Lincoln INTERNATIONAL

DEALREADER | Valuations & Opinions Group

# Q4 2015: Inside this Issue

*Welcome to the latest issue of the Valuations & Opinions Group Deal Reader, a newsletter offering insights on valuation topics of interest to financial executives, business owners, and investment and valuation professionals. We are pleased to provide commentary regarding relevant valuation topics and keep you informed about developments at our firm and in the market.*

***Key topics covered in the issue include:***

- *The Death of Control Premiums; and, The Birth of MPAP*
- *Dodd-Frank: Five Years Later*
- *Quarterly Regulatory Update*
- *Lincoln's Perspectives on the Middle Market*
- *Middle Market Private Equity Snapshot*
- *BDC Snapshot*

## *The Death of Control Premiums; and, The Birth of Market Participant Acquisition Premiums*

By Larry Levine

For over a generation, finance professionals have been taught that the publicly traded price of a company's shares represents the value of a minority investor. Therefore, if the goal of an analyst was to value this same company on behalf of a controlling investor (i.e., a party which holds greater than 50 percent of economic interests or has majority board seat representation), a "premium for control" or "control premium" should be accounted for and added to the value of equity indicated by that publicly traded price.

In practice, the control premium was supported and calculated as the difference between the per share amount offered by an acquirer versus the per share price prior to the acquisition. Beginning in the 1990's and extending until the 2009 time period, finance professionals began to realize that the control value of an entity may indeed equal the equity value implied by the publicly traded price; in other words, arguments were developed that if a publicly traded company was managed optimally, then there is no economic reason that the "controlling interest" value should exceed the "minority interest" value. Overtime, it became increasingly clear that the observed "control premium" comprised several economic factors unrelated to control, including an amount relating to synergies that the buyer expected to realize. It could, therefore, be concluded that the market evidence supplied by comparing the acquisition price to the publicly traded price does not represent

*(continued on page 5)*

## *Dodd-Frank: Five Years Later*

By Jesse Lawrence

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank" or the "Act") was signed into federal law on July 21, 2010 to protect investors in private funds. The act promoted financial stability, enhanced transparency and effectuated the accountability of private fund managers.

Chairwoman of the Securities and Exchange Commission, Mary Jo White has noted that Dodd-Frank addressed two broad areas of private fund risk including "firm-specific risks and risks that may also affect the broader asset management industry and potentially the financial system."

As a result of Dodd-Frank, private funds are now required to conform to the following:

- Title IV, the Private Fund Investment Advisers Registration Act of 2010, which requires many previously exempt investment advisers, including many hedge fund and private equity fund managers, to register as advisers for the first time;
- Form ADV, which discloses an adviser's activities and relationships, as well as basic information about the organizational, operational, and investment characteristics of each fund an adviser manages; and
- Form PF, filed by private fund advisers that manage more than $150 million in private fund assets. Form PF provides rich data to regulators,

*(continued on page 4)*

## Regulatory Update

### In the news:

**Key Considerations for the Chief Compliance Officer**

**In October 2015, Andrew J. Donahue, Chief of Staff of the Securities and Exchange Commission ("SEC"), addressed the attendees of the National Regulatory Services Fall Investment Advisor and Broker-Dealer Compliance Conference. Mr. Donahue outlined the role of the Chief Compliance Officer ("CCO") as it relates to the following key topics:**

- ***Laws, Regulations and other Requirements*: CCO's must intimately know the laws relating to the activities of a firm, and should consider how to operate within the multiple jurisdictions in which their firm operates.**
- ***Organization and Operations of the Firm*: CCO's should understand the supervisory structure of the firm and how different functions of the firm interact with each other.**
- ***Conflicts of Interest*: CCO's are responsible for monitoring how the firm identifies conflicts of interest and how its firm will resolve them.**
- **Clients of the Firm: A CCO needs to understand who the firm's clients/customers are and the products and services provided to them.**
- ***Compliance and Other Systems*: CCO's comprehension of the technology platforms utilized by the firm is critical in order to implement a robust compliance program.**
- ***Policies and Procedures*: CCO's need to grasp the policies and procedures of the firm and how they are applied.**
- ***Markets and Business Practices*: The market in which a firm operates might raise unique compliance concerns which a CCO should be aware of.**

**Mr. Donahue has clearly indicated that the CCO must ensure they have an appreciation for these key topics and that they must educate themselves on ways to improve potential weaknesses at their firms.**

**SEC Announces FY 2015 Enforcement Results**

**In fiscal year 2015, the SEC filed 807 enforcement actions, of which 507 were independent actions for violations of federal securities laws. The remaining filings were either actions against delinquent filings or administrative proceedings seeking bars against individuals. This is compared to 755 enforcement actions in the fiscal year 2014, including 413 independent actions for violations of federal securities laws.**

*(continued on page 5)*

# *Lincoln's Perspectives on the Middle Market*

By David M. Stauffer

***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).*

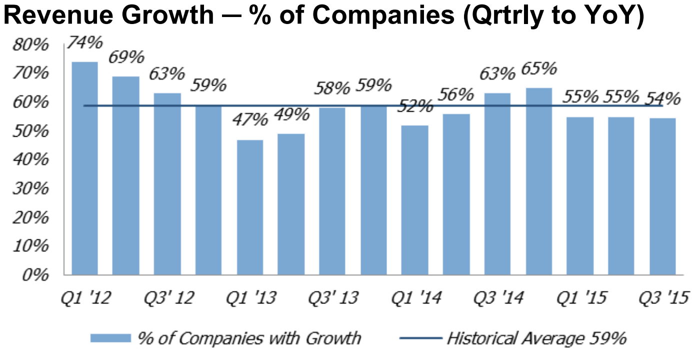
Lincoln's database of middle market companies indicated quarterly year-over-year revenue and EBITDA growth stability in Q3 2015, compared to the prior quarter. Out of over 650 companies tracked, 54% grew revenue in Q3 2015 relative to Q3 2014, while 53% grew EBITDA. This compared to proportions of 55% and 52%, respectively, in Q2 2015.

