

Mergers & Acquisitions Update: The Middle Market Q1 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

For Q1 2018, U.S. Merger and Acquisition activity remained at historically high valuations. These record level prices were supported by the increasing use of debt by buyers with credit levels approaching or exceeding 5x EBITDA for middle market transactions. We do not see valuations moving materially higher despite a dearth of quality companies in the market. Pricing will remain robust from the need to deploy capital by an ever increasing level of dry powder accumulating in PE funds, coupled with strategic buyers needing to acquire growth in a slow growth economy.

The overall U.S. M&A market is currently averaging over 10x EBITDA in purchase price multiples. M&A pricing for companies with below \$250 million in EV averaged 8.7X EBITDA in Q1. In comparison, transactions at the lower end of the middle market, and, in particular, deals below \$25 million in EV, were priced a size appropriate 5.8x, a difference of over 4.0x turns the average U.S. M&A stated multiple. Much of the pricing differential can be explained through underwritten credit ratios afforded to larger companies. Credit issued to companies below \$25 million in EV was roughly 3.0x EBITDA, while companies between \$100 million to \$250 million were securing up to 5x plus.

We expect the US M&A market to remain robust but also to be highly selective. Buyers are disciplined and paying historically high prices for those coveted companies that possess strong fundamentals. These targets typically demonstrate defensible market positions in their services/products, which enable them to receive 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.

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

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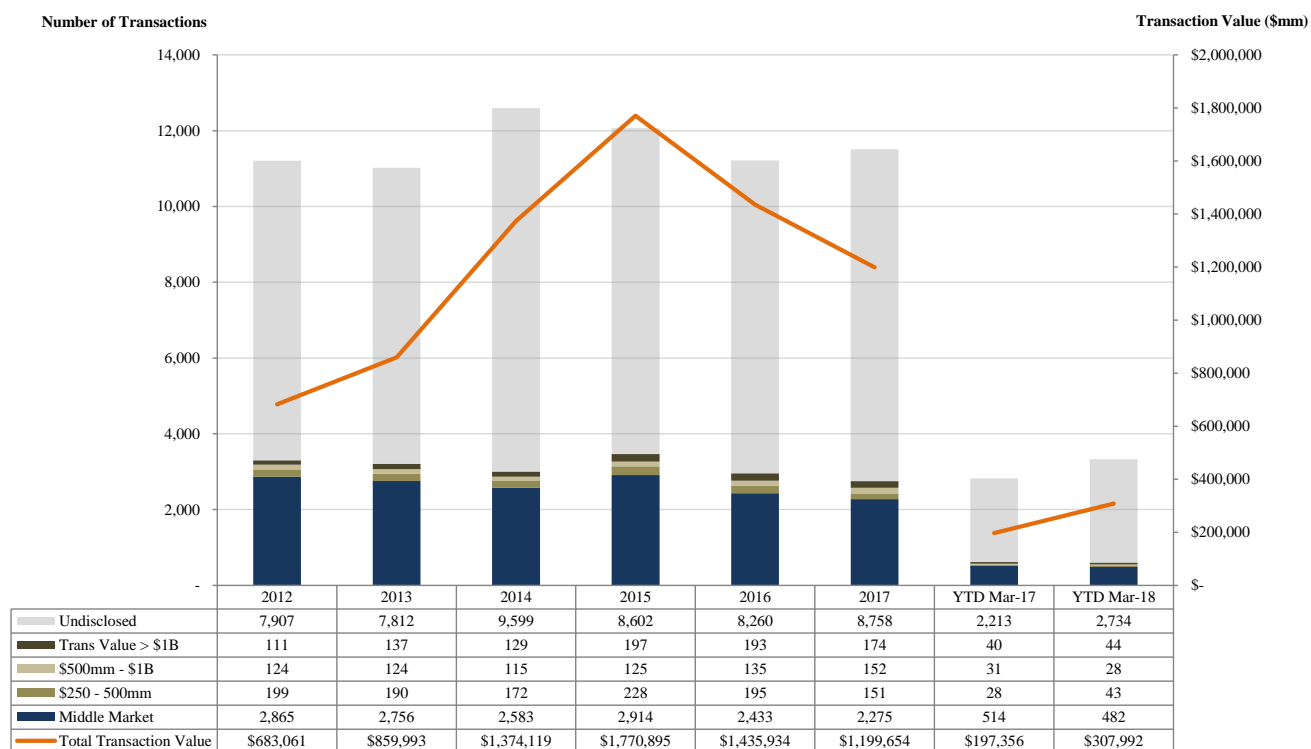
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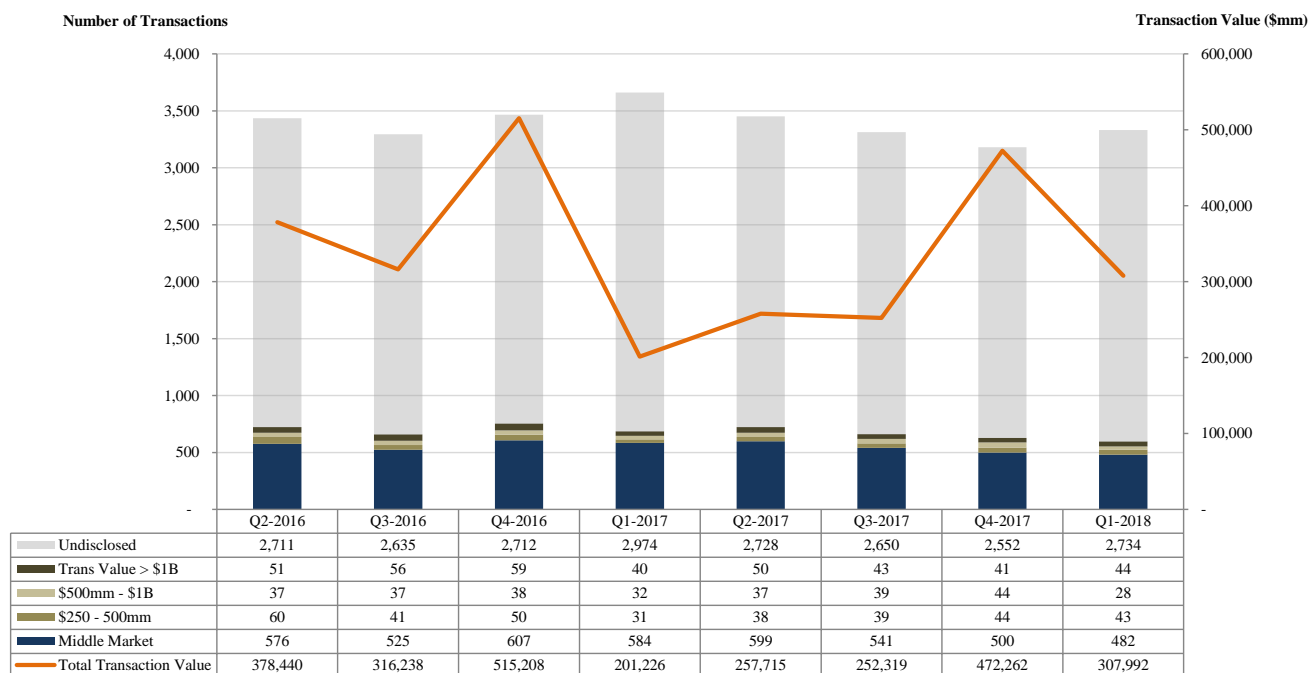
Mergers & Acquisitions Update

