

April 13, 2022 | 11:00 A.M. ET

rkl

WHAT'S NEXT >

WEBINAR SERIES

Insights & education on the latest issues impacting
people, profits and processes

Housekeeping Items

- The webinar will be recorded and shared as soon as it is available via email
- Today's materials will be shared in the chat box
- All lines are muted
- NASBA CPE requirements – in order to receive CPE for this webinar:
 - Participants must be connected to the session (both audio and presentation) for its entirety
 - Participants must answer three questions/elements of engagement
 - One (1) hour of CPE in the field of specialized knowledge will be granted if you meet these requirements

DISCLAIMER: The presenters, Ryan Hurst and Bryan Redding and RKL LLP and its subsidiaries/affiliates are not held responsible for information that has changed or will change and makes no representation or warranty as to the ongoing accuracy of the information presented orally or in writing. Attendees should consult with legal, accounting and other advisors.

Welcome and Meet Your Team



Ryan Hurst, ASA | *Partner, Business Consulting Services Group*

Growing up in a family owned business household gave Ryan Hurst a firsthand appreciation for the hard work involved in running a successful company. Over the course of his 18-year career, this perspective proved valuable as Ryan carved out a professional niche of helping owners identify their vision for the future of their businesses and translating that vision into reality.

A Partner in RKL's Business Consulting Services Group and an in-demand transaction consultant, Ryan's areas of expertise include advising clients on buying and selling businesses (M&A); succession planning; conducting valuations for a variety of transactions and structures; employee stock ownership plan (ESOP) transactions; real estate development; and strategic alternatives analyses.



Bryan Redding, PMP | *Senior Consultant, Business Consulting Services Group*

Bryan is a Senior Consultant in RKL's Business Consulting Services Group. His focus is in due diligence, quality of earnings and other M&A advisory engagements for lower middle market companies.

Prior to joining RKL in 2021, Bryan was a Senior Consultant in a Big 4 accounting firm's M&A practice. During his time in this role, Bryan advised clients through all aspects of the M&A lifecycle, including pre-transaction due diligence, separation planning and execution and post-close integration.

What to Expect Today

01.

Regional Update

A look into regional data by market, buyers vs sellers, industries, and more.

02.

Overall Trends

National trends including market multiples and the impact of private equity.

03.

M&A Outlook

Where we see the M&A market heading in 2022.

04.

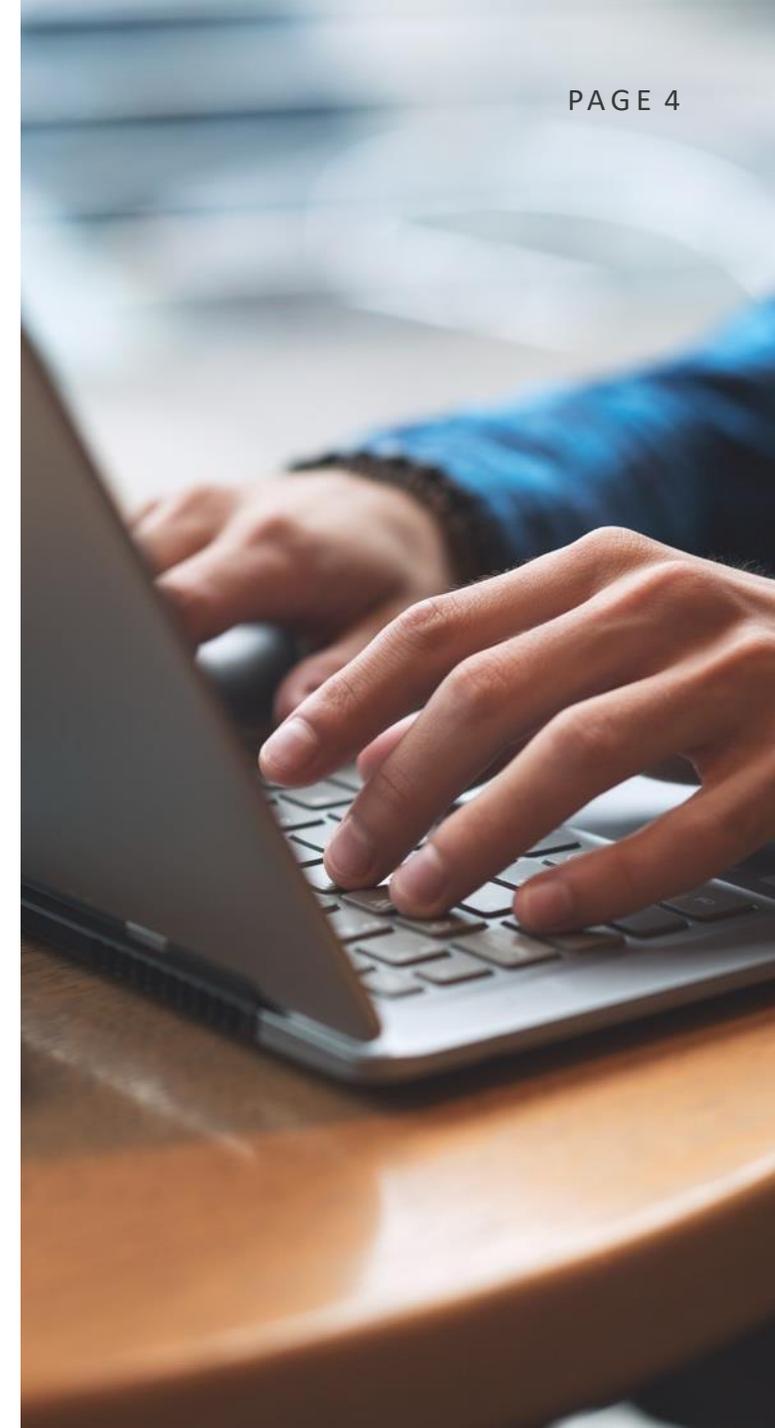
What's Next for Your Business?

Ideas for buyers and sellers.

05.

Questions and Closing

An opportunity for you to ask questions and share what's on your mind.



POLLING QUESTION

To be eligible for CPE, 3 polling questions must be answered.

