

MERCER CAPITAL

# Middle Market Transaction Update

Fall 2024

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BUSINESS VALUATION &  
FINANCIAL ADVISORY SERVICES

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## Fall 2024 M&A Update

The *tale of the tape* in middle market M&A activity in the second quarter proved similar to that of the first quarter, though reported multiples for PE deals generally improved in the second quarter. As mentioned in our [last update](#), M&A activity declined substantially in the first quarter of 2023, and total deal value and volume has remained muted since then, a trend that continued into the second quarter of 2024. The economy has shown continued resilience, posting GDP growth of 2.8% in the second quarter (up from 1.4% in the first quarter). Inflation has continued to trend toward target levels, allowing for the 50 basis point rate cut recently announced by the Fed. There has been some (albeit, minimal) improvement in deal activity in the past four quarters. Ample amounts of capital remain held by private equity funds and strategic buyers, and while deal activity remained relatively static in the second quarter 2024, many factors point to a recovery in the M&A market during late 2024 or early 2025.

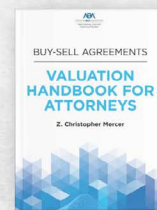
As shown in the chart on the next page, overall U.S. deal activity as compiled by Capital IQ in the second quarter was little changed from the depressed levels observed in recent periods. GF Data® reports that U.S. PE middle-market activity, defined as deals with an enterprise value of less than \$1 billion, increased 43% to 90 deals in the first and second quarters of 2024 since the low mark 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 as the number of deals has leveled out at 90 in the last two quarters, the most since early 2022.

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 remains depressed relative to 2022 and especially 2021, when financing costs were historically low;

- The average EBITDA multiple for all sub-groups increased to 7.4x in the second quarter compared to 6.9x in the prior quarter and 7.2x in the fourth quarter of 2023;
- The average EBITDA multiple for the trailing 12 months on a rolling quarterly basis increased to 7.2x compared to 7.1x in the prior quarter and 7.4x in the prior year;
- The average EBITDA multiple for the trailing 12 months by sub-group ranged from 6.6x for deals with an enterprise value of \$25-\$50 million to 9.0x for deals in the \$100-\$250 million range;
- The year-to-date average multiple by industry ranged from 6.4x for retail to 7.3x for media & telecommunications; and,
- Buyer transaction costs that are excluded from the multiples cited above add about 0.3x to all-in costs.

Deal volumes in both strategic and financial deals during the second quarter present a similar picture. The chart on the next page, highlights overall deal value and volume, including strategic deals. The second quarter of 2024 represents a modest uptick in deal value and volume over the last four quarters. Deal value remained steady quarter-over-quarter and is down 43% from second quarter 2023 metrics.



[PURCHASE](#)

