

Mergers & Acquisitions Update: The Middle Market Q3 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⁾

In Q3 2020, with COVID-19 precautions in full force and its pervasive touch points causing havoc on our economy, one would intuitively assume the M&A market would be hitting the pause button. With the dire circumstances of many of our fellow citizens struggling with COVID unemployment and the strains placed upon many sectors of the economy and certain businesses reeling from double digit revenue declines, the M&A markets appear to be nonplused. Transaction volumes from Q2 to Q3 for lower middle market transactions (defined as EV value below \$250 million) is up 34% reflecting the back-to-normal attitude for both strategic buyers and PE sponsors. Credit markets settled in and with record cash slogging around the economy, M&A valuations increased in the current period. The M&A markets, like we've seen in the U.S. stock market, is in some alternative universe to what's around us, but is one of a "have and have not" selection. Businesses in hospitality, travel, brick & mortar retail, food service to retail restaurants chains and institutional food service, among others, have been out of favor – but the roll out of COVID vaccines in the coming quarters will certainly change investors/buyer sentiment. We will likely see private investors begin looking at these opportunities with increased interest.

When we drill down into the various M&A size statistics, transactions below \$25 million in EV increased to 7.6x EBITDA, up from 7.1x in the same period a year ago, transactions priced between \$25-\$50 million decreased to 6.4x, slightly down from 6.6x in 2019, transactions priced between \$50-\$100 million increased to 9.5x up from 7.8x in 2019, transactions priced between \$100-\$250 million fell to 10.0x from 10.7x in 2019, transactions priced between \$250-\$500 million increased to 10.0x versus 9.3x in the same period 2019, and transactions priced between \$500 million-\$1 billion increased to 9.7x up from 9.0x for the first 9 months. Interestingly, private equity purchase values dropped from an all-time high 15.2x in Q2 to 12.9x in Q3 – likely a reaction to certain uncertainty in the economy, slightly lower leverage multiples and companies in the market attempting to take advantage of COVID revenue and earnings bumps which are discounted by PE shops as to its sustainability.

Finally, in our Q3 edition, we have added M&A Credit/Leverage statistics to our "Mergers & Acquisitions Update - The Middle Markets" with the assistance of SPP Capital Partners (www.sppcapital.com). The credit markets for middle market deals are "open for business" in Q3. Leverage underwriting in the middle market credit markets experienced reduced multiples of ~0.25x-1.0x, causing sellers to increase equity rollover percentages and buyers to fund with greater equity contribution as discussed above.

Size Range	U.S. Announced M&A Transactions ⁽²⁾					
	2016	2017	2018	2019	YTD Sep-19	YTD Sep-20
\$0-25mm	7.3x	7.3x	7.6x	7.4x	7.1x	7.6x
\$25-50mm	8.2x	9.2x	8.1x	7.3x	6.6x	6.4x
\$50-100mm	8.5x	9.0x	8.9x	8.4x	7.8x	9.5x
\$100-250mm	8.5x	9.0x	9.6x	10.3x	10.7x	10.0x
\$250-500mm	10.2x	10.1x	9.6x	9.7x	9.3x	10.0x
\$500mm-\$1B	9.1x	11.4x	9.6x	9.6x	9.0x	9.7x

