



# Q4 2013 Market Update

February 2014



Investment Banking Solutions for the Middle Market

# Disclaimer

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# Executive Summary

- Following a favorable first half of 2013 (“H1 2013”) in the public equity markets, upward trends in performance continued through the fourth quarter of 2013 (“Q4 2013”)
- Public offering activity demonstrated elevated levels of performance in 2013, with total transaction volume increasing by 25% from 2012 to 2013 while initial public offering (“IPO”) activity increased by 45% over the same period
- Mergers and acquisitions (“M&A”) activity decreased by 20% in 2013 versus 2012, representing the lowest level of M&A activity since 2009 – 2010
- The outlook for M&A activity remains cautious while many uncertainties remain in the global macroeconomic and geopolitical 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 IPO and follow-on offerings (“follow-on”) as well as 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 trends

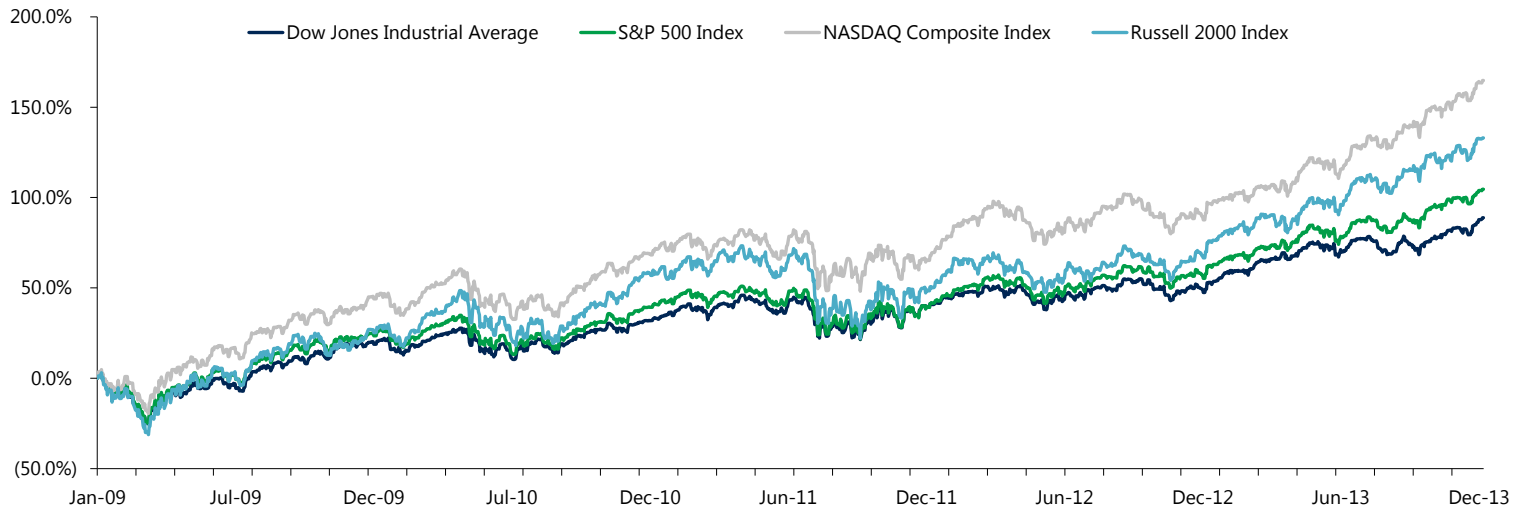
# Major Equity Index Performance

- Since the recession, the major equity indices have demonstrated consistent upward trends in performance, undergoing several cycles of steady improvement and short-term corrections
- Record-setting performances for all of the major equity indices were observed at the end of Q4 2013, providing positive momentum heading into 2014
  - The NASDAQ Composite Index has consistently outpaced the Dow Jones Industrial Average, S&P 500 Index, and Russell 2000 Index over the last five years
  - While the remaining equity indices have followed similar patterns in performance, the Russell 2000 Index has begun to outperform the Dow Jones Industrial Average and S&P 500 Index

## Major Equity Index Performance

Period Began January 1, 2009 and Ended December 31, 2013

(% change in closing prices)