Regional
Update



About the Dataset

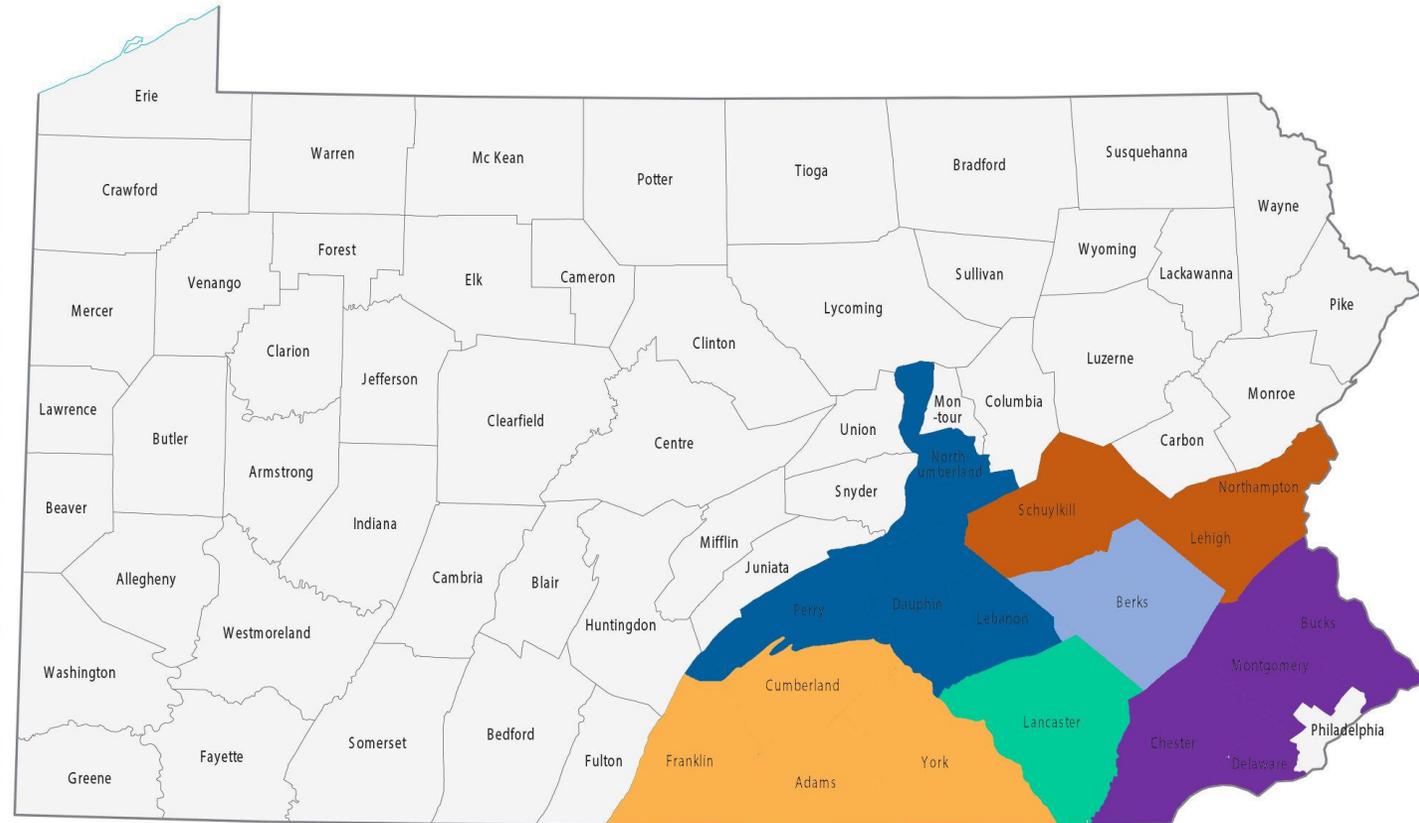
Sourced from S&P Capital IQ

- Middle market and large cap deals
- Generally doesn't include "Main Street" businesses

Buyer or seller located in region

Focus on the trend more than the figures

[Download the Report](#)

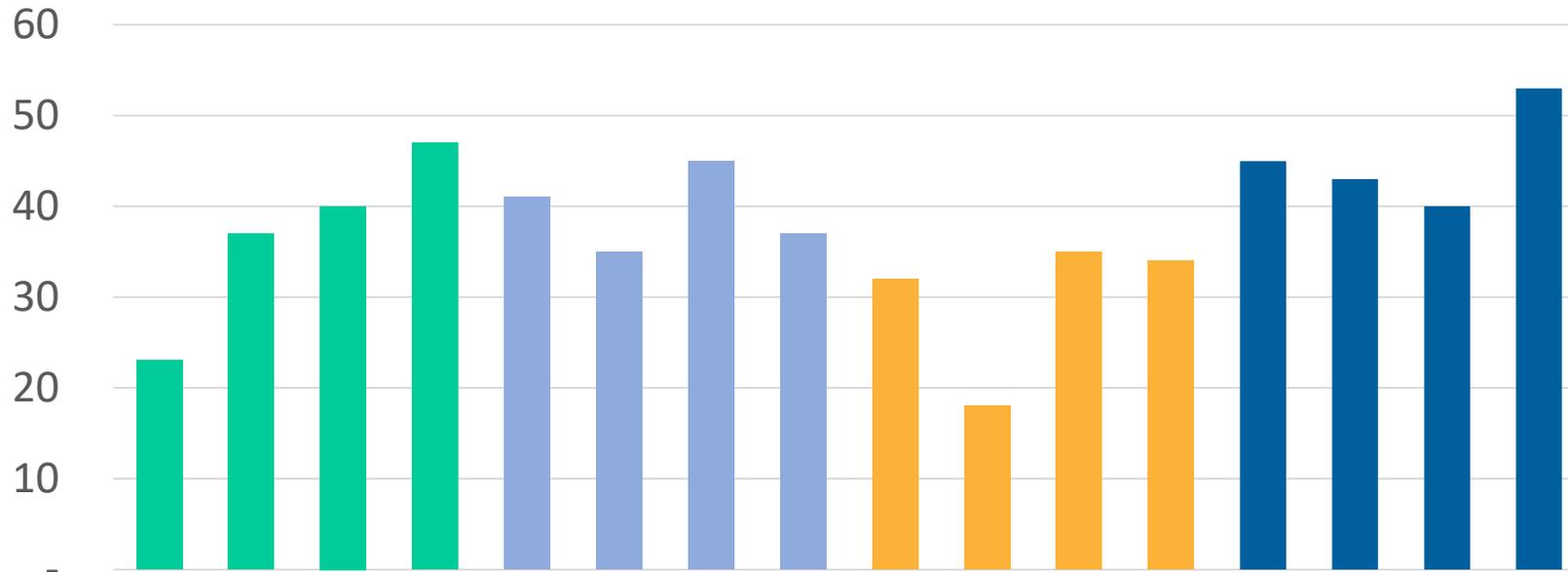


- Capital Region
- Greater York
- Lancaster
- Berks
- Lehigh Valley
- Suburban Philadelphia

Quarterly Trend

Number of Transactions

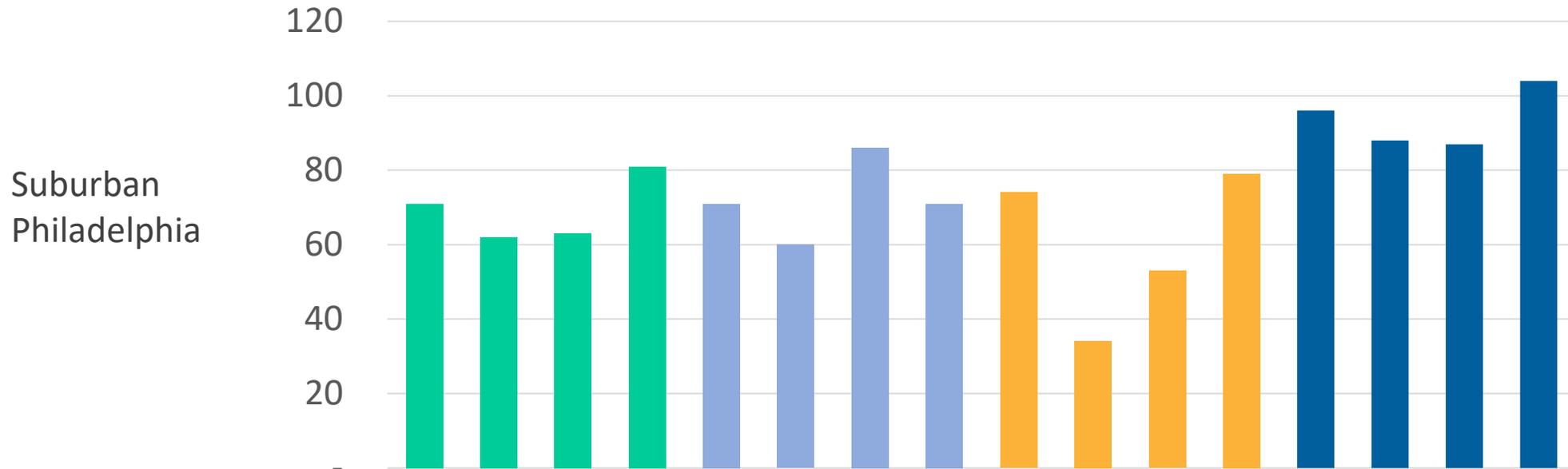
Excluding
Suburban
Philadelphia



	2018	2019	2020	2021
Total	147	158	119	181
% Change		7%	-25%	52%
% Change (vs 2019)				15%

