

## Mergers & Acquisitions Update: The Middle Market 2021 Year End Edition

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

- For the year ending 12/31/2021, total US M&A activity experienced a 40% increase in total dollar deal value for reported transactions and the total number of deals reported were up 30% YoY.
- The largest increase reported were transactions with EV above \$1 billion which experienced a 67% increase in deal count in 2021.
- Middle market US M&A activity (transactions below \$250mm in EV) saw a 22% increase in reported deal count in 2021, with associated transactional dollar value increasing 42% YoY.
- All US M&A valuations below \$1 billion in EV for 2021 averaged 8.88x EBITDA vs. 8.97x for in 2020.
- Private Equity Sponsor valuations for deals below \$1 billion averaged 13.0x in 2021 vs. 13.9x in 2020.
- Private Equity Sponsor valuations for deals below \$1 billion saw an increase in Q4 2021 to 13.8x, up 0.8x from Q3 2021.
- Total Leverage in PE Sponsor transactions averaged 5.9x in 2021 down from 6.3x in 2020.
- Equity contributions witnessed an increasing percentage throughout 2021. In Q1, average equity contribution was at 47% and by year end, it represented 58%.
- The M&A marketplace remains highly liquid with well over \$800 billion of dry powder in equity funds in US PE Sponsors coupled with almost \$2 trillion of cash on non-financial corporate balance sheets in the US.
- **M&A Credit/Leverage statistics is provided by SPP Capital Partners** ([www.sppcapital.com](http://www.sppcapital.com)); the credit markets for middle market deals can be reviewed on page 7.
- The middle markets are starting to see in greater frequency the larger family and close held-private companies coming to market to as the liquidity event to the owners whose demographic of baby boomers are coming to retire age.
- Finally, 2022 should be another strong year for M&A. for no other reason than the sheer amount of liquidity in the market. The \$800B plus dry powder available to PE sponsors, the \$2 trillion in corporate cash balances exacerbated with both commercial banks and non-regulated debt sources need to employ funds thwart the many economic headwinds we are in store for the foreseeable future.

Size Range	U.S. Announced M&A Transactions <sup>(2)</sup>				
	2017	2018	2019	2020	2021
\$0-25mm	7.3x	7.6x	7.4x	7.5x	7.1x
\$25-50mm	9.2x	8.1x	7.3x	8.8x	7.6x
\$50-100mm	9.0x	8.9x	8.4x	9.4x	8.6x
\$100-250mm	9.0x	9.6x	9.8x	9.4x	8.8x
\$250-500mm	10.1x	9.6x	9.7x	8.9x	10.0x
\$500mm-\$1B	11.4x	9.6x	9.6x	9.8x	9.3x

<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.

