mpi Business Valuation & Advisory

Market Report

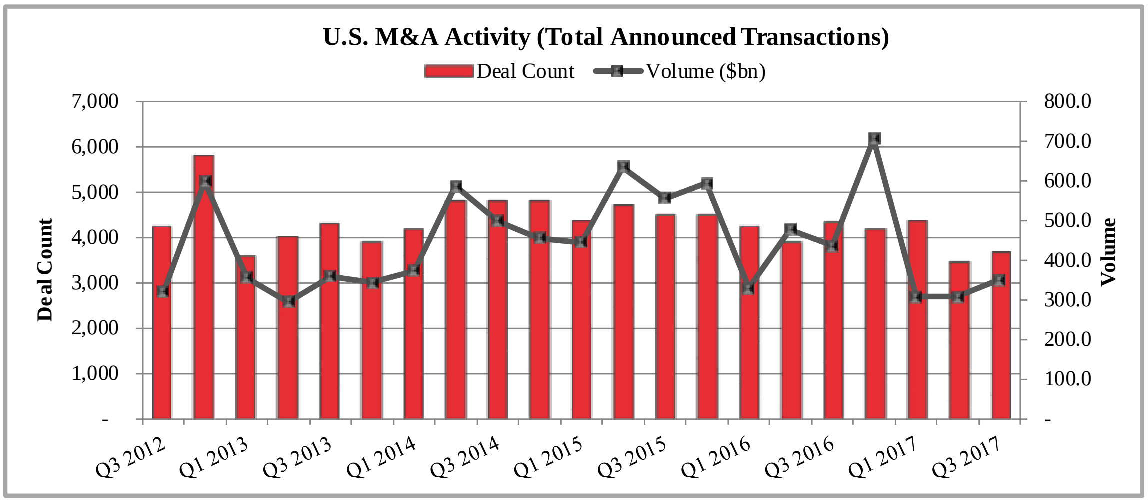
M&A Market Snapshot

Q3' 2017

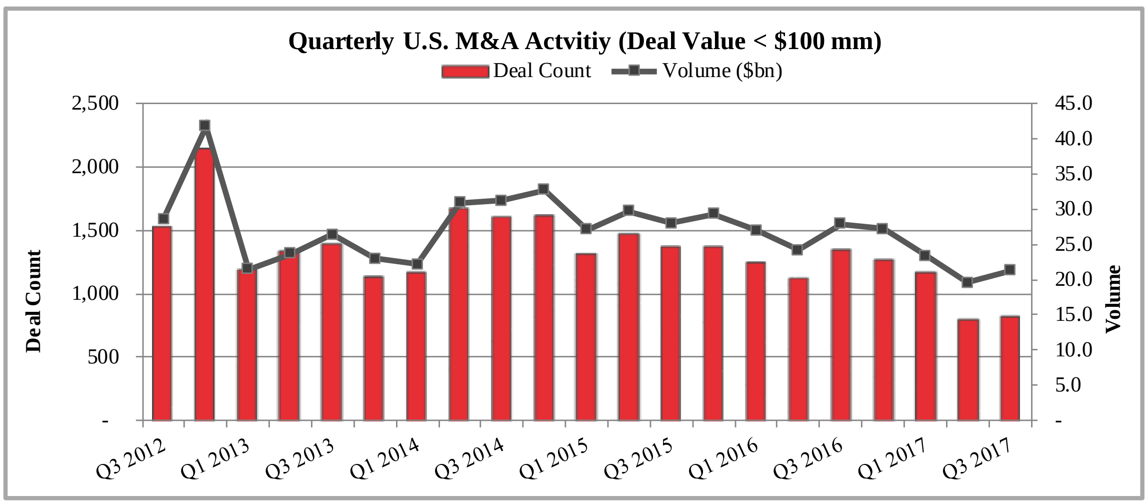
Table of Contents

Total U.S. Market Activity Overview

As shown on the charts below, Q3’ 2017 merger and acquisition activity was below the levels experienced in 2016, but slightly above Q2’ 2017 levels. Merger and acquisition volume amounted to $351.3 billion in Q3’ 2017, up about 14.3% from the prior quarter. Deal count also increased during the same period, albeit at a lower rate of 6.5%. Year-to-date volume and deal count in 2017 also lags comparative year-to-date activity in 2016.



