

Middle Market M&A News 2012 — Year in Review

Value and volume — Middle market M&A remains flat

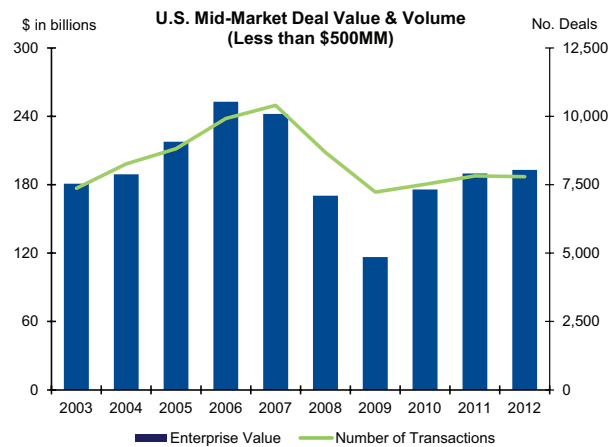
Middle market M&A activity for 2012 ended the year approximately flat in both value and volume compared to 2011. This was largely a result of a very strong fourth quarter which saw year-over-year increases of 40.7% and 27.7% in deal value and volume. Prior to Q4, which saw a rush of deal activity likely motivated by pending tax increases in 2013, LTM value and volume were on pace for a year-over-year decline of 15% and 11%, respectively. Instead, 2012 deal value was up by 1.7% to reach \$192.9 billion, and deal volume declined by only 0.4% to just under 7,800 deals announced. Middle market deal value as a percentage of total M&A deal value increased significantly from 20.4% in 2011 to 26.5% in 2012, driven primarily by the sharp decline (down 22%) in the overall U.S. M&A market. From a volume standpoint, the middle market remained nearly constant at ~93% of total deal volume.

Private equity continued to be active in the marketplace as the volume of deals involving financial buyers increased 14.4% over 2011, and the value of those deals increased 20.4%. Private equity also took advantage of improved M&A conditions in 2012 to exit investments as the value and volume of deals involving financial sellers increased 21.2% and 16.1%, respectively. Secondary buyout value and volume increased 27.9% and 15.2%, respectively, over 2011.

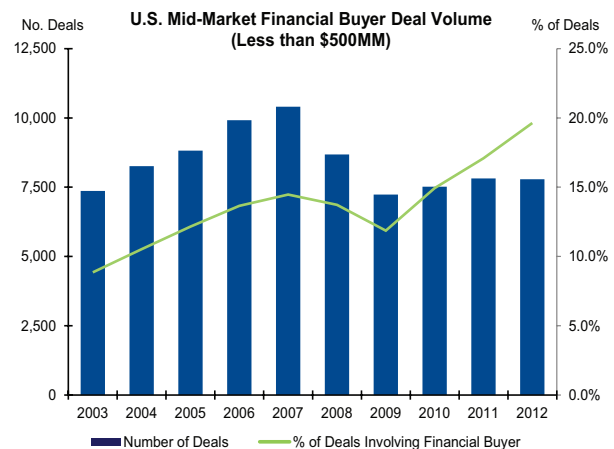
Strategic buyer activity declined slightly from 2011 levels with value and volume down 1.7% and 3.4%, respectively.

Purchase price multiples also remain flat

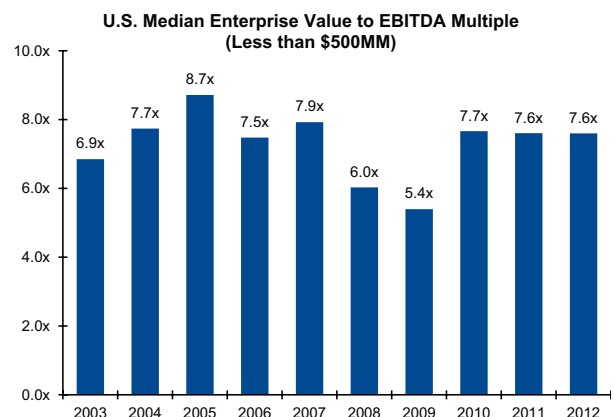
Similar to M&A value and volume, purchase price multiples for 2012 remained flat with 2011 at 7.6x. Likewise, the fourth quarter was the key to this flat trend. Through LTM Q3 2012 purchase price multiples had increased to 8.3x. However, in the fourth quarter the median multiple fell to 6.7x. This data seems to indicate that sellers were willing to accept lower prices in order to close transactions in 2012 in order to avoid the capital gains tax increase that took effect on January 1, 2013. The end result of the strong desire to close a deal before year end was that substantially more transactions took place in the fourth quarter, but at lower multiples.



