

Mergers & Acquisitions Update: The Middle Market Q4 2017

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

For the year ending 2017, the U.S. M&A market booked a slight decrease in transactional volume despite a continuing uptick in deal valuations. In 2017 total announced transaction volume was down 2.5% on a year-over-year basis. The 2017 transactional dollar volume was \$1.173 trillion in total dollar value, down 18% from 2016. The Middle Market M&A landscape for transactions below \$250 million in Enterprise Value (the “Lower End of the Middle Market”) saw greater consistency in both deal activities and dollar volumes for 2017. During 2017, the total dollar volume was \$87.8 billion, which is approximately in line with the same period in 2016 counting 2,177 transactions for 2017 vs. 2,233 for the same period last year.

Overall Middle Market M&A activity (defined as transactions with Enterprise Value below \$1.0 billion) hit a record high valuation of 10.5x in 2017. These historically high valuations are driven by a confluence of record levels of “dry powder” available to U.S. private equity sponsors (estimated above \$600 billion), an estimated \$1.9 trillion in corporate liquidity, high leverage levels being underwritten by credit providers against a limited amount of quality sellers in the market.

At the lower end of the M&A Middle Market (Enterprise Value below \$250 million), the average valuation most likely is at a record level at 11.1x EBITDA for 2017, up significantly from 8.6x in 2016. Valuations, in general, tend to be highly correlated to the size of a transaction and as such, for 2017, EBITDA valuation multiples for \$100 - \$250 million, \$50 - \$100 million, \$25 - \$50 million and below \$25 million were 12.1x, 13.2x, 12.3x, and 8.5x, respectively, the result of which is attributable to debt leverage underwritten based upon a company’s size.

Private equity tends to dominate activities in the lower end of middle market transactions. For those transactions with a PE sponsor, the average purchase price valuation averaged 7.4x vs. 11.1x in the overall \$250 million and below EV segment. The size premium, albeit not as dramatic for PE-backed transactions, was as follows: \$100 - \$250 million averaged 9.2x, \$50 - \$100 million averaged 8.3x, \$25 - \$50 million averaged 6.7x and below \$25 million averaged 6.4x. The overall lower valuations reflect the buyers’ ability to leverage smaller transactions - the average leverage multiple for deals below \$250 million was 4.4x vs. the average leverage multiple for transactions below \$1.0 billion at 5.7x.

In general, the Middle Market M&A environment remains a seller’s market with all the necessary components to maintain current conditions – a record level of debt from traditional and non-traditional financing sources, the incremental liquidity on behalf of corporate buyers as a result of cash repatriation and corporate tax cuts, a significant amount of PE dry powder waiting to be employed and a robust economy. We do not foresee any near-term events to change the overall market dynamics nor do we expect a material increase in valuations. What the M&A middle market needs the most is an increase in quality sell-side candidates (i.e. family businesses and privately held companies, in many instances, started by baby boomers in the 1970s and 80s) to take a greater advantage of the favorable market conditions.

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.

Broker/Dealer services offered through a wholly owned subsidiary Mufson Howe Hunter & Partners LLC, Member SIPC | FINRA



