



news from the middle

deal perspectives for middle market companies and their advisors

Q2 2017

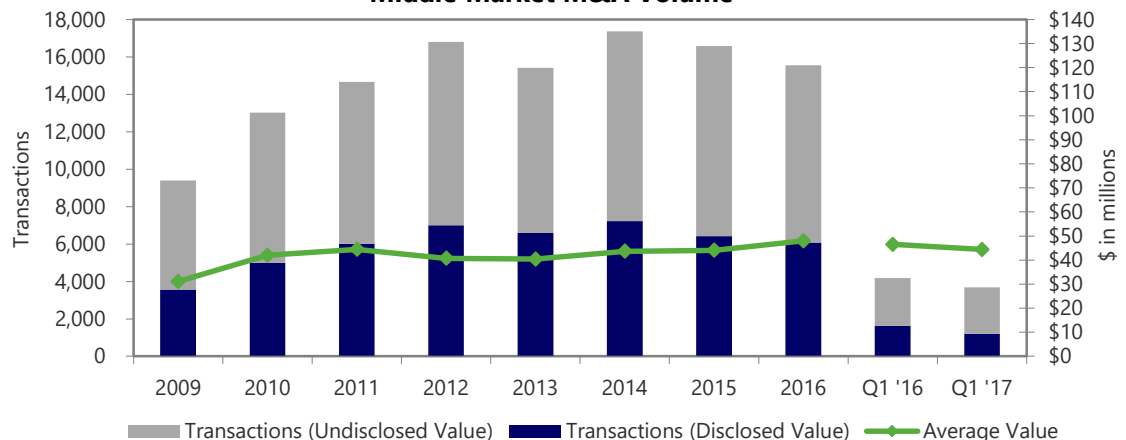
US REMAINS A SAFE HAVEN FOR DEALS

While there was a slight pull back in deal volume, middle market deal activity remained healthy in Q1 2017; a trend that is expected to remain over the next twelve months. Surrounded by a bullish stock market, rising levels of consumer confidence and global uncertainty, the US has been a safe haven for the acquirers of businesses. As a result, valuations have remained at premium levels, especially for companies with an enterprise value between \$100 and \$250 million, and the number of acquisitions by foreign buyers has grown, accounting for over 20% of volume for the first time since 2009. For some, the 11.6% Q1 pull back in volume could suggest a diminishing market, but the market has recently been seasonally weak at the beginning of the year and deal pipelines appear strong. Recognizing that the M&A process typically takes about a year from start to finish, Capstone expects the current confidence in the M&A market to offset a relatively slower first quarter and manifest itself with increased activity later this year and into early 2018.

A factor that Capstone anticipates could impact M&A activity is the expected tax relief for businesses and business owners. The general expectation is that Congress will soon attempt to pass legislation that reduces tax rates. If any changes are retroactively set to begin on January 1st, we believe this will boost 2017 M&A volume. If changes become effective in 2018, we believe any boosts to M&A activity will correspondingly be postponed until such changes become effective and could actually hurt 2017 M&A volume.

Another factor continuing to impact the M&A market is the investment activity by private equity groups (PEGs). As buyers, they bring a disciplined and often standardized approach to acquisitions. Several attributes that they find particularly valuable in target companies are growth and growth potential, predictable recurring revenue (i.e. sticky business models), and a large and diverse client base. The prevalence of PEG buying should continue to contribute to the positive M&A outlook as long as the US economy remains strong.

