

Market Pulse Report Second Quarter 2018

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ACKNOWLEDGEMENTS

Special thanks to the following people at The Graziadio School of Business and Management for their contributions.

PEPPERDINE GRAZIADIO SCHOOL OF BUSINESS AND MANAGEMENT

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Outline

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I. About the Market Pulse Report

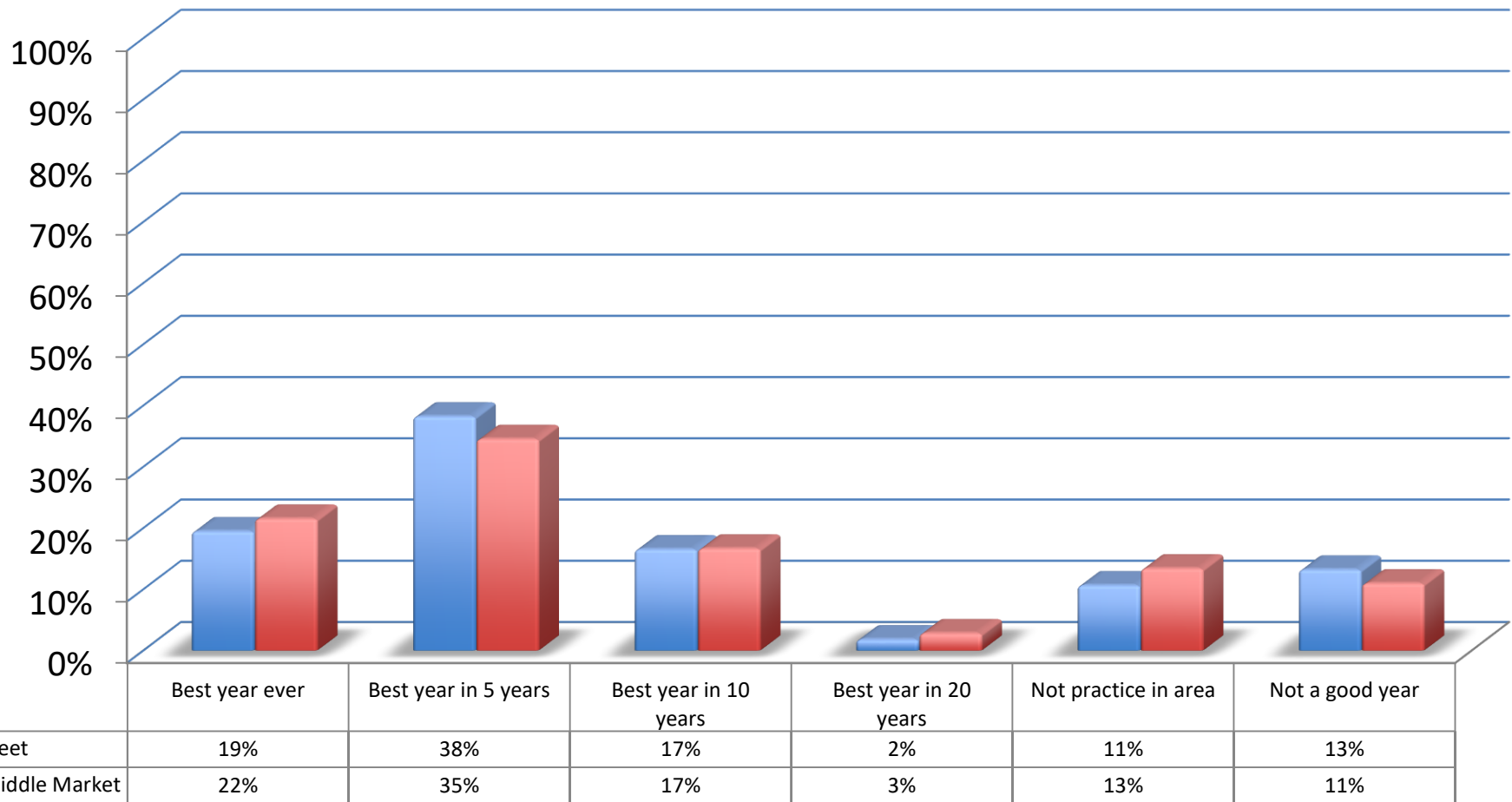
The International Business Brokers Association (IBBA) and M&A Source, in partnership with Pepperdine Private Capital Markets Project, have set a goal to provide quality information on a quarterly basis in order to become the go-to source for Main Street and Lower Middle Market transactions. The “Market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

About the Survey

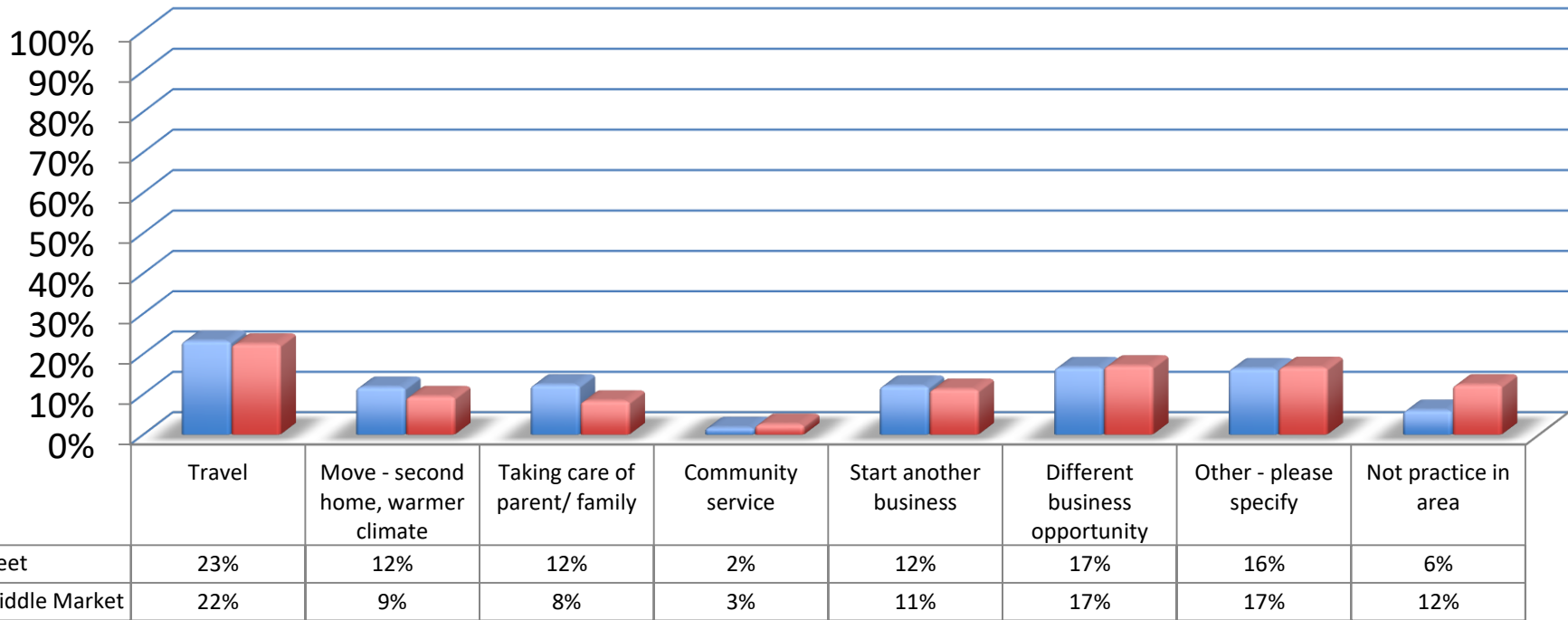
- 25 questions
- Invited participants were members of the International Business Brokers Association (IBBA), IBBA Affiliates/Chapters, and/or M&A Source
- 277 completed responses
- Responses collected from July 1 to July 16, 2018

II. Current Business Environment

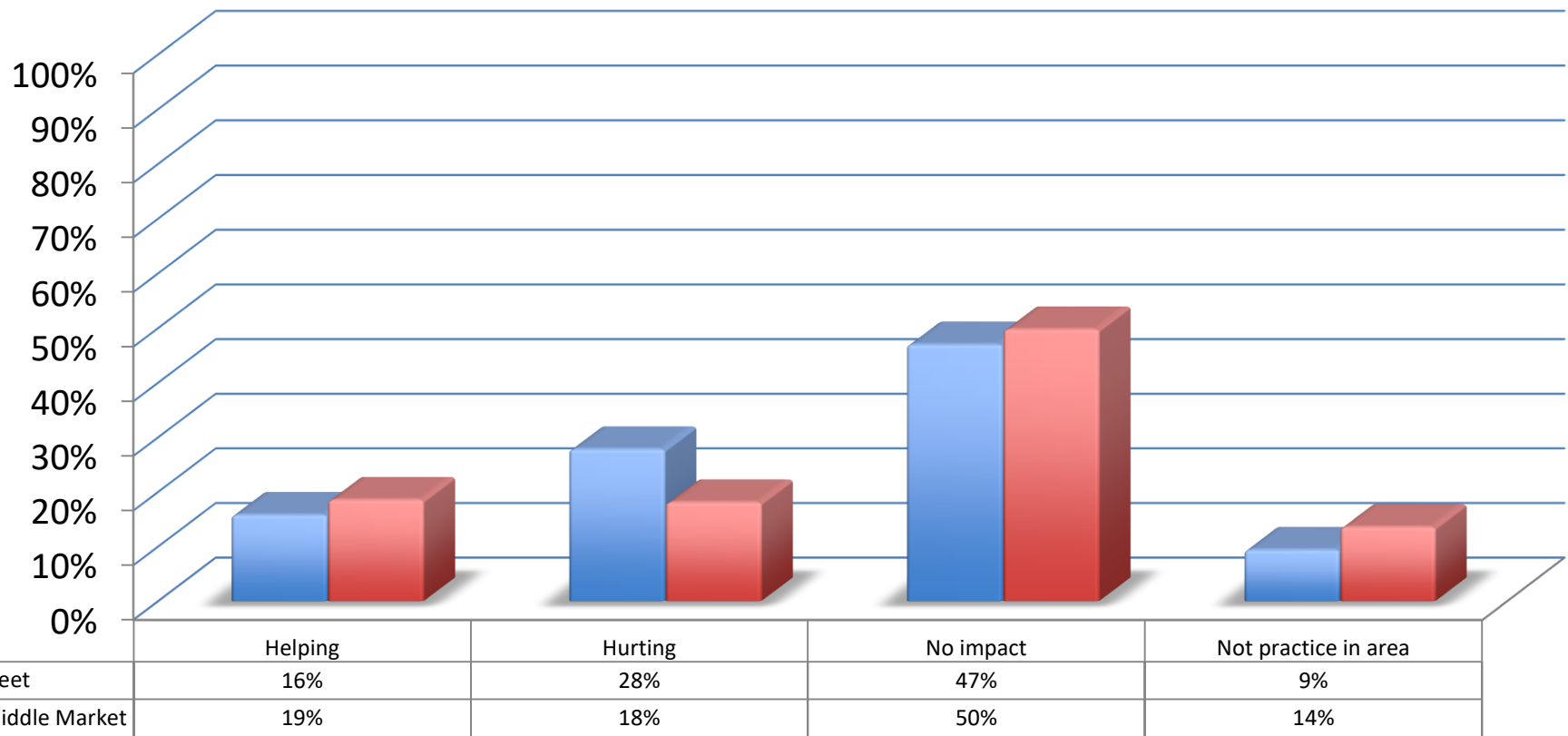
How Respondents Rate 2018 as a Year for Business Owners to Sell Their Businesses



For the Clients Respondents Worked with and Successfully Sold Their Business in the Last 1-2 Years, What Was at the Top of Their 'Bucket List' after Their Business

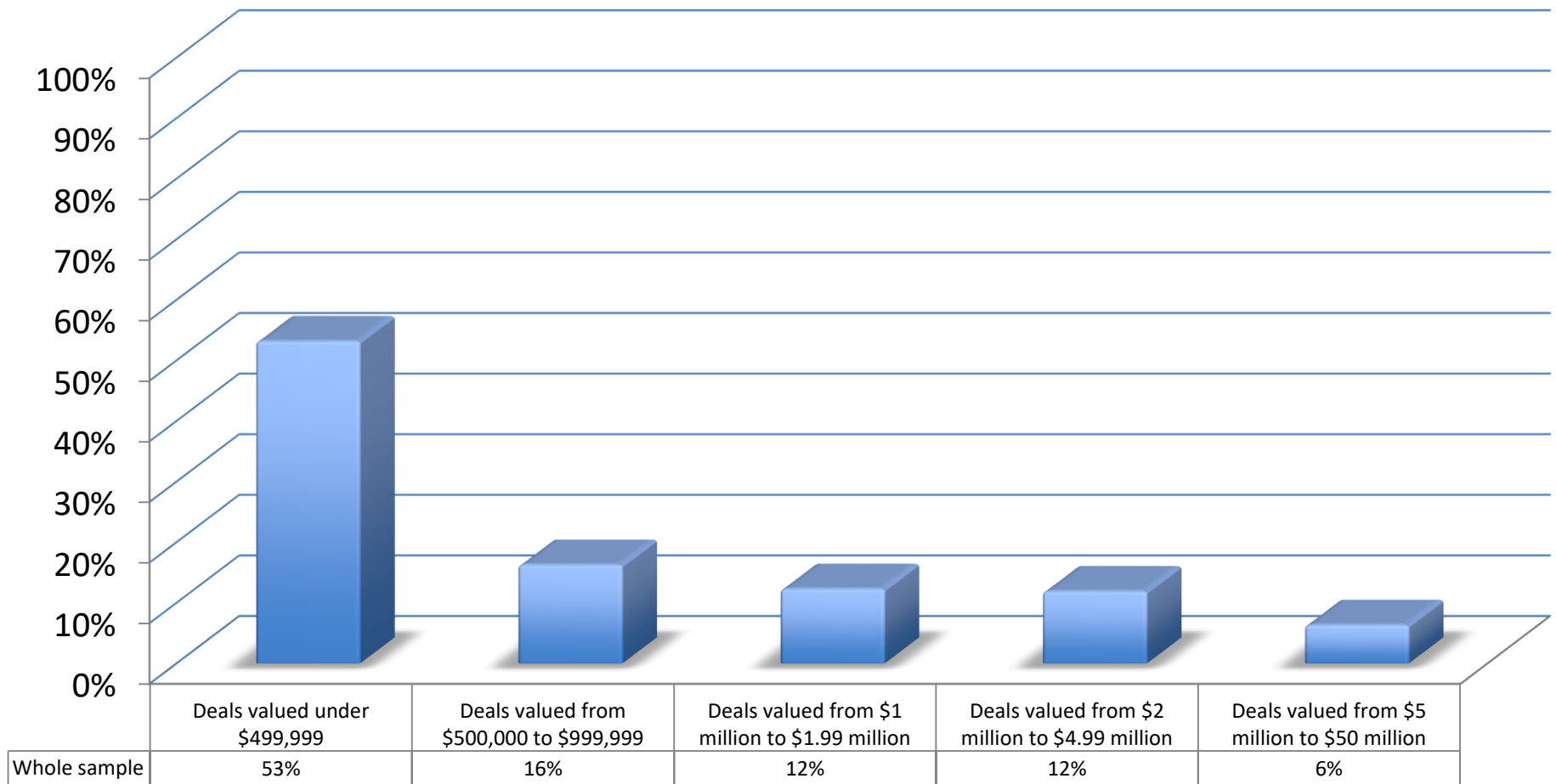


Is the Low Unemployment Rate Helping or Hurting Respondents Ability to Bring Clients to the Closing Table

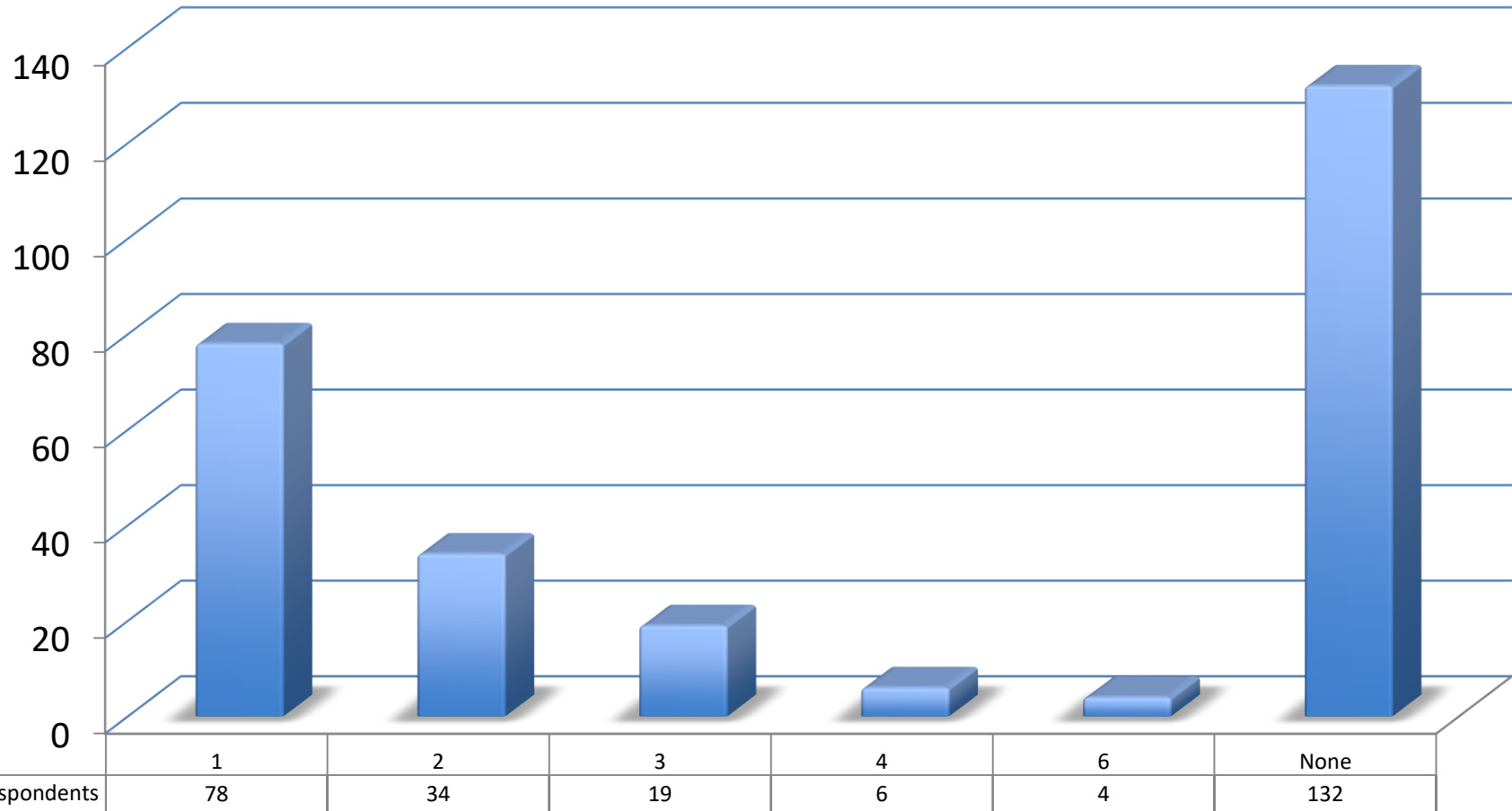


III. Business Transactions Closed in the Last 3 Months

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



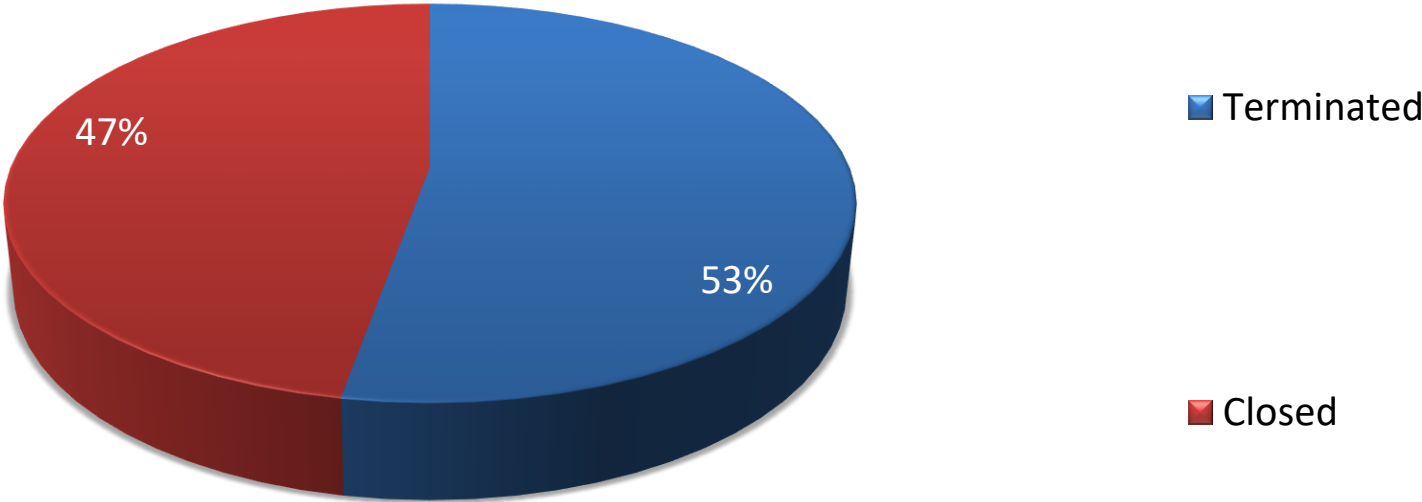
Number of Business Transactions Closed by Respondents in the Last 3 Months



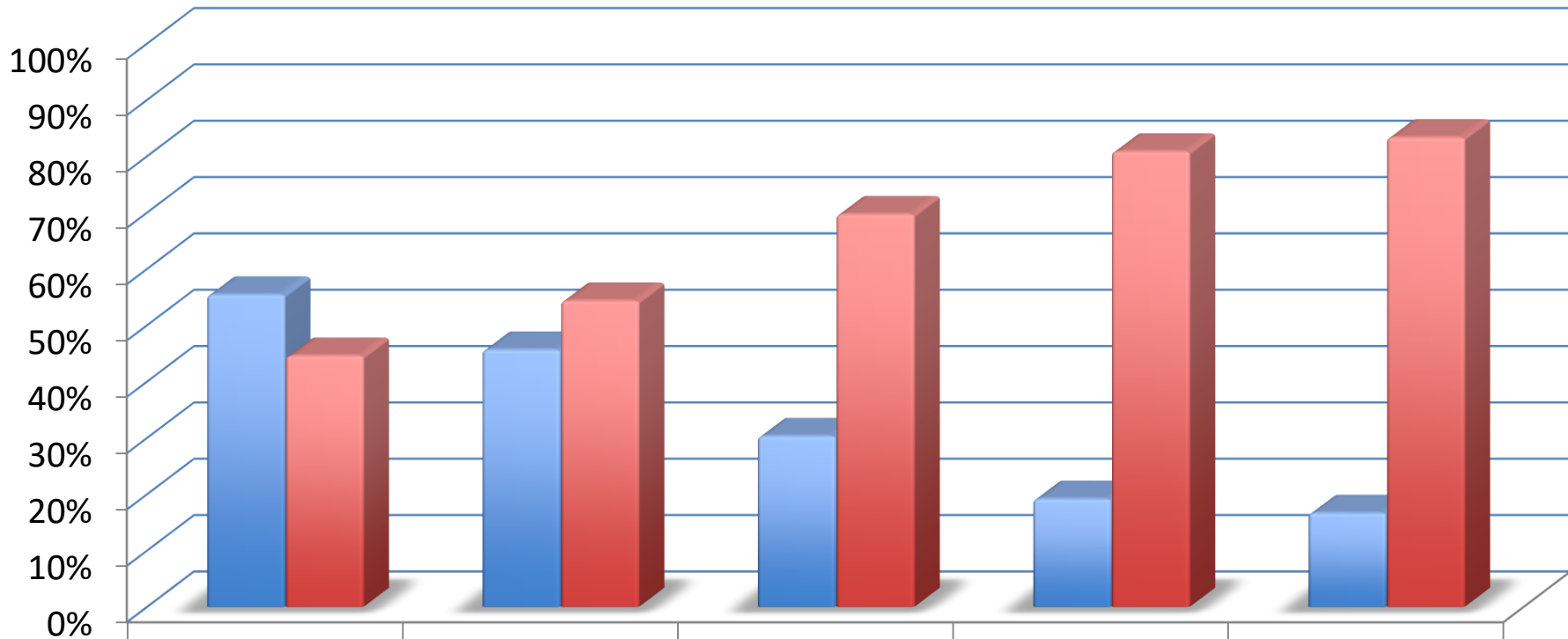
Change in the Number of New Clients by Deal Size in The Last 3 Months

Deal size	Greatly decreased	Decreased	Stayed the same	Increased	Greatly increased	Score (1 to 5)
Deals valued under \$499,999	3%	13%	45%	35%	4%	3.2
Deals valued from \$500,000 to \$999,999	3%	16%	43%	36%	3%	3.2
Deals valued from \$1 million to \$1.99 million	5%	10%	41%	39%	5%	3.3
Deals valued from \$2 million to \$4.99 million	3%	8%	53%	34%	3%	3.3
Deals valued from \$5 million to \$50 million	1%	8%	50%	37%	4%	3.3

Percentage of Transactions Terminated without Closing in the Last Three Months



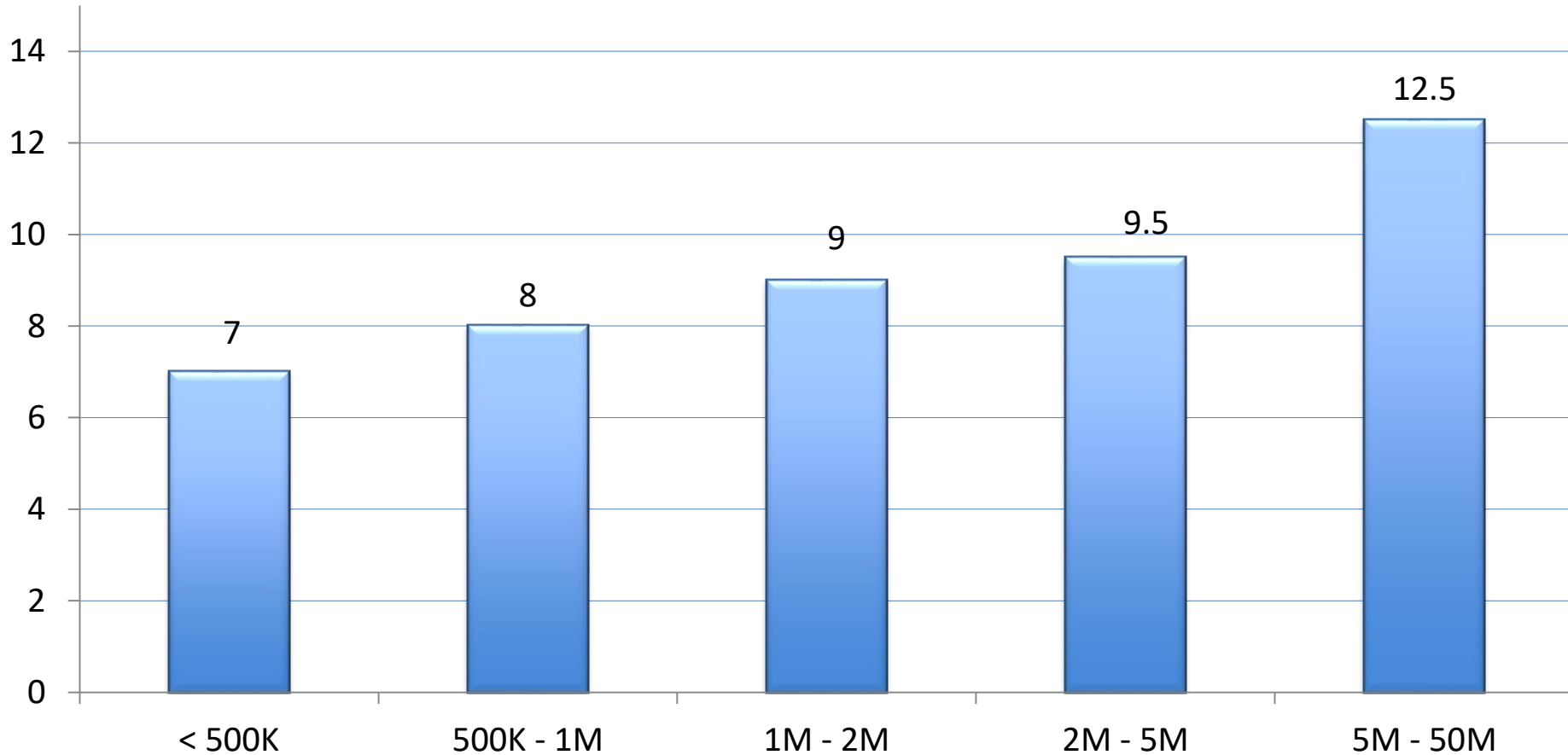
Was it Buyer's or Seller's Market in the Last 3 Months?



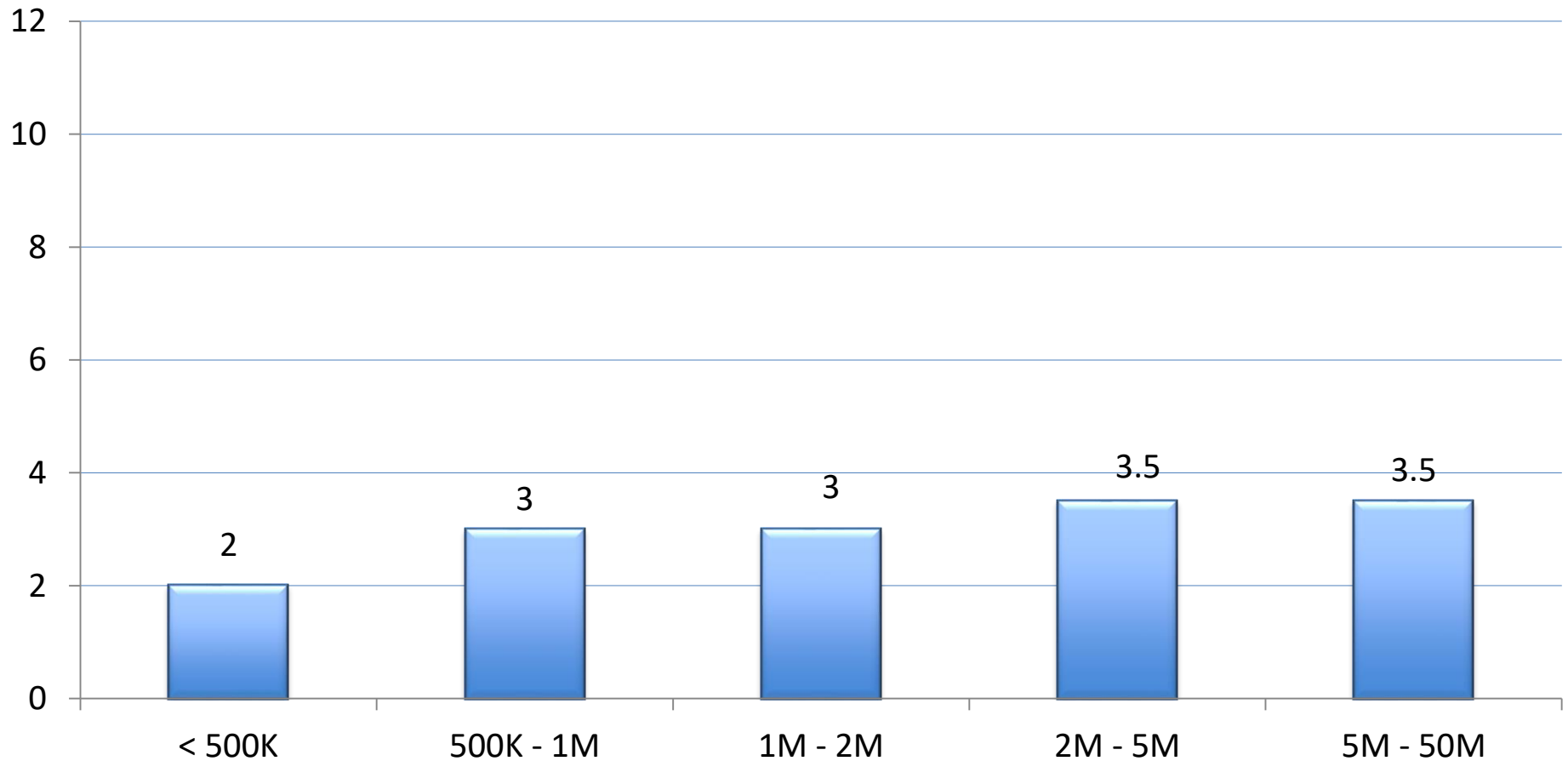
	Deals valued under \$499,999	Deals valued from \$500,000 to \$999,999	Deals valued from \$1 million to \$1.99 million	Deals valued from \$2 million to \$4.99 million	Deals valued from \$5 million to \$50 million
Buyer's market	55%	46%	30%	19%	17%
Seller's market	45%	54%	70%	81%	83%
Number of responses	175	138	132	120	78

Business Transactions of All Sizes, Comparison

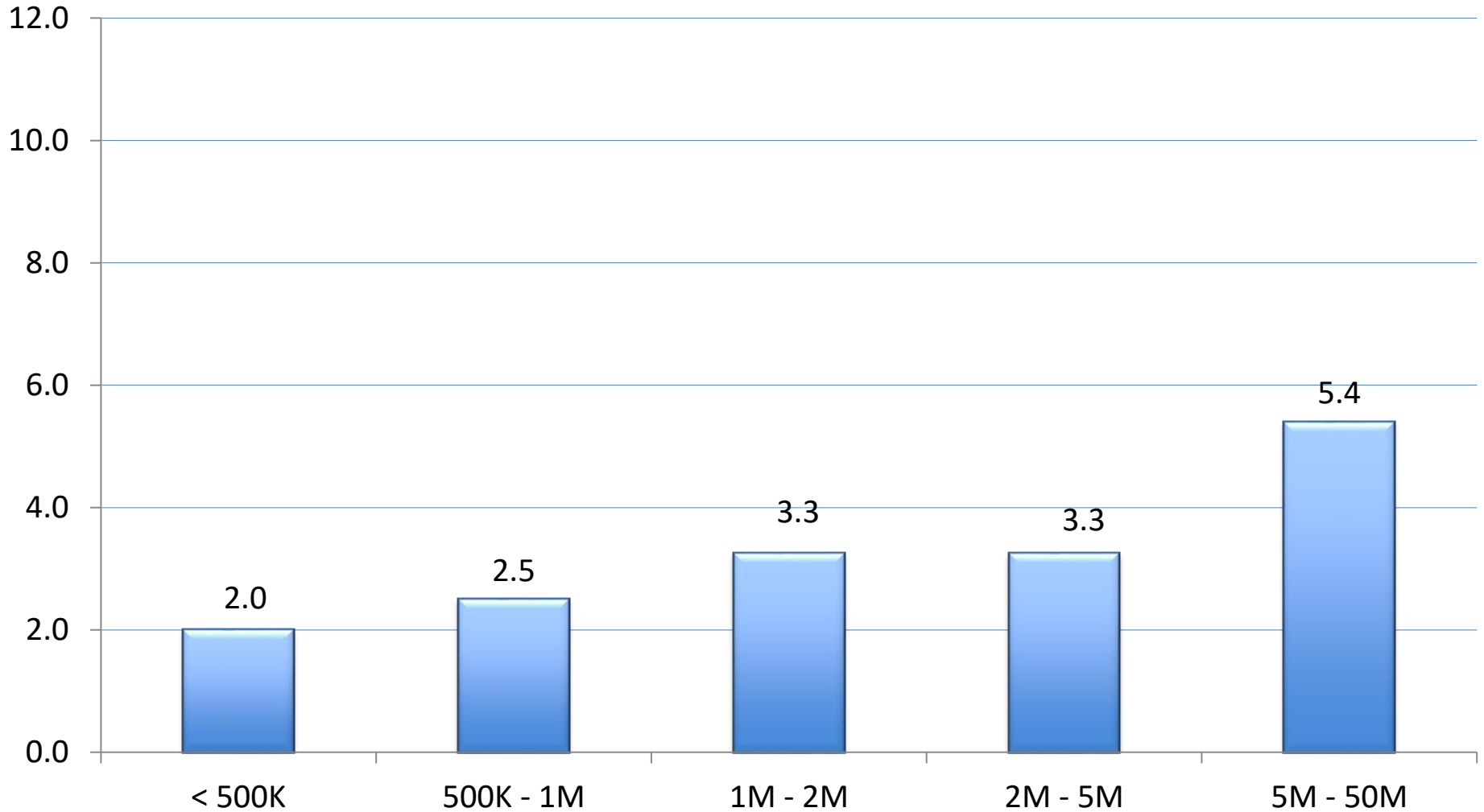
Median Number of Months from Listing/Engagement to Close



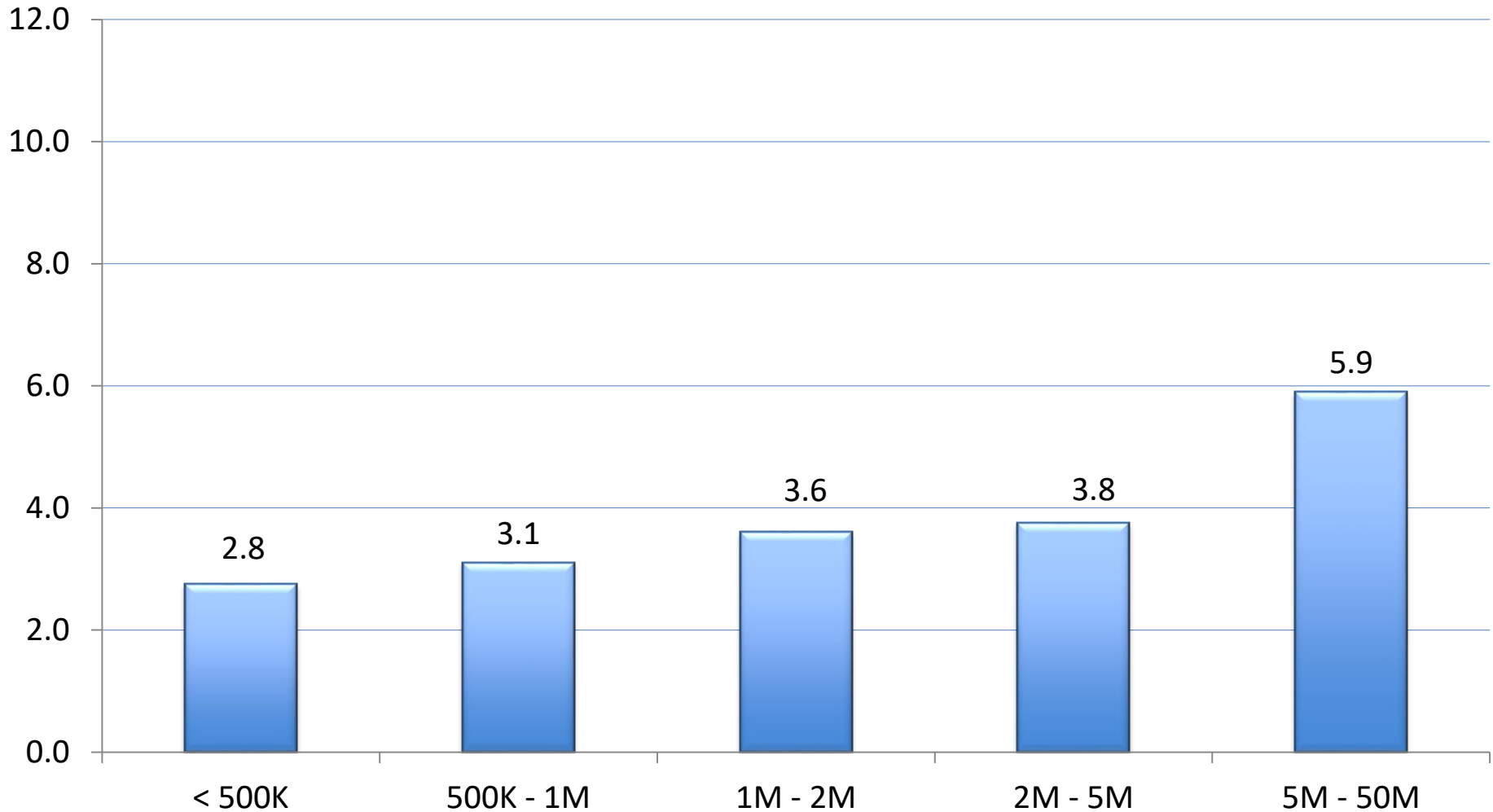
Median Number of Months from LOI/Offer to Close



