

MARKET BRIEF

Despite ongoing concerns relating to inflation, supply chain disruptions, and the accelerating spread of the Omicron variation of COVID-19, economic indicators showed continued improvement in December 2021, with unemployment dropping to 3.9% and consumer confidence continuing to grow stronger. Public markets and M&A closed out the year with solid increases.

Unemployment Rate Falls 0.3 Percentage Points in December

The unemployment rate continued to decline in December, reaching 3.9%. The total nonfarm payroll employment increased by 199,000 with increases in employment in leisure & hospitality, professional & business services, manufacturing, construction, and transportation & warehousing. The labor force participation rate remained flat at 61.9%, and the number of persons marginally attached to the labor force was little changed at approximately 1.6 million.

(<https://www.bls.gov/news.release/pdf/empsit.pdf>)

Consumer Confidence Rises

In December, the *Consumer Confidence Index* rose from 111.9 points to 115.8 points, after an upward revision in November. The *Present Situation Index* remained flat at 144.1 points in December and the *Expectations Index* increased from 90.2 points in November to 96.9 points. "Consumer confidence improved further in December, following a very modest gain in November," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The Present Situation Index dipped slightly but remains very high, suggesting the economy has maintained its momentum in the final month of 2021. Expectations about short-term growth prospects improved, setting the stage for continued growth in early 2022. The proportion of consumers planning to purchase homes, automobiles, major appliances, and vacations over the next six months all increased."

(<https://conference-board.org/data/consumerconfidence.cfm>)

The Case-Shiller Index Posts 19.1% Annual Gain in October 2021

The S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index, which covers all nine U.S. census divisions, posted a 19.1% annual gain in October 2021, down from 19.7% the previous month. "In October 2021, U.S. home prices moved substantially higher, but at a decelerating rate," said Craig J. Lazzara, Managing Director at S&P DJI. "The National Composite Index rose 19.1% from year-ago levels, and the 10- and 20-City Composites gained 17.1% and 18.4%, respectively. In all three cases, October's gains were below September's, and September's gains were below August's. We have previously suggested that the strength in the U.S. housing market is being driven in part by a change in locational preferences as households react to the COVID pandemic. More data will be required to understand whether this demand surge represents an acceleration of purchases that would have occurred over the next several years, or reflects a more permanent secular change." (<https://us.spindices.com/index-family/sp-corelogic-case-shiller/sp-corelogic-case-shiller-composite>)

The Consumer Price Index Increased 0.5% in December

The Consumer Price Index for All Urban Consumers (CPI-U) increased in December by 0.5%, after rising 0.8% in November. The all items index rose 7.0% for the 12 months ending in December, the largest 12-month increase since the period ending June 1982. Increases in indices for shelter, used cars & trucks, and food were the largest contributors to the December increase.

(<https://www.bls.gov/news.release/pdf/cpi.pdf>)

PUBLIC MARKET

The U.S. public markets had a strong end to the year, reversing decreases from November. The S&P 500 rose 4.4% in December while the Dow Jones Industrial Average increased 5.4% and NASDAQ increased 0.7%. "The economic and earnings rebound that started in 2020 carried over into 2021, lifting equity markets to record highs. While returns in 2020 were driven by price-to-earnings multiple expansion, returns in 2021 were driven by earnings growth" said Chris Haverland of Wells Fargo Investment Institute.

