



MIDDLE MARKET PRIVATE EQUITY UPDATE

Q1 2020



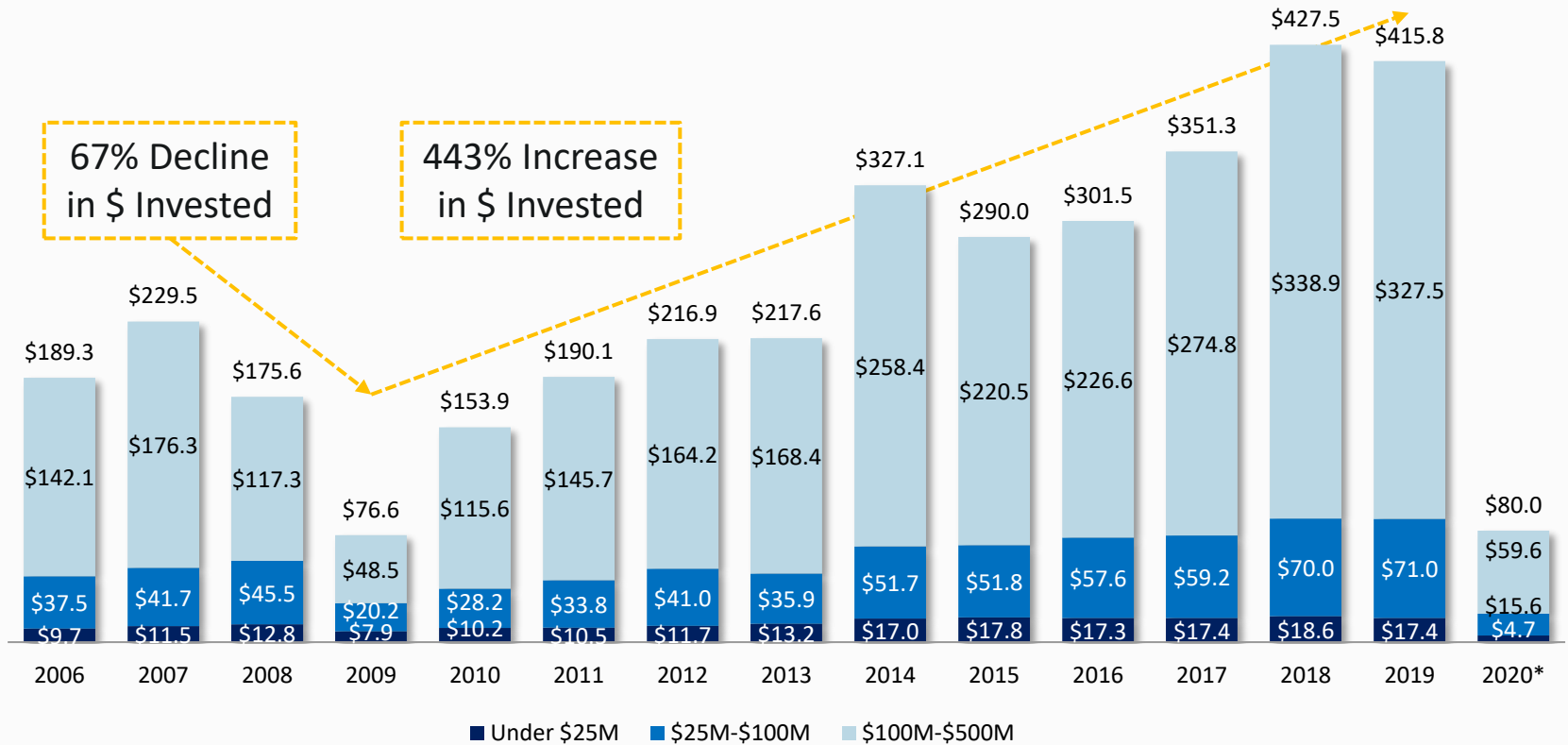
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U.S. Private Equity M&A Activity – Impact of 2008/2009 Recession

Prior to the 2008 recession, Middle Market (MM) Private Equity (PE) activity peaked at \$230B in 2007 with 77% of that invested in deals between \$100M and \$500M. At its lowest point during the recession total capital invested in the MM hit \$77B, which represented a decline of 67%. Starting in the end of 2009, after the recession had officially ended, investment skyrocketed nearly hitting pre-recession peaks in 2012 and increasing 443% by 2019. At the current pace, the amount invested in 2020 will be the lowest since 2016.