Middle Market M&A Volume



Source: Capital IQ
Note: Enterprise Value < \$500mm

MERGERS & ACQUISITIONS

CORPORATE RESTRUCTURING

PRIVATE PLACEMENTS

FINANCIAL ADVISORY

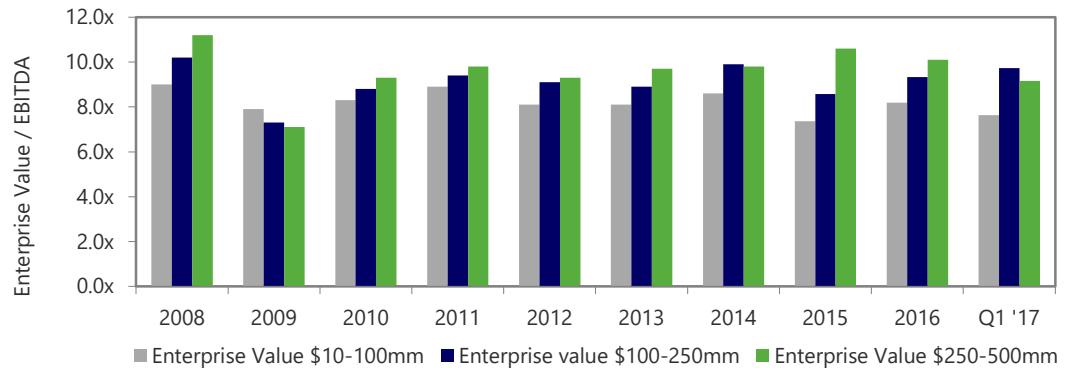
MERCHANT BANKING



M&A snapshot

AVERAGE MULTIPLES BY TRANSACTION SIZE

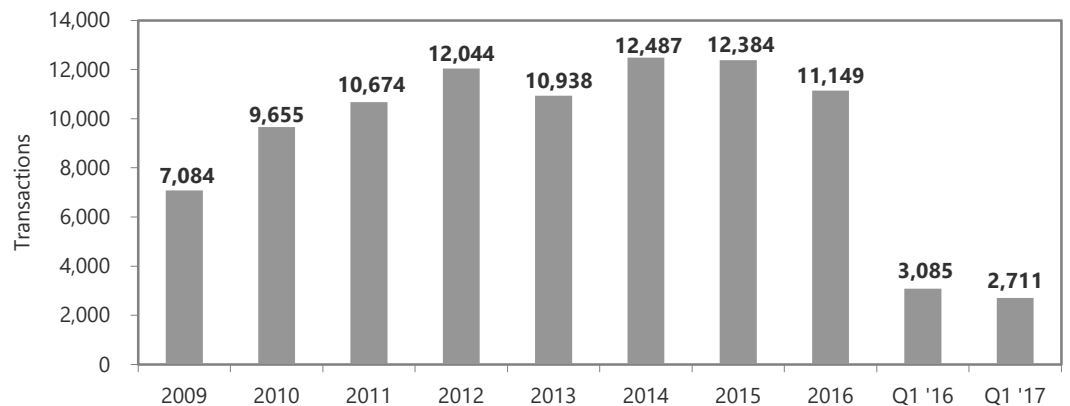
Multiples for deals valued between \$100-\$250mm have been steadily increasing, reaching 9.7x in Q1 2017



Source: Capital IQ
Note: includes multiples 3x-16x

CORPORATE BUYER ACTIVITY

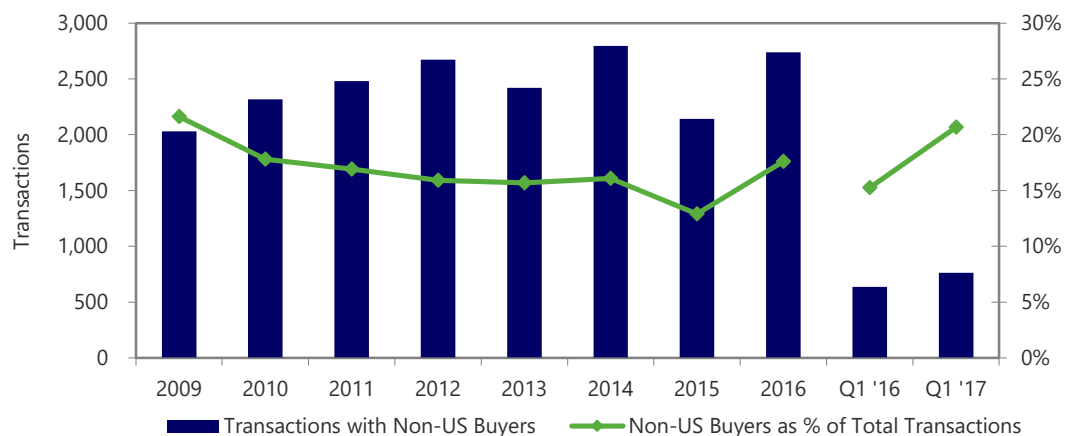
Corporate buyer activity fell by 12.1% in Q1, though is expected to pick up later in the year amidst a healthy market



Source: Capital IQ
Note: Enterprise Value < \$500mm

FOREIGN BUYER ACTIVITY

Both the transactions with non-US buyers (763) and their share of total volume (20.7%) has increased



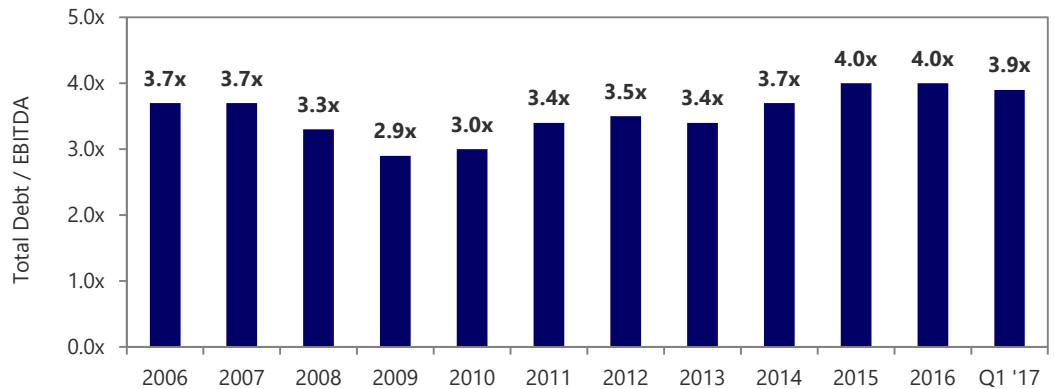
Source: Capital IQ
Note: Enterprise Value < \$500mm



