



Mergers & Acquisitions Update: The Middle Market August 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

The M&A market remains a healthy seller's market. Other than an active Private Equity secondary sale scene, overall US M&A activity was generally flat year to date in deal activity but M&A dollar volume decreased by 25%. Our middle market universe, which is comprised of transactions below \$250 million, experienced a slight 3% reduction in deal count and an 8% drop in dollar volume. We have been experiencing decreasing transactional counts in the under \$250 million market for the better part of the past 2 years which seems counterintuitive to the backdrop of the overall M&A landscape. As our report for the YTD 2017 illustrates, we are experiencing record high valuations within the middle market due to an abundance of credit from commercial banks in conjunction with BDCs and debt funds running up leverage levels. This coupled with strong amounts of equity capital is resulting in favorable pricing for sellers.

In the current M&A environment, there is comfort in size - buyers and credit participants price transactions accordingly. Average U.S. pricing as of June 30th for transactions below \$1.0 billion was at 9.9x EBITDA according to PitchBook, whereas transactions below \$250 million averaged a purchase price multiple of 8.3x EBITDA. Further drilling into middle market valuations, we are observing a wide range of valuations highly correlated to transaction size. Transactions below \$25 million were priced on average at 6.2x, transactions between \$25-\$50 million at 8.3x, \$50-\$100 million at 9.0x and \$100-\$250 million at 10.2x – a 4.00x EBITDA spread from low to high.

Furthermore, when we review pricing for transactions below \$250 million solely involving PE buyers, transactions averaged 6.9x YTD 2017. When we further review pricing by size, average pricing for transactions at \$25 million is 5.8x, for \$25-\$50 million deals at 6.6x, \$50-\$100 million at 7.6x and \$100-\$250 million at 8.7x; roughly a 3.00x EBITDA spread from low to high.

The M&A market should continue its aggressive pricing for the remainder of 2017 and well into 2018. PE dry powder remains at record high levels and is growing as funds raise additional capital due to strong demand by LPs for the asset class. With a plethora of dry powder, PE firms are now the dominate player in the M&A market representing 57% of all activity YTD 2017. PE firms, with their need to deploy capital, are aggressive “buying machines”, are quite adept in managing the fast paced sale processes employed by the M&A investment banking community, which frequently place strategic buyers at a disadvantage. We foresee this trend to continue as PE in many instances has a comparative organizational advantage.

