

MIDDLE MARKET PRIVATE EQUITY UPDATE

Q3 2020



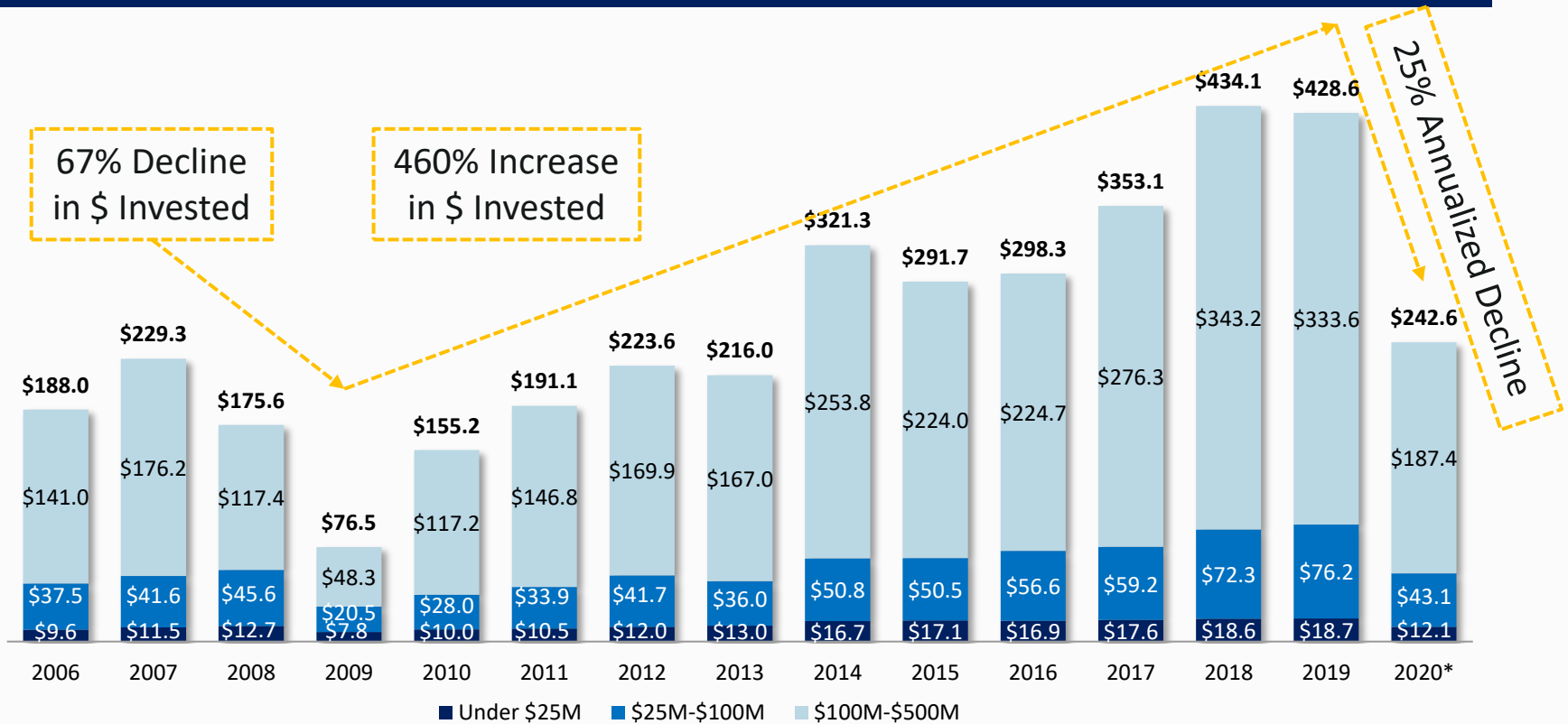
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GCG Middle Market Private Equity Update | Q3 2020

U.S. Private Equity M&A Activity – 2020 looking very similar to 2008/2009?

