Middle-Market M&A Overview and Trends

2014 was a big year for global middle-market M&A. We expect positive momentum to continue in 2015, as macroeconomic trends and market conditions remain favorable despite expected tightening of monetary policy in the United States.

Global middle-market M&A disclosed deal value rose 6.2% in 2014 compared to 2013. Several factors contributed to this performance, including a stable U.S. economy, low interest rates and buoyant stock prices. Last year was the most successful IPO period since 2000 in terms of number of issuances. In our view, sluggish fourth quarter GDP figures should only boost investor enthusiasm for M&A as a source of growth into 2015.

Competition for targets remains high in the current market environment, although the reasons have shifted. The interest in large tax-inversion deals dried up as new tax rules blocked companies from using cash parked overseas to fund acquisitions without incurring tax. While there were fewer opportunities for private equity firms to acquire companies at attractive prices in 2014, they took advantage of strong portfolio performance and motivated strategic buyers to exit a large number of portfolio companies.

Despite lofty valuations, both corporate and private equity buyers remain motivated to put money to work due to record amounts of cash. On the buy side, long-term strategic plays continue to drive competition for prized assets.

The highest growth in middle-market M&A deal value was in Africa and the Middle East, which experienced a 19.3% increase in 2014 compared to a year prior. Europe and the Asia-Pacific region saw sizeable gains of 9.5% and 6.3% respectively, while Latin America and North America were sluggish, growing 2.1% and 3.1% respectively in 2014. Technology, industrials, energy and chemicals were among the most active sectors.

In the U.S., the value of middle-market M&A deals increased 3% in 2014 due to a strong fourth quarter. The total number of deals is down 8.6% compared to 2013 due to a 15% decline in transactions in the <$50 million range.

Enterprise Value/EBITDA multiples for 2014 middle-market transactions were at their highest levels in more than 10 years. The multiple for transactions smaller than $50 million jumped from 7.7x in 2013 to 9.2x in 2014, while multiples for transactions in the $200 million to $250 million range rose moderately, from 13.2x to 13.5x.

In the wake of the credit crisis, private firms accounted for more than half of total deal volume. By 2014 their share declined to 37%, while share of public firms rose to 30.4%, the highest level since 2007. Private equity and foreign acquirers accounted for 15.5% and 17.4% of total US middle-market M&A volume, respectively, in 2014.

2014 was the biggest year in terms of private equity capital activity since 2007, as capital invested grew 4.4%, even though the number of deals remained flat year-over-year. Private equity firms currently have more dry powder available for buyout transactions than in 2007, which bodes well for future deal flow. However, coming off a robust 2013 that saw the highest level of activity since 2008, private equity fundraising declined 14% in 2014.

Leveraged lending multiples continued to expand in 2014, especially for larger deals. For example, multiples in the $100 million to $250 million range expanded from 3.8x to 4.4x last year, while multiples in the $50 million to $100 million range rose from 3.6x to 4.1x.

Expected tightening by the Fed later this year and through 2017 raises the specter of modestly higher interest rates. While this is expected to suppress borrowing and purchase prices on the margin, we expect to see a gradual change with plenty of notice that should not rock the boat in terms of overall M&A activity. Private equity firms are generally more sensitive to interest rate increases, as they often borrow in the high yield markets. Corporations, on the other hand, are cash rich, have access to cheaper financing in the investment-grade bond market, and can be expected to pursue their own strategic long-term agenda. Further, the collapse in oil prices will impact the energy sector, however we expect that this may provide buying opportunities for certain potential buyers, as larger producers and “special situations” funds look for opportunities to acquire assets at distressed prices.

Another important consideration is recent strengthening of the U.S. dollar relative to other currencies, which should encourage American firms to bid on overseas assets. The downside for acquirers is that a strong dollar erodes overseas earnings.

In summary, we expect positive momentum in U.S. middle-market M&A activity to continue in 2015, despite headwinds such as the expected tightening of monetary policy in the United States.
Middle-Market M&A Statistics

Figure 1 Global Middle-Market M&A Activity

The total number of global middle-market transactions and disclosed deal value rose 1% and 6.2% respectively in 2014. In dollar terms, Africa and the Middle East recorded the highest growth at 19.3%. Europe and the Asia-Pacific region were up 9.5% and 6.3%, respectively. North America and Latin America were sluggish, growing 2.1% and 3.1% respectively in 2014 compared to 2013.

