MERCER CAPITAL

Middle Market Transaction Update

First Half 2021

In This Issue

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BUSINESS VALUATION & FINANCIAL ADVISORY SERVICES

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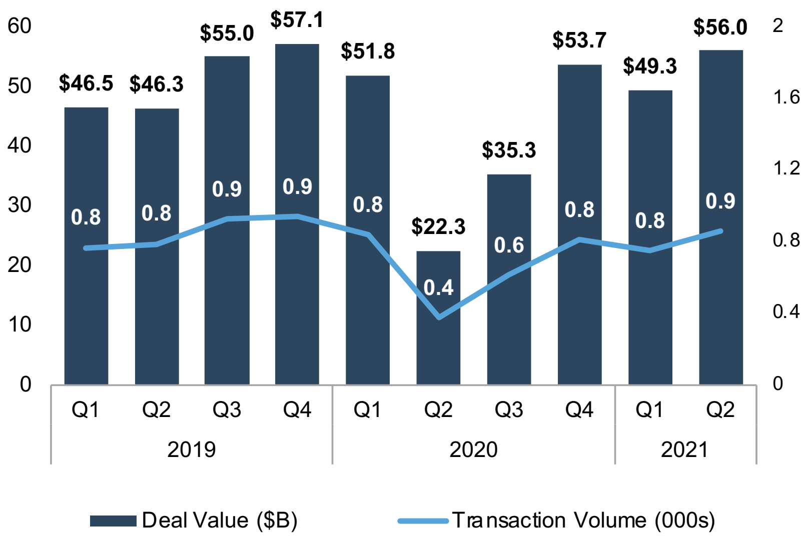
Introduction

As described in the following pages and charts, U.S. M&A activity continued to rebound in the first half of 2021 from depressed levels of activity seen in 2020 due to the COVID-19 pandemic. In the first half of 2021, reported TEV/EBITDA multiples on private equity transactions across all tranches of enterprise value remained fairly consistent with observed multiples in 2020, though multiples in the $100-$250 enterprise value range did tick up somewhat in the first half of 2021, which is likely a result of increased buyer demand. Overall, multiples for both strategic and private equity deals were largely unchanged from levels observed in 2019 and 2020. Levels of activity observed in the first half of 2021 suggest that the renewed buyer and seller appetite seen in the back half of 2020 has carried over into 2021.