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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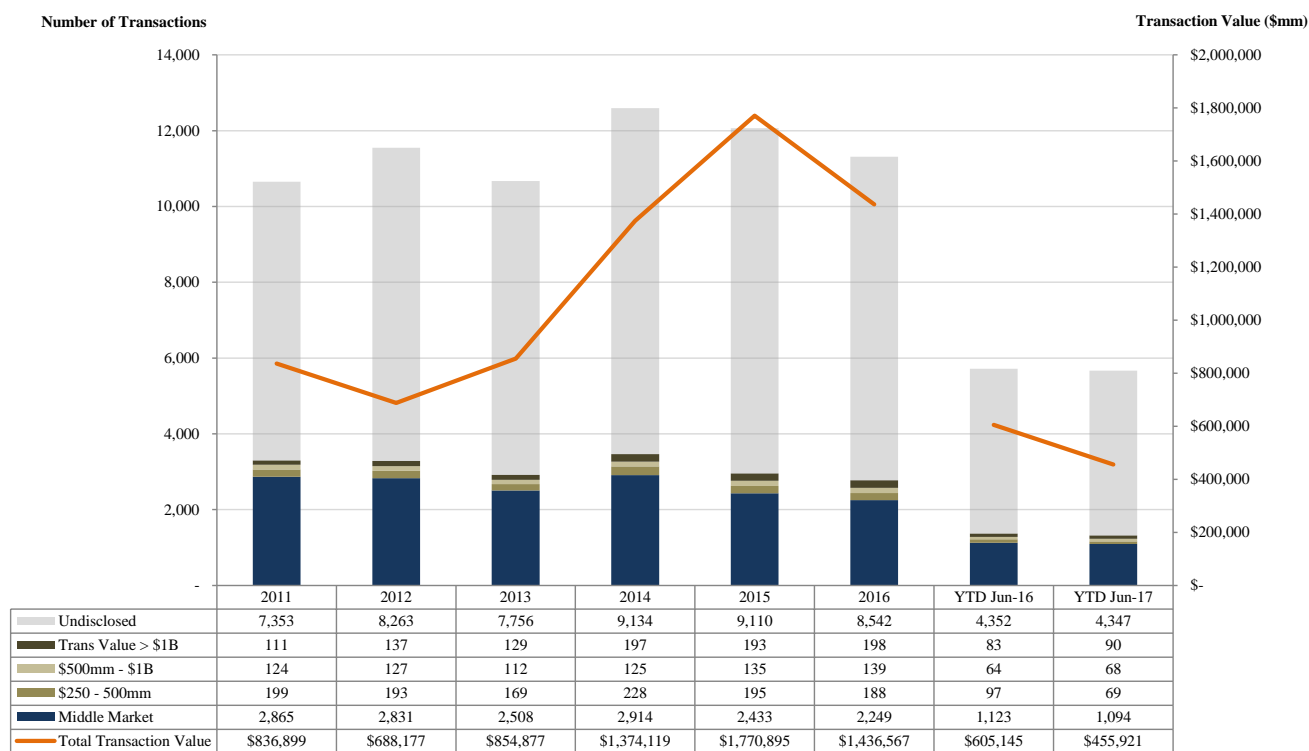
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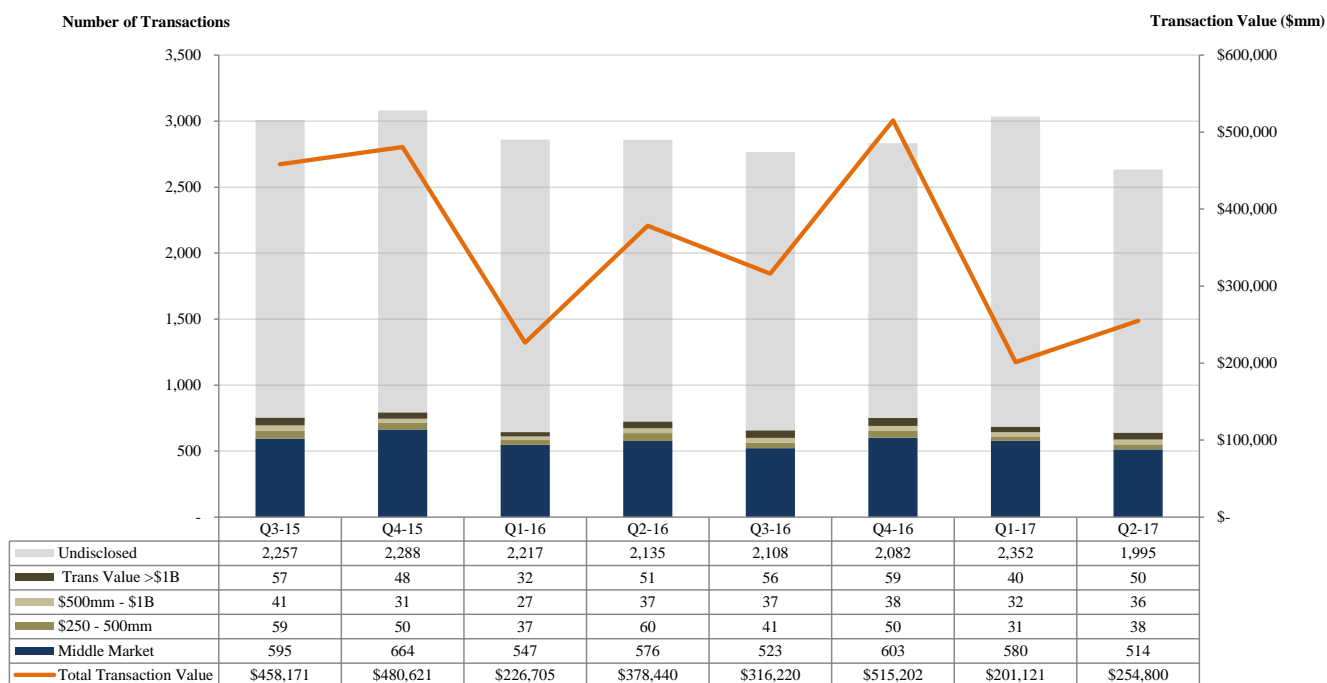
Middle Market M&A

U.S. M&A Activity



Note: Publicly disclosed M&A transactions

U.S. M&A Activity



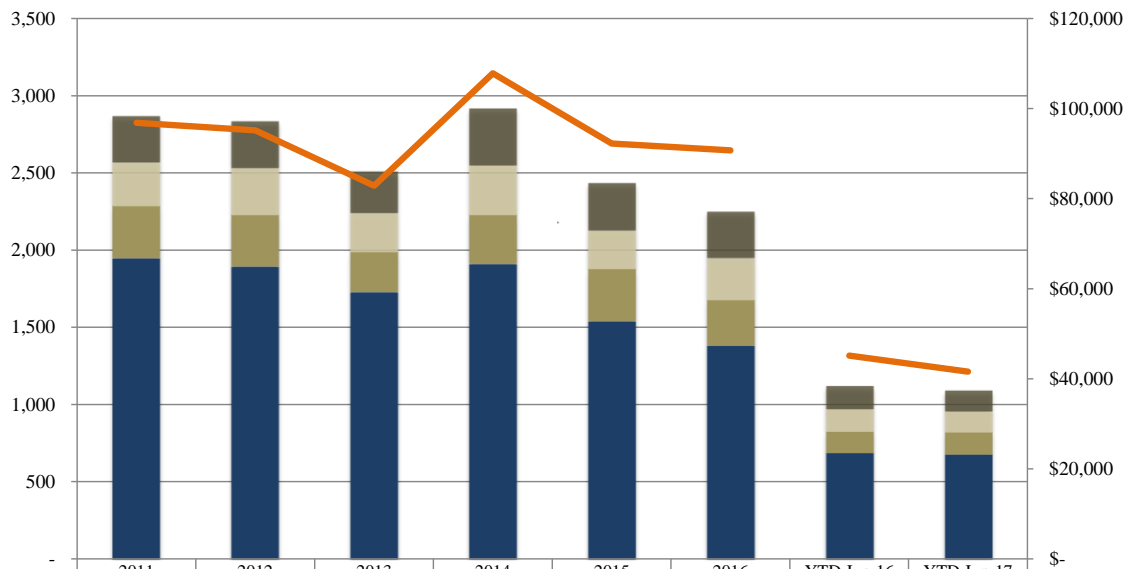
Note: Publicly disclosed M&A transactions

