

Mergers & Acquisitions Update: The Middle Market Year End Preview

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

The U.S. merger and acquisition marketplace for 2018 showed its first downtick in purchase price valuation since 2010. Valuations in 2018 still averaged a healthy 9.9x EBITDA but were down almost half a turn from the 2017 average of 10.3x. In the past eight years, average valuation multiples have increased almost two turns from peak to trough, from 8.4x to 10.3x. Debt leverage as a percentage of total consideration was up slightly at 56% vs. 53% in 2017. Many buyers, despite the plethora of debt available and historically high levels of cash on corporate balance sheets and “dry powder” available to PE sponsors, demonstrated significant pricing discipline. This is most common among buyers in industry sectors where cyclicity and consumer confidence sentiments are highly relevant to business plans. These buyers have been showing restraint with respect to leverage levels and consequently discounting purchase multiples.

Deal count and overall valuations in the lower end of the middle market (i.e., transactions below \$250 million in enterprise value) also declined in 2018. Transaction volume below \$250 million in EV was down 28% year-over-year and EBITDA multiples averaged 7.9x in 2018 vs. 8.7x in 2017. Leverage as a percentage of total consideration was 50%, roughly equal to that of 2017.

For transactions with EV below \$100 million, average EBITDA multiples were 6.6x in 2018 vs 7.3x in 2017 with total leverage equal to 50% of total consideration. Transactions below \$50 million in EV averaged 6.5x EBITDA vs. 7.3x in 2017 with total leverage equal to 50% of total consideration.

In summary, when analyzing transactions announced through December 15, 2018, the data is supporting what many deal participants have experienced in the M&A environment - the market has been slightly softer in pricing as of late. Leverage multiples are roughly constant at 50% of EV and buyers have been a bit more cautious. Going into 2019, valuation multiples and pricing overall will be highly dependent on buyer confidence on the economy. If public market valuations continue to trend downward and the economy behaves accordingly, we are on track to exit our ~ten year bull run and subsequently strategic and PE buyers will continue to pull back on pricing. However, this statement will be tempered by the historical liquidity in corporations and remaining dry powder in PE funds. Generally speaking, dry powder needs to be deployed consistently into new targets and add-ons for portfolio companies and will act as a safety net to some extent in pricing methodologies. As a result, we would expect lower valuations overall and industries particularly affected will be those downstream from the more cyclical sectors.

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

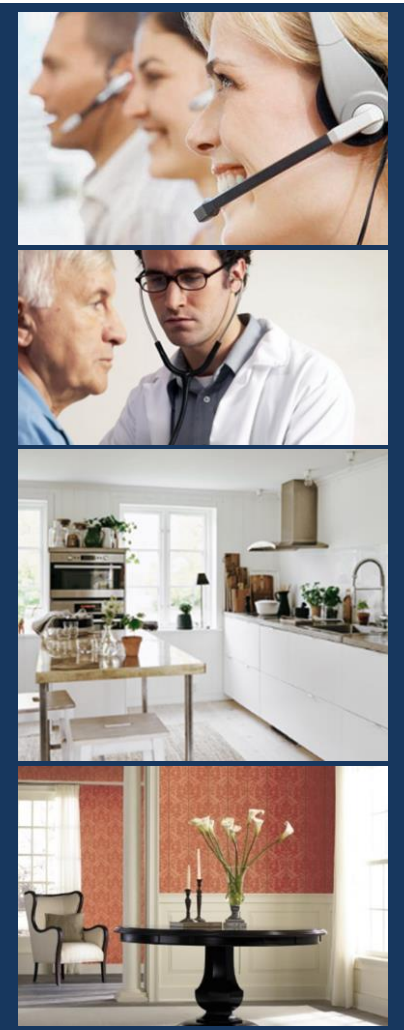
Regards,



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.