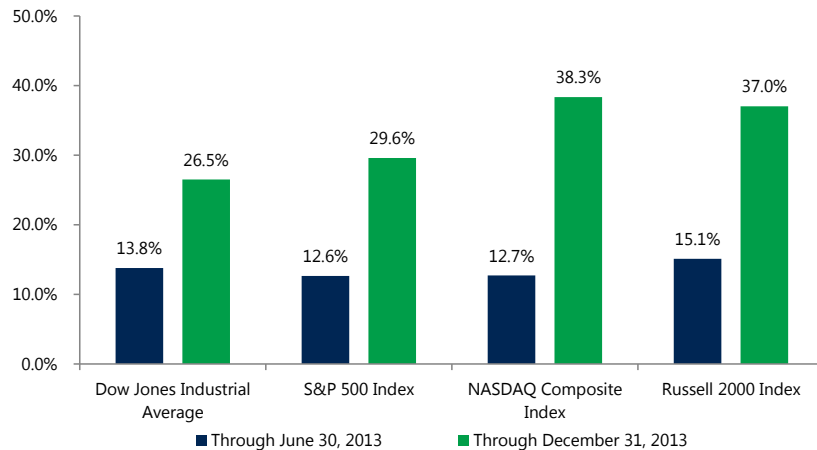
Source: CapitalIQ

# Major Equity Index and Industry Sector Performance

- All four major equity indices posted positive gains during the last six and twelve months ended December 31, 2013
  - The NASDAQ Composite Index registered the strongest six-month and full-year returns of 26% and 38%, respectively, followed closely by the Russell 2000 Index
- All of the S&P 500 industry sector indices also posted positive gains during the last twelve months
  - The Consumer Discretionary, Healthcare, Industrials, and Financials sectors outpaced the overall S&P 500 Index
  - The Information Technology, Materials, Consumer Staples, and Energy sectors also demonstrated strong growth with greater than 20% improvement in performance

## Major Equity Index Performance

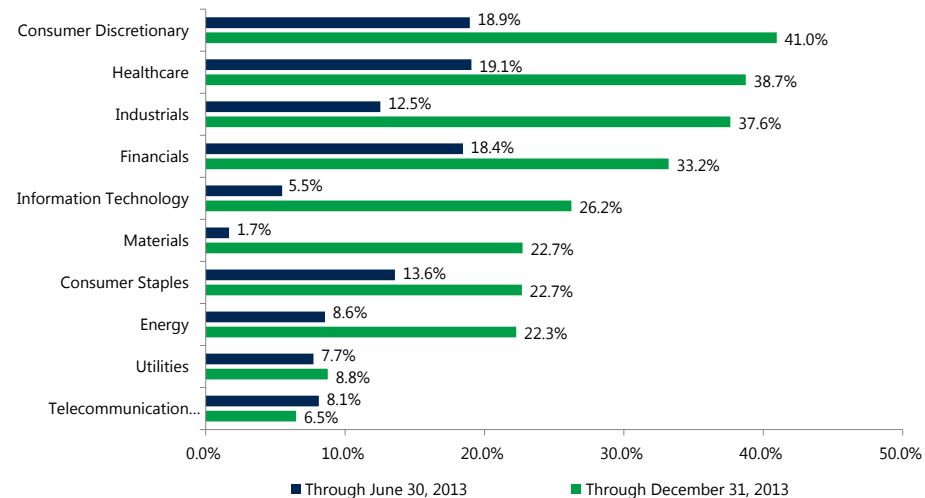
Periods Began January 1, 2013 and Ended June 30, 2013 and December 31, 2013  
 (% change in closing prices)



Source: CapitalIQ

## S&P 500 Industry Sector Performance

Periods Began January 1, 2013 and Ended June 30, 2013 and December 31, 2013  
 (% change in closing prices)



Source: CapitalIQ

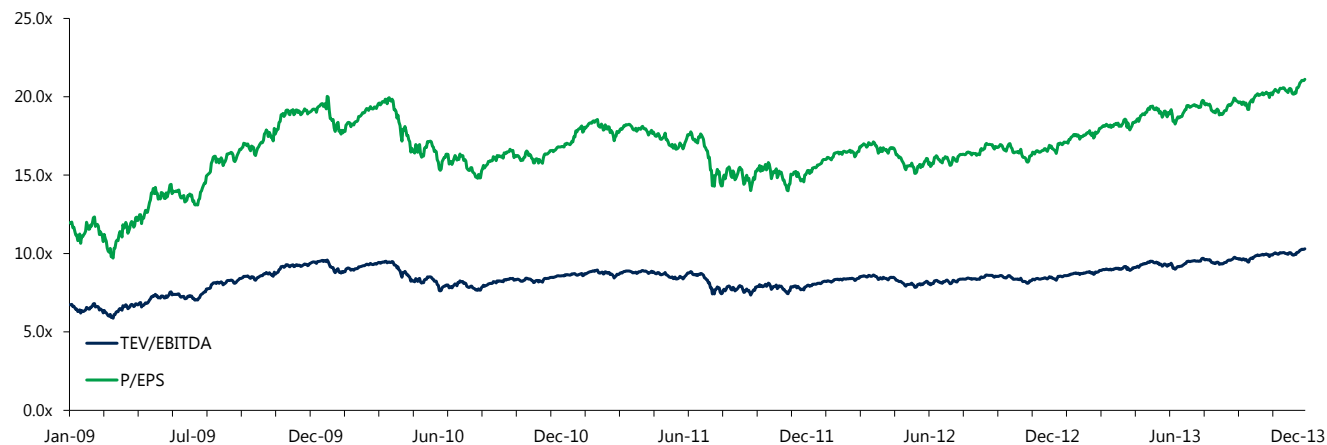
# Public Valuation Trends

- 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 Index has been characterized by stable and consistently improving valuations since a significant market-wide correction observed in early Q3 2011
  - Improvement in TEV/EBITDA and P/EPS multiples from Q4 2011 through Q4 2013 has allowed recent valuations to exceed their previous five-year peaks observed in Q2 2010
- On December 31, 2013, TEV/EBITDA and P/EPS multiples reached 10.3x and 21.1x, respectively
  - Valuation multiples have demonstrated steady growth throughout 2013
  - The strong performance observed in valuation multiples during Q4 2013 provides the basis for increasingly favorable valuations heading into 2014

