JUNE 2022

Perspectives

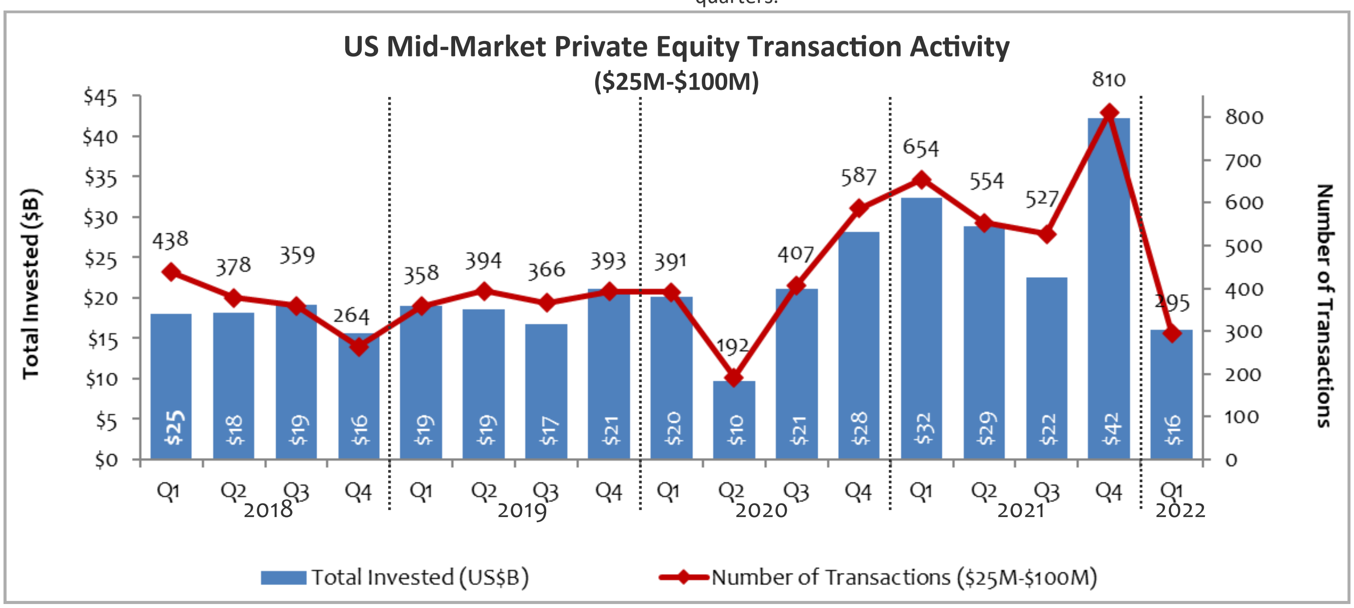
SPOTLIGHT ON PRIVATE EQUITY

VIEWS ON INDUSTRY TRENDS AND NEWS

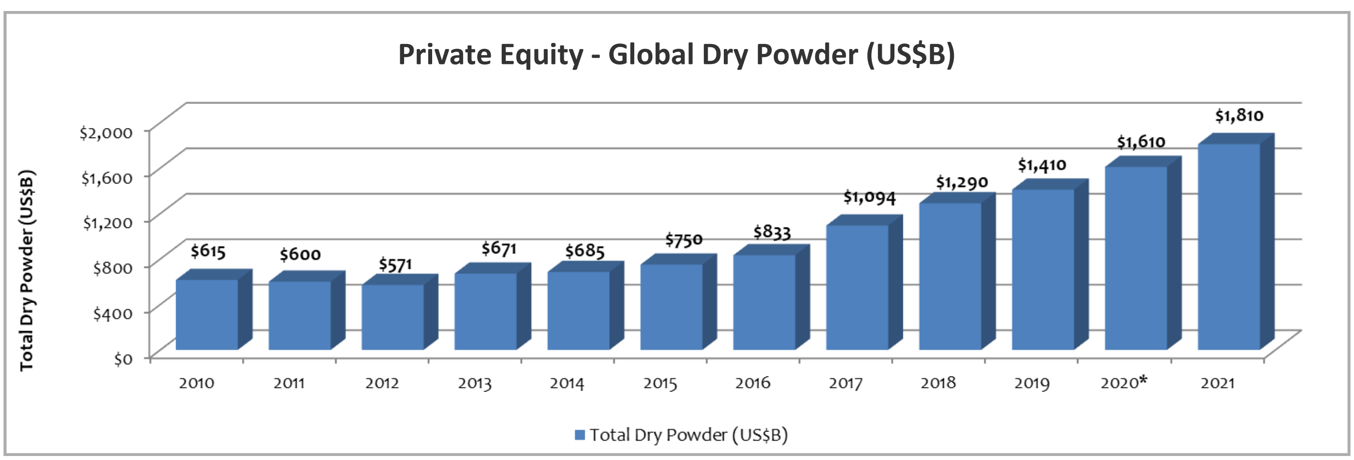
Private Equity in the Mid-Market

We take this opportunity to look back on the recent frantic pace of deal-making transpiring in the mid-market private equity landscape, which is a good proxy for mid-market M&A activity more broadly. In last year's issue of *Perspectives*, we wrote about the phenomenal recovery in private equity activity that began in the second half of 2020 after bottoming out earlier in the year when the global pandemic hit. In 2021, mid-market private equity activity achieved new record highs, peaking in Q4 with 810 transactions. Overall, there were 2,545 mid-market private equity transactions, a 69% increase over the prior three-year average.

The market then took a bit of a breather in the first quarter of 2022, with the lowest level of activity since Q4 2018 (excluding the COVID-impacted results of Q2 2020). While one quarter does not make a trend, there are certainly many themes in the headlines