

MIDDLE MARKET PRIVATE EQUITY UPDATE

Q4 2020



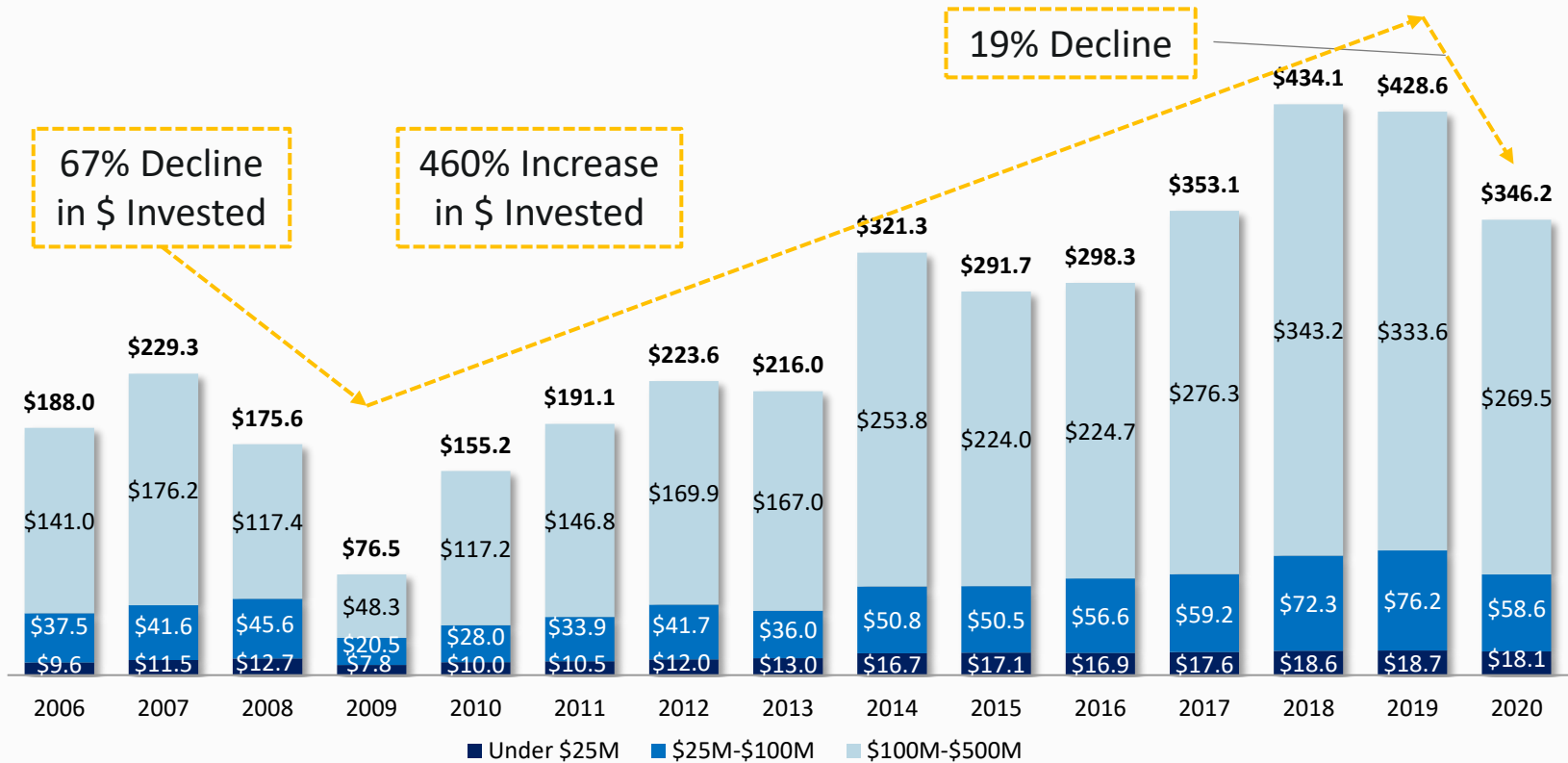
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GCG Middle Market Private Equity Update | Q4 2020

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%. In 2020 overall, the value of PE deals fell off approximately 19% from 2019. This is a slight improvement from Q3 where the value through was down 25% on an annualized basis and from Q2 where value was down 34% on an annualized basis. Q4 saw more future clarity and therefore greater deal flow.