U.S. - All Reported M&A Activity



Note: Publicly disclosed M&A transactions

U.S. - All Reported M&A Activity



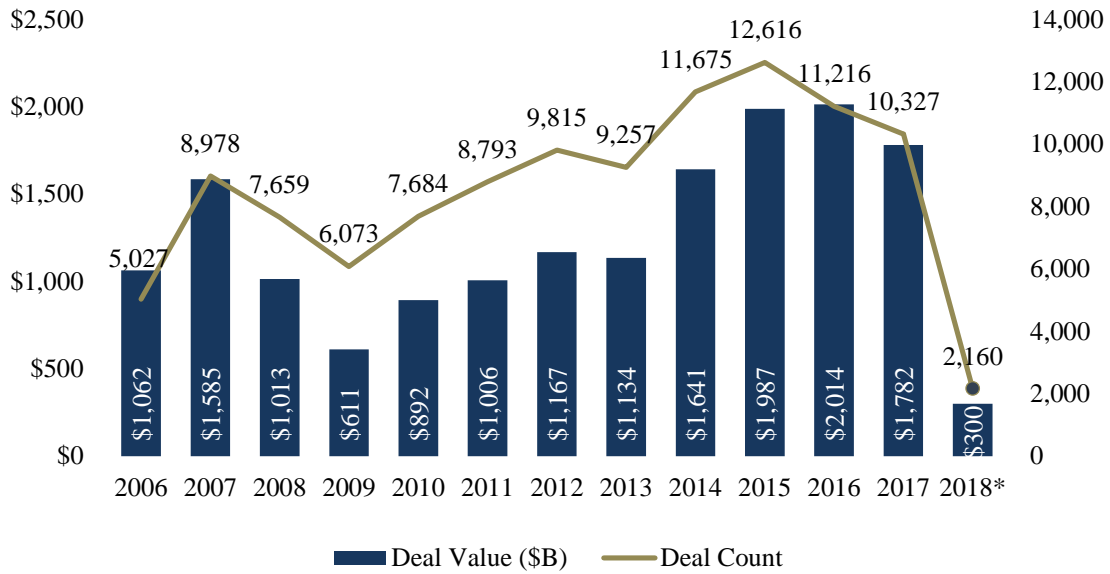
Note: Publicly disclosed M&A transactions

