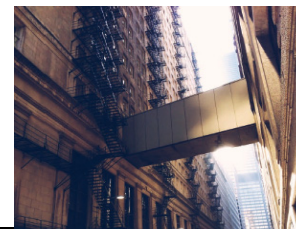


# Middle-Market M&A Review

A Quarterly Corporate Investment Banking Division Publication

3<sup>rd</sup> Quarter 2014



## Middle-Market M&A Overview and Trends

*Robust transaction volumes in the first nine months confirm predictions that 2014 will be a big year for global M&A. However, concerns about economic growth, regulation and interest rates are emerging on a global and national level, and could temper future M&A activity.*

Global M&A continues to experience a strong year in 2014 fueled by a combination of ample credit and a prolonged bull market, with the Dow Jones Industrial Average breaking the 17,000 milestone in the third quarter.

The motives for M&A activities vary from a desire to increase scale to ensure a firm's competitiveness, to maneuvering to lower tax liabilities through corporate inversion. Another contributor to the growth in M&A has come from recent IPOs or spin-offs, which have then either merged with, or been acquired by, larger companies (e.g., General Mills acquiring Annie's in September).

The third quarter of 2014 saw global middle-market M&A activity increase 6.1% and 10.4% in terms of number of deals and deal value, respectively, on a year-over-year basis, with July being a particularly strong month. The rise in deal value was driven by the Africa/Middle East region, which experienced a 53.8% increase in the third quarter of 2014 from a year prior. Europe and Asia-Pacific also saw sizeable gains of 18.3% and 12.1% respectively, while Latin America and North America were relatively stable. Computers and electronics, finance, oil and gas and healthcare were the most active sectors. According to data from Dealogic, global syndicated loan volume year-to-date is the second highest on record, indicating ample debt availability.

In the U.S., the number of middle-market M&A deals increased 1% in the third quarter of 2014 compared to a year prior, despite the average deal size decreasing by approximately 20%. This appears to be an aberration, as dollar deal volume year-to-date ("YTD") remains up 5.2% from YTD through the third quarter of 2013. The most active sectors mirrored those seen globally.

Enterprise Value/EBITDA multiples reached new 10-year highs in the third quarter. Averages ranged from 10.9x for transactions with Enterprise Value below \$50 million to 16.2x for transactions ranging from \$250 million to \$500 million in Enterprise Value.

The composition of acquirers is gradually changing, with public firms accounting for 29.8% of total deal

volume over the last 12 months, the highest level since 2007. Private firms' share declined 8.0% to 37.4%, and private equity and foreign acquirers accounted for 15.4% and 17.4%, respectively, of US middle-market M&A volume during this period.

Fundraising by private equity firms remains robust, reaching \$127 billion globally in the first nine months of 2014. A substantial \$463 billion of "dry powder" remains available, indicating ample demand for productive assets.

Going forward, the Mergers and Acquisitions Mid-Market Pulse indicates consumer goods and retail will outpace the overall M&A market through the remainder of 2014. Since the close of the third quarter, subpar economic data has emerged from Asia and Europe. China is seeking to aid its economy by reducing interest rates while Japan has fallen into a recession. The Eurozone economy grew 0.6% in 3Q 2014 on an annualized basis. Spot oil prices have fallen considerably in the second half of 2014. If prices remain low, this could also have an effect on the oil and gas M&A sector.

U.S. economic data steadily continues to improve. However, inflation has stalled and is falling away from the 2.0% targeted inflation rate.

Additionally, the U.S. Treasury announced in September new tax regulations designed to limit the potential for companies to diminish their tax liability through corporate inversions. This may reduce the overall M&A volume in the U.S., with several planned mergers and acquisitions having been cancelled since the announcement (e.g., cancellation of AbbVie-Shire merger in October).

The pace of normalization in the Fed funds rate is also likely to negatively impact the M&A market. The general consensus is for a mid-summer increase in the rate.

In summary, we still expect 2014 M&A volume to outpace 2013 levels. However, economic headwinds are picking up in the U.S. as well as globally, which may dampen the prospects of another record year in 2015.

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## Loop Capital Markets Transactions in 3Q 2014

### Fenn, LLC

SPX Corporation (“SPX”) retained Loop Capital Markets LLC (“LCM”) to serve as financial advisor in connection with the divestiture of its Fenn, LLC business (“Fenn”).

