

Market Pulse Report Second Quarter 2016

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ACKNOWLEDGEMENTS

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Research Associate

Outline

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I. About the Market Pulse Report

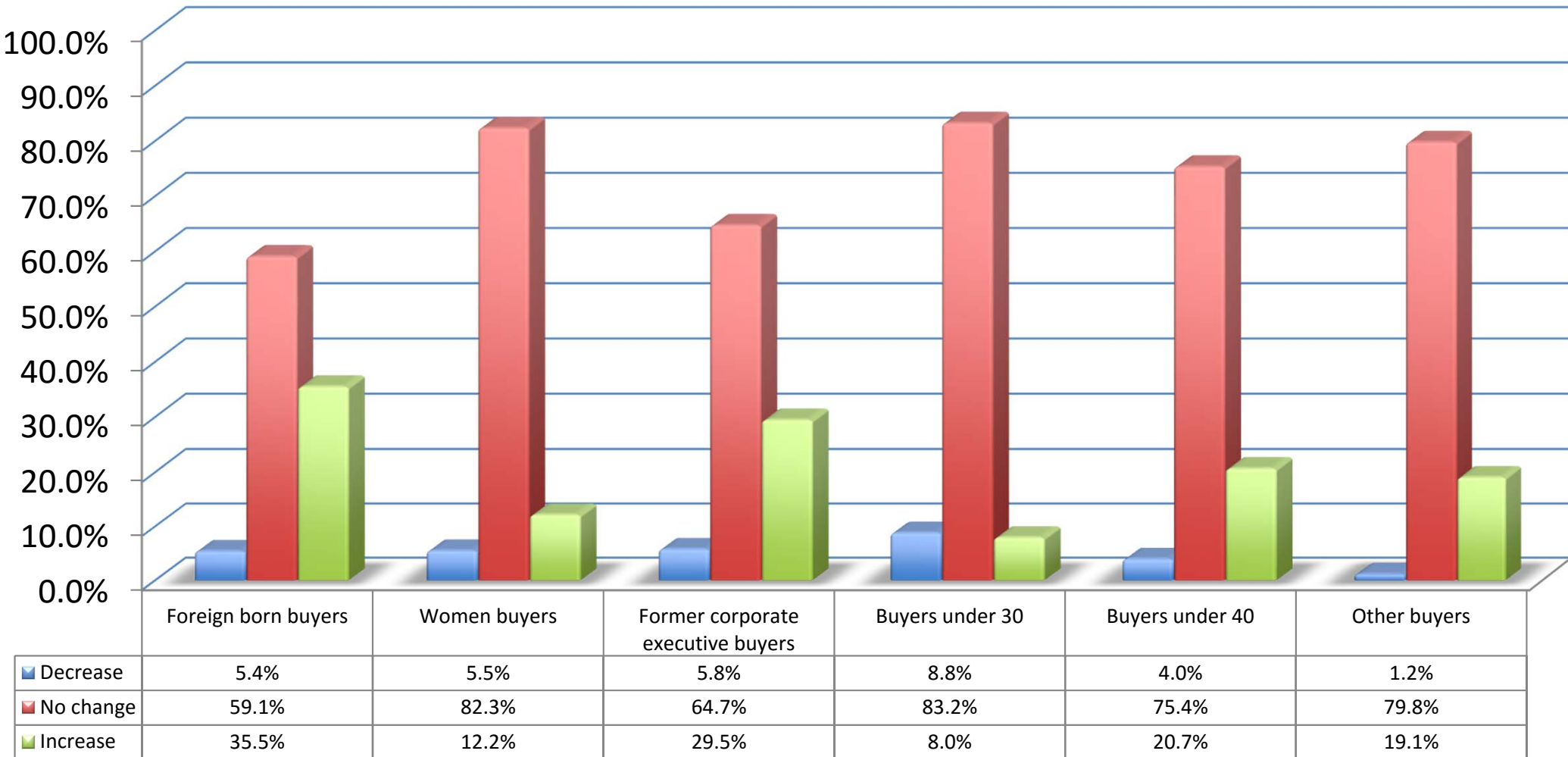
The International Business Brokers Association (IBBA) and M&A Source, in partnership with Pepperdine Private Capital Markets Project, have set a goal to provide quality information on a quarterly basis in order to become the go-to source for Main Street and Lower Middle Market transactions. The “Market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

About the Survey

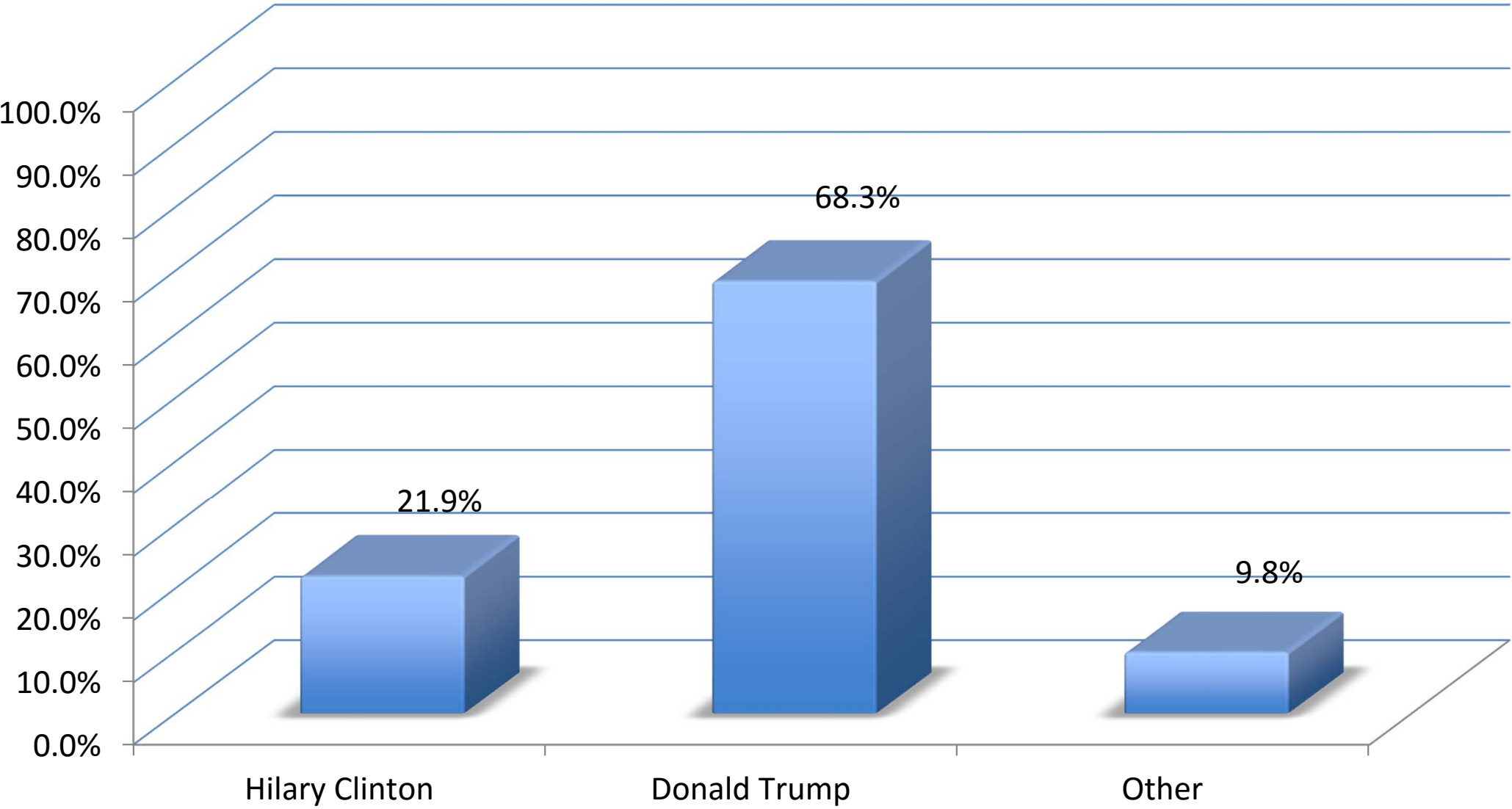
- 25 questions
- Invited participants were members of the International Business Brokers Association (IBBA), IBBA Affiliates/Chapters, and/or M&A Source
- 378 completed responses
- Responses collected from July 1 to July 15, 2016

II. Current Business Environment

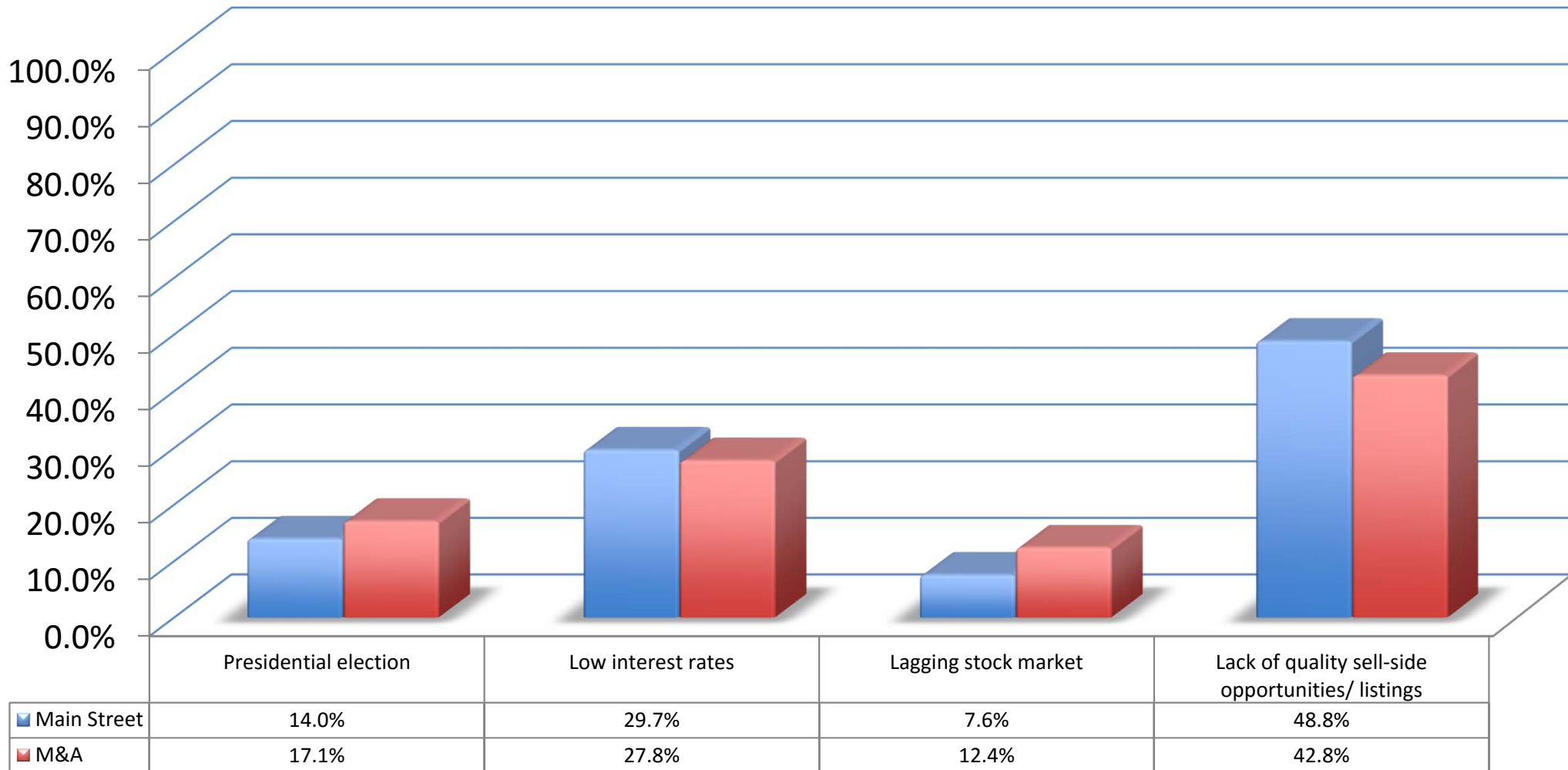
Number Of First Time Buyers Inquiring About A Business in 2016



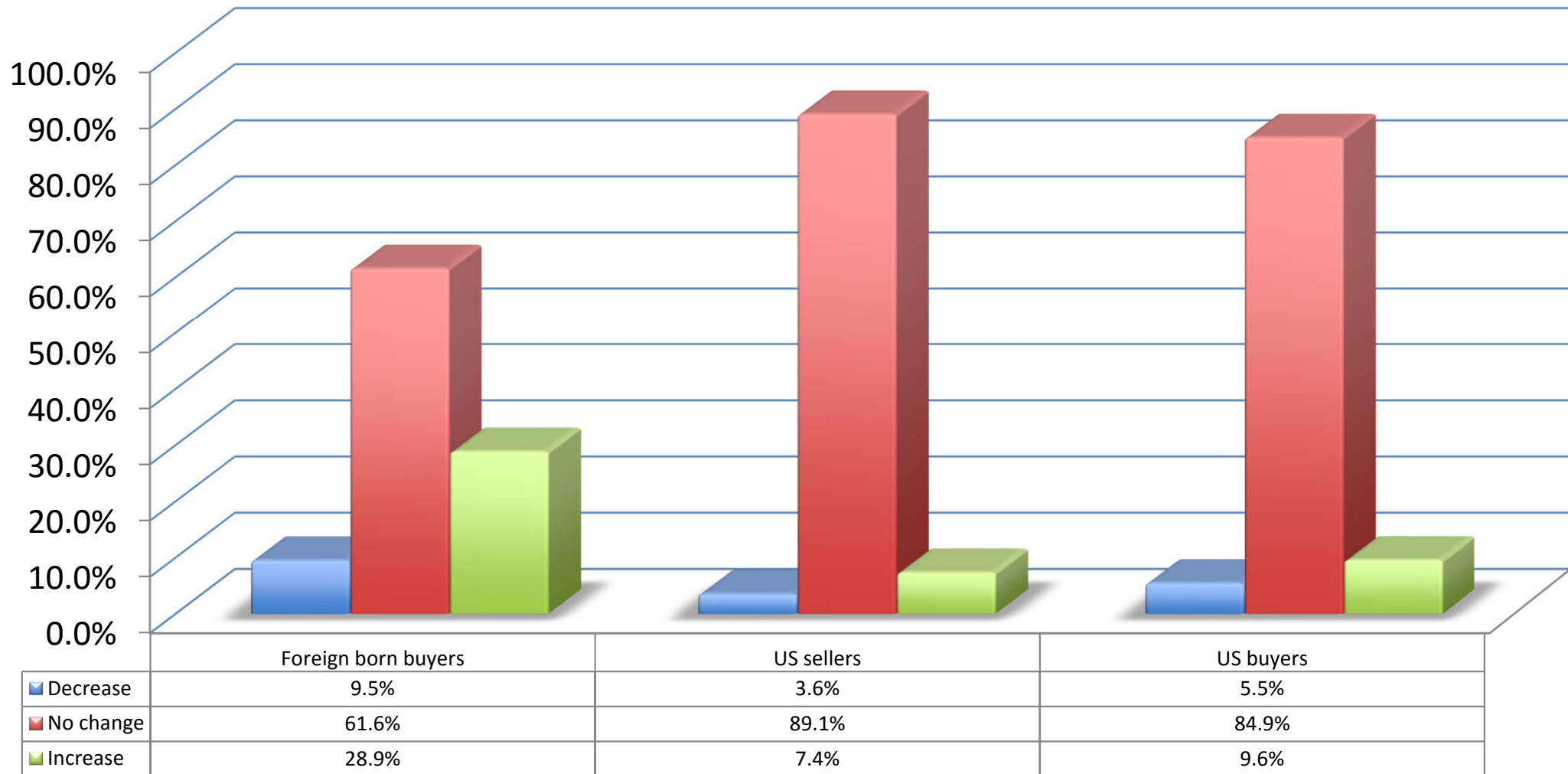
Which President Will Be More Business Friendly



Which Factor Has The Biggest Impact On The Current Marketplace

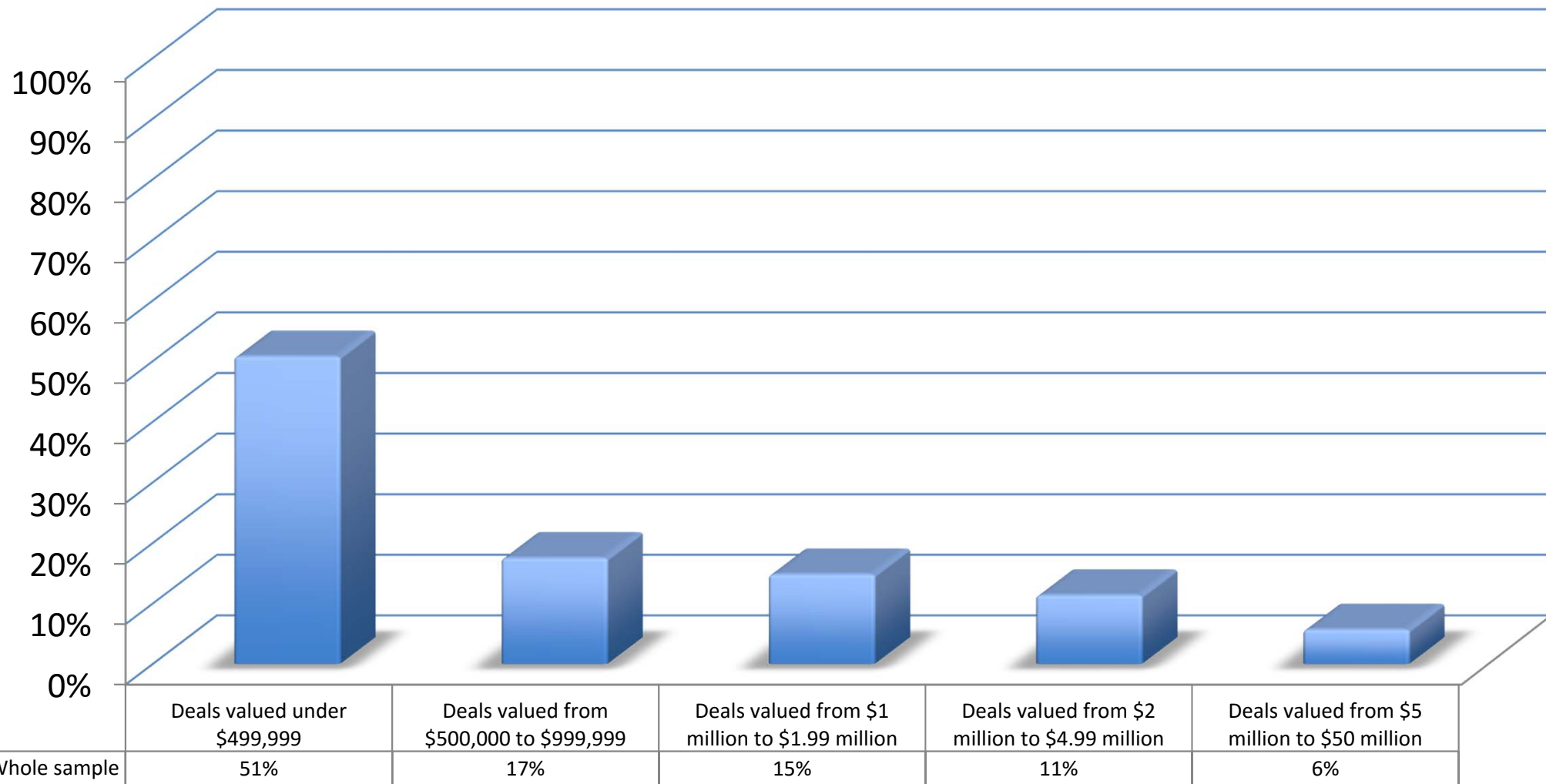


Expected Impacts With Britain Voting To Leave The EU

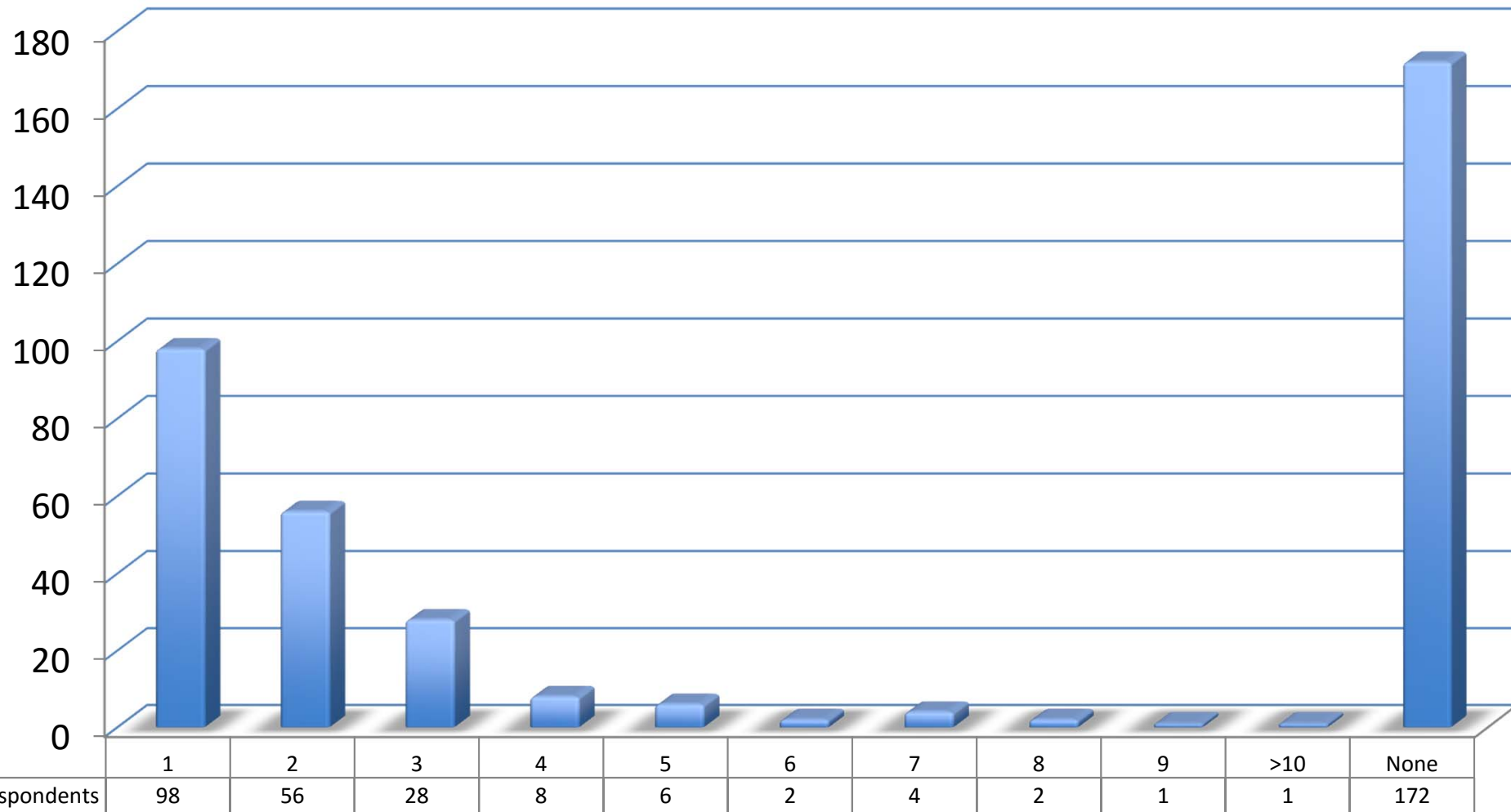


III. Business Transactions Closed in the Last 3 Months

Business Transactions that Were Closed in the Last Three Months by Deal Size



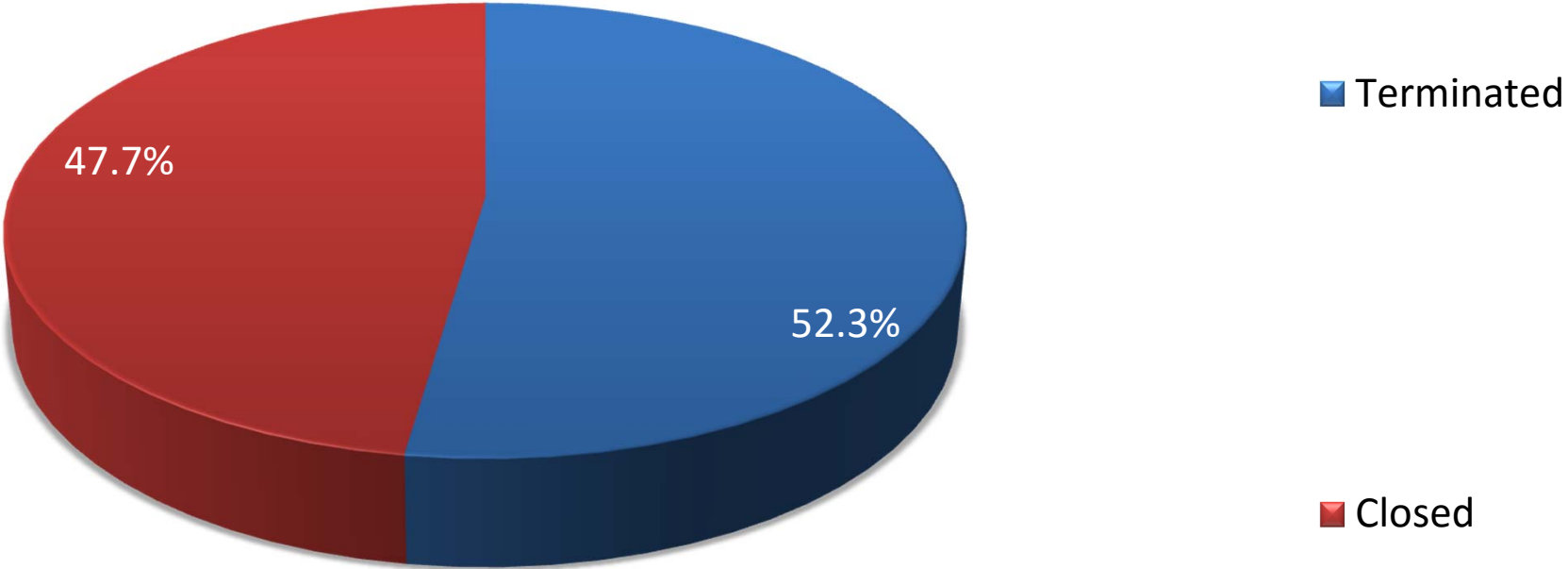
Number of Business Transactions Closed by Respondents in the Last 3 Months



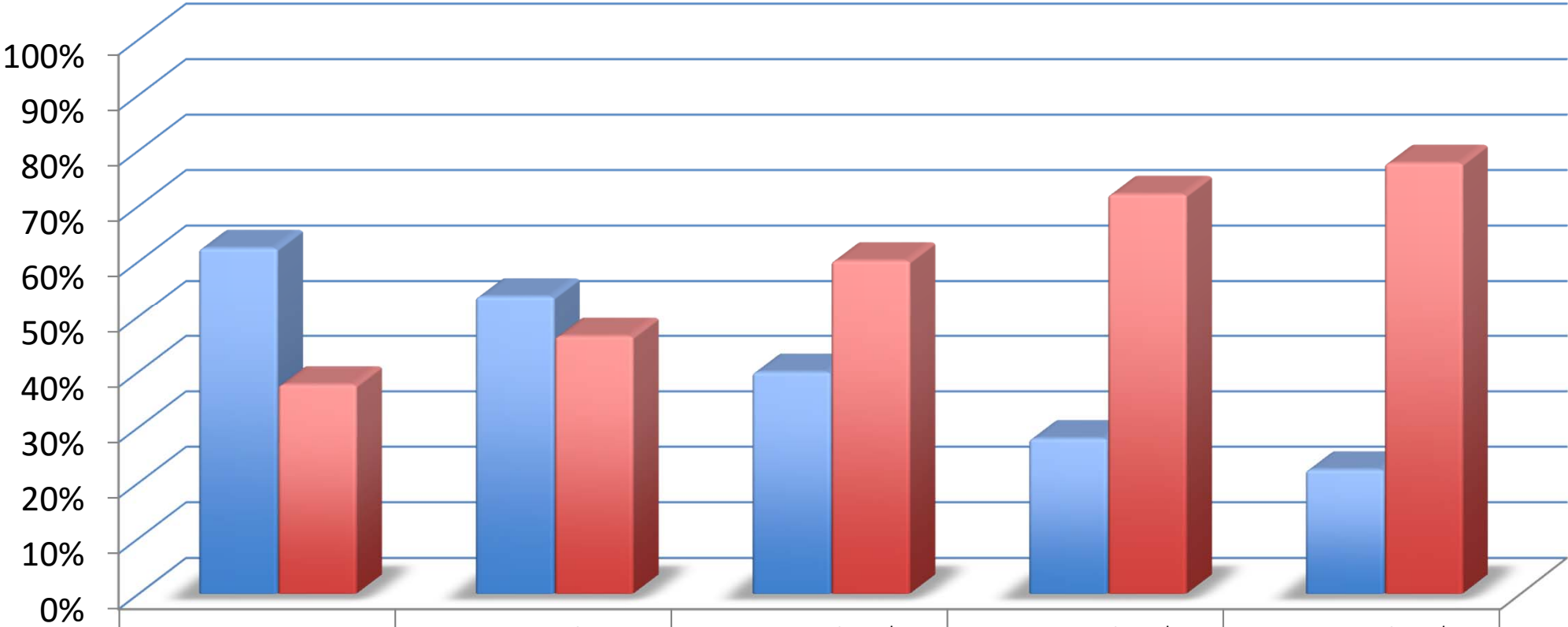
Change in the Number of New Clients by Deal Size in The Last 3 Months

| Deal size | Greatly decreased | Decreased | Stayed the same | Increased | Greatly increased | Score (1 to 5) |
|---|-------------------|-----------|-----------------|-----------|-------------------|----------------|
| Deals valued under \$499,999 | 3% | 9% | 50% | 34% | 4% | 3.5 |
| Deals valued from \$500,000 to \$999,999 | 4% | 8% | 52% | 34% | 2% | 3.7 |
| Deals valued from \$1 million to \$1.99 million | 6% | 10% | 52% | 32% | 1% | 3.6 |
| Deals valued from \$2 million to \$4.99 million | 6% | 11% | 50% | 27% | 6% | 3.7 |
| Deals valued from \$5 million to \$50 million | 6% | 8% | 48% | 31% | 7% | 3.9 |

Percentage of Transactions Terminated without Closing in the Last Three Months



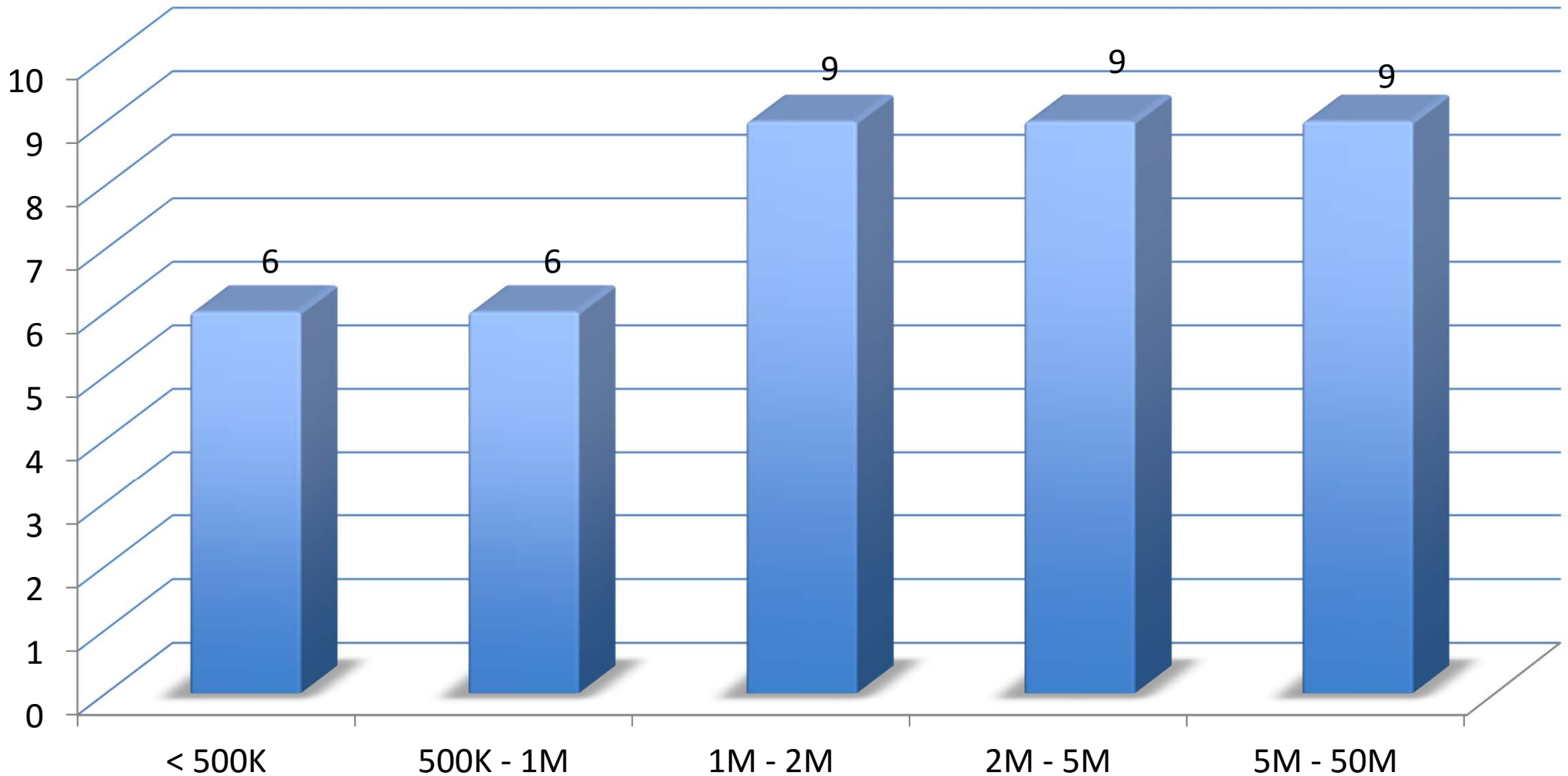
Was it Buyer's or Seller's Market in the Last 3 Months?



