



MARKET PULSE Q4 2019: **SPONSORED BY IBBA AND M&A SOURCE**

Market Outlook Positive for 2020

Valuations for small and medium businesses held strong in 2019, remaining at or above market peaks. In the past year, median multiples never varied more than 0.2 points in any market sector, and Q4 2019 ended on par with the year prior.

Generally, business brokers and M&A advisors expect more of the same in 2020. While they do expect deal flow and successful closings to grow, advisors predict a negligible uptick in multiples this year. Specifically, 55% of advisors predict the volume of deals (under \$50 million) will increase in the next 12 months, but only 7% expect an increase in multiples.

Optimism is positive for year ahead, with advisors anticipating:

- Greater deal flow
- Opportunities for business growth
- Improved general business conditions
- Increased business exit opportunities for sellers
- Better closing rates

Meanwhile, advisors expect that businesses will take longer to sell in 2020 and that closing deals will become more difficult. Business brokers representing small businesses valued at less than \$500,000 point to financing challenges as an obstacle to getting deals done.

Multiples at or Near Peak

2019 Q4	2018 Q4	2017 Q4	2016 Q4	2015 Q4	2014 Q4
Median Multiple - Paid (SDE) <\$500K					
2.0	2.0	2.0	2.3	2.0	2.0
\$500K - \$1MM					
2.8	2.8	2.5	2.8	2.5	2.9
\$1MM - \$2MM					
3.3	3.3	3.1	3.3	3.3	3.0
Median Multiple Paid (EBITDA) \$2MM - \$5MM					
4.3	4.3	4.3	4.8	4.0	4.6



Sales Volume and Selling price multiple

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Time to Close

The average time to sell a small business has risen to 8.6 months, up from 6.4 months in 2013. Of that, roughly 60 to 120 days are spent in due diligence and execution, after a signed letter of intent.

Financing Deals and Seller Financing In 2019

Advisors indicate that the lending market has been conducive to getting deals done, particularly for businesses with revenue of \$5 million or more. **Dealmakers are struggling, however, to help buyers secure financing in the smallest Main Street sector.**

Sellers, meanwhile, continue to get the majority cash at close. In this quarter, owners received 79% or more cash at close with most of the balance being seller financing, along with some earnouts and retained equity to close the valuation gap.

Exit Planning

In 2019, nearly half of all small business sellers were planning to retire. “Even with retirement leading as the number one reason for sale, most sellers do not engage in a proactive planning process, particularly in the Main Street market,” said Lisa Riley, principal, Delta Business Advisors. “Generally, the smaller the business, the less likely the owners are to do any planning prior to going to market.”

Of the sellers who plan ahead, most are moving through the exit planning process at a rapid pace, with less than a year between initial consultation and market listing.

The Q4 2019 survey was conducted January 1-15, 2020 and completed by 300 business brokers and M&A advisors. Respondents completed 273 transactions this quarter