In Q3 2015, companies in the energy industry reported the greatest quarterly year-over-year revenue declines of any industry since Q1 2012 of 23%. The consumer industry has reported the most stable quarterly year-over-year EBITDA change, averaging of -0.9% since Q1 2012.

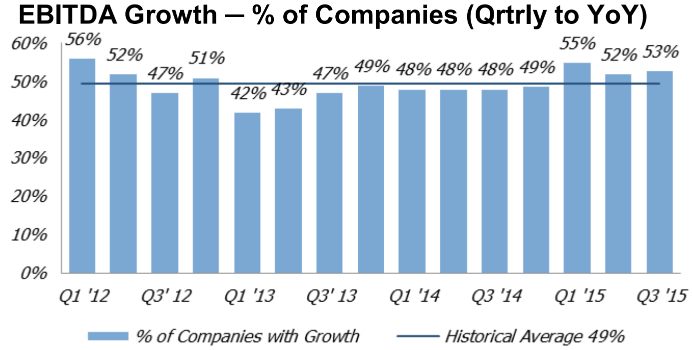
Of the 15 quarters Lincoln has collected average quarterly year-over-year revenue and EBITDA growth, 13 of 15 quarters had revenue growth and 9 of 15 quarters had EBITDA declines.

## Revenue & EBITDA Trends

**Revenue Growth – % of Companies (Qrtrly to YoY)**

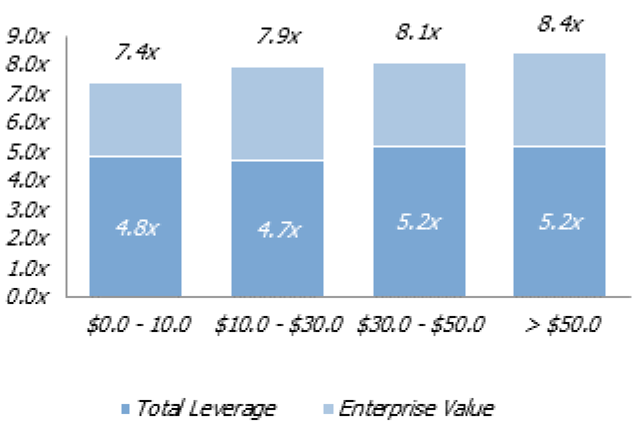



**EBITDA Growth – % of Companies (Qrtrly to YoY)**

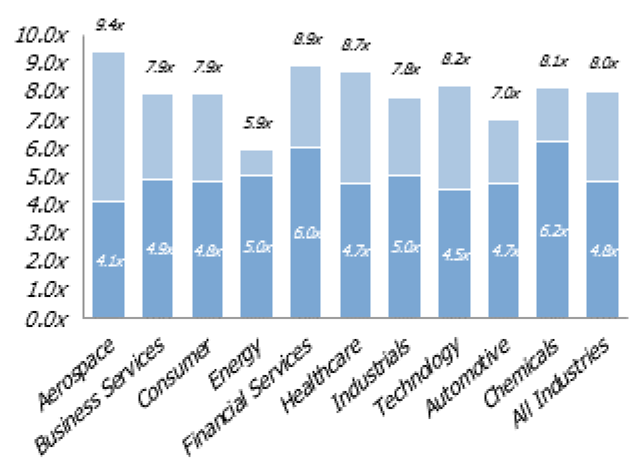



## Enterprise Value and Leverage Multiples (as of Q3 2015)

**Multiples by Size:**




**Multiples by Industry:**




## Lincoln's Estimated Enterprise Value Multiple Trends

- During the third quarter of 2015, and consistent with historical analyses, larger companies are estimated to have greater enterprise values to EBITDA multiples and have the capacity to raise greater levels of leverage.
- The energy industry was estimated to have the lowest enterprise value to EBITDA multiples, on average. Aerospace was estimated by Lincoln to have the greatest average enterprise value to EBITDA multiple.

## Time Series of Key Financial Metrics

- Lincoln's tracked middle market sponsored M&A enterprise value multiples, leverage, and equity cushions were mostly stable quarter-over-quarter. Lincoln notes that the number of M&A transactions observed in Q3 2015, 15 transactions, is lower than in the previous quarters.

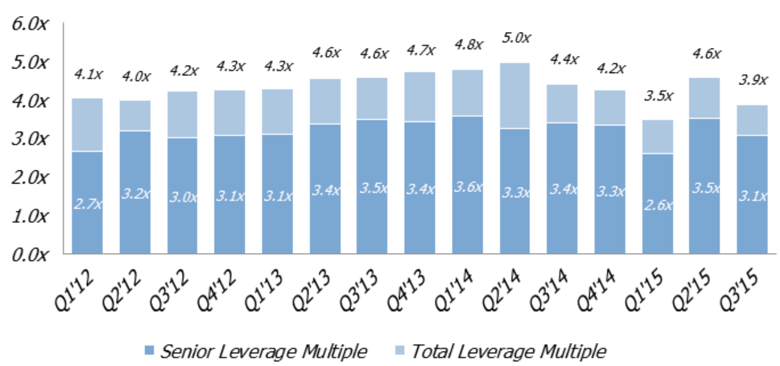
**M&A Transactions**

| | Q3 '13 | Q4 '13 | Q1 '14 | Q2 '14 | Q3 '14 | Q4 '14 | Q1 '15 | Q2 '15 | Q3 '15 |
|---|---|---|---|---|---|---|---|---|---|
| **TEV / EBITDA** | 7.3x | 7.9x | 8.2x | 7.2x | 8.3x | 7.9x | 9.4x | 9.2x | 8.9x |
| **Total Debt / EBITDA** | 4.4x | 4.8x | 4.4x | 4.8x | 4.6x | 4.6x | 4.9x | 4.9x | 4.5x |
| **Senior Debt / EBITDA** | 3.2x | 3.5x | 3.4x | 3.3x | 3.8x | 3.7x | 3.1x | 3.6x | 3.9x |
| **Equity % of Total Cap** | 40% | 42% | 41% | 35% | 45% | 38% | 42% | 47% | 41% |
| **LTM EBITDA (Median)** | $34 | $24 | $16 | $36 | $29 | $20 | $28 | $25 | $46 |
| **Count** | 33 | 26 | 37 | 45 | 28 | 47 | 7 | 28 | 15 |

