

# Third Quarter M&A Market Commentary

October 31, 2019

## Business Owner Advisory



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Partner

### Strong M&A Market:

- Multiples of EBITDA nearing 2016 high
- Shortage of quality lower middle-market companies to acquire
- Increased buyer competition
- 546 total transactions as of 9/30/19
- \$15 billion total transaction value in 2019 as of 9/30/19
- B2B and B2C are 40% of transaction activity
- Median transaction size is \$21.4M

### Business Owner Action Plan:

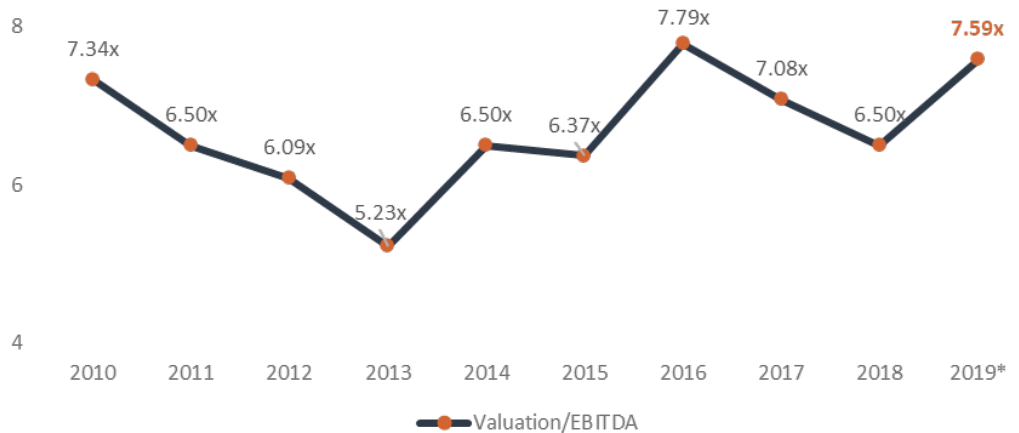
1. Meet with exit planning advisor to discuss current options
2. Have a third-party valuation performed
3. Know your options

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### Increased Transaction Multiples

The M&A market for lower middle-market companies (below \$100M in enterprise value) remains strong. Third-quarter valuations and multiples neared 2016 levels coming in at 7.59x valuation/EBITDA with less than three months to go in 2019. The drivers behind this market include interest rate policies that are manufacturing historically low rates, PE and strategic buyers with high levels of capital to deploy and a shortage of quality companies to acquire. This formula, combined with higher multiples, has created heavy buyer demand. Now may be a good time for business owners to explore their options and understand the market's interest in their business.



Source: Pitchbook \*As of October 3, 2019

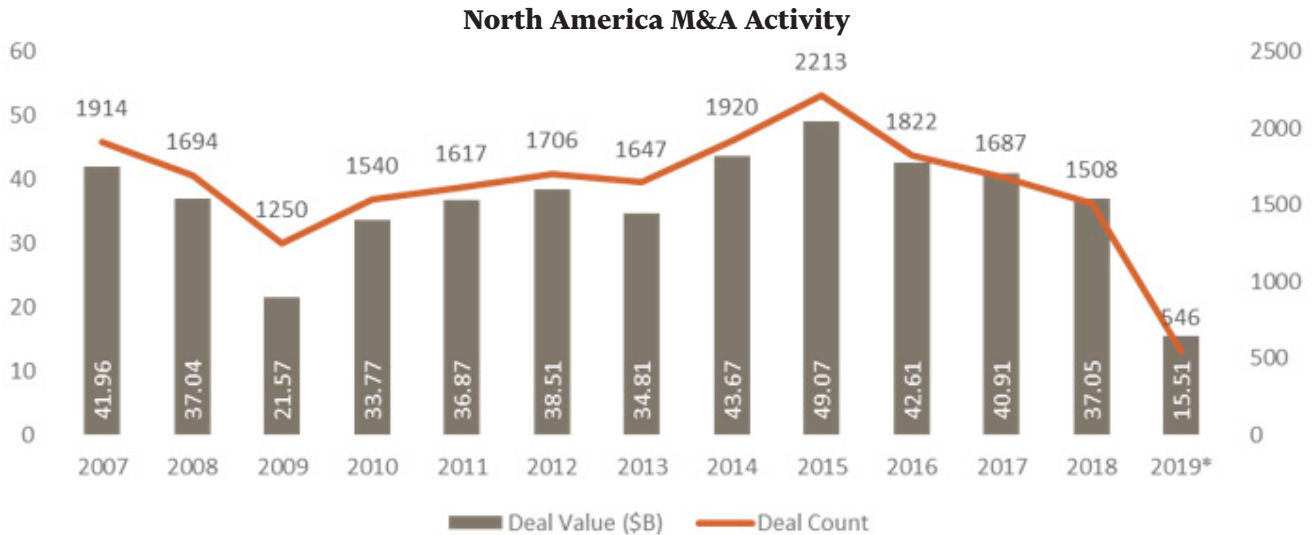
### Strong Seller's Market for Business Owners

