

Mergers & Acquisitions Update: The Middle Market Q1 2020

The Mufson Howe Hunter Middle Market M&A Update is designed to provide business owners, managers, private equity investors and M&A professionals with a summary of current market trends in the U.S. Middle Market.

Mufson Howe Hunter Commentary ⁽¹⁾

The U.S. M&A market closed out Q1'20 with the outset of the COVID-19 economy. We will not determine its full-frontal effect on the M&A marketplace until we review the Q2'20 statistics, but already in Q1'20 both deal count and transaction dollar volume started a downward progression which will likely not change until the latter part of the year. That assumes the economy will be returning to some modicum of normal commerce by that point. For the quarter ending March 31, 2020, deal dollar volume was off 69% YoY and 52% when compared to Q4'19. Total deal count was down 13% YoY in Q1'20, with deals of \$1 billion and greater in TEV dropping 34%. Valuations for the U.S. M&A marketplace as a whole averaged a 10.6x EBITDA multiple, down slightly from 10.8x a year ago in Q1'19. For Private Equity Sponsors, EBITDA valuations rose in Q1'20 to 12.9x, up slightly from the Q1'19 multiple of 11.5x. Average overall leverage used in PE Sponsor transactions in Q1'20 decreased to 46%, down from 52% in Q4'19. We would expect leverage in PE-backed transactions to remain on the conservative end of the historical range (i.e., 45% to 50%) as credit underwriting and overall risk is priced into this economy. Furthermore, we will likely see overall deal valuations soften particularly for companies in industries (e.g., leisure, hospitality and retail) with higher levels of exposure to commercial restrictions due to COVID-19. In the Lower Middle Market (LMM), defined as TEV below \$250 million, Q1'20 deal count was off by 19% YoY and 18% compared to the previous quarter. Within the LMM in Q1'20, deals with \$15-\$25 million in EBITDA saw an average valuation of 10.6x down from 11.1x in Q4'19, deals with \$10-\$15 million in EBITDA priced at 12.0x up from 10.9x in Q4'19, deals with \$5-\$10 million in EBITDA priced at 8.4x down from 11.4x in Q4'19 and deals below \$5 million in EBITDA priced at 8.4x down from 9.1x in Q4'19.

For the remainder of the year, we expect deals with strong fundamentals, particularly with limited exposure to those economic sectors affected by COVID-19, to maintain healthy valuations given their coveted nature among buyers and the liquidity in the marketplace. However, we do anticipate a meaningful drop in deal count and associated dollar volumes coupled with softening of valuations as the stay-at-home COVID-19 economy fights its way back to "normal" in the coming months. The markets in the U.S. have Private Equity Sponsors sitting with roughly \$750 billion in dry powder to be invested in the U.S. economy, and although a portion will certainly be used to bolster balance sheets of existing portfolio companies, most of the dry powder will be ear-marked for new investment platforms and add-on acquisitions. When you fold into the mix the lending capacity of the commercial bank funding and the \$176 billion in Debt Funds, there should be sufficient liquidity to keep a low flame of activity over the next few quarters.

Size Range	U.S. Announced M&A Transactions ⁽²⁾					
	2016	2017	2018	2019	YTD Mar-19	YTD Mar-20
\$0-25mm	7.3x	7.3x	7.6x	7.4x	7.1x	7.3x
\$25-50mm	8.2x	9.2x	8.1x	7.3x	5.8x	7.1x
\$50-100mm	8.5x	9.0x	8.9x	8.4x	4.1x	9.9x
\$100-250mm	8.5x	9.0x	9.6x	10.3x	12.2x	10.1x

⁽¹⁾ Source: CapitalIQ and PitchBook

⁽²⁾ Source: CapitalIQ

We hope you find our report valuable, and we welcome any comments or suggestions.

