The IBBA and M&A Source Market Pulse

SURVEY REPORT Q4 2017

The quarterly IBBA and M&A Source Market Pulse Survey was created to gain an accurate understanding of the market conditions for businesses being sold in Main Street (values $0-$2MM) and the lower middle market (values $2MM -$50MM). The national survey was conducted with the intent of providing a valuable resource to business owners and their advisors. The IBBA and M&A Source present the Market Pulse Survey with the support of the Pepperdine Private Capital Markets Project and the Pepperdine Graziado Business School.

The Q4 2017 survey was completed by 264 business brokers and M&A advisors, representing 36 states. Half of the respondents (51percent) had at least 10 years of experience. Respondents completed 227 transactions this quarter.

FIGURE 1: MARKET SEGMENTS STUDIED

MAIN STREET	LOWER MIDDLE MARKET
Less than $500K	$2MM - $5MM
$500K - $1MM	$5MM - $50MM
$1MM - $2MM	

EXPECTATIONS STRONG FOR 2018

As a whole, analysts tracking the M&A market are expecting a sizable uptick in deal activity in 2018. Business and financial leaders expect both the number of deals and the size of those transactions to increase significantly.

But it's important to realize that while deal activity stalled in the larger M&A market in 2017 (largely attributed to uncertainty over tax reform), the lower middle market remained active and Main Street deals were at an all-time high. According to BizBuySell's annual Insights Report, small business transactions set record highs in 2017, exceeding previous highs set in 2016 by 27 percent.

For 2018, then, activity in the smaller sectors will likely grow at a more measured pace compared to the larger market. Nevertheless, Main Street and lower middle market advisors remain optimistic for sector growth in 2018. For example, 73 percent of advisors predict the volume of small deals (under $50 million) will increase in the next 12 months. Although most (49 percent) of advisors surveyed sold just one to three listings in 2017, they expect to close three to five engagements in 2018.

Compared to a year ago, optimism has grown, with advisors anticipating:

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

Values remain strong, but a third of advisors still believe that multiples will climb much higher in 2018. Advisors reported no real difficulty in arranging debt financing in 2017. However, they do suggest that the new SBA rules lowering minimum down payments from 25 percent to 10 percent will have a positive impact on the market. Sixty-five percent of advisors say the new rule will lead to more sales this year.

"Small business owners should be bullish on sales in 2018," said Warren Burkholder, CBI, President of NEVRG, Inc. "With the corporate tax rate dropping to 21 percent and the repatriation of overseas capital, companies will have more capital to allocate to acquisitions. And with heavy competition in the marketplace, even more companies will be pursuing smaller market transactions."

"Global private equity funds raised $453 billion in 2017, more than any year on record. Meanwhile, business optimism is high and corporations are stacked with cash. It's all going to drive competition," said Craig Everett, PhD, Director of the Pepperdine Private Capital Markets Project. "No one is going to back down, particularly private equity buyers who need to put that cash to work and have more flexibility to pursue creative deals such as minority investments."

"We're hearing from buyers in all sectors, and the top two things they're concerned about are high multiples and the lack of quality companies for sale," said Steve Boylan, President of Beacon Business Group, a Wisconsin-based Business Brokerage firm. "Fortunately for sellers, multiples aren't going to dip as long as competition is strong."