Middle-Market M&A Overview and Trends

Robust transaction volumes in the first half confirm predictions that 2014 would be a big year for global M&A. Our ground-level observations thus far in Q3 indicate that the upswing is likely to continue.

Following a less than stellar first quarter, global M&A transaction volume advanced in the second quarter as both buyers and sellers continue to capitalize on favorable macroeconomic conditions. Sellers are taking full advantage of a 6-year bull market to time their liquidity events. Buyers are putting more of their ample cash reserves to work given the continued availability of low-cost and flexible financing.

While the past recovery has been sluggish, macroeconomic conditions have improved enough in 2014 that interest rates may begin to increase in the near future. This has motivated companies to pull the trigger on transactions they have had on the back burner. Historical macroeconomic concerns are also gradually fading due to the realization that the world will likely remain a volatile place in the foreseeable future. Risk aversion and organic growth orientation, both embraced in the aftermath of the fiscal crisis, are being replaced with the belief that earnings are more easily engineered through acquisitions. Moreover, the transactions are financially accretive and cash flow accretive, largely due to favorable financing.

While the above factors apply to all transactions, larger deals are strategically driven due to the desire to gain advantage over rivals in consolidating markets. Another engine boosting cross-border M&A volume is high-profile transactions where U.S. companies buy overseas peers to lower tax rates and access offshore cash. This practice, called tax inversion, often raises public policy issues. In August alone, the stock price of Burger King Worldwide (NYSE: BKW) increased 20% on the back of a tax inversion with Tim Horton of Canada, while Walgreen Company (NYSE: WAG) lost 15% of its value after choosing to keep its U.S. tax structure for fear of U.S. consumer backlash.

The second quarter of 2014 saw global middle-market M&A activity rise 4.7% and 14.3% in terms of number of deals and deal value, respectively, compared to the second quarter of 2013, with April being a particularly strong month. Deal value rose 23% in the US, 10.3% in Asia and 10.2% in Europe. M&A activity in Africa/Middle East increased 32.7% in the second quarter compared to the same period last year, but stagnated in Latin America. The most active sectors for deals were manufacturing, healthcare and pharmaceuticals, as well as technology.

In the US, middle-market M&A total deal volume rose 19.9% in Q2 2014 compared with Q2 2013. Total deal value in the $250 million to $500 million range, the $50 million to $250 million and under $50 million range rose 26.7%, 15.9% and 16.7%, respectively. Post-crisis, there has consistently been more credit available for buyouts in the upper end of the middle market, which has been a large driver of M&A activity.

Enterprise Value/EBITDA multiples continued to climb in the second quarter to 10-year highs, averaging from 10.9x for smaller transactions to 16.1x for targets in the $250 million to $500 million range, largely driven by an increase in attractive debt financing available for middle-market deals. While acquisition multiples have hit 10-year highs on the coattails of public equities and record quantitative easing, motivated buyers can still expect to find quality smaller private businesses for 7x-10x EBITDA.

The composition of acquirers is gradually changing, with public firms accounting for 29.7% of total deal volume over the last 12 months, the highest level since 2007. Private firms’ share declined 7% to 38.3% and private equity and foreign acquirers accounted for 15.4% and 16.6%, respectively, of US middle-market M&A volume during this period.

Private equity firms are enjoying the best fundraising climate since before the recession, raising $190 billion globally in the first half of 2014. Private equity firms have also been taking advantage of the M&A boom to sell many of their portfolio companies for lofty valuations. Between corporate balance sheets and approximately $440 billion in uninvested private equity funds, there is ample available capital for deployment.

In summary, the year-to-date results confirm predictions that M&A volume in 2014 would surpass 2013. The upswing is likely to continue absent geopolitical or economic shocks, with middle-market transactions being particularly attractive, as these deals often allow companies to expand with fewer regulatory risks inherent in larger transactions.
Loop Capital Markets Transactions in Q2 2014

1) SPX Precision Components

SPX Corporation (“SPX”) hired Loop Capital Markets LLC (“LCM”) to serve as financial advisor in connection with the divestiture of its SPX Precision Components division (“SPC”). SPX is a multi-industry manufacturing leader with operations in more than 35 countries and over 14,000 employees worldwide. Based in Charlotte, North Carolina, SPX is publicly-traded on the New York Stock Exchange and generates approximately $5 billion in annual revenue.

SPX decided to divest SPC in mid-2013 to focus efforts on its core Flow Technology businesses. SPC provides precision machining and assembly services on highly-engineered, flight critical and structural components for military and civilian aircraft programs. SPC was the sole aerospace & defense business within SPX’s portfolio.

LCM’s challenge was to effectively manage a sale process for SPC in the midst of “sequestration” and a declining defense budgetary environment.

LCM successfully completed the sale of SPC to RFE Investment Partners and 24/6 Capital Partners in April 2014.

