

MERCER CAPITAL

Middle Market Transaction Update

Second Half 2021

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BUSINESS VALUATION &
FINANCIAL ADVISORY SERVICES

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2021 Year End M&A Update

In this issue of Mercer Capital's *Middle Market Transaction Update*, we take a look back at the trends that drove middle market deal activity to record levels in 2021 and whether we expect these trends to continue into 2022. Heavy competition for deals in the middle market resulted in high levels of activity and elevated valuation multiples. Despite these high multiples, widespread liquidity, ease of financing, and elevated levels of private equity activity boosted overall activity in the middle market in 2021. We go into further detail regarding these trends in the sections below and provide some outlook for these trends in 2022.

Widespread Liquidity

2021: One of the key factors that drove M&A in 2021 was companies' elevated liquidity positions and cash balances relative to pre-pandemic levels. Both publicly traded and privately held companies built up large cash balances in 2020, as large discretionary capital spending projects were often deferred until the uncertainty initially brought on by the pandemic was resolved. Many companies also generated better-than-expected earnings and cash flows throughout 2020 and 2021, adding to the already accumulating war chests on corporate balance sheets. In an effort to put these inflated cash balances to work, many companies pursued M&A opportunities in 2021, as the practical difficulties (in-person diligence, etc.) associated with closing deals in 2020 were generally alleviated in 2021.

2022: We expect this trend to continue into 2022, as cash-rich companies will continue to look for favorable M&A opportunities that competitors could otherwise potentially pursue. While the general consensus is that valuations for deals in the middle market are at unsustainably high levels, the massive corporate cash hoard of 2020 and 2021 will continue to support elevated deal values and multiples in 2022. These dynamics will keep alive the favorable environment for sellers in the middle-market that has persisted for the past several years.

Ease of Financing

2021: Companies that chose to finance deals rather than pay cash in 2021 benefitted from historically low interest rates as a result of the quantitative easing put in place by the Fed in response to the pandemic. "Easy money" policies accelerated the use of debt across the middle market, as seen in the [Debt Multiples chart](#) in this newsletter. Total-debt-to-EBITDA multiples in the third quarter of 2021 reached 4.1x, the highest level over the period observed.

2022: As the economy continues its recovery and inflationary pressures persist, Fed Chairman Jay Powell has signaled that the Fed plans to raise interest rates by 25 basis points at least three times in 2022. While these increases will still leave rates at relatively low levels, buyers looking to take advantage of the current credit environment may want to accelerate deals – closing sooner rather than later in 2022.

Increased Levels of Private Equity Activity

2021: As seen in the [EBITDA Multiples by Buyer Type chart](#), Private equity (financial) buyers were increasingly active in 2021, and we expect that the data from the fourth quarter of 2021 would show a continuation of this trend were it available. During 2021, the prospect of an increase in capital gain tax rates loomed large over the middle market. This helped bring some corporate assets to market, as sellers looked to take advantage of the current capital gains tax environment. Private equity firms deployed capital across the middle market, capitalizing on the buying opportunities brought on by the prospect of an increase in capital gains taxes.

2021 Year End M&A Update (cont.)

2022: Private equity buyers are expected to remain active in the middle market in 2022. According to S&P Global Market Intelligence, PE firms ended 2021 sitting on record amounts of dry powder (committed, but unallocated capital). We expect PE firms to be anxious to deploy this capital in 2022, which will increase competition for deals and could drive multiples even higher.

Conclusion

All of the trends outlined above add up to a continued positive outlook for potential sellers of well-positioned businesses in 2022. Elevated levels of liquidity, relatively cheap debt financing, and increased levels of private equity activity all signal that the seller's market of the past several years should not slow down in 2022.

Recent Representative Transactions



KYZEN Corporation
Nashville, TN

Cash-Out Merger

Mercer Capital served as financial advisor to the board of directors to establish a range of value at which certain shareholders would receive cash and rendered a fairness opinion in a go-private transaction

