



U.S. Private Equity Mergers & Acquisitions Activity

Q3 2019 Quarterly Insights

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U.S. Private Equity M&A observations – 2019 YTD*

With the Great Recession now one full decade in the rearview mirror, we are still witnessing a historic M&A bull market

among private equity (PE) players, the longest stock market bull run in history and a relatively strong economy. Valuations are at historic highs, and PE sponsors have an incredible inventory of available capital. While the overall M&A market is showing strains and has slowed from last year's pace, PE activity remains strong by historic measures.



Kent Adams

Managing Director
Middle Market M&A
and Financial
Sponsor Coverage

During 2019, we are witnessing the same phenomena that we have seen over the last several years in PE-driven M&A:

- A historically high number of annual M&A transactions
- A continued buying frenzy among PE bidders at historically high multiples of EBITDA being paid due to an oversupply of capital chasing too few quality companies/transactions
- PE funds continue to raise a record amount of capital from very willing limited partners
- Debt providers, particularly cash flow lenders, continue to provide historically cheap and available debt financing
- Strategic balance sheets remain similarly very strong, a result of the very robust and growing U.S. economy over the last ten years, accelerated by the Jobs Act of 2017

This activity has only recently been somewhat muted by selective macro economic issues, including tariff wars, continued geopolitical tensions, slowing global economies and U.S. manufacturing output and continued uncertainty regarding Brexit. Every cycle has uncertainty, and the question is whether an even short-term economic slowdown can slow down this unprecedented M&A environment in private equity.

In our recent conversations with a wide variety of financial buyers of businesses, ranging from large and middle market PE funds to family offices and fundless sponsors, several key themes are consistently repeated:

- Acknowledgement regarding how competitive the market is; consequently, that applies an upward force on multiples while shortening the required diligence time frame to close a deal in order to prevail in an M&A auction
- Increased use of “sponsor fund lines of credit” to remove the uncertainty of third-party financing
- Many generalist middle market firms are reviewing 1,000+ deals on an annualized basis, and on average investing in only two or three platforms per year
- A focus on chasing transactions where the PE firm knows it can 1) have a very strong “angle” on the business and believe that they can accelerate organic growth, 2) add scale and lower their blended acquisition multiple by pursuing tuck-in acquisitions, and 3) therefore, be ultra competitive on pricing
- While deal volume remains high, PE firms are seeing “lower quality” businesses (i.e. customer concentration, high capital expenditures relative to EBITDA, business cyclicity, flat or declining revenues and/or compressed operating margins), with such businesses still trying to extract large multiples



Tim Ludwick

Vice President
Middle Market M&A
and Financial
Sponsor Coverage

The charts on the following pages support our view and what we are witnessing in the market. We continue to remain bullish given the amount of capital (both equity and debt), available for transactions in the marketplace and no signs of a major market slowdown in PE activity without a force majeure event or sustained economic slowdown in the U.S. Our bullishness is supported by the velocity by which PE firms are participating in transactions for privately held businesses, including founder-owned, entrepreneurial led and PE sponsor owned. PE is in the business of buying and selling businesses, and as average hold times have decreased, we continue to expect an active M&A market over the next 12 months as owners seek to capitalize on the current bull market, and mitigate risk of prolonged economic expansion and/or the 2020 election results.

U.S. Private Equity M&A observations – 2019 YTD*

12.2x

Average EV/EBITDA multiple paid by PE firms, a historic high

6.0x

Average total debt to EBITDA

\$441bn

Total PE deal activity in 2019* down from \$516bn in Q1-Q3 2018, but historically high level

40+

Advisory transactions completed by BMO and involving PE since Q3 2018

\$174bn

Total sponsor backed transaction loan volume

\$191bn

Total private equity dollars raised

\$205mm

Median PE deal size, up from \$190.0mm in 2018

29%

Percentage of total deals completed in the IT sector, the most active PE sector

3,883

Number of PE transactions closed

Private Equity Activity

General Deal Overview

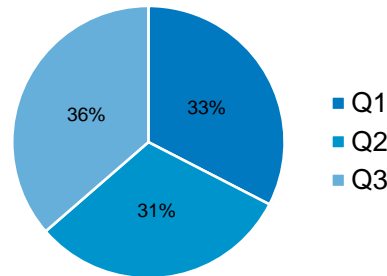
Deal Activity – Annual Comparison, 2008 – 2019 YTD*

Through the first three quarters of 2019, the total number of U.S. private equity M&A deals is slightly lagging the first three quarters of 2018, and the total dollar value of such deals is also lower by 2%

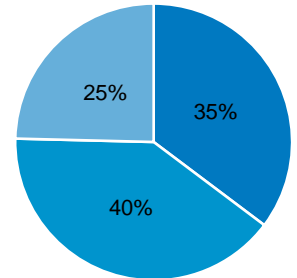
Historically, deal value and quantity have strengthened in the latter half of a respective year; however, it will require a surge in activity in the last quarter of 2019 to surpass the record levels of 2018 activity

The odds of a strong final quarter are met with uncertainty with escalating geopolitical tension, slower economic growth and a looming election year