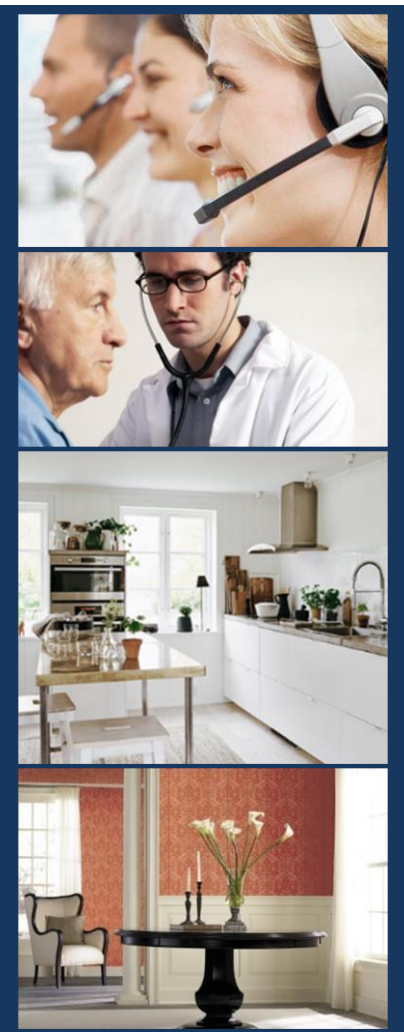
Regards,



Michael J. Mufson
Managing Director

Mufson Howe Hunter & Company LLC is a middle-market focused investment bank providing M&A, capital raising and financial advisory services.

Broker/Dealer services offered through a wholly owned subsidiary Mufson Howe Hunter & Partners LLC, Member SIPC | FINRA



