

Mergers & Acquisitions Update: The Middle Market Q3 2021

Mufson Howe Hunter Commentary ^{(1) (2)}

- For the first 9 months 2021, US M&A as a whole reported over a 97% increase in total dollar deal value for reported deals with deal count increasing at 42%.
- Reported deals above \$1 billion in EV experienced a YTD 132% increase for first 9 months in 2021.
- Middle market US M&A activity (transactions below \$ 250mm in EV) saw an increase in number of deals reported for the first 3 quarters 2021 up 28% with transactional dollar value increasing 49%.
- All US M&A valuations for the first 9 months of 2021 averaged 8.8x EBITDA vs. 8.4x for the 9 months ending 2020.
- Private Equity Sponsor transactions for deals below \$1 billion averaged 12.8x for the nine months 2021 vs. 14.4x in 2020.
- Leverage financing per transaction edged up to an averaged 6.4x or 50% of overall transactional value vs. 6.1x in 2020 with debt leverage as a percentage of total funding at 48% in 2020.
- Liquidity remains at historical levels with over \$829 billion in dry powder for US Private Equity Sponsors, up from \$766 billion or 8.2% from a year ago.
- The \$829 billion of equity buying power combined coupled with almost \$2 trillion of cash sitting on non-financial companies balance sheets in the US, the M&A markets will continue to be a dynamo for the foreseeable future.
- The credit markets for the first 9 months saw an uptick in leverage ~.50 to 1.00 turns for companies with EBITDA below \$5 million, .50x to .75x for companies with EBITDA in excess of \$10 million and ~ .50 turns for companies with \$20 million or more in EBITDA
- **M&A Credit/Leverage statistics is provided by SPP Capital Partners** (www.sppcapital.com); the credit markets for middle market deals can be reviewed on page 8.

Primary Contacts

David A. Achey
215.399.5417
dachey@mhhco.com

Brandon K. Eck, Managing Director
215.399.5411
beck@mhhco.com

Michael J. Howe, Managing Director
215.399.5413
mhowe@mhhco.com

Anthony Lopez-Ona, Managing Director
215.399.5405
alopezona@mhhco.com

Joseph M. Manko, Managing Director
215.399.5402
jmanko@mhhco.com

Michael J. Mufson, Managing Director
215.399.5410
mmufson@mhhco.com

Jonathan M. Schor, Director
215.399.5403
jschor@mhhco.com

Andrew Wilson, Director
215.399.5406
awilson@mhhco.com

| Size Range | U.S. Announced M&A Transactions ⁽²⁾ | | | | | | | |
|--------------|--|-------|-------|-------|-------|------------|------------|--|
| | 2017 | 2018 | 2019 | 2020 | 2021 | YTD Sep-20 | YTD Sep-21 | |
| \$0-25mm | 6.9x | 7.4x | 7.5x | 7.0x | 7.8x | 7.1x | 7.2x | |
| \$25-50mm | 9.6x | 9.3x | 8.2x | 7.9x | 8.2x | 7.5x | 8.8x | |
| \$50-100mm | 9.8x | 9.6x | 8.5x | 8.2x | 9.4x | 8.1x | 9.1x | |
| \$100-250mm | 10.2x | 9.8x | 9.8x | 9.2x | 10.5x | 10.0x | 10.3x | |
| \$250-500mm | 10.4x | 9.9x | 9.9x | 9.3x | 10.8x | 10.2x | 10.9x | |
| \$500mm-\$1B | 12.1x | 10.1x | 12.0x | 10.4x | 10.8x | 10.6x | 11.2x | |

