The Pulse of Private Equity – 11/7/2016

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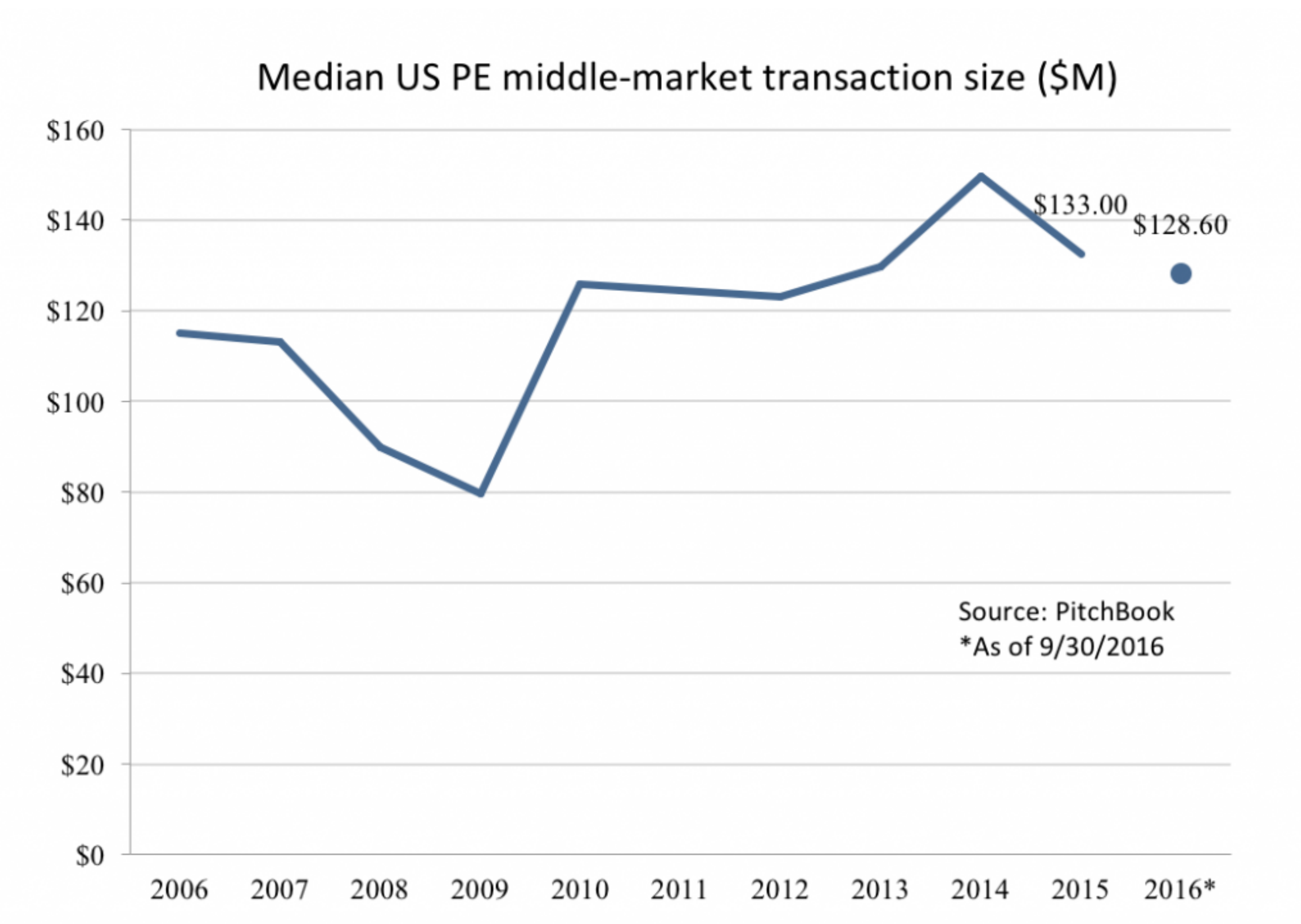
PE buyers still rooting for value in lower reaches of US middle market

The proliferation of private equity funds into all reaches of the US middle market has been well documented. Increased PE activity in the lower and core segments of the middle market is easy to see, particularly when assessing the median transaction size, which declined from a high in 2014 to $133.0 million last year and $128.6 million through the end of September. The slides aren't dramatic, of course, but as can also be seen in the relatively more resilient proportions of PE dealmaking within the lower middle market, PE firms are responding to currently competitive and high-priced conditions by sourcing more widely.



At this point, the question of supply within the lower middle market inevitably comes up, although the sheer number of enterprises valued between $25 million and $100 million may well provide plenty of fodder for PE investors going forward. According to Bain's Global Private Equity Report 2015, just 3% of businesses valued below $100 million worldwide were backed by PE firms. And, according to the Middle Market Center, nearly

200,000 businesses are in the US middle market specifically (defining a middle-market company as one with annual revenues between $10 million and $1 billion). Accordingly, it would seem there remain plenty of opportunities for PE funds to remain active, with only caution around the cost and quality of prospective targets serving to slow down the pace of investment. Those factors in and of themselves have served to decelerate PE firms' activity for some time now, however, in light of broader economic trends, so as the latter persist, then a slower rate of investment is to be expected, even taking a typical year-end bump into account.

? **Read PitchBook's 3Q 2016 U.S. PE Middle-Market Report here.**

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