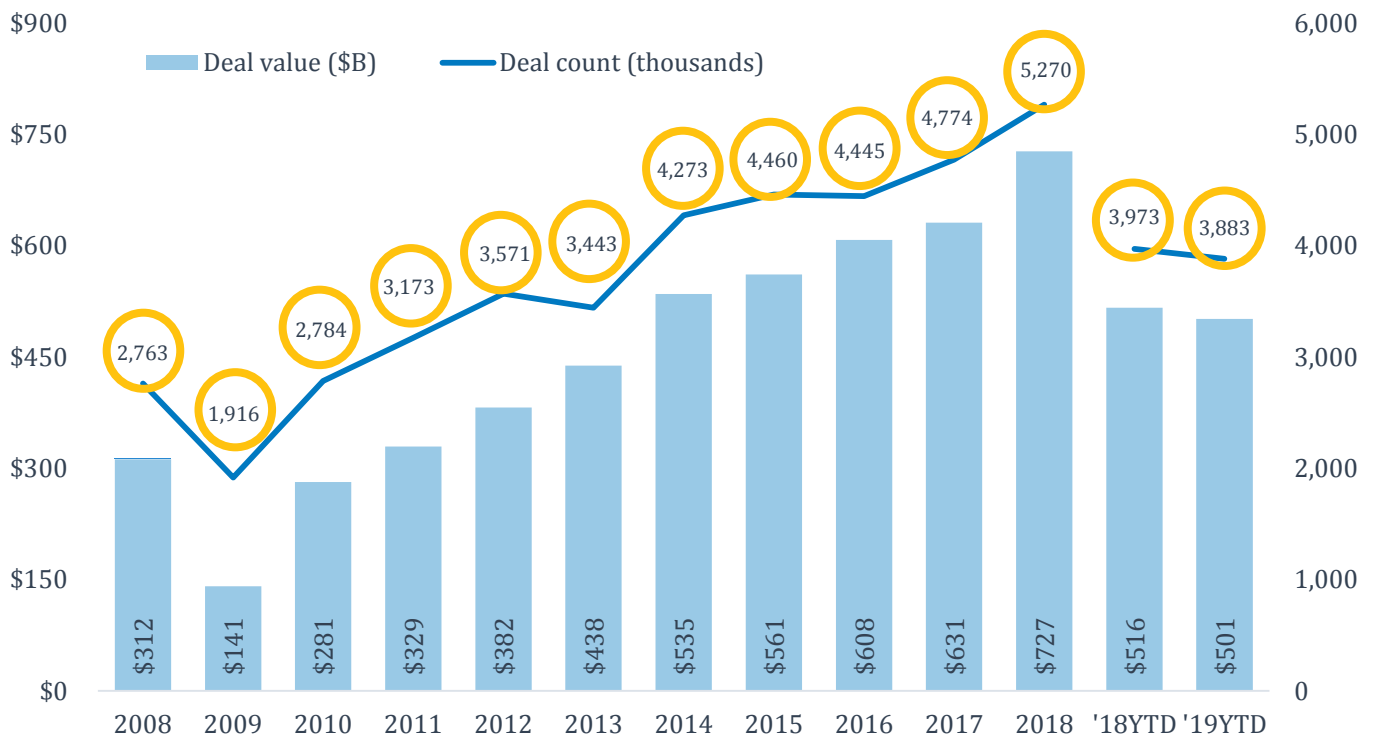
'18YTD



'19YTD*



Share percentage of deal activity by deal value



Deal volume in terms of both value and quantity through Q3 are on pace to continue the bullish PE M&A run seen over the past ten years

