A Deep Dive into Middle Market M&A & Outlook for 2021

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MARCH 2021

Agenda

- M&A Market Overview
- Private Equity Market Overview
- Concluding Summary

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M&A Market Overview

2020 By The Numbers

21.6%

Decrease in Deal Volume

M&A activity declined from 2019 due to COVID-19 but stimulus and vaccine approvals allowed a return to healthy levels in the final quarters of the year

6.3x

Average Debt Multiple

Debt financing improved year-over-year, with the median debt multiple rising to 6.3x in 2020 from 6.0x in 2019

9.9x

EBITDA Multiple Paid, $25M-$50M

EBITDA multiples in the $25M-$50M segment increased to 9.9x from 7.5x, while the average mid-market ($10M-$250M) multiple remained unchanged

21.1%

Number of PE Transactions

PE deal volume declined 21.1% YoY from 2019 but Q3 and Q4 results suggest increasing activity in 2021

32.9%

Private Company Acquisitions

Deals involving private buyers fell 32.9% in 2020, compared to 2019, while deals with public buyers fell 17.2% in the same period

0.5%

Non-U.S. Buyer Transactions

Foreign buyers accounted for 9% of middle market transactions <$500M in 2020, down half a percent from the previous year

$1.4T

PE Capital Overhang

2020 PE cumulative dry powder increased $203.2 billion from 2019, providing a healthy backdrop for robust deal activity in 2021

72.5%

Add-ons as a Percent of LBOs

Add-ons represented the majority as a percent of all buyout activity in 2020, amounting to a record number of LBOs

14.1x

PE EBITDA Multiple Paid

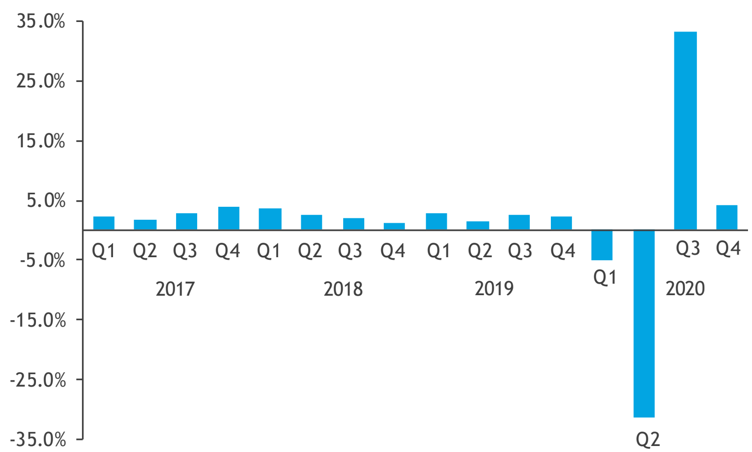
EBITDA multiples paid by PE buyers increased YoY to 14.1x in 2020, up from 12.7x in 2019, even as the total number of transactions fell

M&A Market Overview

GDP Forecasted to Grow – Consumer Sentiment Strengthens

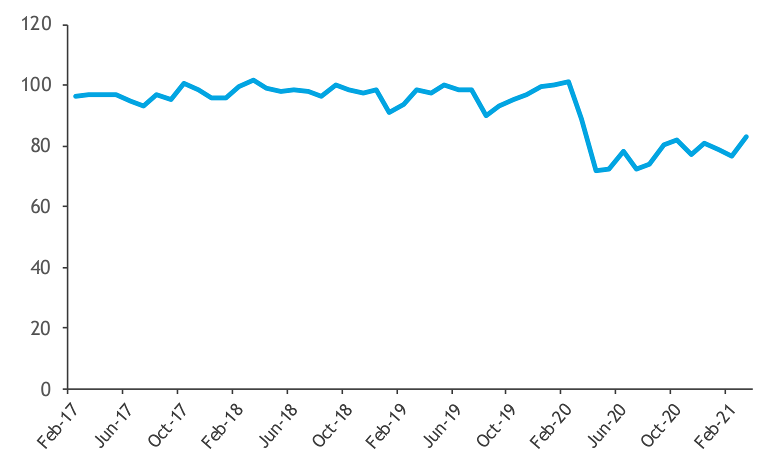
- U.S. GDP growth at 4.0% in Q4 2020, projected to climb to 6% in 2021
  - Global worry – lingering concerns over pandemic, inflation
  - US economic health is an important influencer of capital markets activity
- Unemployment rate at 6.2% as of February 2021, an improvement of 0.8% from Q4 2020
  - Unemployment remains high, but initial jobless claims trending down from Q1 2020 highs
- Wages increased 3.4% from February 2020 to February 2021