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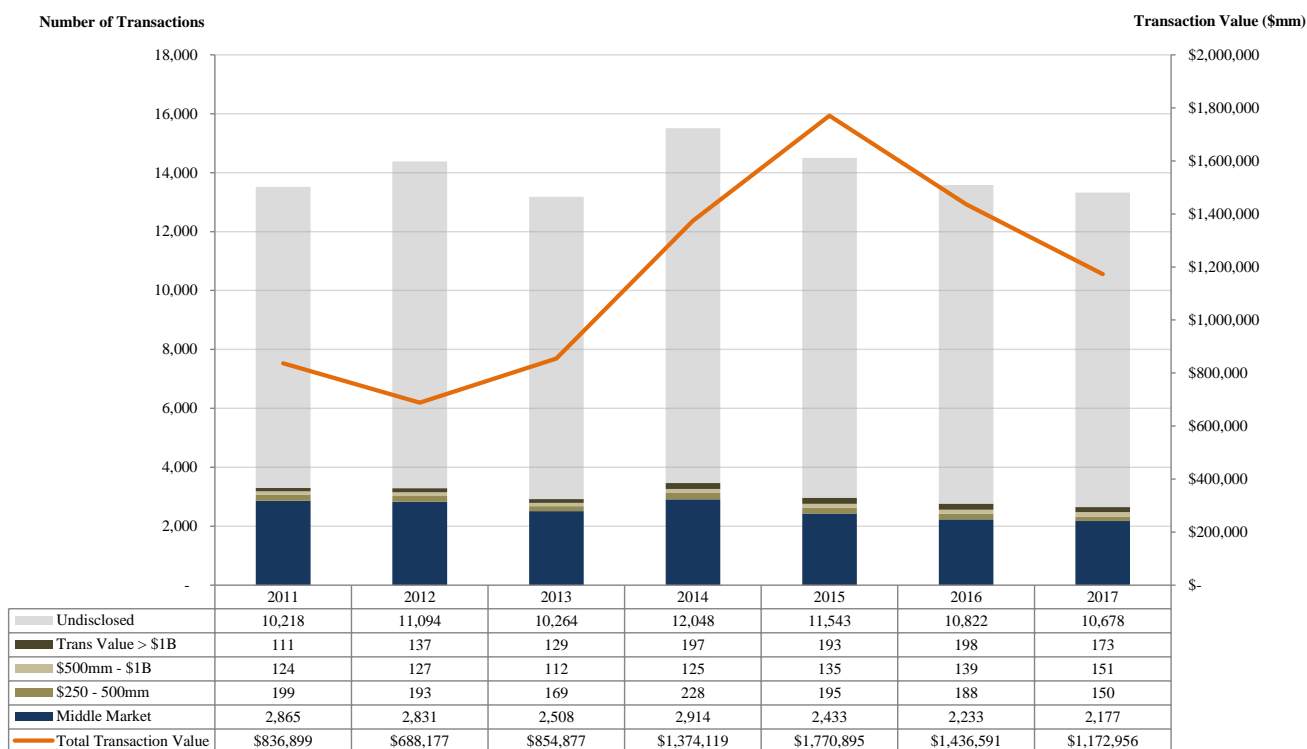
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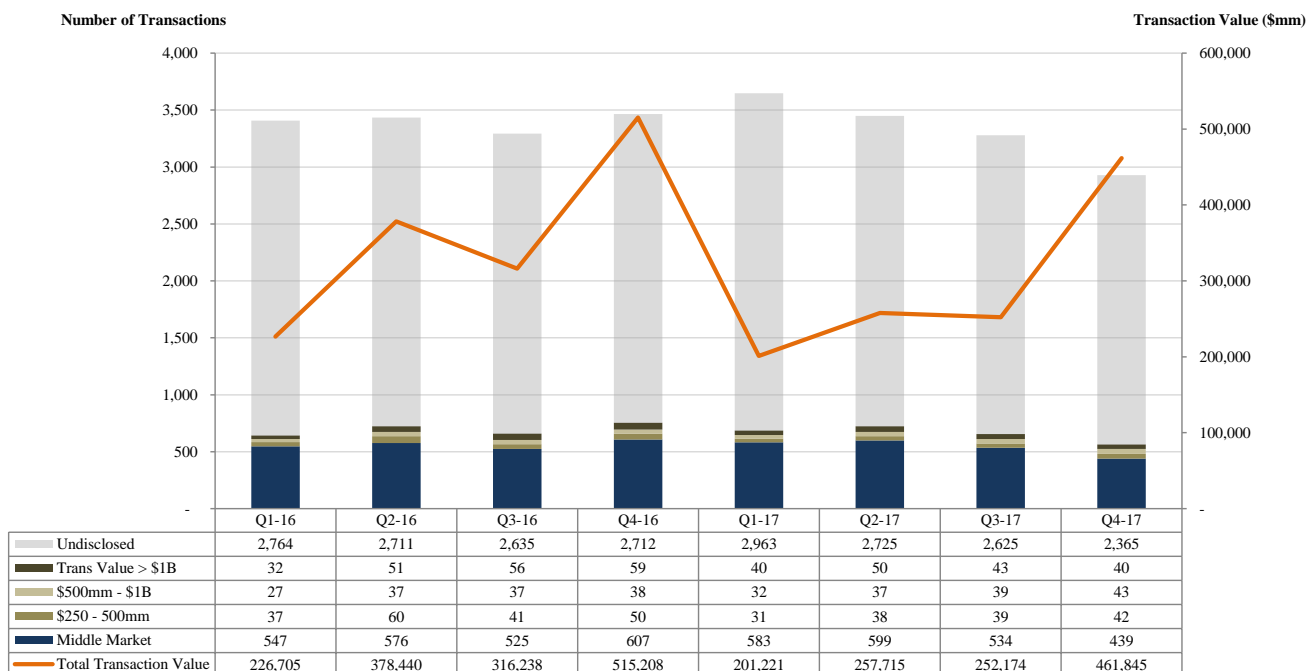
Middle Market M&A

U.S. M&A Activity



Note: Publicly disclosed M&A transactions

U.S. M&A Activity



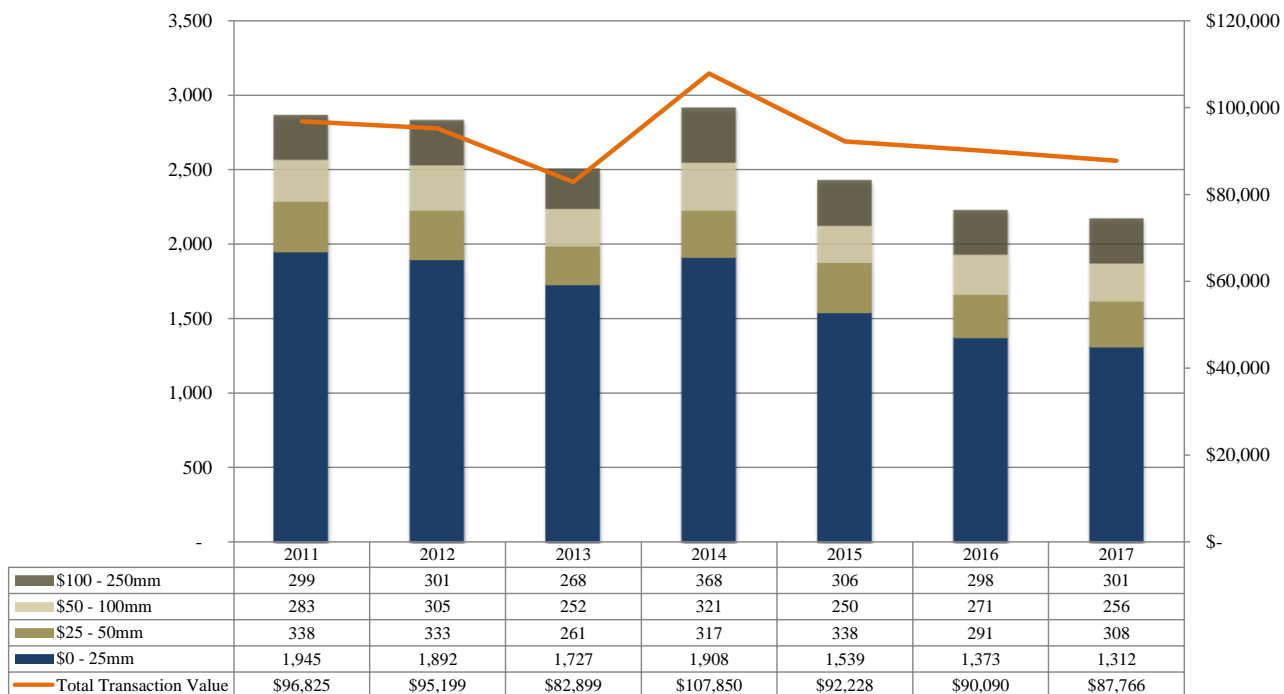
Note: Publicly disclosed M&A transactions

