



M&A Capital Markets Update

MCM Capital Markets Group /
MCM CPA's & Advisors Annual Updates

December 2022

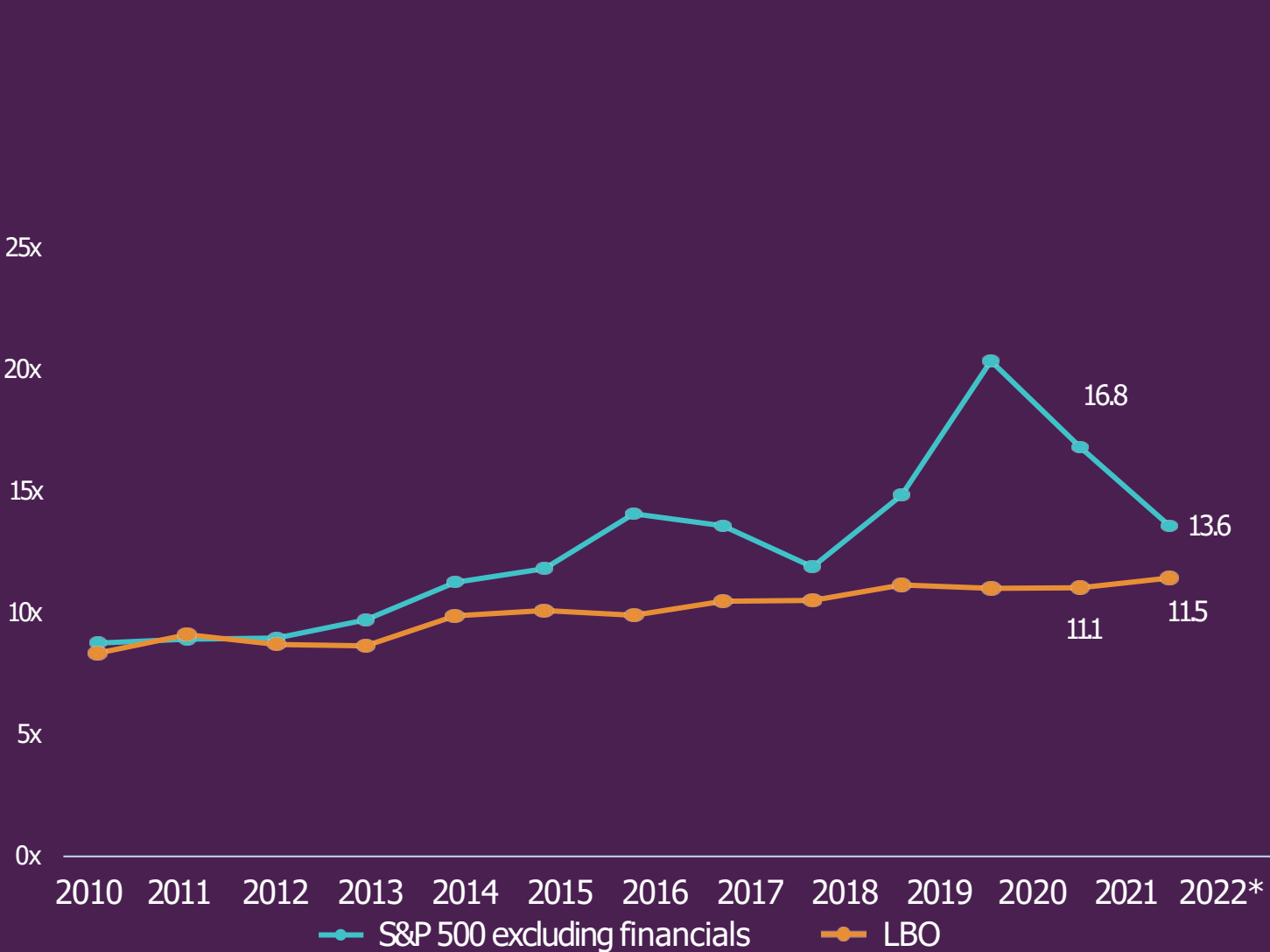
