

# Midwest M&A Trends Report First-Half 2023

The **DAK** Group  
Investment Bankers to the Middle Market

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AMERICA'S  
HEARTLAND



# Welcome

## America's Heartland

Midwest M&A Activity First-Half 2023

The Midwest is often characterized as America's Heartland due to its central geographic location, strong industrial and agricultural heritage, and hardworking down-to-earth people that have weathered the changing tides.

The past few years have proven remarkably challenging, facing the COVID-19 pandemic and its unprecedented supply chain and economic aftershocks, rising interest rates, and turbulent geopolitical times. Throughout 2022, the Midwest Mergers & Acquisitions ("M&A") marketplace remained resilient, although the first-half of 2023 has provided caution as M&A transactions have significantly slowed down.

As the economy emerged from COVID-19 lockdowns, 2021 (specifically Q4) provided an anomalous 10-year high in M&A activity in the Midwest, although 2022 remained impressive. Based off our review of the first-half of 2023 M&A data, resiliency has caught up with the reality of macroeconomic uncertainty.

We are pleased to share our insights and a data-driven analysis<sup>1</sup> of the region's M&A trends, with a focus on both strategic and private equity activity, an overview of the sectors driving the activity, as well as a geographic allocation of activity on a regional basis.

We look forward to your thoughts on this information.

All the best,



*Derek Zacarias*

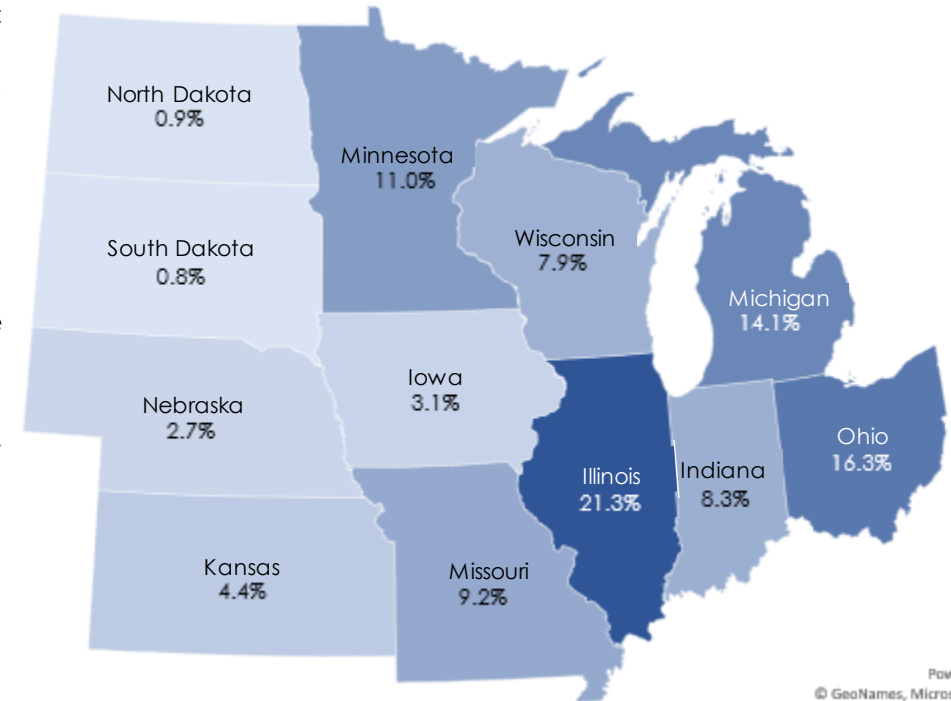
**Derek Zacarias**

Director, Midwest Coverage

[dzacarias@dakgroup.com](mailto:dzacarias@dakgroup.com)

Chicago, IL

## Deal Activity by State (Jun 2023 YTD)



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<sup>1</sup> The infographics, report and all associated charts covering the years 2013-2023 have been prepared by The DAK Group with data from PitchBook as of June 30, 2023.

