



news from the middle

deal perspectives for middle market companies and their advisors

Q3 2015

HAS THE BEAR MARKET ARRIVED? NOPE - WE THINK IT'S ALL BULL.

Times have been crazy. Uncertainty has spiked. The most dramatic single-day market losses in a decade have been followed by the largest gains in 7+ years. Some presidential candidates are "sucking up all the oxygen in the room" while others still seem to be struggling with basic email protocol. In our opinion, it's all just noise that will normalize at some point soon.

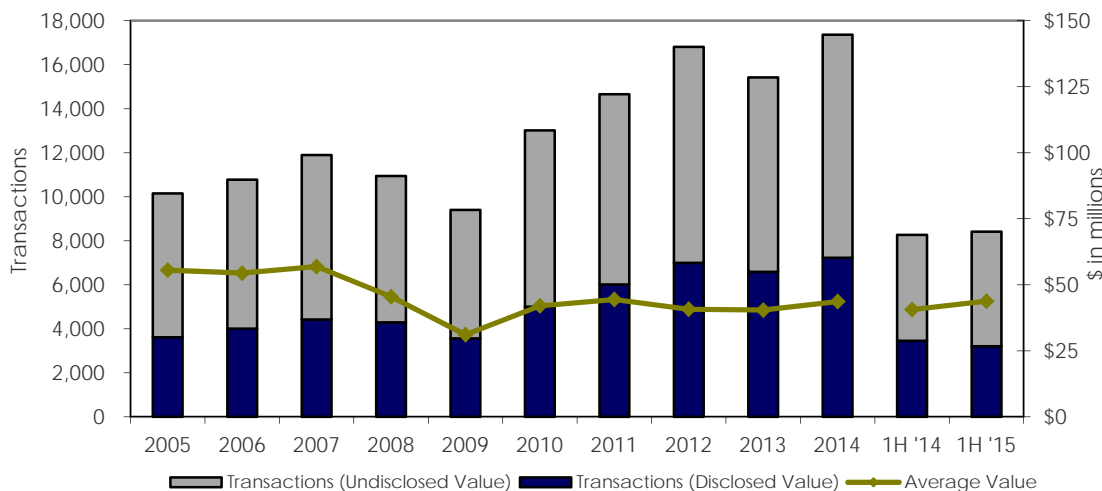
Our early prediction that 2015 M&A activity would reach all-time record levels has certainly been challenged in recent months. Lower levels of PE & strategic buyer activity in Q2 and the recent public market turmoil have not helped. What started as a strong middle year, has eased to a level on par with 2014. Based on the current deal pace in Q3, however, we are holding to our prior prediction.

Sentiments have definitely shifted from "Are we in a boom?" to "How long can it last?" We are starting to feel that the M&A bull market cycle (which started in 2010) is approaching its tail end. Notwithstanding, with interest rates, energy prices, and transportation costs remaining subdued, that tail could be a prolonged one. In the meantime, deal makers remain "all oars in the water, full speed ahead."

Notable current market trends include: larger deals (\$100mm+) are dominating the landscape; valuation gaps have widened between upper (>\$250mm) and lower (<\$100mm) middle market deals; debt multiples continue to expand, albeit slightly; and foreign buyer M&A activity has picked up the pace. With these fundamentals in place, we maintain a bullish, heads down posture.

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Middle Market M&A Volume



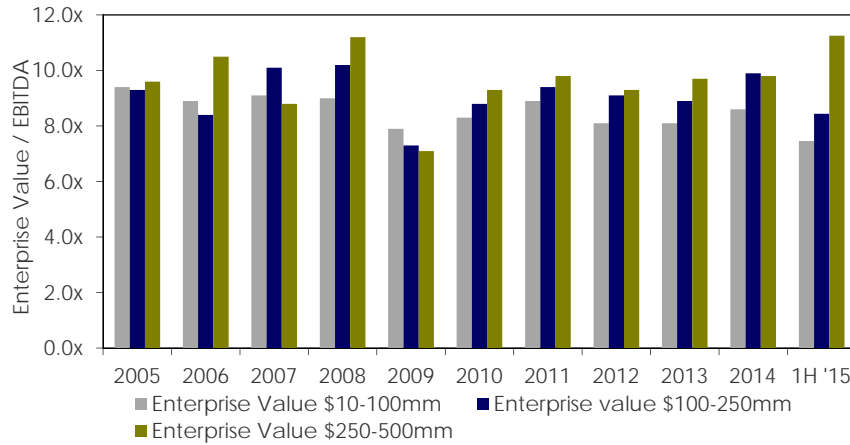
Source: Capital IQ
Enterprise Value < \$500mm



