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Market Report

M&A Market Snapshot Q4' 2017

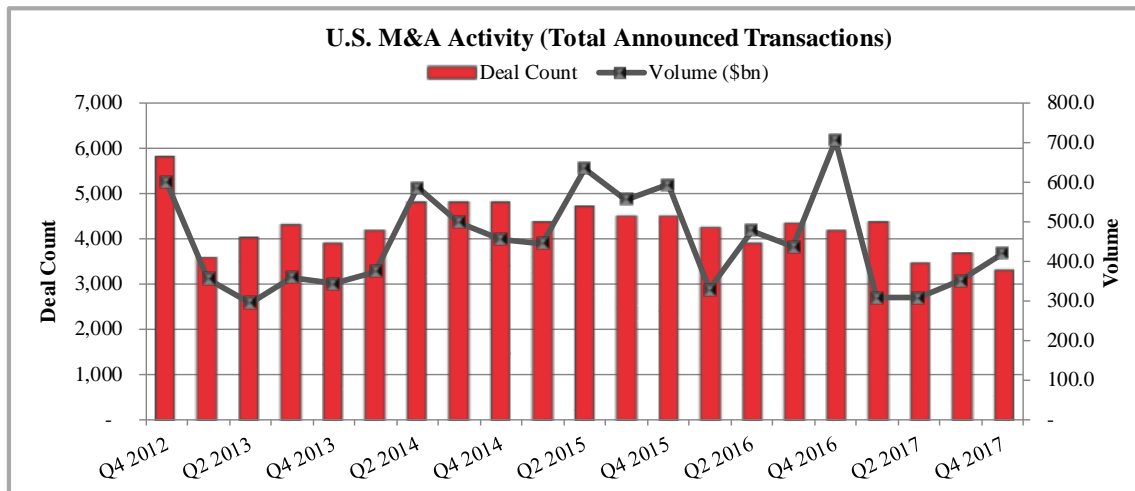


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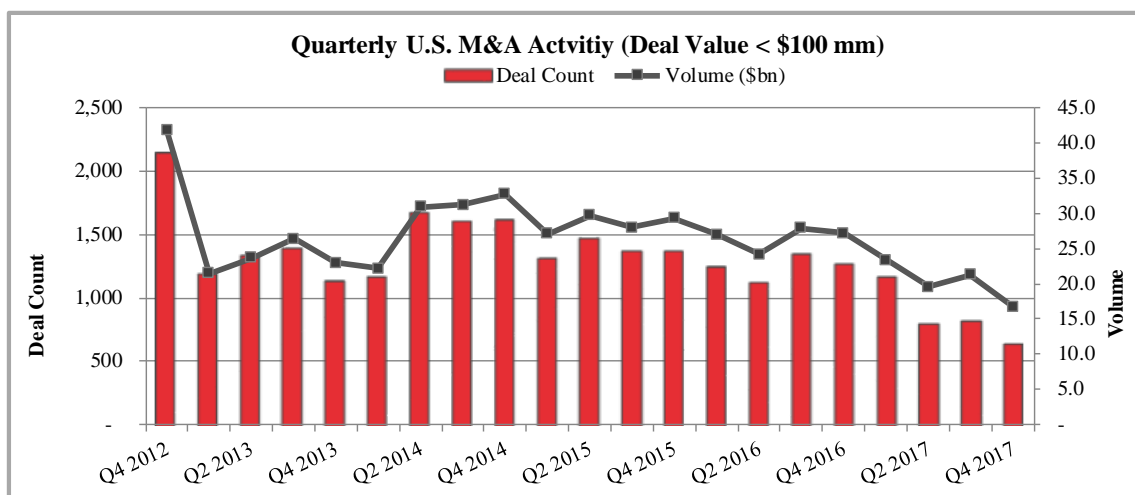
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Total U.S. Market Activity Overview

As shown on the chart below, Q4' 2017 merger and acquisition activity was slightly below the levels experienced during the rest of 2017. Despite positive growth in aggregate dollar volume, which increased from Q3' 2017 to Q4' 2017 by 19.8% to \$420.9 billion, the number of transactions announced declined approximately 10.7% and representing a period low for the year. Full year 2017 volume and deal count also ended up below activity recorded in full year 2016.



Activity in the lower middle market (defined herein as transactions with deal values under \$100 million) also saw a decline in both deal count and volume when compared to the rest of 2017. Q4' 2017 represents the lowest reported deal count and volume in the lower middle market for the entire observed period. The chart below indicates deal volume decreased by approximately \$4.4 billion from Q3' 2017 to Q4' 2017, while deal count was lower by nearly 180 deals.

