

## Mergers & Acquisitions Update: The Middle Market Q2 2021

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

- For the first 6 months of 2021, US M&A as a whole reported over a 2.5x increase in total deal value YoY
- Middle market US M&A activity (transactions below \$ 250mm in EV) saw an increase in number of deals of 32% YoY with transactions over \$ 1 billion increasing 2.35x
- Quarter over Quarter, in 2021 Middle Market M&A was up 12% in deal count and at \$1 billion and above, deal counts increased 19%
- Q1 over Q2 2021 total transaction volume in dollars was up 23%
- For the 1st 6 months of 2021, YoY Middle Markets transaction dollar value increased 54% with transactions between \$100mm to \$250mm up 50% and deals below \$50 mm in EV up 22%
- All US M&A valuations for the first six months of 2021 averaged 8.8x EBITDA vs. 8.5x for the same period in 2020
- Private Equity Sponsor transactions for deals below \$1 billion was 13x in Q2 2021; employing roughly 51% of leverage per transaction vs. a 12.5x in Q1 2021 with leverage at ~50% on average
- Liquidity remains at historical levels with over \$750 billion in dry powder for US Private Equity Sponsors to take-down. With Private Debt becoming a more active source of funding with an additional \$270 billion, when combined with dry powder equity, results in over a trillion in funding without traditional commercial banking
- We expect the remainder of the year to be particularly active with many closely held private companies seeking to beat a possible tax code change in cap gain rates and private equity sponsors bringing portfolio companies to market to take advantage of the valuations
- M&A Credit/Leverage statistics to our "Mergers & Acquisitions Update - The Middle Markets" is provided by our friends at SPP Capital Partners ([www.sppcapital.com](http://www.sppcapital.com)), the credit markets for middle market deals as of Q2 remain historically robust (see page 8).

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Size Range	U.S. Announced M&A Transactions <sup>(2)</sup>						
	2017	2018	2019	2020	YTD Jun-20	YTD Jun-21	
\$0-25mm	7.3x	7.6x	7.4x	7.5x	7.1x	7.7x	
\$25-50mm	9.2x	8.1x	7.3x	8.8x	6.4x	10.2x	
\$50-100mm	9.0x	8.9x	8.4x	9.4x	10.5x	9.4x	
\$100-250mm	9.0x	9.6x	10.3x	9.4x	10.1x	8.3x	
\$250-500mm	10.1x	9.6x	9.7x	8.9x	11.1x	10.4x	
\$500mm-\$1B	11.4x	9.6x	9.6x	9.8x	8.7x	8.0x	

<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,



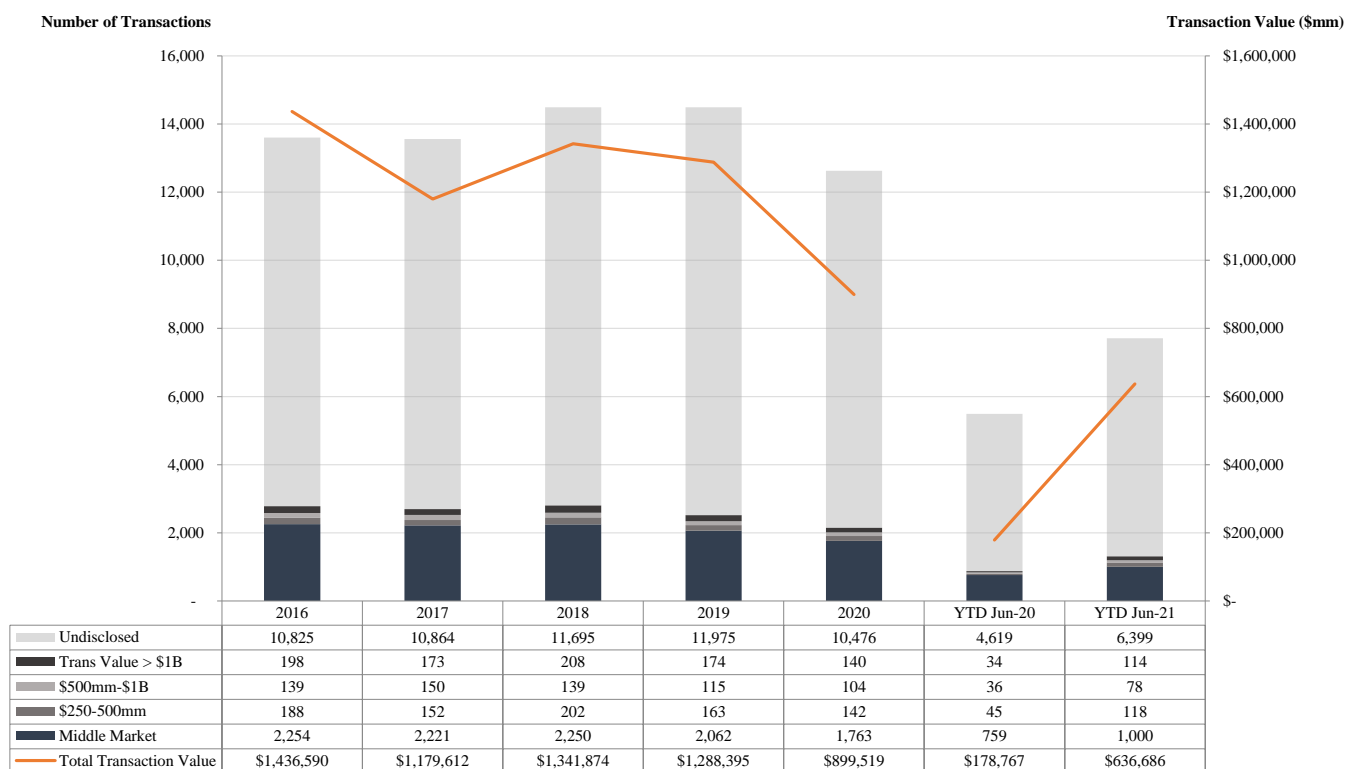
Michael J. Mufson  
Managing Director

Mufson Howe Hunter & Company LLC is a middle-market focused investment bank providing M&A, capital raising and financial advisory services.