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 has approximately \$5 billion in annual revenue.

Fenn is a leading provider of metal forming equipment, including drawbenches, strip rolling mills, wire flattening & shaping mills and spring coilers, under the *FENN*<sup>™</sup> brand name.

LCM executed a carve-out of Fenn from SPX Precision Components, LLC (“SPC”), a business which itself had been previously divested by SPX and LCM in April 2014. LCM successfully completed the sale of Fenn to Quality Products, Inc. in July 2014.

The logo for SPX >Fenn, featuring the letters 'SPX' in a bold, grey, sans-serif font, followed by a green chevron symbol pointing to the right, and the word 'Fenn' in a smaller, green, sans-serif font below it.

a subsidiary of

The logo for SPX, featuring the letters 'SPX' in a bold, grey, sans-serif font with a green chevron symbol pointing to the right.

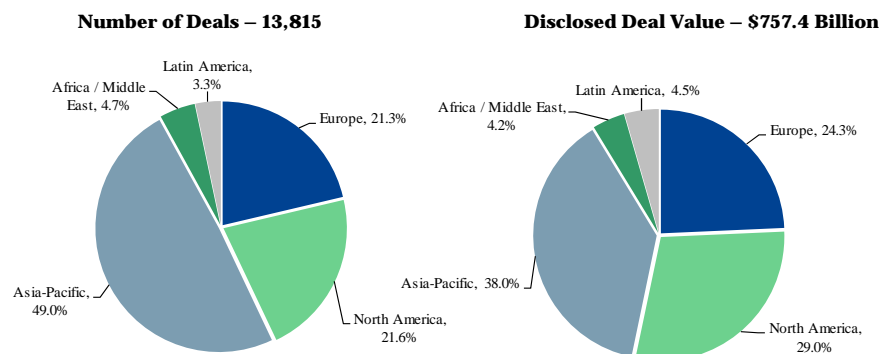
*has been acquired by*

**Quality Products, Inc.**  
**(OTCPK:QPI)**

Financial Advisor

# Middle-Market M&A Statistics

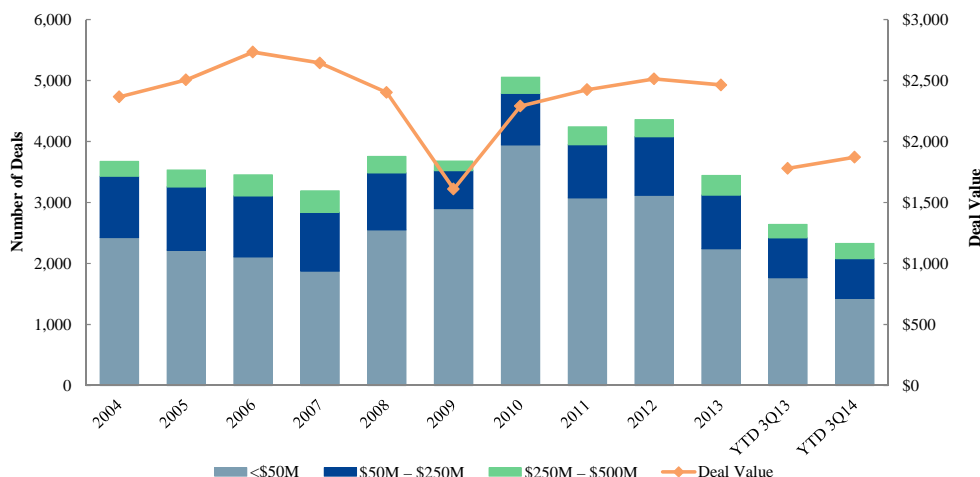
Figure 1 Global Middle-Market M&A Activity<sup>(1)</sup>



(1) Disclosed closed and announced transactions as reported by Dealogic and research reports through 09/30/14; global middle-market defined as transactions involving targets with Total Enterprise Value ("TEV") less than \$500 million.

In the first nine months of 2014, the total number of global middle-market transactions decreased 0.2%, while disclosed dollar volume rose 6.7% over the same time period in the prior year. However, M&A activity rose 6.1% and 10.4% in terms of number of deals and deal value, respectively, in the third quarter of 2014 compared to the third quarter of 2013, with July being a particularly strong month.