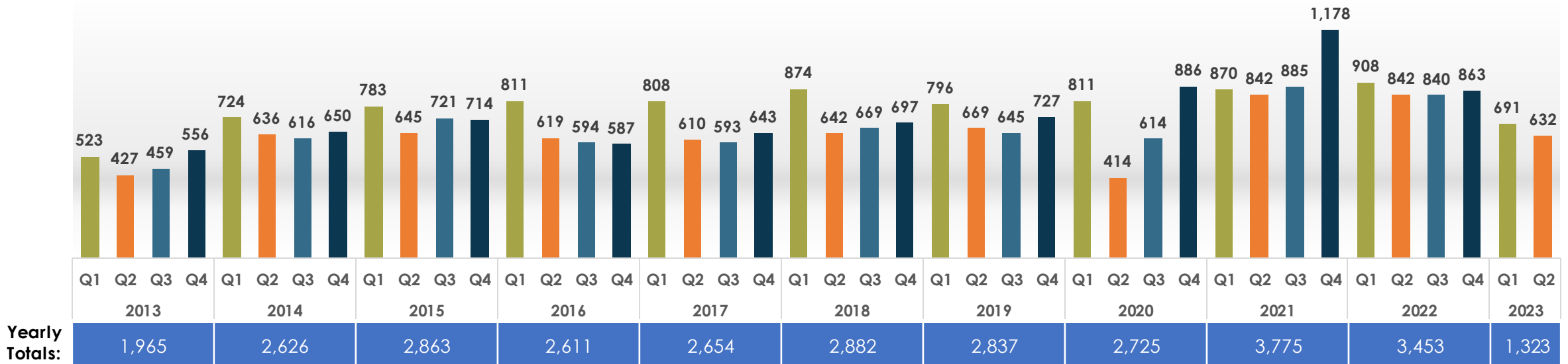
## Lowest Midwest M&A Activity in a Decade

M&A transaction activity in the Midwest experienced a strong period for the past several years. As red-hot market conditions peaked in 2021, the Midwest saw 3,775 M&A transactions, 33% higher than the volume seen in 2019. About a third of this activity came from the record-shattering fourth quarter of 2021, with 1,178 deals alone.

Despite rising interest rates and souring macroeconomic conditions, the first nine months of 2022 experienced similarly high volumes, although Q4 was off 2021's extraordinary high. The final quarter of 2022 saw only 73% of the activity that occurred during the same period in 2021, though still well ahead of historical averages.

During the first half of 2023, the market place has experienced a notable decline in activity, with significantly lower Q1 and Q2 deal activity than their respective periods in 2021 and 2022, although Q2 was in-line with 2014 to 2019 performance. Excluding COVID-19 impacts in 2020, the M&A activity for the first-half of 2023 has been the lowest in a decade with 1,323 transactions, almost 10% off the 10-year average of 1,463 deals. While Q1 historically tops the prior year's Q4 as the peak of annual M&A activity, this was not the case in 2023.

