FIRMEX

M&A FEE GUIDE 21/22

Key insights on M&A advisory fees in the middle market.

Partnered with: AXIAL

Contents

This Year's Highlights

1. In response to COVID-19, **only 8% of M&A practitioners reported adjusting their fee structure.**

2. While the majority of advisors charge a fixed work fee, **14% of advisors do not charge one at all.**

3. **Three-quarters of M&A professionals** say they add the most value for sellers by **managing the sale process.**

This year, we are pleased to partner with Axial to offer the M&A Fee Guide. Business owners and M&A professionals will once again find timely, relevant, and useful insights. This year's report reflects the unique challenges of the past year, as well as the strength and resiliency of middle market M&A. On the heels of uncertainty and a turbulent market, those on both sides of the deal are looking for clarity and alignment. We're confident that reading the data and accompanying commentary will help advisors better serve their clients.

— Mark Wright, CCO, Firmex

We are excited to bring the power of the Axial network to our partnership with Firmex on the M&A Fee Guide 2021-2022. This timely report seeks to provide guidance on and answer the question: "What is a fair price for advice on buying and selling SMBs and lower middle market companies?" In a post-pandemic world with an M&A marketplace that has stayed strong, this question is more relevant than ever. We look forward to sharing the report's answers and information with the LMM community, as we continue to work to bring transparency to lower middle market dealmaking.

— Peter Lehrman, CEO/Founder, Axial

Overview

In a turbulent market, merger fees stay steady

This is the fifth time since 2016 we have surveyed investment bankers and other advisors to explore the fees they charge middle market companies for merger and acquisition advice.

It is the first time, however, we've asked these questions when the overall economy and the market for many mid-sized companies was so uncertain. The COVID-19 pandemic has buffeted businesses from all sides: travel restrictions, retail shutdowns, work at home orders, masking requirements, labor shortages, vaccine mandates, and inflation fears to name a few.

Among mid-sized businesses, some sectors like hospitality and retail are still trying to recover from the shutdowns. Others, including construction and manufacturing, face supply chain challenges. Demand remains strong in many parts of the technology, energy, and of course healthcare industries.

Amid this turmoil, merger and acquisition advisors in the Americas serving the middle market say that deal flow is returning after a slowdown in 2020. Throughout this period, our survey shows they see very little pressure to cut their prices. Indeed, the survey suggests that if anything, fees are rising somewhat.

"We try to stay competitive, but we won't give away our services," writes one investment banker in Calgary.

Nearly all the advisors we surveyed report charging a success fee or commission, although the rates range from less than 1% to more than 8%. There is also considerable variation in whether to ask clients to pay a retainer or work fee, and if so, whether it is one-time, monthly, or hourly.

If we created an engagement letter based on the most common answers from this year's survey, we would include these terms:

- **A one-time work fee of more than $15,000 that will be deducted from any success fee.**
- **A success fee with a specified minimum and a commission rate that increases if the sale price is above a set amount.**
- **The overall success fee would depend on the deal size:**
  - 4%-6% for $5 million and $10 million deals.
  - 2%-4% for $20 million and $50 million deals.
  - 1%-2% for $100 million and $150 million deals.
- **The success fee is payable at closing.**
- **The client reimburses the cost of travel and accommodation.**

The survey asked broadly about whether advisors are seeing pressure to cut fees. Most say they've held pricing firm or even increased it, despite pressure for discounts.

As one investment banker in Green Bay, Wisconsin, puts it, "We thoroughly explain the sales process and make sure clients understand the time needed to do a good job for them."

Methodology

Since 2016, Firmex has monitored the often murky world of merger advisory fees through regular surveys of middle market investment bankers, brokers, and other advisors. (A summary of the results from 2016 through 2020 can be found here.)

For the first time in 2021, we are conducting two parallel studies. This one covers the Americas, and a separate report looks at the fees in Europe, the Middle East, and Africa.

The results in this report are based on an online survey that was completed by 269 middle market professionals from July through September 2021.

The bulk of the respondents work primarily in the United States (79%) or Canada (16%) with 5% in Latin America. Within that region, the advisors surveyed are geographically dispersed, working in 77 different cities, most frequently New York, Chicago, and Toronto.

Three-quarters of them work as investment bankers or merger advisors, and another 10% call themselves business brokers. Many of them are leaders at their firms. More than one-quarter of the respondents are chief executives, managing partners, or other senior leaders (28%). Another 37% are partners and managing directors.

Half the advisors are generalists. About a quarter claim specialties in manufacturing or technology, media, and communications, or both. (Some people have multiple specialties). Also well represented are experts in consumer and retail, financial services, and energy.

The results from this year are compared to a reanalysis of last year's survey using only the 219 respondents from the Americas. That survey was conducted online from August 2019 to February 2020 and accordingly does not represent the impact of the COVID-19 pandemic.

Once again, the M&A Fee Guide 2021-2022 is the definitive source for M&A advisors and business owners on the industry's fees. Before this research, there was a lack of transparency on M&A fees related to sell-side engagements. For business owners looking to sell their companies, this made it difficult to determine whether the fees being proposed by an investment bank were fair and appropriate. Without baseline guidance on fee structures, M&A professionals also had challenges assessing the fees and terms for their engagements relative to their peers. This M&A Fee Guide continues to provide current research on this important topic for middle market M&A.

— John Carvalho, Divestopedia

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Peter Lehrman is Founder & CEO of Axial, a trusted online M&A platform connecting buyers and sellers of North American lower middle market companies.

Prior to Axial, Peter held roles in private equity at SFW Capital Partners and Gerson Lehrman Group, where he helped build the company's dominant global technology platform for on-demand business expertise. He earned his undergraduate degree from the University of Virginia and received his MBA from Stanford Business School.

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John Carvalho is president of Stone Oak Capital Inc. and Divestopedia Inc. John is a recognized thought leader in middle market M&A and has completed deals totaling over $1 billion in value.

John also co-founded Wolverine Energy and Infrastructure Inc. and grew the business from $5 million to $230 million in revenue in under seven years through the acquisition of 17 companies.

Currently, John has developed the Acquisition Playbook, which provides corporations with a disciplined and effective process for executing an acquisition strategy.

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Christopher Parisi is a managing director with Carl Marks Advisors in New York. He has over 25 years of investment banking experience and helps family and independent businesses sell or recapitalize their companies' capital structure, realize a liquidity event, transfer ownership to next-generation, or combine with a larger partner to accelerate growth.

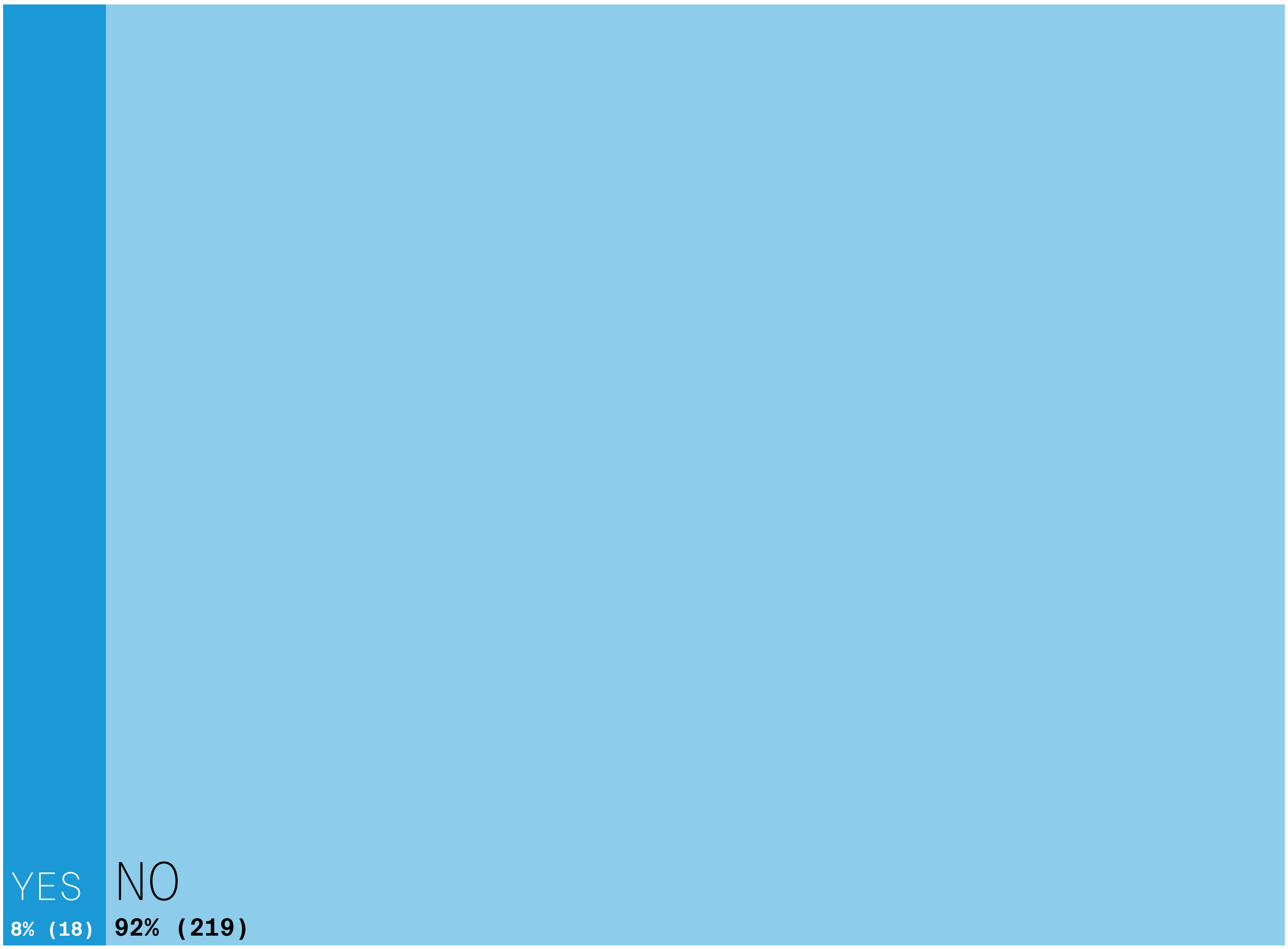
Previously, Chris was a Managing Partner of FPG Advisory, a senior investment banker at Jefferies & Company, a Vice President with KeyBanc Capital Markets, and began his career working in the private equity division of The Blackstone Group.

