



**2017
2Q**

PitchBook[®]
US PE
Middle Market
Report

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The PitchBook Platform

The data in this report comes from the PitchBook Platform—our data software for VC, PE and M&A. Contact sales@pitchbook.com to request a free trial.

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METHODOLOGY

MIDDLE MARKET DEFINITION

For this report, the middle market (MM) is defined as US-based companies acquired through buyout transactions between \$25 million and \$1 billion. Note that minority deals are not included. The middle market is further broken down into the lower middle market (LMM; \$25 million to \$100 million), the core middle market (CMM; \$100 million to \$500 million) and the upper middle market (UMM; \$500 million to \$1 billion). The lower bound of each range is inclusive of deals that are that exact amount, e.g. a transaction that is \$100 million in size will be bucketed into the CMM rather than the LMM. This report covers only US-based middle-market companies that have received some type of private equity investment.

DEAL FLOW ESTIMATION

Due to the nature of private market data, information often does not become available until well after a transaction takes place. To provide the most accurate data possible, we estimate how much of this new information will become available in the next quarter by calculating the average percentage change in deal flow from the first to the second reporting cycle over the trailing 24 months. We then add this estimate to the reported figure for the most recent quarter. Both the original reported figure and the estimated figure are provided for your reference.

TOTAL CAPITAL INVESTED/DEAL VALUE

Total amount of equity and debt used in the private equity investment

Ex. \$10 million of equity and \$20 million of debt = \$30 million of total capital investment

PitchBook's total capital invested figures include deal amounts that were not collected by PitchBook but have been estimated using a multidimensional estimation matrix, which takes into account year of investment, deal type, platform v. add-on, industry and sector. Some datasets will include these extrapolated numbers while others will be compiled using only data collected directly by PitchBook; this explains any potential discrepancies that may be noticed.

EXITS

The report includes both full and partial exits of middle-market companies via corporate acquisition, secondary PE buyout and initial public offering (IPO). PitchBook has utilized its multidimensional substitution and estimation matrix to estimate transaction sizes where the deal amount is unknown. For the MM company inventory, we included companies that are expected to exit between \$25 million and \$1 billion.

FUNDRAISING

PitchBook defines middle-market funds as PE investment vehicles with between \$100 million and \$5 billion in capital commitments. The report only includes PE funds that have held their final close. Funds-of-funds and LP secondary funds are not included.

LEAGUE TABLES

All league tables are compiled using deal counts for middle-market leveraged buyouts only to better reflect the other datasets within the report, with only the Lenders table also including all PitchBook debt round types in order to capture all debt provided to facilitate buyouts. For example, the Most Active Advisors league table shows the number of US-based middle-market buyouts that a firm advised on during the second quarter of 2017. Deals on which a firm advised multiple parties will only be counted once for that firm.



**MADISON CAPITAL
FUNDING**

Madison Capital, founded in 2001, and headquartered in Chicago, Illinois, is a premier finance company focused exclusively on the corporate financing needs of middle-market PE firms. Madison Capital has closed transactions with over 255 different private equity firms and provides enterprise-value leveraged financing for leveraged buyouts, management buyouts, add-on acquisitions and recapitalizations. Madison Capital Funding LLC is a subsidiary of New York Life Insurance Company. Additional information may be found at: www.mcflc.com



INTRODUCTION

Key takeaways

- Middle-market PE firms invested \$236.9 billion across 1,086 deals in 1H 2017. The volume of deals is nearly on pace with last year, but PE firms are spending greater amounts of capital as activity has moved into the core and upper middle markets.
- Middle-market PE investment in tech companies so far this year exceeds the total amount invested in all of 2016, with \$65 billion over 175 deals.
- There have been 23 PE exits through IPO this year, nearly as much as all of 2016. With another 22 PE-backed companies in registration, it looks like decreased M&A activity is resulting in an increase of IPOs for PE firms looking to exit.
- Middle-market fundraising continues to be strong, making up 75% of all PE funds closed this year. Despite a slight slowdown in fundraising numbers, the time it's taken for a fund to close is down from 15 months two years ago to just 10 months for funds closed this year.

We hope this report is useful in your practice. As always, feel free to send any questions or comments to reports@pitchbook.com.



