

Mergers & Acquisitions Update: The Middle Market Year end 2022

Summary Highlights

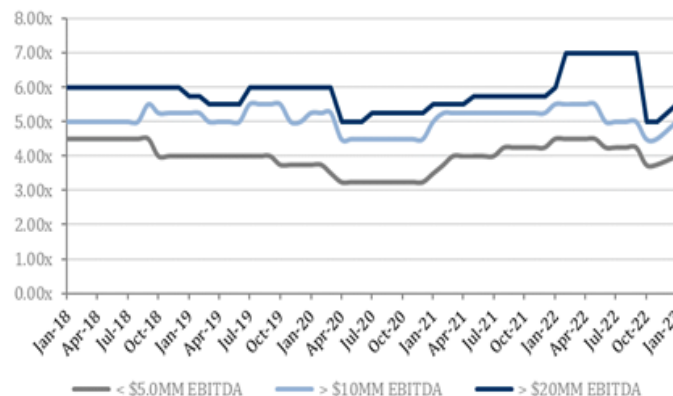
- The M&A markets in 2022 experienced a reduction in transactional activity both in number of deals and dollar volume
 - Total deal count and corresponding dollar volume was both reduced by ~20% YoY
 - Deals with TEVs below \$250 million saw deal counts drop by YoY by 33.5%
- Overall 2022 valuations YoY was 8.2x EBITDA vs. 8.6X in 2021.
- All valuations on a YoY comparison was down with the exception of deals between half a billion to one billion which experienced a 19.3% increase over its valuation in 2021.
- Summary percentage changes in valuations YoY by EV size categories:
 - Deals priced below \$25 million saw a 12.7% reduction
 - Deals priced between \$25-\$50 million off 20.7%
 - Deals priced between \$50-\$100 million was down 15%
 - Deals priced between \$100-\$250 off slightly at 4.5%
 - Deals priced between \$250-\$500 million down 11%
 - Deals priced between \$500 million and \$ 1 billion increased by 19.3%
- For the first time in 12 years, PE Dry Powder dropped roughly 11% to \$788 billion in 2022
- Dry Powder remain at ~ 30% of total AUM for the US private equity sponsors
- The deal debt markets received a bit of a respite from shrinking leverage with a slightly higher half point turn in senior and total debt.

Size Range	U.S. Announced M&A Transactions ⁽²⁾				
	2018	2019	2020	2021	2022
\$0-25mm	7.6x	7.4x	7.5x	7.1x	6.2x
\$25-50mm	8.1x	7.3x	8.8x	9.2x	7.3x
\$50-100mm	8.9x	8.4x	9.4x	8.6x	7.3x
\$100-250mm	9.6x	9.8x	9.4x	8.8x	8.4x
\$250-500mm	9.6x	9.7x	8.9x	10.0x	8.9x
\$500mm-\$1B	9.6x	9.6x	9.8x	9.3x	10.5x

