PitchBook

Q2 2024

US

PE Middle Market Report

Contents

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Methodology change disclosure
Click here for PitchBook's report methodologies.

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Executive summary

In H1 2024, US PE middle-market dealmaking participated in the gradual recovery that has characterized the broader PE space. As noted in our Q2 US PE Breakdown, PE deal activity of all sizes and types is tracking ahead by approximately 10% in the first six months of 2024 versus 2023. After excluding minority growth deals, which have been unusually strong, US PE buyouts were up more like 5.0% in H1, with the middle-market segment faring a bit better at up 12.0%. That is not a ferocious rebound by any means, and it still lags a more vigorous 20.0% pickup in corporate-led M&A, but it is forward progress, nonetheless.

Middle-market deal values have firmed on the gradual recovery in deal volume. This follows a soft patch at the end of 2023, which contained hints of distressed selling. In 2024, multiples have narrowed the gap to the old highs on an EBITDA basis, less so on a revenue basis. We suspect the next wave of sponsor-to-sponsor dealmaking will involve lesser-quality companies, and the uptrend in multiples will be disrupted as a result. The tradeoff will be a broadening in volume, especially on the sell-side of the PE equation. Middle-market exits in H1 were basically flat YoY, reflecting a continued sellers' strike among sponsor owners.

One impediment to more active dealmaking that we noted in our Q1 2024 US PE Middle Market Report was the relatively poor performance of small-cap public equities, which had been trapped at record-low valuations versus large-cap equities for nearly a year. That dam finally broke in July when small-cap stocks posted their best two-week streak versus large caps in 38 years. During that span the Russell 2000 index rose by 10.1% while the S&P 500 declined by 19.6%, erasing what had been a 16.9% YTD return differential between the two. The Russell index has shed approximately one-third of those gains but has been holding up well ever since. Good relative strength in public small caps can be the catalyst that lifts valuations for late-stage privates—their closest cousins—prompting would-be sellers to embark on an M&A process.

The relative attraction of middle-market funds has faded somewhat. Expectations for lower interest rates in the back half of 2024 have done more to stir interest in megafunds because of the extra constraint that higher rates had imposed on megadeals. Recent performance has played a role as well. After six consecutive quarters of PE middle-market funds outperforming megafunds on a one-year horizon basis, that trend reversed in the final quarter of 2023. Historically, these changes in leadership between mega and middle-market funds tend to last between one and three years, and we would not be surprised if a new change is starting up.

Fundraising has reflected this changing of the guard. Fundraising in the middle-market space is at a 10.0% shortfall from its near-record pace of 2023, whereas the broader PE market is tracking even. We doubt this is sustainable, however, given the record time it is now taking to raise funds and the prospect of mega-flagships winding to a close and new, smaller ones launching in their place.

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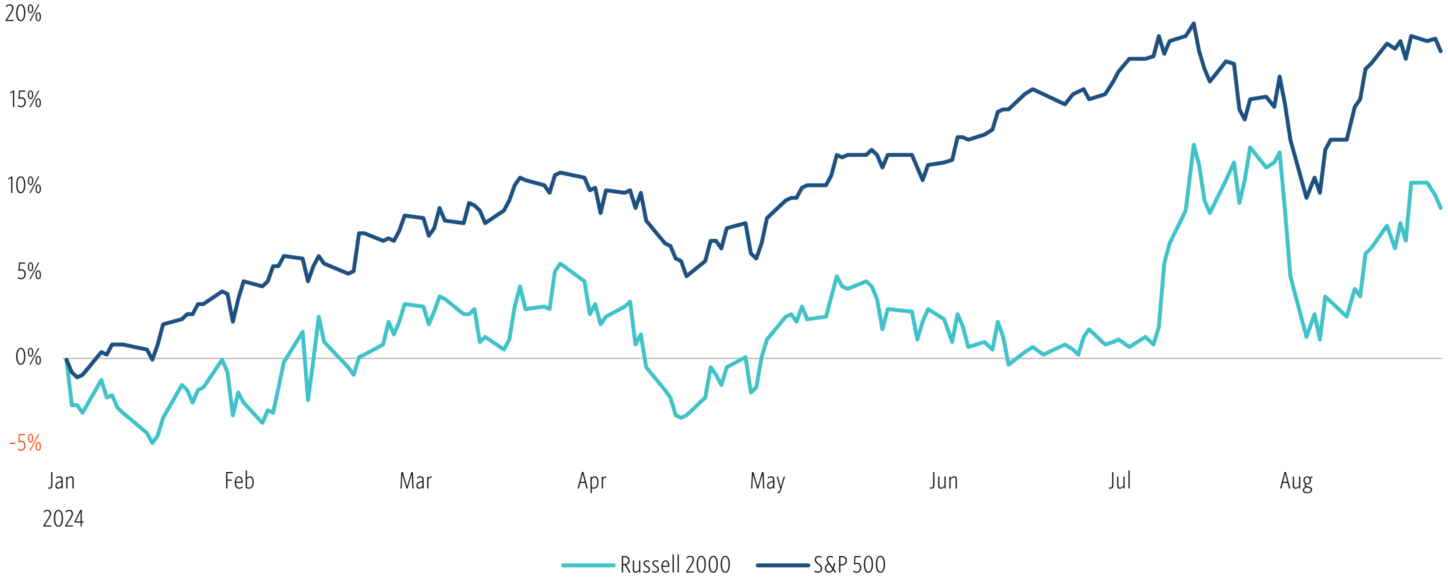
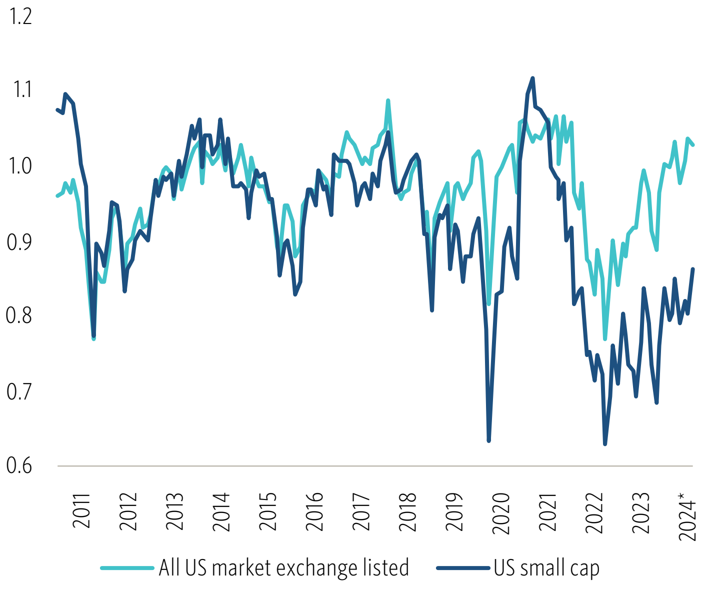
Russell 2000 price return versus S&P 500 (YTD)



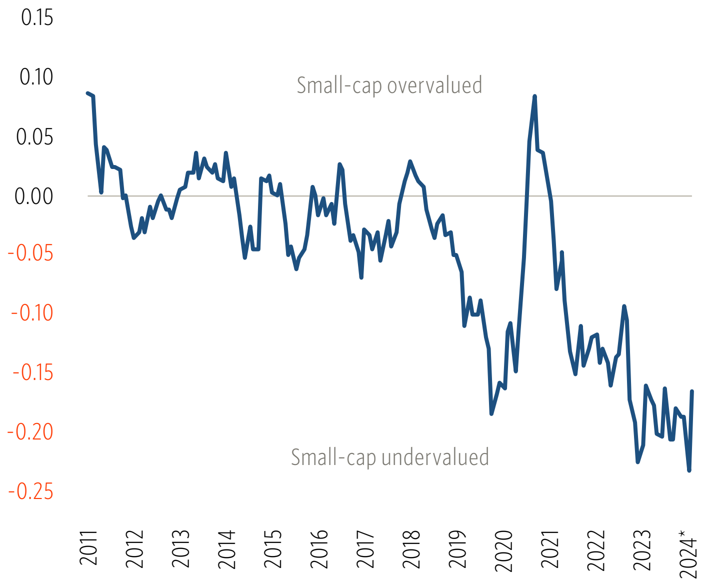
Source: PitchBook • Geography: US • *As of August 28, 2024

Price-to-fair value by capitalization



Source: Morningstar • Geography: US • *As of June 30, 2024

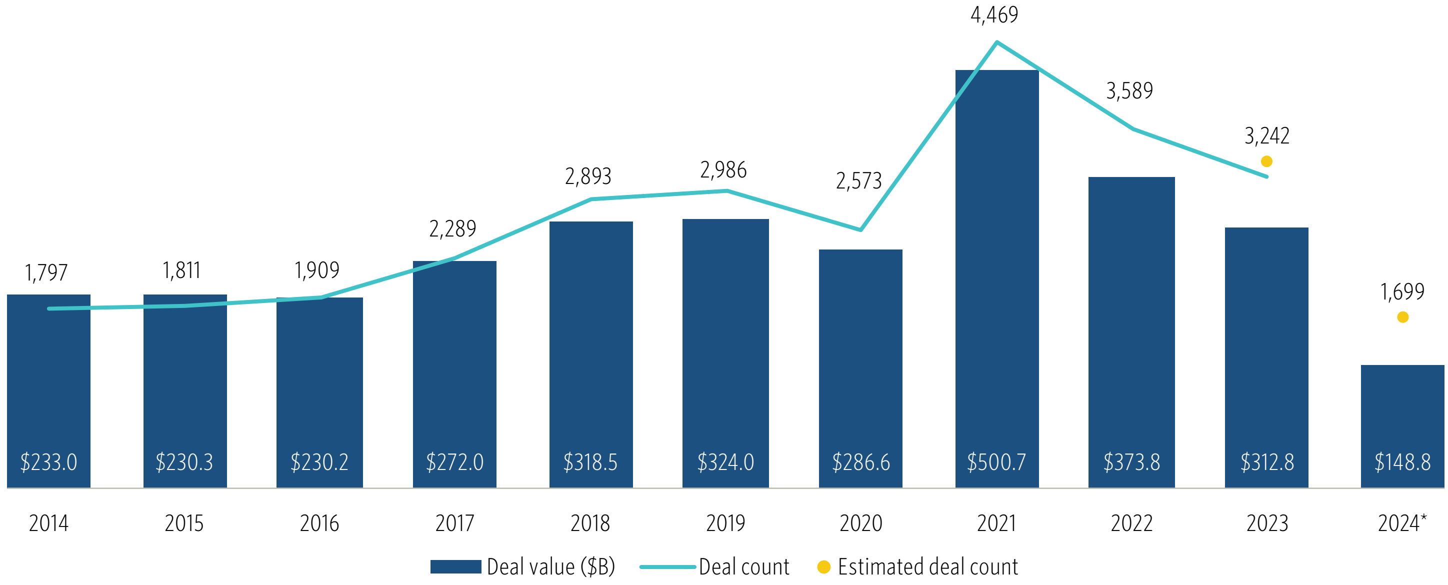
Small cap premium (discount) to market price-to-fair value



Source: Morningstar • Geography: US • *As of June 30, 2024

Deals

PE middle-market deal activity



Source: PitchBook • Geography: US • *As of June 30, 2024

Overview

US PE middle-market dealmaking started the year on a stable note, and that trend extended into Q2 2024. With the first half of the year now complete, buyouts are tracking at $345.0 billion and the deal count is pacing at 3,400 for the full year. While nowhere near the record of $500.7 billion set in 2021, it would still be the third-highest dealmaking year on record in US PE middle markets. As a reminder, our middle-market deal data only includes buyouts and excludes growth-equity deals and growth-equity platform add-ons since those would artificially skew the mix in favor of the middle market. We use deal size as a proxy for what is in the middle market and what is not, and we use enterprise values of between $25 million and $1 billion as our range.

