

# news from the middle

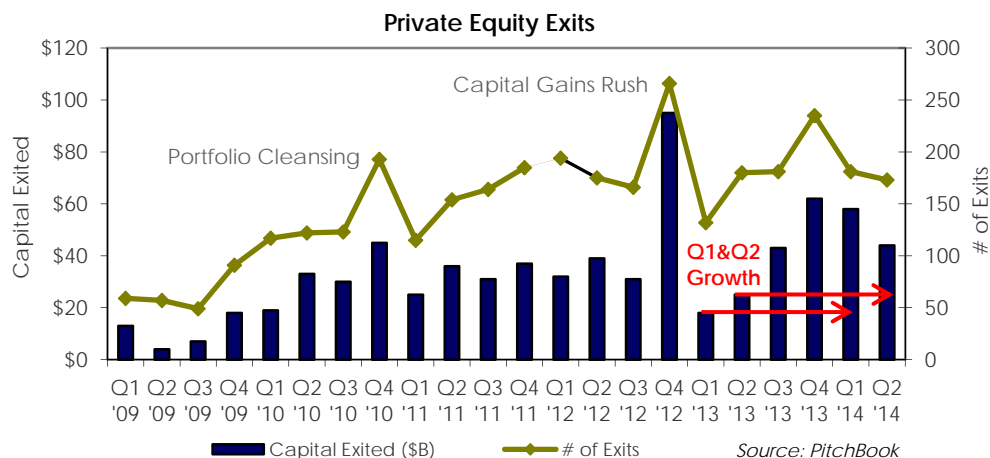
deal perspectives for middle market companies and their advisors

Q3 2014

## Stock Market Correction ... A Chink in the M&A Armor? Nope.

The recent stock market correction drew everyone's attention. But within a prolonged bull market run, M&A deal makers took the public market blip in stride. Putting things in perspective, we have experienced over 1,000 days since the last correction (i.e., a drop of 10%+). In that context, this was an expected speed bump – and probably overdue. Regardless, the fluctuation in public equities has had no bearing on the M&A market. We continue to experience a robust environment with deal volume up 11% in the first half of 2014. Key trends in this M&A market include the following:

- ▶ **Increased PE Exits.** The most significant validation of the strength of the M&A market is the increased exit activity among private equity firms. Following the “smart money,” PE firms have embraced the frothiness of current M&A valuations. Both the number and dollar value of PE exits increased sharply in Q1 and Q2 of 2014 (compared to 2013). Given this deal activity immediately followed the Q4 2013 spike (which approached the levels of the 2012 capital gains rush), this market has plenty of steam in it.
- ▶ **Strategic M&A Pressure.** On the demand-side of the equation, we are seeing an anomaly in the strategic acquirer market. Yes – publicly traded companies have long enjoyed strong, cash-flush balance sheets while privately held, PE-backed companies likewise have been “loaded for bear” pursuing add-on transactions. However, we are now in an environment where there are increased pressures put on acquirers (public and private) to get deals done as attractive organic growth remains challenging.
- ▶ **Strong Financing Foundation.** Underpinning this deal activity is increased (and attractive) debt financing. According to PitchBook, the median debt percentage for PE deals in 2014 reached 72% (v. 66% in 2013, 60% in 2012 and 55% in 2011). The level of debt financing in the first half of 2014 is even outpacing the percentages of the 2007 buyout boom (63%). With overall debt/EBITDA turns reaching as high as 8.2x in early 2014 (v. 6.9x in 2013 and 4.9x in 2012), valuations are pushing record highs.



MERGERS & ACQUISITIONS

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CORPORATE RESTRUCTURING

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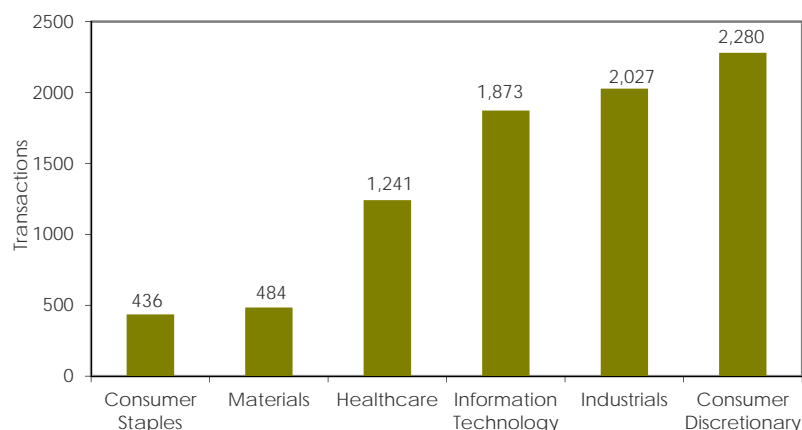
MERCHANT BANKING



