

## Mergers & Acquisitions Update: The Middle Market Year in Review 2020

### Mufson Howe Hunter Commentary <sup>(1) (2)</sup>

2020 was quite an interesting year. The M&A market started off in January with strong momentum, then the COVID-19 gut-punch hit in April; which many assumed would place M&A in a long-term somnolent state. However, within a short 60-day period, the credit markets began to cautiously fund transactions, albeit on a lower -leverage basis due to the pandemic's unknown impact on the various sectors of the economy. Despite a rebound beginning in late Q2, transactional activity for middle market companies (deals below \$250 million in EV) dropped 38% YoY at the conclusion of Q2 2020. Similarly, dollar volume was off by 65% from Q1 2020 to Q2 2020. But by the close of Q3 2020, deal volume improved to its historical levels and rebounded up 44%. For the twelve months in 2020, transactional count did close the year off 19% with a dollar volume drop of 31%.

Despite the havoc, middle market M&A valuations remained healthy. Based on EV/EBITDA, transactions below \$25 million remained constant on a YoY basis at 7.5x EBITDA. Transactions valued \$25-50 million increased from 7.3x in 2019 to 8.8x in 2020. Transactions priced between \$50-100 million increased to 9.4x, up from 8.4x in 2019. Transactions priced between \$100-250 million fell to 9.4x from 10.3x in 2019. Transactions priced between \$250-500 million decreased to 8.9x from 9.7x in the same period 2019. Finally, transactions between \$500 million-\$1 billion increased slightly from 9.6x in 2019 to 9.8x in 2020.

As we stated in our last publication, we have added M&A Credit/Leverage statistics to our "Mergers & Acquisitions Update - The Middle Markets" with the addition of credit stats from our friends at SPP Capital Partners ([www.sppcapital.com](http://www.sppcapital.com)). The credit markets for middle market deals as of February 2021, remain fairly consistent when compared to prices before the effect of COVID-19. Leverage underwriting in middle market credit increased leverage amounts roughly ~.25x for senior lending and ~.25x to ~.50x for total debt. SPP Capital stated in its latest report, "most lenders remain wary of thinly capitalized deals, and as a general proposition, a minimum aggregate of 50% base level equity (inclusive of any rollover) is likely required for most deals, with at least 30%-35% minimum new cash equity. The market remains relatively tolerant of "structured-equity" solutions below the debt stack however, even supporting cash pay (or cash/PIK) preferred structures between the debt and common shares."

Size Range	U.S. Announced M&A Transactions <sup>(2)</sup>						
	2016	2017	2018	2019	YE Dec-19	YE Dec-20	
\$0-25mm	7.3x	7.3x	7.6x	7.4x	7.5x	7.5x	
\$25-50mm	8.2x	9.2x	8.1x	7.3x	7.3x	8.8x	
\$50-100mm	8.5x	9.0x	8.9x	8.4x	8.4x	9.4x	
\$100-250mm	8.5x	9.0x	9.6x	10.3x	10.3x	9.4x	
\$250-500mm	10.2x	10.1x	9.6x	9.7x	9.7x	8.9x	
\$500mm-\$1B	9.1x	11.4x	9.6x	9.6x	9.6x	9.8x	

<sup>(1)</sup> Source: *CapitalIQ* and *PitchBook*

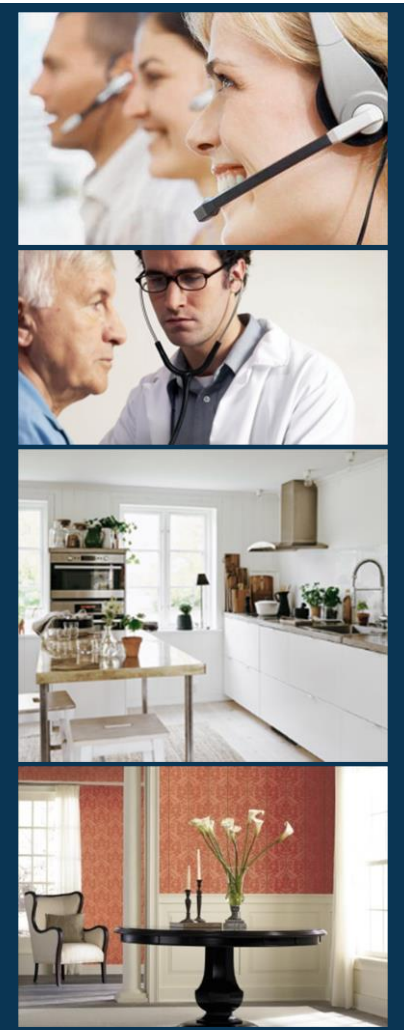
<sup>(2)</sup> Source: *CapitalIQ*

We hope you find our report valuable, and we welcome any comments or suggestions.