Public Trading Multiples

As of December 31, 2021

Category	EV / Revenue	EV/ EBITDA	Revenue Growth		EBITDA Growth		EBITDA Margin
			1 Year	3 Year	1 Year	3 Year	
Healthcare and Life Sciences							
Healthcare Technology	8.1x	31.8x	20.1%	11.3%	1.8%	2.1%	14.0%
Healthcare Equipment and Supplies	5.5x	19.5x	18.9%	9.1%	41.6%	15.2%	29.3%
Healthcare Providers and Services	0.9x	11.8x	11.0%	11.2%	4.3%	9.5%	13.1%
Healthcare and Life Sciences Aggregate	4.8x	21.0x	16.7%	10.5%	15.9%	8.9%	18.8%
Technology							
IT Services	4.7x	20.5x	10.1%	7.1%	12.6%	7.1%	12.8%
Software	10.7x	29.6x	15.4%	12.3%	19.9%	15.7%	6.3%
Computers and Other Electronic Equipment	1.9x	12.7x	17.1%	6.4%	35.0%	8.0%	19.7%
Technology Aggregate	5.7x	21.0x	14.2%	8.6%	22.5%	10.2%	12.9%
Industrial and Distribution							
Aerospace and Defense	2.1x	13.9x	-3.5%	-0.8%	19.9%	-4.6%	10.3%
Building Products	1.9x	11.7x	15.1%	3.7%	35.6%	10.0%	17.9%
Construction and Engineering	0.7x	8.9x	12.8%	8.8%	6.1%	5.0%	7.1%
Machinery	1.9x	13.5x	13.7%	3.2%	25.5%	3.1%	7.3%
Distributors	0.9x	10.7x	19.8%	8.8%	29.1%	7.5%	4.8%
Industrial and Distribution Aggregate	1.5x	11.7x	11.6%	4.7%	23.3%	4.2%	9.5%
Consumer Products							
Food and Beverage	2.4x	13.6x	10.6%	4.8%	11.2%	6.0%	14.9%
Household and Personal Products	3.8x	17.9x	6.4%	2.5%	3.6%	2.0%	17.8%
Household Durables	1.2x	9.4x	18.1%	6.0%	41.0%	11.2%	9.0%
Textiles, Apparel, and Luxury Goods	3.2x	15.5x	17.8%	3.9%	75.8%	10.2%	9.8%
Consumer Products Aggregate	2.6x	14.1x	13.3%	4.3%	32.9%	7.4%	12.9%
Business Services							
Human Resource and Employment Services	1.3x	16.3x	8.1%	1.6%	29.1%	4.9%	11.5%
Research and Consulting Services	3.7x	16.7x	7.8%	4.3%	17.8%	5.9%	19.1%
Business Services Aggregate	2.5x	16.5x	8.0%	3.0%	23.5%	5.4%	15.3%
Travel and Hospitality							
Hotels, Resorts, and Cruise Lines	8.5x	29.7x	-23.7%	-22.8%	0.0%	0.0%	-0.2%
Restaurants	3.4x	16.6x	4.6%	-1.3%	38.4%	-2.6%	4.3%
Leisure Facilities	5.4x	16.9x	21.5%	1.6%	16.7%	-10.7%	2.1%
Travel and Hospitality Aggregate	5.7x	21.1x	0.8%	-7.5%	18.4%	-4.4%	2.1%

