

Mergers & Acquisitions Update: The Middle Market Q2 2022

Summary Highlights

- For the 6 months ending June 30, 2022, M&A middle market activity experienced a 35% drop in deal count vs. the same period in 2021.
- Recent declines in middle market activity from its high point of 626 transactions in Q4 2021 dropped significantly in the subsequent two quarters. In Q1 2022, 375 transactions were reported and in Q2, 321 transactions, down 46% and 49%, respectively in year to date 2022.
- Total US M&A valuations for announced deals averaged 8.4x EBITDA on a 2022 TTM basis, slightly 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 6.5x for the TTM 2022 period, and in EVs from \$25 million to \$50 million, from 9.2x in 2021 to 7.5x in 6 months ending June 2022. Valuations were also slightly down in deals between \$50 - \$100 million in EV, from 8.6x in 2021 vs. 8.0x YTD 2022. These valuation decreases are due to lenders reacting to the rate increases coupled with overall market concerns.
- Private equity sponsored deals below \$1 billion in the six months ended June 30, 2022 remained at record high levels, averaging 15.1x vs 13.0x in 2021. The increase in pricing is a result of the upper strata of the middle market with increases in equity contribution representing 60% of total consideration.
- Private Sponsor transactions utilized, on average, 6.5x turns of leverage in Q2 2022, up from the 6.0x in 2021.
- **M&A Credit/Leverage statistics are provided by SPP Capital Partners** (www.sppcapital.com); see page 7.

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Size Range	U.S. Announced M&A Transactions ⁽²⁾				
	2018	2019	2020	2021	LTM Q2 '22
\$0-25mm	7.6x	7.4x	7.5x	7.1x	6.5x
\$25-50mm	8.1x	7.3x	8.8x	9.2x	7.5x
\$50-100mm	8.9x	8.4x	9.4x	8.6x	8.0x
\$100-250mm	9.6x	9.8x	9.4x	8.8x	9.1x
\$250-500mm	9.6x	9.7x	8.9x	10.0x	9.2x
\$500mm-\$1B	9.6x	9.6x	9.8x	9.3x	10.7x