Source: CapitalIQ

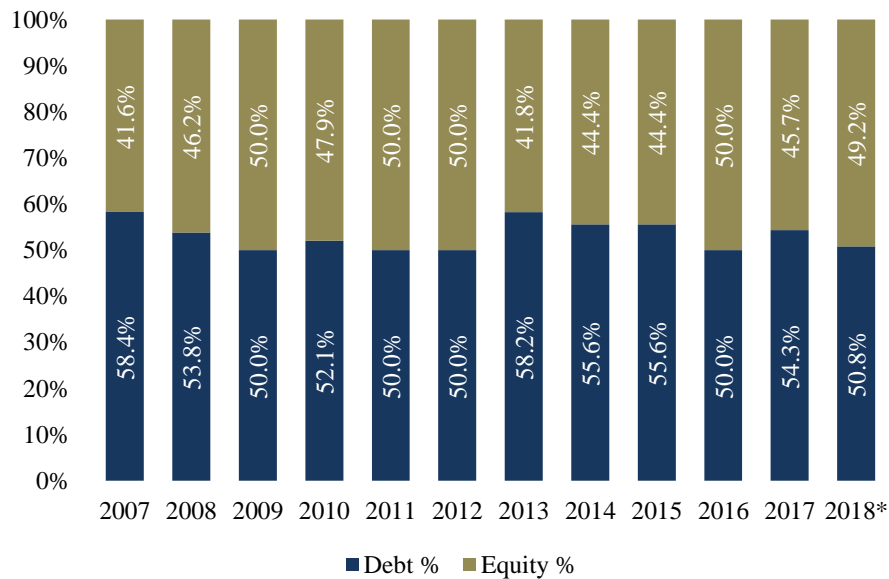
Mergers & Acquisitions Update

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 March 31, 2018.

