

M&A REVIEW

CORE CAPITAL'S QUARTERLY NEWSLETTER
SUMMER 2013



Welcome to Core Capital Group's quarterly newsletter, *M&A Review*, which highlights activity and trends in mergers and acquisitions, including a comprehensive recap of middle-market M&A transactions as well as specific data

— including multiples — for industry sectors.

Core focuses exclusively on representing middle-market companies, with an emphasis in the technology sector. We are a founding member of AICA, the Alliance of International Corporate Advisors, a global investment banking partnership with 31 member firms in 18 countries on five continents — and over 100 professionals who will leverage their resources to provide you maximum exposure.

OUR PERSPECTIVE

When uncertainty increases, investors move toward safety. In terms of recent deal activity, this need for safety is evident in two trends: Fewer total deals are being completed, and of deals being done, a larger portion of them are medium- to large-size.

These two trends mean that lower-middle market deals are taking longer to be completed and that total activity is lagging. However, as we have posited in past newsletters, lower-middle market institutional investors are willing to pay historically strong valuations for healthy opportunities.

As an investment banking services firm, our confidence in being able to succeed in mandates with healthy lower-middle market clients is higher than ever. For those prospective clients who are not fully positioned for a sale, financing activity for growth capital is robust. We are particularly seeing an increase in variations of “non-traditional” growth capital, meaning there are more and more options and structures besides “venture” or strictly equity-based financing.

In the end, the pressure for investment capital to be put to work is real, but it remains calculating and rational. As always, we are fans of calculated and rational deals.

FIRST QUARTER 2013 M&A RESULTS

■ **The first quarter GF Data provided** in the following three tables includes data from 183 private equity firms. The M&A market experienced a drop-off from deals closed at the end of 2012 compared to the first quarter of 2013. While there were 92 transactions closed in 4Q of 2012, only 14 were reported in 1Q of 2013.

Non-institutional sellers accounted for 78 percent of deal activity in the fourth quarter, significantly higher than the 59 percent in previous quarters. Valuations of businesses sold by individuals and families slid to 4.9x in 1Q, while those with corporate or PE sellers improved to 7.1x. The overall average valuation for 1Q was 5.9x TTM Adjusted EBITDA.

Total Enterprise Value (TEV)/EBITDA

Total Ent. Value	2003-08	2009	2010	2011	2012	1Q '13	TOTAL	No. Transactions
\$10-\$25 million	5.5	5.5	5.3	5.3	5.6	5.8	5.5	682
\$25-\$50 million	6.1	6.0	6.1	6.0	6.2	5.6	6.1	495
\$50-\$100 million	6.6	6.5	6.6	7.1	6.8	6.2	6.7	344
\$100-\$250 million	7.2	7.2	6.2	7.8	7.5	N/A	7.3	130
TOTAL	6.0	5.9	5.9	6.1	6.2	5.9	6.0	
No. Transactions	970	94	181	175	217	14		1,651

Source: GF Data Resources LLC

■ **Multiples in the \$10 million and higher** EBITDA bracket continued to lag behind those in the \$8-\$10 million range. This seems to suggest that there are more “value investors” focusing on larger transactions.

Total Enterprise Value (TEV)/EBITDA

All Industries by EBITDA Size

EBITDA	2003-08	2009	2010	2011	2012	1Q '13	TOTAL	No. Transactions
3-5	5.7	5.4	5.9	5.6	5.6	4.5	5.7	682
5-8	6.0	6.3	5.9	6.0	6.2	6.3	6.1	495
8-10	6.1	5.8	5.7	7.0	7.0	5.6	6.2	344
>10	6.3	6.0	6.1	6.7	6.2	6.0	6.3	130
TOTAL	6.0	5.9	5.9	6.1	6.1	5.4	6.0	
No. Transactions	970	94	181	175	217	14		1,651

Source: GF Data Resources LLC

■ **As the table below reflects, four major business categories** — manufacturing, business services, health care services, and distribution — comprise about 80 percent of the GF Data deal volume. Health care services has remained the sector with the highest overall valuations — 7.3x in 2012 and 1Q 2013. Again, business services reflects a downturn in valuation. This most likely stems from a continued apprehension about economic prospects and employee-count concerns.