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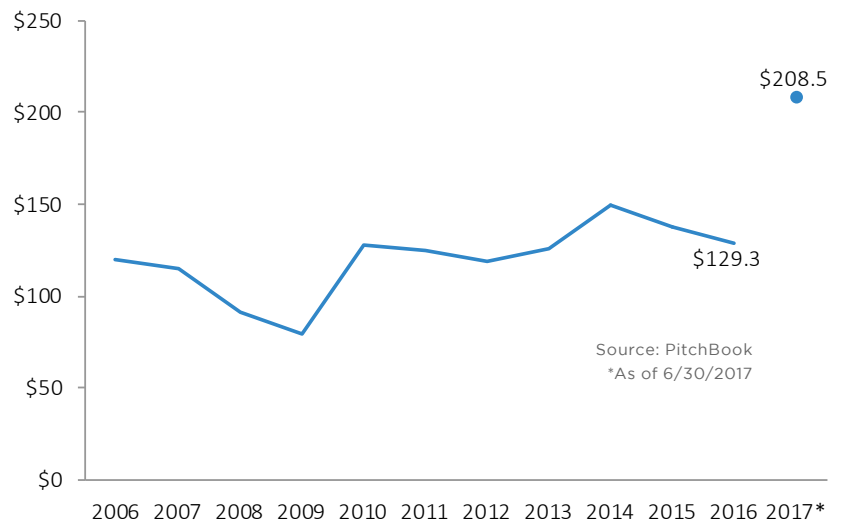


SHIFT TO CORE & UPPER MIDDLE MARKET

Overview

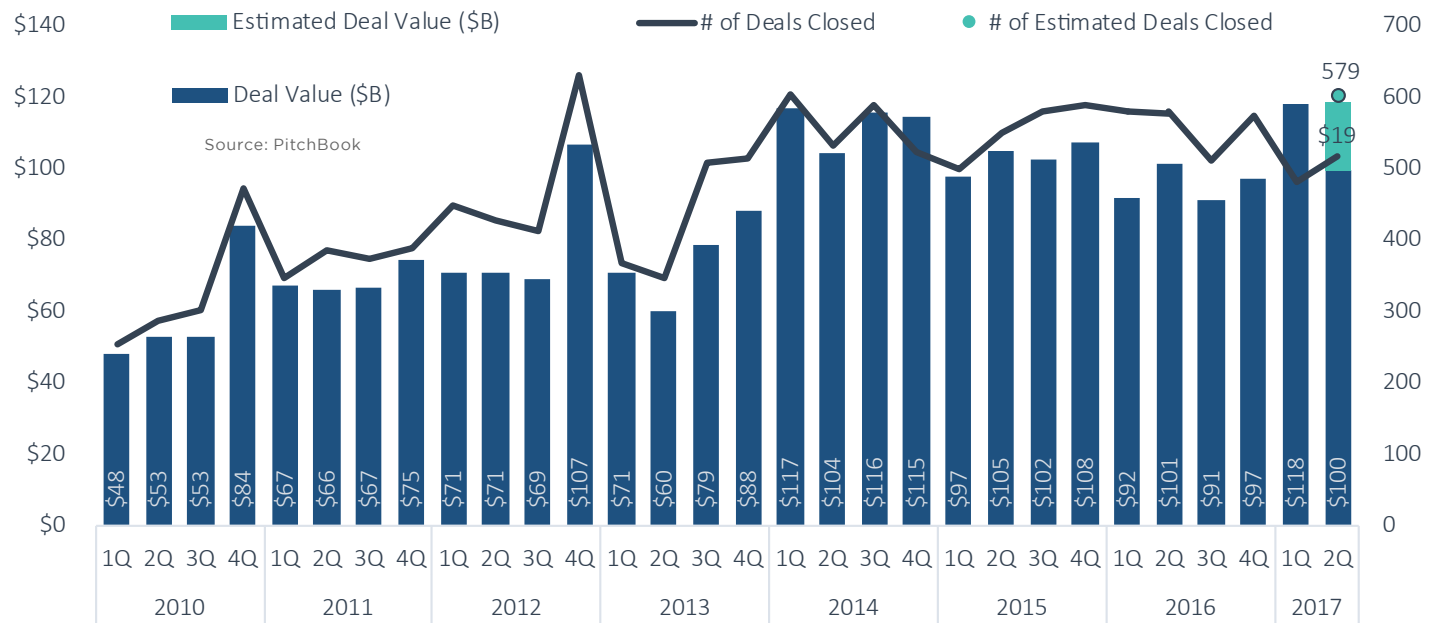
PE firms invested \$236.9 billion over 1,086 deals in the middle market during the first half of the year. While deal volume is on pace with last year, the amount of capital invested is up 23% over the first six months of 2016. This is driven by increased activity in the core and upper middle market as lower-middle-market activity dropped sharply. Upper-middle-market (UMM) activity has trended upward since 1Q of last year and continues to climb, accounting for more deals than the lower middle market for the first time in our dataset. The trend toward the core and upper middle markets is largely driven by massive amounts of dry powder and increases in average fund size over the last few years have necessitated larger minimum investments. Unsurprisingly, median deal size in the middle market is up to