⁽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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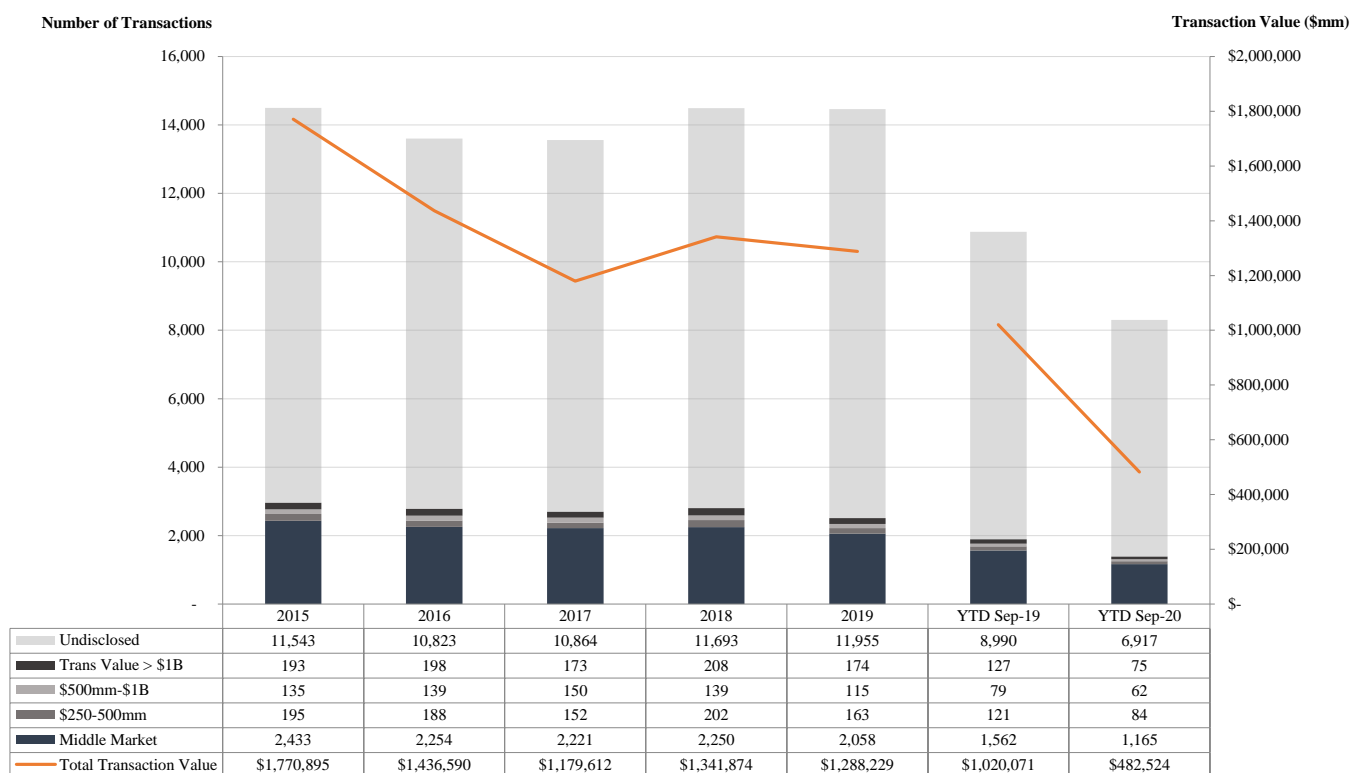
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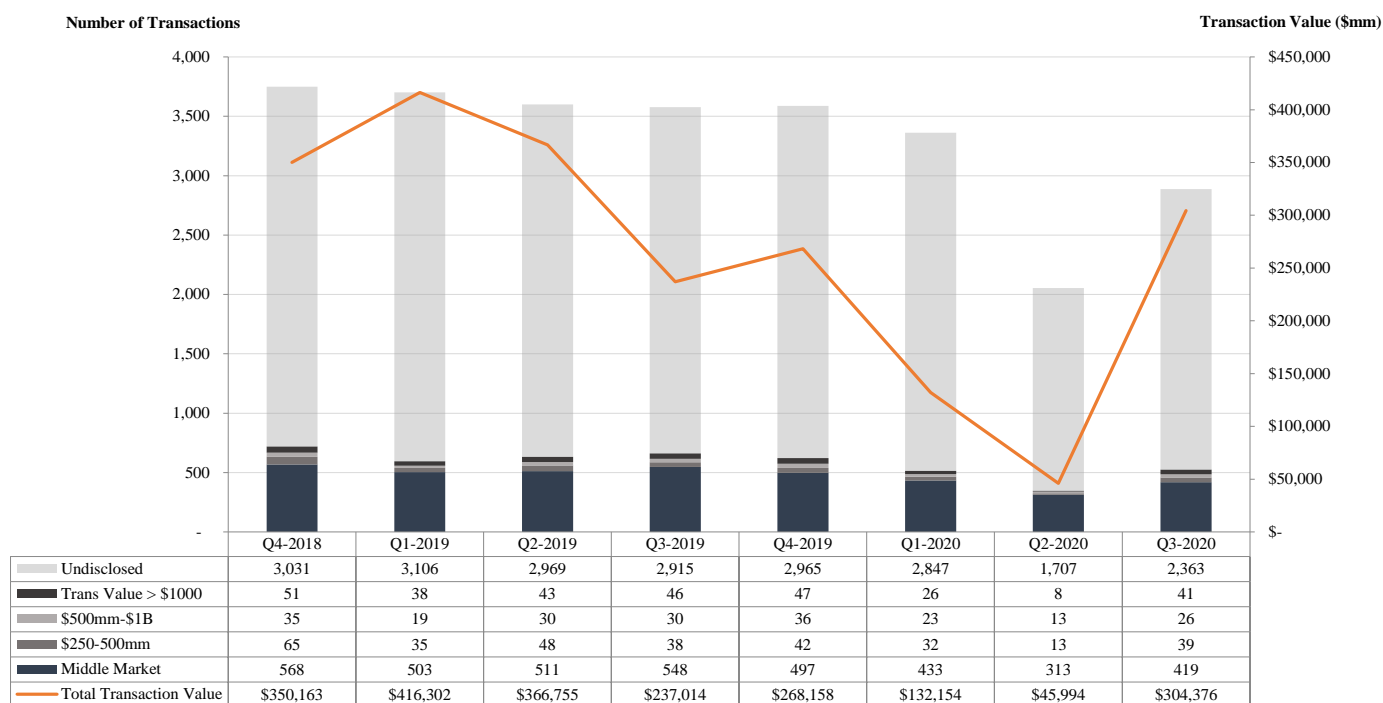
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U.S. - All Reported M&A Activity



