

# Porter, White & Company

## What's It Worth

Valuation Review, Q3 2022

Our valuation review explores recent valuation trends in the public and private markets, directed to small and middle market business owners and the professionals and financial institutions that serve them. The review is designed to provide realistic guidance on the question “What’s it Worth?,” keeping in mind that proper preparation for real world transactions requires analysis of specific situations based on up-to-date data.

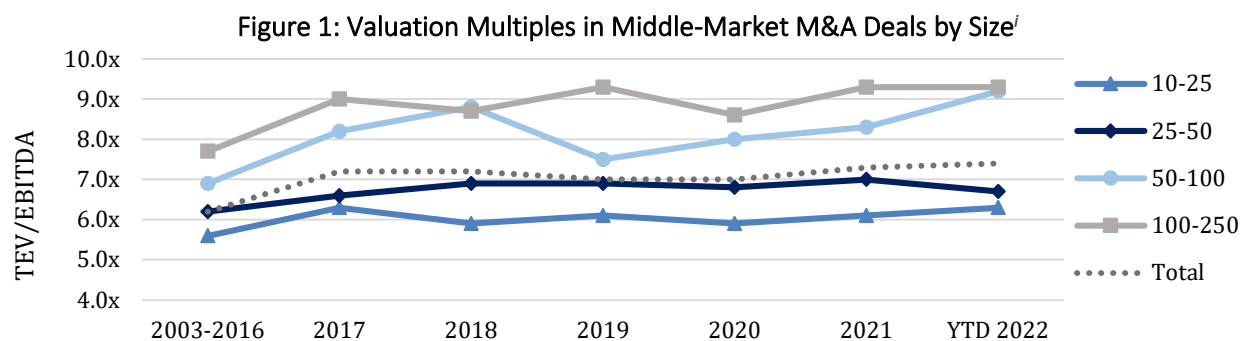
### Executive Summary

This report highlights valuation trends in the public and private markets through the third quarter of 2022. The bleak outlook for the US economy and financial markets can be daunting, especially for business owners and intermediaries who continue to fight economic pressures. Now more than ever, it is helpful to understand where the market was and where it is heading to maximize the value of your business.

Despite a record setting year in 2021, M&A activity is being challenged by macroeconomic and geopolitical headwinds. Rising interest rates and inflation rates are putting downward pressure on pricing metrics in both the public and private markets. Public markets are taking the hardest hit in 2022, as economists and industry professionals are signaling for a bear market during the fourth quarter of 2022 and into 2023. Private middle market completed deal volume was down markedly through the third quarter of 2022; however, pricing multiples remained strong and comparable to 2021 averages.

### Valuation Multiples in M&A Deals

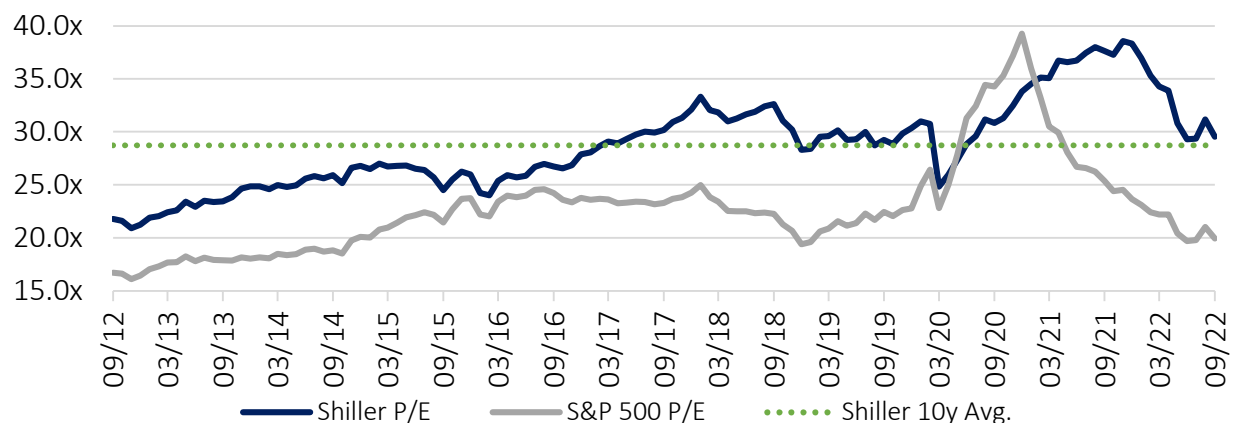
Valuation multiples of middle market companies (defined here as companies with enterprise values between \$10M and \$250M) remained steady through the fall of 2022. As shown in the figure below, multiples from the overall market are consistent with 2021 levels, with transactions ranging from \$10M to \$25M and \$50M to \$100M yielding higher multiples than the prior year. Transactions ranging from \$25M to \$50M enterprise value were the only size group to experience lower multiples compared to 2021.