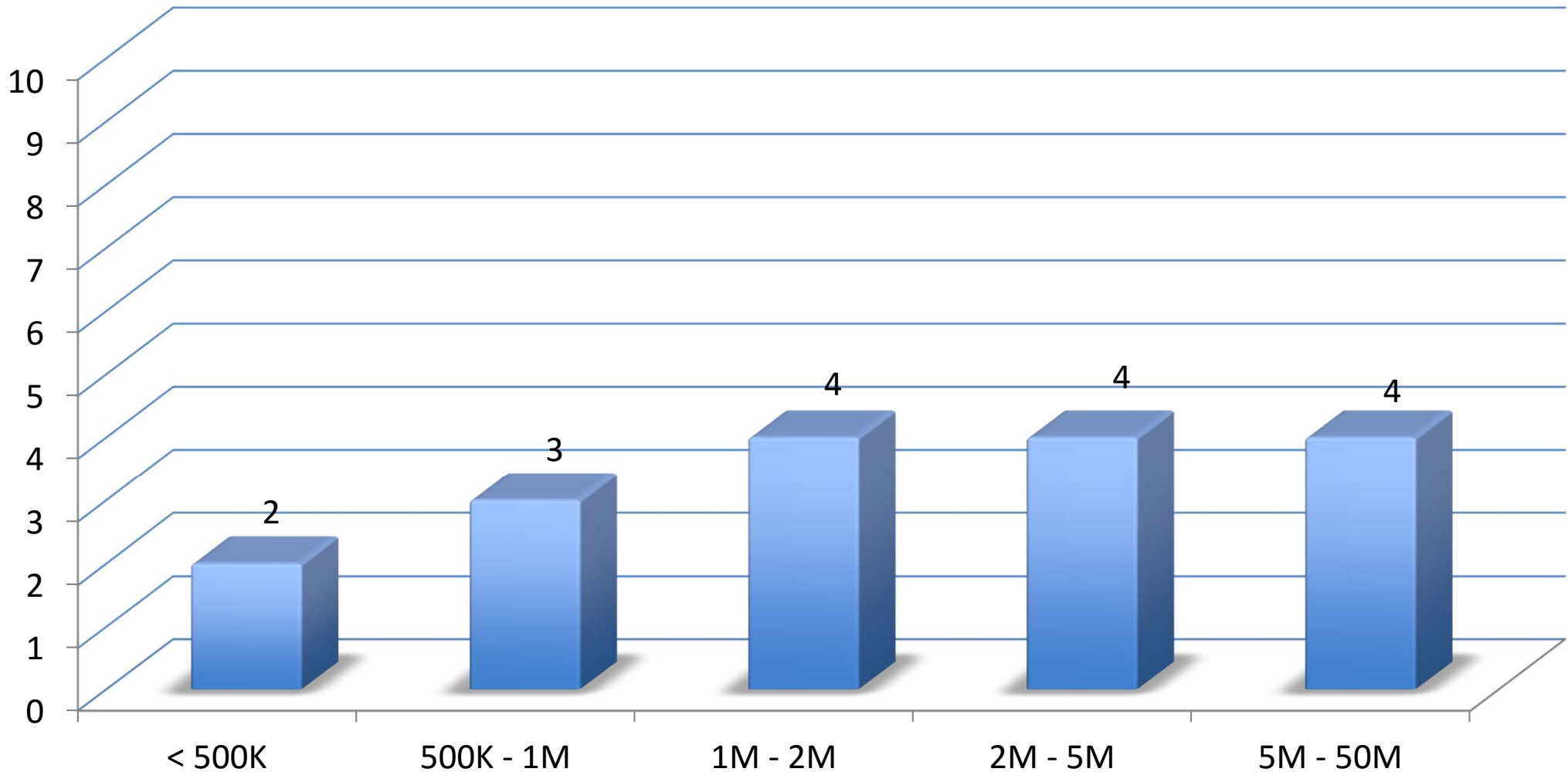
| | Deals valued under \$499,999 | Deals valued from \$500,000 to \$999,999 | Deals valued from \$1 million to \$1.99 million | Deals valued from \$2 million to \$4.99 million | Deals valued from \$5 million to \$50 million |
|---------------------|------------------------------|--|---|---|---|
| Buyer's market | 62% | 54% | 40% | 28% | 22% |
| Seller's market | 38% | 46% | 60% | 72% | 78% |
| Number of responses | 255 | 207 | 188 | 154 | 121 |

Business Transactions of All Sizes, Comparison

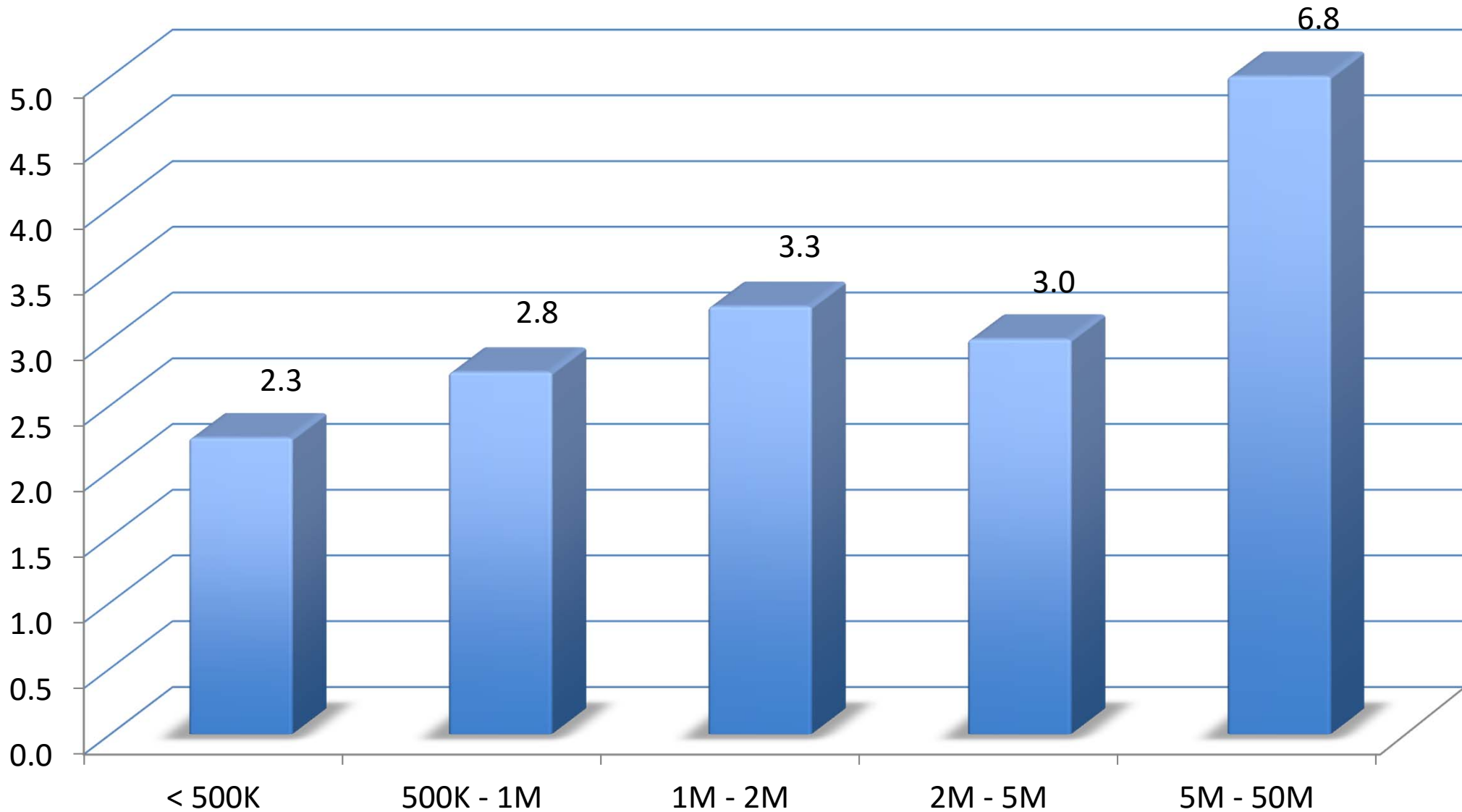
Median Number of Months from Listing/Engagement to Close



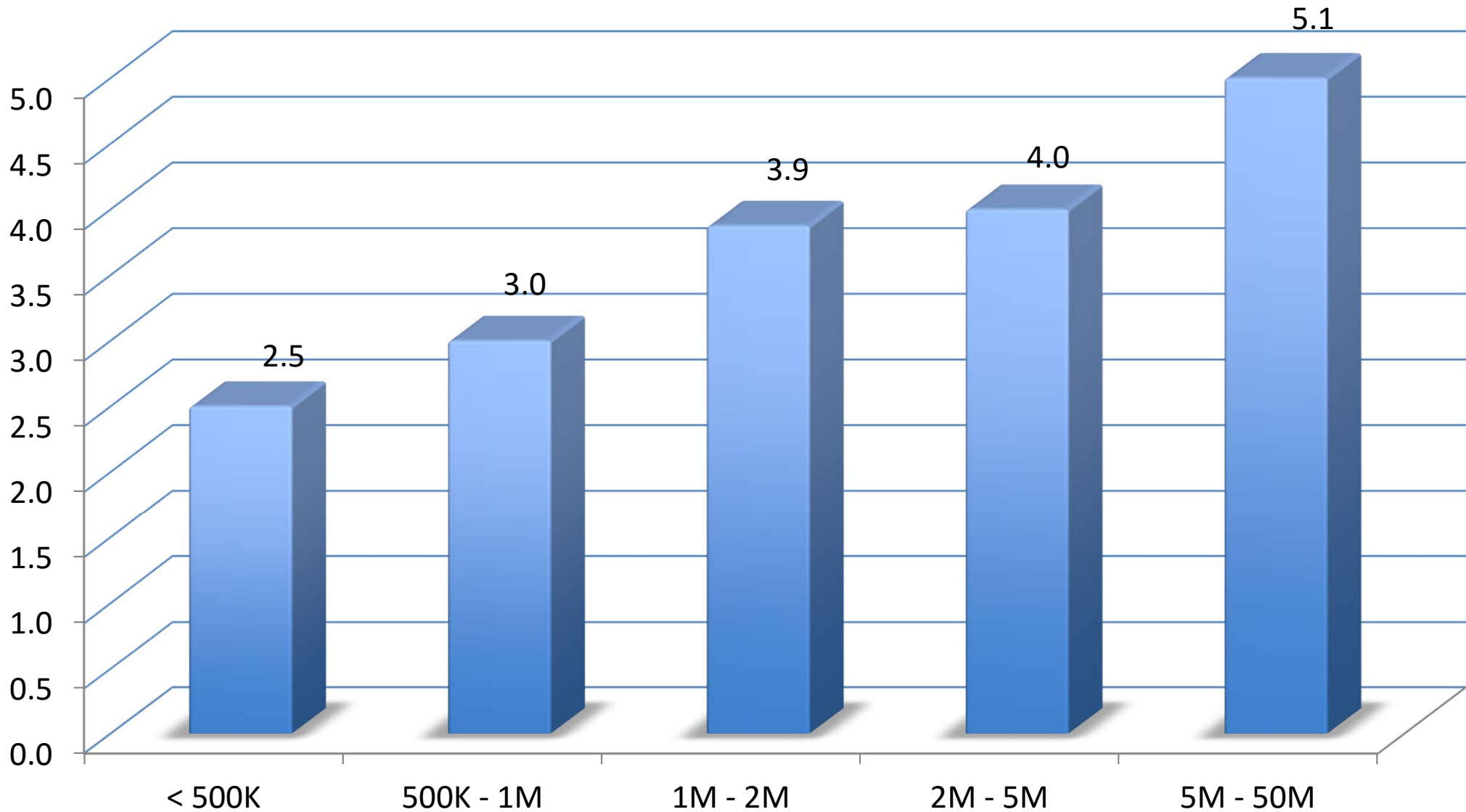
Median Number of Months from LOI/Offer to Close



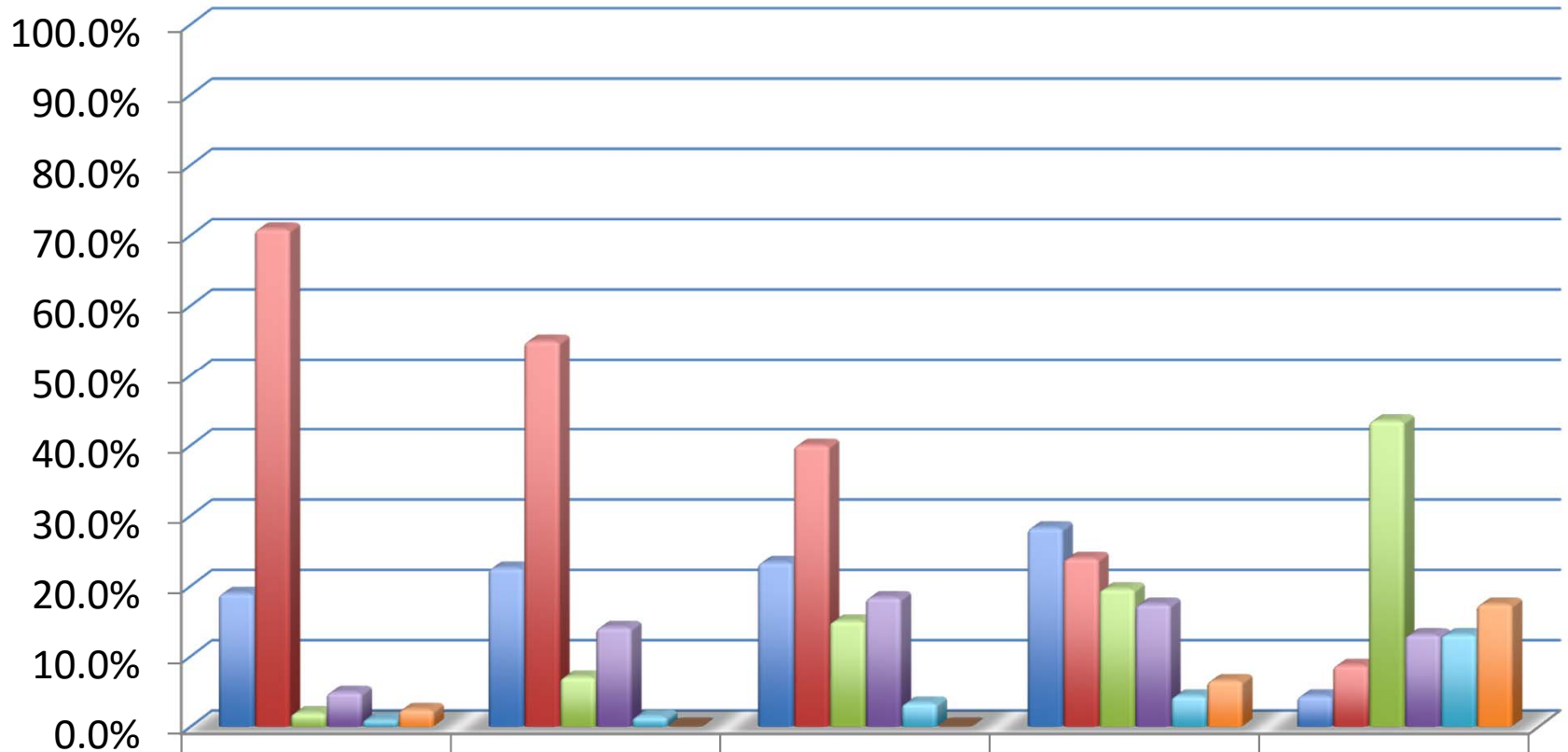
Median SDE Multiple Paid



Median EBITDA Multiple Paid

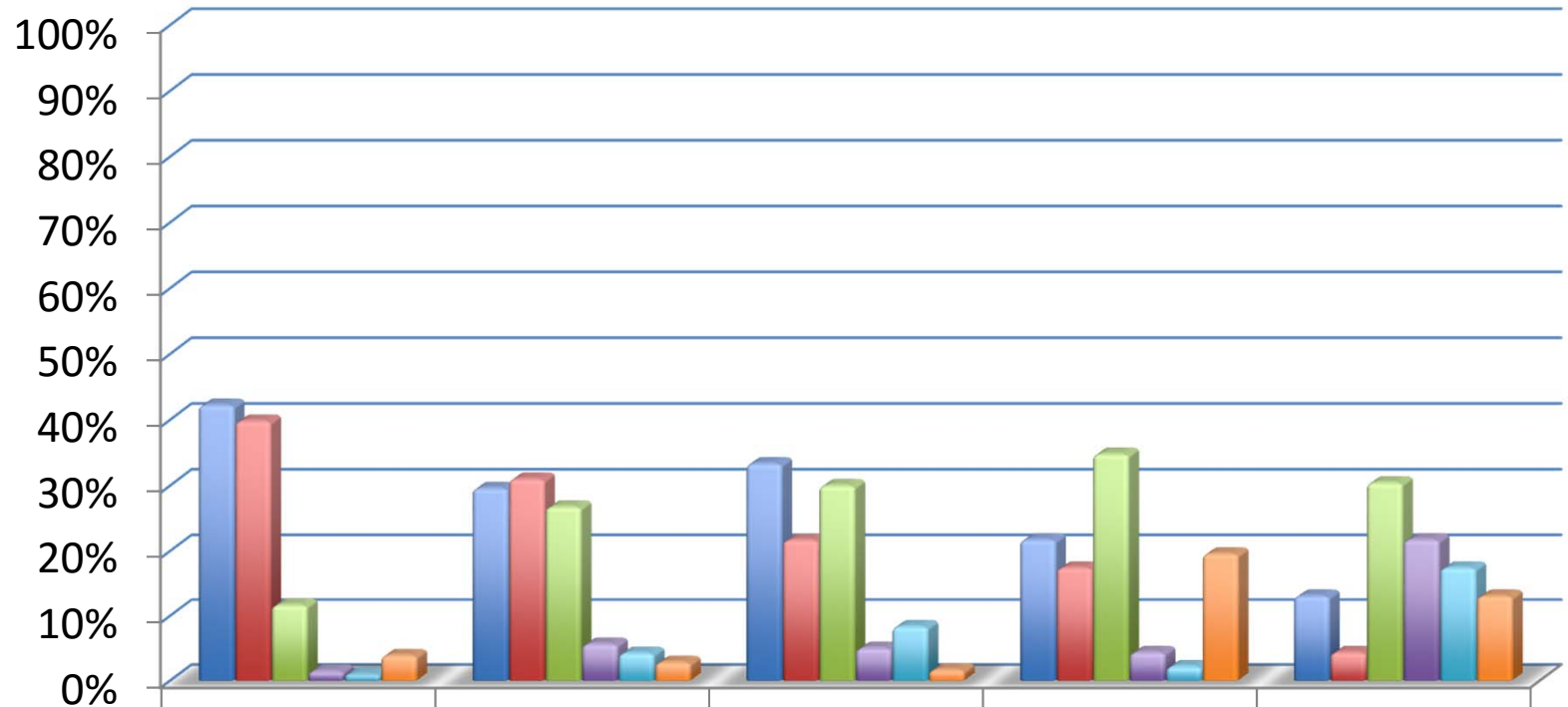


Multiple Type



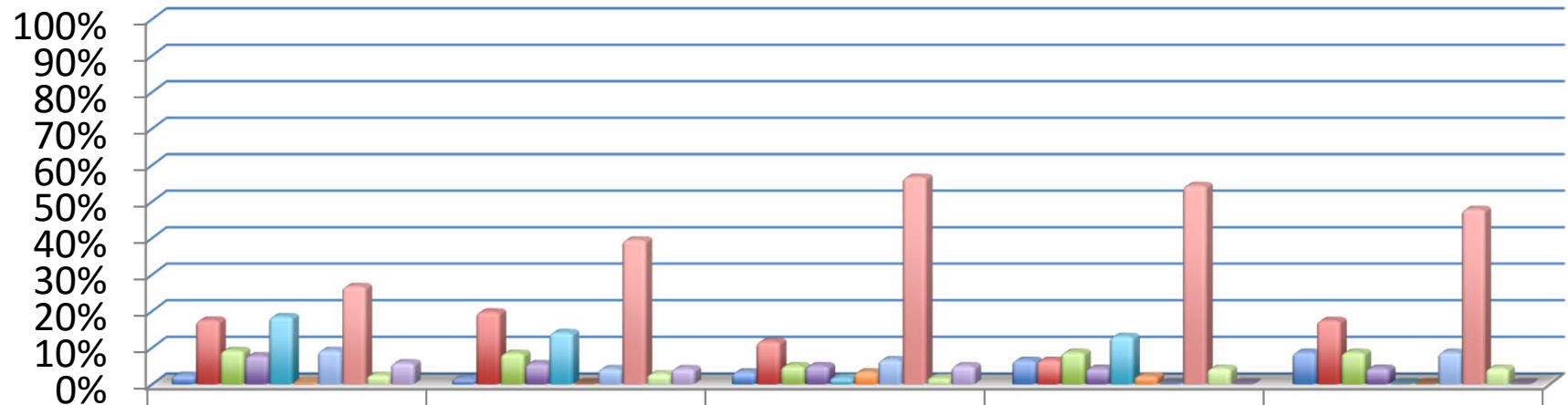
| | < 500K | 500K - 1M | 1M - 2M | 2M - 5M | 5M - 50M |
|--|--------|-----------|---------|---------|----------|
| ■ SDE including working capital | 18.9% | 22.5% | 23.3% | 28.3% | 4.3% |
| ■ SDE not including working capital | 70.9% | 54.9% | 40.0% | 23.9% | 8.7% |
| ■ EBITDA including working capital | 1.9% | 7.0% | 15.0% | 19.6% | 43.5% |
| ■ EBITDA not including working capital | 4.9% | 14.1% | 18.3% | 17.4% | 13.0% |
| ■ TTM EBITDA including working capital | 1.0% | 1.4% | 3.3% | 4.3% | 13.0% |
| ■ TTM EBITDA not including working capital | 2.4% | 0.0% | 0.0% | 6.5% | 17.4% |

Buyer Type



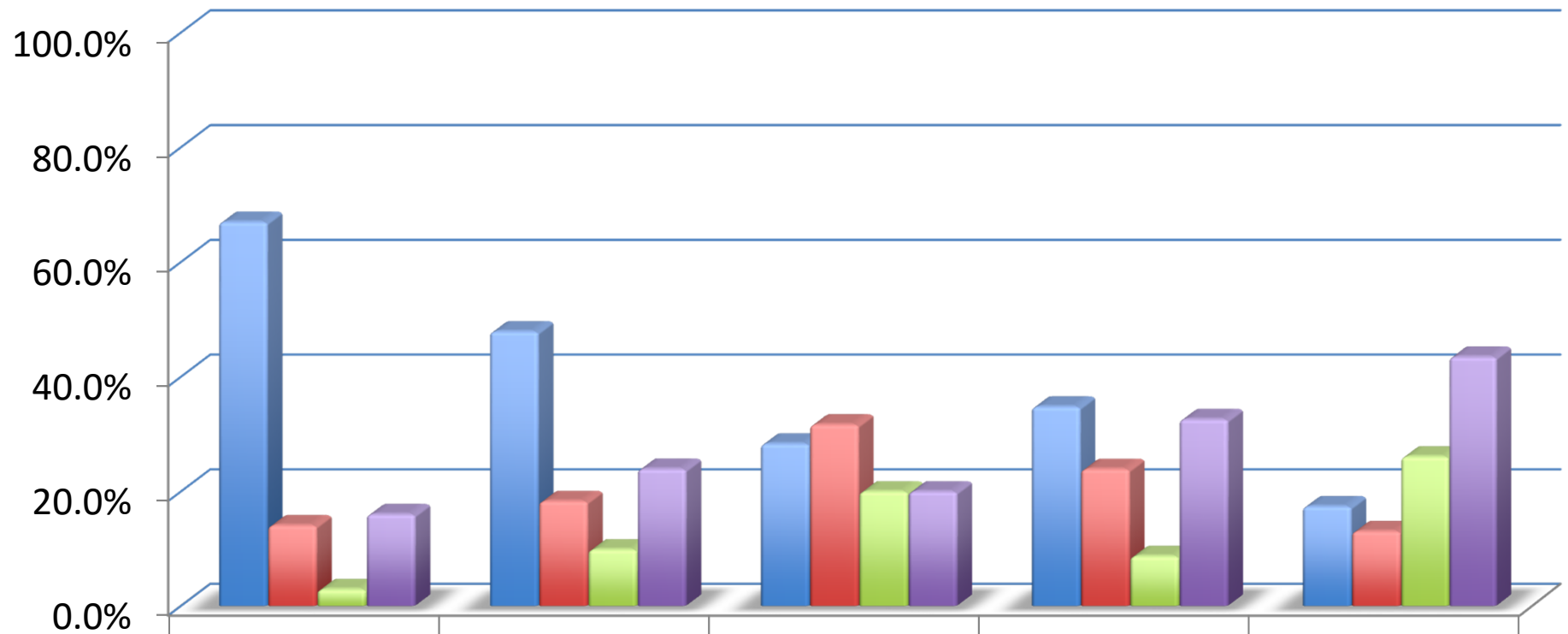
| | < 500K | 500K - 1M | 1M - 2M | 2M - 5M | 5M - 50M |
|----------------------------------|--------|-----------|---------|---------|----------|
| 1st time individual | 42% | 30% | 33% | 22% | 13% |
| individual who owned a business | 40% | 31% | 22% | 17% | 4% |
| existing company/strategic buyer | 12% | 27% | 30% | 35% | 30% |
| PE firm - Platform | 1% | 6% | 5% | 4% | 22% |
| PE firm - Add-on | 1% | 4% | 8% | 2% | 17% |
| Other | 4% | 3% | 2% | 20% | 13% |

#1 Reason for Seller to Go to Market



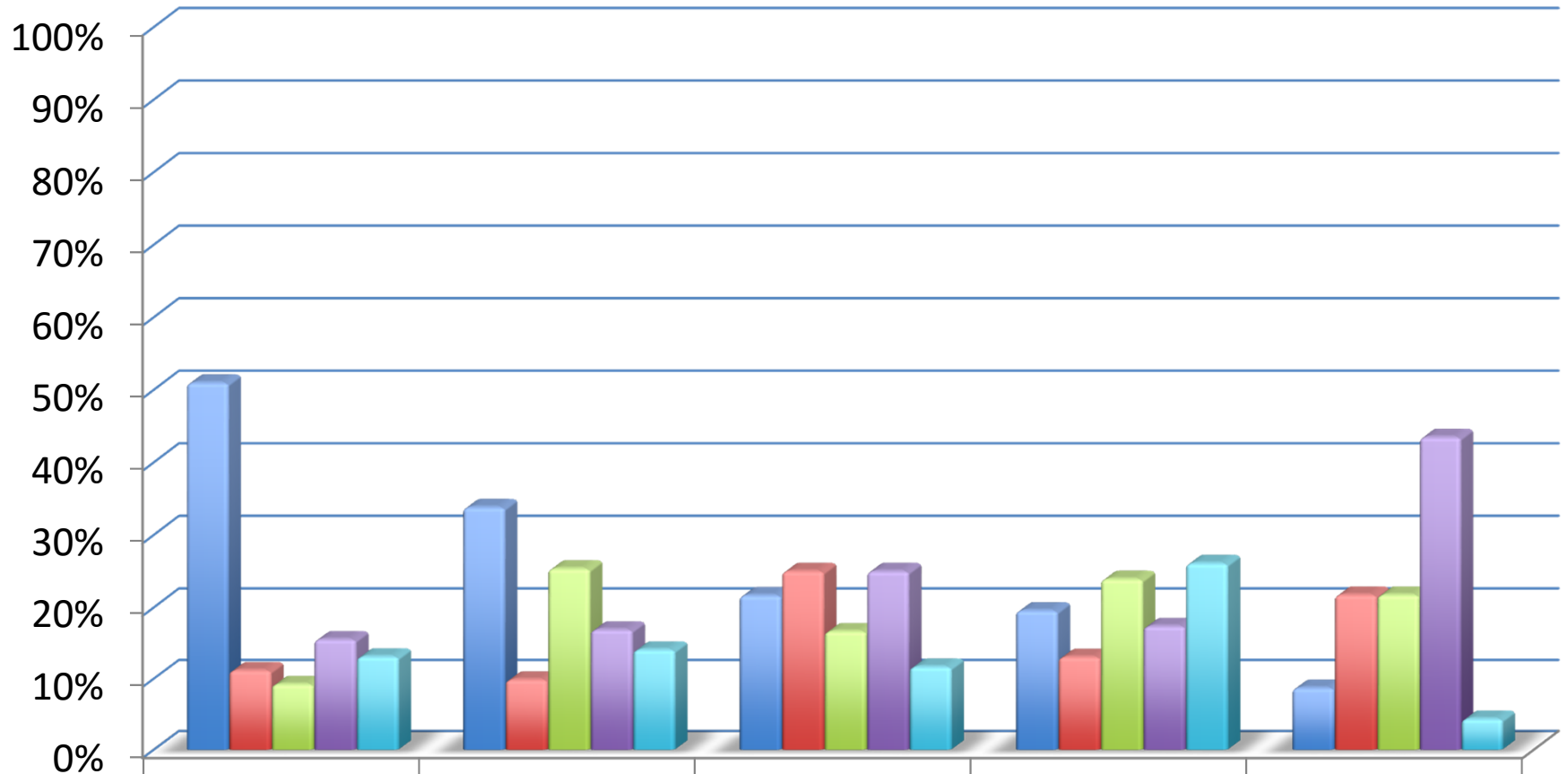
| | < 500K | 500K - 1M | 1M - 2M | 2M - 5M | 5M - 50M |
|---------------------------|--------|-----------|---------|---------|----------|
| Recapitalization | 2% | 1% | 3% | 7% | 9% |
| Burnt out | 17% | 20% | 12% | 7% | 17% |
| Family issues | 9% | 8% | 5% | 9% | 9% |
| Health | 8% | 6% | 5% | 4% | 4% |
| New opportunity | 18% | 14% | 2% | 13% | 0% |
| Potential taxes increases | 0% | 0% | 3% | 2% | 0% |
| Relocation/moving | 9% | 4% | 7% | 0% | 9% |
| Retirement | 27% | 39% | 57% | 54% | 48% |
| Unsolicited offer | 2% | 3% | 2% | 4% | 4% |
| Other | 6% | 4% | 5% | 0% | 0% |

Buyer Location



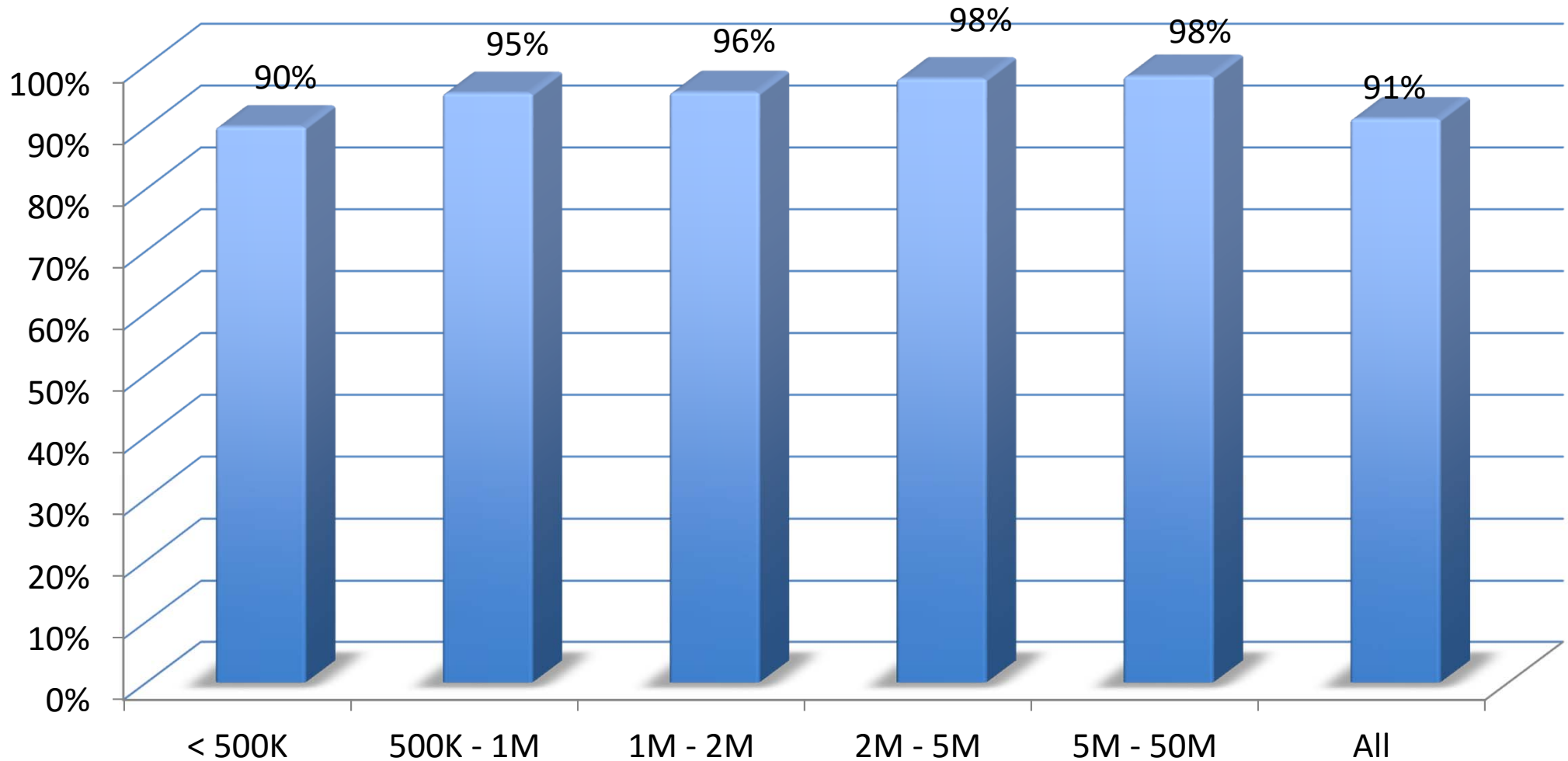
| | < 500K | 500K - 1M | 1M - 2M | 2M - 5M | 5M - 50M |
|---------------------|--------|-----------|---------|---------|----------|
| within 20 miles | 67.0% | 47.9% | 28.3% | 34.8% | 17.4% |
| within 50 miles | 14.1% | 18.3% | 31.7% | 23.9% | 13.0% |
| within 100 miles | 2.9% | 9.9% | 20.0% | 8.7% | 26.1% |
| more than 100 miles | 16.0% | 23.9% | 20.0% | 32.6% | 43.5% |

#1 Motivation for Buyer

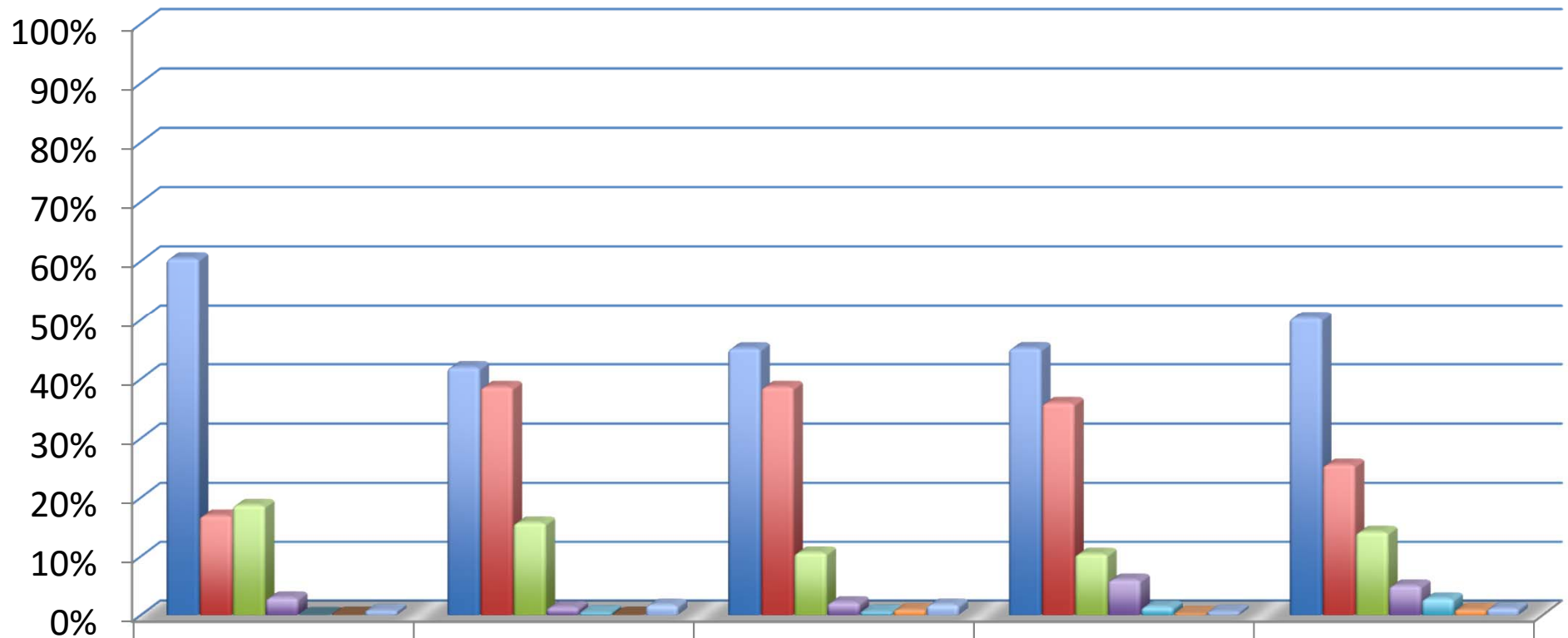


| | < 500K | 500K - 1M | 1M - 2M | 2M - 5M | 5M - 50M |
|----------------------------------|--------|-----------|---------|---------|----------|
| Buying a job | 51% | 34% | 22% | 20% | 9% |
| Better ROI than other investment | 11% | 10% | 25% | 13% | 22% |
| Vertical add-on | 9% | 25% | 17% | 24% | 22% |
| Horizontal add-on | 16% | 17% | 25% | 17% | 43% |
| Other | 13% | 14% | 12% | 26% | 4% |

Median Percentage of Final/Selling Price Realized to Asking/Benchmark Price



Financing Structure

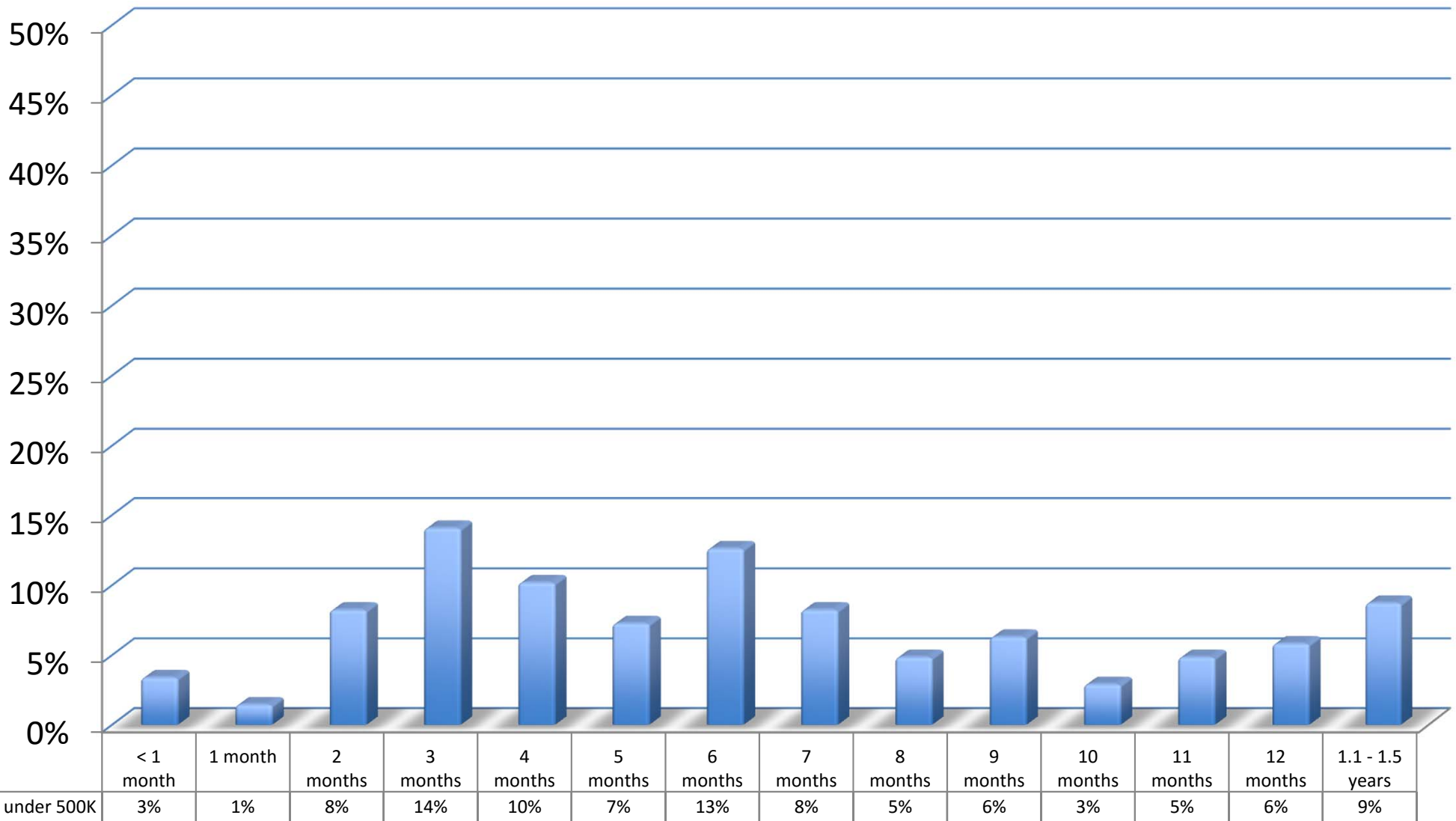


| | < 500K | 500K - 1M | 1M - 2M | 2M - 5M | 5M - 50M |
|------------------------|--------|-----------|---------|---------|----------|
| Buyers equity | 60% | 42% | 45% | 45% | 50% |
| Senior debt | 17% | 39% | 39% | 36% | 26% |
| Seller financing | 19% | 16% | 11% | 10% | 14% |
| Earn out | 3% | 1% | 2% | 6% | 5% |
| Seller retained equity | 0% | 0% | 1% | 1% | 3% |
| Mezzanine financing | 0% | 0% | 1% | 0% | 1% |
| Other | 1% | 2% | 2% | 1% | 1% |