Quarterly Trend

Number of Transactions

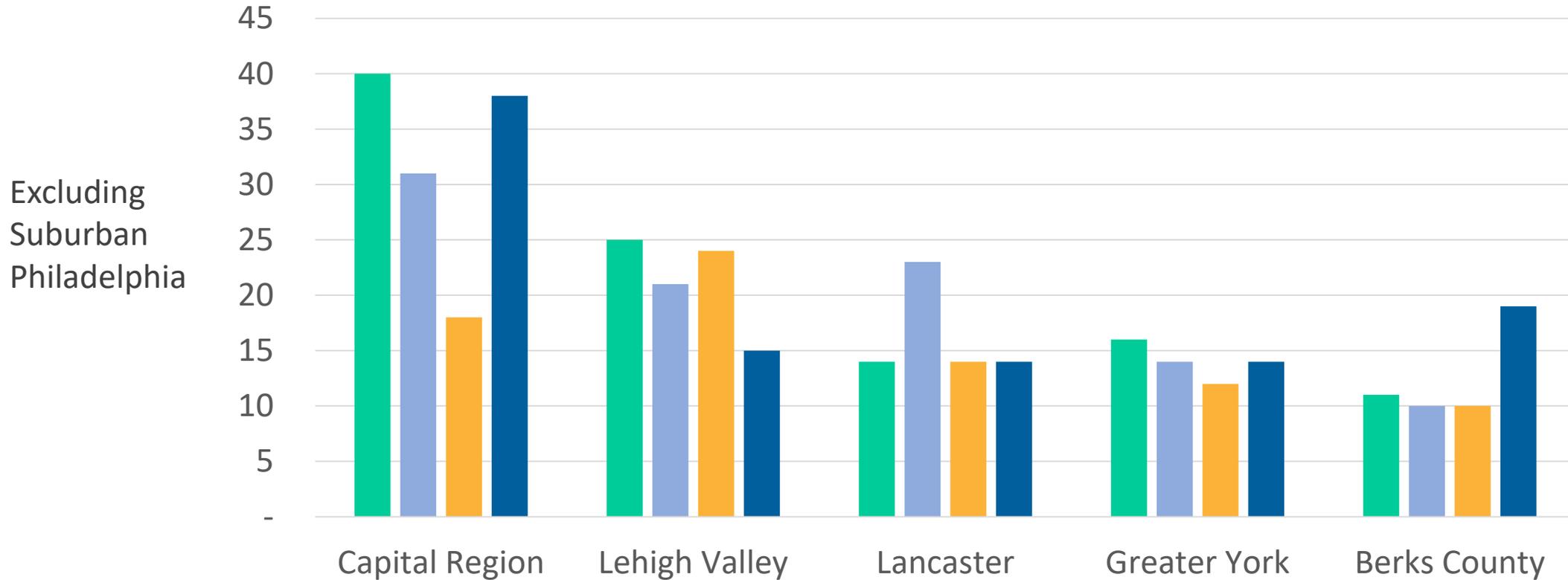


	2018	2019	2020	2021
Total	277	288	240	375
% Change		4%	-17%	56%
% Change (vs 2019)				30%

