PitchBook

Lead sponsor

Antares Capital

In partnership with

ACG

Association for Corporate Growth

US PE Middle Market Report

Q2 2020

Contents

Lead sponsor *In partnership with*

Credits & Contact

PitchBook Data, Inc.

John Gabbert Founder, CEO
Adley Bowden Vice President, Market Development & Analysis

Research
Stephen-George Davis Analyst, PE

Data
Andrew Akers, CFA Senior Data Analyst

Design
Cover by Mara Potter
Layout by Haley Burson

Contact PitchBook

Research
reports@pitchbook.com

Click here for PitchBook's report methodologies.

Introduction

Deal value and count in the middle market (MM) were both down in Q2 as the impacts of COVID-19 continued to batter fund managers. GPs were in triage mode, deploying various tactics to save their portfolio companies, often without access to the vast majority of dry powder in their coffers. In the face of dealing with increasing credit defaults and a weak buyout market, MM GPs looked for alternative ways to deploy capital, such as PIPE and growth equity deals. PE firms saw more due diligence processes near the end of the quarter, an indication that deal activity will pick up in the coming quarters.

PE exit count through Q2 is on course for the lowest total since the GFC due to sponsors' reluctance to sell during a period of such price volatility. Exit activity figures are even poorer when viewed on a quarterly basis. There were no IPOs in the quarter, though the IPO market has begun to rebound in the second half of the year. Sponsor-to-sponsor (secondary buyouts, or SBOs) transactions and corporate acquisitions were also muted in the quarter, while holding periods continue to tick up because of the pandemic.

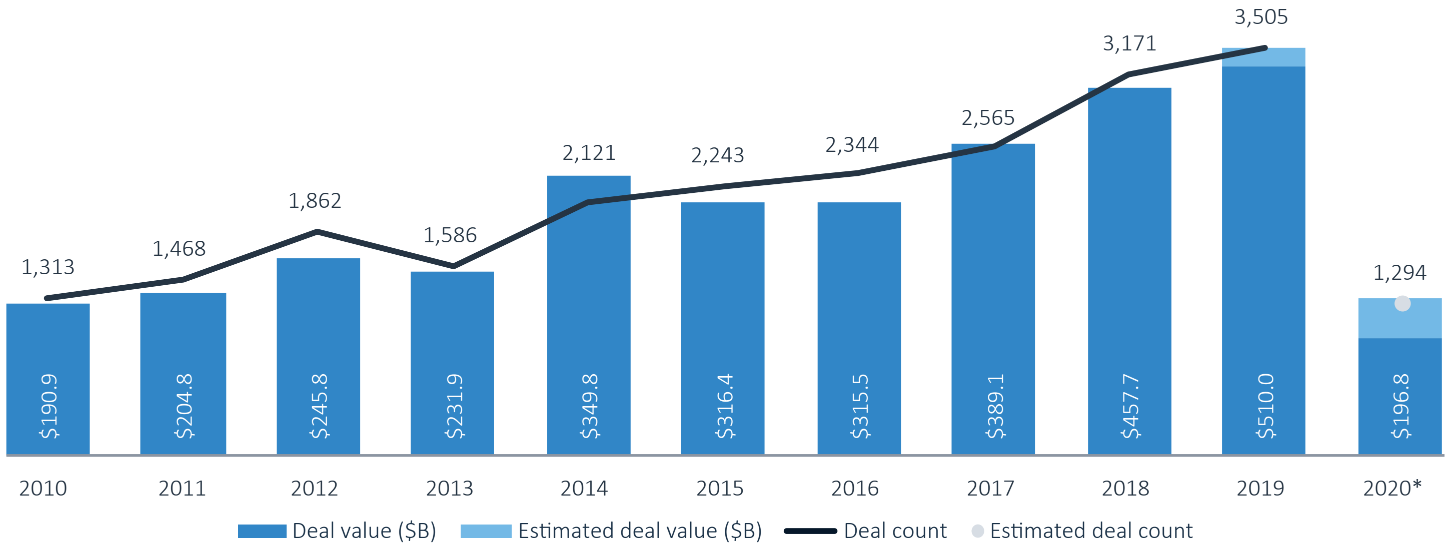
PE fundraising activity saw only a slight dip compared to deal and exit activity, which we see as a positive sign. Tech funds are still in high demand, accounting for a significant proportion of total capital raised in the MM through H1. We are seeing the largest GPs raise flagship offerings and smaller, MM vehicles and close them on the same day. Furthermore, PE firms received good news when the DOL announced that PE could be offered in 401(k) plans through diversified funds, which could provide another tailwind for PE fundraising.

Stephen-George Davis
Analyst, PE

Lead sponsor Antares Capital | In partnership with ACG Association for Corporate Growth

Overview

PE MM deal activity



Source: PitchBook | **Geography:** US
*As of June 30, 2020

In Q2 2020, the US PE MM felt the full burden of the COVID-19 pandemic. The first half of the year saw 1,294 deals close for a total value of $196.8 billion, YoY declines of 24.7% and 18.5%, respectively. On a quarterly basis, the impact of COVID-19 led to the lowest quarterly deal value for this segment of the market since Q3 2016 and the lowest quarterly deal count since Q2 2014.

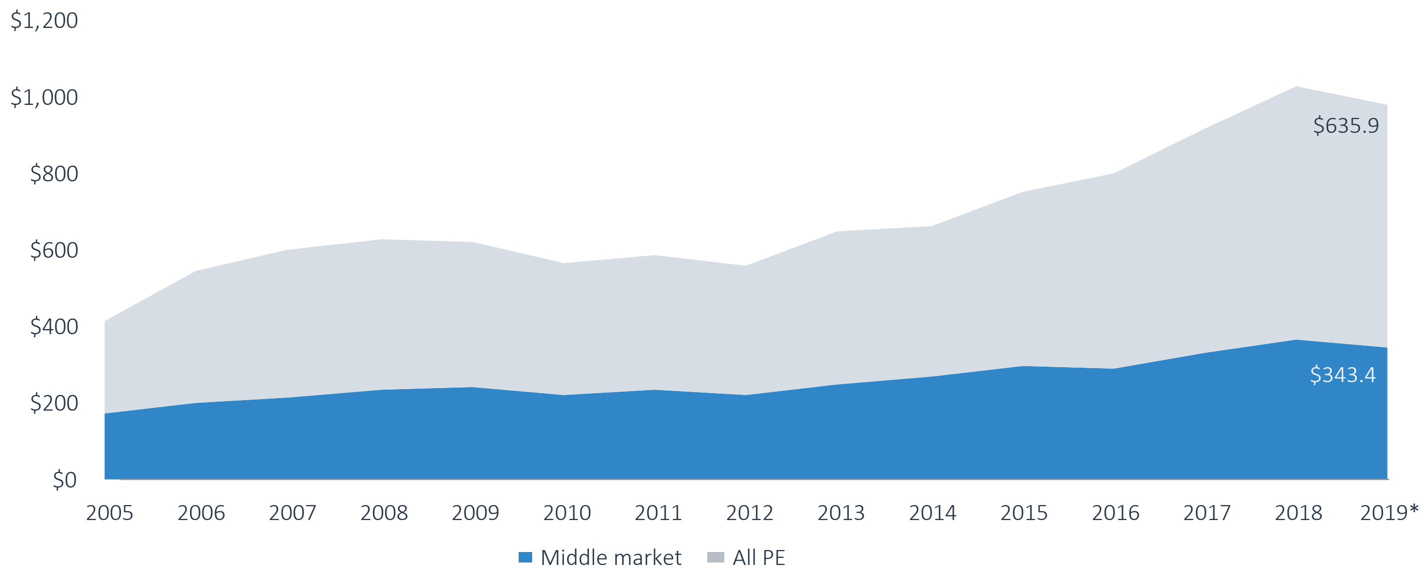
The Bureau of Economic Analysis estimates that the US GDP declined at an annualized rate of 31.7% in Q2,[1] nearly four times the decline of the Great Depression's worst quarter. Furthermore, while the national unemployment rate dipped from 13.3% in May to 11.1% in June,[2] there is no clear picture of when the economy will normalize given over 180,000 deaths in the US by COVID-19 as of writing and no nationwide reopening plan.[3] In addition to the lack of deals closing in the quarter, other structural factors hindered PE firms, such as increased defaults in the MM. An industry report found that companies with $25 million-$50 million in EBITDA had a 6.7% default rate compared to 5.2% in Q1, and companies with less than $25 million in EBITDA had a 9.2% default rate in Q2 compared to 7.0% in Q1.[4] The overall default rate rose to 8.1% in Q2, from 5.9% in Q1.[5]

