



news from the middle

deal perspectives for middle market companies and their advisors

Q1 2016

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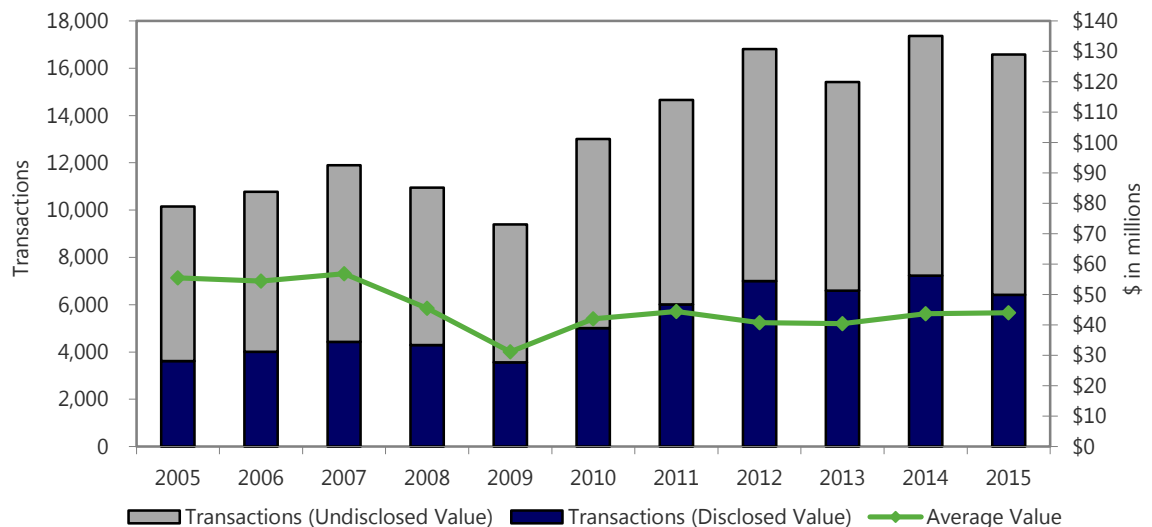
Perception Becomes Reality

After predicting record level M&A volume for 2015 at the conclusion of 2014, we started to withdraw from that view last July. Despite our own record level deal activity, we were starting to sense a pull-back that would threaten our earlier prediction. That perception became reality as 2015, although a torrid pace for most deal makers, fell just shy of the historic peaks experienced in 2014.

Last year was dominated by the mega-deals (AB InBev and SABMiller, Carter and Time Warner, Dell and EMC, etc.), which may have curbed the appetite for middle market deals. That said, 2015 was an extraordinary deal environment, likened to a silver medal Olympic performance (given the records set in 2014). Multiples for deals over \$500 million peaked, while deals below that threshold experienced a valuation check. Although corporate and PE buyer activity both remained strong throughout the year, foreign buyer participation in the U.S. M&A markets declined 23% in 2015.

So, where do we go in 2016? The volatility in the broader market has taken its toll early. January 2016 saw half the number of deals completed compared to 2015. We are also seeing a pull back in acquisition financing (which may not necessarily be a bad thing, depending upon the degree). While it is too early to reach any conclusions, we are expecting that 2016, with inherent geopolitical uncertainty, will be off the 2015 deal pace in the 15-20% range, retracting to 2011-ish levels. With that, we actually expect focus to turn back to the middle market for lower-risk transactions with a robust appetite among both corporate and PE buyers and stable valuations that will remain attractive.