⁽¹⁾ Source: CapitalIQ and PitchBook

⁽²⁾ 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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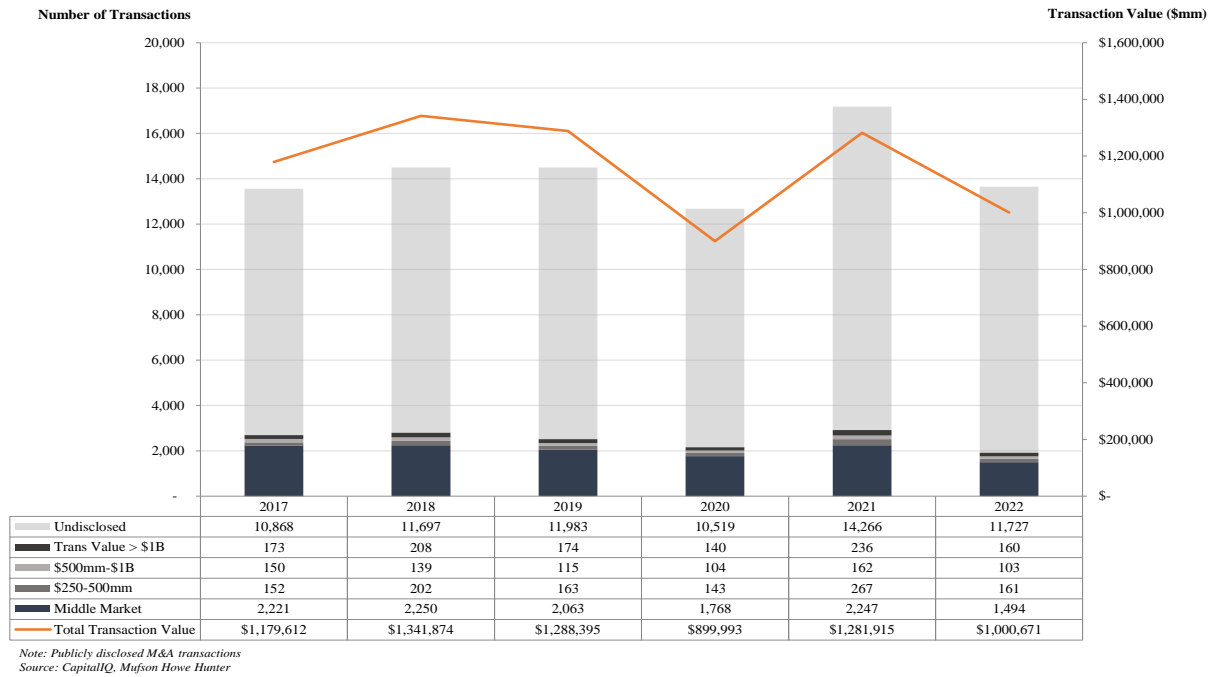
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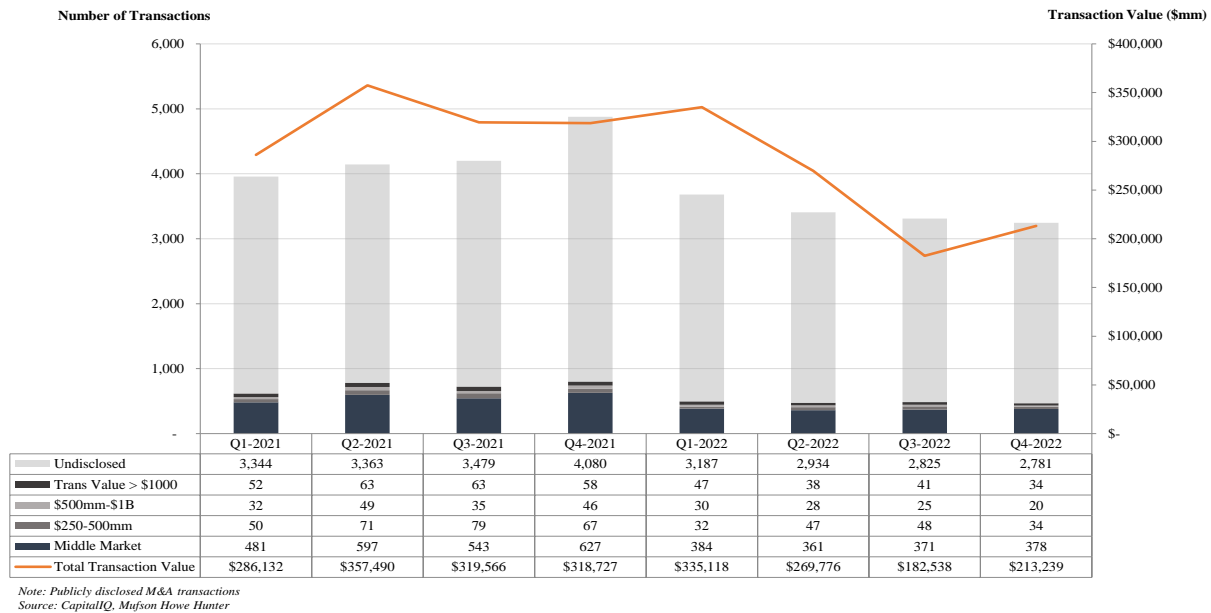
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Mergers & Acquisitions Update