Buyers

Buyer Located within the Region

2018 2019 2020 2021

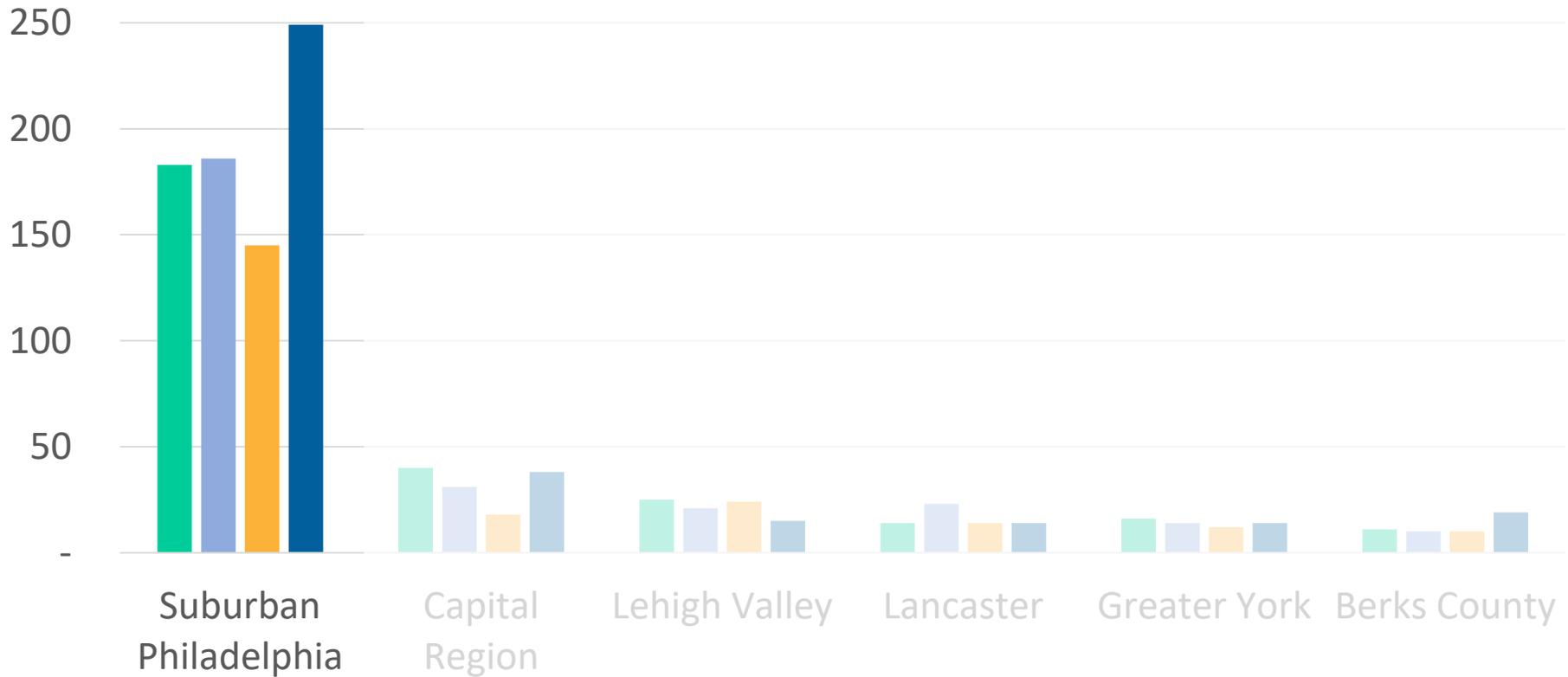


Buyers

Buyer Located within the Region

2018 2019 2020 2021

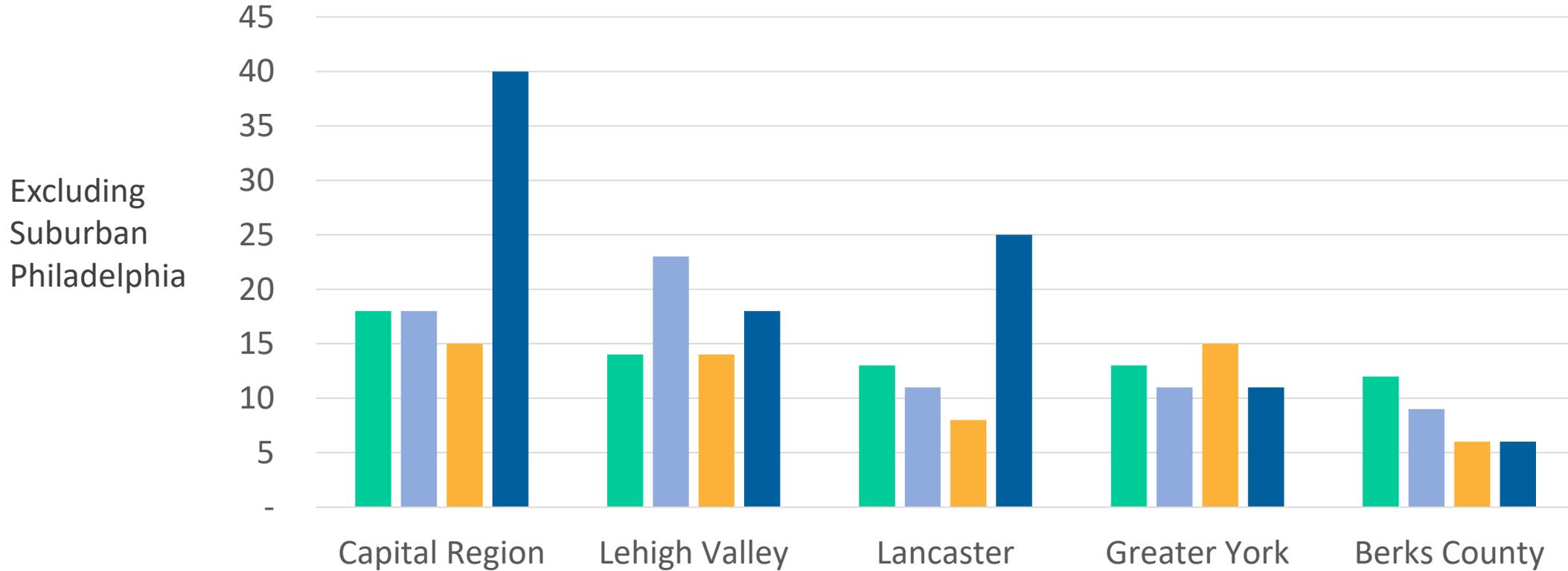
Including Suburban Philadelphia



Targets

Target Located within the Region

2018 2019 2020 2021

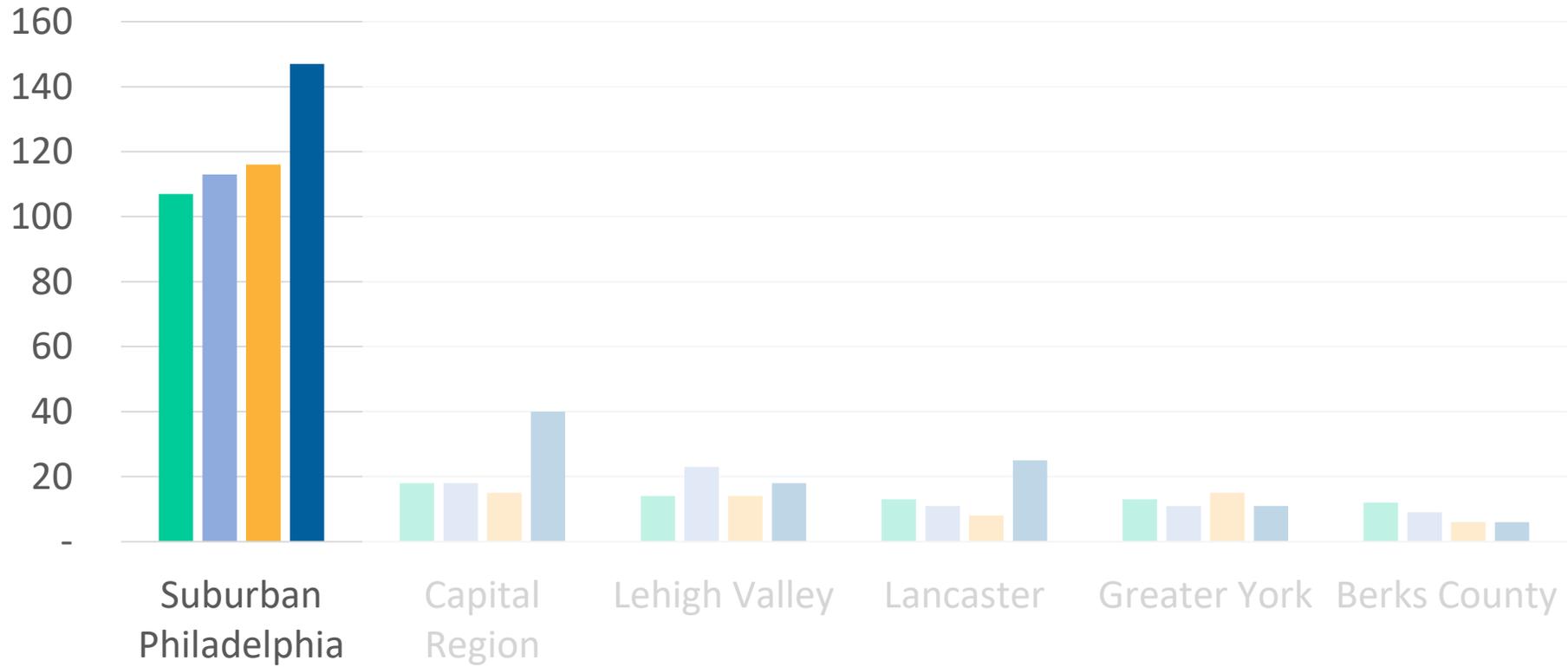


Targets

Target Located within the Region

2018 2019 2020 2021

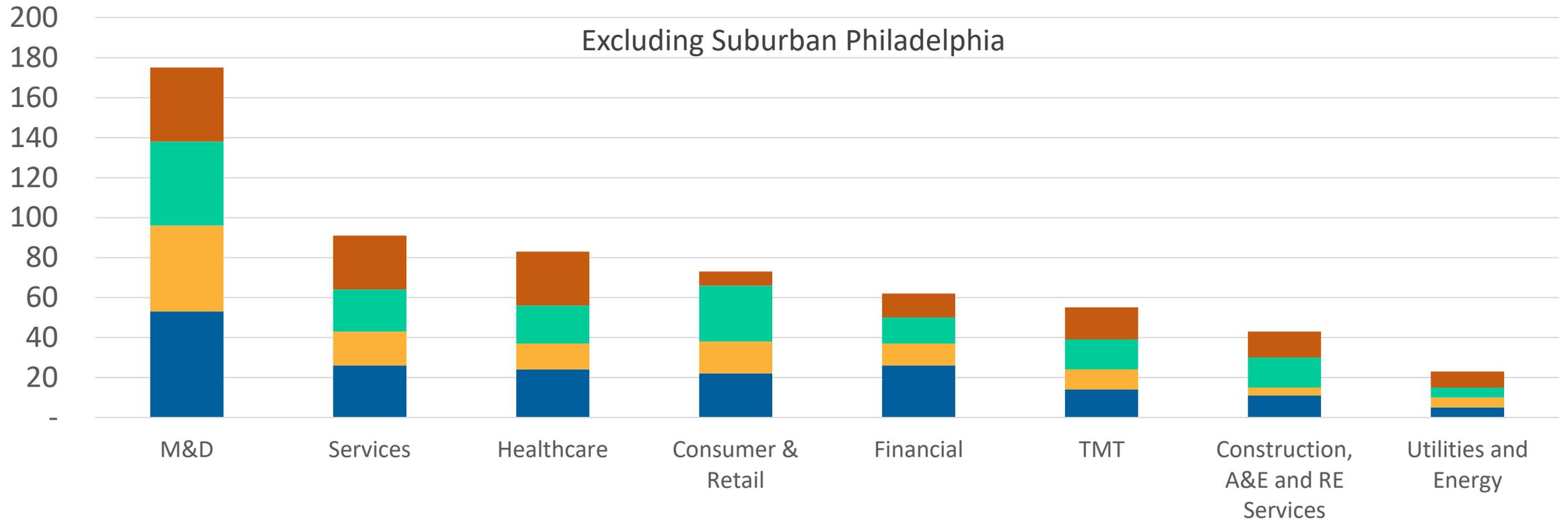