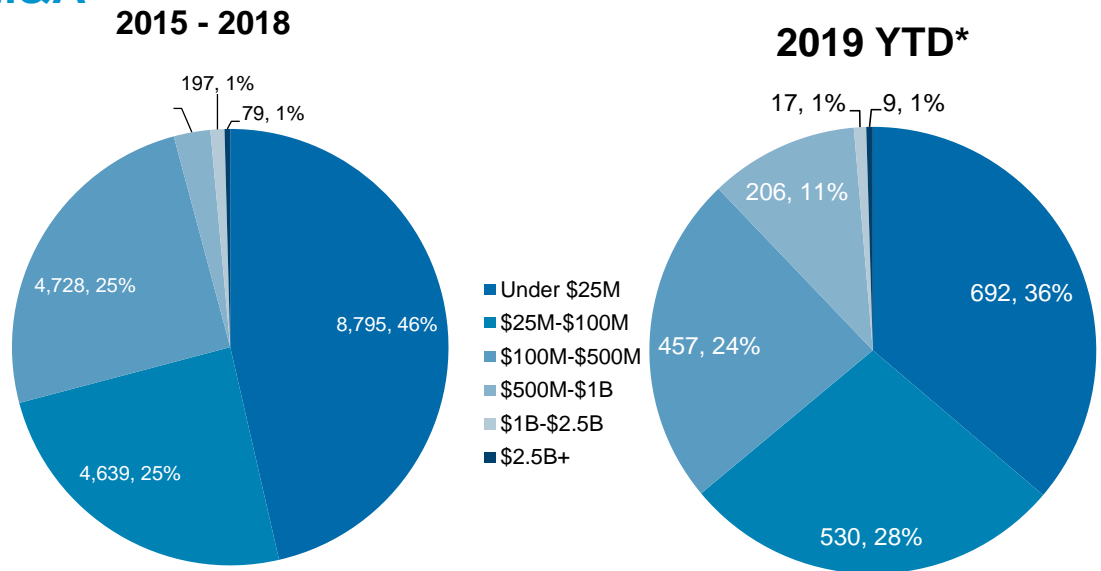
Private Equity Activity

Deals by Size

Enterprise Value – Annual Comparison, 2015 – 2019 YTD*

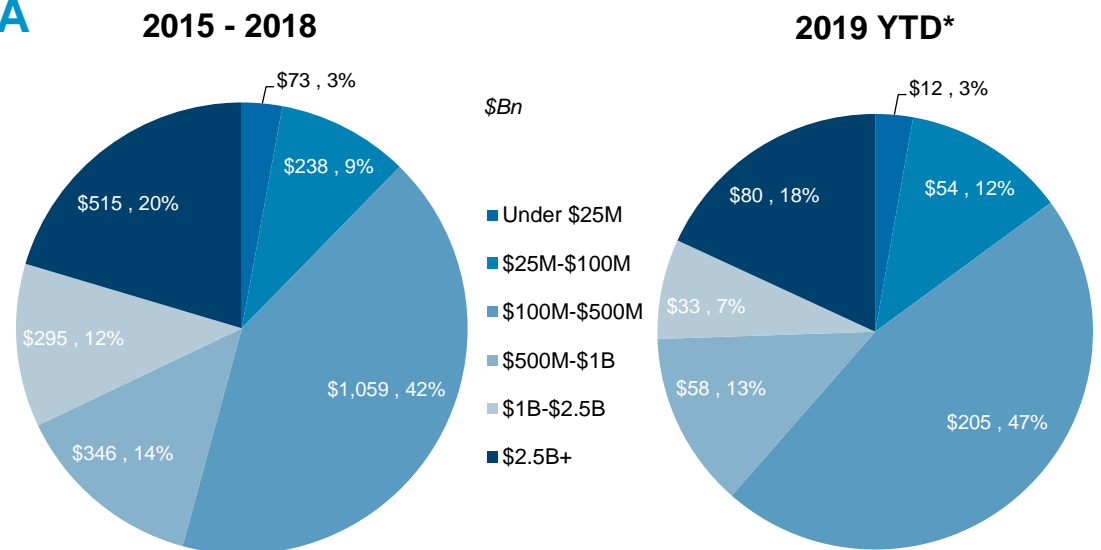
Number of PE M&A Deals by Size

Since 2015, over 90% of the number of closed PE M&A transactions have had enterprise values of less than \$500mm



Value of PE M&A Deals by Size

Transaction values ranging \$100mm to \$1bn comprise 57% of total deal value since 2015



The middle market of PE M&A transactions continues to dominate in terms of number of transactions and overall deal value volume. Billion dollar transactions, which comprise less than 2% of the number of all deals, comprise 30% of total deal value

Private Equity Activity

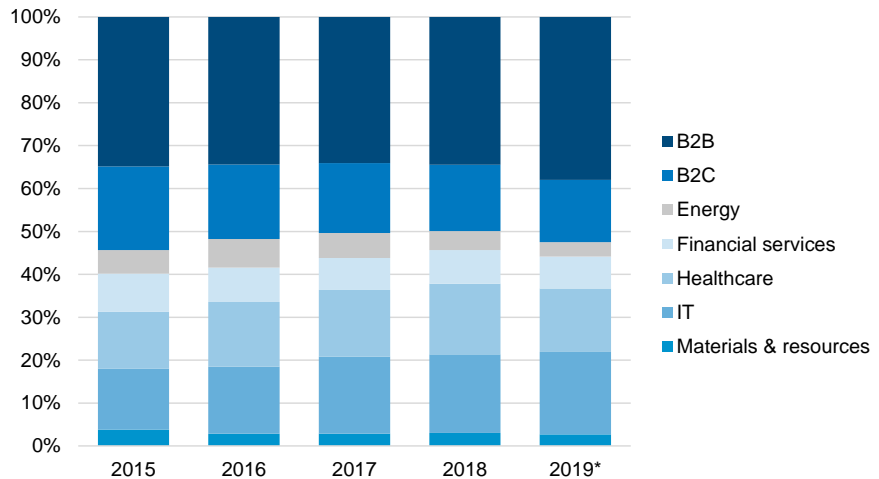
PE M&A Transactions by Industry

Industry Sector Activity – Annual Comparison, 2015 – 2019 YTD*

Total Number of Deals by Sector

The number of private equity transactions by sector has remained fairly balanced over the past five years

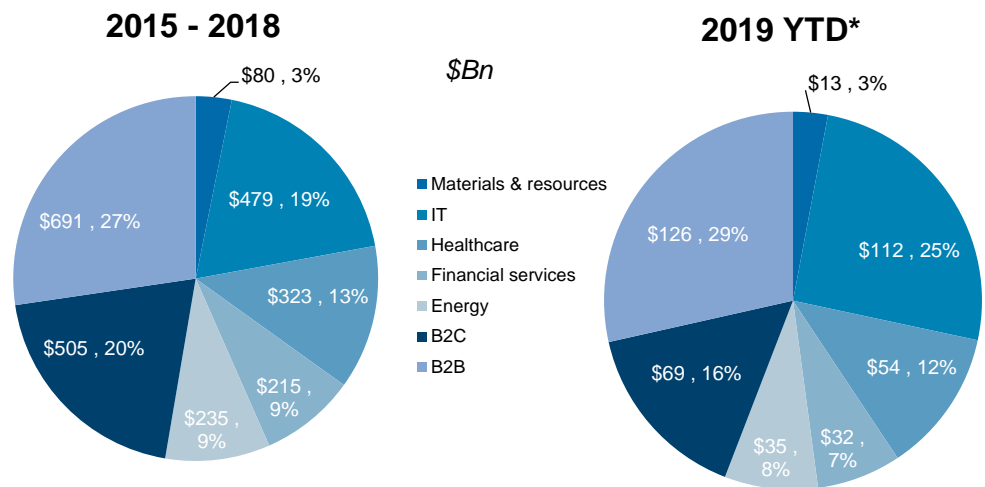
Investments in the IT and B2B sectors from 2015-2018 led all deal activity with 17% and 34%, respectively; they continue to be the strong sectors through 2019 YTD* at 19% and 37%, respectively



