

## Mergers & Acquisitions Update: The Middle Market Q1 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

Overall EV/EBITDA valuations for M&A transactions reported in Q1 2019 averaged 9.9x on a rolling TTM basis, flat over Q1 2018. However, the average debt levels as a percentage of total purchase price increased to 58% vs. 52% for 2018. This creep in debt usage is a reflection of the plethora of credit from a variety of lenders—including commercial banks, BDCs, unitranche lenders and the institutional markets—as well as lofty purchase prices.

As the chart below highlights, reported M&A valuations are not “uniform” and size usually dictates pricing, primarily as debt multiples are significantly higher in the upper strata of the marketplace. Deals overall were priced on average at 9.9x EBITDA. In reviewing the subset of transactions below \$250 million, the pricing averaged 7.9x, a decrease of two full turns of EBITDA. The difference, as mentioned above, is debt availability; for example, for transactions below \$250 million, debt multiples averaged 3.8x EBITDA, while the overall market average was 5.7x, a 1.9x spread. Equity portion as a percentage of total purchase price was 48% for transactions below \$250 million vs. 58% for the overall market. For transactions below \$100 million, average pricing was 6.9x with average debt levels at 3.4x. At the lower end of the middle market below (i.e., transactions below \$50 million), valuations averaged 6.5x with an average debt multiple of 2.9x. US private equity transactions averaged 11.5x EBITDA, consistent with year-end 2018.

Size Range	U.S. Announced M&A Transactions <sup>1</sup>						
	2014	2015	2016	2017	2018	YTD Mar-18	YTD Mar-19
\$0-25mm	8.3x	7.1x	7.3x	7.3x	7.6x	6.8x	7.1x
\$25-50mm	8.1x	7.2x	8.2x	9.2x	8.1x	8.0x	7.3x
\$50-100mm	9.7x	7.2x	8.5x	9.0x	8.9x	9.6x	8.5x
\$100-250mm	8.7x	8.7x	8.5x	9.0x	9.6x	8.9x	11.2x

<sup>1</sup> 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.