### Midwest M&A Deal Activity by Quarter (2013 – 2Q23)

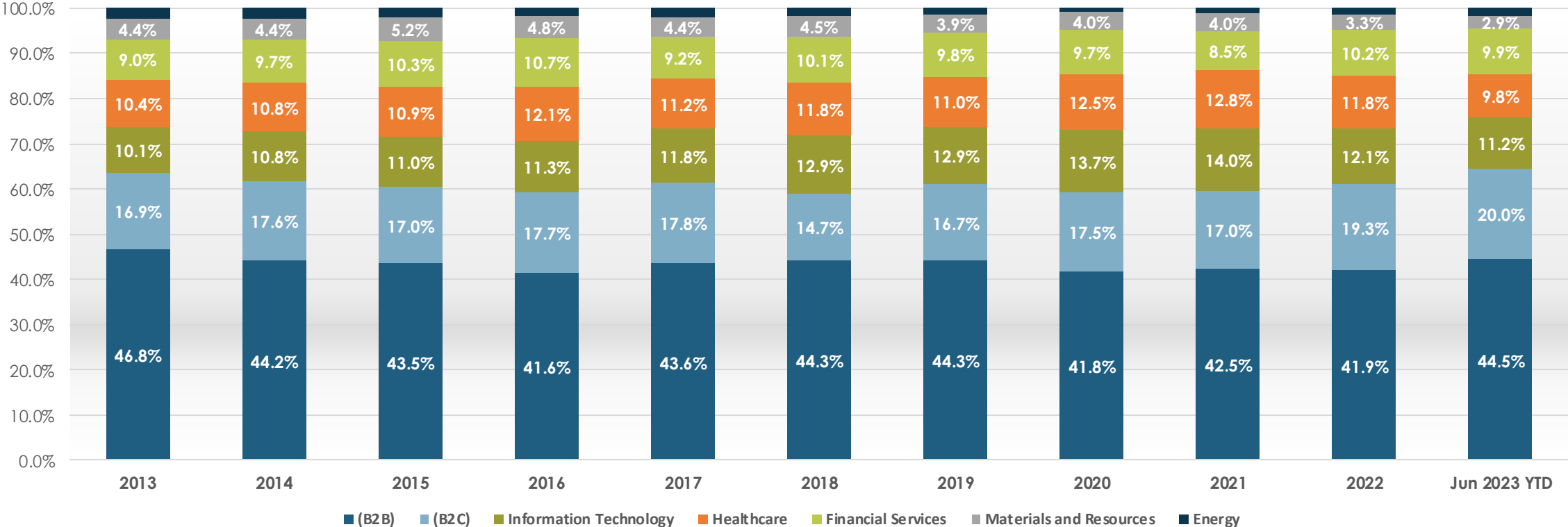


# B2B and IT Industry Sectors Consistently Lead Midwest M&A Activity

Transactions in the Business-to-Business sector<sup>1</sup> continue to dominate in the Midwest, averaging 43.5% of all M&A activity over 10 years. The proportion of each sector has remained strikingly similar year-over-year, although Business-to-Consumer has marginally expanded to 20% from 17% in 2021.

M&A activity in the Midwest's B2B marketplace has historically been driven by an abundance of industrial and agriculture companies with strong manufacturing and distribution relationships. Strong consumer and IT segments contribute to almost a third of additional M&A activity.

**Midwest M&A Deal Activity by Industry Sector (2013 – 2Q23)**



<sup>1</sup> See Appendix for sector definitions

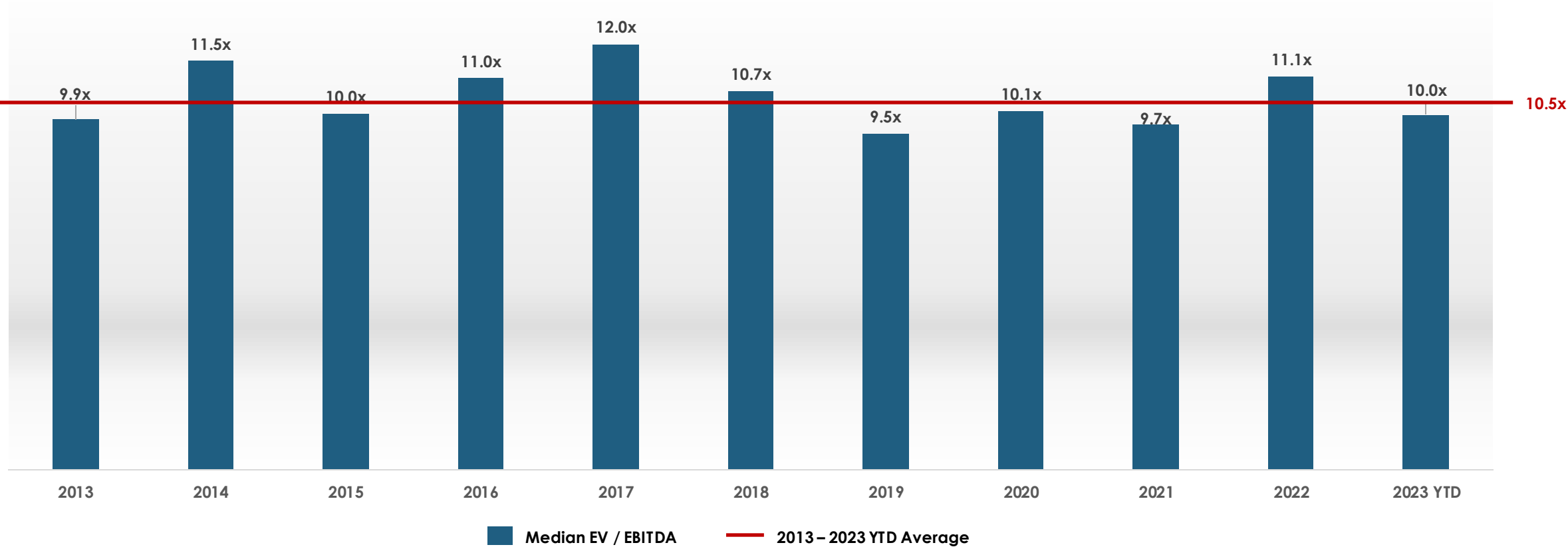
# Midwest Transaction Multiples Continue to Trade within Historical Band

Transactions in the Midwest continue to trade in-line with historical levels, though currently at an ~5% discount to the long-term average based on publicly available data.

A discount of this nature is fairly typical given the current economic scenario.

When the interest rates rise, the business valuations decline causing pressures on profitability and an overall general slowdown in the M&A markets due to market uncertainty.

