

Mufson Howe Hunter

INVESTMENT BANKERS FOR GROWTH

Mergers & Acquisitions Update: The Middle Market Q2 2018

The Mufson Howe Hunter Middle Market M&A Update is designed to provide business owners, managers, private equity investors and M&A professionals with a summary of current market trends in the U.S. Middle Market.

Mufson Howe Hunter Commentary

Middle market M&A continues to be robust with strategic and private equity buyers bidding up valuations to record levels. The one disappointing variable in this almost perfect market environment is the dearth of “first-to-market, closely-held or family-owned companies”. These companies are highly coveted by buyers but their representation as a percentage of total transaction count has been stagnant. While conditions would indicate that a robust component of the marketplace would consist of privately-held companies with aging baby boomer owners, PE-backed secondary sales have been dominating the market. The middle market continues to price deals at near record highs with average EBITDA multiples for transactions \$250 million and below in enterprise value (EV) at 8.8x for Q2 2018. This figure is up slightly from the average 2017 multiple of 8.6x. However, the M&A market has been valuing the upper end of the middle market (i.e., deals from \$100-\$250 million in EV) at 10.2x in Q2 2018. In comparison, transactions for companies with less than \$25 million in EV have been valued at an average of 6.5x for the same period, reflecting a 57% discount.

Middle market dynamics are driven by the need for corporate buyers to augment organic growth with strategic acquisitions to satisfy investor growth demands. Record levels of private equity capital, estimated in the U.S. at close to \$700 billion, continue to await deployment. This coupled with strong leverage levels in the middle market at 5.0x plus, results in a strong seller’s market.

Despite the above, middle market (below \$250 million) deal flow has been stagnant to down over the past few years and Q2 was no exception. Through June 30, 2018, transaction count is off 15% YoY while transaction count above \$250 million is up 15% for the same period. Debt levels as a percentage of total consideration increased slightly to ~58%, up from 53% in 2017.

Private equity transactions for 2018 YTD averaged 7.0x for transactions below \$250 million in EV, down from an average of 7.4x in 2017, according to GF Data®. A further breakdown reveals the trend that “larger is better”; companies below \$25 million in EV averaged 5.9x for YTD 2018 vs. 6.4x in 2017, and deals from \$100 million to \$250 million averaged 8.5x for YTD 2018 vs. 9.2x in 2017.

We expect the US M&A market to remain robust while maintaining selectivity. Buyers are disciplined and paying historically high prices for coveted companies with strong fundamentals. These targets typically demonstrate defensible market positions in their services/products, resulting in high gross margins coupled with growth rates well exceeding GDP. Companies without those characteristics are still able to fetch strong valuations in this market but not at nose bleed prices.

Our Quarterly M&A Update contains information on the following market segments:

- U.S. M&A Activity (All Reported)
- U.S. Middle Market Activity
- U.S. Lower Middle Market Activity
- U.S. Lower Middle Market Private Equity Activity

We hope you find our report valuable, and we welcome any comments or suggestions.

