

# Market Update

October 2018

# Introduction to PMCF

## Senior Banker Led, Investment Banking

- Founded in 1995 – nearly 25 years of middle market advisory experience
- Differentiated approach via senior banker leadership and direct involvement through every step of the transaction, yielding the highest levels of service
- One of the largest, most active boutiques with a focus on niche, entrepreneurial businesses
- Proven analytical and positioning processes drives superior preparation and value outcomes
- Affiliation with Corporate Finance International™ provides clients with expansive transaction expertise and global geographic reach
- Integrated, Single Point Approach to Investment banking using supportive functions from Plante Moran and EKS&H



Denver



Detroit



Chicago

## Recent Awards & Recognition

2017 M&A Atlas Award Winner:  
USA Boutique Investment Bank  
of the Year



2017 M&A Atlas Award Winner:  
Middle Markets Corporate Deal  
of the Year



2016 EMEA M&A Advisor  
Award Finalist:  
Transaction of the Year



2016 M&A Atlas Award  
Winner: Private Equity  
Deal of the Year



2016 M&A Award Winner:  
Corporate Acquisition of  
the Year



2016 M&A Award Winner:  
Deal of the Year



2013 International M&A  
Boutique Investment  
Banking Firm of the Year



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# About PMCF

## Global Reach and Capabilities

P&M Corporate Finance is a founding member of Corporate Finance International® (CFI)

- **Provides critical in-country investment banking professionals** for negotiation with international parties and buyer/target identification
- **Platform for seamless execution of cross-border transactions** through shared international contacts and resources
- **Over a decade of international collaboration** and transaction experience between member firms

27  
COUNTRIES

17  
FIRMS

32  
OFFICES

~200  
PROFESSIONALS



Worldwide — Up to USD 200M

RANK 2016	Financial Advisor	# of Deals
1	KPMG	421
2	PricewaterhouseCoopers	338
3	Ernst & Young LLP	228
4	BDO	233
5	Rothschild	221
6	Deloitte	218
7	Houlihan Lokey	212
8	IMAP	169
9	Mizuho Financial Group	167
10	Lazard	136
34	CFI	70
35	Credit Suisse	69

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# Agenda

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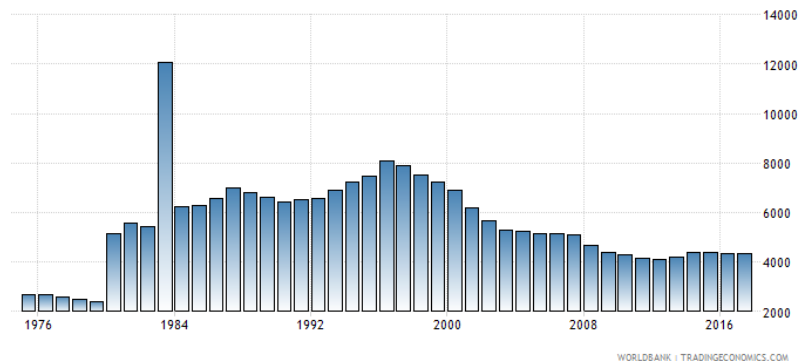
- Public Equity
- Private Equity
- Private Debt
- Multiples: Market and Sector-Specific
- Apportioning Risk
- Observations Going Forward



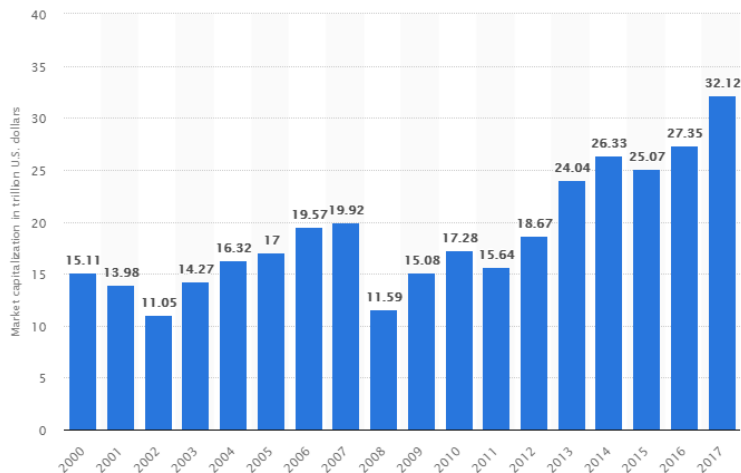
# Market Trends

## Public Equity

### Listed domestic companies, US through 2017



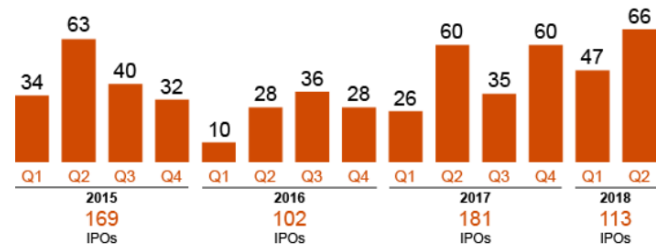
### Market cap listed domestic companies, US through 2017