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



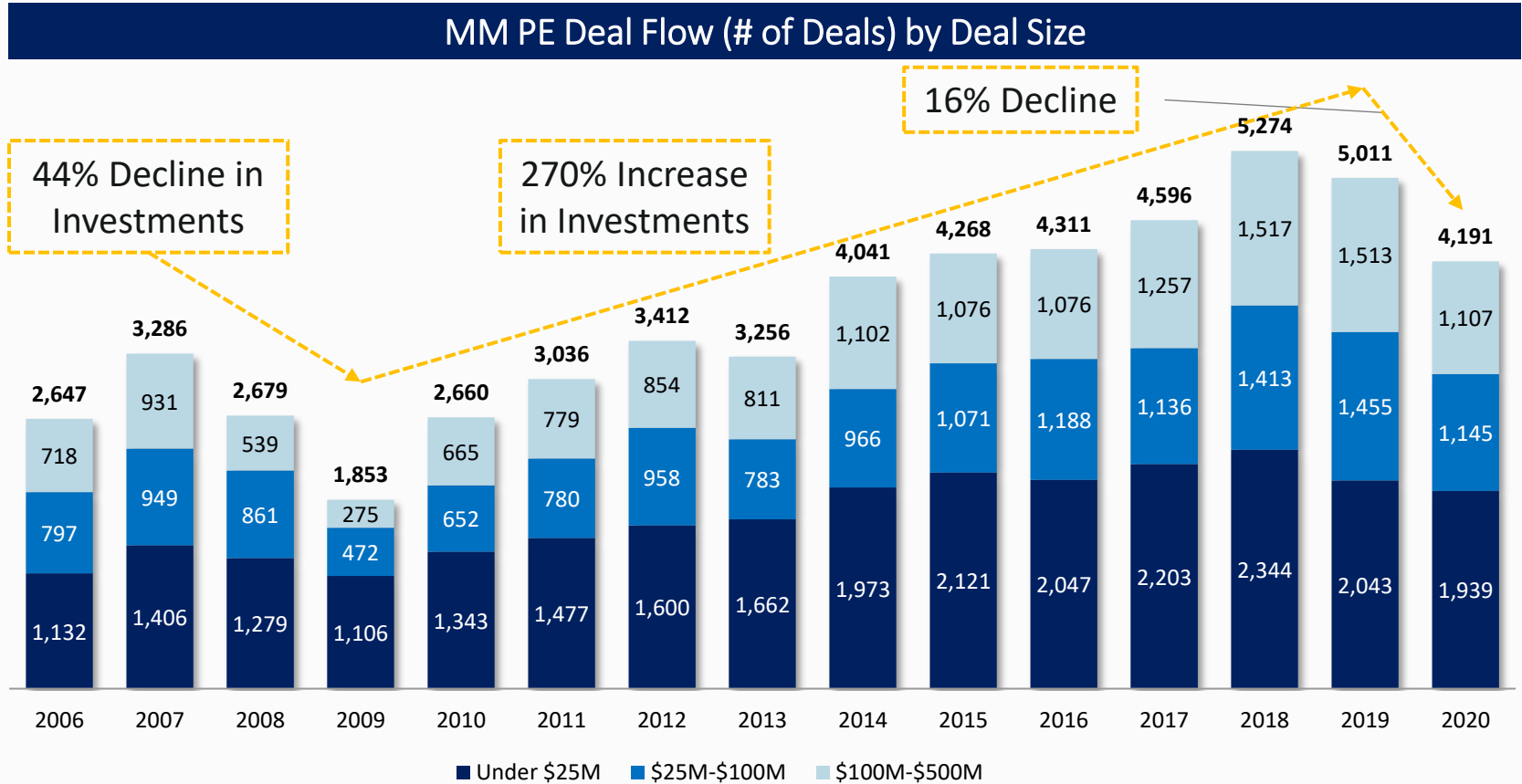
Source: Pitchbook



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

The number of deals completed by private equity during 2020 is down 16 percent, which is less than the decrease in the value of deals suggesting that the lower end of the market has held up better