

MERCER CAPITAL

Middle Market Transaction Update

Summer 2024

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**MERCER
CAPITAL**

BUSINESS VALUATION &
FINANCIAL ADVISORY SERVICES

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Summer 2024 M&A Update

Middle market M&A activity remained depressed in the first quarter of 2024, although pricing multiples did show signs of improvement relative to 2023 pricing data. The slow start to 2024 was a continuation of the prior year trend - M&A activity declined precipitously in the first quarter of 2023, and total deal value and volume remained muted through the remainder of the year. While the economy has proven to be resilient, posting real GDP growth of 2.5% in 2023 (up from 2022's growth of 1.9%), and the prospect of rate cuts by the Fed looms on the horizon, there has been no real improvement in deal activity in the past four quarters. This is somewhat surprising against the backdrop of an economy performing reasonably well and the amounts of capital held by private equity funds and strategic buyers. While deal activity remained sideways in the first quarter of 2024, we believe that these factors could lead to more robust deal activity through the balance of 2024.

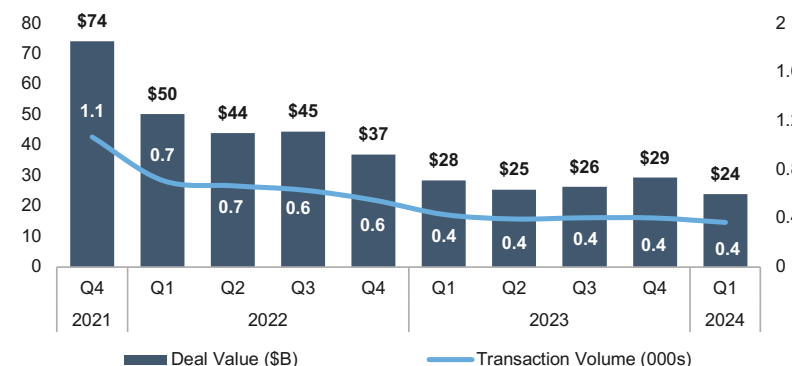
As shown in the chart on the right, overall U.S. deal activity as compiled by Capital IQ in the first quarter was little changed from the depressed levels observed in 2023. GF Data® reports that US PE middle-market activity, defined as deals with an enterprise value of less than \$1 billion, remained flat quarter-over-quarter after dipping to only 63 deals in 3Q23. The data suggests that depressed levels realized in the second and third quarters of 2023 could represent the trough in the current middle market M&A cycle.

Lower middle-market activity (defined as enterprise values of \$10 million to \$500 million) as compiled by GF Data® provides several notable observations regarding PE-backed transactions:

- Similar to the overall U.S. transaction level, lower middle market activity is depressed relative to 2022 and especially 2021, when financing costs were historically low;
- The average EBITDA multiple for all sub-groups dipped to 6.8x in the first quarter compared to 7.2x in the prior quarter and 7.6x in the first quarter of 2023;

- The average EBITDA multiple for the trailing 12 months on a rolling quarterly basis decreased to 7.0x compared to 7.2x in the prior quarter and 7.5x in the prior year;
- The average EBITDA multiple for the trailing 12 months by sub-group ranged from 6.0x for deals with an enterprise value of \$25-\$50 million to 8.3x for deals in the \$100-\$250 million range;
- The year-to-date average multiple industry ranged from 6.1x for manufacturing to 8.8x for media & telecommunications; and,
- Buyer transaction costs that are excluded from the multiples cited above add about 0.3x to all-in costs