Data shows that buyers are willing to extend, if not increase multiples in 2019 for quality companies. This willingness comes from a supply shortage of these businesses with enterprise values below \$100M. Competition in the buyer space has also been steadily increasing. Accumulation of dry powder, a low interest-rate environment, and continued economic expansion are contributing to this prolonged "seller's market." The seller's market cycle, also known as the prime selling time, lasts on average about five years in a private market cycle. We are currently heading into our seventh year of the current one. The next prime selling time cycle is projected to begin in 2023.



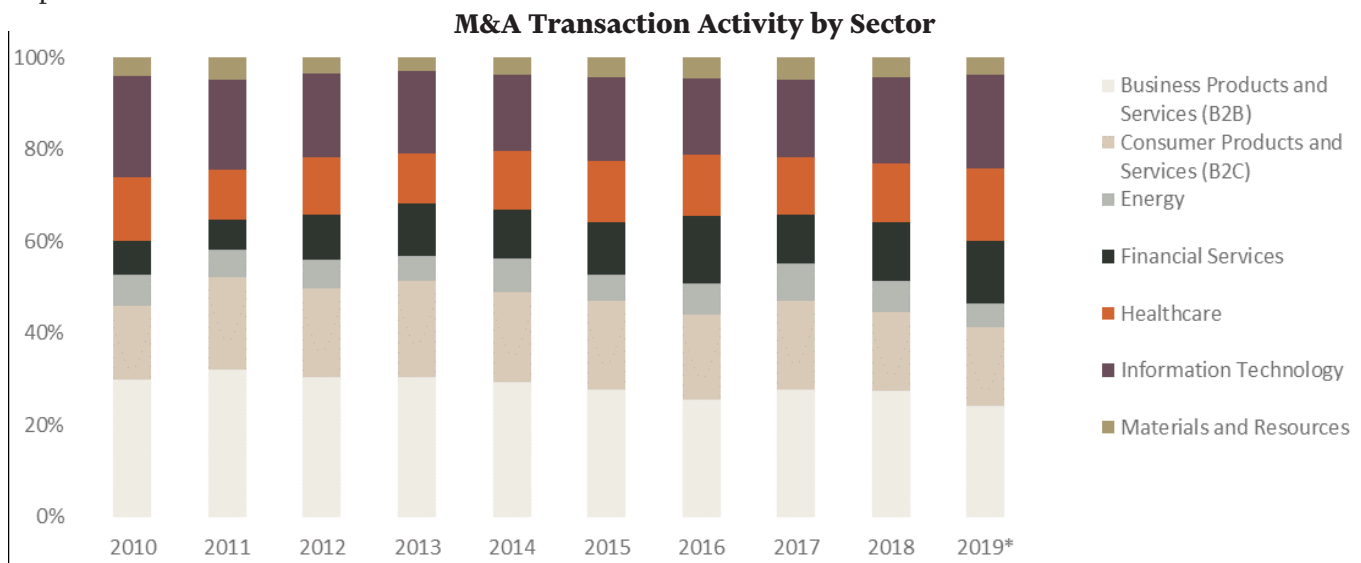
### Both Fundraising and M&A Activity are Down

The M&A market is driven by the demand for quality companies, shortage in inventory, and increasing competition from private equity firms and strategic buyers both domestically and internationally. With over a trillion dollars in dry powder to acquire companies, the current environment can be summarized simply as “too much money chasing too few opportunities.” Through the end of third quarter, 546 lower middle-market M&A transactions have been completed in 2019, totaling \$15.51 billion. Over \$17.2 billion in capital was raised by just 19 PE funds in the second quarter of this year, which is down 19% from the first half of 2018. The number of PE funds raising capital is down 35%. However, these funds still seem confident in the current M&A market’s ability to absorb this capital over the current cycle.



