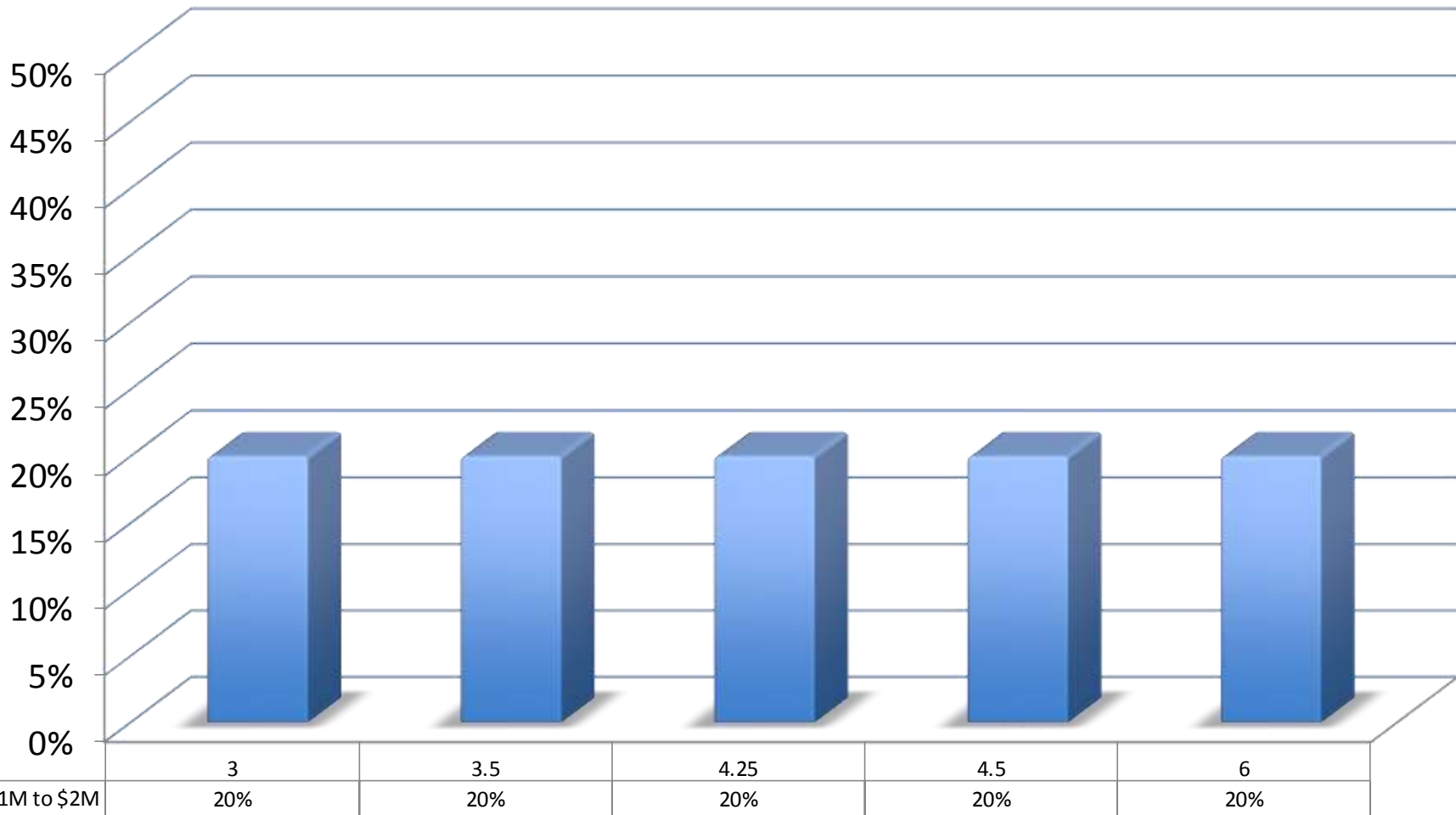
Number of closed transactions = 19

SDE Multiple Paid



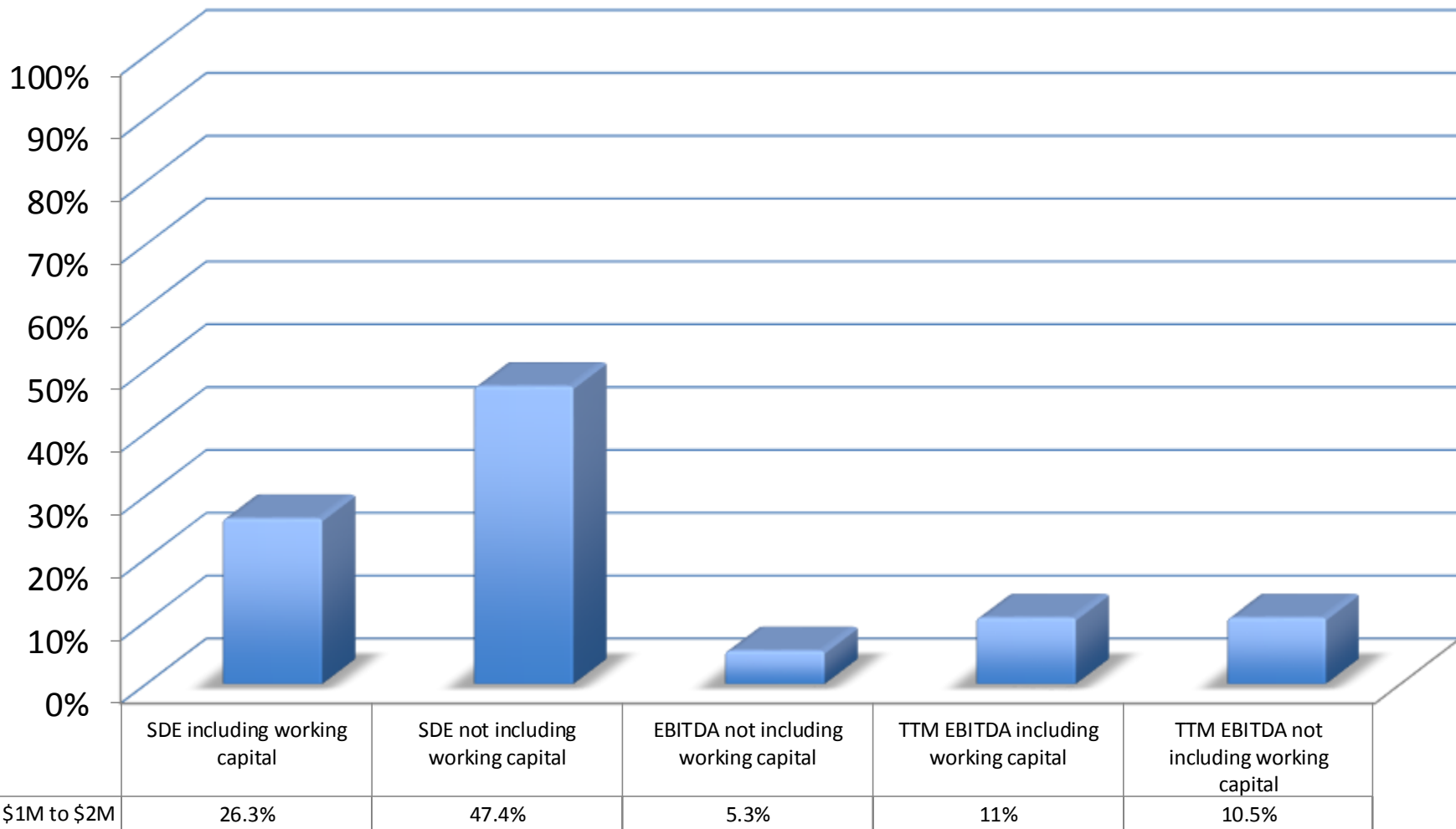
Number of closed transactions = 14

EBITDA Multiple Paid



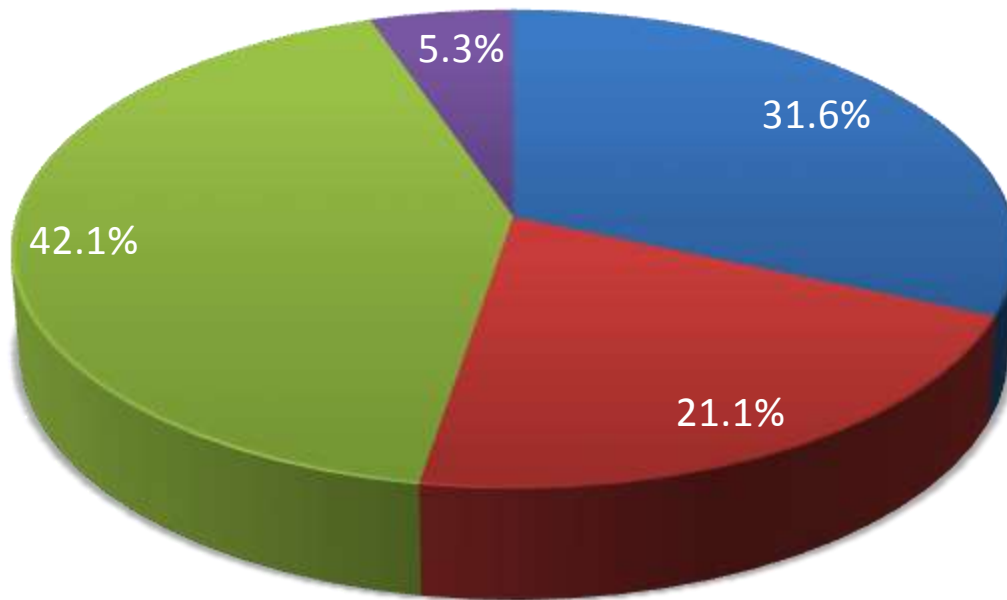
Number of closed transactions = 5

Multiple Type



Number of closed transactions = 19

Buyer Type: Deals \$1 Million - \$1.99 Million



■ 1st time individual

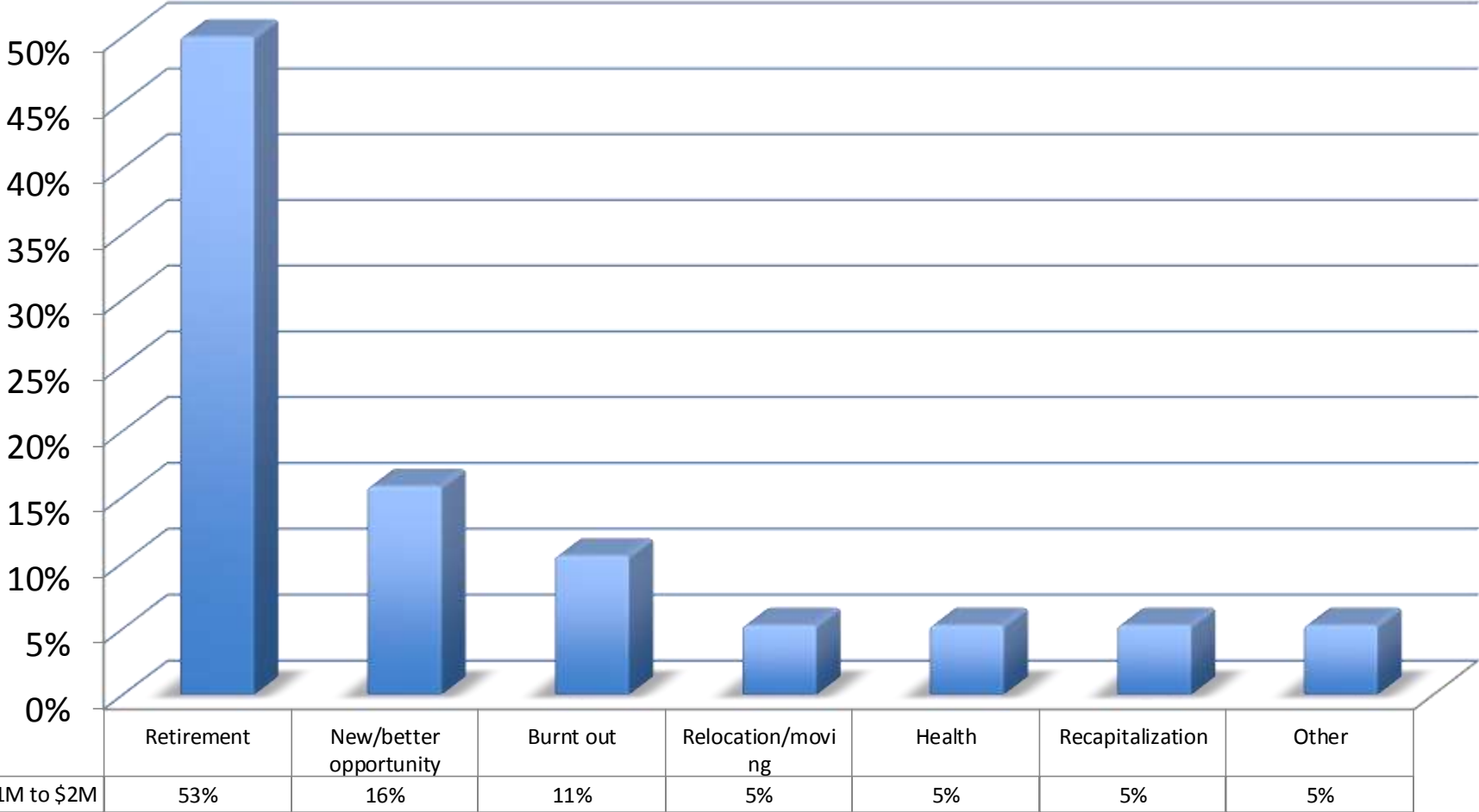
■ individual who owned a business

■ existing company/strategic buyer

■ PE firm - Platform

Number of closed transactions = 19

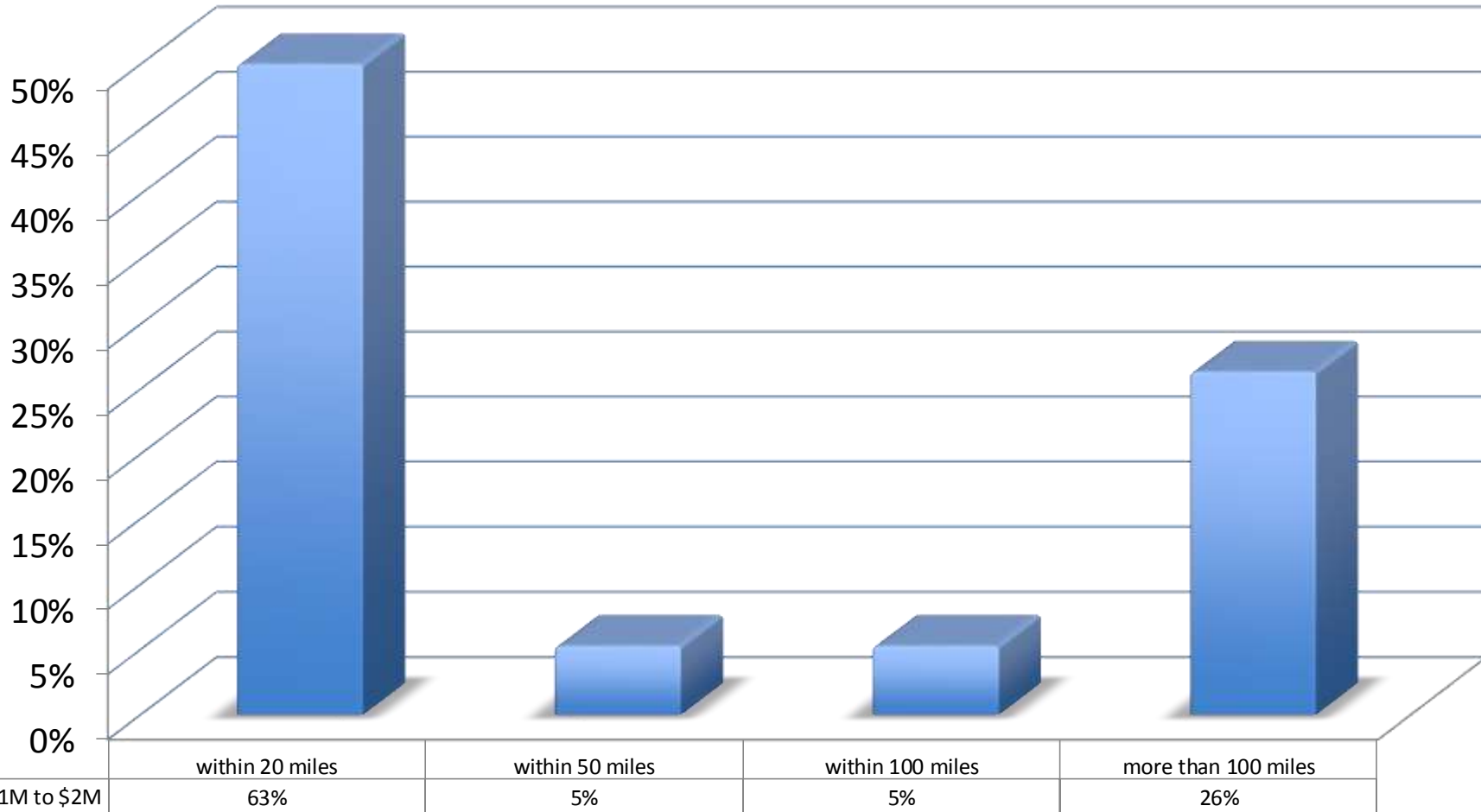
#1 Reason for Seller to Go to Market



Deals from \$1M to \$2M

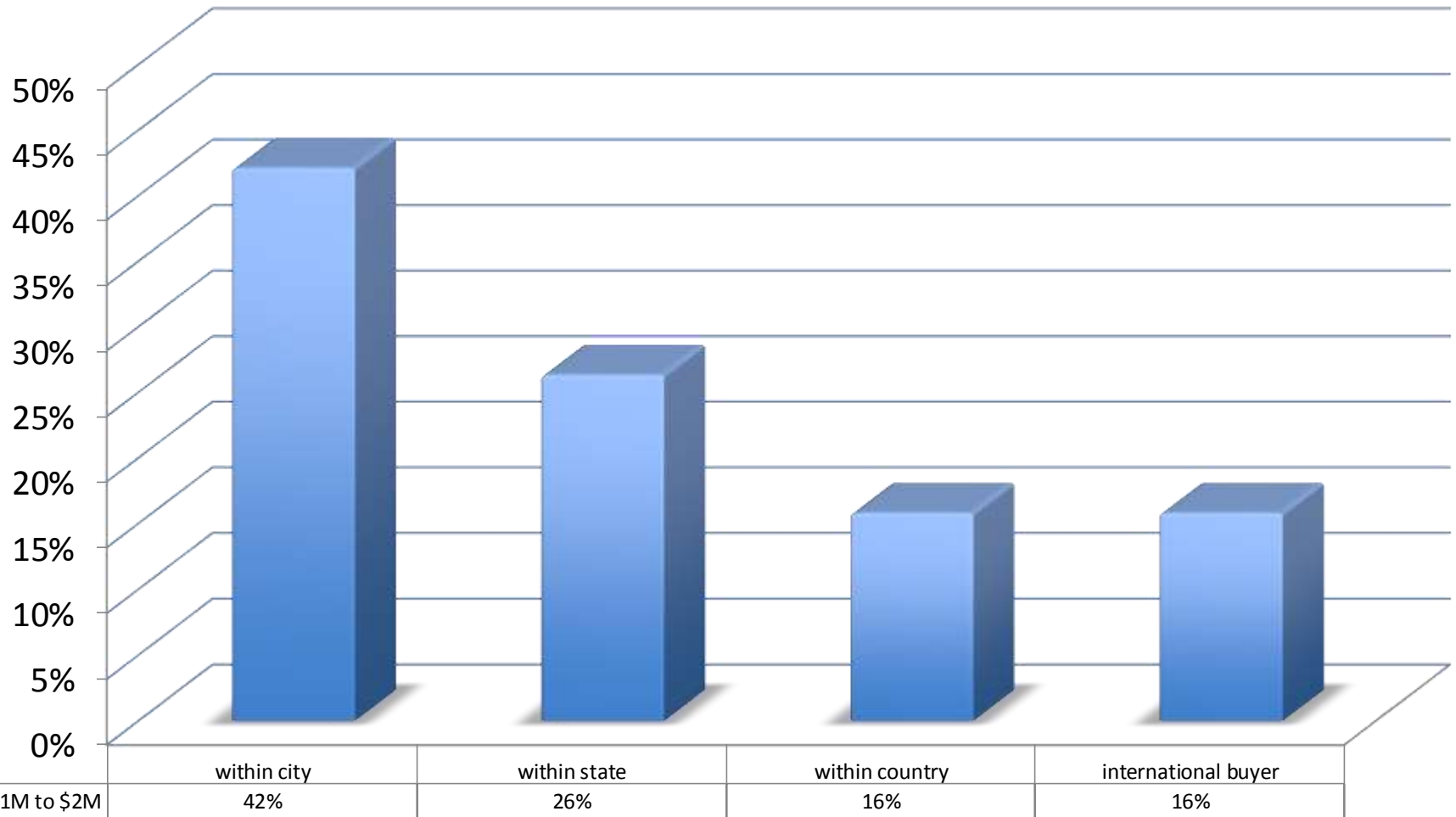
Number of closed transactions = 19

Buyer Location (Distance)



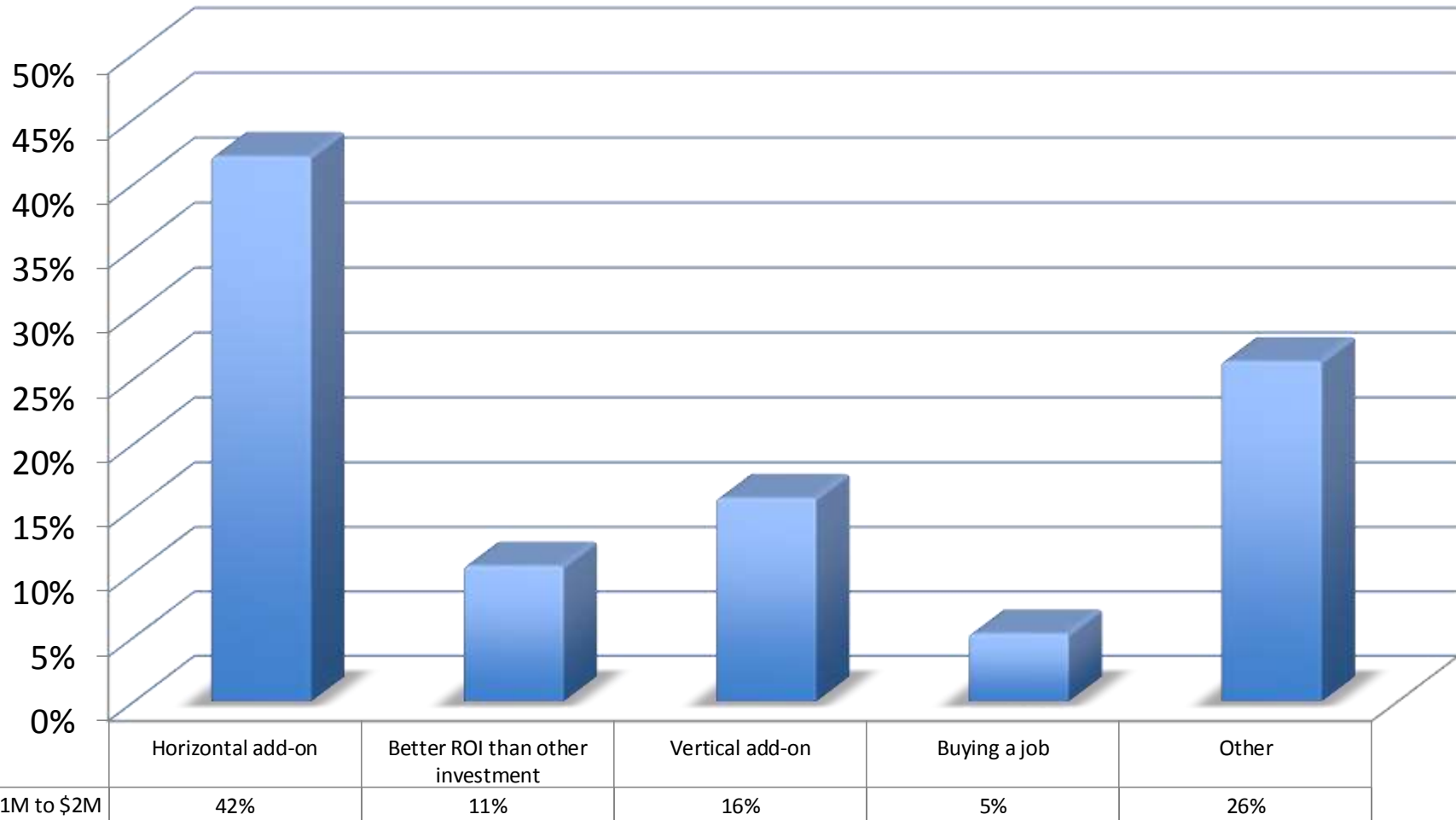
Number of closed transactions = 19

Buyer Location (Global)