Including Suburban Philadelphia



Industry Composition

Transactions by Target Industry

■ 2021 ■ 2020 ■ 2019 ■ 2018

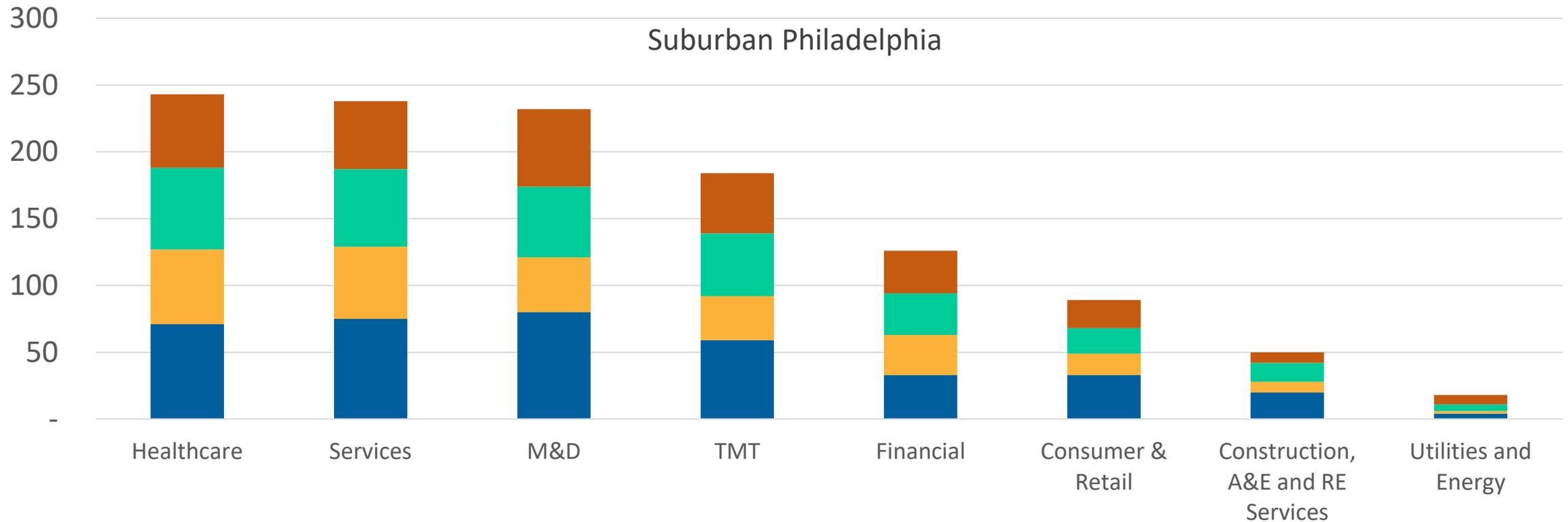


Industry Composition

Transactions by Target Industry

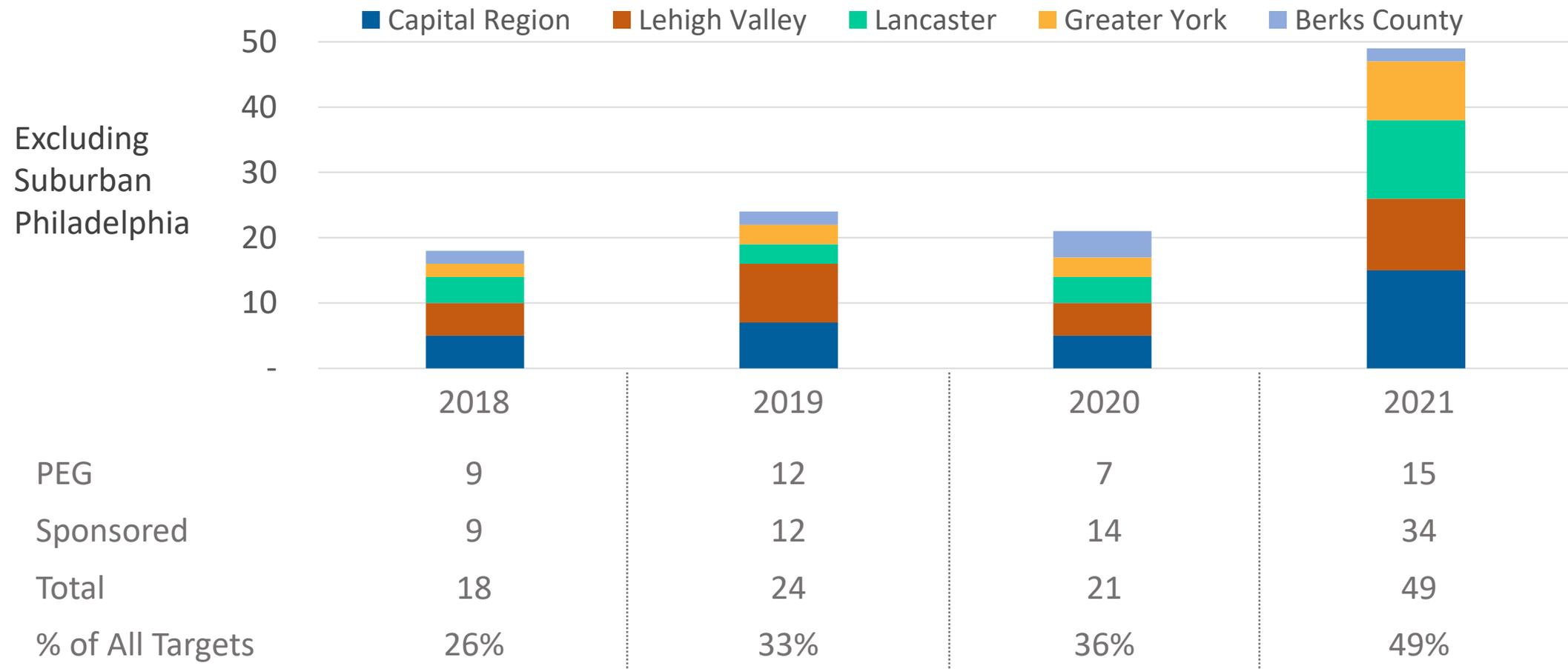
■ 2021 ■ 2020 ■ 2019 ■ 2018

Suburban Philadelphia



Private Equity Interest in the Region

PEG or Sponsored Buyer with Target in Region



Excluding
Suburban
Philadelphia

PEG
Sponsored
Total
% of All Targets

2018

2019

2020

