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M&A Fee Guide

Key Insights on M&A Advisory Fees in the Middle Market.

EDITION

North America

Contents

This Year's Highlights

- 38% of North American middle-market merger advisors increased fee levels in 2023, prompted mainly by rising costs and a more difficult dealmaking environment.
- Many firms also modified their fee structure to emphasize recurring engagement fees to mitigate the risk of deals that take a long time to complete or never close.
- The growing use of earn-outs and complex deal structures prompted firms to redefine how they calculate and collect success fees.
- Middle-market firms were able to hold their fee revenue steady and, for many, increase it.
- Profitability largely held up despite rising costs. Those that increased fee levels were twice as likely to grow profits than those that didn't.

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

- Monthly work fee of $5,000 to $10,000 that will be deducted from any success fee.
- A success fee with a specified minimum and a commission rate that decreases as the sale price increases (the Lehman Formula).
- The overall success fee would depend on the deal size:
    - 6.3% for a $5 million deal.
    - 3.8% for a $20 million deal.
    - 2.1% for a $100 million deal.
- The success fee is payable at closing.
- The client reimburses the cost of travel and accommodation.

Overview

In 2023, many middle-market investment banks and merger advisors restructured their business models as they realized that higher interest rates and an unsettled geopolitical environment were not just a temporary phase but had become, at least for a while, the new normal.

It became clear that they could no longer depend for most of their revenue on success fees, commissions payable only when and if a deal is consummated. That approach worked well when low interest rates were driving deal volume and velocity. It's too risky in today's environment when deals take much longer to put together, and they often fall apart at the last minute.

"We did not need retainers when most deals were successfully concluding in 2019 to 2022," said Richard Becker, managing director of Cross Keys Capital in Fort Lauderdale, United States. "We will revert back to more retainers as deals are more difficult to consummate."

The latest annual Firmex study of sell-side merger fees found that advisors have been modifying their engagement agreements to put new emphasis on revenue they can depend on regardless of whether a deal is closed.

More than two-fifths of the middle-market investment bankers who participated in the study said they had increased at least one component of their fee structure in 2023. Most commonly, they are shifting revenue to fees that provide ongoing income for the duration of an assignment, such as monthly retainers or per-hour charges. Some firms that had charged one-time upfront retainers are switching to milestone-based structures, where set payments are due at specific deal stages, such as completing the offering memorandum and signing a letter of intent.

In this year's survey, we added more open-ended questions to learn more about the nature of the fees that merger advisors are using today and the thinking behind them. The 229 respondents, most of whom are senior leaders in their firms, were generous with their time and open to sharing their insights and experiences. Collectively, they offered many ideas that other advisors may find useful. You'll find many of them throughout this report.

Methodology

Since 2016, Firmex has monitored the world of merger advisory fees through regular surveys of middle-market investment bankers, brokers, and other advisors.

In December 2023, we conducted a global survey that received 456 responses from middle-market professionals in 40 countries. This report is based on the 229 responses from the United States, Canada, and Mexico. We will publish a report looking at the fee trends in Europe in the coming months.

Six of ten respondents work as investment bankers or merger advisors, and another 30% call themselves business brokers. Many of them are leaders at their firms. Nearly two-thirds of the respondents are chief executives or managing partners. Another quarter are partners, managing directors, or other senior leaders.

Two-thirds of the advisors are generalists. Of those with specialties, the most common is “manufacturing, construction, and transportation,” followed by “business services.”

Firm Financial Performance

Revenue

Before we dive into the fees that merger advisors charge, let's set the context by looking at the overall financial health of their firms.

Last year was a good one for middle-market investment bankers, with three-quarters of them saying their revenue increased or at least stayed steady. Firms with 21 or more employees were more likely to see revenue increases than smaller ones.

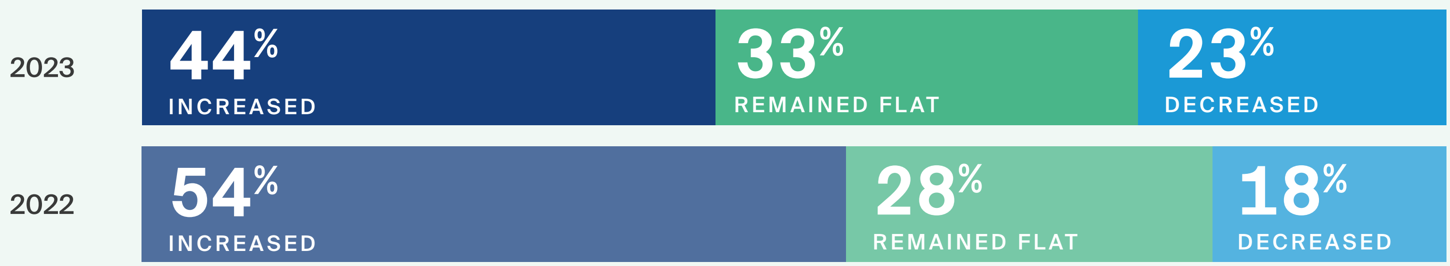
Conditions were right for most firms to get deals done, and many of them, as we'll see, were able to compensate for higher operating costs by raising fees.

Of firms that increased their fee levels, 59% said their revenue rose in 2023. Of firms that kept fees constant or lowered them, only 34% reported higher revenue.

"Our M&A revenue was up in 2023 because we saw an increase in deal volume combined with improved outcomes from our fee negotiations with clients," said a Canadian investment banker.

The smaller firms we survey continue to outmaneuver their larger rivals, finding opportunities in any economic and global environment. In contrast to the growth reported by middle-market firms, overall merger volume declined in 2023, although at a slower pace than the steep falloff in 2022. True to form, last year, more than half of the advisors we surveyed said their revenue increased in 2022.

How has your firm's revenue from mergers and acquisition fees in 2023 compared to 2022?



Observations

Increasing Revenue

> We saw our revenue take a big jump in 2023 versus 2022 in Eastern Canada. This was partially because in 2022 we saw a lot of deal-drag from drawn-out due diligence processes and deals expected to close in 2022 being pushed until 2023, but in general, we are seeing a bigger pipeline, more closings, and our average deal size going up.
>
> JEFF MACKENZIE, PARTNER, CONFEDERATION M&A, CHARLOTTETOWN, CANADA

> I went up on my fee to see where the highest would be without losing a client.
>
> BUSINESS BROKER, UNITED STATES

Decreasing Revenue

> We had some deals that just didn't get the financing we needed to close this calendar year, so they are pushed basically to 2024.
>
> RICK CARLSON, CEO, PRONOVA PARTNERS, SANTA MONICA, UNITED STATES

> Deals are slower to get done. The buyers are pulling out, and the likely strategic buyers are no longer active. For the sellers, their performance has slipped, so they are withdrawing from the market as well.
>
> INVESTMENT BANKER, CANADA

Firm Financial Performance Continued

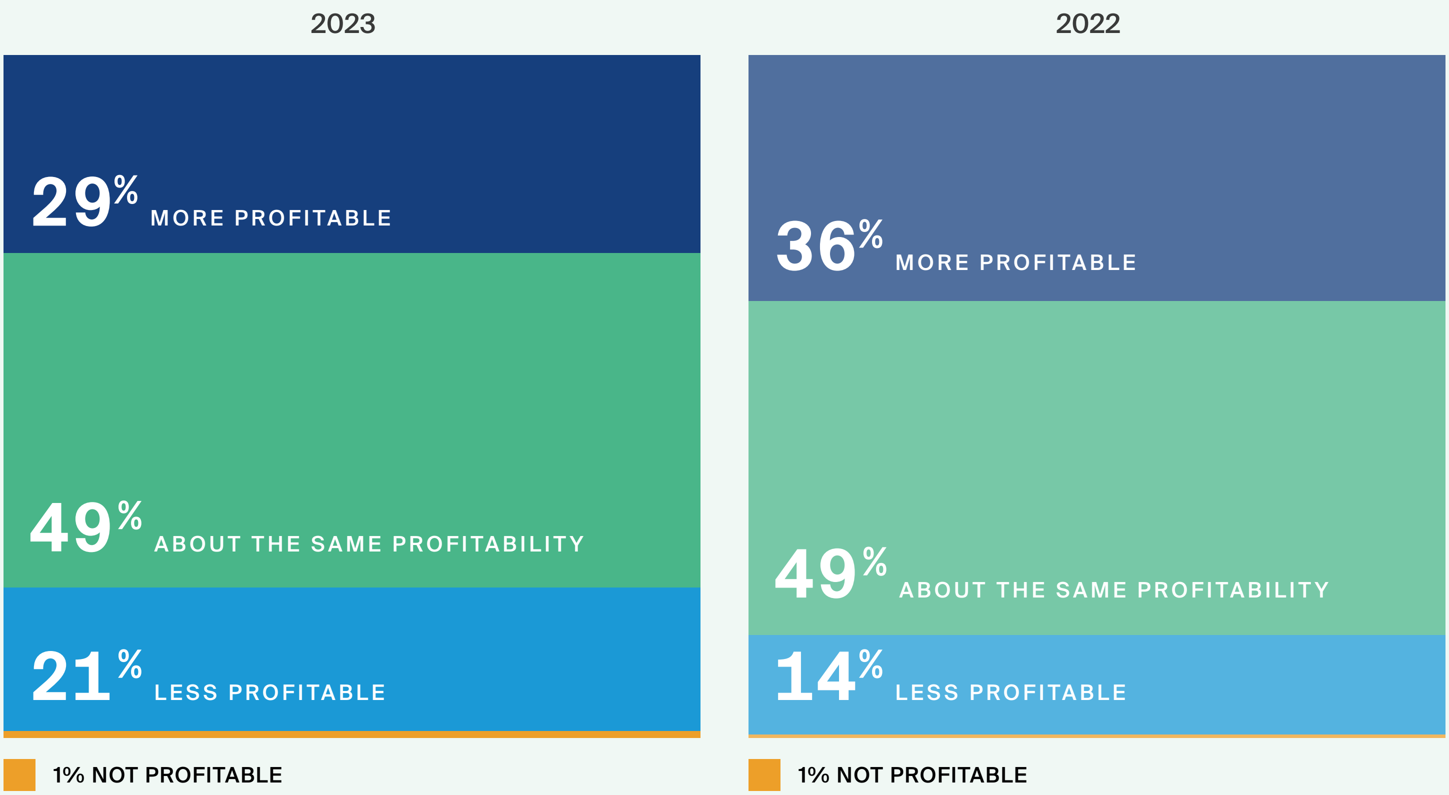
Profitability

As with revenue, the bottom line at most of the firms we've been looking at is quite healthy. In 2023, 29% of them said their profits increased from the year before, and 49% said profits remained steady. Only 21% of the firms recorded declining profits, showing a bit more financial distress than they did in 2022 when 14% said profits were down.

Not surprisingly, there is a strong correlation between revenue and profit, but it's hardly complete. Of the firms that reported revenue increases in 2023, only 59% said their profits went up as well. This is yet another illustration of one of the key findings of this report: that firms are coping with sharply rising expenses.

When we asked advisors at firms with rising profits the reason, many cited fee increases. The data confirms this: Firms that raised at least one type of fee in 2023 were twice as likely to have increased profits for the year than those that didn't.

Considering both fees and expenses, how has the profitability of your M&A business changed in 2023?



Firm Financial Performance Continued

Observations

Drivers of increased profit

> “We increased our top line. Our operating expenses were generally similar to past years, but we’ve had an increase in deals closing, combined with some rate increases, leading to overall profit improvements.
>
> JEFF MACKENZIE, PARTNER, CONFEDERATION M&A, CHARLOTTETOWN, CANADA

> “We’re seeing more deal flow and larger transaction values while we kept overhead and expenses at previous levels.
>
> DAMON POWELL, FOUNDER & PRESIDENT, FMC ADVISORS, LLC, ORLANDO, UNITED STATES

> “We’ve been able to get bigger clients while keeping an efficient team and cost structure.
>
> ROBERTO BARRERA, MANAGING DIRECTOR, SALUS CAPITAL STRATEGY, MONTERREY, MEXICO

Dragging down profits

> “The biggest force is the external market environment affecting the close rate (and timing) of deals. Deals took longer in 2023 due to the interest rate and financing environment.
>
> ERIK ENDLER, HEAD OF M&A AND MANAGING DIRECTOR, TOWER PARTNERS, BALTIMORE, UNITED STATES

> “Salaries have been rising disproportionately, especially at the analyst and associate level.
>
> RICHARD BECKER, MANAGING DIRECTOR, CROSS KEYS CAPITAL, FORT LAUDERDALE, UNITED STATES

Fee Level Changes

A significant minority (38%) of North American firms raised at least one component of their M&A fee structure over the year.

