

MERGERS & ACQUISITIONS

Lower Middle Market Transaction Environment 2023

MARKET OVERVIEW

Continued high interest rates, persistent inflation and recession fears drove the global mergers and acquisitions market to experience another slowdown in 2023, with deal volume reaching its lowest point since 2009. Specifically, the total value of announced deals in the lower middle market for 2023 decreased to \$268.9 billion, marking a 22.6% Y/Y decline. Similarly, the total volume of deals fell to 10,918 in 2023, a 20.2% decline from the previous year. However, it should be noted that although deal volume decreased to 2009 levels, the average transaction value remained strong and has increased 120.2% over the same time with a 4.6% growth over the past year.

Strategic buyers once again lead the way, accounting for 89.0% of all transactions, an increase of 0.5% from 2022. Financial buyers also remained active, utilizing different strategies such as rollovers and seller financing to bridge funding gaps. Domestic buyers continued to dominate in 2023, representing 92% of all transactions, with the U.S. experiencing a slightly milder decline in activity compared to the global M&A market.

The most active industries in terms of volume in 2023 were industrial (27.2%), consumer (18.1%) and information technology (15.4%), making up roughly 60.6% of total volume and 30.1% of total deal value. Although deal volume within the financial industry constitutes a mere 12.7% of all activity, it is noteworthy that it accounts for 39.5% of total deal value in lower middle market, leading all industries. Some of the most notable Midwest lower middle market transactions in 2023 included SPX Technologies' acquisition of ASPEQ Heating Group, an electrical heating solutions provider based in Missouri for \$418M and Honeywell's acquisition of Compressor Controls Corporation, a provider of turbomachinery control and optimization solutions for \$670M.

Continued economic headwinds had an adverse impact on median multiples in 2023. In aggregate, the available public data reveals a decrease in median EBITDA multiples in 2023 to 8.5x, representing a decline of 1.4x from the previous year. Despite the decrease, multiples were showing signs of stabilization in the latter half of 2023.

According to GF Data, average debt multiples gradually decreased in 2023 to 3.6x compared to 3.9x in 2022. Average pricing on senior debt increased rapidly from 4.7% in Q1-2022 to 11.3% in Q4-2023, tightening the spread between subordinated debt at 11.9%. Smaller deals in the \$10 to \$25 million TEV range continue to be funded with more debt, 46.4%, compared to deals over \$25 million TEV whose debt levels ranged between 32.6% and 37.8%.

Despite the sluggish M&A activity observed in 2023, dealmakers are optimistic for a resilient 2024. The conclusion of the Federal Reserve's hiking cycle and the availability of substantial amounts of dry powder from financial buyers suggests the potential for a recovery from the lows observed in the past eighteen months. Pent-up demand, creative deal structuring and cash flush businesses could fuel activity in 2024. However, the upcoming presidential election may cause some companies to exercise caution and hesitate to enter the market. Smaller deals of healthy, resilient companies continue to lead the way given the higher cost of capital and anti-trust concerns faced in larger transactions.

10,918

TRANSACTION COUNT
-20.2% Y/Y

\$161.2M

AVERAGE TRANSACTION VALUE
4.6% Y/Y

8.5X

MEDIAN EV/EBITDA
-13.6% Y/Y

NOTABLE RECENT U.S. TRANSACTIONS | CENTRAL U.S.

DATE ANNOUNCED	ACQUIRER	LOCATION	TARGET	LOCATION	TARGET SECTOR	TTV (\$MM)
12/06/2023	Equity Bancshares, Inc. (NYSE:EQBK)	Kansas	Rockhold Bancorp	Missouri	Financials	\$44.3
10/04/2023	Waukesha Bearings Corporation	Wisconsin	FW Murphy Production Controls, LLC	Oklahoma	Information Technology	\$530.0
09/29/2023	Bowman Consulting Group Ltd. (NasdaqGM:BWMN)	Virginia	Excellence Engineering, LLC	Oklahoma	Industrials	\$1.1
08/15/2023	One Energy Enterprises LLC	Ohio	TortoiseEcofin Acquisition Corp. III (NYSE:TRTL)	Kansas	Financials	\$365.1
08/07/2023	University of Iowa	Iowa	Mercy Iowa City	Iowa	Health Care	\$20.0
08/01/2023	Graphic Packaging International, LLC	Georgia	Bell Incorporated	South Dakota	Materials	\$262.5
07/31/2023	Standex International Corporation (NYSE:SXI)	New Hampshire	Mintronix, Inc.	South Dakota	Information Technology	\$41.5
07/31/2023	Lindsay Corporation (NYSE:LNN)	Nebraska	FieldWise, LLC	Nebraska	Industrials	\$32.6
07/11/2023	Beacon Roofing Supply, Inc. (NasdaqGS:BECN)	Virginia	Crossroads Roofing Supply, Inc.	Oklahoma	Industrials	\$804.5
07/07/2023	RPC, Inc. (NYSE:RES)	Georgia	Spinnaker Oilfield Services LLC	Oklahoma	Energy	\$78.8
07/06/2023	Adamant DRI Processing and Minerals Group (OTCPK:ADMG)	Idaho	Parks Amusements, LLC	Missouri	Consumer Discretionary	\$26.3
05/22/2023	Global Industrial Company (NYSE:GIC)	New York	Indoff Incorporated	Missouri	Industrials	\$69.2
05/04/2023	Green Plains Inc. (NasdaqGS:GPPE)	Nebraska	Green Plains Partners LP (NasdaqGM:GPP)	Nebraska	Energy	\$297.1
05/01/2023	SPX Technologies, Inc. (NYSE:SPXC)	North Carolina	ASPEQ Heating Group LLC	Missouri	Industrials	\$422.7
05/01/2023	Antarctica Capital, LLC	New York	Midwest Holding Inc.	Nebraska	Financials	\$104.9
04/26/2023	Honeywell International Inc. (NasdaqGS:HON)	North Carolina	Compressor Controls Corporation	Iowa	Industrials	\$661.0
04/04/2023	Terex Corporation (NYSE:TEX)	Connecticut	Contico International Inc.	Missouri	Industrials	\$6.0
03/27/2023	Transcat, Inc. (NasdaqGM:TRNS)	New York	TIC-MS, Inc.	Missouri	Industrials	\$9.6
02/08/2023	UniFirst Corporation (NYSE:UNF)	Massachusetts	Clean Uniform Company	Missouri	Consumer Discretionary	\$300.0
02/07/2023	Auction Technology Group plc (LSE:ATG)	Greater London	Vintage Software, LLC	Missouri	Communication Services	\$40.0
02/07/2023	Graphic Packaging International, LLC	Georgia	Tama Paperboard, LLC	Iowa	Materials	\$100.0
02/06/2023	Air T, Inc. (NasdaqGM:AIRT)	North Carolina	Worldwide Aircraft Services, Inc.	Missouri	Industrials	\$3.0

