

MERCER CAPITAL

Middle Market Transaction Update

Second Quarter 2019

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BUSINESS VALUATION &
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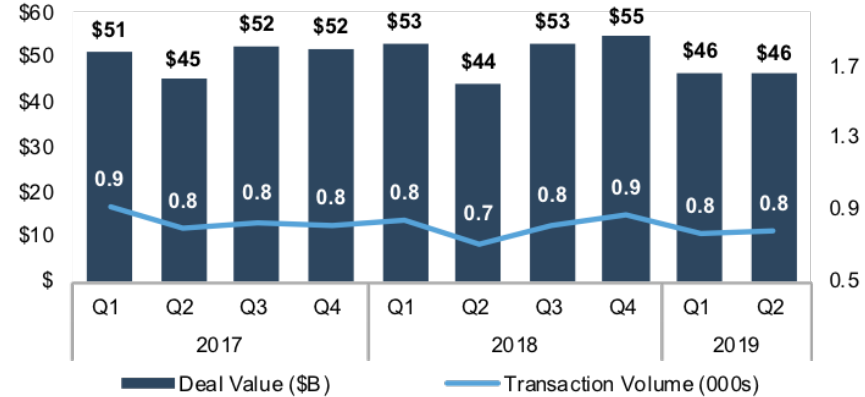
U.S. Deal Value & Volume

Overall transaction value and volume in the middle market in the second quarter of 2019 remained virtually unchanged from the first quarter. In our view, this trend suggests that the ongoing “seller’s market” environment that middle market transactional activity has been experiencing over the past several years still has some vigor left in it, despite economic headwinds in the second quarter of 2019.

It is important, however, to note a couple of trends that could portend to the remainder of 2019 from the chart on the right, showing U.S. deal value and volume in the middle market over the past ten quarters. 2017 and 2018 were virtually identical in terms of trends in quarter-to-quarter activity. Strong first quarters were followed by significant drops in value and volume during the second quarter before recovering to post strong activity in the third and fourth quarters of 2017 and 2018. This trend obviously ended in 2019, posing an interesting question: will some of the activity that was perhaps bottled up in the second quarters and released in the second halves of 2017 and 2018 again show up in 2019, or will value and volume remain relatively smooth from quarter-to-quarter throughout the remainder of the year, revealing a “wait and see” approach among middle market participants? The Fed’s willingness to lower interest rates, which was apparent in the second quarter, and encouraged cheaper debt financing suggests the former in our view. Debt financing has been propping up transactional activity over the past few quarters (notice the steady rise in debt multiples in a later chart). On one hand, lower interest rates suggest that there is no reason for the party to end, as cheap debt financing will still be readily available. On the other, the broader fundamentals driving Fed policy and decision-making regarding interest rate cuts could catch up to the middle market and hamper transactional activity. We expect deal value and volume to show similar trends in the third and fourth quarters of 2019 to the same periods of 2017 and 2018, with these 2 quarters being a “last call” of sorts before the lights could potentially be shut off in 2020.

U.S. Deal Value & Volume

Q1-2017 to Q2-2019



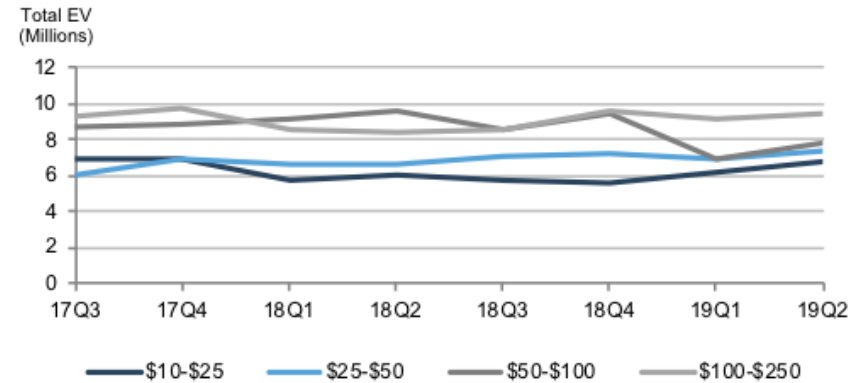
Source: Capital IQ

EBITDA Multiples

TEV/EBITDA Multiples on transactions across all observed size ranges were little changed over the course of the second quarter. Deals in the \$50-100 million range recovered from some of the multiple contraction seen during the first quarter, as multiples in this range fell below their long term average over the period analyzed during the first quarter. We do not expect to see broad decreases in multiples across deal sizes over the course of 2019, as we believe the general macroeconomic situation in the U.S. still favors sellers.

