Buyouts

Prices In Middle Market Rose Toward Year-end

Ari Nathanson
Buyouts Magazine
March 1, 2010

The average purchase price multiple for mid-market companies rose modestly but remained historically low in the final quarter of 2009 as a larger universe of sellers hit the market and more debt became available to back bigger deals.

In the fourth quarter, buyout shops acquiring companies valued between $10 million and $250 million paid an average of 5.2x trailing twelve-month EBITDA, up slightly from the third quarter's 5.0x, according to the latest report from GF Data Resources LLC, a provider of private equity data. Those purchase multiples represent a significant drop from the first and second quarters of the year, when prices averaged 5.7x and 6.4x, respectively.

"The beginning of 2009 was really Death Valley days in terms of the market," Andrew Greenberg, CEO and co-founder of GF Data, told Buyouts. The credit markets were frozen and the prospect of a system-wide meltdown was still very much a possibility. Business owners had no visibility on performance and a lot of anxiety. "Pretty much the only companies that were selling were strong performers that had the ability to see though all that," Greenberg said. "That's why you had stressed volume and the high premium."

Most likely, the reduction in purchase price multiples in the second half of the year is due to the broader quality spectrum of companies available to buyers today. "The story of the second half of 2009 is owners of good—but not exceptional—properties reconciling themselves to lower valuations and returning to the market," Greenberg said.

For GF Data's reporting purposes, "above average" or "exceptional" performers are defined as businesses with EBITDA margins in excess of 10 percent and revenue growth in excess of 10 percent. "Above-average performers accounted for 65 percent of the buyouts completed in the first half of the year and 36 percent of the buyouts in the second half," Greenberg said.

Meanwhile, there's also more leverage available to acquire the new class of companies hitting the market. In the final few months of the year, LBOs with enterprise values between $100 million and $250 million closed with an average total leverage ratio of 4.4x, with senior debt accounting for about 3.2x of the aggregate, according to GF Data. That's a significant increase compared to the 2.4x total leverage ratio and 1.7x senior debt ratio that characterized the mid-market universe for all of 2009, according to the report.
By Ari Nathanson