The most common type of fee to increase were periodic engagement fees charged as a monthly retainer or a per-hour work charge. Many advisors said they are increasingly looking to periodic revenue to help cover the increasing cost of staff and other operations.

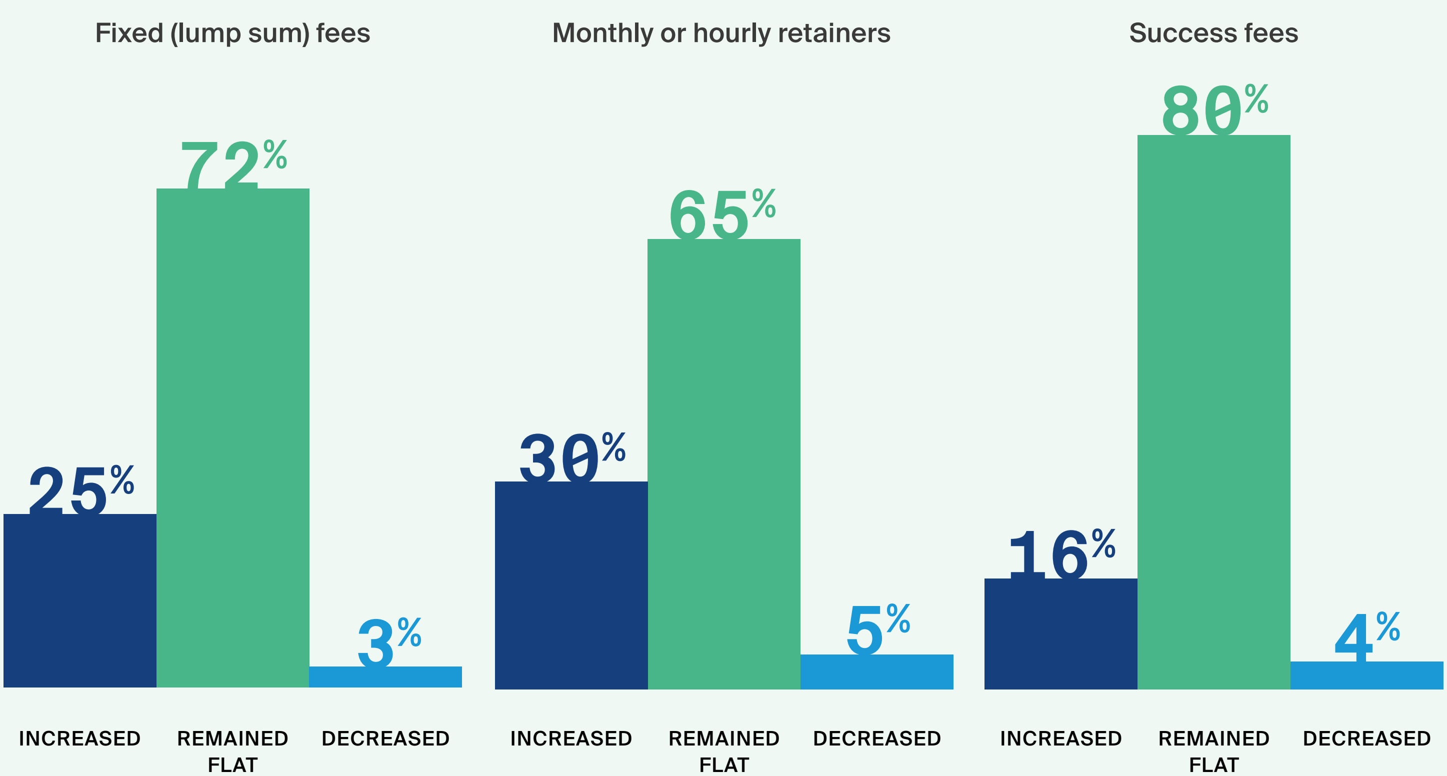
“We’ve increased our retainers to be more in line with inflation and our basic expenses,” said an American investment banker.

Having guaranteed income, moreover, is especially useful in an environment where closing deals is less certain because of rising rates and fluctuating valuations.

Overall, 30% of firms said they raised monthly or hourly fees, 25% raised fixed up-front fees, and 16% raised success fees.

Only 7% of firms said they cut a fee in 2023. For these firms, the most common reason cited was increased competition, especially in an environment where deal volume has declined.

For deals of similar size and complexity, how have your fee levels changed in 2023 ?



Fee Level Changes Continued

Observations

What changed

“We increased the retainer and the minimum success fee for each transaction. They are all related to the time and effort involved at the outset of a listing engagement. In return for this, the client can retain our valuation reports, confidential information memorandums and related proprietary research data supporting our analysis.

STEVE ESCHBACH, CBI, CFA, CFC REALTOR, PRESIDENT AND SENIOR COMMERCIAL BROKER, TRANSWORLD BUSINESS ADVISORS, NAPERVILLE, IL, UNITED STATES

Why raise fees

“More risk and uncertainty in the completion of deals have resulted in increased work fees to compensate.

INVESTMENT BANKER, CANADA

Cutting fees

“In order to find seller clients and remain competitive with the real estate industry, our commission rates had to be reduced from 10% to 8%.

TODD FLECK, BROKER, TRANSWORLD BUSINESS ADVISORS OF ATLANTIC CANADA, CLOVERDALE, NS, CANADA

“With the uncertain economy, we have been less aggressive about charging monthly retainers. However, with an improving market in early 2024, we see them coming back to normal.

JOHN KELLY, MANAGING MEMBER, KELLY BUSINESS ADVISORS, LLC, GREEN BAY, WI, UNITED STATES

Fee Level Changes Continued

Pressure From Clients To Cut Fees

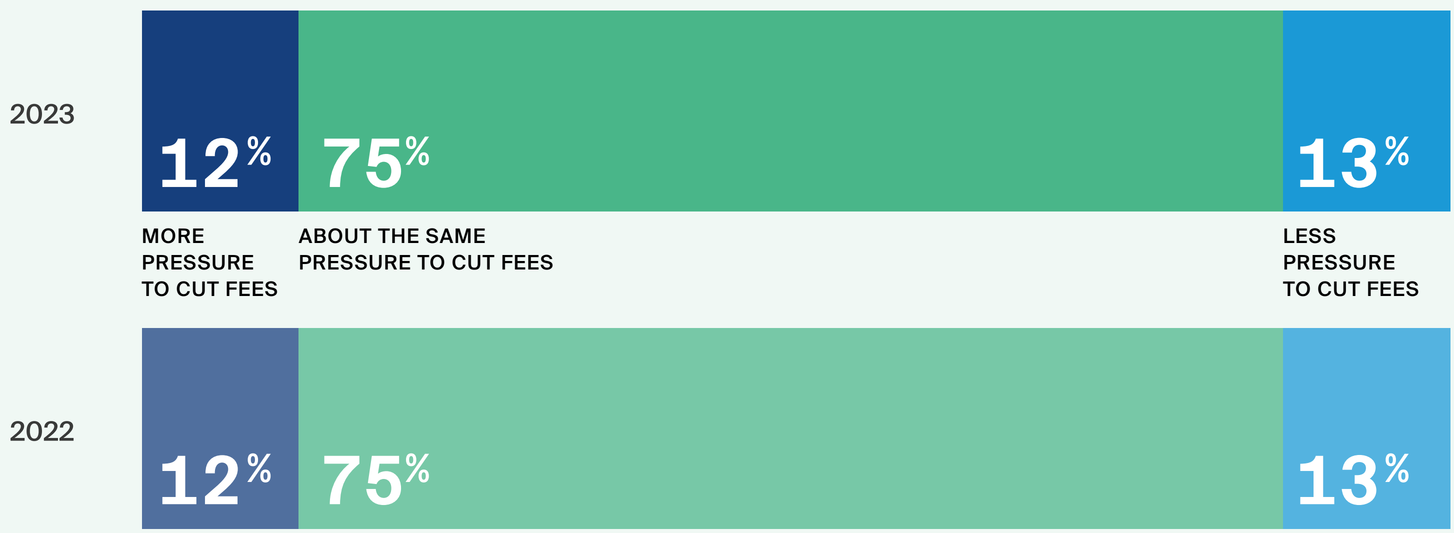
We've been curious about whether rising rates and falling company valuations were prompting companies to demand that their M&A advisors work for less. It hasn't.

Only 13% of the survey respondents said that they are experiencing more pressure from clients to cut their fees.

By some accounts, business owners are more willing to pay up for an experienced hand to guide them through the difficulties of the current market.

"We haven't experienced much pressure from clients to cut fees," said Jeff MacKenzie, a partner at Confederation M&A in Charlottetown, PEI, Canada. "In fact, it's probably been the opposite. We see clients generally coming in with a better understanding of how M&A advisors can help and maximize their value."

Compared to last year, how has the pressure from clients to cut fees changed?



Observations

Customer reaction to fee

> Clients are less price sensitive to fees, while they want more bespoke processes with more partner involvement from us.
>
> MARK GAFFIN, MANAGING PARTNER, SLS CAPITAL ADVISORS, CHICAGO, UNITED STATES

> Sellers are better at recognizing value over price in the post-COVID environment. This allows us to negotiate higher fee structures where the workload warrants. In certain circumstances, I see even higher fees in the future due to the increasing complexities required to get a great deal across the finish line.
>
> MATT GILBERT, CO-FOUNDER, GILBERT & PARDUE TRANSACTION ADVISORS, HOUSTON, UNITED STATES

Fee Level Changes Continued

Observations

Cutting fees to get good business

“We will forego a retainer and half a point on the success fee for certain deals we like.
INVESTMENT BANKER, UNITED STATES

Building room for negotiation in initial fee proposals

“We always send proposals to clients, considering we will have to make adjustments to the downside of our success fees.
ROBERTO BARRERA, MANAGING DIRECTOR, SALUS CAPITAL STRATEGY, MONTERREY, MEXICO

“When we know we have a client who is going to be difficult about fees, we propose a higher fee, which gives us room to negotiate down.
MICHAEL VANN, PRESIDENT, THE VANN GROUP, LLC, SPRINGFIELD, MA, UNITED STATES

Restructuring fees to suit clients

“We will tailor fees to specific client situations. Our standard practice is to add in a performance incentive that provides more upside potential for us and the client. The incentive kicks in once the client’s pre-transaction valuation expectations are exceeded.
NICHOLAS SOMOS, DIRECTOR OF SUPPLY INVESTMENT BANKING, LEFT LANE ASSOCIATES, TORONTO, CANADA

“We might increase the upfront retainer in exchange for a reduced commission rate, and the client has our proprietary work products supporting our findings for their future reference.
STEVE ESCHBACH, CBI, CFA, CFC REALTOR, PRESIDENT AND SENIOR COMMERCIAL BROKER, TRANSWORLD BUSINESS ADVISORS, NAPERVILLE, IL, UNITED STATES

“I haven’t cut fees, but I may shift between monthly and success, and whether we offset monthly fees to success or add on top of them. Ultimately, we generally end up in the same spot or higher for overall fees earned.
GREG DESIMONE, PRESIDENT, CATAPULT ADVISORY GROUP, BOSTON, UNITED STATES

Rejecting requests for discounts

“We make our own determination of the likelihood of success and stick to our pricing. If we lose an engagement to another firm, that’s OK. Whenever we have bent our own rules, we have paid the consequence.
MICHAEL HAGERMAN, CEO, DIRECTORSEDGE, VANCOUVER, CANADA

Cut before the client asks

“We try to be fair. If the fee is large, sometimes we will voluntarily discount to save the “client ask.”
RICHARD BECKER, MANAGING DIRECTOR, CROSS KEYS CAPITAL, FORT LAUDERDALE, UNITED STATES

Engagement Fees

Work Fee Structure

As we dive deeper into the fee structures that middle-market advisors use, we see how important retainers and other engagement fees are to their business. Overall, three-quarters of advisors charge some sort of engagement fee, down slightly from 81% of respondents last year.