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

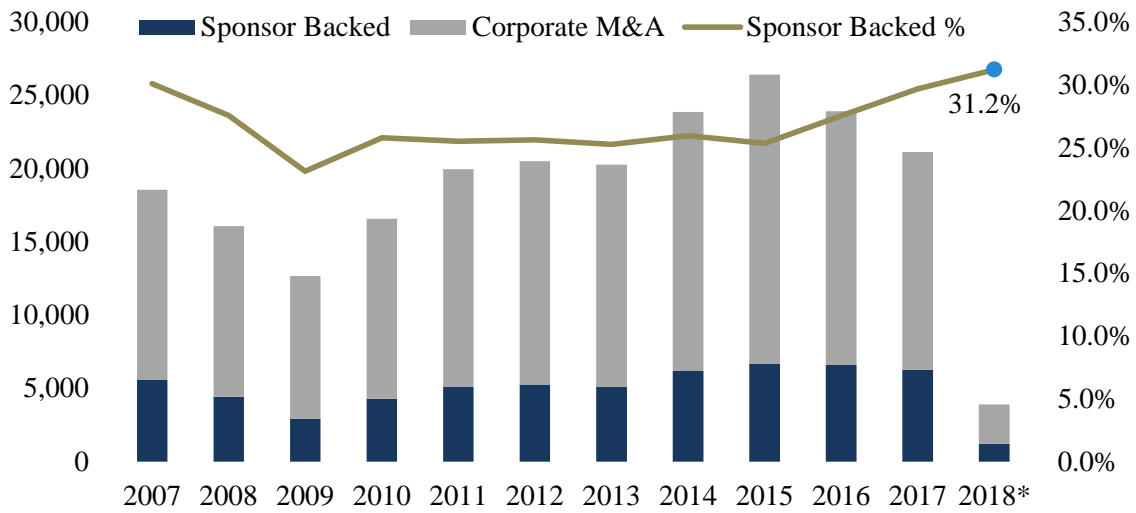


U.S. Middle Market M&A Debt-to-Equity

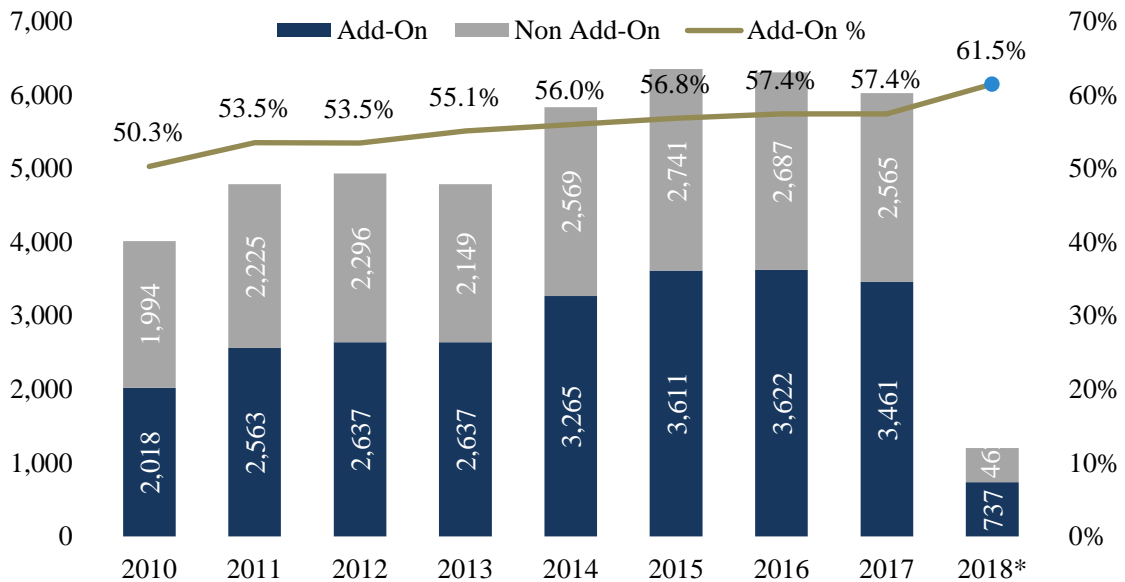


Source: PitchBook

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



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

