

# M&A REVIEW

CORE CAPITAL'S QUARTERLY NEWSLETTER  
FALL 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

**Deal activity tends to pick up in the second half of a given year.** We anticipate this year will follow that pattern (as it did last year) as conditions in the investing community are largely similar, with one exception: the uncertainty in the federal government. Barring this, we have nearly perfect conditions for M&A. Capital overhang — the amount of Private Equity capital available for call but not yet invested — is down slightly from last year, but the active fundraising environment is putting pressure on investors to close deals.

According to PitchBook, in Q2 2013, the number of new Private Equity funds closed was similar to previous quarters, but the amount of capital in those funds was almost double the previous quarter. The average fund size is increasing as successful management firms launch new funds, while fewer new management firms are starting up. For entrepreneurs, the message is that valuations for profitable companies are rational and competitive, and that investors are serious about getting deals done both in terms of financing growth as well as M&A.

## SECOND QUARTER 2013 M&A RESULTS

■ **The second quarter GF Data** in the following three tables includes data from 180 Private Equity firms. Completed transactions remained at about the same level as in 1Q, still significantly lower than 4Q 2012. However, deal professionals expect an increase in closings in 3Q and surging into 4Q. GF Data reports that the market has not yet recovered from business owners deciding not to sell after the perceived tax benefit loss in 2012. Overall, platform investments by Private Equity tend to be valued at a premium to add-ons. The market also seems to be rewarding those businesses with above-average financial characteristics and continuing management.

As reflected in the chart below, deals in the \$100-250 million range traded at an average of 5.6x in the first six months of 2013, well below the 6.5x average in the \$50-100 million range. History has shown that when deal volume drops, value investors rather than distressed investors assume a larger share of the completed deal market. Their focus tends to be on larger deals, so the averages in the highest range are lowered.

### Total Enterprise Value (TEV)/EBITDA

Total Ent. Value	2003-08	2009	2010	2011	2012	2Q '13	TOTAL	No. Transactions
\$10-\$25 million	5.5	5.5	5.3	5.4	5.7	5.7	5.5	666
\$25-\$50 million	6.1	6.0	6.1	6.0	6.2	6.3	6.1	507
\$50-\$100 million	6.6	6.5	6.6	7.2	6.8	6.5	6.7	358
\$100-\$250 million	7.2	7.2	6.5	7.7	7.5	5.6	7.3	141
<b>TOTAL</b>	6.0	6.0	5.9	6.2	6.3	6.1	6.1	
<b>No. Transactions</b>	<b>963</b>	<b>91</b>	<b>180</b>	<b>183</b>	<b>222</b>	<b>33</b>		<b>1,672</b>

Source: GF Data Resources LLC

■ **This chart reflects the valuation data** by EBITDA size. While there is a dip in the \$8-10 million range, that's likely part anomaly and partly due to the concentration of value investors mentioned previously. Companies with better financial performance can be defined as those with TTM EBITDA margins and revenue growth rates above 10%, or one above 12% and the other at least at 8%.

### Total Enterprise Value (TEV)/EBITDA All Industries by EBITDA Size

EBITDA	2003-08	2009	2010	2011	2012	2Q '13	TOTAL	No. Transactions
3-5	5.7	5.4	5.9	5.6	5.6	5.6	5.7	459
5-8	6.0	6.3	5.9	6.2	6.2	6.2	6.1	405
8-10	6.1	5.8	5.7	6.9	7.0	4.9	6.2	145
>10	6.3	6.0	6.2	6.8	6.3	6.2	6.3	356
<b>TOTAL</b>	<b>6.0</b>	<b>5.9</b>	<b>6.0</b>	<b>6.2</b>	<b>6.1</b>	<b>5.7</b>	<b>6.0</b>	
<b>No. Transactions</b>	<b>773</b>	<b>76</b>	<b>145</b>	<b>157</b>	<b>188</b>	<b>26</b>		<b>1,365</b>

Source: GF Data Resources LLC

■ **Approximately 80%** of the GF Data deal volume is comprised of four major business categories — manufacturing, business services, health care services and distribution. Health care services remains the most highly valued sector as seen in previous quarters. Valuations for the business services category have jumped YTD. While this table shows a decline in manufacturing multiples, that is likely a reflection of share mix, as valuations remain strong in larger manufacturing deals.

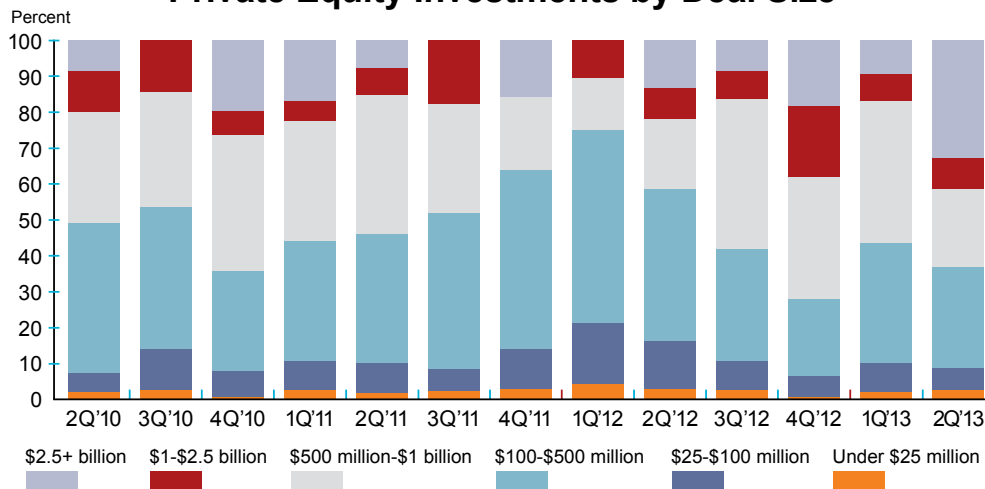
### Total Enterprise Value (TEV)/EBITDA By Industry Sector

Industry	2003-08	2009	2010	2011	2012	2Q '13	TOTAL	No. Transactions
Manufacturing	5.9	5.7	5.9	6.0	5.9	5.1	5.9	718
Business Services	6.1	5.8	6.0	6.5	5.8	6.8	6.1	290
Health Care Services	6.7	6.3	6.7	7.4	7.3	9.0	6.9	159
Retail	6.5	5.2	6.1	6.1	6.3	N/A	6.4	50
Distribution	6.0	5.6	5.3	6.0	6.3	6.9	6.0	180
Publishing & Media	7.4	7.4	4.2	6.1	11.4	N/A	7.3	32
Technology	5.7	6.6	5.5	8.1	7.4	4.0	6.2	39
Other	5.7	6.4	5.7	5.1	6.3	7.1	5.8	204
<b>No. Transactions</b>	<b>963</b>	<b>91</b>	<b>180</b>	<b>183</b>	<b>222</b>	<b>33</b>		<b>1,672</b>

Source: GF Data Resources LLC

■ **Pitchbook results** reflected a continuing sluggishness in the first half of 2013 as well. Their records indicate that 1H 2013 was the slowest start to a year since 2009. Private Equity investors have been pursuing a higher proportion of minority deals thus far this year. Deals of \$100M or less have steadily increased their share of Private Equity deal-making in 2013. Transactions of \$2.5 billion or more accounted for 33% of the capital invested in 2Q 2013.

### Private Equity Investments by Deal Size



Source: PitchBook

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