

MERCER CAPITAL

# Middle Market Transaction Update

First Quarter 2020

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BUSINESS VALUATION &  
FINANCIAL ADVISORY SERVICES

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# Introduction

The deteriorating economic situation in the U.S. as a result of the ongoing COVID-19 pandemic, which began at the end of the first quarter, is expected to hamper deal activity through the remainder of 2020 and into 2021. The overall effects of the pandemic on middle market transaction activity are not entirely evident at present, but Mercer Capital’s direct and anecdotal experience with deals in process at the onset of the pandemic suggests that deals are being deferred not only due to strategic concerns, but also because of due diligence execution difficulties. With diligence teams and other key players in the transaction process forced to work from home due to shelter-in-place orders in jurisdictions across the U.S., the background work in the execution of a transaction has been placed on hold until the virus abates. On a strategic level, some buyers are renegotiating purchase considerations based on the environment and evolving performance of the seller’s business. Buyers under these circumstances are also modifying material adverse change (“MAC”) provisions within transaction documents and assessing their ability to terminate transactions due to a MAC occurrence. Historically, the threshold to demonstrate a

MAC occurrence has been held relatively high by courts in New York and Delaware. As economic and business conditions continue to evolve, transactions that were in process before the pandemic but had not yet closed will continue to come under MAC scrutiny from buyers and sellers and will be at risk of not closing.

In the fairly short-term, we anticipate opportunities for increased consolidation in fragmented markets for acquisitions of distressed companies. Strategic and financial buyers with substantial war chests to deploy will go looking for acquisition opportunities. These opportunities will manifest themselves through direct discussions with industry and strategic targets and through bankruptcy proceedings under which buyers can acquire the assets of a distressed company in Chapter 7 bankruptcy. Financially distressed companies are likely as receptive as ever for these discussions as potential strategies to continue their business or exit entirely.



**COVID-19  
Resource  
Center**

[CLICK HERE](#)

This resource center collects all our best thinking related to the impact of the COVID-19 pandemic. The content covers a broad range of topics and industries. As we publish new content, the list will be updated. See the list below for links to a few of the topics discussed in our resource center.

**Buy-side M&A Opportunities  
in the Aftermath of the  
COVID-19 Pandemic**

Family Business Director Blog  
June 16, 2020

**RIA M&A Amid COVID-19**

RIA Valuation Insights Blog  
April 27, 2020

**Goodwill Impairment Testing in  
Uncertain Times**

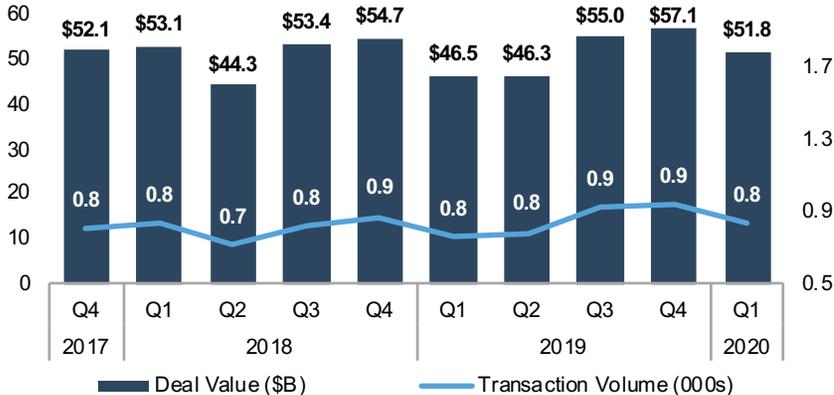
Financial Reporting Update  
April 9, 2020

# U.S. Deal Value & Volume

Overall transaction value and volume in the middle market in the first quarter of 2020 fell from levels observed in the latter half of 2019, but was still above levels of activity observed in the first quarter of 2019. While one might expect a more precipitous drop activity given the ongoing COVID-19 pandemic, we note that deals in January and February of 2020 were still announced and executed under normal economic conditions, and that March was the only month in the first quarter in which deal activity would have been significantly inhibited. Still, the first quarter of 2020 most likely represented the end of the “seller’s market” in the middle market that has been ongoing for the past several years, as deteriorating economic conditions are expected to hamper deal activity through the remainder of the 2020 and into 2021.