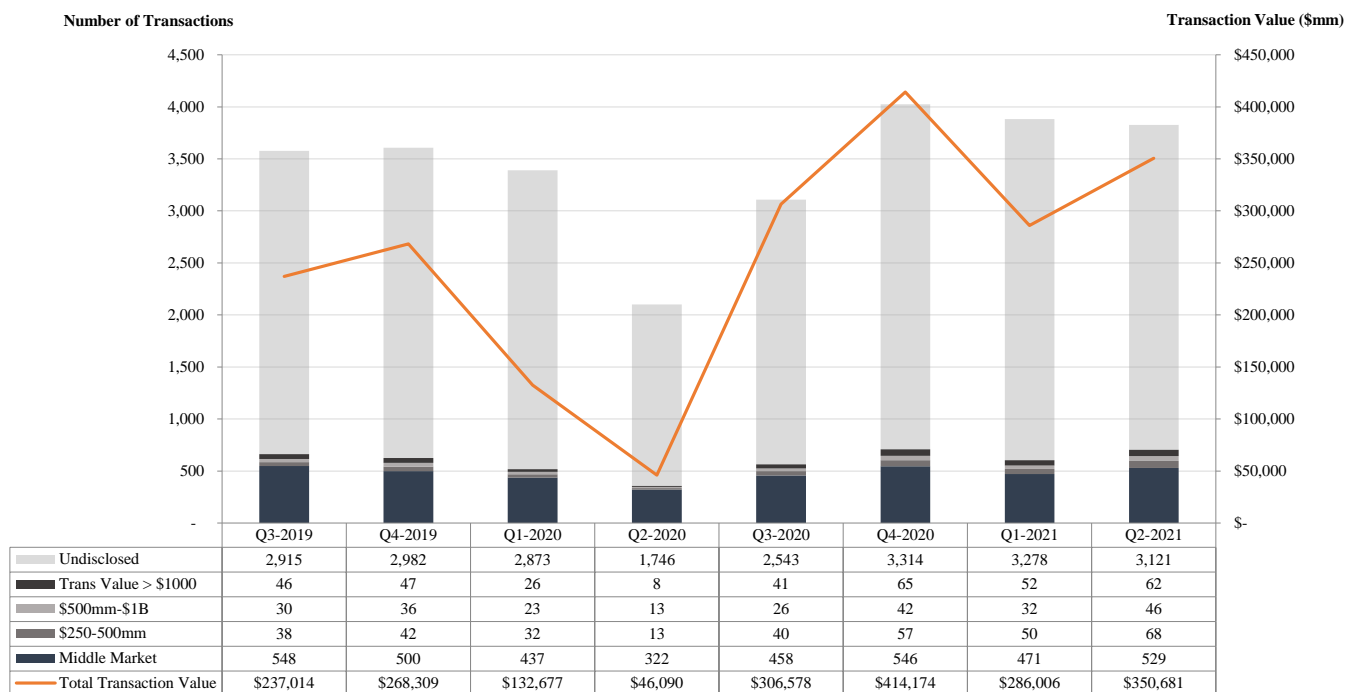
Broker/Dealer services offered through a wholly owned subsidiary Mufson Howe Hunter & Partners LLC, Member SIPC | FINRA