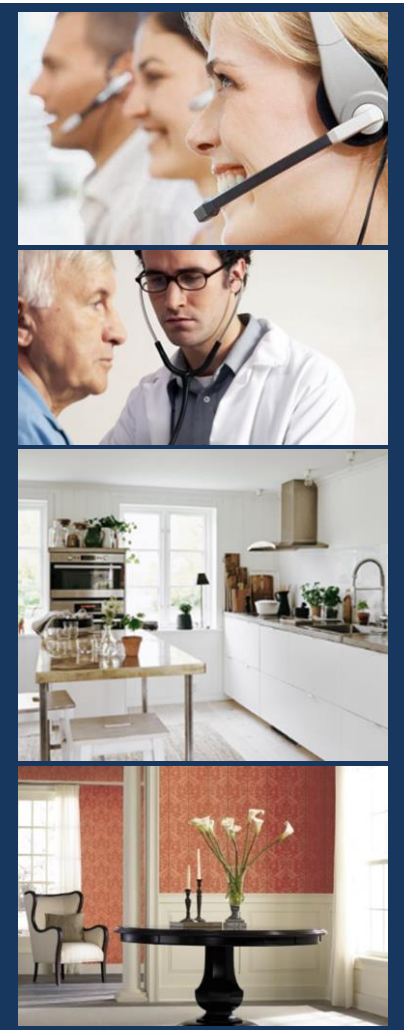
Regards,



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



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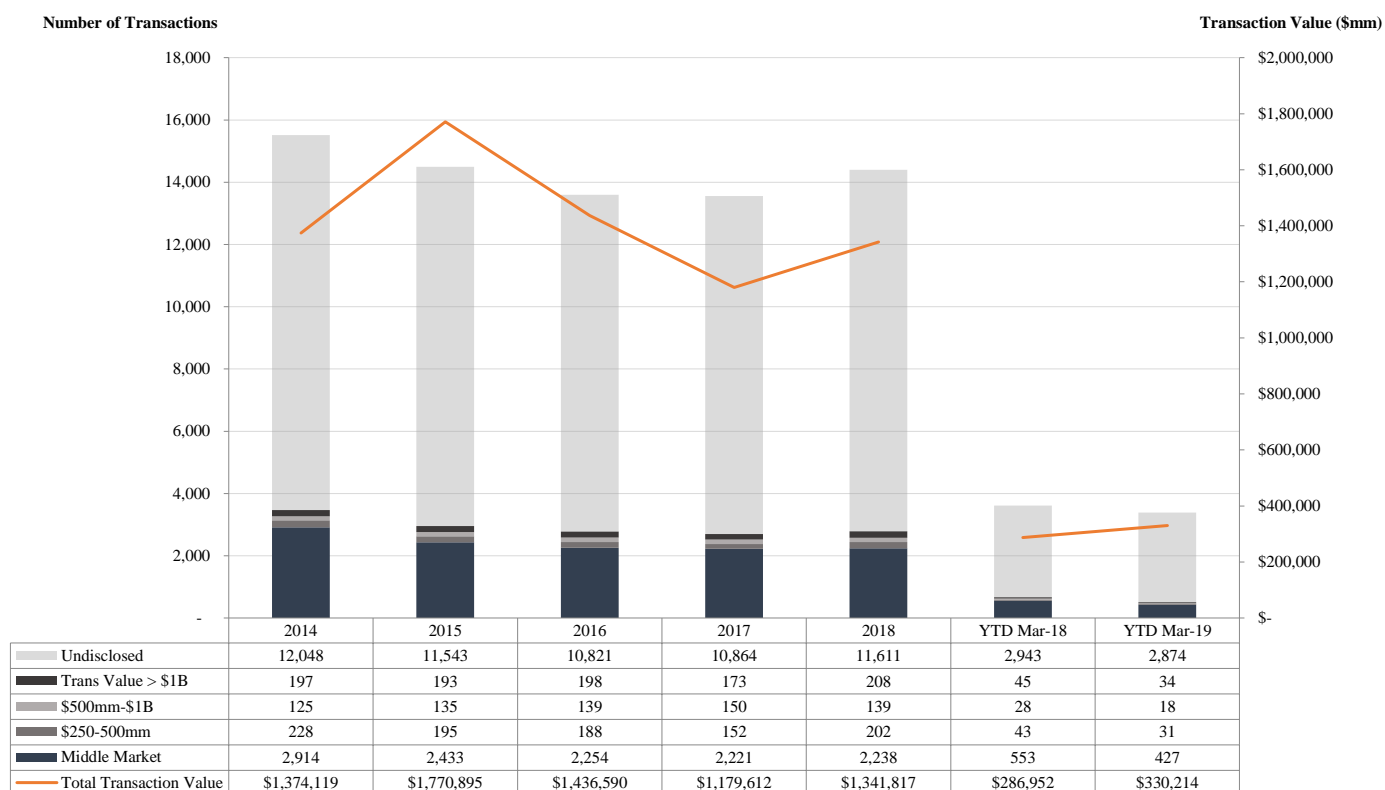
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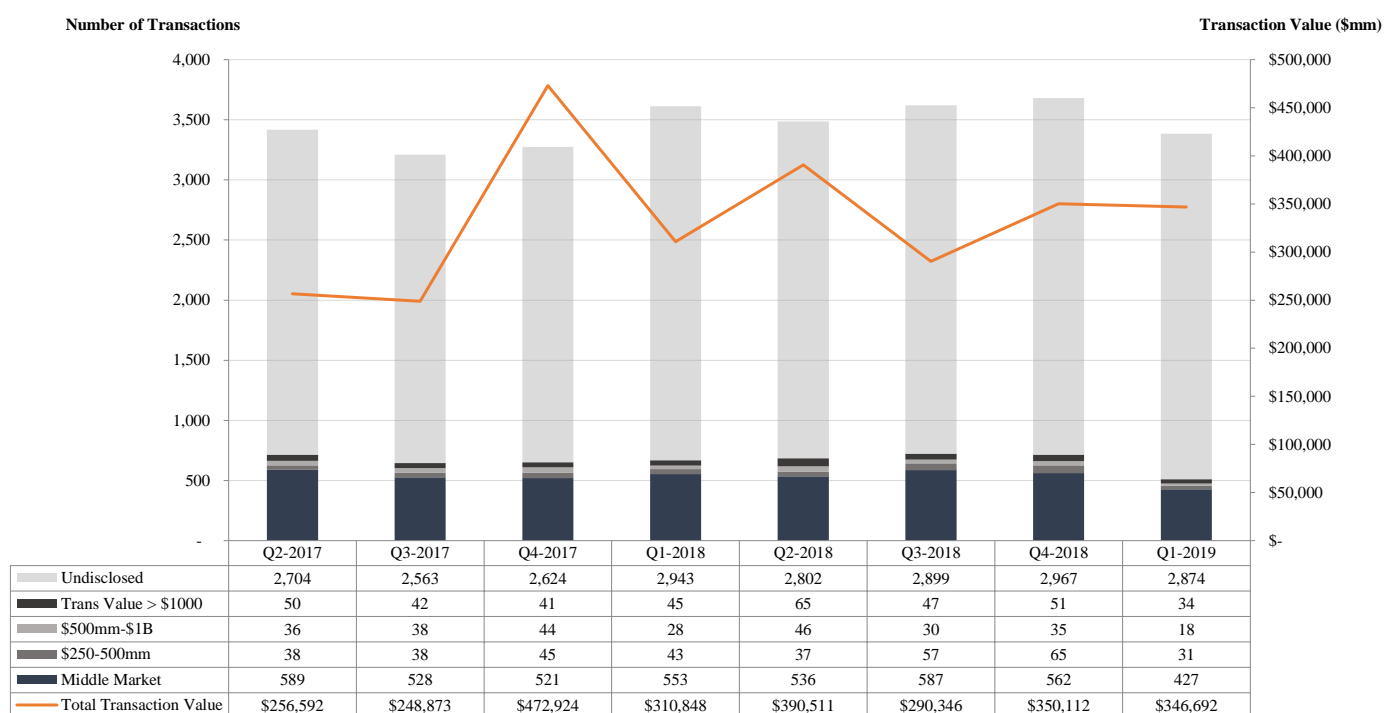
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## U.S. - All Reported M&A Activity



