GF DATA®

KEY DEAL TERMS

The most reliable data on private M&A transactions in the $10-250 million value range.

FALL 2020

SERVING THE MIDDLE MARKET SINCE 2006

About GF Data

GF Data provides data on private equity-sponsored M&A transactions with enterprise values of $10 to 250 million. GF Data gives private equity firms and other users more reliable external information to use in valuing and assessing M&A transactions.

GF Data collects transaction information from private equity groups on a blind and confidential basis. Three hundred and twenty three private equity firms have provided information on deals included in this report.

GF Data produces five products – (1) a quarterly report containing high-level valuation, volume and leverage data; (2) a quarterly supplement providing exhaustive detail on leverage and capital structure; (3) this semi-annual report providing detail on indemnification cap, escrow and other key deal terms; (4) industry drilldown reports interspersed with the quarterly report schedule; and (5) continuous access, through GF Data's secure web site, to detailed valuation data organized by NAICS industry code.

For information on subscribing, or on contributing data as a private equity participant, contact us at info@gfdata.com.

Fall Report Parameters

- Three hundred and twenty three participating private equity firms have provided data on transactions closed between January 1, 2003 and June 30, 2020. Two hundred and twenty seven of these firms are active contributors.
- The GF Data universe now comprises 3,573 transactions valued at $10-250 million, and at multiples ranging from 3 to 15 times Last Twelve Months Adjusted EBITDA.
- The drilldowns by NAICS code offered on the web site follow the same parameters. We provide valuation data on deals in more than 200 NAICS categories.

GF

Data Highlights

First, a recap of our August report on broader market trends:

Completed deal activity in the second quarter of 2020—the first period bearing the full brunt of coronavirus—left a surprisingly clear imprint on the marketplace: Virtually no change in valuations on dramatically reduced volume and utilizing dramatically less debt.

GF Data's 227 active private equity contributors reported on 31 transactions completed in 2Q and meeting our parameters—Total Enterprise Value (TEV) $10-250 million and TEV/Trailing Twelve Months (TTM) Adjusted EBITDA 3-15x.

Valuations averaged 7.4x TTM Adjusted EBITDA– unchanged from 1Q. Yet there were only 31 completed deals in the GF Data universe, compared to about 80 in the prior quarter and the year-ago second quarter. Even allowing for late reporting in the latest period, completed transaction activity was off 50-60 percent.

The headline numbers for the last six quarters are:

All Transactions	1Q 19	2Q 19	3Q 19	4Q 19	1Q 20	2Q 20
# of Deals	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TEV/EBITDA	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total Debt/EBITDA	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Senior Debt/EBITDA	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Moving on to indemnification and other key deal points, Chart 1 captures a rolling wave and a tsunami. The rolling wave is the continued expansion of rep and warranty insurance (RWI) in private transactions. The tsunami is the impact of Covid-19 on the deals being completed in the second quarter of this year.

- The general cap on indemnification against breaches of reps and warranties continued to decline from 11.6% in 2019 to 8.2% in the first six months of this year. However, the year-to-date figure encompasses a first quarter average of 8.6% and a second quarter average—on reduced volume—of 6.7%. While there was little movement in valuation from quarter to quarter, this may well be a comment on the robustness and risk profile of the small cohort of deals that did find the finish line in 2Q.
- One question widely asked in the last few months: has there been increased use of seller financing or earnouts (SFE) to bridge valuation gaps opened or widened by these unusual conditions? Acquirers reported greater usage in the $10-$50 million TEV range, where Chart 1 shows gains of 5-7% quarter over quarter. At $50-250 million TEV, the incidence is essentially unchanged.
- Utilization of RWI did increase in the second quarter. Buyers reported use of an insurance product in about 56% of completed deals in 1Q—in line with 2019 experience and continuing the trend of the past five years.
- In 2Q, that figure jumped to 61%. How much of this was rolling wave and how much tsunami remains to be seen.

VALUATION AND KEY DEAL TERM OVERVIEW

CHART 1

INDEMNIFICATION CAP DRILLDOWN—2019/2020 1H

2019	All Transactions			TEV/EBITDA						Indemnification Caps			
TEV	TEV/ EBITDA	N =	Indem Cap	Seller Fin or Earnout	Without SFE	% of Deals	Rep & War Insurance	Without Ins	% of Deals	Seller Fin or Earnout	Without SFE	Rep & War Insurance	Without Ins
10-25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25-50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50-250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

2020 1H	All Transactions			TEV/EBITDA						Indemnification Caps			
TEV	TEV/ EBITDA	N =	Indem Cap	Seller Fin or Earnout	Without SFE	% of Deals	Rep & War Insurance	Without Ins	% of Deals	Seller Fin or Earnout	Without SFE	Rep & War Insurance	Without Ins
10-25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25-50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50-250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Note: Overall valuation and N = data are for the entire sample, not just deals featuring indemnification caps.

