

## FEATURED CONTRIBUTOR



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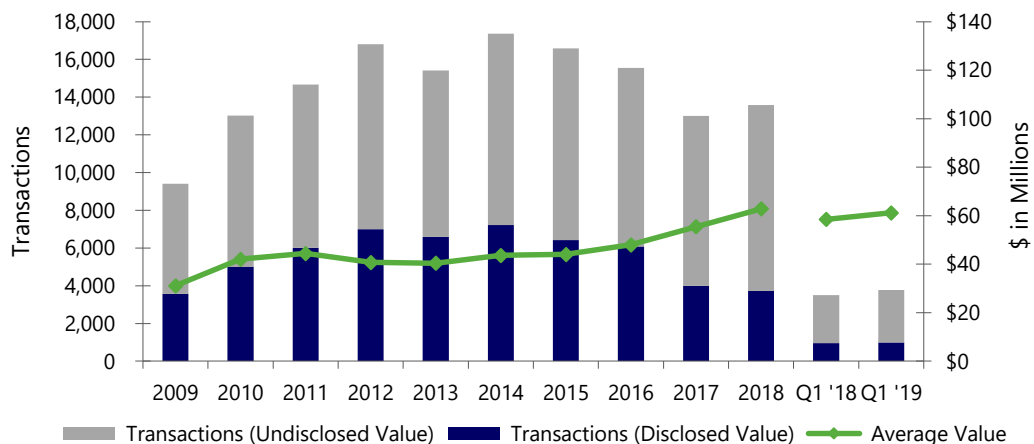
## SELLER FAVORABLE M&A WINDOW REMAINS OPEN

M&A activity for middle market companies remained robust in Q1 of 2019 as transaction volume increased slightly over the prior year. The record level of private equity fundraising over the last few years is a driving force in the M&A market as private equity buyer activity continues to set new highs. This unprecedented level of private equity buyer activity coupled with very healthy strategic buyer activity has driven more competition for deal targets and lead to multiple expansion. For example, EBITDA multiples for transactions in the \$100-250M range increased from 9.6x in 2018 to 11.8x in Q1 of 2019. While economic, trade tariff and political uncertainty appears to be increasing, the data suggests that the seller favorable M&A window remains wide open.

Many of the same themes at work in the broader M&A market can also be seen within specific industry segments. In the software market, for example, there is a record number of private equity funds targeting the segment as the recurring revenue, high margin business model is ideal for generating strong returns. There has also been a resurgence in IPO activity in the technology sector fueled by Silicon Valley unicorns like Uber, Lyft, and Pinterest. Healthy IPO activity tends to trickle down to middle market M&A as it sets high valuation benchmarks and also creates new strategic buyers that drive more competition for M&A targets.

The average EBITDA multiple paid by private equity buyers dipped from 7.3x in 2018 to 6.9x in Q1 2019 which suggests that private equity buyers may be starting to factor a recession into their valuations. This M&A bull market has already lasted longer than its predecessors and history tells us it is more likely than not that “winter is coming” in the next 2-3 years. And unlike Game of Thrones, we do not have Arya Stark to protect us. Entrepreneurs and business owners who have been too busy to think about exiting timing would be well advised to consider exploring M&A before the window closes.