FEATURED NEWS | MIDWEST TRANSACTIONS

Honeywell Acquires Compressor Control Corporation

[Honeywell](#)

Honeywell International, Inc. (NasdaqGS:HON), announced that it has agreed to acquire Compressor Controls Corporation (CCC) for approximately \$670M in an all-cash transaction. The purchase price represents a ~15x 2023E EBITDA multiple on a tax adjusted basis. CCC is a leading provider of turbomachinery control and optimization solutions, primarily serving the LNG, gas processing, refining and petrochemical segments. The acquisition will be integrated into Honeywell's Process Solutions business segment and will strengthen the Company's industrial control, automation and process solutions, enabling customers to accelerate their energy transition.

SPX Technologies Announces Agreement to Purchase ASPEQ Heating Group

[Global Newswire Article](#)

SPX Technologies, Inc. (NYSE:SPXC), announced that it has entered into a definitive agreement to purchase ASPEQ Heating Group (ASPEQ) for \$418M. ASPEQ is a leading electrical heating solutions provider with approximately \$120M in annual revenue. SPX is a supplier of highly engineering products and technologies in the HVAC and detection and measurement markets. SPX has been quite acquisitive in recent years, completing 13 acquisitions since 2018 with the acquisition of ASPEQ being the largest to date. The acquisition of ASPEQ more than doubles SPX's position in the electrical heating space and expands the Company's growth opportunities in secular trends such as electrification, decarbonization and reshoring.

Equity Bancshares (EQBK) Inks Deal to Buy Bank of Kirksville

[Yahoo Finance Article](#)

Equity Bancshares, Inc. (EQBK), the holding Company for Equity Bank, signed a definitive merger agreement to acquire Rockhold Bancorp, the parent company of the Bank of Kirksville in an all-cash merger transaction valued at \$44.3 million. Bank of Kirksville currently operates through eight locations in North Central Missouri. Bank of Kirksville's consolidated total assets were \$406 million as of September 30, 2023. Its total deposits, core deposits and loans summed up to \$344 million, \$311 million and \$122 million, respectively, as of the same date. On a pro-forma basis, following the acquisition, Equity Bank will have a network of 74 bank locations, with 23 offices in Missouri and \$5.4 billion in total assets.

Global Industrial Acquires Indoff Inc.

[Global Industrial](#)

Global Industrial Company (NYSE:GIC) announced that it has acquired 100% of the equity interests of Indoff Inc. for approximately \$68M in an all-cash transaction. The acquisition was funded from the Company's existing credit facility and cash on hand. Indoff is a business solutions provider and distributor offering material handling/warehouse solutions, commercial interiors and business and promotional products. Through Indoff's network of over 350 sales professionals the Company generated approximately \$120M in revenue in 2022. Global Industrial is a value-added distributor, offering more than a million industrial and MRO products.

Auction Technology Buys U.S. Estate Sale Listing Site

[Morningstar Article](#)

Auction Technology Group PLC, a London-based online auction operator announced the acquisition of Vintage Software, LLC trading as estatesales.net, for \$40 million. Auction Technology Group will pay an initial cash payment of \$30 million with deferred cash consideration of \$10 million payable after 12 months. Vintage Software, based in Jackson, Missouri offers a platform to facilitate estate sales across the U.S. that attracts over 3 million monthly listing subscribers. The transaction expands Auction Technology's immediately addressable market into the growing and fragmented U.S. estate sales market.