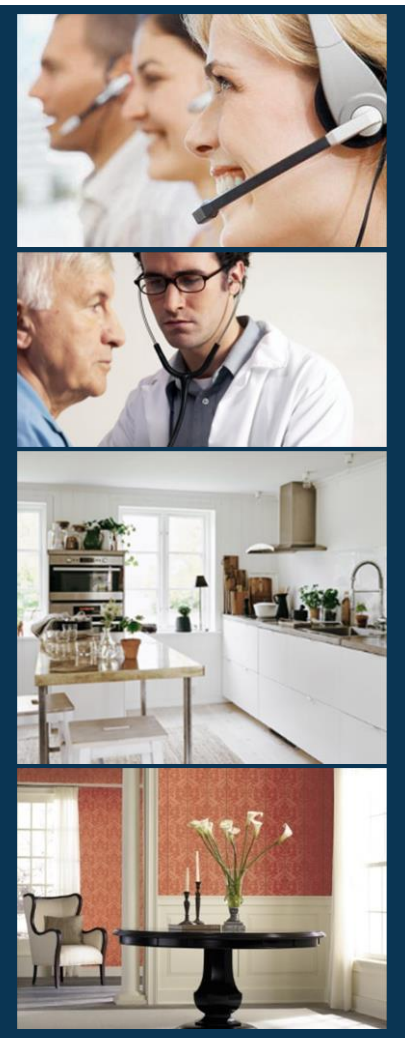
Regards,



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



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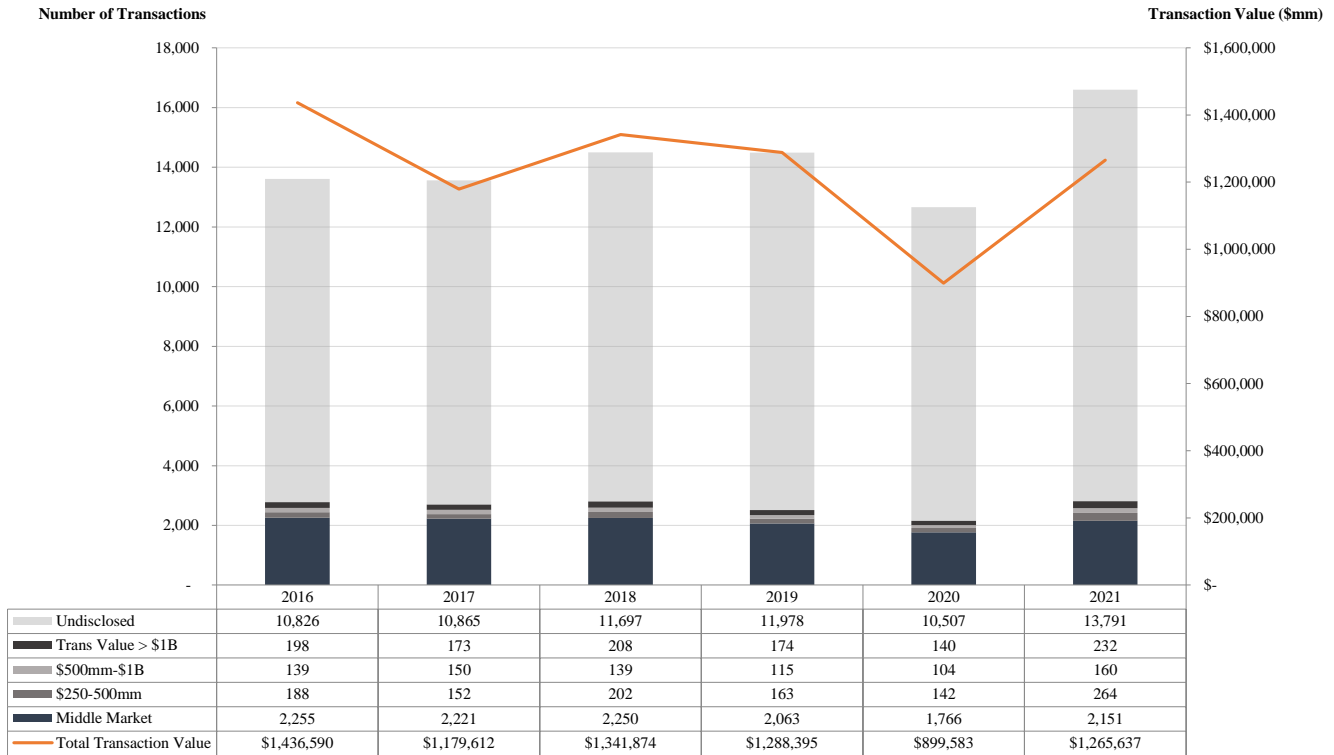
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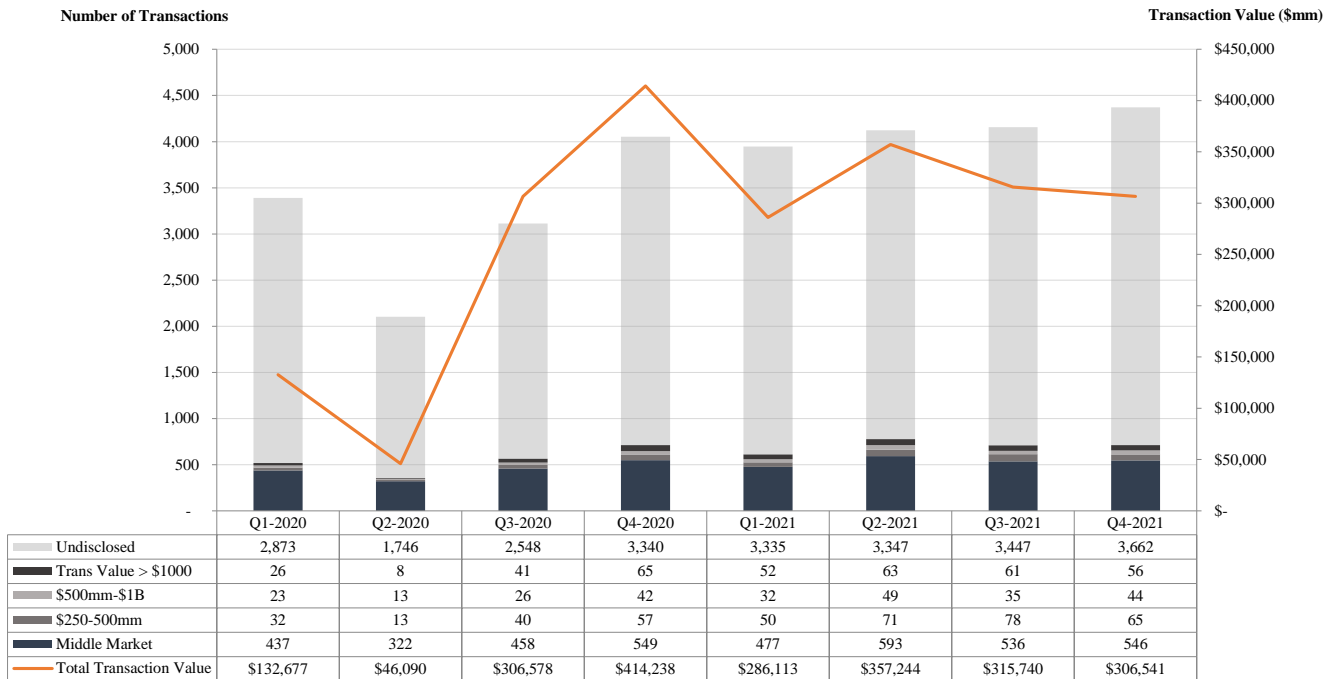
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## U.S. - All Reported M&A Activity