Chris holds a BS in Accounting from the University of Scranton and an MBA from The Kellogg School of Management at Northwestern University. He is a FINRA General Securities Representative and a Certified Public Accountant.

COVID-19 and Advisory Fees

The COVID-19 pandemic may have affected most areas of life and business, but it had little impact on the fee structure of middle market M&A advisors. Only 8% of advisors say they have changed their fees in response to COVID-19. Of those, the most common adjustment was to lower or eliminate up-front fees. The second most common is the reverse — increasing fixed fees and reducing the success fee. The vast majority of the firms that changed their fees for the pandemic expect to keep the revised schedule in place in 2022.

Have you adjusted your fee structure in response to COVID-19?



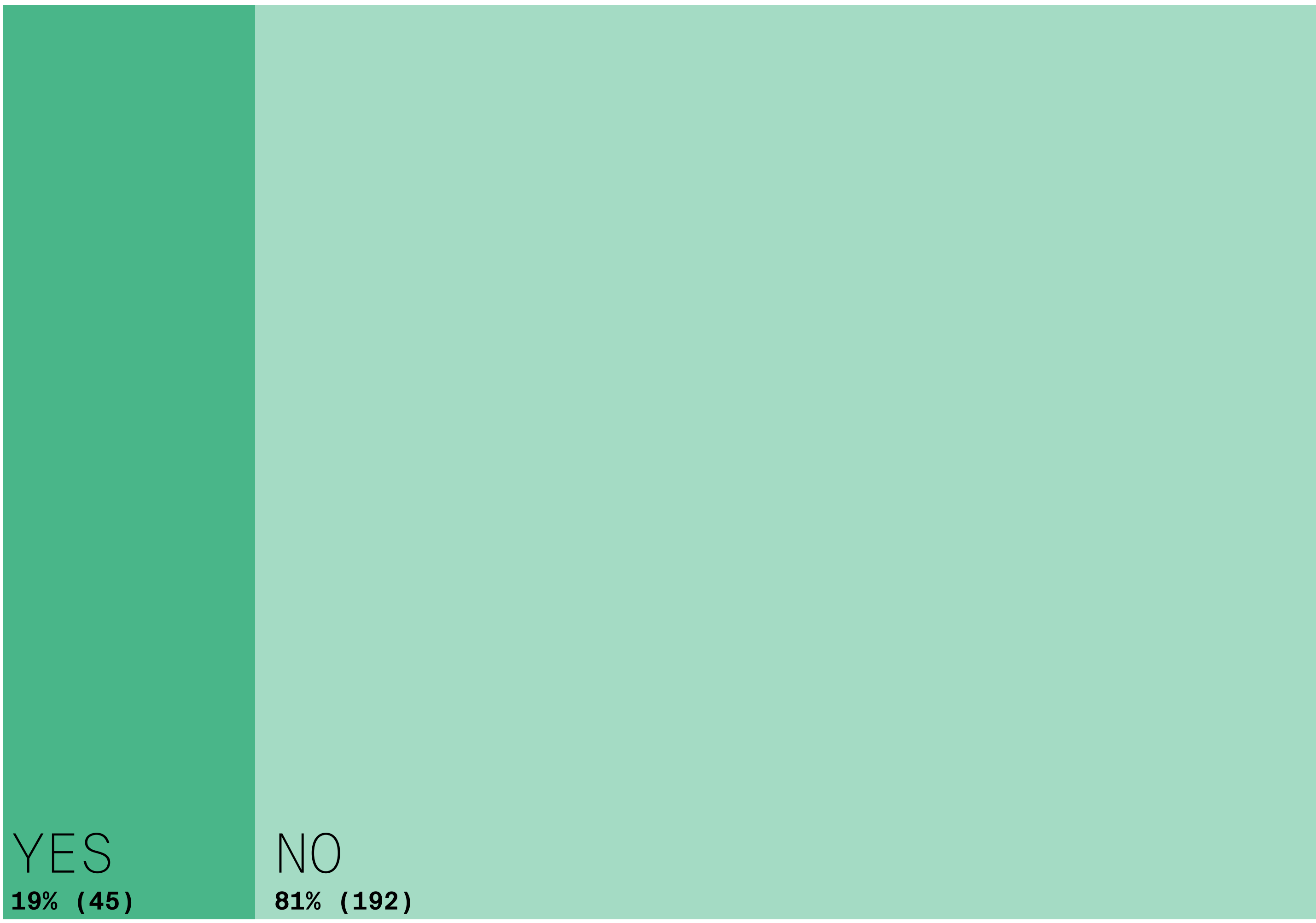
COMMENTARY

"It makes sense that a majority of advisors have not adjusted their fee structure in response to COVID-19. Fee structures are more closely tied to engagement size, deal complexity, M&A activity, and probability of closing. COVID-19 may influence all these deal factors but has not been directly tied to an adjustment in fee structures."
— John Carvalho, Divestopedia

Pressure to Reduce Fees

Four out of five advisors say they haven't seen any more pressure on fees in the most recent year than they did before. Of those that do feel fee pressure, only about one-third say they have cut their fees. Many say they are standing firm, explaining the value of their services. Indeed, in an open-ended question asking for comments on fee pressure, 3% of advisors volunteer that they have increased fees over the last year.

Have you seen increased fee pressure in the past year?



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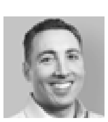
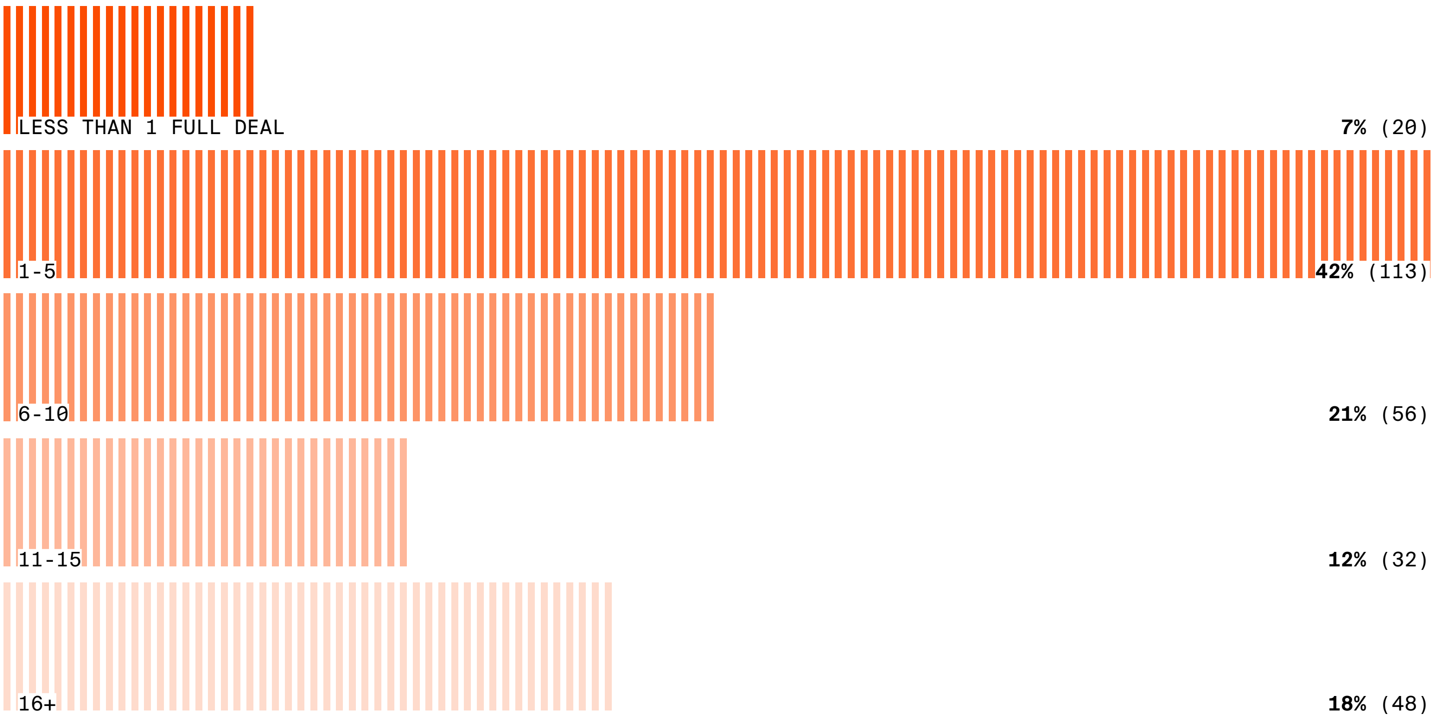


"Investment bankers seem busier than ever, so we shouldn't expect any fee pressure. Valuations remain extremely high, sustained by record amounts of private equity and low interest rates. Baby boomers continue to monetize and exit businesses as they reach retirement age. Concerns about higher capital gains taxes in the future, and the need for strategic acquisitions to quickly adjust to the post-COVID economy, are all factors driving deal volume."
— Christopher Parisi, Carl Marks Advisors

Deal Flow

The survey shows no signs of a significant slowdown in deal activity. Indeed, it suggests an increase. Nearly 30% of respondents say their firm works on 11 sell-side deals or more a year, up from 24% in the last survey. While the number of firms that work on less than one deal per year increased slightly, those that complete between 1 and 10 sell-side deals fell to 63% from 70%.

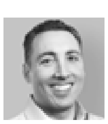
How many sell-side engagements does your firm work on in the average year?