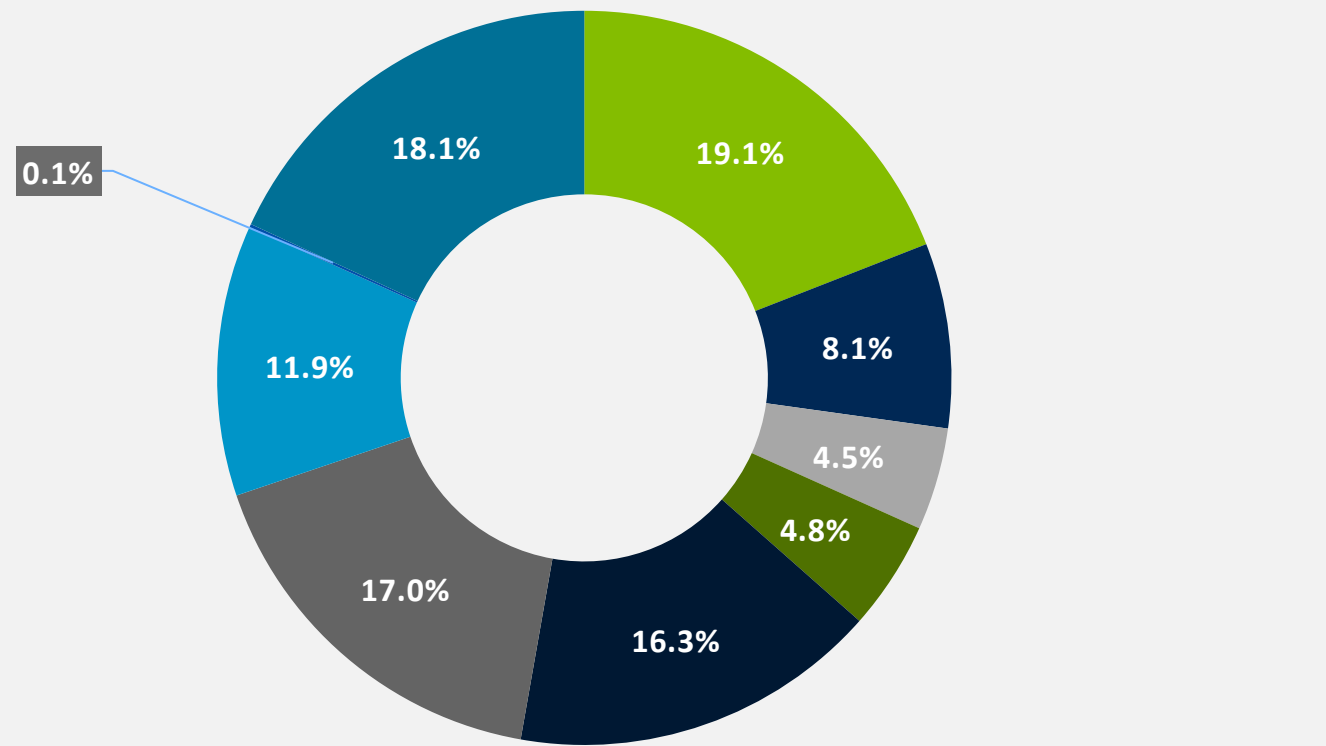
RPC, Inc. Expands Oilfield Cementing Service Line Through Acquisition of Spinnaker Oilwell

[PR Newswire Article](#)

RPC, Inc. announced the acquisition of 100% of the equity of Spinnaker Oilwell Services, LLC a leading provider of oilfield cementing services in the Permian and Mid-Continent basins for \$79.5 million. The transaction consideration consisted of approximately \$77.0 million of cash, and the \$2.0 million payoff and \$0.5 million assumption of capital lease liabilities. Spinnaker, headquartered in Oklahoma City, OK, operates two facilities located in El Reno, OK and Hobbs, NM and maintains 18 full-service cementing spreads. The acquisition will significantly expand RPC's cementing business.

