

# Perspectives

## SPOTLIGHT ON PRIVATE EQUITY

VIEWS ON INDUSTRY TRENDS AND NEWS

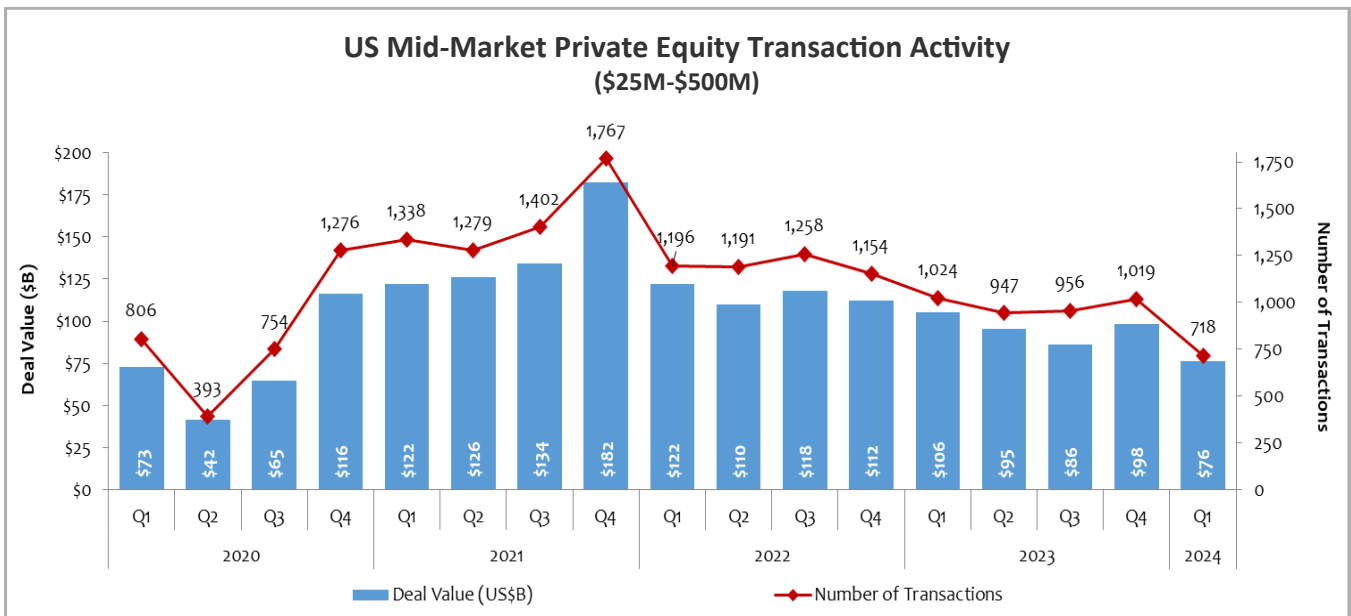
### Private Equity in the Mid-Market

Consistent with the broader M&A market, mid-market private equity investment activity was lower in 2023 with private equity firms facing economic uncertainty, higher inflation and interest rates and reduced availability of debt financing. As a result of these headwinds, investment activity for the \$25-\$500 million US mid-market space decreased 17.8% in 2023 from the prior year. Private equity investment activity shifted more to smaller add-on deals as firms bided their time for a more deal-friendly environment to emerge.

