



**Mergers & Acquisitions  
Lower Middle Market  
Current Transaction Environment**

**2022**



# MARKET OVERVIEW

Following a year of robust activity and high valuations, the global mergers and acquisitions market experienced a slowdown in 2022. The persisting inflation, escalating interest rates and concerns of a possible recession had an adverse impact on both transaction volume and value, particularly in the latter half of the year. Specifically, the total value of announced deals in the lower middle market for 2022 decreased to \$347.2 billion, marking a 65.2% year-over-year decline. Similarly, the total volume of deals fell to 13,678 in 2022, a 16.1% decline from the previous year. However, it should be noted that 2021 represented a year of unprecedented heights and bullish markets. When compared to the pre-pandemic (2017-2019) levels of activity 2022 has performed admirably.

Domestic buyers remained prominent in 2022 accounting for 92.2% of all transactions. Strategic buyers once again lead the way, accounting for 88.5% of all transactions, an increase of 1.5% from 2021. While cautious, financial buyers remain flush with dry powder and are eager to put it to work.

The most active industries in terms of volume in 2022 were industrial (24.6%), consumer (19.7%) and information technology (15.8%), making up roughly 60.2% of total volume and 35.1% of total deal value. Although deal volume within the financial industry constitutes a mere 11.8% of all activity, it is noteworthy that it accounts for 34.3% of total deal value in lower middle market, leading all industries. Some of the most notable lower middle market transactions in 2022 included General Mills' acquisition of TNT Crust, a frozen pizza supplier, for \$235M, Cinven's acquisition of Tax Act Holdings, a provider of tax filing software for \$720M and Heartland Express' acquisition of Transportation Resources, a truckload services company for \$525M.

After remaining strong throughout 2022, continued economic headwinds had an adverse impact on median multiples in Q4-22. Nonetheless, in aggregate, the available public data reveals only a minimal decrease in median EBITDA multiples in 2022 to 9.9x, representing a decline of 0.1x from the previous year.

According to GF Data, average debt multiples marginally decreased in 2022 to 3.9x compared to 4.0x in 2021. Average pricing on senior debt spiked by nearly 200 basis point in the second half of the year to 6.5%. Larger deals ranging from \$100 million to \$250 million saw a more significant increase in senior debt pricing when compared to the prior year, 1.3% compared to 0.8% for all other transactions.

Despite a challenging economic climate, the global mergers and acquisitions market displayed resilience throughout much of 2022, with Q4-22 experiencing the most pronounced effects from the adverse conditions. Due to the unforgiving lending environment, financial buyers have found add-on acquisitions attractive while financing platform buyouts has become more difficult. The uncertainty of the M&A environment has caused buyers to become further reserved, resulting in longer due diligence periods or pauses altogether. While cautious, financial buyers have taken advantage of lower valuations and distressed assets and strategic buyers search for resilient business models.

## 13,678

Transaction Count

-16.1% Y/Y

## \$154.2M

Average Transaction Value

-44.8% Y/Y

## 9.9x

Median EV/EBITDA

-1.5% Y/Y

# SELECT RECENT CENTRAL U.S. TRANSACTIONS

Date Announced	Acquirer	Location	Target	Location	Target Sector	TTV (\$mm)
11/01/2022	DS Admiral Bidco, LLC	North Carolina	TaxACT Holdings, Inc.	Iowa	Information Technology	\$720.0
09/28/2022	Isoray, Inc. (NYSEAM:ISR)	Washington	Viewpoint Molecular Targeting, Inc.	Iowa	Health Care	\$38.6
09/20/2022	Southern Missouri Bancorp, Inc. (NasdaqGM:SMBC)	Missouri	Citizens Bancshares Co.	Missouri	Financials	\$128.4
09/19/2022	McKesson Corporation (NYSE:MCK)	Texas	Rx Savings, LLC	Kansas	Health Care	\$875.0
09/09/2022	Qualcomm Technologies, Inc.	California	RoadDB LLC	North Dakota	Information Technology	\$31.0
08/22/2022	Heartland Express, Inc. (NasdaqGS:HTLD)	Iowa	Transportation Resources, Inc.	Missouri	Industrials	\$525.0
08/22/2022	Hub Group, Inc. (NasdaqGS:HUBG)	Illinois	TAGG Logistics, LLC	Missouri	Industrials	\$103.5
08/03/2022	Energy Transfer LP (NYSE:ET)	Texas	Woodford Express, LLC	Oklahoma	Energy	\$485.0
08/01/2022	Medical Mutual of Ohio	Ohio	Reserve National Insurance Company	Oklahoma	Financials	\$88.0
06/02/2022	Worthington Industries, Inc. (NYSE:WOR)	Ohio	Level5 Tools, LLC	Kansas	Industrials	\$84.3
05/11/2022	General Mills, Inc. (NYSE:GIS)	Minnesota	TNT Crust, Inc.	Missouri	Consumer Staples	\$253.0
05/09/2022	Deckorators, Inc.	Wisconsin	Cedar Poly LLC	Iowa	Industrials	\$17.0
05/04/2022	Universal Technical Institute, Inc. (NYSE:UTI)	Arizona	Concorde Career Colleges, Inc.	Kansas	Consumer Discretionary	\$50.0
03/21/2022	Woodgrain Inc.	Idaho	Huttig Building Products, Inc.	Missouri	Industrials	\$403.3
03/09/2022	Mortgage Connect, LP	Pennsylvania	Adfitech, Inc.	Oklahoma	Financials	\$29.0
02/10/2022	Signify Health, Inc. (NYSE:SGFY)	Texas	Caravan Health, Inc.	Missouri	Health Care	\$305.6
01/18/2022	Alto Ingredients, Inc. (NasdaqCM:ALTO)	Illinois	Eagle Alcohol Company LLC	Missouri	Consumer Discretionary	\$29.3
01/06/2022	Cerberus Cyber Sentinel Corporation (NasdaqCM:CISO)	Arizona	True Digital Security, Inc.	Oklahoma	Information Technology	\$170.7
01/04/2022	Benson Hill, Inc. (NYSE:BHIL)	Missouri	ZFS Creston, LLC	Iowa	Consumer Staples	\$133.3
01/03/2022	Acadia Healthcare Company, Inc. (NasdaqGS:ACHC)	Tennessee	CenterPointe Behavioral Health System LLC	Missouri	Health Care	\$133.4