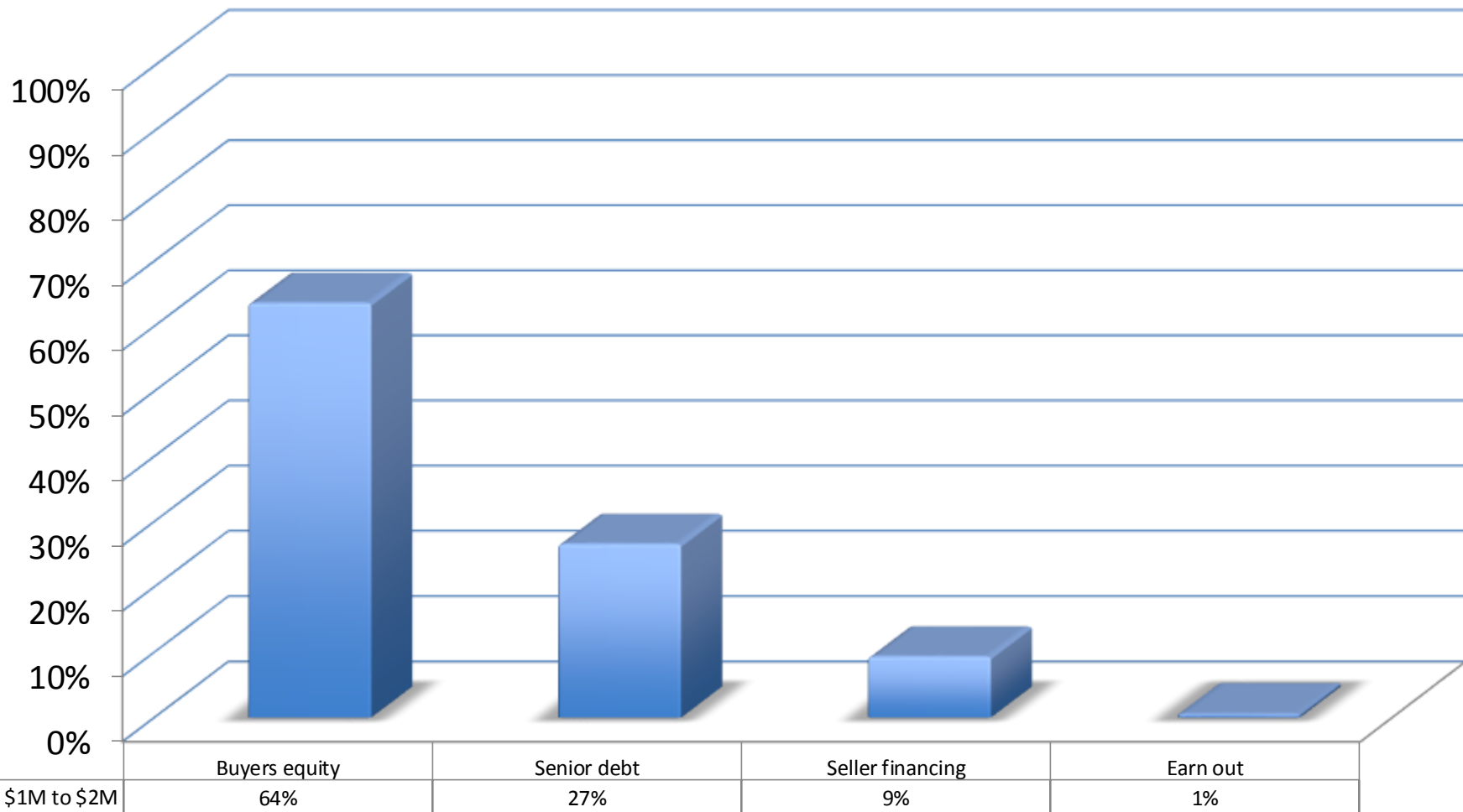
Number of closed transactions = 19

#1 Motivation for Buyer



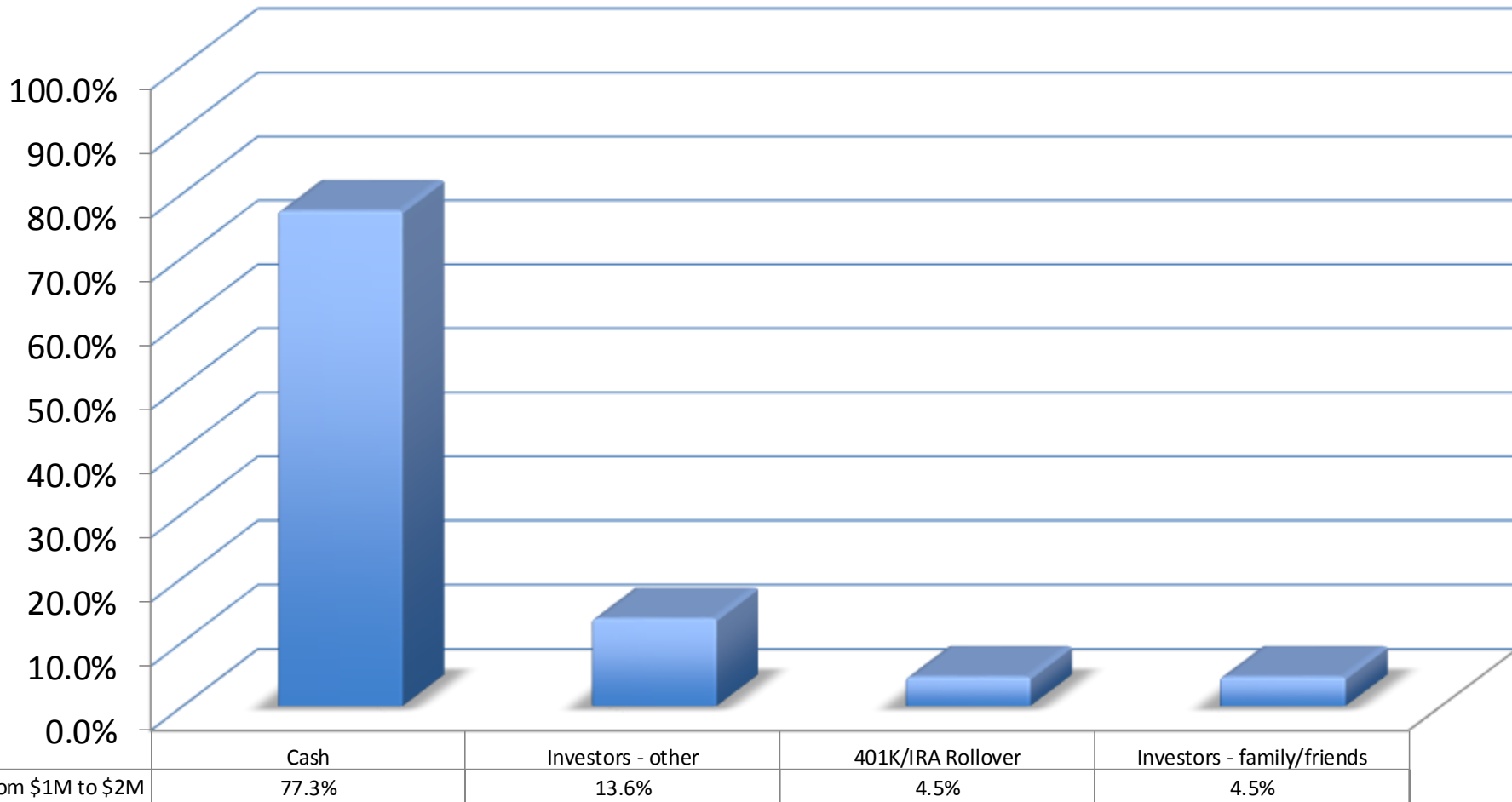
Number of closed transactions = 19

Financing Structure



Number of closed transactions = 19

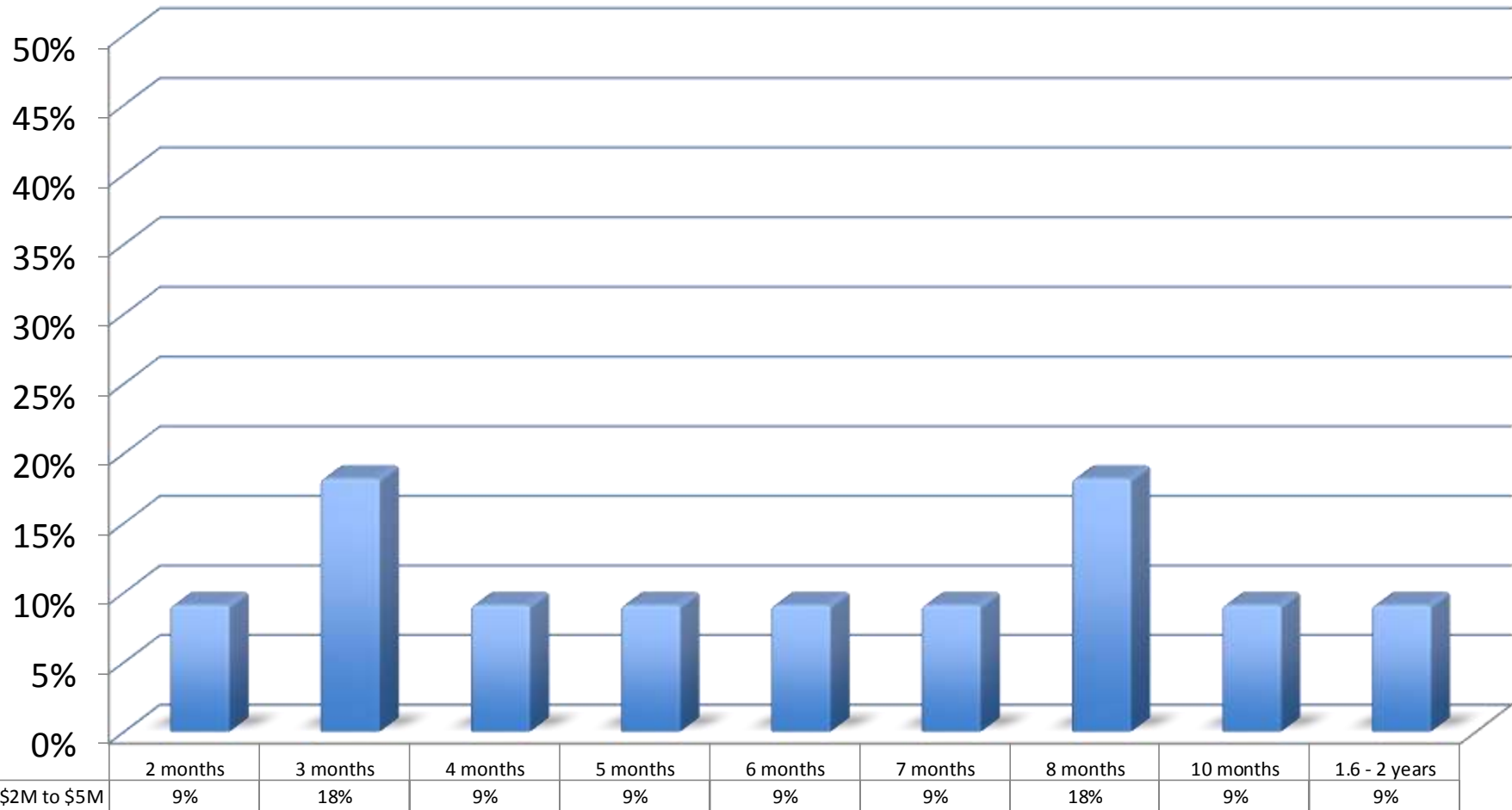
Source of Buyers Equity



Number of responses = 22

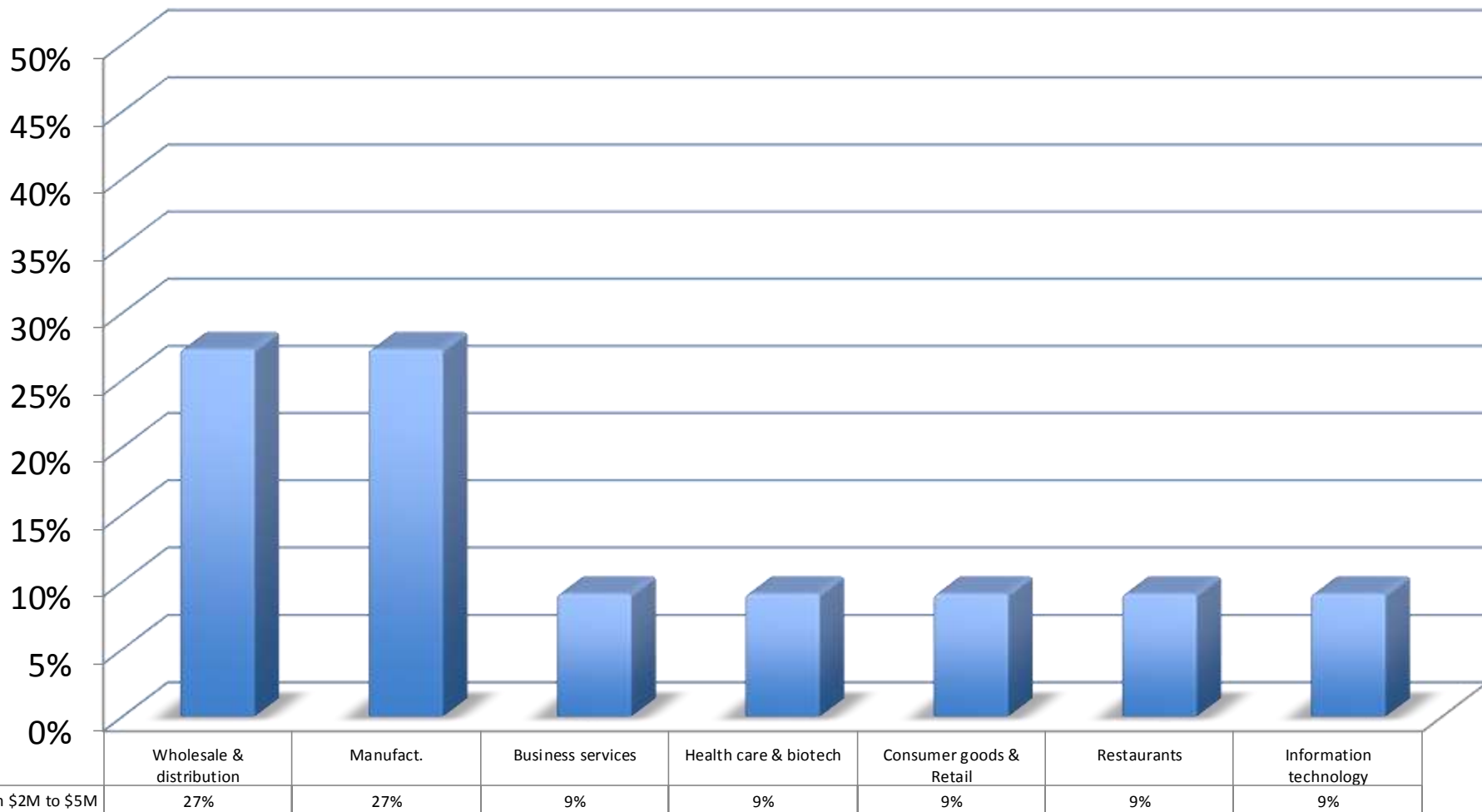
II-IV Business Transactions Valued from \$2 Million to \$4.99 Million