Driven by sample size and dry powder, median deal size surges
Median US PE middle-market transaction size (\$M)



Staying elevated

US PE middle-market activity



\$208.5 million, another high point in our dataset. Due to a smaller number of mega-deals through the first half of the year, middle-market deals made up 68% of all PE deals during 1H, well above the 10-year average of 50%.

PE buyers favor SaaS

IT deals accounted for an impressive \$65 billion in deal value over 175 deals, surpassing the amount invested in tech companies during all of 2016. This equates to roughly 30% of all deal value in the middle market space and is more than double the 14% 10-year average. The middle market exemplifies the trend toward greater PE involvement in tech as dealmakers, faced with stiff competition and high-priced assets, flock to software companies for two primary reasons. One, many of the software companies targeted by PE employ a software-as-a-service (SaaS) model. This type of business model is attractive to PE because revenue is generally recurring and established in a service agreement. Such attributes allow PE firms to more accurately forecast expected revenue growth and provide a form of risk management by ensuring the company will not immediately lose revenue and/or clients following the acquisition process. Second, software

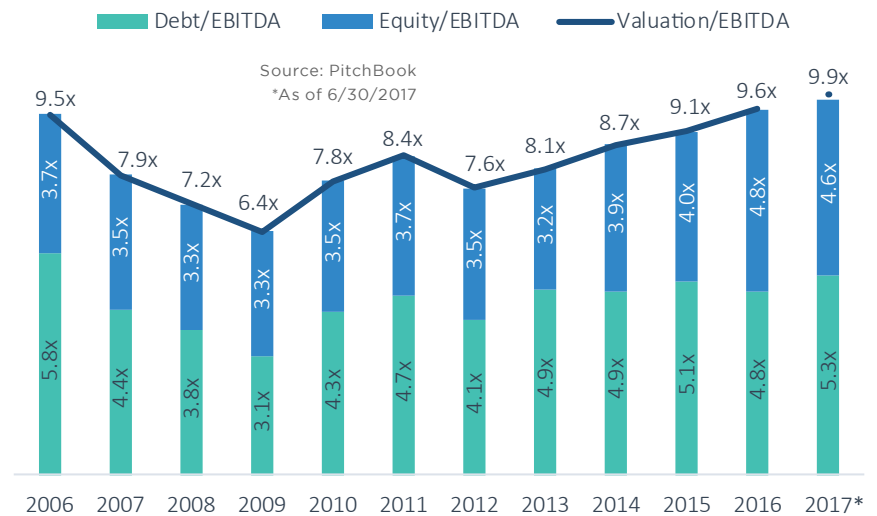
companies are not capital intensive and growth strategies are not subject to capacity constraints. Expanding top-line figures for a SaaS company is generally confined to expanding a strong business development and sales team.

Outlook

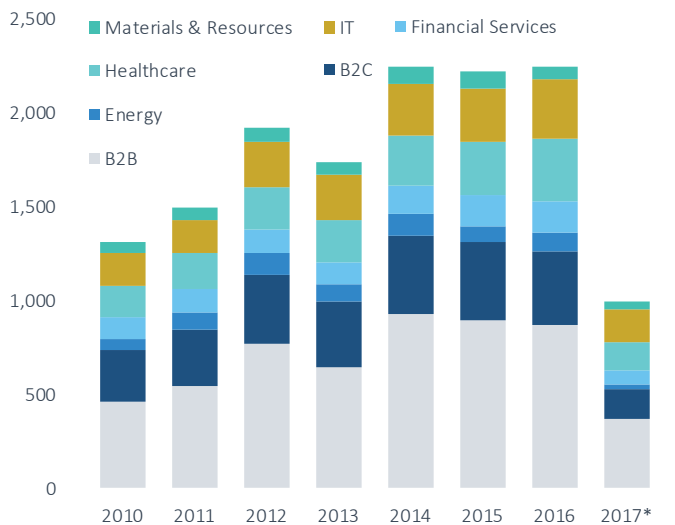
We expect deal flow in the middle market to finish strong through the second half of the year despite a high-priced environment. The need to deploy billions of dollars in

commitments and tight credit spreads due to a loose monetary policy continue to make financing readily available. On top of strong incentives for general partners to make deals, the economic outlook continues to be strong in the short term with middle-market businesses rebounding in 2Q after a weak 1Q. Middle-market revenues are up nearly 9% and earnings by 2.3% year-over-year, according to the Golub Capital Altman Index.

