

## Mergers & Acquisitions Update: The Middle Market Q3 2022

### Summary Highlights

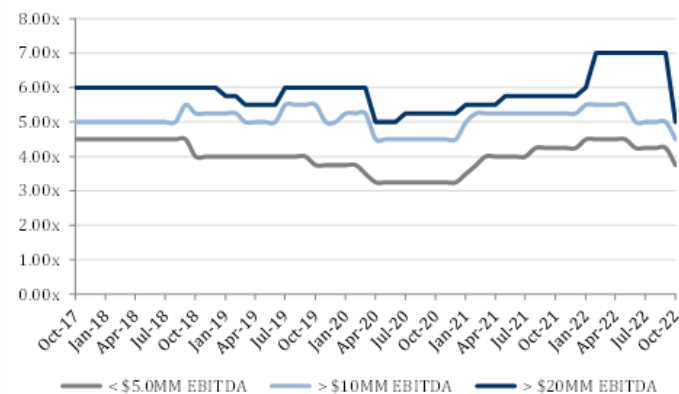
- For the nine months ending September 2022, M&A middle market activity continued its sluggish stance and experienced a 35% drop in deal count vs. the same period in 2021. Recent declines in middle market activity from its high point of 626 transactions in Q4 2021 experienced meaningful reductions in middle market activity for the three quarters in 2022. Specifically, in Q1 2022, announced 379 transactions, Q2, 357 deals and Q3 285 transactions. This represents volume decreases of 46%, 49% and 54% respectively.
- Total US M&A valuations for announced deals averaged 8.8x EBITDA for Q3 2022, slightly up from 8.6x at 2021 year-end. Middle market transactions reported valuations slightly increasing for companies below \$25 million in EV, from 7.1x in 2021 to 7.2x for the TTM 2022 period. The remaining strata's reported more volatility with EVs from \$25 million to \$50 million, down from 9.2x in 2021 to 7.7x in 9 months ending September 2022. Valuations were also slightly down in deals between \$50 - \$100 million in EV, from 8.6x in 2021 vs. 7.4x YTD 2022.
- M&A Credit/Leverage statistics are provided by SPP Capital Partners ([www.sppcapital.com](http://www.sppcapital.com)); see page 6.

Size Range	U.S. Announced M&A Transactions <sup>(2)</sup>				
	2018	2019	2020	2021	YTD Sep-22
\$0-25mm	7.6x	7.4x	7.5x	7.1x	7.2x
\$25-50mm	8.1x	7.3x	8.8x	9.2x	7.7x
\$50-100mm	8.9x	8.4x	9.4x	8.6x	7.4x
\$100-250mm	9.6x	9.8x	9.4x	8.8x	9.1x
\$250-500mm	9.6x	9.7x	8.9x	10.0x	9.1x
\$500mm-\$1B	9.6x	9.6x	9.8x	9.3x	11.0x

