WCF Market Update

March 2022

M&A deal activity continues to reach record highs in Q4 2021

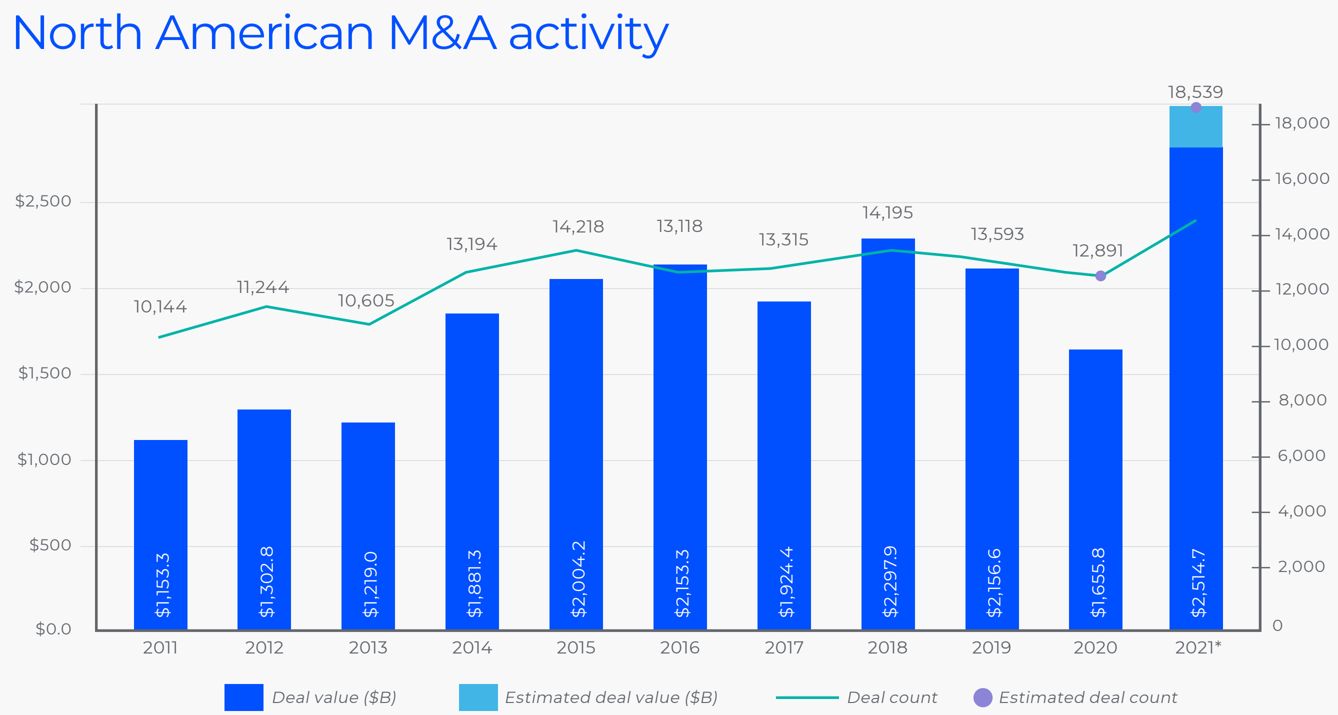
Deal activity in the fourth quarter of 2021 continued its record-setting pace as seen in the previous three quarters, driven by the continued economic recovery, favorable cost of debt, high levels of dry powder and strengthening job market. Favorable stock prices and relatively low borrowing costs spurred buyers.

The robust activity is expected to continue in 2022 amidst new challenges and uncertainty. Investors’ concerns regarding interest rate have heightened, as the Fed has signaled interest rate hikes.

M&A activity

Dealmakers in almost every sector had an extraordinarily busy FY 2021. The M&A spike swept across the North American economy, with deal volume and deal values, in particular, up significantly from 2020 totals. PitchBook reports that the North American deal market closed 18,539 deals in FY 2021, accounting for a combined $2.8 billion in value, exceeding all previous annual records this decade in terms of deal count and deal value.

Economic uncertainty continues to diminish, resulting in executives feeling more confident and willing to pursue more sizable M&A deals than a year ago. In addition, strong stock prices, ample cash on corporate balance sheets and cheap financing will likely continue this momentum into 2022.



*As of December 31, 2021 (Source: PitchBook | Geography: North America)

In aggregate, middle-market valuations remained consistent at 7.5x EBITDA from Q3 2021 to Q4 2021, as reported by GF Data in its quarterly M&A report. Valuations for companies in the $25-$50 million enterprise value range fell from 7.6x EBITDA to 6.9x EBITDA, from Q3 2021 to Q4 2021, respectively.

Size continued to be a significant driver of valuation, as companies in the $100-$250 million enterprise value range led the way, averaging a multiple of 9.2x in Q4 2021. Transactions in the $10-$25 million range averaged a 6.3x EBITDA multiple in Q4 2021, rising 0.2x from the previous quarter.

