



news from the middle

deal perspectives for middle market companies and their advisors

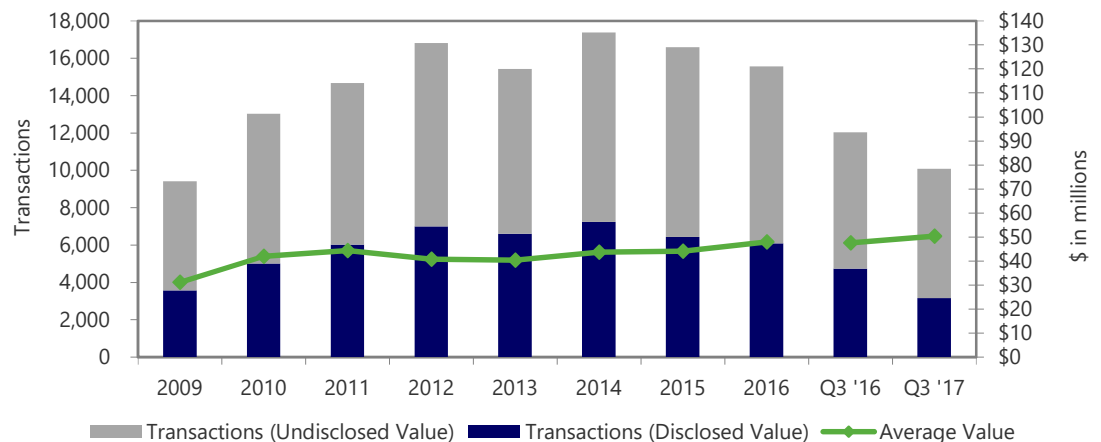
Q4 2017

SELLER'S MARKET LEAVES BUYERS FIGHTING FOR THE PRIZE

The ripe economic environment in 2017 has created a vibrant seller's market with companies achieving premium EBITDA multiples of approximately 9.1x. Although Q3 YTD deal volume dropped 16.2% year-over-year, it is Capstone's view that the decline is attributable to fewer companies available for sale rather than a lack of buyer demand. As a result, buyers face fierce competition for quality companies and this scarcity has contributed to increased valuations. Private equity buyers have been particularly heavy hitters as they seek to deploy \$545.5 billion in capital and are completing transactions with EBITDA multiples at a 15-year high. Consequently, PE firms' share of the M&A pie has increased at the expense of corporate buyers which have experienced a drop of 20.5% year-over-year in completed deals.

In many respects, the macroeconomic and microeconomic trends of 2017 reflect the peaks of recent bull market runs. Unemployment (4.1%) is at its lowest since 2000, consumer confidence (125.9) has reached a 17-year high, middle market valuations (\$50.4 million) are at their highest since 2007 and M&A debt multiple (4.2x) are the highest in our 14-year data base. Taken collectively, these statistics seem to suggest that the market is reaching an apex. At the same time, Capstone believes M&A activity and pricing will remain strong in 2018 due to low interest rates (1.15% compared to 4.24% in 2007), aggressive and healthy lenders, and continued appetite from PE firms with dry powder. Capstone believes that these favorable market conditions will result in steady appetite for transactions as sellers seek to capitalize on the current market run and achieve high valuations.

Middle Market M&A Volume



Source: Capital IQ
Note: Enterprise Value < \$500mm

MERGERS & ACQUISITIONS

CORPORATE RESTRUCTURING

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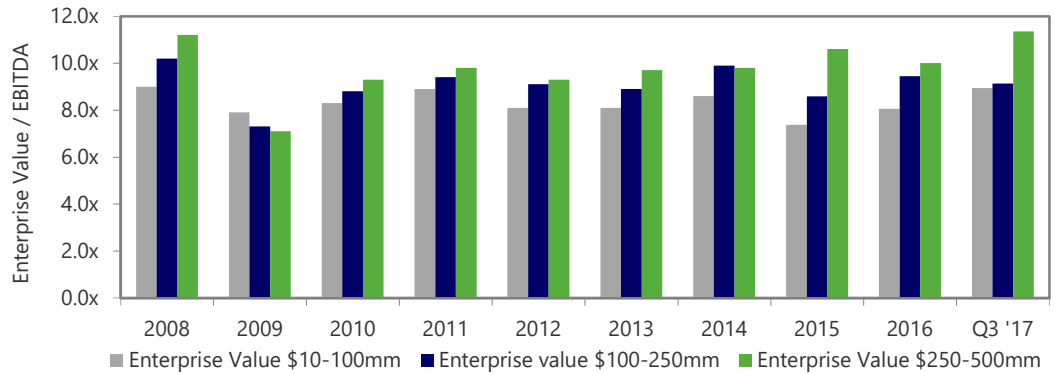
MERCHANT BANKING