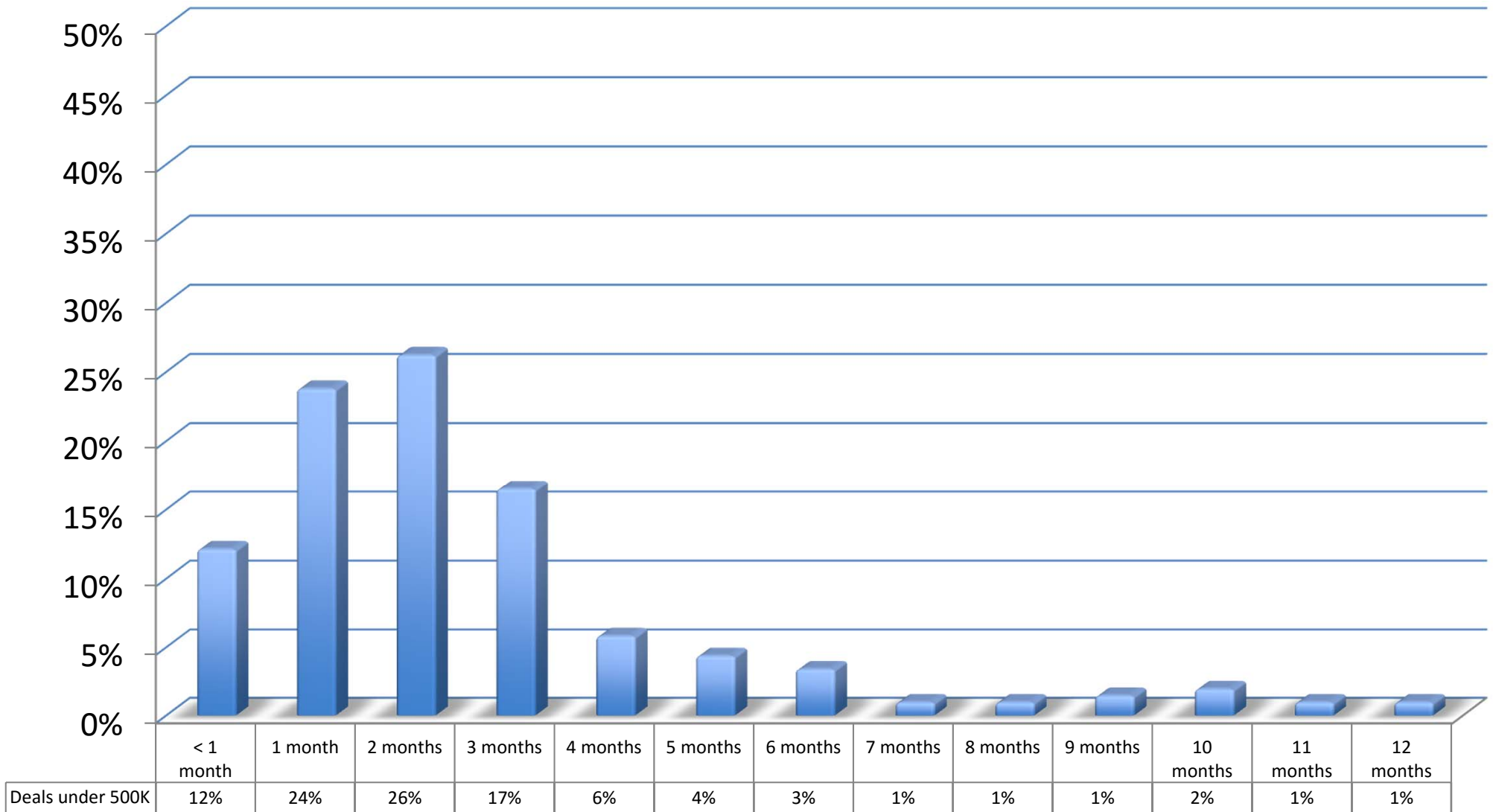
Business Transactions Valued under \$499,999

Number of Closed Transactions: 206

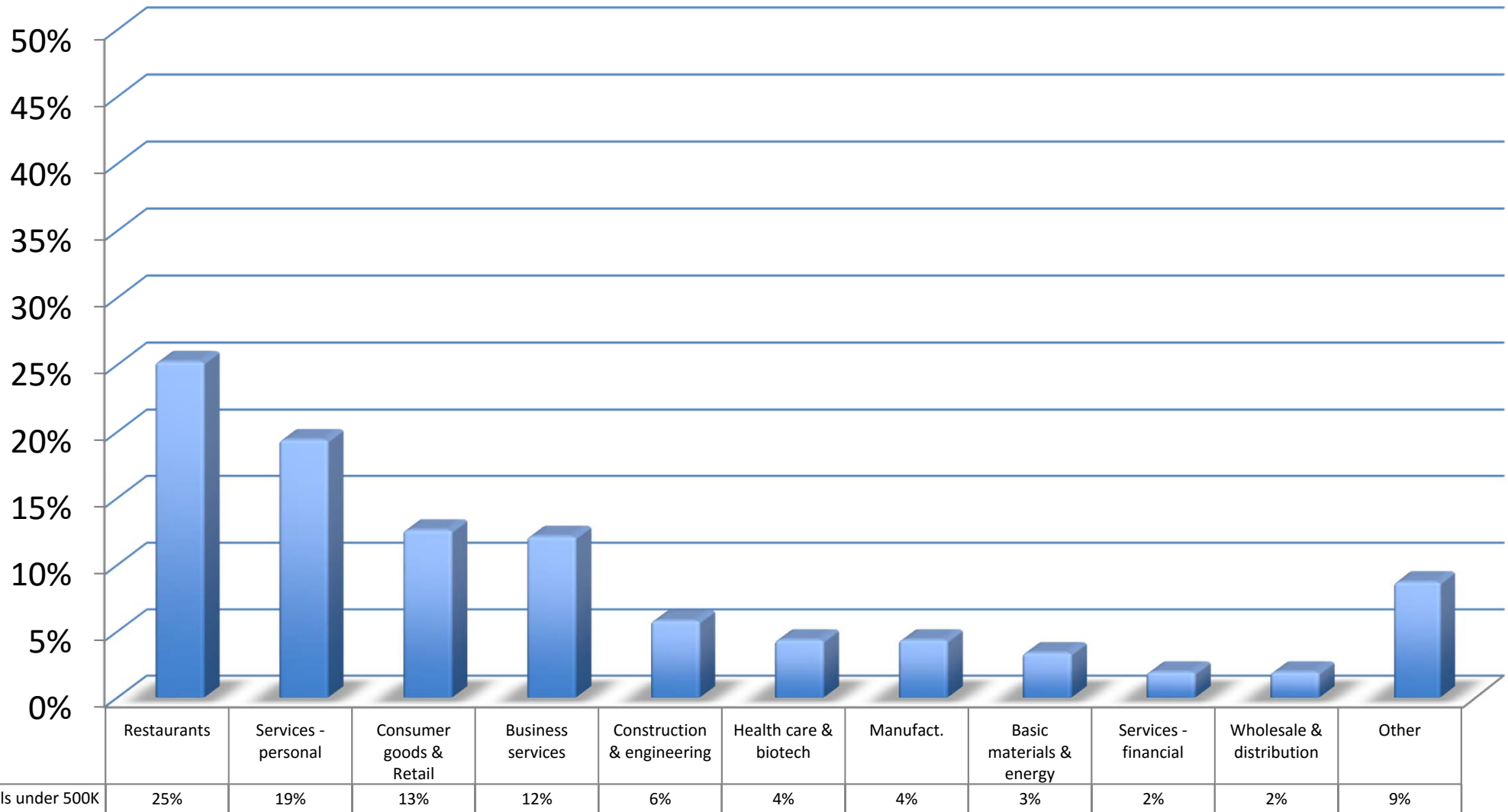
Engagement/Listing to Close



LOI/ Offer to Close

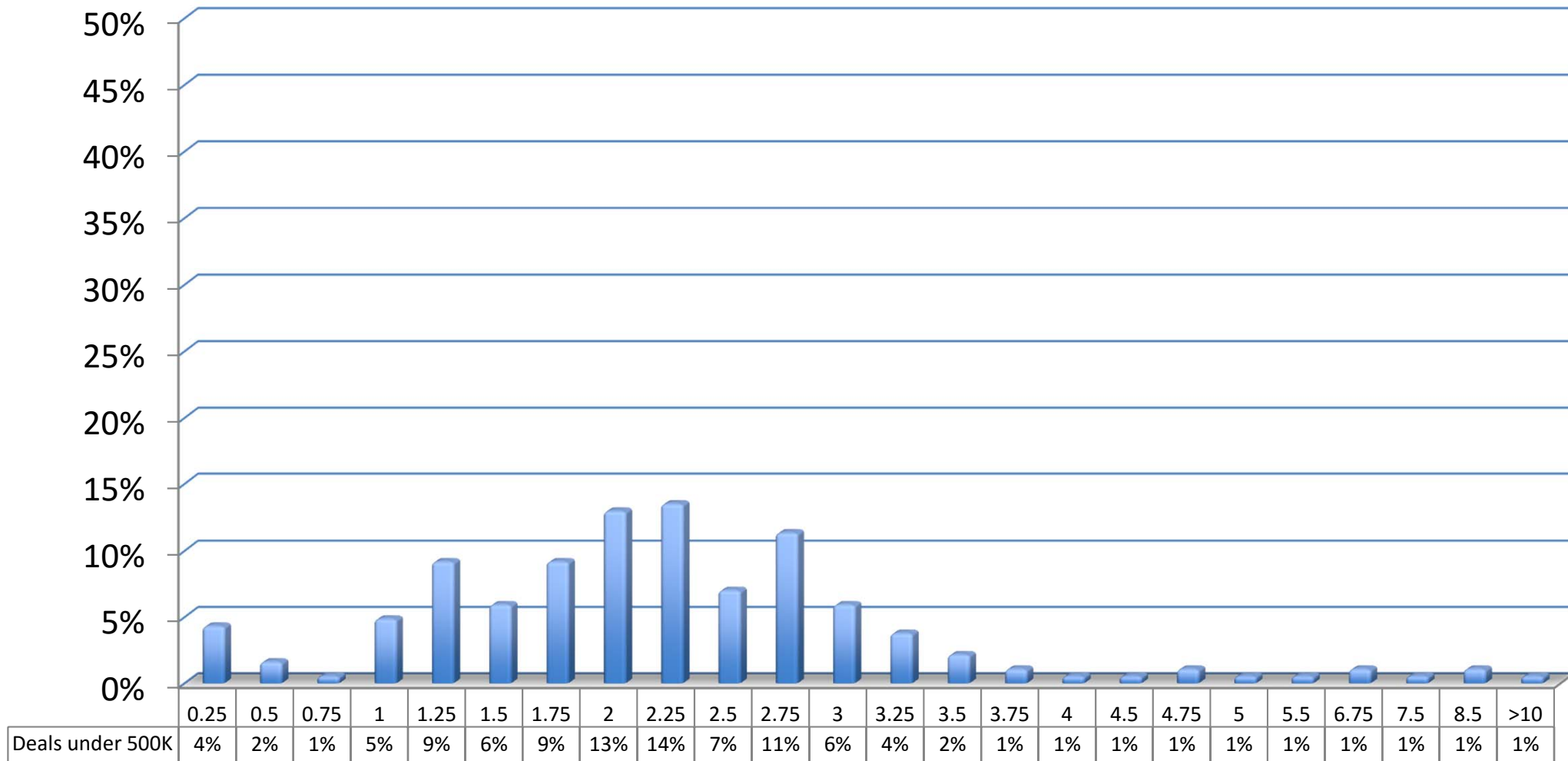


Industry



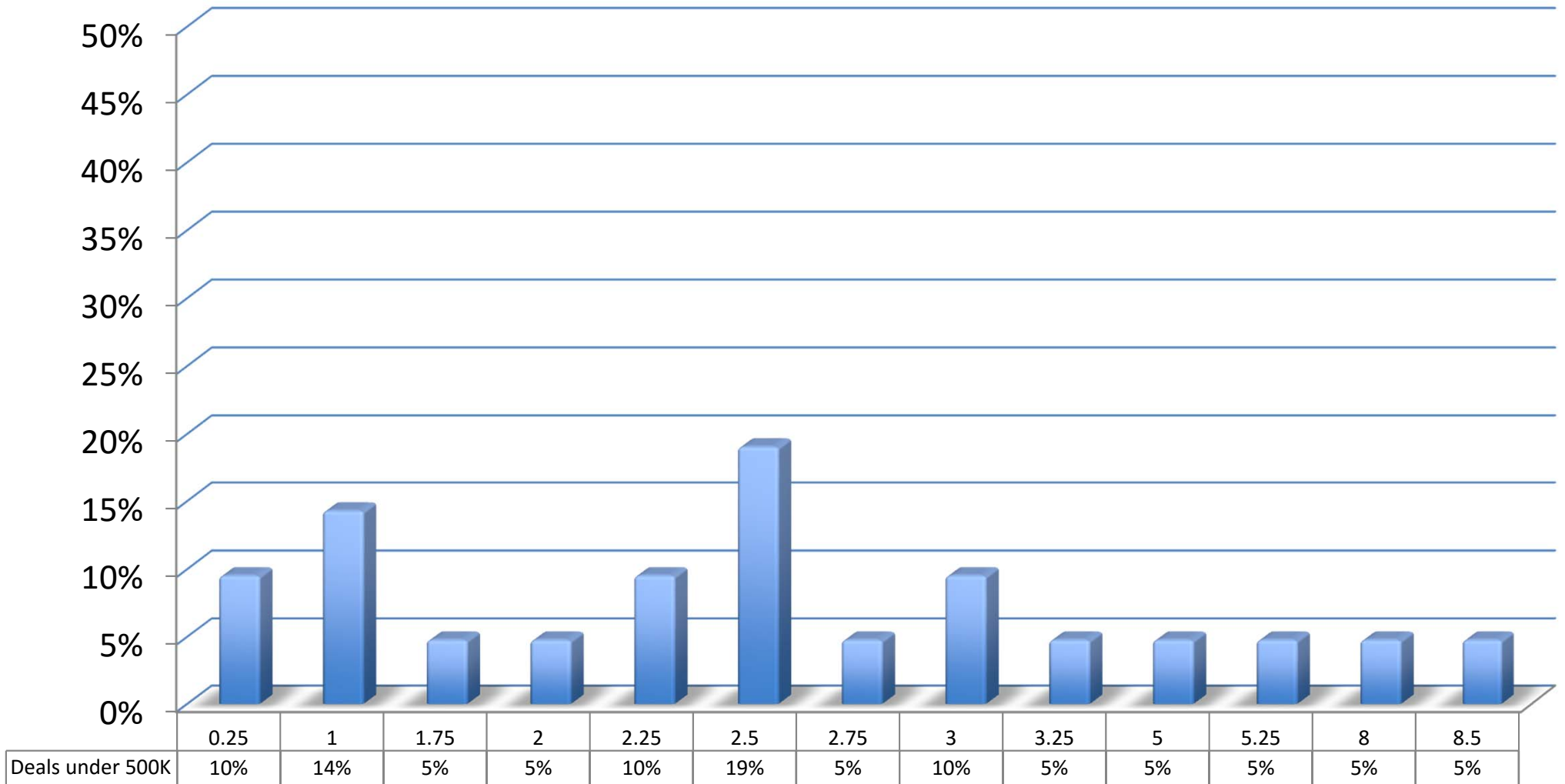
Deals under 500K

SDE Multiple Paid



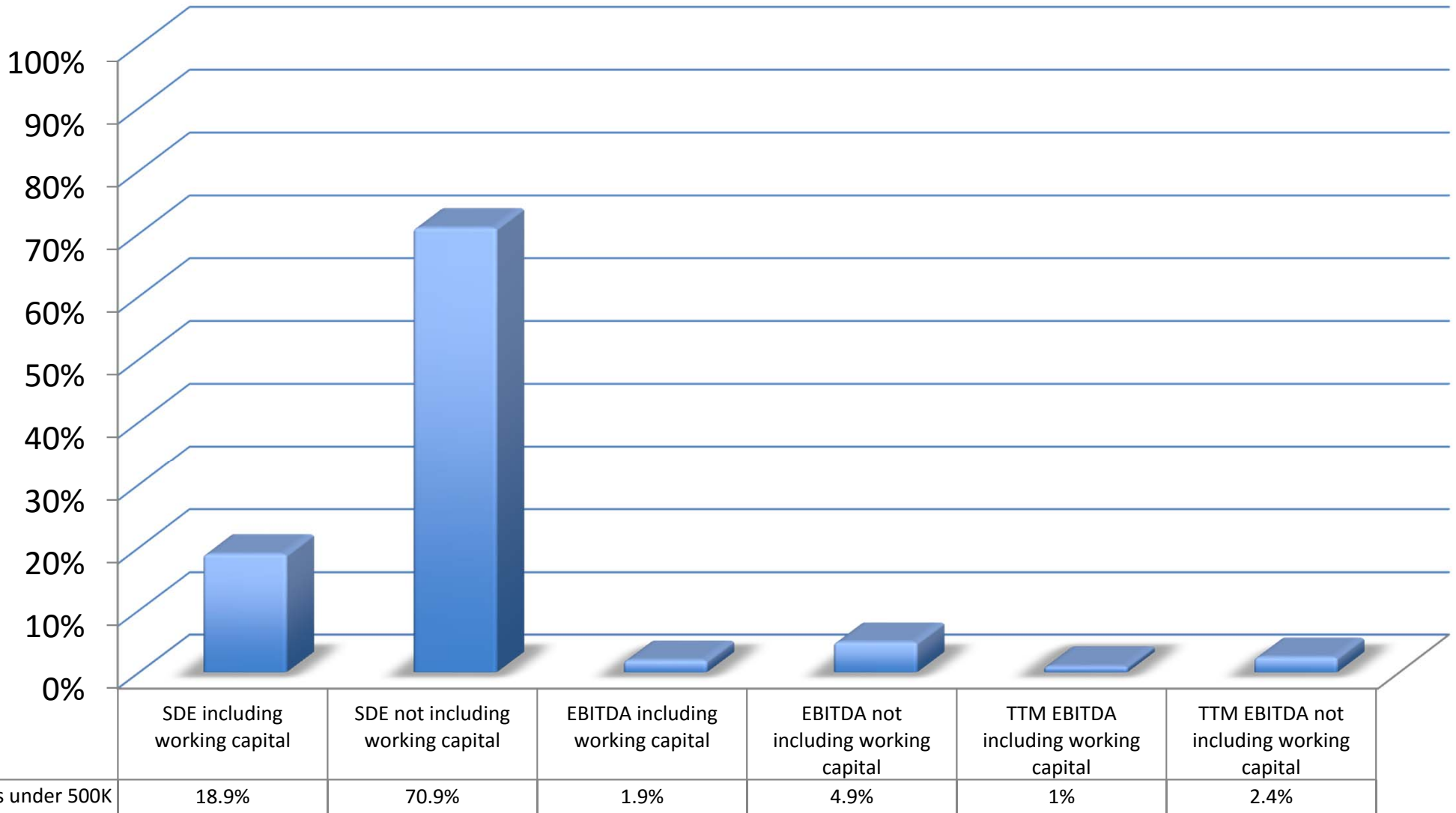
Number of responses: 185

EBITDA Multiple Paid

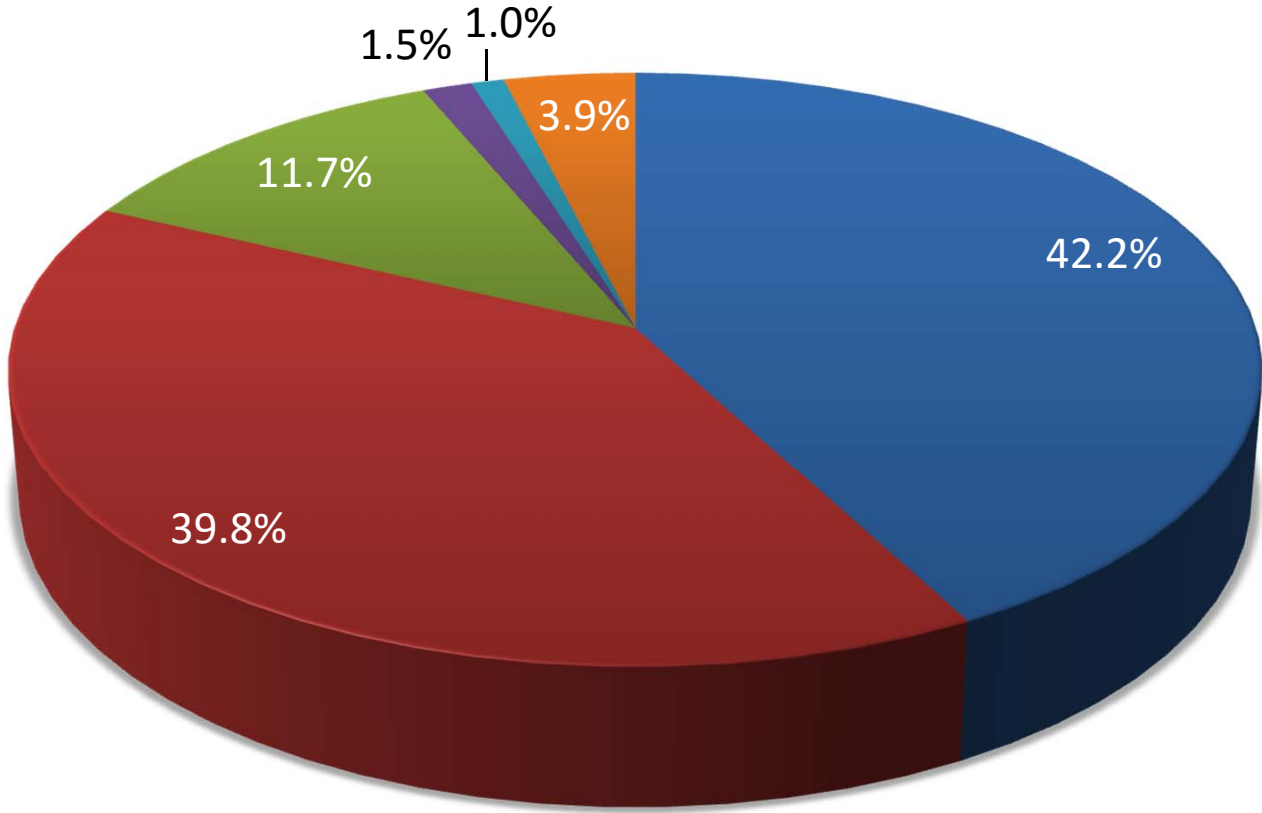


Number of responses: 21

Multiple Type

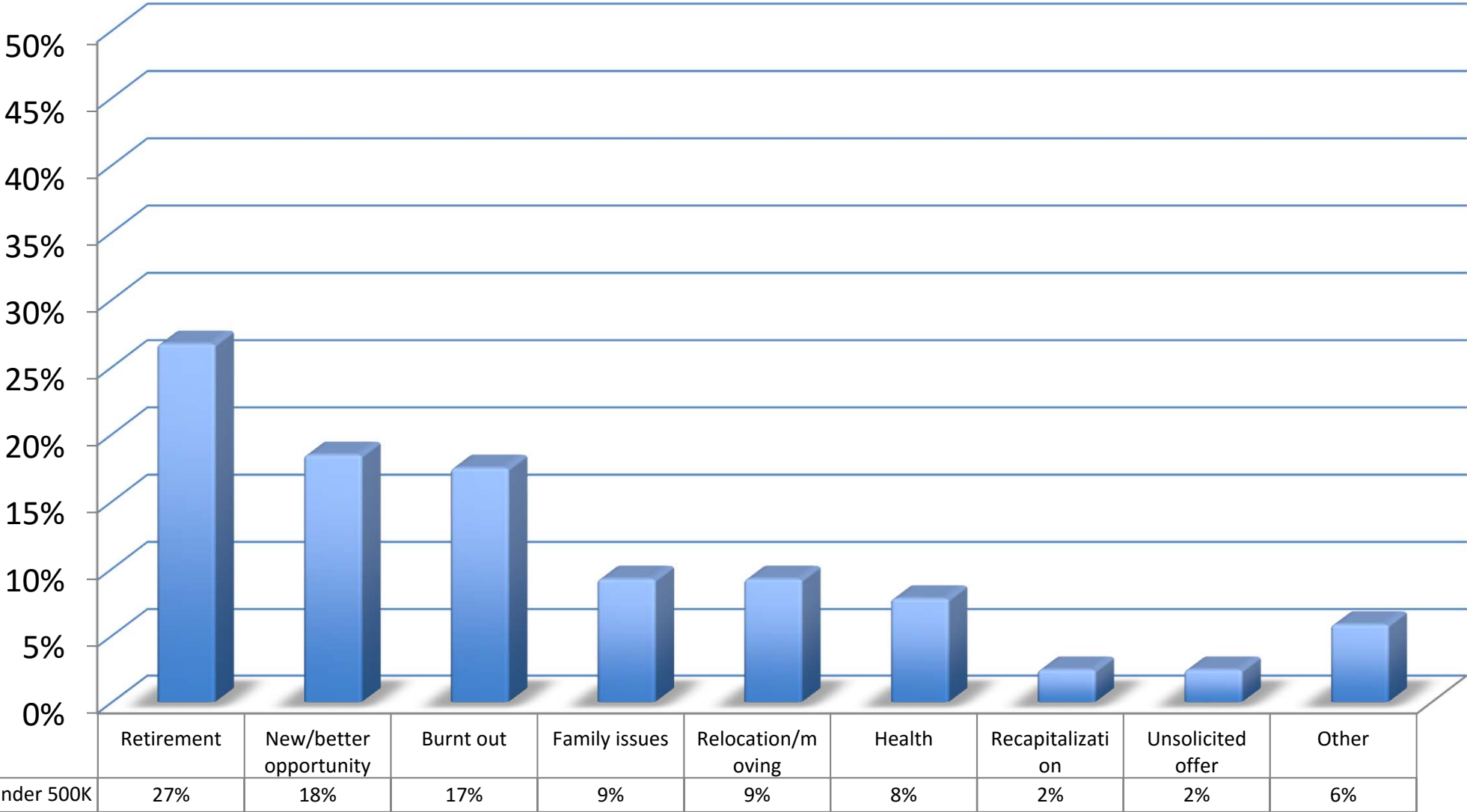


Buyer Type



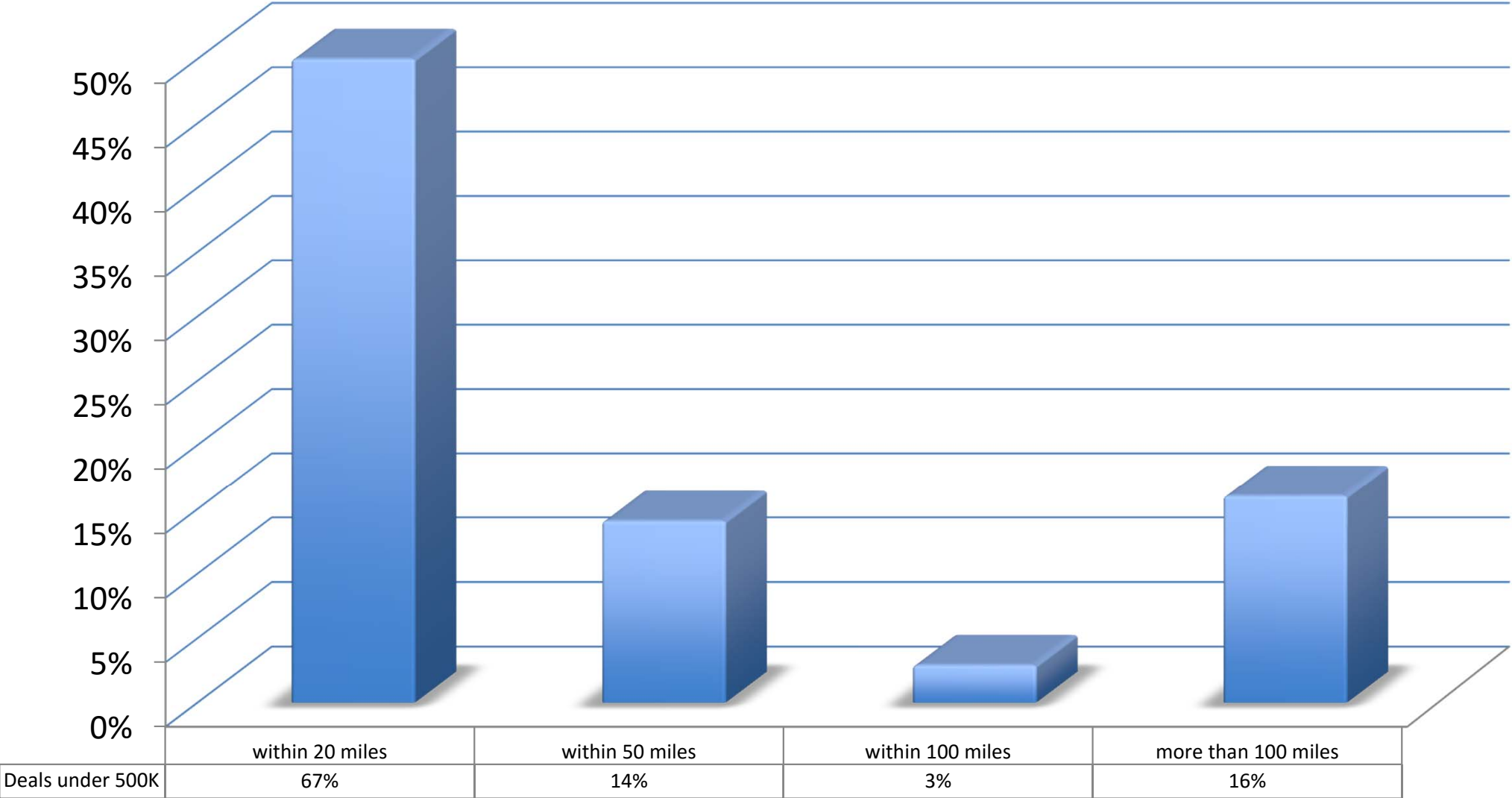
- 1st time individual
- individual who owned a business
- existing company/strategic buyer
- PE firm - Platform
- PE firm - Add-on
- Other