U.S. GDP Percent Change Q-o-Q



Source: Bureau of Economic Analysis; 1/1/2017 through 12/31/2020

U.S. Consumer Sentiment



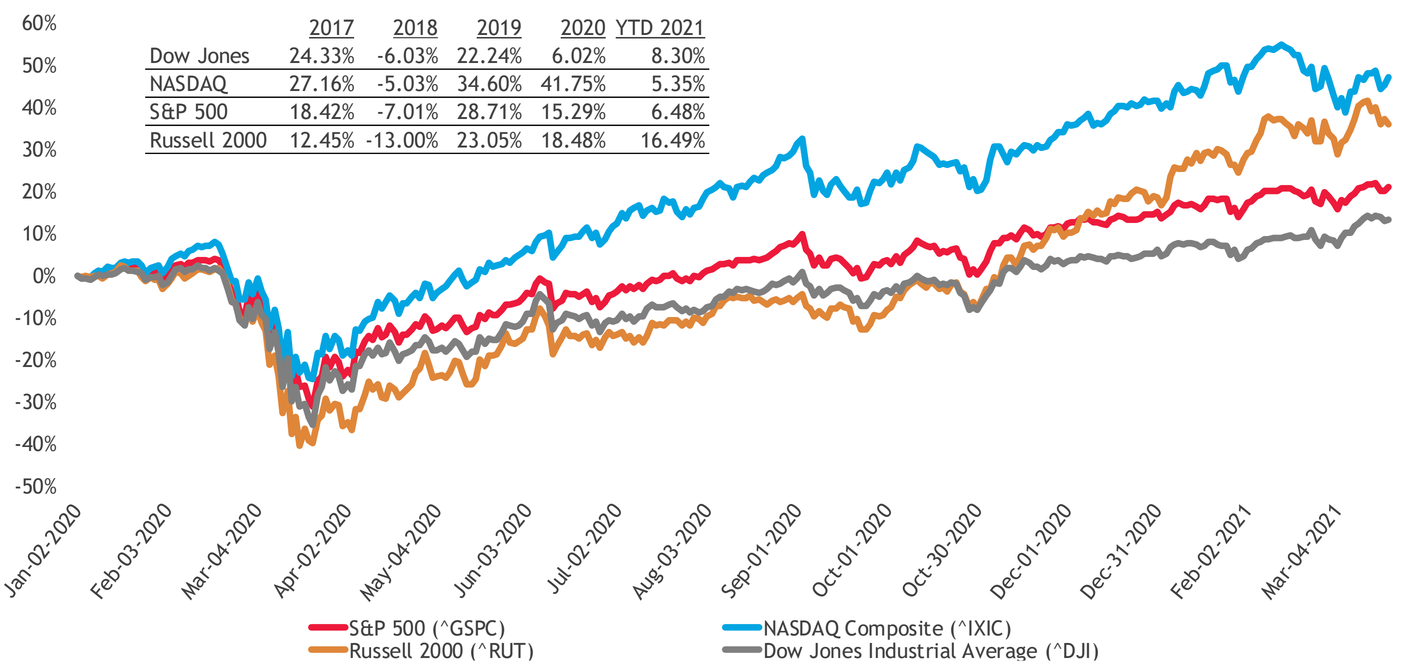
Source: US Index of Consumer Sentiment (ICS), University of Michigan; 2/1/2017 through 2/28/2021

M&A Market Overview

Equity Markets Rise & Rise…

- Volatility but resiliency: U.S. and China trade agreement, COVID-19, Fed rates and stimulus, vaccine approvals, inflation concerns, unemployment vs. stock market optimism.
- Performance reflects stellar run up of a few large companies and not an indication of the overall health of the economy.

Major U.S. Indices



	2017	2018	2019	2020	YTD 2021
Dow Jones	24.33%	-6.03%	22.24%	6.02%	8.30%
NASDAQ	27.16%	-5.03%	34.60%	41.75%	5.35%
S&P 500	18.42%	-7.01%	28.71%	15.29%	6.48%
Russell 2000	12.45%	-13.00%	23.05%	18.48%	16.49%

Source: S&P Capital IQ; 1/2/2020 through 3/22/2021

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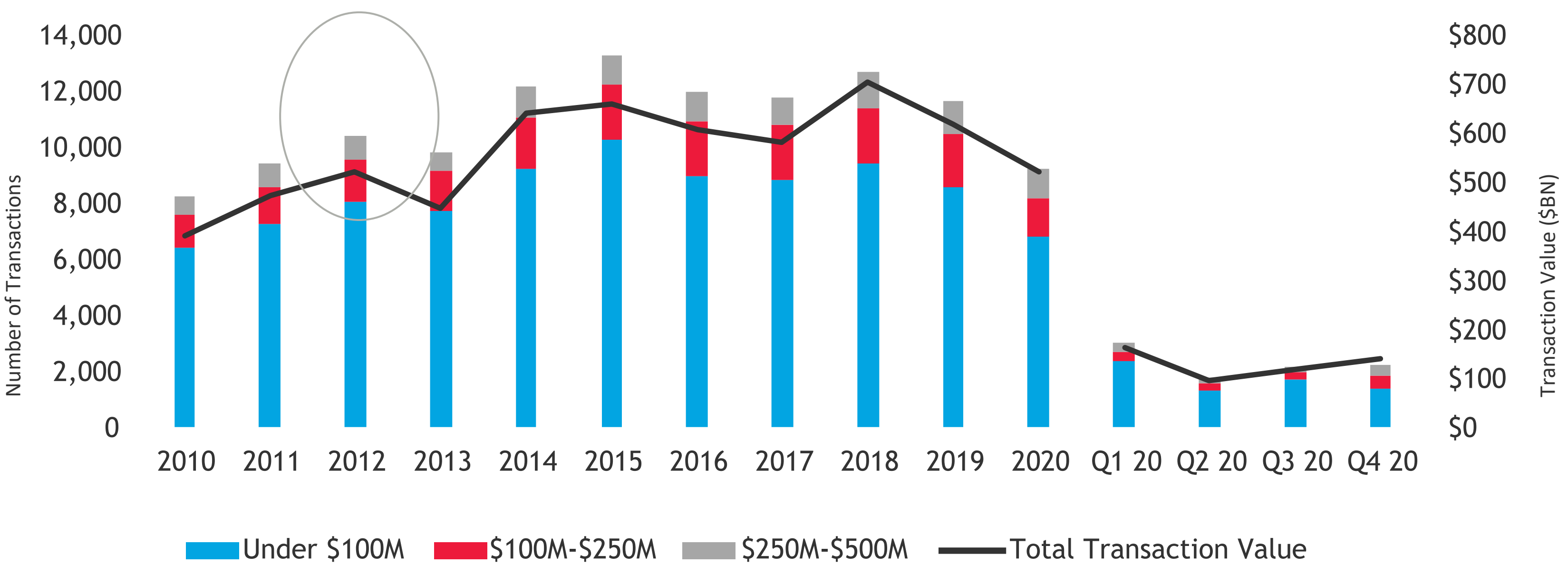
M&A Market Overview

U.S. Middle Market M&A Activity is Primed to Recharge in 2021

- 2020 was a rollercoaster – fervent pace in Q1, freefall in Q2 and rebound in Q3 and Q4.
- Tax Policy change + pent up buyer appetite + an abundance of capital will likely drive activity throughout 2021. 2012 from 15% - 20% drove a spike in activity.
- Technology, healthcare and B2B are expected to attract strategic and PE investment, creating M&A opportunities.