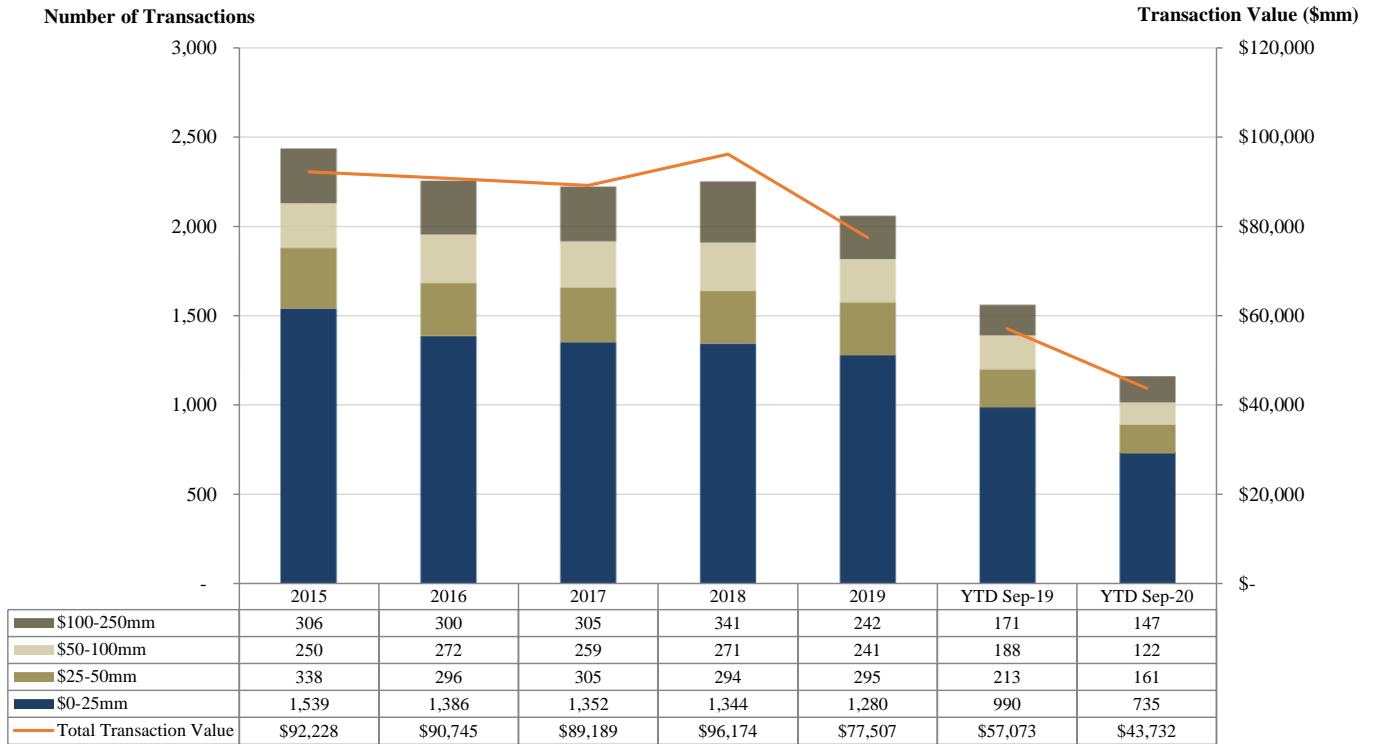
Note: Publicly disclosed M&A transactions
Source: CapitalIQ, Mufson Howe Hunter

