



2023

Mid-Year

M&A & CORPORATE FINANCE OVERVIEW

Merger & Acquisition
Corporate Finance Advisory
Strategic Consulting

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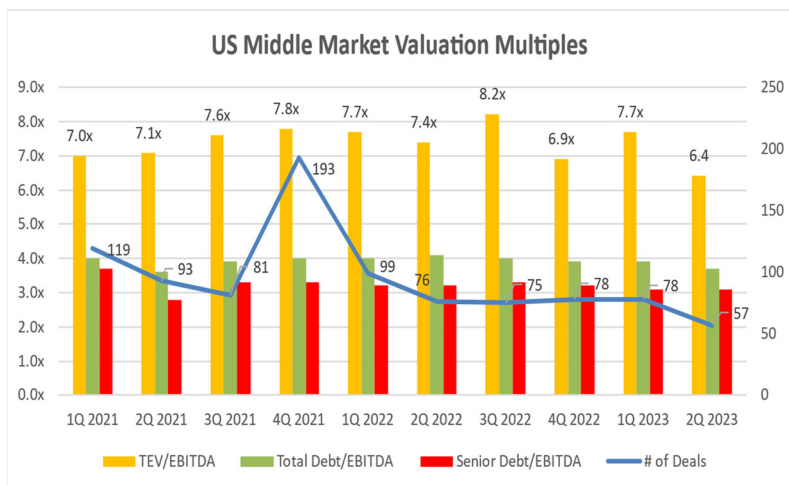
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Bringing Efficiency to Inefficient Markets

Executive Summary

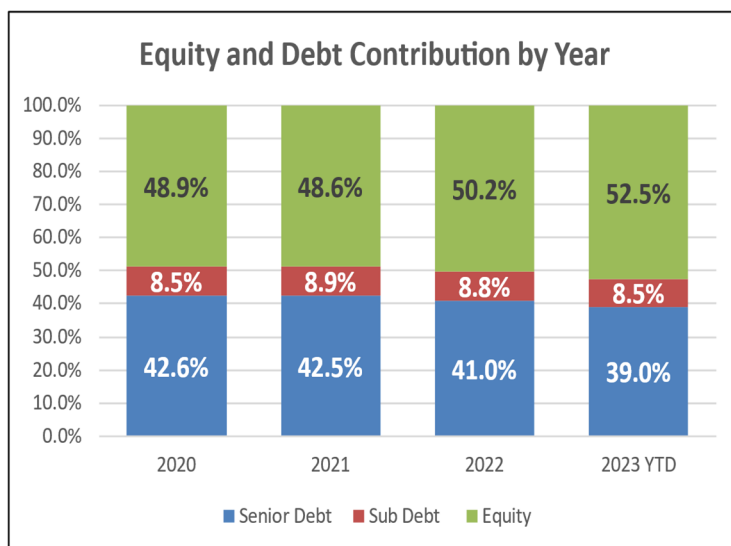
The Double V Decline: Valuations & Volume Are Falling



As we navigate past the midpoint of 2023, the M&A landscape continues to be influenced by rising interest rates and persistent uncertainties surrounding financing dynamics. The second quarter of 2023 has revealed a set of challenging statistics, with mid-year indicators displaying a notable 22.8% decrease in deal volume compared to the previous period. This trend is equally reflected in valuation metrics; a comparative analysis between the second quarters of 2022 and 2023 underscores a substantial decline in valuations by a full turn. The consistent trajectory of Total Debt/EBITDA ratios, which mirror the statistics from the preceding periods. This underscores the prevailing scenario wherein transactions continue to be characterized by an allocation of approximately 50% of the Total

Enterprise Value as Debt. Against this, the prevailing approach of key players such as Private Equity, Hybrid, and Strategic buyers seems to lean towards a more cautious stance. Buyers are meticulously selecting their targets, favoring a fruitful operational strategy over extravagant pricing. The emphasis appears to be on prudent acquisition choices, rather than hastened overpayments. Evidently absent are the premiums that were once readily extended for the "right acquisitions." This evolving landscape suggests that buyers are exercising patience, meticulously assessing potential targets to ensure alignment with stringent criteria. This cautionary approach is likely rooted in the desire to mitigate the potential repercussions of assuming substantial debt burdens. Drawing parallels to the market's response in 2021 following the 2021 hiatus induced by the COVID-19 pandemic, it is apparent that various economic variables are actively shaping the current market conditions.