Total Value of Deals by Sector

Total deal values by sector tend to fluctuate by a greater degree year-over-year due to large transactions that deviate from the norm

Higher valuations in the IT sector continue to dominate the landscape and account for \$112bn of total deal value YTD, up from \$78bn YTD in 2018



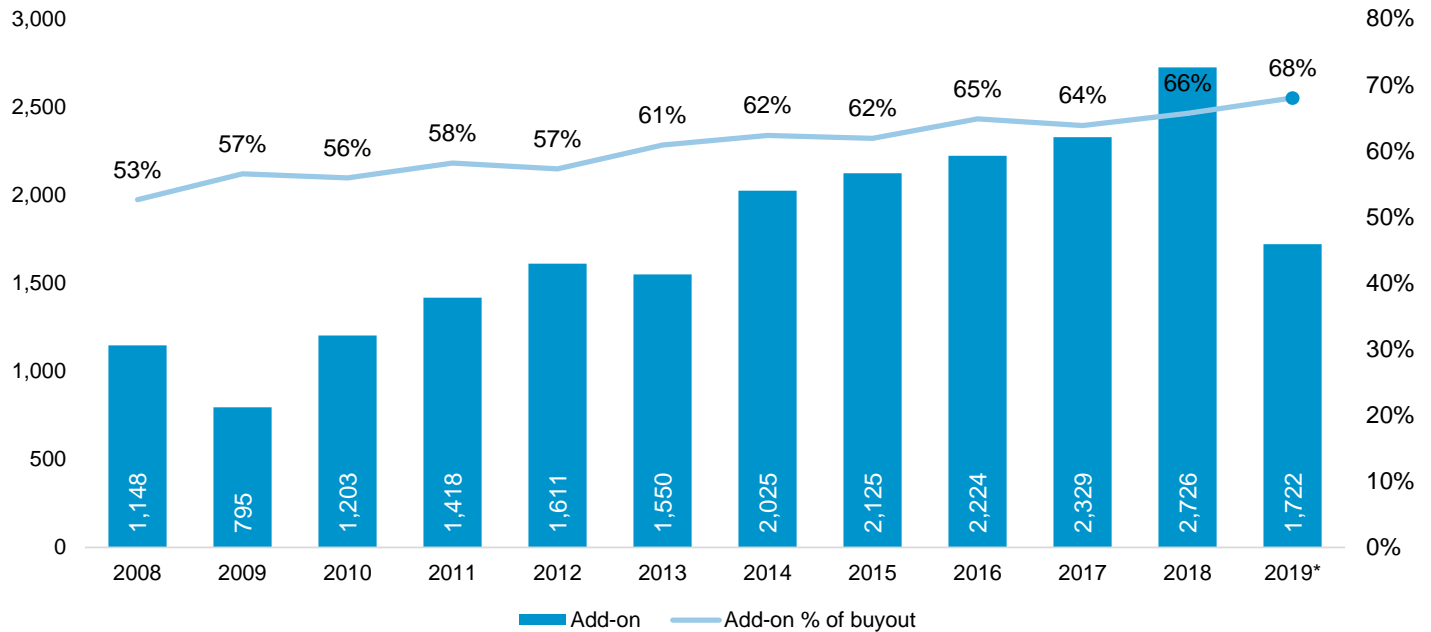
B2B sector accounts for one-third of all PE deals, B2B + IT deals comprise nearly half of PE deal value

Private Equity Activity

Add-on Activity

Buyout Activity - Platform vs. Add-on, 2008 – 2019 YTD*

Number of Deals by Add-on Percentage



The percentage of PE acquisitions which comprise add-ons for existing portfolio companies has grown nearly each of the past 10 years and now comprise two-thirds of all PE transactions

PE backed portfolio companies are increasingly utilizing tuck-in acquisitions to drive growth and value creation