## M&A snapshot

### TRANSACTIONS BY SECTOR

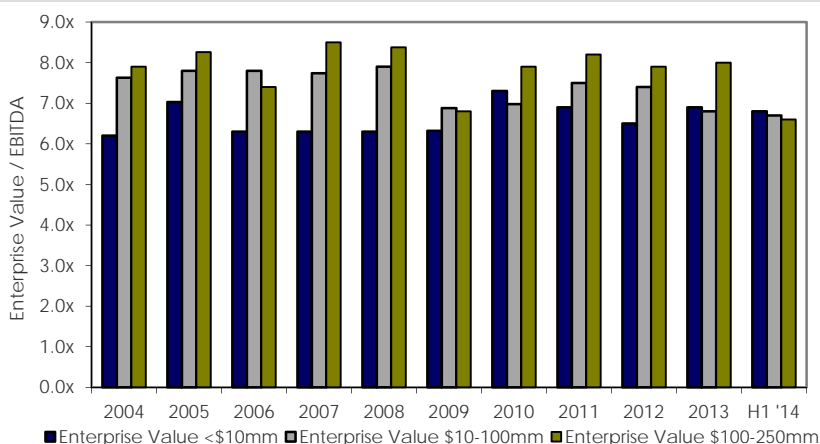
*Consumer Discretionary, Industrials, and Information Technology continue to be the most active sectors.*



Source: Capital IQ  
LTM ended 6/30/2014  
Enterprise Value < \$250mm

### AVERAGE MULTIPLES BY TRANSACTION SIZE

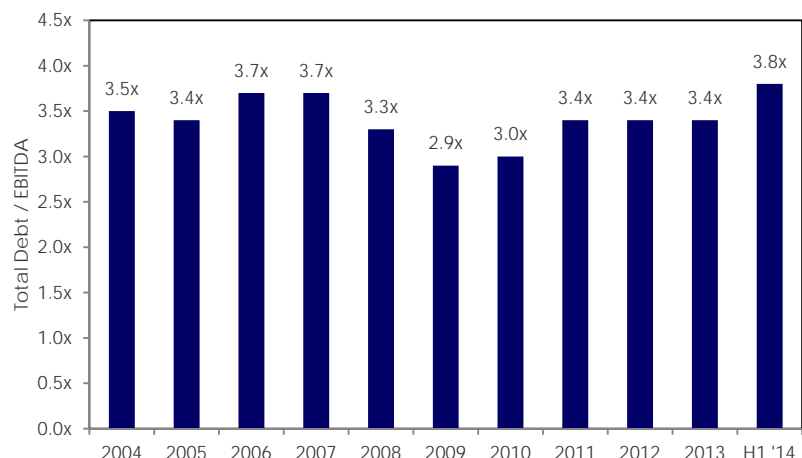
*Transaction multiples remain healthy and buyer demand continues strong.*



Source: Capital IQ  
Includes multiples 3x-12x

### PRIVATE EQUITY DEBT MULTIPLES

*Favorable financing availability and pricing are resulting in healthy leverage multiples.*



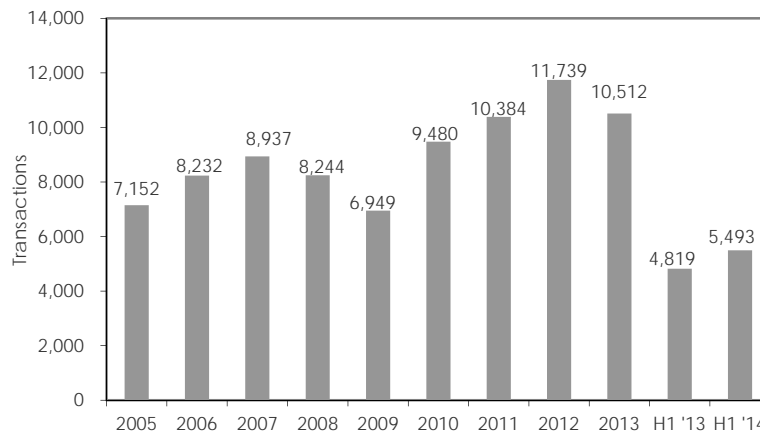
Source: GF Data Resources  
Includes multiples 3x-12x  
Enterprise Value \$10-\$250mm



