MIDDLE MARKET PRIVATE EQUITY UPDATE

Q3 2021

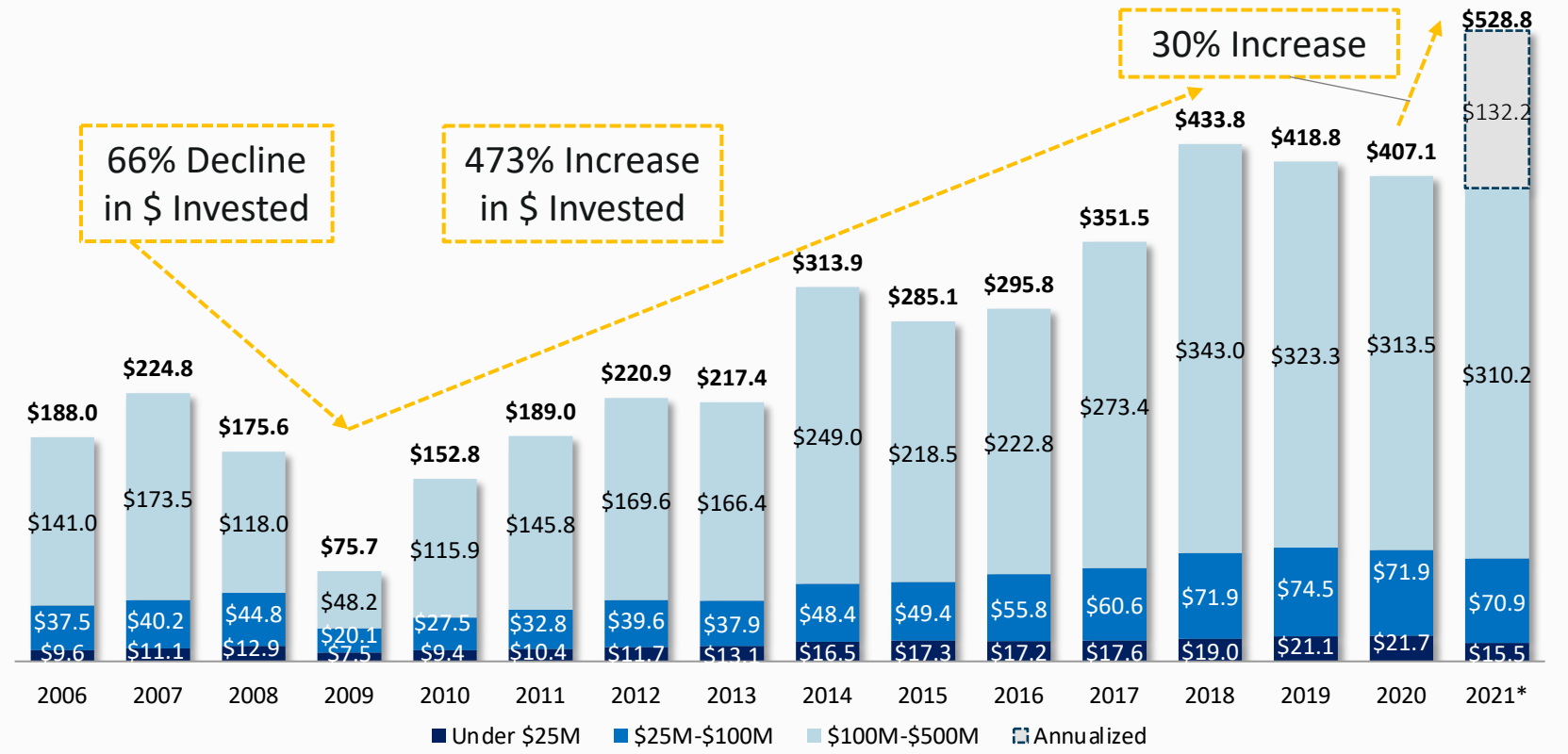
GREENWICH CAPITAL GROUP

GCG Middle Market Private Equity Update | Q3 2021

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

In 2020, the value of PE deals fell off approximately 3% from 2019. This was the 2nd year that saw the overall value of middle market deals drop from the high in 2018. 2021 is set to reverse that trend in a significant fashion. If you annualize the first 3 quarters of 2021, it suggests that M&A deal value will increase 30 percent from 2020. Based on the number of deals expected to close in the 4th quarter, we anticipate this percentage of growth to be even higher. It appears quite likely that the middle market M&A market weathered the pandemic storm with only a minor disruption.