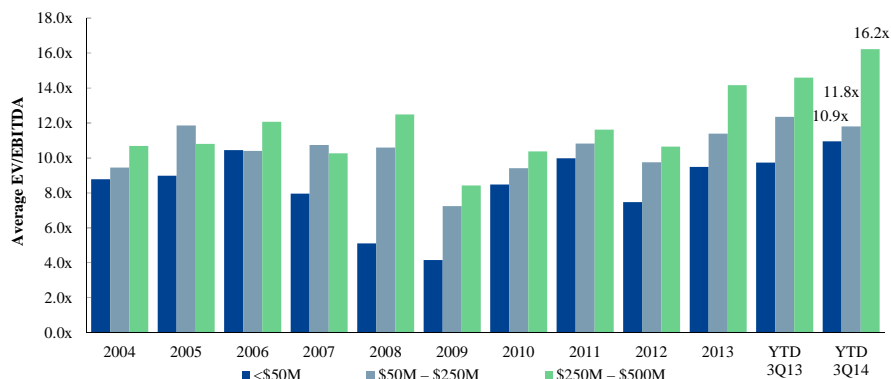
Figure 2 US Middle-Market M&A Activity<sup>(1)</sup>



(1) Dollars in billions.

US middle-market deal volume in the first nine months of 2014 decreased 11.8% compared to the same period in 2013, while disclosed dollar volume rose 5.2%. However, the number of deals and total dollar volume in the third quarter of 2014 is about 1% higher and 21.9% lower, respectively, than in the third quarter of 2013.

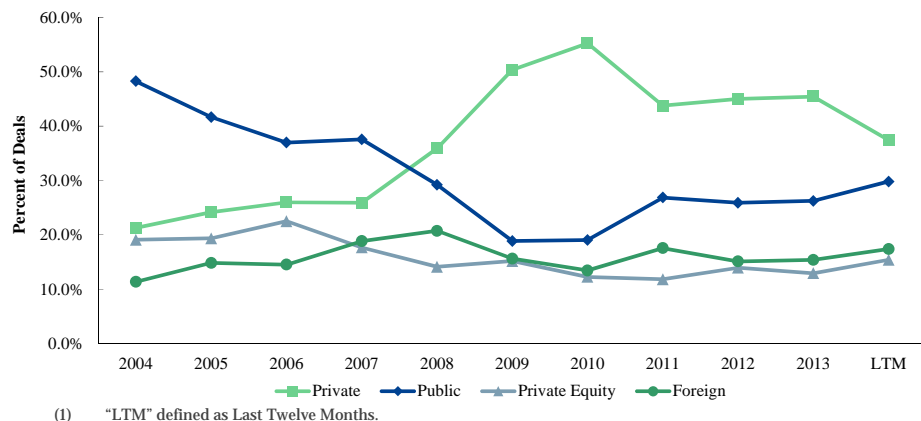
Figure 3 US Middle-Market EBITDA Multiples



Average purchase price multiples in the first nine months of 2014 for middle-market transactions are at the highest levels in at least 10 years. The year-to-date multiple for transactions in the \$250 million to \$500 million range jumped from 14.6x in the third quarter of 2013 to 16.2x in the third quarter of 2014. The increase in multiples has largely been driven by looser credit markets and competition for deals.

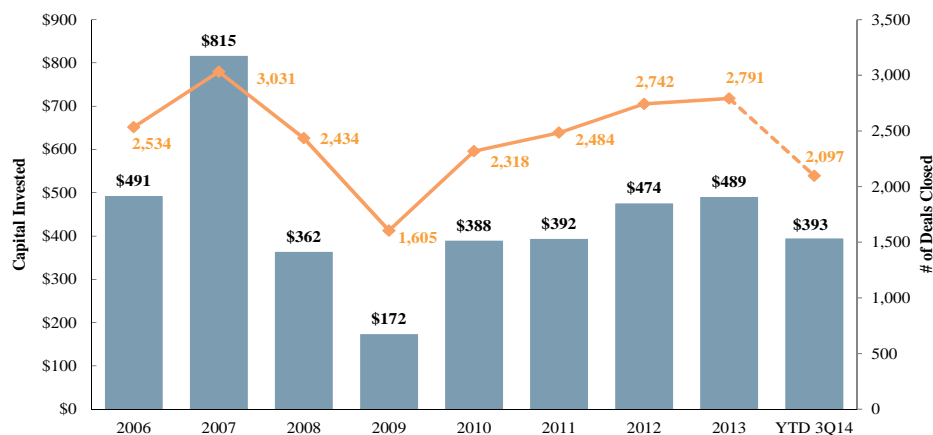
# Middle-Market M&A Statistics (continued)

