



# STRATEGIC ADVISORS

Middle Market Investment Bankers

*Bringing Efficiency to Inefficient Markets*

## Mid-2022

### M&A/CORPORATE FINANCE OVERVIEW

Year – in - Review

Merger & Acquisition  
Corporate Finance Advisory  
Strategic Consulting

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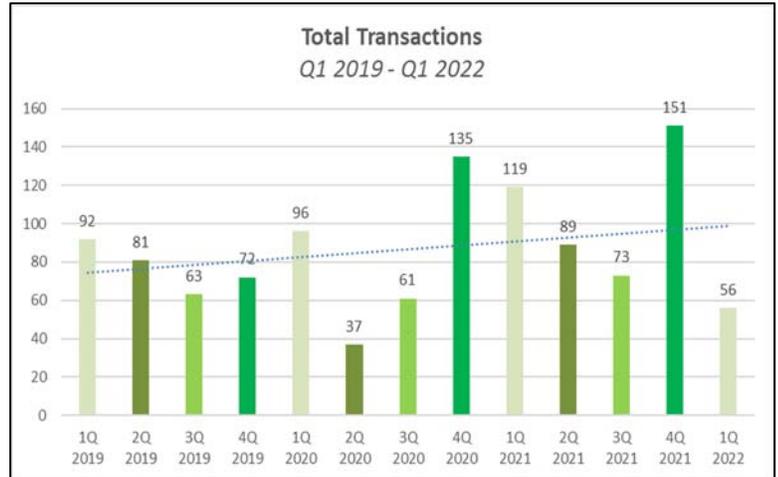
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## Bringing Efficiency to Inefficient Markets

### Executive Summary

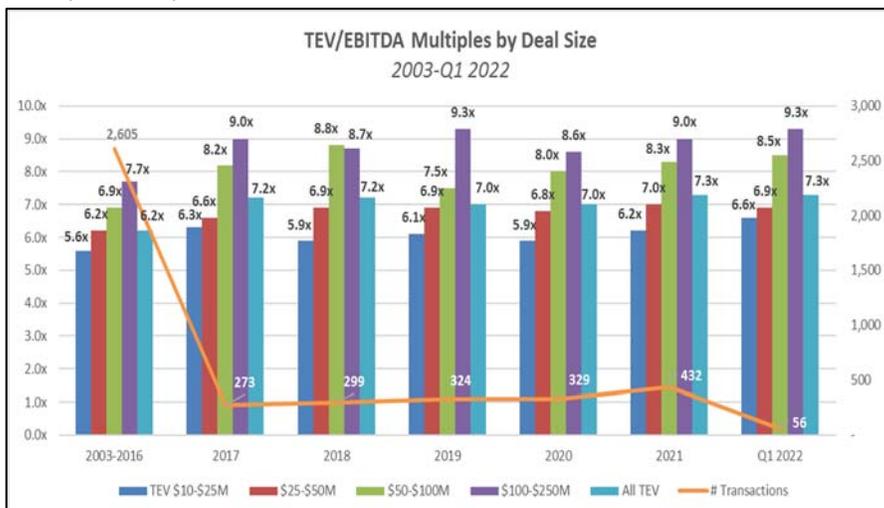
*The Slowing of Gold Rush:* 2022 Transactions slow down after record years in 2020-2021

The last two years brought a flurry of activity as acquirers competed to capture market opportunity. While the 2020 pandemic brought obvious uncertainty, financial and strategic buyers emerged with still-strong cash positions, bolstered by recent capital raises and a bullish public market. This combined with a market of long-time middle-market business owners occasionally fatigued from the complications of managing the business amidst the coronavirus. As a result, 2020 and 2021 recorded two record years of activity with 329 and 432 transactions, respectively. After the gold rush of the last two years, though, it appears those seeking riches are growing increasingly concerned the market mines are drying.



2022 has begun with a noticeable slowdown, dropping 53% from 119 transactions in Q1 2021 to merely 56 in Q1 2022. This slow start is even eye-opening when comparing to the 92 transactions to start the more normalized 2019 (39% decline). Several factors complicated macroeconomic activity, including the global impacts of Russia's war in Ukraine, ongoing supply chain issues, and a significant hike in interest rates and commodities prices. Indications are that these factors will continue to affect the next few quarters.

