# Q4 2012 Market Update

February 5, 2013

LEAGUE★PARK

Investment Banking Solutions for the Middle Market



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# Executive Summary

- Following a favorable first half of 2012 ("H1 2012") for public equity market indicators, the second half of the year ("H2 2012") was marked by an initial correction with upward trends in performance

- Mergers and acquisitions ("M&A") markets continued to improve with both strategic buyers and financial sponsors actively pursuing acquisition opportunities, resulting in the highest transaction volume within the last five years

- Strong M&A activity and consistent gains in M&A valuations in 2012 provide a favorable outlook for continued improvement in 2013, but uncertainties remain in the global macroeconomic environment

- This report will review recent trends related to the following topics:
  - Performance of the major equity indices, including performance by industry sector
  - Public offering activity, including the volume and transaction value of initial public offerings ("IPO") and follow-on offerings ("follow-on") and performance by industry sector
  - M&A activity, including the volume and transaction value of lower middle market strategic and financial sponsored transactions, performance by industry sector, and M&A valuation

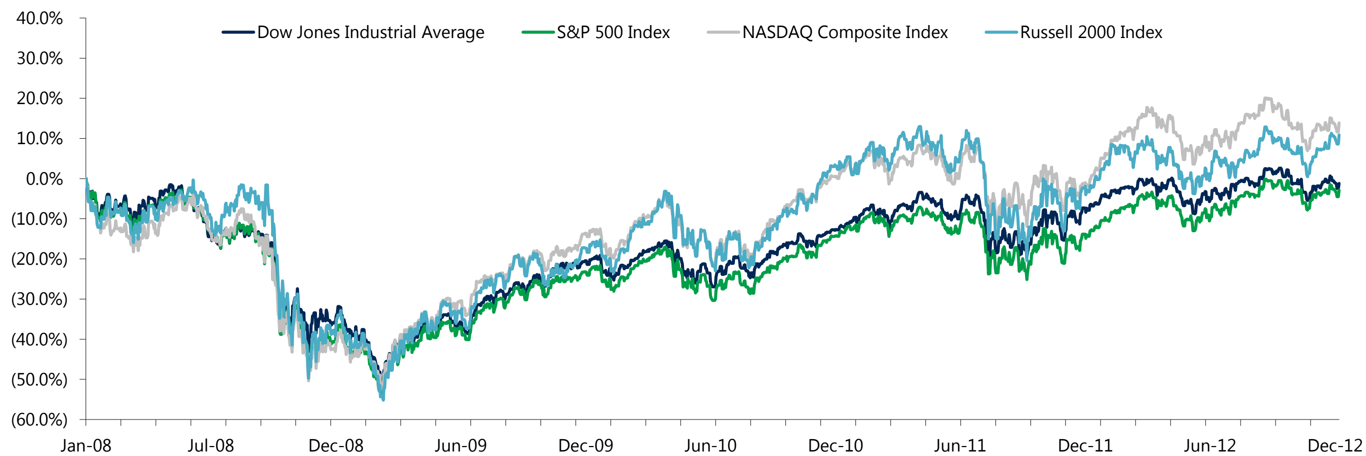
# Major Equity Index Performance

- By fourth quarter of 2010 ("Q4 2010"), following three years of improvement, two of the four major equity indices had returned to and exceeded price levels observed in January 2008
  - A sharp decline in performance in Q3 2011 returned all of the major equity indices to Q3 2008 price levels
  - Performance of the major equity indices stabilized in Q4 2011 and has steadily improved through Q4 2012, providing positive momentum for 2013
- While the major equity indices followed similar patterns in performance, the Dow Jones Industrial Average and the S&P 500 Index displayed weaker performance, albeit with less volatility than the NASDAQ Composite Index
  - The variability in relative performance, combined with steady improvement in performance observed from Q3 2011 to Q4 2012, was observed across not only the major equity indices, but also various industry sectors

**Major Equity Index Performance**

January 1, 2008 – December 31, 2012

*(% change in closing prices)*




Source: CapitalIQ.

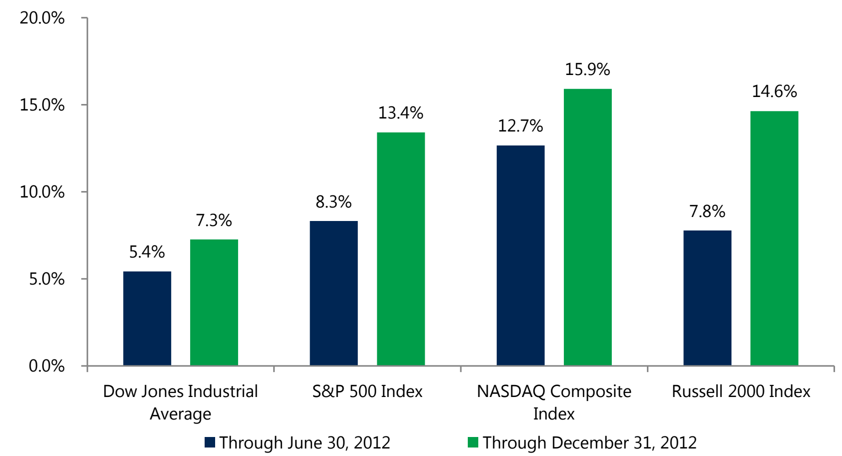
# Major Equity Index and Industry Sector Performance