## Midwest Median Enterprise Value / EBITDA (2013 – 2Q23)



# Private Equity Surge Reverses in 2023

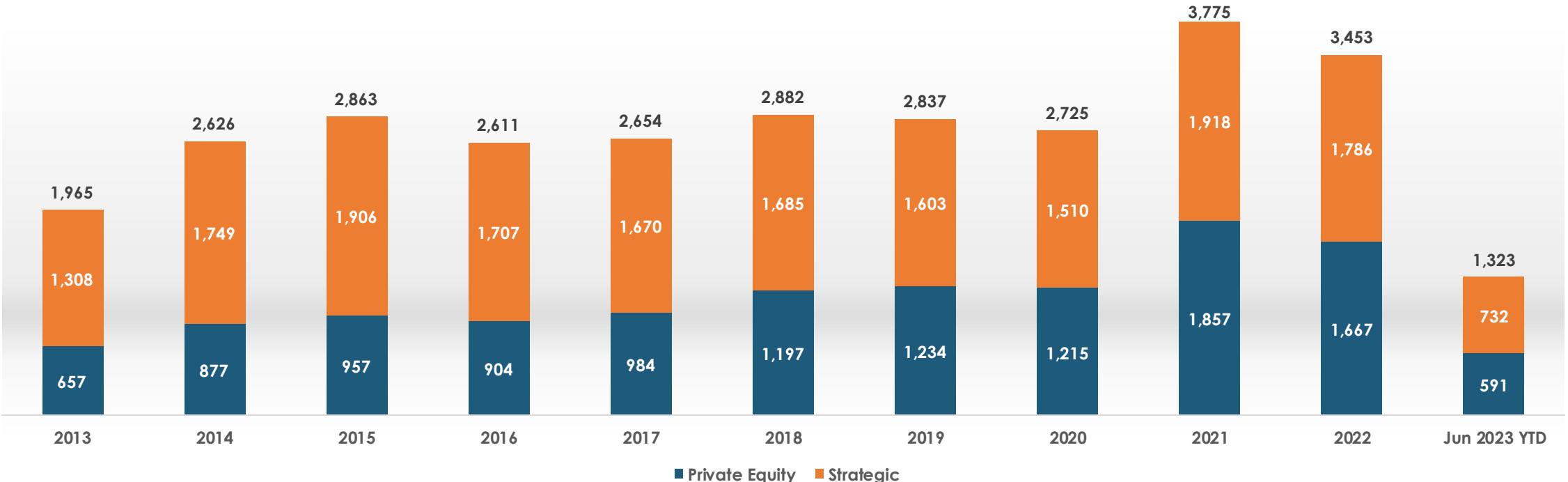
Midwest M&A activity has grown at a CAGR of 6.5% from 2013 to 2022, from 1,965 transactions in 2013 to 3,453 in 2022.

Historically accounting for only one third of deal activity, Private Equity ("PE") investments surged for a six-year period from 2015 to 2021 to achieving nearly half of all M&A activity by 2021, buoyed by rock-bottom interest rates and abundant PE dry powder. Inversely, strategic

buyers declined to a razor thin majority of activity in 2021 as high valuations driven by PE buyers cut the financing appetite for strategics.

PE and strategic buyer trends began to reverse in 2022 amid changing macroeconomic conditions, with the impacts far more noticeable in the first-half of 2023, which saw PE buyers decline by 5% from its 2021 peak, making up less than 45% of M&A activity as of June 30, 2023.

## Midwest M&A Deal Activity by Buyer Type (2013 – 2Q23)



**Strategic Buyers** – Corporations seeking to acquire other companies for their technology, geographic footprint, products or services.  
**Private Equity** – Private investment funds designated for equity investment in private companies.

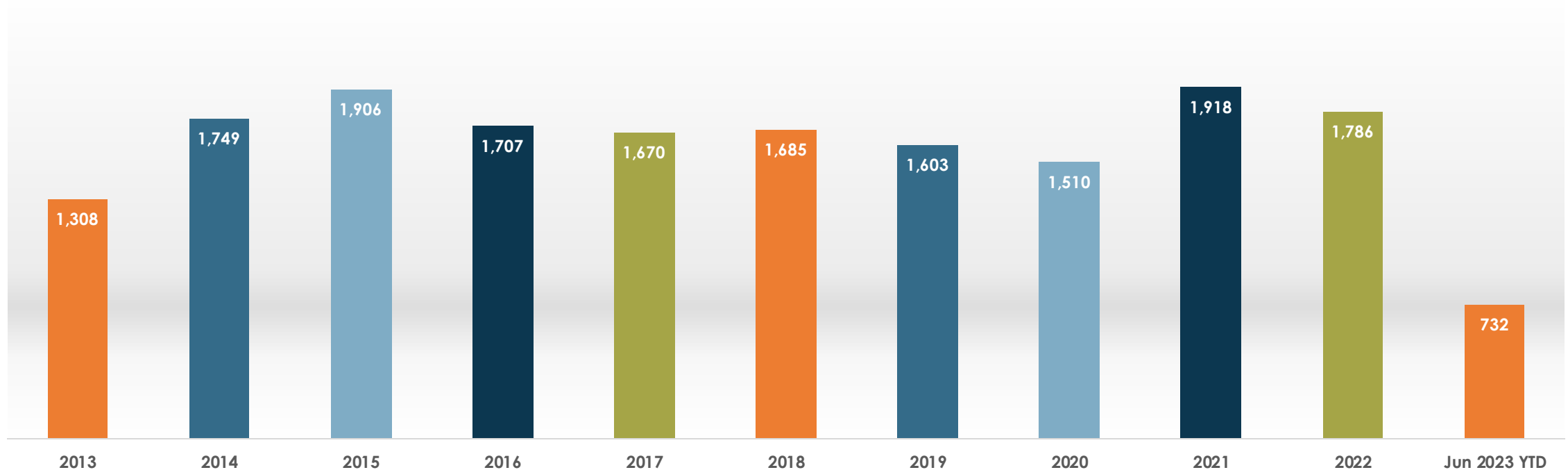
## Strategic Buyer Comeback Accelerates in 2023