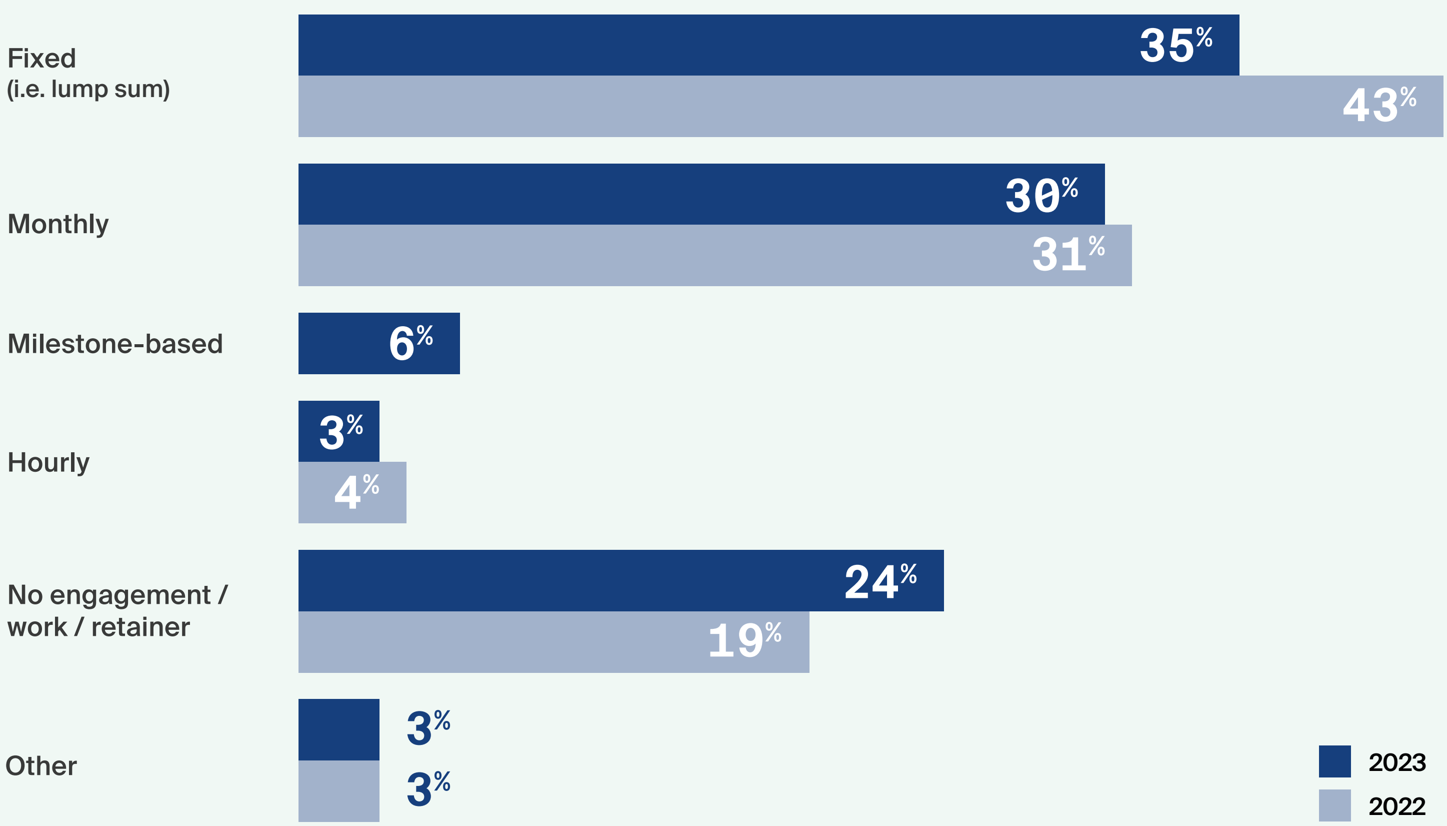
“Our firm charges a ‘development fee’ to ensure coverage of expenses incurred while creating marketing materials and researching ideal buyers. This fee also serves to guarantee a committed engagement from our clients,” explained John Marsh, managing partner at Marsh Creek Advisors, a sell-side M&A firm with offices in Atlanta, GA and Dallas, TX.

The nature of those fees has shifted. This year, it’s more common to charge fees that provide ongoing income as they continue to work on deals, typically on a monthly basis. Last year, more firms charged a one-time upfront retainer.

“Monthly fees are commitment fees,” said Greg DeSimone, president of Catapult Advisory Group in Boston, United States. “Paying the fee keeps them engaged in the process.”

This year, we added a question about milestone-based fees, which are payable as defined points in the progress of a transaction, because in past surveys, respondents increasingly mentioned this structure in their comments. We found that 10% of the advisors use milestone fees.

For sell-side transactions, do you charge an engagement/work/retainer fee, and if so, how is it most commonly structured?



Engagement Fees Continued

Observations

Engagement fees ensure client commitment

“Sellers need to have a financial stake in the process. It pays for the process costs, and it increases the probability of closing.

JOHN HAMEL, MANAGING DIRECTOR, AUSTEC CAPITAL, LLC, DENVER, UNITED STATES

Mitigating risk

“We charge a monthly fee because owners may change their minds, or we may find problems in due diligence, and we need to be compensated for our work.

INVESTMENT BANKER, UNITED STATES

“While engagement fees rarely cover the work done on a broken deal, we feel it is critical to have some protection and alignment of commitment, especially in a choppy/dynamic market like we’re currently in.

GARY GROTE, MANAGING DIRECTOR, BRIDGEPOINT INVESTMENT BANKING, OMAHA, UNITED STATES

Balancing engagement and success fees

“We like our model to have good alignment with our clients’ interests – if they win, we win. An upfront work fee shows some commitment, but we tie most of our rates to success fees. It has risks, but it motivates our team to work with high-quality clients and to close deals.

JEFF MACKENZIE, PARTNER, CONFEDERATION M&A, CHARLOTTETOWN, CANADA

“I reduced the success fee and have been more stringent about collecting a retainer.

BUSINESS BROKER, TENNESSEE, UNITED STATES

The work fee-only model

“I set these work fees to align with client incentives. I am not interested in success fees because they push clients to complete deals when they should be considering whether or not a deal should be done.

TIM CHRISTIE, PRINCIPAL, CORPDEV CONSULTING, ATLANTA, UNITED STATES

Engagement Fees Continued

Engagement Fee Levels

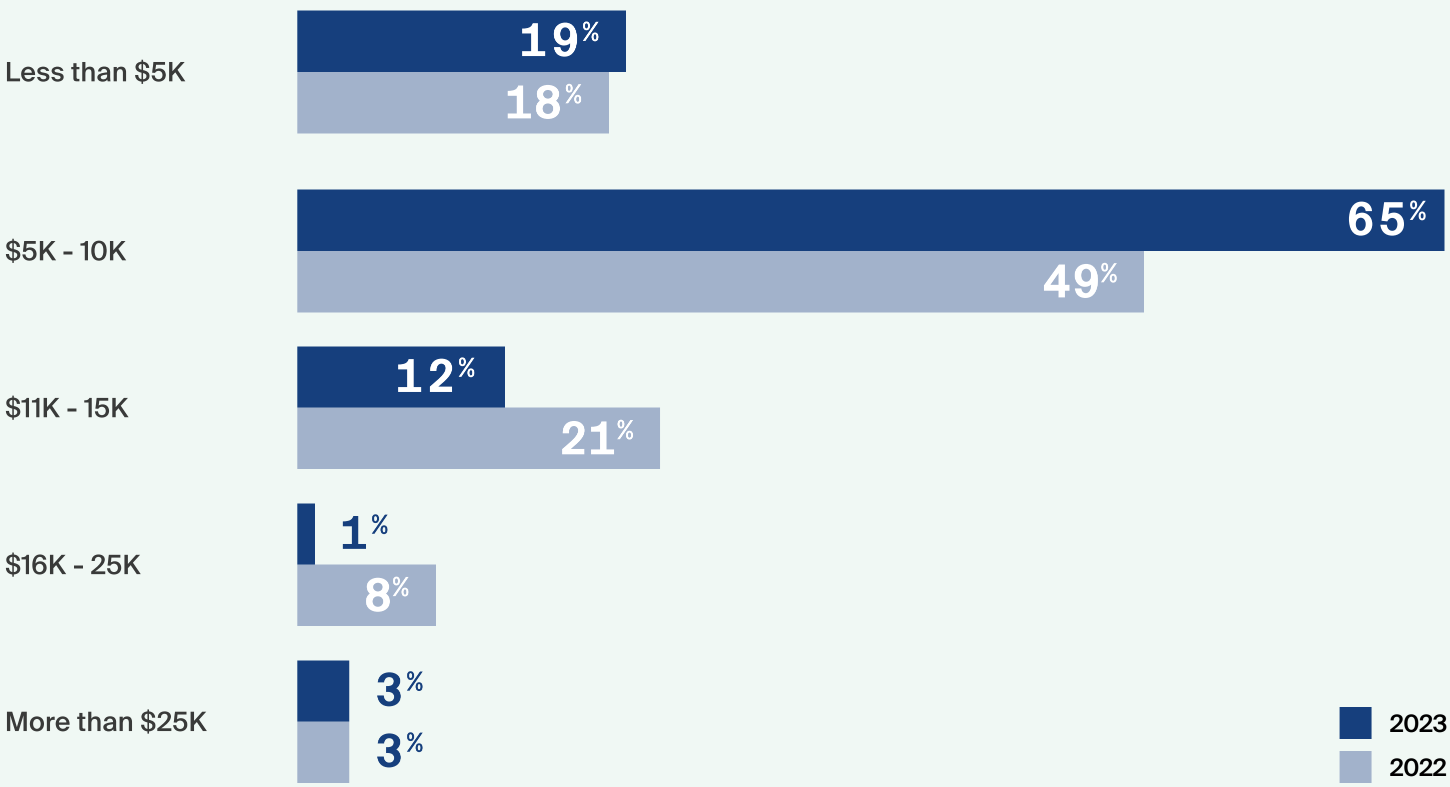
For monthly fees, two-thirds of the advisors said they charged an upfront fee between $5,000 and $10,000.

For one-time upfront retainers, the typical fee varied dramatically by the size of the firm. Those with 20 or fewer employees typically charged $15,000 or less. Those with more than 20 employees most commonly received upfront retainers of $25,000 or more.

The average fixed and monthly engagement fee levels we found this year were significantly lower than in our 2022 survey. At first glance, that may seem jarring, since nearly half of the advisors said they raised their fees. Yet we've also found a fair bit of change, as firms experiment with different structures, and that may make comparisons between surveys more difficult.