COMMENTARY

"This data illustrates the continued proliferation of boutique M&A advisory firms working on fewer deals. Dealmakers can access the resources and global networks necessary to complete deals in a boutique firm setting. I believe this accessibility may also lure a larger number of financial advisors not usually providing M&A services into the space to work on one-off transactions." *— John Carvalho, Divestopedia*

"No surprises here. The lower middle market is dominated by small M&A advisory firms. Half of all respondents do less than 5 deals each year. And 70% do less than 10 deals a year." *— Peter Lehrman, Axial*

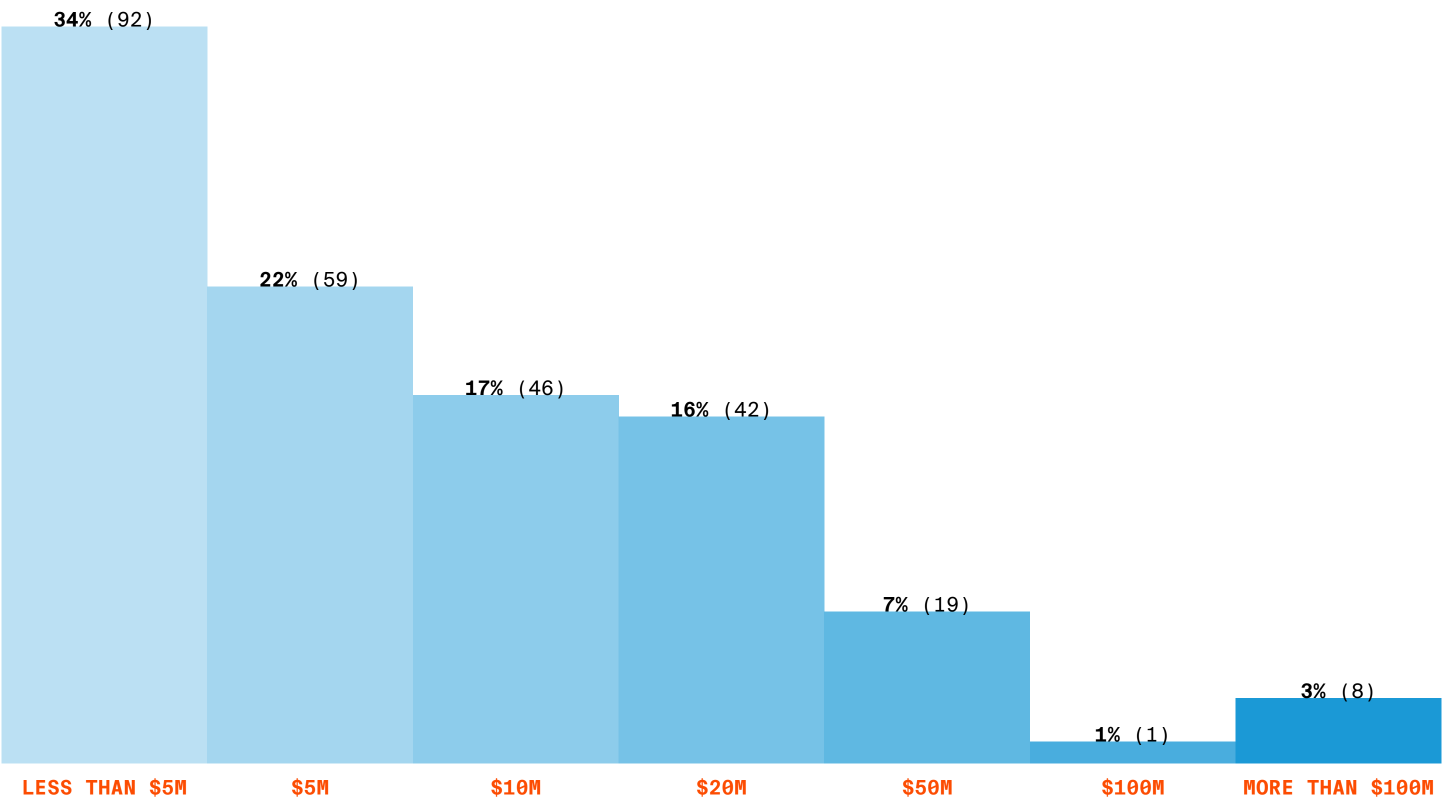


"The survey results would suggest that advisors across the segment are dedicated to quality over quantity. In our own practice, we recognize we are at our best when we focus on fewer, high-quality assignments." *— Christopher Parisi, Carl Marks Advisors*

Minimum Transaction Value

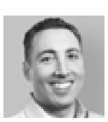
The majority of advisors (56%) set their minimum transaction value at $5 million or less in 2021. But the minimum deal size is rising. Some 26% won't be involved in a deal worth less than $20 million. That's up from 15% that required $20 million or higher last year. "We've been contrarian," a Toronto investment banker writes, "We focus on highest quality assignments and preferred clients."

What is your minimum transaction value?



COMMENTARY

"The minimum transaction value firms will work on typically depends on M&A market robustness. With all things being equal, during times with lots of activity, most M&A firms would choose to work on larger transactions. That data also shows that mid-market M&A still drives a significant amount of the transaction volume seen in the marketplace today." *— John Carvalho, Divestopedia*

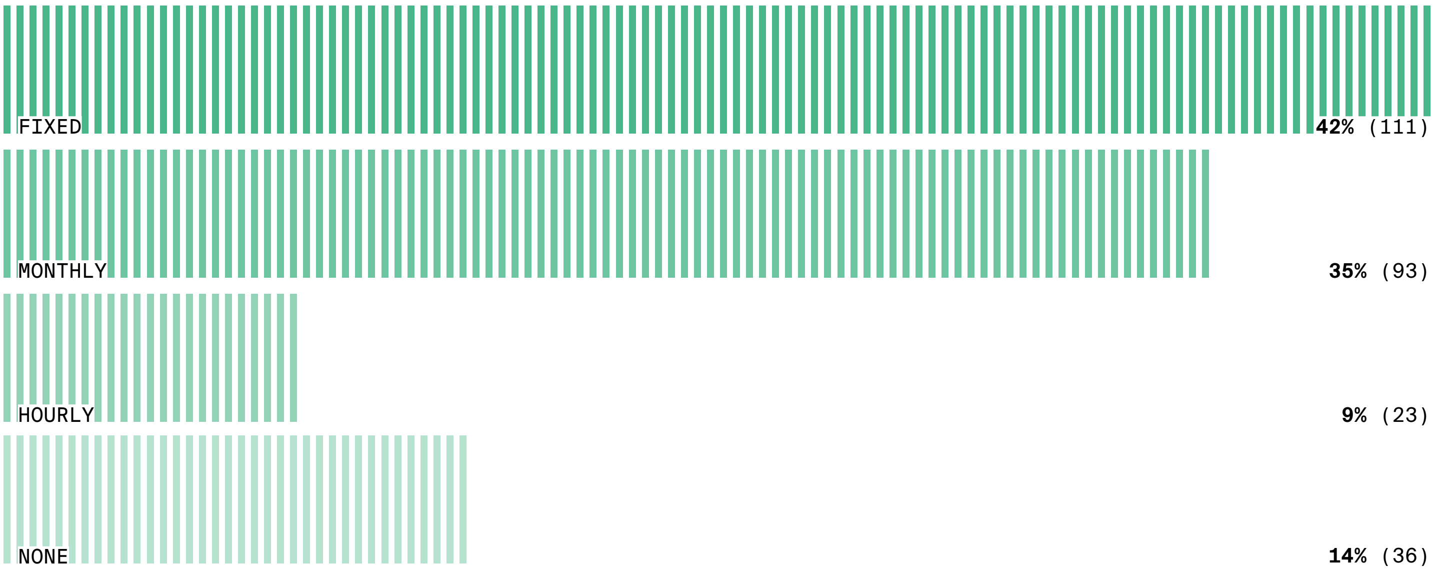


"Smaller-sized companies with innovative products have never been more important than they are now. On the advisory side, this translates to a larger universe of smaller, very attractive — even essential — businesses that are being acquired." *— Christopher Parisi, Carl Marks Advisors*

Work Fee Structure

Five out of six advisors charge a fee for their effort to sell a business that is payable whether or not a deal is consummated. These are often called work fees, engagement fees, or simply retainers. The most common (42%) structure for work fees is a fixed amount. Monthly retainers are the second most common structure and increased to 35% of advisors in the survey from 25% last year. Only 9% of advisors charge hourly work fees.

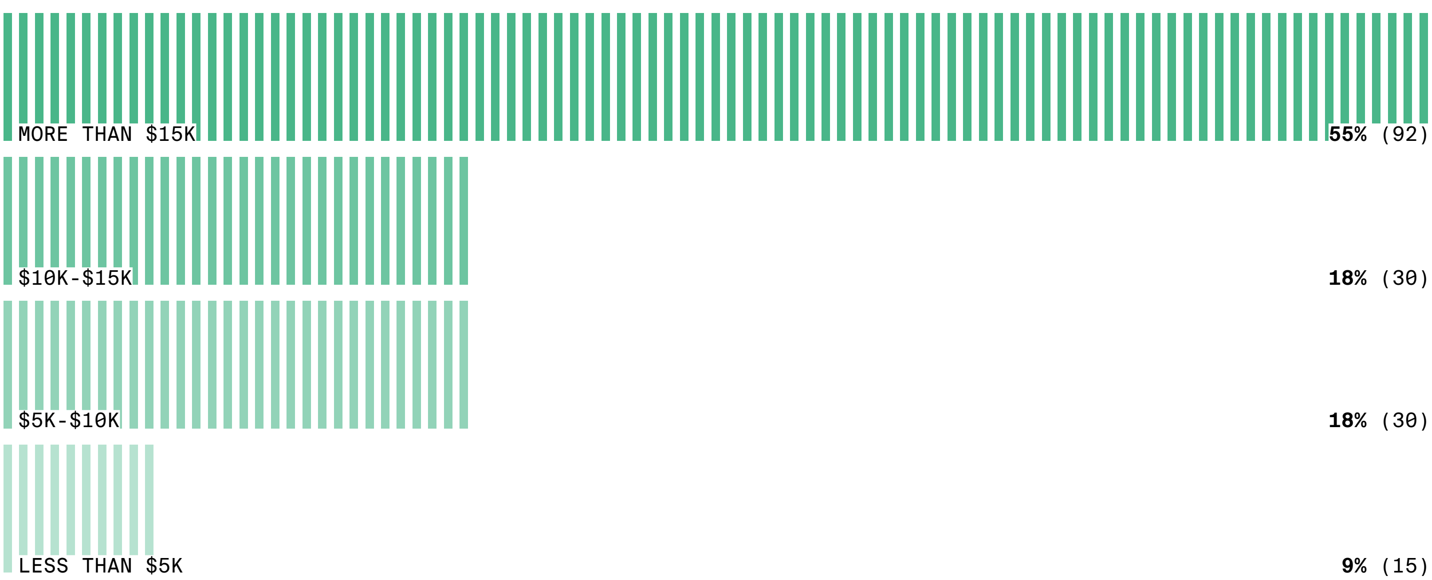
How do you structure your engagement/work/retainer fee?