- Following a strong performance in H1 2012, all four major equity indices continued to grow through H2 2012, with the NASDAQ Composite Index registering the strongest full-year returns in 2012
  - The S&P 500 Index and Russell 2000 Index demonstrated strong improvements, increasing more than 5% within the past six months
  - The Dow Jones Industrial Average increased approximately 2% within the past six months
- Almost all industry sectors improved over the year with varying performance by industry sector
  - The Financials, Consumer Discretionary, and Healthcare sectors demonstrated the greatest growth with over a 15% improvement in 2012
  - Information Technology, Telecommunication Services, Industrials, and Materials sectors also demonstrated strong growth with over a 12% improvement in 2012
  - The Consumer Staples, Energy, and Utilities sectors lagged relative to others in 2012

**Major Equity Index Performance**

Periods Began January 1, 2012 and Ended June 30, 2012 and December 31, 2012

*(% change in closing prices)*

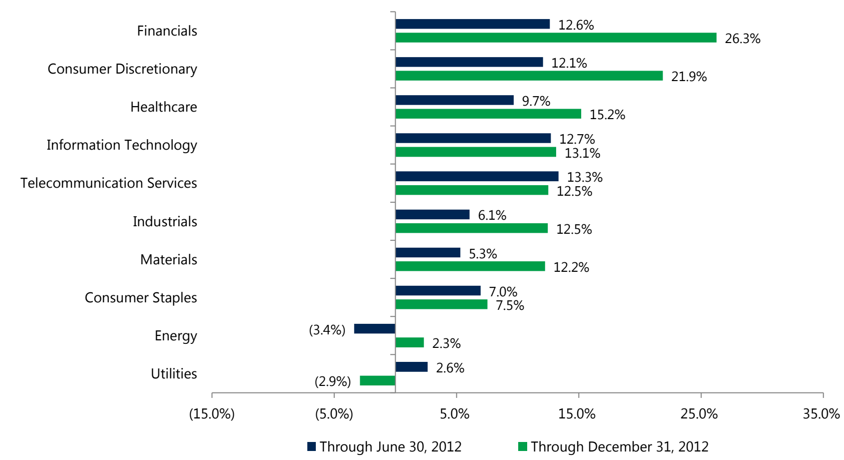



Source: CapitalIQ.

**S&P 500 Industry Sector Performance**

Periods Began January 1, 2012 and Ended June 30, 2012 and December 31, 2012

*(% change in closing prices)*




Source: CapitalIQ.