2021

9

12

7

15

9

12

14

34

18

24

21

49

26%

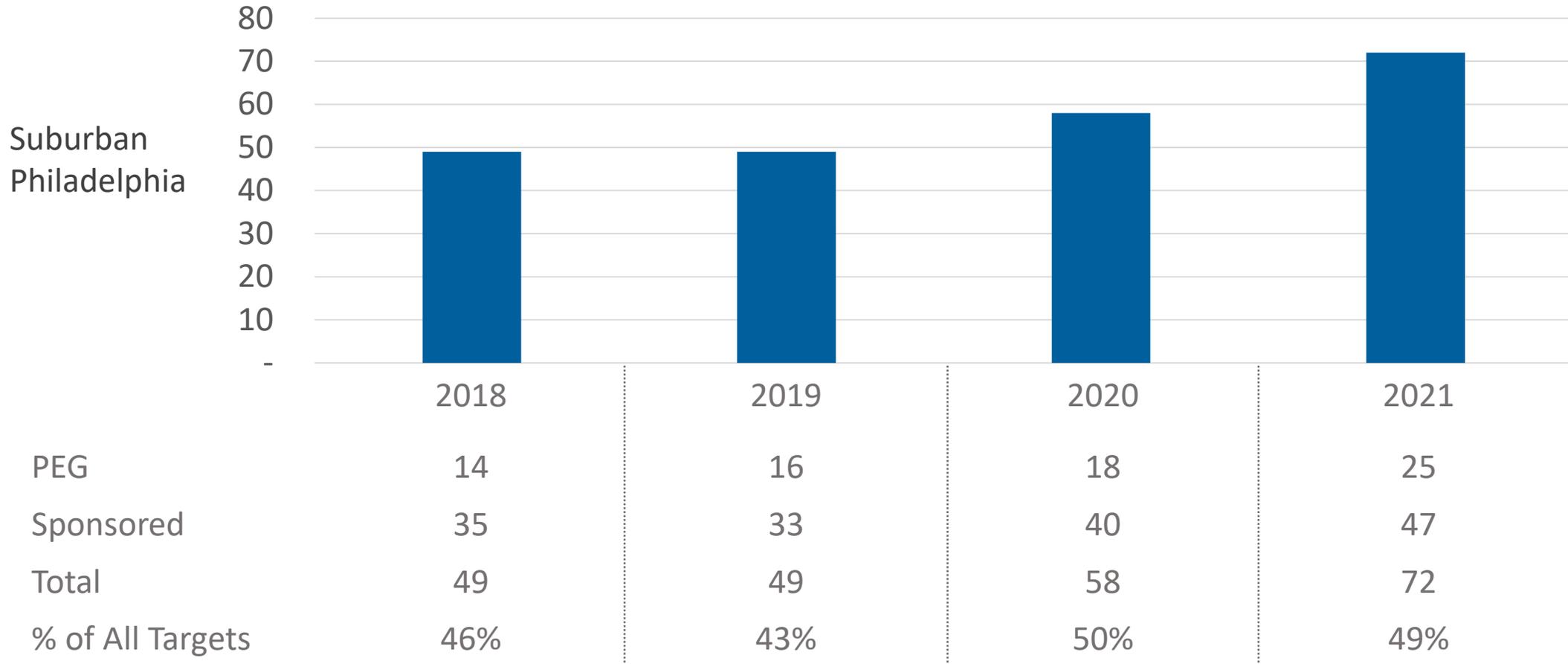
33%

36%

49%

Private Equity Interest in the Region

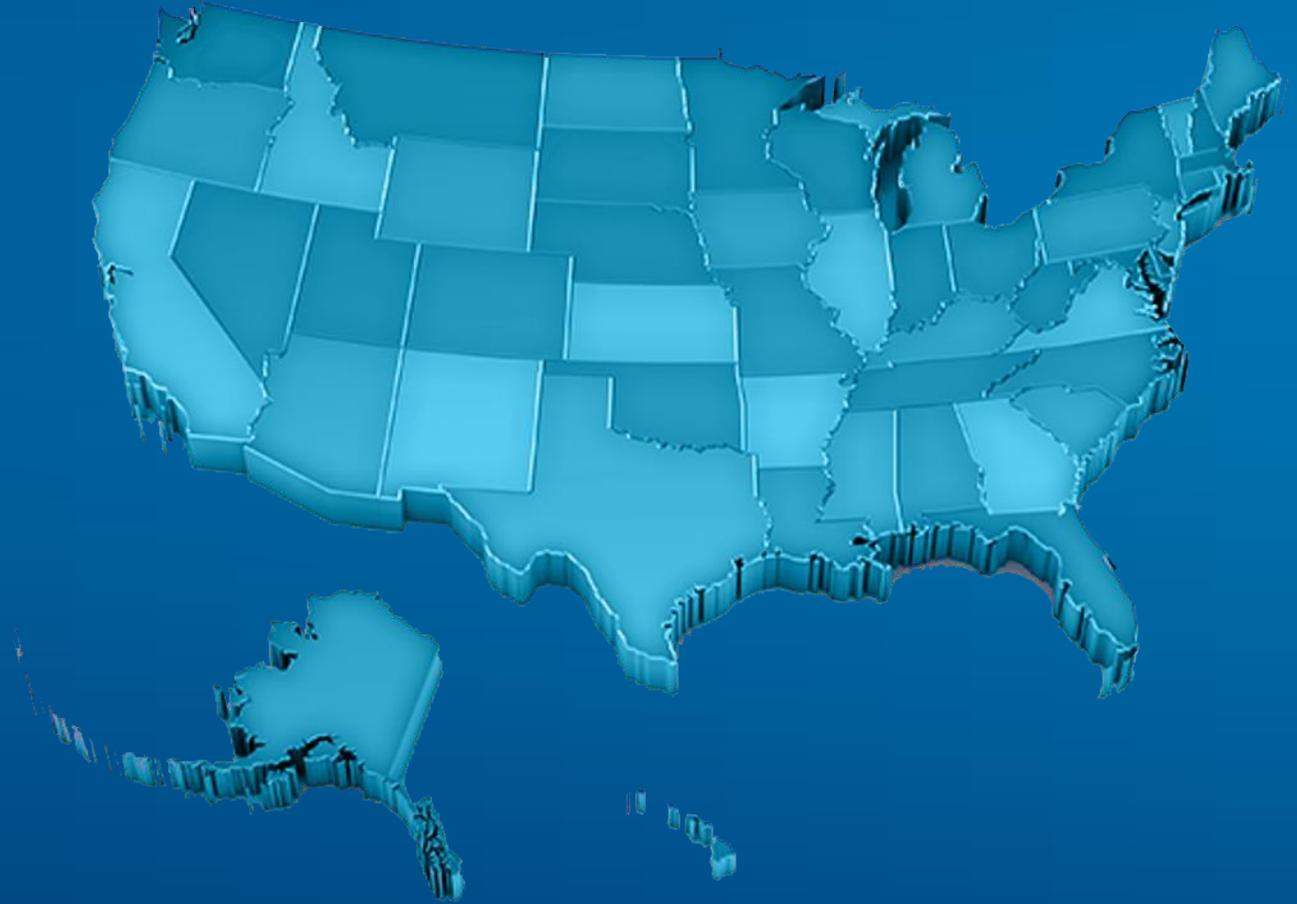
PEG or Sponsored Buyer with Target in Region



POLLING QUESTION

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Overall Trends



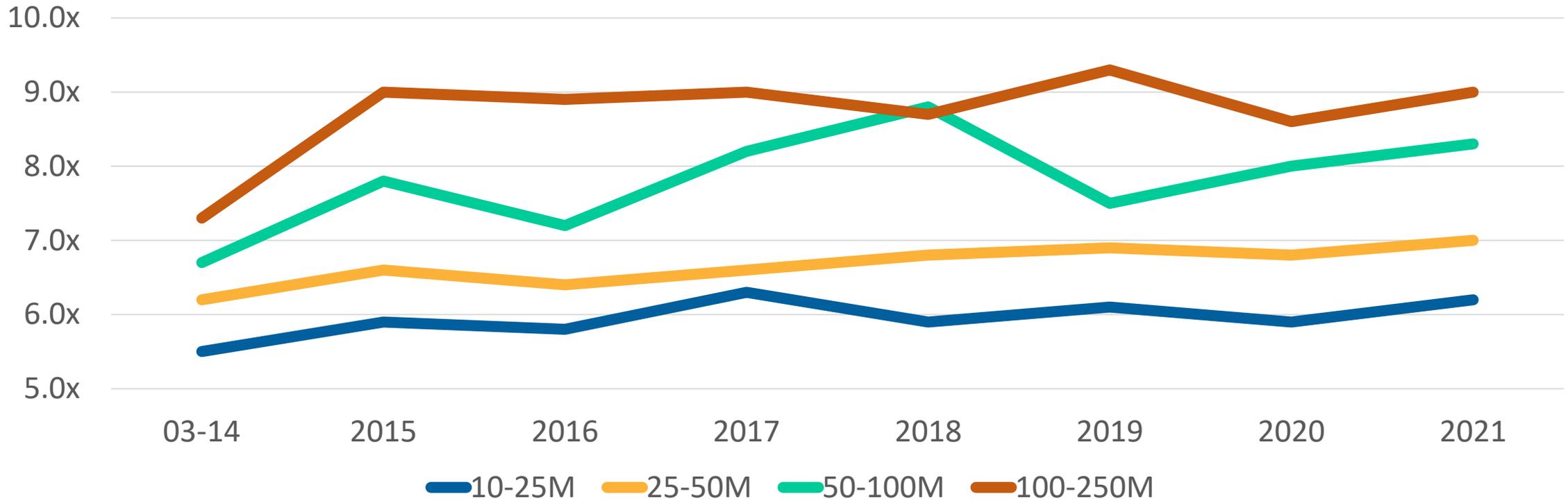
What We Saw in 2021

The robust U.S. M&A market continued, with several factors driving M&A activity:

