

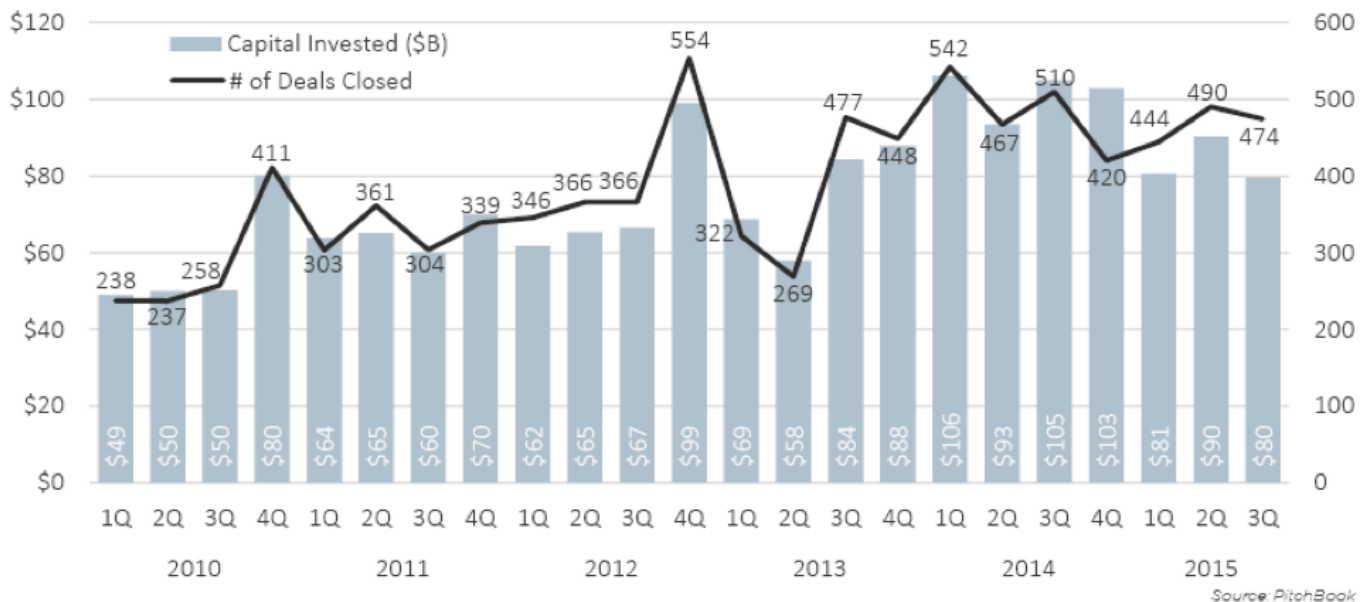
The Pulse of Private Equity – 10/12/2015

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U.S. Middle Market Continues Healthy Plateau

The U.S. private equity middle market remains strong, tracking relatively within the record ranges of last year. At 474 closed transactions in Q3 for a total of \$80 billion in invested capital, 2015 is now at just over 1,400 deals and a total of \$250 billion. That puts it on pace to not quite eclipse last year in terms of activity and just about match 2007 numbers in terms of deal count. Total middle-market value, however, will remain short of the heights of 2014, which, in conjunction with the plateauing of deal count, is more suggestive.

MIDDLE MARKET DEAL FLOW BY QUARTER



Even in the middle market, competition has been boosting costs higher, with multiples steadily rising from 2012 to 2014, moving beyond 10x last year. In H1 2015, we saw multiples remain high for a brief period, but as the year advanced, they've slid along with overall U.S. PE activity. Debt usage in the middle market has also taken a dive in 2015 through the end of September, hitting a median of 47% after highs of over 60%.

What all these figures indicate is that price fatigue and volatility are taking a toll, however minor, on PE firms focused on the U.S. middle market, even if the decline likely will still leave 2015 as one of the strongest years on record. Especially in the upper middle market (\$500 million to \$1 billion in deal size), investors have dialed back activity considerably in Q3, a reflection of both a decreasing supply of quality targets and lack of enthusiasm, as well as overall volatility affecting growth prospects. For the UMM in particular, the strong U.S. dollar, which affects larger companies with global operations more than their smaller counterparts, isn't helping. The plateau in mid-market activity is unlikely to dip further, but it may extend, although a year-end bump isn't out of the cards yet if investor optimism picks up.

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