In H1 2024, middle-market buyout value and count increased by approximately 12.0% versus the same period in 2023. This compares favorably to the overall trend in PE buyout value and count, which rose by a more modest 5.0% and 9.0%, respectively. We attribute that improved strength in part to the better financing terms being offered to middle-market deals. Banks have resumed lending to PE borrowers and are competing head-to-head with private credit lenders in the refinancing market, causing spreads to contract by a full 125 to 150 basis points in the last year for many B-rated and non-rated

PE middle-market deal activity by quarter

Source: PitchBook • Geography: US • *As of June 30, 2024

borrowers, which describes most middle-market companies. Moreover, collateralized loan obligations (CLOs) saw record issuance in H1 2024 at $101.3 billion in total value, up 81.1% YoY, with middle-market CLOs accounting for 19.6% of the total, more than double from its share just two years ago. The strong growth of CLOs as buyers of middle-market loans translates to a more liquid market and improved access for middle-market borrowers.

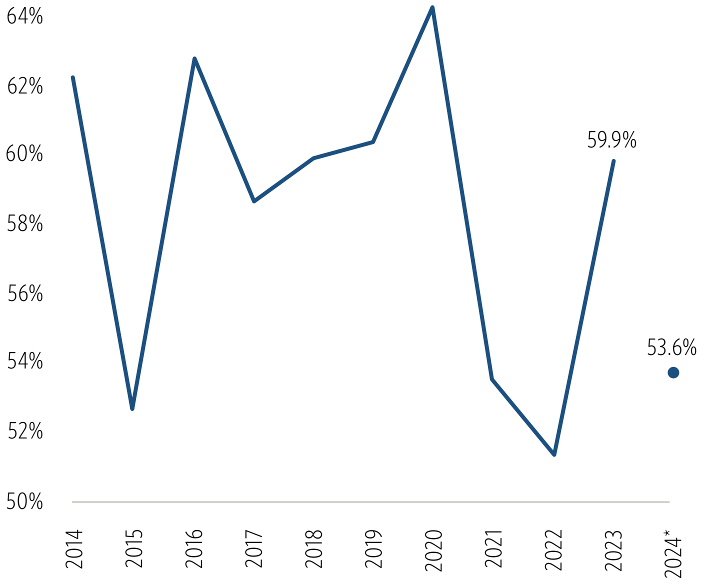
We believe that tighter spreads and the reduction in base rates that still lie ahead bode well for a continued strengthening in the middle-market buyout market. For one, it will make large-platform acquisitions easier. More platform companies translate to more add-on acquisitions. Lastly, lower borrowing costs will free up capital for legacy platforms to pursue more add-ons, a vast majority of which are in the middle-market space. Add-on acquisitions account for three out of every four buyouts in the US PE deal market today, and they drive 54.7% of all deal value in the middle market.

Valuations

PE middle-market valuations reached their apex in 2021 and slumped by 25.0% to 40.6% in the two years that followed, depending on the yardstick used (EV/EBITDA or EV/revenue). In contrast to the broader M&A market, which saw multiples reset sharply in 2022 and begin to bounce in 2023, PE middle-market deal multiples have struggled to find a bottom until recently. After shedding nearly four full turns in EV/EBITDA multiples, from 14.6x in 2021 to 11.0x in 2023, deal multiples are on the move in 2024, rising to 12.9x on a TTM basis and recouping more than half of their peak-to-trough losses. The same can be seen looking at EV/revenue multiples, although the reversal is much more gradual at 2.2x for the TTM period versus a trough of 2.0x in 2023 and a peak nowhere in sight at 3.3x in 2021. Still, the evidence is clear. Valuations are slowly on the mend, which stands to reason given the full recovery in public equity, more recently including the small-cap sector.

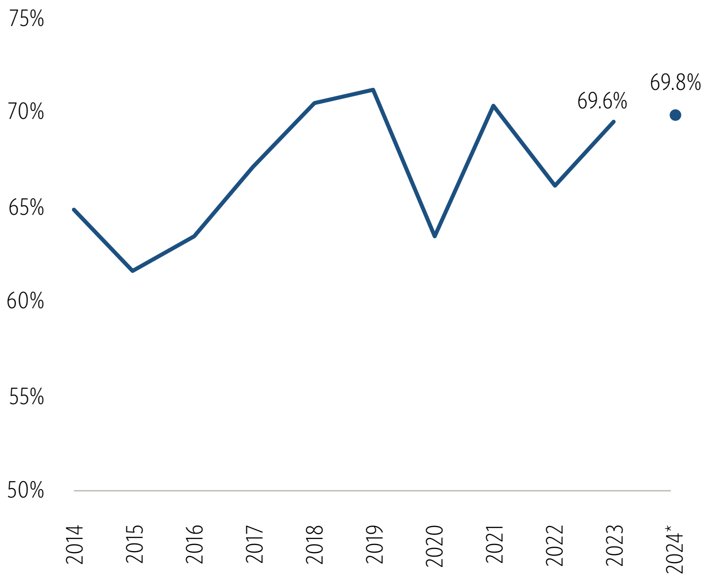
While we do not believe the much-feared valuation reset is in the cards, we do believe the uptrend in EBITDA multiples will be disrupted as deal volumes expand, especially among PE owners selling to other PEs. While middle-market exit volumes have stopped going down, they are still 30% below the “old normal” levels that preceded the global pandemic from 2017 to 2019. Meanwhile, there are around 4,500 PE-backed middle-market companies awaiting sale, 36.2% of which have been held for five years or more. We believe that as deal activity broadens, it will inevitably include lesser-quality companies. Our sense is that revenue multiples are still low, and EBITDA multiples are rising due to sellers bringing more attractive assets to the market. They may have lower margins but faster EBITDA growth rates. As higher-margin companies are brought to the market with slower EBITDA growth rates, we believe multiples will be held in check.

PE middle-market buyout value as a share of all PE buyout value



Source: PitchBook • Geography: US • *As of June 30, 2024

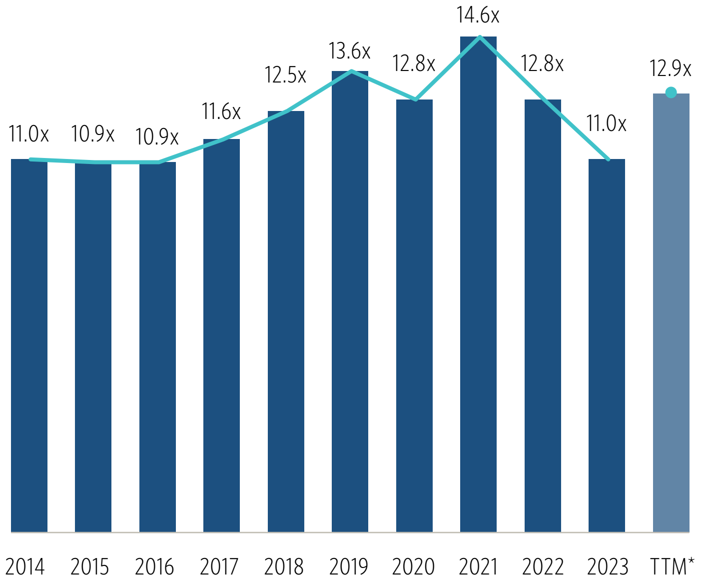
PE middle-market buyout count as a share of all PE buyouts



Source: PitchBook • Geography: US • *As of June 30, 2024

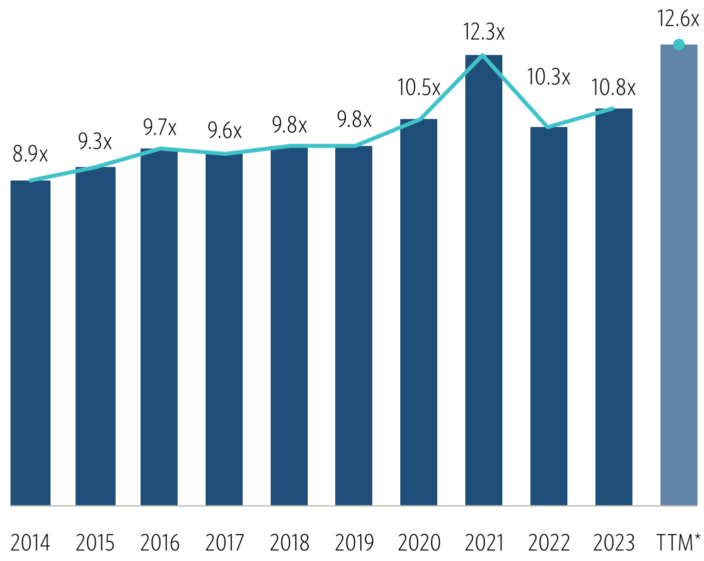
Deal valuation metrics

Global PE middle-market EV/EBITDA multiples



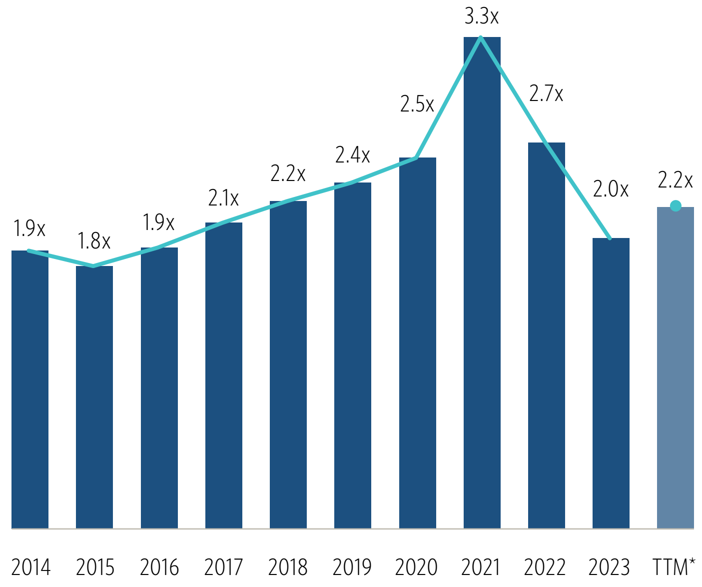
Source: PitchBook • Geography: North America and Europe • *As of June 30, 2024

US PE middle-market EV/EBITDA multiples



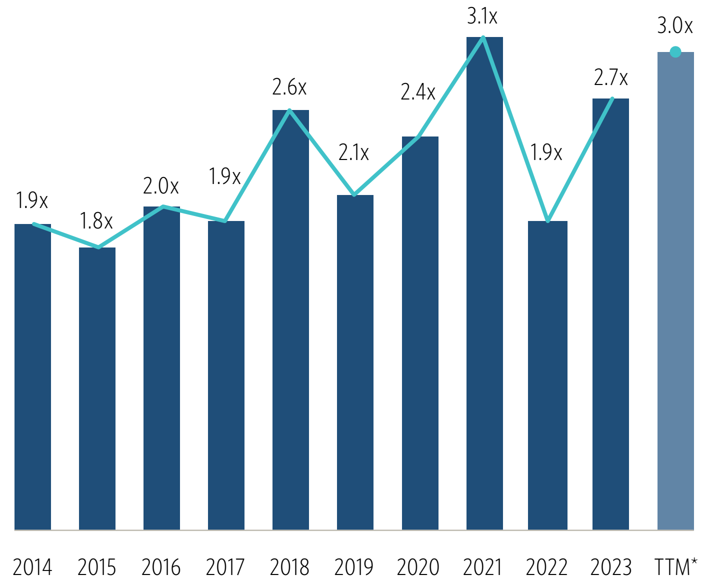
Source: DealEdge • Geography: US • *Interim estimate only: as of August 30, 2024
Note: Usage of DealEdge data outside this context, especially further publication or reprint, requires the permission of Bain & Company.