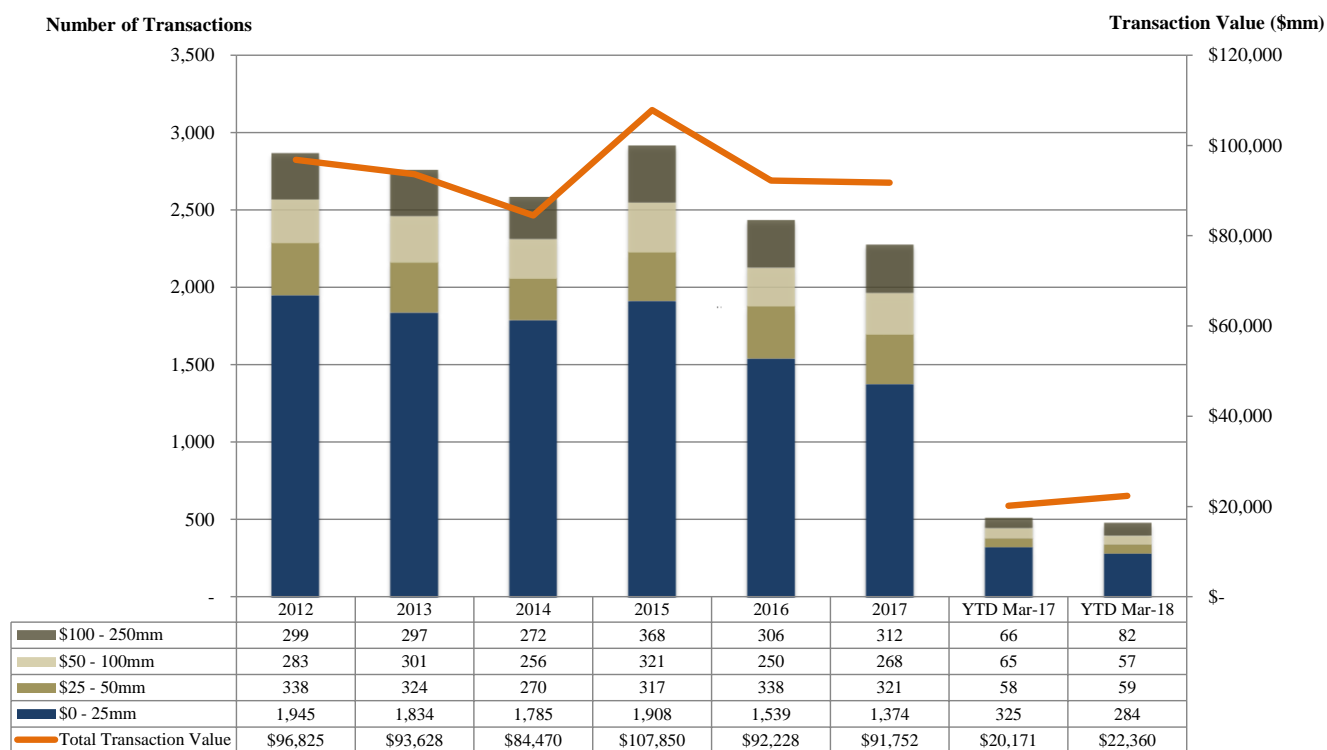


Source: PitchBook

Mergers & Acquisitions Update

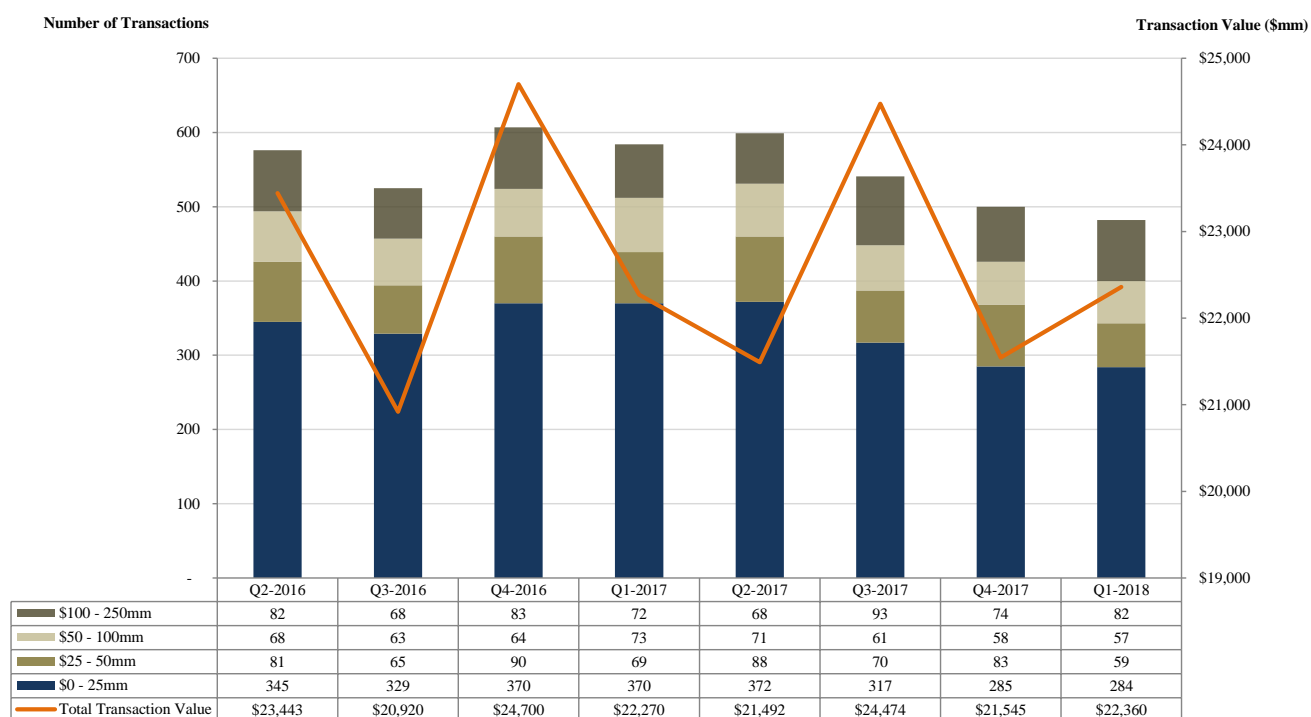
Mufson Howe Hunter defines the Lower Middle Market as transactions below \$250 million. The following pages of our report contain information specific to this segment of the market.