Source: CapitalIQ

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

Number of Transactions

Transaction Value (\$mm)

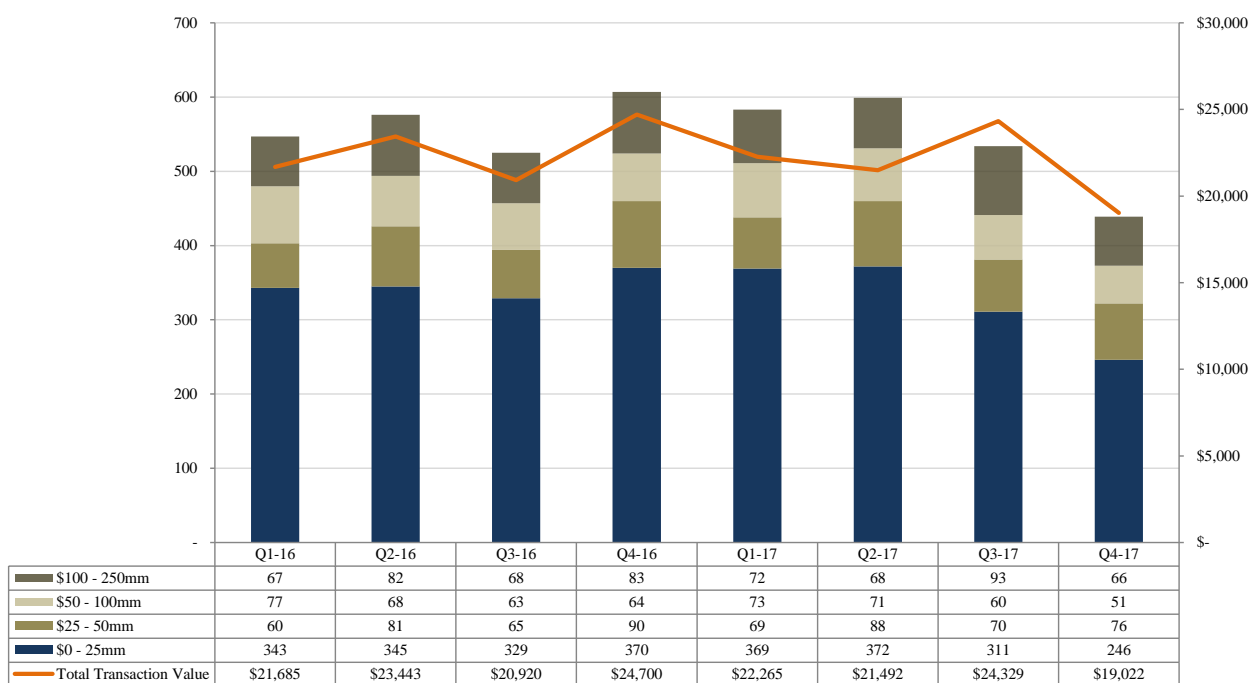


Note: Publicly disclosed M&A transactions

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

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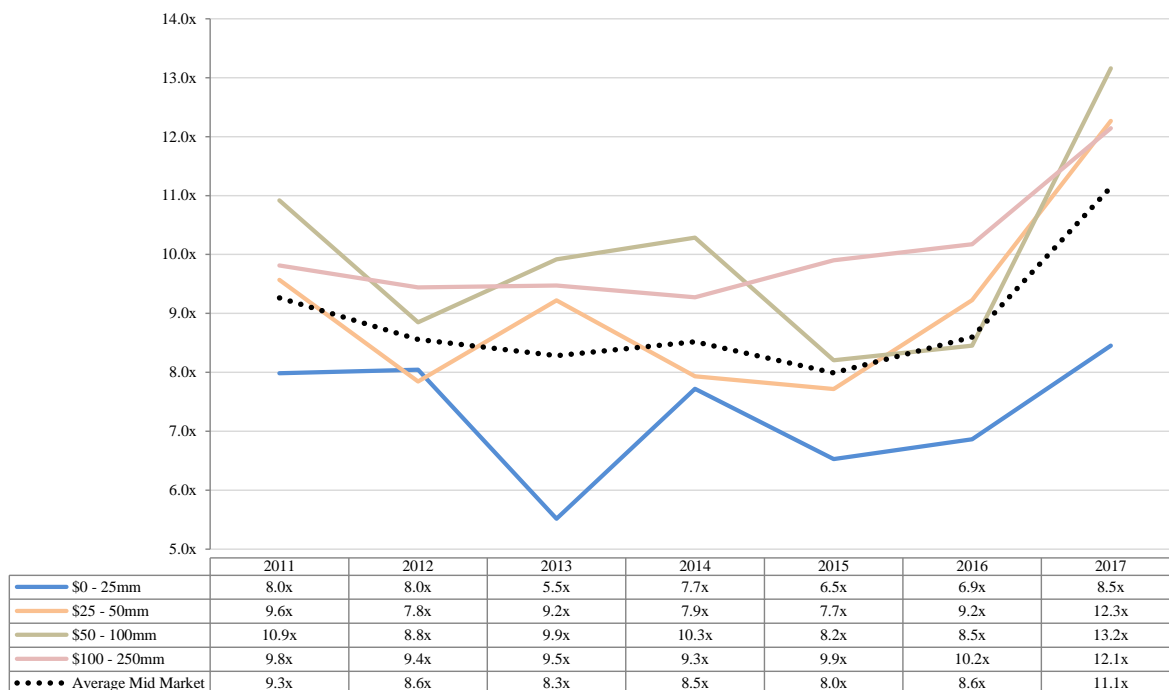