# FEATURED NEWS – MIDWEST TRANSACTIONS

## **Cinven to Acquire TaxAct – [PR Newswire Article](#)**

International private equity firm, Cinven, announced that it has entered into a stock purchase agreement to acquire TaxAct Holdings, Inc. (“TaxAct”), for approximately \$720 million. TaxAct is one of the leading providers of digital, do-it-yourself tax filing assistance software and services. Cinven will bring TaxAct together with existing portfolio company Drake Software under a single holding company. This will create a full-service tax ecosystem provider with the scope to use the resources and shared principles of the combined businesses to innovate and support their complementary professional tax preparer and individual tax filer customer bases.

## **Southern Missouri Bancorp and Citizens Bancshares Co. Announce Agreement to Merge – [Global Newswire Article](#)**

Southern Missouri Bancorp, Inc., the parent corporation of Southern Bank, and Citizens Bancshares Co., the parent company of Citizens Bank and Trust Company, announced a definitive merger agreement whereby Southern Missouri Bank will acquire Citizens in a stock and cash transaction valued at approximately \$150 million. On a pro-forma basis, following the acquisition, the combined company’s assets will approximate \$4.5 billion, with net loans of \$3.3 billion, and total deposits of \$3.8 billion. The combined company will operate 65 locations in Missouri, Arkansas, Illinois and Kansas.

## **McKesson Signs Agreement to Acquire Rx Savings Solutions – [PR Newswire Article](#)**

McKesson announced that it has signed a definitive agreement to acquire Rx Savings Solutions (RxSS), a prescription price transparency and benefit insight company that offers affordability and adherence solutions to health plans and employers, reaching more than 17 million current patients. The transaction is valued up to \$875 million, which includes a \$600 million upfront payment and a maximum of \$275 million of consideration contingent upon RxSS’ financial performance through calendar year 2025. The acquisition will strengthen McKesson’s ability to help solve the most common medication challenges related to access, affordability, and adherence and accelerate the company’s growth priority in biopharma services.

## **General Mills Buys Frozen Pizza Supplier TNT Crust from Peak Rock Capital– [Businesswire Article](#)**

Peak Rock Capital announced the sale of TNT Crust, LLC (TNT Crust) to General Mills for \$253 million. TNT Crust is a leading manufacturer and distributor of partially baked, self rising, gluten-free, vegetable based, and other pizza crusts for the foodservice, quick service restaurant, and retail channels. The TNT Crust business has generated double-digit compound annual net sale growth over the past four years, with net sales totaling approximately \$100 million in 2021. As part of the acquisition, General Mills has also acquired two manufacturing facilities in Green Bay, Wisconsin, and one manufacturing facility in St. Charles, Missouri.

## **Heartland Express to Acquire Contract Freighters Truckload Business for \$525 Million – [Global Newswire Article](#)**

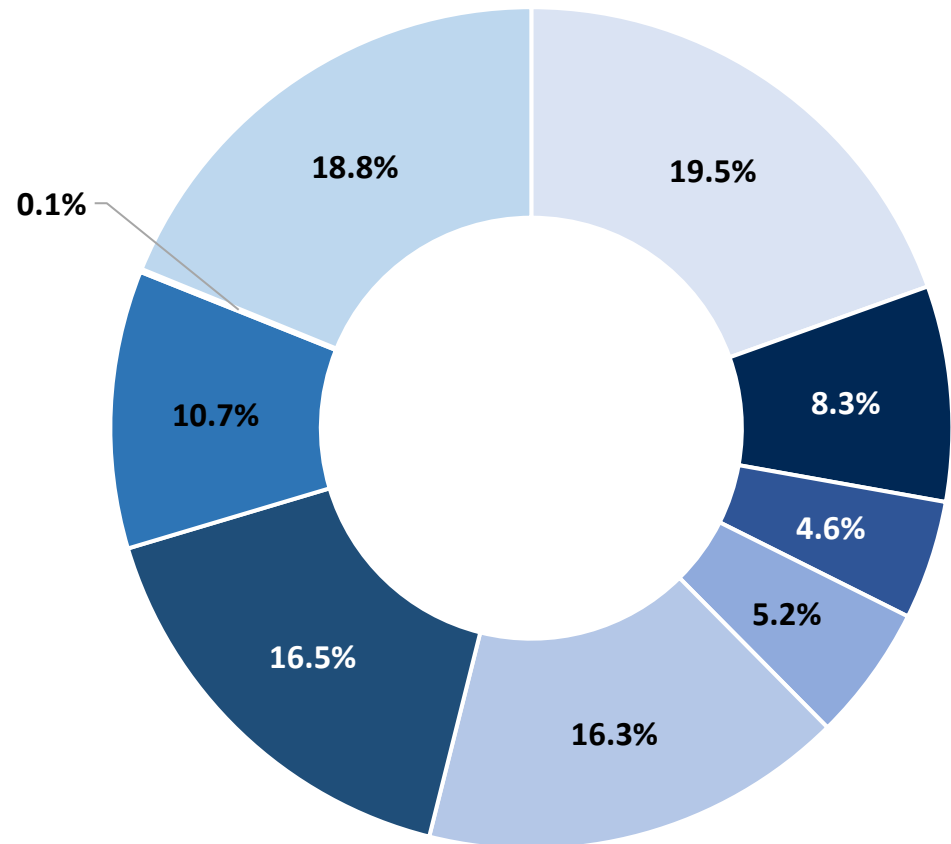
Heartland Express announced an agreement to acquire 100% of the equity of Transportation Resources, Inc., the parent of Contract Freighters, Inc. and Mexican entities comprising CFI Logistica. The enterprise value of the transaction is \$525 million calculated on a cash-free, debt-free basis and subject to certain adjustments. Following the acquisition, Heartland Express will be the 8th largest truckload fleet and 3rd largest irregular route, asset-based truckload carrier in the U.S., with estimated annual pro-forma total revenue of approximately \$1.3 billion and annual operating cash flow of approximately \$260 million.