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



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

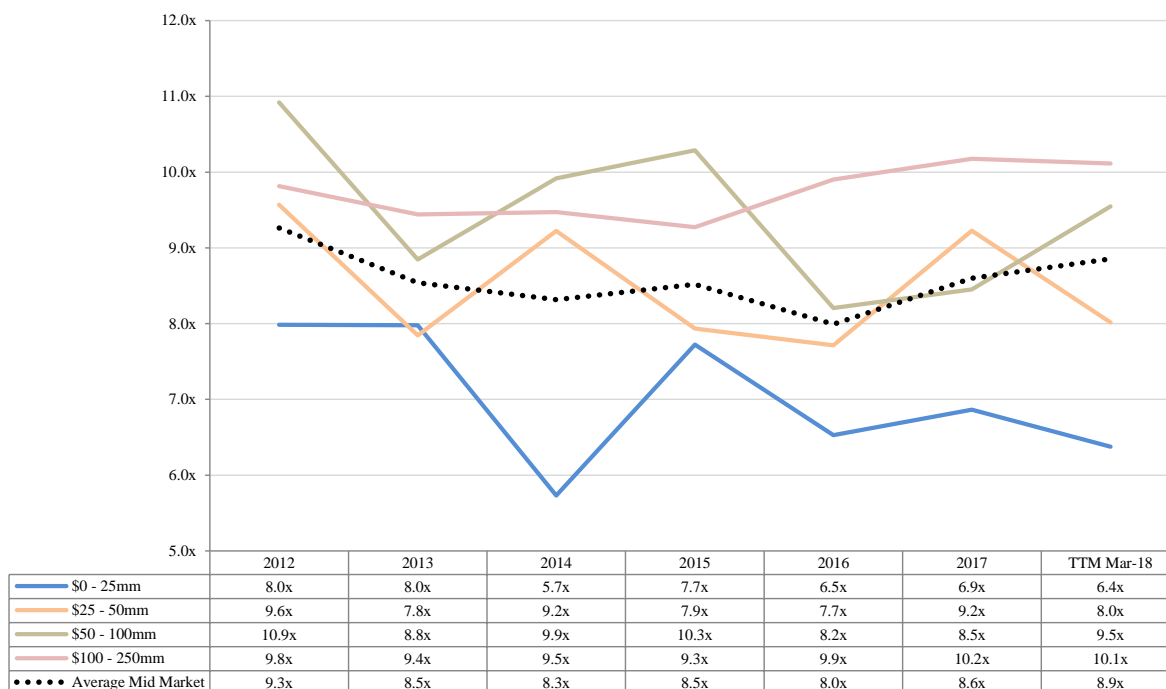
U.S. Lower Middle Market M&A Activity - Transactions Below \$250 million



