Middle market multiples eased in 2021

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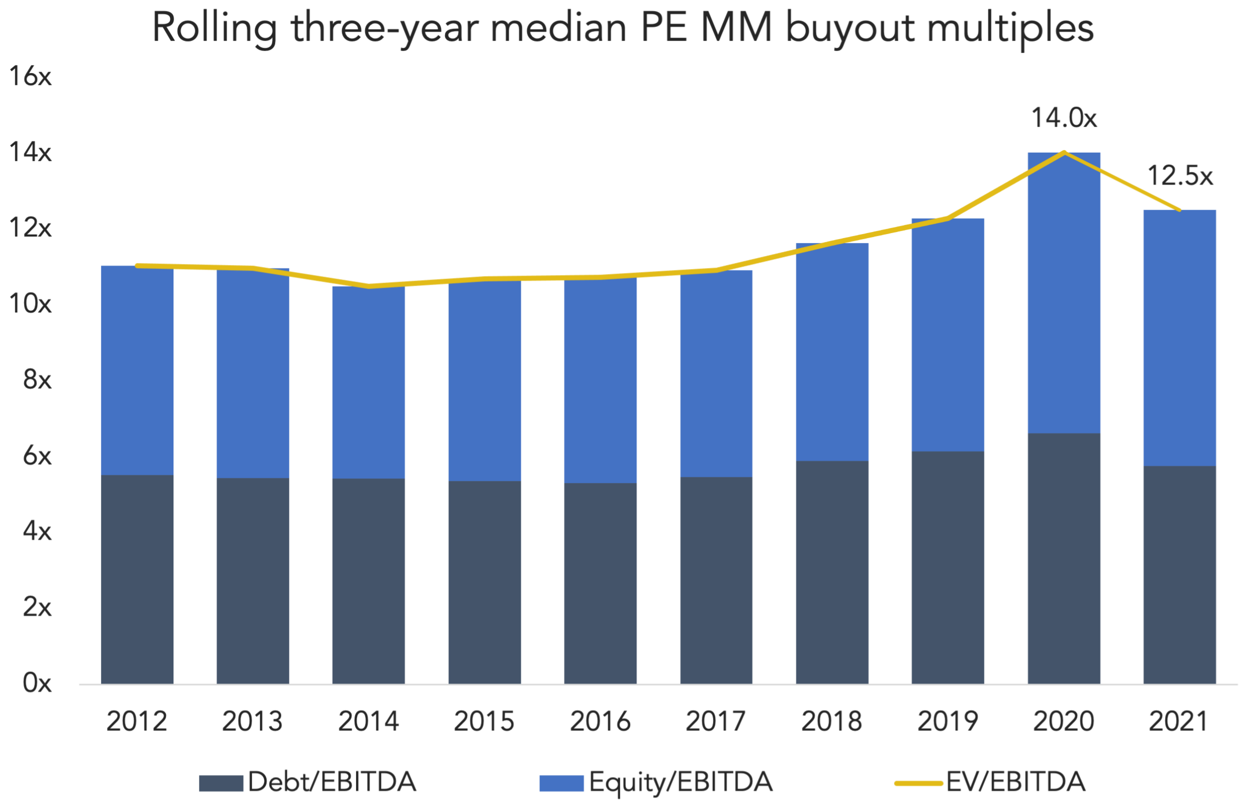

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Middle market buyout multiples are returning to normalcy, according to PitchBook's 2021 Annual Middle Market Report. The rolling three-year median settled at 12.5x in 2021, not much higher than the 12.3x median in 2019. The anomaly was 2020, which shot up to 14.0x. Most of that increase was due to much higher equity contributions. In 2019, the median equity contribution was 6.1x, only to increase by over a turn, to 7.4x in 2020. That metric also came down to earth in 2021, to 6.8x, but its still considerably higher than past years.

Investors are paying more in cash since Covid, which will eventually dent returns down the road. On the other hand, many Covid-era deals probably wouldn't have gotten done otherwise, and higher equity checks are a small price to pay in uncertain markets. Perhaps the bigger question is multiple expansion post-acquisition, and the very real possibility of multiple contraction for individual deals. For now, though, the imbalance between dry powder levels and the limited number of quality companies will keep multiples elevated indefinitely, barring another pandemic, world war, or some other biblical calamity.

(Past performance is no guarantee of future results.)