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



* 2021 Through Q3. Source: Pitchbook

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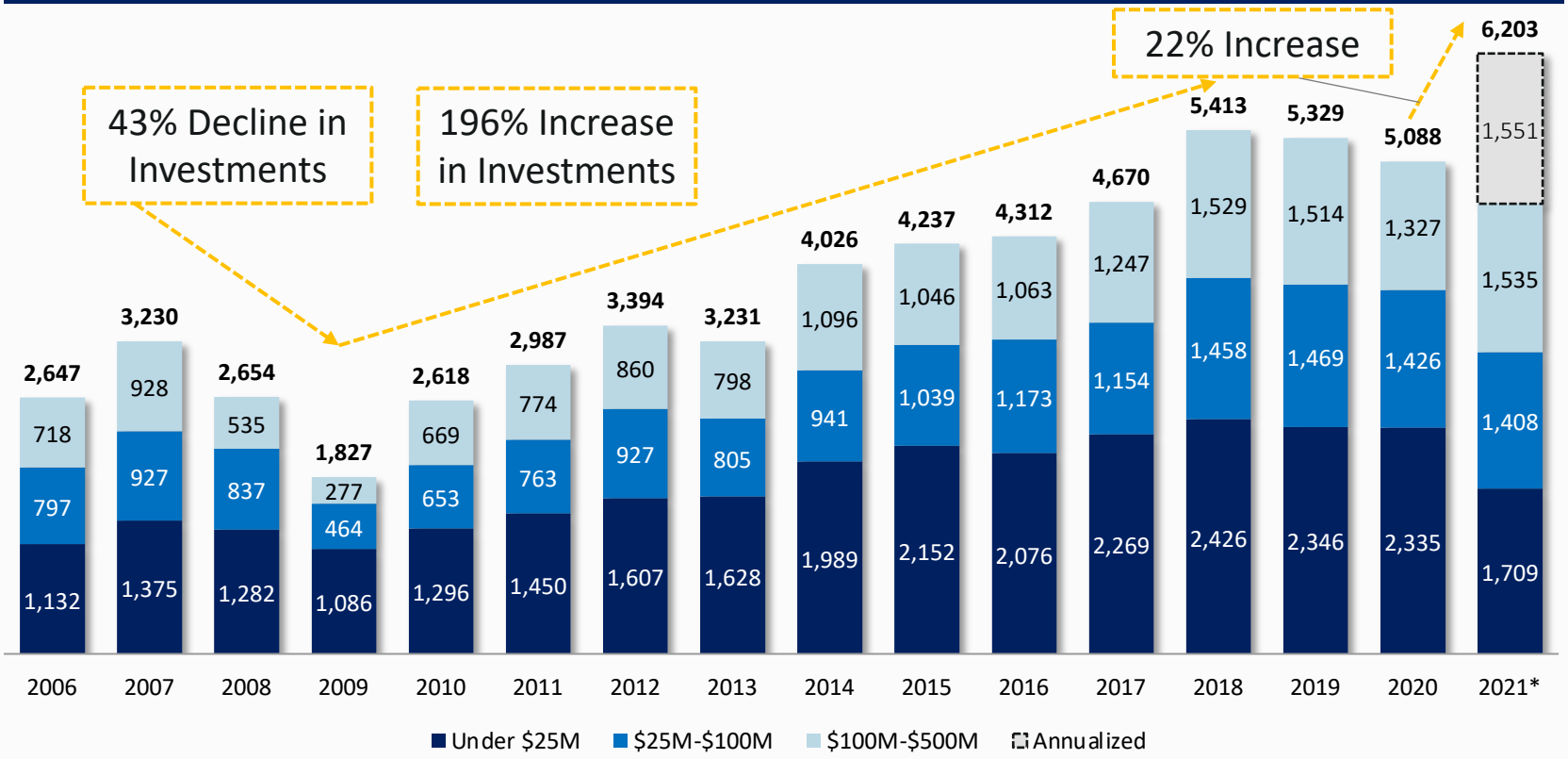
U.S. Private Equity M&A Activity – Impact of 2008/2009 Recession

The first three quarters of 2021 have seen a strong acceleration of deal activity. On an annualized basis, the first three quarters of 2021 is close to an all-time high on middle market deals. Deal volume started to pick up in Q4 as buyers and sellers both looked to pick up where they left off and 2021 looks to be strong with deal volume expected to be up at least 22% on an annualized basis. If the 4th quarter is as strong as we expect, 2021 will shatter the previous record high for deal volume.