TEV/EBITDA Multiples

Financial Buyers | 3Q17 to 2Q19



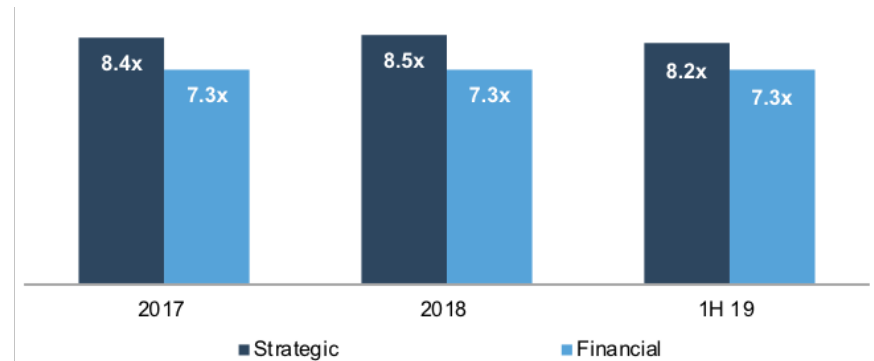
Source: GF Data®

EBITDA Multiples by Buyer Type

EBITDA multiples on deals broken out by buyer type (Strategic vs. Financial) each remained fairly consistent through the first half of 2019 with levels observed in 2017 and 2018. 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 2017 and 2018. This trend continued into the first half of 2019 as the spread between multiples on deals done by strategic and financial buyers remained consistent with those seen in 2017 and 2018.

EBITDA Multiples by Buyer Type

2017 to 1H19



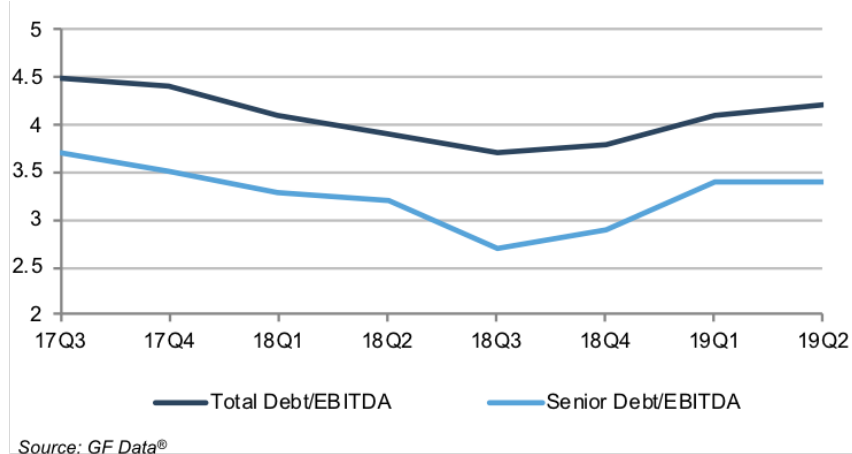
Source: Capital IQ (strategic) and GF Data (financial)
Strategic multiples exclude outliers (defined as EBITDA multiple > 15x)

Debt Multiples

Debt multiples relative to EBITDA for financial buyers increased during the second quarter and continued their approach towards peak levels seen during 2017. During the second quarter of 2019, U.S. equity markets posted gains, although little progress was made in the ongoing trade conflict between the U.S. and China, somewhat muting these gains and certainly lowering them from the levels seen in the first quarter. This, and other macroeconomics factors, caused the Federal Reserve to signal a willingness to lower the federal funds rate in the near future. This continued ease of financing could continue to prop up debt multiples in the middle market. On the other side of the equation, the Fed cited slowing economic growth and declining inflation as reasons for possibly lowering rates. If these patterns continue, lender behavior could become more cautious through the rest of the year, which would put a cap on the amount of debt used to finance transactions in the middle market.