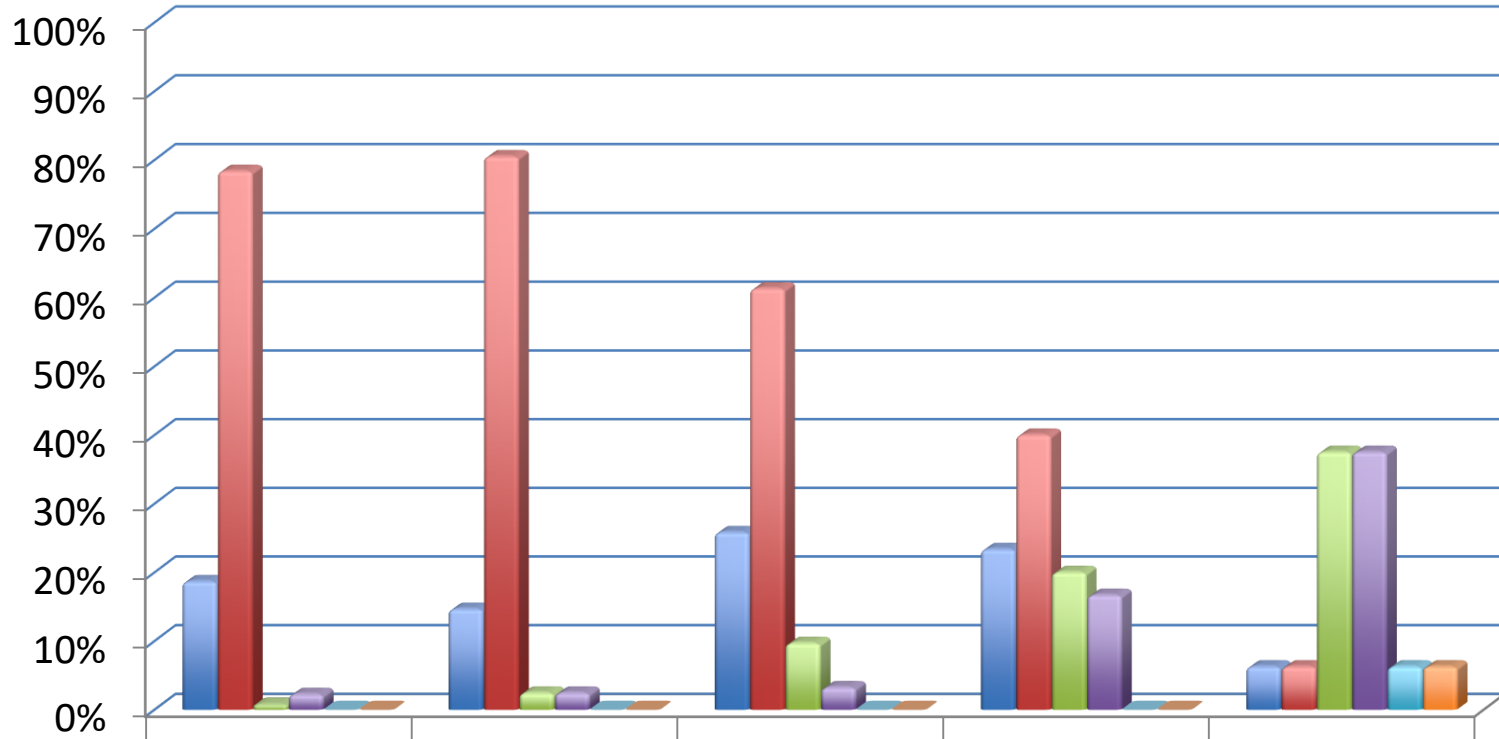
Median SDE Multiple Paid



Median EBITDA Multiple Paid

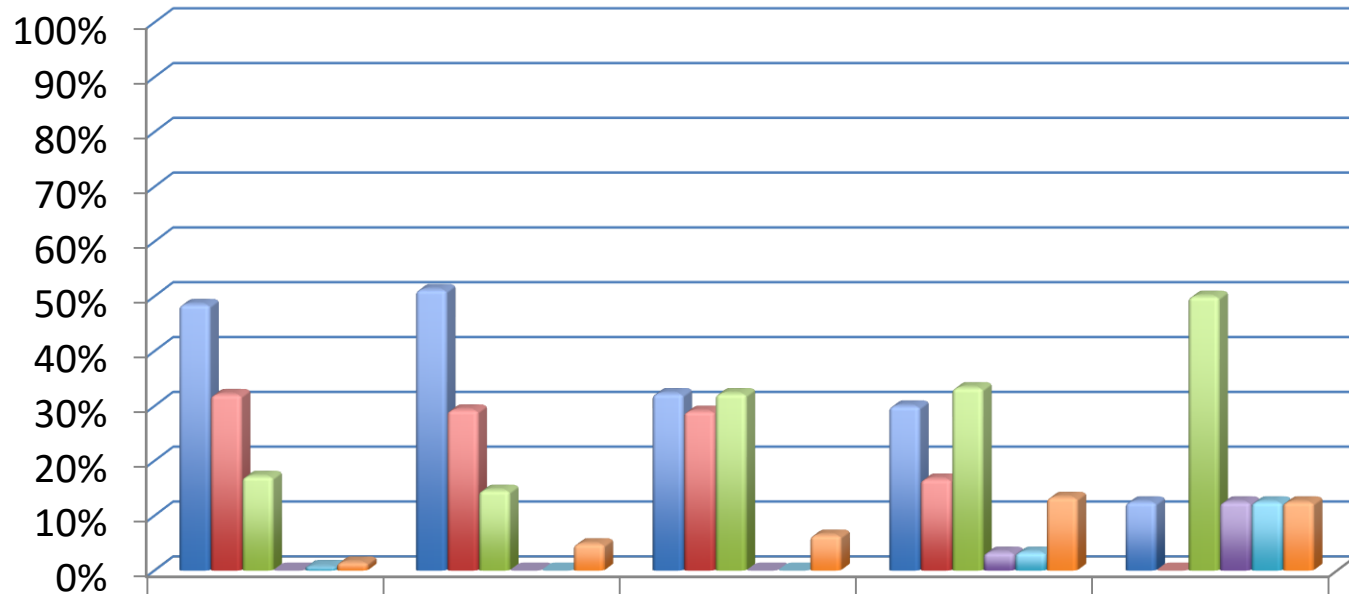


Multiple Type



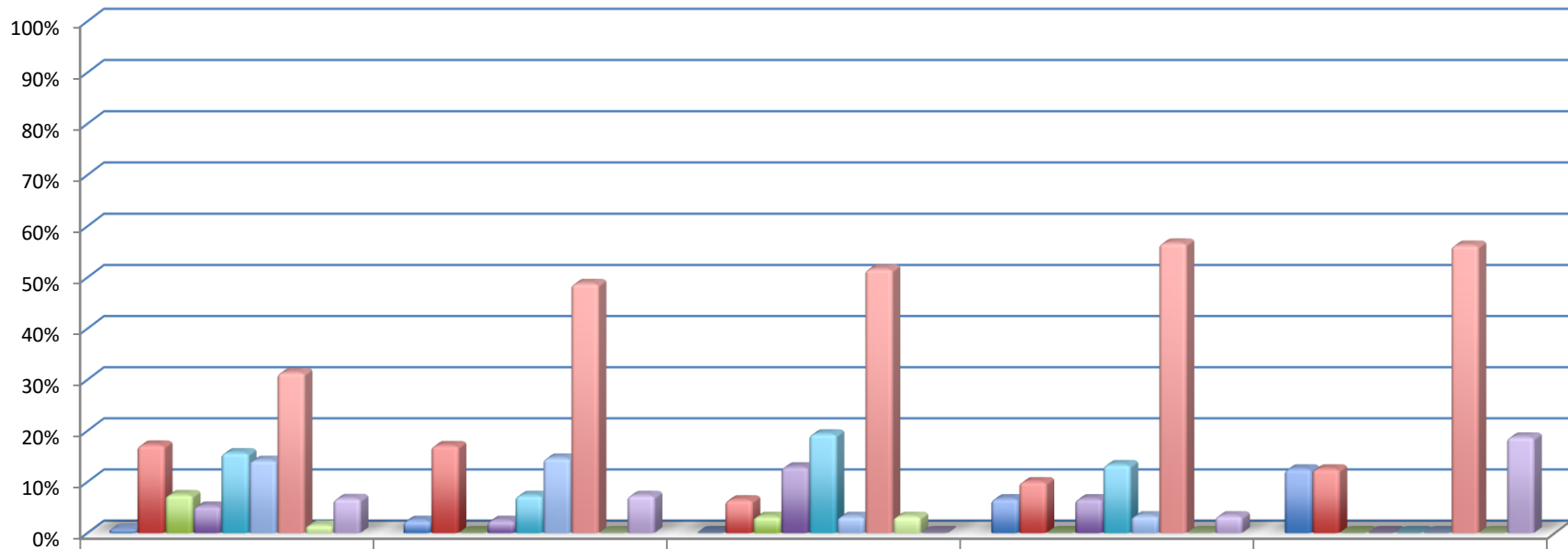
	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
■ SDE including working capital	19%	14.6%	25.8%	23.3%	6.3%
■ SDE not including working capital	78%	80.5%	61.3%	40.0%	6.3%
■ EBITDA including working capital	1%	2.4%	9.7%	20.0%	37.5%
■ EBITDA not including working capital	2%	2.4%	3.2%	16.7%	37.5%
■ TTM EBITDA including working capital	0%	0.0%	0.0%	0.0%	6.3%
■ TTM EBITDA not including working capital	0%	0.0%	0.0%	0.0%	6.3%

Buyer Type



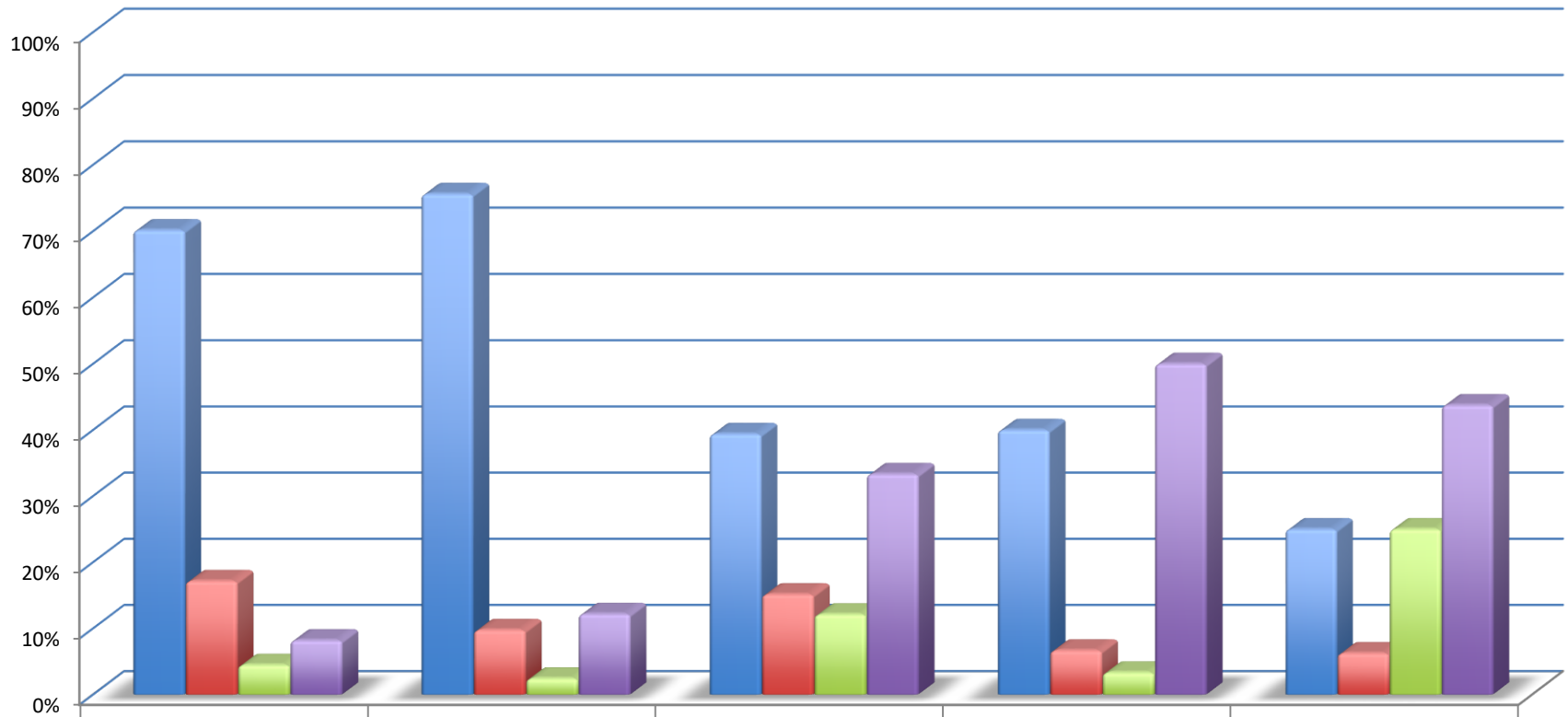
	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
1st time individual	49%	51%	32%	30%	13%
individual who owned a business	32%	29%	29%	17%	0%
existing company/strategic buyer	17%	15%	32%	33%	50%
PE firm - Platform	0%	0%	0%	3%	13%
PE firm - Add-on	1%	0%	0%	3%	13%
Other	1%	5%	6%	13%	13%

#1 Reason for Seller to Go to Market



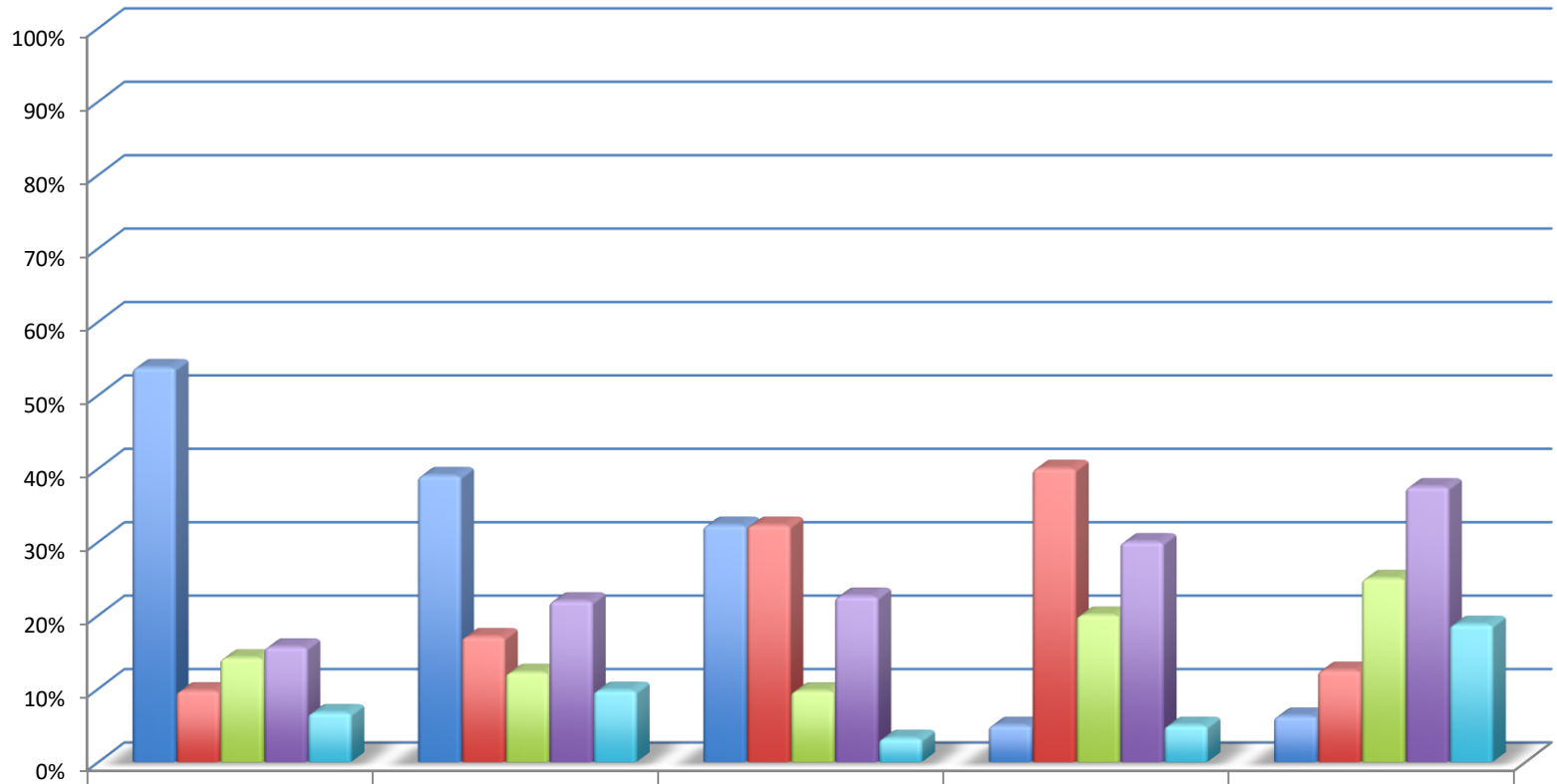
	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
Recapitalization	0.7%	2%	0%	7%	13%
Burnt out	17.2%	17%	6%	10%	13%
Family issues	7.5%	0%	3%	0%	0%
Health	5.2%	2%	13%	7%	0%
New opportunity	15.7%	7%	19%	13%	0%
Relocation/moving	14.2%	15%	3%	3%	0%
Retirement	31.3%	49%	52%	57%	56%
Unsolicited offer	1.5%	0%	3%	0%	0%
Other	6.7%	7%	0%	3%	19%

Buyer Location



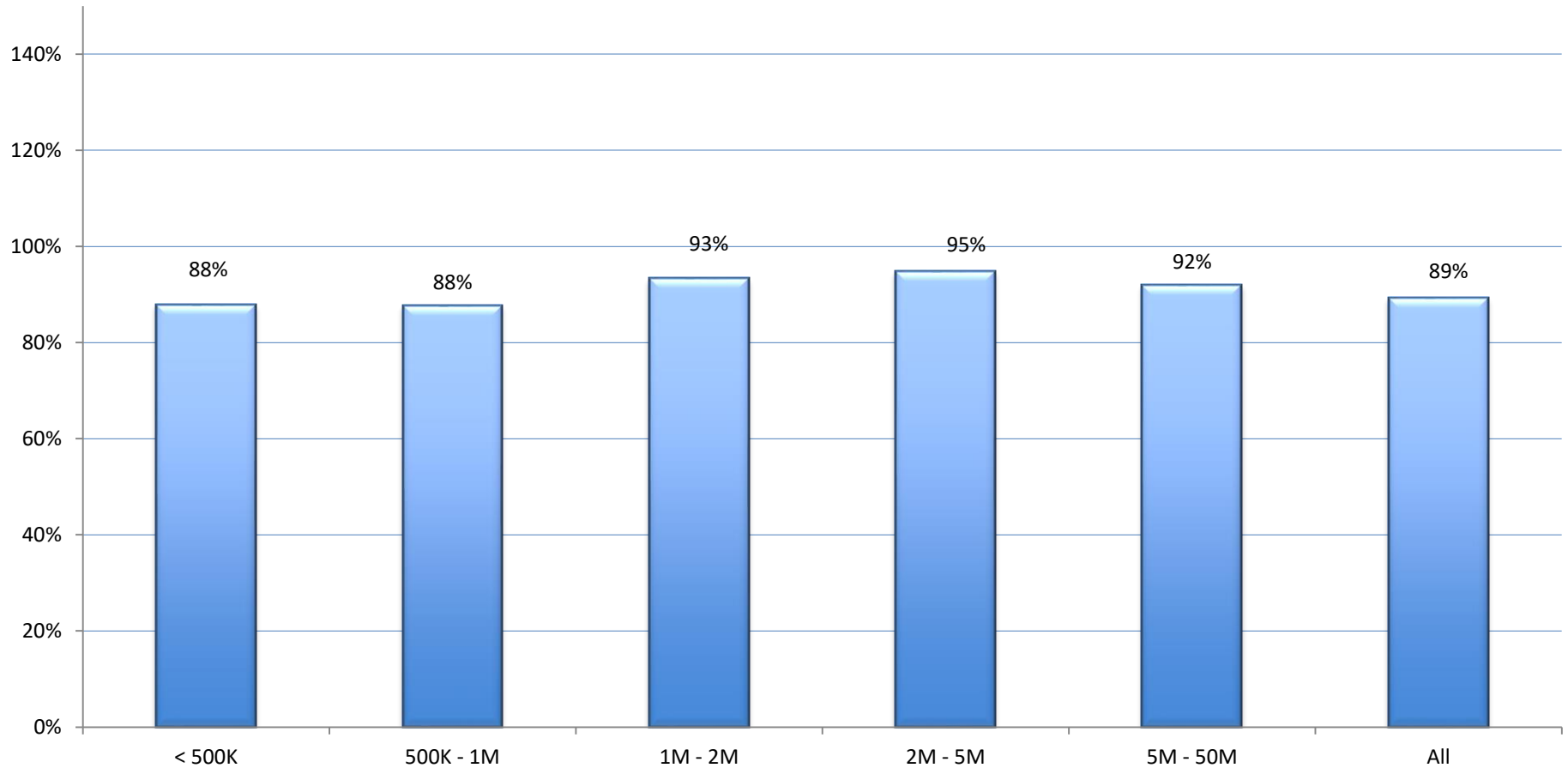
	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
within 20 miles	70.1%	75.6%	39.4%	40.0%	25.0%
within 50 miles	17.2%	9.8%	15.2%	6.7%	6.3%
within 100 miles	4.5%	2.4%	12.1%	3.3%	25.0%
more than 100 miles	8.2%	12.2%	33.3%	50.0%	43.8%

#1 Motivation for Buyer

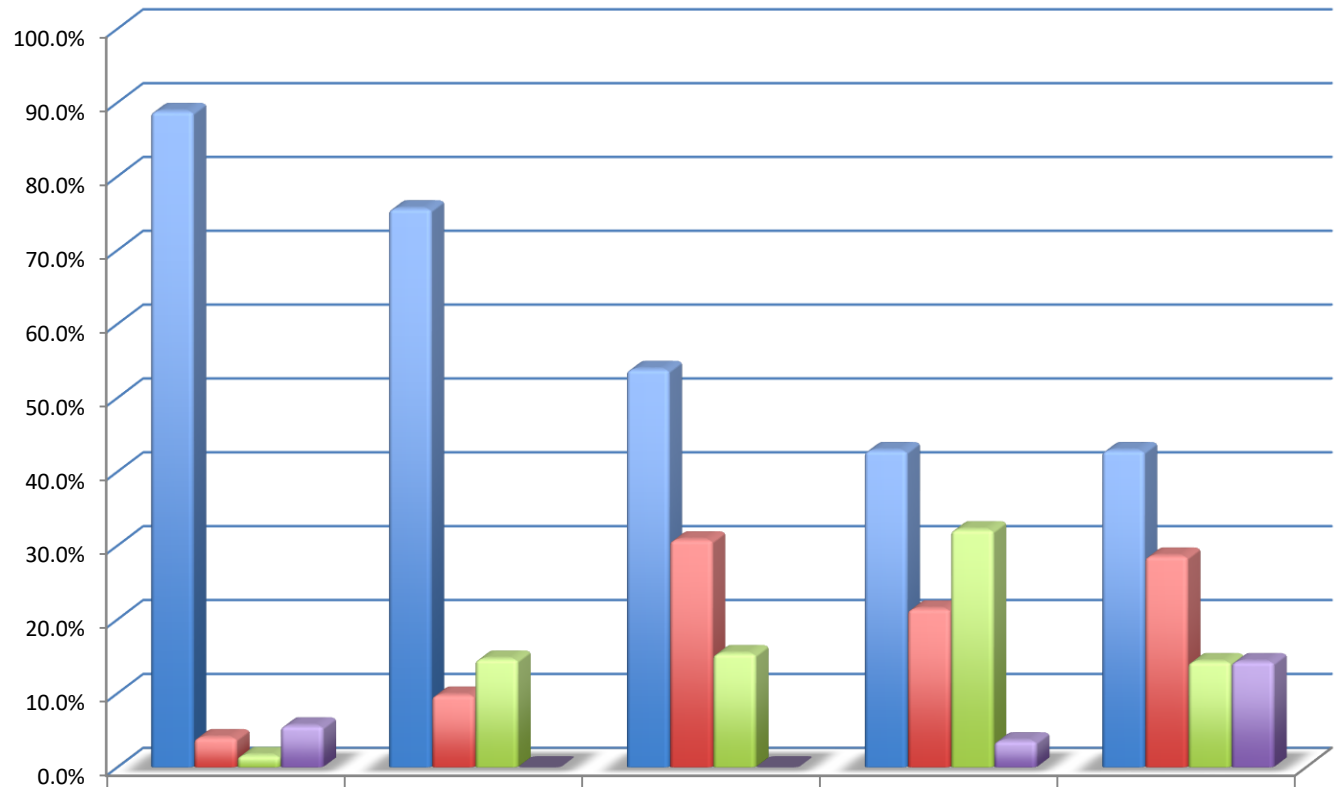


	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
Buying a job	54%	39%	32%	5%	6%
Better ROI than other investment	10%	17%	32%	40%	13%
Vertical add-on	14%	12%	10%	20%	25%
Horizontal add-on	16%	22%	23%	30%	38%
Other	7%	10%	3%	5%	19%

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

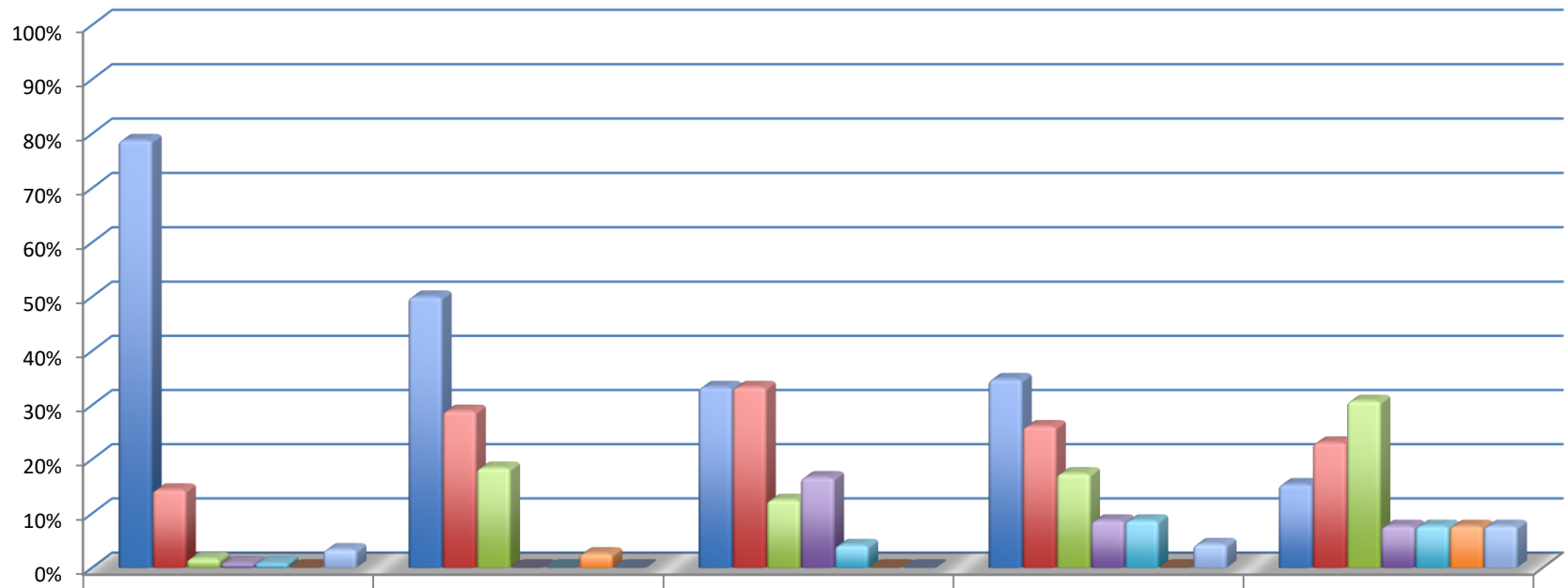


Exit Planning



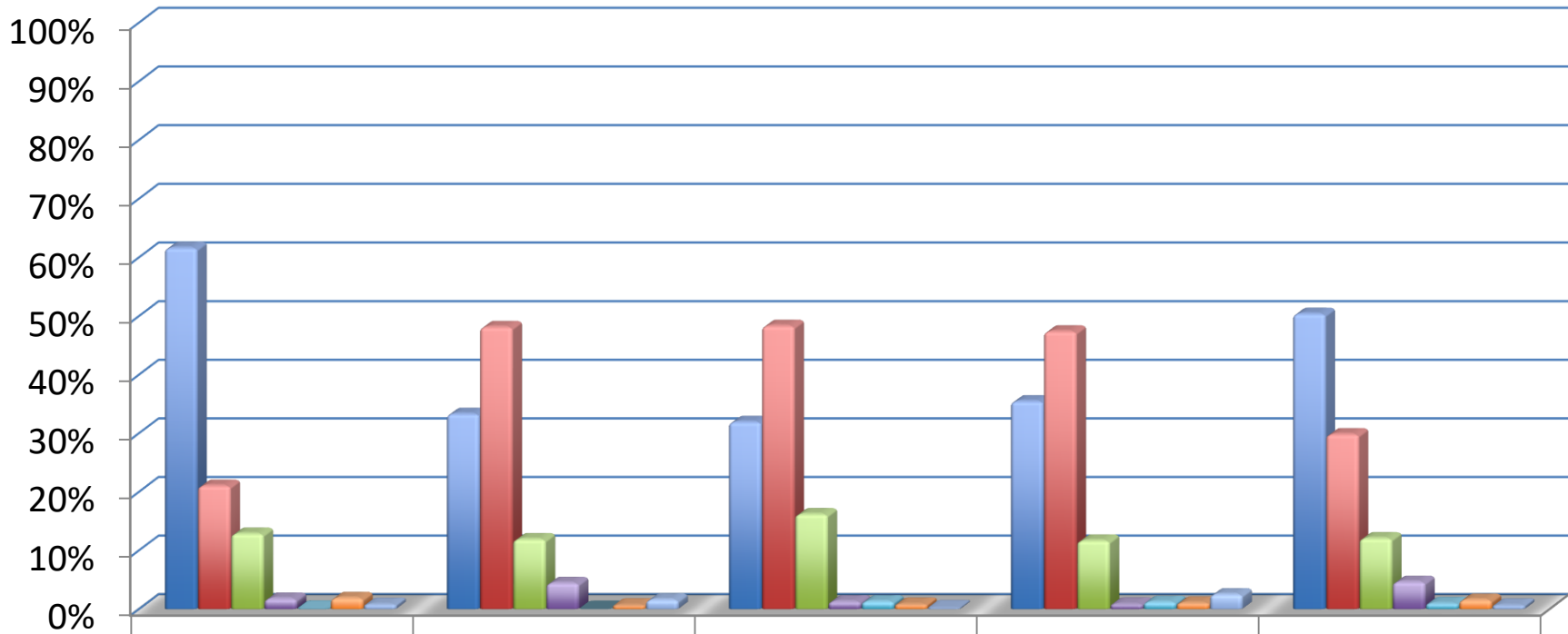
	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
None - no formal planning prior to engagement to sell	88.8%	76%	54%	43%	43%
Met with an advisor (Wealth, CPA, Attorney) INCLUDING Broker for retirement needs prior to engaging broker	4.0%	10%	31%	21%	29%
Met with an advisor (Wealth, CPA, Attorney) for retirement needs prior to engaging broker (EXCLUDED Broker)	1.6%	15%	15%	32%	14%
N/A Represented Buyer	5.6%	0%	0%	4%	14%

Amount Of Exit Planning Prior To Marketing Business



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
■ none	79%	50%	33%	35%	15%
■ less than 1 year	14%	29%	33%	26%	23%
■ between 1 and 2 years	2%	18%	13%	17%	31%
■ between 2 and 3 years	1%	0%	17%	9%	8%
■ between 3 and 5 years	1%	0%	4%	9%	8%
■ greater than 5 years	0%	3%	0%	0%	8%
■ N/A represented buyer	3%	0%	0%	4%	8%

Financing Structure

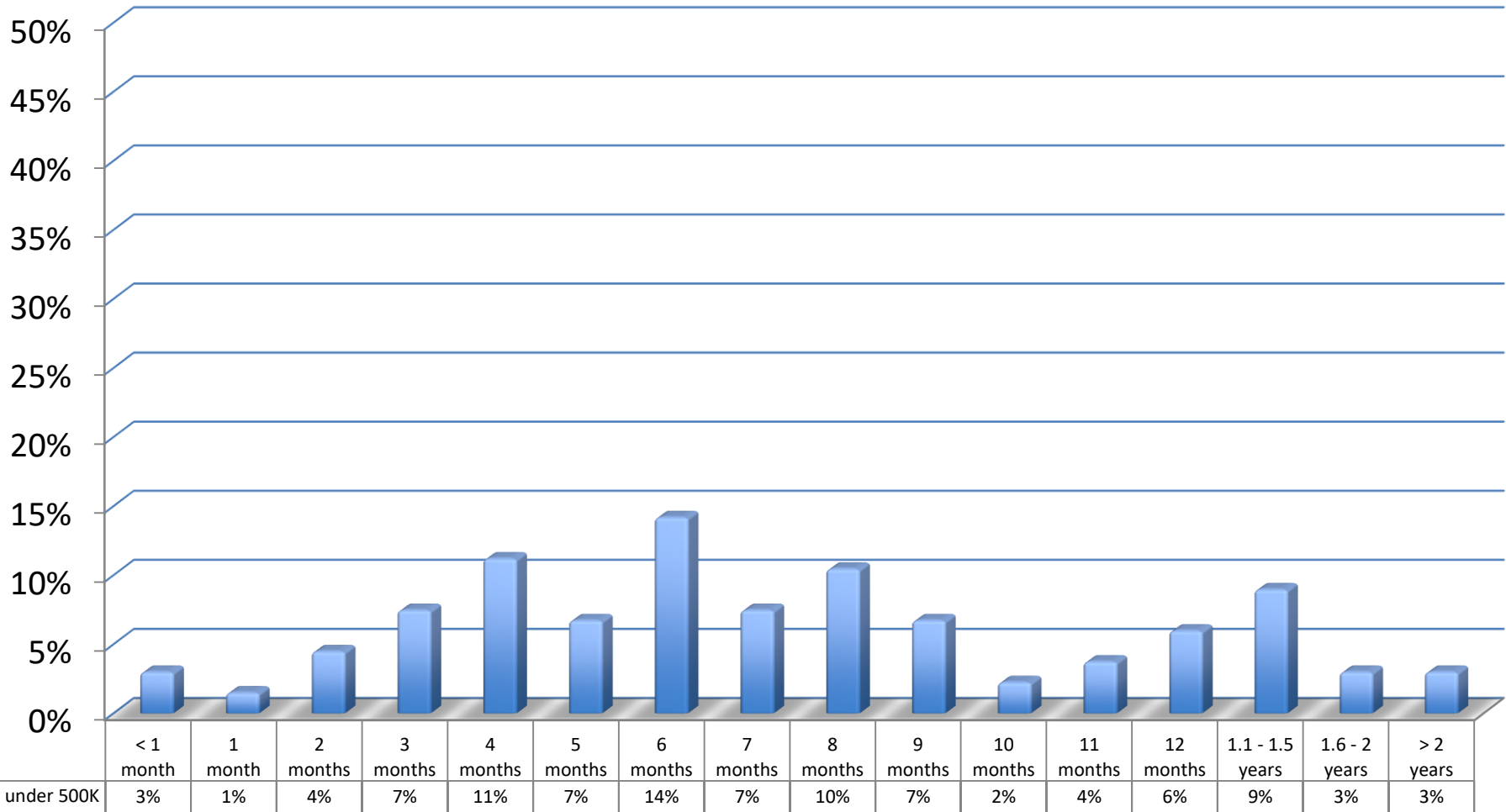


	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
Buyers equity	62%	33%	32%	35%	50%
Senior debt	21%	48%	48%	47%	30%
Seller financing	13%	12%	16%	12%	12%
Earn out	2%	4%	1%	1%	5%
Seller retained equity	0%	0%	1%	1%	1%
Mezzanine financing	2%	1%	1%	1%	2%
Other	1%	2%	0%	3%	1%

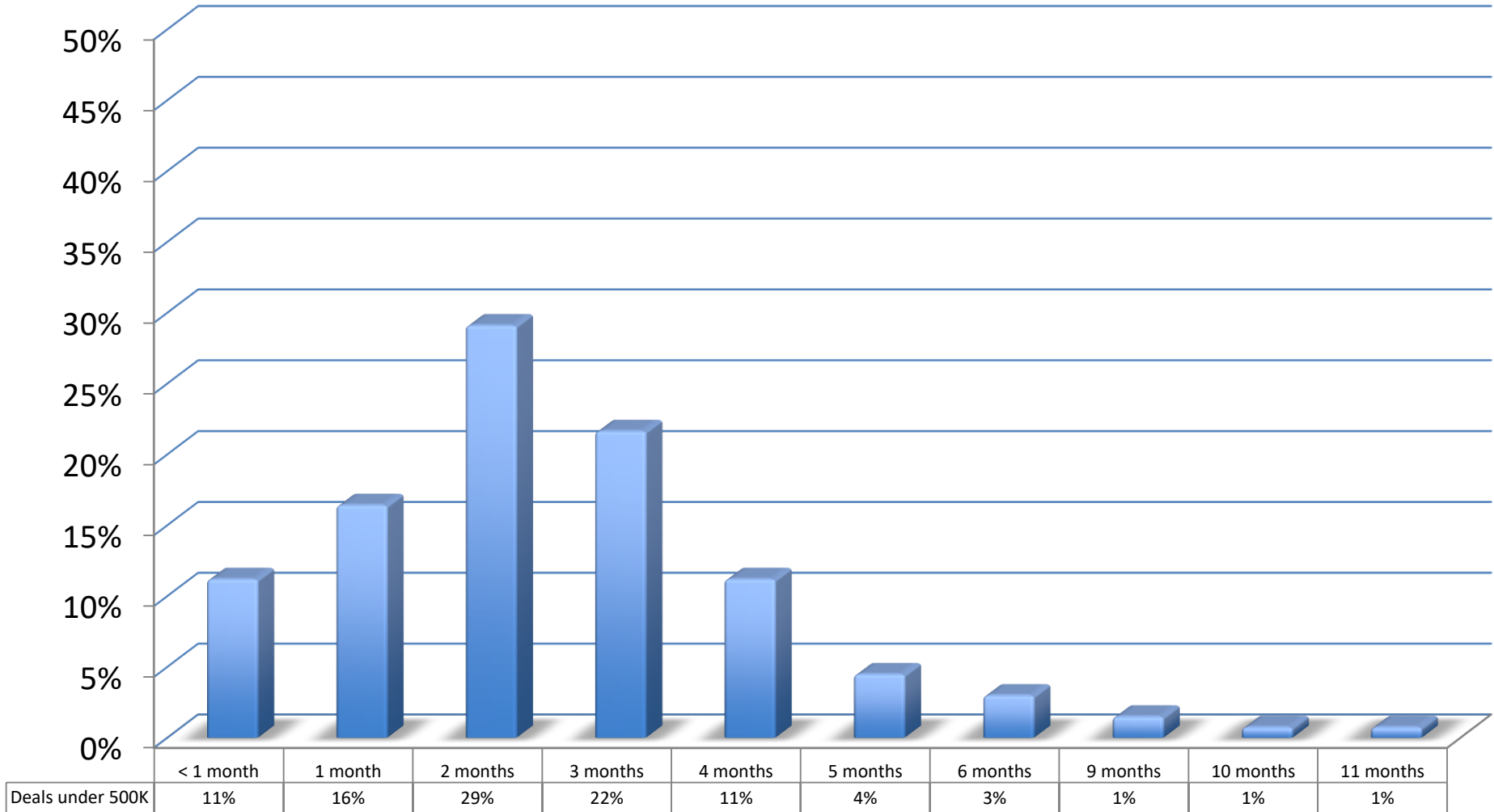
Business Transactions Valued under \$499,999