than the overall M&A market. From 2009 to 2019 the number of PE deals completed increased 270%. The first half of 2020 had an annualized decline of approx. 35% in number of PE deals. The deals volume increases significantly in Q3 and Q4 to lessen that decline.



Source: Pitchbook



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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 \$1.45T of overhang in 2020 had 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 the basis for our belief that 2022 to 2026 will be an extremely hot M&A market led by private equity.

Global PE Capital Overhang (\$Billions)



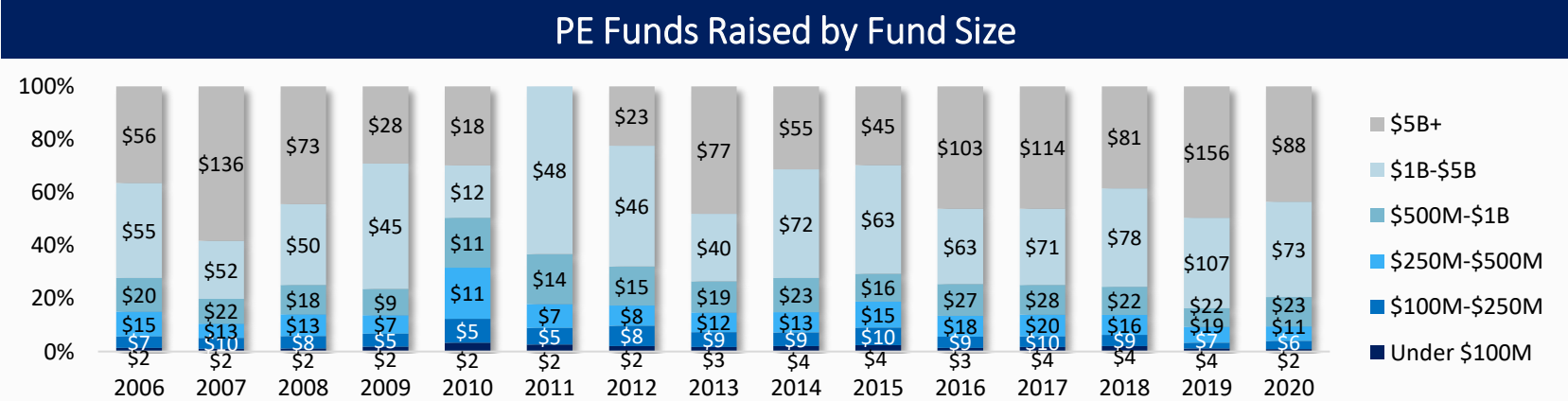
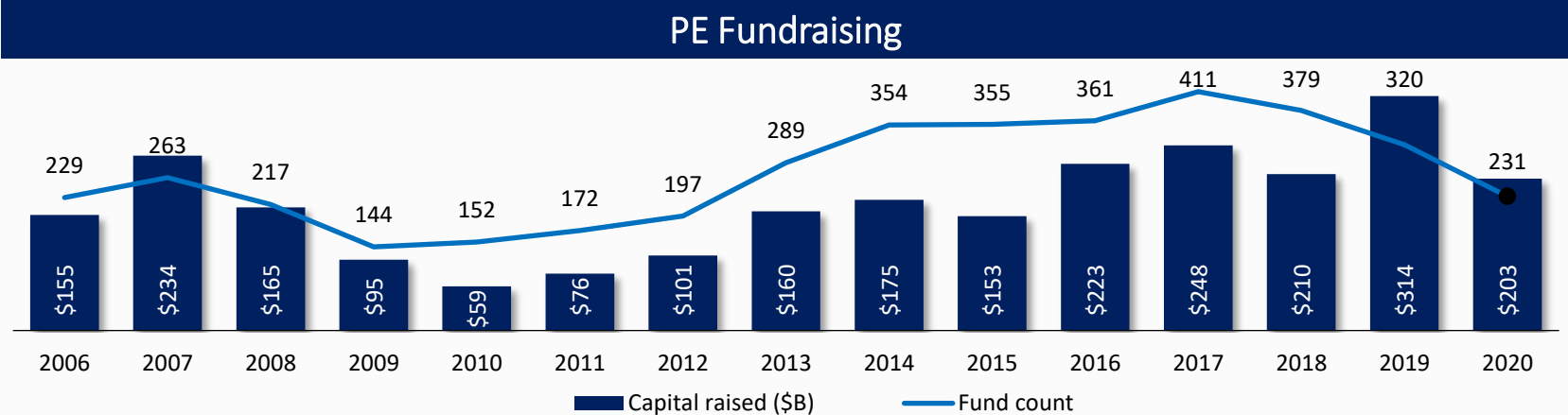
Source: Pitchbook. *2020 estimate