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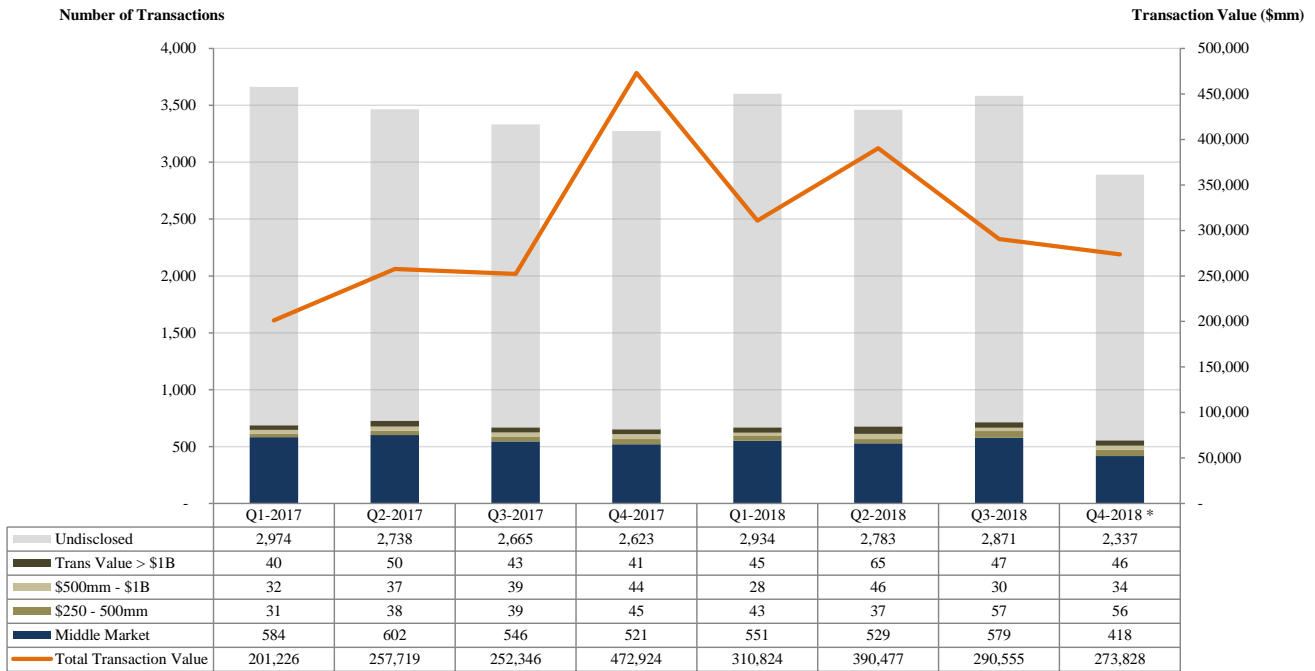
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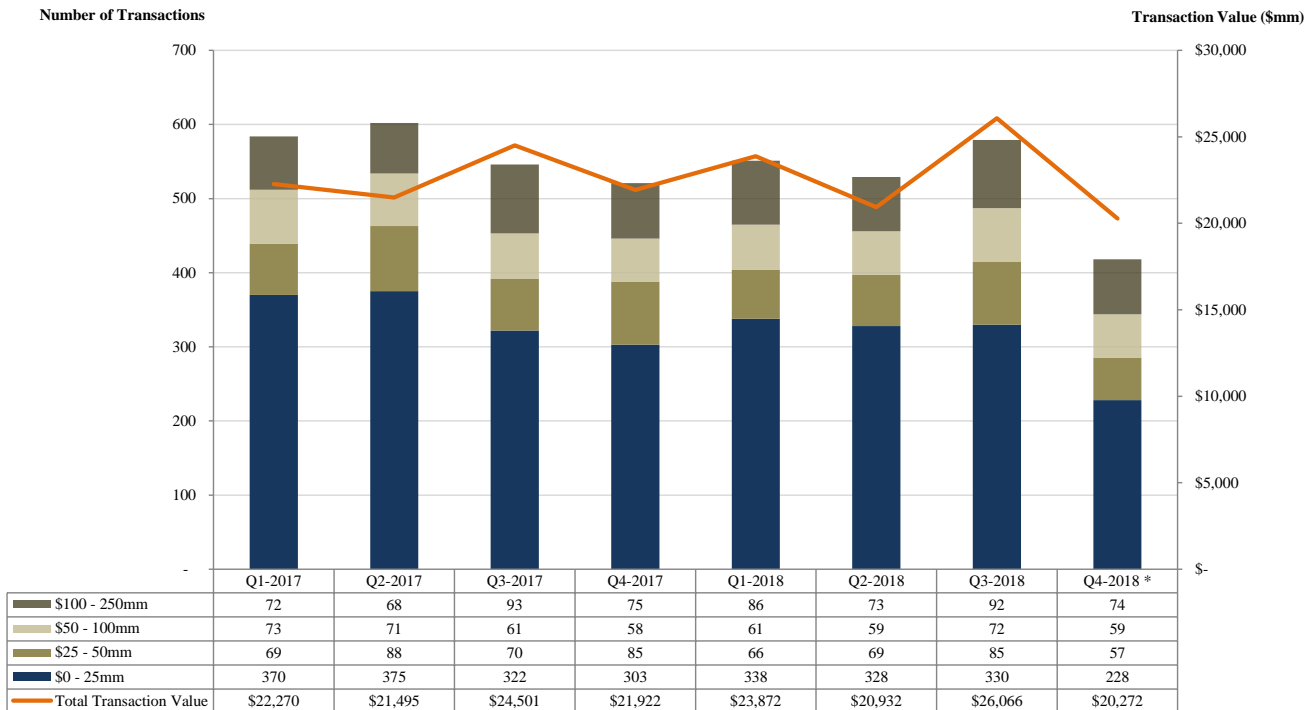
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U.S. - All Reported M&A Activity