Time to Close



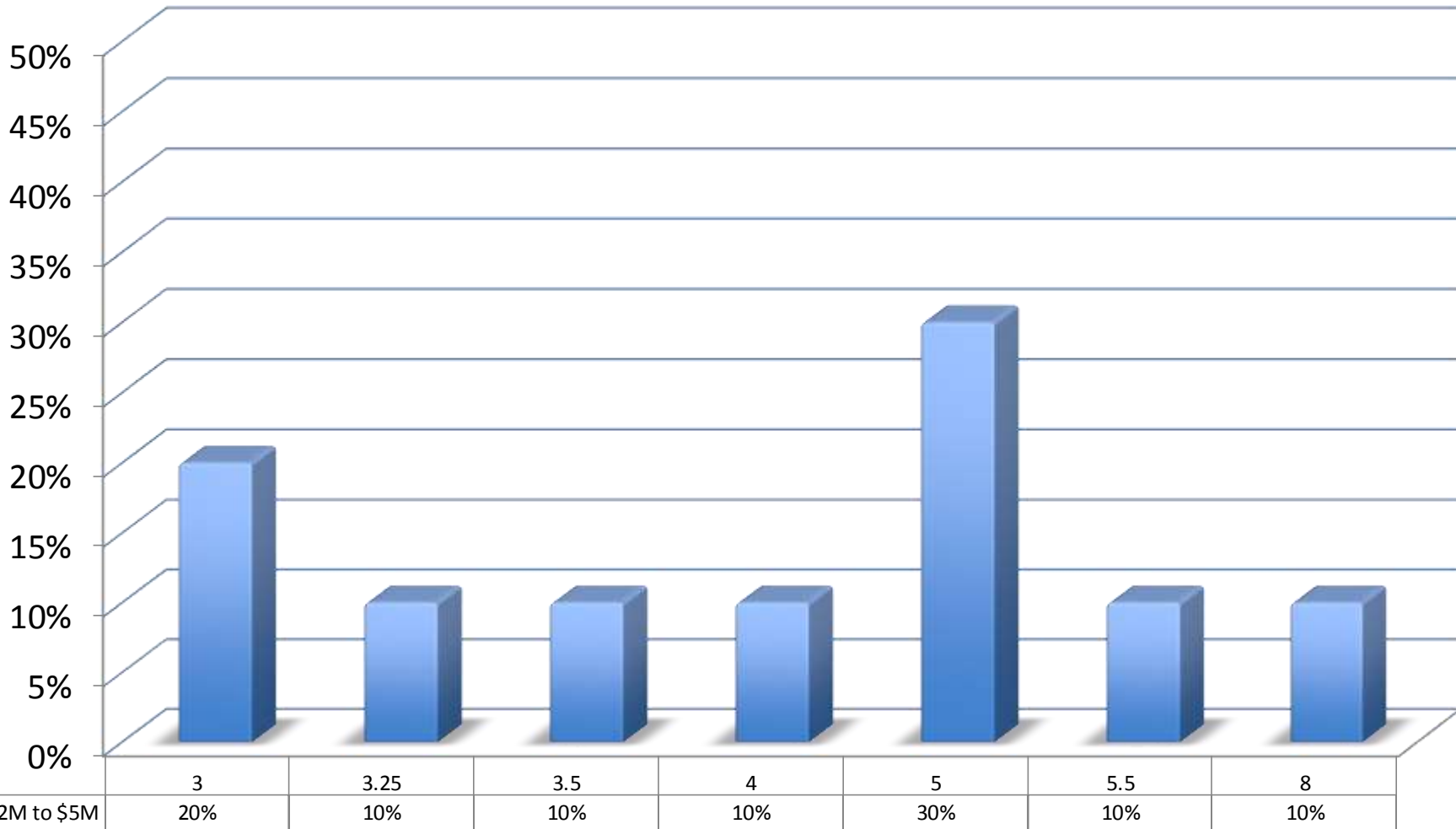
Number of closed transactions = 11

Industry



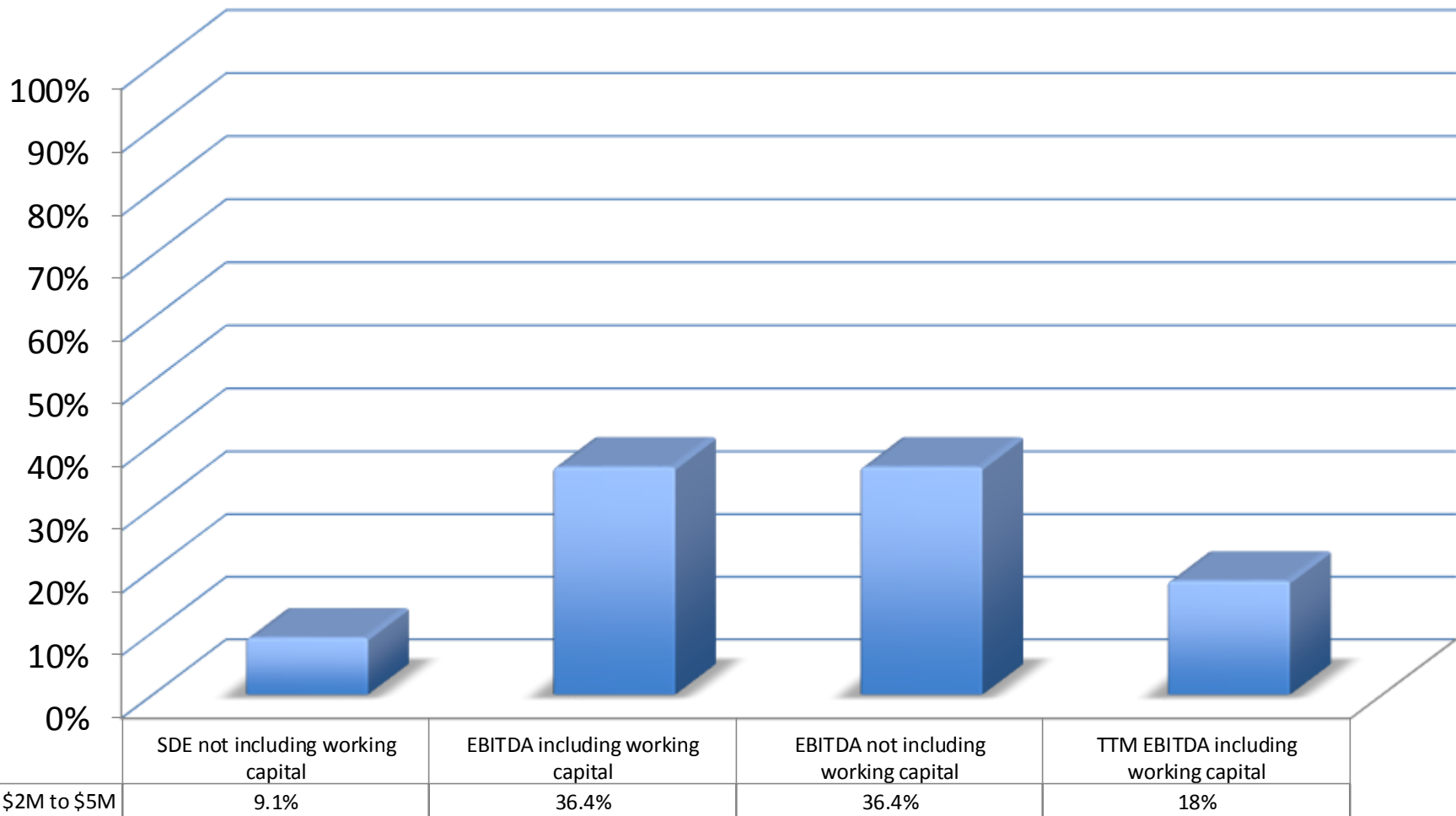
Number of closed transactions = 11

EBITDA Multiple Paid



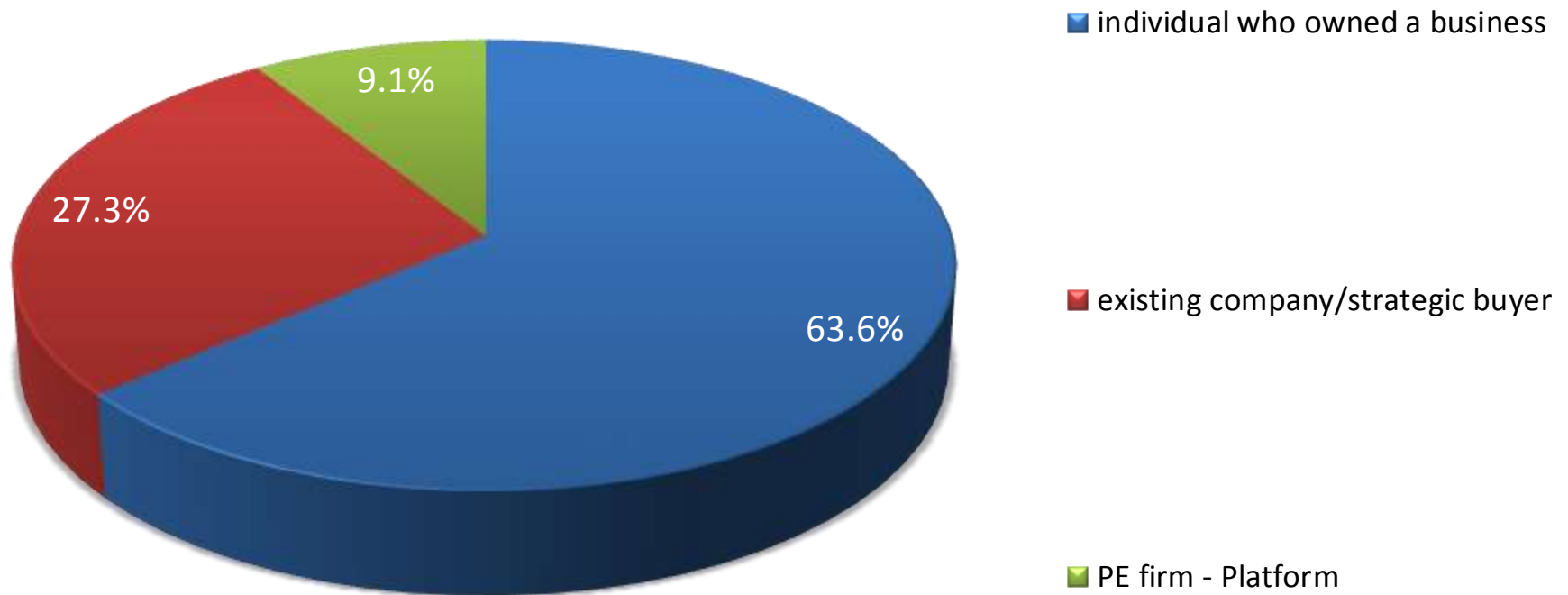
Number of closed transactions = 10

Multiple Type



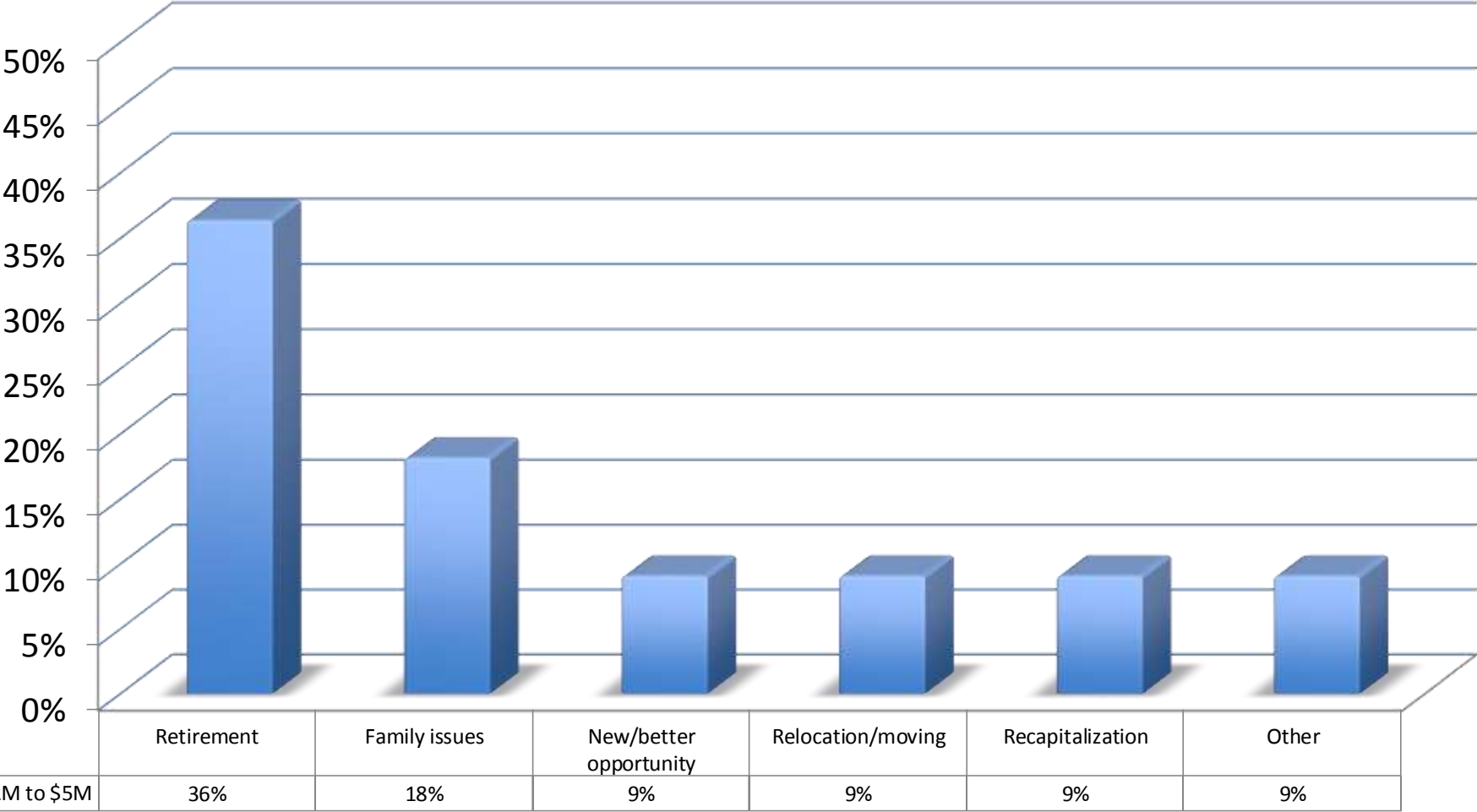
Number of closed transactions = 11