⁽¹⁾ Source: Mufson Howe Hunter, *CapitalIQ* and *PitchBook*

⁽²⁾ Source: *CapitalIQ*

Regards,



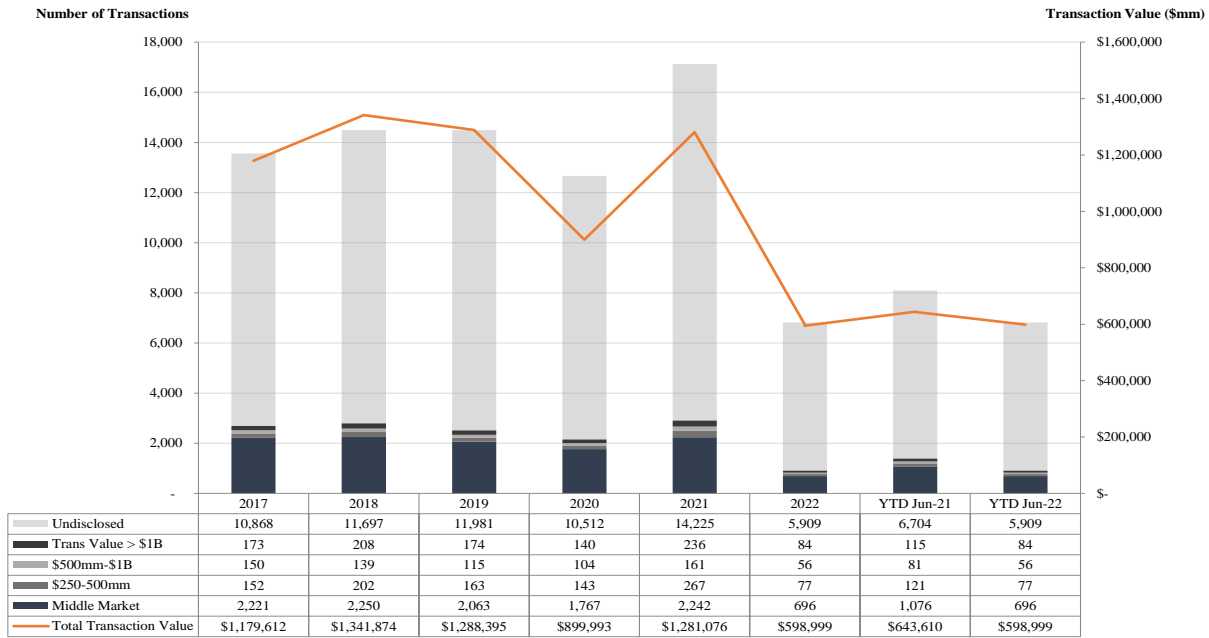
Michael J. Mufson
Managing Director

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

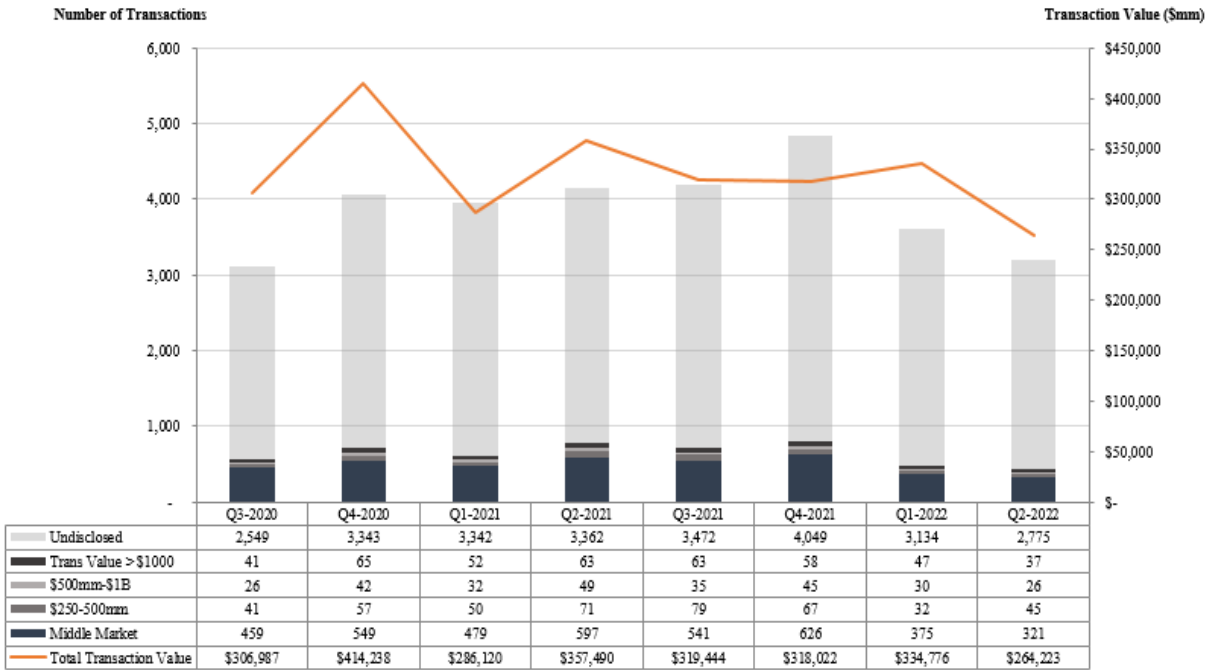
Mergers & Acquisitions Update

U.S. - All Reported M&A Activity



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

U.S. - All Reported M&A Activity

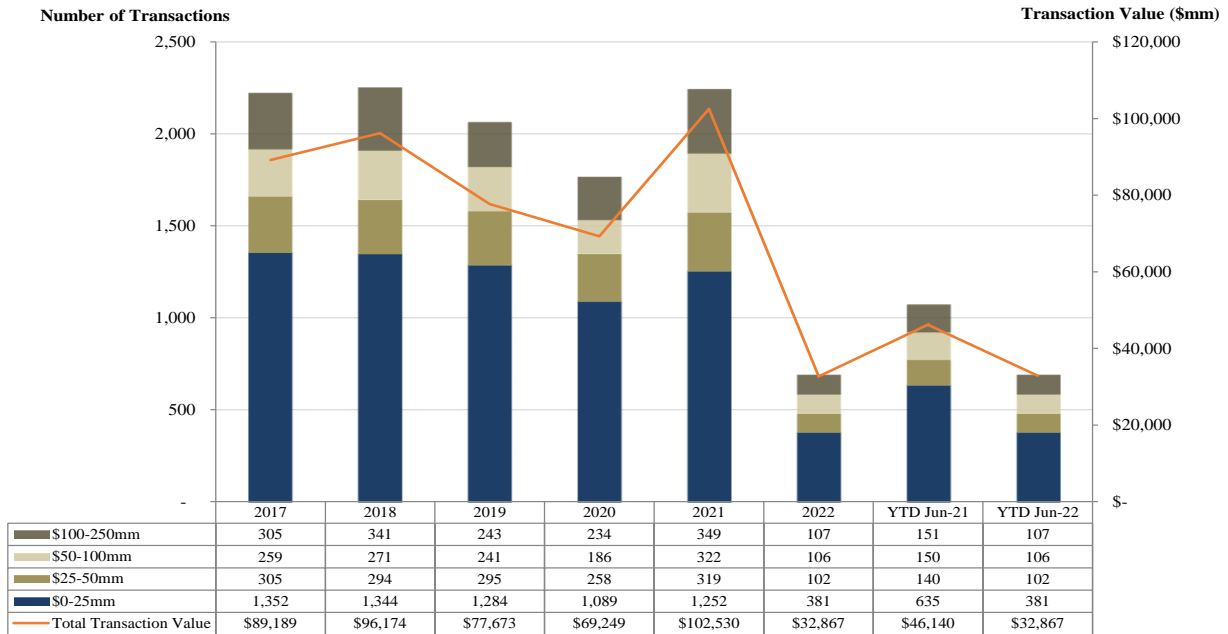