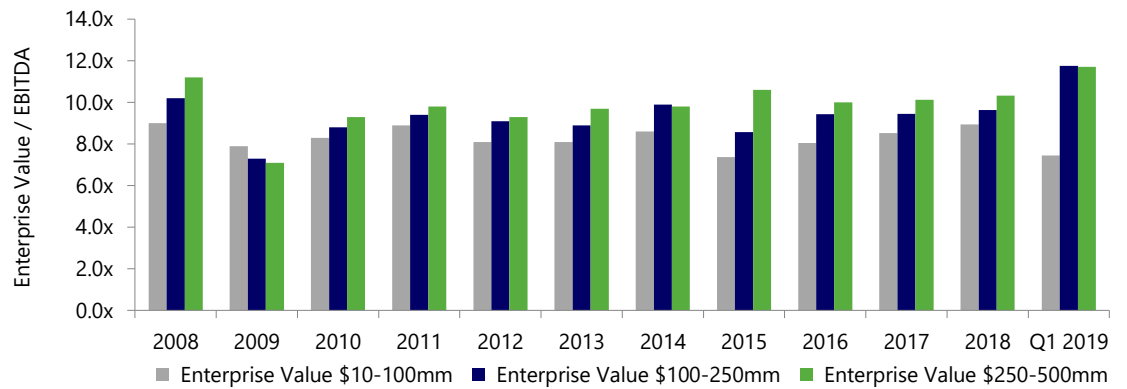
**Middle Market M&A Volume**



Source: Capital IQ  
Note: Enterprise Value < \$500mm

## AVERAGE MULTIPLES BY TRANSACTION SIZE

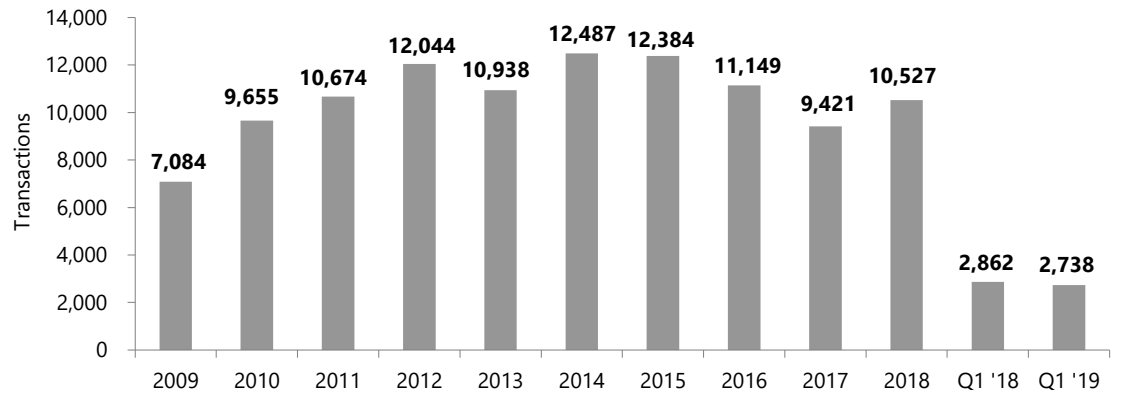
*Multiples in the \$100-\$250 mm transaction range saw the largest increase from 2018, rising from 9.6x to 11.8x*



Source: Capital IQ  
Note: includes multiples 3x-16x

## CORPORATE BUYER ACTIVITY

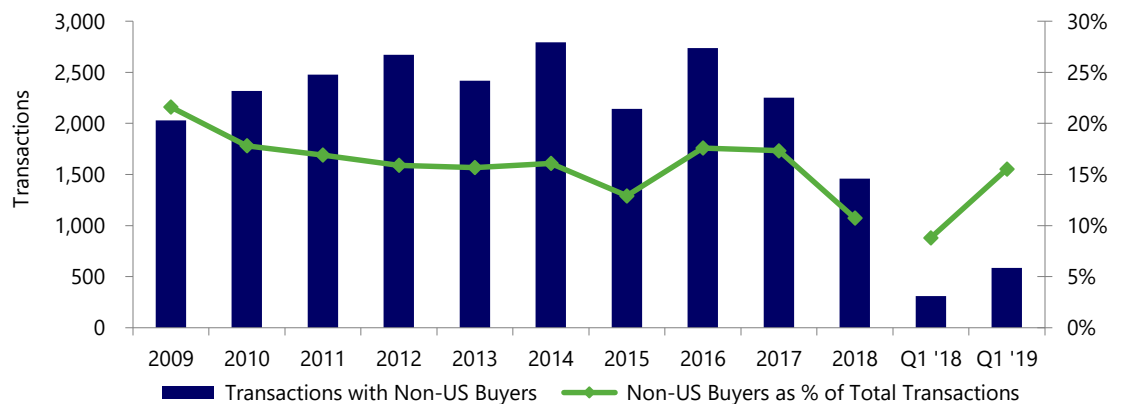
*Average deal value increased for corporate buyers year-over-year while buyer activity decreased modestly*



