

MERCER CAPITAL

Middle Market Transaction Update

Fall 2023

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**MERCER
CAPITAL**

BUSINESS VALUATION &
FINANCIAL ADVISORY SERVICES

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Fall 2023 M&A Update

Middle market transaction activity fell in the second quarter of 2023, continuing an ongoing decline in transaction activity in the middle market. The decline was seen across the entire market – as activity by both strategic and financial buyers declined in the quarter.

Pricing multiples, which had shown resiliency in recent quarters, declined with overall deal activity – hampered by further interest rate increases and general economic uncertainty in the second quarter. We'll take a look at these trends and more in the following sections.

Deal multiples across all size tranches, as reported by GF Data®, fell in the second quarter of 2023. The number of private equity deals reported by GF Data® fell from 78 deals in the first quarter of 2023 to 57 deals in the second quarter, which is also down from 76 reported deals in the second quarter of 2022.

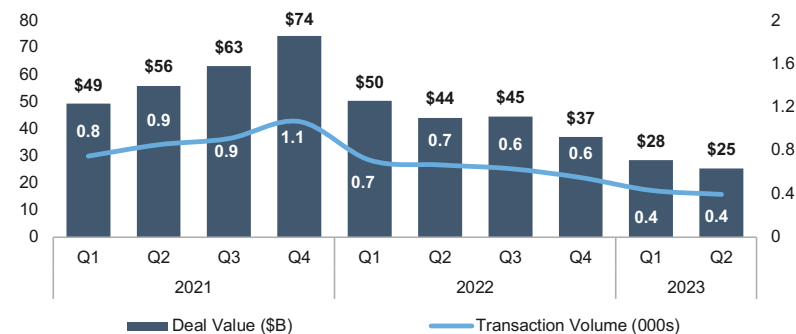
Average multiples on all completed deals fell from 7.7x EBITDA in the first quarter of 2023 to 6.4x, which is the lowest reported average multiple since Q3 2020. The 6.4x average multiple in the second quarter is also down a full turn from the reported 7.4x average multiple reported by GF Data® a year ago.

Deal volume for both strategic and financial deals presents a similar picture. The chart on the right highlights overall deal value and volume, including strategic deals. The second quarter of 2023 represents the lowest levels of value and volume across the period analyzed.

The downtrend in multiples notwithstanding, there remains a significant gap between large and small transactions. The average EBITDA multiple for deals of \$250 to \$500 million on a year-to-date basis was 10.0x compared to 5.9x for deals of \$10 to \$25 million. Leverage accounts for only a part of the gap with the largest deals employing about 4x of debt financing compared to ~3x for the smallest deals.

