Loop Capital Markets

Middle-Market M&A Review

A Quarterly Corporate Investment Banking Division Publication 2nd Quarter 2014

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.

In this Issue

Loop Capital Markets Transactions in Q2 2014

1) SPX Precision Components

SPX Precision Components
a subsidiary of
SPX
has been acquired by
RFE
Financial Advisor

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.

Exelon
Exelon Corporation
has acquired
Pepco Holdings Inc.
$13.04 Billion *(Pending)*
Financial Advisor

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.

The transaction highlights LCM's increasing footprint in advising large and complex M&A transactions and expertise in regulated utilities.

The acquisition creates one of the leading East Coast electric and gas utilities. It expands Exelon's service territory to include new regulatory regimes (DE, NJ, DC) and increase Exelon's footprint in Maryland, providing strong and predictable cash flows to sustain its dividend to shareholders.

The transaction presents an opportunity to increase rate base, balance regulated and non-regulated cash flows and improve Exelon's business risk profile. It will result in improved operational efficiency of Pepco's energy delivery systems and reduced exposure to merchant asset business.

Transaction Overview

- Purchase of 100% of Pepco stock for $27.25/share (pending)
- All-cash transaction with a transaction premium of 19.6% to Pepco's closing price of $22.79 on April 29, 2014
- Premium of 28.7% to Pepco's 30-day average price of $21.18
- 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

Combined Statistics

	Exelon	Pepco	Pro Forma Exelon
2013A Revenue ($ in MM)	$24,348	$4,666	$29,014
LTM EBITDA	$6,526	$1,171	$7,697
Service Territory Sq. Miles	15,800	8,615	24,415
Utility Customers	6.65MM Elec. 1.15MM Gas	1.85MM Elec. 126,000 Gas	$8.50MM Elec. $1.28MM Gas
# of Employees	13,586	5,025	18,611
Regulated States	MD, IL, PA	MD, NJ, DE, DC	MD, IL, PA, NJ, DE, DC

3) Philadelphia Gas Works

PGW
City of Philadelphia
on the potential sale of
Philadelphia Gas Works (PGW)
$1.86 Billion *(Pending)*
Financial Advisor

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.

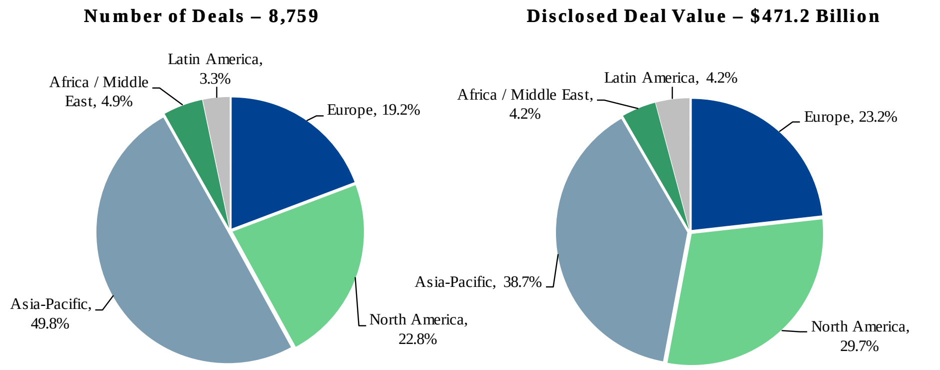
It reflects the belief that a private PGW operator would be in a better position to more quickly pay for and manage investments in the Company's infrastructure, allowing the City to get out of the gas utility business and reduce future operational risks and potential financial liabilities related to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

Combined Statistics

	UIL	PGW	Pro Forma UIL
2013A Revenue ($ in MM)	$1,619	$693	$2,312
LTM EBITDA	$439	$165	$604
Miles of Service Territory	2,300	3,030	5,330
Utility Customers	321,000 elec. 386,000 gas	503,000 gas	1,210 total 889,000 gas 321,000 elec.
# of Employees	1,865	1,636	3,501
Regulated States	CT, MA	PA	CT, MA, PA