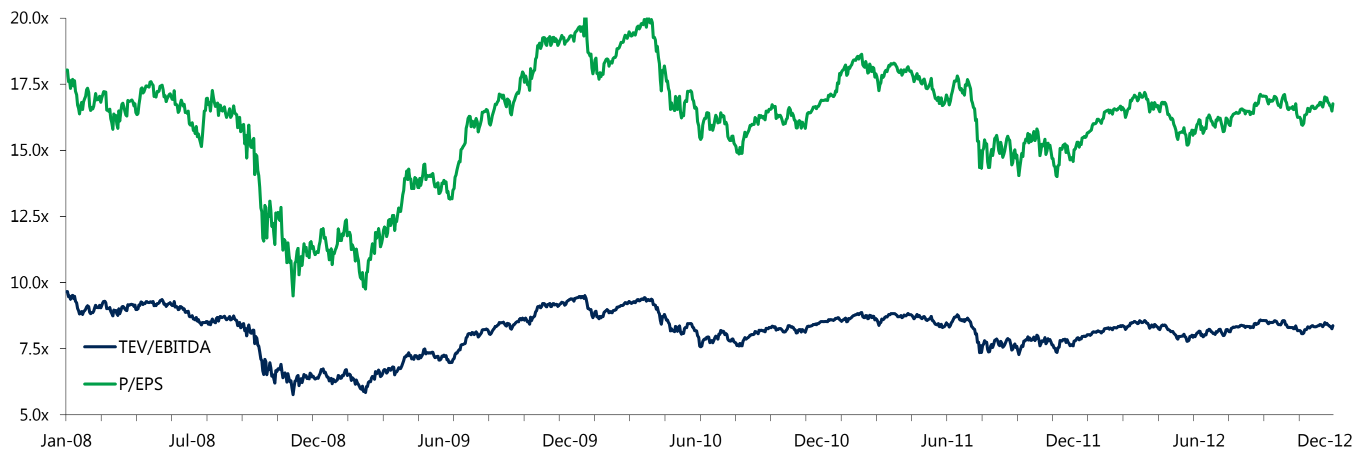
# Public Valuation Trends

- Public valuation trends are based on multiples of total enterprise value to earnings before interest, taxes, depreciation, and amortization ("TEV/EBITDA") and price to normalized earnings per share ("P/EPS")
  - The S&P 500 demonstrated high volatility in valuations over from 2008 through 2010 while the last two years demonstrated more moderate volatility in valuations
  - Improvement in TEV/EBITDA and P/EPS multiples in Q4 2011 through Q4 2012 has allowed valuations to reach levels close to those observed in Q2 2011
- On December 31, 2012, TEV/EBITDA and P/EPS multiples reached 8.4x and 16.8x, respectively
  - Valuation multiples observed in Q4 2012 are higher than those observed throughout 2012 and are trending towards multiples prior to Q3 2011
  - The stability and improvement of performance following the sharp decline at the outset of Q3 2011 provides the basis for more favorable valuations heading into 2013

**S&P 500 Index Valuation Multiples**

Period Began January 1, 2008 and Ended December 31, 2012

*(multiples of TEV/EBITDA and P/EPS)*




Source: CapitalIQ.

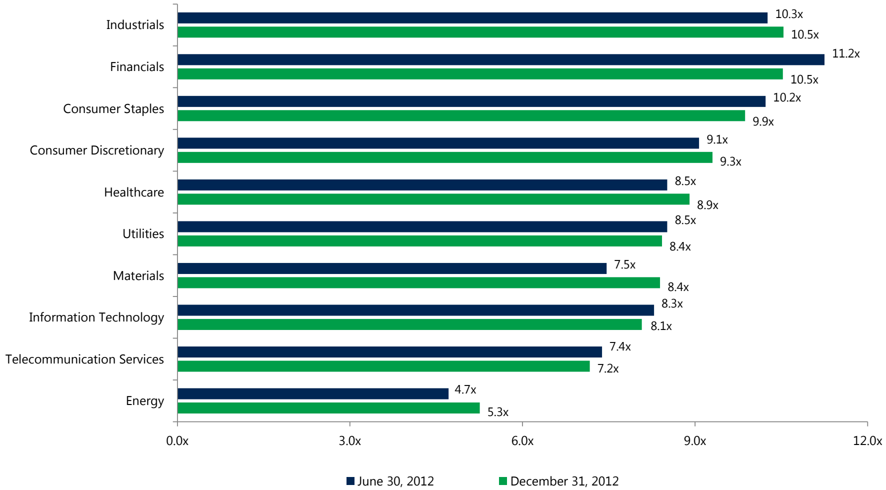
# Public Valuation and Industry Sector Trends

- The Industrials and Financials sectors demonstrated strong TEV/EBITDA multiples of over 10.0x on December 31, 2012
- Five out of ten industry sectors continued growth in H2 2012, with the Materials sector registering the strongest TEV/EBITDA increase over the last six months
  - The valuation multiples for the Industrials, Consumer Discretionary, Healthcare, Materials, and Energy sectors increased over the last six months
  - Specifically, the Materials and Energy valuation multiples increased 12.4% and 11.5%, respectively

**S&P 500 Industry Sector TEV/EBITDA Multiples**

Periods Ended June 30, 2012 and December 31, 2012

*(multiples of TEV/EBITDA)*

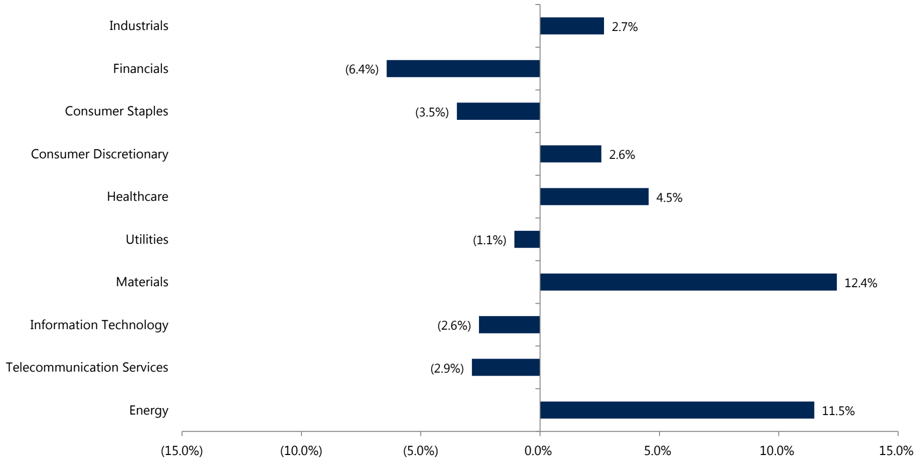



Source: CapitalIQ.