2) Pepco Holdings Inc.

Loop Capital Markets served as a financial advisor to Exelon Corporation (“Exelon”) on its acquisition of Pepco Holdings Inc. (“Pepco”).

On April 30, 2014, Exelon CEO Christopher Crane announced its intent to acquire 100% of Pepco Holdings Inc. stock paying $27.25/share plus assumption of debt for an approximately $13.04 billion transaction.

Exelon will assume Pepco’s Holding company debt and debt at other affiliates

• Fully-committed equity and debt financing in place

• Maintain investment grade credit ratings at Exelon and Pepco entities

<table>
<thead>
<tr>
<th>Combined Statistics</th>
<th>Exelon</th>
<th>Pepco</th>
<th>Pro Forma Exelon</th>
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<tr>
<td>2013A Revenue ($ in MM)</td>
<td>$24,348</td>
<td>$4,666</td>
<td>$29,014</td>
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<td>LTM EBITDA</td>
<td>$6,526</td>
<td>$1,171</td>
<td>$7,697</td>
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<td>Service Territory Sq. Miles</td>
<td>15,800</td>
<td>8,615</td>
<td>24,415</td>
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<td>Utility Customers</td>
<td>6.65MM Elec. 1.15MM Gas</td>
<td>1.85MM Elec. 125,000 Gas</td>
<td>$8.50MM Elec. 128MM Gas</td>
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<td># of Employees</td>
<td>13,586</td>
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<td>Regulated States</td>
<td>MD, IL, PA</td>
<td>MD, NJ, DE, DC</td>
<td>MD, IL, PA, NJ, DE, DC</td>
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3) Philadelphia Gas Works

Loop Capital Markets advised the City of Philadelphia (the “City”) on its sale of Philadelphia Gas Works (“PGW”) to UIL Holdings, serving as a co-broker.

On March 3, 2014, Mayor Nutter announced the City of Philadelphia’s intent to sell PGW, the country’s largest municipally owned utility, to UIL Holdings in a $1.86 billion transaction.

The transaction has one of the highest LDC multiple achieved, providing the City with hundreds of millions of dollars to help shore up the City’s pension fund after payment of company-related liabilities.

It reflects the belief that a private PGW operator would be in a better position to more quickly pay for and manage investments in the Company’s infrastructure, allowing the City to get out of the gas utility business and reduce future operational risks and potential financial liabilities related to PGW.

<table>
<thead>
<tr>
<th>Combined Statistics</th>
<th>UIL</th>
<th>PGW</th>
<th>Pro Forma UIL</th>
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<tr>
<td>2013A Revenue ($ in MM)</td>
<td>$1,619</td>
<td>$693</td>
<td>$2,312</td>
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<tr>
<td>LTM EBITDA</td>
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<td>$165</td>
<td>$604</td>
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<td>Miles of Service Territory</td>
<td>2,300</td>
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<td>5,330</td>
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<td>Utility Customers</td>
<td>321,000 elec. 386,000 gas</td>
<td>503,000 gas 1,210 total 889,000 gas 321,000 elec.</td>
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<td># of Employees</td>
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<td>1,636</td>
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<td>Regulated States</td>
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<td>PA</td>
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In the first six months of 2014, the total number of global middle-market transactions decreased 3.6%, while disclosed dollar volume rose 4.6% over the same time period in the prior year. However, M&A activity rose 4.7% and 14.3% in terms of number of deals and deal value, respectively, in second quarter of 2014 compared to the second quarter of 2013, with April being a particularly strong month.

US middle-market deal volume in the first six months of 2014 decreased 5.8% compared to the same period in 2013, while disclosed dollar volume rose 7.8%. However, the number of deals and total dollar volume in Q2 2014 is about 19.9% and 20.5% higher, respectively, than in Q2 2013.

Average purchase price multiples in the first half of 2014 for middle-market transactions are at the highest levels in at least 10 years. The multiple for transactions in the $250MM to $500MM range jumped from 14.4x in 1H 2013 to 16.1x in 1H 2014. The increase in multiples has largely been driven by looser credit markets and competition for deals.
Middle-Market M&A Statistics (continued)

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

Public company acquisition activity increased to 29.7% over the last twelve months, 2.5% higher than in 2013. At the same time, private company activity declined 7% to 38.3%. As corporate executives and boards gain more confidence in the US and global economy, they are increasingly turning to acquisitions to fuel top-line revenue growth in existing and new markets.

(1) “LTM” defined as Last Twelve Months.

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

US private equity activity in the first half of 2014 rose 7% and 27% in terms of number and value of deals, respectively, compared to the first half of 2013. The increase in deal activity has partly been driven by a greater number of secondary deals, i.e. sponsor-to-sponsor.