M&A snapshot

AVERAGE MULTIPLES BY TRANSACTION SIZE

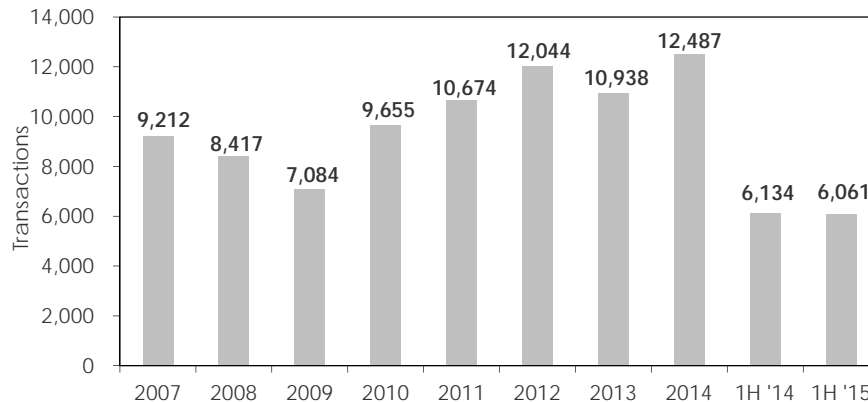
Larger transactions commanded sizable valuation premiums in the first half of 2015.



Source: Capital IQ
Includes multiples 3x-16x

CORPORATE BUYER ACTIVITY

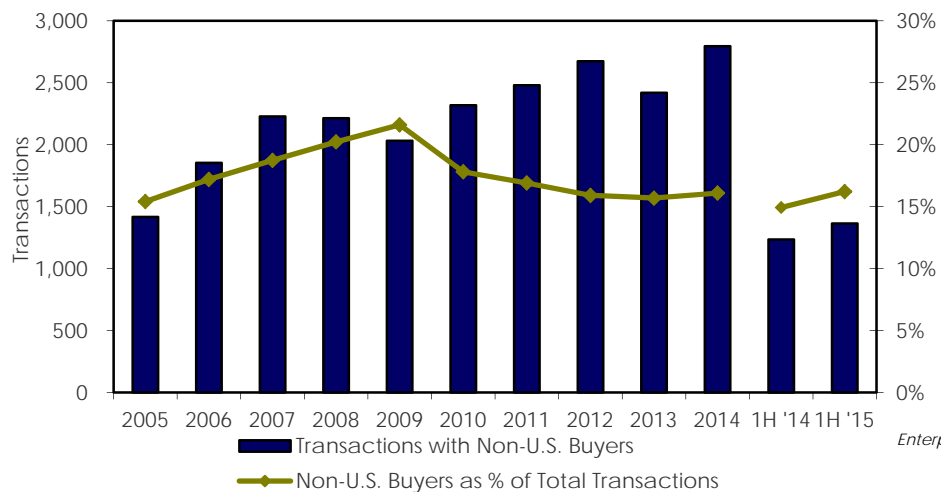
Corporate buyer interest remains strong and is on pace to match a record setting 2014.



Source: Capital IQ
Enterprise Value < \$500mm

FOREIGN BUYER ACTIVITY

Foreign buyer activity comprised 16% of deals in the middle market during the first half of 2015.