Buyer Type: Deals \$2 Million - \$4.99 Million



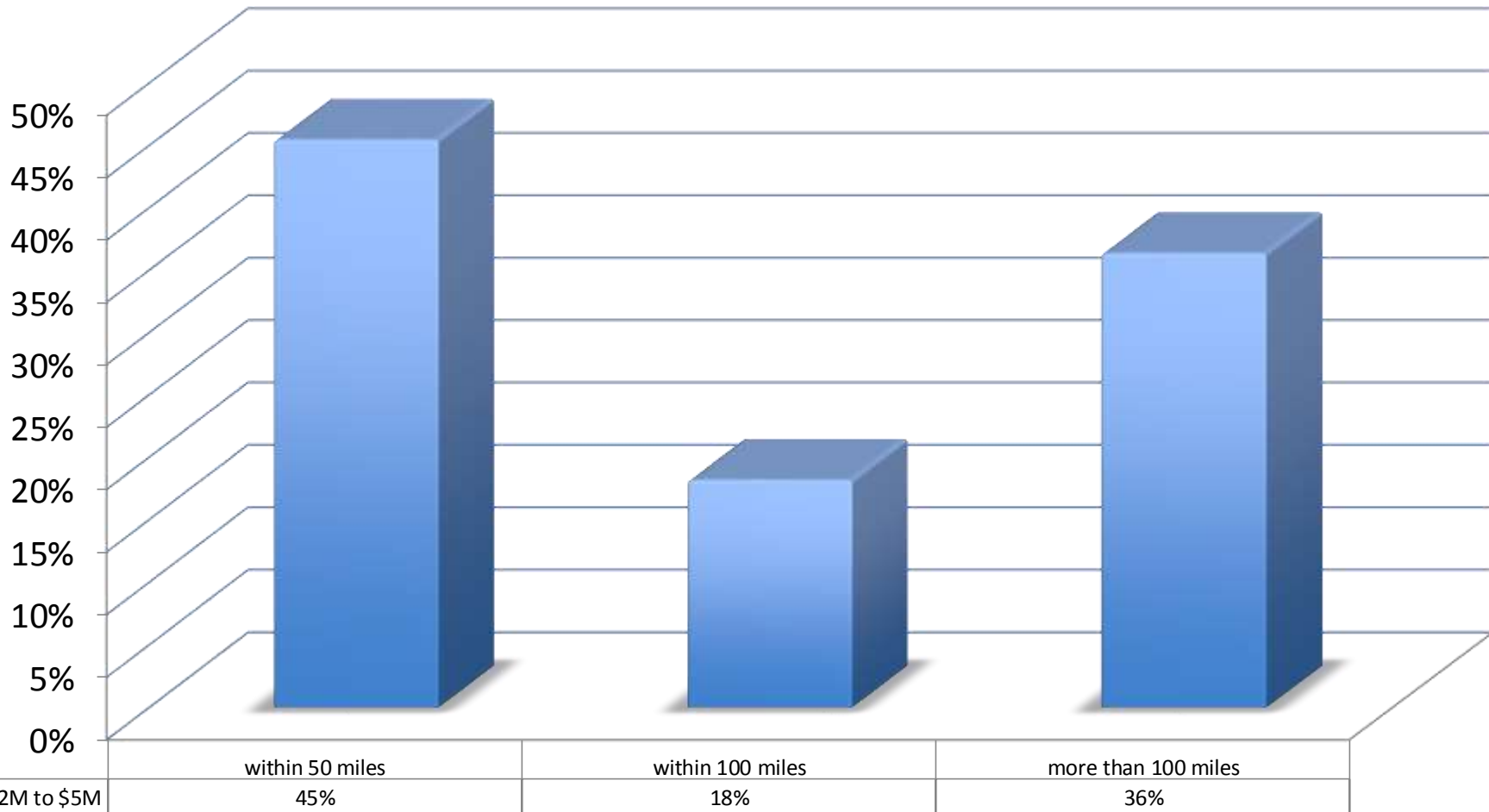
Number of closed transactions = 11

#1 Reason for Seller to Go to Market



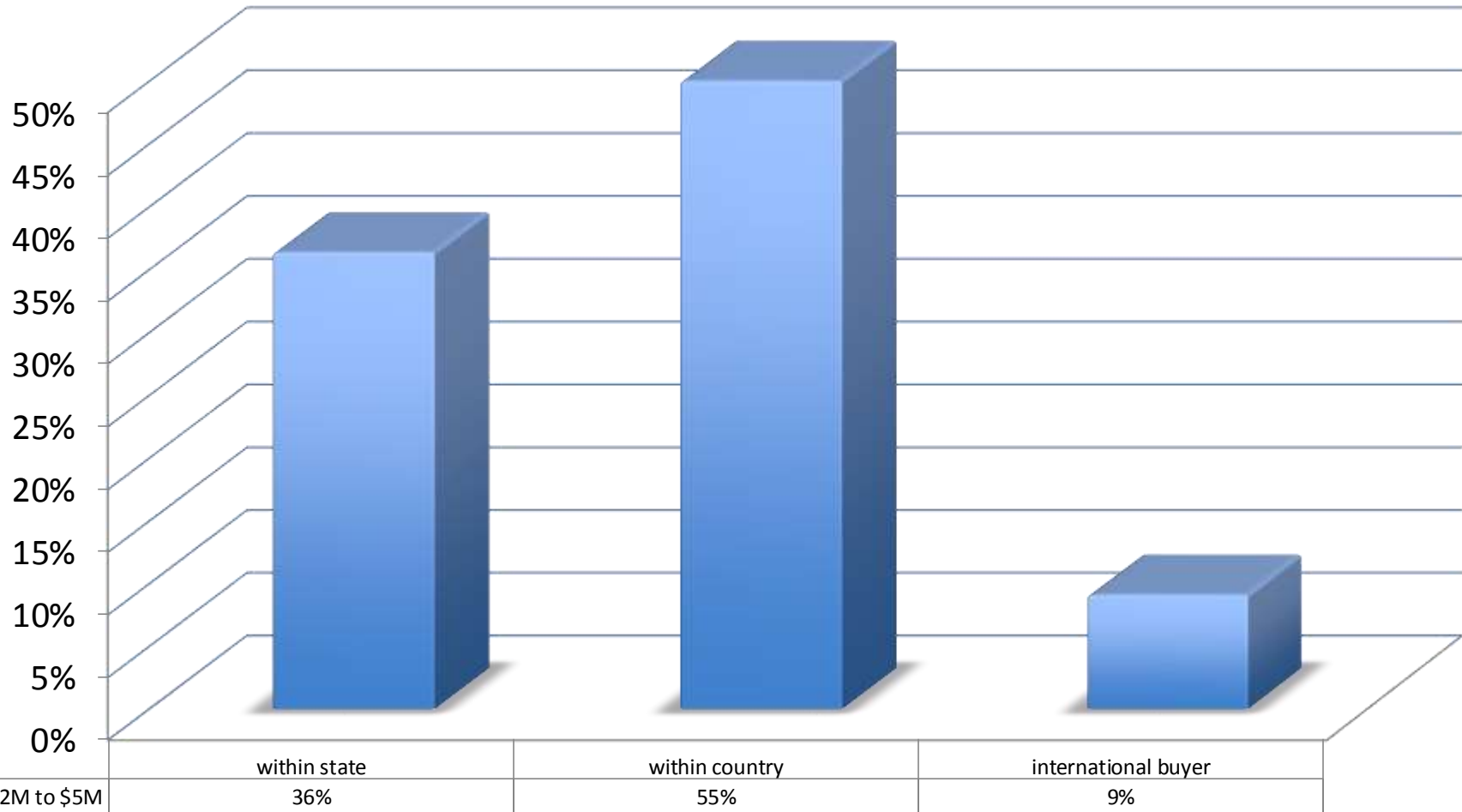
Number of closed transactions = 11

Buyer Location (Distance)



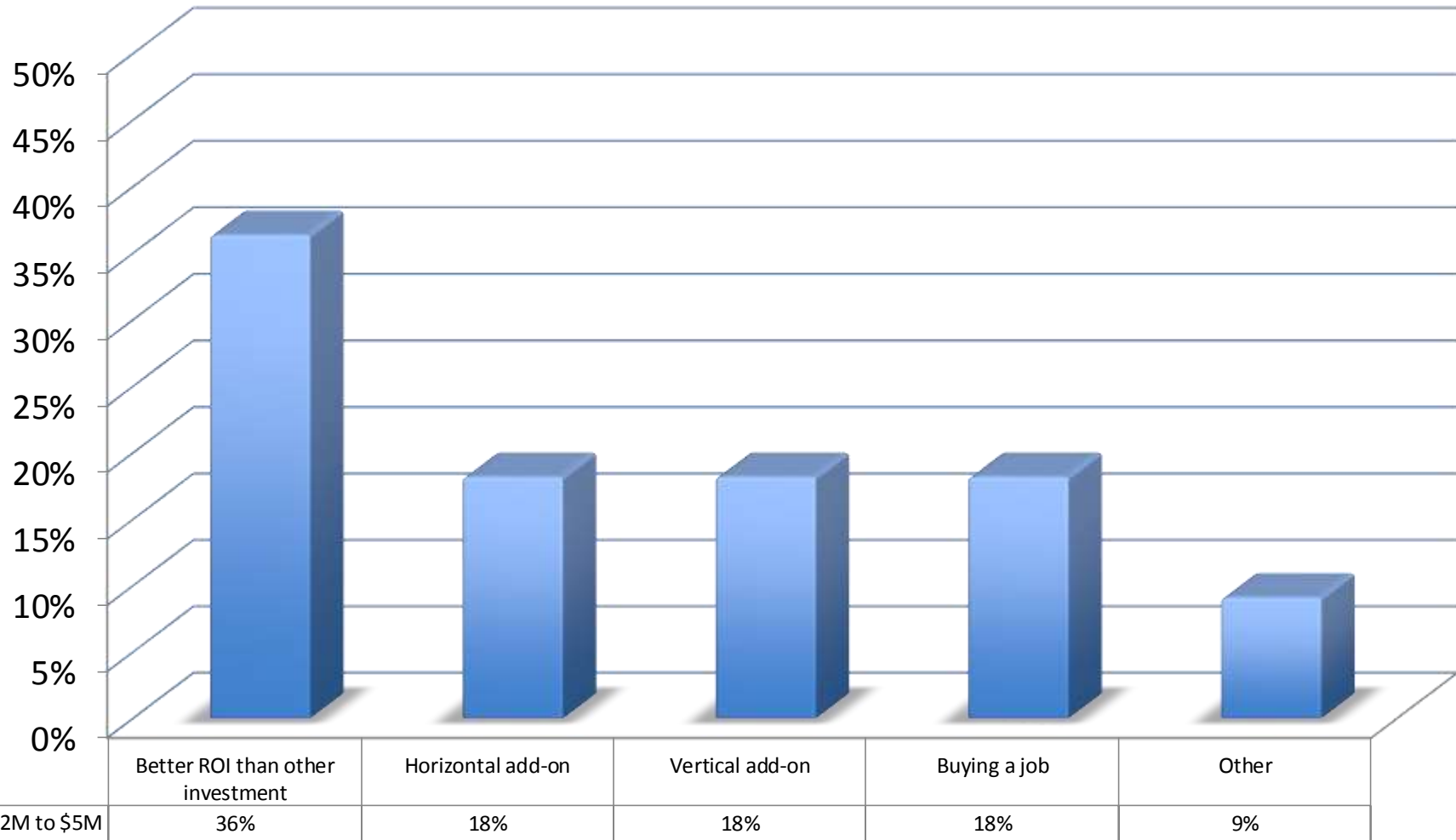
Number of closed transactions = 11

Buyer Location (Global)



