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ADVISORY TAX AUDIT

Q1 2024

M&A UPDATE
MIDDLE MARKET M&A AND LEVERAGE OVERVIEW

Withum is a forward-thinking, technology-driven advisory and accounting firm helping clients thrive in the new normal of business through remote, secure, collaborative and productive business solutions.

Withum Investment Banking is a full-service investment bank working exclusively with family and founder-owned middle market companies.

WE ARE AN INDEPENDENT MEMBER OF THE GLOBAL ADVISORY AND ACCOUNTING NETWORK

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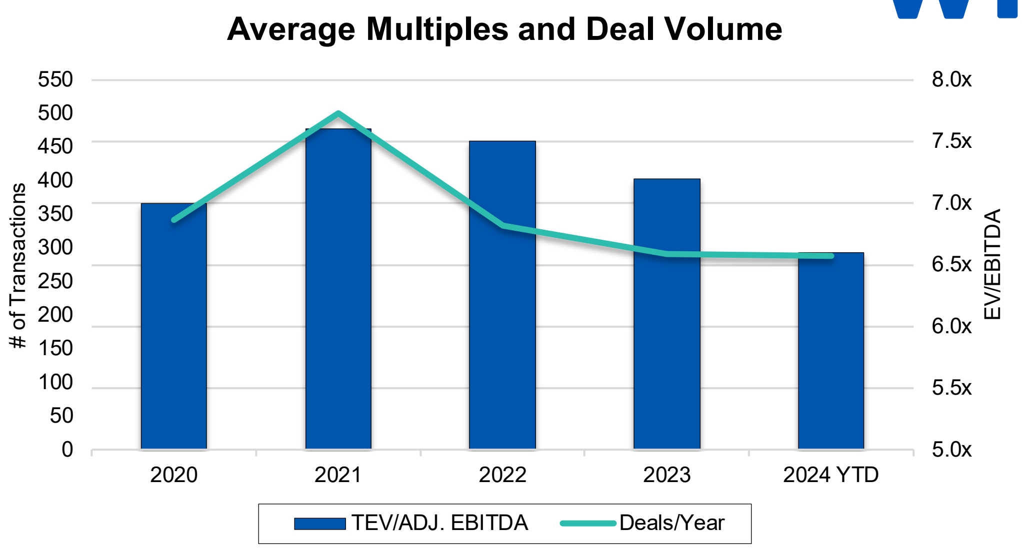
WITHUM INVESTMENT OVERVIEW

Middle Market M&A

Broad recovery remains elusive. Stage set for improved activity.



- The last two quarters saw a resurgence and stabilization of activity compared to the first nine months of 2023. While still 30% to 40% off the 2021-2022 pace, it's beginning to feel like Q3 2023 was the floor.
- Average valuations on completed deals dropped to just 6.6x Trailing Twelve Months (TTM) adjusted EBITDA. This is down more than a half-turn of EBITDA from the 7.2x average from the fourth quarter. The drop was even more notable for buyout transactions in the first quarter having average valuations of 6.5x compared to an average valuation for buyouts of 7.2x for all of 2023.
- The increased activity in the first quarter, along with the dampened valuations, sets the stage for continued improvement in deal volume for the upcoming quarters. Average valuations dropped across a variety of transaction sizes. Large transactions, those over $100 million, saw the greatest erosion, well over one and a half turns of EBITDA. Transactions under $100 million fared relatively well. Both the $10 to $25 million and $50 to $100 million size segments posted modest increases while only the $25 to $50 million segment saw further drops.
- The combination of increased activity and drop in valuation can be attributable to a backlog of deals with less-than-ideal fundamentals. With the lower-end of the market deal multiples leveling off after dropping in early 2023, we believe the storm may have passed. We suspect that several factors have contributed to the current state of deal making. Lower borrowing costs have played a significant role, with spreads compressing notably since the end of the previous year. The public markets have also had a 'halo effect', positively influencing the private sector. Finally, the return of value bridging mechanisms, such as earnouts and seller equity rollovers, have provided a solid platform for deal making.

Source: GF Data, PitchBook, SPP Capital

Broad recovery remains elusive. Stage set for improved activity.