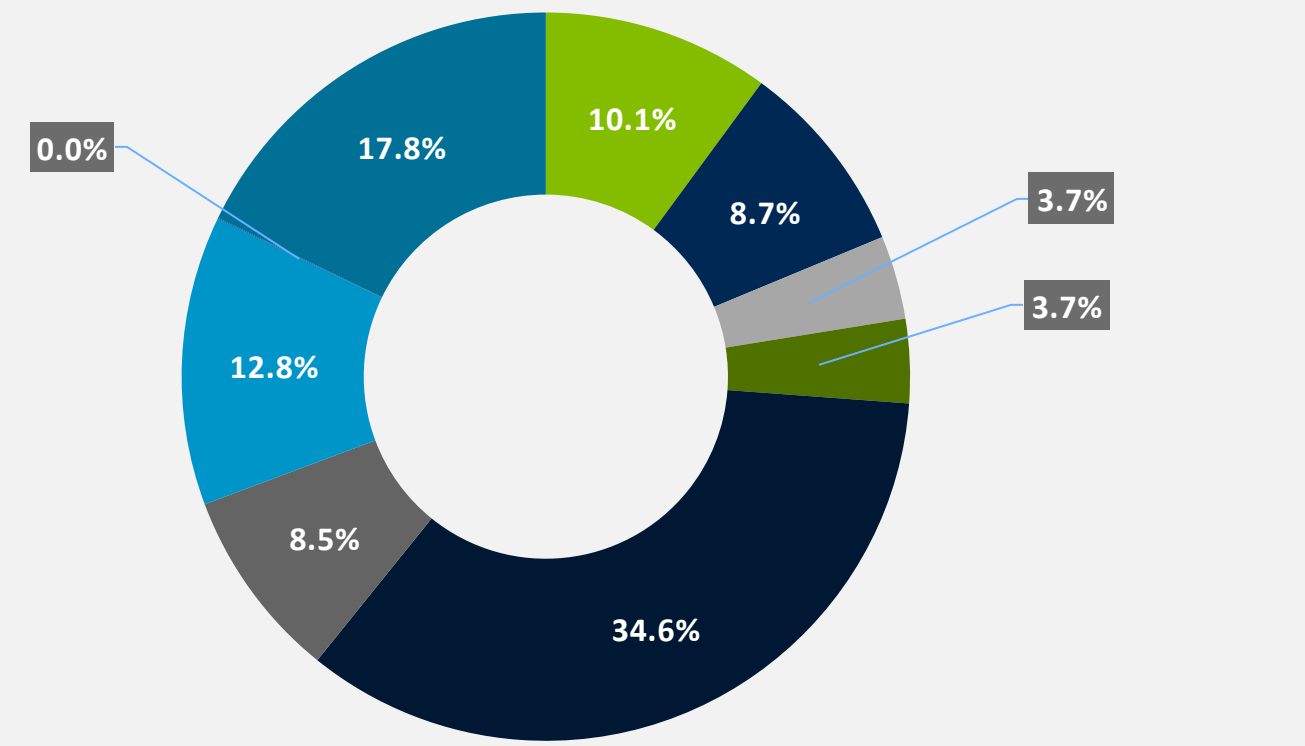
TRANSACTION ENVIRONMENT | REGION

Geographic Distribution of Deal Count



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

Geographic Distribution of Deal Value

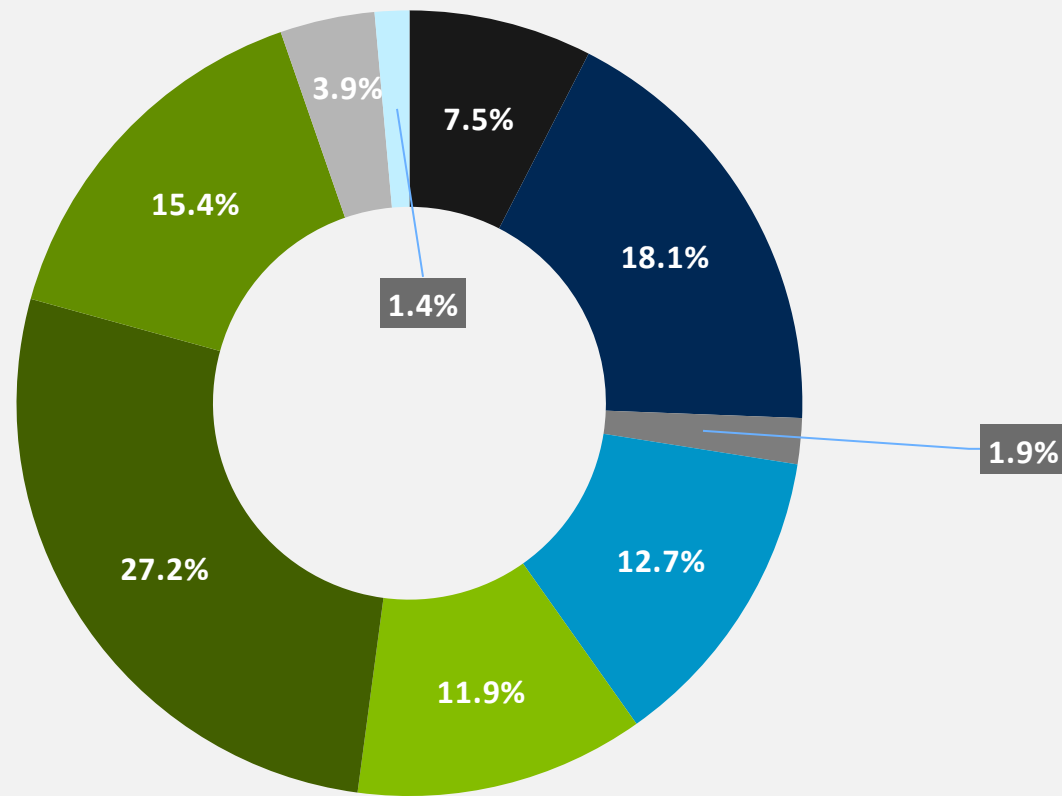


■ Great Lakes
 ■ Midatlantic
 ■ Midwest
 ■ Mountain
 ■ Northeast
■ Southeast
■ Southwest
■ US Territories
■ West Coast

The **Great Lakes region** (Illinois, Indiana, Michigan, Minnesota, Ohio, Pennsylvania, and Wisconsin) had the **most activity in 2023** in terms of total volume, with **19.1% of total lower middle market transactions**, followed by the West Coast and Southeast regions.