### Value\*

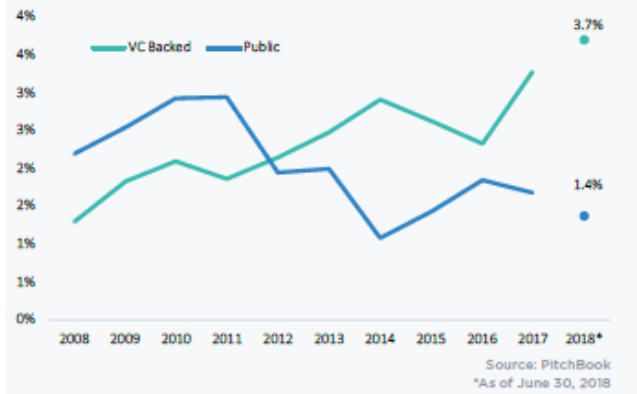


### Volume



### PE more likely to source from VC than public markets

Proportion of PE deal count by target backing status

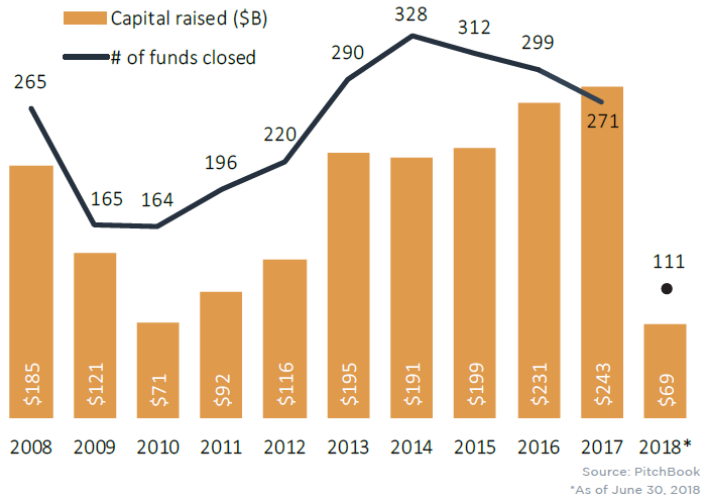


# Market Trends

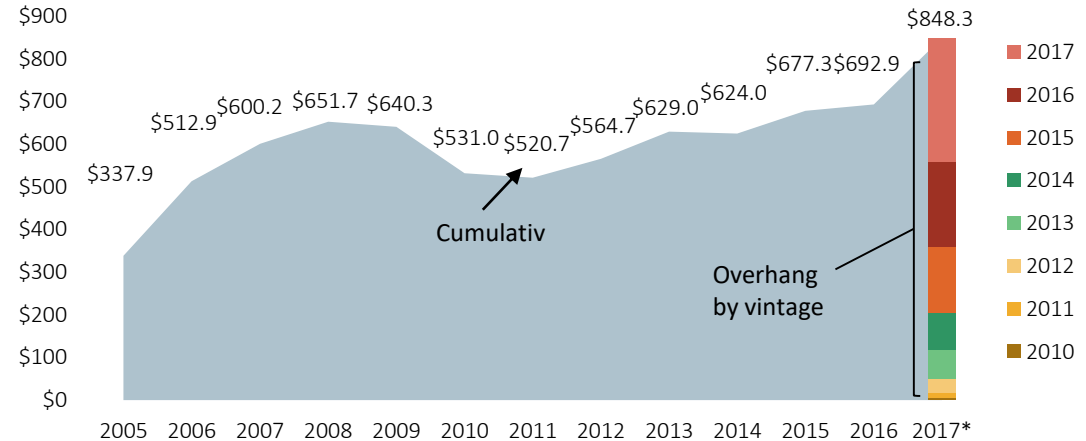
## Private Equity Fund Trends

- Fundraising activity slows with fewer funds coming to the market

US PE fundraising



- But cumulative dry powder continues to grow.



\*Source: PitchBook

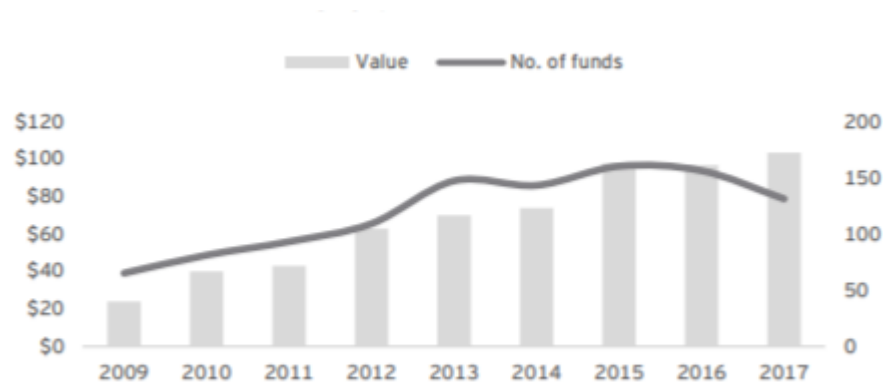
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# Market Trends

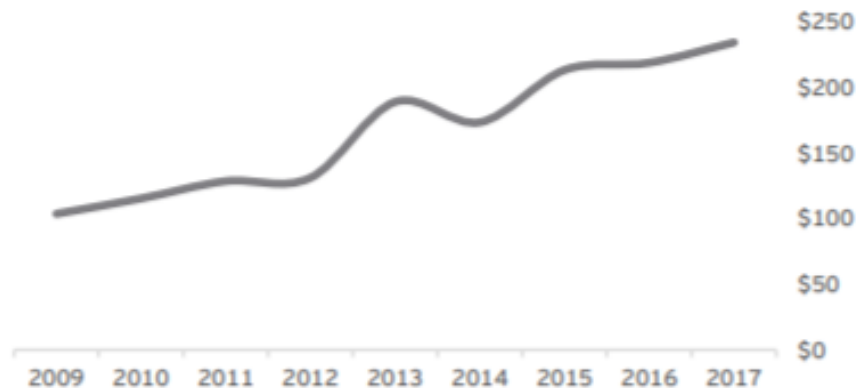
## Private Debt Trends

- Mirroring PE, number of funds appears to have peaked



- But cumulative dry powder also continues to grow.

### Credit dry powder 2009-2017



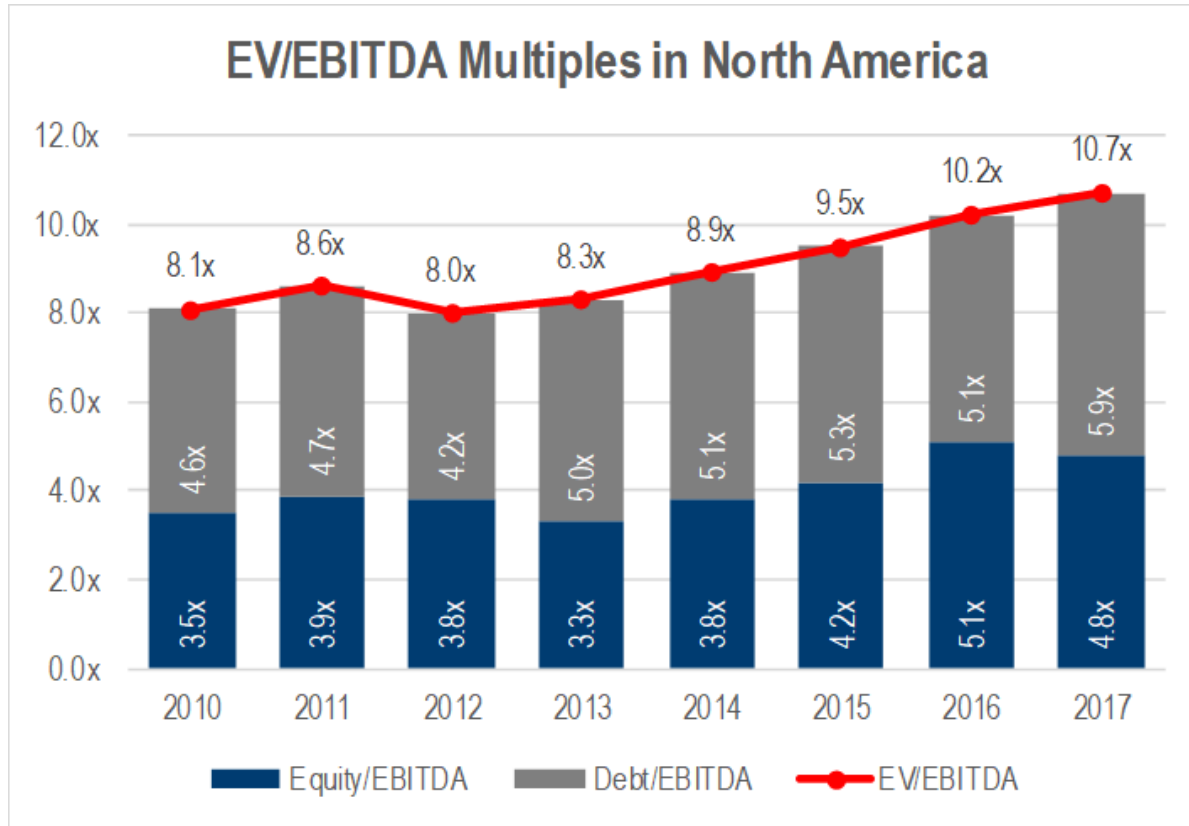
- We are seeing continued and increased creativity among private debt providers
  - Higher multiples of EBITDA
  - Lighter covenants
  - Hybrid senior and unitranche
- A search for higher yields