Global PE middle-market EV/revenue multiples



Source: PitchBook • Geography: North America and Europe • *As of June 30, 2024

US PE middle-market EV/revenue multiples



Source: DealEdge • Geography: US • *Interim estimate only: as of August 30, 2024
Note: Usage of DealEdge data outside this context, especially further publication or reprint, requires the permission of Bain & Company

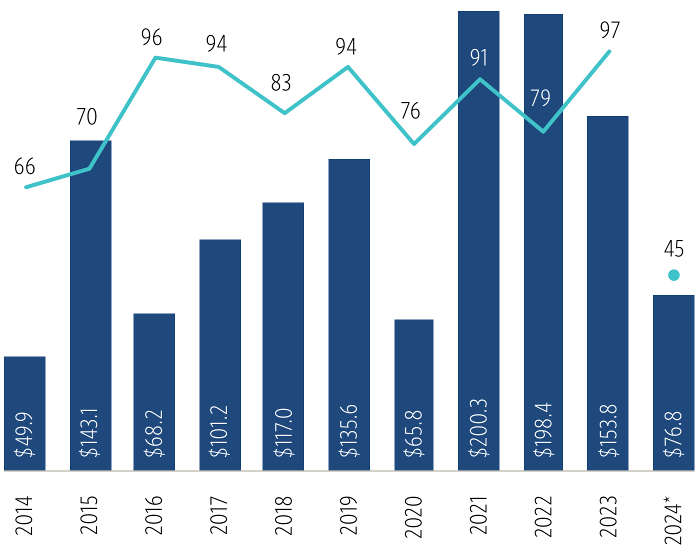
Take-privates

In Q2, the number of middle-market take-private transactions decreased. PE buyers announced or completed 12 take-private deals under $1 billion in North America and Europe during the quarter. This marks a modest decrease from the 15 transactions in the previous quarter and the 14 in Q1 2023. Transactions can be lumpy, and with the shifting expectations around interest rates during the quarter, some buyers may have preferred to wait for a clear signal on inflation and rates going forward.

Of these Q2 transactions, five involved "boomerang" stocks, which are companies that revert to private ownership shortly after going public. This trend has resurfaced after a lull in Q4 2023, which saw no such deals. Recall that more than 1,000 unicorns went public during the 2020-2021 surge. Many of these companies have since seen their valuations drop below the $1 billion threshold as share prices adjusted to the current higher-interest-rate environment. It is promising to observe PE firms identifying turnaround opportunities in this space. Typically, companies in this size range are more suited for private markets, with the median deal size in Q2 being $235.4 million, up 56.9% QoQ.

Looking at the broader public stock universe, the investment climate appears favorable for take-private deals in the segment below $1 billion. This is underscored by the Russell 2000 Index's underperformance on a TTM basis relative to the S&P 500 by 1,554 basis points, with returns of 7.5% and 23.0%, respectively, as of the close of Q2. With inflation now tracking at acceptable levels and a rate cut expected in September 2024, the prospects for PE firms targeting companies in this valuation range are further enhanced. PE buyers are well-positioned to revitalize middle-market companies that are too small for public markets and burdened by the high costs of maintaining public status. GPs can effectively implement transformative improvements without the constraints of public market scrutiny. Companies with market caps below $1 billion are particularly attractive targets for take-private transactions, as their limited trading volume and analyst coverage often negate the benefits of being publicly listed.

PE take-private deal activity



Source: PitchBook • Geography: Global • *As of June 30, 2024

PE take-private deals under $1 billion in Q2 2024*

Company	Announced date (2024)	Acquirer(s)	Deal value ($M)	Country
Karnov Group	May 8	Greenoaks Capital Partners, Long Path Partners	$828.8	Sweden
Copperleaf	June 11	EQT, TA Associates Management	$731.4	Canada
Surmodics	May 29	GTCR	$627.0	US
Sharecare	June 21	Altaris	$518.2	US
Purmo Group	April 26	Apollo Global Management	$423.9	Finland
AdTheorent Holding Company	April 1	Cadent, Novacap	$324.0	US
Gresham Technologies	April 9	STG Partners	$146.7	UK
Micropole	May 29	TowerBrook Capital Partners	$126.9	France
Keypath Education	May 23	Sterling Partners	$123.3	US
Netex	May 24	bd-capital	$78.2	Spain

Source: PitchBook • Geography: Global • *As of June 30, 2024

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Founder-owned businesses

In Q2 2024, founder-owned businesses saw a notable increase in their representation within the overall deal mix, reaching 54.2% of transactions. This marks a significant rise from the previous quarter at 49.4% and surpasses the five-year average of 53.5%. The increase was accompanied by a decline in the proportion of PE-backed deals and to a lesser extent, fewer public transactions, while VC-backed deals remained steady as a portion of the overall mix. With a rate cut anticipated, conditions appear favorable for growth in overall deal activity. However, it is too early to determine if founder-backed deals will face increased competition. Given their recent strong positioning, we expect founder-backed deals to trend closer to their five-year average, suggesting a potential decline in their overall mix as the base case.

After several years of heightened macroeconomic (macro) volatility and increased financing costs, which constrained deal leverage and valuations, we anticipate more founders entering the market in the coming quarters that will be eager to capitalize on favorable conditions. We also expect more suitors, driven by tighter credit spreads and the prospect of lower base-interest rates.

Non-backed companies, often founder-owned, typically operate in the lower end of the market, presenting more attractive purchase-price multiples. Most deals in this segment are valued between $25 million and $100 million, with some falling below $25 million. Transactions in this segment generally occur at a discount compared to larger, sponsor-backed deals. In the middle market, the median EV/revenue multiple stands at 1.7x, but for deals below $25 million, this multiple declines to 1.0x. These valuation metrics highlight the financial dynamics that make non-backed businesses particularly appealing to PE investors.

While founder-owned businesses have increased their share in the overall mix, and the current environment appears conducive for such transactions, we foresee a broad-based recovery in dealmaking. Consequently, we do not expect the mix to remain at current levels but likely to moderate as deals involving other backing types, including VC and PE, also grow.

Carveouts

The share of carveouts in the deal landscape moderated in Q2, with carveouts representing 9.5% of overall deal volume, down from 11.7% in the previous quarter and below the historical average of 12.1% from 2010 to 2020. In terms of deal value, the share was 12.2%, a decline from 13.7% in the prior quarter and below the historical average of 13.2% over the same period. While carveouts have increased their share of overall deal activity amid the wide bid-ask spread in private markets over the past year, they are now being crowded out as a broader range of transactions experiences heightened activity levels.

Carveouts offer sellers a strategic avenue to generate liquidity and enhance operational flexibility, particularly when it comes to managing maturing debt or reallocating resources to more promising ventures. These assets are usually well-established and supported by comprehensive historical financial data, which allows for thorough due diligence by potential buyers and lenders. This level of transparency tends to attract a wider range of bidders. From the seller's perspective, although companies were hesitant to divest noncore assets during the volatile markets of 2023, the outlook for 2024 appears more conducive to such transactions.

During Q2, two significant middle-market carveout transactions were announced in the energy and B2B sectors. In May, American Electric Power (AEP) agreed to sell its AEP OnSite Partners unit—which offers energy services intended to help organizations reduce their energy spending and footprint—to Basalt Infrastructure Partners in a $315.0 million LBO.[1] Assets include more than 300 megawatts of projects spanning 100 sites across the US. AEP will use the proceeds to strengthen its balance sheet and invest in its regulated energy generation and transmission operations. L3Harris Technologies agreed to sell its ATI, Datron, and Randtron units—consisting of certain antenna and test equipment businesses—to Kanders & Company for $200.0 million in April.[2] The assets will form a new platform company, Fisica, focused on the defense industry.[3] The agreement aligns with L3Harris' strategy to divest noncore assets, and the proceeds will support its ongoing capital allocation plans.

1: "AEP Signs Agreement to Sell Distributed Resources Business to Basalt," American Electric Power, May 13, 2024.
2: "L3Harris Announces Definitive Agreement to Sell Non-Core Assets to an Affiliate of Kanders & Company, Inc. for $200 Million," L3Harris, April 5, 2024.
3: "Kanders & Company Completes Acquisition of Antenna and Test Equipment Businesses from L3Harris," PR Newswire, June 3, 2024.

Carveouts/divestitures as a share of all PE middle-market buyouts by quarter

Source: PitchBook • Geography: US • *As of June 30, 2024

Technology

Middle-market deal activity in the technology sector was robust in Q2, with an increase in deal value. The quarter saw a total of 96 transactions, down 6.8% sequentially yet up slightly at 1.1% YoY. Deal value for the quarter reached $12.0 billion, up 7.8% sequentially and 7.7% YoY. Additionally, the technology sector's share of the middle-market deal mix is tracking at 13.8%, up 60 basis points YoY, although this was 230 basis points below the five-year average of 16.1%.

Key transactions included an IT services firm majority investment and a digital media take-private. Altimetrik—a provider of business transformation and technology consulting services—agreed to a majority investment by TPG estimated at $900 million.[4] This will fall into TPG's Asia PE platform and aligns with its thematic focus on digital services. The new partnership will enable Altimetrik to expand its customer base into new verticals and into TPG's portfolio of companies, supporting its goal of reaching $1 billion in annual revenues over the next three years. AdTheorent—a digital media platform enabling programmatic execution of digital advertising campaigns—agreed to an acquisition by Cadent via its financial sponsor, Novacap, for $324.0 million. In this take-private transaction, AdTheorent holders will receive a cash consideration of $3.21 per share, representing a 27% premium to the 90-day volume-weighted average stock price as of March 28, 2024, prior to the deal's announcement.[5] Royal Bank of Canada committed to finance the transaction.

Healthcare

Middle-market deal activity in the healthcare sector presented a mixed picture in Q2, characterized by a shift upmarket with an increase in deal value but a decline in the number of transactions. The quarter recorded 85 transactions, representing an 8.6% sequential decline and a 10.5% YoY drop. However, deal value increased to $10.9 billion, marking an impressive 30.0% increase sequentially and an 18.6% rise YoY. Despite this uptick in deal value, the healthcare sector's share of the middle-market deal mix remained subdued at 12.2%, down 120 basis points YoY and 275 basis points below the five-year average of 14.9%.

In addition to macro headwinds faced by other sectors of late, healthcare faced sector-specific regulatory uncertainty, including limits on market concentration. Recent Department of Justice guidelines for market concentration analysis suggest increased scrutiny of deals that result in a Herfindahl-Hirschman Index (HHI) value greater than 1,800 and an increase of 100 points or if a merged firm's market

4: "TPG Makes Significant Strategic Investment in Altimetrik to Accelerate Growth and Innovation," TPG, June 27, 2024.
5: "AdTheorent Holding Company, Inc. Enters into Agreement to be Acquired by Cadent, LLC for Approximately $324 Million Representing $3.21 Per Share," Adtheorent, April 1, 2024.