Another impediment for PE is limited access to freshly raised capital. The high amounts of dry powder held by PE firms is often inaccessible in order to buttress PE-backed companies bought even just three or four years ago. We estimate that 85% of PE dry powder is earmarked for funds raised between 2017 and 2019. This means that older vintage funds have less capital to support vulnerable portfolio companies. Lastly, GPs may also be hampered by fiduciary obligations to their LPs, forcing managers to prioritize returns, which means some ailing portfolio companies may be left to fail if saving them is deemed too resource intensive. That said, GPs are in triage mode and utilizing numerous defensive methods to save their investments. To this point, we have seen an uptick in NAV-based loans used to prop up these assets. Many GPs are also instructing their portfolio companies to draw down their revolving credit lines and take measures to free up and conserve capital, such as furloughing employees, holding off on capital investments, and renegotiating fees with suppliers. We will be keeping a close eye on GP methods and efforts to support their portfolio companies that have been adversely affected by the pandemic.

1: "Gross Domestic Product, 2nd Quarter 2020 (Second Estimate); Corporate Profits, 2nd Quarter 2020 (Preliminary Estimate," Bureau of Economic Analysis, August 27, 2020
2: "State Employment and Unemployment – July 2020," Bureau of Labor Statistics, August 21, 2020
3: "CDC COVID Data Tracker," Center for Disease Control and Protection, September 2, 2020
4: "Q2 Private Credit Default Index," Proskauer Rose LLP, July 29, 2020
5: Ibid.

Overview

PE MM overhang ($B)



Source: PitchBook | **Geography:** US
*As of December 31, 2019

Not only are PE shops deploying every tactic in their playbook to save their companies, they are also using creative measures to execute new deals. As the buyout market flounders, financial sponsors have resorted to alternative sources of deal flow such as PIPE deals and growth equity investments to deploy capital. One notable example in Q2 was the announcement of Charles Bank and TA Associates' growth equity investment in Aptean, a software firm backed by Vista Equity.[6] The enterprise SaaS company has more than doubled its revenue in the last 15 months via organic growth, and the new capital infusion is meant to help the company continue on this trajectory. Growth equity deals generally use much less debt than buyouts, leading to a lower capital loss ratio. Due to tech's resilience in the face of COVID-19, growth equity deals in the sector are especially desirable and comprised over 30% of growth equity deal flow in H1 2020. An industry report shows default rates in the tech sector falling from 4.5% to 4.3% from Q1 to Q2, whereas overall default rates rose from 5.9% to 8.1% during the same time frame.[7]

Although many GPs turned to alternative deal structures, notable buyouts still closed in Q2, especially in areas that have remained robust through the pandemic or have even benefited from it. In addition to tech, sectors such as healthcare and subsectors such as ecommerce were a windfall to GPs. A deal to close in ecommerce included KKR's (KKR: NYSE) buyout of Cleveland-based online media distributor OverDrive from Japan-based ecommerce & online retailer Rakuten (4755: Tokyo). The estimated price tag of around $775 million made the deal one of the largest in of the quarter and speaks to GPs seeing growth prospects in ecommerce and digitization for years to come. OverDrive's digital reading platform for schools and libraries also benefited from COVID-19 as there has been a rapid increase in e-book and audio-book adoption.

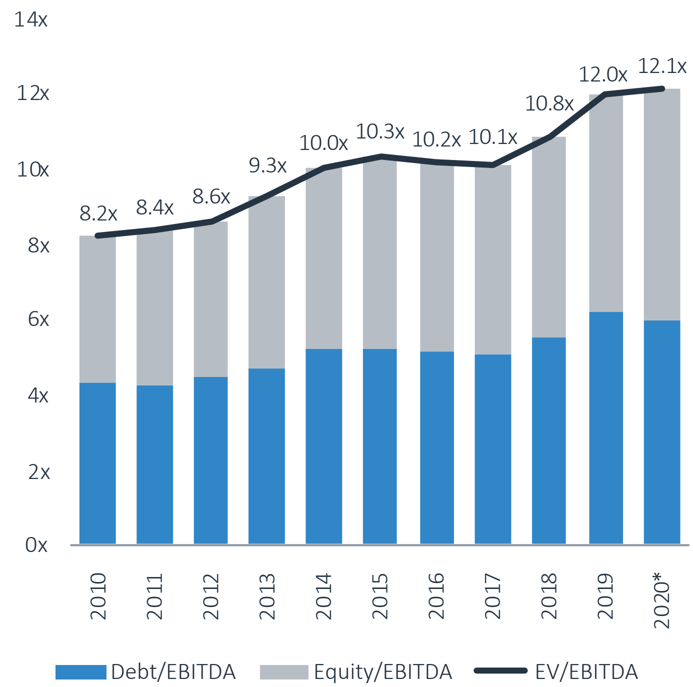
GPs have generally been shying away from companies negatively affected by the pandemic, such as those involved with commodities and travel. That said, an oil & gas company closed the largest MM deal of the quarter despite the industry's recent distress. Miller Pipeline [& Minnesota Limited[8]] was acquired by Artera Services via its financial sponsor Clayton, Dubilier & Rice from energy holding company Vectern. The Indianapolis-headquartered Miller Pipeline provides pipeline contracting and rehabilitation services for natural gas, liquids, water, and wastewater pipelines. Vectern divested Miller Pipelines for $850.0 million to pay down some of its debt. Deals such as this one represent a common theme among firms in the sector, stemming from low oil prices even before the onset of

6: TA Associates already co-owns Aptean with Vista, but the deal which brought Charles Bank in as another owner also led to TA Associates investing more into Aptean.
7: "Q2 Private Credit Default Index", Proskauer Rose LLP, July 29, 2020
8: "May MMBI jumps: The End of the Beginning on a Long Road to Recovery," RSM US, June 16, 2020

the pandemic. (The Miller Pipeline deal was announced in February.) However, we expect corporate divestitures across multiple industries going forward, as COVID-19 continues to wreak havoc upon companies, many of which may were in dire straits even before lockdown. This already plays out in the data, with corporate divestitures in H1 comprising 13.8% of MM deal flow, up from 10.7% full-year 2019. If this dynamic holds throughout the rest of the year, it would make for the highest annual proportion of corporate divestitures in six years.

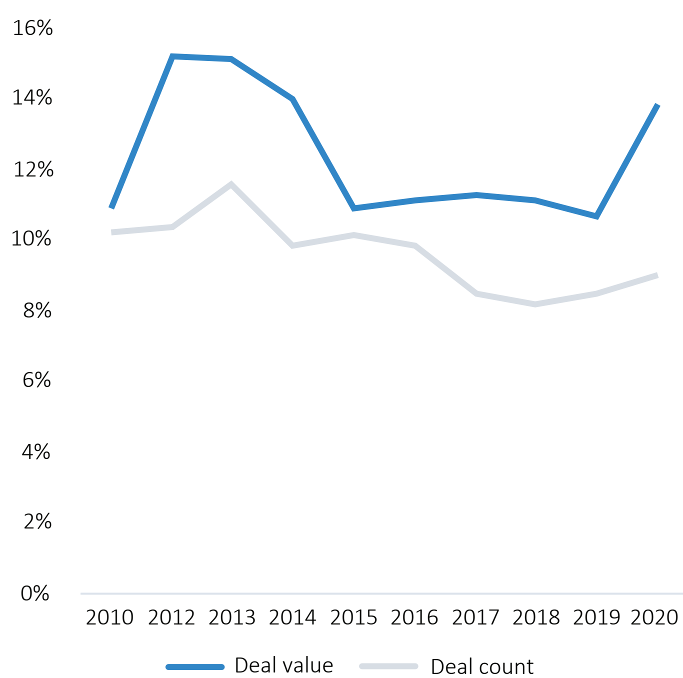
Looking forward, there is evidence that Q2 may have been the bottom of the contraction for the MM. RSM's MM Business Index, which measures economic sentiment among midsize companies, rose to 108.9 in June, up from 106.1 and a low of 87.7 in May and April, respectively.[9] The gains in the index toward the end of the quarter were due to the increased expectation by survey participants that the economy will improve in the next six months sans another round of lockdowns. Bain came to the same conclusion, finding that due-diligence work by PE firms bounced back in June.[10] While due diligence and deal investigation do not necessarily mean those deals will close, it is indicative of GPs looking to put their money to work, which is a good sign for the MM and PE overall.

