

## SCHNEIDER DOWNS CORPORATE FINANCE, LP FALL 2022 | U.S. MIDDLE MARKET M&A REVIEW

### M&A ACTIVITY REMAINS RESILIENT IN 2022

#### M&A Volume

- » 2022 deal volume has slowed compared to the surge of activity in 2021. Inflation, rising interest rates, and recession fears are in the spotlight for 2022.
- » Year-over-year completed deal volume through September decreased 22% compared to 2021 levels.
- » Demand for acquisition opportunities continues to be high, but buyers have indicated that there will be greater emphasis on high-performing companies and a target's ability to withstand potential economic challenges.

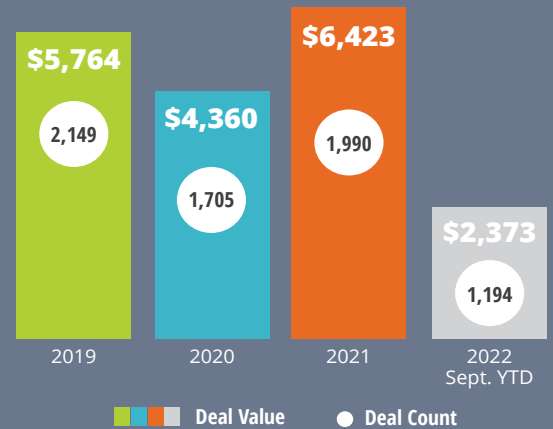
#### M&A Valuation

- » Median middle market EV/EBITDA multiples were 7.6x in 2022 YTD, compared to 8.2x in 2021.
- » Median deal value was essentially unchanged: \$61.8 million in 2022 YTD versus \$62.5 million in 2021.
- » The narrower multiples reflects both the statistical impact of strong late 2021 and 2022 financial performance of sellers (vs. softer 2020 and early 2021) and more cautious growth expectations. Multiples in private-equity backed deals have remained essentially unchanged.
- » We expect valuations to remain strong for high-performing companies, as risk-averse buyers compete for quality. Rising interest rates and cautious lenders are likely to stress lower performers, potentially creating restructuring and distressed opportunities that have been recently scarce.

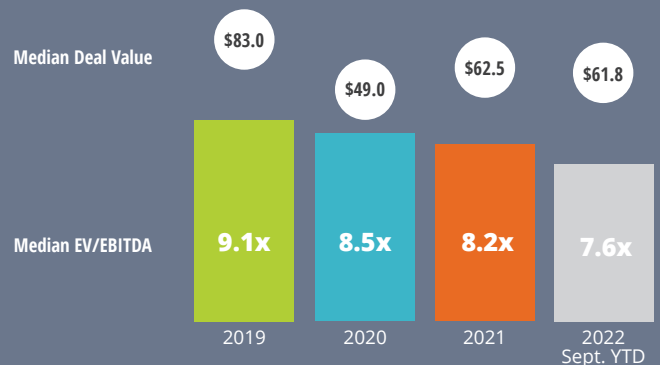
#### SDCF M&A Market Perspectives

- » At this point, we see the year-over-year volume decline and multiple narrowing as a natural bookend to the unusually frantic 2021 activity, driven by COVID bounce-backs and fear of capital gains tax rate increases.
- » Interest rate increases throughout 2022 on their own have not materially impacted buyers' approach, but we are seeing growing evidence of lower risk tolerance and senior debt availability from commercial banks.
- » Representations and warranty insurance is further penetrating the small end of the market and now commonly used in deals of less than \$20mm, creating a greater emphasis on due diligence. Sellers should plan for a robust diligence and proactively mitigate potential gaps.

#### U.S. Middle Market M&A Volume and Value (\$ in B)<sup>1</sup>



#### U.S. Middle Market M&A Disclosed Valuation Metrics (\$ in M)<sup>2</sup>



Source: CapitalIQ

<sup>1</sup> Data represents closed deals with enterprise values of \$250 million and less

<sup>2</sup> Data includes transactions valued at \$10-\$250 million, and at multiples ranging from 3x-15x EBITDA

