



INTERNATIONAL BUSINESS BROKERS ASSOCIATION | M&A SOURCE | PEPPERDINE PRIVATE CAPITAL MARKETS PROJECT

MARKET PULSE

QUARTERLY SURVEY REPORT

SECOND QUARTER 2014

IBBA INTERNATIONAL
BUSINESS BROKERS
ASSOCIATION, INC.®



PEPPERDINE
UNIVERSITY
Graziadio School of
Business and Management

PEPPERDINE
**PRIVATE CAPITAL
MARKETS PROJECT**
bschool.pepperdine.edu/privatecapital

MARKET PULSE SURVEY REPORT SECOND QUARTER 2014

f zw s w KKI s v W(I e uwWs @v b we w s u w w
 ys“ s suu s w vw s v“ y x zw s @v u v“ x t “ w w
 tw“ y v “ Ws“ e vw +s w 83085WW, s v zwU w W“vv w
 Ws @v +s w 85WW 0883WW, l f zw s“ s w s u v u w
 “z zw“ w x “v“ y s s st w w uw t “ w w /
 w “s uz s w s v zw“ sv “ l f zw KKI s v W(I e uw
 ww zwWs @v b we w “z zw x zw bw vw“ w
 b “s wLs “s Ws @v b ”vu s v zwP s “sv euz xK “w s v
 Ws syw w s bw vw“ wg “w “ l

f zwc 5 5347 w s u ww t 535 w vw / w ww “ y 49
 wy“ s s v “ w s “ s t “ w t @v s v W(I s u s “ l Qs x
 x zw w vw +83’ , zsv s w 43 w xw w“w uw“ zwW(I
 “ v l bs “u“ s “ y sv “ w w u “ y 434 s su “ “ c 5
 53471

i FSr y y

Ws“ e vw	U w W“vv wWs @v
Uw zs 8833T	85WW 0883WW
8833T 084WW	88WW 0883WW
84WW 085WW	

I x u x zwWs @v b w w w “
 s s“st w KKI s v W(I e uw w tw z
 s “u“ s w“ wuz s w w lf z“ “ s <30
 sywv u w x 0 0s w wws “ x s “
 zw s w x zw s @v suws v u “w t M l
 L s“y N ww / s “ s xw x x“ s uw s
 bw vw“ w g “ w “) P s “sv“ euz x
 K “ w s v Ws syw w s v v“ vu x zw
 bw vw“ wb “s wLs “s Ws @v b ”vu l

f twi ws w tw/ w w u su zwKKI s v
 W(I e uwzwv s w s sv “ H“ttsl y
 +@@@ 9@075551

INTERNATIONAL BUSINESS BROKERS ASSOCIATION

6858 b“w d sv
 K “v“ y 8/e “w633
 I s s/PI 63638 g e l

H“ttsl y

eu K z @w LKR W(I WR
 M“ wu

U“ s d“ w / LKR
 Ws @v “ y L “ w wLzs“

e w wi s“ / LKR W(I WR
 Lzs“ s

M&A SOURCE

6858 b“w d sv
 K “v“ y O“ w e “w633
 I s s/PI 63638 g e l

l s uw l y

Ts T“ uz
 N vu “ wM“ vu

M s Ls s / LKR W(I WR
 Lzs“ s

PEPPERDINE PRIVATE CAPITAL MARKETS PROJECT

P s “sv“ euz xK “ w s v Ws syw w
 bw vw“ wg “ w “
 9433 Lw w M“ w
 U I yww / LI A3378

t z l w vw“ w w 2 “ s vrs “ s

U“ vs I l U“ y w bz IMI
 M“ w

L s“y d l N ww / bz IMI
 M“ w

R“ s ez s @ v“ s
 d w w uz I u s w

5345 053471I d“y z dww w

KEY FINDINGS

Investors' views on the market have improved significantly over the last few months, with more than 20% of investors expecting more buyers in the market.

f

Looking ahead, investors expect a more volatile market with higher interest rates and less uncertainty. However, more than 10% of investors expect more aggressive financing, which could lead to a higher level of corporate debt.