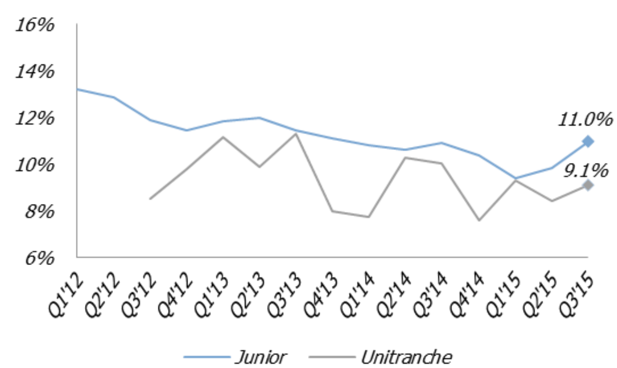
## M&A Market Observations

- Average equity cushions observed in Q3 2015 was approximately 40%, which is consistent with historical levels.
- Total enterprise value multiples have declined from Q1 2015 of 9.4x, to 8.9x as of Q3 2015. The enterprise value multiples are still well above historical average levels of 7.9x. The observed average is slightly higher than the Lincoln estimated enterprise valuation multiples on the aforementioned page.

**Senior Leverage & Total Leverage Levels**




**Total Junior Pricing**

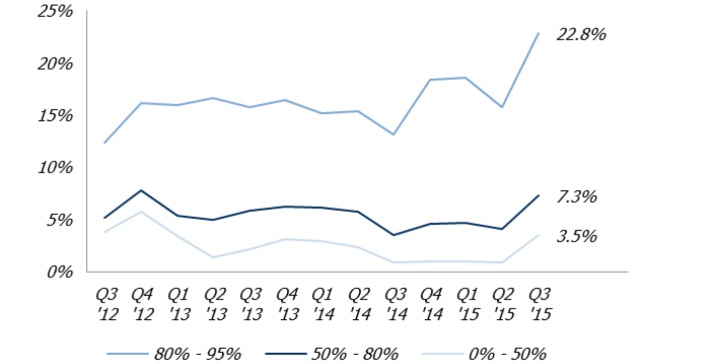



## Leverage and Junior Financing Statistics

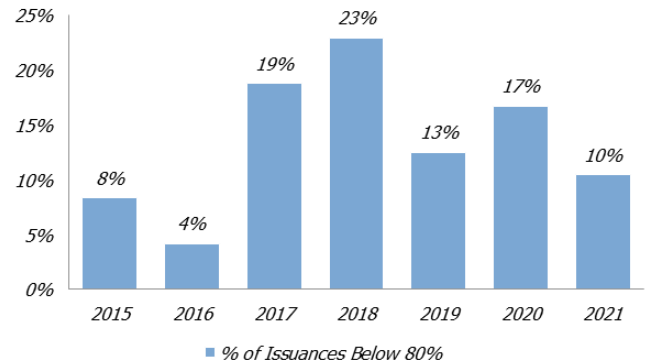
- Summarized above are the average leverage and junior financing statistics for recent transactions, including leveraged acquisitions, add-on acquisitions, refinancings, and dividend recapitalizations.
- Total leverage raised in conjunction with the aforementioned transactions has decreased since Q2 2014, when it was at a high of 5.0x, although senior leverage has remained fairly consistent with the historical average since Q1 2012 of 3.2x.

# *Lincoln's Perspectives on the Middle Market (continued)*

**Loan Pricing Relative to Par**




**Distressed Issuances Maturities**




Note: Pricing is represented on a per issuance basis and all issuances have been weighted equally.

## Lincoln's Distressed Valuation Observations

- Summarized above are the proportions of loans observed with values below 95%, 80% and 50% of par. The universe is comprised of mostly illiquid middle market loans valued by Lincoln and includes first liens, unitranche, second liens, mezzanine, and other loan types.
- The proportion of loans valued below 95% of par peaked in Q3 2015, and has increased from the previous high levels in Q1 2015. The majority of loans priced in the distressed valuation range were observed in the energy industry. These loans account for approximately 33.6% of the total dataset.

## *Dodd-Frank: Five Years Later* (continued from page 1)

including investment strategies of a fund.

With five years under our belts following the passage of Dodd-Frank, the registration and reporting requirements required by the Act provided insights into the nearly 30,000 private funds managed by 4,500 registered advisers. Concurrent with increased reporting requirements, Dodd-Frank yielded the production of new private fund statistics. These statistics express the size, geographic distribution, investment concentration, and investment strategies of private funds. The statistics may theoretically help signal excess leverage, lack of liquidity, or asset concentrations which have been cited as the root of past financial crises. The hope of monitoring such statistics may allow private investors to prepare or prevent a financial crisis in the future.

At a speech given on October 16, 2015, to the MFA Outlook 2015 Conference, Chairwoman White noted, "the public availability of aggregated information should help to address persistent questions, and to some degree misconceptions, about the practices and size of the private fund industry," allowing investors to better understand the private fund industry and investment approach. Further, she went on to note that "when investors have that kind of information, they can make more informed choices and the transparency benefits [the] entire industry." While regulatory authorities have begun to collect robust information regarding the private fund industry, broad analysis of this data is still in process five years later, and creation and implementation of a broader regulatory framework is still underway. As described by Chairwoman White, "five years on…we have continued to build a strong regulatory framework that protects investors while preserving the vibrant diversity of private funds. I believe that the next five years must do the same."