U.S. Middle Market M&A Activity



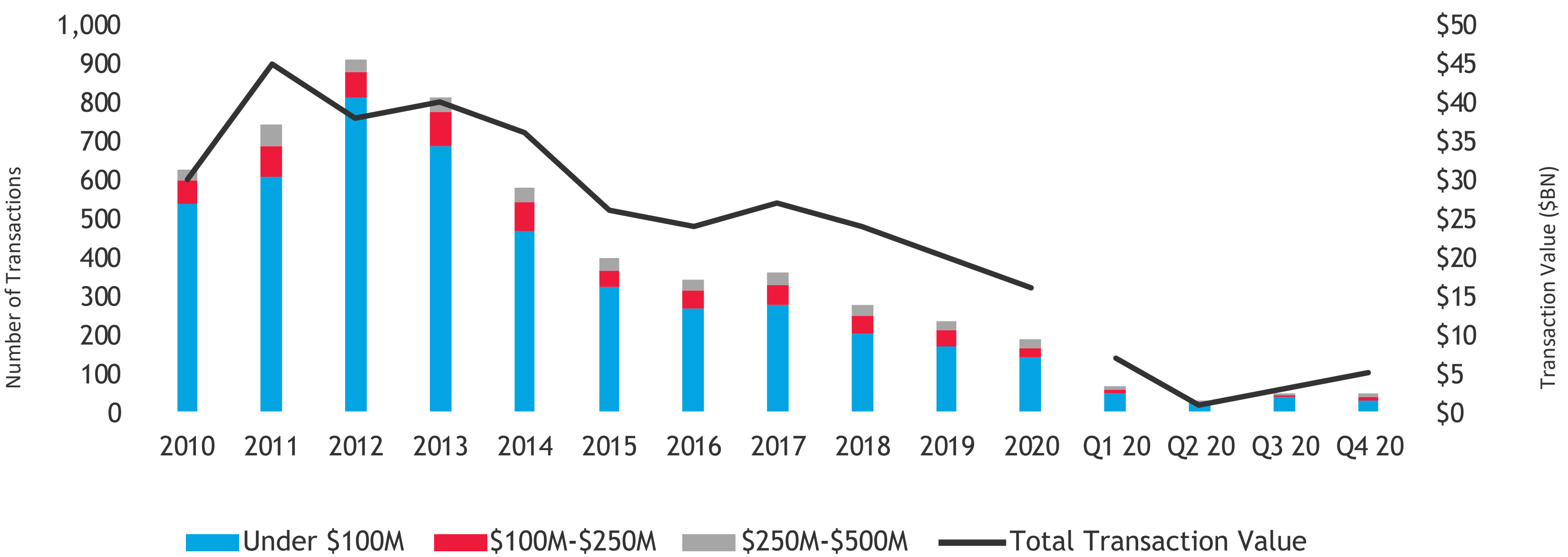
Note: Publicly disclosed M&A transactions
Source: PitchBook; 1/1/2010 through 12/31/2020
Middle Market is defined as deals with an EV of <$500M

M&A Market Overview

Northeast Middle Market M&A Activity Trends Up in Q4 2020

- Northeast dealmaking fell Y-o-Y in 2020, but strong year-end performance could carry into Q1 2021.
- Deal volume remained largely concentrated in the lower middle market (<$100M) while the upper segment ($250M-$500M) gained modestly.
- Technology and healthcare accounted for the majority of Northeast deals in Q4 2020, in line with the broader market.

Northeast Middle Market M&A Activity



Note: Publicly disclosed M&A transactions
Source: PitchBook; 1/1/2010 through 12/31/2020
Middle Market is defined as deals with an EV of <$500M

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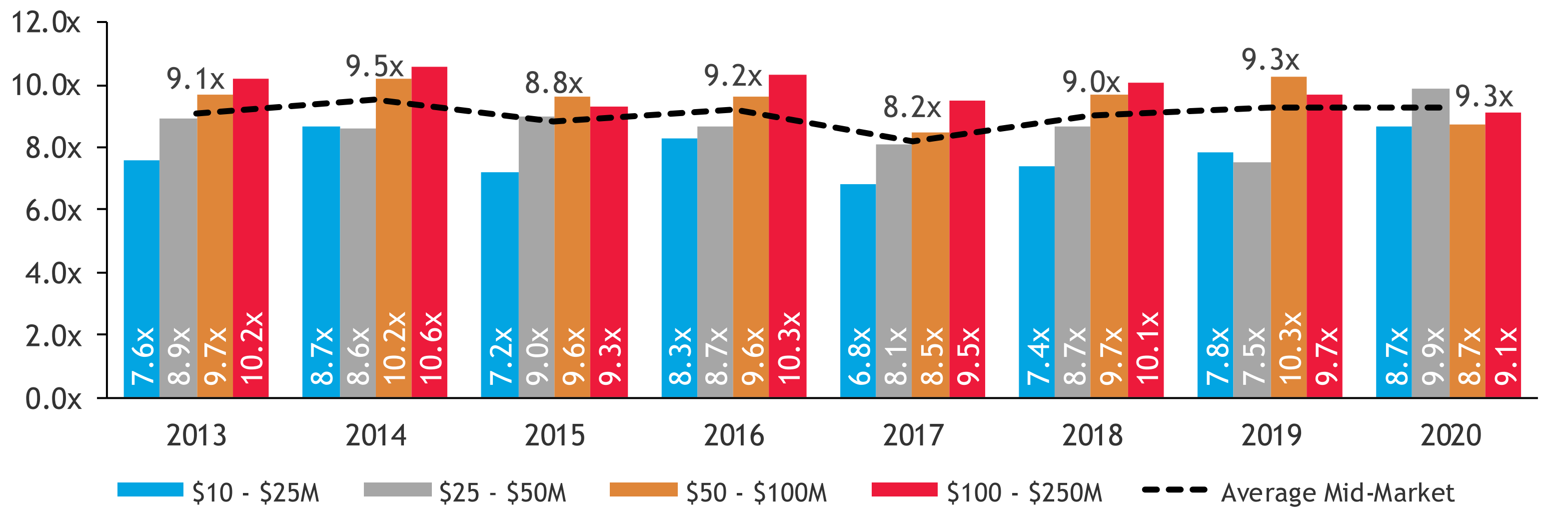
M&A Market Overview