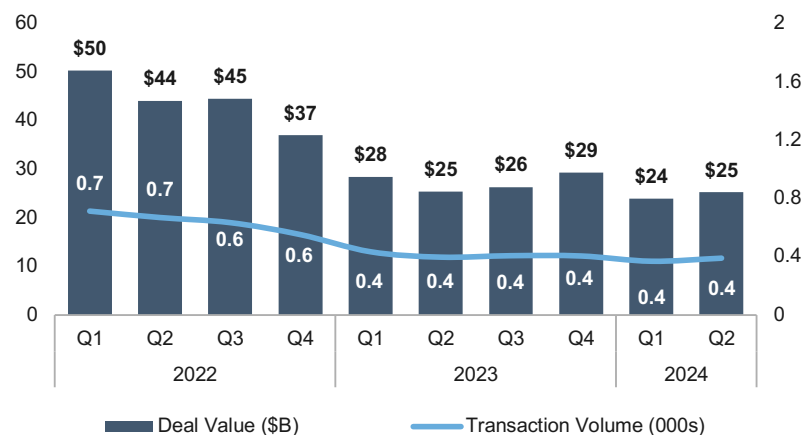
NOW AVAILABLE

### BUY-SELL AGREEMENTS: VALUATION HANDBOOK FOR ATTORNEYS

Z. CHRISTOPHER MERCER, FASA, CFA, ABAR

## U.S. Deal Value & Volume

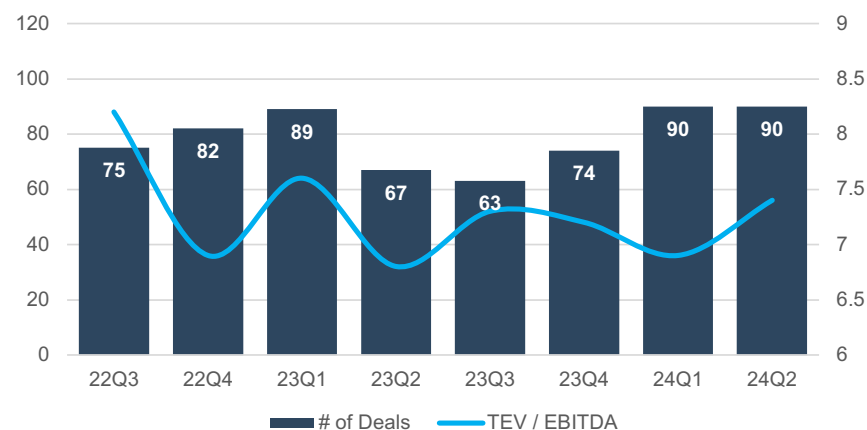
Q1-2022 to Q2-2024



Source: Capital IQ

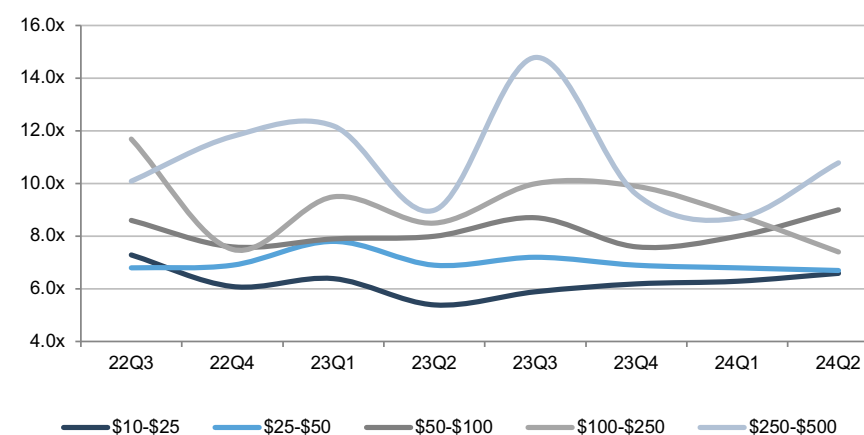
## Number of Deals and Average EBITDA Multiples