Middle-Market M&A Statistics

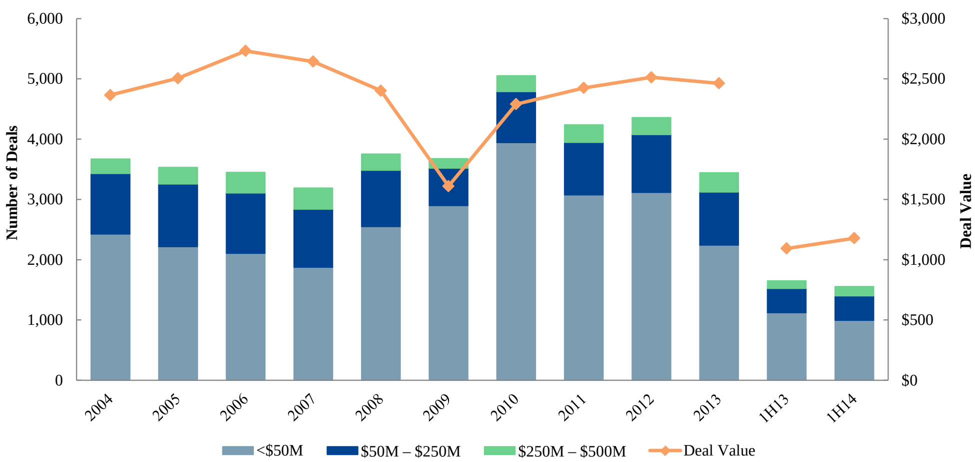
Figure 1 **Global Middle-Market M&A Activity[(1)]**



(1) Disclosed closed and announced transactions as reported by Dealogic and research reports through 06/30/14; global middle-market defined as transactions involving targets with Total Enterprise Value ("TEV") less than $500 million.

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.

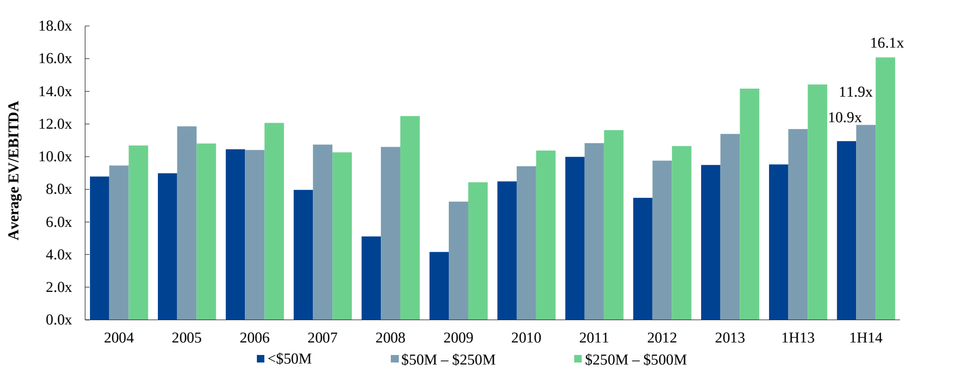
Figure 2 **US Middle-Market M&A Activity[(1)]**



(1) Dollars in billions.

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.

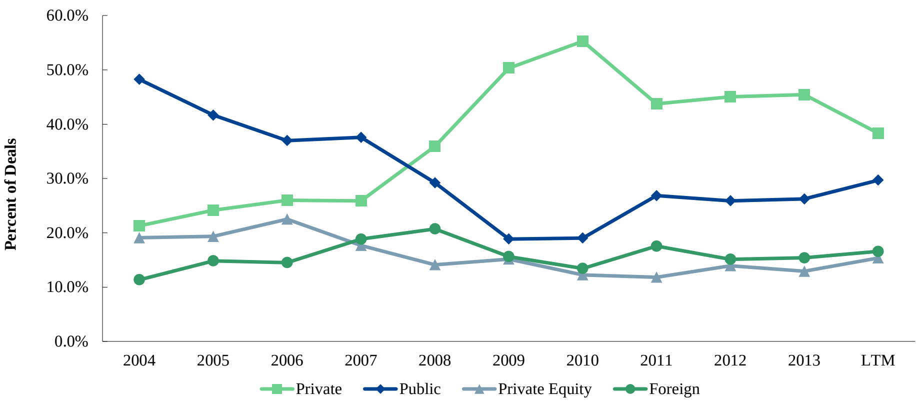
Figure 3 **US Middle-Market EBITDA Multiples**



