



2017
3Q

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US PE
Middle Market
Report

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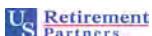
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 <p>\$59,000,000</p> <p>Joint Lead Arranger and Administrative Agent Acquisition Financing</p>  <p>October 2017</p>	 <p>\$24,000,000</p> <p>Joint Lead Arranger and Administrative Agent Add-on Acquisition</p>  <p>October 2017</p>	 <p>Undisclosed</p> <p>Sole Lead Arranger and Administrative Agent Leveraged Buyout</p>  <p>October 2017</p>	 <p>\$24,000,000</p> <p>Sole Lead Arranger and Administrative Agent Leveraged Buyout</p>  <p>September 2017</p>	 <p>Undisclosed</p> <p>Joint Lead Arranger and Co-Bookrunner Control Recapitalization</p>  <p>September 2017</p>
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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 undergone a buyout.

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 define middle-market exits when 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.

INTRODUCTION

Key takeaways

- US middle-market PE deal flow has been strong through 3Q 2017, totaling \$233.0 billion across 1,652 deals (estimated)—a 13.0% increase and 1.5% decrease, respectively, from the same period last year. The increase in deal value is primarily a result of a spike in upper-middle-market (UMM) activity.
- Due to the abundance of dry powder and fierce competition for limited targets, median mid-market M&A EBITDA multiples have risen to their highest level on record—10.7x through 3Q 2017.
- Middle-market PE funds are on track for another stellar year of fundraising, having garnered \$84.3 billion across 131 funds through 3Q 2017—a 3% increase and 6% decrease, respectively, over the same period last year. Fundraising has grown in recent years due to PE's long-term outperformance of most other asset classes, as well as positive net cash flows to limited partners.

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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DEAL VALUE ON PACE FOR YEAR-OVER-YEAR GROWTH

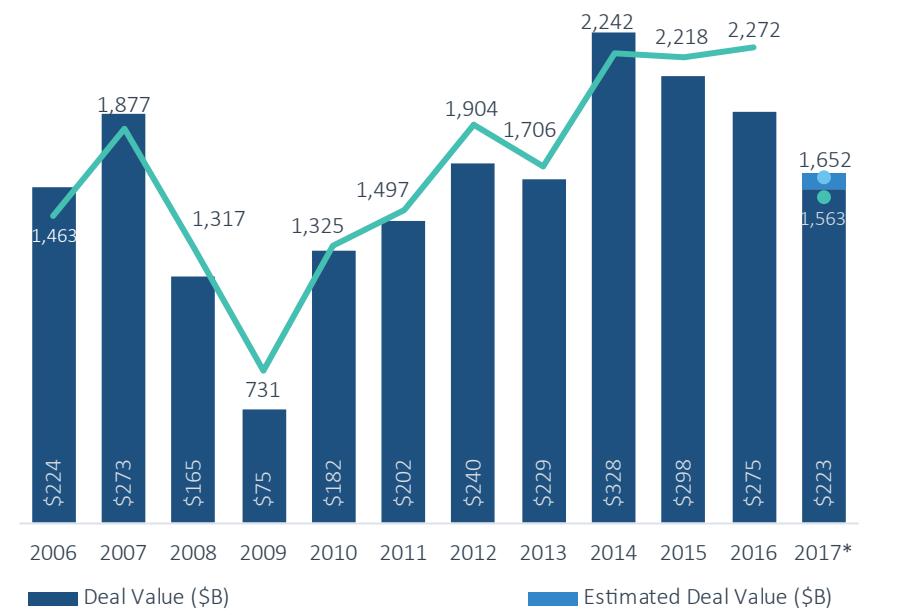
Overview

US middle-market deal flow has been strong through 3Q 2017, totaling \$233.0 billion across 1,652 deals (estimated)—a 13.0% increase and 1.5% decrease, respectively, from the same period last year. 2017 has seen the two strongest quarters for capital invested since 2015. Further, 4Q activity is expected to remain robust; at least \$51 billion of mid-market PE deals have been announced, but not yet closed, this year.