## PRIVATE EQUITY ("PE") ACTIVITY

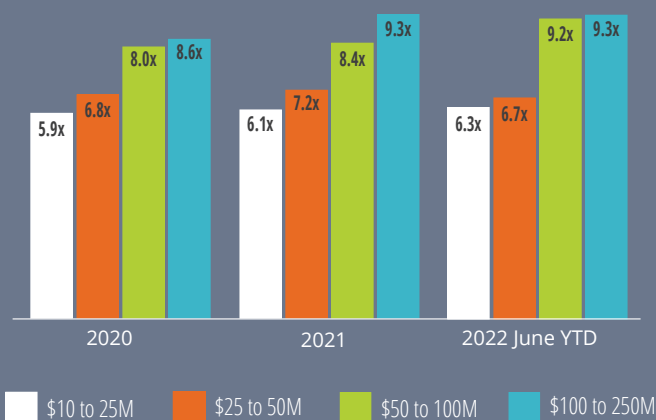
- » Valuation multiples for middle-market private equity deals through Q2 2022 remained consistent with 2021 multiples. According to GF Data, the average EV/EBITDA multiple through June 2022 was 7.4x, which matches that of 2021.
  - In Q2 2022, the average EV/EBITDA multiple was 7.4x, down slightly from 7.5x in Q1.
- » Year-over-year volume decreased 41% as economic challenges, such as inflation and rising interest rates, surface and volume returns closer to pre-pandemic levels.
- » Private Equity continues to pay premiums for size and performance:
  - Targets with above-average financial performance, post-closing management continuity and a private equity/corporate seller traded at an average of 8.4x EBITDA, or 1.0x more than the overall average.
  - Firms valued at \$100M to \$250M traded at 9.3x EBITDA through Q2 2022, 3.0 turns higher than firms valued at \$10M to \$25M.
  - Targets with above-average financial performance accounted for 68% of completed deal activity, an increase from the historic norm of 57%.
- » Through Q2 2022, average equity contribution increased slightly to 48.8% compared to 48.2% in 2021.
- » The combined impact of higher interest rates and reduced senior debt availability, driven by incrementally less risk-tolerant commercial lenders, began to appear in the Q2 data and the impact on capital structure has the potential to be more evident going forward.

PRIVATE EQUITY VALUATION BY INDUSTRY				
	2022 June YTD EV/EBITDA by Industry			
	Manufacturing	Business Services	Distribution	Health Care Services
\$10 to 25M	5.7x	6.4x	5.5x	7.0x
\$25 to 50M	6.8x	6.7x	6.6x	8.7x
\$50 to 100M	8.9x	9.6x	6.5x	6.3x
\$100 to 250M	8.2x	9.6x	8.7x	14.7x
Total	7.1x	7.5x	6.6x	8.3x
Total Number of Deals	44	39	18	8

Source: GF Data®

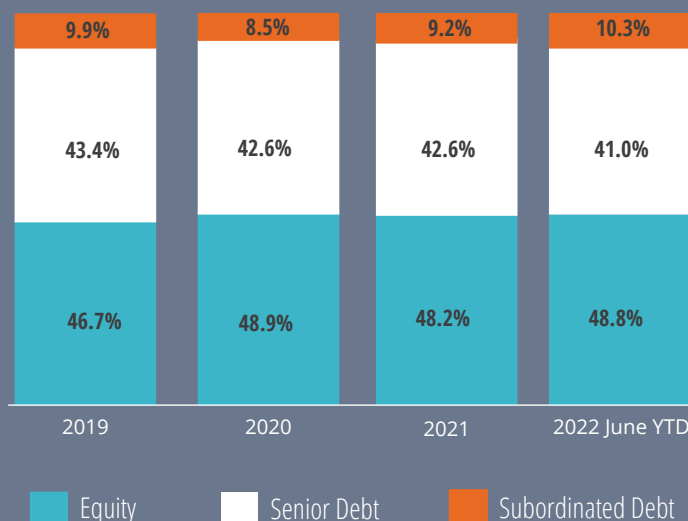
Contact Schneider Downs Corporate Finance to learn more about industry-specific valuation data.

## EV/EBITDA (by transaction size)



Source: GF Data®

## Equity and Debt Contribution by Year



Source: GF Data®

# REPRESENTATIVE M&A TRANSACTIONS

## Manufacturing and Industrial Services



Advised  
CWM Environmental, LLC.  
on its sale to  
Metiri Analytical Group, Inc.



Advised  
Calgon Carbon Corporation  
on the sale of its  
UV Technologies division to  
De Nora Holdings US, Inc.



Advised  
Westmoreland Advanced  
Materials, Inc.  
on its sale of certain assets to  
Allied Mineral Products, LLC



Advised DMLogic, LLC  
on its sale of a  
majority ownership interest to  
Körber AG



Advised NILCO Corporation  
on its acquisition by  
Platinum Equity



Advised TIGG Corporation  
on its sale to  
The Spencer Turbine Company,  
a portfolio company of  
Alliance Holdings, Inc.



