



ALLIANCE OF MERGER & ACQUISITION ADVISORS®

A FIVE STAR GLOBAL, LLC COMPANY

M&A Insight Report for Business Owners - 2021



Analysis provided by



Data from the 2021 Q3 M&A Access Market Report



M&A Insight Report for Business Owners

Introduction

Are you a business owner considering selling your business now or at some time in the future? If so, this report is designed for you.

DealWare completes a national Mergers and Acquisitions (M&A) survey and report twice a year, in collaboration with the Alliance of M&A Advisors (AM&AA), which is sent out to over 55,000 M&A professionals to help better inform both the wider M&A advisor community and business owners alike about the current conditions and forward outlook of the M&A market. Some of the findings in the report are particularly valuable to business owners to better understand current factors critical to the sale process, as well as who is selling, who is buying, and (of course) price.

You don't have to know a lot about selling a business to gain valuable insights from this report. In fact, it is designed for two main purposes: 1. to share relevant and timely insights with business owners about the state of the M&A market from our semi-annual survey, and 2. to provide an overview of information about selling a business, including introducing some of the key concepts and terminology you will want to know if you are in the early stages of preparing for a business sale.

Each page in this report shows a chart based on the survey data, insights about the chart, and terminology definitions when needed. Whether you have sold businesses before, or if you are thinking about selling a business you have owned for decades, we hope that the following information is useful to you.

For Business Owners interested in learning more about the M&A market and the process of selling your business, go to:

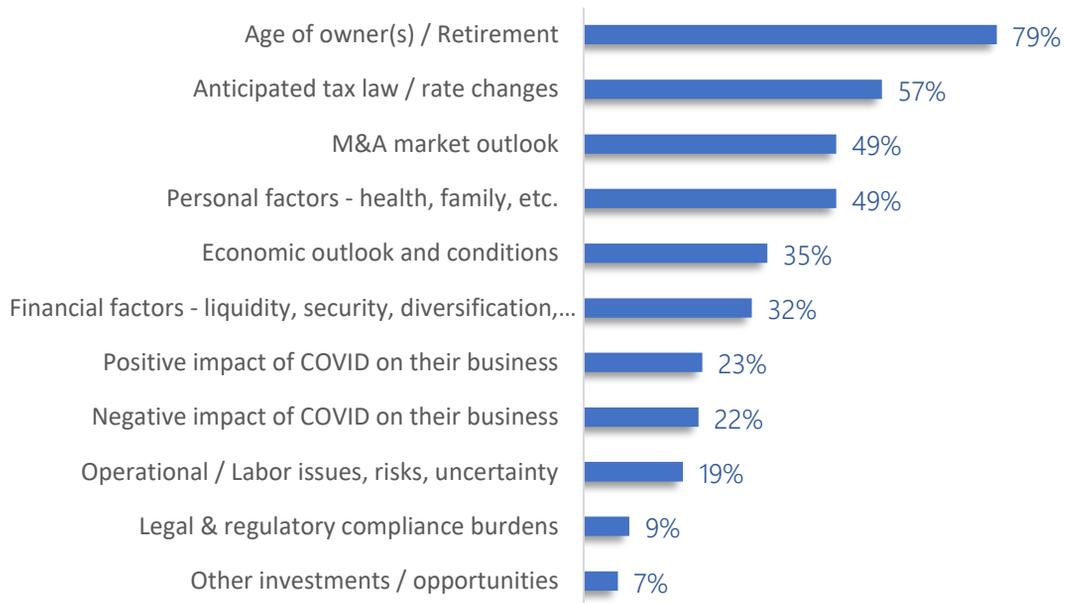
DealWare

<https://dealware.com/resources/owners/>



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What is motivating current sellers to sell their businesses?



Insights for Business Owners

- Personal factors such as the age of the owner, retirement, health, and family are major factors driving the decision to sell a business. These factors have stayed consistent prior to COVID as well as now.
- The potential for a tax rate increase on capital gains from the sale of a business saw the biggest increase as a motivating factor in 2021 for sellers who were not necessarily planning to sell previously.
- The current M&A market and its very positive outlook going forward are significant motivating factor driving sellers to sell.
- The positive and negative impacts of COVID seem to have largely subsided as less than a quarter of respondents cited that as a motivating factor for sale.