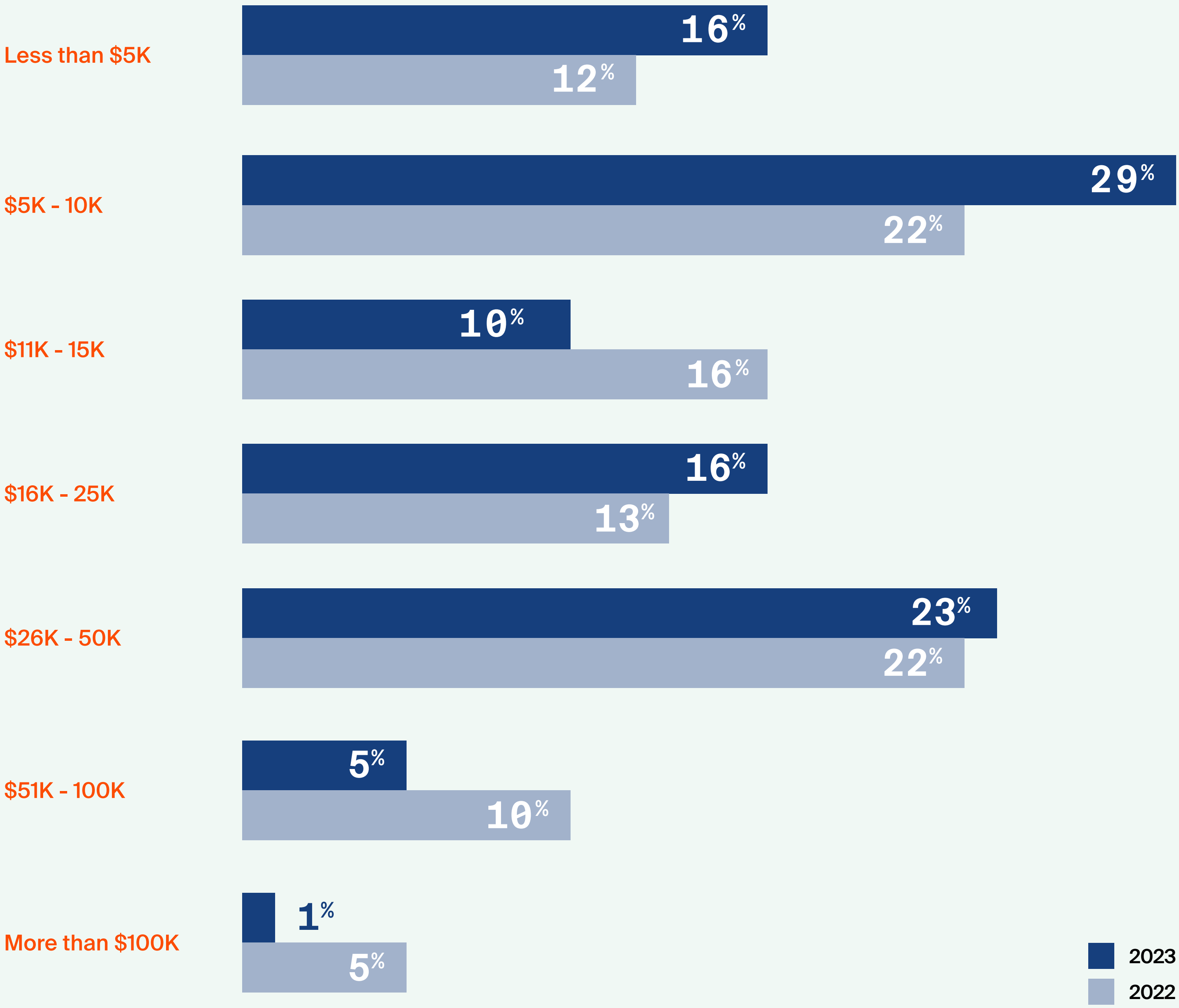
"We're constantly playing with our fee split to find what works," said the head of a small technology investment banking firm in New York. "We're balancing the cost of services, time management, cashflow smoothing between deals, and seller buy-in to project."

What is your most common monthly engagement/work/retainer fee?



Engagement Fees Continued

What is your most common fixed (i.e., lump sum) engagement/work/retainer fee?



Engagement Fees Continued

Observations

Engagement fees related to the probable success fee

“Our retainer fees are based on a percentage of our projected success fee. As the success fee increases, the retainer decreases.

JOE MILAM, FOUNDER, HST CAPITAL, GREENVILLE, SC, UNITED STATES

Setting fees by trial and error

“We set our fees based on what the market can bear. We keep raising them to see how high they can go without losing a client.

BUSINESS BROKER, NEW ORLEANS, UNITED STATES

Matching the competition

“We always charge an upfront fee nevertheless, we compete against others that don’t charge any upfront fees, so we try to negotiate the maximum we can without losing to the competition.

FERNANDO GUARDA, MANAGING DIRECTOR, BALIUS ADVISORS, MEXICO CITY, MEXICO

Success Fees

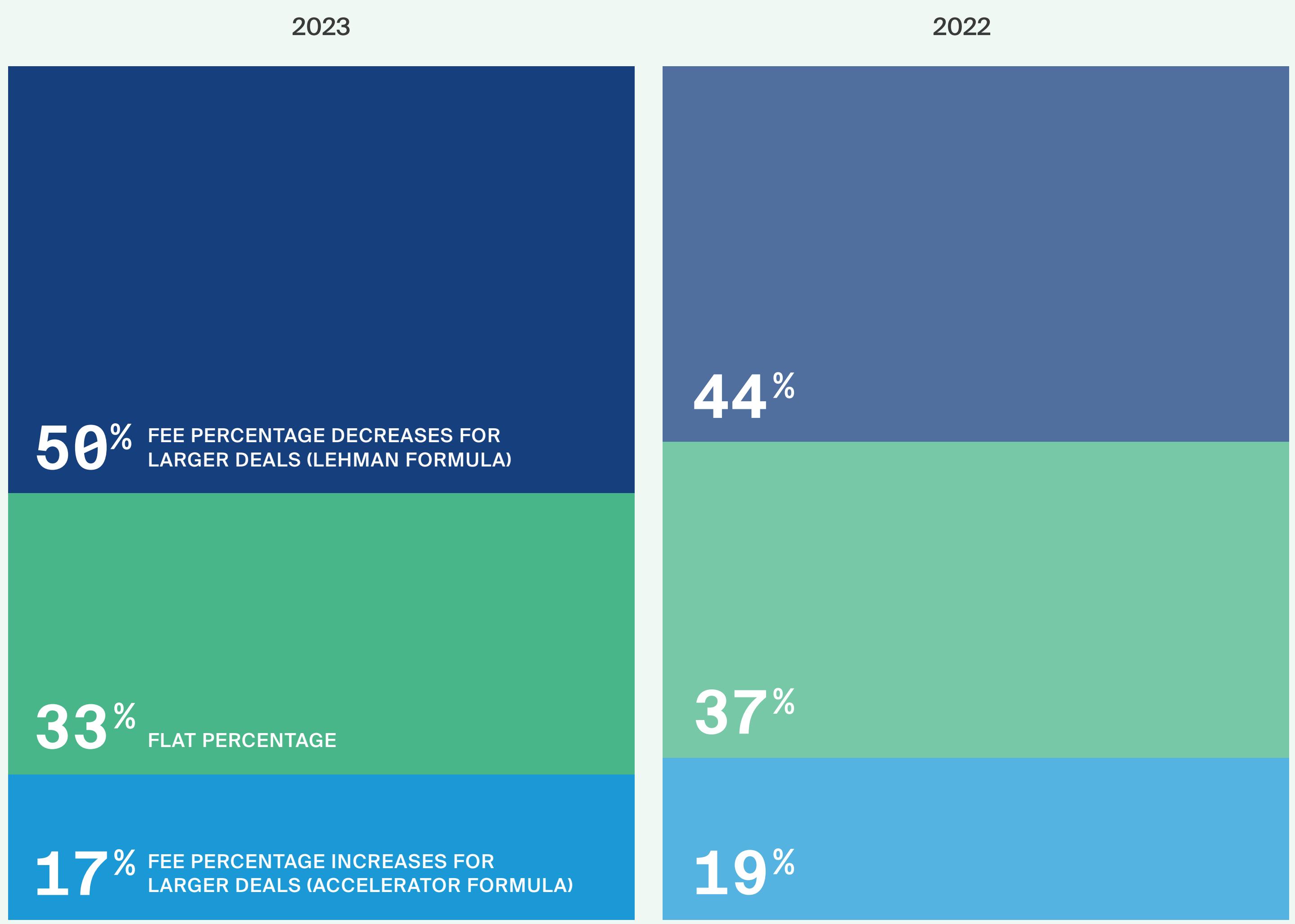
Success Fee Structure

Success fees remain the way that most merger advisors earn the bulk of their M&A revenue. The most common approach, used by 50% of the respondents, is what is known as the "Lehman Formula," where the commission rate decreases as the deal size increases. In its classic version, the fee is 5% for the first $1 million, 4% for the second million, and so on, with a 1% rate for all amounts over $5 million. Some advisors still use that exact formula. Many say they use "Double Lehman," where the rates start at 10% and fall to 2%. And there are many variations.

The converse, an accelerator formula where the commission increases when the deal size is over a set amount, is used by 17% of the advisors surveyed. Often, the client and merger advisor will agree on a target sale price, with the additional fee serving as an incentive to exceed the target.

About one-third of the advisors choose the simplest structure: a flat percentage regardless of deal size.

For your sell-side success fees, what is your most common structure?



Success Fees Continued

Observations

The Lehman Model

Clients seem to appreciate the declining fee structure. Contemplating going to a monthly retainer, which would be accompanied by lower success fees.

MIKE ERTEL, MANAGING DIRECTOR, TRANSWORLD M&A ADVISORS, ST. PETERSBURG, FL, UNITED STATES

I use a modified Lehman. The larger the scale, the less the percentage of additional millions. For any sale that closes over $5 million, I feel more than adequately compensated for the effort, resources, and expertise expended. I am very selective in my engagements. A higher closing percentage with initially identified buyers is key to success.

CARRIE DUVALL, BROKER OWNER, 1ST & MAIN PARTNERS, ORLANDO, FL, UNITED STATES

Flat fees

We have found the flat percentage fee works well and seems understandable to clients. We used to use a reverse Lehman formula approach, and I think clients thought of it as being higher because the initial fee percentage is higher. In reality, the flat percentage has produced a somewhat higher fee for us. We also believe the flat percentage fee keeps us closely aligned with our client's interests.

RON EDMONDS, PARTNER, PRINCIPIUM | WHITE OAK, MEMPHIS, UNITED STATES

Success fees are preferred by clients

Our experience is that clients who are completing lower-market deals tend to be fee-sensitive. To navigate this, we have implemented success-based fee structures with some of our clients, which create a win-win scenario for all parties.

