WIPFLI CORPORATE FINANCE ADVISORS LLC

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Market UPDATE

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Strategic Buyers Pay up for Opportunities

By Karen Monfre, Wipfli Corporate Finance Advisors, LLC

The M&A market is somewhat a tale of two markets, large and small. While the middle market ($50M to $500M in deal value) has remained relatively stable, mega deals ($500M in deal value and above) have dominated in terms of volume and value. The number and value of mega deals have increased year over year in 2017, while middle market deals have trended slightly behind and lower middle market deals have declined. Similar to what we reported last quarter, total deal volume in the United States for the 12 months ended July 2017 decreased 7%, while the total transaction value increased 1.7%. The increase in value is at the mega deal size.

US Merger Metrics Source: FactSet®

DEAL SIZE	12 MONTHS ENDED						AVERAGE P/E
	Number of Deals			Dollar Value of Deals			
	7/31 2017	7/31 2016	CHANGE	7/31 2017	7/31 2016	CHANGE	
$1 Billion+	358	292	22.6%	$1,520.8	$1,518.7	0.1%	31.8
$500M - $999.9M	249	195	27.7%	178.6	136.8	30.6%	26.6
$250M - $499.9M	310	335	–7.5%	110.0	120.0	–8.3%	29.7
$100M - $249.9M	522	530	–1.5%	84.1	83.5	0.7%	32.8
$50M - $99.9M	413	427	–3.3%	29.1	30.9	–5.8%	26.7
$25M - $49.9M	431	401	7.5%	15.4	14.6	5.5%	28.3
$10M - $24.9M	467	526	–11.2%	7.6	8.6	–11.3%	19.2
Under $10M	893	974	–8.3%	2.8	3.1	–11.1%	28.2
Undisclosed	8,673	9,564	–9.3%	NA	NA	NA	NA
TOTAL	**12,316**	**13,244**	**–7.0%**	**$1,948.4**	**$1,916.2**	**1.7%**	28.8

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Strategic buyers have dominated the market in the last 12 months for public company transactions, closing 73% of total deals reported by Factset. This is a far greater percentage than in the middle and lower middle markets, where most targets are privately held. In the lower middle market, defined by Marketpulse as deals valued at $5M to $50M, Private Equity (PE) buyers in the second quarter are reported to have acquired 40% of deals, while strategic buyers acquired 27%. PE buyers, however, report strong competition in valuations from strategic buyers, indicating that strategic buyers may be coming down in deal size and not just focusing on large deals.

In Pitchbook's Q2 2017 report, PE deal flow is shown to be slightly behind last year's pace at 866 deals, totaling $151.1 billion. Multiples remain close to 2016's seven-year high mark of 10.7x, having declined slightly to 10.5x. The median debt percentage has risen to 56.3% of enterprise value, well above the 50% reported in the prior year. This is consistent with GF Data's Q2 report, which also reflects an increase in leverage in 2017 over 2016, countering the sentiment that leverage multiples were retrenching.

