



Mergers & Acquisitions Update: The Middle Market Q3 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 North America Middle Market. For purposes of this report, Mufson Howe Hunter defines the Middle Market as transactions valued at \$250 million and below.

Mufson Howe Hunter Commentary

For the first nine months of 2017, overall U.S. M&A transactional volume was consistent with the previous year – not tremendous deal volume but strong valuations supported by a plethora of debt and equity. YoY, for the 9 months, 2017 was slightly down (2%) for announced transactions. The 2017 transactional dollar volume when totaling the 2,001 announced transactions booked \$707 billion in total value, down a whopping 24% from the period in 2016. The M&A landscape for transactions below \$250 million in EV, defined as the lower end of the Middle Market, saw consistency in both deal activity and dollar volumes for the first nine months. In 2017, total dollar volume was \$66.3 billion, roughly in line with the same period in 2016 counting 1,017 for the nine months in 2017 vs. 1,007 for the same period last year.

Overall Middle Market M&A activity (defined as transactions with EV below \$1.0 billion) hit a record high valuation of 10.7x EBITDA in the first nine months of 2017. These historically high valuations are a direct result of the confluence of record levels of dry powder on behalf of U.S. private equity sponsors (estimated above \$600 billion), an estimated \$1.9 trillion in corporate liquidity and the high debt leverages being underwritten by the many suppliers of credit today; all focused on a limited number of quality sellers in the market.

At the lower end of the M&A Middle Market (EV below \$250 million), the average valuation was 8.4x EBITDA through September 2017, down slightly from 8.6x for the same period a year ago. Valuations in general tend to be highly correlated with the size of a transaction and as such, for the nine months ending September 30, EBITDA valuation multiples between \$100 - \$250 million averaged 10.4x, \$50 - \$100 million at 8.9x, \$25 - \$50 million at 8.5x and below \$25 million EBITDA multiples at 6.0x.

In the lower end of the market, private equity tends to be more dominant. For transactions below \$250 million the average purchase price valuations involving solely private equity sponsors averaged 7.4x vs. 8.4x in the overall \$250 million EV segment. The size premium, albeit not as dramatic for PE backed transactions, was as follows: \$100 - \$250 million averaged 9.0x, \$50 - \$100 million averaged 8.2x, and \$25 - \$50 million averaged 6.8 x and below \$25 million averaged 6.6 x. The overall lower valuations reflect the buyers ability to take on less leverage in smaller transactions - the average leverage multiple for deals below \$250 million was 4.2x vs. the leverage average for \$1.0 billion at 5.7x.

Overall, the Middle Market M&A environment remains robust with the necessary variables to maintain current conditions - record levels of debt from traditional lending sources, active and creative non-bank funding sources and corporate buyers with abundant cash and \$600 billion of PE dry powder waiting to be employed. When the supply of sellers remains low, the demand to seek growth on the part of public and PE-backed companies and the need to fund platform companies and draw-down dry powder will keep the market in good stead. We do not see an event in the near-term causing the overall dynamics of the marketplace to dramatically cool-off. We also do not expect to experience a material improvement in Middle Market valuations either. However, following the meteoric rise in the S&P 500 and other public company indices, we could be heading into a new valuation paradigm based upon these conditions – we will observe the discipline in the M&A marketplace.

