

2022

Q3 RESTORATION MARKET UPDATE

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ABOUT RESTORATION BROKERS OF AMERICA

Restoration Brokers of America (RBA) works to provide insight into the restoration industry's mergers and acquisitions trends. As restoration specialists with over \$550M in restoration company sales, RBA studies the industry growth and fluctuation to bring straightforward advice and knowledge about the restoration & remediation space.

The Restoration Market Report is a collection of industry-specific observations and overall trends in business brokering and how restoration industry M&A trends compare.

FOUR MAJOR THEMES

INTEREST RATES & INFLATION

Impact of rising interest rates and high inflation.

CONFIDENCE

Buyer & seller confidence in the market is declining.

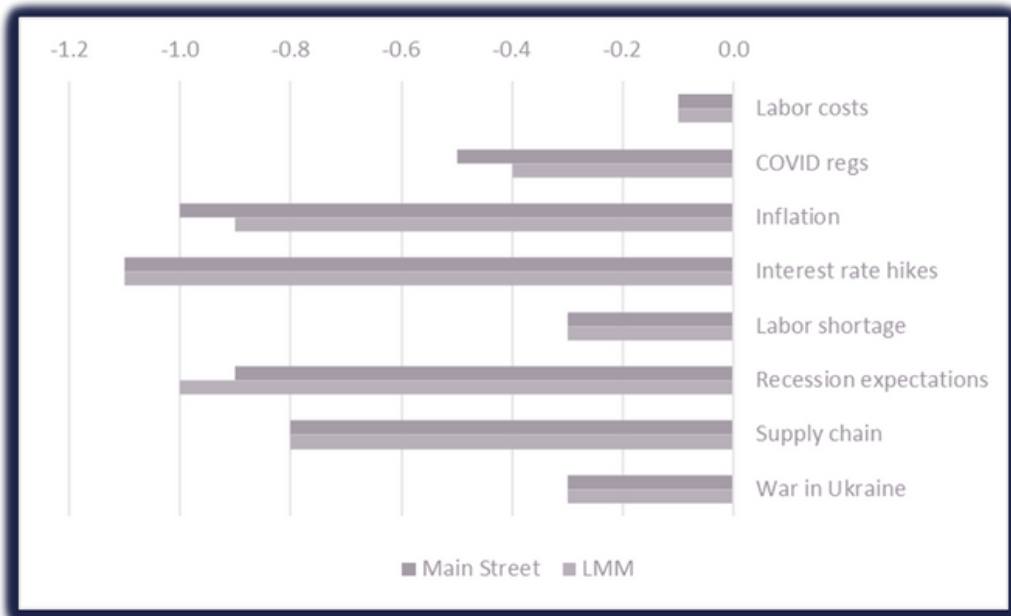
QUALITY OF BUSINESS

The disparity between the quality of businesses is widening.

PREPARE

Creating a successful exit strategy is key.

FACTORS AFFECTING MARKET CONDITIONS



Q2 emphasized significant labor shortages which affected M&A, specifically in restoration.

Companies within the restoration sector saw steady projects and insurance claims, but challenges, specifically securing qualified labor and filling positions, substantially impacted revenue and valuations,

Today, the primary concerns in the market include inflation, interest rates, recession expectations and supply chain issues.



INTEREST RATES & INFLATION

72%

**OF M&A PROFESSIONALS
EXPECT DEAL VOLUME TO
INCREASE OVER THE
NEXT SIX MONTHS,
DESPITE RISING
INTEREST RATES.**

*SOURCE GRANT THORTON LLP M&A SURVEY

Though a direct correlation between interest rates and overall M&A activity is not immediately evident, rising interest rates will, inevitably, impact deal values.



CONFIDENCE

Buyer and seller confidence is declining, however buyers continue to express interest in quality businesses.

“

WE'RE NOT SEEING ANY
MEANINGFUL DECLINE
IN ACTIVITY OR
INTEREST IN HIGH
QUALITY BUSINESSES
THAT ARE GOING ON
THE MARKET.

”



QUALITY OF BUSINESS

The disparity between an 'A' rated business and a business that is not yet ready to go to market is widening.

**WE ARE SEEING
A 10-15%
DISCOUNT
FOR BUSINESSES
UNPREPARED
TO GO TO
MARKET.**

Flight-to-quality is now critical. Companies are typically viewed as low, medium, or high in terms of quality. In previous years, if you had a medium quality business, there were buyers willing to take a risk. Now, we are seeing buyers avoid them. Higher quality businesses are in more demand now than in 2021.



PREPARE

Going into Q4, activity is strong for high quality businesses.

In Q1 & Q2 of 2023, we do not anticipate any decline in the valuations or multiples of high quality businesses on the market.

"If you are thinking of going to market, having a strategy and preparing to go to the market is going to be more important now than ever. "

80%

OF BUSINESSES DO NOT SELL DUE TO LACK OF PREPARATION

*SOURCE FORBES, JUNE 2022



MARKET MULTIPLES

Looking ahead to Q4, we expect that multiples for high quality businesses will remain the same. The gap between what a buyer will pay for a quality business versus a business unprepared for market will widen as the flight-to-quality gains momentum.

ADJUSTED EARNINGS	MULTIPLES PAID
\$100,000-\$500,000	2X-3.5X
\$500,000-\$1,000,000	3.5X-4.5X
\$1,000,000+	4.5X-6.5X

CONCLUSION

It is more important than ever to prepare your business for sale and ensure its appeal to potential buyers. Under present conditions, if you have your business on the market and are not speaking with multiple buyers, you risk leaving money on the table.

One of the questions we are often asked is the timing of the market. No one can predict the market with 100% accuracy.

What you can do is focus on building a great company. By correctly implementing the technology and success strategies to take your business to market, you will expose it to the right buyers.

Create a great exit for you and your family, and avoid figuring out quarter-by-quarter what is happening with the market. Your efforts are better rewarded executing solid strategies to build a solid, sellable company.



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