Persistently maintaining a significant share of total contributions, buyers are proactively injecting more equity into transactions to navigate financing intricacies. In the first half of this year, average total debt usage in transactions dropped to 3.6x, down from 3.9x in 2022 and a historical average of 3.7x. Responding to rising interest rates, debt multiples have compelled buyers to bolster their equity involvement, aligning with volatile debt costs and decreasing leverage multiples. Debt multiples have declined from 3.2x in 2022 to 2.9x in 2023 YTD. Even commercial bank financing exhibits a downward trend, with providers reducing multiples from 3.0x in 1Q 2022 to 2.6x in H1 2023. Notably, buyers are strategically integrating substantial debt multiples into purchase price structures. Nevertheless, the evolving leverage landscape mandates heightened equity commitment for effective navigation.



Pricing on senior debt, as well as subordinated debt has maintained their levels from 1Q 2023, sitting at an average rate of 8.1% and 11.8%, respectively.

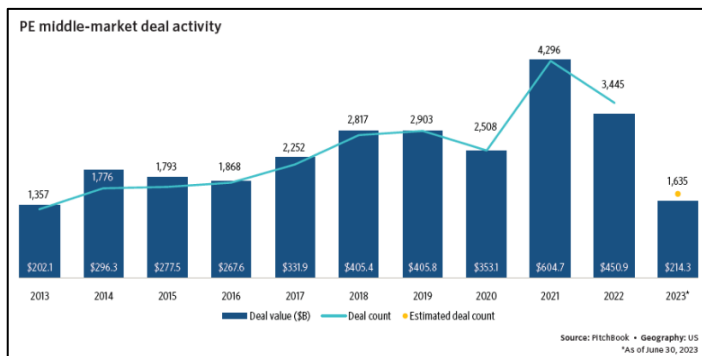
* Certain charts and data per GF Data August 2023 M&A Report™ and GF Data August 2023 Leverage Report™, an ACG Company, and Pitchbook US PE Middle Market Report – Q2 2023

** Pitchbook defines the Middle Market (MM) as deals having a TEV of \$25.0m - \$1.0bn; all other deals are > \$1.0bn

Diving Into the Details

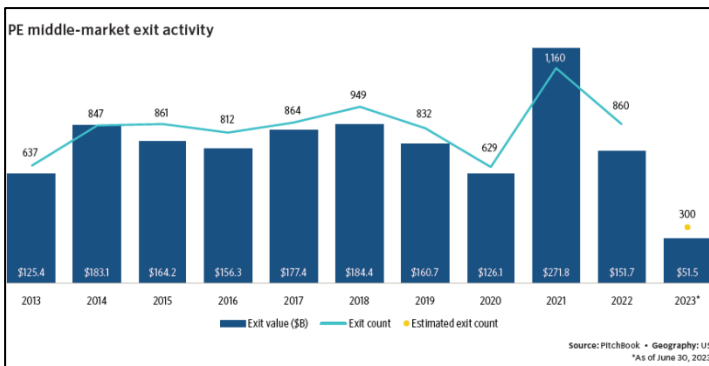
2023: Private Equity Hitting Breaks

In Q2 2023, PE middle-market buyout activity remained steady, sustaining levels observed over the past six quarters. Following a significant drop of 35% to 40% in deal count and value after the Q4 2021 peak, transactions stabilized at reduced volumes. In Q2, PE firms concluded 811 middle-market buyout deals totaling \$103.8 billion, with a decline in value by 6.1%. Despite this, middle-market share in all buyout deals expanded to 75.6% year-to-date, a notable increase from the five-year average of 68.2%. This shift marks a reversal from a market previously dominated by megafunds and megadeals, demonstrating a resilient middle-market sector.



