MERCER CAPITAL

Middle Market Transaction Update

Fourth Quarter 2018

In This Issue

MERCER CAPITAL

BUSINESS VALUATION & FINANCIAL ADVISORY SERVICES

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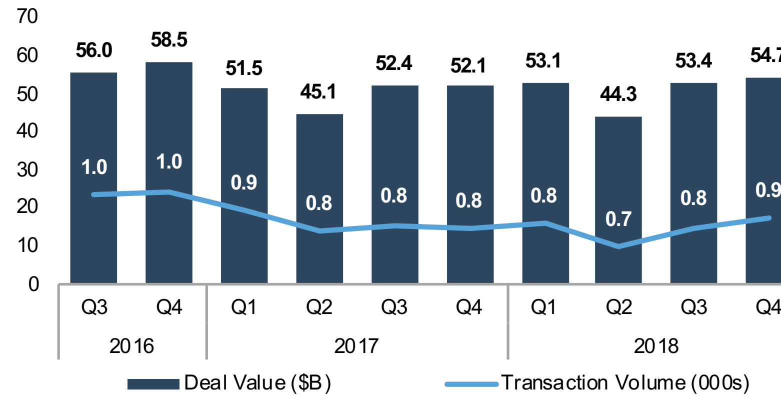
U.S. Deal Value & Volume

Transaction volume in the middle market continued its upward climb during the fourth quarter of 2018 and across the second half of 2018 on the heels of a still-healthy economic outlook for the U.S. Certain macroeconomic risks began to materialize in the latter half of the year, especially in the fourth quarter, forcing owners to perhaps expedite an anticipated transactional event. After deal volume and values fell to lows over the period analyzed (Q3-2016 through Q4-2018) in the second quarter of 2018, deal activity in the middle market reversed in the third and fourth quarters of the year, further extending the ongoing "seller's market" environment observed over the past several years.

U.S. Deal Value & Volume
3Q16 to 4Q18

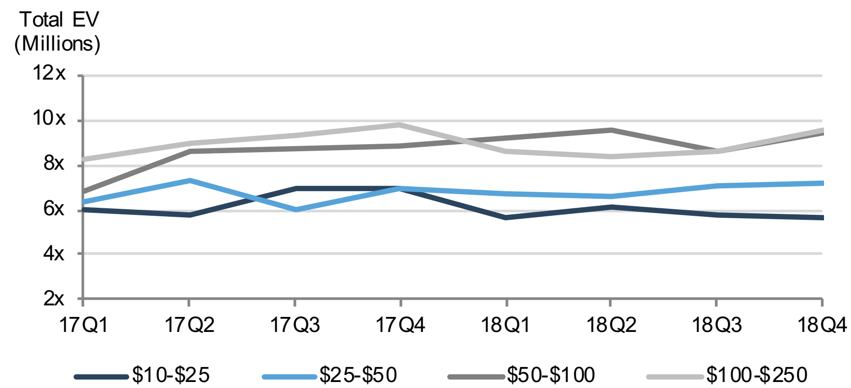


Source: Capital IQ

TEV/EBITDA Multiples

Increased volatility in public equity markets appeared to have little effect on deal pricing over the course of the year. Evidence of the extended seller-friendly environment can be seen in the steady increases in TEV/EBITDA multiples across all deal size tiers for financial buyers, except for the $10-$25M range in 2018. While multiples in this range fell slightly, they are still holding steady near long-term averages. The most robust multiple growth in 2018 was in the deal size ranges above $50M, which could suggest a correction on these multiples in 2019. Still, we anticipate comparable multiples to those observed in 2018 for strong, well-prepared companies coming to market in 2019. 2018 continued a trend of a widening "size effect" in transaction multiples, with deals of $50M and above trading at an increased premium. This movement likely has been driven by the substantial amount of private equity capital that has been raised targeting the lower middle market ($50-$250M). While the lower-end of the private equity world will consider sub-$50M deals, these are typically lower in volume, with pricing more impacted by company-specific risk issues (such as key-man dependences, customer concentrations, etc.).