Number of closed transactions = 11

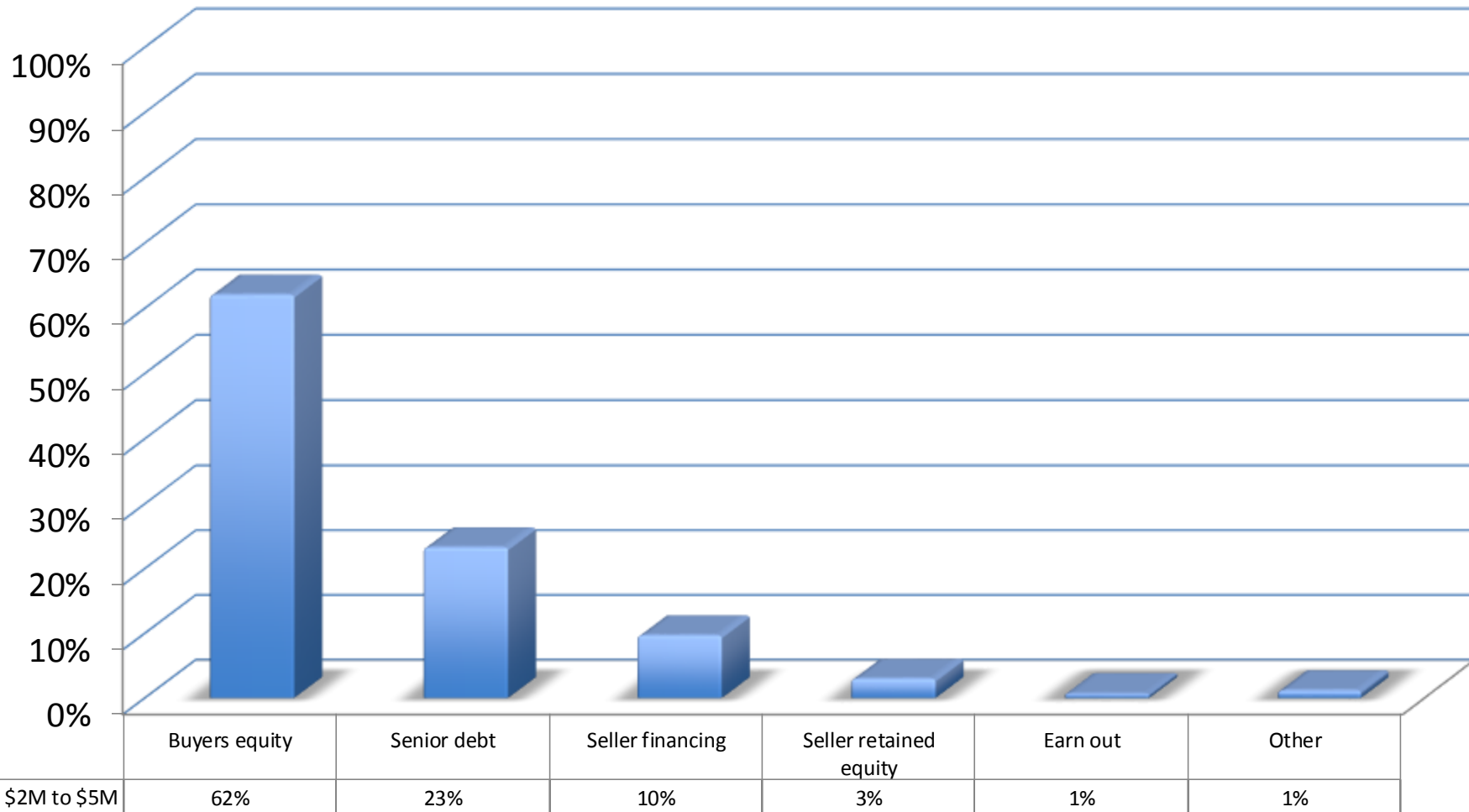
#1 Motivation for Buyer



Deals from \$2M to \$5M

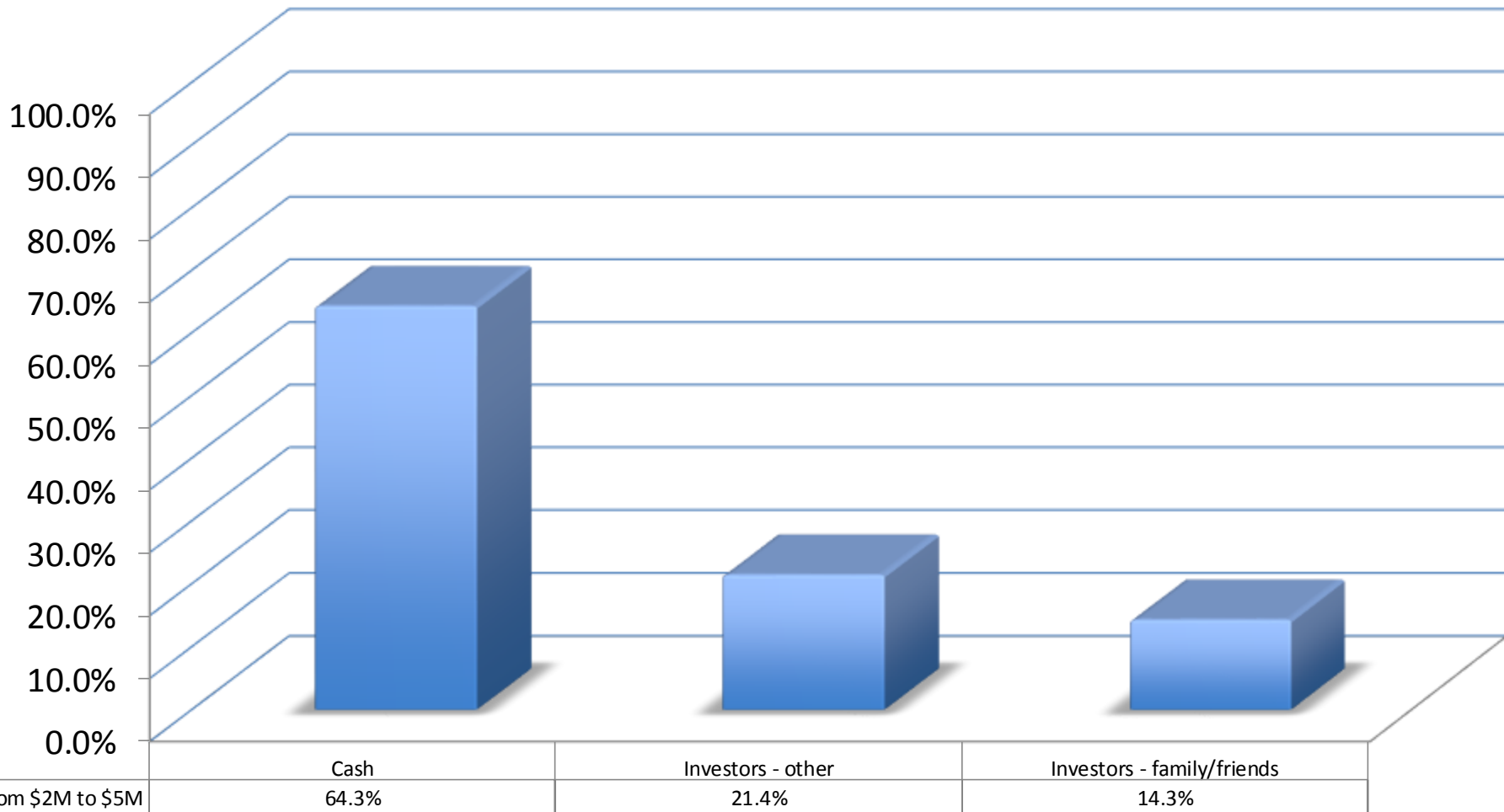
Number of closed transactions = 11

Financing Structure



Number of closed transactions = 11

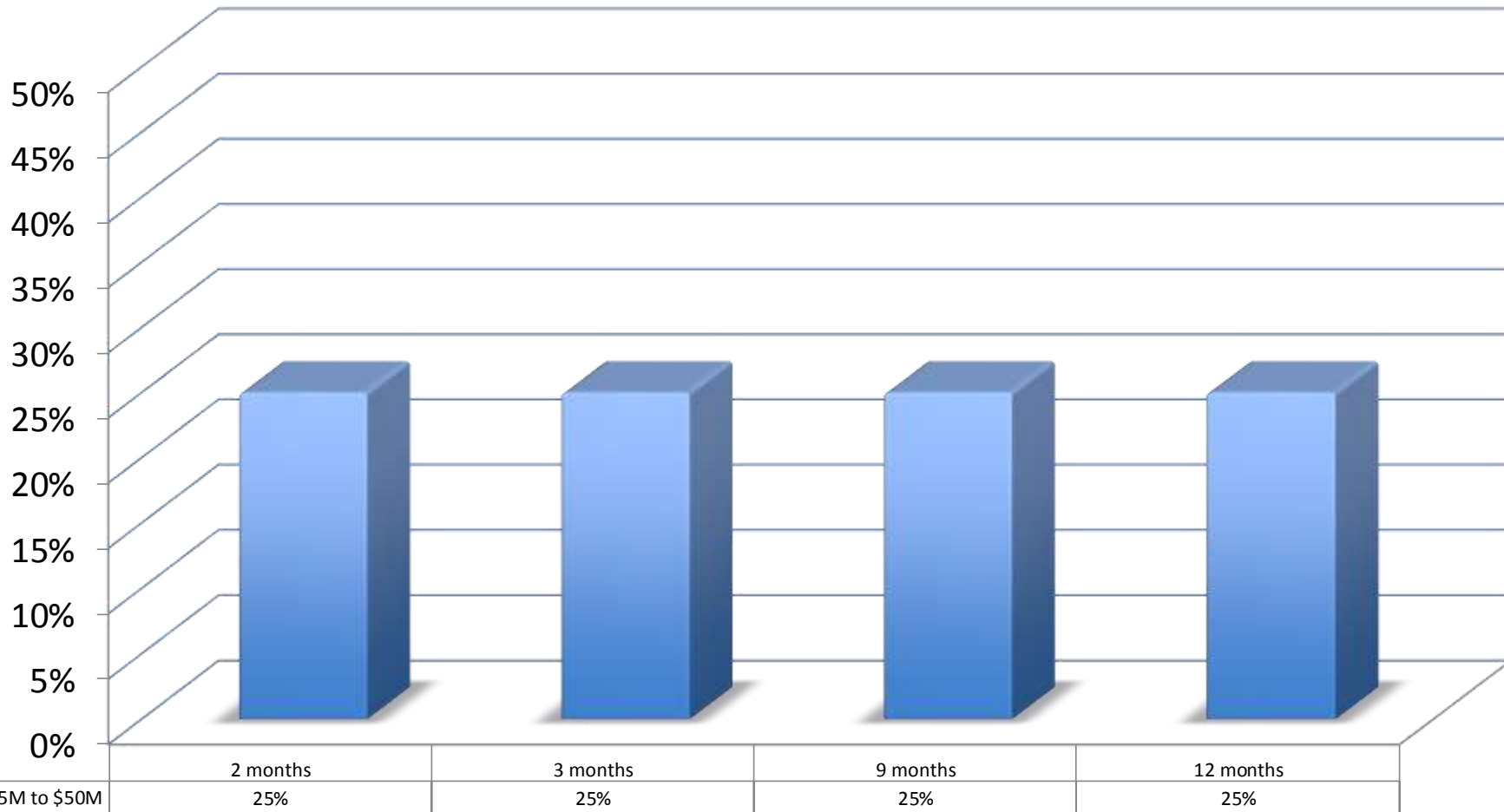
Source of Buyers Equity



Number of responses = 14

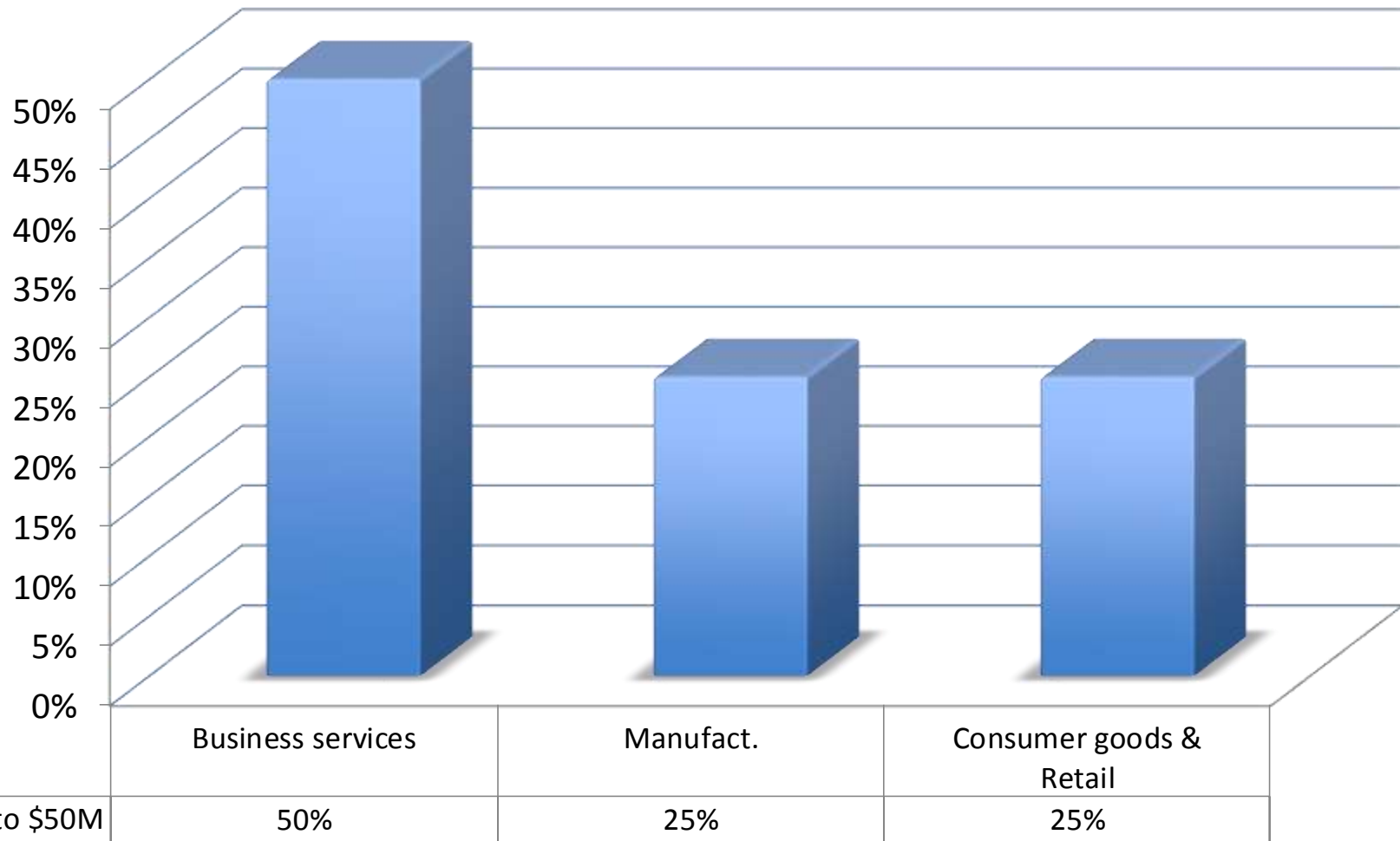
II-V Business Transactions Valued Over \$5 Million