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

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

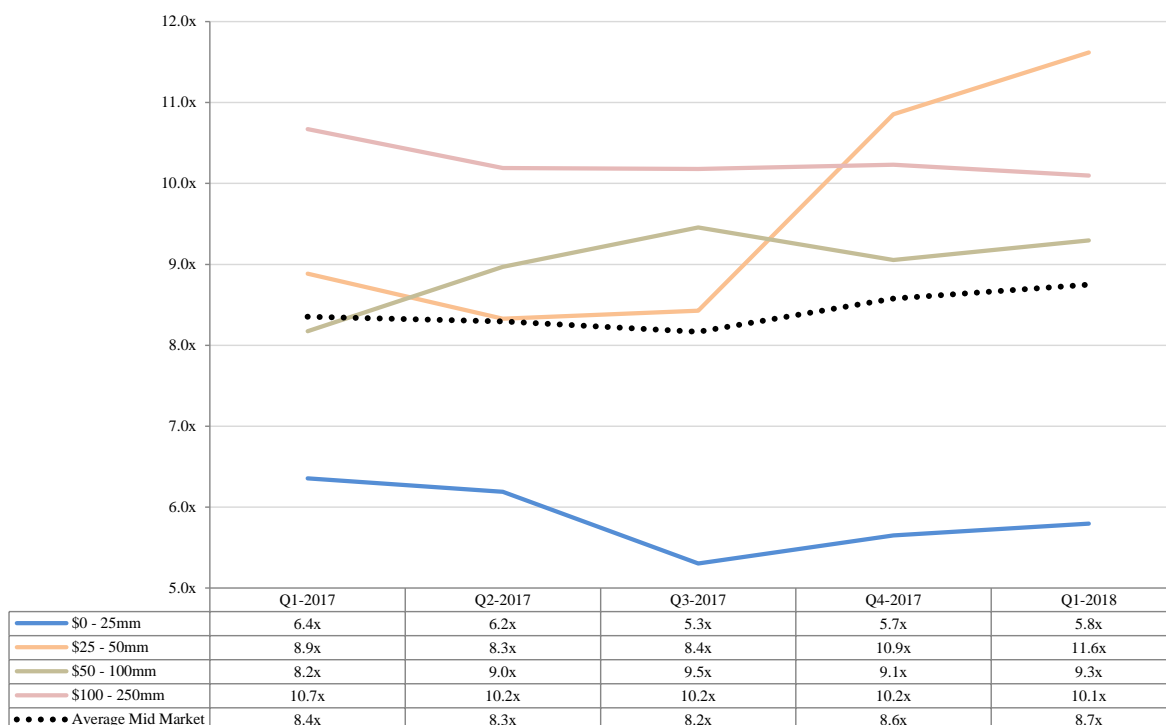
EV/EBITDA Valuation



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

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

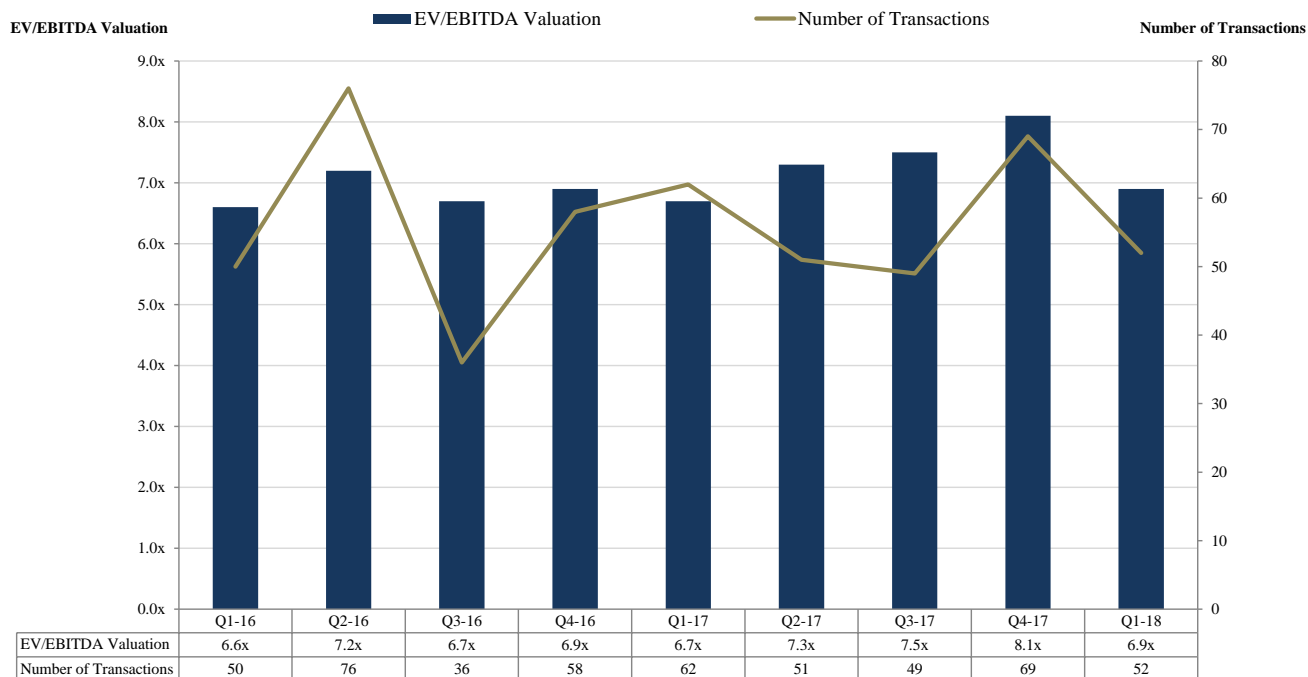
EV/EBITDA Valuation



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



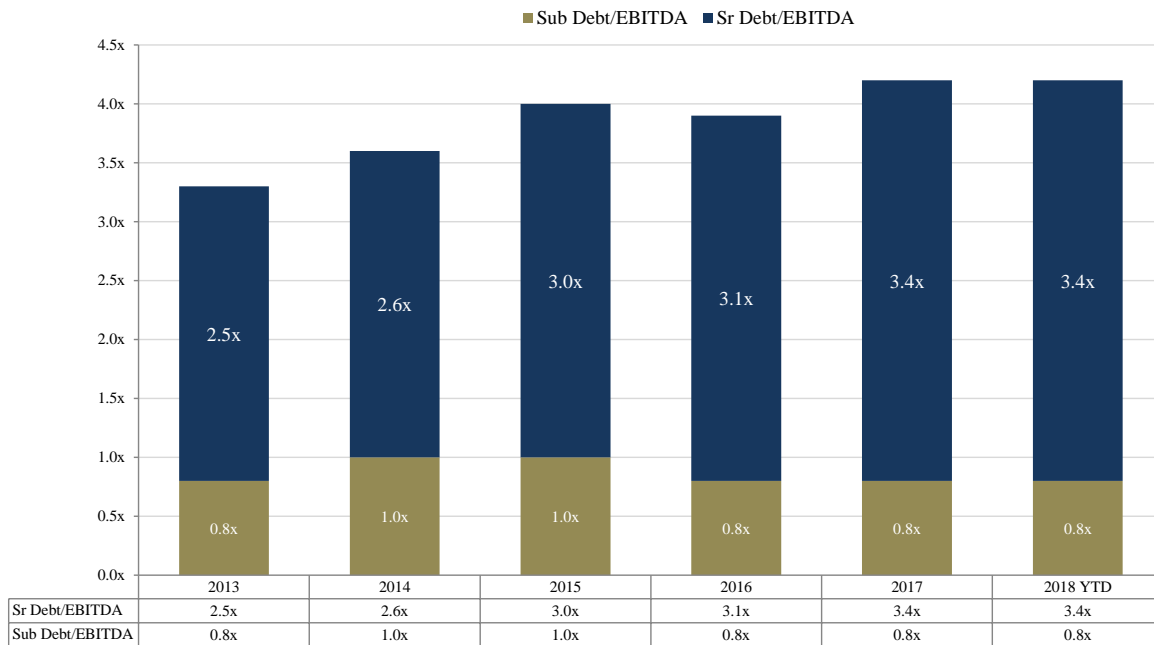
Source: GF Data®