Figure 4 US Middle-Market M&A Activity by Acquirer<sup>(1)</sup>



The composition of acquirers is gradually changing, with public firms accounting for 29.8% of total deal volume over the last 12 months, the highest level since 2007. Private firms' share declined 8% to 37.4% and private equity and foreign acquirers accounted for 15.4% and 17.4%, respectively, of US middle-market M&A volume during this period.

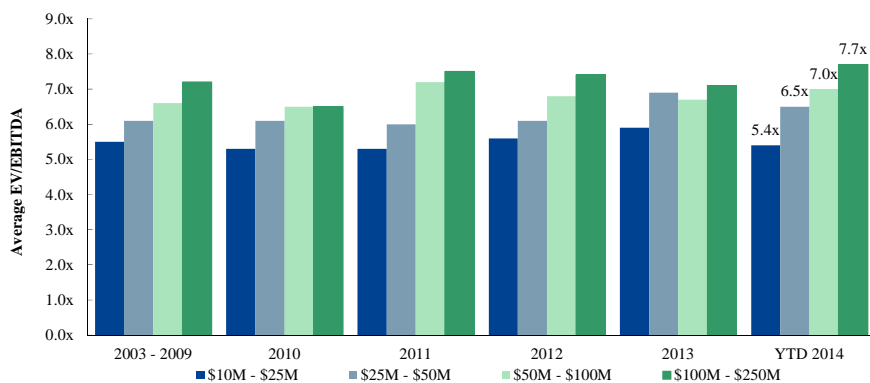
Figure 5 US Private Equity Activity<sup>(1)</sup>



(1) Disclosed transactions as reported by PitchBook through 09/30/14; Represents US-based buyout, growth, PIPE, recapitalization and add-on (excluding real estate investments) transactions only.

US private equity activity in the first nine months of 2014 has been very strong. If this trend continues through the end of the year, this will be the biggest year in terms of private capital invested since 2007.

Figure 6 Private Equity Backed Middle-Market EBITDA Multiples<sup>(1)</sup>

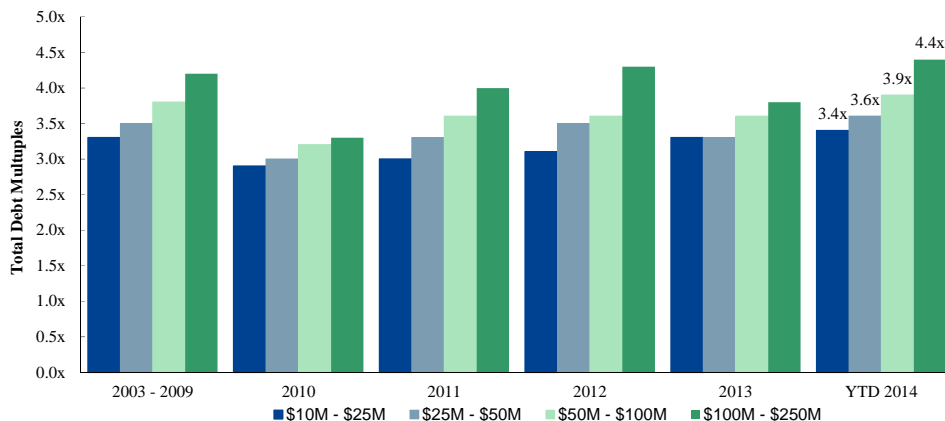


(1) Disclosed EBITDA multiples as reported by GF Data Resources

EBITDA multiples for private equity-backed transactions in the \$100 million to \$250 million range jumped from 7.1x in 2013 to 7.7x at the end of the third quarter of 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)

