

Mergers & Acquisitions Update: The Middle Market Q3 2019

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 9-month period ending September 2019, U.S. M&A transactions remained at record levels, strongly supported by an increasing percentage of debt employed to fund deals. Overall EV/EBITDA valuations for U.S. M&A transactions reported in the first 9 months of 2019 averaged 10.5x, up 0.9x from 9.6x in 2018. Overall leverage used in financing these transactions increased by the same 0.9x multiple, up to 5.7x YTD 2019 from 4.8x in 2018, indicating the EV/EBITDA valuation increases were driven primarily by a buyer's ability to increase its use of debt. When we carve out U.S. M&A data for Private Equity-sponsored transactions, we see the same phenomenon. PE transaction valuations averaged a whopping 12.9x YTD 2019, up 1.4x from 11.5x in 2018. Increasing debt levels represented the majority of this valuation appreciation in the first 9 months of 2019, as EBITDA leverage increased by 1.1x, or a 19% uptick, to 6.9x YTD 2019 from 5.8x in 2018.

With public equity markets in a highly volatile period, the middle market M&A scene should remain strong, as long as we do not see a pullback of the buyout credit providers. That's not too likely given the relatively healthy credit statistics, the abundance of debt providers away from the commercial banks coupled with the over \$700 billion of dry powder available to fund transactions in PE coffers. However, we are reaching the upper levels of leverage, and we will begin to see a more conservative view of risk as the economic cycle shows signs of slowing up, particularly within the commercial and residential construction verticals.

Size Range	U.S.						
	2014	2015	2016	2017	2018	YTD Sep-18	YTD Sep-19
\$0-25mm	8.3x	7.1x	7.3x	7.3x	7.6x	7.6x	7.1x
\$25-50mm	8.1x	7.2x	8.2x	9.2x	8.1x	8.1x	7.1x
\$50-100mm	9.7x	7.2x	8.5x	9.0x	8.9x	9.4x	7.8x
\$100-250mm	8.7x	8.7x	8.5x	9.0x	9.6x	9.7x	10.7x
n=	84	96	73	49	90	70	42

¹ Source: CapitalIQ

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

- U.S. M&A Activity (All Reported)
- 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.