⁽¹⁾ Source: CapitalIQ and PitchBook

⁽²⁾ Source: CapitalIQ

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

Regards,

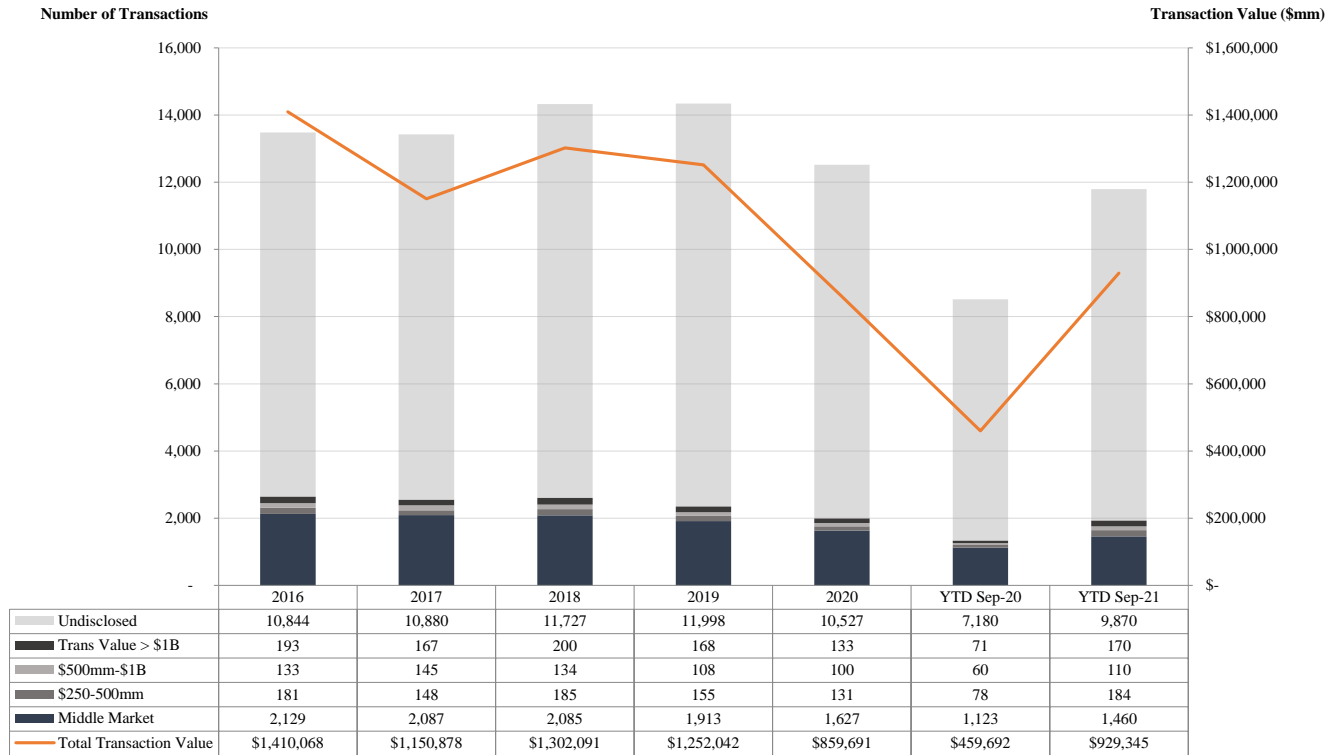


Michael J. Mufson
Managing Director

Mufson Howe Hunter & Company LLC is a middle-market focused investment bank providing M&A, capital raising and financial advisory services.

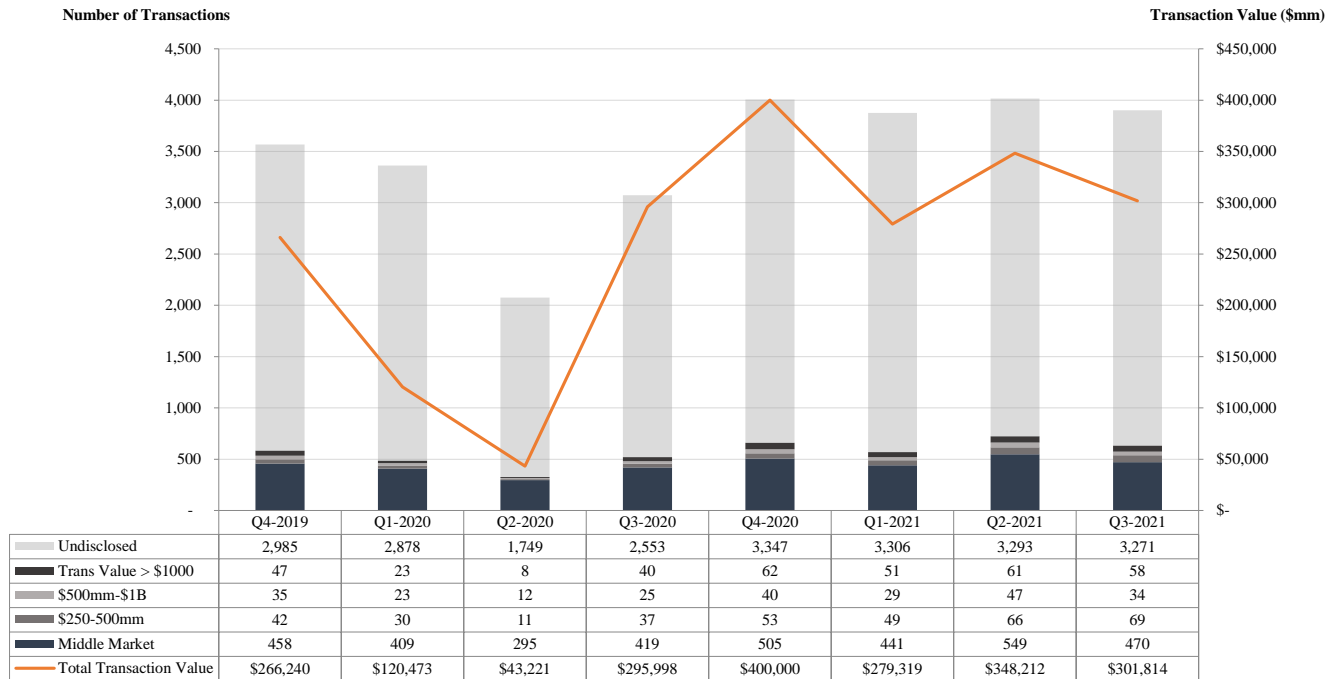
Broker/Dealer services offered through a wholly owned subsidiary Mufson Howe Hunter & Partners LLC, Member SIPC | FINRA

U.S. - All Reported M&A Activity



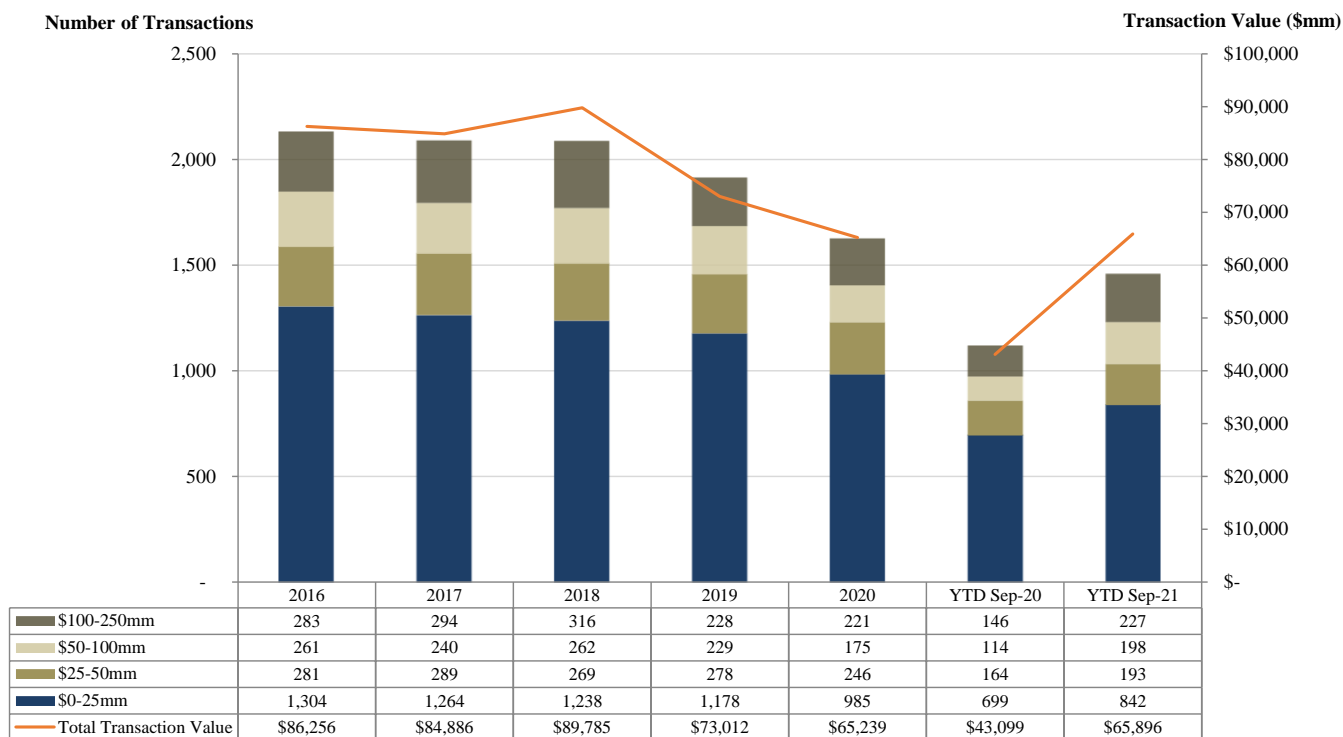
Note: Publicly disclosed M&A transactions
Source: CapitalIQ, Mufson Howe Hunter