## S&P 500 Index Valuation Multiples

Period Began January 1, 2009 and Ended December 31, 2013

(TEV/EBITDA and P/EPS multiples)



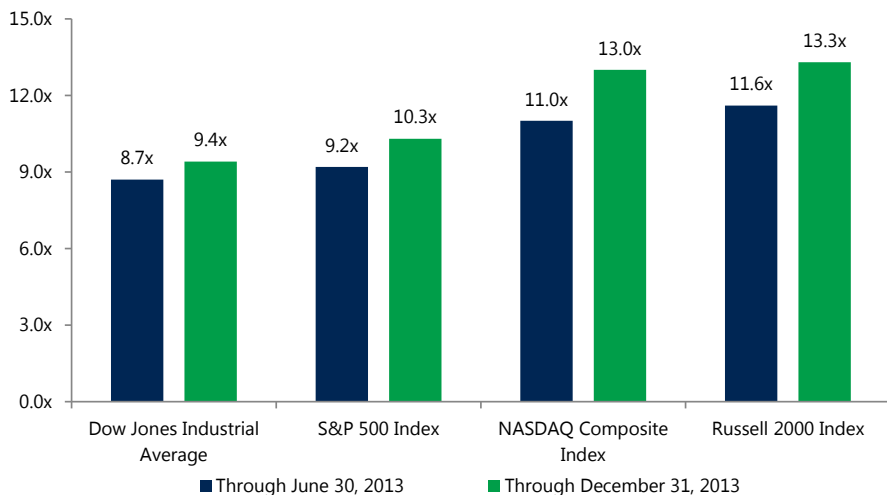
Source: CapitalIQ

# Industry Sector Valuation Trends

- TEV/EBITDA multiples for the Industrials, Financials, Healthcare, Consumer Staples, Consumer Discretionary, and Information Technology sectors outpaced valuations for the overall S&P 500 Index as of December 31, 2013
- Meaningful expansion of valuation multiples was observed in eight of the ten S&P 500 industry sector indices during the last six months ended December 31, 2013
  - Valuations for the Information Technology sector increased 2.0 turns of EBITDA
  - Valuations for the Healthcare and Materials sectors increased 1.5 turns of EBITDA
  - Valuations for the Industrials and Consumer Discretionary sectors increased more than 1.0 turns of EBITDA, while valuations for the Financials and Energy sectors also increased nearly 1.0 turns of EBITDA

## Major Equity Index TEV/EBITDA Multiples

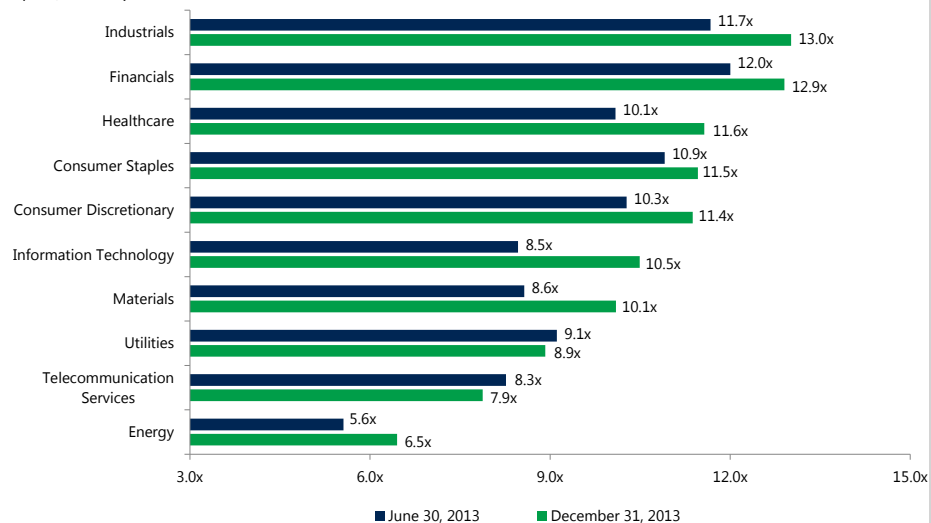
As of June 30, 2013 and December 31, 2013  
(TEV/EBITDA)



Source: CapitalIQ

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

As of June 30, 2013 and December 31, 2013  
(TEV/EBITDA)