Note: Publicly disclosed M&A transactions

Source: CapitalIQ

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

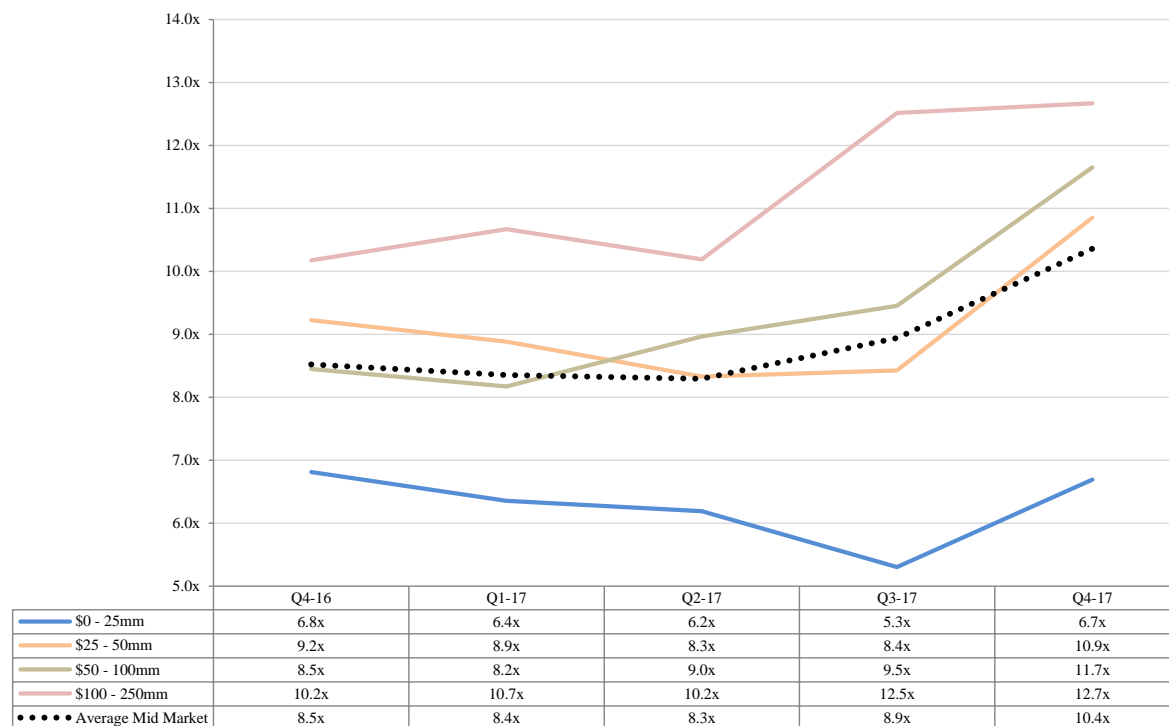
EV/EBITDA Valuation



Note: Publicly disclosed M&A transactions

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

EV/EBITDA Valuation



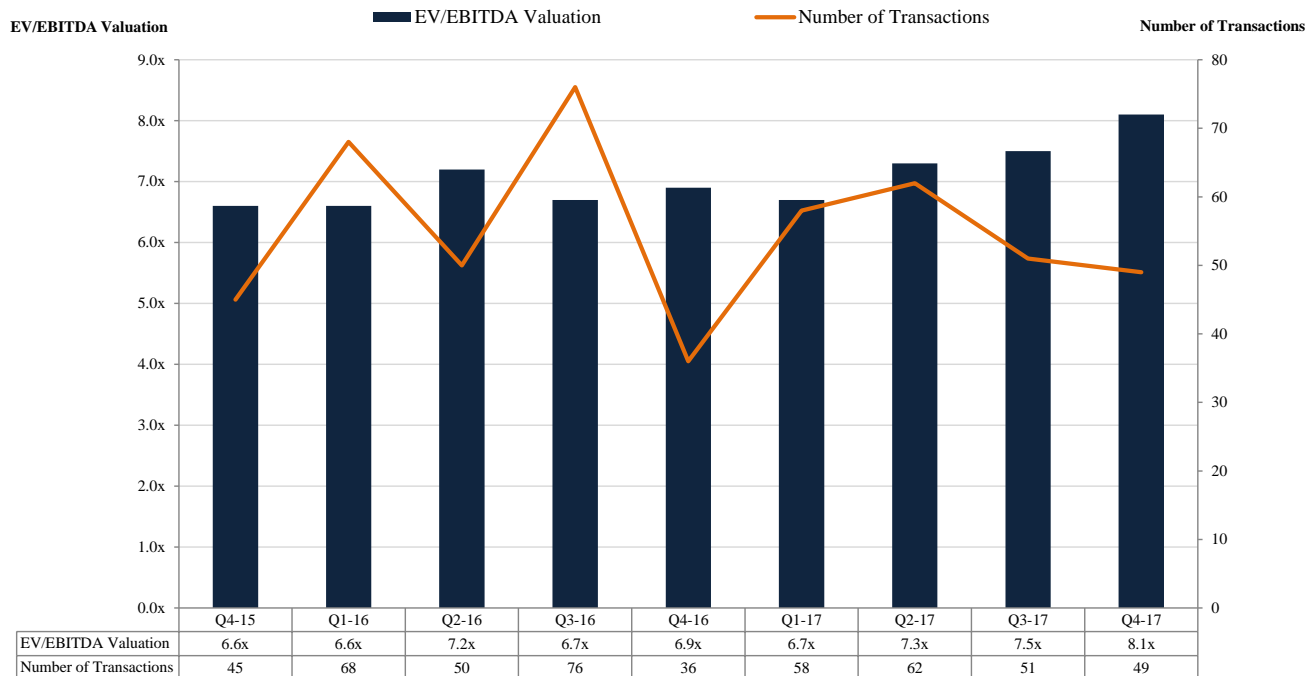
Note: Publicly disclosed M&A transactions