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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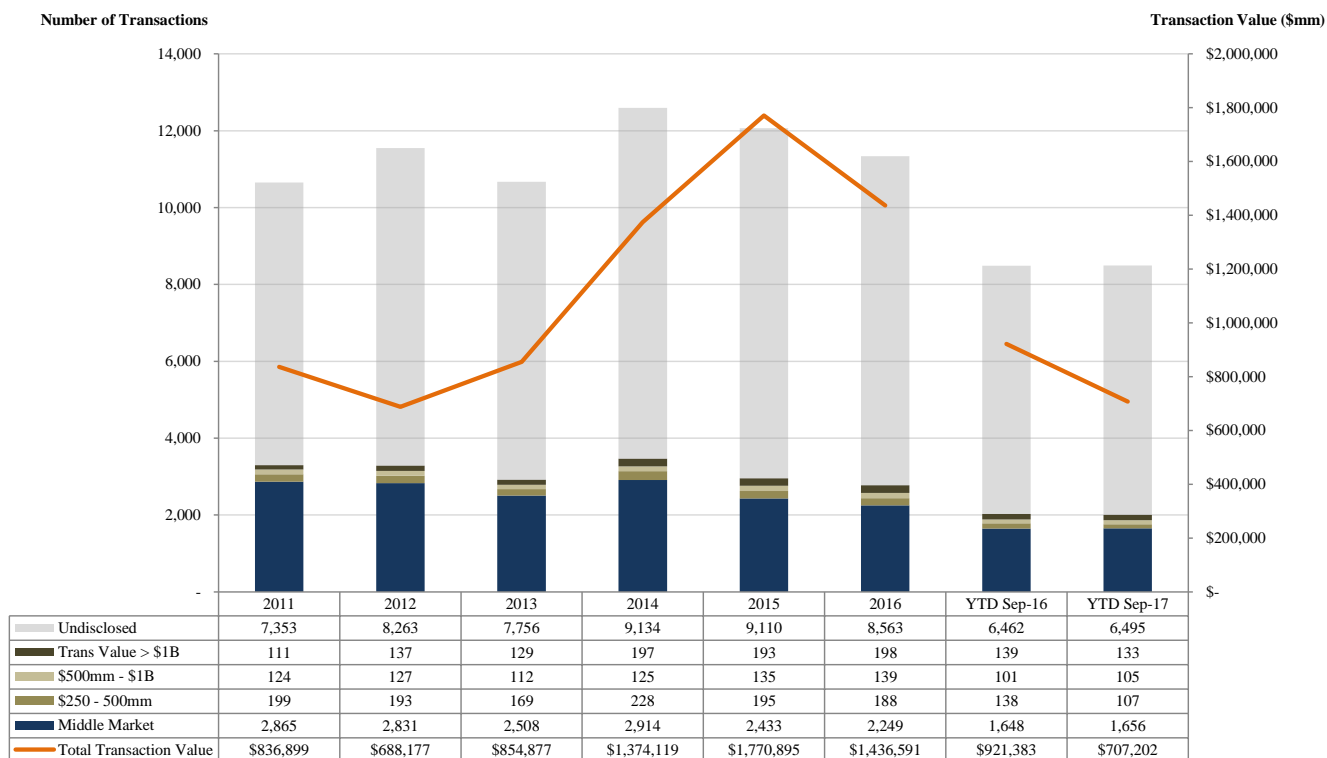
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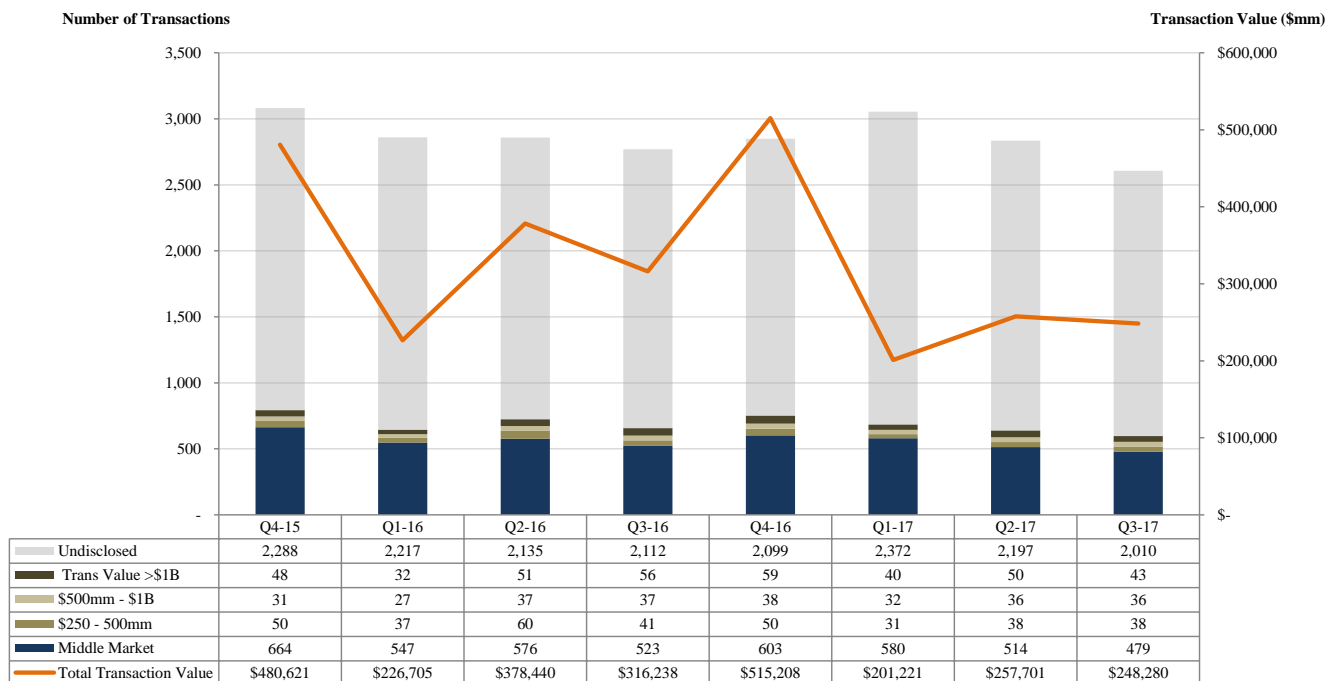
Middle Market M&A