#1 Reason for Seller to Go to Market

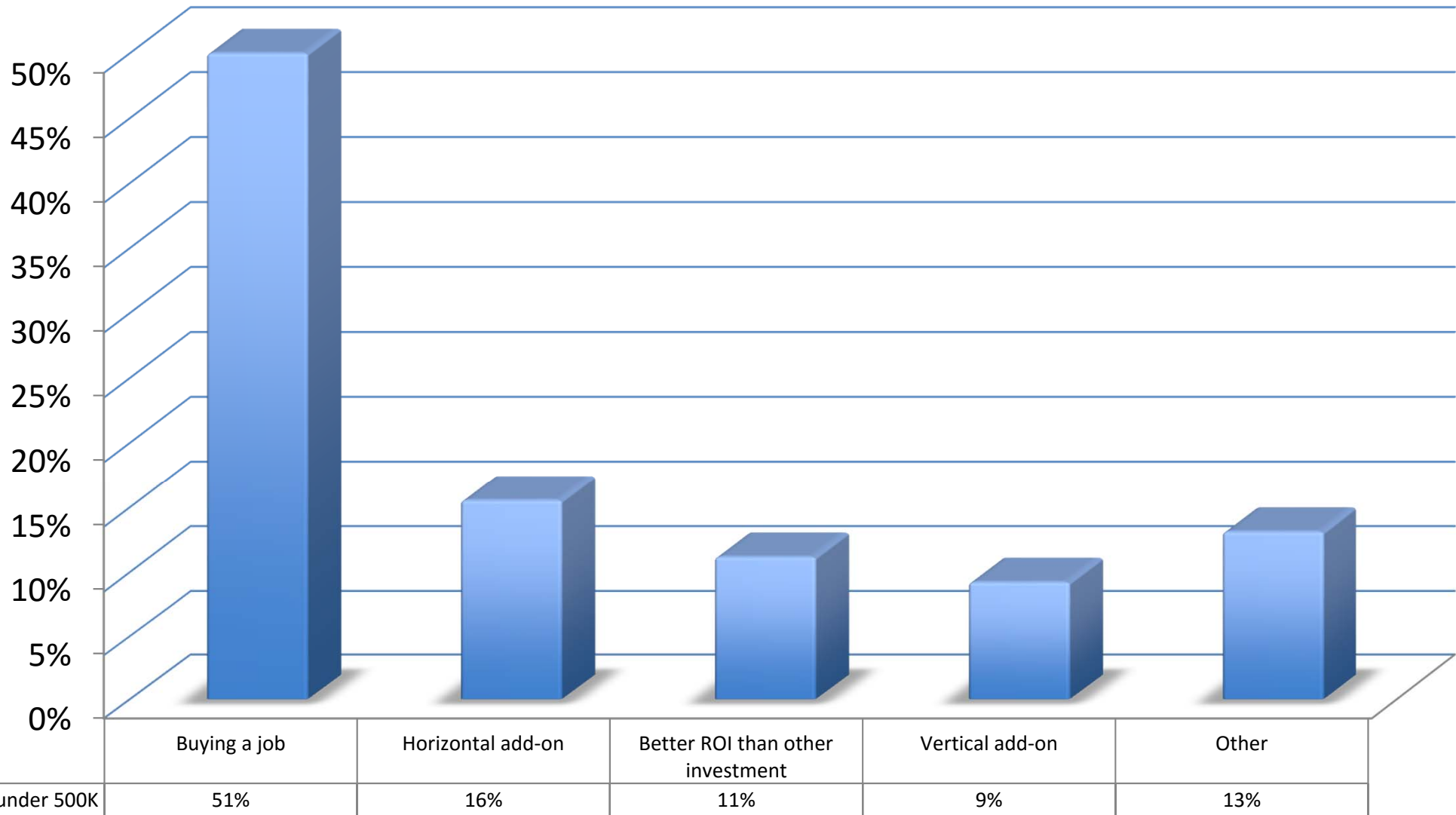


Deals under 500K

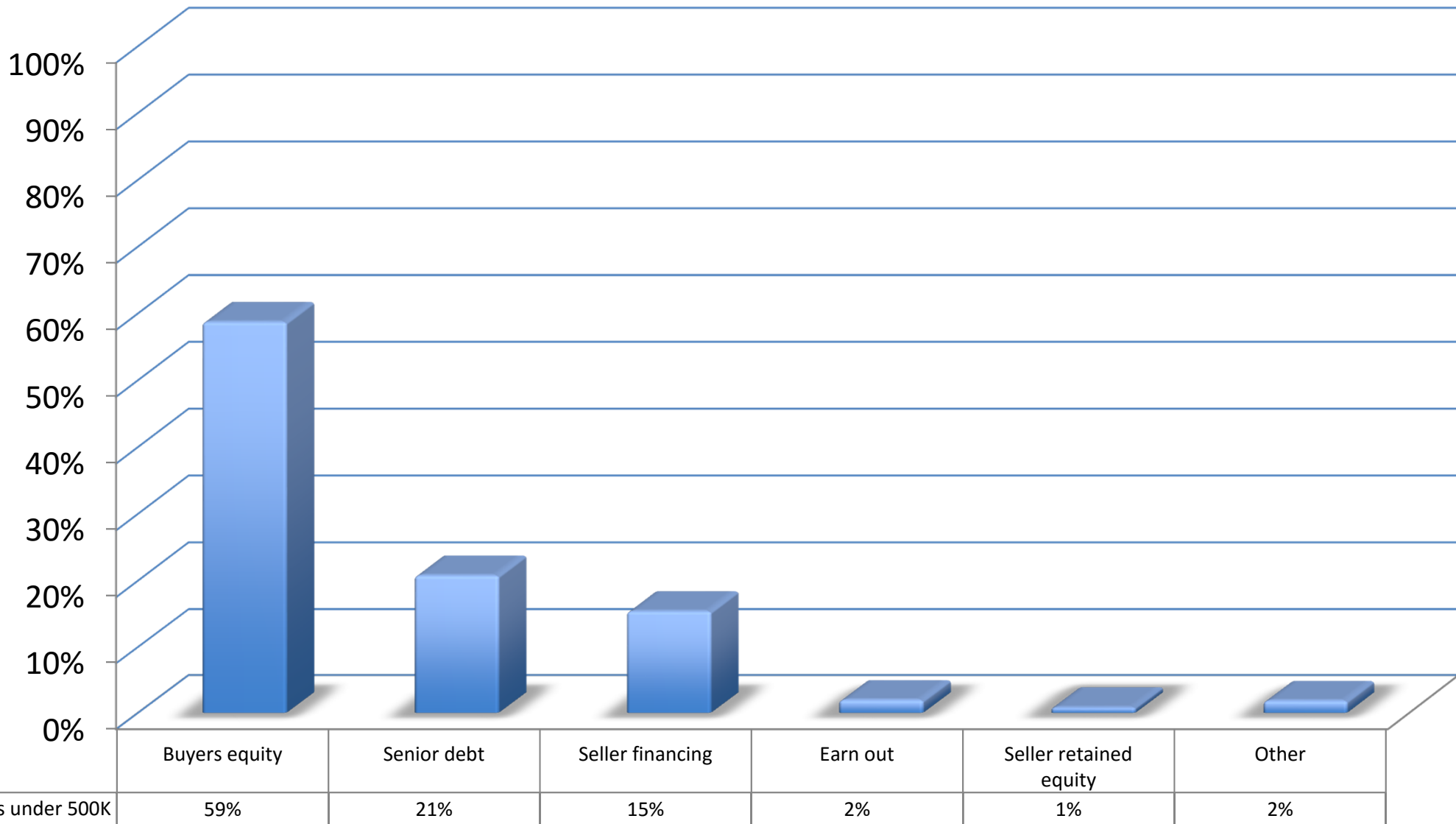
Buyer Location



#1 Motivation for Buyer

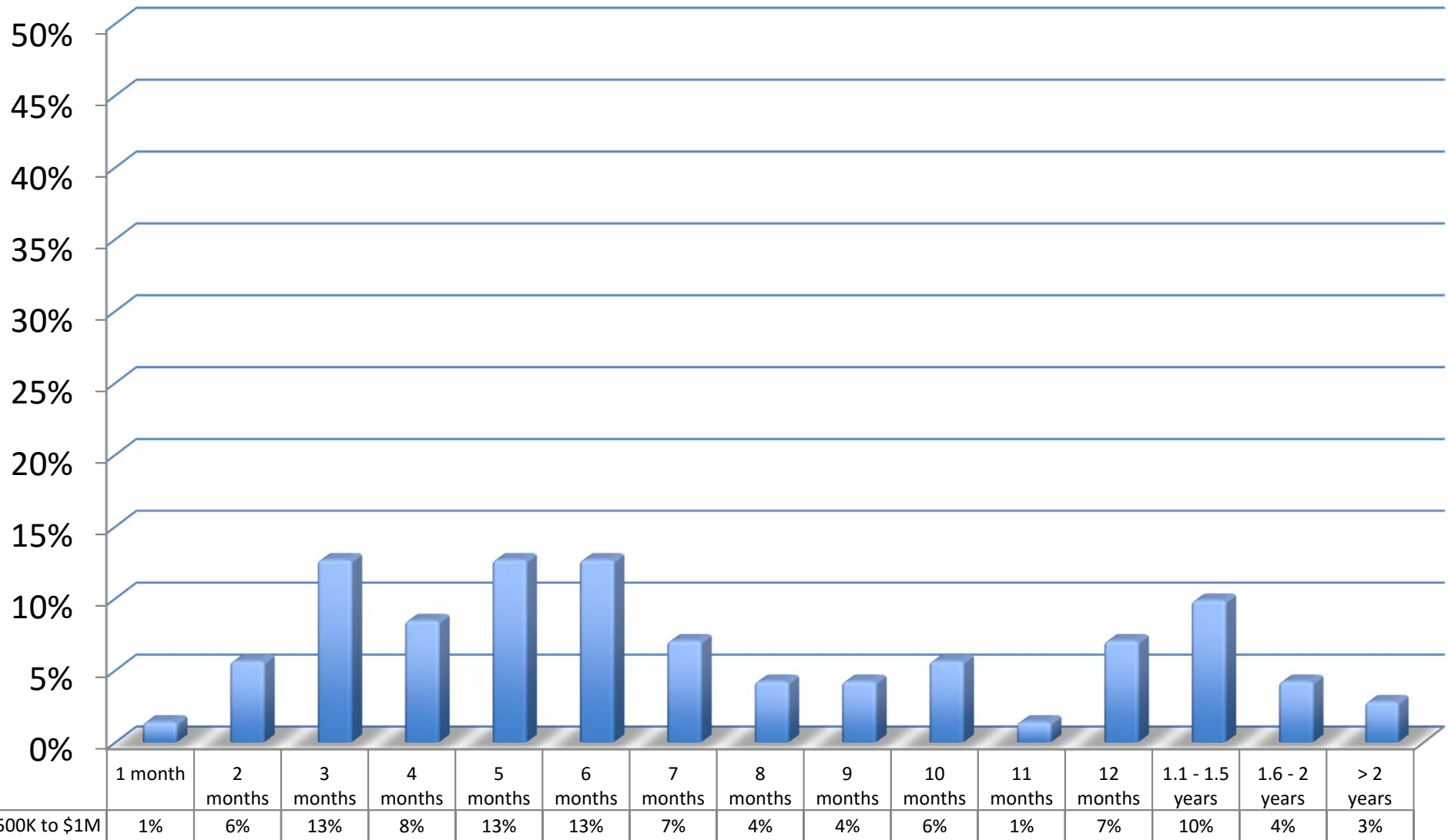


Financing Structure

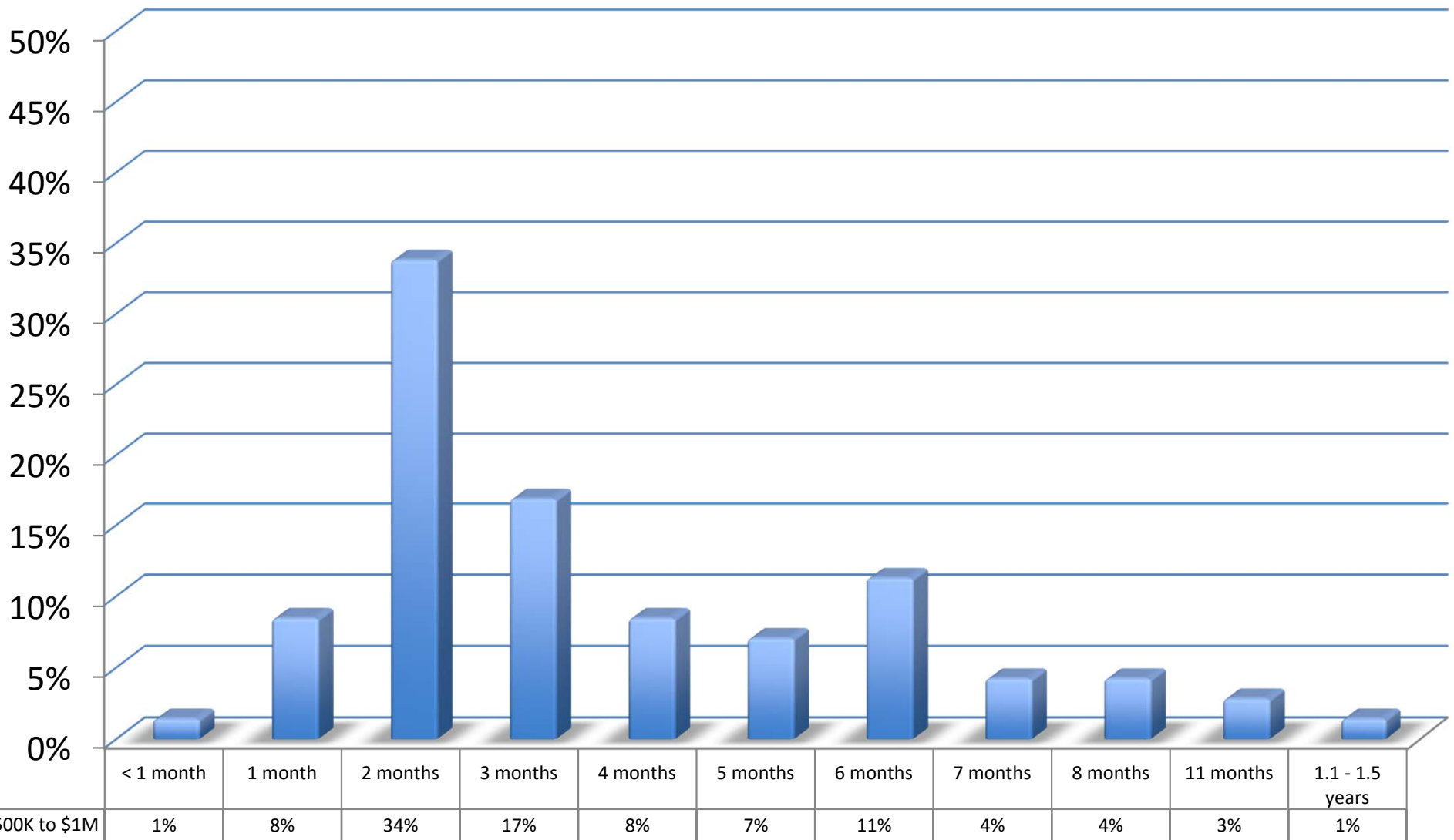


Business Transactions Valued
from \$500,000 to \$999,999
Number of Closed Transactions: 71

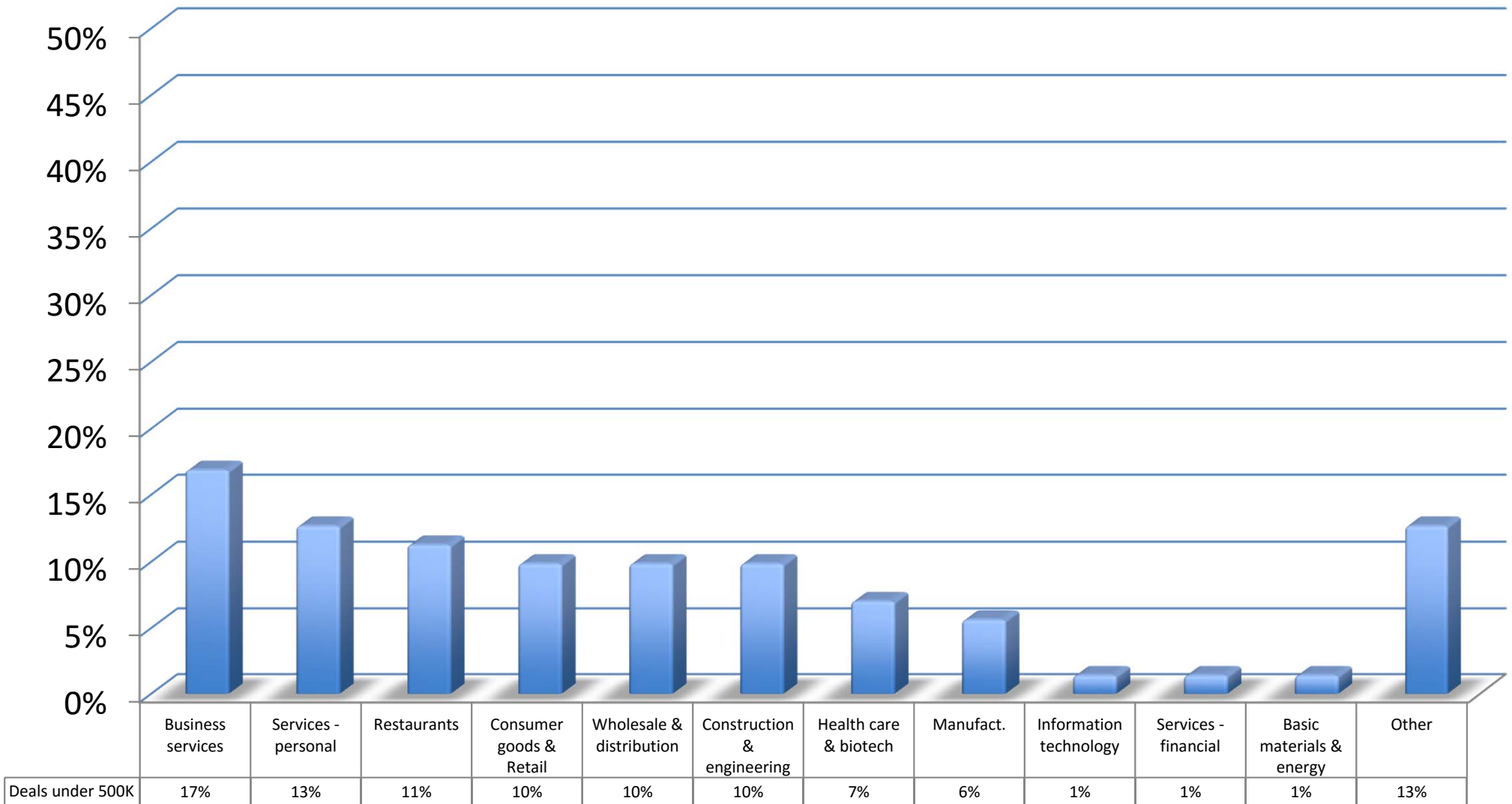
Engagement/Listing to Close



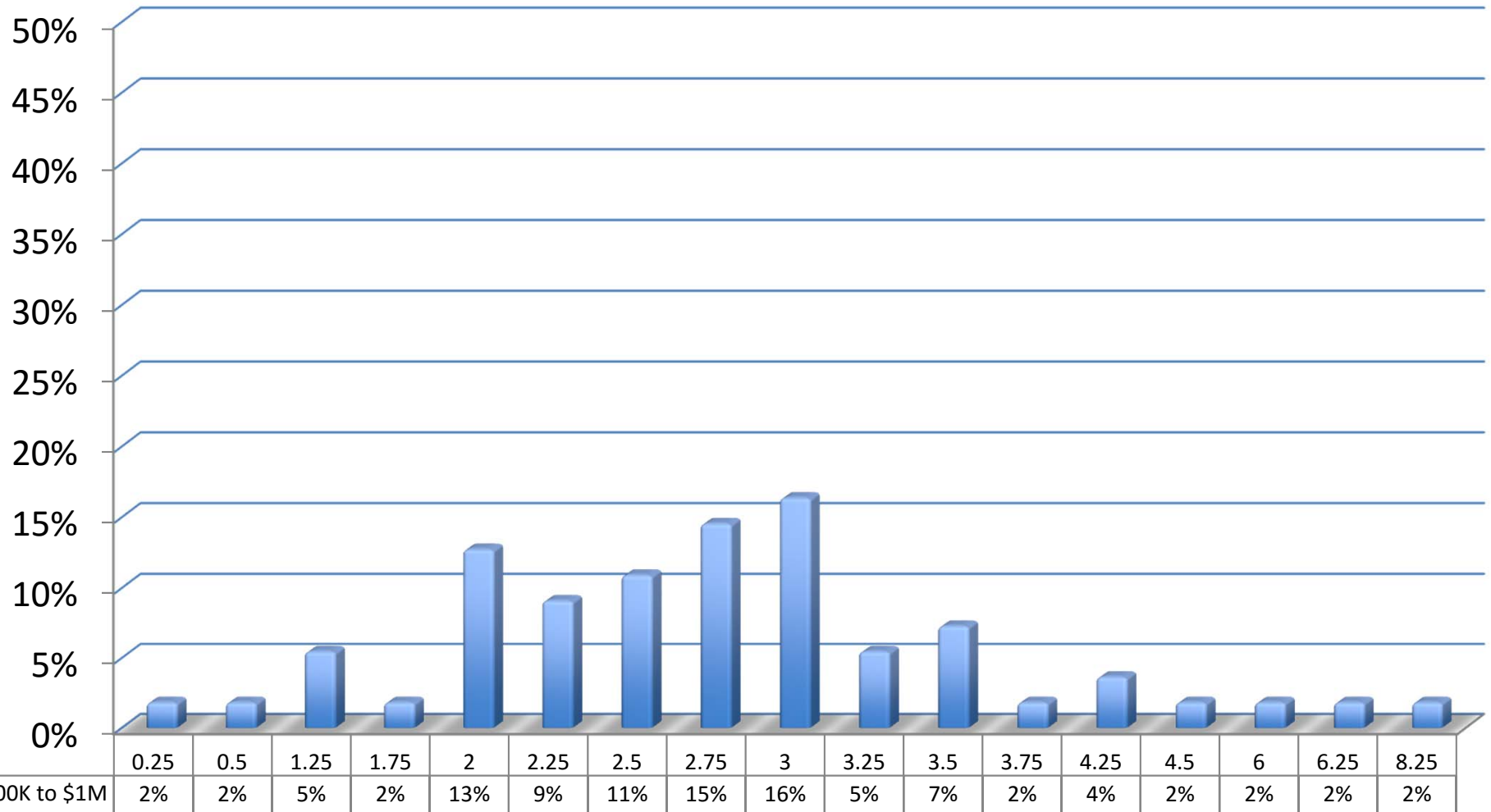
LOI/ Offer to Close



Industry

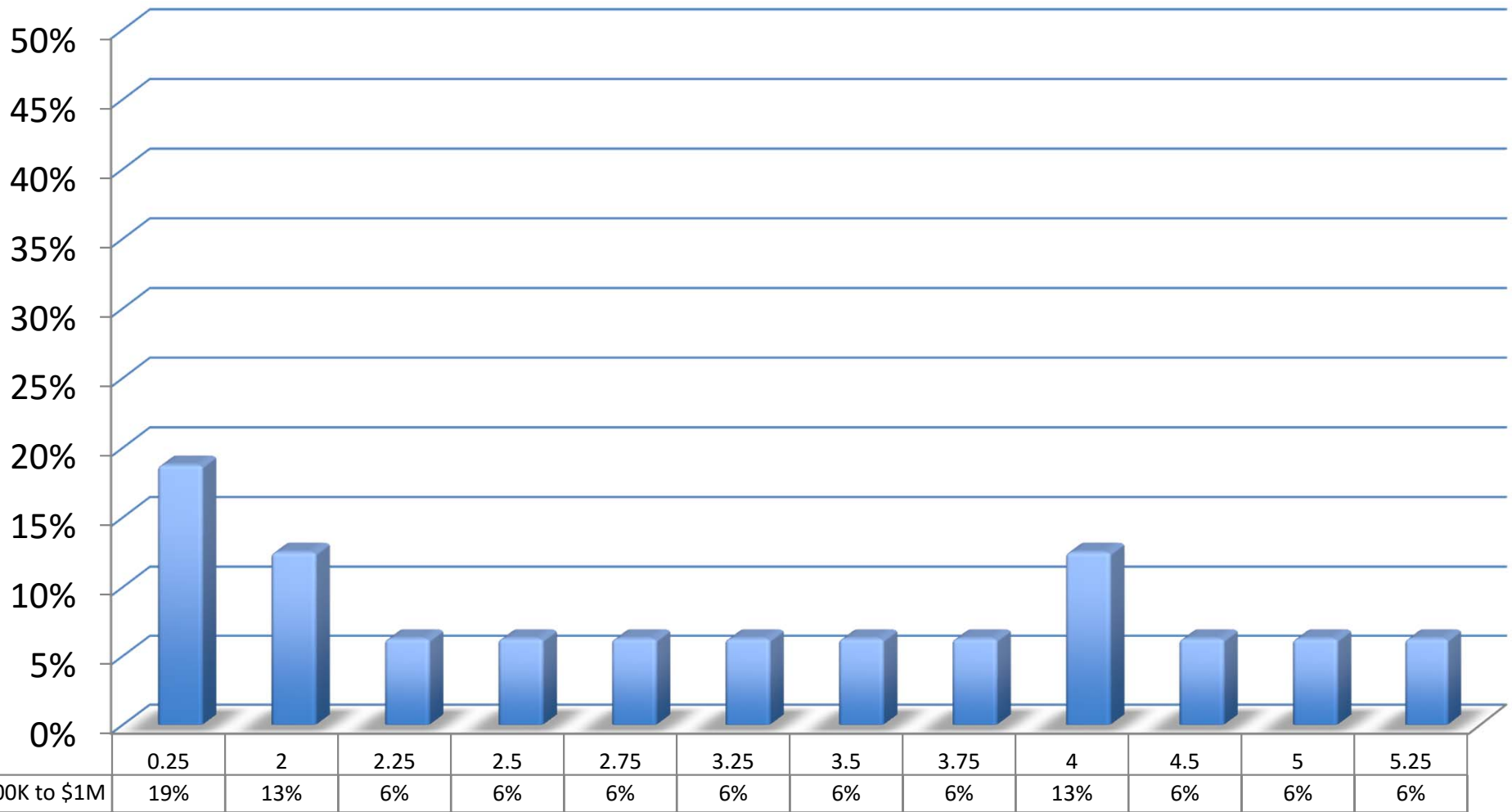


SDE Multiple Paid



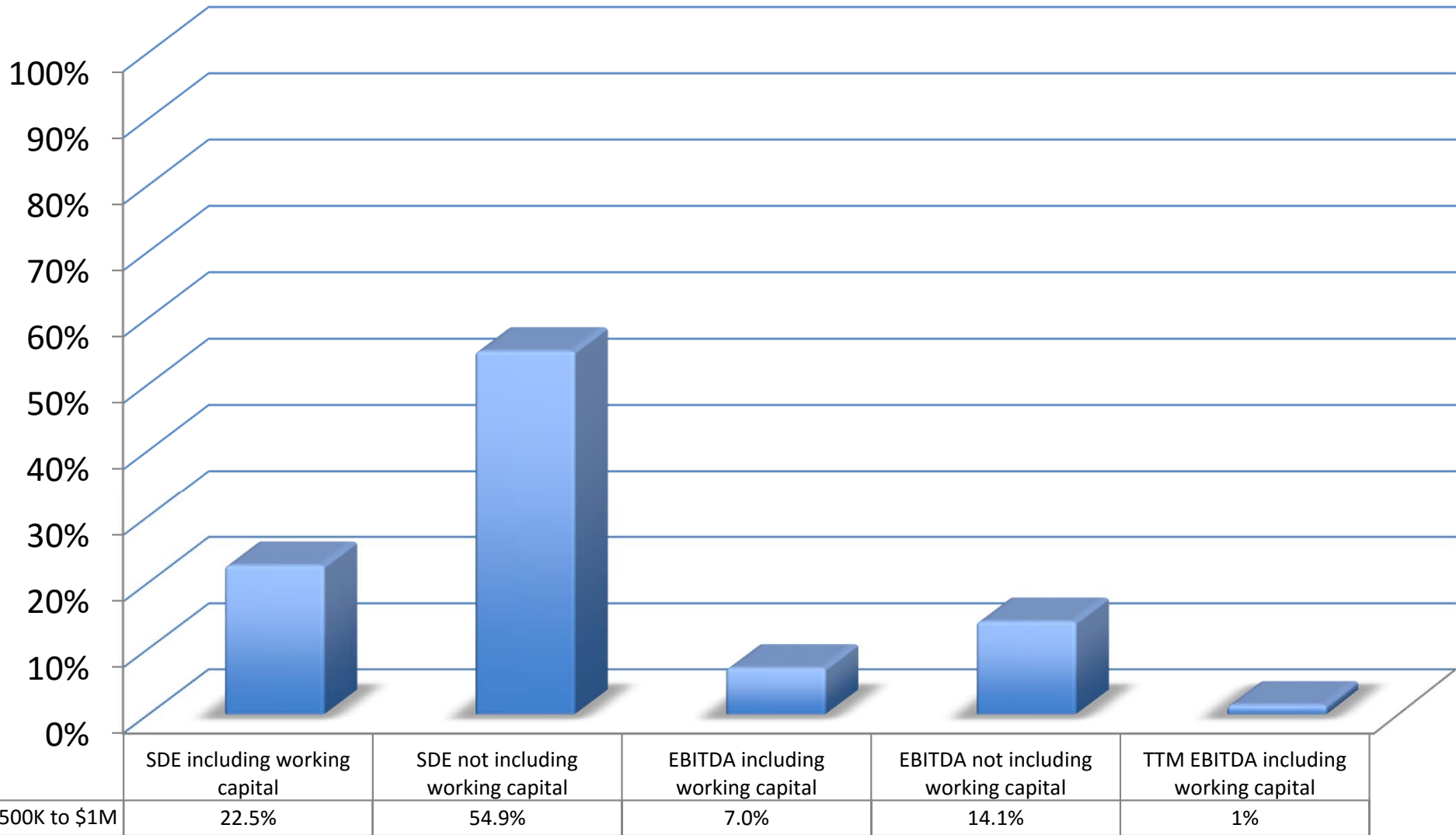
Number of responses: 55

EBITDA Multiple Paid

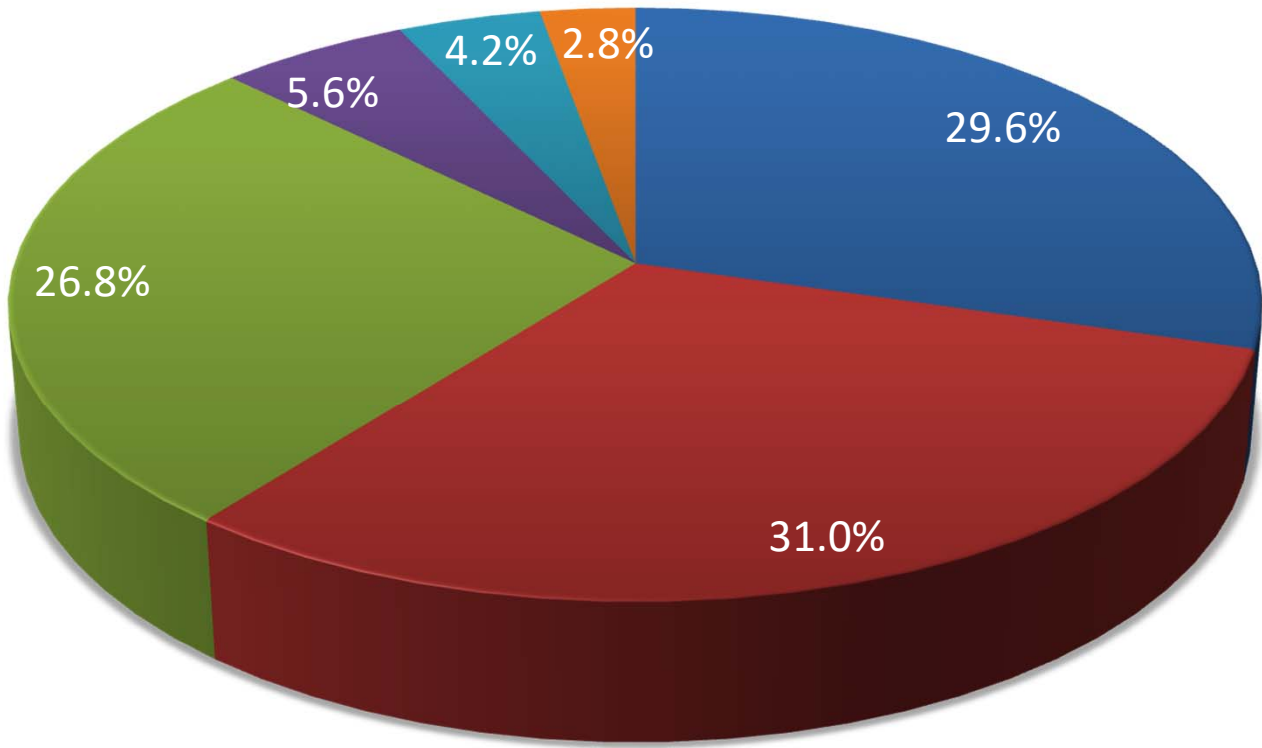


Number of responses: 16

Multiple Type

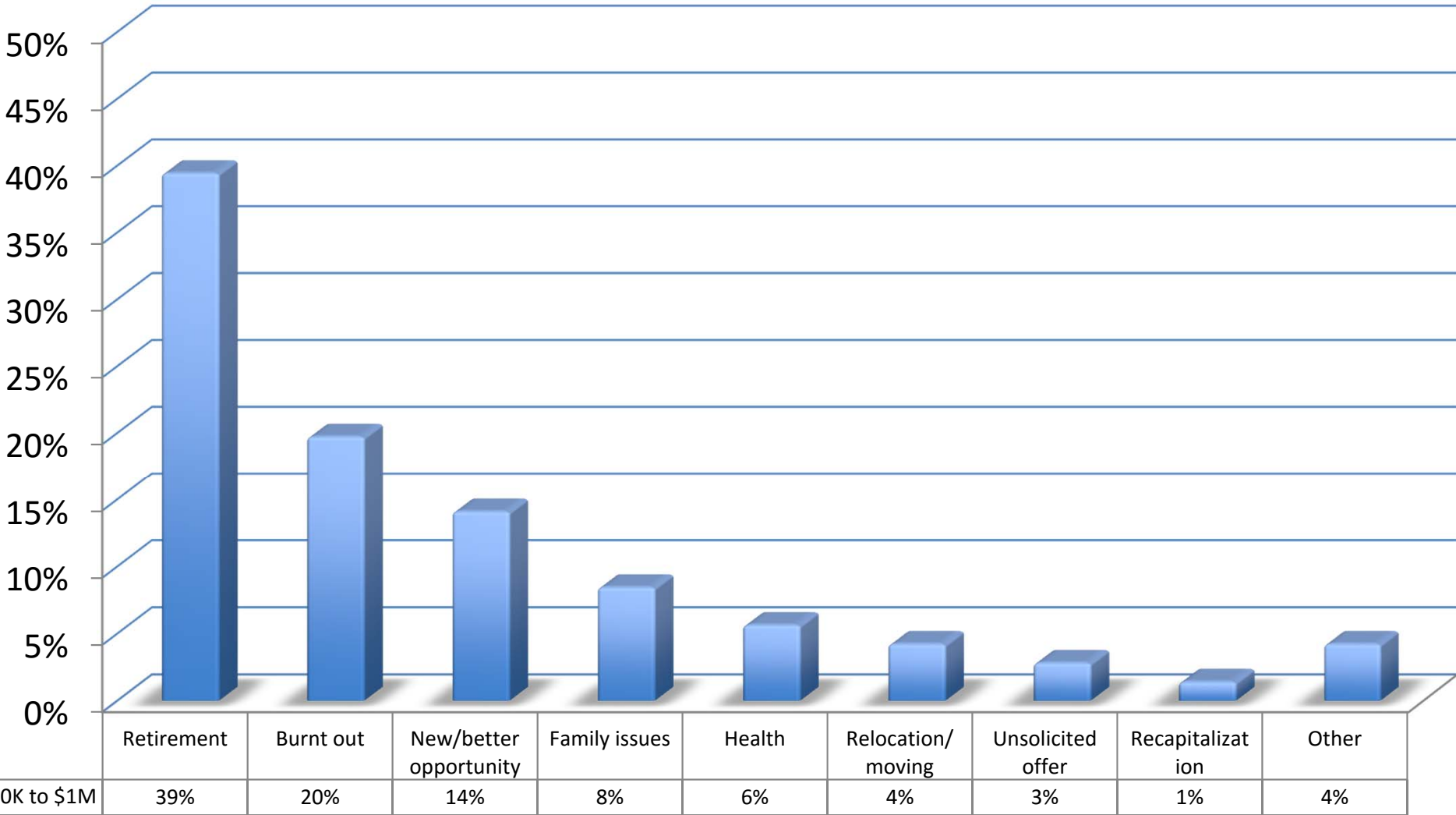


Buyer Type

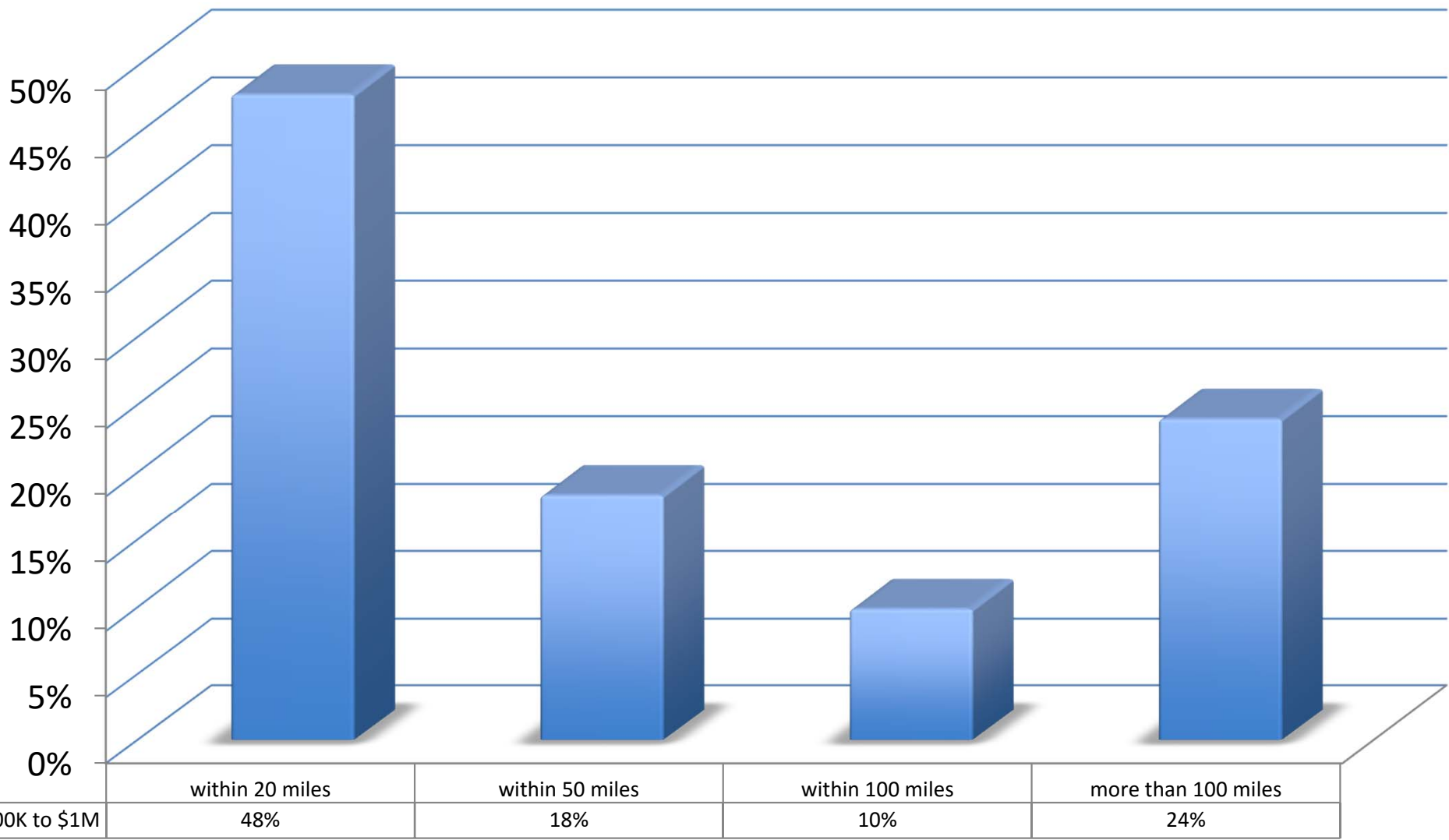


- 1st time individual
- individual who owned a business
- existing company/strategic buyer
- PE firm - Platform
- PE firm - Add-on
- Other

