PitchBook

Global PE Deal Multiples

2018

Annual

TwinBrook
CAPITAL PARTNERS

92%
DEALS LEAD/CO-LEAD ARRANGER

$8.5B
COMMITMENTS ISSUED TO DATE

287
CLOSED TRANSACTIONS

since 4th quarter 2014 inception

RECENT TRANSACTIONS

$59,000,000
INTERGULF CORPORATION
Administrative Agent
November 2018
Kinderhook INDUSTRIES

Undisclosed
MERICAL
Administrative Agent
November 2018
LINDEN

Undisclosed
Connecticut Coining, Inc.
Administrative Agent
October 2018
MavenHill

Undisclosed
GASSER Quality... With Confidence
Administrative Agent
October 2018
MavenHill

Undisclosed
Radix
Administrative Agent
October 2018
highroad CAPITAL PARTNERS

Undisclosed
2-10 HOME BUYERS WARRANTY
Administrative Agent
October 2018
GENSTAR CAPITAL

$265,000,000
GLADSON
Administrative Agent
October 2018
THE JORDAN COMPANY

Undisclosed
PTI P.T. INTERNATIONAL
Administrative Agent
October 2018
INCLINE EQUITY PARTNERS

$63,000,000
COVERCRAFT SINCE 1965
Administrative Agent
October 2018
CENTURY PARK CAPITAL PARTNERS

Undisclosed
one homecare solutions
Administrative Agent
October 2018
WAYPOINT CAPITAL PARTNERS

Undisclosed
FUSEFX
Administrative Agent
October 2018
EAGLETREE CAPITAL

$120,000,000
CADARETGRANT
Administrative Agent
October 2018
Supported by Lee Equity Partners, LLC
ATRIA Wealth Solutions

Contents

Note: Each quarter, we survey PE investors to get an inside look at deal terms, multiples and investor sentiment. We've updated this edition with deals completed in 2018. In certain cases, survey responses are combined with data from PitchBook to augment sample sizes.

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Key takeaways from the analysts

58% of survey respondents found the current pricing for PE deals to be conducive to achieving typical PE fund returns. This is higher than the 52% that responded positively in the previous edition of this report, despite EV/EBITDA multiples climbing to 8.3x from 7.9x in 2017. PE firms are more often targeting quickly growing companies—which typically trade at higher multiples—lifting valuations, even a decade into the economic expansion.

PE firms are targeting faster growing companies and expecting a higher percentage of target companies to grow quickly. 52.2% of companies targeted by PE firms recorded revenue growth above 10% in the 12 months prior to the buyout, a record. Additionally, 68.1% of PE firms expected 10% revenue growth in the 12 months following the buyout, compared to just 64.8% in the most recent edition of this report.

The proportion of PE firms using monitoring fees (58.0%) and transaction fees (85.8%) hit its highest mark in recent years as more GPs are becoming comfortable with monitoring fees after several firms settled with the SEC on the issue just a few years ago. However, due to fee-offset language, LP management fees are reduced so that investors do not end up indirectly paying for fees charged to their portfolio companies.

8.3x
median EV/EBITDA multiple, up from 7.9x last year

68.1%
of PE firms expecting portfolio company revenue growth above 10% in the next 12 months

85.8%
of PE firms utilizing transaction fees

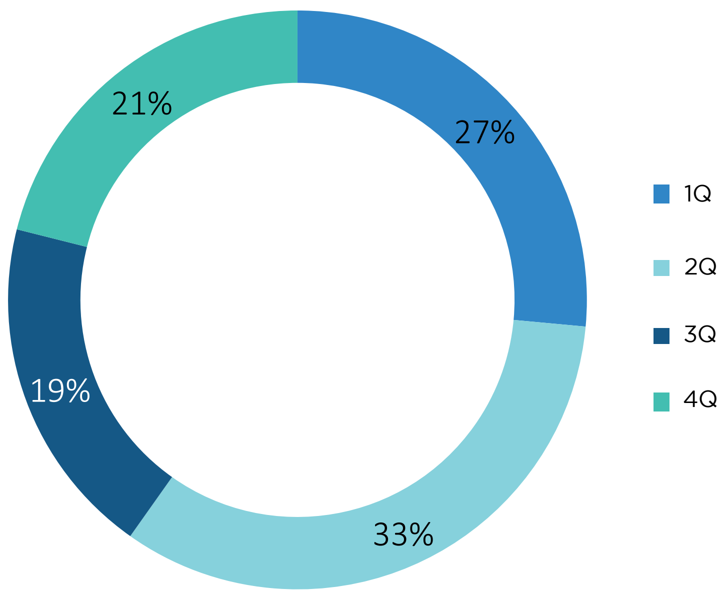
PitchBook

Survey population & market sentiment

58% of survey respondents found current pricing to be at levels that would allow for typical PE returns (10% answered "yes, very much so," and 48% responded with "yes"). Interestingly, this is a more positive outlook on returns than was expressed in 2017, when 52% of survey respondents found pricing to be within a range that allowed for typical PE fund returns (8% "yes, very much so" and 44% "yes") despite slightly higher multiples in today's environment. Additionally, the most negative response "not at all" saw the proportion of responses drop from 10% in the last version of this report to just 5% in 2018. Since the last report, median PE multiples have risen slightly to 8.3x from 7.9x, which means typical PE returns ought to now be more difficult to achieve or that GPs are expecting more out of growth (organic or via add-ons) and operational improvements.

