Lincoln International

DEALREADER | Private Company Group

The merger-and-acquisition newsletter for owners of private companies and their advisors

Spring 2015

Inside this Issue

Welcome to the Spring 2015 issue of the Private Company Group DealReader, a newsletter focused on merger-and-acquisition trends, transactions and events of interest to owners of private companies and their advisors.

In this issue, Pat Goy discusses the coming boom in middle market M&A and its implications for owners of privately held businesses.

Other topics covered in this issue include:

- The Lincoln 500 Index and a discussion of our unique perspective on the middle market
- Profiles of recent Lincoln International transactions, including the sale of Lazer Spot to Greenbriar Equity Group, the acquisition of Video Insight by Panasonic, and the creation of a joint venture between Baylor College of Medicine's Medical Genetics Laboratories and Miraca Holdings.

We hope you find this newsletter a useful tool and we welcome your comments or questions.

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The Coming Boom in Middle Market M&A — Patrick Goy

Pat Goy is Head of Lincoln's Privately-Held Business Group, as well as a member of the Global Industrial Group. Pat has been advising public and private companies in mid-market M&A transactions for over 30 years. He has led deal teams in over 200 transactions for a variety of clients, including extensive expertise working with privately-owned and family businesses.

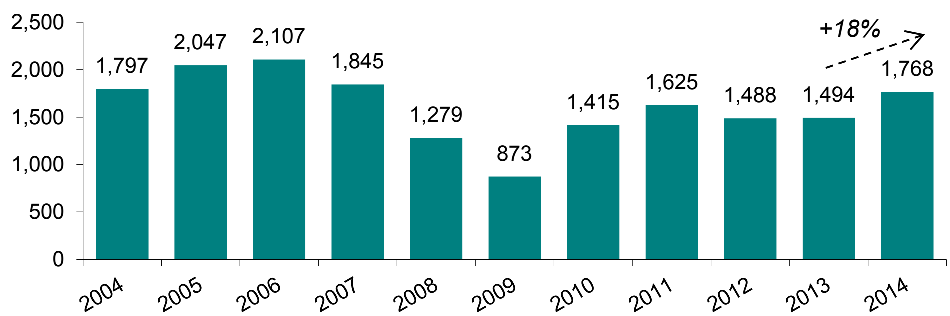
Prior to joining Lincoln, Pat held a number of investment banking positions at leading firms including Continental Bank (now Bank of America), Stifel, Nicolaus & Co., and Mesirow Financial. In 1997, Pat joined Lincoln International as a Managing Director and is the most tenured officer of the firm after the four founders.

For those private company business owners looking for a near term liquidity event, the opportunity to do so at an attractive price and with a strategic buyer has never been better.

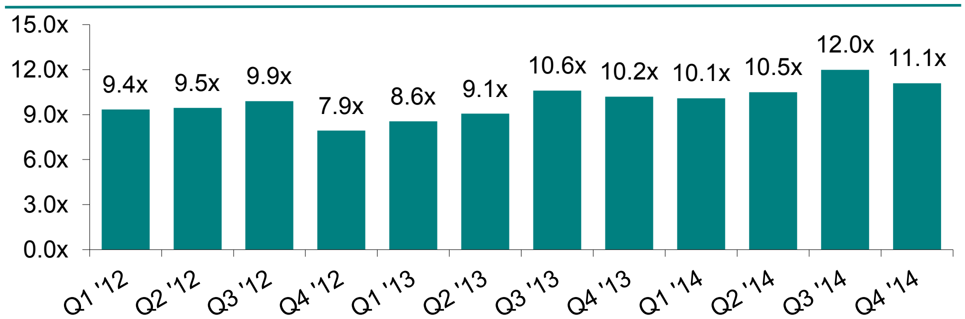
The Social Security Administration estimates that just over 10,000 Americans are turning age 65 every day. An estimated 9 million of America's 15 million business owners are age 51 or older. There is an estimated $11 trillion that will be transferred from one generation to another over the next 20 years. The middle market transaction numbers for 2014 reinforce the idea that this wealth transfer is beginning while current demographics suggest that M&A activity among private business owners is just in the early innings.