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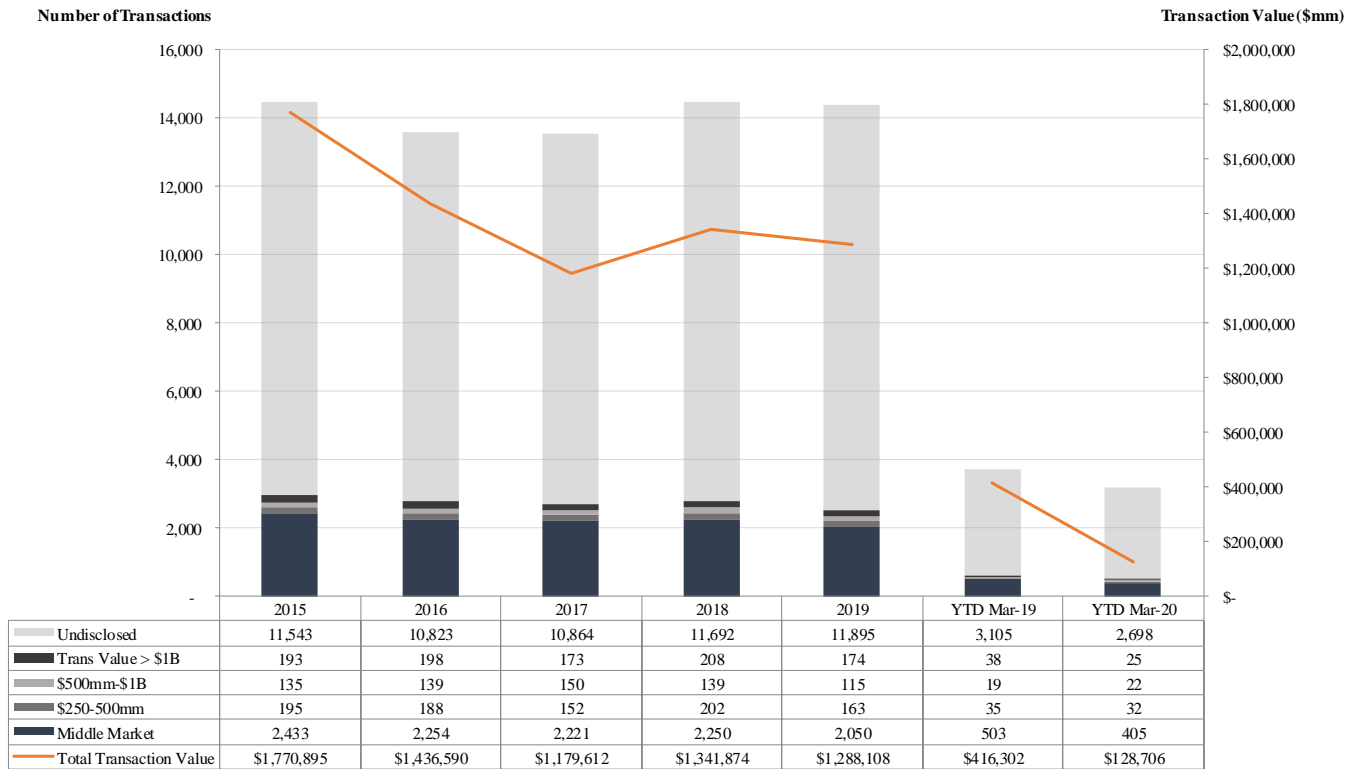
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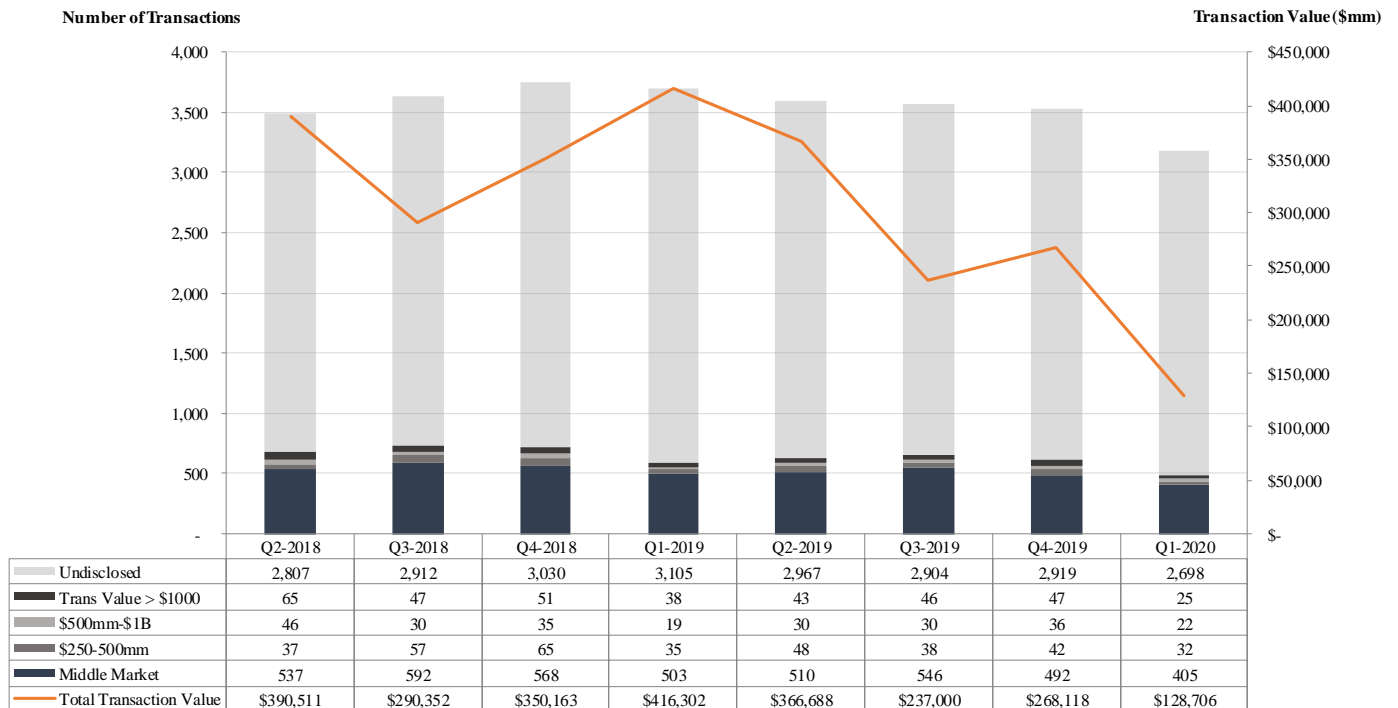
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U.S. - All Reported M&A Activity