\*Source: Preqin

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# Market Trends

Debt vs. Equity in transactions



\*Source: Pitchbook

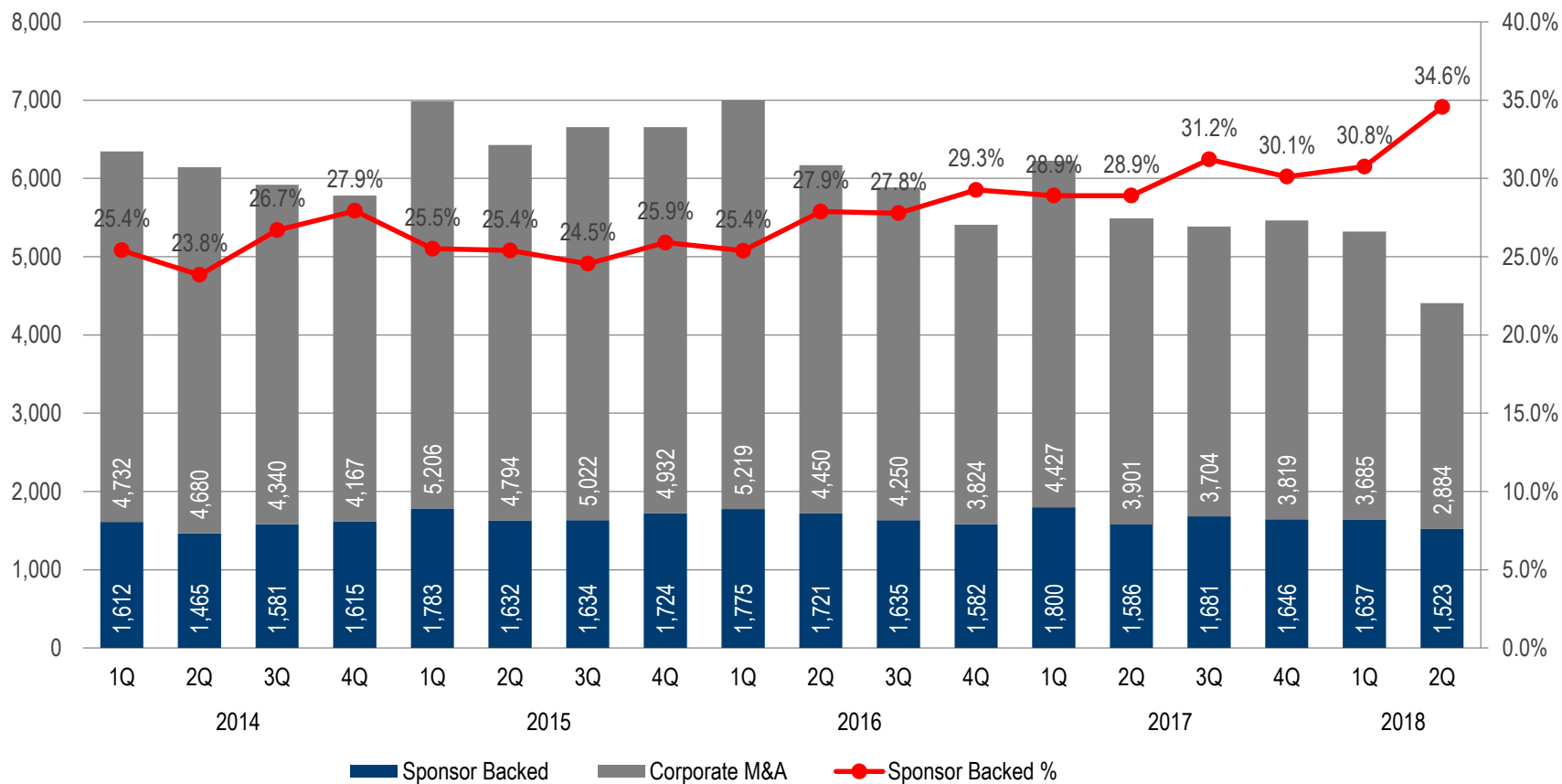
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# Market Trends

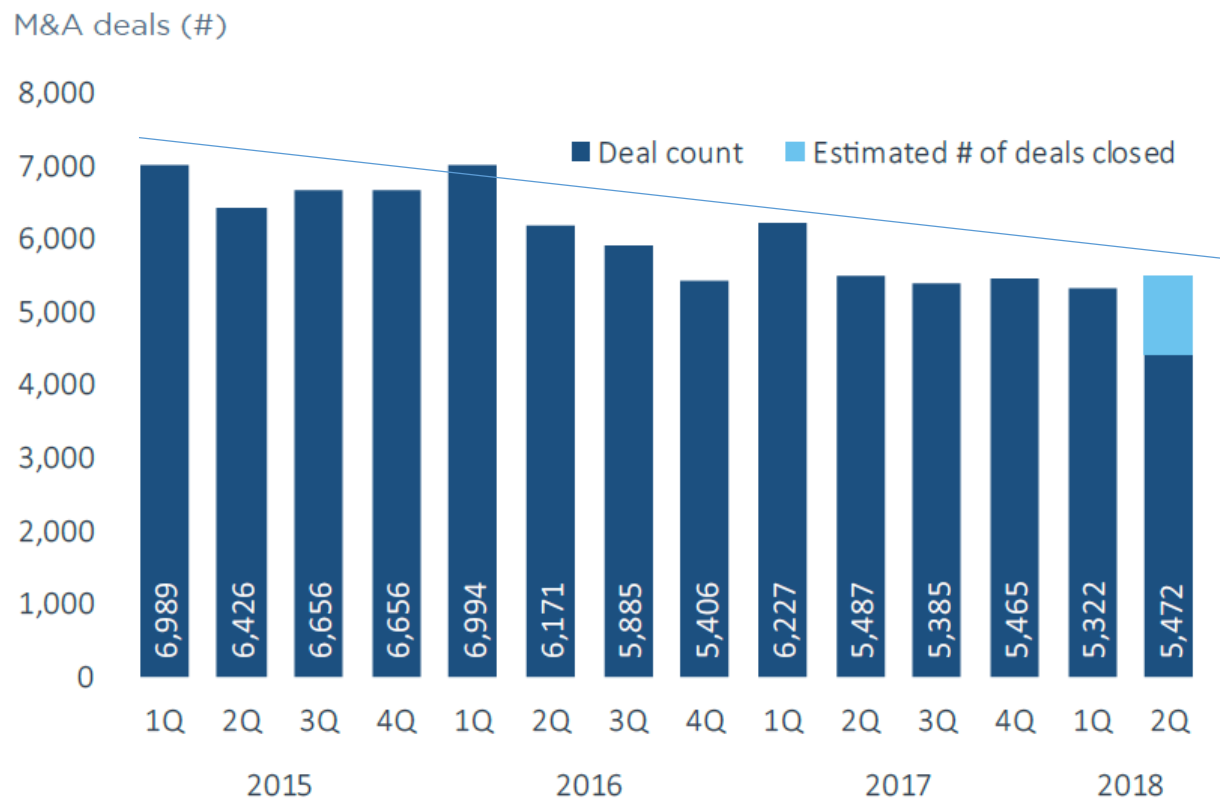
Private Equity vs. Strategic MA (% of deals)