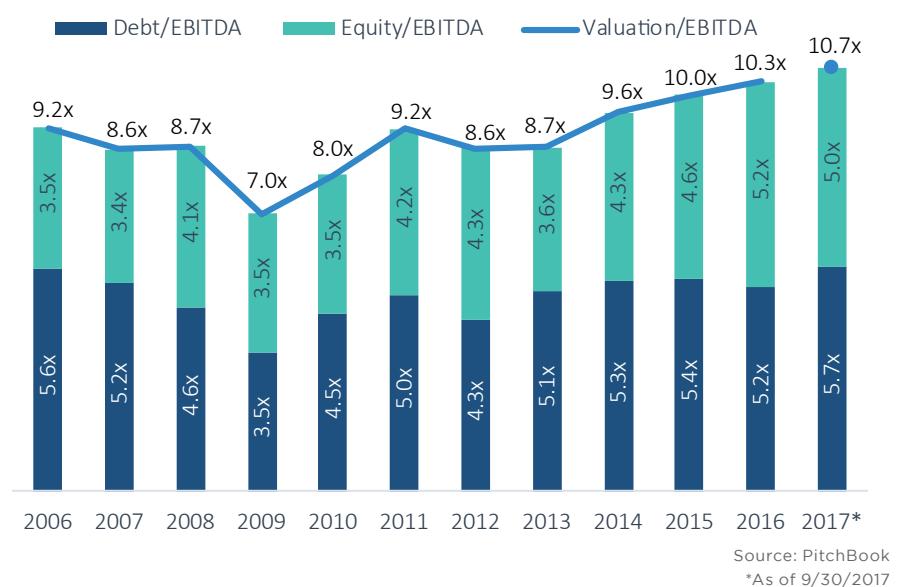
The increase in deal value is primarily a result of a spike in upper-middle-market (UMM) activity (between \$500 million and \$1 billion in EV). 387 UMM deals totaling \$129.7 billion have been completed through 3Q 2017, both of which have already surpassed last year's totals. As a result, the UMM has represented 24.8% of deals and 58.1% of capital invested in the MM, up from just 14.1% and 43.5%, respectively, last year.

The surge in UMM activity is being driven by an ongoing shift by PE firms of all sizes towards larger deals, as well as a broad-based increase in valuations. Riding the wave of heightened LP interest in the asset class, successful managers have been able to raise larger pools of capital, which has enabled many to move up the food chain towards larger deals. Due to the abundance of dry powder and fierce competition for limited targets, median mid-market M&A EBITDA multiples have risen to their highest level on record—10.7x through 3Q 2017.

Buyout activity remains strong US PE middle-market activity



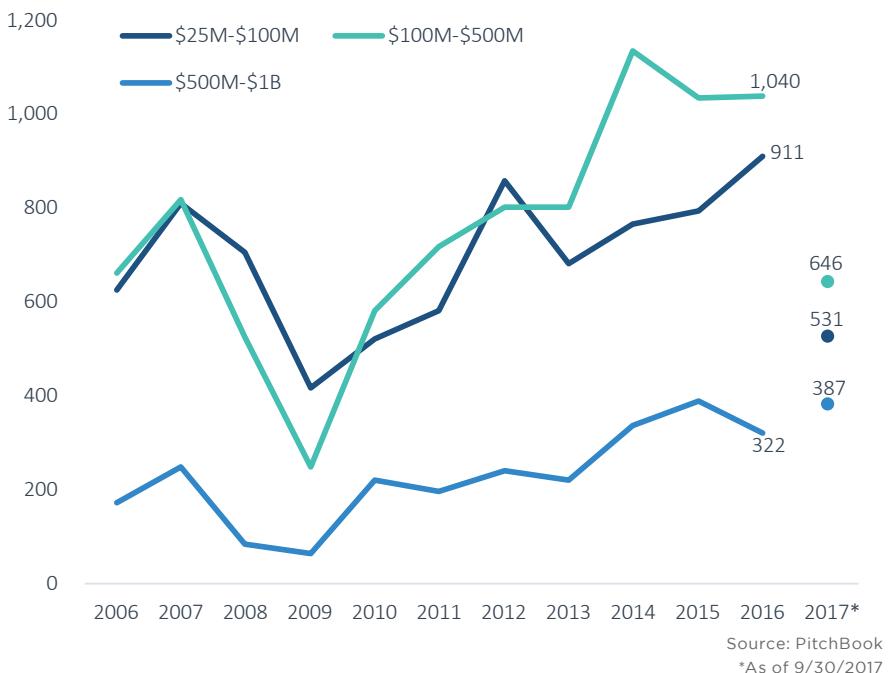
Multiples rise unabated US MM M&A transaction multiples



After 2016 set a record in terms of lower-middle-market (LMM) PE activity, just \$15.1 billion has been invested across 531 LMM deals through 3Q 2017—on pace for the slowest year since 2011. Rising EV/EBITDA multiples are likely playing a role, as companies that may have been classified as LMM in recent years have seen their prices inflated. Furthermore, LMM companies are often ideal targets in buy-and-build strategies, which have experienced a groundswell of popularity as PE firms focus more on operational improvements; to that end, many prime LMM targets have already been tacked on to larger platform companies.