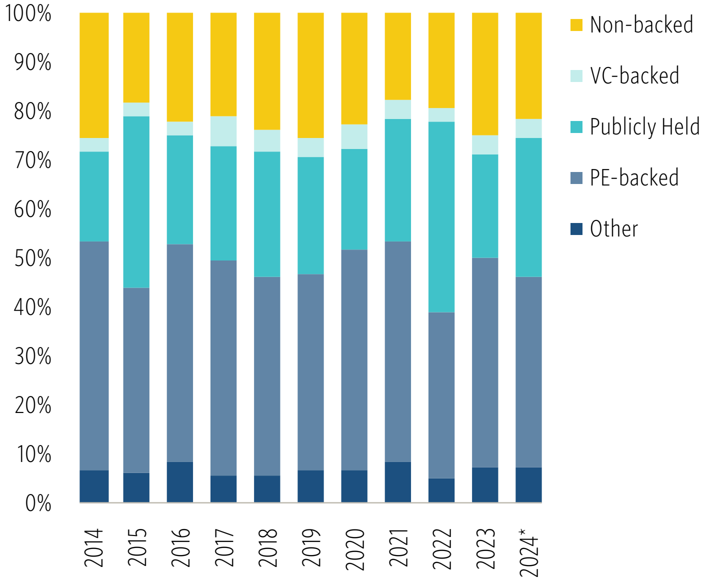
share would exceed 30% and increase HHI by more than 100 points. Such transactions will face a high bar to prove they would not hinder competition. This acutely impacts the healthcare sector, where roll-ups of facilities in a given geography are a popular strategy. The middle market is often where healthcare PE buyers shop for add-on deals, so we expect this to remain an overhang issue.

Notable healthcare transactions in the quarter included two carveouts in the surgical supply and dental categories. Medline Industries, via its financial sponsors, agreed to acquire the Global Surgical Solutions unit of Ecolab in a $950.0 million add-on transaction in April.[6, 7] The company provides equipment for surgeons and patients to ensure a sterile surgical environment. The deal will bolster Medline's design and development capabilities to support original equipment manufacturers' customers. Hu-Friedy Group—a manufacturer and distributor of dental instruments and related services—agreed to be acquired by Peak Rock Capital for $787.5 million. This was a carveout transaction encompassing the dental segment of STERIS, and additional earn-out payments of $12.5 million are available if certain targets are achieved. Including potential earn-out, this equates to an EV/sales (TTM) multiple of approximately 2.0x.[8]

6: "Medline to Acquire Surgical Solutions Business from Ecolab, Inc., Medline, April 30, 2024.
7: "Ecolab Delivers Very Strong First Quarter Performance; Reported Diluted EPS $1.43; Adjusted Diluted Eps $1.34, +52%; Increased 2024 Adjusted Diluted EPS Outlook: $6.40 - $6.70, +23% - 29%," Ecolab, April 30, 2024.
8: "STERIS to Sell Dental Segment to an affiliate of Peak Rock Capital," Steris, April 11, 2024.

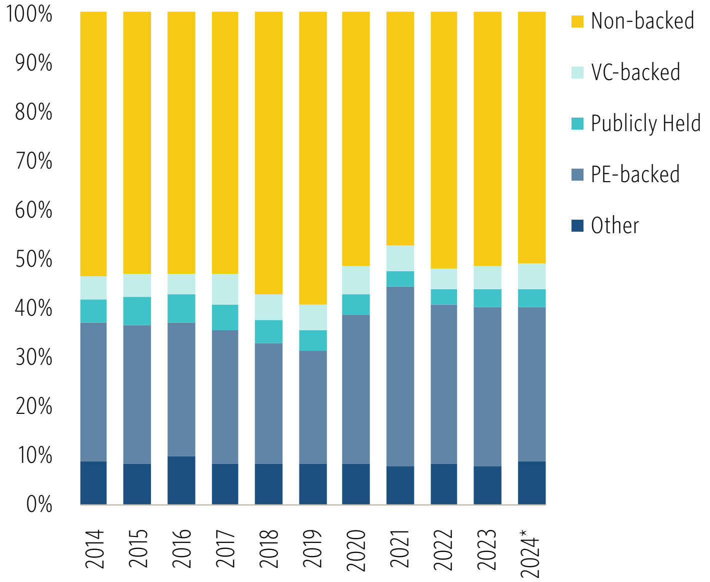
Deals by backing and sector

Share of PE middle-market deal value by backing type



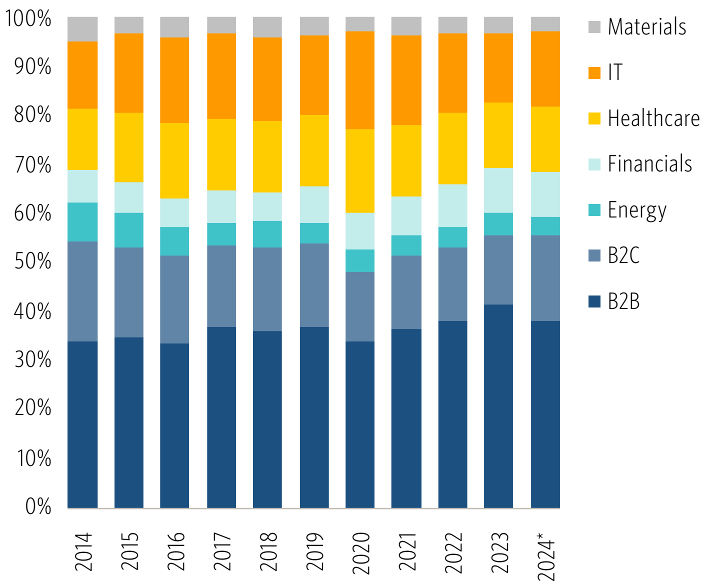
Source: PitchBook • Geography: US • *As of June 30, 2024

Share of PE middle-market deal count by backing type



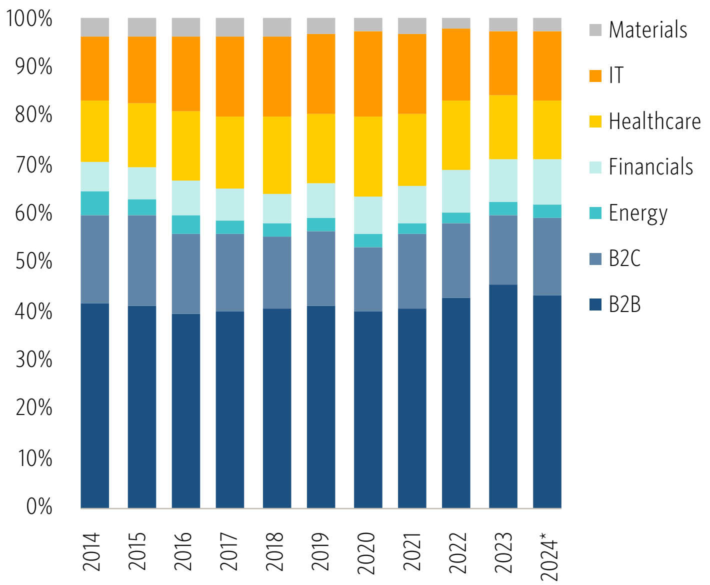
Source: PitchBook • Geography: US • *As of June 30, 2024

Share of PE middle-market deal value by sector



Source: PitchBook • Geography: US • *As of June 30, 2024

Share of PE middle-market deal count by sector



Source: PitchBook • Geography: US • *As of June 30, 2024

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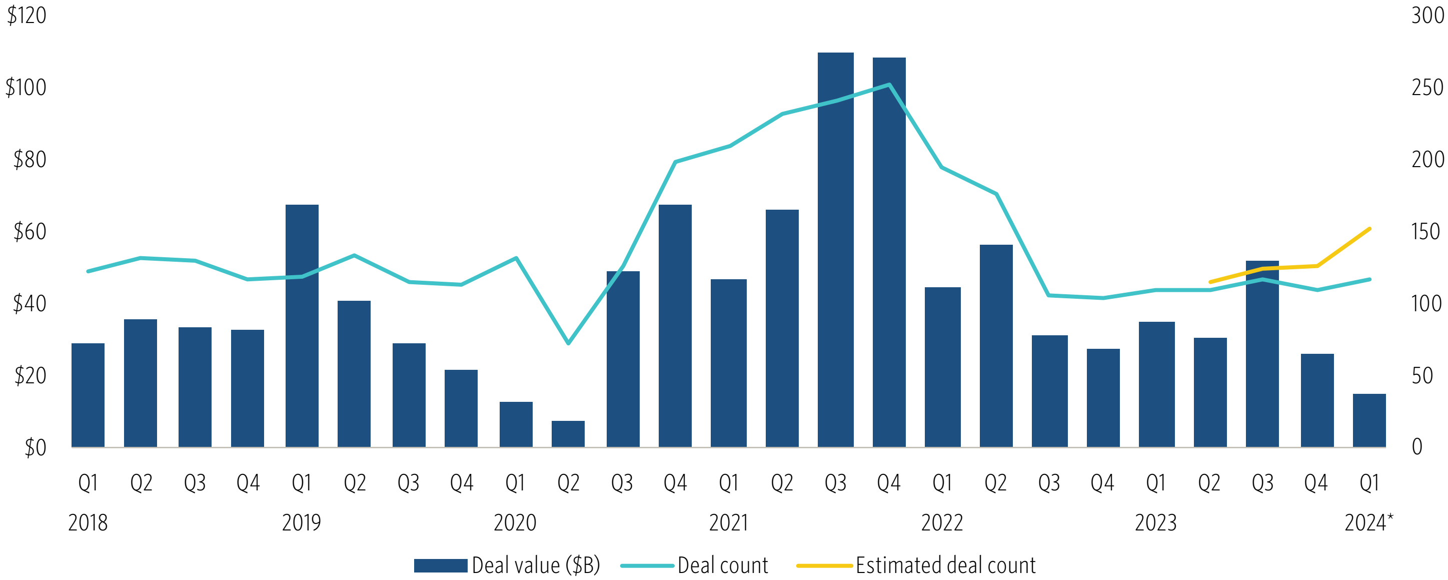
SPOTLIGHT

The State of Enterprise SaaS M&A

Enterprise SaaS M&A activity by quarter



Source: PitchBook • Geography: Global • *As of March 31, 2024

Note: This spotlight is abridged from our analyst note The State of Enterprise SaaS M&A. Please see the full report for additional analysis on enterprise SaaS M&A activity.

Enterprise SaaS encompasses a massive space for M&A by both PE and corporate acquirers. We have classified more than 12,000 SaaS companies over the past five years and created a taxonomy consisting of six segments: analytic platforms, customer relationship management, enterprise resource planning, supply chain management, knowledge management systems, and other application software.

Overall, we have seen total quarterly deal values stabilize over the past several quarters and early signs of an upward inflection—there has been a steady increase in quarterly deal counts, particularly for our estimated deal count, which presumes additional deal details will be revealed in time.

This recovery has been largely driven by PE buyouts and leveraged buyouts (LBOs), especially since the recent rate increases by the Federal Reserve (the Fed) stabilized at 5.25% to 5.50% in July 2023. In fact, our estimated deal count for Q1 2024 (59 deals) is slightly above the deal counts achieved in the prior peaks of Q4 2020 and Q1 2021, which came in at 56 and 53 deals, respectively.

While enterprise SaaS M&A has indeed declined to match levels from about five years ago, we nonetheless find these results to be extraordinary, as interest rates have stabilized at more than double what they were pre-pandemic. In addition, there has been a clear upward trend in the actual and estimated deal count. This is especially true in our estimated deal count, which includes currently unreleased details.