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%. For the first 9 months of 2020, the value of PE deals is off approximately 25% from 2019. While this is a steep decline, history suggests that there is more pain in the future for private equity M&A volumes

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



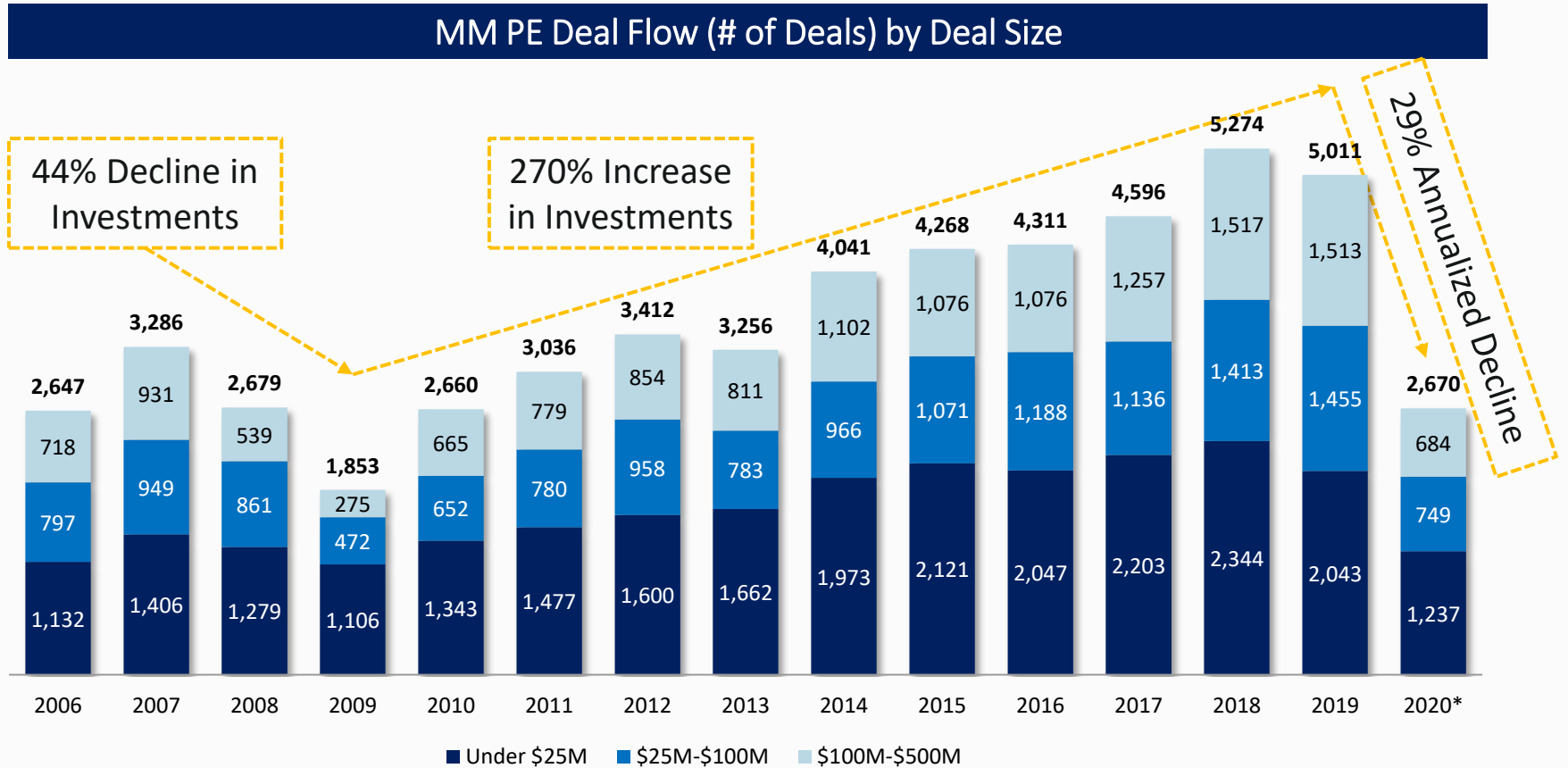
Source: Pitchbook. *2020 Through Q3



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

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 3,286 MM deals, PE activity fell 44% to 1,853 in 2009. From 2009 to 2019 the number of PE deals completed increased 270%. The first three quarters of 2020 had an annualized decline of approx. 29% in number of PE deals. Deal activity picked up in the 3rd quarter but still reflects a downward trend for the year.