Total Enterprise Value (TEV)/EBITDA

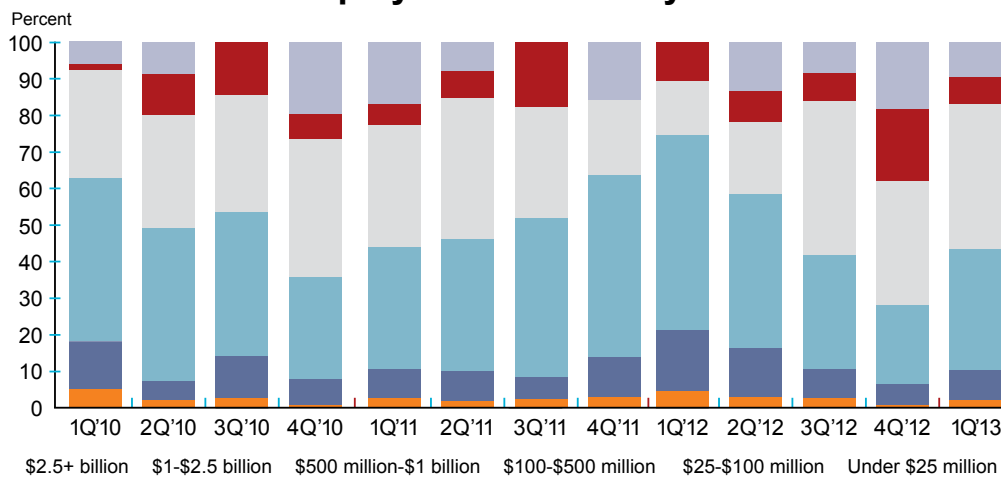
By Industry Sector

Industry	2003-08	2009	2010	2011	'12/1Q '13	TOTAL	No. Transactions
Manufacturing	5.9	5.7	5.9	6.0	5.8	5.9	712
Business Services	6.1	5.8	6.0	6.5	5.7	6.1	293
Health Care Services	6.7	6.3	6.6	7.4	7.3	6.8	153
Retail	6.5	5.2	6.1	6.1	6.3	6.4	49
Distribution	6.0	5.6	5.2	6.0	6.2	5.9	177
Publishing & Media	7.4	7.4	4.2	6.1	N/A	7.3	32
Technology	5.7	6.6	5.5	8.1	7.6	6.3	37
Other	5.7	6.4	5.7	5.0	6.4	5.8	198
No. Transactions	970	94	181	175	231		1,651

Source: GF Data Resources LLC

■ **Pitchbook results reflected a significant slowdown in 1Q** as well. Median-size deals dipped in 1Q following a surge of large transactions in 4Q. There were only three billion-dollar deals in 1Q, the lowest reported since 1Q 2010. Exit activity fell sharply in 1Q, the lowest level since 3Q 2009. Private equity refocused their efforts in the middle market in 1Q as the chart below reflects, but Pitchbook reports that deal flow fell in every industry.

Private Equity Investments by Deal Size



Source: PitchBook

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INTRODUCING

Paul Friedla | Managing Director

“Our objective is to create value and wealth for the client — turn every transaction into a win/win, maximizing the rate-of-return for everyone.”

Operational Background: Paul has more than 25 years of business and senior management experience in private industry, primarily in the business process and IT outsourcing sectors. His background includes extensive interaction both domestically and internationally in executive leadership, business development and strategic development. Paul has held leadership roles with such notable organizations as Cap Gemini and IBM Global Services.

During the past six years, Paul has been involved as a consultant with a number of startup and expansion-stage companies, providing business planning, strategic development and operational advice. Additionally, he has materially participated in the operation of several outsourcing companies, acting in a sales and strategic-alliance-management capacity.

Investment Banking Experience: Prior to joining Core



Capital Group, Paul operated his own management consulting business, supporting expansion-stage and mid-market companies with their growth strategies, capital funding requirements, and exit strategies. In March 2013, Paul decided to integrate his management consulting business with Core Capital Group because of Core’s holistic approach to completing transactions and maximizing wealth for its clients. At Core Capital, Paul leads the Business Process, IT and Technology-enabled Outsourcing Practice, and works closely with John in the Software Practice.

Paul has a bachelor’s degree from Indiana University and an MBA from Webster University.

He and his wife, Karen, live in Atlanta — with plans to relocate to Colorado — and enjoy outdoor activities and keeping physically fit.