Source: CapitalIQ

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

Number of Transactions

Transaction Value (\$mm)



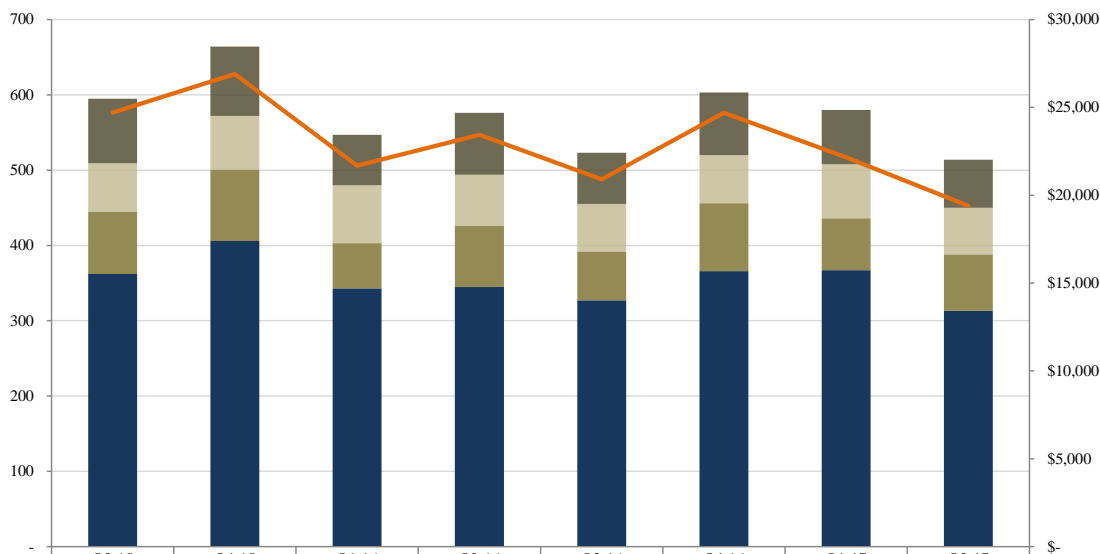
■ \$100 - 250mm	299	301	268	368	306	300	149	136
■ \$50 - 100mm	283	305	252	321	250	272	145	134
■ \$25 - 50mm	338	333	261	317	338	296	141	144
■ \$0 - 25mm	1,945	1,892	1,727	1,908	1,539	1,381	688	680
— Total Transaction Value	\$96,825	\$95,199	\$82,899	\$107,850	\$92,228	\$90,722	\$45,127	\$41,559

Note: Publicly disclosed M&A transactions

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

Number of Transactions

Transaction Value (\$mm)



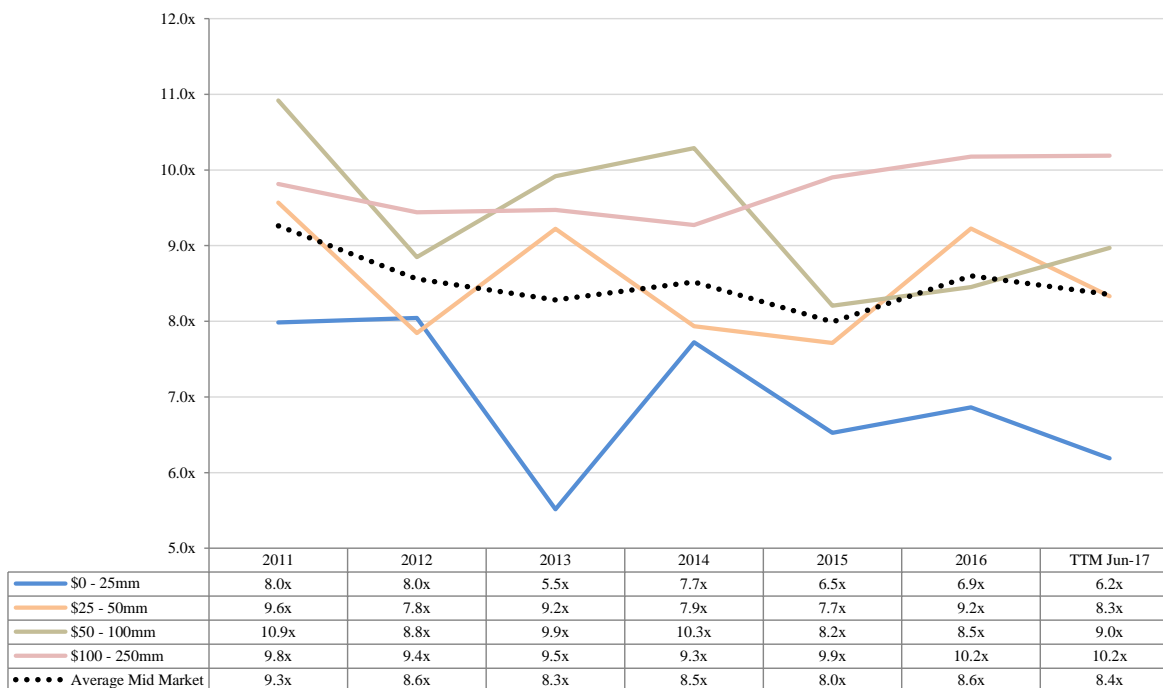
■ \$100 - 250mm	86	92	67	82	68	83	72	64
■ \$50 - 100mm	64	71	77	68	63	64	72	62
■ \$25 - 50mm	83	95	60	81	65	90	69	75
■ \$0 - 25mm	362	406	343	345	327	366	367	313
— Total Transaction Value	\$24,704	\$26,903	\$21,685	\$23,443	\$20,902	\$24,694	\$22,165	\$19,394