Regards,



Michael J. Mufson  
Managing Director



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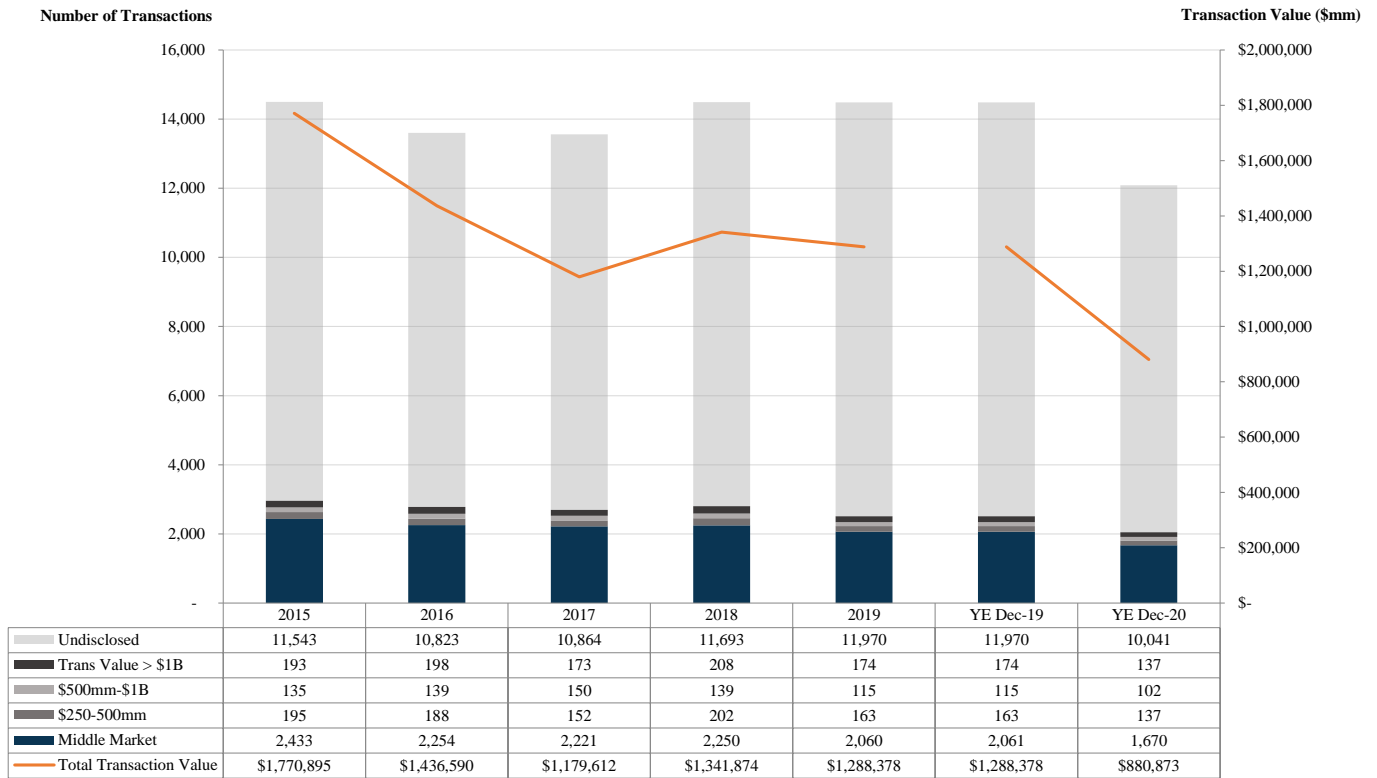
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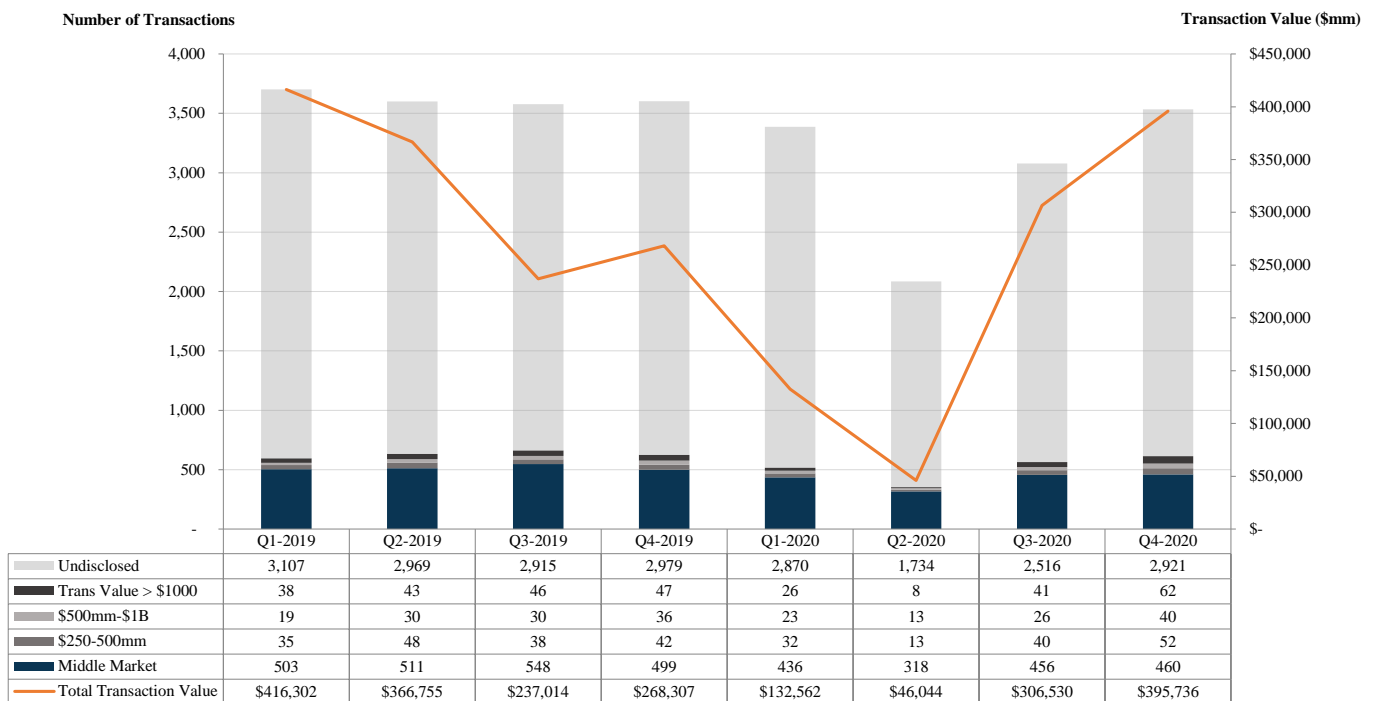
# Mergers & Acquisitions Update