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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 was only the lowest year since 2018 by fund count and capital raised. On the positive side, however, the gap between money raised and money spent is the largest it has ever been and due to the continued search for higher returns offered by private equity. Given the current economic environment, private markets continue to be the attractive option for investors. 2020 fundraising was impacted by a greater extent, the larger the size of the private equity fund.



Source: Pitchbook

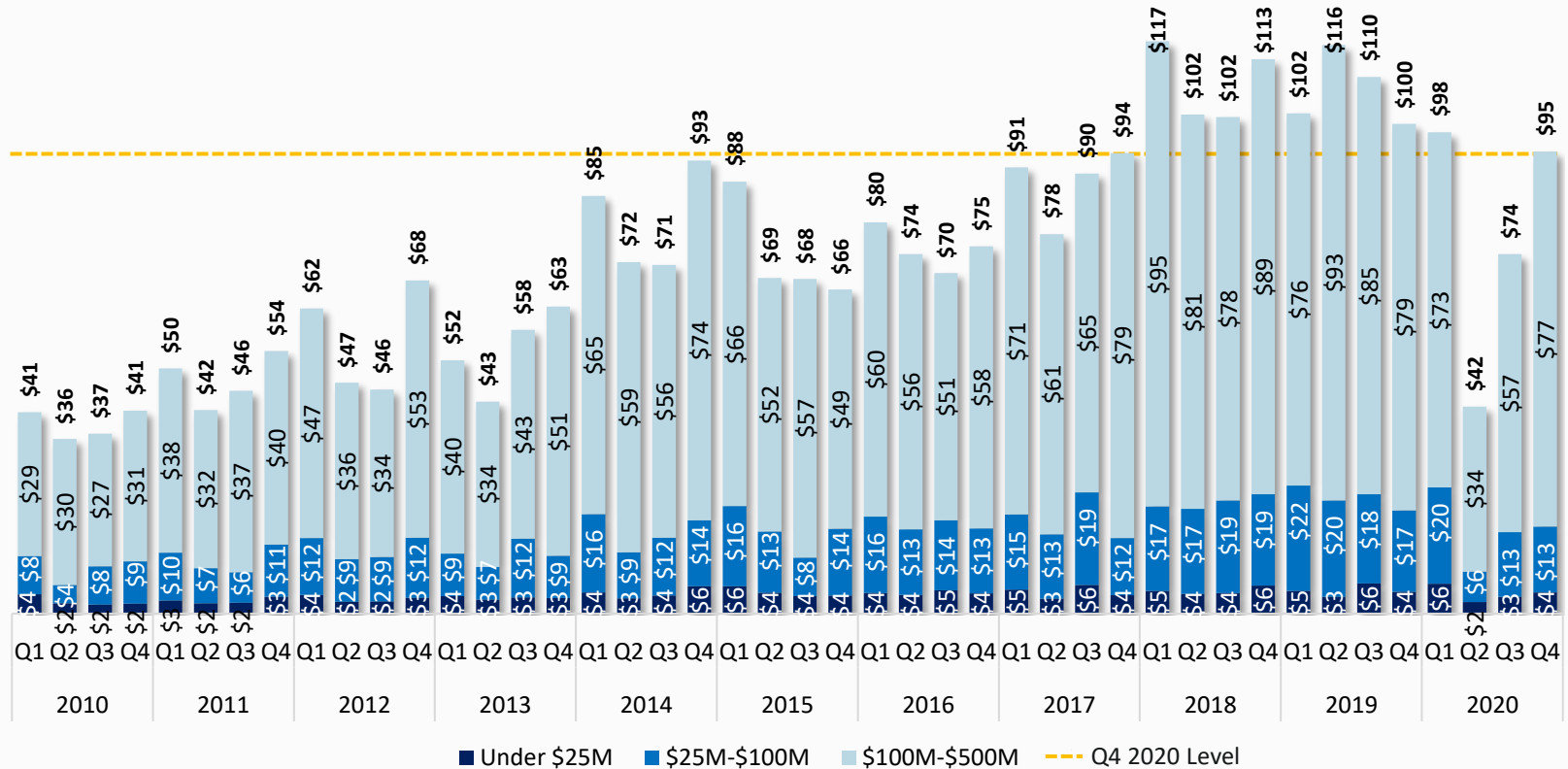


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U.S. Private Equity M&A Activity

Deal value in Q4 2020 increased substantially from Q3 and was nearly on par with Q1. The 4th quarter reflected a year over year drop of 16% and 5% from Q4 2018 and Q4 2019, respectively. Q4 2020, however, represented a major jump of 28% from Q3 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 Q4 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