Following a sluggish four years through 2013, M&A activity increased nicely in 2014 driven by improving financial performance, a rising equity market, unprecedented amounts of investable capital and a favorable debt financing environment. Higher transaction numbers have driven higher average multiples paid, the result of an abundance of capital chasing a limited supply of quality transactions. This activity will likely grow with renewed emphasis from both

Middle Market M&A Transaction Count

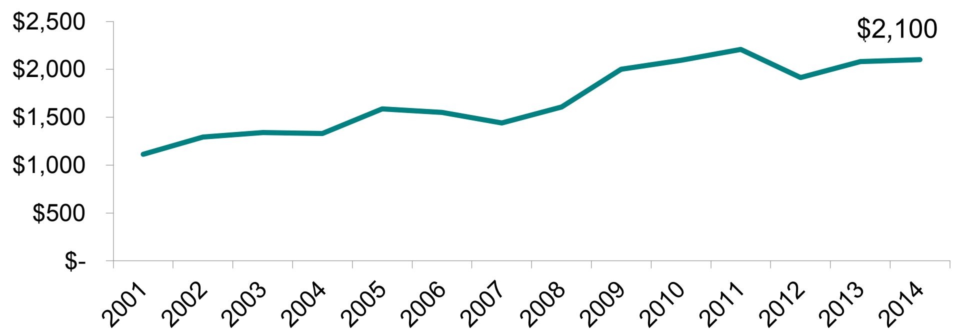


Average EV/EBITDA in U.S. Middle Market Transactions



Source: FactSet Mergerstat
Note: Only reflects deals with disclosed values

Corporate Cash On Hand ($ in billions)



Source: Federal Reserve

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strategic buyers and private equity groups.

Strategic Activity

The first quarter of 2015 has seen a significant number of public companies announce year end results where earnings have improved despite tepid top line sales. This is a fairly common occurrence following recovery from a recession as public companies stay focused on profitability in a slow growth environment. With investor expectations now more bullish, price/earnings multiples have expanded, while the search for growth has renewed focus on add-on or bolt-on acquisitions. Corporates are seeking such acquisitions to “fill in gaps” strategically important to their existing businesses, add growth or simply take a smaller competitor out and increase market share.

As corporates trade at lofty multiples, strategic acquirers continue to aggressively pursue transactions at premium valuations, which still remain accretive to earnings. With an unprecedented amount of cash on the books of corporates earning essentially zero percent, growing earnings per share through acquisitions has become an increasingly meaningful and utilized strategy. Investors in public markets are awarding those corporations that execute thoughtful M&A strategies with higher share prices.

Private Equity Activity

Last year marked the return of lenders to the private equity market, allowing sponsors to pay higher multiples and put more money to work than at any time over the last 14 years. Despite this upsurge in activity, there remains an overhang of over $500 billion in “dry powder” that sponsors need to put to work. Sponsors are thus working hard to win competitive auctions against strategic buyers, a trend that should continue for the near term.

In addition, an interesting trend is developing within sponsor’s portfolios which is expected to cause many to become net sellers in the next few years. As the charts below indicate, the average age of investments inside private equity has grown in each of the last six years, with almost 50% of investments aged five years or greater and a median holding of six years. Many sponsors are in fact trying to sell everything that “is not nailed down” to wind down funds and return money back to investors.

What Does All This Mean for Private Company Owners?

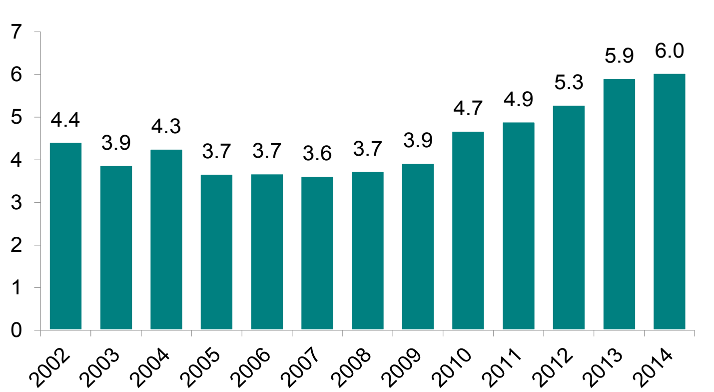
Absent an unknown world event, the next few years will be an ideal time for owners of privately-held businesses to obtain a liquidity event. While private equity groups will be active, their bids will likely be more clustered in value, limited to leverage multiples and rate of return hurdles. Strategic buyers, however, have no such limitations, bidding with low cost excess cash reserves and with highly valued securities. Strategic buyers will almost always outbid private equity competitors for an asset they covet.

