

## Mergers & Acquisitions Update: The Middle Market Q1 2022

### Summary Highlights <sup>(1)</sup>

- For Q1 2022 U.S. M&A activity experienced an average 35% drop in deal activity vs. Q4 2021. Middle market US M&A activity (transactions below \$250mm in EV) reported a 44% decrease in reported deal volume in Q1 2022 over the Q4 2021 volume.
- Total US M&A valuations below \$250 million in EV averaged 8.4x EBITDA on a TTM basis, down from 8.6x at 2021 year-end.
- Middle Market transactions saw valuation decreases for companies below \$25 million in EV, from 7.1x in 2021 to 6.7x in Q1 2022, and in EVs from \$25 million to \$50 million, from 9.2x in 2021 to 8.6x in Q1 2022.
- Private Equity Sponsor valuations deals below \$1 billion remained at record levels, averaging 14.6x EBITDA, similar to Q4 2021. This valuation is primarily due to the skewed pricing of transactions above \$500k to \$1 billion in EV.
- Private Sponsor transactions utilized, on average, 6.3x turns of leverage in Q1 2022, slightly up from the 6.2x in 2021.
- Equity contributions for PE sponsors decreased ever so slightly to 6.2x vs. 6.3x turns in 2021 with an average equity contribution of 57%.
- M&A Credit/Leverage statistics are provided by SPP Capital Partners** ([www.sppcapital.com](http://www.sppcapital.com)); see page 7.
- The M&A markets remain strong with both PE and corporate buyers sitting with meaningful liquidity, coupled with a plethora of non-bank lenders seeking loan opportunities to middle market transactions. Commercial banks also covet transactions in these markets causing credit to be highly available and under very competitive terms. Rate increases are a concern, but they have a way to go before materially affecting market activity.

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Size Range	U.S. Announced M&A Transactions <sup>(2)</sup>				
	2018	2019	2020	2021	LTM Q1 '22
\$0-25mm	7.6x	7.4x	7.5x	7.1x	7.1x
\$25-50mm	8.1x	7.3x	8.8x	9.2x	9.2x
\$50-100mm	8.9x	8.4x	9.4x	8.6x	8.6x
\$100-250mm	9.6x	9.8x	9.4x	8.8x	8.8x
\$250-500mm	9.6x	9.7x	8.9x	10.0x	10.0x
\$500mm-\$1B	9.6x	9.6x	9.8x	9.3x	9.3x