ERIC BOGEN, PARTNER, BRUMBY ADVISORY, PARTNER, ATLANTA, UNITED STATES

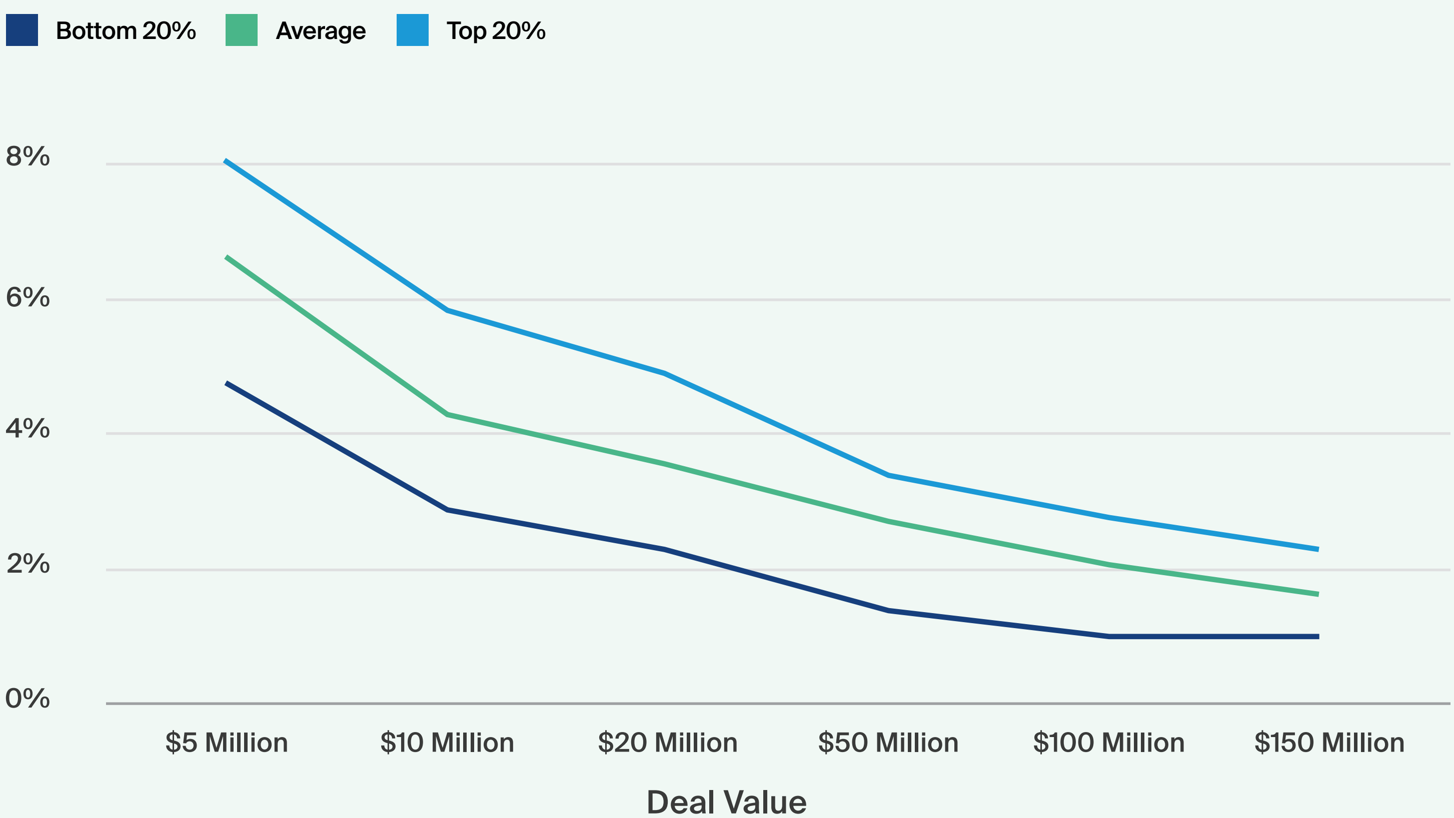
Success Fees Continued

Success Fee Levels

We asked the advisors to tell us the typical success fee they would charge for deals of various sizes. The average fee ranged from 6.3% for a $5 million transaction down to 1.8% for a $150 million deal. There was a significant variation in fees for each deal size. With a $20 million deal, for example, three-fifths of the responses were between 2.3% and 5.0%, with one-fifth charging less than 2.3% and another fifth charging above 5%.

While our survey methodology has changed and we can't directly compare this year's results to prior surveys, many advisors said that their success fees have been rising. "As it becomes more difficult to close transactions, our success fee has increased," said Layne Kasper, managing partner of Kasper & Associates in Fort Worth, United States.

As a percentage, what would be your success fee be on deals of the following sizes?



Observations

Fee levels tied to the expected work on a deal

"Success fee setting is a function of resources consumed in a deal and the complexity of the deal prep, due diligence and financing. Since deals are increasingly difficult to get over the finish line, we've been successful justifying increases in our prices where the workload warrants.

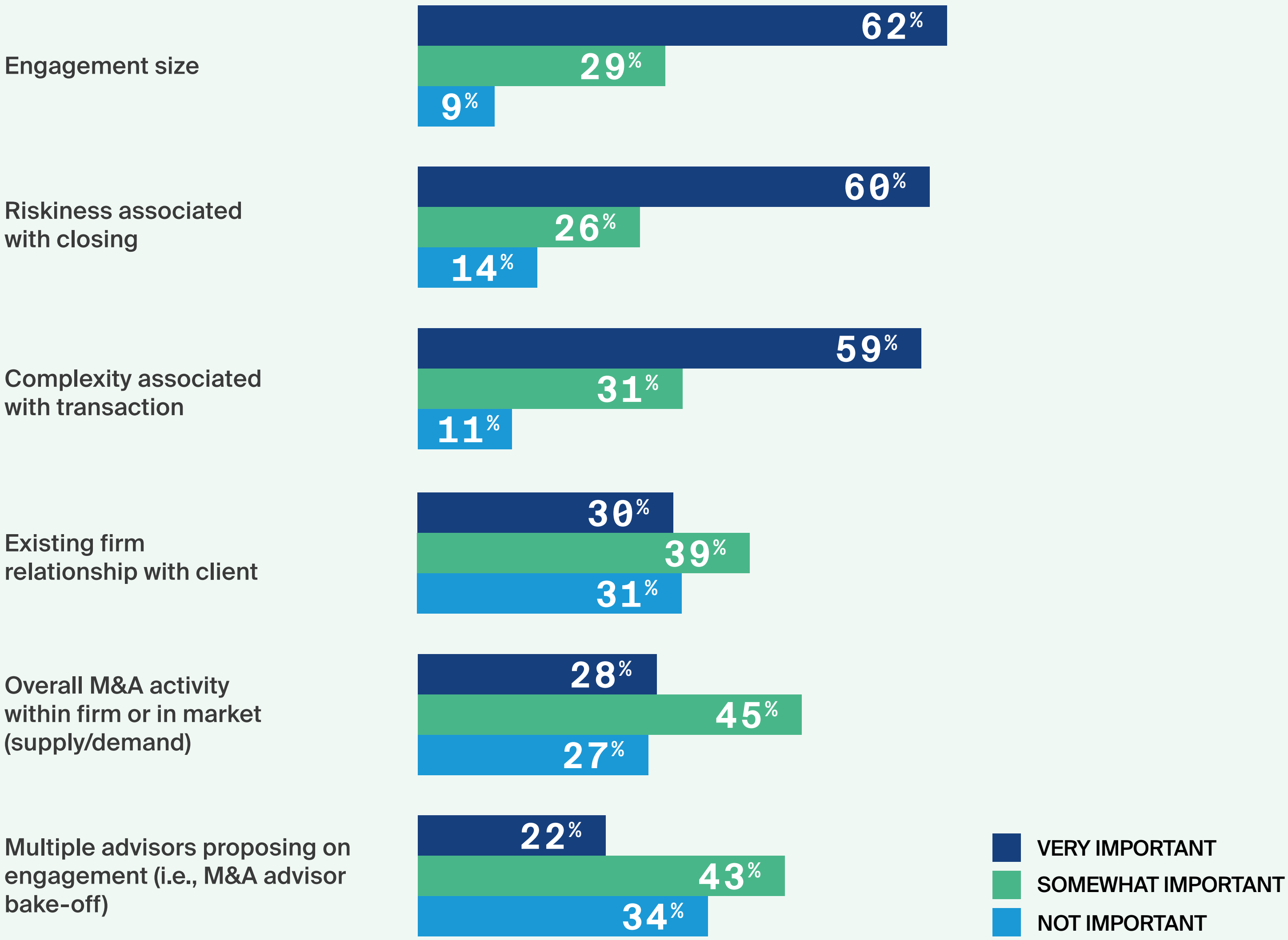
MATT GILBERT, CO-FOUNDER, GILBERT & PARDUE TRANSACTION ADVISORS, HOUSTON, UNITED STATES

Success Fees Continued

Factors Considered Setting Success Fees

When setting success fees, the advisors this year have become more sensitive to risk than they had been in the past. Indeed, 60% of the respondents said that riskiness associated with closing a transaction was a very important factor, just behind the engagement size. Last year, risk was a distant third, behind the engagement size and the complexity associated with the transaction.

How important are the following factors when proposing a success fee percentage for a sell-side engagement?



Success Fees Continued

Observations

The art of setting success fees

> We price according to the growth expected in the business, such that if it doesn't materialize, we are still satisfied with the fee if our client ultimately agrees to close at a lower enterprise value.
>
> INVESTMENT BANKER, UNITED STATES

> Our fee structure at Momentum Advisory Partners is not rigidly formulaic. We assess each deal's scale and potential market value to determine a suitable dollar fee. This is then translated into a percentage, assuming the market performs as anticipated. As our track record of successful transactions grows, we gain confidence in justifying higher percentages.
>
> AKASH TANEJA, FOUNDER & MANAGING PARTNER, MOMENTUM ADVISORY PARTNERS LLC, MIAMI, UNITED STATES

Pricing with respect to the competition

> Competitive pressures are the primary factor for setting fees, with firm culture and approach a second consideration.
>
> INVESTMENT BANKER, BOSTON, UNITED STATES

> I charge what the sellers are willing to pay and what I can get based on the competition and the market.
>
> RICK KREBS, PRINCIPAL, BUSINESS SALES GROUP, SALT LAKE CITY, UNITED STATES

> As a new firm focusing on a "Blue Collar" industry, we set our fees slightly below traditional business brokers. We now have a full pipeline and significant deal flow, so we have been increasing our fees.
>
> DAMON POWELL, FOUNDER & PRESIDENT, FMC ADVISORS, LLC, ORLANDO, UNITED STATES

Interpersonal factors

> We look at the complexity of the deal, the size, and the attitude of the seller. Some deals get an added measure of PITA fees.
>
> INVESTMENT BANKER, WASHINGTON, UT, UNITED STATES

Success Fees Continued

Minimum Success Fees

This year, 72% of the advisors said their firm charges a minimum success fee. That's up just slightly from the year before. In their comments, however, many respondents said they have been increasing the minimums they impose.

Do you most commonly charge a minimum success fee?

Observations

Minimum Success Fees

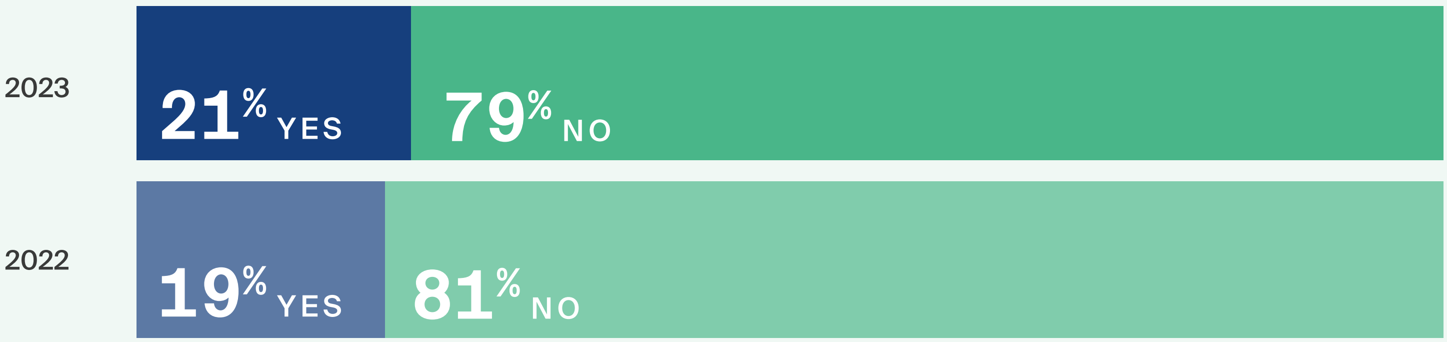
> We've moved to a larger minimum success fee that protects us from potential disagreements over the success fee.
>
> INVESTMENT BANKER, CHICAGO, UNITED STATES

Additional Terms

Break-Up Fees

While many advisors talked about the risk they take putting time into negotiating a deal that is aborted at the last moment, the vast majority of firms don't impose an explicit break-up fee. In 2023, 21% of respondents charged break-up fees, up slightly from 2022.

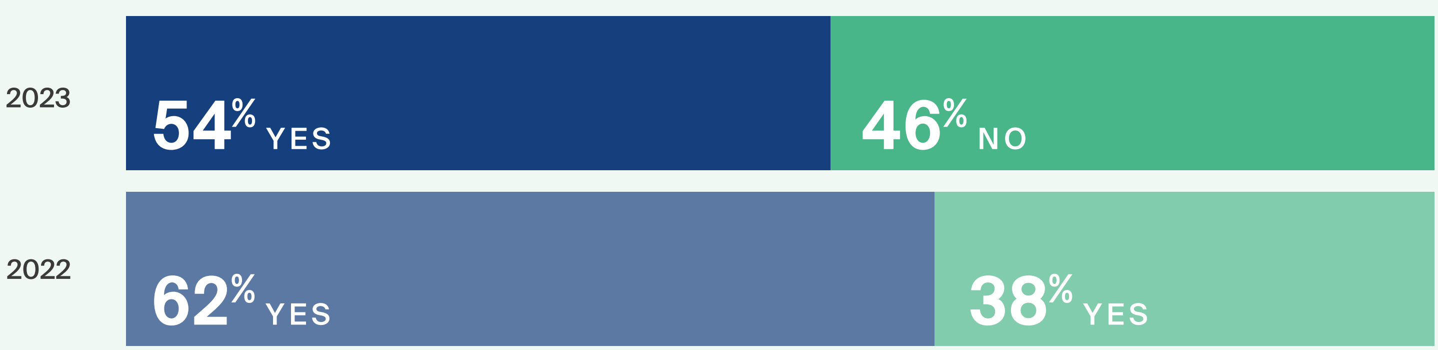
Do you commonly charge a break fee when a client rejects a bona fide offer?