# Mergers & Acquisitions Update

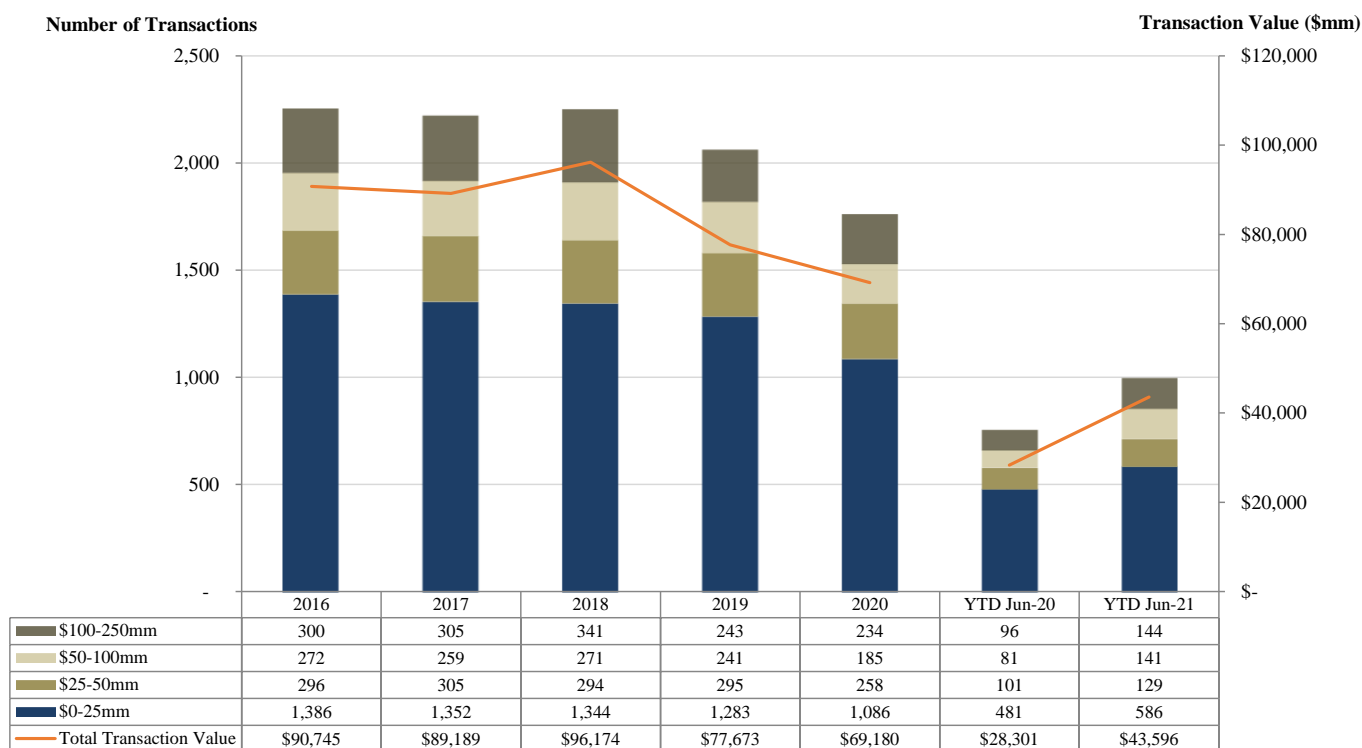
## U.S. - All Reported M&A Activity



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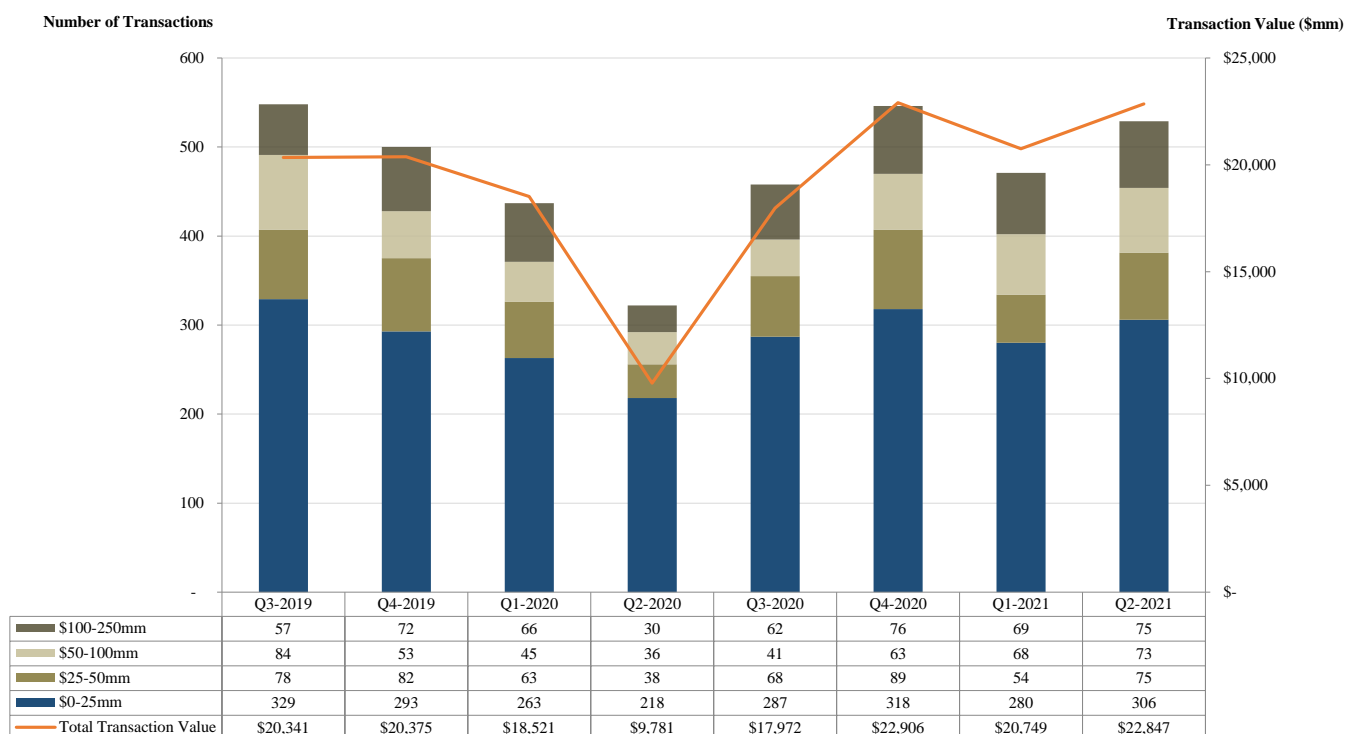