<sup>(1)</sup> Source: Mufson Howe Hunter, CapitalIQ and PitchBook

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

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

Regards,



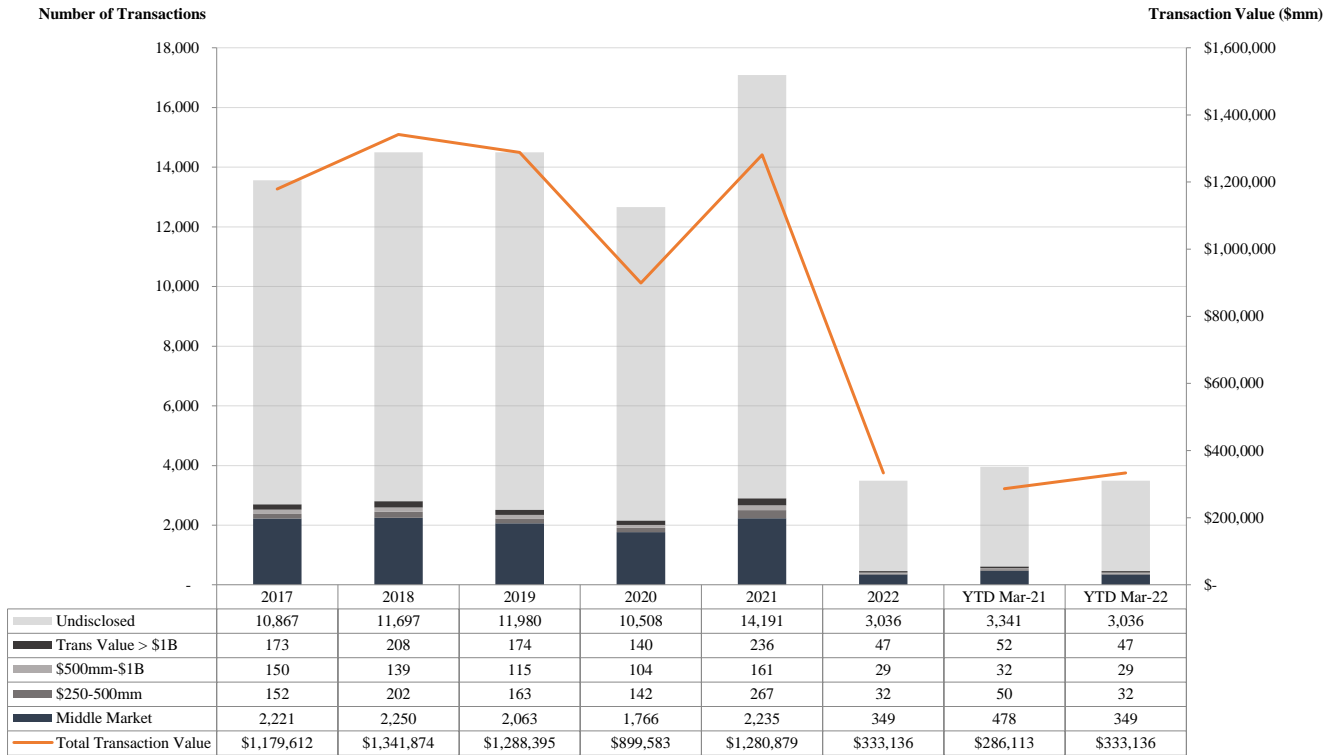
Michael J. Mufson  
Managing Director

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

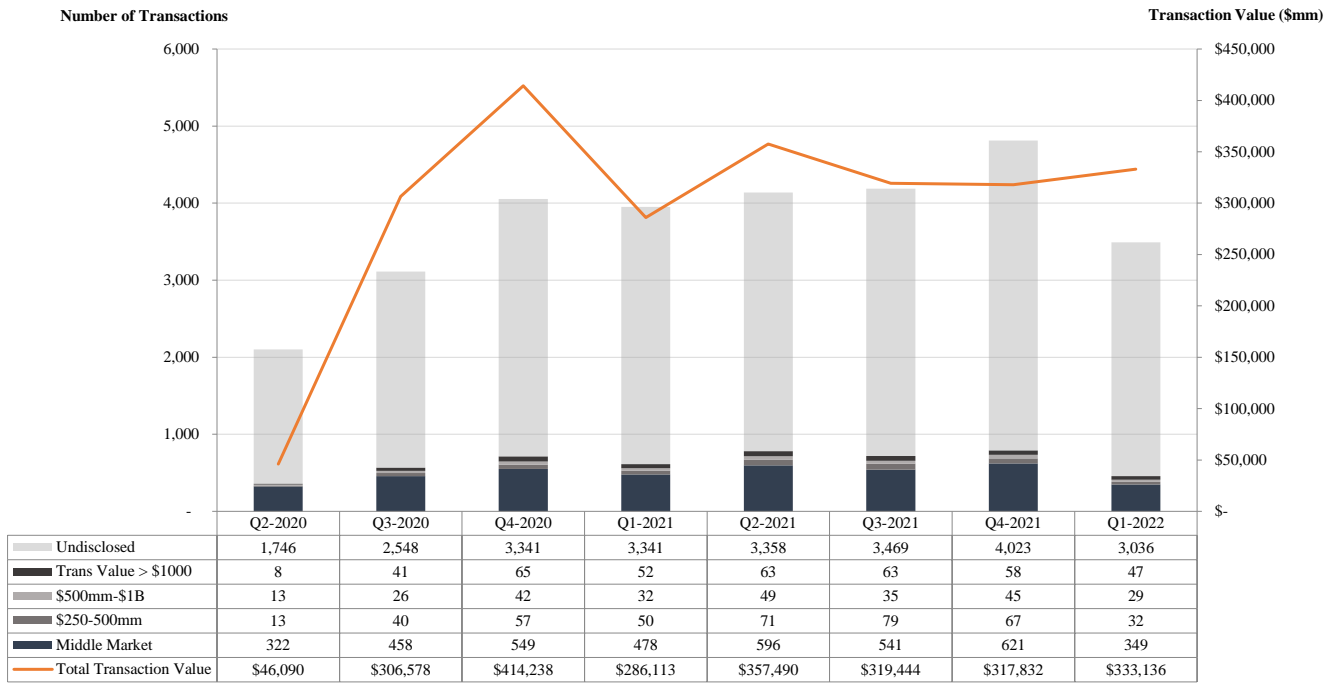
