

# DebtRush Newsletter

RSC Market Update - October 2017

## About Us

Rush Street Capital is a boutique financial advisory firm that specializes in all aspects of debt: debt private placements, debt advisory, debt market surveys, mergers and acquisitions advisory, debt restructuring, special situations, and capital markets.

## Lower Middle Market Maintains Sanity...For Now

With each month and week that passes, the lower middle market sees more and more new entrants. Private equity firms, family offices, private credit funds and more are attracted to the lower middle market for its dense population of companies, potential for outsized returns and relatively sane valuations and leverage multiples.

Recent articles have showcased the allure of the lower middle market:

- Why the Lower Middle Market is creating M&A opportunities for private equity:  
<https://www.themiddlemarket.com/news/the-lower-middle-market-is-poised-for-long-term-deal-growth>
- The Lower Middle Market Opportunity:  
<http://hdcap.com/content/whitepapers/hdc-white-paper-september-2017.pdf>
- What does Lower Middle Market mean?:  
<https://www.divestopedia.com/definition/4918/lower-middle-market>
- Lower Middle Market Insights:  
[http://c.ymcdn.com/sites/www.sbia.org/resource/resmgr/media/SBIA\\_Outlook\\_Volume\\_4\\_Issue\\_.pdf](http://c.ymcdn.com/sites/www.sbia.org/resource/resmgr/media/SBIA_Outlook_Volume_4_Issue_.pdf)

For now (and who knows for how much longer), we still see relative sanity in the lower middle market. From what we read and hear from our friends in the high-yield debt world and in the upper middle market, things have gone completely off the rails. Deal valuations, purchase price multiples and leverage are up in nosebleed territory, even surpassing levels from previous eras (e.g. 2007).

For the most part, we see fairly logical multiples on M&A deals, recaps and financings with lower middle market transactions. However, with all of this activity and buzz – it appears that the secret is out about the attractive characteristics in the lower middle market. Now, we begin to wonder if the additional supply will change some of the economic realities in with smaller deals. Will multiples begin to bid up? Will credit metrics begin to inch higher and will leverage become inflated like with larger deals? It may be only a matter of time and there may already be some frothiness with smaller deals. However, there is still a dearth of aggressive cash-flow lenders in the lower middle market. Prevailing wisdom among cash-flow lenders is that little or no true enterprise value exists for companies below \$10 million of EBITDA and even less likely to exist in companies below \$5 million of EBITDA. While those minimums can also be inched lower, we doubt if there will ever be a wholesale change to this sentiment (or at least not any time soon).

That does not mean that buyers and lenders will be conservative and it does not mean that the lower middle market is immune to frothy sentiments. Dealmakers are paid well to do deals and this motivation rarely instills long-term discipline among buyers or the intermediaries that represent them. Borrow more, buy more and do more deals. That is what drives markets forward and drives economic returns down. And in the later stages of economic expansion, most market participants have a difficult time accurately pricing risk into financial models. That is today's reality in most segments of the capital markets in 2017.

Time will tell if all the new buzz about the lower middle market has a significant impact on pricing, leverage and deal multiples. For now, we still see the lower middle market as an island of relative sanity amidst a sea of madness.



Lower Middle Market: MB2 Dental Solutions LBO backed with senior debt from NXT Capital.

NXT Capital was joint arranger on senior debt last month that supported the buyout of MB2 Dental Solutions by Sentinel Capital Partners.

The Texas-based company is a dental service organization serving 85 practices in Alaska, Louisiana, New Mexico, Oklahoma, Tennessee and Texas.

The deal is Sentinel's sixth dental platform following earlier investments in Altima Dental Centres, Castle Dental, Metro Dentalcare, Northeast Dental Management and ReachOut Healthcare America.

- Kelly Thompson

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Lower Middle Market: Sponsor-backed MeriCal acquires Global Health Industries

Linden Capital Partners' MeriCal LLC has acquired Global Health Industries, an Ogden, Utah-based manufacturer and packager of probiotics including bacteria, spores, and yeast products.

MeriCal, located in Anaheim, Calif., is a similar business that manufactures other nutritional supplements.

Linden acquired MeriCal a year ago. PNC Business Credit and THL Credit provided debt financing to back the purchase. As of June 30, THL Credit's business development company held \$12.7 million of a first-lien term loan priced at L+900, with a 1% floor. The platform also holds equity in the company.

- Kelly Thompson

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## Recent Transactions

**Independent Sponsor  
New Platform Formation**

**\$20,000,000  
Secured Acquisition  
Financing of a  
Specialty Home  
Healthcare Company**

Rush Street Capital acted as exclusive financial  
Advisor to the Company on this transaction

## Rush Street Capital

### QUOTE OF THE MONTH

We all have dreams. But in order to make dreams come into reality, it takes an awful lot of determination, self-discipline, and effort.

-- Jesse Owens

[Rush Street Capital  
Introduction to our Firm](#)



[Rush Street Capital  
Short version video \(1 minute\)](#)



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