TEV/EBITDA — quarterly splits

TEV	1Q 2020	2Q 2020	3Q 2020	4Q 2020	1Q 2021	2Q 2021	3Q 2021	4Q 2021	N =
10-25	5.8	6.0	6.2	5.8	6.3	5.8	6.1	6.3	256
25-50	7.0	6.8	6.6	6.6	6.9	7.0	7.6	6.9	234
50-100	8.2	8.4	7.1	8.1	7.8	8.2	8.5	8.5	161
100-250	9.5	9.2	7.8	7.8	8.2	9.5	9.5	9.2	110
Total	7.3	7.3	6.6	6.8	7.0	7.1	7.5	7.5	
N =	96	37	61	135	119	89	73	151	761

(Source: GF Data ®)

Four business categories — manufacturing, business services, healthcare services and distribution — accounted for over 80% of deal volume for FY 2021, with valuation multiples ranging from 7.1x to 8.0x EBITDA.

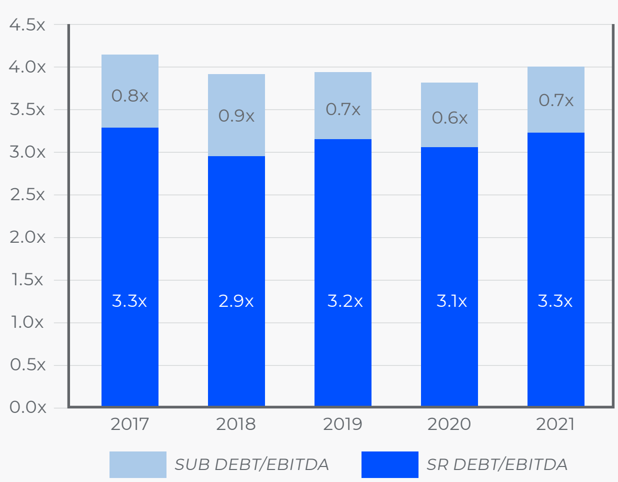
TEV/EBITDA — by industry								
Industry	2003-2016	2017	2018	2019	2020	2021 YTD*	Total	N =
Manufacturing	6.0	6.8	6.9	6.5	6.7	7.1	6.3	1764
Business services	6.2	7.3	7.1	7.1	7.0	7.3	6.7	913
Healthcare services	7.0	8.1	7.8	8.4	7.8	8.0	7.4	392
Retail	6.4	7.3	7.5	9.3	6.9	7.7	6.8	121
Distribution	6.3	7.6	6.9	7.0	7.5	7.3	6.7	448
Media and telecom	7.0	7.7	7.8	7.0	8.3	6.3	7.2	67
Technology	7.1	9.9	9.6	10.0	7.6	9.4	8.0	140
Other	5.9	6.5	7.0	6.5	6.2	6.5	6.1	417
N=								4262

Please note that N for 2003-16 encompasses 14 years of activity.

As of December 31, 2021 (Source: GF Data ®)

Total debt multiples have been steadily rising to normalized levels, increasing from 4.0x EBITDA in Q3 2021 to 4.2x EBITDA in Q4 2021. The quarter-over-quarter increase can be attributable to the stabilization of debt at elevated levels, the reemergence of junior capital and the re-assertion of platform acquisitions. This increasing trend is consistent with senior debt multiples, which are up from 3.1x EBITDA in Q3 2021 to 3.3x EBITDA in Q4 2021. The subordinated debt multiple of about 0.7x strongly indicates a return to pre-pandemic conditions. All signs suggest that junior capital is more than likely to remain prominent in an active but discriminating market.

Debt multiples



As of December 31, 2021 (Source: GF Data ®)

Continuing to navigate the current macroeconomic landscape

While many of these positive economic attributes remain, more headwinds are expected in 2022. Interest rate hikes, geopolitical tensions rising, new COVID-19 variants, antitrust regulations and other global macroeconomic events may cause companies to taper spending and expansion plans. However, as evidenced by the record deal volume set in 2021, new deals are still getting done despite the uncertainties in the marketplace, and both corporates and sponsors continue to aggressively pursue acquisition opportunities.

Wipfli Corporate Finance Advisors anticipates that valuations and deal activity will continue to remain strong in 2022. With that in mind, preparation for sale should begin now. Buyers will become more aggressive as levels of dry powder are at all-time highs. Markets are working towards an equilibrium, and a new "normal" is continuing to emerge. WCF stands by, ready to help clients navigate through the current M&A environment.

Wipfli Corporate Finance Advisors

provides a broad range of investment banking services tailored for middle-market companies ($10 million to $500 million of revenue) and capital providers.

Our clients benefit from the depth of our leadership team's experience — over 100 years of combined experience advising middle-market companies and management teams — and the extensive knowledge of our parent firm's 320 partners/principals and over 2,900 associates.

Your experienced team at WCF Advisors knows how to prepare the business and effectively navigate troubled waters.

Contact us to learn more or get started.

WIPFLI | CORPORATE FINANCE ADVISORS