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ADVISORY TAX AUDIT

# 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.

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

## M&A ACTIVITY

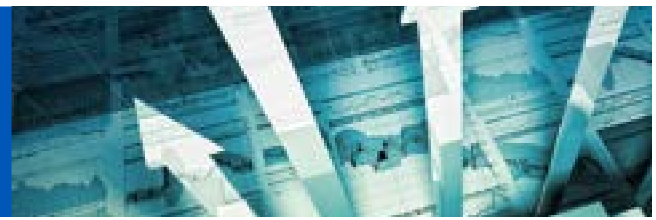
DESPITE A SLOWDOWN IN Q3, 2024 ACTIVITY REMAINS ON TARGET TO EXCEED 2023 BY 15% TO 20%

## M&A MULTIPLE TRENDS

MULTIPLES HAVE FIRMED BUT REMAIN 20% TO 25% OFF THE 2021 PEAK

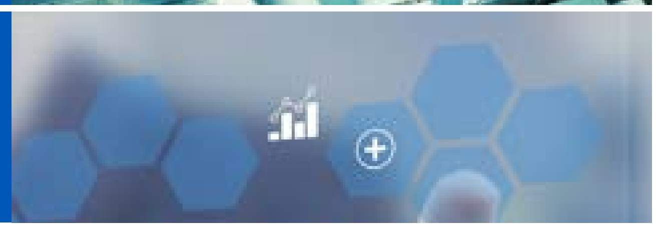
## INDUSTRY

MANUFACTURING MULTIPLES HAVE RALLIED IN THE FIRST THREE QUARTERS OF 2024



## LEVERAGE

THE RETURN OF COMMERCIAL BANKS CONTINUES TO FUEL COMPETITION AND SPREAD COMPRESSION



## WITHUM INVESTMENT OVERVIEW

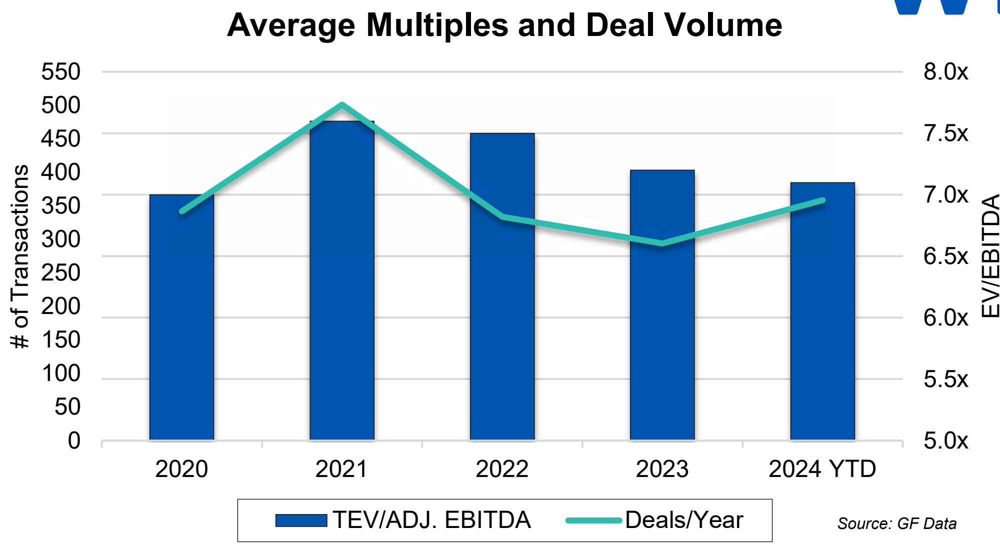




*Source: Q3 2024 data from GF Data, PitchBook, SPP Capital*

## Middle Market M&A

**Broad recovery remains elusive. Stage set for improved activity.**




*Source: GF Data*

- While Q3 2024 continued its streak as the quarter with the lowest quantity of transactions, the 2024 deal tally is still on pace to increase by 15% to 20% from 2023 levels. The recovery that started Q4 2023 continues to gain steam.
- Corporate M&A drove activity early in the year and continues to make up a meaningful segment of the market. However, financial sponsor activity is back and has begun to recapture its share of the M&A market. The renewed PE activity is fueled by the return of commercial banks to the deal lending market. The banks desire to take back the market from the non-bank credit funds is driving down the all-in cost of borrowing.
- Decisions by the Federal Reserve to lower the federal funds rate to 4.25%-4.5% have expanded economic activity and eased labor market conditions although inflationary pressure remains somewhat elevated. Some market observers expect the rate cuts and fierce competition between lenders will boost M&A activity by lowering borrowing costs and increasing leverage ratios. Lower base rates, tighter credit spreads, and the need to return money to limited partners (LPs) all point to heightened PE activity and broader market activity in the quarters to come.
- Multiples have stabilized but remain range-bound over the past few years. M&A multiples are settling in about 20% to 25% off the highwater mark of 2021. The market reset seems complete.

# 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 | 6.4 | 5.9 | 2,028 |
| 25-50 | 6.5 | 6.7 | 7.2 | 7.0 | 7.0 | 6.7 | 6.7 | 1,567 |
| 50-100 | 7.5 | 8.0 | 8.3 | 8.5 | 8.0 | 8.5 | 7.7 | 1,067 |