# U.S. Deal Value & Volume

Q4-2017 to Q1-2020



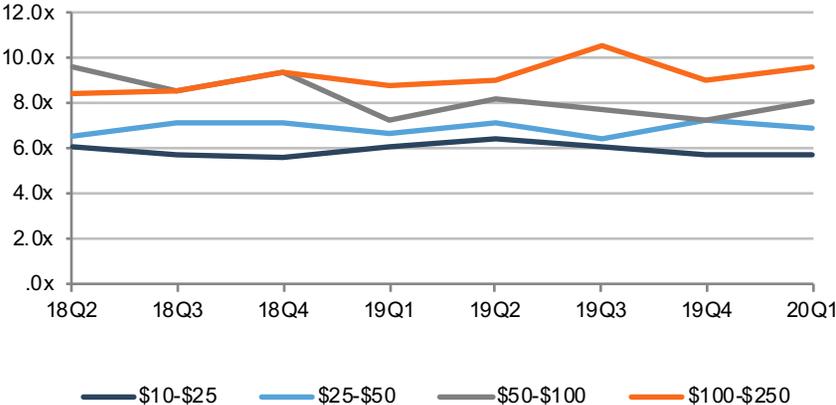
Source: Capital IQ

# EBITDA Multiples

Reported TEV/EBITDA Multiples on transactions across all tranches of enterprise value did not show much movement in the first quarter of 2020. Deals in the \$50-\$100 million range showed the greatest multiple expansion, increasing by about 1x from the end of 2019. Smaller deals in the \$10-\$15 million and \$25-\$50 million ranges saw flat multiples and some slight compression, respectively, in the first quarter. Larger deals in the \$100-\$250 million range saw slight multiple expansion from 9.2x to 9.6x.

# TEV/EBITDA Multiples

Financial Buyers | Q2-2018 to Q1-2020



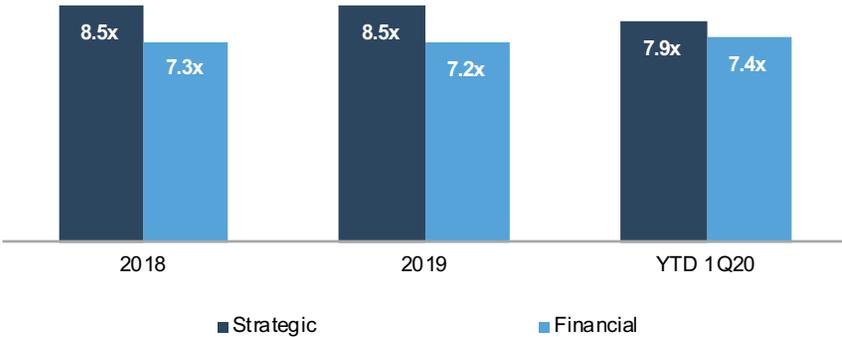
Source: GF Data®

# EBITDA Multiples by Buyer Type

First quarter EBITDA multiples on deals broken out by buyer type (Strategic vs. Financial) remained fairly consistent with levels observed in 2018 and 2019. The premium paid by strategic buyers relative to financial buyers did narrow in the first quarter, with multiples on strategic deals falling to around 7.9x and multiples on financial deals rising to around 7.4x.

## EBITDA Multiples by Buyer Type

2018 to 1Q 2020



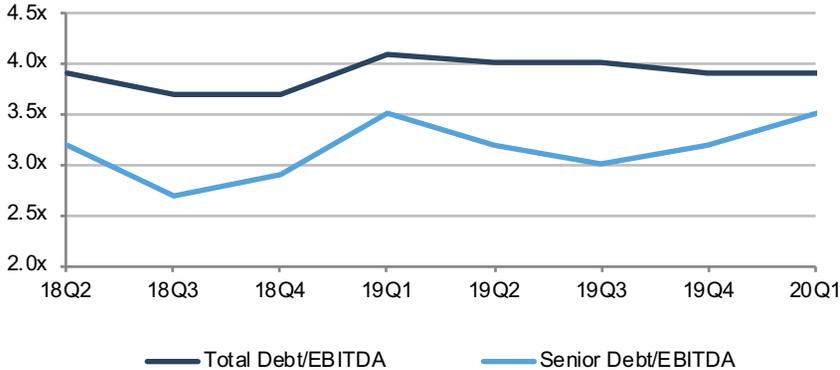
Source: Capital IQ (strategic) and GF Data (financial)  
 Strategic multiples exclude outliers (defined as EBITDA multiple > 15x)

# Debt Multiples

Total debt multiples relative to EBITDA for financial buyers were steady during the first quarter, and remained near peak levels seen during 2017. Again, this mostly represents transactions closed prior to the disruption caused by the COVID-19 pandemic. Debt availability, as with pricing and debt multiples, is likely to be constrained as the public health and economic issues play out.