Figure 2 US Middle-Market M&A Activity

U.S. middle-market deal value rose 3% in 2014 due to a very strong fourth quarter. However, the total number of deals is down 8.6% compared to 2013. The decline was driven by 15% fewer deals in the <$50 million range last year compared to 2013.

Figure 3 US Middle-Market EBITDA Multiples

In 2014, the average purchase price multiples for middle-market transactions were at their highest levels in more than 10 years. The multiple for transactions smaller than $50 million jumped from 7.7x in 2013 to 9.3x in 2014, while multiples for larger transactions rose moderately. The increase in multiples was driven by competition for deals and expanding P/E ratios for publicly traded firms.

(1) Disclosed closed and announced transactions as reported by Dealogic and research reports through 12/31/14; global middle-market defined as transactions involving targets with Total Enterprise Value (“TEV”) less than $500 million.

(1) Dollars in billions.
Middle-Market M&A Statistics (continued)

The composition of acquirers is gradually changing. In the wake of the credit crisis, private firms accounted for more than half of total deal volume. By 2014 their share declined to 37%, while the share of public firms rose to 30.4%, the highest level since 2007. Private equity and foreign acquirers accounted for 15.5% and 17.4% of total U.S. middle-market M&A volume, respectively, in 2014.

U.S. private equity activity continued to strengthen in 2014. The amount of capital invested rose 4.4%, even though the number of deals remained flat compared to 2013. 2014 was the biggest year in terms of private capital invested since 2007.

EBITDA multiples for private equity-backed transactions were mixed in 2014. Multiples for transactions larger than $50 million rose, but those for smaller transactions declined compared to 2013. For example, multiples in the $50 million to $100 million range expanded from 6.7x to 7.5x last year, while multiples in the $25 million to $50 million range contracted from 6.9x to 6.3x.

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

The composition of acquirers is gradually changing. In the wake of the credit crisis, private firms accounted for more than half of total deal volume. By 2014 their share declined to 37%, while the share of public firms rose to 30.4%, the highest level since 2007. Private equity and foreign acquirers accounted for 15.5% and 17.4% of total U.S. middle-market M&A volume, respectively, in 2014.

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

Figure 5 US Private Equity Activity(1)

U.S. private equity activity continued to strengthen in 2014. The amount of capital invested rose 4.4%, even though the number of deals remained flat compared to 2013. 2014 was the biggest year in terms of private capital invested since 2007.

(1) Disclosed transactions as reported by PitchBook through 12/31/14; 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 were mixed in 2014. Multiples for transactions larger than $50 million rose, but those for smaller transactions declined compared to 2013. For example, multiples in the $50 million to $100 million range expanded from 6.7x to 7.5x last year, while multiples in the $25 million to $50 million range contracted from 6.9x to 6.3x.

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

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

Leveraged lending multiples continued to expand in 2014, especially for larger deals. For example, multiples in the $100 million to $250 million range expanded from 3.8x to 4.4x last year, while multiples in the $50 million to $100 million range rose from 3.6x to 4.1x.

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

Coming off a robust 2013 that saw the highest level of activity since 2008, private equity fundraising declined 14% in 2014.

**Figure 9  Uninvested Capital for Buyouts(1)**

At the end of 2014, private equity firms had more dry powder available for buyout transactions than in 2007, which bodes well for future deal flow.

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(1) Leveraged Lending Multiples through 12/31/14 GF Data Resources.

(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 12/31/2014.

(1) Private equity funds (dollars in billions) available for buyout transactions as reported by Preqin.
Notable Announced 4Q 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>22-Dec</td>
<td>488.1</td>
<td>American Apparel, Inc.</td>
<td>Irving Place Capital</td>
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<td>Tervita Waste Processing, LLC</td>
<td>Republic Services, Inc.</td>
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<td>Carolina Gas Transmission Corp.</td>
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<td>Mobile Mini, Inc.</td>
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<td>Ingredion Incorporated</td>
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