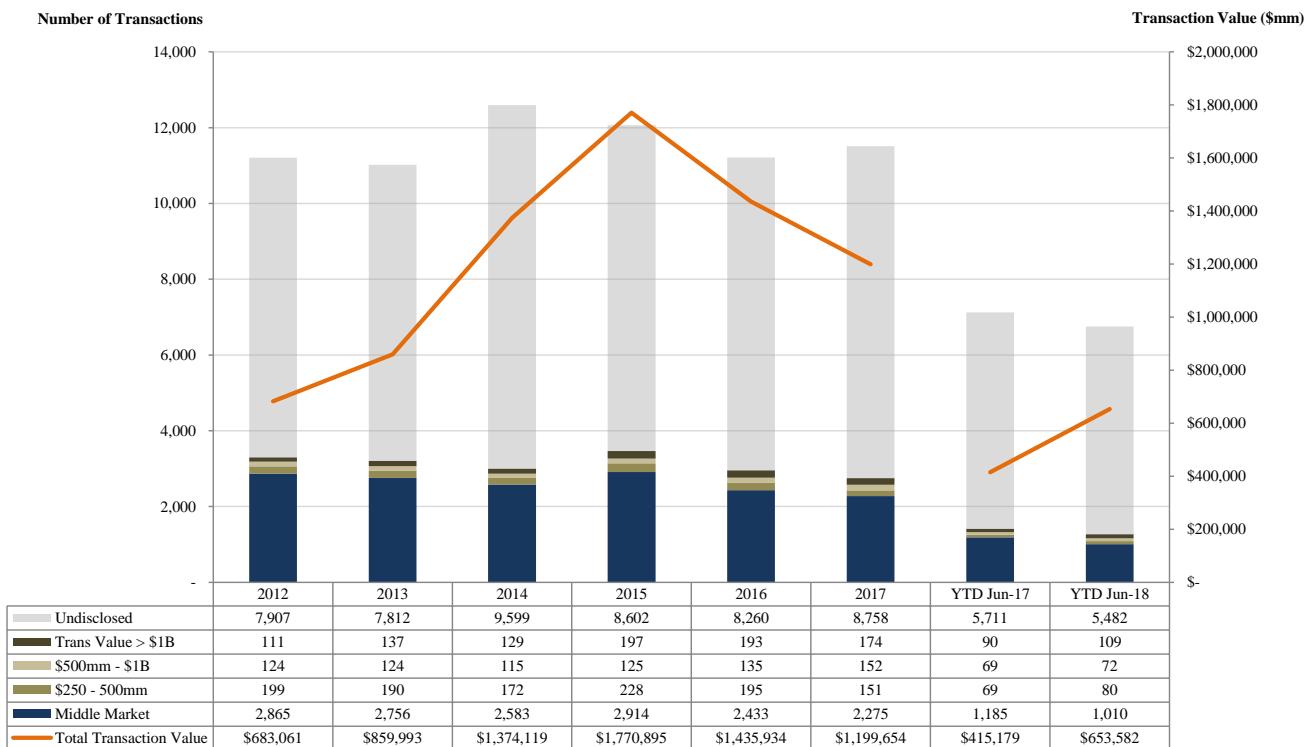
Regards,

Michael J. Mufson
Managing Director

Mufson Howe Hunter & Company LLC is a middle-market focused investment bank providing M&A, capital raising and financial advisory services.

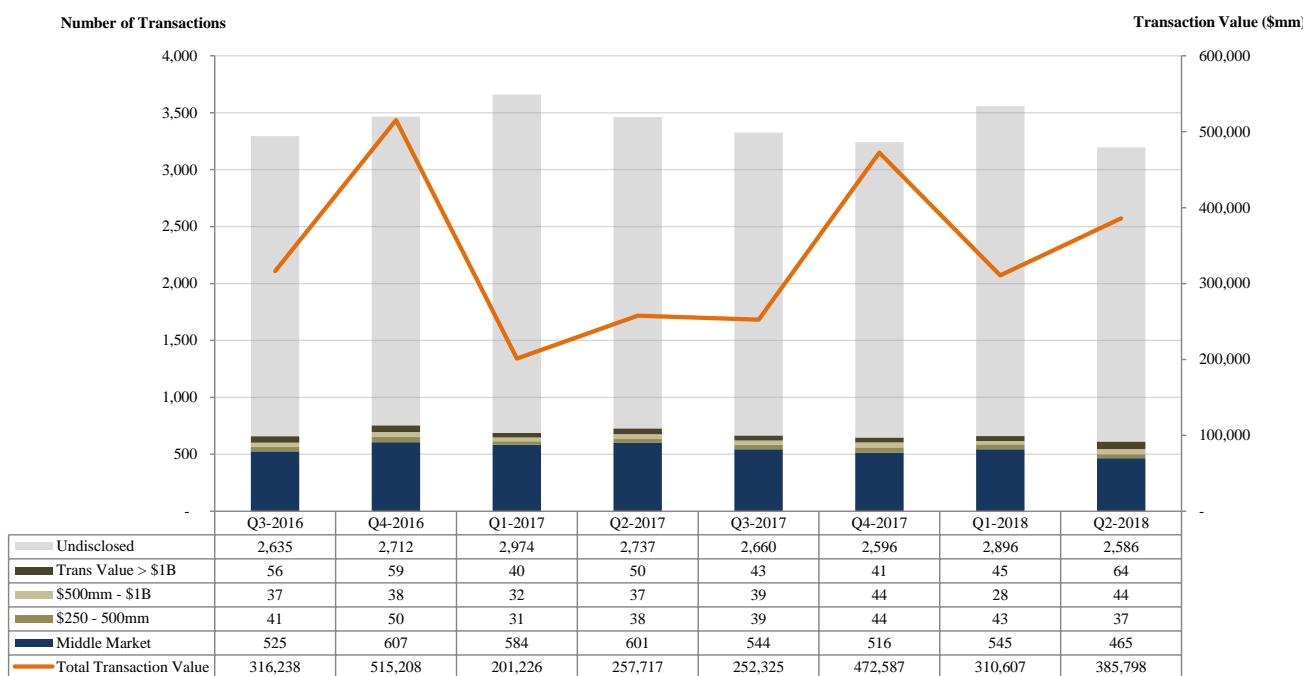
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U.S. - All Reported M&A Activity