Strategic buyers comprised 732 transactions in the first-half of 2023, or 55% of all M&A activity, up from 2022 (52%) and 2021 (51%).

On an absolute basis, the first-half of 2023 strategic buyer activity dropped by 20% from the same period in 2022, a notable decline even when considering that 2022 was a very strong year.

As elevated interest rates continue to hamper PE appetite and valuations, we expect strategic acquirors to continue to make gains in the marketplace as they can outbid their PE competition.

### Midwest Strategic M&A Deal Activity (2013 – 2Q23)



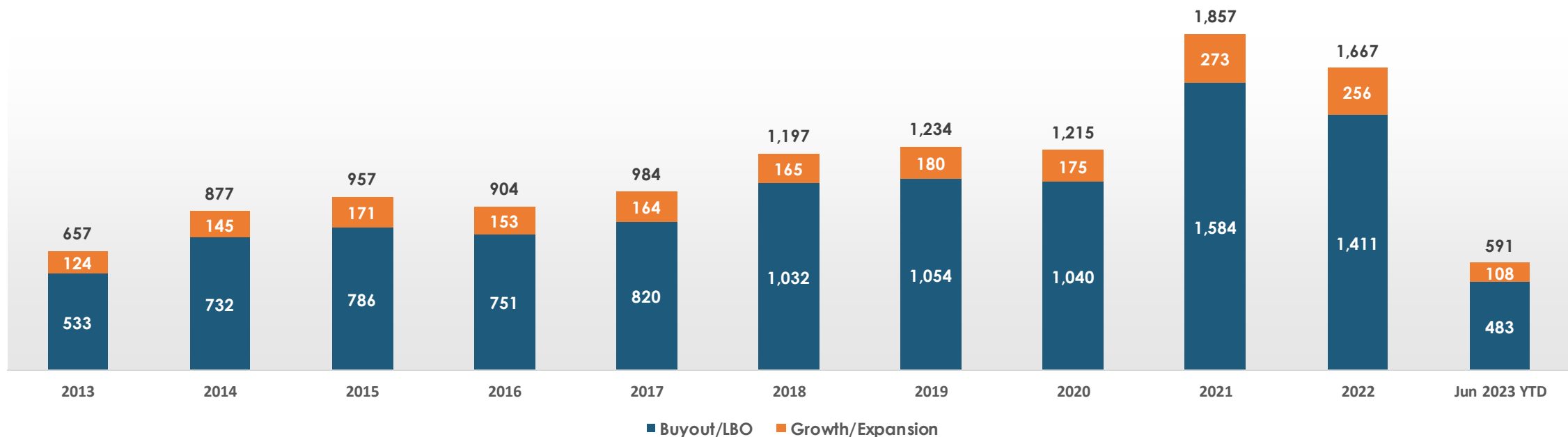
## Private Equity Demand for Buyout Transactions Propels Sponsor Activity

Through 2022, private equity buyers continued to drive meaningful M&A volumes, contributing ~44% of total deal volume in the Midwest and well above historical levels. This has been a growing theme nationally.

While private equity continues to sit on extraordinary levels of dry powder (~\$2.5 trillion globally), which will continue to drive demand for buyout transactions, short-term challenges in the financing markets may offset some PE demand in 2023, which we are seeing through the first half of 2023.

Anecdotally, many private equity firms are stating that they are beginning to see a thawing in the M&A markets with expectations of a much stronger second half of 2023. Though, some are still projecting a recession in the future and are sitting on the sidelines, hoping to make some value buys at more attractive multiples.