| 100-250 | 8.2 | 8.7 | 9.3 | 9.1 | 9.6 | 8.2 | 8.5 | 600 |
| 250-500 | 9.0 | 10.4 | 10.9 | 10.1 | 10.7 | 9.5 | 9.9 | 89 |
| **Total** | **6.6** | **7.0** | **7.6** | **7.5** | **7.2** | **7.1** | **6.9** | |
| **N =** | 3,611 | 342 | 501 | 334 | 294 | 269 | | 5,351 |

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 | 6.8 | 6.4 | 2,103 |
| Business Services | 6.7 | 7.1 | 7.3 | 7.4 | 7.3 | 7.1 | 6.9 | 1,219 |
| Health Care Services | 7.4 | 7.6 | 8.1 | 8.4 | 8.9 | 8.9 | 7.6 | 463 |
| Retail | 7.0 | 6.5 | 8.3 | 8.0 | 6.0 | 6.1 | 7.0 | 145 |
| Distribution | 6.6 | 7.5 | 7.2 | 7.2 | 7.1 | 7.1 | 6.8 | 571 |
| Media & Telecom | 7.6 | 8.3 | 7.0 | 9.1 | 7.8 | 7.3 | 7.6 | 81 |
| Technology | 8.5 | 7.6 | 10.3 | 8.1 | 10.2 | 8.2 | 8.6 | 182 |
| Other | 6.3 | 6.2 | 7.3 | 6.7 | 6.9 | 7.0 | 6.4 | 498 |
| **N =** | | | | | | | | 5,262 |

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 | 7.7 | 7.2 |
| Other Buyouts | 6.2 | 6.2 | 6.4 | 6.5 | 6.4 | 6.6 | 6.3 |
| Premium / (Discount) | 110% | 124% | 127% | 122% | 128% | 116% | 115% |
| Incidence | 55% | 55% | 63% | 66% | 47% | 40% | 56% |

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

*Source: GF Data*

- In the first three quarters, average deal valuations dropped from 7.2x to 7.1x, although it remains higher than the historical average of 6.9x. The largest decline was seen in deals valued at $100 million to $500 million as private equity groups remained preoccupied with improving portfolios, compared to launching new investments.
- Corporate add-on investments continue to have a large influence on deal activity throughout 2024. In Q3, add-ons accounted for 42% of all submitted deals. Down from 44% in Q1 and Q2, the quantity of corporate M&A investments in YTD 2024 is still 7 points greater than the full year of 2023 (35% of the market). We believe this suggests the beginning of the return of PE to the M&A market.
- A sign of improving quality in the market, the third quarter saw an increase in completed deals for Above-Average Financial Performers (AAFP), accounting for 40% of all deals - albeit below historical average of 56%. Also, buyers seem to be willing to pay for quality as the 16% premium paid rebounded back to above the historical average and well above the 7% realized in the first half of the 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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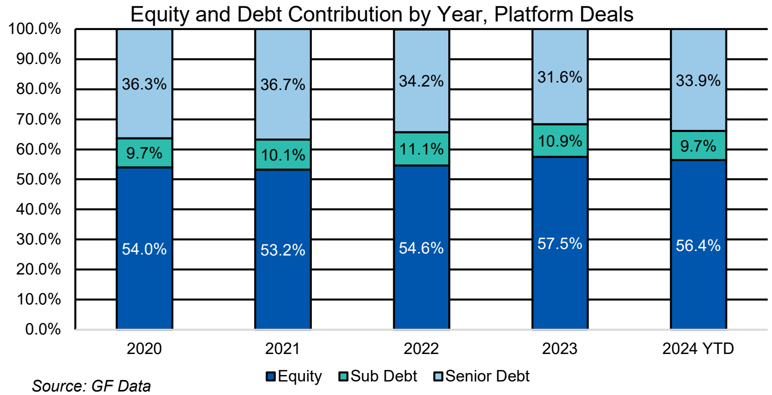