Rolling three-year median PE buyout multiples



Source: PitchBook | **Geography:** US
*As of June 30, 2020

Carveouts and divestitures as proportion of PE MM deal activity



Source: PitchBook | **Geography:** US
*As of June 30, 2020

9: "May MMBI jumps: The End of the Beginning on a Long Road to Recovery," RSM US, June 16, 2020
10: "Private Equity Takes a Midyear Bounce off the Bottom," Bain & Company, July 20, 2020

Antares: Keynote and Q&A

Keynote

Breathing easier, but not out of the woods

The Federal Reserve has clearly given a second wind to the financial markets, which have seen a "V" shaped recovery since their late March lows. The LPC 100 Leverage Loan Index, which had collapsed to a "distressed" low of 78 in late March, bounced all the way back to 95 by June. However, the markets are not the economy, and though there are some real signs of recovery in economic activity, it is too early to say we are out of the woods.

Beware the double-dip "W"

While the worst fears of March/April did not come to pass for most lenders, with loans' marks bouncing back upward and non-accruals relatively stable on average in Q2 2020, many companies and industry segments affected by COVID-19 remain in a precarious state. Positive case rates are rising in some states, vaccination is not yet ensured, and political tensions are high as we approach the November election. A double-dip "W" may not be the most likely scenario, but it is still a real possibility. Additionally, even if a new down leg is averted, some worry that soaring government debt and ultra-low interest rates will sap the improvement to productivity needed to grow GDP and pay down the government debt over the longer term.

What doesn't kill you makes you stronger

August 2020 marks Antares Capital's five-year anniversary as an independent firm since GE Capital sold it to the Canada Pension Plan Investment Board. It's interesting to note that, at the time of sale, interest rates were near zero, oil prices were headed toward fresh decade lows, West Africa was battling the Ebola pandemic, and a contentious election was looming in the year ahead. By Q1 2016, loan market volume had hit lows not seen since the global financial crisis. History may not exactly repeat itself, but does it sound somewhat familiar?

Shannon Fritz

Shannon is a Senior Managing Director of Antares Capital. She is responsible for structuring, underwriting, documenting, and managing transactions. Shannon is a member of Antares' Investment Committee.

Shannon joined Antares in 2004. Prior to Antares, Shannon was with the Asset Based Lending Group of Transamerica in audit, portfolio management, and underwriting.

Shannon earned a bachelor's degree in international business from the University of Illinois and an MBA from Northwestern University's Kellogg Graduate School of Management.

Q&A

What have you learned with Q2 results now in the rearview mirror? How would you segment your portfolio in terms of performance?

The worst of the market's fears back in March/April appear to have been averted thus far. Spreads narrowed, and secondary loan market bids rebounded over the course of Q1, which allowed public business development company (BDC) lenders to reverse some of the loan markdowns they took in Q1 2020. These unrealized gains, in turn, lifted BDCs' net asset values (NAV) and helped improve leverage metrics in many cases. While performance varied widely from BDC to BDC, median nonaccruals as a percentage of costs across 40+ public BDCs were about flat in Q2 2020 versus Q1 2020 at 5%.

In terms of segmenting portfolio performance, COVID-19 hit some industries—such as airlines, food service, hotels, retail, and energy (where Antares has limited exposure)—particularly hard, while affecting others indirectly. An example here would be "retail" auto dealers pulling back on advertising, which had an impact on media company revenues. However, there have been some positive impacts in obvious areas such as tech, but also some less obvious niche areas. For example, outdoor recreation play equipment sales have benefited nicely.

In general, we have been very pleased with the constructive dialogue we've had with our sponsors around amendments to address covenant resets, maturity extensions, and liquidity needs. Most all stepped up with incremental investment dollars where needed, and only a few of more than 450 borrowers defaulted at the end of Q2.

Do you foresee another shoe to drop ahead in terms of solvency? What's the latest feedback you are hearing from your portfolio companies, and what is your outlook for payment defaults?

Of course, no one knows for sure how things will unfold, and clearly the longer business shutdowns continue, the worse the outcome will be. However, there is reason for measured optimism. Case rates in the US as a whole have been falling from the peak in recent weeks, and several promising vaccines are moving rapidly through trials. Meanwhile, the Fed has continued to provide liquidity to bridge markets to the other side, and private capital remains quite abundant.

In terms of feedback from our portfolio companies, results have generally been better than we'd expected. In Refinitiv LPC's latest lender survey in Q2 2020, more than two-thirds of respondents anticipated the 12-month trailing loan default rate peaking in the 5%-10% range. Initially, when the crisis hit, we would have expected defaults to land at the higher end of this range. However, we have seen tremendous discipline and changes made by borrowers around cost structures and liquidity and now believe defaults may well land at the lower end of the range. On the negative side, while the crisis may have a less severe credit impact than initially feared, the fallout appears likely to linger for some time, and a recovery is likely to be uneven, particularly for certain industries. Having dedicated and experienced workout capabilities that can enhance recoveries remains a critical asset.

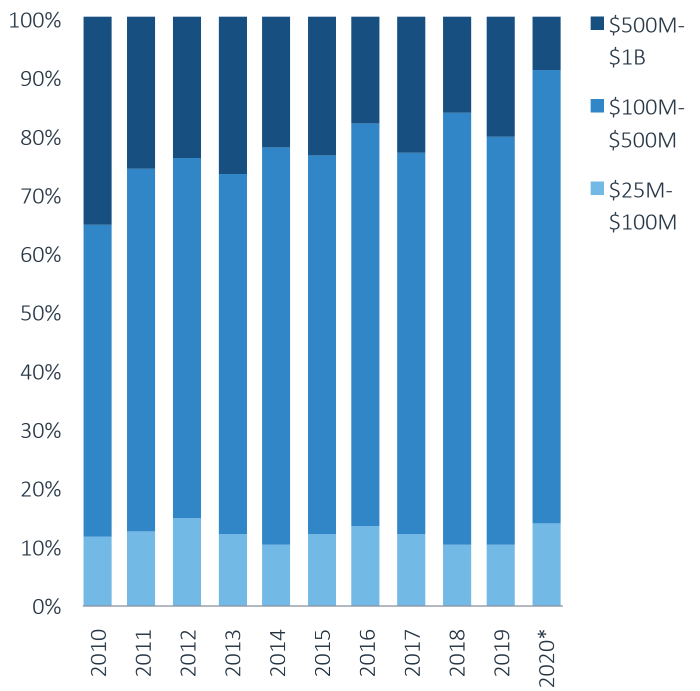
What's been happening with deal flow? Are there any particular trends worth noting?

Our pipeline has been steadily building since the lows of early April, and as of late August we're back to almost 60% of the average levels we'd seen over the 2018-2019 timeframe in terms of deal count. We've been seeing a lot of activity around the software space, where companies continue to have high recurring revenue streams and increased adoption rates, in some cases due to the COVID-19 environment. We're also seeing deal flow from essential services companies, such as healthcare, but also in some sectors that you don't necessarily think of as essential, such as refuse collection, HVAC services, or logistics activities that just go on regardless of external factors.

The information in this report is for informational purposes only, is current as of the date noted and should not be used or taken as finance, legal or other advice. The information presented should not be deemed as a recommendation to purchase or sell any securities or investments. Although Antares Capital LP believes that the information contained herein has been obtained from sources believed to be reliable, Antares Capital LP does not guarantee its accuracy, and it may be incomplete or condensed. Nothing within this publication should be deemed to be a research report. Past performance is not indicative of future results.