TEV/EBITDA Multiples
Financial Buyers | 1Q17 to 4Q18



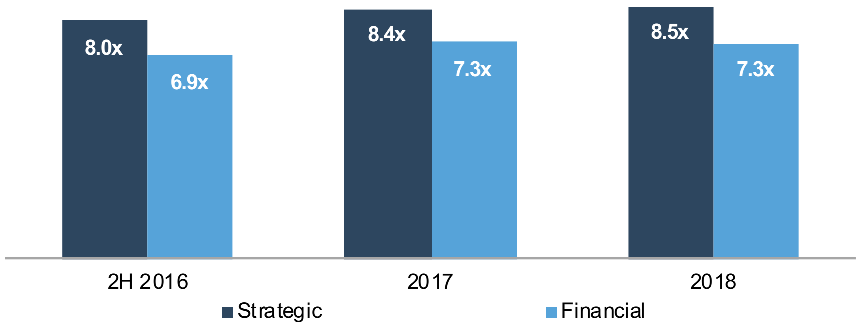
Source: GF Data®

EBITDA Multiples

EBITDA multiples on deals broken out by buyer type (Strategic vs. Financial) also ticked up slightly in 2018, as strategic buyers continue their active roles in the market. Over the period analyzed, strategic buyers have been paying around a 1x premium relative to private equity (financial) buyers, mainly due to the aggressive market for strategic transactions in 2018. However, private equity deals have also seen their multiples tick up since 2016, holding steady at 7.3x EBITDA in 2017 and 2018.

EBITDA Multiples by Buyer Type

3Q16 to 4Q18



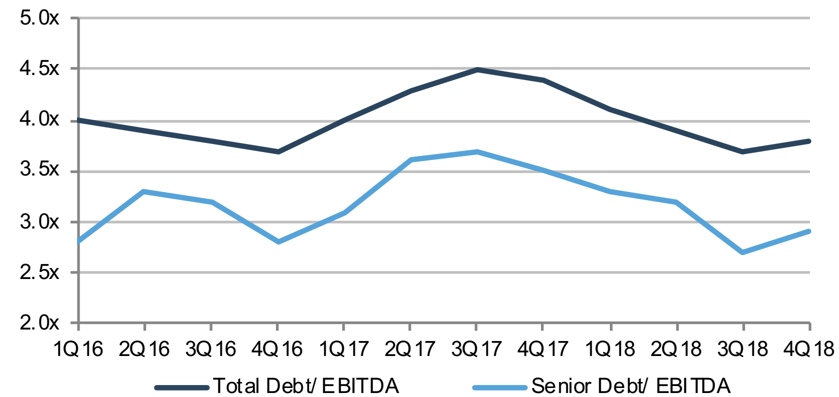
Source: Capital IQ (strategic) and GF Data (financial)
Strategic multiples exclude outliers (defined as EBITDA multiple > 15x)

Debt Multiples

Debt multiples relative to EBITDA for financial buyers increased in the fourth quarter of 2018 but are well off from the peak levels seen during 2017. This increased cautiousness can be attributed to broader issues such as political risk and tariff concerns, which caused turmoil in the equity markets in the fourth quarter. The use of leverage has helped prop up valuation multiples in the past several years, and if lenders continue to err on the side of caution in structuring new loans for deals, we could see some pullback in the overall pricing environment in the middle market. However, if some of the aforementioned broader macroeconomic issues are resolved, lender behavior is apt to become more aggressive again, and deal multiples across the middle market are poised to continue at current levels.

Debt Multiples

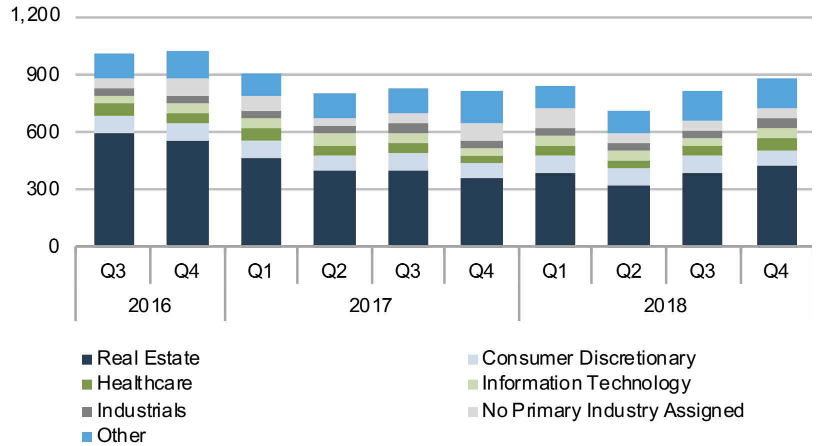
Financial Buyers | 1Q16 to 4Q18



Source: GF Data®

U.S. Deal Volume by Industry

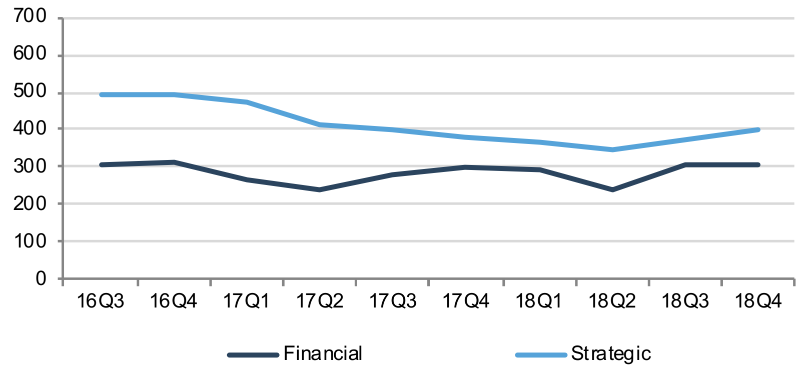
3Q16 to 4Q18



Source: Capital IQ

Number of Deals by Buyer Type

3Q16 to 4Q18



Source: Capital IQ

2019 Outlook

According to **a survey of U.S. CEO's conducted by PWC**, a majority of U.S. chief executives anticipate their companies engaging in some transactional activity in the next year. Corporations still have increased cash balances as a result of tax reform, and M&A remains the top intended use of these funds.