that could be impacting the pace of deal activity, including: a rising interest rate environment, inflation, concerns about a possible economic downturn, ongoing supply chain bottlenecks across many sectors, and ongoing geo-political issues. However, many of the key ingredients that typically support private equity activity and attractive valuations remain in place, such as: lots of dry powder that needs to be put to work ($1.8 trillion), debt availability at relatively low costs, and a robust supply of businesses looking to go to market and capitalize on an attractive valuation environment. These conditions should continue to support M&A activity in the coming quarters.



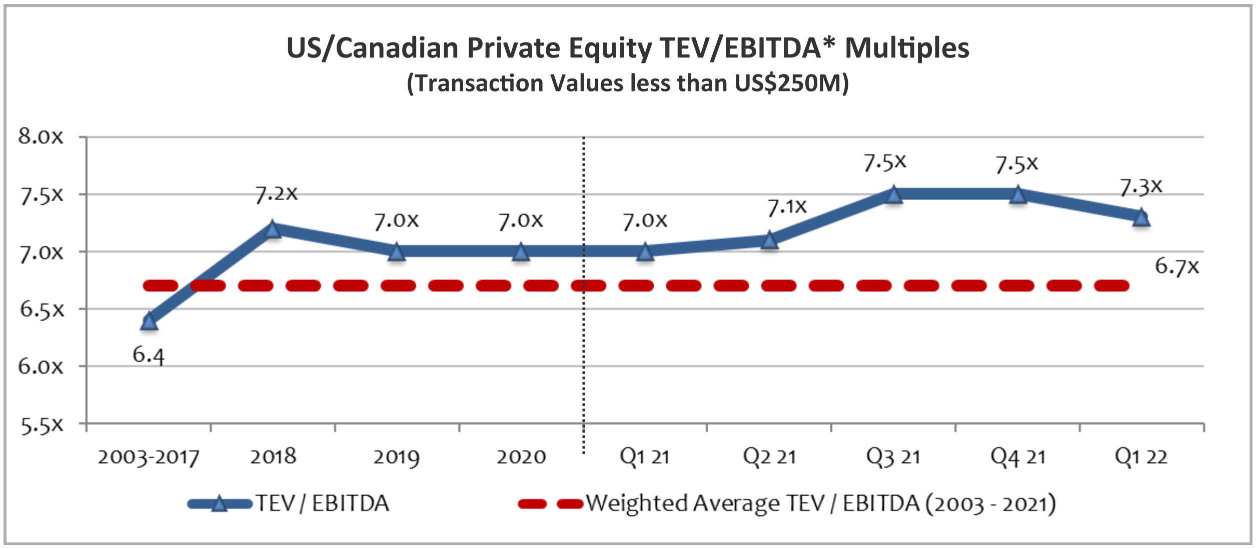
Source: Pitchbook



Source: Preqin Ltd.
** Estimate*

Valuations: Remain Near All-Time Highs

As shown below, the average mid-market TEV/EBITDA valuation multiple trended up for several years reaching 7.5x in the second half of 2021 – nearly a full turn higher than the long-term average. Multiples declined slightly in Q1 22 but remained elevated relative to the historical norm.