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

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

### Historical Total Debt Limit (x EBITDA)



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

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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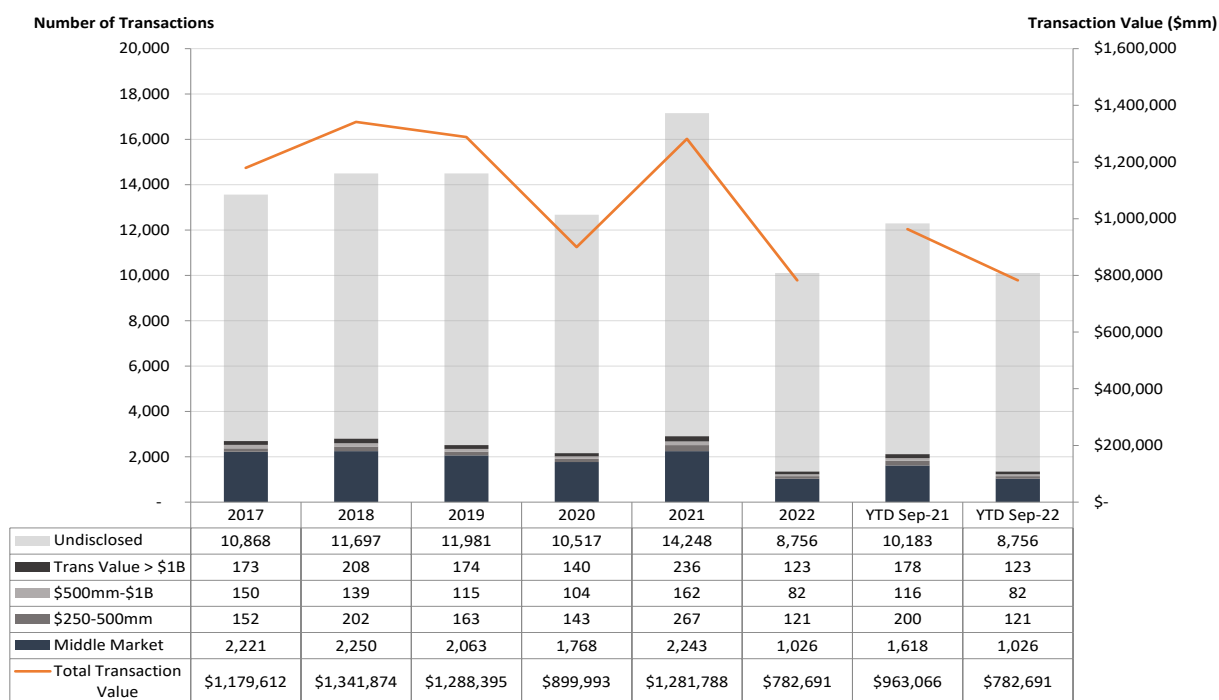
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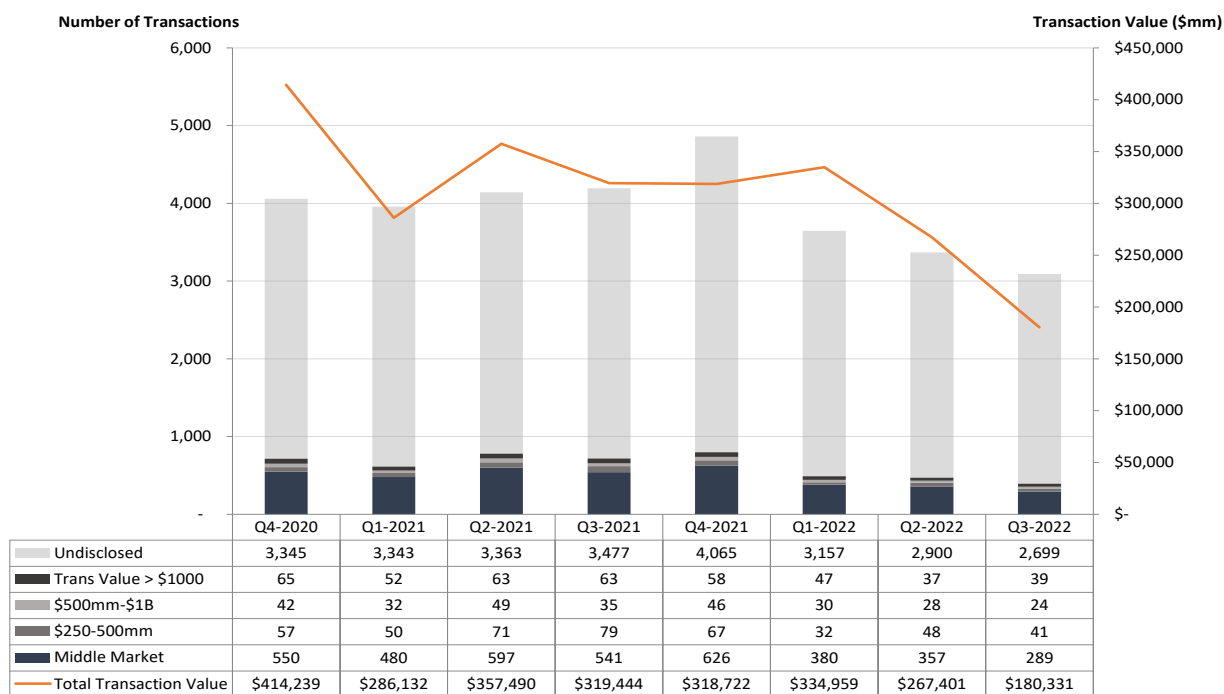
# Mergers & Acquisitions Update

