WALDEN BUSINESSES, INC.
MERGER & ACQUISITION SERVICES
CORNERSTONE INTERNATIONAL ALLIANCE FOUNDING MEMBER

30 SECOND M&A UPDATE

# 30 Second M&A Update: Private Equity "Open for Business"

### Do-It-Yourselfers Lose 30%

It's estimated that in the lower middle market, only 20% to 30% of companies that want to sell will successfully transition to new owners. The number one reason this percentage is so low is because business owners try to handle a sale themselves or use an advisor with limited experience and buyer reach. For most business owners, at least 80% of their net worth is tied up in their companies. This is their largest asset – with one chance to sell it. Why would sellers want to risk their future by “learning on the job” how to sell their company?

### Private Equity "Open for Business"

We've been speaking with private equity groups around the country in order to keep a pulse on the status of the M&A market. And, the message we keep hearing is that these firms are "open for business."

Private equity firms are in the business of buying businesses - it's how they deliver investor returns. The clock is ticking as they work to meet investor expectations within fund deadlines.

These firms are pretty good about tracking and studying their deal flow. They have data, going back years, on the volume and quality of leads they field. They are telling us the number of good, quality companies coming to market is down anywhere from 50 to 80% over a year ago. This means the law of supply and demand is still working in sellers' favor.

We also know that some buyers have pulled out of the market. Based on what we're seeing and what our peer organizations think, it is estimated that about 25% of buyers have left the market. Compare that to the number of new sellers who aren't going to market right now, and we still have an imbalance. This kind of competition has kept valuations and even deal structures strong. Previously, we predicted sellers would be sharing much more of the risk through increased earn outs and other alternative deal arrangements. We are seeing a bit of that, but not to the extent expected earlier.

In fact, according to the latest Market Pulse Report sponsored by IBBA and M&A Source, Q2 median selling prices in the Main Street market came in anywhere from 89 to 92% of benchmark. Meanwhile, lower middle market companies in the $5 million to $50 million range achieved the highest values at 100% of benchmark. Sellers who fared the best are those who have been relatively unaffected by COVID-19 and were able to recover quickly. Essential businesses and those that have otherwise remained resilient are still having success in the M&A market.

As an example of the competitive dynamics at play, one of our Alliance affiliates recently took a Northeast Wisconsin business to market and had 43 signed non-disclosure agreements in 2.5 weeks. That's nearly 10 more vetted, qualified "looks" than they typically receive in twice the time. And within 30 days from going to market, they had four written indications of interest on the table.

Another example is shared from a peer organization of ours in Pennsylvania: one of our Alliance members just sold a company with $4-5 million in EBITDA at an eight-multiple. (That's a solid two points above the average market peak.) In that deal, the seller received 80% cash at close.

So if you have business-owner clients who think they need to wait out the market to sell, have them talk to an M&A advisor before counting themselves out. If your client has a quality business, it's easier to get attention right now. Buyers have fewer businesses to consider and they're no longer traveling all over the country to vet opportunities.

Healthy businesses are still selling with strong values and favorable deal structures. The window has not closed for high quality companies; in fact, your clients may be able to benefit from current market dynamics.


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