B

OMs' views

Investors' views on the market have improved significantly over the last few months, with more than 20% of investors expecting more buyers in the market.



Research shows that investors' views on the market have improved significantly over the last few months, with more than 20% of investors expecting more buyers in the market.

Figure 3: Mean Index of New Clients by Deal Size

	Q2 2014	Q1 2014
D&S3T	66	65
S&S3T0&4WW	68	51
4WW0&5WW	69	58
5WW0&8WW	68	51
8WW0&83WW	66	59

Investors' views on the market have improved significantly over the last few months, with more than 20% of investors expecting more buyers in the market.

BUYER VS. SELLER MARKET

f z w s @ w s w s " w l W s " e w w u " w t w s t w) s @ w s v
 z w w " v v w s @ w u " w t w s w w) s @ w l b w u w "
 u " w z " x s w w) s @ w s v w s " w " u w s w l

i 4 S d r e 0 y 0 r

	K w) Ws @w	ew w) Ws @w
D8833T	9A'	64'
8833T084WW	86'	7<'
84WW085WW	85'	7@
85WW088WW	7A'	84'
88WW0883WW	64'	9A'

f z " x " v " y " u " w " z w w t " w w " s " l a x z w
 t " w s s u " z s w " s w " z u " y " c 5 / < @ w w s w
 s w z s 8833T1

TOP 3 SELLER MISTAKES

I v " w w s s @ w " v " u s w z " l z w w w " s u w v w s u u w
 " z w s s w l g w s " u w w l s " w " w w w l 1 R z w W s "
 e w w s @ w / " s @ w % s v % w w x " s u s w l v @ w " y s v
 v w l " y t " w s w l R z w w " v v w s @ w / w " s " w z w
 t " w s v v w l " y t " w s w z w w z w 5 v s v 6 v / s u i v " y 1

f z w w w w t w s y w s w w " s s " s s l z w w w " y y x s y w
 u s " w / w M s U s s / W (I e u w L z s " s v s w x b w z s
 K " w w l g x s w / w @ z s z w y w s w z w w " s
 s s l z w / z w w " @ w w w s w z s y y z w z w t " w
 v t w t w w w w t w w " z w w w y / w " v w s /
 s v v " s w u w l

i 5 S I y r

	Ws " e w w	U w W " v v w W s @ w
W " s @ w % 4	g w s " u N w l s "	g w s " u N w l s "
W " s @ w % 5	b O ' s u s d w l v	N " s f " w
W " s @ w % 6	M w l " " y e s w	M w l " " y e s w

The greater the emotional attachment, the more likely sellers are to hang on too long when the business would truly be better served by someone with more energy, new ideas, or additional resources.

- Dora Lanza

VALUATION MULTIPLES

L s w s s w/ s s “ s w z w s w w z s
 t w w “ s @v wu 1 K “ w w “ z w &8 “ “ &83
 “ “ wu wx w z w t w / y s “ “ y s s x “ 1

k w s w w s / s wu z v w y z / w u w x z w
 s w s @v wu z w w s s “ w s “ w z w s w l a
 s w s y w / t z W s “ e w w s v U w W “ v v w W s @w “ w
 s w s “ s w 43’ w s w w s 1

t
r
y
p
r

FD
B

i 6Sr r

	c 5 5347	c 4 5347	c 5 5346
D&833T	5 +eMN,	5 +eMN,	5 +eMN,
&833T0&4WW	5 l@+eMN,	5 D +eMN,	5 B +eMN,
&4WW0&5WW	6 H +eMN,	6 H +eMN,	5 B +eMN,
&5WW0&8WW	7 B +NKF MI ,	7 K +NKF MI ,	7 B +NKF MI ,
&8WW0&83WW	8 T +NKF MI ,	7 B +NKF MI ,	8 B +NKF MI ,

Oy w < x z w “ s w u w “ w l R z s w w u w s y w x “ w s v
 z w w u w s y w x t “ w w z s v “ z “ z s s y w “ c 5 53471