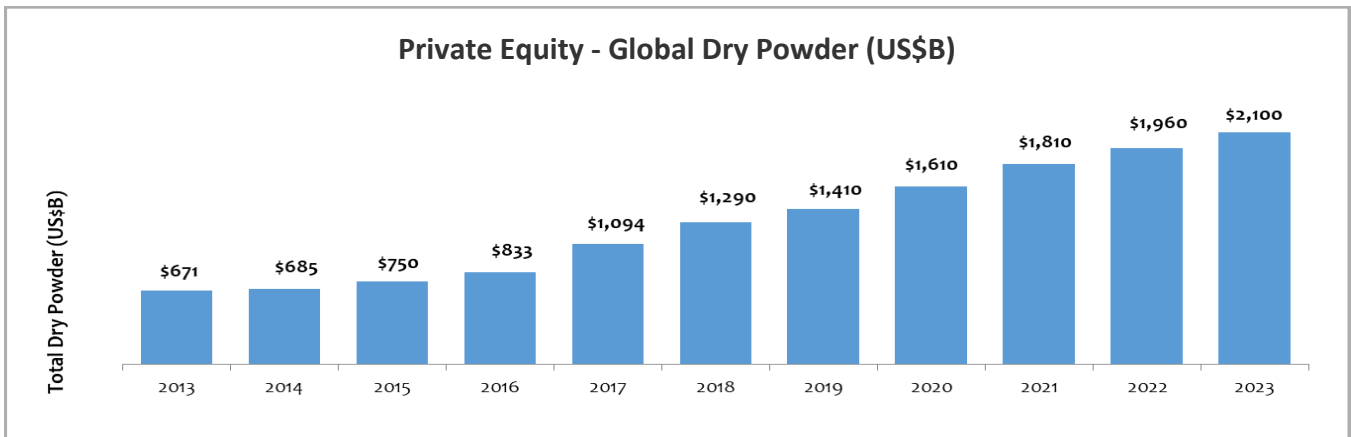
Private equity exit activity was also slower in 2023 resulting in a longer average hold periods for portfolio investments. This led to a more active

secondary market (including GP-led continuation funds), where secondary funds under \$500 million raised a total of US \$4.4 billion in 2023.

The outlook for the remainder of 2024 is more positive with recession concerns fading, lower inflation, a stabilization of interest rates and an expectation of rate cuts in the coming months. Private equity firms globally continue to sit on record levels of dry powder (\$2.1 trillion) and general partners are under increasing pressure to put this capital to work.



Source: Pitchbook

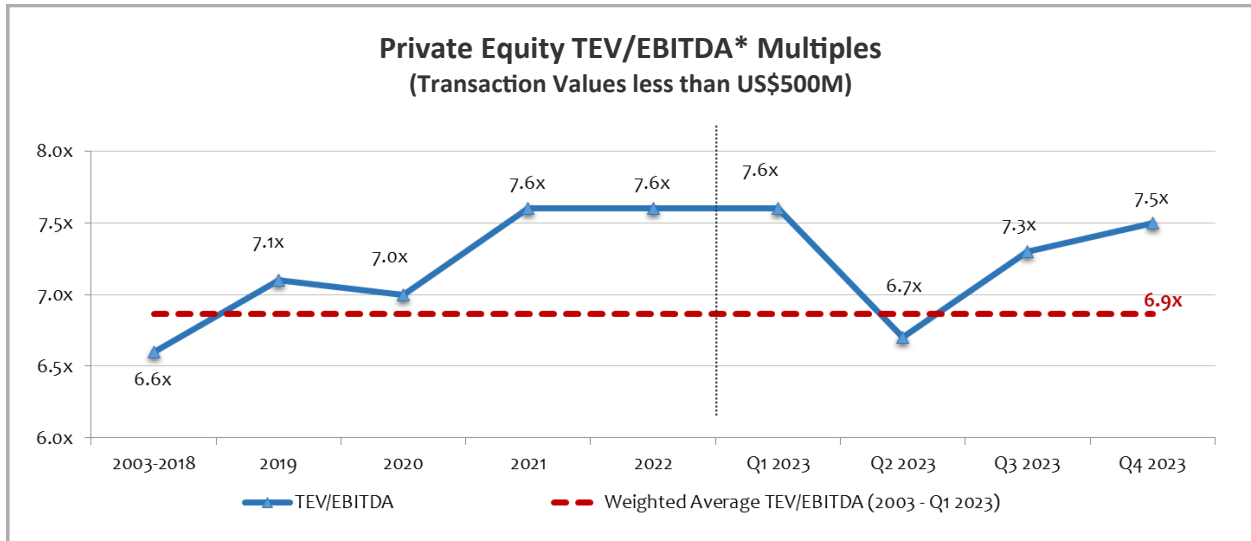


Source: Preqin Ltd.

# Valuations: Mid-Market Holds Up Well

While valuation multiples were down in 2023 for the private equity sector as a whole, multiples for mid-market transactions held up fairly well and remain well above the long term average.

Perhaps the resilience of valuation multiples in the private equity mid-market suggests a flight to higher quality businesses and more conservative capital structures that were less impacted by reduced debt availability.