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



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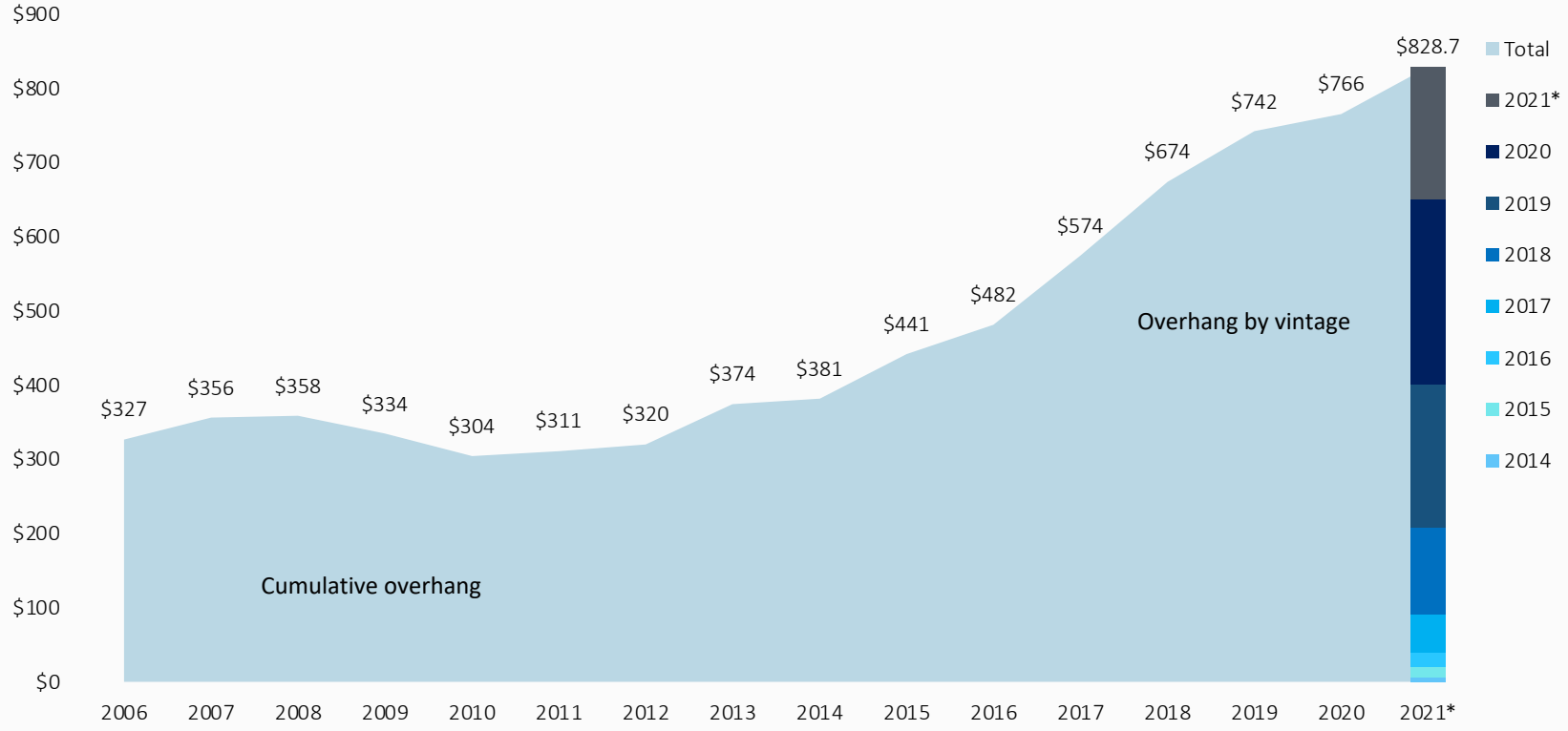
U.S. Private Equity Capital Overhang

Capital overhang, which represents the amount of capital raised by PE funds that has not yet been invested, has continued to grow. The Capital Overhang is still at a robust level and fundraising is accelerating in 2021. The majority of this capital is in funds that are 0-2 years old and based in the U.S. Most of the $766B of overhang in the U.S. 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 is the basis for our belief that 2022 to 2026 will be an extremely hot M&A market led by private equity.