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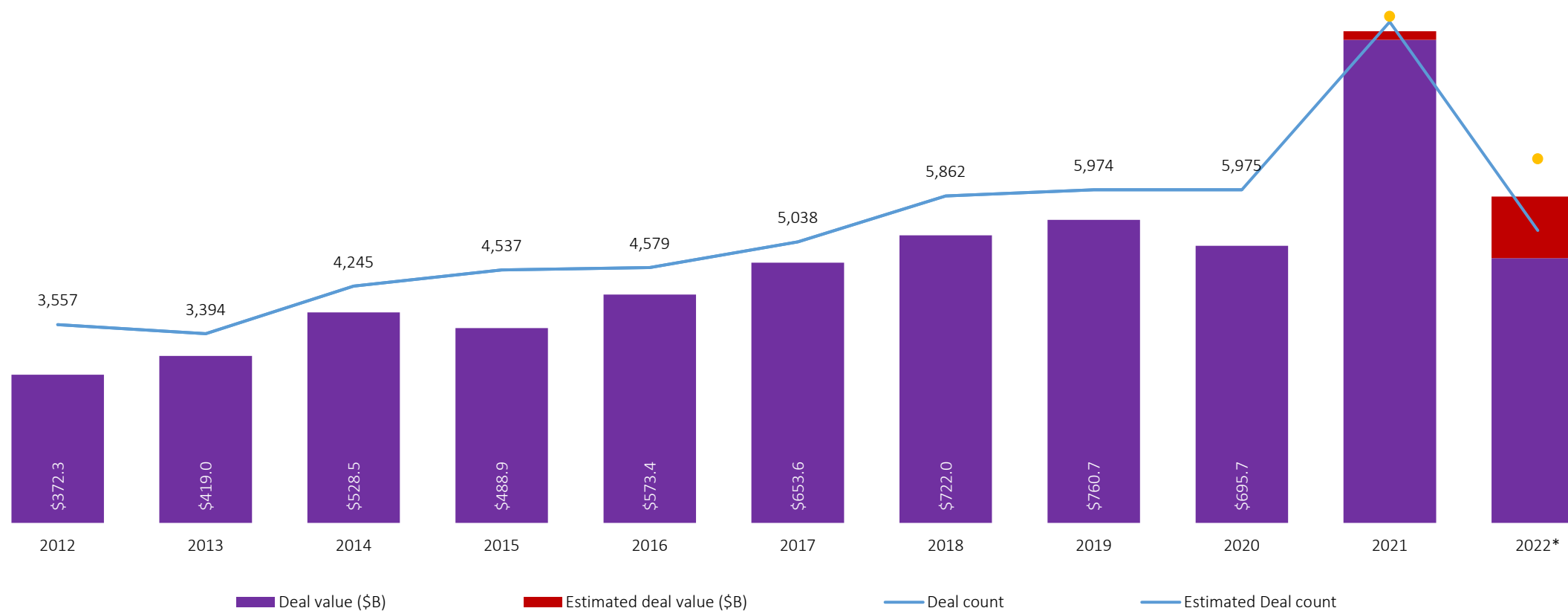
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Public equity versus buyout EV/EBITDA multiples **