## Publicly Traded Valuation Multiples

Private transaction multiples are the most direct evidence of valuations in the private markets. However, public markets also provide an important view of valuation metrics and illustrate how sophisticated investors currently view and quantify risk of a given company, industry, or geography. The current P/E ratio (current price divided by latest 12-month earnings) of the S&P 500 index has decreased to 19.94 from 25.35 during the last twelve months and the Shiller P/E ratio (current price divided by average earnings over 10 years) has decreased to 29.53 from 37.62 over the same period. The Shiller P/E is currently 2.8% greater than the 10-year average, signaling that the public markets are slightly overvalued compared to historical levels. The Shiller P/E was 43% greater than the 10-year average through 2021. The Covid-19 pandemic is largely to blame for the unprecedented appreciation in 2021. Distorted earnings (excluding many tech stocks) over the past 24 months, paired with appreciating stock prices over the same period, served as a catalyst for overvaluing equity securities during the pandemic.

Figure 2: Publicly Traded Valuation Multiples Over the Last 10 Years<sup>ii</sup>



Note: The average P/E over the last 10 years was 22.8 and average Shiller P/E was 28.7 over the same period (as of September 2022).

The following table illustrates the change in publicly traded market EBITDA multiples by industry (GICS) from September 30, 2021 to September 30, 2022. When valuing a business, it is critical to consider industry dynamics, and industry multiples provide a public market view of growth and risk. The table is color coded to reflect the change in relative valuation metrics. Green rows indicate the highest increase in multiples; yellow rows indicate mid-range change in multiples; and red rows indicate the greatest reduction in EBITDA multiples.

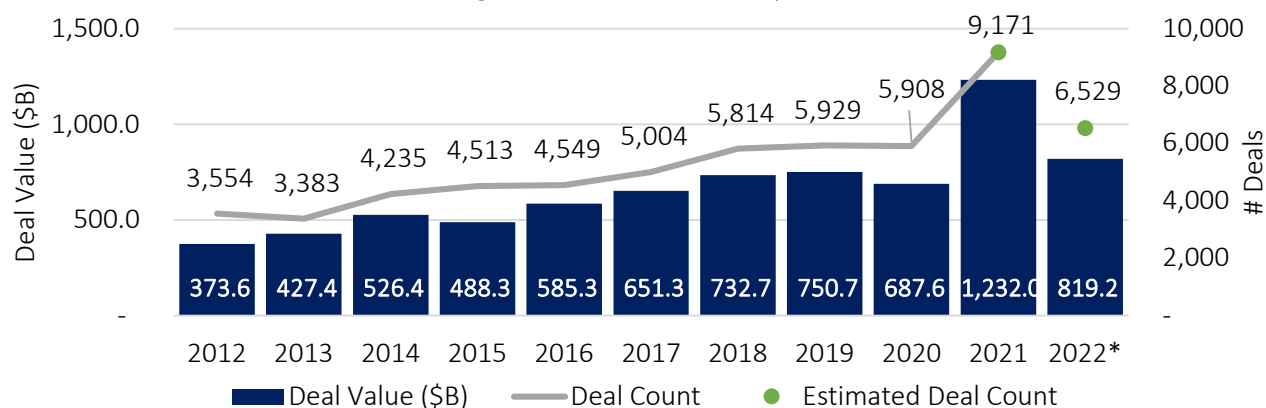
Table 1: Publicly Traded Valuation EBITDA Multiples (as of 9/30/2022)<sup>iii</sup>