— August 2021 —



Stifel Financial
St. Louis, Missouri

has acquired



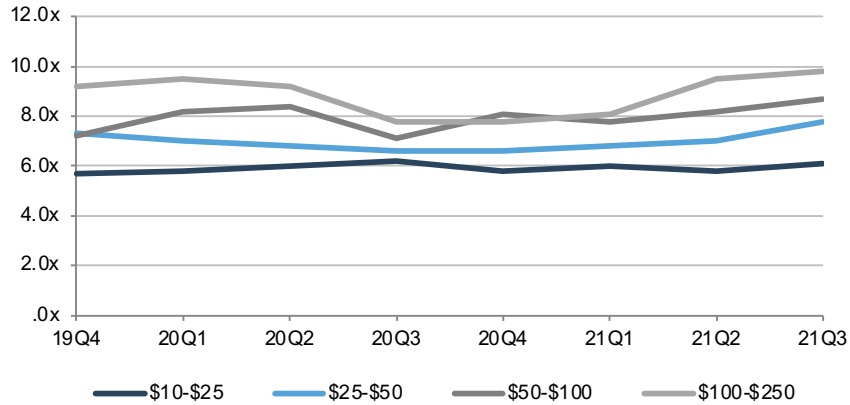
Vining-Sparks IBG, L.P.
Memphis, Tennessee

Mercer Capital provided financial advisory services and rendered a fairness opinion on behalf of Vining-Sparks