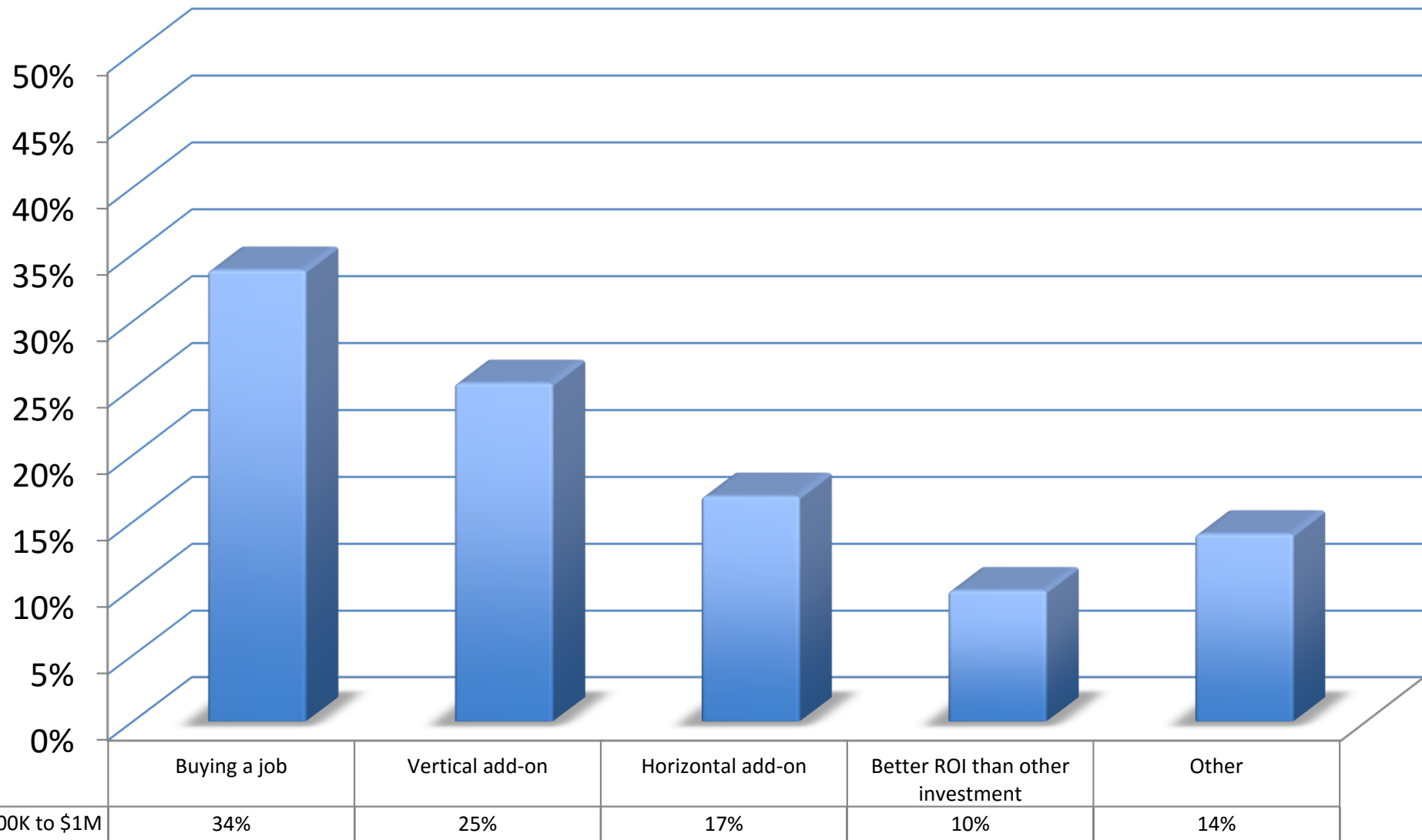
#1 Reason for Seller to Go to Market



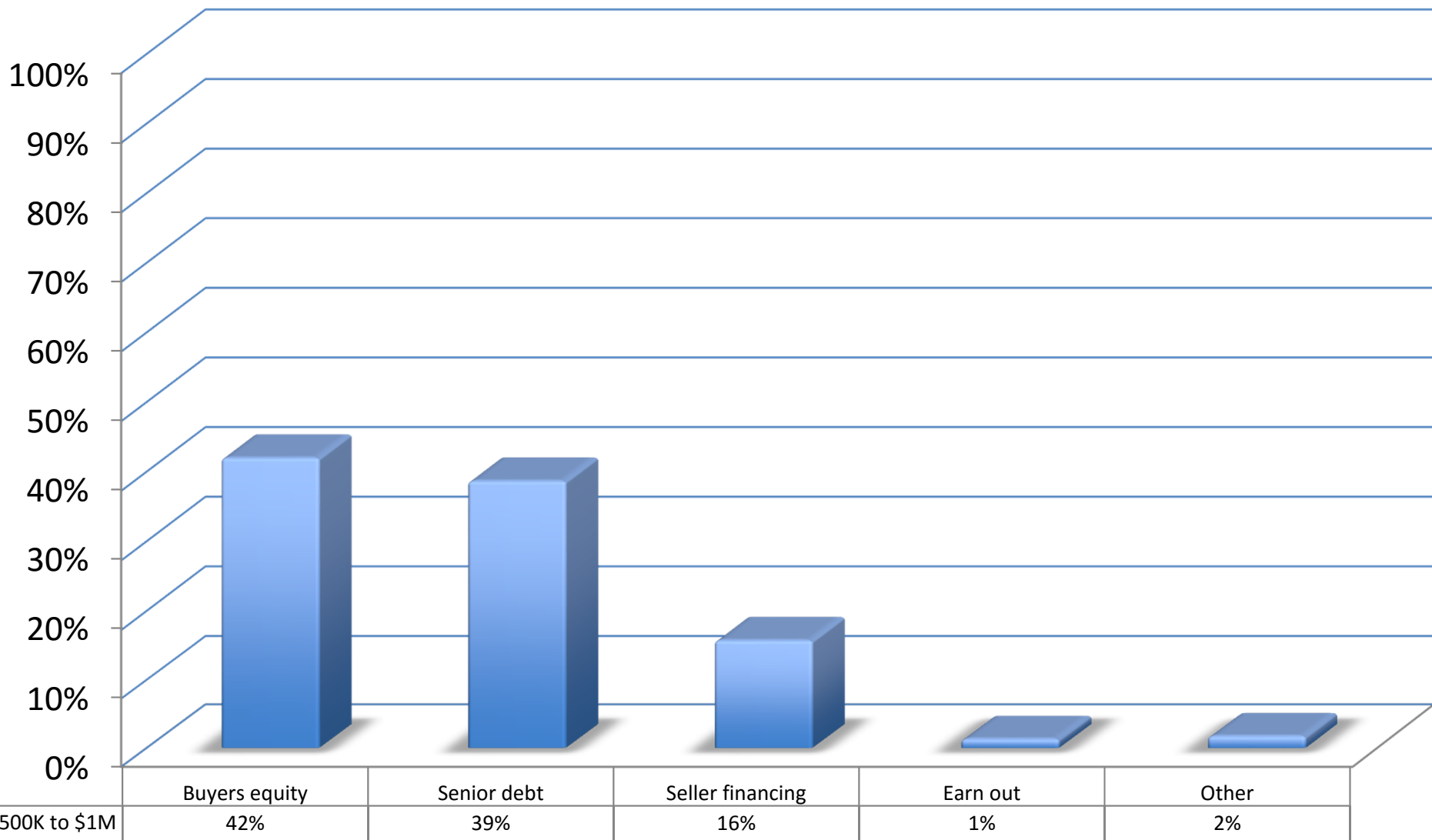
Buyer Location



#1 Motivation for Buyer

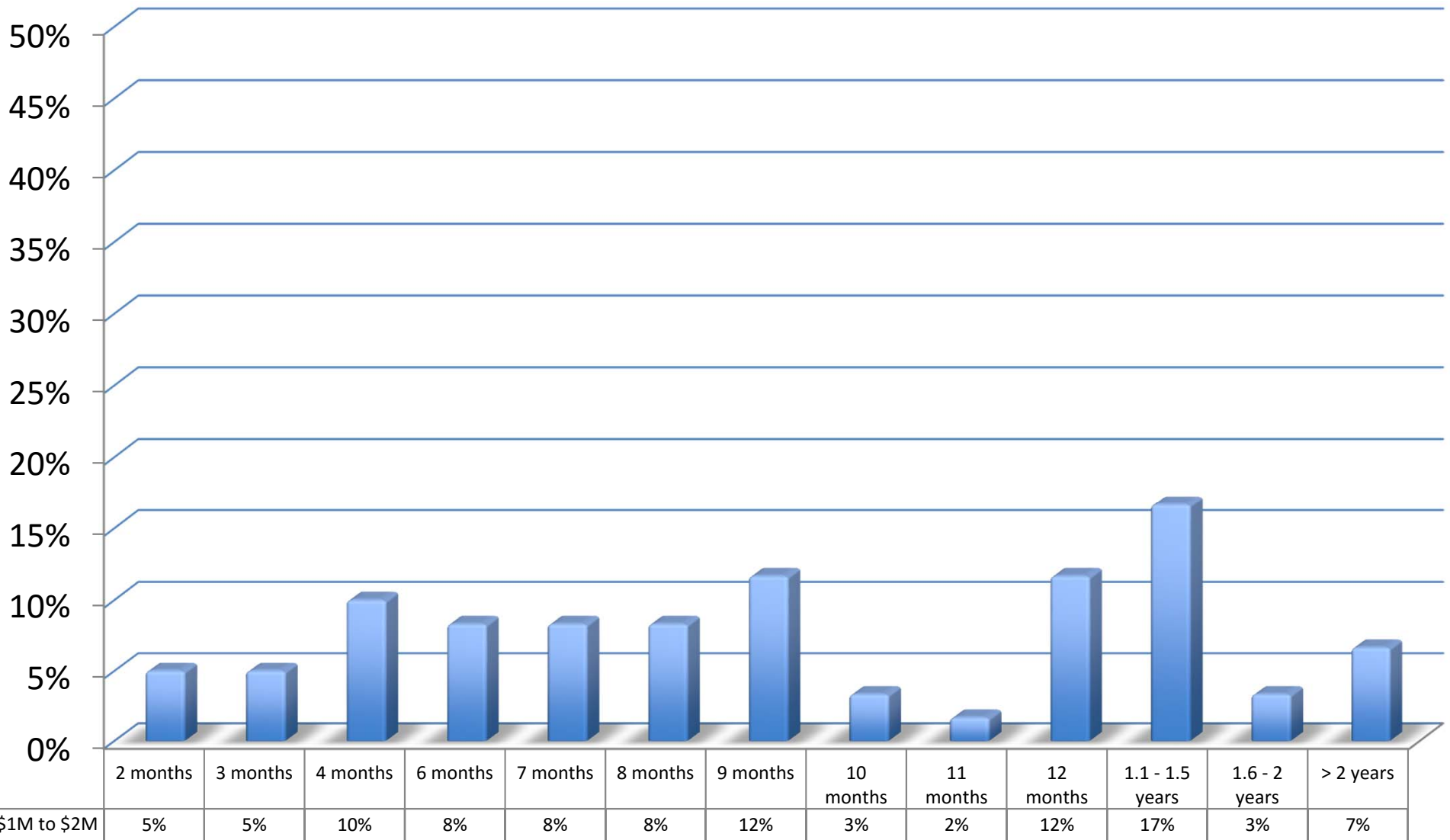


Financing Structure



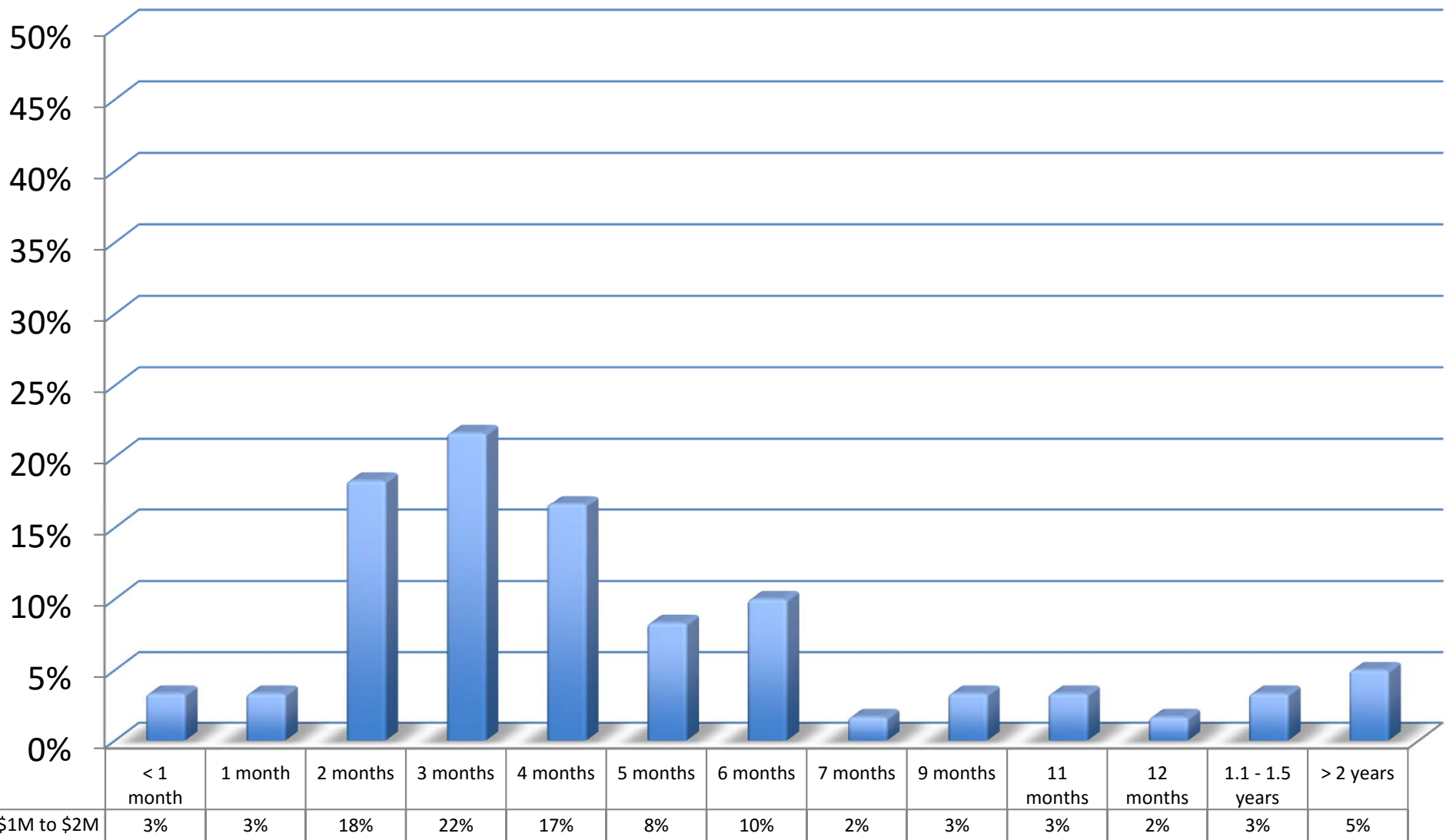
Business Transactions Valued
from \$1 Million to \$1.99 Million
Number of Closed Transactions: 60

