

A wide-angle photograph of the Denver skyline under a clear blue sky. In the foreground, a modern bridge with a white, arched steel truss structure spans across a green park area. A road with a green directional sign is visible in the lower left. The city buildings are densely packed in the background.

M&A and Capital Markets Update

3Q 2019

THE **FORBES**
M+AGROUP

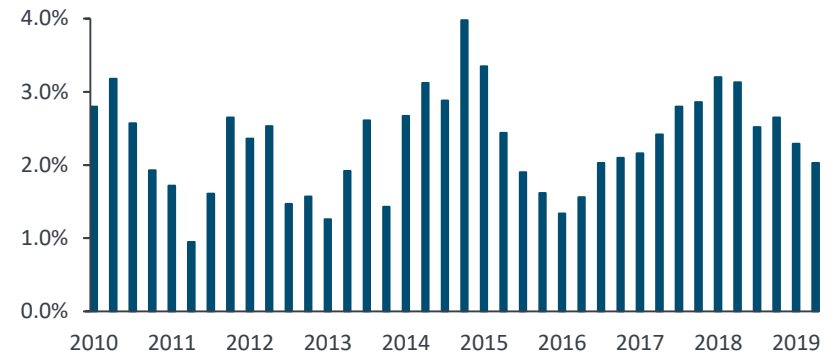
Macro Economic Factors Impacting the M&A Environment

S&P 500 Continued to Climb, Hitting All-Time Highs...

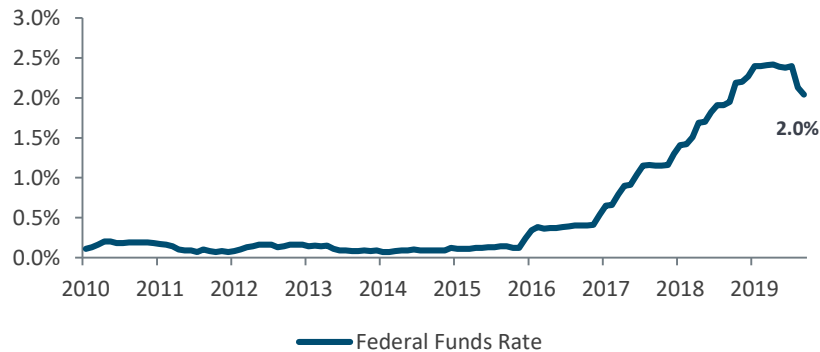


...But U.S. Real GDP Continued to Slow, Only Growing 2.0%

(Quarterly % Increase)



As Expected, the Fed Funds Rate Decreased...



...With Treasury Yields Following Suit as U.S. Economy Slowed



Source: Pitchbook, GF Data, Capital IQ, St. Louis Fed, European Central Bank, U.S. Department of the Treasury as of 9/30/19

M&A Market Highlights

- ▶ In 3Q19, overall Middle Market M&A activity increased, but total deal value declined.
- ▶ 3Q19 Middle Market M&A multiples remained elevated in the U.S. at 7.4x EV/EBITDA, as low borrowing costs allowed for larger deals to be completed.
- ▶ Private equity funds continued to close as a result of a rise in mega-funds. Fundraising grew to \$191B through 3Q19, increasing the likelihood of 2019 fundraising to surpass 2018's total.
- ▶ While overall cash balances of S&P 500 companies remained lower than YoY 2018, they were still near record levels, providing for continued strategic acquisitions.

7.4x

**Avg. Middle Market
EV/EBITDA Multiple⁽¹⁾**

88%

**of Deals were
Under \$250 Million**

\$2.2B

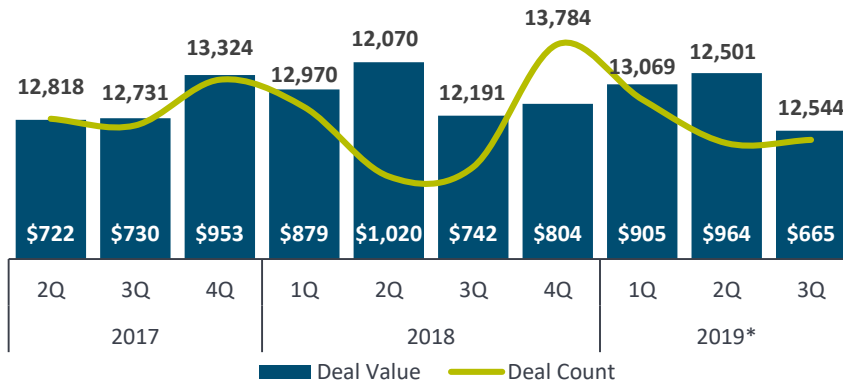
**Current Cash Balance of S&P
500 Companies**