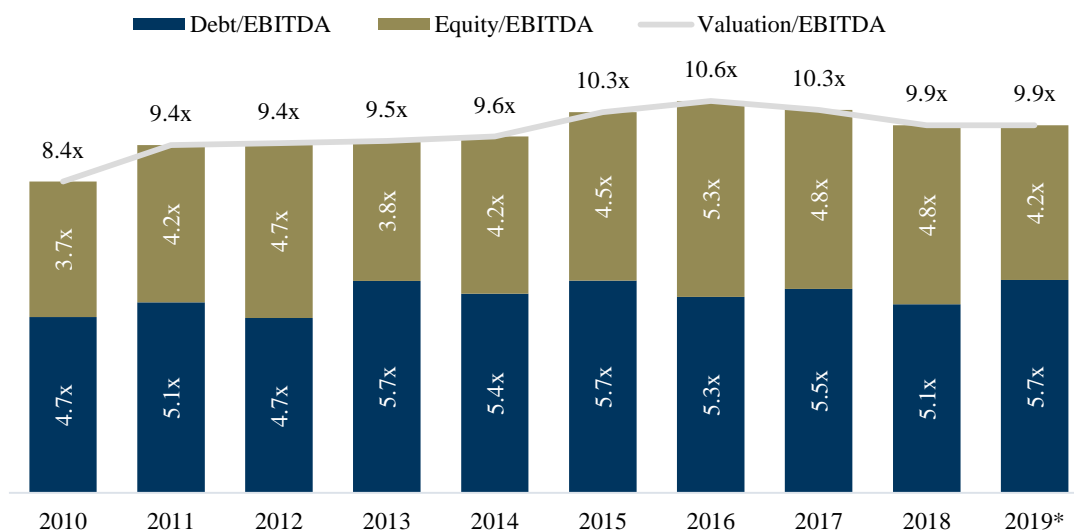
Note: Publicly disclosed M&A transactions  
Source: CapitalIQ, Mufson Howe Hunter