U.S. - All Reported M&A Activity



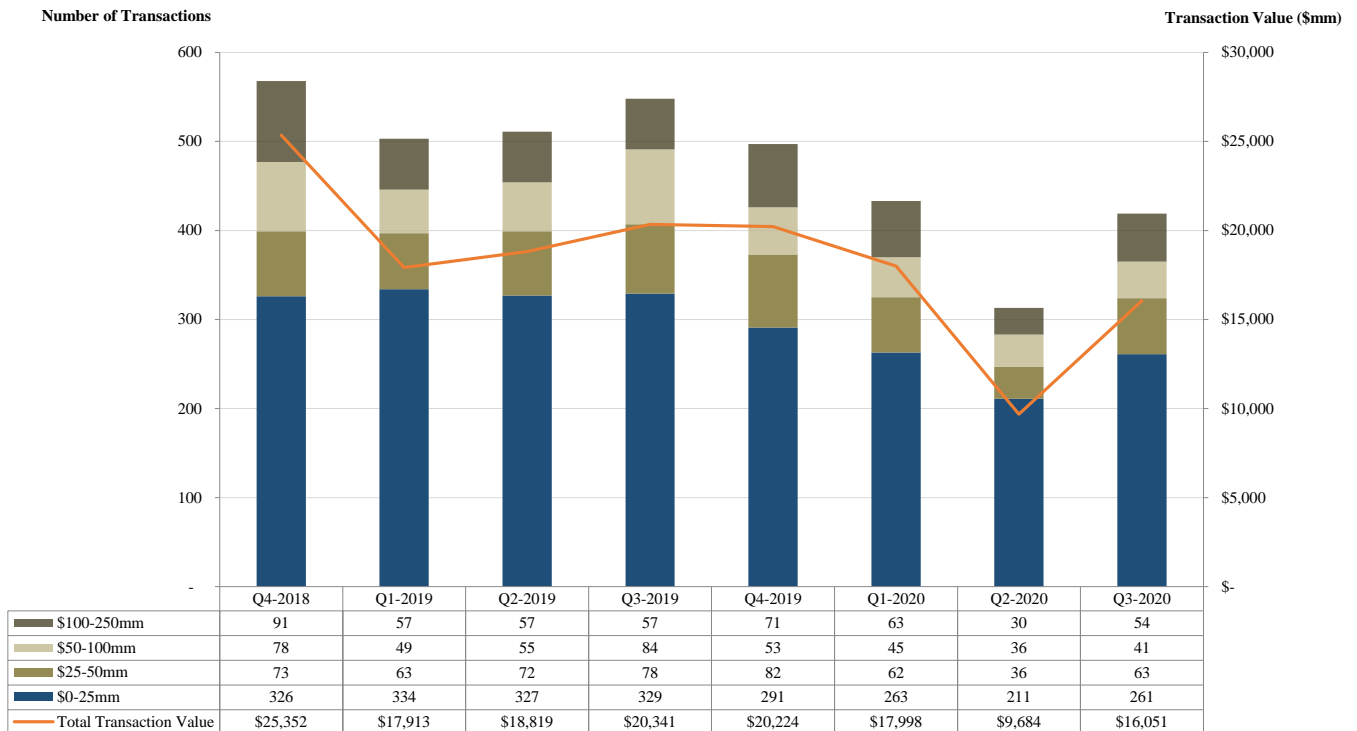
Note: Publicly disclosed M&A transactions
Source: CapitalIQ, Mufson Howe Hunter

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



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

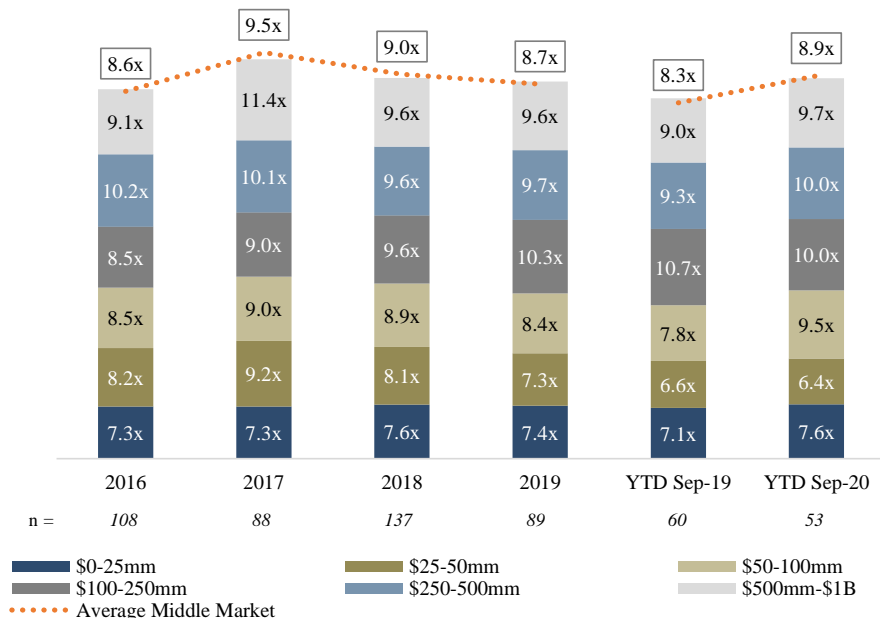
U.S. Lower Middle Market M&A Activity - Transactions Below \$250 million