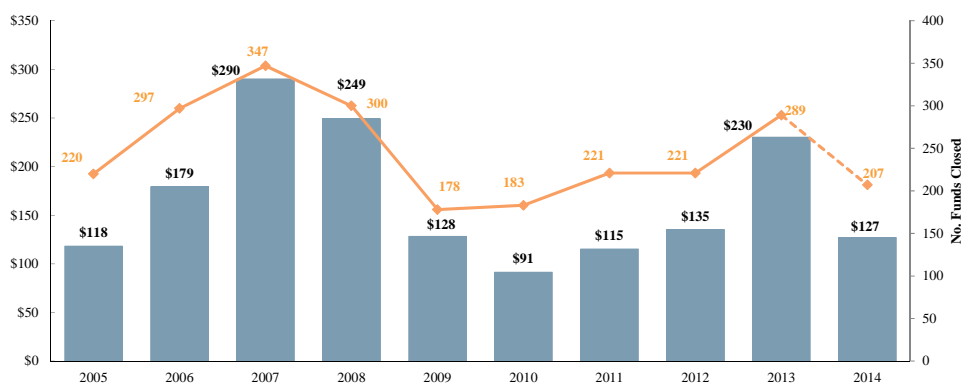
Figure 7 Leveraged Lending Multiples<sup>(1)</sup>



(1) Leveraged Lending Multiples through 09/30/14 GF Data Resources.

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.

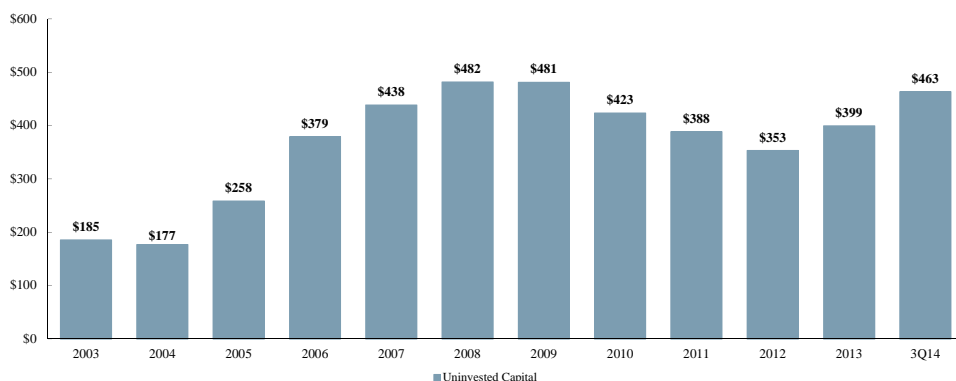
Figure 8 Private Equity Fundraising<sup>(1)</sup>



(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 09/30/2014.

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

Figure 9 Uninvested Capital for Buyouts<sup>(1)</sup>



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

As of the end of the third quarter of 2014, private equity firms had a greater amount of dry powder available for buyout transactions than 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 3Q 2014 US Middle-Market M&A Transactions

Announcement Date	Enterprise Value (\$ mil)	Target Company	Acquiring Company	Industry
29-Sep	466.8	Einstein Noah Restaurant Group, Inc.	BDT Capital Partners/JAB Beech Inc.	Consumer
04-Sep	440.0	The Sleep Train, Inc.	Mattress Firm, Inc.	Consumer
02-Sep	440.0	ADM, Global Chocolate Business	Cargill, Inc.	Consumer
29-Aug	450.0	Casco Automotive Group Inc.	Amphenol Corporation	Industrial
19-Aug	133.8	Waupaca Foundry, Inc.	Hitachi Metals, Ltd.	Industrial
30-Jul	350.0	Trunk Club Inc.	Nordstrom Inc.	Consumer
30-Jul	375.0	TouchNet Information Systems, Inc.	Heartland Payment Systems, Inc.	Technology
22-Jul	175.0	Bizo, Inc.	LinkedIn Corporation	Technology
21-Jul	308.0	Ignite USA, LLC	Newell Rubbermaid Inc.	Industrial
16-Jul	360.0	InnoPharma, Inc.	Pfizer Inc.	Healthcare
11-Jul	390.9	RelateIQ, Inc.	salesforce.com, inc.	Technology
2-Jul	281.2	Vitacost.com, Inc.	The Kroger Co.	Consumer

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