\*Total enterprise value / earnings before interest, taxes, depreciation and amortization

Source: GF Data®

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# Valuation by Industry Sector: Some Winners & Some Losers

Valuation multiples for many industry sectors softened from multi-year highs but Technology and Health Care Services were notable exceptions. Technology rebounded strongly to a sector average of 10.2x, aligning with the valuation trend in the public markets for technology companies. The Health Care Services sector continued its

upward trend to a sector average of 9.3x, well above the long-term average. On the flip side, the Retail sector decreased by 2 turns of EBITDA, down to 6.0x and below its long-term average. Similarly, Media & Telecom posted a significant decrease from 2022 to 7.8x, now more in line with its long-term average.

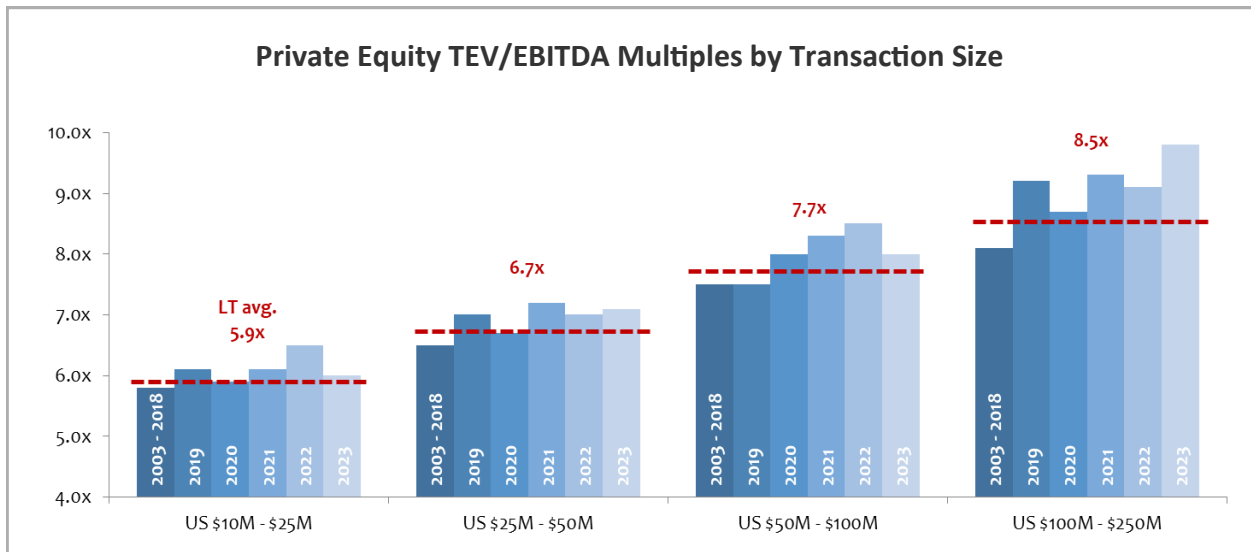
	2003-2018	2019	2020	2021	2022	2023	Long Run Average
Technology	8.3x	10.0x	7.6x	10.3x	8.1x	10.2x ↑	8.7x
Health Care Services	7.4x	8.0x	7.6x	8.1x	8.4x	9.3x ↑	7.6x
Media and Telecom	7.4x	9.4x	8.3x	7.0x	9.1x	7.8x ↓	7.6x
Business Services	6.6x	7.2x	7.1x	7.3x	7.4x	7.3x	6.9x
Distribution	6.5x	7.0x	7.5x	7.2x	7.2x	7.1x	6.8x
Other	6.3x	6.5x	6.2x	7.3x	6.7x	6.9x	6.4x
Manufacturing	6.2x	6.5x	6.7x	7.1x	7.3x	6.5x	6.4x
Retail	6.9x	9.3x	6.5x	8.3x	8.0x	6.0x ↓	7.1x

Source: GF Data®

# Valuations: Size and Quality Premiums

Breaking valuation multiples out by transaction size, large companies, as expected, continue to trade at higher multiples. The valuation premium widened further in 2023 with larger companies (TEV of \$100-250M) trading at an average of 9.8x, demonstrating a premium of 64% compared to smaller companies (TEV of \$10-25M) which traded at 6.0x.

Buyers continue to pay up for quality as well, with growth and profitability playing significant roles in valuation. Companies with both TTM EBITDA margins and revenue growth rates exceeding 10%, secured a 28% premium in 2023. This notable premium over the long term average of 15%, highlights private equity's focus on quality in a more challenging debt environment.