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

Source: GF Data®

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Valuation by Industry Sector: Retail Recovers and Tech Rallies

Valuation multiples in 2021 remained above the long-term averages for each of the industry sectors below, with the exception of Media & Telecom. After being heavily impacted by COVID-19, retail sector valuations bounced back in 2021 to 8.0x TEV/EBITDA. Private equity firms bid aggressively for technology companies in 2021, which posted the highest average valuation multiple at 9.4x.

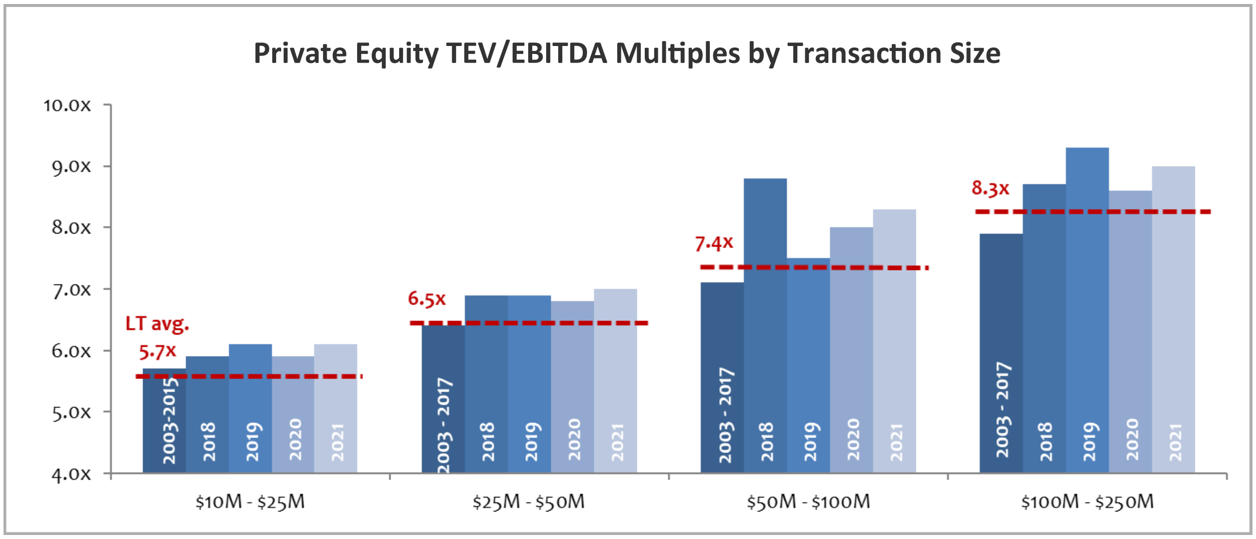
TEV/EBITDA by Industry

	2003-2017	2018	2019	2020	2021	Long Run Average
Manufacturing	6.1x	6.9x	6.5x	6.7x	7.1x	6.3x
Business Services	6.5x	7.1x	7.1x	7.0x	7.3x	6.7x
Health Care Services	7.2x	7.8x	8.4x	7.8x	8.0x	7.5x
Retail	6.7x	7.5x	9.3x	6.9x	8.0x	7.0x
Distribution	6.5x	6.9x	7.0x	7.5x	7.3x	6.7x
Media and Telecom	7.4x	7.8x	7.0x	8.3x	6.3x	7.4x
Technology	7.8x	9.6x	10.0x	7.6x	9.4x	8.2x