(1) Disclosed transactions as reported by PitchBook through 06/30/14; 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)

EBITDA multiples for private equity-backed transactions in the $100MM to $250MM range jumped from 7.1x in 2013 to 8.3x in 1H 2014 as private equity firms continue to take advantage of looser credit markets to incorporate more debt in their deals.

(1) Disclosed EBITDA multiples as reported by GF Data Resources
Middle-Market M&A Statistics (continued)

Figure 7 Leveraged Lending Multiples

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

Coming off a robust 2013 that saw the highest level of activity since 2008, the first half of 2014 could provide an indication that private equity fundraising is on pace for another strong year.

Figure 9 Uninvested Capital for Buyouts

As of the end of Q2 2014, private equity firms had the same amount of dry powder available for buyout transactions as in 2007. Nearly 80% of available uninvested capital is from funds raised since 2011, with more than one-third being from a 2013 vintage fund.
## Notable Announced Q2 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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<tr>
<td>30-Jun</td>
<td>470.0</td>
<td>CytoSport, Inc.</td>
<td>Hormel Foods Corporation</td>
<td>Consumer</td>
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<td>30-Jun</td>
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<td>Enventis Corporation</td>
<td>Consolidated Communications Holdings Inc.</td>
<td>Technology</td>
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<td>Medical Action Industries Inc.</td>
<td>Owens &amp; Minor Inc.</td>
<td>Healthcare</td>
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<td>23-Jun</td>
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<td>WaterFurnace Renewable Energy, Inc.</td>
<td>NIBE Industrier AB</td>
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<td>3-Jun</td>
<td>280.2</td>
<td>Brookstone Inc.</td>
<td>Shanghair International Group Co., Ltd.</td>
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<td>29-May</td>
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<td>LSI Corp.</td>
<td>Seagate Technology</td>
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<td>St. Jude Medical Inc.</td>
<td>Healthcare</td>
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<td>27-May</td>
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<td>Triumph Aerospace Systems Group LLC</td>
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<td>Tony's Fine Foods Inc.</td>
<td>United Natural Foods West, Inc.</td>
<td>Consumer</td>
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<td>15-May</td>
<td>415.0</td>
<td>Bayer HealthCare AG, Interventional Division</td>
<td>Boston Scientific Corporation</td>
<td>Healthcare</td>
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<td>1-May</td>
<td>497.0</td>
<td>Pretium Packaging, LLC</td>
<td>Genstar Capital, LLC</td>
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<td>11-Apr</td>
<td>288.8</td>
<td>Zygo Corporation</td>
<td>Ametek Inc.</td>
<td>Industrial</td>
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## Corporate Investment Banking Division

Loop Capital Markets’ Corporate Investment Banking Division tailors a wide array of products in the debt and equity capital markets, along with providing strategic insight on mergers and acquisitions mandates, to satisfy each client’s unique needs. Our depth of banking expertise and strong trading capabilities make us a trusted partner to top corporations and institutions. Loop Capital Markets has tripled the size of the corporate banking staff over the past three years, and participated in over $1.5 trillion in corporate debt and equity underwriting since the inception of Loop Capital Markets’ corporate investment banking business.

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**Sidney Dillard, Partner**  
312.356.5008 | sidney.dillard@loopcapital.com

**Daniel Horn, Managing Director**  
312.913.2222 | dan.horn@loopcapital.com

**Thomas Rosén, Managing Director**  
212.701.8722 | thomas.rosen@loopcapital.com

**Ani Tchaghlasian, Senior Vice President**  
212.701.8718 | ani.tchaghlasian@loopcapital.com

**Eric Lane, Vice President**  
312.913.2211 | eric.lane@loopcapital.com

**Denis Appiah, Associate**  
212.823.1307 | denis.appiah@loopcapital.com

**Trent Schwartz, Analyst**  
312.913.4918 | trent.schwartz@loopcapital.com

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**Paul Bonaguro, Head of Sales & Trading**  
312.913.4915 | paul.bonaguro@loopcapital.com

**Stan Koss, Managing Director**  
312.913.4920 | stan.koss@loopcapital.com

**Sreenu Tadavarthy, Managing Director**  
312.913.2385 | sreenu.tadavarthy@loopcapital.com

**Shaan Kapoor, Vice President**  
312.913.4919 | shaan.kapoor@loopcapital.com

**Brian Laegeler, Vice President**  
312.913.2382 | brian.laegeler@loopcapital.com

**Grant Sanders, Analyst**  
312.356.5836 | grant.sanders@loopcapital.com

**Daniel Vellon, Analyst**  
212.701.8719 | daniel.vellon@loopcapital.com

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Loop Capital Markets and its affiliates serve clients in corporate and public finance, financial advisory services, taxable, tax-exempt and global equity sales and trading, analytical services, and investment management.

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