



Middle Market Private Equity M&A Activity – Q1 2020

Market Valuations Shift

Executive Summary

Valuations Heightened

The simple average Enterprise Value (EV) to EBITDA multiple of 7.4x for Q1 2020 was marginally higher than the previous four quarters. This was the net result of a shift in sentiment considering size and industry factors.

Size Premium

Size became an even greater pricing consideration for the middle market as transaction multiple variances widened for acquisition targets above and below \$50 million.

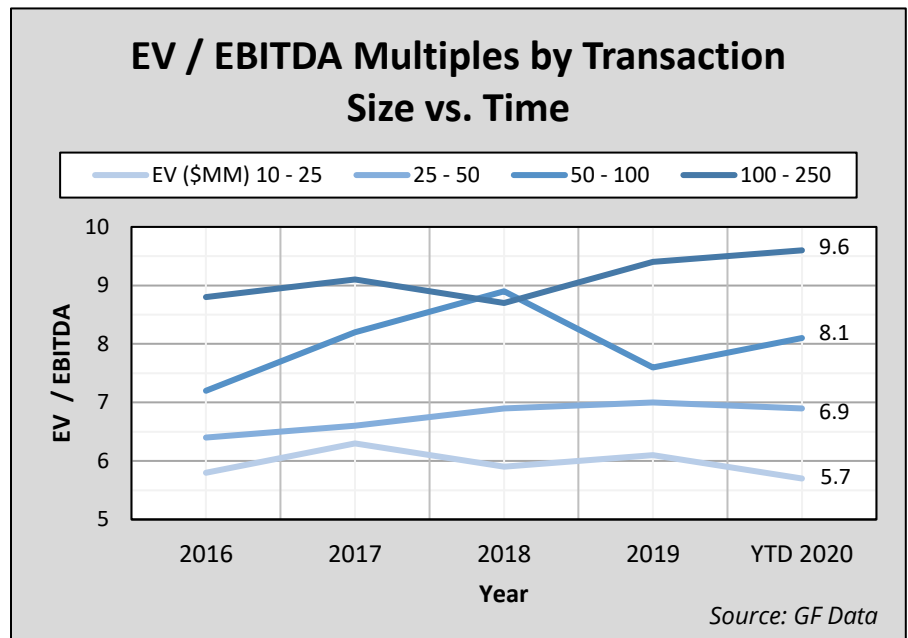
Continued Use of Leverage

Total debt to EBITDA remained at 3.9x from 2019. Senior debt to EBITDA rose steadily to 3.5x, up from 3.2x and 3.0x in 4Q and 3Q 2019, respectively.

Distribution Takes the Top

Transaction multiples for the distribution industry sharply rose above the health care services and technology industries for the first time over the past five years.