U.S. PE Capital Overhang ($Billions)



* 2021 Through Q2. Source: Pitchbook

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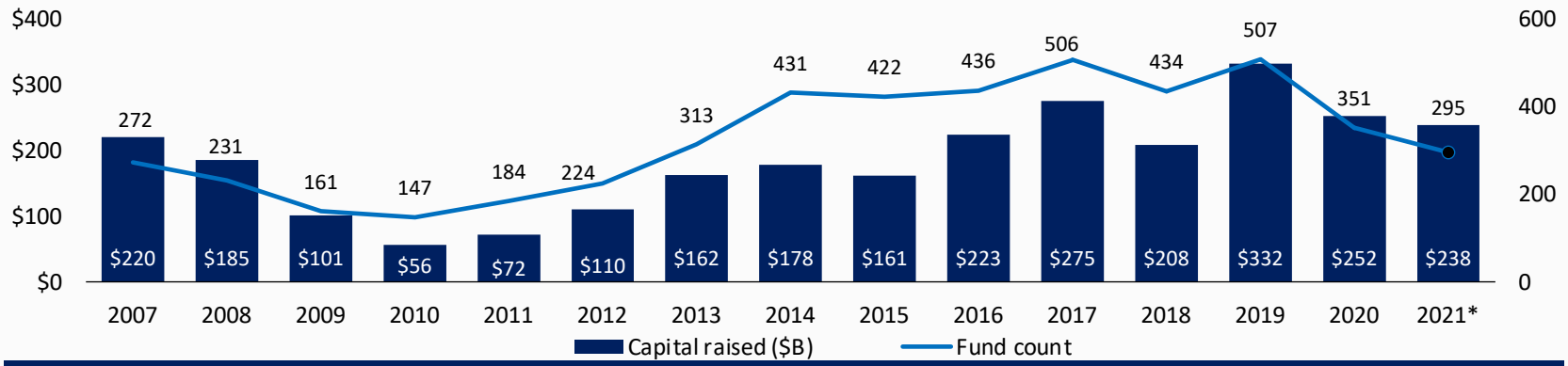
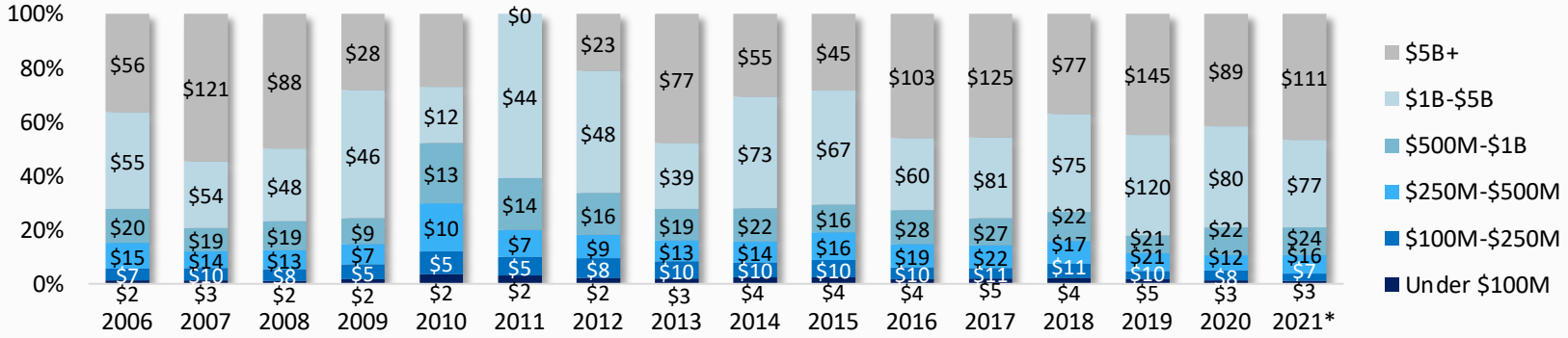
U.S. Private Equity Fundraising Activity

2021 is on pace to potentially be the best year in middle market PE fundraising. PE fundraising has generally been growing since 2010, reaching a peak in 2019. 2020 saw a 24 percent decline from 2019 in capital raised and a 31 percent decline in fund count over that same time. On the positive side, however, the gap between money raised and money spent is the largest it has ever been and is due to the continued search for higher returns offered by private equity.