U.S. M&A Activity



Note: Publicly disclosed M&A transactions

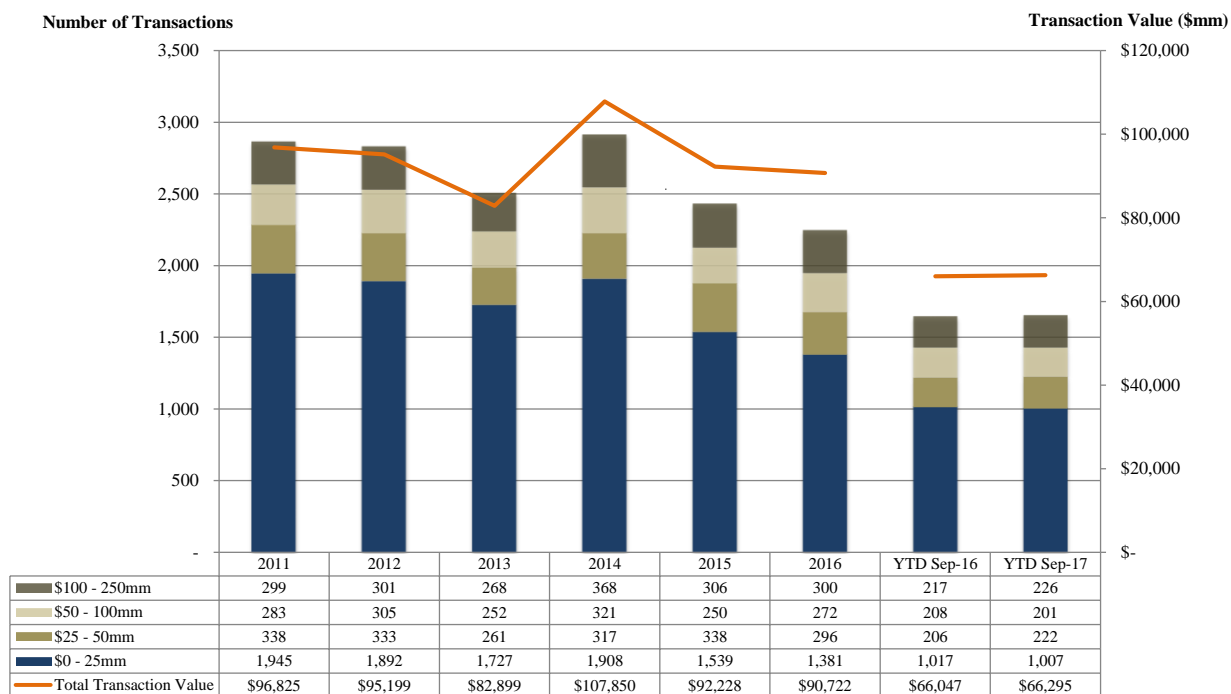
U.S. M&A Activity



Note: Publicly disclosed M&A transactions

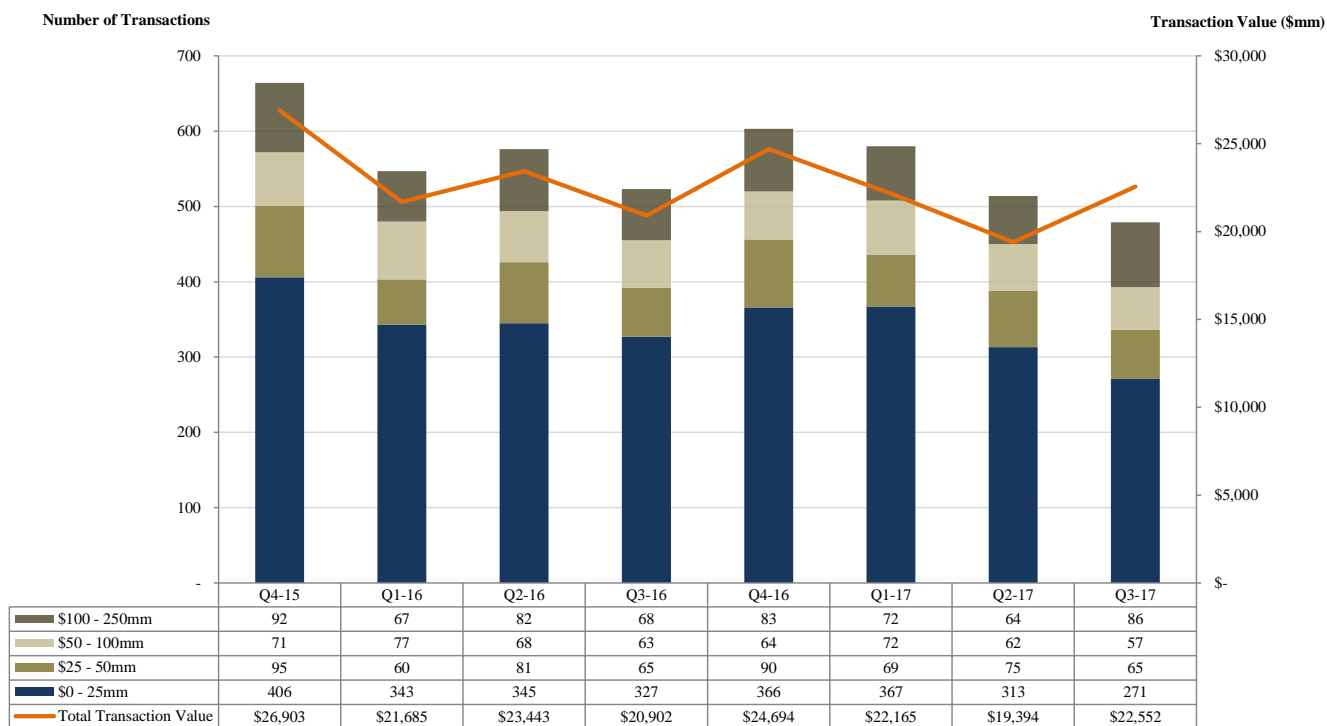
Source: CapitalIQ

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



Note: Publicly disclosed M&A transactions

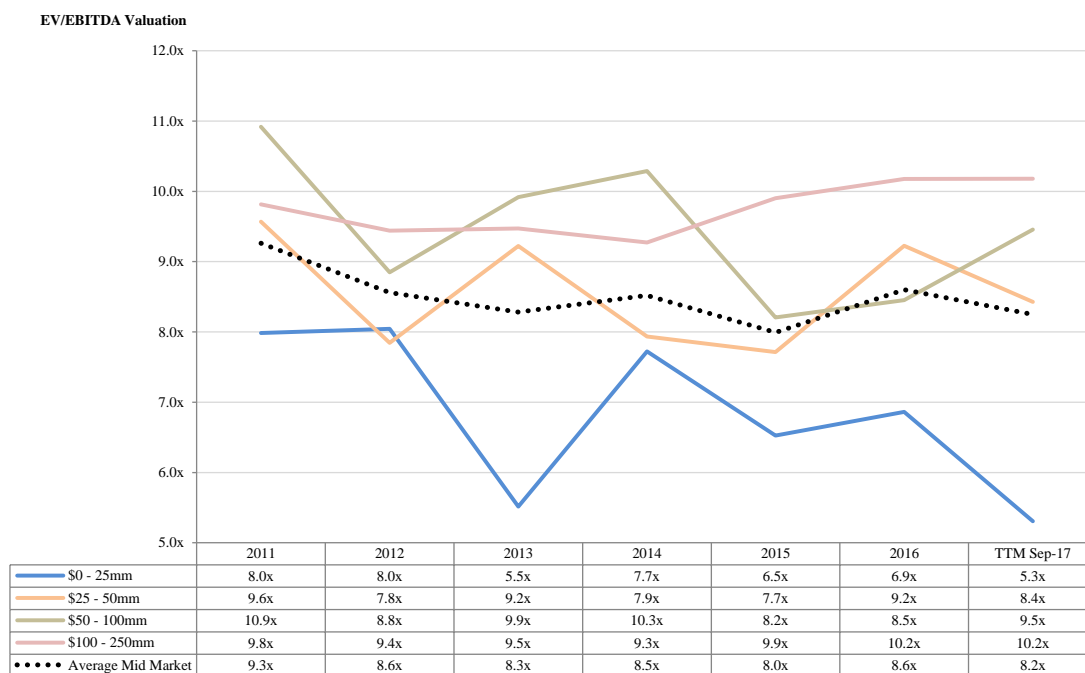
U.S. Middle Market M&A Activity - Transactions Below \$250 million TEV