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

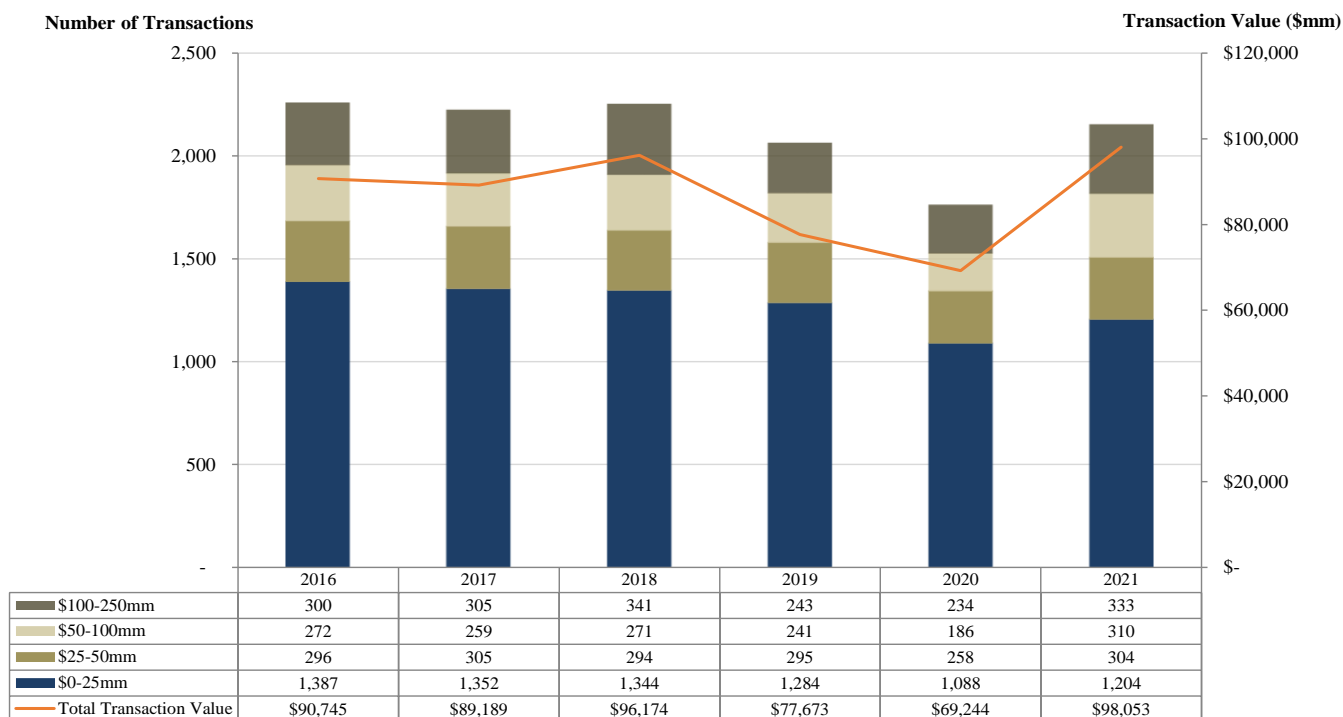
## U.S. - All Reported M&A Activity



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

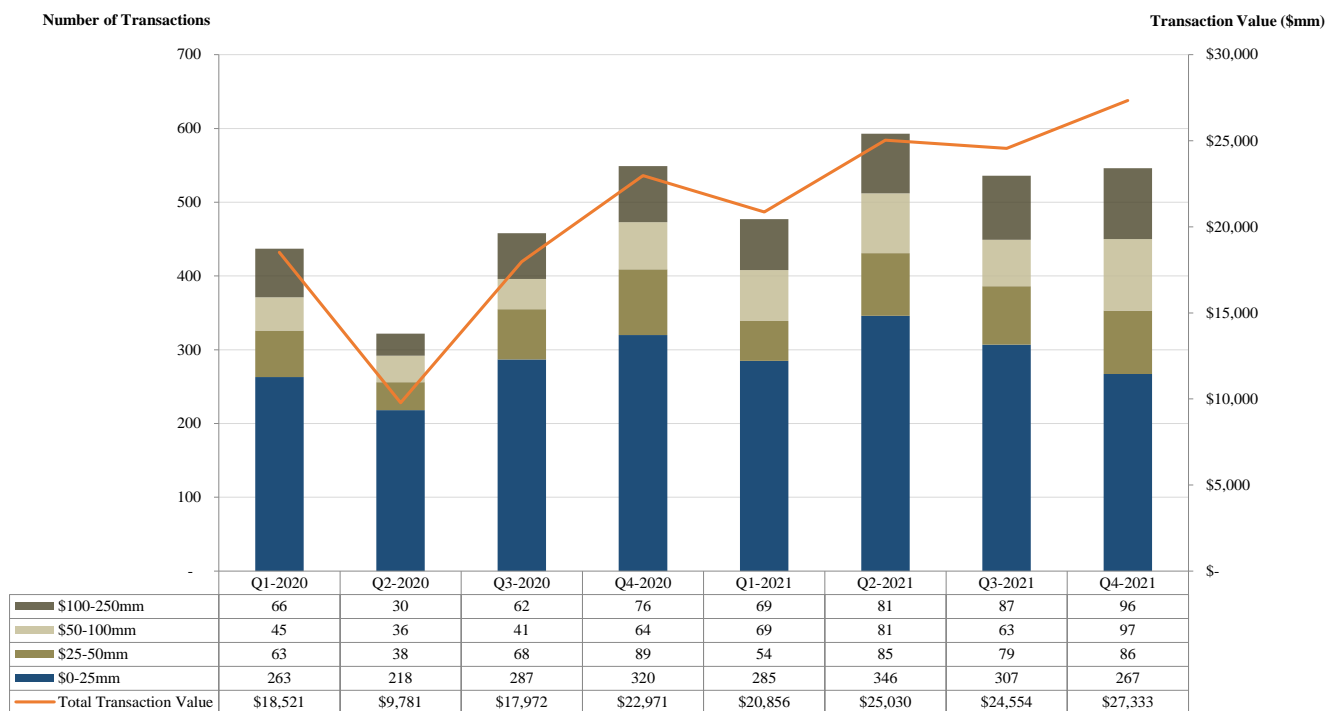
As of 12/31/2021

## 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

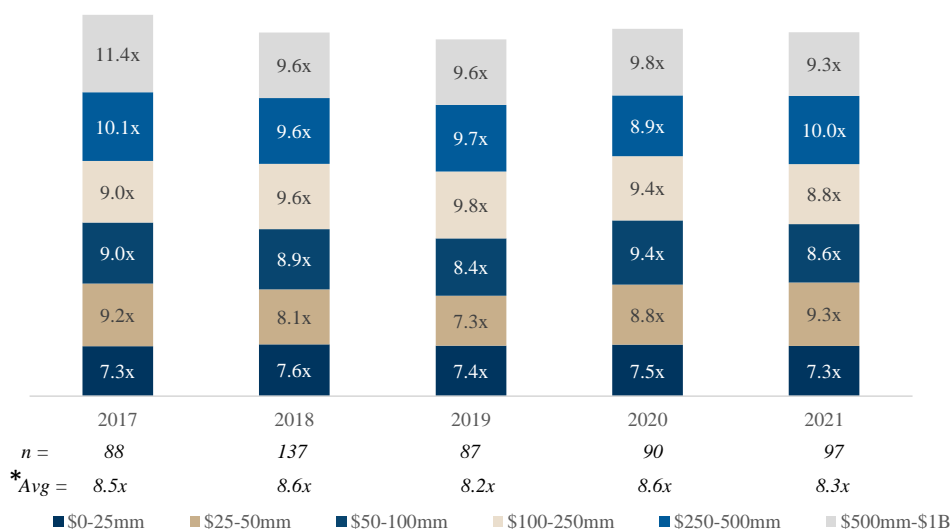