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)

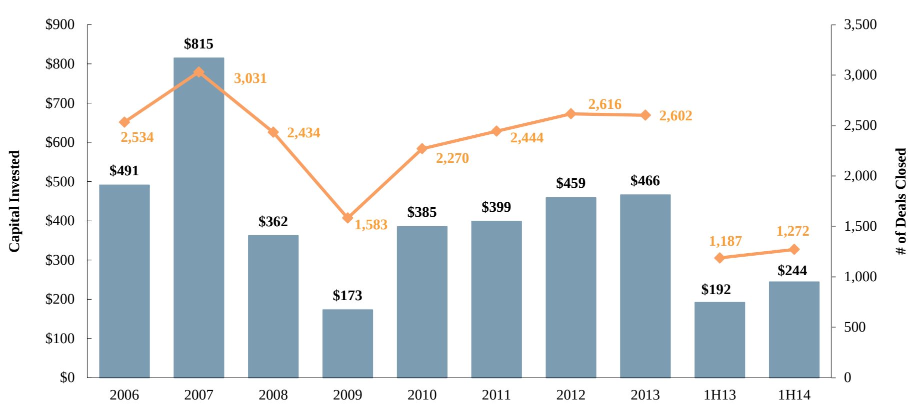
Figure 4 **US Middle-Market M&A Activity by Acquirer**(1)



(1) "LTM" defined as Last Twelve Months.

Public company acquisition activity increased to 29.7% over the last twelve months, 2.5% higher than in was 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.

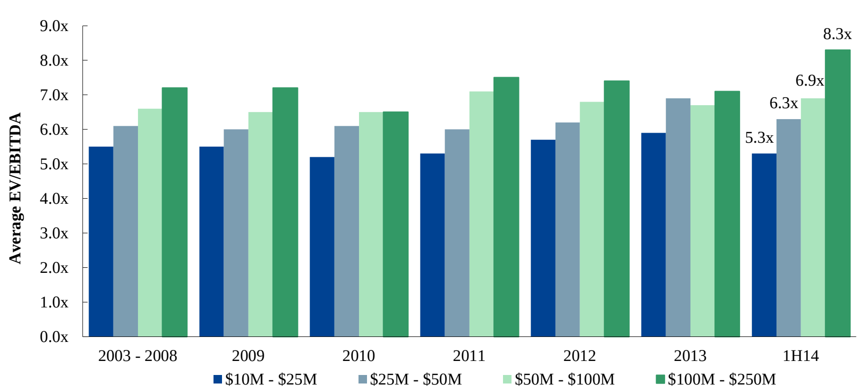
Figure 5 **US Private Equity Activity**(1)



(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.

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.

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

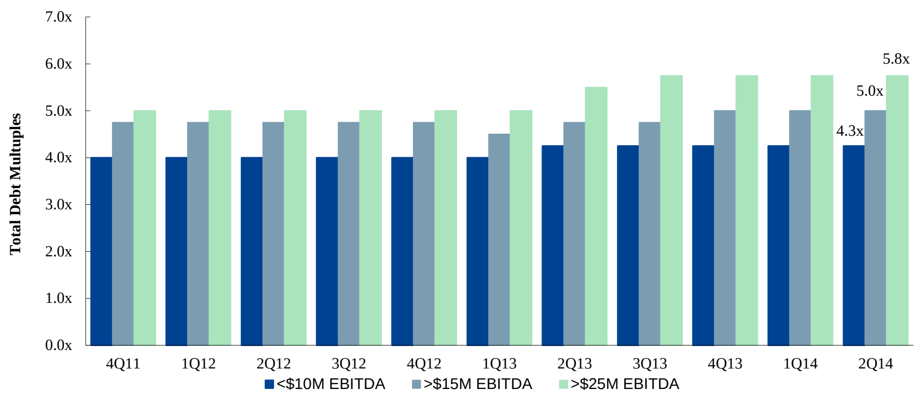


(1) Disclosed EBITDA multiples as reported by GF Data Resources

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.