MM Private Equity (PE) Deal Flow (\$Billions) by Deal Size



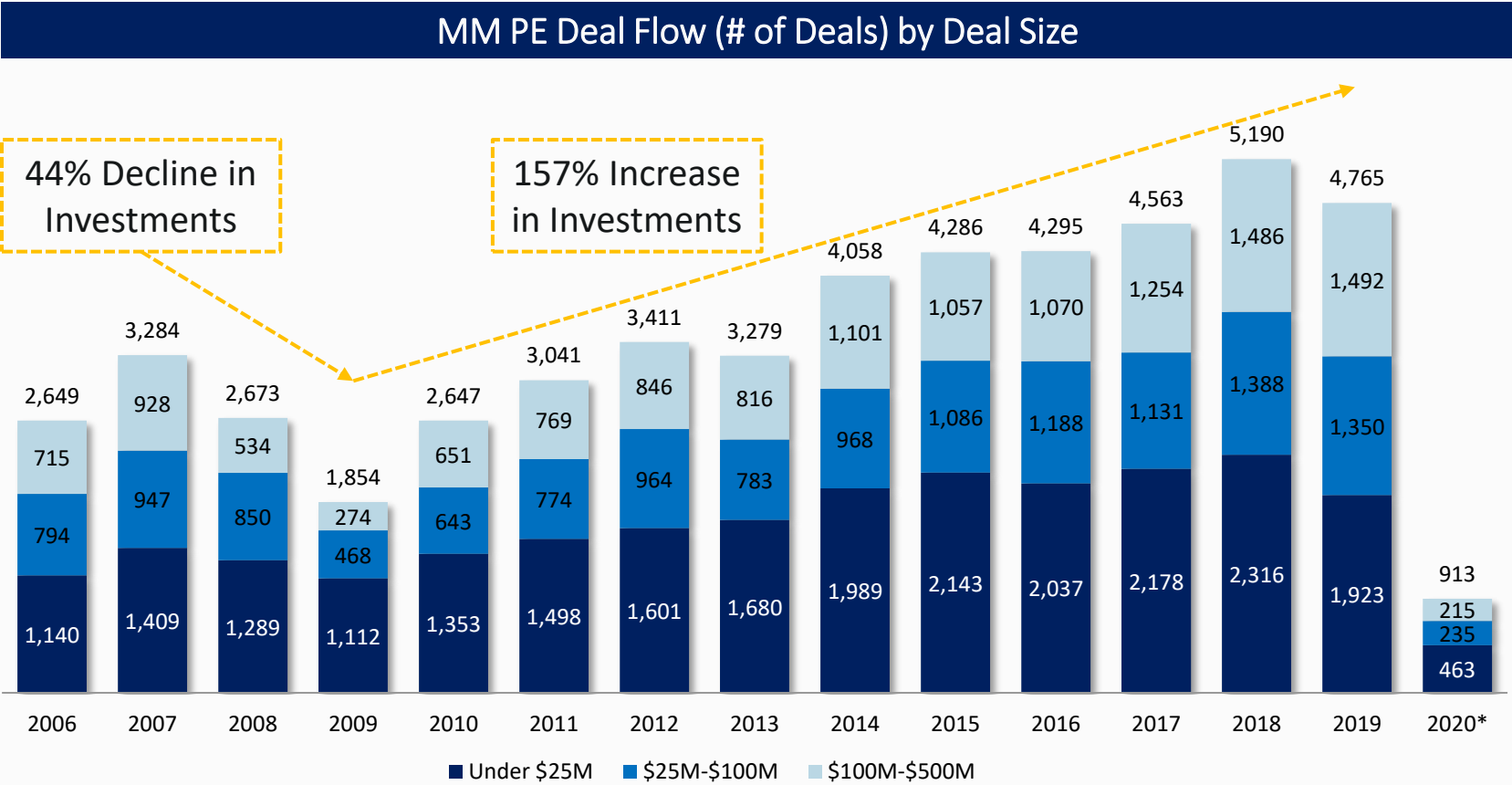
Source: Pitchbook. *2020 Through Q1



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U.S. Private Equity M&A Activity

The number of deals completed by private equity between 2006 and 2020 correlates with the capital invested. From the pre-2008 recession peak in 2007 of 3,284 MM deals, PE activity fell 44% to 1,854 in 2009. The number of deals completed returned to the 2007 level by 2012 and by 2019 had increased 157% from the 14-year low. At the current rate, investment activity in 2020 will be at its lowest since 2013.



