



Business Valuation
& Advisory

Market Report

M&A Market Snapshot Q3' 2015



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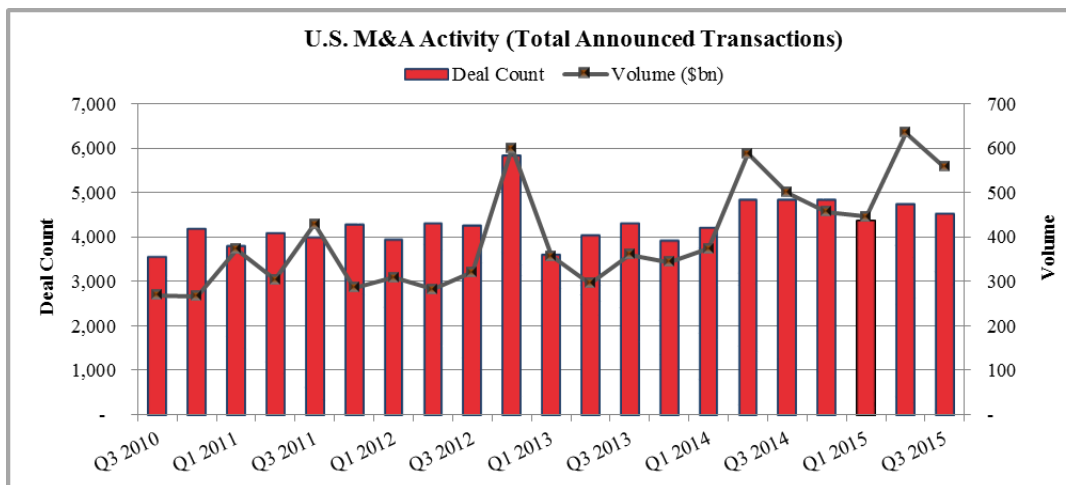
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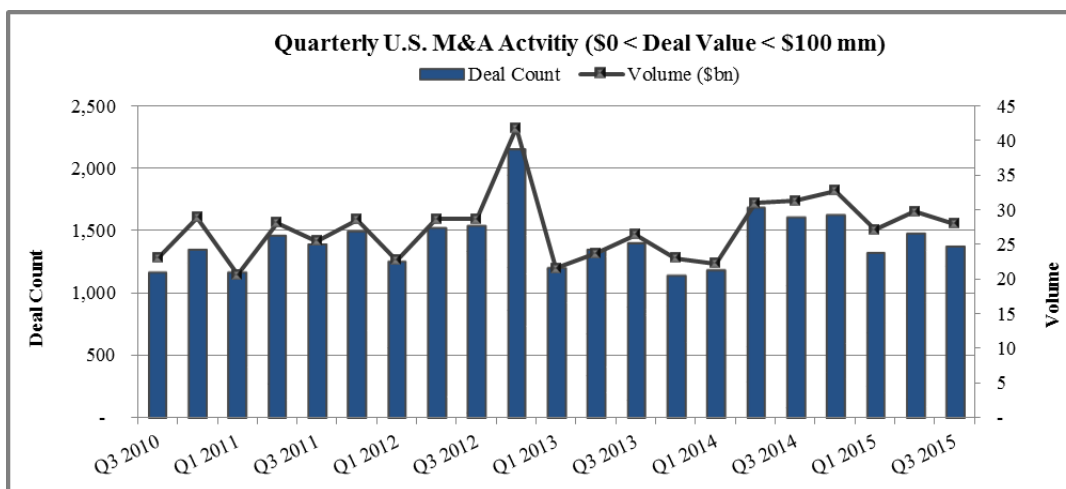
* This publication is also available in soft copy on the MPI website: <http://www.mpival.com/resources.html>.

Total U.S. Market Activity Overview

As shown on the charts below, overall merger and acquisition activity has generally increased over the last five years, despite a modest decline in Q3' of 2015. Announced deal count and volume in the latest quarter represented a decrease over reported levels in Q2' 2015, yet exceeded \$500 billion in deal volume for a second consecutive quarter. As was the case in Q2' 2015, deal volume was substantial despite a relatively flat deal count due to the announcement of several mega deals.