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

U.S. Middle Market Valuation Multiples and Activity

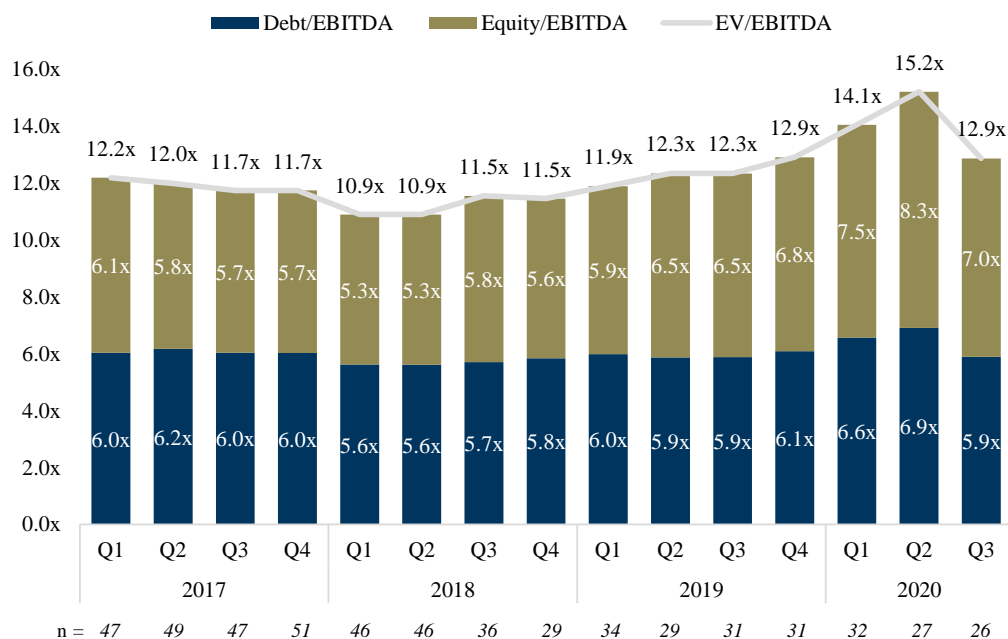
All U.S. Middle Market M&A Transactions Valuation Multiples



Source: Capital IQ
*As of Sept 30, 2020

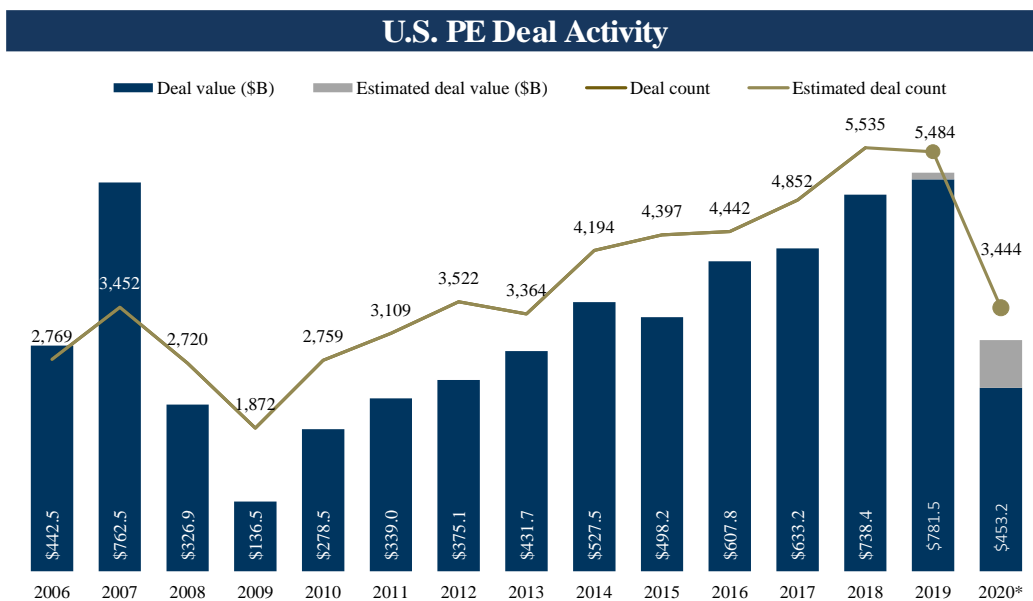
U.S. Middle Market PE Buyout M&A Median Valuation Multiples

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 September 30, 2020.

