



## news from the middle

deal perspectives for middle market companies and their advisors

Q3 2016

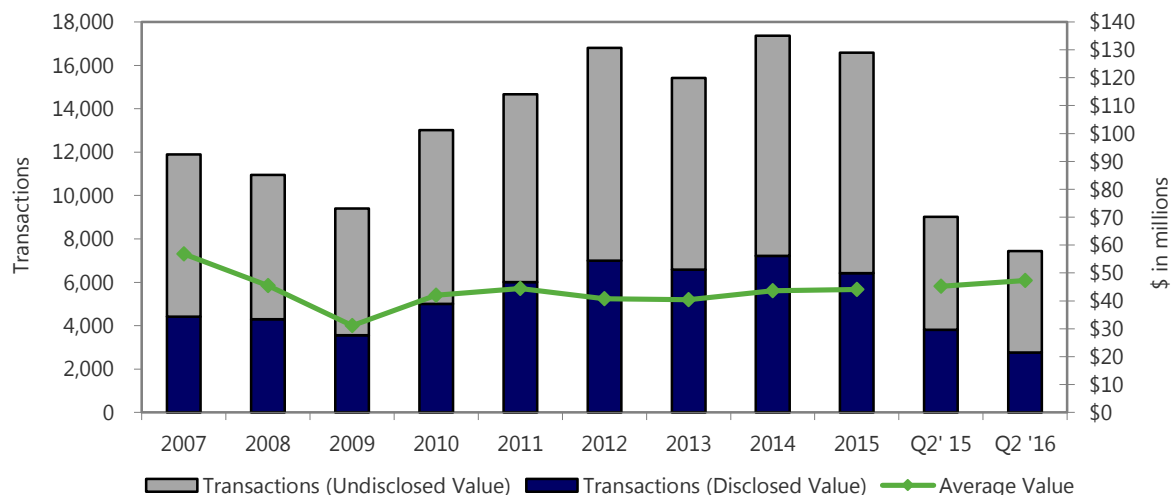
### MIDDLE MARKET M&A FUNDAMENTALS REMAIN UNCHANGED

Despite uncertainty in global markets, middle market M&A valuations in the US have remained strong through Q3 2016. Trump vs. Hillary, Brexit, interest rates, oil prices and Turkey's failed coup are all forces that have threatened and, more importantly, failed to destabilize markets. Instead, domestic M&A activity has remained healthy, highlighted by increased EBITDA multiples across industries and transaction sizes, strong average deal valuations, renewed interest by foreign acquirers and continued interest from private equity (PE) and corporate acquirers.

Middle market companies are still in demand despite deal volume decreasing 17.2% compared with the same period in 2015. As we predicted would be the case in our Q1 and Q2 updates, we believe that the slowdown in deal volume is primarily a factor of macroeconomic uncertainty and a natural readjustment of M&A activity from record highs in 2014 and 2015. However, primary M&A fundamentals remain unchanged. Interest rates have continued to stay low despite an increase in Q4 2015. PE firms that exited their investments in 2014 and 2015 have raised new funds and are seeking investment opportunities. In the first half of 2016, PE firms raised more than \$115.0 billion in capital, a 24.0% increase over the same period last year, while exits have returned to normal levels in 2016 after an increase of about 27.9% in volume from 2013 to 2015. Strategic acquirers are hoping to deploy about \$1.7 trillion in cash, currently on their balance sheets, to offset slower organic growth and fluctuations with global sales.

With some uncertainty in the next few quarters, the consensus among buyers and sellers is that the current environment supports quality deals getting done at premium multiples, and that clarity into the election and interest rates will dictate valuations in 1H 2017.