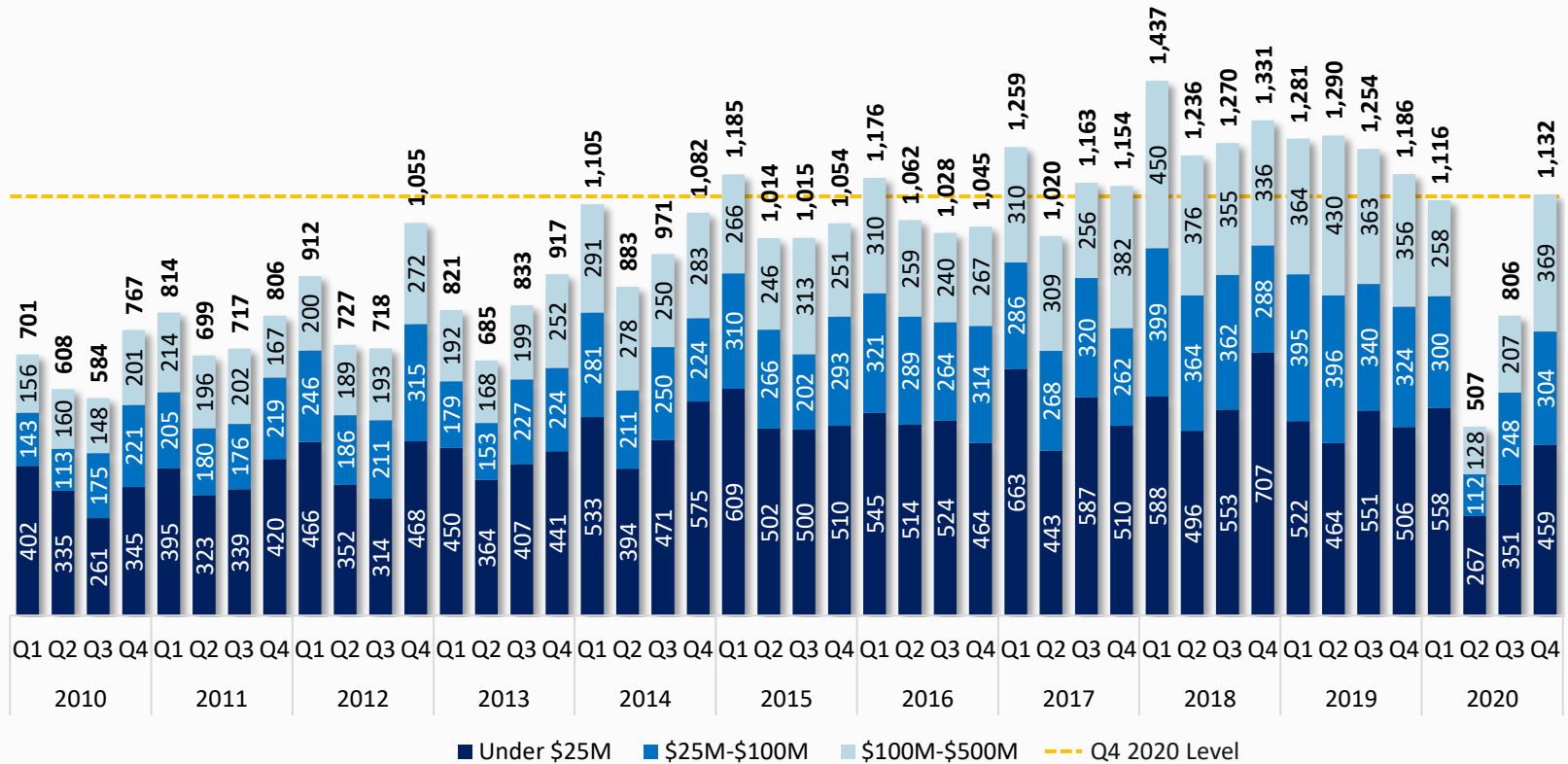


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U.S. Private Equity M&A Activity

Deal volume in Q4 2020 increased substantially as well and exceeded the volume of Q1. The 4th quarter of 2020 saw a year over year drop from prior years of 15% and 5% from Q4 2018 and Q4 2019, respectively. Q4 2020, however, represented a jump of 40% from Q3 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 Q4 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