Note: Publicly disclosed M&A transactions

U.S. - All Reported M&A Activity

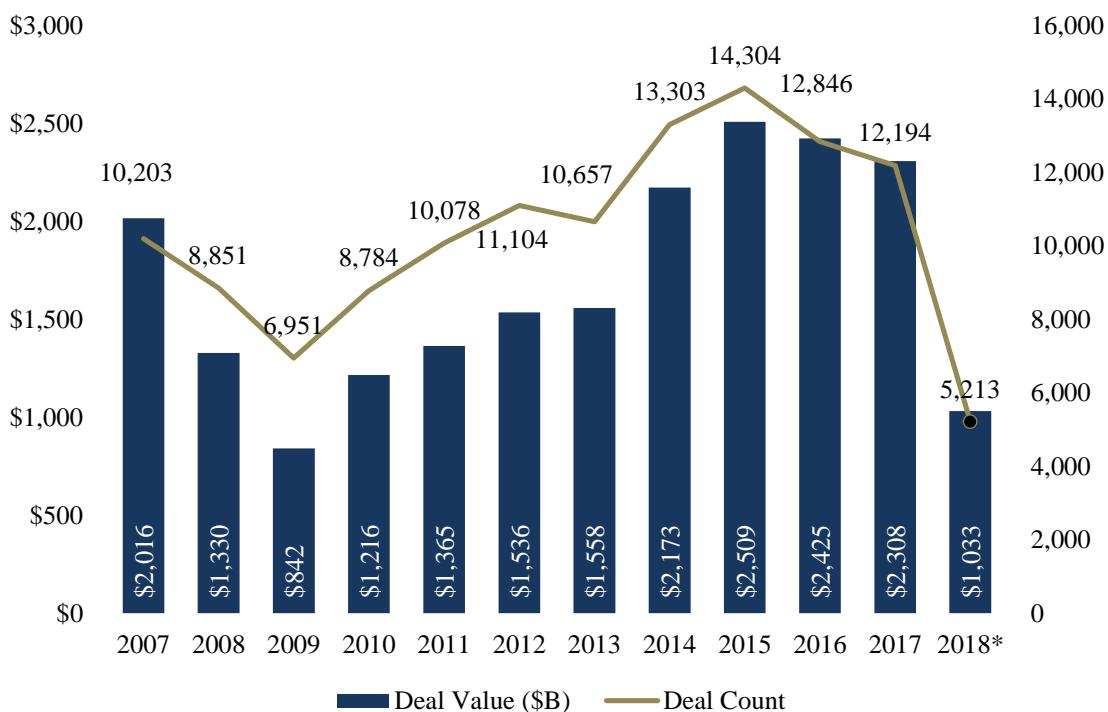


Note: Publicly disclosed M&A transactions

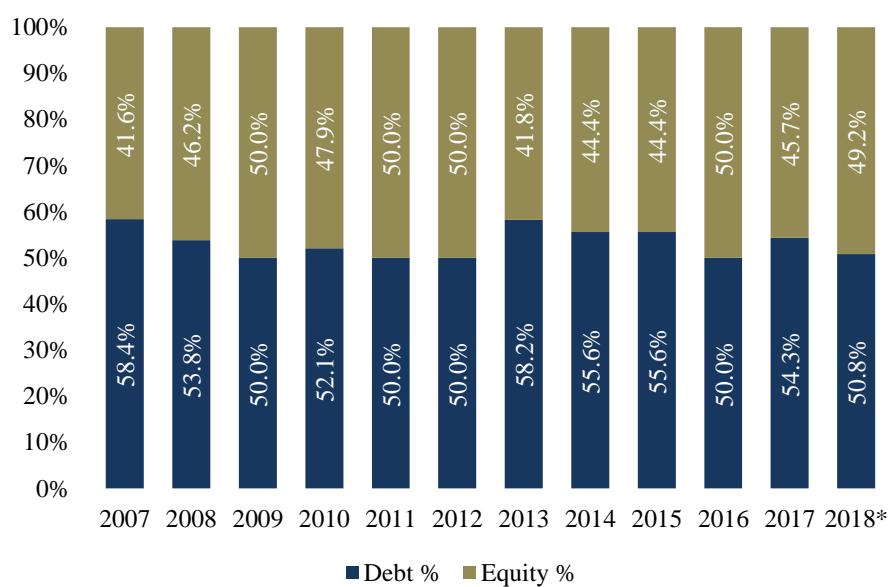
Source: CapitalIQ

Middle Market, as defined by Pitchbook, includes transactions valued at \$25 million up to \$1 billion. The following graphs and charts depict certain key elements of Middle Market M&A activity through June 30, 2018.