U.S. - All Reported M&A Activity



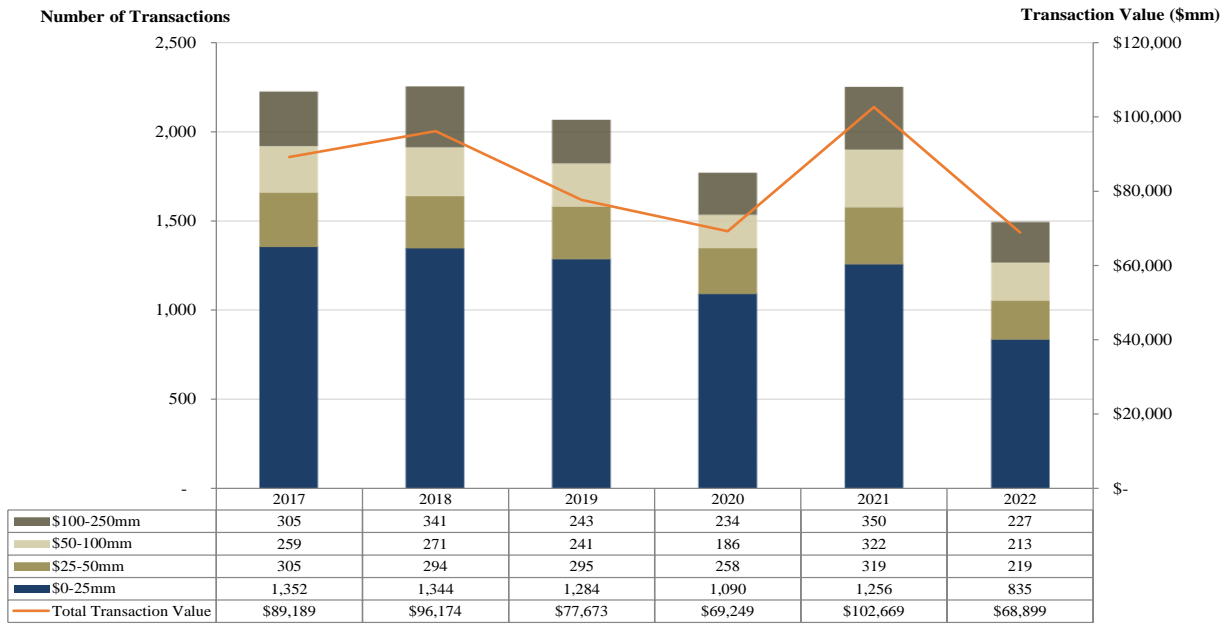
U.S. - All Reported M&A Activity



As of 12/31/2022

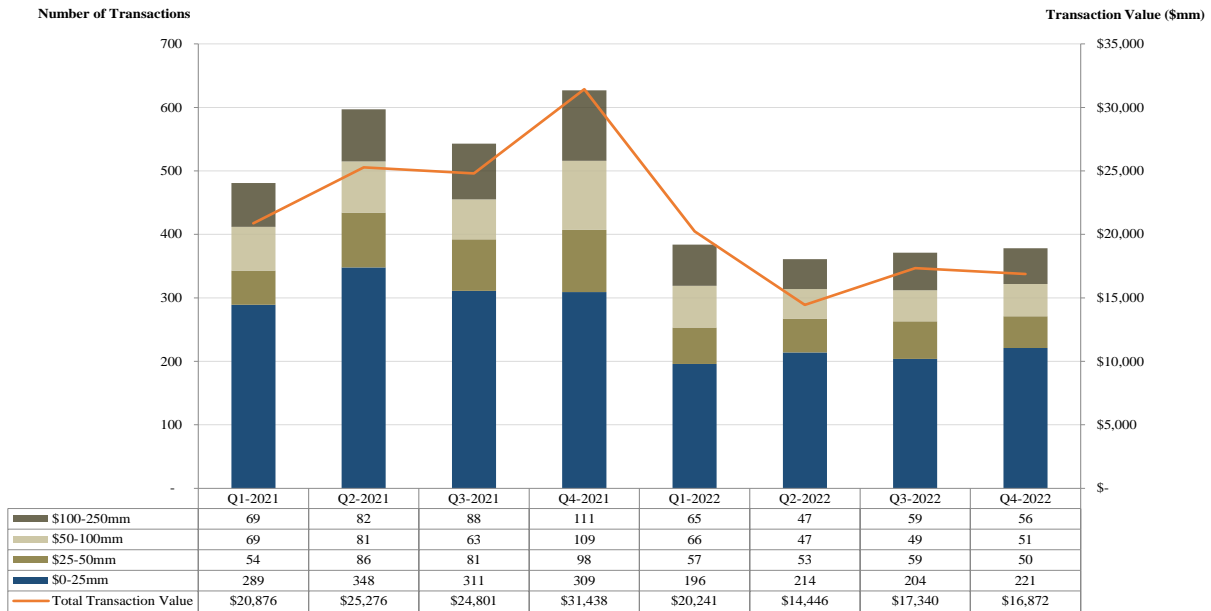
Mergers & Acquisitions Update

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