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



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

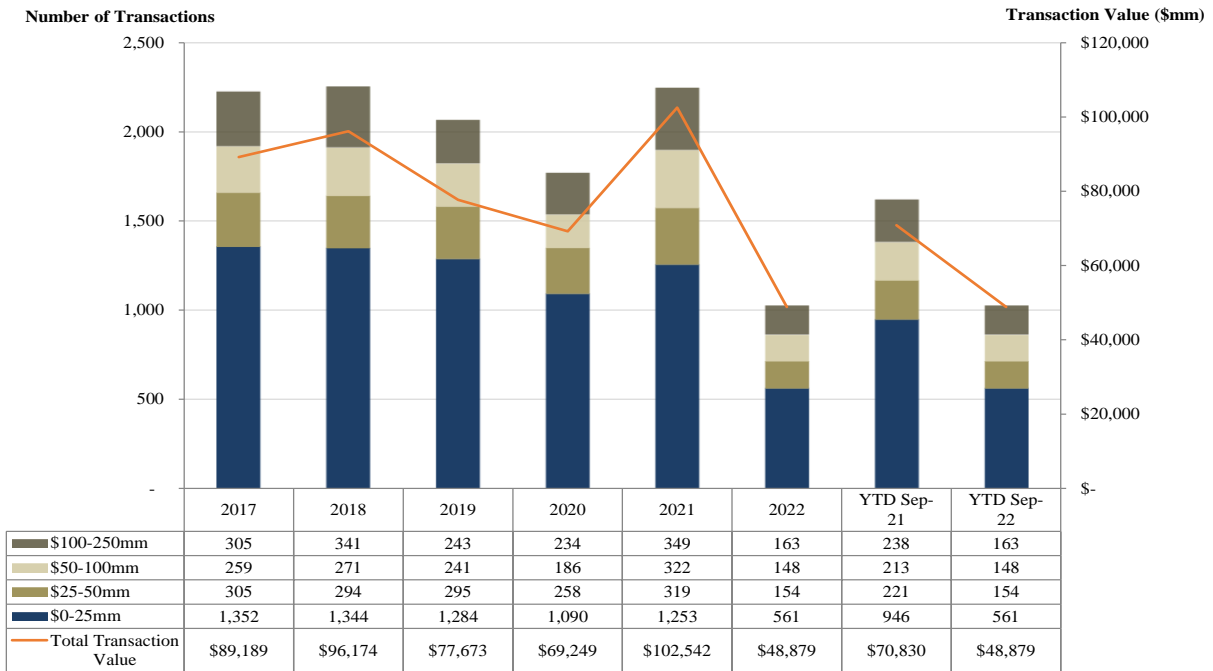
## U.S. - All Reported M&A Activity



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