U.S. Middle Market M&A Activity by Year



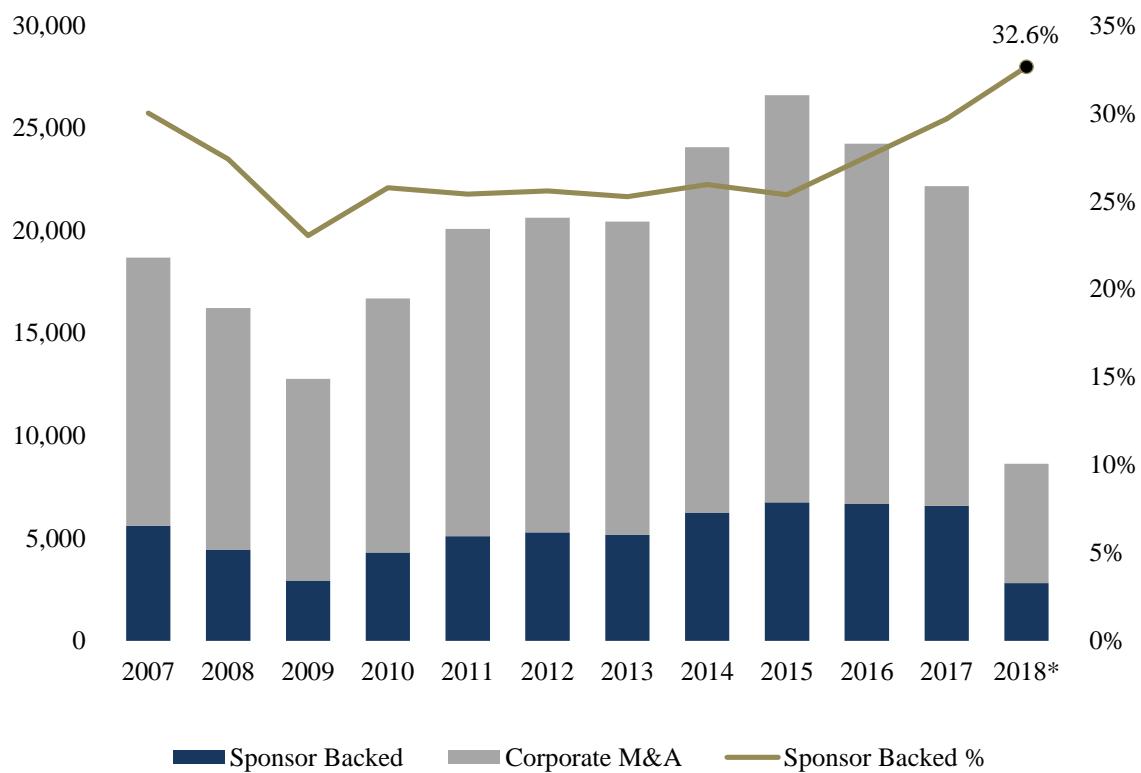
U.S. Middle Market M&A Debt-to-Equity



Source: PitchBook

* Results through June 30, 2018.

U.S. Middle Market M&A by Acquirer Type



U.S. Middle Market Private Equity Platform vs. Add-On Acquisition



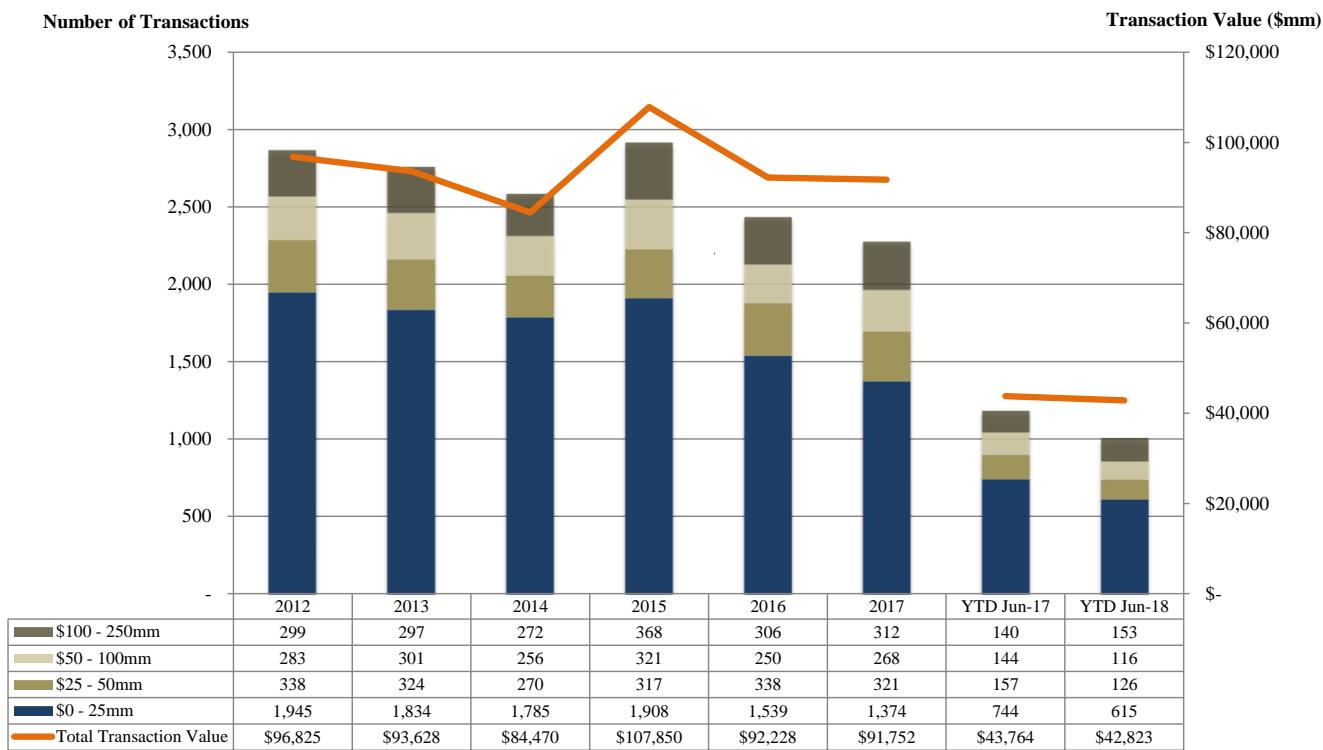
Source: PitchBook

*Results through June 30, 2018.