Lower Middle Market Deals Attract Competition and Higher Pricing

- Valuations saw an increase in the lower middle market ($10M - $25M) to 8.7x and ($25M - $50M) to 9.9x EBITDA in 2020, a change of 0.9x and 2.4x, respectively compared to 2019.
- As market risk rose due to COVID-19, buyers moved into the lower middle market ($25M - $50M) driving up competition and transaction pricing.

U.S. M&A Activity



Note: Publicly disclosed M&A transactions
Source: S&P Capital IQ; 1/1/2013 through 12/31/2020
Middle Market is defined as deals with an EV of <$250M

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M&A Market Overview

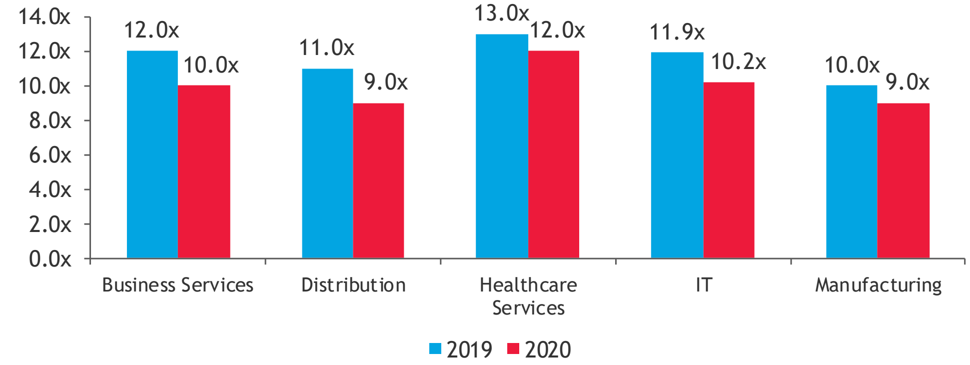
Healthcare & Technology Sectors Drive Buyer Appetite

- Industry multiples largely remain lower year-over-year. However, healthcare services and technology multiples demonstrated COVID- 19 resistance and buyers' appetite for transacting deals in these sectors.

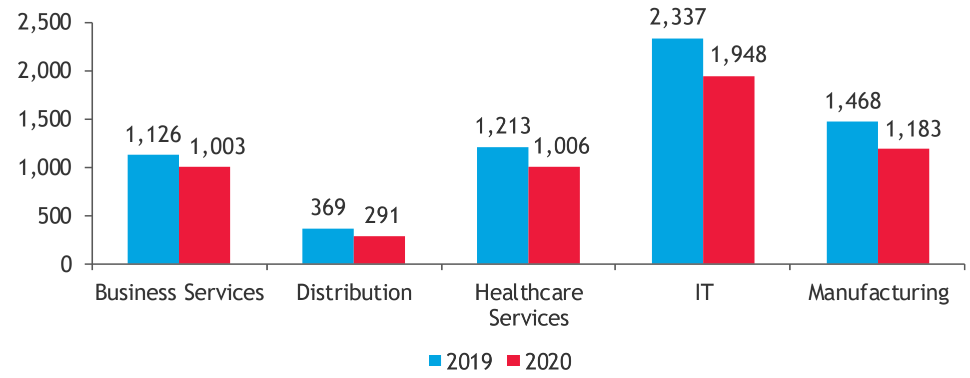
- M&A activity continued to slow across all sectors in 2020, although strategic and financial buyers have begun to emerge from COVID-19 mitigation strategies and resume consolidation efforts.

- COVID-19 performance may become an additional deal consideration for buyers in the future, assessing the resilience and defensibility of cash flows among target companies.

Median EBITDA Multiple by Sector



Transactions by Sector



Note: Publicly disclosed M&A transactions
Source: PitchBook, S&P Capital IQ; 1/1/2019 through 12/31/2020

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M&A Market Overview

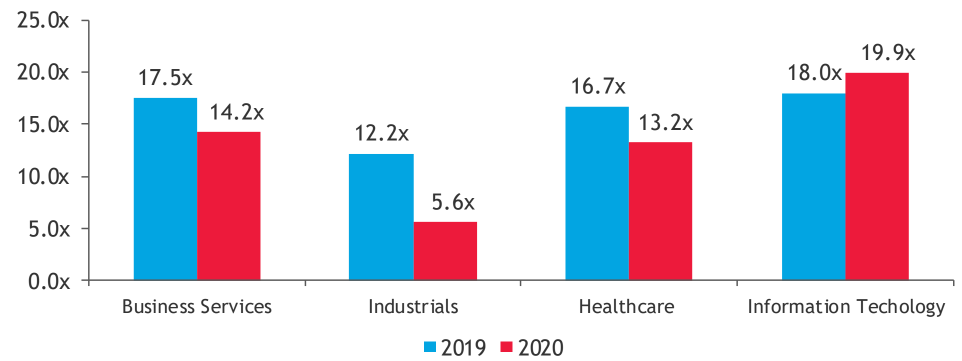
Northeast Technology Outperforms Heading Into Q1 2021

- NE deal multiples declined Y-o-Y, in line with lower volume. However, Information Technology enjoyed higher valuations, in part due to pandemic related demand.