## U.S. Lower Middle Market M&A Activity - Transactions Below \$250 million



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

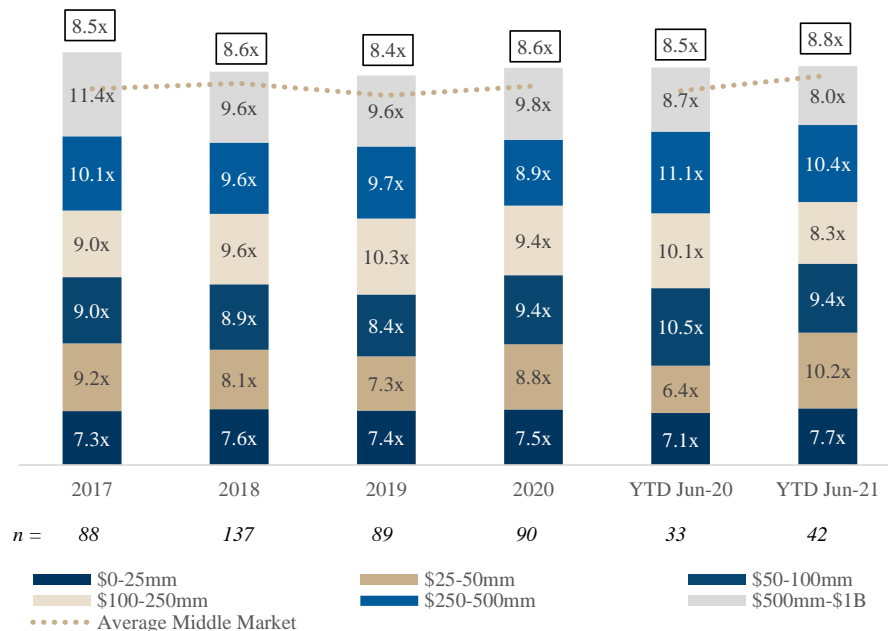
## U.S. Lower Middle Market M&A Activity - Transactions Below \$250 million



Note: Publicly disclosed M&A transactions  
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## U.S. Middle Market Valuation Multiples

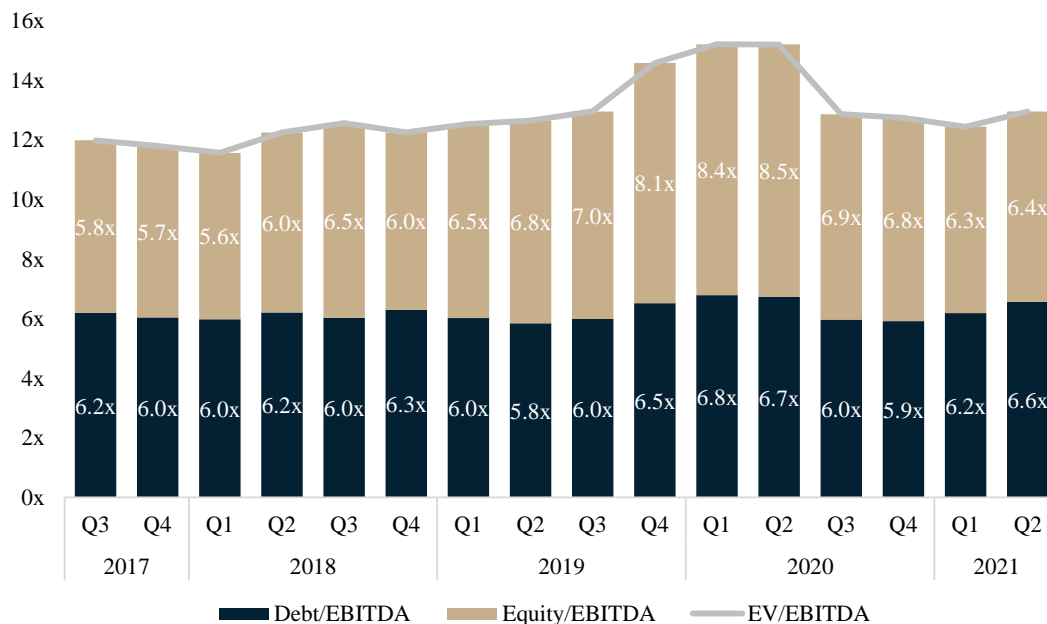
### All U.S. Middle Market M&A Transactions Valuation Multiples



Source: Capital IQ

### Median U.S. Private Equity Sponsor Buyout Multiples

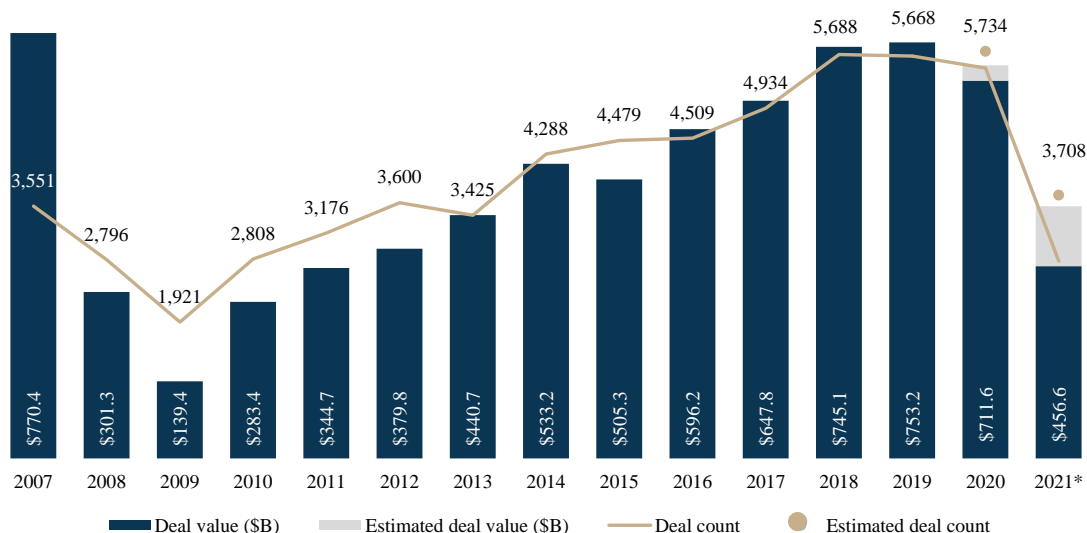
Middle Market, as defined by PitchBook, includes transactions valued at \$25 million up to \$1 billion. The following chart depicts certain key elements of Middle Market Private Equity M&A activity through June 30, 2021.