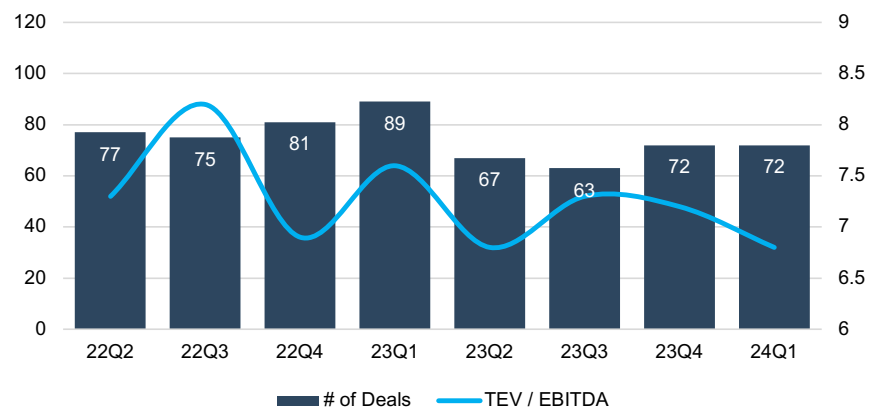
U.S. Deal Value & Volume Q4-2021 to Q1-2024



Source: Capital IQ

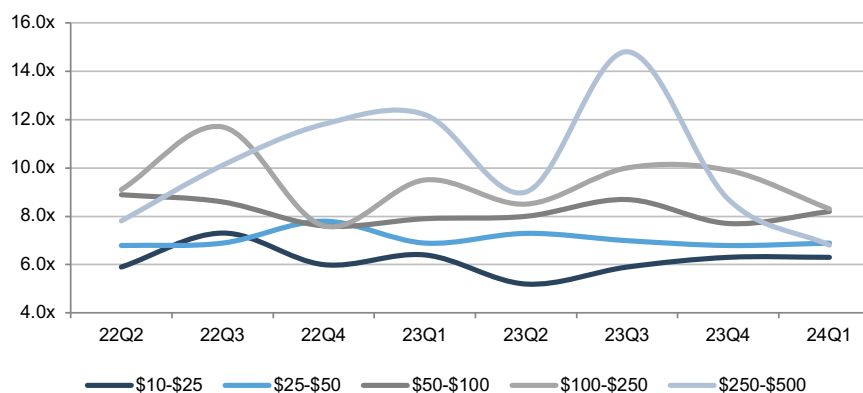
Number of Deals and Average EBITDA Multiples

Lower Middle Market Financial Buyers | Last 8 Quarters



TEV/EBITDA Multiples

Financial Buyers | Last 8 Quarters



Source: GF Data®

Deal volumes in both strategic and financial deals during the first quarter present a similar picture. The chart on the left highlights overall deal value and volume, including strategic deals. The first quarter of 2024 represents a slight downturn in deal value and consistent volume over the last four quarters. Deal value is down approximately 14% year-over-year and down 52% from first quarter 2022 metrics.

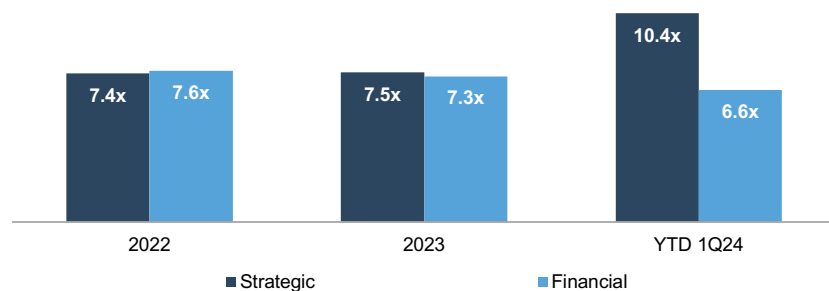
Deal activity in the middle market has remained subdued since the first quarter of 2023, and the declines in deal activity in the charts on the left point to the downturn beginning midway through 2022. Downturns in the middle market have historically lasted 18 to 24 months, pointing toward the prospect of a recovery in deal activity in the latter months of 2024. Still, several factors could make this recovery complicated, including ongoing political and interest rate uncertainty. On the other hand, PE funds continue to feel pressure either to put capital to use or return capital to investors, which could lead to a flurry of PE activity (both in exits and acquisitions) later in 2024 and into 2025.

