



MIDDLE MARKET UPDATE

AUGUST 2019

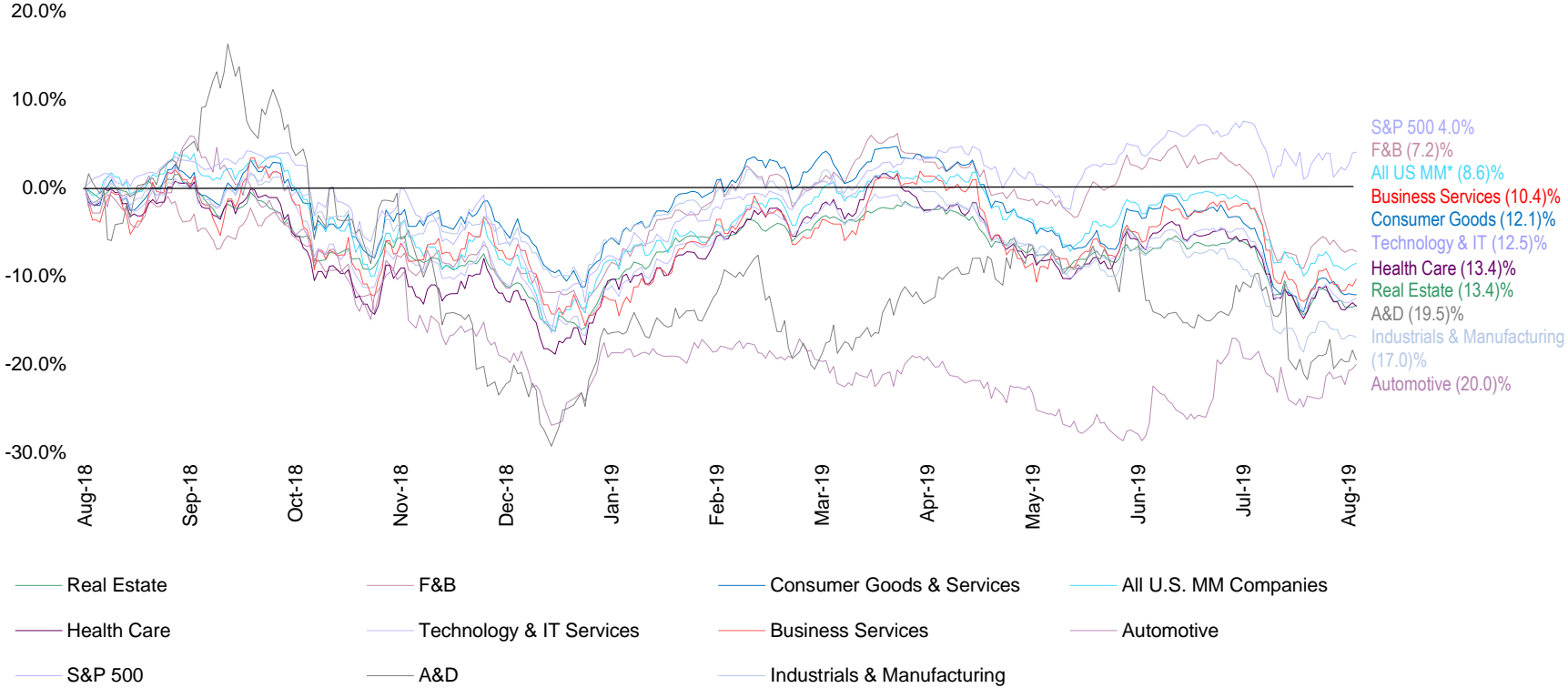


GREENWICH
CAPITAL GROUP

GCG U.S. Middle Market M&A Update

Public Company Stock Relative Performance

Public company stock performance in the select industries representing GCG's proprietary sectors has shown overall negative performance since August 2018. The only positive performer over the period is the S&P 500 (up 4.0%). In the previous month's update F&B had shown positive performance but took a turn for the worse in August 2019 compared to August 2018. The Automotive sector saw the greatest decline compared to our benchmark of all U.S. middle-market companies with a 20.0% decrease over the last 12 months. The decline in both the Automotive and Industrial sectors is likely related to trade uncertainty. Also suggested by the findings in the report is small cap stocks and their underperformance compared to larger cap stocks. This trend has remained consistent over the last 12 months.



