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FIRMEX

M&A Fee Guide

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

In Partnership With

AXIAL

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EDITION

Global

Contents

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General Manager
FIRMEX

This is the seventh year that we have surveyed M&A practitioners about advisory fees, and each year, we see a unique reflection of the market forces impacting dealmaking and the ways advisors are adapting to those impacts. The 456 middle-market professionals who provided their responses to us outlined the ways in which they adjusted to a difficult market in 2023. For many, that adjustment looked like an increase in fee levels and a modification of structure to compensate for increasing deal-closure times. For almost half the respondents, these changes led to stable profit levels that matched the previous year, while for 33% of respondents, 2023 saw an increase in profitability.

While each year our report tracks the nuanced changes of the fee landscape, one thing that remains consistent is the positive engagement and feedback we receive on this guide. From the eagerness of advisors to contribute, to requests for more regional editions, to inquiries on additional data, we are encouraged to continue to provide this valuable resource to such a dedicated community of M&A practitioners. We're honored to do so this year with our partners Axial, DealCircle, and Divestopedia, whose excellence and expertise are invaluable to the Firmex Fee Guide's success.

This Year's Highlights

- Nearly half of all middle-market merger advisors say they raised fee levels in 2023, prompted mainly by rising costs and a more difficult dealmaking environment.
- Many firms have 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 is prompting firms to redefine how they calculate and collect success fees.
- Smaller firms have been able to hold their fee revenue steady and, for many, increase it even as business at larger investment banks continues to fall off.
- One-third of the firms increased their profits in 2023. Those that increased fee levels were twice as likely to grow profits than those that didn't.

Overview

In 2023, 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.

Nearly half 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. 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 more than 450 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.

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.
  (Firms with 50 or more employees most commonly charge between $10,000 and $15,000 a month.)
- 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:
    - 5.5% for a $5 million deal.
    - 3.7% 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.

Methodology

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

This report focuses on global fee trends, unlike some past years when we only published results for specific regions. Where appropriate, we note where practices vary between North America and Europe.

The results in this report are based on an online survey that was completed by 456 middle-market professionals in December 2023.

The respondents hail from 40 countries on six continents. The vast bulk, however, are based in North America (50%) and Europe (44%). The greatest representation is from merger advisors in the United States, Germany, Canada, the United Kingdom, and Switzerland.

Seven of ten of them work as investment bankers or merger advisors, and another fifth 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.

Expert Partners

Alfredo Garcia | Director & Head of Go-to-Market, Axial

Alfredo Garcia is Director and Head of Go-to-Market at Axial, leading the buy and sell-side sales and customer success organizations, as well as sitting on the company's leadership team. In his role, Alfredo works closely with Axial's senior leaders as well as the product, marketing, and business operations teams to devise and execute Axial's go-to-market strategy. Prior to joining Axial in 2018, Alfredo worked as an investment banker at PNC Bank, in their Asset Backed Finance group. He graduated from the University of North Carolina at Chapel Hill, with a B.S. in Business Administration and a minor in Music. In his free time, Alfredo loves to write and play music, go to live concerts, and play soccer.

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Kai Hesselmann is Co-Founder and Managing Partner of DealCircle, a digital tool that supports M&A advisors and investors in deal sourcing using a big data approach. Kai has a nearly 20-year career in the investment industry with positions in M&A advisory, at a corporate, and as a partner of a private equity fund.

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John Carvalho | President & Founder, Divestopedia

John Carvalho is the President and Founder of Divestopedia Inc., the premier online educational resource for selling mid-sized businesses. He is also the founder of Stone Oak Capital Inc., a specialized boutique M&A advisory firm offering sell-side, buy-side, and valuation services. Beyond his M&A expertise, John has actively invested in and contributed to the strategic operations of several private businesses across diverse industries. Recognized as a leading authority in middle-market M&A, he has successfully completed deals exceeding $1 billion in total value.

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Expert Commentary

In 2023, several key factors impacted M&A advisory fees as investment bankers adapted to a shifting financial landscape. First, investment bankers were impacted by increased costs and a more challenging dealmaking environment. This prompted nearly half of investment bankers to raise fees, many preferring structures with retainers that can provide more predictable income for the duration of the engagement to mitigate against protracted or unsuccessful transactions. As deal structures have become more complex due to rising interest rates and changes in valuation expectations, investment bankers have also reassessed success fee structures to better align with more prevalent deal terms, such as earn-outs. Tiered success fee structures have become more common as seen by the rise in use of variations of the Lehman Formula. Notably, the smaller and more agile firms reported managing to still maintain or grow their fee revenues as they have been more able to adapt and seek out opportunity in the changing market. Business owners have reportedly been largely unphased by the changes in fee structures, understanding the value M&A advisors bring when navigating a dynamic market.

ALFREDO GARCIA, AXIAL

The Global M&A Fee Guide 2023-2024 reveals pivotal shifts in the M&A middle market, driven by a blend of economic forces and industry adaptations. Notably, firms are adjusting to a challenging dealmaking climate by raising fee levels, a response to increased costs and risk management strategies. A standout trend is the evolution in fee structures: a growing emphasis on recurring engagement fees reflects a shift towards mitigating risks associated with prolonged or unsuccessful deals.

Further, the complexity of deal structures is notably influencing how success fees are calculated, reflecting a nuanced approach to fee collection in today's market. Interestingly, smaller firms have shown resilience, maintaining or increasing fee revenue, contrasting with larger banks' downturn. This resilience is a testament to their agility and ability to adapt to market changes.

The report also highlights a correlation between raised fee levels and profit increases for a significant portion of firms in 2023. This points to a broader trend of financial performance being closely tied to strategic fee structuring in the M&A sector.

Overall, these findings underscore the importance of adaptability and strategic fee management in navigating the dynamic M&A landscape. Readers should come away with a deeper understanding of the current trends and the critical role of innovative fee structures in ensuring financial viability and success in the middle market.

KAI HESSELMANN, DEALCIRCLE

The Global M&A Fee Guide once again stands as the authoritative benchmark for advisors and business owners, offering comprehensive insights into guidance on M&A fee structures. This year's Guide demonstrates that economic, regulatory, and market dynamics are influencing firms' approaches to structuring fees and can serve as an indicator of broader trends in the M&A market. The Guide underscores a move towards more performance-based fee structures, reflecting a growing emphasis on aligning M&A advisors' incentives with clients' outcomes. Additionally, the report highlights a diversification in fee arrangements, suggesting firms are increasingly tailoring their services to meet specific client needs and market conditions.

Readers should come away with an understanding of the landscape of M&A advisory fees, recognizing the strategic adjustments firms are making in response to changing market dynamics. The real-world examples contributed by survey respondents enhance the report, providing practical insights into how these trends are playing out across different deal situations and regions. Overall, the message is clear: M&A fee structures are capable of being flexible, tailored to the client's needs, and aligned with engagement objectives.

JOHN CARVALHO, DIVESTOPEDIA

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.

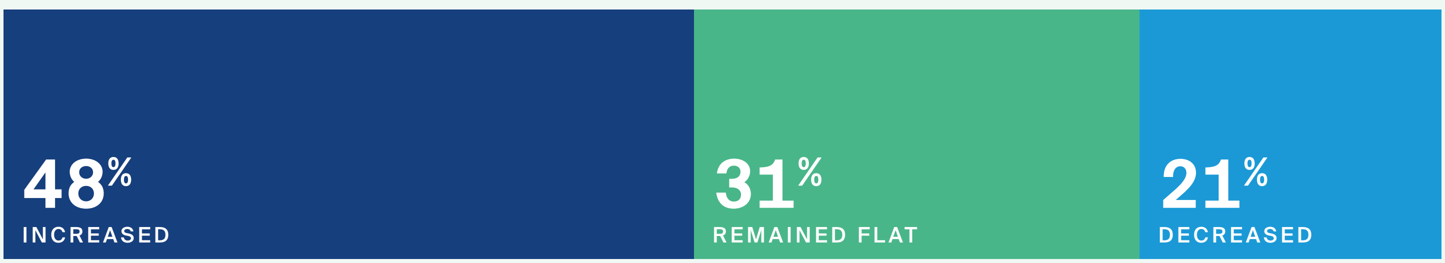
Last year was a good one for middle-market investment bankers. Half of them said their revenue increased, and only a fifth said revenue was down. Firms in Europe were somewhat more likely to report rising revenue than those in North America. And firms with more than 20 employees were more likely to be growing than smaller firms.

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, 60% said their revenue rose in 2023. Of firms that kept fees constant or lowered them, only 36% 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

> Our overall costs in both infrastructure and staff have increased during the past year, which is why we have decided to raise our retainer accordingly.
>
> INVESTMENT BANKER, GERMANY

> Macroeconomic uncertainties are increasing the business perception of family businesses, leading to M&A initiatives.
>
> JOSE TARDELI, CEO, TERRA BOA CONSULTORIA, SAO PAULO, BRAZIL

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, 32% of them said their profits increased from the year before, and 45% said profits remained steady. Only 22% of the firms recorded declining profits, showing a bit more financial distress than they did in 2022 when 16% said profits were down.

We've consistently observed that smaller merger firms are often able to insulate themselves from the macro trends that buffet the larger investment banks. That effect starts to fade out as even mid-size firms get larger. Our survey found that of firms with more than 100 employees, only 19% of them had increasing profits in 2023. For firms with 20 or fewer employees, 34% earned more last year.

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 58% 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

> Less pushback from the sell side to reduce fees.
>
> ALEXANDER MUNDAY, CEO, CHAPTER INTERNATIONAL, LONDON, UNITED KINGDOM

> 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

Dragging down profits

> It's just slower getting deals done, even as we have the same cost base.
>
> INVESTMENT BANKER, LONDON, UNITED KINGDOM

> It requires more effort to get the projects closed due to it being a buyers' market at the moment.
>
> ELLY SIMONS, FOUNDER, ALL ABOUT EXPERTS, BRUSSELS, BELGIUM

Fee Level Changes

Fee levels were very much up for grabs in 2023.

Nearly half (47%) of the firms surveyed raised at least one component of their M&A fee structure over the year. That's up from the year before, when 39% of firms raised a fee. Firms were much more likely to raise fees in Europe (58%) than in North America (38%).

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.