Advised  
Powerohm Resistors, Inc.  
on its sale to  
Hubbell Industrial Controls, Inc.,  
a business unit of  
Hubbell Incorporated



Advised Snap-tite, Inc.  
on its sale to  
Parker Hannifin Corporation



Advised Union Spring &  
Manufacturing Corp.  
on the sale of its Pontotoc Spring  
division to MW Industries, Inc., a  
portfolio company of  
Genstar Capital



Advised Heartland  
Petroleum, LLC  
on its recapitalization by  
Warren Distribution

## Energy and Utility Services



Advised  
Producers Supply Company, Inc.  
on its sale to  
BPS Supply Group,  
a portfolio company of  
Trive Capital



Advised  
Klein's Restoration Services  
on its sale to  
Yak Access, LLC,  
an affiliate of Platinum Equity



Advised  
Keystone Consultants, Inc.  
on its sale to  
Contract Land Staff, LLC,  
an affiliate of Oaktree Capital  
Management, L.P.



Advised Well Service Group, Inc.  
and Utility Access Solutions, Inc.  
on their sales to  
Newpark Resources Inc.



Advised  
Weavertown Transport Leasing, Inc.  
and Weaver Town Oil Services, Inc.,  
operating as  
Weavertown Environmental Group,  
on their sale to Univar USA Inc.



Advised Conveyor Services  
Corporation, Classic Conveyor  
Components  
Corporation and Affiliates  
on its sale to Fenner, PLC



Advised Troy D. Dolan  
on his equity investment  
in Diamond Technical  
Services, Inc.



Advised S/D Engineers, Inc.  
on its sale to  
Siemens Power  
Generation, Inc.



Advised  
L.R. Kimball & Associates, Inc.  
on its sale to  
CDI Corp.

## Consumer/Healthcare



Advised  
HTG Supply, LLC  
on its recapitalization by  
Forest Lane Capital



The assets of  
Kanata Blanket Company and  
Neet Feet have been acquired  
by an undisclosed buyer

*The undersigned, in conjunction with Schneider  
Downs Meridian, served as the financial advisor  
to the seller (UKM Trading Co.)  
Schneider Downs Corporate Finance, LP*



Advised Sam Levin, Inc.  
on its sale to  
Art Van Furniture,  
an affiliate of  
Thomas H. Lee Partners, L.P.



Advised James Austin Company  
on its sale to  
KIK Custom Products,  
an affiliate of  
Centerbridge Partners, L.P.



Advised  
Choice Respiratory Care, Inc.  
on its sale to a national  
respiratory care provider



Advised Eat'n Park Hospitality Group  
on the sale of its  
Cura Hospitality division to  
TrustHouse Services Group



Advised AAA Allied Group on its  
acquisition of  
Bob Sumerel Tire Co. Inc.'s  
retail business



Advised ABARTA, Inc.  
on its acquisition of  
Kahiki Foods, Inc.

# REPRESENTATIVE REAL ESTATE TRANSACTIONS

## Value-Added Multifamily



Advised FP Peachtree Industrial Holdings LLC, an affiliate of Faros Properties, on its issuance of membership interests to finance the acquisition of a 256-unit multifamily property in the Atlanta suburb of Duluth, Georgia



Advised HLC Layers Fund LP, an affiliate of HLC Equity, on its issuance of limited partnership interests to finance the acquisition of a 330-unit multifamily property in the Dallas suburb of Farmers Branch, Texas



Advised FP Baldwin Park Holdings LLC, an affiliate of Faros Properties, on its issuance of membership interests to finance the acquisition of a 184-unit multifamily property in Orlando, Florida



Advised Chapel Hill Property Fund LP, an affiliate of Republic Properties Corp., on its issuance of limited partnership interests to finance the acquisition of a 144-unit multifamily property in the Chapel Hill suburb of Carrboro, North Carolina



Advised Waypoint Acquisition Portfolio 2020-B, LP, an affiliate of Waypoint Residential, LLC, on its issuance of limited partnership interests to finance the acquisition of a 698-unit portfolio comprised of two multifamily properties in Dallas, Texas and Daytona Beach, Florida



Advised FP Riverdale Holdings LLC, an affiliate of Faros Properties, on its issuance of membership interests to finance the acquisition of a 316-unit multifamily property in the Atlanta suburb of Riverdale, Georgia



Advised FP Glenwood Holdings, LLC, an affiliate of Faros Properties, on its issuance of membership interests to finance the acquisition of a 304-unit multifamily property in the Atlanta suburb of Decatur, Georgia