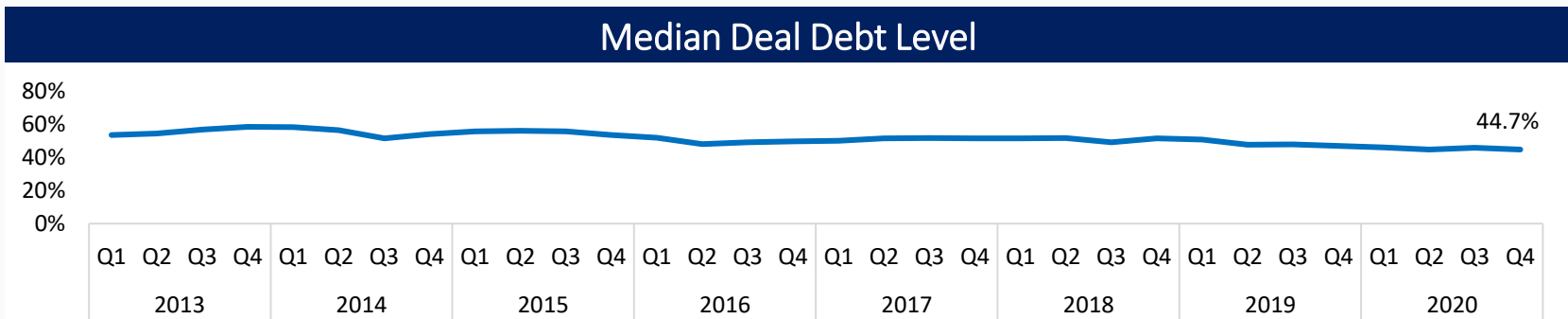
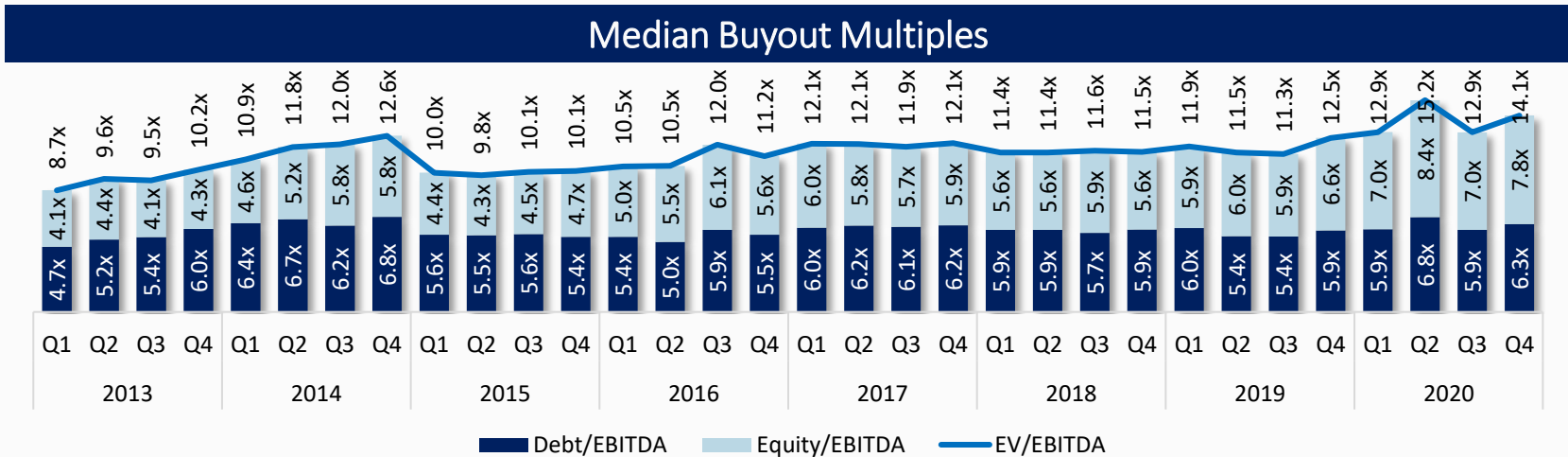
Source: Pitchbook



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U.S. Private Equity M&A Activity

EV/EBITDA multiples in Q4 2020 were near their highest point of the past seven years at 14.1x, a slight increase from Q3 and the highest multiple in recent history excluding Q2. Part of this can be explained by the lower EBITDA for many companies during COVID. Some transactions are getting done with and accepted add back for the one time impact of COVID on the target business. The median level of debt per deal is at its lowest point of the past seven years at 44.7%. We expect that this will reverse course over the next 1 to 2 years as banks become more aggressive and the US moves past the pandemic.