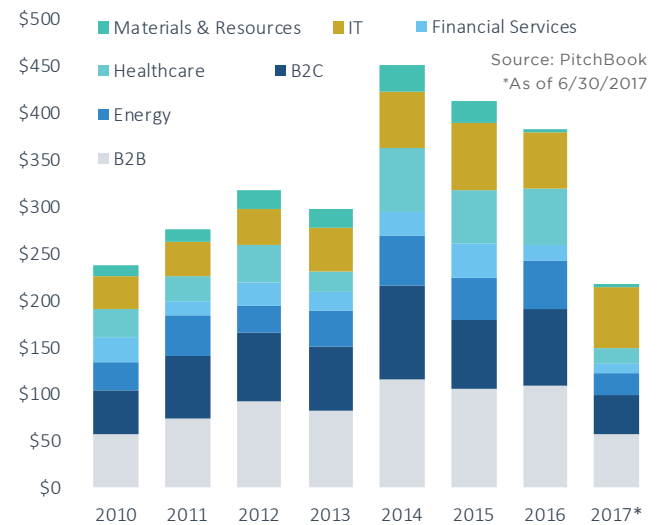
US middle-market M&A transaction multiples



US PE MM deals (#) by sector



US PE MM deals (\$) by sector



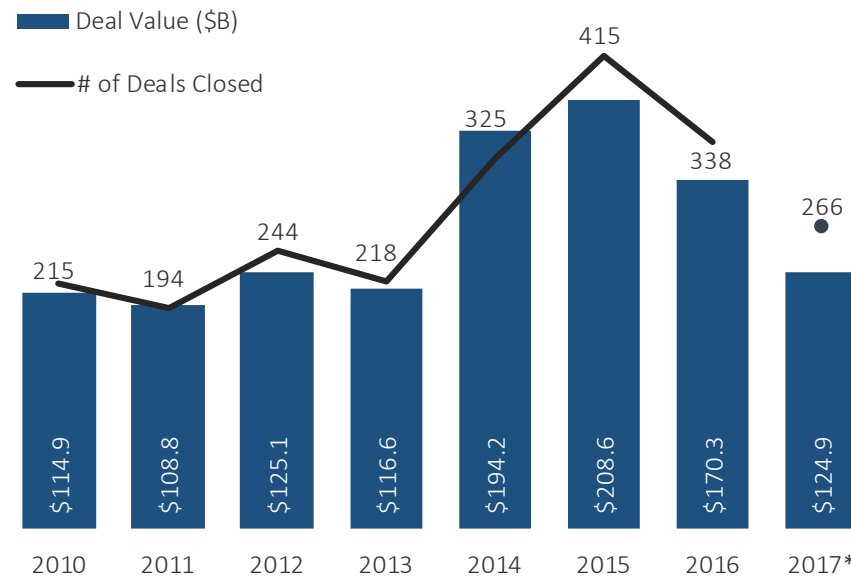
7 PITCHBOOK 2Q 2017 US PE MIDDLE MARKET REPORT Source: PitchBook *As of 6/30/2017

LMM OFF PACE

Deals by middle-market segment

Plenty of accessible capital and competition push up prices

US PE UMM deal flow



Source: PitchBook. *As of 6/30/2017.

Transactions sized between \$500 million and \$1 billion comprise the upper middle market.

“ UMM investment remains more than robust.”