76% of respondents to a survey published by Deloitte expect the number of deals in the middle market to increase in 2019 from 2018, with around one-third of those respondents expecting deal activity to increase significantly. The same survey cites global economic uncertainty as the top obstacle to M&A activity in 2019, but at a less frequent rate than in prior surveys, **pointing towards diminishing anxiety** among corporate executives surrounding these subjects.

While the fourth quarter of 2018 was generally volatile in the equity markets and U.S. economy in general, middle market M&A activity appeared resilient, with increased deal volume, value, and multiples over the third quarter. We suspect this trend will continue into 2019, and any easing of the economic, political, and global trade uncertainties could drive these metrics higher in the new year.

Mercer Capital Provides Transaction Advisory Services to Clifty Farm Country Meats

Burgers' Smokehouse, a specialty meat and food producer based in California, Missouri, has acquired Clifty Farm Country Meats of Paris, Tennessee in a transaction that closed on March 1, 2019. Mercer Capital served as Clifty Farm's financial advisor.

Founded in 1954, Clifty Farm's primary product is country ham with other products including bacon, barbecue, sausage, ribs, and a variety of other specialty items selling to both retail and institutional clients. With a growing presence in the Southeast, the transaction facilitates a strategic investment for Burgers' Smokehouse, while providing for a well-timed ownership transition for the Clifty Farm shareholders.

According to Michael Murphey, Clifty Farm president, "Our family saw this as an opportunity to allow Clifty Farm to continue to grow and succeed." Mr. Murphey, who will remain with the company following the transaction, worked closely with Nicholas Heinz of Mercer Capital in evaluating Clifty Farm's strategic alternatives.

"This transaction represents a true win-win for all parties," Mr. Heinz said, "the shareholders of Clifty Farm have achieved a favorable ownership transition, while the employees and management of the company get to continue producing the quality Clifty Farm products under the Burgers' ownership."

Mr. Murphey said, "We've worked with Mercer Capital several times over our history, both on internal transfers of ownership and on this final sale of the company; their guidance through this transaction process was critical and helped ensure a successful outcome for everyone."

Mercer Capital has provided business valuation and financial advisory services to clients across the nation for more than 35 years.

Learn More about Mercer Capital's Transaction Advisory Services >

California, Missouri

acquired

Paris, Tennessee

Mercer Capital served as financial advisor on behalf of Clifty Farm Country Meats.

– March 2019 –

Transaction Advisory Services

In addition to our corporate valuation services, Mercer Capital provides investment banking and transaction advisory services to a broad range of public and private companies and financial institutions.

Mercer Capital has been successfully executing mergers & acquisitions for a broad spectrum of middle-market companies since the mid-1980s.

We specialize in providing merger & acquisition services to sellers or buyers of private businesses or public companies divesting divisions and subsidiaries. In addition, Mercer Capital assists clients in industry consolidations, roll-ups, and refinancings.

Mercer Capital leverages its historical valuation and investment banking experience to help clients navigate a critical transaction, providing timely, accurate and reliable results. We have significant experience advising boards of directors, management, trustees, and other fiduciaries of middle-market public and private companies in a wide range of industries. Our independent advice withstands scrutiny from shareholders, bondholders, the SEC, IRS, and other interested parties to a transaction, and we are well-versed in the new industry standards.

The professionals of Mercer Capital guide you through the uncharted waters of selling your business, acquiring another business or division, mergers, valuations, fairness opinions, and other transaction advisory needs. Rely on the experience, independence, and analytical and transaction know-how of Mercer Capital.

Transaction Advisory Services

- M&A Representation
- ESOP Installation, Termination, and Transactions
- Squeeze-Out Transactions
- Fairness Opinions
- Minority Shareholder Stock Repurchases
- Corporate or Partnership Recapitalizations

Advantages We Offer

- Maximize Net Proceeds
- Negotiate the Best Possible Terms
- Speed Up the Deal Process
- Ensure Transaction Closure
- Help Ensure Confidentiality
- Minimize Burden on the Ownership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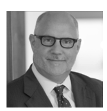
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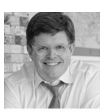
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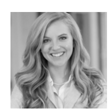
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