Industry	EV /		Industry	EV /		Industry	EV /	
	EBITDA	Δ		EBITDA	Δ		EBITDA	Δ
Aerospace & Defense	16.1x	0.7x	Electronic Equip. & Components	9.0x	-2.4x	Media	8.0x	-2.7x
Air Freight & Logistics	6.8x	-5.0x	Energy Equipment & Services	10.8x	-3.3x	Metals & Mining	5.0x	-0.8x
Airlines	10.3x	-6.1x	Entertainment	19.4x	-11.0x	Mortgage REITs	16.8x	-2.1x
Auto Components	9.2x	-0.2x	Equity REITs	18.1x	-4.2x	Multi-Utilities	12.5x	-0.6x
Automobiles	3.1x	-2.9x	Food & Staples Retailing	10.5x	0.7x	Multiline Retail	8.7x	-1.6x
Beverages	16.8x	-3.8x	Food Products	14.3x	1.1x	Oil, Gas & Consumable Fuels	7.7x	-4.2x
Biotechnology	12.9x	-9.8x	Gas Utilities	13.0x	0.9x	Paper & Forest Products	2.7x	-0.5x
Building Products	10.1x	-6.0x	Health Care Equipment & Supplies	20.5x	-9.5x	Personal Products	9.0x	-4.8x
Capital Markets	10.6x	-1.7x	Health Care Providers & Services	11.9x	-3.0x	Pharmaceuticals	14.4x	-3.5x
Chemicals	10.8x	-1.4x	Hotels, Restaurants & Leisure	13.6x	-7.0x	Professional Services	14.6x	-5.8x
Commercial Services & Supplies	12.6x	-3.7x	Household Durables	5.8x	-4.0x	Real Estate Mgt. & Development	10.2x	-23.7x
Communications Equipment	15.0x	-2.4x	Household Products	15.7x	-0.9x	Road & Rail	6.0x	-3.1x
Construction & Engineering	11.8x	-1.6x	IT Services	15.3x	-7.8x	Semiconductors & Equipment	10.0x	-9.1x
Construction Materials	11.4x	-4.0x	Ind. Power and Renew. Electricity	22.6x	0.4x	Software	27.4x	-30.2x
Consumer Finance	6.5x	-1.2x	Industrial Conglomerates	14.5x	2.3x	Specialty Retail	6.6x	-3.5x
Containers & Packaging	8.7x	-2.2x	Insurance	23.4x	-5.5x	Technology Hardware & Storage	8.5x	-1.8x
Distributors	13.2x	-0.2x	Interactive Media & Services	11.0x	-12.0x	Textiles, Apparel & Luxury Goods	8.0x	-6.5x
Diversified Consumer Services	9.2x	-1.4x	Internet & Direct Marketing Retail	18.9x	-21.9x	Thriffs & Mortgage Finance	4.4x	-1.1x
Diversified Financial Services	10.3x	4.2x	Leisure Products	9.1x	-2.1x	Tobacco	8.9x	0.2x
Diversified Telecom. Services	6.8x	-0.9x	Life Sciences Tools & Services	17.7x	-13.7x	Trading Companies & Distributors	9.6x	-2.6x
Electric Utilities	12.0x	-0.9x	Machinery	12.0x	-3.4x	Water Utilities	18.6x	-2.5x
Electrical Equipment	13.0x	-3.8x	Marine	2.8x	-4.9x	Wireless Telecom. Services	7.4x	0.4x

Source: Bloomberg

## Publicly Traded Middle Market M&A Activity

US middle market private equity activity slowed during the third quarter of 2022, following a record setting year in 2021. Dealmaking in the US has faced macroeconomic pressures from rising interest rates and an uncertain economic outlook, which has proved to cool the private equity market. Dealmakers completed an estimated 6,530 deals through the third quarter of 2022, with an estimated total value of \$819.2 billion. \$280.6 billion of the total deal value thus far in 2022 is attributable to deals closed in the third quarter, a 20.4% year-over-year decline.