Middle Market M&A Volume

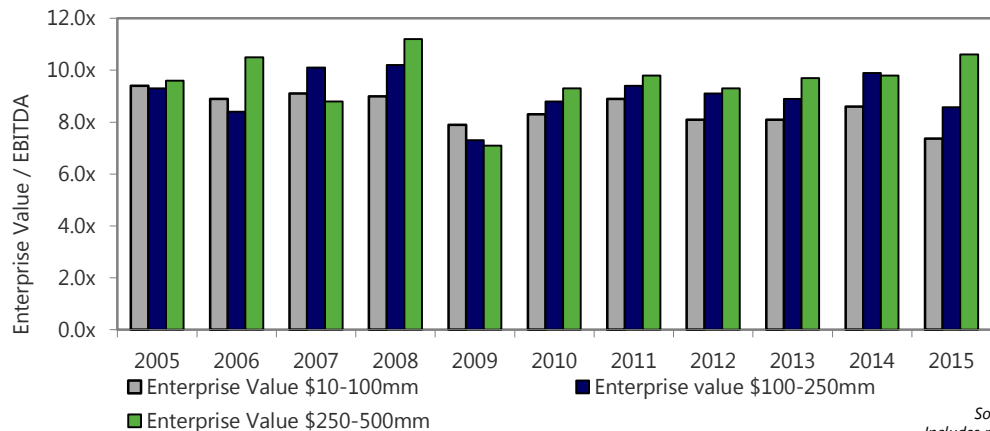




M&A snapshot

AVERAGE MULTIPLES BY TRANSACTION SIZE

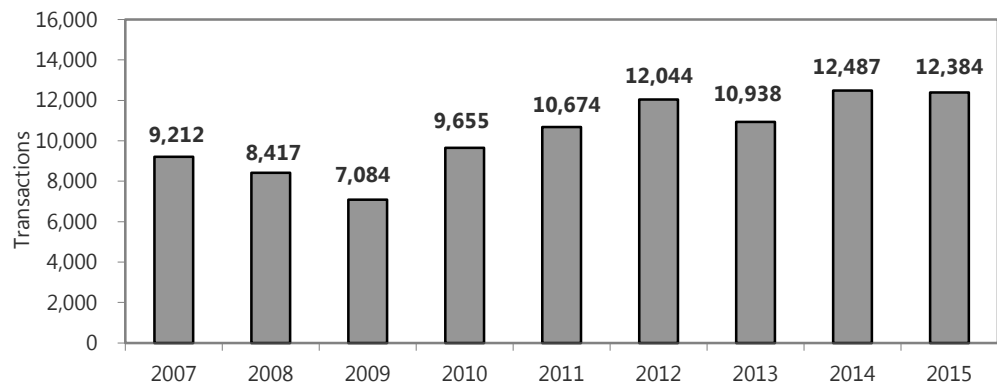
The valuation gap between sub-\$100mm and \$250mm+ deals was more pronounced in 2015



Source: Capital IQ
Includes multiples 3x-16x

CORPORATE BUYER ACTIVITY

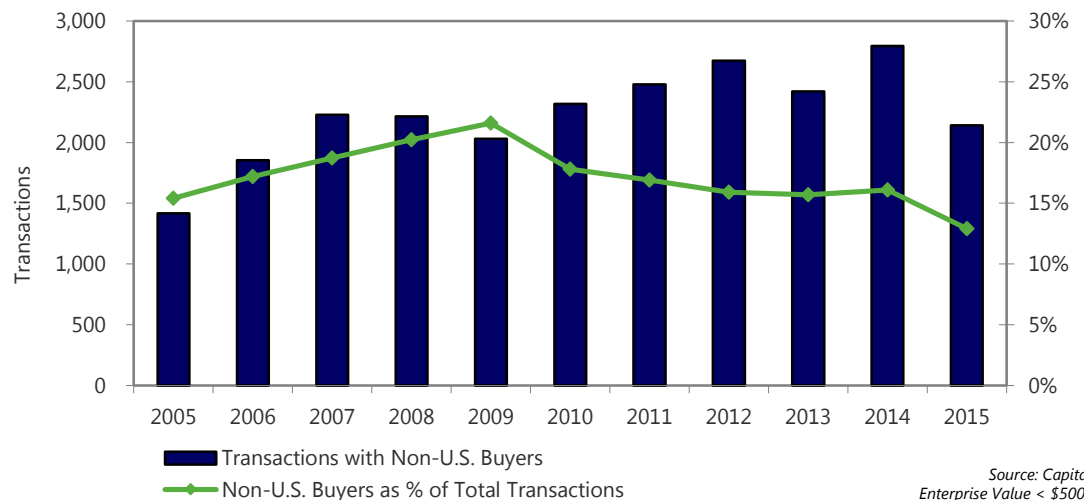
Corporate buyer M&A activity remained at near-record levels in 2015



Source: Capital IQ
Enterprise Value < \$500mm

FOREIGN BUYER ACTIVITY

With a strengthening \$US currency, foreign buyer M&A activity slipped 23.4% in 2015