Engagement/Listing to Close

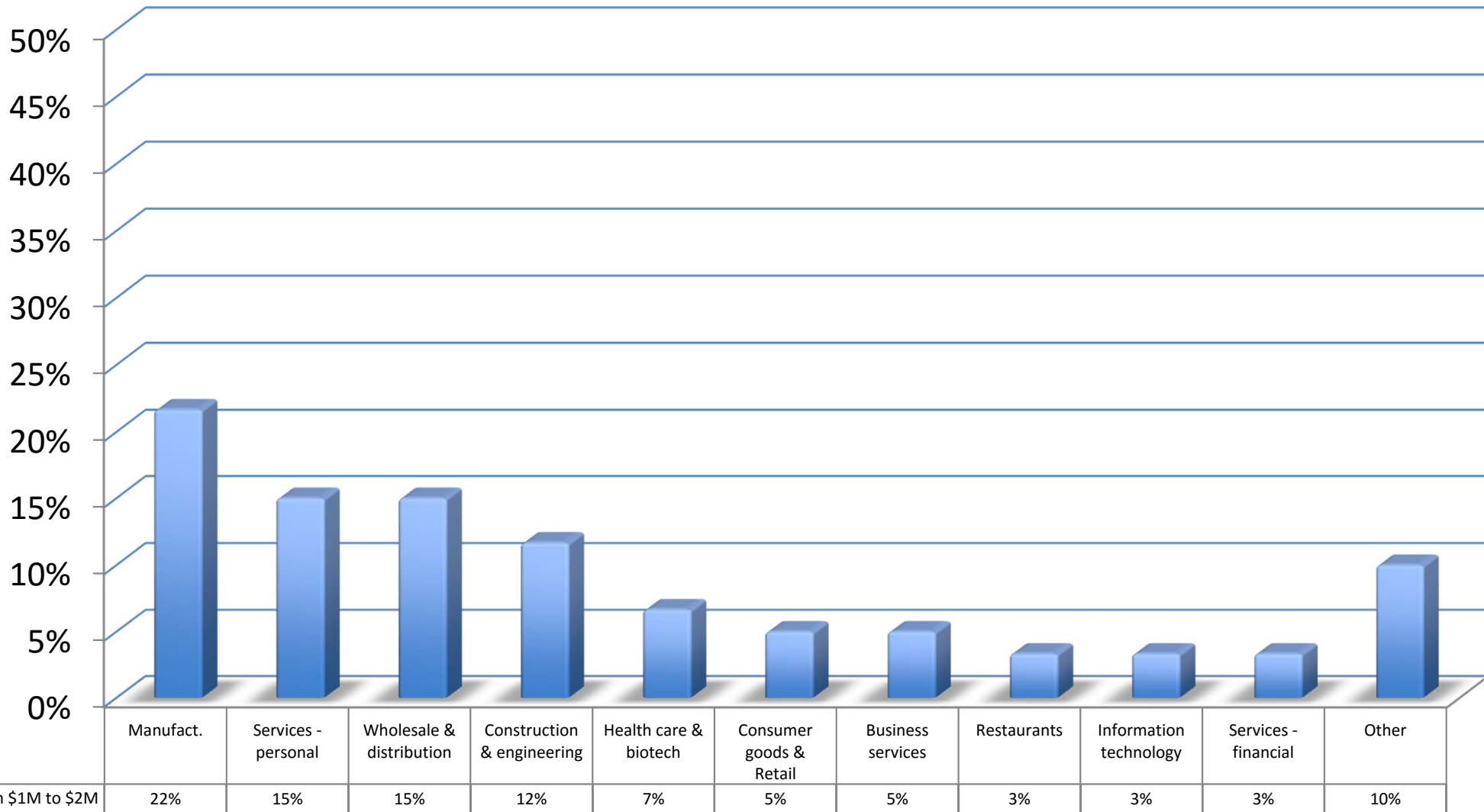


Deals from \$1M to \$2M

LOI/ Offer to Close

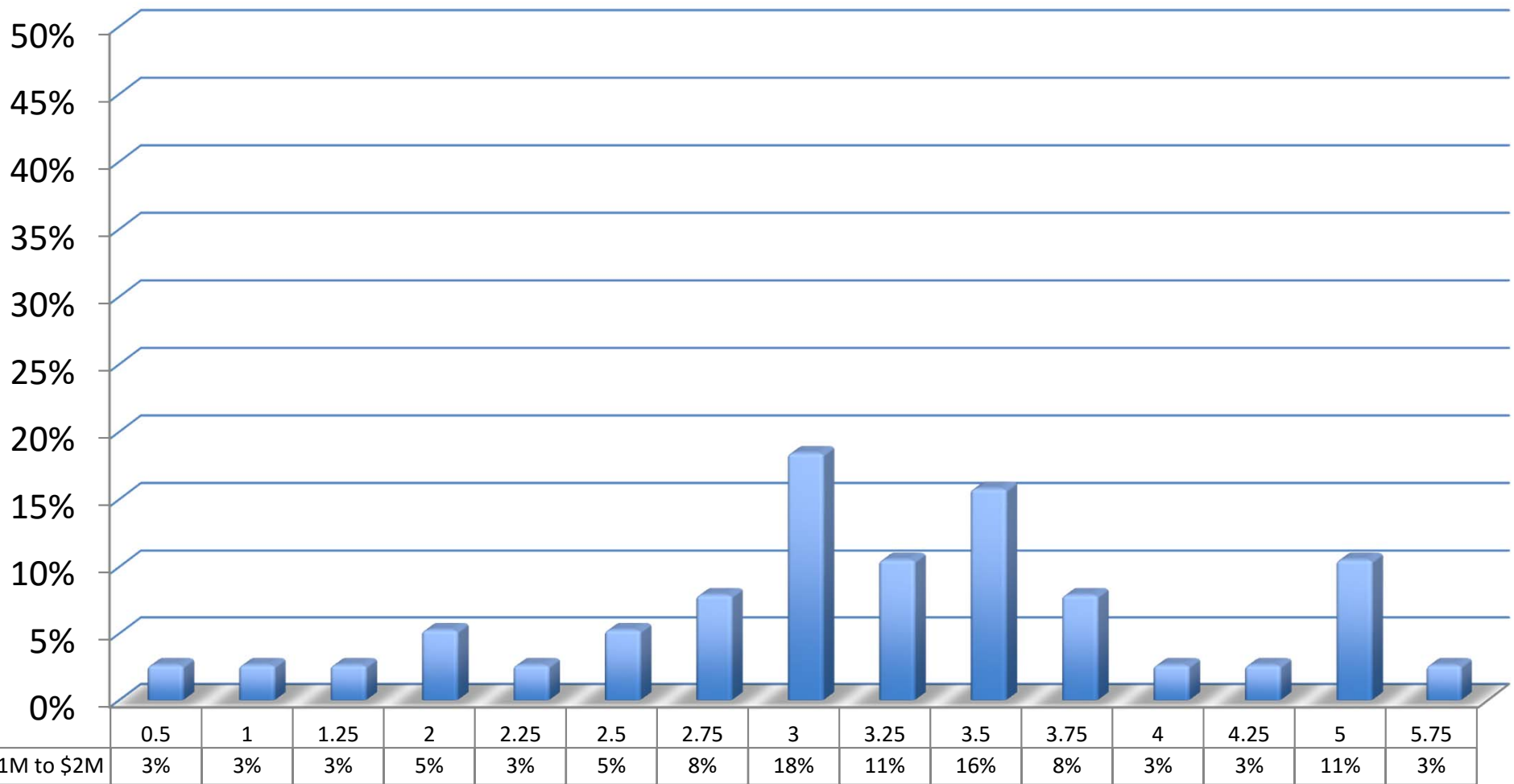


Industry



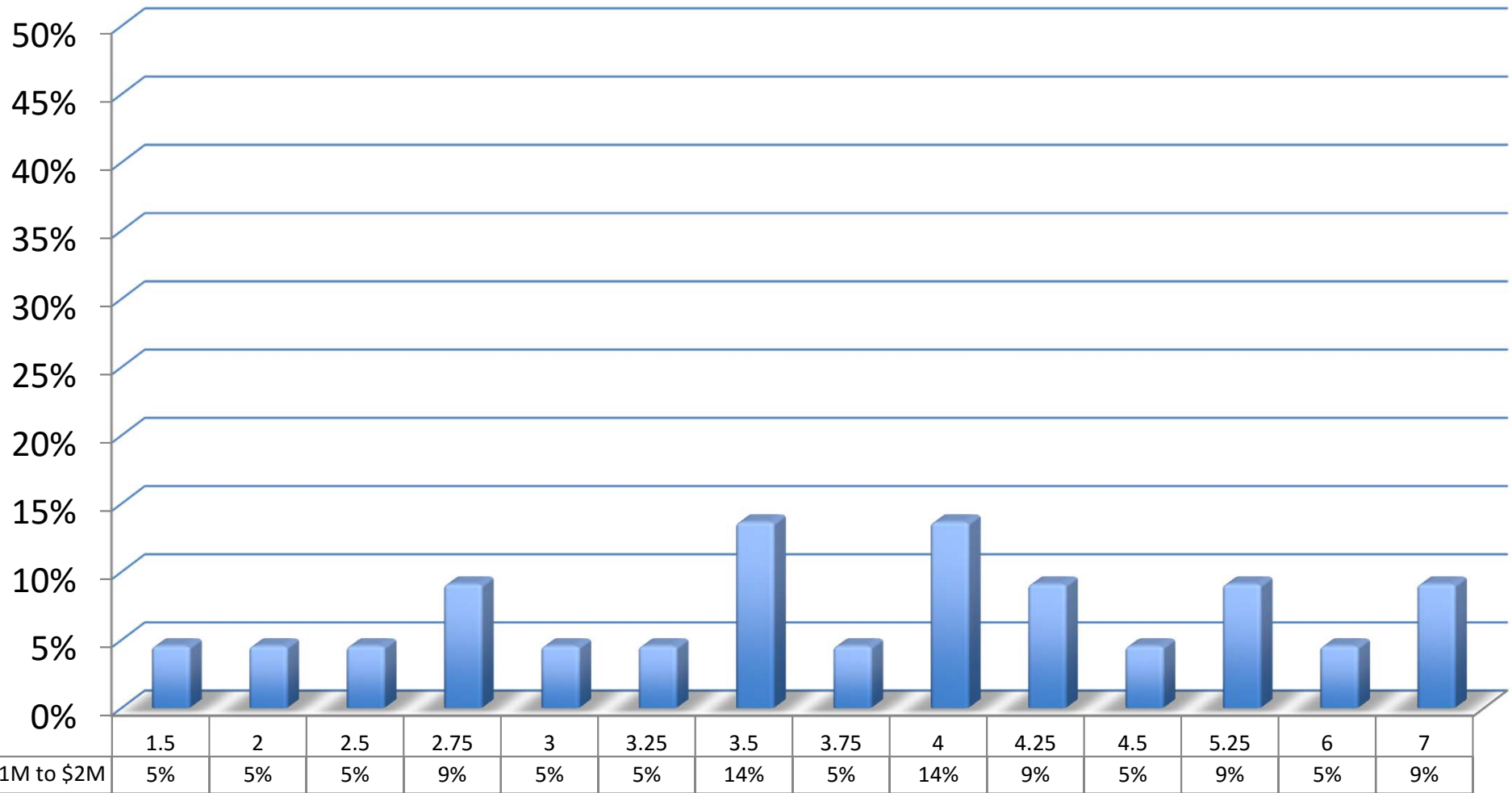
Deals from \$1M to \$2M

SDE Multiple Paid



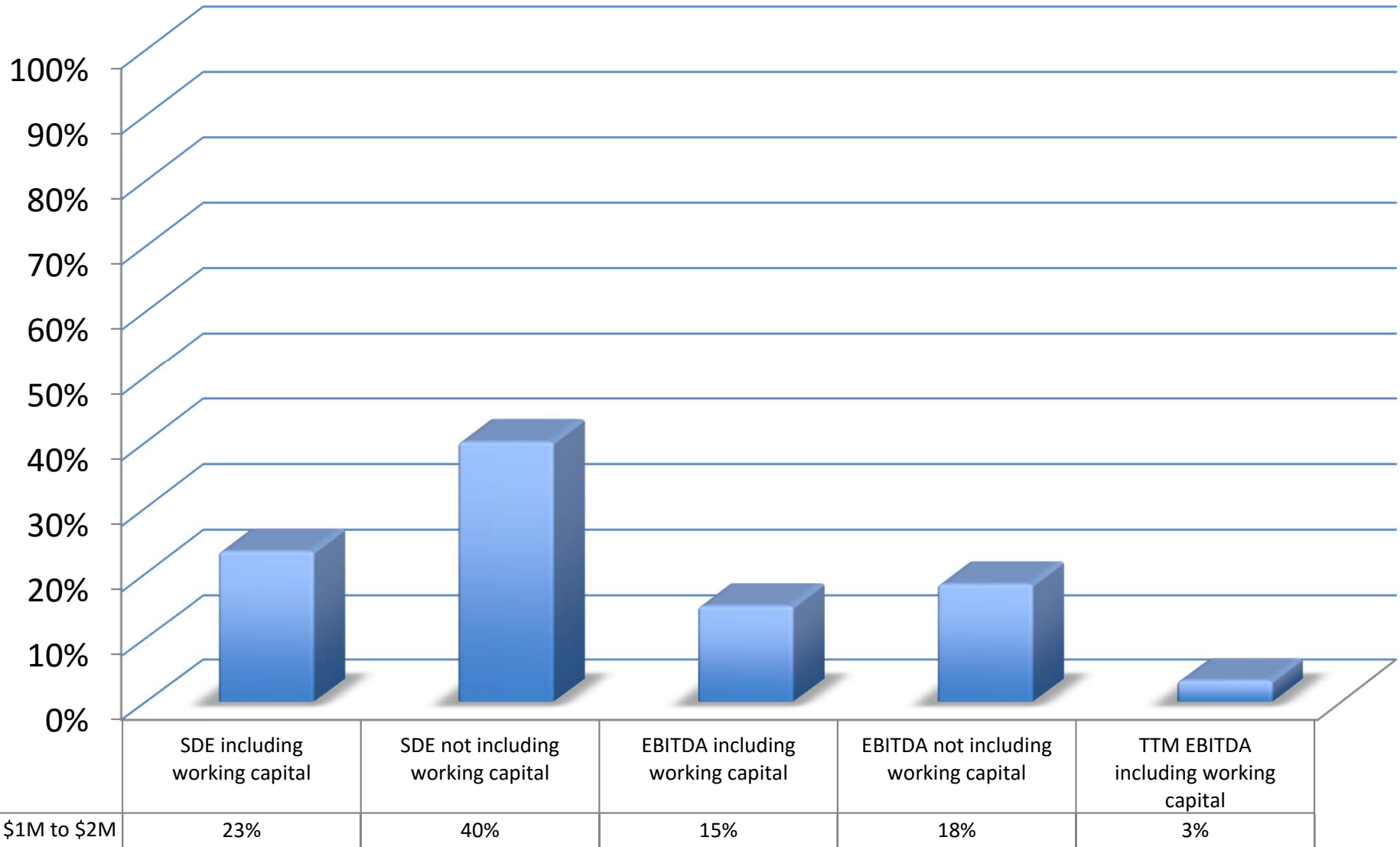
Number of responses: 38

EBITDA Multiple Paid

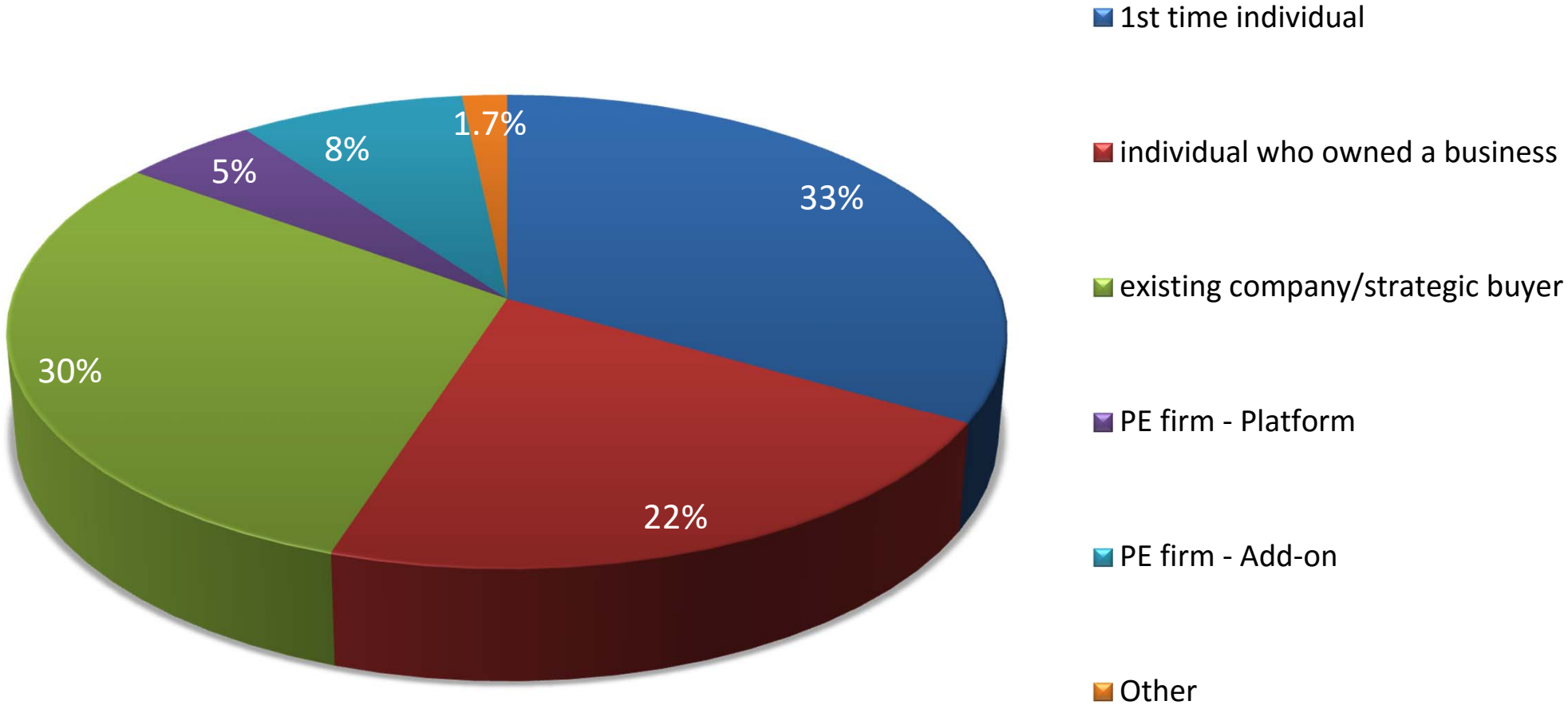


Number of responses: 22

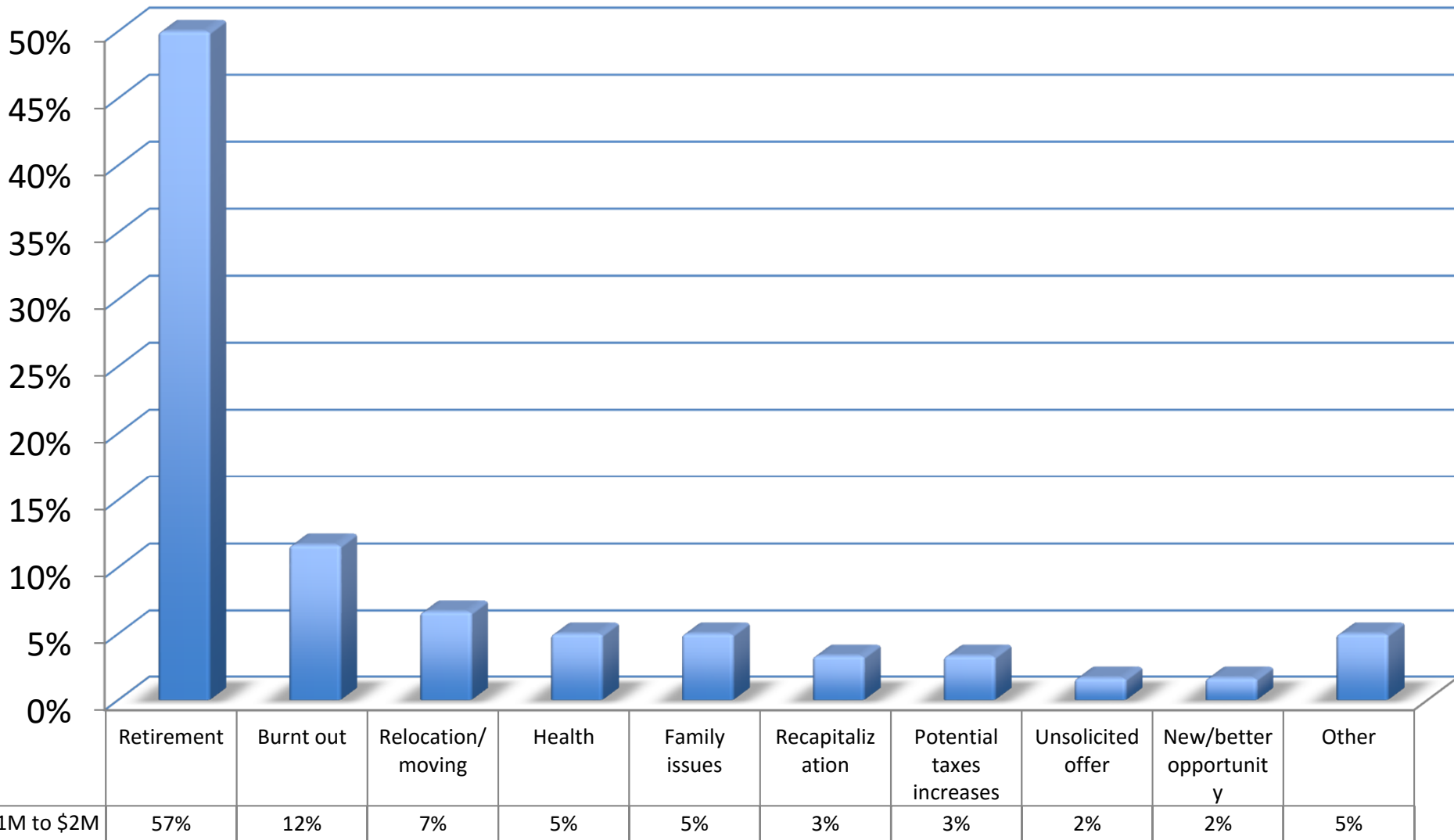
Multiple Type



Buyer Type



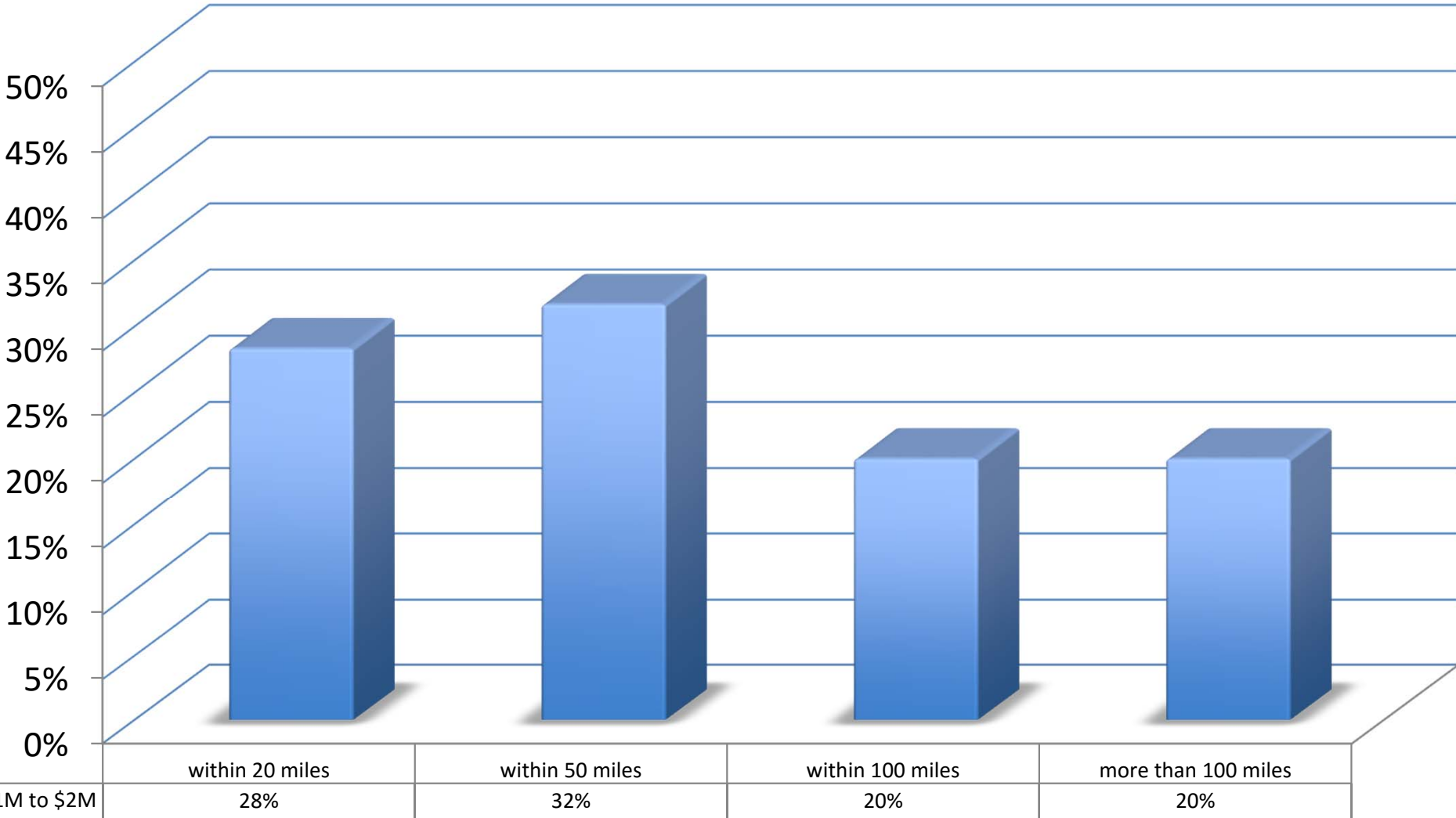
#1 Reason for Seller to Go to Market



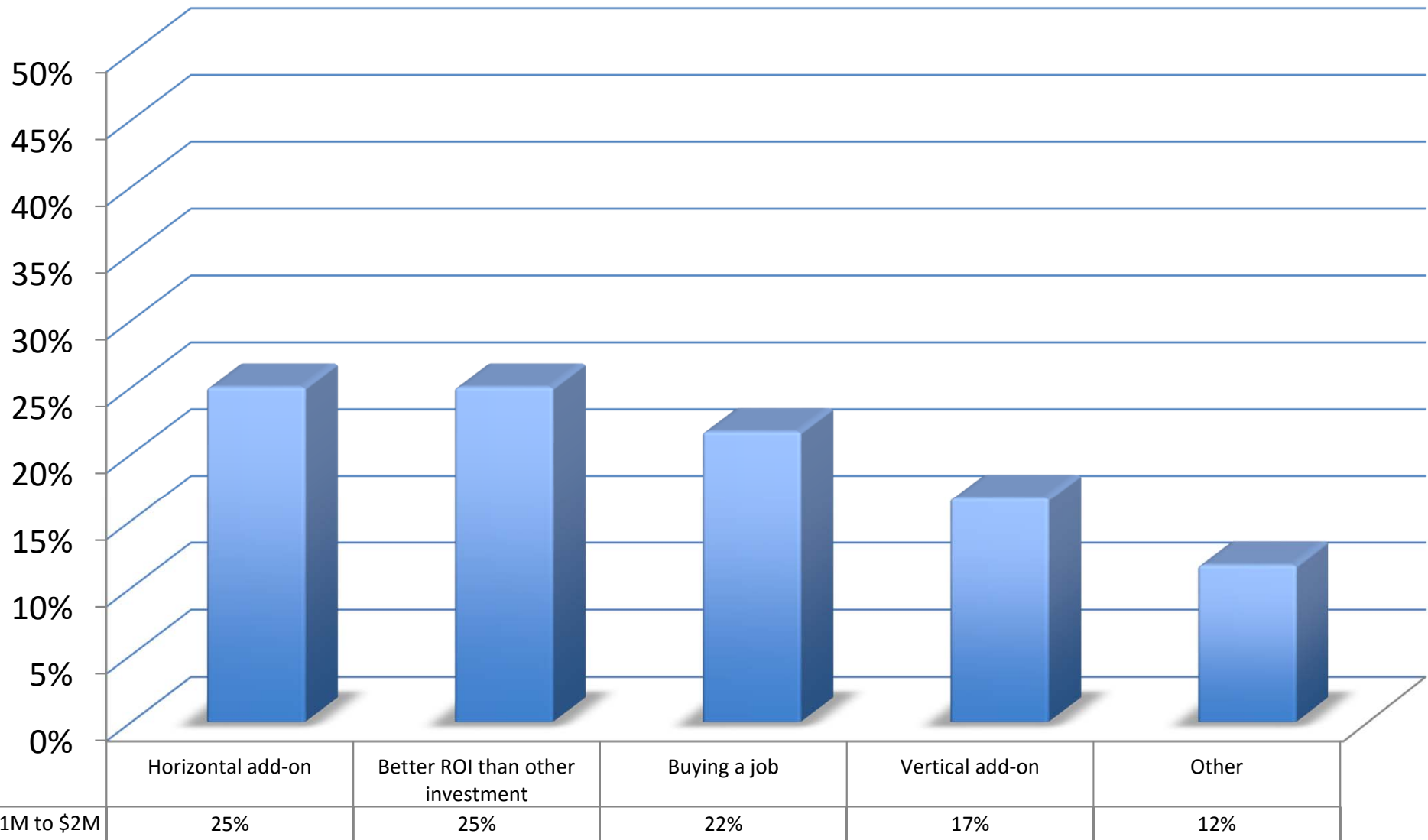
Deals from \$1M to \$2M

| | | | | | | | | | | | | | | | | | | | |
|------------|-----|-----------|-----|-------------------|----|--------|----|---------------|----|------------------|----|---------------------------|----|-------------------|----|------------------------|----|-------|----|
| Retirement | 57% | Burnt out | 12% | Relocation/moving | 7% | Health | 5% | Family issues | 5% | Recapitalization | 3% | Potential taxes increases | 3% | Unsolicited offer | 2% | New/better opportunity | 2% | Other | 5% |
|------------|-----|-----------|-----|-------------------|----|--------|----|---------------|----|------------------|----|---------------------------|----|-------------------|----|------------------------|----|-------|----|

Buyer Location

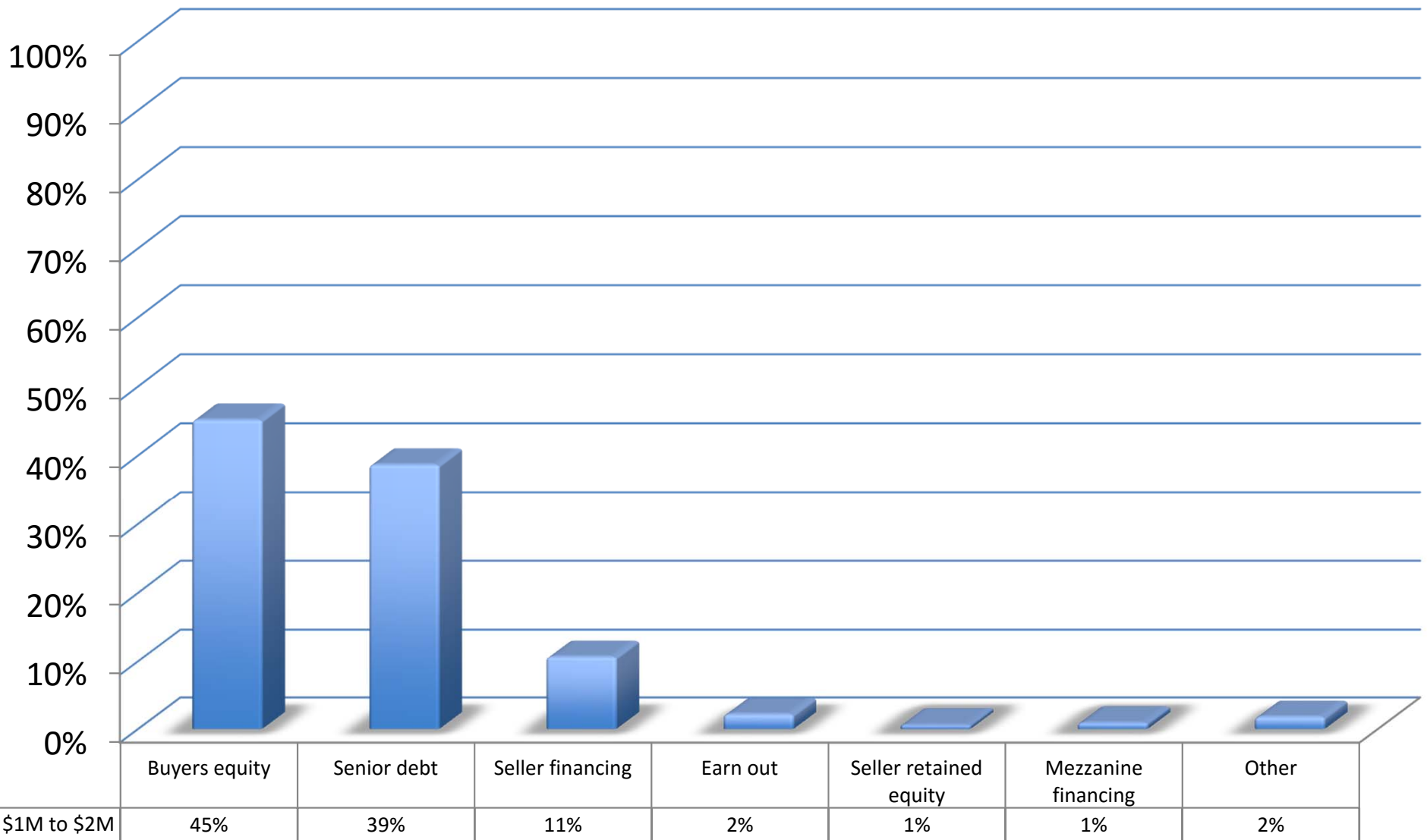


#1 Motivation for Buyer



Deals from \$1M to \$2M

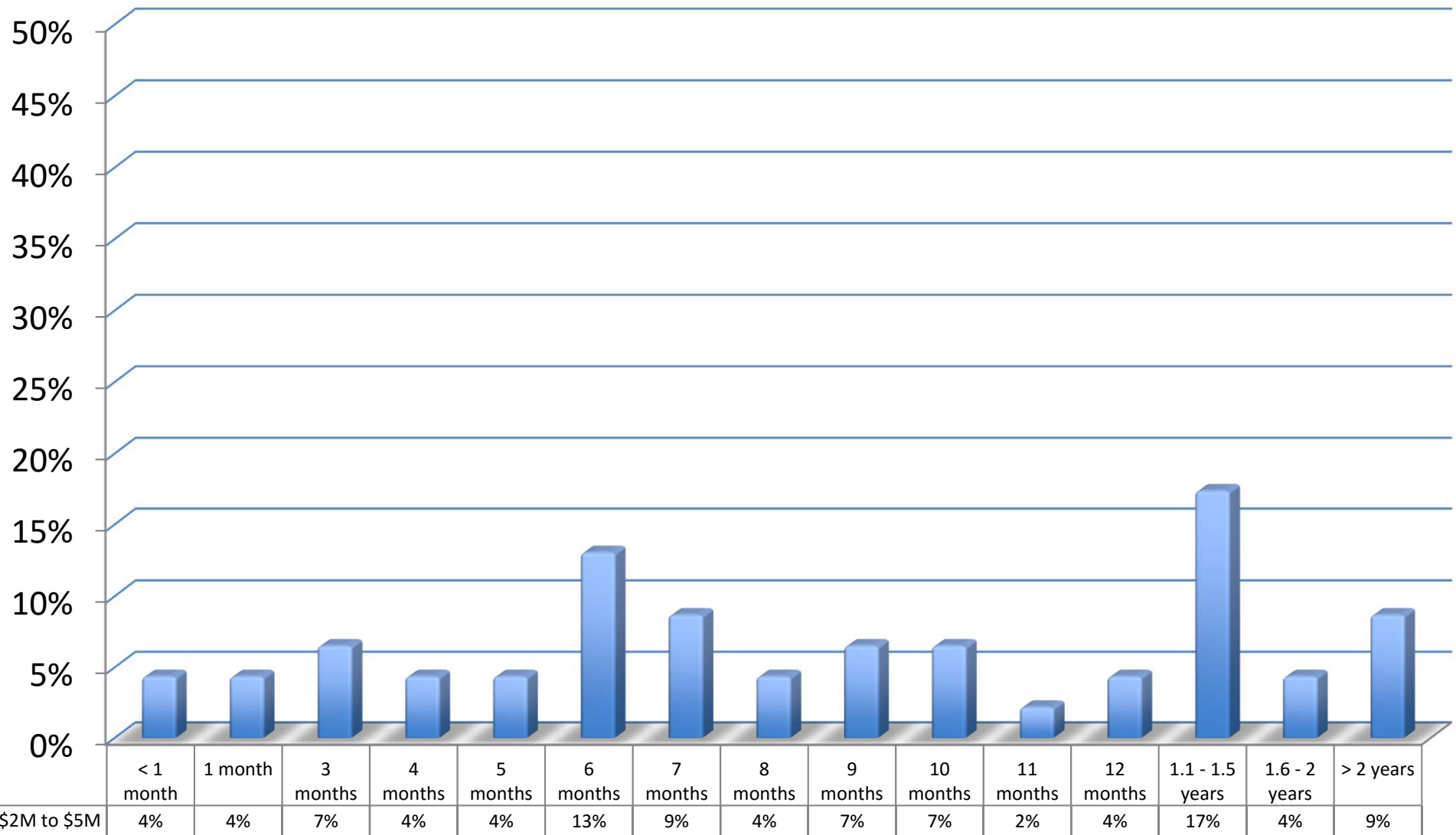
Financing Structure



Deals from \$1M to \$2M

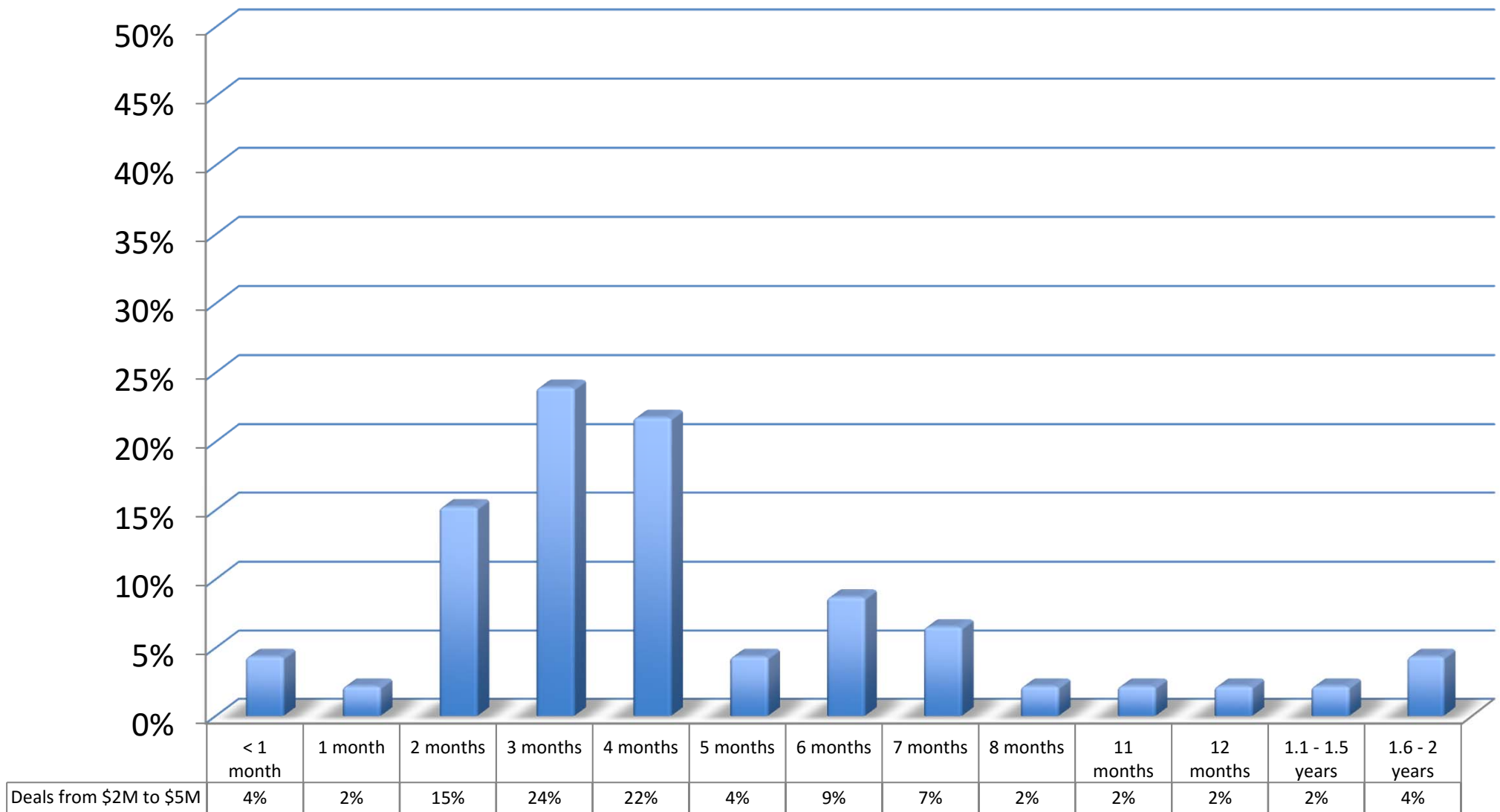
Business Transactions Valued
from \$2 Million to \$4.99 Million
Number of Closed Transactions: 46