Note: Publicly disclosed M&A transactions

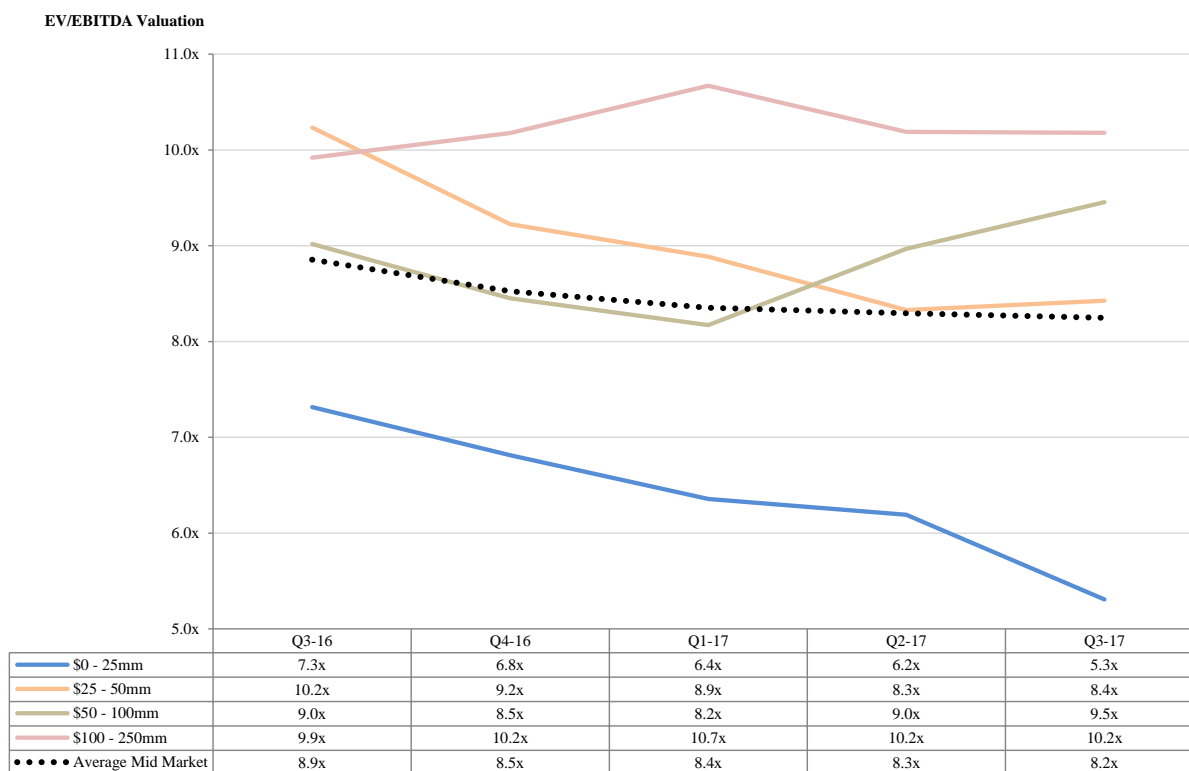
Source: CapitalIQ

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



Note: Publicly disclosed M&A transactions

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

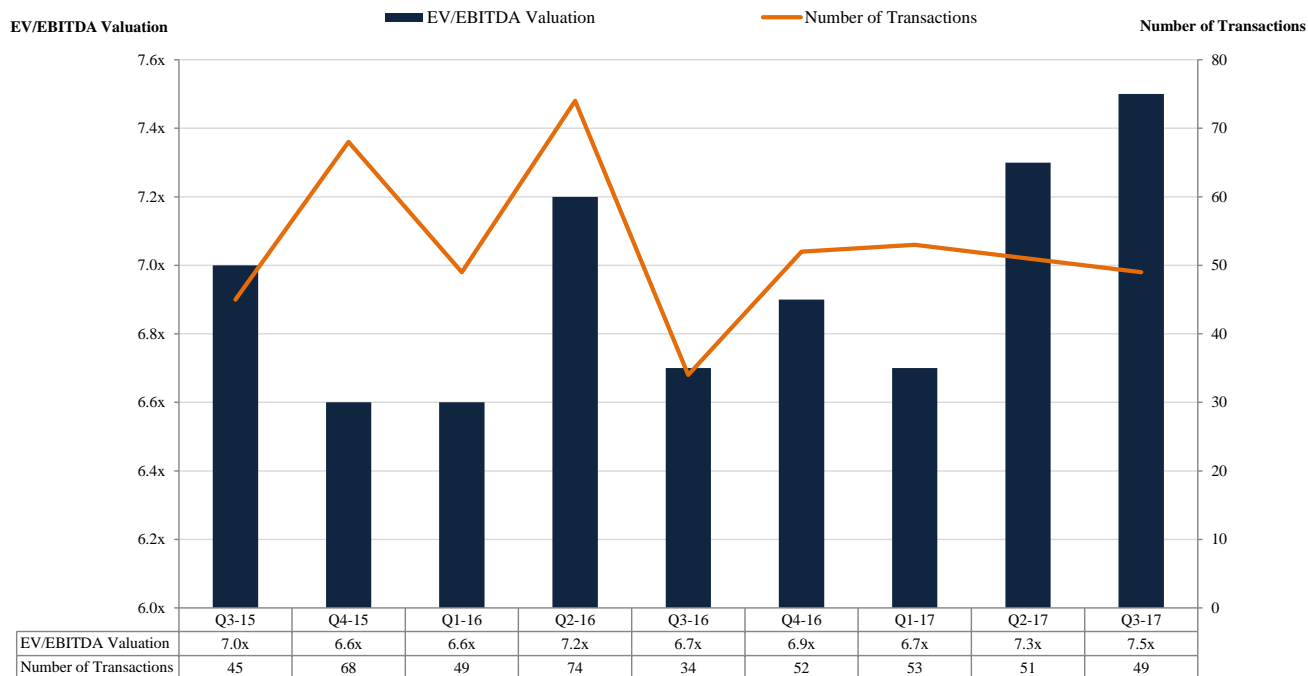


Note: Publicly disclosed M&A transactions

Source: CapitalIQ

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@gfdataresources.com.