# Mergers & Acquisitions Update

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



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

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

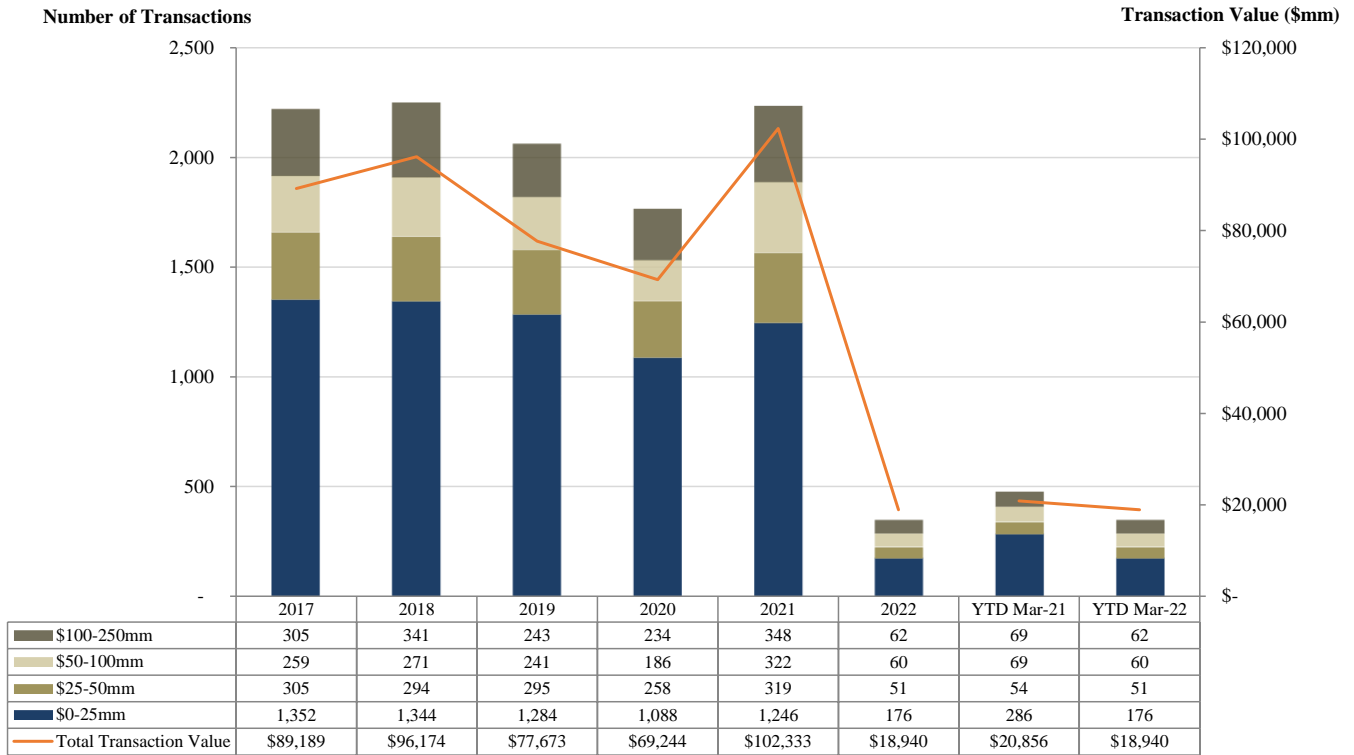


Note: Publicly disclosed M&A transactions  
Source: CapitalIQ, Mufson Howe Hunter