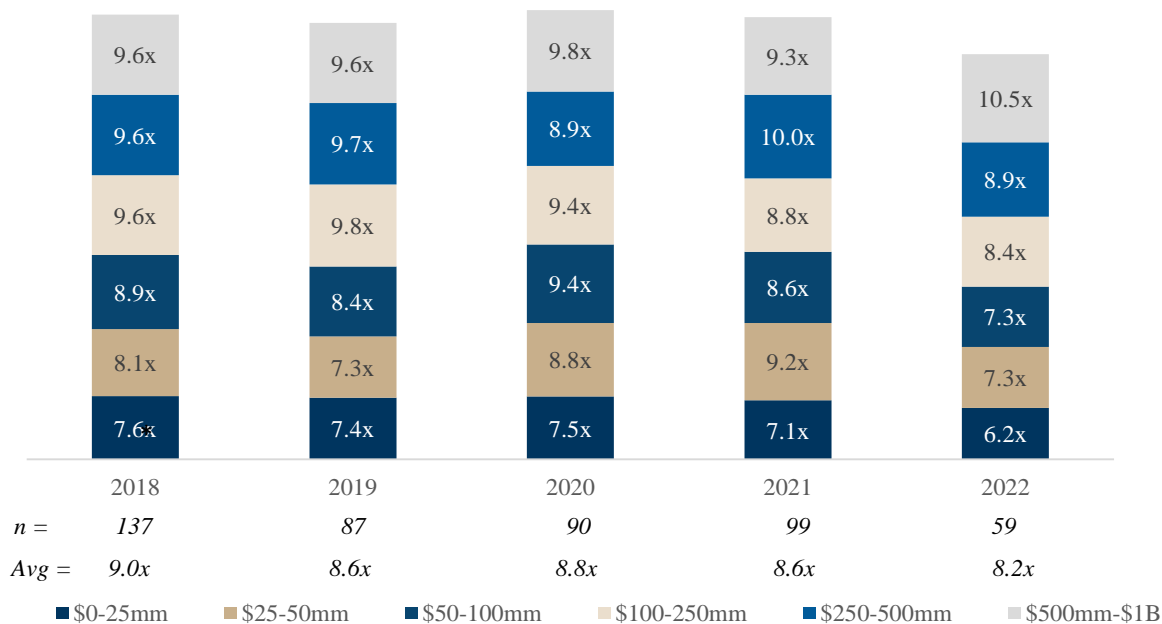


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Source: CapitalIQ, Mufson Howe Hunter

As of 12/31/2022

U.S. Middle Market Valuation Multiples

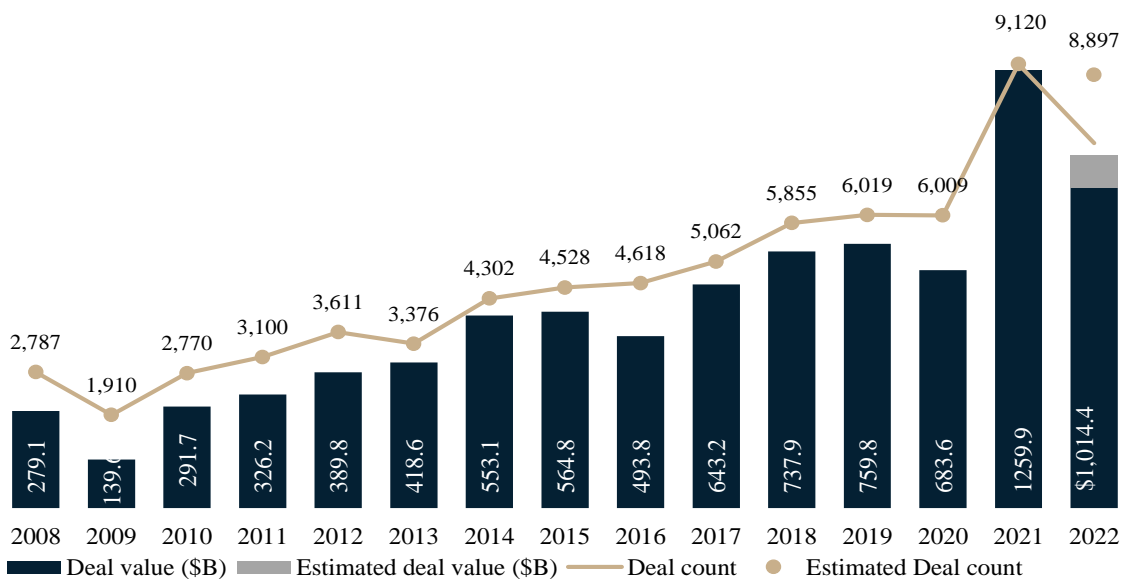
All U.S. Middle Market M&A Transactions Valuation Multiples