Source: CapitalIQ

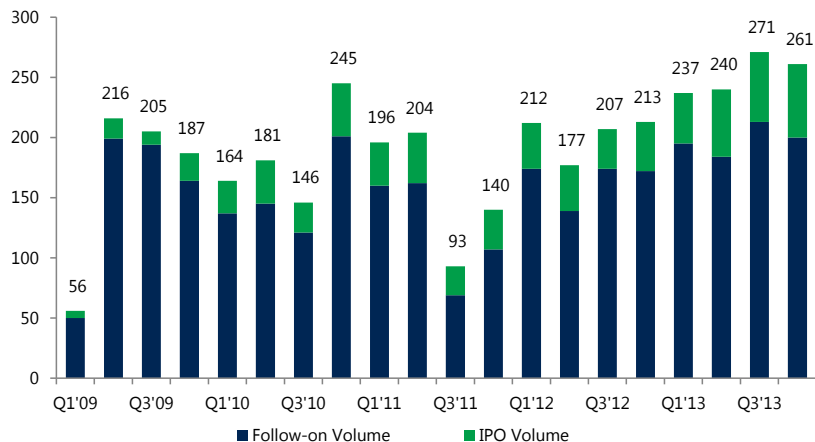
# Public Offering Activity

- Public offering activity has improved consistently since Q3 2011, with both IPO and follow-on offering activity achieving a sustained level of heightened performance throughout 2013
  - Total transaction volume and value increased by approximately 25% and 2%, respectively, from 2012 to 2013
- IPO transaction volume and value increased significantly in 2013
  - IPO transaction volume increased by 45% from 2012 to 2013, representing approximately 22% of total transaction volume in 2013, compared to only 18% in 2012
  - IPO transaction value increased by 29% from 2012 to 2013, representing 30% of total transaction value in 2013, compared to only 23% in 2012

## Public Offering Transaction Volume

Quarters Ended March 30, 2009 – December 31, 2013

(number of transactions)



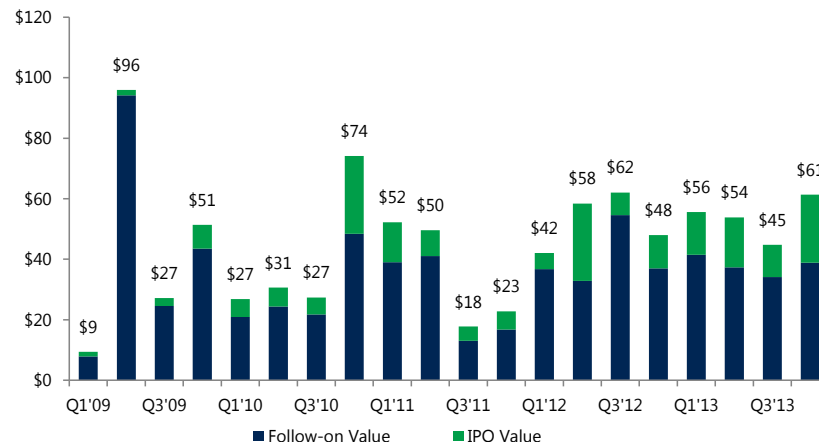
Includes public offerings closed from January 1, 2009 through December 31, 2013, with the issuer and exchange based in the United States.

Source: CapitalIQ

## Public Offering Transaction Value

Quarters Ended March 30, 2009 – December 31, 2013

(\$ in billions)



Includes public offerings closed from January 1, 2009 through December 31, 2013, with the issuer and exchange based in the United States.