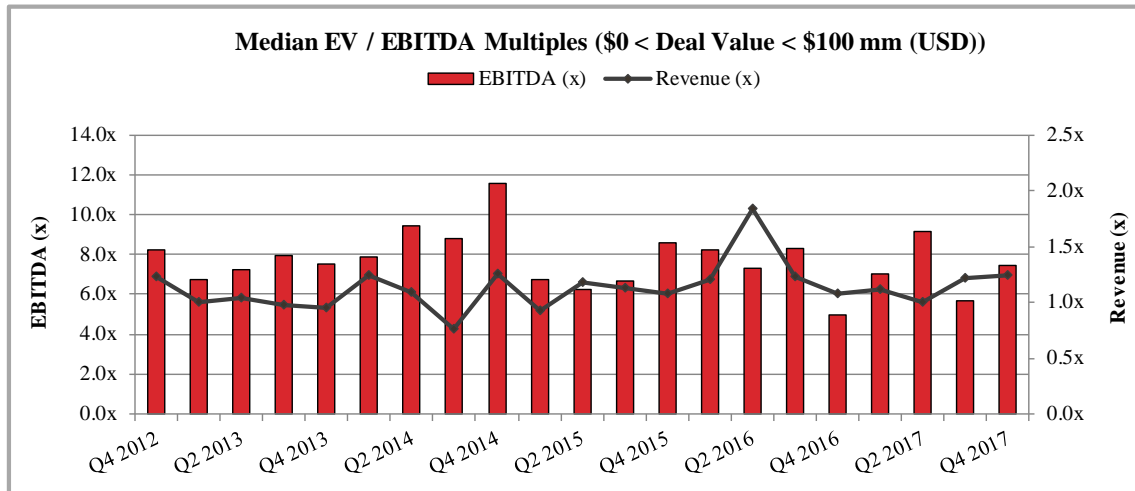


Source: S&P Capital IQ

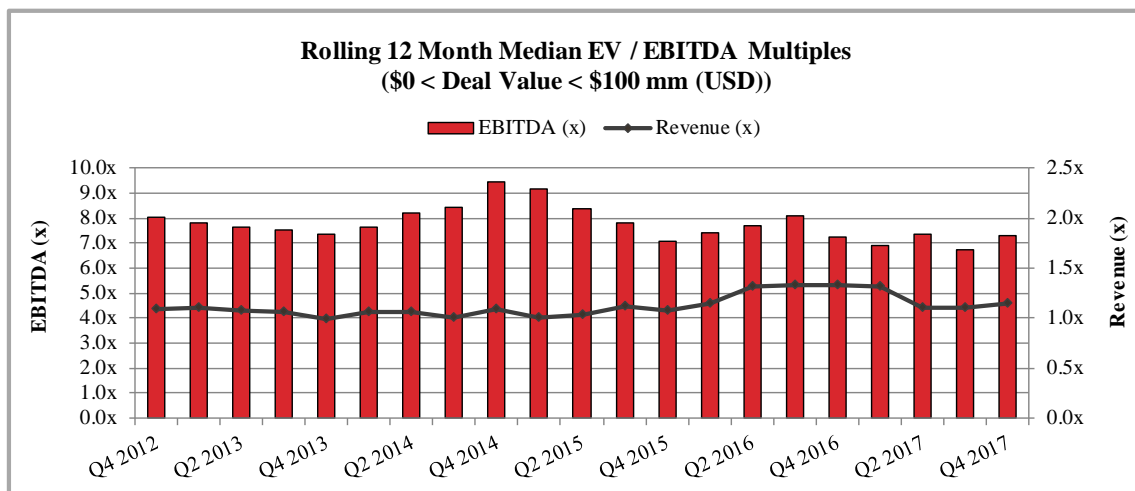
Based on relatively low domestic M&A activity in 2017, executives expect the number of deals and deal volume to accelerate in 2018. It also appears that acquirers are narrowing the geographic field of potential targets as fewer are looking abroad for deals, further increasing the potential for increased U.S. M&A activity. In addition, lower corporate tax rates, due to the tax reform bill recently passed by the U.S. Congress, will provide increased capital availability which can then be used to finance acquisitions. Companies with operations abroad that are now subject to lower taxes on repatriated funds are also expected to utilize a portion of those funds to drive growth through M&A activity. Lastly, it is important to note that the recent tax reform bill also includes a cap on the level of interest expense that can be deducted to adjust a company's taxable earnings. Holding all other factors constant, lower tax shields on interest expense may have a negative impact on highly leveraged transactions.

Transaction Multiples

The graph below illustrates the quarterly trend in EBITDA and revenue multiples from Q4' 2012 to Q4' 2017 for U.S. transactions in the lower middle market. The median target EBITDA multiple for the lower middle market in Q4' 2017 was 7.4 times, just below the longer-term average multiple of 7.7 times over the observed period. The median revenue multiple for the lower middle market in Q4' 2017 was 1.2 times, slightly above the average multiple of 1.1 times for the observed period.