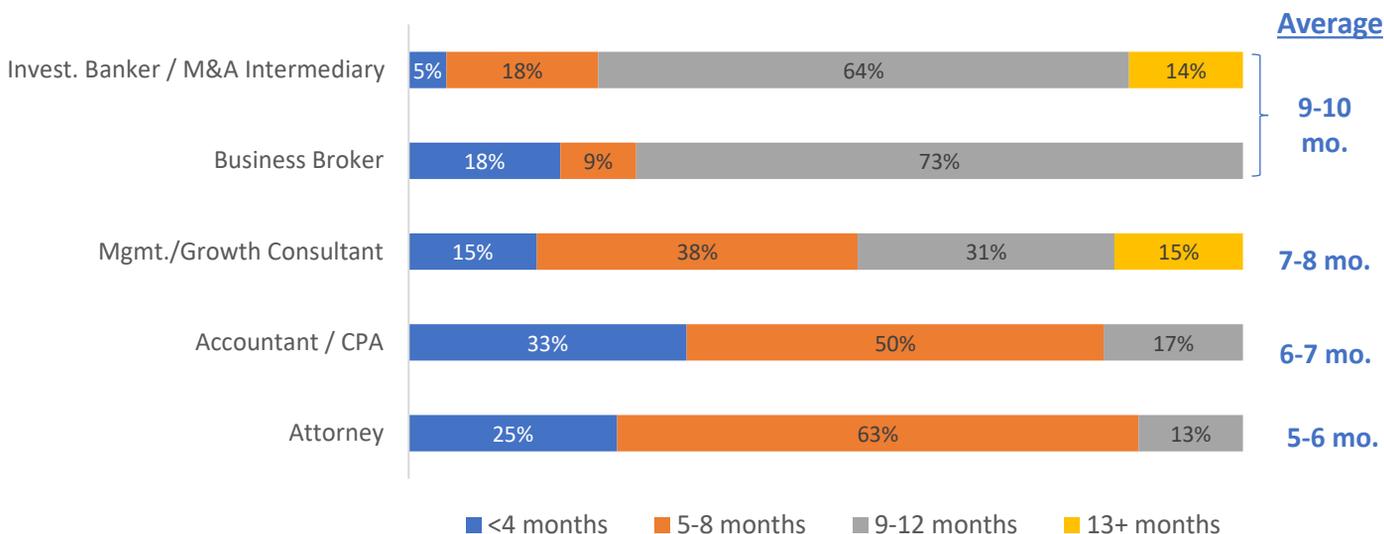
Terminology and Definitions

Capital Gain: the gain from selling a capital asset (business, real estate, etc.) for more than the total amount paid for the asset. Capital Gains are categorized into Short-term gains (usually taxed at Ordinary Income rates) and Long-term gains (typically taxed at a lower rate).



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How long do Sellers work with each type of advisor?



Insights for Business Owners

- The business owner should plan for the sale process to take between 9 to 12 months to complete.
- The length of time spent with each professional varies, but a business seller usually spends the longest amount of time in a deal process with their Investment Banker or Business Broker, who is generally involved from preparation through deal close.
- To preserve the value of the business during the sale process, the business owner should keep the business running successfully while also working on the business sale.