Source: Pitchbook. *2020 Through Q3

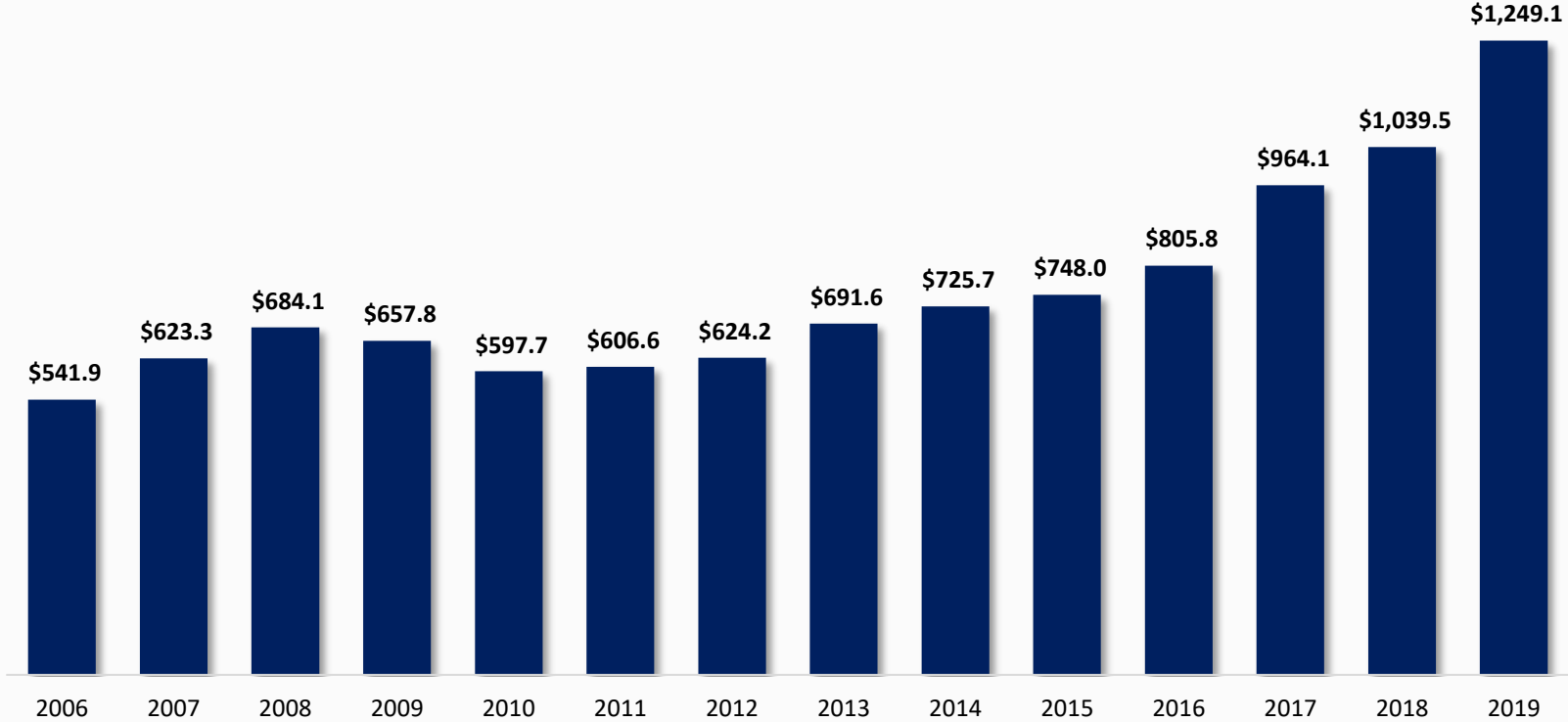


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Global Private Equity Capital Overhang

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 (\$Billions)