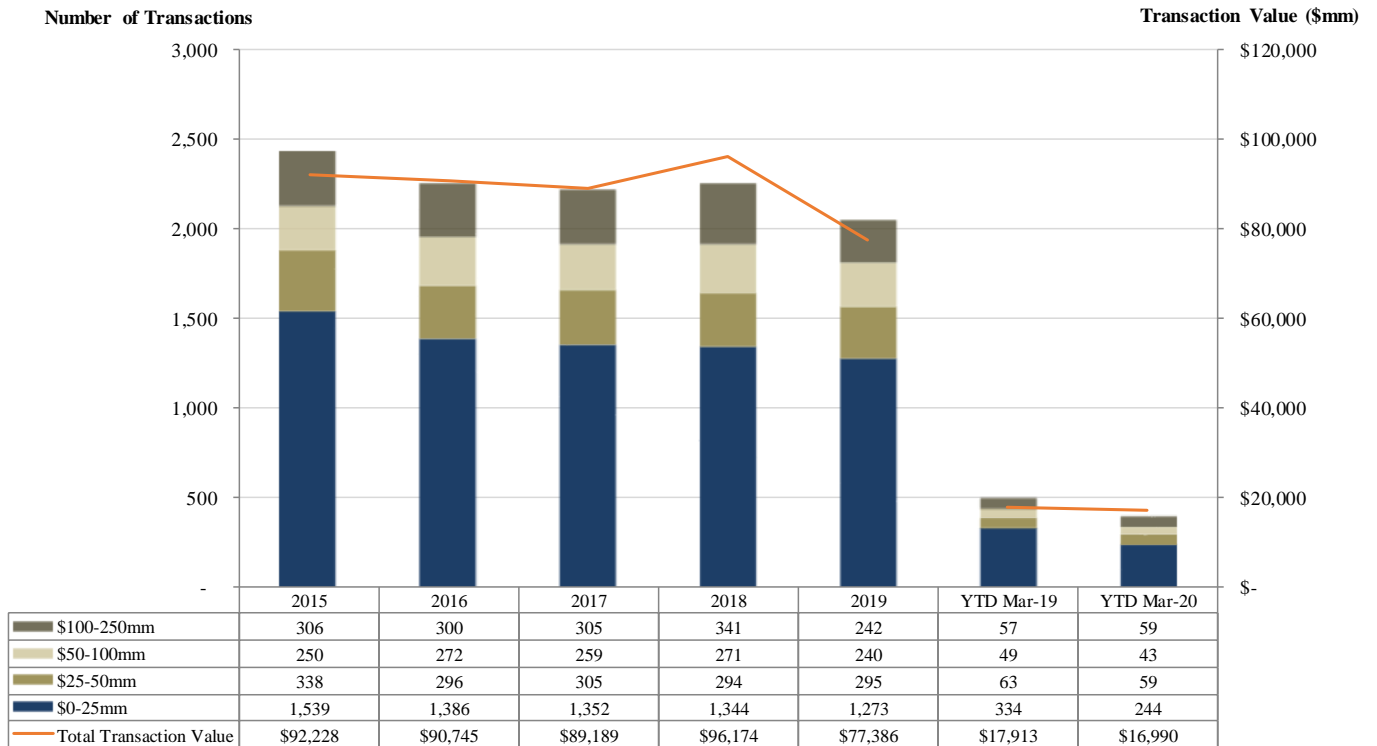
Note: Publicly disclosed M&A transactions
Source: CapitalIQ, Mufson Howe Hunter