Private Equity Overhang

Capital Activity

Capital Raised and PE Fund Count, 2015 – 2019 YTD*

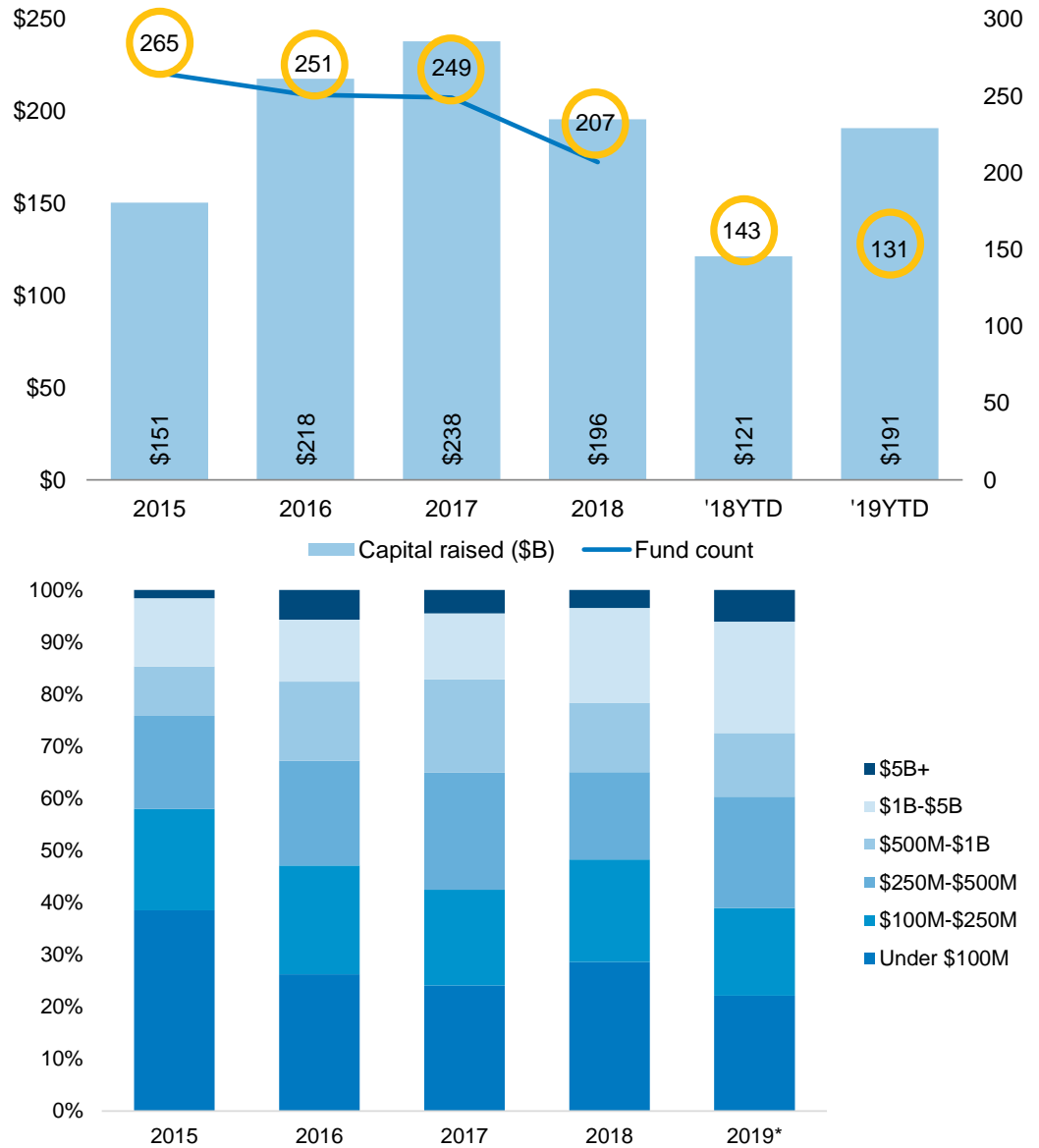
PE Fundraising Activity

The fundraising environment remains robust, with significant institutional interest in private equity investing given strong, consistent returns

Fundraising in the first three quarters of 2019 appears to be slightly declining in terms of the number of new funds closed; however, the total capital raised has almost surpassed the 2018 full-year figure of \$196bn

For comparison, as of September 30th, 2018, there were 143 closed funds with approximately \$121bn of capital raised

Mega-funds (\$5+ billion) were the driving force in the first three quarters of 2019. Blackstone closed the largest PE fund ever raised at \$24.7bn, a title previously held by Apollo Global Management



Given strong overall returns and the amount of capital that institutional LPs have to deploy, PE fundraising is expected to continue to be very strong from both middle market and mega PE funds

Debt vs Equity

PE Buyout Structure

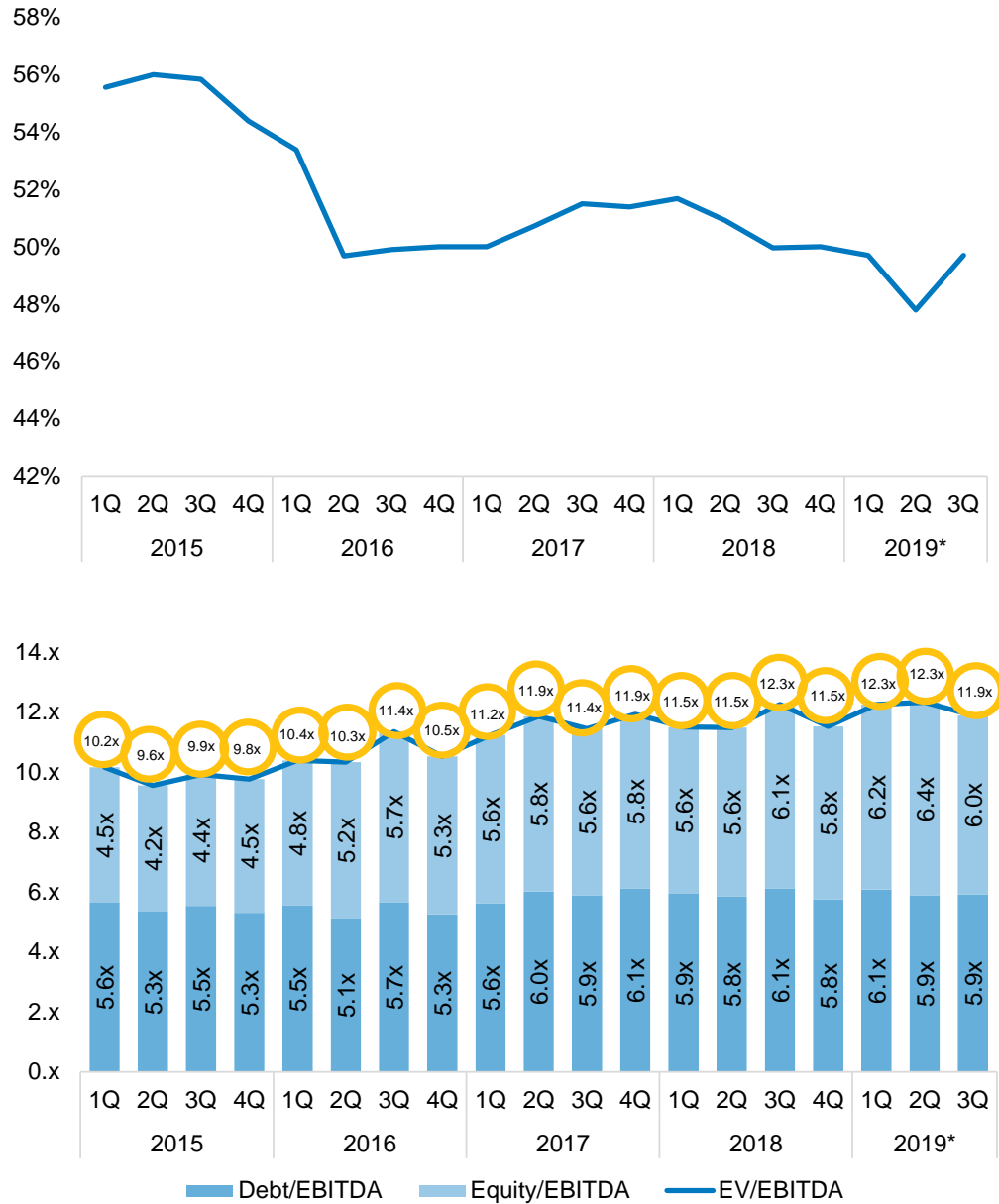
Debt Capital / Equity Capital in PE Transactions

