

# GF DATA<sup>®</sup>

## LEVERAGE REPORT

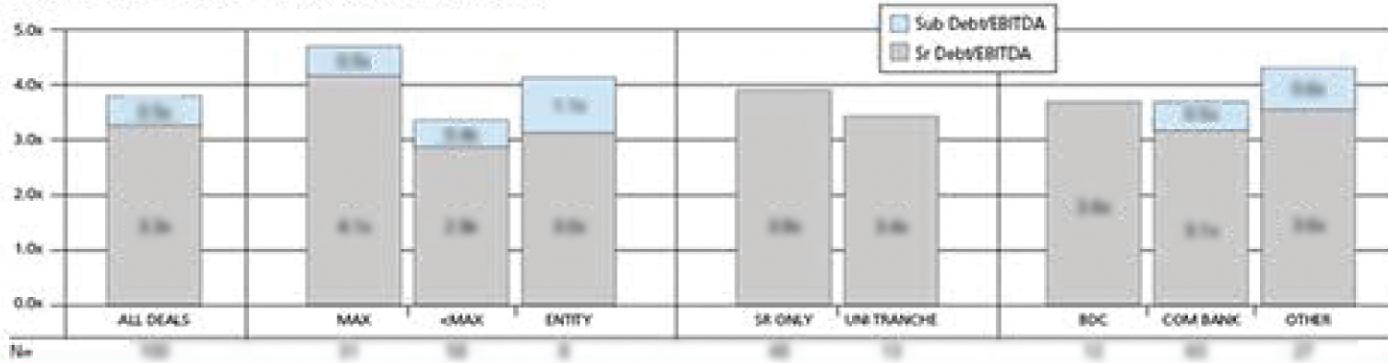
AUG  
2020

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

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### CHART 1

#### DEBTHEAD<sup>®</sup> —2020 YTD LEVERAGE DRILLDOWN



The GF Data Leverage Report is a more intensive analysis of leverage and capital structure trends.

Chart 8 now includes crosstabs of data by type of buyer—private equity group, family office or mezzanine/junior capital provider. In addition, we provide a Small Business Investment Company crosscut (SBICs encompasses some of the PEG and some of the mezzanine/junior capital samples.)

To review what is reported in Chart 1, popularly known as “DebtHead<sup>®</sup>”:

- The first bar shows senior and total debt multiples for the entire GF Data universe.
- The next set of bars shows leverage based on the acquirer’s “debt posture”—whether the transaction was done at or close to maximum leverage, less than maximum, or reflected the characteristics of an acquiring platform or parent entity.
- Next is debt levels on the two forms of transaction not involving discreet junior capital—deals with senior debt only and those using uni-tranche financing.
- Finally, for deals with senior and sub debt, we break out debt loads based on the nature of the senior debt provider—Business Development Corporation (BDC), Commercial Bank or Non-BDC/Non-Bank Lender.

#### Data Highlights:

- Leverage data for the year to date is an amalgam of experience in two quite different quarters. The first quarter—with closings weighted toward the prior year-end—represents the final months of an accommodating leverage environment. The second quarter involved an immediate choke down in completed deal volume and in debt utilization following the onset of coronavirus.
- As noted in the accompanying M&A report, aggregate debt levels, expressed as multiples of TTM adjusted EBITDA, pulled back dramatically. Total debt receded from 3.9x in 1Q to 3.3x in 2Q. Senior debt fell from 3.4x to 2.8x.
- Maximum leverage—average debt load reported by buyers believing they financed their deals at or close to the market’s upper tolerance—fell from 4.7x to 4.2x. For deals financed based on characteristics of another entity—almost always platform holdings being used to complete add-ons—the drop was 4.3x to 3.5x.
- One trend noted in 1Q was the apparent convergence of commercial bank lenders straining to compete with non-banks, and non-bank lenders providing more conservative capital structures to acquirees preparing for a conventionally recessionary environment.
- That apparent trend was obliterated by the advent of Covid-19. Average debt in unitranch deal continued to decline, from 3.6x to 3.0x. Average debt provided by commercial banks, however, fell off the table—dropping from 4.0x to 2.6.
- The only “up” leverage metric from 1Q to 2Q was on average debt involving mezzanine/junior capital providers, where there was a jump from 3.7x to 4.6x. This may point to the ability of this class of capital providers to respond to counter-cyclical conditions, or it may be an aberration. It is a metric to watch.