Deducting Engagement Fees From Success Fees

Advisors are roughly nearly split down the middle on whether success fees are in addition to engagement fees or whether the engagement fees are deducted from the ultimate success fee. This year, 54% said they credited the engagement fees paid toward the success fee, down from 62% last year. In their comments, many advisors said that they don't want to deduct engagement fees, but it is a term that they sometimes negotiate with clients.

Do you most commonly deduct collected engagement/work/retainer fees from success fees earned?



Additional Terms
Continued

Observations

Not for small deals

“ It depends on the scope of the mandate. For example, if it’s a small mandate with TEV around $5M and it requires a lot of work, we will not deduct retainers from the success fee.

INVESTMENT BANKER, MONTREAL, CANADA

A negotiating point

“ The starting point is to deduct monthly fees from the success fee. If the client wants a reduction in fees (monthly or success), we will counter by having the monthly fees be incremental to the success fees.

GREG DESIMONE, PRESIDENT, CATAPULT ADVISORY GROUP, BOSTON, UNITED STATES

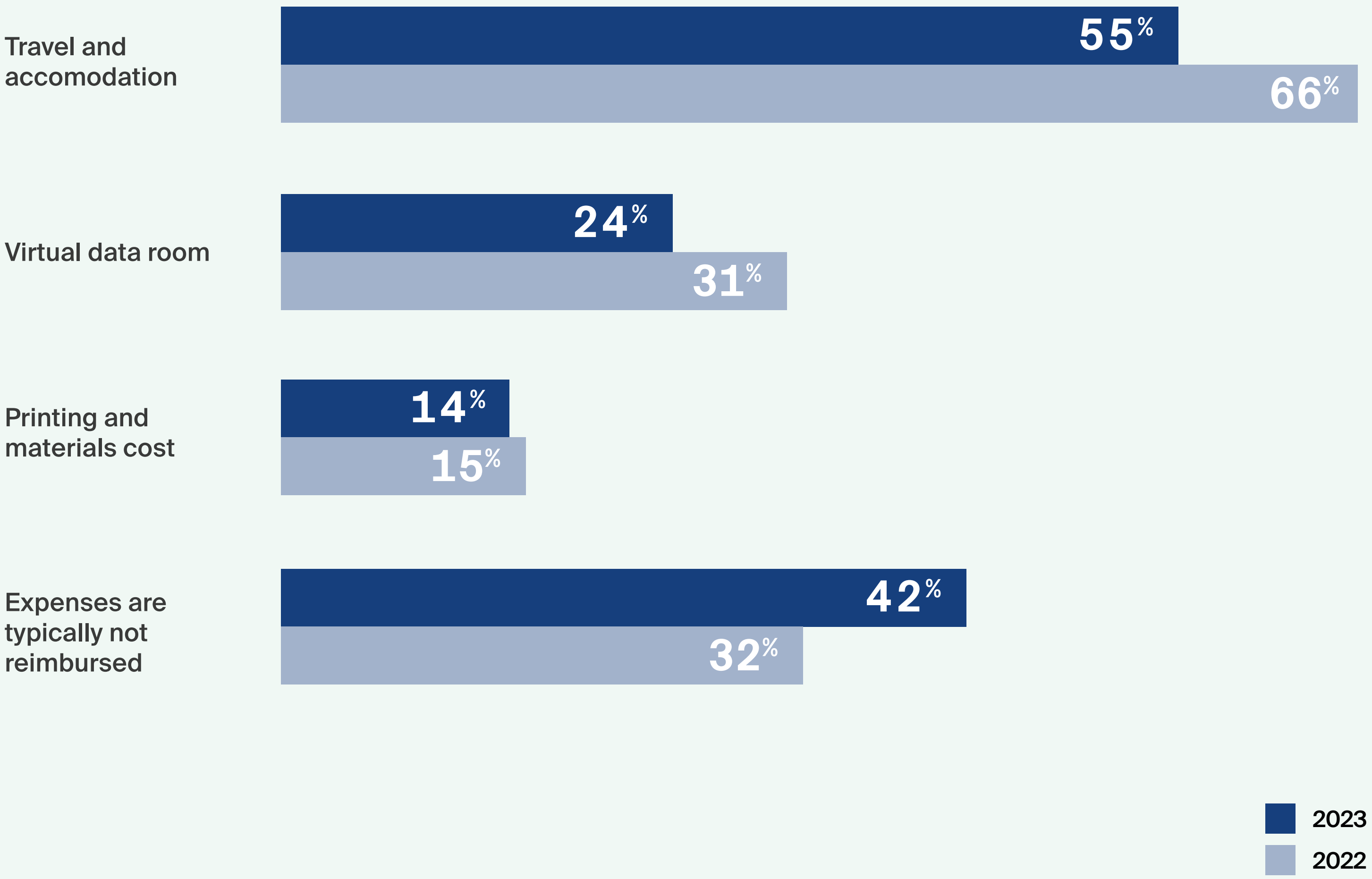
Additional Terms Continued

Charging for Expenses

Fewer firms are asking their clients to reimburse expenses. This year, 42% said expenses are not reimbursed, up from 32% last year. In our 2020 survey, only 17% said they don't ask for expense reimbursements.

Of the firms that are reimbursed, the most common category is for travel and entertainment (55%). Of the firms that ask for reimbursement, 24% of them pass the cost of virtual data rooms on to their clients. This represents the increasing adoption of subscription-based data room services rather than per-deal transactions, according to Firmex market analysis. In the comments, advisors added that they often will charge clients for the cost of professional service fees, market data, and advertising.

What expenses incurred by your firm on sell-side engagements are most commonly reimbursed by your clients?

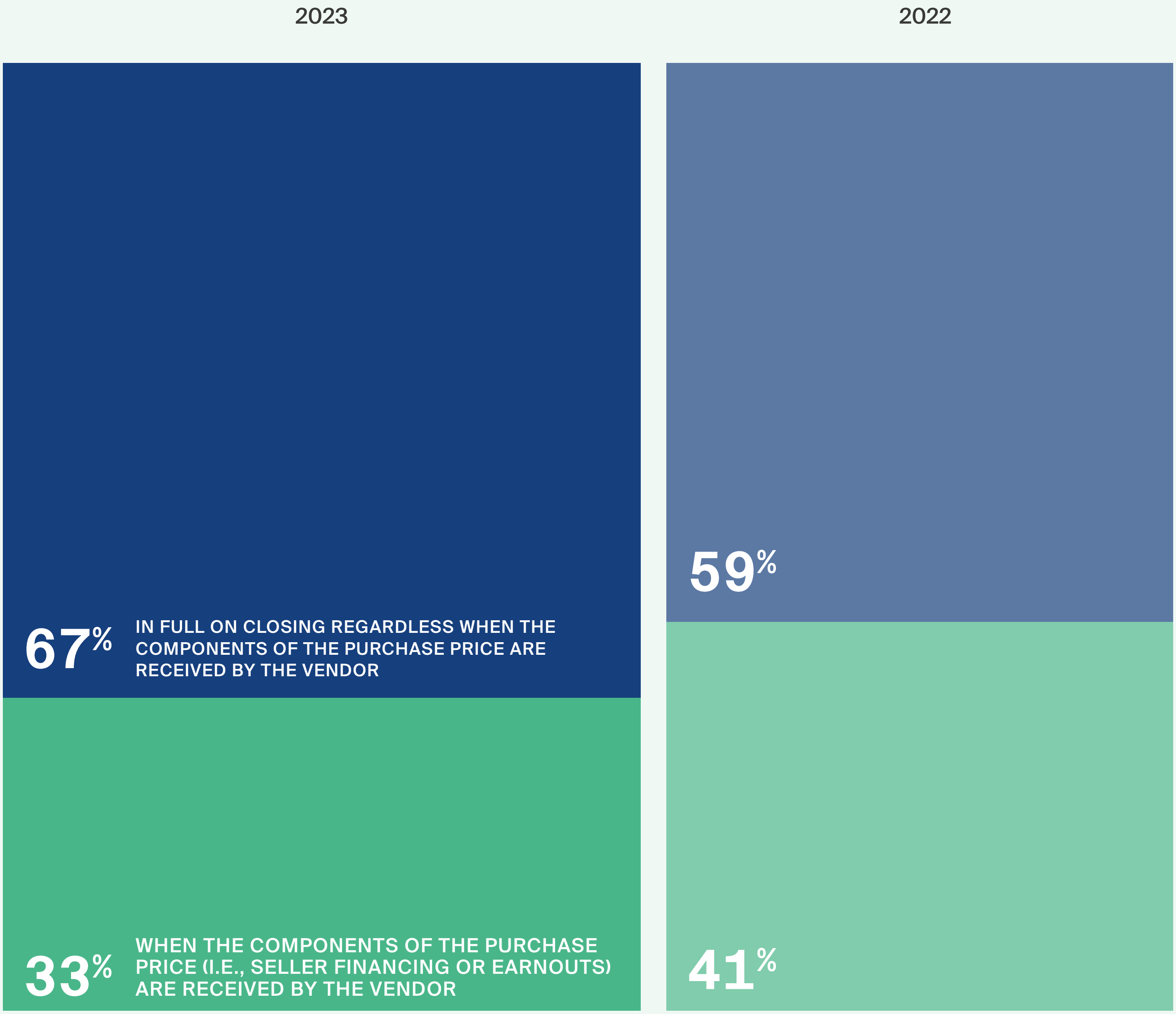


Additional Terms Continued

Timing of Success Fee Payments

With the prevalence of earn-outs and other structures through which buyers delay providing a portion of compensation to the sellers, there is an increasing question about the timing of success fee payments. About two-thirds of advisors insist that the full fee be paid at closing even if the seller hasn't received the full payment. That represents an increase from last year, when 59% said they expect to be paid in full on closing.

If a success fee is earned, when is it most commonly paid?



Additional Terms Continued

Observations

Accepting delayed payouts

“As earn-outs have become more prevalent, we’ve had to adjust from paid in full at closing to when the earn-out is paid.

MICHAEL VANN, PRESIDENT, THE VANN GROUP, LLC, BOSTON, UNITED STATES

“If a client asks, in an earn-out structured deal, we will receive that portion of the total enterprise value that is due to us in fees as our client receives their portion.

INVESTMENT BANKER, MONTEREY, CA, UNITED STATES

Asking for payment in full at closing

“Our contracts will typically say in full on closing, and I will relax the payments to match the principal’s payment stream after the fact.

JONATHAN BLACK, PARTNER, KURO PARTNERS, OTTAWA, CANADA

Setting Limits

“We reject earn-outs. There are some holdbacks, mainly for tax reasons, with a maximum of 18 months and never more than 15% of the fee.

MICHAEL HAGERMAN, CEO, DIRECTORSEDGE, VANCOUVER, CANADA

Additional Terms Continued

Other Changes in Terms

In their comments, the advisors listed many other changes they have made to their fee structures. Some are meant to increase revenue, and others to address misunderstandings that have cropped up in past deals.

Observations

Collection fees

"We added a provision to cover collection expenses after we had a difficult client.

GEOFF LING, MANAGING DIRECTOR, MERRIMACK GROUP, BEDFORD, NH, UNITED STATES

Time commitments

"We impose a work fee if the client terminates on or before six months.

JIM TOOMAN, PRESIDENT, SUNCOR RESOURCES, INC., SAN DIEGO, UNITED STATES

"We have reduced the length of our standard Term, as we believe that the first three months of our engagement will suffice to get a good read on the market and the appetite for the deal. We have also begun to incorporate more work fees and retainers into our mandates to mitigate market risk.