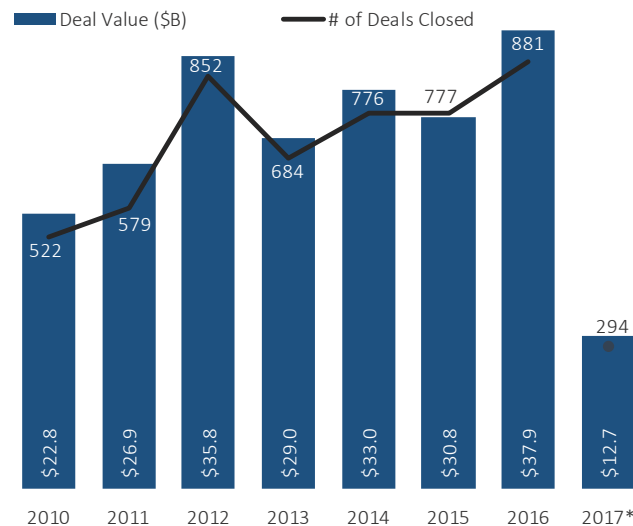
Select US UMM PE deals in 2Q 2017

Company	Investor(s)	Deal Size (\$M)
LongPoint Minerals	Canada Pension Plan Investment Board	\$832
Legends Hospitality	New Mountain Capital	\$700
Mitratech	HgCapital	\$650
CityMD	Warburg Pincus	\$600
Bob Evans Restaurants	Golden Gate Capital	\$565

Source: PitchBook

A decline partially attributable to pricing pressures

US PE LMM activity

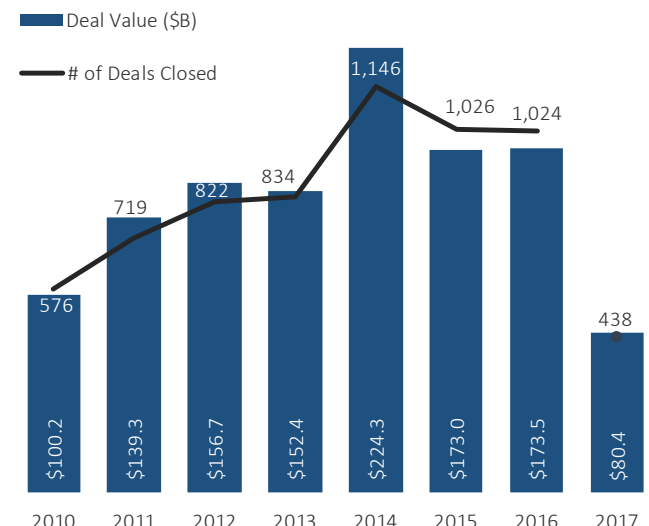


Source: PitchBook. *As of 6/30/2017.

Transactions sized between \$25 million and \$100 million comprise the upper middle market.

Ever variable, CMM still holding strong

US PE CMM activity



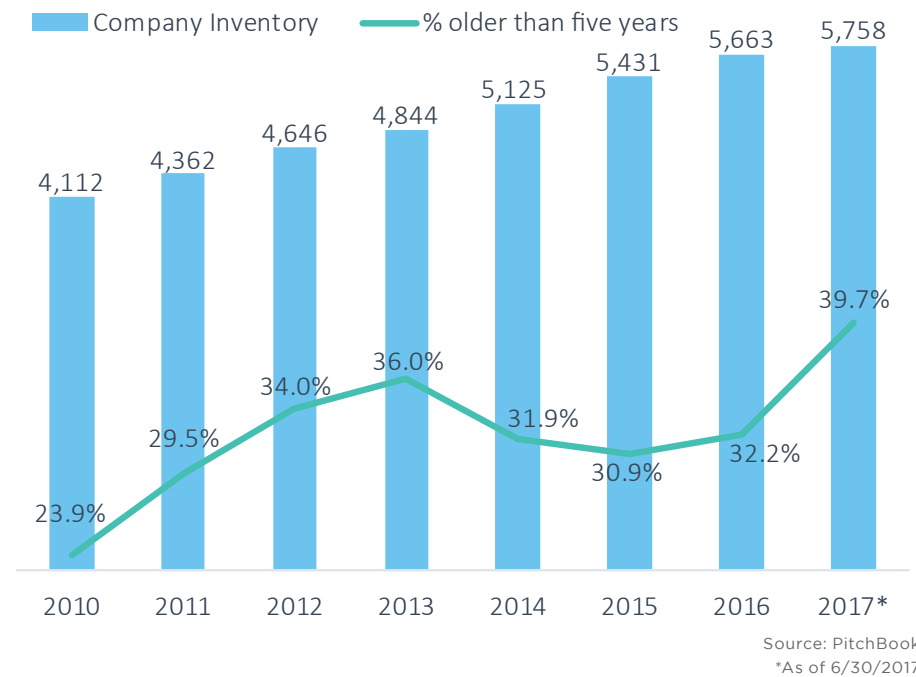
Source: PitchBook. *As of 6/30/2017.

Transactions sized between \$100 million and \$500 million comprise the upper middle market.