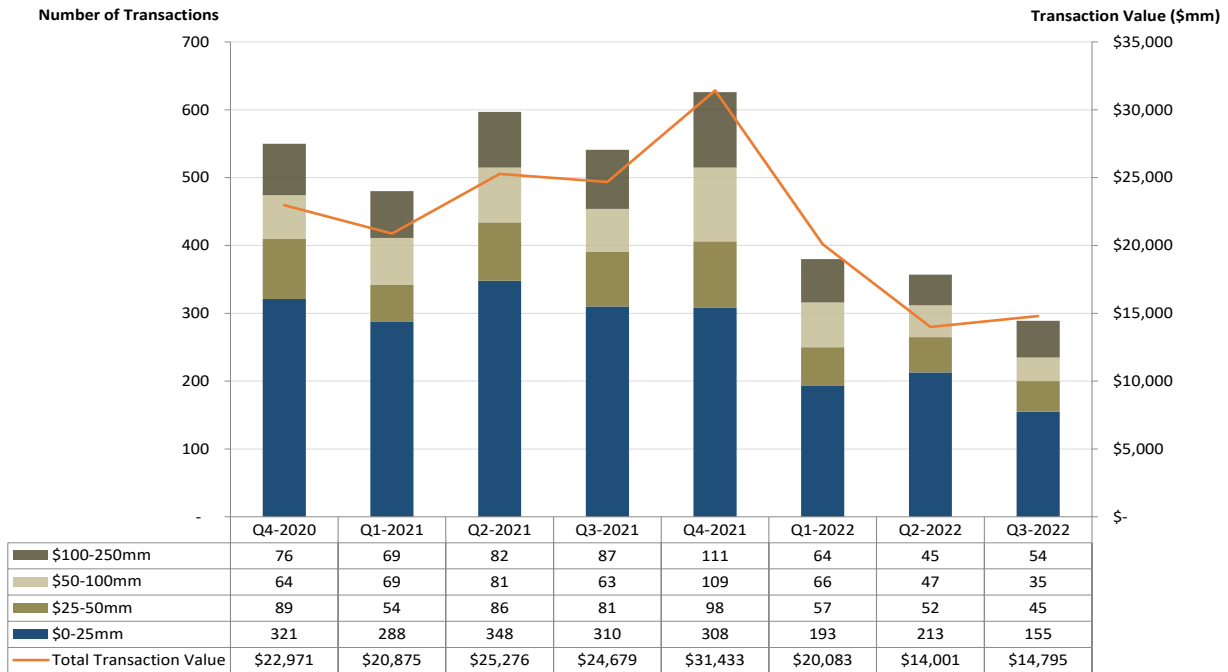
As of 9/30/2022

## 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

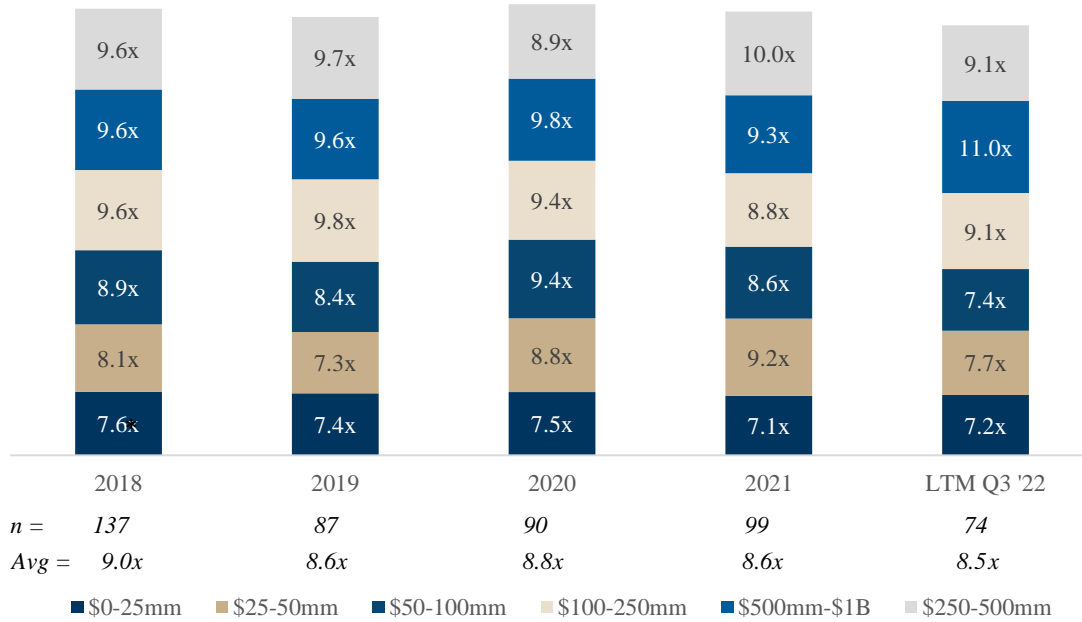


Note: Publicly disclosed M&A transactions  
Source: CapitalIQ, Mufson Howe Hunter