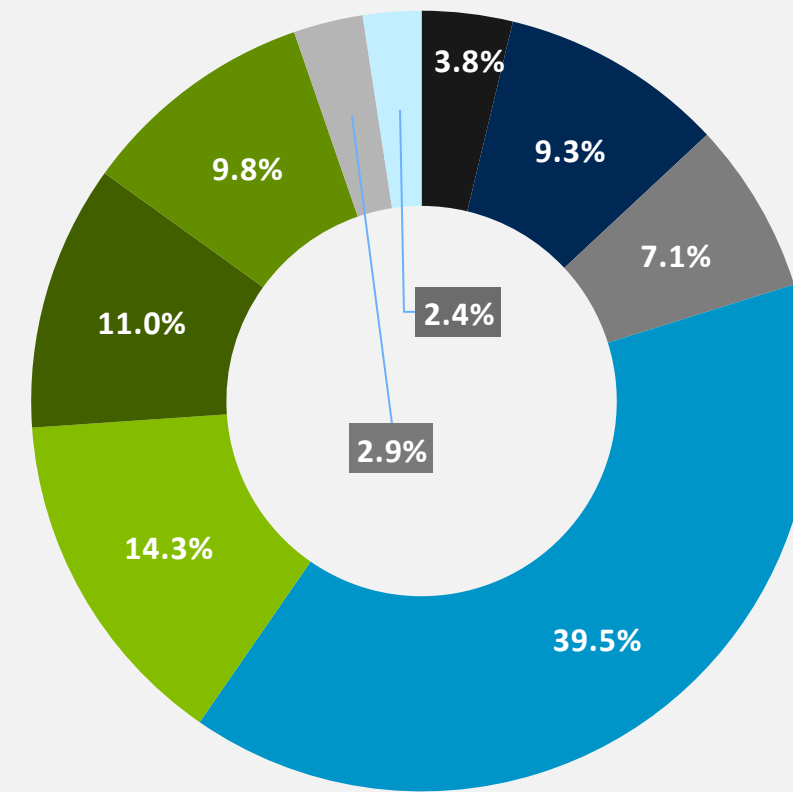
TRANSACTION ENVIRONMENT | INDUSTRY

Distribution of Deal Count by Industry Sector



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

Distribution of Deal Value by Industry Sector

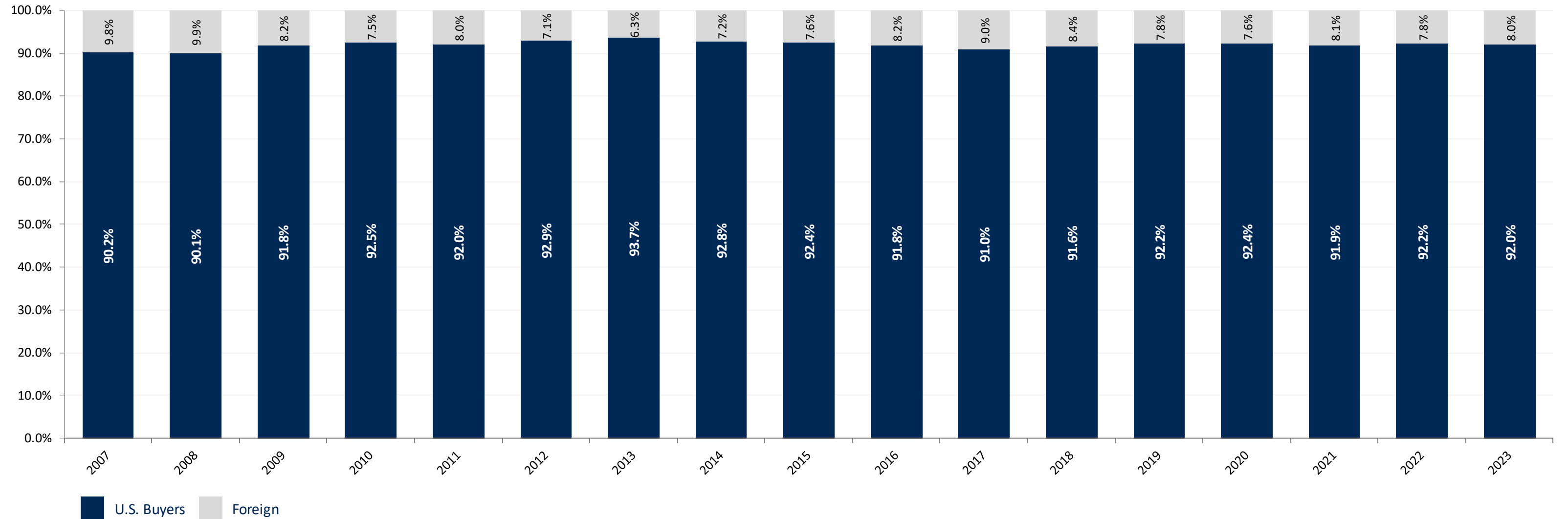


- Communication Services
- Consumer
- Energy
- Financials
- Health Care
- Industrials
- Information Technology
- Materials
- Utilities

In 2023, **industrials, consumer and information technology** were the most active sectors by volume, accounting for **60.6%** of total activity. **Financials, healthcare, and industrials** were the most active sectors by value, accounting for **64.8%** of total activity.