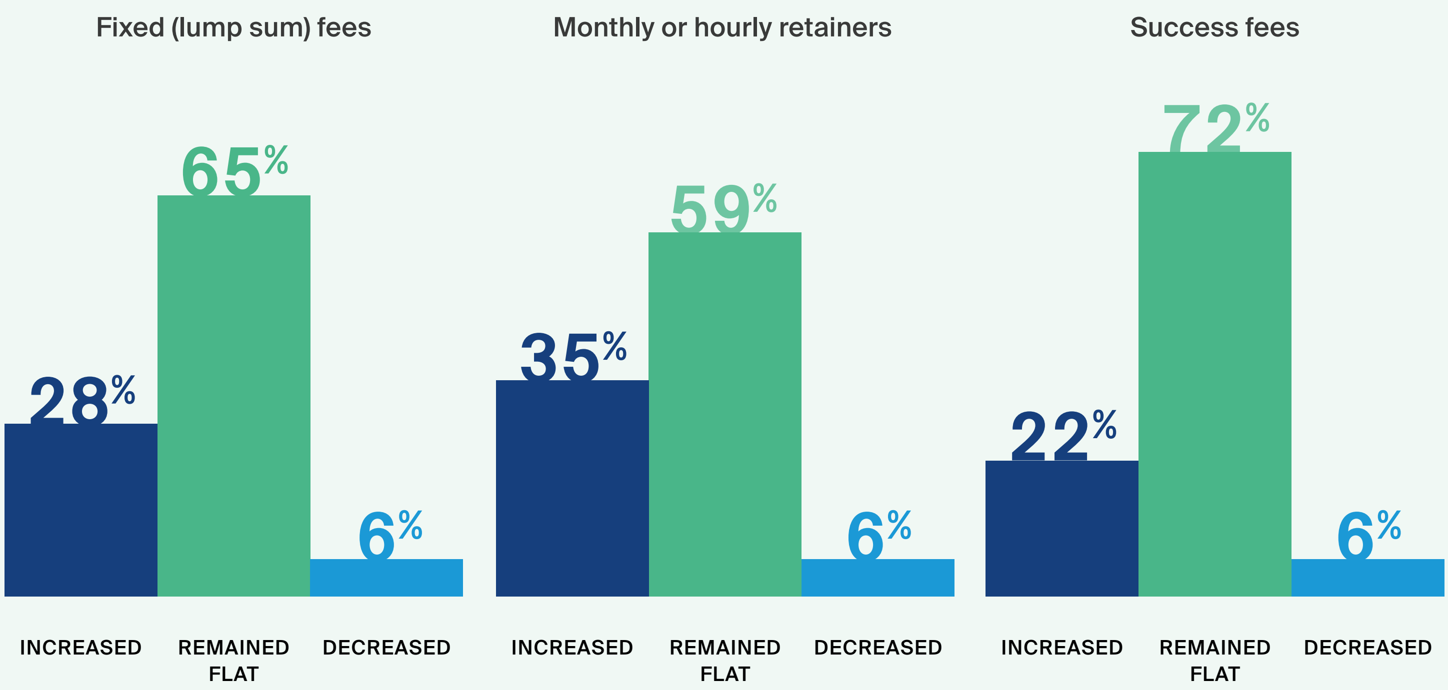
Having guaranteed income, moreover, is especially useful in an environment where closing deals is less certain because of rising rates and fluctuating valuations.

Overall, 35% of firms said they raised monthly or hourly fees, 28% raised fixed up-front fees, and 22% raised success fees.

Only 11% 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.

"We've had to cut fees in some cases because of the higher price sensitivity of our clients," said Juerg Kurmann, an investment banker focusing on cross-border transactions based in Basel, Switzerland.

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

“ We increased retainers significantly due to market uncertainties, which led to longer project durations and fewer closings.

PHILIP HERRMANN, PARTNER, I-CAPITAL, BRAUNSCHWEIG, GERMANY

Why raise fees

“ Transactions require more expertise and work to get done.

OLIVIER TROJANI, SENIOR PARTNER, CASTIL, PARIS, FRANCE

“ Inflation leads to price increases for hourly fees.

PIERRE PREAU, MANAGING PARTNER, CAMARAE, PARIS, FRANCE

“ 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 about one-sixth 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

"This year, our price increase was easier than in years before.

HEAD OF INVESTMENT BANK, GERMANY

"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

> Sometimes, if it's a very interesting company, we lower our fees. But this is maybe in 1 of 10 cases.
>
> PATRICK LUGER, CONSULTANT, NUREMBERG, GERMANY

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

Fee Level Changes Continued

Observations

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

“Most new clients are recommended by former clients, so they are aware that they have to pay higher fees for high-quality advice, which results in no pressure at all.

ROMAN WOLKOWSKI, PARTNER, CAPSTAN CAPITAL PARTNERS LLP, LONDON, UNITED KINGDOM

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, four-fifths of advisors charge some sort of engagement fee, the same level as last year.

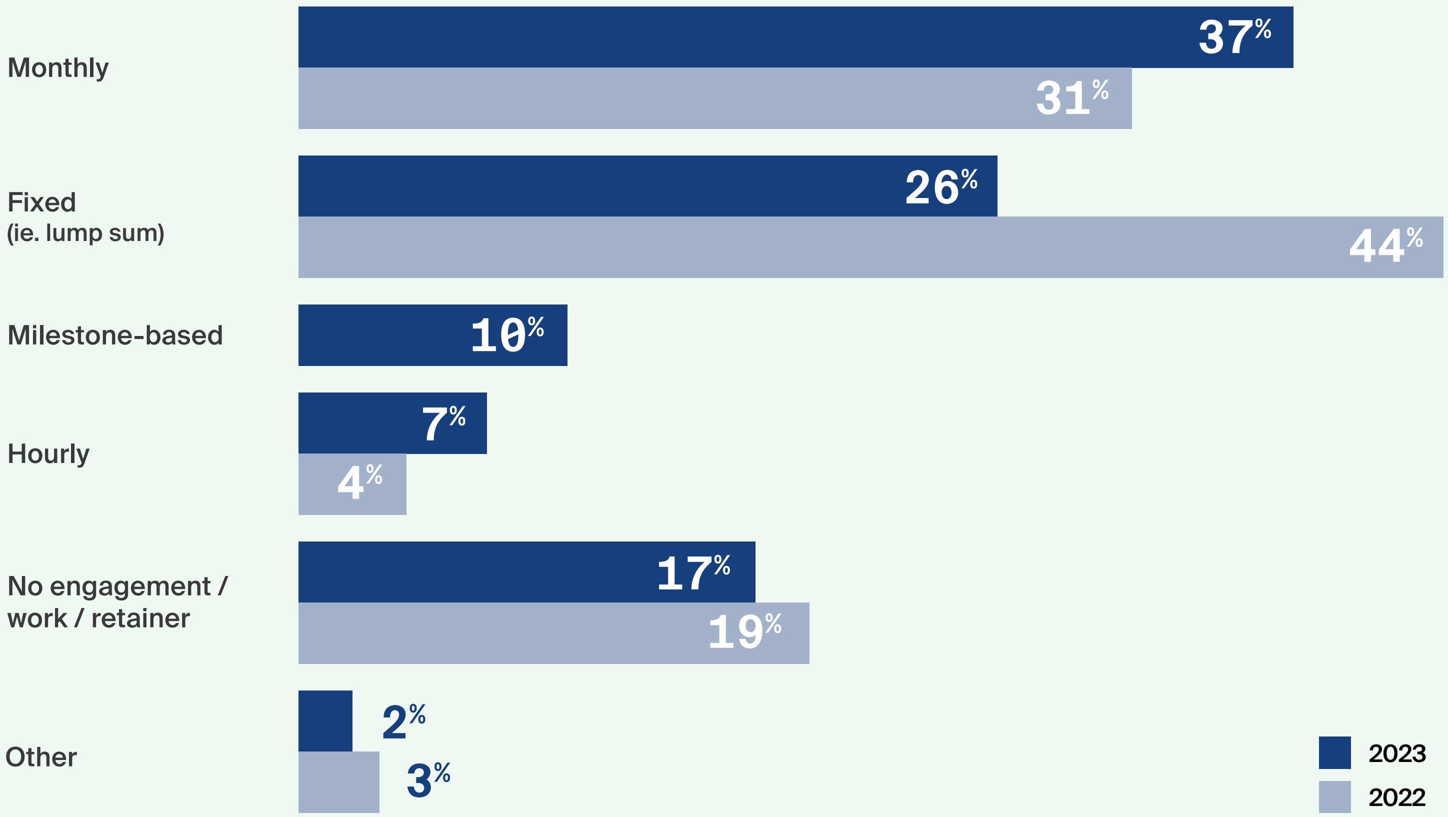
“Our firm charges a ‘development fee’ to ensure coverage of expenses incurred while creating marketing materials and researching ideal buyers. This fee also serves to guarantee a committed engagement from our clients,” explained John Marsh, Managing Partner at Marsh Creek Advisors, a sell-side M&A firm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

The nature of those fees has changed sharply, however. The number of firms that charge a one-time upfront retainer fell to 26% in 2023 from 44% the year before. Instead, more than half of firms charge fees that provide ongoing income as they continue to work on deals. Monthly fees are the most common, charged by 37% of firms.

“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 example, Guidalberto Gagliardi, CEO of Equity Factory in Milan, Italy says he now charges a fee when clients sign a letter of intent in addition to a retainer. “It could be an alternative to an abort/walk-away fee,” he said.

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

“We doubled the milestone fee but made that part deductible from the success fee.

BUSINESS BROKER, ZURICH, SWITZERLAND

“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

Lump sum fees are easier to understand

“In sell-side transactions, we use lump sum fees normally as we sometimes feel clients find they are easier to understand, and they align everyone around a speedy process.

