

Center for Private Company Excellence Webinar

M&A Update 2022

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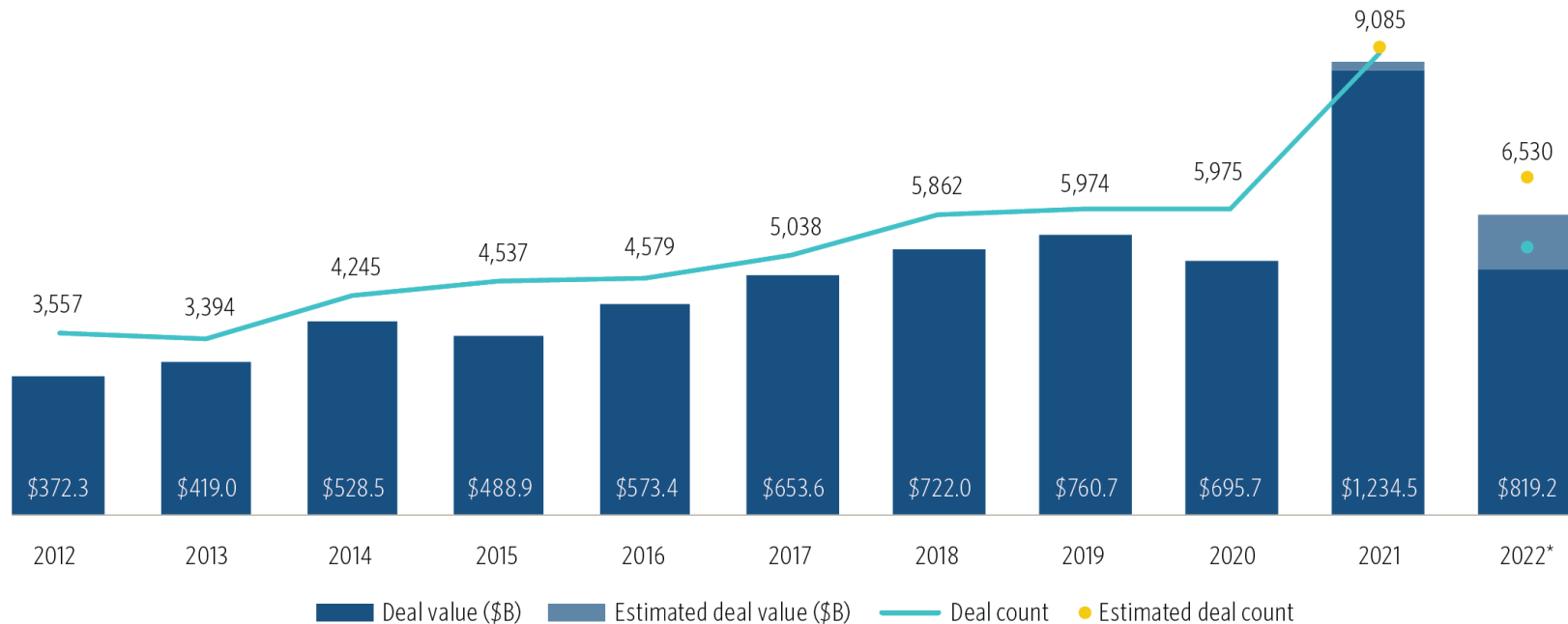
Agenda