Activity in the lower middle market (defined herein as transactions with deal values under \$100 million) followed a similar trend in Q3' 2015, as deal volume and deal count modestly decreased from the previous quarter.

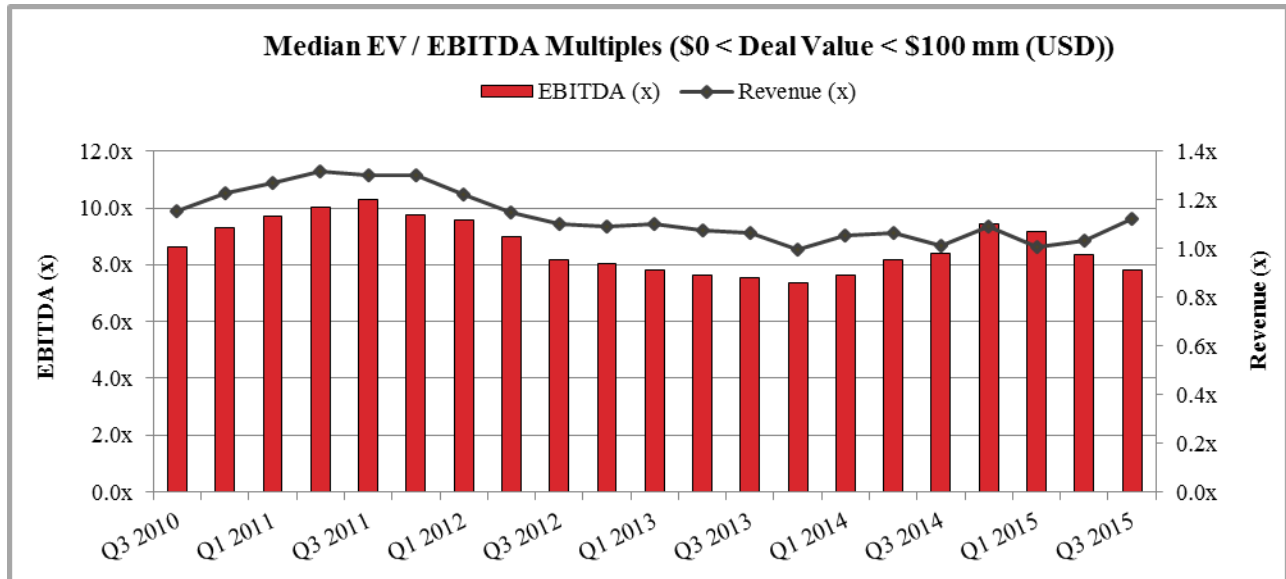


M&A activity remains strong, largely supported by a stable U.S. economy, low interest rates, ample corporate cash levels and a large capital overhang in private equity. Various industry participants also speculate that a potential increase in interest rates may accelerate M&A activity in the shorter term as corporate executives move aggressively on targets presently on the radar screen.

Source: S&P Capital IQ

Transaction Multiples

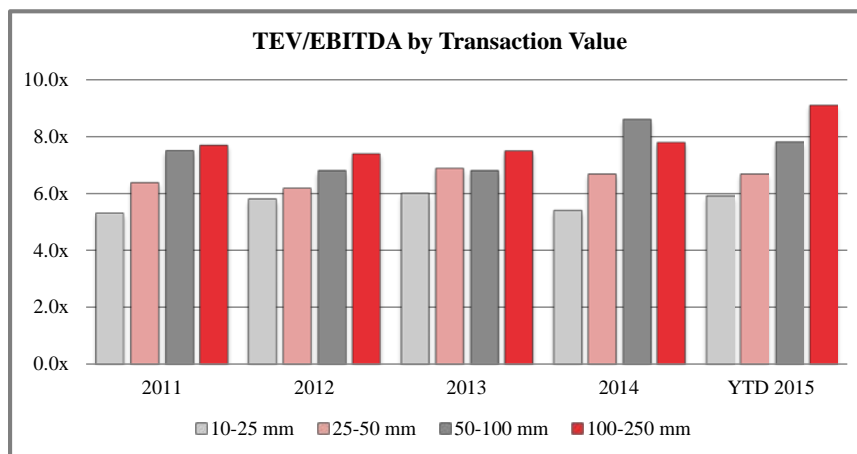
The graph below illustrates the rolling 12-month quarterly trend in EBITDA and revenue multiples from Q3' 2010 to Q3' 2015 for U.S. transactions in the lower middle market. The median target EBITDA multiple for Q3' 2015 was 7.8 times, somewhat below the longer term average multiple of 8.7 times. The median revenue multiple for Q3' 2015 was 1.1 times, which is roughly equivalent to the average multiple for the observed period.