Note: Publicly disclosed M&A transactions

Source: CapitalIQ

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

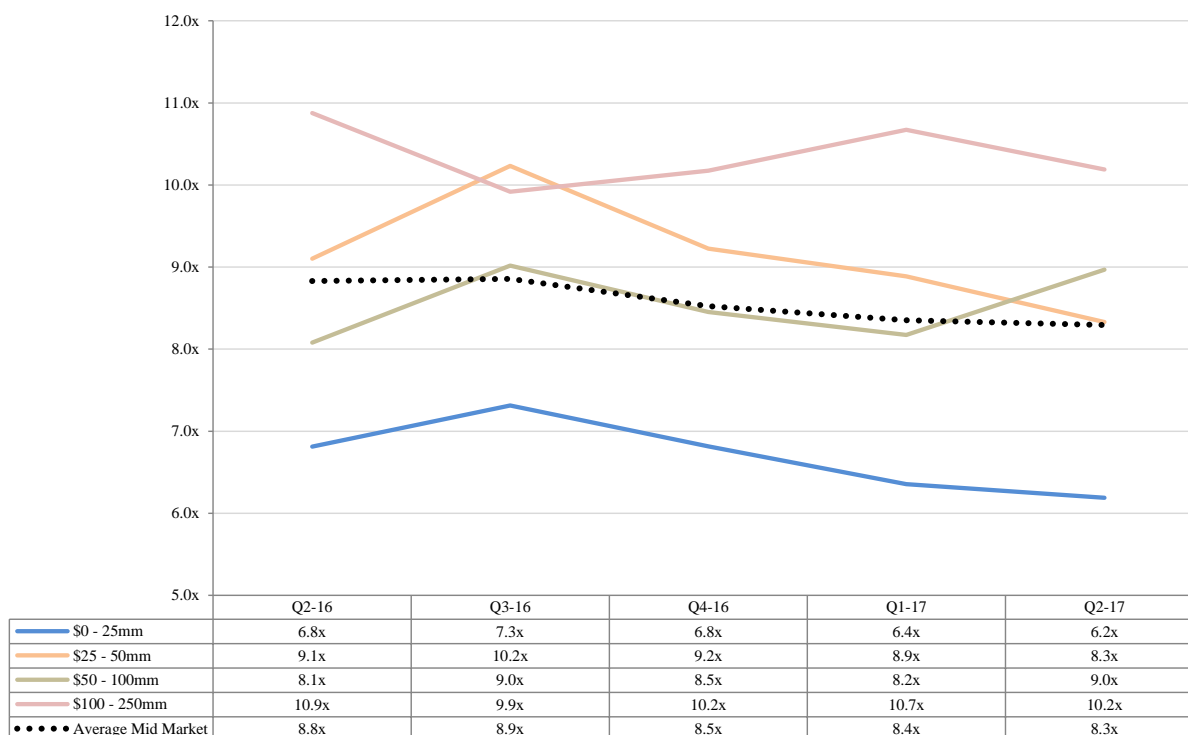
EV/EBITDA Valuation



Note: Publicly disclosed M&A transactions

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

EV/EBITDA Valuation



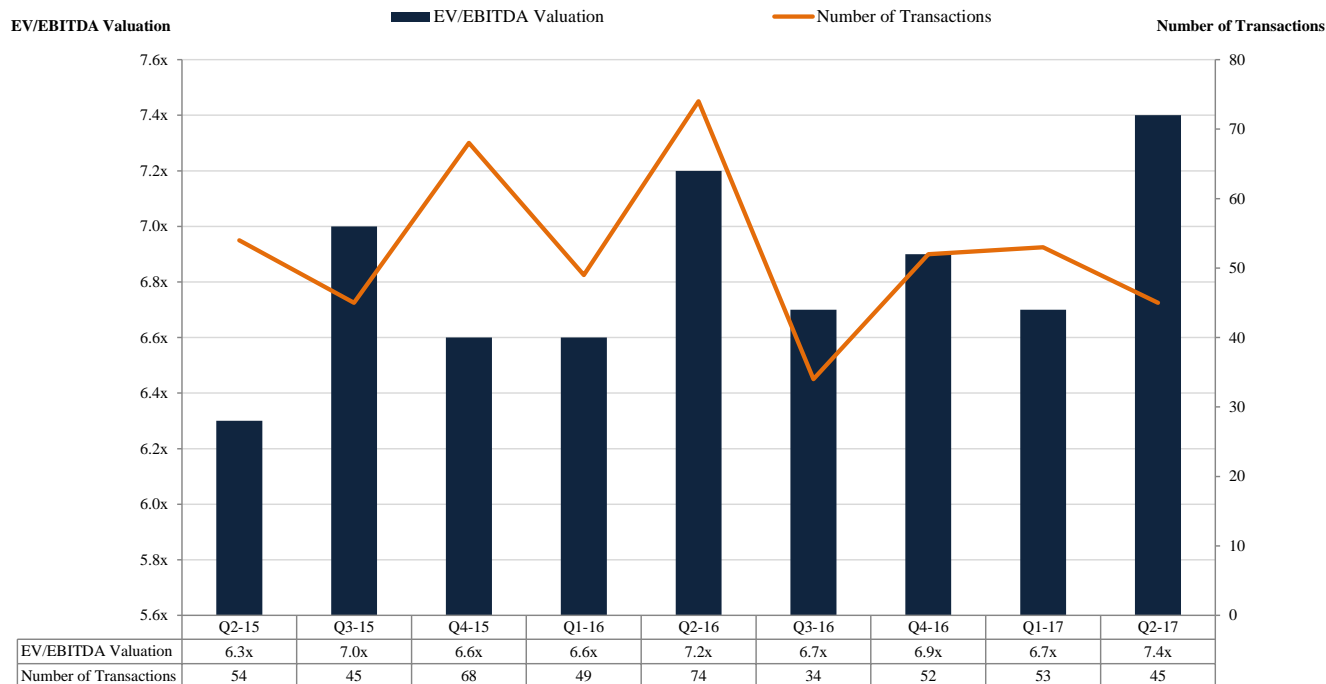
Note: Publicly disclosed M&A transactions

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®