TRANSACTION ENVIRONMENT

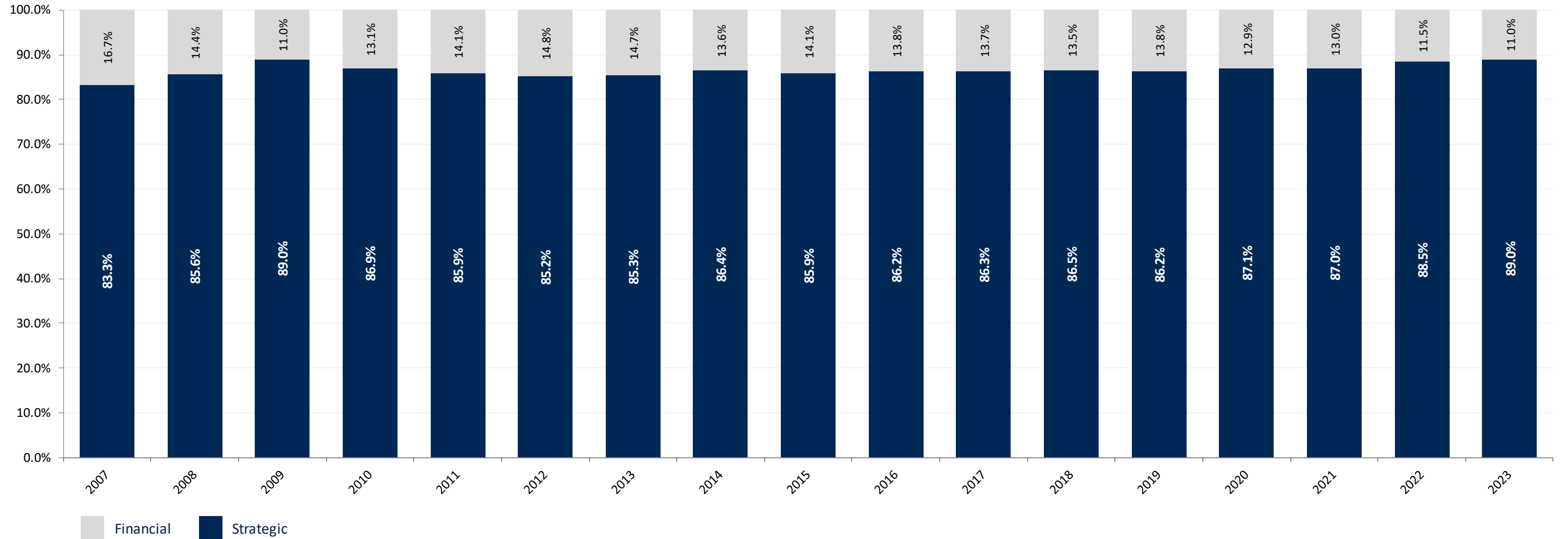
DISTRIBUTION OF DEAL COUNT BY BUYER REGION



Non-U.S. buyers represented 8.0% of the total deals in 2023, a slight decrease from the previous year.

