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Is the middle market at an inflection point?

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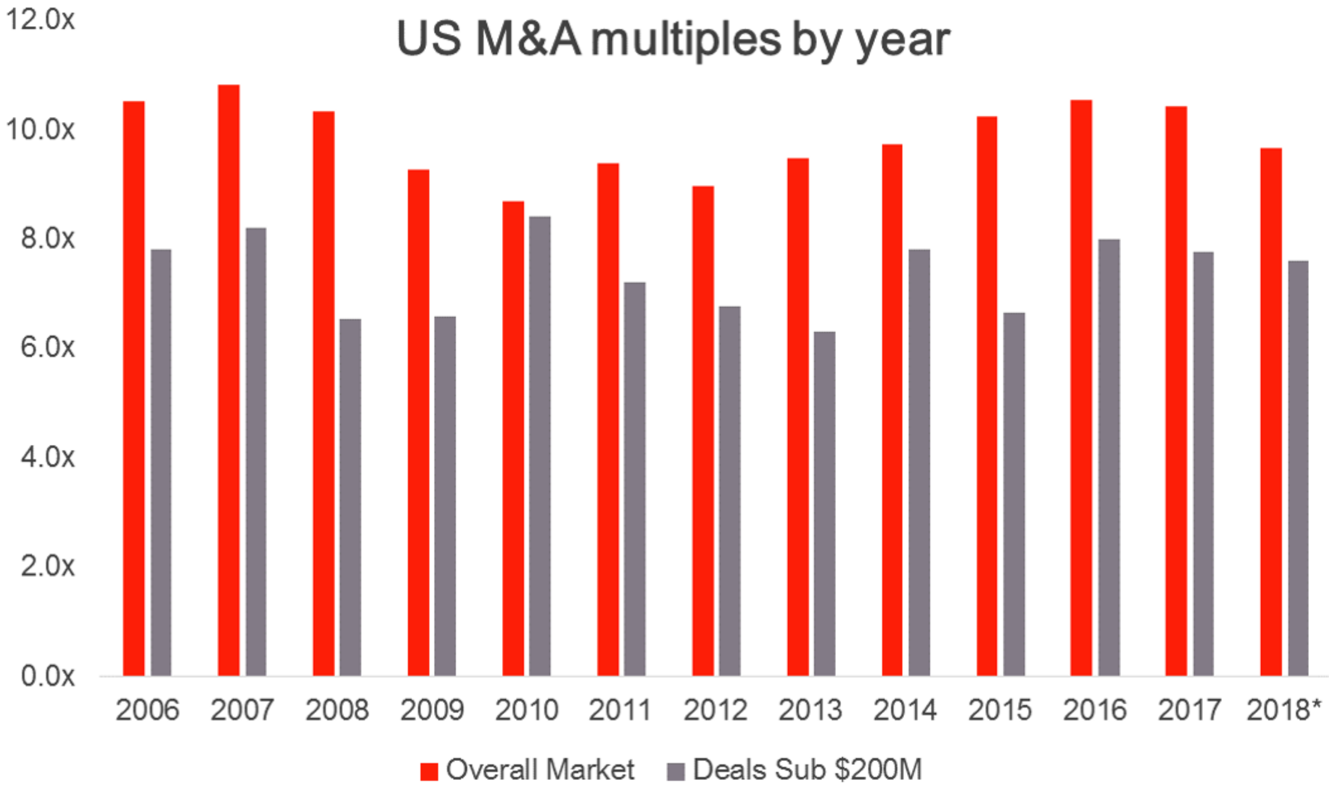

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Much has been said on the consistent strength of the US middle market—much of it by us. Commenting as a data provider, we've found it tricky to creatively analyze the middle market without repeating ourselves. That said, there are a few unique ways to look at this dynamic market. Earlier this year we partnered with law firm Akerman this year to spotlight the sub-$1B US buyout fund market. We created a fresh methodology to look at buyout activity coming from sub-$1B funds, as opposed to solely analyzing activity by deal size. What are sub-$1B buyout funds buying in the market, and what are they paying?

By comparing our methodology to Akerman's sub-$1B buyout fund angle, we've noticed visible discrepancies. The clearest divergence is in purchase price multiples, where sub-$200M deals are more than two turns cheaper than the broader MM. It's conventional wisdom that smaller deals tend to be cheaper deals, as well. But the consistency of those numbers suggests that pure MM investors, concentrating at the lower end of the market, have maintained better discipline in a frothy environment. The going-forward question is how much that will matter if macro trends turn around. We're in the midst of a historically long bull expansion in the US—the second longest since World War II—and interest rates are heading north after decades of decreases. Geopolitical tensions and increasing wage pressures are also coming into play. The easy credit conditions that helped inflate purchase price multiples won't be this easy for long. How much of an impact will larger market trends have on even the most disciplined investors? Time will tell, but economic expansions don’t last forever. The coming quarters may provide evidence of an inflection point in MM activity that affects PEGs of all shapes and sizes.

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