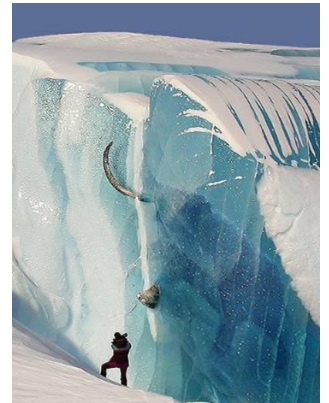


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## Middle Market Deal Activity: Signs of a Thaw?

The August 2013 quarterly report from GF Data turns to the tundra of Asia for imagery to describe the dearth of middle-market deal activity through the first six months of this year: “We were excited by the news earlier this summer that paleontologists found a woolly mammoth preserved in a glacier in Siberia, raising the possibility that the extinct species might be genetically recreated. The glacier surrounding middle market M&A has been less forthcoming.”



The 180 private equity firms that are active contributors to GF Data reported 33 completed transactions in first half of 2013, well below the 96 deals closed in the fourth quarter of 2012. GF Data collects data on deals with Total Enterprise Values (TEV) of \$10 million to \$250 million and TEV/Adjusted EBITDA multiples of 3 to 12x. Overall multiples averaged 6.4x for the second quarter of 2013, the highest mark in three quarters.

“Private equity sponsors and other deal professions expect an increase in closings in the third quarter and a surge in new deal activity heading into the fall,” said GF Data CEO Andrew Greenberg, GF Data’s CEO. “But this momentum was simply not yet apparent in deal activity through June 30.”

“Within the smaller group of deals that are getting done, there has been a resurgence of the quality premium — the reward in valuation given to businesses with above average EBITDA margins and revenue growth rates,” according to B. Graeme Frazier, IV, GF Data Principal and Co-Founder.

“We haven’t seen this kind of spread since the ‘flight to quality’ days of 2010,” said Mr. Frazier. “Better financial performers in the first six months of this year were valued at a 12 percent premium to other businesses in buyout transactions. The average for the 10 prior years was three percent.”

Consistent with the rise in valuation multiples, senior and total debt multiples in private equity transactions included in GF Data’s report also ticked upward. Total debt averaged 3.7x in the second quarter.

However, according to Brett Carmel, Senior Managing Director of Seale & Associates, an Arlington, VA-based investment banking firm, the benefits of widely available leverage are not extending to smaller deals in the middle market. “Given current senior and total debt multiples for leveraged buy-outs, especially in the lower end of the middle market, it is challenging for smaller private equity firms to compete effectively against the aggressive valuations being offered by strategic buyers, which currently have the advantages of high public valuations, excess cash on the balance sheet, and generous access to inexpensive debt,” said Mr. Carmel.

GF Data Resources provides data on private equity sponsored M&A transactions with enterprise values of \$10 million to \$250 million, offering private equity firms and other users external information to use in valuing and assessing M&A transactions. GF Data collects transaction information from private equity groups on a blind and confidential basis. Data contributors and paid subscribers receive two products -- high-level valuation and leverage data via electronically delivered quarterly reports, and continuous access through the firm’s web site to detailed valuation data organized by NAICS industry code. GF Data is based in West Conshohocken, PA.

For information on subscribing to GF Data or to contribute data as a private equity participant, contact Bob Wegbreit at [bw@gfdataresources.com](mailto:bw@gfdataresources.com) or visit the firm’s website at [www.gfdataresources.com](http://www.gfdataresources.com).