## U.S. - All Reported M&A Activity

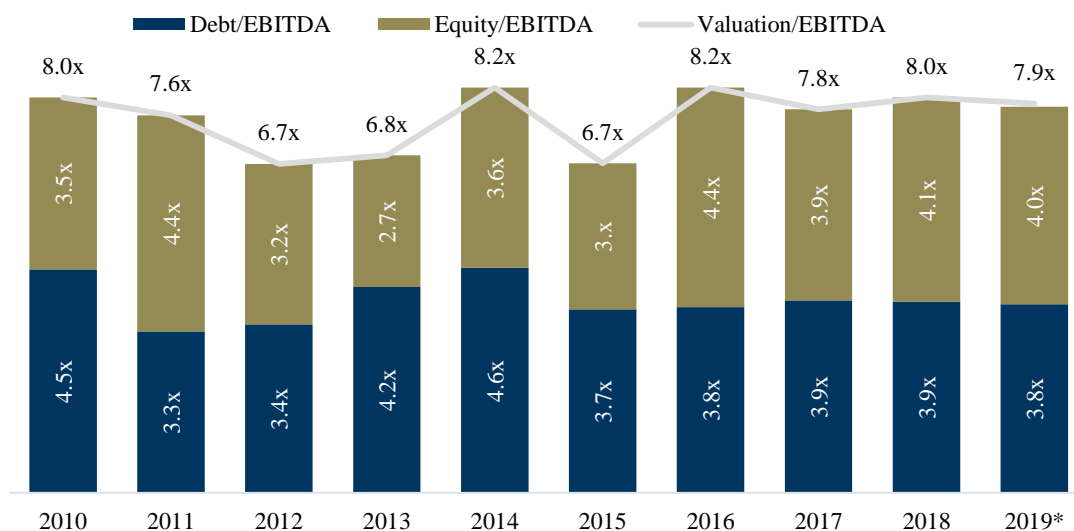


Note: Publicly disclosed M&A transactions  
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## U.S. M&A Valuation Breakdown by Size: All Transactions



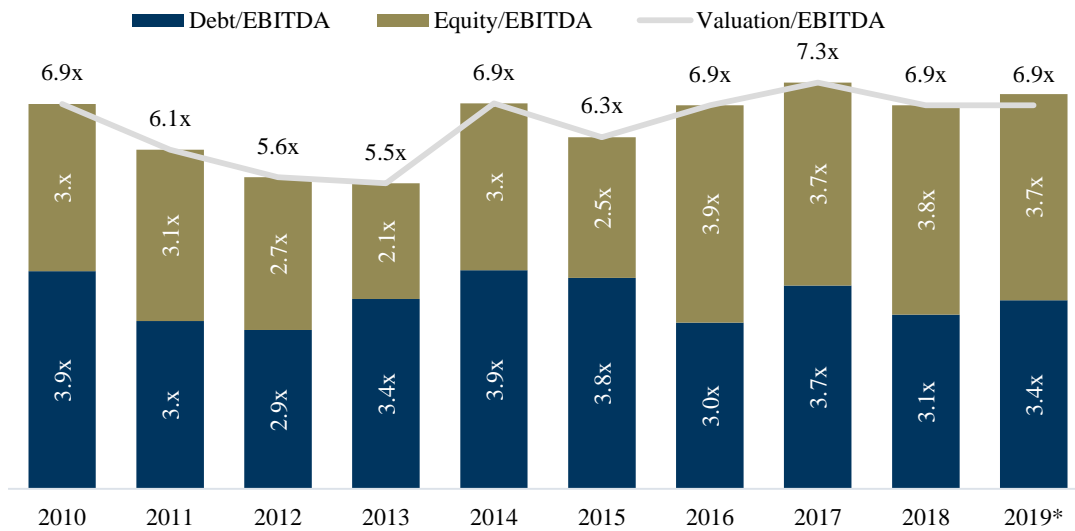
## U.S. M&A Valuation Breakdown by Size: Transactions <\$250mm