ROBERTO ANKER, PARTNER, PROVENTUS, QUITO, ECUADOR

Engagement Fees Continued

Engagement Fee Levels

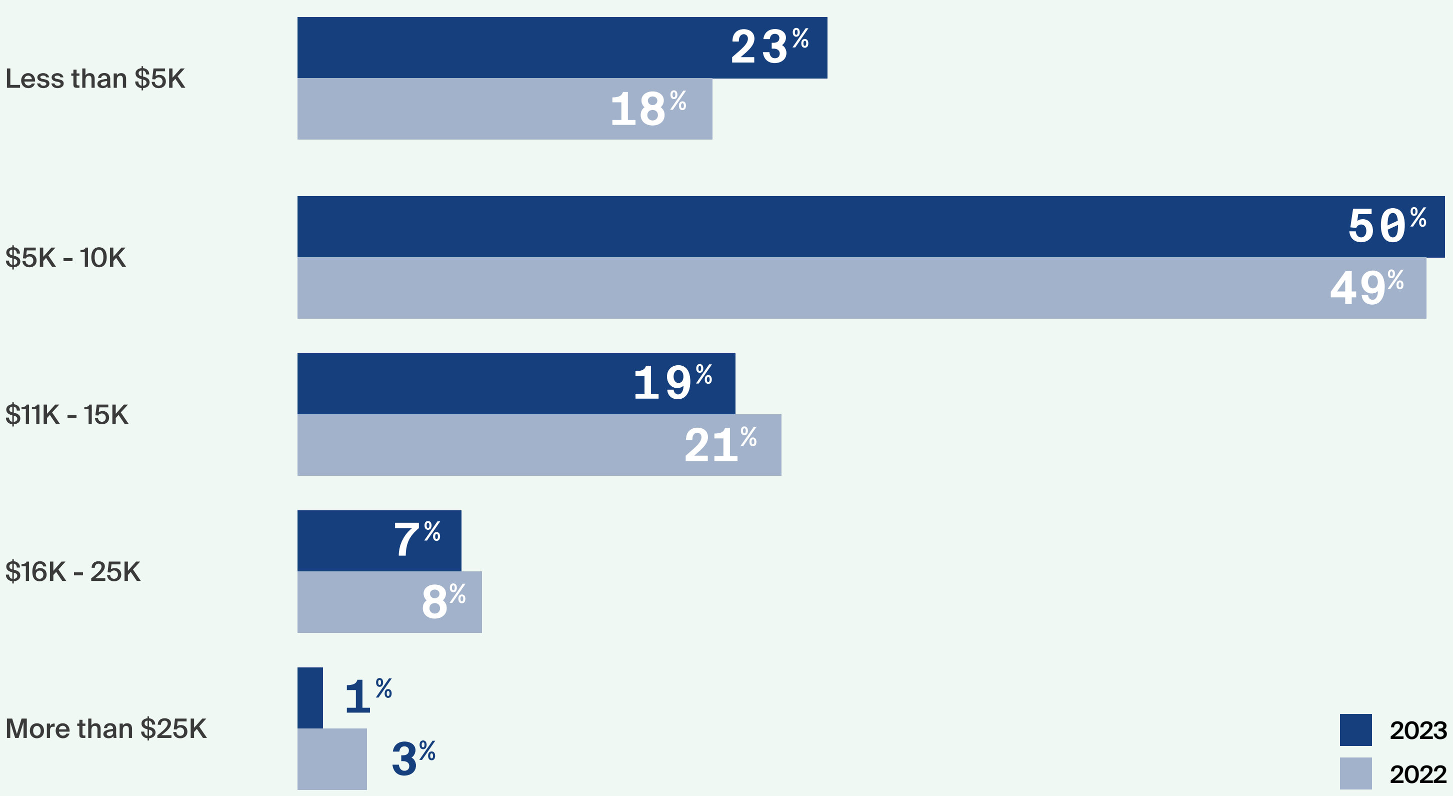
For monthly fees, more than half the advisors said they charged an upfront fee between $5,000 and $10,000. Firms with 50 or more employees most commonly charge between $10,000 and $15,000 a month. Levels above $15,000 were rare.

For one-time upfront retainers, the typical fee varied dramatically by the size of the firm. Those with 20 or fewer employees typically charged $10,000 or less. Those with more than 20 employees most commonly received upfront retainers of $25,000 or more. Upfront fees above $25,000 were also more common in North America (30%) than in Europe (21%).

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.

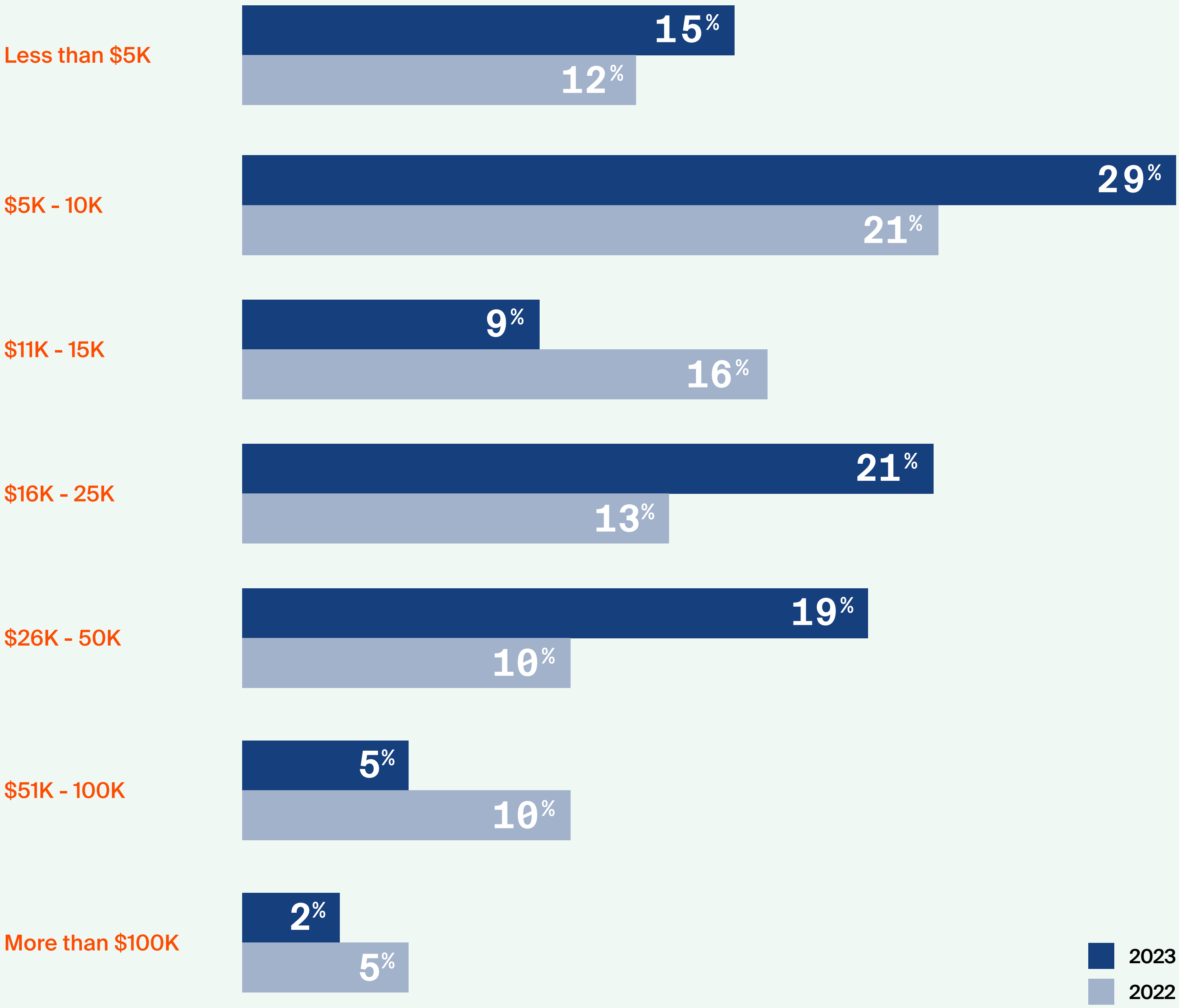
"We're constantly playing with our fee split to find what works," said the head of a small technology investment banking firm in New York. "We're balancing the cost of services, time management, cashflow smoothing between deals, and seller buy-in to project."

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

Fee levels tied to the expected work on a deal

“ We charge an upfront work fee to cover our initial setup costs, generally a 100-man-day investment.

INVESTMENT BANKER, DORSET, UNITED KINGDOM

“ The monthly fee is calculated on the average number of employees working on the project per month as well as their salaries.

INVESTMENT BANKER, GERMANY

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

“ We look at an overall fee potential. The monthly retainer is then set by our assessment of the risk profile of the deal. The starting point is roughly one-quarter of the total fee volume in the monthly retainer.

PHILIP HERRMANN, PARTNER, I-CAPITAL, BRAUNSCHWEIG, GERMANY

“ We decided to increase the minimum amount of our retainer fee to $25,000 because of the risk of deals that don’t close, bad intentions of the seller, and longer deal timelines.

BÜLENT HASANEFENDIOĞLU, EXECUTIVE VICE PRESIDENT, DINAMO CONSULTING, ISTANBUL, TURKEY

Small businesses are resistant to engagement fees

“ We work entirely on success fees. This is very important, especially in the small-mid sized market, to gain the customers’ trust.