Note: Publicly disclosed M&A transactions
 Source: CapitalIQ
 * Represents announced transactions through Dec. 15, 2018.

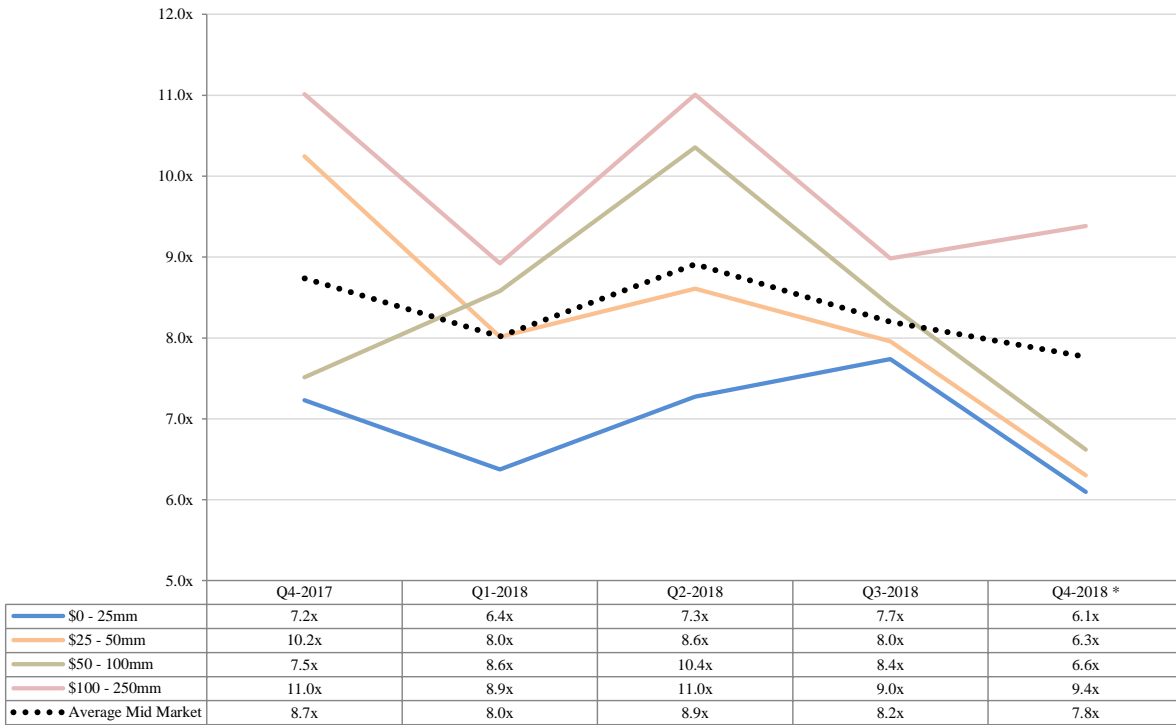
U.S. Lower Middle Market M&A Activity - Transactions Below \$250 million



Note: Publicly disclosed M&A transactions; Source: CapitalIQ, Mufson Howe Hunter
 * Represents announced transactions through Dec. 15, 2018.