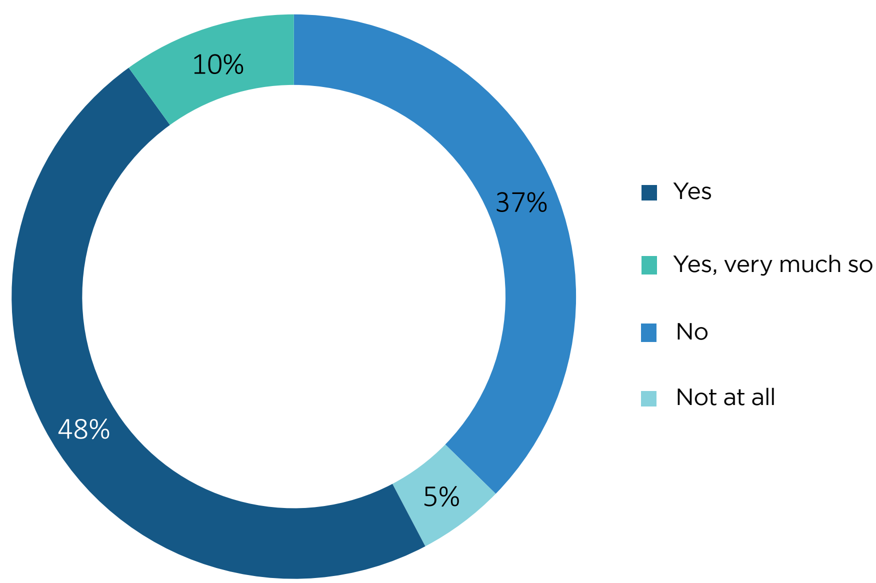
This also comes at a time when the definition of "typical PE returns" is under debate. As detailed in our 4Q 2017 benchmarks report, the PME performance of PE has diminished in recent years, and PE is no longer such a sure outperformer of public indices. In fact, for most vintages 2006 and later, most PE funds underperformed public markets.

Responses (#) by timeframe (2018)



Source: PitchBook
*As of November 15, 2018

Is current pricing conducive to typical PE returns?



Source: PitchBook
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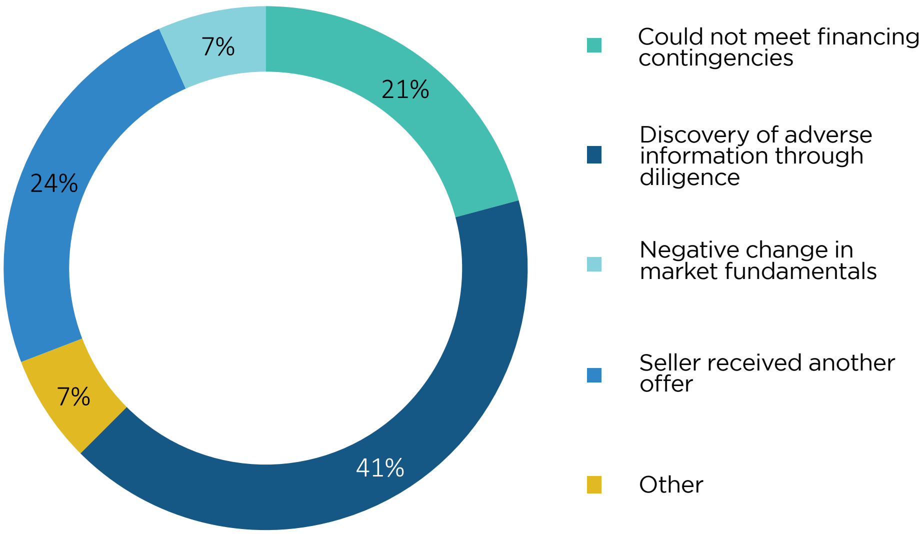
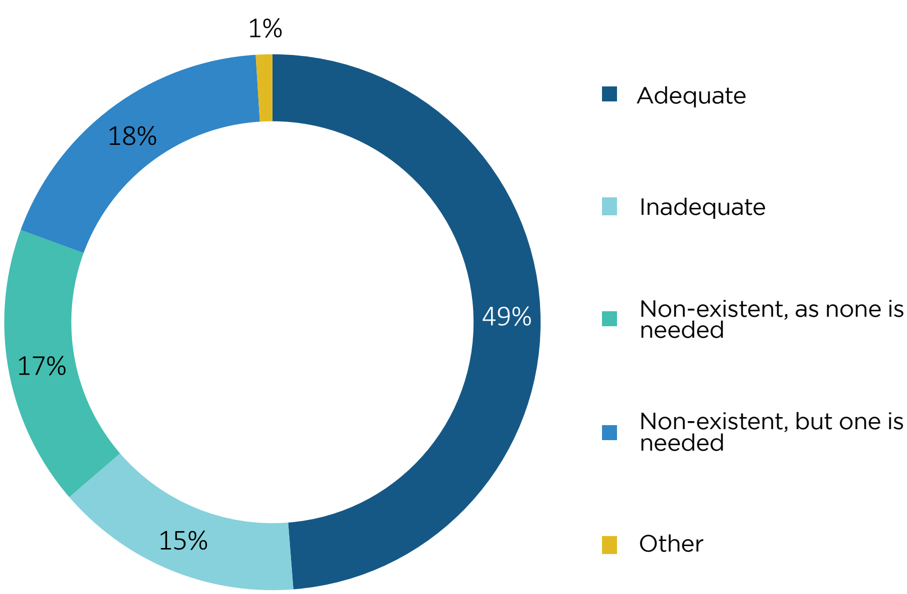
Reasons for canceling or renegotiating deals



