

# North American Middle Market M&A Update

## Fourth Quarter 2018

### Market Overview

Valuations remain robust and the outlook heading into 2019 remains favorable

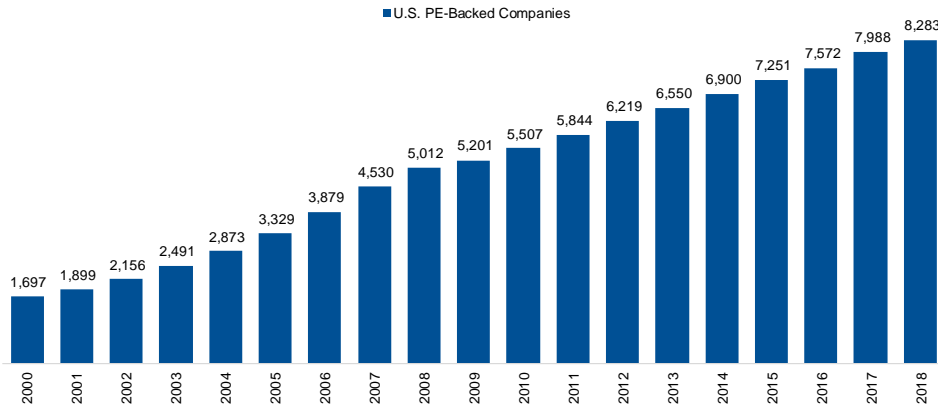
Strong demand for transactions from both strategic and financial buyers continues to lead to high valuations and favorable deal terms for sellers. A positive macroeconomic environment, an abundance of capital availability and modest deal volumes continue to support favorable valuations for sellers in 2019.

### Demand from Private Equity

Accelerating pace of investments from private equity continues to add to total private equity company ownership

Driven by strong growth in capital allocation to private equity, the total number of PE groups and PE assets under management are at all-time highs. As a result, the number of PE-backed companies in the U.S. continues to grow at a near exponential rate. Since 2000, the number of PE-backed companies in the U.S. has increased nearly 5x.

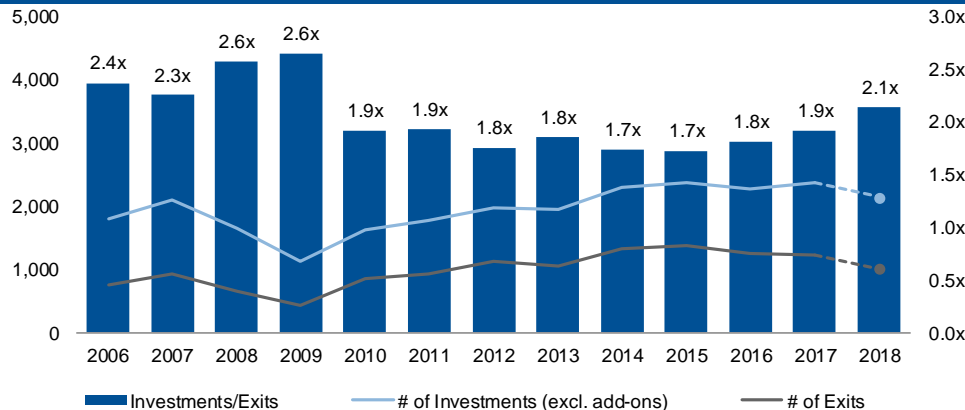
#### Total Number of U.S. PE-Backed Companies



Source: Pitchbook and Quarton International Research. 2018 data as of September 30, 2018.

This trend has clearly constrained the supply of investment opportunities for both financial and strategic investors. Further exacerbating the trend, private equity investments are outpacing exits at over 2.1 to 1. With this pace of investment, the total number of U.S. PE-backed companies will continue to grow and reduce the amount of available investment opportunities.

#### Private Equity Investments vs. Exits



Source: Pitchbook and Quarton International Research. 2018 annualized to reflect a full year.

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### Firm Overview

Quarton International is a premier investment banking firm providing M&A, capital raising, and related advisory services to middle market companies in North America and Europe.

Our transaction experience covers a broad range of industries, end markets and business models. Our focus sectors are listed below.

### Focus Sectors

- Automotive & Diversified Industrial
- Business Services
- Consumer
- Healthcare
- Real Estate
- Retail & E-Commerce
- Technology, Media & Telecommunication

### Recent Transactions



a portfolio company of  
**NORTH BRANCH  
CAPITAL**

has been acquired by



a wholly owned subsidiary of



has been acquired by



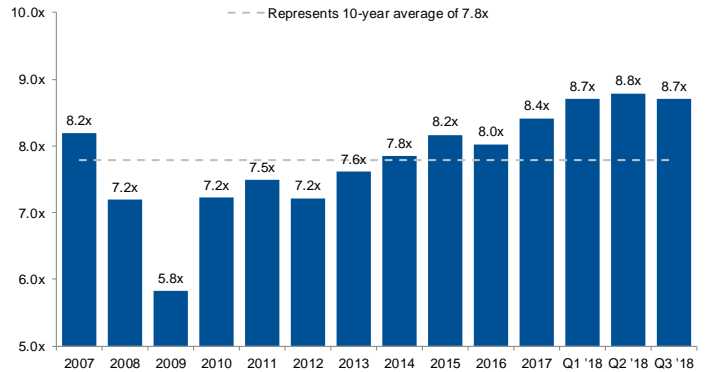
### Transaction Environment

**Transaction Multiples** – Average middle market TEV-to-EBITDA multiples were 8.7x for Q3 2018, which is just below the 10-year high. At its current pace, 2018 will set a new 10-year high for average TEV-to-EBITDA transaction multiples. The elevated transaction multiples in the middle market are supported by healthy leverage levels and heavy competition amongst private equity and strategic buyers.