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

EV/EBITDA Valuation

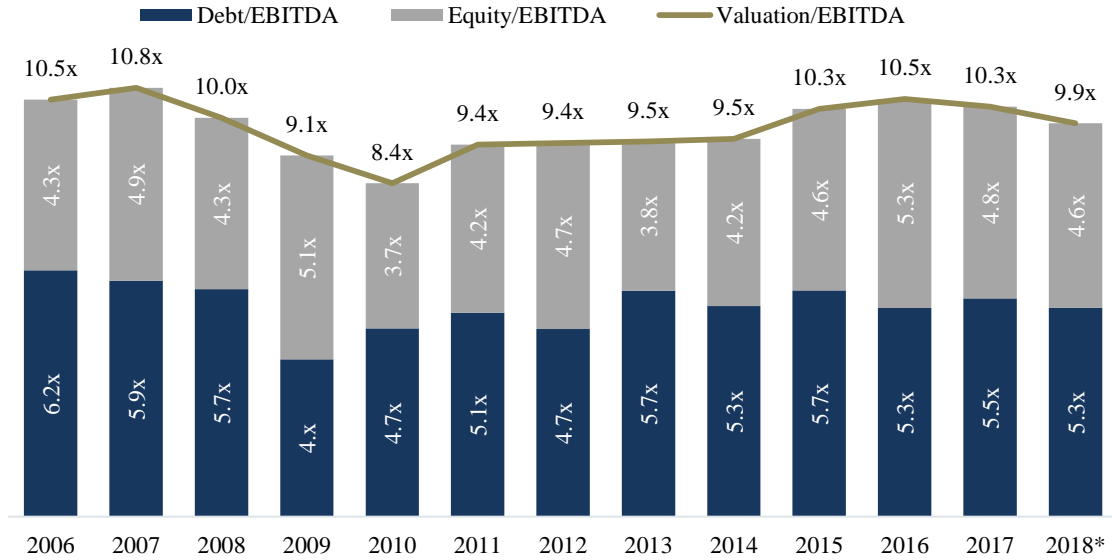


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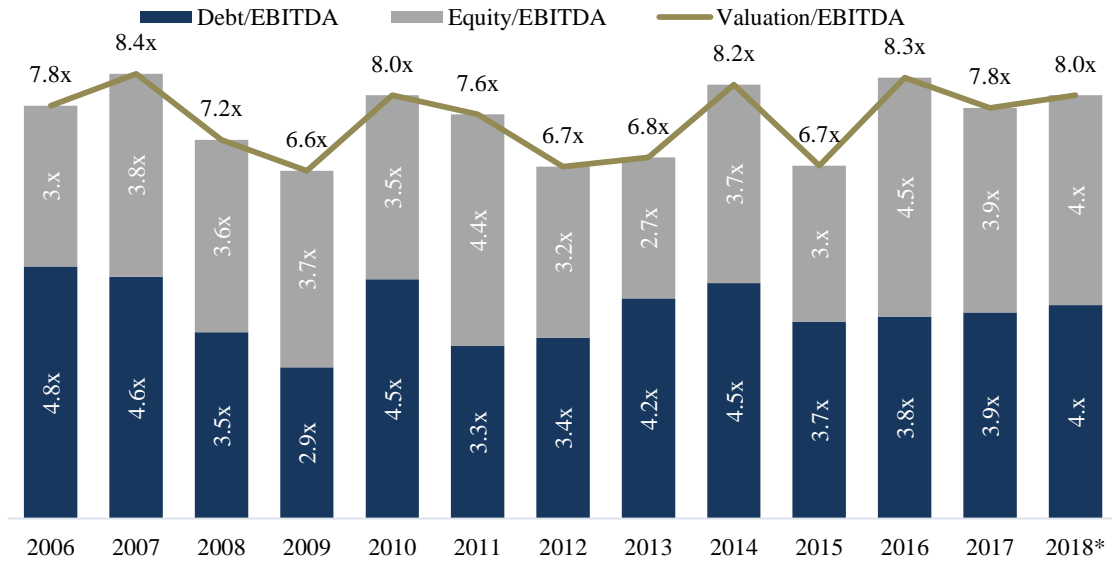
Mergers & Acquisitions Update

Middle Market, as defined by Pitchbook, includes transactions valued at \$25 million up to \$1 billion. The following graphs and charts depict certain key elements of Middle Market M&A activity through December 15, 2018.