Source: S&P Capital IQ and Proprietary GCG Research
 Note: All values based on publicly available data as of 09/06/2019, benchmark index for comparison is All US MM Companies

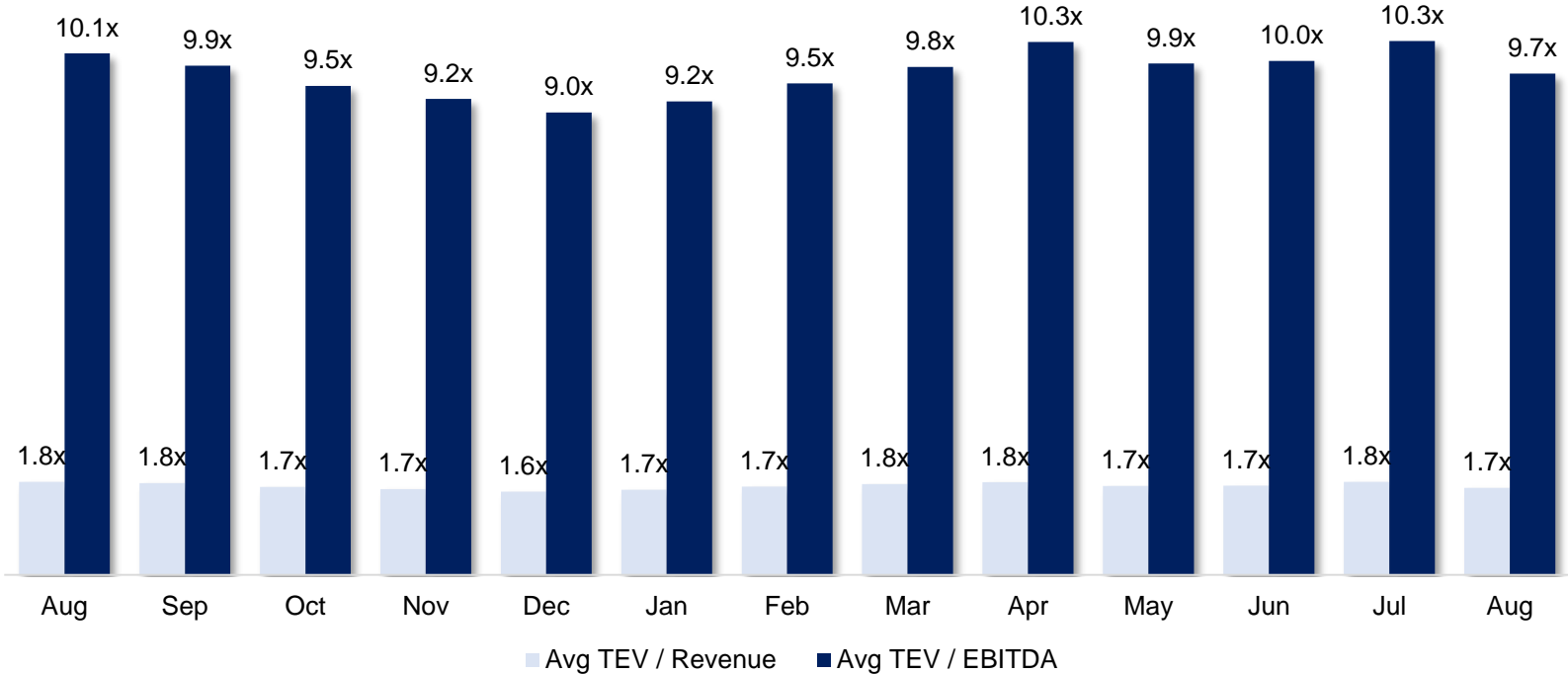


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Public Company Trading Multiples

Public company trading multiples declined from July to August. The August average EBITDA multiple was 9.7x which is the lowest multiple since February 2019. This again suggests the middle market trading multiples are not keeping pace with larger companies. Revenue multiples have remained consistent over the past 12 months. Each month has been between 1.6x, and 1.8x times revenue and this continued with the multiple for August 2019 declining from 1.8x to 1.7x revenue. The softening in public company middle market pricing is an indicator to keep an eye on as it could impact private company transactions.