Note: Publicly disclosed M&A transactions
Source: CapitalIQ, Mufson Howe Hunter

As of 6/30/2022

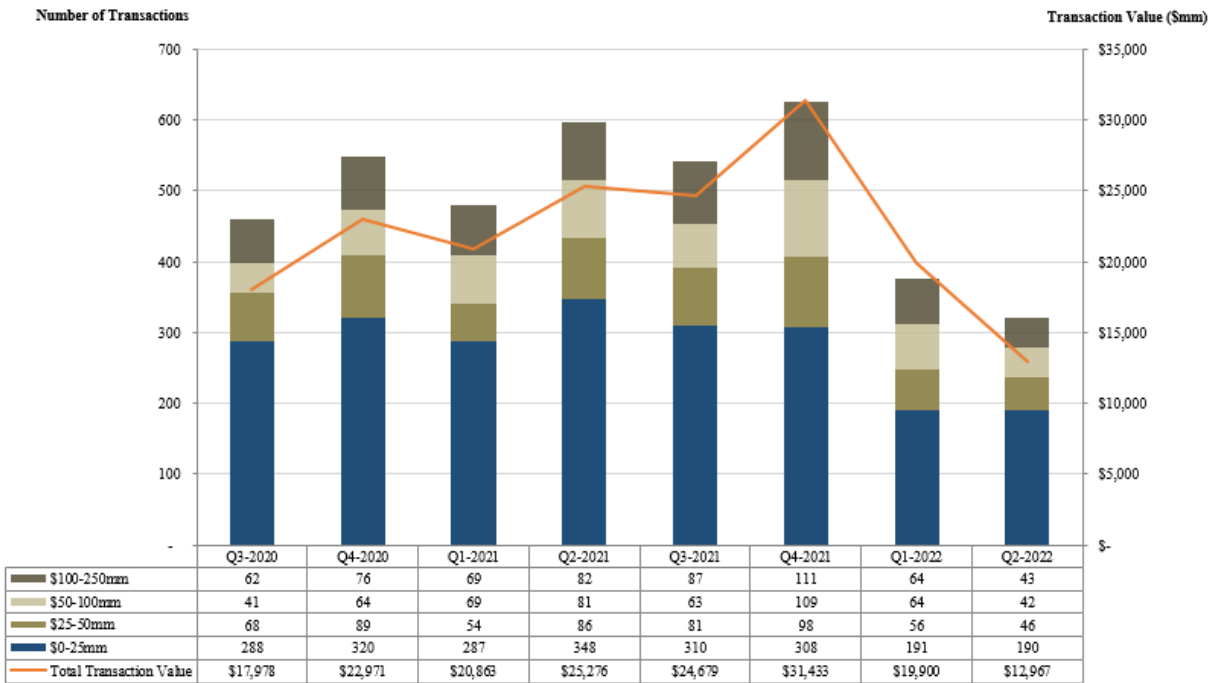
Mergers & Acquisitions Update

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

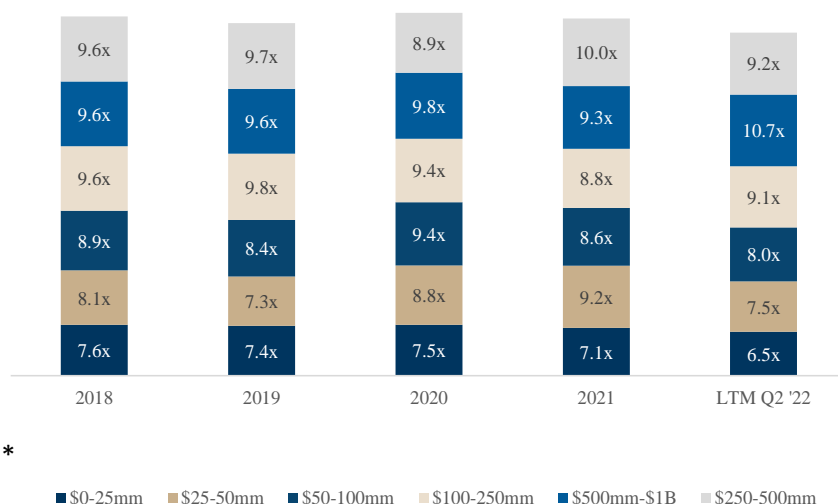


Note: Publicly disclosed M&A transactions
Source: CapitalIQ, Mufson Howe Hunter

As of 6/30/2022

U.S. Middle Market Valuation Multiples

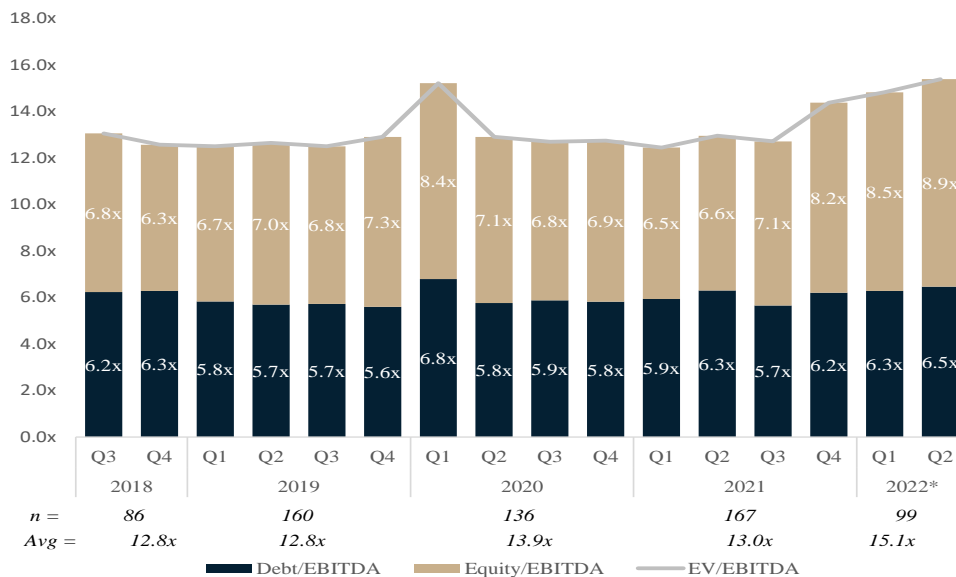