### Key Statistics released on October 2015 by the SEC's Division of Investment Management, Risk and Examinations:

**Number of Advisers Advising Each Fund Type**

The "Total" row shows the total reported, and will not equal the sum of the preceding rows, because the rows are not mutually exclusive

| Fund Type | 2013Q1 | 2013Q2 | 2013Q3 | 2013Q4 | 2014Q1 | 2014Q2 | 2014Q3 | 2014Q4 |
|---|---|---|---|---|---|---|---|---|
| Hedge Fund | 1,469 | 1,479 | 1,496 | 1,594 | 1,593 | 1,593 | 1,597 | 1,649 |
| Private Equity Fund | 815 | 821 | 826 | 863 | 862 | 866 | 867 | 919 |
| Other Private Fund | 506 | 515 | 530 | 524 | 527 | 525 | 526 | 552 |
| Section 4 Private Equity Fund | 173 | 174 | 175 | 195 | 195 | 196 | 195 | 209 |
| Real Estate Fund | 238 | 239 | 242 | 245 | 245 | 245 | 244 | 260 |
| Qualifying Hedge Fund | 437 | 442 | 461 | 469 | 470 | 494 | 503 | 525 |
| Securitized Asset Fund | 133 | 133 | 137 | 138 | 141 | 143 | 141 | 152 |
| Venture Capital Fund | 65 | 65 | 66 | 68 | 69 | 69 | 70 | 84 |
| Liquidity Fund | 37 | 37 | 37 | 35 | 35 | 34 | 34 | 35 |
| Section 3 Liquidity Fund | 25 | 24 | 24 | 24 | 24 | 23 | 23 | 24 |
| **Total** | 2,433 | 2,449 | 2,480 | 2,571 | 2,574 | 2,580 | 2,581 | 2,694 |

- The total number of private fund advisers reported from 2013 Q1 to 2014 Q4 has increased by 10.7%, with the number of hedge funds advisers growing 12.3% and the number of private equity fund advisers growing 12.8%.

**Aggregate Private Fund Net Asset Value** (NAV) ($ in billions)

The "Total" row shows the total reported, and will not equal the sum of the preceding rows, because the rows are not mutually exclusive

| Fund Type | 2013Q1 | 2013Q2 | 2013Q3 | 2013Q4 | 2014Q1 | 2014Q2 | 2014Q3 | 2014Q4 |
|---|---|---|---|---|---|---|---|---|
| Hedge Fund | 2,612 | 2,685 | 2,815 | 3,078 | 3,161 | 3,308 | 3,359 | 3,399 |
| Qualifying Hedge Fund | 2,051 | 2,084 | 2,194 | 2,397 | 2,470 | 2,627 | 2,606 | 2,672 |
| Private Equity Fund | 1,471 | 1,479 | 1,494 | 1,702 | 1,695 | 1,702 | 1,694 | 1,744 |
| Section 4 Private Equity Fund | 1,037 | 1,042 | 1,049 | 1,206 | 1,200 | 1,205 | 1,209 | 1,274 |
| Other Private Fund | 621 | 653 | 667 | 816 | 823 | 827 | 830 | 883 |
| Securitized Asset Fund | 114 | 114 | 116 | 117 | 122 | 126 | 126 | 114 |
| Real Estate Fund | 235 | 235 | 237 | 266 | 266 | 266 | 265 | 279 |
| Liquidity Fund | 256 | 255 | 247 | 246 | 249 | 273 | 283 | 272 |
| Section 3 Liquidity Fund | 253 | 247 | 239 | 239 | 246 | 261 | 279 | 271 |
| Venture Capital Fund | 21 | 21 | 22 | 28 | 28 | 28 | 28 | 37 |
| **Total** | 5,316 | 5,420 | 5,573 | 6,232 | 6,329 | 6,511 | 6,548 | 6,708 |

- Total net assets under management reported from 2013 Q1 to 2014 Q4 has grown by nearly $1.4 trillion, to $6.7 trillion, with hedge funds reporting about $3.4 trillion in 2014 Q4 of those assets and private equity funds reporting about $1.7 trillion of the assets.

**Aggregate Borrowings** (Percent of Aggregate GAV)

As reported on Form PF, Questions 12 and 43 (Month 3)

| Fund Type | 2013Q1 | 2013Q2 | 2013Q3 | 2013Q4 | 2014Q1 | 2014Q2 | 2014Q3 | 2014Q4 |
|---|---|---|---|---|---|---|---|---|
| Securitized Asset Fund | 46.6 | 46.6 | 46.1 | 47.6 | 47.2 | 46.7 | 47.3 | 48.0 |
| Qualifying Hedge Fund | 41.8 | 44.4 | 41.4 | 39.3 | 39.2 | 37.9 | 37.6 | 38.3 |
| Hedge Fund | 38.8 | 41.2 | 39.0 | 37.3 | 37.0 | 36.8 | 37.4 | 36.9 |
| Real Estate Fund | 15.2 | 15.2 | 15.1 | 12.9 | 12.9 | 12.9 | 12.9 | 13.7 |
| Private Equity Fund | 3.7 | 3.8 | 3.8 | 2.3 | 2.4 | 2.5 | 2.5 | 4.0 |
| Other Private Fund | 6.4 | 6.2 | 6.0 | 4.2 | 4.1 | 4.1 | 4.0 | 2.8 |
| Section 4 Private Equity Fund | 2.8 | 2.8 | 2.8 | 2.1 | 2.1 | 2.1 | 2.1 | 2.3 |
| Venture Capital Fund | 1.4 | 1.4 | 1.4 | 0.9 | 0.9 | 0.9 | 0.9 | 0.6 |
| Liquidity Fund | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Section 3 Liquidity Fund | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | 5,316 | 5,420 | 5,573 | 6,232 | 6,329 | 6,511 | 6,548 | 6,708 |

- The aggregate borrowing for any single category of private fund does not exceed 48.0% of gross asset value, with hedge funds leveraging 36.9% of gross asset value and private equity funds leveraging 4.0% of gross asset value in 2014 Q4.