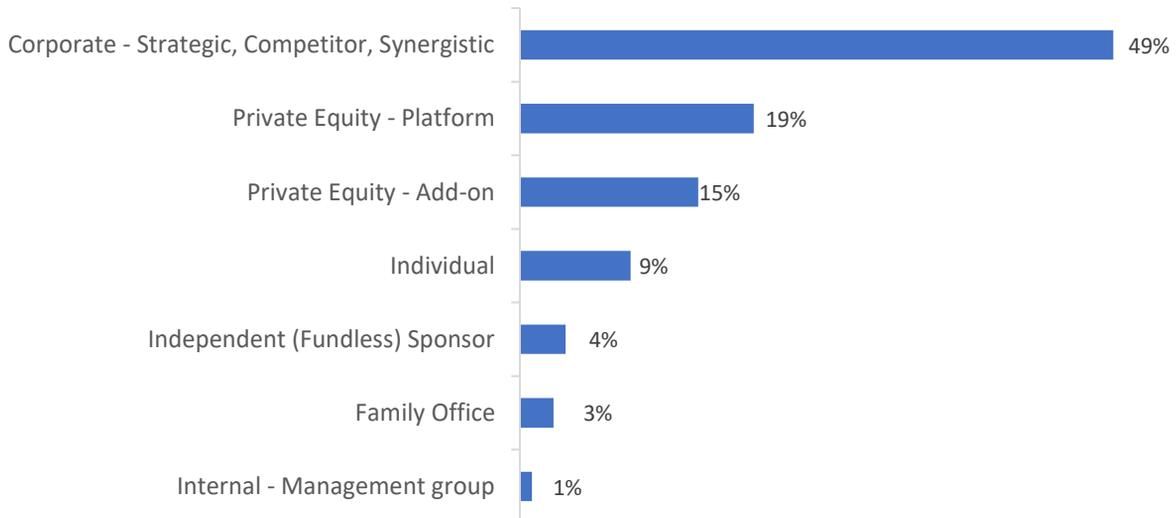
Terminology and Definitions

Business Broker: an advisor who brokers the sale process of a business from preparation for sale through to close with a typical sale value of ~\$5M or less.

Investment Banker / M&A Intermediary: an advisor who brokers the sale process of a business from preparation for sale through to close with a typical sale value of ~\$5M or more.



Which buyer types are the most active?



Insights for Business Owners

- There may be more than one type of buyer who might want to buy your business, each with their own motivations and requirements based on the business's size, industry, offerings, and other factors.
- This survey summarized 500+ recent business sales with an average total sale price of \$26 million, but with a wide distribution.

Terminology and Definitions

A **Corporate**: buyer is another company which could be a competitor, a "Strategic" for which the purchase would enable new products and customers, or a "Synergistic" which the purchase would enable more sales of the respective existing products and customers.

Private Equity (PE): a professional investor group tasked with deploying large blocks of money for pension funds, etc. by buying, growing, and selling companies over a typical 10-year period. A "Platform" purchase would be in a new industry or type of business for the PE group. An "Add-on" purchase would be an additional business to combine with existing holdings (Platforms) to grow the overall value prior to sale/liquidation.

Independent Sponsor: a professional investor group who typically identify companies to purchase first, and then seek investors to fund the purchase/s.

Family Office: a private PE group employed by a high net-worth private family who has sufficiently large amounts of their own funds to invest similar to a PE group.



Which industries are the most active for business sales?

Top 10 industries for recent business sales:*

1. Healthcare, Medical, and Pharmaceutical
2. Manufacturing
3. Business Services – Business-to-Business (B2B)
4. Construction & Construction Materials
5. Business Services – Business-to-Consumer (B2C)
6. Software/SaaS (Software-as-a-Service)
7. Food and Beverage
8. Consumer Products
9. Energy, Resources, and Utilities
10. Information Technology Services – Hosting, Data, Cybersecurity

** The Top 10 industries above represent 77% of all sales reported.
Other industries each accounted for 3% or less of all sales reported.*

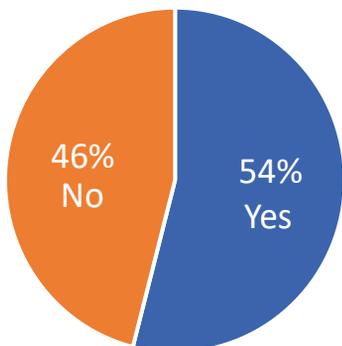
Insights for Business Owners

- In the era of COVID it is unsurprising that Healthcare / Medical / Pharmaceuticals was the most frequently reported industry sale both for 2020 and to date through 2021.
- 2020 saw an increased focus on the top 3 industries with 51% of all 2020 sales reported. For the first half of 2021, the top 3 industries remained the same, and in the same order, but only represented 40% of all sales reported as M&A interest in a broader spectrum of industries increased.
- The marketability of a business in a particular industry depends on many factors including the economic outlook in the industry, the strength and stability of the selling company, and the fit between buyer and seller, among other factors.

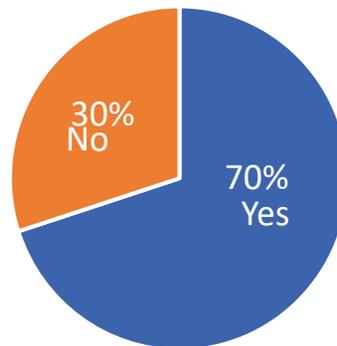


How often do sale processes succeed?