All U.S. Middle Market M&A Transactions Valuation Multiples



* Average weighted by number of transactions
 Source: Capital IQ
 As of 6/30/2022

Median U.S. Private Equity Sponsor Buyout Multiples

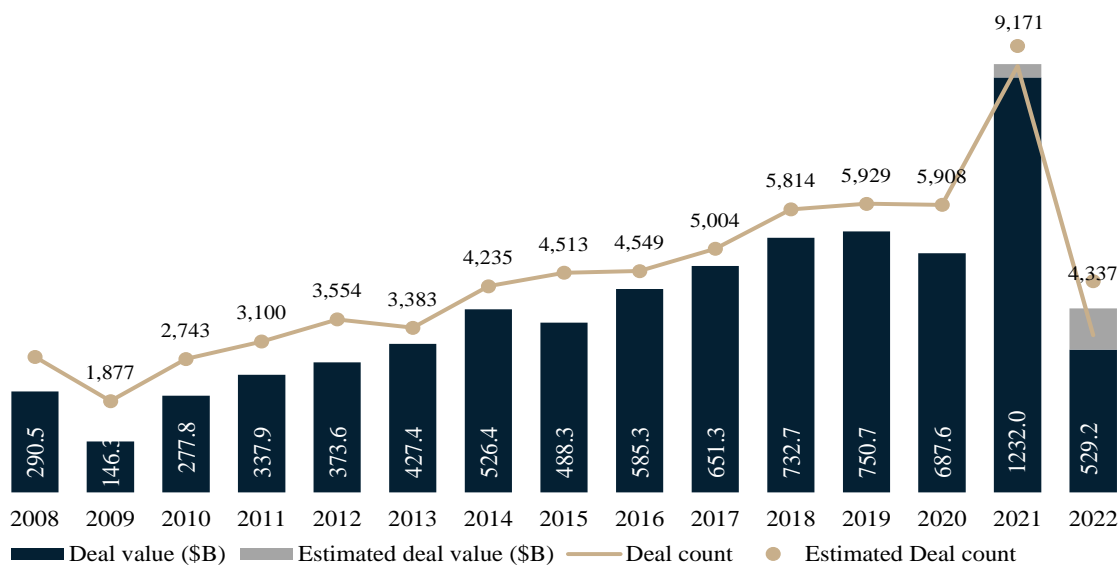
Middle Market, as defined by PitchBook, includes transactions valued at \$25 million up to \$1 billion. The following chart depicts certain key elements of Middle Market Private Equity M&A activity through December 31, 2021.