## **Universal Technical Institute, Inc. to Acquire Concorde Career Colleges, Inc., a Leading Provider of Healthcare Education Programs – [PR Newswire Article](#)**

Universal Technical Institute, Inc., a leading provider of transportation and technical training programs, announced a definitive agreement to acquire Concorde Career Colleges, a leading provider of healthcare education programs, for \$50 million. The deal is expected to close during the first half of 2023, subject to regulatory approvals and other customary closing conditions. The acquisition of Concorde Career Colleges will be a significant next step for Universal Technical Institute in their growth and diversification strategy as they enter the healthcare space.

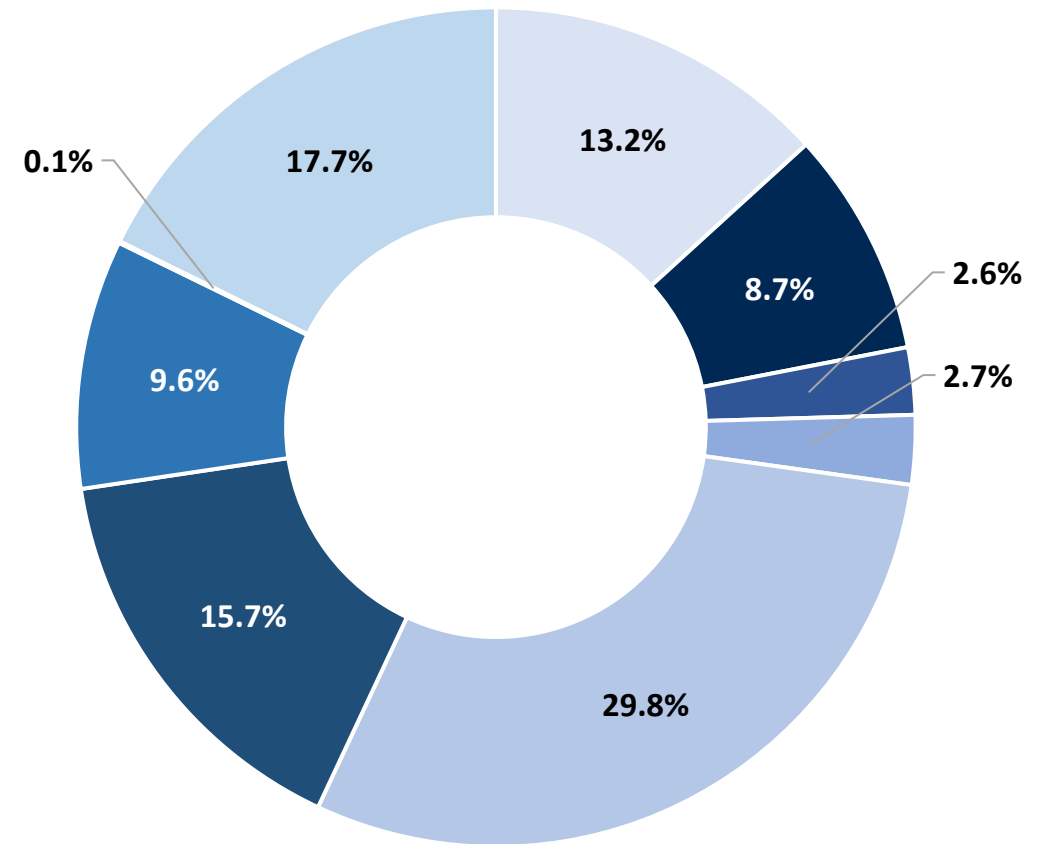
# TRANSACTION ENVIRONMENT

**Mix of Deals by Geographic Regions  
Deal Count**



- Great Lakes
- Mountain
- Southwest
- Midatlantic
- Northeast
- US Territories
- Midwest
- Southeast
- West Coast

