

“

*a firm belief in the  
entrepreneurial spirit*

”

**CLEARY GULL**

# MARKET MONITOR

M&amp;A AND FINANCING UPDATE

□

2nd QUARTER 2016

## Weak Start to 2016

The economy and M&A activity during the first quarter of 2016 were generally disappointing.

A mid-quarter stock market pullback attributed to slow economic growth, continued weakness in oil and gas, volatile commodity prices, an uncertain outlook for the U.S. manufacturing sector, and (of course) the election. M&A transaction volume also dropped during the quarter.

During the first quarter of 2016 Gross Domestic Product (“GDP”) grew only 0.8% over the preceding quarter compared to consensus estimates of 1.0%. The first quarter also compared unfavorably to the 2.4% growth realized during all of 2015. However, based on stronger April and May data, Wells Fargo has slightly increased its full year 2016 GDP growth forecast to a modest 2.0%.

## Improving Outlook

A variety of recent economic data points suggest the economy is improving. Retail sales increased 0.5% in May and 2.5% from a year ago. Housing starts were up 9.5% from a year ago and May auto sales were at a 17.4 million run-rate compared to 17.3 million in 2015. However, manufacturing is still weak as industrial production declined 0.4% in May as compared to April.

Following a difficult January and February, the stock and bond markets have rebounded, oil and other commodity prices have increased and the economy appears to be gaining strength.

Despite these undercurrents, it remains a very strong market for middle market M&A. Companies with strong management teams and a positive outlook continue to be rewarded in the market.

## KEY INTEREST RATES

	6/29/2016	12/31/2015	12/31/2014
1-Month T-Bill	0.25%	0.14%	0.03%
2-Year UST	0.61%	1.06%	0.67%
5-Year UST	1.00%	1.76%	1.65%
30-Year UST	2.27%	3.01%	2.75%
EUR/USD	\$0.900	\$0.921	\$0.826
1-Month Libor	0.46%	0.43%	0.17%
Federal Funds	0.50%	0.50%	0.25%
Prime rate	3.50%	3.50%	3.25%
WTI Crude Oil	\$49.88	\$38.17	\$53.27

Source: Capital IQ

## M&A DEAL VOLUME DECLINES DURING Q1 2016



Source: Robert W. Baird & Co.

### M&A Volume Declines

M&A activity during the first quarter of 2016 was slow. According to Robert W. Baird, the total number of U.S. transactions declined 10.9% compared to the same period in 2015.

The larger transaction market was more severely impacted, as the number of transactions with values greater than \$1 billion declined 13.6% during the quarter compared to the same period a year earlier. Aggregate transaction value declined an even greater 33.3%.

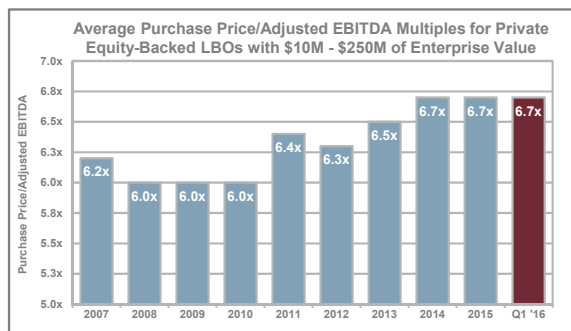
However, we are seeing and hearing signs of an improving M&A market both in terms of quantity of transactions and quality of companies.

### Purchase Prices Remain Strong for Smaller Transactions

With an abundance of buyers and fewer sellers, middle market purchase price multiples for LBO transactions reported to GF Data remained strong during the first quarter of 2016. The average purchase price multiple for LBOs (enterprise values of \$10 to \$250 million) held firm at 6.7x EBITDA during the quarter, the same as the average for all of 2015.

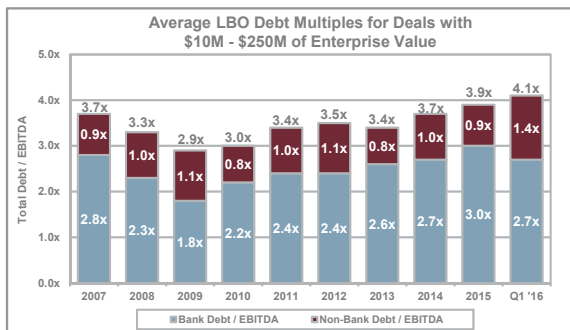
However, larger middle market transactions multiples declined during the first quarter of 2016. Average EBITDA multiples reported for LBO transactions with enterprise values between \$100 and \$250 million declined to 7.7x EBITDA during the quarter compared to 9.0x in 2015.