Source: Thomson Financial

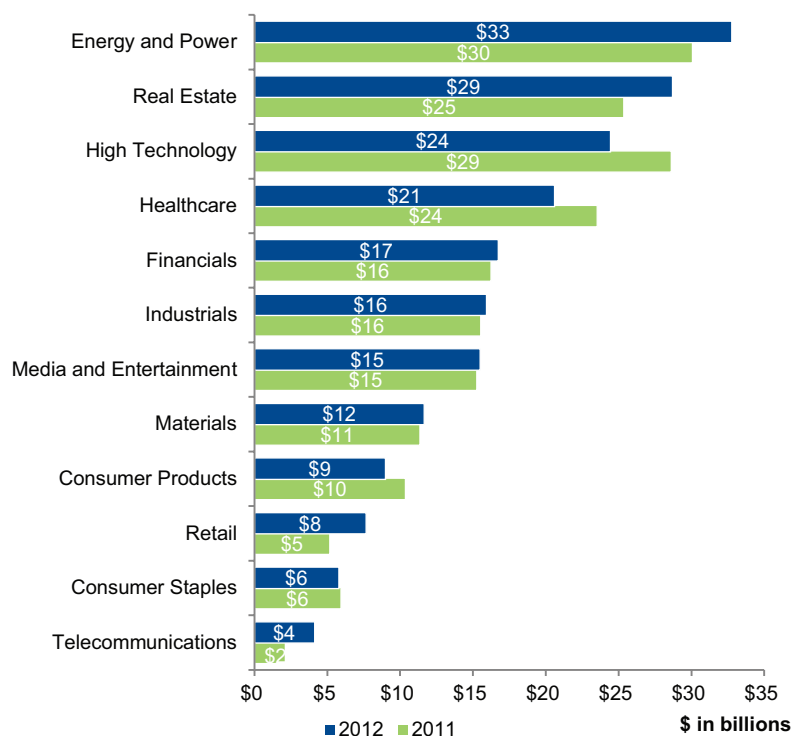


Source: Thomson Financial



Source: Thomson Financial

U.S. Mid-Market M&A Value by Industry (Deals Less than \$500MM)



Source: Thomson Financial

Real estate and technology deals impact M&A markets

- Real estate industry deal value continued its recovery from the financial crisis with an increase of 13% in value and 25% in volume in 2012 over 2011.
 - Real estate deal value has steadily increased from 2009 lows of \$9.5 billion and is now at its highest level in a decade, exceeding its previous 2005 high of \$28 billion.
- The value of deals involving technology companies has declined 15% while volume decreased 5% in 2012.
 - Slight dampening in volume coupled with a moderate multiple decrease.