Note: Publicly disclosed M&A transactions  
 Source: CapitalIQ, Mufson Howe Hunter

As of 12/31/2021

## U.S. Middle Market Valuation Multiples

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



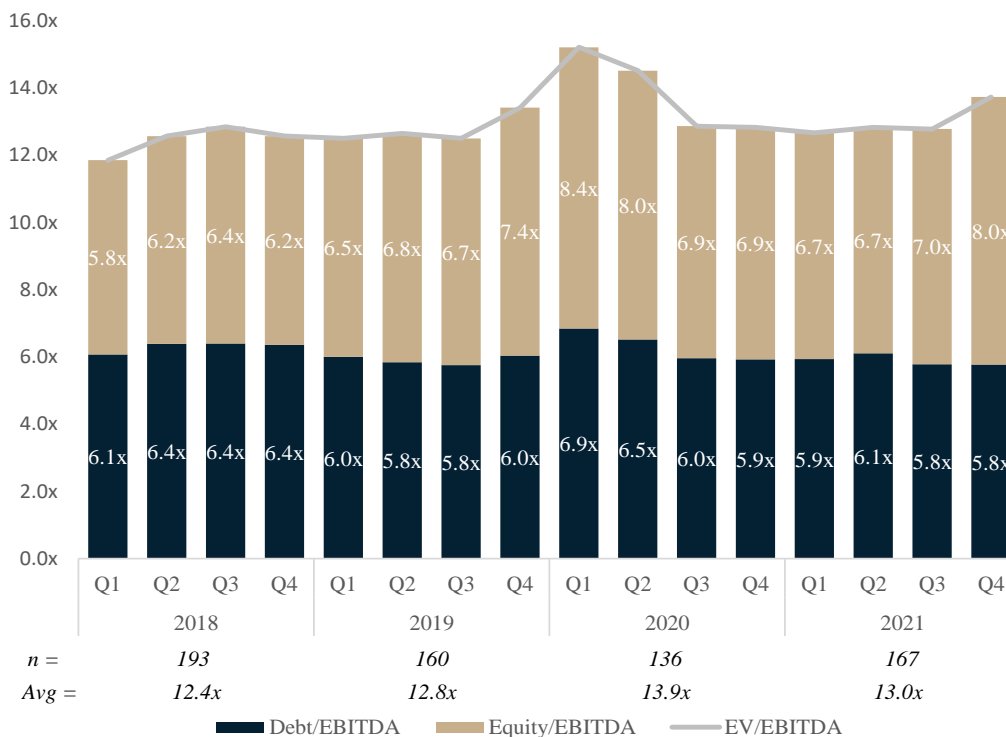
\* Average weighted by number of transactions