Activity in the lower middle market (defined herein as transactions with deal values under $100 million) also saw a modest rebound in deal count and volume when compared to Q2’ 2017. However, both are down from Q1’ 2017 and when compared to the prior year-to-date period. The chart below indicates deal volume increased by approximately $1.7 billion from Q2’ 2017 to Q3’ 2017, while deal count remained relatively constant.

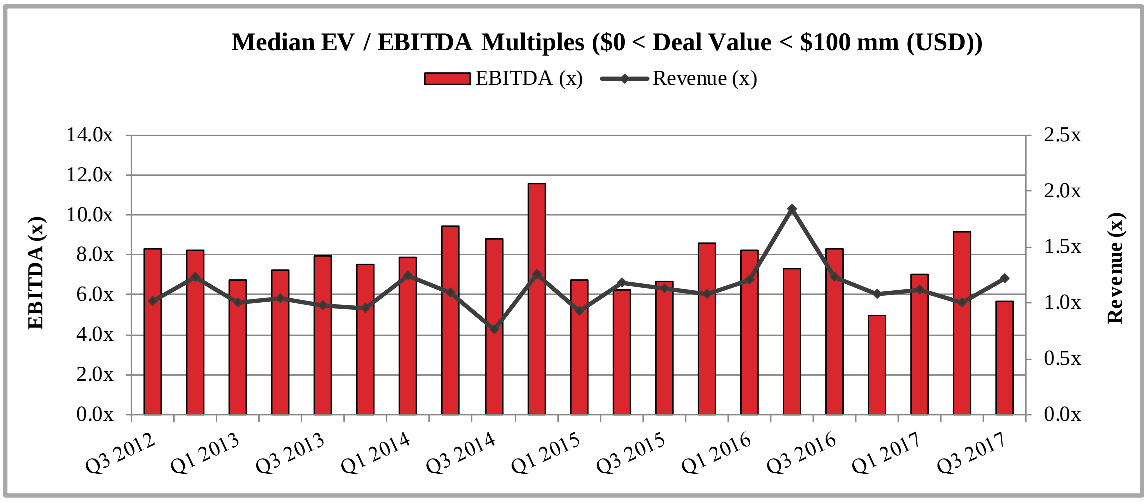


Based on year-to-date performance and assuming no significant disruption, the deal market is expected to remain steady through the end of the year. M&A activity surged at the end of 2016, but the absence of a major event, a commensurate surge is not expected in the fourth quarter of 2017.

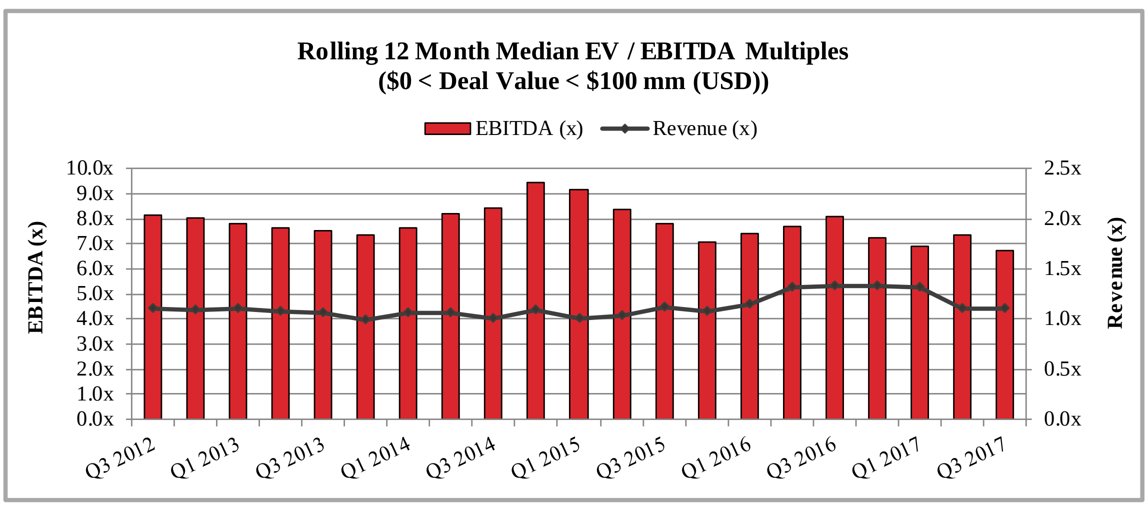
Source: S&P Capital IQ

Transaction Multiples

The graph below illustrates the quarterly trend in EBITDA and revenue multiples from Q3’ 2012 to Q3’ 2017 for U.S. transactions in the lower middle market. The median target EBITDA multiple for the lower middle market in Q3’ 2017 was 5.7 times, well below the longer-term average multiple of 7.7 times over the observed period. The median revenue multiple for the lower middle market in Q3’ 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 Q3’ 2012 to Q3’ 2017 for U.S. transactions in the lower middle market. The rolling 12-month Q3’ 2017 lower middle market EBITDA multiple was 6.7 times, below the average of 7.8 times for the observed period and the rolling average multiples observed during the first two quarters of 2017. The rolling 12-month Q3’ 2017 lower middle market revenue multiple was 1.1 times, equal to the average for the observed period.