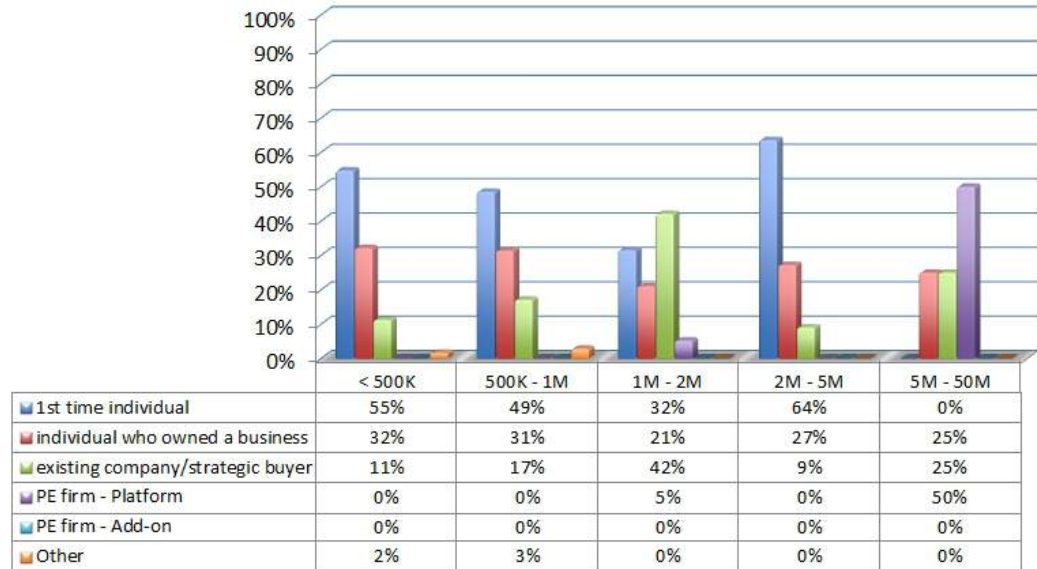
i 7Su e y r w

	c 5 5347	' e v i “ z “ ds yw
D&833T	4 B 05 k 8 +eMN,	97'
&833T0&4WW	5 B 8 06 B +eMN,	<@
&4WW0&5WW	6 B 06 B +eMN,	8 <'
&5WW0&8WW	6 B 08 B +NKF MI ,	A3'
&8WW0&83WW	7 B 8 09 B +NKF MI ,	433'

BUYER TYPES

Overall, 55% of deals were bought by first-time individuals, down from 64% in 2013. The percentage of deals bought by individuals who owned a business rose from 27% to 32%. Existing company/strategic buyers bought 11% of deals, up from 9% in 2013. PE firms bought 5% of deals, up from 0% in 2013. PE firms bought 0% of deals, up from 0% in 2013. Other buyers bought 2% of deals, up from 0% in 2013.

i 8Se



HOT INDUSTRIES

Overall, 55% of deals were bought by first-time individuals, down from 64% in 2013. The percentage of deals bought by individuals who owned a business rose from 27% to 32%. Existing company/strategic buyers bought 11% of deals, up from 9% in 2013. PE firms bought 5% of deals, up from 0% in 2013. PE firms bought 0% of deals, up from 0% in 2013. Other buyers bought 2% of deals, up from 0% in 2013.

i 9Sl m

	f es w	5 '0W es w
D&33T	b xv " s ew "uw +56' ,	dw s s +55' ,
833T0&4WW	dws " +4A' ,	K " w ew "uw +49' ,
84WW0&5WW	K " w ew "uw +54' ,	Qvs z Ls w+49' ,
85WW0&8WW	M" t " +5<' ,	Ws xsu " y +5<' ,
88WW0&83WW	K " w ew "uw +83' ,	W xy (dws " + "w s 58' ,

MEDIAN TIME TO CLOSE

Ww“s “ w u w s w s s vs v ww “ ww s @v
 wu 1fz“ s tws “t ww wsyy w “wx“ s u“ y s v zw
 tw xt w “z xx“u“w us “s x“ s uw zw“ su “““ 1

i FOSr f 1 r 2

	c 5 5347	c 5 5346
D8833T	6	7
8833T084WW	8	8
84WW085WW	9	9
85WW088WW	9	@
88WW0883WW	9	A

Sellers don't have to hold as much paper in the deal post-close.