Time to Close



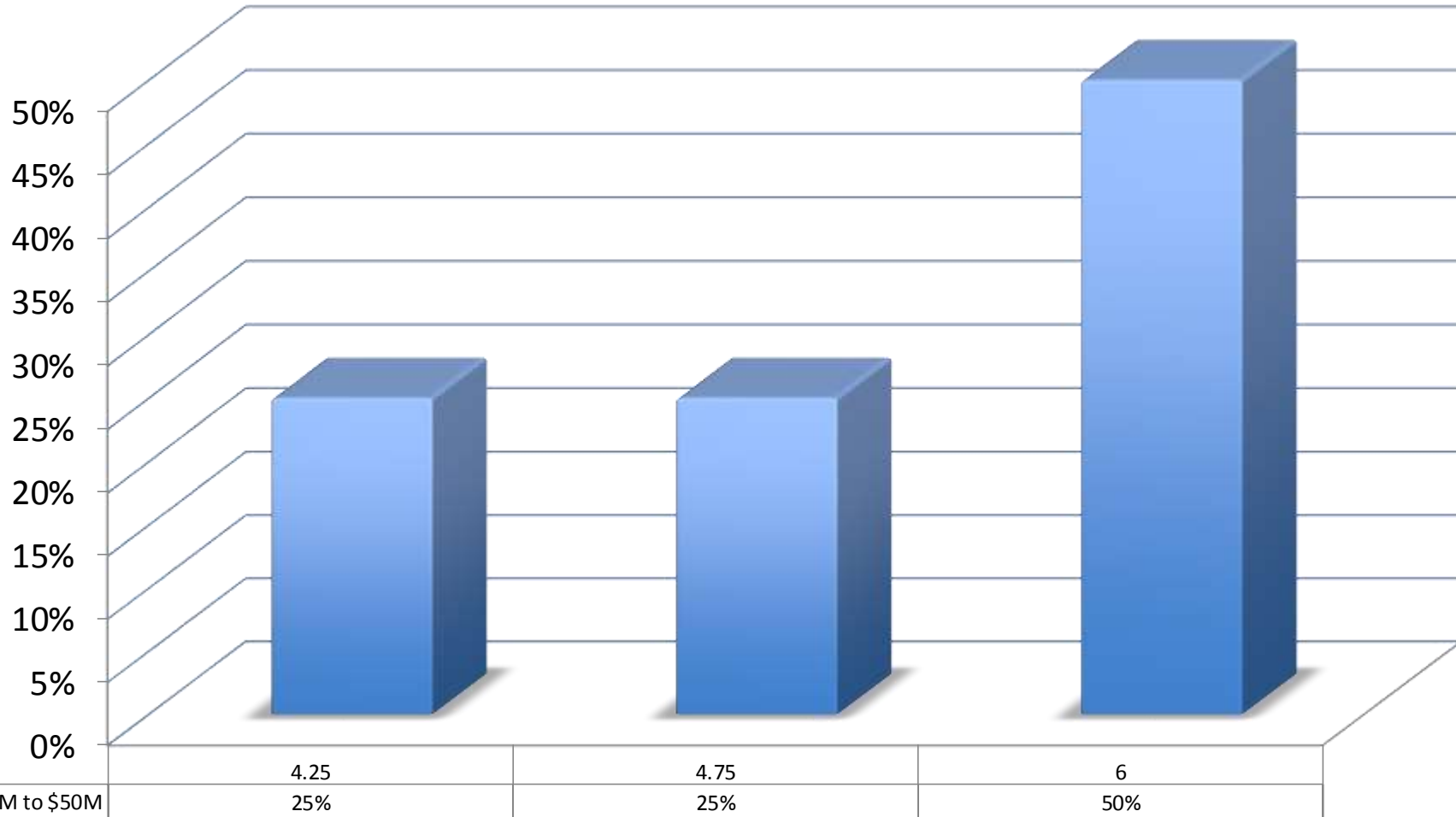
Number of closed transactions = 4

Industry



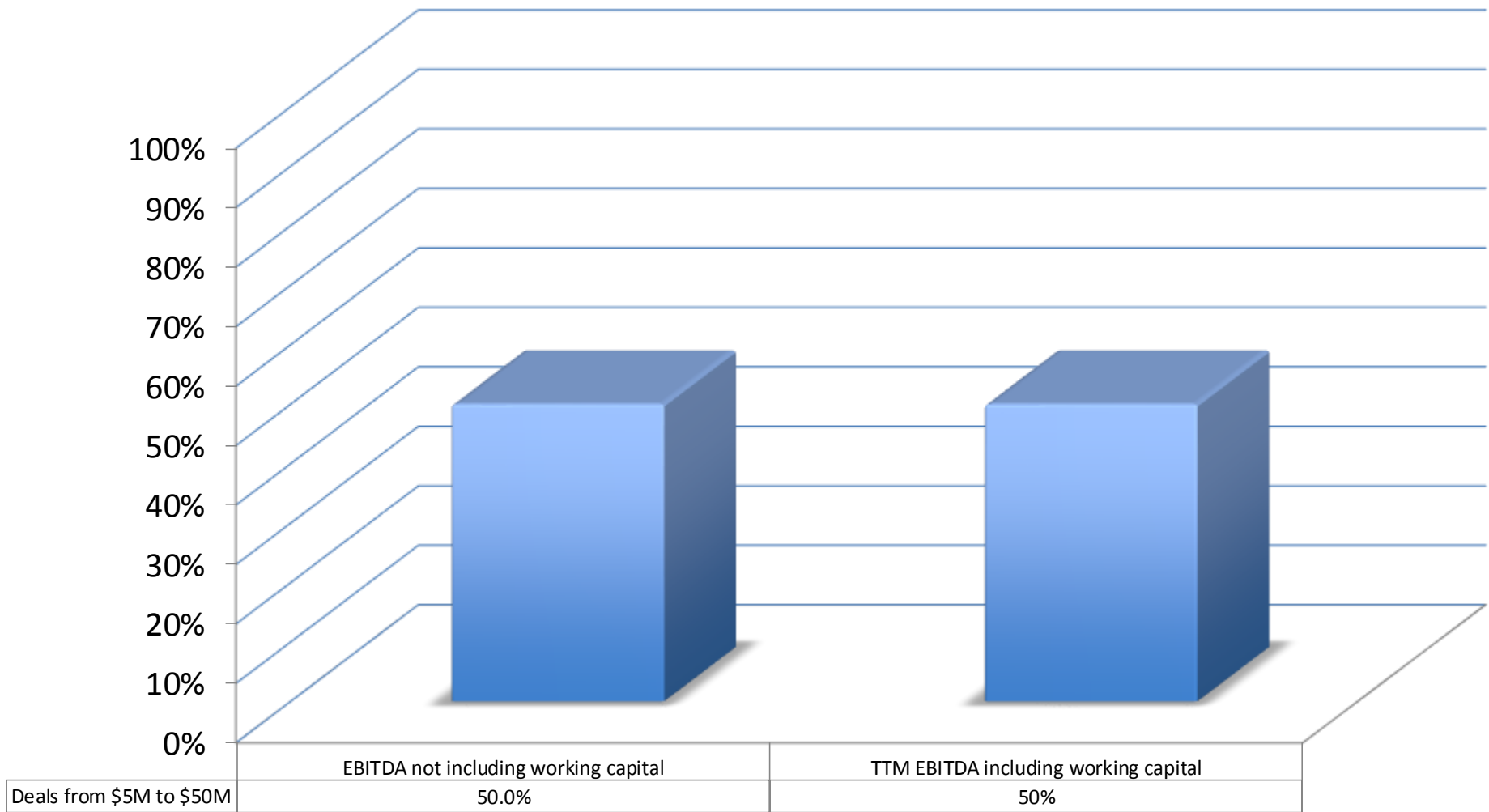
Number of closed transactions = 4

EBITDA Multiple Paid



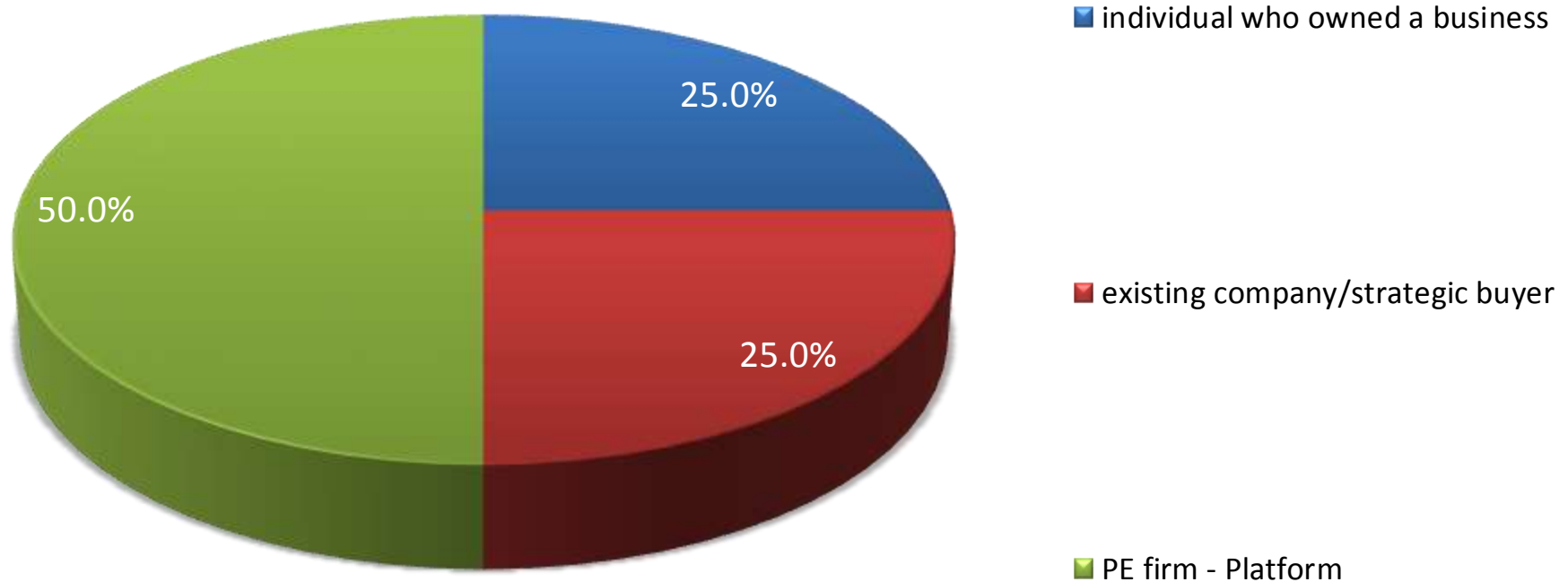
Number of closed transactions = 4

Multiple Type



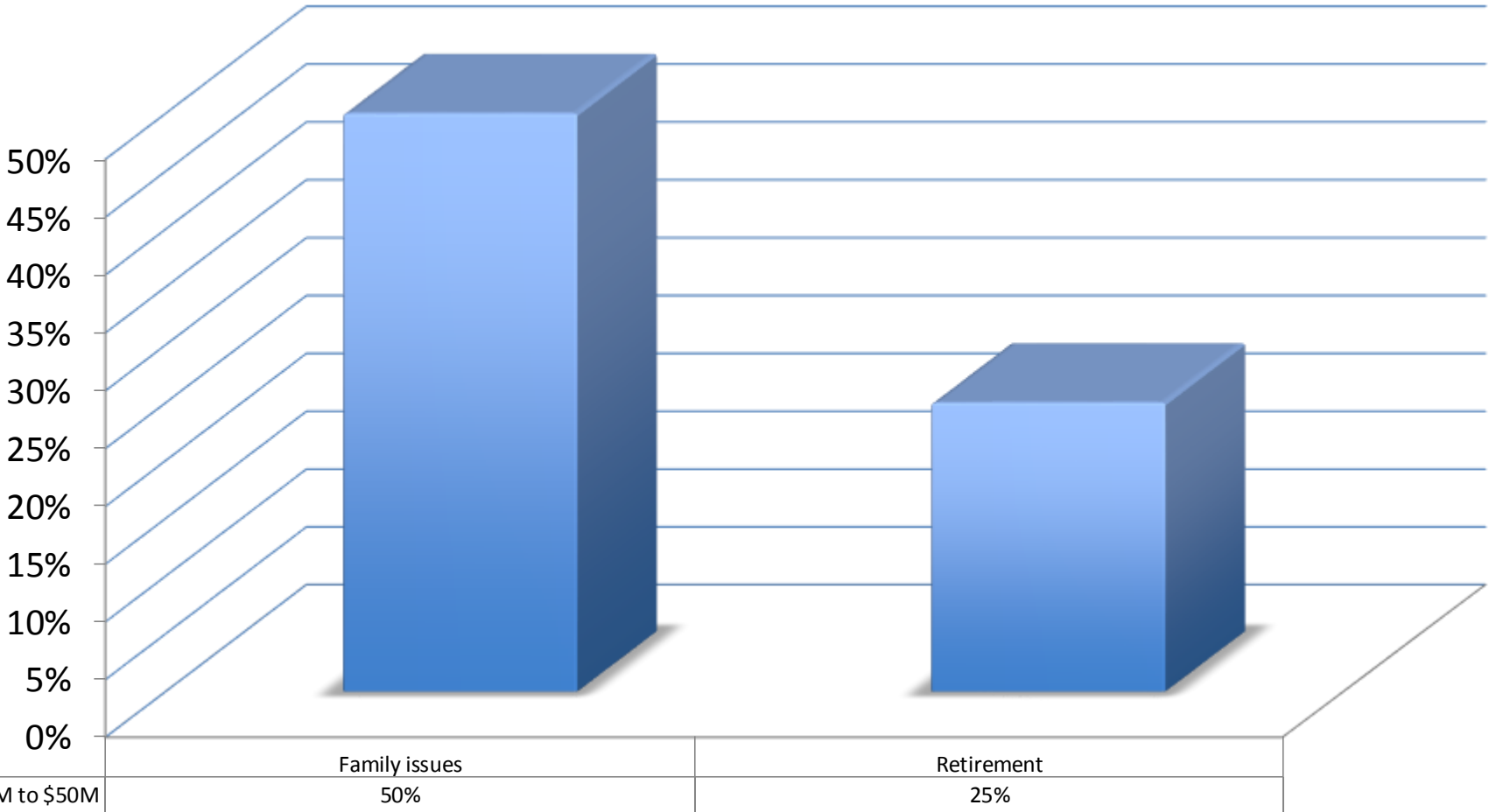
Number of closed transactions = 4

Buyer Type: Deals > \$5 Million



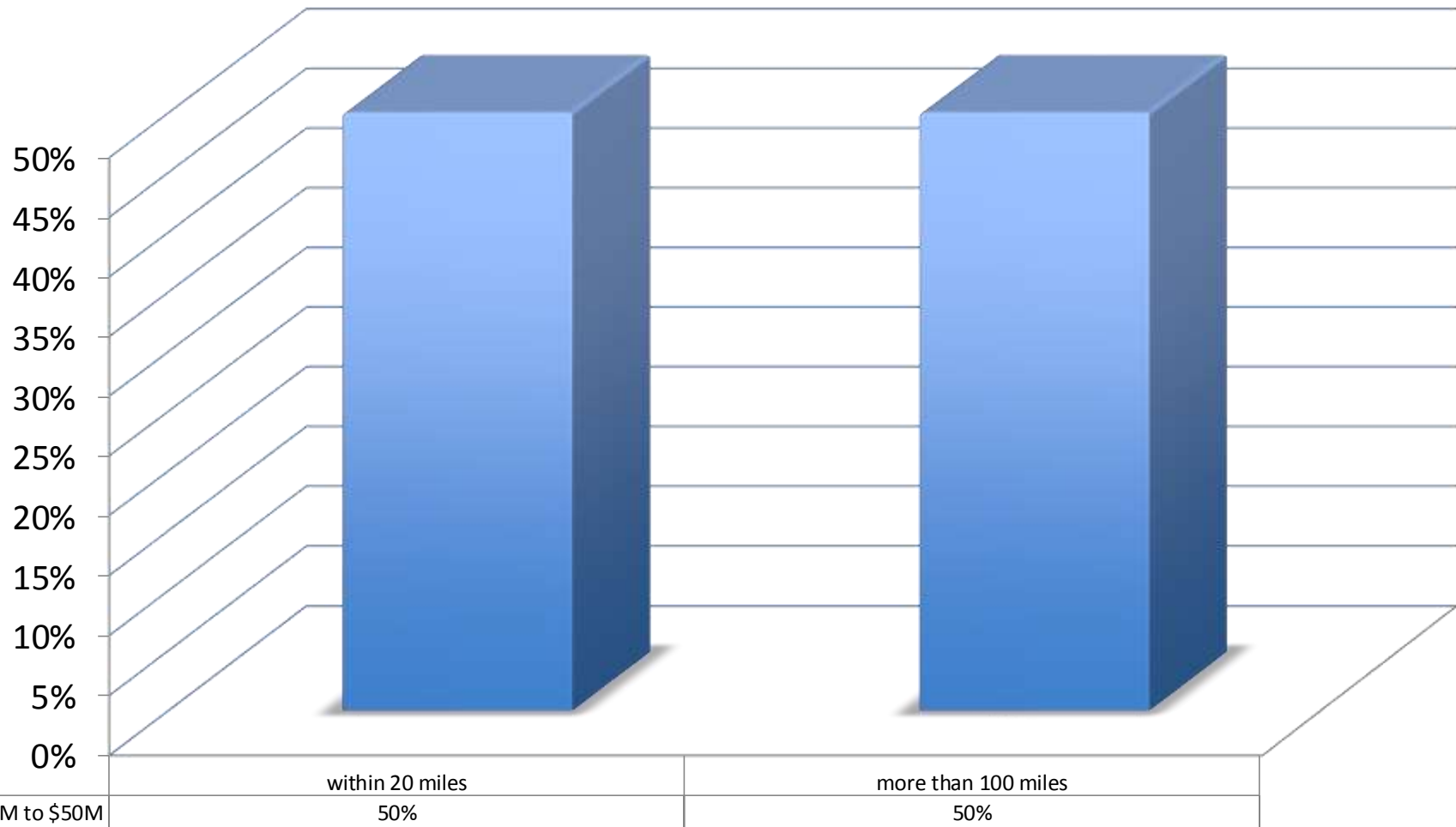
Number of closed transactions = 4

#1 Reason for Seller to Go to Market



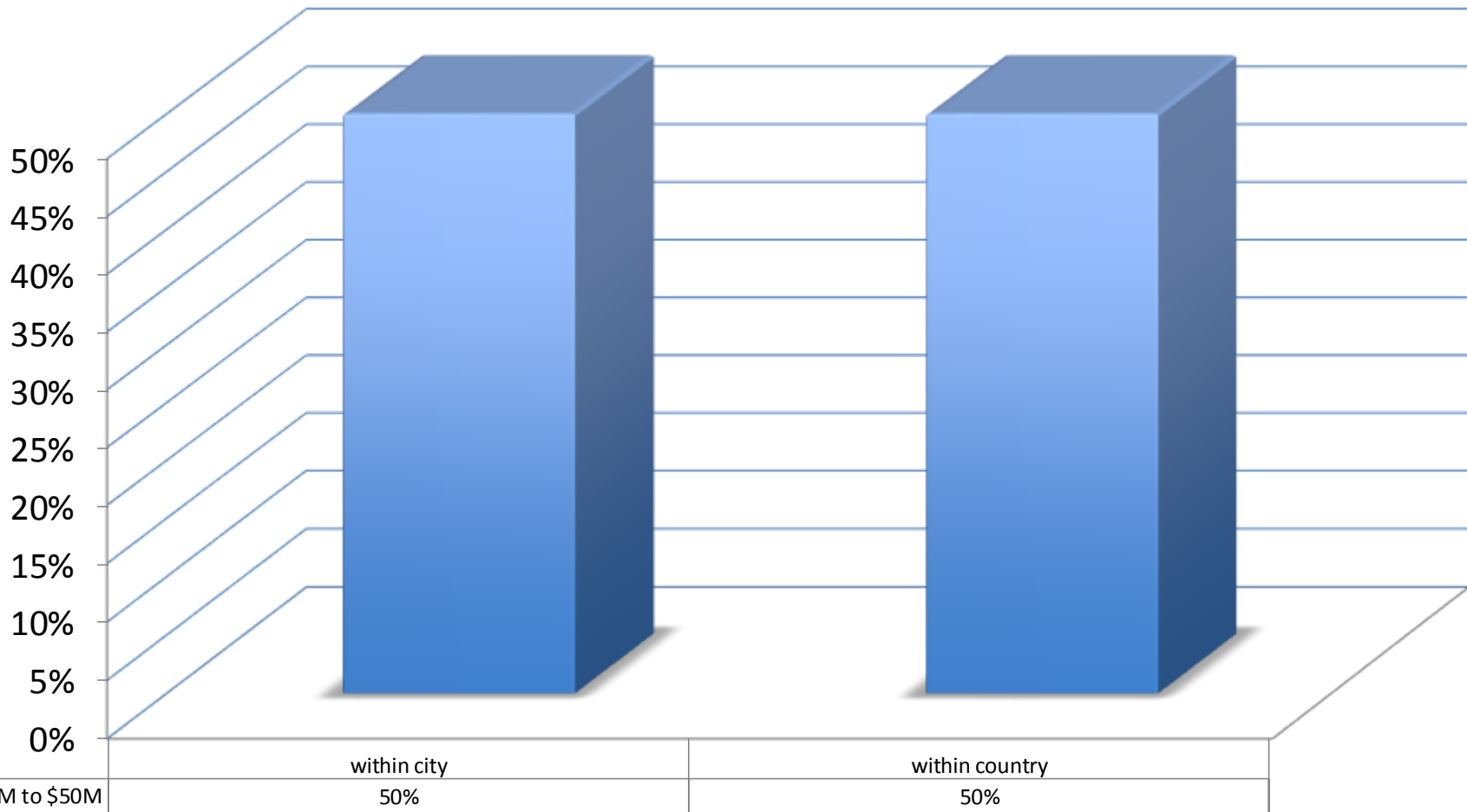
Number of closed transactions = 4

Buyer Location (Distance)



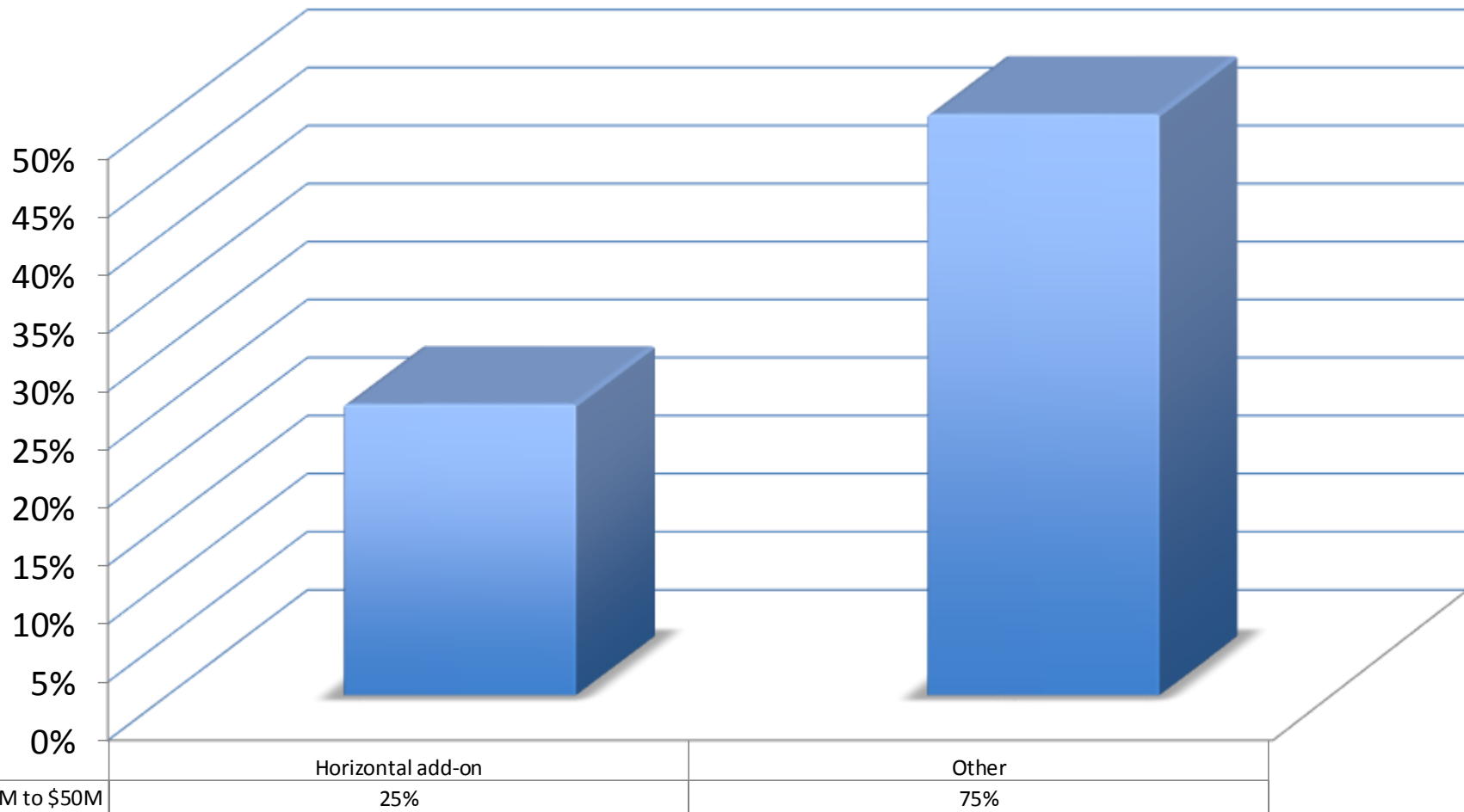
Number of closed transactions = 4

Buyer Location (Global)