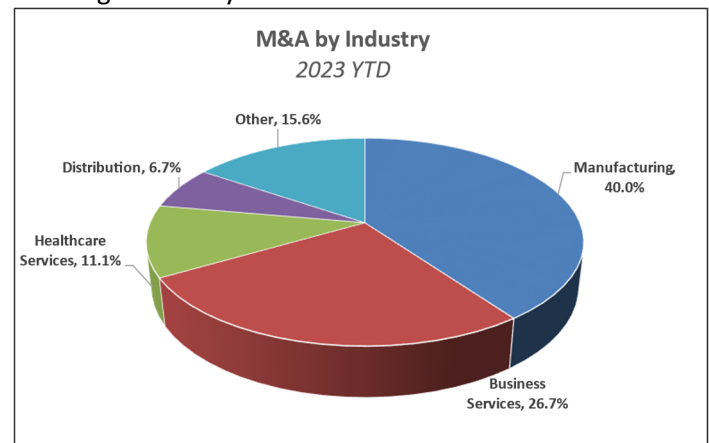
2023: Challenges Persist

In Q2 2023, exiting investments in the private equity middle market faced significant hurdles, reaching the lowest activity levels since the aftermath of the global financial crisis. Approximately 138 private equity-backed middle-market companies exited or were announced to be exited, totaling \$24.0 billion, marking a 15.1% decline in exit count and a 12.8% drop in value. Exit activity fell by 29.1% year-on-year, with a remarkable 72.9% decrease from its peak in Q4 2021. This decline, coupled with the absence of IPO activity, reflects a cautious approach by PE firms, waiting for a more favorable exit environment before divestiture initiatives.



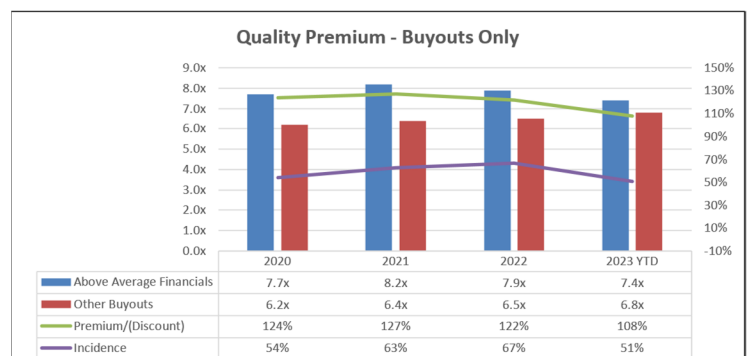
2023: Manufacturers Remain King on the Hill

The landscape of 2Q 2023 underscores the retention within the manufacturing sector in terms of acquisition activity, accounting for a substantial 40% of the 135 transactions tracked by GF Data. A prevailing theme has emerged, as all industry segments register a decline in multiples, mirroring the nuanced dynamics of the current market. However, certain industry domains stand as exceptions to this overarching trend. Specifically, the Retail (5.7x), Distribution (6.5x), and Technology (7.8x) sectors have managed to stay steady in multiples observed since the 1Q 2023. An interesting facet emerged in the Healthcare Service sector, where companies persistently maintain steady valuation metrics within the \$50-250M range of TEV. Among the industry segments captured, the Business Services sector emerges as the arena of most significant impact since Q1, in which there has been a notable descent from an aggregated average multiple of 9.0x to 7.8x, evident across all transaction values in the space. This strategic recalibration signifies a sinking response to the evolving market dynamics.

