

M&A REVIEW

CORE CAPITAL'S QUARTERLY NEWSLETTER
FALL 2012



CORE CAPITAL GROUP
INVESTMENT BANKING SERVICES

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

Core Capital Group 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

Uncertainties in the business climate have resulted in a shift toward safer, if not more expensive, deal profiles among institutional investors. This trend in investor priorities has contributed to a decrease in overall deal volumes with counterintuitively higher price multiples being paid upon deal consummation. Health care services, retail and technology industries are seeing the highest relative prices in a decade. High prices and investor demand for quality notwithstanding, total transactions are on pace to be slightly lower than in previous years.

Higher prices in certain industries and among certain EBITDA sizes (notably the \$3 million to \$5 million range) are partly a result of institutional investors trying to put cash to work through bolt-on transactions rather than taking increased risks in purchasing large new platform companies. The entrepreneur or the business owner considering a transaction for either growth or liquidity should allow for longer transaction times, as investors are particularly careful in investment selection. However, patience is being well rewarded in the marketplace for companies that can make a strong argument for value.

THIRD QUARTER 2012 M&A RESULTS

■ **The third quarter GF Data** provided in the following three tables includes data from 171 active contributors. GF Data reports that valuations for the first nine months of 2012 are up sharply — 6.4x compared to 6.1x in 2011.

Total Enterprise Value (TEV)/EBITDA

Total Ent. Value	2003-07	2008	2009	2010	2011	'12 YTD	TOTAL	No. Transactions
\$10-\$25 million	5.5	5.4	5.5	5.3	5.4	5.7	5.5	620
\$25-\$50 million	6.1	6.0	6.0	6.1	5.9	6.3	6.1	442
\$50-\$100 million	6.6	6.7	6.5	6.6	7.1	7.0	6.7	311
\$100-\$250 million	7.3	6.7	7.2	6.2	7.8	7.9	7.3	122
TOTAL	6.1	6.0	6.0	5.9	6.1	6.4	6.1	
No. Transactions	792	167	90	171	163	112		1,495

(Q3)

Source: GF Data Resources LLC

■ **In Q3, small transactions** accounted for the increase in aggregate values; the average on deals in the \$10 million to \$25 million TEV range rose from 5.4x in second quarter to 6.3x.

Total Enterprise Value (TEV)/EBITDA

All Industries by EBITDA Size

EBITDA	2003-07	2008	2009	2010	2011	'12 YTD	TOTAL	No. Transactions
3-5	6.3	6.2	6.3	5.7	5.9	7.3	6.2	412
5-8	5.9	5.7	5.6	5.8	5.6	5.6	5.8	354
8-10	6.0	6.2	6.1	5.8	6.5	7.0	6.1	127
>10	6.3	6.0	6.0	6.2	6.7	6.7	6.3	307
TOTAL	6.0	5.9	5.9	5.9	6.1	6.2	6.0	
No. Transactions	624	139	74	131	138	94		1,200

(Q3) Source: GF Data Resources LLC

■ **Approximately 80% of the deal volume** reported by GF Data comes from four major business categories: manufacturing, business services, health care services, and distribution. Of these, only health care services is showing a significant gain in average multiples, increasing from 7.3x in 2011 to 7.7x.