Source: PitchBook
*As of November 15, 2018

Succession plans have long been a concern in PE, and the survey results indicate that firms have failed to make progress in that regard over the last year; however, the industry has made sizable improvements in recent years. In fact, 49% of survey respondents felt their firm's succession plan was "adequate," a reduction from 53% in the last survey. The "inadequate" response jumped the most with 15% of responses indicating a non-satisfactory succession plan compared with just 8% in the prior survey. The 33% of respondents that answered "inadequate" or "non-existent, but one is needed" are at a disadvantage to better prepared firms because an adequate succession plan is key to retaining top talent.

How would you describe your firm's succession plan?



Source: PitchBook
*As of November 15, 2018

Responses (#) indicating type of transaction	
Add-on	40
Platform	85

Source: PitchBook
*As of November 15, 2018

Investment multiples

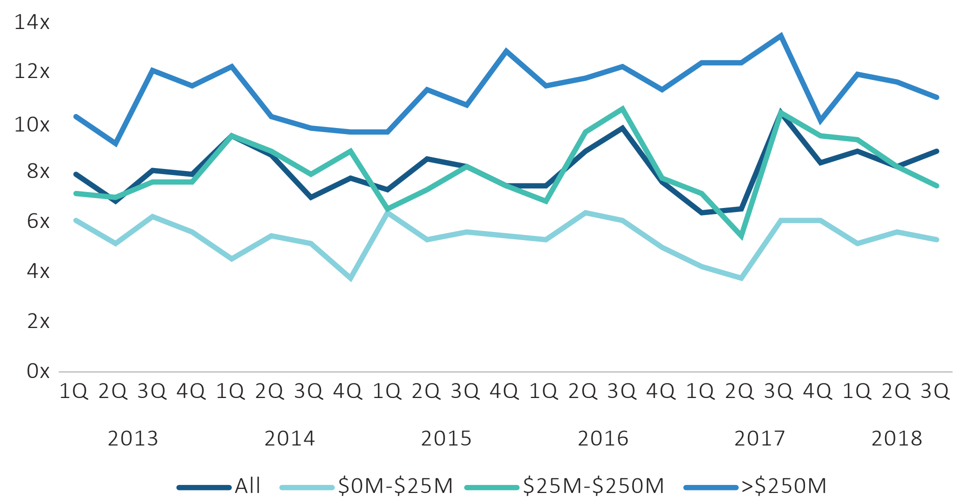
The median EV/EBITDA multiple for transactions in 2018 rose slightly to 8.3x from 7.9x last year, even as multiples in the largest—and highest priced—size bucket ($250 million+) fell to 11.2x from 12.2x. Several factors pushed up the median figure including a changing composition of deals. More large deals are closing, pulling up the median EV/EBITDA multiple.

Pricing spreads between the largest and smallest size buckets narrowed. Prices at the top end seem to be hovering around 12.0x, while dealmakers are increasingly taking advantage of the lower purchase-price multiples at the bottom end of the market. To that end, the median EV/EBITDA multiple for deals between $25 million and $250 million climbed to 8.4x from 7.8x in 2017, and for deals $25 million and below multiples, it rose to 5.6x from 5.0x.

The proportion of deals that closed with EV/EBITDA multiples above 7.5x grew after several years of remaining relatively constant; 56.7% of all transactions came in above the 7.5x threshold. For reference, the figure for 2017 was 50.7%, and for 2016, it was 51.8%. Additionally, over three-fourths (76.9%) of closed deals in 2018 transacted above 5x EV/EBITDA, compared to 64.4% in 2017. There are fewer and fewer low-priced deals being completed in an environment where competition remains fierce across all target company sizes.

