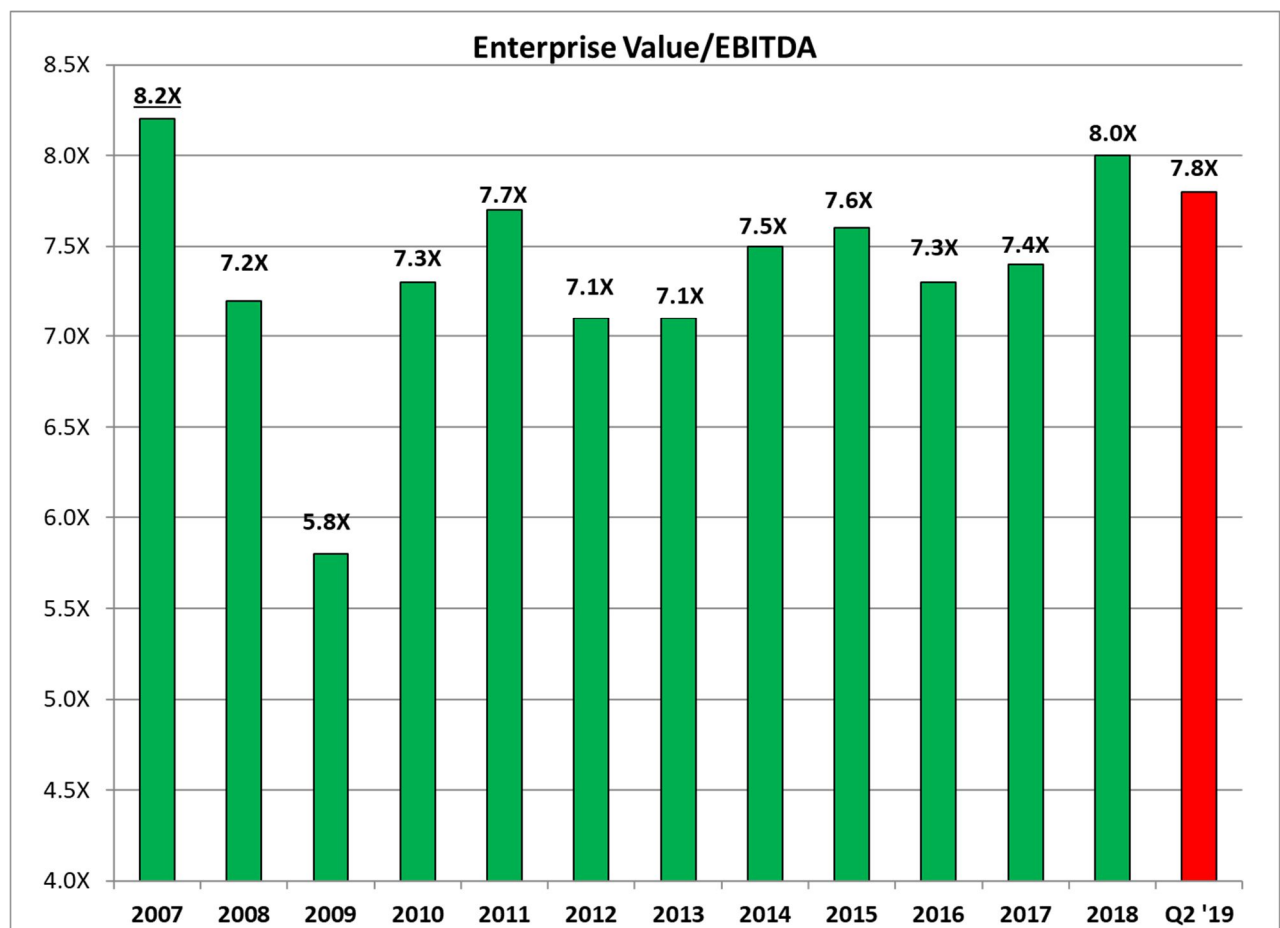


## 2<sup>nd</sup> Qtr 2019 Middle Market M&A Overview

### Market Overview

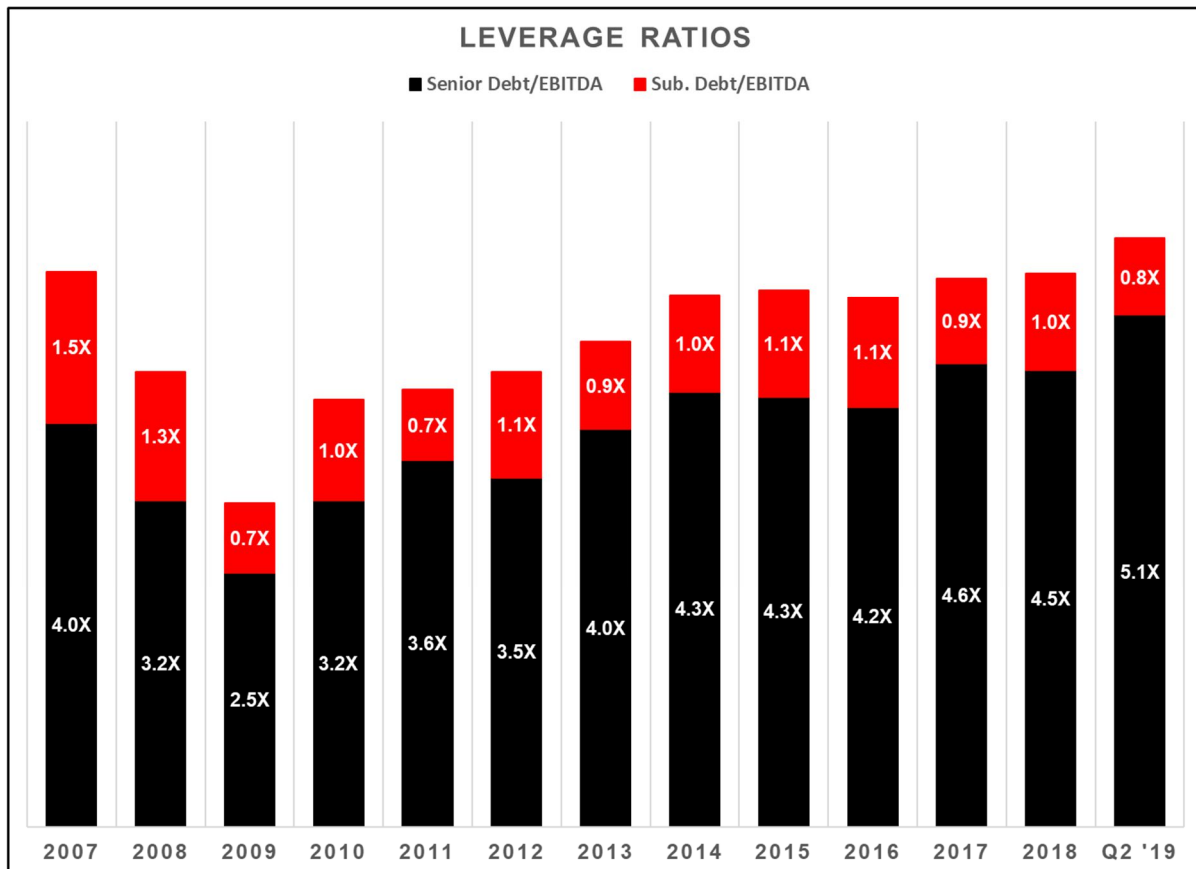
Middle market transaction volumes improved in the second quarter despite growing headwinds with slowing manufacturing activity. Second-quarter middle-market deal volumes (Enterprise Value between \$10 million and \$500 million) increased 4% from Q1 '19 and were 13% higher than Q2 '18. Total M&A deal activity involving all transaction sizes decreased by 1.3% in Q2 '19. Purchase price multiples crept lower in Q2 '19 but remain aggressive with an average deal multiple of 7.8x (Enterprise Value to EBITDA) compared to 8.0x for 2018. Senior debt multiples have surged to over 5.0x EBITDA which is double the average in 2009. To support higher senior debt ratios, minimum equity contributions have increased to 50% in the first half of 2019. The threat of a looming trade war could hamper transaction volumes if manufacturing continues to soften despite falling interest rates.



Source: Capital IQ and Angle Advisors Market Analysis

