The Pulse of Private Equity – 8/3/2015

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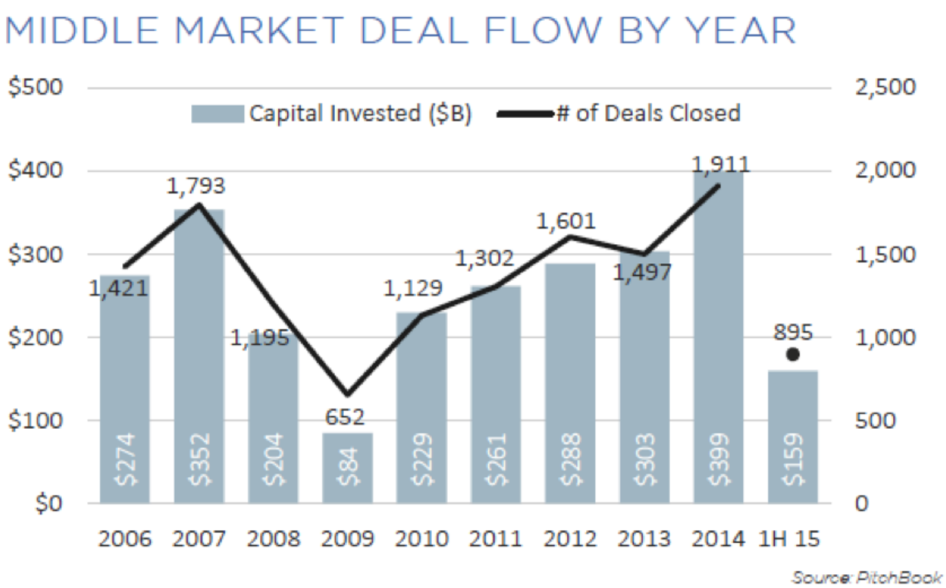
Another big year in the works

The U.S. middle market is heading toward another big year. Through H1, 895 deals worth a combined $159 billion have closed, not far off the pace of last year's records. This despite another jump in median purchase price multiples, which hit 10.5x through the end of June. Valuations have risen in tandem with PE interest in the middle market. In 2011, the MM made up about 66% of overall U.S. deal flow and coincided with a median 8.1x EBITDA multiple. 2014 and H1 2015 both accounted for over 72% of all activity and cleared 10x medians. The two trends appear to be related.



Interestingly, the upper middle market ($500m-$1b) showed the biggest quarterly spike of the three MM segments. Deal flow nearly doubled in Q2 to 103, up from 53 the prior quarter. Q2 accounted for 22% of all MM deals compared to just 12% in Q1 and 14% in the same period last year. Because of heightened valuations, we suspect that a few UMM deals happening today could have been in lower reaches of the MM in prior years, but price tags have increased.

Expect to see more mid-market activity in the coming years. Fundraising, a harbinger of future activity, is on a tear. The average fund size continues to go up, and conversely, the average time it takes to close those funds continues going down. LPs, in other words, are sold on the middle market, and likely will be for some time to come.

[Click here to download PitchBook's 3Q U.S. PE Breakdown Report.]

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