Source: CapitalIQ



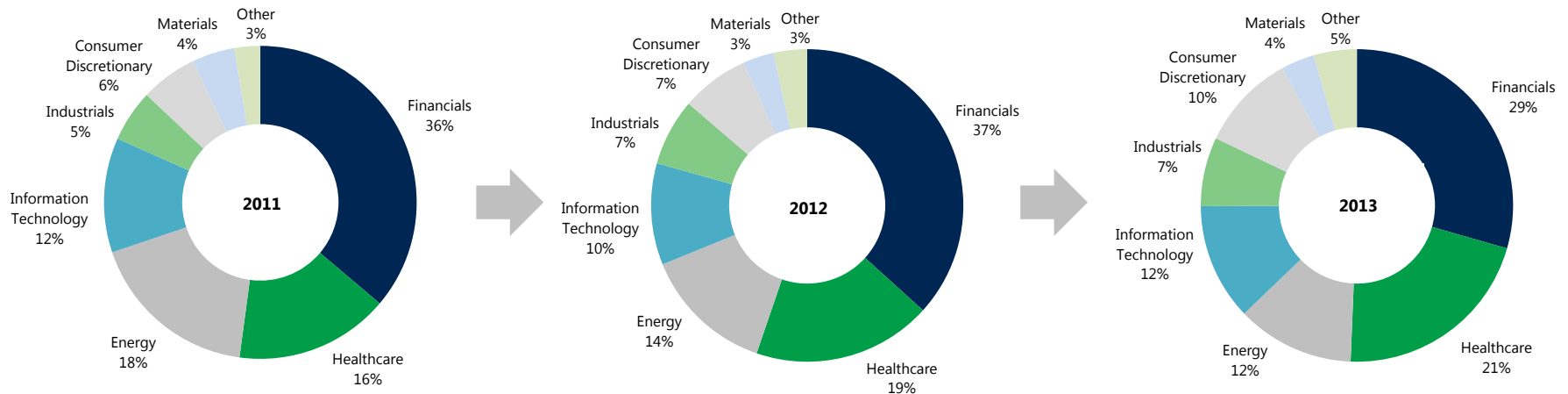
# Public Offerings by Industry Sector

- For the last twelve months ended December 31, 2013, the Financials, Healthcare, Energy, and Information Technology sectors accounted for nearly 75% of overall public offering activity
- While the distribution of public offering activity among industry sectors has historically been stable, meaningful changes were observed in 2013 associated with the increased level of overall public offering activity as well as higher proportion of IPOs
  - Increases in relative public offering activity from 2011 to 2013 were observed in the Healthcare, Industrials, and Consumer Discretionary sectors
  - Conversely, the Financial and Energy sectors experienced a decline in relative public offering activity over the same time period

## Public Offerings by Industry Sector

Years Ended December 31, 2011 – 2013

(% of transactions)



Includes public offerings closed from January 1, 2011 through December 31, 2013, with the issuer and exchange based in the United States

Source: CapitalIQ

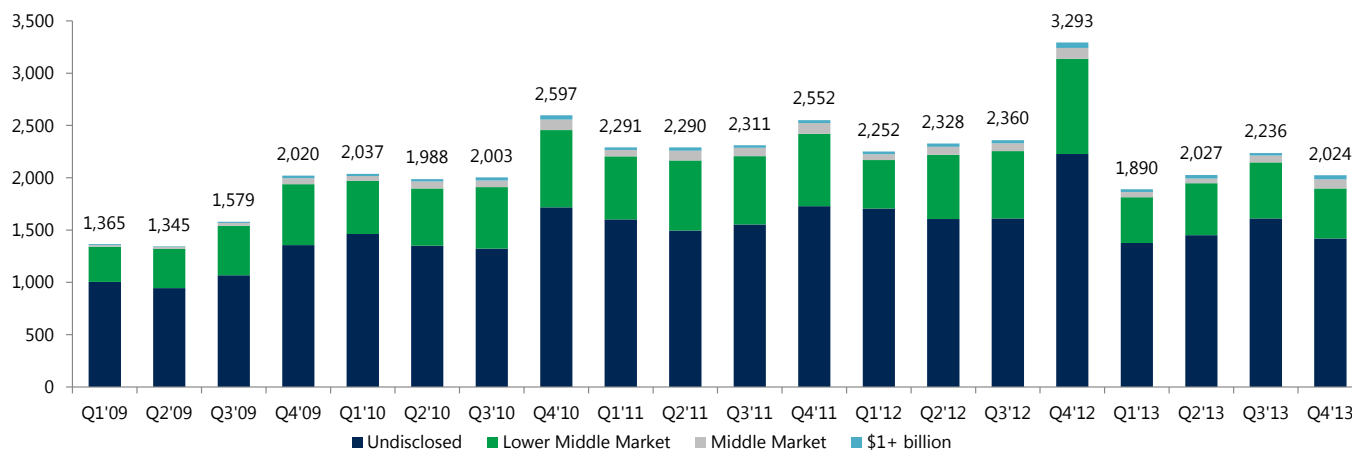
# M&A Activity

- Overall M&A activity decreased by 20% from 2012 to 2013 and was not supported by the traditionally strong fourth quarter tax-driven year-end closings as observed in prior years
- Overall M&A transaction volume observed in 2013 is at its lowest point since the four quarters from Q4 2009 to Q3 2010, with the lower middle market experiencing the greatest decline in transaction volume from 2012 to 2013
  - Lower middle market transaction volume (i.e., deals with values less than \$250 million) fell by 26% from 2012 to 2013, but continued to represent approximately 84% of disclosed M&A transactions in 2013
  - Middle market (i.e., deals with values ranging from \$250 million to \$1 billion) transaction volume fell by 21% from 2012 to 2013 and represented 11% of disclosed M&A transactions, while \$1+ billion transactions fell by 10% from 2012 to 2013, representing 5% of disclosed M&A transactions in 2013

## M&A Transaction Activity

Quarters Ended March 30, 2009 – December 31, 2013

(number of transactions)