**S&P 500 Industry Sector TEV/EBITDA Multiples Percent Change**

Period Began June 30, 2012 and Ended December 31, 2012

*(% change in TEV/EBITDA multiples)*

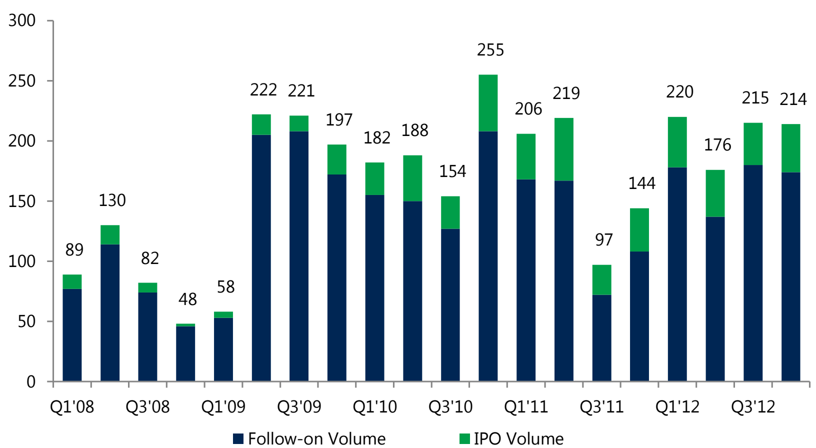



Source: CapitalIQ.

# Public Offering Activity

- Since the economic downturn in 2008, IPO and follow-on offering activity maintained an improved level of performance through Q4 2012
  - Total transaction volume nearly reached Q2 2009 levels and demonstrated steady volumes in H2 2012
  - Total transaction value of public offerings increased by approximately 40% from 2011 to 2012
- In Q4 2012, IPO volume was up to approximately 19% of all public offerings compared to 16% in Q3 2012
  - IPO transaction value represented 22% of total value across all public offerings in Q4 2012, an increase of approximately 10% from Q3 2012

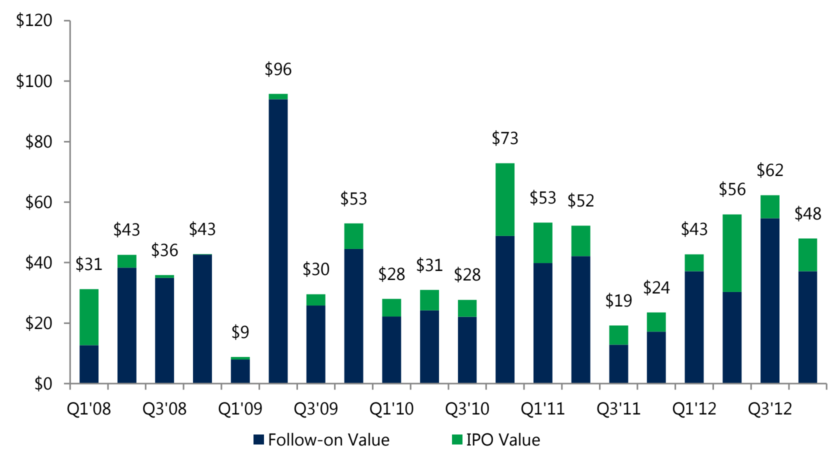
**Public Offering Transaction Volume**
Quarters Ended March 31, 2008 – December 31, 2012
*(number of transactions)*




*Includes public offerings closed from January 1, 2008 through December 31, 2012, with the issuer and exchange based in the United States.*

Source: CapitalIQ.