NEDKO KOLEV, PARTNER, NEXTORIA, LONDON, UNITED KINGDOM

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

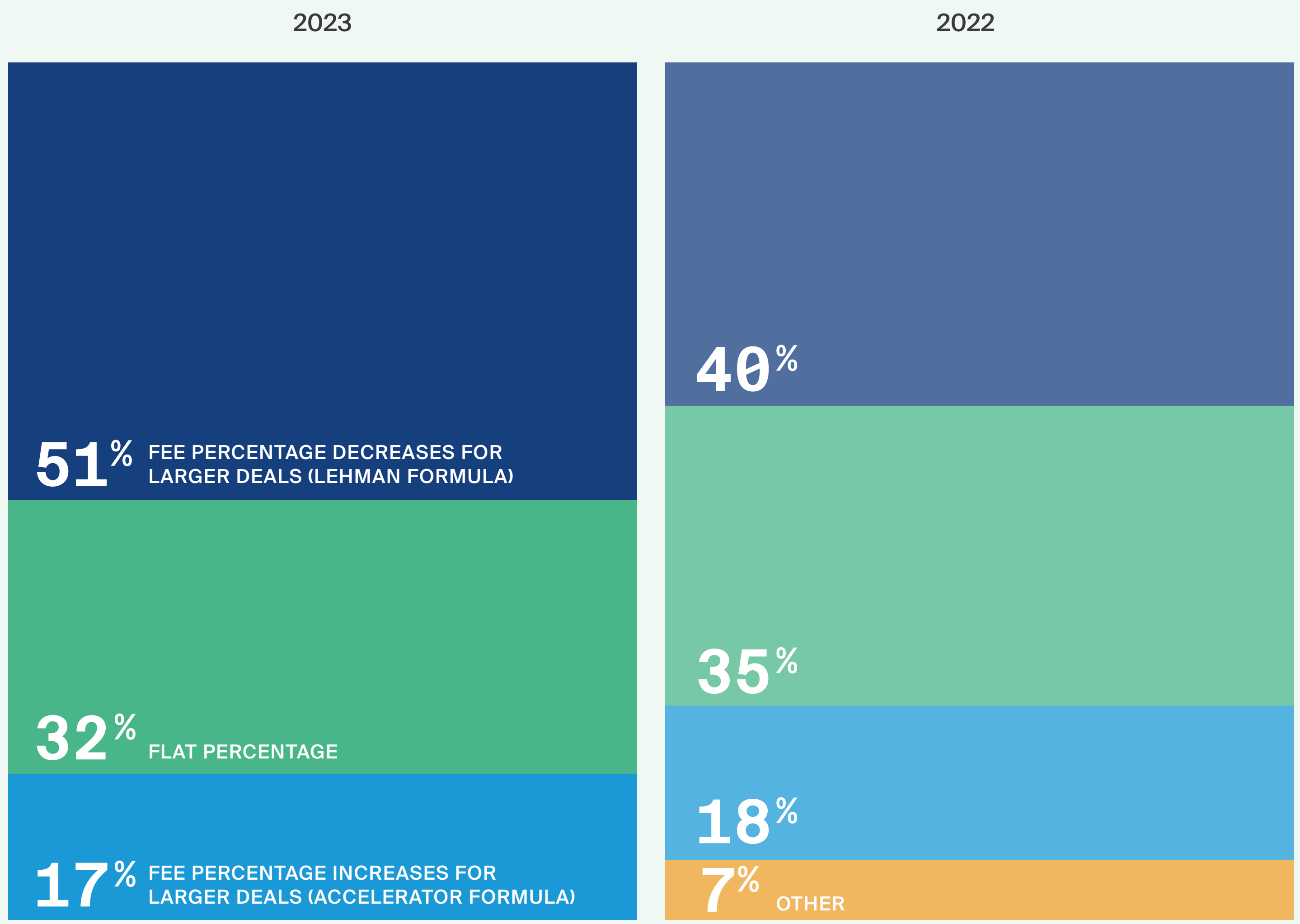
Success Fee Structure

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

Our methodology depends on decreasing the success fees as long as the transaction size increases. This helps convince the client that we are playing a fair game. The bigger the transaction gets, the easier it becomes.

AHMED EL-BADAWY DIAB, HEAD OF INVESTMENT BANKING, OSTOUL CAPITAL GROUP, CAIRO, EGYPT

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

A fixed success fee with a bonus

We used to charge a success fee as a percentage of the deal, but clients would argue to reduce the transaction value if the deal is heavily structured. We avoid this by moving to a fixed-value success fee with an uplift if we hit certain targets.

INVESTMENT BANKER, DORSET, UNITED KINGDOM

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.

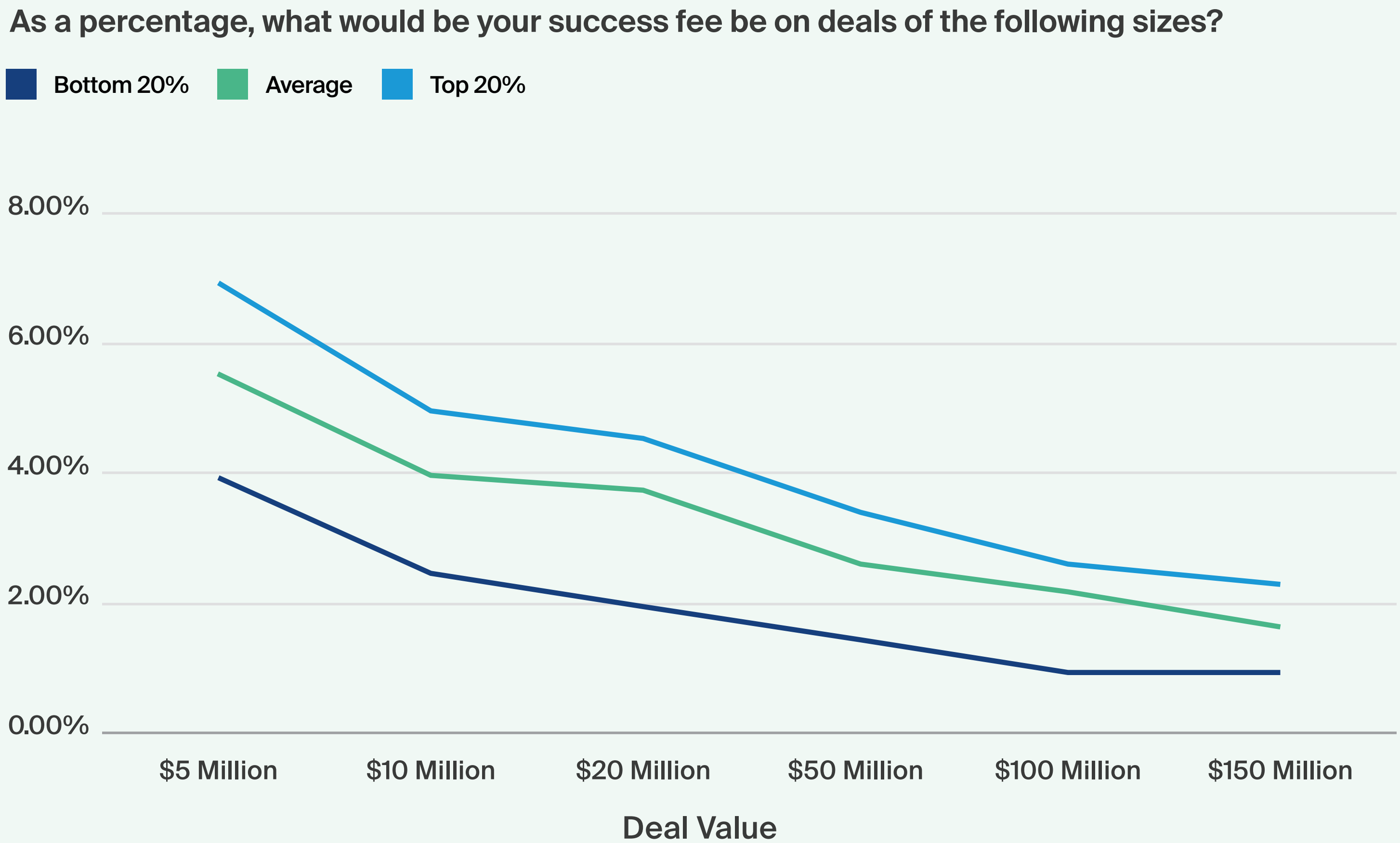
RON EDMONDS, PARTNER, PRINCIPIUM I WHITE OAK, MEMPHIS, UNITED STATES

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 5.5% for a $5 million transaction down to 1.7% for a $150 million deal. There was a significant variation in fees for each deal size. With a $20 million deal, for example, 80% of the responses were between 2.0% and 4.6%.

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.



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.

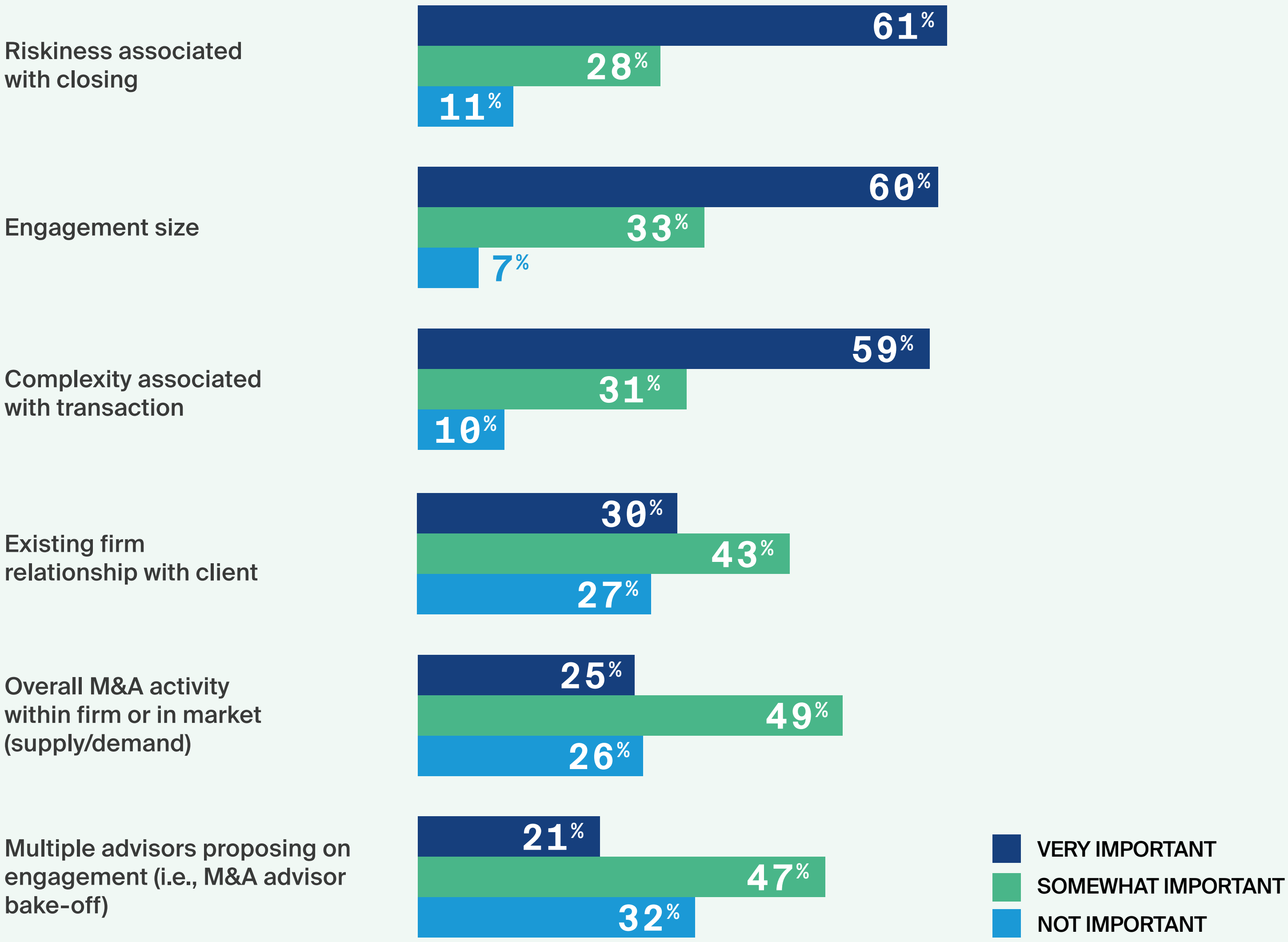
MATT GILBERT, CO-FOUNDER, GILBERT & PARDUE TRANSACTION ADVISORS, HOUSTON, UNITED STATES

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, 61% of the respondents said that riskiness associated with closing a transaction was a very important factor, more than any other option. Last year, risk was a distant third, behind the engagement size and the complexity associated with the transaction. Now size and complexity rank just behind risk as a concern.