Note: (1) Middle market defined as transactions with values at or below \$250 million. Source: GF Data

M&A Deal Volume and Value

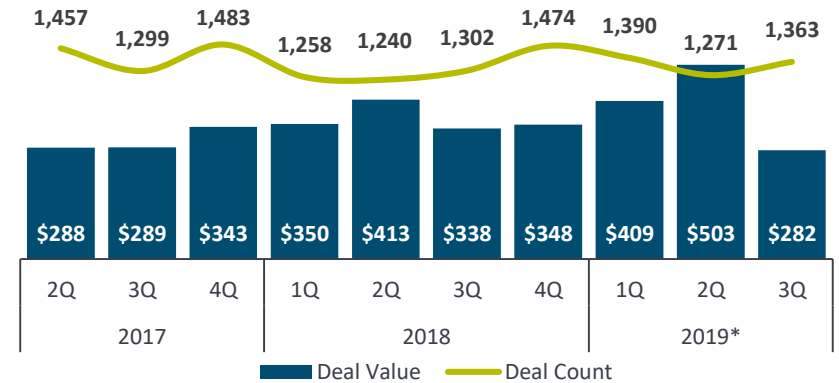
Global M&A Activity Began to Slow...

(\$ in billions)

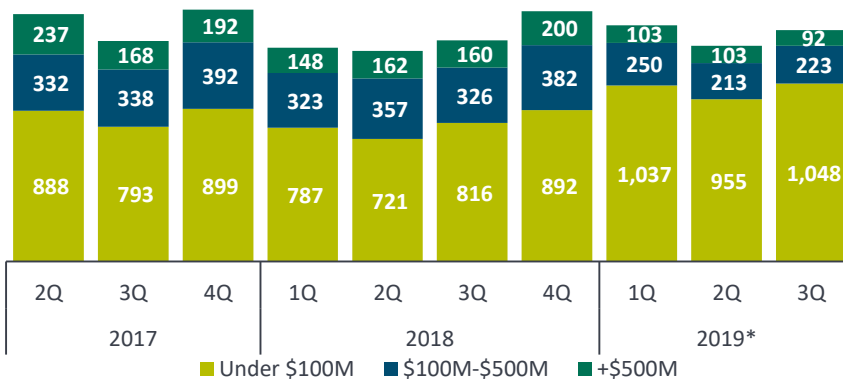


...But U.S. M&A Activity Climbed While Deal Value Decreased

(\$ in billions)

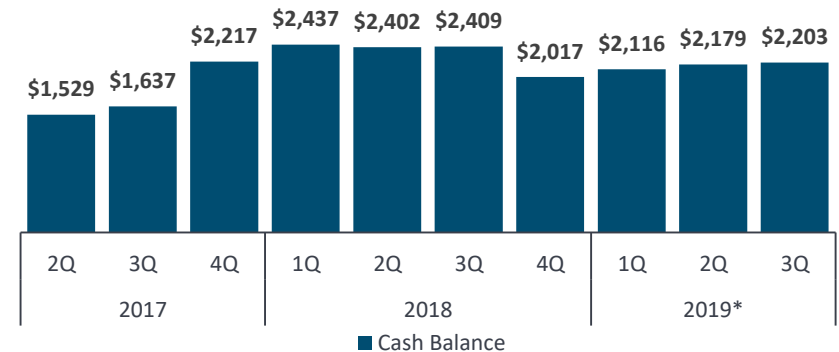


U.S. Middle Market Deals Increased YoY



Strong Cash Balances of S&P 500 Companies Nearing Record Highs

(\$ in billions)

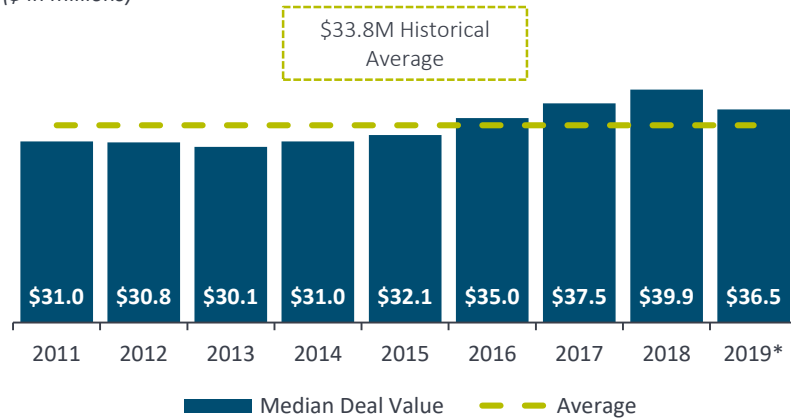


Note: (*) 2019 as of 9/30/2019 based on reported enterprise values (1) Middle market defined as transactions with values at or below \$250 million. Source: GF Data, Capital IQ