Source: PitchBook
 As of 6/30/2022

U.S. Middle Market Private Equity Sponsor Activity

U.S. PE Deal Activity



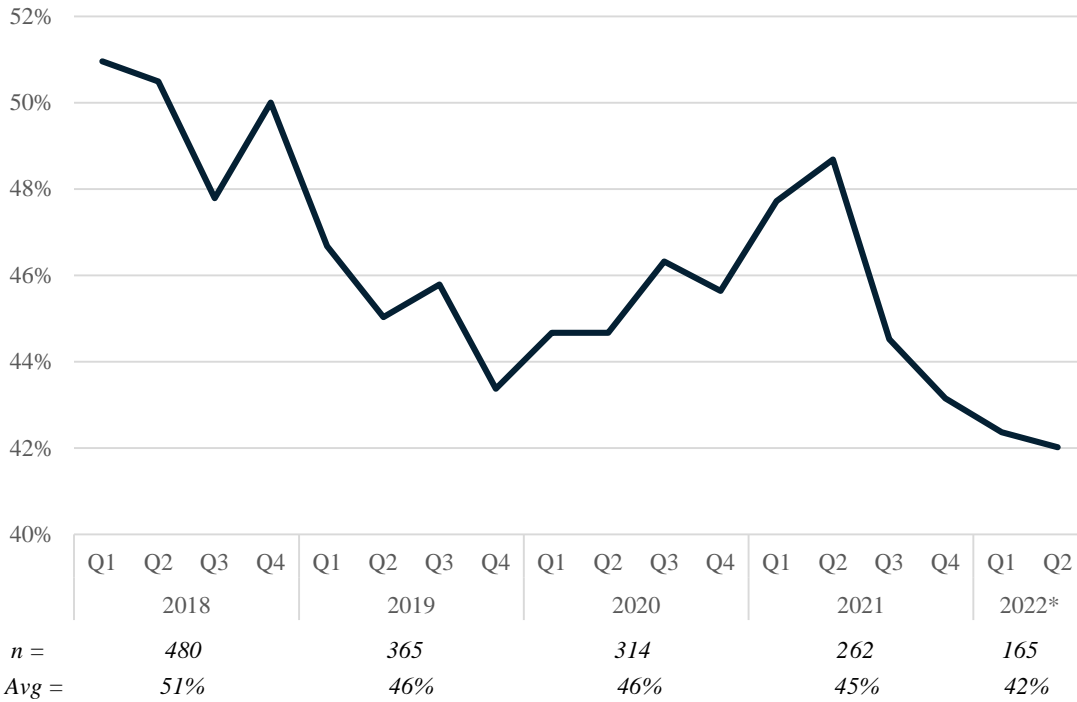
Source: PitchBook
*As of 6/30/2022

U.S. PE Exit Activity



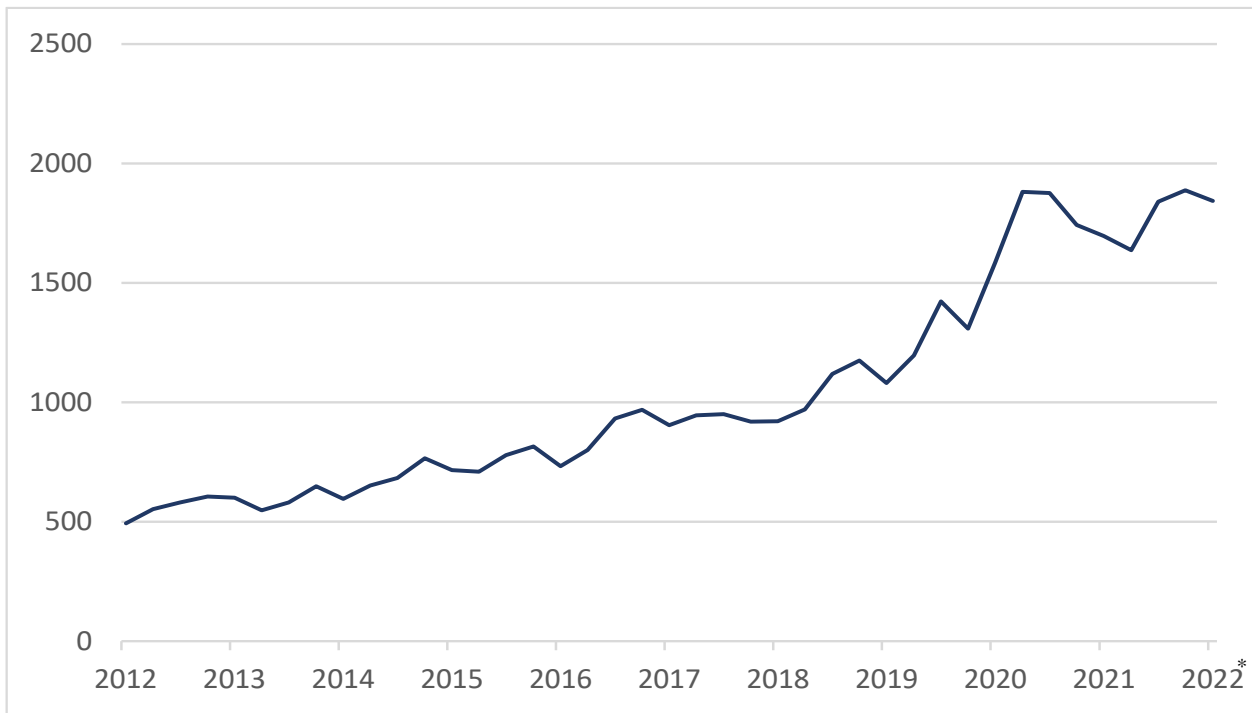
Source: PitchBook
*As of 6/30/2022

U.S. Middle Market PE Buyout Debt Percentage



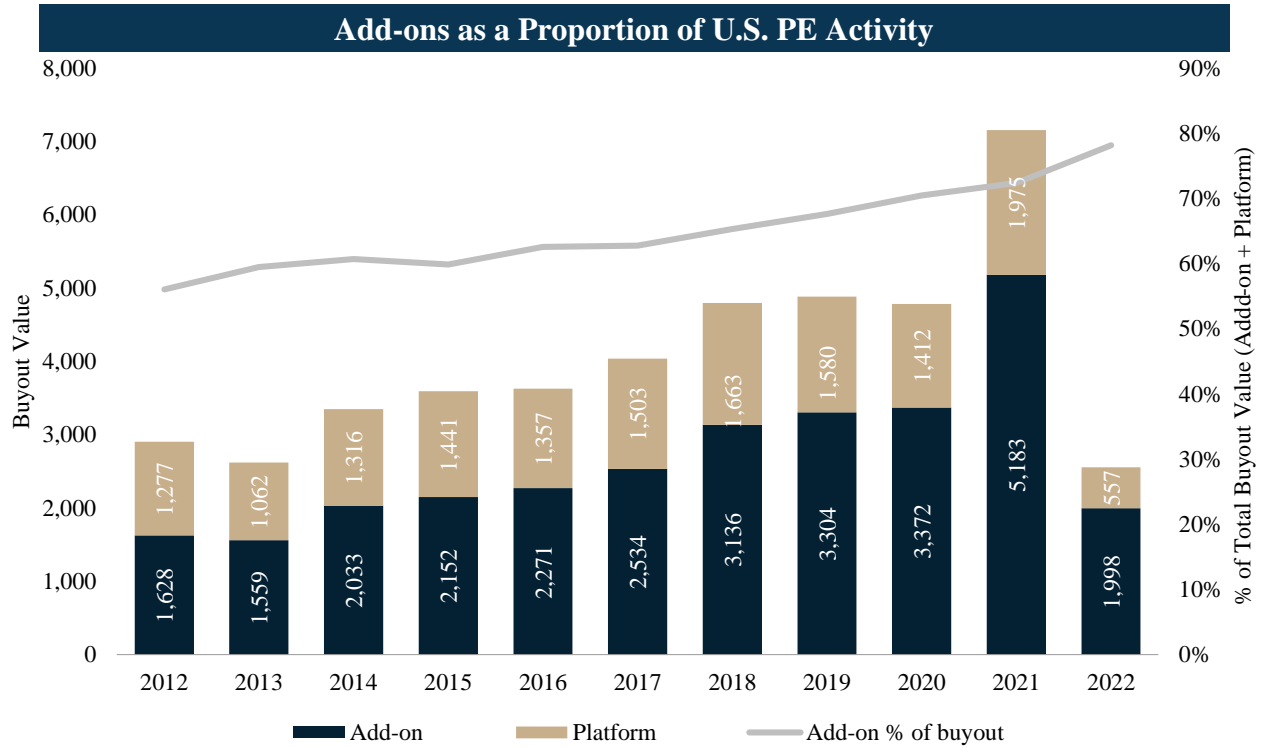
Source: PitchBook
As of 6/30/2022

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



Source: St. Louis FRED
*As of 01/01/2022

All U.S. Private Equity Sponsor Activity



Source: PitchBook
As of 6/30/2022

Leverage Market at a Glance

By SPP Capital Partners
www.sppcapital.com

Cash Flow Senior Debt/EBITDA

	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
July 2022	1.50x - 2.50x	2.75x - 3.25x	3.50x - 5.50x
June 2022	1.50x - 2.50x	2.75x - 3.25x	3.50x - 5.50x
July 2021	1.75x - 2.75x	2.75x - 3.50x	3.25x - 4.50x

Commentary: *Pricing and Leverage Metrics Reflect a Tighter Credit Environment – Market in “Risk-Off” Mode.*

Total Debt/EBITDA

	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
July 2022	3.75x - 4.25x	4.00x - 5.00x	5.00x - 7.00x
June 2022	3.75x - 4.25x	4.00x - 5.00x	5.00x - 7.00x
July 2021	3.00x - 4.00x	4.00x - 5.25x	4.50x - 5.75x