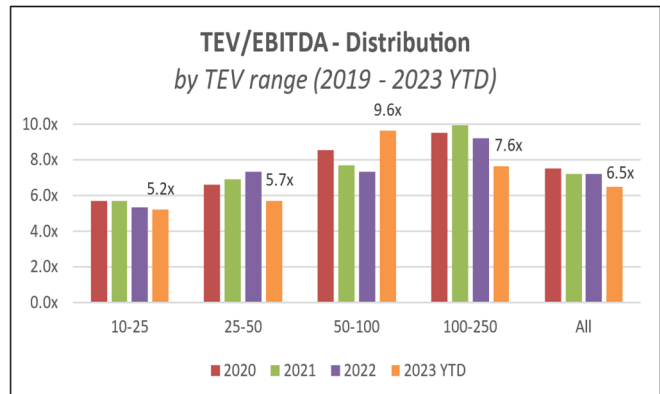
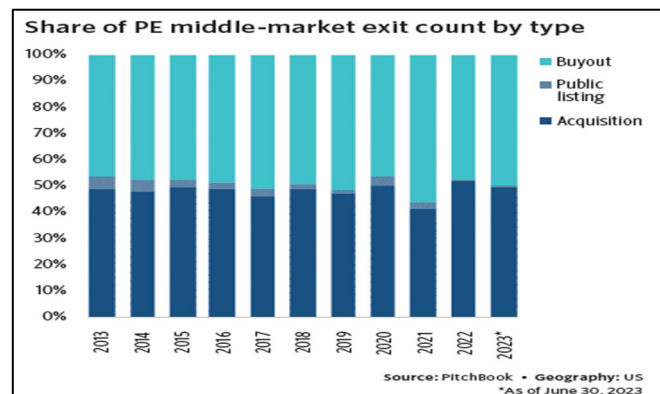
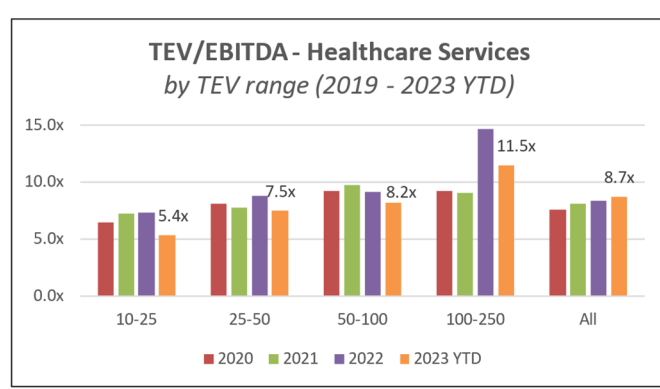
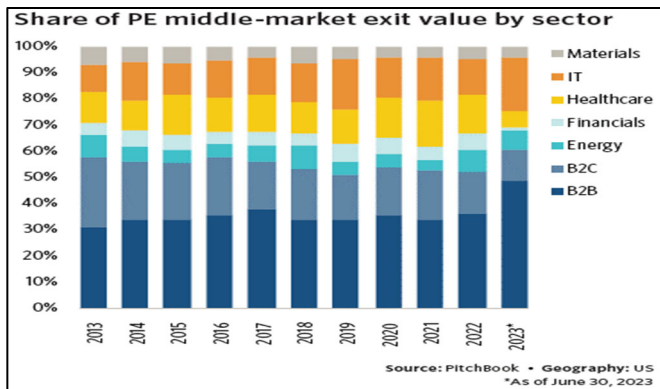
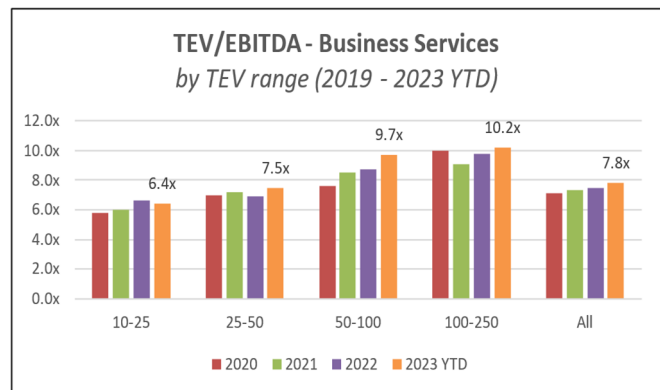
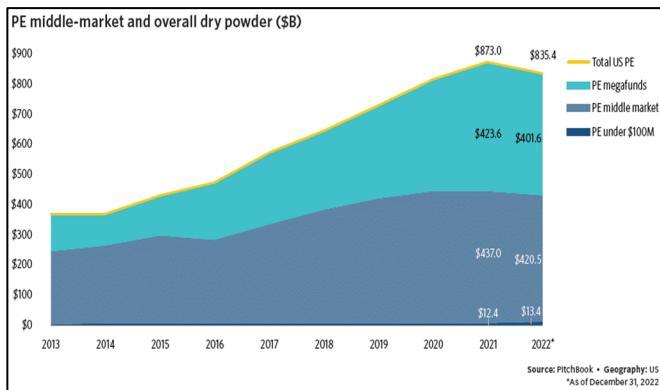
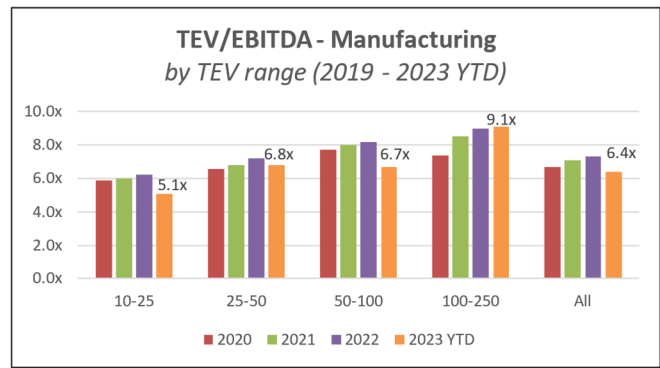
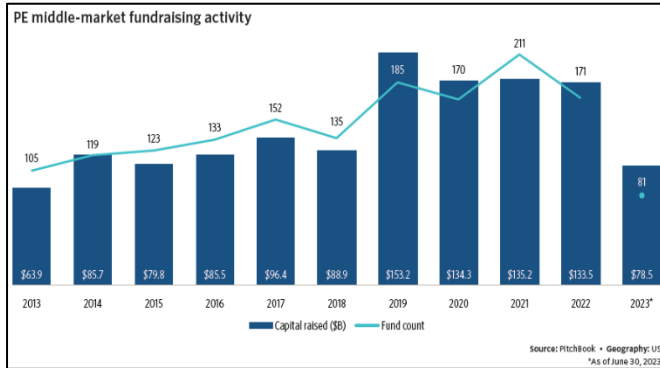