As of 3/31/2022

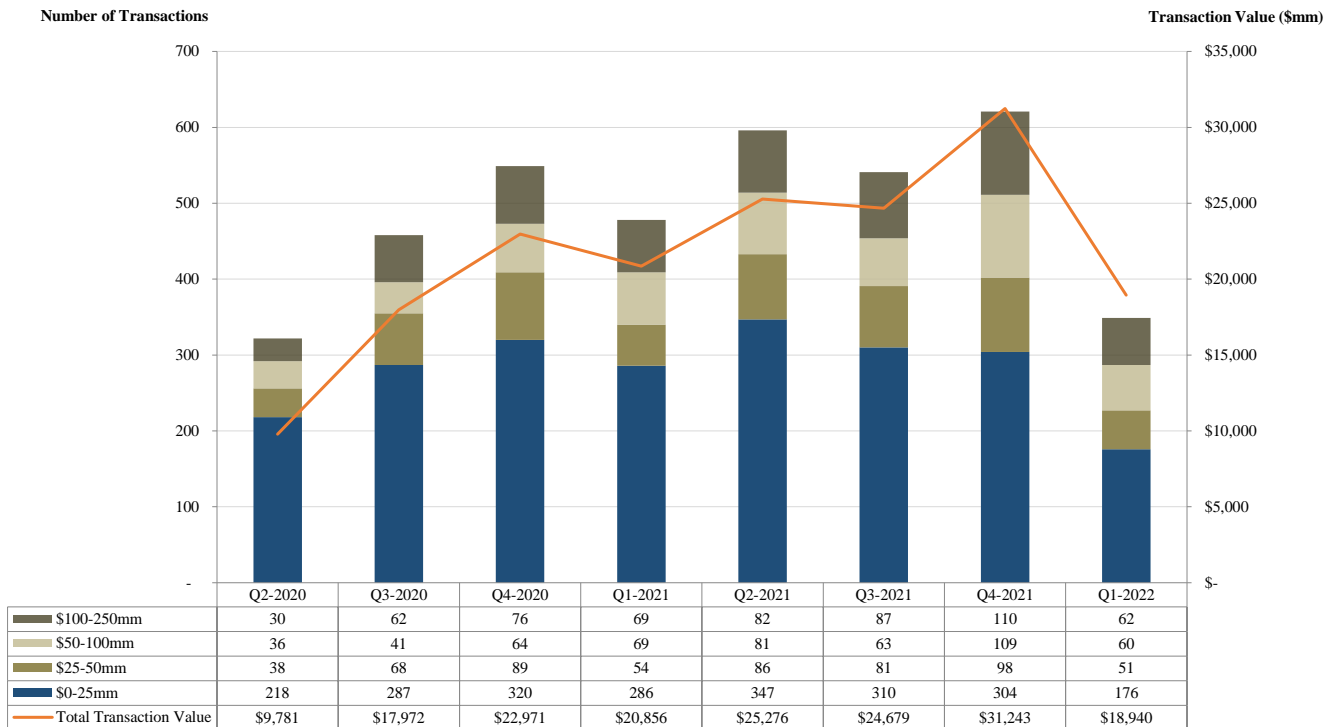
# Mergers & Acquisitions Update

## 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

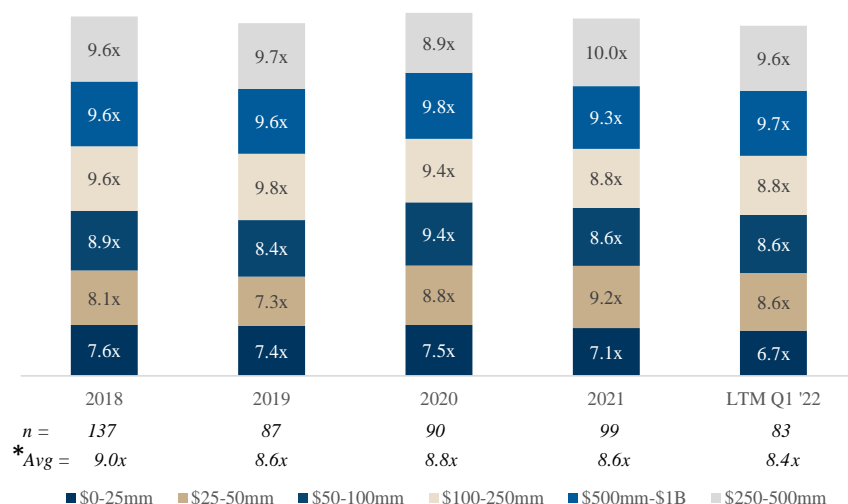


Note: Publicly disclosed M&A transactions  
Source: CapitalIQ, Mufson Howe Hunter

As of 3/31/2022

## U.S. Middle Market Valuation Multiples

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



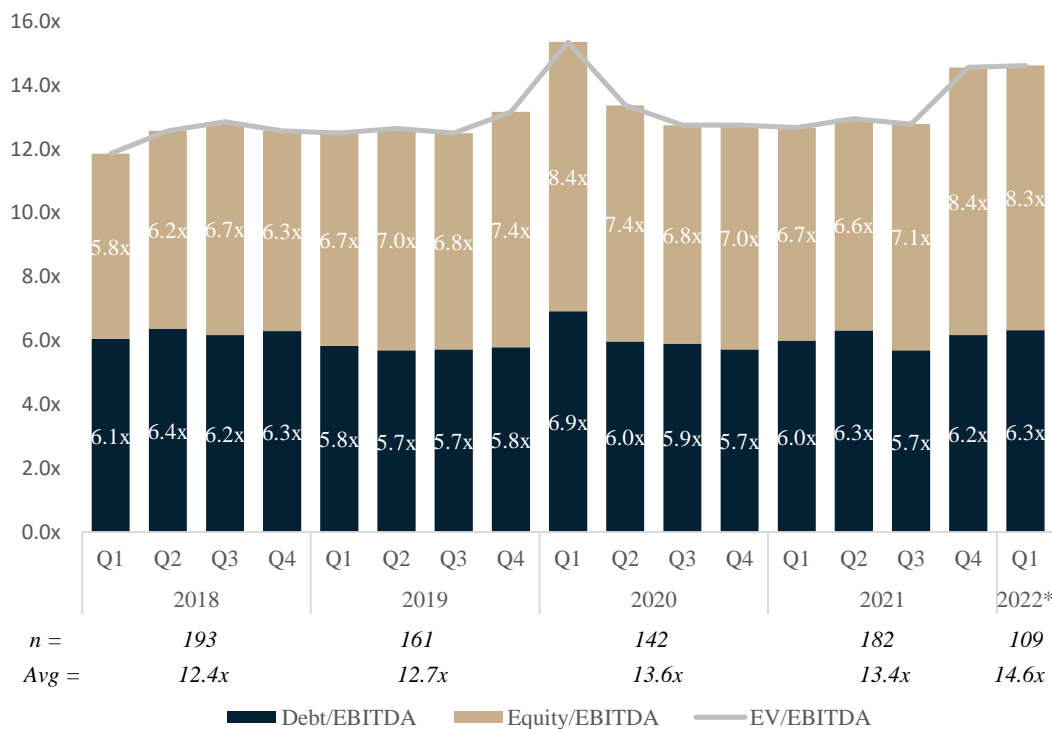
\* Average weighted by number of transactions