Level of Lump Sum Work Fee

For those with a fixed work fee, the majority (55%) charge $15,000 or more. That's down from 66% last year, perhaps as an accommodation to the uncertainty making deals in a pandemic. Indeed 9% of advisors charge less than $5,000 in work fees up from only 2% last year.

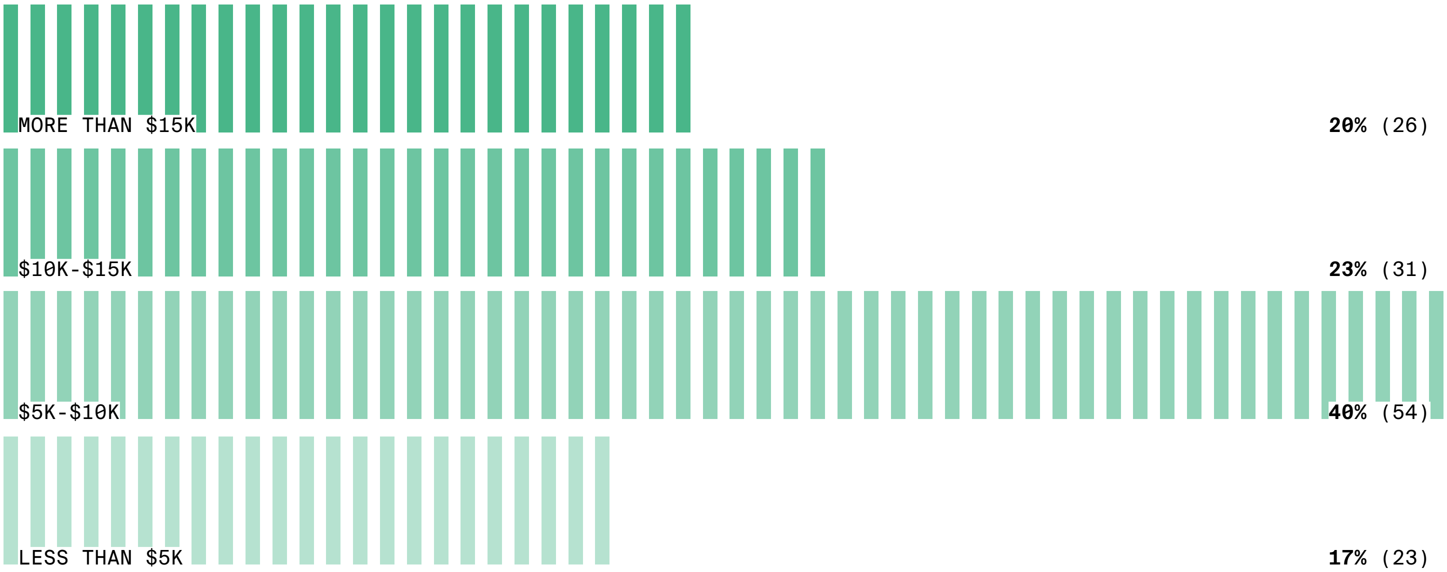
If it is fixed (i.e., lump sum), what is your engagement/work/retainer fee?



Level of Monthly Retainer

The most common monthly retainer is between $5,000 and $10,000 a month, for those advisors using that form of work fee. The average monthly retainer is increasing. Firms charging more than $15,000 a month increased to 20% from 7% a year ago.

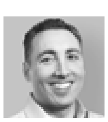
If it is monthly, what is your engagement/work/retainer fee?



COMMENTARY

"The fact that 14% of respondents are not charging work fees is very surprising. These could be instances where new entrants in the M&A space forgo upfront fees in search of a larger success fee. This could also reflect a more competitive M&A market, where deal advisors will not charge work fees to win the sell-side engagement."
— John Carvalho, Divestopedia

"While the survey data reveals a broad mix of retainer fees, it's highly correlated with transaction size in our experience. As such, the higher the transaction value, the higher the retainer fees will be. Ironically, it is often the smaller companies that need the most up-front work and preparation to execute a successful transaction, but those businesses naturally have more limited budgets and tolerances." *— Peter Lehrman, Axial*



"M&A firms have always marketed themselves as having their economic interests aligned with their sell-side clients. Nominal retainer fees are a key part of that message. So it isn't surprising that much of the response indicates a willingness to be rewarded mostly, or entirely, on the success of the transaction. We view our retainer structure as confirmation of clients having "skin in the game" rather than a part of our economic model."
— Christopher Parisi, Carl Marks Advisors

Success Fee Structure

Advisors are split evenly about how to structure their success fees. Roughly two out of five use a scaled percentage that increases when the purchase price exceeds a set threshold. Another two out of five use a flat percentage rate. The remainder use what's known as the Lehman formula, or something similar, in which the percentage of the fee declines as the deal size increases. The share of advisors using each success fee structure didn't change significantly over the last year.

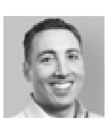
How do you typically structure your success fee on sell-side engagements?

For a scaled percentage structure, a valuation target is set and a base-level success fee for this valuation is determined, with increments above this target valuation earning successively higher fees (e.g., a $50 million target valuation could earn a 2% fee, with the next $10 million earning 3%, etc.)
The Lehman formula is a descending scale formula where, for example, 5% is charged for the first million dollars in the transaction, 4% of the second million, 3% of the third million, etc.

COMMENTARY

"Simple or scaled percentage structures are better in aligning the interests of the owner and advisor to maximize transaction value. In my opinion, the Lehman formula is an antiquated fee structure that will hopefully be phased out one day." *— John Carvalho, Divestopedia*

"M&A advisors charging more than 5% will have their work cut out for them in the years ahead. The great majority of sellers are comfortable with more reasonable fees that are inversely proportional to the size of the transaction value opportunity. A reasonable range coalesces between 1-2% for $100 million deals and 3-5% for $10 million to $50 million deals." *— Peter Lehrman, Axial*



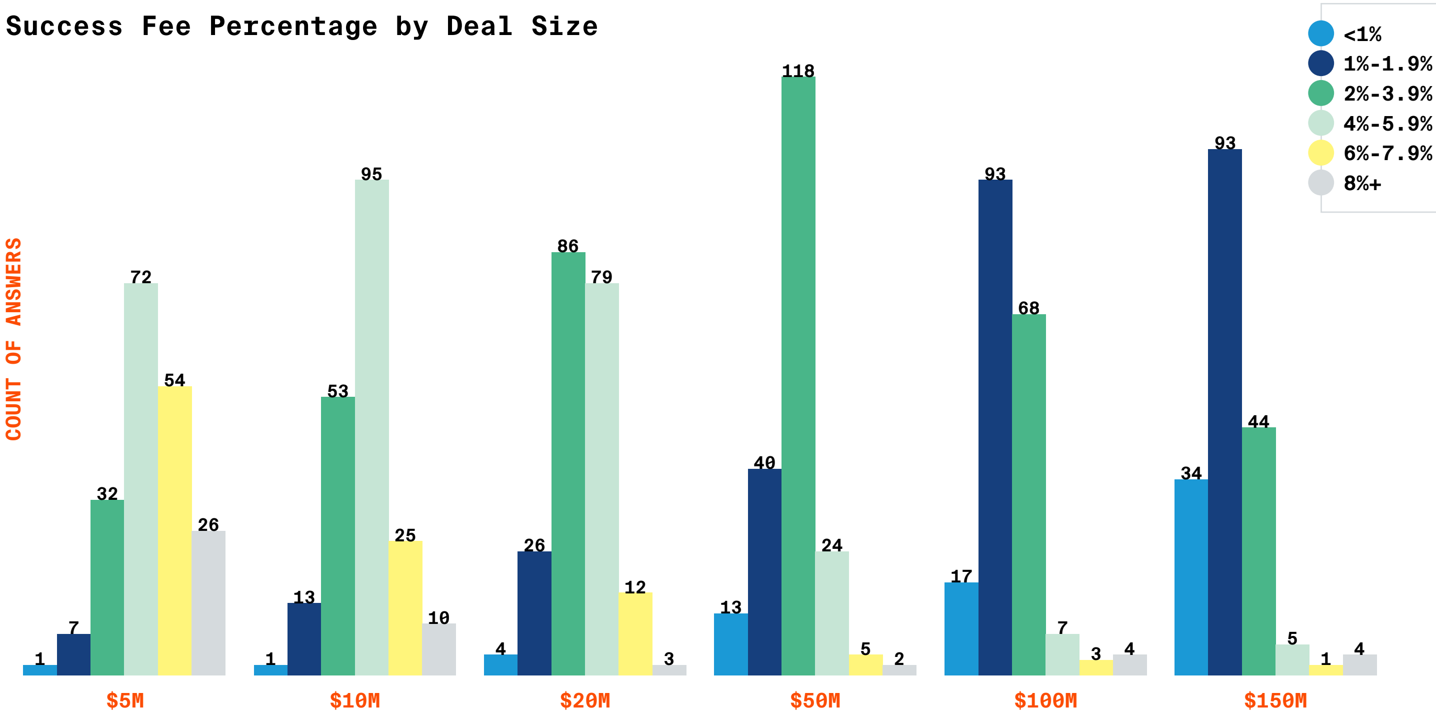
"Like a large percentage of the respondents, we almost always use the scaled percentage approach. We believe establishing a transaction value threshold with our clients is a good way of managing expectations. Our clients almost always share our philosophy that everybody should be rewarded for a result above and beyond that expectation. Surprised to see the Lehman formula still in active use, especially in a frothy deal environment."
— Christopher Parisi, Carl Marks Advisors

Success Fee Percentage by Deal Size

While most of the advisors surveyed don't formally use the Lehman formula, their effective fees are lower for larger deals. The survey asked advisors about their success fees for various transaction sizes. For deals valued at $5 million and $10 million, the most common fee is between 4% and 5.9%. For $20 million and $50 million deals, fees are most likely between 2% and 3.9%. And for deals of $100 million and $150 million, the most common fee range is 1% to 1.9%.

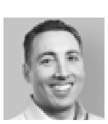
In every deal size, however, the average fee inched up compared to a year ago. For $10 million deals, the share of advisors charging below 4% fell to 34% from 48% last year.