**Deal Volume** – Middle market transaction volume (enterprise value between \$10 million and \$250 million) in Q3 2018 remained relatively flat year-over-year with 57 closed transactions compared to 55 in Q3 2017. Although overall activity for the quarter increased slightly year-over-year, full-year 2018 is on pace for a small decline compared to 2017.

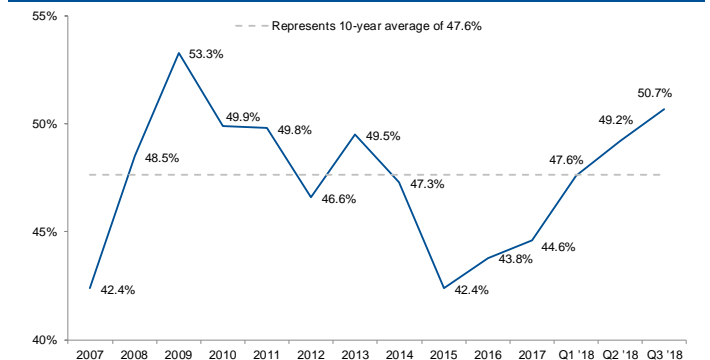
**Capital Structure** – Average equity contributions for middle market transactions increased slightly, reaching 50.7% in Q3 2018 compared to 49.2% in Q2 2018. Average middle market leverage levels finished the quarter at 4.3x compared to 4.5x in the preceding quarter. For deal sizes up to \$1.0 billion, average leverage levels were 5.6x, a small decrease compared to the last three quarters. Leverage levels remain high relative to historic averages.

### Middle Market Average TEV/EBITDA Transaction Multiples <sup>(1)</sup>



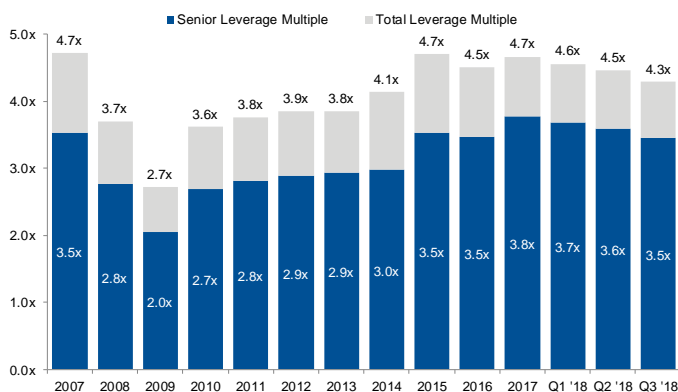
(1) Transactions between \$10 and \$250 million with TEV/EBITDA multiples < 15x; excludes technology, media and telecom; average multiple based on weighted average  
Source: Quarton International Research and S&P Capital IQ

### Average Equity Contribution of Middle Market Transactions <sup>(2)</sup>



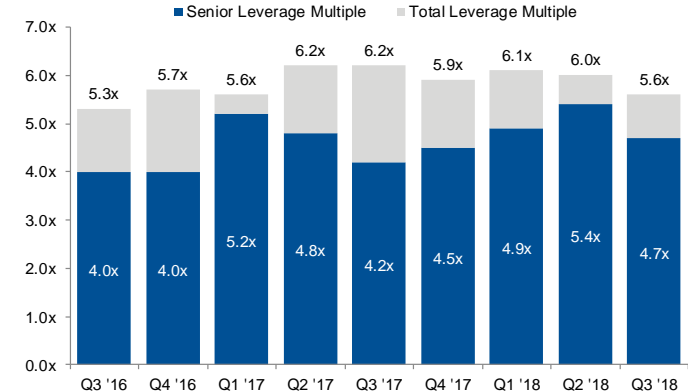
(2) Transactions between \$10 and \$250 million  
Source: GF Data®

### Lower Middle Market LBO Debt Multiples <sup>(3)</sup>



(3) Transactions between \$10 and \$250 million  
Source: GF Data® and S&P Capital IQ