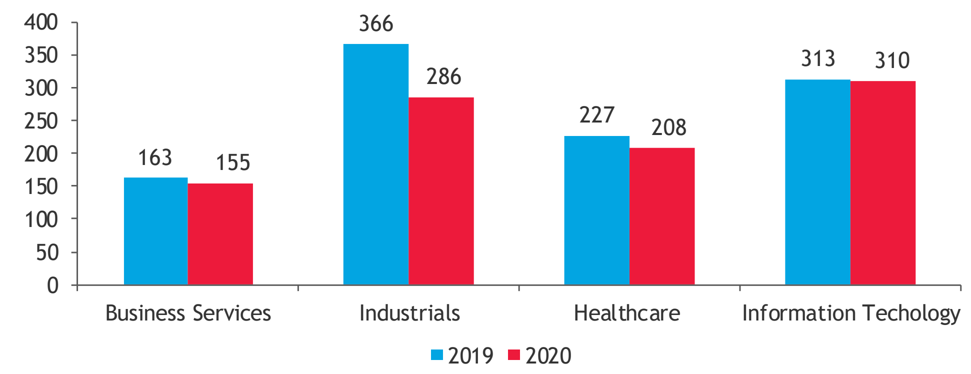
- M&A activity slowed across all sectors in 2020, as companies felt the effect of congested supply chains. Industrials' weakened volume could be attributed to a disadvantage in remote capabilities relative to other sectors.

- Focus remains on accessing capital and strengthening industry positions; as such, we could see investing in scale and consolidations in sectors including technology, healthcare and financial services.

Median EBITDA Multiple by Sector



Transactions by Sector



Note: Publicly disclosed M&A transactions
Source: S&P Capital IQ; 1/1/2019 through 12/31/2020

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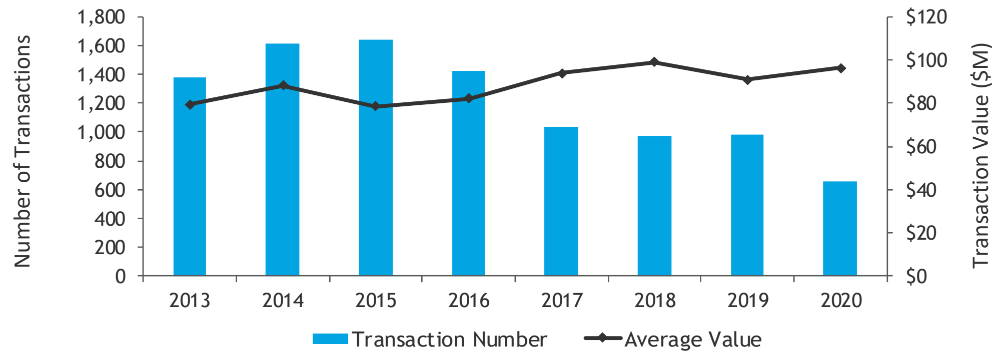
M&A Market Overview

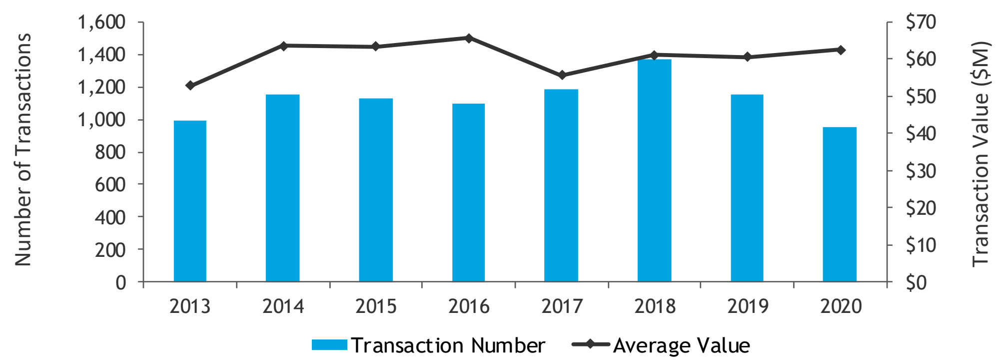
Average Deal Value On the Rise Despite Drop in Private and Public Company Transactions

- Private companies have resumed M&A activity following the Q2 pause, though acquisitions decreased 33% from the prior year while average deal value increased 6%.
- Public companies' deal volume decreased 17% year-over-year in 2020, while average deal value increased by a modest 3%.
- Quality companies that have shown defensibility and proven resilience early in the pandemic are attracting heightened interest from buyers who are returning to the market. At the same time, distressed companies are often being targeted by opportunistic buyers

Acquisitions by Private Companies



Acquisitions by Public Companies



Note: Publicly disclosed M&A transactions
Source: S&P Capital IQ; 1/1/2013 through 12/31/2020
Middle Market is defined as deals with an EV of <$500M

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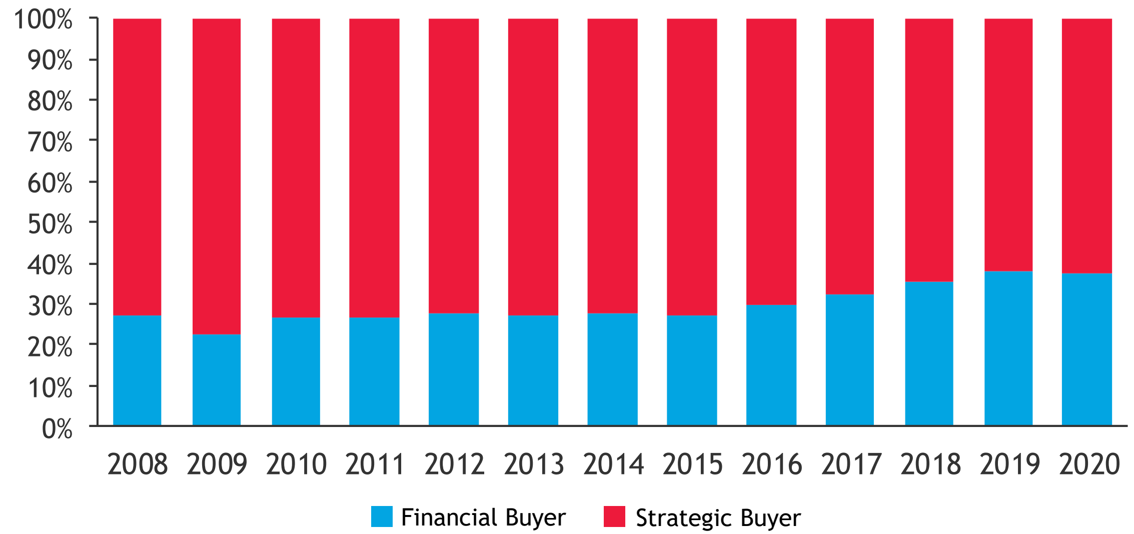
M&A Market Overview