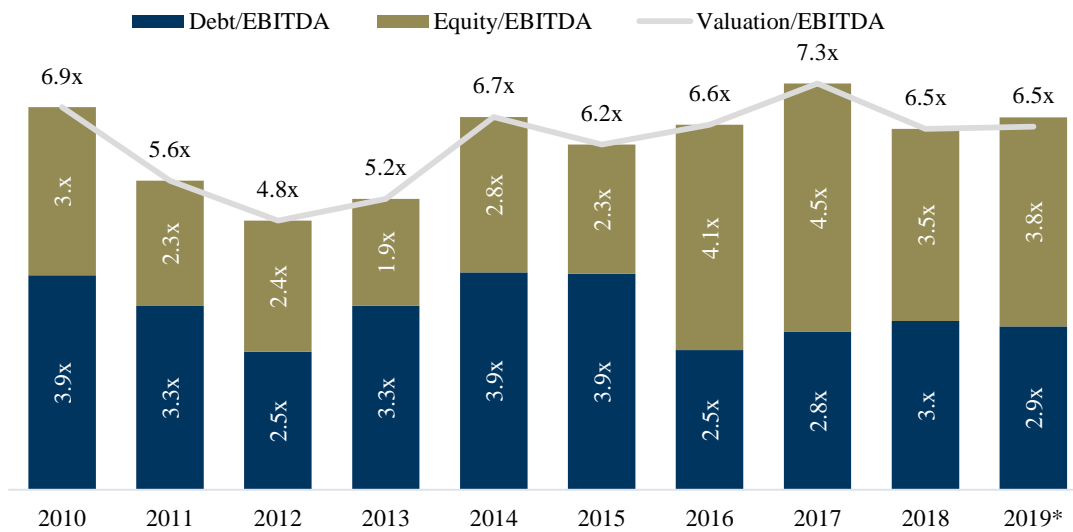
Source: PitchBook

\* As of March 31, 2019

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

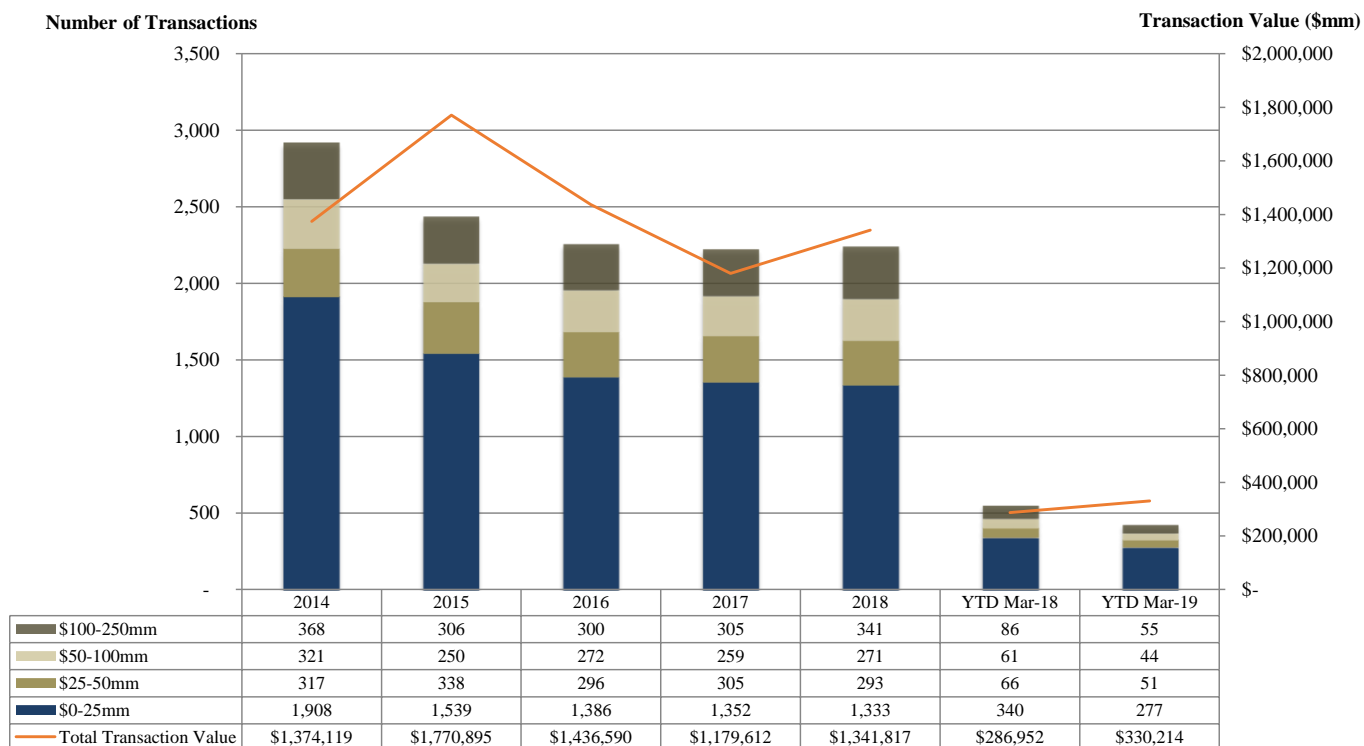