Number of Closed Transactions: 134

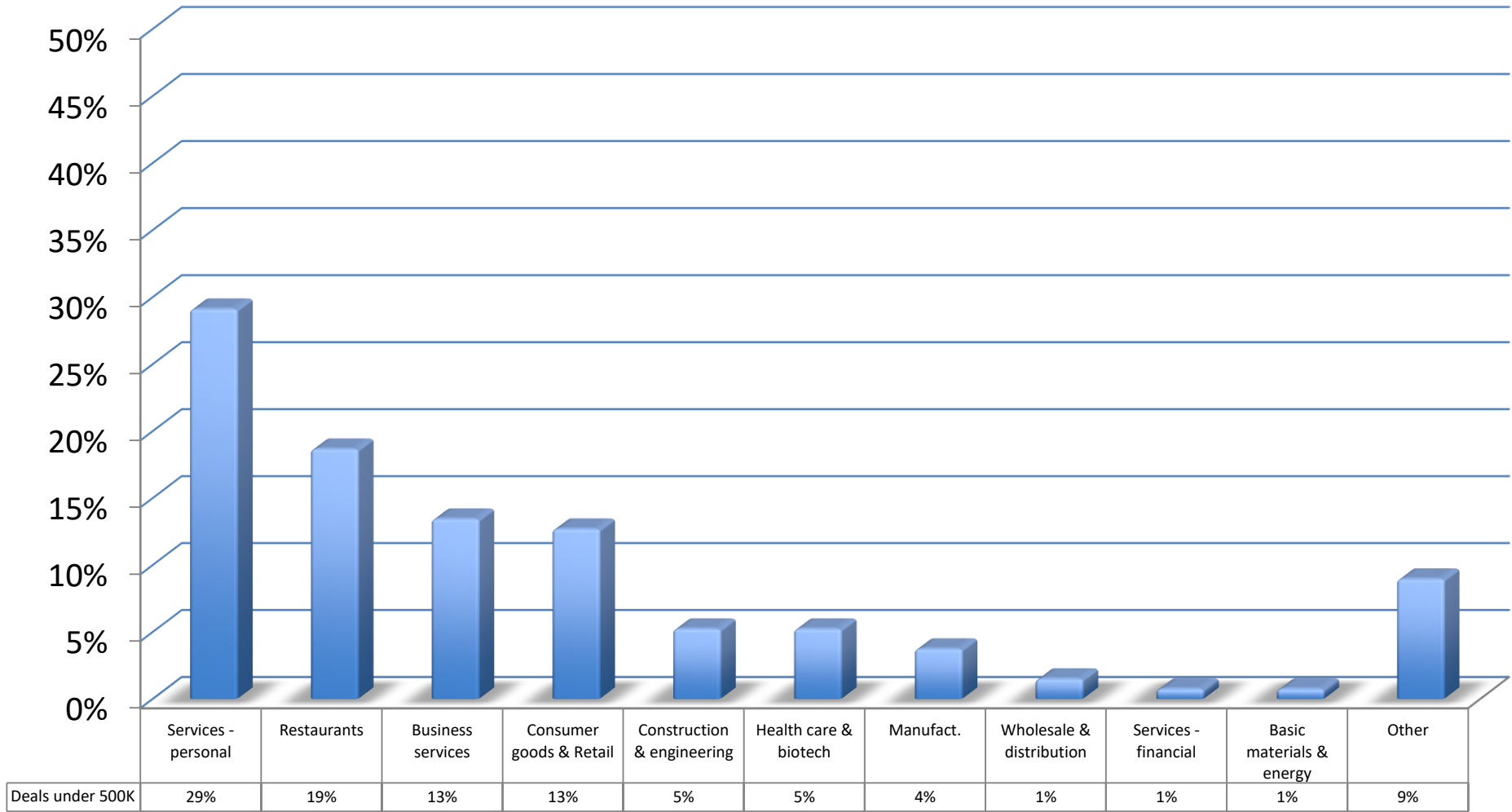
Engagement/Listing to Close



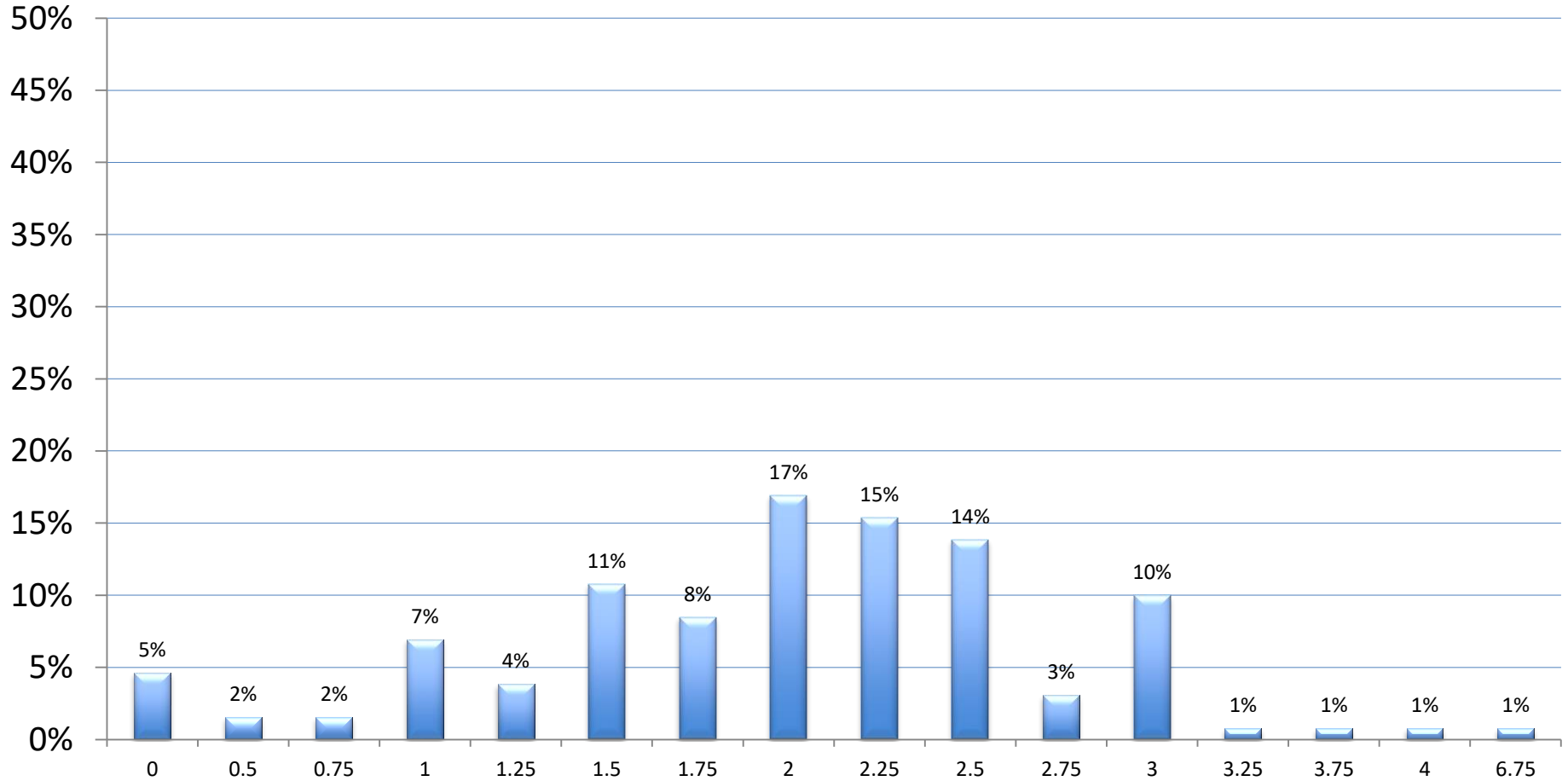
LOI/ Offer to Close



Industry

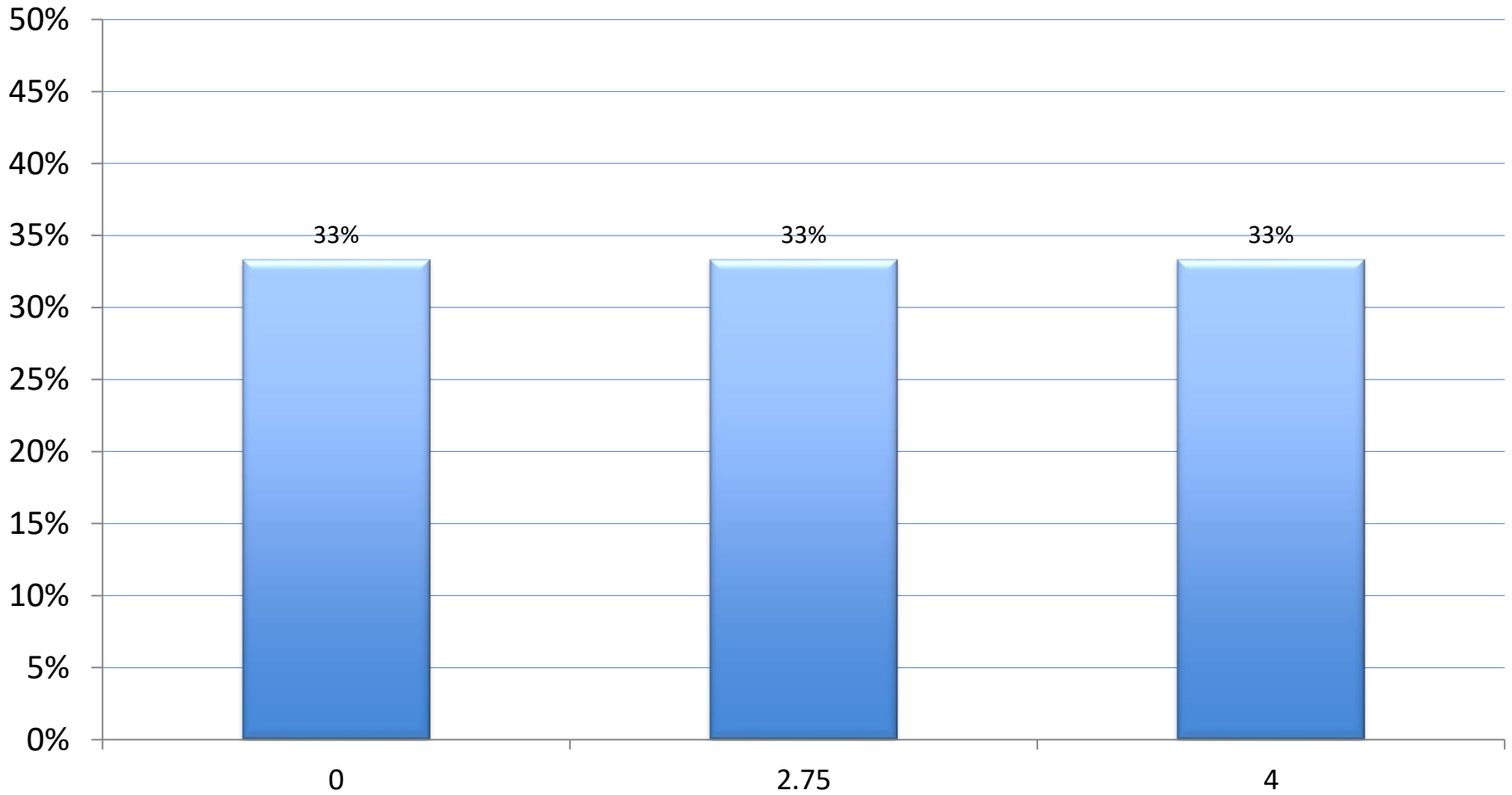


SDE Multiple Paid



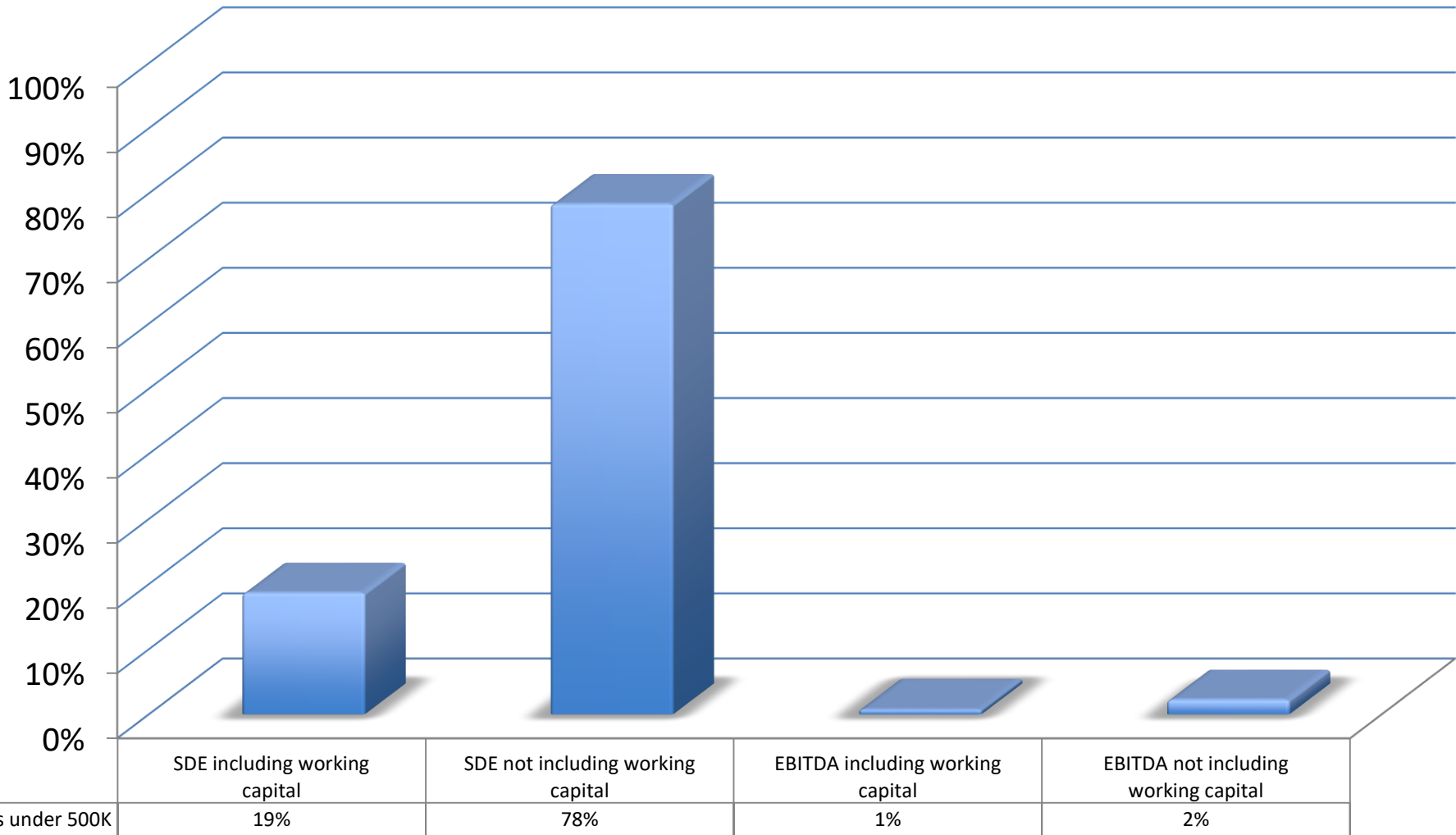
Number of responses: 130

EBITDA Multiple Paid

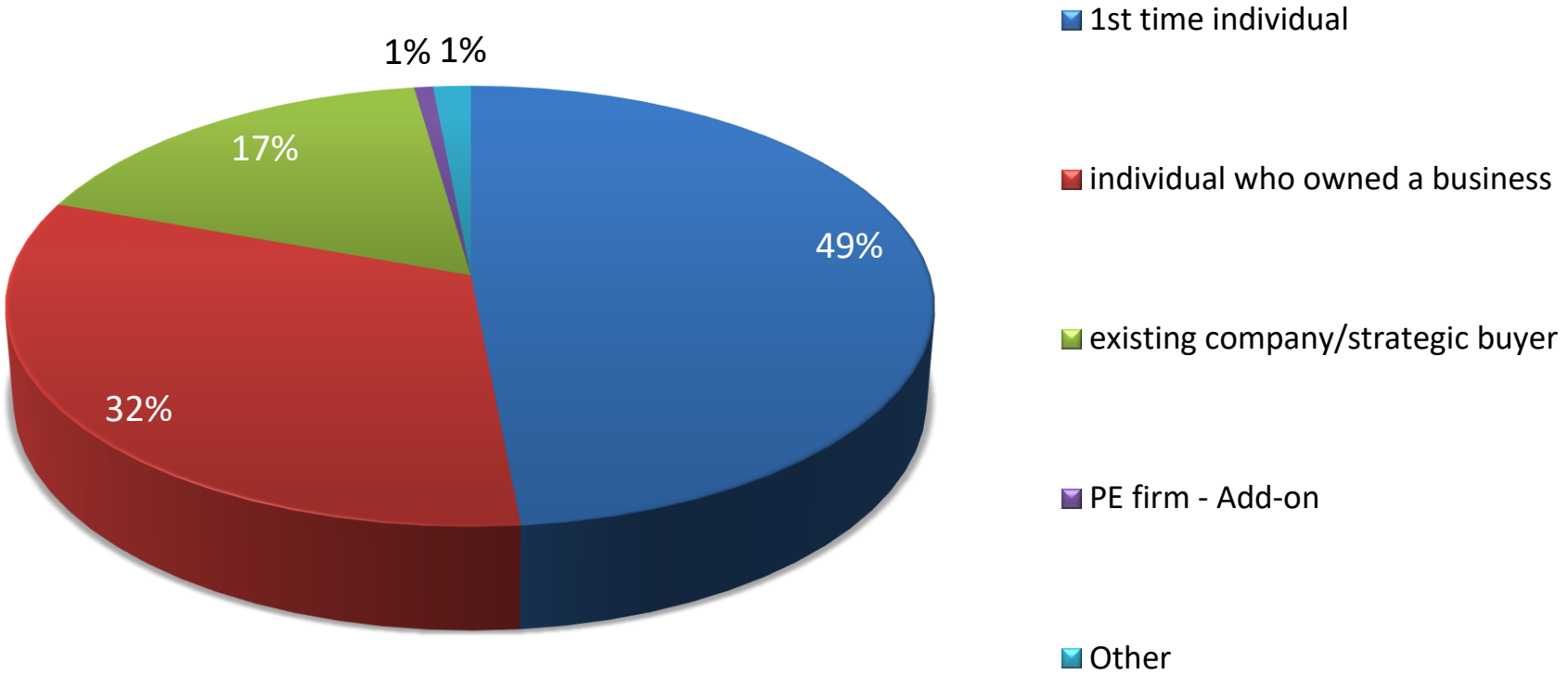


Number of responses: 3

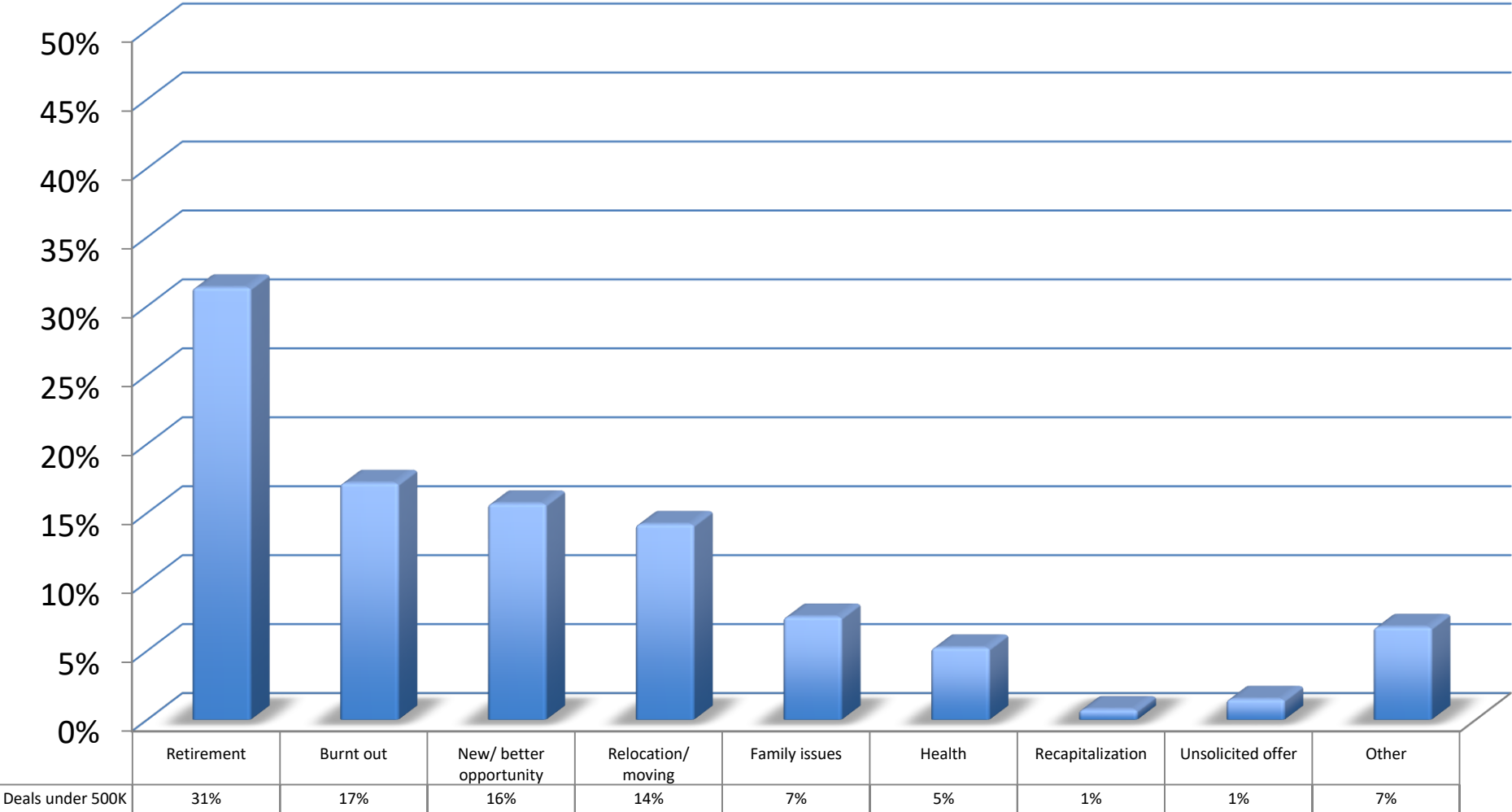
Multiple Type



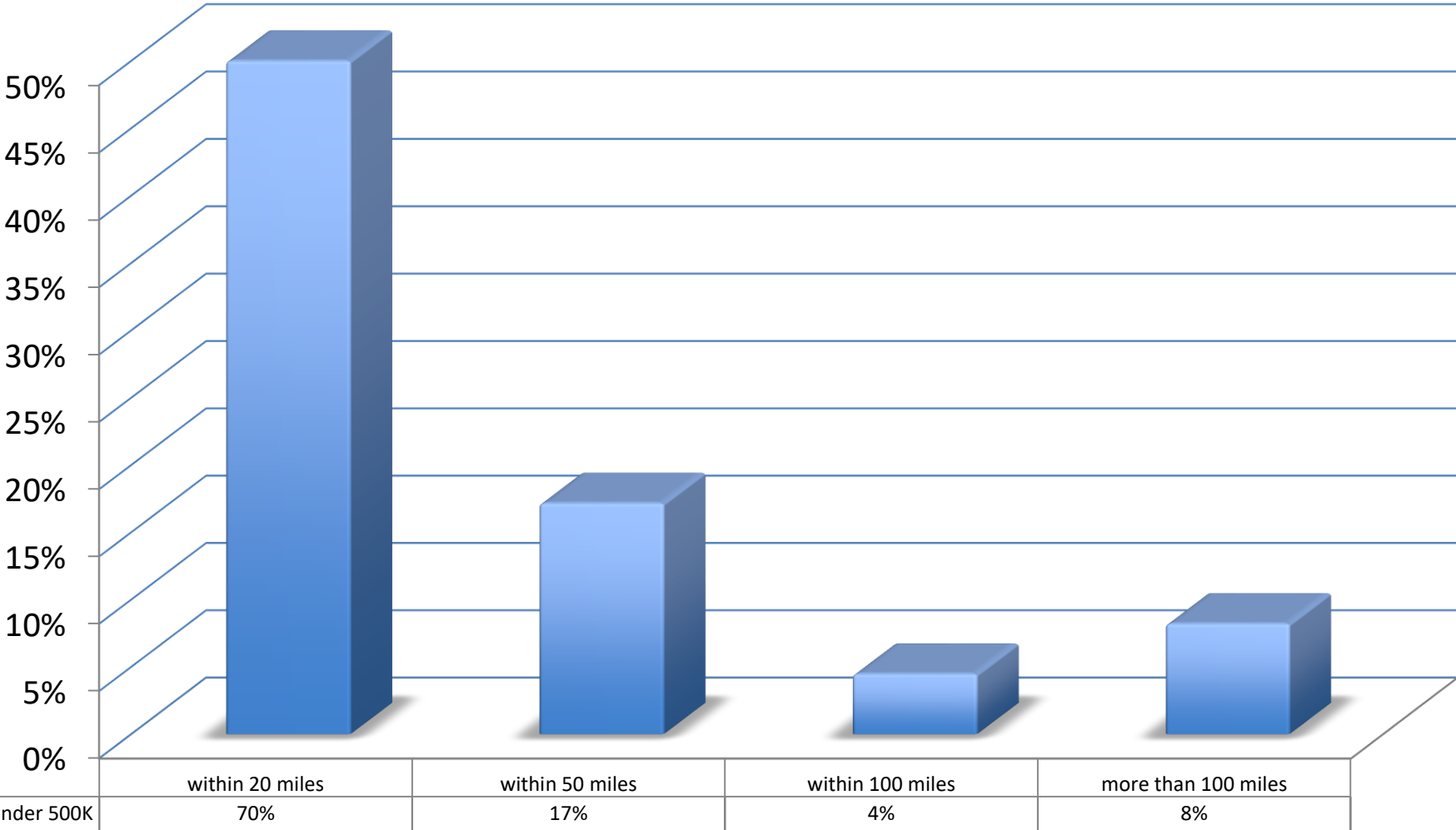
Buyer Type



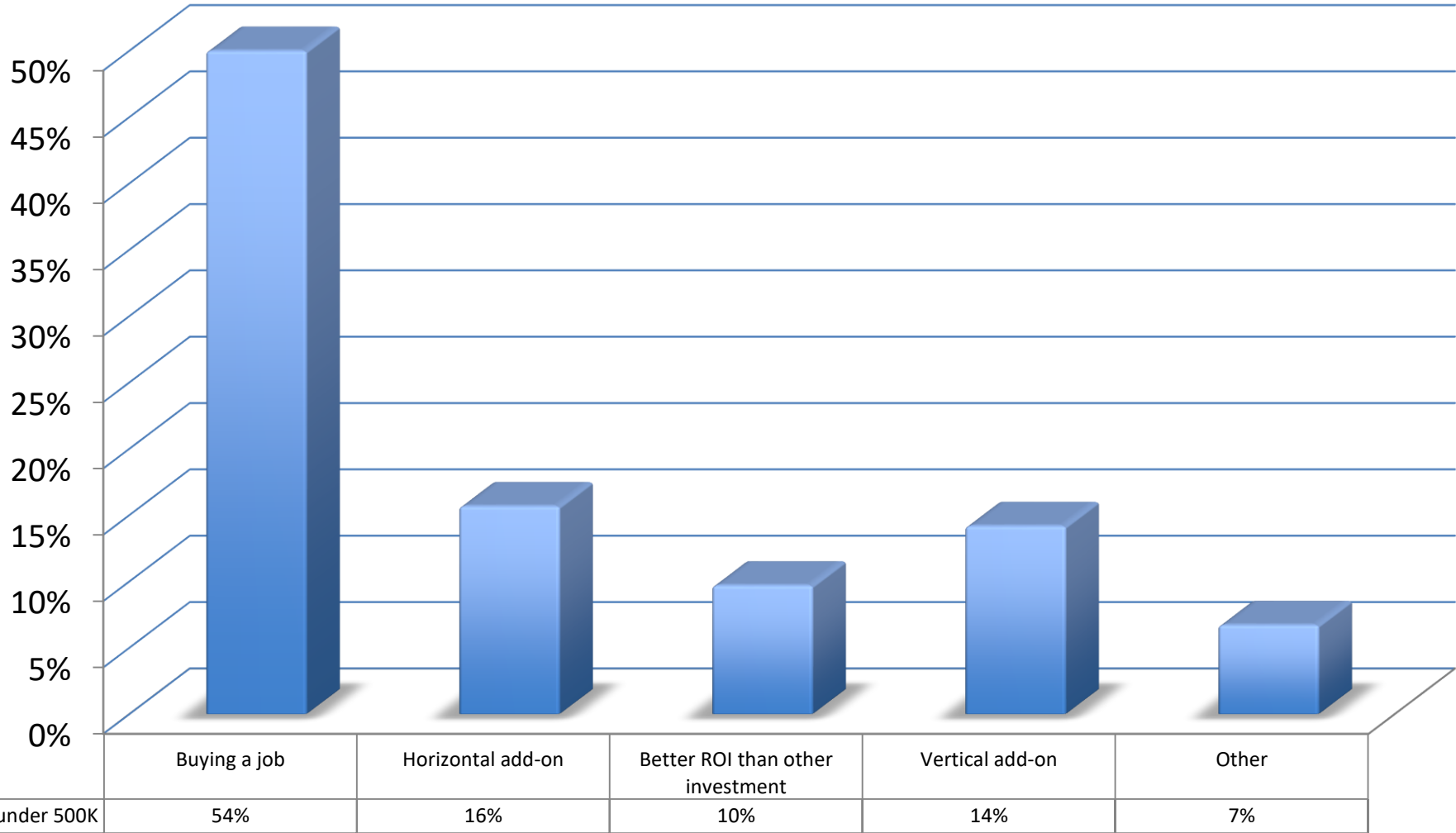
#1 Reason for Seller to Go to Market



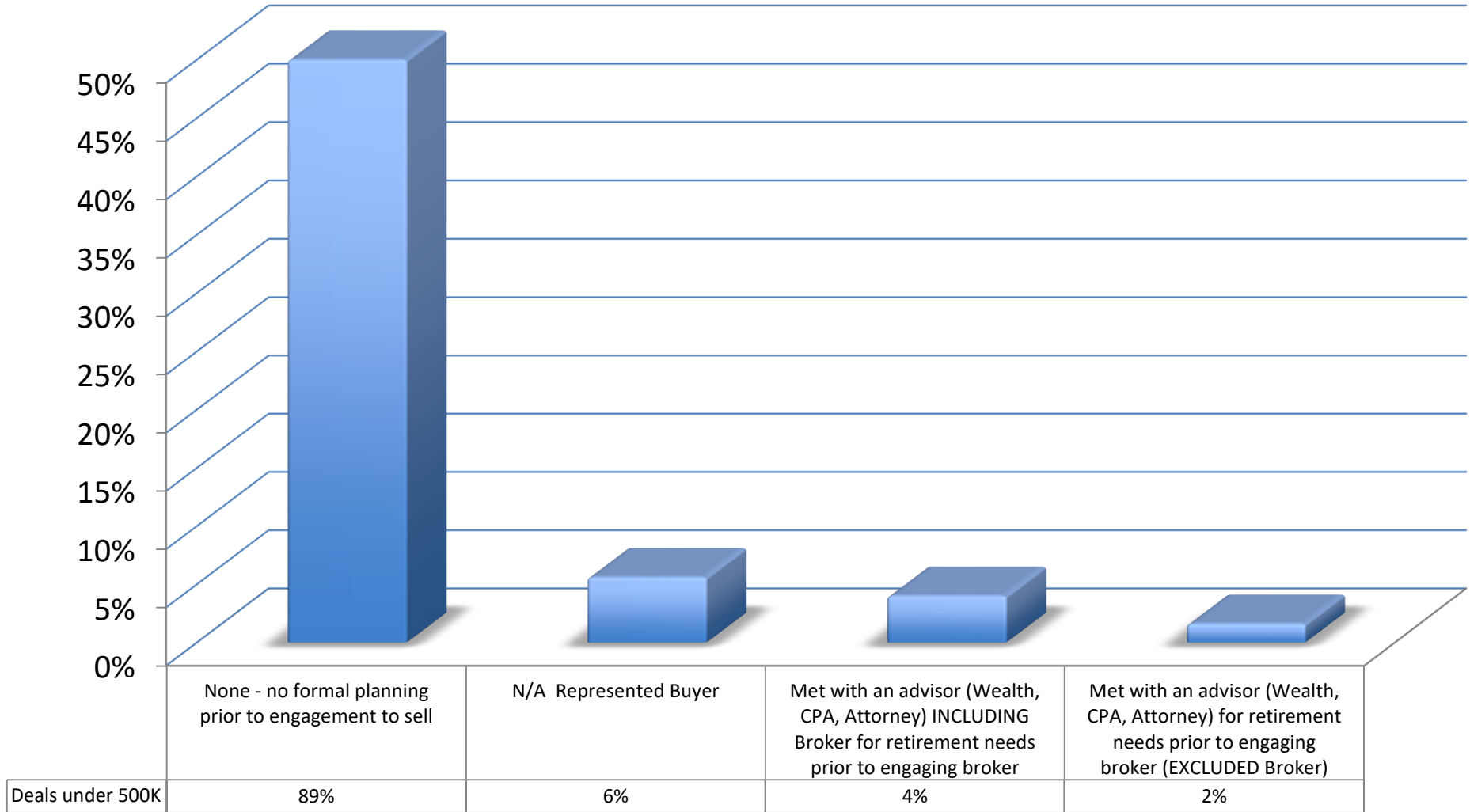
Buyer Location



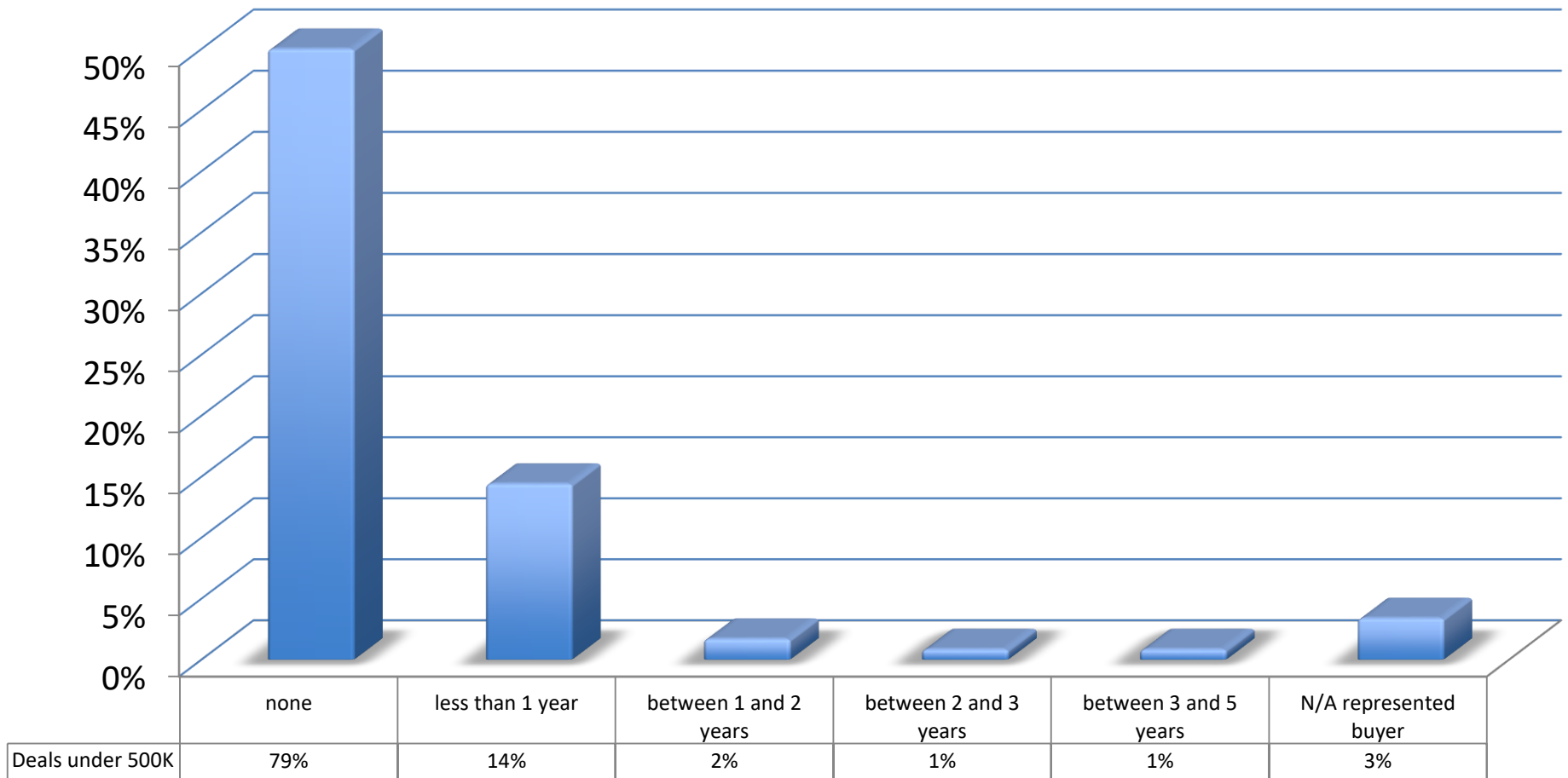
#1 Motivation for Buyer



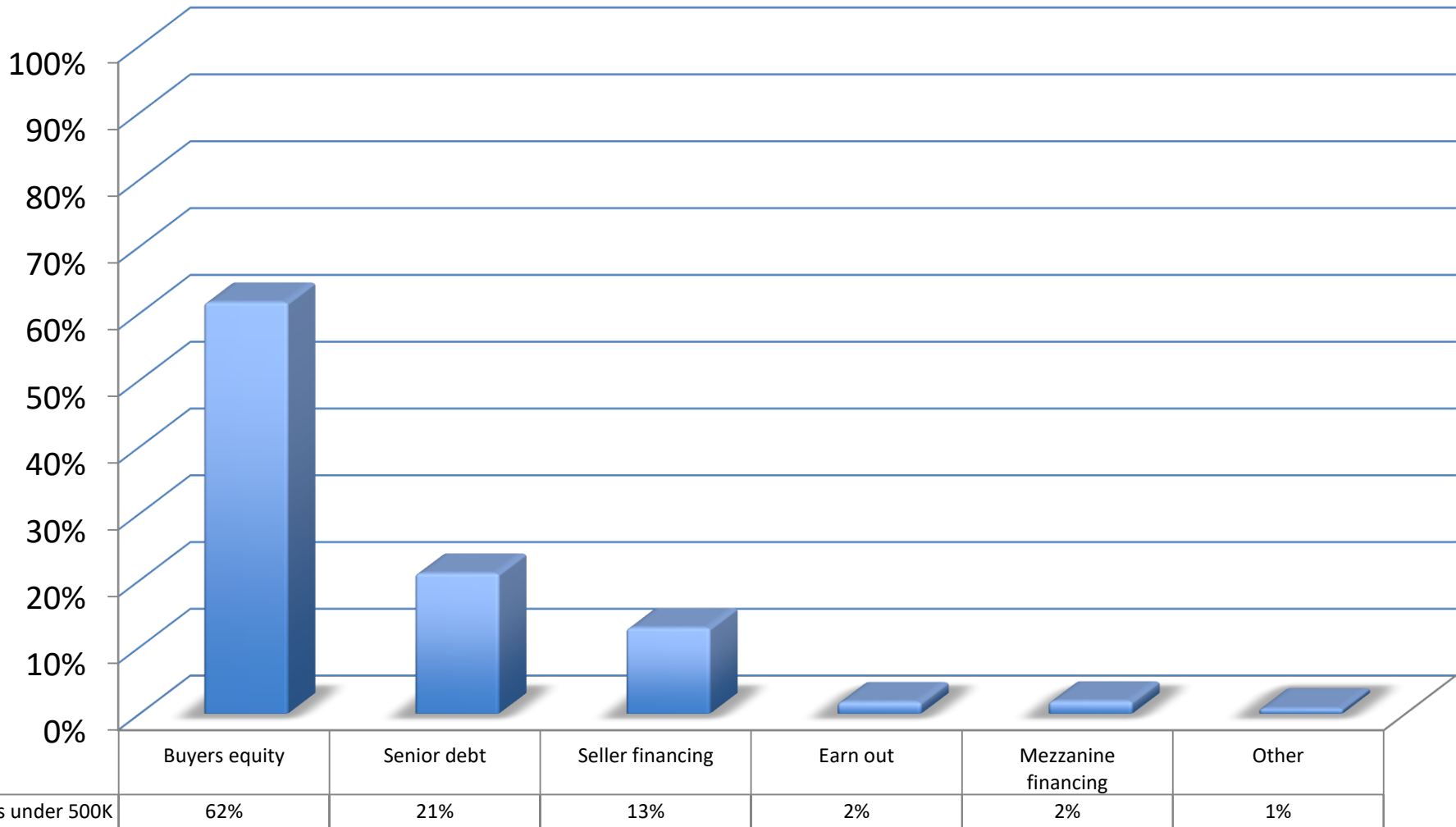
Exit Planning