* Average weighted by number of transactions
 Source: Capital IQ
 As of 12/31/2022

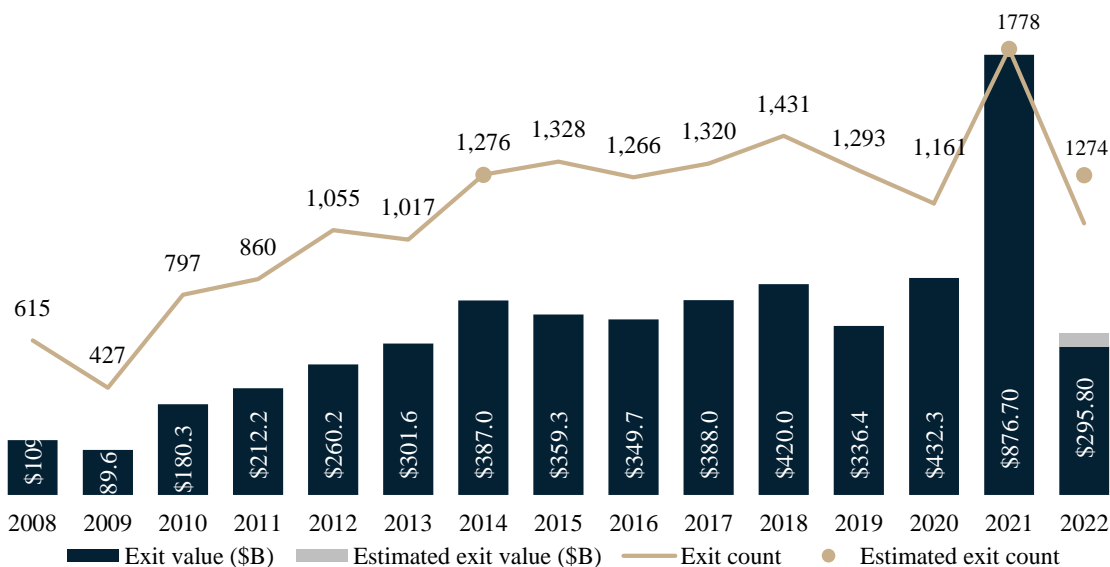
U.S. Middle Market Private Equity Sponsor Activity

