Links Capital

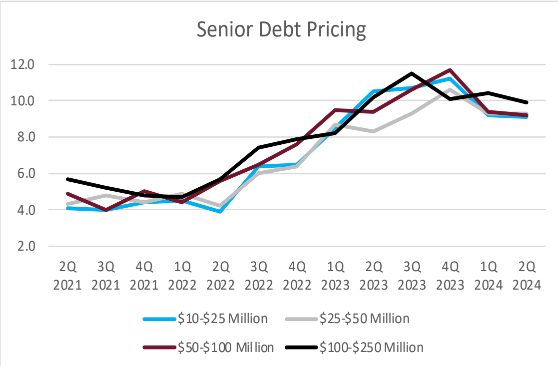
Links' List of Multiples

September 2024

Links Capital

Divestitures • Acquisitions • Financings

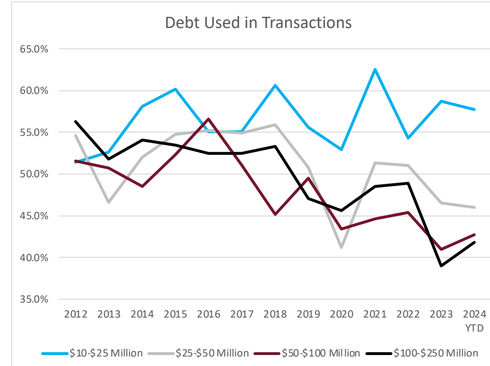
Q2 2024 Private Equity Valuation Multiples



Data Source: GF Data®

TEV/EBITDA	3Q 2023	4Q 2023	1Q 2024	2Q 2024	2003-Present
$25-$50 Million	5.9	6.2	6.3	6.6	5.9
$25-$50 Million	6.8	6.7	5.9	6.8	6.7
$50-$100 Million	8.7	7.6	8.0	9.0	7.7
$100-$250 Million	10.0	9.9	8.8	7.4	8.5

Data Source: GF Data®



Data Source: GF Data®

As we progress through 2024, the landscape of mergers and acquisitions (M&A) is being shaped significantly by the evolving economic environment, particularly the cost of capital. The interplay between rising interest rates and valuation multiples has been vital in determining enterprise values across various transaction sizes.

Historically, the cost of capital has been a critical factor influencing business valuations. As interest rates increase, the cost of debt also rises, typically leading to a decrease in the valuation multiples used to derive enterprise value. However, with anticipated interest rate cuts in both Canada and the US shortly, we are observing a potential peak in senior debt pricing that likely occurred towards the end of 2023.

In the private equity market, the impact of rising interest rates is felt differently across various segments. Notably, lower-end transactions have shown more resilience compared to their larger middle-market counterparts. Although our focus has traditionally been on larger transactions, this newsletter delves into deals in the $10-$25 million range to highlight intriguing developments within the private equity space.

In the lower middle market, specifically, transactions ranging from $15 million to $100 million, valuations have been more robust than deals exceeding $250 million, compared to historical averages. According to data from GF Data, the following trends have been observed:

- **$10-$25 Million Range**: Recent transactions in this bracket have been completed at an average of 6.6x TEV/EBITDA, a notable increase from the long-term average of 5.9x dating back to 2003. Despite the challenging interest rate environment, valuations in this segment have remained resilient.
- **$25-$50 Million Range**: Over the past two years, valuations have hovered near the long-term average of 6.7x. However, Q1 2024 saw a dip to 5.9x, followed by a strong rebound to 6.8x in the subsequent quarter.
- **$50-$100 Million Range**: This segment experienced an increase in valuation over the last two quarters, with Q2 transactions settling at 9.0x TEV/EBITDA, significantly above the long-term average of 7.7x. As more transactions from Q2 are reported, the multiple may normalize to a less inflated figure.

Links Capital
Divestitures • Acquisitions • Financings

- **$100-$250 Million Range**: Valuations in this range have seen three consecutive quarters of decline, falling to 7.4x TEV/EBITDA, marking the only size category in the middle market reporting below its long-term average of 8.5x.

Debt plays a crucial role in M&A transactions, and its usage varies significantly with the size of the deal. Through 2024, we have observed a trend where the percentage of debt used in smaller transactions is higher than larger deals compared to historical averages. This trend is influenced by the current interest rate environment, where debt utilization has been a key factor in achieving valuations that exceed historical averages in smaller transactions.

- **$10-$25 Million Range**: Transactions in this range have used an average of 57.7% debt, 1.3% higher than the 12-year average of 56.4%. Remarkably, these deals have seen three of the last four quarters exceed this long-term average, highlighting the lack of a significant impact from interest rates on valuations in this segment.
- **Larger Transactions**: As deal sizes increase, the impact of rising interest rates becomes more pronounced. Transactions in the $25-$50 million range utilized 5.2% less debt, while deals in the $50-$100 million and $100-$250 million ranges used 5.6% and 8.5% less debt, respectively, compared to their 12-year averages. This suggests that while interest rates are more heavily impacting larger deals, there remains a strong appetite for smaller transactions, with firms willing to pay premiums despite the higher cost of debt.

As we look ahead, the M&A landscape continues to evolve, shaped by the ongoing fluctuations in interest rates and their subsequent impact on valuation multiples. Understanding these dynamics is crucial for business owners considering transactions. The resilience of lower middle market valuations and strategic debt utilization presents opportunities even in a challenging economic environment. We will continue to monitor these trends and provide insights to help you navigate the complexities of the M&A market.

Ron Chicoyne, CFA, CA, ICD.D
Managing Director
rchicoyne@linkscap.com
403.809.7985

Links Capital Partners Ltd.
www.linkscap.com