Lower Middle Market Financial Buyers | Last 8 Quarters



## TEV/EBITDA Multiples

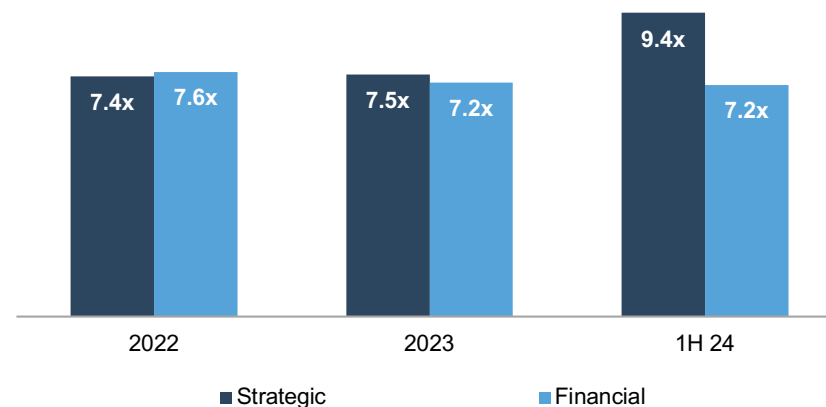
Financial Buyers | Last 8 Quarters



Source: GF Data®

## EBITDA Multiples by Buyer Type

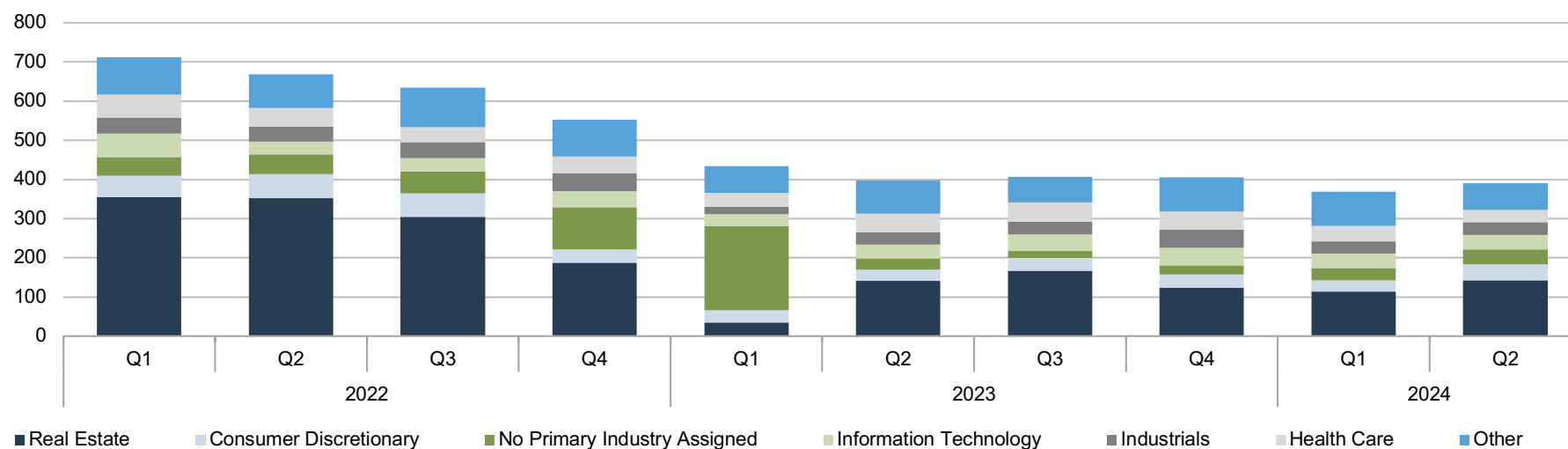
2022 to YTD 1H24



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

## U.S. Deal Volume by Industry

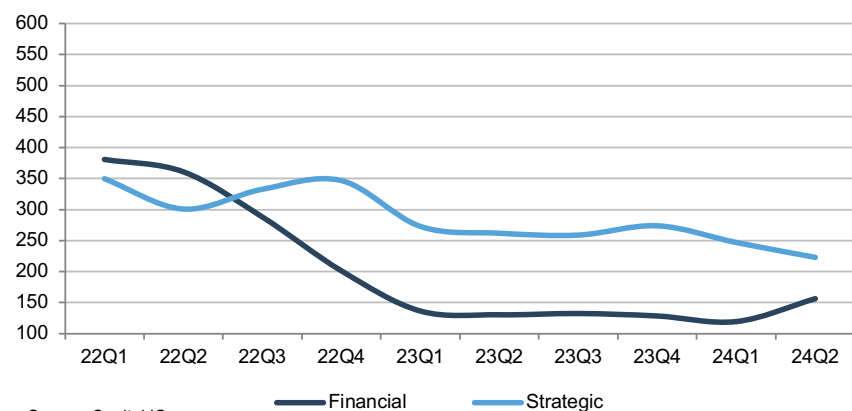
Q1-2022 to Q2-2024



Source: Capital IQ

## Number of Deals by Buyer Type

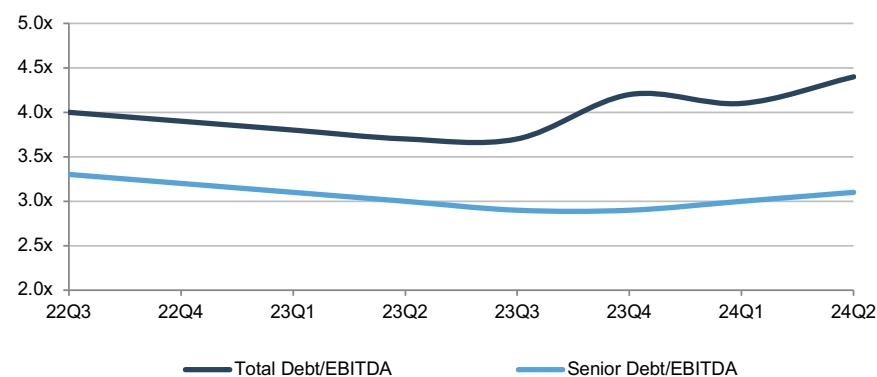
Q1-2022 to Q2-2024



Source: Capital IQ

## Debt Multiples

Financial Buyers | Last 8 Quarters



Source: GF Data®



# Three Considerations Before You Sell Your Business

As deal activity begins to bounce back to pre-2023 levels, individuals and entities will increasingly consider their strategic alternatives in the marketplace. Executing a sale transaction can be a daunting exercise for lower middle market companies — one that requires careful preparation and real-time vigilance. Below, we outline three considerations for sellers to think about before pursuing a sale process.

## 1. Value Expectations

Business owners often struggle to objectively value their companies, whether it be related to an emotional attachment to the company, hesitation to sell something the business owner has worked their whole lives on, or a litany of other reasons. However, setting realistic pricing expectations is crucial for a successful sale. Value to potential buyers (on which offer prices are predicated) is a function of three aspects of the business — its cash flows (both historic and future), its risk profile, and its prospects for sustainable growth. For sellers, it is important to enter the transaction process with clear expectations regarding value in the marketplace, which can only be gained from analyzing the business in terms of the aspects laid out above. Doing so will ensure a disciplined transaction process for sellers when the time comes to evaluate market offers.