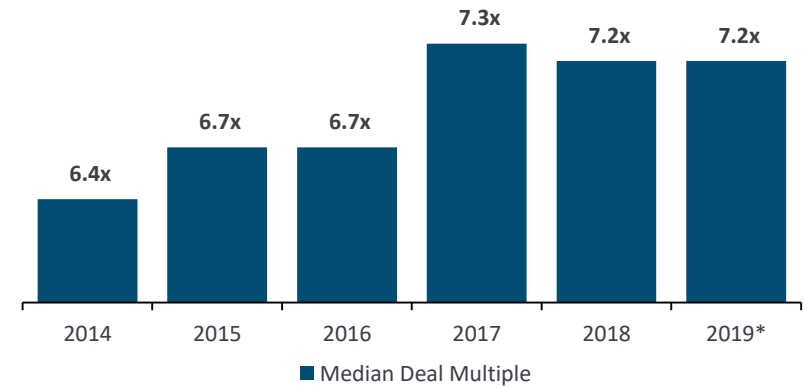
M&A Valuation Trends

Median M&A Deal Value Saw a Slight Retreat in Avg. Deal Value

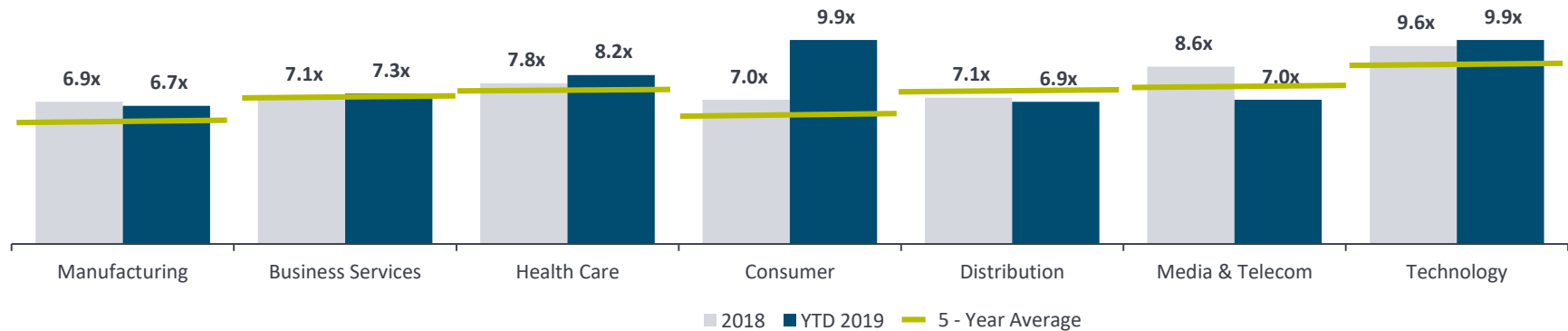
(\$ in millions)



U.S. Middle Market EV / EBITDA Multiples⁽¹⁾ Remained Steady



Middle Market EV / EBITDA Multiples Saw Marginal Increases in Overall Deal Multiples with Consumer Deals Experiencing the Largest Increase

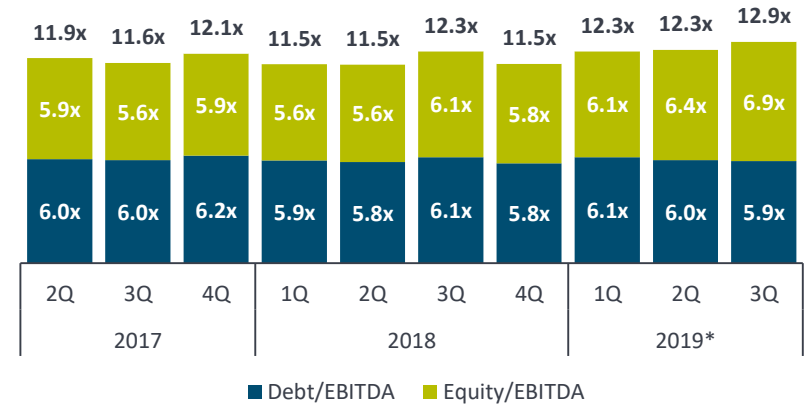


Note: (*) 2019 as of 9/30/2019 (1) Middle market defined as transactions with values at or below \$250 million. Source: Pitchbook, GF Data, Capital IQ