Success Fee Percentage by Deal Size



COMMENTARY

"In general, as deal sizes get bigger, the success fee percentages get smaller. An interesting trend in this year's survey; it appears a larger percentage of participants are charging higher percentage fees for larger transactions (greater than $50 million). With more M&A activity for deals this size but less capacity at advisory firms, fees would rise."
— John Carvalho, Divestopedia

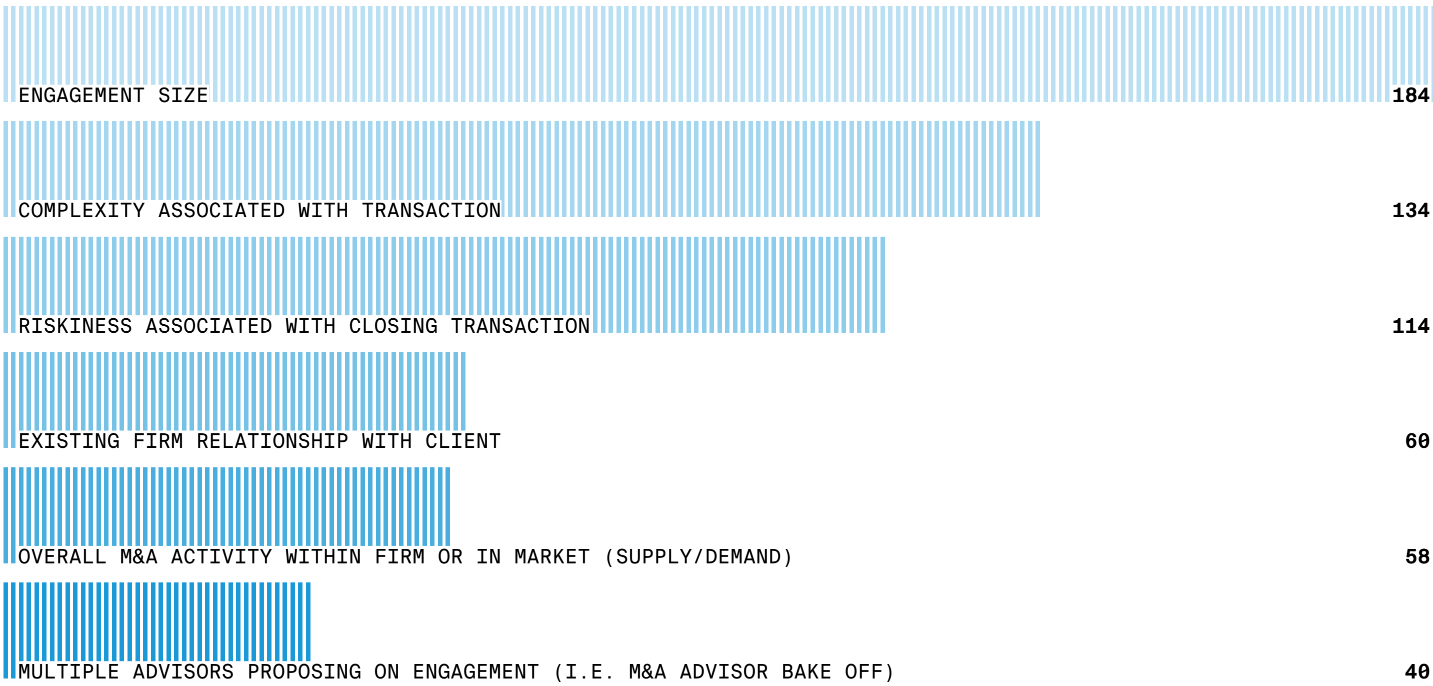


"It's often said that small deals require just as much work as large deals. There is a lot of truth in this. In fact, sometimes they require more effort. Ultimately, we are selling our time so it makes sense that fee percentages come down as transaction sizes increase. Larger deals are also more likely to come under competitive pricing pressure as there are usually multiple firms vying for the mandate." *— Christopher Parisi, Carl Marks Advisors*

Factors Taken into Consideration When Proposing a Success Fee Percentage

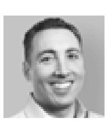
When asked what factors they consider when proposing the percentage of a success fee, three out of four advisors say the deal size is one of them. The complexity of the transaction is a factor for 56% of advisors while 48% consider the riskiness associated with closing the transaction. Less likely to be of concern are the advisor's existing relationship with the client (25%), the overall level of M&A activity (24%), and whether the fee proposal was part of a competitive bake-off between firms (17%). Last year the rank order of factors considered in setting success fees was the same as this year.

What factors are taken into consideration when proposing a success fee percentage for a sell-side engagement? Select the top two that apply.



COMMENTARY

"No surprise that deal size is the most common consideration when proposing engagement fees. I am curious to see that M&A advisor "bake-off" was only mentioned by 17% of respondents. I speculate that many business owners are still not shopping around and getting proposals from multiple M&A advisors when planning the sale of their companies." *— John Carvalho, Divestopedia*

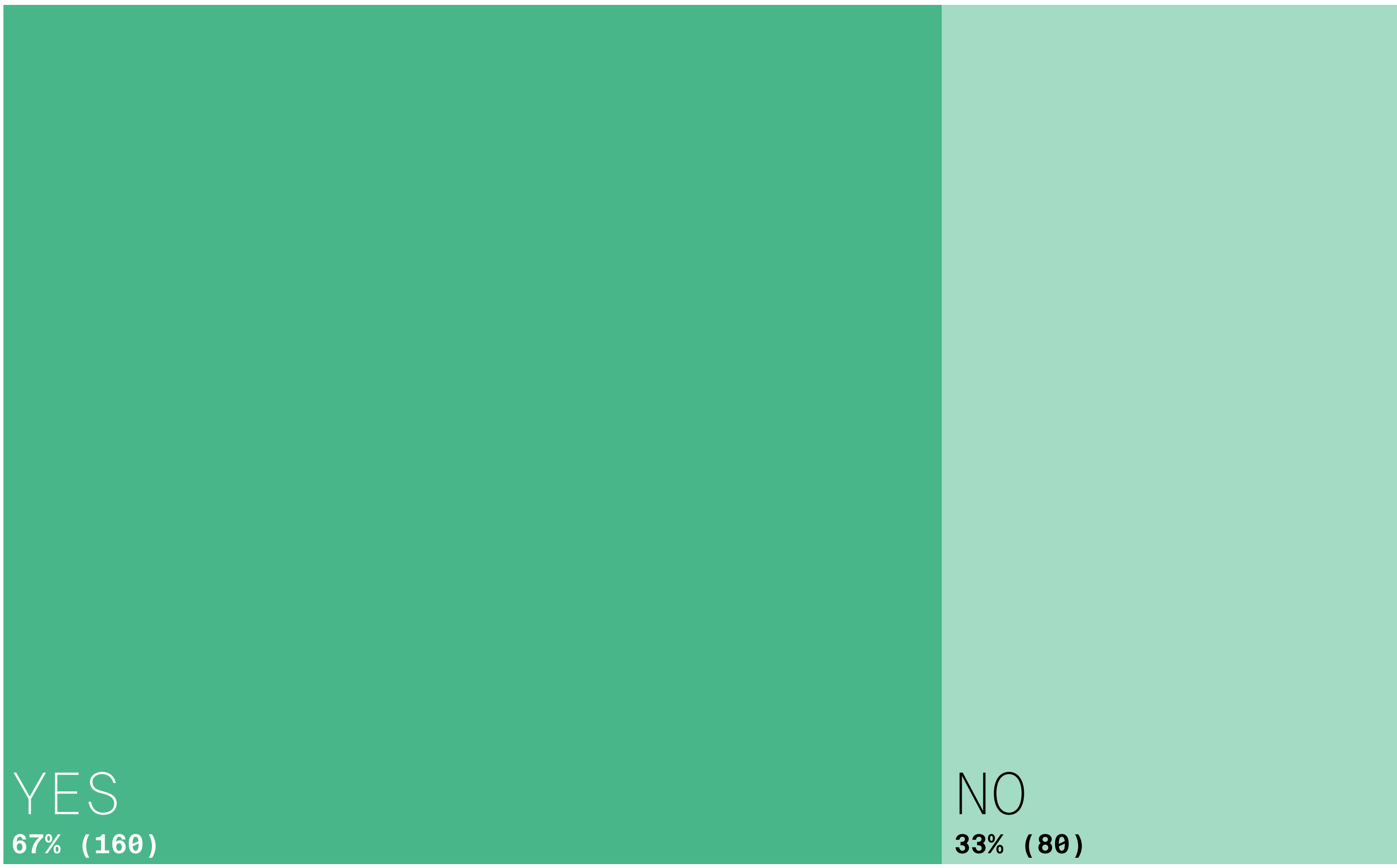


"This tells me that M&A advisors know how to do expected value calculations! It stands to reason that investment bankers consider the size, complexity and risk of closing as the overwhelming factors when pricing a deal. Our economic model is wholly dependent on closed deals and the opportunity cost of a failed deal is huge."
— Christopher Parisi, Carl Marks Advisors

Minimum Success Fee

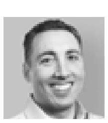
Minimum success fees remained standard in the middle market. They are commonly used by two-thirds of the advisors in the survey, about the same level as last year.

Is it more common than not to include a minimum success fees amount in your firm's engagement letter?