PE Fundraising



PE Funds Raised by Fund Size



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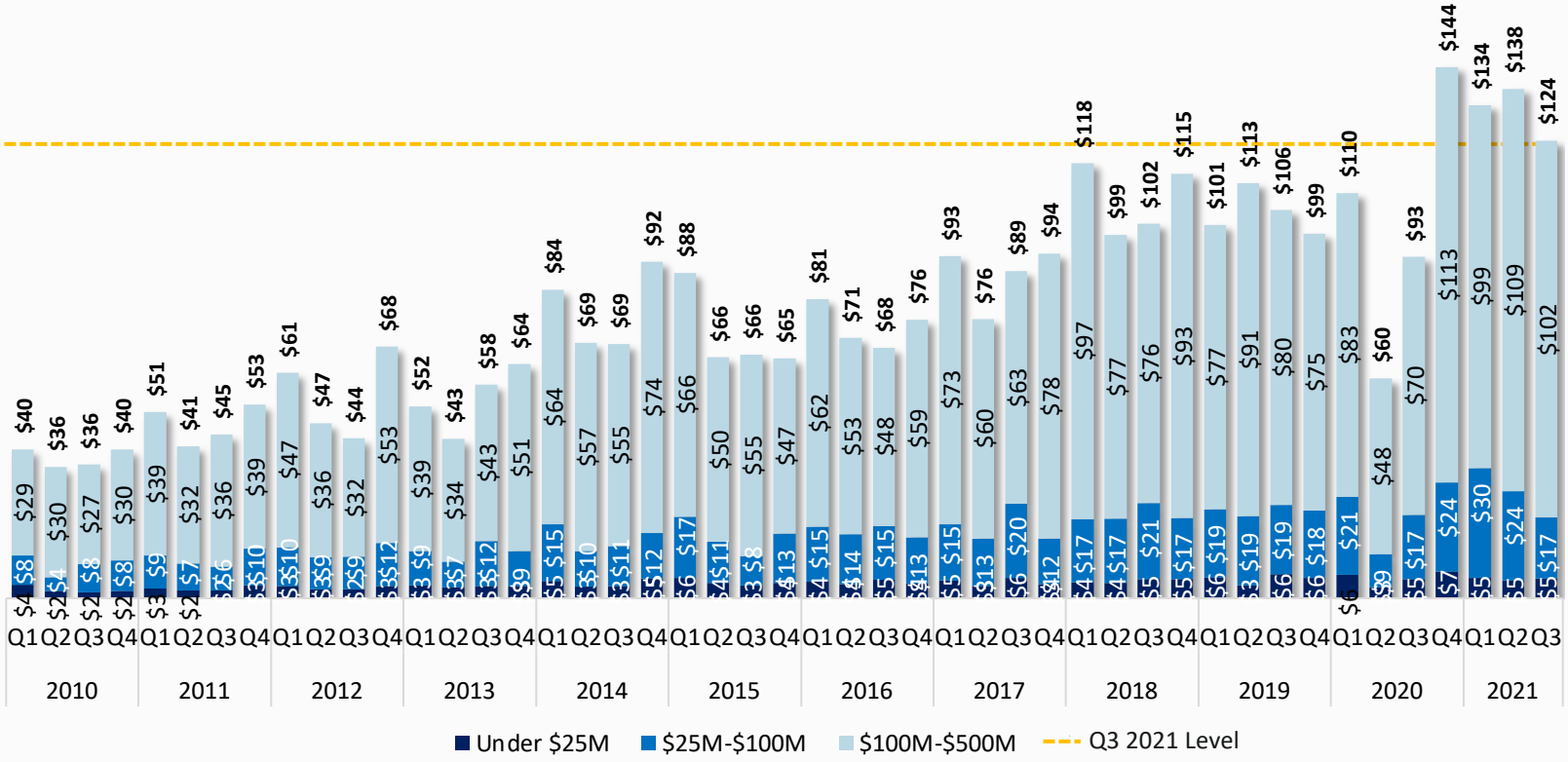
U.S. Private Equity M&A Activity

