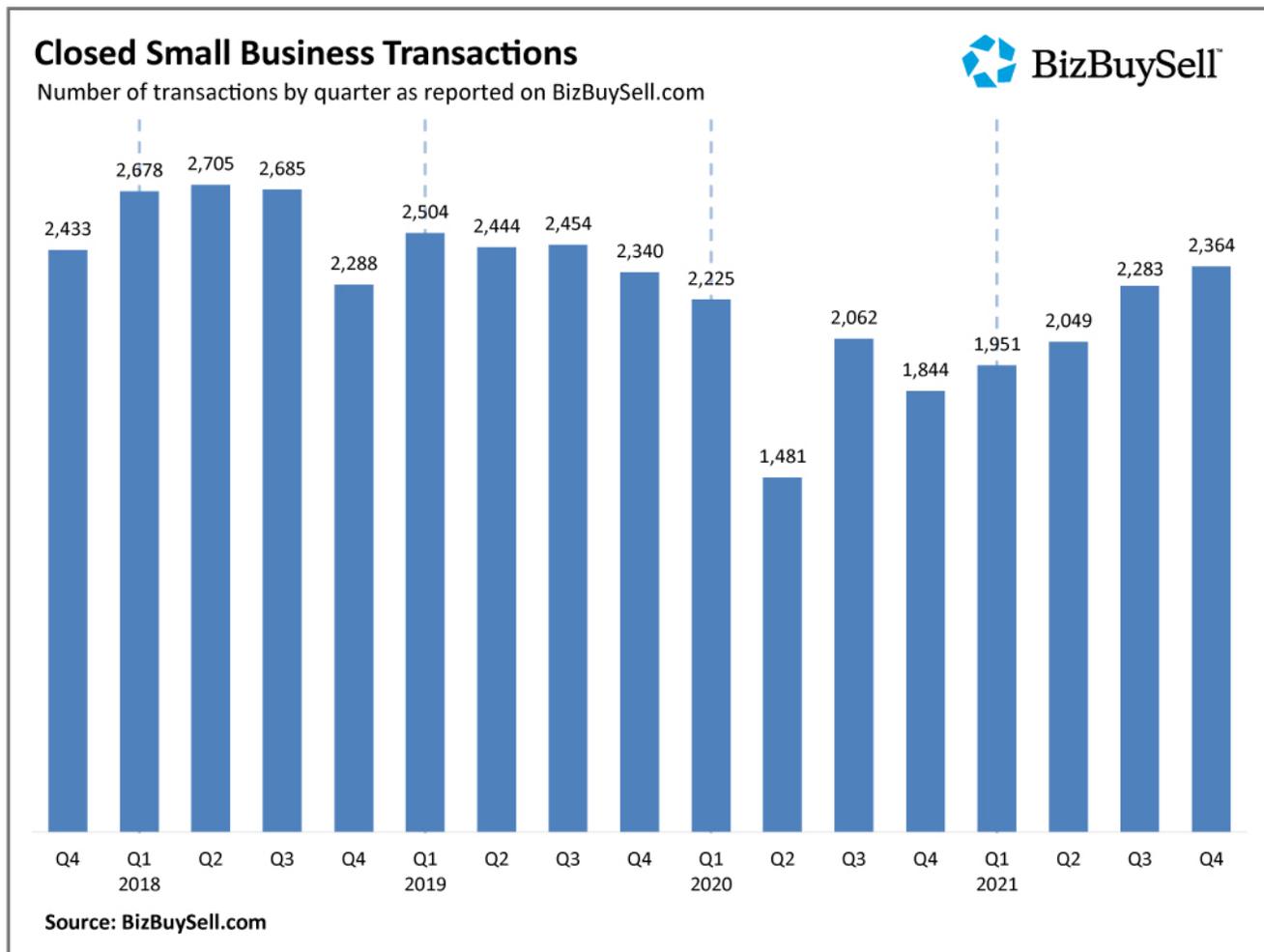


BizBuySell Insight Report

 bizbuysell.com/insight-report

- Transactions expected to strengthen in 2022 as more sellers return to market
- Sale prices rise 16% as low interest rates and intense demand for strong performers drive sales
- Increasing number of owners looking to sell and retire as pandemic burnout weighs heavy



U.S. business-for-sale transactions bounced back 14% in 2021 against ongoing COVID-19 fallout, hiring challenges, and supply chain disruptions. After modest gains to start the year, transactions accelerated 28% in the fourth quarter, eclipsing the pre-pandemic levels of Q4 2019. This end of year rally brought annual small business transactions within 11% of 2019, bringing optimism for a strong 2022.