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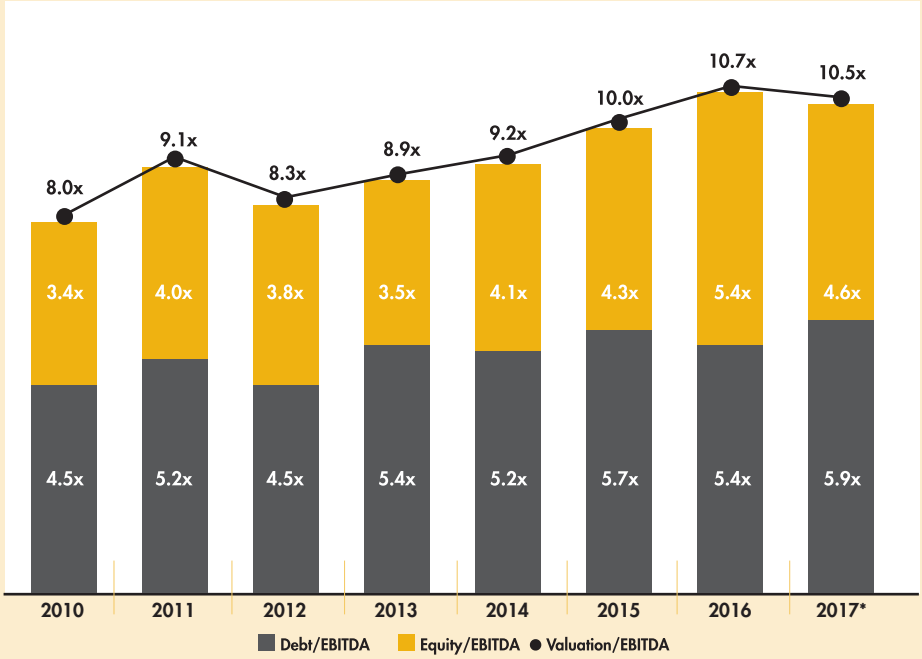
U.S. M&A (including PE buyouts) Multiples Source: Pitchbook*



* As of 6/30/2017

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GF Data provides a further breakdown of valuations for 2017 by total enterprise value and type of transaction. This data shows PE buyers continuing to place a premium on size, above-average financial performance, and institutional ownership prior to purchase. Valuations in the lower middle market have trended flat over the past five years, while valuations for transactions $100M and above in value have shown a general upward trend.

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Valuation Drilldown - 2017 YTD Source: GF Data®

			BUYOUTS ONLY						
TEV	ALL	Buyouts Only	Platforms	Add-Ons	Individual/ Family Seller	PEG/Corp Seller	Above Average	Post-Closing Market	ALL THREE*
10 - 25	5.8	5.8	5.7	5.8	5.6	5.1	6.4	5.9	6.6
25 - 50	6.6	6.5	6.7	5.8	6.6	6.1	7.0	6.4	5.8
50 - 100	7.6	7.9	7.8	8.2	7.9	7.8	8.4	7.9	8.7
100 - 250	8.7	8.8	8.7	10.5	8.3	9.6	10.3	8.7	10.1
Total	6.9	6.9	7.1	6.4	6.7	7.6	7.8	7.0	8.5
N =	103	92	69	23	65	22	49	80	11

NOTE: ALL THREE* denotes buyouts featuring above-average financial characteristics, a post-closing management solution and a private equity/corporate seller.

Total Enterprise Value (TEV)/EBITDA Source: GF Data®

TEV	2003-12	2013	2014	2015	2016	YTD 2017	TOTAL	N=
10 - 25	5.6	5.9	5.6	5.8	6.0	5.8	5.7	1049
25 - 50	6.2	6.8	6.6	6.6	6.5	6.6	6.3	800
50 - 100	6.8	6.8	8.4	7.8	7.3	7.6	7.1	550
100 - 250	7.3	7.5	7.8	9.0	9.0	8.7	7.8	263
Total	6.2	6.5	6.7	6.7	6.9	6.9	6.4	
N =	1,731	163	216	236	213	103		2,662

NOTE: N for 2003-12 encompasses 10 years of activity.