Deal value in Q4 2020 was the best quarter in recent history as trillions of dollars were pumped into the market and investors sought opportunities to deploy cash. Q1 2021 saw a decline from this record quarter but was among the best quarters of recent history as well. Q2 was a slight increase from Q1 and Q3 was a decrease of 10% from Q2. The last 4 quarters were all significantly higher than any prior quarter. 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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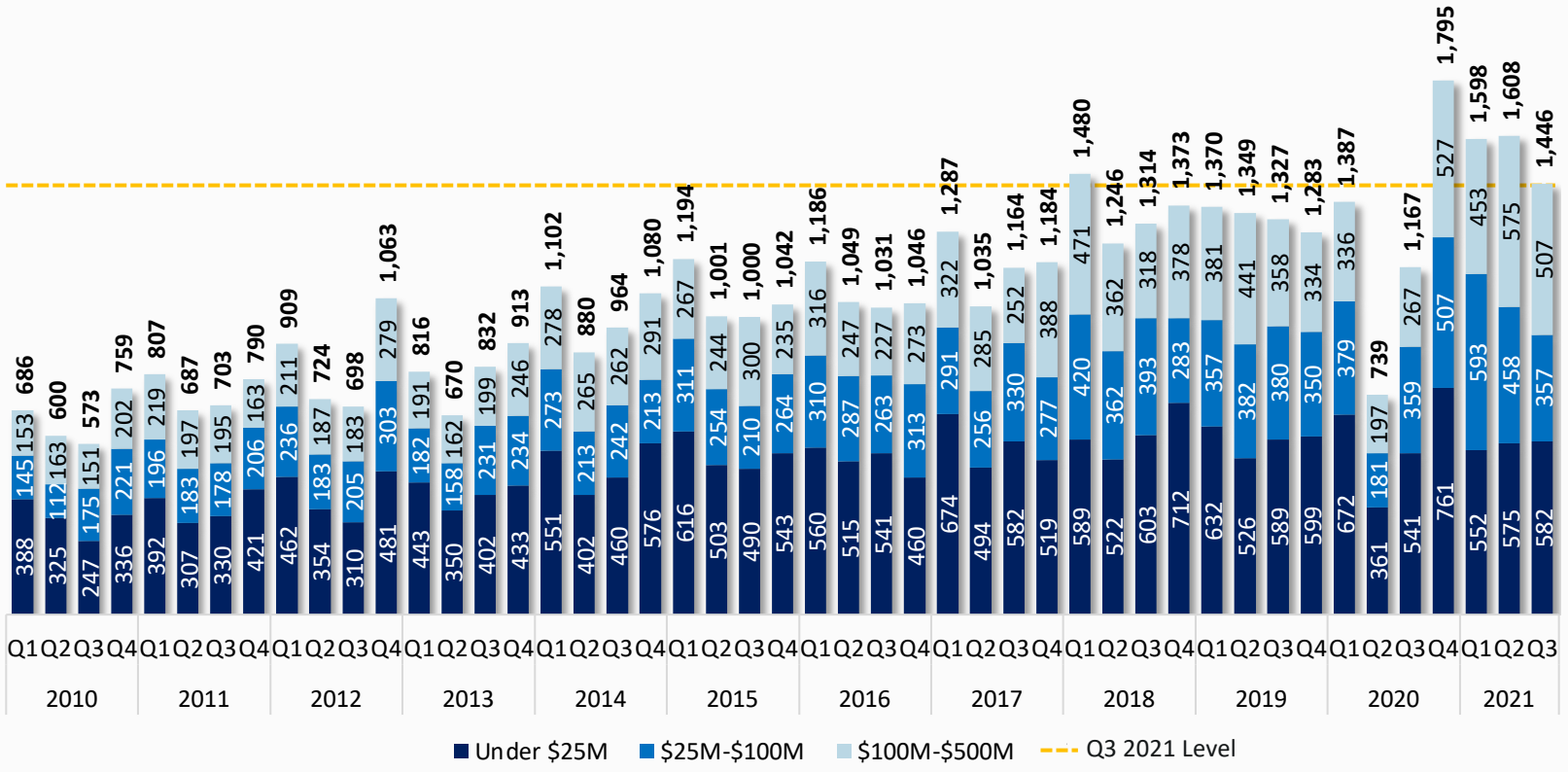
U.S. Private Equity M&A Activity

Deal volume in 2021 continued its torrid pace in the 3rd quarter. While the activity wasn't as high as the prior 3 quarters, it was still a very strong quarter. Deal volume in Q4 2020 increased substantially as well and was the best quarter of recent history. Q1 2021 decreased 11% from Q4 and Q2 was in line with Q1 but the deal value data would suggest the deals in Q2 were larger on average than Q1. Q3 declined 10% from Q2 in the number of deals completed. Deals under $100M continue to represent the majority of PE demand in the MM.

