



# DealReader Private Company Group

Winter 2016

Welcome to the Winter 2016 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, the Private Company Group welcomes Mike Fisch, Managing Director in Lincoln's Valuations & Opinions Practice.

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

## Inside this Issue

**An interview with Mike Fisch, Managing Director in Lincoln International's Valuations and Opinions Group (VOG).** In his interview Mike discusses how his practice, which values in excess of 800 privately held companies on a quarterly basis, leverages Lincoln's strong M&A presence and global footprint in working with private company owners to provide thorough and professional valuations. Mike also outlines the ways that a professional valuation can provide value to a private business owner.

**A brief look at the state of the M&A market;** the key drivers of M&A activity and what this means for the future and for private business owners thinking through strategic alternatives, an overview of recently closed Lincoln-led private company transactions, and information on upcoming Lincoln International industry conferences.

## Mike Fisch



Michael (Mike) is a Managing Director in the Valuations & Opinions Group where he leads valuation and financial advisory assignments. Mike has over 15 years of M&A, capital raising and valuations experience, advising business development companies, PE firms, hedge funds and other financial institutions in the valuation of alternative and illiquid investments.

Prior to Lincoln International, Mike was with RBC Capital Markets and Ernst & Young. Mike earned his MBA from the University of Chicago Booth School of Business, a Master of Business Taxation degree from the University of Southern California and a Bachelor of Science from Cal Poly, San Luis Obispo. He is also a certified public accountant (CPA).

## DealReader Interview with Lincoln's Valuation and Opinions Group

**PCG:** Can you provide background on Lincoln's Valuation and Opinions Group ("VOG")?

**Mike:** VOG is a leading independent provider of valuation services to private and public companies and investment funds. The team is comprised of 25 professionals with extensive experience valuing debt and equity securities, and other complex investments, for a variety of purposes. As an integral part of Lincoln's global investment banking platform, we combine "real world" transactional experience and industry knowledge with technical expertise in all types of valuation methodologies to deliver valuations that reflect prevailing market conditions.

**PCG:** How does VOG work with private business owners?

**Mike:** We work collaboratively with business owners, in conjunction with Lincoln's Private Company Group, to develop valuation approaches tailored to their specific needs. VOG typically gets involved for transaction planning, general corporate, financial and tax reporting, and dispute resolution purposes. Common situations involve majority and minority share transactions, buy-sell agreements, stock compensation plans, and wealth transfers. We are deeply committed to developing and maintaining long-term relationships. Our clients' valuation needs evolve, and we work hard to be their trusted advisor, often over many years.

**PCG:** Can you describe in more detail when business owners might use a valuation as transaction support and why this would benefit them?

**Mike:** Third party valuations can be useful before, during and / or after a transaction, depending on the circumstances. A business owner seeking a liquidity event needs a realistic and timely assessment of value when evaluating alternatives. A valuation can guide whether and when to commit time and resources to pursuing a transaction and build consensus within an ownership group as to an appropriate course of action. In some cases, valuations are used to establish the price at which a sale or transfer will occur, or to bridge and / or resolve disputes among parties. Post-closing, business owners use valuations as support for accounting or tax reporting purposes (as with purchase price allocations or transfers of shares to a trust).

As a planning tool, valuations help frame and quantify tradeoffs between strategic alternatives. For example, we recently advised a private company shareholder group on the value of their shares assuming a (i) minority investment; (ii) sale to a private equity investor; (iii) sale to a strategic acquirer; and (iv) share repurchase. VOG collaborated with Lincoln's M&A industry groups to assess the salability of the business, identify key value drivers, and consider applicable premiums and discounts for control, liquidity and synergies, among other factors. The resulting "valuation road-map" helped the shareholders achieve an optimal outcome.

**PCG:** What would the process of performing a valuation look like for the business owner and his / her team?

**Mike:** Once the scope and purpose of the valuation is established, we work closely with our clients to tailor a process appropriate for the situation which may or may not involve company management. The level of diligence required can range from a simple limited scope "desk top valuation" utilizing key business and financial information to a "full scope" review involving extensive interviews with management and site visits, and everything in between.

A common challenge in valuing private businesses is a lack of reliable data on valuation levels and performance benchmarks. Our process is geared toward leveraging Lincoln's market knowledge and industry expertise, which includes drawing on extensive proprietary databases that capture Lincoln's transaction and valuation experience, including financial performance and valuation information on over 800 privately held companies we value each quarter. For a valuation to be useful, it should not only be theoretically sound but grounded in reality.

**PCG:** Can you provide a sense of the fees for the different types of valuation services?

**Mike:** Fees vary depending on scope and complexity and are generally structured on a fixed fee, non-contingent basis (except for litigation / expert testimony which is billed hourly). Common valuation types are shown below, listed by cost from lowest to highest.