Median multiples in largest size bucket fall while the overall median rises

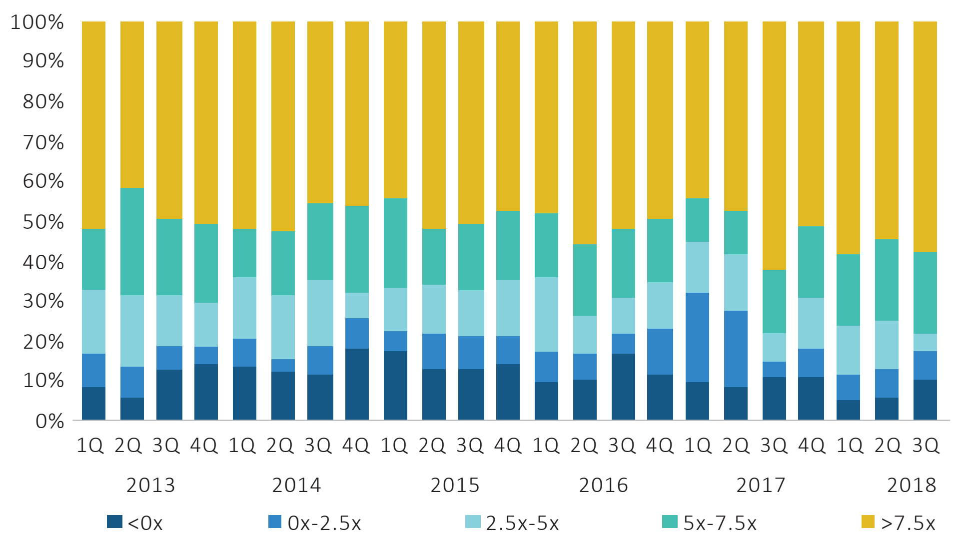
Median EV/EBITDA multiples by deal size



Source: PitchBook
*As of November 15, 2018

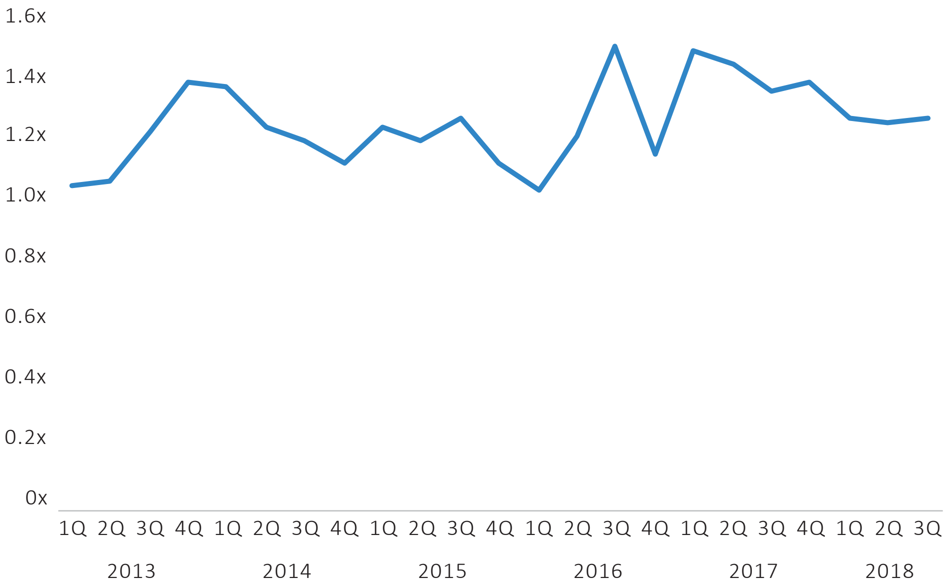
Multiples above 5x make up the highest proportion of deals in the past five years

Proportion of deals (#) by EV/EBITDA bucket



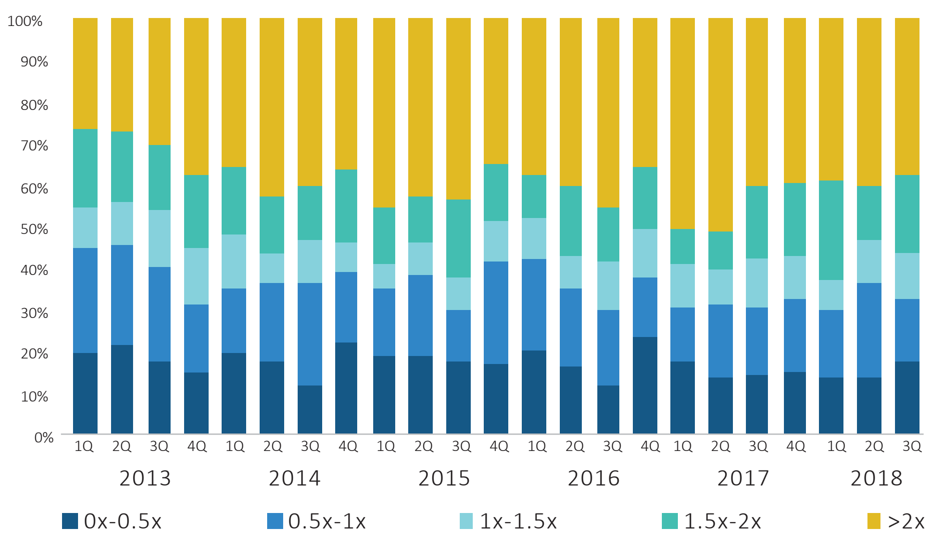
Source: PitchBook
*As of November 15, 2018

Revenue multiples decline slightly
Median EV/revenue multiple



Source: PitchBook
*As of November 15, 2018

Over half of all deals closed above 1.5x EV/revenue
Proportion of deals (#) by EV/revenue bucket



Source: PitchBook
*As of November 15, 2018

The median EV/revenue multiple for transactions in 2018 dipped to 1.3x from 1.4x the year prior. This is happening despite the more rapid revenue growth seen across target companies, which is counterintuitive. A potential reason for the flat-to-negative growth seen in EV/revenue figures is that some pressure may be ahead as the market for financing buyouts—through leveraged loans and high-yield bonds—is showing preliminary signs of stress. Officials in Europe and the US have warned investors about the amount of leveraged loan issuance, which has more than doubled since the financial crisis, and a recent selloff in the space caused the first monthly loss in 14 months. Some are even calling the current market conditions a bubble, Apollo's chairman and CEO, Leon Black, recently said, "The credit markets, unlike the equity markets, have gone to bubble status. The amount of covenant-less debt is more than 2007. You have a thirst for yield that exists on a global basis. So there is true excess." Public comparables will also likely put downward pressure on private market valuations, as the S&P 500 is approximately flat for the year while EBITDA and revenue have risen, effectively reducing those metrics' respective multiples. However, PE performance is positive and continues to top all other private market strategies.