**Gross Assets in CPC Industries** (Percent of Total)

As reported on Form PF, Questions 8 and 77

| Type | 2013Q4 | 2014Q4 |
|---|---|---|
| Oil & Gas Extraction | 7.8 | 7.5 |
| Electric Power Generation, Transmission & Distribution | 3.8 | 3.7 |
| Software Publishers | 2.8 | 3.7 |
| Pipeline Transportation | 2.4 | 2.5 |
| Telecommunications Data Processing Services | 2.6 | 2.4 |
| Data Processing, Hosting, & Related Services | 2.8 | 2.2 |
| Other Information Services | 2.0 | 2.0 |
| Other Financial Investment Activities | 1.9 | 1.7 |
| Support Activities for Mining | 1.3 | 1.5 |
| Electronic Shopping & Mail-Order Houses | 0.8 | 1.4 |
| Limited-Service Eating Places | 1.0 | 1.4 |
| Water Transportation | 1.1 | 1.3 |
| Pharmaceutical & Medicine Mfg | 1.0 | 1.3 |
| Medical Equipment & Supplies Mfg | 1.1 | 1.2 |
| Activities Related to Credit Intermediation | 1.2 | 1.2 |
| Management, Scientific, & Technical Consulting Services | 1.0 | 1.2 |
| Commercial Banking | 1.8 | 1.1 |
| Educational Services | 1.1 | 1.0 |
| Special Food Services | 1.3 | 1.0 |

- Controlled portfolio companies of private equity funds are most highly concentrated in the Oil & Gas Extraction industry with other energy related industries, Electric Power Generation, Transmission, & Distribution and Pipeline Transportation, also near the top with 3.7% and 2.5%, respectively, in 2014 Q4.

**A Qualifying Hedge Fund is one that is managed by a large hedge fund adviser (an adviser that has at least $1.5 billion of funds under management) and has a NAV of at least $500 million.*

## Regulatory Update

*(continued from page 1)*

**SEC Considering Annual Third Party Compliance Reviews For Investment Advisors**

**Amidst recent criticism that the SEC reviews less than 10.0 percent of investment advisors per year, according to Katherine Bucaccio of Private Funds Management, the SEC is considering a program of annual third-party compliance reviews of investment advisors. The proposed program would supplement the examinations performed by the Office of Compliance Inspections and Examinations (OCIE) and require compliance reviews of all investment advisors annually.**

### Hot off the Press:

**SEC Charges Credit Rating Agency DBRS Inc.**

**On October 26, 2015, the SEC charged DBRS with misrepresenting its surveillance methodology for ratings of certain complex financial instruments during a three-year period. According to the press release, an SEC investigation that followed an annual examination of DBRS by the agency's Office of Credit Ratings found the firm misrepresented its process to monitor each of its outstanding ratings of U.S. residential mortgage backed-securities. The firm did not conduct analysis, monthly, nor did it present each rating to the surveillance committee each month. The SEC also found DBRS didn't have adequate staffing and technological resources to monitor each outstanding MBS, as stated in its surveillance methodology.**

**Firm Charged with Improperly Retaining Fees**

**On September 2, 2015, the SEC announced investment advisory firm Taberna Capital Management ("Taberna") agreed to pay more than $21 million to settle charges alleging it fraudulently retained fees belonging to CDO clients. An SEC investigation found Taberna did not inform CDO clients it retained "exchange fee" payments in connection with restructuring transactions. Under the terms of the CDOs' governing documents, Taberna was not permitted to retain the fees. The SEC determined Taberna obscured its misconduct in various documents and quarterly reports by improperly labeling the fees as "third party costs incurred".**

## The Death of Control Premiums; and, The Birth of MPAP

a premium for control but, rather, represents a premium linked to actual changes that can be made, subsequent to the acquisition, by exercising that control. This concept was further supported with empirical research and speeches from regulators.

Finance professionals have come to appreciate, from a change of control perspective, the acquired company will operate under a different governance, strategic, and management structure. Market participants contemplating the purchase of a controlling interest in a business may have the capability to implement strategies that are not currently being employed, or are not available to the seller, by the current owners. Control allows the strategic buyer to realize the synergy potential to be gained from effectuating the acquisition. Logically, a price higher than the pre-announced publicly traded price is reasonable if the new management and/or combined entity expects improved cash flow or growth, or, reduced risk. Conversely, if no cash flow improvements or risk reduction are expected, there is little incentive for an acquirer to pay a price higher than the publicly traded price as it will be unable to generate a reasonable return on its investment.

To address the subtle but significant difference between a control premium and this more contemporary view, a new term of art, replacing the term control premium, has been introduced, the "Market Participant Acquisition Premium", or MPAP. The purpose of introducing this new term is to:

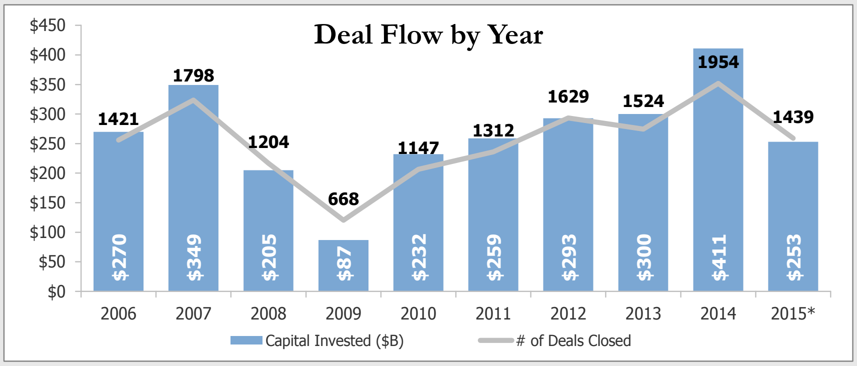
*(continued from page 1)*

1. Emphasize the importance of the market participants perspective when measuring fair value to distinguish the MPAP from the more ambiguous notion of a control premium; and, 2
2. MPAP differentiates those elements of value above marketable non-controlling share value that are appropriately included in the fair value of a controlling interest.