## PURCHASE PRICES REMAIN STRONG



Source: GF Data®

## LBO TOTAL LEVERAGE STABLE; SENIOR DEBT DECLINES



Source: GF Data®

### Subordinated Debt Increases As Senior Debt Declines

Senior debt market support for lower middle market LBOs declined during the first quarter of 2016. According to GF Data, average senior debt/EBITDA multiples for \$10 to \$250 million enterprise value private equity-backed buyouts was 2.7x during the quarter, down from 3.0x during 2015.

Non-bank lenders have been slightly less aggressive in the market as their portfolios and their ability to raise capital have been impacted by credit issues stemming from reduced energy and commodity prices.

However, the subordinated debt market appears to be filling the gap. Total debt/EBITDA for the LBO segment of the market remained edged up slightly to 4.1x EBITDA during the quarter compared to 3.9x during 2015.

### Contract Terms Improve for Sellers

Contract terms are an important part of any transaction. According to a GF Data analysis, contract terms for LBOs with less than \$250 million enterprise values became more seller favorable during 2015.

During 2015, average indemnification caps decreased to 14.9% of enterprise value compared to 16.9% in 2014. Size significantly matters; \$10 - \$25 million transactions had 16.2% average indemnification caps during 2015 compared to 10.2% average caps for \$100 - \$250 million transactions.

Average escrow/holdbacks decreased to 6.6% during 2015 compared to 7.0% during 2014. However, the average escrow/holdback period increased slightly to 17.3 months in 2015 from 16.4 months in 2014.

## INDEMNIFICATION CAPS DECLINE



Source: GF Data®

## FIRM OVERVIEW

Cleary Gull Inc. is an employee-owned financial services firm providing high-quality financial services to private equity funds, entrepreneurs, and middle market companies. “A Firm Belief in the Entrepreneurial Spirit” is our core ideology and the foundation for all of our client engagements.

Cleary Gull’s investment bankers help clients throughout the U.S. achieve their financial and business goals with advice on exclusive sales, mergers, acquisitions, raising debt and equity in private capital markets and other transactions, working through complex financial, legal, tax, accounting and other technical issues.

## GLOBAL REACH

Cleary Gull is a member of the International Association of Investment Bankers. The IAIB ([www.iaib.org](http://www.iaib.org)) is an affiliation of investment banking firms from Australia, Africa, Asia, Europe, and North America working together to broaden their reach and leverage their expertise.



## CONTACT

The Cleary Gull Investment Banking team has completed more than 120 transactions since 1995, representing over \$6 billion in transaction value.

Contact us for more information on Cleary Gull and our Investment Banking services.

Ronald D. Miller  
President and  
Managing Director  
414-291-4528  
[rmiller@clearygull.com](mailto:rmiller@clearygull.com)



Ryan C. Chimenti  
Managing Director  
414-291-4531  
[rchimenti@clearygull.com](mailto:rchimenti@clearygull.com)



Gregory T. Gorlinski  
Managing Director  
414-291-4559  
[ggorlinski@clearygull.com](mailto:ggorlinski@clearygull.com)



Ryan A. Olsta  
Managing Director  
414-291-4555  
[rolsta@clearygull.com](mailto:rolsta@clearygull.com)



John R. Peterson  
Managing Director  
414-291-4551  
[jpeterson@clearygull.com](mailto:jpeterson@clearygull.com)



Patrick J. Bremmer  
Vice President  
414-291-4548  
[pbremmer@clearygull.com](mailto:pbremmer@clearygull.com)



Christopher J. Larsen  
Vice President  
414-291-4547  
[clarsen@clearygull.com](mailto:clarsen@clearygull.com)



James E. Olson  
Vice President  
414-291-4552  
[jolson@clearygull.com](mailto:jolson@clearygull.com)



Patrick H. Ringsred  
Vice President  
414-291-4553  
[pringsred@clearygull.com](mailto:pringsred@clearygull.com)



Cleary Gull Inc.  
100 East Wisconsin Avenue  
Suite 2400  
Milwaukee, WI 53202  
[clearygull.com](http://clearygull.com)

*This is not in any sense a solicitation or offer to purchase or sell securities. The factual statements herein have been taken from sources believed to be reliable, but such statements are made without any representation as to accuracy, completeness, or otherwise. Historical data is not an indication of future results.*