Source: PitchBook

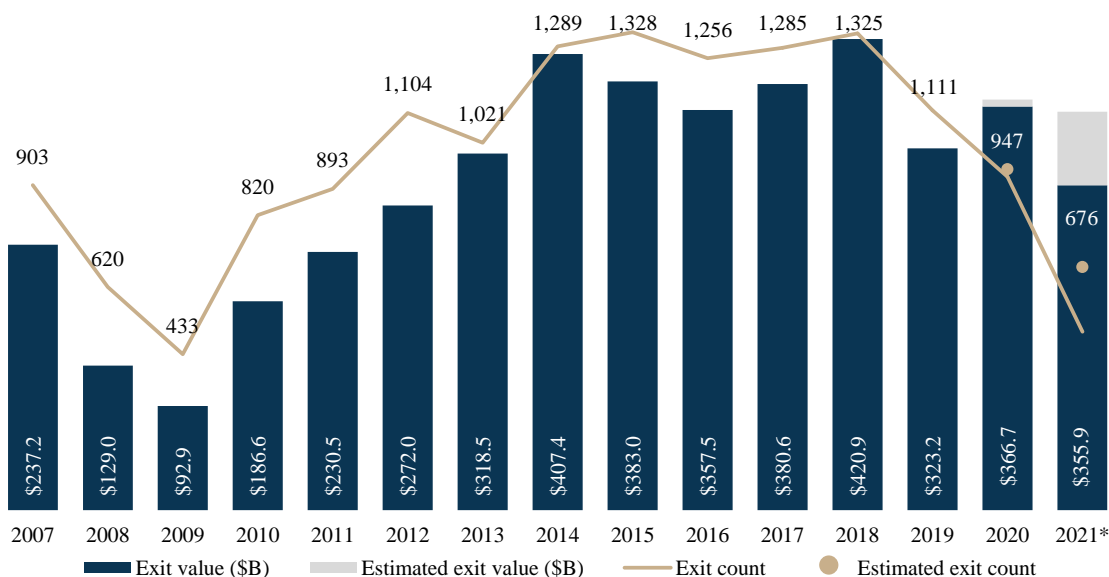
## U.S. Middle Market Private Equity Sponsor Activity