U.S. PE Deal Activity



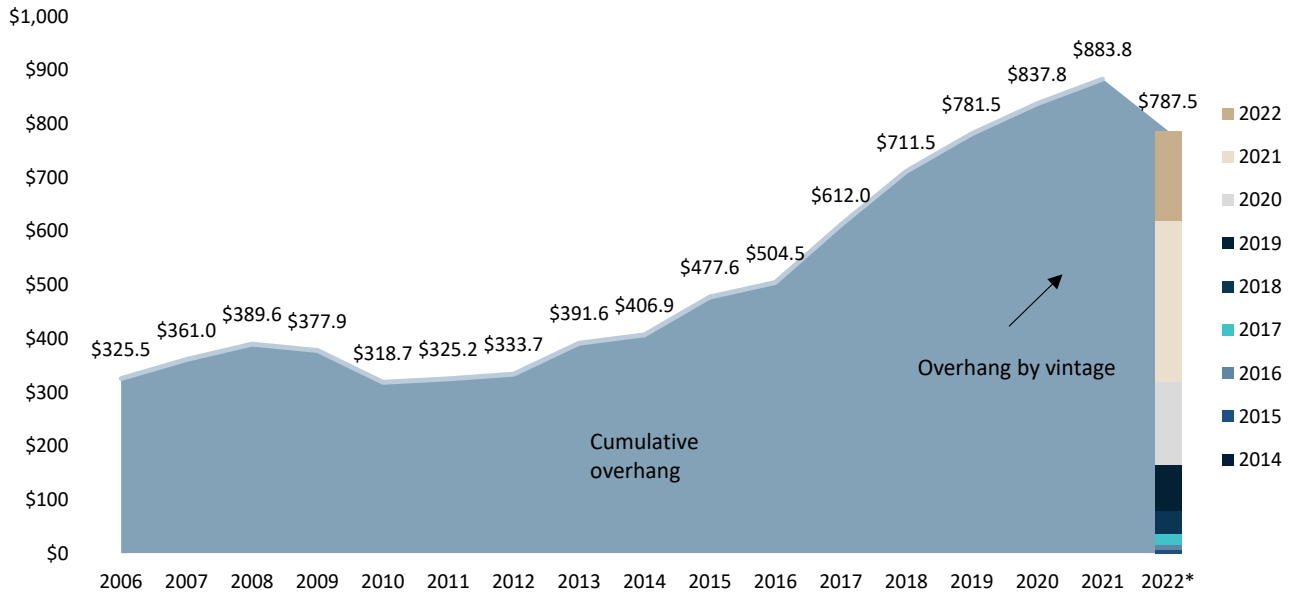
Source: PitchBook
*As of 12/31/2022

U.S. PE Exit Activity

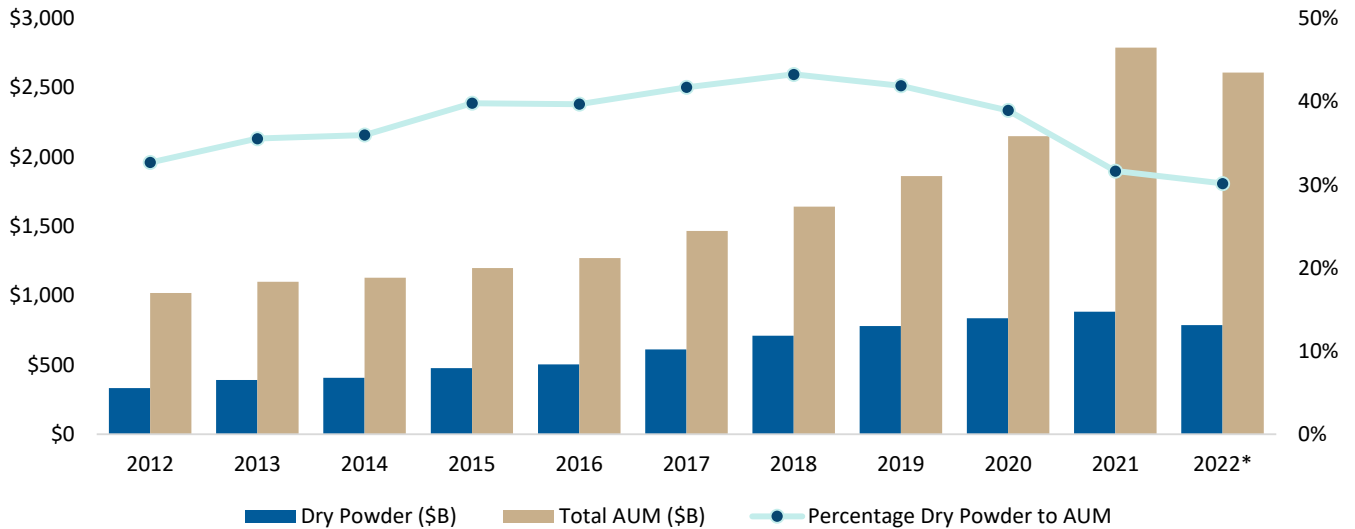


Source: PitchBook
*As of 12/31/2022

U.S. PE Dry Powder (\$B)



PE Dry Powder in percentage of total AUM (\$B)



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 2023	1.50x - 2.50x	2.50x - 3.00x	3.00x - 4.00x
November 2022	1.50x - 2.00x	2.25x - 3.25x	2.75x - 3.50x
January 2022	1.75x - 2.75x	2.75x - 3.50x	3.25x - 5.00x

Commentary: *Liquidity Conditions More Issuer Friendly than Q4 2022, but Still Squarely on the Conservative Side*

Total Debt/EBITDA

	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
January 2023	3.00x - 4.00x	3.50x - 5.00x	4.00x - 5.50x
November 2022	3.00x - 3.75x	3.50x - 4.50x	4.00x - 5.00x
January 2022	3.00x - 4.50x	4.00x - 5.50x	4.50x - 6.00x

Commentary: *Liquidity Conditions More Issuer Friendly than Q4 2022, but Still Squarely on the Conservative Side*

Senior Cash Flow Pricing

	Bank	Non-Bank < \$7.5MM EBITDA	Non-Bank > \$20MM EBITDA
January 2023	S+ 3.75% - 5.00%	S+ 6.50% - 8.00%	S+ 6.00% - 7.50%
November 2022	S+ 4.00% - 5.00%	S+ 7.50% - 9.00%	S+ 6.50% - 7.50%
January 2022	L+ 2.25% - 4.00%	L+ 5.00% - 7.50%	L+ 4.50% - 6.00%

Commentary: *Liquidity Conditions More Issuer Friendly than Q4 2022, but Still Squarely on the Conservative Side*