Advised Millspring Property Fund LP, an affiliate of Republic Properties Corp., on its issuance of limited partnership interests to finance the acquisition of a 159-unit multifamily property in Richmond, Virginia



Advised Grand Canyon Ranches LLC, an affiliate of HLC Equity, on its issuance of limited partnership interests to finance the repositioning of a 336-unit multifamily property in Fort Worth, Texas



Advised Six Forks Property Fund LP, an affiliate of Republic Properties Corp., on its issuance of limited partnership interests to finance the acquisition of a 174-unit multifamily property in Raleigh, North Carolina



Advised Yorkshire Property Fund, LP, an affiliate of Republic Properties Corp., on its issuance of limited partnership interests to finance the acquisition of a 202-unit multifamily property in Yorktown, Virginia

## Ground-Up Multifamily



Advised Brevard Properties I JV, LLC, an affiliate of RISE Properties, LLC, on its issuance of membership interests to finance the construction of a 166-unit active adult multifamily property in Viera, a master-planned community adjacent to Melbourne, Florida



Advised Rya Apartments, LLC, an affiliate of Schafer Richardson, Inc., on its issuance of membership interests to finance the construction of a 237-unit multifamily development in the Minneapolis suburb of Richfield, Minnesota



Advised Waypoint Maple Street-Ind. Investors, LP, an affiliate of Waypoint Residential LLC, on its issuance of limited partnership interests to finance the construction of a 214-unit multifamily development in Jeffersonville, Indiana



Advised Waypoint West Kernan-FL Investors, LP, an affiliate of Waypoint Residential LLC, on its issuance of limited partnership interests to finance the construction of a 301-unit multifamily development in Jacksonville, Florida



Advised Waypoint Hackensack Urban-NJ Investors, LP, an affiliate of Waypoint Residential, LLC, on its issuance of limited partnership interests to finance the construction of a 235-unit multifamily development in Hackensack, New Jersey



Advised Waypoint Tampa Starkey Investors, LP, an affiliate of Waypoint Residential, LLC, on its issuance of limited partnership interests to finance the construction of a 384-unit multifamily development in Tampa, Florida



Advised Waypoint Austin Falcon Investors, LP, an affiliate of Waypoint Residential, LLC, on its issuance of limited partnership interests to finance the construction of a 324-unit multifamily development in Austin, Texas



Advised Waypoint Jacksonville Investors, LP, an affiliate of Waypoint Residential, LLC, on its issuance of limited partnership interests to finance the construction of a 380-unit multifamily development in Jacksonville, Florida



Advised Rochester Apartments, LLLP, an affiliate of Schafer Richardson, Inc., on its issuance of limited partnership units to finance the construction of a 209-unit multifamily development in Rochester, Minnesota

## Student Housing



Advised Baltimore Properties II, LLC, an affiliate of RISE Properties, LLC on its issuance of membership interests to finance the construction of a 181-unit student housing property in Baltimore, Maryland



Advised Oxford West Properties I LLLP, an affiliate of RISE Properties, LLC on its issuance of limited partnership units to finance the acquisition and repositioning of a 303-unit student housing property in Oxford, Ohio



Advised Athens Ohio Properties I, LLLP, an affiliate of RISE Properties, LLC on its issuance of limited partnership units to finance the acquisition and repositioning of a 182-unit student housing property in Athens, Ohio



Advised Baton Rouge Properties I, LLLP, an affiliate of RISE Properties, LLC, on its issuance of limited partnership units to finance the acquisition and repositioning of a 240-unit student housing property in Baton Rouge, Louisiana



Advised Daytona Properties I, LLLP and Daytona Properties II, LLLP, affiliates of RISE Properties, LLC, on their issuance of limited partnership units to finance the construction of a 288-unit student housing property in Daytona, Florida



## **SCHNEIDER DOWNS CORPORATE FINANCE, LP**

Schneider Downs Corporate Finance is a leading, full-service investment banking, corporate finance and strategic advisory firm serving the needs of mid-market and small companies.

With more than 75 combined years of financial transaction, strategic advisory and executive management experience across a broad spectrum of industries and client situations, our focus is to provide premier advisory services in the areas of company sales and divestitures, acquisitions, fund-raising and strategic advisory.

Our dedicated team of highly skilled professionals are deeply involved with every aspect of client engagements. Supported by the wealth of resources of Schneider Downs & Co., Inc., we are able to service our clients' needs at every step of the process.

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