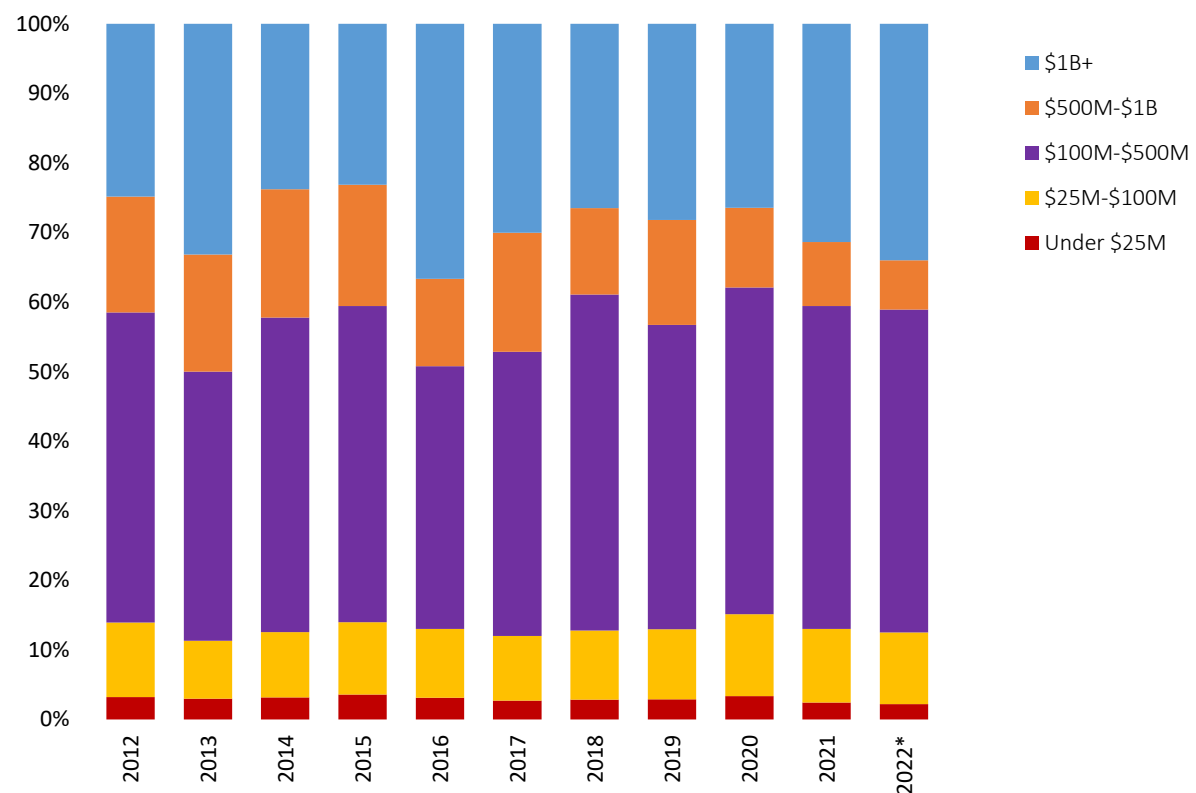
- Despite falling valuations in the public market and significantly higher leverage costs, buyout valuations and leverage on completed deals so far in 2022 have hardly changed
- Based on modeled trends and current activity buyout activity is expected to slow only modestly in 2023
- PE dealmaking has been surprisingly resilient in 2022