The graph below illustrates the rolling 12-month quarterly trend in EBITDA and revenue multiples from Q4' 2012 to Q4' 2017 for U.S. transactions in the lower middle market. The rolling 12-month Q4' 2017 lower middle market EBITDA multiple was 7.3 times, below the average of 7.8 times for the observed period, but above the rolling 12-month multiple observed during the prior quarter. The rolling 12-month Q4' 2017 lower middle market revenue multiple was 1.1 times, equal to the average for the observed period and the rolling average multiples observed during the prior two quarters.

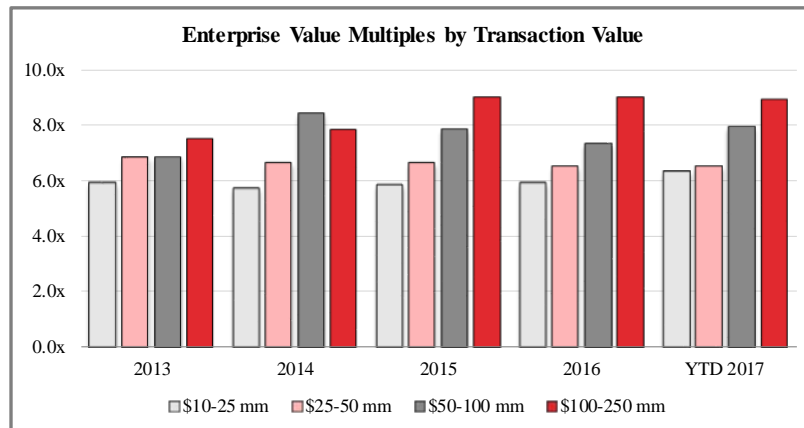


Source: S&P Capital IQ

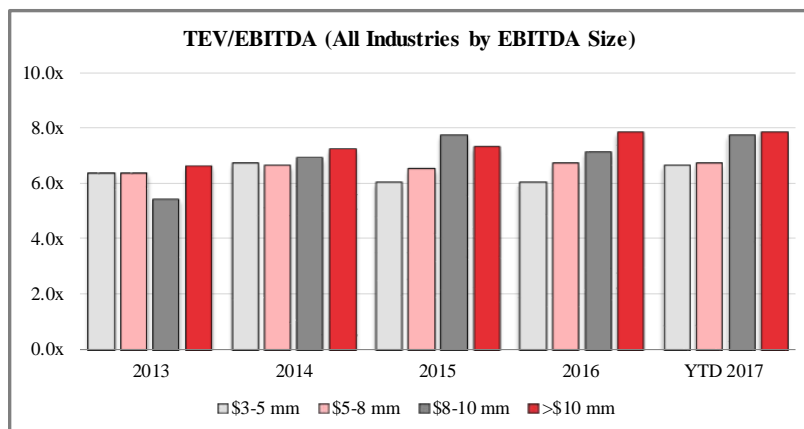
It is important to note that changes in average deal multiples is significantly influenced by activity within industry groups (and size ranges, private equity commentary below), each of which face unique growth dynamics and multiples profiles. To that end, the drop in the median deal multiple is not necessarily reflective of a weakened pricing environment, as valuations across most industry sectors remains high.

Private Equity Transaction Data

The following chart presents historical EBITDA multiples paid in private equity deals from 2013 to YTD 2017¹, as reported to *GF Data*[®]. Smaller deals (i.e., those with enterprise values between \$10 million and \$25 million) were generally completed at multiples ranging from 5.7 times to 6.3 times EBITDA during the observed period. In contrast, EBITDA multiples for larger deals (those with enterprise values between \$100 million and \$250 million) were generally completed at multiples between 7.5 times and 9.0 times.



The chart below stratifies observed transaction data by size of EBITDA. As expected, targets with lower EBITDA levels generally garnered lower deal multiples. From 2013 to YTD 2017, targets with EBITDA of \$10 million or less were typically valued at an average of 6.6 times, below the 7.3 times average for targets with EBITDA greater than \$10 million.

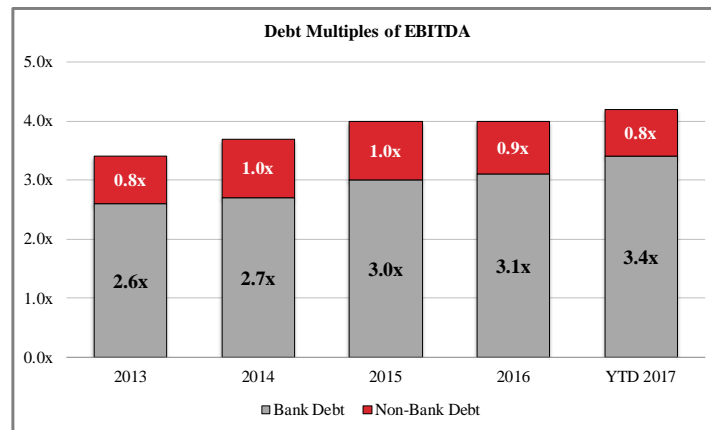


Source: GF Data[®]