U.S. - All Reported M&A Activity



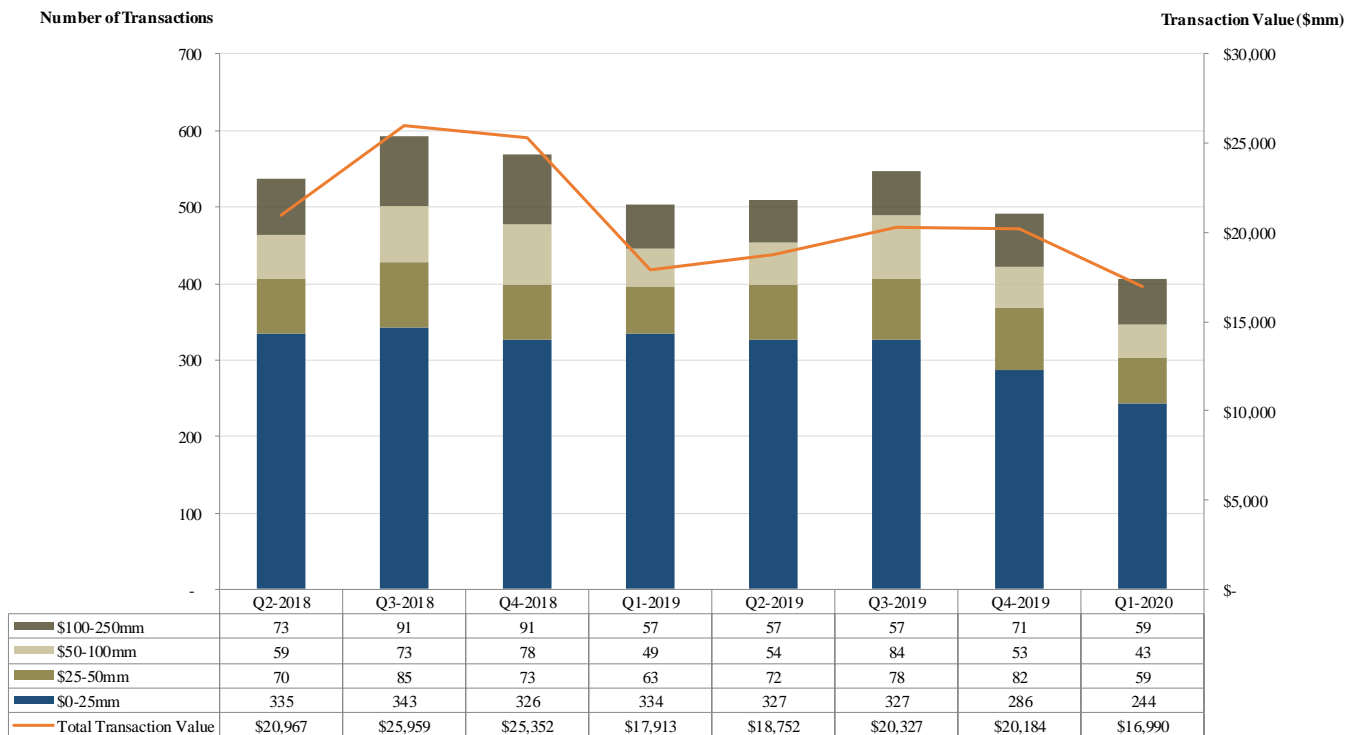
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Source: CapitalIQ, Mufson Howe Hunter

U.S. Lower Middle Market M&A Activity - Transactions Below \$250 million



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Source: CapitalIQ, Mufson Howe Hunter

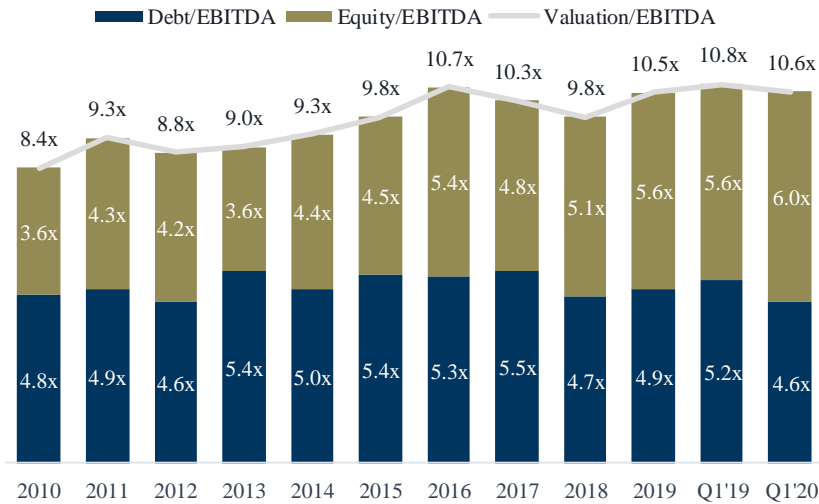
U.S. Lower Middle Market M&A Activity - Transactions Below \$250 million