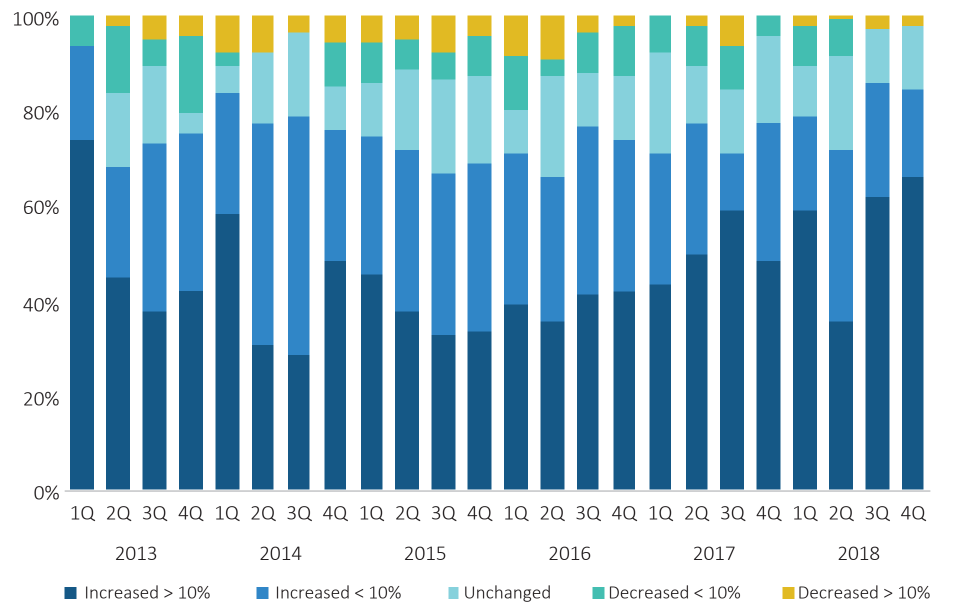
Revenue change

According to survey results, revenue growth among companies targeted by PE is the strongest it has been in years. 52.2% of the companies purchased by survey respondents in 2018 recorded TTM revenue growth above 10%, nearly mirroring the 49.4% recorded in 2017. This could also reflect a desire for PE firms to buy growing companies, as they know financial engineering for low-growth companies is not enough to drive top-quartile results; PE's bourgeoning foray into software is an example of this.

As PE begins targeting faster growing companies, these GPs believe future revenue growth will be healthy. Indeed, the lofty revenue growth expectations seen in 2017 continue unabated in 2018. 68.1% of firms bought by PE expect revenue growth above 10% over the ensuing 12 months post-purchase. The proportion of PE firms expecting high growth from portfolio companies is higher than it has been in years. This corresponds to elevated EV/revenue multiples paid because dealmakers may be thinking too positively. The bump in revenue growth expectations in late 2013 and early 2014 saw a corresponding jump in EV/revenue multiples a few quarters later. A similar trend may be unfolding with rising expectations.