Debt Percentage of PE Buyouts

With relatively cheap debt financing available, in large quantities, combined with high multiples being paid, a perfect storm exists for deploying both debt and equity capital to finance PE transactions, with a greater percentage coming from equity, on average

Sponsors are increasingly taking only moderate leverage at close but will build in flexibility to take debt above closing leverage in order to aggressively pursue acquisitions

Higher leverage multiples are an indication of both strong deal flow quality and sustained market optimism



While average debt leverage is near record highs, as a total percentage of enterprise value, it has slowly tempered vis-à-vis equity in recent years as EV/EBITDA multiples have expanded



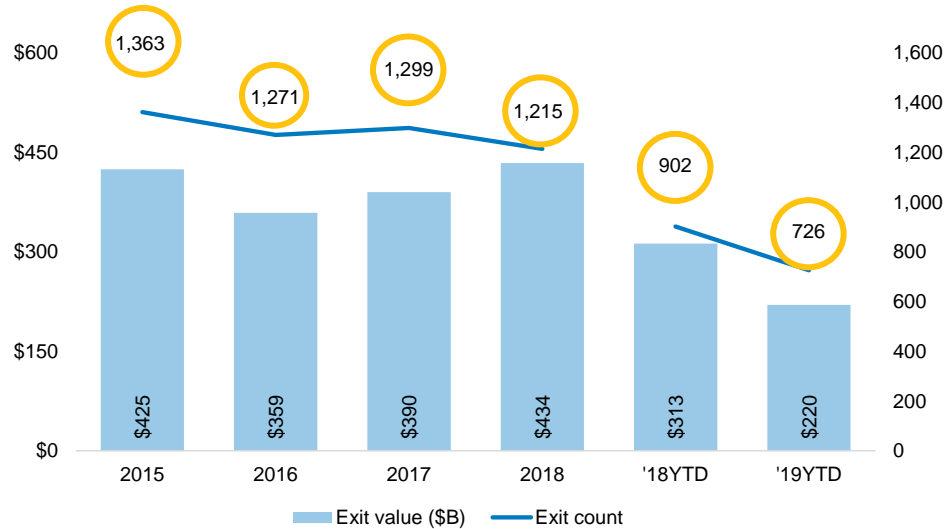
Exits

Valuations

PE Sale Valuations – Annual Comparison, 2015 – 2019 YTD*

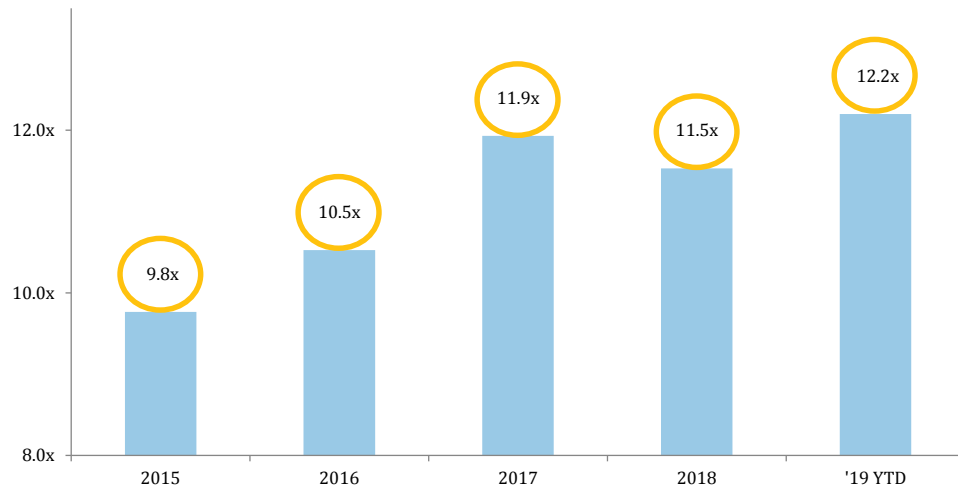
PE Exit Deal Value and Count

The decline in the quantity and value of deals done in the first three quarters of 2019 compared to 2018 can be partly attributed to international tariff implications, high valuation expectations, and continued political uncertainty