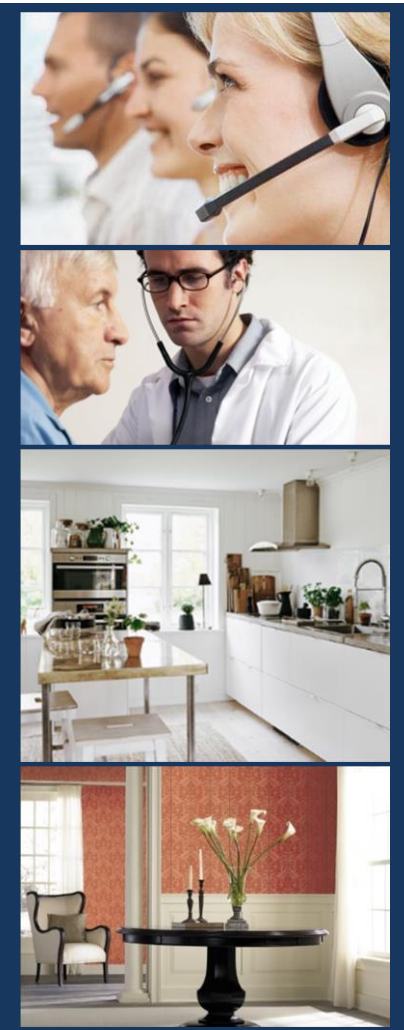
Regards,



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



Primary Contacts

Brandon K. Eck, Managing Director
215.399.5411
beck@mhco.com

Michael J. Howe, Managing Director
215.399.5413
mhowe@mhco.com

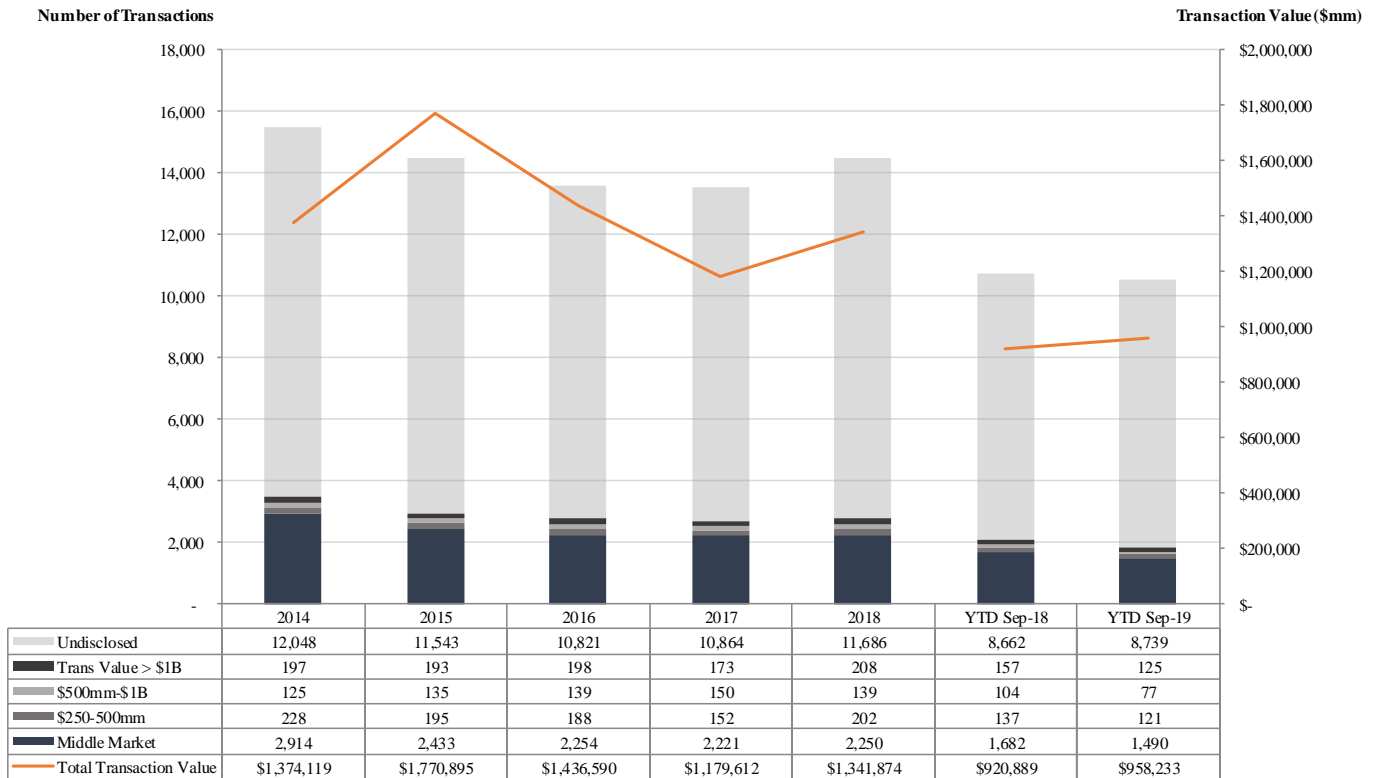
Anthony Lopez-Ona, Managing Director
215.399.5405
alopezona@mhco.com

