

## FIRM NEWS

## Purchase Price Multiples Hit Longtime Low

By Ari Nathanson

Mid-market purchase price multiples in the third quarter hit their lowest point in at least six years, according to the most recent report from **GF Data Resources LLC**, a provider of private equity valuation data.

Buyout shops acquiring companies valued between \$10 million and \$250 million paid an average multiple of just 5.1x trailing 12-month EBITDA, the lowest quarterly average since GF Data began tracking such information in 2003 (see accompanying graph). "That number knocked me over because it was such a drop from the multiples we've seen in prior reports," **Andrew Greenberg**, CEO and co-founder of GF Data, told *Buyouts*.

Purchase price multiples in the second quarter came in at a mean of 6.6x, while the first nine months of 2009 averaged out to 5.8x, according to the report, which was released last week. The report draws from data provided by 130 participating private

equity firms on 1,003 transactions that closed between Jan. 1, 2003, and Sept. 30, 2009.

One explanation for the recent decline in multiples, the report said, is that "businesses with lesser margins and growth rates" have finally begun to adjust their valuation expectations closer to what buyers are willing to pay. GF Data considers high-perform-

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ing companies to be those with trailing 12-month EBITDA margins and revenue growth both in excess of 10 percent. Those below that threshold, for the report's sake, are lesser performers.

"For the past couple of reports, our story was that there was this flight to quality," Greenberg said. "Many fewer deals were getting done, but the average multiples were being held aloft by the apparent quality of those deals."

That was not the case last quarter. Nearly 85 percent of the deals tracked by GF Data in the last period were for lesser-performing companies, as opposed to the first half of 2009, when 71 percent of deals tracked were for "above-average," or high performing companies, Greenberg said.

"This suggests that businesses with lesser margins and growth rates have begun to adjust their valuation expectations and complete deals at lower valuations," GF Data Principal and Co-Founder **B. Graeme Frazier, IV** said in a prepared statement.

The report also notes that the average mid-market senior debt multiple for the quarter ended Sept. 30 was about 1.7x, while total leverage averaged 2.5x. In the first half of 2008 (the period just before the financial meltdown) total leverage averaged about 3.8x per deal, Greenberg said.

Equity checks, meanwhile, are picking up the slack. The average equity piece last quarter fell a little shy of 60 percent, up significantly from 2008's pre-meltdown average of about 40 percent.

### Mid-Market Purchase Price Multiples Hit Six-Year Low In Q3

(Average Purchase Price Multiples For Deals Valued Between \$10M and \$250M)