What factors are taken into consideration 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, 75% 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

"The minimum success fee guarantees that we over-satisfied our costs. The percentage we get as a success fee is otherwise oriented on competitors' fees.

INVESTMENT BANKER, GERMANY

"We've moved to a larger minimum success fee that protects us from potential disagreements over the success fee.

INVESTMENT BANKER, CHICAGO, UNITED STATES

"We are increasing our minimum fee if the deal is completed below the target set by the seller. In fact, we are generally increasing our fees to deter sellers wanting to over-price.

COLIN MARSON, MANAGING PARTNER, LISERGY CONSULTING, LEICESTER, UNITED KINGDOM

"Minimum fees are higher because the valuations are lower than a year ago and our customers provide quite often too optimistic forecasts.

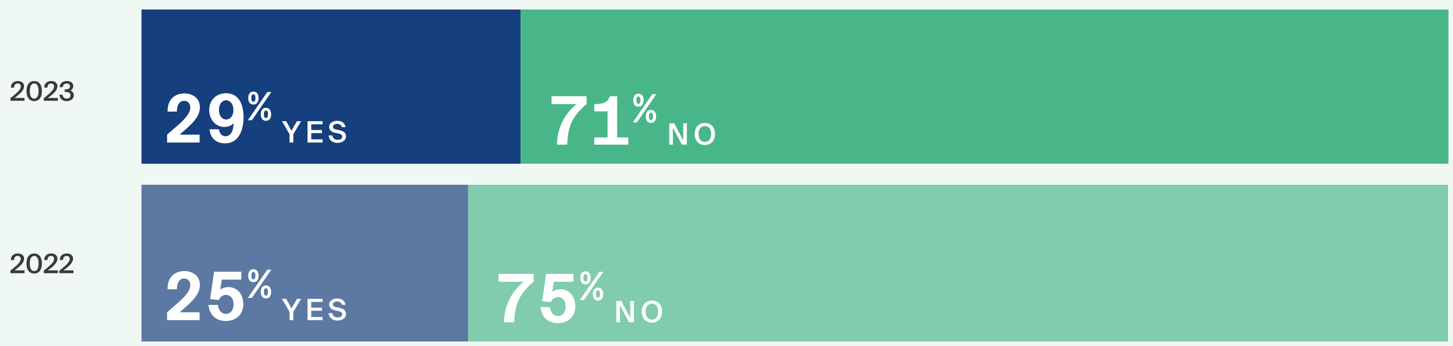
JARMO KUUSIVUORI, CEO, WOLFCORNER, HELSINKI, FINLAND

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, 29% of respondents charged break-up fees, up from 25% in 2022. Break-up fees are much more common in Europe, where they are used by one-third of firms surveyed, compared to North America, where only one-fifth of advisors charge break fees.

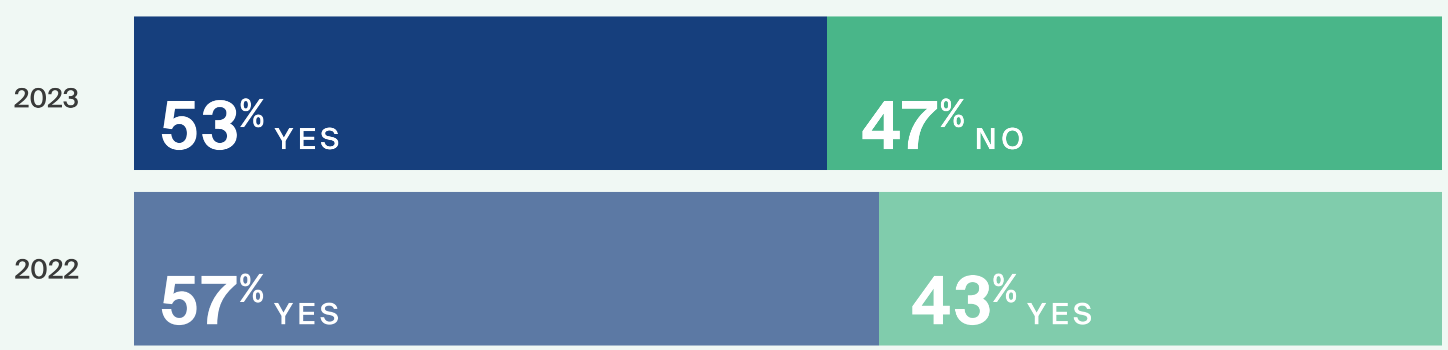
Do you commonly charge a break fee when a client rejects a bona fide offer?



Deducting Engagement Fees From Success Fees

Advisors are 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. In our 2022 survey, a clear majority (57%) said they credited the engagement fees paid toward the success fee. In their comments, many advisors said, "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

Deductions depending on how long it takes to complete the deal

“If the transaction is signed within 12 months, we deduct 100% of the engagement fees. Between 12-18 months, there’s a 50% deduction. After 18 months, no deduction.

MARC FEYEN, MANAGING DIRECTOR, PANDION PARTNERS, ANTWERP, BELGIUM

“We mostly deduct retainer fees from a certain point in time onward (i.e., after six months in the project, 50% of the retainer is deductible from the success fee).

INVESTMENT BANKER, GERMANY

Not for small deals

“We sometimes deduct retainer fees from success fees, but not when at minimum success fee levels.

CHARLIE LEWIS, MANAGING DIRECTOR, LEWIS CORPORATE ADVISORY, SYDNEY, AUSTRALIA

“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.

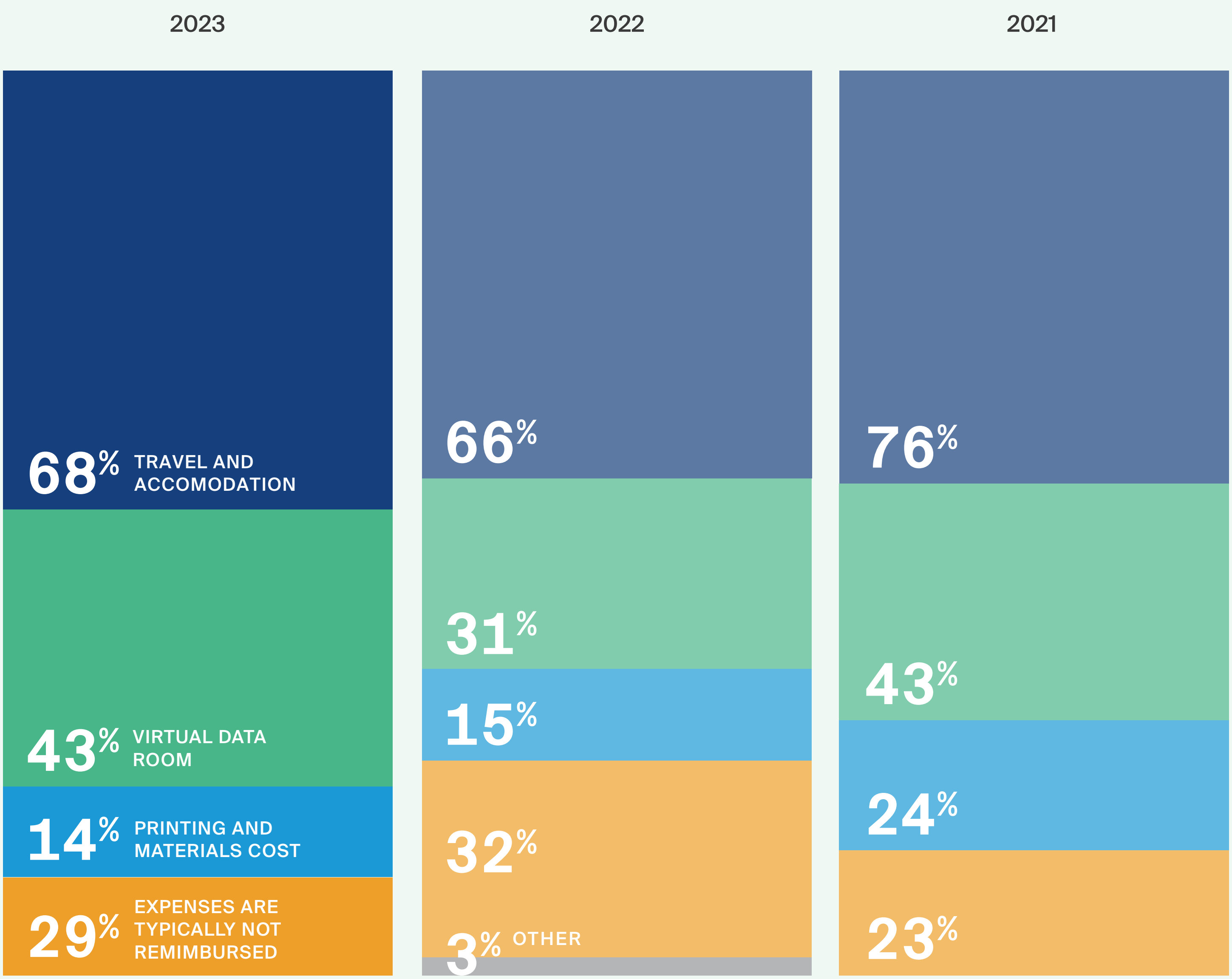
GREG DESIMONE, PRESIDENT, CATAPULT ADVISORY GROUP, BOSTON, UNITED STATES

Additional Terms Continued

Charging for Expenses

Two-thirds of the advisors say they are commonly reimbursed for their travel and entertainment expenses. In 2023, a majority of firms (57%) did not pass the cost of virtual data rooms on to their clients, a trend Firmex sees reflected in the adoption of subscription data rooms, over transactional use. 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?

