

“ a firm belief in the entrepreneurial spirit ”

CLEARY GULL

# MARKET MONITOR

M&A AND FINANCING UPDATE



4th QUARTER 2015

## WHERE DO WE GO FROM HERE?

### Strong Data Continues

The growth and outlook for the overall economy correlate strongly to M&A market activity and prices.

During the third quarter Gross Domestic Product (“GDP”) grew 2.1% over the preceding quarter. According to Wells Fargo, full year growth is expected to be 2.4%, the same rate as expected in 2016.

Job creation also has been strong, with non farm payrolls rising 211,000 in November.

Correspondingly, unemployment declined to 5.0% in November compared to 5.7% in January.

Most major stock market indices have recovered from August lows and are now in, or approaching, positive territory for the year.

### Warning Signs Appearing

The debt market shows signs for concern. While interest rates remain low, from a historical perspective, senior debt lenders are becoming more cautious and lower quality debt is suffering. Credit downgrades outnumber upgrades and default rates are rising.

Interest rates have crept upward. According to S&P Capital, spreads on large liquid high-yield loans have increased from Libor + 400-500 in May to Libor + 600 – 700bps in early December.

Low commodity prices, declining consumer confidence, an uncertain 2016 presidential election, Fed rumors, and recent terrorist attacks are also reasons for concern.

It is more important than ever to understand the impact of broader economic and global events on the timing of M&A transactions.

### KEY INTEREST RATES

	12/8/2015	12/31/2014	12/31/2013
1-Month T-Bill	0.23%	0.03%	0.01%
2-Year UST	0.94%	0.67%	0.38%
5-Year UST	1.68%	1.65%	1.75%
30-Year UST	2.97%	2.75%	3.96%
EUR/USD	\$0.919	\$0.826	\$0.726
1-Month Libor	0.293%	0.171%	0.168%
Federal Funds	0.25%	0.25%	0.25%
Prime rate	3.25%	3.25%	3.25%
WTI Crude Oil	\$37.51	\$53.27	\$98.42

Source: Capital IQ

## M&A DEAL VOLUME RISES DURING FIRST NINE MONTHS OF 2015



Source: Robert W. Baird & Co.

### Transaction Volume Increases

Despite a slight decline in October and November, middle-market transaction volume has increased during 2015. According to Robert W. Baird, the number of transactions with values less than \$500 million increased 10.4% during the first nine months of 2015 compared to the year earlier period.

The number of transactions with values greater than \$1 billion increased an even stronger 18.3%, as an abundance of credit and the availability of both institutional debt and public equity has made it a favorable transaction environment.

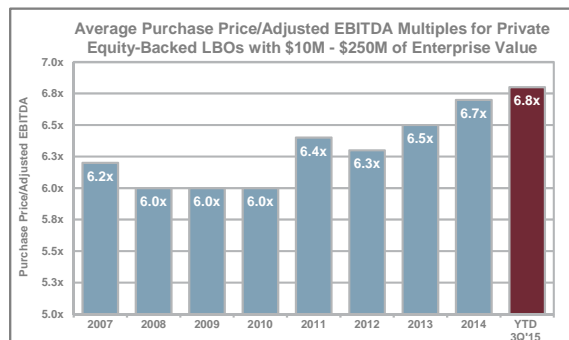
With aging private equity portfolios, a growing number of baby boomers looking to retire, and strong credit markets, we expect transaction volume to remain strong well into 2016.

### Purchase Prices Rise

Middle-market purchase price multiples for LBO transactions reported to GF Data have reached new heights during 2015. The average purchase price multiple for LBOs (enterprise values \$10 to \$250 million) climbed to 6.8x EBITDA for the first nine months of 2015 from the 6.7x average EBITDA multiple realized for all of 2014.

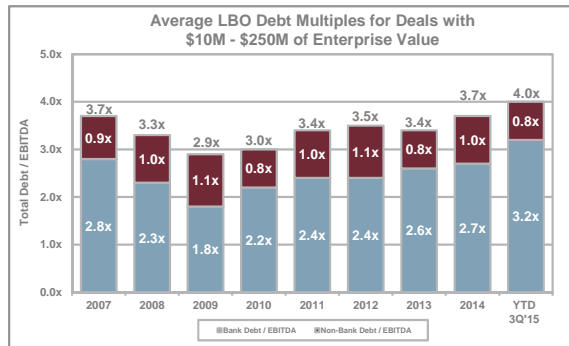
Larger transactions continue to realize significantly higher multiples. Average EBITDA multiples reported for LBO transactions with enterprise values between \$100 and \$250 million were 9.1x EBITDA during the first nine months of 2015 compared to 5.9x EBITDA for transactions with enterprise values between \$10 to \$25 million in EBITDA.

## PURCHASE PRICES REACH NEW RECORD HIGHS



Source: GF Data®

## LEVERAGE INCREASES



Source: GF Data®

### Lending Markets Strengthen

Senior debt market support for lower middle-market LBOs further strengthened during the first nine months of 2015. According to GF Data, average senior debt/EBITDA multiple for \$10 to \$250 million enterprise value private equity-backed buyouts was 3.2x during the first nine months of 2015, up significantly from the 2.7x during all of 2014. With low interest rates and pressure on banks to grow assets, it continues to be a highly attractive time to borrow money.

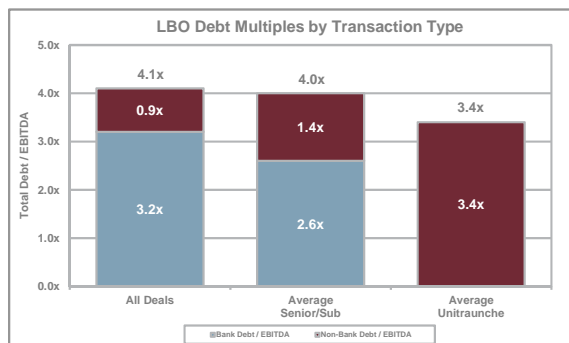
Total debt/EBITDA for the LBO segment of the market increased to 4.0x during the first nine months of 2015 compared to 3.7x during all of 2014. Mezzanine debt declined slightly to 0.8x EBITDA compared to 1.0x EBITDA during all of 2014, which is probably due to the increase in senior debt, rather than a decline in mezzanine availability.

### Many Capital Structure Choices

The strength in the lending market, particularly senior debt availability from non-bank lenders, has provided lower middle-market buyers with more choice in structuring their transactions.

GF Data analyzed a variety of different capital structures used by buyers. All the lower middle-market LBOs that they tracked averaged 3.2x senior debt and 4.1x total debt (an increase from 2.6x and 3.6x, respectively, during all of 2014). For transactions with an equity sponsor that used both senior and mezzanine debt, senior debt averaged 2.6x and total debt averaged 4.0x, up from 2.4x and 3.8x, respectively, during all of 2014. Deals with a unitranche lender on average had senior leverage of 3.4x total debt, a decline from 4.2x during all of 2014.

## VARIETY OF AVAILABLE CAPITAL STRUCTURES



Source: GF Data®

## FIRM OVERVIEW

Cleary Gull Inc. is an employee-owned firm providing specialized financial services since 1987 to individuals, institutional investors, and middle-market companies through two operating divisions: Investment Banking and Investment Management Services. *"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.

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

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