As of 9/30/2022

## U.S. Middle Market Valuation Multiples

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



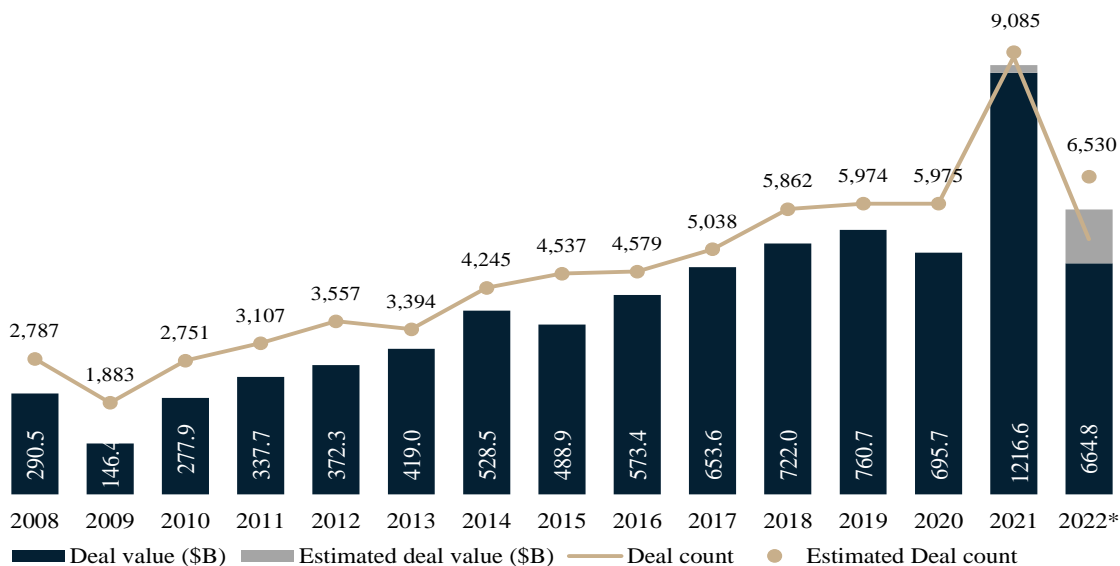
\* Average weighted by number of transactions

Source: Capital IQ

As of 9/30/2022

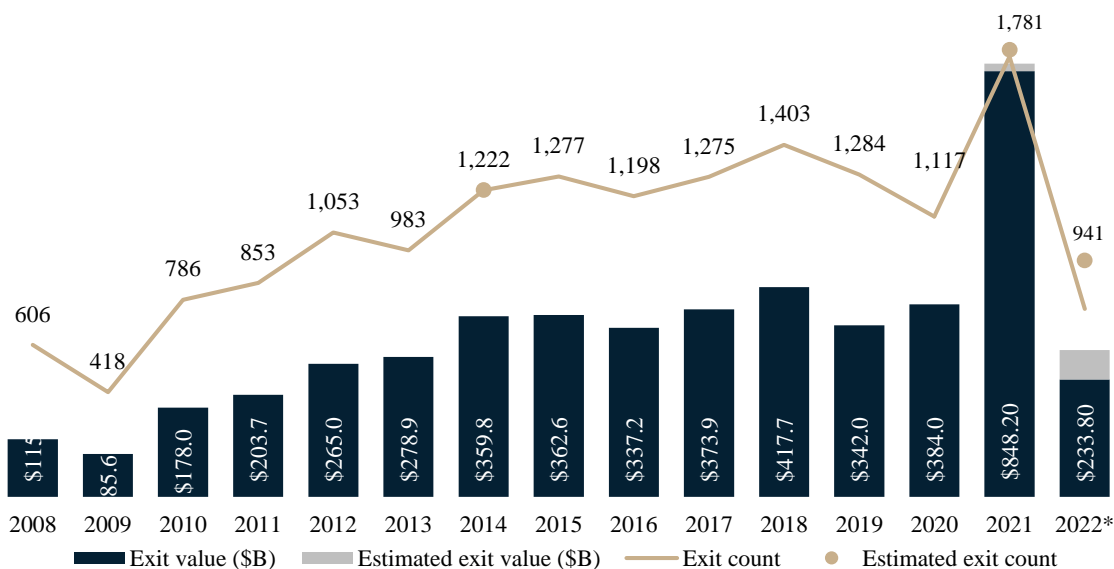
## U.S. Middle Market Private Equity Sponsor Activity