"Forty-three percent of my transactions occurred in fourth quarter. Some of this was driven by the SBA lending - CARES Act benefit that required closing by September 30th pushing deals into November. The other major factor were sellers pushing for deals to close prior to

year-end because of their concern over the current administration's tax policy," said Robin Gagnon of We Sell Restaurants brokerage.

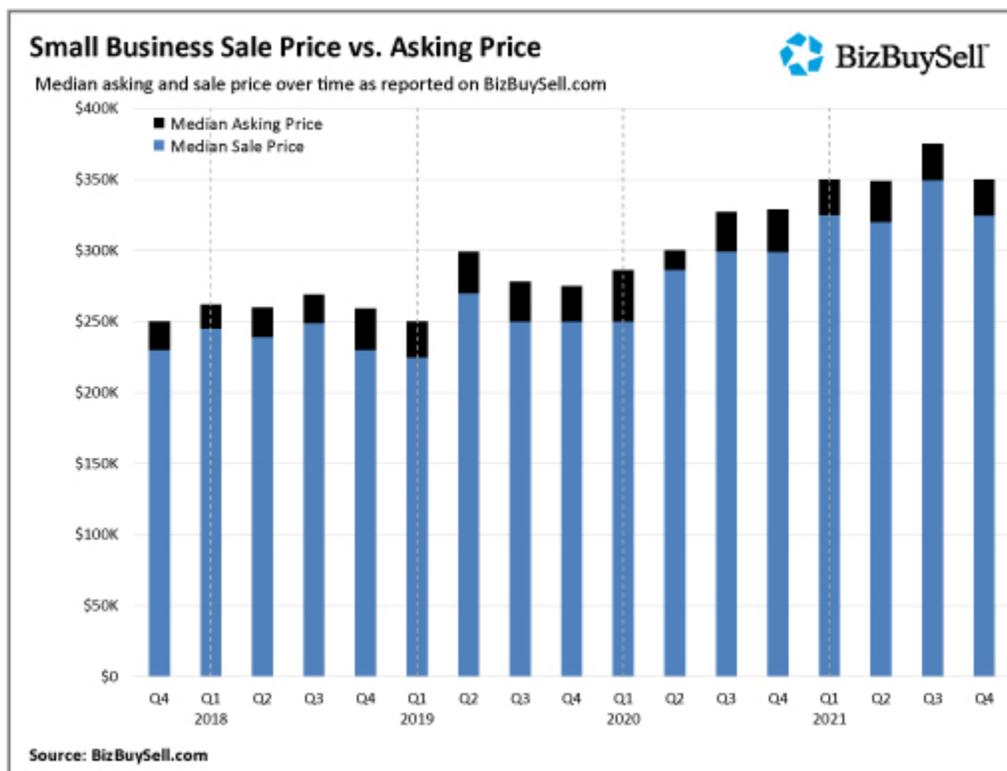
A total of 8,647 closed transactions were reported in 2021, compared to 7,612 in 2020, with 2,364 occurring in the fourth quarter. In addition, sale prices grew 16% year-over-year to an annual record high of \$325,000, as buyers competed for a limited supply of strong performing businesses. This according to BizBuySell's Insight Report, which tracks and analyzes business-for-sale transactions and sentiment of business owners, buyers, and brokers.

Businesses that sold in 2021 continued to be those with strong financials. Compared to the previous year, the median cash flow of sold businesses grew 10% to \$149,099 with median revenue up 2% to \$625,943. As the pandemic lingered, buyers gravitated to businesses with reliable sales. Savvy entrepreneurs also sought out discounted businesses that offered prime real estate and other valuable assets despite poor performance.

Many business brokers surveyed expressed improved market conditions in 2021, with 62% reporting higher transactions than in 2020. Over half (53%) of those attributed growth to a strong demand for businesses that thrived during the pandemic. Forty-six percent (46%) experienced an increase in owners looking to sell, an encouraging stat given the lack of inventory has been the main barrier to market recovery to-date. An equal 46% experienced an increase in buyers as the Great Resignation, SBA aid programs, and low interest rates ignite demand.

"Opportunities with strong earnings continue to attract those who are opting out of traditional career paths and moving to ownership. Restaurants in certain parts of the country, less 'locked down states', have attracted incredible interest," added Gagnon.

Sale Prices Rise as Demand for Profitable Businesses Remains Strong



The business for sale market demonstrated slow, yet steady growth over the course of 2021, particularly in terms of buyer demand for financially healthy businesses. This trend became evident in the first quarter when sale prices surged a whopping 30% to a median sale price of \$325,000, finishing the year at \$324,500 in the fourth quarter.