2023: Buyout Multiples Dropping

In H1 2023, downward market trends have led to a decline in premiums paid for well-performing companies, dropping from 144% in Q1 to 108% YTD. The occurrence rate has experienced a slight decrease from 53% to 51% YTD. Buyout valuations for high-quality companies have decreased by a factor of 1.8x since Q1, with comprehensive valuations also indicating a decrease of 0.8x.



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:



has been acquired by



The undersigned acted as the exclusive merger & acquisition advisor to the owners of White Label Communications, LLC.



October 2023 *

Securities transactions conducted through StillPoint Capital, LLC, Tampa, FL.



has been acquired by



along with



The undersigned acted as the primary M&A advisor to the stakeholders of New Directions.



December 2021 *



has been acquired by



The undersigned acted as the primary merger & acquisition advisor to the owners of Monteverde's, Inc.



November 2021



has been acquired by



The undersigned acted as investment banker to the owners of Tire and Rubber, Inc.



September 2021 *



has been acquired by



The undersigned acted as investment banker to the owners of CME.



September 2021 *



has successfully secured a

Dividend Recapitalization

The undersigned acted as the primary corporate finance advisor to the stakeholders of White Label.



June 2021

*Securities transactions conducted through StillPoint Capital, LLC, Tampa, FL.

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Sources: Pitchbook – Q2 2023 US PE Middle Market Report ; GF Data – August 2023 M&A Report TM, August 2023 Leverage Report TM

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