PE firms more likely to target fast-growing companies

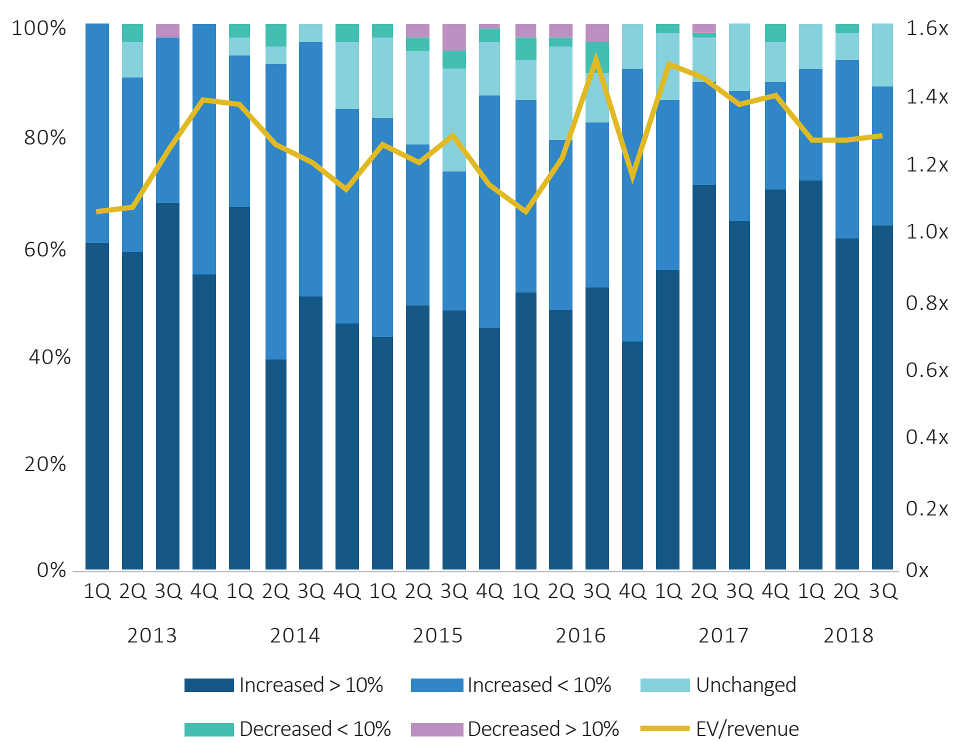
Revenue change 12 months prior to deal



Source: PitchBook
*As of November 15, 2018

PE firms have highest expectations for target company revenue growth since 2013

Anticipated revenue change 12 months following deal



Source: PitchBook
*As of November 15, 2018

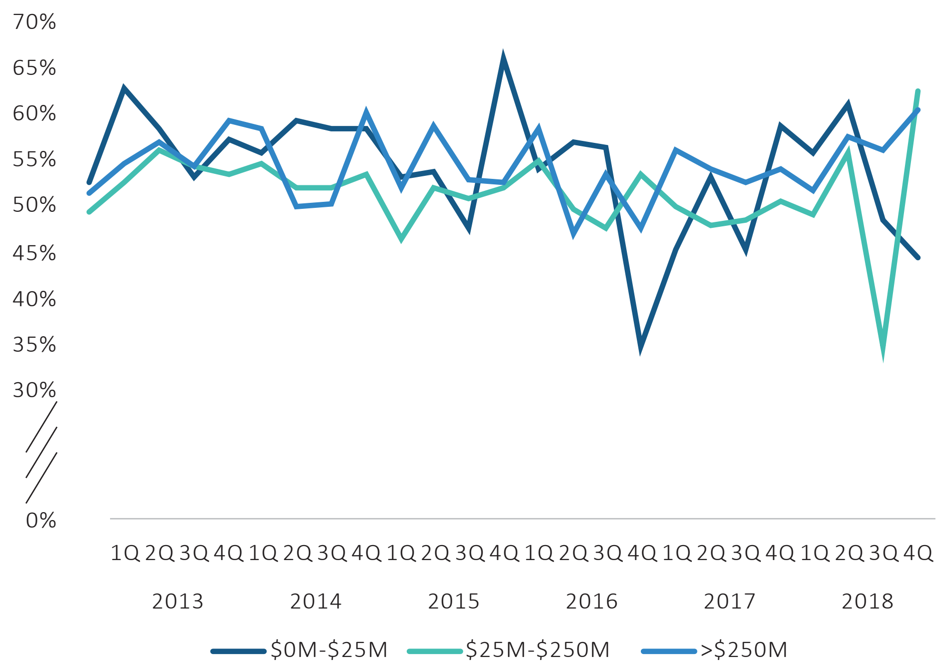
Debt & equity levels

The average amount of debt utilized in a buyout rose to 53.6% YTD in 2018, up from the 51.8% recorded in full-year 2017. The 2018 Tax Cuts and Jobs Act (TCJA) put in place limits on a company's interest deductibility—no more than 30% of EBIT. This made the after-tax cost of debt rise for highly levered deals; however, our survey results show this is not having a dampening effect on the amount of leverage dealmakers are willing to use.

When broken out by size bucket, the smallest deals—often thought to be the riskiest—are done with the most amount of leverage, with dealmakers using 56.1% debt. Interestingly, the largest size bucket—where dealmakers use 55.4% debt—is not the most levered. Deals closed between $25 million and $250 million use just 50.7% equity, the lowest of any size bucket.

Smaller deals are done with the most leverage

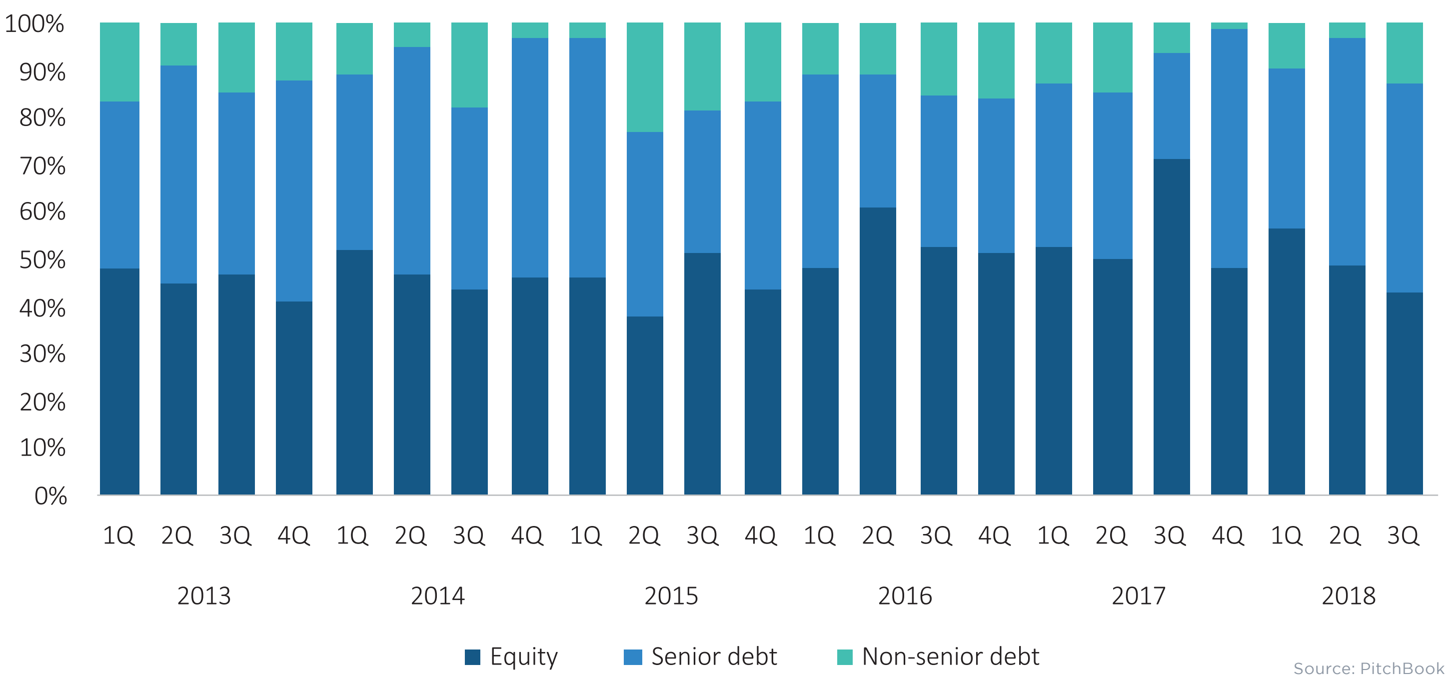
Average debt as proportion of deal by deal size