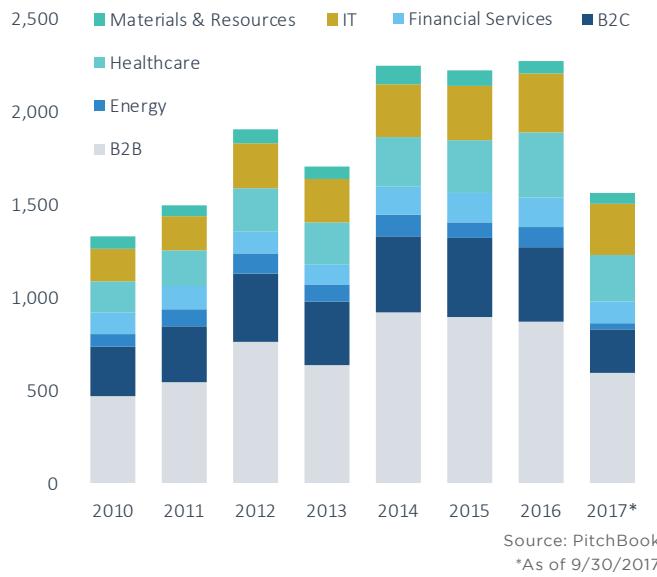
UMM spike driven by prices, dry powder

US PE MM activity by segment



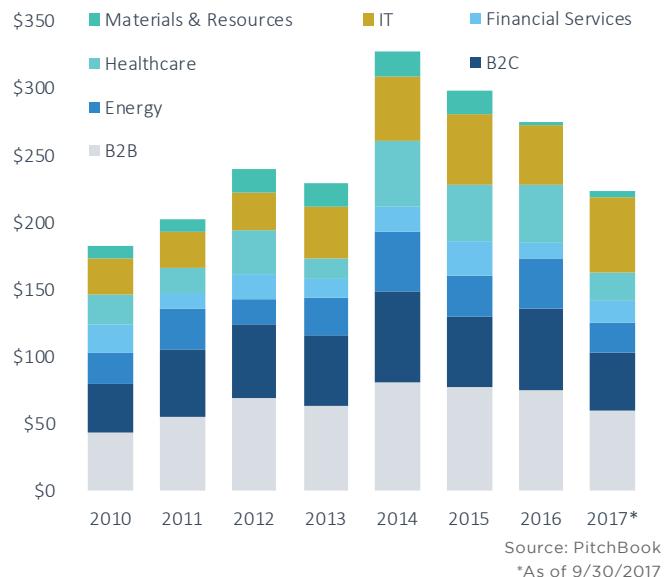
B2B, IT & healthcare remain key

US PE MM activity (#) by sector



IT bolsters deal value

US PE MM activity (\$B) by sector





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How has Madison Capital's recent foray into technology lending been faring, and how has the range of approaches and areas of focus changed in 2017 to date?

David Kulakofsky: Madison is unique in that when we chose to officially launch our Software and Technology Services team, Madison already had a portfolio of close to \$1 billion in the sector, resulting in significant institutional knowledge. This is one reason that Brady and I are excited—we had far more experience already in-house than a typical generalist lender entering the sector. Our formal entry into the technology-lending marketplace has been very well received and 2017 has been a very busy year for the team. We have closed a number of transactions, and expect a few more to close by the end of September. Since Madison only provides cash-flow based loans, the largest portion of our portfolio is what Madison classifies as technology-enabled services, followed closely by software. We're seeing a number of businesses that 10 years ago would have been considered traditional business services with average profit margins now producing very high profit margins through the use of new technologies. Payment processing and other facets of financial technology are new areas of focus for Madison and a rapidly growing portion of our portfolio.

Especially given how high market valuations can be in certain segments, such as technology or healthcare, how does Madison Capital prioritize transactions in the current environment?

David Kulakofsky: As valuations rise, lenders are being pushed to higher leverage multiples than have been offered historically. Specifically, companies that offer a combination of strong credit profiles and high-

growth opportunities, including significant industry white space, will receive especially aggressive terms from Madison and its competitors. These factors provide a good runway for growth and de-leveraging over the coming years. Brady and I are also focused on building a relationship-based technology lending practice at Madison. Many of our sponsor relationships go back 10+ years, which can provide further comfort when stretching in today's environment.

Brady Hahn: From a sponsor's perspective, the factors David mentioned are at the top of their mind.

Given our 16-year track record, focus and patient capital base, we are not incentivized to be a flash in the pan.

Given the competitive market and resulting valuations, it is reasonable that there may be some level of EV multiple contractions in the future. Madison is still a cash-flow lender at its core. Given our 16-year track record, focus and patient capital base, we are not incentivized to be a flash in the pan, which may result from chasing opportunities beyond our comfort zone in this aggressive market. Rather, we are looking to deploy capital where it makes sense, with a strong focus on core credit metrics. To David's point, the strong credit profiles, particularly highly recurring revenue, strong customer retention metrics and

strong cash flow conversion—found in these prospective borrowers—allow a lender to remain true to its core credit principles despite high leverage multiples. For borrowers that exhibit strong metrics in each of the aforementioned credit attributes, it is difficult for us to imagine a scenario whereby we are taking outsized risk. Accordingly, we are comfortable with stretching to win those opportunities.

What's your take on the reasonability of the current level of valuations and types of lending packages you are seeing in tech?