Source: Capital IQ

As of 12/31/2021

### 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 December 31, 2021.

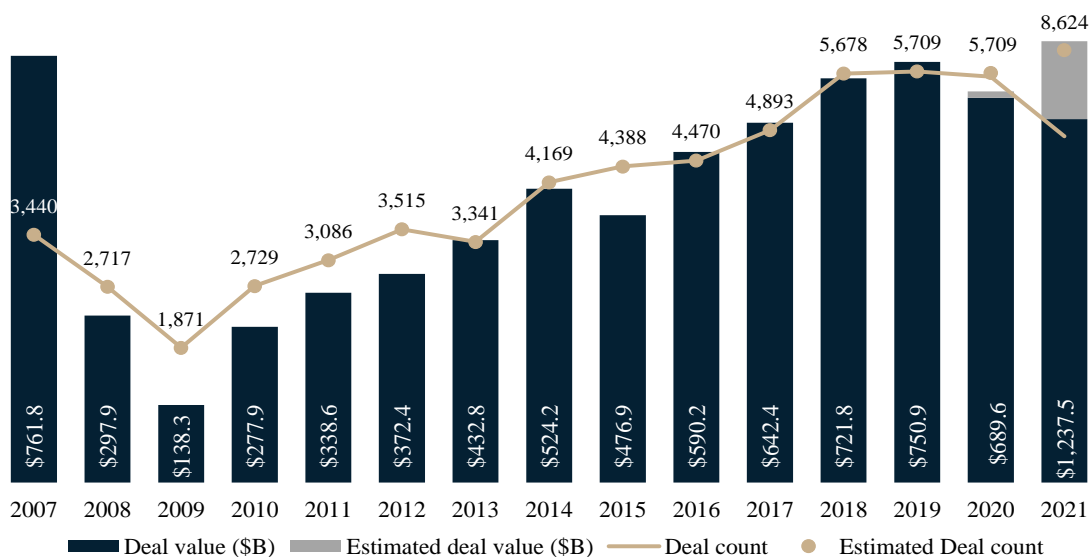


Source: PitchBook

As of 12/31/2021

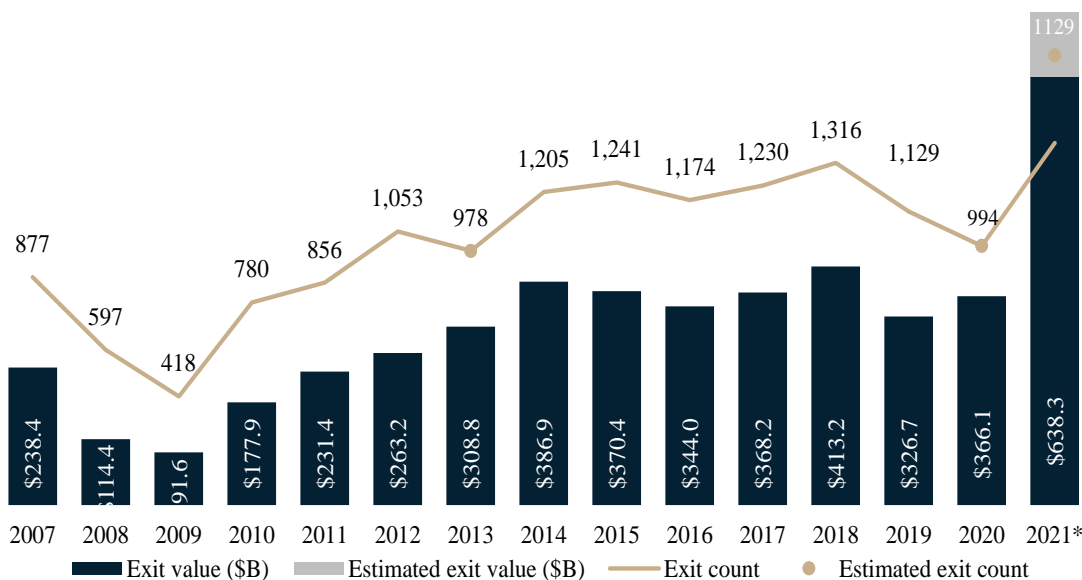
## U.S. Middle Market Private Equity Sponsor Activity