1. Deal activity
2. Industry updates
3. Financing trends
4. Key deal focus areas



Deal Activity

PE deal activity



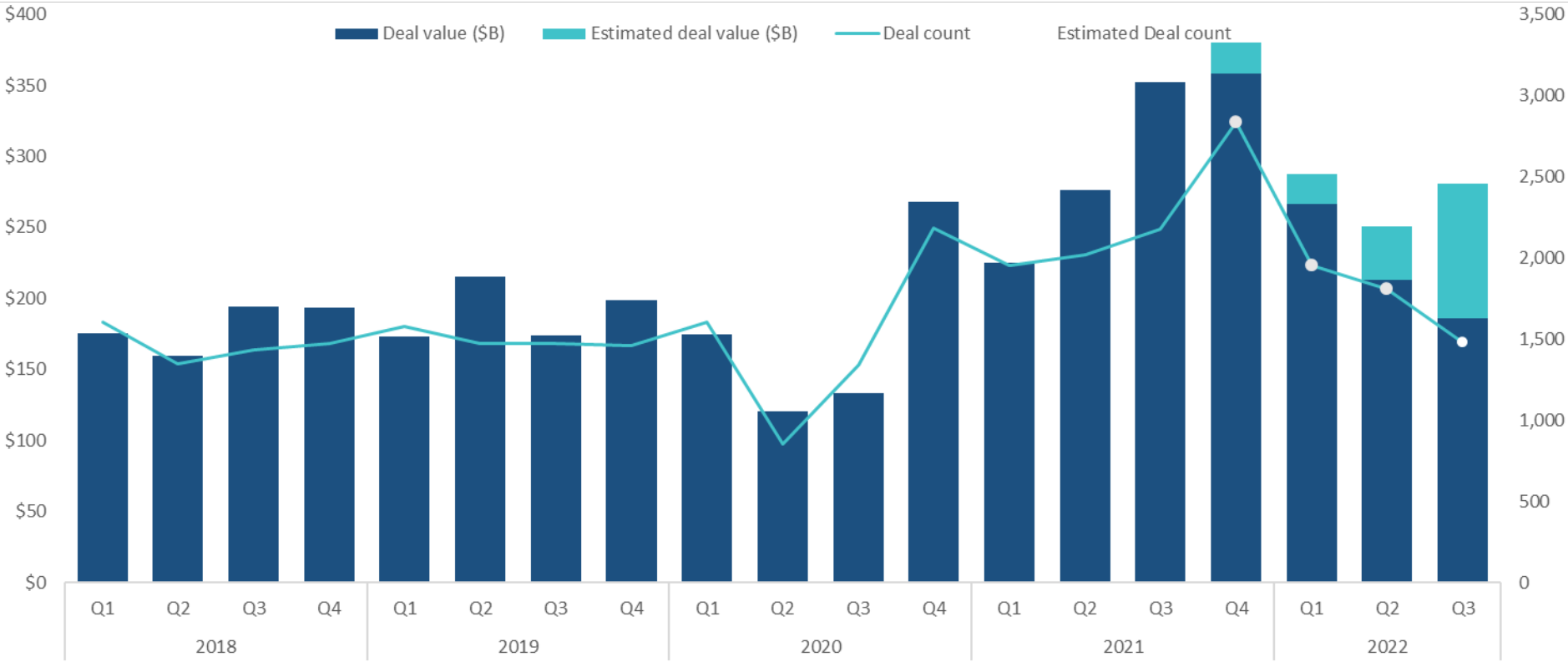
Source: PitchBook | Geography: US
*As of September 30, 2022

- Overall 2022 volumes slightly up from pre-COVID
- Average deal price down from 2021

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US PE Deal Activity by Quarter



