

## US Micro Middle Market Definition:

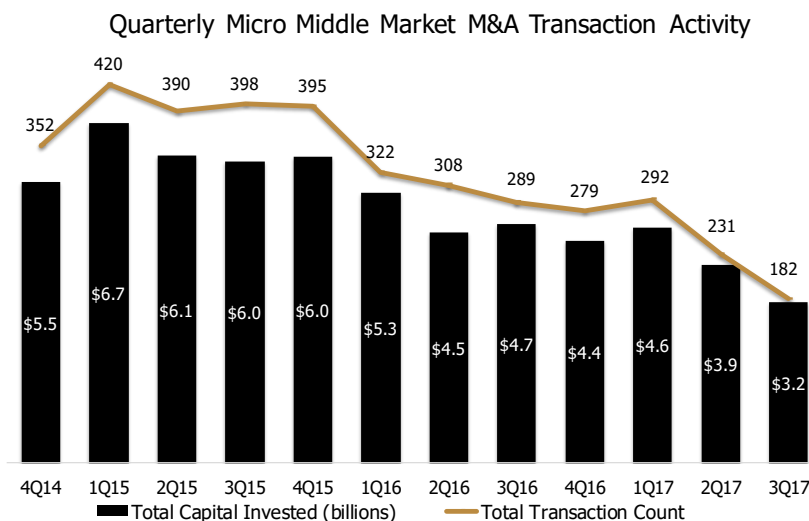
*Houlihan Capital defines the micro middle market as being comprised of companies that have a Total Enterprise Value (TEV) of \$50 million and below. Data throughout this analysis reflects M&A transactions with a maximum transaction amount of \$50 million.*

## Key Takeaways from the Current Quarter:

- Quarterly M&A activity down again.
- The B2B sector continued to dominate M&A activity during the third quarter of 2017.
- Valuation multiples remain strong compared to long-term averages for the US micro middle market.

## TRANSACTION ACTIVITY

Both total deal count and capital invested in the US micro middle market for the first three quarters of 2017 are down compared to the same period last year. Where these trends differ from the broader US middle market is in total capital invested, which is largely due to increased activity in upper middle market (UMM) deals (UMM defined by Pitchbook Data Inc as deals with enterprise values between \$500 million and \$1 billion). Similar to last quarter, about 80% of activity in the US micro middle market was focused in four sectors: B2B, B2C, Financial Services and Information Technology.



Source: Pitchbook Data Inc. As of 9/30/2017. All US completed transactions with a max deal size of \$50 million.

## VALUATION MULTIPLES

*Below is information from two leading data providers. While this information is insightful, Houlihan Capital recommends consulting with a business valuation professional or investment banker when addressing the topic of valuation.*

It is difficult to obtain recent multiples from public sources since private market transactions often do not disclose transaction data until well after a transaction takes place. However, leveraging Pitchbook data is helpful in framing long-term trends around valuation. Looking at the US micro middle market from 2007-3Q2017, Pitchbook data shows a median TEV / EBITDA multiple of 6.1x (sample size of 575) and a median TEV / Revenue multiple of 1.0x (sample size of 3,364).

GF Data presents manager reported data on private equity-sponsored M&A transactions, lending to some unique valuation insights into micro middle market transactions (see charts below). For transactions in the \$10-25 million TEV range, 3Q2017 saw an average EBITDA multiple of 6.9x, which is substantially above the TEV range's long-term average of 5.7x. The \$25-50 million TEV range average multiple for the quarter came in at 6.1x, close to its long-term average of 6.3x.

