

# news from the middle

deal perspectives for middle market companies and their advisors

Q4 2014

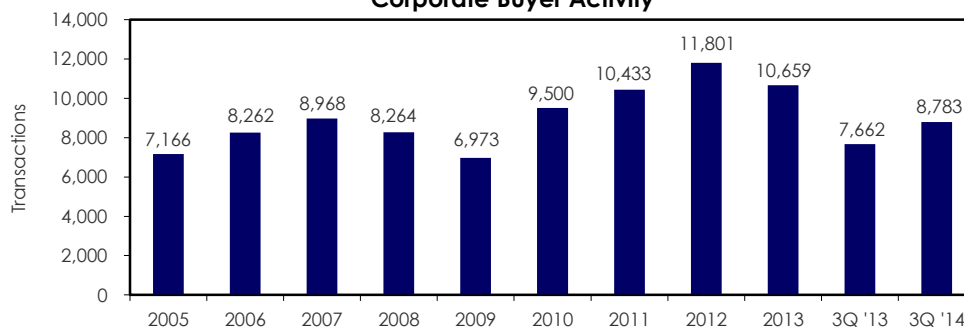
## “Well, here at last, dear friends ...” J.R.R. Tolkien

In quarters past, we have been reporting on increased M&A activity in the middle market, noting a sharp rise in new companies preparing to enter the market and deals moving closer to closing. Despite the growing backlog of transactions within our own firm and deal makers across the industry generally feeling like the market was roaring, formal statistics about deal volume and closings seemed to be lagging the activity. Well, that is no longer the case. Moreover, deal closing activity in Q4 – though still a bit early to say – appears to be dwarfing 2013 levels. Here are some interesting “headline” trends we are seeing across the middle market M&A landscape (which the numbers are actually starting to support as well):

- 1 U.S. strategic acquirers are making the strongest moves – YTD, the strategic market activity has increased ~15% YOY (with continued strength);
- 2 Foreign strategic acquirers have become more aggressive in the U.S. market – They are approaching a 20% market share YTD, well ahead of last year's pace;
- 3 Private equity firms are holding strong – While PEG activity is only up ~3% YTD, we are seeing an increase in the number of PE bidders on each transaction;
- 4 Scale matters, but not so much right now – Smaller, strategic M&A deals are going off at multiples typically reserved for larger transactions (that's something entirely new);
- 5 Debt availability for the middle market – We are seeing increased leverage multiples and improved terms, even at the lower end of the market;
- 6 The deal closing pace is picking up – Anecdotally, the due diligence and documentation timeline is becoming more accelerated; and
- 7 The supply-side remains strong – Although deal closings are picking up, so is the backlog of deals preparing for market in 2015.

We look forward to reporting on the year-end activity and trends as these interesting dynamics converge. We certainly expect plenty of color to share.

Corporate Buyer Activity



Source: Capital IQ

MERGERS & ACQUISITIONS

PRIVATE PLACEMENTS

CORPORATE RESTRUCTURING

VALUATION ADVISORY

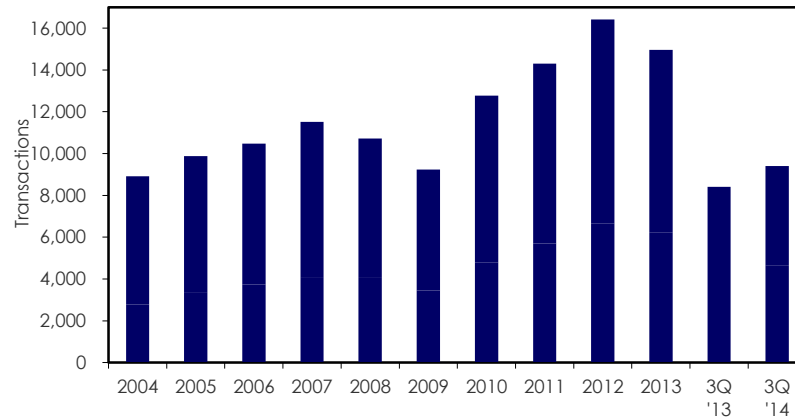
MERCHANT BANKING



## M&A snapshot

### Middle Market Transactions

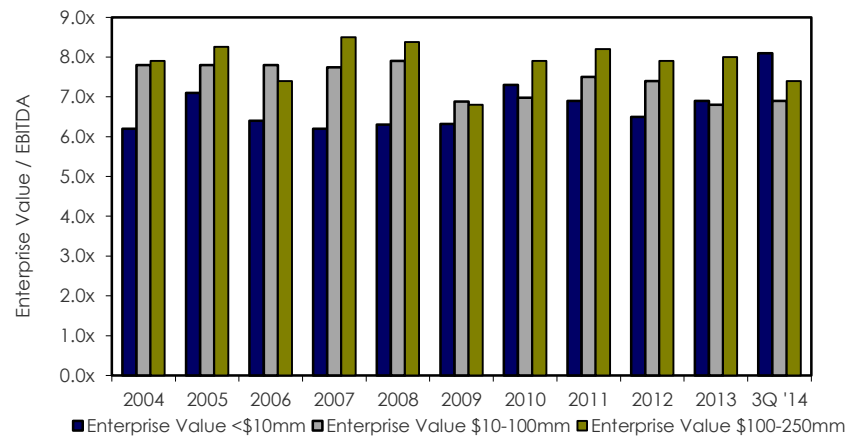
*Year to date, the number of closed transactions is up 12% in 2014.*