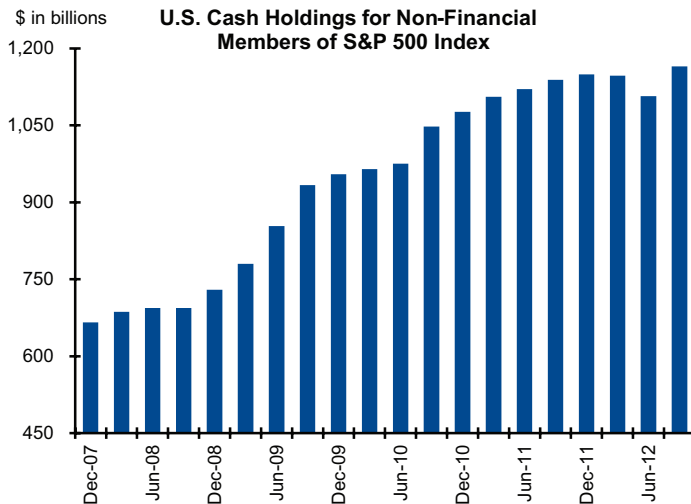
Foreign acquirers on the decline

- Decreased acquisition of U.S. middle market companies by foreign acquirers in 2012.
 - Deal value and volume of transactions involving a foreign acquirer decreased by 8.8% and 8.6%, respectively, led by meaningful declines in buyers from Canada and the UK.
 - Foreign buyers represented approximately 14% of total U.S. middle market M&A transaction volume, down from ~16% the prior four years.

International Acquisitions of U.S. Mid-Market Companies (Deals Less than \$500MM)

	Deal Value (\$MM)			Deal Volume		
	2012	2011	% Change	2012	2011	% Change
Americas	\$10,418	\$11,241	(7%) ▼	350	423	(17%) ▼
Canada	7,684	9,424		299	375	
Bermuda	746	181		13	10	
Chile	435	772		2	4	
Costa Rica	388	-		4	-	
Europe	12,341	14,024	(12%) ▼	381	410	(7%) ▼
United Kingdom	4,378	6,254		137	152	
Ireland-Rep	1,659	1,062		33	13	
France	1,544	832		41	43	
Germany	1,170	879		43	48	
Sweden	1,087	377		25	19	
Africa/Middle East/Central Asia	389	1,333	(71%) ▼	29	23	26% ▲
Israel	184	714		19	14	
Bahrain	165	315		2	1	
Egypt	40	302		2	2	
Utd Arab Em	-	-		3	-	
Asia-Pacific (excl. Japan)	5,533	6,483	(15%) ▼	171	190	(10%) ▼
South Korea	1,615	1,532		25	23	
China	835	724		28	36	
Singapore	819	273		11	14	
India	754	256		24	23	
Japan	4,198	1,740	141% ▲	75	39	92% ▲

Source: Thomson Financial

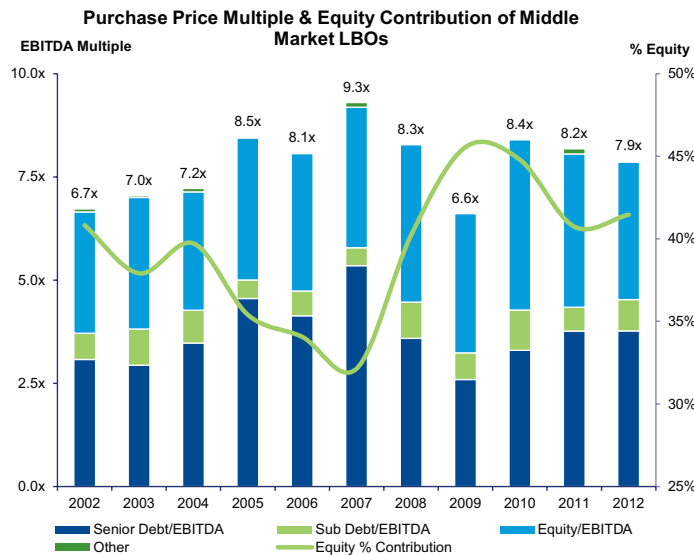


Source: Capital IQ
Notes: Cash includes short term investments Data limited to 403 companies reporting complete quarterly data over the past five years.

2013 Preview

2013 has the potential to deliver another year of growth in middle market M&A. According to a January 2013 Thomson Reuters middle market lender survey, 50% of respondents believe that 1Q 2013 middle market loan deal flow will be M&A-driven. There are several market indicators supporting 2013's growth potential.