## Debt Multiples

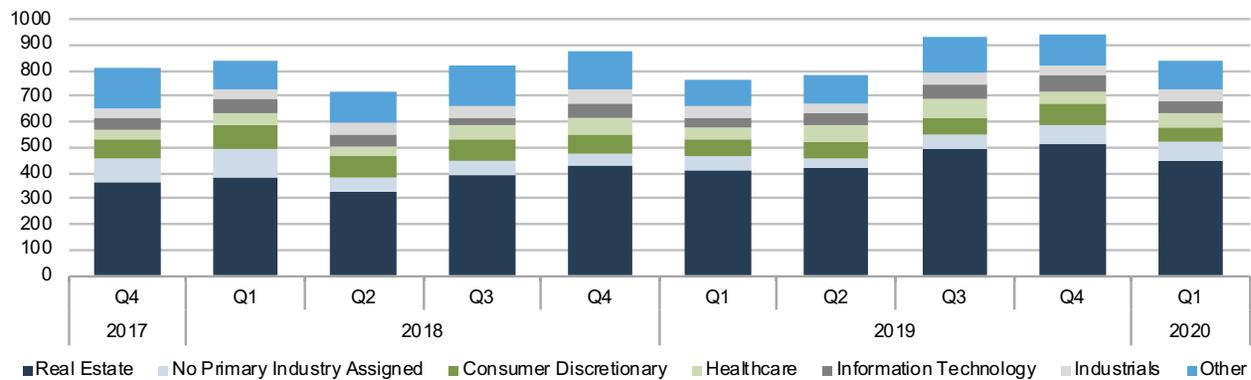
Financial Buyers | Through 1Q-2020



Source: GF Data®

## U.S. Deal Volume by Industry

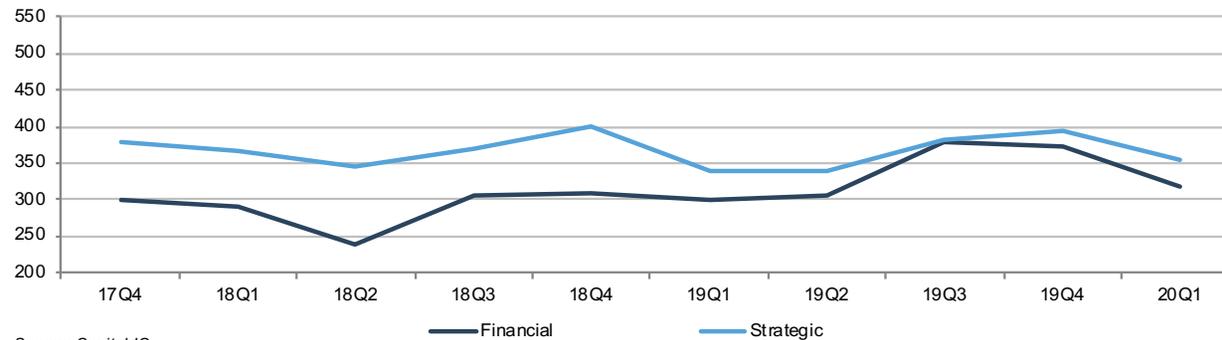
Q4-2017 to Q1-2020



Source: Capital IQ

## Number of Deals by Buyer Type

Q4-2017 to Q1-2020



Source: Capital IQ

## Bankruptcy and Restructuring Advisory Services

Mercer Capital has performed in-depth financial analyses for clients pursuing bankruptcy reorganization in order to explore strategic alternatives and to inform negotiations with various stakeholders. We have considerable experience in providing clients with reliable, relevant and reasonable valuations of businesses and intangible assets, including within the context of financial statements reporting requirements.

- Financial advisory & consulting
- Business valuation
- Fresh-start accounting
- Fairness opinions
- Solvency Opinions

[MORE INFORMATION](#)

# 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 transaction know-how of Mercer Capital.

## Transaction Advisory Services

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



**Nicholas J. Heinz, ASA**  
 heinzn@mercercapital.com  
 901.685.2120



**Timothy R. Lee, ASA**  
 leet@mercercapital.com  
 901.322.9740



**Jeff K. Davis, CFA**  
 jeffdavis@mercercapital.com  
 615.345.0350



**Matthew R. Crow, ASA, CFA**  
 crowm@mercercapital.com  
 901.685.2120



**John T. (Tripp) Crews, III**  
 crewst@mercercapital.com  
 901.322.9735



**Taryn E. Burgess, CFA**  
 burgest@mercercapital.com  
 901.322.9757

## 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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