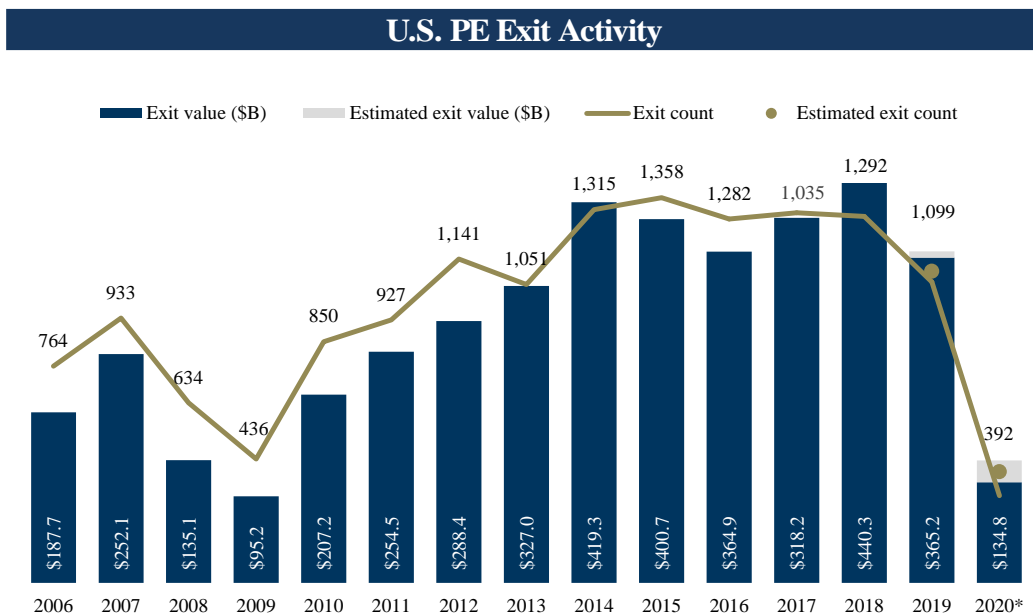


Source: PitchBook
*As of Sept 30, 2020

U.S. Middle Market PE Activity



Source: PitchBook
*As of Sept 30, 2020



Source: PitchBook
*As of Sept 30, 2020

Leverage Market at a Glance

By SPP Capital Partners

	Cash Flow Senior Debt/EBITDA		
	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
November 2020	1.50x - 2.25x	2.50x - 3.25x	2.75x - 4.00x
October 2020	1.50x - 2.25x	2.50x - 3.25x	2.75x - 4.00x
November 2019	1.50x - 2.50x	2.50x - 3.50x	3.00x - 4.50x
Commentary:	<i>No change in November to any Pricing or Leverage Metrics</i>		

	Total Debt/EBITDA		
	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
November 2020	2.50x - 3.25x	3.50x - 4.50x	4.00x - 5.25x
October 2020	2.50x - 3.25x	3.50x - 4.50x	4.00x - 5.25x
November 2019	2.75x - 3.75x	4.00x - 5.00x	4.50x - 6.00x
Commentary:	<i>No change in November to any Pricing or Leverage Metrics</i>		

	Senior Cash Flow Pricing		
	Bank	Non-Bank < \$7.5MM EBITDA	Non-Bank > \$15MM EBITDA
November 2020	L+ 3.25% - 4.25%	L+ 6.50% - 8.00%	L+ 5.50% - 7.50%
October 2020	L+ 3.25% - 4.25%	L+ 6.50% - 8.00%	L+ 5.50% - 7.50%
November 2019	L+ 3.00% - 4.50%	L+ 6.00% - 7.00%	L+ 4.00% - 5.50%
Commentary:	<i>No change in November to any Pricing or Leverage Metrics</i>		

	Second Lien Pricing		
	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
November 2020	L+ 9.00% - 10.50%	L+ 7.00% - 8.50%	L+ 6.50% - 7.50%
October 2020	L+ 9.00% - 10.50%	L+ 7.00% - 8.50%	L+ 6.50% - 7.50%
November 2019	L+ 7.50% - 10.00%	L+ 6.50% - 8.00%	L+ 5.00% - 6.50%
Commentary:	<i>No change in November to any Pricing or Leverage Metrics</i>		