All U.S. Middle-Market Company Index Trading Multiples



Source: S&P Capital IQ and Proprietary GCG Research
 Note: All values based on publicly available data as of 09/06/2019

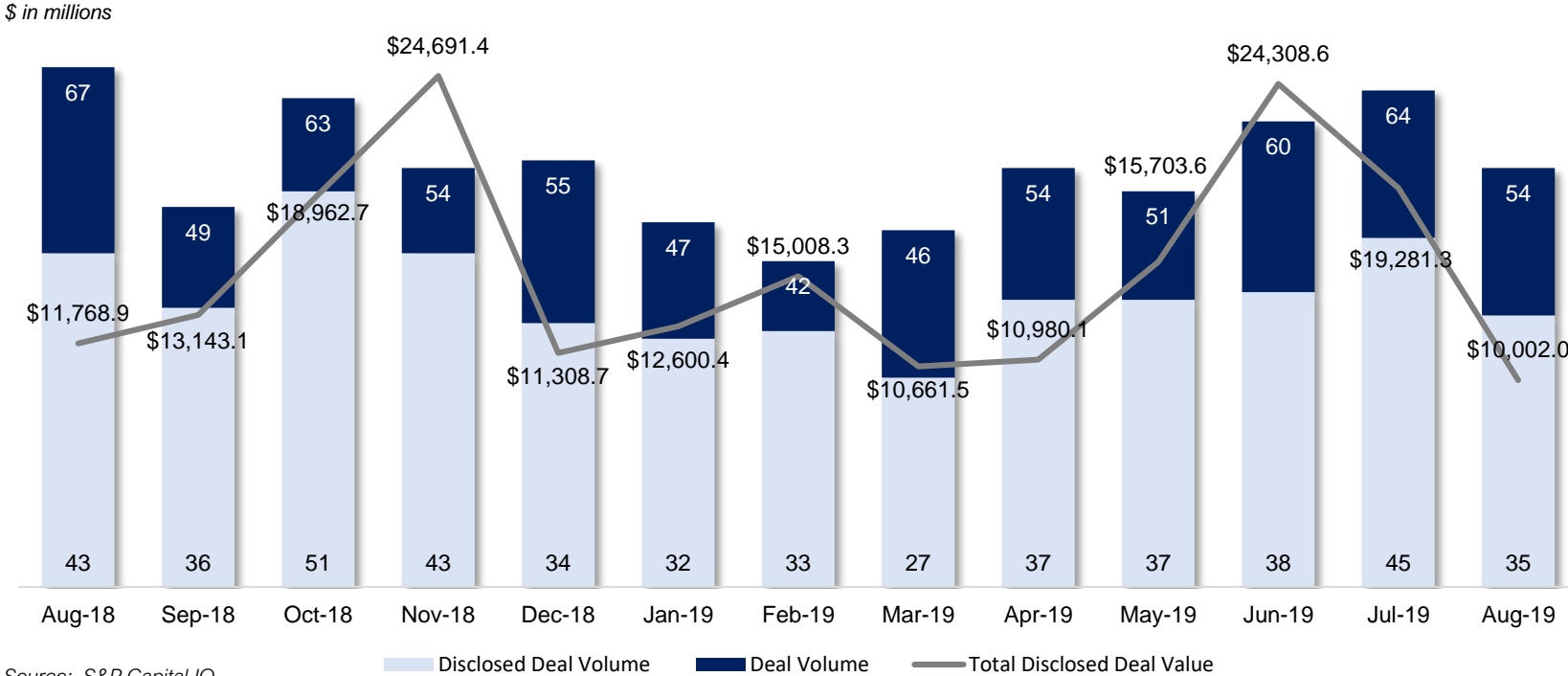


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Overview

Middle market private company transaction deal activity for August 2019 exhibited continued strength from first quarter lows reported earlier in the year. However, the data also shows a sharp decline over the past month. Deal volume dropped 15.6% during the last month, while deal values took an even deeper downward path. This information is based on private company disclosed data. This data is often incomplete and inconsistent. For this reason, we tend to not place too much weight on this data.