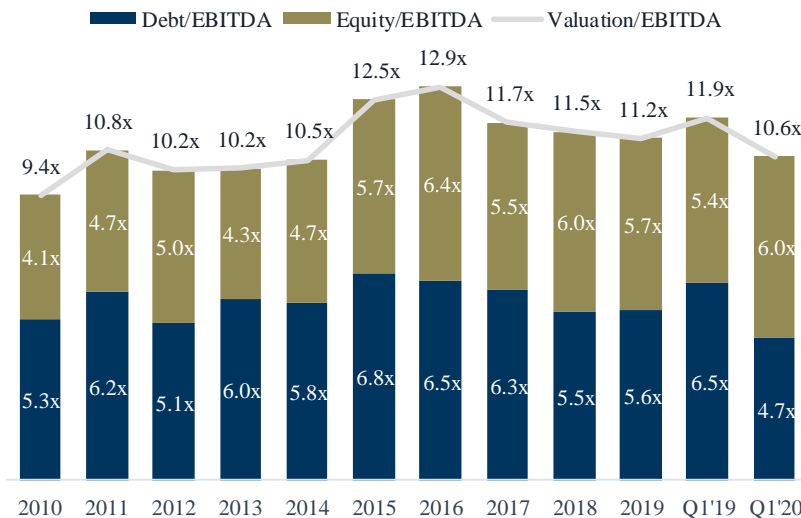
Note: Publicly disclosed M&A transactions
Source: CapitalIQ, Mufson Howe Hunter

U.S. M&A Valuation Multiples Breakdown by Deal Size Buckets

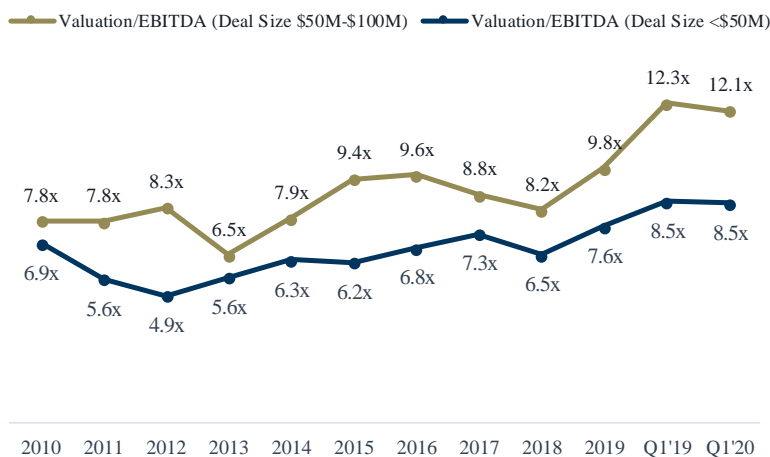
All U.S. M&A Transactions



U.S. M&A Transactions (Deal Size \$100M-\$250M)



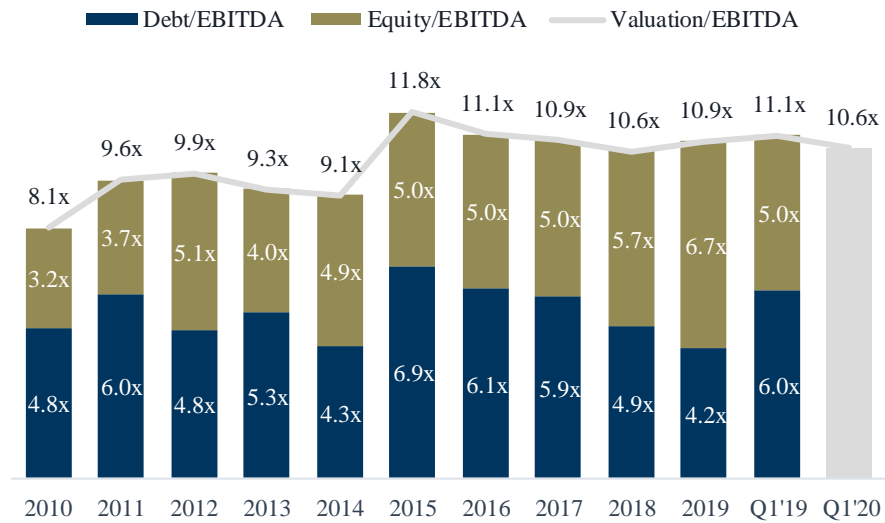
U.S. M&A Transactions (Deal Size < \$100M)