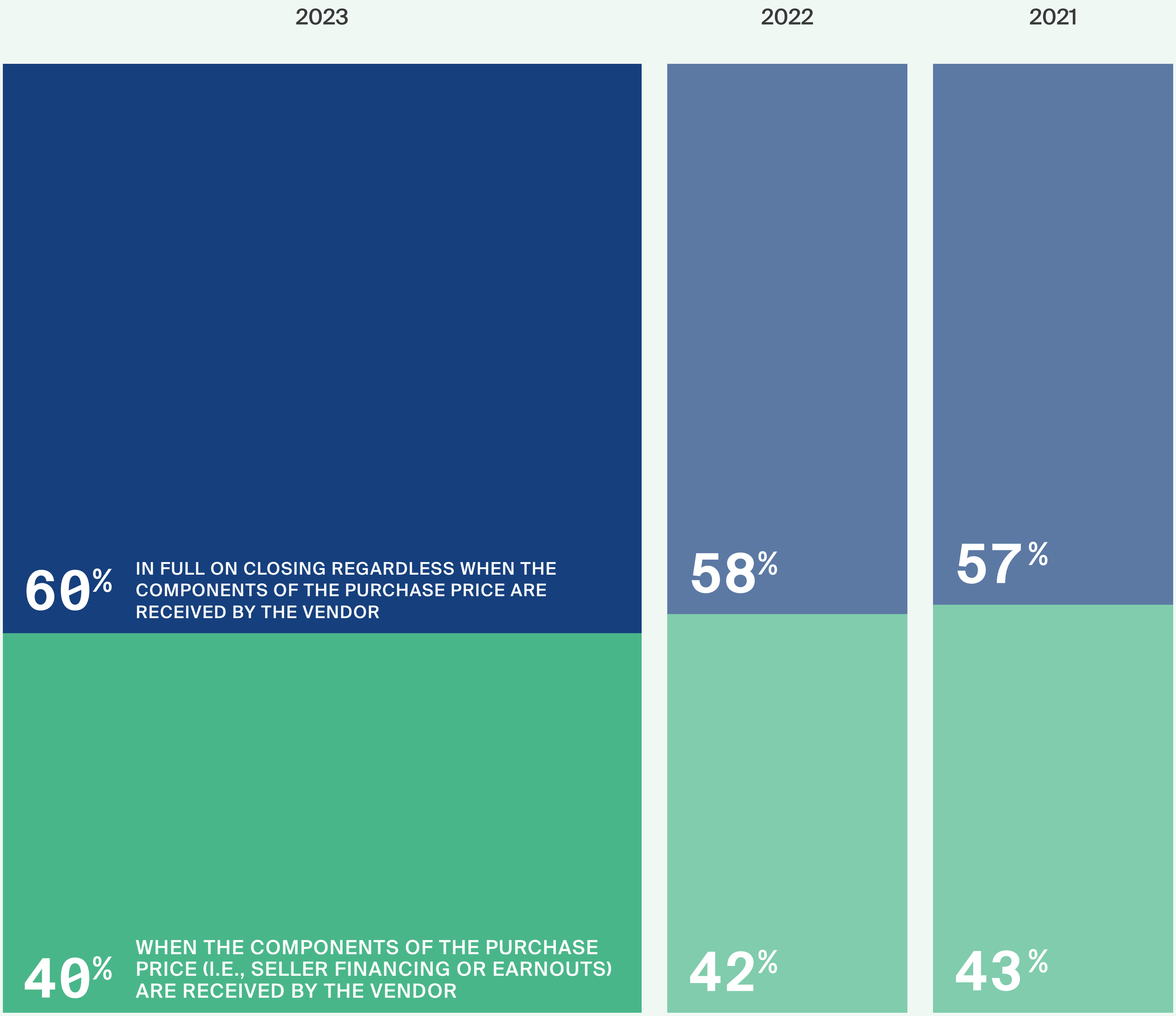


Additional Terms Continued

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 three-fifths of advisors insist that the full fee be paid at closing, even if the seller hasn't received the full payment.

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

“Longer term commitment. Protection from another broker cutting in.

BUSINESS BROKER, UNITED STATES

“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.

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.

Expert Commentary

The 2023-2024 M&A Fee Guide reveals evolving strategies in fee structuring from investment bankers as they proactively respond to a more uncertain and complex dealmaking environment. Looking ahead, business owners can expect investment bankers to continue to adapt their fee structures to meet the demands of a competitive and changing market. It is likely firms will continue to prefer fee models with retainer components to decrease their reliance on success fees. They will also continue to factor in more complicated deal terms necessary to get transactions done, which may be reflected in how they structure their success fee payouts. These shifts offer more predictable revenue for investment banks and align fee structures with the effort and expertise required to complete more complex deals. The resiliency and adaptability of investment banks should be encouraging to business owners. In a dynamic market, expert advice can be critical for successful outcomes, and exit-minded owners should work proactively to identify the right investment banker who can bring experience in navigating challenging environments and know how to proactively align their own success with that of their clients.

ALFREDO GARCIA, AXIAL

As we conclude the Global M&A Fee Guide 2023-2024, additional observations emerge about the M&A market and its evolving fee structures. The current landscape is characterized by strategic adaptations to economic pressures and a nuanced understanding of risk management. The growing complexity of deals and a shift towards more varied and flexible fee structures are reflections of an industry in flux, responding to both market demands and internal financial imperatives.

Looking ahead to 2024, it's reasonable to expect continued evolution in advisor fees, revenue models, and profitability strategies. The M&A market is likely to see further innovation in fee structuring as firms seek to balance risk with potential rewards. This could include more tailored fee arrangements, increased use of engagement fees, and potentially, a greater focus on performance-based success fees.

The adaptability and resilience shown by smaller firms in particular suggest a potential shift in market dynamics, where agility and innovative strategies could play a larger role in determining success. As the market continues to navigate economic uncertainties and evolving business environments, the ability of M&A advisors to adjust their fee structures in line with these changes will be crucial for sustained profitability and growth.

In summary, 2024 is poised to be a year where strategic fee management and adaptability will be key determinants of success in the M&A sector, with firms continuing to innovate in response to an ever-changing market landscape.

KAI HESSELMANN, DEALCIRCLE

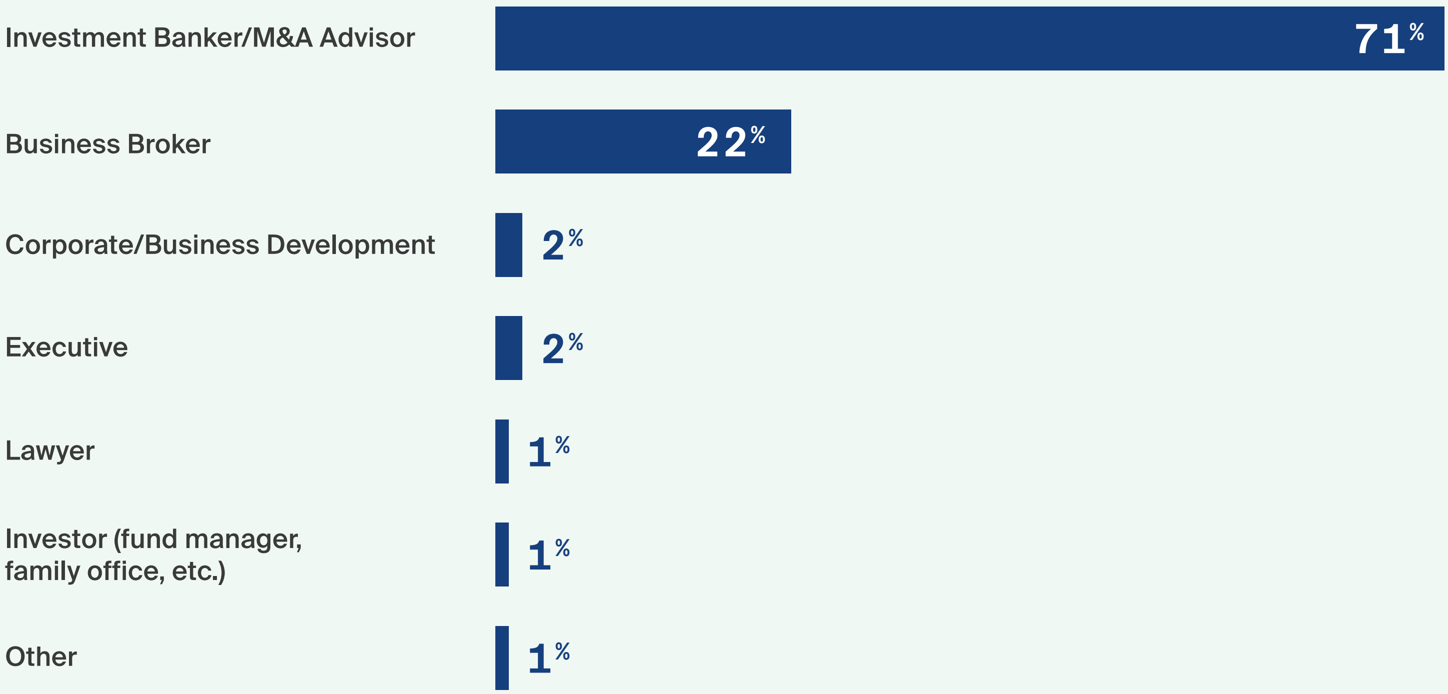
The M&A market has been experiencing shifts towards more flexible and outcome-oriented fee structures. This trend is indicative of a broader shift in the market where clients are seeking more value and alignment with their advisory partners. The Global M&A Fee Guide has likely acted as a catalyst for these fee changes, offering crucial insights that shape industry standards and practices.

For 2024, I expect the M&A market to continue to adapt to economic uncertainties and regulatory changes, which will likely influence both the volume and the complexity of deals. This environment may encourage M&A advisors to further refine their fee structures, not only to meet the rising demand for high-value advisory services from clients but also to manage the advisors' risk amidst market uncertainties. These structures might include tiered success fees or increased work fees to offset risk, tailored to reflect the diverse levels of risk and effort associated with completing successful M&A transactions.