CHARLES SALEH, PRESIDENT & CEO, THE BUYSELL CONSORTIUM, TORONTO, CANADA

"We imposed automatic extensions with a 30-day cancellation clause. Smaller deals are taking longer, and automatic extensions save on paperwork.

RUSS FERGUSSON, SENIOR PARTNER, TRANSWORLD BUSINESS ADVISORS OF VA, MD & DE, RICHMOND, UNITED STATES

Clarifying the calculation of the success fee

"We reworked the definition of the purchase price. Complex deal structures have been pushing down the stated sale price, thus lowering the commission.

JOHN OVROM, PRESIDENT & FOUNDER, EXIT CONSULTING GROUP, SAN DIEGO, UNITED STATES

Outlook and Conclusions

It's clear that 2023 was a pivotal year for many middle-market merger advisors. Most were able to maintain and even grow their business in a challenging environment. And a key part of that success was adapting their fee structures and levels to current conditions.

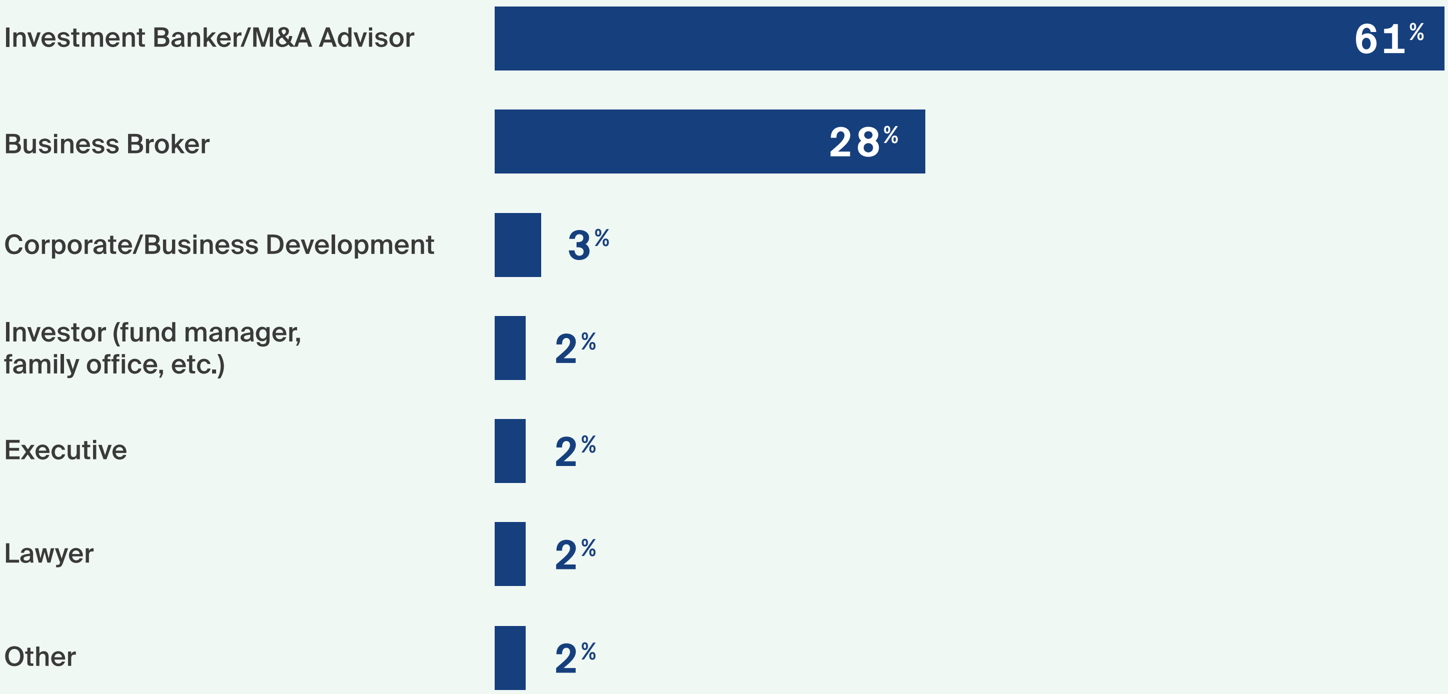
While many of the respondents we talked to said they are satisfied with their latest fee arrangement, others said they expect to make more adjustments in 2024.

"We plan on charging more monthly and giving back less on success," said and investment banker in Boston.

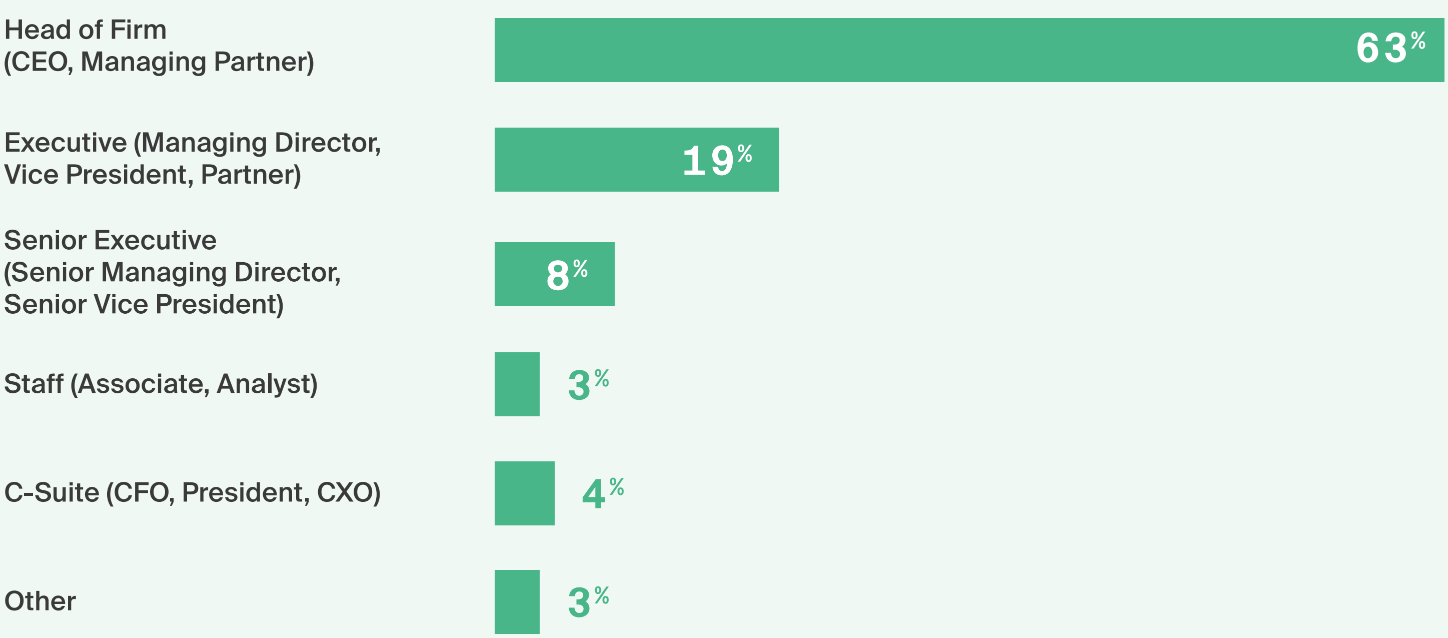
All this is a sign of the strength of the industry and the skill of its practitioners. The advisors provide an essential service, and their clients are willing to pay a fair price for it.

Appendix: Respondent Demographics

Which of the following best describes your current occupation?

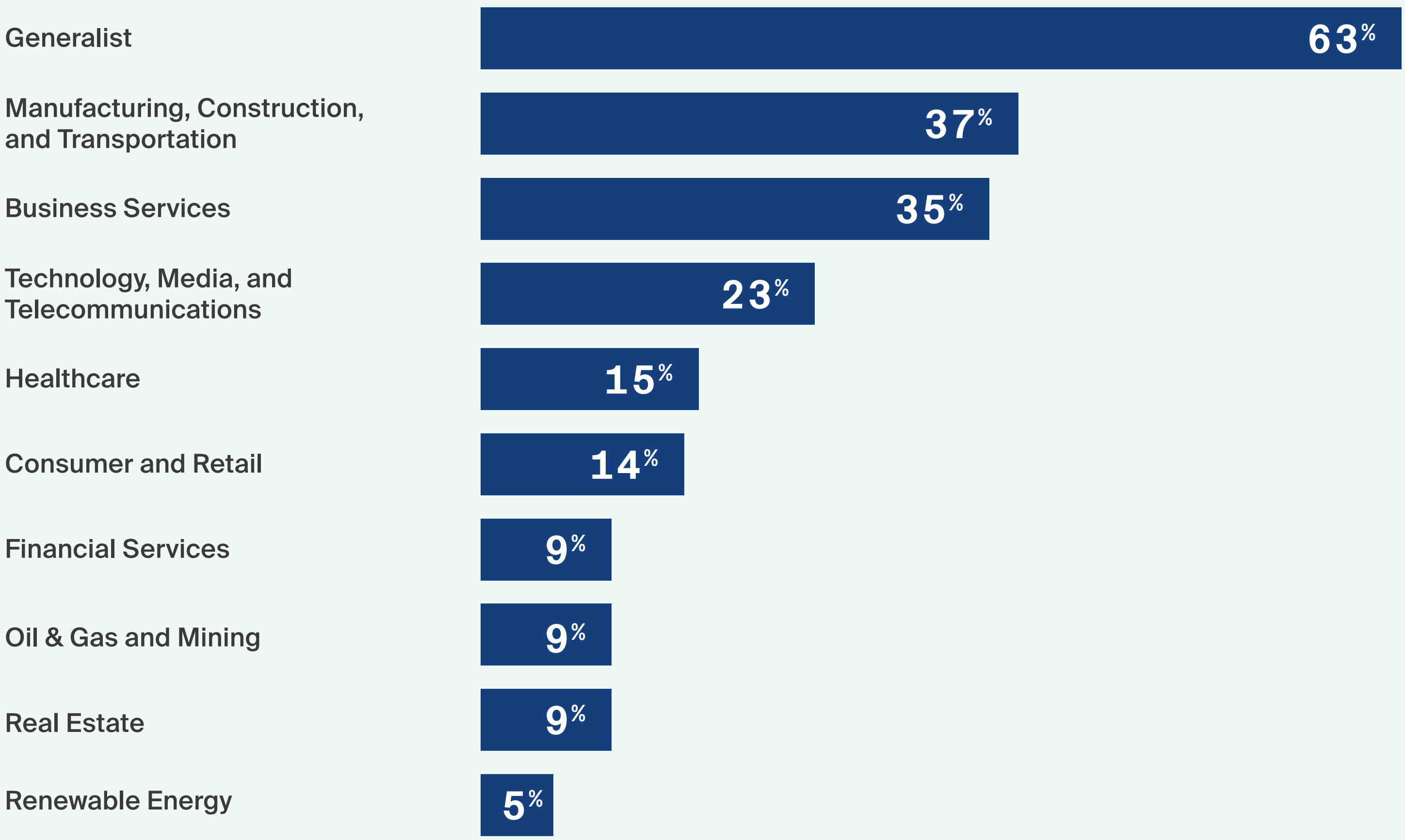


What is your job title?