### U.S. PE Deal Activity



Source: PitchBook  
\*As of 6/30/2021

### U.S. PE Exit Activity



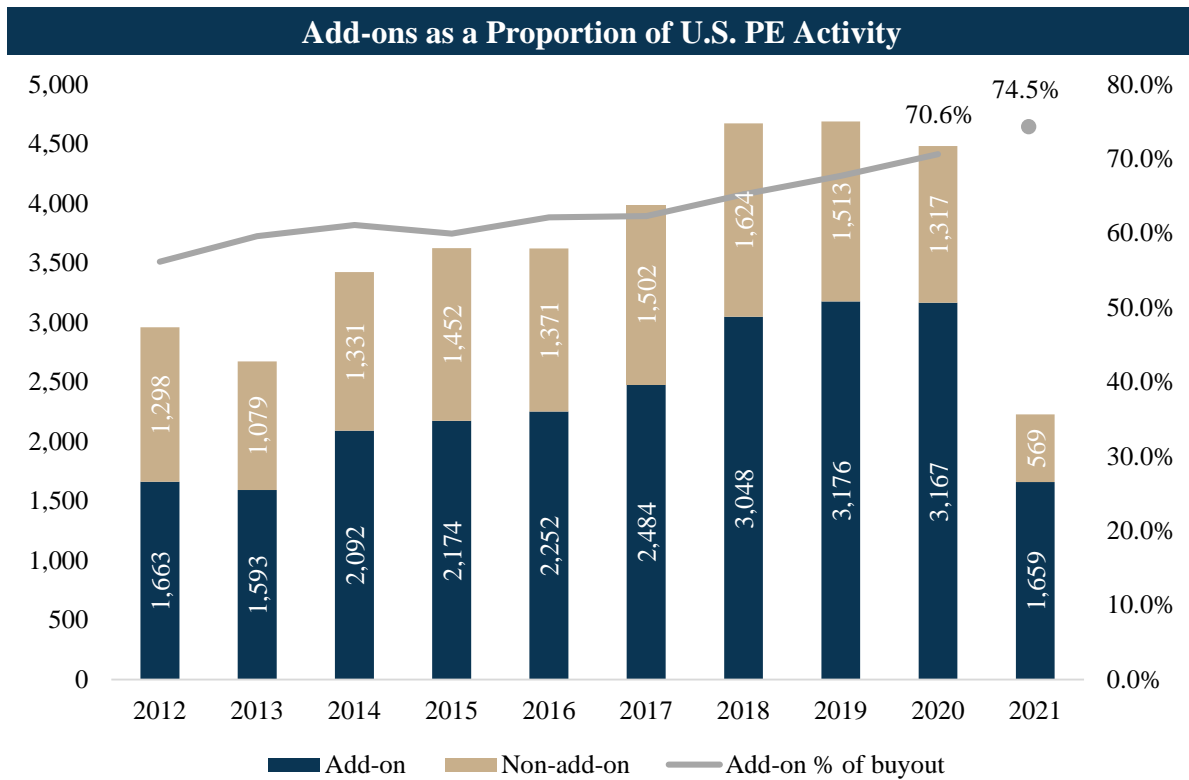
Source: PitchBook  
\*As of 6/30/2021

### U.S. Middle Market PE Buyout Debt Percentage

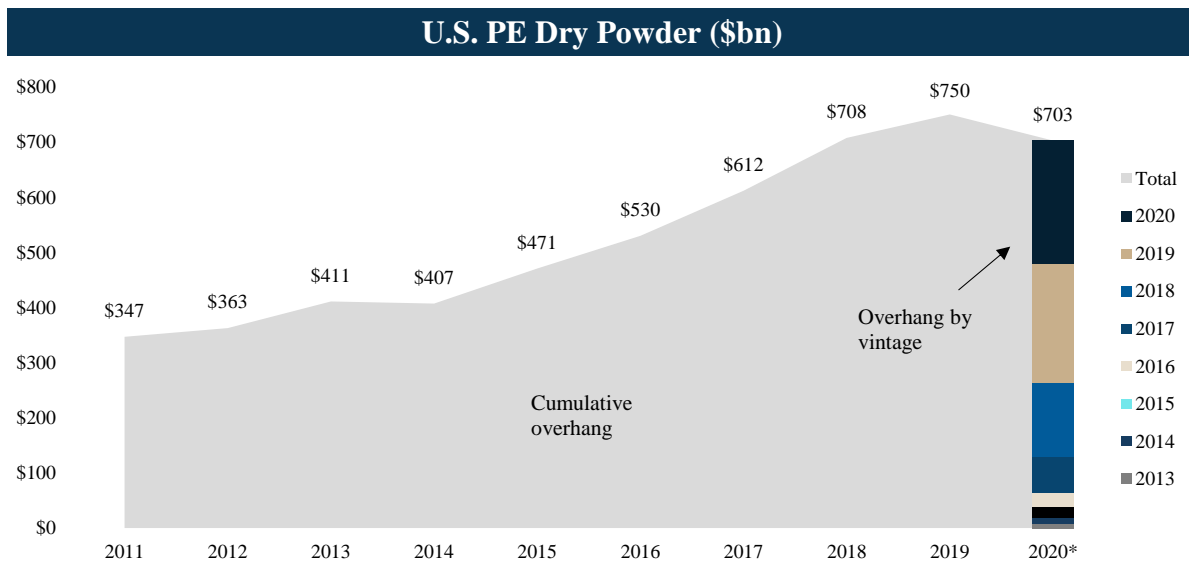


Source: PitchBook

## All U.S. Private Equity Sponsor Activity

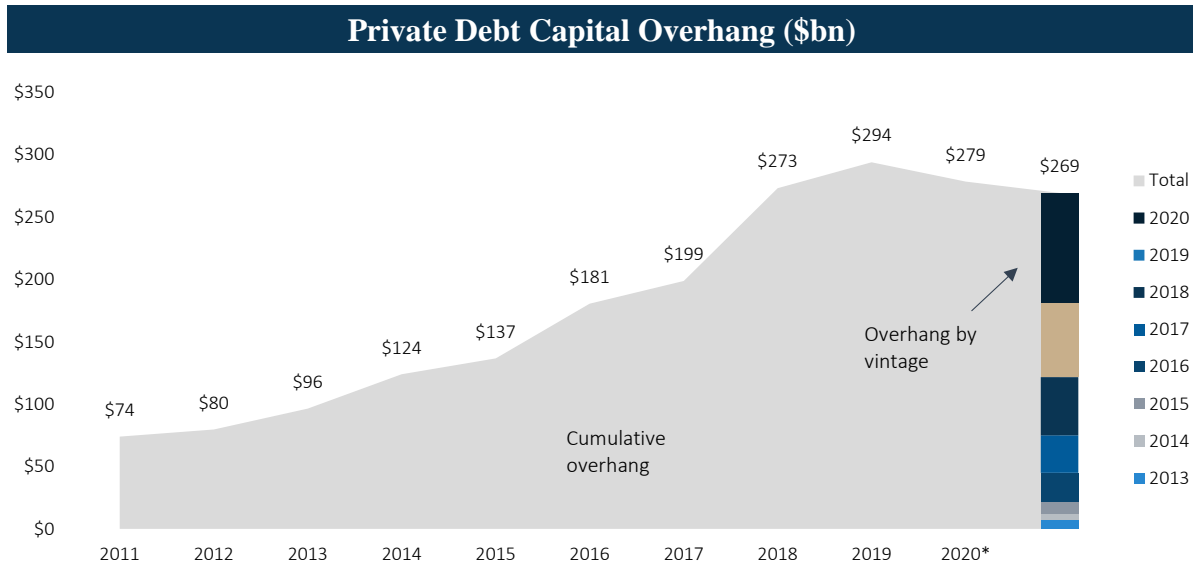


Source: PitchBook

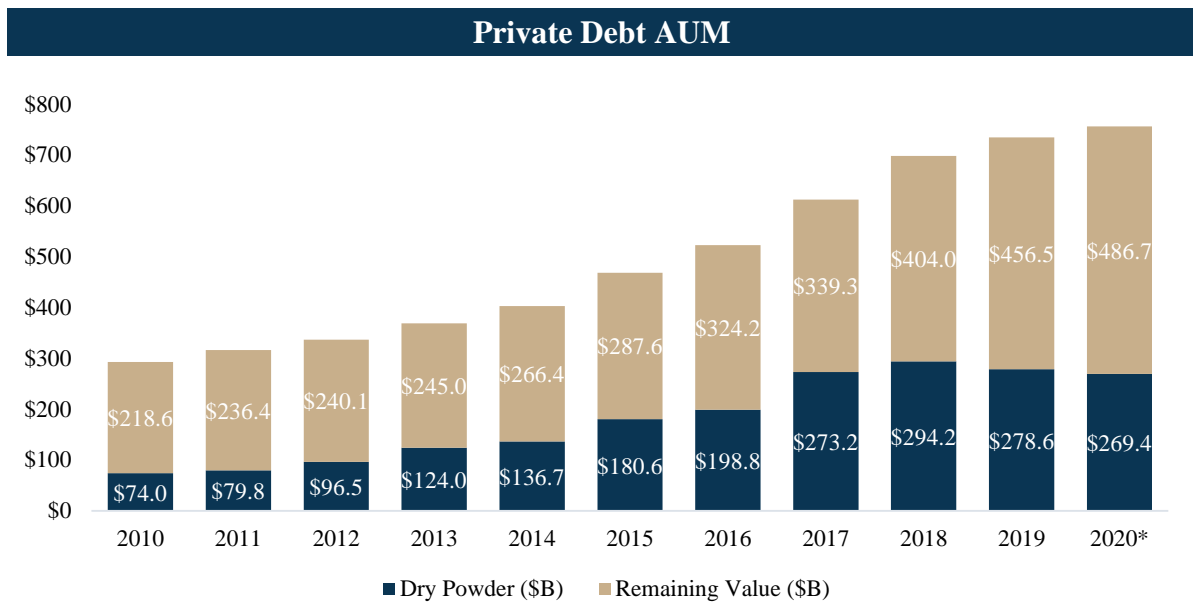


Source: PitchBook

## Global Private Debt Metrics



Source: PitchBook



Source: PitchBook



## Leverage Market at a Glance

By SPP Capital Partners

### Cash Flow Senior Debt/EBITDA

	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
July 2021	1.75x - 2.75x	2.75x - 3.50x	3.25x - 4.50x
June 2021	1.75x - 2.75x	2.75x - 3.50x	3.25x - 4.50x
July 2020	1.50x - 2.25x	2.50x - 3.25x	2.75x - 4.00x
Commentary:	<i>Market Metrics Remain Static as Traditional Summer Slowdown Keeps Market in Risk-On Mode</i>		

### Total Debt/EBITDA

	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
July 2021	3.00x - 4.00x	4.00x - 5.25x	4.50x - 5.75x
June 2021	3.00x - 4.00x	4.00x - 5.25x	4.50x - 5.75x
July 2020	2.50x - 3.25x	3.50x - 4.50x	4.00x - 5.25x
Commentary:	<i>Market Metrics Remain Static as Traditional Summer Slowdown Keeps Market in Risk-On Mode</i>		