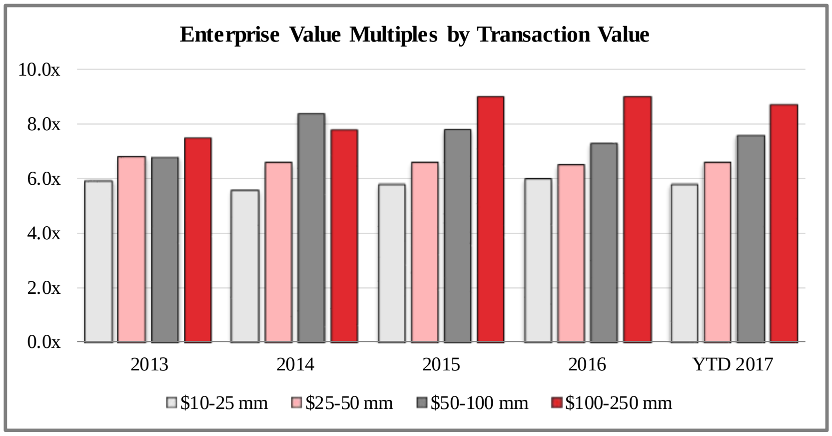


Source: S&P Capital IQ

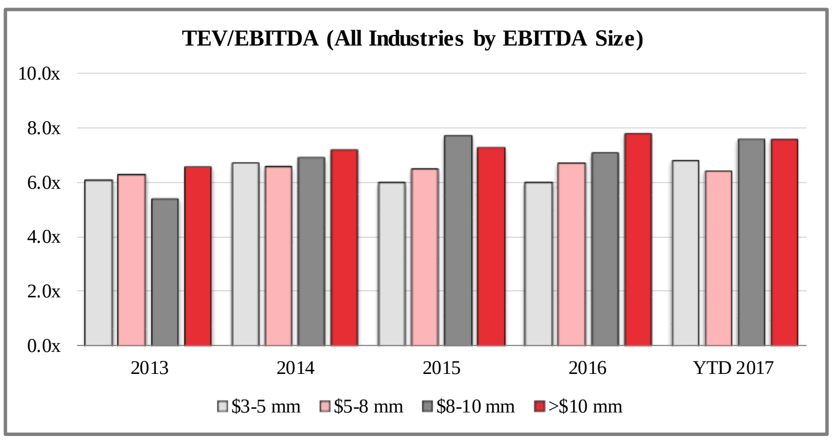
It is important to note that changes in average deal multiples is significantly influenced by activity within industry groups (and size ranges, private equity commentary below), each of which face unique growth dynamics and multiples profiles. To that end the drop in the median deal multiple is not necessarily reflective of 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 2017[1], 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 5.6 times to 6.0 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 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.