In Q1 2024 we estimate 153 deals were completed, which would be a significant high-water mark outside the exuberance of recent pandemic-fueled quarters. We would highlight that increase despite the fact that deal value captured within our database implies a significant step-down in value. This discrepancy is largely due to reduced disclosures, especially in recent quarters, compared with prior quarters, as additional details are gathered over time after quarter-end. Notably, only 50 out of 117 deals (42.7%) in Q1 2024 included valuation metrics, compared to 82 out of 109 deals (75.2%) in Q1 2023.

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Enterprise SaaS buyout activity by quarter

Source: PitchBook • Geography: Global • *As of March 31, 2024

PE-driven M&A in the form of buyouts and LBOs saw a sustained increase in deal value during the historically low-interest-rate period of mid-2020 to mid-2022 as would be expected. Although deal value increased significantly, deal count did not quite surmount 2x the total of prior quarters. This demonstrated that, although deal activity ticked up, the deal price of each transaction increased much more significantly. As deal counts declined in 2022 and 2023, they still remained at or above pre-pandemic levels, although at significantly lower deal values in 2023 and Q1 2024. Most recently, deal values have stabilized above pre-pandemic levels, with Q1 2023 including the buyout of Qualtrics by Silver Lake and CPP Investments for $12.5 billion.

Corporate M&A has seen less-predictable deal values over the same period. While the pandemic-fueled rise in corporate deals did occur, it was punctuated by a drop in megadeals, which had defined deal activity in H2 2020 and H2 2023. Similarly, despite these singular deals, the post-pandemic period has been historically weak outside of Q3 2023, which included the $28.0 billion acquisition of Splunk by Cisco.

Meanwhile, deal count similarly dipped dramatically in Q2 2020 (down to 49) and rose through the end of 2021 on a lower cost of capital and much enthusiasm for enterprise SaaS acquisitions. Now, the post-pandemic run rate remains below the pre-pandemic average by about 20%. Thus, much of the recovery in deals has come from the PE side of enterprise SaaS M&A.

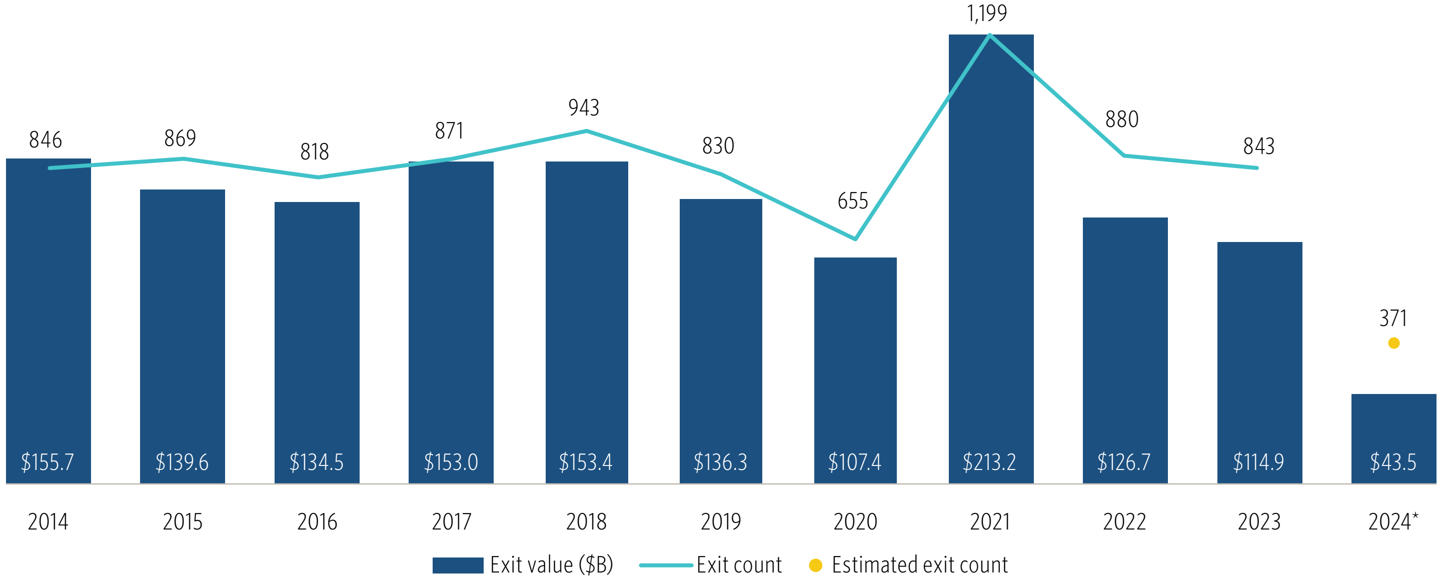
Top PE investors in enterprise SaaS since 2018*

Investor name	Deal count	Primary investor type
TA Associates Management	39	PE/buyout
Thoma Bravo	38	PE/buyout
Hg	35	PE/buyout
Vista Equity Partners	35	PE/buyout
Accel-KKR	33	PE/buyout
Insight Partners	30	Growth/expansion
Aquiline Capital Partners	29	PE/buyout
PSG	29	Growth/expansion
Sixth Street Partners	27	Growth/expansion
TPG	23	PE/buyout

Source: PitchBook • Geography: Global • *As of March 31, 2024

Exits

PE middle-market exit activity



Source: PitchBook • Geography: US • *As of June 30, 2024

Overview

Exit activity in the US PE middle market continued to struggle along in H1 2024, but showed some encouraging signs of stabilization. With an estimated 371 exits for an aggregate of $43.5 billion through H1, activity was slightly down to flat on a YoY basis. The outlook for a stabilizing exit market improves slightly when considering our estimate of late reporting deals. Including estimated exit value, H1 2024 US PE middle-market value was flat versus H1 2023.

Middle-market exits trends lag the broader PE market, which saw exit value rise by an estimated 15% YoY in H1 2024, inclusive of all exit types. Although it is too early to perceive the dispersion as a durable trend, the broader US PE market could be getting a boost in exit value as exit pipelines improve on the larger end of the spectrum with the reopening of the leveraged finance market and a cautious restarting of the IPO market. Although the smaller size of a typical middle-market portfolio company limits public listings from being a meaningful exit option, it opens multiple other paths to exit that can be advantageous for the middle market, such as growing to be a platform acquisition target or staying small enough to become an add-on deal. These factors, along with the lower amount of debt middle-market companies tend to

PE middle-market exit activity by quarter

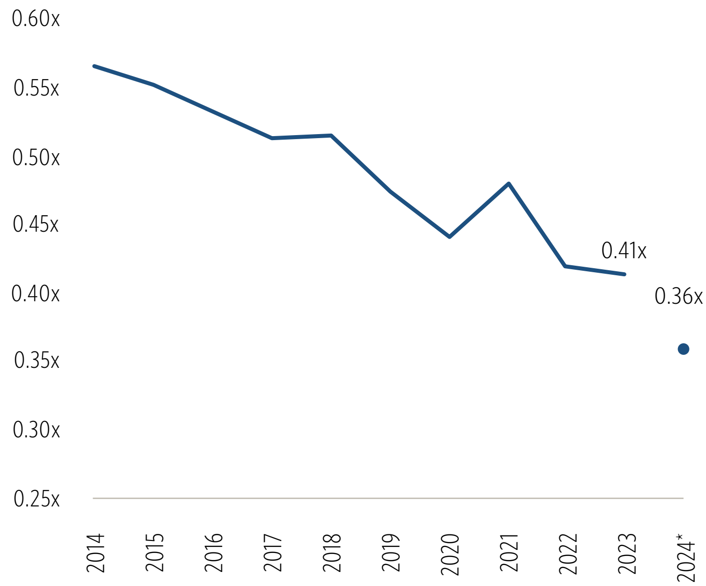
Source: PitchBook • Geography: US • *As of June 30, 2024

carry, have supported exit flow in the middle market during the current macro backdrop.

GPs that have held out for better exit conditions stretched out the median holding period of PE investments, which reached a record of 6.4 years for US PE middle-market assets in 2023. GPs have alleviated some of the pressure mounting from a backlog of exits, rolling back the median holding period to 5.4 years for assets that have exited this year so far. The same trend can be seen in the broader PE market as well.[9] Still, the exit/investment ratio fell to 0.36x in Q2, a new low that reflects the beleaguered state of exits. Thus, we can assume that GPs are bringing their highest-quality assets to market to secure favorable exits while holding off on the rest of their portfolios. We expect holding periods of PE-backed exits to remain drawn out until the exit environment improves meaningfully.

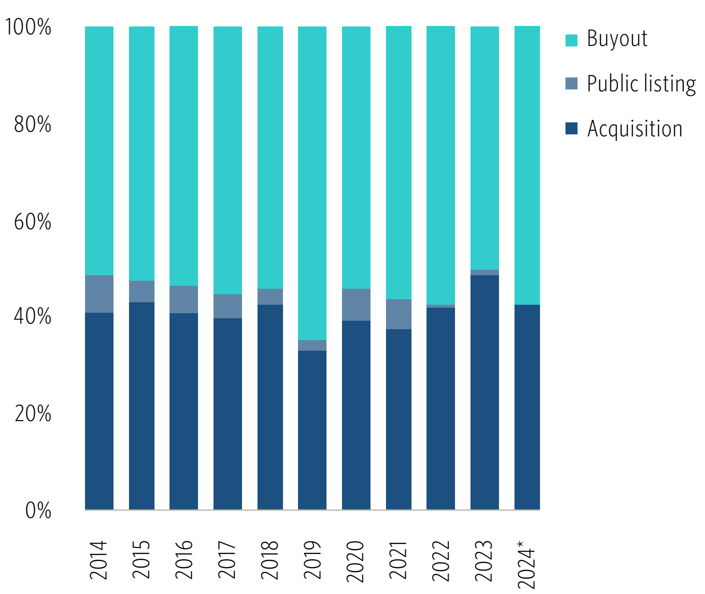
Many GPs are turning to continuation funds to extend their assets' exit timelines or secure liquidity without forced selling. Continuation funds have been prevalent in the middle market, as secondary funds are willing to wager that smaller companies stand a better chance of exiting in a traditional M&A process within the two-to-three-year time frame continuation funds typically require to exit. For example, in

PE exit/investment ratio



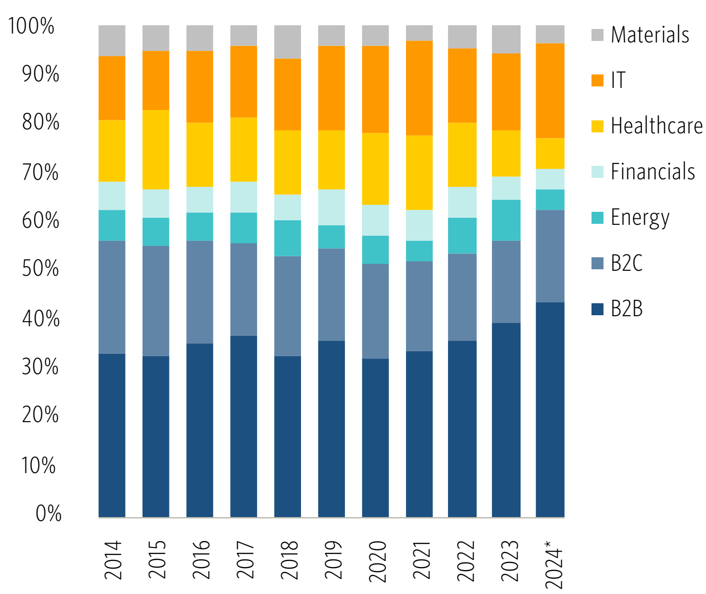
Source: PitchBook • Geography: US • *As of June 30, 2024

Share of PE middle-market exit value by type



Source: PitchBook • Geography: US • *As of June 30, 2024

Share of PE middle-market exit value by sector



Source: PitchBook • Geography: US • *As of June 30, 2024

9: For more analysis, please refer to our 2024 US Private Equity Outlook: Midyear Update.

