Middle Market Deal Volume and Valuations Held Steady in Q4, Says GF Data Resources

Retreating Debt Levels Cause Equity Contributions to Rise

Pipeline for New Deals Has Dried, Though It Is Not Yet Reflected in the Numbers

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West Conshohocken, PA – (February 18, 2009) – Contrary to expectations, middle market deal volume and valuations held steady from the third quarter to the fourth quarter of 2008, but the economic crisis severely impacted debt levels, which declined dramatically, according to **GF Data Resources** (www.gfdataresources.com), a proprietary database that collects detailed data on private-equity transactions valued between $10 million and $250 million. GFDR today released its Middle Market M&A Valuation Report for the fourth quarter of 2008.

"Fourth quarter valuations remained in line with quarterly averages dating back to mid-2007, when the mortgage lending crisis first affected public equity markets," said **Andrew T. Greenberg, CEO of GF Data Resources LLC**. "However, debt levels fell sharply, a result of the tightening credit markets and the lack of available cash needed to finance these deals."

The 114 firms that contribute to the report completed 25 deals in the fourth quarter of 2008. By comparison, 27 deals were completed in third quarter of 2008, and a total of 40 deals were struck in the first half of 2008.

"This is comparable to deal volume both before and after the financial industry meltdown came into full effect in the fall," said Greenberg. "While the data suggests a continuation of activity in the lower middle market (deals valued below $100 million), it also provides evidence of a freeze occurring among larger deals where the pullback in credit has been more severe. Firms contributing to the report completed 13 deals in the $100 million - $250 million range in 2007, but only five in the same range this past year."

GFDR's quarterly reports contain high-level valuation and leverage data. The firm also provides detailed valuation data in specific industry categories through its website, www.gfdataresources.com. This information gives subscribers the ability to more accurately value and assess M&A transactions.

The primary valuation metric – Total Enterprise Value as a multiple of adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (TEV/EBITDA) – averaged 5.9x for the fourth quarter, down from 6.3x in the third quarter of 2008 but up slightly from 5.8x in the second half of 2007.

"Total debt and senior debt declined dramatically, falling to 2.4x Adjusted EBITDA and 1.9x, respectively," said Greenberg. "Those number were 3.4x and 2.6x, respectively, in the third quarter, and averaged 3.4x and 2.5x respectively for the first half of 2008.

"As a result of declining debt levels, average equity contributions soared to 59.9 percent, up almost 20 percentage points from the third quarter of 2007."

GFDR identified several trends that summarize the current state of the market. According to Greenberg,

- Average multiples on buyout transactions dropped from the mid-6.0x range in the first half of 2007, and have remained in the 5.8x – 6.0x range since. Valuations have held up particularly well in the $50 million - $100 million TEV tier, where companies appear to benefit from being large enough to mitigate at least some of the risks relating to scale, but still small enough to get financing in the current credit market.

- To measure the extent to which good companies have begun to accept reduced valuations, 200 buyouts completed since 2003 were examined. All the firms analyzed exhibited "above-average" financial characteristics, which is defined as trailing twelve months (TTM) EBITDA margins and year one projected revenue growth both exceeding 10 percent. The 12 such transactions completed in the fourth quarter of 2008 traded at an average of 5.9x, compared to a historical average of 6.2x and averages in the low to mid-6.0x during the recent market peak of 2006 through mid-2007.

- Debt spreads widened, as the 90-day LIBOR interest rate (a benchmark for commercial lending) dropped from 4.1 percent on September 30 to 1.4 percent at year end. Average initial pricing on senior debt declined only slightly (from 7.4 percent to 7.2 percent), causing the average spread on senior debt to jump from 4.3 percent to 5.8 percent. Spreads on subordinated debt also increased.

- Among industries, health care services remained particularly active, with valuations averaging about 7.0x in the last six months of 2008.

“Private equity firms and intermediaries report that new deal activity has slowed in the past four months, with a corresponding decline in quality,” said Greenberg. “The data on deals completed in the next six months will determine whether or not these trends will become more apparent.”

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.

About GF Data Resources

GFDR collects, analyzes and reports on private equity-sponsored M&A transactions in the $10 million - $250 million value range. The firm has analyzed 855 transactions, reported by 114 private equity firms, and provides industry drilldown data in more than 128 NAICS categories and sub-categories.

GFDR was launched by two Philadelphia-based deal professionals, Andrew T. Greenberg and Graeme Frazier, who were frustrated by the scarcity of accurate data on middle market transactions. GF Data Resources offers its reports to subscribers on a quarterly basis and makes detailed valuation data continuously available through its website, **www.gfdataresources.com**.