INVENTORY UNREADY TO TURN OVER

US PE middle-market company inventory

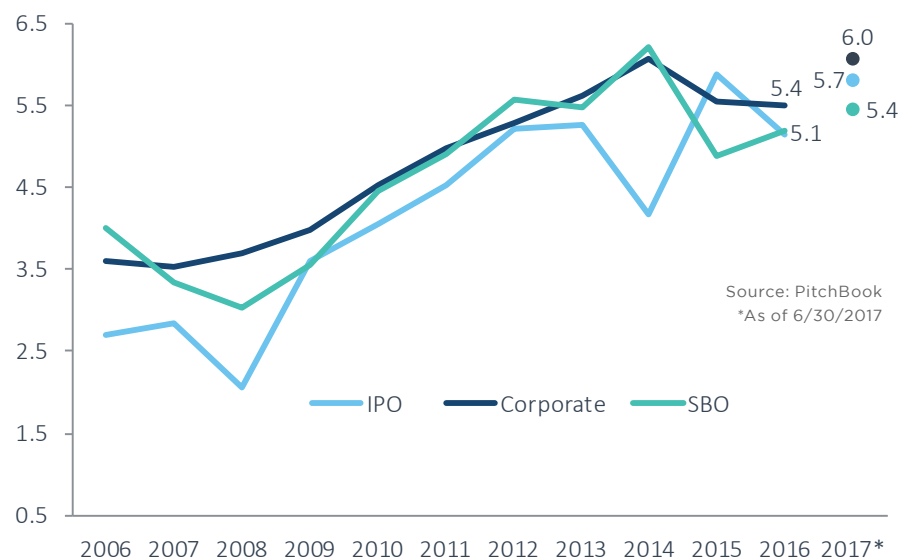
US PE middle-market company inventory



Will M&A help PE firms offload aging investments again?

There are currently 5,758 PE-sponsored middle-market companies in the US, a 40% increase since 2010. While this is not surprising given record capital inflows to PE, what is surprising is the percent of companies that were acquired over five years ago, which now stands at 39.7%. This is the highest percentage of aging inventory in our dataset and could begin to pose liquidity problems if the exit market doesn't heat up. We last saw a buildup of this kind in 2013, which was then followed by an M&A frenzy, reaching record levels. This depleted aging PE inventory and drove median hold periods down to five years. However, at this point in time, exits via M&A have been trending downward and it is not certain that corporates will step up to help PE unload their investments.

US PE middle-market median hold time by exit type



CYCLICALLY DOWN

US PE-backed middle-market exits

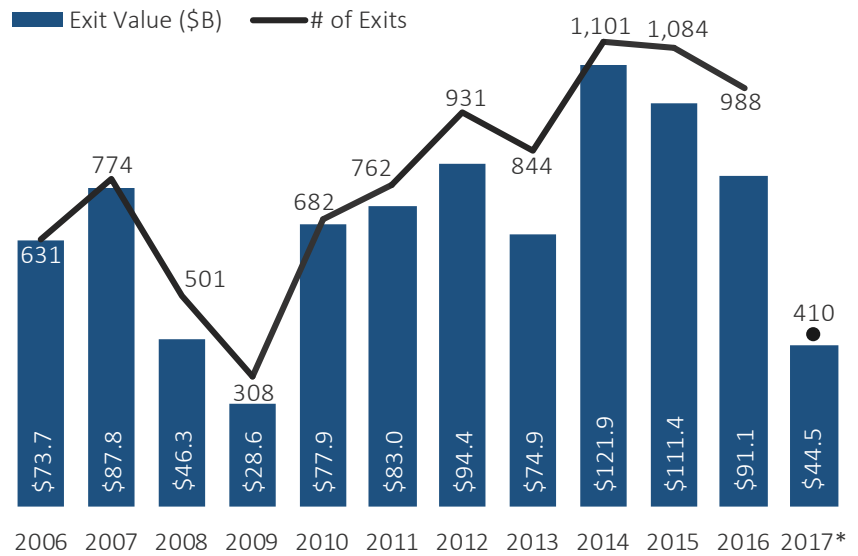
A decrease in M&A activity has driven PE exits downward globally since 2015; the middle market is no exception at \$44.5 billion in exit value across 410 deals during 1H. This equates to 87% of all PE exits during the first half. While larger deals are holding exit value steady, the volume of MM PE exits is down 15% year over year and have not grown since 2Q 2015. Strategic acquirers continue to make up a smaller percent of the PE exit environment as M&A accounted for only 48% of MM exits during 2016, the lowest figure in our dataset. This downward trend seems to be continuing as strategics accounted for only 43% of exits during 1H. This is on pace for the lowest number of strategic acquisitions since 2006. With exits via M&A trending downward, secondary buyouts constituted a greater percentage of exits, with 52% of all PE exits at 212 deals this year. We believe sponsor-to-sponsor deals will continue to be a more prominent exit route for PE firms as aging company inventory grows and LPs start requiring liquidity.

