Data Highlights

The third quarter of 2021 was one of those rare periods in which actual valuations were on par with the deal community's collective sense of a torrid seller's market.

Average valuations in the quarter averaged 7.6x—the highest quarterly mark in GF Data's 16-year history.

GF Data's 253 active private equity contributors completed 68 transactions in the quarter meeting our parameters—Total Enterprise Value (TEV) $10-250 million and TEV/ Trailing Twelve Months (TTM) Adjusted EBITDA 3-15x.

Volume is up slightly from the year-ago third quarter. It will be interesting to see how the anticipated glut in fourth quarter deals this year lines up against the deluge completed in 4Q 2020.

The headline numbers for the last seven quarters are:

All Transactions	1Q 20	2Q 20	3Q 20	4Q 20	1Q 21	2Q21	3Q 21
# of Deals	96	37	61	133	106	88	68
TEV/EBITDA	7.3x	7.3x	6.6x	6.8x	7.0x	7.2x	7.6x
Total Debt/EBITDA	3.8x	3.3x	3.7x	3.7x	3.9x	3.6x	4.1x
Senior Debt/EBITDA	3.5x	2.7x	2.7x	3.1x	3.6x	2.8x	3.1x

At 7.6x, valuations were up .4x from the third quarter. Total debt jumped .5x, from 3.6x to 4.1x, meaning that buyers on average were paying more but were able to reduce average equity contribution slightly.

One factor contributing to the pricing lift is a greater preponderance of platform acquisitions, which tend to be more highly valued than add-ons. This reverses a recent trend in favor of add-on deals. From 2018 to 2020, platforms successively accounted for 79.5%, 74.3% and 70.0% of completed deal activity. For the first nine months of 2021, the figure bounced back to 74.5%.

While valuations surged across the board, we continue to see signs of a bifurcated market. In the $100-250 million TEV tier, the average was 9.8x. Many of our contributors take a number such as this as an invitation to ask for introductions to the 50 percent of sellers whose businesses are trading at less than double digits.

The data points the way to more modestly valued businesses. Our analysis of buyouts involving above average financial performers (Charts 7-9) is a case in point. Conventionally, these above-average performers (defined based on TTM revenue growth and EBITDA margin) account for about 56 percent of total reported transactions. For the past two quarters, the incidence has been 62 percent.

The valuation premium applied to these deals in the year to date is 28 percent, essentially the same as in 2020. In other words, the above-average cohort accounted for a larger share of total activity without diminishing its spread against the rest of the pack.

We believe that both average valuation multiple and percentage of above-average performers are being artificially buoyed by disappointed would-be sellers opting not to transact at current valuations. If it were possible to add valuations of these businesses, the resulting view of the market would be more variegated and less heady. In sum, record valuations are a real story, but not the whole story.