U.S. M&A Multiples (All Transaction Sizes)



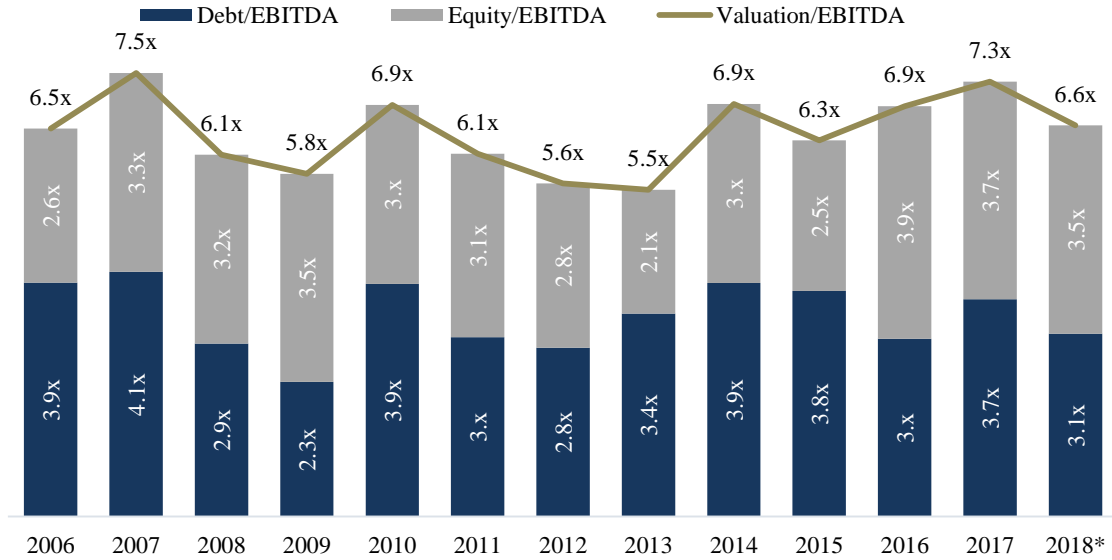
U.S. M&A Multiples (Enterprise Value < \$250)



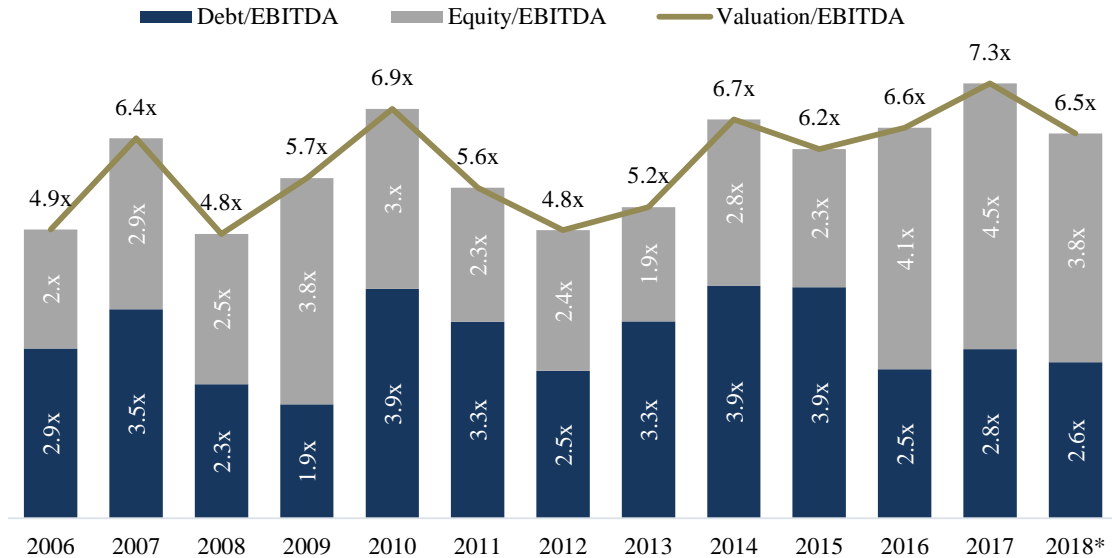
Source: PitchBook

* Results through December 15, 2018.

U.S. M&A Multiples (Enterprise Value < \$100)



U.S. M&A Multiples (Enterprise Value < \$50)



Source: PitchBook

* Results through December 15, 2018.

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

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