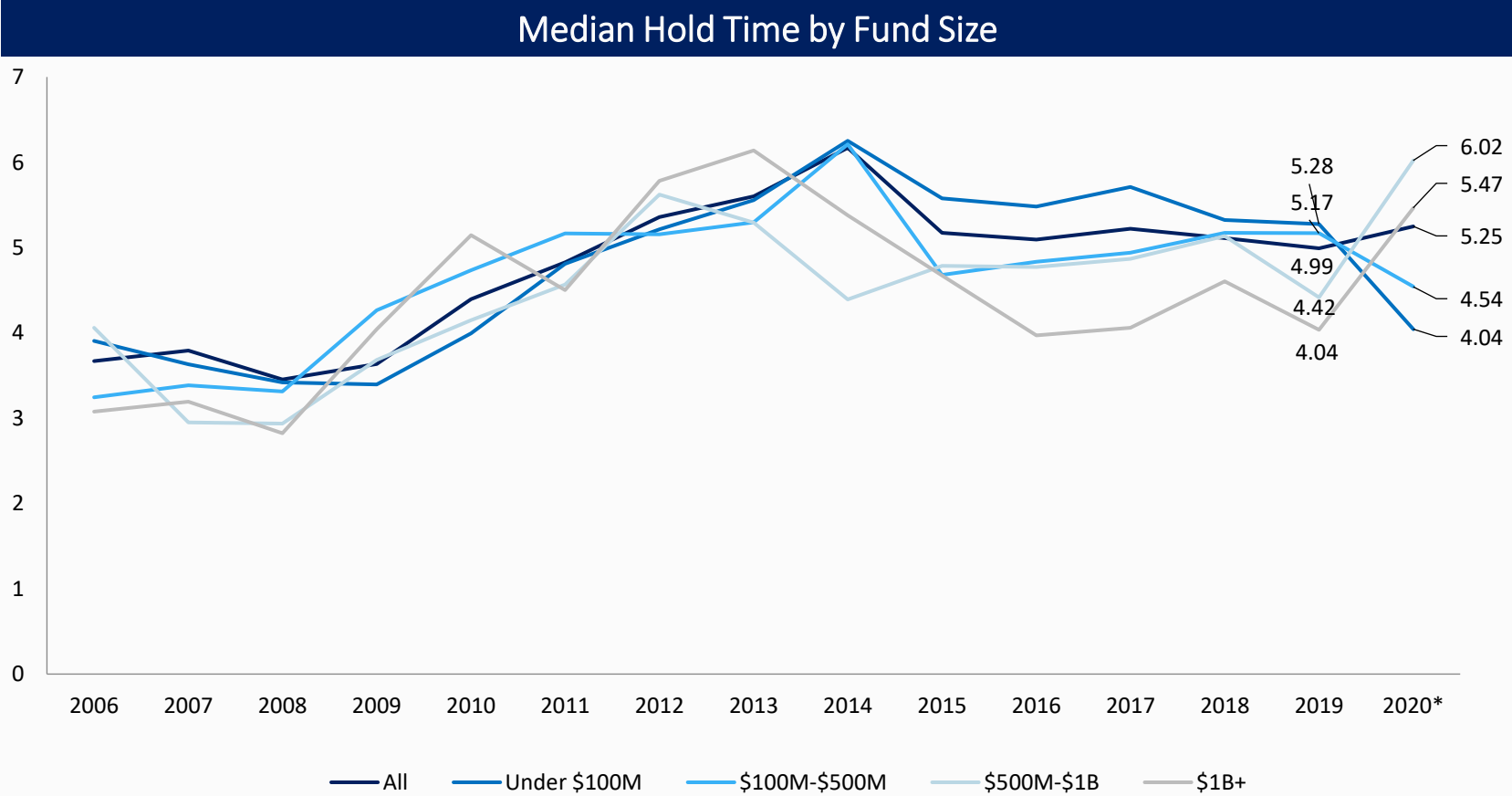
Source: Pitchbook, S&P CIQ. Note: Median is a four-quarter rolling median. Based on all PE deals



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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.



Bob Coury

CEO &

Managing Director

rcoury@greenwichgp.com

O: (248) 480-2031

M: (313) 919-3811

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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