**Mix of Deals by Geographic Regions  
Deal Value**

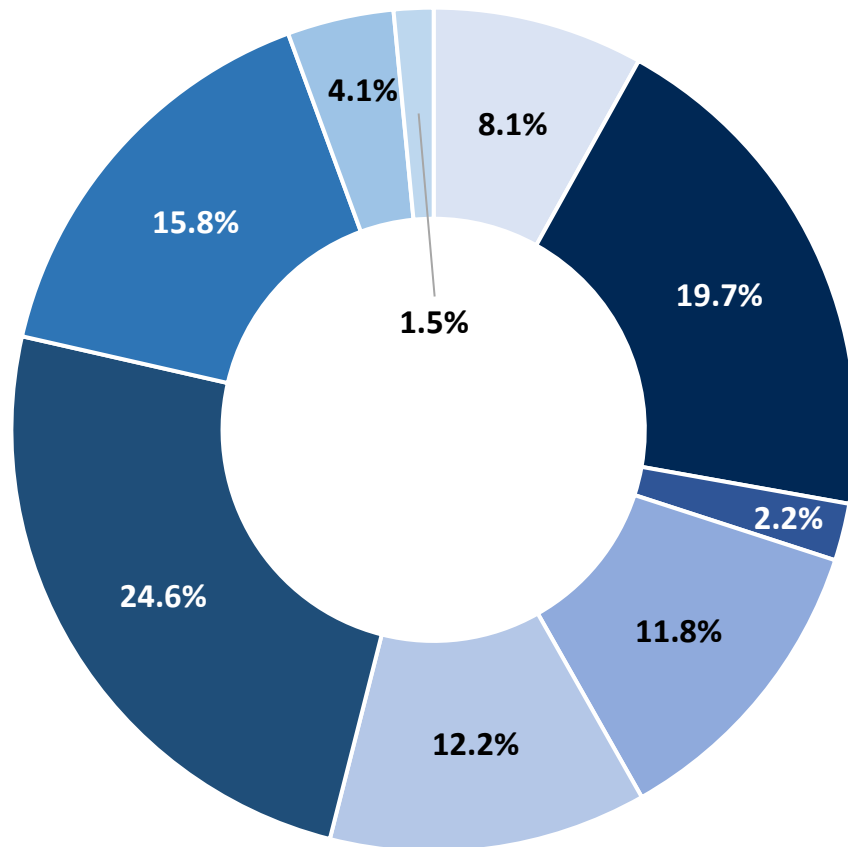


- Great Lakes
- Mountain
- Southwest
- Midatlantic
- Northeast
- US Territories
- Midwest
- Southeast
- West Coast

*The Great Lakes region (Illinois, Indiana, Michigan, Minnesota, Ohio, Pennsylvania, and Wisconsin) had the most activity in 2022 in terms of total volume, with 19.5% of total lower middle market transactions, followed by the West Coast and Southeast regions.*

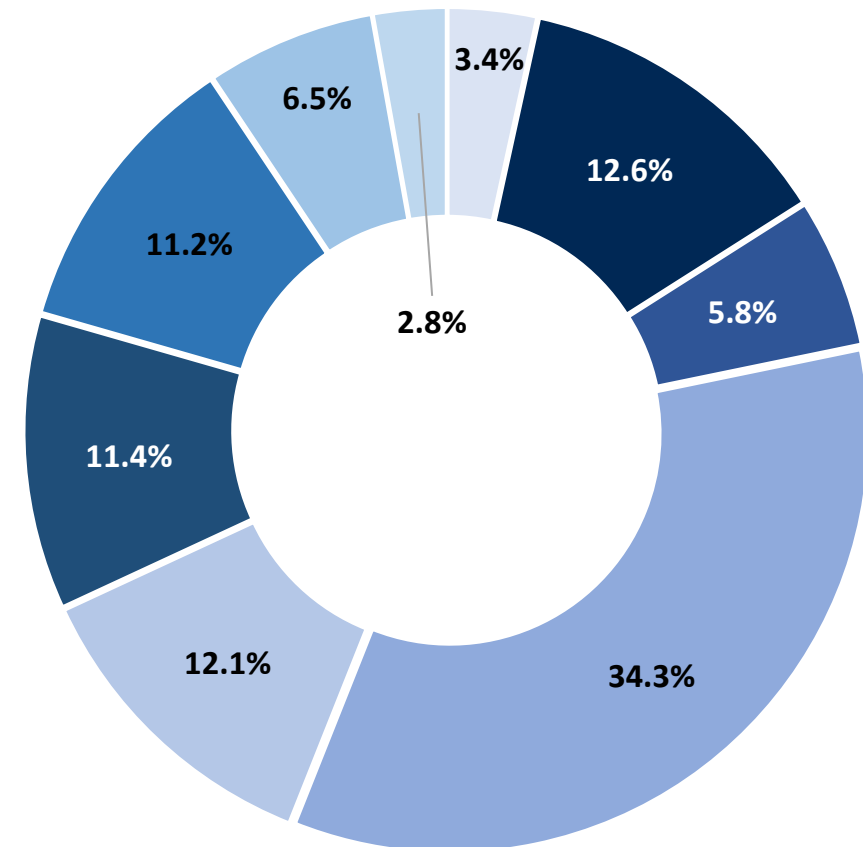
# TRANSACTION ENVIRONMENT

**Mix of Deals by Industry Sector  
Deal Count**



- Communication Services
- Energy
- Health Care
- Information Technology
- Utilities
- Consumer
- Financials
- Industrials
- Materials