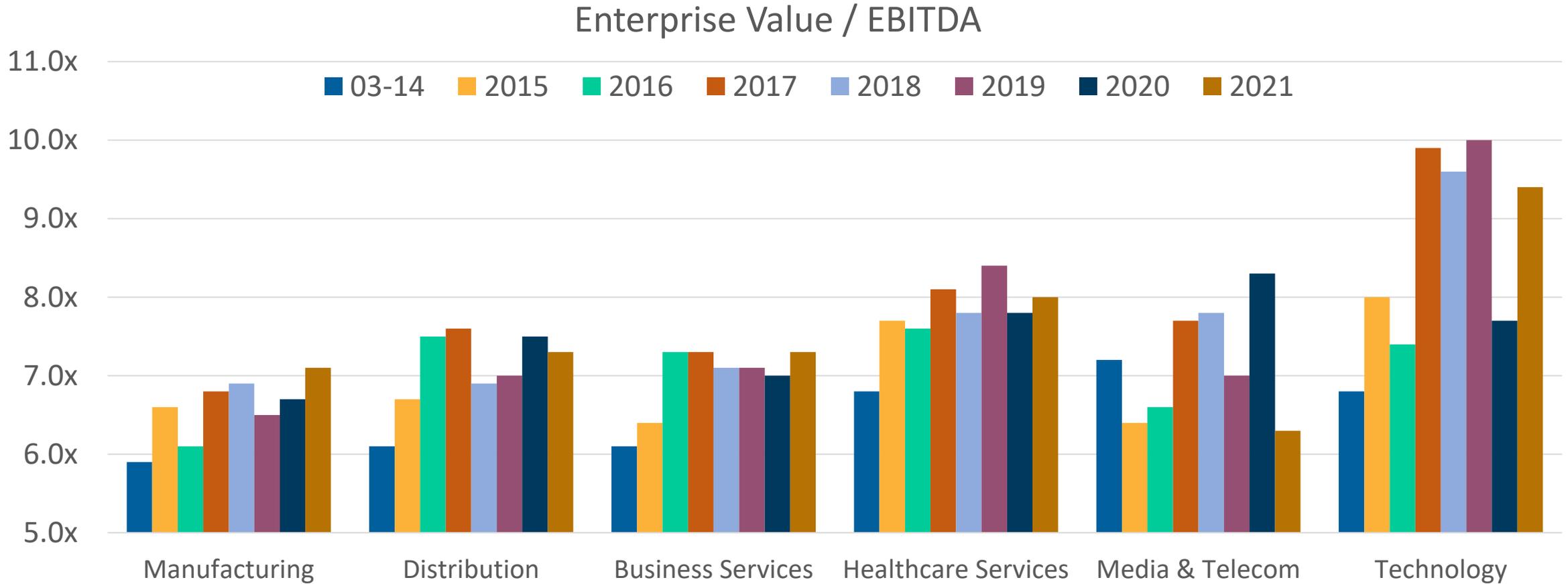
- Private equity dry powder and companies flush with cash
- Availability of inexpensive credit
- Financial performance rebounds among many companies
- Threat of tax reform
- Pandemic-fueled burnout
- Anecdotally, many deals delayed to 2022
 - Clearing out deals most likely to close
 - Delays because of due diligence issues

Trends in Multiples by Size

Enterprise Value / EBITDA



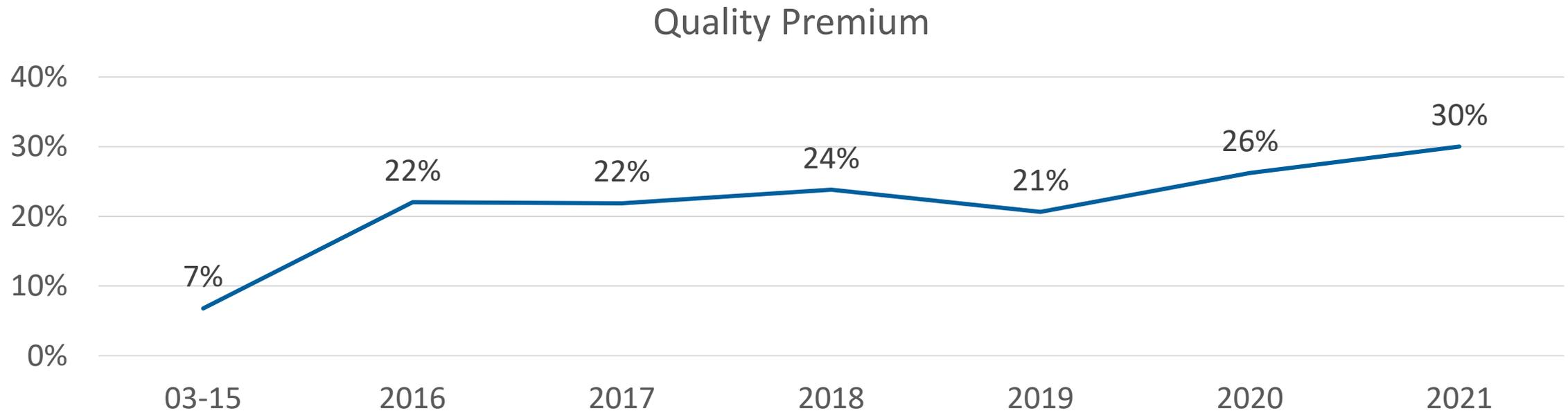
Trends in Multiples by Industry



Trends in Multiples by Quality

GF Data tracks metrics on deals that are of “above-average financial performance”, defined as

- TTM EBITDA margin + TTM revenue growth \geq 20%
 - Minimum of 8% on both metrics



Private Equity's Influence

What is private equity?

- Private equity funds
- Family offices making direct investments
- Private investors operating like private equity firms

What does private equity want?

- Seeks above-average returns
- *An alternative investment*

How prevalent is private equity?

- More than 3,000 U.S. middle market M&A transactions in 2021 were made by PE firms
 - Half were lower middle market deals of \$25M to \$100M

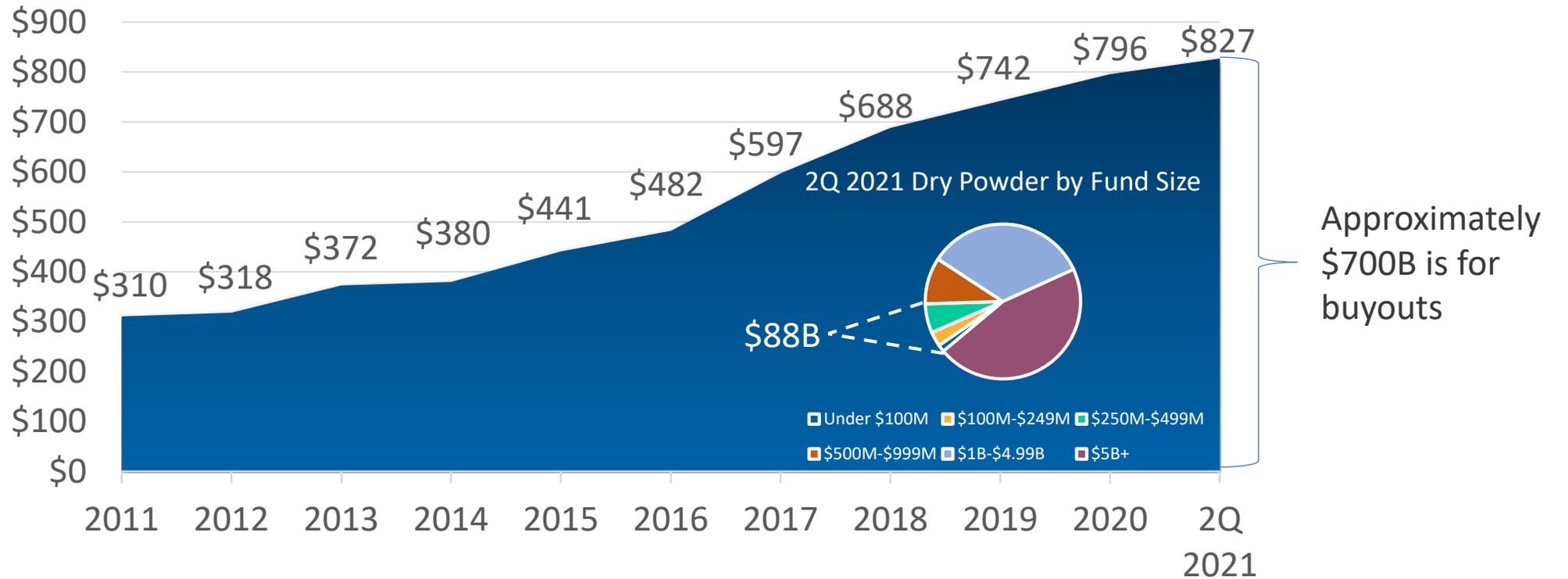
How is this impacting the M&A environment?