Amount Of Exit Planning Prior To Marketing Business

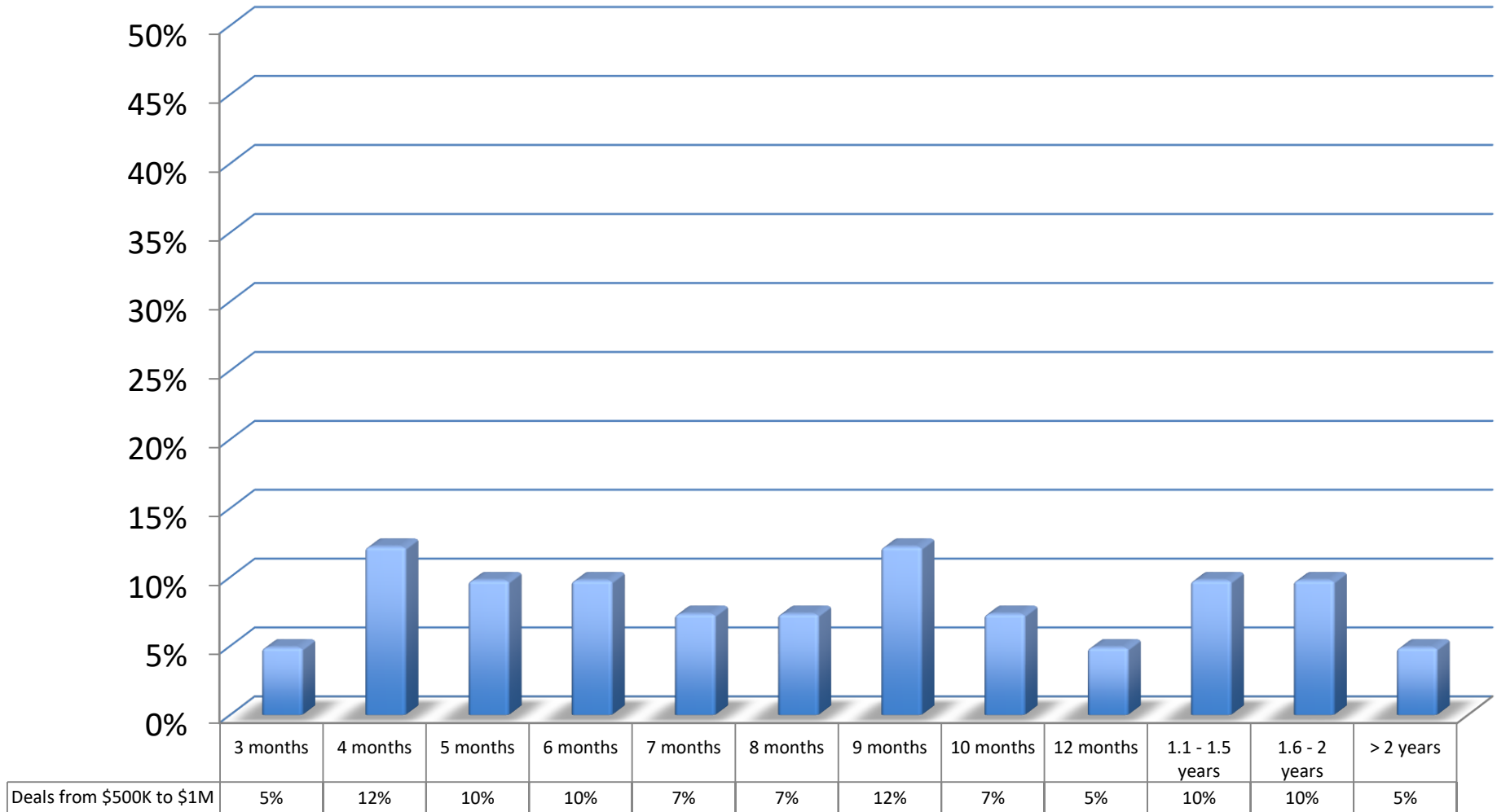


Financing Structure

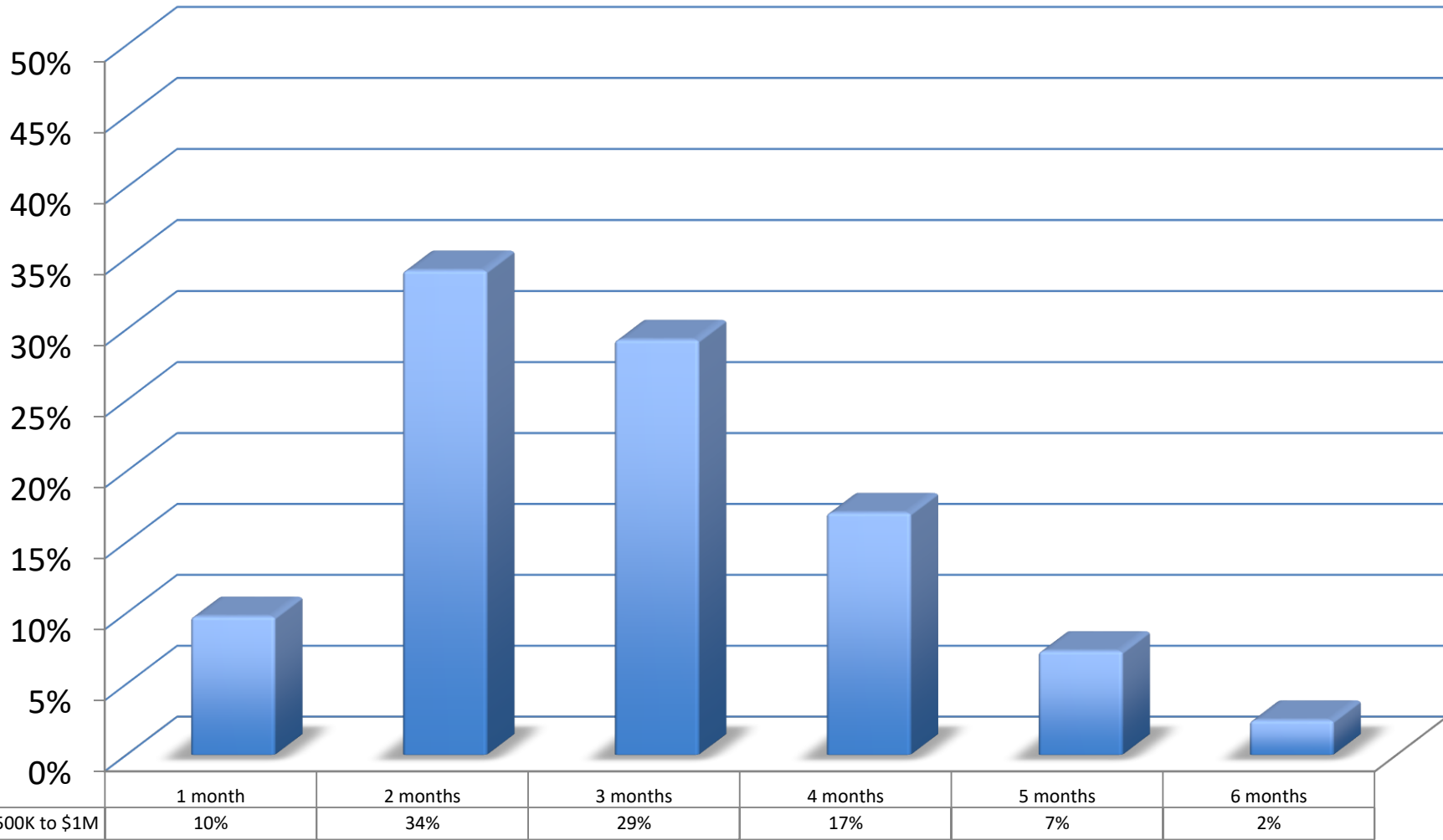


Business Transactions Valued
from \$500,000 to \$999,999
Number of Closed Transactions: 41

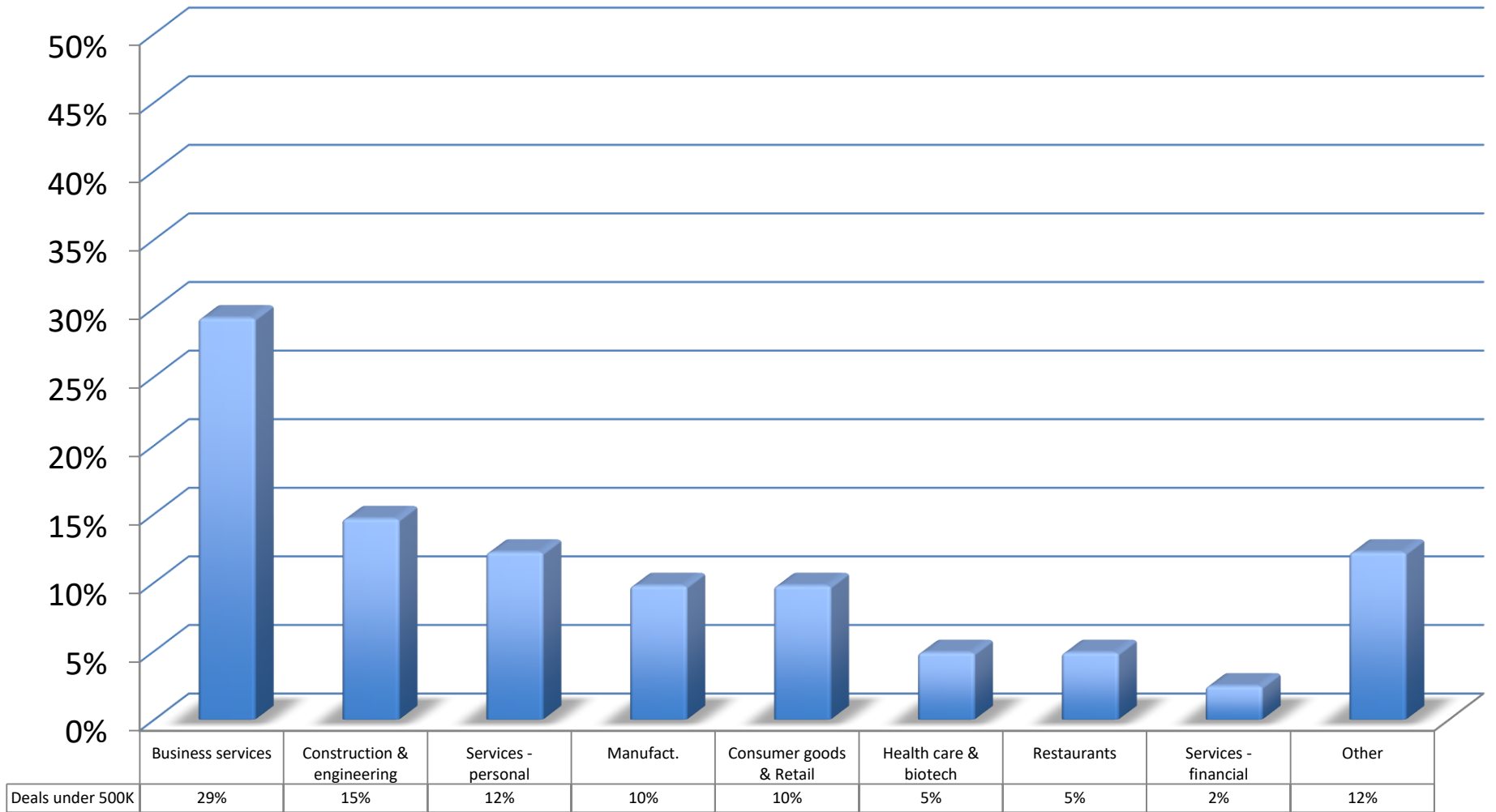
Engagement/Listing to Close



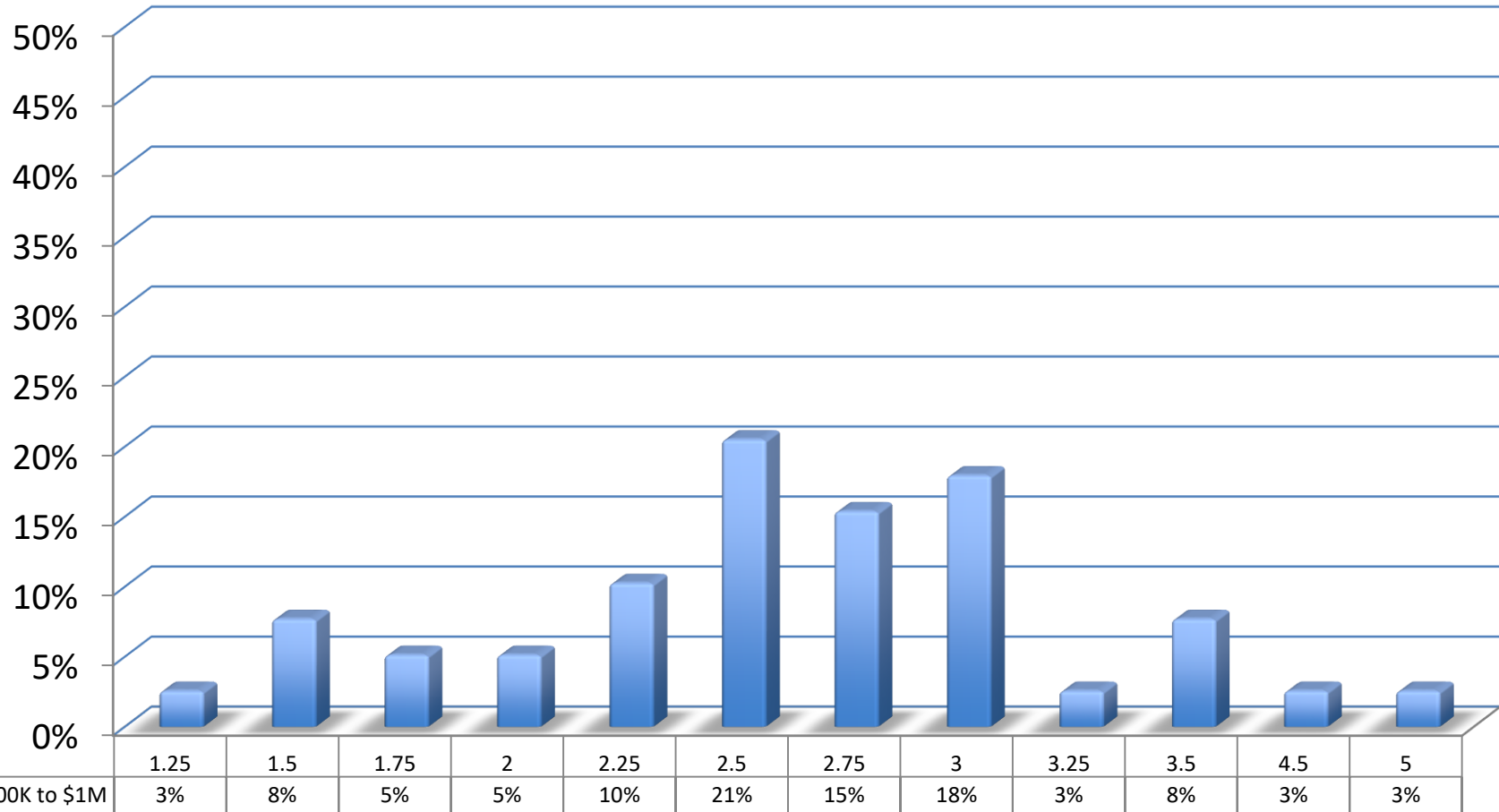
LOI/ Offer to Close



Industry

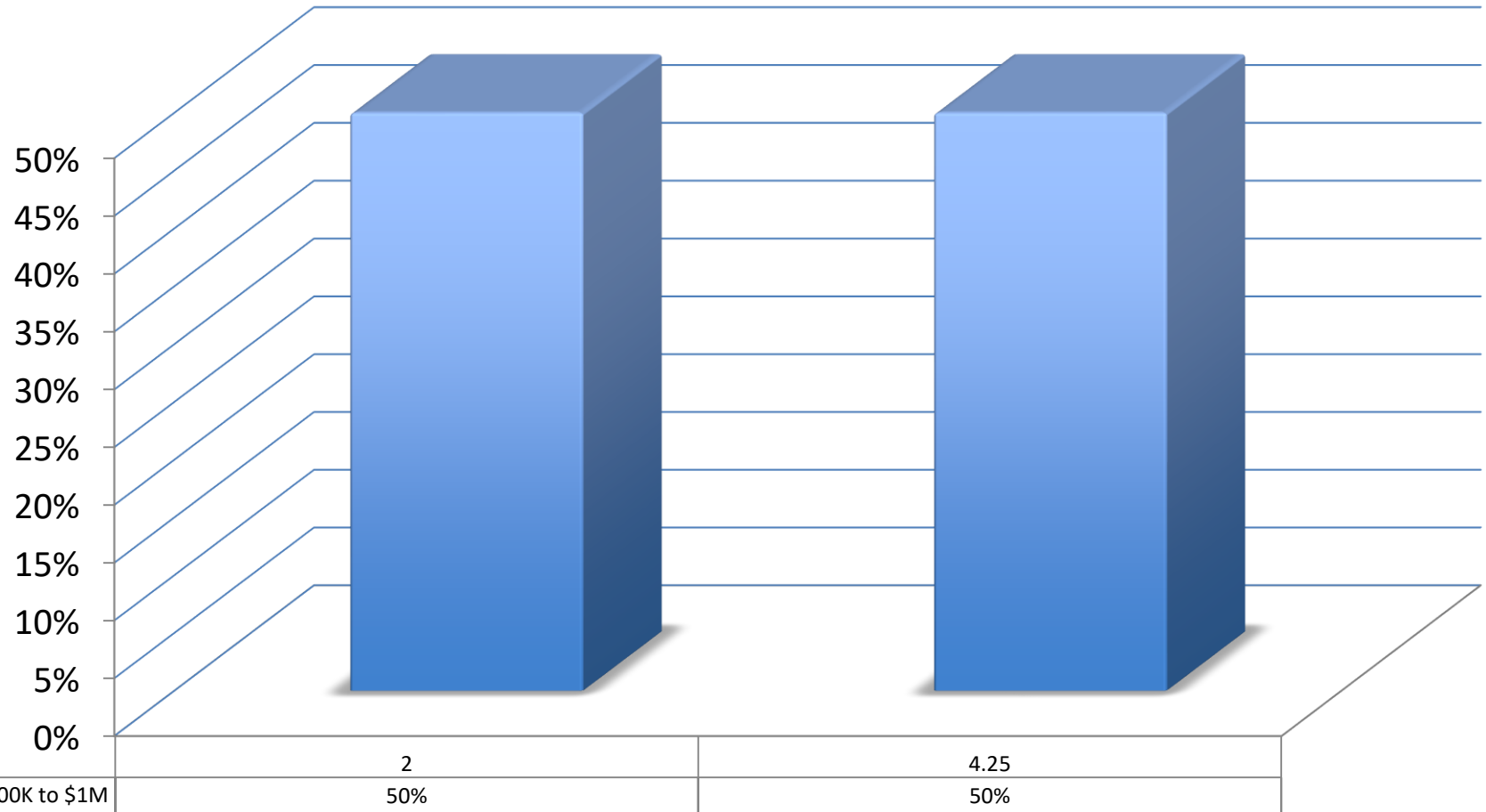


SDE Multiple Paid



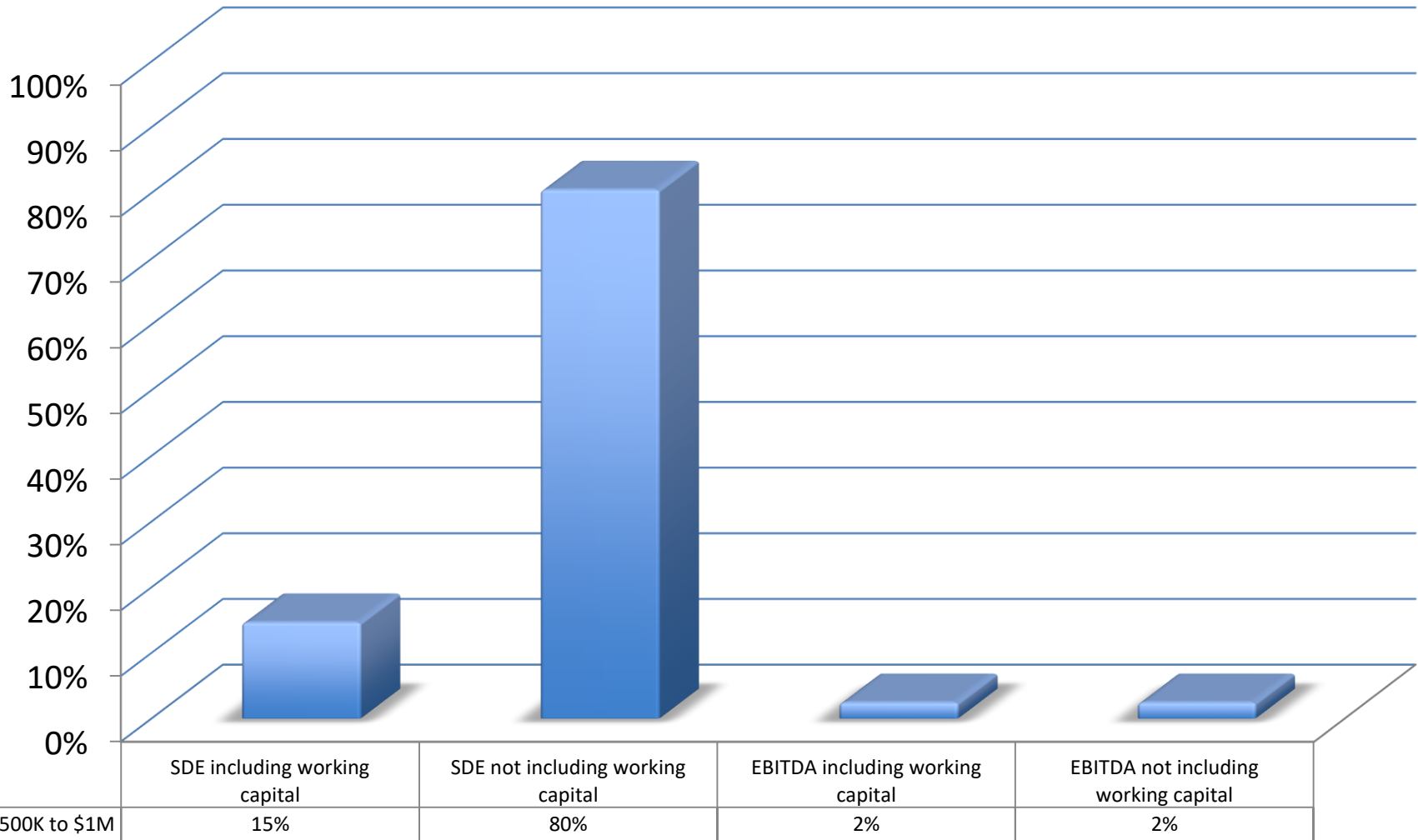
Number of responses: 39

EBITDA Multiple Paid

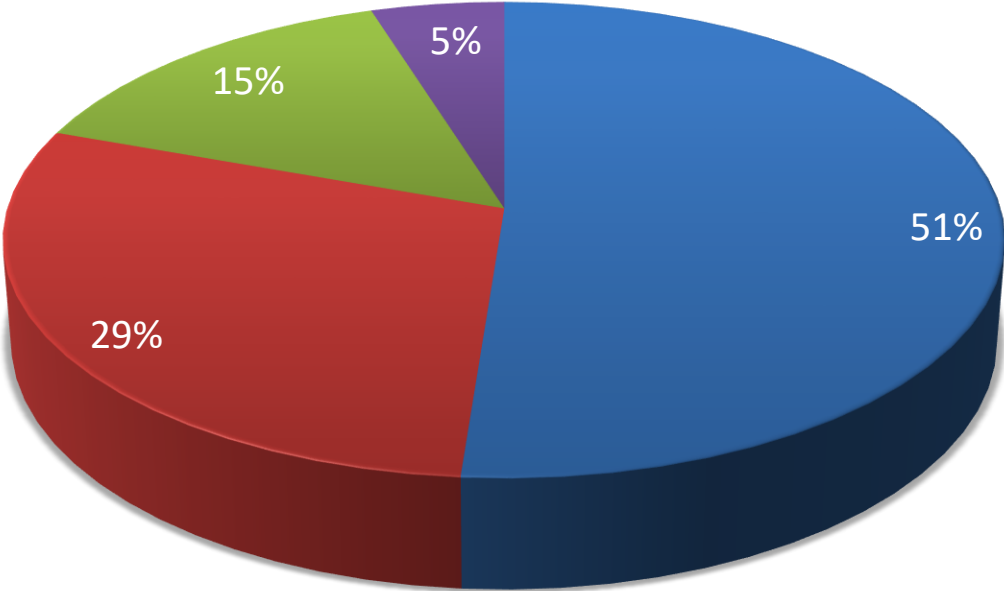


Number of responses: 2

Multiple Type

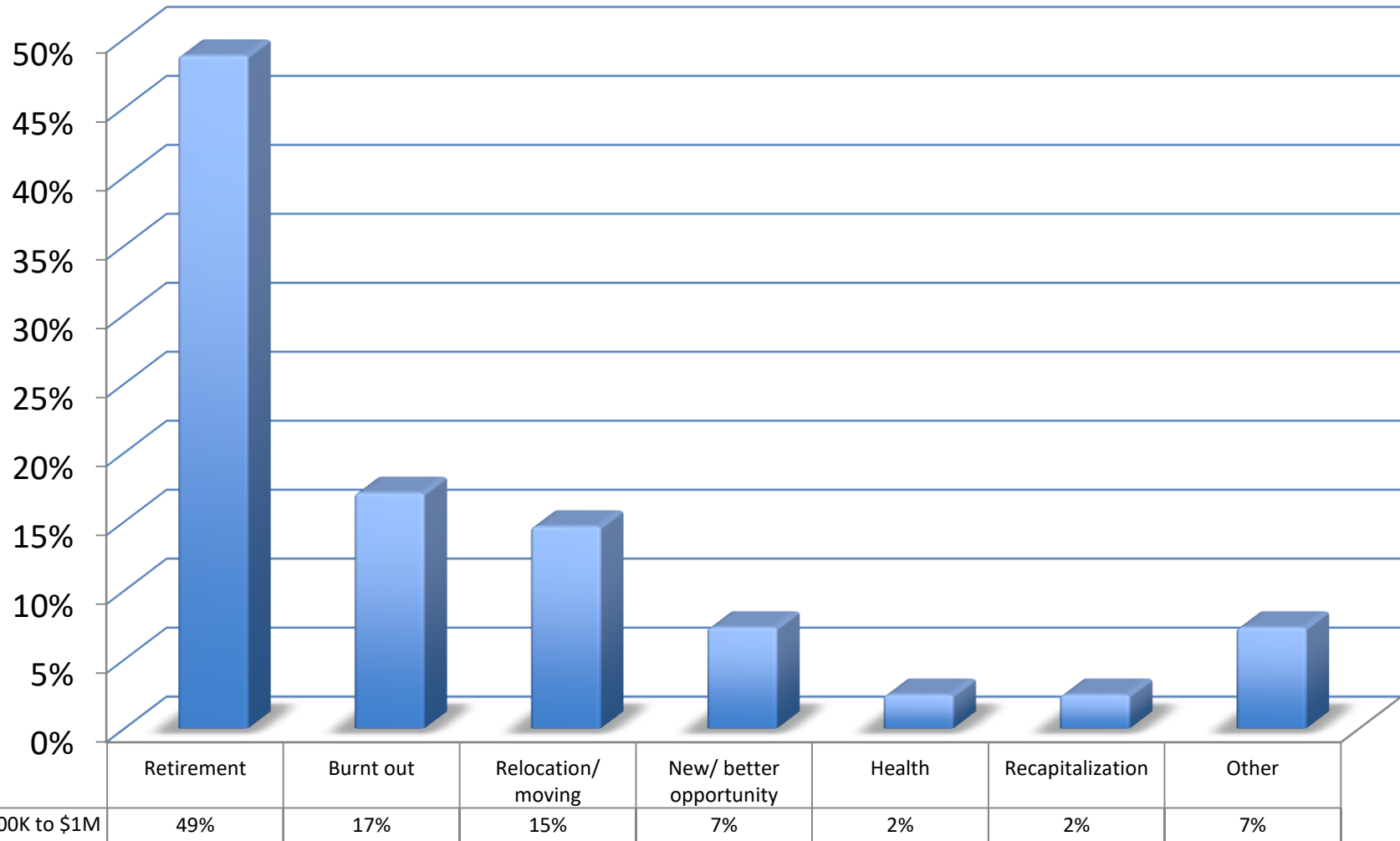


Buyer Type

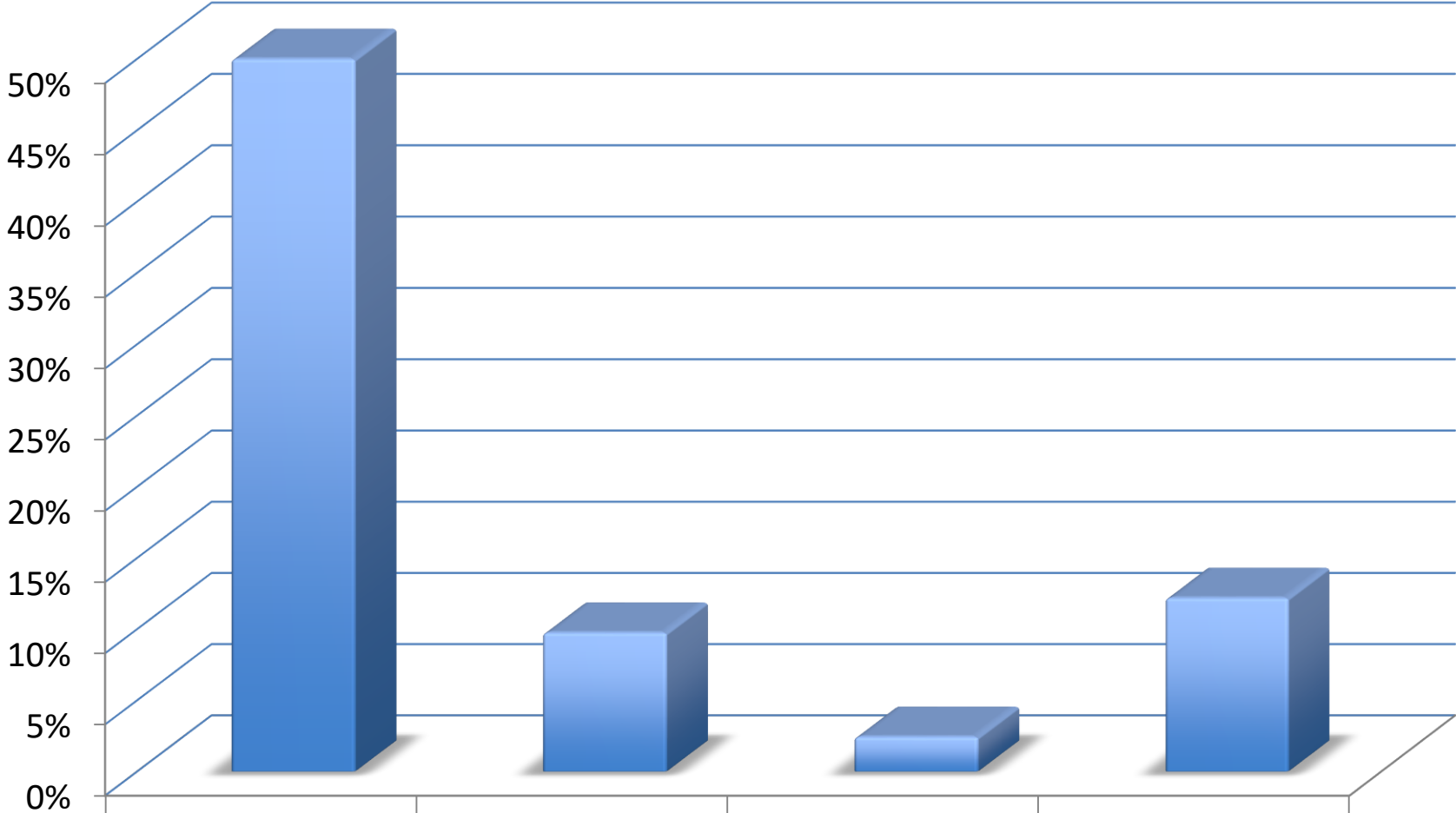


- 1st time individual
- individual who owned a business
- existing company/strategic buyer
- Other