### U.S. PE Deal Activity



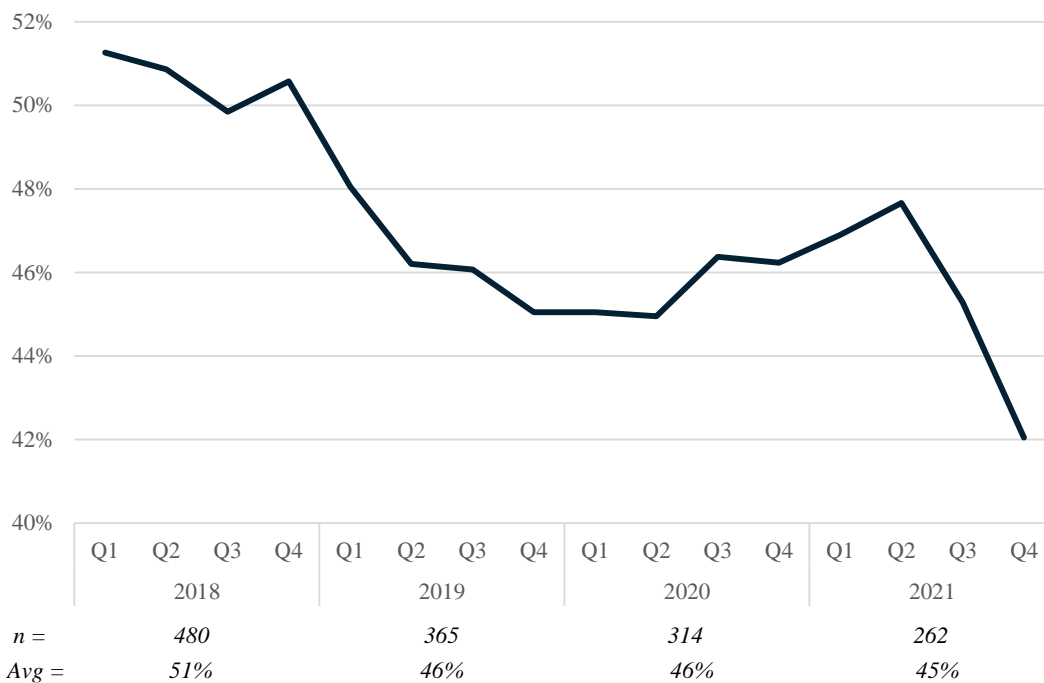
Source: PitchBook  
\*As of 12/31/2021

### U.S. PE Exit Activity



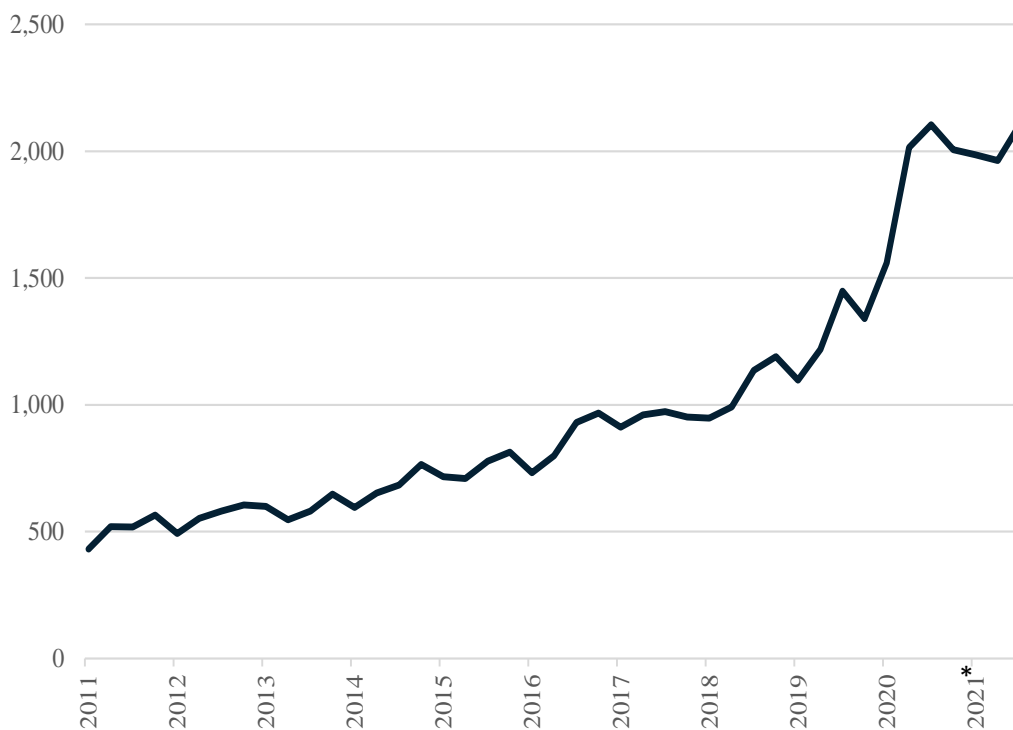
Source: PitchBook  
\*As of 12/31/2021

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



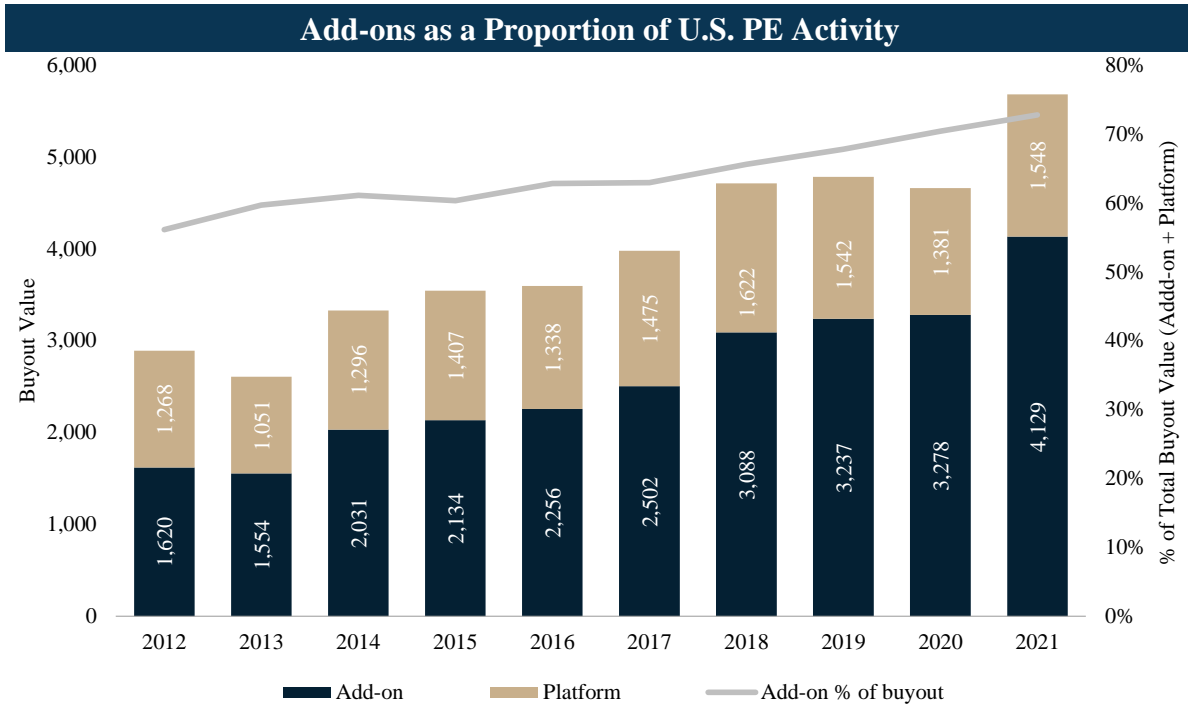
Source: PitchBook  
As of 12/31/2021

## U.S. Non-Financial Corporate Balance Sheet Cash (\$B)



Source: St. Louis FRED  
\*As of 7/1/2021

All U.S. Private Equity Sponsor Activity



Source: PitchBook  
As of 12/31/2021

## Leverage Market at a Glance

By SPP Capital Partners  
www.sppcapital.com

### Cash Flow Senior Debt/EBITDA

	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
January 2022	1.75x - 2.75x	2.75x - 3.50x	3.25x - 5.00x
December 2021	1.75x - 2.75x	2.75x - 3.50x	3.25x - 4.50x
January 2021	1.50x - 2.50x	2.50x - 3.50x	3.00x - 4.00x

Commentary: *Pricing and Leverage Metrics at the Start of the New Year Mirror the Most Aggressive Levels of 2021*