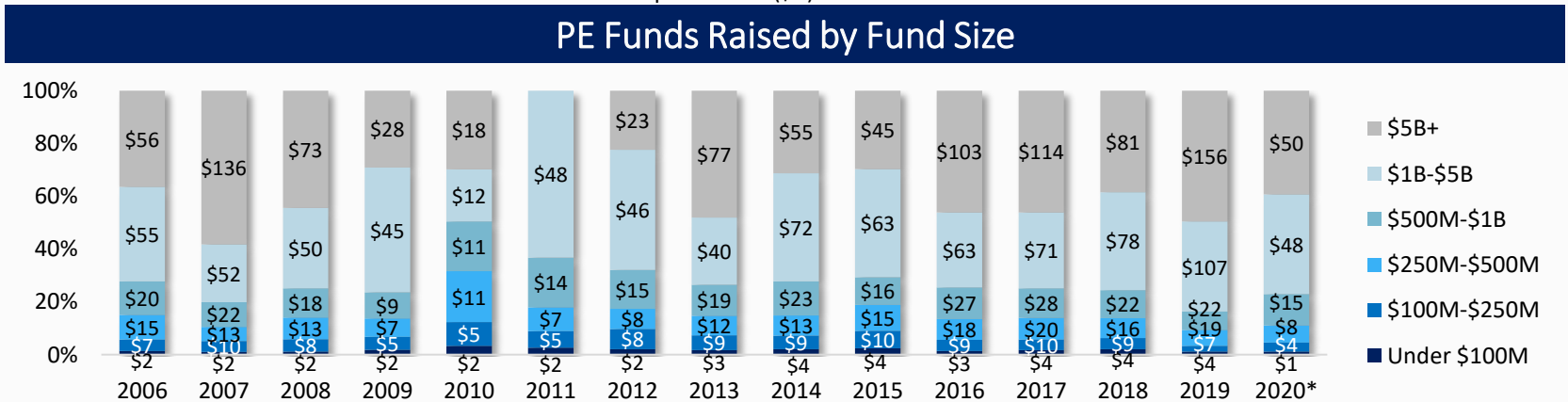
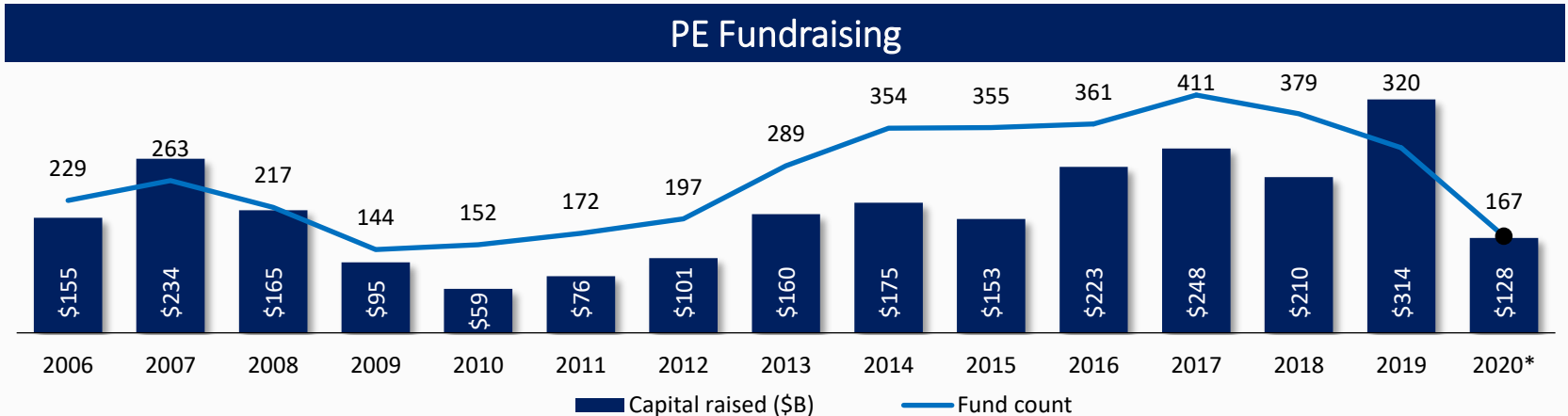
Source: Pitchbook.