#1 Reason for Seller to Go to Market



Buyer Location



Deals from \$500K to \$1M

within 20 miles

within 50 miles

within 100 miles

more than 100 miles

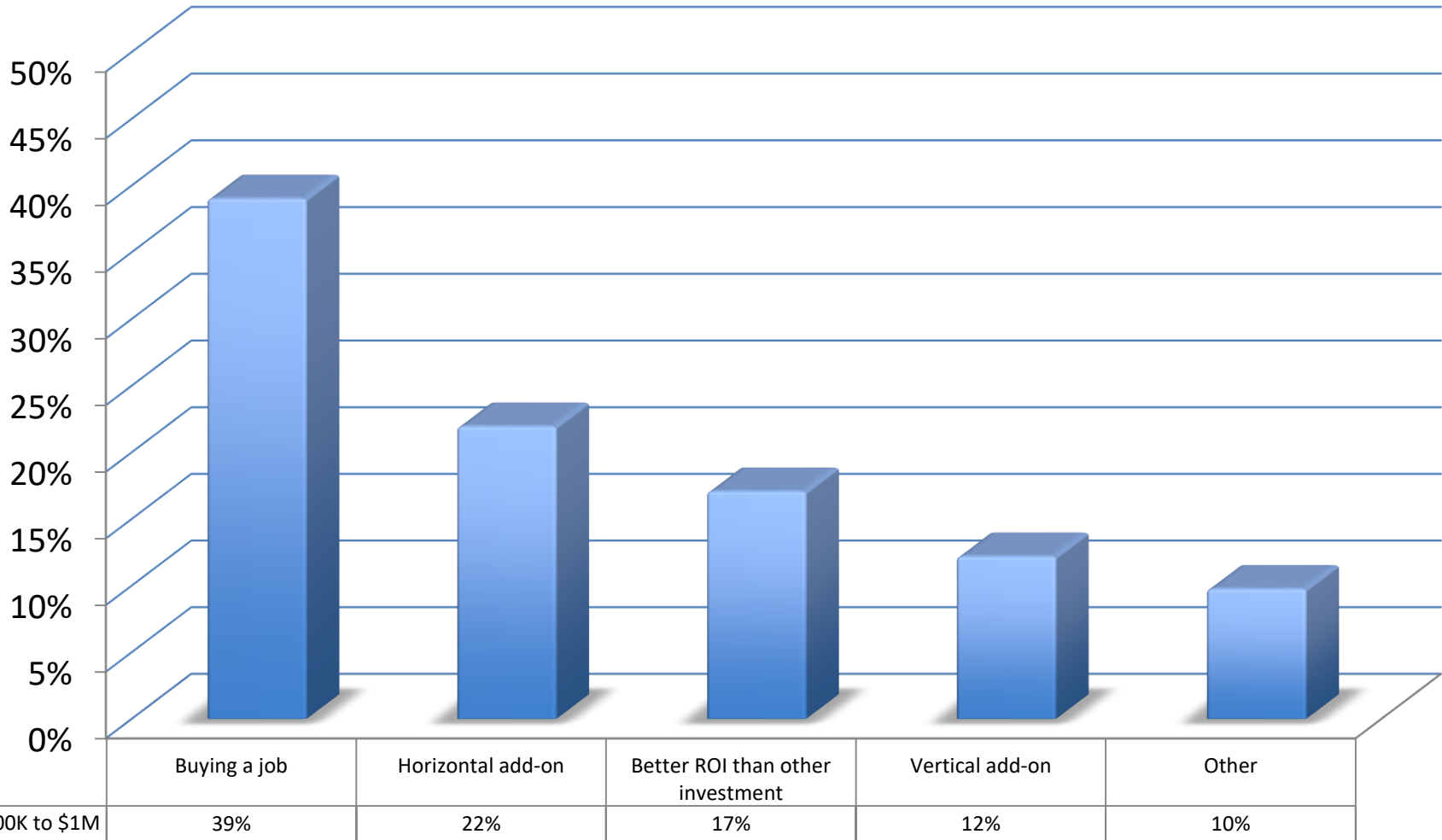
76%

10%

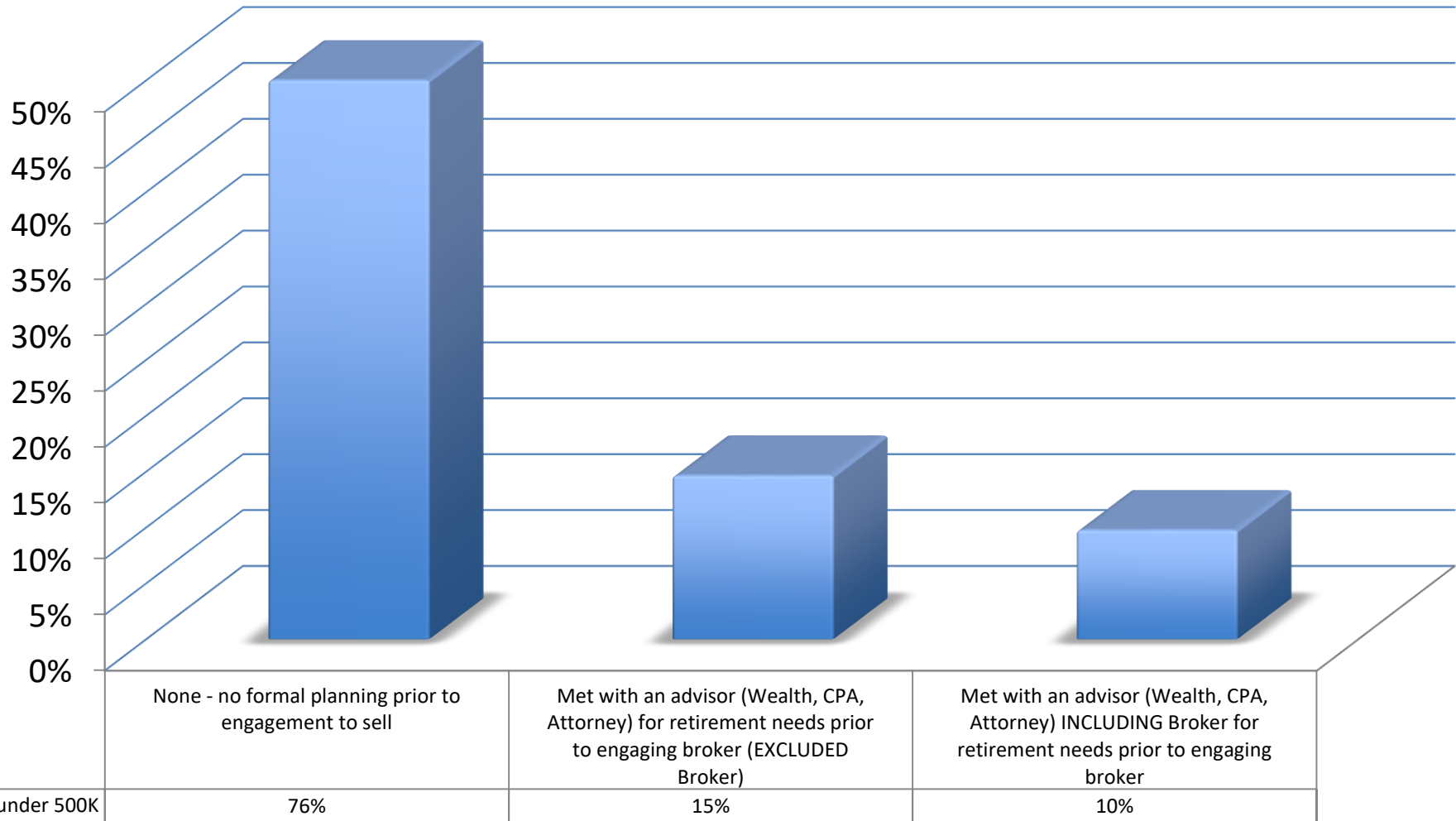
2%

12%

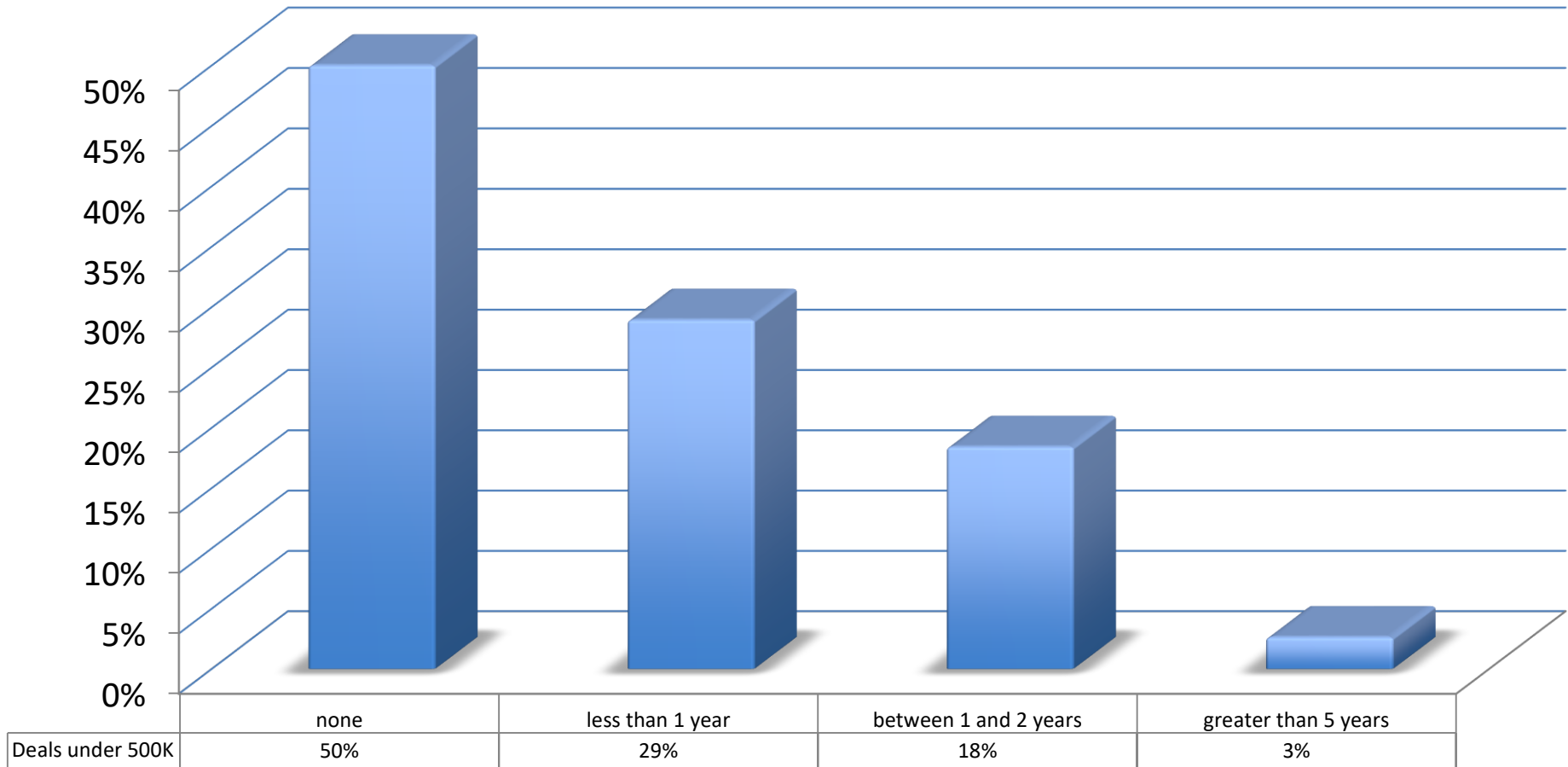
#1 Motivation for Buyer



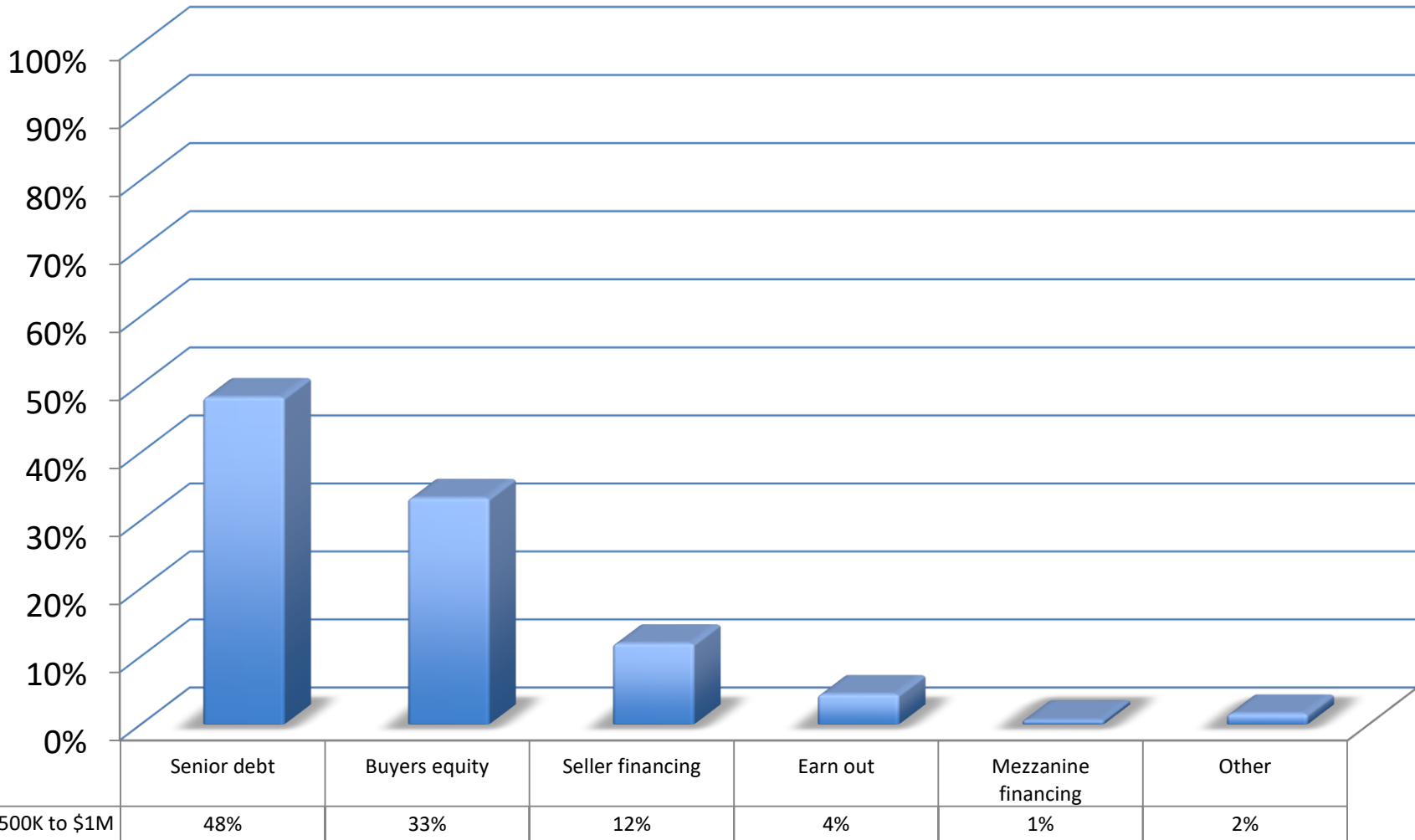
Exit Planning



Amount Of Exit Planning Prior To Marketing Business

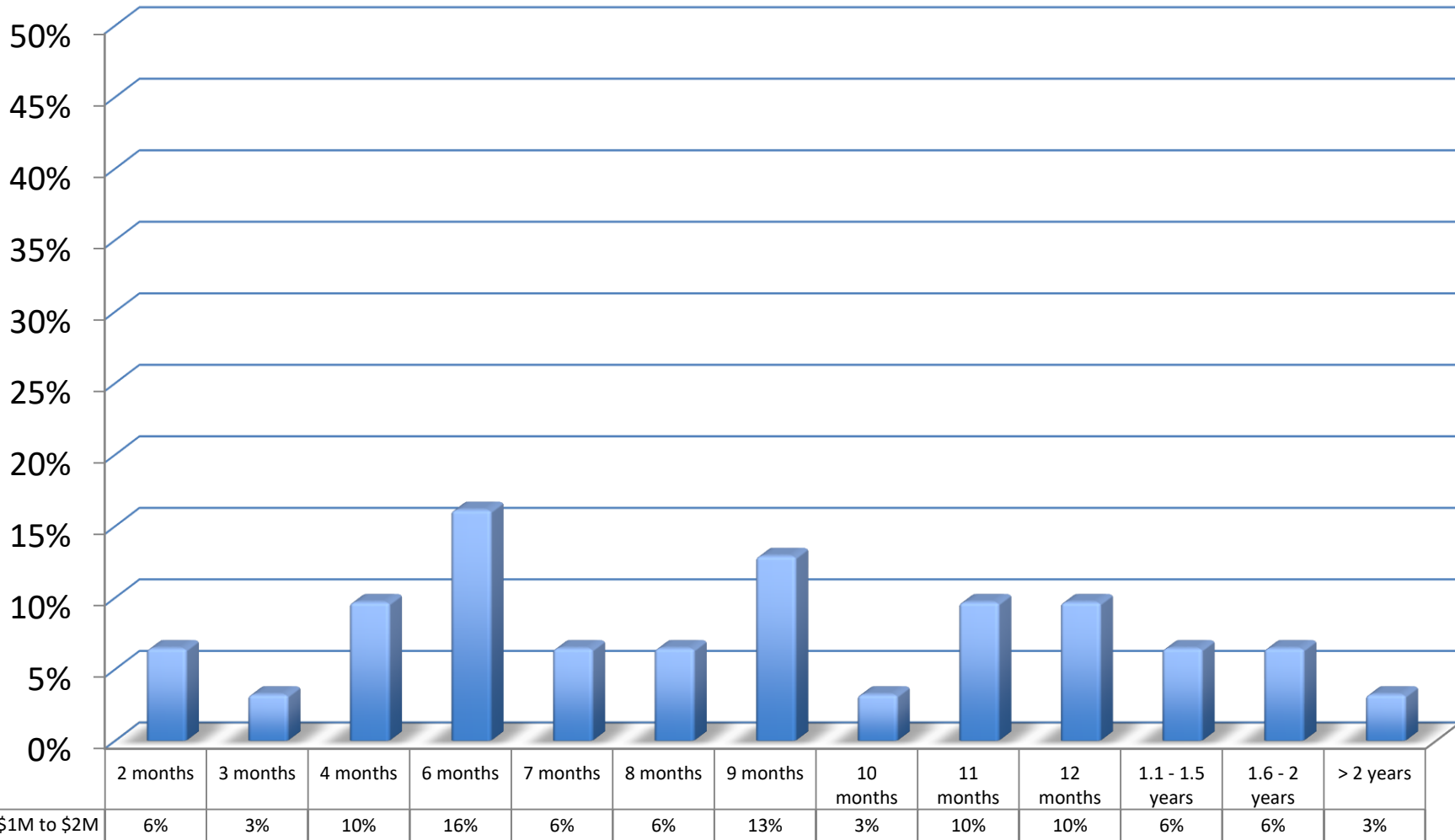


Financing Structure

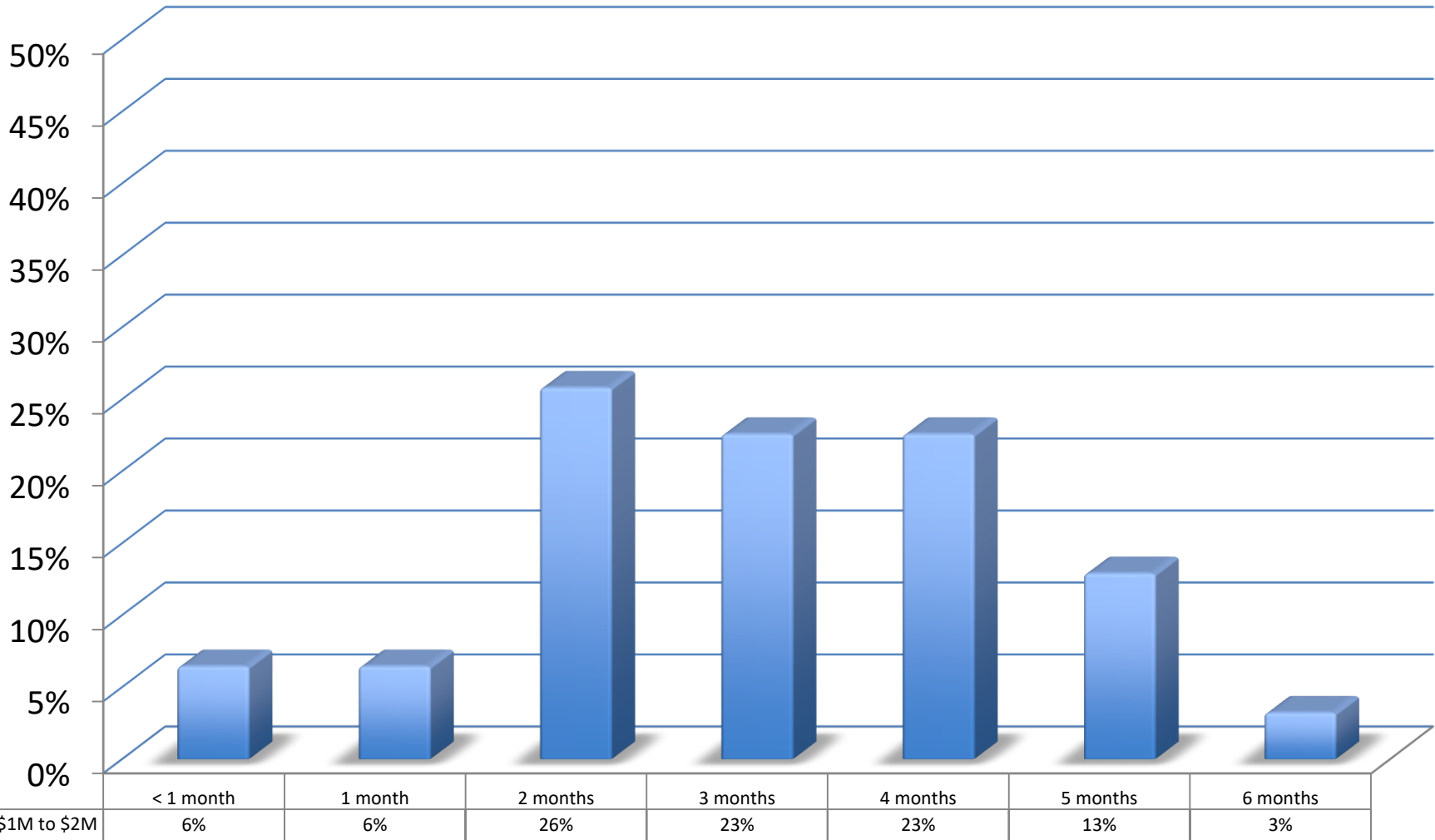


Business Transactions Valued
from \$1 Million to \$1.99 Million
Number of Closed Transactions: 31

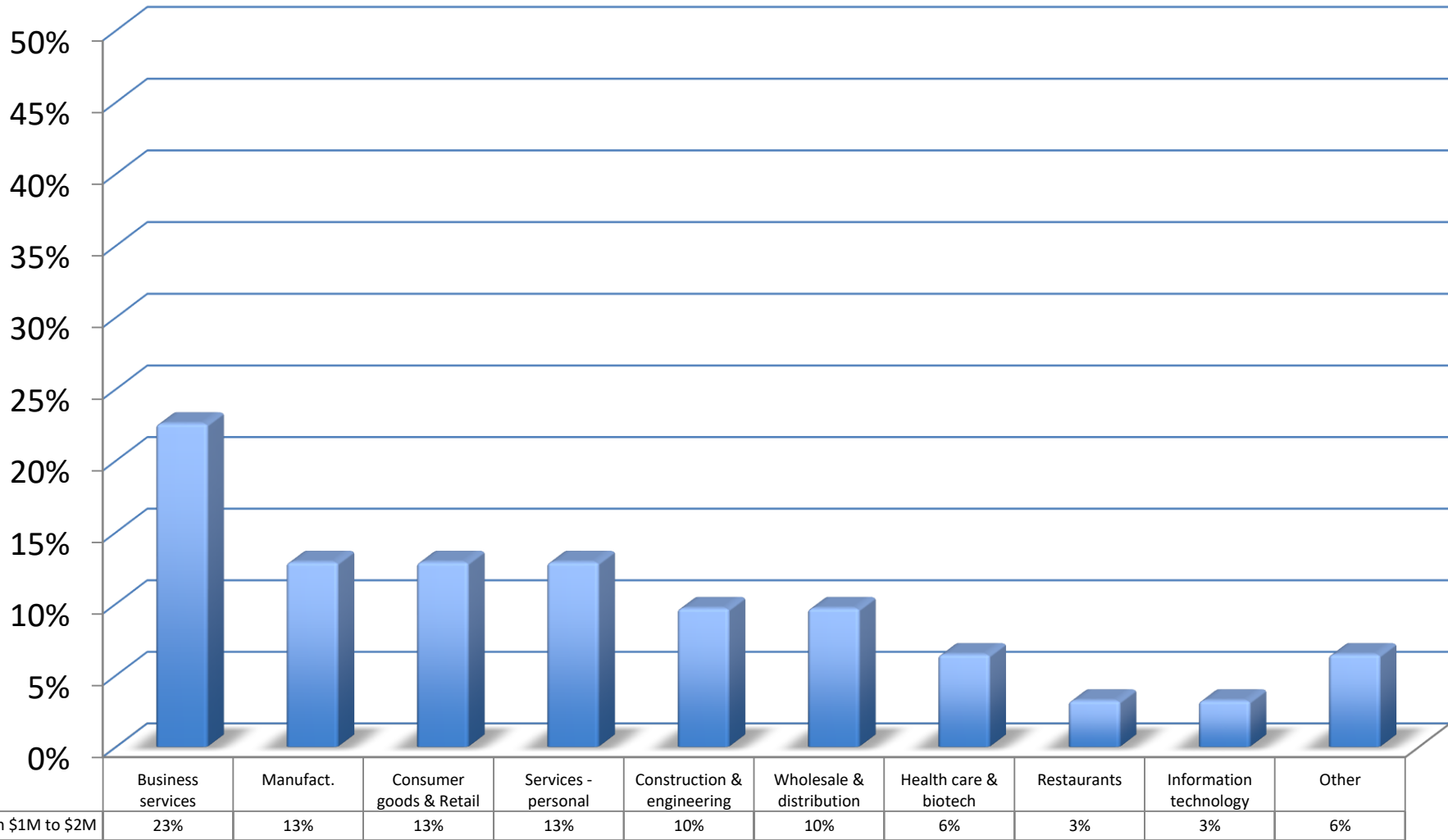
Engagement/Listing to Close



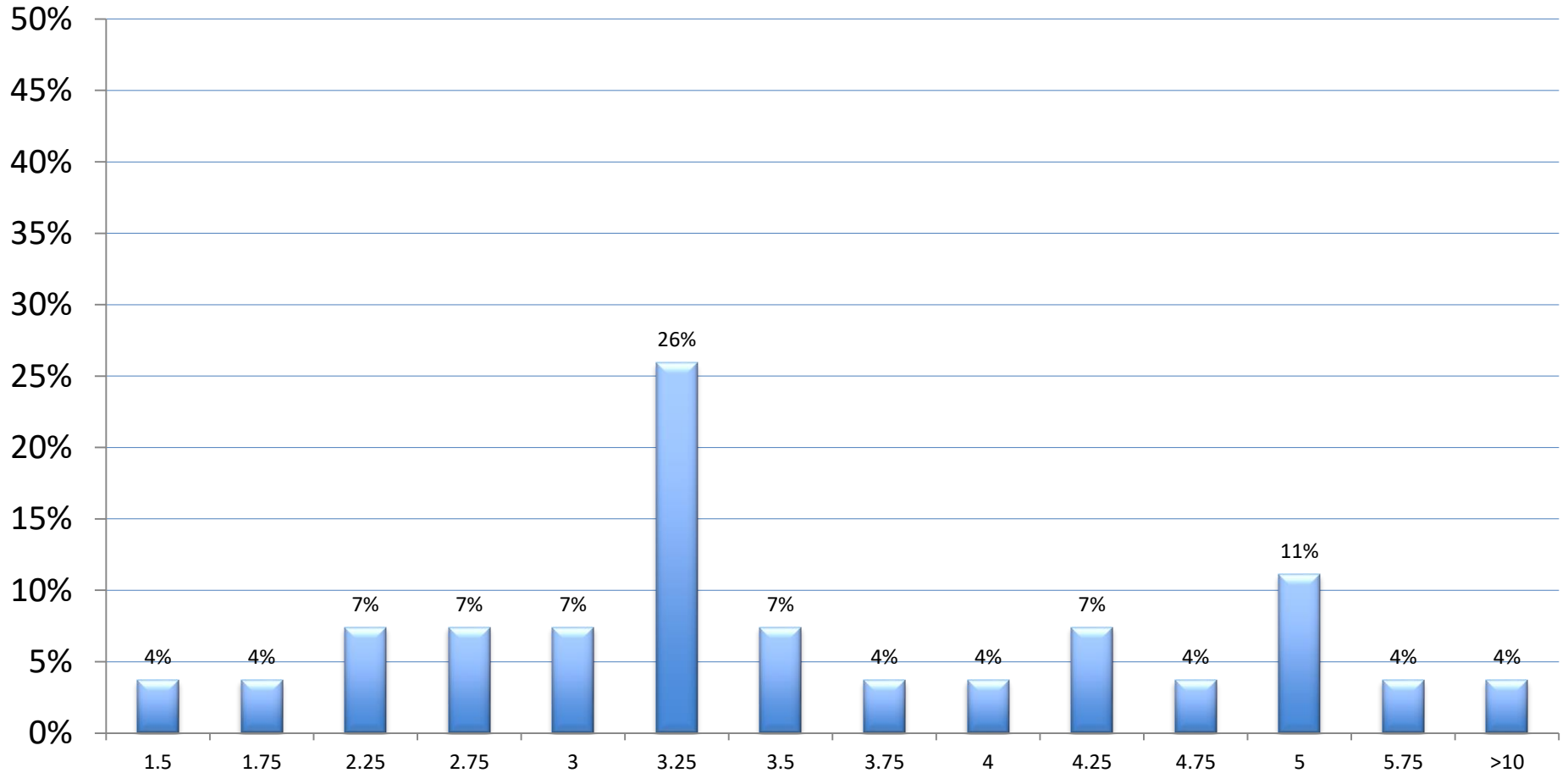
LOI/ Offer to Close



Industry

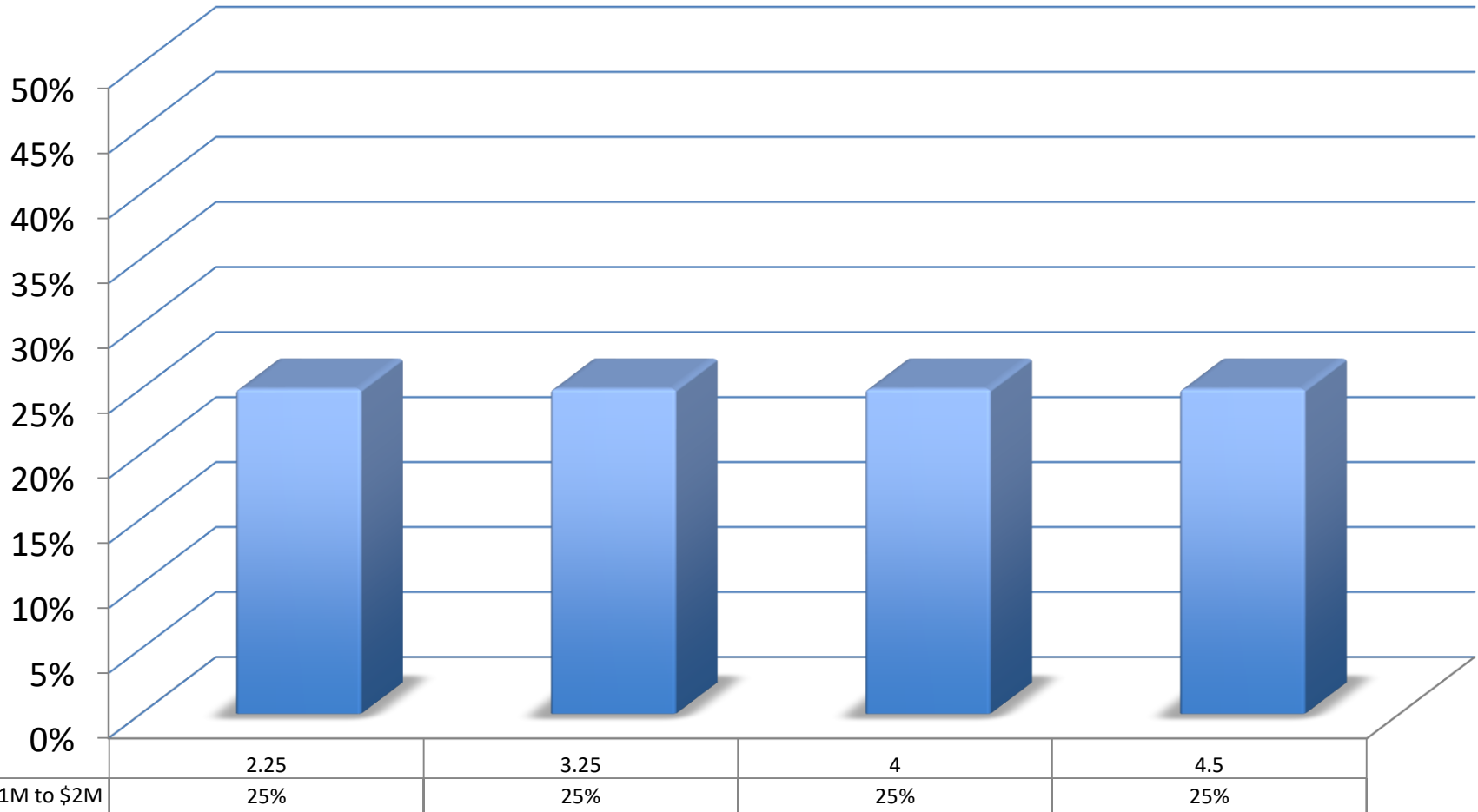


SDE Multiple Paid



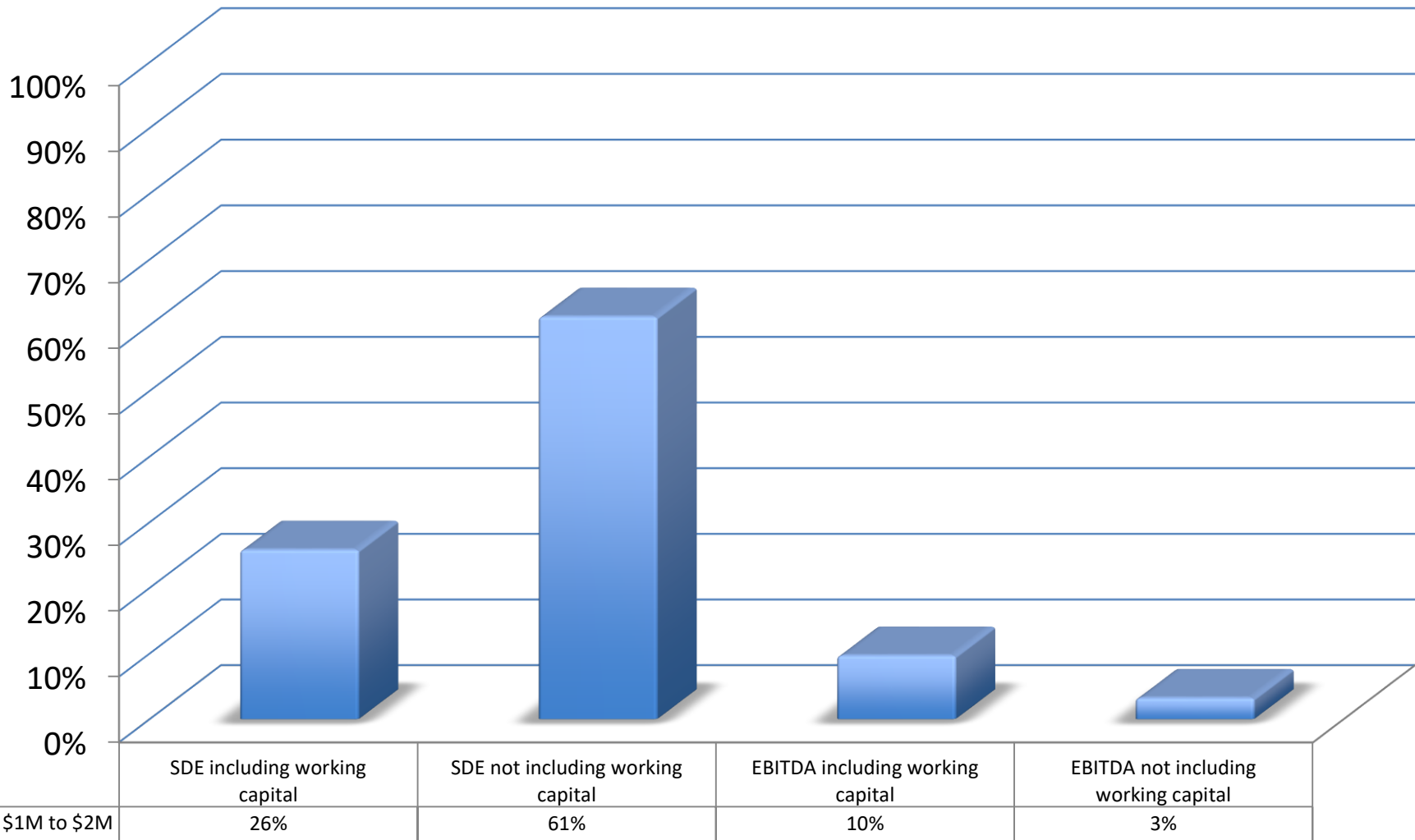
Number of responses: 27

EBITDA Multiple Paid

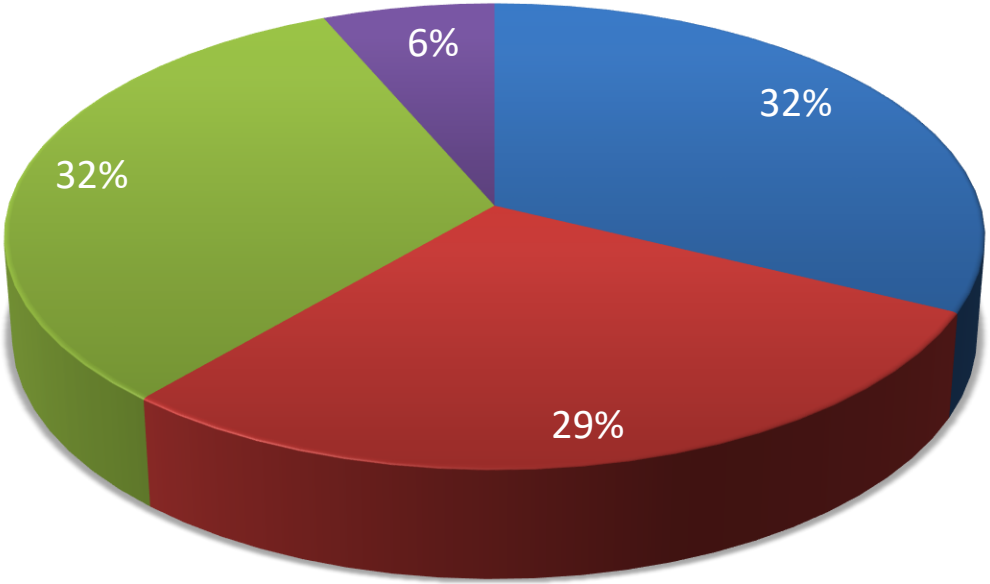


Number of responses: 4

Multiple Type

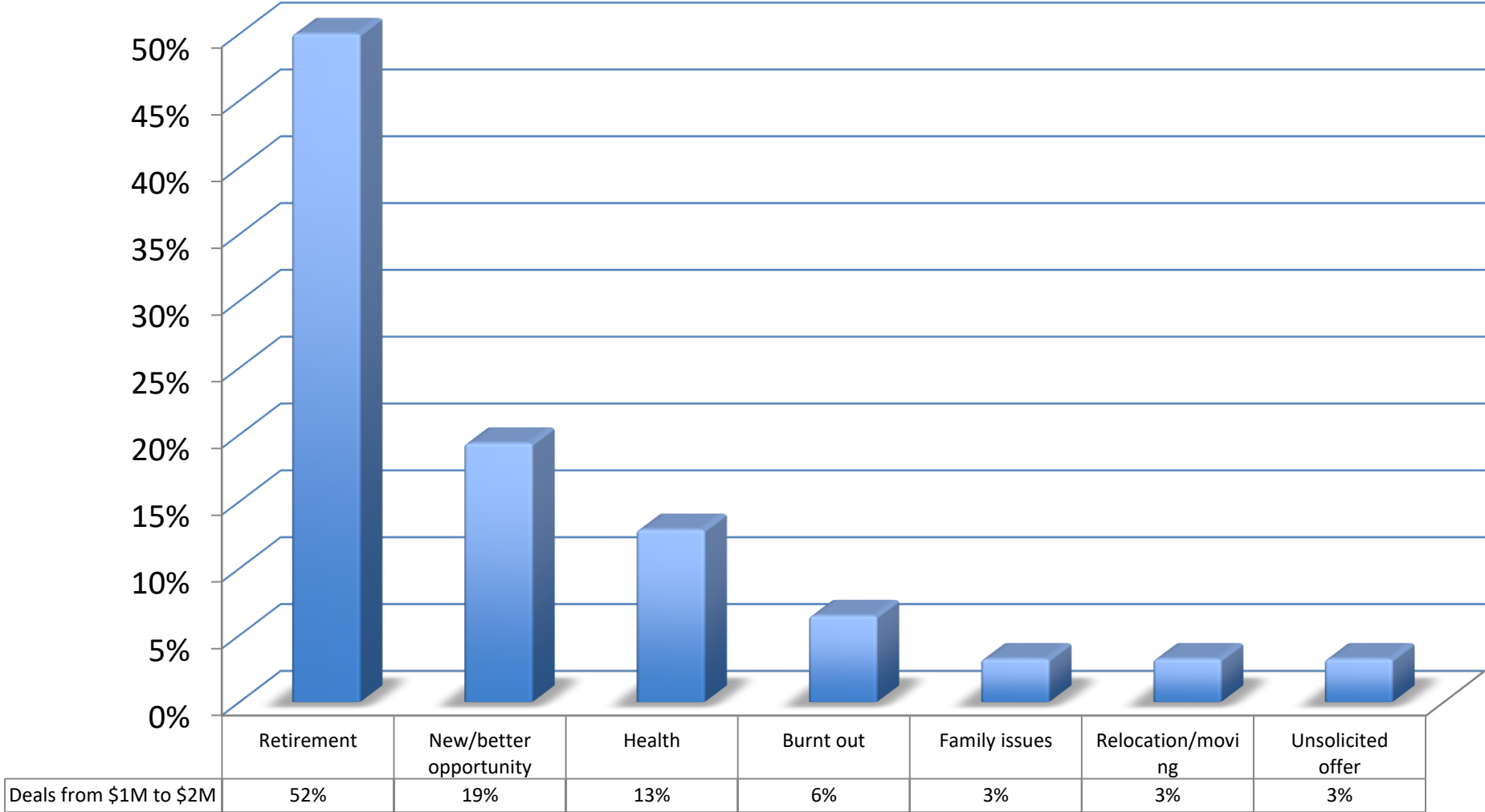


Buyer Type

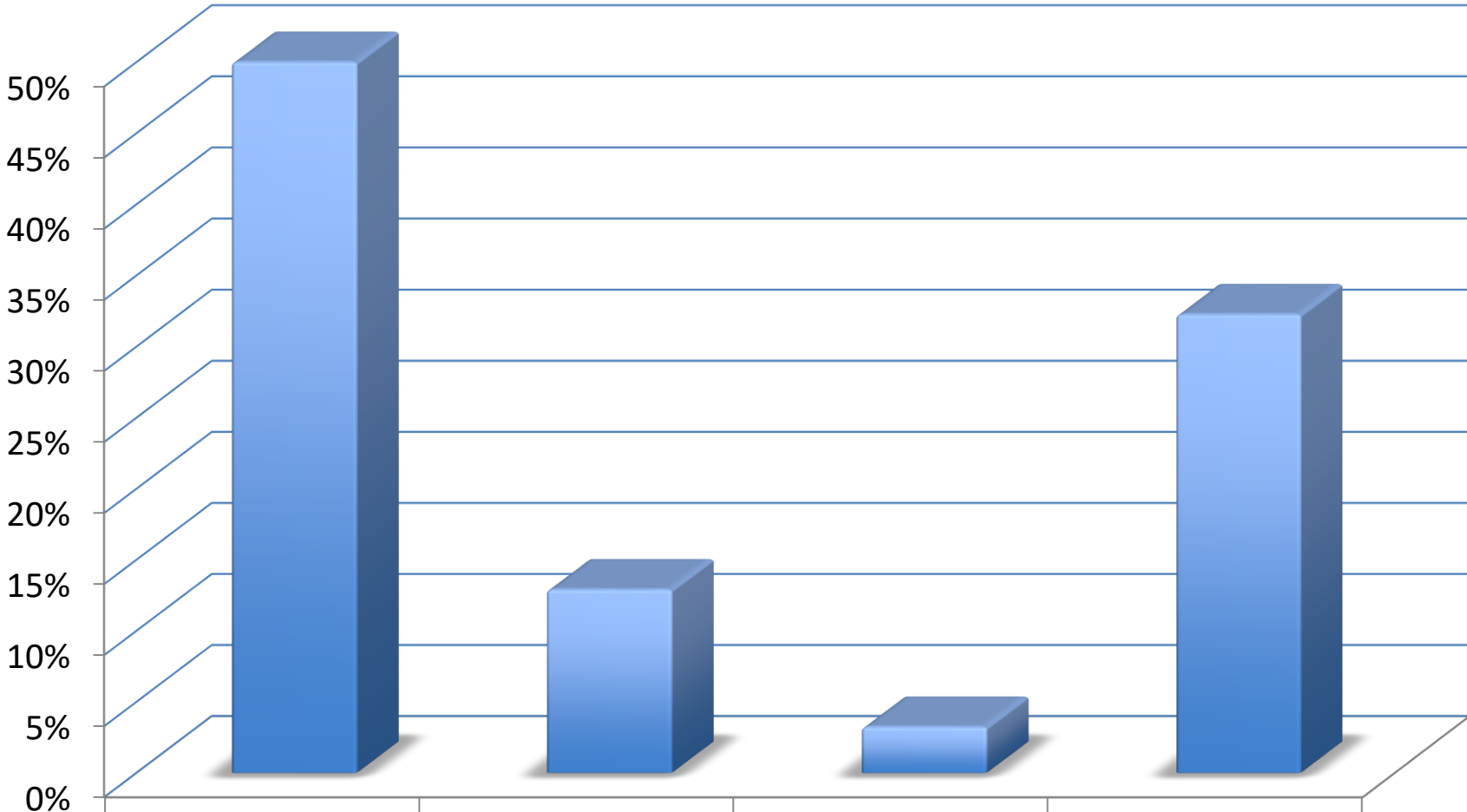


- 1st time individual
- individual who owned a business
- existing company/strategic buyer
- Other