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# Market Trends

## Total M&A Deal Trend



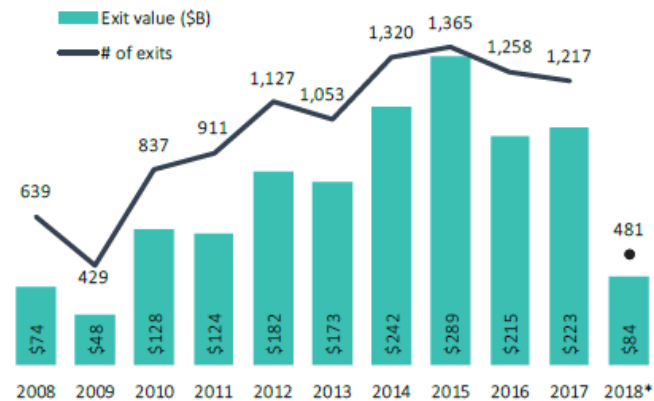
Source: PitchBook  
\*As of June 30, 2018

# Market Trends

## Secondary Market Transactions

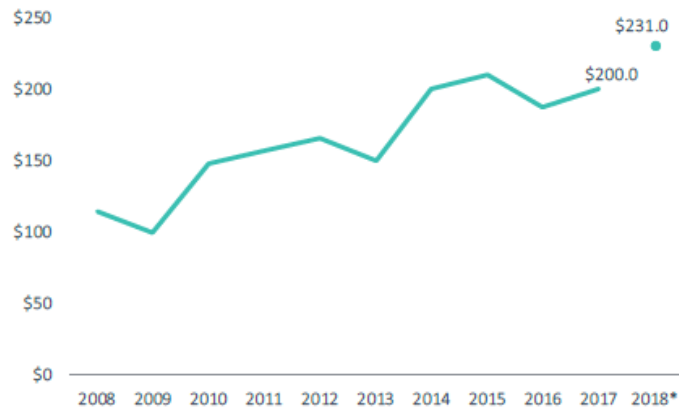
### Exit activity slows through the first half of 2018

US PE-backed exits



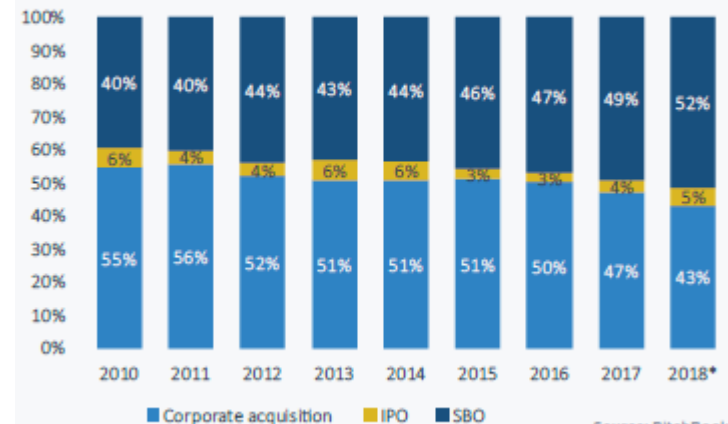
### Despite lower volume, another all-time high for exit sizes

Median US PE-backed exit size (\$M)



### SBOs account for over 50% of exits through the first half of 2018, the highest rate on record

US PE-backed exits (#) by type



Source: PitchBook

\*As of June 30, 2018

Note: Some years may not add up to 100% due to rounding.

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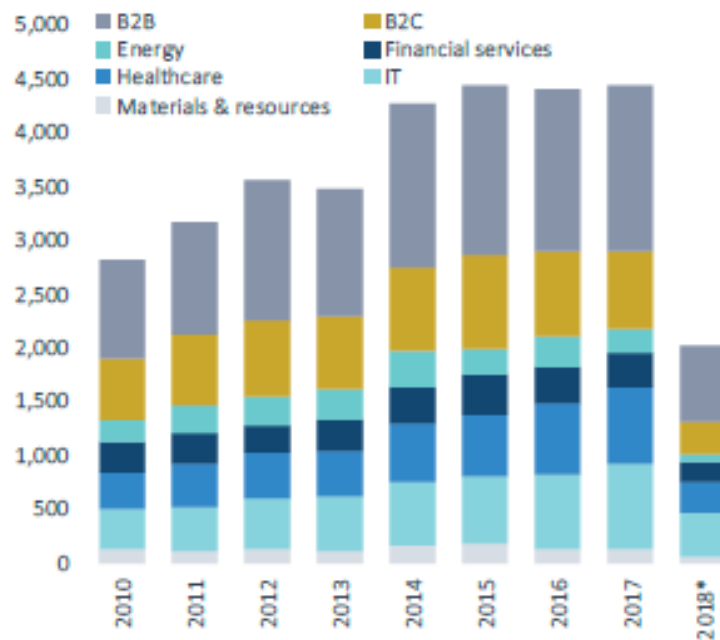
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# Market Trends

