Middle Market Pulse

EXECUTIVE BRIEFING | *Mergers, Acquisitions and Capital Resources Since 1956* | March 2021

GF Data, a database of private equity sponsored M&A transactions, recently published their quarterly M&A Report reflecting on the full year of 2020. The data suggests that the resurgence we saw in the final months of the year will likely continue; and that we should see another strong year of middle market mergers and acquisitions activity in 2021.

80% of all transactions in GF Data's 2020 deal count fell into four industry categories: manufacturing, business services, health care, and distribution. Of these four, manufacturing led the deal count for the year with 113 of the total 297 closed transactions reported, a whopping 38%. At the onset of the pandemic, the manufacturing sector grappled with disruptions in supply chains, COVID outbreaks in its facilities, and mandated lockdowns. Yet, as the year wore on, companies worked through those issues. With a worldwide return to normalcy beginning, the manufacturing sector will continue to represent a large portion of done deals in 2021.

Quality Premiums

Buyouts Only

	2003 –2015	2016	2017	2018	2019	2020	Total
Above Average Financials	6.3	7.2	7.8	7.8	7.6	7.8	6.8
Other Buyouts	5.9	5.9	6.4	6.3	6.3	6.1	6.0
Premium(/Discount)	108%	122%	122%	124%	120%	127%	114%
Incidence	56%	56%	57%	59%	53%	56%	56%

Source: GF Data

Figure 1

TEV/EBITDA

By Industry Category

INDUSTRY	2003 –2015	2016	2017	2018	2019	2020	Total	N =
Manufacturing	6.0	6.1	6.8	6.9	6.6	6.7	6.2	1576
Business services	6.1	7.3	7.3	7.1	7.1	7.1	6.6	781
Health care services	6.9	7.6	8.1	7.8	8.4	7.9	7.3	345
Retail	6.3	7.0	7.3	7.5	9.3	6.9	6.8	114
Distribution	6.2	7.2	7.6	7.0	7.1	7.7	6.6	384
Media & Telecom	7.1	6.5	7.7	7.8	7.0	8.3	7.2	62
Technology	7.1	7.4	9.9	9.6	10.0	7.6	7.9	126
Other	5.8	6.9	6.5	7.0	6.5	6.6	6.1	377
N=								3765

Please note that N for 2003-15 encompasses thirteen years of activity.

Source: GF Data

Figure 2

GF Data's M&A Report also includes valuation data on closed deals. One category they track is defined as "better financial performers", which are companies that have trailing twelve-month revenue growth and EBITDA margins both above 10%, or one above 12% and the other at least 8%. This data shows the premium paid by the buyer for a best-in-class company. For the entire year of 2020, that quality premium reached 27% on average, with average premium levels rising from 19% in Q1 to 33% in Q4. Those lofty premiums also could have something to do with the limited number of companies that went to market in 2020. While some companies did thrive during the pandemic, many companies considering a sale simply chose to postpone the process until their financial performance improved.

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