## U.S. - All Reported M&A Activity



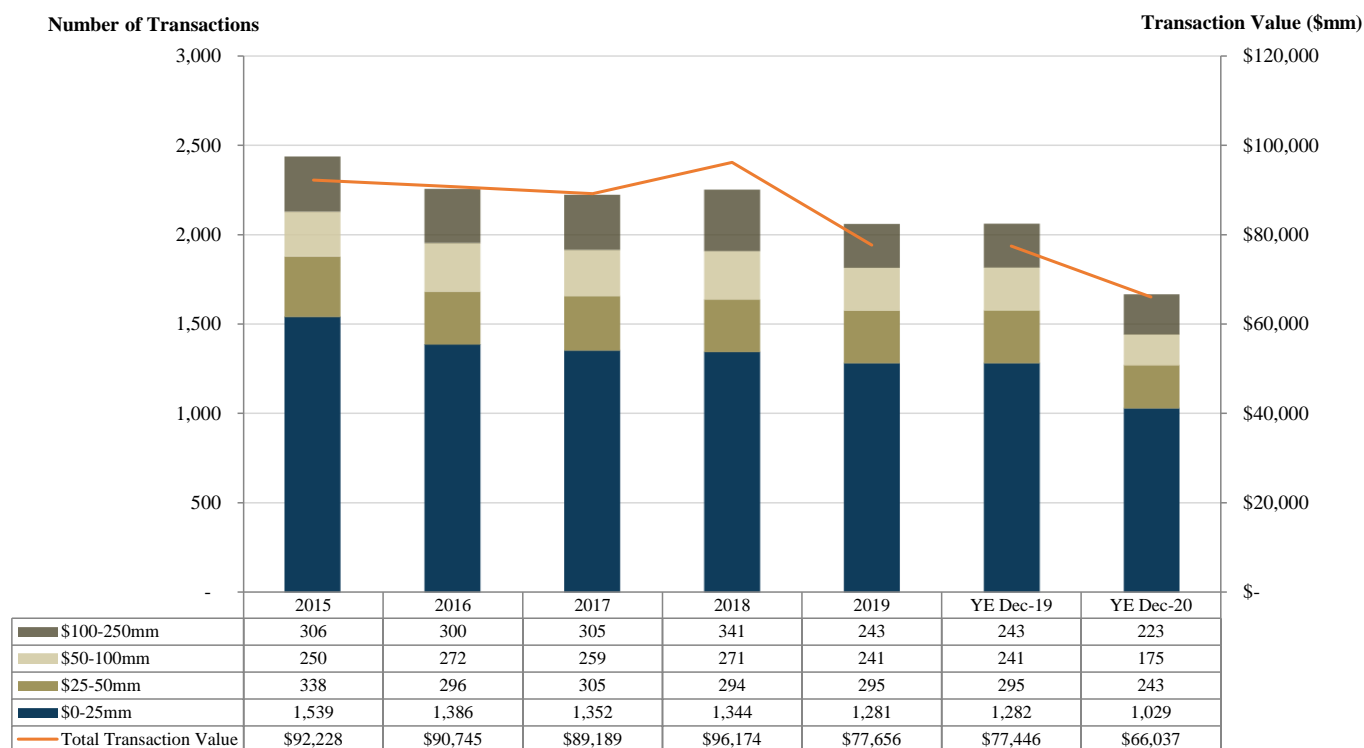
Note: Publicly disclosed M&A transactions  
Source: CapitalIQ, Mufson Howe Hunter

## U.S. - All Reported M&A Activity



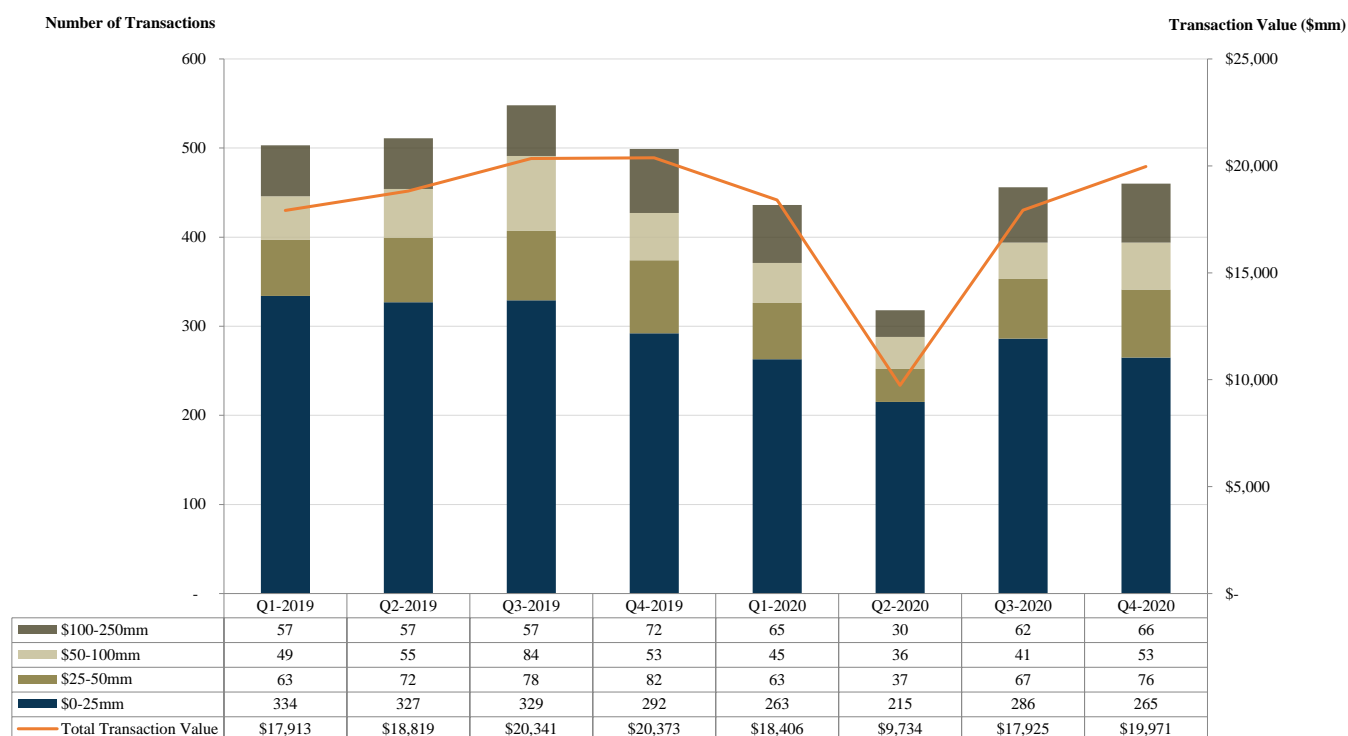
Note: Publicly disclosed M&A transactions  
Source: CapitalIQ, Mufson Howe Hunter