### U.S. PE Deal Activity



Source: PitchBook  
\*As of 9/30/2022

### U.S. PE Exit Activity



Source: PitchBook  
\*As of 9/30/2022

## Leverage Market at a Glance

By SPP Capital Partners  
www.sppcapital.com

### Cash Flow Senior Debt/EBITDA

	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
October 2022	1.50x - 2.00x	2.25x - 2.75x	2.75x - 3.50x
September 2022	1.50x - 2.50x	2.75x - 3.25x	3.50x - 5.50x
October 2021	1.75x - 2.75x	2.75x - 3.50x	3.25x - 4.50x

Commentary: **Market Squarely in "Risk-Off" Mode - Higher Pricing and Less Leverage Across the Credit Spectrum**

### Total Debt/EBITDA

	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
October 2022	3.00x - 3.75x	3.50x - 4.50x	4.00x - 5.00x
September 2022	3.75x - 4.25x	4.00x - 5.00x	5.00x - 7.00x
October 2021	3.00x - 4.25x	4.00x - 5.25x	4.50x - 5.75x

Commentary: **Market Squarely in "Risk-Off" Mode- Higher Pricing and Less Leverage Across the Credit Spectrum**

### Senior Cash Flow Pricing

	Bank	Non-Bank < \$7.5MM EBITDA	Non-Bank > \$20MM EBITDA
October 2022	S+ 3.50% - 4.50%	S+ 7.50% - 9.00%	S+ 6.50% - 7.50%
September 2022	S+ 3.00% - 4.50%	S+ 6.50% - 8.50%	S+ 5.50% - 6.50%
October 2021	L+ 2.25% - 4.00%	L+ 5.00% - 7.50%	L+ 4.50% - 6.00%

Commentary: **Market Squarely in "Risk-Off" Mode- Higher Pricing and Less Leverage Across the Credit Spectrum**

### Unitranche and Second Lien Pricing

	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
October 2022	S+ 9.50% - 11.50%	S+ 8.50% - 10.50%	S+ 6.50% - 8.50%
September 2022	S+ 8.00% - 10.50%	S+ 7.50% - 8.50%	S+ 5.50% - 8.00%
October 2021	L+ 7.00% - 10.50%	L+ 6.00% - 8.00%	L+ 5.00% - 7.50%

Commentary: **Market Squarely in "Risk-Off" Mode- Higher Pricing and Less Leverage Across the Credit Spectrum**

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

	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
October 2022	13.00% - 15.00%	12.50% - 14.00%	11.50% - 13.00%
September 2022	12.00% - 14.00%	11.00% - 13.00%	9.50% - 11.50%
October 2021	11.00% - 14.00%	9.50% - 12.00%	9.00% - 11.00%

Commentary: **Market Squarely in "Risk-Off" Mode- Higher Pricing and Less Leverage Across the Credit Spectrum**