Source: Pitchbook \*As of October 3, 2019

Strategic buyers have enjoyed a period of strong earnings, which in turn has created more purchasing power for acquisitions of privately-held companies. This increased purchasing power has enabled strategic buyers to pay more for acquisitions. Strategic buyers in the S&P 500 and private equity funds have seen enterprise value to EBITDA multiples increase globally from 8.4x in 2010 to 12.4x in 2019. This growth is fueling strategic buyer activity despite the higher multiples.

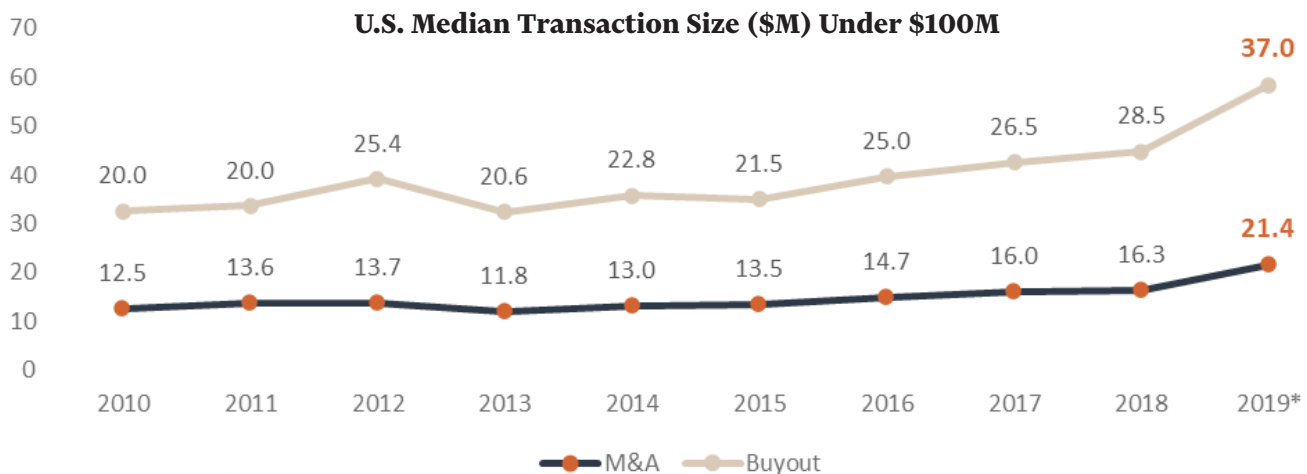


Source: Pitchbook

Since 2009, there has been a steady increase in the median size of transactions in the United States. As of October 3, 2019, the median company size for a lower middle-market transaction was \$21.4M. Many factors are contributing to this increase, including:

- A shortage of companies to acquire
- More competition in the PE and strategic buyer space
- Almost \$1.54 trillion in global PE dry powder looking to be deployed for transactions
- Overall confidence in the M&A and economic markets

The higher multiples have had some impact on transaction terms. Buyers have been using higher debt ratios and stronger performance earn-out terms to compete and match the counteroffers of other buyers.



Source: Pitchbook \*As of October 3, 2019

### Strong U.S. Economy with Signs of Slowing

Sentiment about the U.S. economy remains positive due to the relative strength of key economic indicators. Third-quarter Gross Domestic Product (GDP) was 2.1%. Additionally, in September, the national unemployment rate hit a 50-year low at 3.5%, and the Consumer Confidence Index was 125.10. As expected, the Federal Reserve has continued to support lower interest rates throughout 2019, which is a sign of continued confidence in the U.S. economy. This confidence has carried over to the M&A markets even as the economy begins to slow and U.S. policymakers strive to balance weaker global growth and trade policy.

### Understand Your Current Exit Options

As a business owner, this seems to be a good time in the market cycle to consider all your current exit options regardless of your long-term intent for your business. Looking at partial exits (majority or minority interest) could be another alternative to a full 100% exit. Today's current M&A market is definitely a seller's market, and the data shows continued support for a strong M&A cycle through 2019 and into 2020.

For more information, please contact Cerity Partners at [bdearing@ceritypartners.com](mailto:bdearing@ceritypartners.com) or (646) 928-8775.

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