

GF Data, provider of data on middle-market M&A transactions involving private equity investors, recently published their Q1 2022 M&A review. First quarter data suggests that, despite unique challenges resulting from the ongoing Pandemic, political uncertainty in Eastern Europe and rising interest rates, deals are continuing to cross the finish line, although not at as fast a clip as Q1 2021.

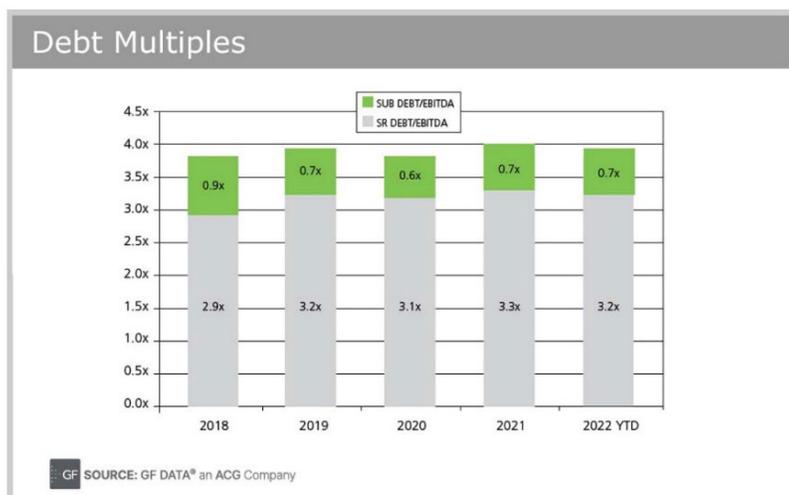


Figure 1

GF Data tracks the premiums investors pay to purchase “best in class” companies. Their definition of an “above-average” performer is a business with TTM/EBITDA margins and revenue growth rates both above 10%, or one above 12% and the other metric at least 8%. The percentage of deals meeting the standard in 2022 year to date is 67%. This suggests that many terrific companies delayed going to market waiting for the Pandemic and its ripple effects to subside. With these sidelined deals beginning to hit the market, we will likely see continued improvement in deal volume in the quarters to come.

With rising interest rates, one would expect to see a decline in use of debt in transaction structure, and use of senior debt did decline slightly during the first quarter. Use of subordinated debt rose during that period to bridge the gap between equity and senior debt in deal structures. Greater use of sub-debt caused a price jump and the average coupon for sub-debt during Q1 2022 was 11.4%, similar rates as the highs seen in late 2020.



Figure 2

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NOTICE:

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