#1 Reason for Seller to Go to Market

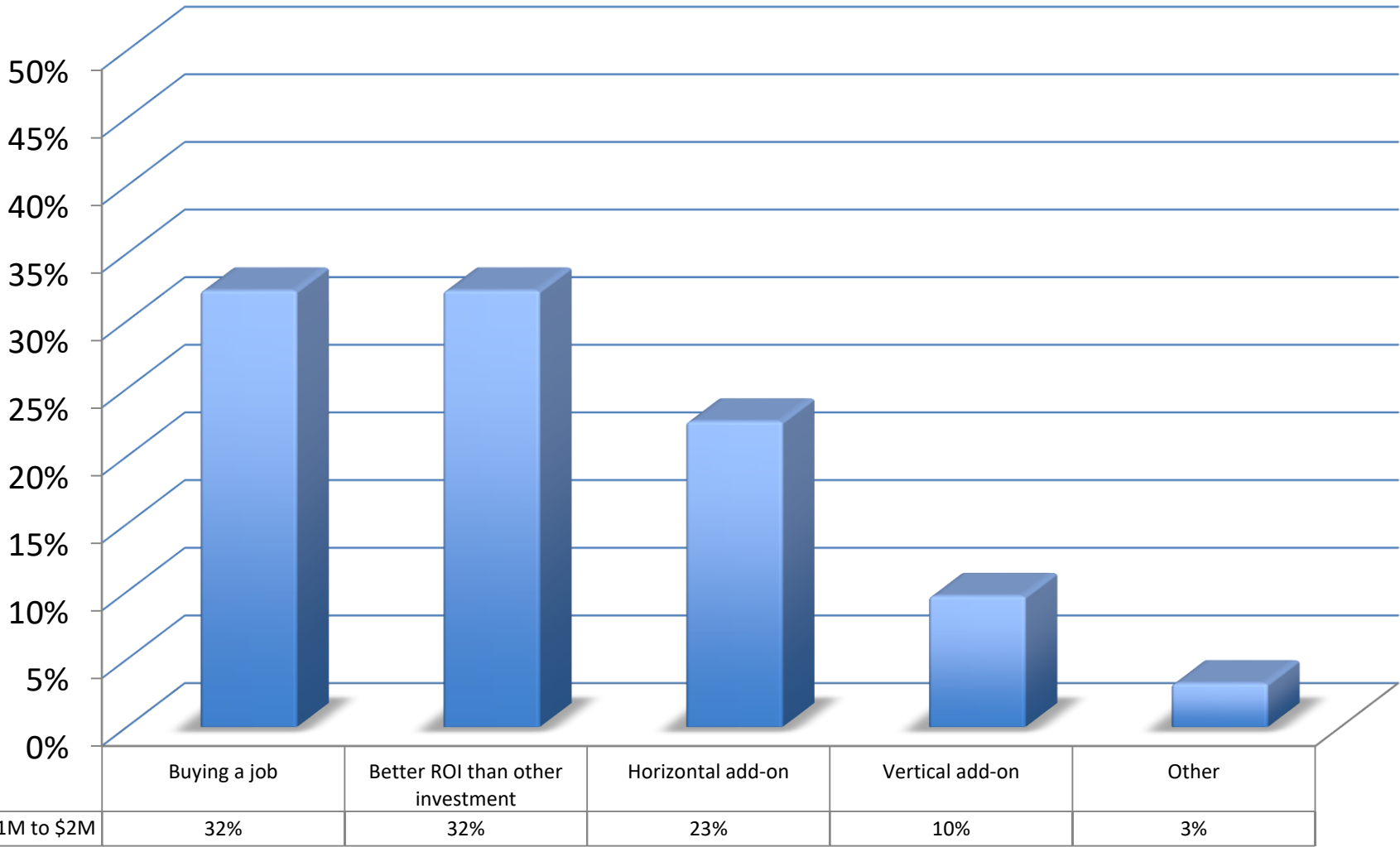


Buyer Location



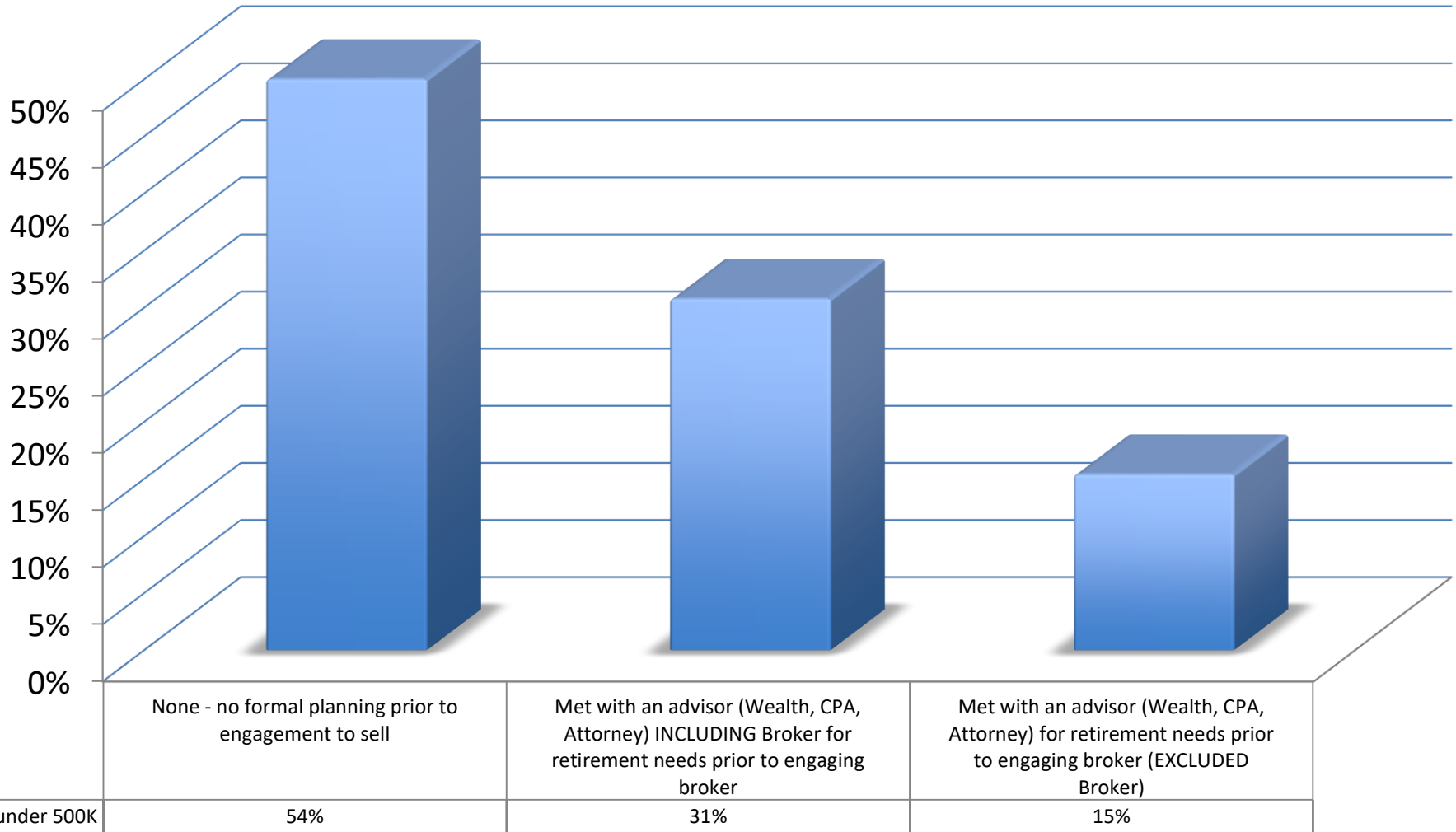
Deals from \$1M to \$2M

#1 Motivation for Buyer

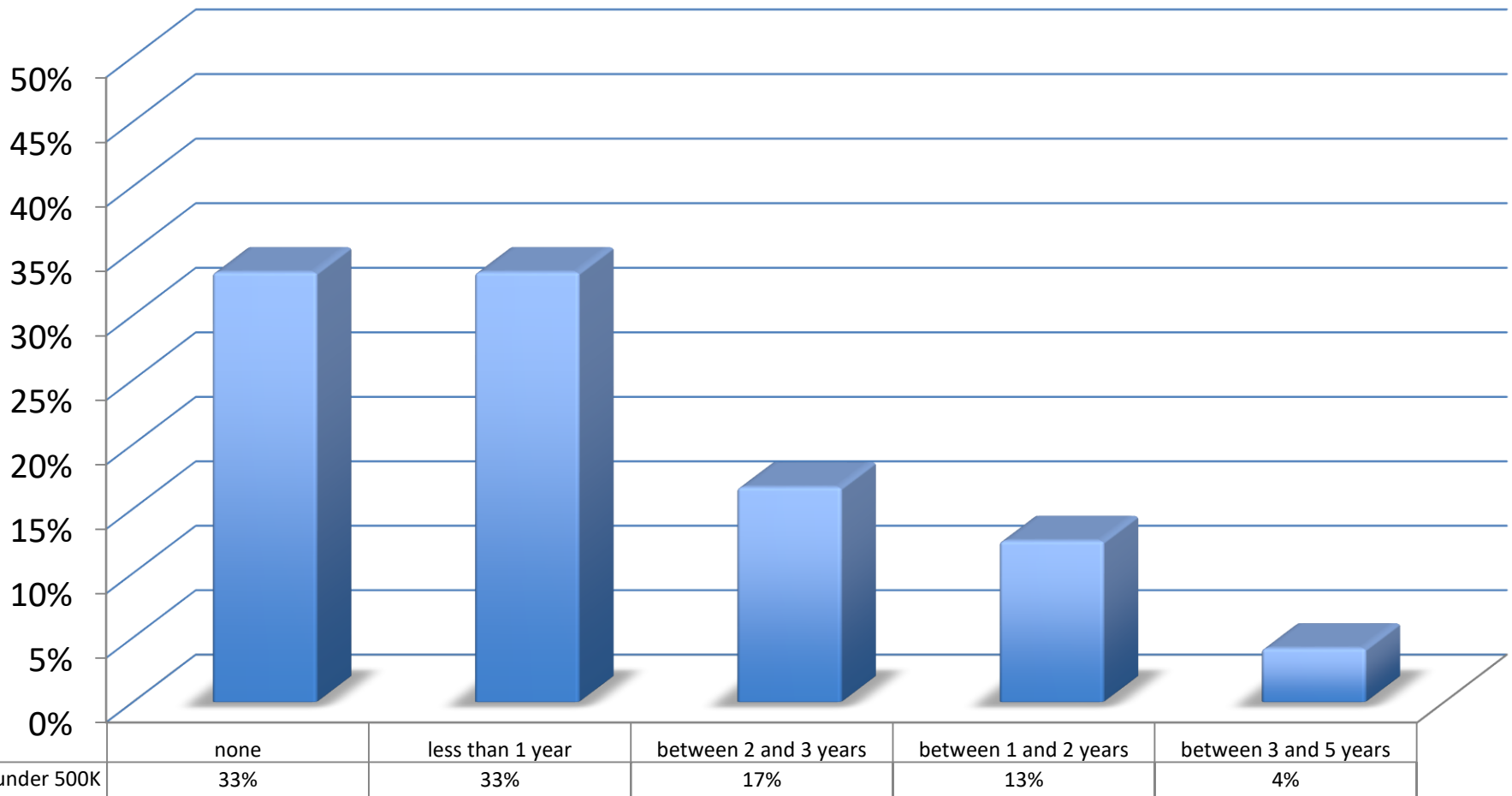


Deals from \$1M to \$2M

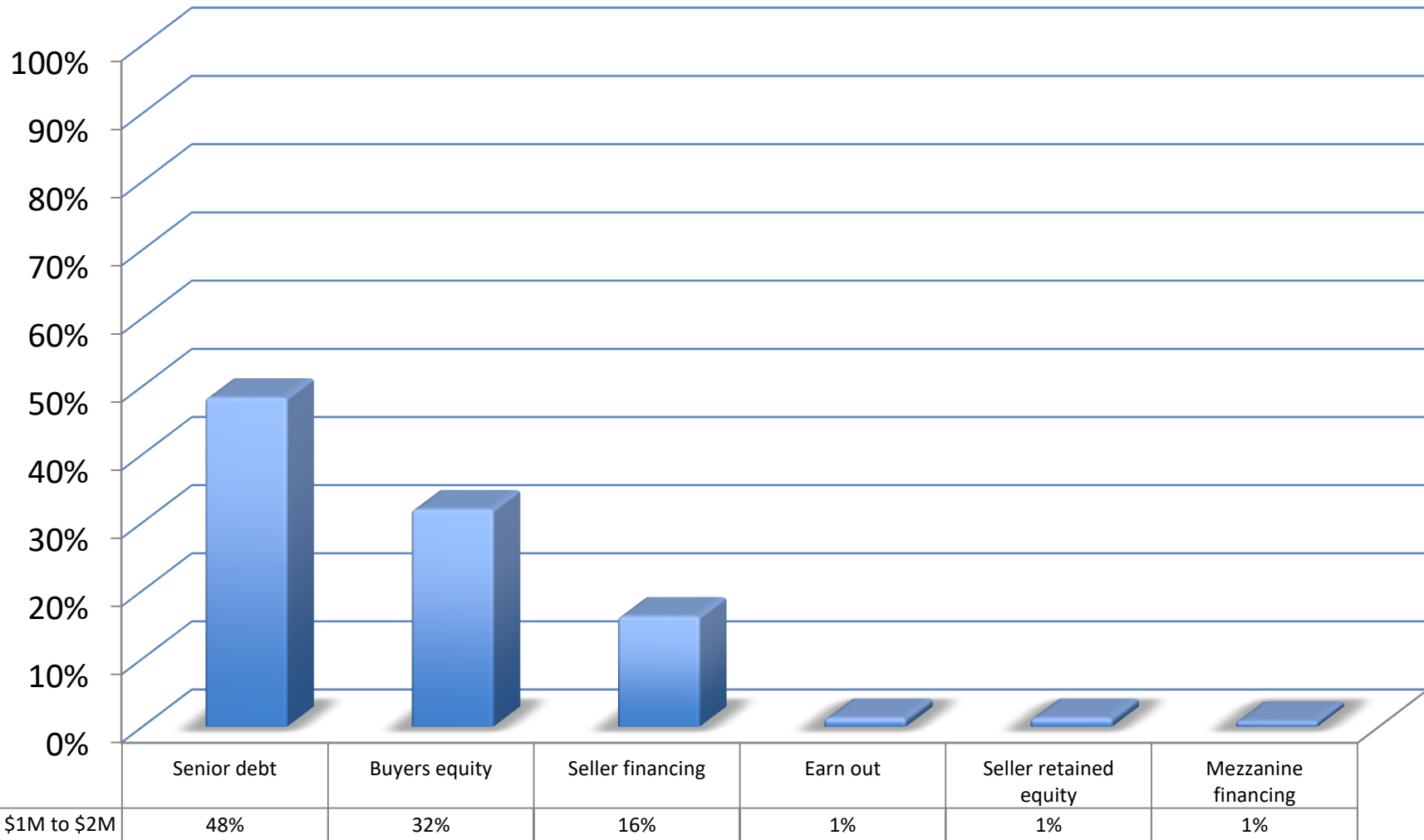
Exit Planning



Amount Of Exit Planning Prior To Marketing Business

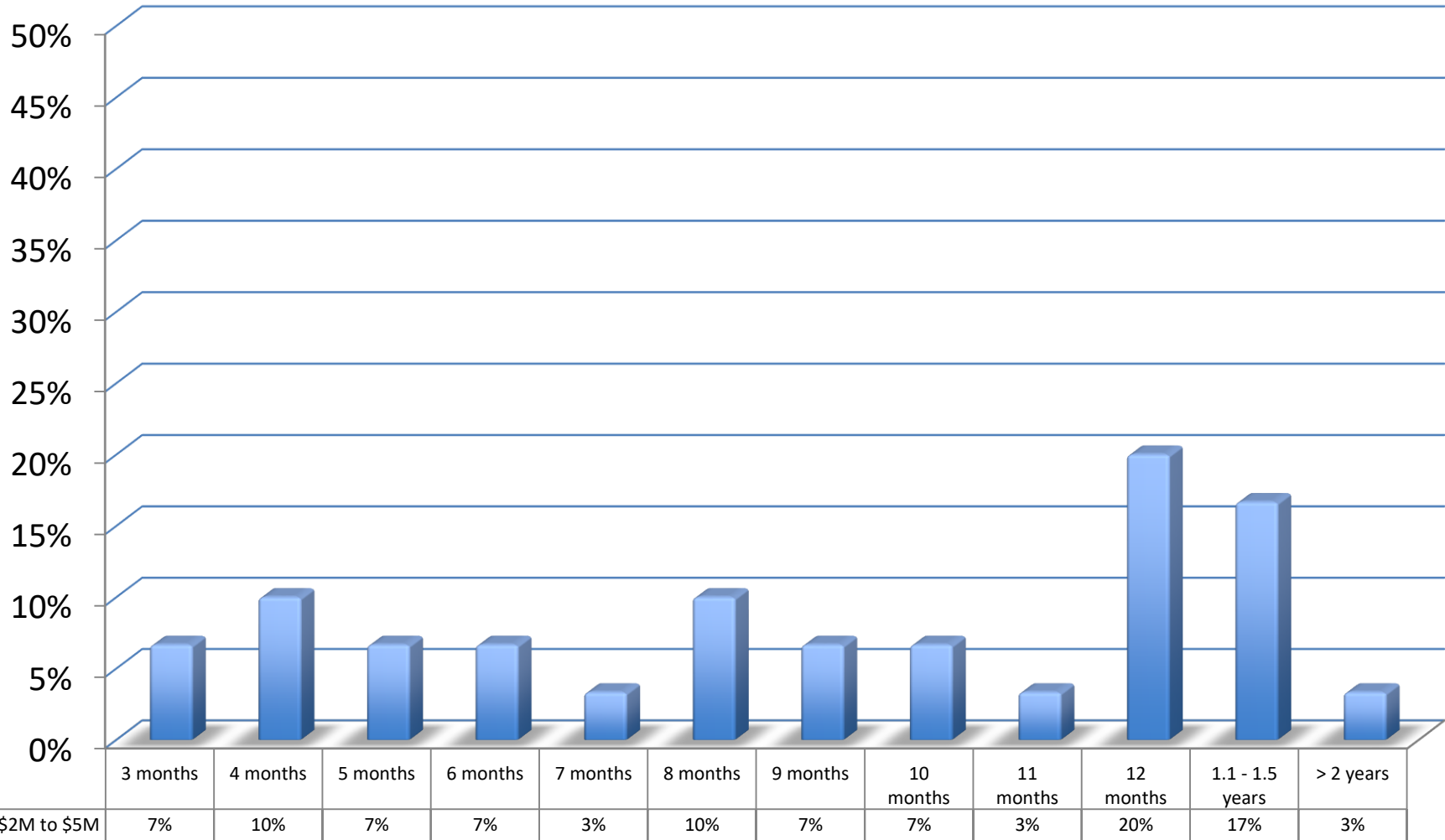


Financing Structure

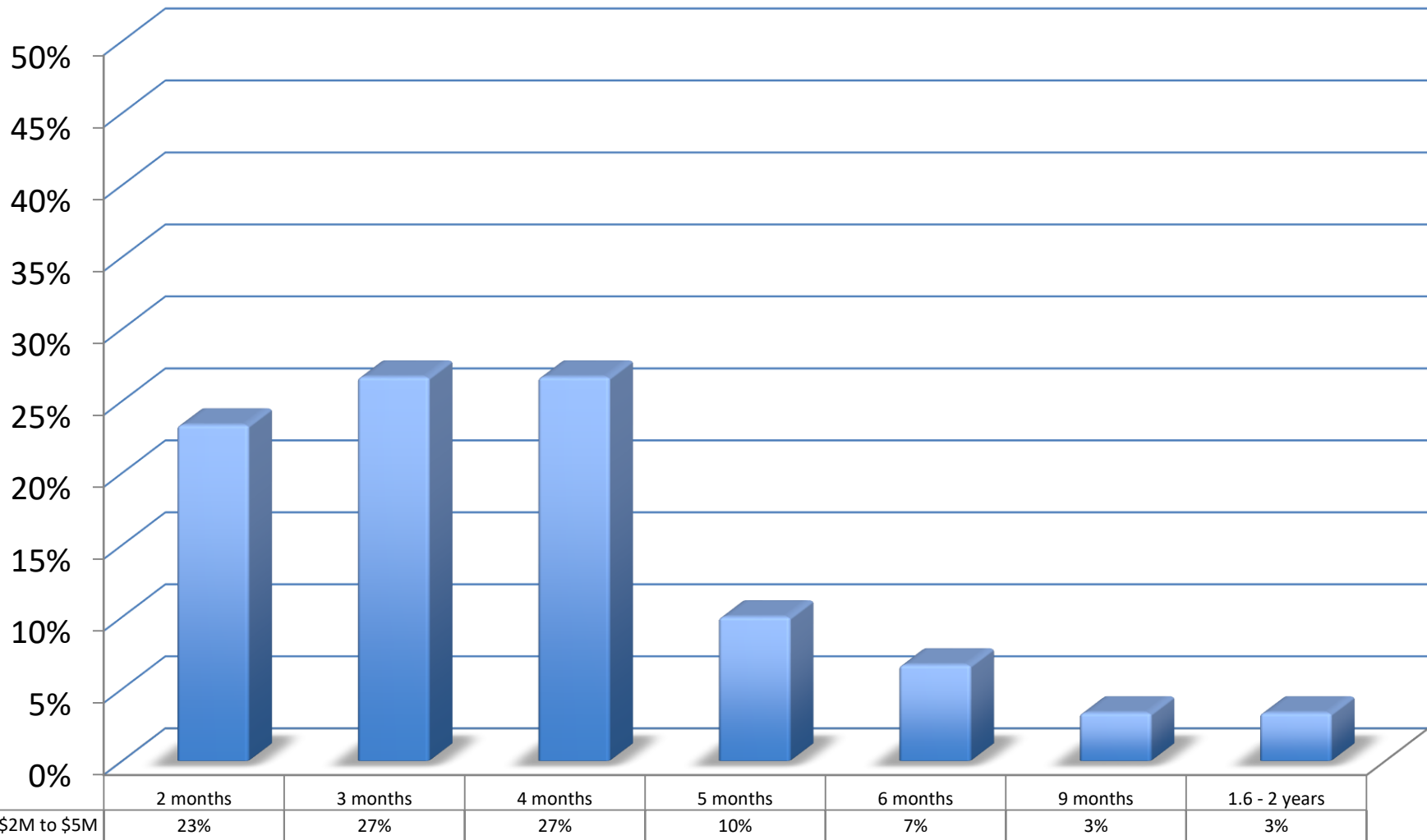


Business Transactions Valued
from \$2 Million to \$4.99 Million
Number of Closed Transactions: 30

Engagement/Listing to Close

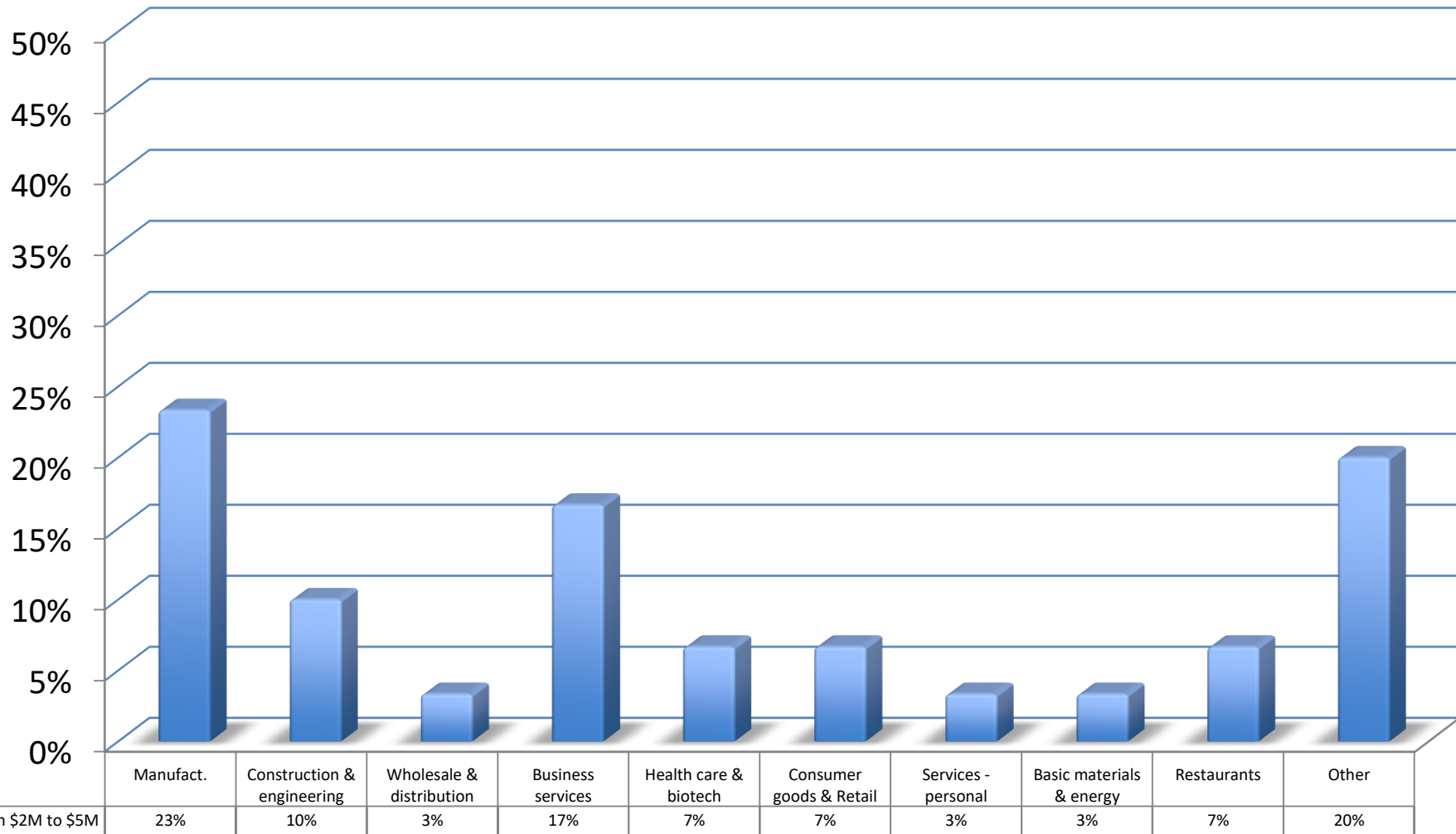


LOI/ Offer to Close

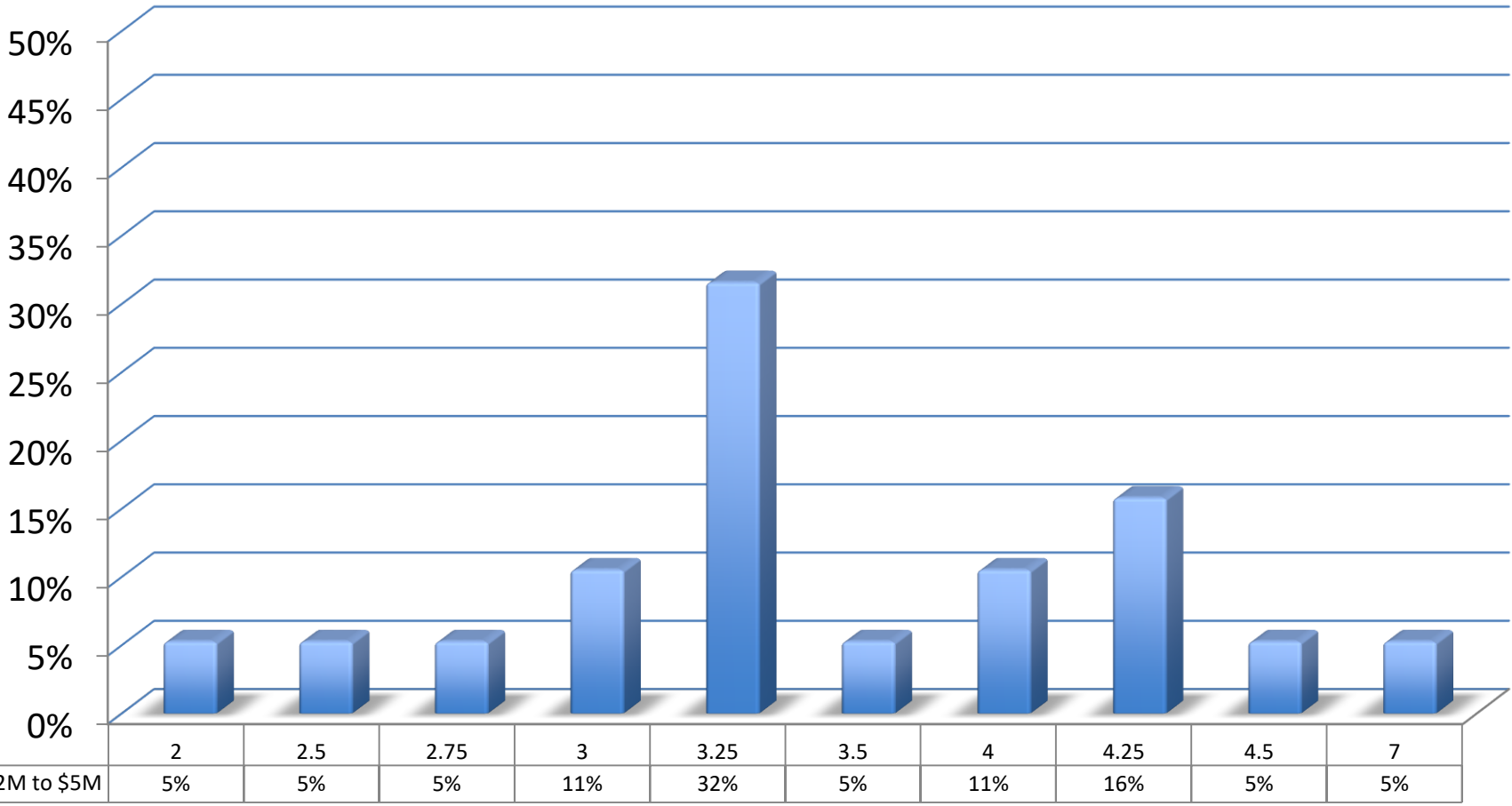


Deals from \$2M to \$5M

Industry



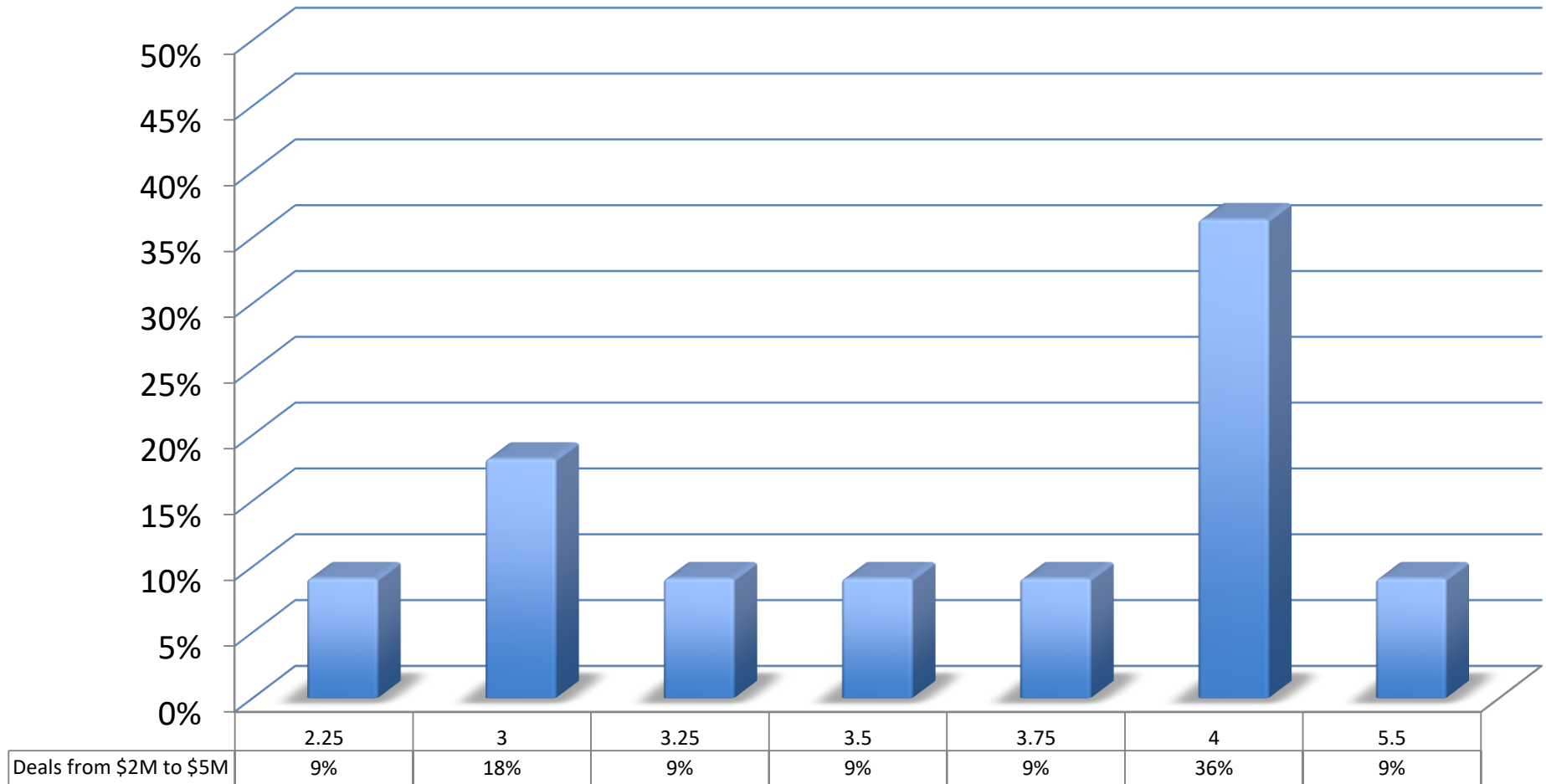
SDE Multiple Paid



Deals from \$2M to \$5M

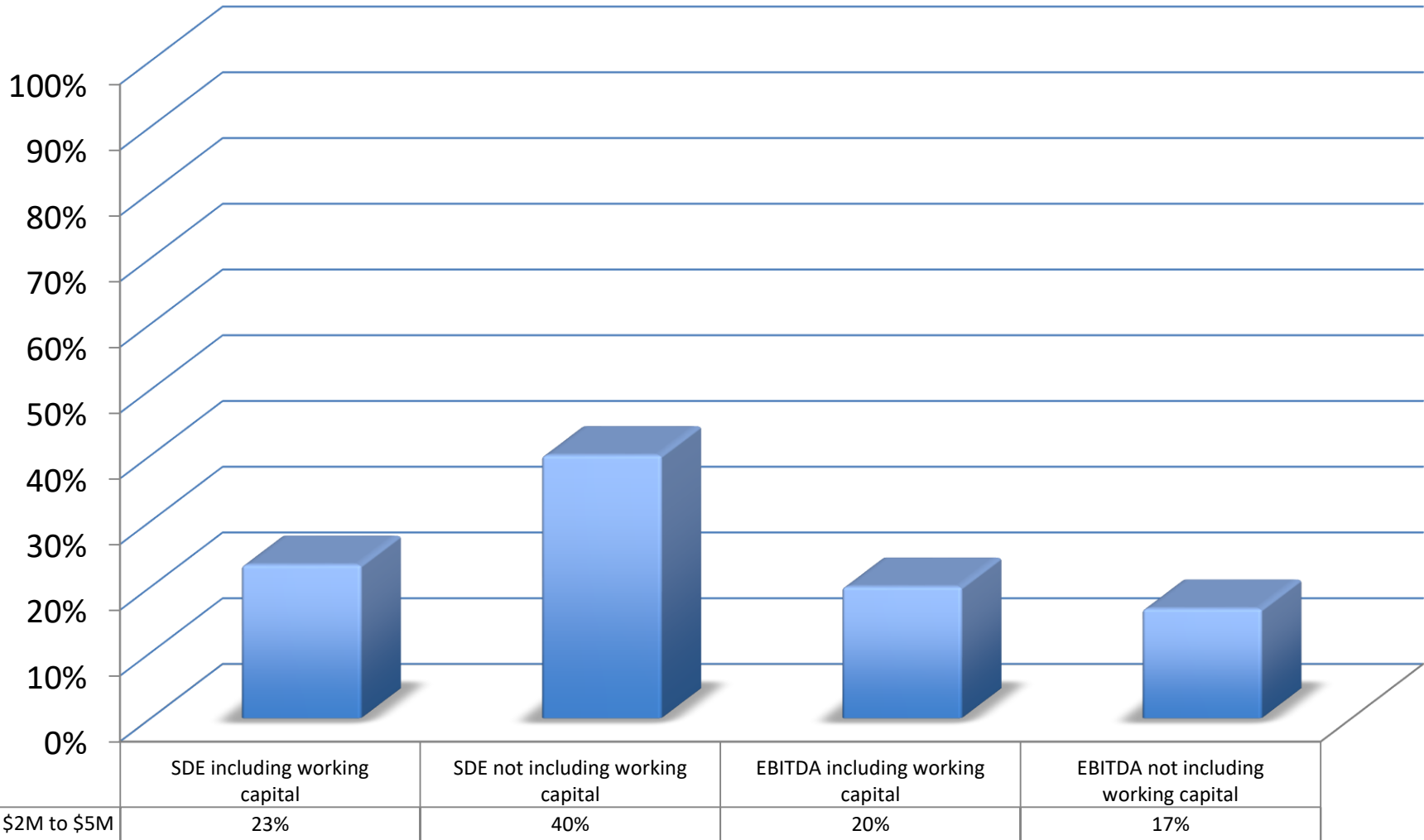
Number of responses: 19

EBITDA Multiple Paid

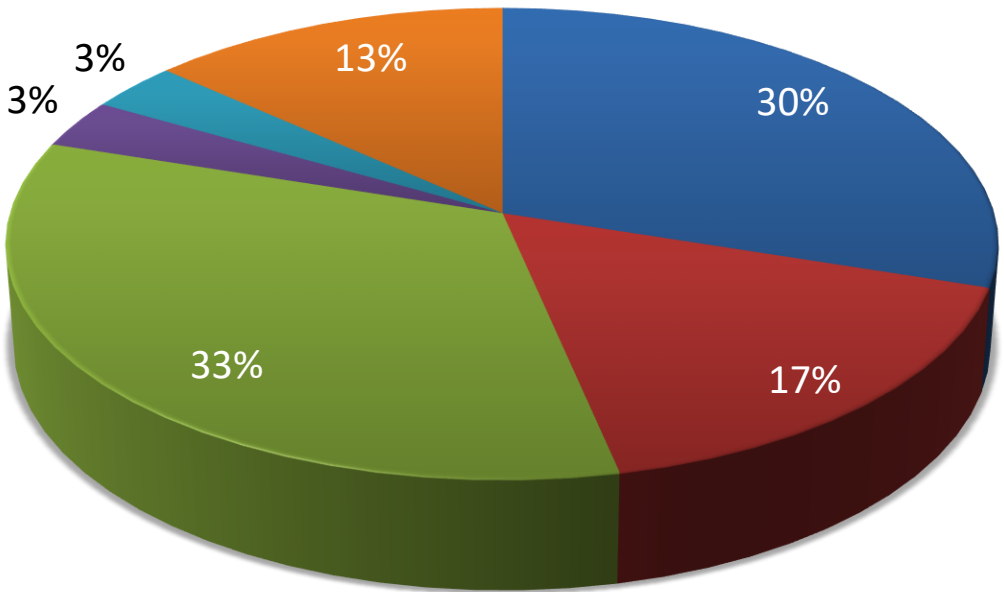


Number of responses: 11

Multiple Type

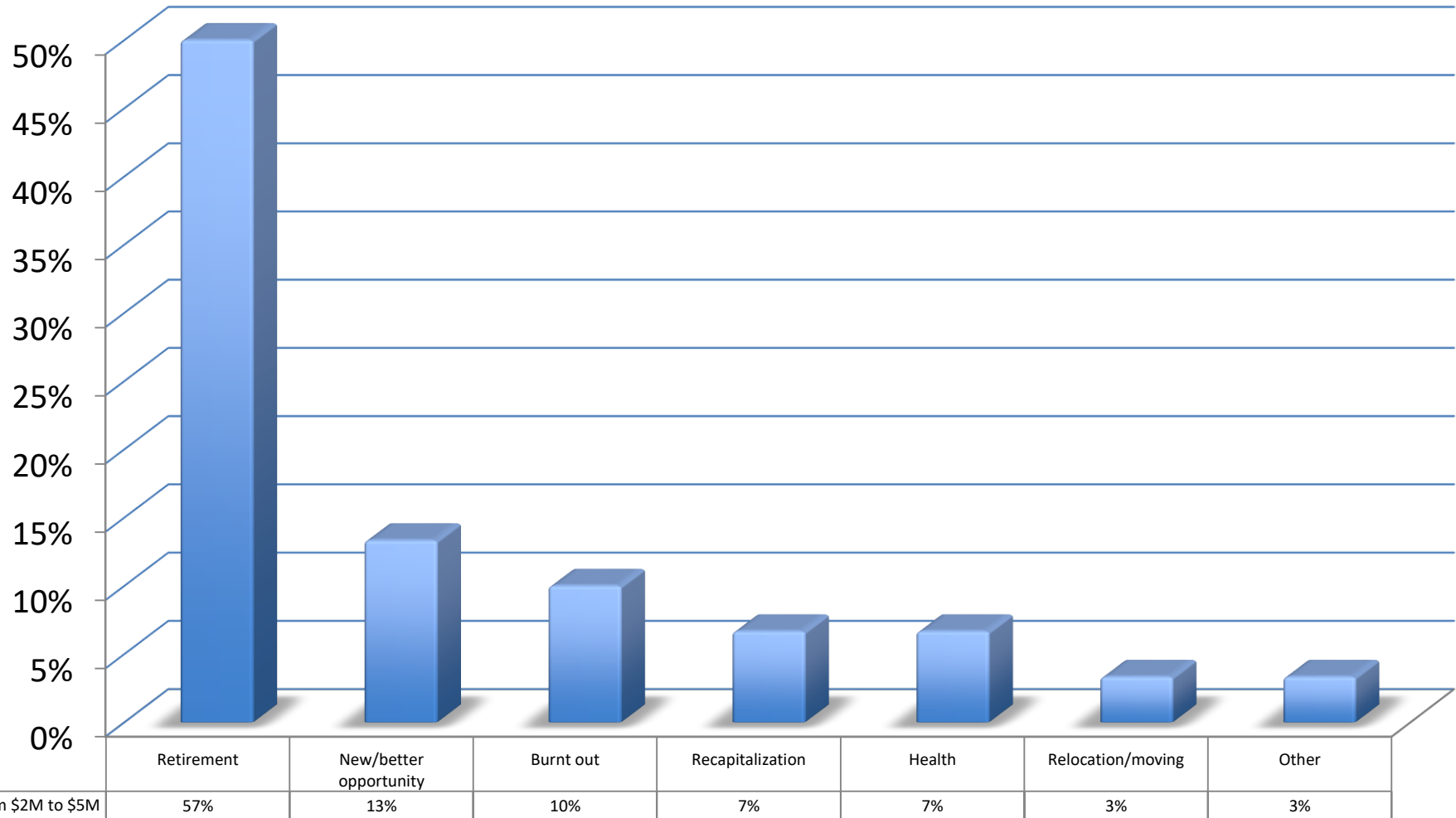


Buyer Type

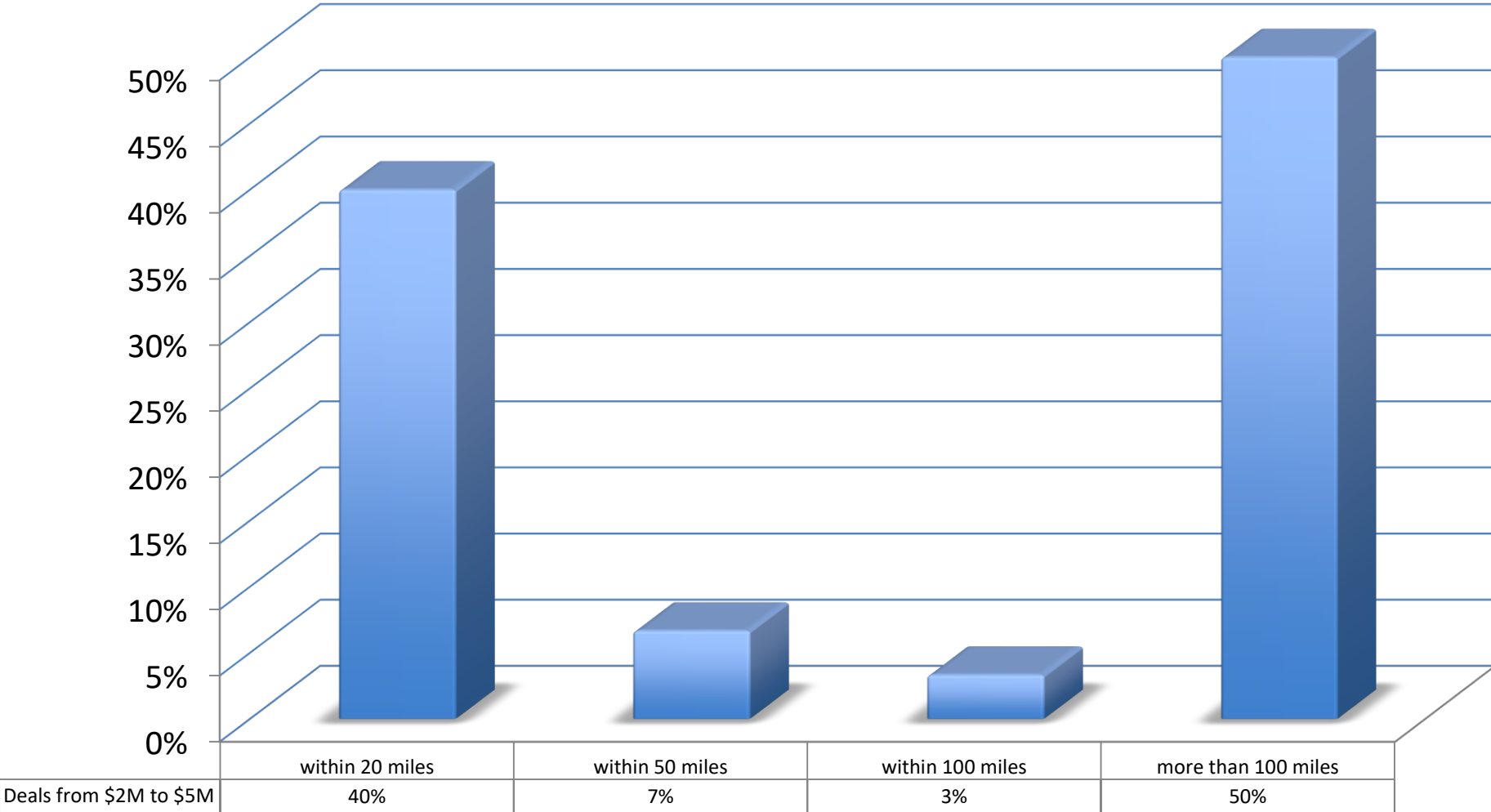


- 1st time individual
- individual who owned a business
- existing company/strategic buyer
- PE firm - Platform
- PE firm - Add-on
- Other