Source: Capital IQ  
Note: Enterprise Value < \$500mm

## FOREIGN BUYER ACTIVITY

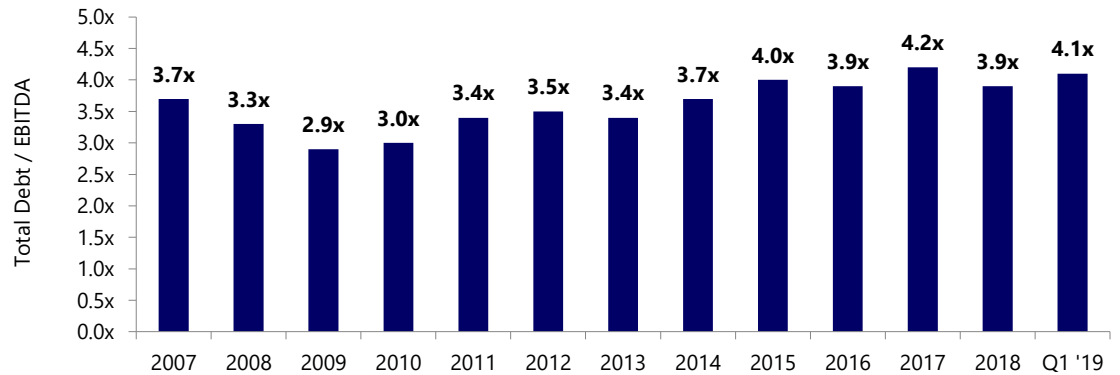
*Foreign buyers increased significantly in Q1 2019 accounting for 15.9% of overall middle market deal activity*



Source: Capital IQ  
Note: Enterprise Value < \$500mm

## PRIVATE EQUITY DEBT MULTIPLES

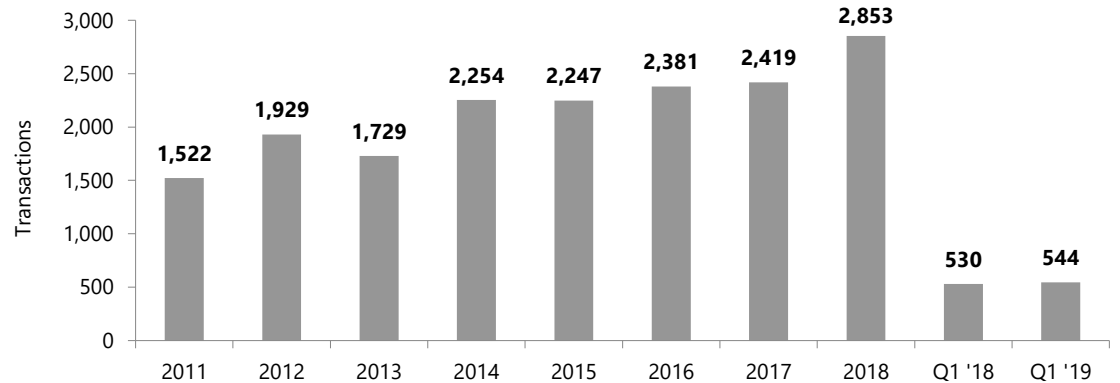
*Leverage ratios for private equity firms remain favorable at 4.1x EBITDA, just below the historic high of 2017*



Source: GF Data Resources  
Note: includes multiples 3x-15x, Enterprise Value \$10-\$250mm

## PRIVATE EQUITY BUYER ACTIVITY

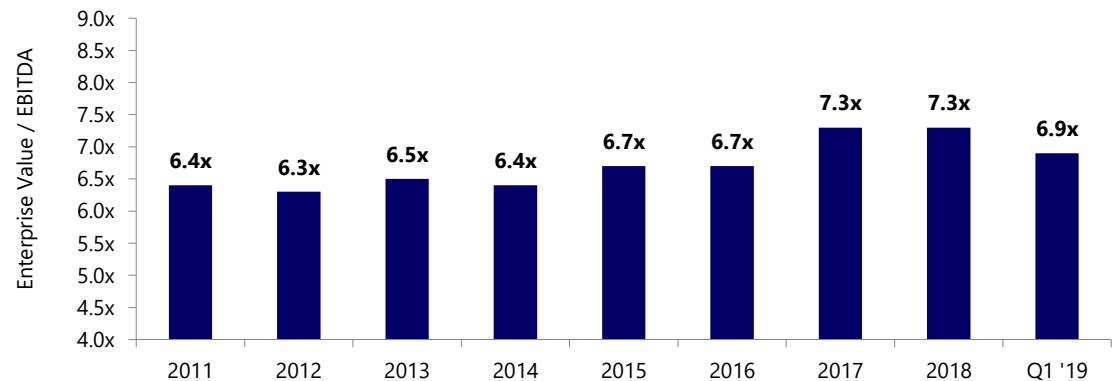
*Armed with dry powder, private equity buyer activity rose 2.6% year-over-year, outpacing record levels in 2018*