U.S. Middle Market Private Equity Transactions



Source: GF Data

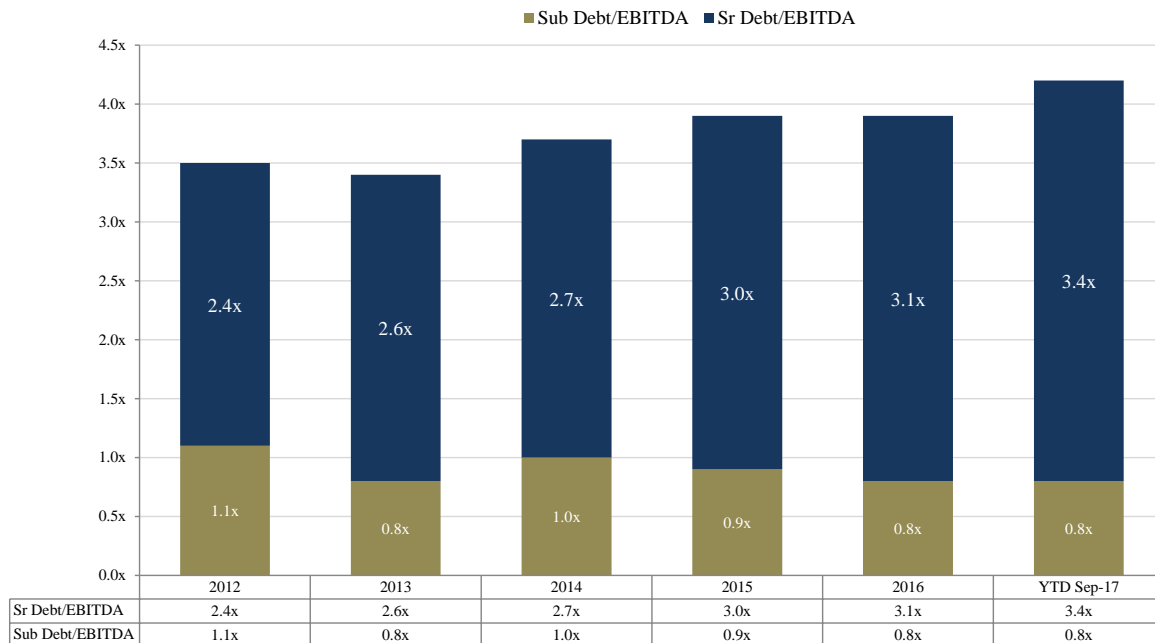
Non-Public U.S. Middle Market Private Equity Transaction Valuations

TEV Range	2003-2011	2012	2013	2014	2015	2016	YTD Sep-17
\$10-25mm	5.6	5.8	6.0	5.6	5.8	6.2	6.6
\$25-50mm	6.2	6.2	6.8	6.6	6.6	6.7	6.8
\$50-100mm	6.8	6.8	6.8	8.4	7.8	7.5	8.2
\$100-250mm	7.3	7.3	7.5	7.8	9.0	9.2	9.0
Overall	6.2x	6.3x	6.5x	6.7x	6.7x	7.1x	7.4x
<i>n</i>	1484	247	162	215	235	220	162