M&A snapshot

AVERAGE MULTIPLES BY TRANSACTION SIZE

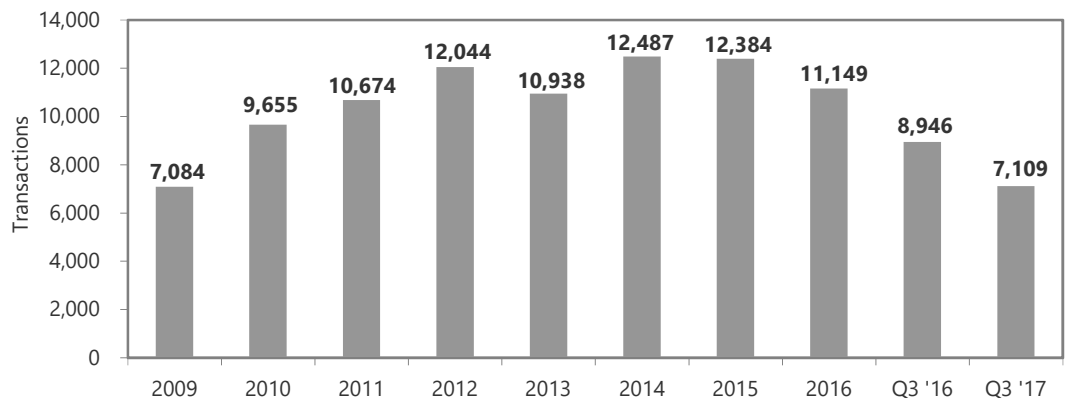
Deals valued between \$250-\$500mm reached strong EBITDA multiples of 11.4x, the highest seen since 2008



Source: Capital IQ
Note: includes multiples 3x-16x

CORPORATE BUYER ACTIVITY

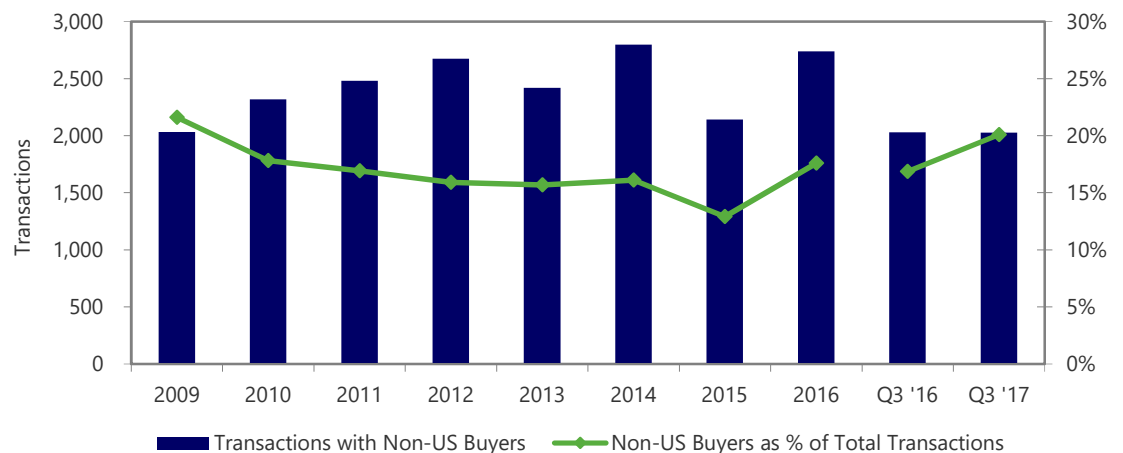
Corporate buyers have been less active as they compete against PE buyers seeking to deploy capital