Commentary: *Pricing and Leverage Metrics Reflect a Tighter Credit Environment – Market in “Risk-Off” Mode.*

Senior Cash Flow Pricing

	Bank	Non-Bank < \$7.5MM EBITDA	Non-Bank > \$20MM EBITDA
July 2022	S+ 3.00% - 4.50%	S+ 6.50% - 8.50%	S+ 5.50% - 6.50%
June 2022	S+ 3.00% - 4.50%	S+ 6.50% - 8.50%	S+ 5.50% - 6.50%
July 2021	L+ 2.25% - 4.00%	L+ 5.50% - 7.50%	L+ 4.50% - 6.00%

Commentary: *Pricing and Leverage Metrics Reflect a Tighter Credit Environment – Market in “Risk-Off” Mode.*

Unitranche and Second Lien Pricing

	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
July 2022	S+ 8.00% - 10.50%	S+ 7.50% - 8.50%	S+ 5.50% - 8.00%
June 2022	S+ 8.00% - 10.50%	S+ 7.50% - 8.50%	S+ 5.50% - 8.00%
July 2021	L+ 7.50% - 10.50%	L+ 6.00% - 8.50%	L+ 5.50% - 7.50%

Commentary: *Pricing and Leverage Metrics Reflect a Tighter Credit Environment – Market in “Risk-Off” Mode.*

Sub Debt Pricing (Total Coupon: Cash + PIK)

	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
July 2022	12.00% - 14.00%	11.00% - 13.00%	9.50% - 11.50%
June 2022	12.00% - 14.00%	11.00% - 13.00%	9.50% - 11.50%
July 2021	12.00% - 14.00%	10.00% - 12.00%	9.00% - 11.00%

Commentary: *Pricing and Leverage Metrics Reflect a Tighter Credit Environment – Market in “Risk-Off” Mode.*

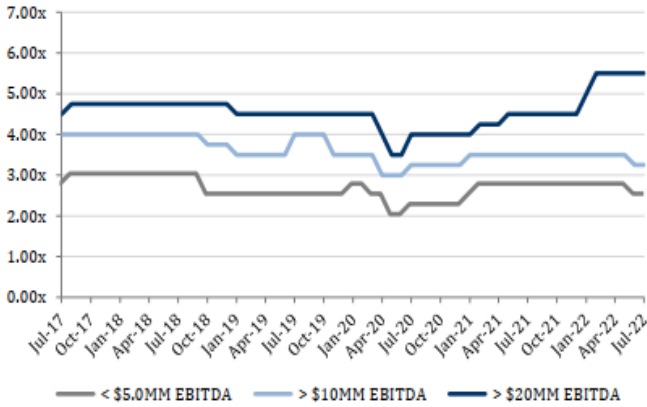
Source: SPP Capital Partners – “Capital Market Update July 2022”

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Historical Leverage Metrics

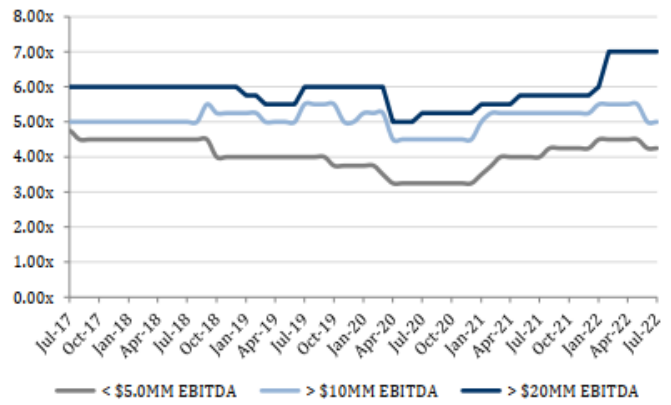
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Historical Senior Debt Cash Flow Limit (x EBITDA)



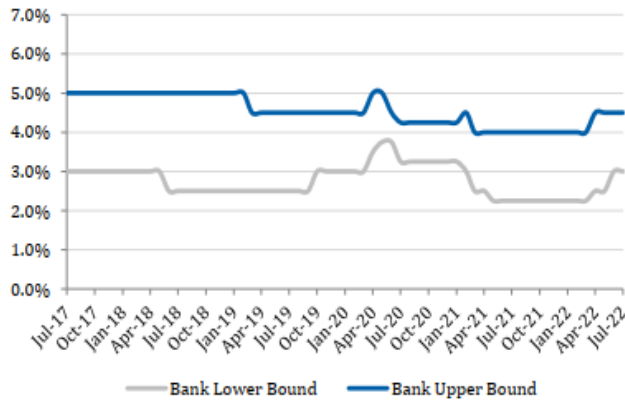
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