Within the decline in total number of deals reported, a trend is becoming apparent with an unusually high percentage of deals meeting the standards for "above-average" financial performance. PE groups reported that 67% of Q1 2022 transactions were considered to boast above-average financial performance when compared to industry peers. This is a slight increase from 66% in FY 2021, and a noticeable increase from 52% and 56% in 2019 and 2020, respectively. Deals considered in this upper tier earned an average "quality premium" of 22% in Q1 2022. This translated to an increase in an average TEV/EBITDA transaction multiple of 1.4x for "Premium" Buyouts (7.7x vs 6.3x for Other Buyouts). Since 2018, multiple underlying the calculation of a "quality premium." Across 3,750 transactions analyzed since 2003, the average premium represented a 1.3x increase in multiple, or a premium of 15%.

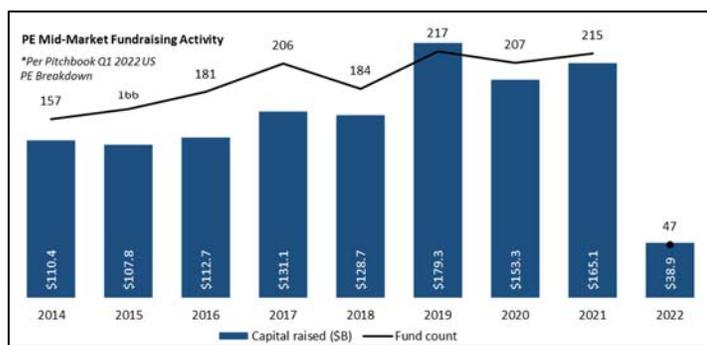


Total transaction valuation remained strong, averaging 7.3x in line with 2021 FY results and up from 7.0x in 2019 & 2020. There was an obvious premium for larger deals with receiving a TEV of \$100-\$250M earning an average of 9.3x compared to 7.3x for the total group in Q1 2022. This steady transaction valuation despite the slowdown in total transactions may have been related to the increasing proportion of acquisition targets considered "premium." Market dynamics and trends suggest either a continued year-over-year decline in total transaction volume or a drop in average valuations corresponding with a rebound in activity.

## Diving Into the Details

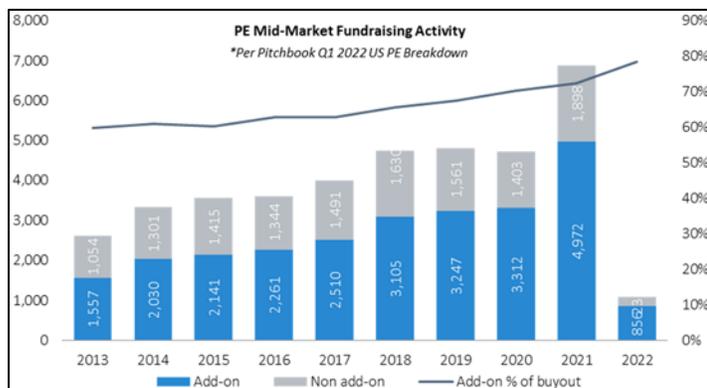
### 2022: PE Activity off to a Moderate Start

Private Equity activity has historically been a big driver for much of middle-market M&A activity. After a historic run of dealmaking in 2021, US mid-market PE firms got off to a moderate start in 2022. The flurry of deals in recent years has resulted in many of the largest firms spending their dry powder, yet total PE funds on-hand remain ample for near-term acquisitions. US middle-market fundraising is off to a slower start than 2021 with 33 funds closing on \$24.1B. Record setting exit activity in 2021, with 1,132 exits dropping the exit-to-investment ratio to 0.32x, (similar to ratios seen in 2008/2009), signals firms will need to source additional funds from outside sources rather than relying on distributions from portfolio companies. Though fundraising efforts will face challenges from increased demand and growing macroeconomic uncertainty, an overall returned focus on fundraising is anticipated to begin in 2022.



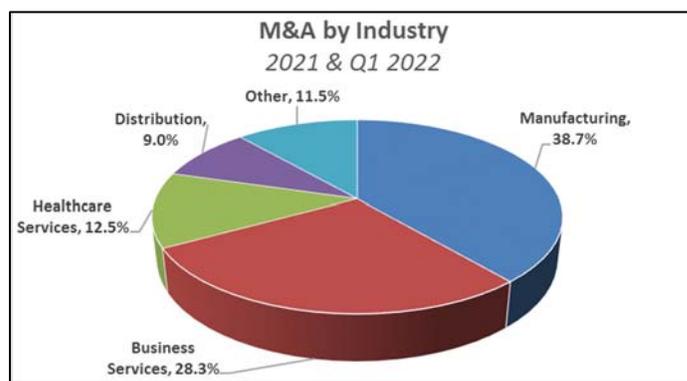
### 2022: PE Shifts from Buy to Build

The exit-to-investment ratio excludes investments in add-ons, and, thus, is likely largely affected by the increasing propensity of add-on activity. Add-ons continued to be a popular strategy to pave an exit path. Competition in private exit endeavors and increased volatility in public markets making IPOs less certain have motivated PE Groups to generate synergies with their larger platforms to realize improved profitability. As a result, add-ons increased as a percentage of buyouts to 72.1% from 2020-Q1 2022 from a historical average of 59.9% from 2007-2019.