## Patrick Goy



Pat Goy is Head of Lincoln's Private Company 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, and has extensive expertise working with privately owned and family businesses.

## Common Valuation Services

Type of Valuation	Purpose	Application
Limited Scope "Desktop Valuation"	General Corporate Purposes	<ul style="list-style-type: none"> <li>▪ Business Enterprise / Equity Valuations</li> <li>▪ Liquidity Events</li> <li>▪ Generational / Succession Planning</li> </ul>
Special Purpose Valuations	Financial / Tax Reporting	<ul style="list-style-type: none"> <li>▪ Stock Compensation</li> <li>▪ Estate / Gift Taxes</li> <li>▪ Intangible Assets and Intellectual Property</li> <li>▪ Derivatives / Complex Instruments</li> <li>▪ Purchase Price Allocations</li> <li>▪ ESOPs</li> </ul>
Full Scope Valuation	Transaction Support	<ul style="list-style-type: none"> <li>▪ Minority / Majority share Transactions</li> <li>▪ Business Combinations</li> <li>▪ Stock Repurchases</li> <li>▪ Divestments</li> <li>▪ Buy / Sell Agreements</li> </ul>
Fairness Opinions	Sale or Transfer of Assets	<ul style="list-style-type: none"> <li>▪ Opinion on the fairness of consideration being paid / received as part of the sale or transfer of an asset</li> </ul>
Other Advisory	Special Situations	<ul style="list-style-type: none"> <li>▪ Litigation / Expert Testimony</li> <li>▪ Debt Capacity Analysis</li> <li>▪ Financial Distress</li> </ul>

## State of the Market

2015 saw plenty of "doom and gloom" headlines related to tumbling prices for oil and other commodities; signs of weakness in emerging economies, most notably China; fears of a domestic recession or larger economic slowdown; and uncertainty or dislocation within the broader credit markets. Despite these larger, macro trends, the middle market saw M&A transaction volume in 2015 surpass 2014 levels. As shown on the following page, the volume of transactions completed in 2015 neared those seen in the peak years of 2005 and 2006.

The strength in the M&A market seems counterintuitive to the recent trends experienced in credit markets, as reports of mutual fund outflows and disruption in the large syndicated market abounded in late 2015 into early 2016. While the broadly syndicated market saw new issue loan volumes drop in the second half of 2015 and all-in interest rates increased, the middle market remained remarkably steady. According to data from S&P, both new-issue yields and total debt multiples for middle market transactions remained largely consistent throughout 2015. This consistency is largely driven by the participants in the middle market, which are primarily comprised of private debt funds, finance companies and insurance companies, which have secure, long-term sources of capital. Further, supporting this growth in middle market lending is a continued influx of both new capital providers and new funds or vehicles from existing providers; according to Thomson Reuters, 2015 saw an increase in funds raised by middle-market-focused capital providers compared to 2014.

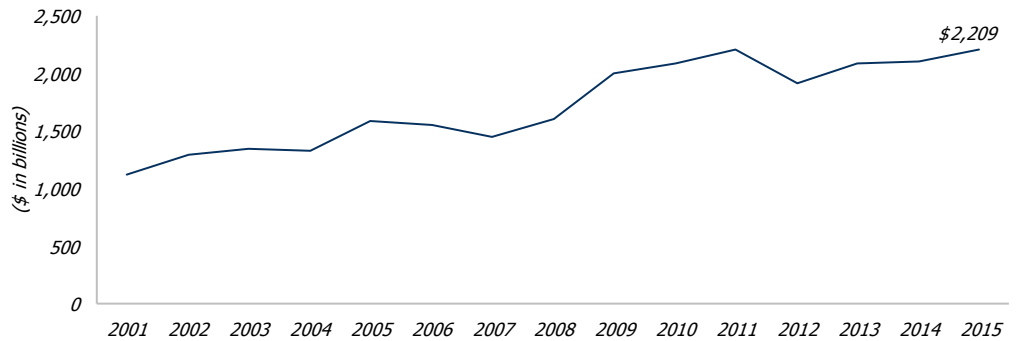
So, with an active M&A market, supported by a large (and actually growing) supply of debt capital, middle market EV / EBITDA multiples remained robust in 2015. The levels seen in 2015 were consistent, if not higher, than those seen in 2014. While private equity funds raised record levels of capital over the past few years, further supporting these purchase multiples is an increasingly active base of strategic buyers, as large corporations continue to have growing cash balances and a desire to supplement organic growth through acquisitions. Lincoln has seen first-hand that strategic buyers are increasingly looking to the middle market for acquisition targets, as 65% of Lincoln's 2015 M&A transactions were sold to strategic buyers, compared to only 58% in 2014.