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Total Enterprise Value (TEV)/EBITDA: Across all Industries								
TEV	**2003-2019**	**2020**	**2021**	**2022**	**2023**	**YTD 2024**	**Total**	**N =**
10-25	5.8	5.9	6.1	6.4	6.0	6.3	5.9	1,951
25-50	6.5	6.7	7.2	7.0	7.0	6.0	6.7	1,507
50-100	7.5	8.0	8.3	8.5	8.0	8.2	7.7	1,037
100-250	8.2	8.7	9.3	9.1	9.6	8.3	8.5	577
250-500	9.0	10.4	10.9	10.1	10.7	6.8	9.9	78
Total	**6.6**	**7.0**	**7.6**	**7.5**	**7.2**	**6.6**	**6.8**	
N =	3,611	342	501	333	291	72		5,150

Please note that N for 2003-19 encompasses 17 years of activity

Source: GF Data

TEV/EBITDA — By Industry Category								
Industry	**2003-2019**	**2020**	**2021**	**2022**	**2023**	**YTD 2024**	**Total**	**N =**
Manufacturing	6.2	6.7	7.1	7.3	6.5	6.1	6.4	2,040
Business Services	6.7	7.1	7.3	7.4	7.2	6.9	6.9	1,146
Health Care Services	7.4	7.6	8.1	8.4	9.0	6.4	7.6	455
Retail	7.0	6.5	8.3	8.0	6.0	6.4	7.1	143
Distribution	6.6	7.5	7.2	7.2	7.1	7.1	6.8	549
Media & Telecom	7.6	8.3	7.0	9.1	7.8	8.8	7.7	77
Technology	8.5	7.6	10.3	8.1	10.2	7.2	8.6	179
Other	6.3	6.2	7.3	6.7	6.9	7.2	6.4	483
N =								5,072

Please note that N for 2003-19 encompasses 17 years of activity

Source: GF Data

Quality Premium--Buyouts Only							
	2003-2019	**2020**	**2021**	**2022**	**2023**	**YTD 2024**	**Total**
Above Average Financials	6.8	7.7	8.2	7.9	8.2	7.0	7.2
Other Buyouts	6.2	6.2	6.4	6.5	6.4	6.2	6.2
Premium / (Discount)	110%	124%	127%	122%	128%	112%	115%
Incidence	55%	55%	63%	66%	47%	38%	56%

Please note that N for 2003-19 encompasses 17 years of activity

Source: GF Data

- Corporate buyers are leading the recovery. Add-on investments represented a high percentage of total deals completed in the first quarter. Add-ons made up 43% of deals according to GF Data compared to 34% for all of 2022. Some of the increased activity is likely linked to challenges in the debt market, with more sponsors focusing on utilizing existing debt facilities to bulk up their platform investments versus taking out new debt at higher rates.

- Private equity is holding back a broader recovery. PE to PE activity has historically been a robust source of deal flow but has weakened significantly in the past few years. PE firms are bringing their most attractive assets to market and holding on to the rest as average holding periods hit all time highs.

- The first quarter also saw a significant decline in both incidence and valuations for Above-Average Financial Performers (AAFP), a category that has traditionally gotten better valuations from the market. The premium for AAFP companies slid last quarter by more than a turn of EBITDA, reaching 7.0x compared to an average of 8.2x for all last year.

- The crosscurrents of seller behavior, market dynamics and financing conditions will continue to shape the middle market deal landscape. Understanding these underlying forces is crucial when navigating the evolving market.

Middle Market Leverage – Commercial banks return, ramping up competition for high-quality issuers, driving spreads down.

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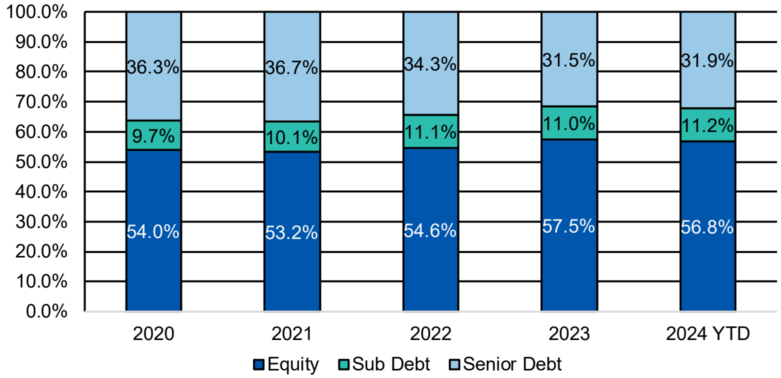
Equity and Debt Contribution by Year, Platform Deals