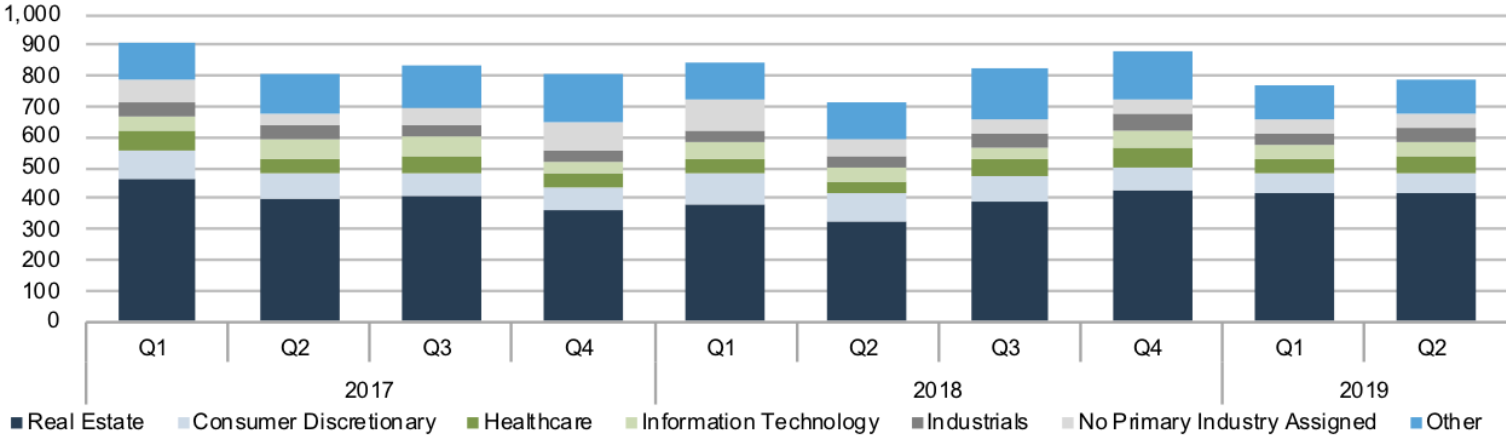
Debt Multiples

Financial Buyers | 3Q17 to 2Q19



U.S. Deal Volume by Industry

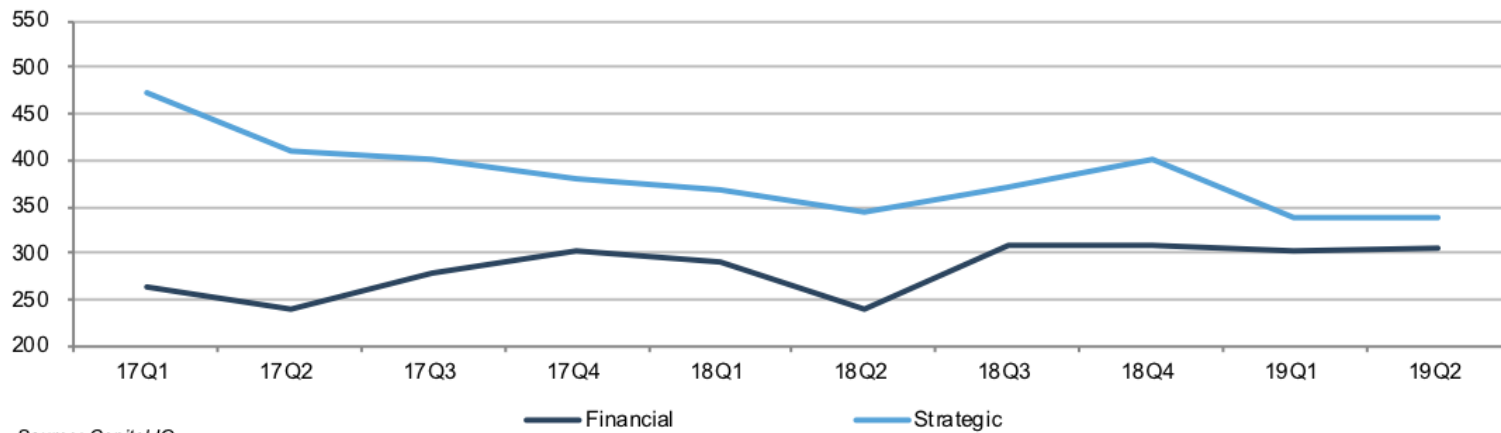
1Q17 to 2Q19



Source: Capital IQ

Number of Deals by Buyer Type

1Q17 to 2Q19



Source: Capital IQ

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

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- Minority Shareholder Stock Repurchases
- Corporate or Partnership Recapitalizations



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Advantages We Offer

- Maximize Net Proceeds
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- Ensure Transaction Closure
- Help Ensure Confidentiality
- Minimize Burden on the Ownership

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