## Industry Focus Trends

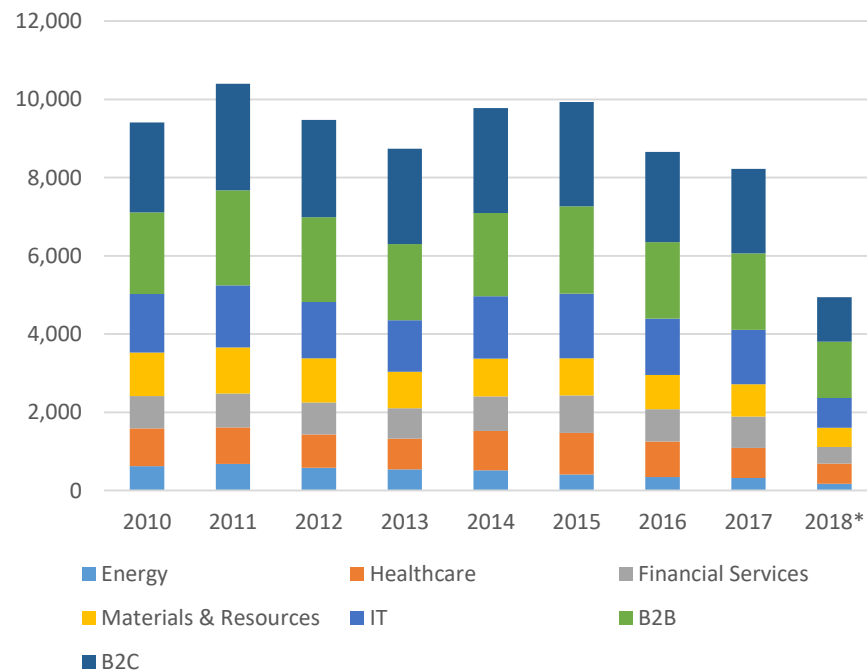
- IT and healthcare are still the stars

US PE activity (#) by sector



\*Source: Pitchbook

US Strategic activity (#) by Sector



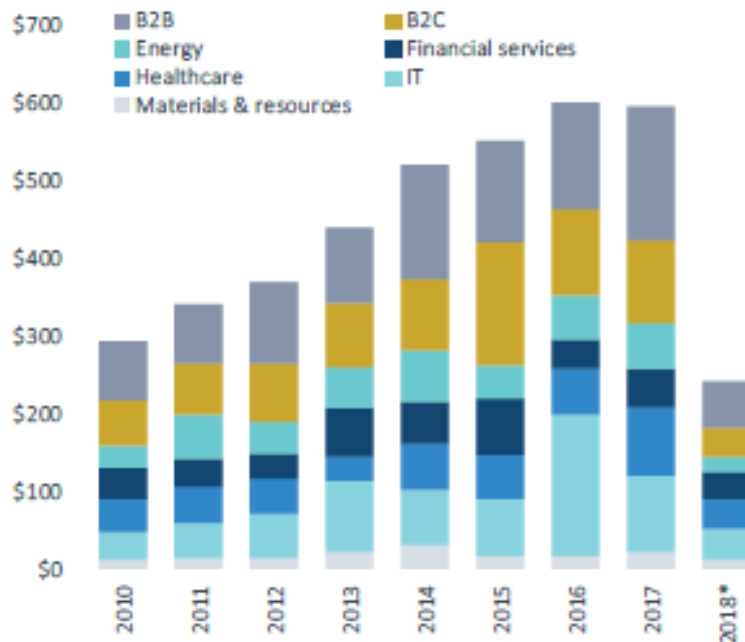
\*Source: CapIQ

# Market Trends

## Industry Focus Trends

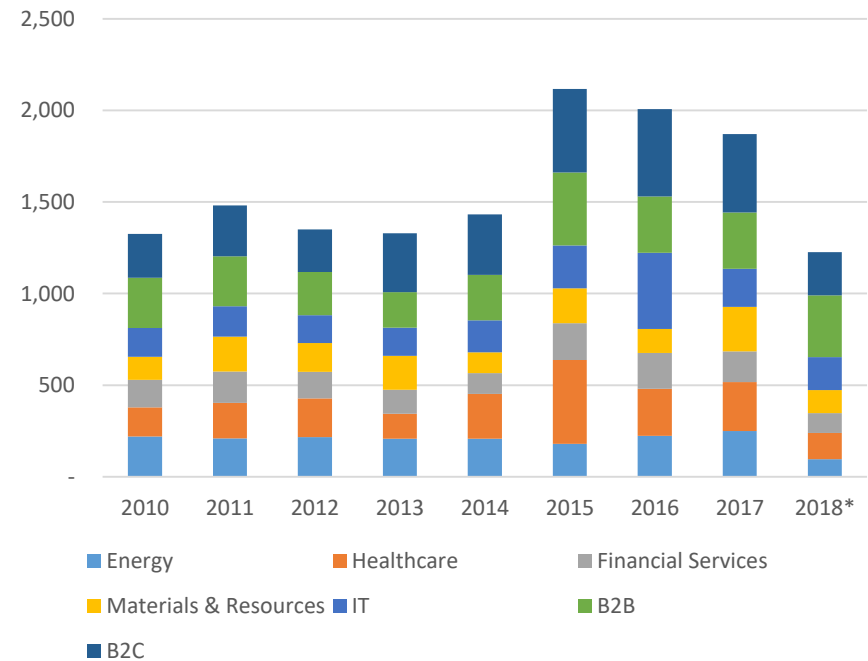
- IT and healthcare are still the stars

US PE activity (\$B) by sector



\*Source: Pitchbook

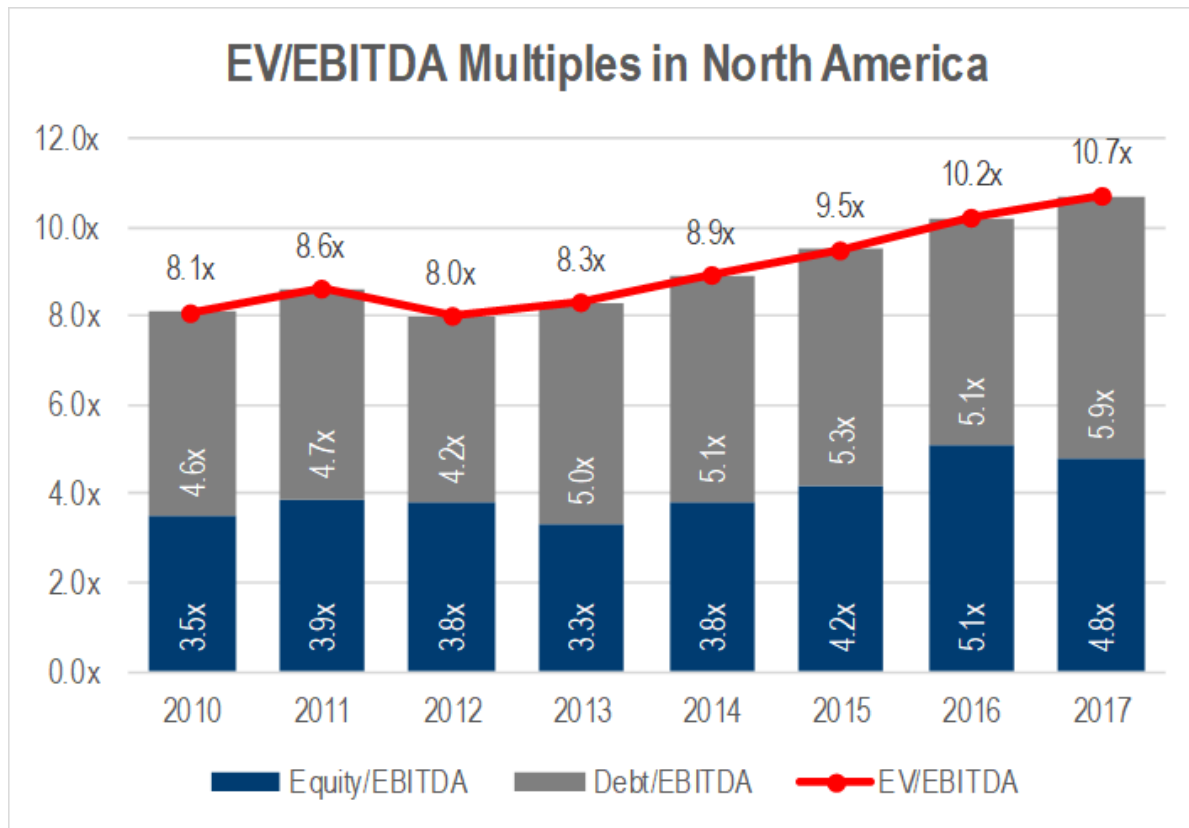
US Strategic activity (\$B) by Sector



\*Source: CapIQ

# Market Trends

## Market Multiples



\*Source: Pitchbook

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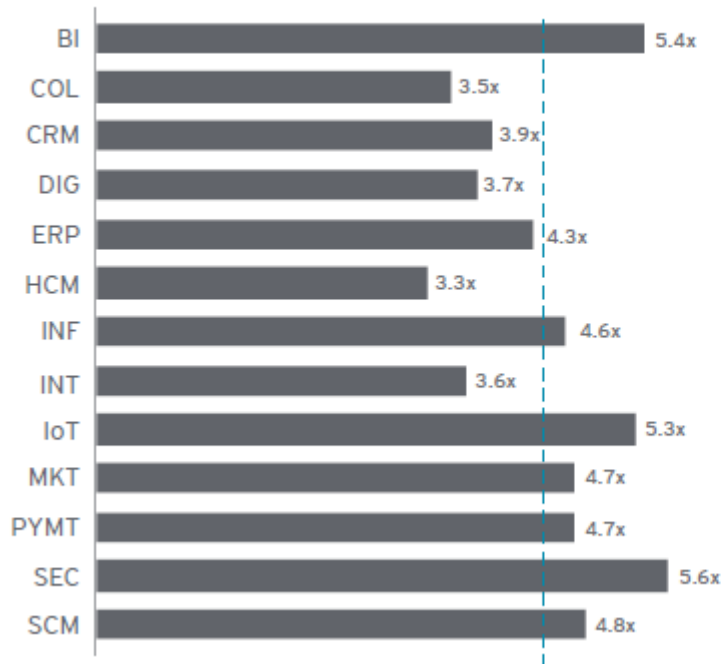
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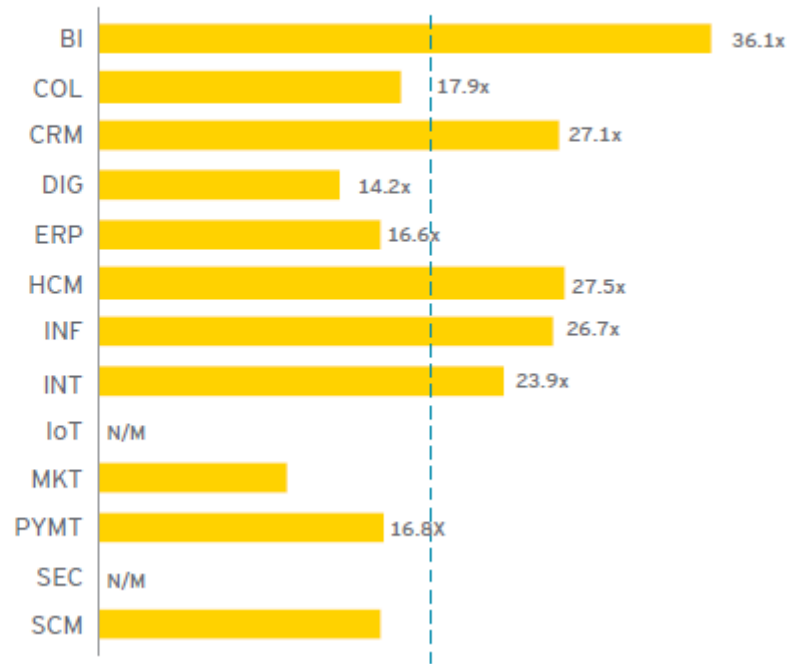
# Market Trends

## 2018 IT Market Multiples

M&A deal multiples - TEV/Revenue (median)