U.S. - All Reported M&A Activity



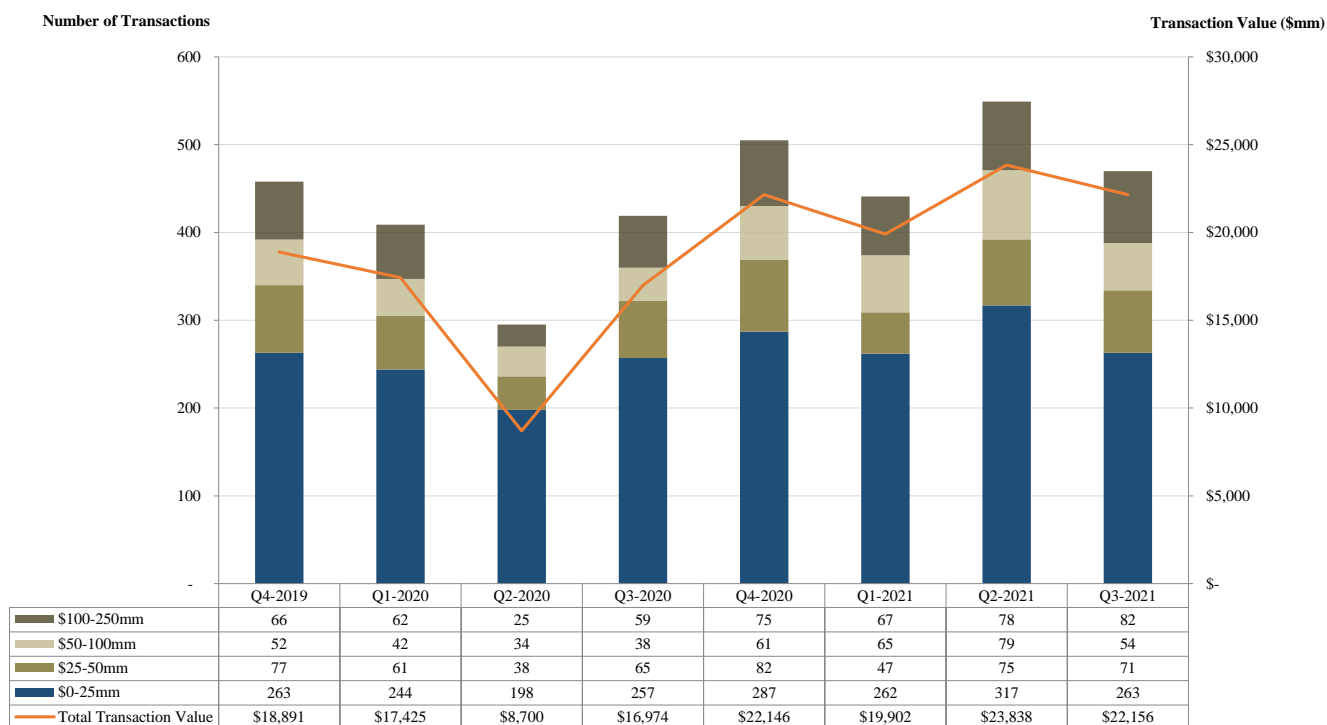
Note: Publicly disclosed M&A transactions
Source: CapitalIQ, Mufson Howe Hunter

U.S. Lower Middle Market M&A Activity - Transactions Below \$250 million



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

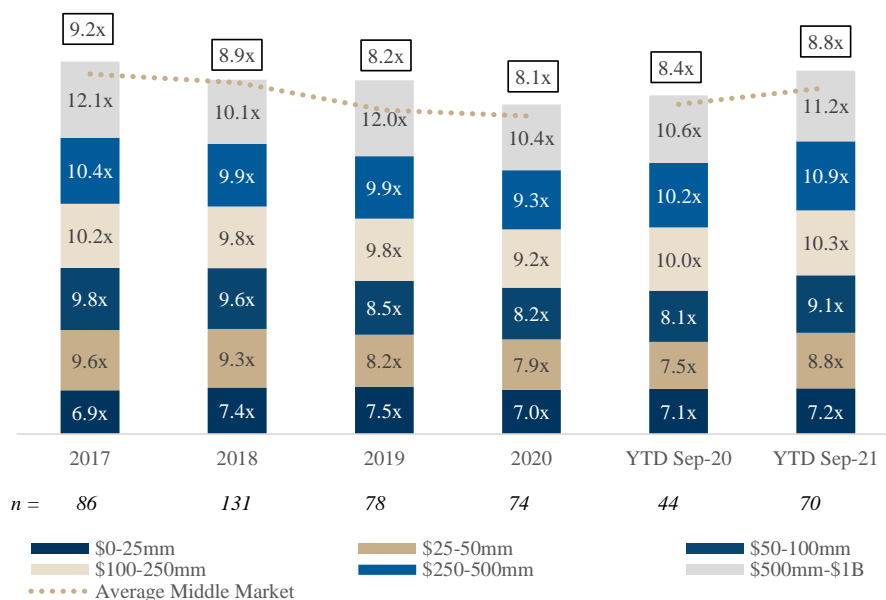
U.S. Lower Middle Market M&A Activity - Transactions Below \$250 million