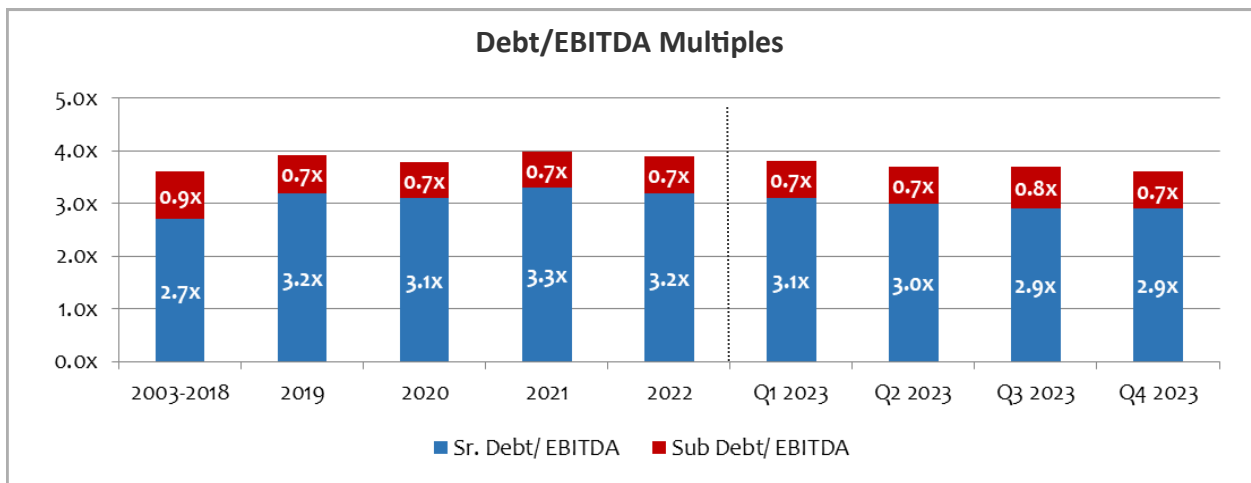


Source: GF Data®

# Leverage Analysis: Tighter Debt Markets

Private equity firms and lenders have become more conservative in their financing structures in 2023. Over the prior 4 years, leverage averaged around 4 turns of EBITDA, but in 2023 total leverage averaged 3.6x EBITDA, more in line with the long term historical average. Reflecting the increasing cost of debt and lenders' growing

caution in a period of economic uncertainty, the reduction in leverage has been primarily in the form of senior debt. With easing recession concerns and expectations of lower interest rates, it will be interesting to see if this trend reverses in 2024.