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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 2013. 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 Q3

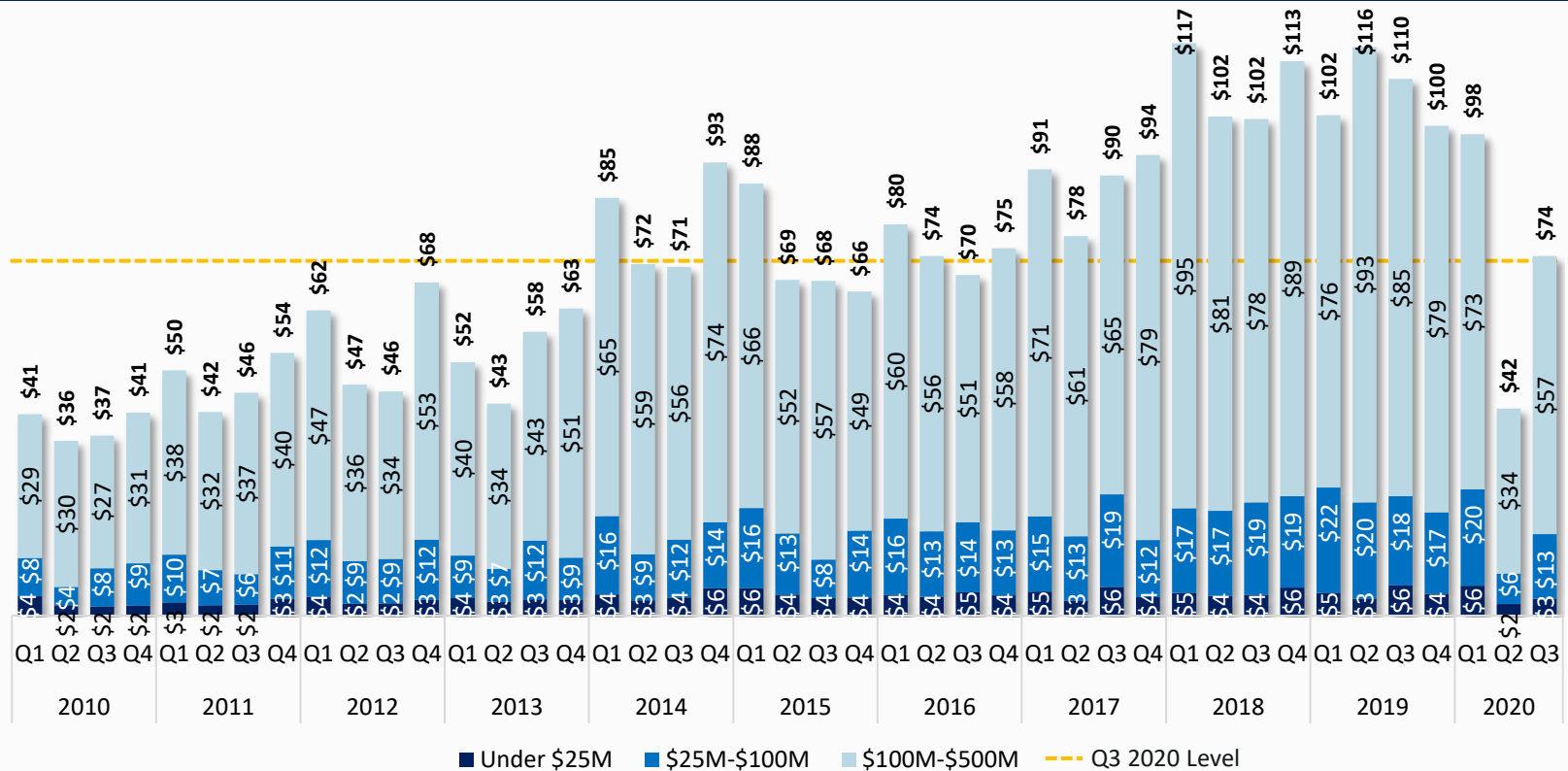


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U.S. Private Equity M&A Activity

Deal value in Q3 2020 was the lowest since Q3 2016 (not including Q2) and represented a drop of 27% and 33% from Q3 2018 and Q3 2019, respectively. Q3 2020, however, represented a major jump of 76% from Q2 2020 as trillions of dollars were pumped into the market and investors sought opportunities to deploy cash. The distribution of dollars invested by deal size in Q3 was consistent with past quarters, which suggests the drop-off and subsequent jump in PE M&A effected deals of all sizes equally.