Joseph M. Manko, Managing Director
215.399.5402
jmanko@mhco.com

Michael J. Mufson, Managing Director
215.399.5410
mmufson@mhco.com

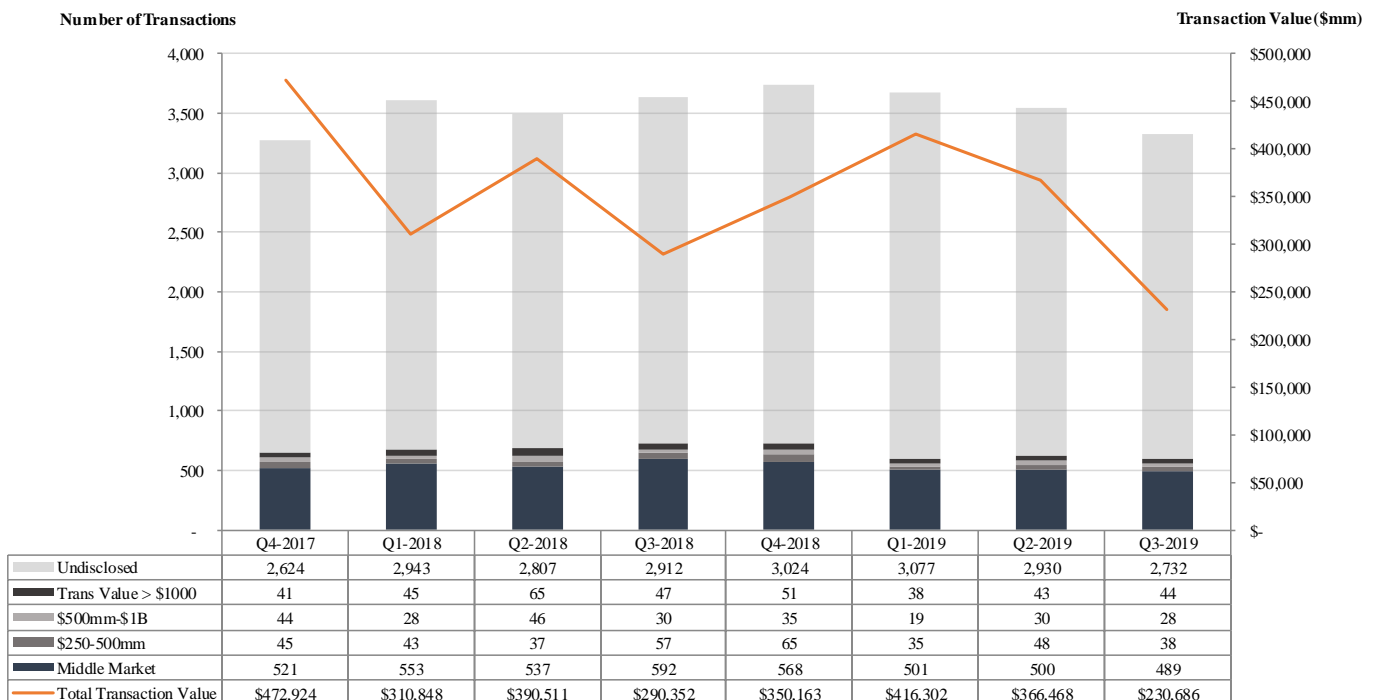
Mergers & Acquisitions Update

U.S. - All Reported M&A Activity



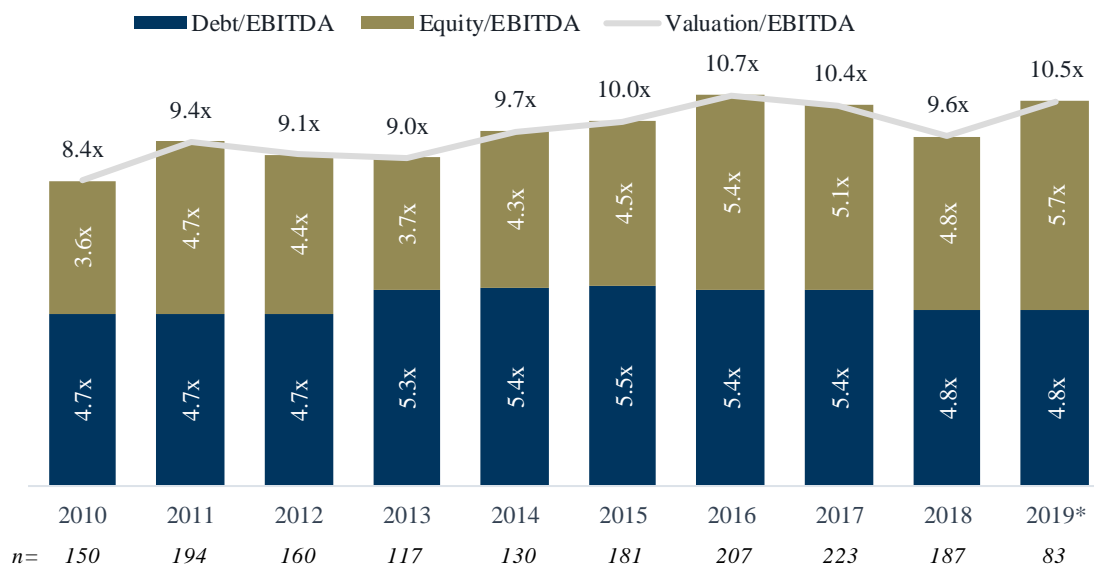
Note: Publicly disclosed M&A transactions
Source: CapitalIQ, Mufson Howe Hunter