**Public Offering Transaction Value**
Quarters Ended March 31, 2008 – December 31, 2012
*($ in billions)*



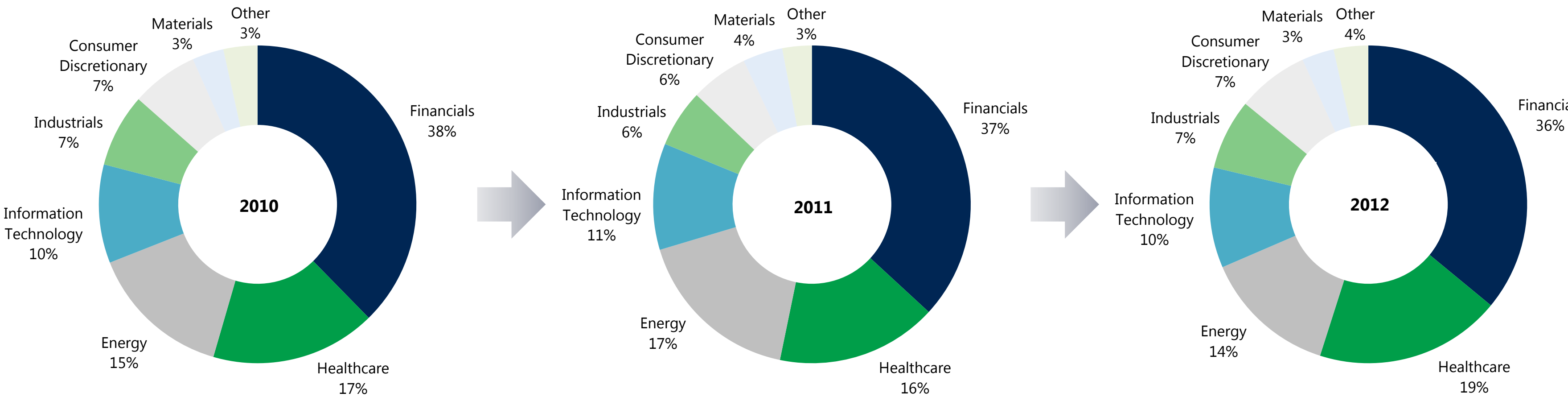

*Includes public offerings closed from January 1, 2008 through December 31, 2012, with the issuer and exchange based in the United States.*

Source: CapitalIQ.

# Public Offerings by Industry Sector

- In 2012, the Financials, Healthcare, Energy, and Information Technology sectors accounted for approximately 80% of overall public offering activity
- While the Financials sector accounted for the largest share of public offerings, this sector experienced a decrease in relative activity from 2010 to 2012 relative to other sectors
  - Increases in relative public offering activity were observed in the Healthcare and Other sectors from 2010 through 2012
  - The Information Technology, Industrials, Consumer Discretionary, and Materials sectors have demonstrated the most consistent public offering activity from 2010 through 2012
  - Conversely, the Energy sector demonstrated a small decrease in relative public offering activity

**Public Offerings by Industry Sector**
Years Ended December 31, 2010 – 2012
*(% of transactions)*




*Includes public offerings closed from January 1, 2010 through December 31, 2012, with the issuer and exchange based in the United States.*

Source: CapitalIQ.

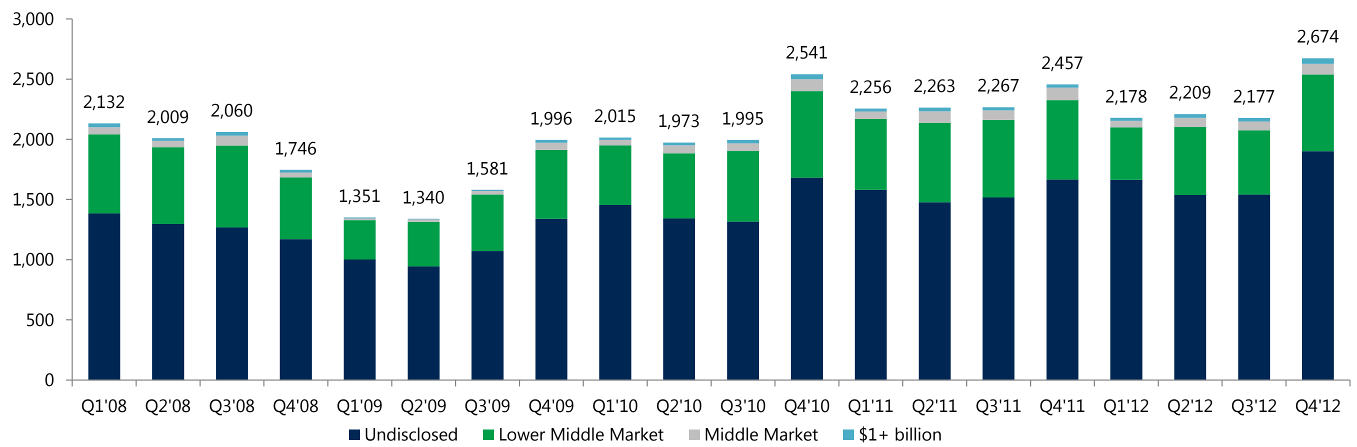
# M&A Activity

- Since the economic downturn in 2008 and 2009, overall M&A activity increased consistently year over year for comparable periods from Q4 2009 through Q3 2011, with a peak in M&A transactions observed in Q4 2012
- M&A transaction activity increased 25% from Q1 2008 to Q4 2012, demonstrating the strongest quarter in the last five years
  - Lower middle market transactions (i.e., deals with values less than $250 million) represented 95% of disclosed M&A transactions in 2012
  - Middle market (i.e., deals with values ranging from $250 million to $1 billion) and $1+ billion transactions accounted for 3% and 2% of disclosed M&A transactions, respectively in 2012

**M&A Transaction Activity**

Quarters Ended March 31, 2008 – December 31, 2012

*(number of transactions)*




*Includes qualified M&A transactions closed from January 1, 2008 through December 31, 2012, with the target based in the United States. Excludes M&A transactions with the target participating in the Financials sector. No transaction value provided for undisclosed deals. Lower middle market deals have transaction values less than $250 million. Middle market deals have transaction values ranging from $250 million to $1 billion.*

Source: CapitalIQ.