**Mix of Deals by Industry Sector  
Deal Value**

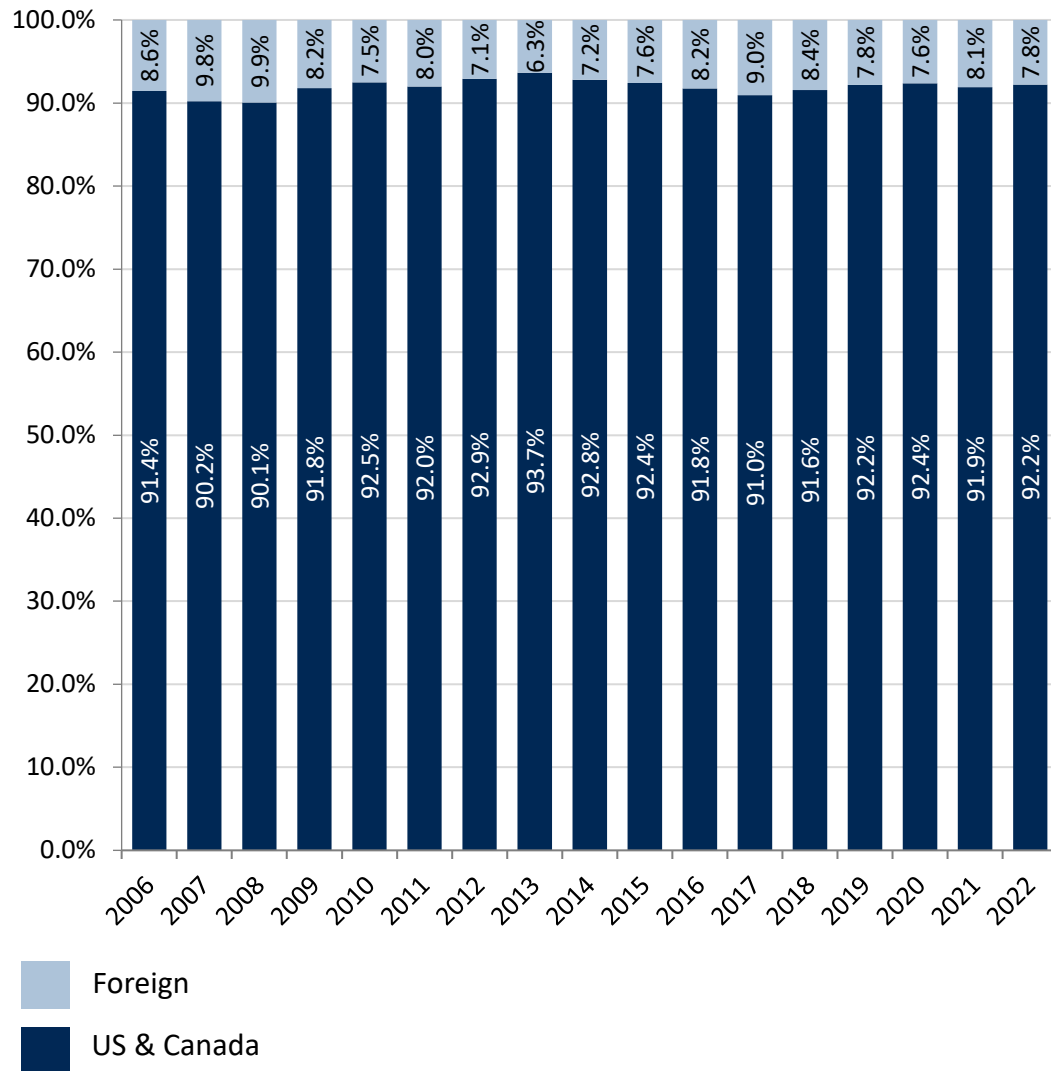


- Communication Services
- Energy
- Health Care
- Information Technology
- Utilities
- Consumer
- Financials
- Industrials
- Materials

*In 2022, industrials, consumer and information technology were the most active sectors by volume, accounting for 60.2% of total activity. Financials, consumer, and healthcare were the most active sectors by value, accounting for 58.9% of total activity.*