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



Source: Pitchbook

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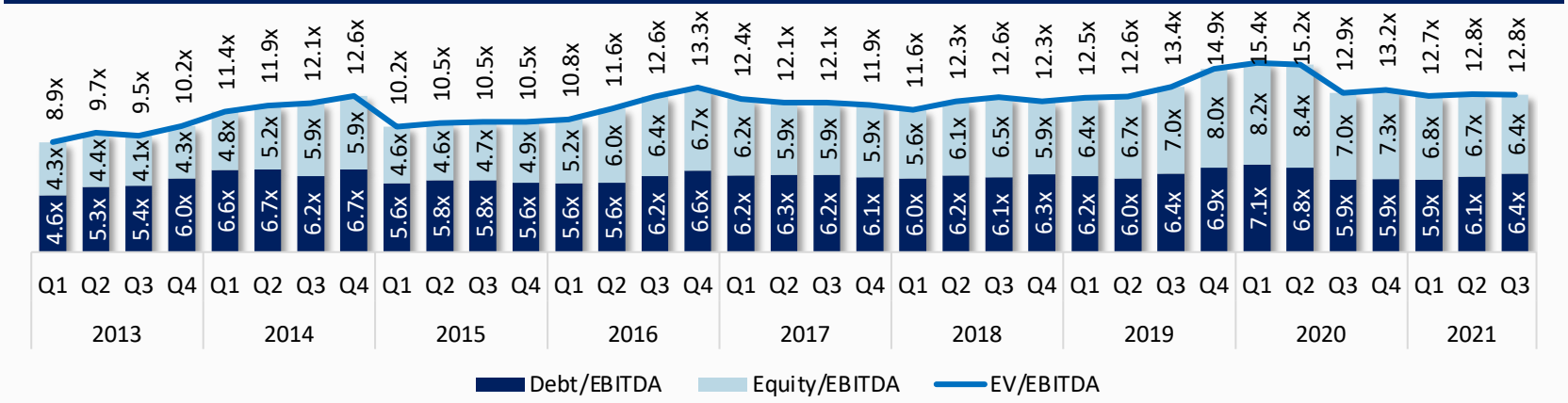
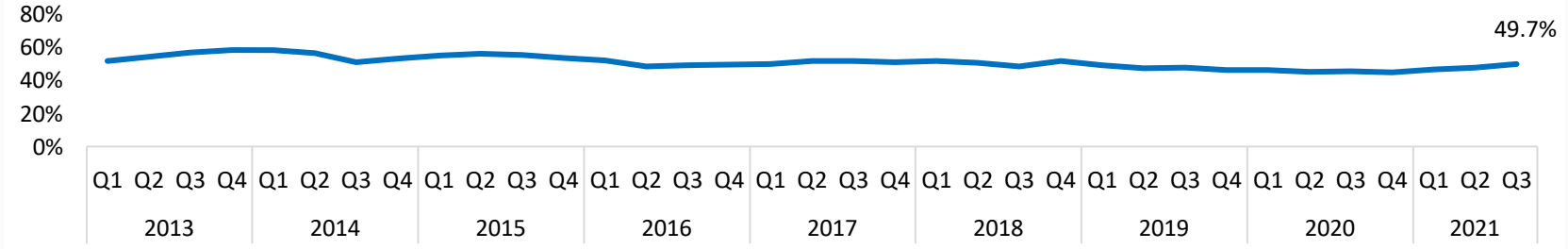
U.S. Private Equity M&A Activity

EV/EBITDA multiples continued their recent trend over the past 5 quarters of fluctuating between 12.7 and 13.2x. 3rd quarter 2021 stayed at the same level as Q2. These are off their peak highs in Q1/Q2 of 2020. Part of this can be explained by the lower EBITDA for many companies during COVID. The median level of debt per deal is near its lowest point of the past seven years at 49.7% but this was the highest quarter since Q3 2019 and an increase from Q2. We expect the debt level to continue increasing over the next 1 to 2 years as banks become more aggressive and the U.S. moves past the pandemic.

Median Buyout Multiples



Median Deal Debt Level



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

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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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