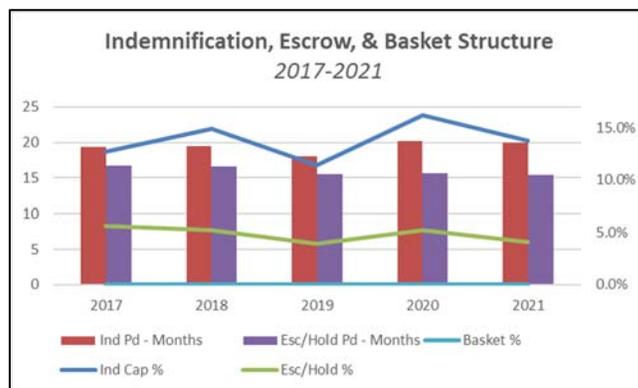
### 2022: Manufacturing Leads the Way for M&A

Of the 488 M&A transactions analyzed by GF Data in 2021 & Q1 2022, the manufacturing industry boasted the most activity, representing 38.7% of transactions, a 2% increase from historical proportions. Strategic acquirers are continually attempting to minimize supply delays by integrating vertical manufacturing synergies. Following closely behind was Business Services representing 28.3% of transactions, an increase of 9.9% from historical proportions. It's apparent the challenges that have arisen in the labor and commodities markets are a large driver in strategic acquisitions. The leading industries in M&A activity are those that require physical people and processes to realize growth potential. The remaining M&A sample comprised of Healthcare Services (12.5%), Distribution (9%), and Other (11.4%).