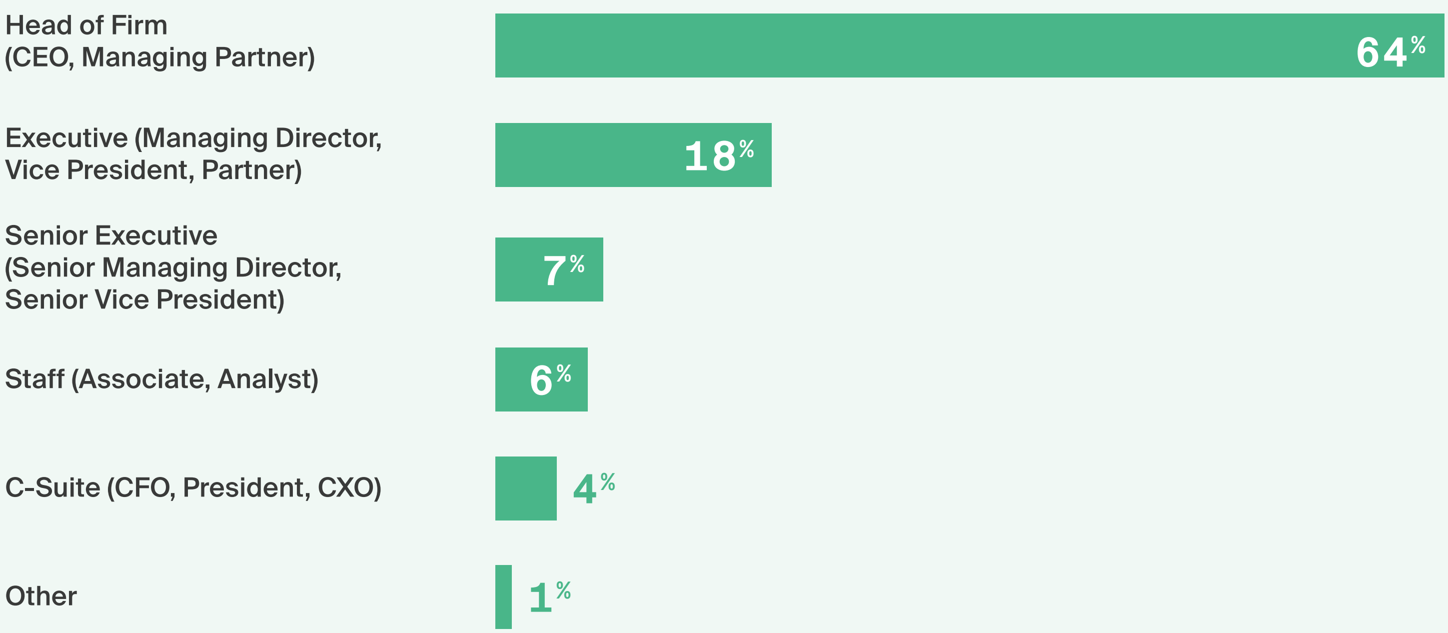
JOHN CARVALHO, DIVESTOPEDIA

Appendix: Respondent Demographics

Which of the following best describes your current occupation?



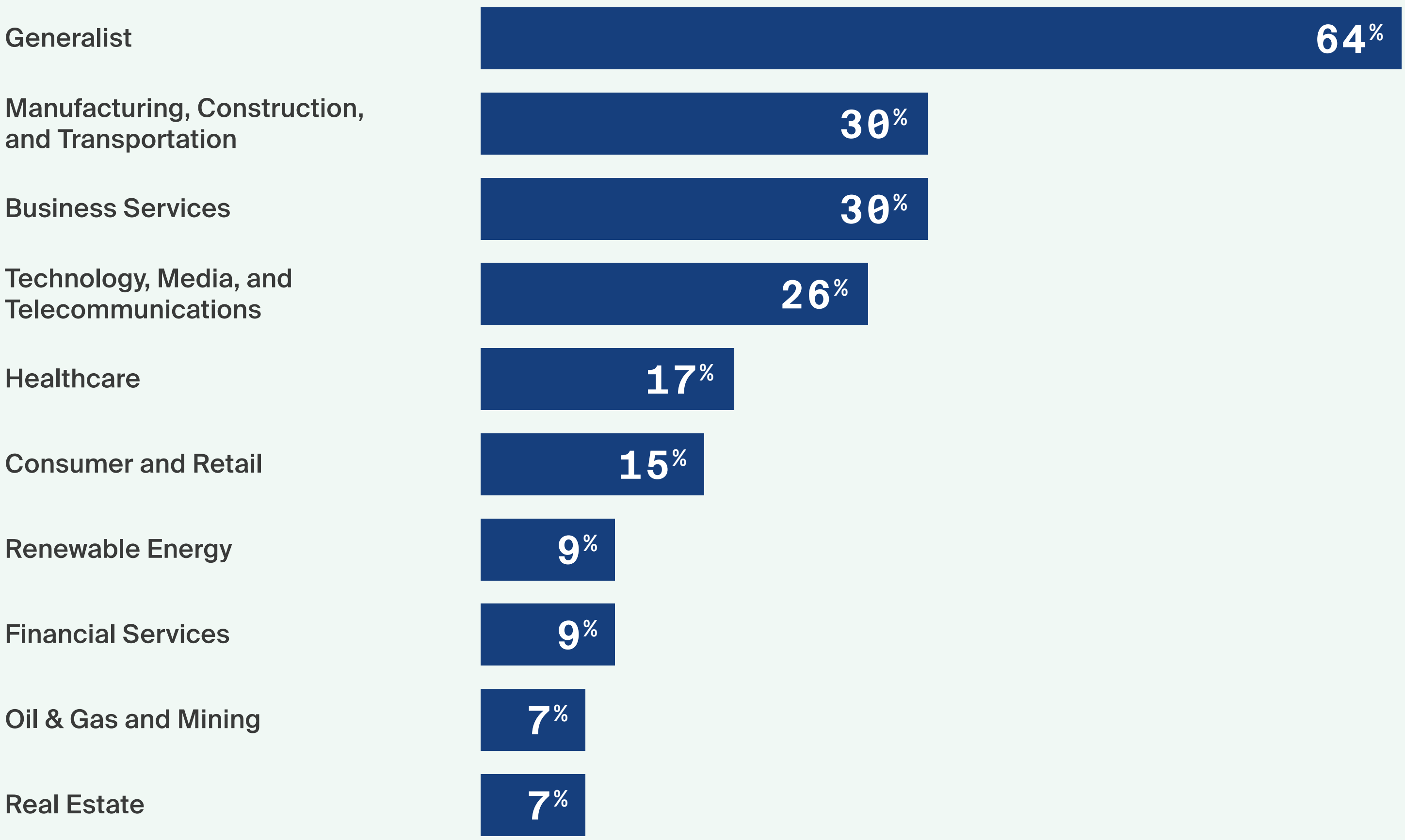
What is your job title?



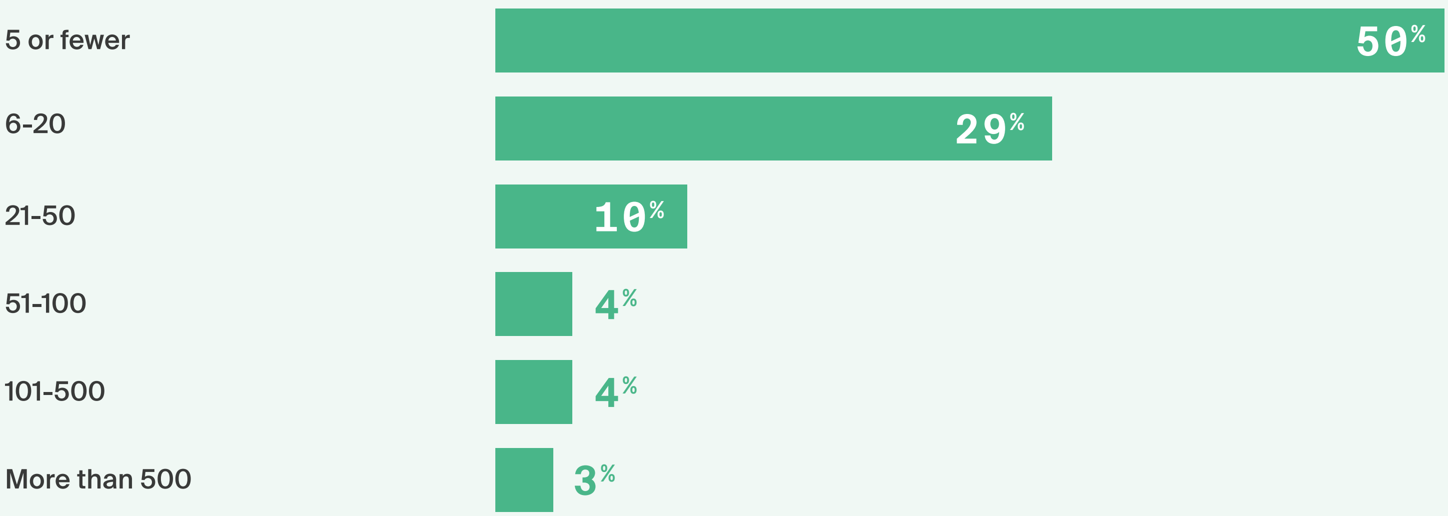
Appendix: Respondent Demographics

Continued

Do you specialize in any of the following industries?



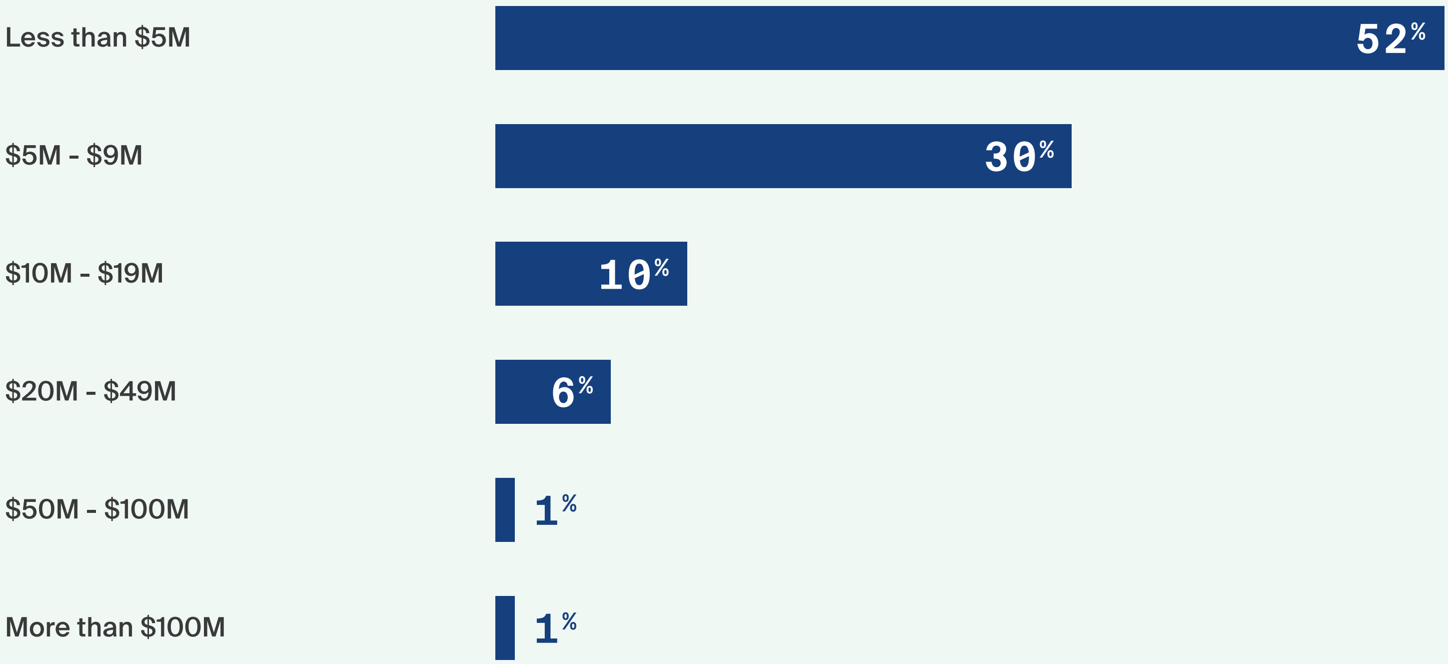
How many total employees does your firm have?