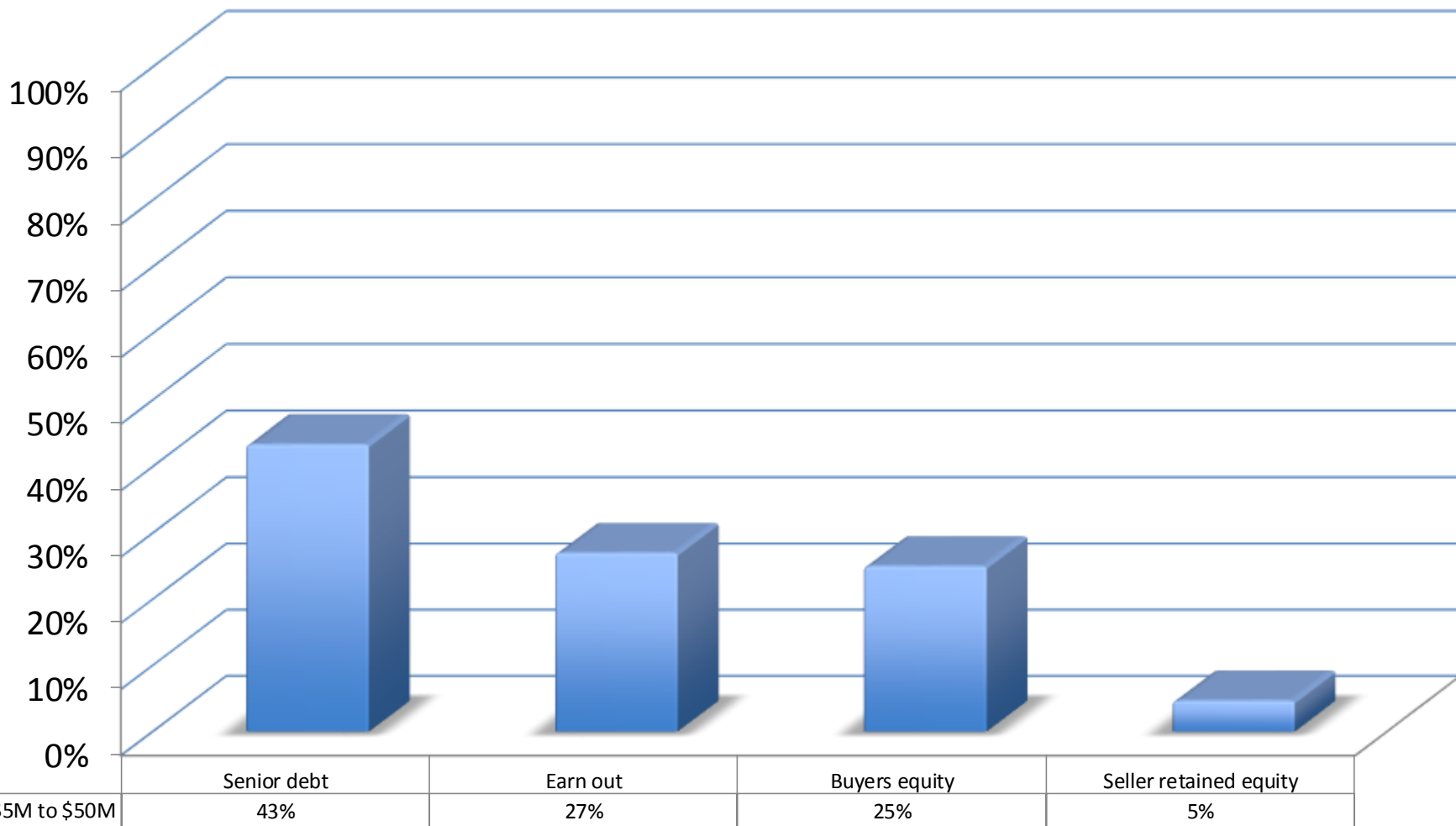
Number of closed transactions = 4

#1 Motivation for Buyer



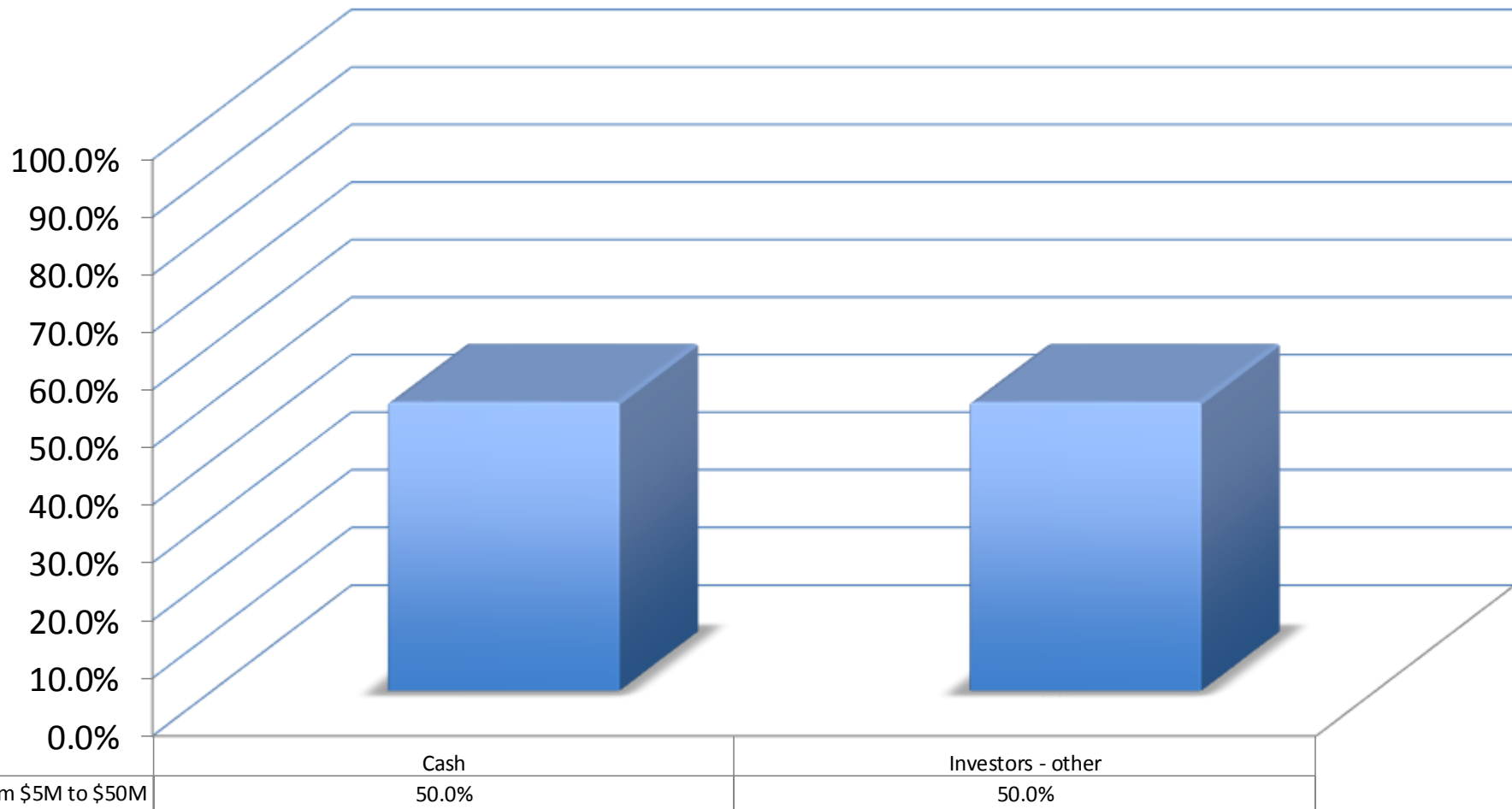
Number of closed transactions = 4

Financing Structure



Number of closed transactions = 4

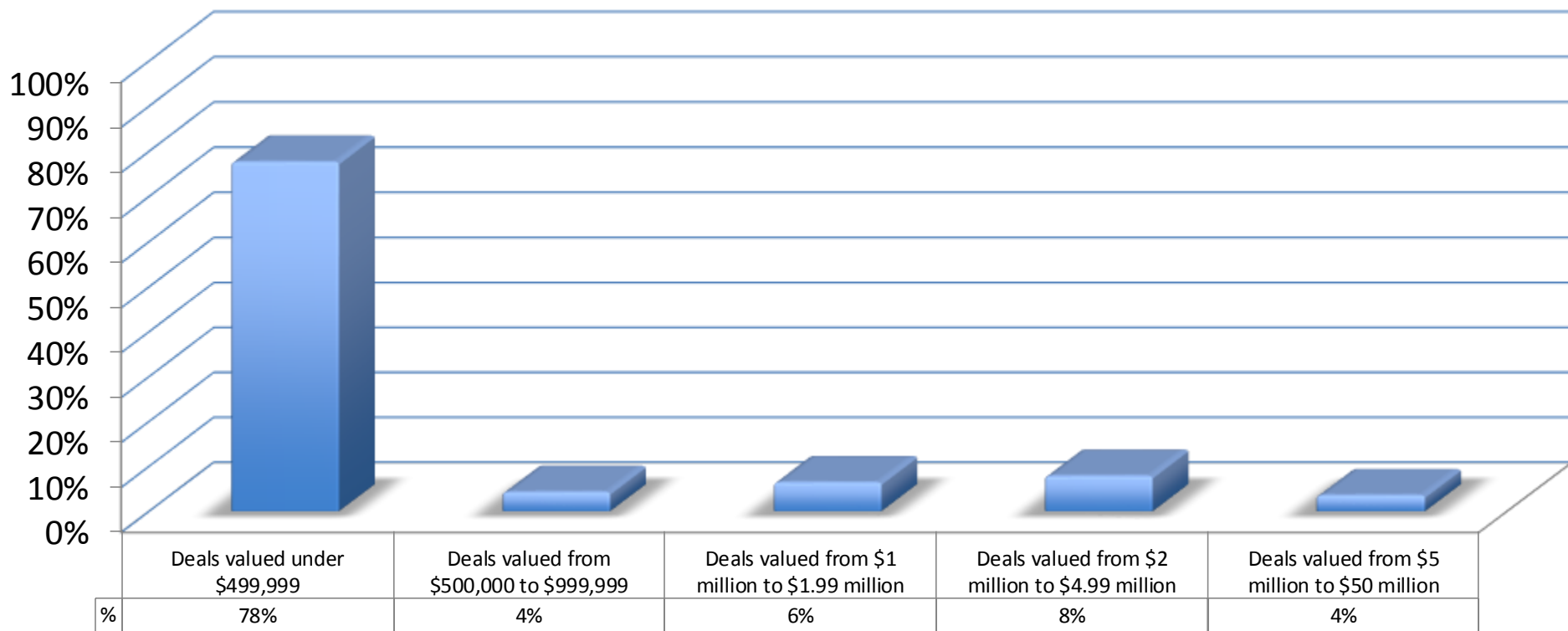
Source of Buyers Equity



Number of responses = 4

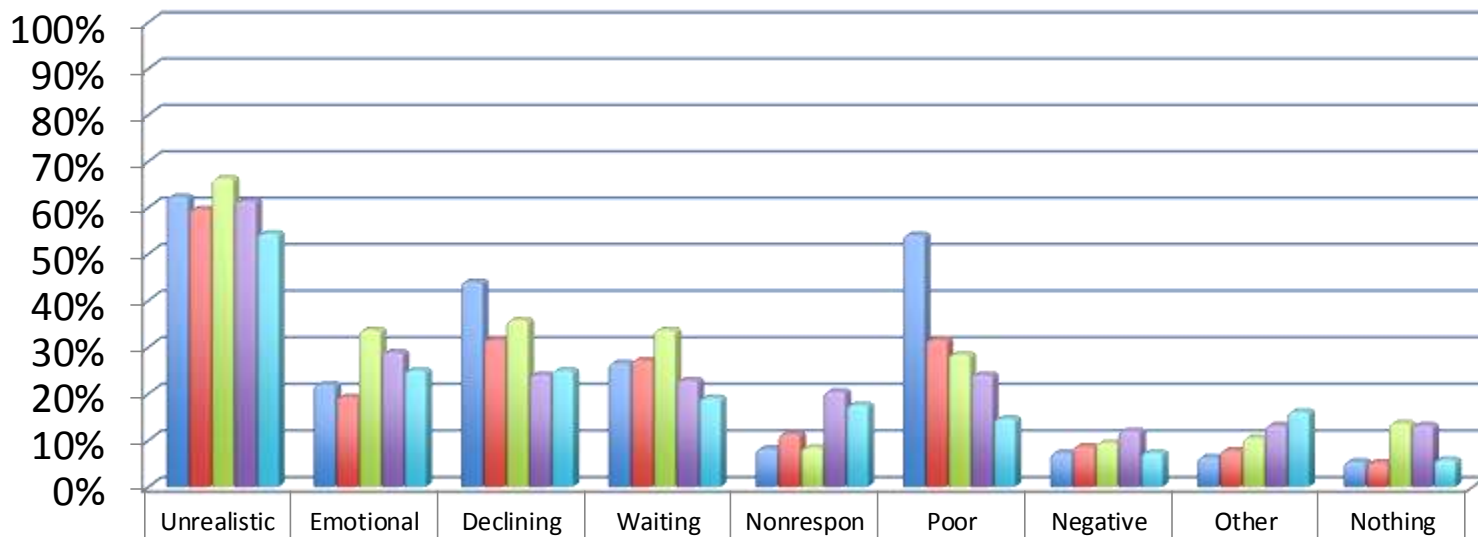
III. Business Transactions Terminated in the Last 3 Months

Percentage of Business Transactions by Size Terminated Without Closing in the Last 3 Months



Total Number of Responses = 83

The Biggest Mistake Sellers Make That Hurt Their Chance of Successfully Completing the Deal



Deals valued under \$499,999	62%	22%	44%	27%	8%	54%	7%	6%	6%
Deals valued from \$500,000 to \$999,999	60%	19%	32%	27%	11%	32%	9%	8%	5%
Deals valued from \$1 million to \$1.99 million	66%	34%	36%	34%	8%	28%	9%	11%	14%
Deals valued from \$2 million to \$4.99 million	61%	29%	24%	23%	20%	24%	12%	13%	13%
Deals valued from \$5 million to \$50 million	54%	25%	25%	19%	18%	15%	7%	16%	6%

V. Expectations

Expectations of Business Listings / Engagements from New Clients in the Next 3 Months

Deal size	Greatly decrease	Decrease	Stay the same	Increase	Greatly increase	Score (1 to 5)
Deals valued under \$499,999	0.0%	6.3%	32.3%	58.3%	3.1%	3.6
Deals valued from \$500,000 to \$999,999	0.0%	1.3%	22.5%	71.3%	5.0%	3.8
Deals valued from \$1 million to \$1.99 million	1.3%	2.6%	26.9%	66.7%	2.6%	3.7
Deals valued from \$2 million to \$4.99 million	0.0%	4.9%	41.0%	47.5%	6.6%	3.6
Deals over \$5 million	0.0%	2.4%	31.7%	63.4%	2.4%	3.7

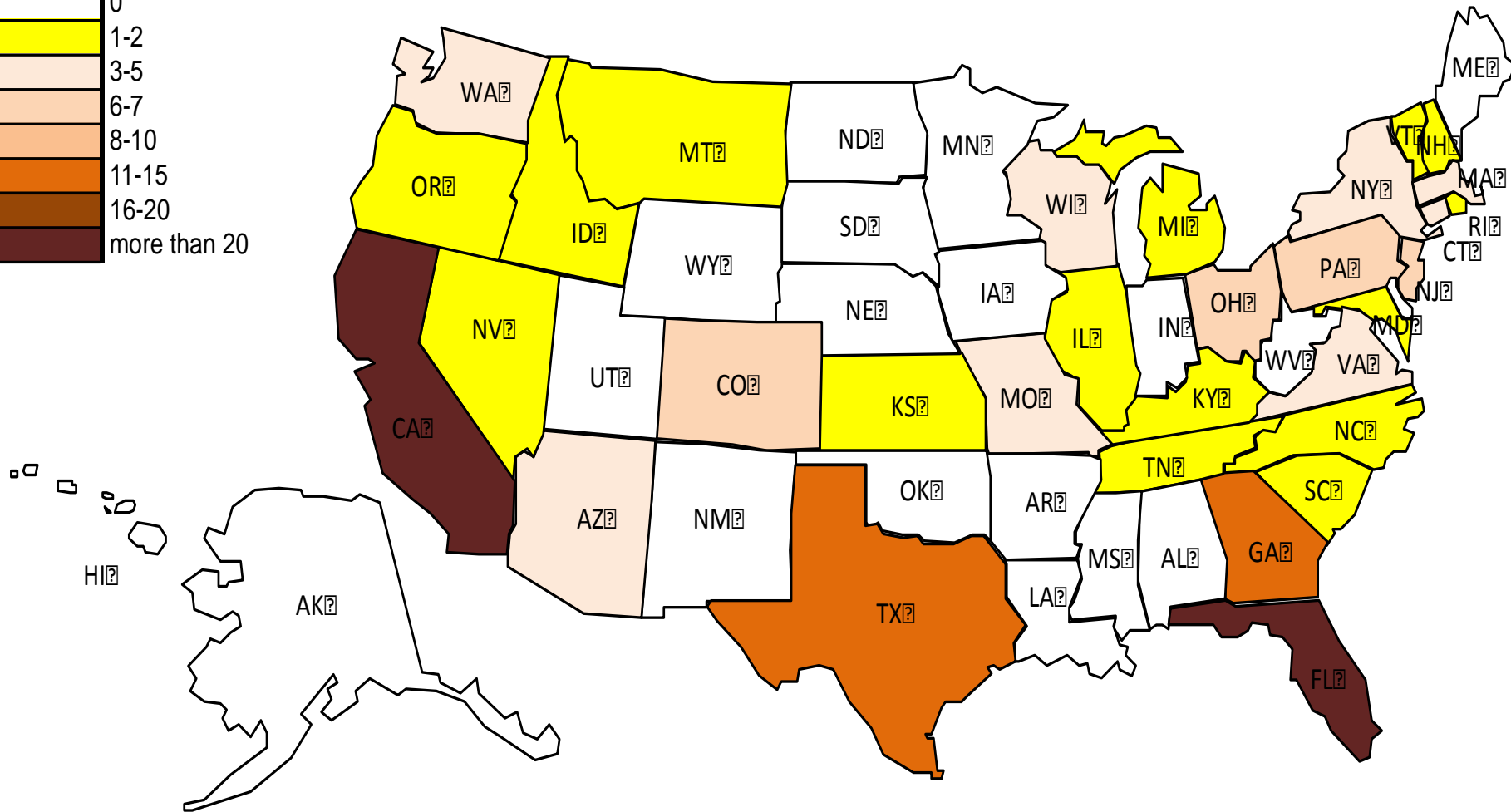
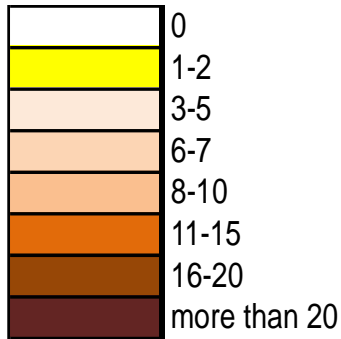
Expectations for Business Valuation Multiples in the Next 3 Months

