Middle-Market M&A Overview and Trends

Despite a soft first quarter of 2014, barring any major fiscal or systematic shock to the financial markets, there are a number of reasons to expect improving M&A deal volume for the remainder of 2014.

In the first quarter of 2014 global middle-market M&A activity declined 12.1% and 5.6% in terms of number of deals and deal value, respectively, compared to the first quarter of 2013. However, we expect a brisk market for M&A activity in the coming months amid a robust financing environment, an improving global economy, rising equity markets and consumer confidence and decreasing uncertainty, as evidenced by the recovery of the financial services sector. The improving macro environment should increase interest in acquisitions among corporate buyers while favorable credit terms allow private equity investors to use increasing leverage. Between corporate balance sheets and private equity funds there is approximately $1.5 trillion of available capital for deployment.

US middle-market M&A total deal value declined 5.8% in the first quarter of 2014 compared to the first quarter of 2013. While total deal value in the $250 million-to-$500 million range rose 12.4%, there was an 11.7% drop in deal value for transactions in the $50 million-to-$250 million range and a 34.2% drop in total deal value for transactions in the under-$50 million range. Post-crisis, there has consistently been more credit available for buyouts in the upper end of the middle market, which has had an impact on M&A activity. Enterprise Value/EBITDA multiples are the highest that they have been in at least a decade, ranging from 10.6x for smaller transactions to 14.2x for targets in the $250 million-to-$500 million range, largely driven by an increase in attractive debt financing available for middle-market deals.

The composition of acquiring firms has remained relatively stable, with private and public firms accounting for about 45% and 26% of total deal volume, respectively. Private equity and foreign acquirers accounted for 13% and 16% of US middle-market M&A volume in the first quarter. While raising private equity funds remains a challenge, increased distributions to investors in North America and Europe have freed up allocations in their private equity portfolios.

The rally in the equity markets has impacted the valuations of acquisition targets, as evidenced by rising acquisition multiples. This trend seems to have created some hesitancy on the part of acquirers who look for opportunities to improve target company operations or who will need to achieve significant synergies to justify the price tag. By the same token, the buoyant stock market has propelled some target companies away from corporate suitors and private equity firms and toward the IPO option.

Other factors, such as activist shareholder activity and regulatory risk have influenced M&A market dynamics, as well. Shareholder activism targeting companies deemed undervalued or undermanaged has resulted in efforts to unlock equity value through divestitures of non-core or underperforming lines of business. Regulatory risk has affected the market for larger, high-profile deals, especially in the telecom and media space, such as the proposed acquisition of Times Warner by Comcast.

In summary, the abundance of cash on corporate balance sheets and uninvested private equity capital, in tandem with relatively available credit, a stable macroeconomic environment and strong market performance and thus far “pent-up supply” in the middle market is expected to entice sellers to come to the market from the resulting improved valuations. As such, we anticipate that the remainder of 2014 should see an upswing in M&A activity.
### Middle-Market M&A Statistics

**Figure 1: Global Middle-Market M&A Activity**

- **Number of Deals**: 3,914
- **Disclosed Deal Value**: $207.4 Billion

Through the first three months of 2014, the total number of global middle-market transactions decreased 12.1%, while disclosed dollar volume decreased 5.6% over the same time period in the prior year.

**Figure 2: US Middle-Market M&A Activity**

US middle-market deal volume through the first three months of 2014 decreased 29.8% over the same period in 2013, while disclosed dollar volume decreased 5.8%.

**Figure 3: US Middle Market EBITDA Multiples**

Average purchase price multiples in the first three months of 2014 for middle-market transactions have surpassed the pre-recession highs observed in 2006.

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1. Disclosed transactions as reported by Dealogic and research reports through 03/31/14.
2. Global middle-market defined as transactions involving targets with Total Enterprise Value ("TEV") less than $500 million.
3. Dollars in billions.
Middle-Market M&A Statistics (continued)

**Figure 4 US Middle-Market M&A Activity by Acquirer**(1,2,3)

Public company acquisition activity increased to 28.5% over the last twelve months—however, activity remains lower when compared to the levels observed in 2004 to 2007.