Middle-Market M&A Statistics (continued)

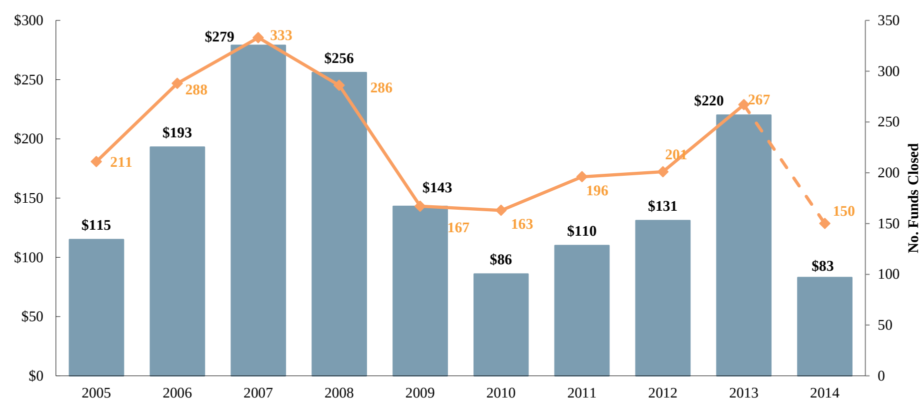
Figure 7 **Leveraged Lending Multiples(1)**



(1) Leveraged Lending Multiples through 06/30/14 per SPP Capital Partners.

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.

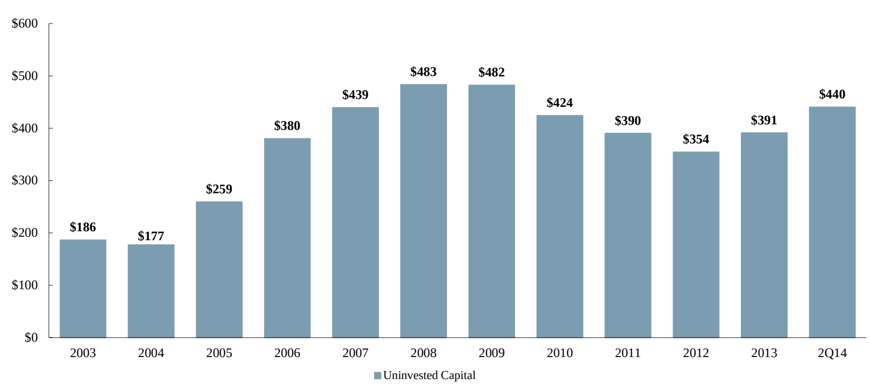
Figure 8 **Private Equity Fundraising(1)**



(1) Fundraising (dollars in billions) by US-based buyout, co-investment, mezzanine, restructuring/distressed situations, energy and PE growth/expansion funds as reported by PitchBook; 2014 data through 06/30/2014.

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(1)**



(1) Private equity funds (dollars in billions) available for buyout transactions as reported by Preqin.

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

Announcement Date	Enterprise Value ($ mil)	Target Company	Acquiring Company	Industry
30-Jun	470.0	CytoSport, Inc.	Hormel Foods Corporation	Consumer
30-Jun	366.2	Enventis Corporation	Consolidated Communications Holdings Inc.	Technology
25-Jun	286.7	Medical Action Industries Inc.	Owens & Minor Inc.	Healthcare
23-Jun	326.6	WaterFurnace Renewable Energy, Inc.	NIBE Industrier AB	Industrial
3-Jun	280.2	Brookstone Inc.	Shanghair International Group Co., Ltd.	Consumer
29-May	450.0	LSI Corp.	Seagate Technology	Industrial
28-May	463.0	CardioMEMS, Inc.	St. Jude Medical Inc.	Healthcare
27-May	70.0	GE Aviation, Hydraulic Actuation Business	Triumph Aerospace Systems Group LLC	Industrial
22-May	195.3	Tony's Fine Foods Inc.	United Natural Foods West, Inc.	Consumer
15-May	415.0	Bayer HealthCare AG, Interventional Division	Boston Scientific Corporation	Healthcare
1-May	497.0	Pretium Packaging, LLC	Genstar Capital, LLC	Industrial
11-Apr	288.8	Zygo Corporation	Ametek Inc.	Industrial

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Loop Capital, founded in 1997, is a full-service investment bank, brokerage and advisory firm that provides creative capital solutions for corporate, governmental and institutional entities across the globe.

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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