U.S. - All Reported M&A Activity

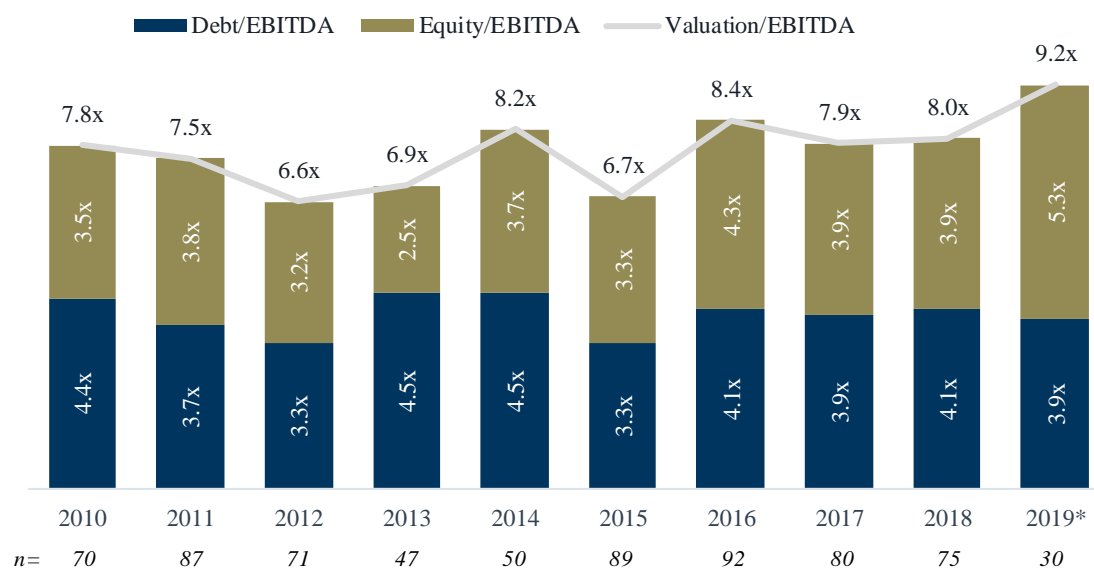


Note: Publicly disclosed M&A transactions
Source: CapitalIQ, Mufson Howe Hunter

U.S. M&A Valuation Breakdown by Size: All Transactions



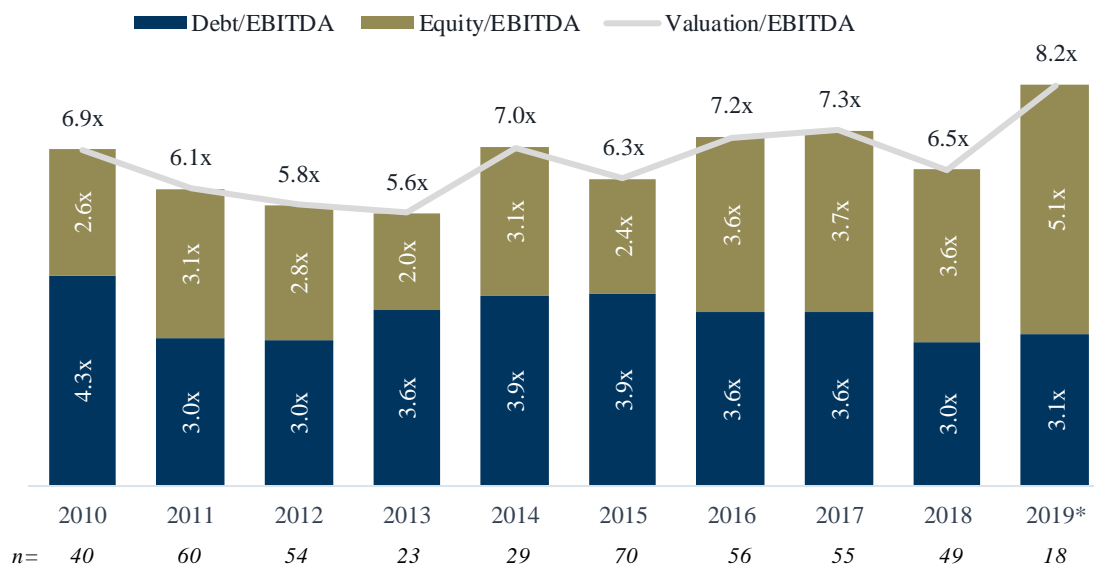
U.S. M&A Valuation Breakdown by Size: Transactions <\$250mm