However, strategic buyers are highly focused on certain characteristics. “A” businesses pursued most aggressively by corporates consistently demonstrate historical and forecasted growth, a management team committed to the business and a strong fit with the acquirer. Contingent liabilities and environment issues are severe red flags with strategic buyers, which must be resolved before going to market. Finally, size does matter. For middle-market sellers looking for a premium valuation, public companies typically target companies which will move their needle (greater than $10 - $15 million in EBITDA).

One thing financial and strategic acquirers have in common is their love for privately owned businesses. No matter how well run a private company operates, both sets of buyers see opportunity to capture “low hanging fruit” of excess expenses and leverage operational improvements.

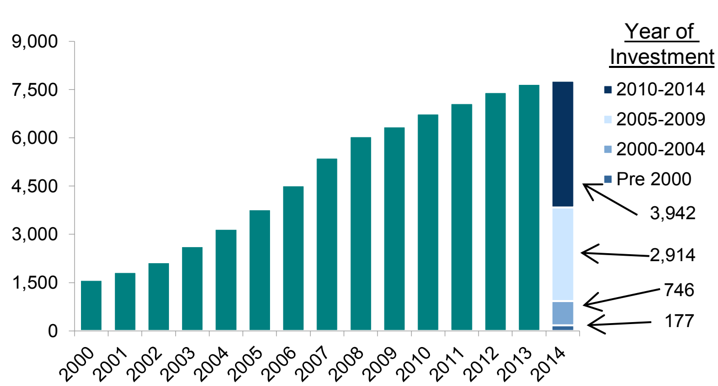
For private company owners looking for a liquidity event in the next few years, the market should be active but crowded. In order to put their business in the best possible position to attract a premium valuation, owners should be talking now to their financial advisors, estate planners and legal counsel to learn more about positioning their business for the for the best outcome possible. ■

Median Hold of Private Equity Investments (years)



Source: Pitchbook

Private Equity Portfolio Inventory by Deal Year



Source: Pitchbook

The Lincoln Valuation Database — Lincoln's Perspectives on the Middle Market

***About Lincoln's Valuation Database:** Lincoln maintains an extensive proprietary database in connection with its quarterly portfolio valuation activities containing valuation and financial data for a diverse group of companies across ten primary industry segments. The database offers a glimpse into the middle market where reliable data is otherwise limited. Valuation metrics reflect observed transaction multiples. Financial results reflect information available at the end of each calendar quarter (typically, financial statements for one or two months preceding the end of each calendar quarter) and are presented on a one quarter lag.*

Financial performance finished generally strong in 2014, with companies demonstrating continued revenue gains through Q4. However, the trend of flat earnings performance continued as companies were impacted by declining oil prices and capital expenditures within the oil and gas industry.

Average quarterly year-over-year revenue growth increased in Q4 2014, driven in part by high revenue growth from companies with less than $10 million of EBITDA. Driven by strong quarter-over-quarter performances from the Aerospace & Defense and Automotive & Truck sectors, the average EBITDA decline for all companies was 0.2%, which represented an improvement from the prior quarter decline of 1.9%. However, this momentum was offset by EBITDA declines in Energy and Industrials, as Energy earnings fell by 16.0% quarter-over-quarter and Industrials went from leading all sectors in revenue growth in Q3 to posting amongst the worst results in Q4.

S&P 500 companies, by contrast, reported blended revenue and earnings growth in Q4 2014 of 1.7% and 3.1%, respectively, a decrease from the prior quarter when growth was 3.7% and 5.6%. The public market results generally align more closely with the greater than $50 million LTM EBITDA companies in Lincoln's dataset.

Presented below are selected data from our Q4 valuation activities as captured by our proprietary database.

