

MERCER CAPITAL

Middle Market Transaction Update

First Quarter 2022

In This Issue

U.S. Deal Value & Volume

EBITDA Multiples

EBITDA Multiples by Buyer Type

Debt Multiples

U.S. Deal Volume by Industry

Number of Deals by Buyer Type



**MERCER
CAPITAL**

BUSINESS VALUATION &
FINANCIAL ADVISORY SERVICES

www.mercercapital.com

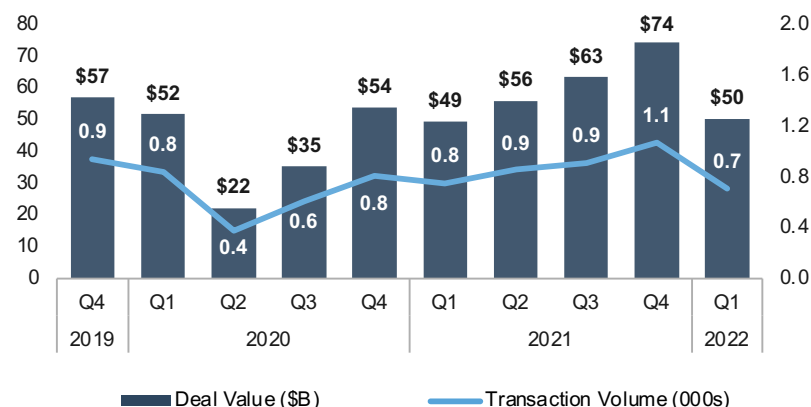
Introduction

In the first quarter of 2022, U.S. middle market deal value and volume experienced somewhat of a pullback from year-end 2021 levels. This is to be expected, as the first quarter of any given year is typically slow in terms of transaction activity in the middle market. This first quarter also follows a late 2021 period during which many transactions were rushed to get ahead of potential new tax legislation that never happened. While transaction volume was down in the first quarter of 2022 relative to the first quarter of 2021, deal value increased in 2022 though only by a slim margin (\$49 billion vs. \$50 billion).

Along with the typical seasonal slump seen in deal activity in the first quarter of the year, ongoing global macroeconomic issues also appear to have had some adverse effects on the level of middle market deal activity in the first quarter of 2022. Continued supply chain disruptions, rampant inflation, volatile commodity markets, and rising interest rates were all underpinned by the geopolitical conflict in Ukraine. While the effects of these factors have not been felt equally across all industries, some level of uncertainty regarding short-term economic trends began to take hold during the first quarter of 2022. Market uncertainty can often lead to a slow-down in deal activity, though it is important not to overstate the level of uncertainty as of the first quarter of this year. While there were some dark clouds in the economic picture, transaction activity in the middle market remained generally in-line with what would be expected in the opening quarter of the year, both in terms of volume and valuations.