Transaction Values and Volume



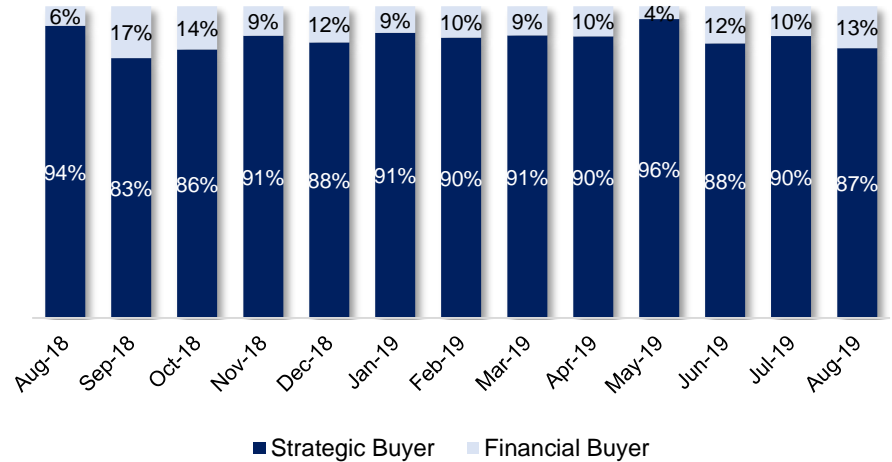
Source: S&P Capital IQ
 Note: All values based on publicly available data as of 09/06/2019, Total Deal Value is based solely on disclosed terms, M&A excludes private placements, MM defined as revenue between 10 and 500 million



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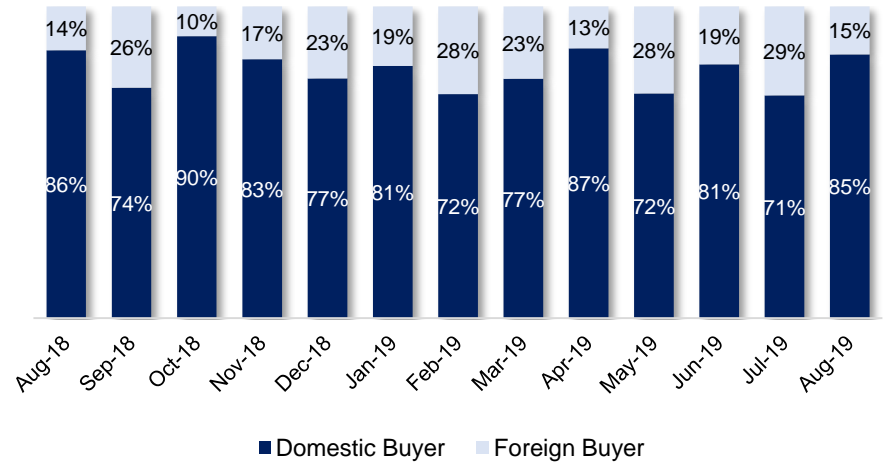
Buyer Activity

Strategic acquirers continue to dominate middle market M&A activity, accounting for 87% of deal flow, with financial buyers representing 13%. Financial buyers did increase from 10% of the deal market in July 2019 to 13% in August. This represents the third largest percentage month for financial buyer activity. This is a trend to watch to determine if financial buyers are becoming even more active with lower rates and having completed aggressive fund raising.



August 2019
Transaction Volume:
54

Domestic buyers in July represented 85% of middle market M&A activity in August 2019, a considerable increase from July and the third strongest month for middle market domestic buyers' activity over the 12-month period. This trend may continue as uncertainty around global trade remains. However, the trade uncertainty and slowing of the global economies also makes the U.S. a safe-haven and attractive investment location.