PE Buyers Continue to Gain on Strategic Buyers

- Fueled by dry powder, revival of access to credit, and attractive growth prospects of target companies, PE buyers have been stretching valuations and winning auctions.
  - Throughout 2020, PE firms focused on growth capital transactions, SPACs, PIPEs and portfolio add-ons due to uncertainties around the pandemic.
  - Focus remains heavily centered around technology and healthcare due to recurring revenue streams and predictability of cash flows.
- Strategic buyer activity has trended lower over the last 5 years, in part due to competition from PE firms.

Private Equity vs. Strategic, Total Deals



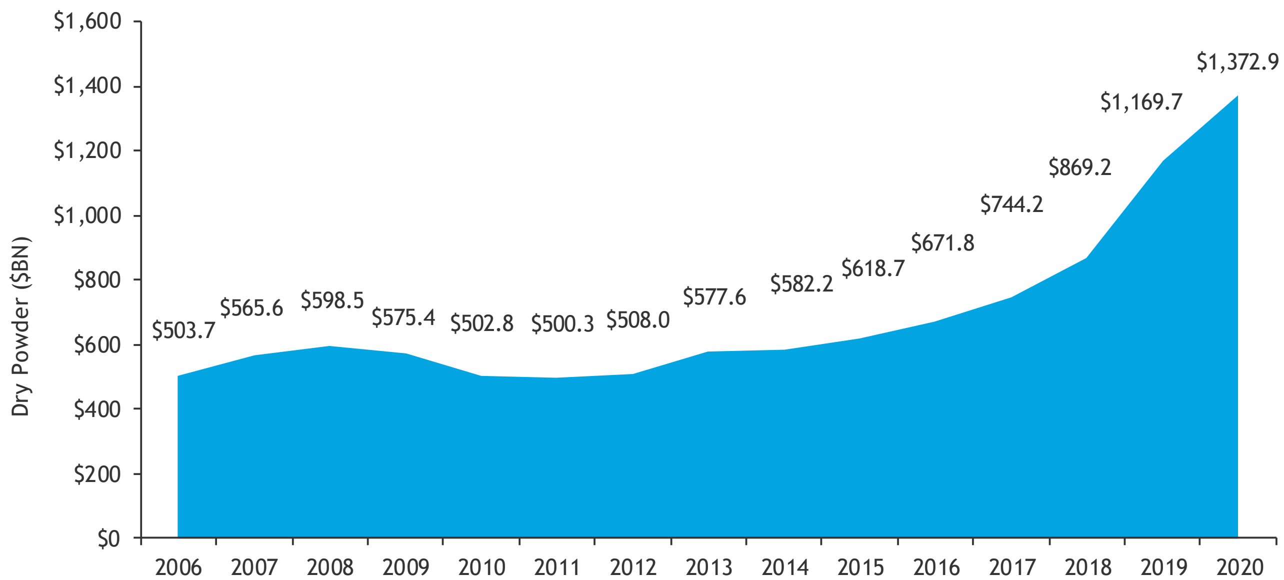
Source: PitchBook; 1/1/2008 through 12/31/2020

Private Equity Market Overview

PE Capital Reserve Balances Remain High Driving Deal Activity

- PE firms have approximately $1.4T of dry powder available to deploy.
- The run up in dry powder can be attributed to continuing add-on activity in Q3 and Q4, tempered by virus-related issues and a decrease of 18.5% in the mega-fund fundraising segment, as compared to 2019.
- Total PE fundraising declined in 2020 with GPs closing on $203.2B across 231 funds; a Y-o-Y decline of 36.6% and 38.4%.

U.S. Private Equity Capital Overhang ($B)



Source: PitchBook; 1/1/2006 through 12/31/2020

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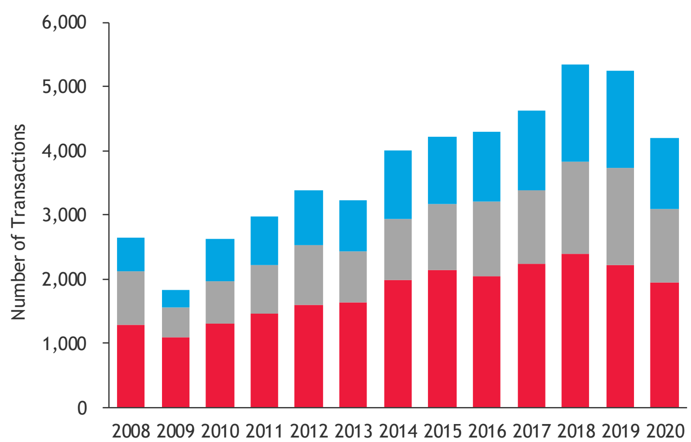
Private Equity Market Overview