U.S. Deal Value & Volume

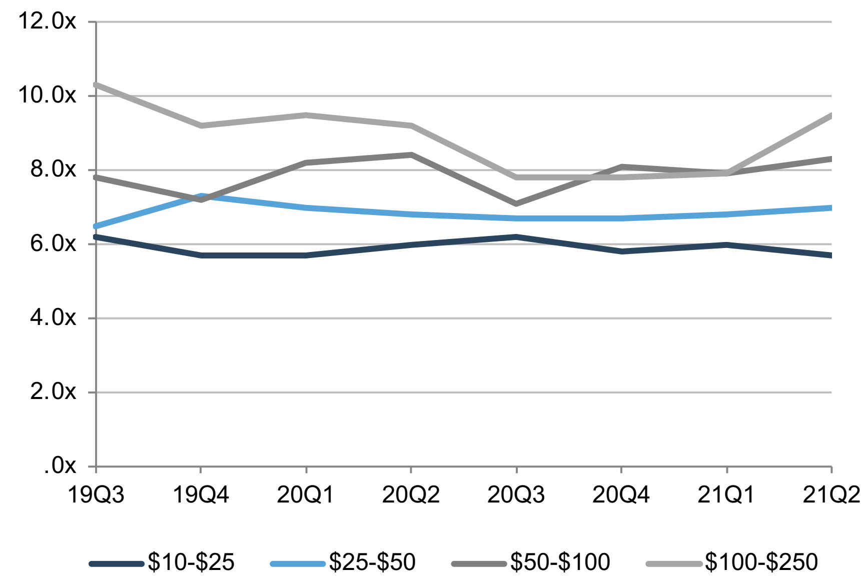
Q1-2019 to Q2-2021



Source: Capital IQ

TEV/EBITDA Multiples

Financial Buyers | Last 8 Quarters



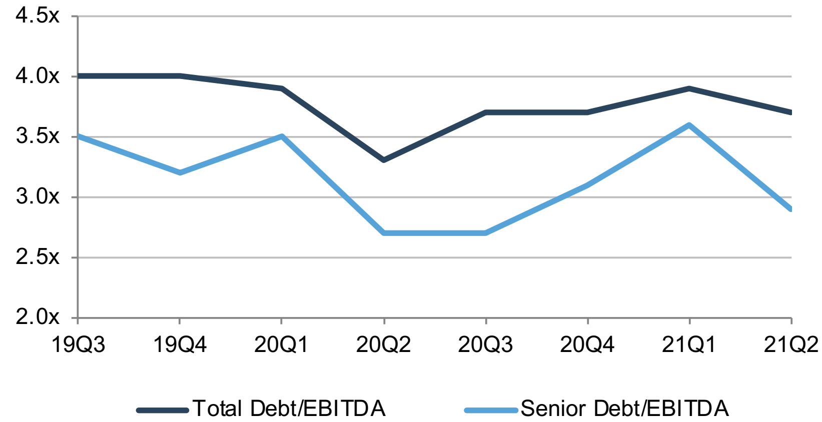
Source: GF Data®

Debt Multiples

Debt multiples among private equity buyers trended downwards in the second quarter of 2021 after nearing pre-pandemic highs in the second half of 2020 and first quarter of 2021. Senior debt multiples fell by around half a turn in the second quarter of 2021, signaling a return to pre-pandemic norms in terms of debt structures in deals.