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

U.S. Middle Market Valuation Multiples

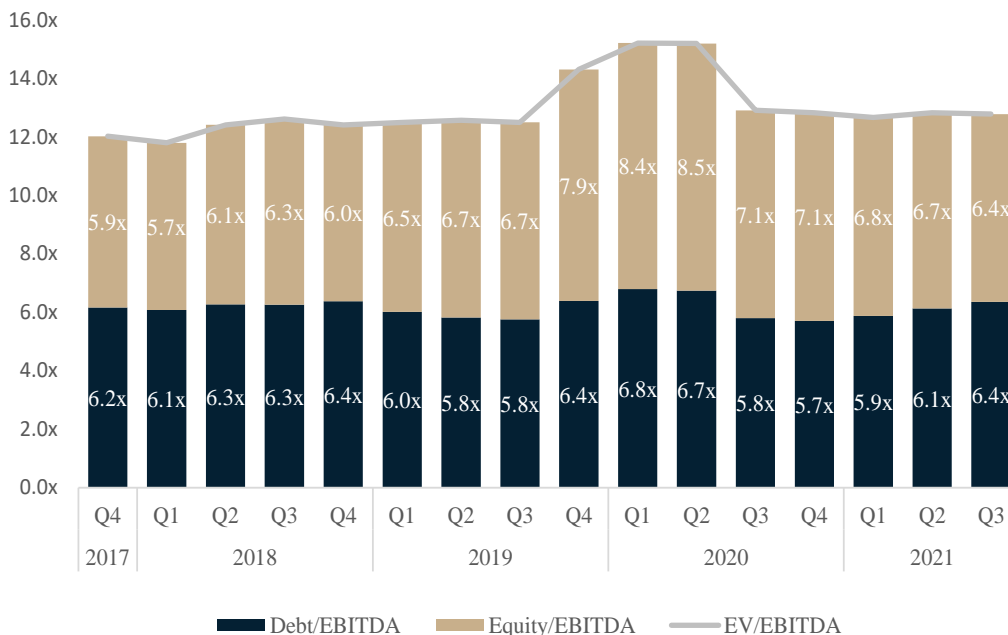
All U.S. Middle Market M&A Transactions Valuation Multiples



Source: Capital IQ

Median U.S. Private Equity Sponsor Buyout Multiples

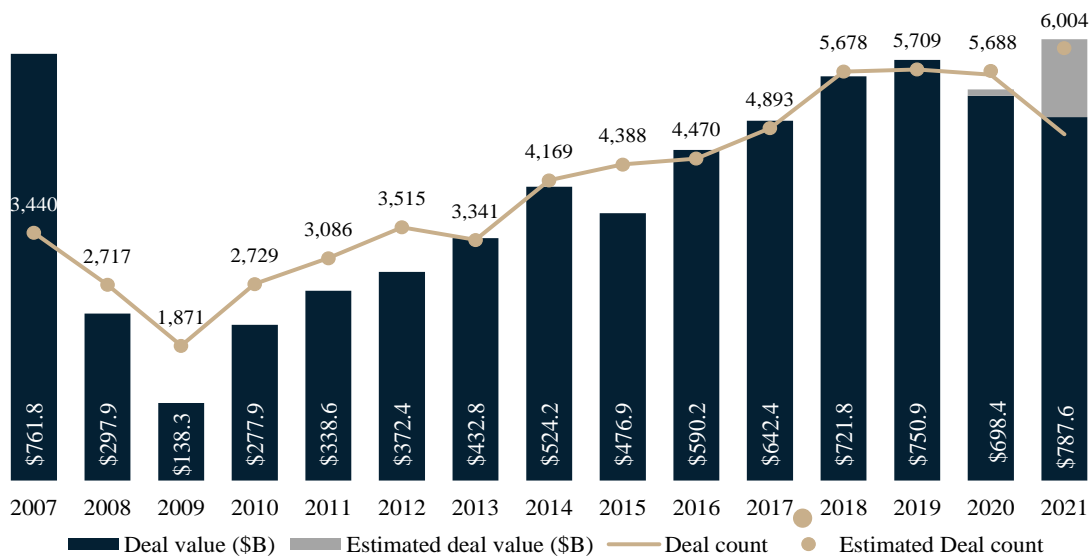
Middle Market, as defined by PitchBook, includes transactions valued at \$25 million up to \$1 billion. The following chart depicts certain key elements of Middle Market Private Equity M&A activity through September 30, 2021.