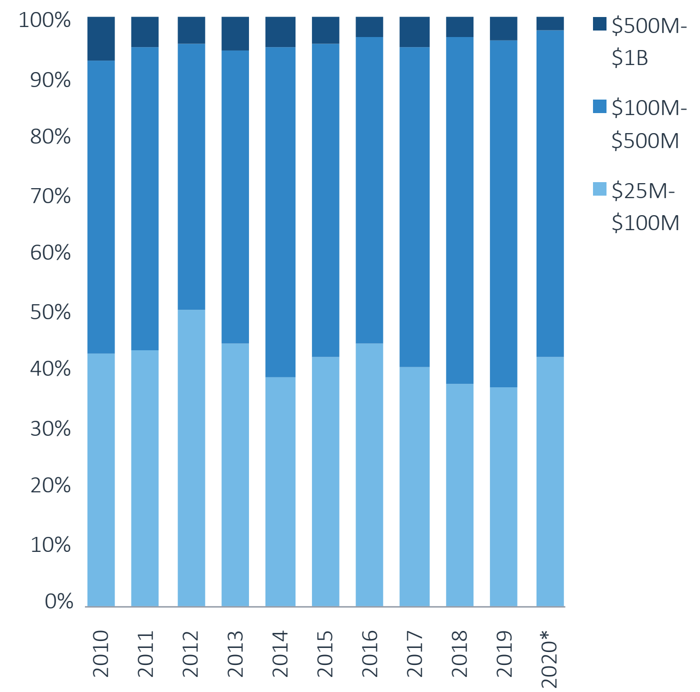
Deals by size and sector

PE MM deals ($) by size



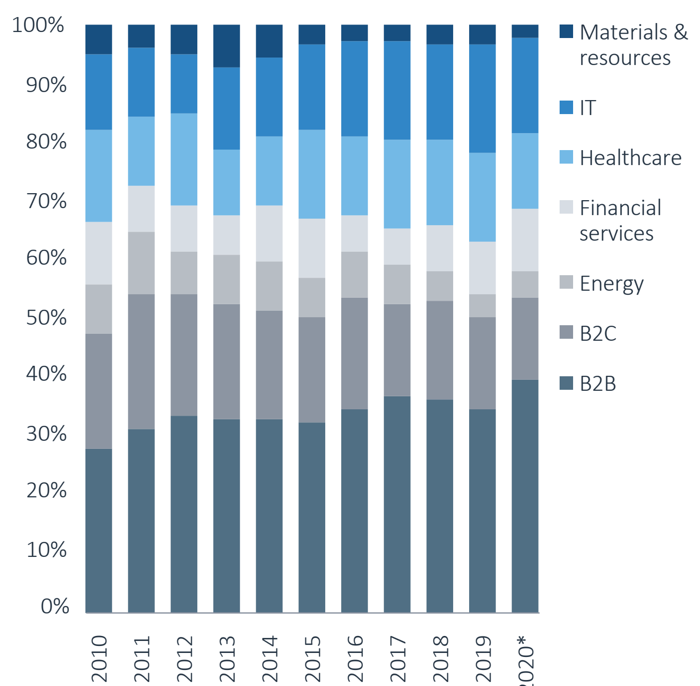
Source: PitchBook | **Geography:** US
*As of June 30, 2020

PE MM deals (#) by size



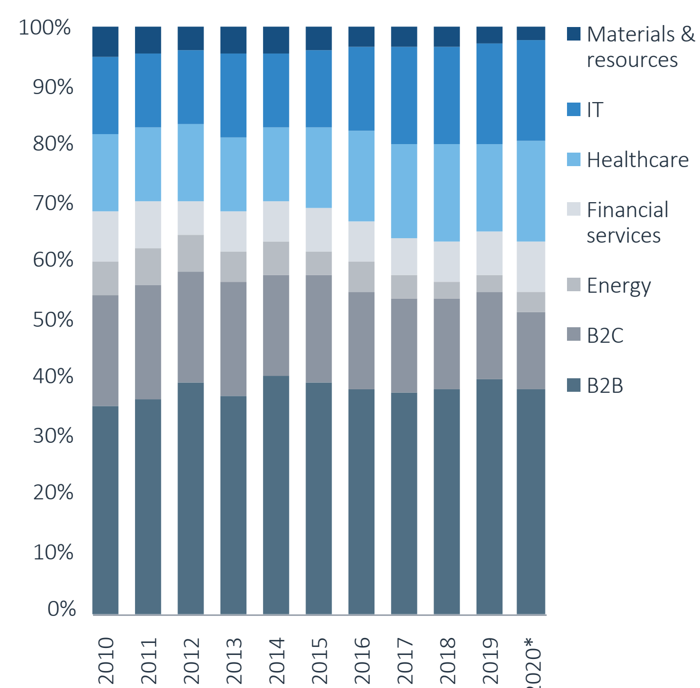
Source: PitchBook | **Geography:** US
*As of June 30, 2020

PE MM deals ($) by sector



Source: PitchBook | **Geography:** US
*As of June 30, 2020

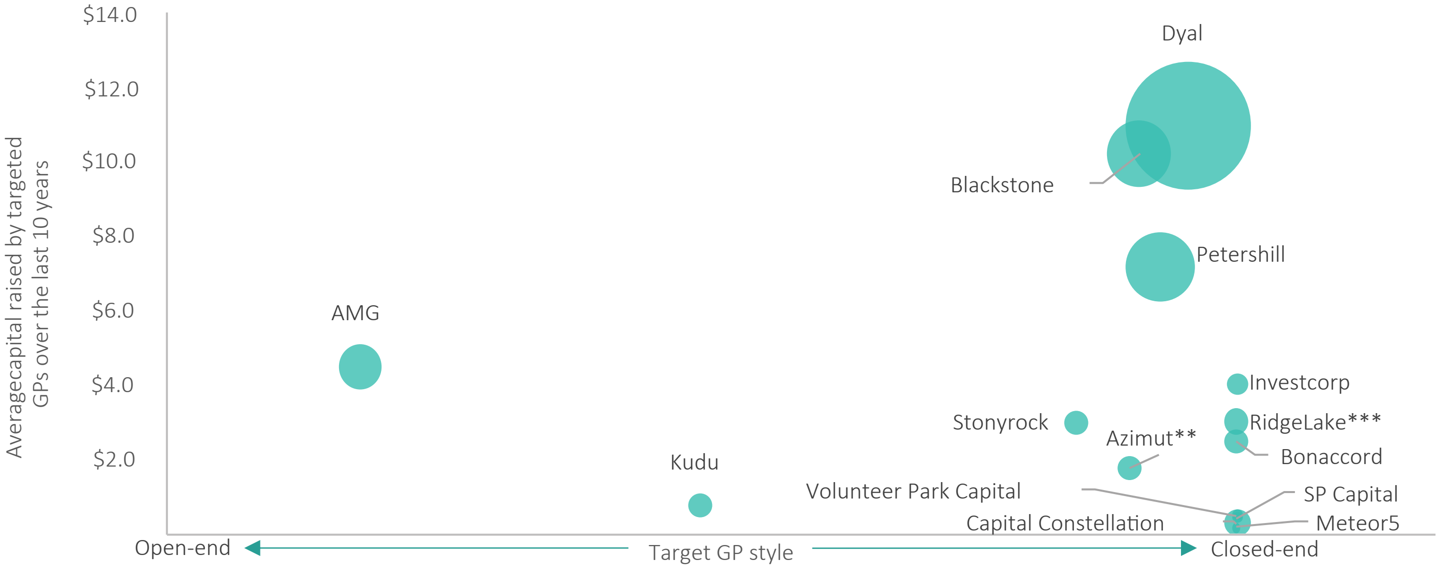
PE MM deals (#) by sector



Source: PitchBook | **Geography:** US
*As of June 30, 2020

Spotlight: GP stakes

Competitive landscape*



Source: PitchBook, analyst estimates, manager discussions Investcorp white paper | **Geography:** Global
*As of May 31, 2020
Note: Bubble size indicates total capital raised for GP staking. This total includes the full amount of capital for any open funds. For AMG, the total is their current market capitalization.