Percentage of deal processes that got to a signed Letter of Intent (LOI)



Percentage of deals with a signed LOI that successfully Closed?



Insights for Business Owners

- The process of selling a business is described in two distinct phases, separated by signing the Letter of Intent (LOI):
 - Pre-LOI: Preparation for sale, marketing to buyers, and negotiating initial price, terms, and the LOI.
 - Post-LOI: Completing confirmatory due diligence, negotiating and drafting all legal documents, negotiating any modifications to the price, composition of consideration (sale price), terms, and completing all closing items including all actions to affect the transfer of the business to the buyer.
- Currently, just over half of owners who start a sale process successfully sign a Letter of Intent with the selected buyer and of those, 70% successfully complete the sale process.
- Given the above, only ~38% of sale processes started actually sell, so retaining skilled advisors, preparing well for sale, and running an efficient, organized sale process will significantly increase the likelihood of completing a successful sale process.

Terminology and Definitions

Letter of Intent (LOI): a document signed between a buyer and seller formalizing the interest and intent to complete the sale of a business, with typical Binding Provisions (exclusivity between the parties, non-disclosure of the sale, etc.) and Non-Binding Provisions (the intended sale price and terms subject to confirmatory diligence and negotiation, the intention to close, etc.).

Why did deals terminate after LOI and which side terminated them?



Insights for Business Owners

- Of the 54% of sellers who find a buyer, 30% of these deals fail before they reach the closing table. The chart above lists the main reasons why, and who decided to terminate the deal (the buy side, the sell side, or a mutual decision). Knowing why deals fail, even after finding a buyer, can help the business owner prepare for success.
- The most frequent reason for deal termination after LOI was related to projected future financials/sales (or Pro Forma projections). This reason for termination was initiated by the buyer more often than by the seller.
- Deal fatigue and problems with financing caused the seller to terminate the sale more often than the buyer.

Terminology and Definitions

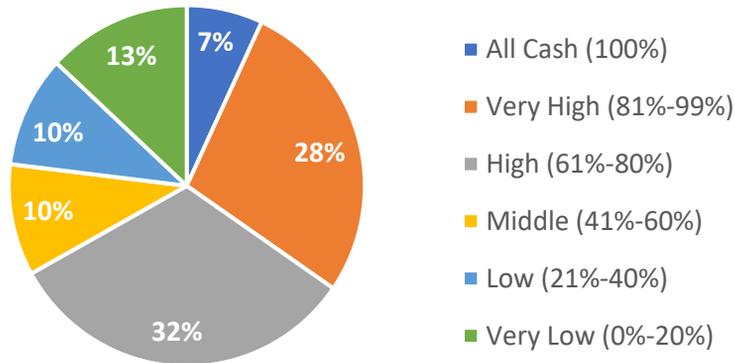
Pro Forma Financial Projections: Pro Forma (Latin for “before form”) projections incorporate clear, defensible assumptions that can be extrapolated forward, typically for a number of years. Pro Forma projections often vary those assumptions to include a conservative, expected, and optimistic projection in order to bracket the likely range of future performance of the business.



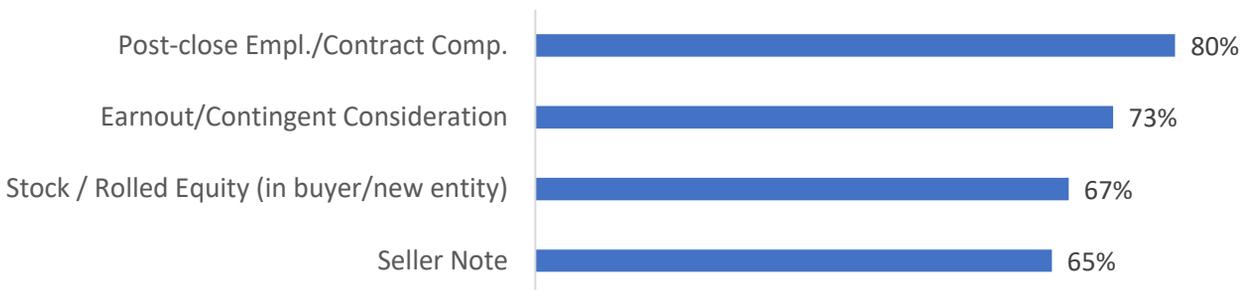
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What is the typical composition of sale price (consideration)?