Engagement/Listing to Close

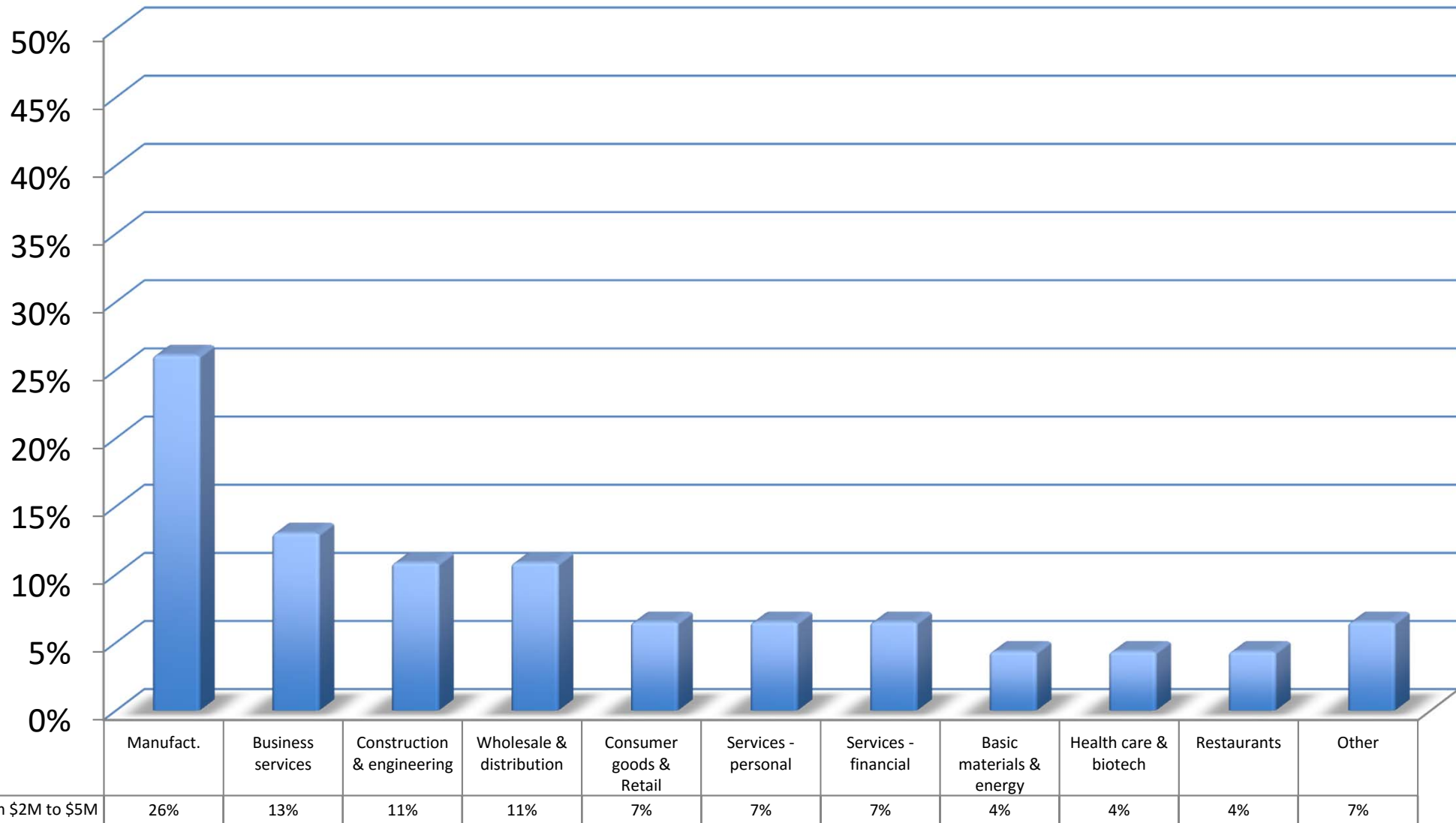


Deals from \$2M to \$5M

LOI/ Offer to Close

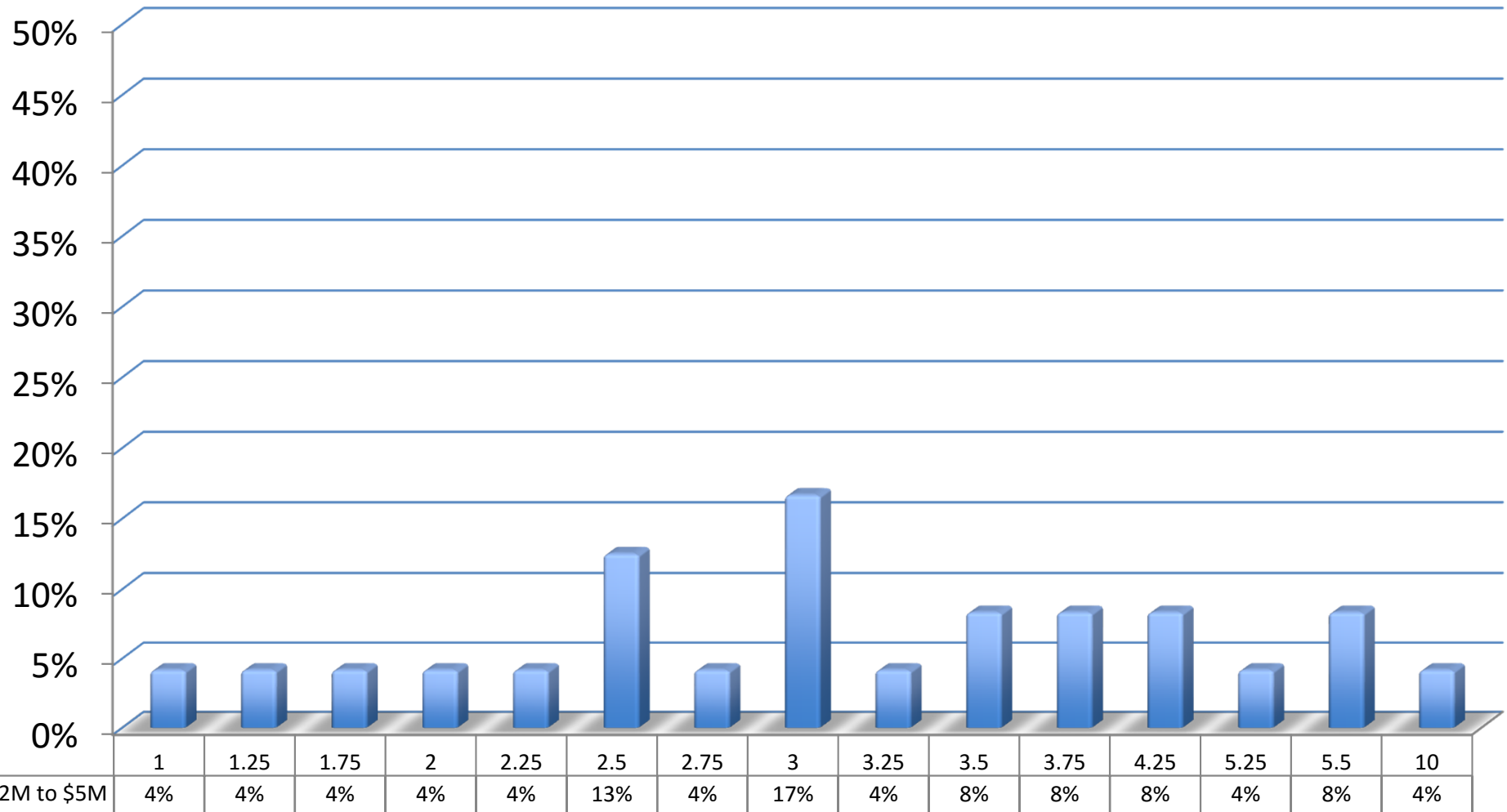


Industry



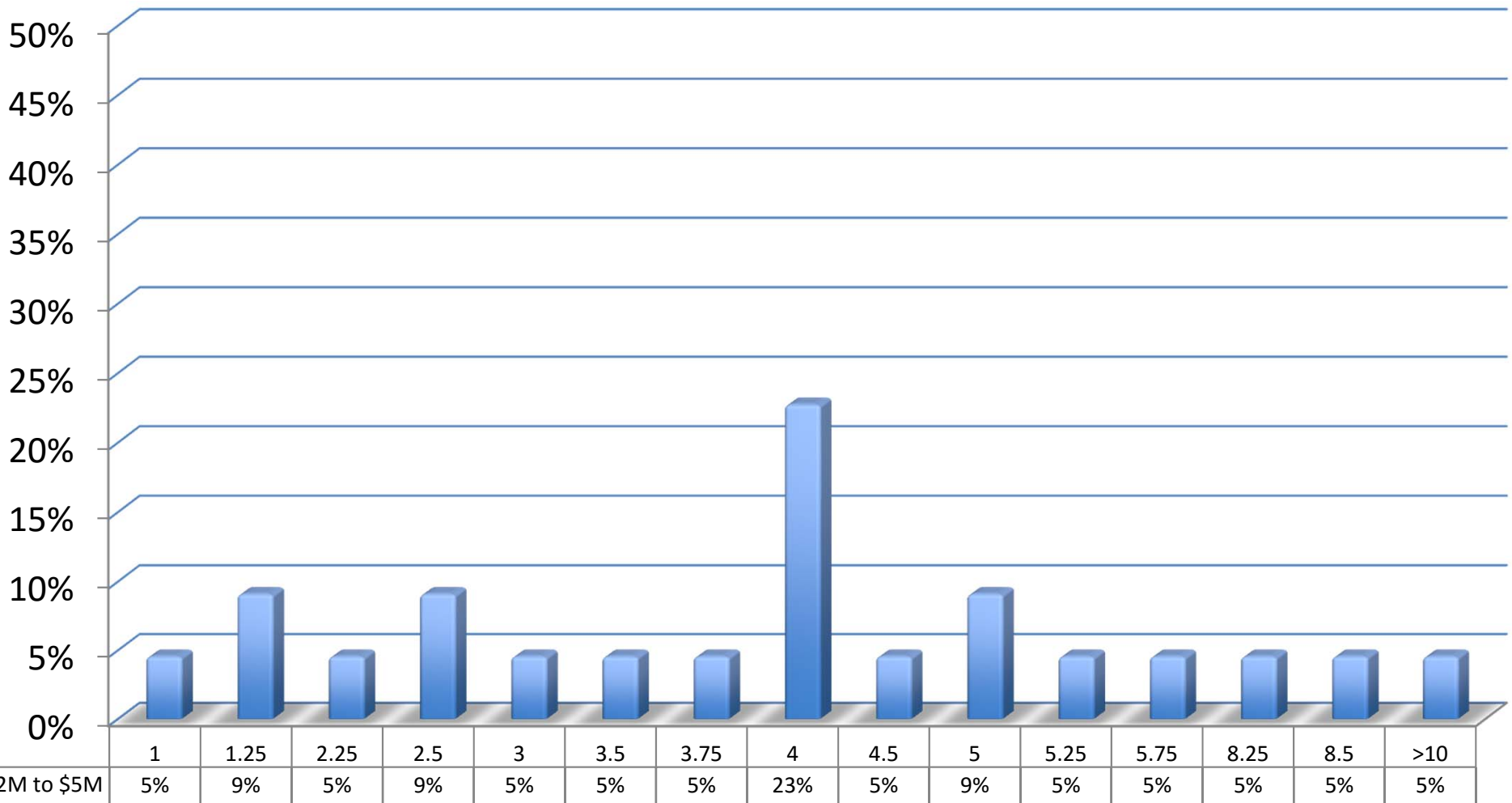
Deals from \$2M to \$5M

SDE Multiple Paid



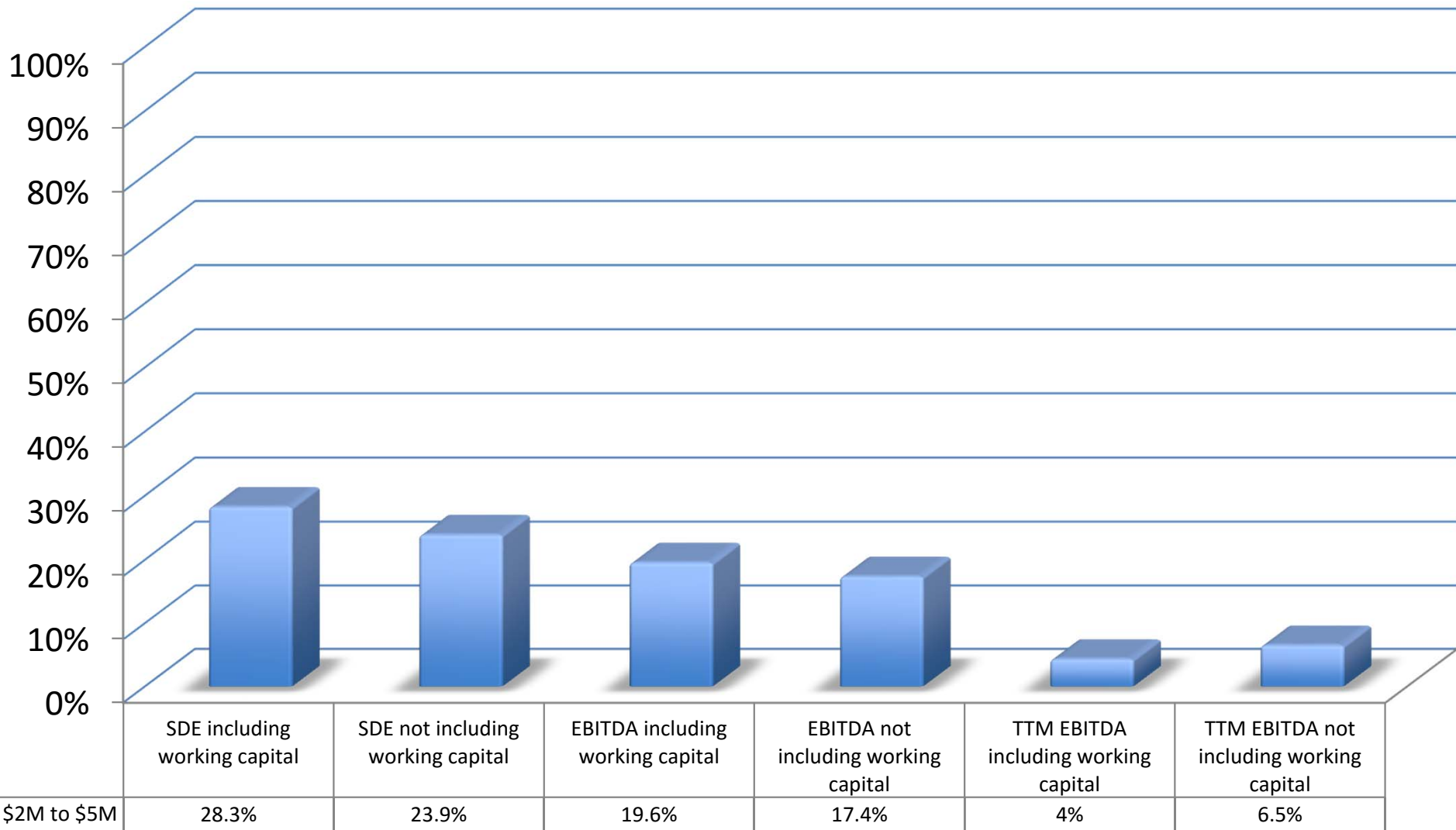
Number of responses: 24

EBITDA Multiple Paid

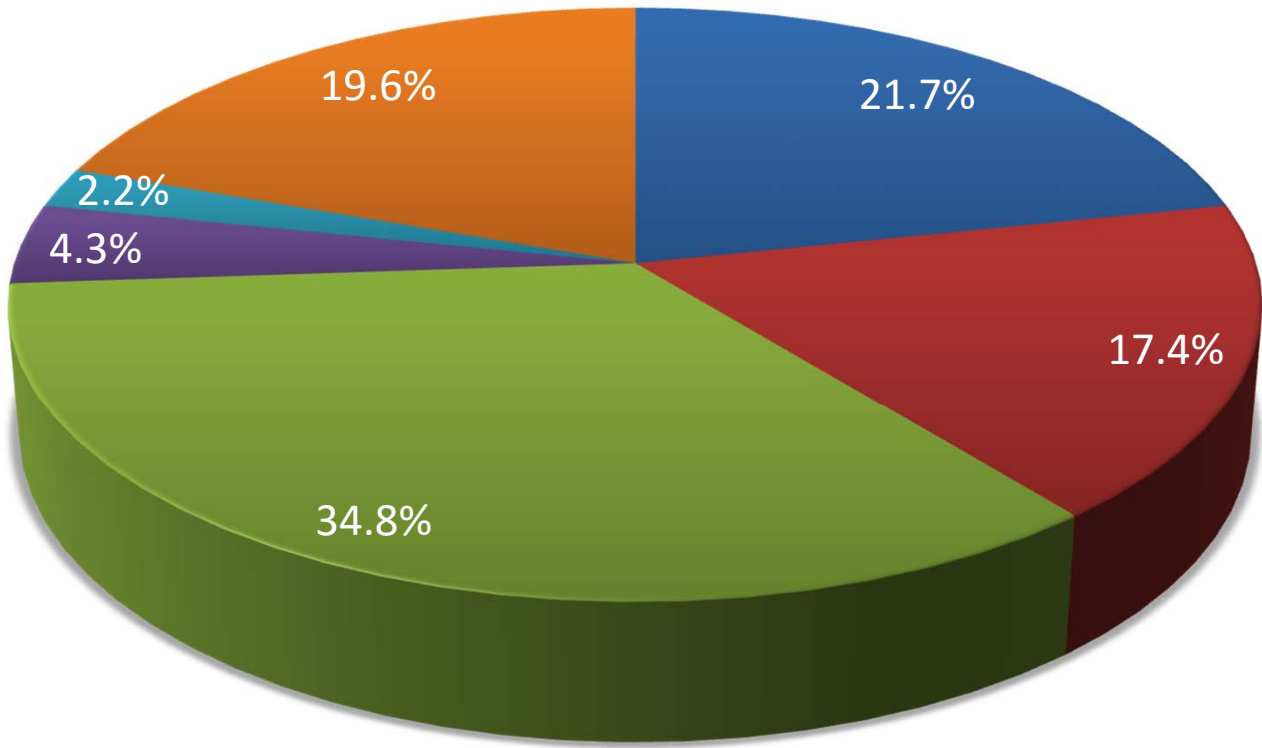


Number of responses: 22

Multiple Type

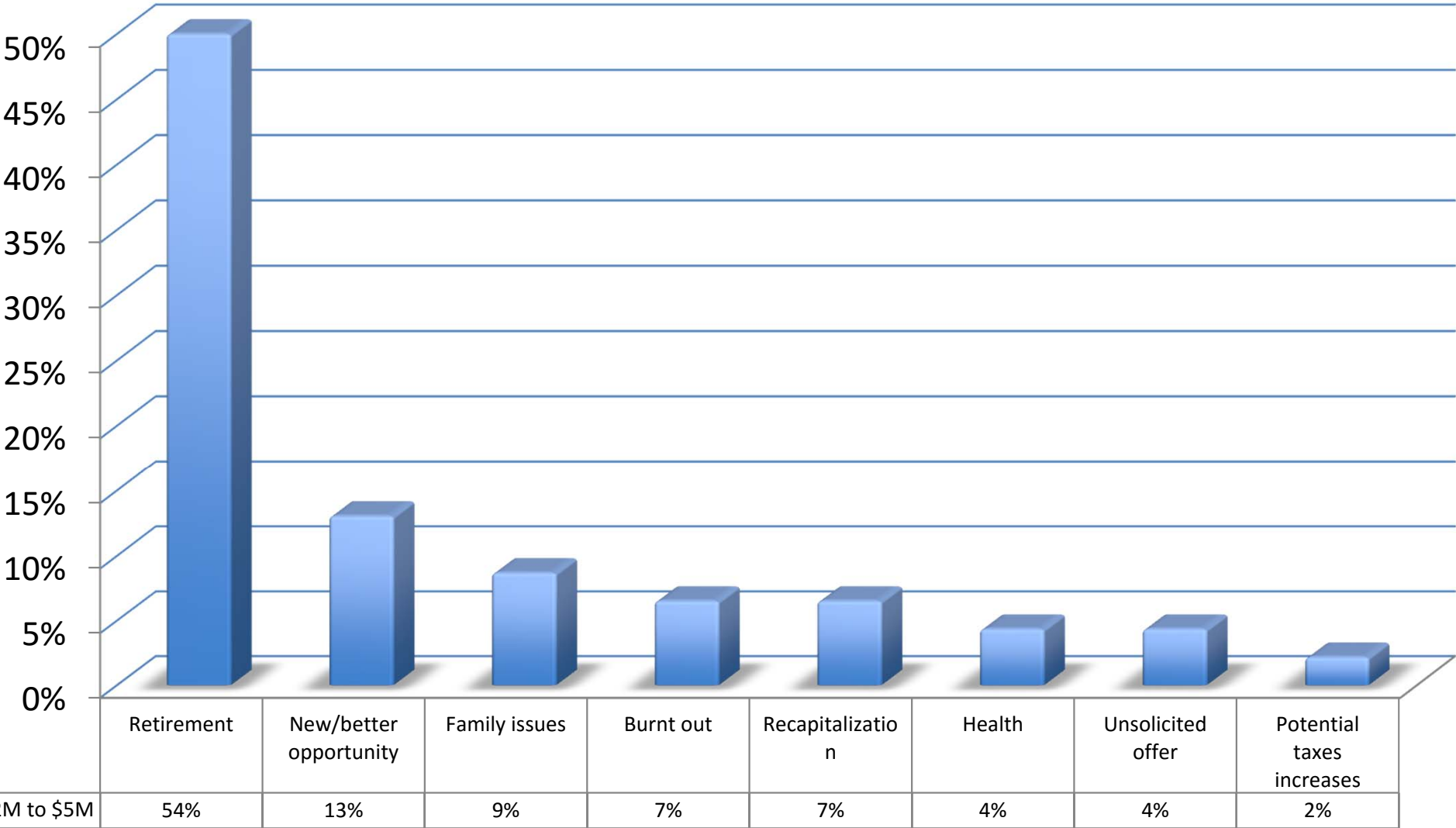


Buyer Type



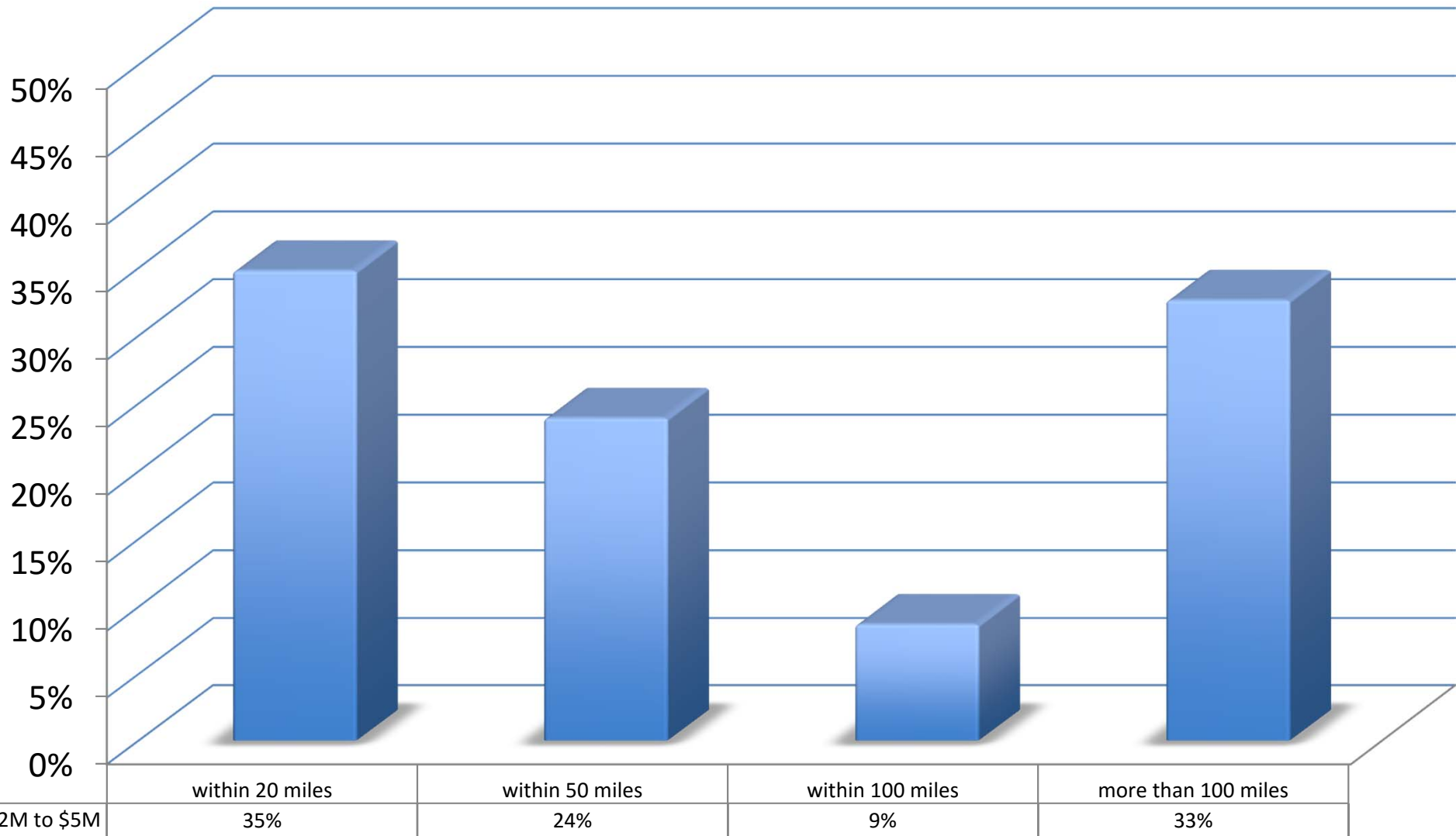
- 1st time individual
- individual who owned a business
- existing company/strategic buyer
- PE firm - Platform
- PE firm - Add-on
- Other