EV / EBITDA Value

Transaction multiples have been steadily increasing over the past five years, with YTD 2019 being a record year



Cheap financing coupled with copious capital volume has forced M&A demand to outpace the supply of quality processes in market, resulting in record high average transaction multiples

PE Exits

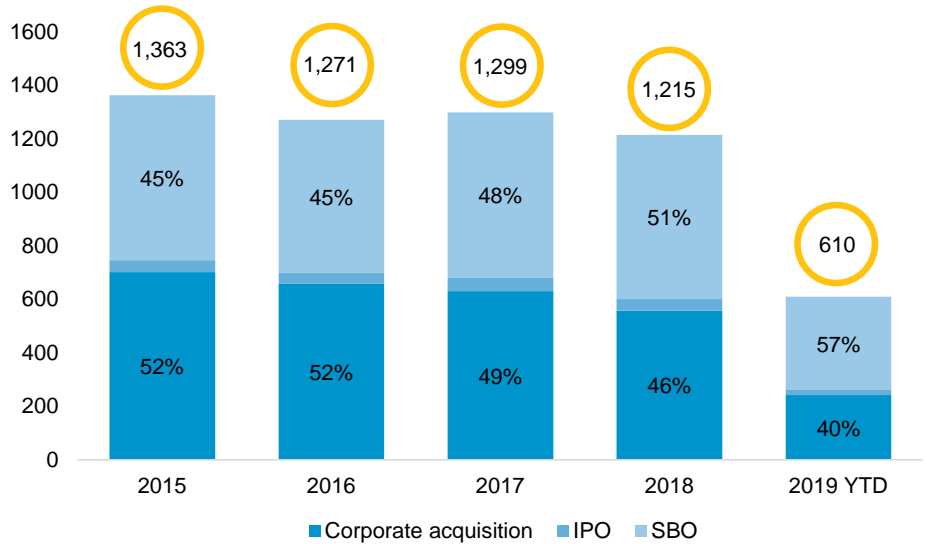
Who is Buying?

Purchasers of PE Assets– Annual Comparison, 2015 – 2019 YTD*

Number of Deals by Buyer Type

Corporations are more attracted to M&A with increased public market valuations, cash repatriations and favorable borrowing conditions making capital plentiful

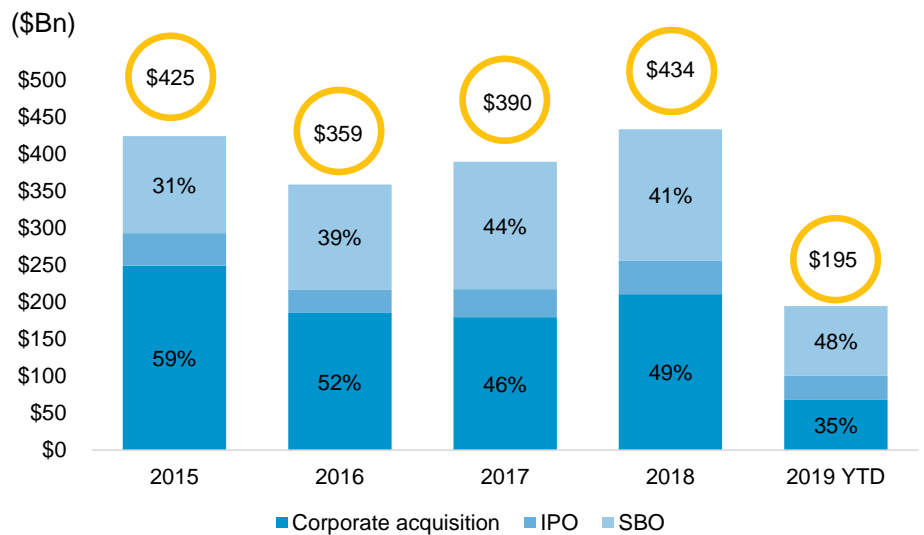
Since 2015, the number of PE exits to corporate buyers slightly favors the number of sales to other PE groups; however, in the first three quarters, the number of SBO's (Secondary Buyouts) has outpaced Corporate acquisitions by approximately 44%



Value of Deals by Buyer Type

Considering most businesses that go public have an enterprise value of at least \$1 billion, the IPO market consists of a greater share of PE exits in terms of deal value as expected; however, the IPO category is still trumped by corporate buyers and other PE buyers

Private market valuations in many sectors have been comparable to public valuations, without the costs of public ownership



By measure of both deal value and quantity, the percentage of corporate acquisitions of PE assets have been diminishing while secondary buyouts have been steadily rising over the last five years

BMO M&A expertise in Private Equity transactions

Experienced team

- Global M&A practice with ~105 M&A professionals in nine offices around the world, with ~80 M&A professionals in the U.S.
- Including over 30 Managing Directors and Directors

Full product capabilities

- Sell-side, buy-side and cross-border advisory
- Recapitalizations and restructurings
- Fairness opinions
- Takeover defense
- Activism defense
- Leveraged and management buyouts
- Strategic alternatives review