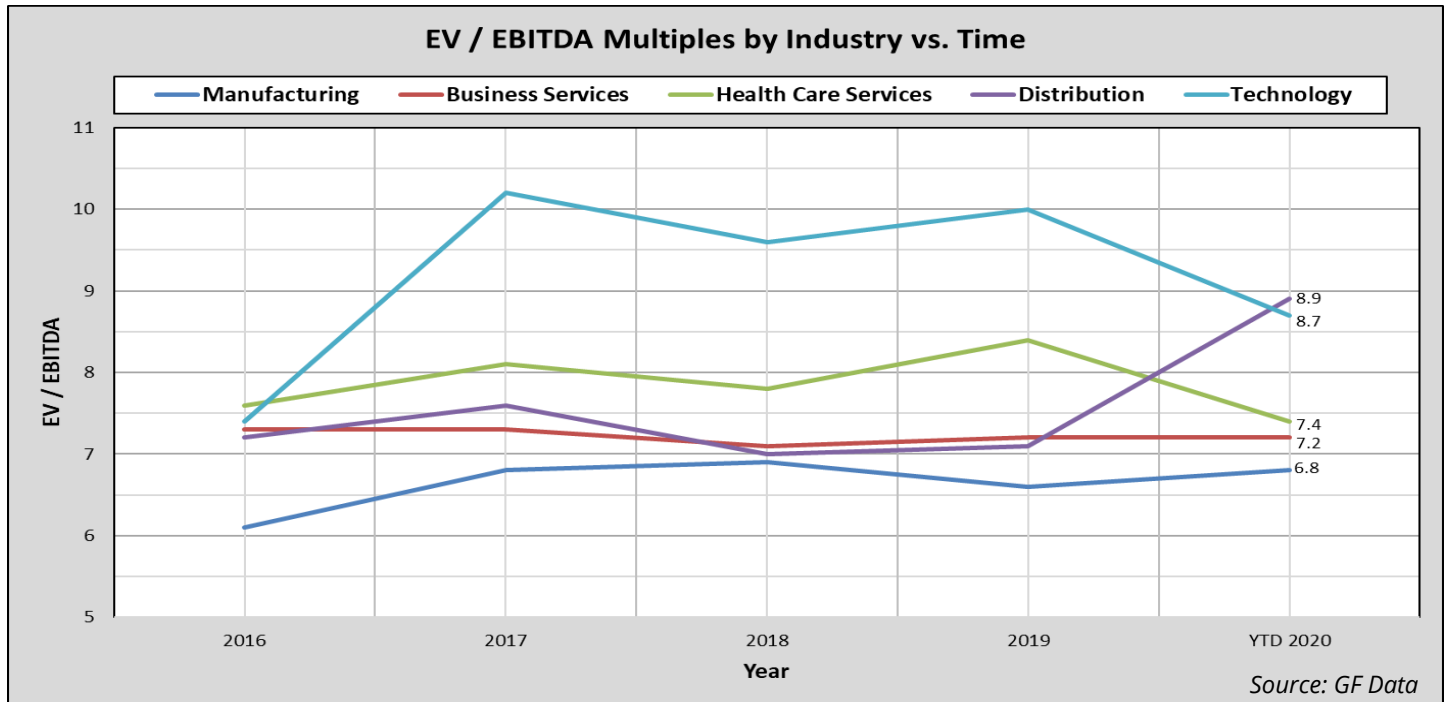
Based on our review of GF Data’s latest M&A Report, the reported results for Q1 2020 display a slight increase in transaction multiples, contrary to previous first quarter declines. Although enterprise value (EV) to EBITDA multiples rose to 7.4x, up 0.3x from Q4 2019, material shifts occurred between company size and industries as a result of the COVID-19 pandemic. The total number of reported Q1 2020 transactions remained normal at 62. Most of these transactions took place in the first two months of the quarter before business conditions weakened in early March.



Average EV/EBITDA transaction multiples increased for the larger companies in the \$50 – 250 million enterprise value range and decreased for the smaller companies in the \$10 – 50 million range. The increased market uncertainty likely caused a premium to be paid for the larger, and perceived safer, companies.

Industry Analysis

We analyzed industry average EV/EBITDA multiples of acquisition targets to gain a more in-depth understanding of how the market perceived industry risk and growth prospects as COVID-19 began to disrupt the marketplace during the first quarter. Approximately 80% of the reported deal volume comprises four industries: manufacturing, business services, health services, and distribution.



The average EV/EBITDA transaction multiple for health care services experienced a steep decline to 7.4x in Q1 2020, down from 8.4x in 2019. The health care services industry has been negatively impacted in the short-run by the COVID-19 pandemic, as both practices and patients avoided preventative check-ups and elective treatments. To the contrary, the distribution industry average EV/EBITDA multiple increased markedly to surpass all other recorded industries. The distribution industry was valued extremely high in the first quarter as consumer e-commerce presence and demand for deliver-to-door goods grew considerably. Manufacturing and business services transaction multiples remained approximately the same over the last few years. The technology industry experienced a dip in its average EV/EBITDA valuation multiple to its lowest level since 2016. There was no recorded Q1 2020 transaction data for the retail and media telecom industries.



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