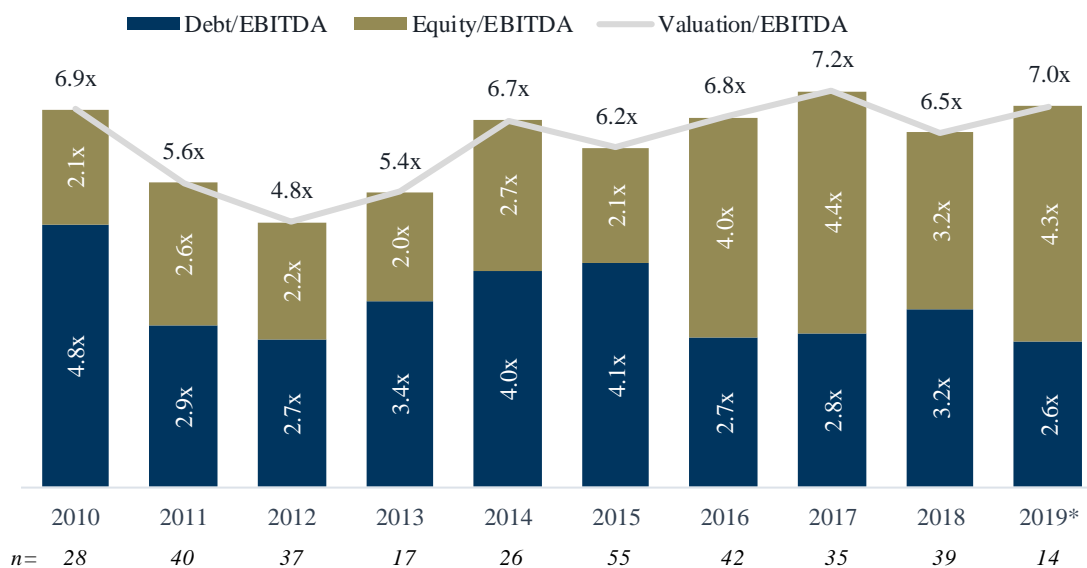
Source: PitchBook

* As of September 30, 2019

U.S. M&A Valuation Breakdown by Size: Transactions <\$100mm



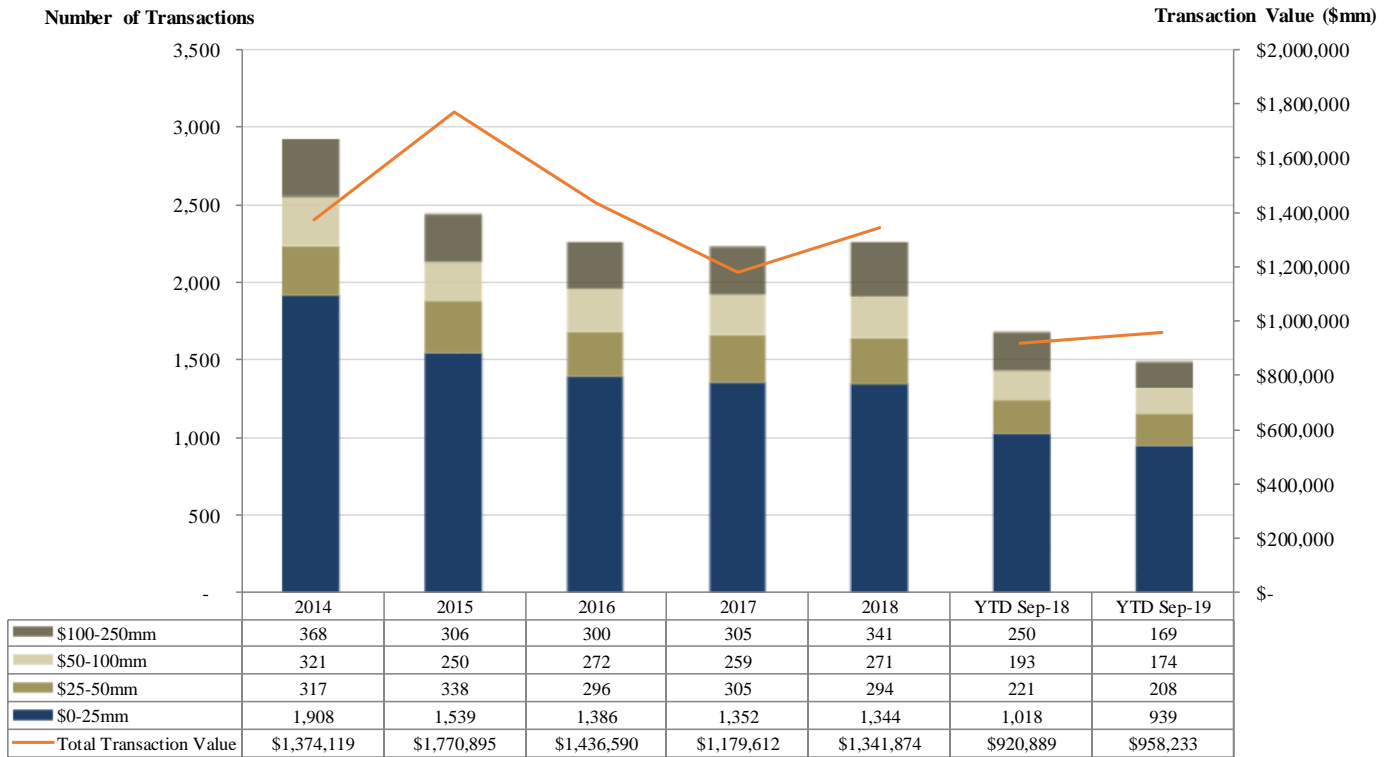
U.S. M&A Valuation Breakdown by Size: Transactions <\$50mm