Source: CapitalIQ

Middle Market M&A

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@gfdatasources.com.

U.S. Middle Market Private Equity Transactions



Source: GF Data®

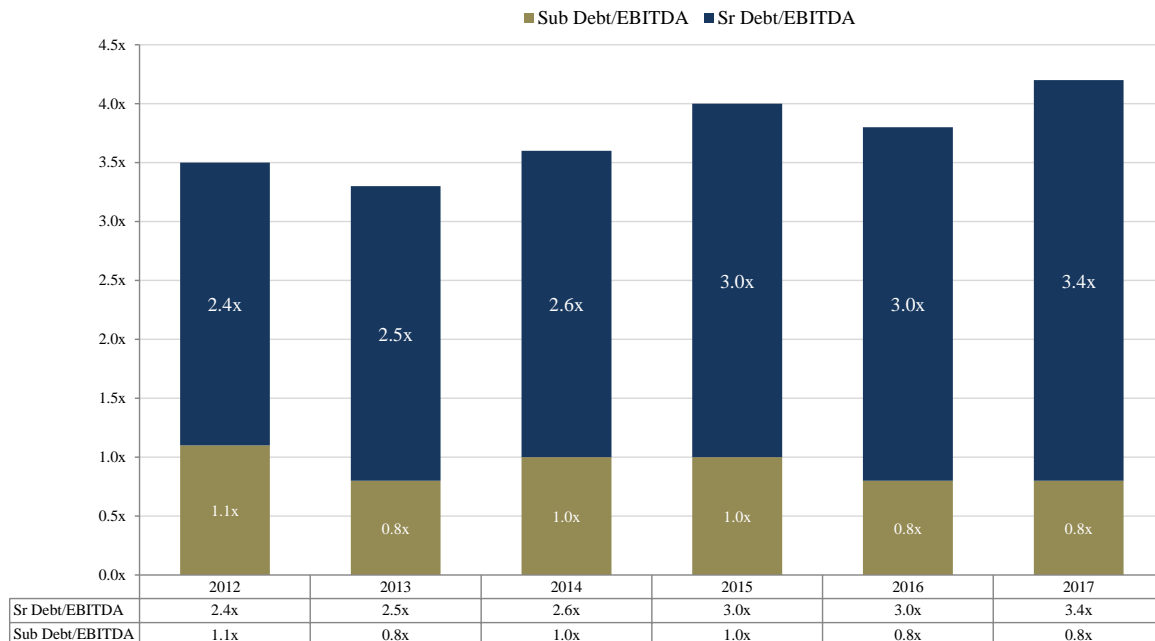
Non-Public U.S. Middle Market Private Equity Transaction Valuations

TEV Range	2003-2011	2012	2013	2014	2015	2016	2017
\$10-25mm	5.6	5.8	6.0	5.6	5.8	5.9	6.4
\$25-50mm	6.2	6.2	6.8	6.6	6.6	6.5	6.7
\$50-100mm	6.8	6.8	6.8	8.4	7.8	7.3	8.3
\$100-250mm	7.3	7.3	7.5	7.8	9.0	9.0	9.2
Overall	6.2x	6.3x	6.5x	6.7x	6.7x	6.8x	7.4x
<i>n</i>	1484	247	162	215	235	220	231

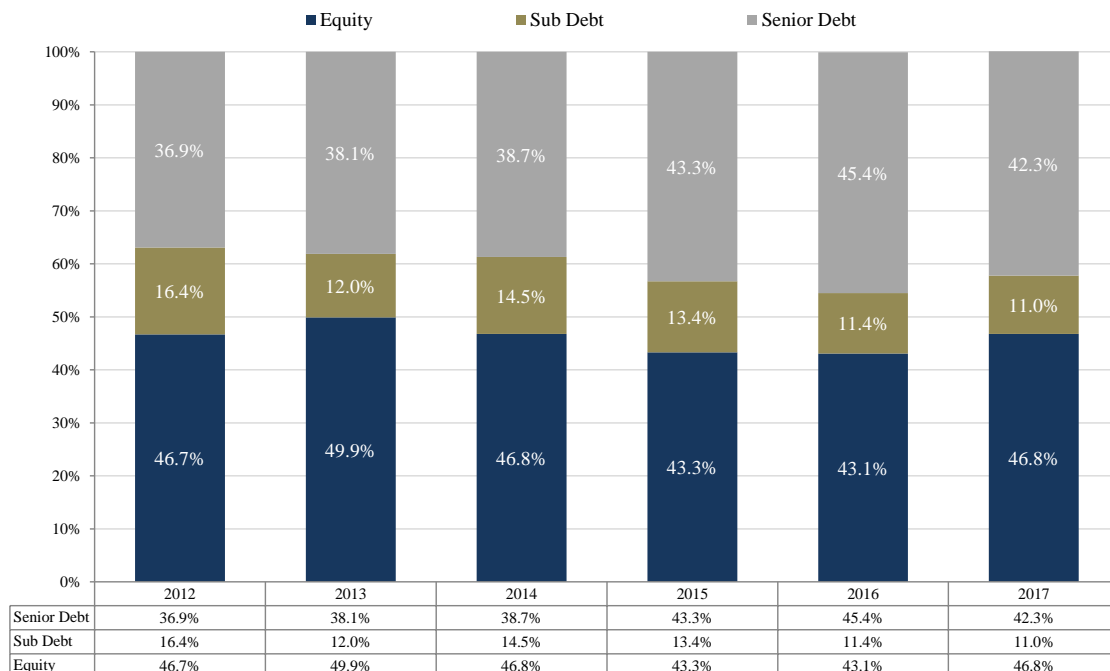
TEV Range	Q4-14	Q1-15	Q2-15	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17	Q2-17	Q3-17	Q4-17
\$10-25mm	5.3	6.0	5.5	6.0	5.9	6.1	6.2	5.6	5.9	5.8	5.8	7.0	6.9
\$25-50mm	6.4	7.6	6.5	5.9	6.6	6.1	6.7	6.4	6.3	6.4	7.1	6.1	7.0
\$50-100mm	9.2	7.9	6.9	8.6	7.5	6.9	8.5	6.9	6.4	6.8	8.6	8.7	8.9
\$100-250mm	7.2	8.2	9.0	10.5	8.8	7.8	8.6	10.9	9.4	8.7	9.0	9.3	9.8
Overall	7.0x	6.9x	6.3x	7.0x	6.6x	6.6x	7.2x	6.7x	6.9x	6.7x	7.3x	7.5x	8.1x
<i>n</i>	65	68	54	45	68	50	76	36	58	62	51	49	68