Despite these conflicting signals, many of the underlying fundamentals within the middle market remain the same. Demand for deals continues to outpace the supply of willing sellers with strong, well-positioned businesses, extenuating the “flight-to-quality” market of the past year and a half. This has supported multiples and valuations during the current downturn. Private equity buyers remain interested in companies with strong balance sheets, cash flows, and streamlined and efficient operations and processes. As PE firms continue to sit on ample amounts of dry powder, rate cuts later in 2024 and into 2025 have the potential to become the catalyst that releases this capital at a faster rate into the middle market.

Mercer Capital has a deep bench of seasoned transaction professionals with experience in all 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.

EBITDA Multiples by Buyer Type

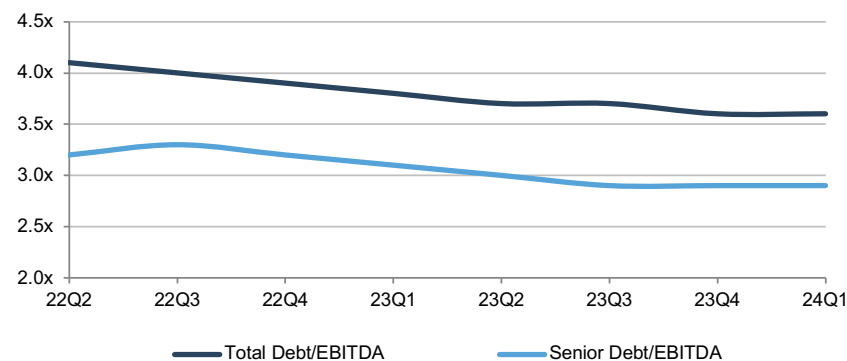
2022 to 1Q24



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

Debt Multiples

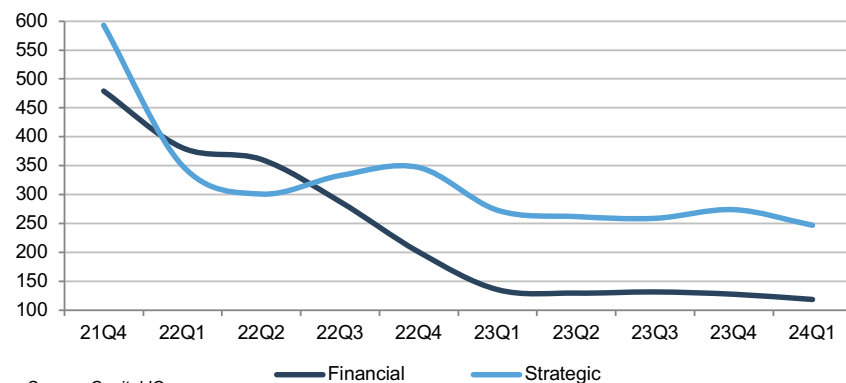
Financial Buyers | Through Q1-2024




Source: GF Data®

Number of Deals by Buyer Type

Q4-2021 to Q1-2024



Source: Capital IQ



TRANSACTION NEWS ADVISOR

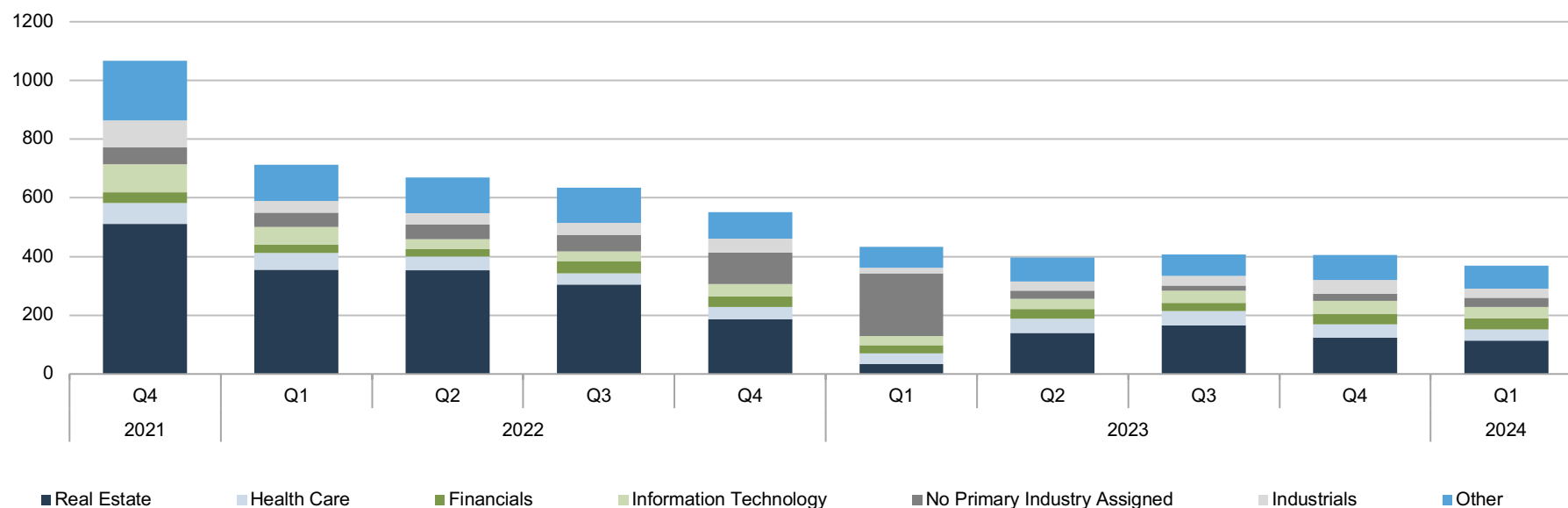
The Transaction News Advisor covers selected M&A, private equity and credit, and capital market transactions of note.

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U.S. Deal Volume by Industry

Q4-2021 to Q1-2024



Source: Capital IQ

Want to Learn More About a Quality of Earnings Analysis?

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In this whitepaper, we illustrate how buyers and sellers benefit from a quality of earnings report.

We review the most common earnings adjustments applied in QofE analyses.

We also review the role of working capital and capital expenditures as the links between EBITDA and cash flow available to buyers.



