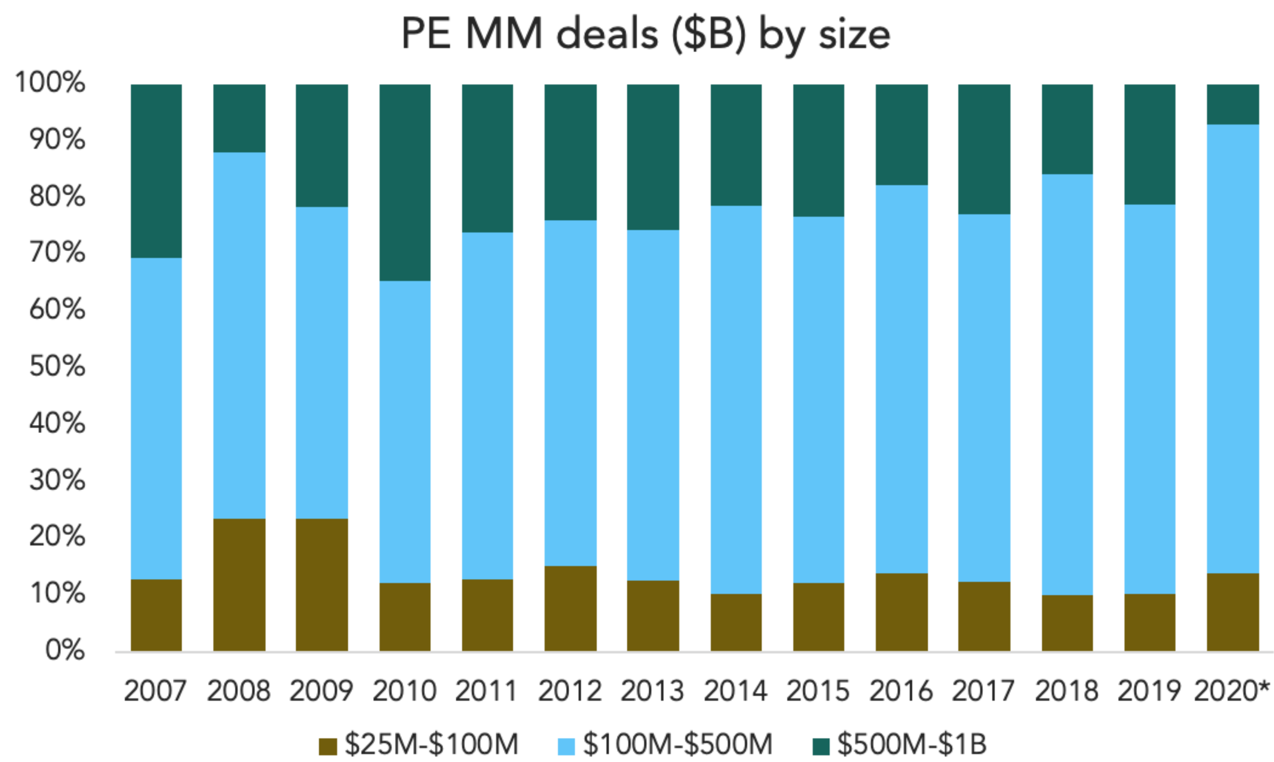
THE LEAD
https://theleadleft.com/the-pulse-of-private-equity-6-22-2020/

Slow start for big deals

PitchBook | June 25, 2020



Download PitchBook's Report here.

The US middle market only saw about $7 billion worth of deals valued in the $500M-$1B transaction range in Q1. That translated into 7% of total dollars invested in the middle market, a very small ratio by historical standards, according to PitchBook's latest US Middle Market Report. Last year upper middle market deals accounted for 21% of total value, so the first quarter pivot is probably not an accident. As a whole, 2019 UMM deals were worth a combined $101 billion. It's unlikely another $94 billion worth of transactions is in the works as 2020 progresses.

The lower middle market fared much better. 268 LMM deals were done in Q1 totaling $13.6 billion. Both numbers lined up well with 2019's pace of 1,207 transactions valued at $48.3 billion. Like every corner of private equity, it's unlikely that 2020 will keep up the pace this year, particularly once we know how soft Q2 numbers turn out to be. The quarantines are disproportionately impacting smaller businesses, so much so that large corporations that took federal stimulus money were shamed into returning it. The LMM took the brunt of the initial impact, according to RSM's US Middle Market Business Index. Over half of companies with annual sales between $10 million and $50 million sought immediate federal relief, while another 43% planned to apply within six months. Larger MM companies filed far fewer applications: 34% sought immediate relief with an additional 25% indicating future interest. Social distancing hurdles disproportionately impact LMM companies, too. Not every small business has the resources to effectively work from home.

In the same vein, LMM deals are often done for personal reasons. They're less transactional and more event-driven—retirement, divorce and medical reasons are common catalysts to sell. The headache that is 2020 is another event to add to the list. One hopes this won't happen, but it's possible many small business owners will grow more exhausted as time passes and decide to move on to something else. Seeing their companies survive under PE ownership presents a happier ending compared to other options.