U.S. Deal Value & Volume

Q4-2019 to Q1-2022



Source: Capital IQ

PRESENTATION



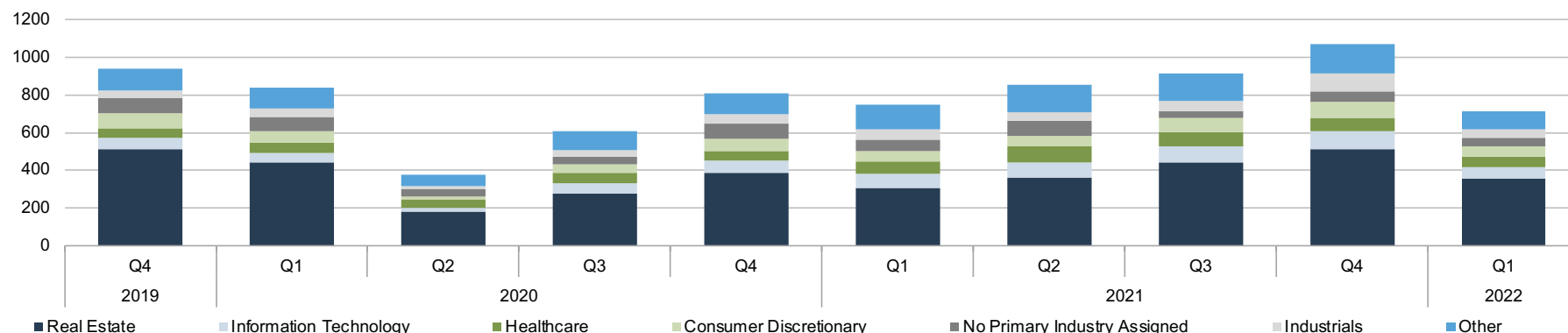
DOWNLOAD PDF

Tesla Walks the Entirely FairLine with SolarCity

Evaluating Fairness of the Tesla Motors, Inc. and SolarCity Corporation Merger

U.S. Deal Volume by Industry

Q4-2019 to Q1-2022



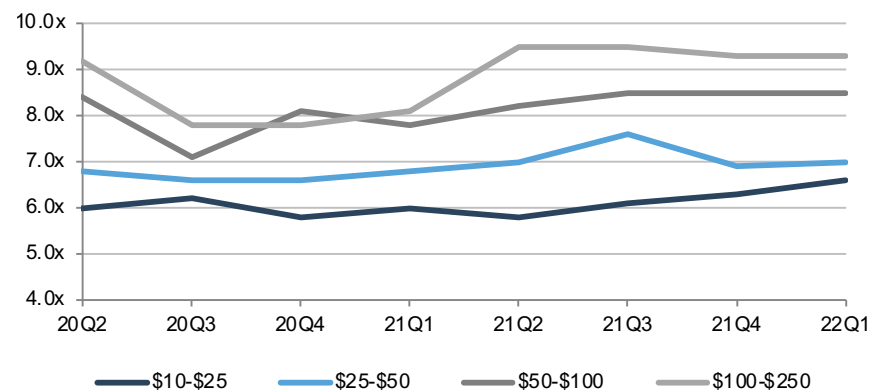
Source: Capital IQ

TEV/EBITDA Multiples

As seen in the chart on the right, multiples on PE deals across all size tranches were flat to up in the first quarter of 2022 from year-end 2021 levels. The prolonged “sellers’ market” of the past several years appears to be holding up in 2022, as buyers continue to be willing to pay elevated multiples for well-positioned businesses coming to market. Deals in the lowest size tranche of the middle market (\$10-\$25 million) realized the greatest uptick in multiples in the first quarter of the year. We note that many deals that close in the first quarter of a given year are continuations of deals in process in the prior year; thus, deals that closed in the first quarter of 2022 were not as sensitive in real time to the widespread macroeconomic upheaval experienced in the first quarter. These effects could potentially bear themselves out in deals closed later in 2022.

TEV/EBITDA Multiples

Financial Buyers | Last 8 Quarters



Source: GF Data®

Debt Multiples

Debt multiples on PE deals fell in the first quarter of 2022. The drop in debt utilization in deal activity is potentially a sign that rising interest rates are beginning to weigh on deal activity and financing terms. Rising interest rates equate to an increased cost of borrowing for businesses, which in turn increases the discount rates used in buyers' valuations of potential targets. While elevated discount rates, in theory, should lead to valuations (and hence multiples) coming down from levels seen over the past several years, corporate balance sheets and PE firms still appear to be flush with cash. We believe that these war chests will continue to support elevated deal multiples in the middle market over the next several quarters in spite of rising interest rates.

Transaction Advisory Update

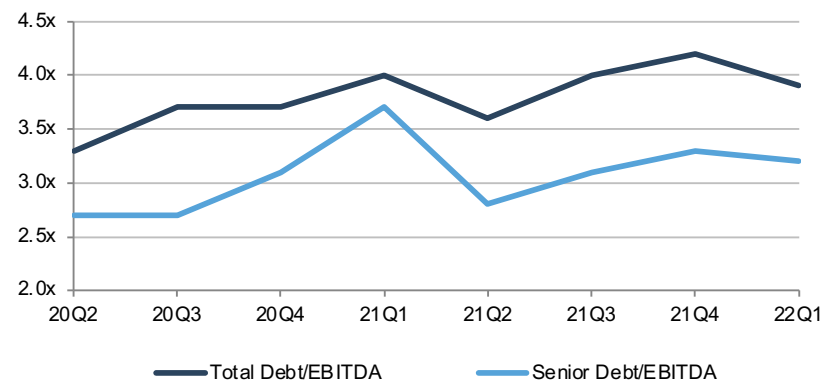
Check out our latest series of articles on Buy-Side Considerations

In this series, we cover buy-side topics from the perspective of middle-market companies looking to enter the acquisition market.