Unitranche and Second Lien Pricing

	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
January 2023	S+ 8.50% - 11.00%	S+ 6.50% - 8.50%	S+ 6.00% - 8.00%
November 2022	S+ 9.50% - 11.50%	S+ 8.50% - 10.50%	S+ 6.50% - 8.50%
January 2022	L+ 7.00% - 10.50%	L+ 6.00% - 8.00%	L+ 5.00% - 7.50%

Commentary: *Liquidity Conditions More Issuer Friendly than Q4 2022, but Still Squarely on the Conservative Side*

Sub Debt Pricing (Total Coupon: Cash + PIK)

	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
January 2023	13.00% - 15.00%	12.00% - 14.00%	11.00% - 13.00%
November 2022	13.00% - 15.00%	12.50% - 14.00%	11.50% - 13.00%
January 2022	11.00% - 14.00%	9.50% - 12.00%	9.00% - 11.00%

Commentary: *Liquidity Conditions More Issuer Friendly than Q4 2022, but Still Squarely on the Conservative Side*

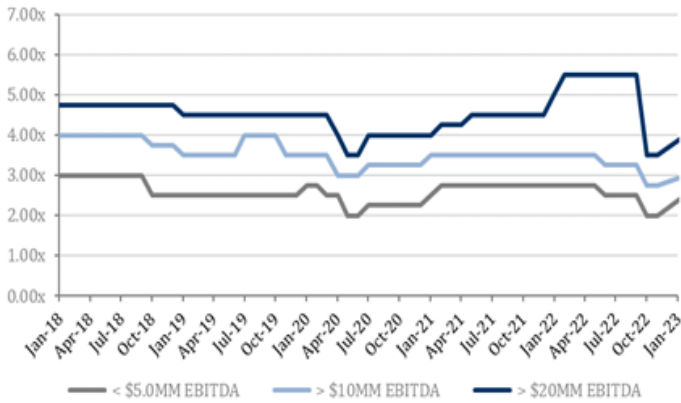
Source: SPP Capital Partners – “Capital Market Update September 2022”

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Historical Leverage Metrics

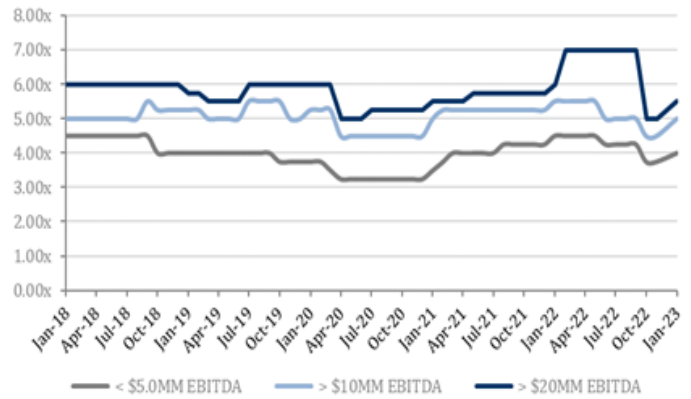
By SPP Capital Partners

Historical Senior Debt Cash Flow Limit (x EBITDA)



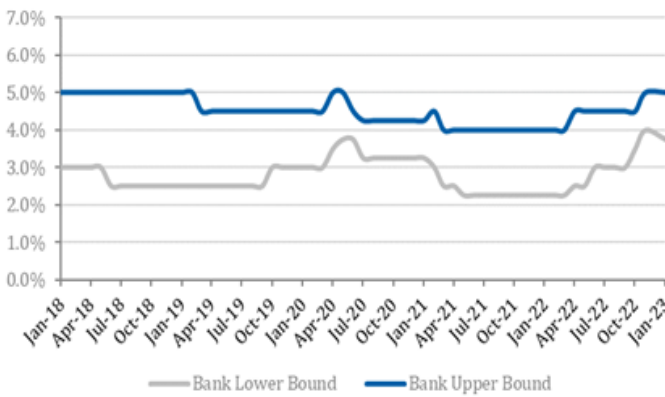
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

Historical Total Debt Limit (x EBITDA)