Fears of macroeconomic pressures or a looming recession may drive a "flight to quality," as buyers and lenders look for industries that will be insulated, or at least shielded, from a broader downturn. But with a growing universe of buyers and an influx of debt capital to the middle market all pursuing a limited universe of potential targets, the current environments remains highly attractive for sellers.

### Key Issues

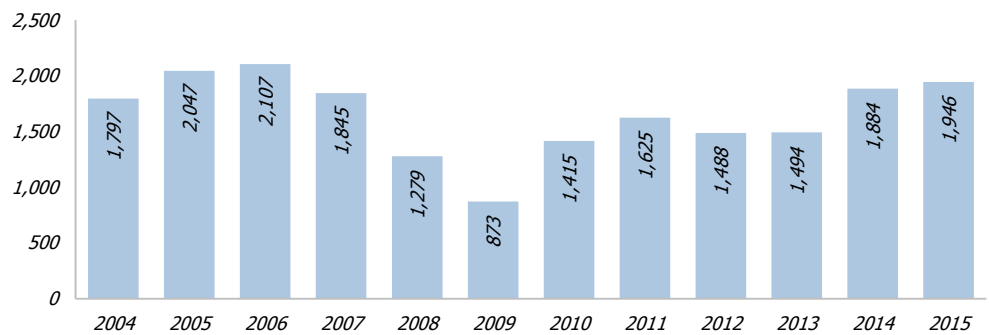
1.	Oil and other commodity price declines	4.	Rising default rates
2.	China slowdown	5.	Capital supply / demand imbalance
3.	Uncertainty (fear) over potential U.S. recession	6.	Rising interest rates

### Corporate Cash on Hand



Source: Federal Reserve

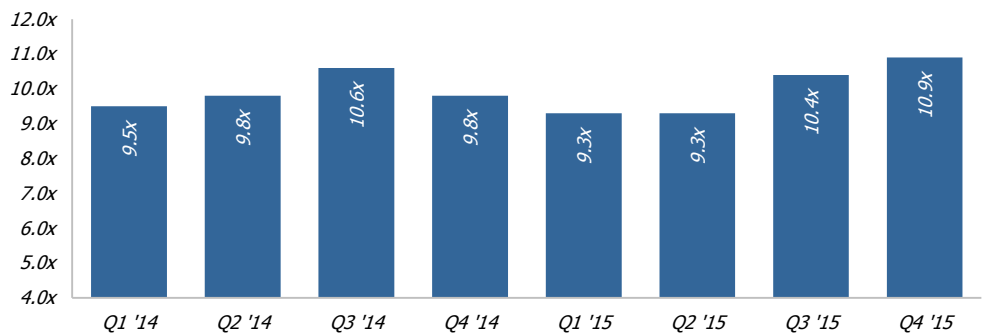
### Middle Market M&A Transaction Count



Source: Factset Mergerstat

Note: Only reflects deals with disclosed values

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



Source: Factset Mergerstat

Note: Only reflects deals with disclosed values

## Select Private Company Deals

 AIM AEROSPACE has been sold to  LIBERTY HALL Capital Partners 	 BOXER has been sold to  vmware® 	 core digital media has sold  pricegrabber to  connexity 	 CORFIN has been sold to  SML CAPITAL PARTNERS LLC 	 EQUIPMENT TECHNOLOGIES has been sold to  EXEL 
 HeartSine has been sold to  PHYSIO CONTROL a portfolio company of  BainCapital 	 HKW has sold  CORPORATE VISIONS Conversations That Win to  Sentinel CAPITAL PARTNERS 	 HUNTER TECHNOLOGY CORP. Reliable. Solutions. Delivered. has been sold to  sparton 	 Imperial Bag & Paper Co, LLC has been sold to  Andax Group 	 netech has been sold to  PRESIDIO. 

## Upcoming Lincoln International Industry Conferences





 Save the Date  
 May 12, 2016  
 Hotel Nikko, San Francisco

2016 CONSUMER CONFERENCE





 2016 BUILDING AND  
 INFRASTRUCTURE  
 CONFERENCE

Thursday, September 29, 2016  
 New York, NY

## Global Industry Groups

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

## Global Locations

Amsterdam  
Beijing  
Chicago  
Frankfurt  
London  
Los Angeles  
Madrid  
Milan  
Moscow  
Mumbai  
New York  
Paris  
São Paulo  
Tokyo  
Vienna  
Zurich

## Advisory Services

Mergers & Acquisitions  
Debt Advisory  
Valuations & Opinions  
Special Situations

# 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](http://www.lincolninternational.com).

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