COMMENTARY

"Minimum success fee amounts are usually established in smaller transactions to set the watermark value expectation between the advisor and client for what is acceptable. The minimum fee also protects the M&A advisor from engaging a client who subsequently accepts a deal that is much lower than initially contemplated."
– John Carvalho, Divestopedia

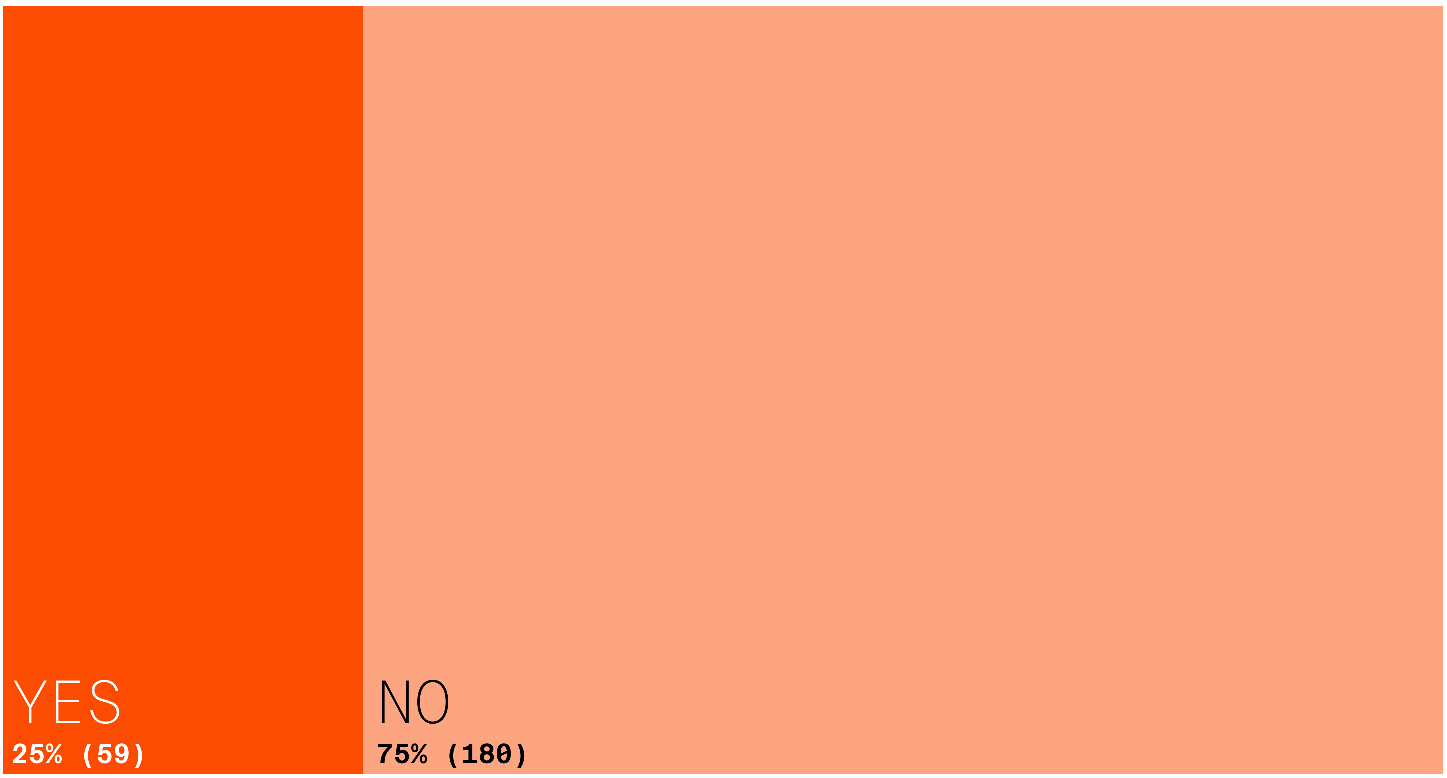


"We don't establish minimum success fees in our engagements, so this result is a little surprising. I imagine that this is a result of deal sizes, however. Sometimes a client, regardless of transaction size, is committed to the idea of using an advisor. In the case of a smaller transaction, it's understandable that bankers would establish minimums to ensure their time was being compensated." *– Christopher Parisi, Carl Marks Advisors*

Breakup Fees

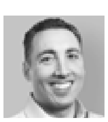
Breakup fees, by contrast, are not common in this market. Indeed, only 25% of advisors say they usually include them in their engagement letters, down from 36% last year.

Is it more common than not to include a break fee in your firm's engagement letters should your client elect not to proceed with a predetermined bona fide offer?



COMMENTARY

"In my experience, it is difficult to determine when break fees become enforceable or what constitutes a bona fide offer? Many offers that reach the letter-of-intent stage, still fail to close, so there is often reluctance for owners to accept this term in engagement letters." ***— John Carvalho, Divestopedia***



"Establishing a break fee seems to be antithetical to our view that clients should only do a deal if it's right for them, not us. It seems like most of the industry operates similarly. In the lower middle market, clients really value the partnership approach and shared risk. And by the way, sometimes when a client turns down a bona fide offer they don't end the engagement. There may have been internal reasons why the deal didn't make sense at that time. We look to stay engaged with them and work towards that transaction when it's right for them."
– Christopher Parisi, Carl Marks Advisors

Deducting Work Fees from Success Fees

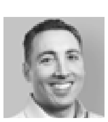
Of those advisors that charge work fees, 72% deduct them from their success fee if a transaction occurs. That's an increase from 63% last year.

Are engagement/work/retainer fees collected typically netted against the success fees earned?

COMMENTARY

"I view work fees as the minimum ante for a business owner to engage a qualified advisor to assist in divesting their company. Netting work fees against success fees could reflect current practices by advisors to win M&A mandates in a competitive environment." *— John Carvalho, Divestopedia*

"For business owners, ask and you shall receive is the name of this game. In many cases, the advisor will agree to net all or at least a portion of their fees. There is room for a variety of outcomes in this dimension of the fee negotiation." *— Peter Lehrman, Axial*

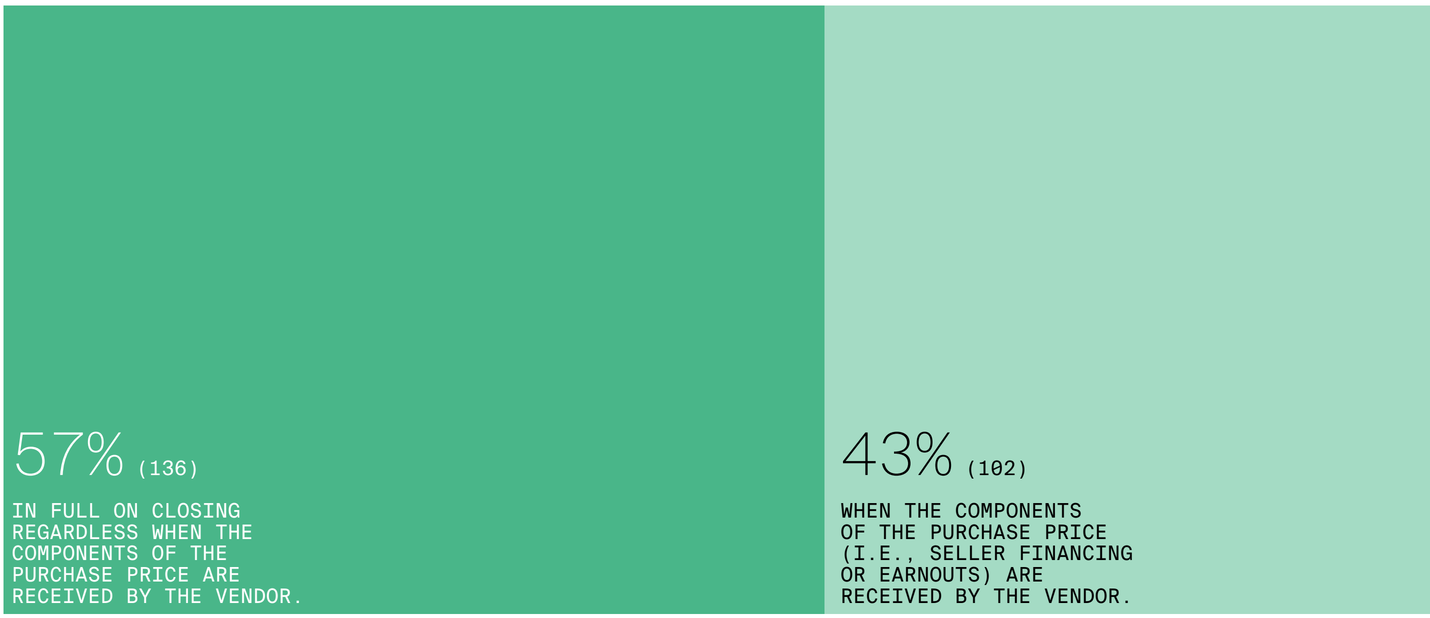


"Most investment bankers have economic models that are based on success, not retainers or monthlies. So it is no surprise to me that those fees get credited against success fees. We've always been comfortable with crediting our retainers and do so in the majority of cases." *— Christopher Parisi, Carl Marks Advisors*

Timing of Success Fee Payments

As for when the Advisor is to be paid the success fee, 57% expect full payment at closing while 43% will wait until the seller receives the components of the purchase price, such as earn outs and payments on seller-provided financing. This is largely unchanged from last year.

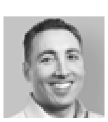
When a transaction is completed and a success fee has been earned, the success fees are typically paid:



COMMENTARY

"Advisors would prefer success fees paid at closing. Business owners would prefer payment of the success fee to align with payment of the purchase price. There is rationale on both sides of the discussion. In some instances, I've seen a compromise of discounting the deferred or contingent purchase price to present value which is paid at closing."
— John Carvalho, Divestopedia

"This is a very important area of negotiation for business owners. To maximize your alignment with your M&A advisor, you want their success fee to be in line with what you are comfortable accepting from a buyer. If you're looking for a huge valuation that requires an earnout, your advisor should be on board with that up front. Various scenarios can work well here, but you want to avoid being out of alignment with your own advisor!"
— Peter Lehrman, Axial