M&A deal multiples - TEV/EBITDA (median)



\*Source: S&P Capital IQ

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# Factors Pressuring Multiples

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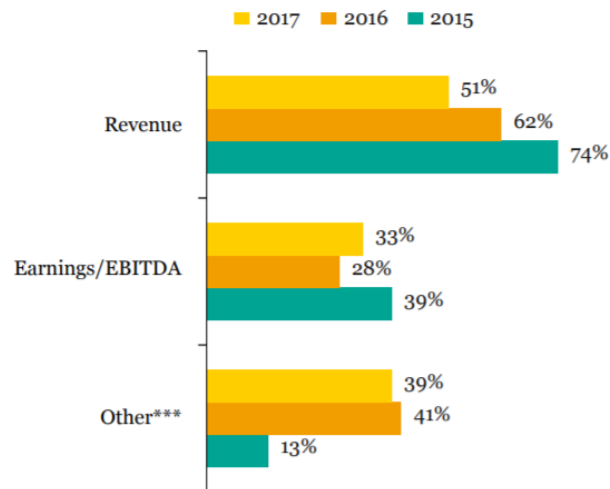
- Influx of capital
- Much competition for relatively few deals
  - It's a supply problem!
- Tax code changes
  - 35% to 21%: Upward pressure
  - Interest in excess of 30% of EBITDA: Downward pressure at 6-7x EBITDA of debt
  - Repatriation: Jury is still out
- Tariffs (or not tariffs... or tariffs... or not tariffs...)
- Eventual downward pressure: Inflation and interest rates

# Apportioning Risk

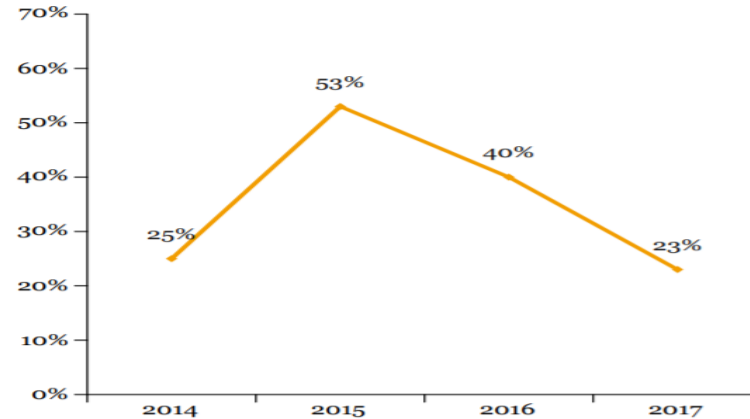
## Earnouts

- Sellers have had the upper hand in recent years
- Swinging back to buyers as hedge against higher multiples