Figure 3: US PE Deal Activity<sup>iv</sup>

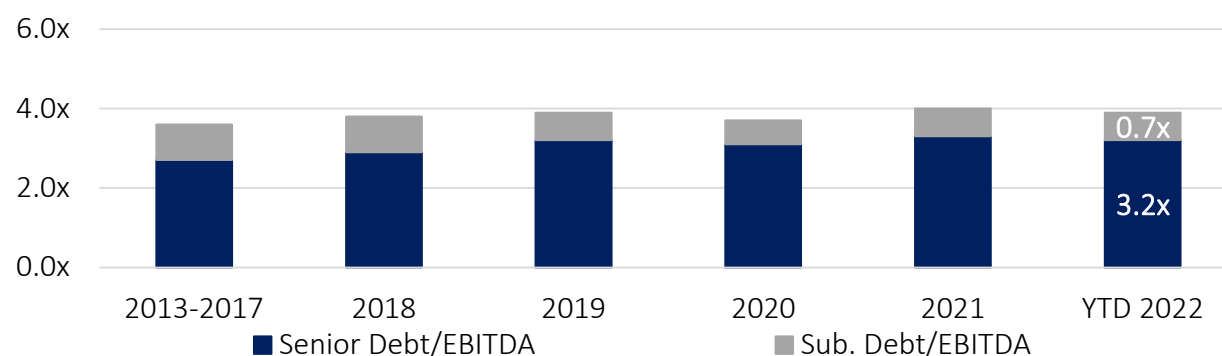
\*YTD as of 9/30/2022

## Debt Markets<sup>v</sup>

Total M&A leverage averaged approximately 3.9x EBITDA through the third quarter of 2022, a 0.1x decline from 2021. With valuation multiples remaining steady and rising interest rates yielding higher costs of debt, it is reasonable to expect a similar trend through the second half of 2022.

The figure below summarizes the historical change in leverage ratios from private equity transactions.

Figure 4: Debt Multiples



Source: GF Data®; Notes: Total debt multiples are additive. For example: a company with \$10M in EBITDA in Q3 2022 could borrow \$32M from a senior lender and \$7M from a subordinate loan (\$39M debt total).

## Conclusion

Business owners often have a significant amount of their net worth tied to their own businesses. When evaluating business options (expansion opportunity, company sale, ESOP feasibility, succession plan, etc.), a business valuation is often a good place to start. At PW&Co, our expertise in valuation allows us to [advise clients on valuation issues](#) in connection with the sale of companies and informs our advice on the process by which they are sold. When selling an entire company, we advise clients to look for synergistic and industry buyers who can realize the greatest benefits from the acquisition, and thus pay the highest price for the company. Regardless of market conditions, successful liquidity events take preparation and time. We encourage our clients who are considering the sale of their business, raising debt or equity capital for growth, evaluating succession plan options, or contemplating how to put their capital to work most effectively to [contact us](#) to discuss how to prepare in advance to achieve the best possible outcome.

Michael Stone, CFA, ASA  
Zac Venos

<sup>i</sup> GF Data®, M&A Report, Fall 2022.

<sup>ii</sup> Bloomberg, accessed 9/30/2022.

<sup>iii</sup> Bloomberg, accessed 9/30/2022.

<sup>iv</sup> Pitchbook: Q3 2022 US PE Breakdown.

<sup>v</sup> GF Data®, Business Service Drilldown, September 2022.