Source: PitchBook | Geography: US
*As of September 30, 2022

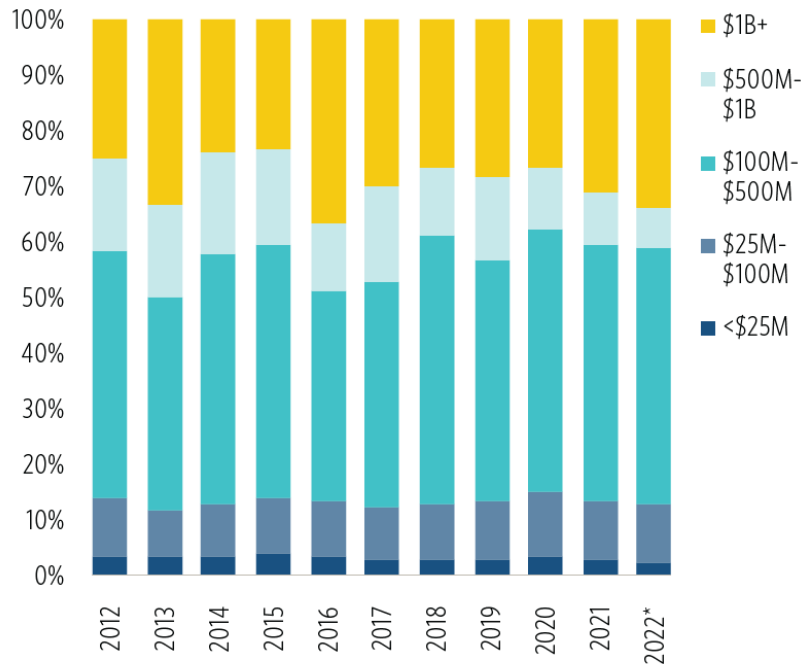
- Trends within 2022 show movement



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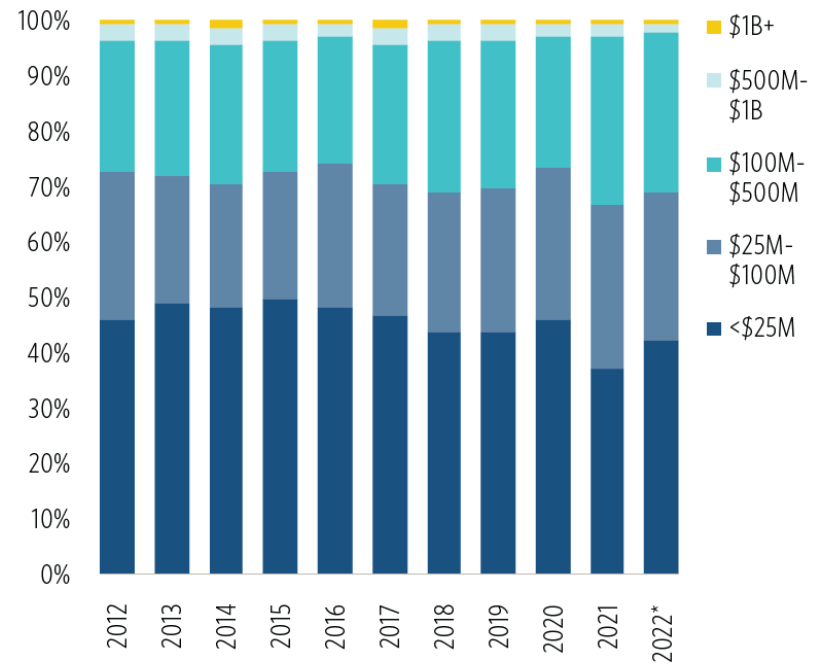
Deal Activity

Share of PE deal value by size bucket



Source: PitchBook | Geography: US
*As of September 30, 2022

Share of PE deal count by size bucket



Source: PitchBook | Geography: US
*As of September 30, 2022

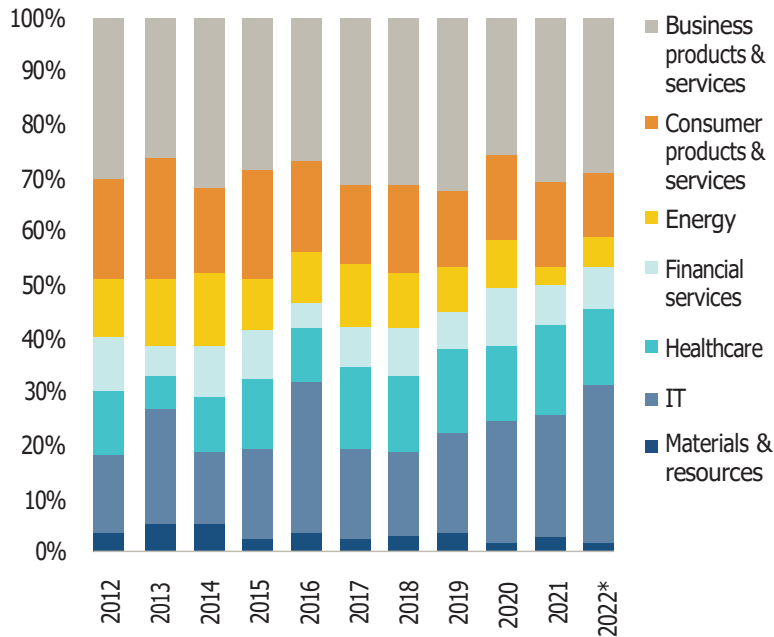
While a small portion of overall deal value, volume of middle market transactions has increased.