Proven results

- US\$404 billion⁽¹⁾ of transaction value in 500+ deals since 2011

Approach

- Deep sector expertise in close alignment with BMO's industry groups
- M&A professionals partner with industry experts to drive enhanced insights and execution
- Dedicated capabilities in both large cap and middle market M&A advisory and financing

Select recent PE M&A transactions

aveanna
healthcare
Portfolio Company of
BainCapital
Acquisition of Maxim's Homecare Division
Financial Advisor
Pending

Unitrans
Portfolio Company of
THE JORDAN COMPANY
Sale to
QUAD-C
Portfolio Company of
Financial Advisor
August 2019

PRIDE
ENGINEERING
Portfolio Company of
MAY RIVER CAPITAL
Sale to
ARCLINE
Financial Advisor
August 2019

LEVINE LEICHTMAN CAPITAL PARTNERS
Sale to
3i
Financial Advisor
July 2019

PIONEER RAILCORP
Sale to
BROOKHAVEN CAPITAL PARTNERS
RELATED
Financial Advisor
July 2019

STELLAR
Portfolio Company of
GOLDNERHAWN
Sale to
UNIFRAX
Portfolio Company of
CLEARLAKE CAPITAL
Financial Advisor
June 2019

JHFOSTER
John Henry Foster.com
Automation • Robotics • Compressed Air • Service
Sale to
highroad
CAPITAL PARTNERS
Financial Advisor
May 2019

Reddylce
Portfolio Company of
Centerbridge
Sale to
STONE CANYON INDUSTRIES
Financial Advisor
May 2019

DDS DENTURES+IMPLANT SOLUTIONS
Sale to
AFFORDABLE DENTURES & IMPLANTS
Portfolio Company of
Berkshire Partners
Financial Advisor
March 2019

marcone
Our Passion is Product Support
Recapitalization by
STERLING
INVESTMENT PARTNERS LP
Financial Advisor
January 2019

CARBER
Portfolio Company of
PLATTE RIVER EQUITY
Sale to
HydroChemPSC
Portfolio Company of
LITTLEJOHN & CO.
Financial Advisor
January 2019

American Roller Company
Portfolio Company of
CM INVESTMENTS & RESTRUCTURING
Acquired by
HAMILTON ROBINSON CAPITAL PARTNERS
Financial Advisor
January 2019

A Powerful M&A Practice

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As a member of BMO Financial Group (NYSE, TSX: BMO), we leverage the financial strength and capabilities of one of North America's leading financial services organizations

BMO Capital Markets is a single-stop provider. Depending on your needs, you may use a combination of our capabilities, or only one. Our experience and deep sector knowledge enable us to develop the solution that fits you best

We offer a complete suite of products and services:

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- Equity financing
- Private equity financing
- Corporate lending
- Structured & project financing
- Securitization

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- Institutional
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 - Fixed income sales & trading
- Retail
 - Direct brokerage
 - Private banking

Strategy & growth

- Strategic advisory
- Mergers & acquisitions, including cross-border opportunities
- Valuations & fairness opinions
- Acquisition & divestitures
- Leverage buyouts
- Restructurings & recapitalizations
- Take-over & activism defense
- Share buybacks
- Joint ventures and other partnership models

Treasury & risk management

- Commodity products
- Money markets
- Trade finance
- Cash management
- Foreign exchange

Research

- Economics
- Commodities
- Debt
- Corporate

Americas

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Boca Raton
Boston
Buffalo
Calgary
Chicago
Denver
Houston
Mexico City
Milwaukee
Minneapolis
Montreal
New York
Phoenix
Rio de Janeiro
San Francisco
Seattle
Toronto
Vancouver
Washington, D.C

Europe & Middle East

Dublin
London
Paris
Zurich
Abu Dhabi
Mumbai

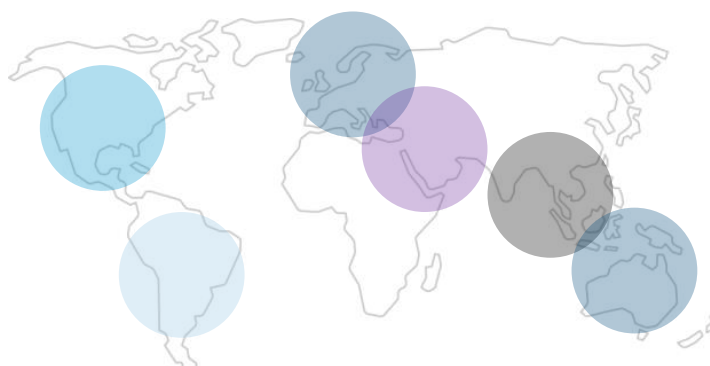
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Melbourne
Guangzhou
Hong Kong
Singapore
Shanghai
Taipei

2,700+
professionals

33
locations

5
continents



Contacts



Lyle Wilpon
Managing Director
Head of Global Advisory
New York, NY
Tel.: (212) 702-1738
lyle.wilpon@bmo.com



Seth Prostic
Managing Director
Co-Head of U.S.
Mergers & Acquisitions
Chicago, IL
Tel.: (312) 293-8365
seth.prostic@bmo.com



Rob Stewart
Managing Director
Co-Head of U.S.
Mergers & Acquisitions
New York, NY
Tel.: (212) 702-1131
robertb.stewart@bmo.com



Eric Nicholson
Managing Director
Head of Middle Market
Mergers & Acquisitions
Minneapolis, MN
Tel.: (612) 904-5710
eric.nicholson@bmo.com



We're here to help.™

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