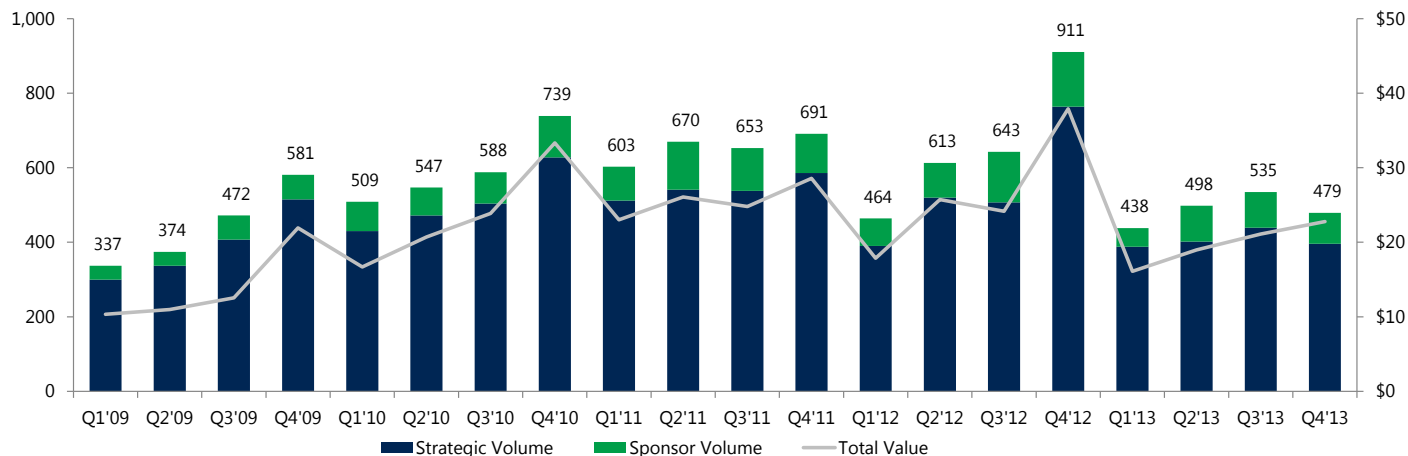
Includes qualified M&A transactions closed from January 1, 2009 through December 31, 2013, with the target based in the United States. Excludes M&A transactions with the target participating in the Financials sector. No transaction value provided for undisclosed deals. Lower middle market deals have 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

- Qualified lower middle market M&A transaction volume and value decreased 26% and 25%, respectively, from 2012 to 2013
- Lower middle market M&A transaction volume observed in 2013 is at its lowest point since the four quarters from Q2 2009 to Q1 2010
- The proportion of lower middle market M&A deals completed by strategic acquirers in relation to financial sponsors remained flat from 2012 to 2013
  - Strategic deals represented approximately 83% of transactions in both 2012 and 2013
  - Likewise, sponsor deals accounted for 17% of lower middle market M&A transaction volume in both 2012 and 2013

**Lower Middle Market M&A Transaction Activity**  
 Quarters Ended March 30, 2009 – December 31, 2013  
 (number of transactions, \$ in billions)



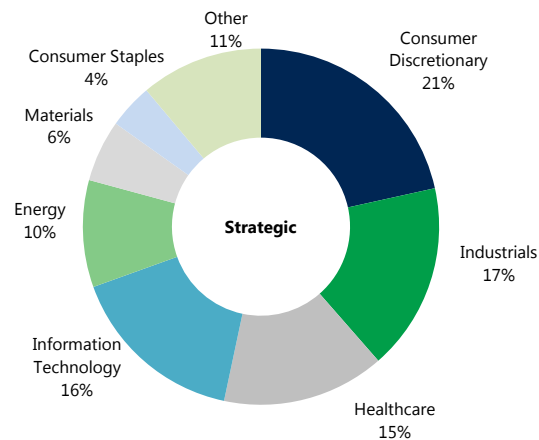
*Includes qualified lower middle market M&A transactions with disclosed transaction values less than \$250 million, closed from January 1, 2009 through December 31, 2013, with the target based in the United States. Excludes M&A transactions with the target participating in the Financials sector.*

Source: CapitalIQ

# Lower Middle Market M&A Activity by Acquirer Type

- Financial sponsors are acquiring a proportionately greater share of targets operating in the Consumer Discretionary, Industrials, and Healthcare sectors
- Strategic acquirers targeting companies operating in the Information Technology, Energy, and Materials sectors have been proportionately more active acquirers compared to financial sponsors

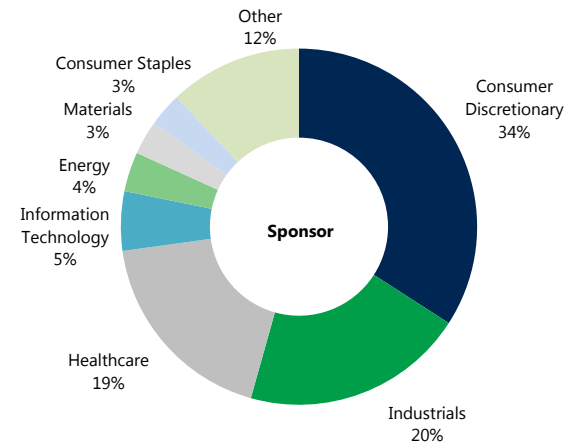
**Lower Middle Market Strategic M&A Transaction Activity by Target Industry Sector**  
Year Ended December 31, 2013  
(% of transactions)



*Includes qualified lower middle market M&A transactions with disclosed transaction values less than \$250 million, closed from January 1, 2013 through December 31, 2013, 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 Sponsor M&A Transaction Activity by Target Industry Sector**  
Year Ended December 31, 2013  
(% of transactions)