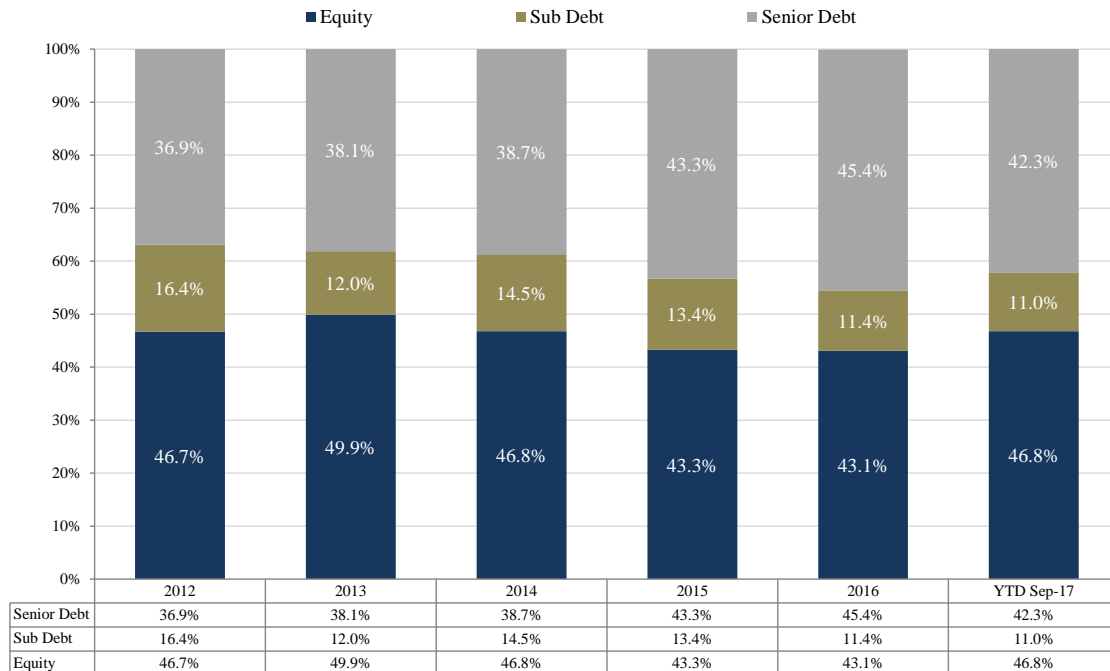
TEV Range	Q4-14	Q1-15	Q2-15	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17	Q2-17	Q3-17
\$10-25mm	5.3	6.0	5.5	6.0	5.9	6.1	6.2	5.6	5.9	5.8	5.8	6.9
\$25-50mm	6.4	7.6	6.5	5.9	6.6	6.1	6.7	6.4	6.3	6.4	7.1	6.1
\$50-100mm	9.2	7.9	6.9	8.6	7.5	6.9	8.5	6.9	6.4	6.8	8.6	8.7
\$100-250mm	7.2	8.2	9.0	10.5	8.8	7.8	8.6	10.9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

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

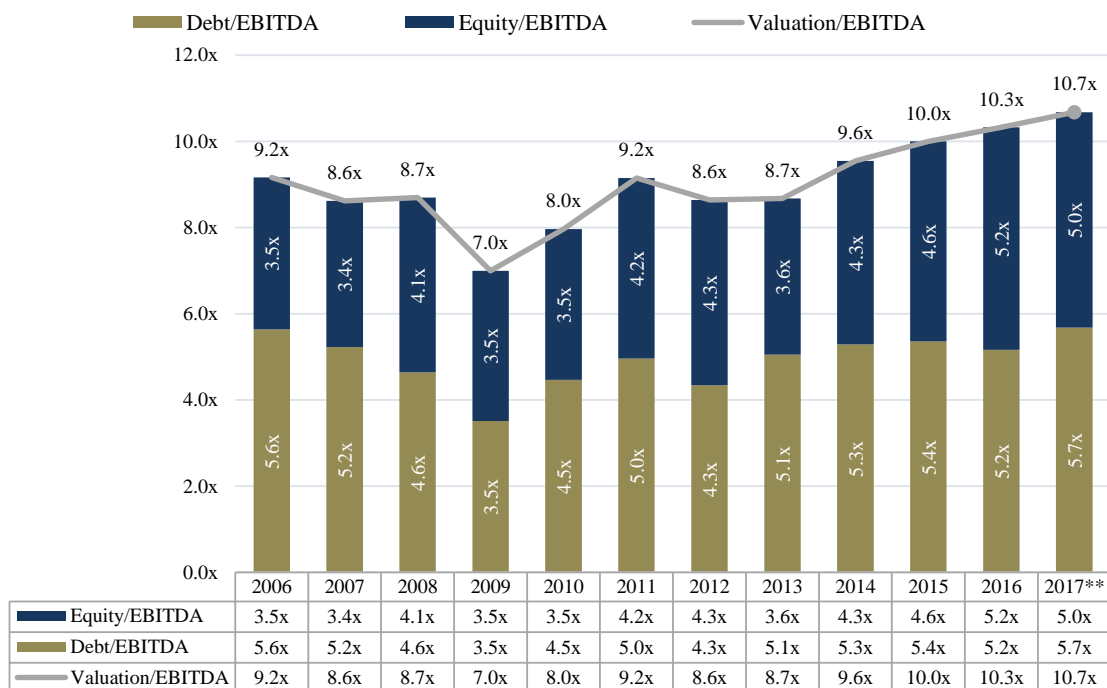
TEV	Q4-14	Q1-15	Q2-15	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17	Q2-17	Q3-17
\$10-25mm	2.9	3.8	3.5	4.0	3.5	3.6	3.3	3.4	3.0	4.1	3.4	4.8
\$25-50mm	3.5	4.1	4.1	3.5	3.7	3.9	3.9	3.1	3.5	3.8	4.1	3.8
\$50-100mm	4.2	3.9	4.2	4.8	4.2	4.0	5.0	3.9	3.7	3.6	5.1	3.4
\$100-250mm	4.2	4.2	5.2	4.8	4.9	5.1	4.2	5.5	4.8	4.2	4.7	5.5
Overall	3.7x	3.9x	3.9x	4.0x	3.9x	4.0x	4.0x	3.8x	3.6x	3.9x	4.3x	4.6x
<i>n</i>	54	57	50	41	57	43	67	29	44	49	43	38