- Steve Wain

DEAL STRUCTURE

ew w x“ s u“ y suu wx s s w “ xvvs x“ s u“ y“ s ww wu 1 O vvs
 zs v “ zw88WW0883WW wu / ww x“ s u“ y ys w s u ww “ xs xvs 0
 “w1

R vs) W(I s @v suw/ ww v) zs w z vs uz s w“ zwvvs Ou w' s“v
 e wwi s“ /KKI Lzs“ s v “ u“ s xLs vw I u“s wl f z“ u v twv w s tw x
 xsu / “ u v“ y zw“ u vs w s s“st““ xu w “ s x“ s u“ y/ s yw xt w us z/
 “ u vs w t w u x“v w uwl

i w) w w @v wvvs wx xs y “ y u s “w s s s t “vyw zw s s “
 ys / i s“ u “ w1 O u s “w“ y z vw/ zs) “us tw w v w s u “ yw
 ts “ s zw zs “z s ww wl

i 11Sg y v HHDFL BHDFI

	c 5 5347			c 5 5346		
	ew w O' s u" y N a	ew w dws" w N "		ew w O' s u" y N a	ew w dws" w N "	
D8833T	46'	0	4'	47'	8'	4'
8833T084WW	4@	6'	5'	48'	<'	4'
84WW085WW	A'	4'	0	5<'	5'	0
85WW088WW	43'	4'	6'	44'	5'	0
88WW.	0	5<'	8'	44'	43'	6'

SECOND TIME TO MARKET AND UNSOLICITED OFFERS

Unfortunately, many business owners don't understand the negative repercussions that can occur when you try to sell your business on your own

0 Craig R. Everett

Yw z“ s w/ w vw wws @w “ v“us wz s x zW“ u“w zsv
 “w w “s zw vs “ zw s l W w z s z s x x z w s v “ ww
 +89’ , z s v u“w z “w w zW“ t “ w w zW“ x“ l U“@w “ w
 z s x +7A’ , z w s v “ ww z s v u“w z)v w“ “w w zW“
 t “ w z yz s z w t @w l l v z s x +86’ , s“v z w z s v u“w z)v t w w
 s s u z w t s t w v“ w l t w w “ y zW“ t “ w z w s @w l

g x s w / s t “ w w v) v w s v z w w y s “ w w w u “
 z s u s u i z w w t “ w / s“v L s“y d l
 N w w / b z l M/ M“ w l / b w w v“ w b “ s w L s “ s W s @w b ” w l P s “ s v “
 e u z x K “ w s v W s s y w w b w w v“ w g “ w “ l K w s u z w x
 u x“v w “s “ / x @w w w w u w / s v v w l “ w “ t “ w s w s w
 s u z w t “ w w w x u zW“ “ w s v w w y w “ y zW“
 t “ w l

f z w v w w “ s w z y “ “ s @v s v z s z z w “ w v
 s y “ z © “ y z w l zW“ w u w v “ y z w s w u w /
 N w w u “ w l f z s vs z w t “ w u s t w l w z / w t
 z w “ w z w t “ w w x“ s v w l v w w l © x w “ s s “ s u w l

I x t “ w w z @w “ z s z w t @w x“ / R K K I v“ w l e u
 K z @w s w w w s s w zW“ s v “ t s w s w “ u w l