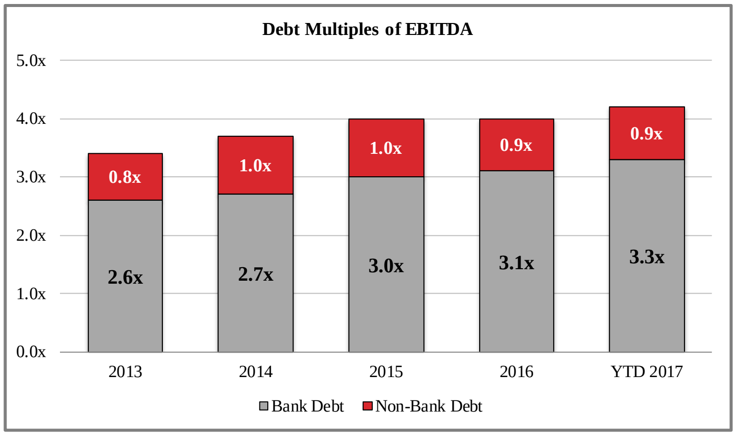


Source: GF Data®

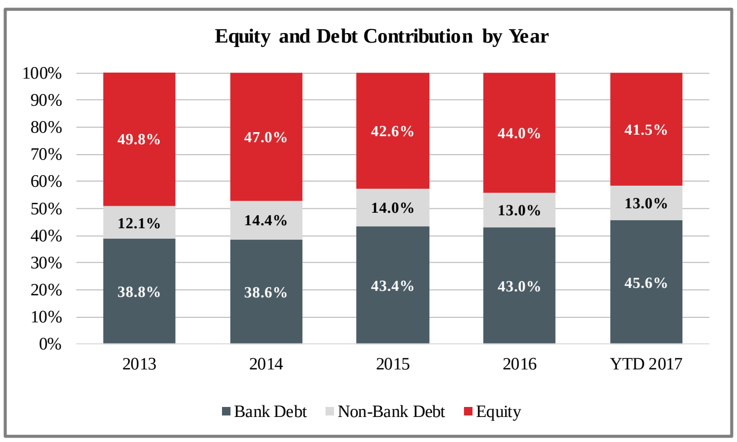
[1] YTD = year to date period through June 30, 2017.

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 (3.3 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 41.5% of total transaction value, down from 44.0% in 2016 and 49.8% in 2013.



Source: GF Data®

Notable Transactions

In July of 2017, Discovery Communications, Inc. ("Discovery") announced it would acquire Scripps Network Interactive, Inc. ("Scripps"), for an implied enterprise value of approximately $14.9 billion. The transaction is to be funded 70% in cash and 30% in equity. Each Class A common share together with the common voting shares will be converted into the right to receive $63.00 per share in cash and $27.00 per share in Discovery's Series C common shares. After the acquisition the combined company will have nearly 20% of all ad-supported pay-TV viewership in the United States. Cost saving synergies from the acquisition are estimated to be approximately $350.0 million, according to Discovery. S&P Capital IQ reports the deal valued at approximately 10.2 times next twelve month EBITDA and approximately 4.1 times next twelve months revenue.

In July of 2017, QVC Group ("QVC") announced the execution of a definitive agreement under which the company would acquire the remaining 61.5% stake in HSN, Inc. ("HSN") for an implied enterprise value of $2.6 billion, in an all stock deal. HSN shareholders will receive 1.65 shares of Series A QVC common stock for every share of HSN common stock. QVC already owns the other 38.5% that was not part of the recently announced deal. The addition of HSN is expected to enhance QVC's position as the leading eCommerce retailer and allow for cross marketing to better engage both existing and potential customers. QVC expects the acquisition to provide increased scale, cost reductions, programming optimization across networks, and financial optionality due to HSN's lower debt leverage. According to S&P Capital IQ, the announced deal is valued at approximately 9.0 times next twelve month EBITDA and approximately 0.7 times next twelve months revenue.

In September of 2017, United Technologies Corporation ("UTC") entered into a definitive agreement to acquire Rockwell Collins, Inc. ("Rockwell") for an implied enterprise value of $30.4 billion, in the largest deal of Q3' 2017. UTC will pay $93.33 in cash and the equivalent of $46.67 in shares of UTC common stock for each share of Rockwell common stock. The combination will create a premier aerospace systems supplier, well positioned to meet rapidly evolving customer demands. Acquiring Rockwell will enhance UTC's innovative systems capabilities and integrated digital products offerings. UTC expects cost saving synergies in excess of $500.0 million from the deal. According to S&P Capital IQ, the deal is valued at approximately 14.4 times next twelve month EBITDA and 3.5 times next twelve months revenue.

Sources: S&P Capital IQ, Forbes, Bloomberg, Press Releases

About MPI

Management Planning Inc., a prestigious national consulting firm founded in 1939, specializes in business valuation, forensic accounting, litigation support and corporate advisory work. MPI provides fairness opinions, sell-side and buy-side advisory services through its investment banking affiliate MPI Securities, Inc. MPI conducts every project as if it is going to face the highest level of scrutiny, and its senior professionals have extensive experience presenting and defending work product in front of financial statement auditors, management teams, corporate boards and fiduciaries, the IRS, other government agencies, and in various courts.

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

Contacts For This Report:

Daniel M. Kerrigan, CFA
President
(609) 955-5732
dkerrigan@mpival.com

Tracey M. Jasey
Partner
(609) 955-5726
tjasey@mpival.com