Source: Pitchbook. *2020 Through Q1

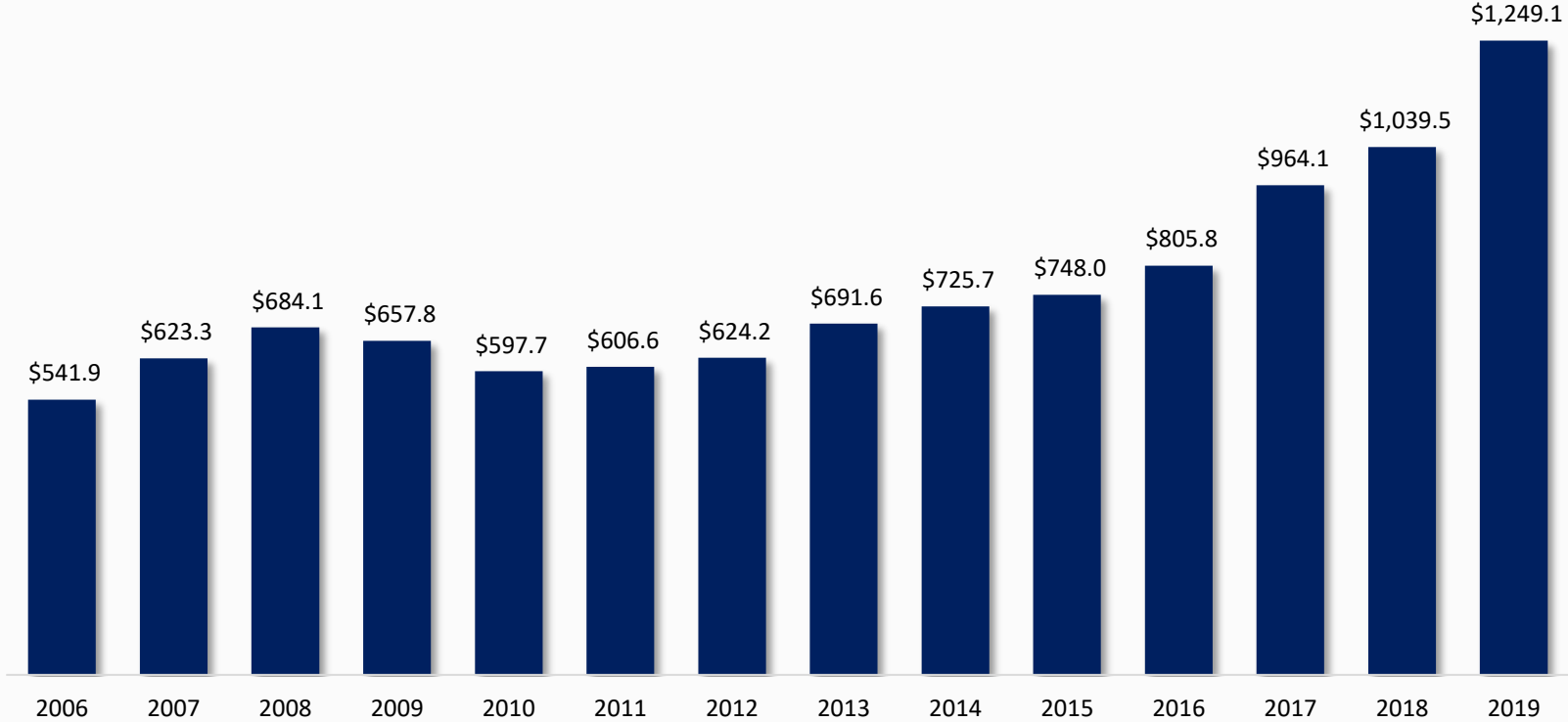


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Global Private Equity Capital Overhang

Capital overhang, which represents the amount of capital raised by PE funds that has not yet been invested, stands at the largest level it has ever been globally. The majority of this capital is in funds that are 0-2 years old and based in the U.S. Most of the \$1.2T of overhang in 2019 has between 5-7 years to be invested based on average fund mandates that capital needs to be deployed within seven years. This means that in combination with the current market volatility the overhang has potential to keep growing. This is good for MM companies as it encourages competition for deals among PE firms.