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	5.7
\$25-50mm	6.2	6.2	6.8	6.4	6.6	6.4	6.6	6.7
\$50-100mm	6.8	6.8	6.8	7.5	7.8	7.3	8.3	9.2
\$100-250mm	7.3	7.3	7.5	7.5	9.0	8.9	9.2	8.6
Overall	6.2x	6.3x	6.5x	6.4x	6.7x	6.8x	7.4x	6.9x

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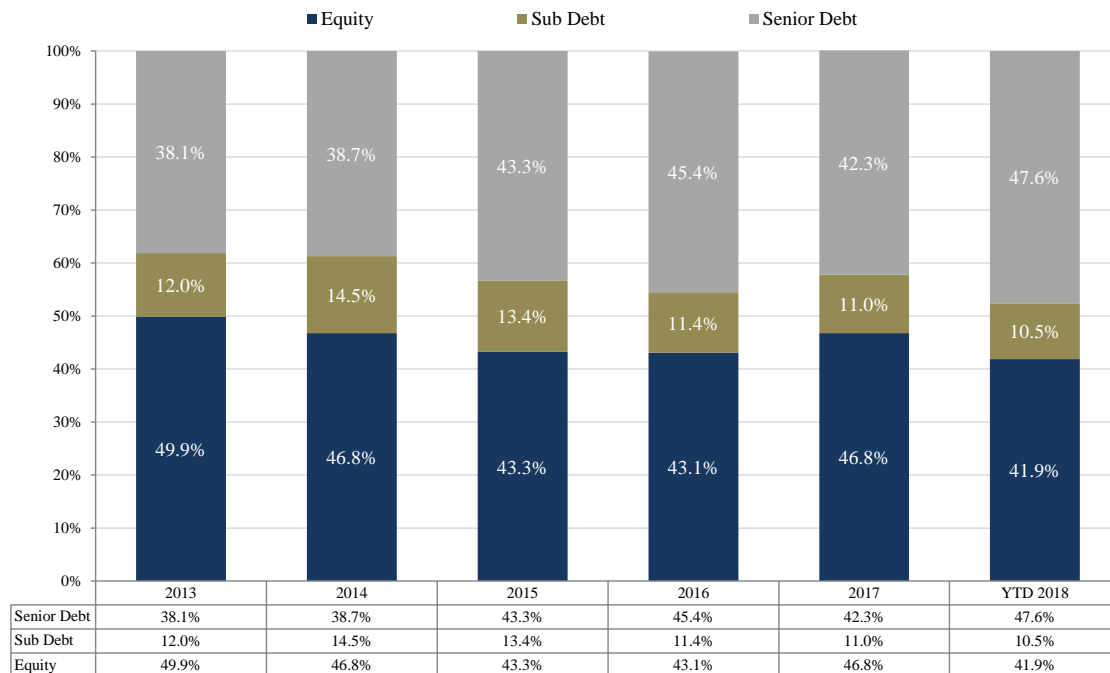
Source: GF Data®

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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