(1) Disclosed transactions as reported by Dealogic through 03/31/14.
(2) Middle-market defined as transactions involving targets with TEV less than $500 million.
(3) “LTM” defined as Lastest Twelve Months.

**Figure 5 US Private Equity Activity**(1,2)

US private equity activity witnessed one of the most active first quarters since 2009 in terms of capital invested. However, the first quarter of 2014 was not as noteworthy in terms of the number of deals closed.

(1) Disclosed transactions as reported by PitchBook through 03/31/14.
(2) Represents US-based buyout, growth, PIPE, recapitalization and add-on (excluding real estate investments) transactions only.

**Figure 6 Private Equity Backed Middle-Market EBITDA Multiples**(1)

Private equity firms have rewarded businesses with above-average EBITDA margins and revenue growth with a “quality premium”, but EBITDA multiples have generally remained in the 5.0x to 7.0x range over the last decade for middle-market, private equity-backed transactions.

(1) Disclosed EBITDA multiples as reported by GF Data Resources through 12/31/13.
Middle-Market M&A Statistics (continued)

Figure 7 Leveraged Lending Multiples(1)
Leveraged lending multiples continue to expand even as the market has witnessed a general pullback by the commercial banks in more aggressive deals. However, nonbank lenders and “one-stops” are more than filling the void.

Figure 8 Private Equity Fundraising(1,2,3)
Private equity fundraising continued the brisk pace seen in 2013 as 74 funds closed on a total of $39 billion in the first quarter of 2014. Coming off a robust 2013 that saw the highest level of activity since 2008, the first quarter of 2014 could provide an indication that private equity fundraising is on pace for another strong year.

Figure 9 Uninvested Capital for Buyouts(2,3)
As of the end of 2013, private equity firms had over $390 billion in “dry powder” available for buyout transactions.
## Notable Announced Q1 2014 US Middle-Market M&A Transactions

<table>
<thead>
<tr>
<th>Announcement Date</th>
<th>Enterprise Value ($ mil)</th>
<th>Target Company</th>
<th>Acquiring Company</th>
<th>Industry</th>
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<tbody>
<tr>
<td>March 13</td>
<td>400.0</td>
<td>LiveTV, LLC</td>
<td>Thales Avionics, Inc.</td>
<td>Technology</td>
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<td>March 6</td>
<td>360.0</td>
<td>FreeWheel Media, Inc.</td>
<td>Comcast Corporation</td>
<td>Technology</td>
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<td>March 4</td>
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<td>Interplex Industries, Inc.</td>
<td>Amtek Engineering Ltd</td>
<td>Industrial</td>
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<td>February 17</td>
<td>445.9</td>
<td>Chindex International Inc.</td>
<td>TPG Capital, L.P.; Fosun Industrial Co., Ltd.</td>
<td>Healthcare</td>
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<td>February 13</td>
<td>330.0</td>
<td>Easton Baseball/Softball Business</td>
<td>BPS Greenland Inc.; BPS Greenland Corp.</td>
<td>Consumer</td>
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<td>Valeant Pharmaceuticals International, Inc.</td>
<td>Healthcare</td>
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<td>Global Payments Inc.</td>
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<td>JHP Pharmaceuticals, LLC</td>
<td>Par Pharmaceutical Companies Inc.</td>
<td>Healthcare</td>
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<td>Safran SA</td>
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<td>Visteon Corporation</td>
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<td>393.1</td>
<td>American Pacific Corporation</td>
<td>H.I.G. Capital, LLC</td>
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<td>208.0</td>
<td>Valeo Sylvania, L.L.C.</td>
<td>Valeo SA</td>
<td>Industrial</td>
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