Source: Capital IQ and GCG research



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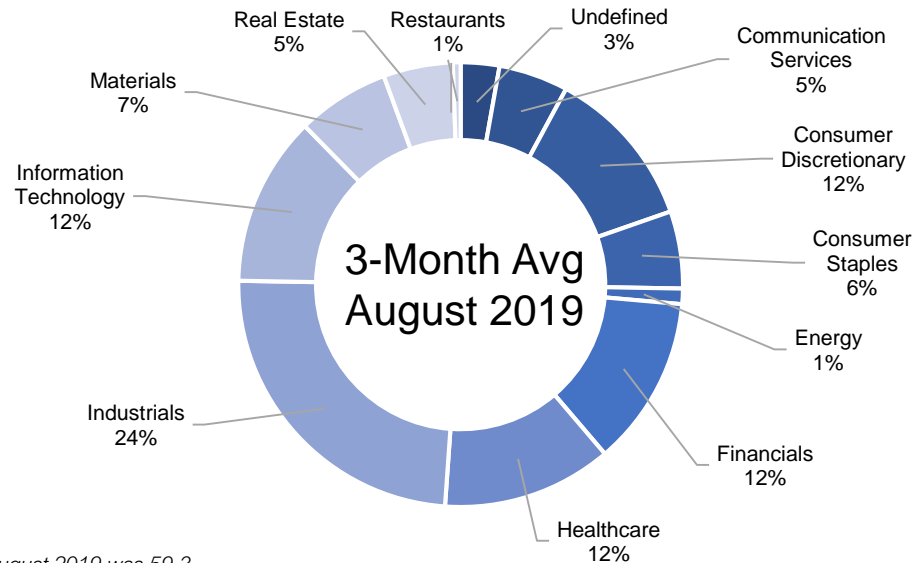
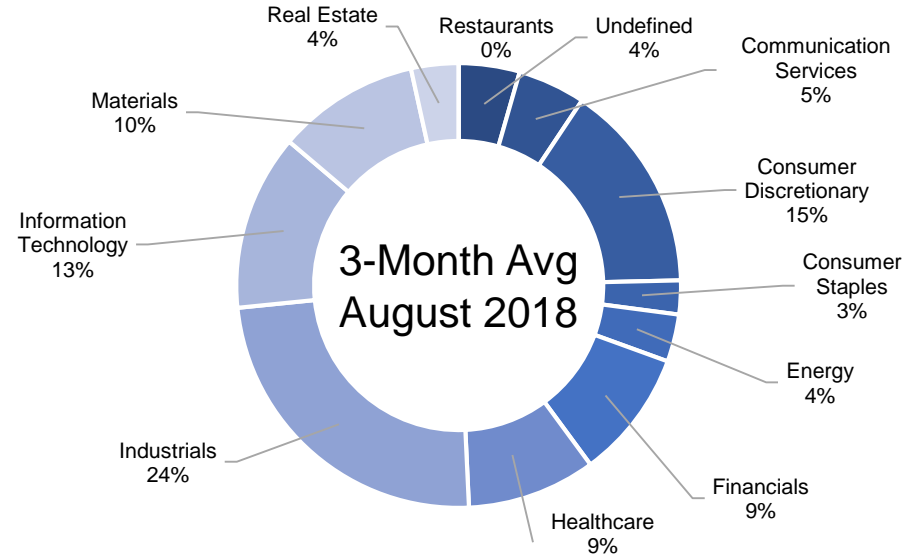
Sector Activity

The trailing three-month deal activity ending August 2019 continued to show the strength of the Industrial sector in the middle market. This sector accounted for 24% of all middle market deals during the last three months, identical to where it was as of August 2018.

A few industry sectors became more prominent on the deal front over the past year. Looking at 2019 vs 2018 data shows that both the Healthcare and Financial sector saw significant increases in deal activity as a percentage of the overall market. Healthcare deals comprised 9% of the M&A market in 2018 and increased to 12% in 2019. The Financial sector saw the same move as Healthcare, moving from 9% to 12% of the overall middle market deal activity.

There were a couple of note worthy drops in deal activity during the same period. Materials dropped from 10% as of August 2018 to 7% as of August 2019. Consumer Discretionary dropped from 15% to 12% of the overall market.

Each sector has been impacted uniquely by external factors including interest rate changes, global economic activity, trade wars, political challenges, and changing governmental policies.



Source: Capital IQ and GCG research

Note: The three-month average number of transactions in August 2018 was 67.7 and in August 2019 was 59.3.

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More about Greenwich Capital Group

Greenwich Capital Group (“GCG”) is a middle market focused advisory firm offering a range of investment banking and consulting services to private companies, public companies and private equity investors. Our senior bankers have held leadership positions at global investment banking firms, bringing a wealth of experience to each of our clients. GCG operates with the highest integrity, providing credibility and an excellent client service experience through our proven transaction process. These core values are the common thread in establishing our extensive relationships with privately held businesses, private equity investors and publicly traded companies. With each engagement, GCG’s senior bankers have a common goal. We strive to build relationships by representing our clients’ long-term interests in order to earn ultimately their trust. It is our privilege to be called trusted advisors in the middle market.

For additional perspective or to discuss M&A related opportunities in the middle market, please reach out to GCG’s CEO and Managing Director, Bob Coury. For more information, please visit www.greenwichgp.com.



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Data Sources: We have based our findings on data provided by industry recognized sources. Data and information for this publication was collated from the S&P Capital IQ database. For more information on this or anything else related to our research, please email info@greenwichgp.com.

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