Source: PitchBook

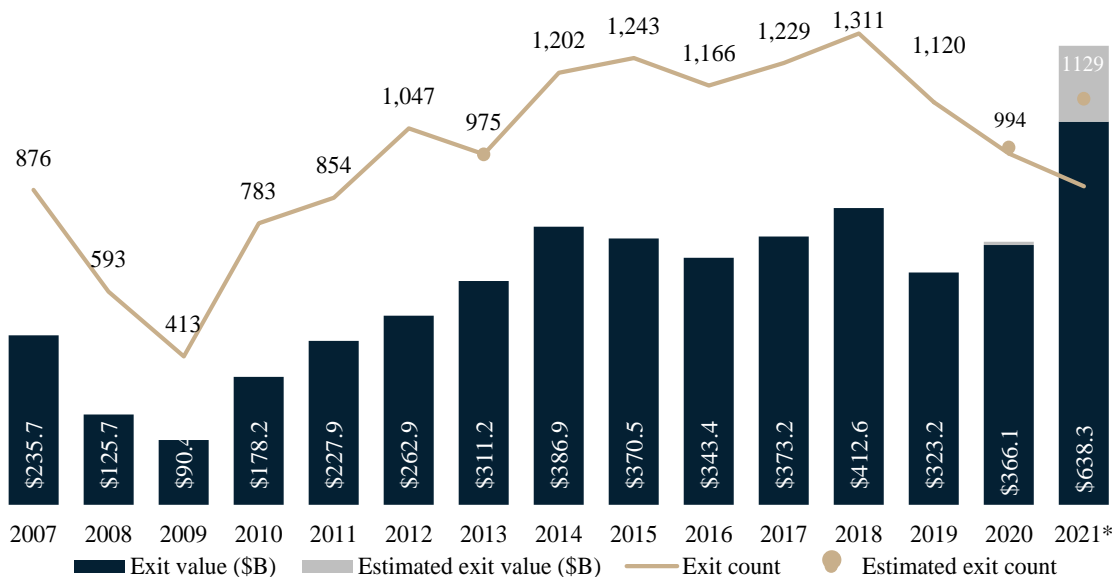
U.S. Middle Market Private Equity Sponsor Activity