David Kulakofsky: The market for technology companies requiring debt has become highly efficient, and the lion's share of deals are likely appropriately structured and priced for the risk and credit profiles inherent in the underlying businesses. Madison believes there have been more tech companies with strong credit characteristics for sale over

“It is particularly important for Madison in this environment to feel like we are working with experienced PE owners.”

the past couple of years than at any time in history and we do not see any slow-down in the near future. It is particularly important for Madison in this environment to feel like we are working with experienced PE owners who have specific industry expertise. While the borrower profile

“At Madison we are always trying to put our best foot forward in the event one of our relationships prevails.”

is at the forefront when we consider our willingness to provide aggressive leverage, sponsor background and track record are also very important to Madison.

Brady Hahn: Another idea you're alluding to is that auctions for high-quality technology companies are very competitive processes for both potential buyers and potential lenders. While ultimate enterprise value is not the most important metric for Madison, as we're not buying these businesses, we always evaluate debt-to-total capitalization ratios. At Madison we are always trying to put our best foot forward in the event one of our relationships prevails in an auction process. This approach is top of mind when we consider stretching our lending multiples. Madison also markets to our clients our strong track record and experience executing transactions with aggressive debt packages quickly and smoothly in today's competitive environment.

David Kulakofsky: The industry in which Madison competes has changed significantly over the past few years. The proliferation of dedicated capital markets professionals employed by our clients has really accelerated the leverage structure conversation. For example, we're talking much earlier in an auction process about the sponsor's desired leverage level, as opposed to being asked to put our best foot

forward; we are seeing far fewer reverse auctions for the debt. We typically know our target much earlier in the conversation, which enables us to decide whether or not to move forward. I think this process evolution for the lenders is partially driven by the trend over the past two or three years of investment banks not awarding exclusivity to a potential buyer without the completion of due diligence. This dynamic also requires potential buyers to have a debt package fully negotiated and committed when they are submitting final, fully diligenced bids.

“We've seen consistently strong deal flow there all year, and our clients expect the current level of deal flow at this size range to continue.”

What structures and/or terms is Madison Capital adapting in response to the current market, if at all?

Brady Hahn: Madison is comfortable with leveraging a business that, from a cash flow perspective, is not necessarily a comfortable prospect for other lenders, particularly businesses with less than \$10 million of EBITDA. Our team has closed credit facilities for many borrowers that have less than \$5 million of EBITDA. We're seeing niche technology businesses in the sub-\$10 million EBITDA range that exhibit credit profiles similar to larger businesses that are fetching

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“In today's environment, everyone is looking for an angle to help generate good returns despite high purchase price multiples.

fulsome leverage. Are we able to identify inefficiencies in that space? It's less competitive than other areas of the credit market and Madison has a strong track record of lending to smaller businesses.

David Kulakofsky: To add to what Brady's saying, there are tech businesses that have EBITDA below

\$10 million, which makes them—for the most part—too small for many of the finance companies we compete against. But these prospective borrowers also have high operating margins, which make them difficult to fit into a commercial bank's credit policies, as the implied revenue multiples are outside of a traditional bank's comfort zone.

Where do you find the best-valued opportunities in the tech sector nowadays?

Brady Hahn: Primarily in the sub-\$10 million of EBITDA end of the market we discussed earlier. We've seen consistently strong deal flow there all year, and our clients expect the current level of deal flow at this size range to continue.

David Kulakofsky: I do not foresee structures getting much more aggressive, particularly because there's really nowhere else to go, especially relative to historical averages and standards.

From the perspective of a general partner, what would be the primary concerns in the current market? What about Madison Capital's perspective?

David Kulakofsky: In today's environment, everyone is looking for an angle to help generate good returns despite high purchase price multiples. The large majority of PE firms are utilizing management and industry resources far more than in the past, through a combination of operating partners on staff, a strong rolodex of executives they can bring in on a deal-by-deal basis, or industry experts partnering with firms to source new opportunities.

Brady Hahn: Each PE firm has a certain approach but all appear to be feeling pressure on modeled returns. Technology investing, in particular, has become more competitive as more PE firms have entered the space. In response, some firms are relying more heavily on operating partners or their executive networks to drive growth and/or cost optimization in order to meet their return thresholds.

Mr. Kulakofsky heads Madison Capital's Software & Technology Services team, focusing on new business origination and strategy. He is also involved in structuring and closing transactions with his team's clients. Mr. Kulakofsky joined Madison Capital at its inception in 2001 as an Associate and was a Vice President and Underwriting Team Leader before transitioning to an origination role. Prior to Madison Capital, Mr. Kulakofsky was an Analyst in the Investment Banking group at Robert W. Baird & Co., focusing primarily on industrial M&A transactions. Mr. Kulakofsky earned a B.A. in Economics with a minor in Sociology from Northwestern University and an MBA in Analytical Finance from the J.L. Kellogg School of Management at Northwestern University.