One bright spot: IPOs

There have been 23 PE exits through IPO this year, worth \$6.2 billion in exit value. This is on pace to nearly double both the volume and value of PE exits through IPOs in 2016. While high-profile unicorns on the VC side have struggled after their debuts, PE firms who list publicly are faring better, as 70% of the stocks are up when compared to the first-day close price. With 22 PE-backed companies already in registration to go public, this is looking to be the strongest year for PE exits through the IPO market since 2014.

Is 2017 set for a further cyclical decline?

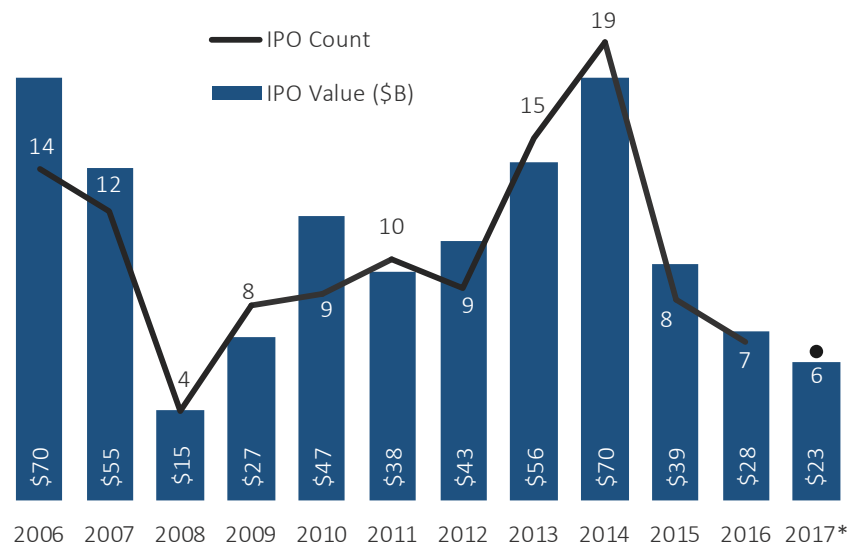
US PE-backed middle-market exits



Source: PitchBook
*As of 6/30/2017

IPOs bounce back

US PE-sponsored IPO activity



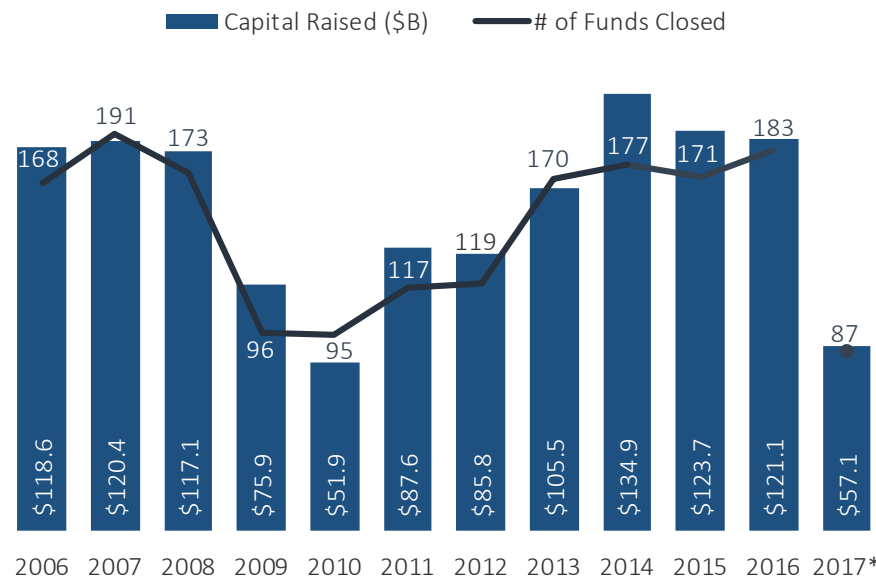
Source: PitchBook
*As of 6/30/2017

INVESTORS ARE STILL EAGER TO COMMIT

US PE middle-market fundraising

No sign of slowing yet

US PE middle-market fundraising by year



Source: PitchBook
*As of 6/30/2017

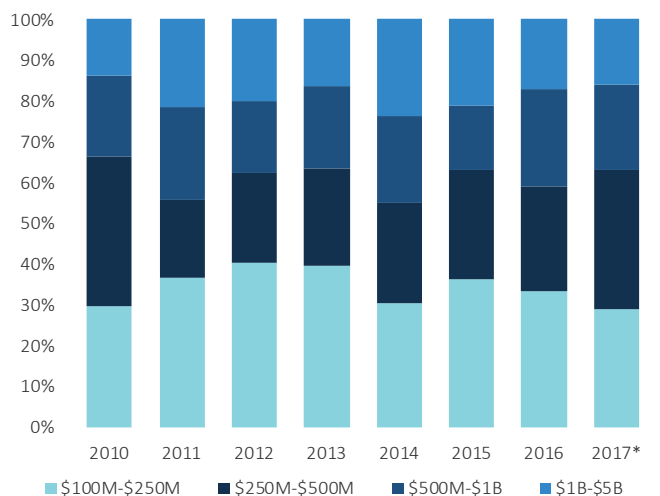
Will LPs meet allocation targets?

Middle-market fundraising remains strong at 87 funds closed with \$57.1 billion in committed capital during the first half of the year. While those tallies are still strong on a historical basis, both are on pace to be down 5% to 6% from last year. Surprisingly, even as fundraising begins to slow, the time it's taken for a fund to close is down from 15 months two years ago to just 10 months for funds closed this year.

