

## US Micro Middle Market Definition:

Houlihan Capital defines the micro middle market as being comprised of companies that have an enterprise value of \$50 million and below. Data throughout this analysis reflects M&A transactions with a maximum transaction amount of \$50 million.

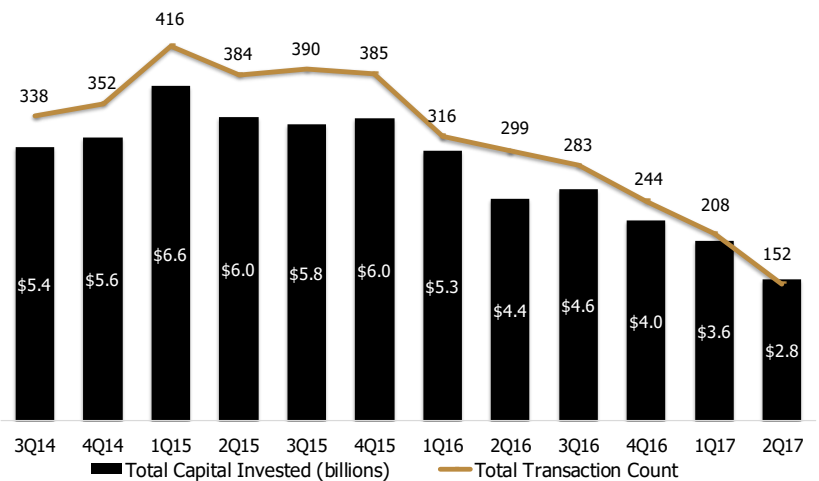
## Key Takeaways from the Current Quarter:

- M&A activity slowed in the first half of 2017.
- 2Q2017 saw the lowest deal count and total capital invested in the last 32 quarters.
- Valuation multiples continue to vary by industry, size and other business model characteristics.

## TRANSACTION ACTIVITY

The micro middle market was largely in line with the larger US market as it experienced a slow start in M&A activity during the first half of 2017. Micro middle market transaction activity declined during the second quarter of 2017, with total transactions dropping to 152 from 208 last quarter. Total capital invested dropped quarter over quarter, from \$3.6 billion in 1Q2017 to \$2.8 billion in 2Q2017. Similar to last quarter, a significant portion of capital deployed during the quarter (about 80%) went into four sectors: B2B, Information Technology, B2C and Financial Services.

Quarterly Micro Middle Market M&A Transaction Activity



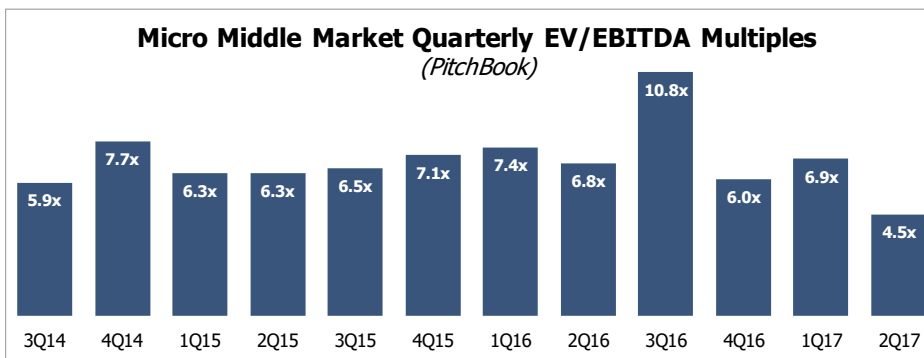
Source: Pitchbook Data Inc. As of 6/30/2017. All US completed transactions with a max deal size of \$50 million.

## VALUATION MULTIPLES

There is no definitive answer when it comes to what standard EBITDA multiples are for businesses in the micro middle market. Below is information from two leading data providers. While this information is insightful, it is often still recommended to consult an advisor or investment banker when addressing the topic of valuation.