U.S. Deal Value & Volume

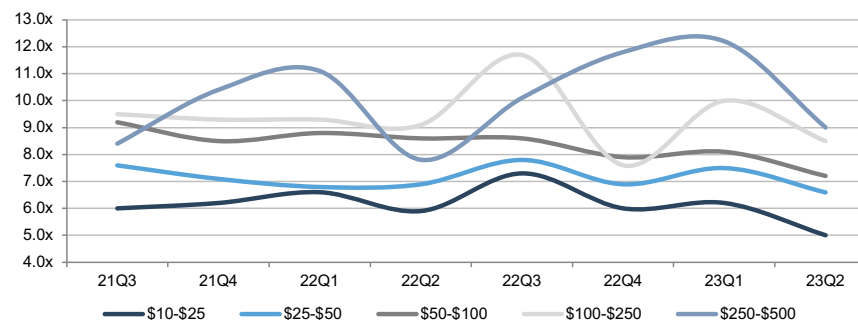
Q1-2021 to Q2-2023



Source: Capital IQ

TEV/EBITDA Multiples

Financial Buyers | Last 8 Quarters



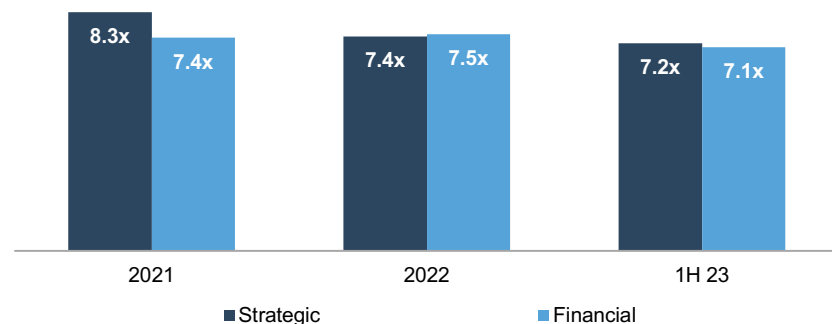
Source: GF Data®

While the state of the middle market, when viewed through the lens of deal activity in the second quarter, appears bleak, deals still have gotten done in the first half of 2023 – albeit under rapidly evolving macroeconomic and market conditions. The Federal Reserve continued to raise interest rates in the second quarter of 2023 to fight persistent inflation in the U.S. economy. U.S. equity markets posted broad gains in the second quarter. Ongoing geopolitical tensions continued to percolate. Unemployment in the U.S. remained historically low.

All that to say – the current macroeconomic environment appears to be teeming with contradictions and uncertainty, making planning and forecasting extremely difficult for companies in general. One potential aspect of this process – pursuing an acquisition or developing a corporate M&A strategy – becomes more precarious than usual in uncertain economic conditions. Headlined by rising interest rates, we suspect that general uncertainty regarding the direction of the U.S. economy in future quarters and years played an outsized role in the second quarter’s depressed middle market deal activity.

EBITDA Multiples by Buyer Type

2021 to YTD 2023



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

It is also important to remember that M&A deals do not get done in a single day, month or typically even quarter. There is a lag between general deal agreement (negotiation of letter of intent) and the closing of a transaction. The reduced number of closed deals and lower multiples of the second quarter are at least partly reflective of reduced market activity in the first quarter of 2023. While there has been no relief on the interest rate front, general economic sentiment appears to have improved since early 2023 – with expectations for an imminent recession diminishing as the year has progressed.

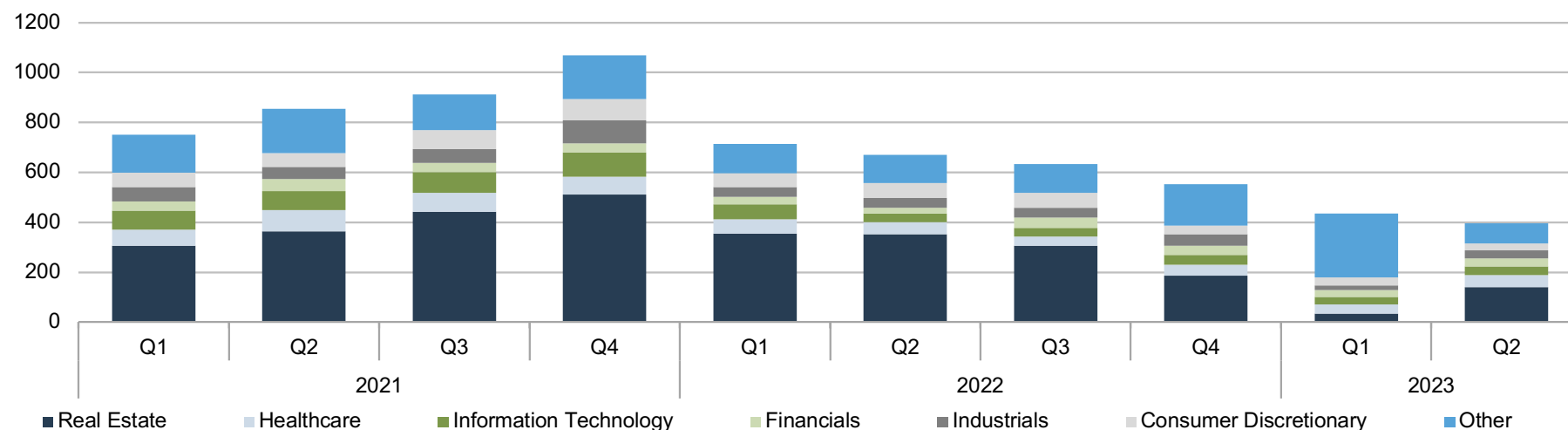
Despite the current challenges, quality businesses coming to market are still commanding multiples that have the potential to get deals done. There will always be a market for companies that can generate growth, have steady and predictable cash flows and margins, and can achieve scale in their industry. Private equity investors still have large amounts of “dry powder” on hand and continue to actively seek returns in many areas of the available investment universe, including the middle market.