Source: Capital IQ

As of 3/31/2022

### 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.

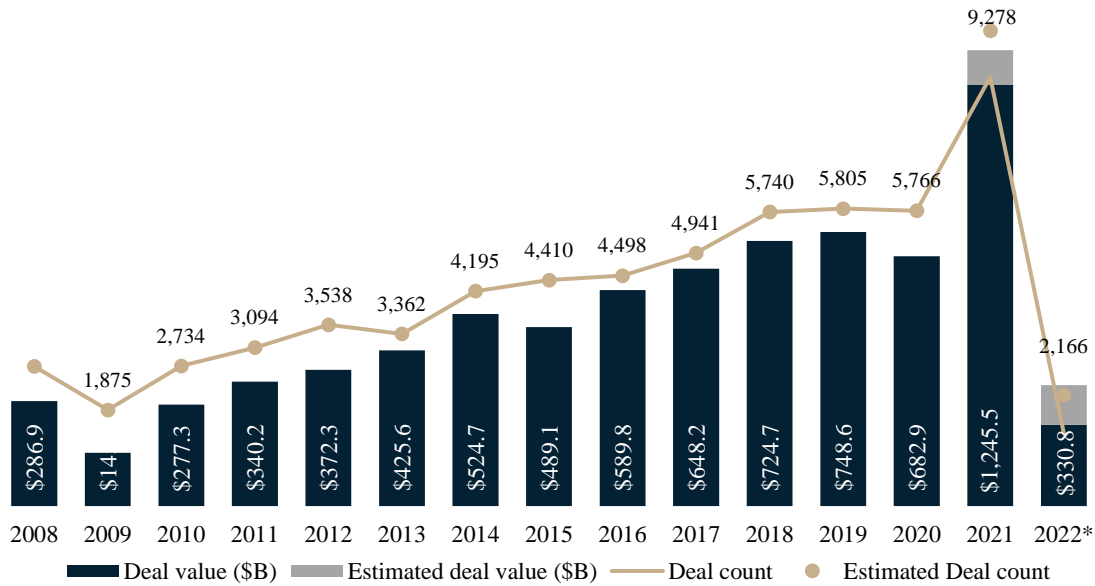


Source: PitchBook

As of 3/31/2022

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

### U.S. PE Deal Activity



Source: PitchBook  
\*As of 3/31/2022

### U.S. PE Exit Activity



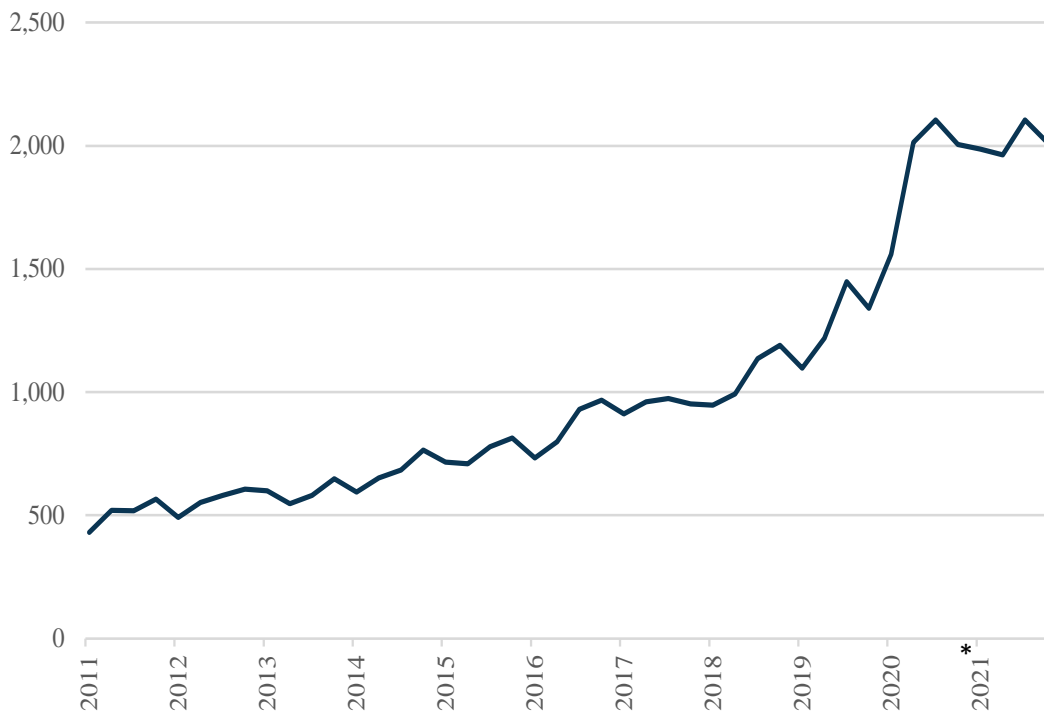
Source: PitchBook  
\*As of 3/31/2022

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



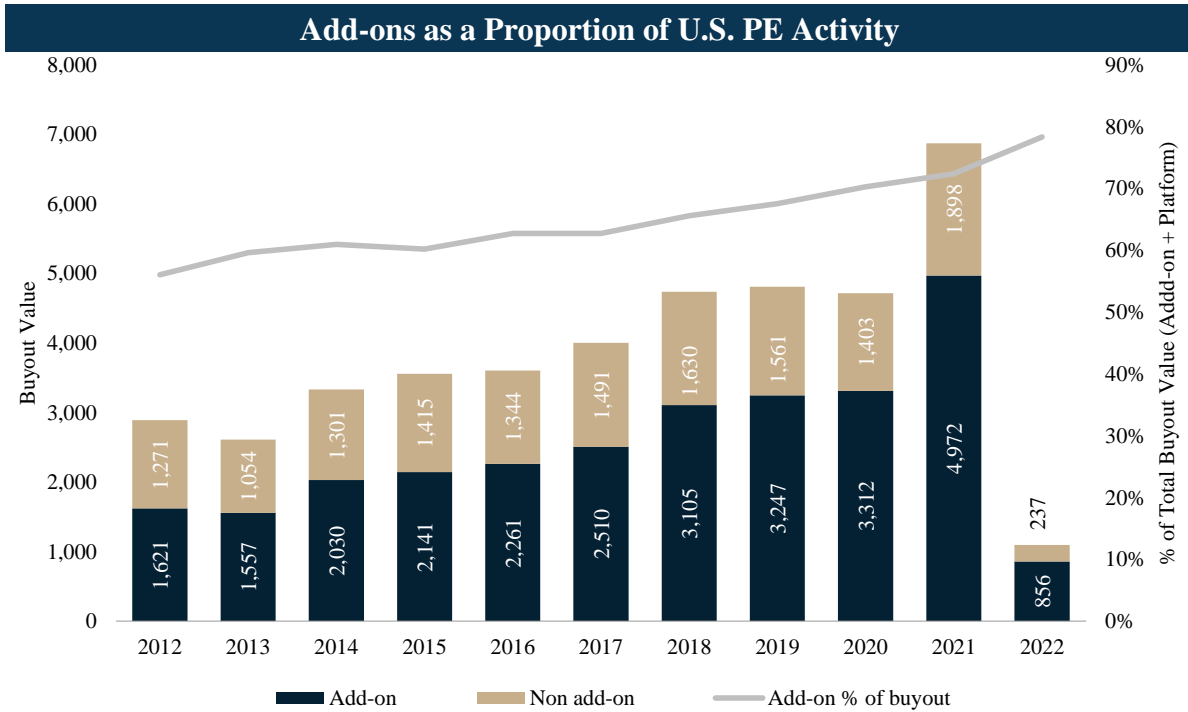
Source: PitchBook  
As of 3/31/2022

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



Source: St. Louis FRED  
\*As of 10/1/2021

All U.S. Private Equity Sponsor Activity



Source: PitchBook  
As of 3/31/2022

## Leverage Market at a Glance

By SPP Capital Partners  
www.sppcapital.com

### Cash Flow Senior Debt/EBITDA

	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
March 2022	1.75x - 2.75x	2.75x - 3.50x	3.50x - 5.50x
February 2022	1.75x - 2.75x	2.75x - 3.50x	3.50x - 5.50x