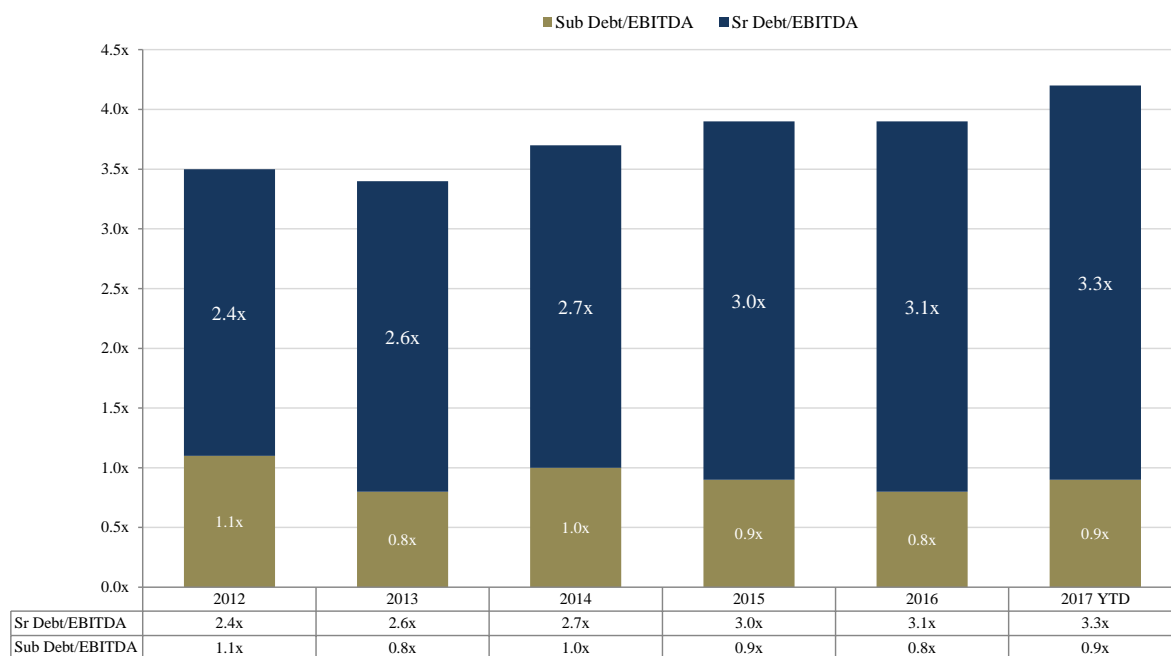
Non-Public U.S. Middle Market Private Equity Transaction Valuations

TEV Range	2003-2011	2012	2013	2014	2015	2016	2017 YTD
\$10-25mm	5.6	5.8	6.0	5.6	5.8	6.0	5.8
\$25-50mm	6.2	6.2	6.8	6.6	6.6	6.4	6.6
\$50-100mm	6.8	6.8	6.8	8.4	7.8	7.3	7.6
\$100-250mm	7.3	7.3	7.5	7.8	9.0	9.0	8.7
Overall	6.2x	6.3x	6.5x	6.7x	6.7x	6.9x	6.9x
<i>n</i>	1484	247	162	215	235	209	103