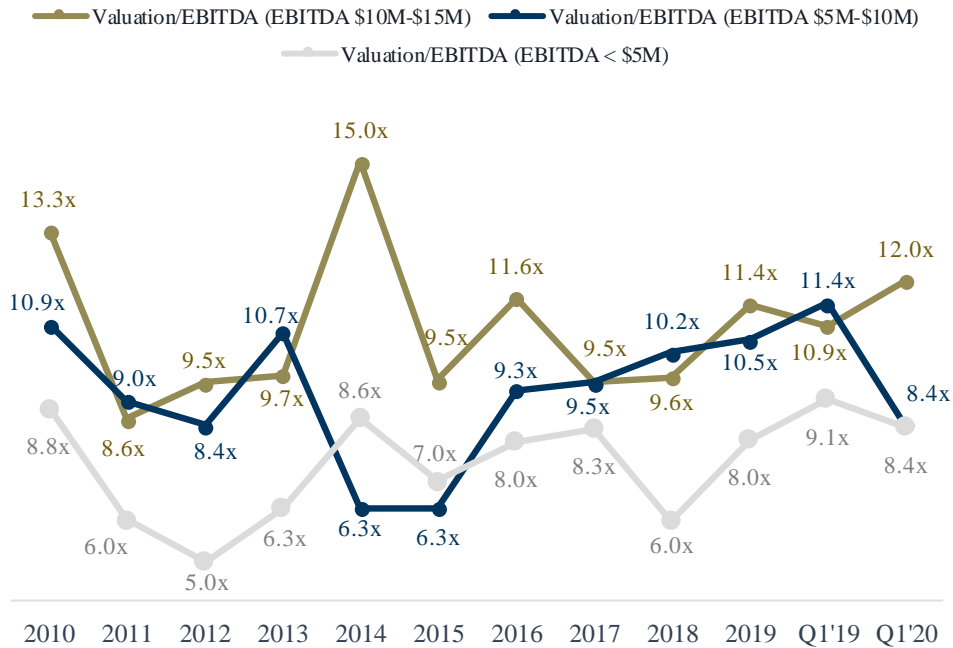
Source: PitchBook

U.S. M&A Valuation Multiples Breakdown by EBITDA Size Buckets

U.S. M&A Transactions (EBITDA \$15M-25M)



U.S. M&A Transactions (EBITDA < \$15M)