### Senior Cash Flow Pricing

	Bank	Non-Bank < \$7.5MM EBITDA	Non-Bank > \$20MM EBITDA
July 2021	L+ 2.25% - 4.00%	L+ 5.50% - 7.50%	L+ 4.50% - 6.00%
June 2021	L+ 2.25% - 4.00%	L+ 5.50% - 7.50%	L+ 4.50% - 6.00%
July 2020	L+ 3.25% - 4.25%	L+ 6.50% - 8.00%	L+ 5.50% - 7.50%
Commentary:	<i>Market Metrics Remain Static as Traditional Summer Slowdown Keeps Market in Risk-On Mode</i>		

### Unitranche and Second Lien Pricing

	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
July 2021	L+ 7.50% - 10.50%	L+ 6.00% - 8.50%	L+ 5.50% - 7.50%
June 2021	L+ 7.50% - 10.50%	L+ 6.00% - 8.50%	L+ 5.50% - 7.50%
July 2020	L+ 9.00% - 10.50%	L+ 7.00% - 8.50%	L+ 6.50% - 7.50%
Commentary:	<i>Market Metrics Remain Static as Traditional Summer Slowdown Keeps Market in Risk-On Mode</i>		

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

	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
July 2021	12.00% - 14.00%	10.00% - 12.00%	9.00% - 11.00%
June 2021	12.00% - 14.00%	10.00% - 12.00%	9.00% - 11.00%
July 2020	13.00% - 14.50%	11.00% - 12.50%	10.50% - 11.50%
Commentary:	<i>Market Metrics Remain Static as Traditional Summer Slowdown Keeps Market in Risk-On Mode</i>		

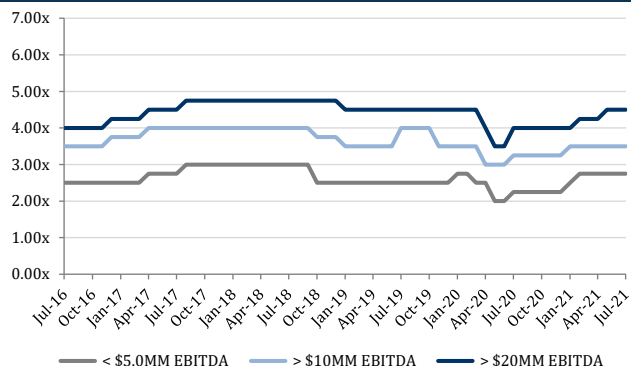
Source: SPP Capital Partners – “Capital Market Update July 2021”

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## Historical Leverage Metrics