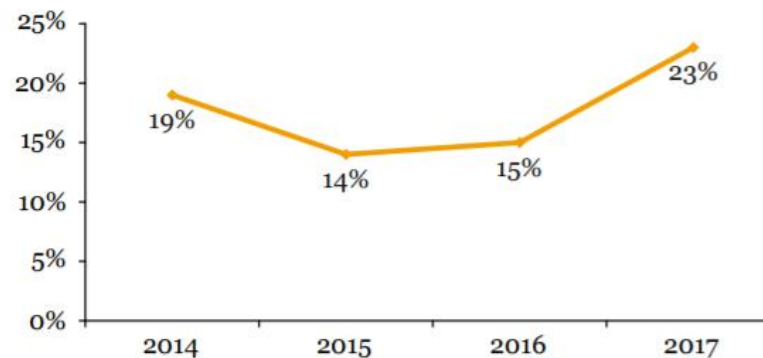
Earnout metrics\*\*



Median earnout potential as % of closing payment\*\*



Earnout included



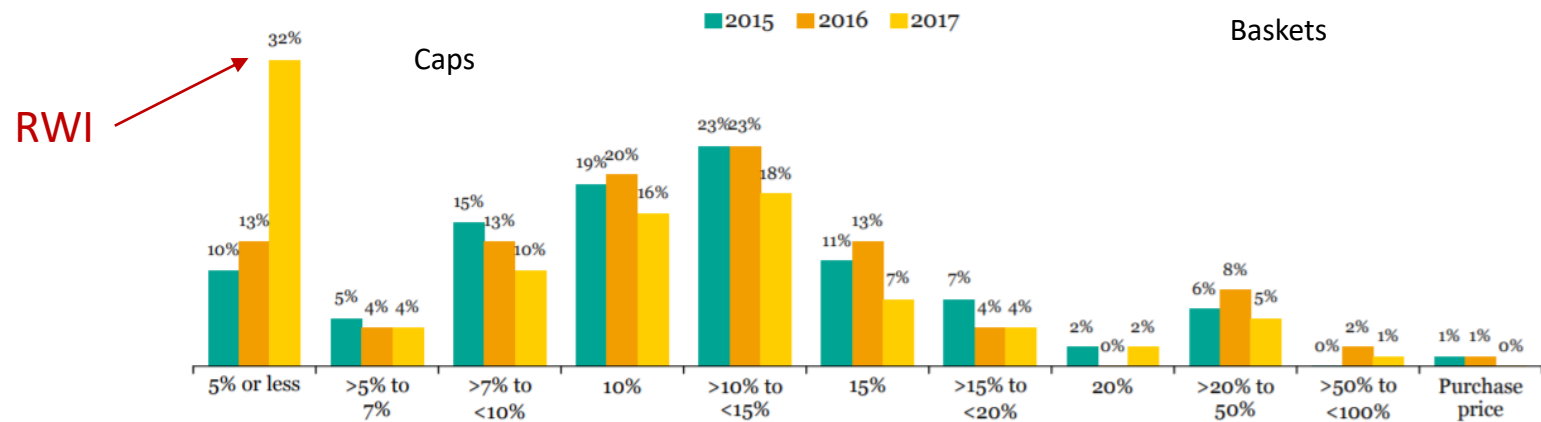
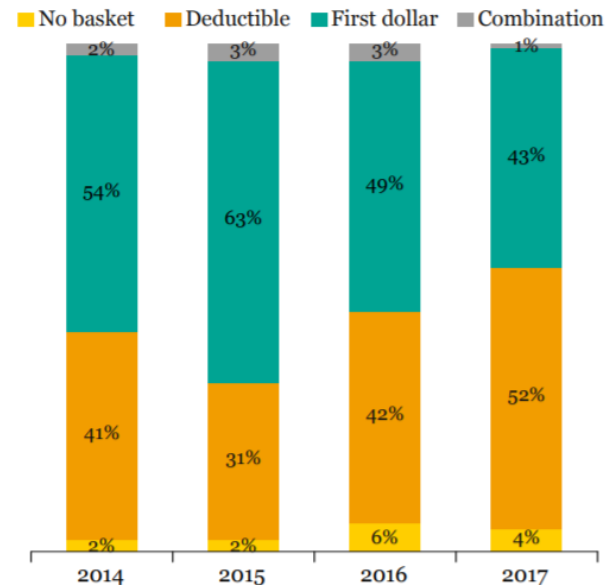
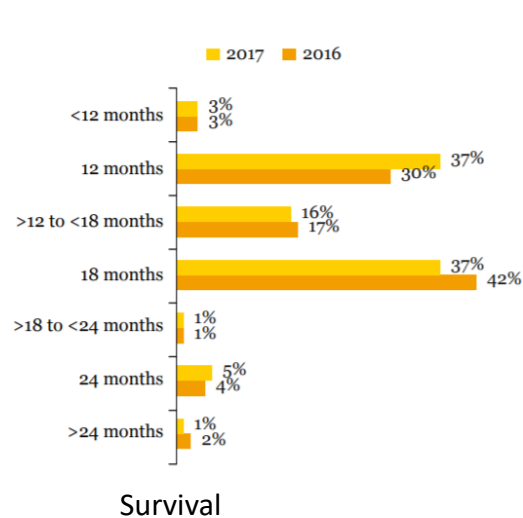
\*Source: SRS Acquiom

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# Apportioning Risk

## Indemnification Caps

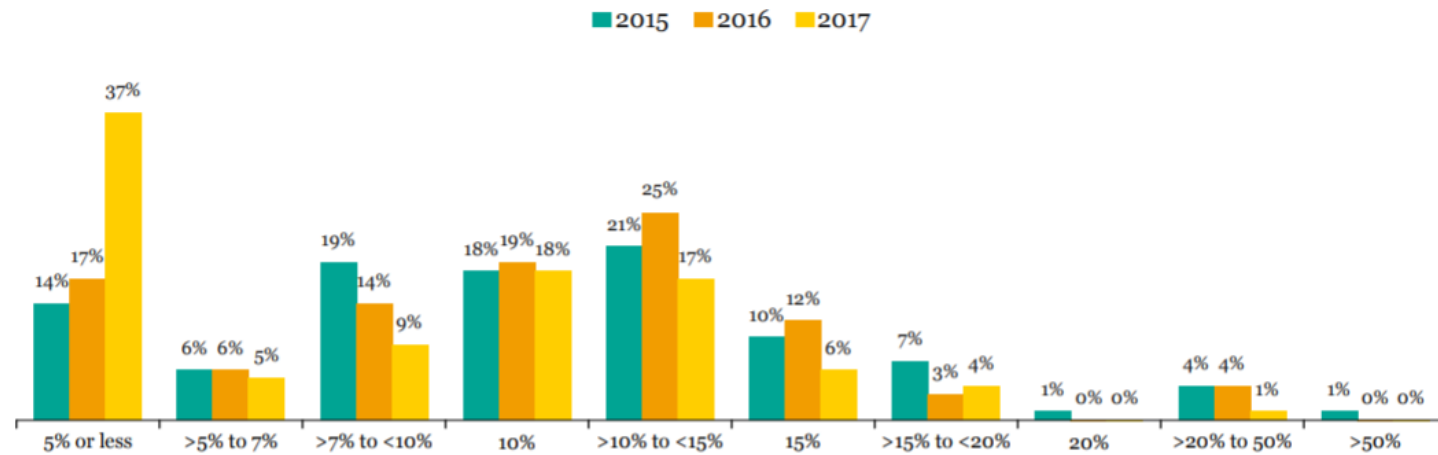


\*Source: SRS Acquiom

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# Apportioning Risk

## Escrow



Escrow Size as % of Transaction Value – All Deals



Escrow Size as % of Transaction Value – No RWI

\*Source: SRS Acquiom

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# Summary of Past Data

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- Multiples continue to be historically very high
- Continues to be a sellers' market
  - For the good companies!
  - Defined as: strong management, with a defensible product/service, predictable revenue/earnings, strong growth in a large market.
- For those Goldie Locks companies, buyers still lining up and terms are seller-favorable
- Tax changes are “artificially” supporting multiples
- Due diligence will continue to be “onerous”
- Likely to be the best time in a generation