Mergers & Acquisitions Update

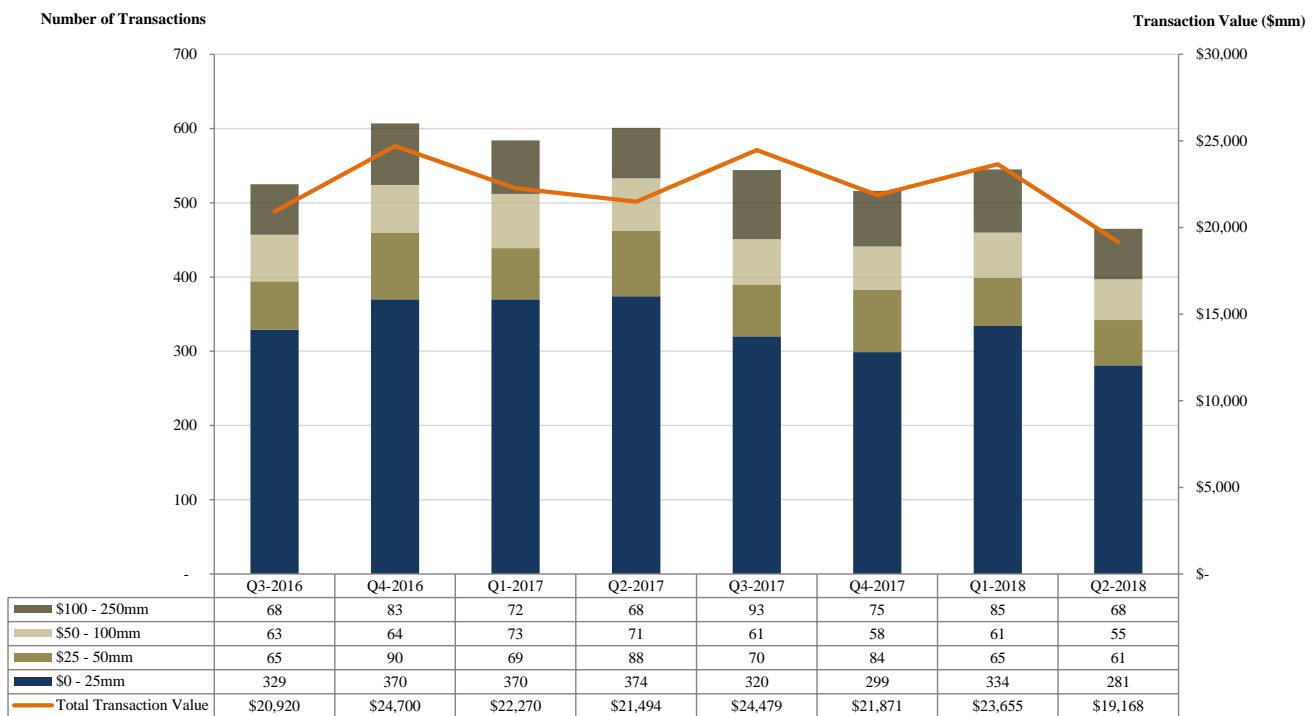
Mufson Howe Hunter defines the Lower Middle Market as transactions below \$250 million. The following pages of our report contain information specific to this segment of the market.