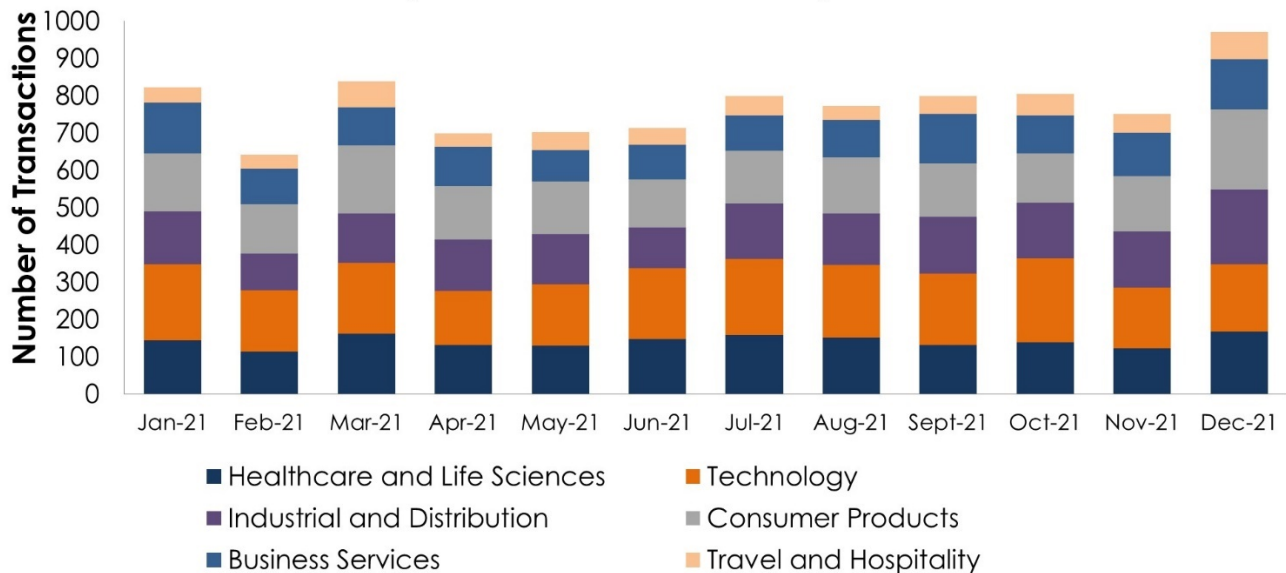
M&A MARKET

US middle market M&A activity rose sharply in December, with a 29% increase from the prior month as buyers and sellers sought to close deals before year-end. Transaction activity was strong across all sectors.

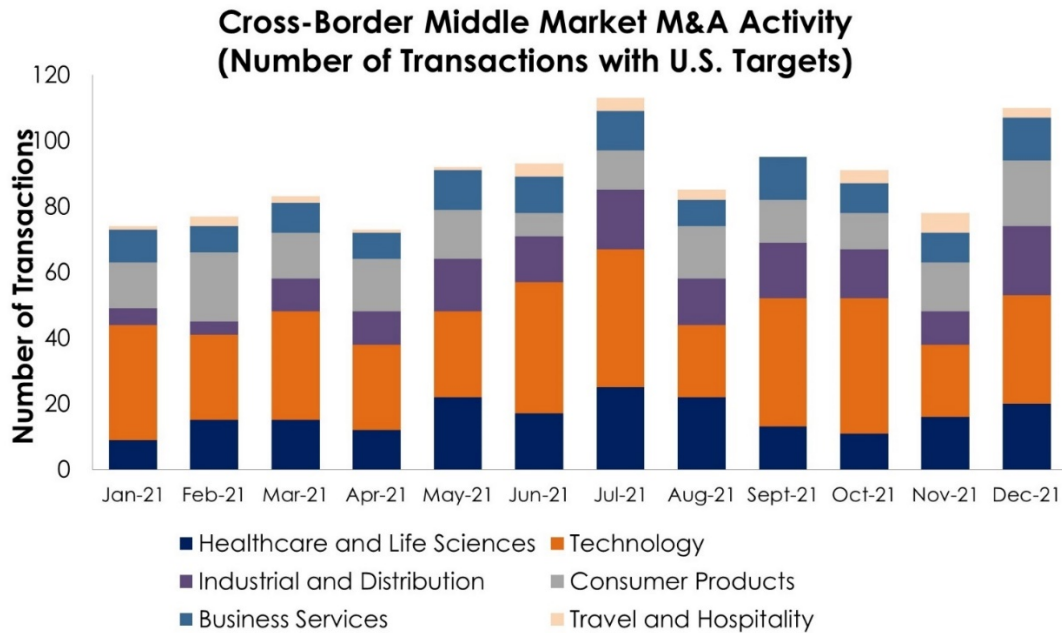
Many deal professionals anticipate another strong year for M&A in 2022, although perhaps not quite at the frenzied pace of 2021. A report from Intralinks states that “investors are confident and expectations are high, but with Q4 delivering the highest stock market volatility since Q1 2020 and with so much deal activity already on display, it is reasonable to expect an easing off to more sustainable levels.”

PwC's 2022 deal outlook describes some of the factors driving transactions: “While consolidation and growing scale remain motivations behind many deals, we’re also seeing companies in virtually every industry aggressively pursue transformation through deals. Some reevaluations of business models and deal strategies are being driven by shifting customer demands as a result of the COVID-19 pandemic, while other companies aim to improve resilience amid such threats as cyber attacks and supply chain disruption.”