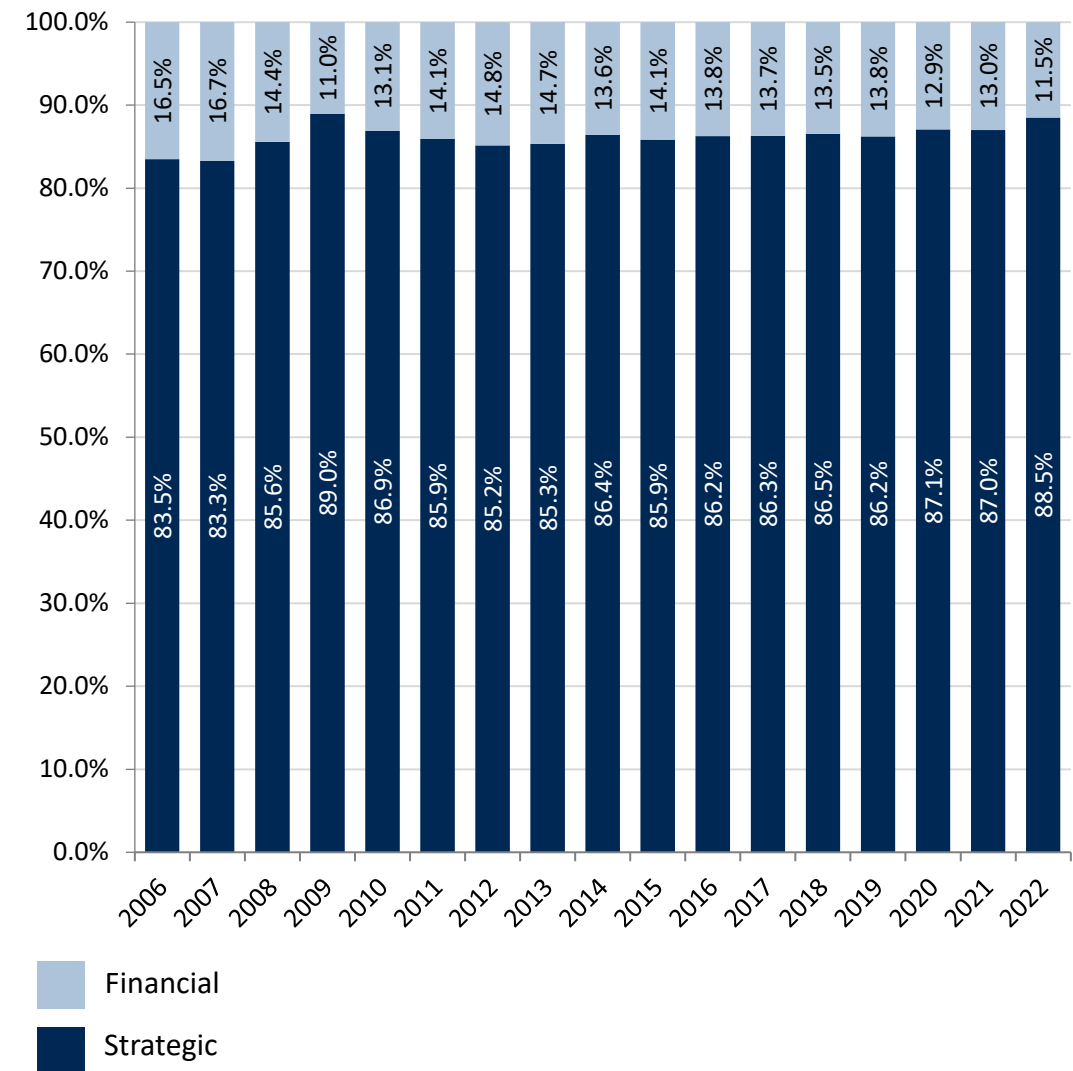
# TRANSACTION ENVIRONMENT

**Mix of Deals by Buyer Region**  
Deal Count



*Non-U.S. buyers represented 7.8% of the total deals in 2022.  
A slight decrease from the previous year.*

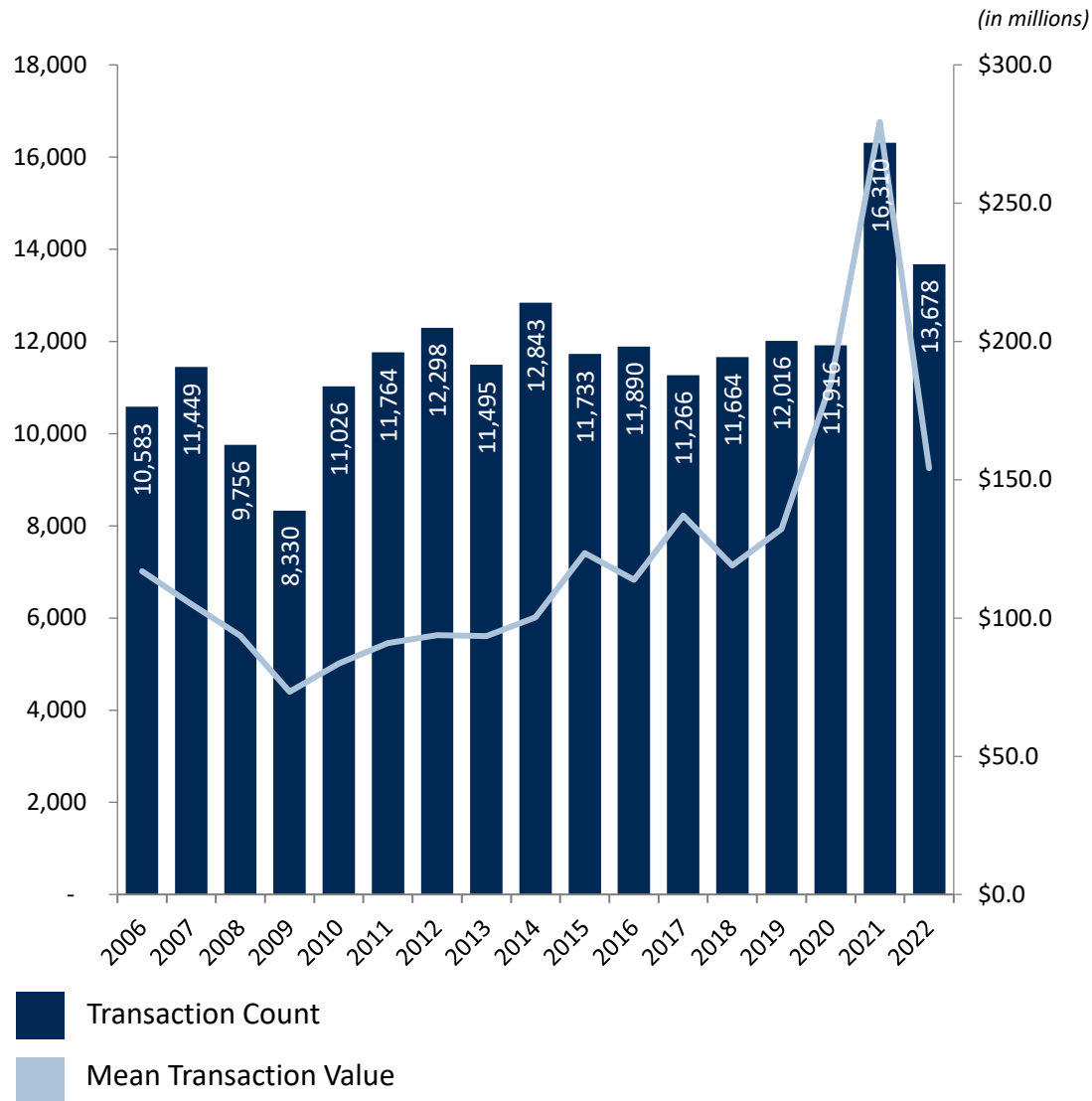
**Mix of Deals by Buyer Type**  
Deal Count