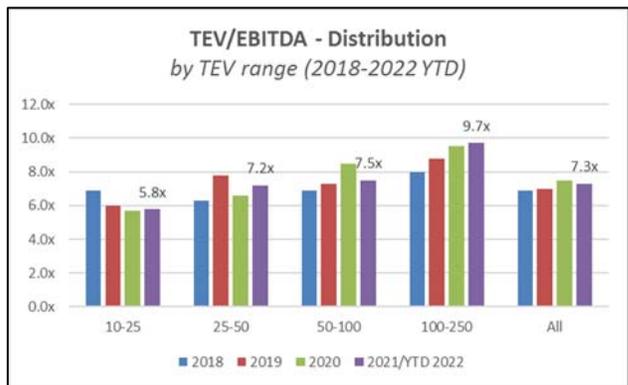
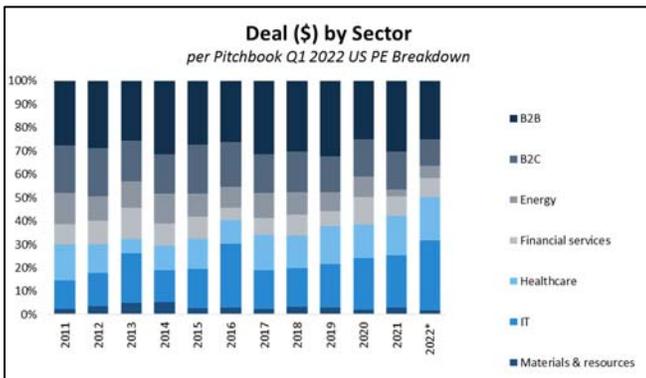
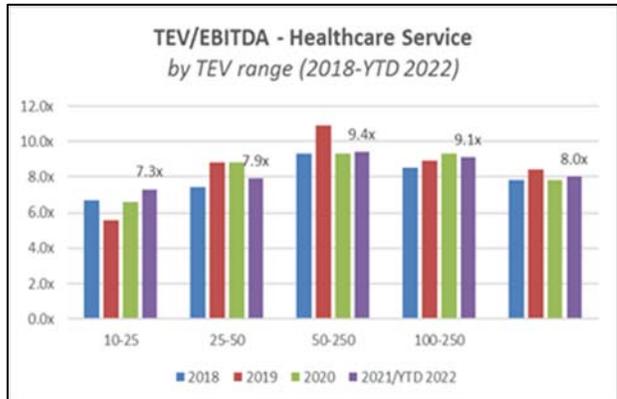
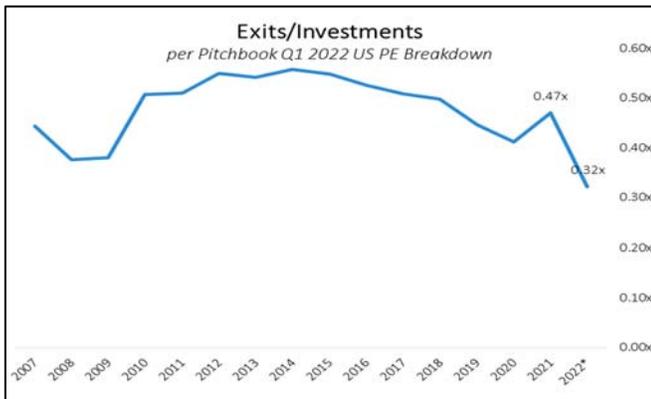
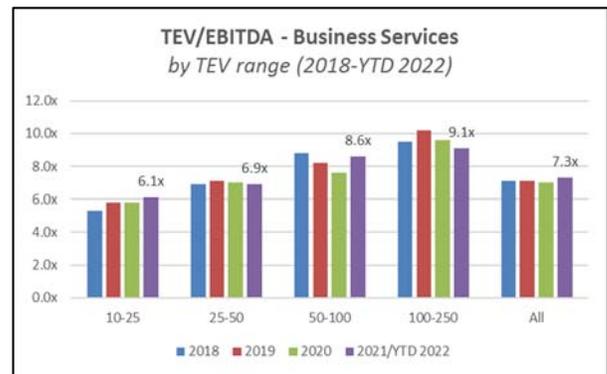
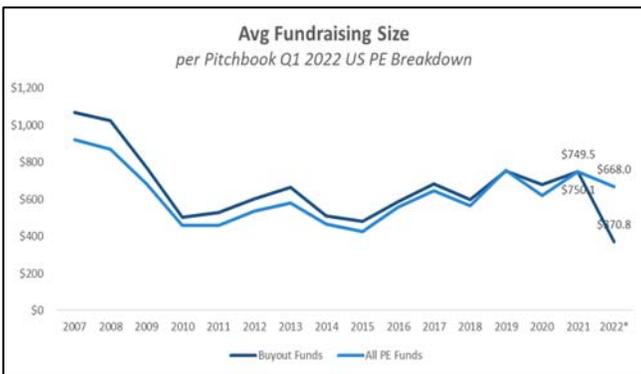
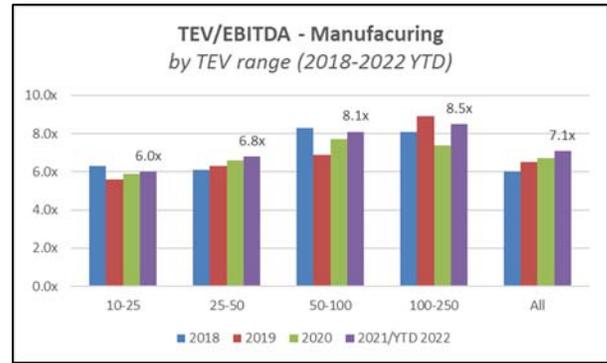
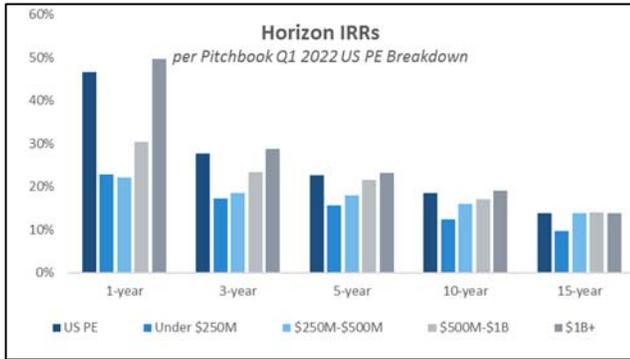


### 2022: M&A Structure in a Post-Covid World

2021 shows a return to normalcy in some areas. Declining indemnification caps against breaches of general reps & warranties had been steadily declining over the past decade, prior to the uncertainty amidst the pandemic in 2020. After rising from 11.4% to an exceptional 16.2% from 2019 to 2021, 2021 has seen caps return to the downslope averaging 13.8%. Escrow followed a similar trend, rising from 3.9% to 5.2% 2019-2020 before dipping back down to 4.1% in 2021. Basket, or the amount that damages or losses must exceed before sellers are liable for any indemnity payments, stayed steady.