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Mercer Capital's Recent Transactions



Louisville, KY

has partnered with



Chicago, IL

Mercer Capital served as financial advisor to Aspirant

— May 2024 —

U.S. Based Manufacturer of Flow Control and Process Equipment

Mercer Capital rendered a solvency opinion for the manufacturer related to payment of a \$200 million dividend following the sale of a business unit

— June 2024 —



Specialty Construction Materials Dealer / Distributor

Mercer Capital served as financial advisor to the seller in connection with an \$81 million transaction

— May 2024 —



Olive Branch, MS

sold the majority of its assets to



Chicago, IL

Mercer Capital served as financial advisor to The Neverleak Company LP

— April 2024 —



Sioux Falls, SD

has announced its intent to acquire a bank branch in Sioux City, Iowa from



Spicer, MN

Mercer Capital served as financial advisor to Levo

— April 2024 —



Corpus Christi, Texas

has formed a partnership with



Owings Mills, Maryland

Mercer Capital served as financial advisor to Hose of South Texas

— April 2024 —



Kalamazoo, Michigan

has signed a definitive agreement to acquire



Gurnee, Illinois

Mercer Capital served as financial advisor to Advia Credit Union

— January 2024 —



ROCHESTER, NY

has acquired



Hernando, MS

Mercer Capital served as the financial advisor to North American Electric.

— January 2024 —

Mercer Capital provides investment banking, transaction advisory, and restructuring services to a broad range of public and private companies and financial institutions. >> [View All Transactions](#) <<

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

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- Squeeze-Out Transactions
- 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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