Source: PitchBook
*As of November 15, 2018

Debt contributions hit 47% of EV YTD

Average debt-to-equity breakdown



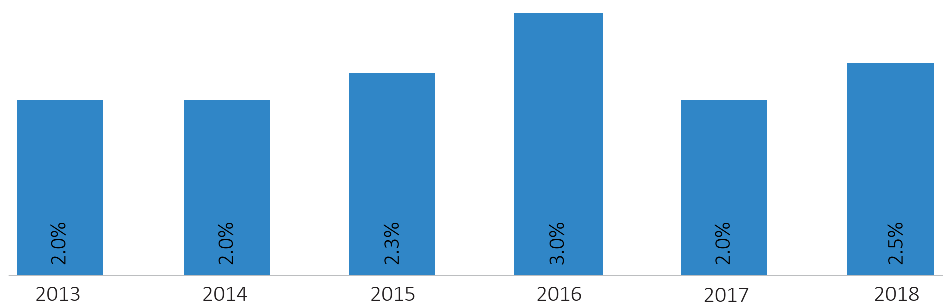
Source: PitchBook
*As of November 15, 2018

Fees

85.8% of survey respondents reported charging transaction fees to the company being acquired. This figure has trended upward in recent years and now sits at the highest annual figure in recent years. Additionally, 2018's usage of monitoring fees was the highest level in years with 58.0% of respondents using them. Auxiliary fee usage declined after an SEC investigation into the practice in which several prominent PE firms were forced to pay fines. This recent rise in usage may mean PE firms are once again becoming comfortable with the practice. However, the median fee as a percentage of EBITDA has dropped to 3.1% from 4.0% last year. LPs are fighting to reduce fee load by targeting the usage and rate charged, though it does not seem to be having the desired effect. However, due to fee-offset language, LP management fees are reduced so that investors do not end up indirectly paying for fees charged to their portfolio companies.

Transaction fees on lower end of recent figures

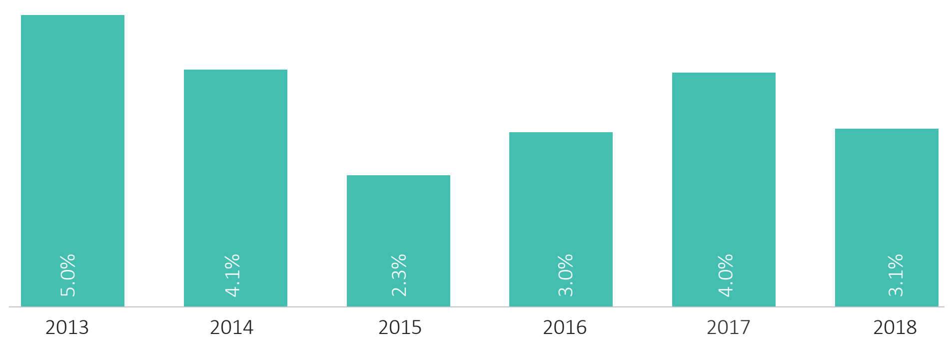
Median transaction fee as proportion of deal value



Source: PitchBook
*As of November 15, 2018

Monitoring fees drop from elevated level

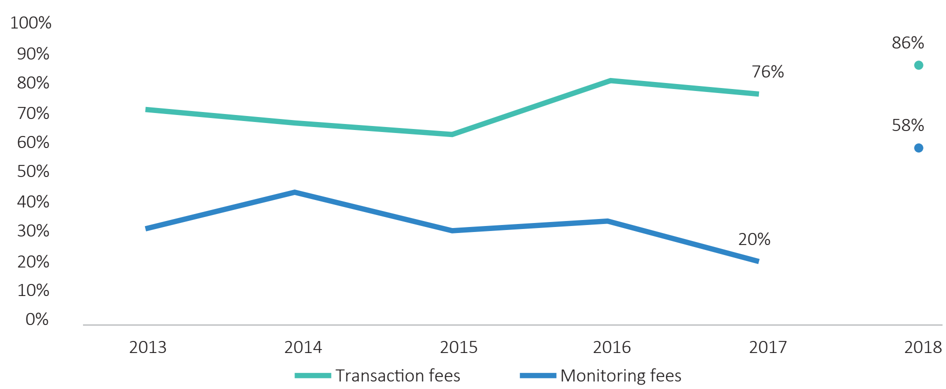
Median monitoring fee as proportion of EBITDA