U.S. PE Deal Activity



Source: PitchBook
*As of 9/30/2021

U.S. PE Exit Activity



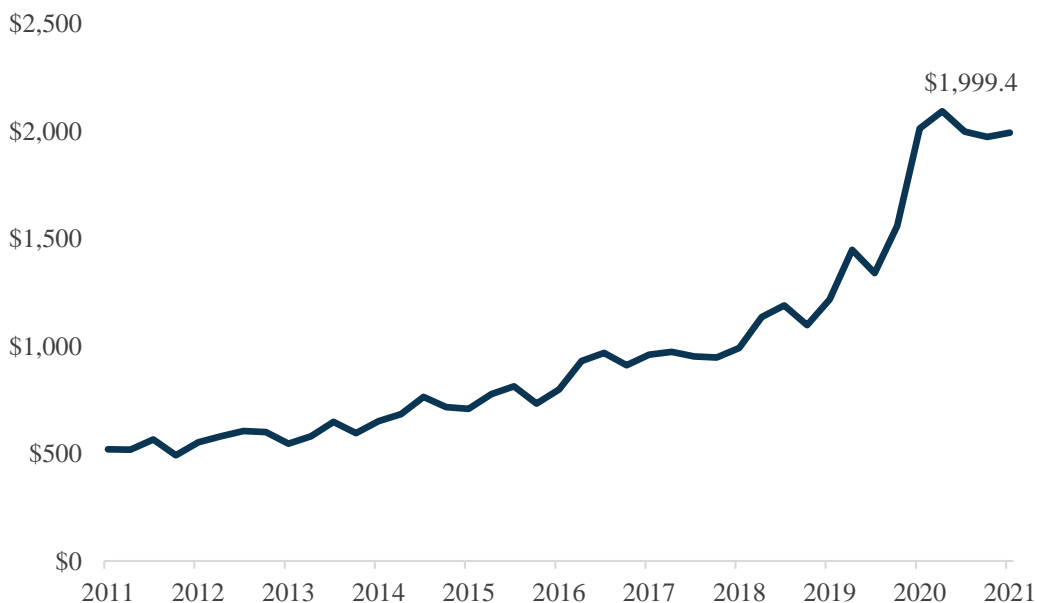
Source: PitchBook
*As of 9/30/2021

U.S. Middle Market PE Buyout Debt Percentage

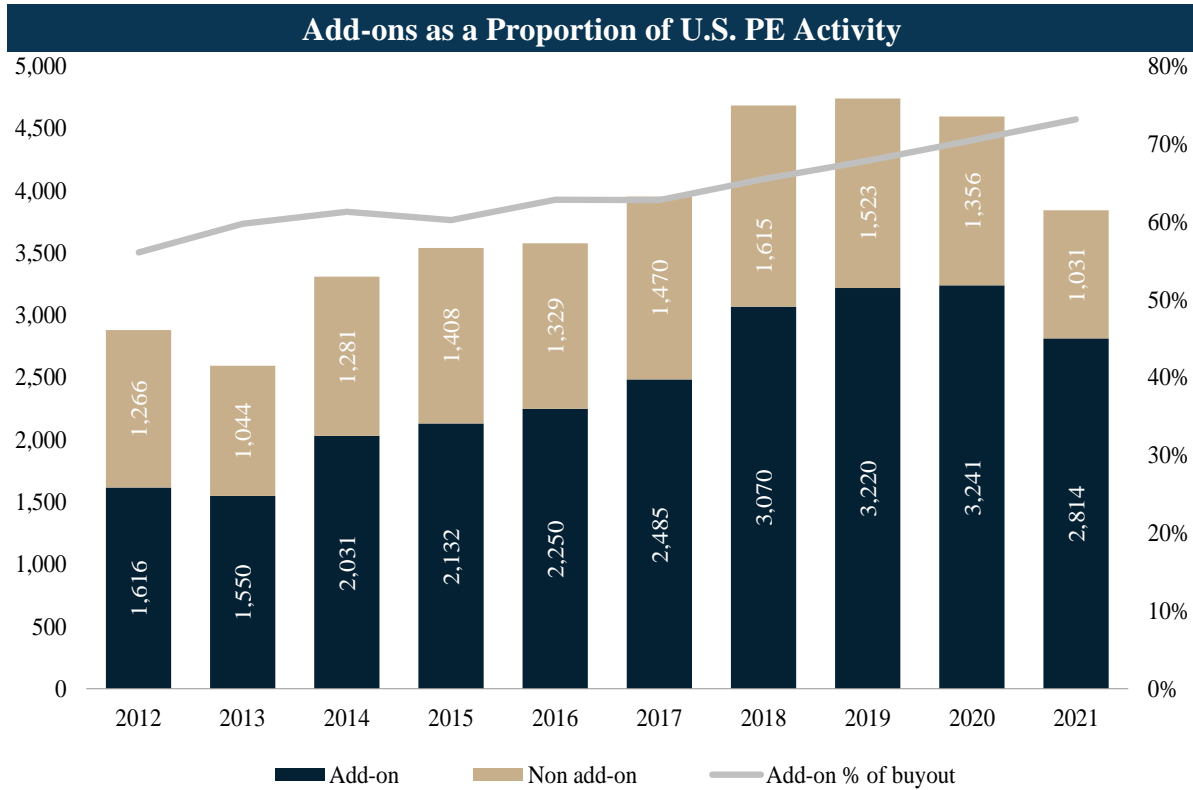


Source: PitchBook

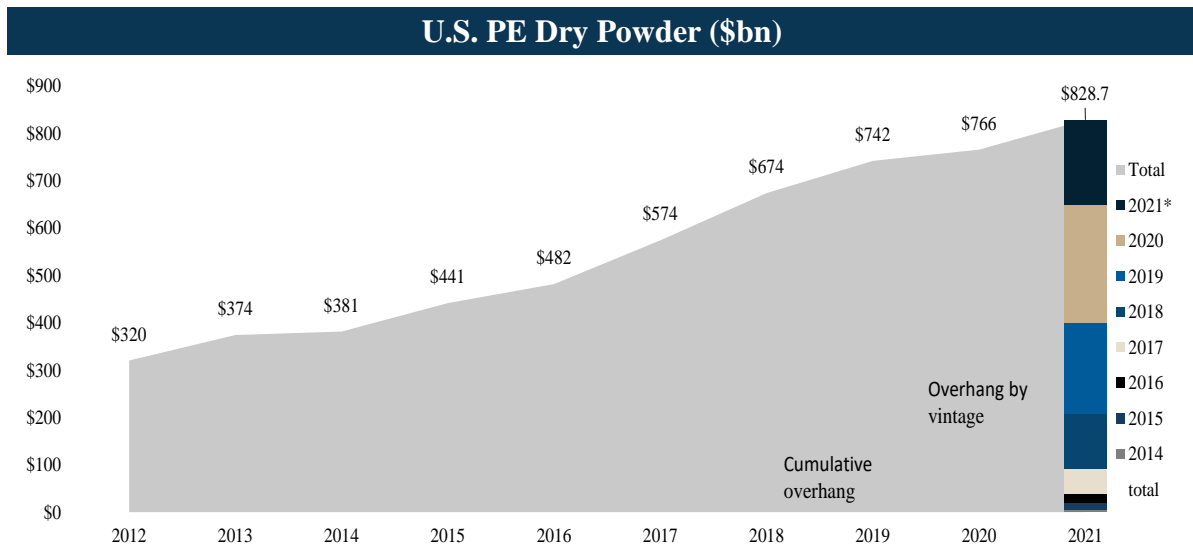
U.S. Non-Financial Corporate Balance Sheet Cash (\$B)



