

M&A REVIEW

CORE CAPITAL'S QUARTERLY NEWSLETTER
SPRING 2014



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

Core Capital is an M&A advisory firm that has served the strategic transactional needs of business owners for more than 23 years. We specialize in middle-market companies with an emphasis on technology, providing investment banking services for mergers and acquisitions and corporate finance, as well as strategic planning and valuations.

Our process is built on the three pillars of experience, research, and financial engineering. We work with companies across the nation and throughout the world and welcome the opportunity to speak with you about your company's future.

OUR PERSPECTIVE

While total deal activity across 2013 was comparable to that of 2012, several leading indicators strengthened in 2013 and bode well for 2014 activity. For example, dry powder in buyout funds has increased beyond levels seen during the LBO boom.

Similarly, hiring activity among institutional investing firms has increased even for lower-middle-market investors. The underlying, albeit slow, strengthening of the U.S. economy is another positive contributing factor for the 2014 deal outlook for strategic as well as financial deals.

It makes sense to highlight the growth in add-on or bolt-on transactions — usually investments made in companies complementary to an investor's existing platform company — that have taken center stage in deal activity. This trend can often mean higher average valuations being paid, because the deals are being completed for strategic reasons as well as financial profile.

For the entrepreneur who is thriving in a niche, it may well be worth learning how the market values your company. Core Capital Group has made it easier than ever to obtain meaningful exposure to the markets. We are happy to discuss your company with you and help determine if it makes sense to pursue growth capital, liquidity, or an M&A event. We look forward to hearing from you!



2013 M&A RESULTS

■ **Fourth quarter GF Data statistics** provided in the following three tables include results from 187 private equity firms. There was a steady increase in activity over the course of 2013, but year-end numbers were below 2012's overall. Indicators suggest that since the amount of capital invested continued to rise, reaching a critical level of \$426 billion in 2013, 2014 should be a very active year in mergers and acquisitions.

■ According to GF Data, valuations averaged 6.7x Trailing Twelve Months (TTM) Adjusted EBITDA for 4Q 2013, the highest mark since 3Q 2012.

Total Enterprise Value (TEV)/EBITDA

Total Ent. Value	2003-08	2009	2010	2011	2012	2013	TOTAL	No. Transactions
\$10-\$25 million	5.5	5.5	5.2	5.3	5.7	5.9	5.5	723
\$25-\$50 million	6.1	6.0	6.1	6.0	6.2	6.9	6.1	550
\$50-\$100 million	6.6	6.5	6.5	7.1	6.8	6.7	6.7	388
\$100-\$250 million	7.2	7.2	6.5	7.5	7.4	7.1	7.2	158
TOTAL	6.0	6.0	5.9	6.2	6.2	6.5	6.1	
No. Transactions	964	91	196	201	232	135		1,819

Source: GF Data Resources LLC

■ The data suggest that a premium price is being paid for larger companies, especially those with above-average financial performance (TTM EBITDA margins and revenue growth rates both above 10% or one above 12% and the other at least 8%).

Total Enterprise Value (TEV)/EBITDA

All Industries by EBITDA Size

EBITDA	2003-08	2009	2010	2011	2012	2013	TOTAL	No. Transactions
3-5	5.7	5.4	5.8	5.6	5.6	6.1	5.7	497
5-8	6.0	6.3	5.8	6.2	6.2	6.4	6.1	435
8-10	6.1	5.8	5.8	6.8	7.0	5.4	6.2	155
>10	6.3	6.0	6.2	6.7	6.3	6.5	6.3	394
TOTAL	6.0	5.9	5.9	6.2	6.1	6.3	6.0	
No. Transactions	773	76	161	171	196	104		1,481

Source: GF Data Resources LLC

■ Manufacturing, business services, health care services, and distribution comprise 80% of the GF Data deal volume. Health care services continued with strong valuations, at an average of 7.3x. Business services reflected the greatest rise, from an average of 5.8x in 2012 to 6.7x in 2013.

Total Enterprise Value (TEV)/EBITDA

By Industry Sector

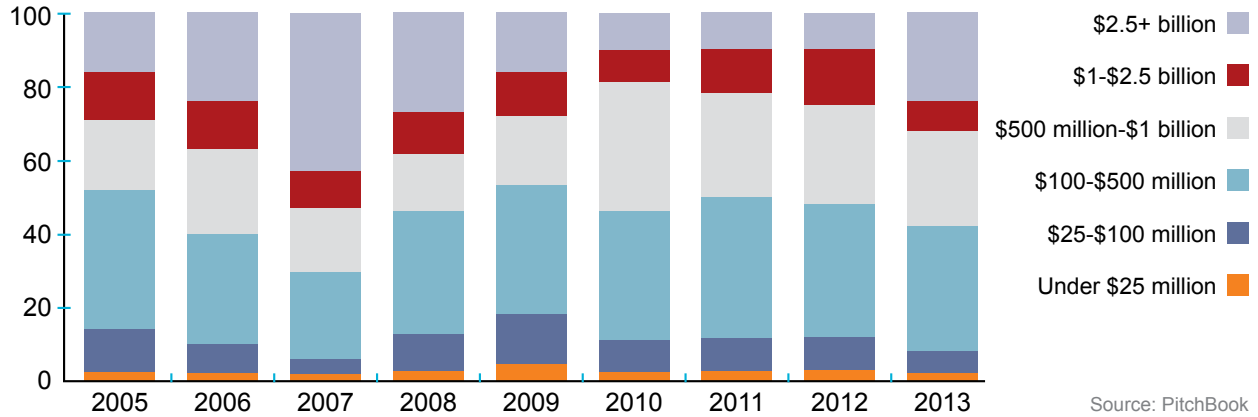
Industry	2003-08	2009	2010	2011	2012	2013	TOTAL	No. Transactions
Manufacturing	5.9	5.7	5.8	6.0	5.9	5.9	5.9	787
Business Services	6.1	5.8	6.0	6.5	5.8	6.7	6.1	321
Health Care Services	6.7	6.3	6.7	7.2	7.3	7.3	6.8	172
Retail	6.5	5.2	5.5	5.8	6.3	7.1	6.4	58
Distribution	6.0	5.6	5.5	6.0	6.3	6.8	6.0	192
Publishing & Media	7.4	7.4	4.2	6.1	N/A	5.9	7.3	33
Technology	5.7	6.6	5.5	8.1	7.4	9.1	6.6	42
Other	5.7	6.4	5.7	5.1	6.3	6.3	5.8	214
No. Transactions	964	91	196	201	232	135		1,819

Source: GF Data Resources LLC

■ **PitchBook data suggested** a slight drop in North American M&A activity in 2013 compared to 2012. Expectations are high that 2014 will be a better year for M&A activity, since the right conditions are in place. Private Equity (PE) companies have significant investments from their fund-raising activities (estimated at \$426 billion) and are anxious to put that money to work.

Deals under \$25M dipped in 2013, with transactions of \$100M to \$500M hitting a decade high of 29% of PE transactions. The median buyout size rose to a high of \$125M.

Percentage of Deal Volume by Deal Size Range



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