Mr. Hahn leads deal execution for Madison Capital's Software & Technology Services team and is also focused on new business origination with West Coast technology-focused private equity sponsors. Prior to rejoining the firm in 2014, Mr. Hahn spent five years executing control equity, structured equity and leveraged finance transactions in the lower middle market as a Senior Associate with Corridor Capital. Prior to Corridor Capital, Mr. Hahn spent three years as a Senior Associate with Madison focused on executing Madison-led leveraged finance transactions. Mr. Hahn has also worked as a management consultant with Deloitte Consulting LLP, focusing on repositioning a Fortune 200 technology company. Prior to Deloitte, Mr. Hahn was a financial analyst with Ford Motor Company focusing on financial planning and analysis for the manufacturing of the Ford Focus. Mr. Hahn earned a B.S. in Finance and a B.S. in International Business from Indiana University's Kelley School of Business.

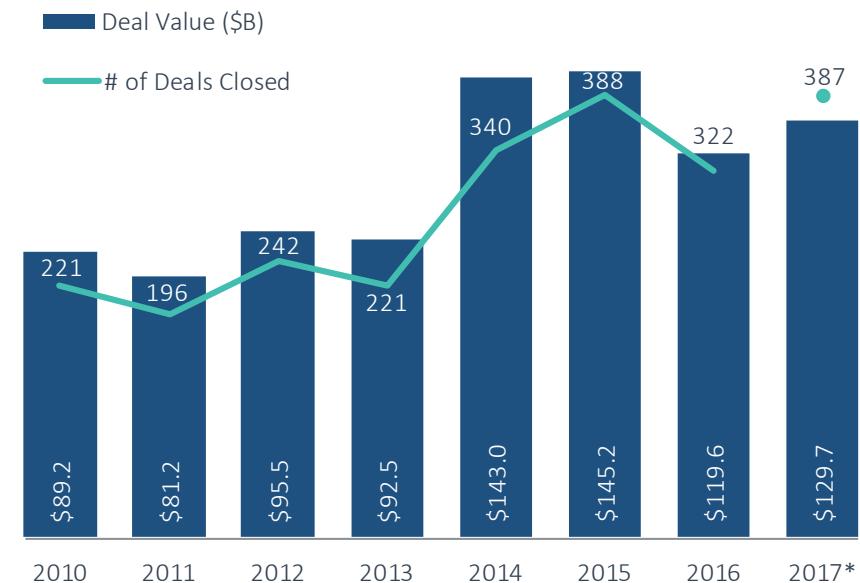


Madison Capital, founded in 2001, is a premier finance company focused exclusively on the corporate financing needs of middle-market PE firms. Private equity sponsors choose Madison Capital Funding for the relationships we build—and keep. We have invested \$27 billion of net funded commitments in over 1,020 transactions with over 275 different private equity sponsors across multiple industries.

UMM DEAL FLOW SURGES

Deals by middle-market segment

Pricing pressure & dry powder levels push activity into the UMM US PE UMM deal flow



Source: PitchBook. *As of 9/30/2017.

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

“ Many prime LMM targets have already been tacked on to larger platforms.

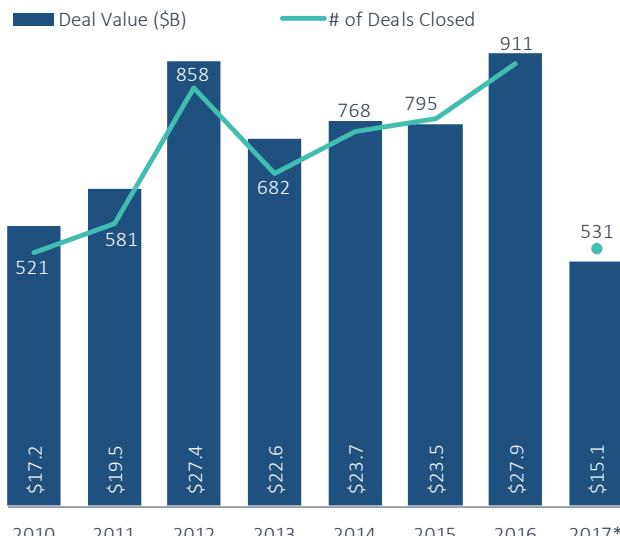
Select US UMM PE deals in 3Q 2017

Company	Investor(s)	Deal Size (\$M)
Certara	EQT Partners	\$850
CPI International	Odyssey Investment Partners	\$800
The RiteDose	AGIC Group, China Investment Corp.	\$700
Xactly	Vista Equity Partners	\$564
CareerBuilder	Apollo Global Management, Ontario Teachers' Pension Plan	\$500