As we have said before, sellers looking to undertake a sale of their business in the current environment will have to be extremely prepared for the transaction process given heightened levels of diligence and scrutiny from potential buyers and their lenders. User-friendly financial statements, well-crafted offering materials, and a deep knowledge of the value drivers in your business and industry are now more important than ever.

Mercer Capital has a deep bench of seasoned transaction professionals with experience in all different types of market environments, including this one. If you are a business owner contemplating a transaction on the buy side or on the sell side, feel free to reach out to discuss your needs in confidence.

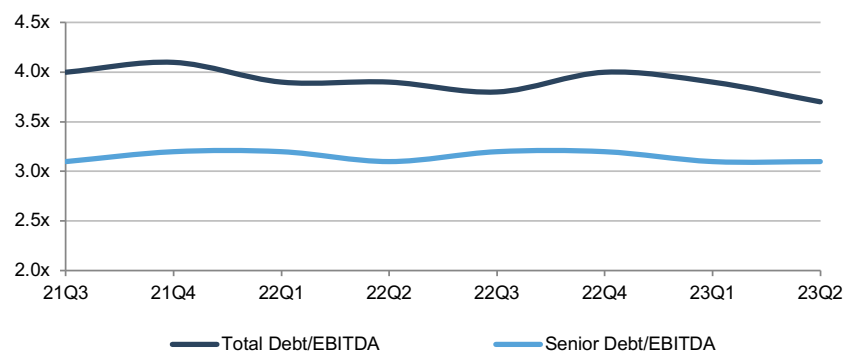
U.S. Deal Volume by Industry

Q1-2021 to Q2-2023



Debt Multiples

Financial Buyers | Through Q2-2023



Source: GF Data®

Recent Representative Transaction

CAMBER ENERGY

Houston, TX

has agreed to acquire the remaining
~39% common share interest in



Viking Energy Group, Inc.

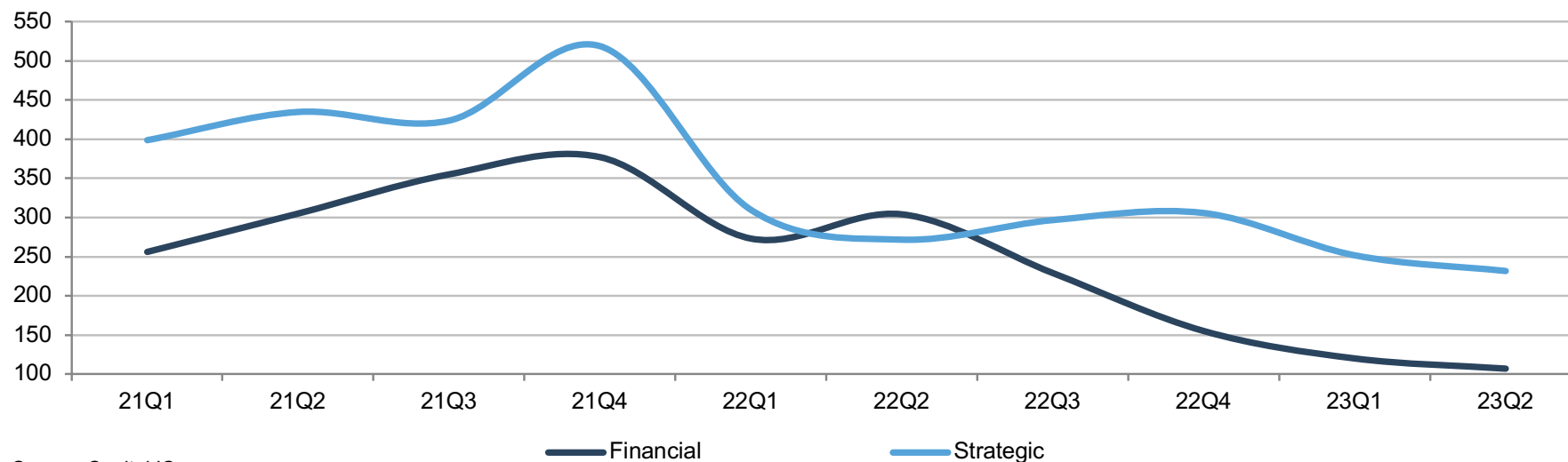
Houston, TX

Mercer Capital rendered a
fairness opinion on behalf
of Camber Energy

— April 2023 —

Number of Deals by Buyer Type

Q1-2021 to Q2-2023



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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,

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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.

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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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