*Includes qualified lower middle market M&A transactions with disclosed transaction values less than \$250 million, closed from January 1, 2013 through December 31, 2013, with the target based in the United States. Excludes M&A transactions with the target participating in the Financials sector.*

Source: CapitalIQ

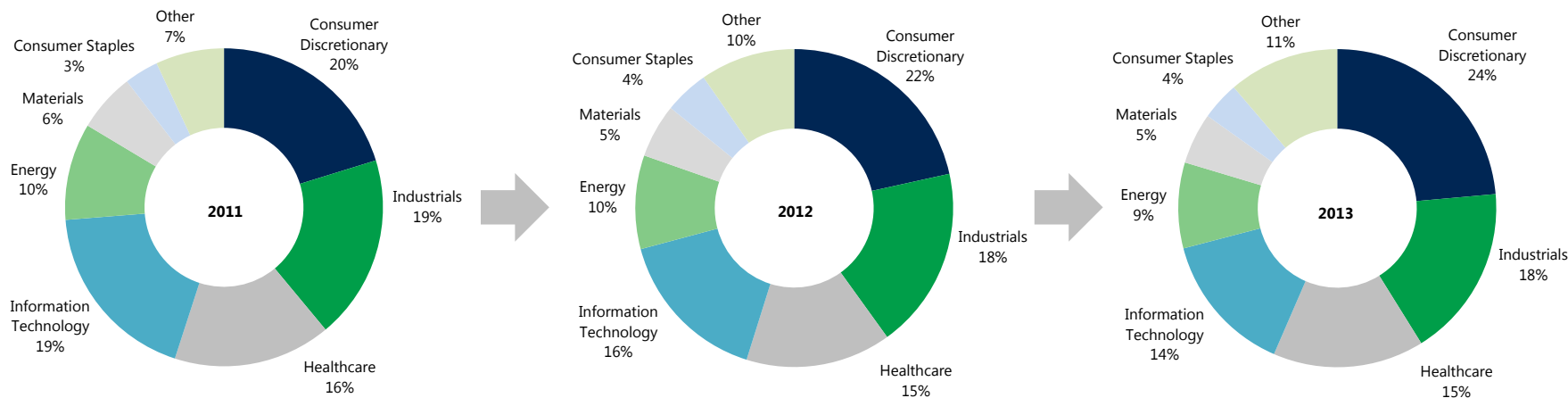
# Lower Middle Market M&A Activity by Industry Sector

- For the last twelve months ended December 31, 2013, the Consumer Discretionary, Industrials, Healthcare, and Information Technology sectors accounted for 70% of lower middle market M&A transaction activity
- The Consumer Discretionary sector accounts for the largest share of lower middle market M&A transactions and has experienced an increase in relative transaction activity from 2011 to 2013
  - A meaningful decrease in relative transaction activity was observed in the Information Technology sector

## Lower Middle Market M&A Transaction Activity by Target Industry Sector

Years Ended December 31, 2011 – 2013

(% of transactions)



*Includes qualified lower middle market M&A transactions with disclosed transaction values less than \$250 million, closed from January 1, 2011 through December 31, 2013, with the target based in the United States. Excludes M&A transactions with the target participating in the Financials sector.*

Source: CapitalIQ

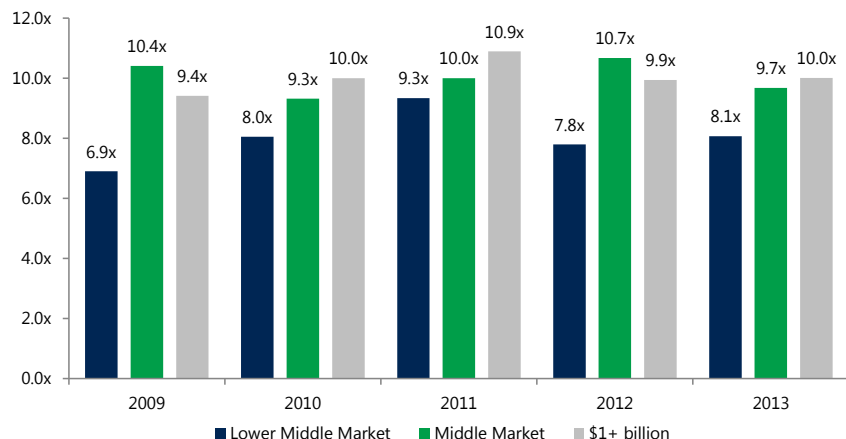
# M&A Valuation Trends

- TEV/EBITDA multiples observed among lower middle market, middle market, and \$1+ billion M&A transactions averaged 8.1x, 9.7x, and 10.0x, respectively, for the last twelve months ended December 31, 2013
- For the last twelve months ended December 31, 2013, valuation multiples for lower middle market M&A transactions in the Information Technology, Telecommunication Services, and Consumer Discretionary sectors exceeded 10.0x EBITDA
  - Valuation multiples for lower middle market M&A transactions in the Healthcare and Consumer Staples sectors also exceeded the average lower middle market valuations of 8.1x EBITDA