All U.S. Private Equity Sponsor Activity

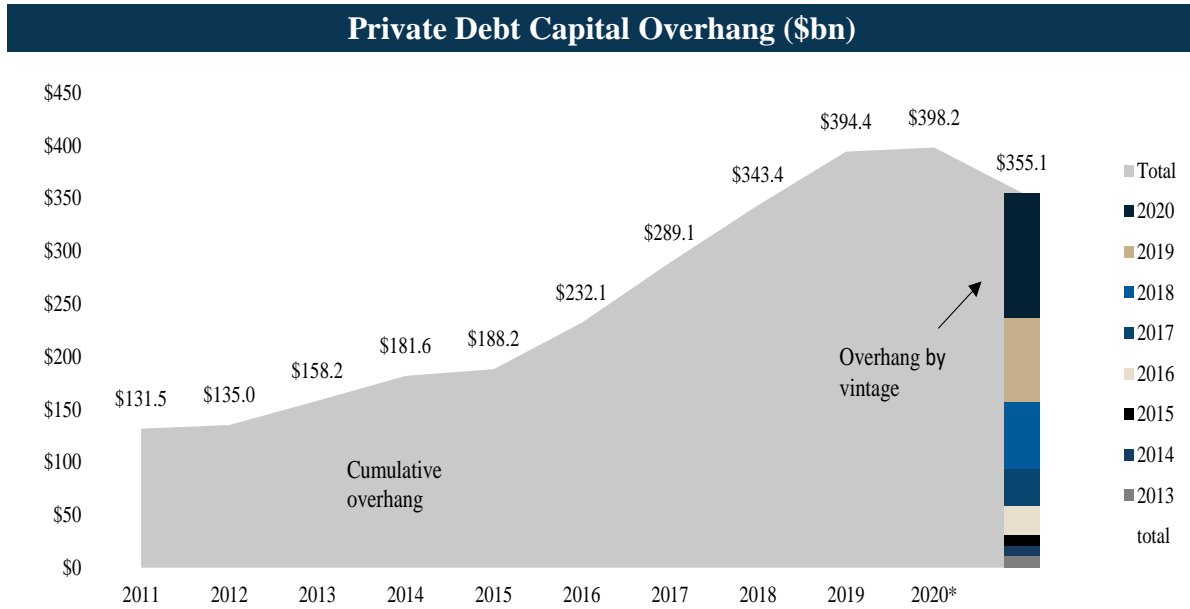


Source: PitchBook

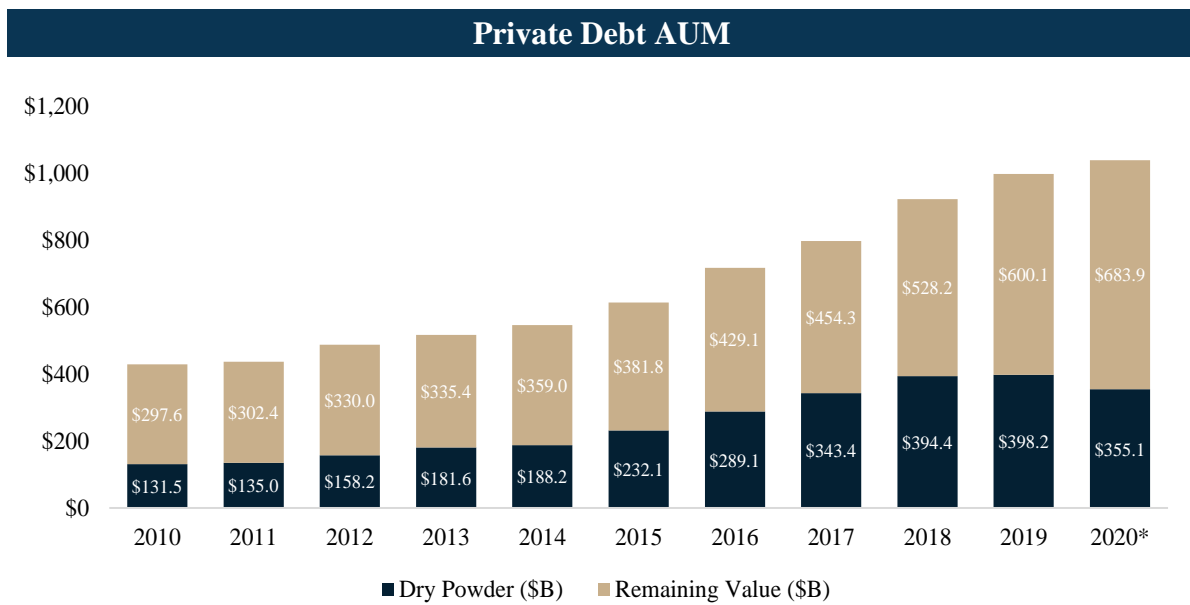


Source: PitchBook

Global Private Debt Metrics



Source: PitchBook



Source: PitchBook

Leverage Market at a Glance

By SPP Capital Partners

| | Cash Flow Senior Debt/EBITDA | | |
|---------------|---|-----------------|-----------------|
| | < \$5.0MM EBITDA | > \$10MM EBITDA | > \$20MM EBITDA |
| November 2021 | 1.75x - 2.75x | 2.75x - 3.50x | 3.25x - 4.50x |
| October 2021 | 1.75x - 2.75x | 2.75x - 3.50x | 3.25x - 4.50x |
| November 2020 | 1.50x - 2.25x | 2.50x - 3.25x | 2.75x - 4.00x |
| Commentary: | <i>Credit Spreads and Leverage Multiples Stay Competitive Through 'Q4</i> | | |

| | Total Debt/EBITDA | | |
|---------------|---|-----------------|-----------------|
| | < \$5.0MM EBITDA | > \$10MM EBITDA | > \$20MM EBITDA |
| November 2021 | 3.00x - 4.25x | 4.00x - 5.25x | 4.50x - 5.75x |
| October 2021 | 3.00x - 4.25x | 4.00x - 5.25x | 4.50x - 5.75x |
| November 2020 | 2.50x - 3.25x | 3.50x - 4.50x | 4.00x - 5.25x |
| Commentary: | <i>Credit Spreads and Leverage Multiples Stay Competitive Through 'Q4</i> | | |

| | Senior Cash Flow Pricing | | |
|---------------|---|---------------------------|--------------------------|
| | Bank | Non-Bank < \$7.5MM EBITDA | Non-Bank > \$20MM EBITDA |
| November 2021 | L+ 2.25% - 4.00% | L+ 5.00% - 7.50% | L+ 4.50% - 6.00% |
| October 2021 | L+ 2.25% - 4.00% | L+ 5.00% - 7.50% | L+ 4.50% - 6.00% |
| November 2020 | L+ 3.25% - 4.25% | L+ 6.50% - 8.00% | L+ 5.50% - 7.50% |
| Commentary: | <i>Credit Spreads and Leverage Multiples Stay Competitive Through 'Q4</i> | | |

| | Unitranche and Second Lien Pricing | | |
|---------------|---|------------------|------------------|
| | < \$5.0MM EBITDA | > \$10MM EBITDA | > \$20MM EBITDA |
| November 2021 | L+ 7.00% - 10.50% | L+ 6.00% - 8.00% | L+ 5.00% - 7.50% |
| October 2021 | L+ 7.00% - 10.50% | L+ 6.00% - 8.00% | L+ 5.00% - 7.50% |
| November 2020 | L+ 9.00% - 10.50% | L+ 7.00% - 8.50% | L+ 6.50% - 7.50% |
| Commentary: | <i>Credit Spreads and Leverage Multiples Stay Competitive Through 'Q4</i> | | |

| | Sub Debt Pricing (Total Coupon: Cash + PIK) | | |
|---------------|---|-----------------|-----------------|
| | < \$5.0MM EBITDA | > \$10MM EBITDA | > \$20MM EBITDA |
| November 2021 | 11.00% - 14.00% | 9.50% - 12.00% | 9.00% - 11.00% |
| October 2021 | 11.00% - 14.00% | 9.50% - 12.00% | 9.00% - 11.00% |
| November 2020 | 13.00% - 14.50% | 11.00% - 12.50% | 10.50% - 11.50% |
| Commentary: | <i>Market Metrics Remain Static as Traditional Summer Slowdown Keeps Market in Risk-On Mode</i> | | |

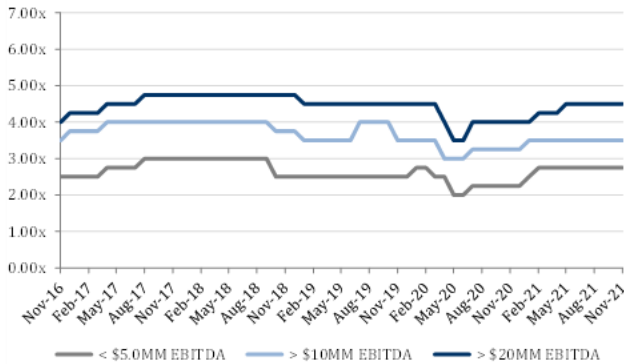
Source: SPP Capital Partners – “Capital Market Update November 2021”

[SPP Capital Partners - Middle Market Investment Banking and Asset Management Home](#)