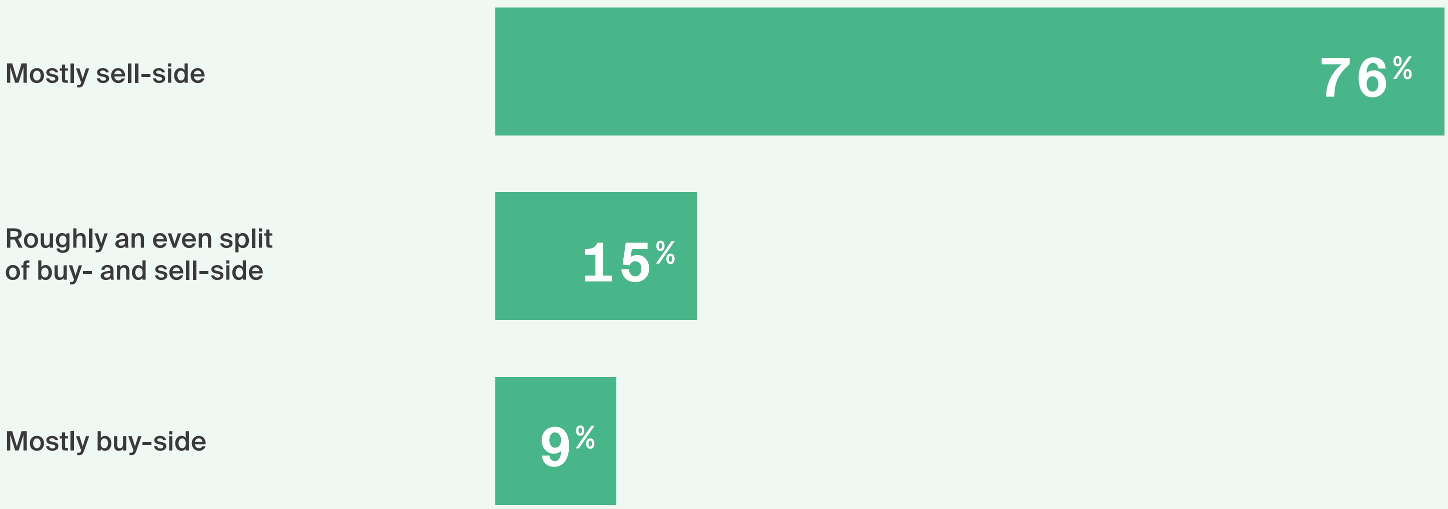
Appendix: Respondent Demographics

Continued

What is your minimum transaction value?



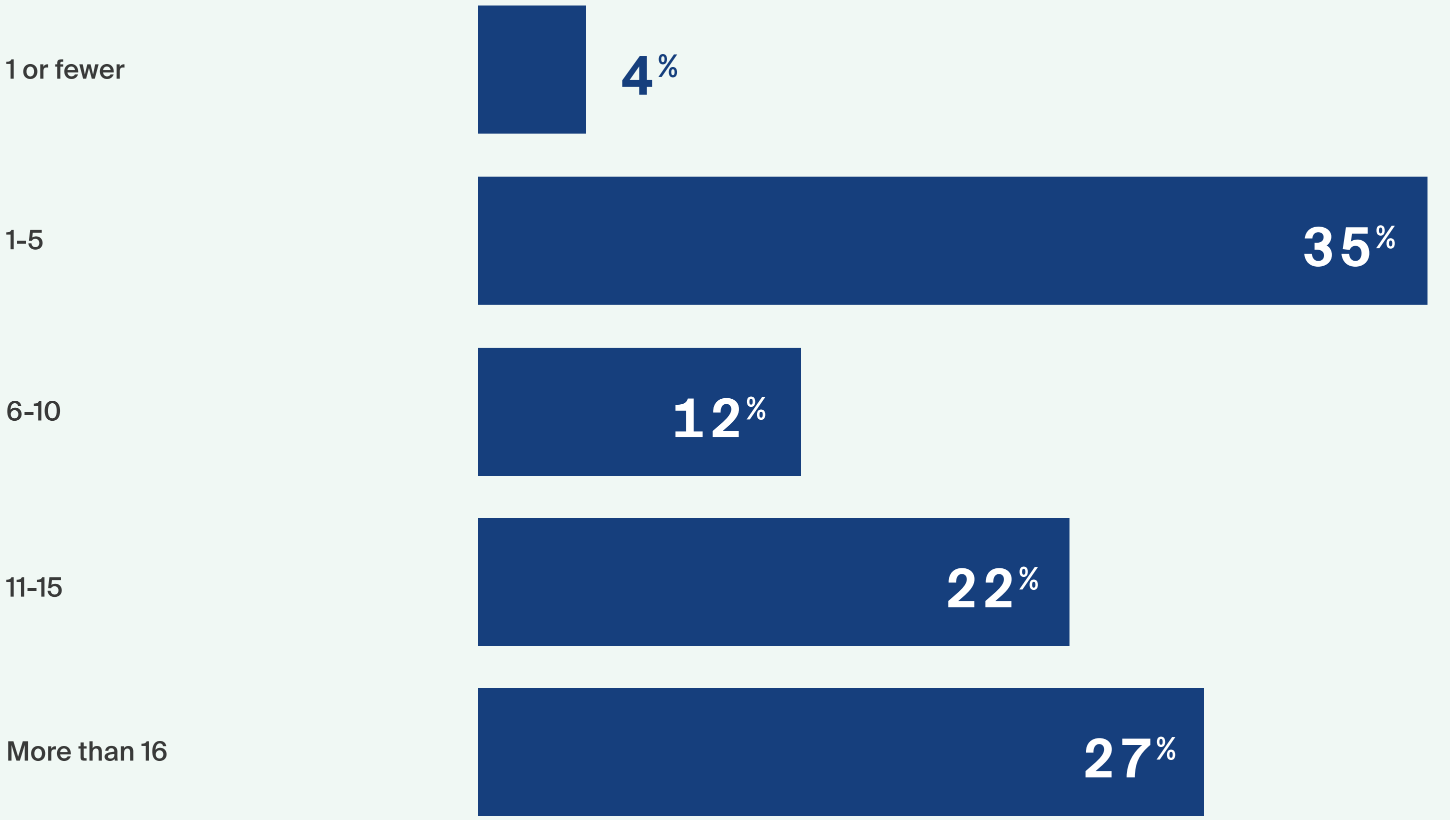
Are your clients:



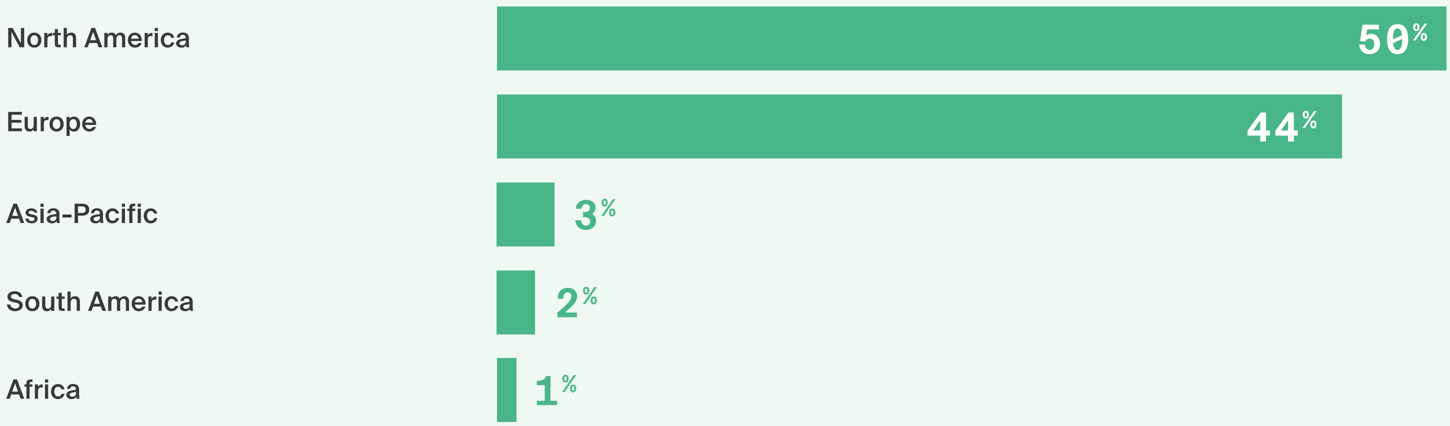
Appendix: Respondent Demographics

Continued

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



What region do you primarily work in?



About Our Partners

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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DealCircle is offering technology based M&A solutions for M&A advisors and buyers. Hundreds of advisors are using our tool for the buyer-identification process and for the initial contact. Buyers get access to an extensive deal-flow of relevant projects.

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Divestopedia is a leading resource for all topics related to middle-market M&A. We provide educational insights and tools to help business owners and intermediaries effectively complete transactions.

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