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### CHART 2

#### TOTAL DEBT/EBITDA—SPLITS BY PERIOD

TEV	3Q 2018	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019	1Q 2020	2Q 2020	N=
10-25	3.0	3.0	4.2	3.8	3.8	3.8	3.8	3.8	839
25-50	3.8	3.8	4.2	3.8	4.2	3.7	3.8	3.8	869
50-100	3.7	3.8	3.8	4.0	3.8	3.8	3.7	3.7	839
100-250	3.6	3.7	3.9	3.8	4.0	4.7	3.8	3.8	78
Total	3.7	3.7	3.8	3.8	3.8	3.8	3.8	3.8	
N =	79	82	79	88	82	88	73	88	

SOURCE: GF DATA<sup>®</sup>

### CHART 3

#### SENIOR DEBT/EBITDA—SPLITS BY PERIOD

TEV	3Q 2018	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019	1Q 2020	2Q 2020	N=
10-25	3.0	3.0	4.2	3.8	3.8	3.8	3.8	3.8	839
25-50	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	839
50-100	3.7	3.8	3.8	3.8	3.8	3.8	3.8	3.8	839
100-250	3.6	3.8	3.8	3.8	3.8	3.8	3.8	3.8	839
Total	3.7	3.8	3.8	3.8	3.8	3.8	3.8	3.8	
N =	80	88	89	93	85	93	85	93	

SOURCE: GF DATA<sup>®</sup>

## DEBT LEVELS BY YEAR

**CHART 4****TOTAL DEBT/EBITDA—ALL INDUSTRIES BY DEAL SIZE**

TEV	2003– 2015 2016 2017 2018 2019 YTD 2020						Total	N =
	10-25	25-50	50-100	100-250	250-500	500+ 500+		
10-25	0.0	0.0	0.0	0.0	0.0	0.0	0.0	000
25-50	0.0	0.0	0.0	0.0	0.0	0.0	0.0	000
50-100	0.0	0.0	0.0	0.0	0.0	0.0	0.0	000
100-250	0.0	0.0	0.0	0.0	0.0	0.0	0.0	000
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	000
N =	000	000	000	000	000	000	000	000

Note: Deals with no debt are eliminated from leverage data, as are significant outliers. Please note that N for 2003-15 encompasses thirteen years of activity.

 SOURCE: GF DATA®

**CHART 5****TOTAL DEBT/EBITDA—PLATFORM BUYOUTS ONLY**

TEV	2003– 2015 2016 2017 2018 2019 YTD 2020						Total	N =
	10-25	25-50	50-100	100-250	250-500	500+ 500+		
10-25	0.0	0.0	0.0	0.0	0.0	0.0	0.0	000
25-50	0.0	0.0	0.0	0.0	0.0	0.0	0.0	000
50-100	0.0	0.0	0.0	0.0	0.0	0.0	0.0	000
100-250	0.0	0.0	0.0	0.0	0.0	0.0	0.0	000
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	000
N =	000	000	000	000	000	000	000	000

Note: Deals were not identified as platforms or add-ons until 2006—thus the 2003-14 count here is incomplete in relation to the total universe shown in Chart 4. Please note that N for 2003-15 encompasses thirteen years of activity.

 SOURCE: GF DATA®

**CHART 6****SENIOR DEBT/EBITDA—ALL INDUSTRIES BY DEAL SIZE**

TEV	2003– 2015 2016 2017 2018 2019 YTD 2020						Total	N =
	10-25	25-50	50-100	100-250	250-500	500+ 500+		
10-25	0.0	0.0	0.0	0.0	0.0	0.0	0.0	000
25-50	0.0	0.0	0.0	0.0	0.0	0.0	0.0	000
50-100	0.0	0.0	0.0	0.0	0.0	0.0	0.0	000
100-250	0.0	0.0	0.0	0.0	0.0	0.0	0.0	000
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	000
N =	000	000	000	000	000	000	000	000

Note: Deals with no debt are eliminated from leverage data, as are significant outliers. Please note that N for 2003-15 encompasses thirteen years of activity.