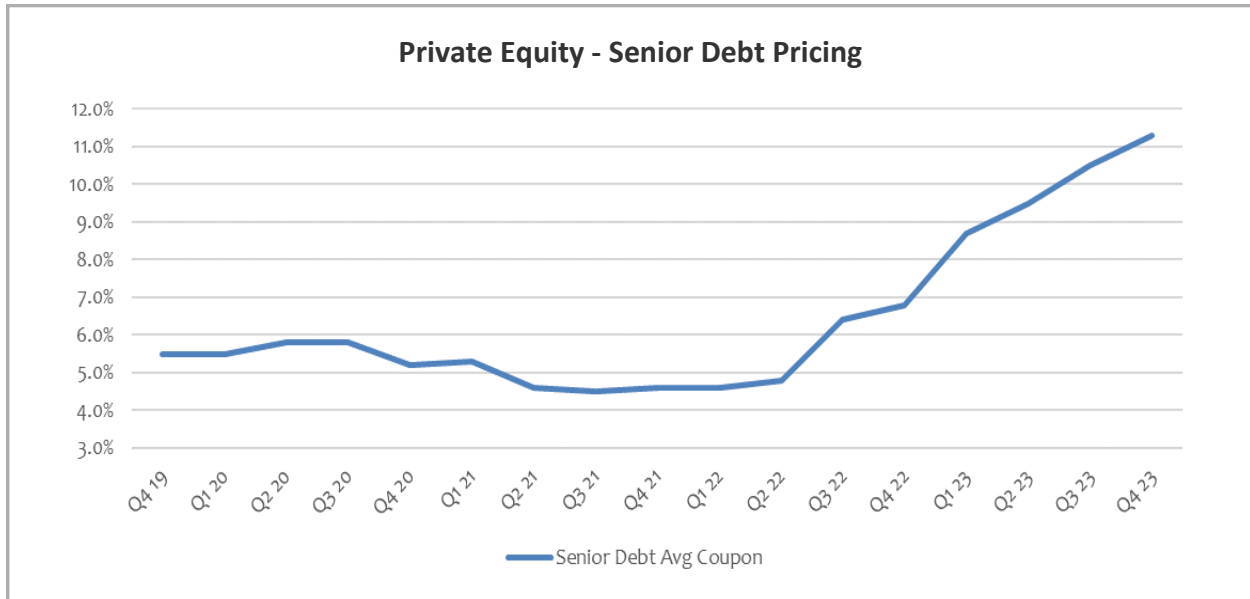


Source: GF Data®

## Leverage Analysis: Increasing Cost of Debt

After an extended period of historically low interest rates, the cost of debt has increased dramatically since central banks started tightening monetary policy in Q2 of 2022. The average cost of senior debt for mid-market private equity transactions more than doubled from less than 5% to over 11% making it challenging for portfolio

companies to service debt. Concerns about further rate increases through this period also contributed to conservative capital structures. The recent stabilization of interest rates and expectations of coming rate cuts should be more conducive to private equity transactions.

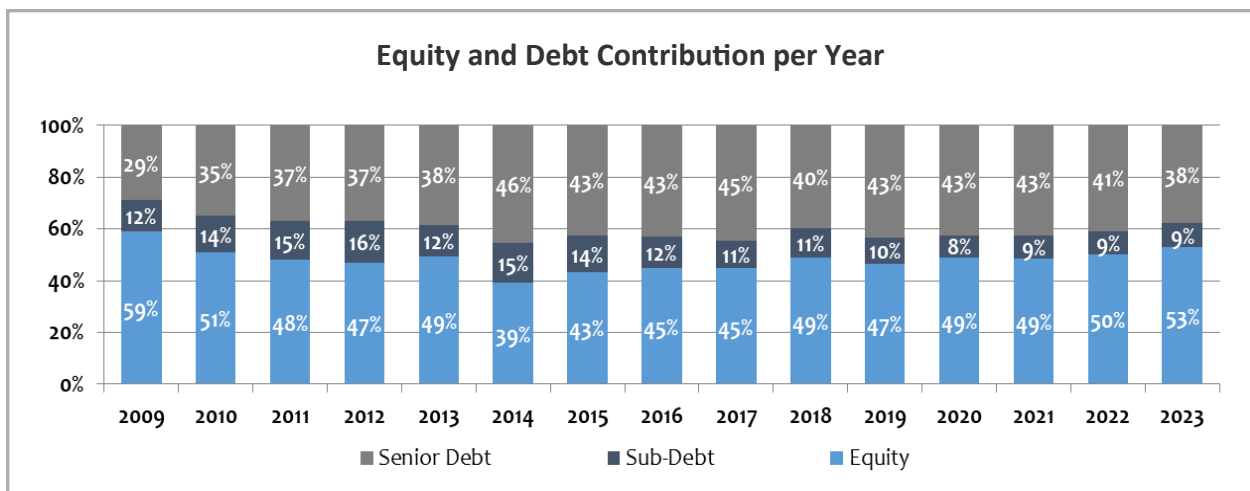


Source: GF Data®

## Leverage Analysis: More Equity Required

The following chart compares the average breakdown of capital used to finance North American mid-market private equity acquisitions. In 2023, equity percentages spiked to levels not seen since the Great

Financial Crisis. Reinforcing the theme evident through all the data presented here: lenders are requiring larger equity cushions in leveraged transactions.



Source: GF Data®




*Contributing Editor:*

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## RECENT TRANSACTIONS




**SILVER CRYSTAL GROUP**


A global leader in sports apparel customization & retail experience technology has been acquired by



**SALE ADVISORY**



An experience design company that has created some of the world’s most successful leisure destinations has sold a majority stake to



**SALE ADVISORY**




A leading utility services provider and portfolio company of




has been sold to a North American energy infrastructure investor

**SALE ADVISORY**



A leading North American software sales and consulting services provider of Atlassian solutions has been sold to



A US-based managed services Atlassian partner and a portfolio company of Periscope Equity

**SALE ADVISORY**

## ABOUT CROSBIE

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