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



Source: Pitchbook

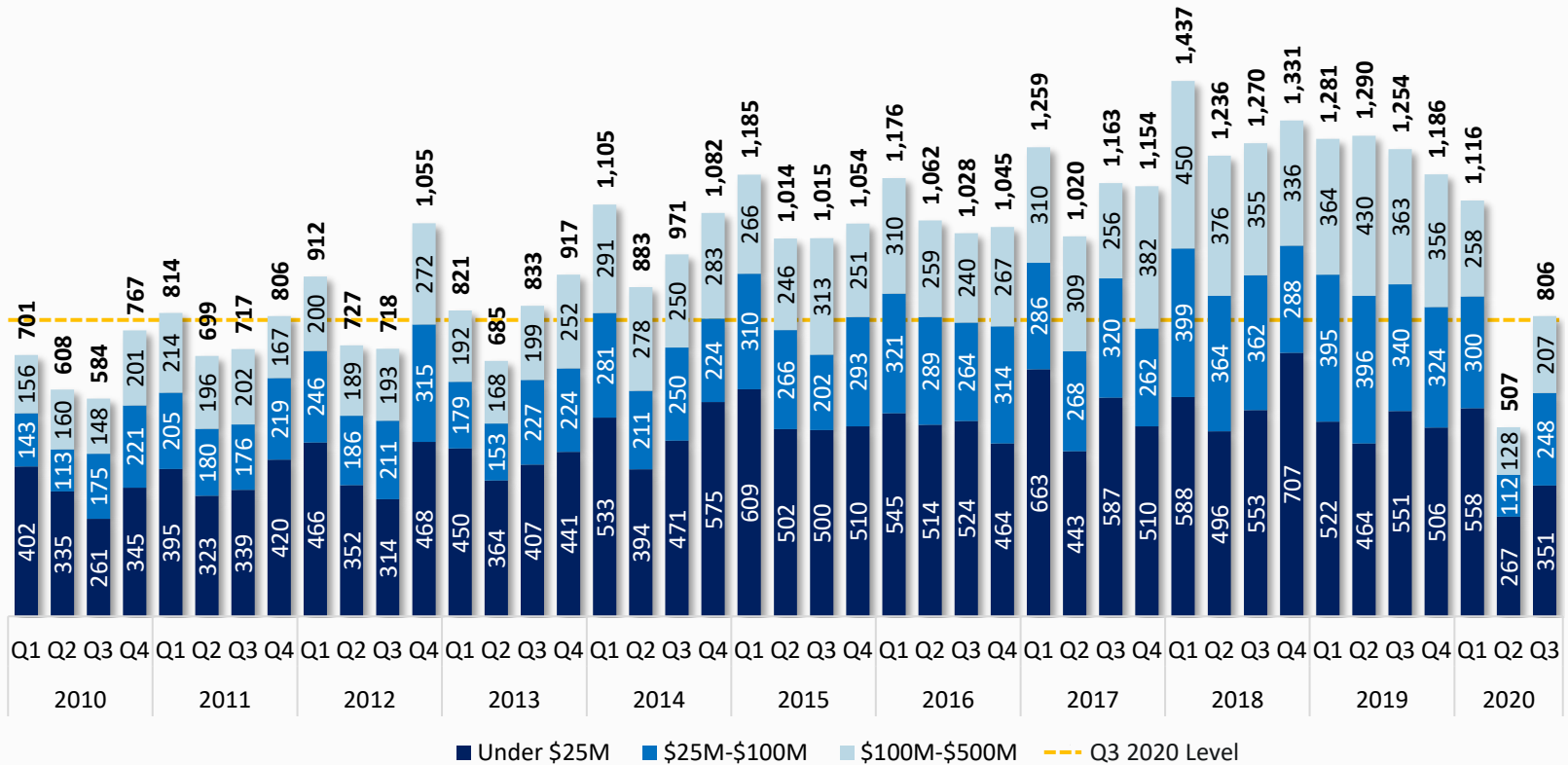


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U.S. Private Equity M&A Activity

Deal volume in Q3 2020 was the lowest quarter since Q2 2013 (not including Q2) and represented a drop of 37% and 36% from Q3 2018 and Q3 2019, respectively. Q3 2020, however, represented a jump of 59% from Q2 2020. Deals under \$100M continue to represent the majority of PE demand in the MM. The distribution of the number of deals by size in Q3 was roughly in line with past quarters, suggesting that deal size preferences were not significantly affected by the pandemic.