This spotlight is an abridged version of PitchBook Analyst Note: The GP Staking Competitive Environment, written by Wylie Fernyhough and published on July 8, 2020. Read the full note for a more detailed analysis on the three GP stakes segments and a profile of select GP staking firms in each segment.

The COVID-19 global pandemic has shaken financial markets and forced numerous MM GPs to rethink their growth strategies. Many funds have seen healthy markdowns and some realizations are likely to be pushed out by a year or more. Delays and decreases in carry can cause MM firms to worry about retaining key employees and hamstring them from launching opportunistic funds. For these reasons and more, many MM firms have been looking to ink strategic partnerships with GP staking firms. The acceptance of GP stakes deals—whereby a firm takes a passive minority stake in a GP management company—has changed, with GPs recognizing the value in partnering with an outside manager to grow their business. The relationship between a GP staking firm and the GP in which they invest is akin to that between a typical GP and its portfolio company. As one GP stakes fund manager put it, "We are just a PE firm investing in and lending support to companies. The companies in which we invest just so happen to be alternative asset managers."

On the staking front, most recognize the names of Dyal, Petershill, and Blackstone, but these firms tend to target firms above the core MM. There are now five firms dedicated to acquiring GP stakes in MM firms. While the five MM -focused GP staking firms are all investing out of new entities, many of the founders have been investing in GP stakes for a decade or more. The MM firms—which we define as having raised between $1.5 billion and $8 billion in the last decade—tend to be somewhat mature, typically raising their fourth to seventh fund, and the stakes are usually valued between $50 million and $150 million.

GP staking in the MM is unique and often more growth oriented than at the top end of the market. A white paper by Investcorp, one of the GP staking firms targeting firms in the MM, explains much of the space and how MM-staking deals are distinctive.[12] Most—if not all— MM GP stakes transactions are composed of primary equity that puts capital on the balance sheet. These deals are about helping a GP scale and/or maximize its capital, often by expanding into new strategies or funding larger GP

12: "The Case for Minority Equity Investing in Mid-Sized Private Capital GPs," Investcorp, Anthony Maniscalco, May 2020

Fundraising profiles for select GP staking firms*

Firm	Fund target size ($M)	Parent company/sponsor
Bonaccord Capital Partners	$1,000	Aberdeen Standard Investments
Stonyrock Partners	$1,000	Jefferies
Investcorp Strategic Capital Partners	$750	Investcorp
Azimut Alternative Capital Partners	$875**	Azimut Group
RidgeLake Partners	$1,125***	New York Life and RDV Corp.

Source: PitchBook | **Geography:** Global
*As of May 31, 2020
***Azimut is not raising a fund and this is the midpointof a PitchBook analyst estimate for capital available to deploy.*
****RidgeLake has not formally announced their fund size so we used the midpoint of a PitchBook analyst estimate for eventual fund size.*

commitments with bigger follow-on funds. For example, Bonaccord Capital took a stake in MSouth Equity in June 2019, just a few months before the GP closed its most recent fund at $940 million. This new buyout fund was 60% larger than MSouth's 2015 $584 million vintage fund. The stake allowed management to subsidize a larger GP commitment on a much larger fund.

Supply and demand in this market segment favors GP staking firms, unlike at the top end. There are over 400 GPs that have raised between $1.5 billion and $8 billion in the past decade without any backing, while there are just five GP staking firms dedicated to the space. Many GP stakes deals are won at auction, but the likelihood of a traditional "bake off" is lower. This means that GP staking firms have a bit more power, and price is less important than at the top end.

The firms targeting stakes in the MM typically underwrite investments at a 20% to 25% net IRR range and a 2.5x to 3.0x MOIC. Management fees are expected to recoup the initial investment in approximately a decade, and with carry included, the payback period is expected to be seven to eight years. These expected returns are higher than firms at the top end. MM deals also exhibit a greater amount of structuring than deals at the top end, meaning that although the underlying GPs are riskier, the deal structure helps GP staking firms reduce risk and protect their downside.

Exiting GP staking partnerships is different in the MM compared to the top end, where partnerships are assumed to be perpetual. Firms in this market segment usually look to exit after eight to 12 years, and they have many options for selling stakes, the first of which is selling stakes back to management, facilitating a generational ownership transfer. Other options include selling to a larger GP stakes firm, a strategic—such as a family office—liquidating the entire portfolio, and more. As these MM GP staking firms eventually demonstrate the ability to exit these partnerships and deliver value to the underlying GP, the deals will likely become more broadly accepted and additional LPs will commit to these funds. From a deal sourcing prospective, LP capital is expected to continue flowing into MM GPs, giving plenty of opportunity to GP staking investors targeting these firms.

ACG®

REFERRAL**REWARDS**

Refer Colleagues. Get Rewarded.

Through September, recruit two new* qualified professionals to ACG and receive one additional year of membership at NO COST. That's right, active ACG members can earn an extra 365 days of seamless access to the robust global network, deal-focused events and a wealth of resources.

Keep your cash, bring your buddies and grow your community.

CONTACT MEMBERSHIP@ACG.ORG WITH THE SUBJECT LINE REFERRAL REWARDS

**Some exclusions may apply*

ACG: Pandemic redefines pivot

What's keeping you up at night?

First things first, I'm grateful for the health of my family, my friends, my staff, our chapter executives, our volunteers, and our members. According to WHO, COVID-19 has taken more than 182,000 American lives and another nearly 850,000 throughout the world. My ongoing concerns are shared by our members and business leaders. At the forefront of my thoughts—night and day—are the questions of how we maintain jobs, operations, and relevancy in this pandemic-driven economy.

Tom Bohn

Tom Bohn joined ACG in December 2019 as its CEO and President with a trusted record of growth and transformation. He most recently served as the CEO of the National Association of Veterinary Communities, where he more than doubled annual revenue from $11 million to $26 million through strategic acquisitions, certification and education programs, and expansion of its media assets.

How does a network that hosted nearly 1,100 events in 2019 stay relevant and operate in an environment where even small events can be risky?

We start with honoring our core purpose. ACG was founded to create and drive MM growth. Events were the physical manifestation of that purpose. ACG has always been more than an event organization. It is a network, a conduit, a connector, a driver, a source, and a referrer. It is a destination for anyone wanting to do business in the MM.

When I joined ACG last fall, we began to chart a path to recommit to our core purpose—through diversification of media, greater collaboration with and among chapters, new pathways to membership, a larger investment in data, development of unique and custom audiences, and broader corporate partnerships. Every effort required developing and gaining access to new technologies to improve our member's presence in the network and the amplification of their unique interests and deal focus. When WHO declared COVID-19 a pandemic, countries and states quickly moved to shelter-in-place, and nearly every one of our plans was accelerated. Some were paused.

What is the litmus test that determines what moved ahead and what was paused?

It starts and ends with who. Initiatives are measured against who we are—a membership organization—and end with who it benefits—our members. As an example, public health and safety required us to cancel InterGrowth. Our chapters followed with canceling major events or rescheduling and converting to virtual. Our members' need for physical venues was replaced by virtual channels. In June, we hosted the first-ever ACG Member Summit. More than 2,100 members came together and requested more than 15,000 one-on-one meetings. Our live programs found an audience of nearly 2,000, and the networking receptions were attended by nearly 800. Together with our chapters, we hosted more than 200 virtual events between April and July. We built a new secure meeting engagement and live networking platform and launched GrowthTV, our new video content channel that has produced nearly 50 engaging interviews in less than six months. In short, anything that enhances the member experience usually makes it through the pipeline.

What is your greatest teachable moment to date?

There is at least one every day. Given the enormity of the MM, it amazes me the lack of awareness about what it is. I've met and spoken with elected officials, academics, policymakers, and the media, and there is a real lack of understanding around the vibrancy and importance of this segment of the economy. This knowledge gap is detrimental to public policy. We saw that play out with exclusion of MM PE-backed companies in the Paycheck Protection Program, and an even larger swath of businesses were ineligible or unable to gain access to funding through the Main Street Lending Program (MSLP).