Deal size	Greatly decrease	Decrease	Stay the same	Increase	Greatly increase	Score (1 to 5)
Deals valued under \$499,999	0.0%	5.3%	75.8%	18.9%	0.0%	3.1
Deals valued from \$500,000 to \$999,999	0.0%	3.8%	74.7%	21.5%	0.0%	3.2
Deals valued from \$1 million to \$1.99 million	1.3%	2.6%	69.2%	26.9%	0.0%	3.2
Deals valued from \$2 million to \$4.99 million	0.0%	4.7%	73.4%	21.9%	0.0%	3.2
Deals over \$5 million	0.0%	2.4%	61.0%	36.6%	0.0%	3.3

VI. About the Respondents

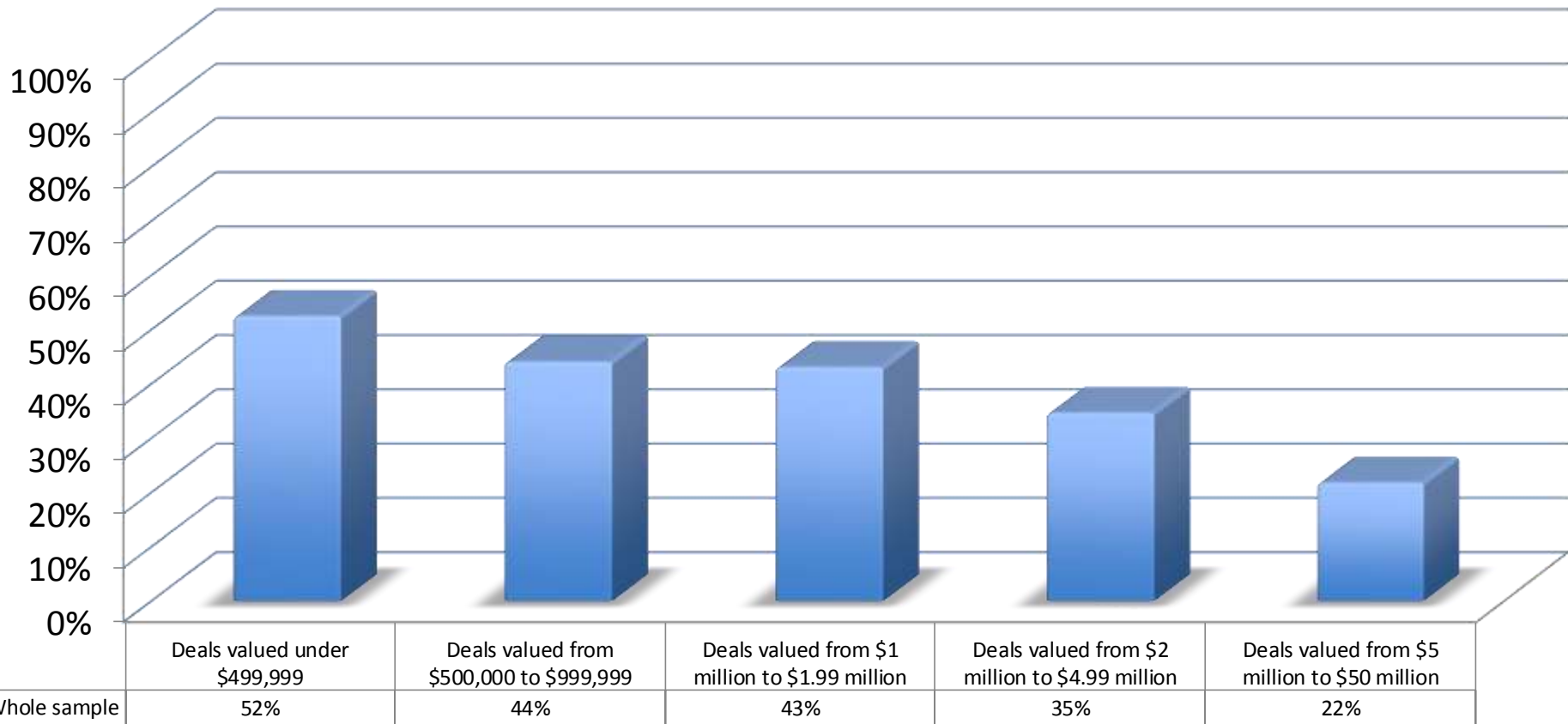
Details About the Respondents

Geographic Location



Details About the Respondents

Typical Size of Business Transactions

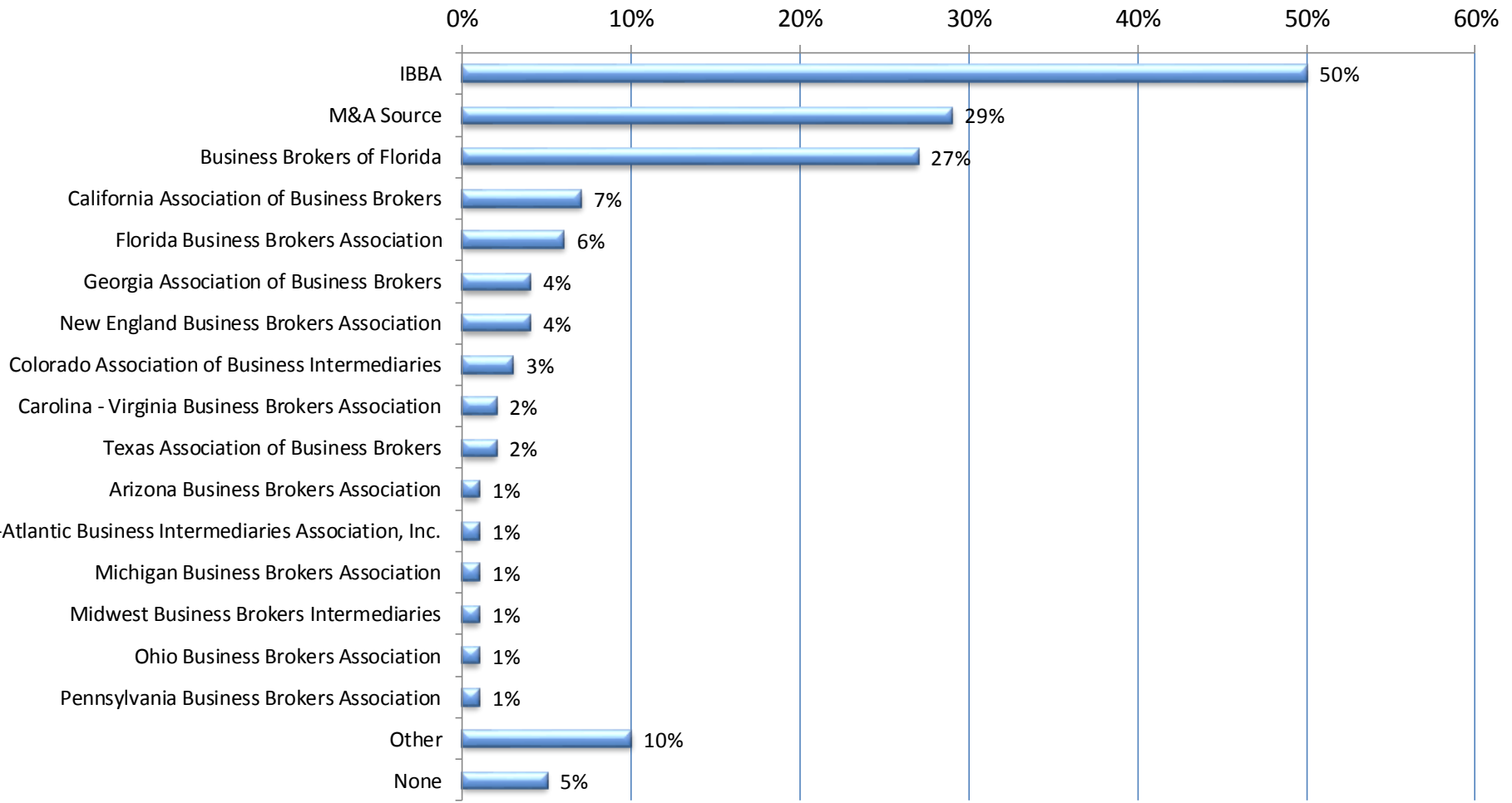


Total number of responses = 202

* Number is more than number of respondents as many respondents overlap into 2 or 3 areas

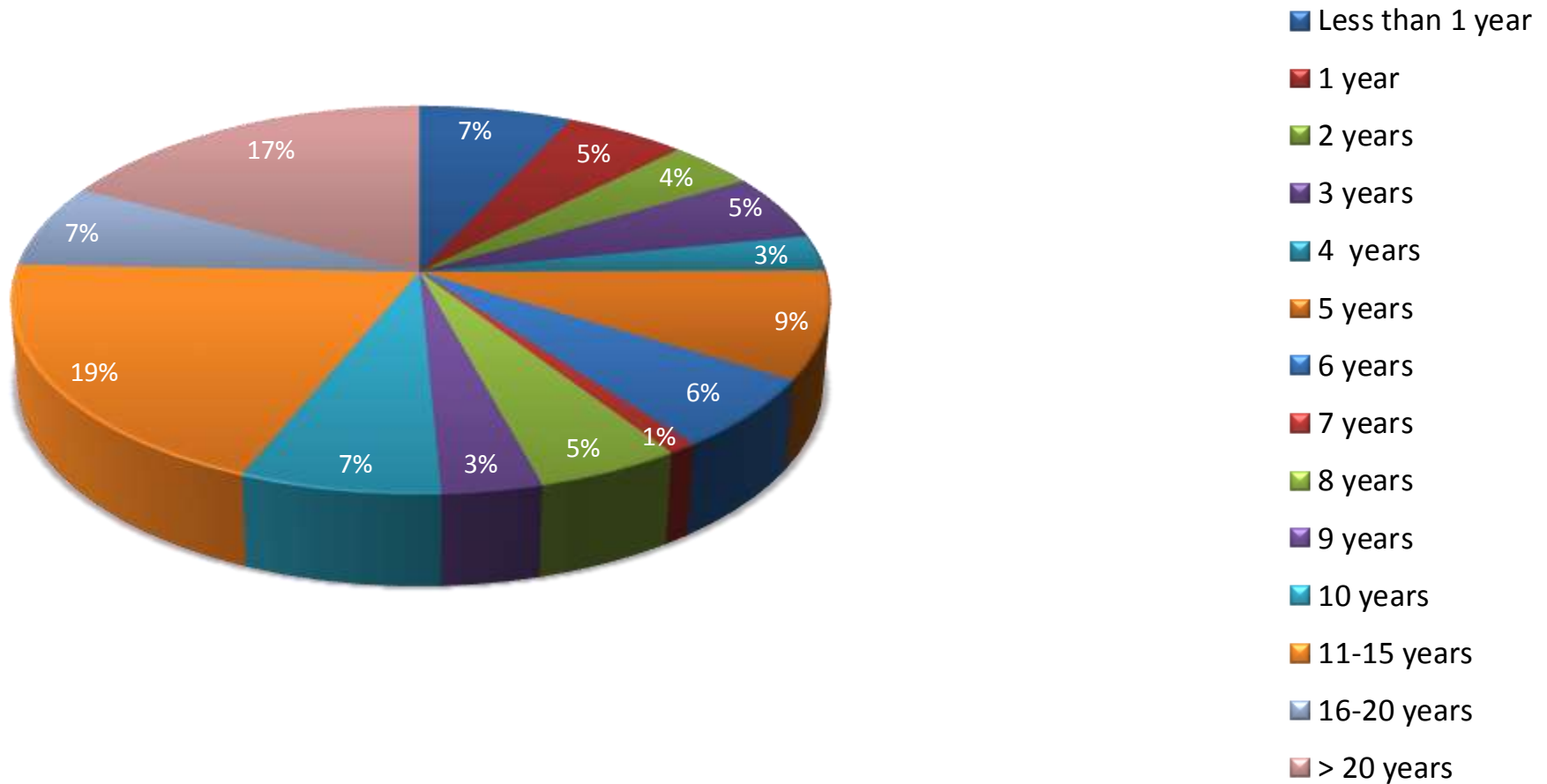
Details About the Respondents

Memberships/ Multiple Memberships



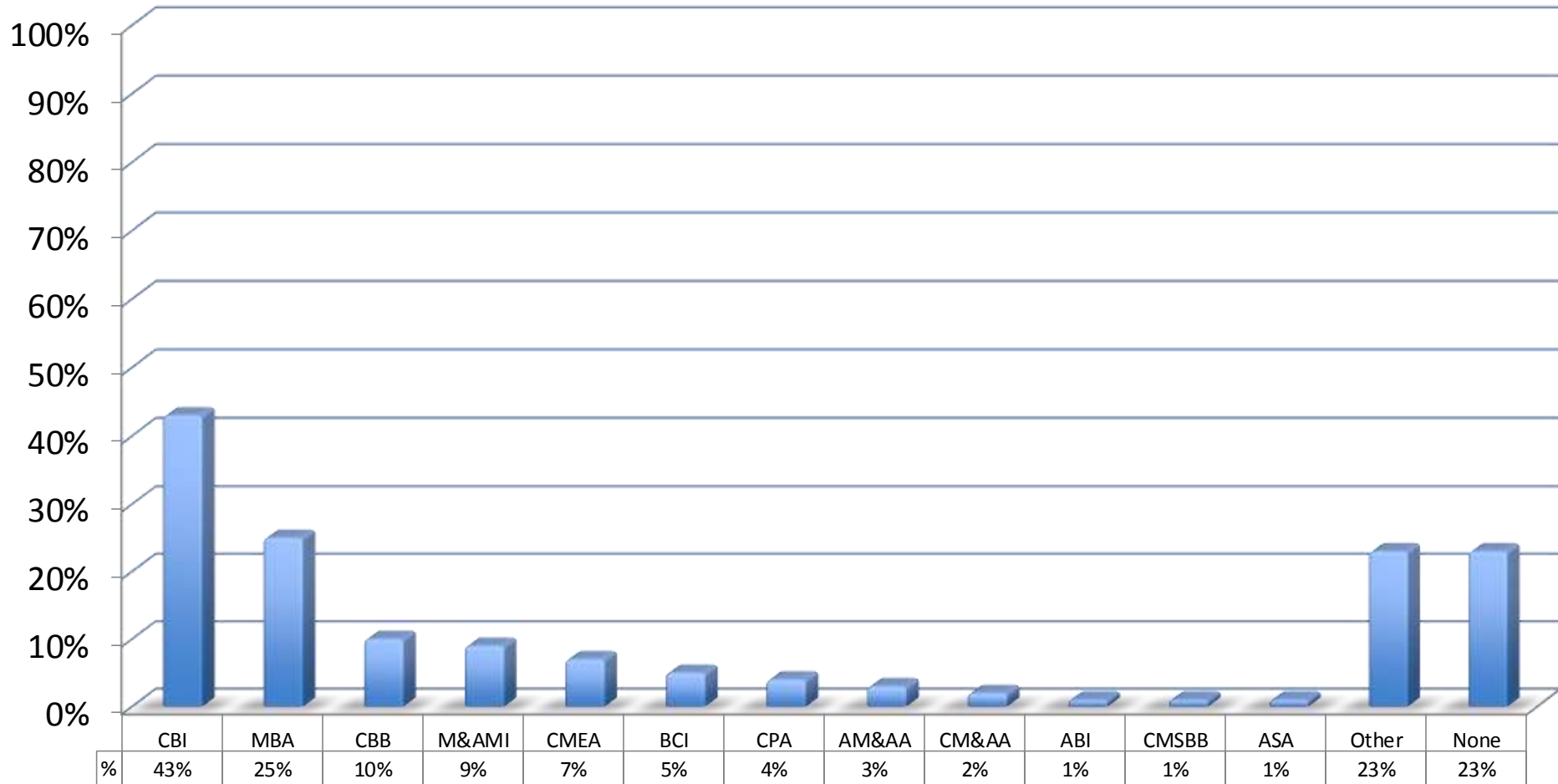
Details About the Respondents

Working Experience



Details About the Respondents

Professional Credentials



Details About the Respondents

THANK YOU!

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