— October 2021 —

TEV/EBITDA Multiples

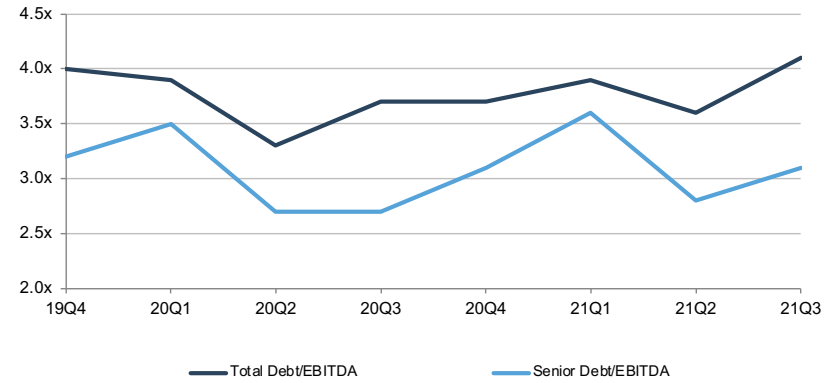
Financial Buyers | Last 8 Quarters



Source: GF Data®

Debt Multiples

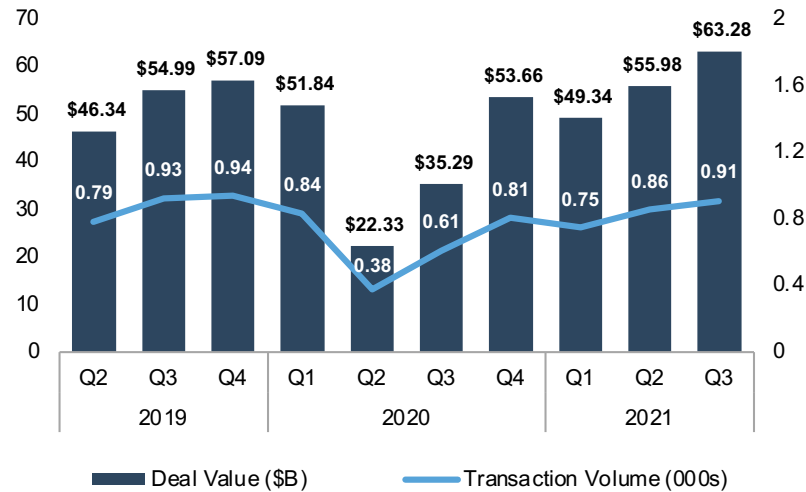
Financial Buyers | Through 3Q-2021



Source: GF Data®

U.S. Deal Value & Volume

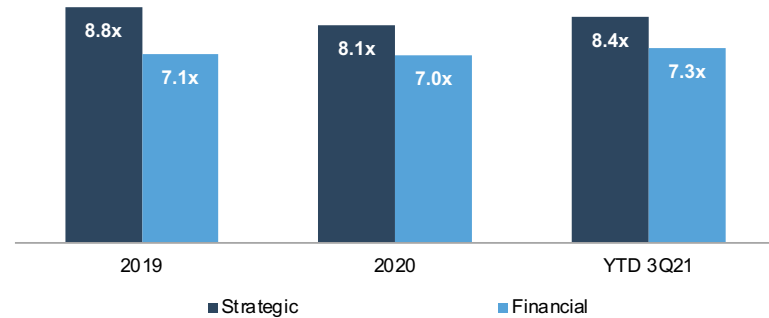
Q2-2019 to Q3-2021



Source: Capital IQ

EBITDA Multiples by Buyer Type

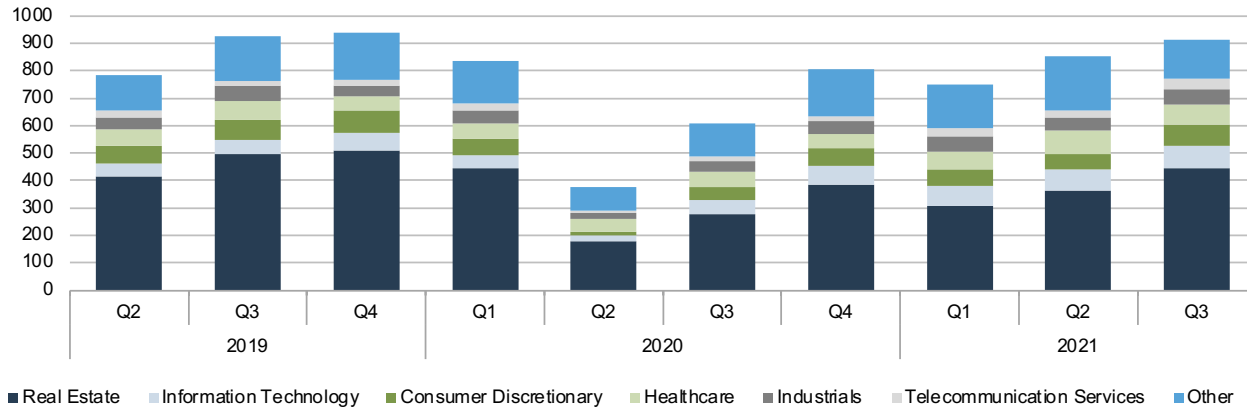
2019 to 3Q2021



Source: Capital IQ (strategic) and GF Data (financial)
Strategic multiples exclude outliers (defined as EBITDA multiple > 18x)

U.S. Deal Volume by Industry

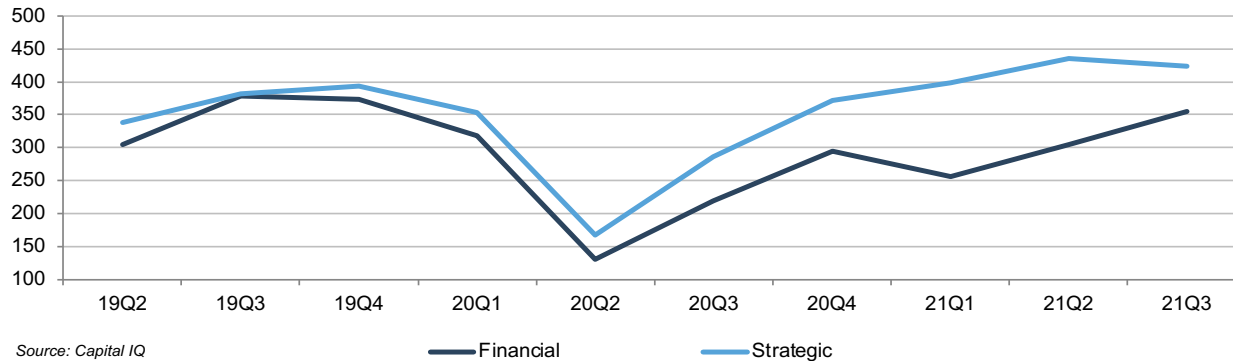
Q2-2019 to Q3-2021



Source: Capital IQ

Number of Deals by Buyer Type

Q2-2019 to Q3-2021



Source: Capital IQ

WHITEPAPER

SELLING YOUR BUSINESS

Practical Steps Business Owners Can Take to Ready Their Businesses for the Best Transaction Outcome

Selling your business is a daunting exercise that requires careful preparation and real-time vigilance. In this whitepaper, we define some practical steps business owners can take to ready their businesses for the best transaction outcome.

[DOWNLOAD](#)

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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 refinancing .

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 transaction know-how of Mercer Capital.

Transaction Advisory Services

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- Fairness and Solvency Opinions
- Minority Shareholder Stock Repurchases
- Corporate or Partnership Recapitalizations



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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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