Fundraising looks to remain strong through the rest of the year but we expect net cash flows to LPs to turn negative in the medium term. This will be the first time net cash flows are negative since 2011—we believe this will drive fundraising activity lower as LPs begin meeting their PE allocation targets.

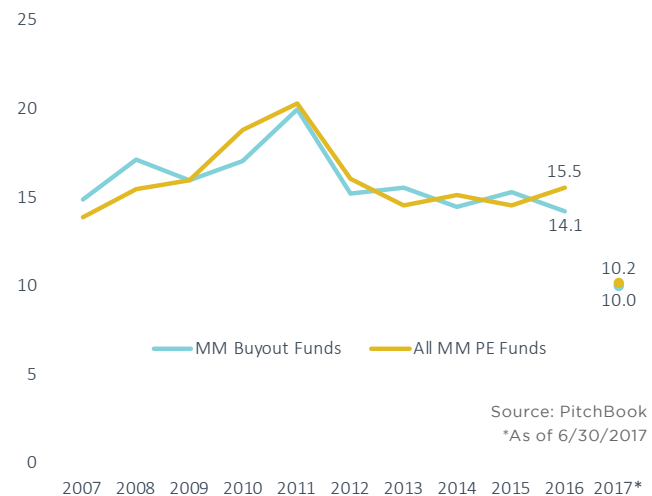
Funds slowly trend larger

US MM funds (#) by size



Source: PitchBook
*As of 6/30/2017

Time to close (months) for US PE MM funds



Source: PitchBook
*As of 6/30/2017

MIDDLE MARKET LEAGUE TABLES

2Q 2017

Most active investors by deal count

Audax Group	18
HarbourVest Partners	14
Genstar Capital	9
Providence Equity Partners	9
AlpInvest Partners	8
BC Partners	8
American Securities	7
Stone Point Capital	7
Apax Partners	6
Aquiline Capital Partners	6
CI Capital Partners	6
Hellman & Friedman	6
Kohlberg Kravis Roberts	6
New Mountain Capital	6
Canada Pension Plan Investment Board	5
GTCR	5
HPS Investment Partners	5
Kinderhook Industries	5
LLR Partners	5
Madison Dearborn Partners	5

Most active investors, continued

Medina Capital	5
NewSpring Capital	5
Spell Capital Partners	5
Summit Partners	5
Vista Equity Partners	5
Warburg Pincus	5

Source: PitchBook

Most active lenders by deal count

Antares Capital	35
Madison Capital Funding	16
Twin Brook Capital Partners	16
Golub Capital	8
BMO Harris Bank	6
Citizens Bank	6
Jefferies Group	6
NXT Capital	6
Varagon Capital Partners	6
Credit Suisse	5
NewStar Financial	5

Source: PitchBook

This report sums up the big trends.

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