## Debt in Leverage Buy-Out Transactions (LBO)

LBO new issue volume increased significantly in Q2 '19 reflecting the continued strength of the LBO market. LBO loan volumes in Q2 '19 totaled \$1.4 billion compared to \$0.4 billion in Q2 '18 and \$0.9 billion in Q4 '18. In the second quarter, middle-market LBO volume nearly tripled the first quarter of 2019. According to S&P, for companies with EBITDA of \$50 million or less, total debt-to-EBITDA averaged 5.84x in Q2 '19 versus 5.5x for all of 2018. First lien senior debt leverage totals sustained their upward march averaging 5.0x in Q2 '19 (excluding Other Senior Debt) compared to 4.5x for all of 2018. Second lien debt decreased to 0.76x in the quarter from 0.96x in 2018. Average equity contributions for middle-market LBO loans were 52.0% in Q2 '19 versus 43.1% for all of 2018.



Source: S&P LCD – middle market LBO less than \$50 million

	DEBT PRICING			Minimum Equity
	Senior	Second Lein	Subdebt	
Sept '19	L + 2.50% - 4.50%	L + 7.0%-10%	11%-14%	40%-50%
Sept '18	L + 3.00% -5.00%	L + 7.0%-11%	12%-14%	40%-50%

L = Libor

Source: S&P LCD; SPP Capital Partners, LLC

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