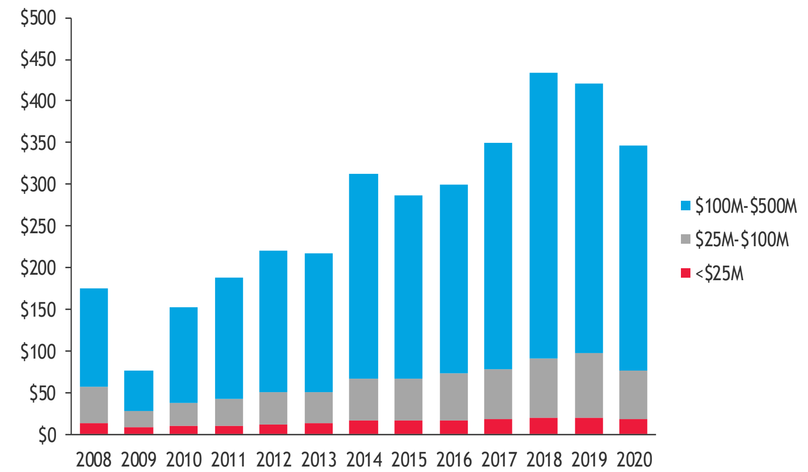
Lower Middle Market Attracts Significant PE Interest

- Although deals >$100M comprised greater than three quarters of total PE middle market transaction value, deal activity was still predominantly comprised of lower middle market deals (<$100M) which made up 71.1% of 2019 and 73.6% of 2020 activity.
- Lower risk profile attracts PE investment in the lower middle market while also creating significant opportunities for add-ons.

U.S. Private Equity Deal Volume (#)



U.S. Private Equity Deal Value by Size ($B)



Source: Pitchbook; 1/1/2008 through 12/31/2020

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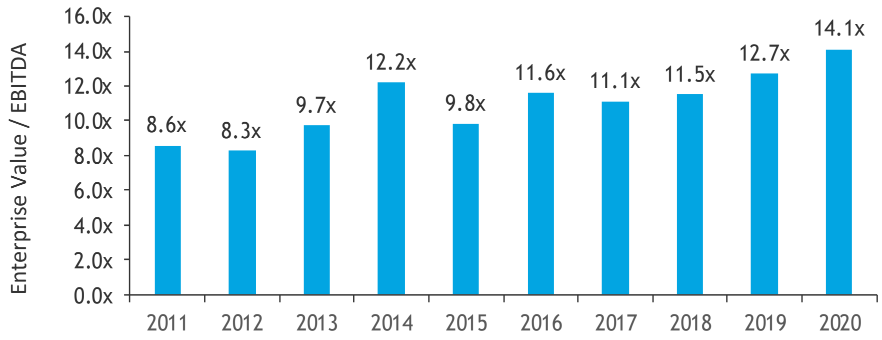
Private Equity Market Overview

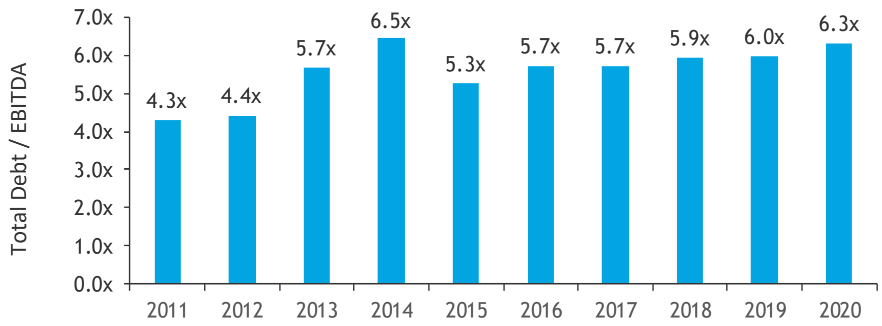
Private Equity Valuations Rise As Focus Pivots to Tech Deals

- The median EBITDA multiple in 2020 buyouts increased to 14.1x from 12.7x. Focus on tech and other COVID – resilient sector deals, which increased 3% over 2019 and comprised 20% of total deals, drove the increase in the median multiple.
- Elevated price multiples in both public and private markets, as well as a focus on growth-stage technology companies suggests a continued increase in EBITDA multiples for LBOs in 2021.
- Median debt multiples surpassed pre-COVID levels, coming in at 6.3x in 2020. Equity/EBITDA multiples increased just over one turn since the prior year.

Median U.S. PE Buyout EBITDA Multiple



Median U.S. PE Buyout Debt Multiple



Note: Publicly disclosed M&A transactions
Source: PitchBook; 1/1/2011 through 12/31/2020

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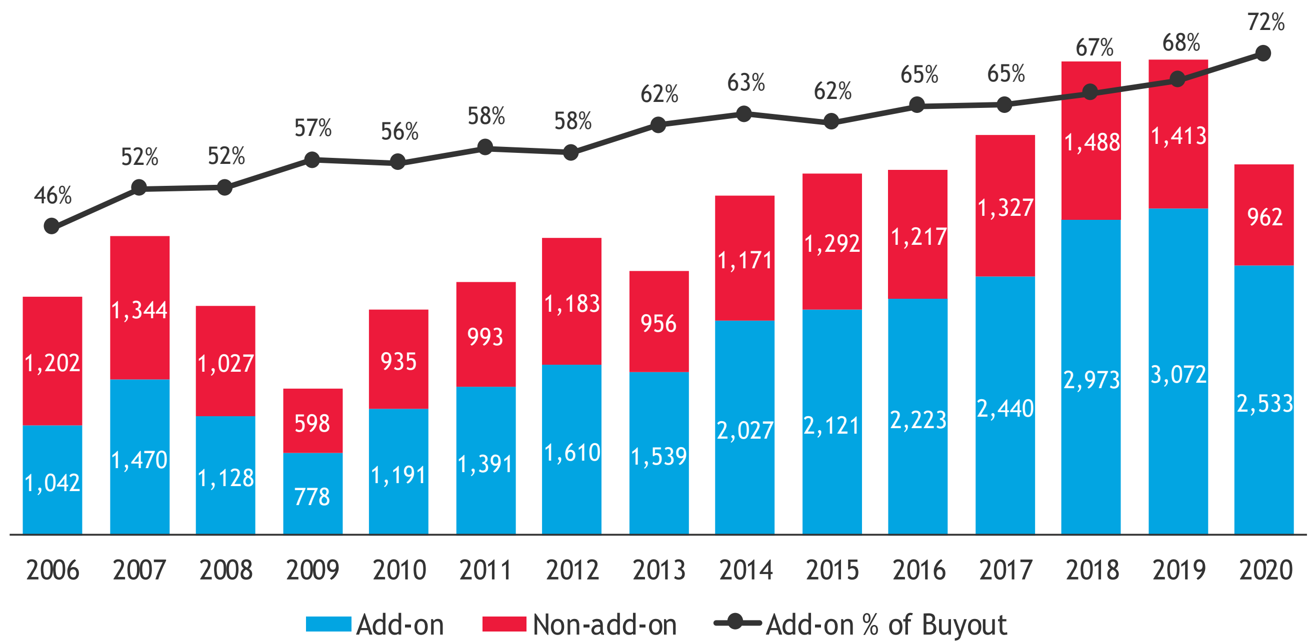
Private Equity Market Overview