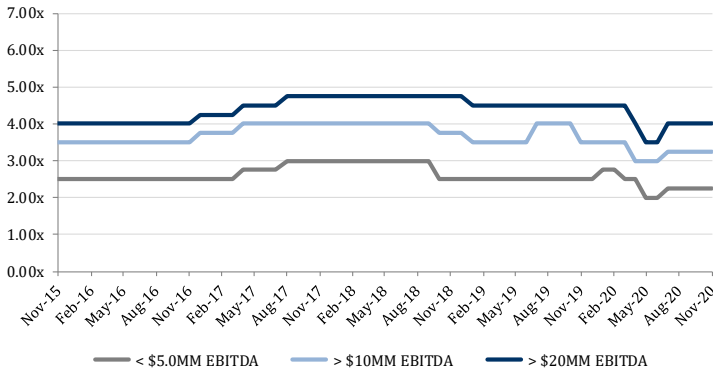
	Sub Debt Pricing (Total Coupon: Cash + PIK)		
	< \$5.0MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
November 2020	13.00% - 14.50%	11.00% - 12.50%	10.50% - 11.50%
October 2020	13.00% - 14.50%	11.00% - 12.50%	10.50% - 11.50%
November 2019	12.00% - 14.00%	10.00% - 12.00%	8.50% - 11.00%
Commentary:	<i>No change in November to any Pricing or Leverage Metrics</i>		

	Unitranche Pricing		
	< \$5MM EBITDA	> \$10MM EBITDA	> \$20MM EBITDA
November 2020	L+ 9.00% - 10.50%	L+ 7.00% - 8.50%	L+ 6.50% - 7.50%
October 2020	L+ 9.00% - 10.50%	L+ 7.00% - 8.50%	L+ 6.50% - 7.50%
November 2019	L+ 7.00% - 10.00%	L+ 6.50% - 8.00%	L+ 5.00% - 6.50%
Commentary:	<i>No change in November to any Pricing or Leverage Metrics</i>		

Source: SPP Capital Partners - "Capital Market Update November 2020"
<http://sppcapital.com>

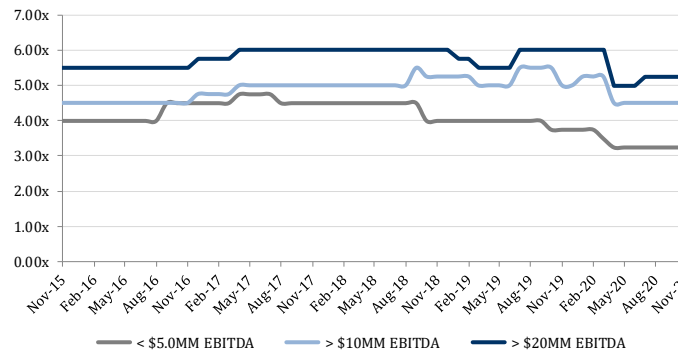
Historical Leverage Metrics by SPP Capital Partners

Historical Senior Debt Cash Flow Limit (x EBITDA)



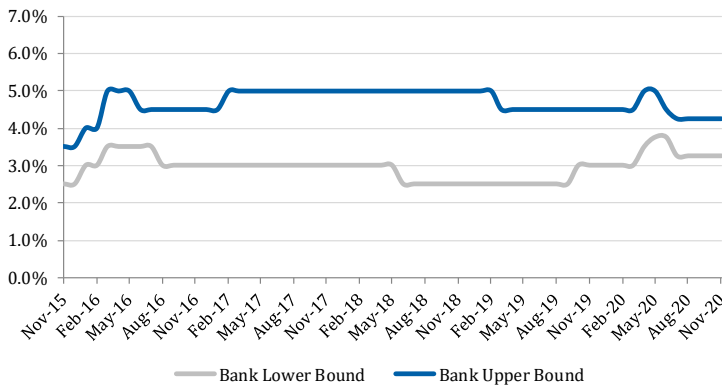
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

Historical Total Debt Limit (x EBITDA)



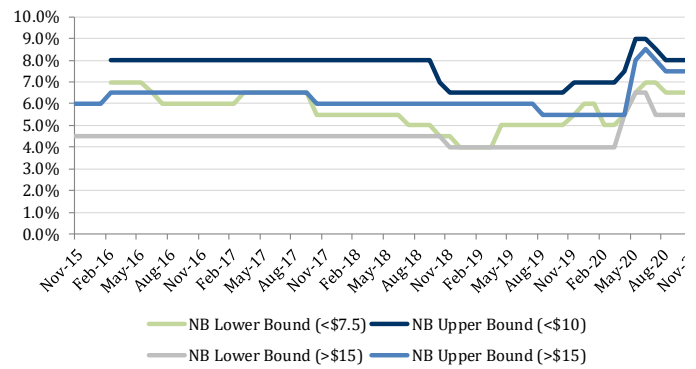
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

Historical Senior Cash Flow Pricing (Bank)