## U.S. Lower Middle Market M&A Activity - Transactions Below \$250 million



Note: Publicly disclosed M&A transactions  
Source: CapitalIQ, Mufson Howe Hunter

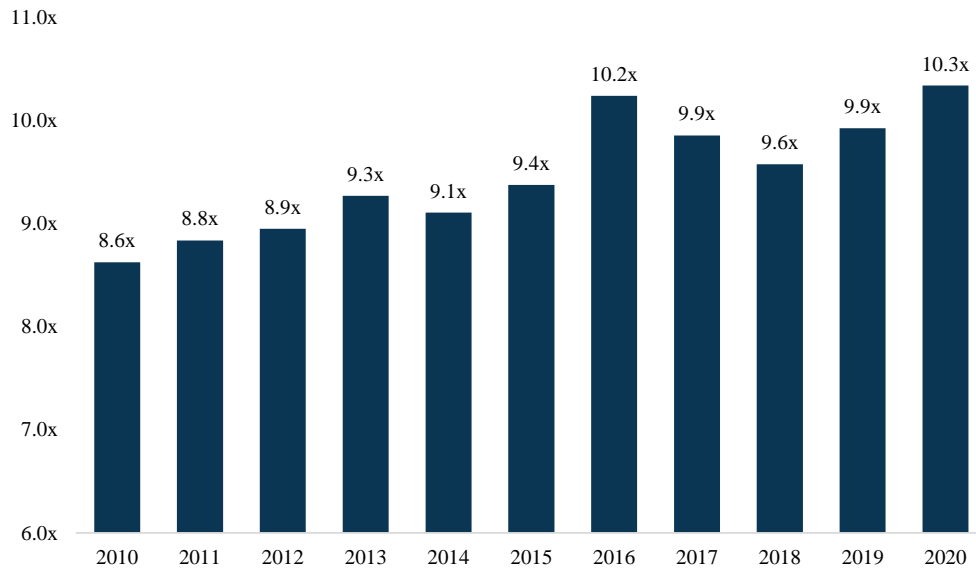
## U.S. Lower Middle Market M&A Activity - Transactions Below \$250 million



Note: Publicly disclosed M&A transactions  
Source: CapitalIQ, Mufson Howe Hunter

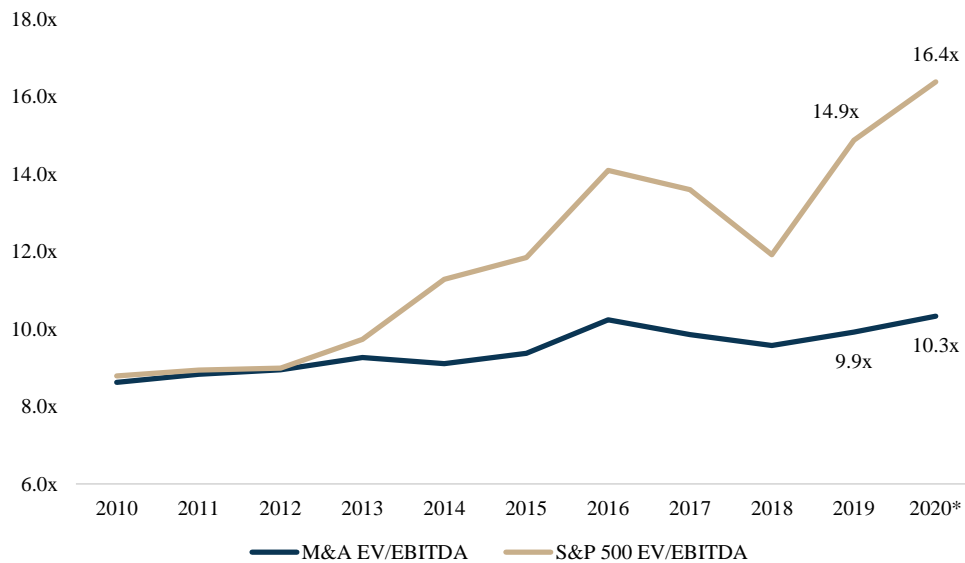
## North American M&A Valuation Multiples and Activity