March 2021	1.75x - 2.75x	2.75x - 3.50x	3.25x - 4.25x
Commentary:	<i>No Leverage or Pricing Modifications for March: Metrics remain Stable Despite Economic and Geopolitical Volatility</i>		

### Total Debt/EBITDA

	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
March 2022	3.00x - 4.50x	4.00x - 5.50x	5.00x - 7.00x
February 2022	3.00x - 4.50x	4.00x - 5.50x	5.00x - 7.00x
March 2021	3.00x - 4.00x	4.00x - 5.25x	4.50x - 5.50x
Commentary:	<i>No Leverage or Pricing Modifications for March: Metrics remain Stable Despite Economic and Geopolitical Volatility</i>		

### Senior Cash Flow Pricing

	Bank	Non-Bank < \$7.5MM EBITDA	Non-Bank > \$20MM EBITDA
March 2022	L+ 2.25% - 4.00%	L+ 5.00% - 7.50%	L+ 4.50% - 5.75%
February 2022	L+ 2.25% - 4.00%	L+ 5.00% - 7.50%	L+ 4.50% - 5.75%
March 2021	L+ 2.50% - 4.00%	L+ 5.50% - 7.50%	L+ 5.00% - 6.50%
Commentary:	<i>No Leverage or Pricing Modifications for March: Metrics remain Stable Despite Economic and Geopolitical Volatility</i>		