Global PE Capital Overhang (\$B)



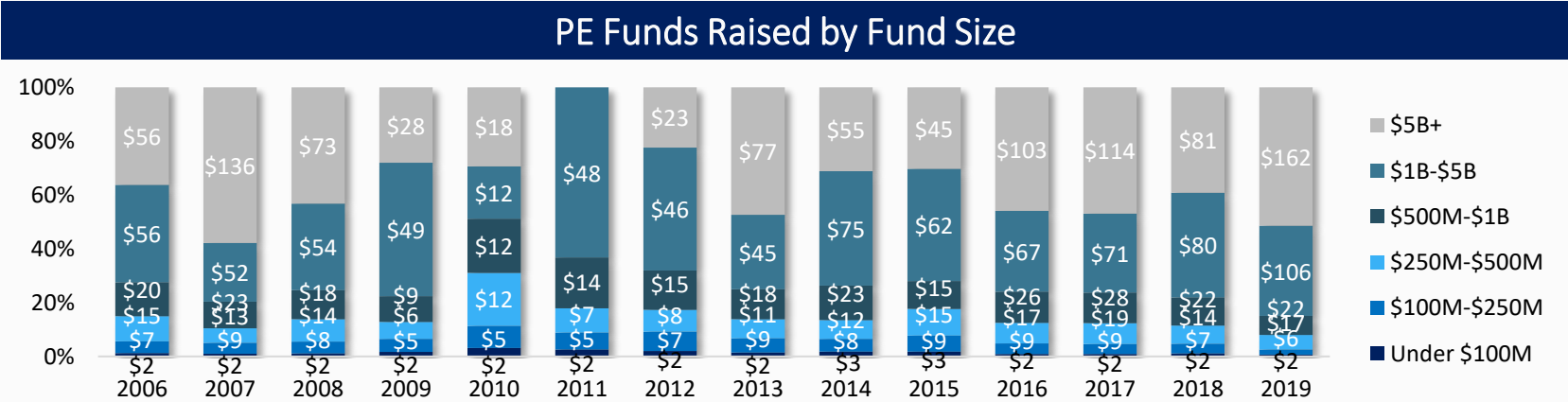
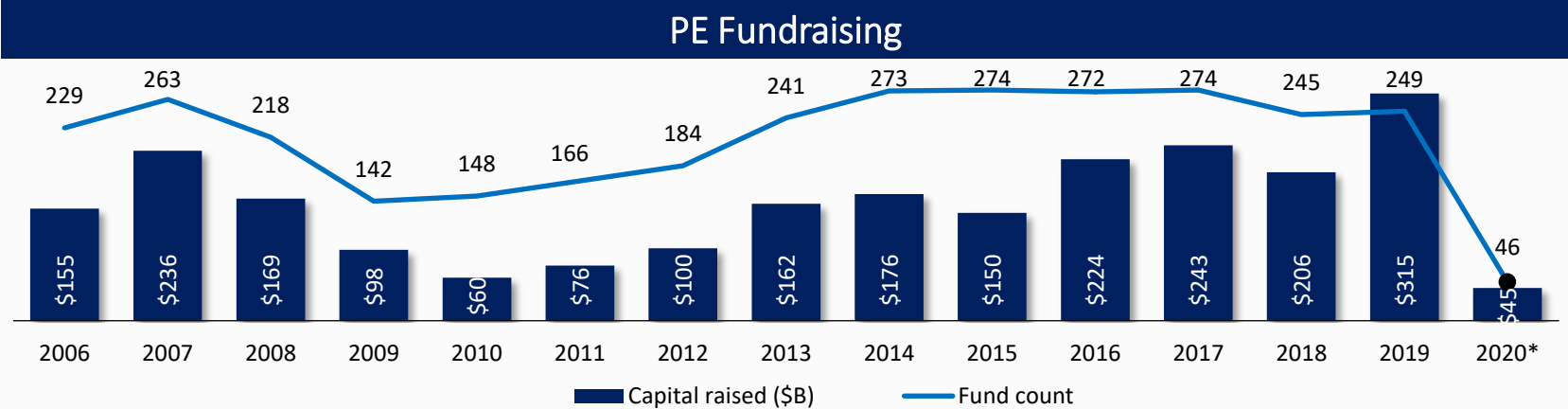
Source: Pitchbook.