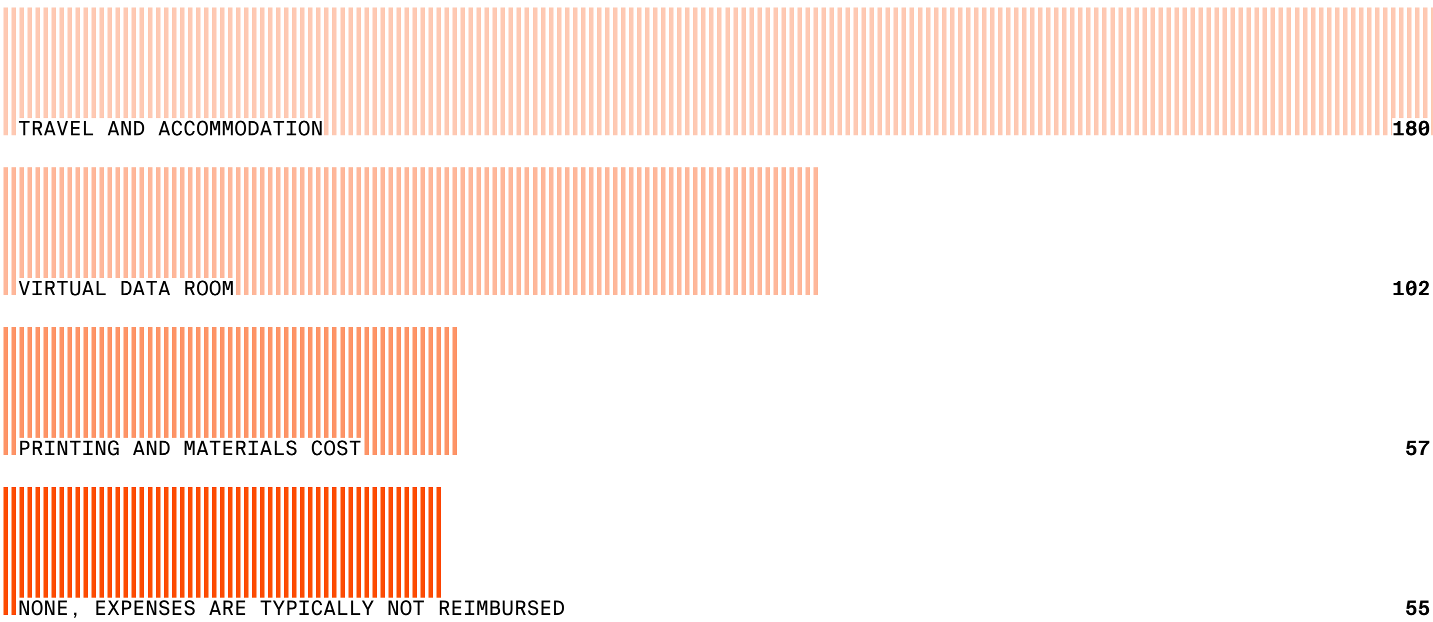


"We consider earnout payments differently than rollover equity or seller financing. Even if the cash from these financings hasn't been received, we consider them monetary consideration and include them in our fee due at closing. Earnouts, however, don't count as consideration until they are earned. We sit with our clients on those, and we'll get paid if and when they do." *— Christopher Parisi, Carl Marks Advisors*

Expense Reimbursement

Three-quarters of the advisors say they bill clients for expenses. Of those, all of them are reimbursed for travel costs. Virtual data room costs are reimbursed by 56%, up from 51% last year. And 31% are reimbursed for printing and materials costs, up slightly from last year.

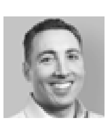
What expenses incurred by your firm on sell-side engagements are most commonly reimbursed by your clients? Select all that apply.



COMMENTARY

"It is surprising to see that the expenses reimbursement percentages were not higher across all these areas. This may be indicative of a more competitive landscape for M&A advisory services."
— John Carvalho, Divestopedia

"Some surprising answers here. It is not unusual for all these expense buckets to be reimbursable from a contractual perspective. Advisors may at their discretion ultimately write off some of their expenses upon a successful closing, but data rooms and directly attributable deal expenses should be reimbursable."
— Peter Lehrman, Axial

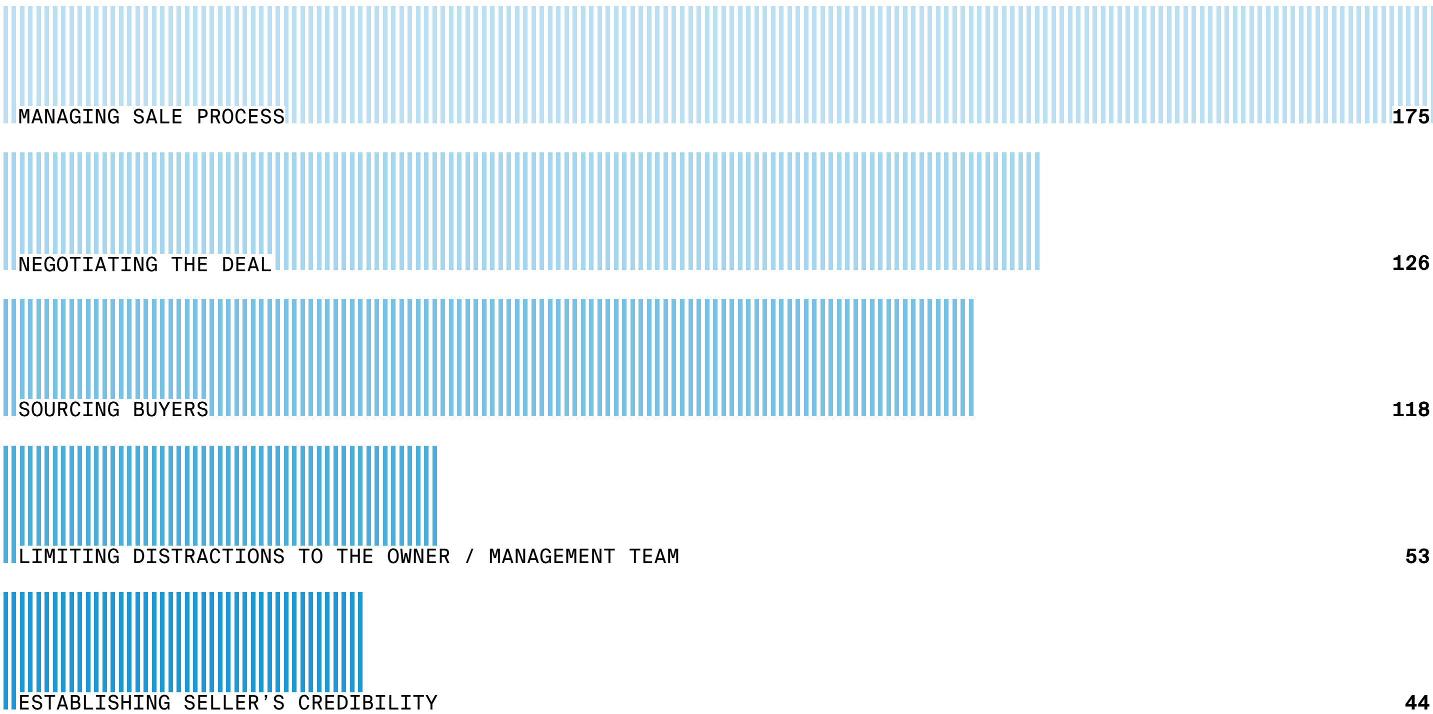


"We've never had any pushback that our reasonable expenses would get reimbursed. It'd be interesting to find out if those who aren't getting reimbursed are even requesting it. Sometimes our clients ask that we pre-approve expenses over a certain threshold. Since we're working with privately-owned businesses, we are sensitive that we are spending an individual's money and we do so judiciously." *— Christopher Parisi, Carl Marks Advisors*

Where M&A Advisors Add the Most Value

When asked to name the areas where M&A advisors add the most value for sellers, three-quarters of the respondents name "managing the sale process." Half the respondents cite "negotiating the deal" and "sourcing buyers." Less often listed are "limiting distractions to the owner and management team" (22%) and "establishing the seller's credibility" (19%). These views are largely consistent with the responses to the same question last year.

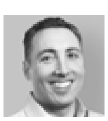
Where do M&A advisors add the most value in a sell-side engagement? Select all that apply.



COMMENTARY

"The responses illustrate that M&A advisors bring a tremendous amount of value in several different areas. Each transaction will have unique obstacles and qualified advisors help navigate the journey towards closing."
— John Carvalho, Divestopedia

"Two-thirds of the value is in the quality of the negotiation and the quality of the process the advisor runs. When you're evaluating vetting and choosing between various M&A advisors, this is where you should focus your time. Sourcing buyers, while important, has become more data driven."
— Peter Lehrman, Axial



"It's heartening to see the distribution of answers more evenly on this question than on any others. It's not necessarily easy to nail down the single-most valuable attribute a banker brings to an engagement, and it can often change from engagement to engagement. In a process where the buyers are commonly known, it may be managing the process. For a client with a new or unique product offering, it might be identifying and sourcing buyers. For a management team without a deep bench or trying to maintain confidentiality by limiting company participants in the process, limiting distractions might be the largest value-add. In the end, all of these things are critical and regardless of the order they are ranked on any one deal, they are all extremely important." *— Christopher Parisi, Carl Marks Advisors*

Conclusions

The value of the M&A advisor is migrating away from being the keeper of all buyer relationships. Instead, the value proposition of the M&A advisor is consolidating around M&A process management and negotiation excellence. In the information age, this transition of value makes sense.

Minimal downward fee pressure suggests that business owners continue to view the contingent fee structure of an M&A advisor to be acceptable, so long as the fees are inversely proportional to the deal size and are between 2-5%.

M&A advisors who are charging more than 5% are almost extinct, and they will likely die off completely over the next decade.

The tools, data, and automation available to help M&A advisors deliver great outcomes for their clients are making it increasingly impossible to charge those 20th-century prices.

— Peter Lehrman, Axial

This year, it appears that a robust M&A environment is pushing fees higher. Increased activity levels will also attract more advisors (qualified and unqualified) into the space looking to win M&A mandates with the allure of a sizable success fee at the end of a completed transaction.

Throughout the survey, you can see signs of competition over fees. Some examples of this are an increase in the percentage of firms netting work fees against success fees, not charging work and break fees, and not reimbursing expenses.

Negotiating fair success fees and engagement terms are extremely important for business owners, but even more important are the quality and integrity of the engaged M&A advisor. I highly recommend that all business owners solicit proposals from several M&A advisors to compare fees, engagement terms, experience, and fit.

— John Carvalho, Divestopedia

Selling their company is the most important financial decision our clients make. The industry's fee structure gives comfort to business owners that we are as committed to their deal getting done as they are. In fact, it is tough to imagine an industry that better aligns its compensation structure with its clients' needs more than M&A advisors. And we find that payment of our fees at a deal's closing is the easiest check a client ever has to write.