U.S. Lower Middle Market M&A Activity - Transactions Below \$250 million



Note: Publicly disclosed M&A transactions; Source: CapitalIQ, Mufson Howe Hunter

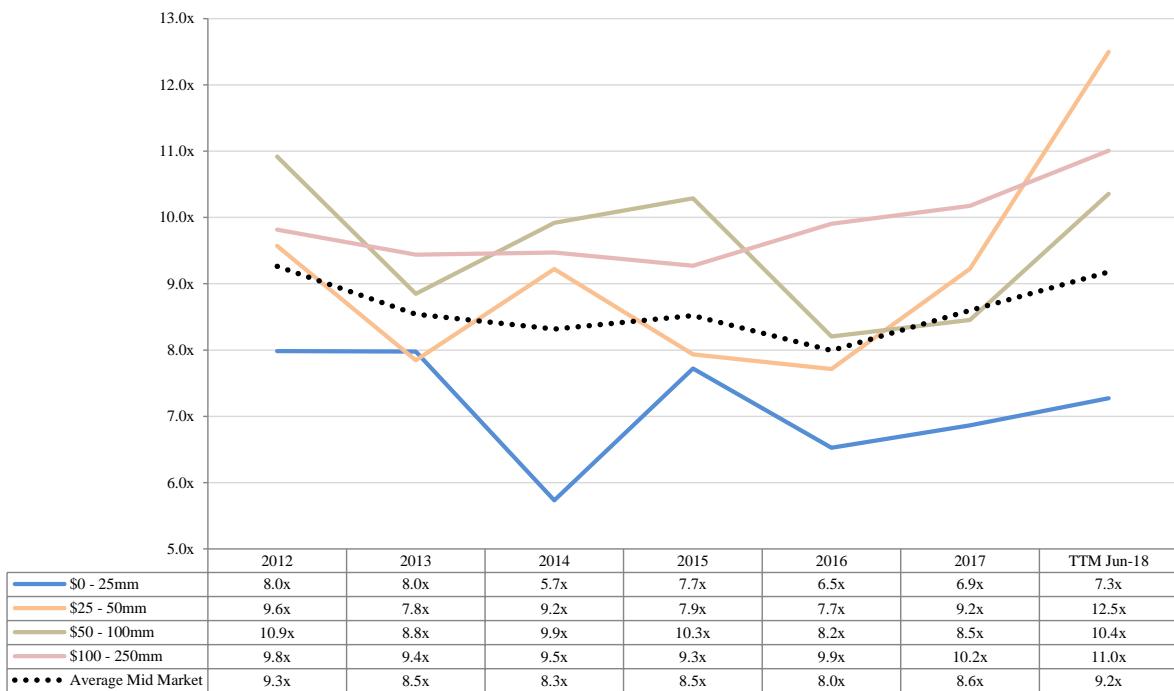
U.S. Lower Middle Market M&A Activity - Transactions Below \$250 million