Private Equity Deal Activity – US – as of Q3

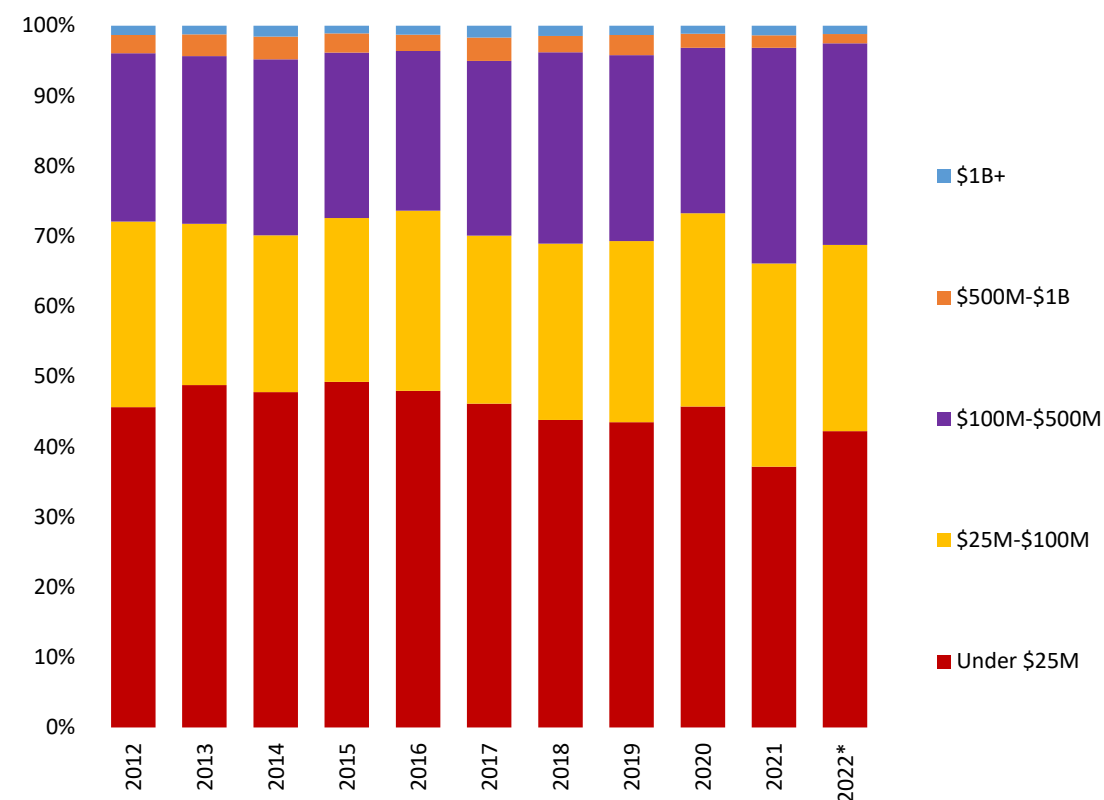


PE Deal Flow by Size – Value and Volume

US PE Deal Flow by value