## Valuation Multiples by Transaction Size

Years Ended December 31, 2009 – 2013

(TEV/EBITDA multiples)



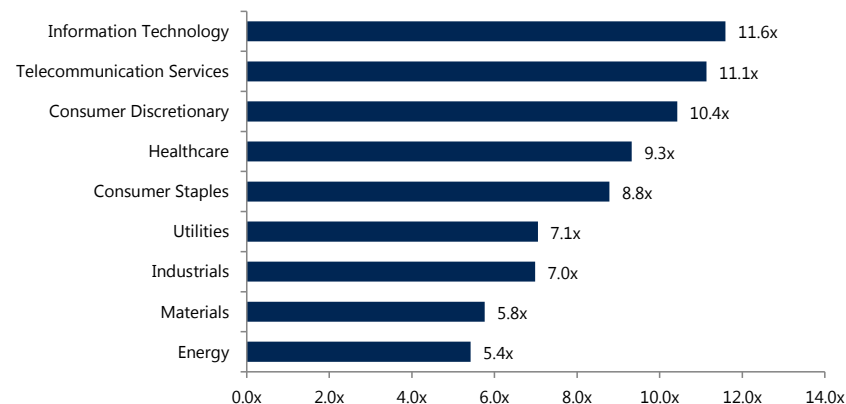
Includes qualified M&A transactions with disclosed and meaningful transaction values, closed from January 1, 2009 through December 31, 2013, with the target based in the United States. Excludes M&A transactions with the target participating in the Financials sector.

Source: CapitalIQ

## Lower Middle Market Valuation Multiples by Industry Sector

Year Ended December 31, 2013

(TEV/EBITDA multiples)



Includes qualified lower middle market M&A transactions with disclosed and meaningful transaction values less than \$250 million, closed from January 1, 2009 through December 31, 2013, 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 recent M&A trends that emphasize the importance of qualified advisors with deep experience in deal strategy and execution*

- The outlook for global M&A markets is expected to remain tempered due to persistent macroeconomic and geopolitical uncertainty
- Lower middle market transaction volume is being driven by improving liquidity, succession planning in entrepreneur-owned enterprises, and increased add-on acquisition activity by private equity funds
- Financial sponsors remain active acquirers, as sponsors aggressively seek new opportunities in which to deploy capital and long-term private equity returns continue to outpace those of other asset classes
- The average transaction time-to-completion has increased recently, driven by heightened market uncertainty, longer than usual pre-bid and post-announcement periods, and more rigorous due diligence practices
- Businesses characterized by proprietary technology, sustainable competitive differentiation, and strong financial performance enjoyed premium valuations as many potential acquirers chased relatively few qualified targets

# Selected Recent Transactions

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

## Mergers and Acquisitions

enovate

has merged with

**STINGER**  
MEDICAL

a portfolio company of

**Riverside**  
PARTNERS

League Park acted as financial advisor to Enovate on the transaction

An affiliate of

**ACHILL PARTNERS**

has acquired



Tri-County Maintenance

League Park acted as financial advisor to Achill Partners on the transaction



**360 Fresh**

has been acquired by



League Park acted as financial advisor to 360Fresh 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

## Recapitalizations



B.J. Alan dba Phantom Fireworks

has been recapitalized by



League Park acted as financial advisor to B.J. Alan on the transaction

**VanDeMark**  
Phosphate Chemistry • Custom Chemicals

a portfolio company of

**BUCKINGHAM**  
CAPITAL PARTNERS

has been acquired by



League Park acted as financial advisor to VanDeMark on the transaction



has been acquired by Praxair, Inc.

**PRAXAIR**

League Park acted as financial advisor to American Gas Group on the transaction

**LexiComp**

has been acquired by

**Wolters Kluwer**

League Park acted as financial advisor to Lexi-Comp on the transaction

**FERRO**

Ongoing Strategic Advisory

League Park serves as financial advisor to Ferro in connection with ongoing acquisition strategies

**Scott Fetzer**

Ongoing Strategic Advisory

League Park serves as financial advisor to Campbell Hausfeld in connection with ongoing acquisition strategies

**VanDeMark**  
Phosphate Chemistry • Custom Chemicals

a portfolio company of

**BUCKINGHAM**  
CAPITAL PARTNERS

has been recapitalized by



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

## LEAGUE ★ PARK

### **J.W. Sean Dorsey**

*Founder and CEO*

(216) 455-9990

sdorsey @ leaguepark.com

### **Brian Powers**

*Managing Director*

(216) 455-9988

bpowers @ leaguepark.com

### **Joseph Foley**

*Director*

(216) 455-9991

jfoley @ leaguepark.com

### **Wayne Twardokus**

*Director*

(216) 455-9989

wtwardokus @ leaguepark.com

**1100 Superior Avenue East • Suite 1650 • Cleveland, Ohio 44114 • [www.leaguepark.com](http://www.leaguepark.com)**

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