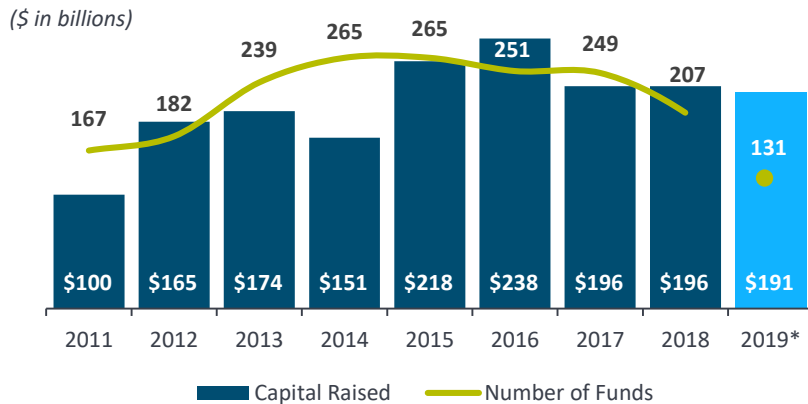
U.S. Private Equity M&A Environment ⁽¹⁾

- ▶ Overall market and Middle Market deal multiples increased on a YoY and QoQ basis.
- ▶ Private equity deals utilized near-record high debt amounts, with the average total debt to EBITDA hovering around 5.9x.
- ▶ Add-on deals continued to grow as a percentage of overall private equity deals, reaching nearly 70% of total deals.
- ▶ A recession may hurt portfolios of PE firms, but with record amounts of dry powder, this will create significant buying opportunities.

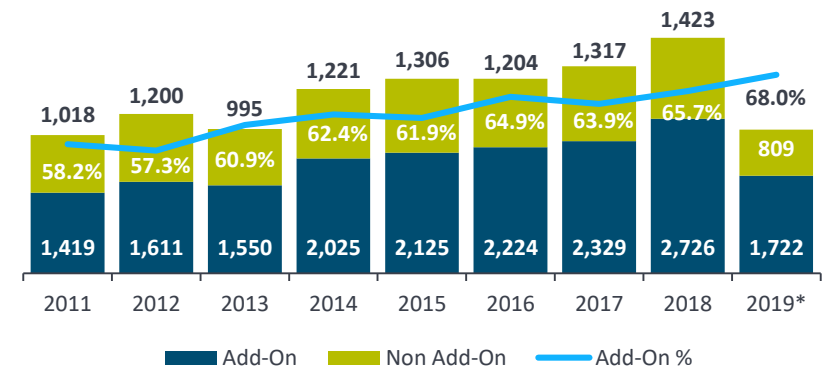
PE Buyout Multiples Increased to Record Highs



PE Fundraising Remained Steady While Overall Funds Declined



PE Add-On Deals Continued to Increase as a % of Total Deals



Note: (*) 2019 annual run rate as of 9/30/2019 (1) Middle market defined as transactions with values at or below \$250 million. Source: Pitchbook, GF Data, Capital IQ

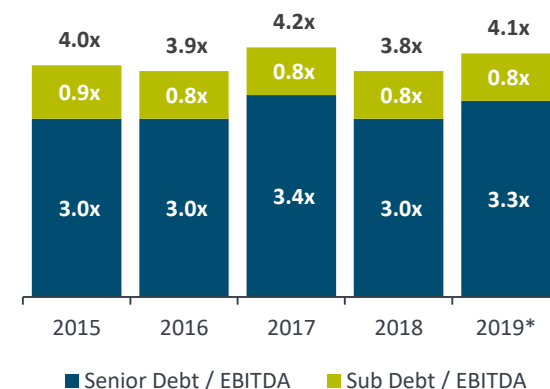
Leverage Multiples & Pricing

DEBT PRICING

Debt Type	Company Size / Lender Type	2Q 2019	3Q 2019 ⁽¹⁾
Senior Cash Flow Debt	Bank	L+ 2.5% - 4.5%	L+ 3.0% - 4.5%
	Non-Bank <\$7.5 Million EBITDA	L+ 5.0% - 6.5%	L+ 6.0% - 7.0%
	Non-Bank >\$15.0 Million EBITDA	L+ 4.0% - 5.5%	L+ 4.0% - 5.5%
Unitranche Debt	<\$5.0 Million EBITDA	L+ 7.0% - 10.0%	L+ 7.5% - 10.0%
	>\$10.0 Million EBITDA	L+ 6.0% - 8.0%	L+ 6.5% - 8.0%
	>\$20.0 Million EBITDA	L+ 5.0% - 6.5%	L+ 5.0% - 6.5%
Subordinated / Mezzanine Debt	<\$5.0 Million EBITDA	11.0% - 14.0%	12.0% - 14.0%
	>\$10.0 Million EBITDA	9.5% - 12.0%	10.0% - 12.0%
	>\$20.0 Million EBITDA	8.5% - 11.0%	8.5% - 11.0%

Note: (1) Blue font indicates a change from previous the quarter. Source: GF Data, Capital IQ LCD, SPP Capital

DEBT MULTIPLES



DEBT & EQUITY CONTRIBUTION