Historical Total Debt Limit (x EBITDA)



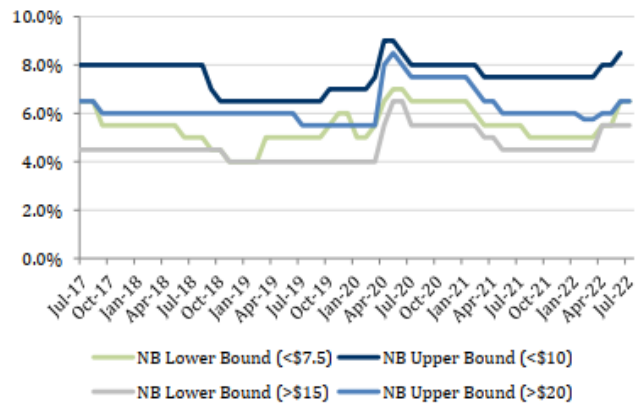
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

Historical Senior Cash Flow Pricing (Bank)



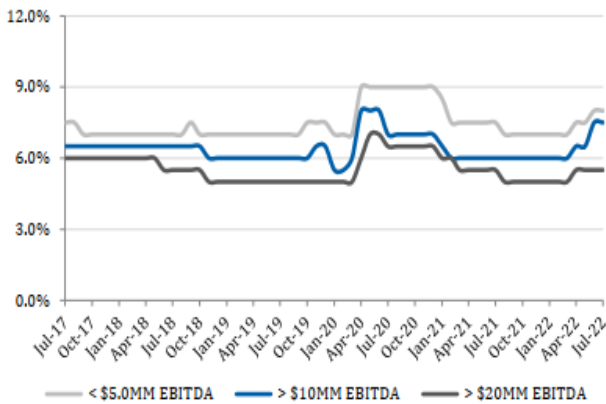
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

Historical Senior Cash Flow Pricing (Non-Bank)



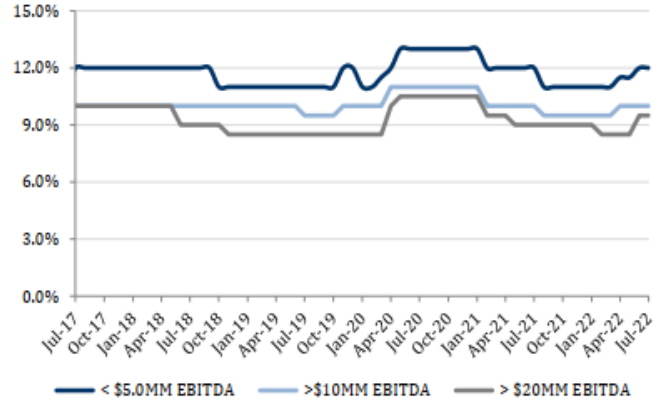
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

Historical Second Lien Pricing



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

Historical Subordinated Debt Pricing

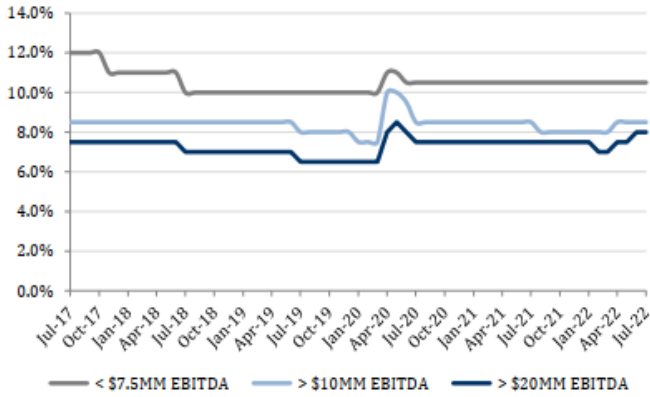


Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

Historical Leverage Metrics (cont.)

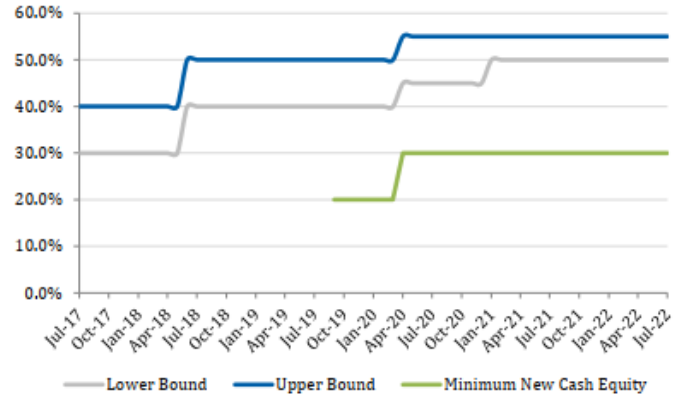
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Historical Unitranche Pricing



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 2022"

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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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