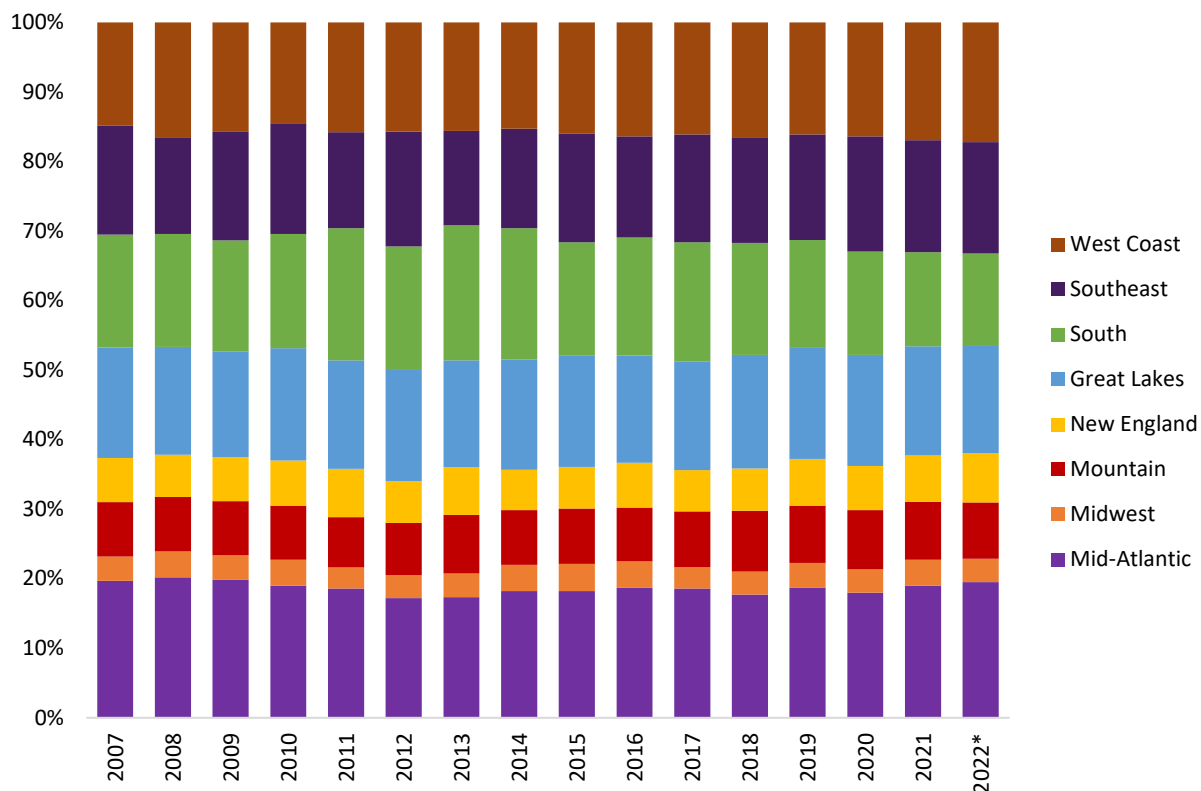


US PE Deal Flow by # of deals

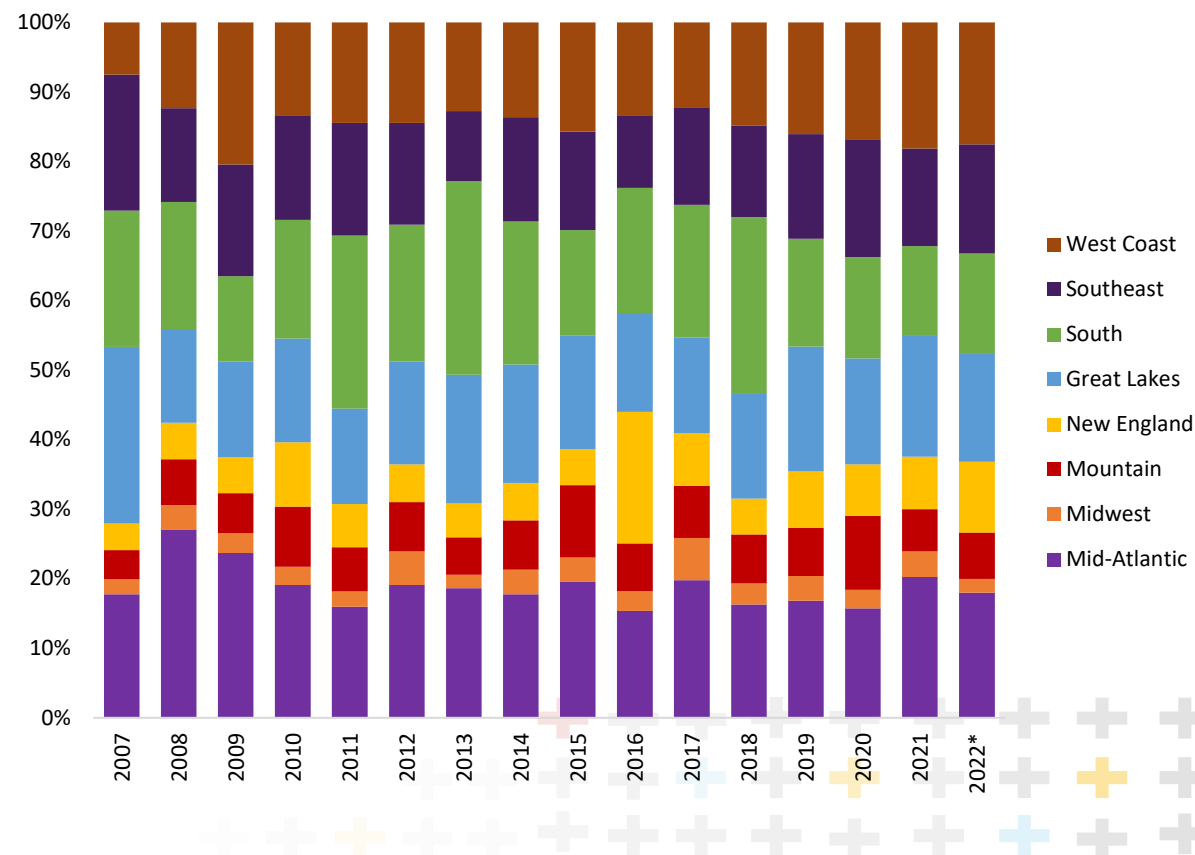


PE Dealflow by Region – Value and Volume