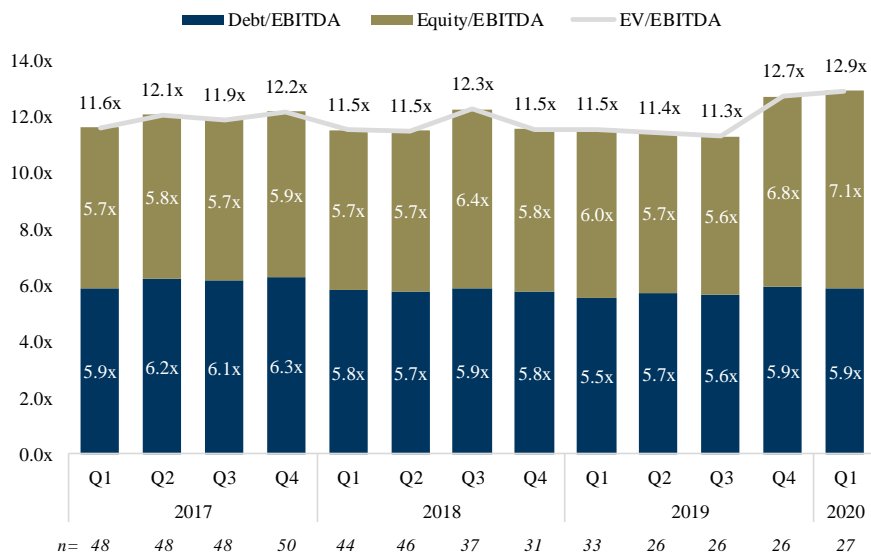


Source: PitchBook

Private Equity and Strategic M&A Valuation Multiples

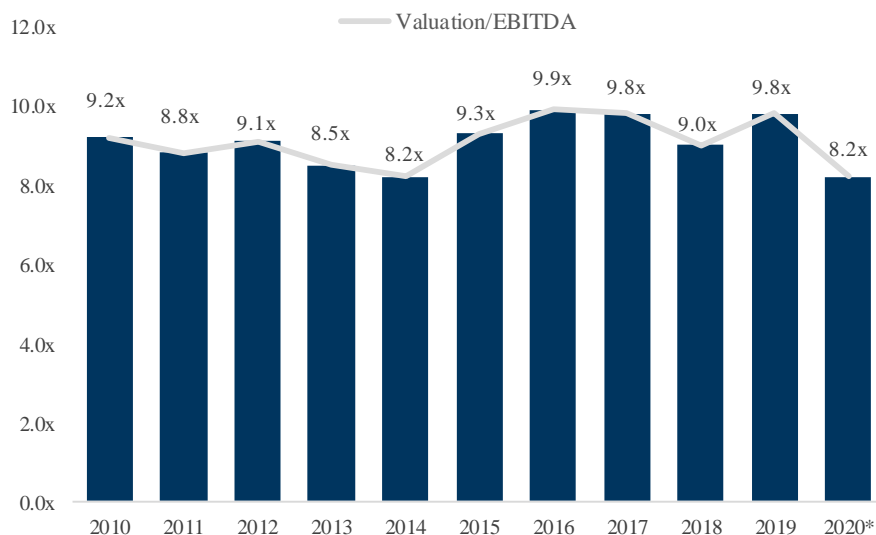
U.S. Middle Market PE Buyout M&A Median Valuation Multiples

Middle Market, as defined by PitchBook, includes transactions valued at \$25 million up to \$1 billion. The following chart depicts certain key elements of Middle Market Private Equity M&A activity through March 31, 2020.



Source: PitchBook

North American Strategic M&A Median Valuation Multiples



Source: PitchBook

*As of March 31, 2020

Mufson Howe Hunter is an independent investment bank for middle-market companies. We focus on selling businesses, recapitalizations, buy-outs, acquisitions and raising capital. Unique to the middle market, our senior bankers have extensive corporate finance experience and deep knowledge of the capital markets.

Mergers & Acquisitions

- Advise buyers and sellers (public and private companies)
- Sale of businesses, strategic acquisitions, recapitalizations, management buy-outs and industry build-ups
- Specific background in representing closely-held and family-owned businesses

Raise Capital

- Equity (control and non-control)
- Mezzanine financing
- Senior and junior debt
- Typically raise debt & equity capital from commercial banks, finance companies, investment funds and private equity sponsors

Financial Advisory Services

- Analysis of business strategies and options
- Fairness opinions
- Complex Valuations




UNIFIED DOOR & HARDWARE GROUP

Unified Door & Hardware Group has Completed a recapitalization with

DUNES POINT CAPITAL


Mufson Howe Hunter & Company LLC initiated this Transaction and acted as exclusive financial advisor to Unified Door & Hardware Group

Mufson Howe Hunter
Investment Bankers for Growth




TROVE™
PREDICTIVE DATA SCIENCE

TROVE Predictive Data Science Inc. has been acquired by



E Source

a portfolio company of



ALIGN CAPITAL PARTNERS


Mufson Howe Hunter & Company LLC initiated this Transaction and acted as exclusive financial advisor to TROVE Predictive Data Science Inc.

Mufson Howe Hunter
Investment Bankers for Growth




Picasso
by doc-tor.com

Doc-tor.com Holdings LLC has been acquired by



HARRIS HEALTHCARE

a division of



CONSTELLATION SOFTWARE INC.

Mufson Howe Hunter & Company LLC initiated this Transaction and acted as exclusive financial advisor to Doc-tor.com Holdings LLC

Mufson Howe Hunter
Investment Bankers for Growth

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