

# Market UPDATE



## Middle-Market M&A: Crowded at the Top

A Review of Third Quarter Market Data

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**Valuation, Litigation, and Transaction Services**

Deal volume continues to be strong through the third quarter and was projected to be strong through the fourth quarter. This quarter has seen an unprecedented increase in deal values in the upper middle-market.

After the flurry of deal activity in 2010, deal volume continues to be strong through the third quarter of 2011 and was projected to also be strong through the fourth quarter. Deal volume is on pace to continue below the peak of 2007, but significantly above 2009 and nearing 2008's level. Continued uncertainty in world markets has tempered the rebound in deal activity. All eyes have been on Europe the past few weeks as the summit works on member fiscal policies.

On the U.S. front, economic indicators continue to be somewhat mixed. The Institute for Supply Management's manufacturing

index showed sector growth in November above expectations. The U.S. unemployment rate dropped to its lowest level in November since March 2009. This is likely a result of seasonal hiring, but is still considered a sign of recovery.

Pending and new home sales were also up in October and the home price index gained 0.1% in the third quarter of 2011, despite being down 3.9% from a year ago. Many companies have seen a slight softening in the third quarter, but expect their financial results for the year to be above last year.

### Total Enterprise Value (TEV)/EBITDA - All Industries by Deal Size

Source: GF DATA®

TEV	2003-06	2007	2008	2009	2010	2011 YTD	TOTAL	N=
<b>10 - 25</b>	5.6	5.5	5.4	5.5	5.3	5.3	5.5	529
<b>25 - 50</b>	6.0	6.4	6.0	6.0	6.1	6.1	6.1	387
<b>50 - 100</b>	6.5	6.8	6.7	6.6	6.7	6.9	6.6	264
<b>100 - 250</b>	7.1	7.7	6.9	7.2	6.2	8.3	7.2	98
<b>Total</b>	6.0	6.2	6.0	6.0	5.9	6.1	6.0	-
<b>N =</b>	552	217	159	85	167	98		1278

NOTE: N of 2003-06 encompasses four years of activity.

Deal values over the past seven quarters have ranged from 5.8 to 6.6 times EBITDA. The survey provides average data for the transactions this reporting period.

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Deal prices in the lower end of the middle-market for companies with enterprise value \$10 to \$50 million and EBITDA \$0 to \$6 million remain steady through the third quarter of 2011 compared to 2010—ranging from 4.8 to 6.8 times EBITDA over the past seven quarters according to GF Data’s recently released third-quarter results. Average deal values in the middle sector, \$50 to \$100 million in deal value and \$6 to \$10 million in EBITDA are up slightly to 6.9 times through September 2011 compared to 6.7 times for 2010. Deal values over the past seven quarters have ranged from 5.8

to 6.6 times EBITDA. The survey provides average data for the transactions this reporting period. Some companies of this size will command higher multiples and some lower, based on company profile and sector.

This quarter has seen an unprecedented increase in deal values in the upper middle-market for deals \$100 to \$250 million in value with price/EBITDA multiples increasing from an average of 6.2 times EBITDA in 2010 to 8.3 in 2011.

**Total Enterprise Value (TEV)/EBITDA - All Industries by EBITDA Size**

Source: GF DATA®

EBITDA	2003-06	2007	2008	2009	2010	2011 YTD	TOTAL	N=
<b>0 - 3</b>	6.4	6.3	6.3	6.3	5.7	5.7	6.2	259
<b>3 - 6</b>	5.8	6.0	5.7	5.6	5.8	5.7	5.8	466
<b>6 - 10</b>	5.9	6.2	6.2	6.2	5.8	6.6	6.1	292
<b>&gt; 10</b>	6.1	6.6	6.2	6.0	6.2	6.8	6.3	261
<b>Total</b>	6.0	6.2	6.0	6.0	5.9	6.1	6.0	-
<b>N =</b>	552	217	159	85	167	98		1278

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Several key observations can be made from this data. The competition for upper middle-market companies—those over \$10 million in EBITDA—is strong. This has been fueled by private equity portfolio exits bringing a backlog of mature assets to market with firm exit valuations. Financial buyers have half a trillion dollars of un-invested capital they

are working to quickly deploy before it is relinquished back to limited partners or used to seed the next fund. In addition, the cash position of U.S. corporations continues to be strong. (We are working with a record number of buyers and continue to hear similarly from the industry.) It is primarily a seller's market for good companies.

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### Buyout Transactions Only - TEV/EBITDA

Source: GF DATA®

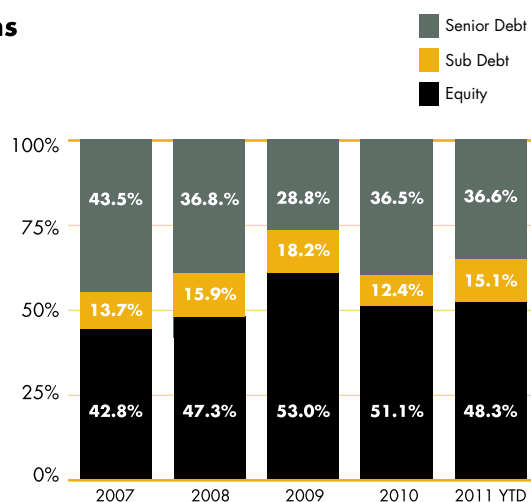
TEV	2003-06	2007	2008	2009	2010	2011 YTD	TOTAL	N=
10 - 25	5.5	5.6	5.3	5.2	5.4	5.4	5.5	446
25 - 50	5.9	6.4	6.1	5.7	6.1	6.1	6.0	332
50 - 100	6.4	7.0	6.7	6.2	6.7	7.3	6.6	211
100 - 250	7.0	7.6	6.9	6.5	5.8	8.9	7.2	80
<b>Total</b>	5.9	6.3	6.0	5.7	5.9	6.3	6.0	-
<b>N =</b>	466	187	132	65	138	81		1069

NOTE: N of 2003-06 encompasses four years of activity.