TEV Range	Q4-14	Q1-15	Q2-15	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17	Q2-17
\$10-25mm	5.3	6.0	5.5	6.0	5.9	6.1	6.2	5.6	5.9	5.8	5.7
\$25-50mm	6.4	7.6	6.5	5.9	6.6	6.1	6.7	6.4	6.3	6.4	7.1
\$50-100mm	9.2	7.9	6.9	8.6	7.5	6.9	8.5	6.9	6.4	6.8	8.5
\$100-250mm	7.2	8.2	9.0	10.5	8.8	7.8	8.6	10.9	9.4	8.7	9.2
Overall	7.0x	6.9x	6.3x	7.0x	6.6x	6.6x	7.2x	6.7x	6.9x	6.7x	7.4x
<i>n</i>	65	68	54	45	68	49	74	34	52	53	45

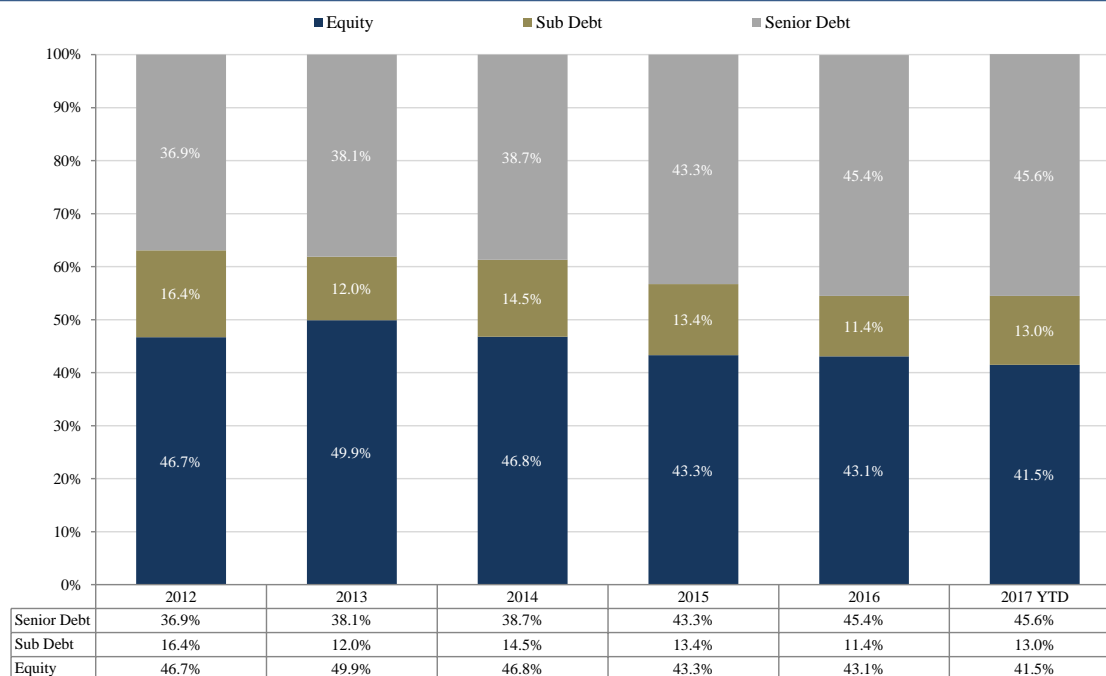
Source: GF Data®

U.S. Middle Market Private Equity Transactions Debt Multiples



Source: GF Data®

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



Source: Pitchbook & GF Data®

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

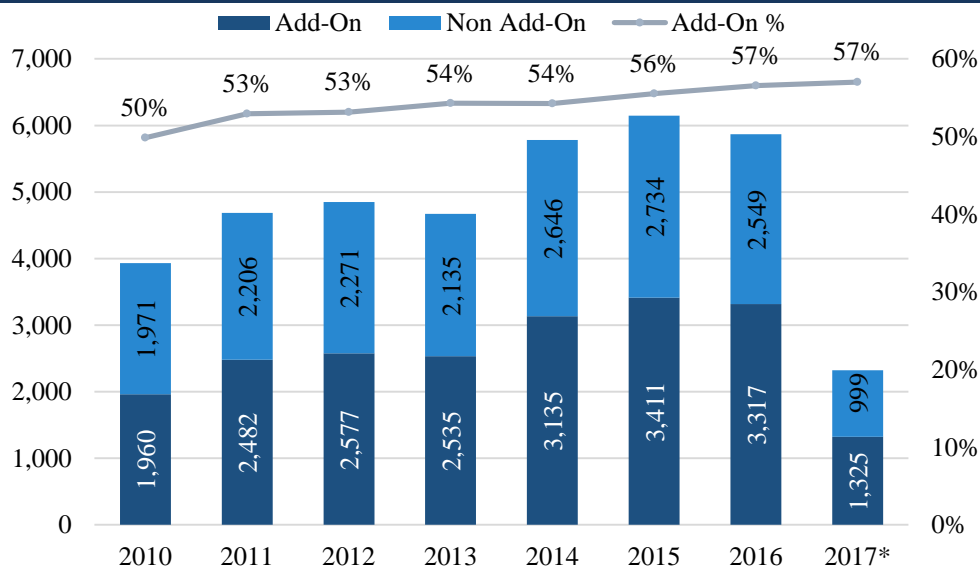
TEV	Q4-14	Q1-15	Q2-15	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17	Q2-17
\$10-25mm	2.9	3.8	3.5	4.0	3.5	3.6	3.3	3.4	3.0	4.1	3.2
\$25-50mm	3.5	4.1	4.1	3.5	3.7	3.9	3.9	3.1	3.5	3.8	4.1
\$50-100mm	4.2	3.9	4.2	4.8	4.2	4.0	5.0	3.9	3.7	3.6	5.4
\$100-250mm	4.2	4.2	5.2	4.8	4.9	5.1	4.2	5.5	4.8	4.2	5.6
Overall	3.7x	3.9x	3.9x	4.0x	3.9x	4.0x	4.0x	3.8x	3.6x	3.9x	4.6x
<i>n</i>	54	57	50	41	57	43	67	29	44	49	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
\$10-25mm	2.6	3.0	2.5	3.3	2.3	2.6	2.7	2.8	2.6	3.4	2.2
\$25-50mm	2.3	3.7	3.0	2.5	3.1	2.7	3.1	2.9	2.6	2.8	3.2
\$50-100mm	3.2	3.5	3.2	3.7	2.8	2.8	4.0	2.8	2.9	3.0	4.6
\$100-250mm	2.8	3.6	3.8	3.6	2.7	3.4	3.5	4.7	3.5	3.9	4.1
Overall	2.7x	3.3x	2.9x	3.1x	2.7x	2.8x	3.3x	3.2x	2.9x	3.1x	3.5x
<i>n</i>	51	52	45	36	48	41	63	23	36	49	31