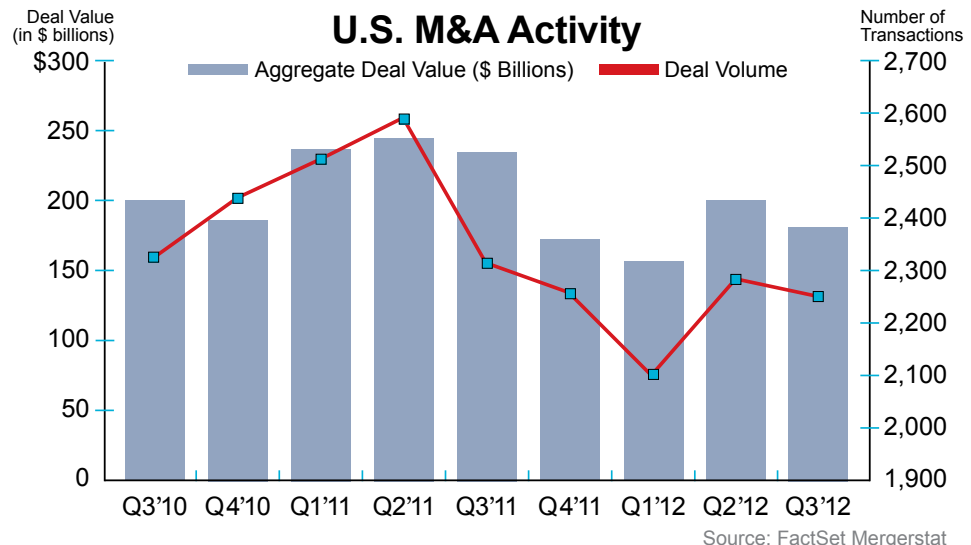
Total Enterprise Value (TEV)/EBITDA

By Industry Sector

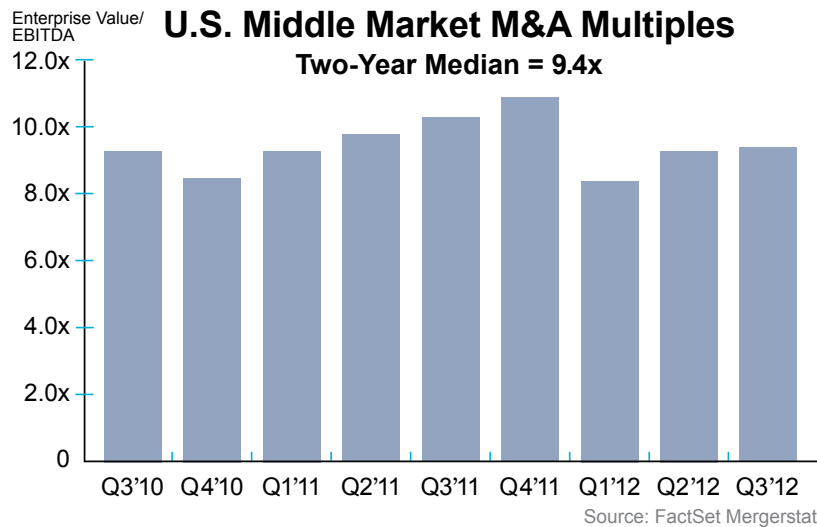
Industry	2003-07	2008	2009	2010	2011	'12 YTD	TOTAL	No. Transactions
Manufacturing	5.9	5.8	5.7	5.9	5.9	5.9	5.9	651
Business Services	6.1	6.1	5.9	5.9	6.7	6.2	6.1	261
Health Care Services	6.7	6.6	6.3	6.6	7.3	7.7	6.8	140
Retail	6.5	6.4	5.2	6.1	6.1	6.8	6.5	48
Distribution	5.9	6.3	5.5	5.3	6.0	6.3	5.9	153
Publishing & Media	7.5	6.1	7.4	4.2	6.1	N/A	7.3	32
Technology	5.5	6.5	6.6	5.7	4.6	8.1	6.2	29
Other	5.8	5.4	6.4	5.6	5.0	6.2	5.7	181
No. Transactions	792	167	90	171	163	112		1,495