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U.S. Private Equity Fundraising Activity

PE fundraising has generally been on the incline since 2010, reaching a peak in 2019. 2020 is off to a rough start and if it continues its current pace it will be the lowest year since 2015. On the positive side however, the gap between money raised and money spent is the largest it has ever been and due to the volatility of the public markets (among other factors) the private markets continue to be the attractive option for investors. Fund sizes below \$5B (MM funds) typically make up most of the capital raised (and number of funds) each year. In 2020 96% of funds are interested in the MM.



Source: Pitchbook. *2020 Through Q1

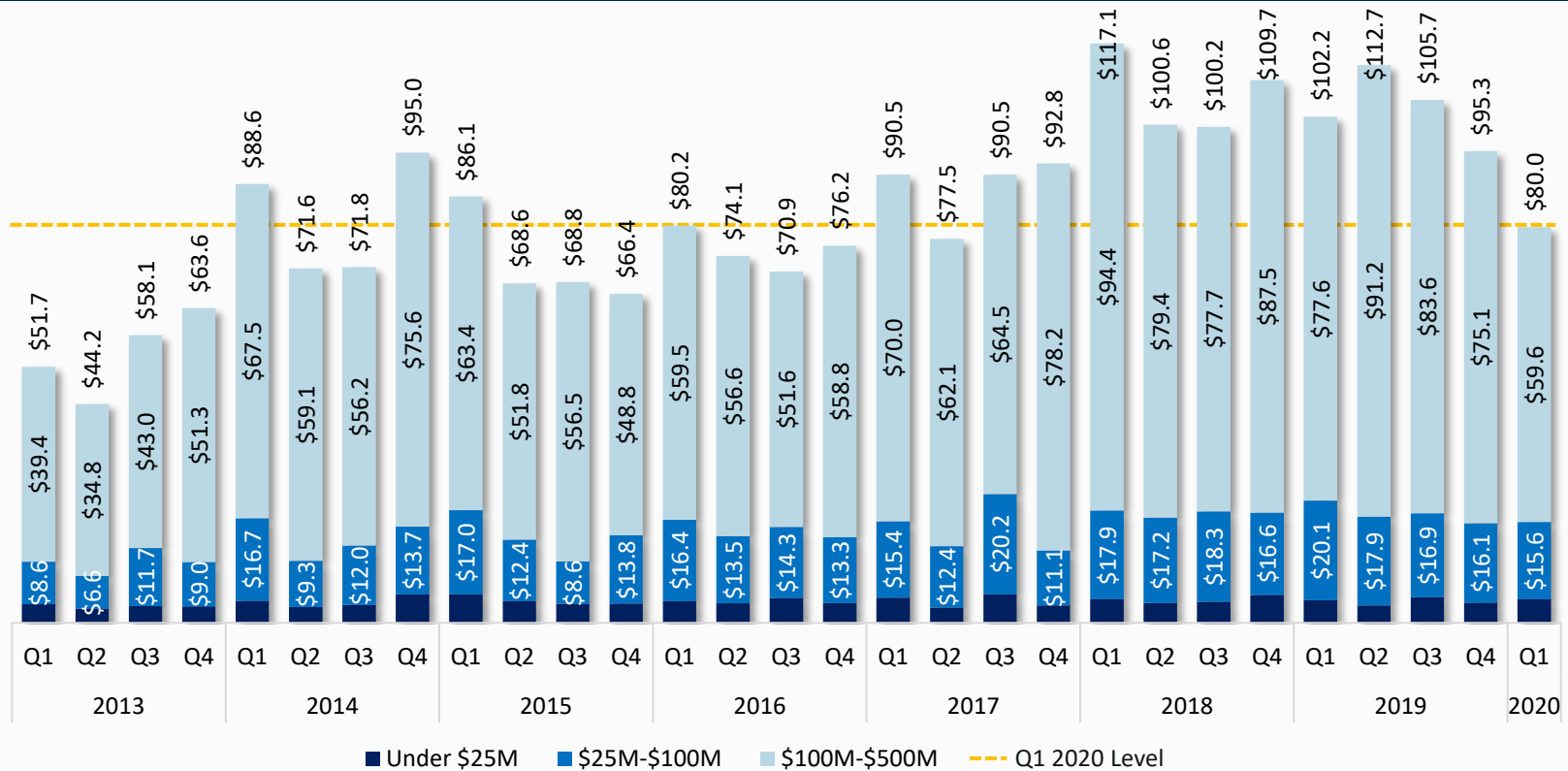


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U.S. Private Equity M&A Activity