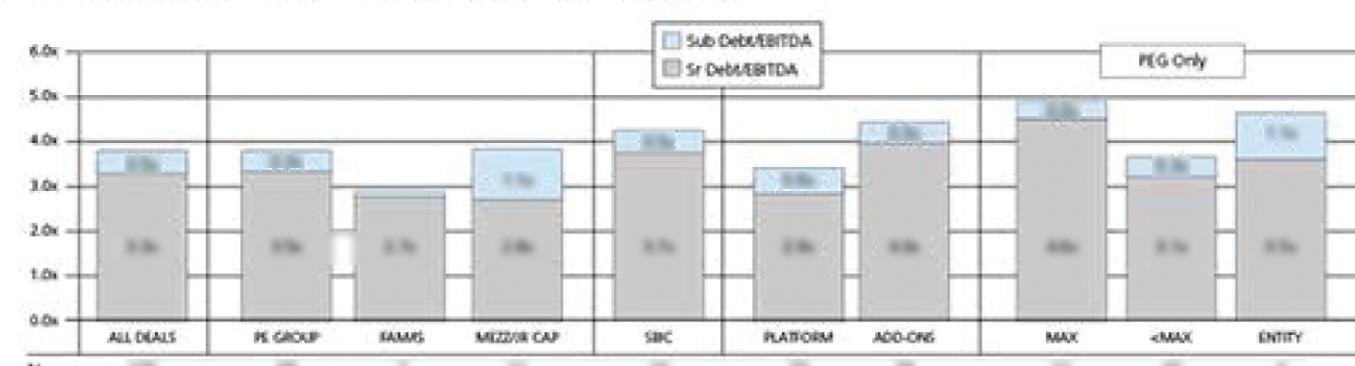
 SOURCE: GF DATA®

**CHART 7****SENIOR DEBT/EBITDA—PLATFORM BUYOUTS ONLY**

TEV	2003– 2015 2016 2017 2018 2019 YTD 2020						Total	N =
	10-25	25-50	50-100	100-250	250-500	500+ 500+		
10-25	0.0	0.0	0.0	0.0	0.0	0.0	0.0	000
25-50	0.0	0.0	0.0	0.0	0.0	0.0	0.0	000
50-100	0.0	0.0	0.0	0.0	0.0	0.0	0.0	000
100-250	0.0	0.0	0.0	0.0	0.0	0.0	0.0	000
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	000
N =	000	000	000	000	000	000	000	000

Note: Deals were not identified as platforms or add-ons until 2006—thus the 2003-14 count here is incomplete in relation to the total universe shown in Chart 4. Please note that N for 2003-15 encompasses thirteen years of activity.

 SOURCE: GF DATA®

**CHART 8****DEBTHOLD BY TYPE OF BUYER—2020 YTD LEVERAGE DRILLDOWN**

 SOURCE: GF DATA®

## DEBT LEVELS BY INDUSTRY

### CHART 9

#### TOTAL DEBT/EBITDA—MANUFACTURING BY DEAL SIZE

TEV	2003–2020						Total	N =
	2003	2015	2016	2017	2018	2019	YTD 2020	
10-25	3.2	3.5	3.6	3.6	3.6	3.6	3.6	323
25-50	3.6	3.5	4.2	4.2	3.8	3.8	3.8	428
50-100	3.9	4.2	4.2	3.9	4.2	4.0	3.7	386
100-250	4.3	4.7	4.2	4.3	4.0	4.2	4.2	323
Total	3.6	3.6	3.6	3.6	3.6	3.6	3.7	
N =	323	323	398	323	323	323	323	1298

Note: Deals with no debt are eliminated from leverage data, as are significant outliers. Please note that N for 2003-15 encompasses thirteen years of activity.

 SOURCE: GF DATA®

### CHART 10

#### SENIOR DEBT/EBITDA—MANUFACTURING BY DEAL SIZE

TEV	2003–2020						Total	N =
	2003	2015	2016	2017	2018	2019	YTD 2020	
10-25	3.2	3.6	3.6	3.9	3.6	3.6	3.6	407
25-50	3.6	3.4	3.6	3.5	3.4	3.6	3.6	392
50-100	3.9	3.2	3.6	3.5	3.3	3.7	3.6	386
100-250	4.3	4.0	3.6	3.3	3.7	3.8	3.3	323
Total	3.6	3.6	3.6	3.6	3.6	3.6	3.7	
N =	407	392	398	323	323	323	323	1298

Note: Deals with no debt are eliminated from leverage data, as are significant outliers. Please note that N for 2003-15 encompasses thirteen years of activity.