### Total Debt/EBITDA

	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
January 2022	3.00x - 4.50x	4.00x - 5.50x	4.50x - 6.00x
December 2021	3.00x - 4.25x	4.00x - 5.25x	4.50x - 5.75x
January 2021	2.50x - 3.50x	3.50x - 5.00x	4.00x - 5.50x

Commentary: *Pricing and Leverage Metrics at the Start of the New Year Mirror the Most Aggressive Levels of 2021*

### Senior Cash Flow Pricing

	Bank	Non-Bank < \$7.5MM EBITDA	Non-Bank > \$20MM EBITDA
January 2022	L+ 2.25% - 4.00%	L+ 5.00% - 7.50%	L+ 4.50% - 6.00%
December 2021	L+ 2.25% - 4.00%	L+ 5.00% - 7.50%	L+ 4.50% - 6.00%
January 2021	L+ 3.25% - 4.25%	L+ 6.50% - 8.00%	L+ 5.50% - 7.50%

Commentary: *Pricing and Leverage Metrics at the Start of the New Year Mirror the Most Aggressive Levels of 2021*

### Unitranche and Second Lien Pricing

	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
January 2022	L+ 7.00% - 10.50%	L+ 6.00% - 8.00%	L+ 5.00% - 7.50%
December 2021	L+ 7.00% - 10.50%	L+ 6.00% - 8.00%	L+ 5.00% - 7.50%
January 2021	L+ 8.50% - 10.50%	L+ 6.50% - 8.50%	L+ 6.00% - 7.50%

Commentary: *Pricing and Leverage Metrics at the Start of the New Year Mirror the Most Aggressive Levels of 2021*

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

	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
January 2022	11.00% - 14.00%	9.50% - 12.00%	9.00% - 11.00%
December 2021	11.00% - 14.00%	9.50% - 12.00%	9.00% - 11.00%
January 2021	11.00% - 14.00%	10.00% - 12.00%	8.50% - 11.00%

Commentary: *Pricing and Leverage Metrics at the Start of the New Year Mirror the Most Aggressive Levels of 2021*

Source: SPP Capital Partners – “Capital Market Update January 2022”

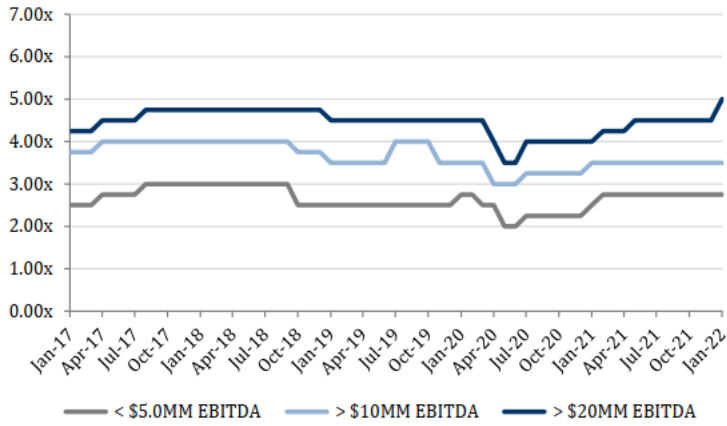
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## Historical Leverage Metrics

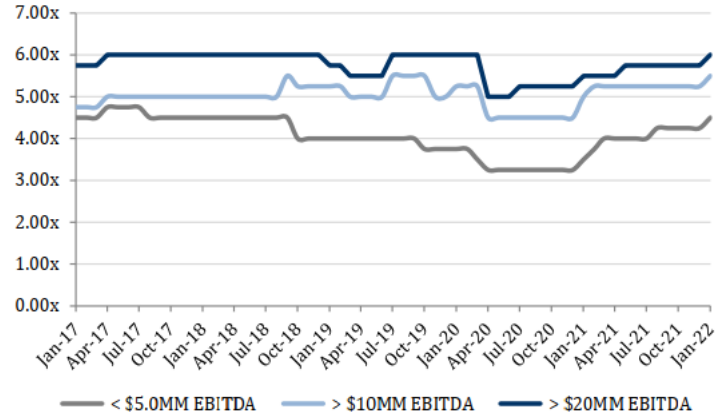
By SPP Capital Partners

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



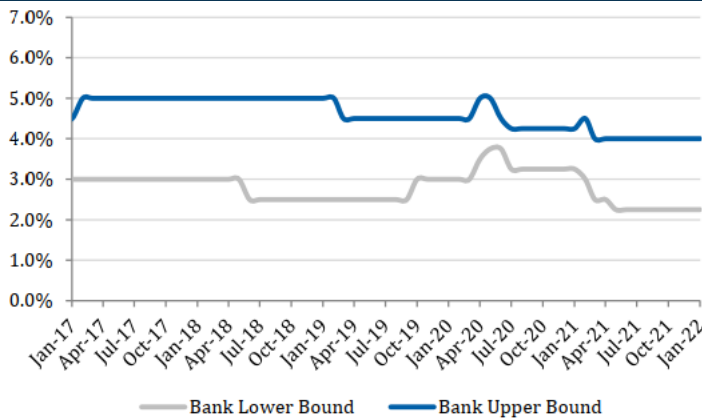
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

### Historical Total Debt Limit (x EBITDA)



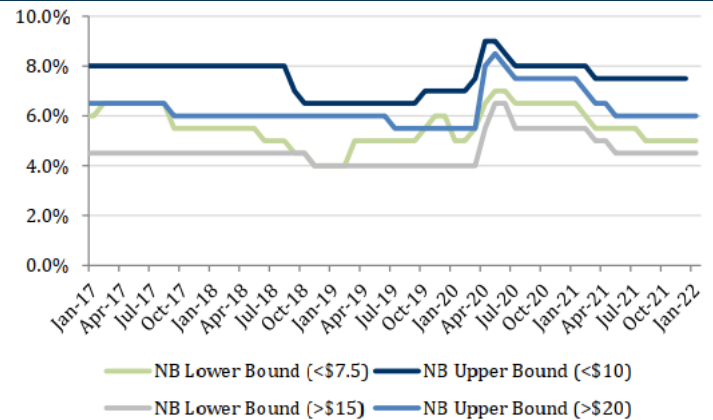
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