M&A snapshot

PRIVATE EQUITY DEBT MULTIPLES

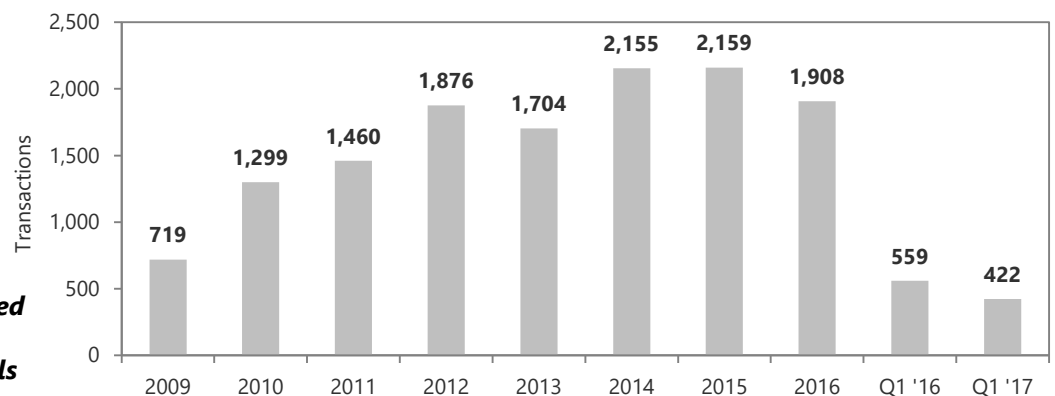
Debt continues to be readily available to PE firms, making the use of debt a key component to premium valuations



Source: GF Data Resources
Note: includes multiples 3x-15x, Enterprise Value \$10-\$250mm

PRIVATE EQUITY BUYER ACTIVITY

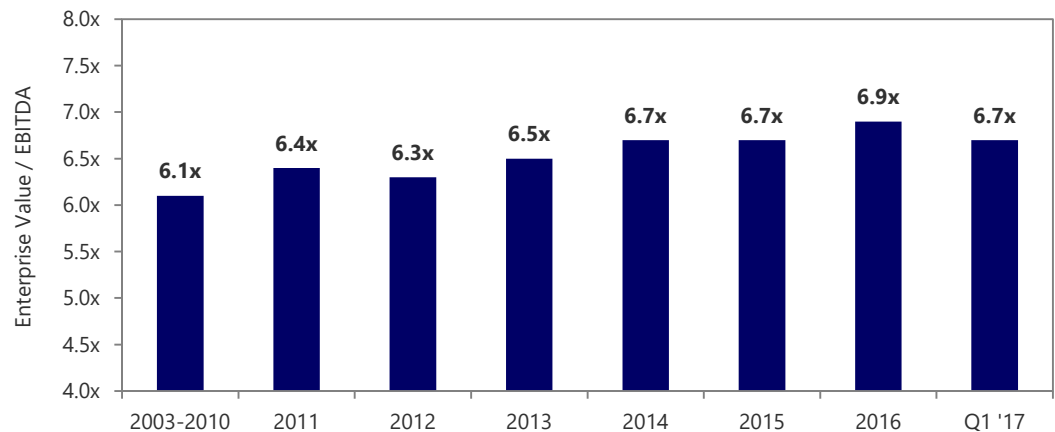
PE volume declined in Q1 continuing a trend that began in 2016, while heightened valuations have also made it harder for PE firms to find deals



Source: Pitchbook

PRIVATE EQUITY MULTIPLES

Valuation multiples have remained at premium levels in Q1, largely due to competition for deals and availability of debt



Source: GF Data Resources
Note: includes multiples 3x-15x, Enterprise Value \$10-\$250mm

▶▶▶ built for the middle market

ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is an award-winning investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. Over the past 15 years, Capstone has earned a reputation as one of the most innovative firms in the industry, offering corporate sale & divestiture, merger & acquisition, private placement, corporate restructuring, valuation and financial advisory services. The firm maintains seven industry practices, including: Business Services, Consumer Products, Education & Training, Government Services, Health & Medical, Manufacturing & Industrial, and Technology & Telecom. Headquartered in Boston, Capstone has offices in Chicago, London, Los Angeles, New York, Orange County, Philadelphia, San Diego, Silicon Valley and Tampa with an international presence that spans 450+ professionals in 70 offices across 31 countries.

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