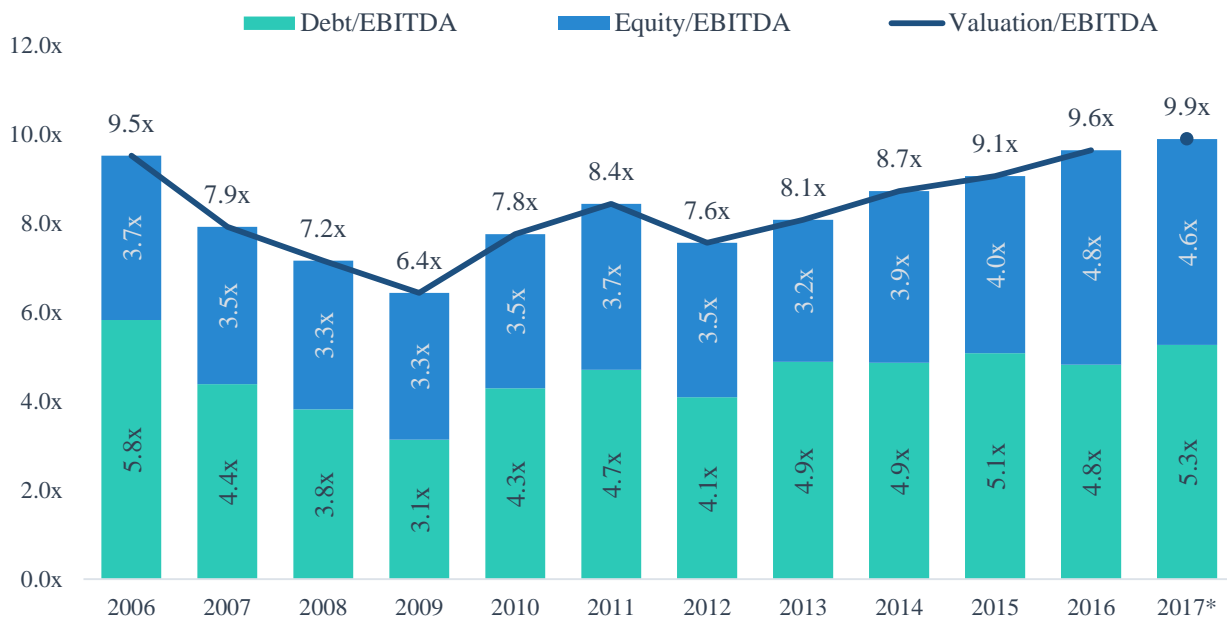
Source: GF Data®

U.S. Middle Market PE Add-Ons

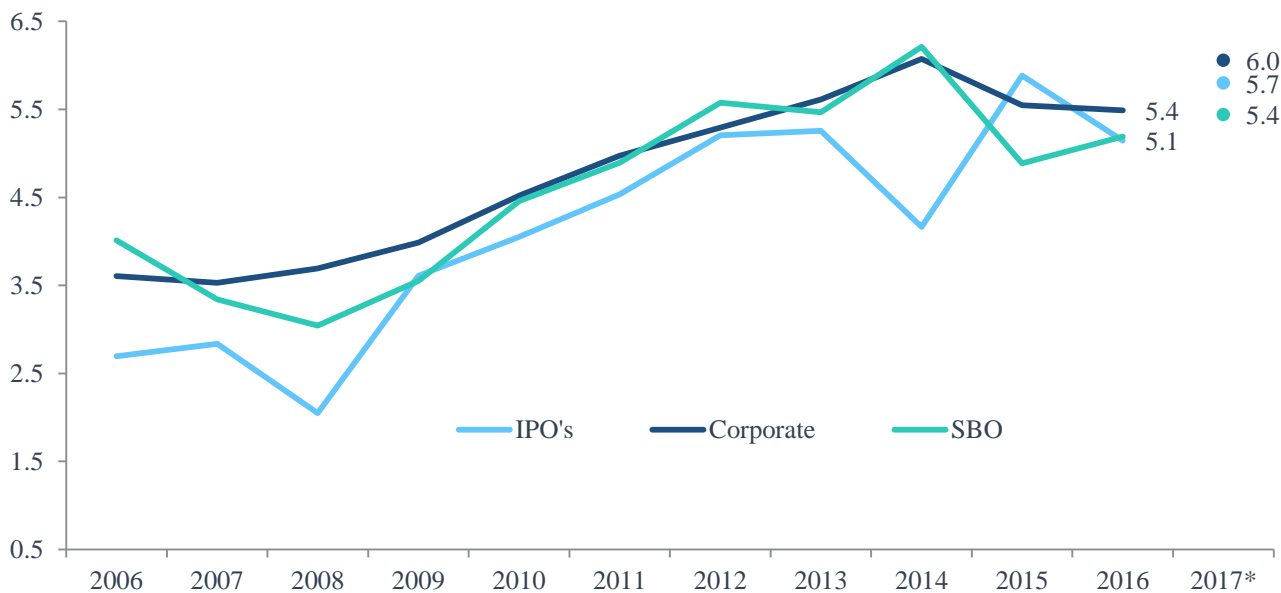


Source: Pitchbook
*As of 6/30/2017

U.S. Middle Market M&A Transaction Multiples

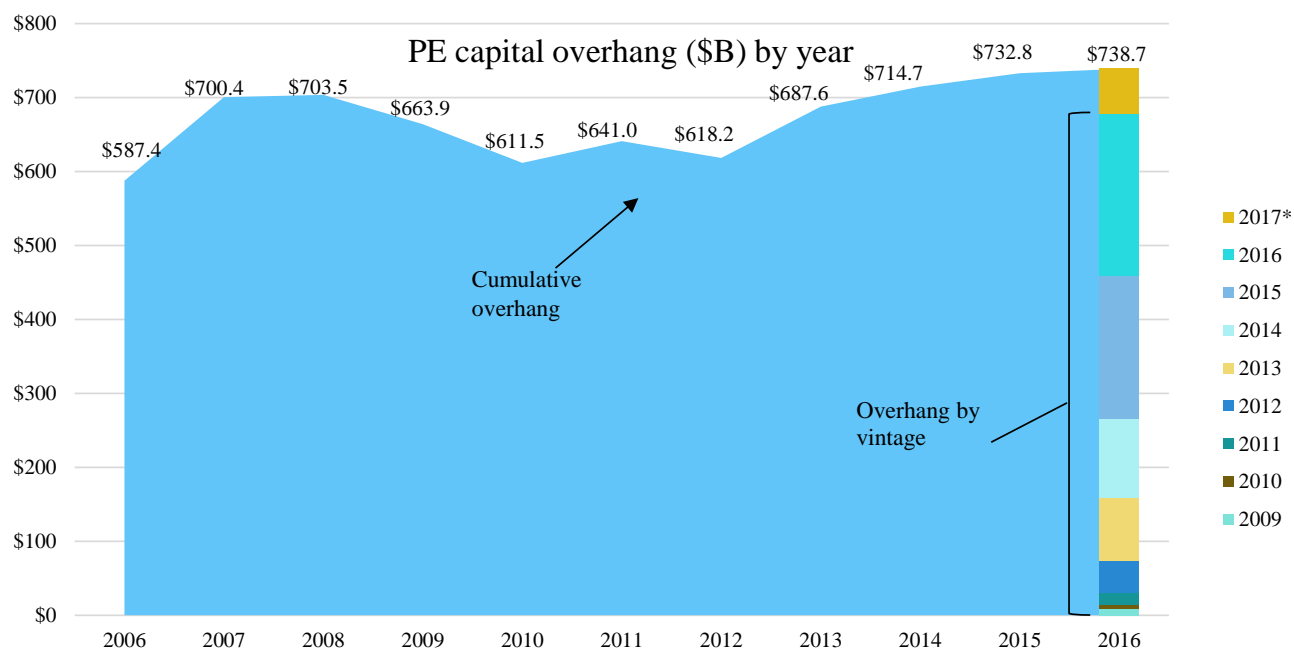


U.S. Middle Market Median Hold Time by Exit Type (in Years)



Source: Pitchbook®
*As of 6/30/2017

North American & European Private Equity Overhang



2017 PE capital overhang (\$B) by vintage

	2009	2010	2011	2012	2013	2014	2015	2016	2017*
Dry Powder (\$B)	\$8.30	\$5.96	\$15.58	\$44.08	\$84.69	\$106.61	\$194.52	\$217.88	\$61.09

* Returns data through 12/31/2016
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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