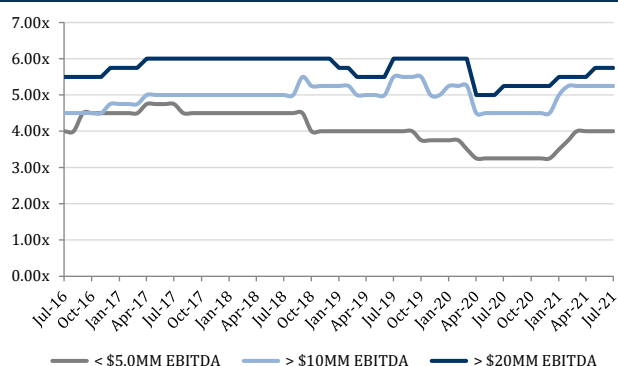
By SPP Capital Partners

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



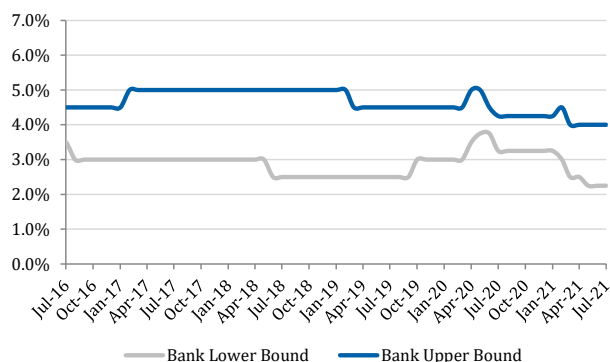
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

### Historical Total Debt Limit (x EBITDA)



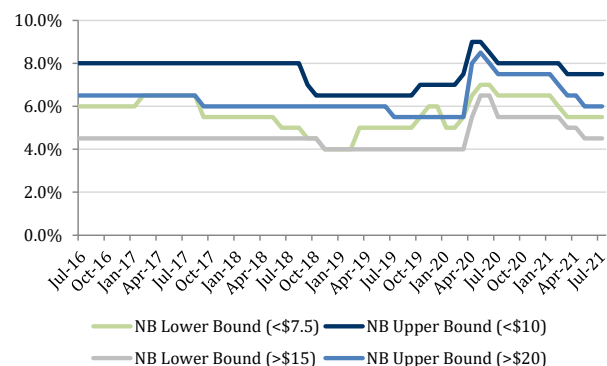
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

### Historical Senior Cash Flow Pricing (Bank)



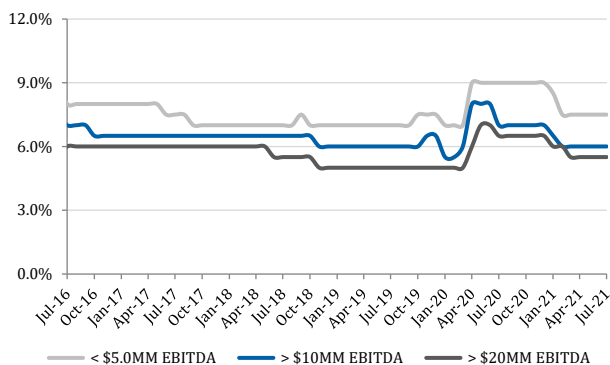
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

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



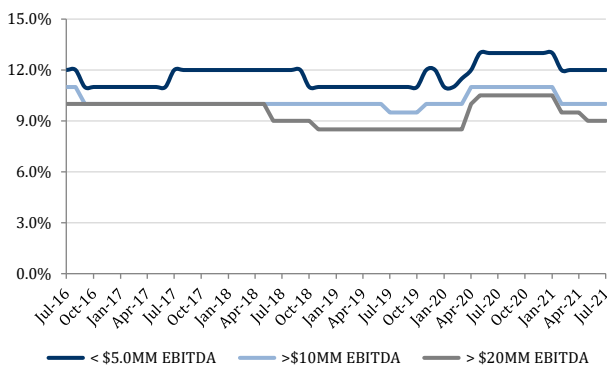
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

### Historical Second Lien Pricing



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

### Historical Subordinated Debt Pricing

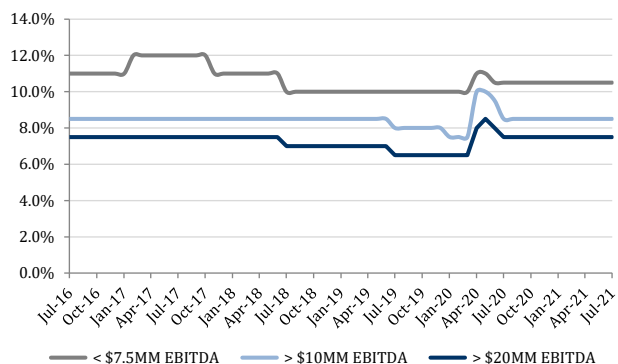


Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

## Historical Leverage Metrics (cont.)

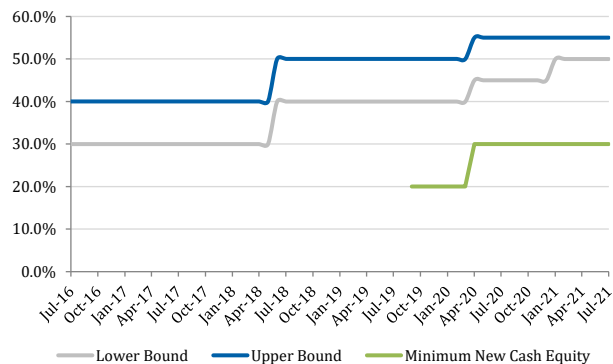
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### Historical Unitranche Pricing



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 July 2021"

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Mufson Howe Hunter & Co. M&A Activity



*has been acquired by*



*The undersigned served as the exclusive financial advisor to Agilis Med Holdings, LLC in this transaction*

**Mufson Howe Hunter**  
INVESTMENT BANKERS FOR GROWTH



*has been acquired by an affiliate of*



*The undersigned served as the exclusive financial advisor to Amtech Software in this transaction*

**Mufson Howe Hunter**  
INVESTMENT BANKERS FOR GROWTH

**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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