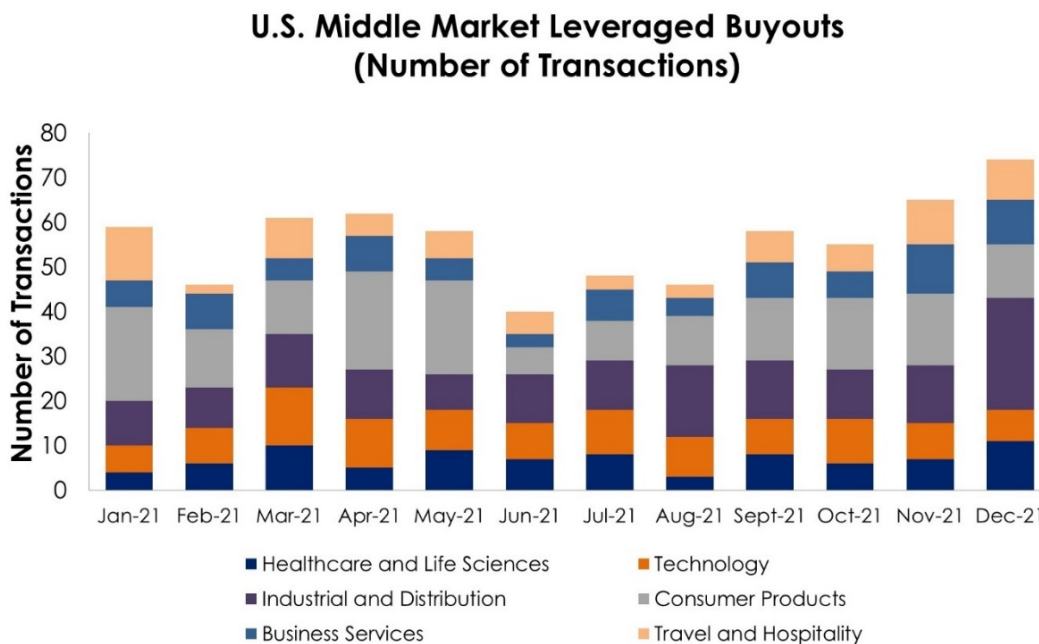
U.S. Middle Market M&A Activity Select Industries (Number of Transactions)



US cross-border transaction volume also rose substantially in December, with the largest number of transactions in the technology sector.



LBO transaction volume increased in December and is expected to remain strong through 2022. A November 2021 article from Private Equity Insights states “Buyout shops worldwide have raised more than \$714bn in dry powder so far this year, according to data provider Preqin, and the mountain of unspent capital is set to reach new heights as the industry gears up to raise even more in 2022.”



SELECT MIDDLE MARKET M&A TRANSACTIONS – HEALTHCARE & LIFE SCIENCES

Kala Pharmaceuticals Acquires Combangio

On November 15, 2021, Kala Pharmaceuticals, Inc. closed its acquisition of Combangio, Inc., Kala is a commercial-stage biopharmaceutical company focused on the discovery, development, and commercialization of innovative therapies for diseases of the eye. Combangio is a private, clinical-stage company developing regenerative biotherapies for severe ocular surface diseases.

“Today’s acquisition marks a pivotal moment for Kala and a meaningful acceleration toward our goal of strengthening Kala’s pipeline for the treatment of front and back of the eye diseases,” said Mark Iwicki, Chief Executive Officer of Kala. “KPI-012 is a highly innovative product, which leverages a multifactorial mechanism of action to address the complex process of healing severe corneal defects. KPI-012 is currently in development for PCED, with potential application across a wide range of orphan diseases of the eye. This product candidate is a natural fit with our R&D and commercial expertise, and along with our internal pipeline provides an additional opportunity to leverage our deep ophthalmic expertise to address substantial, underserved markets. We are excited to have completed the acquisition of Combangio and look forward to working alongside their talented team to integrate KPI-012 into our portfolio and ultimately deliver this therapy to transform the treatment of rare ocular surface diseases.”

Hologic Acquires Bolder Surgical

On November 30, 2021, Hologic, Inc. acquired Bolder Surgical for \$160 million. Hologic is an innovative medical technology company primarily focused on improving women’s health and well-being through early detection and treatment. Bolder Surgical is a commercial-stage developer and manufacturer of advanced energy vessel sealing and dissection tools, offering devices to surgical gynecologists in both laparoscopic and open procedures.

“This acquisition will broaden our growing Surgical portfolio by adding Bolder’s differentiated advanced vessel sealing and dissection tools that are used in laparoscopic procedures,” said Essex Mitchell, Hologic’s Division President, Surgical. “We can accelerate growth and improve patient outcomes by leveraging our significant commercial resources and strong relationships with OB/GYNs.”

FURTHER INFORMATION

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