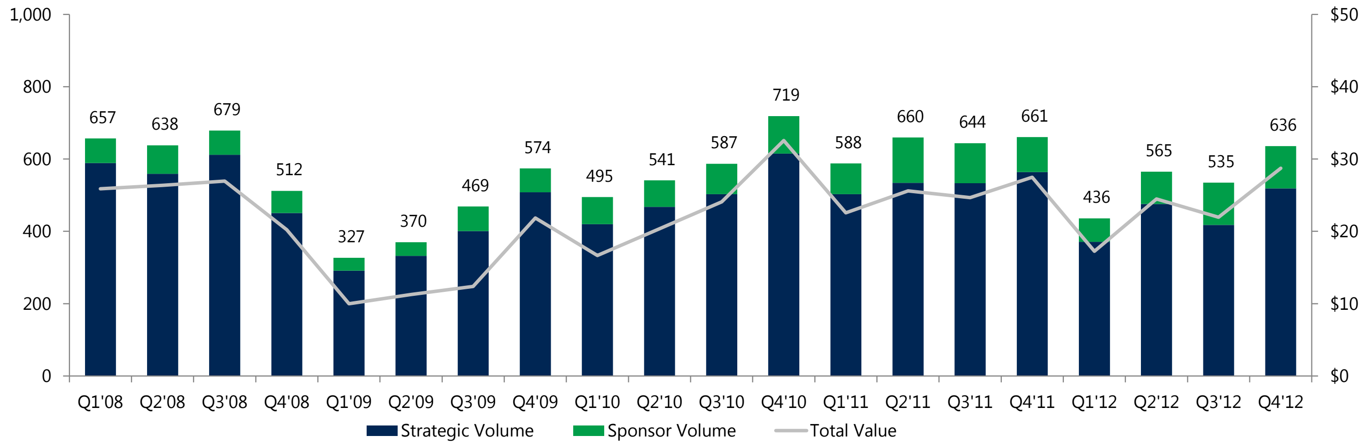
# Lower Middle Market M&A Activity

- Since 2008, qualified lower middle market M&A transactions have followed the same general trends as those observed in overall M&A activity
- While the volume of disclosed lower middle market M&A transactions marginally declined, the total M&A transaction activity remained relatively constant and undisclosed transactions increased from 2011 to 2012
  - Strategic deals account for a moderately declining share of all lower middle market M&A transaction activity, decreasing from 89% in 2008 to 82% in 2012
  - Sponsored deals account for a growing share of all lower middle market M&A transaction activity, increasing from 11% in 2008 to 18% in 2012
- These trends may be at least partially the result of transactions that have yet to be reported and are subject to variations in reporting practices from year to year

**Lower Middle Market M&A Transaction Activity**

Quarters Ended March 31, 2008 – December 31, 2012

*(number of transactions, $ in billions)*




*Includes qualified lower middle market M&A transactions with disclosed transaction values less than $250 million, closed from January 1, 2008 through December 31, 2012, with the target based in the United States. Excludes M&A transactions with the target participating in the Financials sector.*

Source: CapitalIQ.

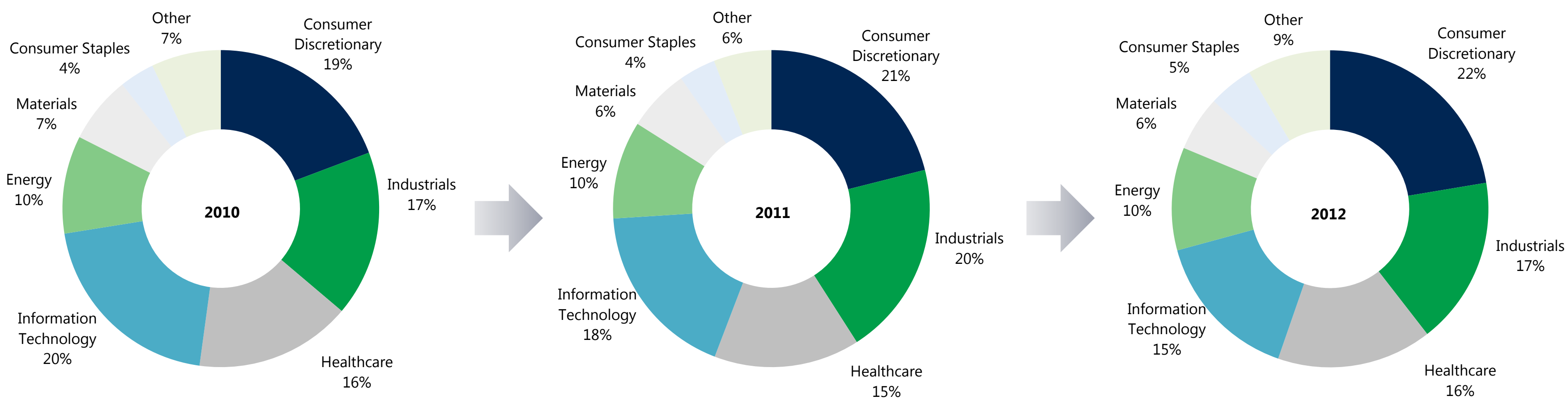
# Lower Middle Market M&A Activity by Industry Sector

