

2022

# Q2 RESTORATION MARKET UPDATE

GOKUL PADMANABHAN, CEO  
RESTORATION BROKERS OF AMERICA





## 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

## LABOR SHORTAGES

Labor shortages have had the biggest impact on deals in Q2.

## BUYERS

Buyers are pricing in higher interest rates.

## MARKETS

There are two distinct markets in restoration - \$6M and under, and \$6M and over.

## WHY RESTORATION?

Restoration can sustain even in the most volatile market.

# LABOR SHORTAGES

# 89%

## OF RESTORERS RATE FINDING EMPLOYEES AS THEIR BIGGEST CHALLENGE

*\*SOURCE ENCIRCLE THE RESTORER'S PLAYBOOK, CONQUER 2022*

Companies are fortunate to have the insurance claims and projects, however finding qualified labor to fulfill open positions is creating challenges across the restoration industry.

In Q1, due to these labor shortages, companies have showed decreased profits and revenues. However, in Q2, we are seeing trends begin to stabilize. Companies are showing increased interest in job postings.

**"We've had buyers ready to buy, an offer the table, but unfortunately because of labor shortages, the revenues and profits of these companies have decreased making them unsellable in today's market."**





# BUYERS

Buyers are **pricing in** the higher interest rates and uncertainty of the economy.

## \$6M AND UNDER

- Buyers seeking funding for businesses valued at \$6M and under must consider that the cost of money has significantly increased. Therefore, we are seeing an approximate 7% decrease in pricing compared to Q1 2022.
- Financial institutions are also requiring buyers to bring additional cash to the closing table.
- Approximately 40% of buyers say interest rate hikes are impacting their ability to purchase a business.



# BUYERS

The higher interest rates are not affecting the private equity and national buyers yet.

## \$6M AND OVER

- From valuations to what buyers want, we are not currently seeing any impact on this market. However, we believe this is temporary and anticipate Q1 or Q2 of 2023 will bring changes to this market, in terms of capital requirements, making it more difficult for private equity or national buyers.
- **Flight to Quality** - 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 2021.



# WHY RESTORATION?

Approximately 40% of buyers are looking for recession proof businesses, with steady cashflow and a reliable workforce.

“

If you have a quality business, your prices are not coming down 7-10%. You are still getting a decent price similar to Q4 of 2021 or Q1 of this year.

”



## MARKET MULTIPLES

Expect that multiples for deals will expand in the bigger deals (\$5M+), however we anticipate that multiples for smaller deals (below \$5M) will stabilize as SBA incentives expire in September.


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

In conclusion, we are seeing employment issues ease up in restoration companies and improving into Q3. For companies that were paused because of HR issues or declining revenue concerns, the season is coming for them to get back on the market. It looks like the worst is behind us from a staffing standpoint, which posed a major threat in the first half of the year.

One of the questions we are often asked is the timing of the market. No one can accurately predict the market. What you can do is focus on building a great company, and if you're building a great company and implementing the technology and success strategies correctly to take it to market, there will always be a buyer. That is a sure way to create a great exit for you and your family, as opposed to figuring out quarter-by-quarter what is happening with the market. Your efforts are much better spent executing solid strategies to build a great company.



**FOR MORE  
INFORMATION,  
PLEASE VISIT  
[WWW.RBASELLS.COM](http://WWW.RBASELLS.COM)**



**RESTORATION BROKERS OF AMERICA**  
AMERICA'S #1 RESTORATION BROKER