### North American M&A Multiples (EV/EBITDA)



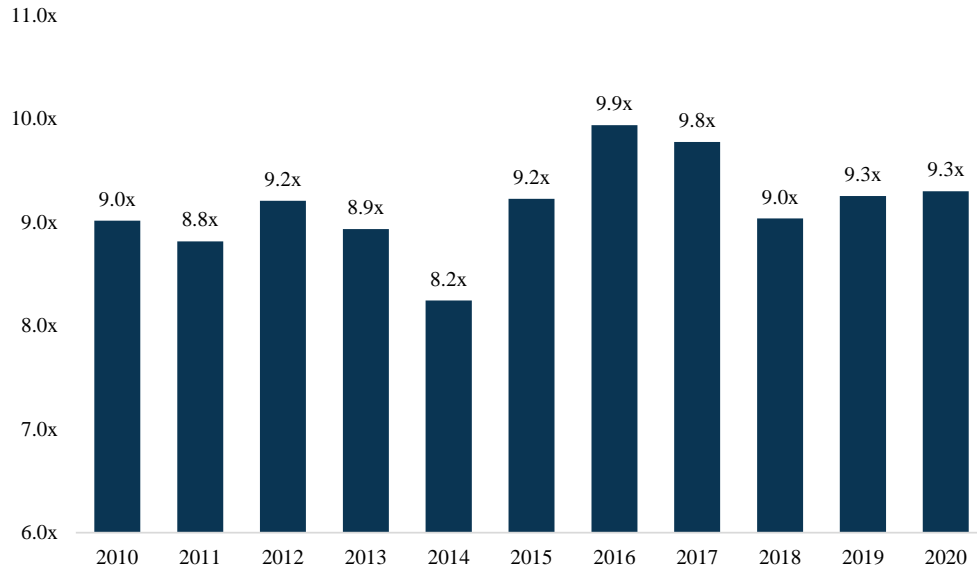
Source: PitchBook  
\*FYE 2020

### North American M&A and S&P 500 multiples (EV/EBITDA)



Source: PitchBook  
\*FYE 2020

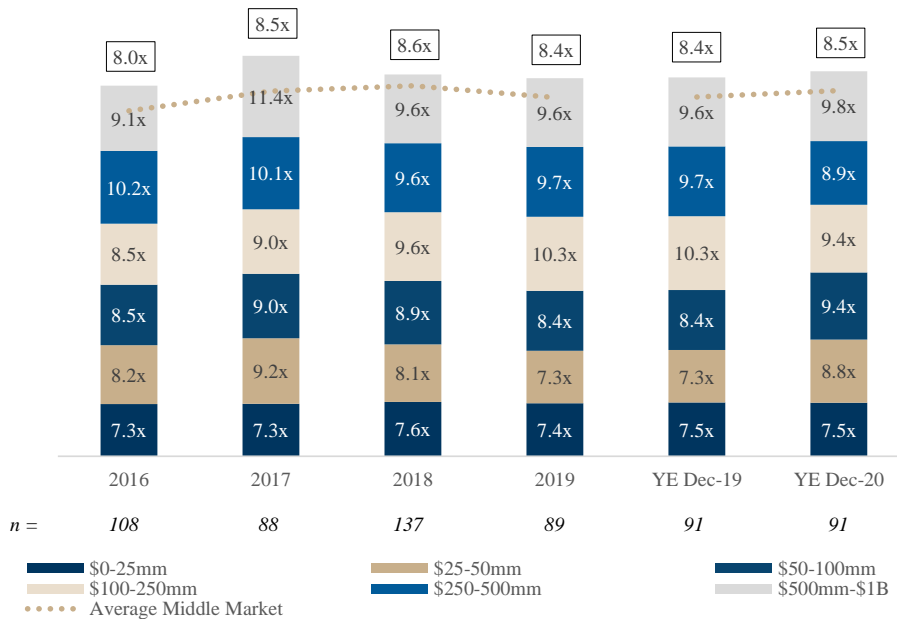
## North American Strategic M&A Median Valuation Multiples



Source: PitchBook  
\*FYE 2020

## U.S. Middle Market Valuation Multiples

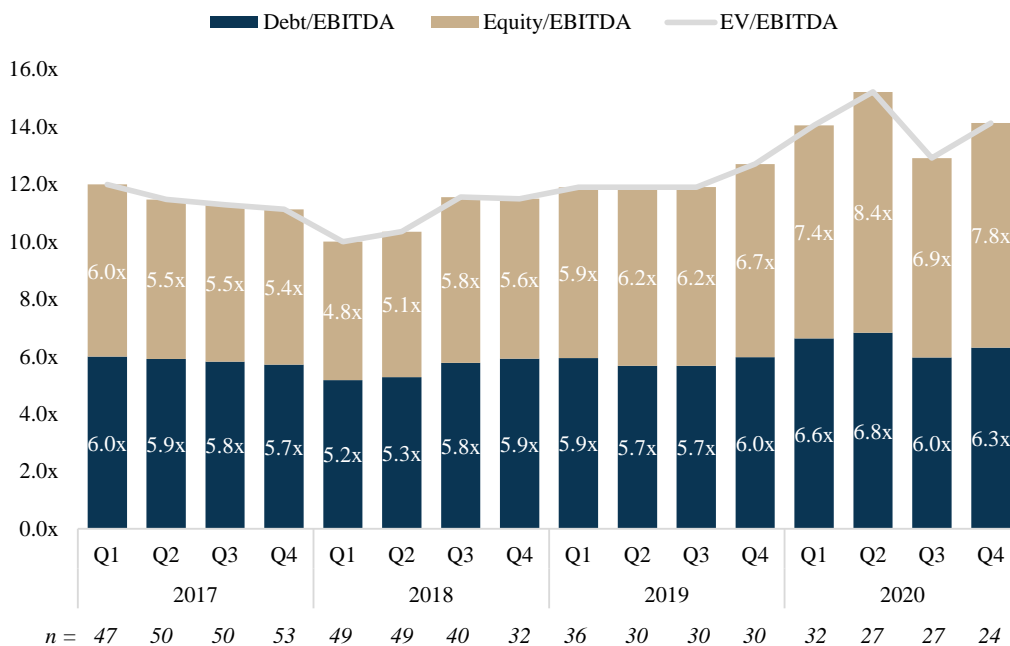
### All U.S. Middle Market M&A Transactions Valuation Multiples