## U.S. M&A Valuation Breakdown by Size: Transactions <\$50mm



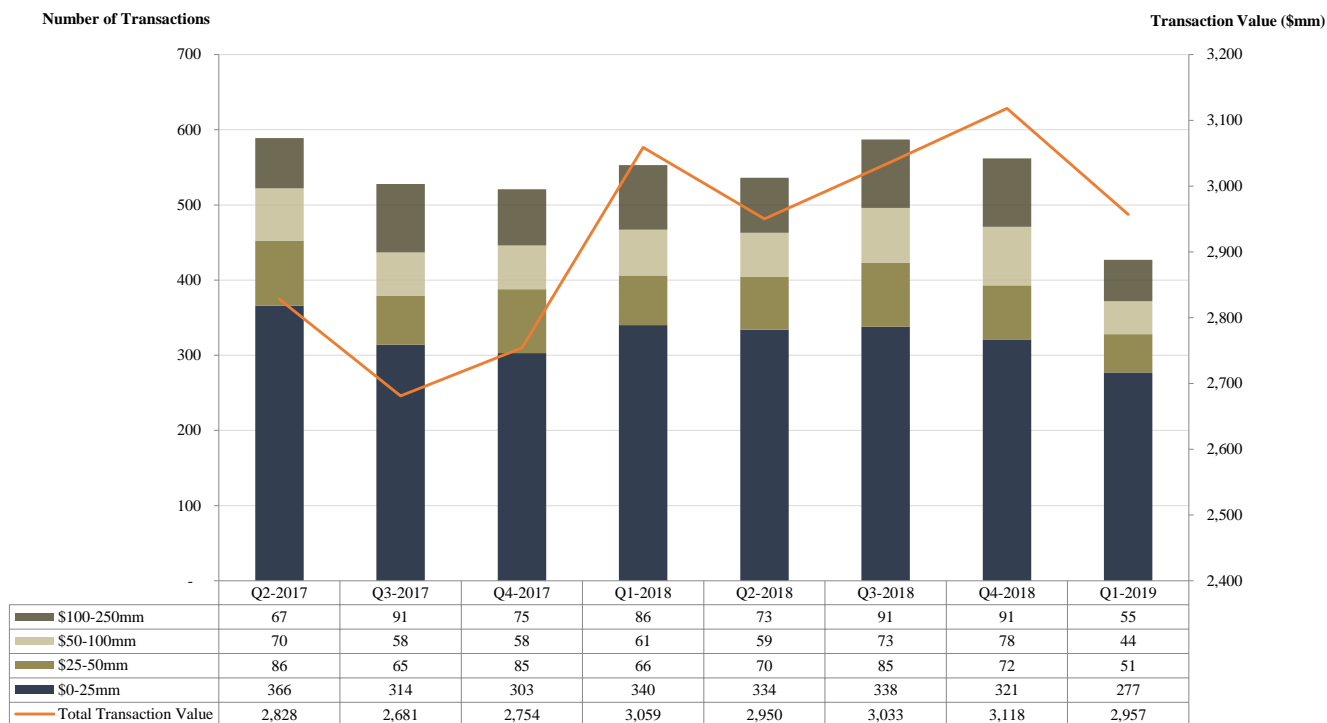
Source: PitchBook  
\* As of March 31, 2019.