Source: Capital IQ  
Enterprise Value < \$250mm

### AVERAGE MULTIPLES BY TRANSACTION SIZE

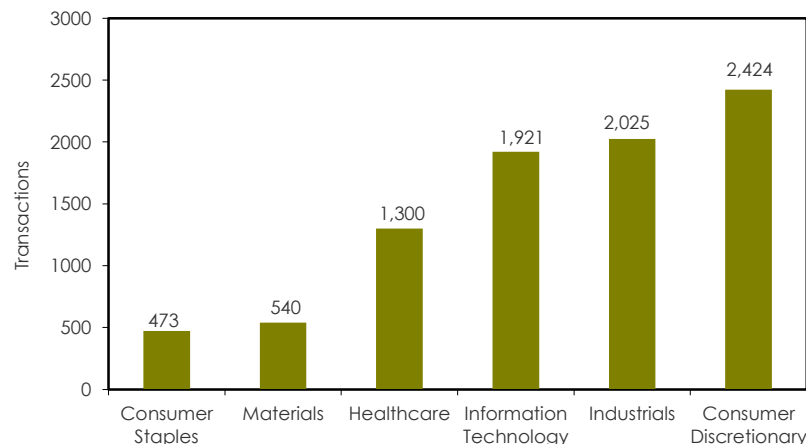
*Quality of the target is trumping size in determining transaction multiples.*



Source: Capital IQ  
Includes multiples 3x-12x

### TRANSACTIONS BY SECTOR

*The Consumer Discretionary, Industrials and IT sectors dominate activity.*



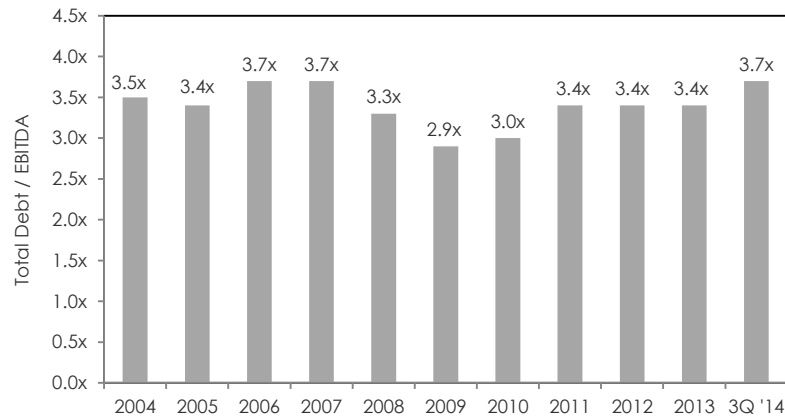
Source: Capital IQ  
LTM ended 9/30/2014  
Enterprise Value < \$250mm



## M&A snapshot

### PRIVATE EQUITY DEBT MULTIPLES

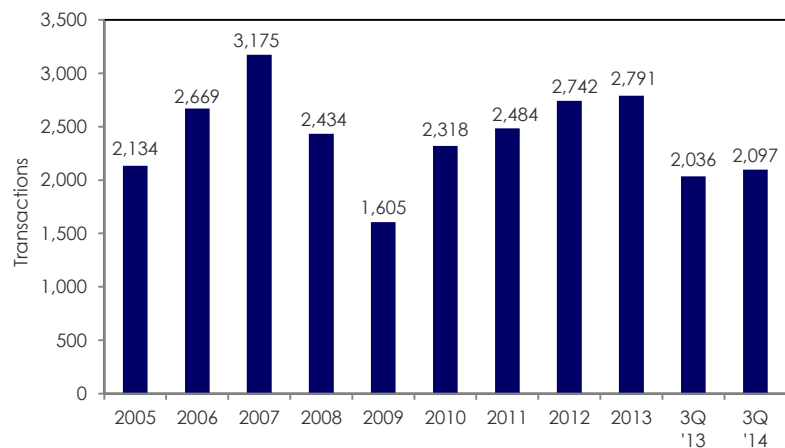
*Debt multiples have risen substantially, reflecting the ready availability of financing.*



Source: GF Data Resources  
Includes multiples 3x-12x  
Enterprise Value \$10-\$250mm

### PRIVATE EQUITY BUYER ACTIVITY

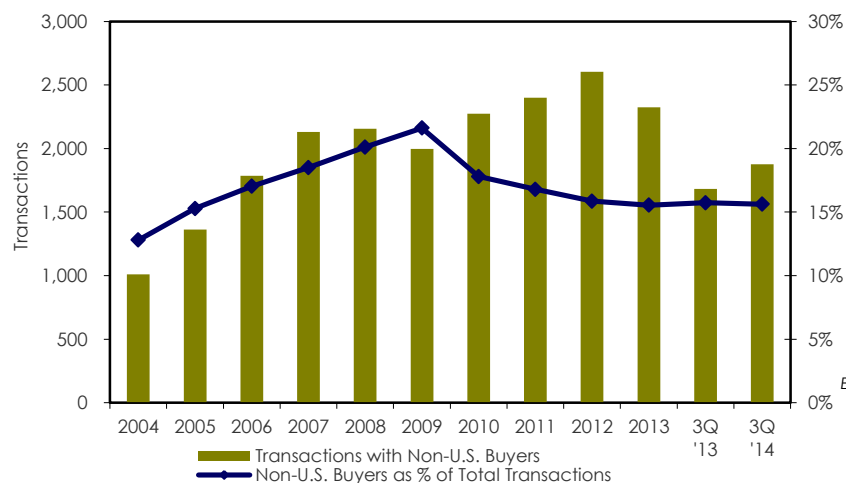
*Favorable debt conditions are driving private equity activity, despite higher valuations.*



Source: Pitchbook

### FOREIGN BUYER ACTIVITY

*The U.S. continues to represent an attractive economic and political climate to foreign buyers.*



Source: Capital IQ  
Enterprise Value < \$250mm

# ▶▶▶ built for the middle market

## ABOUT CAPSTONE PARTNERS

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