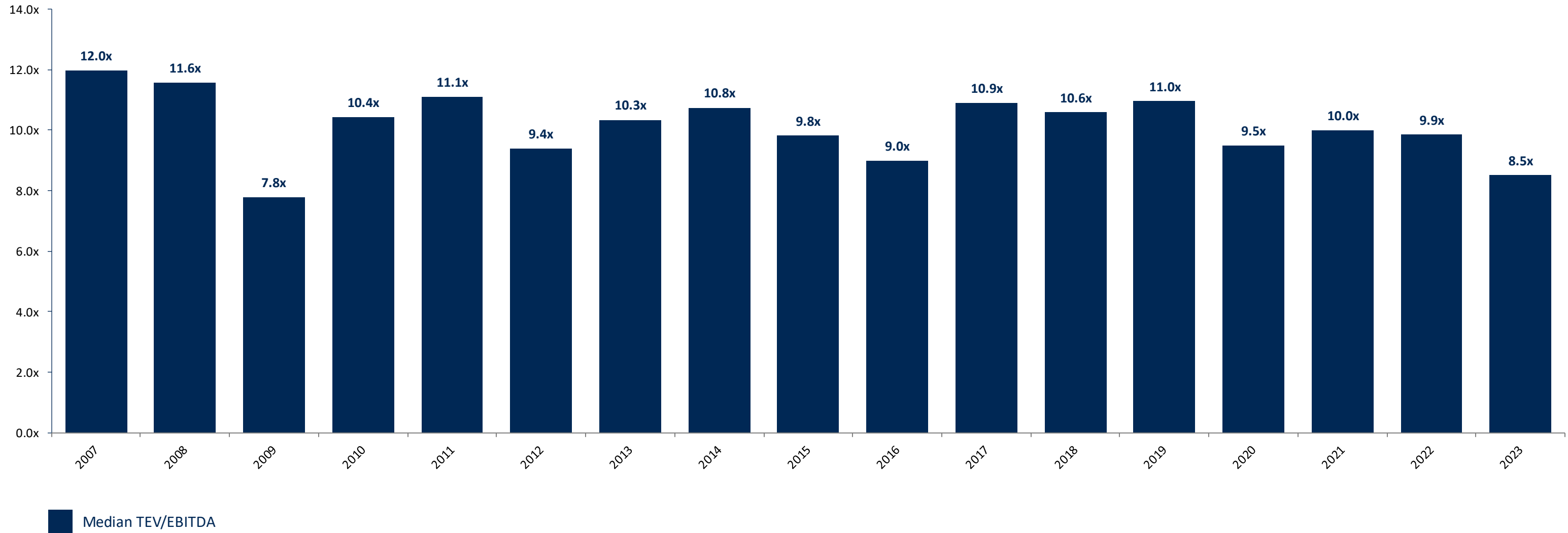
TRANSACTION ENVIRONMENT

DISTRIBUTION OF DEAL COUNT BY BUYER TYPE



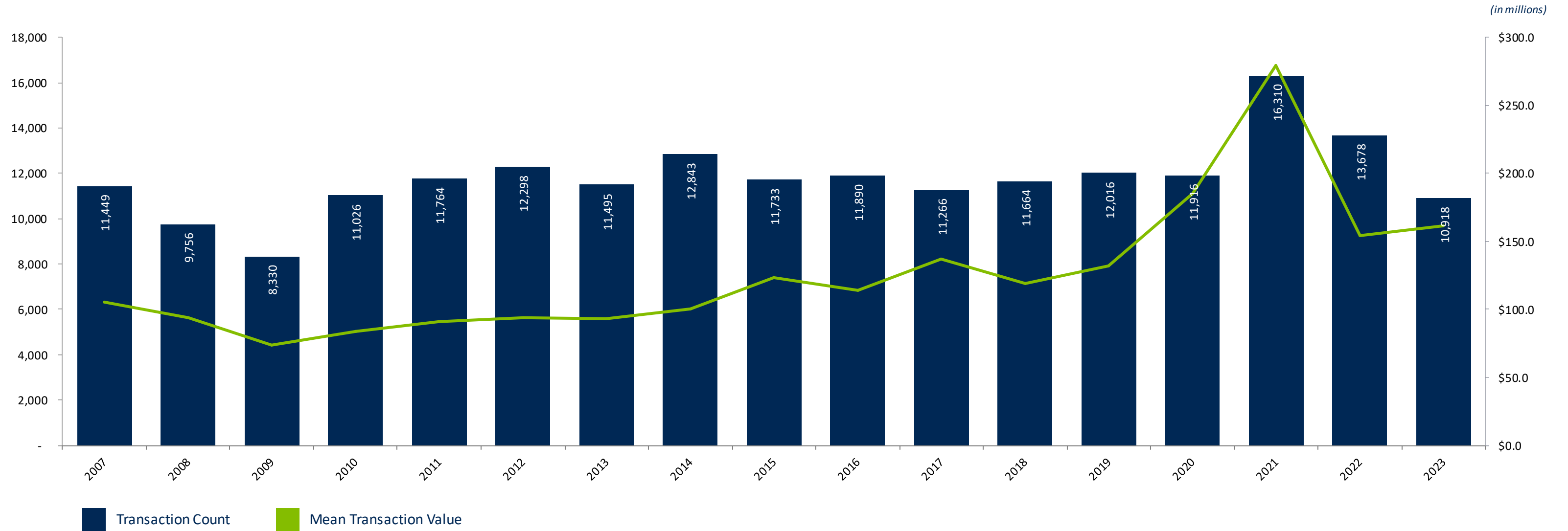
The percentage of deals completed by financial buyers decreased to 11.0% in 2023 from 11.5% in 2022.

TRANSACTION ENVIRONMENT | M&A ACTIVITY



Median TEV/EBITDA multiple moderately decreased to 8.5x in 2023 from 9.9x in 2022 based on the publicly available transaction valuation data. Acquisition data includes both private equity and strategic transactions.

TRANSACTION ENVIRONMENT | M&A ACTIVITY



Transaction count in 2023 was down significantly, 20.2% y/y.
Average transaction value increased 4.8% to \$161.6M, a slight increase from 2022 but down from the record highs in 2021.

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

PRIVATE EQUITY ACTIVITY HIGHLIGHTS | GF DATA

VALUATION HEADLINE NUMBERS⁰

Source: GF Data[®]

All Transactions	2019	2020	2021	2022	2023
# of Deals	335	342	501	331	269
TEV/EBITDA	7.1x	7.0x	7.6x	7.6x	7.3x
Total Debt/EBITDA	3.9x	3.7x	4.0x	3.9x	3.6x
Senior Debt/EBITDA	3.2x	3.1x	3.3x	3.2x	2.9x

TEV/EBITDA – All INDUSTRIES BY DEAL SIZE

Source: GF Data[®]

TEV	2019	2020	2021	2022	2023
10-25	6.1x	5.9x	6.1x	6.5x	6.0x
25-50	7.0x	6.7x	7.2x	7.1x	7.1x
50-100	7.5x	8.0x	8.3x	8.5x	8.0x
100-250	9.2x	8.7x	9.3x	9.1x	9.8x
250-500	11.0x	10.4x	10.9x	10.1x	10.7x
Total	7.1x	7.0x	7.6x	7.6x	7.3x
# of Deals	335	342	501	331	269

TEV/EBITDA – BY INDUSTRY

Source: GF Data[®]

Industry	2019	2020	2021	2022	2023
Manufacturing	6.5x	6.7x	7.1x	7.3x	6.5x
Business Services	7.2x	7.1x	7.3x	7.4x	7.3x
Healthcare Services	8.0x	7.6x	8.1x	8.4x	9.3x
Retail	9.3x	6.5x	8.3x	8.0x	6.0x
Distribution	7.0x	7.5x	7.2x	7.2x	7.1x
Media & Telecom	9.4x	8.3x	7.0x	9.1x	7.8x
Technology	10.0x	7.6x	10.3x	8.1x	10.2x
Other	6.5x	6.2x	7.3x	6.7x	6.9x