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



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

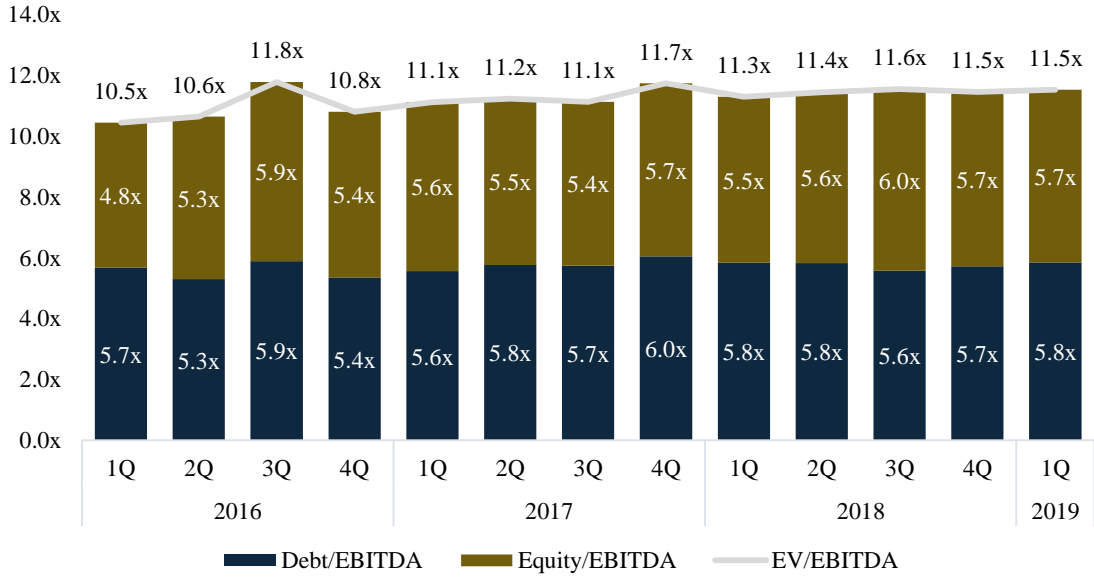
## U.S. Lower Middle Market M&A Activity - Transactions Below \$250 million



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 graphs and charts depict certain key elements of Middle Market Private Equity M&A activity through March 31, 2019.

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



Source: PitchBook  
 \* As of March 31, 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

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