CHART 2

TOTAL ENTERPRISE VALUE (TEV)/EBITDA

TEV	2003 –2015	2016	2017	2018	2019	1H 2020	Total	N =
10-25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25-50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50-100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
100-250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
N =	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]

Please note that N for 2003-15 encompasses thirteen years of activity.

SOURCE: GF DATA®

CHART 3

AVERAGE MULTIPLES AND DEAL VOLUME

Please note Volume for 2020 is annualized.

SOURCE: GF DATA®

CHART 4

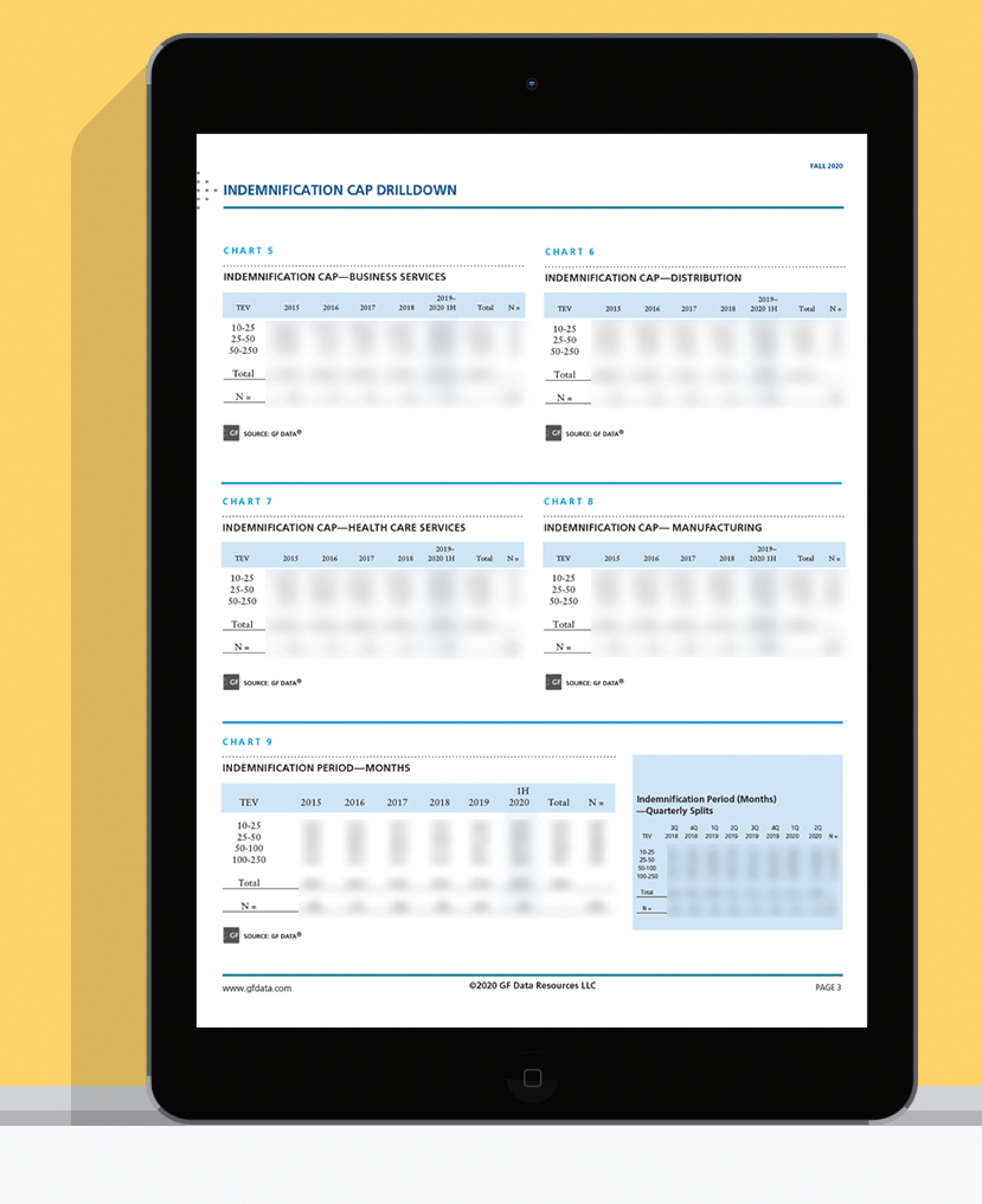
INDEMNIFICATION CAP— % OF TOTAL ENTERPRISE VALUE

TEV	2015	2016	2017	2018	2019	1H 2020	Total	N =
10-25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25-50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50-100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
100-250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
N =	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]

Indemnification Cap—Quarterly Splits

TEV	3Q 2018	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019	1Q 2020	2Q 2020	N =
10-25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25-50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50-100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
100-250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
N =	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SOURCE: GF DATA®