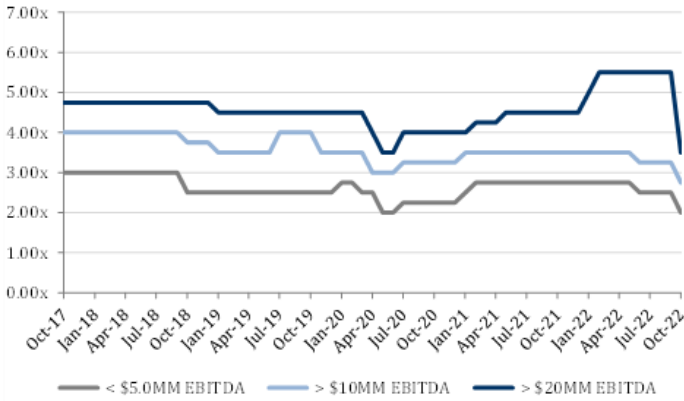
Source: SPP Capital Partners – "Capital Market Update September 2022"

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## Historical Leverage Metrics

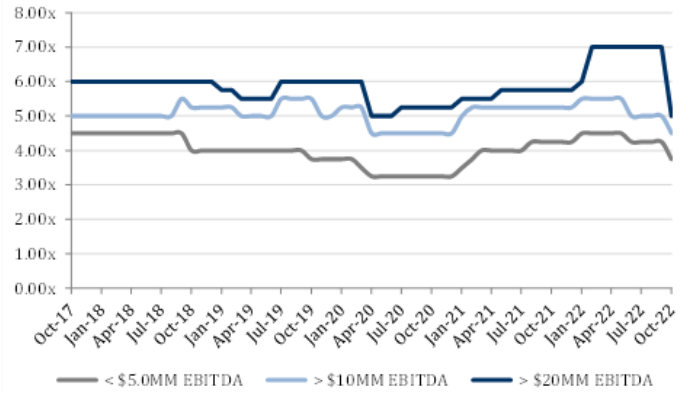
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### Historical Senior Debt Cash Flow Limit (x EBITDA)



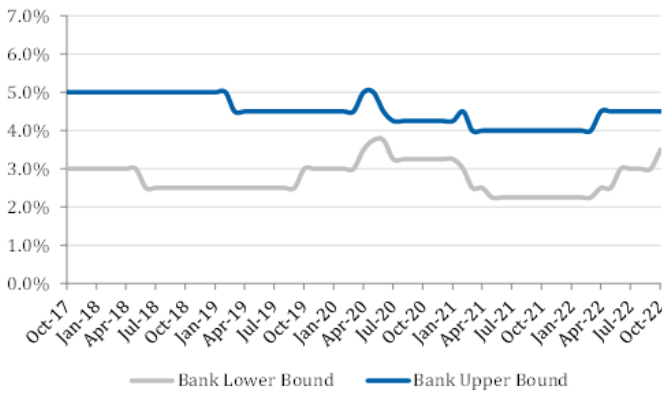
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

### Historical Total Debt Limit (x EBITDA)



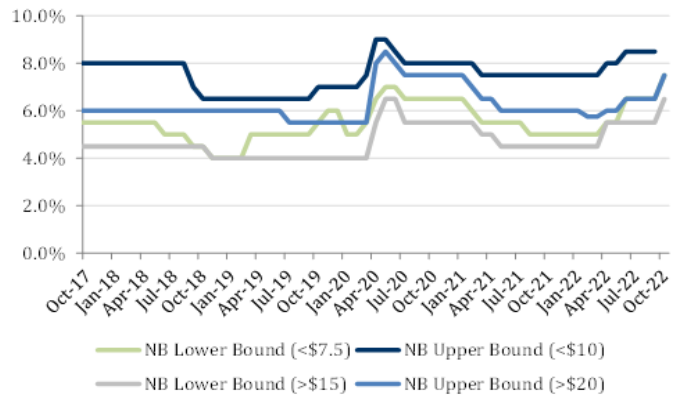
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