Source: GF Data®

U.S. Middle Market Private Equity Transactions Debt Multiples



U.S. Middle Market Private Equity Transactions Purchase Price Contribution



Source: GF Data®

U.S. Middle Market Private Equity Total Debt/EBITDA

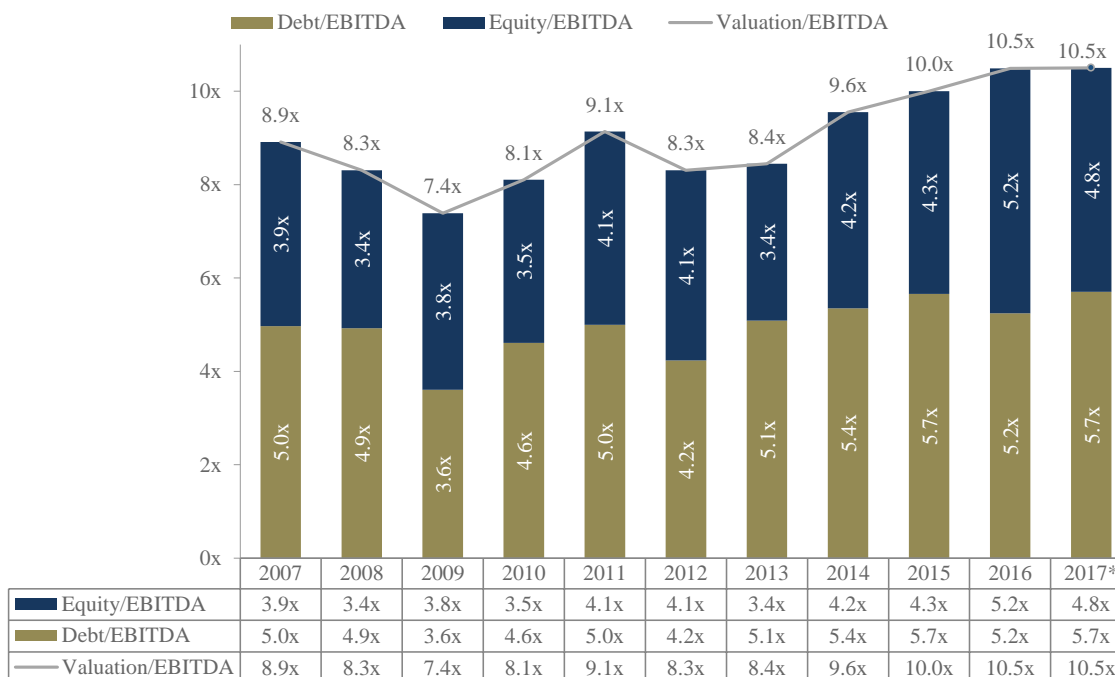
TEV	Q4-14	Q1-15	Q2-15	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17	Q2-17	Q3-17	Q4-17
\$10-25mm	2.9	3.8	3.5	4.0	3.5	3.6	3.3	3.4	3.0	4.1	3.4	4.7	4.2
\$25-50mm	3.5	4.1	4.1	3.5	3.7	3.9	3.9	3.1	3.5	3.8	4.1	3.8	4.1
\$50-100mm	4.2	3.9	4.2	4.8	4.2	4.0	5.0	3.9	3.7	3.6	5.1	3.4	4.8
\$100-250mm	4.2	4.2	5.2	4.8	4.9	5.1	4.2	5.5	4.8	4.2	4.7	5.5	4.7
Overall	3.7x	3.9x	3.9x	4.0x	3.9x	4.0x	4.0x	3.8x	3.6x	3.9x	4.3x	4.5x	4.4x
<i>n</i>	54	57	50	41	57	43	67	29	44	49	43	44	51

