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Purchase Price Multiples Reflect Credit Unrest

Mid market deal pros may shrug off the impact of the weakening credit market, but the numbers don't lie

By Ken MacFadyen

Talk to certain deal pros and they will concede that the M&A market is weaker, but at the same time, they'll insist that the vitiation is not being reflected in purchase prices. Good companies are still demanding top dollar, is the typical refrain. In the small market, where purchase prices and debt multiples can be difficult to obtain, these claims usually have to be taken at their word. However, **GF Data Resources**, a fledgling provider of deal and lending analytics, released its year-end report in April, showing that buyers and sellers have indeed started to factor the deteriorating conditions into their valuations.

Andy Greenberg

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According to the data, from the first half to the second half of 2007, average purchase price multiples for deals between $25 million and $50 million shaved one turn off of the peak, falling from 7x Ebitda during the first six months to 6x from July onward. Deals between $50 million and $100 million showed a nearly identical decline, settling at 6x during the second half from an average of 6.9x in the first six months.

While the data surely points to the impact the credit crunch is having on private equity activity, GF Data co-founder **Andy Greenberg**, who is also a managing director at mid-market investment bank **Fairmount Partners**, notes that the decline in multiples underscores that buyers and sellers are acting more rational. He notes that at Fairmount, in particular, he is still seeing a lot of activity and "competition on smaller deals," but adds that auctions with "center of the fairway valuation expectations and limited financing risks" are the ones that are getting done.

To be sure, the after-effect of the subprime debacle continues to impact dealmakers, even at the lowest end of the private equity market. For deals between $10 million and $25 million, for example, total leverage decreased from 3.7x to 2.8x from the first half of the year to the second half, while senior debt levels slumped from 3.2x to 2x Ebitda. What was interesting, however, was that purchase price multiples in this segment showed no decline from the first half to the second half of the year, perhaps revealing the tendency of smaller buyers to be more flexible in deal terms.

Greenberg says that a number of players in this segment operate independent of the constraints in the lending market. "It's true of many of the family offices we run into. They're often comfortable putting as much as 50% equity into a deal," he describes.

To compile the data, GF Data Resources collects transaction information from roughly 70 participating mid-market PE groups on a blind and confidential basis. According to marketing materials, GF Data focused on 395 transactions with valuations ranging from $10 million to $250 million.

Valuation Multiples

Total Enterprise Value / Ebitda

Enterprise Value	1st half	2nd half
$10m - $25m	5.7	5.7
$25m - $50m	7.0	6.0
$50m - $100m	6.9	6.0
$100m - $250m	7.8	7.4

Greenberg founded GF Data alongside **Graeme Frazier**, who also launched investment and consulting outfit Private Capital Research. Since 2006, GF Data has released four reports, and going forward anticipates delivering updates on a quarterly basis. GF Data also recently launched a Web site, which will have valuation data as well. M&A

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