#1 Reason for Seller to Go to Market

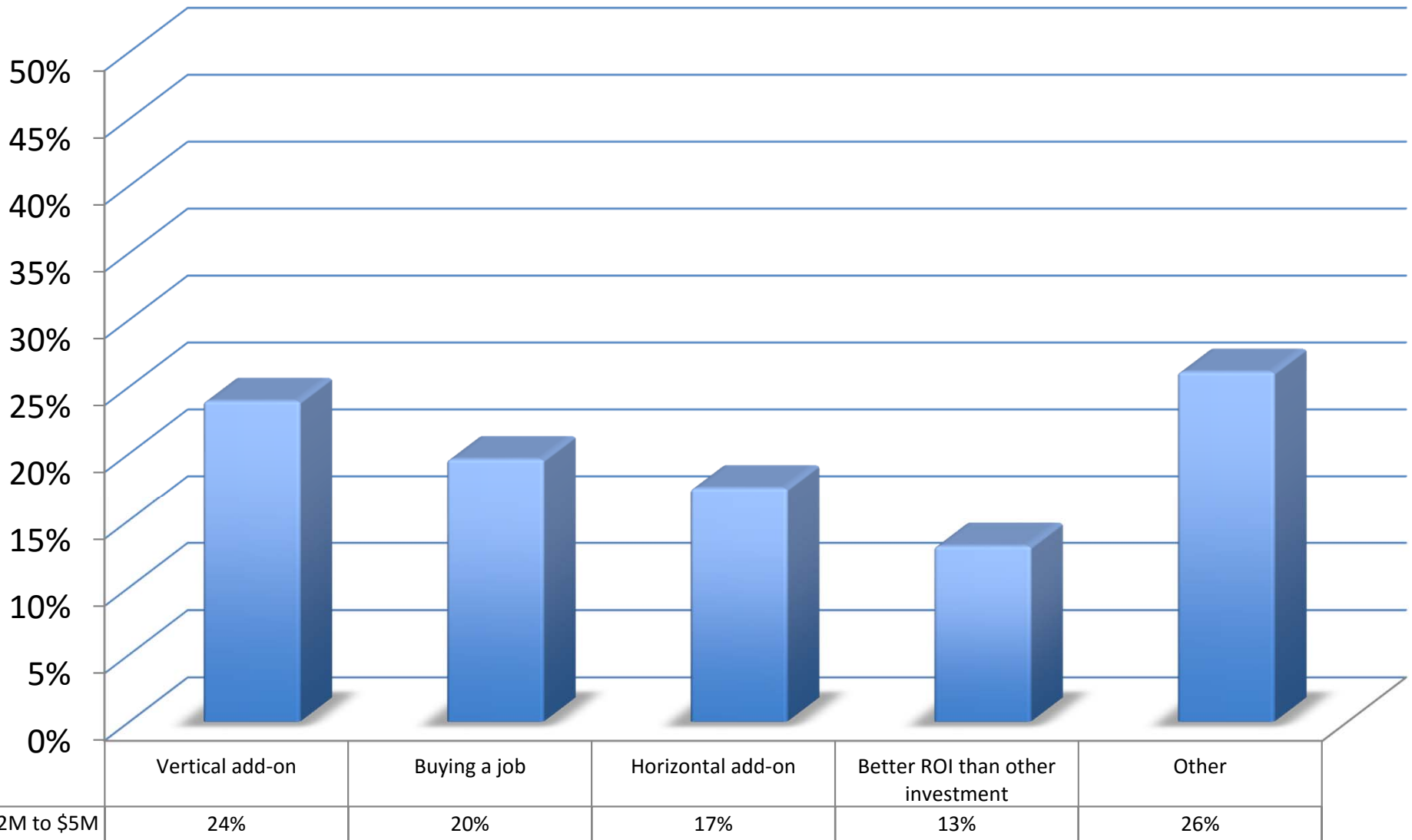


Deals from \$2M to \$5M

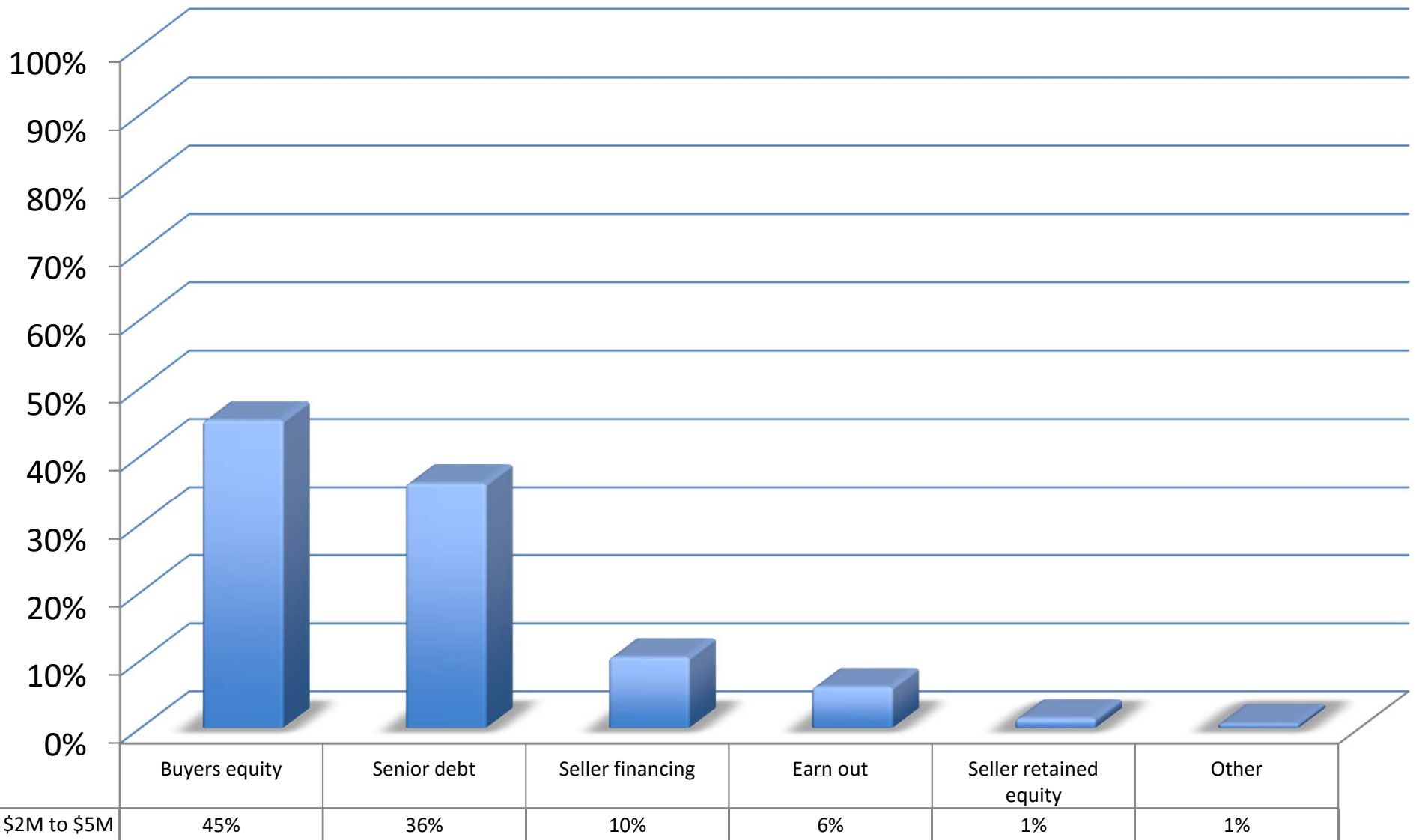
Buyer Location



#1 Motivation for Buyer



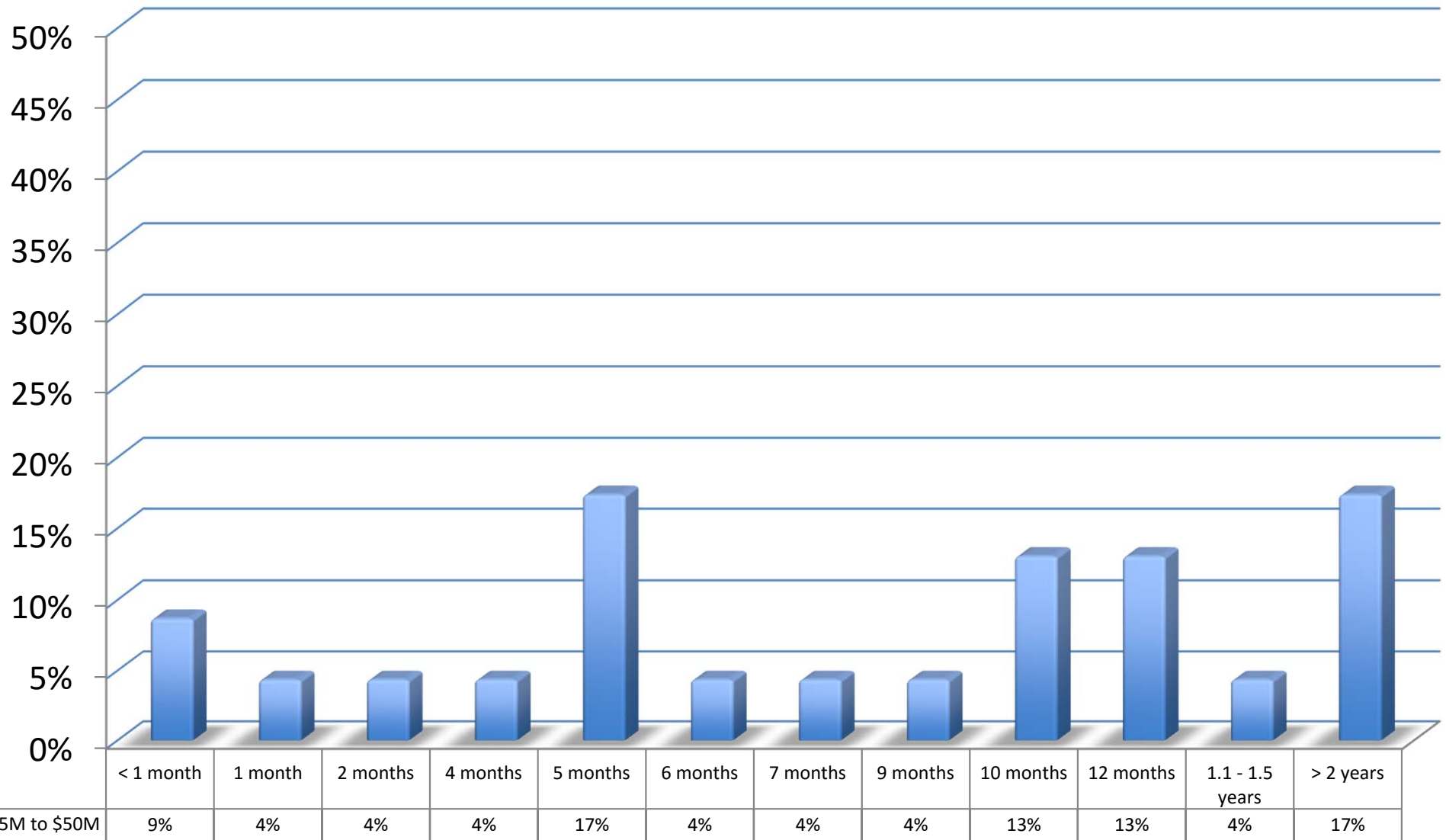
Financing Structure



Business Transactions Valued Over \$5 Million

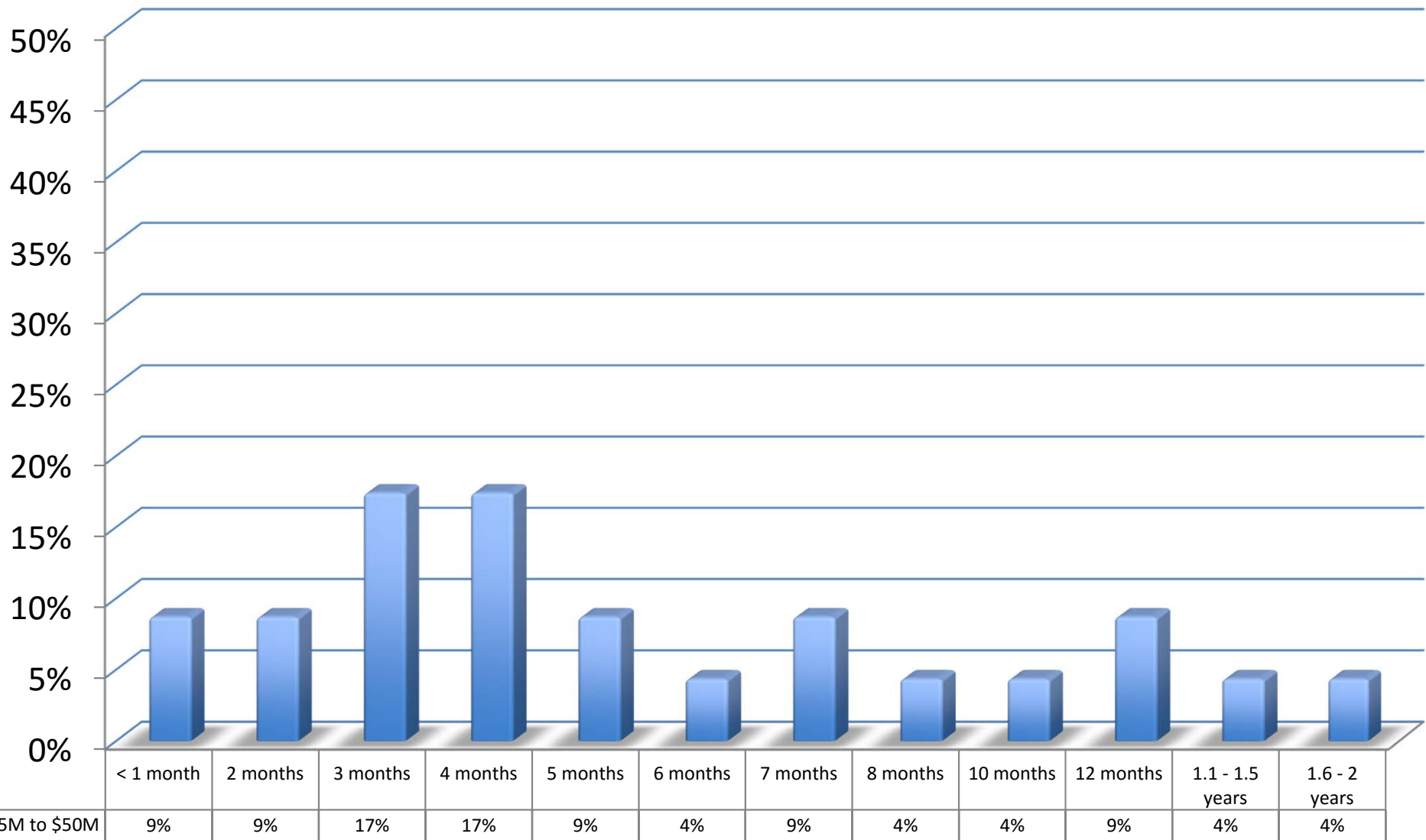
Number of Closed Transactions: 23

Engagement/Listing to Close

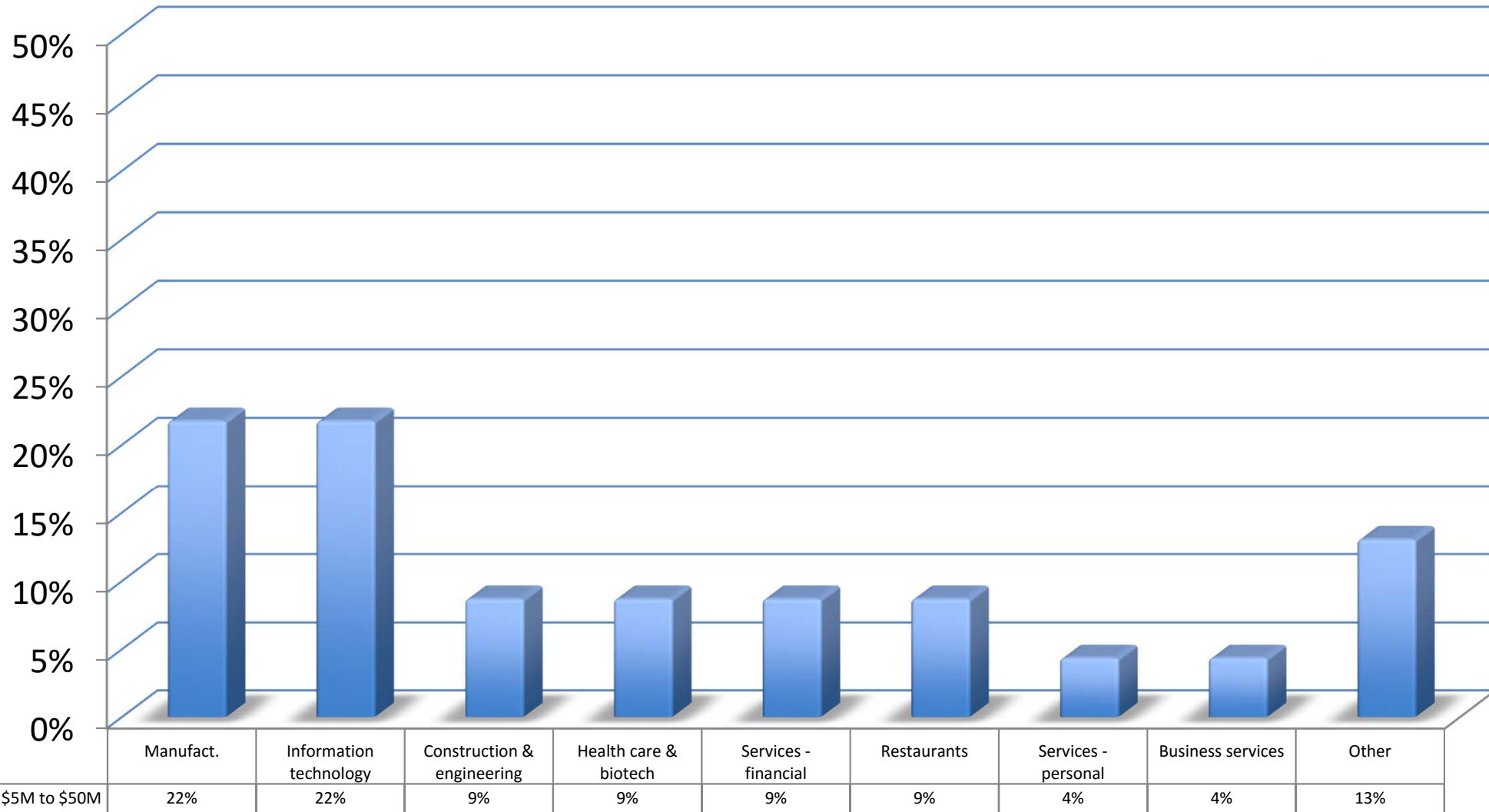


Deals from \$5M to \$50M

LOI/ Offer to Close

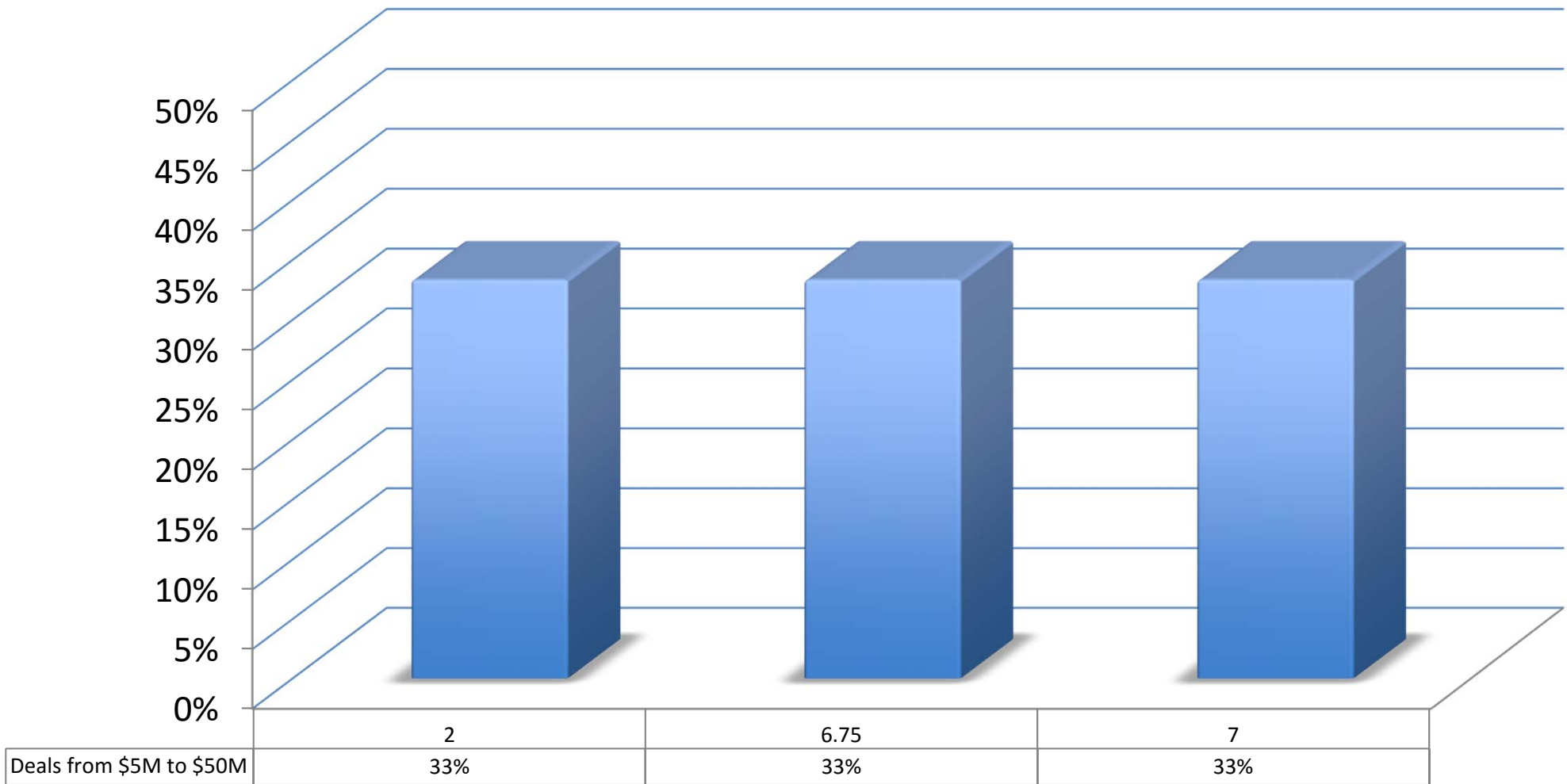


Industry



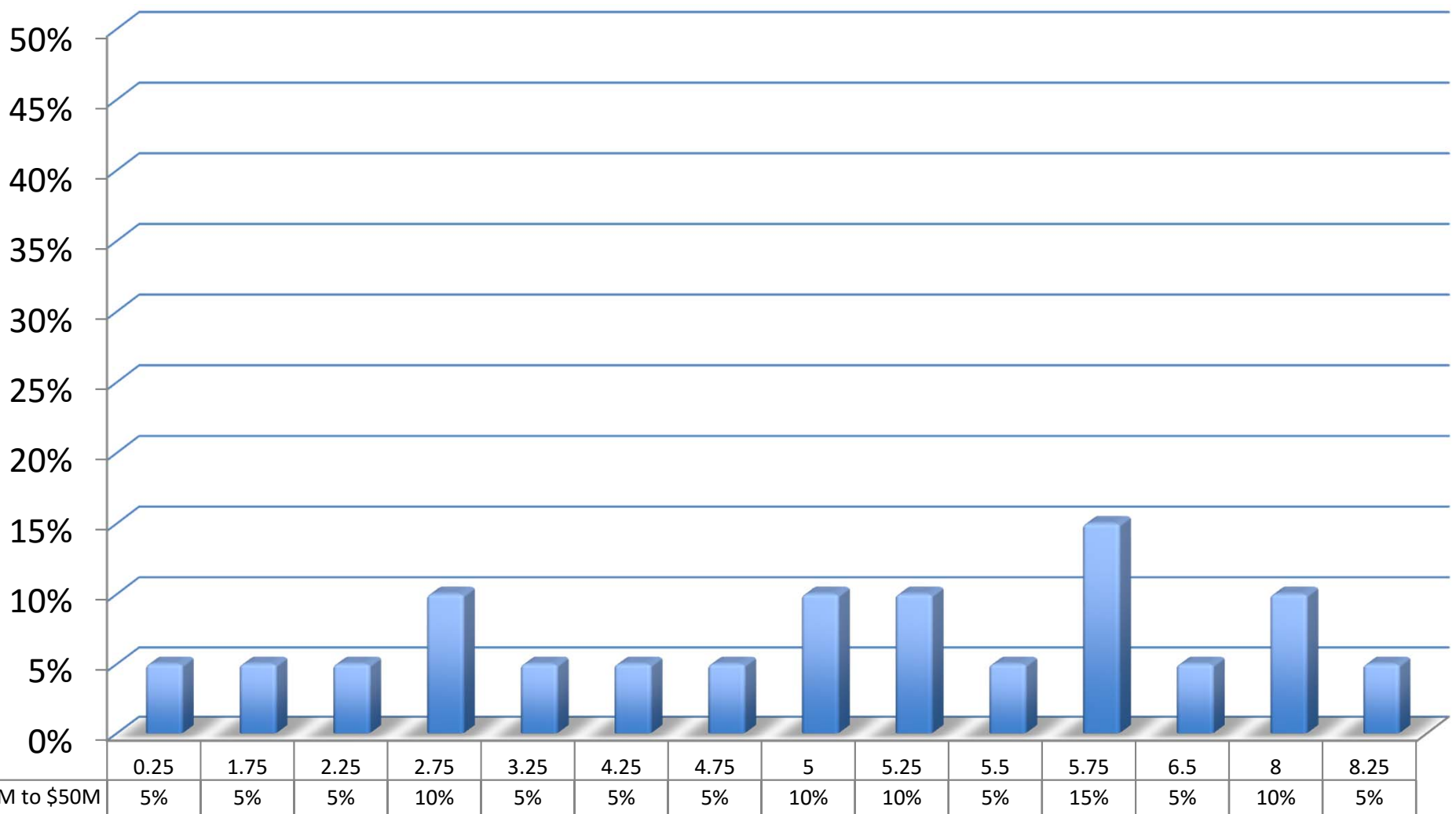
Deals from \$5M to \$50M

SDE Multiple Paid



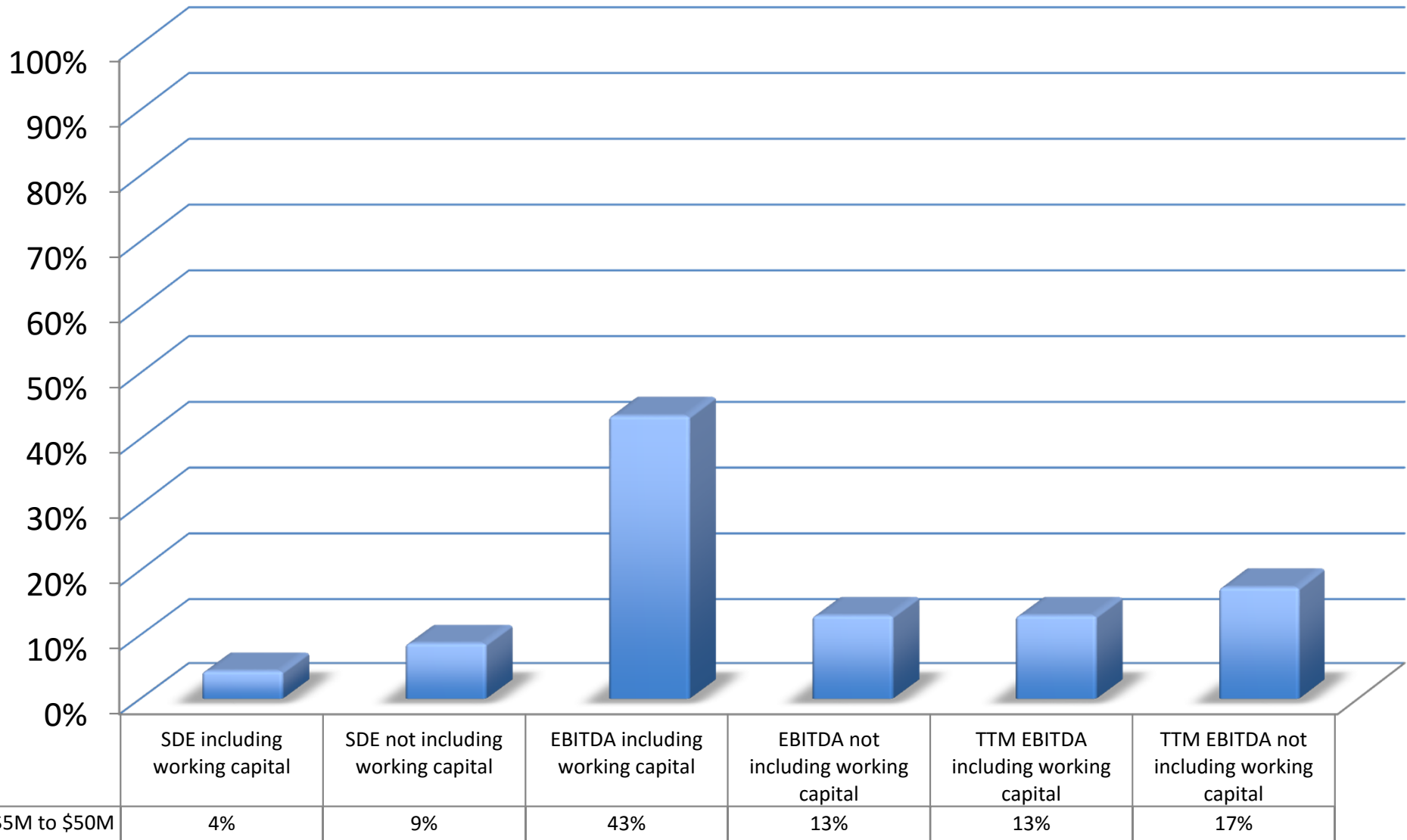
Number of responses: 3

EBITDA Multiple Paid

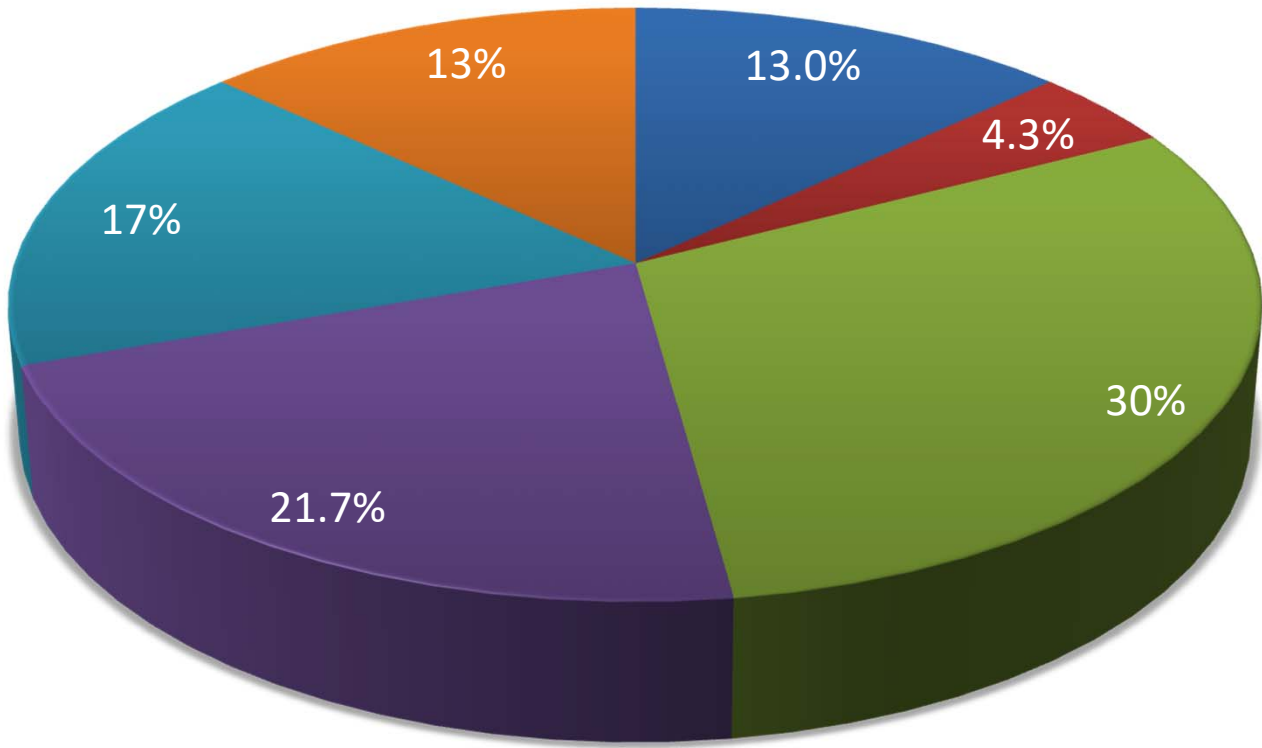


Number of responses: 20

Multiple Type

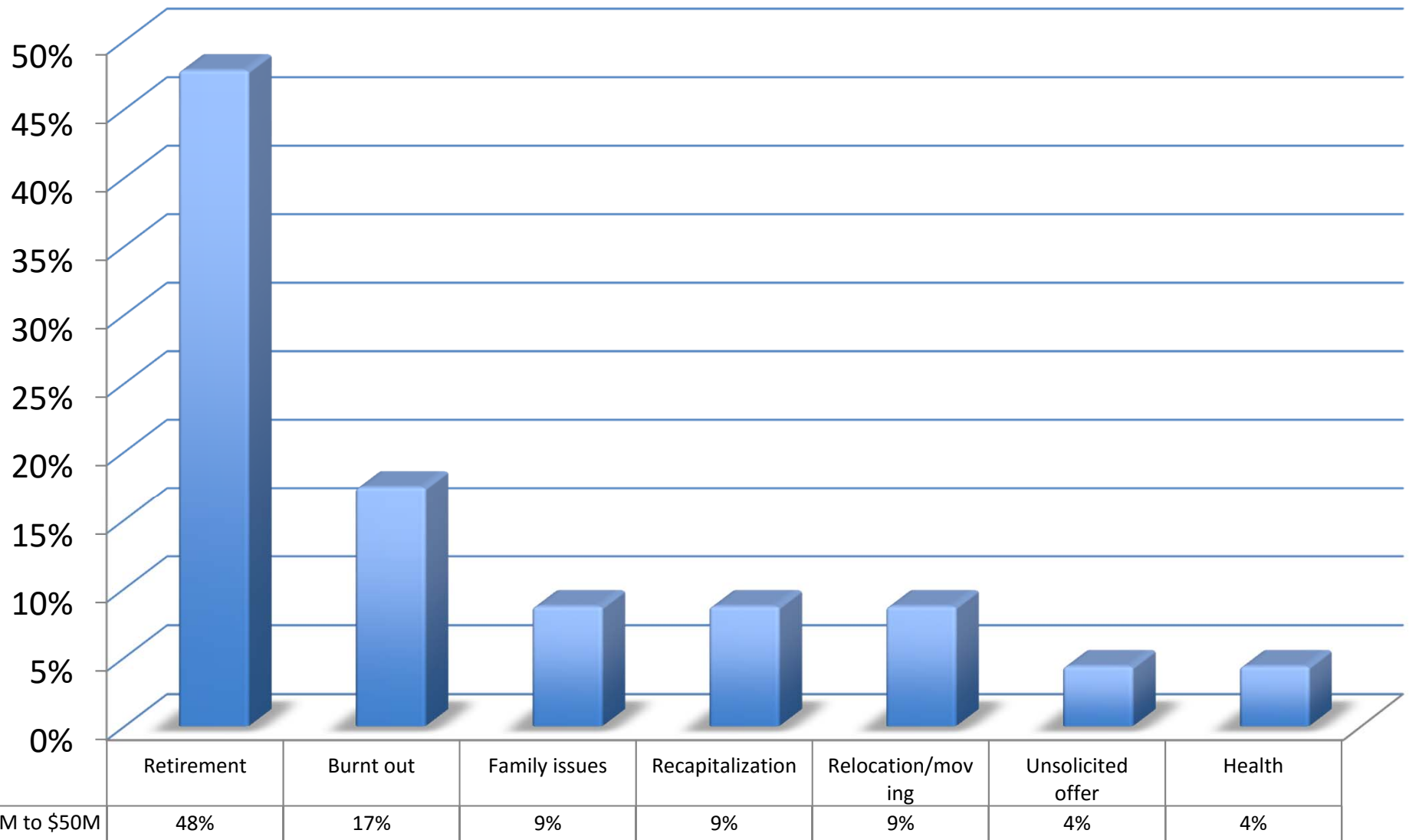


Buyer Type

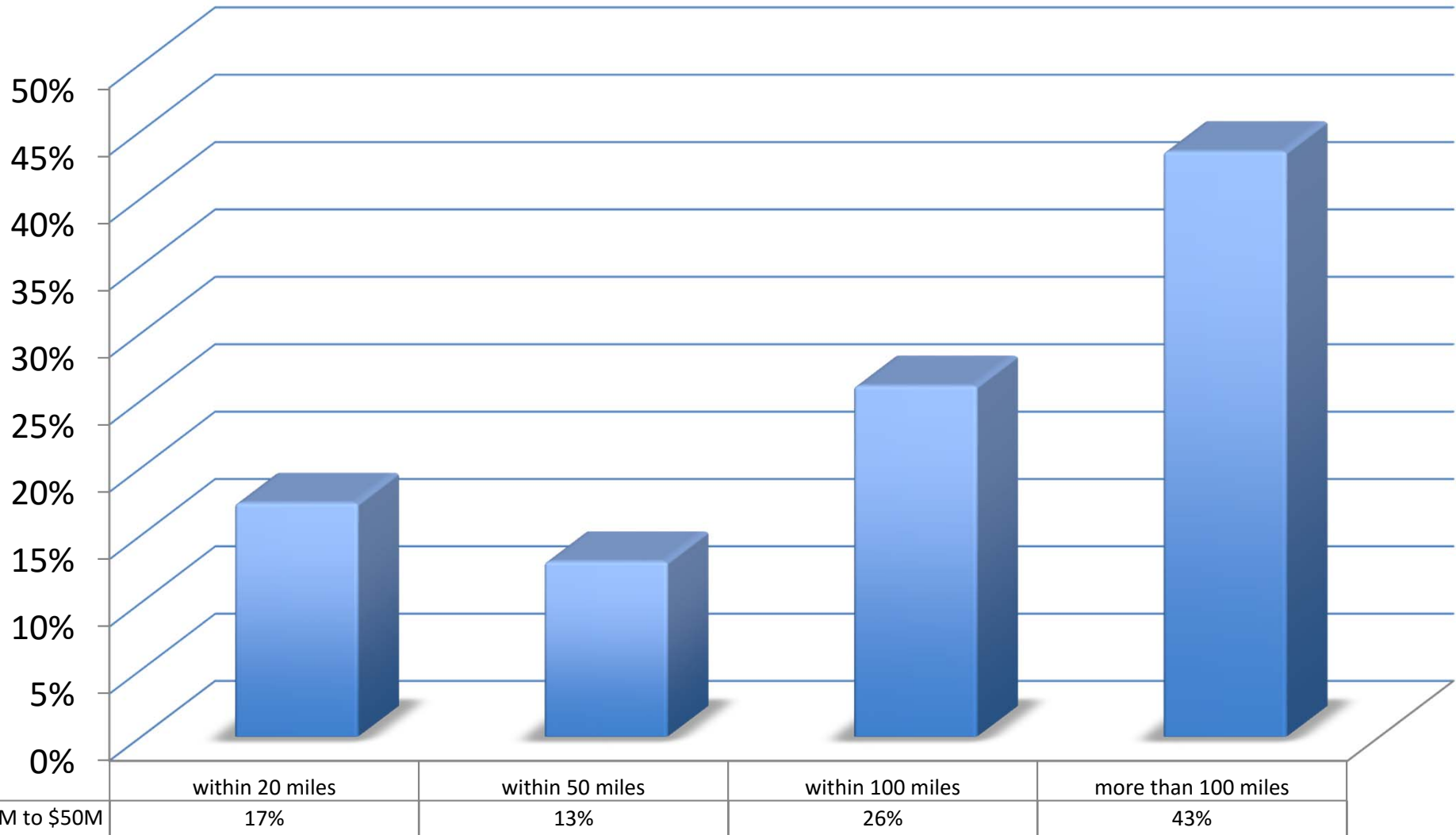


- 1st time individual
- individual who owned a business
- existing company/strategic buyer
- PE firm - Platform
- PE firm - Add-on
- Other

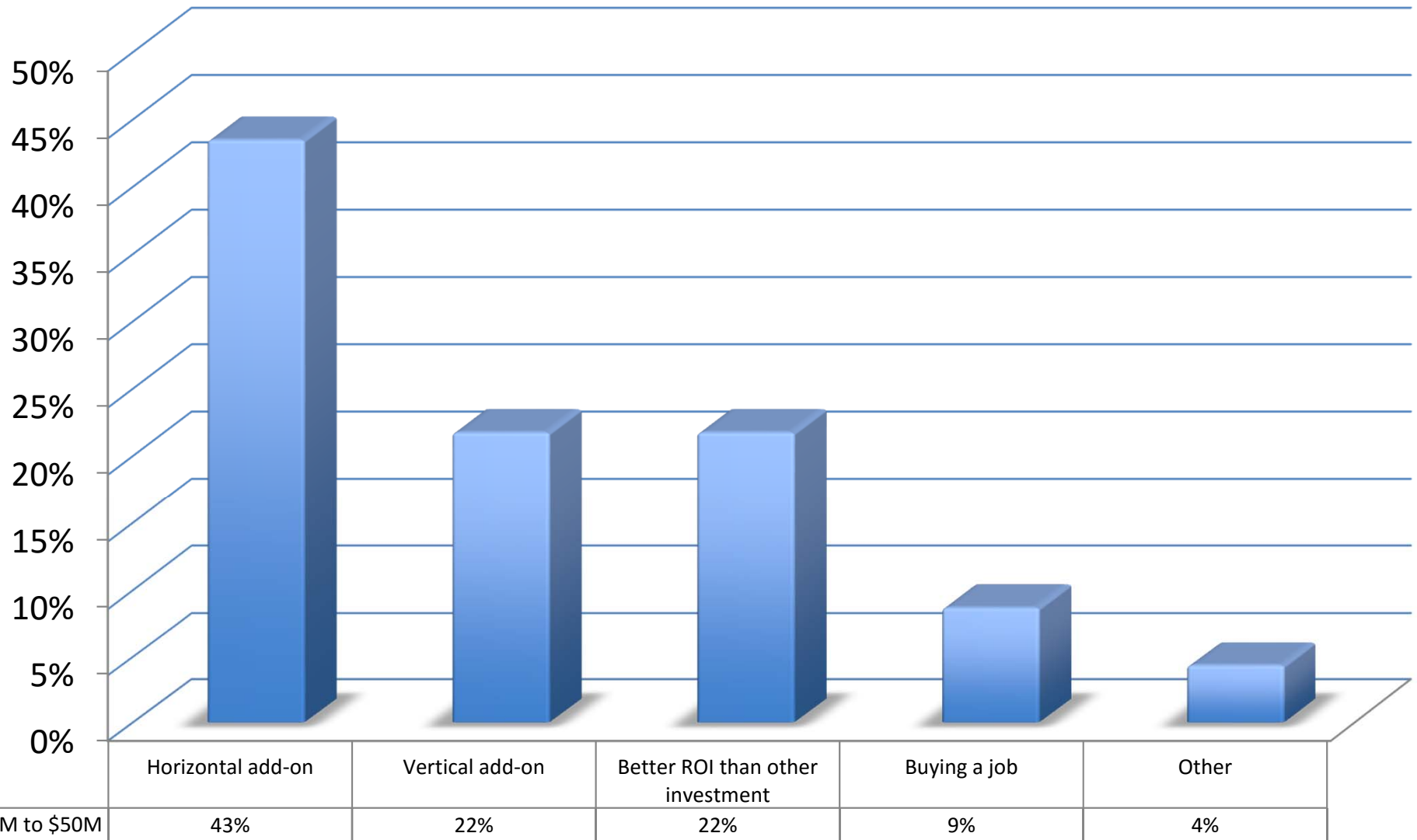
#1 Reason for Seller to Go to Market



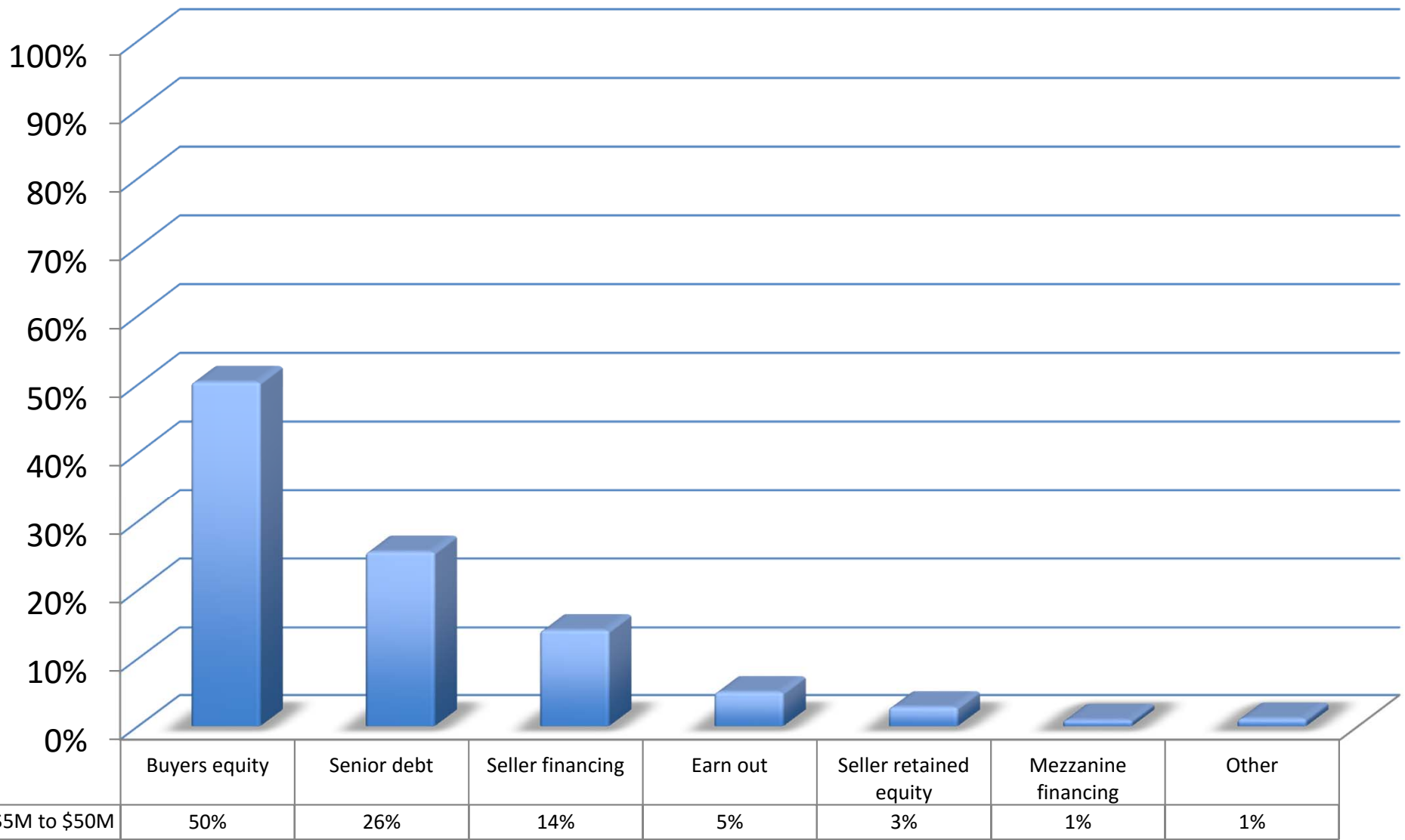
Buyer Location



#1 Motivation for Buyer



Financing Structure



IV. 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 | 2.3% | 5.4% | 42.1% | 46.7% | 3.5% | 3.6 |
| Deals valued from \$500,000 to \$999,999 | 2.8% | 4.2% | 41.9% | 47.4% | 3.7% | 3.6 |
| Deals valued from \$1 million to \$1.99 million | 3.1% | 4.1% | 43.8% | 44.8% | 4.1% | 3.5 |
| Deals valued from \$2 million to \$4.99 million | 2.4% | 4.3% | 52.4% | 37.2% | 3.7% | 3.4 |
| Deals over \$5 million | 3.2% | 6.3% | 50.0% | 36.5% | 4.0% | 3.3 |

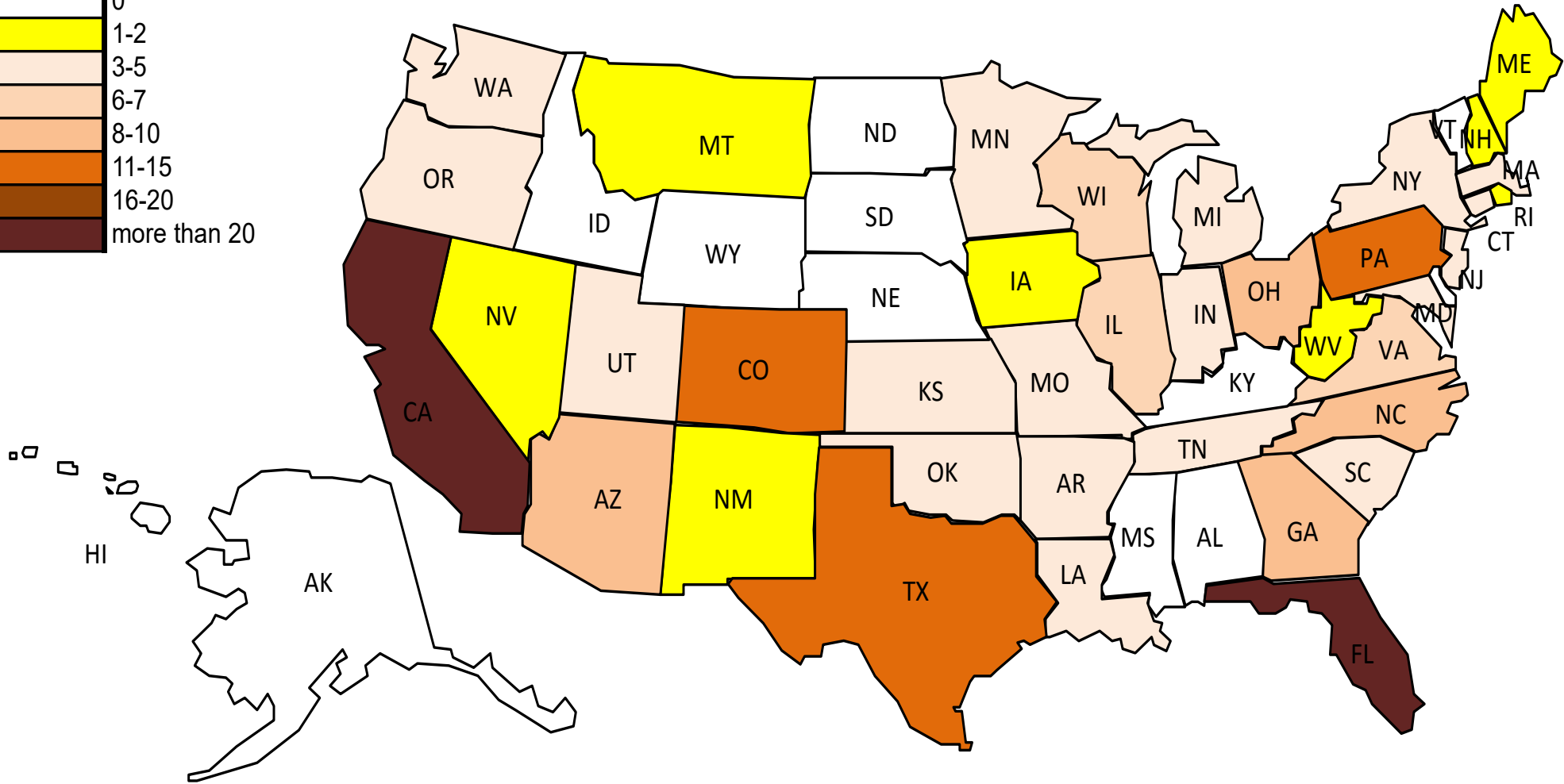
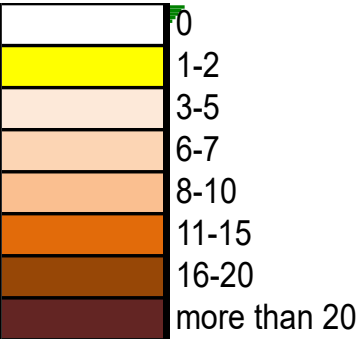
Expectations for Business Valuation Multiples in the Next 3 Months

| Deal size | Greatly decrease | Decrease | Stay the same | Increase | Greatly increase | Score (1 to 5) |
|---|------------------|----------|---------------|----------|------------------|----------------|
| Deals valued under \$499,999 | 1.6% | 6.2% | 81.0% | 9.7% | 1.6% | 3.0 |
| Deals valued from \$500,000 to \$999,999 | 1.4% | 5.6% | 79.4% | 12.1% | 1.4% | 3.1 |
| Deals valued from \$1 million to \$1.99 million | 4.7% | 5.7% | 74.1% | 14.0% | 1.6% | 3.1 |
| Deals valued from \$2 million to \$4.99 million | 1.2% | 8.5% | 66.7% | 18.8% | 4.8% | 3.1 |
| Deals over \$5 million | 0.8% | 10.2% | 63.3% | 22.7% | 3.1% | 3.1 |

V. About the Respondents

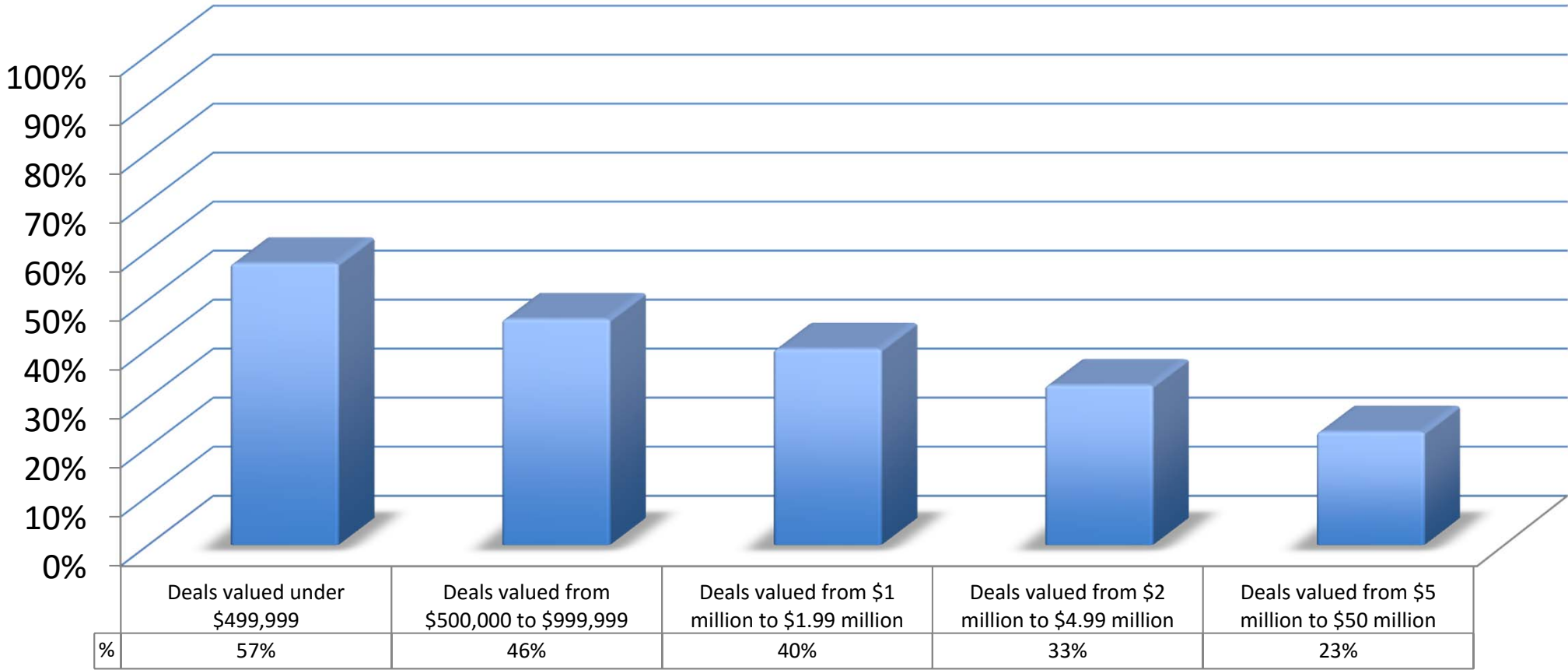
Details About the Respondents

Geographic Location



Details About the Respondents

Typical Size of Business Transactions

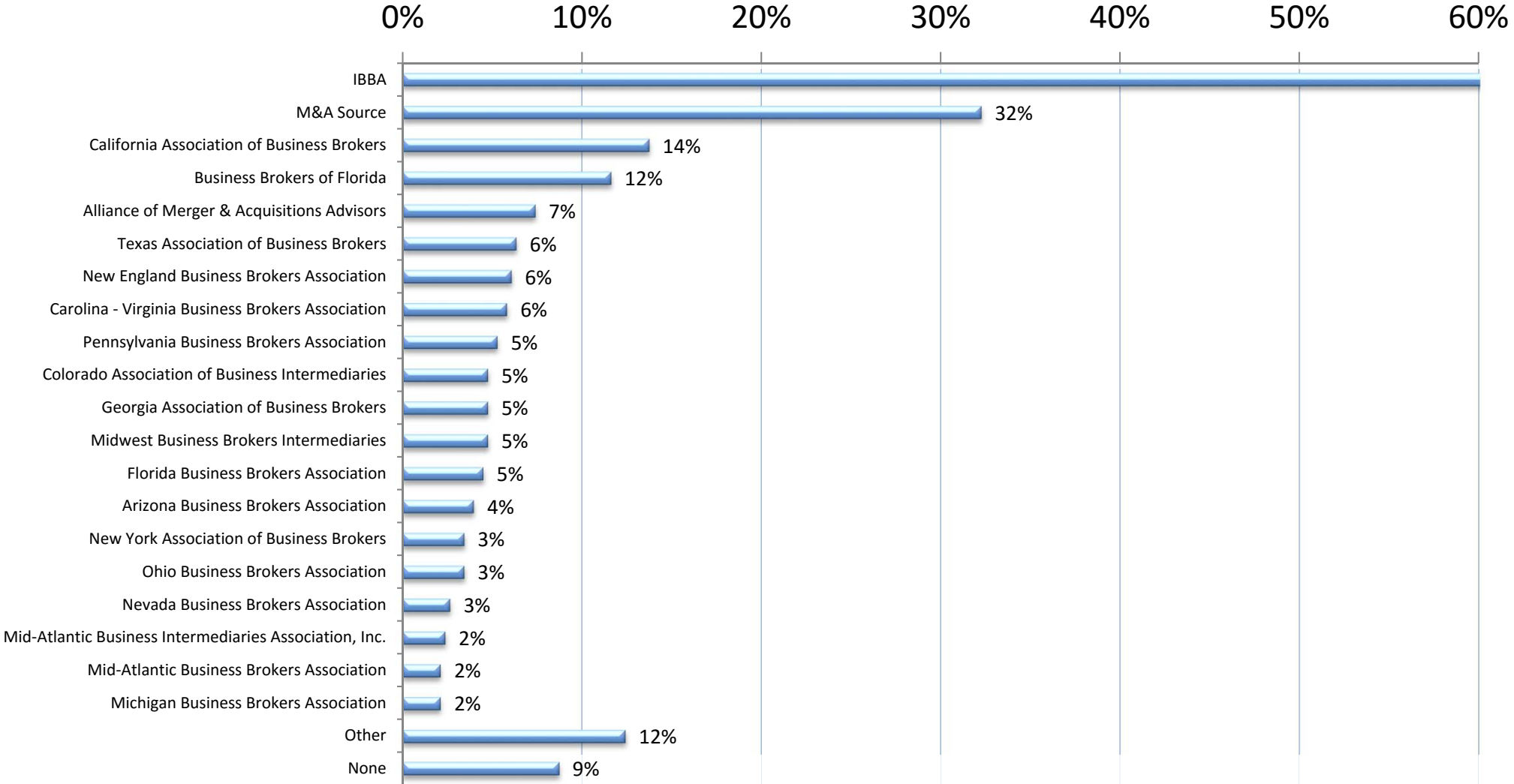


Total number of responses = 378

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

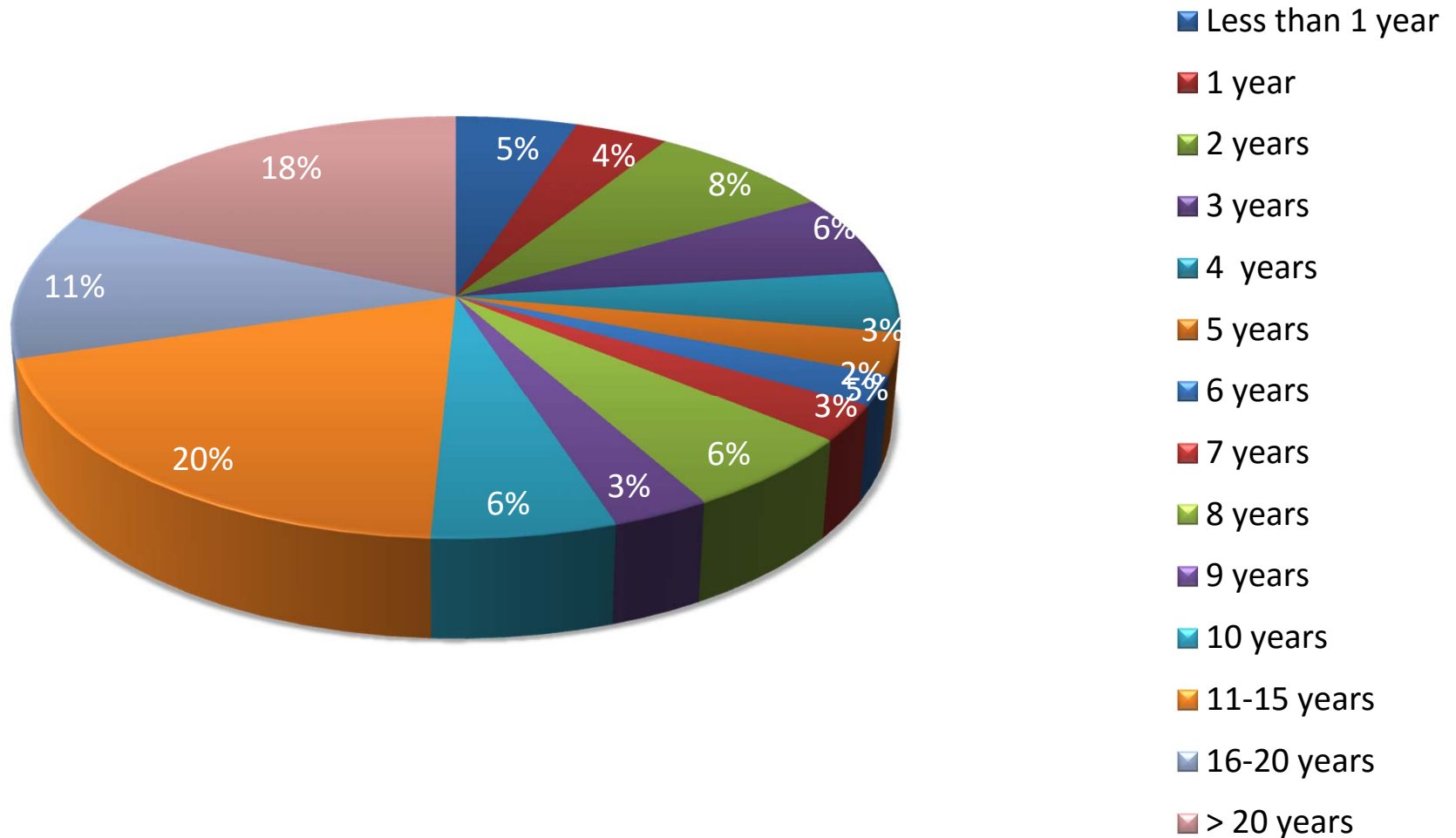
Details About the Respondents

Memberships/ Multiple Memberships



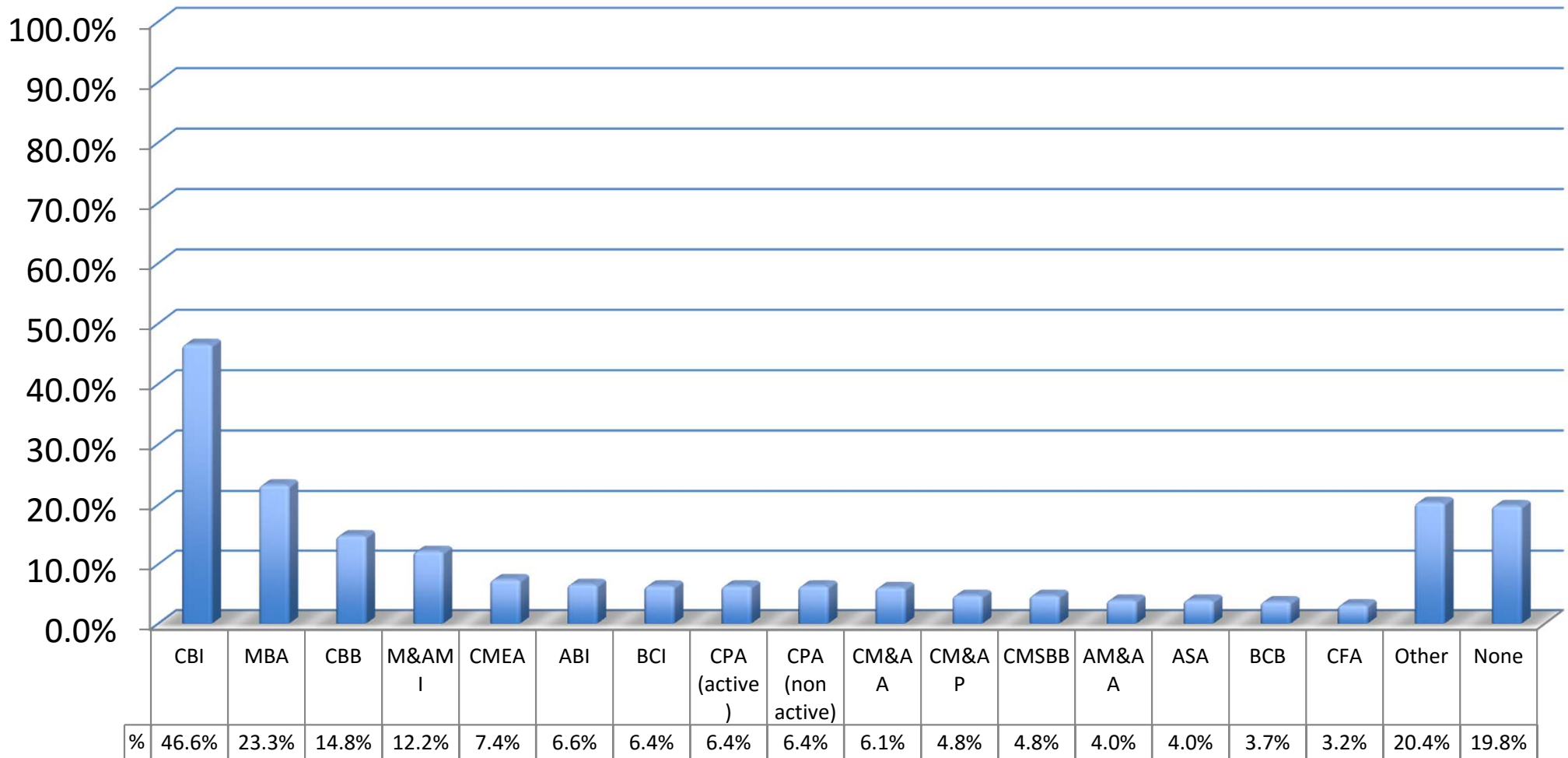
Details About the Respondents

Working Experience



Details About the Respondents

Professional Credentials



THANK YOU!

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