Source: GF Data®

Valuations: Size and Quality Premiums

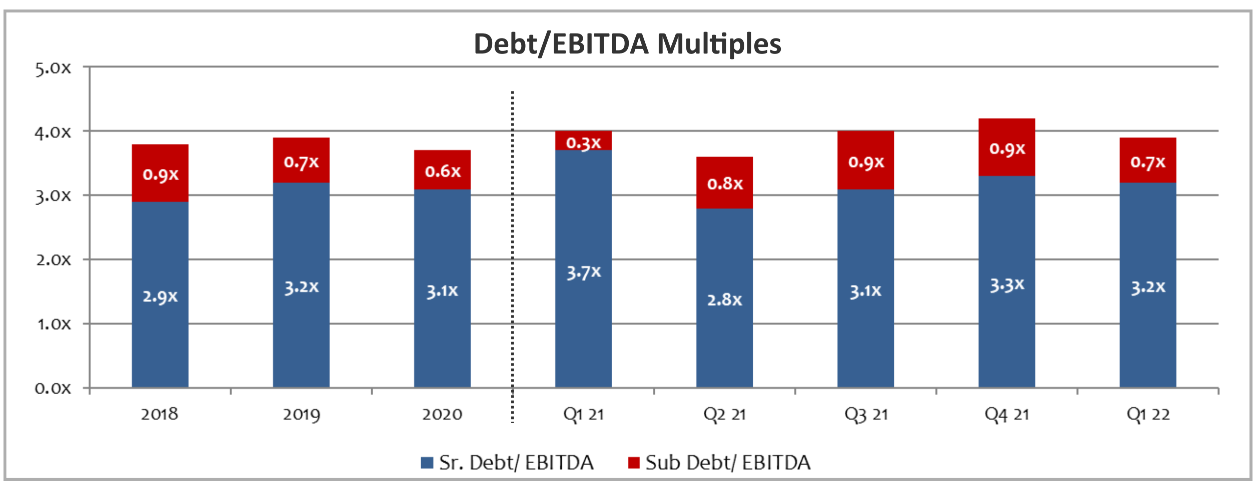
Segmenting valuation multiples by transaction size shows that larger companies (TEV of $100-250M) traded at an average of 9.0x in 2021, representing a 48% premium relative to smaller companies (TEV of $10-25M). In addition to size, growth and profitability are also important determinants in valuation. Companies that exhibited above-average financial performance (i.e., TTM EBITDA margins and revenue growth rates both exceeding 10%) fetched a 30% valuation premium in 2021. This represents a significant increase relative to the long-term average (15% premium), confirming that private equity buyers continue to compete aggressively for the top performers.



Source: GF Data®

Leverage Analysis: Debt Markets Remain Accommodative

After Total Debt/EBITDA multiples contracted to 3.3x amidst the initial outbreak of COVID-19 (Q2 20), leverage levels rapidly recovered in the subsequent quarters and reached an apex of 4.2x in the fourth quarter of 2021. With a backdrop of rising rates and economic uncertainty, Q1 22 witnessed some deleveraging to 3.9x, which is still at or above pre-pandemic leverage levels.



Source: GF Data®

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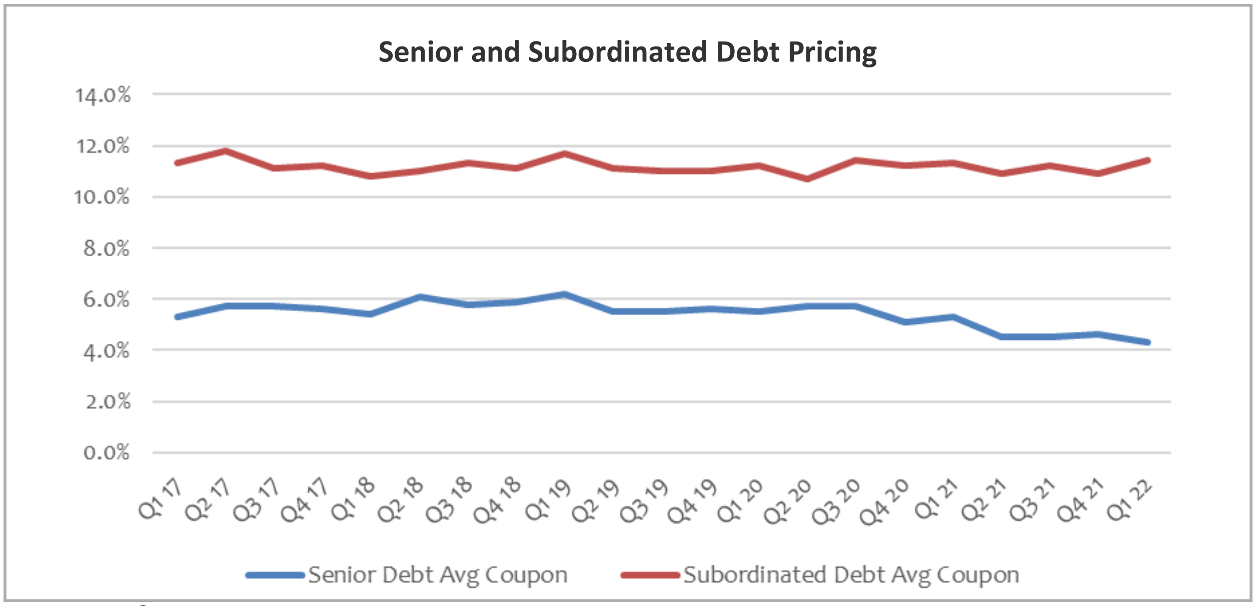
Leverage Analysis: Debt Markets Remain Accommodative