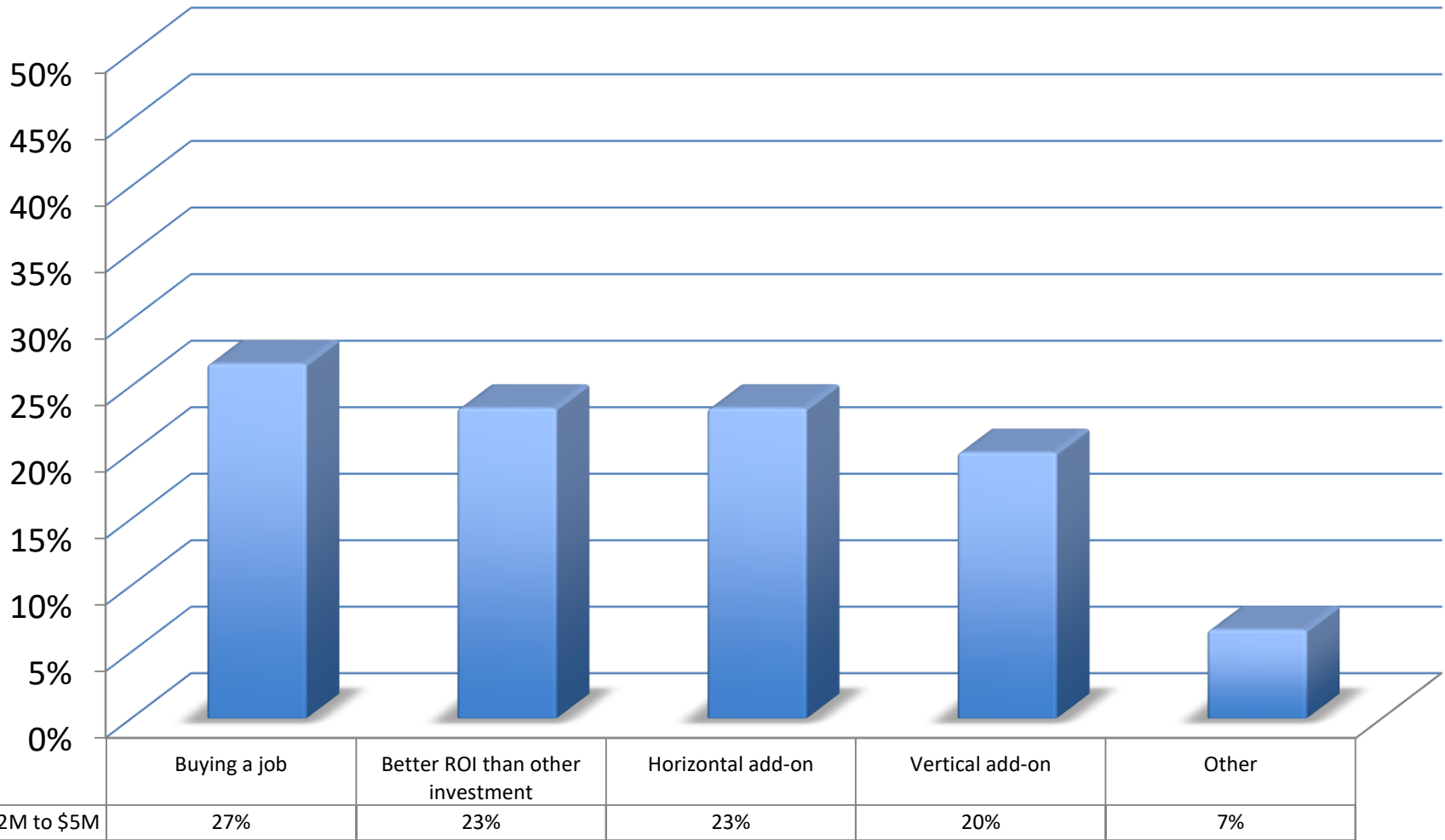
#1 Reason for Seller to Go to Market



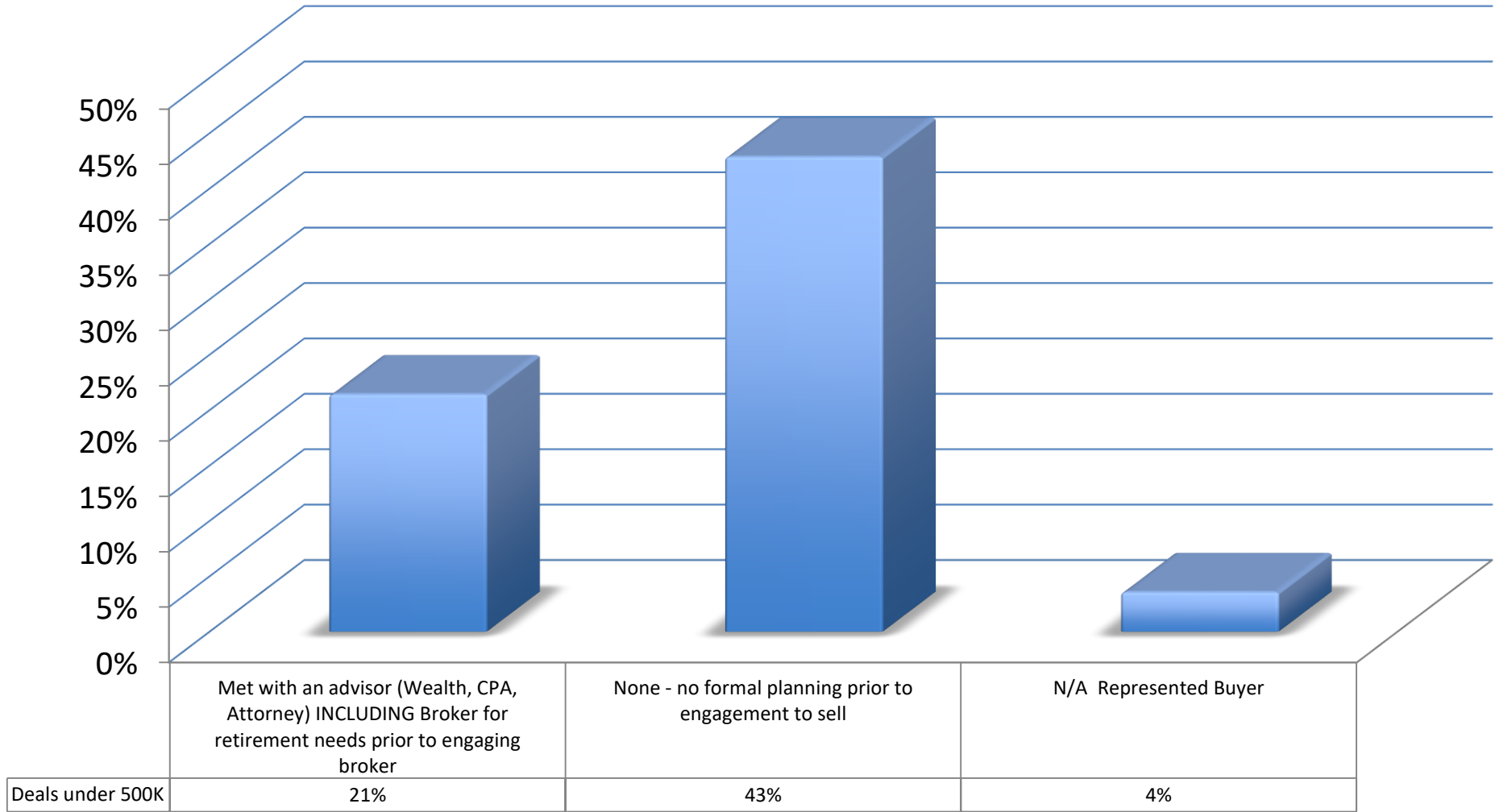
Buyer Location



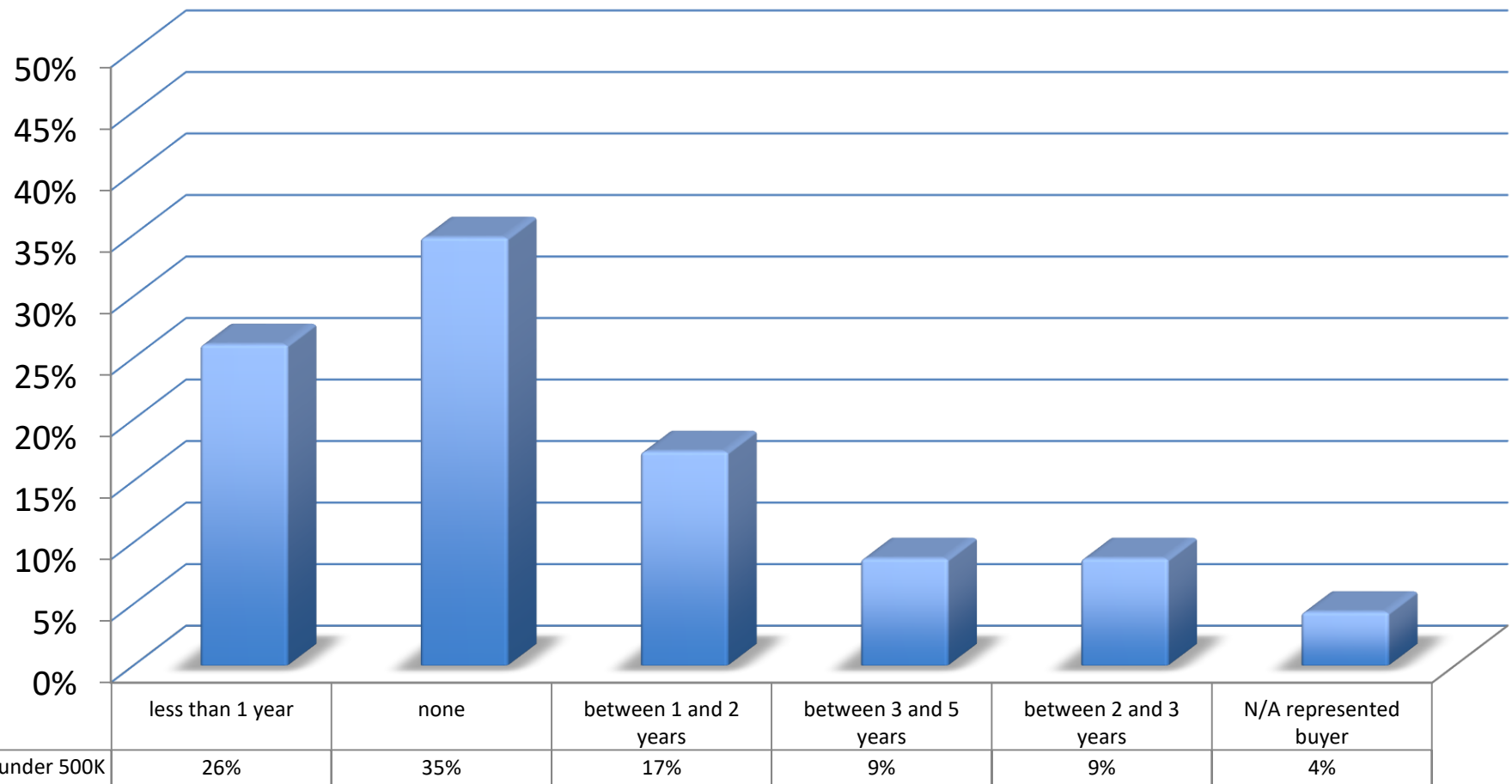
#1 Motivation for Buyer



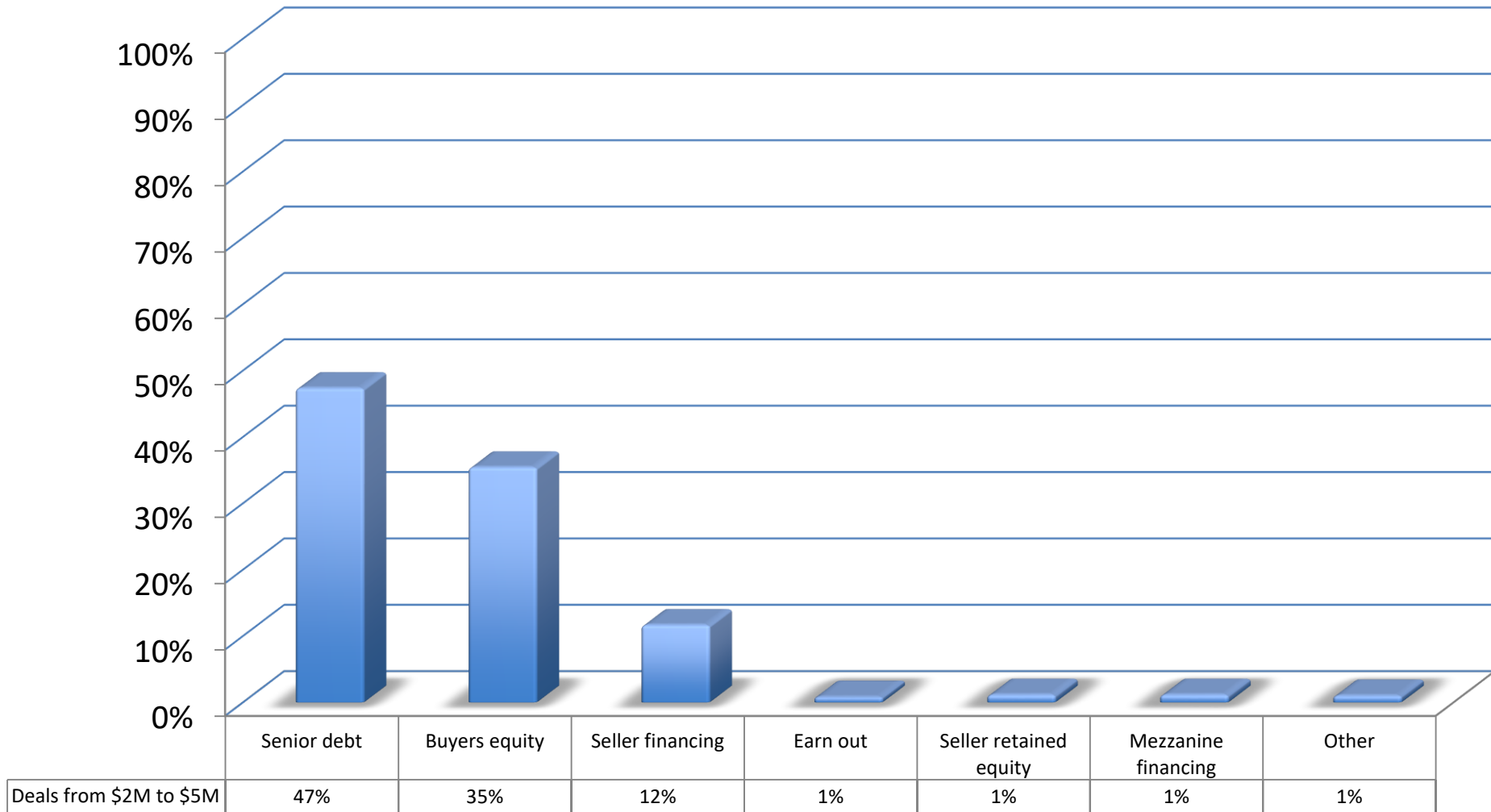
Exit Planning



Amount Of Exit Planning Prior To Marketing Business



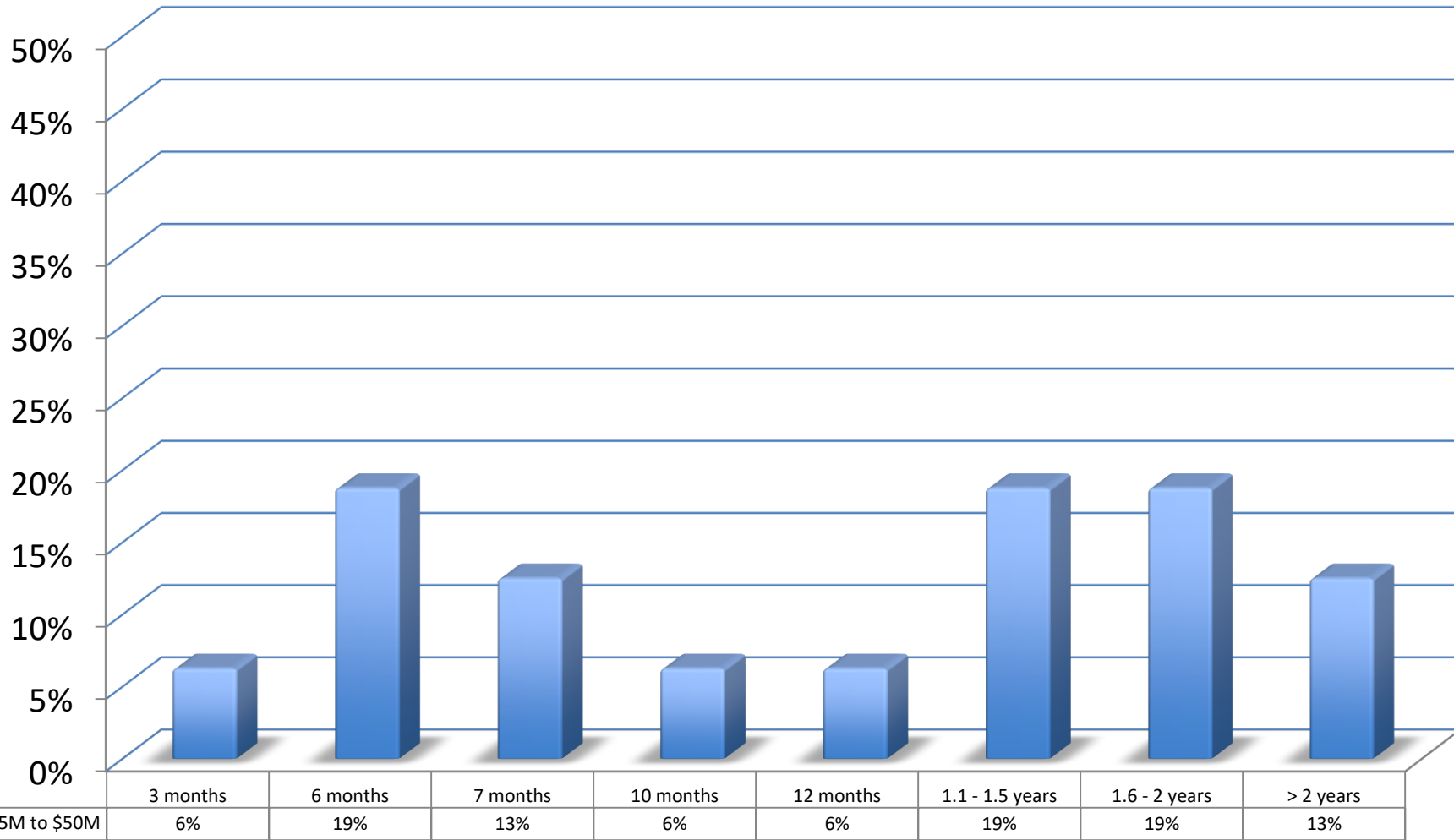
Financing Structure



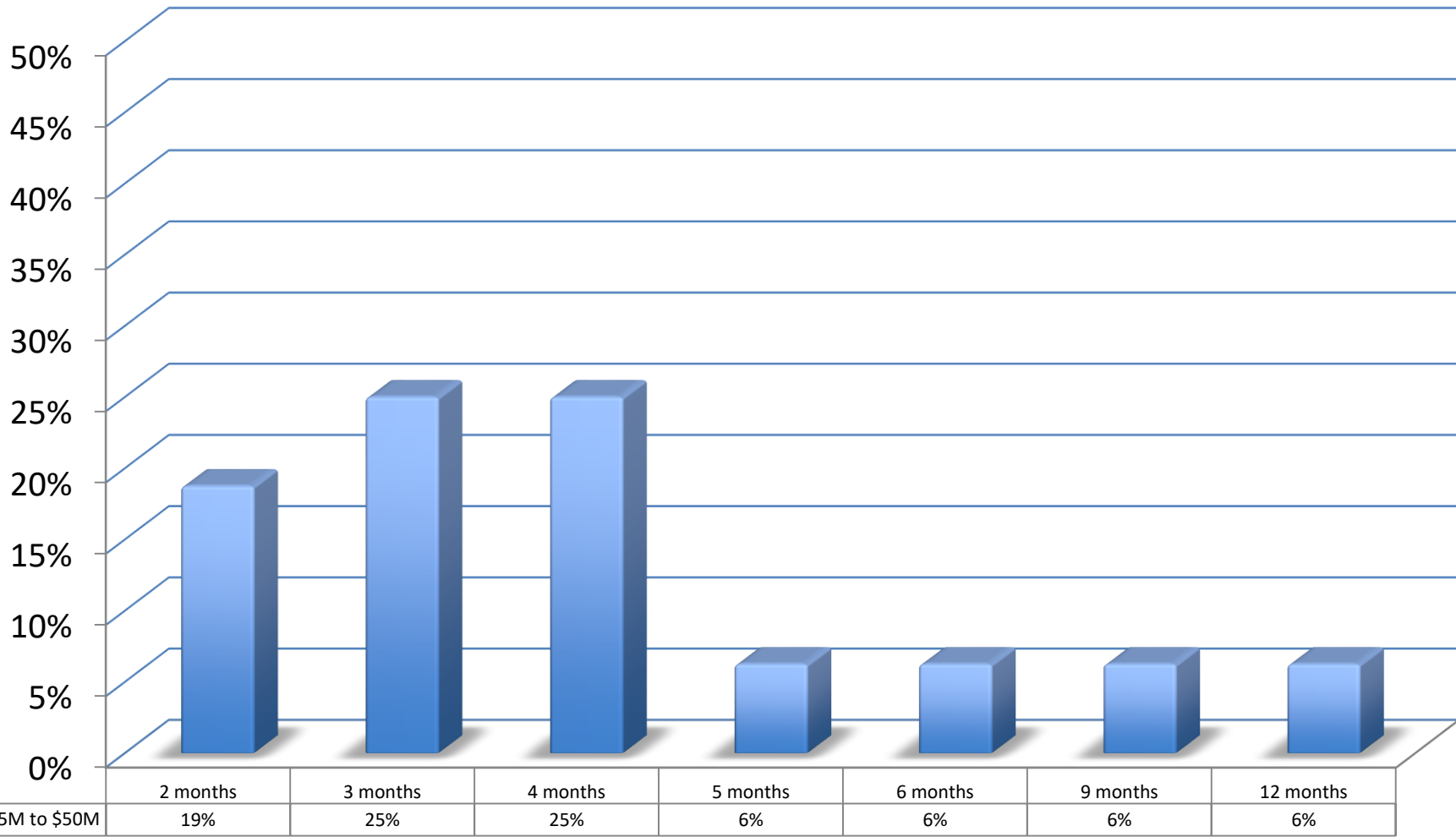
Business Transactions Valued Over \$5 Million