Source: Capital IQ

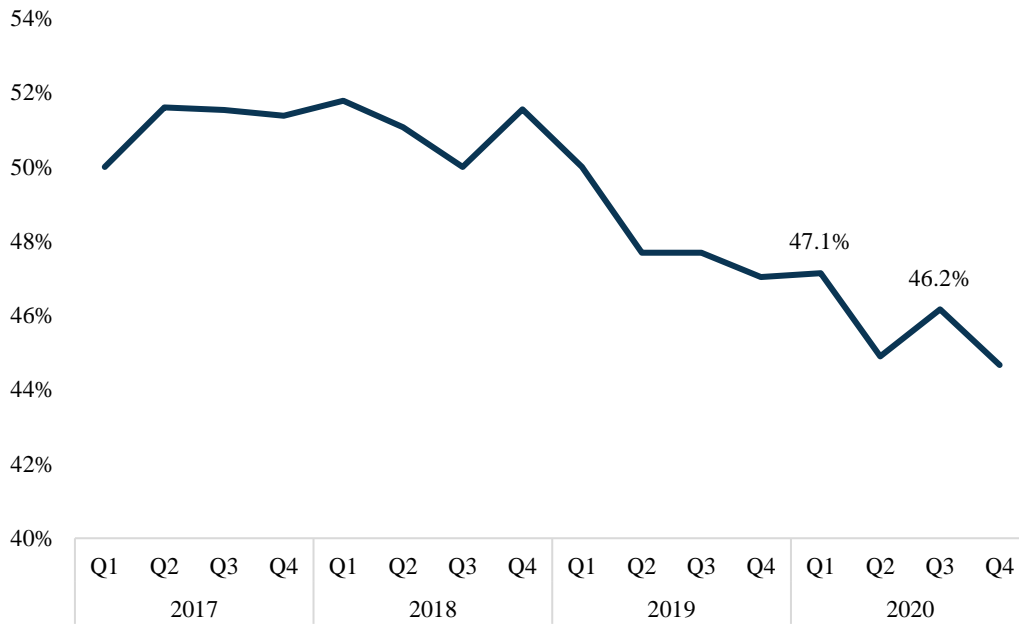
### Median U.S. PE Buyout Multiples

Middle Market, as defined by PitchBook, includes transactions valued at \$25 million up to \$1 billion. The following chart depicts certain key elements of Middle Market Private Equity M&A activity through December 31, 2020.



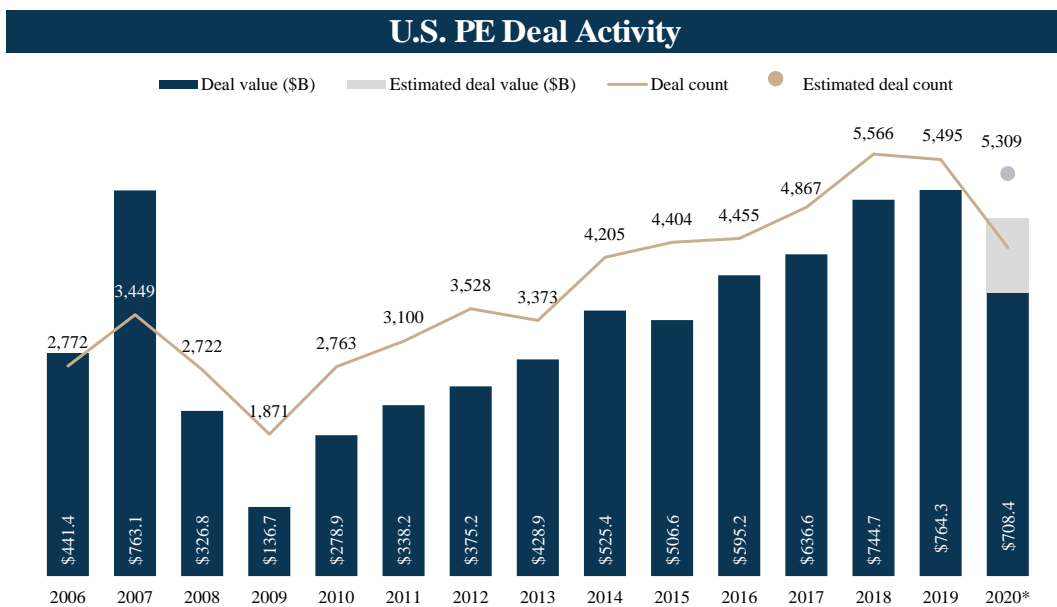
Source: PitchBook

U.S. Middle Market PE Buyout Debt Percentage

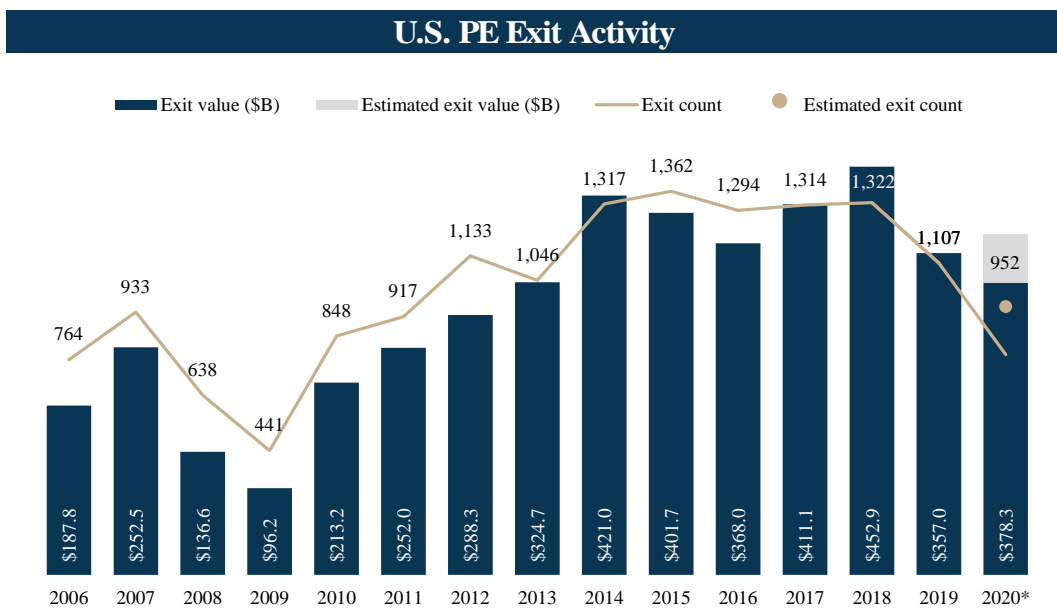


Source: PitchBook

## U.S. Middle Market PE Activity



Source: PitchBook  
\*FYE 2020



Source: PitchBook  
\*FYE 2020



## Leverage Market at a Glance

By SPP Capital Partners

### Cash Flow Senior Debt/EBITDA

	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
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February 2021	1.75x - 2.75x	2.75x - 3.50x	3.25x - 4.25x
January 2021	1.50x - 2.50x	2.50x - 3.50x	3.00x - 4.00x
February 2020	1.75x - 2.75x	2.75x - 3.50x	3.00x - 4.50x