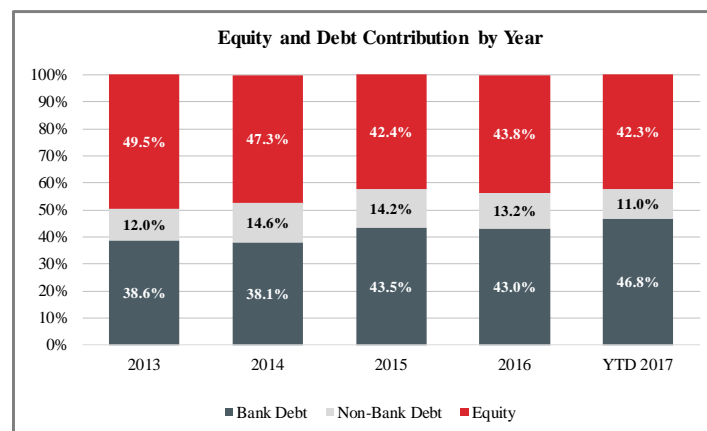
¹ YTD = year to date period through September 30, 2017.

Private Equity Transaction Data (continued)

The chart below presents lending multiples for all middle market private equity leveraged transactions reported to *GF Data*[®]. Buyout financing provided by traditional banks expanded from 2013 (2.6 times) to YTD 2017 (3.4 times). Non-bank financing (typically, subordinated or mezzanine debt) vacillated between 0.8 times and 1.0 times EBITDA from 2013 to YTD 2017. Average total leverage was observed at 4.2 times EBITDA in the most recent period, slightly above the average total leverage of 4.0 times EBITDA in 2016 due to higher bank debt lending multiples.



Due to relatively low interest rates and the increased availability of leverage, the average contribution made by equity sponsors has decreased during the observed period. The average YTD 2017 equity contribution was 42.3% of total transaction value, down from 43.8% in 2016 and 49.5% in 2013.



Source: GF Data[®]

Notable Transactions



In November of 2017, Broadcom Limited (“Broadcom”) announced it would acquire Qualcomm Incorporated (“Qualcomm”), for an implied enterprise value of approximately \$89.9 billion. Qualcomm stockholders would receive \$60 per share in cash and \$10 per share in Broadcom shares. Broadcom’s offer represented a 28% premium over the closing price of Qualcomm’s common stock on November 2, 2017. The acquisition is expected to create a leading diversified communications semiconductor company and accelerate innovation to deliver more advanced semiconductor solutions to customers all over the world. The acquisition is also anticipated to have compelling financial benefits for the combined company. S&P Capital IQ reports the deal valued at approximately 11.1 times next twelve-month EBITDA and approximately 3.9 times next twelve-month revenue.



In November of 2017, Meredith Corporation (“Meredith”) entered into a definitive agreement to acquire Time Inc. (“Time”) for an implied enterprise value of \$2.8 billion. Meredith will pay \$18.50 per share of Time common stock in the all-cash transaction. The combination will create a premier media and marketing company, serving nearly 200 million American consumers. Acquiring Time accelerates Meredith’s digital position by adding significant scale, transforming Meredith into a top 10 digital media company in the United States. In addition, Meredith anticipates generating cost synergies of \$400 million to \$500 million in the first full two years of operations. According to S&P Capital IQ, the deal is valued at approximately 7.1 times next twelve-month EBITDA and 1.1 times next twelve-month revenue.



In December of 2017, The Walt Disney Company (“Disney”) entered into a definitive agreement to acquire Twenty-First Century Fox, Inc. (“Fox”) for an implied enterprise value of \$70.2 billion, in an all stock deal. Fox shareholders will receive 0.2745 Disney shares for each share of Fox. Disney will issue restricted stock units of Disney for the performance stock units and restricted stock units of Fox based on the same exchange ratio of 0.2745. In a related deal, Fox agreed to spin-off a portfolio of the company’s news, sports and broadcast businesses to its shareholders. The related deal includes Twentieth Century Fox Film and Television studios along with cable and international TV businesses. Fox will become a wholly owned subsidiary of Disney. The Disney-Fox deal is expected to give Disney a boost in content as the company plans to launch its own streaming service. According to S&P Capital IQ, the announced deal is valued at approximately 9.2 times next twelve-month EBITDA and approximately 2.3 times next twelve-month revenue.

Sources: S&P Capital IQ, CNBC, Press Releases

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For additional information pertaining to MPI and our valuation, advisory and litigation support services, visit <http://www.mpival.com>.

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