### Unitranche and Second Lien Pricing

	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
March 2022	L+ 7.00% - 10.50%	L+ 6.00% - 8.00%	L+ 5.00% - 7.00%
February 2022	L+ 7.00% - 10.50%	L+ 6.00% - 8.00%	L+ 5.00% - 7.00%
March 2021	L+ 7.50% - 10.50%	L+ 6.00% - 8.50%	L+ 5.50% - 7.50%
Commentary:	<i>No Leverage or Pricing Modifications for March: Metrics remain Stable Despite Economic and Geopolitical Volatility</i>		

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

	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
March 2022	11.00% - 14.00%	9.50% - 12.00%	8.50% - 11.00%
February 2022	11.00% - 14.00%	9.50% - 12.00%	8.50% - 11.00%
March 2021	12.00% - 14.00%	10.00% - 12.00%	9.50% - 11.00%
Commentary:	<i>No Leverage or Pricing Modifications for March: Metrics remain Stable Despite Economic and Geopolitical Volatility</i>		

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

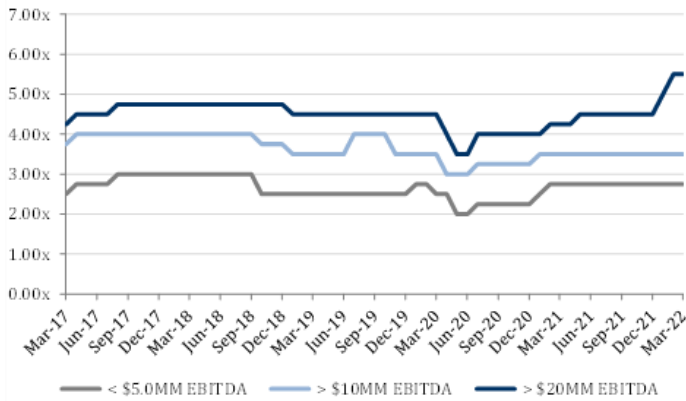
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## Historical Leverage Metrics

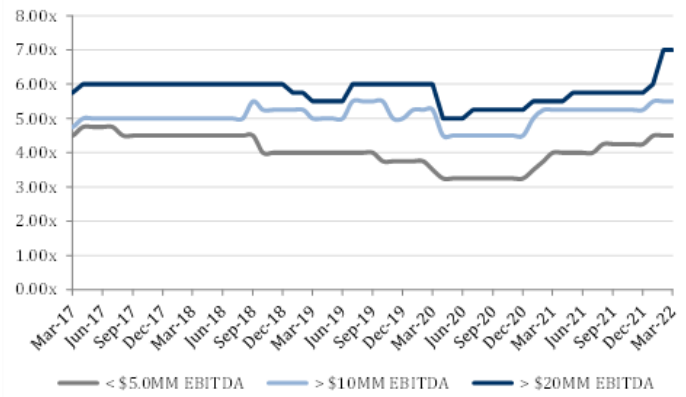
By SPP Capital Partners

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



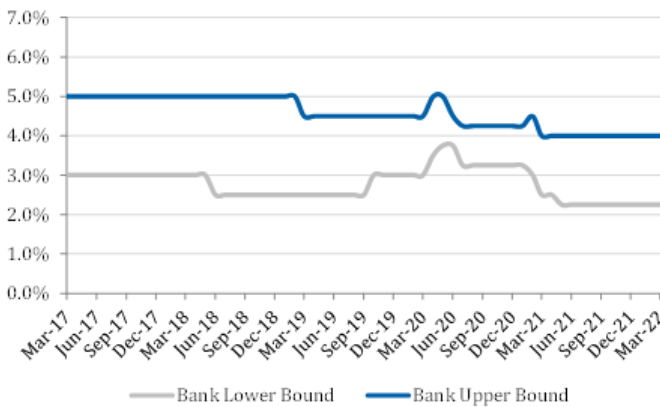
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

### Historical Total Debt Limit (x EBITDA)



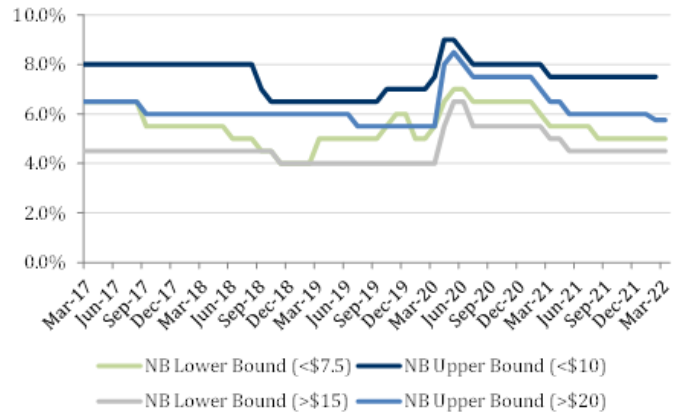
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