Commentary: *Continued Pressure on Tighter Pricing and Expanded Leverage Tolerances*

### Total Debt/EBITDA

	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
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February 2021	3.00x - 3.75x	4.00x - 5.25x	4.50x - 5.50x
January 2021	2.50x - 3.50x	3.50x - 5.00x	4.00x - 5.50x
February 2020	3.00x - 3.75x	4.00x - 5.25x	4.50x - 6.00x

Commentary: *Continued Pressure on Tighter Pricing and Expanded Leverage Tolerances*

### Senior Cash Flow Pricing

	Bank	Non-Bank < \$7.5MM EBITDA	Non-Bank > \$15MM EBITDA
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February 2021	L+ 3.00% - 4.50%	L+ 6.00% - 8.00%	L+ 5.50% - 7.00%
January 2021	L+ 3.25% - 4.25%	L+ 6.50% - 8.00%	L+ 5.50% - 7.50%
February 2020	L+ 3.00% - 4.50%	L+ 5.00% - 7.00%	L+ 4.00% - 5.50%

Commentary: *Continued Pressure on Tighter Pricing and Expanded Leverage Tolerances*

### Second Lien Pricing

	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
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February 2021	L+ 7.50% - 10.50%	L+ 6.00% - 8.50%	L+ 6.00% - 7.50%
January 2021	L+ 8.50% - 10.50%	L+ 6.50% - 8.50%	L+ 6.00% - 7.50%
February 2020	L+ 7.00% - 10.00%	L+ 5.50% - 7.50%	L+ 5.00% - 6.50%

Commentary: *Continued Pressure on Tighter Pricing and Expanded Leverage Tolerances*

### Sub Debt Pricing (Total Coupon: Cash + PIK)

	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
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February 2021	12.00% - 14.00%	10.00% - 12.00%	9.50% - 11.00%
January 2021	13.00% - 14.50%	11.00% - 12.50%	10.50% - 11.50%
February 2020	11.00% - 14.00%	10.00% - 12.00%	8.50% - 11.00%

Commentary: *Continued Pressure on Tighter Pricing and Expanded Leverage Tolerances*

### Unitranche Pricing

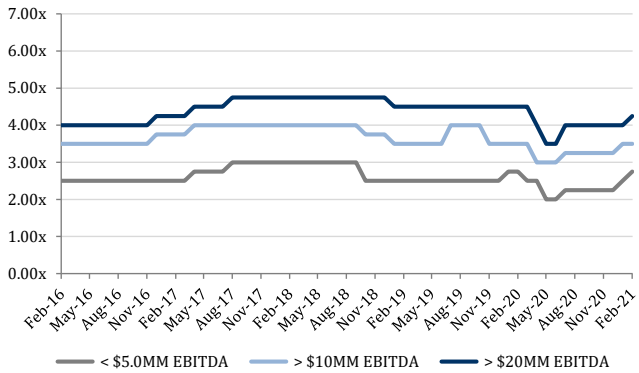
	< \$5MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
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February 2021	L+ 7.50% - 10.50%	L+ 6.00% - 8.50%	L+ 6.00% - 7.50%
January 2021	L+ 8.50% - 10.50%	L+ 6.50% - 8.50%	L+ 6.00% - 7.50%
February 2020	L+ 7.00% - 10.00%	L+ 5.50% - 7.50%	L+ 5.00% - 6.50%

Commentary: *Continued Pressure on Tighter Pricing and Expanded Leverage Tolerances*

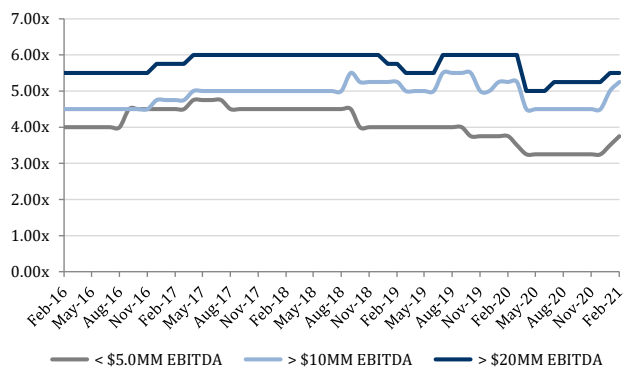
## Historical Leverage Metrics by SPP Capital Partners

### Historical Senior Debt Cash Flow Limit (x EBITDA)



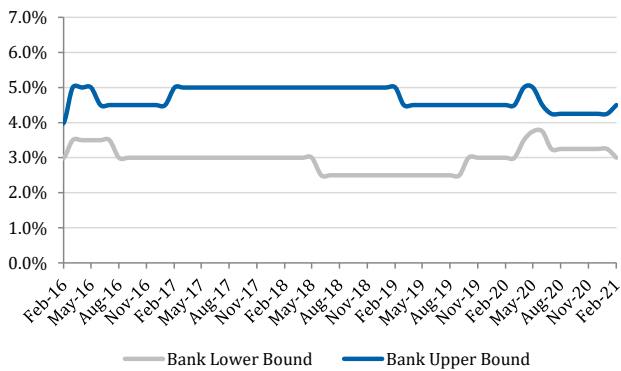
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