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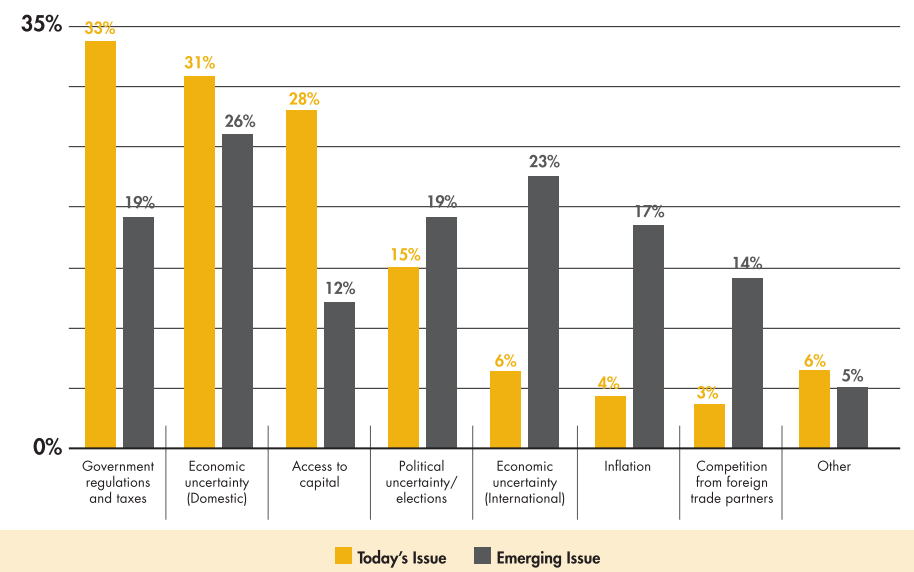
The caution buyers are displaying in the middle market appears to be tied to a large degree to the present political and economic climates. Pepperdine's 2017 Private Capital Markets Report respondents believe government regulation and taxes and economic uncertainty are the most important risks facing privately held businesses in 2017.

Issues Facing Privately-Held Businesses Source: Pepperdine 2017 Private Capital Markets Report®



If the business fundamentals are strong, the market prospects are very good, and now is a great time to discuss and evaluate your options.

It appears the political and economic climates are contributing to caution by buyers as well as lenders. Leverage remains available, and middle market buyers are showing continued interest in activity but are displaying caution in overpaying for deals. Multiples are increasing only on larger and above-average-performing companies where there is significant buyer interest and where one party ultimately is willing to pay up for the deal.

Accordingly, the M&A market is somewhat a tale of two markets, one driven by significant activity by strategic buyers where valuations and leverage remain on an upward trend and the other driven by significant dry powder waiting to be deployed but also by caution of risk factors in the target and its environment. In the middle market, we see strong activity with a healthy pool of financial and strategic buyers. Valuation multiples remain healthy and stable. Debt financing remains available. The record premiums being paid in this market for companies that have above-average financial performance and growth opportunities tell us that sellers should remain diligent in focusing on their business fundamentals. If there are business fundamentals that are perceived as risky to the business's future, value will be lower and buyer interest will be significantly impacted. Our WCF and/or Wipfli teams need to be talking with you about how to right the ship. If the business fundamentals are strong, the market prospects are very good, and now is a great time to discuss and evaluate your options.

Our skilled WCF team brings a strong understanding of how to maximize value and position your company to various buyer groups. Preparation and process are the keys to achieving the best results.

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Featured Expertise

Jeff Milkie

Jeff has more than 15 years of experience in leading mergers and acquisitions, raising capital, and performing financial advisory engagements, having executed over $4.9 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 good/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 representation, transaction support, and related engagements. She 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 over 25 years of experience in helping clients with transition matters including buying and selling, as well as valuation. An expert in transactions involving financial institutions, Kevin also has expertise in manufacturing and a wide range of other industries. He is a licensed real estate broker and holds FINRA Series 63 and 79 licenses.

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Paul Ouweneel

Paul has 10 years of experience consulting with high-net-worth individuals and companies. His experience includes building financial models, preparing marketing materials, researching industry trends, and sourcing parties for transactions in a variety of industries. Paul is a Chartered Financial Analyst (CFA) and a Certified Public Accountant (CPA) and holds FINRA Series 63 and Series 79 licenses. In addition, he is a board member and treasurer for Milwaukee Habitat for Humanity.

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We consistently provide clients broad transactional, structuring, and industry expertise, and the benefit of solid relationships with hundreds of middle-market companies and capital providers throughout the Midwest and across the United States.

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