Deal value in Q1 2020 was the lowest since Q2 2017 and represented a drop of 32% and 22% from Q1 2018 and Q1 2019, respectively. Q1 2020 also represented a drop of 16% from Q4 2019, but this only continued a downward trend beginning in Q2 2019. Deals under \$100M have represented a somewhat consistent portion of Middle Market (MM) value since 2018 and this trend continued into 2020. The main driver behind the decrease in total value in 2020 was a decrease in the total value of deals between \$100M and \$500M, suggesting consistent interest in the lower MM.

MM Private Equity (PE) Deal Flow (\$B) by Deal Size



Source: Pitchbook

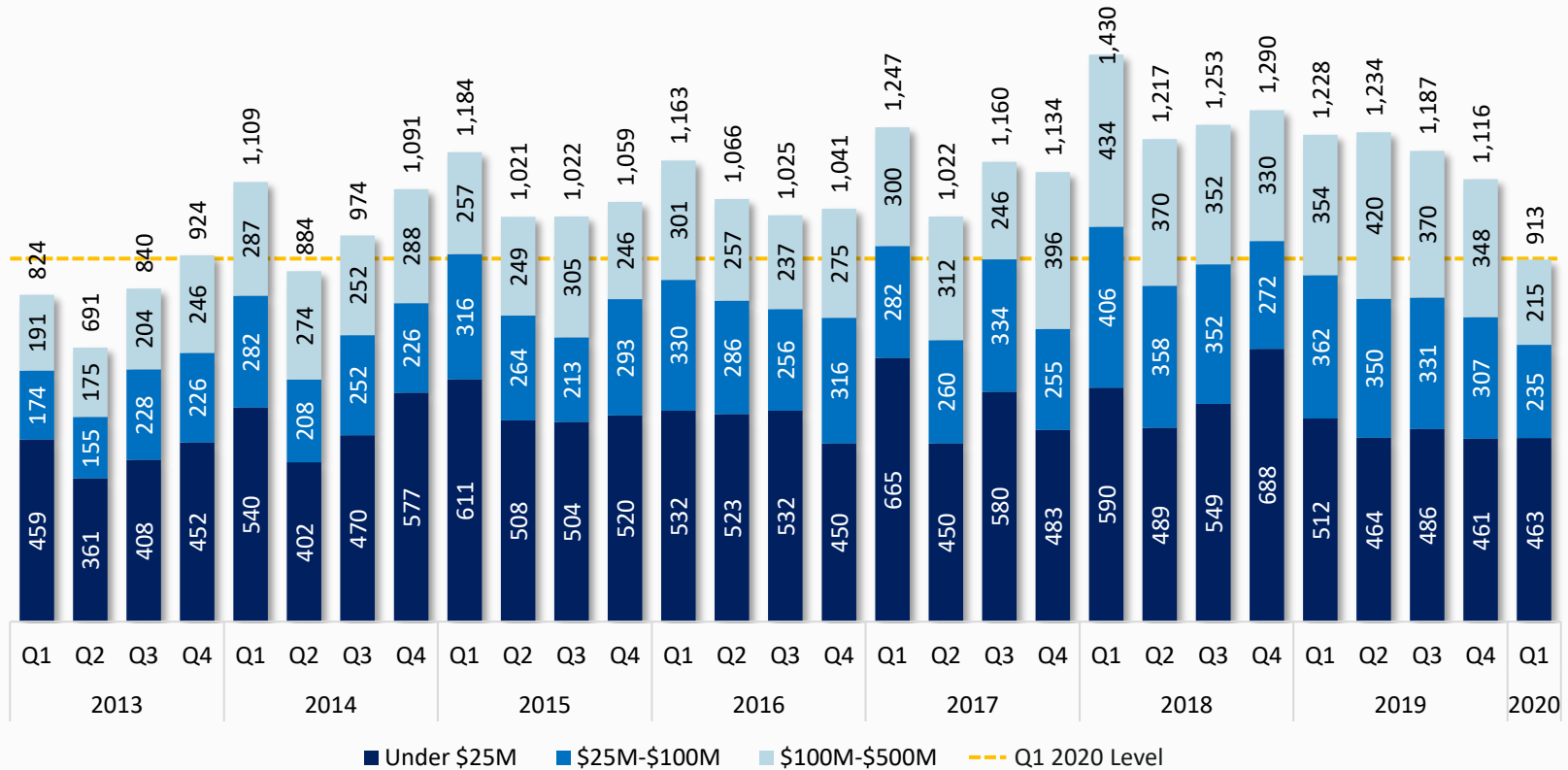


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U.S. Private Equity M&A Activity

Deal volume in Q1 2020 was the lowest since Q2 2014 and represented a drop of 36% and 26% from Q1 2018 and Q1 2019, respectively. Q1 2020 also represented a drop of 18% from Q4 2019, but again this