Percentage of the Sale Price paid in Cash



Percentage of Deals Including Other Types of Consideration



Insights for Business Owners

- Only 7% of business sales are paid in all cash. The vast majority (93%) of all deals are paid in a combination of cash and other forms of consideration.

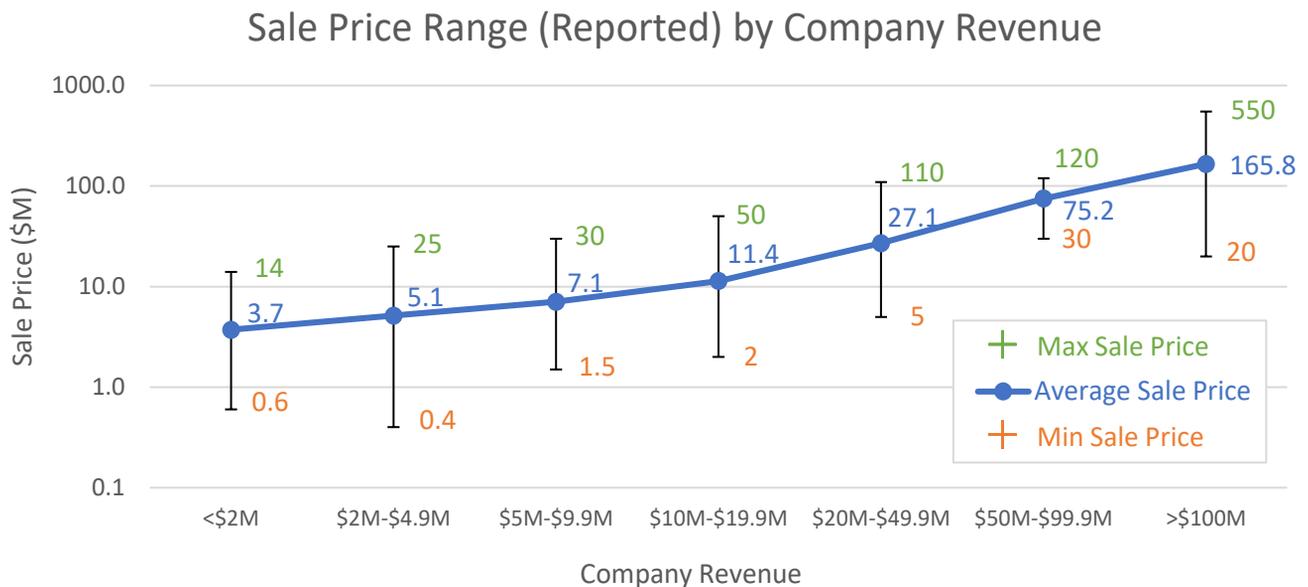
Terminology and Definitions

Earnout/Contingent Consideration: Part of the total sale price that is deferred into the future and only paid out if certain predefined financial or other milestones are achieved. Earnouts are often used to reconcile differences in perceived value and/or uncertainty if future business performance.

Rolled Equity: Part of the total sale prices that is paid in the form of stock of the buyer company or a new entity formed at the close of the business sale. Rolled Equity is often used when the seller wants to have an opportunity to participate in the upside potential post-sale.



What Sale Price Range can I expect?



