



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

MARKET PULSE

QUARTERLY SURVEY REPORT

SECOND QUARTER 2014

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BUSINESS BROKERS
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UNIVERSITY
Graziadio School of
Business and Management

PEPPERDINE
**PRIVATE CAPITAL
MARKETS PROJECT**
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MARKET PULSE SURVEY REPORT SECOND QUARTER 2014

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INTERNATIONAL BUSINESS BROKERS ASSOCIATION

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PEPPERDINE PRIVATE CAPITAL MARKETS PROJECT

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KEY FINDINGS

Investors are looking for... (text is garbled)

f

... (text is garbled)

B

OMs ... (text is garbled)

... (text is garbled)



... (text is garbled)

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 |

... (text is garbled)

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 4Sd r e 0 y 0r

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

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TOP 3 SELLER MISTAKES

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 " 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 "
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 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 5S 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 “ “ & 8 3
 “ “ wu wx w z w t w / y s “ “ y s s x “ 1

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 s w s y w / t z W s “ e w w s v U w W “ v v w W s @v “ w
 s w s “ s w 4 3 ’ w s w w s 1

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|------------|----------------|----------------|----------------|
| D&833T | 5 +eMN, | 5 +eMN, | 5 +eMN, |
| &833T0&4WW | 5 1@+eMN, | 5 19 +eMN, | 5 18 +eMN, |
| &4WW0&5WW | 6 14 +eMN, | 6 14 +eMN, | 5 18 +eMN, |
| &5WW0&8WW | 7 18 +NKR MI , | 7 16 +NKR MI , | 7 13 +NKR MI , |
| &8WW0&83WW | 8 17 +NKR MI , | 7 18 +NKR MI , | 8 13 +NKR MI , |

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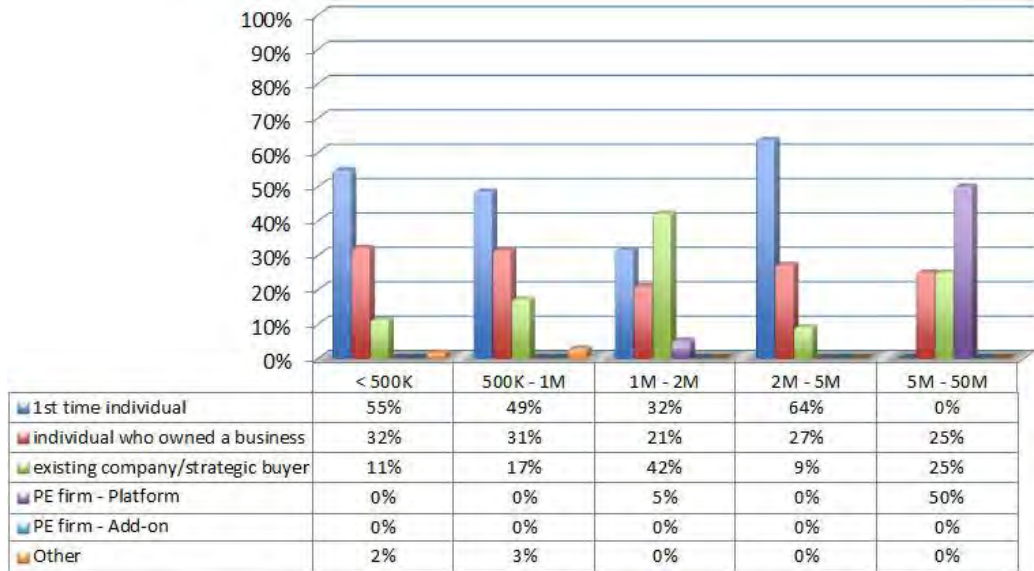
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| | c 5 5347 | ' e v i “ z “ ds yw |
|------------|------------------------|---------------------|
| D&833T | 4 18 05 k 8 +eMN, | 97' |
| &833T0&4WW | 5 15 80 6 13 +eMN, | <@ |
| &4WW0&5WW | 6 13 06 18 +eMN, | 8 <' |
| &5WW0&8WW | 6 13 08 18 +NKR MI , | A3' |
| &8WW0&83WW | 7 15 80 9 13 +NKR 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

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|------------|------------------------|---------------------------|
| D&33T | b xv " s ew "uw +56' , | dw s s +55' , |
| 8&33T0&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

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| 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
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| | ew w O“ s u“ y Ns a | ew w dws“ w N “ | | ew w O“ s u“ y Ns 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

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Like many industries, you get what you pay for.

- Scott Bushkie

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NOTES

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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.