### Historical Senior Cash Flow Pricing (Bank)



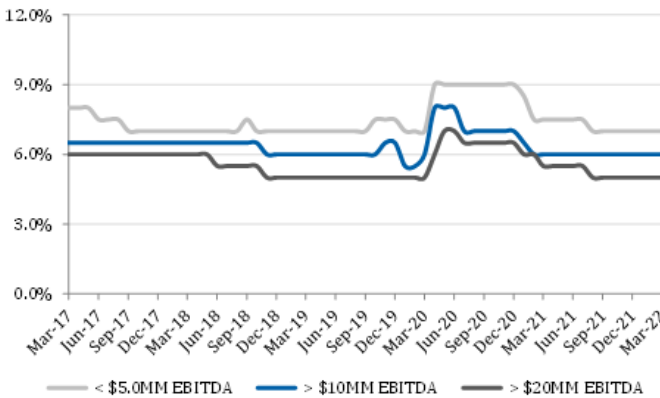
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

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



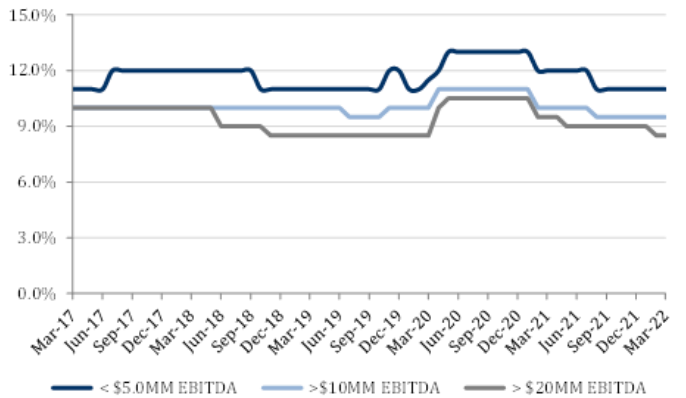
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

### Historical Second Lien Pricing



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

### Historical Subordinated Debt Pricing

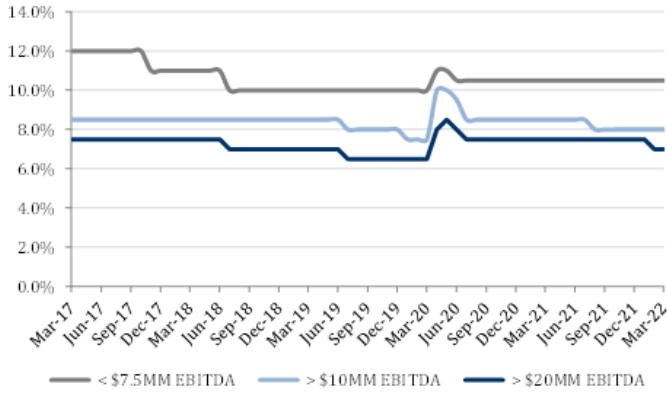


Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

Historical Leverage Metrics (cont.)

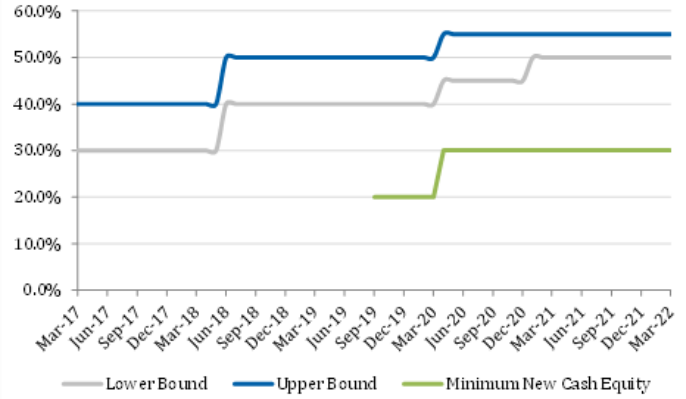
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Historical Unitranche Pricing



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 March 2022"

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

 Agilemedical

*has been acquired by*

 adapthealth

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

**Mufson Howe Hunter**  
INVESTMENT BANKERS FOR GROWTH

 exadel

*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

 pds Intuitive Software  
Insightful Solutions

*has been acquired by*

 Instem  
Information Solutions For Life

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

**Mufson Howe Hunter**  
INVESTMENT BANKERS FOR GROWTH

 FUTURA  
MOBILITY

*has acquired*

 ENVIGORATE  
HEALTHCARE SOLUTIONS

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

**Mufson Howe Hunter**  
INVESTMENT BANKERS FOR GROWTH

August 6, 2021


 AMTECH

*has been acquired by an affiliate of*


 PEAK ROCK CAPITAL®

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

**Mufson Howe Hunter**  
INVESTMENT BANKERS FOR GROWTH

 Squatty Potty

*has been acquired by*

 ATERIAN

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

**Mufson Howe Hunter**  
INVESTMENT BANKERS FOR GROWTH

 NEMO  
TILE + STONE

*has completed a majority recapitalization with*

 SAW MILL  
CAPITAL

*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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Visit us at: [www.mhhco.com](http://www.mhhco.com)

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