M&A Transactions

	Q1 '13	Q2 '13	Q3 '13	Q4 '13	Q1 '14	Q2 '14	Q3 '14	Q4 '14
TEV / EBITDA	7.3x	7.4x	7.5x	8.2x	8.3x	7.1x	8.4x	8.4x
Total Debt / EBITDA	4.2x	4.4x	4.7x	4.6x	4.5x	4.7x	4.8x	4.9x
Senior Debt / EBITDA	3.0x	3.5x	3.5x	3.4x	3.3x	3.3x	4.0x	4.1x
Equity % of Total Cap	43%	38%	37%	44%	44%	31%	44%	44%
LTM EBITDA (Average)	$24	$21	$47	$30	$31	$34	$29	$30
Count	10	12	22	15	34	39	19	17

Commentary:

- Q4 M&A multiples remained mostly unchanged from the prior quarter. Total leverage and senior leverage were up marginally from the prior quarter at 4.9x and 4.1x, respectively.
- Average equity cushions observed in Q4 2014 were unchanged from the peak of 44% observed in Q3 2014 and are above Lincoln's historical data set average of 41%.
- Average junior leverage remained unchanged quarter-over-quarter.

% Financial Growth Rates (Mean)

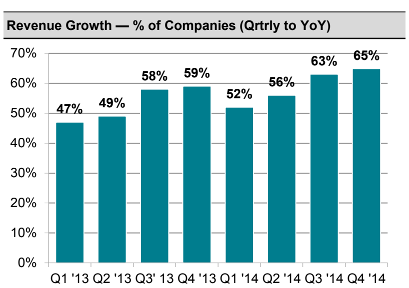
By Size:

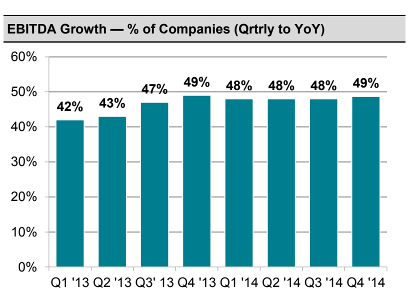
LTM EBITDA	EBITDA Margin	Q4 '14 vs. Q4 '13 Revenue	Q4 '14 vs. Q4 '13 EBITDA	Q3 '14 vs. Q3 '13 Revenue	Q3 '14 vs. Q3 '13 EBITDA
$0 - $10	16.3%	8.8%	-3.0%	7.5%	-6.9%
$10 - $30	20.4%	2.5%	-2.5%	3.0%	-4.8%
$30 - $50	20.0%	5.5%	0.0%	3.8%	0.2%
>$50	22.3%	5.8%	3.4%	4.3%	2.7%
Total	**19.9%**	**5.1%**	**-0.2%**	**4.4%**	**-1.9%**

By Industry:

Industry Sector	EBITDA Margin	Q4 '14 vs. Q4 '13 Revenue	Q4 '14 vs. Q4 '13 EBITDA	Q3 '14 vs. Q3 '13 Revenue	Q3 '14 vs. Q3 '13 EBITDA
Business Services	20.7%	1.3%	-3.2%	3.8%	-2.9%
Consumer	14.9%	5.5%	0.5%	1.6%	-6.0%
Healthcare	21.8%	5.9%	2.9%	6.0%	0.5%
Industrials	15.6%	2.6%	-3.7%	6.7%	0.9%
Technology	24.0%	5.5%	-1.9%	4.7%	-1.3%
Total	**19.9%**	**5.1%**	**-0.2%**	**4.2%**	**-1.9%**