We made some operational changes to our policy area in February and pledged to work more on education. And that has rung true. ACG was recently invited to testify before the Coronavirus Aid, Relief, and Economic Security Act (CARES)

Congressional Oversight Commission. The opportunity was humbling and enlightening. Our federal policymakers admit a lack of knowledge about MM companies and have an even greater disconnect with our minority-owned businesses.

Goldman Sachs estimates that some 45 million Americans or 40% of private-sector workers are employed by a company eligible for the MSLP, yet less than $500 million of the $500 billion in loans have been issued. ACG's survey found 22% of respondents were unaware of the MSLP. And, of the respondents who want to apply for loans through the program, 81% were unable.

I am grateful for the opportunity to advocate for changes to the MSLP that could benefit more MM companies. The commission's fourth report supported changes to the MSLP, including the loosening of the affiliate rules, decreasing the minimum loan size to $50,000, raising EBITDA standards, and allowing for asset-based criteria for loan sizes.

Is there a second-best teachable moment?

There are plenty more. But one initiative that I'm glad that we accelerated is GrowthTV. Its launch in March came when we had the opportunity to interview Congressman Steven Horsford (D-NV) about CARES. Every person interviewed has taught me something. Our conversation with Horsford spurred our survey that found 5 million jobs were at risk because of exclusions in the PPP. Our advocacy efforts went into high gear and our outreach to the media, too. I think our positive approach to federal efforts—including greater access to companies that want to save jobs—has been well received, and I think the CARES Congressional Oversight Commission's receipt of our recommendations affirms that.

Also, every interview through GrowthTV, complemented by coverage in ACG's official publication Middle Market Growth®, continues to grow our audience. This crisis has afforded us time to nurture our network, and our social media presence has grown by more than 300%. All of this helps us educate more people about the 45 million workers employed by some 200,000 MM companies. While those numbers have surely changed during these crises, the MM's ability to lead us into recovery has been tried and tested.

What's ahead for ACG this time next year?

Trust me, if I had a crystal ball, I'd use it. It is tough on everyone living through this uncertainty. I'm committed to finding the silver linings. Our ability to refocus on our core purpose is one of them. We are committed to three more virtual member summits through next summer, with our November summit up next. We are developing new partnerships that will increase and diversify revenue streams, and our investment in new technologies to create greater member connectivity is substantial and steadfast. We are also working to streamline our governance structure, so we can be more agile.

The uncertainty created by the pandemic rules our days. The greatest lesson is controlling what we can. We are experiencing unprecedented health and economic crises, from which none of us are immune. The death of George Floyd coincided with COVID-19 disproportionately affected our black and brown communities. The systemic inequities in our health care, economy, and society can no longer be ignored. This reckoning will result in a better, kinder, and more tolerant society, but the journey there will be uncomfortable. The conversations required to get us there require pervasive candor and humility.

And ACG is committed to that change. We'll be reaching out to members this fall to undertake one of our greatest challenges yet: to change the face of financial services. It's long been recognized as in need of racial and gender diversity. There is no better time than now.

Any regrets?

None. I like building upon a strong foundation to grow an organization. I joined a global network that hosted more than 1,100 live events annually. Few of them were under 50, and all of them were valuable business development and deal sourcing venues. As other organizations have lost members, we've seen positive growth.

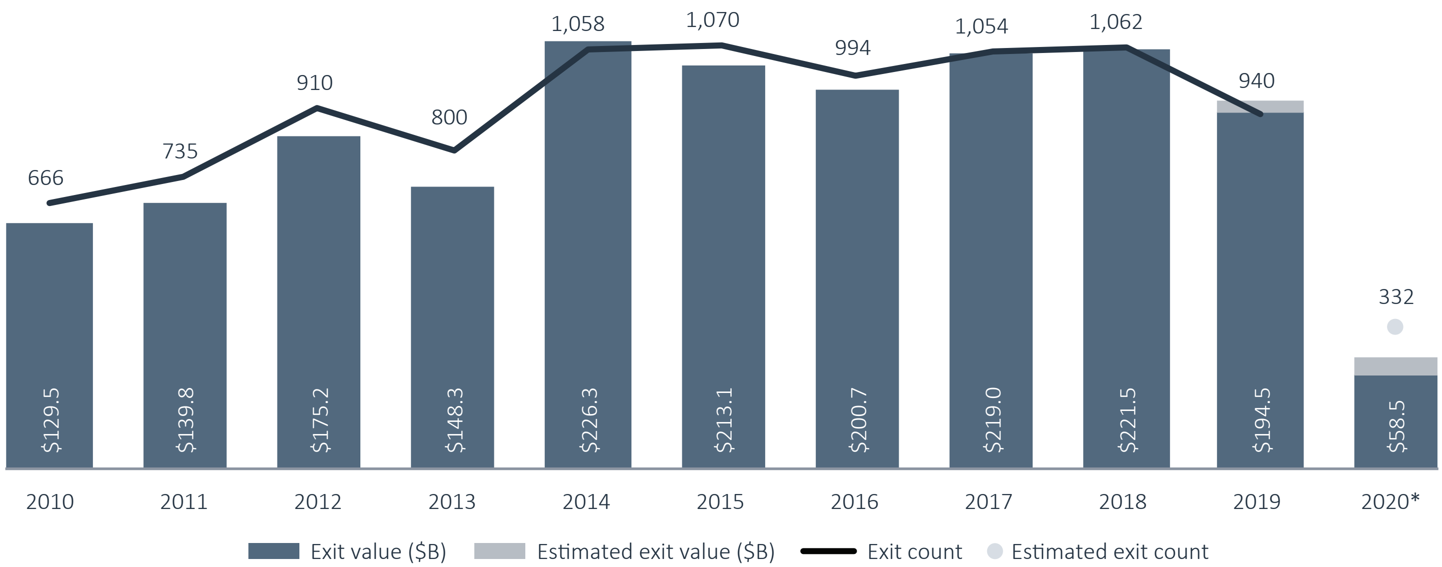
Did I know that 2020 would redefine the following words: pivot, remote, virtual, digital, and zoom? Nope. Would I change it? Absolutely. I wish I could undo COVID-19's ability to take countless lives and cause immeasurable damage to families, communities, and our economy. But I appreciate the lessons learned in how we communicate, the moments of gratitude, and our commitment to investments to substantially improve how we serve our members.

At ACG, pivot means moving toward a better tomorrow.

About the Association for Corporate Growth® | Founded in 1954, ACG has 60 chapters across the globe. ACG's worldwide network comprises 90,000 professionals within the MM, including 15,000 members who serve as the investors, lenders, owners, executives and advisers to growing MM companies. ACG's mission is to drive MM growth. The organization's official publication, Middle Market Growth®, highlights stories important to the ACG membership

Exits

PE MM exit activity

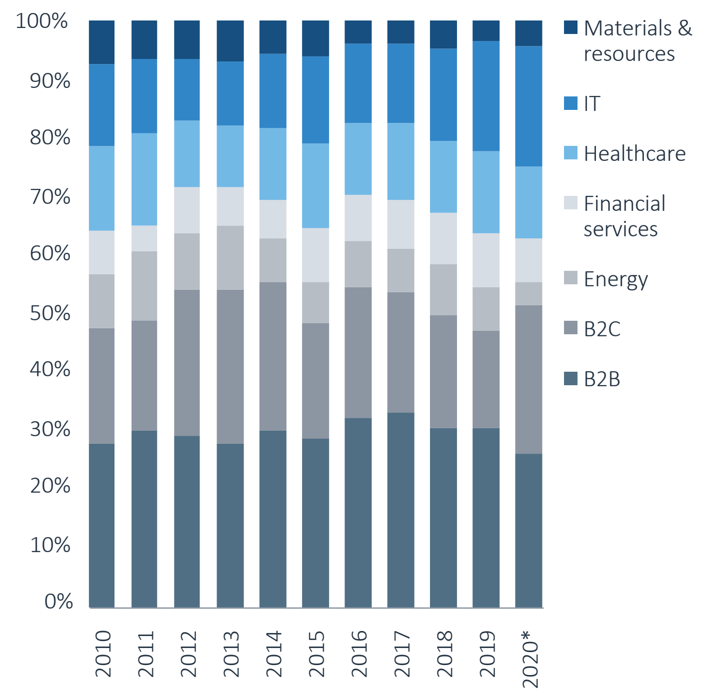


Source: PitchBook | **Geography:** US
*As of June 30, 2020

As of H1 2020, US PE MM exit value is on pace for its lowest total since the GFC. PE firms—hesitant to sell in such a volatile market—closed 332 exits for a combined value of $58.5 billion in the first half, YoY declines of 25.7% and 37.7%, respectively. Furthermore, quarterly figures paint an even bleaker picture, with declines of 53.3% and 59.7% QoQ.