According to PitchBook data, Enterprise Value (EV) / EBITDA multiples may have experienced some level of decline quarter over quarter. In looking at the twelve US micro middle market deals where multiple data was available, two thirds of the sample saw EV/EBITDA multiples below 5.0x. Approximately half of those twelve deals were in the Commercial Services space (within the B2B sector) and had a median EV/EBITDA multiple of 4.6x. The previous quarter saw data from another five deals in the Commercial Services space, at a median multiple of 9.6x. On the other hand, the two Healthcare sector deals with EBITDA data available from 2Q2017 saw multiples above 8.0x.

GF Data® presents manager reported data on private equity-sponsored M&A transactions, lending to some unique valuation insights into micro middle market transactions. Over the last few years, EBITDA multiples stayed consistent for transactions with enterprise values of \$10 million to \$50 million (see the table below right for GF Data® EBITDA multiples).



Source: Pitchbook Data Inc. As of 6/30/2017. All US completed transactions with a max deal size of \$50 million. EV/EBITDA multiples shown as quarterly medians of all transactions that reported data.

Total Enterprise Value (TEV)/EBITDA (GF Data®)

TEV Range	2015	2016	1Q 2017
10 - 25	5.8x	6.0x	5.8x
25 - 50	6.6x	6.4x	6.4x

Source: GF Data®. YTD as of 3/31/2017. TEV/EBITDA multiples shown are the average multiple for each TEV Range. TEV Ranges shown in USD millions.

## SECTOR ACTIVITY

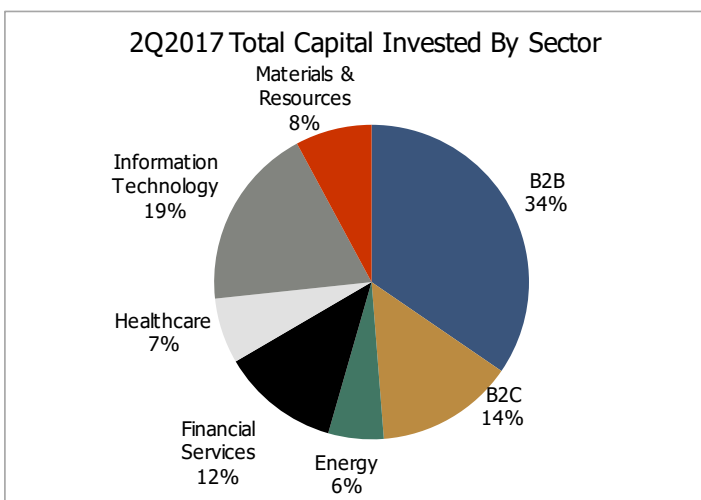
Despite the decline in the capital invested and drop in deal activity quarter over quarter, B2B was once again the sector that demanded the largest proportion of capital in the micro middle market.

The Healthcare sector experienced the largest percentage drop in activity, with a 56% decrease in the number of quarterly transactions.

Other sectors that showed a downtrend in deal activity were B2C, Financial Services and Information Technology, all of which experienced an approximate 30% drop in quarterly activity. The total capital invested dropped from \$554 million to \$403 million in the B2C sector, from \$466 million to \$339 million in Financial Services and from \$812 million to \$526 million in Information Technology.

Energy bounced back in 2Q2017 as it just about doubled from last quarter in both deal activity and capital invested.

Materials & Resources experienced similar activity and capital invested quarter over quarter.



Sector	2Q17	1Q17	2Q16
B2B	58	74	99
B2C	26	36	45
Energy	6	4	9
Financial Services	11	16	36
Healthcare	11	25	39
Information Technology	30	44	60
Materials & Resources	10	9	11
<b>Total Deal Count</b>	<b>152</b>	<b>208</b>	<b>299</b>

Source: Pitchbook Data Inc. As of 6/30/2017. All US completed transactions with a max deal size of \$50 million.

## ABOUT HOULIHAN CAPITAL

Houlihan Capital is a leading, solutions-driven valuation, financial advisory and boutique investment banking firm. We pride ourselves on being thought leaders in an ever-changing landscape.

Houlihan Capital is SOC-compliant, a FINRA and SIPC member and committed to the highest levels of professional ethics and standards.

For additional information about our industry expertise and services, visit:

[www.houlihancapital.com](http://www.houlihancapital.com)

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*Value. Added.*