

Middle Market Held Sway In 2Q

Survey of 128 private equity firms involved 961 deals over the last six years.

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September 15, 2009

Middle-market valuation multiples remained strong in the second quarter in spite of tough credit market conditions, according to the latest report from **GF Data Resources LLC**.

A survey of 128 private equity firms involved in 961 deals over the last six years by GF Data revealed that "quality deals" valued from \$10 million to \$250 million were still being completed in the quarter. Even so, financial sponsors have had to structure their deals with as much as 60% equity.

"We believe high-quality growth investments will accelerate in the third quarter as private equity firms seek to deploy capital in an improving economy as the financing markets hopefully begin to thaw," said **Andrew Greenberg**, chief executive of GF Data Resources, in a statement.

GF Data Resources, a Philadelphia-based private equity data provider, found that there were 88 deals completed in the first half of 2007 before the financial crisis took hold. By contrast, the same firms have only completed 21 transactions in the first half of this year, and eight in the second quarter alone.

The trailing 12-month adjusted Ebitda purchase multiple for the second quarter of 2009 totaled 6.6x, compared with 5.8x cash flow in the first quarter and 5.9x for all of 2008. Meanwhile, the average availability of debt for the quarter declined from 3x cash flow to 2x Ebitda.

For the three quarters since the financial markets ground to a halt last fall, senior and total debt have averaged about 1.8x and 2.8x, respectively.

The sectors that were strong through the year and generated the most middle-market deal activity were manufacturing, business services and healthcare. For instance, manufacturing companies attracted an average 5.6x cash flow multiple in 2009, which is almost comparable to the 5.8x Ebitda average from 2003-2008.

Additionally, business service companies drew an average 6.3x in 2009 and healthcare services 6.5x Ebitda.

“Industry-specific data clearly shows that the deals getting done are the ones most able to command valuations in line with historic averages,” said **B. Graeme Frazier IV**, principal and co-founder of GF Data.