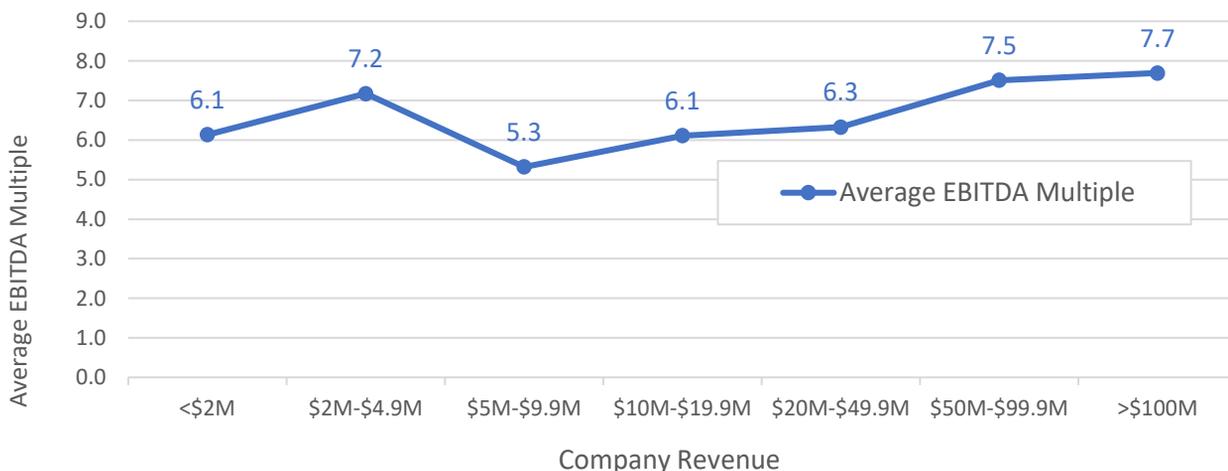
Insights for Business Owners

- One way to gauge sale price is based on the annual revenue of the business as shown above. Note the 10x scale on the vertical axis.
- Not surprisingly, as company revenue increases, so does average sale price. There was a wide range of sale prices within each revenue category.
- The sale price range within a revenue category is based on a number of factors including the industry, growth in revenue, profitability, change in profitability, and other factors.
- High quality business and documentation preparation prior to entering the market can improve the offer price from a buyer.



What Sale Price Range can I expect?

Average EBITDA Multiple by Company Revenue



Insights for Business Owners

- Another way to gauge sale price is based on a multiple of EBITDA, which can be calculated by a CPA or business evaluator.
- The typical EBITDA is generally higher as revenue increases, but it can vary widely from one industry to another.
- If a company with \$12M in revenue had an EBITDA of \$4M, then their estimated sale price is $\$4M \times 6.1 = 24.4M$.
- We recommend looking at both the sale price by annual revenue chart on the previous page and the sale price by EBITDA multiple to estimate your business's value.
- High quality business and documentation preparation prior to entering the market can improve the offer price from a buyer.

Terminology and Definitions

EBITDA: “**E**arning **B**efore” accounting for several financial/accounting expenses which are largely unrelated to the fundamental operation of the company, namely “**I**nterest, **T**ax, **D**epreciation, and **A**mortization”. Buyers prefer discussing EBITDA, rather than your Net Profit, because how Interest, Tax, Depreciation, and Amortization is handled is likely to be quite different after the sale is completed and your company is integrated with the buyer.



Additional Insights for Business Owners

- The M&A market in 2021 is extremely active and is expected to continue to be very active in 2022.
- 90% of advisors surveyed believe that deal prices are will stay the same or increase through the end of 2021.
- Most advisors report that a strong outlook in the seller's industry was a likely contributor to higher sale prices. Almost half of advisors indicate that strong financials and overall business effectiveness also contributed to higher business valuations.
- Before COVID in 2019, buyers were more willing to buy businesses with lower profit margins but have focused on higher profit margin businesses starting in 2020 and through to today.
- During the diligence process, a buyer evaluates the selling company in detail. The most recent survey found that 4 of the top 5 areas where buyers are dedicating extra attention than usual are related to IT (the other was sales).



For Business Owners interested in learning more about the M&A market and the process of selling your business, go to:

DealWare

<https://dealware.com/resources/owners/>

Access additional information, tools, and resources critical to planning a successful business sale, including MyPath[®] (determine the best exit path based on your goals and your business), an overview of the process of planning and preparing for a successful exit, and much more.

About DealWare | DealWare is a software platform to manage and accelerate the process of selling a business, by connecting and integrating all of the firms, work,, and processes necessary to complete a business sale process from start to finish.

DealWare greatly increases the sale outcome and likelihood of a successful close for Business Owners by significantly reducing the labor to complete a sale and streamlining the entire sale process onto a single, secure platform - from preparing for sale, to signing with the best buyer, to accelerating diligence, and closing with the best possible outcome.

Visit us at www.DealWare.com