Middle Market M&A Volume



Source: Capital IQ  
Enterprise Value < \$500mm

MERGERS & ACQUISITIONS

CORPORATE RESTRUCTURING

PRIVATE PLACEMENTS

FINANCIAL ADVISORY

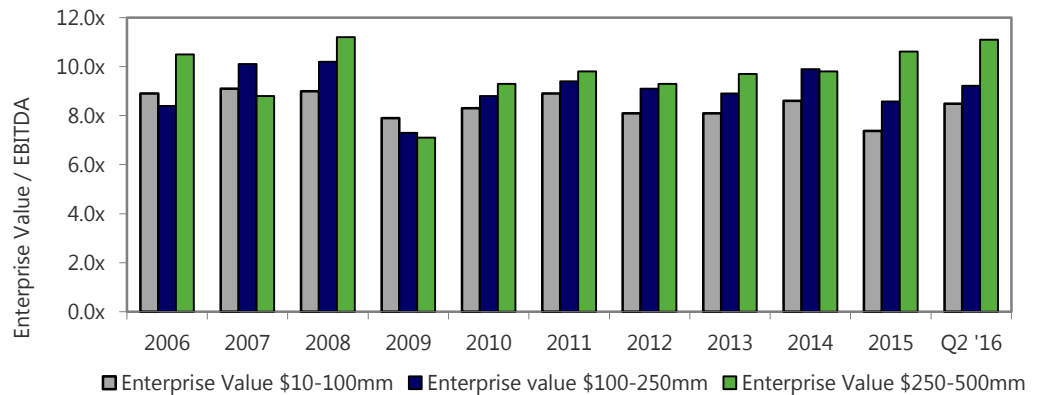
MERCHANT BANKING



## M&A snapshot

### AVERAGE MULTIPLES BY TRANSACTION SIZE

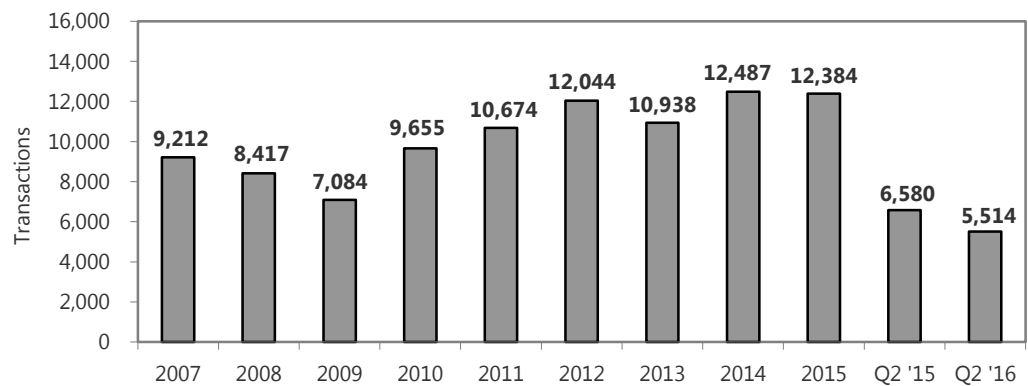
**Average transaction multiples have increased in every segment through Q2 2016**



Source: Capital IQ  
Includes multiples 3x-16x

### CORPORATE BUYER ACTIVITY

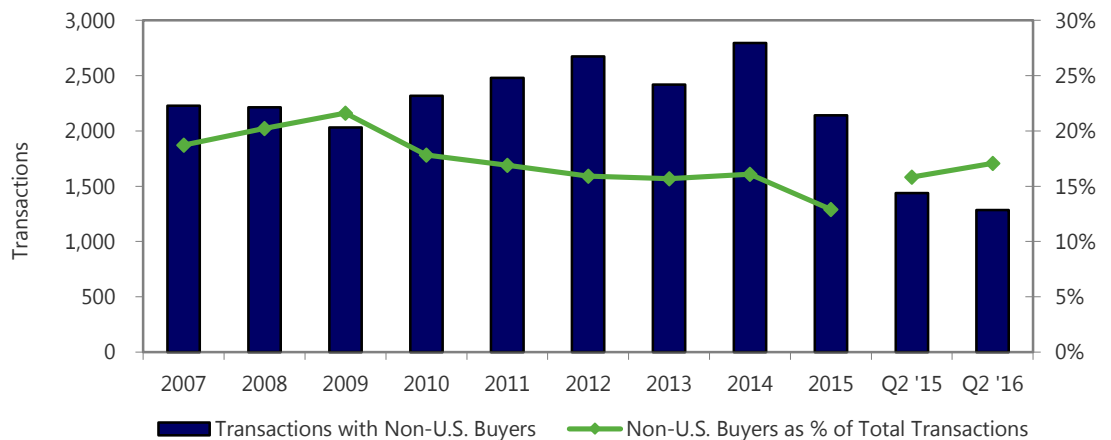
**Corporate buyer M&A activity continues to slow in 2016, representing a 16.2% decline in transaction volume**