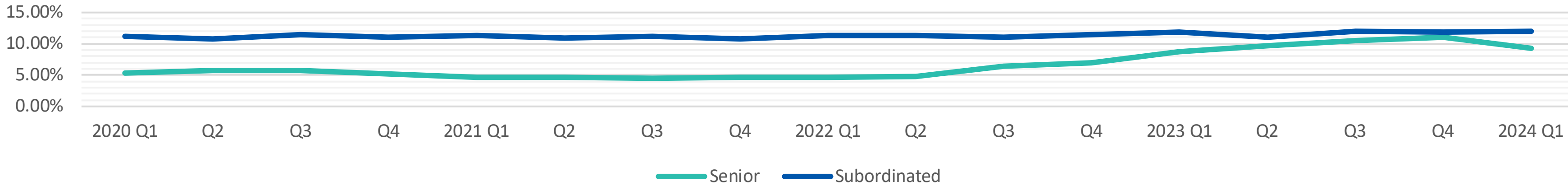


Total Debt/EBITDA — All Industries by Deal Size								
TEV	**2003-2019**	**2020**	**2021**	**2022**	**2023**	**YTD 2024**	**Total**	**N =**
10-25	3.4	3.6	4.0	3.7	3.7	3.9	3.5	1,622
25-50	3.6	3.4	3.9	3.7	3.3	2.9	3.6	1,318
50-100	3.9	3.6	3.8	4.0	3.5	3.8	3.9	928
100-250	4.4	4.7	4.4	4.2	3.9	3.2	4.4	523
250-500	4.9	4.8	5.4	5.1	4.5	4.0	5.0	70
Total	**3.7**	**3.7**	**4.0**	**3.9**	**3.6**	**3.5**	**3.7**	
N =	3,166	285	428	280	245	57		4,461

Note: Deals with no debt are eliminated from leverage data, as are significant outliers
Please note that N for 2003-19 encompasses 17 years of activity

Source: GF Data

Senior and Subordinated Debt Pricing



- Commercial bank lenders have returned, albeit cautiously, and non-bank lenders are running full-tilt. With both markets open and lenders competing, borrowing costs have come down. The return of commercial banks and the record levels of private credit dry powder has pushed pricing for lower middle market borrowers (LTM EBITDA < $20 million) lower by 100 to 150 basis points since year end while leverage multiples have increased. In addition, private credit company profiles, with an historical red-line at > $10 million EBITDA, is becoming increasingly blurred with non-bank lenders actively pursuing quality issues below the $10 million threshold.
- Average senior debt pricing fell significantly in the first quarter by 170 basis points to 9.3% compared to 11% in the fourth quarter. All size tiers tracked by GF Data experienced decreases in average senior debt pricing save the $100 million to $250 million size tier. The average coupon on subordinated debt increased slightly in the first quarter, rising to 12.0% versus 11.9% in the fourth quarter. All-in average subordinated-debt pricing remained flat at 15.1% for the quarter, the same tally as last year.
- Average equity contribution across all deals in the first quarter fell to 49.5% compared to an average of 52.2% for all last year. Senior debt contribution improved to 41.7% compared to an average of 38.7% for all of 2023, more than absorbing the drop in the equity component. Notably, debt contribution on smaller deals rebounded last quarter compared to the prior year, the biggest change was seen in deals valued between $10 million and $25 million where senior debt contribution improved by nine percentage points.

Source: GF Data, PitchBook, SPP Capital

WITHUM INVESTMENT BANKING OVERVIEW

OUR CAPABILITIES

Relationship oriented investment bank serving middle-market family and founder owned businesses

MERGER AND ACQUISITIONS

- Sale and divestiture solutions
- Acquisition advisory

CAPITAL FORMATION

- Withum Capital – FINRA member broker-dealer firm
- Private placements of debt and equity
- Capital markets advisory
- Capital structuring and financing advisory services

CORPORATE FINANCE ADVISORY

- Transaction readiness and exit planning
- Recapitalization
- Financial restructuring strategy

D'Artagnan *has been acquired by* Fortune International *a portfolio company of* Investcorp
Advisor to Seller

Community Surgical Supply *has been acquired by* adapthealth
Advisor to Majority Sellers

Randall Farms *has been acquired by* Highview Capital
Advisor to Seller

Kings, Balducci's *has awarded stalking horse bid to* TLI Bedrock
Advisor to Stalking Horse

Acrow Bridge *has received an investment from* Dubilier & Company *and has acquired* ***Milton Steel, Inc.***
Advisor to Issuer and Buyer

Rymax *has been acquired by* Management
Advisor to Seller

Premier Store Fixtures *has been acquired by* LVC LongueVue Capital, Ironwood Capital
Advisor to Seller

Flyte Tyme *has been acquired by* Addison Lee *a portfolio company of* The Carlyle Group
Advisor to Seller

Kreisler Polska *has been acquired by* United Technologies
Advisor to Seller

Reach out to Kevin if you have any questions.

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