The middle market keeps growing

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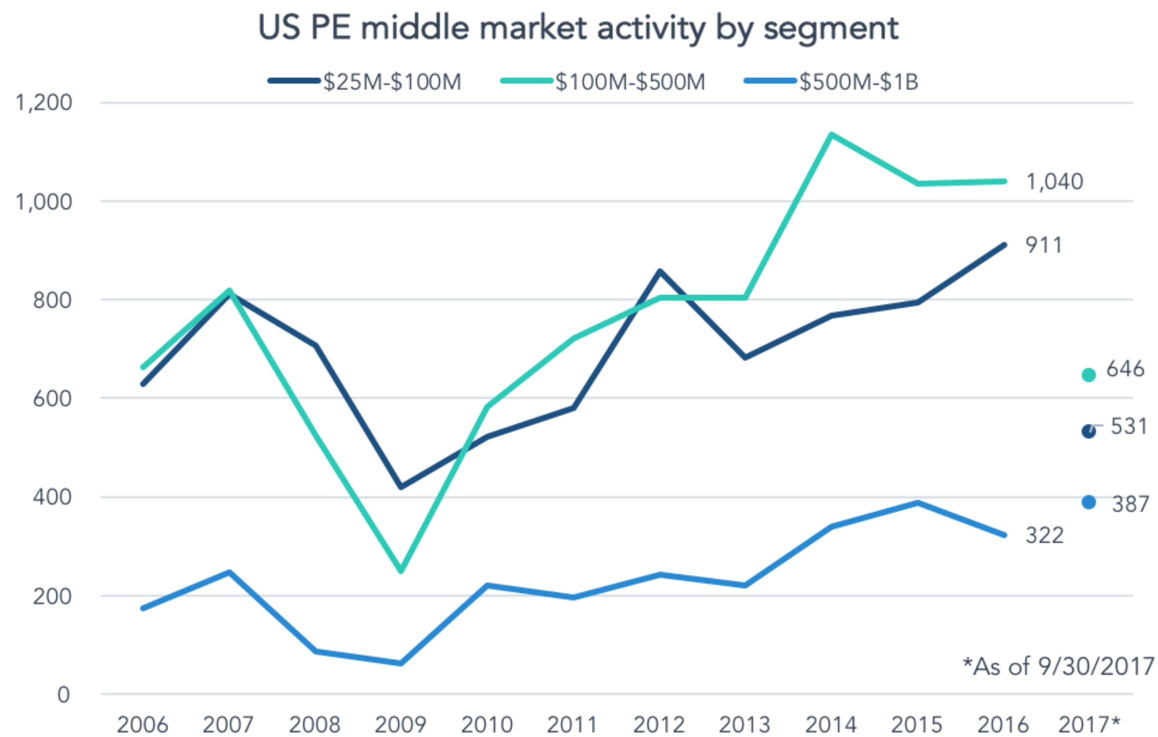

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Middle-market PE activity continued unabated in 3Q. $233 billion has been invested in the MM across 1,652 deals this year, according to our recently released 3Q 2017 Middle Market Report, and the fourth quarter should help push 2017 figures past last year's, with at least $51 billion in announcements on top of what's already closed. This year's engine in the MM comes from the upper end (between $500m and $1b of EV), which is already ahead of 2016 levels in both count and value. The middle market as a whole has traditionally been powered by the core and lower segments, but both are set for declines in volume this year.

Valuations, which have ballooned to a 10.7x median, are playing a role. Current Upper MM company values are quietly benefitting from deal size inflation and a mountain of dry powder, particularly from larger funds hitting the market. Combined with a lack of quality companies on the market, that allows many companies to see what kinds of prices they can fetch when they do test the waters, and more often today those high asking prices are being met. Another factor at play is a resurgence of secondary buyouts, which we've harped on ad nauseum. Financial sponsors looking to sell in 2017 are taking advantage of current multiples, knowing full well the need on the buy-side to deploy capital. In many cases, companies that were bought for a lower- or core-middle-market price have grown larger under PE ownership, and implied values are notched up further by the multiples buyers are willing to pay. Add up all those factors—record fundraising, record multiples, and a stalling exit environment—and it's less surprising to see more froth at the upper end of the market.

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