Note: Publicly disclosed M&A transactions; Source: CapitalIQ, Mufson Howe Hunter

U.S. Lower Middle Market M&A Activity - Transactions Below \$250 million

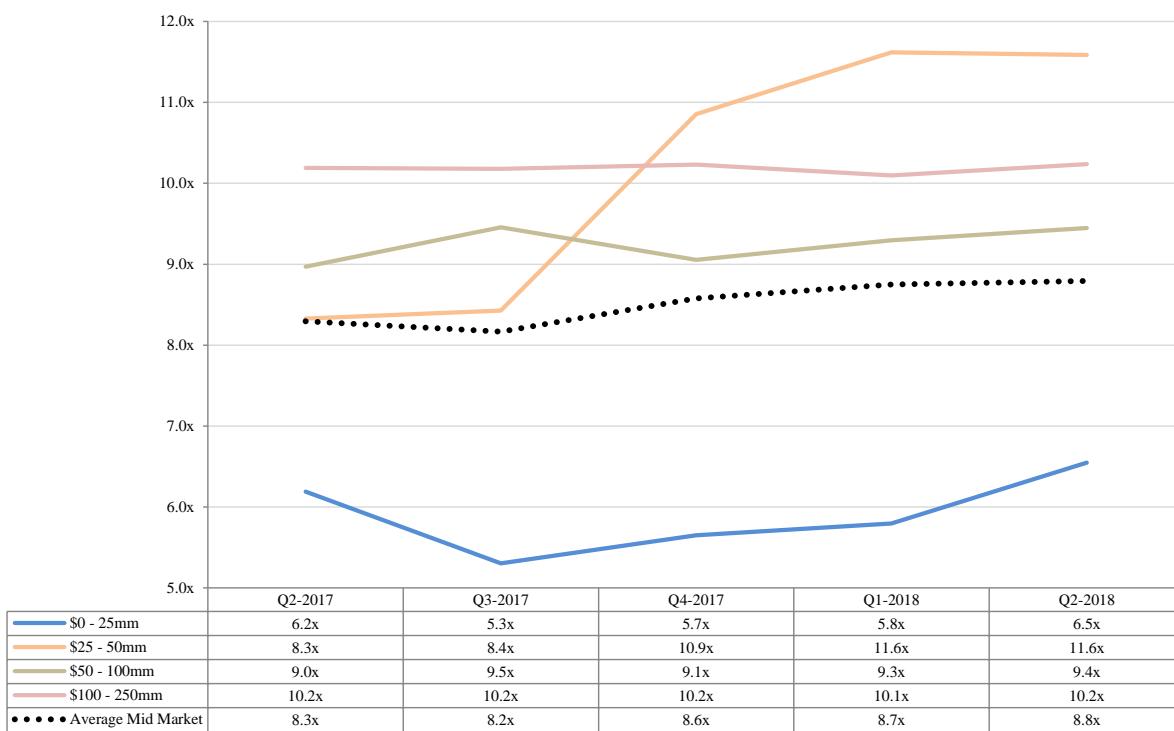
EV/EBITDA Valuation



Note: Publicly disclosed M&A transactions; Source: CapitalIQ, Mufson Howe Hunter

U.S Lower Middle Market M&A Activity - Transactions Below \$250 million

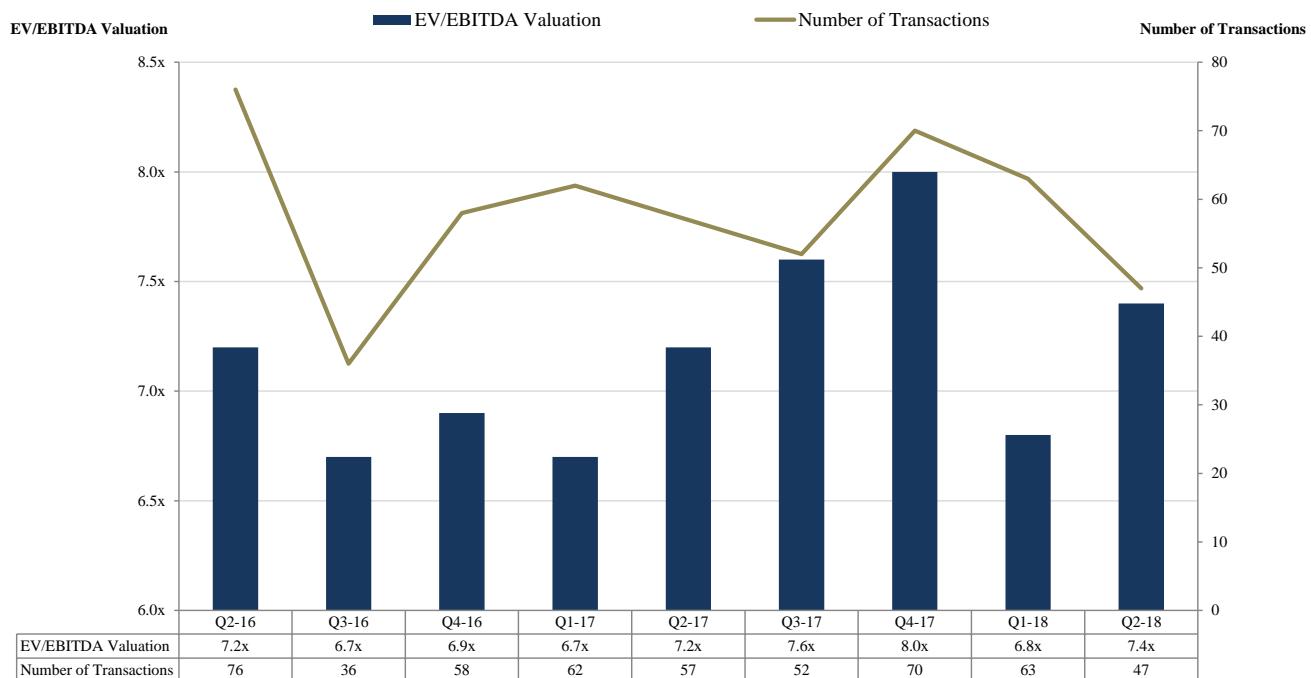
EV/EBITDA Valuation



Note: Publicly disclosed M&A transactions; Source: CapitalIQ, Mufson Howe Hunter

Mufson Howe Hunter is provided access to GF Data's proprietary private transaction database and reports. GF Data® provides subscribers' data on private equity-sponsored M&A transactions with enterprise values of \$10 to \$250 million. GF Data collects transaction information from over 200 private equity sponsors on a blind and confidential basis. For further information, please contact GF Data at info@gfdata.com.