### Total Enterprise Value (TEV)/EBITDA

(GF Data®)

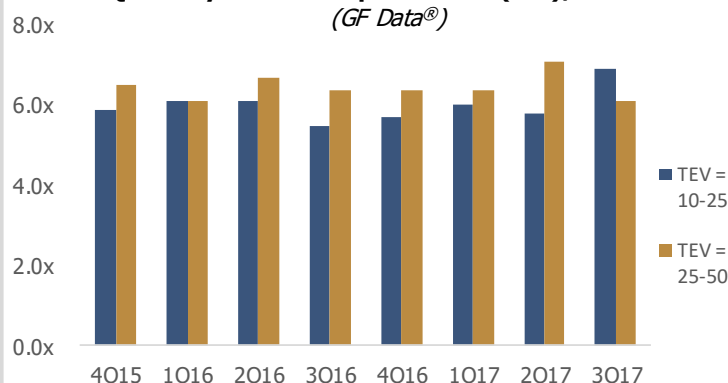
TEV Range	2003-2012	2013	2014	2015	2016	YTD 2017	Total	N=
10 - 25	5.6x	5.9x	5.7x	5.8x	5.9x	6.3x	5.7x	1124
25 - 50	6.2x	6.8x	6.6x	6.6x	6.5x	6.5x	6.3x	812

Please note that N for 2003-12 encompasses ten years of activity.

Source: GF Data®. YTD as of 9/30/2017. TEV/EBITDA multiples shown are the average multiple for each TEV Range. TEV Ranges shown in USD millions. Total multiples shown above for the period of 2003 through YTD 2017.

### Quarterly Total Enterprise Value (TEV)/EBITDA

(GF Data®)

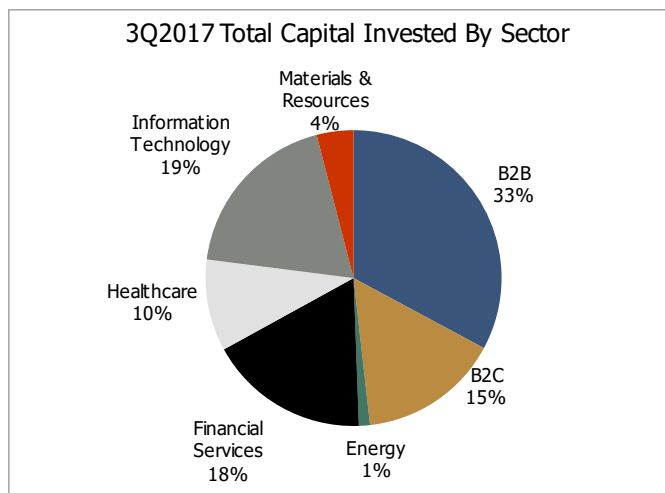


## SECTOR ACTIVITY

The B2B sector was again the leader in transaction activity and capital invested in the micro middle market. However, both activity and capital invested within the sector continued to drop quarter over quarter.

Information Technology appeared to experience a 37% drop in deal activity from last quarter. As with other sectors that experienced significant changes in quarterly activity, this may partly be due to lagging data surrounding deals that closed during the quarter but have not been announced to the public yet.

The only sectors to see increases in quarter over quarter activity were Healthcare and Financial Services. Financial Services saw its average deal amount drop approximately 20% quarter over quarter (from \$24.4M to \$19.9M), while Healthcare saw an increase in average deal amount slightly above 15% from 2Q to 3Q (from \$11.9M to \$13.8M).



Transaction Count by Sector			
Sector	3Q17	2Q17	3Q16
B2B	61	87	96
B2C	27	36	47
Energy	6	10	10
Financial Services	28	16	43
Healthcare	23	21	39
Information Technology	31	49	40
Materials & Resources	6	12	14
<b>Total Deal Count</b>	<b>182</b>	<b>231</b>	<b>289</b>

Source: Pitchbook Data Inc. As of 9/30/2017. 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.

If you would like additional information or insights into private company valuations please contact Houlihan Capital at [info@houlihancapital.com](mailto:info@houlihancapital.com).

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

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

### Contact

Please direct inquiries to:

### BILL NOVISKIS

Vice President

312.450.8634

[wnoviskis@houlihancapital.com](mailto:wnoviskis@houlihancapital.com)

*Value. Added.*