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The Pulse of Private Equity – 9/22/2014

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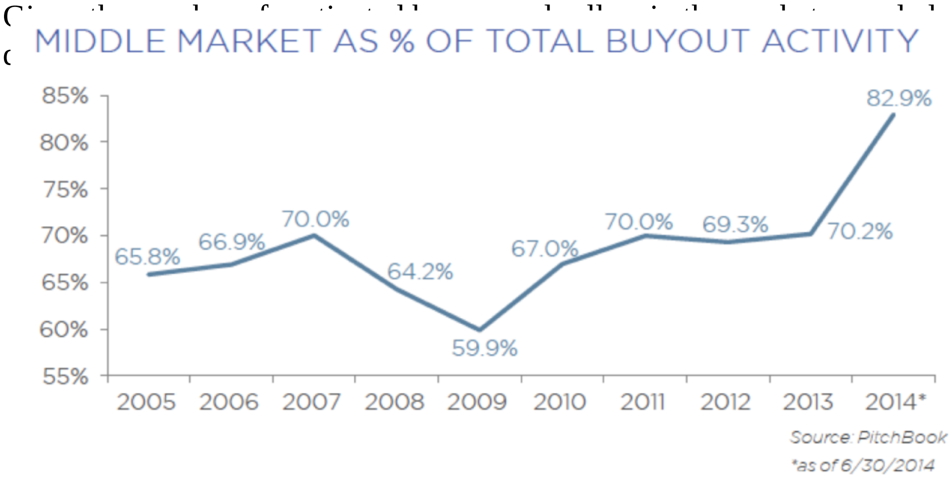
Like the overall PE market, valuations for middle-market companies are elevated. The median valuation-to-EBITDA multiple in 1H 2014 was 10.7x, up from 10.2x last year. Despite those steep price tags, deal flow remains healthy, and is actually strengthening. The past four quarters are four of the biggest six quarters since the crisis, by both deal count and capital invested. The first quarter of 2014 set post-2009 highs in both categories, with 492 deals worth a combined $105 billion. Strong deal flow is due in large part to an abundance of cheap credit available, driven by more lenders entering the market. As GE Antares CEO John Martin told us in a recent interview, there's "significant liquidity coming into the market at all levels of the capital structure." vith low interest rates and stockpiles of



One graph in particular highlights PE's recent push into the middle market. Between 2011 and 2013, the middle market accounted for about 70% of overall PE deal activity, with very little yearto- year variance. In 1H 2014, though, that percentage shot up to 83%, again, despite the increasing multiples for the same segment. One variable to keep in mind is that buyout activity at the highest end ($5 billion and up) virtually ceased in the first half. Historically, at least a few large public companies are taken private each year worth at least $5 billion to $10 billion. Once those transactions start taking place again, we'll likely

see the middle market's share of activity come down somewhat.

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