[>> Read Articles](#)

Debt Multiples

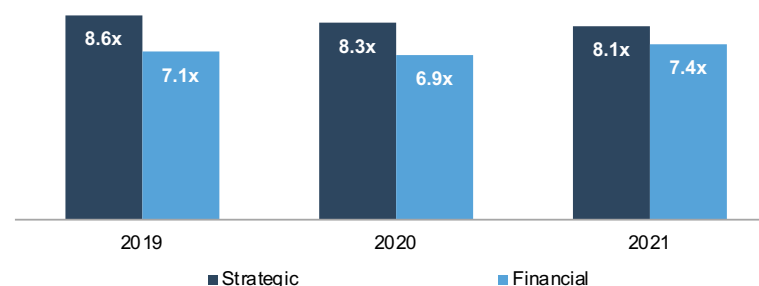
Financial Buyers | Through 1Q-2022



Source: GF Data®

EBITDA Multiples by Buyer Type

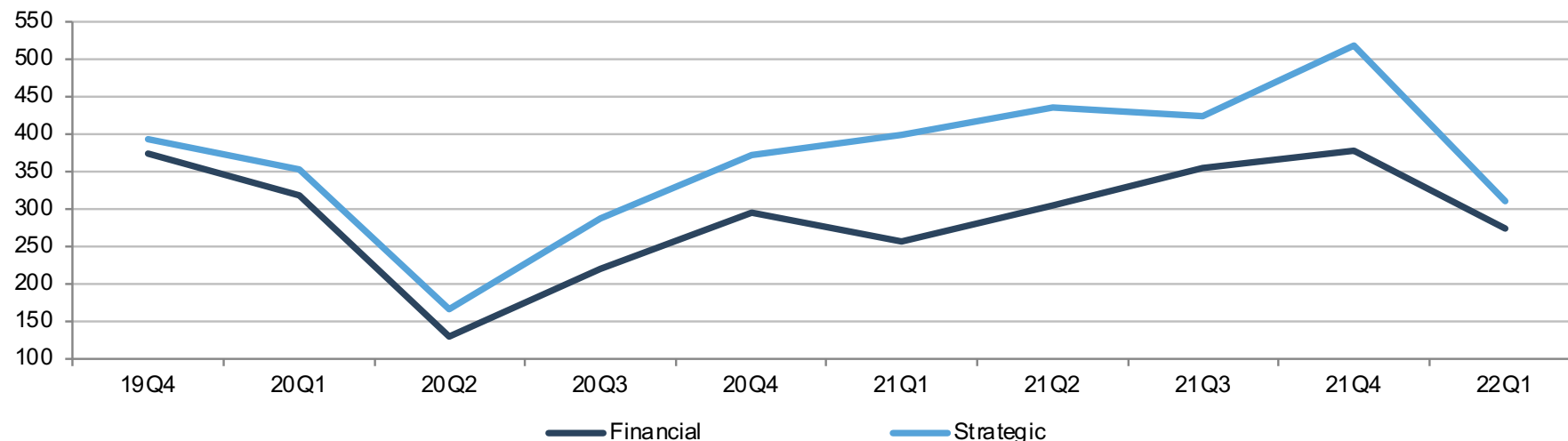
2019 to 2021



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

Number of Deals by Buyer Type

Q4-2019 to Q1-2022



Source: Capital IQ

Conclusion

While deal volume was down in the first quarter of 2022, activity did not come to a screeching halt like one may have expected given the general global and macroeconomic disruption seen in the first quarter. In our opinion, there are still a number of businesses that would have come to market if not for the challenging conditions of the past several years. This has created a quality effect in the businesses that have come to market, driving competition among strategic and financial buyers for these deals and, in the process, driving up multiples and deal

values across the middle market. This is supported by the fact that multiples remained at levels seen in 2021 in the first quarter of 2022. It remains to be seen if the resilient sellers' market environment of the past several years holds up through the balance of 2022 when confronted with the rising rates, geopolitical conflict, and volatile equity markets that welcomed us into 2022. Business owners contemplating a transaction would be advised to act sooner rather than later given the current uncertainty.

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

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

Securities transactions conducted through StillPoint Capital, Member FINRA/SIPC, Tampa, FL. Certain members of Mercer Capital are Registered Representatives of the broker dealer StillPoint Capital, LLC. Mercer Capital and StillPoint Capital, LLC are not affiliated entities.

Copyright © 2022 Mercer Capital Management, Inc. All rights reserved. It is illegal under Federal law to reproduce this publication or any portion of its contents without the publisher's permission. Media quotations with source attribution are encouraged. Reporters requesting additional information or editorial comment should contact Barbara Walters Price at 901.685.2120. Mercer Capital's *Tennessee Family Law Newsletter* is published quarterly and does not constitute legal or financial consulting advice. It is offered as an information service to our clients and friends. Those interested in specific guidance for legal or accounting matters should seek competent professional advice. Inquiries to discuss specific valuation matters are welcomed. To add your name to our mailing list to receive this complimentary publication, visit our web site at www.mercercapital.com.