Q2, TJC (formerly known as the Jordan Company) started a process to raise a multi-asset continuation fund involving five of its portfolio companies for an estimated $1 billion to $2 billion fund.

Exits to sponsors

Sponsor-to-sponsor exits took the lead in both exit count and value for the second consecutive quarter, with 73 exits for an aggregate value of $10.5 billion in Q2. Middle-market exits have been split between sponsor-to-sponsor exits and exits to corporate strategics since the end of 2021, when public listings fell off as a viable exit option. The balance between the two exit types had been fairly even throughout 2022 until, starting in Q1 2023, exits to corporate strategics shot up in comparison to sponsor-to-sponsor exits. Excluding public listings, sponsor-to-sponsor exits decreased as a share of PE exit count and hit a low of 38.7% in 2023. In the past two quarters, sponsor-to-sponsor exits have regained a majority share, although absolute activity remains roughly one-third below pre-pandemic levels. Sponsor-to-sponsor exits account for more than 55% YTD exit activity when excluding public listings, demonstrating the increase in GPs' dealmaking activity this year. Sponsors have been able to execute on deal opportunities when they arise thanks to the large amount of dry powder that has built up as deal activity came down from its peak while fundraising accomplished back-to-back near-record years. Interestingly, sponsor-to-sponsor exits have continued to take up a smaller share of overall US PE exit activity, accounting for 28.7% of nonpublic-listing exit value and 48.3% of exit count in Q2. This indicates that the smaller size of middle-market PE-assets makes them more attractive for other GPs to acquire than larger platform companies. As seen in 2023, sponsors continue to turn to the middle market for acquisition targets during a high-interest rate environment for easier financing and to enhance the market position of existing portfolio companies through add-on deals.

There were several sponsor-to-sponsor exits in the consumer product and services sector in Q2. For example, middle-market-focused PE firm Kingswood Capital Management sold The Save Mart Companies to the Jim Pattison Group in June for an undisclosed amount after owning the supermarket operator for two years. The Jim Pattison Group's food group division is one of the largest grocery wholesalers in Canada. It expanded into the US in 2021 with the acquisition of Oregon-based retailer Roth's Fresh Markets.[10] In a similar example, a group of PE firms exited their investment in Orangetheory Fitness to Roark Capital-backed Self Esteem Brands in April in a merger that will create one of the largest fitness and wellness franchise operators in the world. The new company, which houses four other portfolio brands, holds approximately 7,000 franchise locations and represents $3.5 billion in systemwide sales.[11]

Exit to corporates

Exits to corporates remained low for another quarter, as the M&A environment proved to be slower to recover in the middle market. There were 57 exits for an aggregate of $9.1 billion in Q2, which is roughly half the quarterly exit count seen over the past two years. In H1, exits to corporates accounted for 45.0% of the nonpublic-listing exit count and 42.4% of exit value. Although exits to corporates' lead over sponsor-to-sponsor exits seems to have reversed, we believe strategics will continue to absorb PE-backed assets as the M&A recovery broadens. M&A remains an important strategy for growth in the middle market, and EY's Q2 CEO Survey shows increased appetite for deals in 2024, which is likely to translate to acquisitions of PE-backed companies.[12] Corporations are also able to pursue deals during periods of high-interest rates because they are able to issue less costly bonds to fund acquisitions.

Several value-creation plays in the B2B sector resulted in sizable exits to corporates, with five of the top-10 exits to corporates in Q2 taking place in the sector. For example, L Squared Capital Partners sold Raptor Scientific to TransDigm Group for an estimated $700.0 million in July. Raptor Scientific manufactures test and measurement solutions for the aerospace and defense markets, and the acquisition is expected to be in line with aircraft component producer TransDigm Group's value generation strategy.[13] In July, Palladium sold Trachte, a manufacturer of highly engineered control building solutions, to nVent Electric for $695.0 million. The deal supports nVent Electric's position as an electrical connection and protection solutions provider and strengthens its portfolio in high-growth verticals such as data centers and renewables.[14]

10: "Jim Pattison Group Acquires Save Mart," Supermarket News, Mark Hamstra, June 27, 2024.
11: "Orangetheory Fitness and Self Esteem Brands Complete Merger, Creating the World's Largest Footprint in Fitness, Health and Wellness Services," PR Newswire, April 2, 2024.
12: "The Momentum for M&A Should Continue Through 2024," EY, Andrew Guerzoni, Nadine Mirchandani, and Barry Perkins, April 30, 2024.
13: "TransDigm Announces Acquisition of Raptor Scientific," PR Newswire, May 28, 2024.
14: "nVent to Acquire Trachte," nVent, June 6, 2024.

PitchBook

Technology

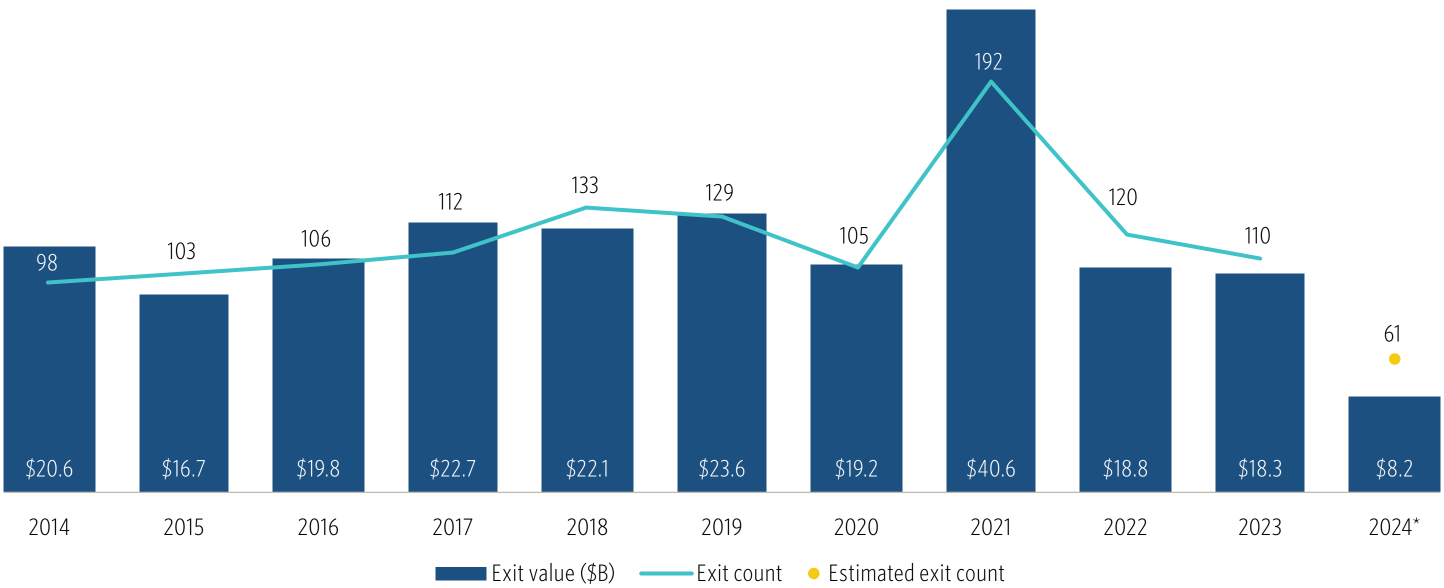
With an estimated 61 exits for an aggregate value of $8.2 billion in H1, annualized IT exit activity is on track to post levels similar to 2023. While IT exit activity has yet to recover to pre-pandemic levels on either an exit value or count basis, IT has held up when compared to the rest of the sectors. IT exits account for 17.3% of YTD middle-market exit count and 18.8% of exit value, which is above the sector's five-year averages of 15.8% and 17.1%, respectively. Long-term growth expectations in tech strategies and strong earnings growth in middle-market PE tech companies are helping produce exit flow even in a subdued market environment.[15]

The two largest IT exits in Q2 were Enlightenment Capital's sale of data analytics company Aeyon and Permira-backed Squarespace's sale of restaurant tech platform Tock for $400.0 million each. Both exits came about through a market expansion and business strategy play. CGI Group, an IT and business consulting service firm, acquired Aeyon to further expand its portfolio for US government clients and strengthen its position as an end-to-end service provider across various US government organizations.[16] Squarespace, which was taken private by Permira earlier this year in May, divested Tock to American Express as the bank continues to build out its suite of hospitality offerings for its card members. American Express already owns Tock's previous competitor, Resy, and has further cemented its position in the restaurant reservation space through its latest acquisition.

Healthcare

Healthcare exit activity continues to falter, with just 26 estimated exits in H1 for an aggregate of $2.9 billion.

Technology PE exit activity



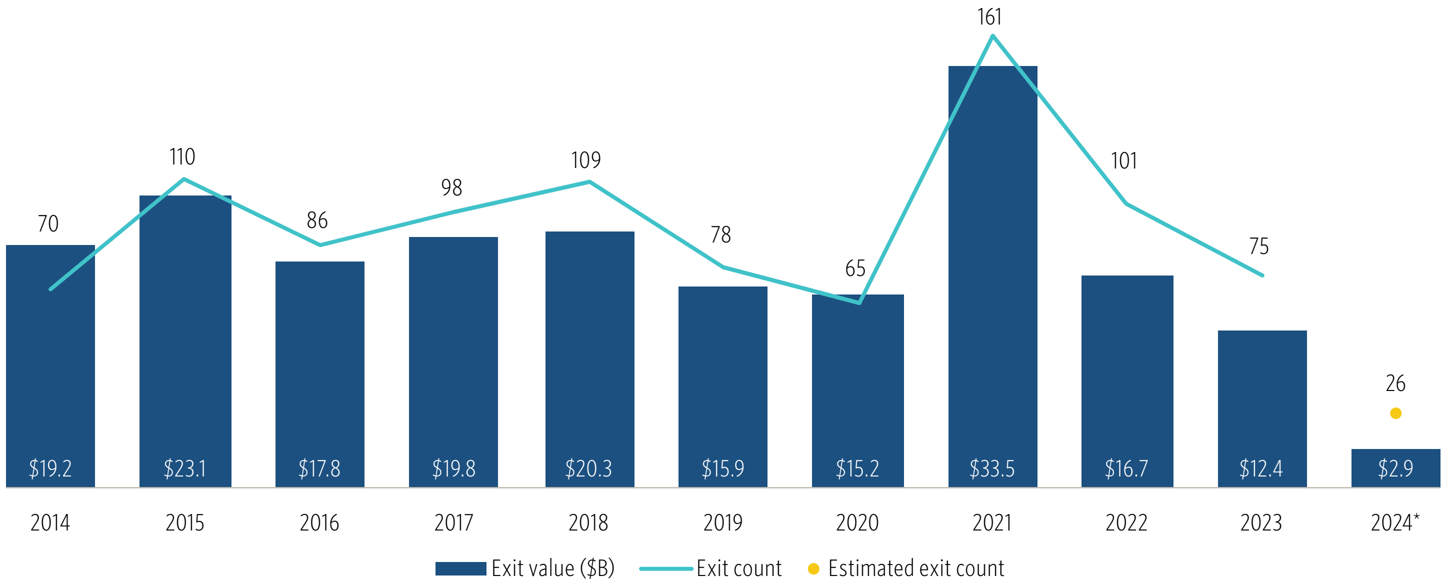
Source: PitchBook • Geography: US • *As of June 30, 2024

15: "Golub Capital Middle Market Report: US Middle Market Performance Remains Consistent," Golub Capital, July 9, 2024.
16: "CGI Announces Intent to Acquire Aeyon for Expansion of Offerings Portfolio and Presence Across U.S. Government Agency Missions," CGI, July 30, 2024.