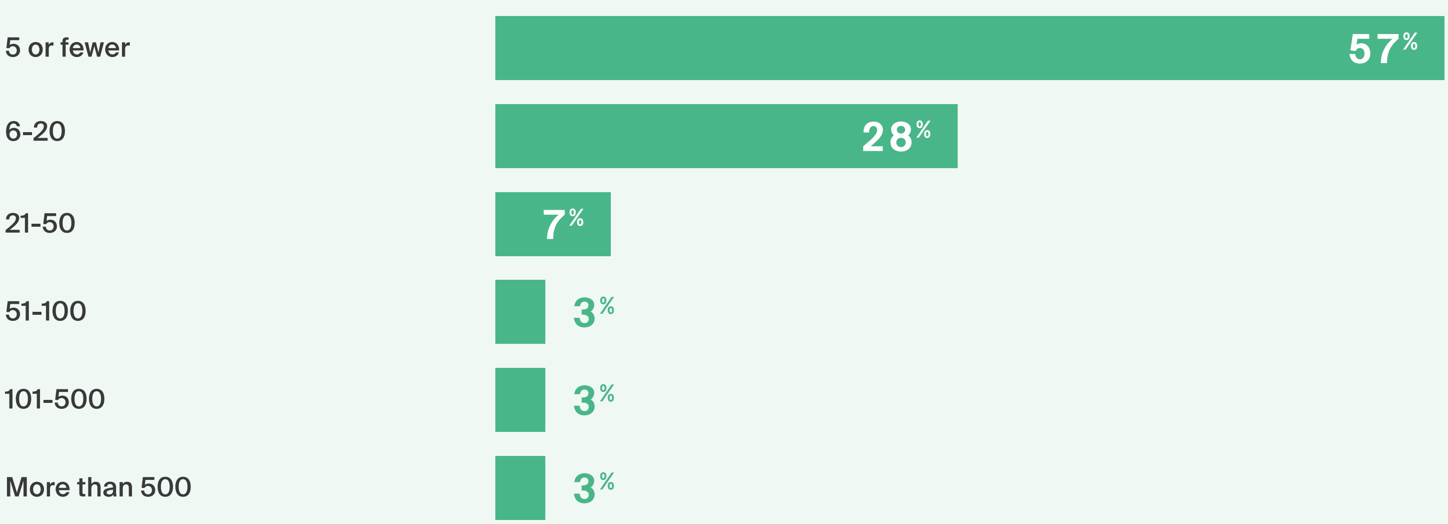


Appendix: Respondent Demographics Continued

Do you specialize in any of the following industries?

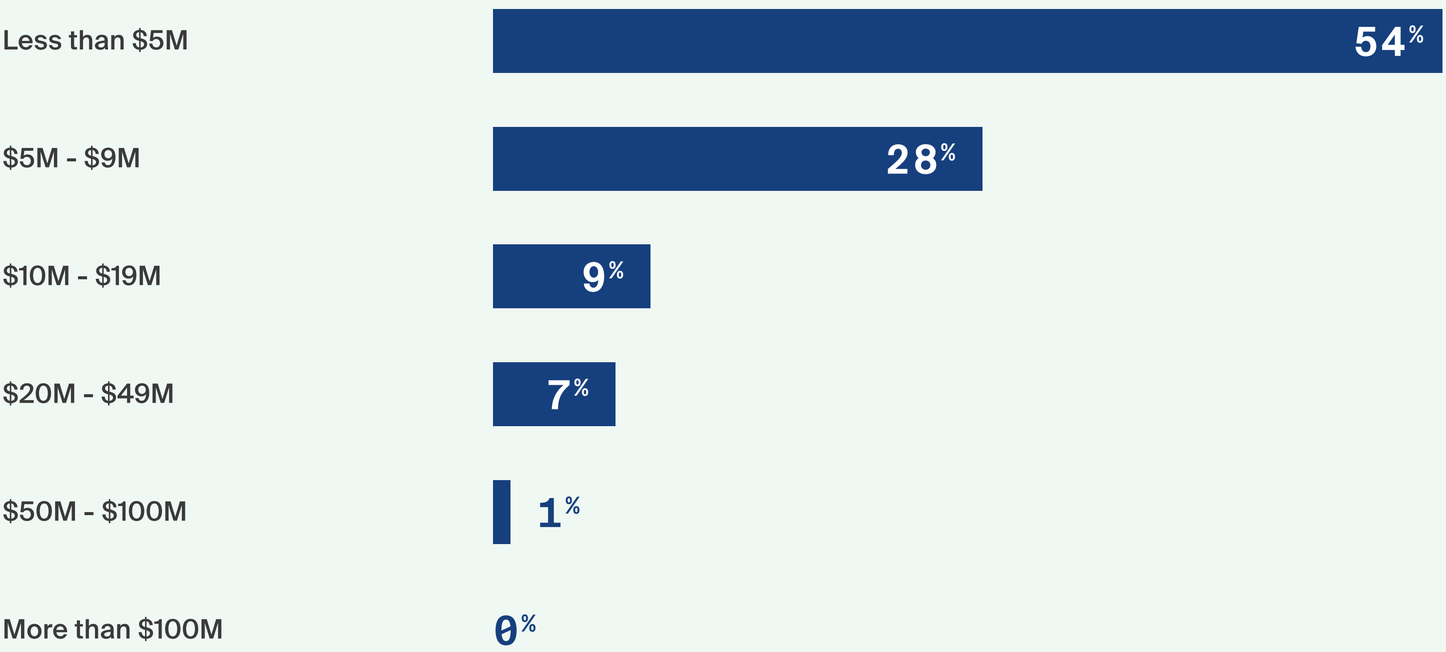


How many total employees does your firm have?

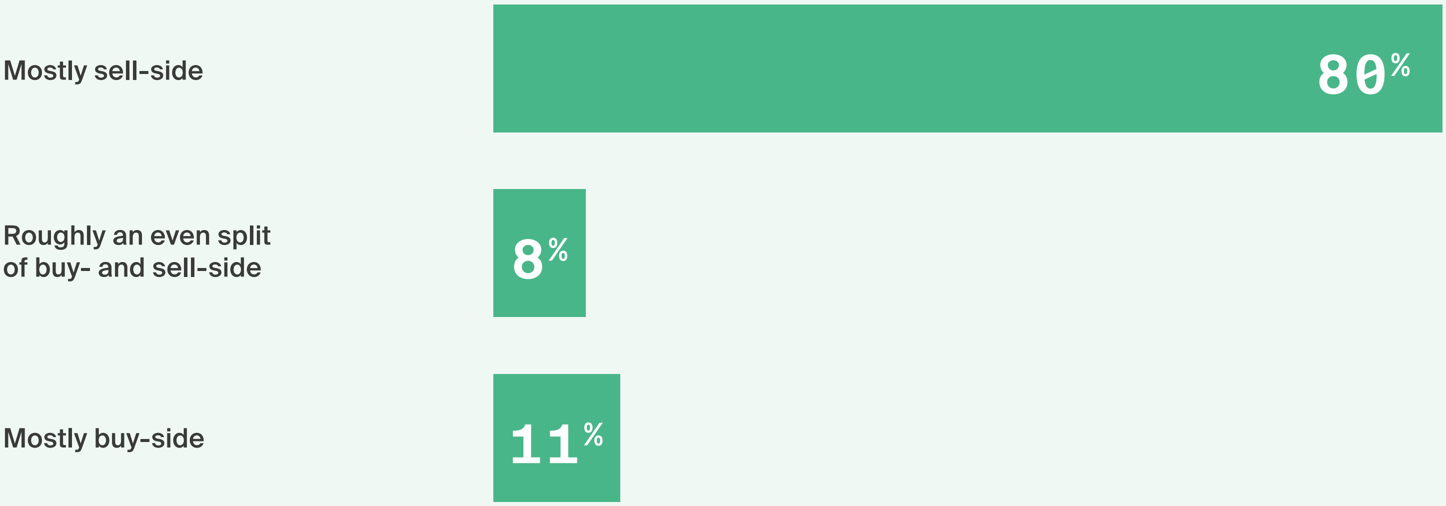


Appendix: Respondent Demographics
Continued

What is your minimum transaction value?



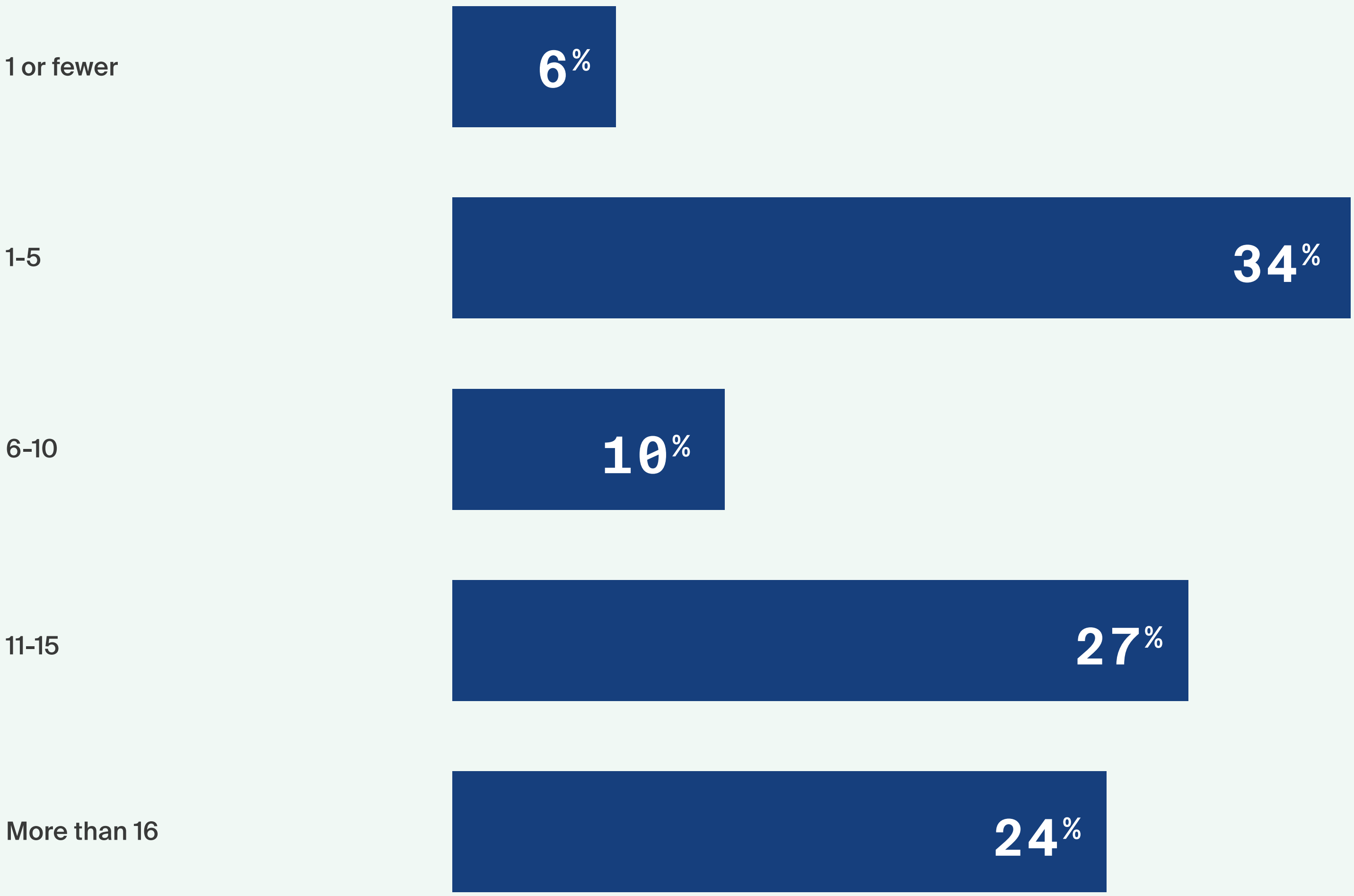
Are your clients:



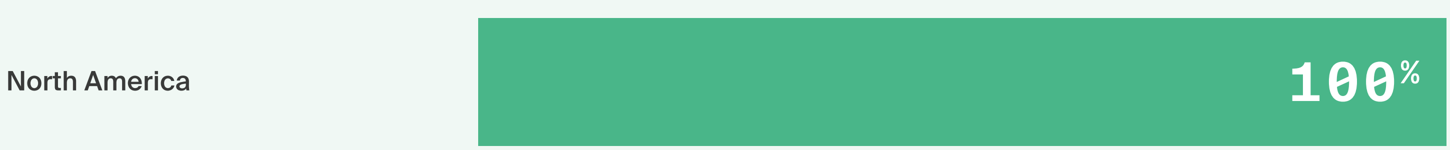
Appendix: Respondent Demographics

Continued

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



What region do you primarily work in?



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Founded in 2009, Axial is the trusted deal platform serving the lower middle market ($2.5-$250M TEV). Axial's proprietary matching technology enables advisors and business owners to confidentially connect with relevant buyers and investors. Over 3,500 advisors and 3,000 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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