Debt Multiples

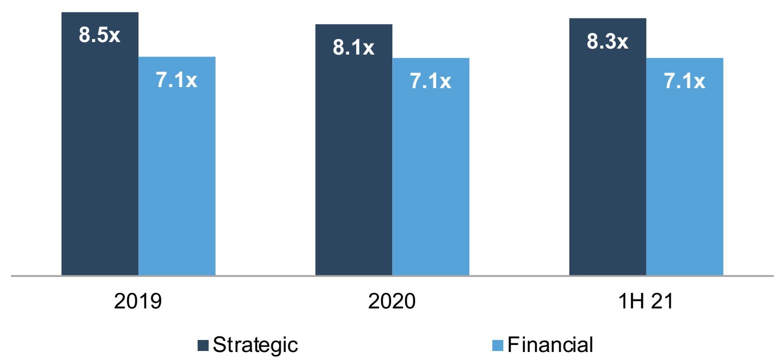
Financial Buyers | Through 2Q-2021



Source: GF Data®

EBITDA Multiples by Buyer Type

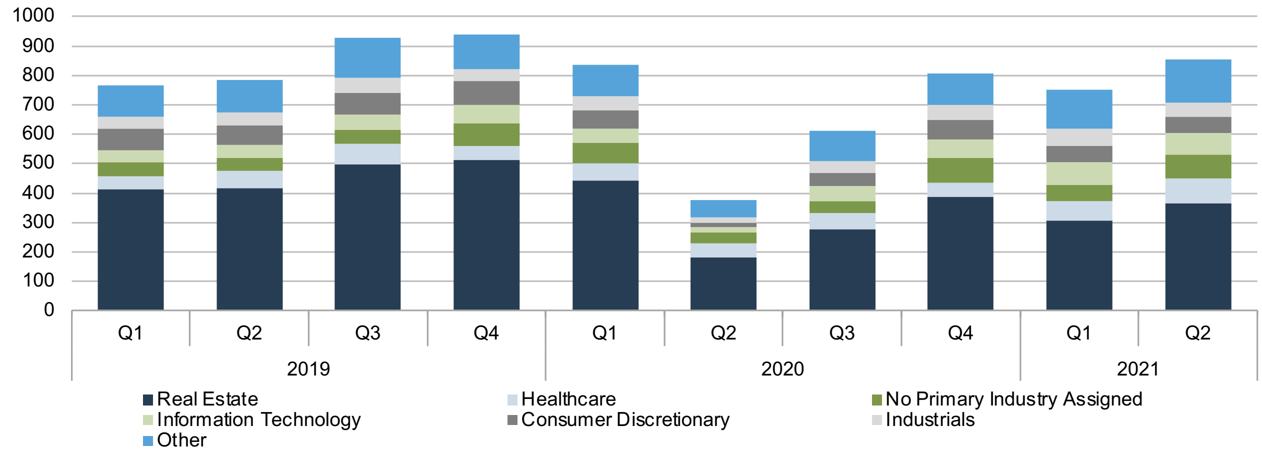
2019 to 1H2021



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

U.S. Deal Volume by Industry

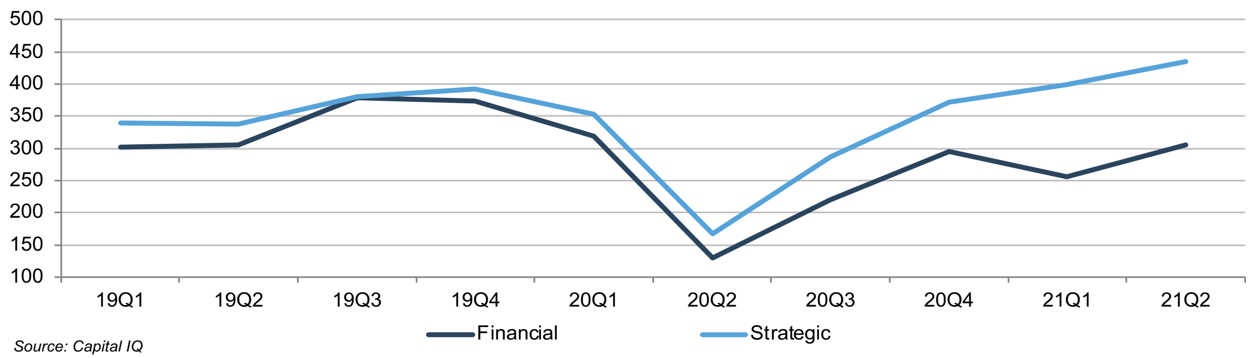
Q1-2019 to Q2-2021



Source: Capital IQ

Number of Deals by Buyer Type

Q1-2019 to Q2-2021



Source: Capital IQ

Fairness Considerations in Going Private and Other Squeeze-Out Transactions

This short presentation is intended to provide an overview of some issues surrounding a decision to take an SEC-registrant or non-registered OTC traded company private. Likewise, the issues raised generally apply to private companies undergoing a squeeze-out transaction to reduce the number of shareholders.

- Pros and Cons of Going Private
- Structuring a Transaction
- Valuation Analysis
- Fairness Considerations

DOWNLOAD

Summary

The sustained momentum in middle market transaction through the first half of 2021 is the result of several factors. Economic activity surged in the U.S. in the first two quarters of 2021. U.S. GDP increased at an annualized rate of 6.3% in the first quarter of 2021 and 6.5% in the second quarter. This growth was largely fueled by personal consumption and aggregate business investment. GDP growth in the first and second quarters was aided by the success of the vaccine roll out in the U.S., the loosening of restrictions on citizens and businesses, and the massive stimulus packages provided by the federal government. The pickup in economic activity in the U.S. aided transactional activity in the first half of 2021, as companies were able to begin operating as they were pre-pandemic, increasing their attractiveness as acquisition and merger targets. Increased liquidity in the economy also drove deal activity in the first half of 2021, as financing for deals was generally cheap and readily available.

Still, transaction activity in the first quarter of 2021 was down slightly from the fourth quarter of 2020, but this is to be expected as the first quarter of a year is typically the slowest in terms of deal volume and value. Demand for new transactions from acquirers remained very strong in the first half of 2021, setting up a continuation of the ongoing seller's market that was prevalent before the pandemic. This demand should lead to increased closed deal activity in the back half of the year.

The supply shortage in deals in the first half of the year will also lead to increased activity in the second half of 2021 for private equity companies that hold portfolio companies. We expect private equity companies to take advantage of the deal scarcity in the market and increased valuations and bring well-positioned portfolio companies to market in the second half of the year. Multiples across all deal size tranches should increase in the second half of the year, as the shortage of quality companies available for sale will create higher valuations and premiums for operationally sound businesses.

Furthermore, with changes to the tax code looming on the horizon, time may be of the essence in taking advantage of the current taxation and regulatory environment, which will drive deal activity in the second half of 2021. While details of these changes are still being negotiated in Congress, most observers expect the capital gains tax to increase to at least 25%, up from its current top marginal rate of 20%. Even more harrowing is the prospect that these changes could be enacted retroactively if the bills pass Congress.

With these potential changes in mind, sellers would be advised to act sooner rather than later if thinking of selling their business in the next few years. We expect this mentality will drive deal activity in the second half of 2021 to levels not seen in the past several years. This anticipated increase in transaction activity will certainly impact the middle market, as buyers and sellers look to beat the clock and take advantage of transacting in a lower tax environment. If passed, the increased capital gains tax rate in particular will heavily incentivize would-be sellers to accelerate transactions to a close before the changes take effect. With the consequences of the proposed Biden tax plan in mind, transactional activity in 2021 and 2022 in terms of deal value and volume should continue to increase, as buyers and sellers look to take advantage of the current tax environment before it is altered.

MERCER CAPITAL

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

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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