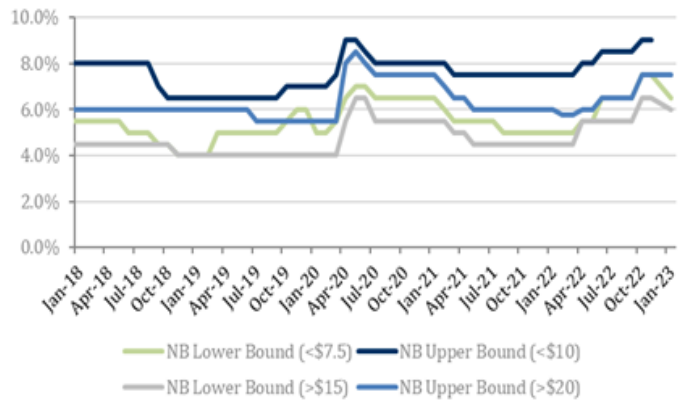
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

Historical Senior Cash Flow Pricing (Bank)



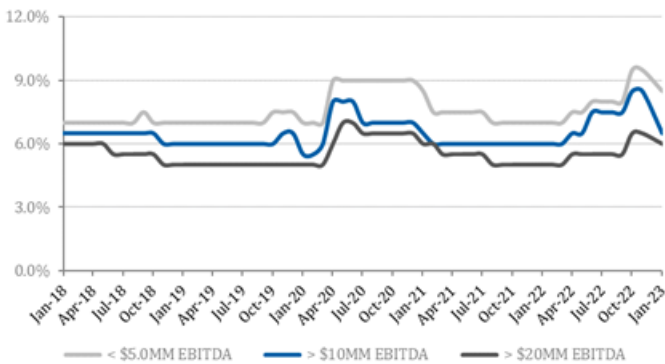
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

Historical Senior Cash Flow Pricing (Non-Bank)



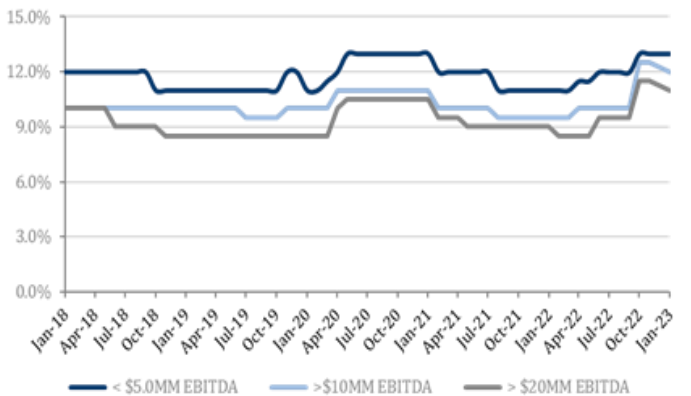
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

Historical Second Lien Pricing



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

Historical Subordinated Debt Pricing

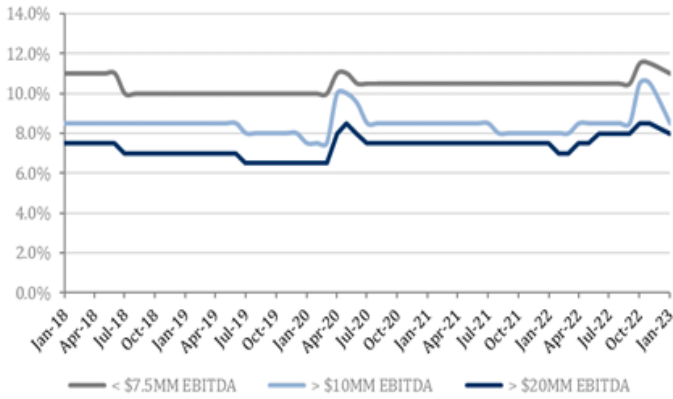


Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

Historical Leverage Metrics (cont.)

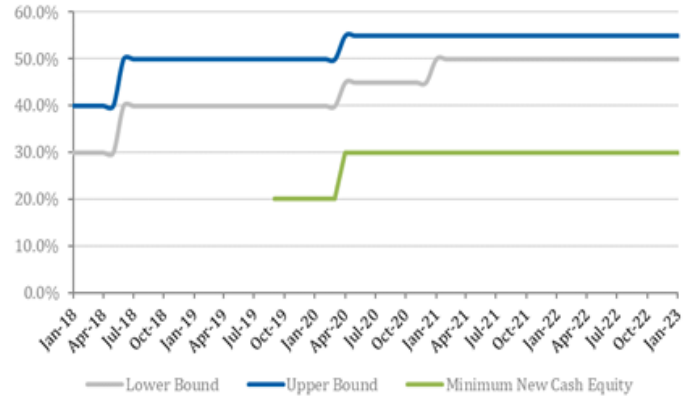
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Historical Unitranche Pricing



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 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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