INDEMNIFICATION CAP DRILLDOWN

CHART 5

INDEMNIFICATION CAP—BUSINESS SERVICES

TEV	2015	2016	2017	2018	2019–2020 1H	Total	N =
10-25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25-50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50-250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
N =	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]

SOURCE: GF DATA®

CHART 6

INDEMNIFICATION CAP—DISTRIBUTION

TEV	2015	2016	2017	2018	2019–2020 1H	Total	N =
10-25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25-50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50-250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
N =	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]

SOURCE: GF DATA®

CHART 7

INDEMNIFICATION CAP—HEALTH CARE SERVICES

TEV	2015	2016	2017	2018	2019–2020 1H	Total	N =
10-25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25-50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50-250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
N =	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]

SOURCE: GF DATA®

CHART 8

INDEMNIFICATION CAP— MANUFACTURING

TEV	2015	2016	2017	2018	2019–2020 1H	Total	N =
10-25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25-50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50-250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
N =	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]

SOURCE: GF DATA®

CHART 9

INDEMNIFICATION PERIOD—MONTHS

TEV	2015	2016	2017	2018	2019	1H 2020	Total	N =
10-25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25-50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50-100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
100-250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
N =	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]

Indemnification Period (Months) —Quarterly Splits

TEV	3Q 2018	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019	1Q 2020	2Q 2020	N =
10-25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25-50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50-100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
100-250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
N =	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SOURCE: GF DATA®

ESCROW/HOLDBACK DATA

CHART 10

ESCROW/HOLDBACK—% OF TOTAL ENTERPRISE VALUE

TEV	2015	2016	2017	2018	2019	1H 2020	Total	N =
10-25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25-50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50-100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
100-250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
N =	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SOURCE: GF DATA®

Escrow/Holdback—Quarterly Splits

TEV	3Q 2018	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019	1Q 2020	2Q 2020	N =
10-25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25-50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50-100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
100-250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
N =	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CHART 11

ESCROW/HOLDBACK PERIOD—MONTHS

TEV	2015	2016	2017	2018	2019	1H 2020	Total	N =
10-25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25-50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50-100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
100-250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
N =	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SOURCE: GF DATA®

Escrow/Holdback Period (Months)—Quarterly Splits

TEV	[illegible]
10-25	[illegible]
25-50	[illegible]
50-100	[illegible]
100-250	[illegible]
Total	[illegible]
N =	[illegible]

CHART 12

ESCROW/HOLDBACK DRILLDOWN—2019/2020 1H

	2019			2020 1H		
TEV	W/ RWI	W/O WRI	Period (Months)	W/ RWI	W/O WRI	Period (Months)
10-25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25-50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50-250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SOURCE: GF DATA®

- Chart 12 breaks out escrow/holdback amounts based on the presence of RWI.
- The year to date numbers are not meaningfully different than the 2019 data—about 2% in deals featuring RWI and 6-7% in deals without.
- In 2020, the overall average declined from 4.3% in 1Q to 3.1% in 2Q.
- The more notable quarterly movement was in escrow/holdback period. This is a number that generally doesn't move much. The first quarter average was 15.5 months—in keeping with historical experience. The second quarter average was markedly lower—11.5 months. Again, it will take some time to assess whether this is abnormality, secular movement or impact of covid.

BASKET DATA

CHART 13

BASKET—% OF TOTAL ENTERPRISE VALUE

TEV	2015	2016	2017	2018	2019	1H 2020	Total	N =
10-25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25-50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50-100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
100-250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
N =	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]

Basket—Quarterly Splits

TEV	3Q 2018	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019	1Q 2020	2Q 2020	N =
10-25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25-50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50-100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
100-250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
N =	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

KEY DEAL TERMS OVERVIEW

GF Data's searchable data base is available on line at www.gfdata.com.

Key Deal Term Definitions

As deal professionals, we're aware of the many variations and refinements raised by general terms like "indemnification cap" or "basket." Below are the guidelines GF Data has provided to private equity data contributors:

- Indemnification cap refers to the general indemnification provided by the seller to the buyer against breaches of reps and warranties. This does not include carveouts for specific issues or items. For example, parties often agree that the general cap will not apply in the event of fraud.
- Survival period refers to the period after closing during which a buyer may assert a breach of the reps and warranties against seller. Again, this does not include carveouts. For example, exposure on tax, environmental, and ERISA issues often exceeds the general survival period.
- Basket refers to the amount that damages or losses must exceed before a seller is liable for any indemnification payments. We are interested in this threshold amount irrespective of whether the threshold functions as a deductible or triggers "first-dollar" payment on any claims.
- Escrow/Holdback refers to transaction consideration either placed in escrow or retained by the seller subject to events or conditions expected to occur post-closing. For example, the parties may agree to a working capital adjustment based on financial statements that will not be available until after the end of the fiscal period. This does not include earnouts or other payments payable to Seller post-closing contingent on the selling company's performance for a certain period post-closing.
- Escrow/Holdback Period refers to the time when the last of funds placed in escrow or held back are scheduled to be released.

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