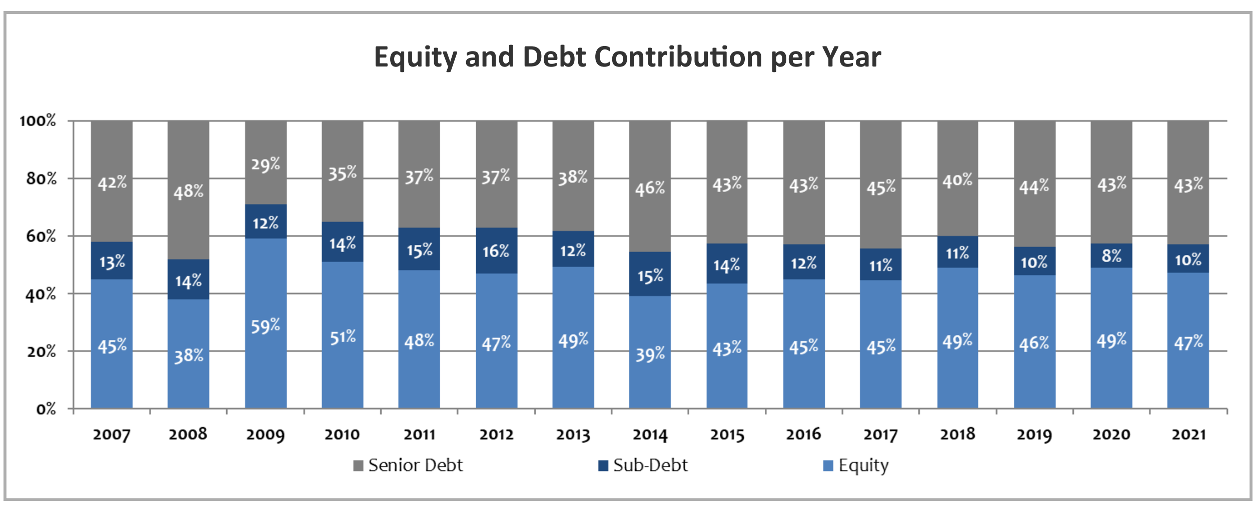
Over the past 5 years, the cost of debt and, generally, the cost of capital have declined, providing meaningful support for the robust valuation environment experienced over that time frame. However, we are now in a rising rate environment. Only time will unveil the corresponding effects this has on the cost of borrowing for corporates and financial sponsors and, relatedly, valuations and M&A activity.



Source: GF Data®

Leverage Analysis: Equity Contributions Ease Off COVID Induced Highs

The following chart compares the average breakdown of capital used to finance North American mid-market private equity acquisitions. After spiking in 2020 due to a relative lack of debt availability, the average equity portion of transaction values reverted to its long-term average of 47% in 2021.



Source: GF Data®

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RECENT TRANSACTIONS

QUESTRADE	LOTS GROUP	ONTARIO EXCAVAC	Cheme
A leading provider of investment accounts, brokerage, and other financial services has completed a strategic acquisition	A global transportation company entered the North American market by acquiring the Munden Group, a provider of trucking and log harvesting services to the forestry industry (MUNDEN, PEAK, JMT)	A leading utility services provider and portfolio company of Market Sq. has been sold to a North American energy infrastructure investor	A specialty process engineering firm focused on the biotechnology, pharmaceutical, nuclear, and food & beverage sectors has been acquired by Consultys, a subsidiary of VULCAIN ENGINEERING
ACQUISITION SEARCH & ADVISORY	ACQUISITION SEARCH & ADVISORY	SALE ADVISORY	SALE ADVISORY

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