Source: PitchBook
*As of November 15, 2018

Fees continue to rise

Proportion of deals with fees



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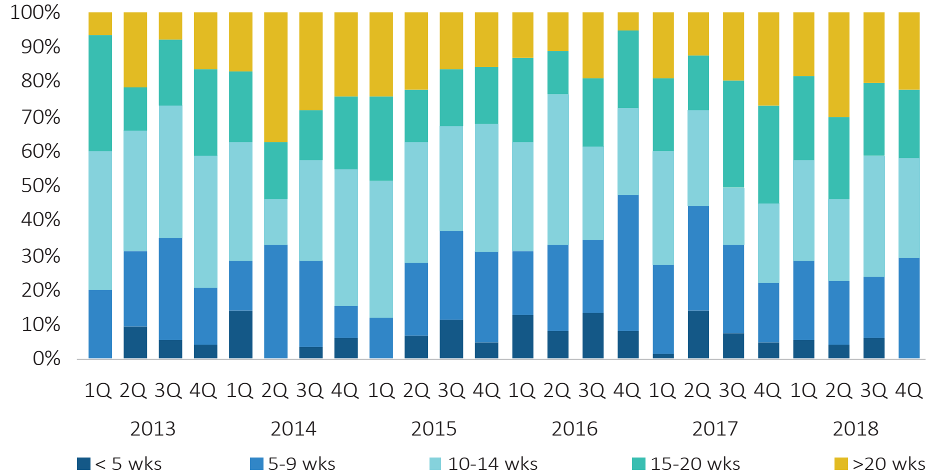
Closing times & earnouts

The median time to close dropped in 2018. This year, the median timeframe between signing of LOI and final close was 12 weeks. The rise in 2017 looks to be uncharacteristic, and a more typical 12-week timeline is once again the median in 2018. In recent months, the leveraged loan and high-yield markets have shown some weakness. Additionally, interest rates are expected to continue rising. Perhaps dealmakers are moving more quickly to lock in favorable financing at lower rates. However, there are still numerous deals taking longer to close. In fact, 46.4% of transactions took 15 weeks or longer to close. This is the highest proportion on record, slightly edging out the 43.9% recorded in 2014.

Proportion of deals taking 15 weeks or longer to close rises

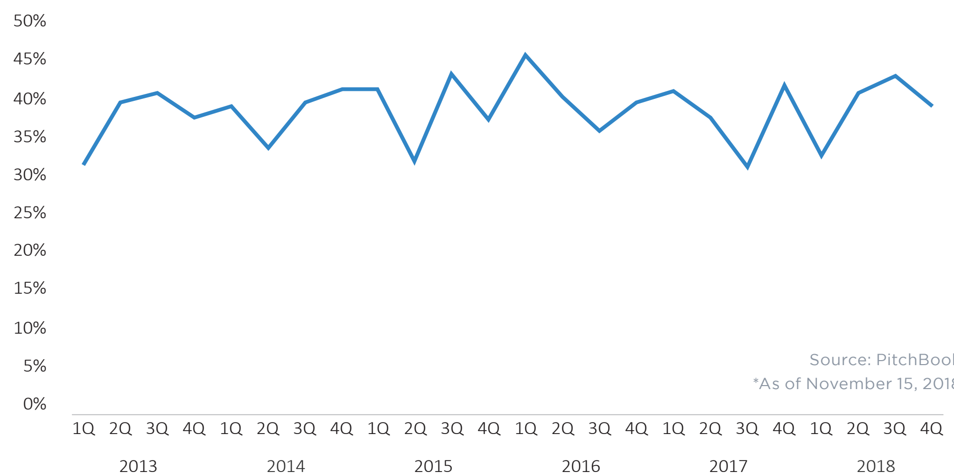
Deals (#) by time to close (weeks)

Source: PitchBook
*As of November 15, 2018



Proportion of deals using earnouts remains within historical norms

Proportion of deals (#) with earnout provisions/seller financing



Source: PitchBook
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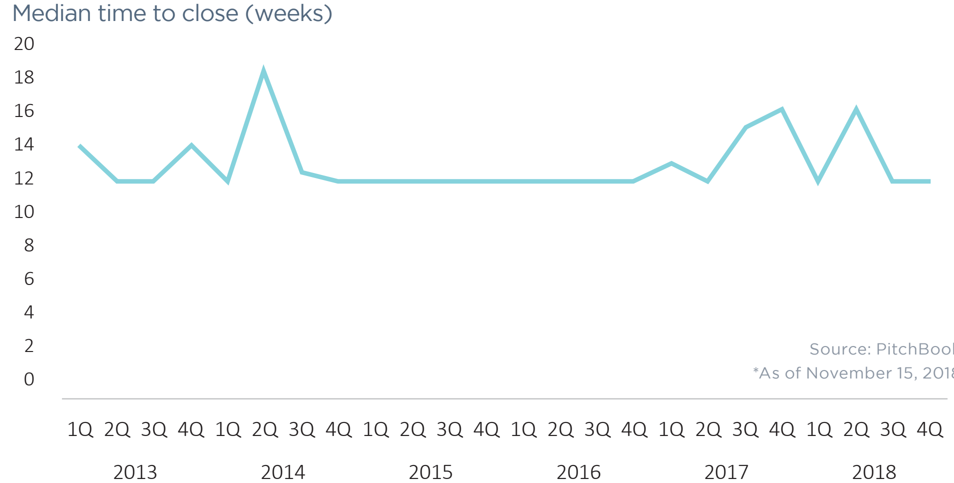
Median time to close is back to the longer-term trendline

Median time to close (weeks)



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