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



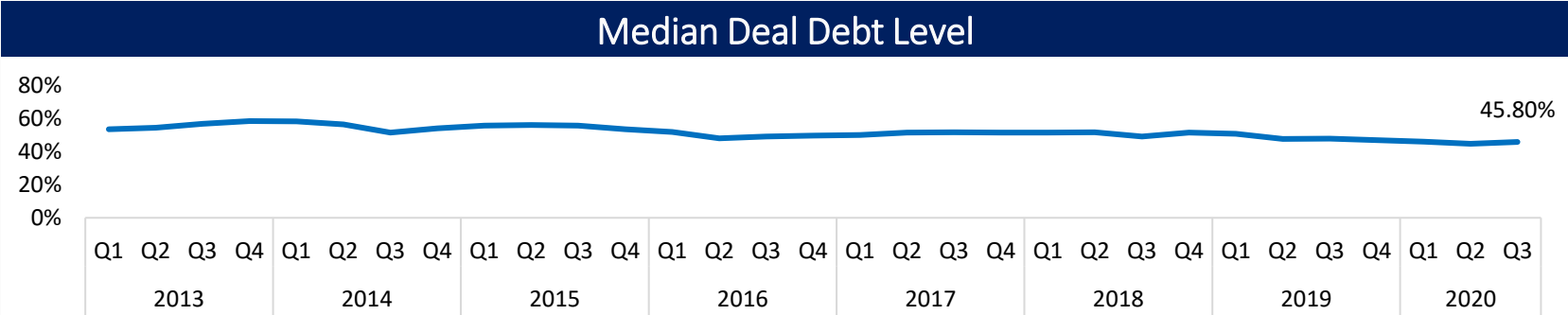
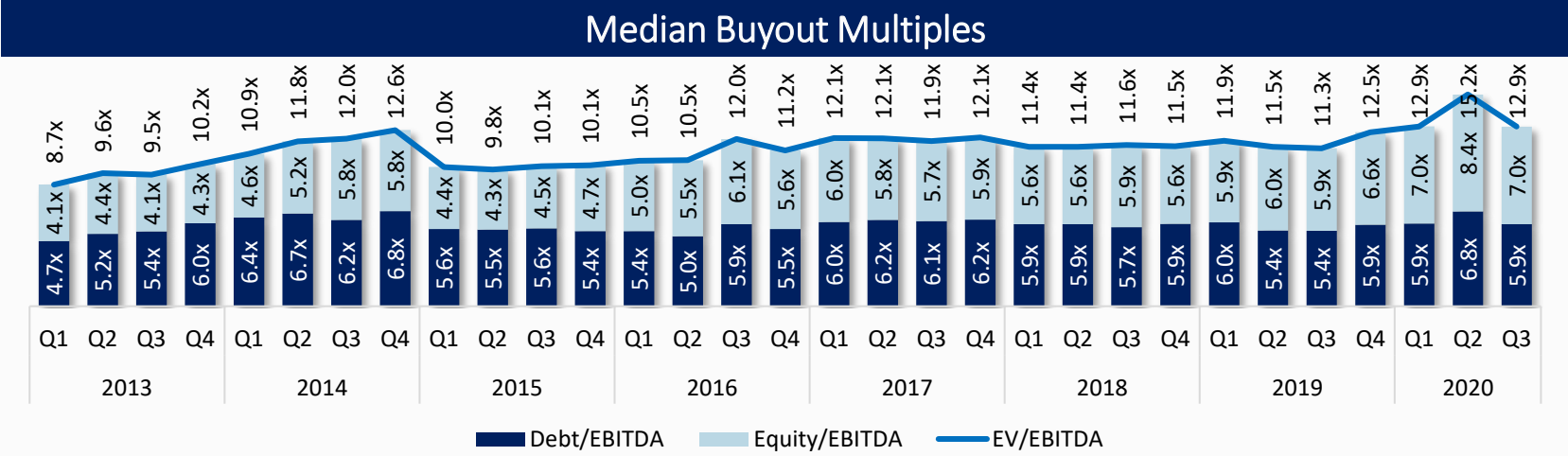
Source: Pitchbook



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U.S. Private Equity M&A Activity

EV/EBITDA multiples in Q3 2020 were near their highest point of the past seven years at 12.9x, a slight decrease from Q2. 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 near its lowest point of the past seven years at 45.8%. This is a slight increase from Q2. 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). This has led to a sharp increase in multiples driven mostly by reduced earnings rather than increased enterprise values. Accordingly, the multiple in Q3 was in line with Q1 most likely because earnings recovered slightly.



