Middle Market Deal Volume Creeping Upward

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February 22, 2010 - GF Data Resources' latest Middle Market Report indicates a modest but pronounced uptick in completed deal volume in 4Q, closing out a cautious year for middle market dealmaking, with just 65 transactions completed in the GFDR universe in 2009, compared to 124 in 2008, and 158 in 2007.

The 4Q data, provided to GF Data Resources by 131 actively participating private equity firms reporting on transactions valued between $10 and $250 million, indicates 20 transactions were completed in the fourth quarter of 2009, up from the 14-16 deals completed in each of the three prior quarters, though still below peak volume of about 40 deals per quarter throughout 2006 and the first half of 2007.

Average pricing for transactions in 4Q remained low at 5.2x trailing twelve months adjusted EBITDA, compared to 5.1x in the prior quarter.

"Middle- market deal volume in the past year has continued to be dampened by economic uncertainty, skittish capital markets and erratic performance at the individual company level," said Andrew Greenberg, CEO and Co-Founder, GF Data Resources. "Not surprisingly, the data shows a record low number of deals completed for the year, as buyers waited for lenders to return to the market and seller expectations to lower. The good news is there was a small but significant increase in the number of deals in Q4. There is a good chance that the 2010 data will reflect a continued boost in volume and a stabilization in multiples as buyers and sellers alike become more confident in the market."
GFDR1

"The increase in deal volume in Q4 appears to be at least in part due to the trend towards a bifurcated market which we discussed at length in the Q3 report," said Graeme Frazier, Principal and Co-Founder, GF Data Resources. "More prospective sellers with good but not exceptional financial characteristics have reconciled themselves to reduced multiples and entered the market. At the same time, the handful of high-quality properties being offered for sale continue to benefit from scarcity value and command multiples closer to pre-downturn highs."

"The trend from Q3 to Q4 in 2009 presages what we believe will be a very active 2010," said Bob Landis, Partner, The Riverside Company. "Investment bankers have indicated a significant pick up in 'deal pitches' to secure sell side mandates in Q4 and the onset of this year. In addition, lenders appear to be cautiously opening their purse strings, which will be a major driver for increased deal flow and acquisition opportunities in 2010. We also believe that seller expectations are now beginning to align with what private equity firms are modeling for a reasonable return on their new investments. We think the numbers that GF Data Resources will be publishing in 2010 for Q1, Q2, and especially Q3 will bear this out."

“Buyer and seller expectations are more in sync now than they were a year ago,” said Ron Miller, Managing Director, Cleary Gull, Inc. “By all accounts, 2009 was a slow year for dealmaking, however, as evidenced by the data, deal volume is picking up. Company performance has begun to improve, or at least stabilize, both strategic buyers and financial buyers are actively looking for deals and the credit markets are slowly improving. All signs point to continued gradual improvement in the M&A market this year.”

Data Highlights:

(1) Private equity contributors in late 2008 began identifying acquisitions as platform companies or add-on acquisitions. Across 122 2008-09 deals, private equity buyers paid an average of 5.8x for platform properties, 1.0x more than for add-ons.

(2) Deal volume increased moderately in Q4, but pricing on those deals remained low – 5.2x, compared to 5.1x trailing twelve months (TTM) adjusted EBITDA in the prior quarter. The average multiple for all of 2009 was 5.7x.

(3) While transaction volume remains concentrated in the $10-100 million TEV range, deal activity in the $100-250 million bracket is starting to pick up, consistent with anecdotal reports of greater activity among larger buyers and lenders.

(4) The return of sellers with good but not exceptional financial characteristics in the second half of 2009 is unmistakable. Of the 20 buyouts completed in the first two quarters of this year, 13 – or 65% -- were above-average performers (defined as businesses with TTM EBITDA margins and revenue growth both in excess of 10 percent), consistent with the general perception of a “flight to quality.” Of the 31 buyouts completed in the second half of the year, only 11—or 36%– met this standard.

(5) The 24 “above-average” performers in 2009 traded at an average of 5.8x TTM adjusted EBITDA. The 27 other buyouts were valued at an average of 5.1x. This 13 percent premium is the highest for any year in the GFDR database, which dates to 2003.

GFDR collects, analyzes and reports on private equity-sponsored M&A transactions in the $10 million to $250 million value range. GFDR’s quarterly reports contain high-level valuation and leverage data. The firm also provides detailed valuation data in specific industry categories through its web site. Individuals and companies interested in subscribing to the Middle Market M&A Valuation Report can contact GF Data Resources by visiting their website www.gfdataresources.com.