US PE deal count by region



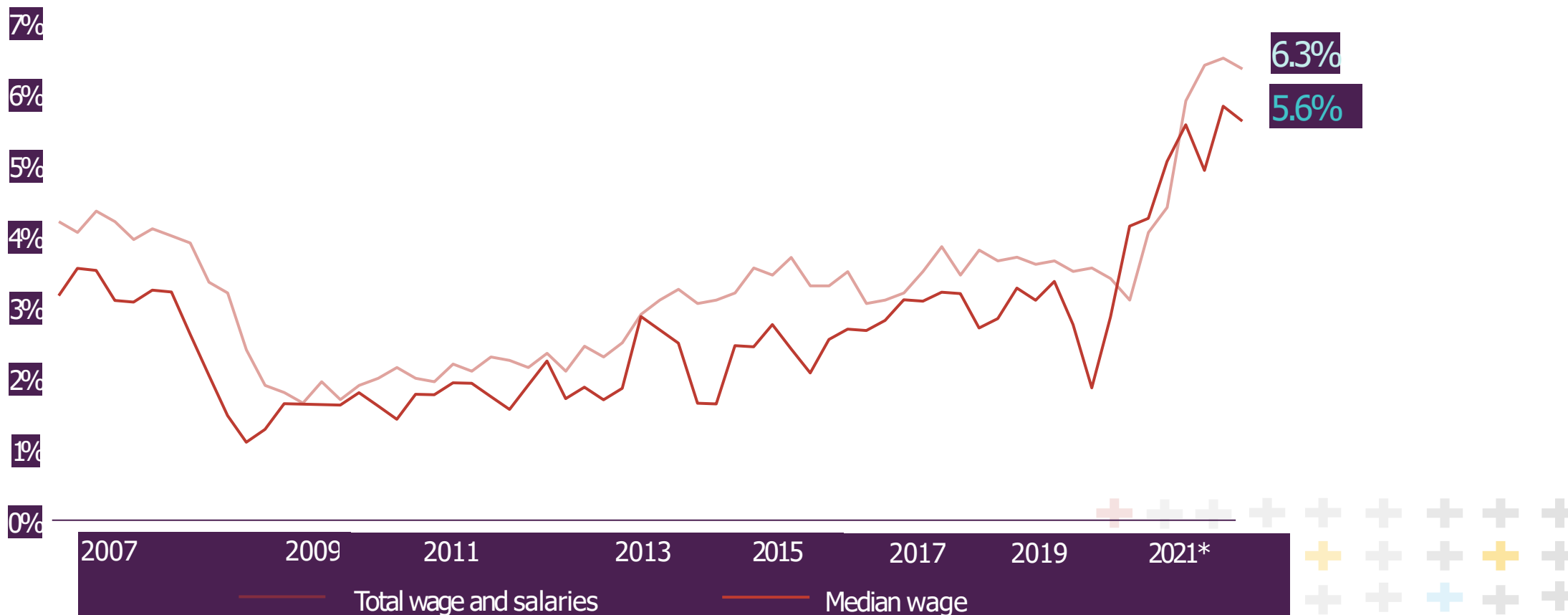
US PE deal value (\$B) by region





Wage Growth Annualized

Wage growth (six-month annualized rate)