Revenue & EBITDA Trends



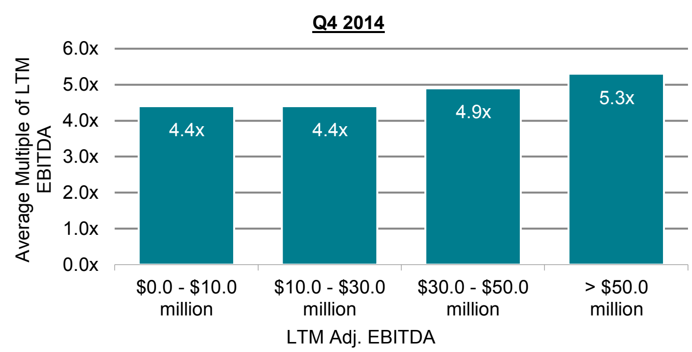


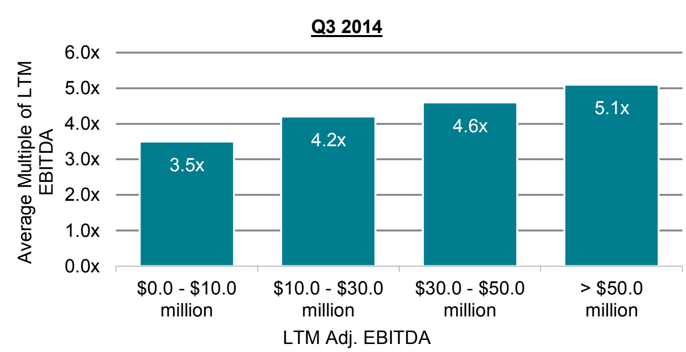
Commentary:

- Approximately 65% of the companies observed reported revenue growth in Q4 2014 vs. Q4 2013. This represents three consecutive quarters of year-over-year growth, and the highest percentage of revenue gainers since Q2 2012.
- Despite the growth in the number of companies reporting revenue gains, more companies have reported EBITDA declines than gains in each of the past eight quarters. The split between EBITDA gains and losses has remained substantially unchanged since Q3 2013.
- The proportion of companies exhibiting EBITDA gains has trailed those with improving revenue in each quarter that Lincoln has tracked this data, beginning in 2011.

Note: Aerospace & Defense, Automotive & Truck, Chemicals, Energy, and Financial Services excluded due to limited historical data

Total Leverage (By Size)





Selected Recent Lincoln International Transactions

The Carlyle Group
Moorad Sports Partners
led the recapitalization of
PrimeSport
from
Clearlake Capital

- Sell-side transaction (February 2015)
- PrimeSport is a leading global sports travel and event management company, offering tickets, travel packages and hospitality events for corporations, professional sports teams and fans. The company is headquartered in Atlanta, Georgia.
- Acquired by a group of investors led by The Carlyle Group, a global alternative asset manager with $194 billion of assets under management across 128 funds and 142 fund of funds vehicles. The firm is headquartered in Washington, DC.

Sterling Investment Partners
has sold
Lazer Spot
to
Greenbriar Equity Group LLC

- Sell-side transaction (February 2015)
- Lazer Spot is the category leading provider of comprehensive yard management solutions, including trailer spotting, shuttling and other complementary transportation and logistics services. The company is headquartered in Alpharetta, Georgia.
- Acquired by Greenbriar Equity Group, a private equity firm with over $2.5 billion of committed capital focused exclusively on the global transportation industry. The company is headquartered in Rye, New York.

RLJ Equity Partners
has refinanced
erc
Senior Secured
Credit Facility

- Capital raise (February 2015)
- Enhanced Recovery Company is a leading provider of customer experience management services, including business process outsourcing and accounts receivable management services. The company is headquartered in Jacksonville, Florida.
- Completed the placement of an undisclosed amount of senior secured debt financing provided by Crescent Capital Group LP.

Panasonic
has acquired
VideoInsight

- Buy-side transaction (February 2015)
- Panasonic Corporation of North America provides a broad line of digital and other electronics products and solutions for consumer, business and industrial use. The company's North American headquarters are in Secaucus, New Jersey.
- Acquired Video Insight, a leading developer of video management software, as part of its strategy to expand business opportunities in the education market in North America. The company is headquartered in Houston, Texas.

BCM
Baylor College of Medicine
MGL
Medical Genetics Laboratories
has announced a
joint venture with
Miraca Holdings

- Sell-side transaction (February 2015)
- Baylor College of Medicine's Medical Genetics Laboratories is a leading provider of diagnostic testing services with a focus on clinically relevant, high value genetic tests. The company is headquartered in Houston, Texas.
- Formed a joint venture with Miraca Holdings, a Japan-based holding company in the healthcare sector, including clinical laboratory testing. The company is headquartered in Tokyo, Japan.

Glencoe Capital
has sold
Encore! Rehabilitation Services
to
Revelstoke Capital Partners LLC

- Sell-side transaction (January 2015)
- Encore Rehabilitation Services is a high-growth, multi-state provider of outcome-driven rehabilitative therapy services to nursing homes, home health agencies and managed care organizations. The company is headquartered in Farmington Hills, Michigan.
- Acquired by Revelstoke Capital Partners, a private equity firm formed by experienced investors who focus on building industry-leading companies. The firm is headquartered in Denver, Colorado.