- For the year ended December 31, 2012, the Consumer Discretionary, Industrials, Healthcare, and Information Technology sectors accounted for 70% of M&A transactions in the lower middle market
- The Consumer Discretionary sector accounts for the largest share of lower middle market M&A transactions and experienced an increase in relative transaction activity from 2010 through 2012
  - The Industrials, Healthcare, and Energy sectors demonstrated consistent transaction activity over the last three years
  - While the M&A activity in the Information Technology and Materials sectors declined, Consumer Discretionary, Consumer Staples, and Other sectors demonstrated an increase in relative transaction activity over the last three years

**Lower Middle Market M&A Transaction Activity by Industry Sector**

Years Ended December 31, 2010 – 2012

*(% of transactions)*




*Includes qualified lower middle market M&A transactions with disclosed transaction values less than $250 million, closed from January 1, 2010 through December 31, 2012, with the target based in the United States. Excludes M&A transactions with the target participating in the Financials sector.*

Source: CapitalIQ.

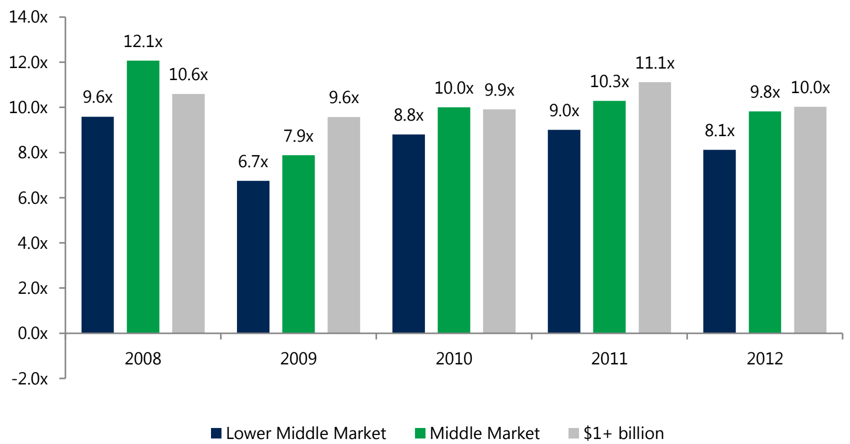
# M&A Valuation Trends

- M&A valuations have improved from 2009 through 2012, with the highest TEV/EBITDA multiples observed among transactions greater than $1 billion
  - Since 2009, the strongest recovery in TEV/EBITDA multiples has been observed in middle market transactions, where valuations have increased approximately 24%
  - TEV/EBITDA multiples for transactions of all sizes remained approximately one to two turns of EBITDA lower than valuations observed in 2008
- In 2012, lower middle market M&A valuations were highest in the Utilities sector, with TEV/EBITDA multiples equal to 13.7x
  - The Telecommunication Services and Information Technology sectors also performed well with TEV/EBITDA multiples above 10.0x in 2012, while Consumer Discretionary, Consumer Staples, and Healthcare valuation multiples were above 8.0x

**Valuation Multiples by Transaction Size**

Years Ended December 31, 2008 – 2012

*(multiples of TEV/EBITDA)*



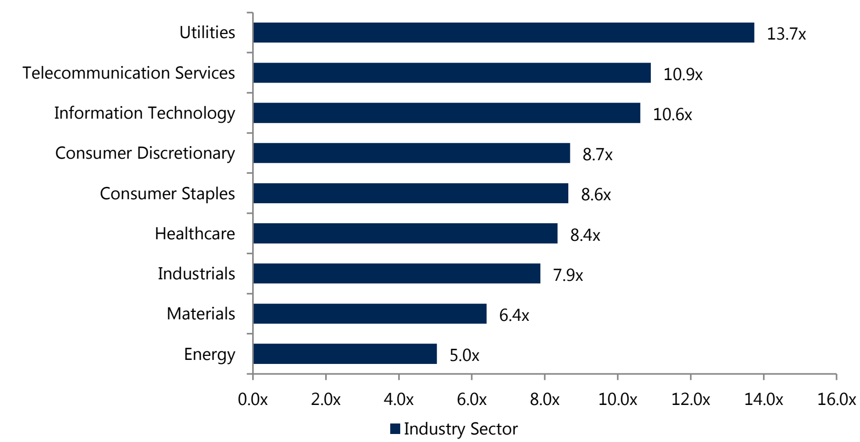

*Includes qualified M&A transactions with disclosed and meaningful transaction values, closed from January 1, 2008 through December 31, 2012, with the target based in the United States. Excludes M&A transactions with the target participating in the Financials sector.*