Source: S&P Capital IQ

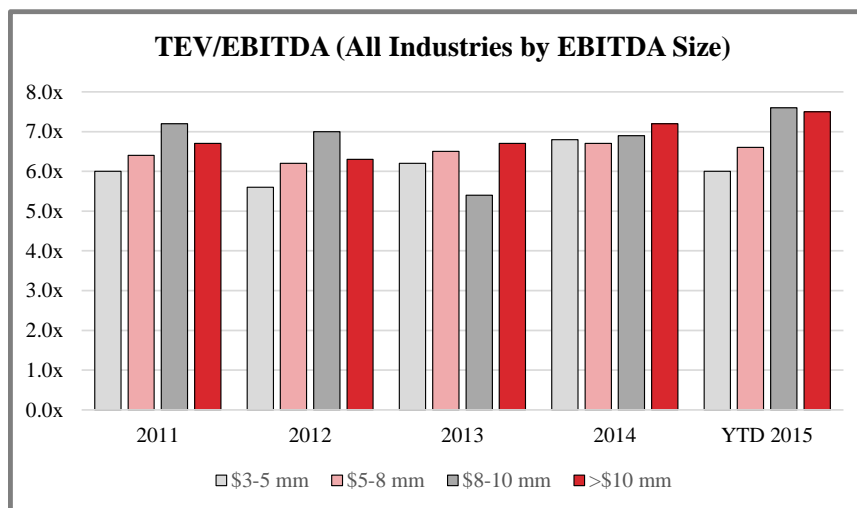
Private Equity Transaction Data

The following chart presents historical EBITDA multiples paid in private equity deals over the past five years. As expected, smaller deals (i.e., those with enterprise values between \$10 million and \$25 million) were generally done at multiples between 5.5x and 6.0x EBITDA, with this range holding relatively constant over the period. In contrast, EBITDA multiples of larger deals (those with enterprise values between \$100 million and \$250 million) breached the 8.0x level in 2015, up considerably from the levels observed from 2011 to 2014.



Source: GF Data®

The chart below stratifies observed transaction data by size of EBITDA. As expected, targets with lower EBITDA levels garnered significantly lower deal multiples. From 2011 to 2015, targets with EBITDA below \$5 million were generally valued at 5.5x to 6.0x, nearly one-half turn below targets with EBITDA in the range of \$5 million to \$8 million.