 SOURCE: GF DATA®

### CHART 11

#### TOTAL DEBT/EBITDA—BUSINESS SERVICES BY DEAL SIZE

TEV	2003–2020						Total	N =
	2003	2015	2016	2017	2018	2019	YTD 2020	
10-25	3.2	3.2	4.0	3.8	3.2	3.2	3.2	340
25-50	3.2	3.2	3.6	3.2	3.2	3.2	3.2	398
50-100	3.4	4.0	4.0	3.9	3.2	3.2	3.2	327
100-250	4.3	4.9	4.9	4.8	4.2	4.2	4.2	323
Total	3.2	3.2	4.0	3.8	3.2	3.2	3.2	
N =	340	340	405	323	323	323	323	1298

Note: Deals with no debt are eliminated from leverage data, as are significant outliers. Please note that N for 2003-15 encompasses thirteen years of activity.

 SOURCE: GF DATA®

### CHART 12

#### SENIOR DEBT/EBITDA—BUSINESS SERVICES BY DEAL SIZE

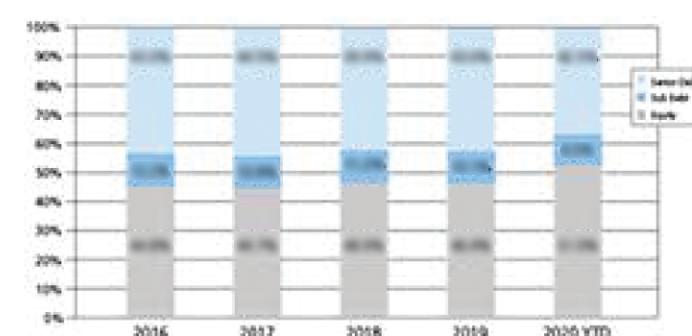
TEV	2003–2020						Total	N =
	2003	2015	2016	2017	2018	2019	YTD 2020	
10-25	3.2	3.2	4.0	3.8	3.2	3.2	3.2	340
25-50	3.2	3.4	3.8	3.5	3.2	3.2	3.2	398
50-100	3.7	3.8	4.0	3.2	3.2	3.2	3.2	327
100-250	3.9	3.8	3.8	3.7	4.2	4.2	3.6	323
Total	3.2	3.2	3.7	3.6	3.2	3.2	3.2	
N =	340	340	398	323	323	323	323	1298

Note: Deals with no debt are eliminated from leverage data, as are significant outliers. Please note that N for 2003-15 encompasses thirteen years of activity.

 SOURCE: GF DATA®

### CHART 13

#### EQUITY AND DEBT CONTRIBUTION BY YEAR

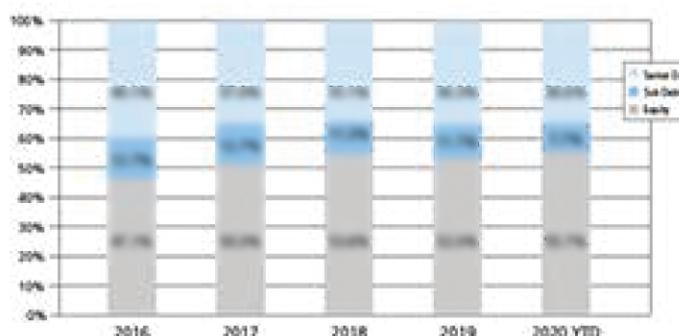


- Charts 9-12 show total and senior debt multiples for the two business categories most represented in the GF Data universe—manufacturing and business services.
- In manufacturing total debt ticked down in 1Q before falling further in 2Q. Overall, the drop was from 3.9x in 2019 to 3.5x in the year to date.
- In business services, on the other hand, total debt edged up in 1Q before pulling back in 2Q. Given the much greater transaction activity in the first quarter, average debt for the year to date rose, from 3.7x to 3.9x.
- Chart 13 enables us to home in on the extent to which buyers “over-equitized,” or at least accepted increased equity share, in order to get deals done in 2Q. Average equity contribution for the year to date of 51 percent breaks out into 48.7 percent in 1Q and nearly eight points more—56.5 percent in 2Q.
- Charts 14 and 15 are relatively new additions. Average equity share across our entire sample was being artificially reduced by the preponderance of deals completed as add-on acquisitions, involving little or no equity. These charts comprise platform acquisitions only.