### Midwest PE Buyout/LBO v. Growth/Expansion M&A Activity (2013 – 2Q23)



**Buyout/LBO** – Buyout/LBO transactions are generally defined as deals in which PE investors acquire a controlling interest in their target companies.

**Growth/Expansion** – Growth/Expansion transactions are generally defined as minority PE investments in target companies.



## Add-On's Rapid Growth Begins to Stabilize

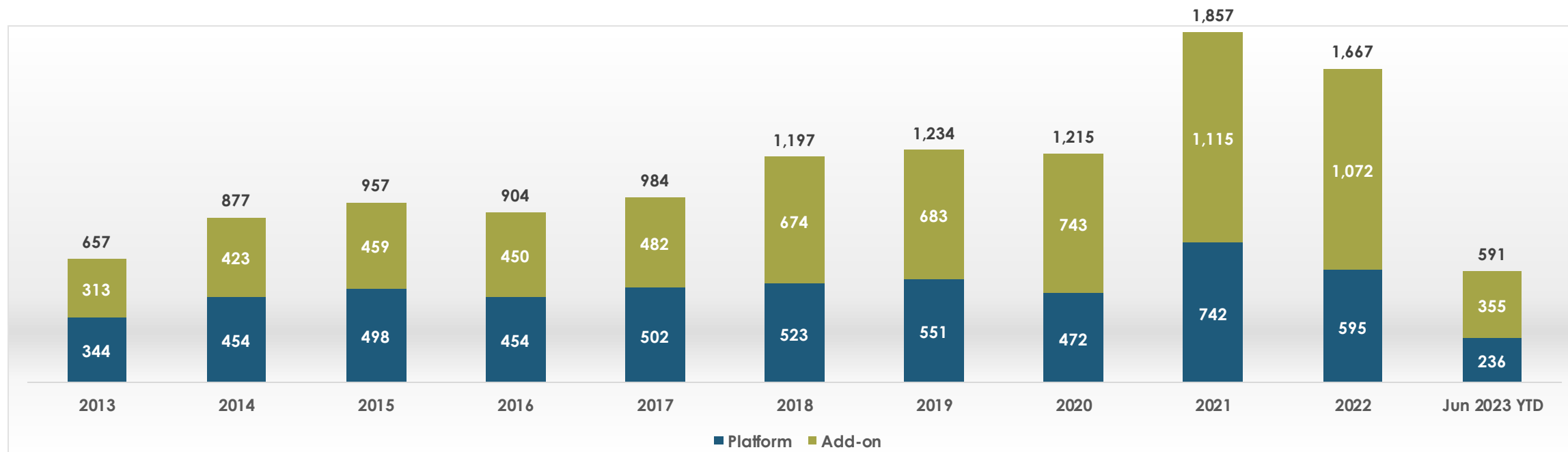
Over the past 10 years Sponsor add-ons overtook platform investments to become the preferred form of PE activity in the region. So far in 2023, add-ons represent 60% of PE activity, down slightly from 64% in 2022.

Add-on transactions in 2023 are still expected to continue to outpace platform deals for the following reasons:

- Add-ons are generally viewed as less risky since they are frequently smaller in size and involve expanding an existing portfolio company with a proven track record.










- Add-ons can generate significant cost savings and synergies by leveraging the existing infrastructure and resources of a portfolio company.
- Financing add-on transactions is frequently easier to obtain since a portfolio company may have an established credit history and track record.

### Midwest PE Platform v. Add-On M&A Activity (2013 – 2Q23)



## The Midwest – Hub For Rollup Strategics

The Midwest is home to many platform investments that have been actively pursuing rollup strategies. There are nine platform companies that have made the most add-on acquisitions and are almost exclusively located in the Saint Louis and Kansas City metro areas, and well diversified by sector.