# Observations Going forward

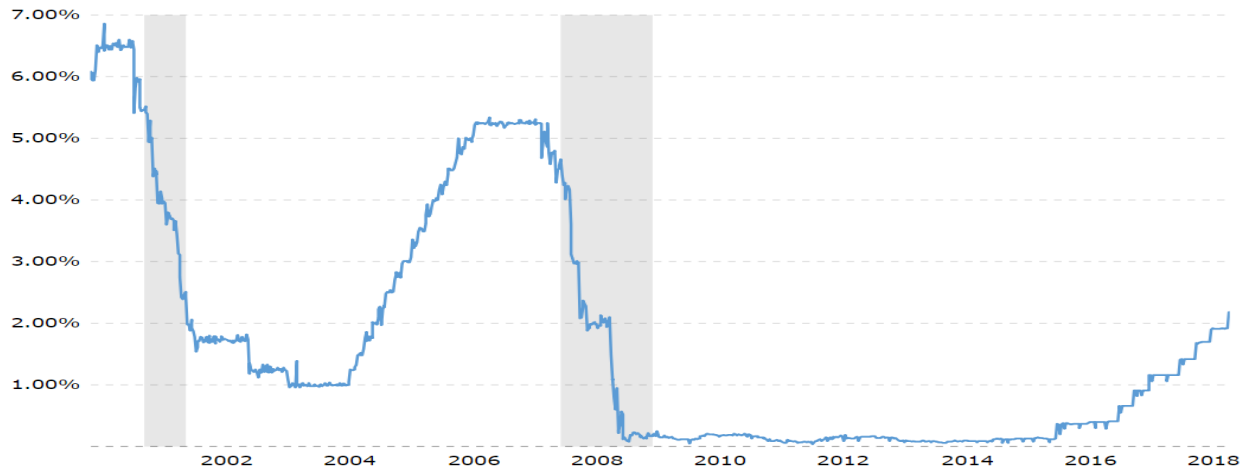
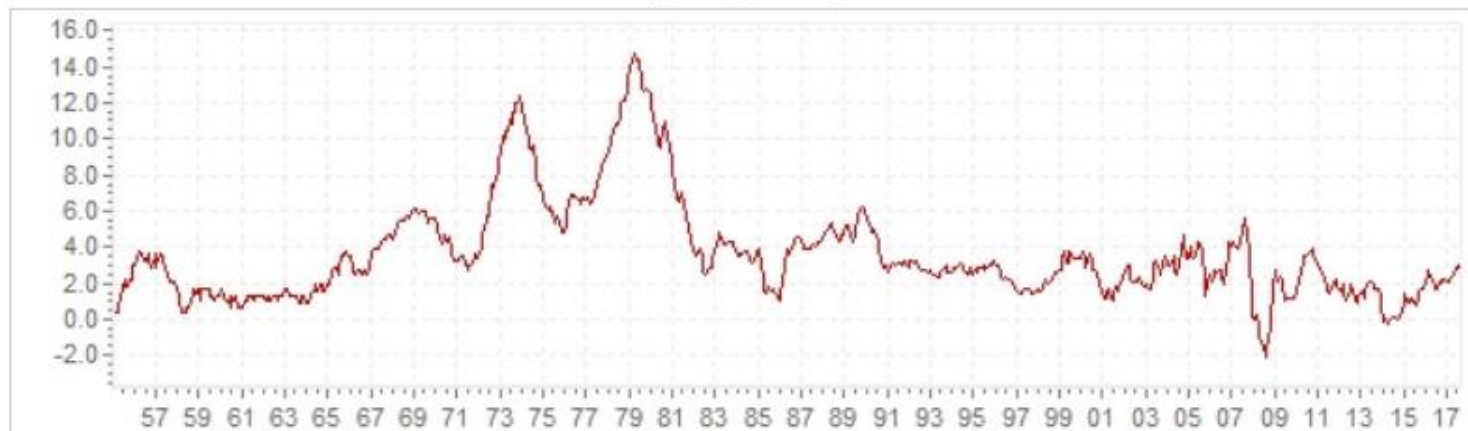
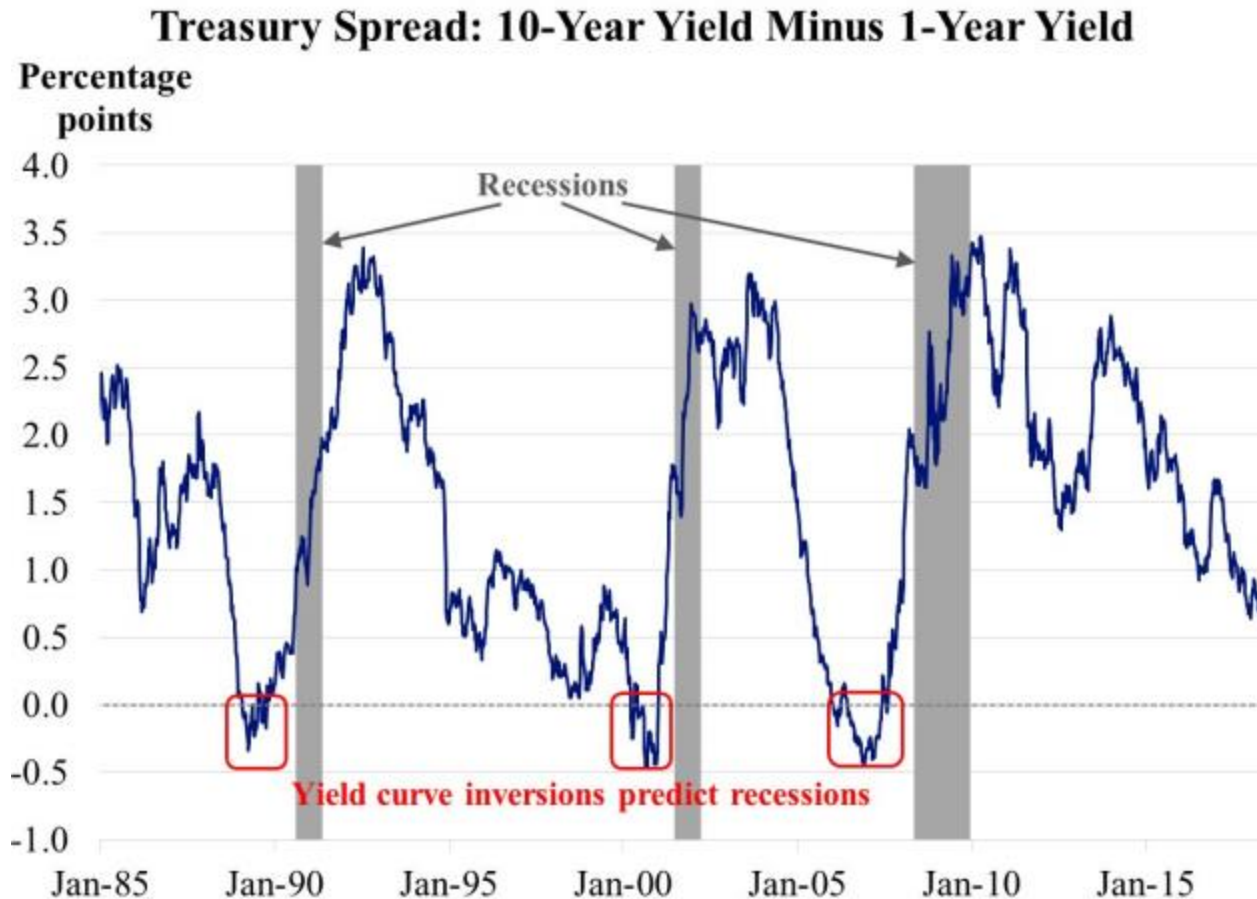


Chart – historic CPI inflation United States (yearly basis) – full term



# Observations Going Forward

## Treasury Spread



*\*Source: St. Louis Federal Reserve Banks*

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# Observations Going Forward

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- Multiples will remain elevated
  - Too much competition
  - But they have peaked
  - Will not revert to the mean any time soon though
- Deal counts will continue to trend downward (slowly)
- Economic breaks
  - WSJ: Already had a recession in parts of Midwest
  - ITR: Mild slow down in 2019 with rebound thereafter
  - LBCI: Expectations of national and regional downturn
- Tariffs are rippling through the economy
- But, nothing visibly precipitous at this point

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Thank You!