### Historical Total Debt Limit (x EBITDA)



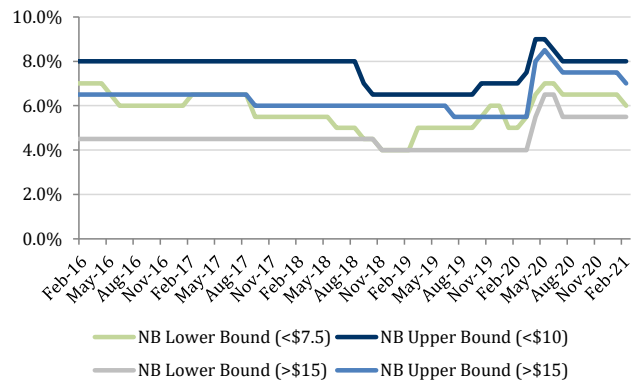
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

### Historical Senior Cash Flow Pricing (Bank)



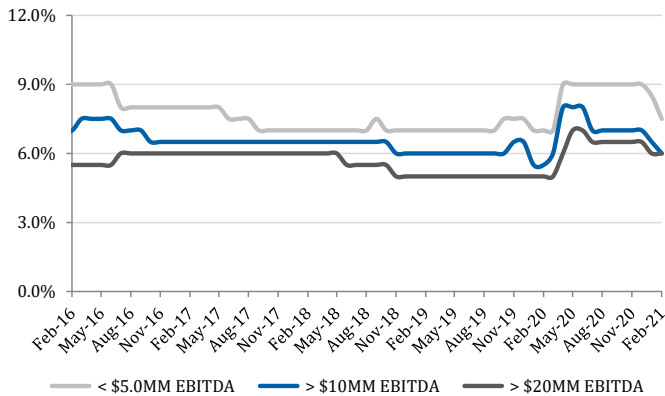
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

### Historical Senior Cash Flow Pricing (Non-Bank)



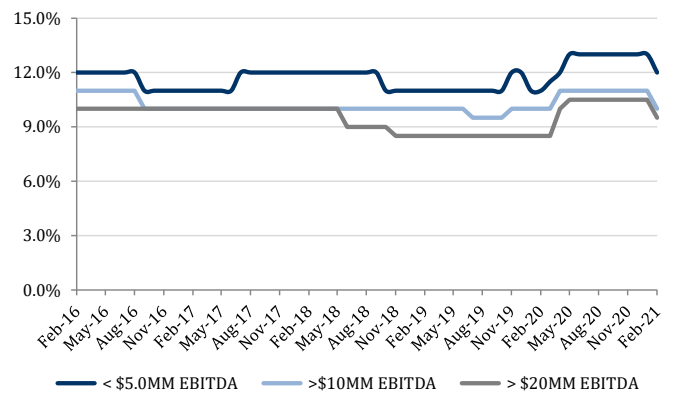
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

### Historical Second Lien Pricing



Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

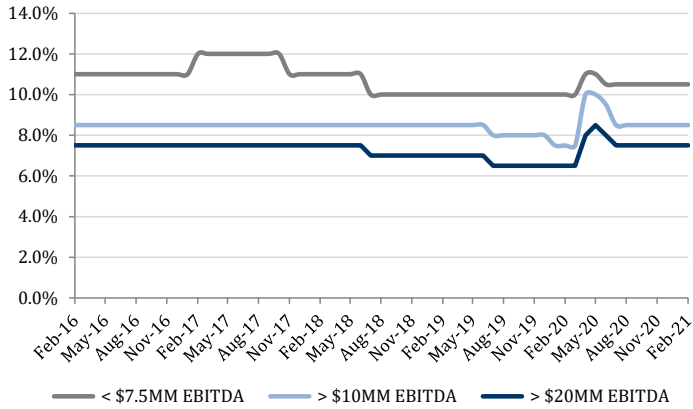
### Historical Subordinated Debt Pricing



Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

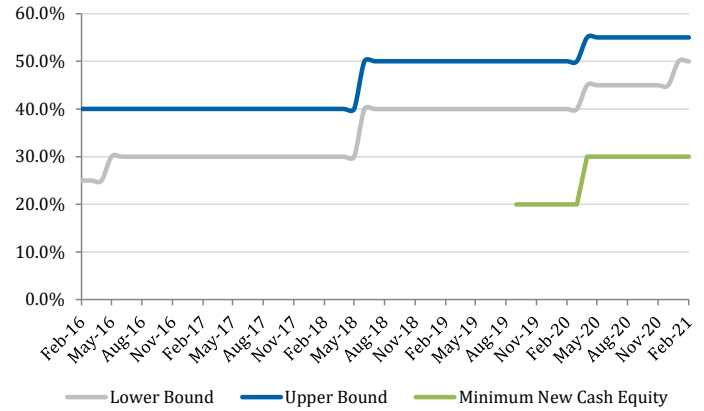
## Historical Leverage Metrics (cont'd) by SPP Capital Partners

### Historical Unitranche Pricing



Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

### Historical Minimum Equity Contribution



Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

Source: SPP Capital Partners – "Capital Market Update February 2021"

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**Mufson Howe Hunter** is an independent investment bank for middle-market companies. We focus on selling businesses, recapitalizations, buy-outs, acquisitions and raising capital. Unique to the middle market, our senior bankers have extensive corporate finance experience and deep knowledge of the capital markets.

## Mergers & Acquisitions

- Advise buyers and sellers (public and private companies)
- Sale of businesses, strategic acquisitions, recapitalizations, management buy-outs and industry build-ups
- Specific background in representing closely-held and family-owned businesses

## Raise Capital

- Equity (control and non-control)
- Mezzanine financing
- Senior and junior debt
- Typically raise debt & equity capital from commercial banks, finance companies, investment funds and private equity sponsors

## Financial Advisory Services

- Analysis of business strategies and options
- Fairness opinions
- Complex Valuations

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