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
\$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
\$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
\$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
\$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
Overall	2.7x	3.3x	2.9x	3.1x	2.7x	2.8x	3.3x	3.2x	2.9x	3.1x	3.6x	3.8x
<i>n</i>	51	52	45	36	48	41	63	23	36	49	36	37

Source: GF Data

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

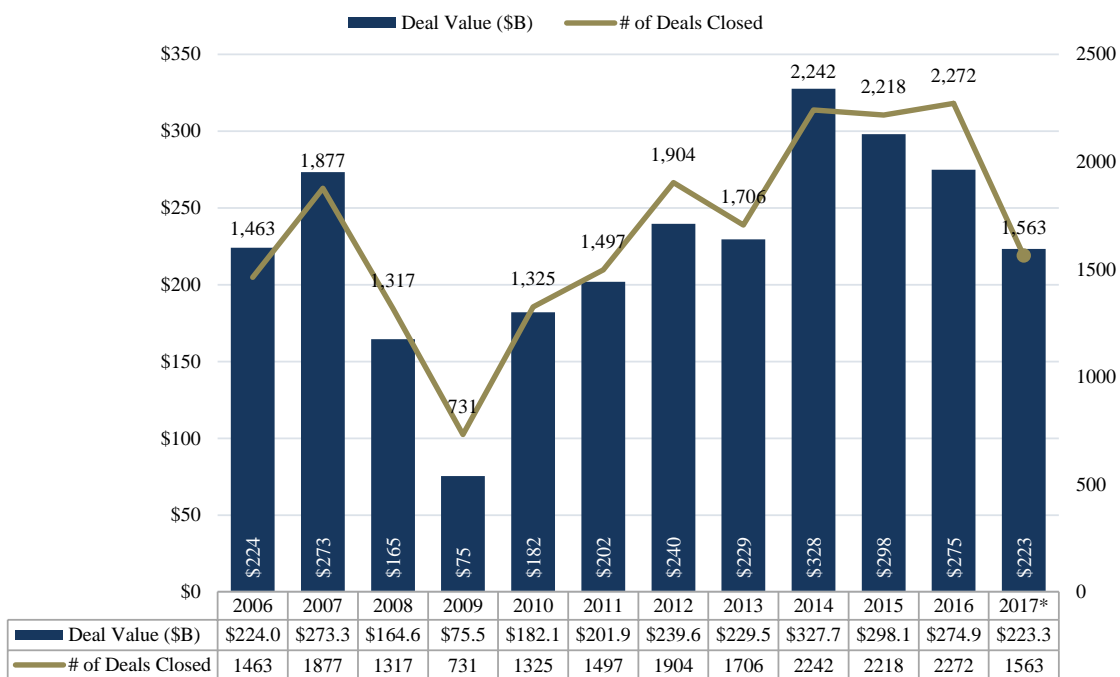


Source: PitchBook

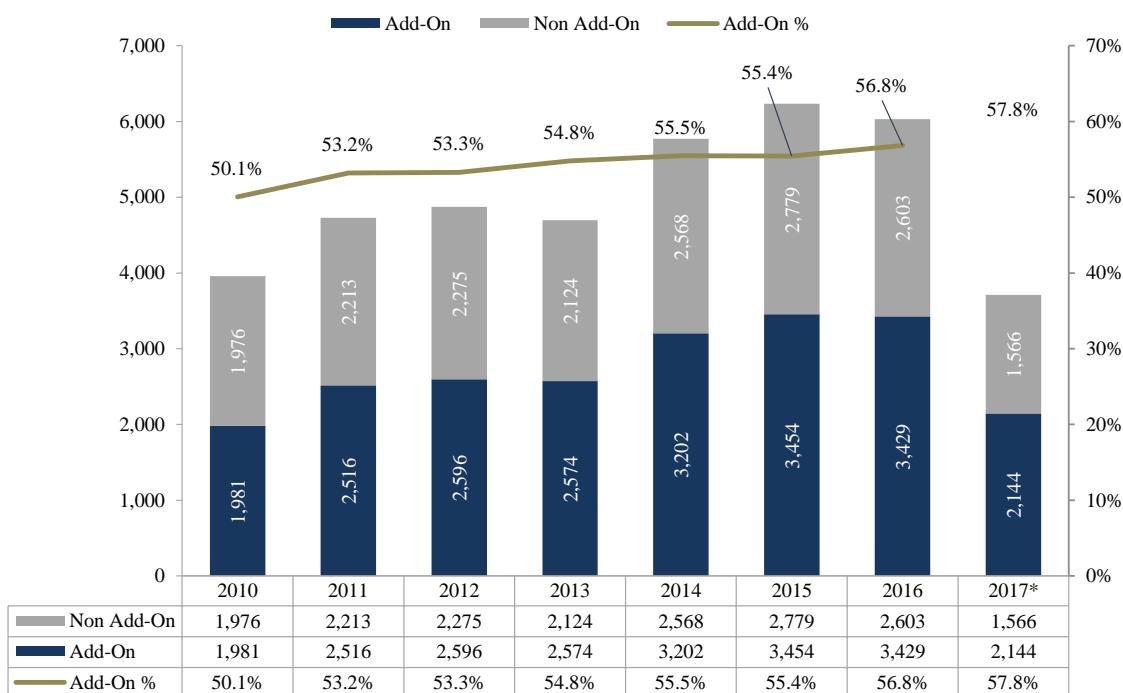
*Middle market is defined as transactions values from \$25 million to \$1 billion