U.S. Middle Market Private Equity Senior Debt/EBITDA

TEV	Q4-14	Q1-15	Q2-15	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17	Q2-17	Q3-17	Q4-17
\$10-25mm	2.6	3.0	2.5	3.3	2.3	2.6	2.7	2.8	2.6	3.4	2.7	4.7	4.0
\$25-50mm	2.3	3.7	3.0	2.5	3.1	2.7	3.1	2.9	2.6	2.8	3.2	2.7	3.0
\$50-100mm	3.2	3.5	3.2	3.7	2.8	2.8	4.0	2.8	2.9	3.0	4.6	3.0	3.9
\$100-250mm	2.8	3.6	3.8	3.6	2.7	3.4	3.5	4.7	3.5	3.9	3.8	4.2	3.5
Overall	2.7x	3.3x	2.9x	3.1x	2.7x	2.8x	3.3x	3.2x	2.9x	3.1x	3.6x	3.7x	3.5x
<i>n</i>	51	52	45	36	48	41	63	23	36	49	36	37	46

Source: GF Data®

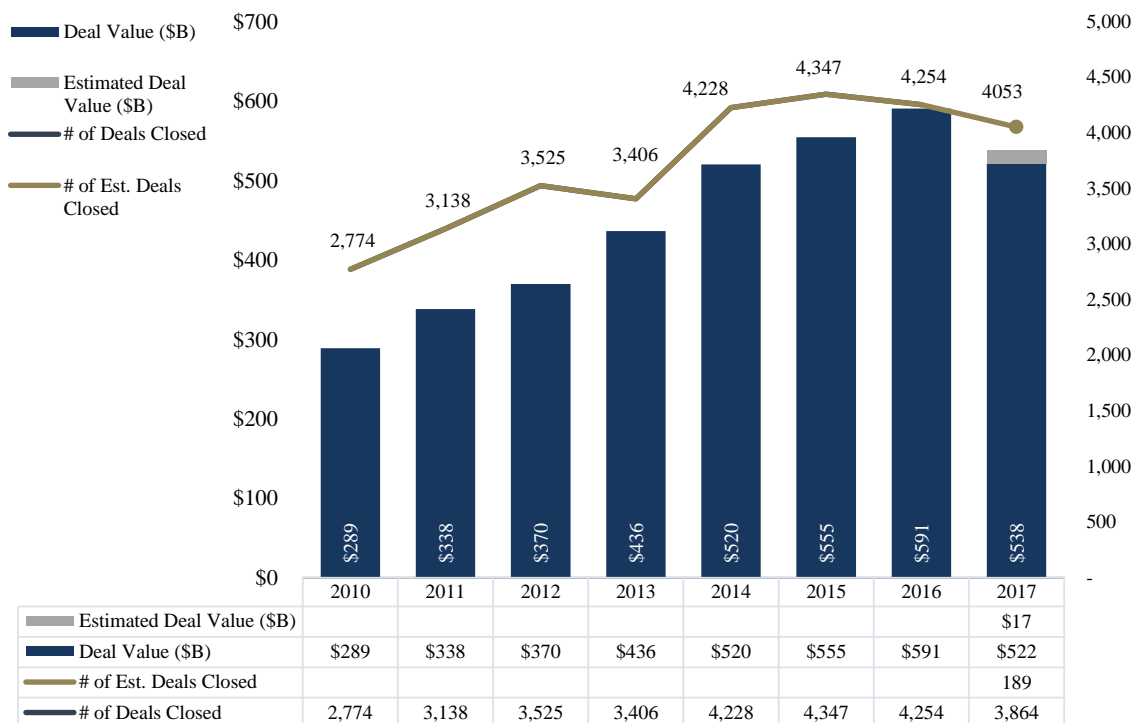
U.S. Middle Market M&A Transaction Multiples*



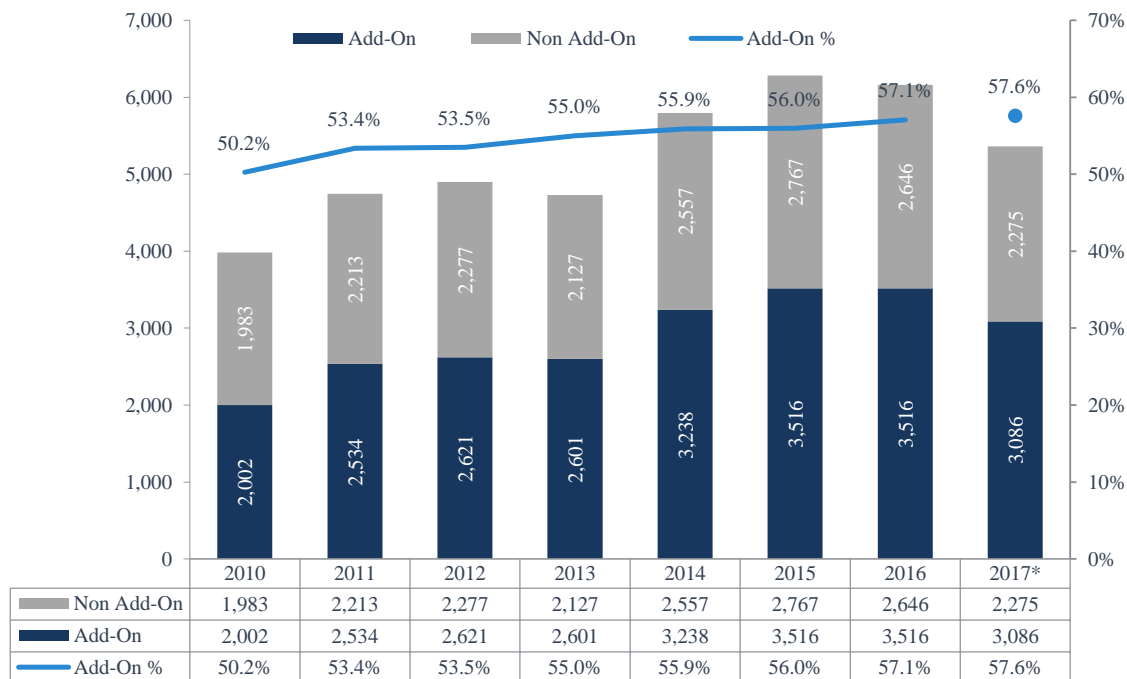
Source: PitchBook

*Middle market is defined as transactions values from \$25 million to \$1 billion