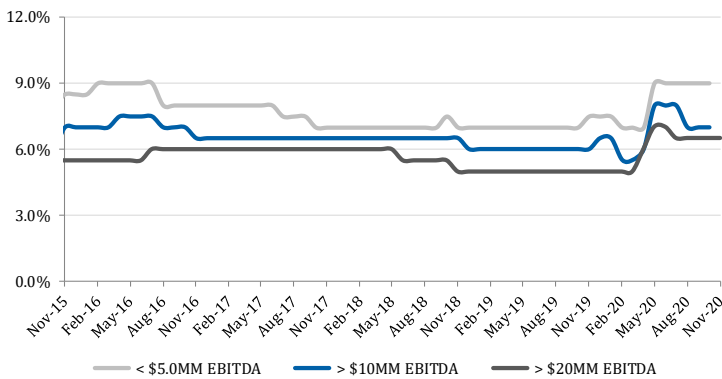
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

Historical Senior Cash Flow Pricing (Non-Bank)



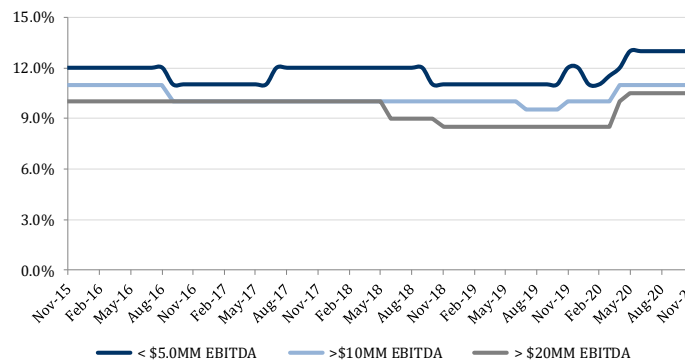
Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

Historical Second Lien Pricing



Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

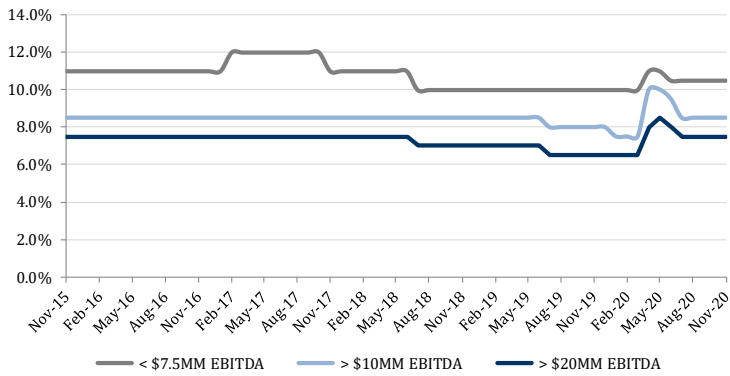
Historical Subordinated Debt Pricing



Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

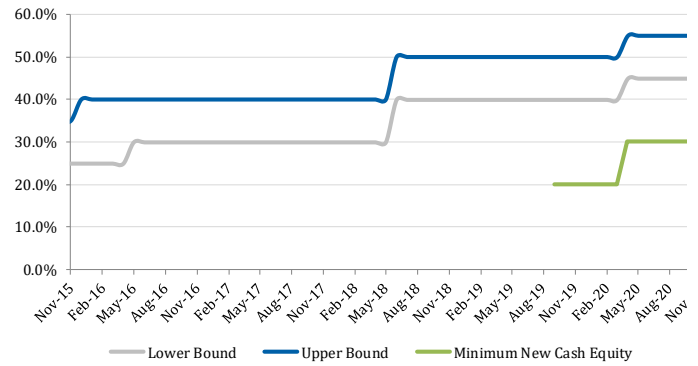
Historical Leverage Metrics (cont'd) by SPP Capital Partners

Historical Unitranche Pricing



Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

Historical Minimum Equity Contribution



Source: SPP's "MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE"

Source: SPP Capital Partners - "Capital Market Update November 2020"
<http://sppcapital.com>

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

July 1, 2020	September 24, 2020	November 13, 2020
 <p><i>has been acquired via management buyout with capital provided by</i></p>  <p><i>The undersigned served as the exclusive financial advisor to Futura Mobility LLC</i></p> <p>Mufson Howe Hunter INVESTMENT BANKERS FOR GROWTH</p>	 <p><i>Has raised a Series A financing from investor groups led by</i></p>  <p><i>The undersigned served as the exclusive financial advisor to daring foods, Inc.</i></p> <p>Mufson Howe Hunter INVESTMENT BANKERS FOR GROWTH</p>	 <p><i>Has acquired</i></p>  <p><i>and has completed a debt recapitalization</i></p> <p><i>The undersigned served as the exclusive financial advisor to daring foods, Inc.</i></p> <p>Mufson Howe Hunter INVESTMENT BANKERS FOR GROWTH</p>

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