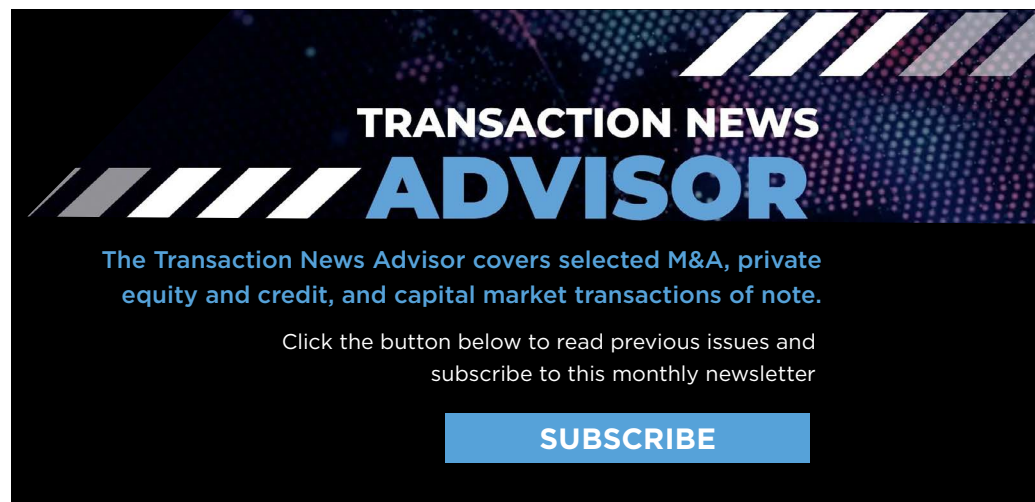
## 2. Tax Implications

When evaluating the net proceeds from a transaction, it is crucial to consider the tax implications, including distinctions between ordinary income and capital gains, asset sales versus stock sales, and issues like depreciation recapture and purchase price allocations. The type of corporate entity by which a business is organized can also significantly impact tax liability. We recommend consultation with an outside accountant or tax specialist early in the transaction process to begin to think through these issues. This is essential for understanding these complexities and potentially implementing strategies to optimize tax-related outcomes.

## 3. Reason to Exit

Sellers, like buyers, need a strategic plan for a transaction beyond receiving a financial windfall. Sellers must have a compelling reason for exiting the business, such as retirement, consolidation with a larger entity, or bringing in a financial partner for ownership transition. Selling a business involves giving up something valuable, so having a non-financial motivation is critical in navigating the complex process. Diligently planning early can help ensure a smooth and controlled sale, rather than a rushed and chaotic experience.

Since 1982, Mercer Capital has offered M&A advisory services to a diverse range of public and private companies, leveraging extensive valuation and investment banking experience to guide clients through complex transactions. While our team provides objective advice, we also advocate for our clients while navigating the competitive marketplace of private equity groups, family offices, and strategic buyers. We facilitate informed decision-making with a tailored, multi-phased approach to planning and executing transactions. For confidential consultation on your transaction-related needs, contact us today.

A dark blue banner with a subtle pattern of white dots and diagonal white stripes. The text "TRANSACTION NEWS" is in white, and "ADVISOR" is in large, bold, blue letters. Below this, a line of text in blue and white describes the newsletter's focus. At the bottom, a blue button with white text says "SUBSCRIBE".

**TRANSACTION NEWS  
ADVISOR**

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

Click the button below to read previous issues and subscribe to this monthly newsletter

**SUBSCRIBE**

# Mercer Capital's Recent Transactions



Panama City, FL


has acquired



Panama City, FL


Mercer Capital provided valuation and advisory services to Innovations

— August 2024 —



ASPIRANT  
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 —

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](#) <<

## Other Resources



WHITEPAPER

### Quality of Earnings

What Buyers and Sellers Need to Know About Quality of Earnings Reports

For buyers and sellers, the stakes in a transaction are high. You only get one chance to do it right. Commissioning a quality of earnings report is an essential step in getting the transaction right.

In this whitepaper, we illustrate how buyers and sellers benefit from a quality of earnings report that extracts a company's sustainable earning power from the thicket of historical GAAP earnings. We review the most common earnings adjustments applied in QofE analyses and review the role of working capital and capital expenditures as the links between EBITDA and cash flow available to buyers.

[DOWNLOAD PDF](#)



WHITEPAPER

### Selling Your Business

Practical Steps Business Owners Can Take to Ready Their Businesses for the Best Transaction Outcome

Selling your business is a daunting exercise that requires careful preparation and real-time vigilance. In this whitepaper, we define some practical steps business owners can take to ready their businesses for the best transaction outcome. These steps include identifying the right kind of buyer and transaction design, setting expectations for the timeline to consummate a transaction, hiring an advisor, understanding the various advisory fee structures that best suit each transaction scenario, as well as a few considerations every owner should contemplate before bringing their business to market.

[DOWNLOAD PDF](#)



WHITEPAPER

### Buy-Side Considerations

Middle-Market Companies Looking to Enter the Acquisition Market

Many observers predict that the market is ripe for an unprecedented period of M&A activity, as the aging of the current generation of senior leadership and ownership pushes many middle-market companies to seek an outright sale or some other form of liquidity. Obviously, not all companies are in this position. For those positioned for continued ownership, an acquisition strategy could be a key component of long-term growth.

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

[DOWNLOAD PDF](#)

# 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



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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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