## EQUITY AND DEBT CONTRIBUTION

**CHART 14**

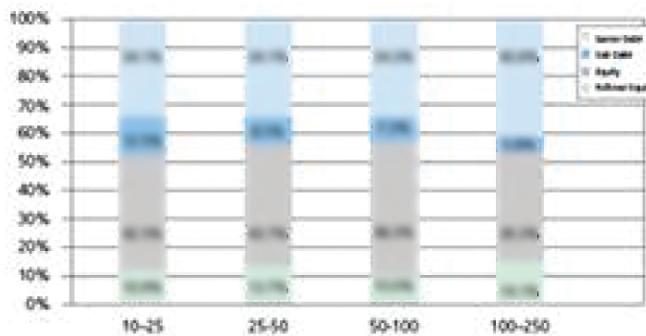
EQUITY AND DEBT CONTRIBUTION BY YEAR, PLATFORM DEALS



GF SOURCE: GF DATA®

**CHART 15**

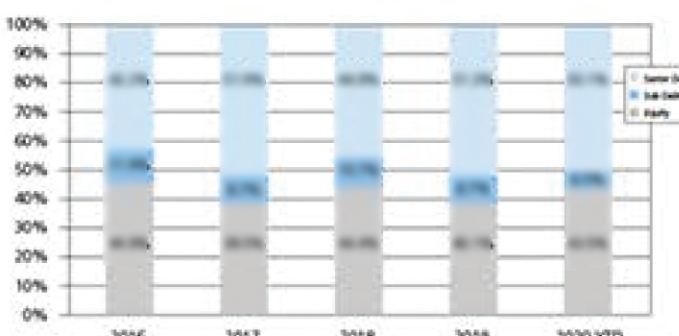
EQUITY AND DEBT CONTRIBUTION BY TEV, PLATFORM DEALS, 2020 YTD



GF SOURCE: GF DATA®

**CHART 16**

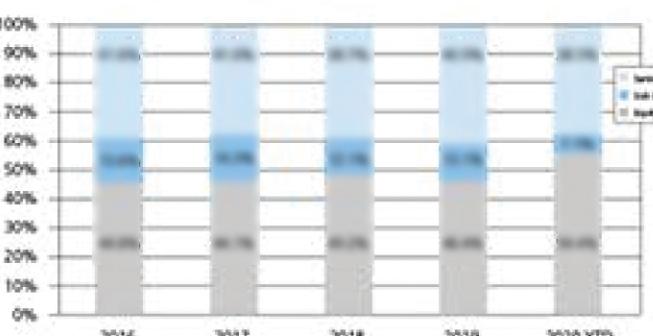
EQUITY AND DEBT — \$10-25 MILLION TEV



GF SOURCE: GF DATA®

**CHART 17**

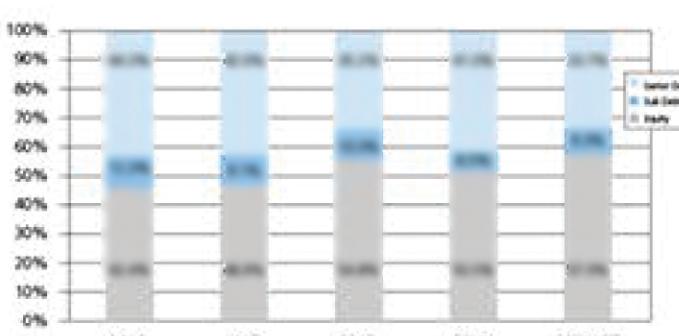
EQUITY AND DEBT — \$25-50 MILLION TEV



GF SOURCE: GF DATA®

**CHART 18**

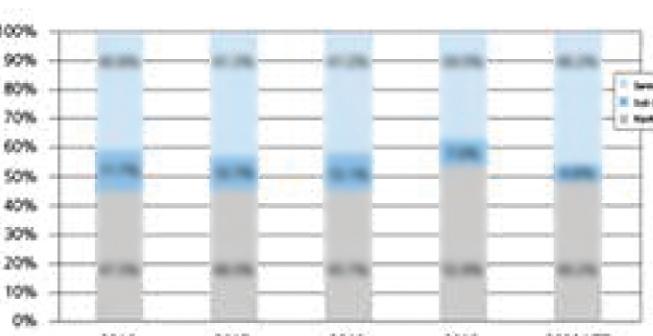
EQUITY AND DEBT — \$50-\$100 MILLION TEV