only continued a downward trend beginning in Q4 2018. Deals under \$100M continue to represent the majority of PE demand in the MM. The main driver behind the decrease in total volume in 2020 was a decrease in \$25M to \$500M deals, although the decline in \$100M to \$500M deals was significantly larger at 38% (vs 23%).

MM PE Deal Flow (# of Deals) by Deal Size



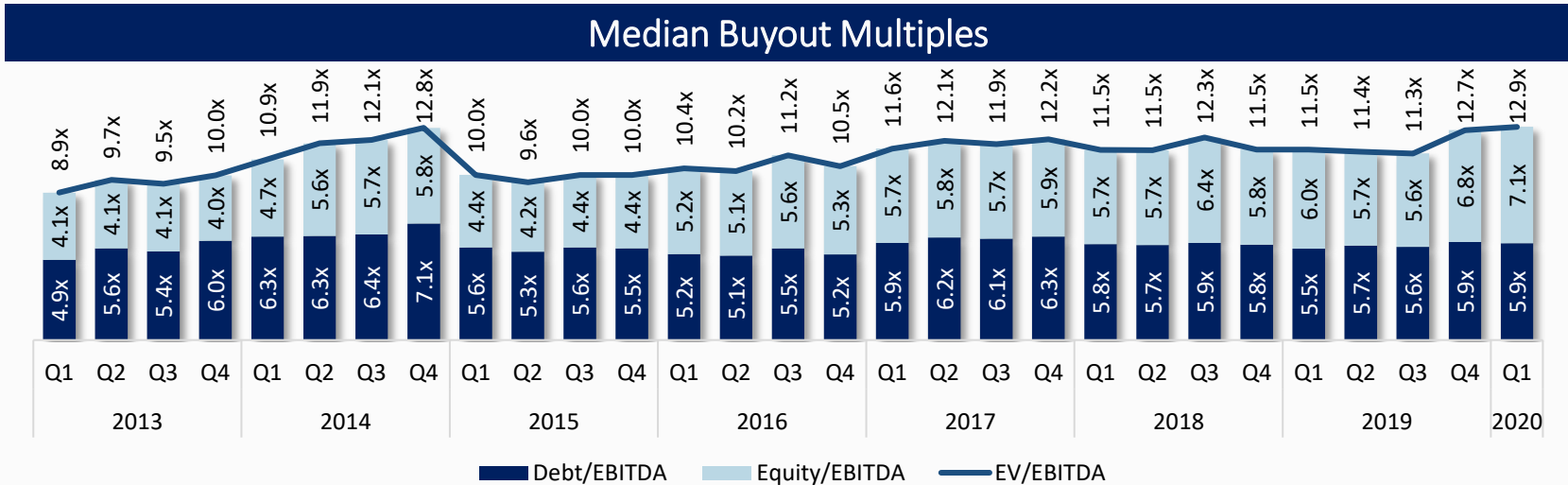
Source: Pitchbook



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U.S. Private Equity M&A Activity

EV/EBITDA multiples in Q1 2020 were at their highest point of the past seven years at 12.9x. Multiples have been steadily increasing since 2015, driven mostly by the increase in equity utilized per deal. The median level of debt per deal is at its lowest point of the past seven years at 45.4%. It is important to note that multiples are based on closed transactions which, on average, began nine months prior (before the COVID-19 pandemic began).



