

# M&A REVIEW

CORE CAPITAL'S QUARTERLY NEWSLETTER  
SUMMER 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 investment banking firm that has served the strategic transactional needs of business owners for more than 23 years. We specialize in middle-market companies across many industries and have a particular expertise in technology. We leverage our operational experience and sector-specific knowledge to provide a range of services, including mergers, acquisitions, and capital raises 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.

## WELCOME CLINTON KNOWLES

**Core Capital Group is pleased to welcome Clinton Knowles as Managing Director to our Colorado team!** Clinton is a seasoned financial executive with over 40 years of senior level financial experience and a global perspective, and will focus on the Manufacturing and Distribution sector.

Prior to joining Core Capital Group, Clinton served as Chief Financial Officer for over 29 years in both public and private companies in a variety of industries with revenues ranging from \$1 million to \$2 billion. Working closely with senior level management, he helped create significant increases in shareholder value with a variety of companies, bought or sold over 60 companies, and raised over \$500 million in capital.

## OUR PERSPECTIVE

**The M&A market continues to hold steady.** One item of interest that has become more apparent over the past five quarters is that those firms with above-average financial performance for their revenue size have continued to receive substantial premiums and higher valuations.

Companies whose TTM EBITDA margins and revenue growth rates are both above 10 percent — or one metric above 12 percent and the other at least 8 percent — are seeing this advantage. Year-to-date numbers show that businesses with this improved financial performance traded at a 20 percent premium compared to other sellers.

More firms are exploring non-traditional opportunities, including more minority deals. This bodes well for growth and expansion transactions. Experts suggest that transactions should make a strong showing in 2014 as private equity firms are still sitting on significant funds to invest.

## FIRST QUARTER 2014 M&A RESULTS

■ **The results for 1Q 2014** noted in the following three tables include data from 187 active private equity contributors as reported by GF Data. Overall, the valuation multiples changed little from 2013. The average of 6.4x Trailing Twelve Months (TTM) Adjusted EBITDA was close compared to 6.5x in 2013.

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■ As can be seen in the chart below, there was a significant improvement in valuations for those companies with revenues in the \$50M to \$100M range, increasing from 6.7x to 8.5x this first quarter of 2014 propelled by high levels of debt on these transactions.

### Total Enterprise Value (TEV)/EBITDA

| Total Ent. Value        | 2003-09      | 2010       | 2011       | 2012       | 2013       | 1Q '14    | TOTAL | No. Transactions |
|-------------------------|--------------|------------|------------|------------|------------|-----------|-------|------------------|
| \$10-\$25 million       | 5.5          | 5.2        | 5.3        | 5.6        | 5.9        | 5.1       | 5.5   | 745              |
| \$25-\$50 million       | 6.1          | 6.1        | 6.0        | 6.1        | 6.9        | 6.5       | 6.1   | 557              |
| \$50-\$100 million      | 6.6          | 6.5        | 7.1        | 6.8        | 6.7        | 8.5       | 6.7   | 394              |
| \$100-\$250 million     | 7.2          | 6.5        | 7.5        | 7.4        | 7.1        | 8.3       | 7.3   | 163              |
| <b>TOTAL</b>            | 6.0          | 5.9        | 6.2        | 6.2        | 6.5        | 6.4       | 6.1   |                  |
| <b>No. Transactions</b> | <b>1,055</b> | <b>196</b> | <b>201</b> | <b>236</b> | <b>141</b> | <b>30</b> |       | <b>1,859</b>     |

Source: GF Data Resources LLC

■ While EBITDA multiples for those companies with 3-5M in the EBITDA range appear to be significantly less this quarter, that appears to be an exception rather than a trend. Other multiples showed an increase as noted below.

### Total Enterprise Value (TEV)/EBITDA

#### All Industries by EBITDA Size

| EBITDA                  | 2003-09    | 2010       | 2011       | 2012       | 2013       | 1Q '14    | TOTAL | No. Transactions |
|-------------------------|------------|------------|------------|------------|------------|-----------|-------|------------------|
| 3-5                     | 5.7        | 5.8        | 5.6        | 5.6        | 6.2        | 4.8       | 5.7   | 508              |
| 5-8                     | 6.1        | 5.8        | 6.2        | 6.2        | 6.4        | 6.9       | 6.1   | 447              |
| 8-10                    | 6.1        | 5.8        | 6.8        | 7.0        | 5.4        | 6.5       | 6.2   | 156              |
| >10                     | 6.2        | 6.2        | 6.7        | 6.3        | 6.5        | 8.3       | 6.3   | 400              |
| <b>TOTAL</b>            | 6.0        | 5.9        | 6.2        | 6.1        | 6.3        | 6.5       | 6.0   |                  |
| <b>No. Transactions</b> | <b>849</b> | <b>161</b> | <b>171</b> | <b>199</b> | <b>108</b> | <b>23</b> |       | <b>1,511</b>     |