GF SOURCE: GF DATA®

**CHART 19**

EQUITY AND DEBT — \$100-250 MILLION TEV

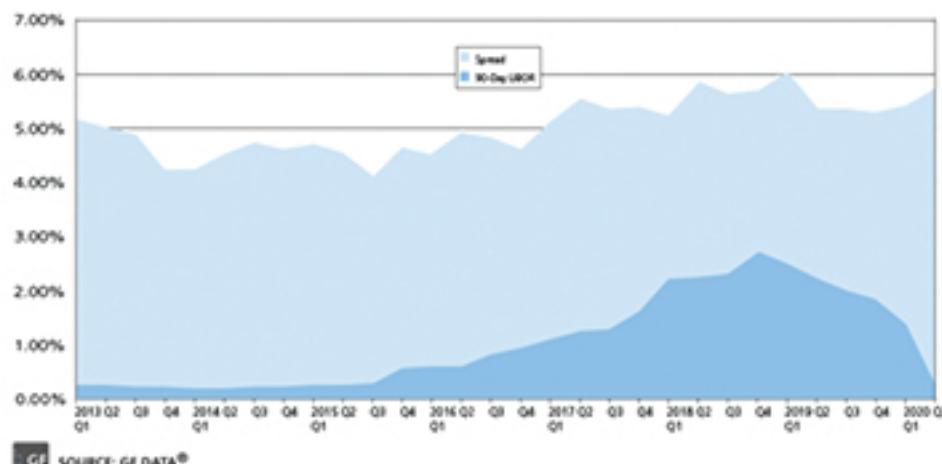


GF SOURCE: GF DATA®

## EQUITY AND DEBT CONTRIBUTION

CHART 20

## SENIOR DEBT TO LIBOR SPREAD



- Even as 90-day Libor tumbled to .3%, spreads against the base rate swelled.
- Average senior pricing jumped from Libor plus 4.2% to L plus 5.7%.
- Average sub debt coupon was 10.6% for the quarter – a slight decline in the raw number, but a rise of 70 basis points against Libor.
- Charts 23 and 24 provide all-in pricing on deals with subordinated debt. Average all-in pricing for the year to date was 13.9%, virtually unchanged from 13.8% in 2019, but this makes the prior point in a different way. Stable or near stable rates in a period of declining benchmark rates means lenders are obtaining increased spreads.

CHART 21

## SENIOR DEBT PRICING—SPLITS BY PERIOD

TEV	3Q 2018	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019	1Q 2020	2Q 2020	N=
10-25									
25-50									
50-100									
100-250									
Total									
N=									
90-Day LIBOR*									
Spread vs. LIBOR									

\*All rates are as of the respective quarter end.

GF SOURCE: GF DATA®

CHART 22

## SUBORDINATED DEBT—AVERAGE COUPON &amp; SPREADS

TEV	3Q 2018	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019	1Q 2020	2Q 2020	N=
10-25									
25-50									
50-100									
100-250									
Total									
N=									
90-Day LIBOR*									
Spread vs. LIBOR									

\*All rates are as of the respective quarter end.

GF SOURCE: GF DATA®

CHART 23

## ALL-IN DEBT PRICING—DEALS WITH SUB DEBT 2019

TEV	COUPON	PIK	WBR/FEES	TOTAL	N=
10-25					
25-50					
50-100					
100-250					
Total					

GF SOURCE: GF DATA®

CHART 24

## ALL-IN DEBT PRICING—DEALS WITH SUB DEBT 2020 YTD

TEV	COUPON	PIK	WBR/FEES	TOTAL	N=
10-25					
25-50					
50-100					
100-250					
Total					

GF SOURCE: GF DATA®

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GF Data Resources LLC  
2176 Harts Lane  
Conshohocken, PA 19428  
Phone: 610-616-4607

Andrew T. Greenberg

atg@gfdata.com

B. Graeme Frazier, IV

bgf@gfdata.com

Bob Wegbreit

bw@gfdata.com

Susan Guthrie

sg@gfdata.com

Tracey Osecki

to@gfdata.com