Source: PitchBook

LMM deal flow behind last year's pace

US PE LMM activity

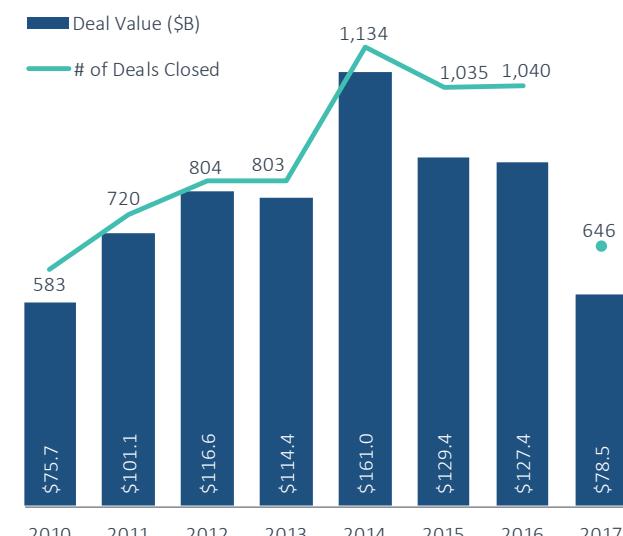


Source: PitchBook. *As of 9/30/2017.

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

A down year

US PE CMM activity



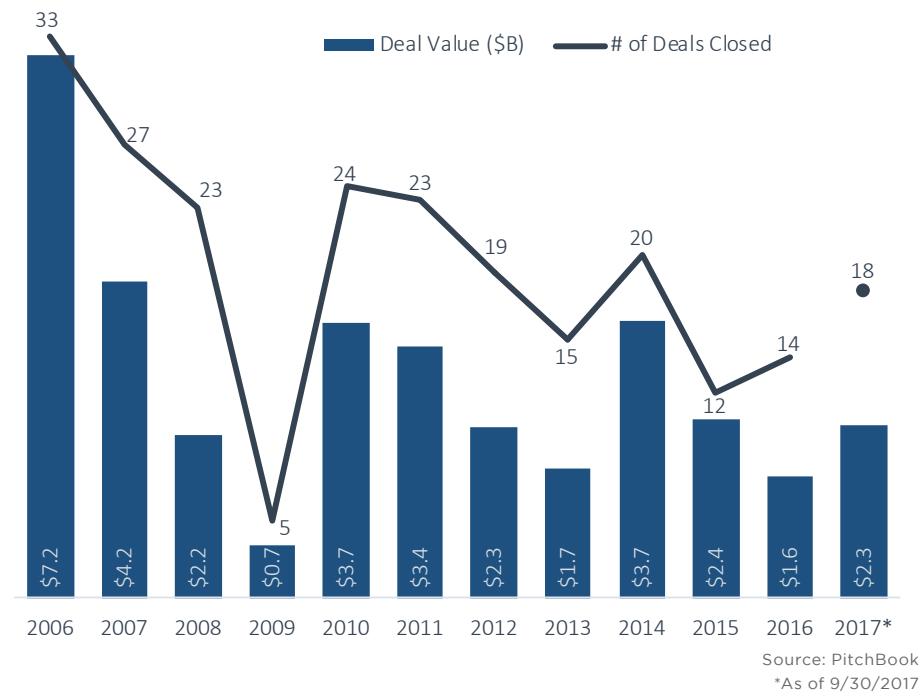
Source: PitchBook. *As of 9/30/2017.

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

SPOTLIGHT: RESTAURANTS & BARS

US PE middle-market activity in restaurants & bars

US PE MM activity in restaurants & bars



Select US PE MM deals in restaurants & bars, 2015-2017*

COMPANY	DEAL SIZE (\$M)	BUYERS	SELLERS
Jack's Family Restaurants	\$650	Onex	Management
Bob Evans Restaurants	\$565	Golden Gate Capital	Bob Evans Farms
Checkers & Rally's	\$525	Oak Hill Capital Partners	Brightwood Capital Advisors, Sentinel Capital Partners
Frisch's Restaurants	\$174.5	NRD Capital Management	N/A
Tastes on the Fly	\$61	H.I.G. Capital	Management
Beef O'Brady's & The Brass Tap	\$41.5	CapitalSpring	Levine Leichtman Capital Partners

Source: PitchBook
*As of 9/30/2017

PE firms drive by the fast-food franchises

US PE investments into mid-market restaurants and bars decreased nearly every year during the decade from 2006 to 2015, but that is beginning to change. Through 3Q 2017, PE activity in the industry—much of which involves fast food and fast-casual restaurants—has already surpassed last year's total, both in terms of deal count and value. Notable transactions this year include Golden Gate Capital's \$565 million carveout of Bob Evans Restaurants, as well as Oak Hill Capital Partners' \$525 million secondary buyout of burger chain Checkers & Rally's, which has seen three different PE backers since taken private in 2006. Many of these brands, of course, depend on the franchise model to grow operations. PE firms are no stranger to this; at least five of the 32 MM PE restaurant & bar deals completed since the beginning of 2016 have involved a portfolio of store locations rather than the parent company or licensor/franchisor.