Furthermore, despite 51% of surveyed owners being negatively impacted due to COVID-19 in 2021, key financials of sold businesses in the first quarter were the highest since BizBuySell began collecting data in 2007, with a median revenue of \$688,020 and a median cash flow of \$147,752. Both financial numbers remained historically high throughout the year but softened as sidelined businesses regained health and entered the market, reaching \$656,559 and \$150,000 in the fourth quarter respectively.

According to BizBuySell's Small Business Survey, 60% of buyers indicated profitability and strong financials as a purchase requirement, followed by trained and skilled employees (37%), great location owned (38%), and great location leased (36%). Eighteen percent (18%) desired a business discounted due to poor financials. Regarding the type of businesses buyers were seeking, the service sector was the top preference (37%), followed by restaurants (26%), and wholesale distributors (25%). The most popular included pandemic-resistant businesses such as liquor stores, gas stations, auto repair shops, and ecommerce businesses.

Buyers Face Limited Inventory as Owners Delay Exit to Focus on Recovery

While 2021 was a record-breaking year for small business sale prices, it was also a year for many owners to remain on the sidelines until financial performance improved. According to BizBuySell's small business owner survey, roughly half (52%) of small business owners say they were negatively impacted by the pandemic in 2021, while the other half were either positively impacted (25%) or not impacted at all (24%).

Even with President Biden's American Rescue Plan Act, which expanded the PPP program and introduced other federal aid programs, recovery has been uneven. While many businesses have wooed customers back through outdoor seating, delivery, or virtual options, they still face challenges. Whether through staffing shortages, supply chain delays, or COVID-19 surges, the pandemic continues to impact many businesses.

For Michell Miller, who owns Main Street Fitness 24/7 in Colorado, the pandemic has been impossible to ignore. "It Hurt me substantially! I am the only gym in town that operates month-to-month and I lost 50 to 60 members. I have not regained that whatsoever. I did not qualify for any grants. As of five months ago we were finally allowed to open at 100% capacity. And now with the third variant that is coming through people are somewhat leery to come into the gym."

According to brokers, these pandemic-related challenges were not the only factor keeping businesses off the market in 2021. While 38% attributed low listing inventory to owners being unable to sell due to poor performance, 46% believe many sellers had unrealistic expectations compared to current market values, and 15% indicating financing challenges.

"It has been difficult to help both owners and buyers understand the potential of a business while understanding the reality of the impact of COVID. It has been difficult to reconcile the two," said Diane Hartz Warsoff, CEO of Transworld Business Advisors of Utah County.

Labor Shortages and Supply Chain Disruptions Strain Small Business Performance

While restaurants, retailers, and delivery services have been among the most visibly impacted by the labor shortage, the fallout is more widespread. Whether it's a shortage of drivers unable to move freight, or no one available to answer phones, most business are facing these challenges.

Sixty-four percent (64%) of applicable owners surveyed say they have been impacted by labor shortages, of these, 59% say the situation is not improving or getting worse. Business brokers echo this sentiment, with an overwhelming 59% saying the labor shortage is the biggest threat to small business today with Covid restrictions a distant second (15%).

"Labor shortages are the most immediate problem. Entrepreneurs are good at figuring out how to combat the other threats," said Roger Civalleri of Zoom Business Brokers.

Joseph Nicolini of Transworld Business Advisors of SW Florida adds, "This is a constant conversation with sellers. Buyer's looking to make offers are asking the sellers as to how they can get new employees."

Furthermore, supply chain disruptions are leaving business owners to face inventory and material shortages, sales losses, and shipping delays. Seventy-five percent (75%) of applicable owners surveyed said their business has been impacted by supply chain issues, with half of those saying the issue is either not improving or getting worse.

"Supply and demand issues have led to tremendous increase in prices and there's still a lack in supply. We had to adjust our strategy to compromise the change while trying not to increase the price too high for our military customers," said Peter Diaz, owner of Baitong Restaurant in Texas.

Small businesses have been further strained by inflation raising overhead costs, forcing many to either raise prices and pass additional costs onto their customers or cut back on operating expenses. Roughly 72% of applicable owners say their business has been impacted due to inflation, with 76% saying it has not improved or is getting worse. This can make it increasingly challenging to attract customers and remain competitive.

"Costs have increased dramatically two times in 2021 and I do not expect them to go down. This caused me to raise my prices the first time but I will have to absorb most recent increases in costs," said Alberta Guinther, owner of YUMMY YUMMY LLC, an ice cream shop in Nevada.

More Owners Expected to Sell in 2022 Amid Operational Challenges and Pandemic Burnout

The pandemic's Omicron variant is already adding additional pressure to small businesses struggling to operate. Of those surveyed, 46% are being negatively impacted by Omicron, of which 64% are seeing a direct decline in sales. Indirectly, 44% are experiencing staffing shortages due to employees being out sick, and 52% say they are facing supply shortages due to vendors being impacted by the Omicron surge.