Source: GF Data Resources LLC

■ Eighty percent of the deal volume in the table below is made up of Manufacturing, Business Services, Health Care Services, and Distribution. Both Manufacturing and Distribution reflected higher multiples this quarter, most likely because of buyers' recognizing strong niche performance, and not an overall increase in multiples for these sectors. Health care multiples were down, but again, this does not appear to be a trend, but just a less active first quarter.

### Total Enterprise Value (TEV)/EBITDA

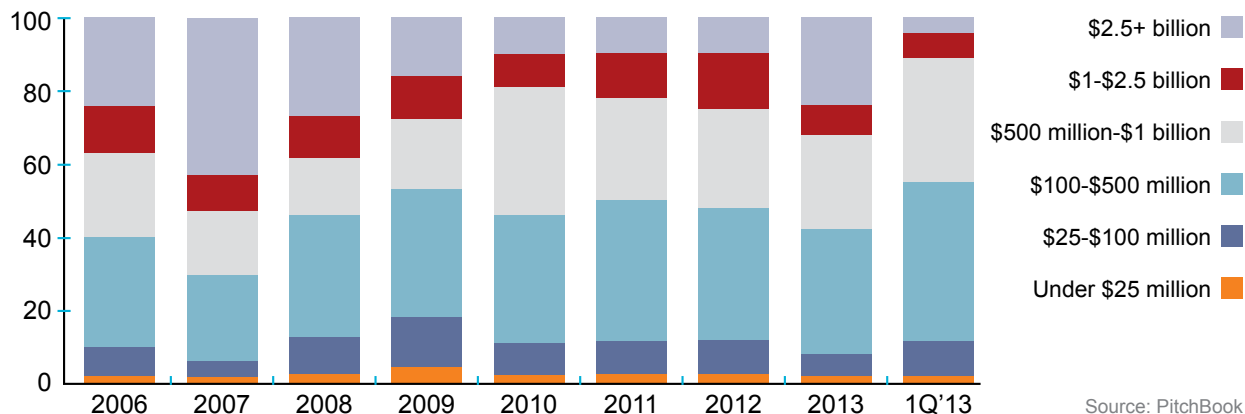
#### By Industry Sector

| Industry                | 2003-09      | 2010       | 2011       | 2012       | 2013       | 1Q '14    | TOTAL | No. Transactions |
|-------------------------|--------------|------------|------------|------------|------------|-----------|-------|------------------|
| Manufacturing           | 5.9          | 5.8        | 6.0        | 5.9        | 5.9        | 6.5       | 5.9   | 807              |
| Business Services       | 6.1          | 6.0        | 6.5        | 5.7        | 6.7        | 6.1       | 6.1   | 329              |
| Health Care Services    | 6.6          | 6.7        | 7.2        | 7.1        | 7.3        | 6.4       | 6.8   | 175              |
| Retail                  | 6.5          | 5.5        | 5.8        | 5.9        | 7.1        | 5.6       | 6.4   | 60               |
| Distribution            | 5.9          | 5.5        | 6.0        | 6.3        | 6.8        | 8.1       | 6.0   | 194              |
| Publishing & Media      | 7.4          | 4.2        | 6.1        | 11.4       | 6.1        | N/A       | 7.3   | 34               |
| Technology              | 5.8          | 5.5        | 8.1        | 7.4        | 9.5        | N/A       | 6.6   | 44               |
| Other                   | 5.8          | 5.7        | 5.1        | 6.3        | 6.2        | 6.0       | 5.8   | 216              |
| <b>No. Transactions</b> | <b>1,055</b> | <b>196</b> | <b>201</b> | <b>236</b> | <b>141</b> | <b>30</b> |       | <b>1,859</b>     |

Source: GF Data Resources LLC

■ **PitchBook data shows** activity in the first quarter to be fairly sluggish. Smaller deals gained more traction with “add-ons” gaining ground — a good sign for middle-market companies — but platform transactions were slow. Private equity firms have incorporated less debt thus far in 2014 compared to the previous two years.

### Percentage of Deal Volume by Deal Size Range



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