*The percentage of deals completed by financial buyers  
decreased to 11.5% in 2022 from 13.0% in 2021.*

# TRANSACTION ENVIRONMENT

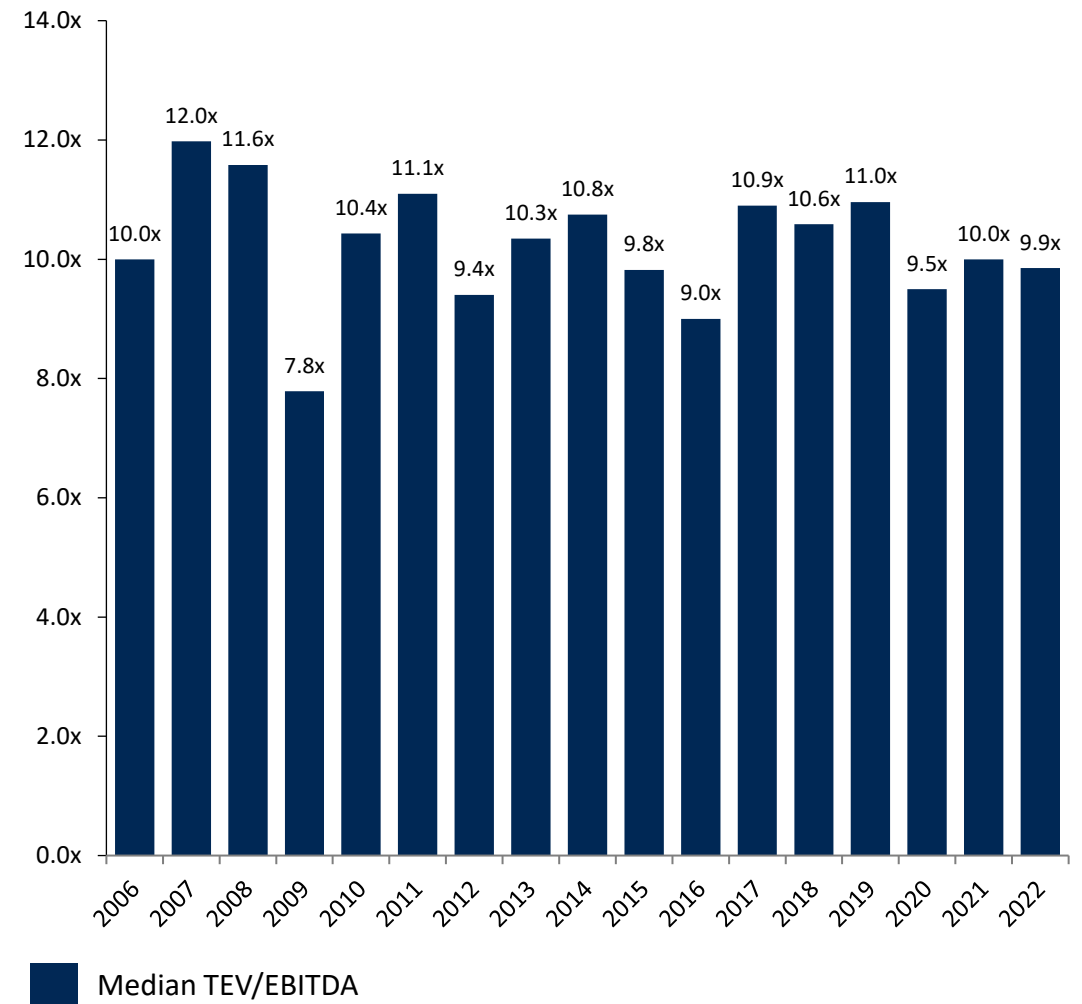
### Quarterly M&A Activity Deal Count



Transaction count in 2022 was down 16.1% y/y. Average transaction value decreased to \$154.2m, 44.8% less than the previous year.

Note: Includes closed and announced deals with transaction value less than \$1 billion; excludes real estate deals.  
Source: Capital IQ

### Quarterly M&A Activity Median TEV/EBITDA



Median TEV/EBITDA multiple marginally decreased to 9.9x in 2022 from 10.0x in 2021 based on the publicly available transaction valuation data. Acquisition data includes both private equity and strategic transactions.



# PRIVATE EQUITY ACTIVITY HIGHLIGHTS – GF Data

## VALUATION HEADLINE NUMBERS

All Transactions	2018	2019	2020	2021	2022
# of Deals	305	332	337	470	297
TEV/EBITDA	7.2x	7.1x	7.0x	7.4x	7.5x
Total Debt/EBITDA	3.8x	3.9x	3.7x	4.0x	3.9x
Senior Debt/EBITDA	2.9x	3.2x	3.1x	3.3x	3.2x

Source: GF Data®

## TEV/EBITDA – All INDUSTRIES BY DEAL SIZE

TEV	2018	2019	2020	2021	2022
10-25	6.0x	6.1x	5.9x	6.1x	6.5x
25-50	6.9x	7.0x	6.7x	7.2x	7.1x
50-100	8.9x	7.5x	8.0x	8.4x	8.6x
100-250	8.8x	9.2x	8.7x	9.3x	9.3x
<b>Total</b>	<b>7.2x</b>	<b>7.1x</b>	<b>7.0x</b>	<b>7.4x</b>	<b>7.5x</b>