# APPENDIX – HISTORICAL CHARTS



## About Strategic Advisors

Strategic Advisors is a middle market investment-banking firm that helps clients achieve financial and business goals by providing merger and acquisition advisory, corporate finance advisory and strategic consulting services. Along with many years of experience in advising middle market clients, our Managing Directors have experience investing in and managing portfolio companies. As a result, Strategic Advisors not only has expertise in advisory services but also firsthand knowledge of what stakeholders, investors, and lenders expect and desire.

When considering a sale of your business, the acquisition of a business, or the restructuring or recapitalization of your balance sheet, the best pathway for achieving your expectations is a well-run process that addresses all your business and personal goals. Strategic Advisors is accustomed to working with business owners to determine the best pathway to achieve their goals and objectives. Give us a call to discuss your possibilities.

### Strategic Advisors works with clients across diverse industries. Selected recent transactions include:

 <p>NEW DIRECTIONS LEARNING SERVICES, LLC</p> <p>has been acquired by</p>  <p>Transformations Care Network</p> <p>along with</p>  <p>SHORE Capital Partners</p> <p>The undersigned acted as the primary M&amp;A advisor to the stakeholders of New Directions.</p>  <p>STRATEGICADVISORS Middle Market Investment Bankers</p> <p>December 2021</p>	<p>Monteverde's <i>A Tradition of Excellence</i></p> <p>has been acquired by</p> <p>FreshEdge™</p> <p>The undersigned acted as the primary merger &amp; acquisition advisor to the owners of Monteverde's, Inc.</p>  <p>STRATEGICADVISORS Middle Market Investment Bankers</p> <p>November 2021</p>	<p>TIRE &amp; RUBBER, INC. WESTON, WV</p> <p>has been acquired by</p>  <p>Insignia Disposal Services, LLC</p> <p>The undersigned acted as investment banker to the owners of Tire and Rubber, Inc.</p>  <p>STRATEGICADVISORS Middle Market Investment Bankers</p> <p>September 2021</p>
<p>Mid-Atlantic Propane Distributor</p> <p>has been acquired by</p>  <p>ENERGY DISTRIBUTION PARTNERS</p> <p>The undersigned acted as the primary M&amp;A advisor to the stakeholders of the Mid-Atlantic Propane Distributor.</p>  <p>STRATEGICADVISORS Middle Market Investment Bankers</p> <p>September 2021</p>	 <p>CME ENGINEERING Civil • Mining • Environmental</p> <p>has been acquired by</p>  <p>APEX</p> <p>The undersigned acted as investment banker to the owners of CME.</p>  <p>STRATEGICADVISORS Middle Market Investment Bankers</p> <p>September 2021</p>	 <p>White Label COMMUNICATIONS</p> <p>has successfully secured a</p> <p>Dividend Recapitalization</p> <p>The undersigned acted as the placement agent to the ownership of White Label Communications, LLC</p>  <p>STRATEGICADVISORS Middle Market Investment Bankers</p> <p>June 2021</p>
 <p>Charleston counseling center</p> <p>has been acquired by</p>  <p>LifeStance HEALTH</p> <p>The undersigned acted as investment banker to the owners of Charleston Counseling Center.</p>  <p>STRATEGICADVISORS Middle Market Investment Bankers</p> <p>April 2021</p>	 <p>FSI</p> <p>Facilities Survey, Inc.</p> <p>has been acquired by</p> <p>Seely Partners Capital</p> <p>The undersigned acted as the investment banker to the ownership of Facilities Survey, Inc.</p>  <p>STRATEGICADVISORS Middle Market Investment Bankers</p> <p>December 2020</p>	 <p>INTERTECH® THE SYSTEMS INTEGRATION EXPERTS</p> <p>has entered into a merger with</p>  <p>FEDORA SECURITY Your Data. Protected.</p> <p>The undersigned acted as the investment banker to the owner of InterTech CI</p>  <p>STRATEGICADVISORS Middle Market Investment Bankers</p> <p>December 2020</p>

**Authors: Matthew Hartford, Director; Gerad Greco, Analyst; Andrew Disque, Analyst**

**Sources: Pitchbook – Q1 2021 Annual US PE Middle Market Report, Q1 2021 Global Markets Snapshot; GF Data – May 2022 M&A Report <sup>™</sup>, May 2022 Leverage Report <sup>™</sup>, and May 2022 Key Deal Terms Report <sup>™</sup>**

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