U.S. Middle Market Deal Activity by Year

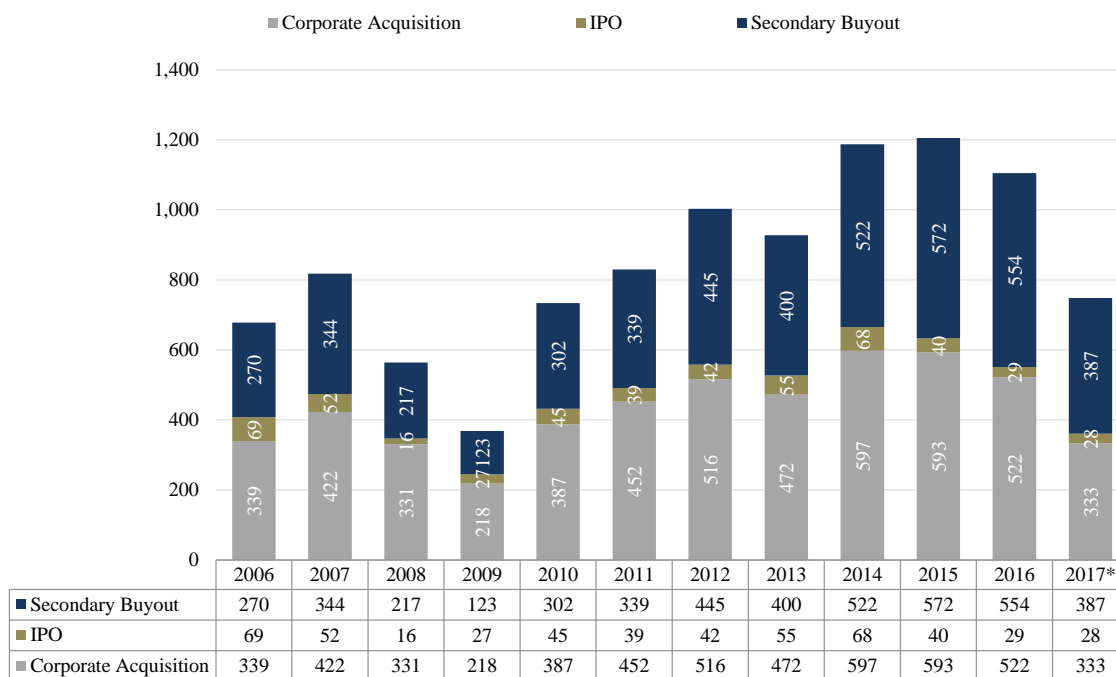


U.S. Middle Market Private Equity Add-On Contribution



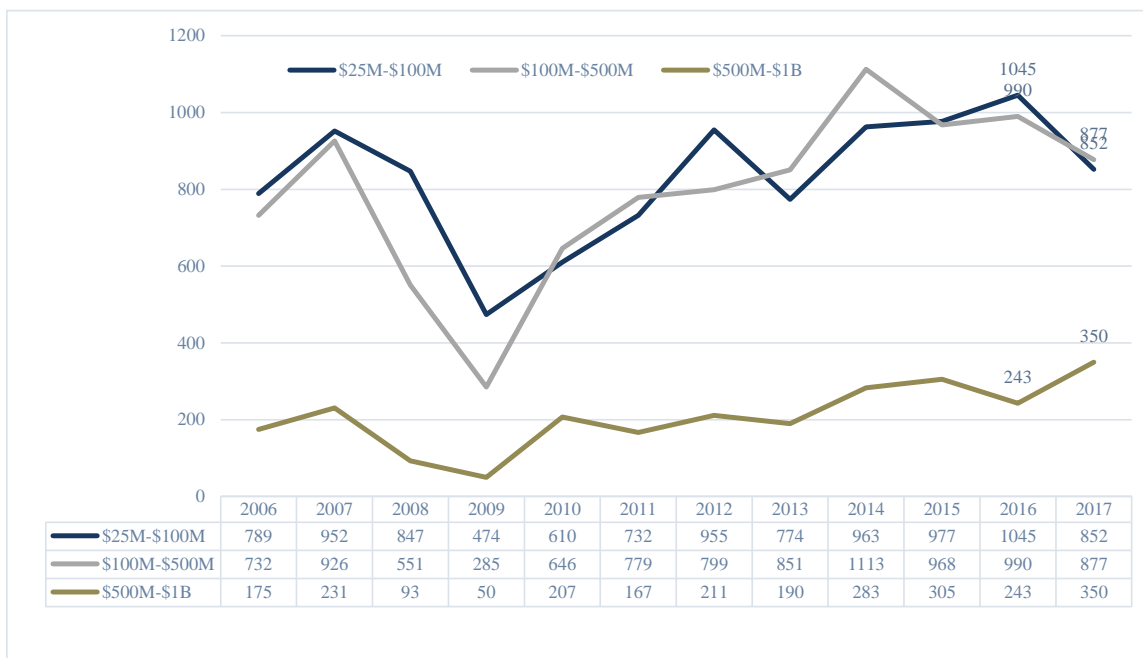
Source: PitchBook
* As of 12/31/2017

U.S. Middle Market Private Equity Exit Count by Type and Year



* As of 12/31/2017

U.S. Middle Market Private Equity Deal Count by Type and Year



Source: PitchBook

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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