North American Middle Market Private Equity Transactions

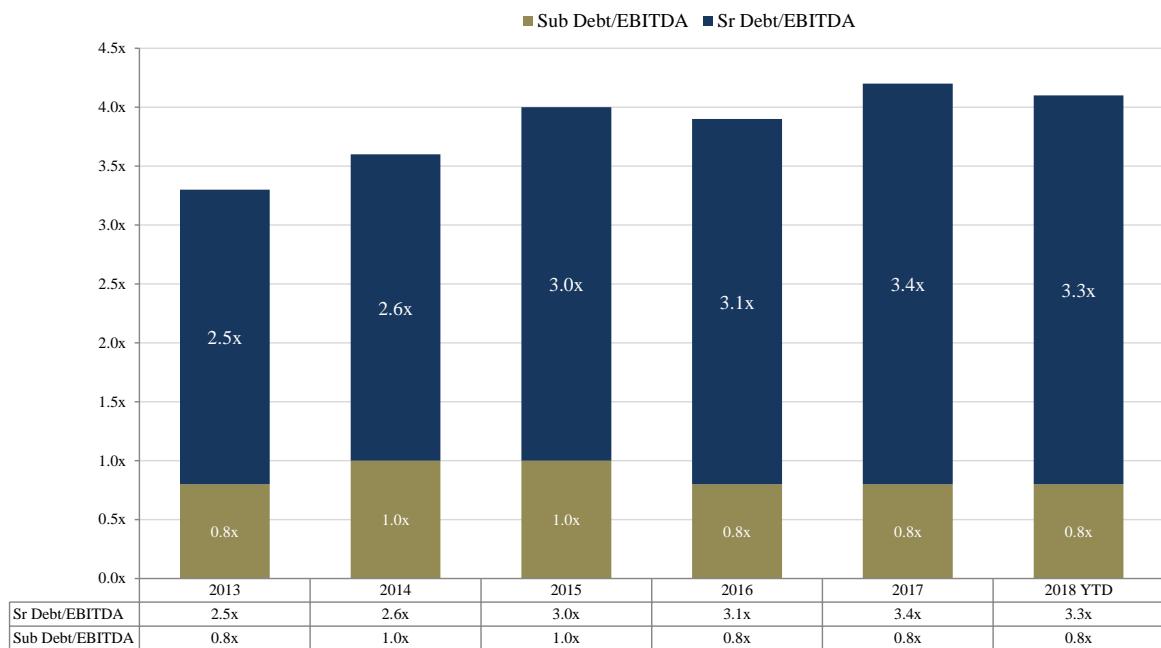


Source: GF Data®

TEV Range	2003-2011	2012	2013	2014	2015	2016	2017	2018 YTD
\$10-25mm	5.6	5.8	6.0	5.5	5.8	5.8	6.4	5.9
\$25-50mm	6.2	6.2	6.8	6.4	6.6	6.4	6.6	6.6
\$50-100mm	6.8	6.8	6.8	7.5	7.8	7.3	8.3	9.1
\$100-250mm	7.3	7.3	7.5	7.5	9.0	8.9	9.2	8.5
Overall	6.2x	6.3x	6.5x	6.4x	6.7x	6.8x	7.3x	7.0x
	N	1484	247	162	211	241	228	244
								110

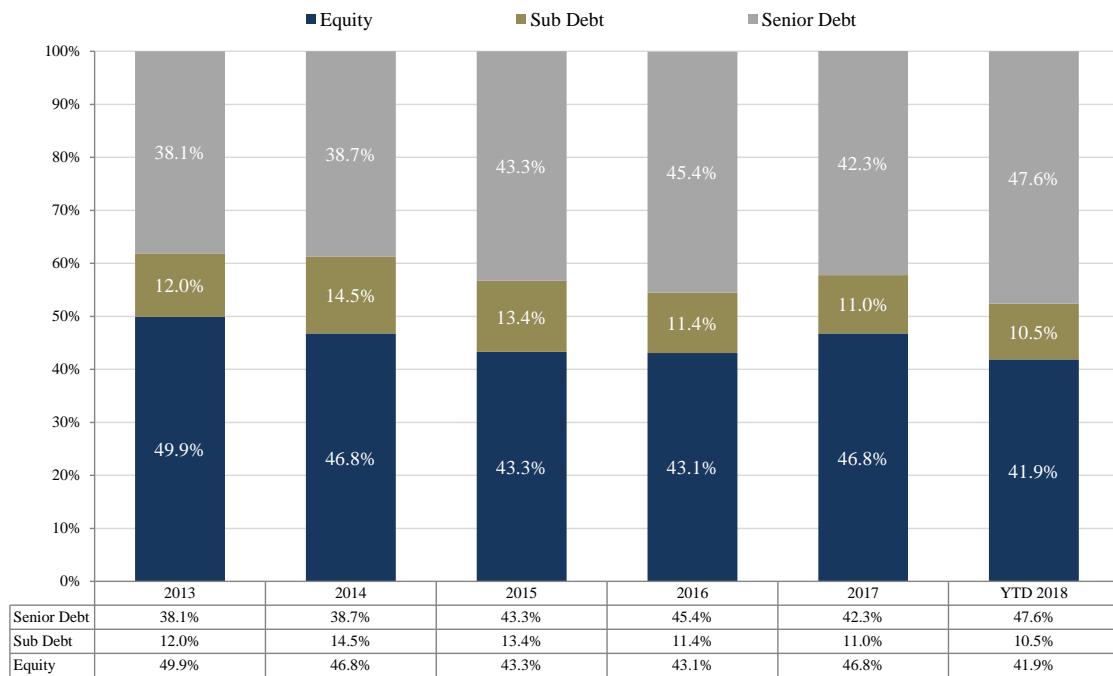
Source: GF Data®

North American Middle Market Private Equity Transactions Debt Multiples



Source: GF Data®

North American Middle Market Private Equity Transactions Purchase Price Contribution



Source: GF Data®

Mufson Howe Hunter is an independent investment bank for middle-market companies. We focus on selling businesses, recapitalizations, buy-outs, acquisitions and raising capital. Unique to the middle market, our senior bankers have extensive corporate finance experience and deep knowledge of the capital markets.

Mergers & Acquisitions

- Advise buyers and sellers (public and private companies)
- Sale of businesses, strategic acquisitions, recapitalizations, management buy-outs and industry build-ups
- Specific background in representing closely-held and family-owned businesses

Raise Capital

- Equity (control and non-control)
- Mezzanine financing
- Senior and junior debt
- Typically raise debt & equity capital from commercial banks, finance companies, investment funds and private equity sponsors

Financial Advisory Services

- Analysis of business strategies and options
- Fairness opinions
- Complex Valuations

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