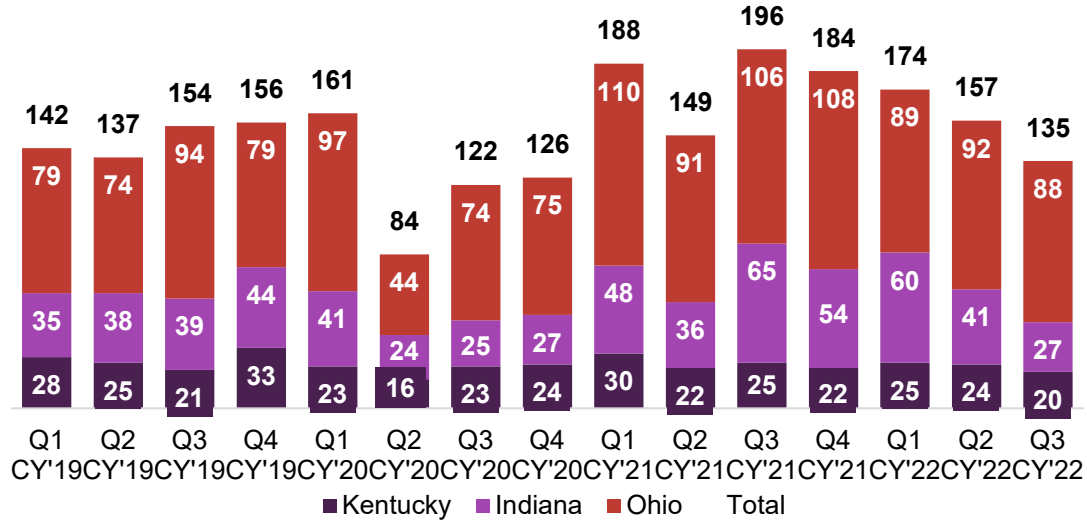


Regional Capital Markets – Market Update

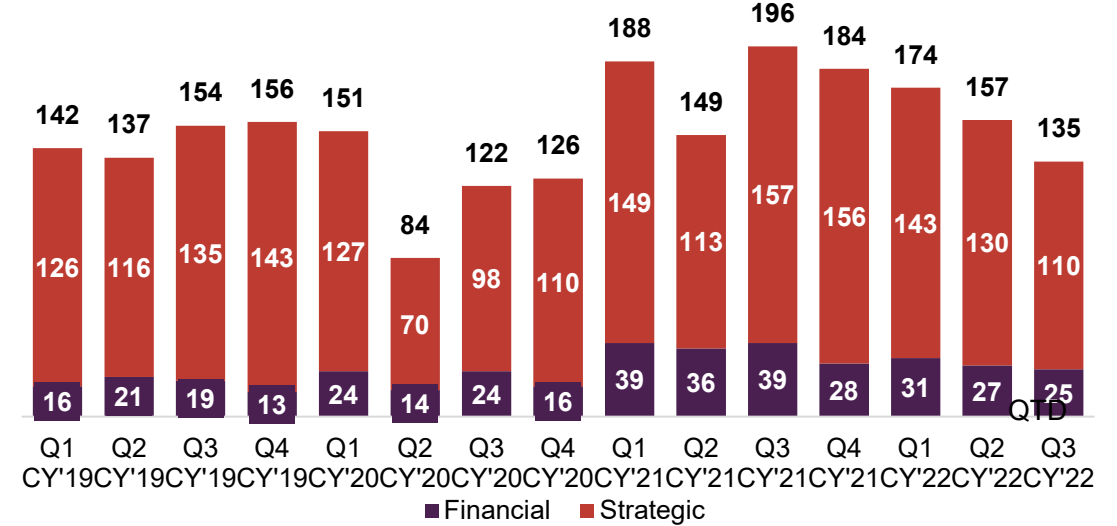


M&A performance in Ohio and Indiana continue to dominate CMG’s footprint, with significant strategic investment into inorganic growth levers

Regional M&A Volume⁽¹⁾



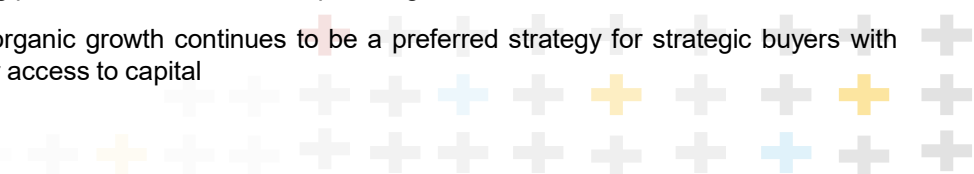
Regional M&A Buyer Composition⁽¹⁾



Commentary

- CY'22 YTD deal volume highlights the strength in LLM deal flow, especially in Ohio and KY, but softening relative to CY'21 volume
- Ohio continues to dominate the regional footprint, with Indiana losing significant momentum in 2022
- Volume outlook for remainder of CY'22 is cautiously optimistic, anticipate a stable number of deals to be consummated throughout the month of December. Leading indicators include capacity opening up in the markets however, significant dry powder remains on the sidelines to be invested

- Regional M&A composition continues to be dominated by Strategic buyers
- Strategic buyer volume may understate private equity involvement in market, with numerous funds supporting portfolios with active roll-up strategies
- M&A fueling inorganic growth continues to be a preferred strategy for strategic buyers with ample capital or access to capital



(1) Source: CAPIQ

2022 M&A Update

- + While globally deal value is down and deal volume is down, deal activity is shifting away from large cap deals to mid-sized transactions, allowing LMM to continue to be very active
- + Despite market volatility, predictions of recession and the increased cost of borrowing, high-quality assets continue to come to market - across all available targets, the average profit margin reached 19.5% in Q3.
- + While the LMM does not reflect the excesses of the public market, the data reflects it also does not stall out or shut down during periods of turbulence

2022 M&A Update

- + In Q3 M&A global transaction value fell 42% compared to Q2
- + Even with the economic uncertainty created by entrenched inflation, persistent supply chain challenges and continued geopolitical tensions LLM in the US remains a notable bright spot
- + Financial sponsors have expanded their presence across the LMM
- + Result – small businesses have been able to benefit from greater economies of scale and diversify revenue streams which has helped to expand the scope of operations and provide some insulation from shocks to any one particular sector or region making the LMM an attractive investment target