### Historical Senior Cash Flow Pricing (Bank)



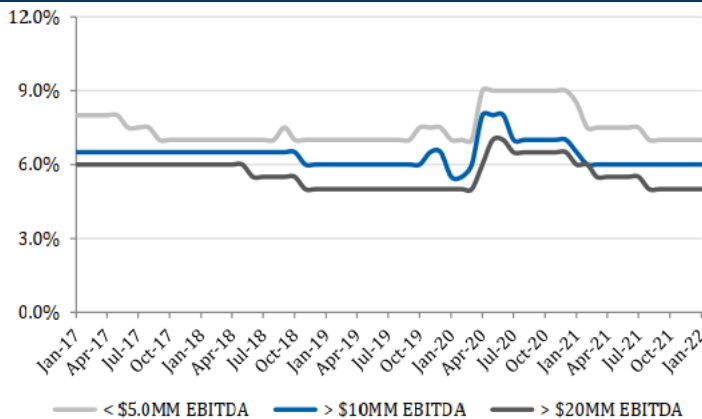
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

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



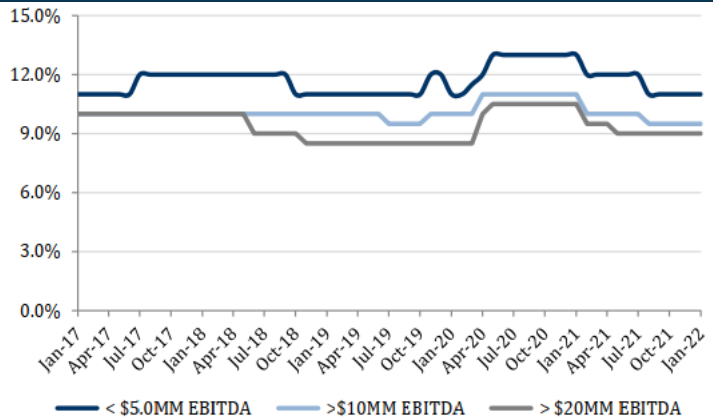
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

### Historical Second Lien Pricing



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

### Historical Subordinated Debt Pricing

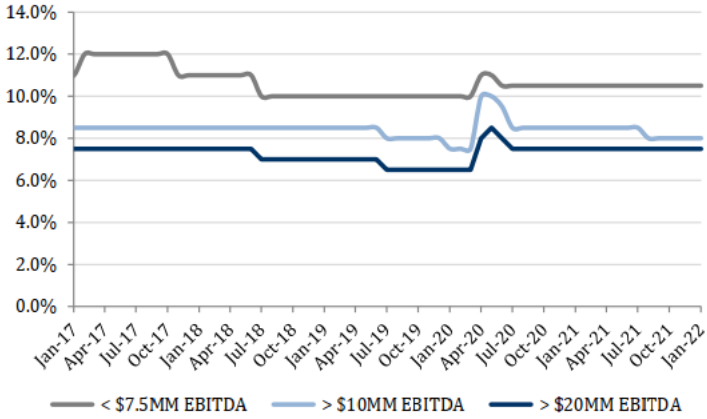


Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

## Historical Leverage Metrics (cont.)

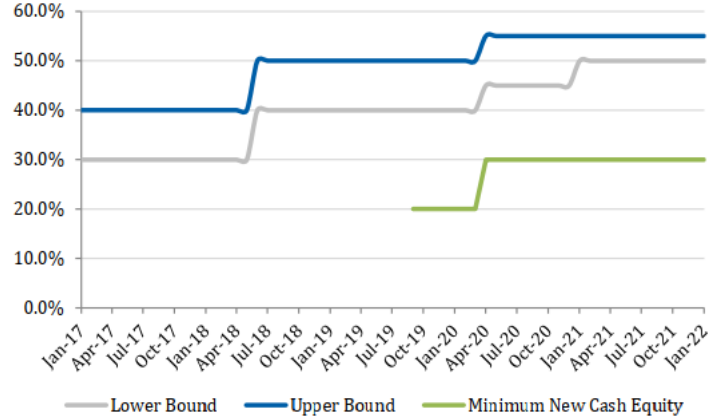
By SPP Capital Partners

### 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 January 2022"

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Mufson Howe Hunter & Co. M&A Activity  
Selected 2021 Transactions



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



SUN CAPITAL  
PARTNERS, INC.

The undersigned served as the exclusive financial advisor to Exadel in this transaction

Mufson Howe Hunter  
INVESTMENT BANKERS FOR GROWTH



has been acquired by



The undersigned served as the exclusive financial advisor to PDS Life Sciences in this transaction

Mufson Howe Hunter  
INVESTMENT BANKERS FOR GROWTH



has acquired



The undersigned served as the exclusive financial advisor to Futura in this transaction

Mufson Howe Hunter  
INVESTMENT BANKERS FOR GROWTH

August 6, 2021




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



has been acquired by



The undersigned served as the exclusive financial advisor to Squatty Potty in this transaction

Mufson Howe Hunter  
INVESTMENT BANKERS FOR GROWTH



has completed a majority recapitalization with



The undersigned served as the exclusive financial advisor to Nemo Inc. 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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