Depending on the structure of the deal, restaurant and bar acquisitions can also utilize sale-leasebacks to immediately provide an influx of working capital to the business or return cash to LPs. Coincidentally, Bob Evans Farms agreed to sale-leaseback 143 of its locations in 2016, prior to the aforementioned spinout of Bob Evans Restaurants.

A CYCLICAL DECLINE

US PE-backed middle-market exits

Given the ballooning PE-backed company inventory, 37.7% of which has now been held for five years or more, exit flow was expected to be strong in 2017. But that activity has failed to materialize as mid-market PE exits continue to fall from the highs of 2014, with just 689 exits totaling \$66.6 billion completed through 3Q 2017. Financial sponsors, however, have been able to find liquidity without fully exiting their investments. Cheap debt and covenant-lite loans have incentivized sponsors to utilize dividend recaps, the issuance of which has already surpassed last year's total, according to Thomson Reuters.

Even as overall exits have fallen, the relative prevalence of PE firms selling portfolio companies to other financials sponsors has continued to increase due to the accumulation of dry powder and resiliency of PE deal flow in recent years. 357 secondary buyouts were completed in the MM through 3Q 2017, accounting for 52% of all exit activity—the highest on record. Though some LPs worry they may be exposed to funds on both sides of a secondary buyout, effectively paying transaction fees to sell a company to themselves, GPs will counter that subsequent financial sponsors provide distinct skillsets and expertise to nurture the portfolio company through different stages of its lifecycle.

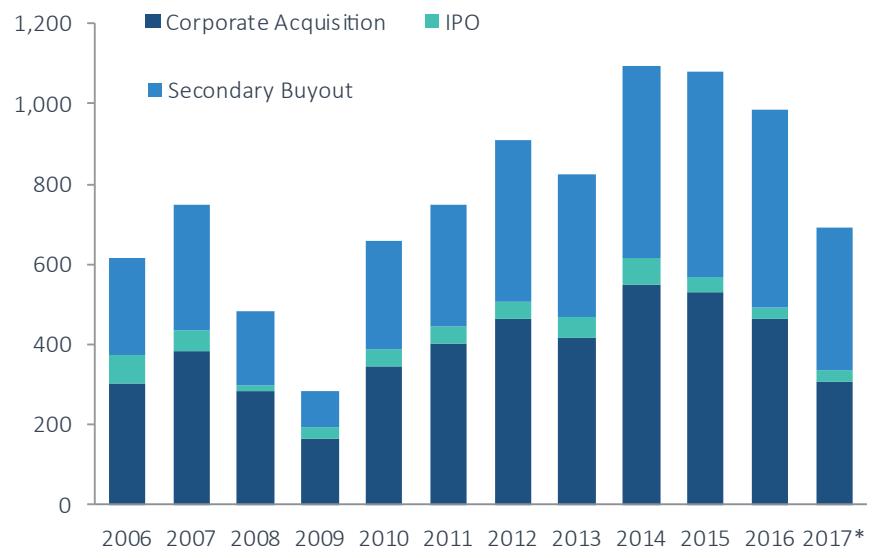
PE managers are turning to liquidity without fully exiting US PE-backed MM exits



Source: PitchBook

*As of 9/30/2017

Fellow PE firms proving to be sources of liquidity US PE-backed MM exits (#) by type