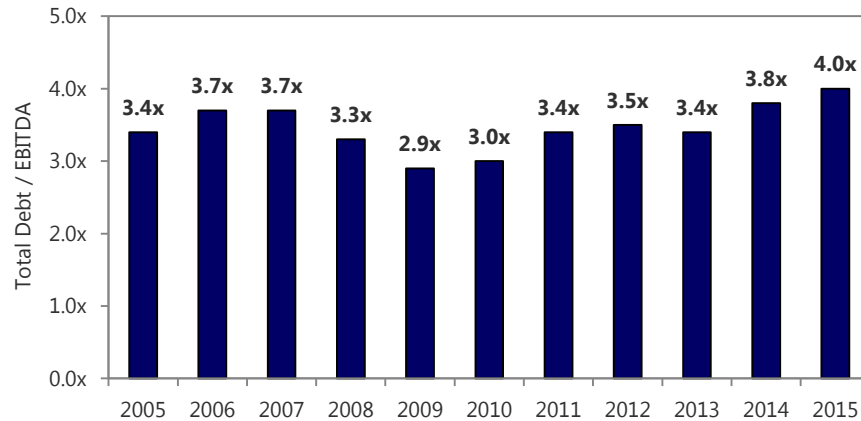
Source: Capital IQ
Enterprise Value < \$500mm



M&A snapshot

PRIVATE EQUITY DEBT MULTIPLES

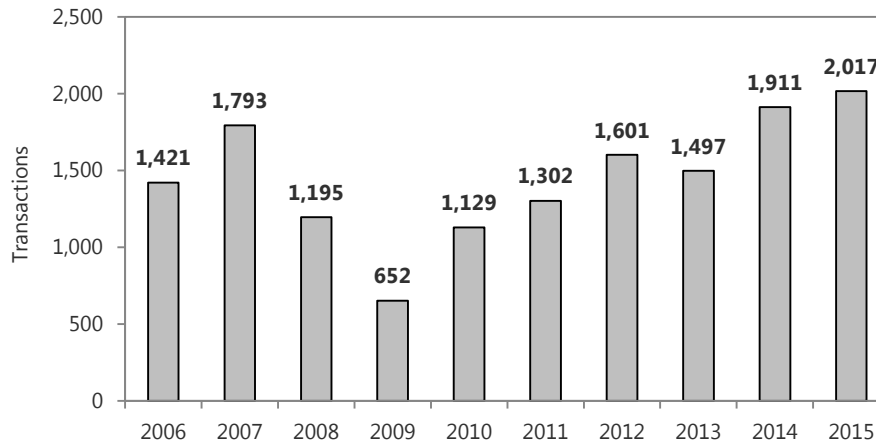
Leverage ratios for PE deals topped out at 4.0x EBITDA in 2015, although easing has started already in Q1 2016



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

PRIVATE EQUITY BUYER ACTIVITY

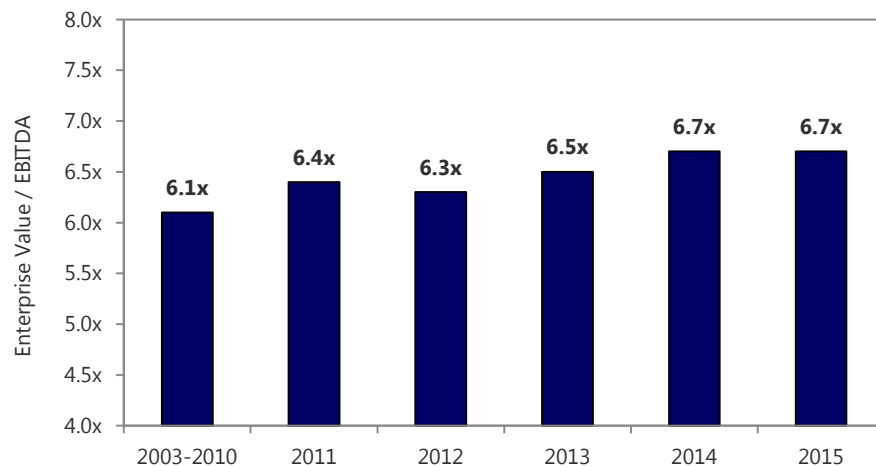
A bright spot in the 2015 M&A market was PE buyer activity, which exceeded 2014 records by 5.5%



Source: Pitchbook

PRIVATE EQUITY MULTIPLES

Supported by favorable debt markets and excess capital reserves, PE valuations remain at historic levels



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

▶▶▶ built for the middle market

ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is a premier investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. The firm provides M&A, corporate restructuring, private placement and financial advisory services. 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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