When determining the inclusion of either a control premium or MPAP, it is incumbent that an analysis be performed to identify the nature and magnitude of the economic benefit market participants expect to obtain upon control and its resulting impact on value. Although a hard-and-fast conclusion has not been reached, analysts should be aware of the latest guidance on this topic.

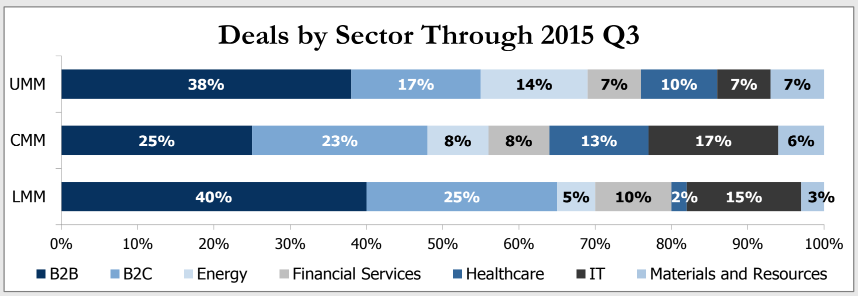
 

# Middle Market Private Equity Snapshot



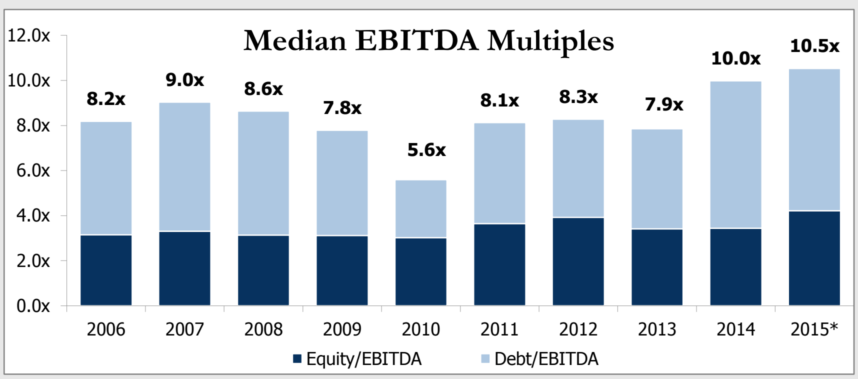

Source: Pitchbook

Through the first three quarters of 2015, there have been 1,439 deals closed. The third quarter was responsible for about 38% of that deal count, and about the same percentage of total deal volume.



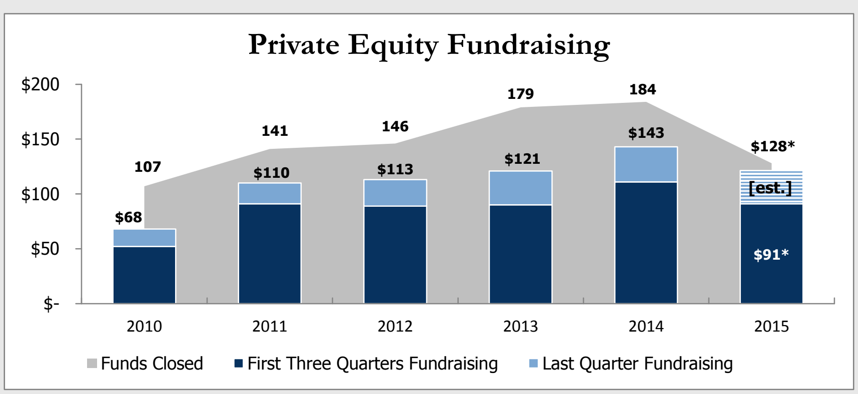

Source: Pitchbook

The middle market saw less consumer deals in the third quarter of 2015 and a higher percentage of IT deals across all sectors of the middle market, compared to the prior quarter.




Source: Pitchbook

Consistent with the trend in 2014, transaction multiples through June 30, 2015 remain at double digit levels, albeit, with larger equity cushions.




Source: Pitchbook

Fundraisings through September 30, 2015 have totaled $91 billion and resulted in 128 closed funds. At its current pace, total fundraising for 2015 is expected to total $121 billion, which would represent a decrease of 15% from 2014.

** Numbers are year to date through September 30, 2015 with the exception of the "Median EBITDA Multiples" chart which is year to date through June 30, 2015*