W s w w u s z w w w t “ w t @w / t z w z s w w “ w s “ y/
 w u s “ / w w “ w u w s“v K z @w w“v w x L w w K “ w e w “ u w l
 f z w s s @s y v y s w s v w w w “ “ z w“ z w s u u w 0 x w w
 w w / w z w w w z s z w s z w s / “ u s t s “ s w s “ y
 z w s w x z w t “ w / s @v s s y w x x w l R z w w / z w
 a w z w w “ w u “ w “ w s u z “ y z w w v x z w w s w s “ w z s z “ y)
 t w w v w w x w u “ w s @w z w t “ w s w u w “ z s x x z s z w
 t “ w t @w “ “ s “ w l

U @w s “ v “ w / y w z s s x / K z @w u “ w l I v “
 z z v z w L w “ x w K “ w R w w “ s + L K R z w W w y w s v I u “ “ “
 W s w R w w “ s + W (I W R v w “ y s “ s w s y z w x “ w w u w “ z w
 s “ l i © “ z w x z w s v) z s w s u z t w w u z s u w x u u w l

Like many industries, you get what you pay for.

- Scott Bushkie

EARN A CERTIFICATE IN PRIVATE CAPITAL MARKETS



The Certificate in Private Capital Markets (CIPCM) is a three-day curriculum-based training program led by Dr. Craig R. Everett, director of the groundbreaking research Pepperdine Private Capital Market Project and co-editor of the Journal for Entrepreneurial Finance.

- Designed for business owners and professionals employed within the finance, banking, investment, mergers and acquisitions, valuation, management consulting, legal, and accounting fields
- Learn in-depth critical analysis and evaluation skills necessary for successfully operating a business within the private capital markets
 - Overview of Private Capital Markets Theory and Sources of Capital
 - The Role of Intermediaries
 - Angel Investments, Venture Capital, and Other Early Stage Financing Sources
 - Senior Debt, Cash Flow-based, Asset-based Lending and Factoring
 - Mezzanine and Private Equity Capital
 - Determining the Cost of Capital Using The Pepperdine Private Cost of Capital Model
- CPA, MCLE, CFP Continuing Education Credit Available

REGISTER: bschool.pepperdine.edu/cipcm
Building wealth by making better investment and financing decisions.

PEPPERDINE UNIVERSITY GRAZIADIO SCHOOL OF BUSINESS AND MANAGEMENT
6100 Center Drive, Los Angeles, CA 90045

For more information, visit:
bschool.pepperdine.edu/cipcm

PEPPERDINE UNIVERSITY
Graziadio School of Business and Management

A Higher Degree of You

NOTES

ABOUT PEPPERDINE UNIVERSITY GRAZIADIO SCHOOL OF BUSINESS AND MANAGEMENT

Founded on the core values of integrity, stewardship, courage, and compassion, Pepperdine University's Graziadio School of Business and Management has been developing values-centered leaders who advance responsible business practice since 1969. Student-focused, experience-driven and globally oriented, the Graziadio School offers fully accredited MBA, Masters of Science, bachelor's completion and non-degree executive business programs for business professionals, entrepreneurs, managers and senior executives at all stages of their professional and personal development.

The Pepperdine Private Capital Markets Project reports on the current climate for privately held companies to access and raise capital, as well as the conditions influencing the decisions of lenders and providers serving small businesses and the lower middle market. Our ongoing research engages in multiple survey research initiatives and publishes an annual Capital Markets Report, an annual economic forecast, the PCA Index Quarterly Report in partnership with Dun & Bradstreet Credibility Corp. and Market Pulse Quarterly Report in cooperation with the International Business Brokers Association and M&A Source.

ABOUT INTERNATIONAL BUSINESS BROKERS ASSOCIATION (IBBA) AND THE M&A SOURCE

Founded in 1983, IBBA is the largest non-profit association specifically formed to meet the needs of people and firms engaged in various aspects of business brokerage, and mergers and acquisitions. The IBBA is a trade association of business brokers providing education, conferences, professional designations and networking opportunities.

Founded in 1991, the M&A Source promotes professional development of merger and acquisition professionals so that they may better serve their clients' needs, and maximize public awareness of professional intermediary services available for middle market merger and acquisition transactions.