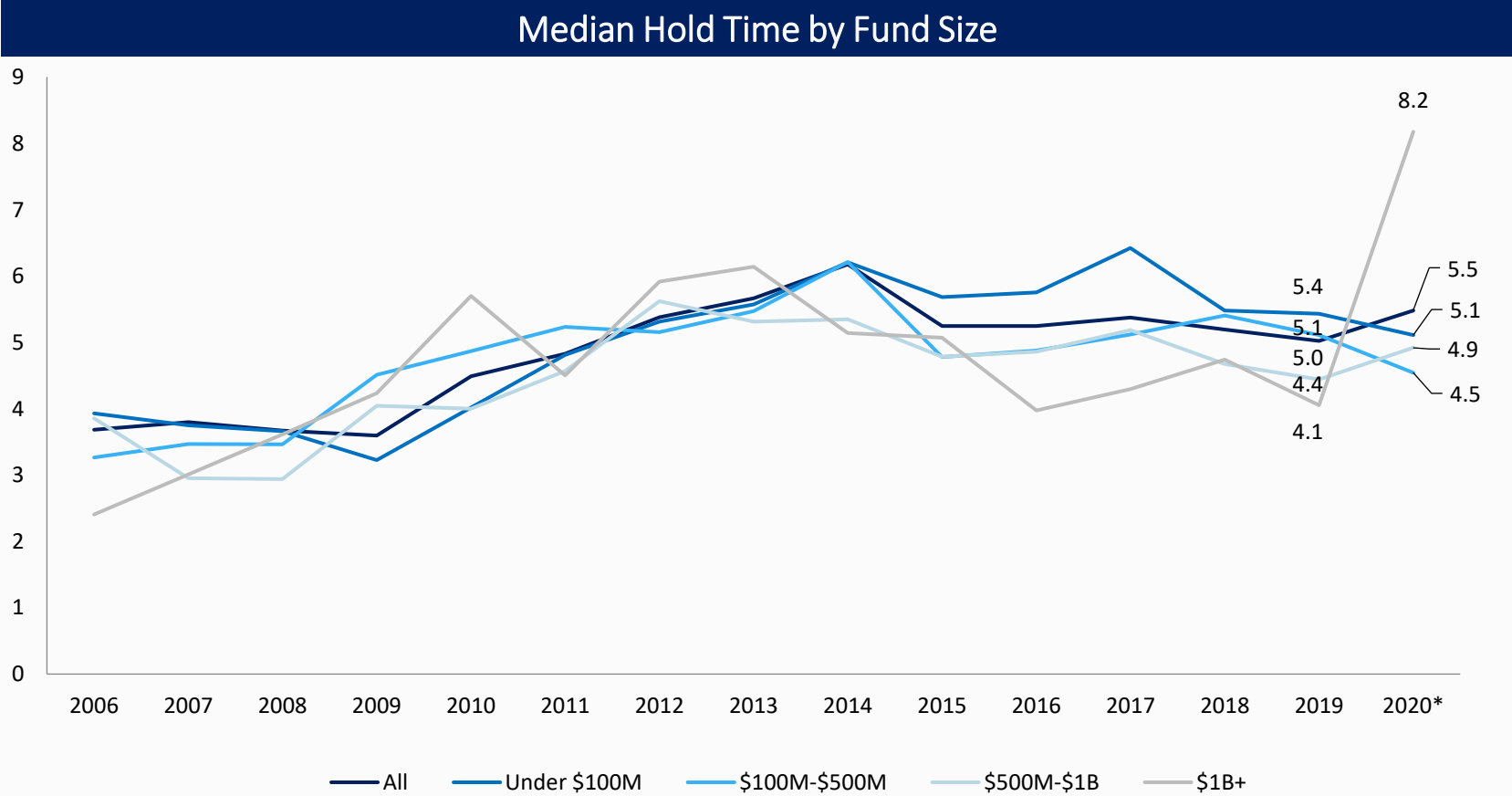
Source: Pitchbook, S&P CIQ. Note: Median is a four-quarter rolling median. Based on all PE deals



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U.S. Private Equity Investment Hold Time

\$1B+ funds, which are often too large for most MM companies, dramatically increased their median hold time in 2020 as many likely held off on selling their positions as the global pandemic struck. This can be seen in the five-six years after 2008 as well so hold times across all fund sizes can be expected to increase in the next few quarters. This is in part due to volatility of valuation levels.



Source: Pitchbook. *2020 Through Q1



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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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