Source: CapitalIQ.

**Lower Middle Market Valuation Multiples by Industry Sector**

Year Ended December 31, 2012

*(multiples of TEV/EBITDA)*




*Includes qualified lower middle market M&A transactions with disclosed and meaningful transaction values less than $250 million, closed from January 1, 2012 through December 31, 2012 with the target based in the United States. Excludes M&A transactions with the target participating in the Financials sector.*

Source: CapitalIQ.

# Recent M&A Observations

*League Park's professionals have observed several trends in M&A activity that are applicable across all industry sectors*

- Private equity firms are increasingly adopting a focused approach to their portfolios, seeking to invest in niche market leaders with defensible positions

- With excess cash on hand, buyers may be willing to execute on higher valuation multiples for high-quality and unique businesses

- Senior lenders have tighter leverage guidelines for financing deals, resulting in more discipline in valuation practices and deal structures, which has driven the proliferation of non-traditional lending institutions

- Increasing regulatory oversight from the Environmental Protection Agency ("EPA"), Occupational Safety and Health Administration ("OSHA"), and other federal government agencies has resulted in environmental, human resources, legal, and related issues becoming a focal point of due diligence

# Selected Recent Transactions

*League Park delivers superior outcomes by tailoring solutions to meet the specific needs of each client*

## Mergers and Acquisitions

VanDeMark
Phosgene Chemistry • Custom Chemicals
a portfolio company of
BUCKINGHAM CAPITAL PARTNERS
has been acquired by
UNI-WORLD Capital
BRIGHTWOOD
League Park acted as financial advisor to VanDeMark on the transaction

Lexicomp
has been acquired by
Wolters Kluwer
League Park acted as financial advisor to Lexi-Comp on the transaction

AGG
has been acquired by Praxair, Inc.
PRAXAIR
League Park acted as financial advisor to American Gas Group on the transaction

Global Security Glazing
has been acquired by
Grey Mountain PARTNERS
League Park acted as financial advisor to Global Security Glazing on the transaction

CARDINAL FASTENER & SPECIALTY CO., INC.
has been acquired by
WÜRTH GROUP
League Park acted as financial advisor to Cardinal Fastener on the transaction

NEWAY
has been acquired by
BOWDEN Capital Group, LLC
League Park acted as financial advisor to Neway on the transaction

## Outsourced Corporate Development

ForTec Medical
Forwarding Technology
has acquired
Falls Church Laser
League Park acted as financial advisor to ForTec Medical on the transaction

Safeguard PROPERTIES
has acquired
Bank of America Field Services
Bank of America
League Park acted as co-advisor to Safeguard Properties on the transaction

FERRO
Ongoing Strategic Advisory
League Park serves as financial advisor to Ferro in connection with ongoing acquisition strategies

CAMPBELL HAUSFELD
Ongoing Strategic Advisory
League Park serves as financial advisor to Campbell Hausfeld in connection with ongoing acquisition strategies

## Recapitalizations

PHANTOM FIREWORKS
B.J. Alan dba Phantom Fireworks
has been recapitalized by
MAIN ST
League Park acted as financial advisor to B.J. Alan on the transaction

VanDeMark
Phosgene Chemistry • Custom Chemicals
a portfolio company of
BUCKINGHAM CAPITAL PARTNERS
has been recapitalized by
PROSPECT CAPITAL
League Park acted as financial advisor to VanDeMark on the transaction

# About League Park

League Park is a boutique investment bank that professionally and ethically advises clients on strategies aimed to maximize shareholder value. We assist middle market companies with transactions that generate value through mergers and acquisitions, recapitalizations, capital raising, and outsourced corporate development.

Whatever the transaction, our clients receive specialized attention from senior bankers at every step in the deal process. Our team has decades of investment banking, corporate development, private equity, and operational experience, completing over 300 transactions across a diverse range of industries in the past 25 years.

**Advisory Capabilities**

- Mergers and Acquisitions
- Recapitalizations
- Capital Raising
- Outsourced Corporate Development

**Industry Expertise**

- Business Services
- Consumer and Retail
- Industrial
- Technology
- Healthcare

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