2019 was already a relatively weak year for MM exit activity, and the pandemic not only extended this downturn but exacerbated it. No IPOs closed in this segment of the market in Q2, marking just the fourth quarter this has occurred since 2006. However, looking at the other instances of IPO droughts, such as those during the GFC and the government shutdown of 2018-2019, we surmise that IPO activity has the potential to rebound in H2, as there is often a backlog of viable companies waiting to hit the public markets. Furthermore, US public equity markets have continued their upward march, and a few PE-backed companies have already announced public offerings. At the same time, SBOs and corporate acquisitions alike were both muted in the quarter, as PE buyers and sellers and corporations largely wait on the sidelines until some semblance of normalcy is regained.

PE MM exits ($) by sector



Source: PitchBook | **Geography:** US
*As of June 30, 2020

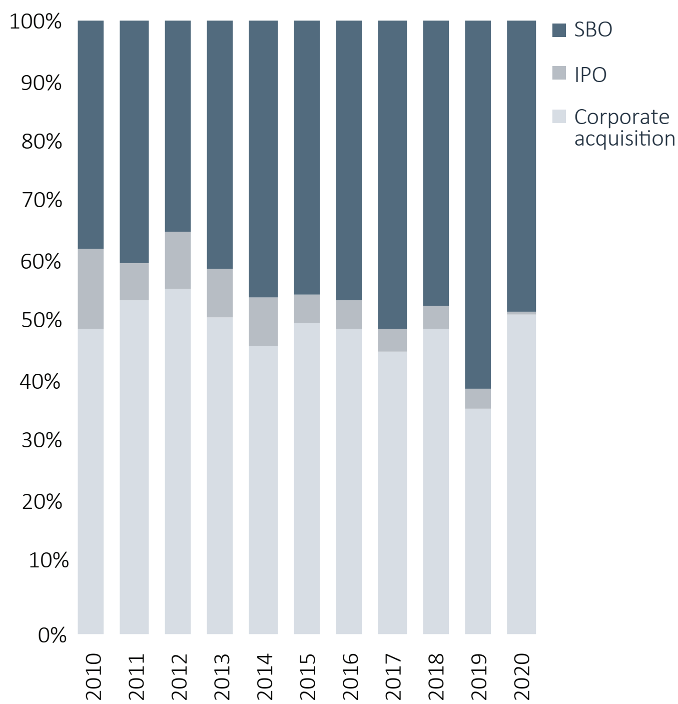
The median holding period for MM companies also ticked up in Q2 due to various factors. We expect that trend to continue as uncertainty around valuation and earnings outlooks lead sellers to wait out the storm. Another dynamic prolonging holding periods is the gaining popularity of buy-and-build strategies, which generally take longer to complete than mainstream strategies of the past. We expect both factors to accelerate this trend of longer holding times in the near term.

Of the exits that did close in the quarter, the only sectors to see their proportion of MM exit value and count increase were the tech and B2C, the latter of which includes many ecommerce and IT-enabled companies. Due to COVID-19, most GPs are in the same boat in terms of propping up their portfolio companies. A GP with a company in a weak sector is less likely to sell to another GP since the buyer would probably need to tend to their own portfolio companies in the same sector.

Median holding period (years) for PE MM companies

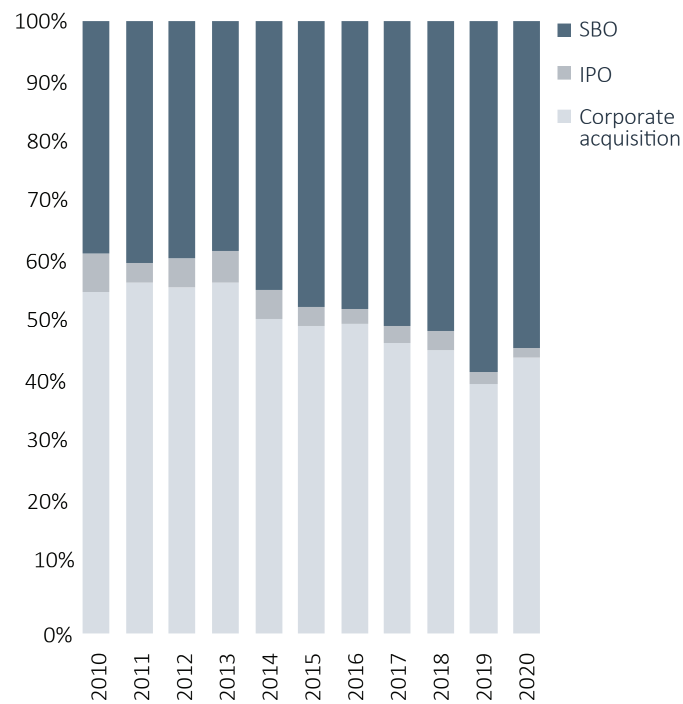
Source: PitchBook | Geography: US
*As of June 30, 2020