Source: PitchBook

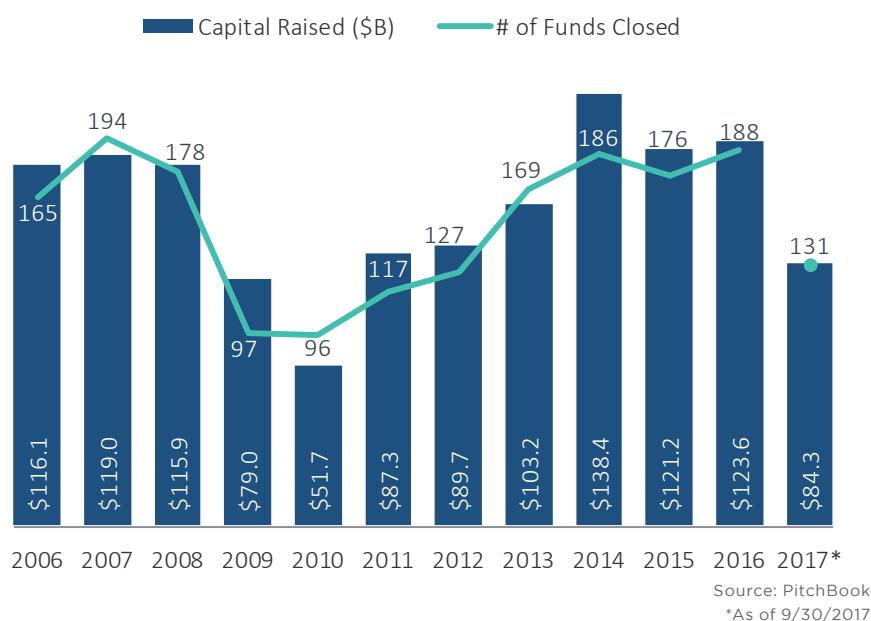
*As of 9/30/2017

CONTINUED STRENGTH IN THE FORECAST

US PE middle-market fundraising

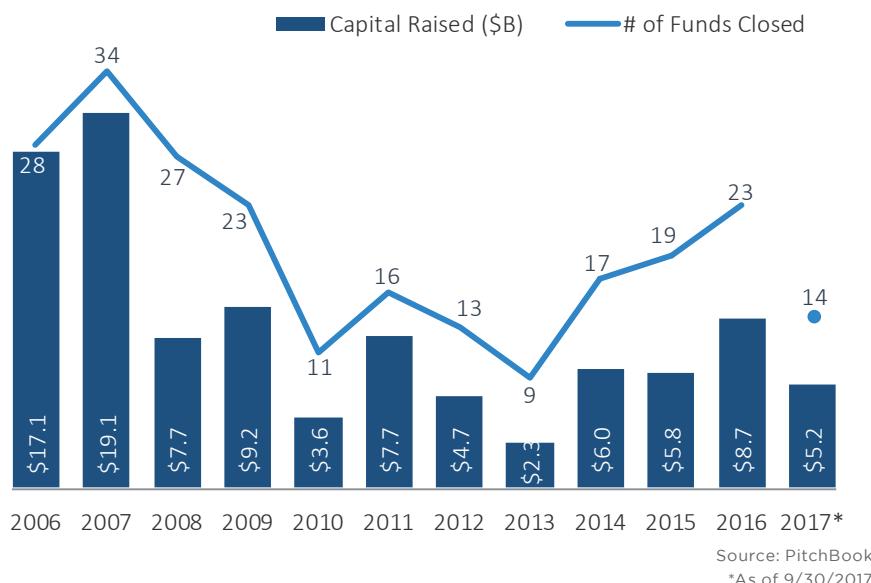
No sign of slowing yet

US PE MM fundraising



Fledgling fund managers making a comeback

US PE MM first-time fundraising



Middle-market PE funds are on track for another stellar year of fundraising, having garnered \$84.3 billion across 131 funds through 3Q 2017—a 2.5% increase and 6.4% decrease, respectively, over the same period last year. Fundraising has grown in recent years due to PE's long-term outperformance of most other assets classes, as well as positive net cash flows (distributions minus contributions) globally to LPs of PE funds every year since 2012, allowing them to recycle capital back into the asset class. Also aiding PE fundraising are growing valuations in public equities, which create a reverse denominator effect for most LPs, in many cases enabling them to grow their allocations to alternatives in dollar terms while keeping the allocation constant as a percentage of the total portfolio. One potential hurdle to PE fundraising next year is that the aforementioned net cash flows to LPs are likely to turn negative due to the downturn in exits, so LPs may have fewer dollars to reinvest into private markets; however, we think that overarching industry dynamics point to continued strength in fundraising.

First-time managers, more than 99% of whom fall into the middle market, have made a comeback in recent years. 23 first-time MM funds held final closes in the US in 2016, taking in \$8.6 billion in total commitments—each of which is the highest since 2009 (when final closes were held for funds that began raising prior to the financial crisis). We expect more first-time managers to continue striking out on their own in the coming quarters, especially if overall PE fundraising continues at its rapid pace.

MIDDLE MARKET LEAGUE TABLES

3Q 2017

Most active investors by deal count

Audax Group	18
HarbourVest Partners	16
Genstar Capital	13
AlpiInvest Partners	12
Hellman & Friedman	11
Providence Equity Partners	10
AEA Investors	8
Stone Point Capital	8
ABRY Partners	7
Arsenal Capital Partners	7
Kohlberg & Company	7
Kohlberg Kravis Roberts	7
Shore Capital Partners	7
Silver Oak Services Partners	7
Ares Capital	6
Bain Capital	6
EQT Partners	6
Lindsay Goldberg	6
The Blackstone Group	6
The Carlyle Group	6
The Riverside Company	6
Vista Equity Partners	6

Source: PitchBook

Most active lenders by deal count

Antares Capital	25
Madison Capital Funding	20
Twin Brook Capital Partners	20
The Goldman Sachs Group	17
Monroe Capital	11
Golub Capital	9
PNC	9
Credit Suisse	8
NXT Capital	8
Audax Group	7
Ares Capital	6
First Midwest Bank	6
Bank of America	5
Citizens Bank	5
Crescent Direct Lending	5
MidCap Financial Services	5

Source: PitchBook

This report sums up the big trends.

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