Source: Pitchbook

## PRIVATE EQUITY MULTIPLES

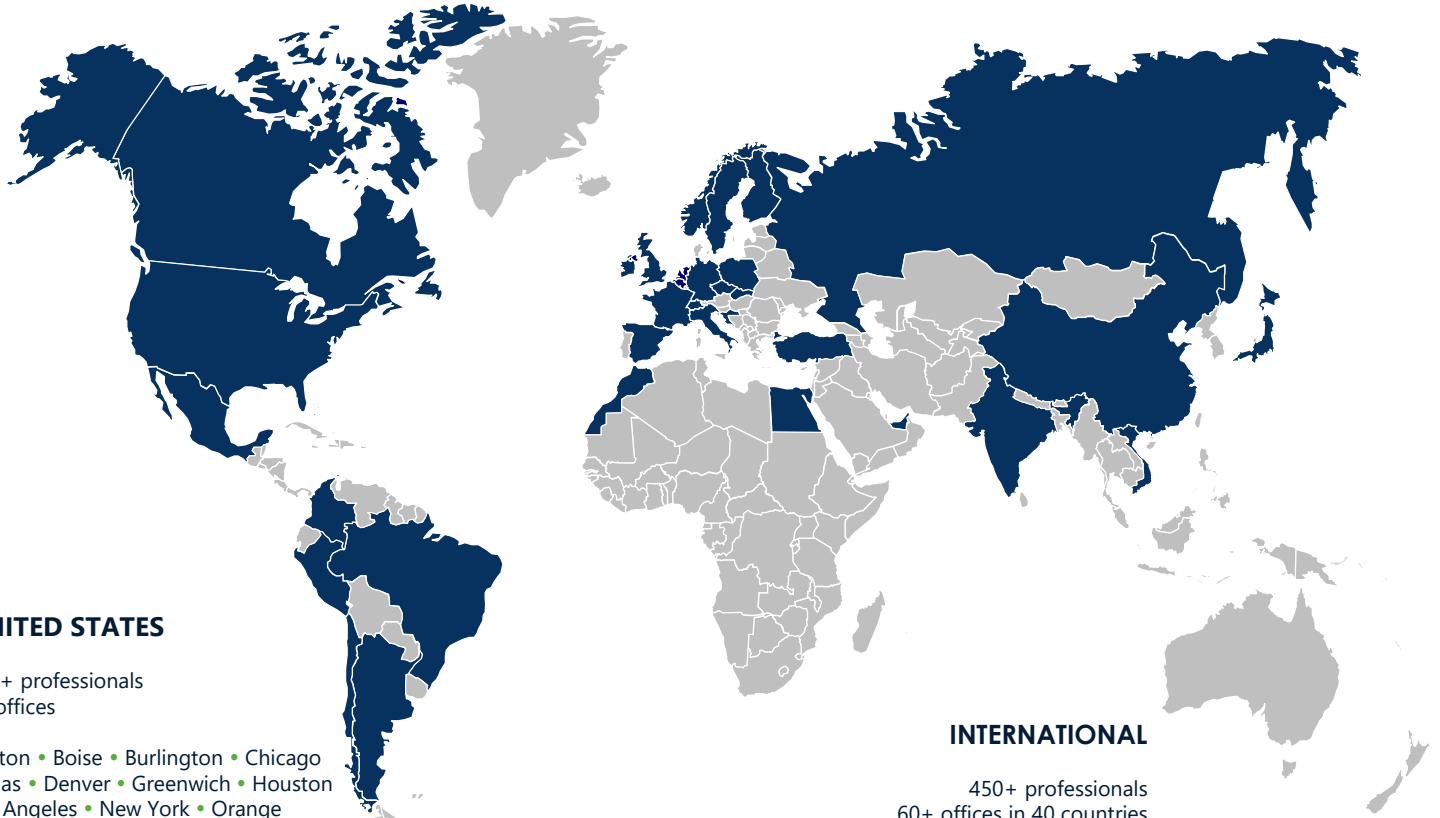
*The average EBITDA multiple paid by private equity buyers slipped below 2018, but remains strong at 6.9x*



Source: GF Data Resources  
Note: includes multiples 3x-15x, Enterprise Value \$10-\$250mm



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