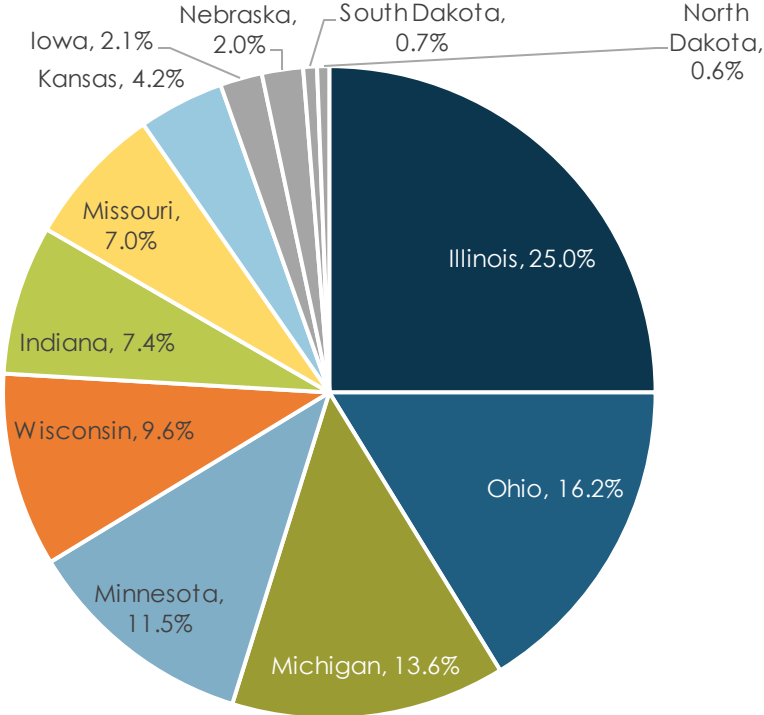
	HQ	Investments Over Last 5 Years	Sector
	Ballwin, MO	38	Healthcare
	Overland Park, KS	32	Financial Services
	Saint Louis, MO	26	Business Products/Services
	Columbia, MO	21	Consumer Products/Services
	Overland Park, KS	19	Consumer Products/Services
	De Soto, IA	17	Business Products/Services
	Saint Louis, MO	17	Business Products/Services
	Lincoln, NE	15	Materials and Resources
	Creve Coeur, MO	15	Information Technology

# Current Private Equity Inventory Clusters Around the Great Lakes

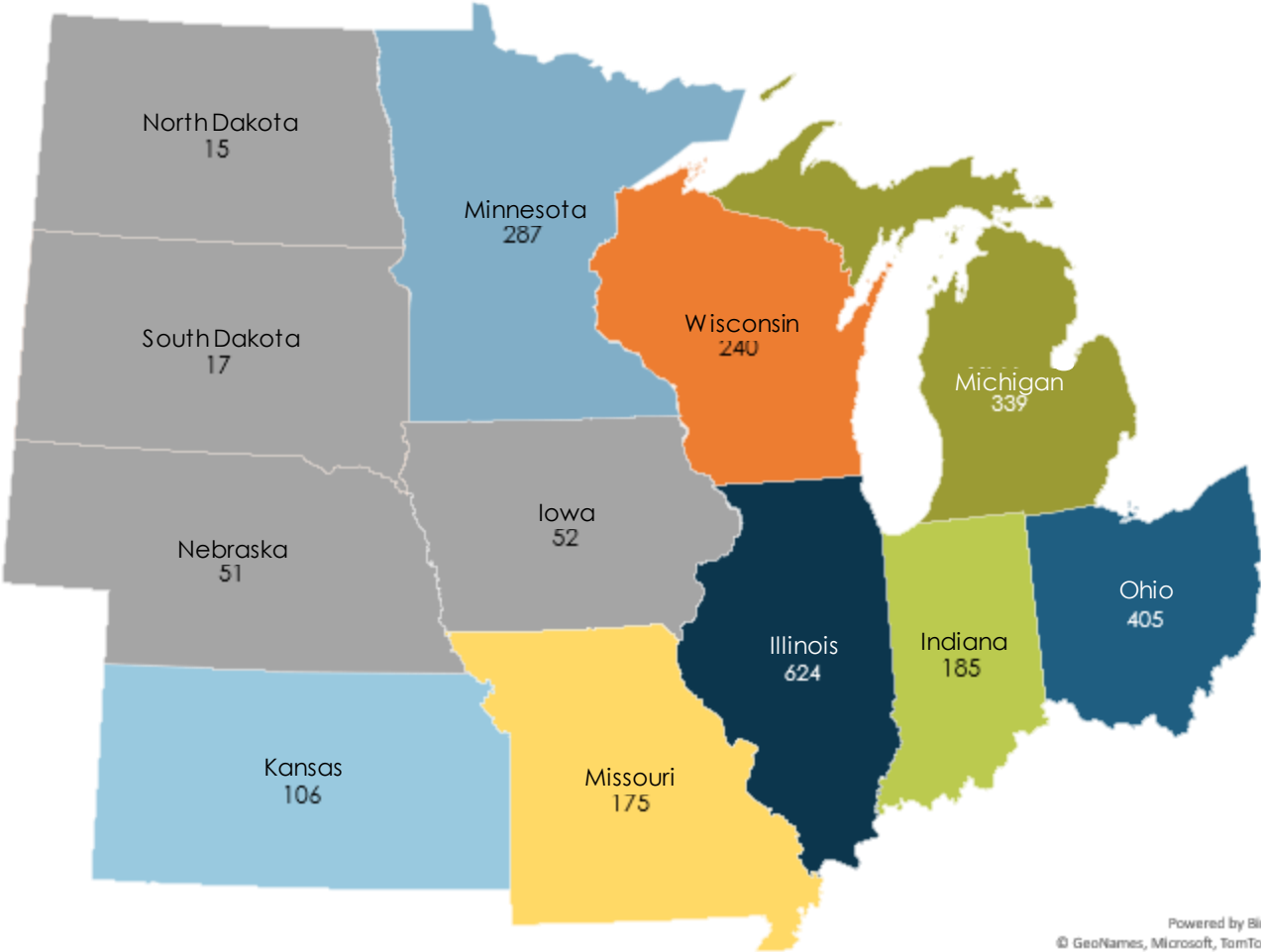
Current PE inventory in the Midwest totals nearly 2,500 companies of varying sizes and industries.