2022 M&A Update

- + YOY the level of sell-side activity in Q3 increased 19.6% over Q3 2021, and buy-side mandates increased 42% over the same period.
- + The LLM tends to lag the overall market in terms of deal flow. Business owners are typically focused on running their business and are more reactive to the broader market or specific business issues. (multiples or health issues)
- + Larger companies often evaluate capital markets as a regular business practice and can foresee and react to market dynamics more quickly

2022 M&A Update

- + While the LMM generally hasn't seen a significant downturn, there has been softening in valuation due to increased leverage rates and softening demand resulting in weaker cashflow and increases in inventory levels
- + How has this changed the buyer behavior?
 - + Diligence

Seller considerations

- Seller's market
- Valuations remain high/ premiums remain for high cash flow entities
- Expect heavier diligence than prior to COVID
- Consider a Quality of Earnings Report
- Prepare adjusted historical and normalized projected revenue, EBITDA, capital expenditures
- Growth through acquisition as a selling strategy
- Expect an earnout
- There are multiple buyers, if you are talking with only one party, gain an understanding if what you're being offered is market.

EBITDA Addback Specifics

- EBITDA adjustments can have a positive or negative effect.
- There will always be the usual addbacks:
 - Compensation
 - Rent
 - Other Perks
- COVID adds a whole different level of adjustments.
- For some businesses, the adjustments could actually be detrimental for the business if the business has prospered during this pandemic.
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- Understanding the COVID impact on current operations is key but also consider whether COVID has changed your business model.
- How COVID has impacted your customer base and your suppliers has a direct impact on your business. This should be accounted for in a valuation, EBITDA and budgeting and forecasts.

EBITDA Addback Specifics

- What are some of the specific adjustments we are seeing during this pandemic?
 - Step back and take a look at the business pre-COVID. Does your business look different?
 - Expenditures for PPE equipment and precautionary measures.
 - Lost revenues / profits due to low staffing and not being able to meet customers demands.
 - Overhead and administrative expenses not incurred due to the pandemic.
 - Impact of PPP loans and potential forgiveness on net working capital.
 - Impact of customer payments for receivables and cash inflows.
 - Impact of supplier shortages. Have you had to build up inventory? Is inventory higher because of the necessity to accumulate? Have you lost sales due to shortages of materials.
 - Has the business benefited from COVID? If so, you should normalize this performance.

MCM CMG Investment Banking Group



Angela Marshall,
CPA, CCIM, CGMA
Partner

Angela Marshall is a Partner in the Louisville office of MCM Capital Markets Group.

Angela focuses her practice in mergers and acquisitions within the firm's consulting group. She provides full-service investment banking services to middle-market clients in the Kentucky, Indiana, and Ohio regions. Angela has more than 25 years of experience in assisting owners in transitioning their businesses, including buying and selling businesses, turnaround, and financial management. Prior to joining MCM, Angela worked as a director for Corporate Finance Associates, a worldwide middle-market investment banking firm. Angela has owned her own commercial construction and real estate company. Throughout her career, she's worked on M&A transactions in broadcasting, healthcare, banking, manufacturing, distribution, technology, business services, and construction.

EDUCATION

M.B.A., University of Kentucky

B.S., Western Kentucky University



MCM CPAs & Advisors



Drew Chambers,
CPA-ABV, CFF, CFE
Partner

Drew Chambers is a Partner in the Louisville office of MCM CPAs & Advisors.

Drew has more than 20 years of experience in various assurance and consulting capacities while working with numerous businesses in industries including manufacturing, retail, construction, professional services, and publicly-traded companies. His previous experience as a member of the Audit and Assurance Services Group includes oversight of audit, attestation, and consulting engagements for a range of clients in a variety of industries. Drew now focuses his expertise within the firm's consulting group. His current practice is devoted primarily to business valuation for purposes of gift and estate tax areas, mergers and acquisitions, marital dissolutions, and succession planning. Drew also works closely with the legal profession and has served as an expert witness on litigation support projects involving business disputes, lost profits, and economic damages. He also assists businesses in the areas of fraud risk assessments, fraud and forensic examinations, and due diligence analysis for mergers and acquisitions.

EDUCATION

University of Louisville – Bachelor of Science in Accounting
Certified Public Accountant (CPA)
Accredited in Business Valuation (ABV)
Certified in Financial Forensics (CFF)
Certified Fraud Examiner (CFE)