Whereas businesses were forced to close in 2020, 35% of owners said they considered temporarily closing their business voluntarily due to the Omicron surge, 43% of which having already taken that action, and it's taking a toll.

"I have run my business for 18 years, solid with profit, though on a very small scale, but I am ready to move on to other pursuits and retire from sewing and studio production. Pandemic put the nail in the coffin," said Jen Swearington of Jennythreads, Inc in South Carolina.

After nearly two years of managing through the pandemic's fallout, many owners are deciding it's time to sell. Retirement and general burnout remain the top two reasons for exiting, however pandemic fatigue specifically is moderately to extremely motivating 43% of owners to consider selling their business.

"The pandemic applied additional pressure to owners who were already thinking about selling. All my sellers received PPP loans that were forgiven. However, for many owners, the challenge of finding and keeping employees is a deciding factor to sell now," said Sheila Spangler of Murphy Business Sales.

Gagnon added, "We operate only in the restaurant space and there is a generalized sense of fatigue associated with the past two years. The continued changes to operations, labor issues and supply chain issues are pushing operators onto the market."

Pent Up Supply of Businesses for Sale Expected, Fueled by Baby Boomer Retirees

Over 78% of business brokers say they expect more sellers to enter the market in 2022, with 25% saying they expect significantly more sellers. Furthermore, brokers expect an increasing number of Baby Boomers to enter the market. Just over the past year, brokers attribute 45% of their sellers to Baby Boomers who are too burnt out to continue.

"Positive outlook, more Baby Boomers exiting or considering an exit. More creative financing options and buyers are looking to try them. Challenges are labor shortages, and unknowns due to Covid. More eCommerce deals," is how Roni Banerjee of Gill Agency brokerage describes the market.

"Boomers have been holding off for years now to exit their businesses. Covid was the final push for them to realize that life is short, and after hanging on through the recession and slow recovery they have decided to move ahead," said Steve Barnett of The Valley Business Broker.

In the words of someone in this precise situation, "We are in a business where individuals and families need help caring for a loved one at home. After 35 years I am ready to take a rest. Pandemic or not - people are always in need of assistance," said Michael C. Queen of Handi Care Inc In-home Care in North Carolina.

Increased Demand Expected Due to Great Resignation and Serial Entrepreneurs

Over the past year, a record number of workers have left their jobs for a variety of reasons. At the same time, business ownership has been catching entrepreneurs by storm. Over 5 million entrepreneurs applied for business applications in 2021, the largest number ever recorded by the U.S. Census Bureau. At the same time, 21% of business buyers identified as being part of the great resignation and business brokers say 23% of their inquiries came from corporate refugees or newly unemployed seeking ownership.

"The growing flight from corporate America is likely to slowly and steadily increase. Financial independence will continue to drive many working in large companies to make job creating investments in small business acquisitions," said Robert Flynn of United Brokers Group LLC.

Demand for existing businesses is expected to continue into 2022 as more entrepreneurs seek to acquire profitable businesses from retiring Baby Boomers. While some will be corporate refugees and first-time buyers, many are also existing owners looking to expand, as well as retirees looking for a second career. The majority business brokers (73%) expect an increase in the number of buyers hitting the business for sale market in 2022.

"I expect 2022 to continue with this trend. As always, buyers want cash flow to service the acquisition debt and to pay themselves a living/reasonable wage. Buyers also want to see growth opportunities in the industry in which the business operates. This is really nothing new from the past. However, the pace seems faster given that buyers are fine-tuning their lives by relocating to places that better align with their values," said Spangler.

Ryan Johnson of Virginia exemplifies the current situation, saying "I am leaving my company within the next two months. I have years of executive experience running a business as well as the knowledge afforded to me through my engineering background and related work. With Baby Boomers leaving the small business arena in droves, the number of opportunities is excellent."

About the BizBuySell Insight Report

The BizBuySell Insight Report is a nationally-recognized economic indicator that tracks the health of the U.S. small business economy. Each quarter, BizBuySell analyzes sales and listing prices of small businesses across the United States based on approximately 50,000 businesses for sale and those recently sold, reporting changes in closed transaction rates, valuation multiples and other economic indicators for the small business transaction market.

Closed transactions are reported to BizBuySell.com on a voluntary basis by business brokers nationwide. Each report includes real small business data on over 70 major U.S. markets and across 65 small business industries.

BizBuySell is the largest business for sale marketplace online, receiving over a million visitors a month. Since 1996, BizBuySell has offered tools that make it easy for business owners and brokers to sell a business, and potential buyers to find the business of their dreams. The website also features an extensive franchise directory as well as an easy-to-use business valuation tool.

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