Number of Closed Transactions: 16

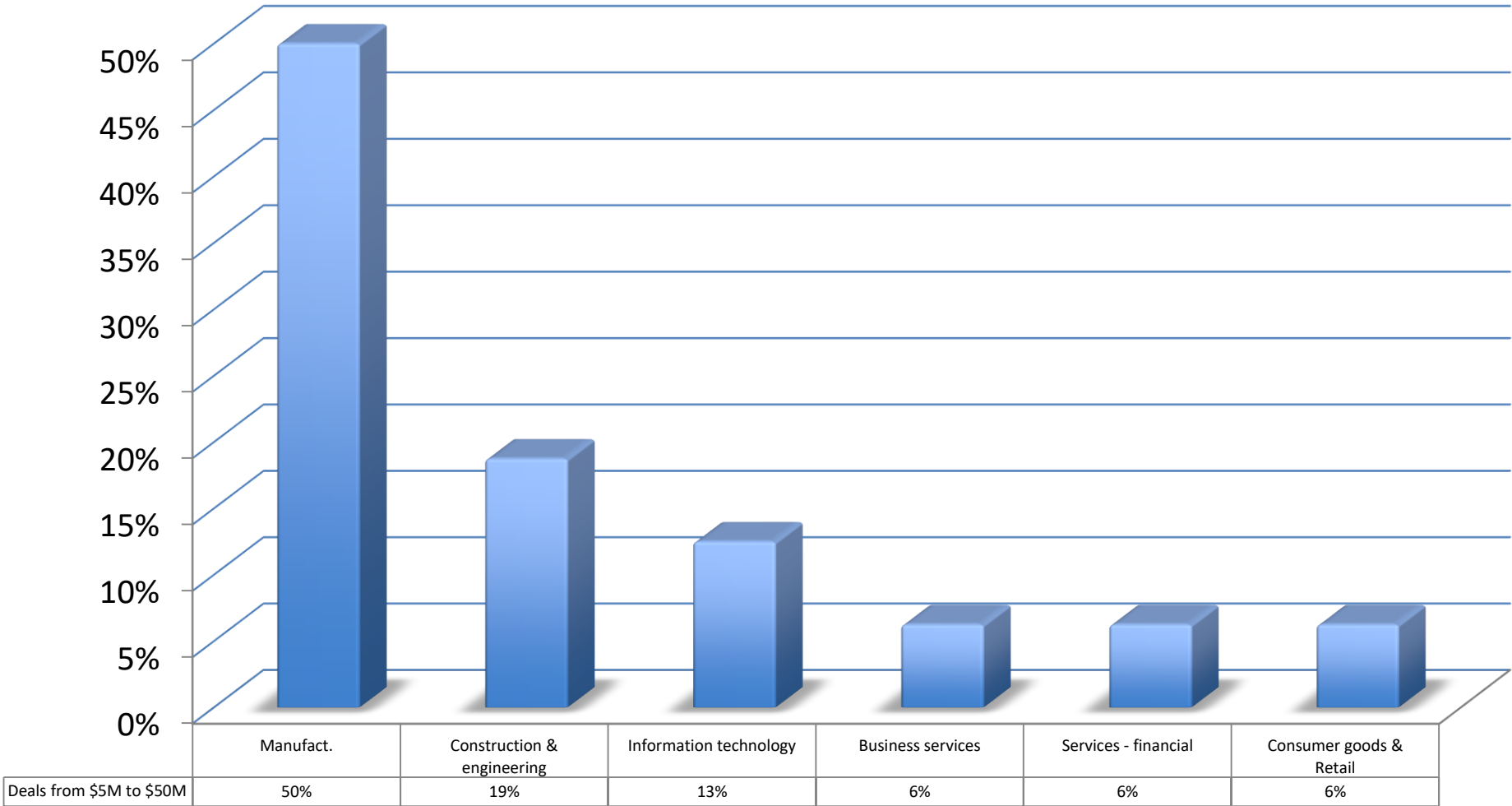
Engagement/Listing to Close



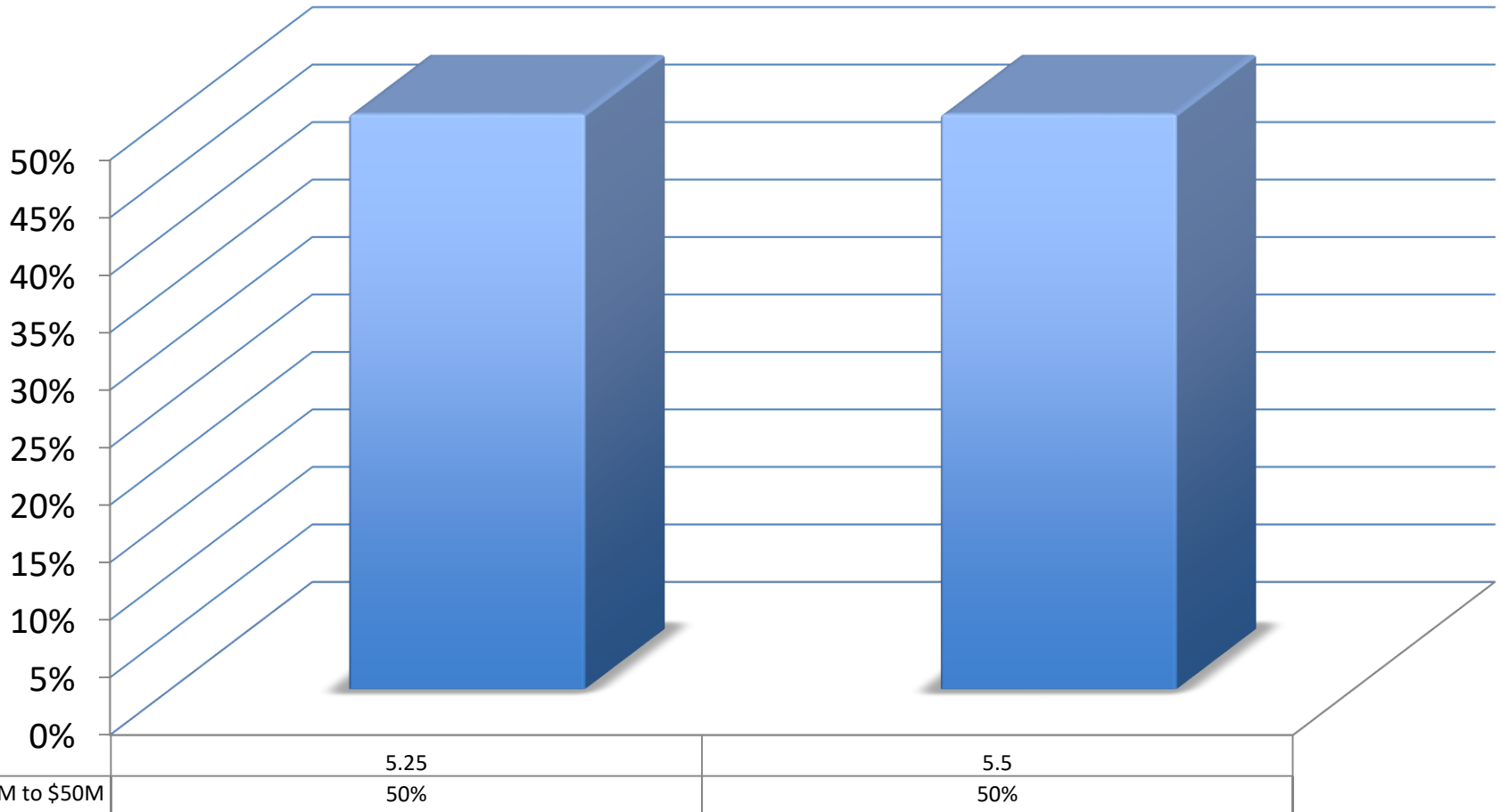
LOI/ Offer to Close



Industry

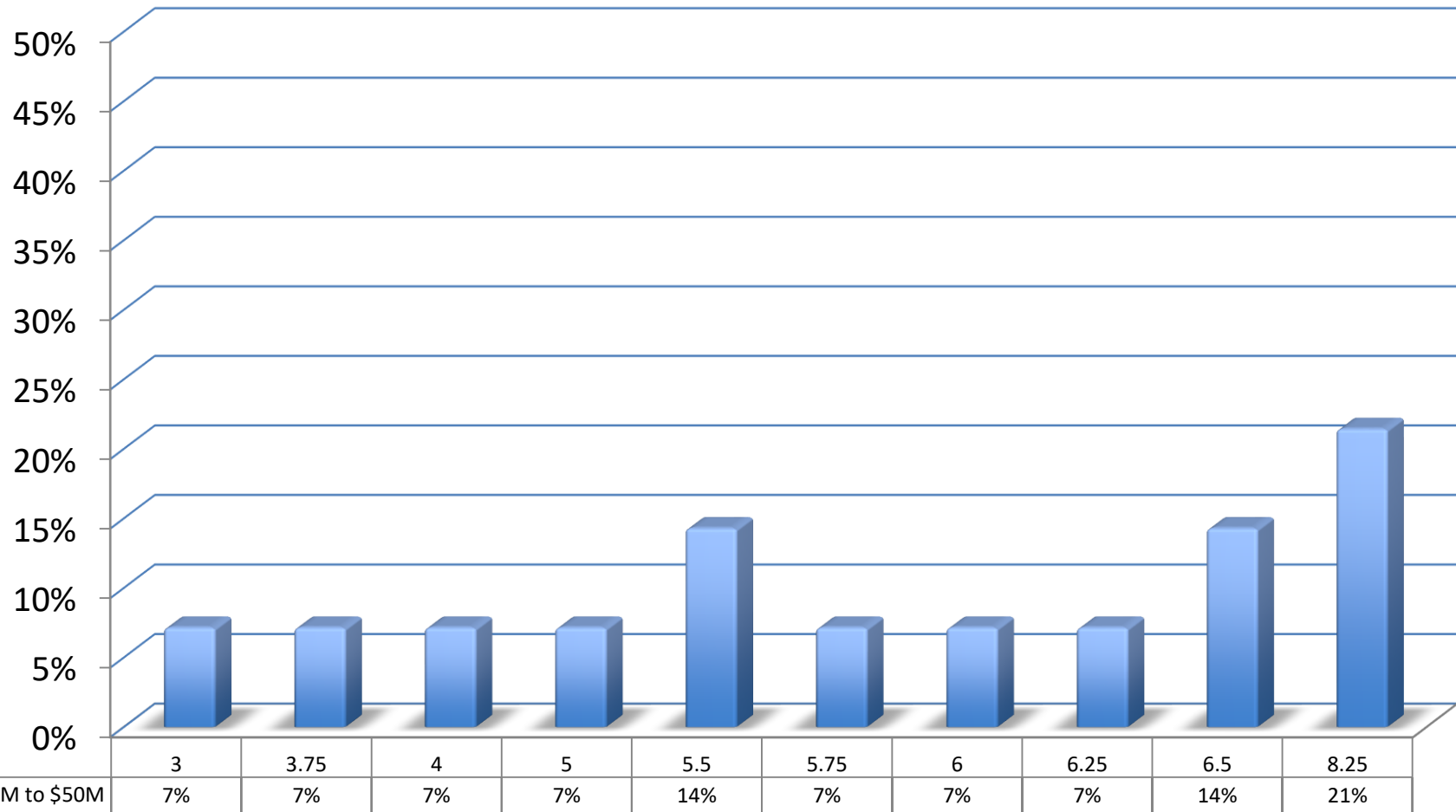


SDE Multiple Paid



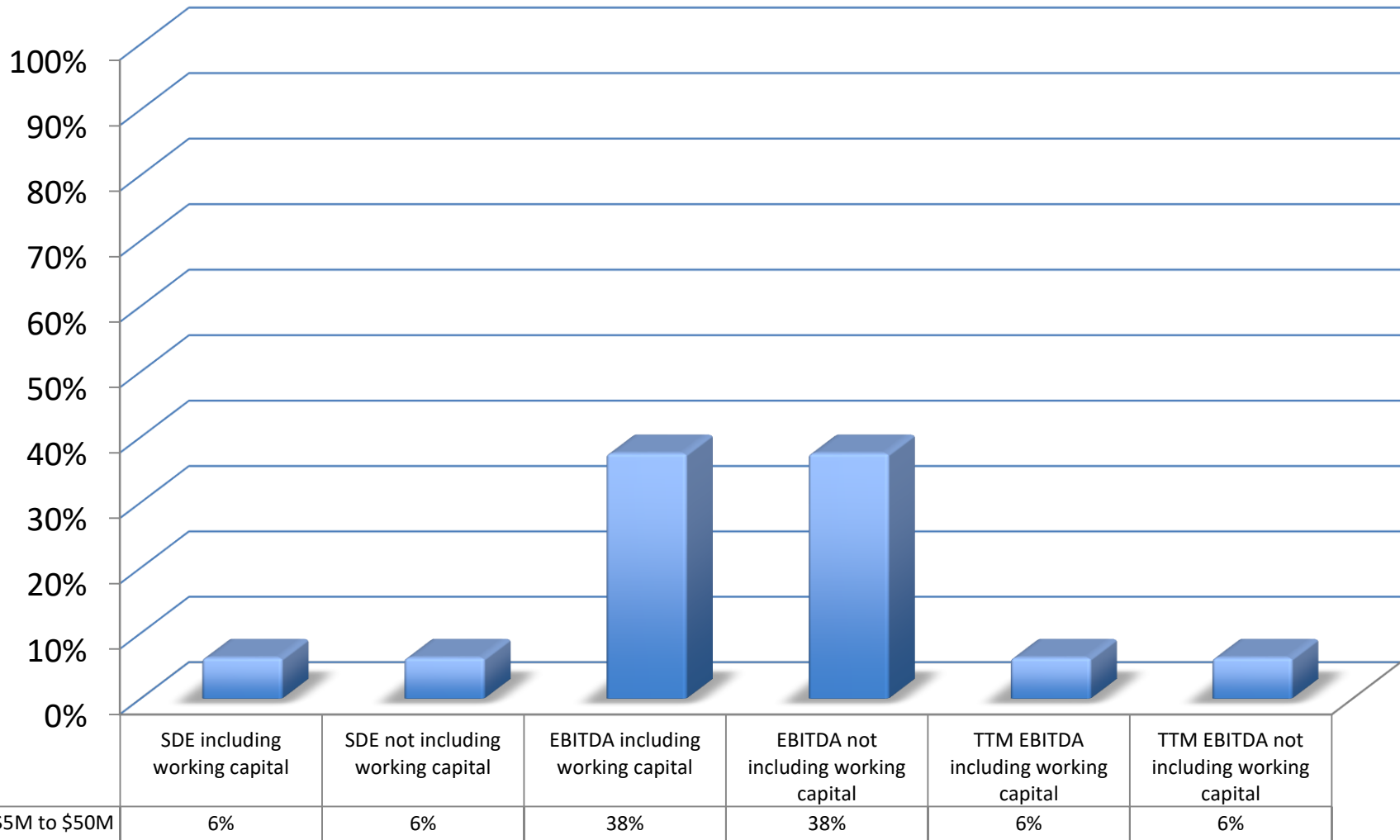
Number of responses: 2

EBITDA Multiple Paid

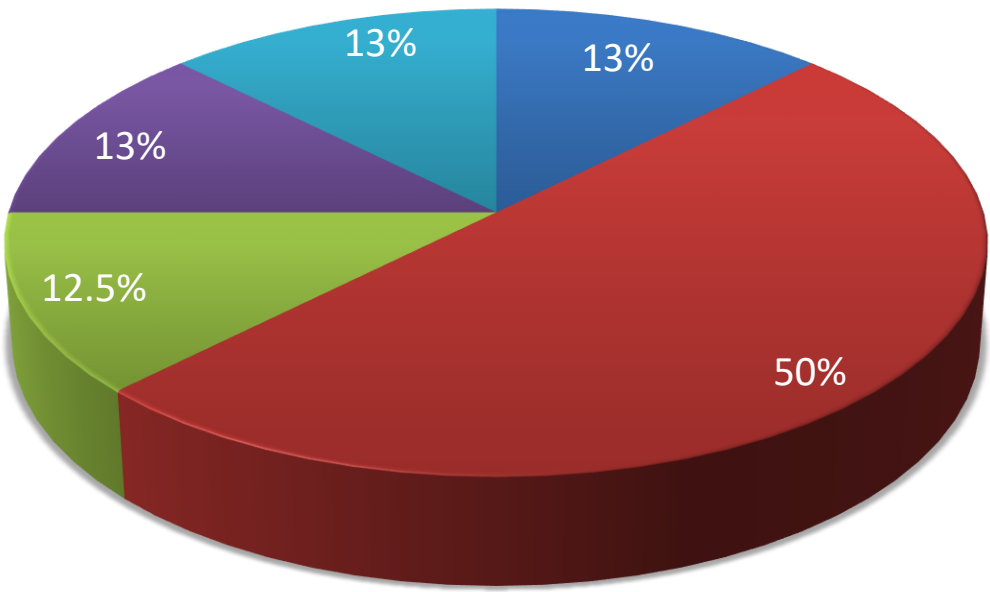


Number of responses: 14

Multiple Type

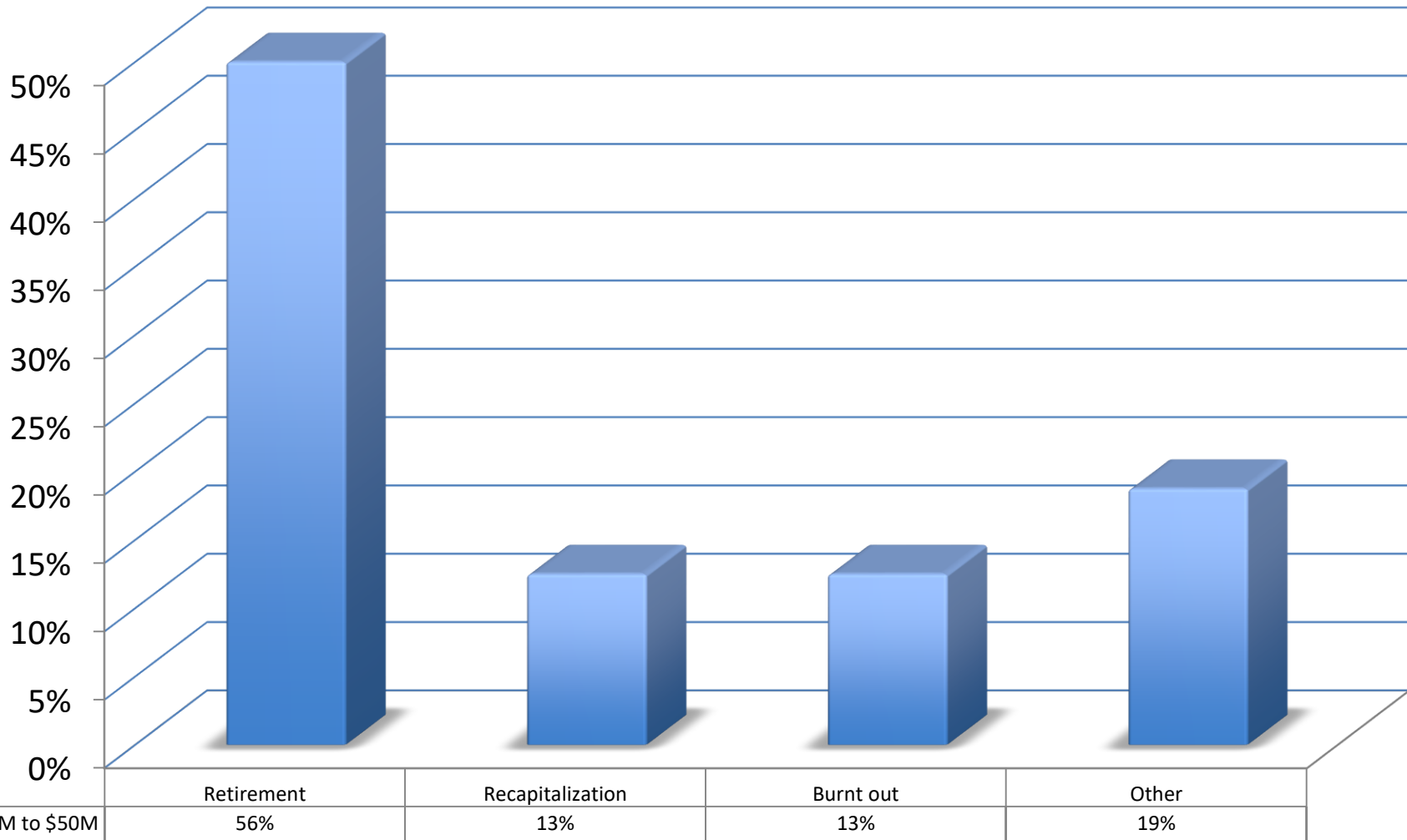


Buyer Type

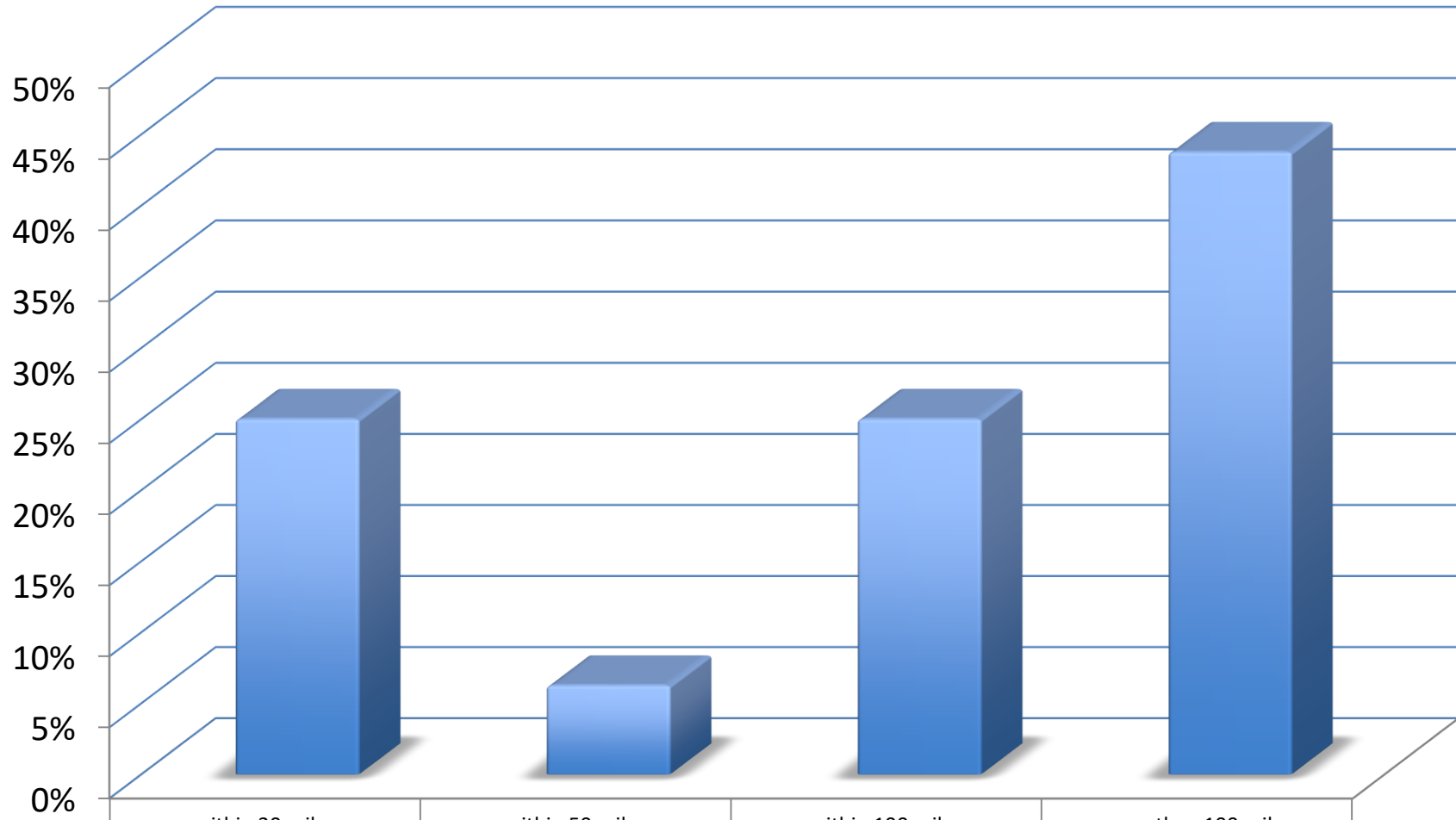


- 1st time individual
- existing company/strategic buyer
- PE firm - Platform
- PE firm - Add-on
- Other

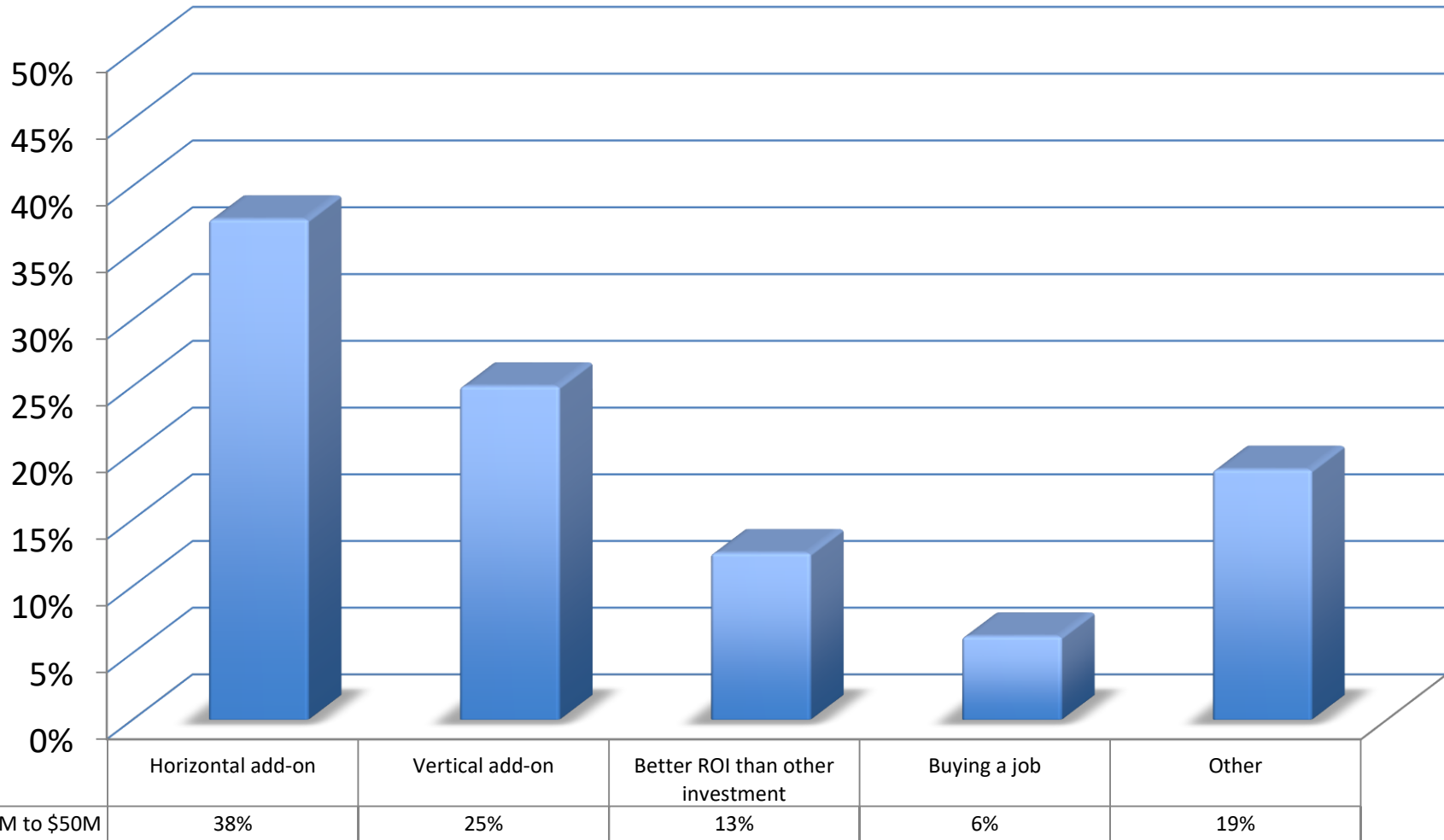
#1 Reason for Seller to Go to Market



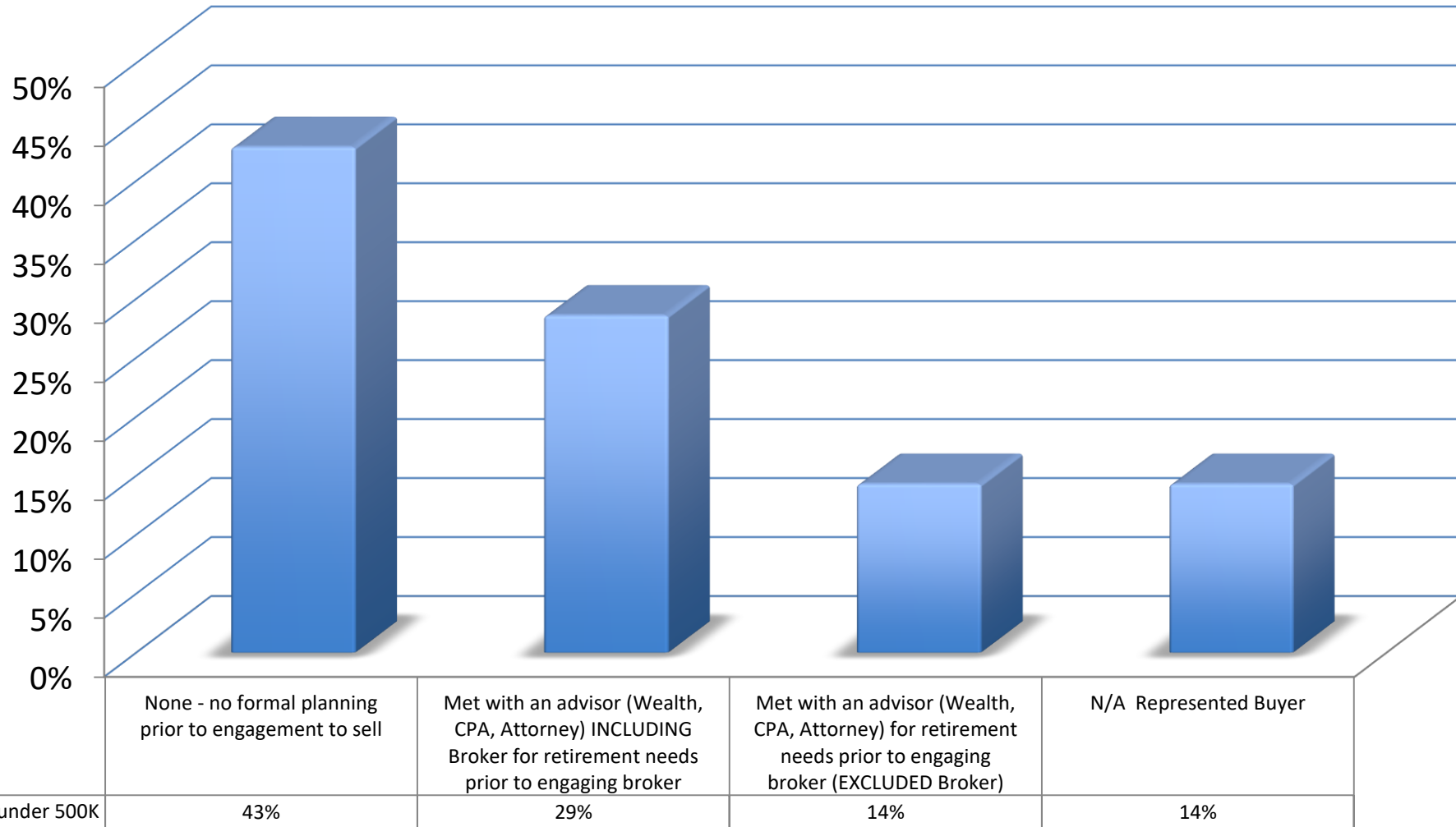
Buyer Location



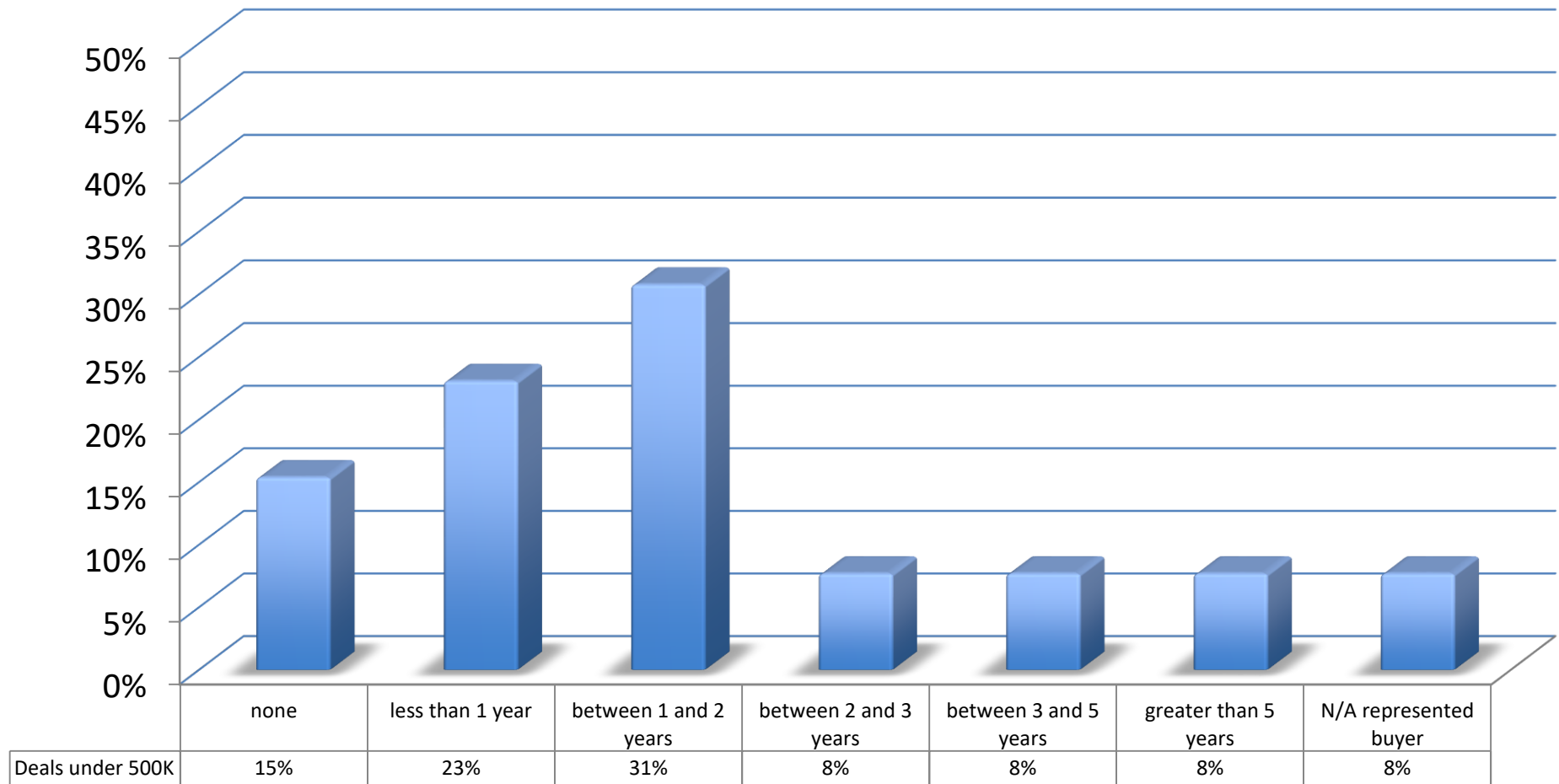
#1 Motivation for Buyer



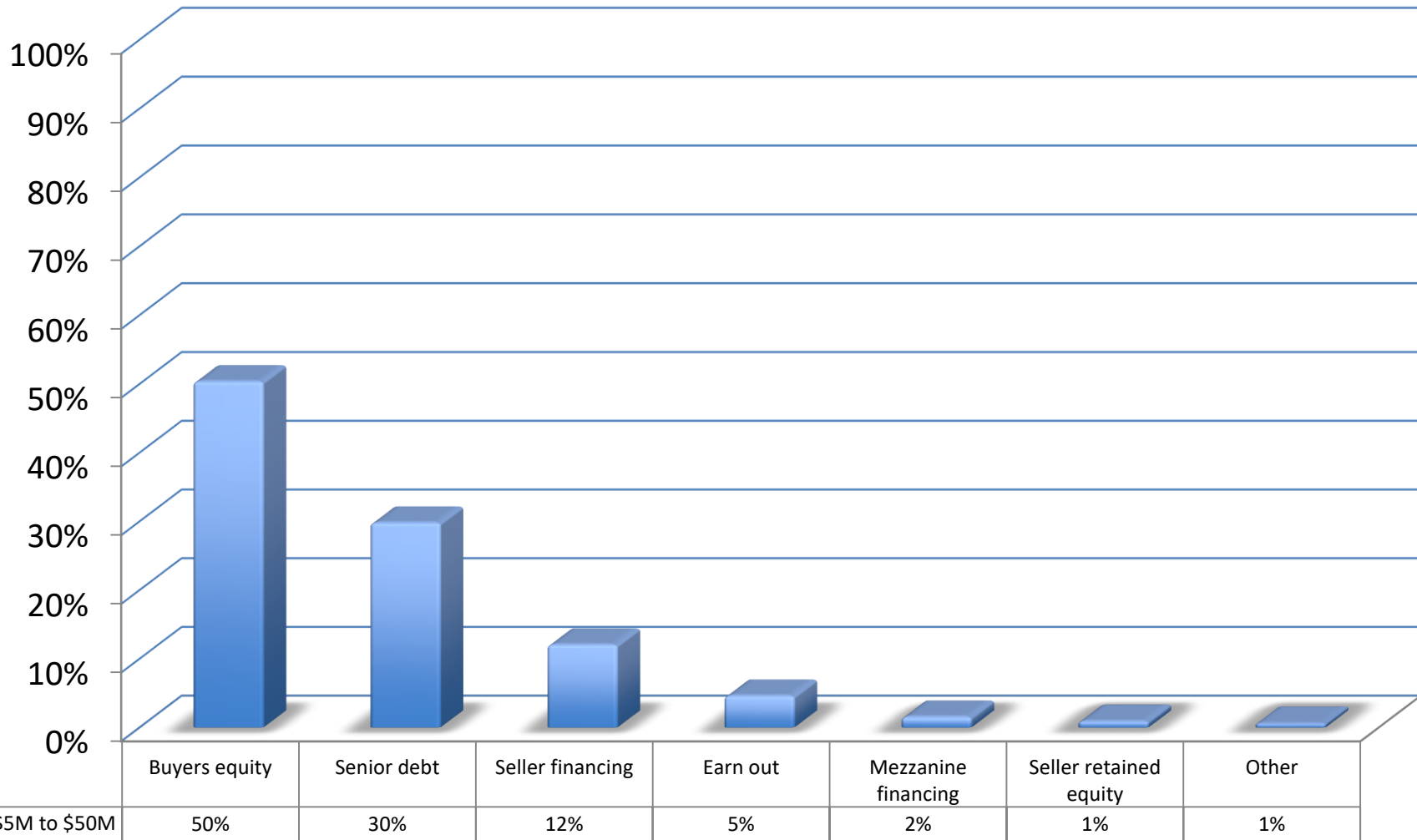
Exit Planning



Amount Of Exit Planning Prior To Marketing Business



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	1.7%	8.0%	36.9%	50.0%	3.4%	3.5
Deals valued from \$500,000 to \$999,999	0.7%	3.5%	35.7%	57.3%	2.8%	3.6
Deals valued from \$1 million to \$1.99 million	0.7%	3.6%	30.7%	61.3%	3.6%	3.6
Deals valued from \$2 million to \$4.99 million	2.4%	2.4%	44.0%	48.0%	3.2%	3.5
Deals over \$5 million	3.7%	6.1%	50.0%	37.8%	2.4%	3.3

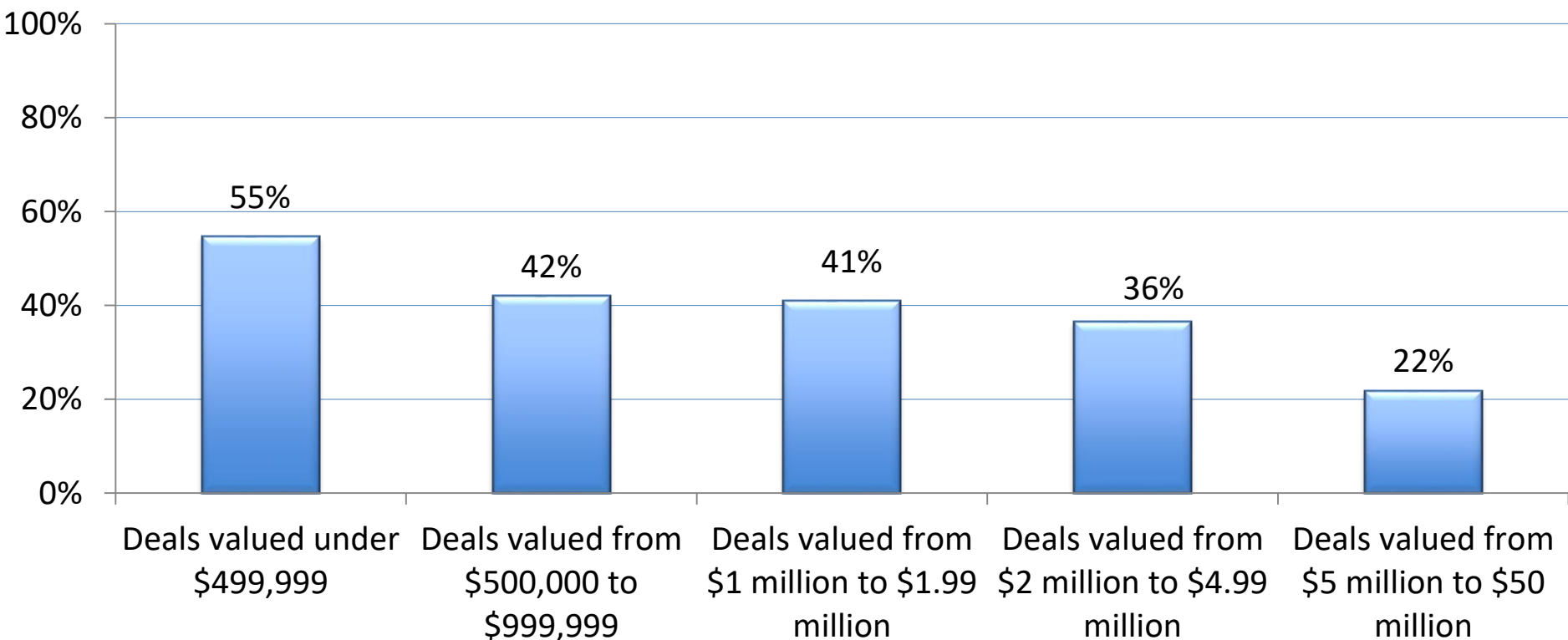
Expectations for Business Valuation Multiples in the Next 3 Months

Deal size	Greatly decrease	Decrease	Stay the same	Increase	Greatly increase	Score (1 to 5)
Deals valued under \$499,999	1.1%	7.9%	77.0%	12.4%	1.7%	3.1
Deals valued from \$500,000 to \$999,999	0.0%	6.8%	79.5%	13.0%	0.7%	3.1
Deals valued from \$1 million to \$1.99 million	0.0%	4.3%	72.3%	22.0%	1.4%	3.2
Deals valued from \$2 million to \$4.99 million	1.6%	7.0%	65.6%	24.2%	1.6%	3.2
Deals over \$5 million	2.3%	10.5%	64.0%	20.9%	2.3%	3.1

V. About the Respondents

Details About the Respondents

Typical Size of Business Transactions

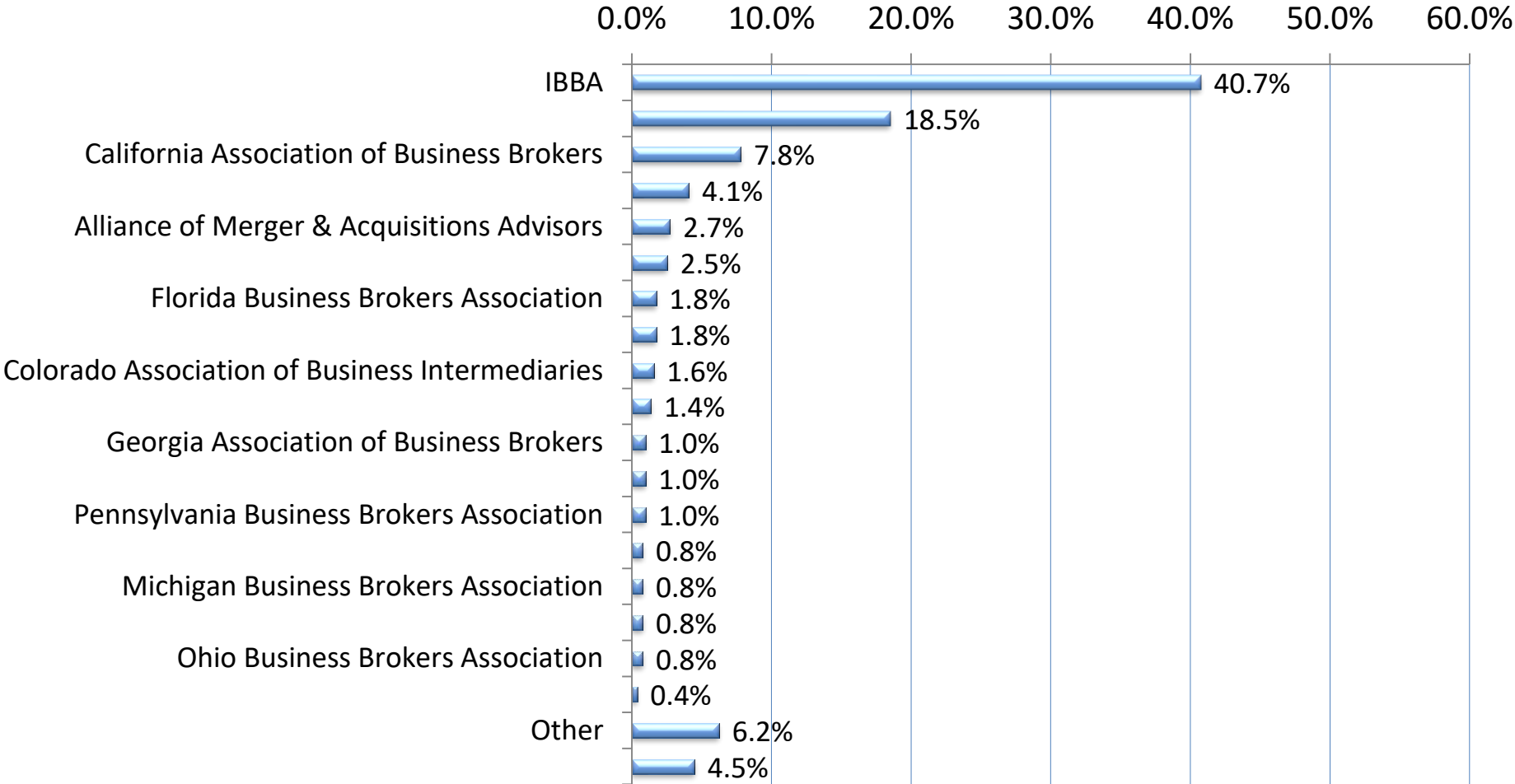


Total number of responses = 582

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

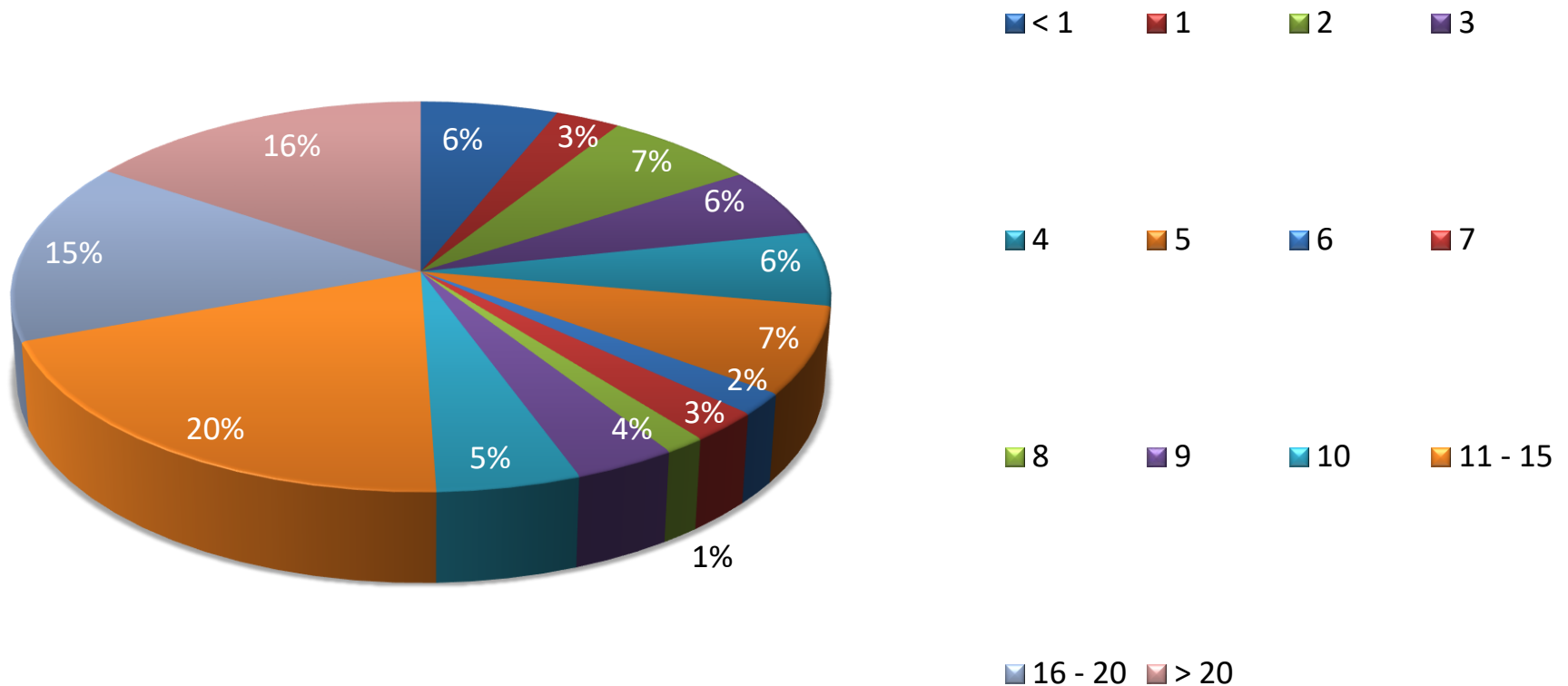
Details About the Respondents

Memberships/ Multiple Memberships



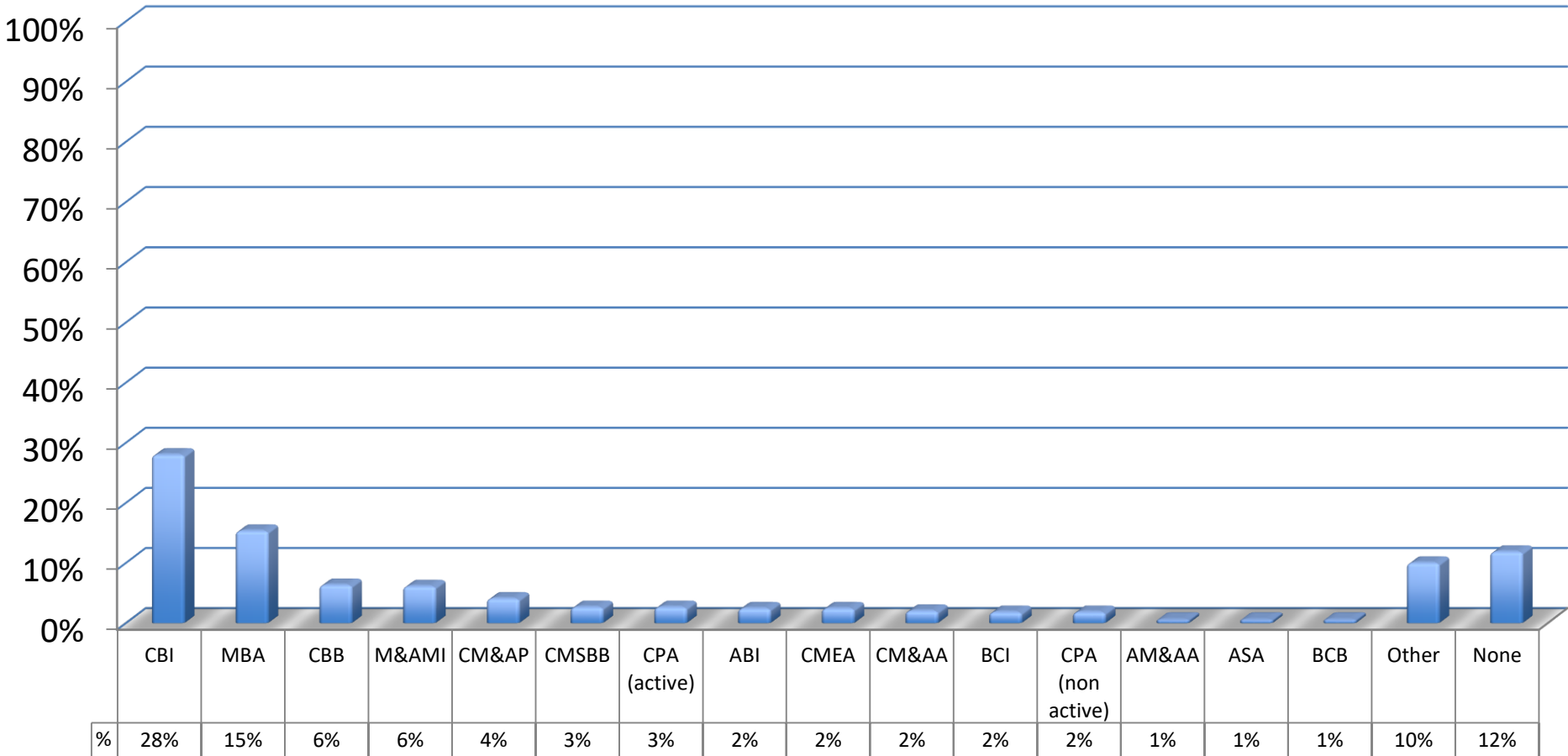
Details About the Respondents

Working Experience



Details About the Respondents

Professional Credentials



THANK YOU!

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