Concentration centers around the Great Lakes and Rust Belt regions; with Illinois, Ohio, and Michigan accounting for 55% of all current PE inventory in the region.

Illinois alone commands a quarter of all PE inventory in the Midwest.



## Current Private Equity Inventory Headcount



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## Private Equity Buyers Pour in From the Coasts

Of the 11 most active PE investors in the Midwest, only two are headquartered in the region, with most located on the East Coast. Investors in middle market companies dominate the top range in activity.



HQ	AUM (\$mm)	Investments Over Last 5 Years	Category
Los Angeles	360,000	33	Diversified
Boston	36,000	17	Middle Market
Chicago	6,000	17	Middle Market
Miami	57,000	13	Middle Market
New York	46,000	13	Middle Market
New York	22,945	13	Middle Market
New York	1,000,000	12	Diversified
Charlotte	362,000	11	Diversified
Pittsburgh	5,295	10	Middle Market
Chicago	5,631	10	Middle Market
Lexington	3,300	10	Middle Market

# Appendix

## Glossary and Definitions

### Private Equity Deals:

Private equity deals include all investments (Buyout/LBO and Growth/Expansion; Platform and Add-On) made into target companies with headquarters in the Midwest. Only investments made directly by PE firms, or their portfolio companies are counted. Buyout/LBO deals are defined as transactions in which the PE investors receive controlling ownership stakes in the target companies. Growth/Expansion deals are defined as minority investments in target companies. Add-On deals are defined as acquisitions by private equity-backed companies.

### PE-Backed Midwest Based Companies:

Companies headquartered in the Midwest that are in part or in whole backed by PE firms.

### Regional Composition:

- Illinois
- Ohio
- Michigan
- Minnesota
- Indiana
- Wisconsin
- Missouri
- Iowa
- Kansas
- Nebraska
- North Dakota
- South Dakota

### Industry Sector:

**Business Products & Services (B2B)** – Business-to-business refers to product or service transactions that are conducted between companies, rather than between a company and individual consumer or an individual consumer and another consumer.

**Consumer Products & Services (B2C)** – Business-to-consumer refers to product or service transactions that are conducted between a business and a consumer, rather than between a company and a business or an individual consumer and another consumer.

**Information Technology** – The information technology sector includes all companies whose primary focus is the development of software, hardware, or related computer peripherals and all companies whose primary focus is on IT consulting, outsourcing or database management. This includes both business facing companies and consumer facing companies.

**Energy** – The energy sector refers to all companies engaged in the exploration, production and distribution of energy and the companies that supply products and services specifically to those who operate within the energy sector. This includes private and public utilities.

**Financial Services** – Professional services involving the investment, lending, and management of money and assets for both businesses and individual customers.

**Healthcare** – The healthcare sector refers to all companies providing medical products or services. This includes consumer facing organizations such as hospitals, health insurance companies and business-facing organizations who provide specific healthcare services, enterprise products or research and development.

**Materials and Resources** – All companies engaged in the production, development, discovery and wholesale of raw materials

## Questions or Comments?



**Derek Zacarias**

Director, Midwest Coverage

[dzacarias@dakgroup.com](mailto:dzacarias@dakgroup.com)

(317) 694-9787

Chicago, IL

## How We Can Help You

The DAK Group helps middle market; privately held businesses, sponsor backed companies and PE firms garner the greatest value for their companies.

As owners looking to grow, exit or just “take some chips off the table” by reducing risk our team provides operational advice, pre-transaction planning and expertise leading buy side and sell side transactions that create exceptional value.

The **DAK** Group

Investment Bankers to the Middle Market