### Historical Senior Cash Flow Pricing (Bank)



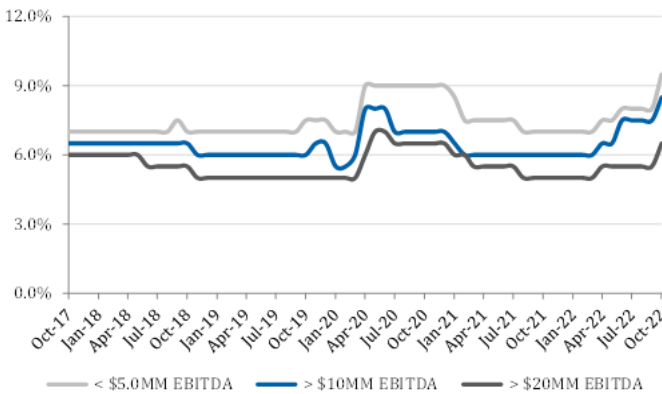
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

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



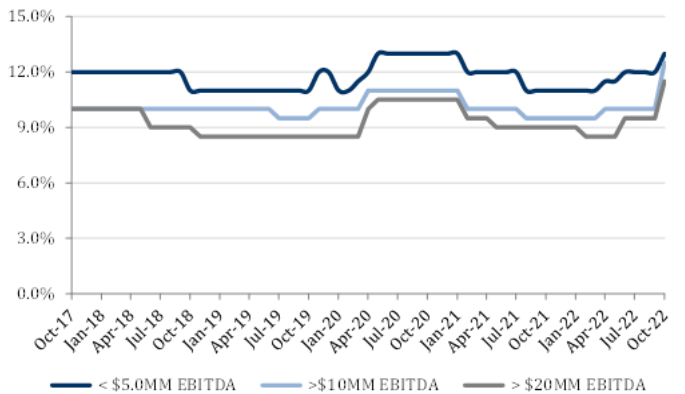
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

### Historical Second Lien Pricing



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

### Historical Subordinated Debt Pricing

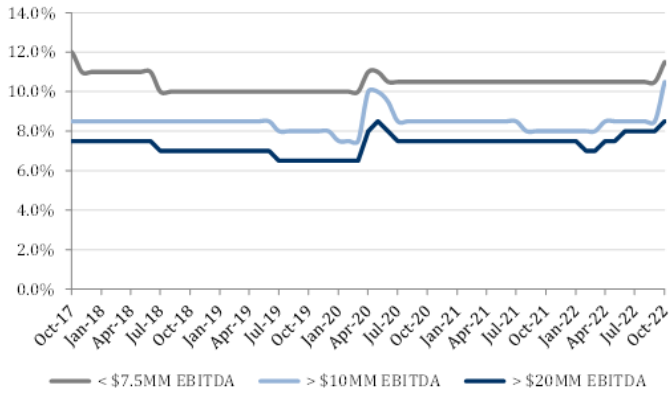


Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

## Historical Leverage Metrics (cont.)

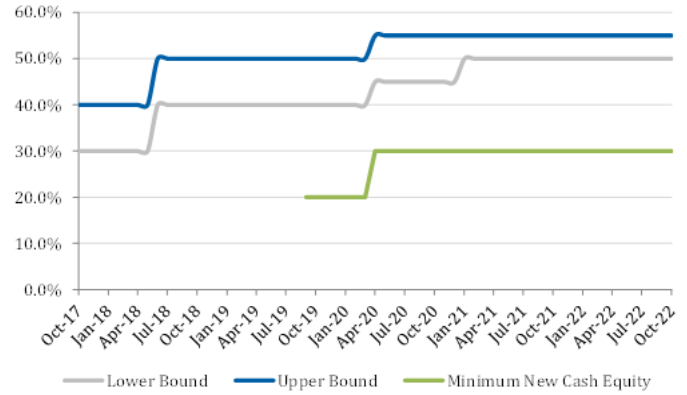
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### Historical Unitranche Pricing



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 September 2022"

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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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