The overall healthcare M&A landscape has been turning downward since the peak observed in 2021, and recovery appears to be far away. Although there have been a handful of significant platform trades in Q2, signaling the start of a turning point in healthcare dealmaking, improvements in exit activity are yet to be seen. Still, robust fundraising by healthcare-focused PE firms and lowering interest rates help build the foundations for a renewed dealmaking environment that would hopefully lead to renewed exit flow.

Middle-market exits in healthcare spanned various subsectors. For example, one of the exits that closed during Q2 2024 was QHP Capital's sale of health-tech company Pro-ficiency to Simulations Plus for $100.0 million. The acquisiton expands Simulations Plus's position in the pharmaceutical safety space to provide solutions across the drug development process. Another exit during the quarter was the sponsor-to-sponsor exit of ASP Global from Incline Equity Partners to Platinum Equity. ASP Global is a medical product developer and is expected to grow as healthcare providers increasingly focus on controlling their supply chains to manage costs.[17]

Healthcare PE exit activity

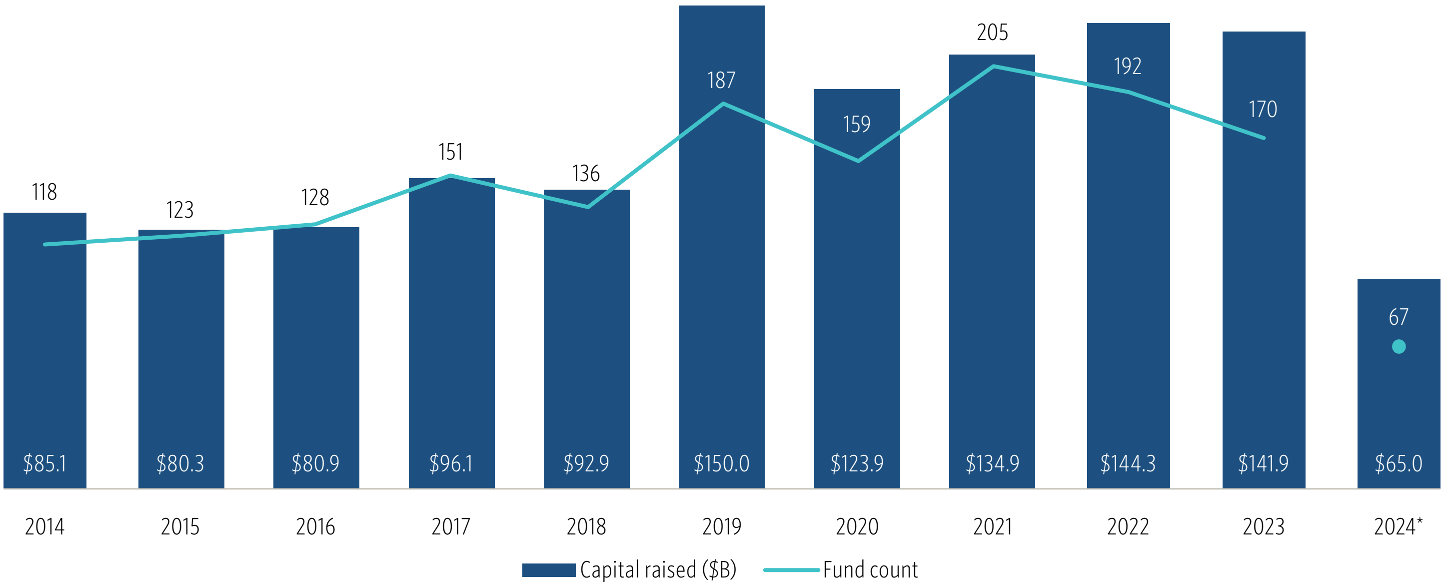


Source: PitchBook • Geography: US • *As of June 30, 2024

17: "Platinum Equity Acquires ASP Global, Platinum Equity, August 6, 2024.

Fundraising and performance

PE middle-market fundraising activity



Source: PitchBook • Geography: US • *As of June 30, 2024

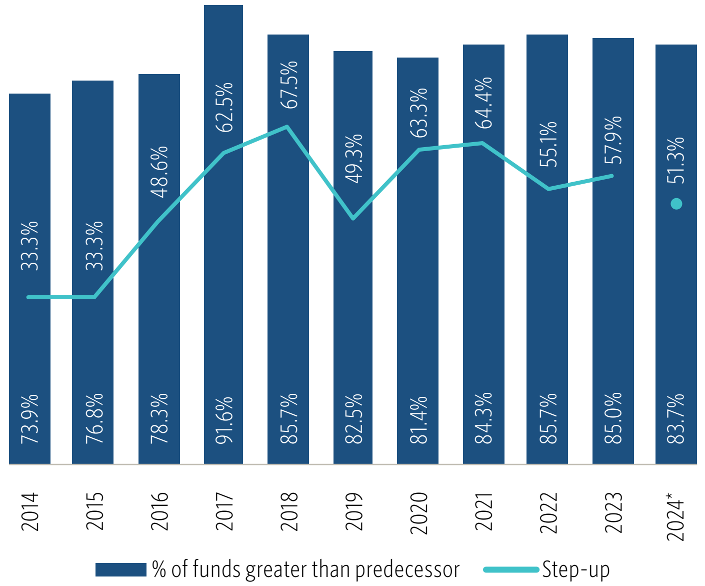
Overview

Fundraising in the US PE middle-market buyout space, which we define as funds between $100 million and $5 billion, has started to slow. Through the first half of 2024, 67 funds closed for $65.0 billion, with 35 funds worth an aggregate value of $28.6 billion closing in the second quarter. However, fundraising activity in the first half trails such activity seen in 2023. In previous quarters, the middle markets were gaining share of the overall buyout fund count in the US, and in Q2, that trend has continued. Through June, middle-market funds have accounted for more than half the total buyout fund count at 59.8%, up substantially from 26.0% and 38.5% in 2022 and 2023, respectively.

Established GPs in the middle markets have once again successfully expanded their funds. In the first half, 83.7% of middle-market funds closed at larger sizes. While this percentage is slightly below that of 2023 and 2022, it is in line with the five- and 10-year averages. This sustained growth for middle-market managers represented a median step-up of 51.3% over their predecessors in H1 2024.

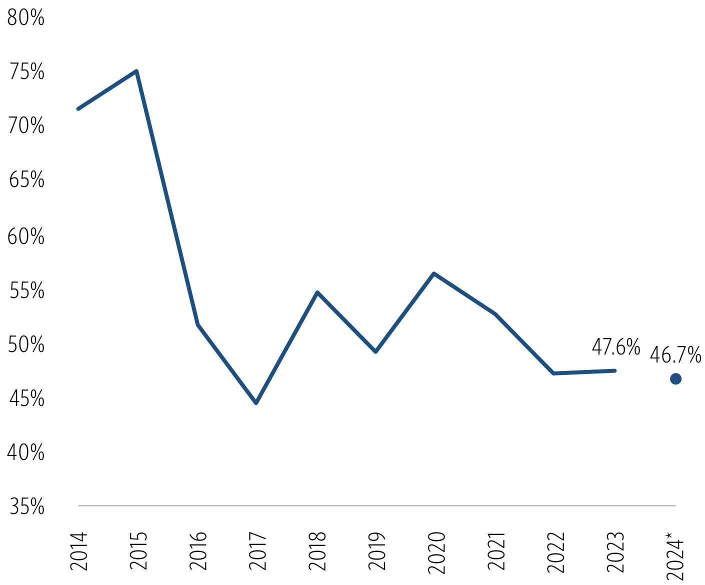
While middle-market fundraising is trailing 2023 activity, investors continue to commit capital to middle-market managers but still face hurdles due to limited distributions caused by the hampered exit environment. Similar to the broader PE fundraising environment, these delayed distributions have left allocators with less capital available to recycle into the next vintage of funds. Consequently, the median time to close has expanded beyond the broader ecosystem, which has also experienced longer fundraising timelines. The median time to close for middle-market funds stretched to 19.0 months through Q2 2024, up from 15.0 months in 2023 and 11.9 months in 2022. Moreover, the median time between funds also widened, from 3.7 years in 2023 to 4.0 years through the first half of 2024.

Median step-up from previous PE middle-market fund in fund family



Source: PitchBook • Geography: US • *As of June 30, 2024

Middle-market share of all PE buyout fund closings by value



Source: PitchBook • Geography: US • *As of June 30, 2023

Recent closings

In the second quarter, eight funds closed on $1 billion or more in committed capital, including five funds at $2 billion or more. This puts the first half of 2024 at 20 funds closing on $1 billion or more and 10 closing on $2 billion or more. In the first half of 2024, 29.9% of funds raised $1 billion or more, and these 20 funds accounted for 69.1% of all middle-market capital raised in the first six months of the year.

The largest fund close of the quarter belonged to The Sterling Group, which raised Sterling Group Partners VI at $3.5 billion, representing a 70.0% step-up from its predecessor fund, which raised $2.1 billion in 2020. The firm has been around since 1982 and has $6.1 billion in AUM. Consistent with its past vintages, the Houston-based firm intends to invest Fund VI in corporate carveouts and family businesses in the industrial sector.

In April, SK Capital Partners closed its sixth flagship with $2.95 billion in total commitments. Fund VI total commitments are substantially larger than its predecessor fund and will invest the capital like other SK Capital vehicles, focusing on transformative investments in the specialty materials, ingredients, and life sciences industries. With approximately $9 billion in AUM, SK Capital operates more than 200 plants in more than 30 countries across its core sectors.

In June, Kinderhook Industries closed Kinderhook Capital Fund 8 at $2.75 billion, just four months after its first close. The $2.75 billion in total commitments includes a $250.0 million commitment from the GP and its operating partner network. Kinderhook, with more than two decades of industry expertise, will continue to invest in its core sectors of healthcare services, environmental and business services, and automotive and light manufacturing sectors.