- Dry powder
- Leverage

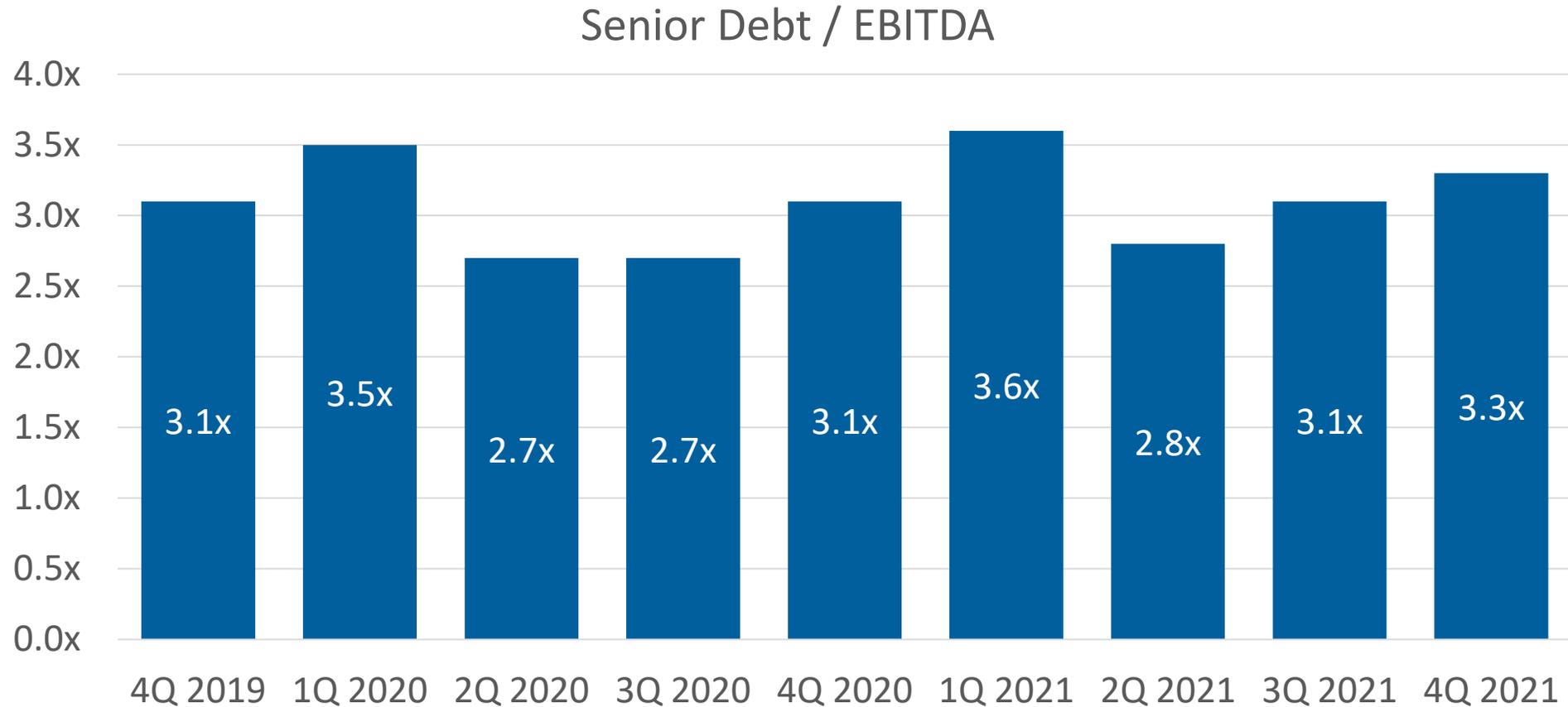


Dry Powder Continues to Build

U.S. Private Equity Dry Powder (\$B)



Leverage Multiples Remain Strong



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M&A Outlook



What We're Watching in 2022

Macro Factors

- Supply chain
- Labor shortages
- Inflation

Legislation / National Politics

- Energy policy
- Any re-emergence of BBB and tax reform
- Mid-term election

Fed / Interest Rates

- Lending environment
- Investment returns and hurdle rates

COVID-19

- Future variants
- Opening up of the global economy

Geo-Political Issues

- Russia and Ukraine
- China trade tensions

Environmental, Social & Governance (ESG)

- Buzz among public market and large PEGs
- When will this impact the middle market?

Dykema M&A Outlook Survey Highlights



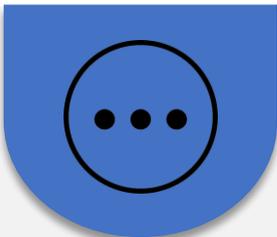
U.S. M&A Market Sentiment

- 75% bullish, 7% bearish, 18% neutral
- 90% expect an increase in private company M&A activity in the next twelve months



Top Challenges

- COVID-19, tax policy, trade tensions, inflation
- Yet, 65% of respondents expect a positive or neutral impact



Other

- Baby boomers exiting businesses continues
- 75% of respondents believe they are likely to work on a deal with ESG screening in the next 12 months

POLLING QUESTION

To be eligible for CPE, 3 polling questions must be answered.

What's Next for Your Business?



Advice for Potential Buyers

Know yourself and your endgame

- Personal and business goals/objectives
- Timeline and contingencies
- Strengths and weaknesses/gaps
- Market opportunities and threats
- Culture

Think integration early on

- Will this be integrated?
- What are the most important assumptions and how can they be realized?
- How reliant on synergies is the deal?
- Where are opportunities for improvement?

Be strategic with target identification

- Investment thesis for growth
- Holes to fill
- Cultural fit
- How you communicate
- Beware of the reactive opportunity

Remember, deals take time and money

- Plan for a robust due diligence process
- Learn about the target's culture, employees, customers, suppliers, operations, financial picture, growth opportunities, etc. and embedded risks

Maintain access to capital

- Cash position
- Multiple lender relationships
- Personal capital available

Consult your advisors

- Plan on having a well-rounded team
- Attorney, tax advisor(s), M&A advisor, insurance, IT, human resources, personal financial planner
- Some of these can be internalized but consider added stress on your team

Advice for Potential Sellers

Be prepared for a robust and potentially lengthy process

- Institute best practices and document processes
- Understand value and other key terms
- Get prepared ahead of time with seller's due diligence
- Utilize your advisors – and build out the team well in advance

Consider other exit options

- Is a sale the best option for you?
- Gifting or sale to family
- Sale to key employees or an existing owner
- ESOP
- Minority recap
- IPO or SPAC

Focus on maximizing performance and minimizing risks

- No longer just tax avoidance
- Create and track KPIs and benchmark
- Set positive trends
- Incentivize key people
- Identify and mitigate business risks

Evaluate your personal financial situation

- Personal financial plan
- Significance of this business in the plan
- After tax net proceeds
- Estate planning opportunities
- Multi-generational wealth transfer planning

Understand the private equity option

- Don't go into a process with outdated assumptions
- Know what you want and whether PE is a fit

Think about transition and life after the business

- Do you want to continue to work?
- Will the proceeds allow for new opportunities?
- What will you do with your time?
- How will this affect your identity?



Thank You for Joining Us

Questions?

- Contact your RKL advisor
- Visit [rklcpa.com](https://www.rklcpa.com) for more updates and guidance

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