Source: Capital IQ
Note: Enterprise Value < \$500mm

FOREIGN BUYER ACTIVITY

The share of foreign buyers has reached 20.1%, the largest percentage since 2009



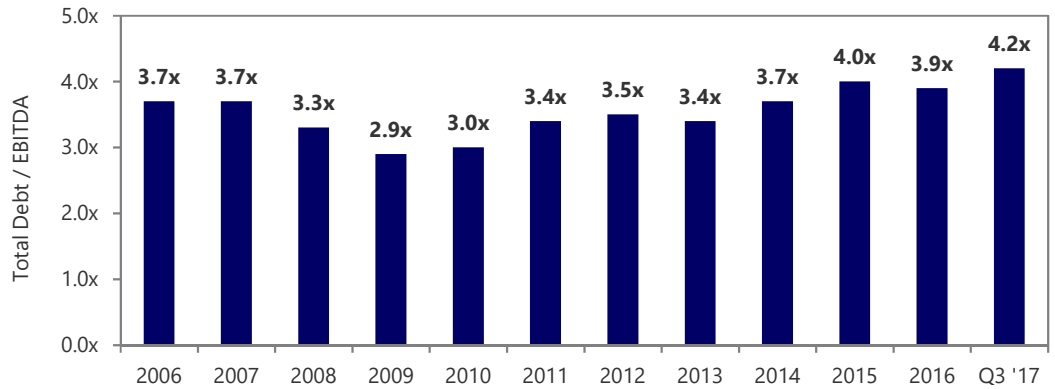
Source: Capital IQ
Note: Enterprise Value < \$500mm



M&A snapshot

PRIVATE EQUITY DEBT MULTIPLES

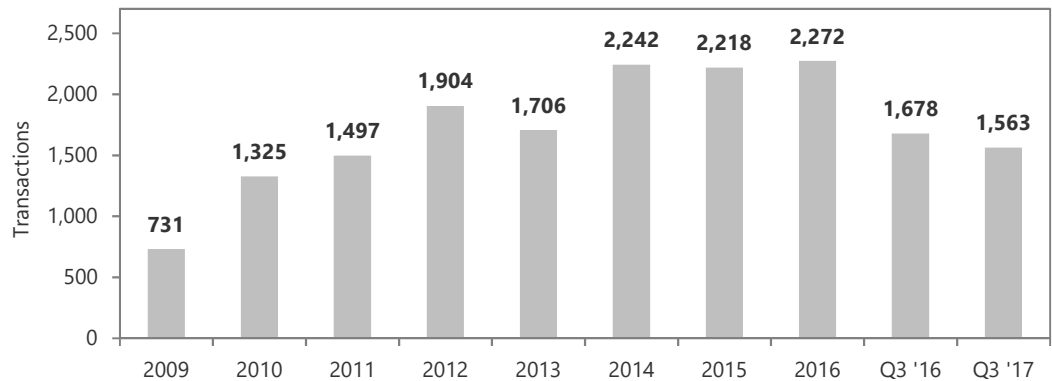
Debt multiples have climbed to 4.2x, the highest recorded in our data base



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

PRIVATE EQUITY BUYER ACTIVITY

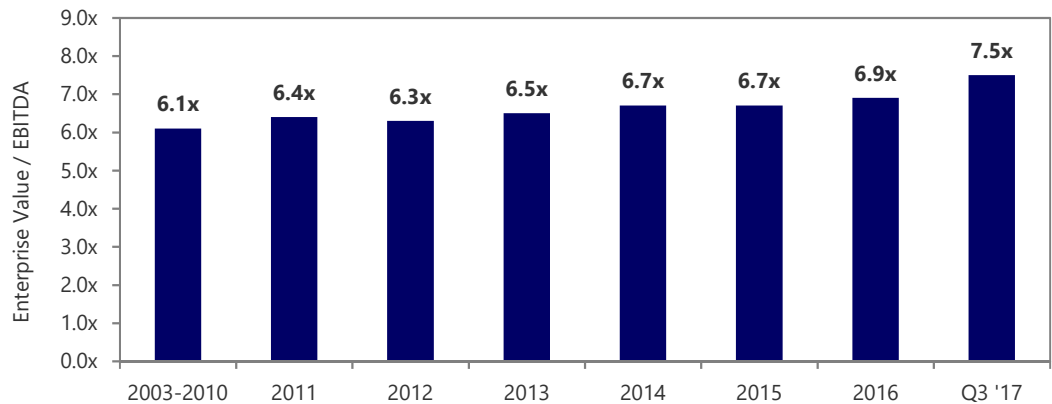
PE buyers have remained highly active in the M&A market as they seek to deploy capital



Source: Pitchbook
Note: Pitchbook changed methodology to only include buyout deals as of Q3 2017. All data reflects new methodology.

PRIVATE EQUITY MULTIPLES

Valuation multiples have been at a premium and Q3 surpassed the 15-year high of 7.4x set by Q2 2017



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

▶▶▶ built for the middle market

ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is an award-winning investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. Over the past 15 years, Capstone has earned a reputation as one of the most innovative firms in the industry, offering corporate sale & divestiture, merger & acquisition, private placement, corporate restructuring, valuation and financial advisory services. The firm maintains seven industry practices, including: Business Services, Consumer Products, Education & Training, Government Services, Health & Medical, Manufacturing & Industrial, and Technology & Telecom. 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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