Source: PitchBook

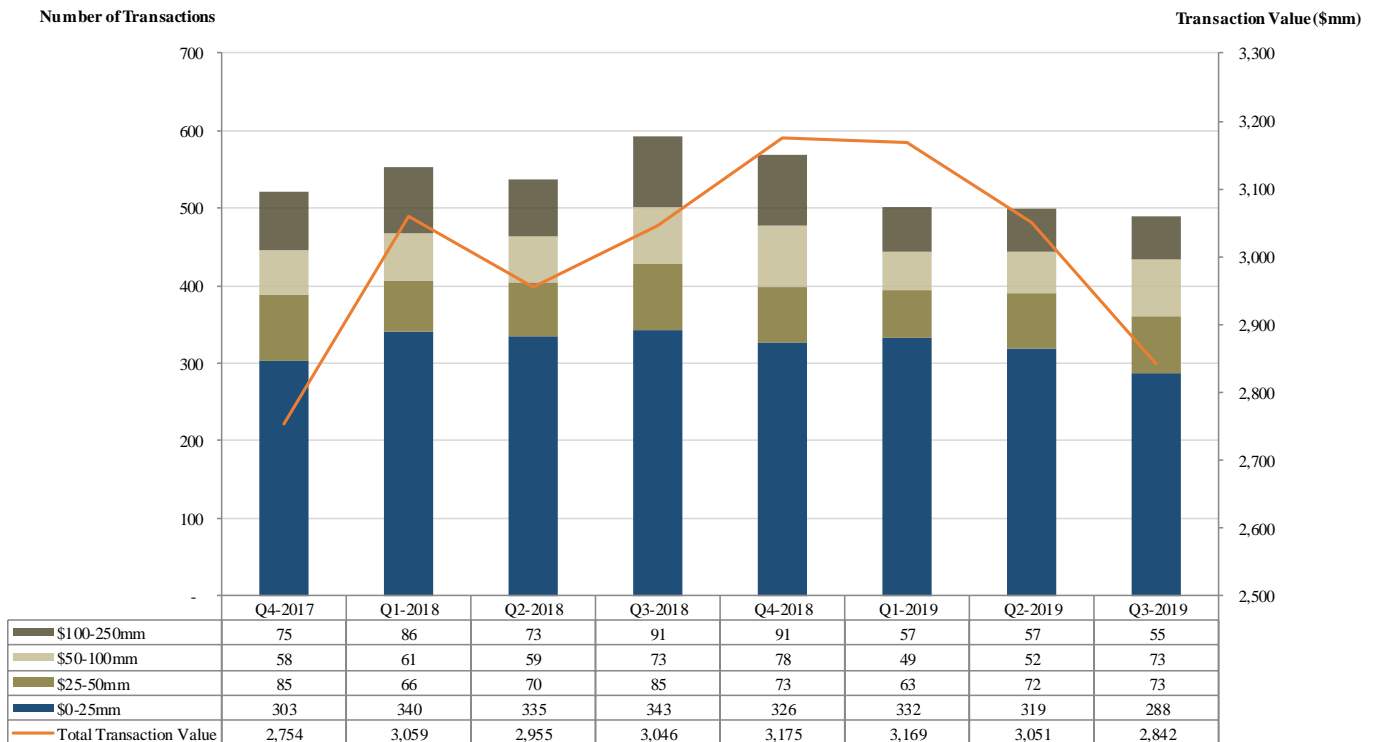
* As of September 30, 2019

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



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

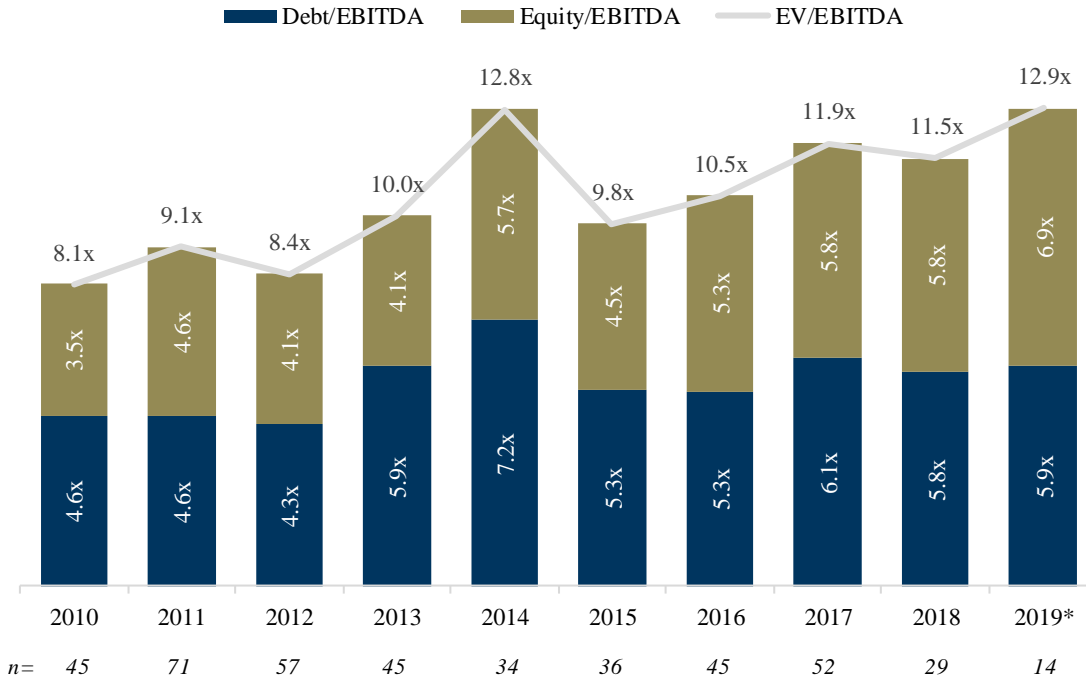
U.S. Lower Middle Market M&A Activity - Transactions Below \$250 million



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

Middle Market, as defined by Pitchbook, includes transactions valued at \$25 million up to \$1 billion. The following chart depicts certain key elements of Middle Market Private Equity M&A activity through September 30, 2019.

U.S. Middle Market Private Equity M&A Median Valuation and Debt Multiples



Source: PitchBook
* As of September 30, 2019.

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

Mufson Howe Hunter & Company LLC
1717 Arch Street
39th Floor
Philadelphia, PA 19103
215.399.5400
Visit us at: www.mhhco.com

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