Middle-Market M&A Briefing

DECEMBER 2017

Business Valuation Multiples at Record Highs

According to GF Data,® valuations of middle-market companies in Q3 eclipsed previous highs with an average Total Enterprise Value/Adjusted EBITDA multiple of 7.5x on deals with an Enterprise Value[1] of $10 million to $250 million. Year-to-date average valuation multiples are 7.1x (see Chart A). While the number of completed middle-market deals year-to-date is down from the comparable 2016 period, demand for companies with above average financial performance remains very strong. This demand in conjunction with the availability and use of higher leverage by buyers, is largely responsible for the record high valuation multiples.

Historically, valuation multiples vary by Adjusted EBITDA[2] level (see Chart B). The greater the Adjusted EBITDA, the higher the valuation multiple. 2017 deals also show the continued assertion of the "quality premium." This is the reward in valuation for companies with above-average financial performance. Per GF Data,® historically the quality premium has been approximately .5x Adjusted EBITDA.

CHART A
Total Enterprise Value (TEV)/EBITDA

	2012	2013	2014	2015	2016	2017		
TEV	2003-12	2013	2014	2015	2016	YTD 2017	TOTAL	N=
10-25	5.6	5.9	5.7	5.8	5.9	6.3	5.7	1124
25-50	6.2	6.8	6.6	6.6	6.5	6.5	6.3	812
50-100	6.8	6.8	8.4	7.8	7.3	7.9	7.1	560
100-250	7.3	7.5	7.8	9.0	9.0	8.9	7.9	272
TOTAL	6.2	6.5	6.7	6.7	6.8	7.1	6.4	
N=	1761	167	220	238	220	162		2768

Please note that N for 2003-12 encompasses ten years of activity. Source: GF Data®

CHART B
TEV/EBITDA - All Industries by EBITDA Size

	2012	2013	2014	2015	2016	2017		
EBITDA	2003-12	2013	2014	2015	2016	YTD 2017	TOTAL	N=
3-5	5.7	6.3	6.7	6.0	6.0	6.6	5.9	789
5-8	6.2	6.3	6.6	6.5	6.7	6.7	6.3	658
8-10	6.3	5.4	6.9	7.7	7.1	7.7	6.6	234
>10	6.3	6.6	7.2	7.3	7.8	7.8	6.7	558
TOTAL	6.1	6.3	6.8	6.6	6.8	7.1	6.3	
N=	1444	131	176	188	175	125		2239

Please note that N for 2003-12 encompasses ten years of activity. Source: GF Data®

Saybrook Capital Advisors sees strong merger & acquisition activity with a healthy pool of financial and strategic buyers. When strategic buyers pay more for a company than a financial buyer, the premium being paid is typically 5-15% according to the 2017 Pepperdine Capital Markets Report. While a growing economy and ample debt financing typically bodes well for owners seeking a sale or recapitalization, the current seller's market is getting long in the tooth. Owners should be asking themselves whether this highly attractive seller's window is one they and their family can afford to miss.

Saybrook Capital Advisors has a strong understanding of how to maximize value and position your company to the buyer groups that will best accomplish your goals. Preparation and the use of a SCA's proven transaction process are the keys to achieving the best results. Please contact Saybrook Capital Advisors for a confidential discussion of valuation multiples specific to your industry and company's characteristics.

1. Enterprise Value is the entire value of the company (equity value plus the value of debt, minus cash). Enterprise value for private companies is typically calculated by applying a valuation multiple to Adjusted EBITDA.

2. Adjusted EBITDA (AE) is important to business owners because it is a vital number used in the valuation of a privately-owned company. AE represents earnings before interest, taxes, depreciation and amortization adjusted to exclude one-time, non-recurring and extraordinary expenses, and to adjust owner compensation plus other expenses to market rates. Adjusted EBITDA is often times referred to as "normalized earnings."

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About Saybrook Capital Advisors, LLC

Saybrook Capital Advisors is a merger & acquisition advisory firm focused on middle-market businesses throughout the United States. Our important mission is to help owners successfully monetize the wealth they have created through their businesses. We have deep experience spanning over thirty years in representing owners with the sale of their business, merger, recapitalization and exit planning advisory needs.

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