

Business owners retiring in record numbers

According to an article in *The New York Times*, one business owner in the U.S. will turn 65 years old every 57 seconds.

What does this mean? This statistic suggests that there will be more business owners retiring over the next decade than at any other time in recent history. Therefore, more businesses will be available for sale than ever before and the owners that are prepared and actively planning their companies' succession will have a greater chance of successfully selling their business.

The information featured in this report was compiled by two leading M&A associations with the purpose of helping business owners gain an accurate understanding of the market conditions for businesses being sold in the Main Street market (values \$0-2 million) and lower middle market (values \$2 million to \$50 million).



REASONS BUSINESSES ARE SELLING

Retirement was the number one reason driving sellers to market in all sectors; except within the \$500,000 and under market in which burnout led. Burnout was the second most commonly cited reason for sale in all categories from \$500,000 to \$5 million. And within the \$5 million to \$50 million market, acquisition took second place at 14 percent, followed by health (9%) and unsolicited offers (9%).

"It's always troubling when burnout sets in," says Dr. Craig Everett, director of the Pepperdine Private Capital Markets Project. "We often see business performance decline or sellers are so clearly worn out that they lose their leverage in negotiations. Worst case scenario, they cannot hold on for an extended sale period and end up liquidating their assets at a discount."

WHO IS BUYING BUSINESSES?

The market was dominated by individual buyers this past quarter. Existing companies (strategic buyers) had the strongest presence in the \$2 million to \$5 million sector at 41 percent, but were still trailing behind individual buyers at 47 percent. In the \$5 million to \$50 million sector, private equity groups were the primary players, representing 60 percent of closed transactions.

	#1 BUYER TYPE	#2 BUYER TYPE
<\$500K	Individual 85%	Existing Co. 15%
\$500K-\$1MM	Individual 70%	Existing Co. 30%
\$1MM-\$2MM	Individual 73%	Existing Co. 18%
\$2MM-\$5MM	Individual 47%	Existing Co. 41%
\$5MM-\$50MM	Private Equity 60%	Existing Co. 35%

VALUATION MULTIPLES

Year over year, fourth quarter multiples stayed flat in every sector, except for deals valued from \$5 million to \$50 million, in which the median multiple increased by half a point. Figure 5 below shows median figures for the fourth quarter along with the most common multiple ranges.

	MEDIAN MULTIPLE	COMMON RANGE
<\$500K	2 (SDE)	1.5-2.5 – 71%
\$500K-\$1MM	2.5 (SDE)	2.0-3.5 – 80%
\$1MM-\$2MM	3 (SDE)	2.0-4.0 – 94%
\$2MM-\$5MM	4 (EBITDA)	3.0-5.0 – 75%
\$5MM-\$50MM	4.5 (EBITDA)	4.0-6.0 – 82%

SDE = Seller's Discretionary Earnings

EBITDA = Earnings Before Interest, Taxes, Depreciation And Amortization

Transactions in the Main Street market are typically based on multiples of SDE, while those in the lower middle market are most commonly based on EBITDA. In some instances survey respondents reported multiples for both SDE and EBITDA.

BIGGEST HURDLES & MISTAKES

Advisors reported three common hurdles to getting deals closed in 2013:

- 27% pointed to valuation issues
- 19% cited financing issues
- 13% reported deal fatigue

“According to our survey, the largest mistake sellers make is unrealistic expectations, and that’s typically tied to valuations,” said Steve Wain, chairman of IBBA. “This once again confirms the importance of sellers working with business brokers/M&A advisors who focus on continuing education and specialize in the industry; those who will tell the business owner not what they necessarily want to hear just to get a listing contract, with little chance of sale, but what they need to hear in order to make a well-informed decision as to whether now is the right time to go to market or not.”

Wain goes on to say, “You typically only get one real chance to sell your business, and you want to make sure you do it right the first time.”

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We hope that you have found this information helpful. Please feel free to contact us if you have any questions or would like more detailed industry data.

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