# of Deals 305 332 337 470 297

Source: GF Data®

## TEV/EBITDA – BY INDUSTRY

Industry	2018	2019	2020	2021	2022
Manufacturing	6.8x	6.5x	6.7x	7.1x	7.4x
Business Services	7.1x	7.2x	7.1x	7.3x	7.4x
Healthcare services	7.8x	8.0x	7.6x	8.0x	8.4x
Retail	8.1x	9.3x	6.5x	8.6x	8.0x
Distribution	6.9x	7.0x	7.5x	7.2x	7.2x
Media & Telecom	7.8x	9.4x	8.3x	6.3x	9.1x
Technology	9.6x	10.0x	7.6x	10.3x	8.1x
Other	7.2x	6.5x	6.2x	7.3x	6.9x

Source: GF Data®

Note: GF Data® provides deal information on private equity sponsored M&A transactions only, with enterprise values of \$10 to \$250 million.

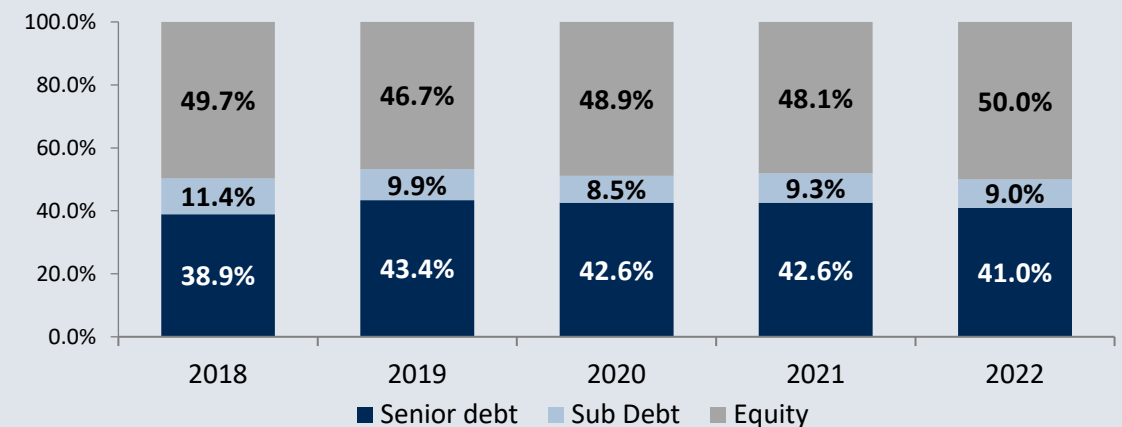
## TOTAL DEBT/EBITDA – All INDUSTRIES BY DEAL SIZE

TEV	2018	2019	2020	2021	2022
10-25	3.4x	3.8x	3.6x	4.0x	3.8x
25-50	3.6x	3.9x	3.4x	3.9x	3.8x
50-100	4.1x	3.9x	3.6x	3.9x	4.0x
100-250	4.7x	4.4x	4.7x	4.4x	4.3x
<b>Total</b>	<b>3.8x</b>	<b>3.9x</b>	<b>3.7x</b>	<b>4.0x</b>	<b>3.9x</b>

# of Deals 276 290 282 402 246

Source: GF Data®

## EQUITY AND DEBT CONTRIBUTION BY YEAR



Source: GF Data®

- According to GF Data, 2022 total deal volume was notably down from 2021 registering 297 private equity sponsored deals, compared to 470 from the prior year.
- Average valuations moderately increased to 7.5x TTM Adjusted EBITDA from 7.4x in 2021.
- Manufacturing, business services, healthcare services and distributions were the most active industries in 2022, accounting for ~80% of the total GF Data covered transactions volume.
- Capital structure levels in 2022 were slightly up from historical levels. Average equity share was 50.0%.

## ABOUT LUTZ M&A

Lutz M&A is a full-service Omaha-based mergers and acquisitions advisory firm. We provide M&A services to profitable businesses across a wide range of industries. Our market-driven and competitive process drives successful outcomes in a highly confidential manner. We specialize in:

- **Sell-Side Advisory:** We can represent your business in a sale transaction
- **Buy-Side Advisory:** Assist with finding, negotiating, financing and closing acquisitions
- **Recapitalizations:** Access to private equity partners for growth capital

We bring the M&A deal marketing process of larger investment banks to the lower middle-market. We believe the lower middle-market deserves service that is typically reserved for larger companies.

Our services begin with robust initial planning and pre-marketing, and cover the entire deal spectrum, from marketing to tax consulting, due diligence, deal structuring, and closing. Our team will run a market driven process designed to maximize investor interest that drives higher valuations and better outcomes.

FOR MORE INFORMATION PLEASE VISIT:

[WWW.LUTZ.US/LUTZMA/](http://WWW.LUTZ.US/LUTZMA/)

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## Lutz M&A – Recent Transactions

February / 2022



**BROKERS CLEARING HOUSE LTD.**  
LIBRA INSURANCE PARTNERS

Acquired by



Lutz M&A was the exclusive financial advisor

August / 2021



**ESOP**

Lutz M&A was the exclusive financial advisor

August / 2021



Acquired by



Lutz M&A was the exclusive financial advisor

August / 2021



Acquired by



Lutz M&A was the exclusive financial advisor

December / 2020



Acquired by



Lutz M&A was the exclusive financial advisor

October / 2020



**ESOP**

Lutz M&A was the exclusive financial advisor

April / 2020



Acquired by



Lutz M&A was the exclusive financial advisor

February / 2020



Acquired by



Lutz M&A was the exclusive financial advisor