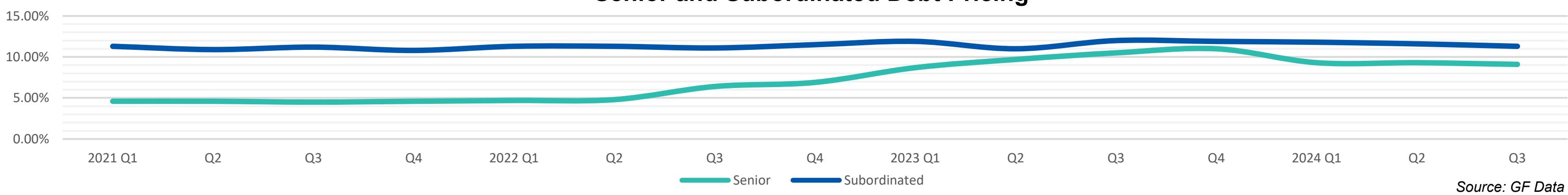

*Source: GF Data*

| 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 | 4.0 | 3.5 | 1,682 |
| 25-50 | 3.6 | 3.4 | 3.9 | 3.7 | 3.4 | 3.0 | 3.6 | 1,367 |
| 50-100 | 3.9 | 3.6 | 3.8 | 4.0 | 3.5 | 3.7 | 3.8 | 955 |
| 100-250 | 4.4 | 4.7 | 4.4 | 4.1 | 3.9 | 4.1 | 4.4 | 542 |
| 250-500 | 4.9 | 4.8 | 5.4 | 5.1 | 4.2 | 4.4 | 4.9 | 80 |
| **Total** | **3.7** | **3.7** | **4.0** | **3.9** | **3.6** | **3.7** | **3.7** | |
| **N =** | 3,166 | 285 | 428 | 281 | 249 | 217 | | 4,626 |

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




*Source: GF Data*

- Commercial bank lenders have continued to aggressively try and take back market share as debt funds have become more competitive in leverage multiples and credit spreads. With both markets open and lenders competing, borrowing costs have come down as a result of: i) lower M&A activity; ii) excessive dry powder looking for a home; iii) increasing confidence in a growing economic environment; iv) post-election optimism for a less restrictive regulatory environment. The much-anticipated uptick in M&A activity will only heighten the pressure to drive even more competitive terms. Assuming of course that the economy avoids a hard landing and geopolitical conflicts do not escalate out of control.
- Average senior debt pricing continued to improve in the third quarter, falling to an average of 9.1% compared to 9.3% in quarters one and two. All size tiers tracked by GF Data experienced decreases in average senior debt pricing, except the $100 million to $250 million size tier. The average coupon on subordinated debt decreased slightly in the third quarter, falling to 11.3% versus 11.6% in the second quarter. However, all-in average subordinated-debt pricing increased to an average of 15.9% for the first three quarters, 0.8% higher compared to the average for all of 2023.
- Average equity contribution across all deals in the first quarter fell to 50.8% compared to an average of 52% for all last year. Senior debt contribution improved through the first three quarters to 41.5%, compared to an average of 38.7% for all of 2023, more than absorbing the drop in the equity component. The decrease in equity contribution and the increase in senior debt contribution suggest that investors are leveraging more debt to finance deals. This shift indicates a greater appetite for risk, as debt financing typically involves higher risk compared to equity financing.

# WITHUM INVESTMENT BANKING OVERVIEW

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

## MERGER AND ACQUISITIONS

- Sale and divestiture solutions
- Acquisition advisory

# OUR CAPABILITIES

## 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
*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
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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