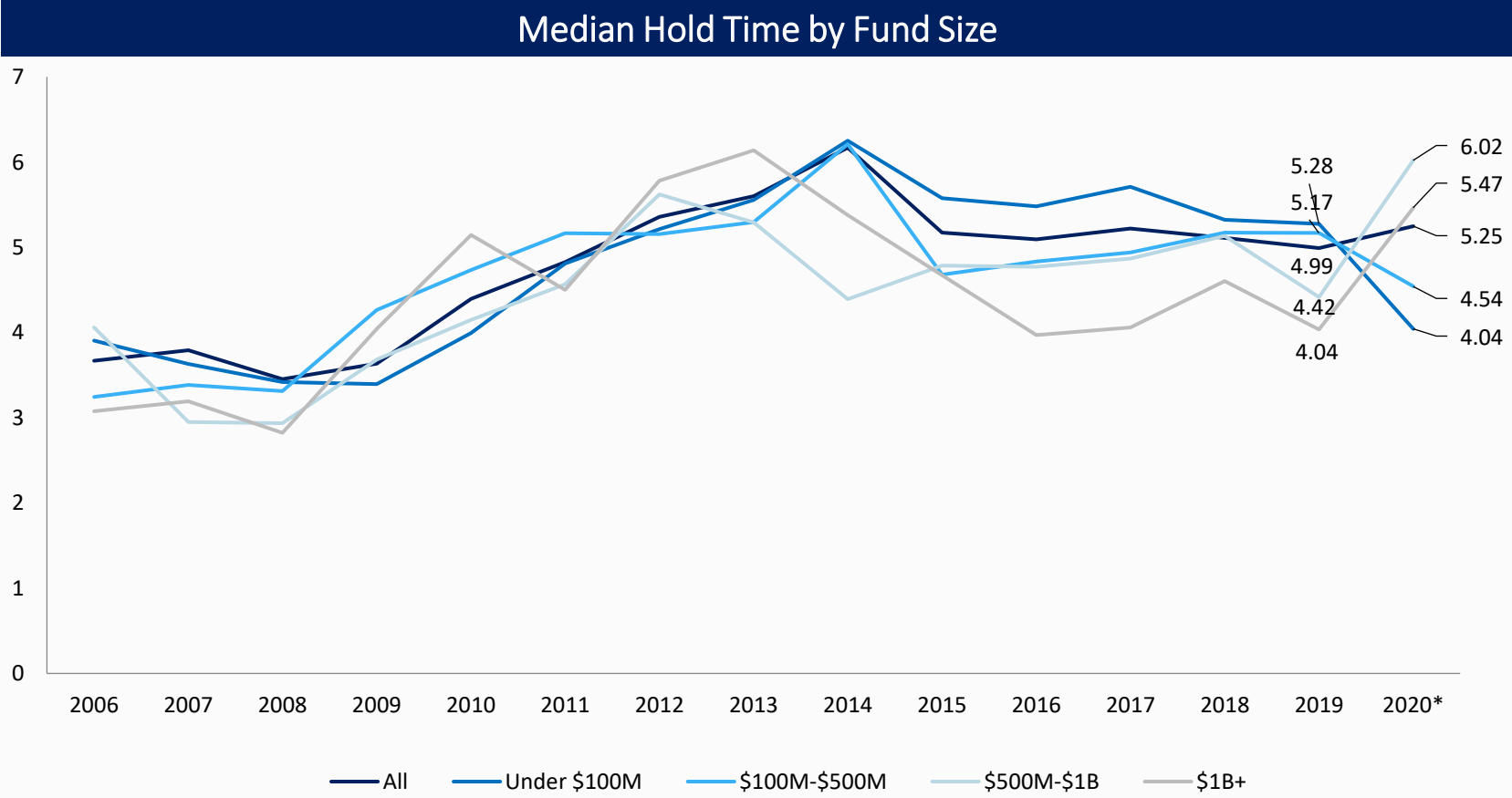
Source: Pitchbook, S&P CIQ. Note: Median is a four-quarter rolling median. Based on all PE deals



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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. It is a similar story with \$500M-\$1B funds except these often invest in the upper end of the middle market. 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 Q2



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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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