### Upper Middle Market LBO Debt Multiples <sup>(4)</sup>



(4) Transactions less than \$1 billion  
Source: Thomson Reuters

### Economic Environment

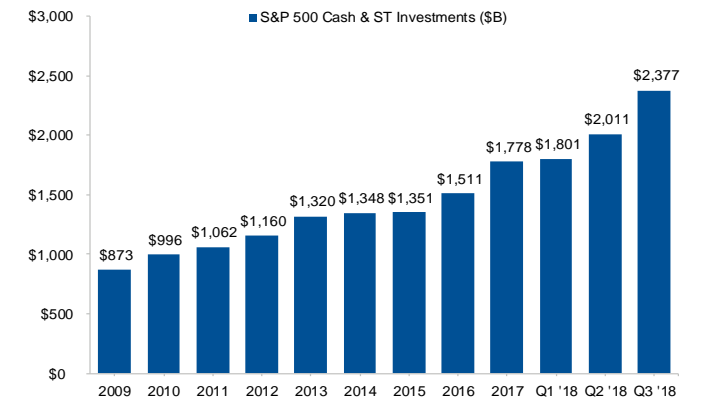
**High Corporate Cash Balances** – Cash and short-term investments on the S&P 500 constituent companies’ balance sheets continue to set new highs, eclipsing \$2.3 trillion in Q3 2018. This record amount of cash is a result of limited growth opportunities coupled with a positive macroeconomic environment.

**Gross Domestic Product** – U.S. gross domestic product saw a strong increase in Q3 2018. The strong growth was attributed to strength in personal spending, government spending and non-residential fixed investment. This was partially offset by weaker than expected exports.

**Employment** – The U.S. unemployment rate dipped once again in Q3 2018, reaching 3.7%. Although the pace of job growth has slowed in recent months, the unemployment rate remains at a 17-year low. September marked 96 straight months that the United States has added jobs, extending the longest streak on record.

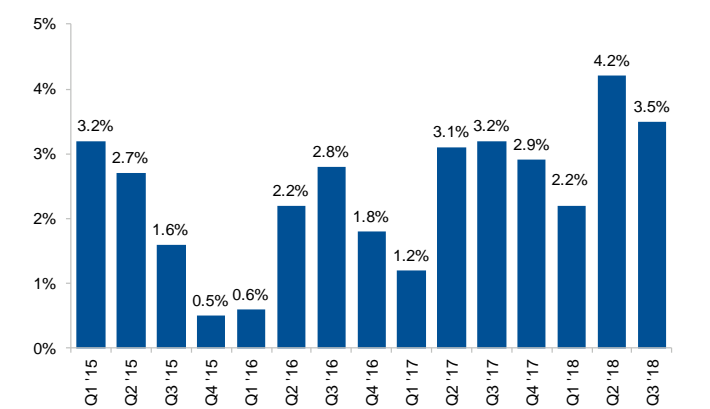
**Interest Rates** – During the third quarter of 2018, the ten-year treasury yield remained largely flat, rising just 20 basis points from 2.85% to 3.05%. Near the end of September, the FOMC raised its fed funds target rate 25 basis points to 2.25%. The FOMC also signaled that it will raise rates one more time this year.

### High Corporate Cash Balances



Source: Quarton International Research and S&P Capital IQ

### Change in Real Gross Domestic Product



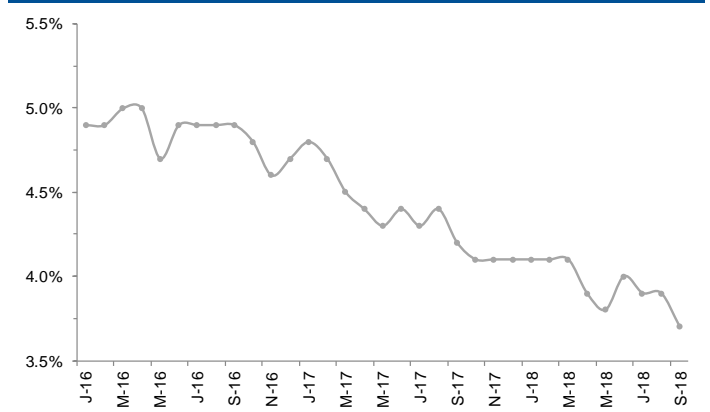
Source: U.S. Bureau of Economic Analysis

### Ten-Year Treasury Yield




Source: U.S. Department of Treasury

### U.S. Unemployment Rate




Source: U.S. Bureau of Labor Statistics

### Recent Quarton Transactions




has been acquired by




IRVING PLACE CAPITAL


Manufacturer and supplier of tires and wheels for classic vehicles



a portfolio company of



has been acquired by



Frontenac

Provider of highly engineered linear motion, motion control and automation systems




has been acquired by




LFMcapital


Manufacturer of heavy-duty forestry equipment and related forestry attachments



a wholly owned subsidiary of




has been acquired by



CHAMPLAIN

Supplier of high-quality audio devices and components



has been acquired by



Varsity  
HEALTHCARE PARTNERS

Provider of medication-assisted treatment and behavioral counseling services



has acquired



REMCO  
PRODUCTS

Provider of professional cleaning equipment and systems



has recapitalized



LUX  
GLOBAL LABEL

Supplies labeling, security and specialty packaging solutions



has been acquired by



TransForce  
Driven By Higher Standards

a portfolio company of



Palladium  
EQUITY PARTNERS

Provider of online safety training courses

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