### Equity and Debt Contributions

Source: GF DATA®

- Average equity contribution for the quarter was 53.0%, compared to mid to high forties in the prior two quarters. This is a clear indication that the higher valuations being commanded on better properties are outstripping the improving availability of debt, leaving equity sponsors to fund a greater share of the purchase prices.
- Private equity sponsors and deal professionals continue to report lofty pricing on desirable businesses, particularly those with greater than \$10 million of EBITDA.
- As noted above, the composition of the debt varies by deal size - more senior financing available on larger middle-market deals, an increasing mezzanine share on smaller ones.



Companies with quality earnings, growth opportunities, solid management teams, and quality customer bases are in demand. Buyers pay a premium for size, but also for quality and growth opportunities.

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The rebound in valuations and purchase price multiples are almost solely attributable to the upper middle-market with buyout transactions leading the way. Multiples for the other tier companies are either up slightly, or virtually unchanged. Debt levels continue to tick up, with equity comprising an average of 48% of the deal in 2011 compared to 51% in 2010 and 53% in 2009. Leverage is nowhere near 2007's peak leverage model, but trending back toward higher leverage using senior and subordinate or mezzanine debt. Subordinated debt continues to play a pivotal role, comprising an average of 15% of deal value in 2011 compared to 12% a year earlier.

Manufacturing has continued to lead the GF Data in terms of deal volume, but through 2010 and 2011, health care services has led in terms of purchase price multiple of EBITDA. As shown, the average 2011 sale multiple among the entire middle-

market (\$0 to \$10 million in EBITDA) was 7.5 compared to a somewhat surprisingly low 4.6 for technology and 6.1 for manufacturing.

Companies with quality earnings, growth opportunities, solid management teams, and quality customer bases are in demand. Buyers pay a premium for size, but also for quality and growth opportunities. Given the demand by buyers in the market and the opportunity to garner a premium price for the right business markers, it is imperative middle-market companies engage a quality M&A advisor to help position it for greater success.

*Your experienced team at WCF Advisors knows how to prepare the business and effectively illustrate its strengths. We also have a working knowledge of active buyers and a sale process that yields results!*

**TEV/EBITDA - All Industry**

Source: GF DATA®

Industry	2003-06	2007	2008	2009	2010	2011 YTD	TOTAL	N=
<b>Manufacturing</b>	5.8	6.2	5.9	5.8	5.9	6.1	5.9	553
<b>Business services</b>	6.1	6.3	6.2	5.9	5.9	6.3	6.1	217
<b>Health care services</b>	6.7	6.6	6.8	6.3	6.6	7.5	6.7	123
<b>Retail</b>	6.5	6.6	6.4	5.2	6.1	5.3	6.4	43
<b>Distribution</b>	5.8	6.0	6.3	5.5	5.3	6.0	5.8	126
<b>Publishing/media</b>	7.4	7.7	6.1	7.4	4.2	6.1	7.2	31
<b>Technology</b>	5.6	5.2	6.5	6.6	5.7	4.6	5.9	25
<b>Other</b>	5.9	5.7	5.4	6.4	5.6	5.0	5.7	160
<b>N =</b>	552	217	159	85	167	98		1278

NOTE: N of 2003-06 encompasses four years of activity.

## Featured Expertise



### Jeff Milkie

Jeff has over 11 years of corporate finance and investment banking experience, and has executed over \$4.6 billion in transactions. He advises business owners, executive management teams and capital providers on complex strategic decisions and transactions, specifically related to mergers and acquisitions and private capital raising. Jeff has led numerous corporate finance engagements across various sectors, and his primary focus is on mergers and acquisitions, growth capital, and recapitalizations for companies in the manufacturing/distribution, consumer goods/services, retail, business services, financial institutions, health care, media, and applied technology sectors.

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### Karen Monfre

Karen has spent more than 20 years assisting clients in acquiring a business or in the sale of their closely-held business. Her time is spent exclusively doing business sell-side brokerage, buy-side brokerage, transaction support, valuation, litigation support, and related engagements. Karen is highly sought after for her experience and forthright consultation services. Karen has assisted in the successful sale of a wide range of clients from \$1 million in revenue to over \$100 million in revenue and in a wide array of industries including manufacturing, distribution, health care, construction services, automobile and truck dealerships, and life sciences.

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### Kevin Janke

Kevin has vast experience in business valuation, having performed more than 1,000 appraisals in various industries including financial institutions and manufacturing. An expert in buy-side and sell-side brokerage work, he is also a licensed real estate broker. Kevin's additional qualifications include Accreditation in Business Valuation by the American Institute of Certified Public Accountants and Accreditation as a Senior Appraiser by the American Society of Appraisers.

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