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## **For Mid-Market PE, Q1 Shows Commitment to Quality Over Quantity**

5/24/2022, CHICAGO, IL - In the first quarter of 2022, the big story in the middle market wasn't what financial buyers were paying, but rather what deals were getting done. Valuations for PE-backed mid-market transactions held steady at an average of 7.3 times EBITDA.

In GF Data's Q1 report, 253 active private equity contributors reported on 56 transactions in the quarter, meeting our standard parameters — Total Enterprise Value (TEV) of \$10 million to \$250 million and TEV/Trailing Twelve Months (TTM) Adjusted EBITDA of 3x to 18x.

GF Data – an ACG company – also recently announced it will be expanding its analysis to deals with TEV of as much as \$500 million and will be adding coverage of these transactions going forward.

The quarter saw a host of challenging factors—including Russia's war in Ukraine, a surge in commodities prices, a significant interest rate increase and ongoing supply-chain issues—that appear likely to impact the deal environment over the next few quarters.

"The 7.3x mark for 1Q was on par with all of 2021, but down from 7.5x in the second half of last year," said GF Data Founder Andrew T. Greenberg. "Time will tell whether this was an inconsequential dip, or early signs of a softening market."

The first quarter also continued a trend of an unusually high percentage of deals meeting the standards for "above-average" financial performance underlying the calculation of a "quality premium." The selling businesses designated as above-average based on TTM EBITDA margin and revenue growth reached 67% of the total deal volume in Q1 (compared to 66% in the fourth quarter)

"The percentage of above-average deals for the quarter tells the story," said Bob Dunn, GF Data's managing director. "And it's about private equity being selective – focusing on the strongest targets to the exclusion of the average."

This reinforces the belief—highlighted in last quarter's report—that there remains a subset of businesses that would have traded but for the challenging conditions of the past two years.

These businesses remaining on the sidelines reduces volume and permits overall multiple averages to be dominated by the more desirable and more highly valued businesses that do trade.

GF Data also began analysis this quarter of deals valued between \$250 million and \$500 million. We found an average purchase price multiple of 12.0x EBITDA for deals with TEV between \$250 million and \$500 million.

“While it will definitely be interesting to see the resiliency of the deal economy through the summer months and the balance of 2022, the beauty of the lower-middle market is that there will always be founder and family-owned businesses with a better approach to market and able to outperform even during challenging times,” said David Gershman, ACG Board Chairman and Partner and General Counsel at Trivest Partners. “Those great businesses will continue to transact with willing buyers and sellers.”

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#### **About ACG**

Founded in 1954, ACG is the premier M&A deal-making community with a mission of driving middle-market growth. ACG’s global network operates within 61 local markets worldwide and comprises more than 100,000 middle market professionals who invest in, own and advise growing companies. Learn more about ACG and becoming a member at [www.acg.org](http://www.acg.org).

#### **About GF Data**

Founded in 2006, GF Data provides data on private equity-sponsored M&A transactions with enterprise values between \$10 million and \$500 million. Our benchmark reports comprise proprietary transactional information provided by an established pool of private equity groups on a blind and confidential basis. GF Data subscribers utilize our reports for accurate and up-to-date information to value and assess middle-market businesses. [www.gfdata.com](http://www.gfdata.com)

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