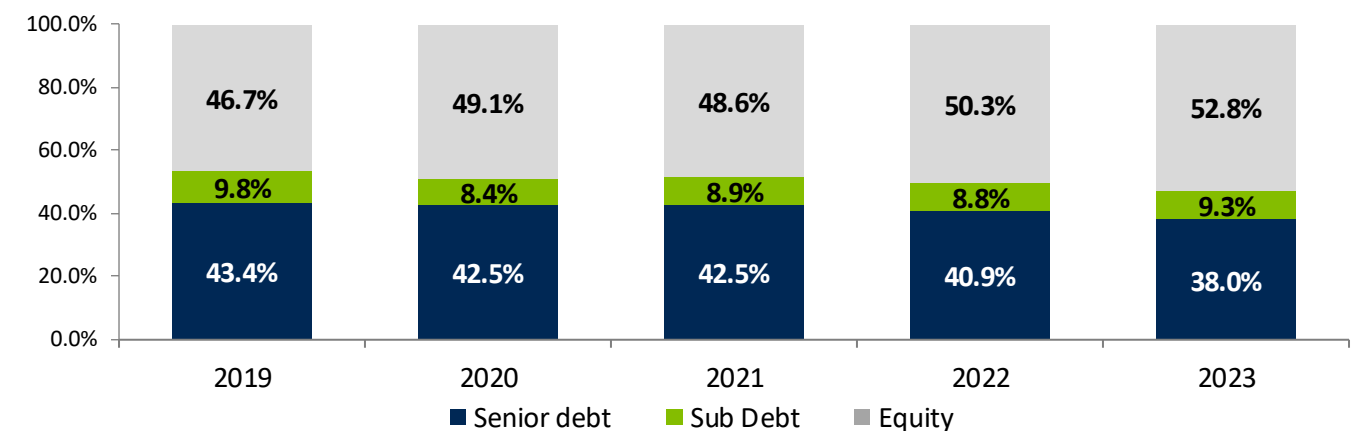
TOTAL DEBT/EBITDA – All INDUSTRIES BY DEAL SIZE

Source: GF Data[®]

TEV	2019	2020	2021	2022	2023
10-25	3.8x	3.6x	4.0x	3.7x	3.7x
25-50	3.9x	3.4x	3.9x	3.7x	3.3x
50-100	3.9x	3.6x	3.8x	4.0x	3.5x
100-250	4.4x	4.7x	4.4x	4.2x	3.9x
250-500	5.1x	4.8x	5.4x	5.1x	4.5x
Total	3.9x	3.7x	4.0x	3.9x	3.6x
# of Deals	293	285	428	278	232

EQUITY AND DEBT CONTRIBUTION BY YEAR

Source: GF Data[®]



- According to GF Data, 2023 total deal volume was moderately down from 2022 registering 269 private equity sponsored deals, compared to 331 from the prior year.
- Average valuations slightly decreased to 7.3x TTM Adjusted EBITDA from 7.6x in 2022.
- Manufacturing, business services, healthcare services and distributions continue to be the most active industries in 2023, accounting for ~80% of GF Data covered transaction volume.
- Capital structure levels were slightly up in 2023 as average equity rose to 52.8%, partly due to seller rollover equity in platform deals.

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.

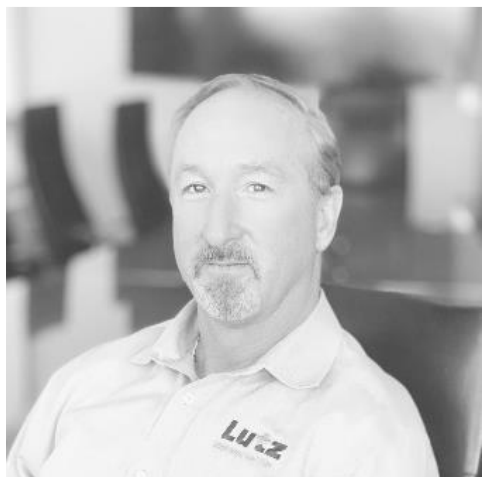
Our services begin with robust initial planning and pre-marketing, and cover the entire deal spectrum, from marketing to tax consulting, due diligence, deal structuring, and closing. Our team will run a market driven process designed to maximize investor interest that drives higher valuations and better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

For more information, visit lutz.us/mergers-and-acquisitions-services.

RECENT TRANSACTIONS

NOVEMBER 2023 DAHLSTEN TRUCK LINE ACQUIRED BY  LUTZ M&A WAS THE EXCLUSIVE FINANCIAL ADVISOR	AUGUST 2023 STANDARD IRON WORKS ACQUIRED BY GOTTSCH ENTERPRISES LUTZ M&A WAS THE EXCLUSIVE FINANCIAL ADVISOR	MAY 2023  ACQUIRED BY International Foundation OF EMPLOYEE BENEFIT PLANS LUTZ M&A WAS THE EXCLUSIVE FINANCIAL ADVISOR
MAY 2023  ACQUIRED BY WOODHOUSE LUTZ M&A WAS THE EXCLUSIVE FINANCIAL ADVISOR	FEBRUARY 2022  BROKERS CLEARING HOUSE LTD. LIBRA INSURANCE PARTNERS ACQUIRED BY INTEGRITY MARKETING GROUP 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	OCTOBER 2020  ESOP LUTZ M&A WAS THE EXCLUSIVE FINANCIAL ADVISOR	

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