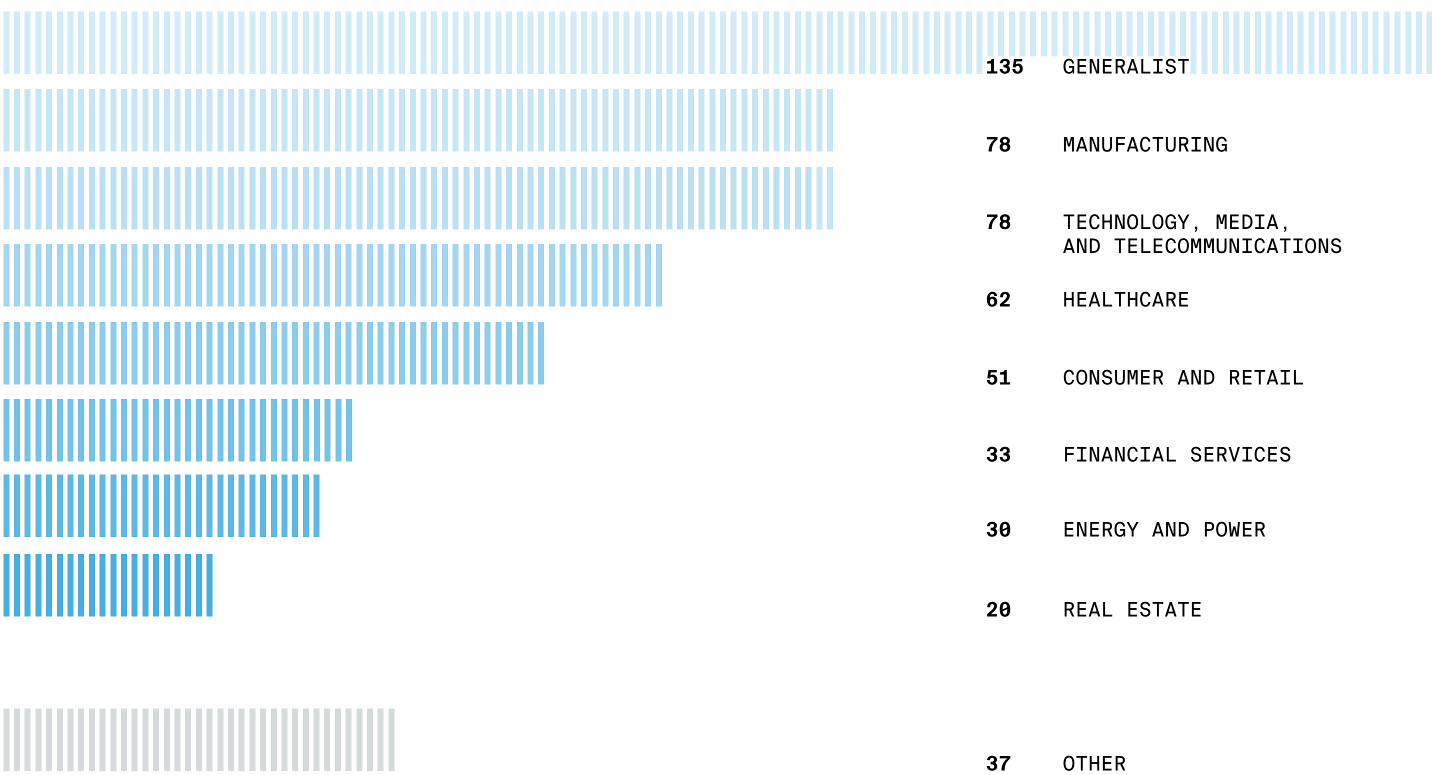
At the same time, the success-based fee structure also forces us to be discerning on the types of clients with whom we engage. We are forced to consider not just the strength of the company and its industry, but also the integrity of management, their commitment to selling, and their ability and willingness to play nicely with others.

— Christopher Parisi, Carl Marks Advisors

Appendix: Respondent Demographics

Which of the following best describes your current occupation?

Do you specialize in any of the following industries? Select all that apply.



Appendix: Respondent Demographics

What is your job title?

60	MANAGING DIRECTOR
26	PRESIDENT
23	VICE PRESIDENT
22	DIRECTOR
22	MANAGING PARTNER
21	PARTNER
16	PRINCIPAL
14	ANALYST
14	CEO
7	ASSOCIATE
6	FOUNDER
5	M&A ADVISOR
5	OWNER
5	SENIOR MANAGING DIRECTOR
4	MANAGER
3	BUSINESS BROKER
3	MANAGING MEMBER
3	SENIOR ADVISOR
3	SENIOR ANALYST
2	EVP
2	SENIOR ASSOCIATE
1	CHAIRMAN
1	CONTROLLER
1	COO
1	COUNSEL
1	EXECUTIVE DIRECTOR
1	EXECUTIVE MANAGING DIRECTOR
1	HEAD OF CONSULTING
1	OFFICER
1	INVESTOR
1	LAWYER
1	MARKETING DIRECTOR
1	ORIGINATION DIRECTOR
1	PROFESSOR
1	SENIOR BROKER
1	SENIOR DIRECTOR
1	SENIOR MANAGER
1	SHAREHOLDER

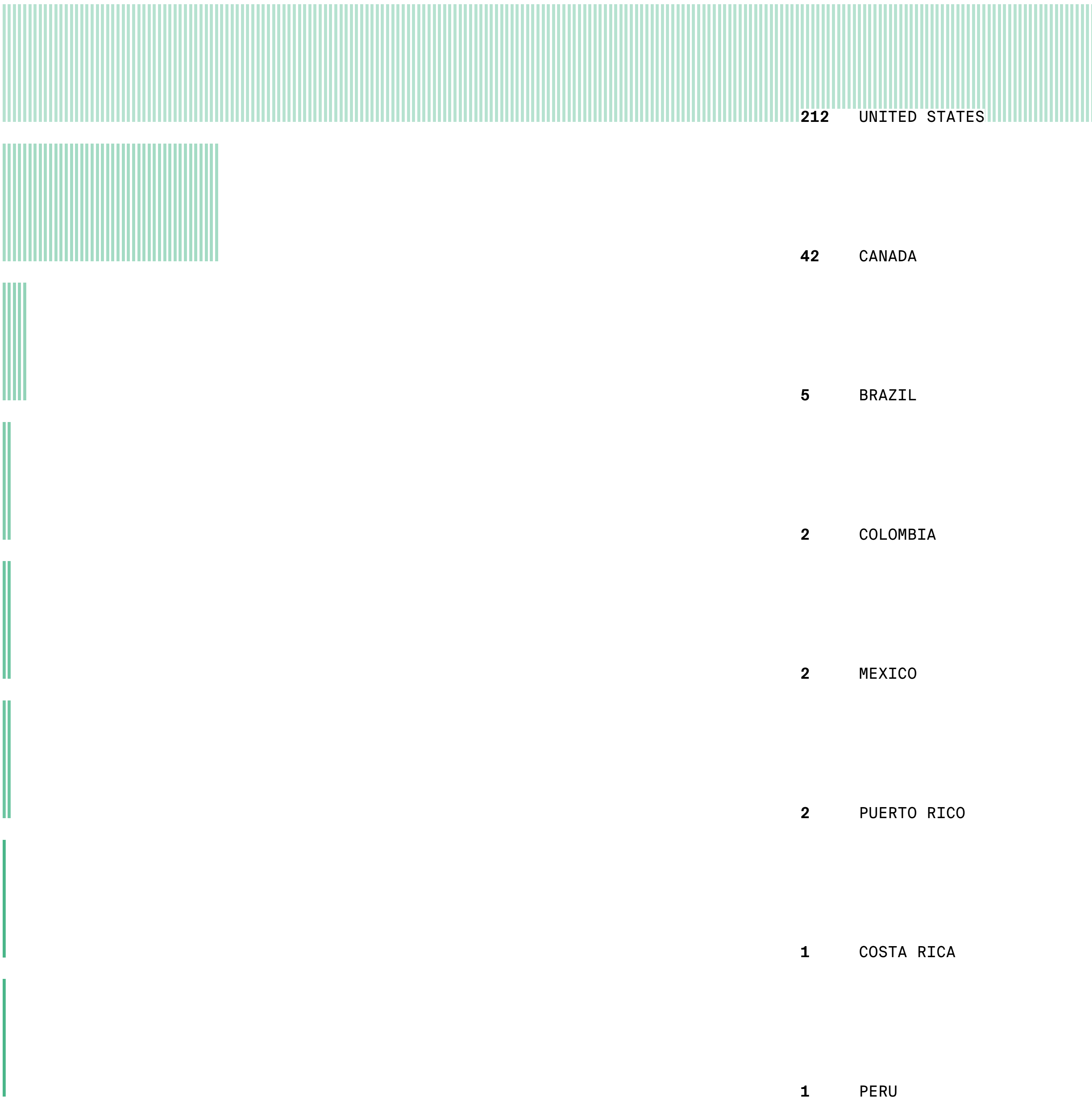
Appendix: Respondent Demographics

What city do you primarily work in?

31	NEW YORK CITY
21	CHICAGO
18	TORONTO
10	LOS ANGELES
9	ATLANTA
8	DALLAS
8	MONTREAL
7	CALGARY
7	SAN FRANCISCO
5	BOSTON
5	MINNEAPOLIS
5	PITTSBURGH
4	CHARLOTTE
4	DENVER
4	HOUSTON
4	MEMPHIS
4	OMAHA
4	PHOENIX
4	SEATTLE
4	TAMPA
4	WASHINGTON, DC
3	BALTIMORE
3	BOGOTA
3	CLEVELAND
3	MIAMI
3	PHILADELPHIA
3	SAO PAULO
2	AUSTIN
2	DALLAS
2	EDMONTON
2	HARTFORD
2	HUNTINGTON BEACH
2	INDIANAPOLIS
2	JACKSONVILLE
2	KANSAS CITY
2	ORLANDO
2	RICHMOND
1	ASHEVILLE; BENTONVILLE; BIRMINGHAM; BOCA RATON; COLOMBUS; COLUMBIA; DETROIT; EVANSVILLE; GLENMOORE; GREEN BAY; HALIFAX; INDEPENDENCE; JACKSON; KELOWNA; LISLE; LONDON,ON; MIAMI BEACH; MIDDLETOWN; MILFORD; MONTGOMERY; NORDESTE; OKLAHOMA CITY; OTTAWA; PALM BEACH; PIRACICABA; PORTLAND,MAINE; RHODE ISLAND; ROCHESTER HILLS; SACRAMENTO; SAN JUAN; SANTA MARIA; SCHAUMBURG; SHERBROOKE; SOUTH BEND; SPRINGFIELD; STUART; TRURO; VANCOUVER; WAUSAU

Appendix: Respondent Demographics

What country do you primarily work in?



About Axial

Founded in 2009, Axial is the largest online transaction platform empowering lower middle market deal makers. Axial's proprietary matching technology enables advisors & business owners to confidentially connect with relevant buyers & investors. Over 3,400 advisors and 2,000 corporate and financial buyers have joined Axial to efficiently connect with relevant capital partners, source actionable deals, and build new relationships.

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About Firmex

Firmex is a global provider of virtual data rooms where more deals, diligence, and compliance get done. As one of the world's most widely used virtual data rooms, Firmex supports complex processes for organizations of all sizes, including diligence, compliance, and litigation. Whenever professionals need to share sensitive documents beyond the firewall, Firmex is their trusted partner.

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