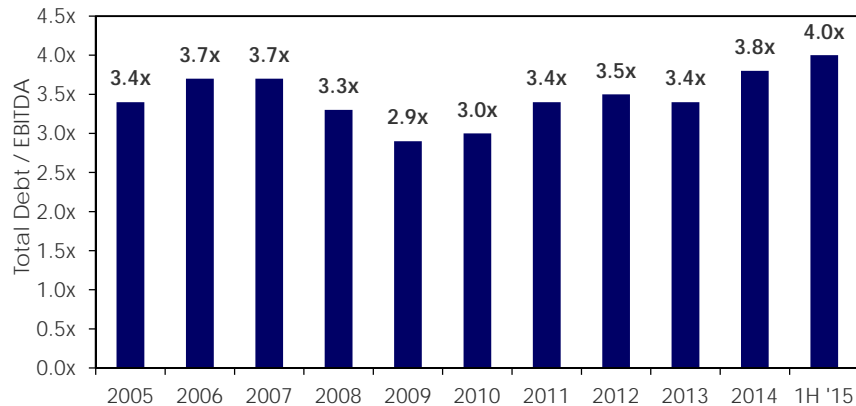
Source: Capital IQ
Enterprise Value < \$500mm



M&A snapshot

PRIVATE EQUITY DEBT MULTIPLES

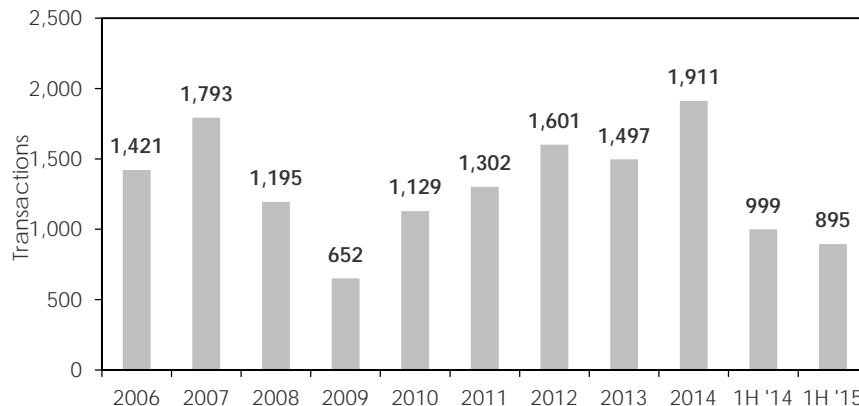
Debt multiples continue to climb thanks to widely available and affordable capital.



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

PRIVATE EQUITY BUYER ACTIVITY

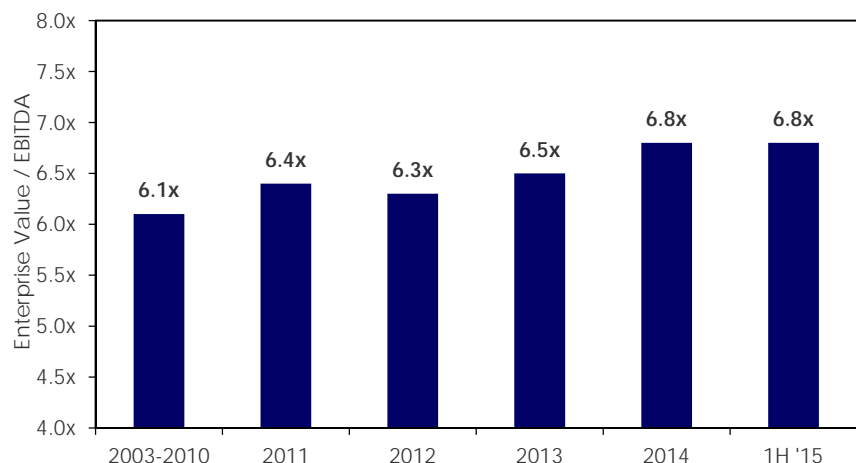
Market uncertainty and industry pressure led to a decline in PE activity in the first half of 2015.



Source: Pitchbook

PRIVATE EQUITY MULTIPLES

Valuations remain high as buyers find it increasingly difficult to locate quality targets.



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 corporate sale & divestiture, merger & acquisition, private placement, corporate restructuring, valuation and financial advisory services. Capstone maintains various industry specialties 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, Philadelphia, San Diego, Silicon Valley and Tampa with an international presence that spans 450+ professionals in close to 40 countries. For more information, please visit www.capstonellc.com.

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