**YTD Sep-17

U.S. Middle Market Deal Activity by Year

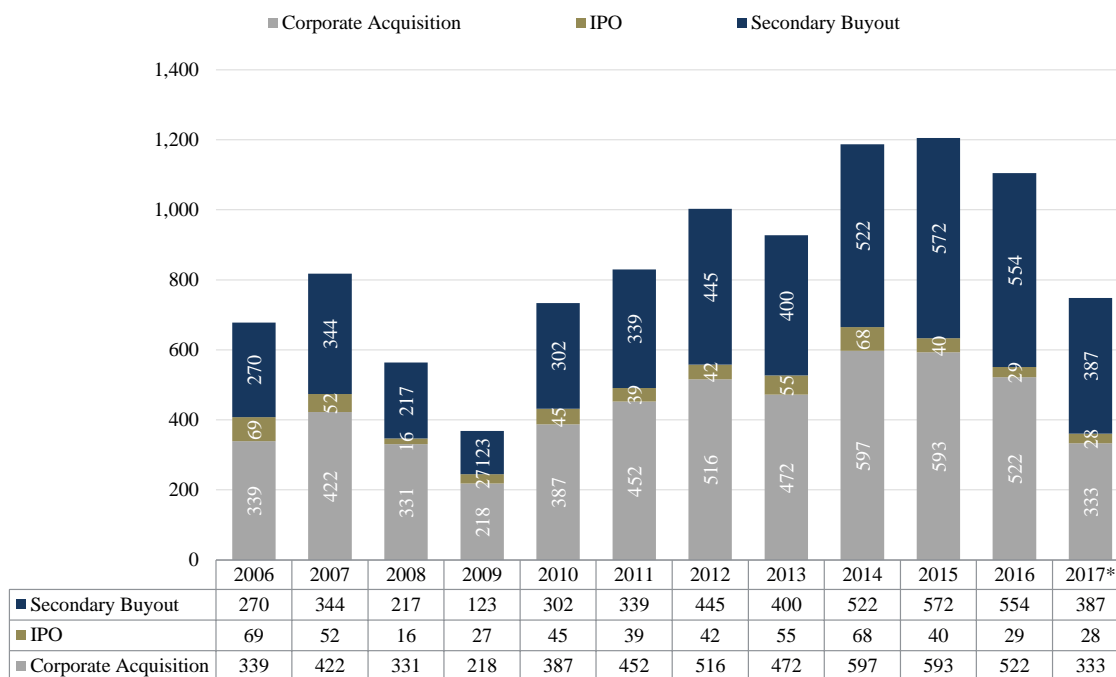


U.S. Middle Market Private Equity Add-On Contribution

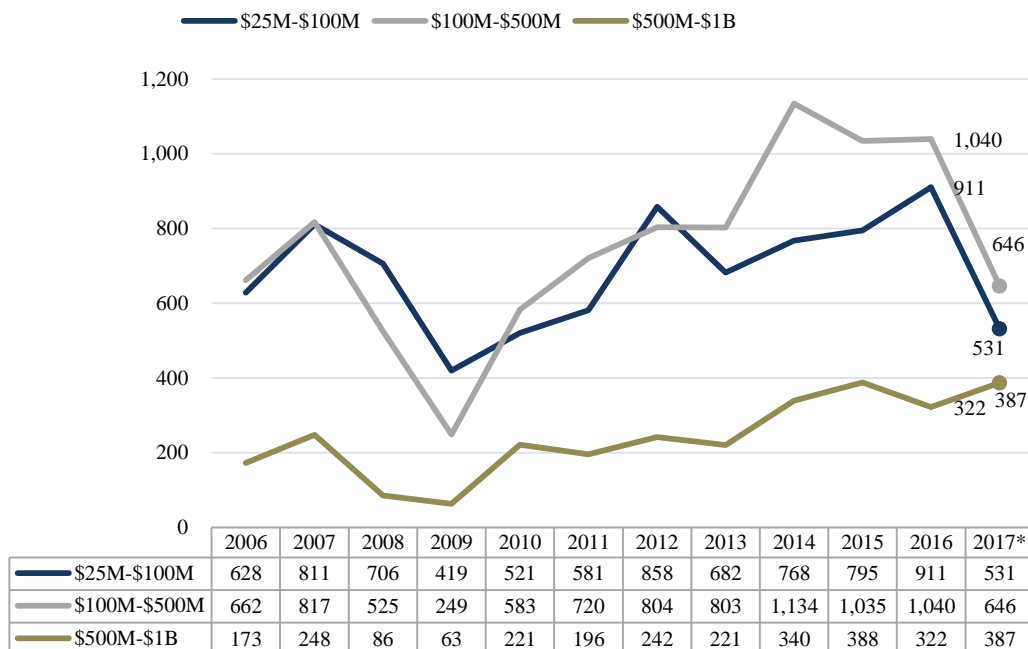


Source: PitchBook
*YTD Sep-17

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



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



*YTD Sep-17
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)
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- Typically raise debt & equity capital from commercial banks, finance companies, investment funds and private equity sponsors

Financial Advisory Services

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- Complex Valuations

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