Source: Capital IQ  
Enterprise Value < \$500mm

### FOREIGN BUYER ACTIVITY

**Foreign buyer activity increased to 17.1% of total M&A activity, largely due to an overall slowing deal market**



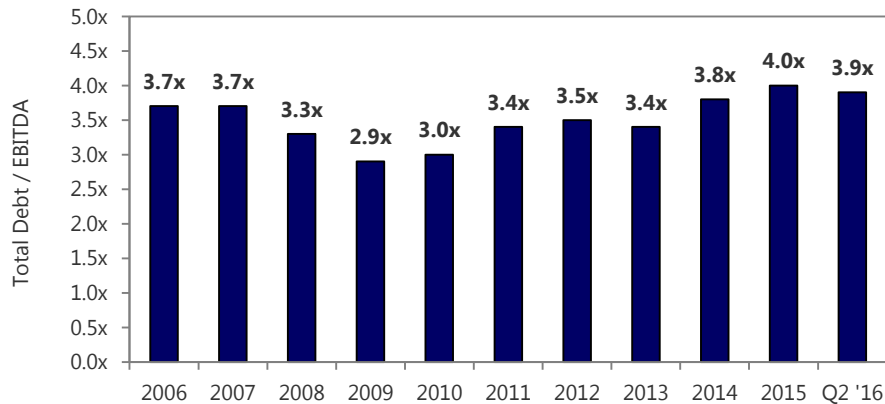
Source: Capital IQ  
Enterprise Value < \$500mm



## M&A snapshot

### PRIVATE EQUITY DEBT MULTIPLES

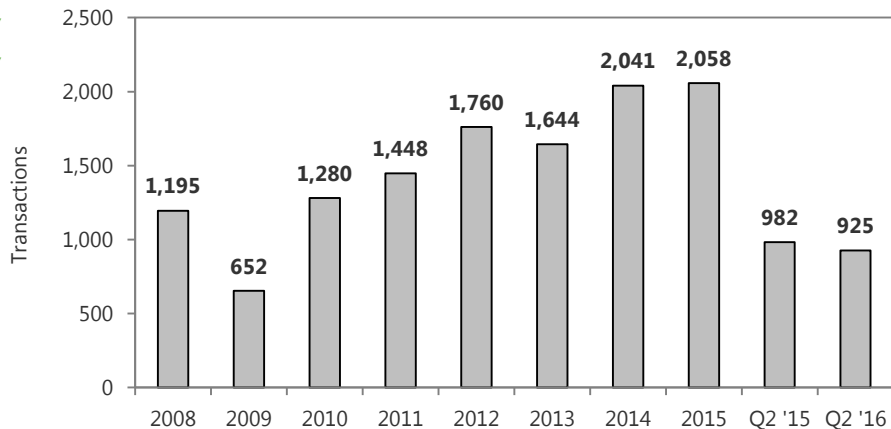
*Leverage ratios for PE deals reached 3.9x EBITDA, remaining at a high level through Q2 2016*



Source: GF Data Resources  
Includes multiples 3x-15x  
Enterprise Value \$10-\$250mm

### PRIVATE EQUITY BUYER ACTIVITY

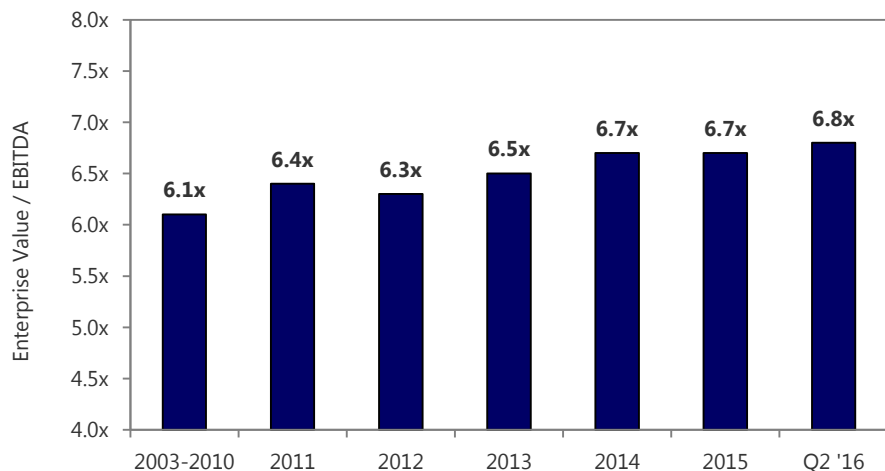
*PE activity slowed a modest, yet significant 5.8% in Q2 and is on pace to fall just short of 2014 and 2015's activity levels*



Source: Pitchbook

### PRIVATE EQUITY MULTIPLES

*PE valuations have reached a record high largely due to strong M&A fundamentals and demand from buyers*



Source: GF Data Resources  
Includes multiples 3x-15x  
Enterprise Value \$10-\$250mm

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## ABOUT CAPSTONE PARTNERS

**Capstone Partners LLC** is a premier investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. The firm provides M&A, corporate restructuring, private placement and financial advisory services. Headquartered in Boston, Capstone has offices in Chicago, London, Los Angeles, New York, Orange County, Philadelphia, San Diego, Silicon Valley and Tampa with an international presence that spans 450+ professionals in 70 offices across 31 countries.

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