Selected Recent Lincoln International Transactions (continued)

University of Kentucky has sold Coldstream Laboratories Inc. to Piramal

- Sell-side transaction (January 2015)
- Coldstream Laboratories is a specialty pharmaceutical contract manufacturer with an emphasis on clinical trial to commercial-scale sterile manufacturing of liquid and lyophilized parenterals and injectables. The company is headquartered in Lexington, Kentucky.
- Acquired by Piramal Enterprises Limited, one of India's large diversified companies. The company is headquartered in Mumbai, India.

Corning has acquired TR MFG. INC.

- Buy-side transaction (January 2015)
- Corning is one of the world's leading innovators in materials science. The company is headquartered in Corning, New York.
- Acquired TR Manufacturing, an industry leading provider of fiber-optic and copper cable/component interconnects and electro-mechanical assemblies to original equipment manufacturers. The company is headquartered in Fremont, California.

RAF Industries has sold Cool Gear to ACON Igloo

- Sell-side transaction (December 2014)
- Cool Gear is a leading provider of innovative solutions in the food storage and personal hydration bottle categories. The company is headquartered in Plymouth, Massachusetts.
- Acquired by Igloo Products Corp., a portfolio company of ACON Investments and a designer, manufacturer and marketer of coolers and other outdoor products. The company is headquartered in Katy, Texas.

Magnus Pacific has been sold to Great Lakes

- Sell-side transaction (November 2014)
- Magnus Pacific is a leading provider of geotechnical and environmental solutions in the Western United States. The company is headquartered in Roseville, California.
- Acquired by Great Lakes Dredge & Dock Corporation, the largest provider of dredging services in the United States and the only U.S. dredging company with significant international operations. The company is headquartered in Oak Brook, Illinois.

Curtis has been sold to MacLean-Fogg Component Solutions

- Sell-side transaction (November 2014)
- Curtis Screw LLC is a leading North American manufacturer of highly engineered, precision machined components for automotive OEMs and Tier I suppliers. The company is headquartered in Buffalo, New York.
- Acquired by MacLean-Fogg Company, a leading provider of engineered metal and plastic components to the industrial, automotive, military and aerospace markets, and unique devices used in the transmission and distribution of electrical power. The company is headquartered in Mundelein, Illinois.

Riverside has sold Connor Sport Court to Gerflor theflooringroup

- Sell-side transaction (November 2014)
- Connor Sport Court International is a provider of sports surfaces for schools and universities, professional sports teams, residential customers, private organizations and parks and recreational facilities. The company is headquartered in Amasa, Michigan.
- Acquired by Gerflor Group, a global leader in the design and manufacture of resilient flooring. The company is headquartered in Villeurbanne, France.

Lincoln International's Global Footprint

150+ investment bankers throughout the Americas

125+ investment bankers plus a 24-person advisory board in Europe

Offices throughout the "BRIC" economies of Brazil, Russia India and China

Indicates Lincoln International office

About Lincoln International

Lincoln International specializes in merger and acquisition advisory services, debt advisory services, private capital raising and restructuring advice on mid-market transactions. Lincoln International also provides fairness opinions, valuations and pension advisory services on a wide range of transaction sizes. With sixteen offices in the Americas, Asia and Europe, Lincoln International has strong local knowledge and contacts in key global economies. The firm provides clients with senior-level attention, in-depth industry expertise and integrated resources. By being focused and independent, Lincoln International serves its clients without conflicts of interest. More information about Lincoln International can be obtained at **www.lincolninternational.com.**

Save the Date

Industry Groups

Lincoln International's dedicated industry verticals are organized on a global basis and led by senior professionals with significant advisory and sector expertise:

- Aerospace and Defense
- Automotive and Truck
- Building and Infrastructure
- Business Services
- Chemicals
- Consumer
- Distribution
- Electronics
- Energy and Power
- Financial Institutions
- Food and Beverage
- Healthcare
- Industrials
- Packaging
- Technology and Media

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Lincoln INTERNATIONAL

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