PE MM exits ($) by type



Source: PitchBook | Geography: US
*As of June 30, 2020

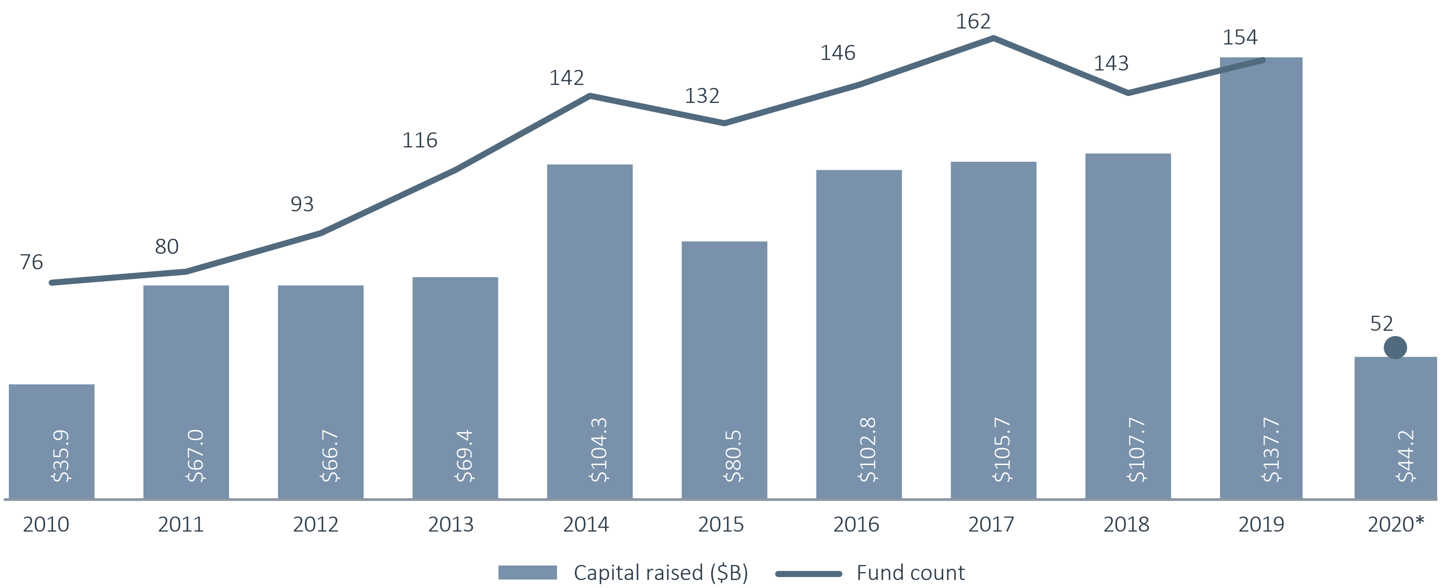
PE MM exits (#) by type



Source: PitchBook | Geography: US
*As of June 30, 2020

Fundraising

PE MM fundraising activity

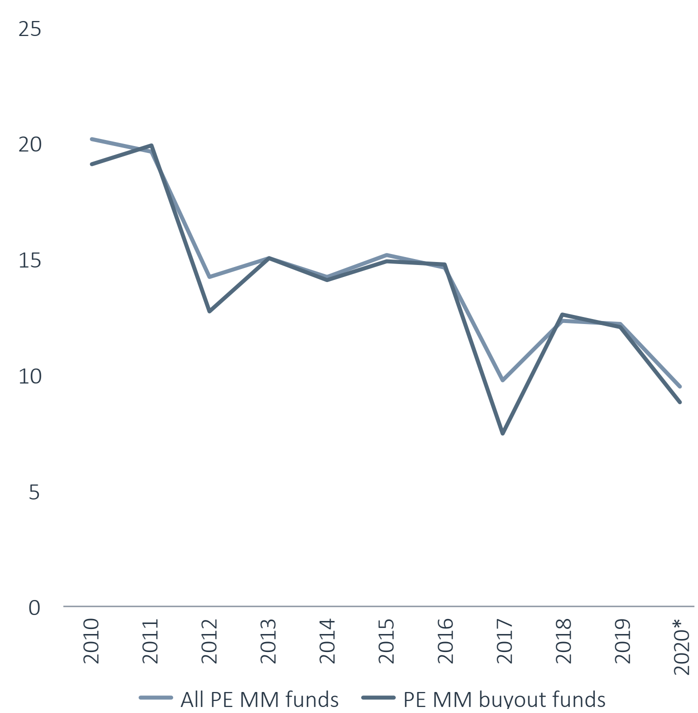


Source: PitchBook | **Geography:** US
*As of June 30, 2020

Declines in US PE MM fundraising activity over H1 were not nearly as steep as they were for deals and exits. GPs raised $44.3 billion over 52 funds, putting 2020 on pace to surpass the $80.5 billion raised in 2015, meaning that capital raised is still within the elevated bounds of the last few years. Given COVID-19 has altered and postponed exit and deal opportunities, that capital raised fell only slightly in the quarter portends well for PE deals down the line.

Tech funds are still high in demand, with multiple closing in the first six months of the year. One of the most notable to close in Q2 was Francisco Partners' Agility Fund II. The $1.5 billion MM fund allows the firm to invest in attractive opportunities that may be too small for their main flagship funds and represents a sizable step-up from the $600.0 million vehicle closed in 2016. It closed the same day as two other Francisco Partners vehicles: Francisco Partners VI, a $7.5 billion equity fund, and FP Credit Partners, a $750.0 million credit fund. In total, Francisco Partners saw just under $10 billion in capital commitments close on the same day, indicating healthy fundraising activity for GPs with solid track records and diversified offerings. Thoma Bravo, another tech-focused GP, is also looking to concurrently close

Median months to close PE MM funds

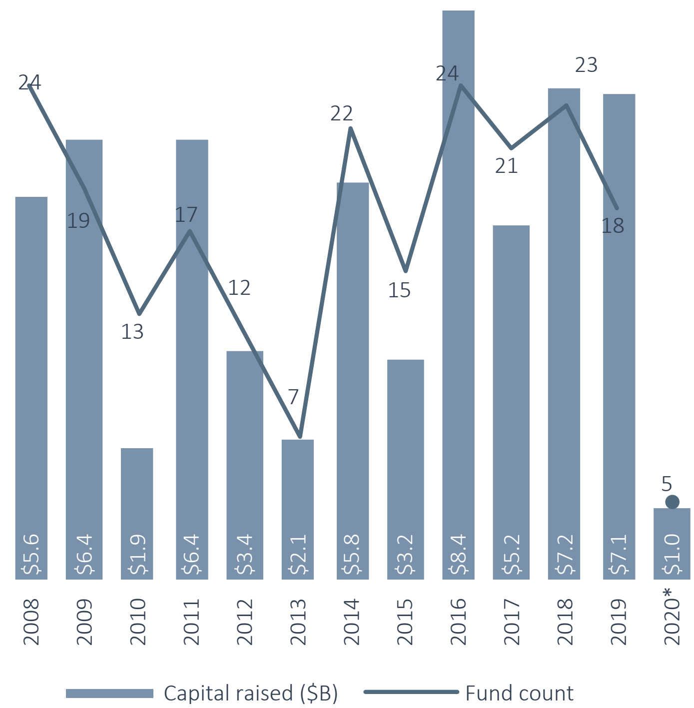


Source: PitchBook | **Geography:** US
*As of June 30, 2020

a trio of tech funds this year. According to reports, the firm is nearing the finish line on an effort to raise more than $20 billion for three tech-focused buyout funds. Two of the funds would be targeting MM companies, the Discover Fund IV, which has raised $3.5 billion, and the even smaller Explore Fund, which has raised $1.3 billion.

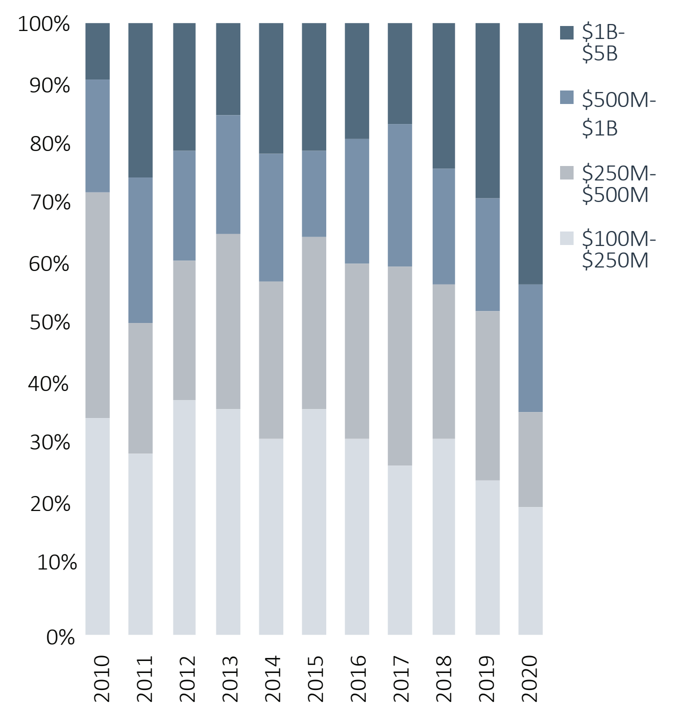
PE firms received more positive news in the quarter when the US Department of Labor issued a guidance confirming that 401(k) plans can offer PE in a diversified fund, such as a target fund. The value of the US workplace retirement market is over $6 trillion, and PE managers have been eager to gain access to this investor pool for years. Naturally, there are mixed emotions regarding this decision. Proponents maintain that a small allocation to PE in a 401(k) gives main street investors access to the same investment, which for years, has been available only to endowments, foundations, pensions, and high-net-worth individuals, and can potentially yield outsized gains to individuals. Critics opine that the addition of PE to 401(k) plans would increase costs to the workers. However, due to management and performance fees, a PE fund might also return less than the public equity funds most common in retirement plans currently. In any case, one differentiating factor is manager selection given the significant disparity in fund performance across GPs. This is a topic we will follow intently, especially given the ruling by the Supreme Court in February that allowed a former worker from Intel Corp. to sue his company over its 401(k) plan. The worker claimed that Intel violated its fiduciary duty when it invested some of its workers in riskier, high-fee alternative investments such as hedge funds and PE. However, any changes to fundraising stemming from the addition of 401(k) plans will most likely be felt years down the road.

PE MM first-time fundraising activity



Source: PitchBook | **Geography:** US
*As of June 30, 2020

PE MM funds (#) by size



Source: PitchBook | **Geography:** US
*As of June 30, 2020