- According to Capital IQ, there is ample capital in the marketplace to support strategic acquisitions. The non-financial members of the S&P 500 had aggregate cash holdings of \$1.2 trillion at 9/30/2012. Companies may invest portions of their cash holdings in strategic acquisitions to complement their organic growth plans.
- Financial buyers ended 2012 with a meaningful amount of dry powder to support M&A activity. According to Pitchbook, private equity funds had an estimated \$350 billion of uninvested capital as of 12/31/2012. An interesting trait about the dry powder is that the more than \$100 billion of it remains in funds from 2007 and 2008. In general, these funds are beginning to reach the end of their investment mandate, so there is added pressure to put the capital to use given that the funds may lose access to this capital in the near future. Additionally, 112 private equity funds closed in 2012 that account for \$113 billion in capital, which represents a 13% increase in capital raised despite a smaller number of new funds.
- Strong capital markets will generally allow for greater leverage and support growth through acquisition. According to Standard and Poor's, the average senior debt multiple in 2012 was 3.77x EBITDA, which was nearly the same compared to 3.76x EBITDA in 2011. However, subordinated debt surged in 2012 to 0.78x EBITDA compared to just 0.58x EBITDA in 2011. Overall, total debt multiples increased to 4.5x EBITDA from 4.3x in 2011, continuing the trend of higher leverage that began post-recession in 2010. This steadily improving borrowing environment should provide strategic buyers with increased access to debt capital to finance M&A transactions.



Source: Standard and Poor's Leveraged Commentary and Data

Select 2012 DCF transactions

Target	Acquiror	Synopsis
		Advised Greater Houston Anesthesiology P.A. ("GHA") in establishing a partnership with U.S. Anesthesia Partners ("USAP"), an anesthesia-focused physician services organization backed by Welsh, Carson, Anderson & Stowe ("WCAS"), through which GHA will serve as USAP's cornerstone affiliated practice.
		Assisted Deloitte & Touche Corporate Finance Canada Inc. ("DTCF Canada") in acting as financial advisor to Kicking Horse Coffee Co. Ltd. ("KHC") on its sale to Branch Brook Holdings, LLC.
	Arlon Capital Partners	Assisted Deloitte & Touche Corporate Finance Canada Inc. ("DTCF Canada") in acting as exclusive financial advisor to Southbridge Group LP's ("Southbridge") sale of HMR Foods, Inc. ("HMR") to Arlon Capital Partners.
The advanced components business of 		Advised FM Industries, Inc. (FMI), a wholly owned subsidiary of NGK Insulators (NGK) of Japan, in its acquisition of the advanced components business of Praxair Inc., based in Phoenix, Arizona.
	 	Advised Premier Hospice & Palliative Care, LLC ("Premier") in its sale to Abode Healthcare, Inc. ("Abode"), a hospice and home health services organization backed by Frazier Healthcare ("Frazier") for an undisclosed amount.
		Advised Audit Committee of the Board of Directors of VCA Antech, Inc. (VCA), in VCA's acquisition of ThinkPets, Inc. (ThinkPets) through its subsidiary, Vetstreet, Inc.
		Advised Nichirei Foods Inc., ("Nichirei Foods"), a wholly-owned subsidiary of Nichirei Corporation, regarding its acquisition of InnovAsian Cuisine Enterprises LLC ("InnovAsian").
		Advised NTT Communications Corporation in its acquisition of a majority stake of DTSI in the Philippines and the U.S.
		Provided a fairness opinion to Meredith Corporation (MDP), in its acquisition of Allrecipes.com, Inc. (Allrecipes), from The Reader's Digest Association, Inc. (RDA) for \$175 million.
A subsidiary of 		Provided a fairness opinion to the special committee of the Board of Directors of OneBeacon Insurance Group Ltd. (OneBeacon), in its recent sale of its subsidiary, OneBeacon Holdings (Gibraltar) Limited, to White Sands Holdings (Luxembourg) S.a.r.l., a subsidiary of White Mountains Insurance Group, Ltd. (White Mountains) for approximately \$25 million.

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[Click here](#) to read the report.

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