Largest PE middle-market fund closings in 2024*

Close date	Manager	Fund name	Fund size ($M)
February 13	TPG	TPG Healthcare Partners II	$3,576.0
January 1	Altaris	Altaris Health Partners VI	$3,500.0
January 19	Wynnchurch Capital	Wynnchurch Capital Partners VI	$3,500.0
April 22	The Sterling Group	Sterling Group Partners VI	$3,500.0
February 28	Cortec Group	Cortec Group Fund VIII	$3,200.0
April 4	SK Capital Partners	SK Capital Partners VI	$2,950.0
June 18	Kinderhook Industries	Kinderhook Capital Fund 8	$2,750.0
June 6	Aquiline Capital Partners	Aquiline Financial Services Fund V	$2,306.5
February 29	Wind Point Partners	Wind Point Partners X	$2,270.0
April 23	A&M Capital	A&M Capital Partners III	$2,086.8

Source: PitchBook • Geography: US • *As of June 30, 2024

Emerging managers

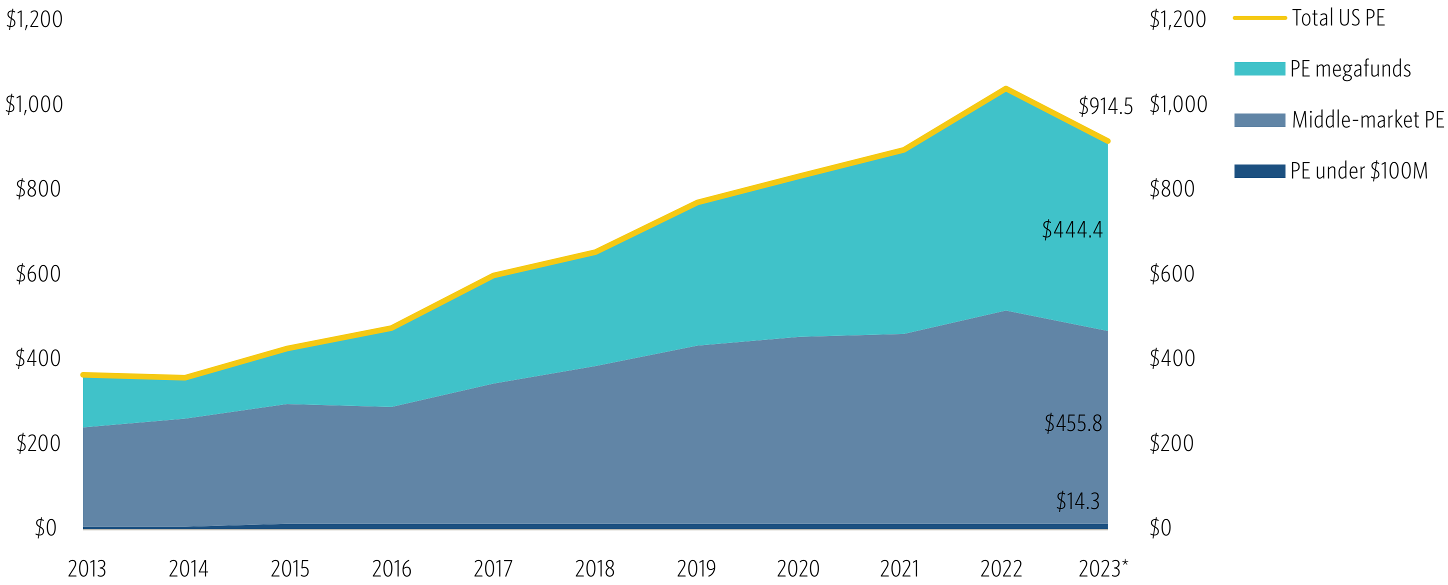
The middle market is home to the bulk of emerging managers, which we define as managers with three or fewer funds launched, including first-time managers. In the first half of 2024, emerging managers accounted for 20.9% of all middle-market capital raised, a decrease from 28.0% in 2023, which was its highest point since 2018. Moreover, the decline in middle-market fundraising has impacted first-time managers, which are on pace to surpass 2023's fund count of 19 with 10 through the end of June but are well below 2023 in capital raised, with only $4.1 billion raised in H1, and are not pacing to meet the $14.3 billion raised by first-time managers last year. That being said, first-time managers who can demonstrate a differentiated strategy continue to attract investor interest over more generic buyout fund offerings.

Similar to the first quarter, Q2 saw 13 emerging managers hold final closes for their funds. Q2 emerging manager funds closed for an aggregate value of $4.9 billion. Compared to the first half of 2023, emerging managers closed the same amount of funds: 26. However, 2023's first half saw emerging managers raise $19.7 billion, well above the $13.6 billion raised by emerging managers in H1 2024. The largest fund raised by an emerging manager through the first six months of 2024 belongs to first-time manager Lone View Capital, which closed its first fund at $850.0 million in April. Lone View will use the fund to invest in software, information services, and technology-enabled businesses. Other notable emerging manager fund closes include Paceline Equity Partners, which closed its second fund at $780.0 million at the beginning of April, more than double the size of its predecessor that closed in 2021. Paceline will invest Fund II in corporate divestitures, turnaround candidates, and owners seeking liquidity.

Dry powder

Through the end of 2023, middle-market PE funds held $455.8 billion of dry powder, representing 49.8% of the total dry powder in the US PE landscape. Middle-market dry powder remains elevated compared to historical levels, although it has declined by 9.3% from the 2022 peak of $502.8 billion. Furthermore, at current levels, middle-market dry powder is significantly higher than the pre-COVID-19 (2017 to 2019) median dry powder of $372.0 billion, driven upward by the robust fundraising the middle-markets have seen over the past three years. In terms of total AUM, after seeing an increase in 2022, middle-market dry powder decreased by nearly 350 basis points to 26.0% of total AUM in 2023. As PE deployment has started to revitalize, dry powder levels remain elevated but have since slowly declined.

PE dry powder ($B) by fund size

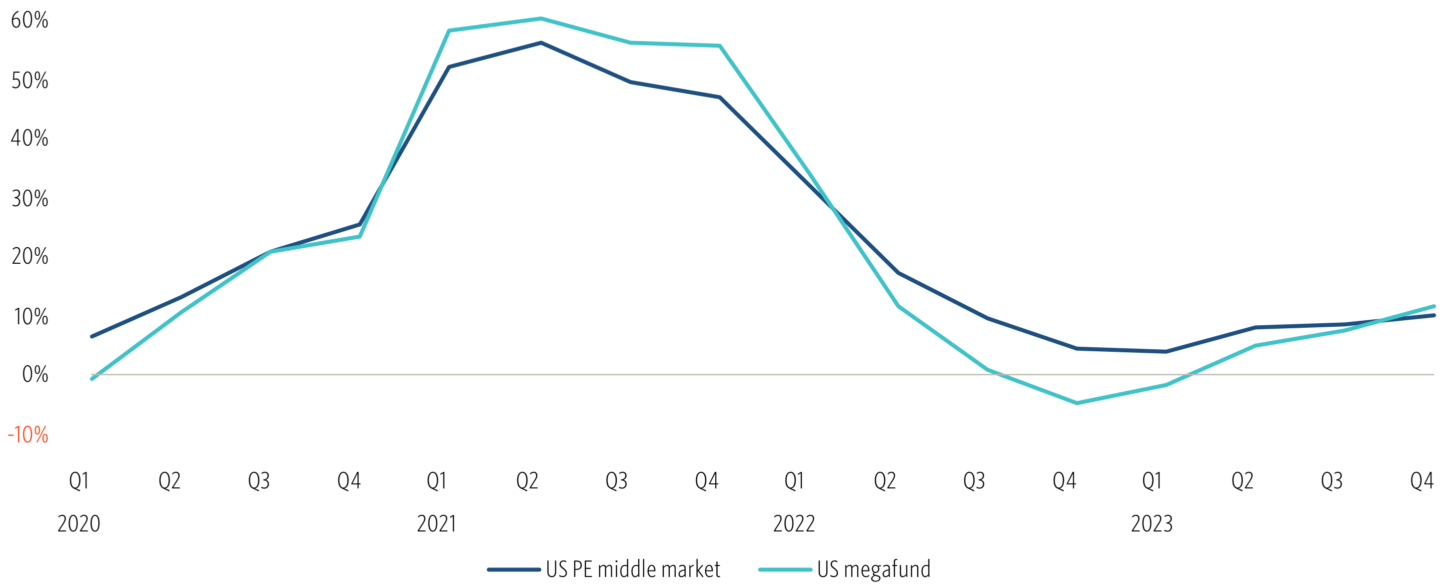


Source: PitchBook • Geography: US • *As of December 31, 2023

Performance

After six consecutive quarters where middle-market funds outperformed megafunds, the trend has finally reversed. The margin of outperformance has steadily narrowed in recent quarters, and with the continued rally in large-cap equities, it was only a matter of time before megafunds regained the lead. Historically, these cycles of outperformance tend to last between one and three years, with this most recent cycle sitting in the middle of a year and a half. Additionally, the stabilization in markets and foresight of at least one rate cut later this year, after Fed Chairman Jerome Powell announced at the Jackson Hole summit that it was time to cut rates, have helped to increase optimism for larger managers. Should this all come to fruition, it will likely result in improved access to debt financing for larger LBOs alongside an improved outlook for future returns and distributions.

Quarterly rolling one-year PE fund performance by fund size*



Source: PitchBook • Geography: US • *As of December 31, 2023

PitchBook

Q2 2024 US PE middle-market lending league tables

Overall

Rank	Company	Deal count
1	Ares	69
2	Churchill	52
3	Golub Capital	51
4	Antares Capital	49
5	Twin Brook Capital Partners	48
6	Audax Private Debt	46
7	Morgan Stanley Private Credit	37
8	J.P. Morgan	33
9	Monroe Capital	31
10	The Goldman Sachs Group	29
11	Bank of America	27
11	Barings	27
13	Capital One	26
13	Jefferies Group	26
13	MidCap Financial	26
13	UBS	26
17	Truist	24
18	Citizens Financial Group	23
19	RBC	21
19	Wells Fargo	21
21	Deutsche Bank	20
21	Owl Rock	20
23	Mitsubishi Financial Group	19
24	Morgan Stanley	18
25	KKR Credit	17
26	Crescent Capital	16
27	PNC	15
28	Kayne Anderson Capital Advisors	14
28	KeyBank	14
30	Fifth Third Bank	13
30	TD Bank	13
32	Barclays	12
32	Citigroup	12
32	Cliffwater	12
32	Man Varagon	12
32	Principal Global Investors	12

Source: PitchBook

Select roles*

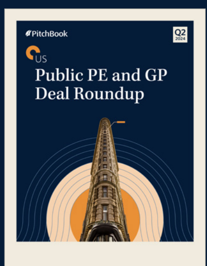
Rank	Company	Deal count
1	Ares	51
2	Golub Capital	45
3	Twin Brook Capital Partners	42
4	Antares Capital	41
5	Churchill	35
6	J.P. Morgan	25
7	Bank of America	22
7	Citizens Financial Group	22
9	Jefferies Group	21
9	Truist	21
11	Capital One	20
11	MidCap Financial	20
11	Morgan Stanley Private Credit	20
11	The Goldman Sachs Group	20
15	Wells Fargo	19
16	UBS	17
17	Deutsche Bank	16
18	RBC	15
19	KeyBank	13
19	Mitsubishi Financial Group	13
19	Morgan Stanley	13
22	PNC	12
23	Fifth Third Bank	11
24	Barings	10
24	KKR Credit	10
24	Mizuho Financial Group	10
27	Audax Private Debt	9
27	BMO Financial Group	9
27	Citigroup	9
27	Man Varagon	9
27	Societe Generale	9
27	WhiteHorse Capital	9
33	Barclays	8
33	Crescent Capital	8
33	TD Bank	8

Source: PitchBook

*Select roles comprise only bookrunners, lead arrangers, mandated lead arrangers, and all types of agents that are specifically listed within PitchBook.

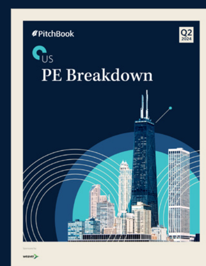
Additional research

Private markets



Q2 2024 US Public PE and GP Deal Roundup

Download the report here



Q2 2024 US PE Breakdown

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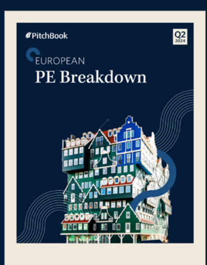

Q2 2024 European PE Breakdown

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Q2 2024 Global M&A Report

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Q4 2023 Global Fund Performance Report (with preliminary Q1 2024 data)

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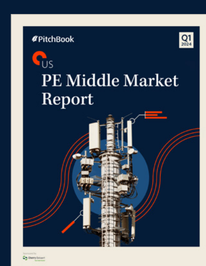

Q1 2024 US PE Middle Market Report

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