Private Equity Add-Ons Increase and Portfolio Risk Mitigation Continues

- Private equity add-on transactions continue to make up a larger share of US M&A activity, constituting 72% of total buyouts in 2020 versus 68% in 2019.
- Tuck-in acquisitions were the prevailing investment strategy during a period of internal portfolio risk mitigation throughout the pandemic. Firms will likely begin refocusing on new platform investments in Q1'21.

U.S. Add-On % of Buyout Activity



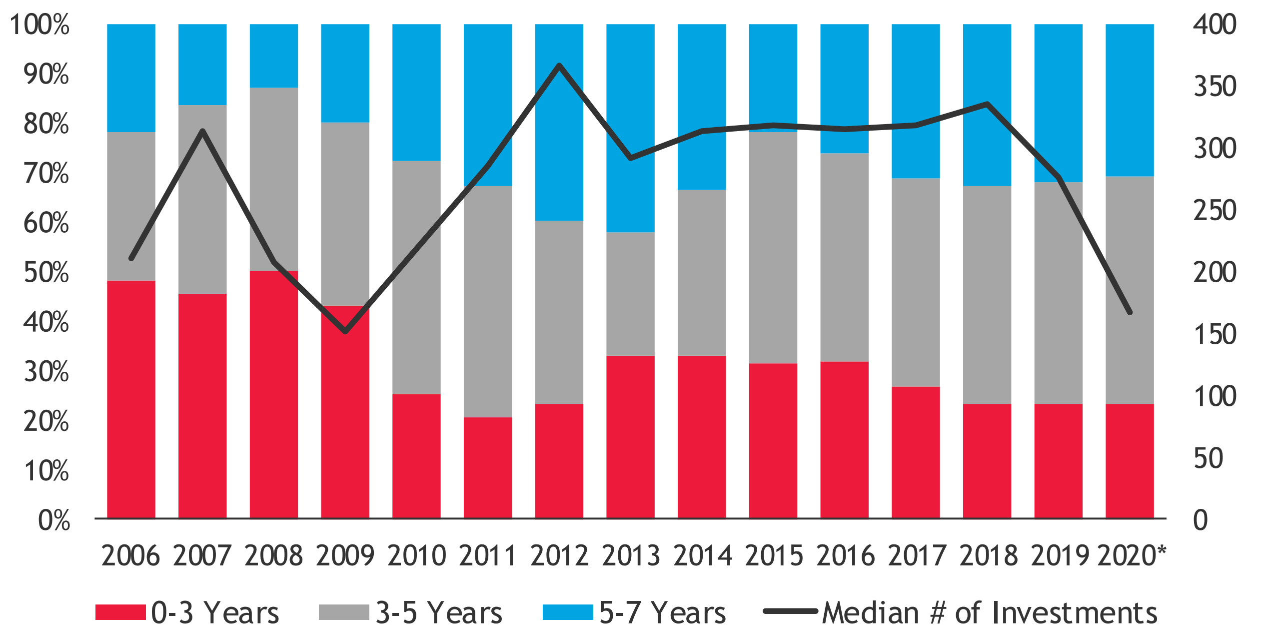
Source: PitchBook; 1/1/2006 through 12/31/2020

Private Equity Market Overview

PE Hold Periods Will Likely Extend in the Short Term

- Holding periods will likely extend due to COVID-related risk mitigation strategies and avoidance of less favorable multiples afforded companies impacted by the pandemic.
- Assets held for less than three years made up approximately 23% of buyout-backed investments exited.
- Assets held for three to five years remain nearly flat as a percentage of total buyout-backed investments exited.

U.S. PE Holding Periods by Exit Year



*Source: PitchBook; 1/1/2006 through *12/11/2020*

M&A Market Overview

Sector Impact Post-Pandemic

SECTOR M&A ACTIVITY / BUYER SENTIMENT	Positive	Neutral	Negative
High	Real Estate Application Software	IT Consulting Research	Diversified Support Services Healthcare Technology
Moderate	Healthcare Services Asset Management and Custody Banks	Advertising Industrial Machinery	Environmental and Facility Services Automotive Retail
Low	Insurance Brokers Construction and Engineering	Distributors Healthcare Facilities	Hotels, Resorts and Cruise Lines Interactive Media and Services

Source: S&P Capital IQ; 1/2/2021 through 3/23/2021

Concluding Summary

Window of Opportunity

- We expect various surges of deal flow beginning in Q1 for pandemic resilient companies
- We anticipate pre-COVID M&A levels will return by mid-year
- Biden Presidency plans to drive tax policy change – capital gains tax may rise from 20% to 39.6%
- Baby boomers (~1/3 of US population) have lived through three market cycles plus a pandemic – fatigue is setting in and assessing life priorities is paramount in deciding on a sale transaction
- Equity markets continue to perform with relatively high valuations
- Abundant cash and freely flowing credit will combine with pre-COVID valuations to drive mid-market M&A
- COVID resilient companies will make the most attractive targets (business services, consumer products, healthcare & technology)
- Key themes will include customer acquisition and business operations in a virtual environment
- E-Commerce platforms, digital visibility and reach expected to drive performance throughout 2021
- Clients with strategic liquidity and capital formation objectives should consider acting aggressively to ensure execution within this window of opportunity

Questions?

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