## M&A snapshot

### CORPORATE BUYER ACTIVITY

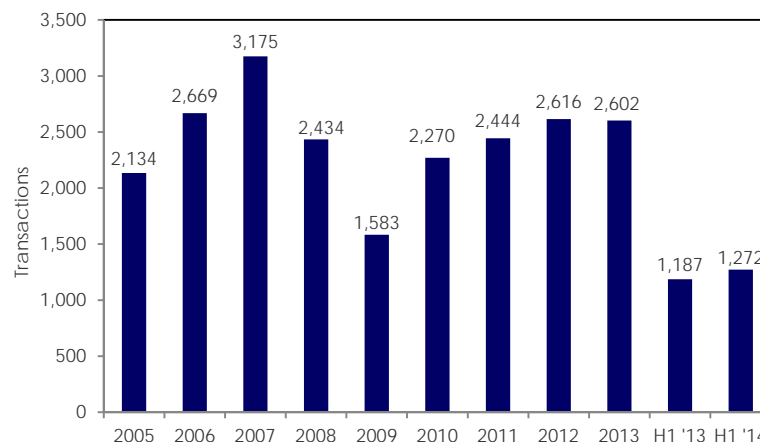
*Improved earnings and large cash reserves are motivating corporate buyers and positively influencing valuations.*



Source: Capital IQ  
Enterprise Value < \$250mm

### PRIVATE EQUITY BUYER ACTIVITY

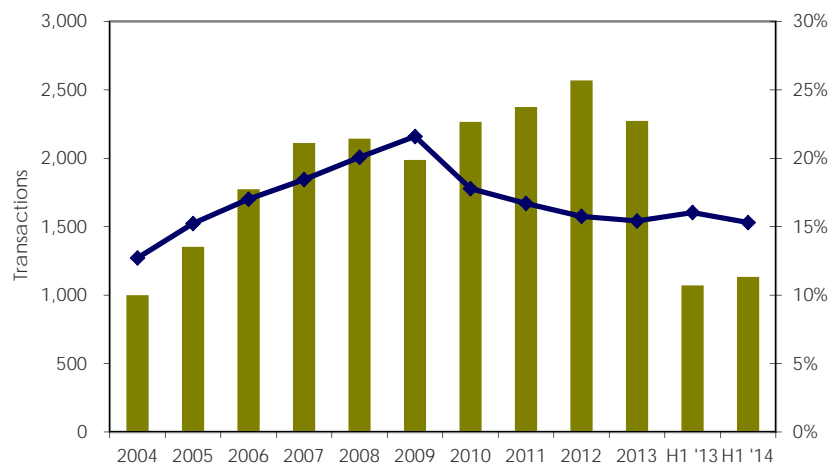
*Add-ons account for the majority of transactions, as private equity firms increasingly employ a "buy and build" strategy.*



Source: Pitchbook

### FOREIGN BUYER ACTIVITY

*Foreign acquirers have become consistent participants in the U.S., accounting for 15% to 20% of the overall market.*



Source: Capital IQ  
Enterprise Value < \$250mm

# ▶▶▶ built for the middle market

## 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 corporate sale & divestiture, merger & acquisition, private placement, corporate restructuring, valuation and financial advisory services. Capstone maintains various industry specialties including Business Services, Consumer Products, Education & Training, Government Services, Health & Medical, Manufacturing & Industrial and Technology & Telecom. The firm also has a merchant banking capability to actively co-invest in transactions. Headquartered in Boston, Capstone has offices in Chicago, London, Los Angeles, Philadelphia, San Diego, Silicon Valley and Tampa. For more information, please visit [www.capstonellc.com](http://www.capstonellc.com).

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