# Select Q3 2015 Middle Market Transactions Involving Sponsors

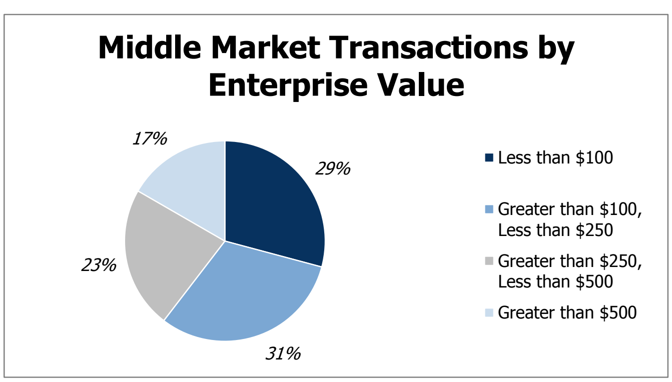
| Date | Target | Industry | Transaction Size | PEG Role |
|---|---|---|---|---|
| 11/12/2015 | Xoom Corporation | Internet Software and Services | $ 1,053.9 | Seller |
| 10/1/2015 | Reliant Hospital Partners, LLC | Healthcare Providers and Services | 730.0 | Seller |
| 10/21/2015 | Aderant Holdings, Inc. | Software | 675.0 | Seller |
| 10/5/2015 | Eagle Rock Energy Partners, L.P. | Oil, Gas and Consumable Fuels | 663.9 | Seller |
| 10/20/2015 | Precision Engineered Products LLC | Metals and Mining | 615.0 | Seller |
| 10/22/2015 | Elmer's Products, Inc. | Chemicals | 600.0 | Seller |
| 10/12/2015 | Lumenis Ltd. | Healthcare Equipment and Supplies | 555.6 | Seller |
| 10/5/2015 | LRR Energy, L.P. | Oil, Gas and Consumable Fuels | 535.3 | Seller |
| 10/22/2015 | The Paradies Shops, Inc. | Specialty Retail | 485.0 | Seller |
| 10/2/2015 | Twelve, Inc. | Healthcare Equipment and Supplies | 458.0 | Seller |
| 10/9/2015 | Sunrise Growers, Inc. | Food Products | 450.0 | Seller |
| 10/15/2015 | Interest in the Yellow Rose Field in the Permian Basin | Oil, Gas and Consumable Fuels | 376.1 | Buyer |
| 10/31/2015 | Business Insider, Inc. | Media | 343.0 | Both |
| 10/19/2015 | AqueSys, Inc. | Healthcare Equipment and Supplies | 300.0 | Seller |
| 10/5/2015 | Wolverine Advanced Materials, LLC | Chemicals | 300.0 | Seller |
| 10/28/2015 | Argotec LLC | Chemicals | 280.0 | Seller |
| 10/28/2015 | Infigen Energy, US Wind Business | Independent Power and Renewable | 272.5 | Buyer |
| 10/16/2015 | Portware LLC | Internet Software and Services | 265.0 | Seller |
| 10/1/2015 | Belden & Blake Corporation And Oil And Natural Gas Properties | Oil, Gas and Consumable Fuels | 259.0 | Seller |
| 11/3/2015 | Rock River Environmental Services, Inc. | Commercial Services and Supplies | 225.0 | Seller |
| 10/22/2015 | Millennial Media Inc. | Internet Software and Services | 206.0 | Seller |
| 10/7/2015 | Cytovance Biologics, Inc. | Biotechnology | 205.7 | Seller |
| 10/1/2015 | CoreOne Technologies LLC | Internet Software and Services | 200.0 | Seller |
| 10/2/2015 | Smart Tuition, LLC | Internet Software and Services | 190.0 | Seller |
| 10/1/2015 | iBiquity Digital Corporation | Communications Equipment | 172.0 | Seller |
| 11/2/2015 | CareSouth Health System, Inc. | Healthcare Providers and Services | 170.0 | Seller |
| 10/22/2015 | Adept Technology Inc. | Machinery | 168.5 | Seller |
| 10/22/2015 | One Source Networks Inc. | Diversified Telecommunication | 164.0 | Seller |
| 10/19/2015 | Datamyx LLC | Media | 160.0 | Seller |
| 10/22/2015 | NexPlanar Corporation | Semiconductors and Semiconductor | 142.0 | Seller |
| 10/13/2015 | Blyth, Inc. | Household Durables | 138.7 | Both |
| 10/13/2015 | nContact, Inc. | Healthcare Equipment and Supplies | 132.2 | Seller |
| 10/20/2015 | Relativity TV, LLC | Media | 125.0 | Buyer |
| 10/13/2015 | DNA Diagnostics Center, Inc. | Healthcare Providers and Services | 104.0 | Both |
| 10/15/2015 | Dent-A-Med Inc. | Consumer Finance | 99.0 | Seller |
| 10/2/2015 | Trustatlantic Financial Corporation | Diversified Financial Services | 98.5 | Seller |
| 10/21/2015 | Relativity Media, LLC | Media | 90.0 | Buyer |
| 11/13/2015 | ATC Group Services, Inc. | Commercial Services and Supplies | 89.1 | Buyer |
| 10/12/2015 | Intronis, Inc. | Software | 65.0 | Seller |
| 10/2/2015 | Halcyon Home Health, LLC | Healthcare Providers and Services | 58.5 | Seller |
| 10/27/2015 | InSite Vision Incorporated | Pharmaceuticals | 57.4 | Seller |
| 11/2/2015 | Visant Holding Corp. | Textiles, Apparel and Luxury Goods | 44.9 | Seller |
| 10/6/2015 | Sundance Cinemas LLC | Media | 36.0 | Seller |
| 10/6/2015 | EdgeRock Technology Partners, Inc. | IT Services | 35.3 | Seller |
| 10/15/2015 | Viewfinity, Inc. | Software | 30.5 | Seller |
| 10/1/2015 | Protonex Technology Corporation | Electrical Equipment | 27.8 | Seller |
| 10/15/2015 | Novariant, Inc. | Communications Equipment | 27.3 | Seller |
| 10/5/2015 | American Furniture Manufacturing, Inc. | Household Durables | 24.1 | Buyer |

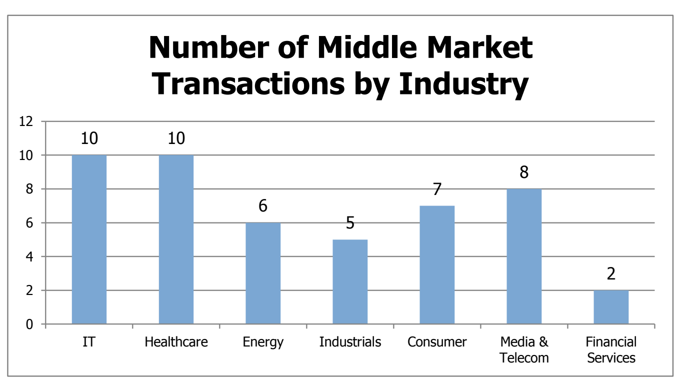
*Source: CapIQ Screening Tool*

*Note: USD in millions*

*Search Criteria: Implied Enterprise Value < $1 billion, Transaction Type: Merger/Acquisition, Geographic Location: United States of America, Transaction Closed Date: 10/01/2015, Investment Firm Type: PE / VE*

*Showing: All results with > $25 million Implied Enterprise Value excluding acquisitions of Real Estate Assets*



# BDC Snapshot

## Breaking BDC News

- On November 4, 2015, the House Committee on Financial Services passed HR 3868 in a vote of 53 for, 4 against. The bill, also known as the "BDC Bill," proposes (amongst other things):
  - Increasing the debt/equity limitations for BDCs from 1:1 to 2:1;
  - Allowing preferred stock to count as a senior security; and
  - Expanding the scope of eligible portfolio companies to allow for 20% of total assets to be in various financial companies (this is in addition to the 30% non-qualified bucket that BDCs are currently allowed).
- Next Steps: A House of Representatives vote is expected this year with continued discussion into 2016 should the proposed bill pass and move to Senate review.