(Q3) Source: GF Data Resources LLC

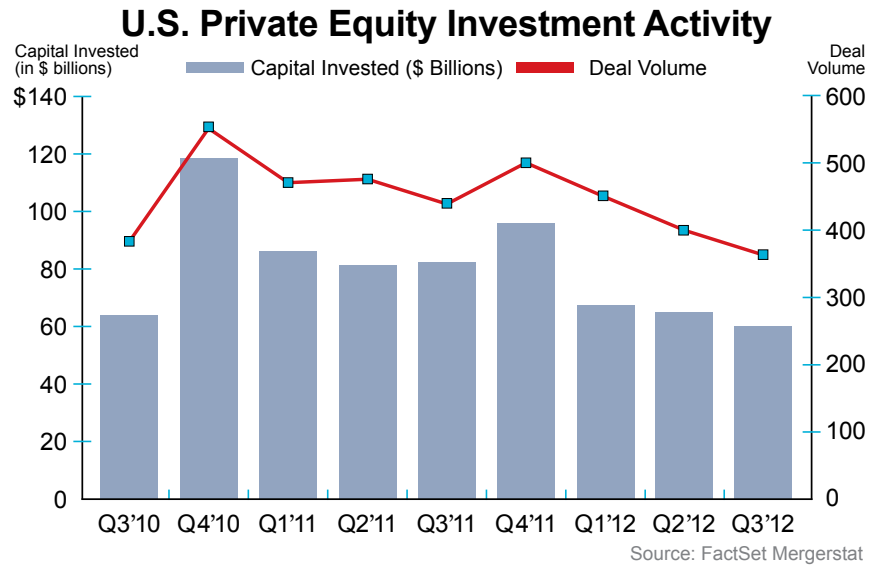
■ **M&A activity in the U.S.** declined both in transaction value and volume compared to the previous quarter and compared to the same quarter last year. Despite some predictions that capital gains taxes will increase next year, sellers were not highly motivated to become acquired. Categories that did see increases were the retail, wholesale and distribution, communications, and leisure and entertainment sectors.



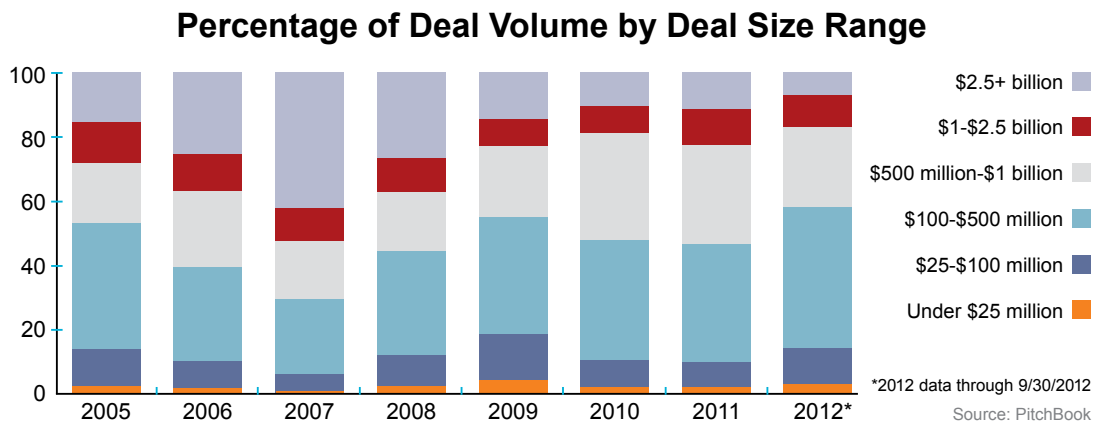
■ **Middle Market multiples** show a steady hold, with the two-year median at 9.4x compared with the 9.3x reported last quarter.



■ **Transactions in Private Equity** declined for the third quarter in a row. Private Equity companies seem to be focused on growing their core platforms by pursuing smaller add-ons. PE firms still have funds to invest and are continuing their fundraising efforts, so PE activity will continue, especially in the middle market.



■ **Pitchbook reported** that deals from \$100 million to \$500 million made up nearly half of the capital invested so far in 2012. While activity for deals of less than \$50 million increased significantly, they represent only 17% of the capital invested.



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