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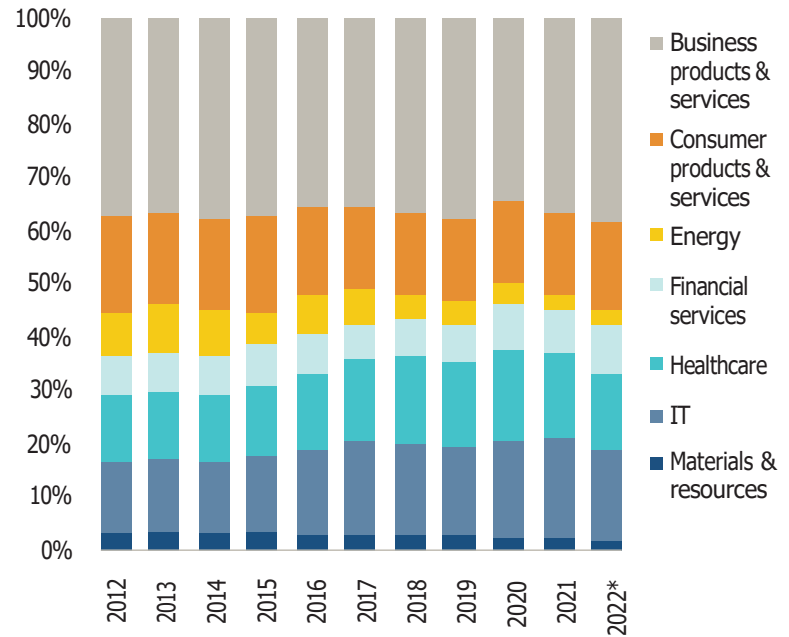
Industry Activity

Share of PE deal value by sector



Source: PitchBook | Geography: US
*As of September 30, 2022

Share of PE deal count by sector



Source: PitchBook | Geography: US
*As of September 30, 2022

Business products & services and IT continue to drive the most value and volume, but sector activity is broad.



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Financing Trends

- Higher interest rates are impacting transactions
 - More expensive to finance
 - Floating rates for leveraged buyouts (LBO's) were around 4.8% in February and 9.8% in September
 - If 70% is financed with debt, the equity value would need to drop 50% to keep values the same
 - Sellers not ready to accept resulting lower prices, but there are distressed sellers
 - Volume has decreased
 - Many PE's have shifted to add-on transactions
- Private equity funds have “dry powder” to invest
- Strategic buyers may have an advantage if they don't need to finance as much as the financial buyers
- Will multiples decrease in 2023?

Key Deal Trends

Areas of buyer focus:

- Supply chain – pandemic supply chain issues are clearing up in many industries, but buyers are more sensitive to impact of supply chain
- Working capital – financing is more expensive
- Some sellers in distress due to inflation, supply chain, interest rates, etc.

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Deal Trends – Supply Chain

Due diligence on supply chain is more robust

- Analyze cost/volume/price analysis – what has driven most of change in earnings in last few years?
- Supplier analysis
 - Is there more than one source for key components?
 - Have there been changes in suppliers?
 - Can changes in costs be passed through to customers?
- Inventory turnover
 - How does it compare to past periods?
 - What safety stock is on-hand?
 - Has shift in suppliers resulted in obsolete inventory?

Working Capital

When financing is more expensive, working capital is more important

- What is normal level, especially in volatile times?
- How to handle due diligence “finds”
- Banks are more interested than in past years
- Any closing adjustments must be clearly defined

Distressed Sellers

- Window dressing – changes made to make EBITDA look better
 - Changes in accounting in last periods
 - Reserves
 - Valuations
 - Revenue recognition, including deferred revenue
- Accelerate sales from future periods
- Repairs & maintenance versus PP&E – accounting or lag in repairs
- Labor shortages
- Related party transactions
- More motivation for fraud with distressed sale or remote workforce?
- Going concern

Questions



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Contact the Presenter



Richard Snyder
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Rich has more than 30 years experience providing business advisory, audit, accounting, and tax services to a variety of businesses, including family-owned and privately-held companies. Rich serves as an audit director and advisor to clients in several industries including manufacturing, distribution, professional service companies, and others. He has assisted clients with various business advisory services including acquisition due diligence, quality of earnings analysis, pre and post transaction advisory assistance, operational audits and reviews, and bank refinancing. He also leads the firm's Media Services Group and works with a large number media companies trade association groups.

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Contact the Presenter



Jennifer Kreischer
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Jennifer has over 25 years of experience providing services including financial due diligence for buyers and sellers, transaction structuring, purchase price adjustment advice, purchase agreement review, and related advisory services. She has advised on a variety of complex transactions, including cross border, carve-outs, recapitalizations, initial public offerings, and rollups.

Jennifer has experience performing quality of earnings analysis and operational due diligence. She has led projects to assess M&A process, purchase accounting, and implementation of IFRS for companies in a variety of industries. Additionally, Jennifer has a broad range of industry experience, including power and utilities, industrial products, healthcare, service businesses, and industry consolidations.



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