## BDC Earnings Call Blog

### *Positive Market Outlook*

"There's no outside shock issue that I see happening. Middle-market companies, the area that we play in, are valued fairly still."
*—Ted Koenig, Chairman, CEO and President, Monroe Capital Corporation*

"The recent volatility in the broader credit markets has accrued to our benefit as we were able to originate a record level of new investments in high quality companies during the quarter."
*—Garland S. Tucker, III, Chairman and CEO, Triangle Capital Corporation*

"Thus far in Q4 we have seen a positive shift in sentiment, with rebounds across both equity and credit indices over the past several weeks."
*—Brendan McGovern, CEO and President, Goldman Sachs BDC, Inc.*

"In general, the middle market remains healthy and continues to outpace overall growth in the U.S. economy... We believe demand for growth capital from the middle market remains strong."
*—Howard Levkowitz, Chairman & CEO, TCP Capital Corporation*

"… yield compression may have stabilized and reversed recently due to trading valuation discounts for peer companies."
*—Michael Grier Eliasek, President, CEO, and Director, Prospect Capital Corporation*

### *Negative Market Outlook*

"Capital continued to leave the leverage finance markets as investors fear the impact of future interest rate rises and the potential for negative credit migration."
*—Robert Kipp DeVeer, CEO, Ares Capital Corporation*

"The third quarter was a volatile quarter in the global financial markets. Our experience is that during periods of increased volatility, deal flow often slows down considerably, as buyers and sellers can't come to terms on asset values."
*—Joseph Tansey, CEO, Garrison Capital, Inc.*

"… the broader credit markets were slow and that continued to spillover into the BDC sector in the third quarter and we don't expect much movement in the fourth."
*—Jay Carvell, CEO, WhiteHorse Finance, Inc.*

"… we are seeing signs that all lenders are a bit more cautious and that fewer lenders have meaningful dry powder."
*—Jon Yoder, COO, Goldman Sachs BDC, Inc.*

"… we believe the markets had become very aggressive between weakening documentation which governs structural protections for lenders and increasing leverage multiples … this environment is a very difficult one to navigate successfully."
*—Michael Mauer, CEO, CM Finance, Inc.*

### *Market Impact on Strategy Going Forward*

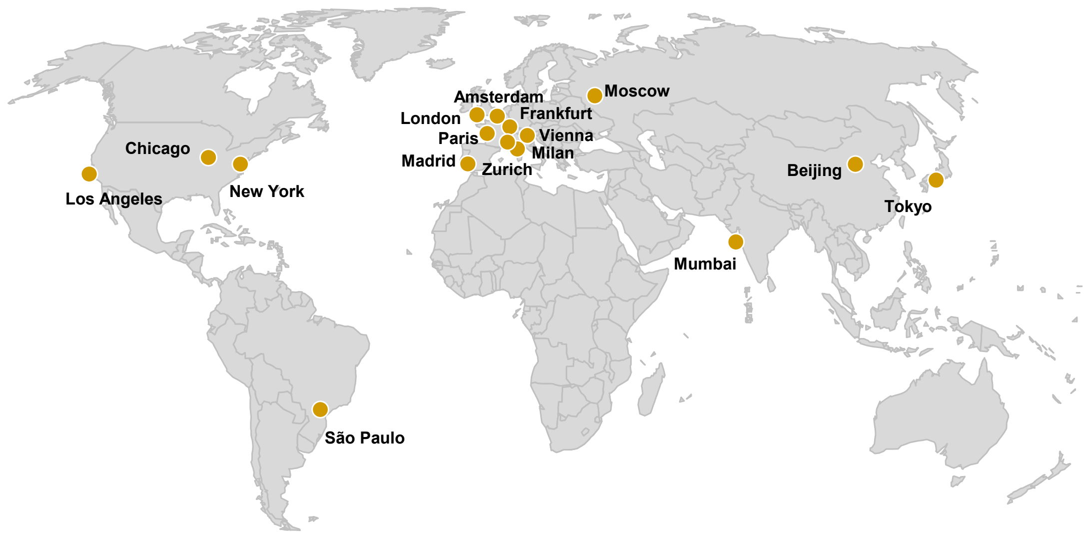
"With the slow growth economy and pockets of uncertainty as a backdrop, we continue to selectively focus on businesses that we believe will perform well over the long term and that are more defensive in nature."
*—Edward Ross, Chairman and CEO, Fidus Investment Corporation*

"We continue to be focused on investing in directly originated senior secured loans in the lower middle market. We believe that this strategy provides higher risk-adjusted returns and stronger downside protection than the upper middle market due to less leverage and tighter covenants."
*—Sam Tillinghsat, Co-CEO and Co-Chief Investment Officer of THL Credit, Inc.*

"… we're focusing on the non-sponsored market because that's the market where we find the best risk adjusted returns. We find the best pricing there. We get good covenants, good fee structures in terms of origination fees and prepayment penalties. So we will continue to focus on that sector."
*—Bilal Rashid, Chief Executive Officer of OFS Capital Corporation*

*Source: Bloomberg Earnings Call Transcripts*

## *About Lincoln International*




**150+**
Bankers in North and South America

**145+**
Bankers in Europe and Asia

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MOSCOW MUMBAI NEW YORK PARIS SÃO PAULO TOKYO VIENNA ZURICH

 