Historical Leverage Metrics

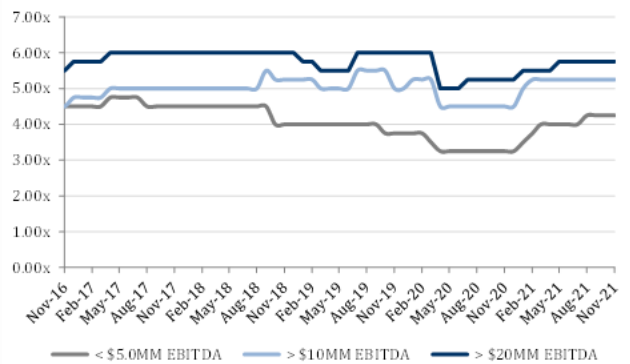
By SPP Capital Partners

Historical Senior Debt Cash Flow Limit (x EBITDA)



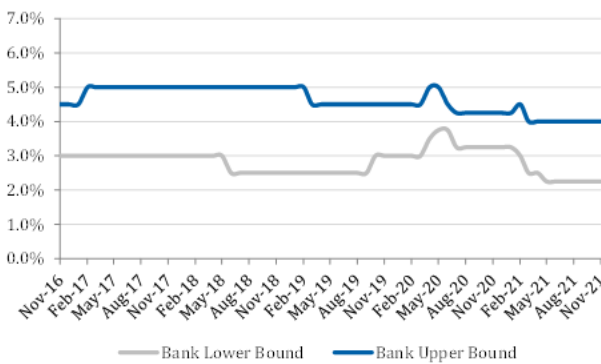
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

Historical Total Debt Limit (x EBITDA)



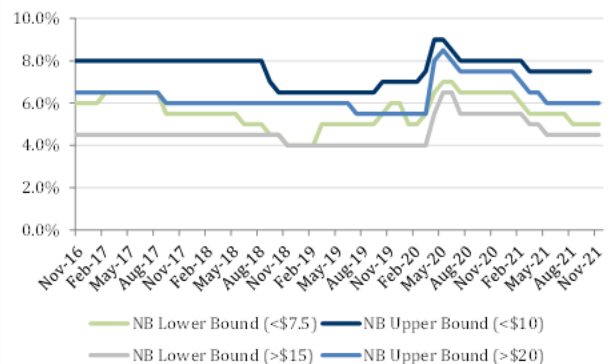
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

Historical Senior Cash Flow Pricing (Bank)



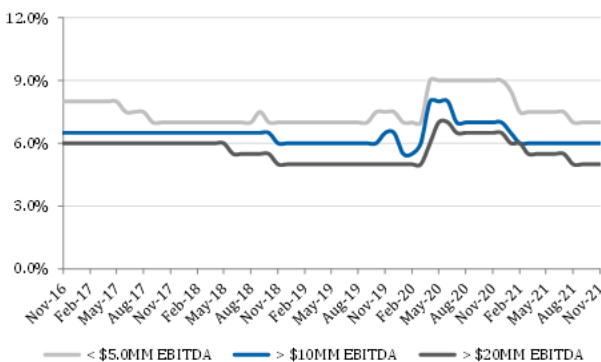
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

Historical Senior Cash Flow Pricing (Non-Bank)



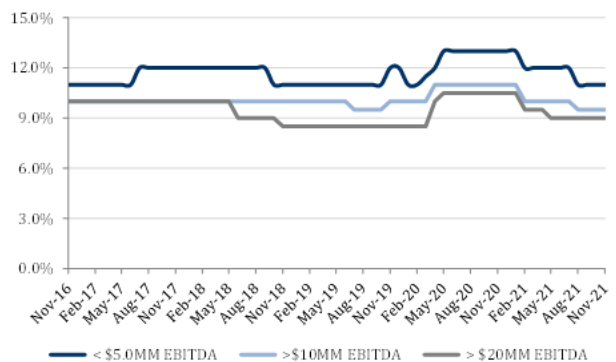
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

Historical Second Lien Pricing



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

Historical Subordinated Debt Pricing

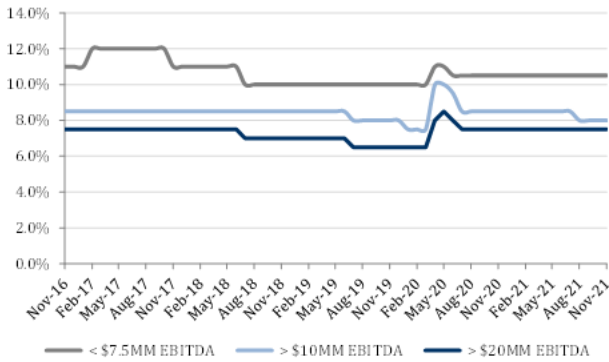


Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

Historical Leverage Metrics (cont.)

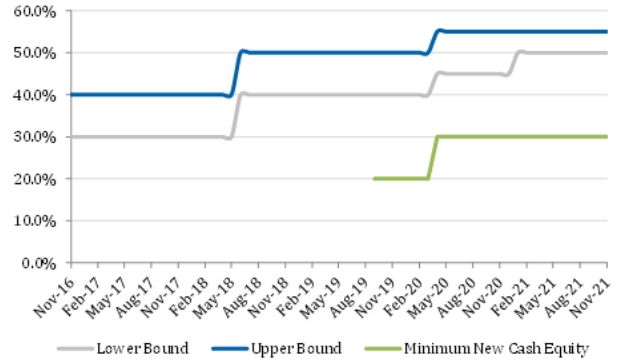
By SPP Capital Partners

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 November 2021"

[SPP Capital Partners - Middle Market Investment Banking and Asset Management Home](#)

Mufson Howe Hunter & Co. M&A Activity



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 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

Mufson Howe Hunter & Co. M&A Activity



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



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

Mufson Howe Hunter
INVESTMENT BANKERS FOR GROWTH

Mufson Howe Hunter & Co. M&A Activity

NEMO
TILE + STONE

*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

 **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

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

Mufson Howe Hunter & Company LLC
1717 Arch Street
39th Floor
Philadelphia, PA 19103
215.399.5400
Visit us at: www.mhhco.com

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