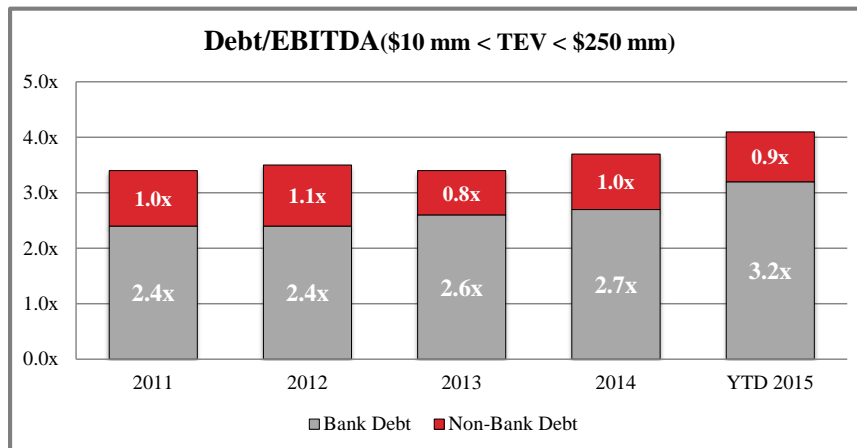


Source: GF Data®

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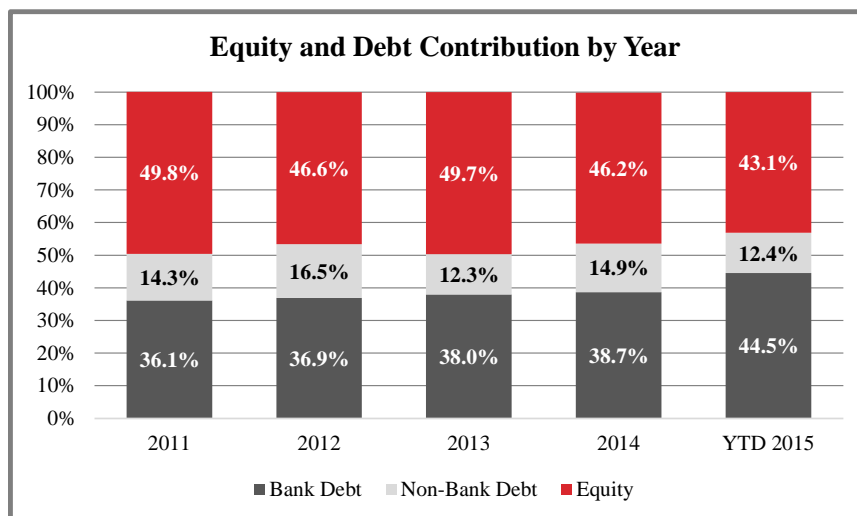
Private Equity Transaction Data (continued)

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 consistently since 2012, presently reaching 3.2x EBITDA. Non-bank financing (typically, subordinated or mezzanine debt) has vacillated between 0.8x to 1.1x EBITDA. Average total leverage reached 4.1x EBITDA in the latest period, up from 3.7x in 2014. According to *GF Data*®, average debt levels of buyouts funded exclusively with senior debt rose to 3.8x in the current period, potentially indicative of an aggressive response by senior lenders to the growing availability of uni-tranche capacity.



Source: GF Data®

The increased availability of leverage has tended to reduce the average equity contribution made by equity sponsors. During the nine month period ended September 2015, the average equity contribution fell to approximately 43% of total transaction value, down from 46% in 2014 and 50% in 2013.



Source: GF Data®

Source: GF Data®

Notable Transactions



In July of 2015, Teva Pharmaceuticals Industries, Ltd. (“Teva”) agreed to buy Allergan Generics, the generic drugs business of Allergan plc (“Allergan”). The announced deal is set to be financed by cash and stock worth \$40.5 billion.



Over the last several years, the pharmaceutical industry has experienced an abundance of M&A activity. It is common for large pharmaceutical companies to acquire companies with drugs that are in the late stages of their development, as the development process is generally long and expensive. It is also common for companies within the industry to pursue a strategic acquisition for cost reducing synergies. According to *BusinessWire*, Allergan management announced the deal is valued at approximately 17.0 times EBITDA.



Also in July of 2015, Aetna Inc. (“Aetna”) agreed to buy Humana Inc. (“Humana”) for approximately \$37 billion after accounting for debt. At the time of the announcement, the two health insurance companies were the third and fourth largest in the U.S. by revenue. The deal would result in Aetna paying \$230 per share, which represents a 23% premium relative to a day prior to the announcement.

The health-insurance industry has experienced rising costs since the Affordable Care Act and as a result, M&A activity has picked up in an effort to offset those higher costs. The deal would propel Aetna into becoming a prominent market leader in the Medicare field. According to S&P Capital IQ, the announced deal is valued at approximately 14.0 times EBITDA.



About three weeks after the announced Aetna and Humana deal, Anthem Inc. (Anthem) announced an agreement to buy Cigna Corp. (Cigna) for a deal worth approximately \$54.2 billion, including debt. The deal would make Anthem the largest health insurer in the U.S. by membership. Anthem announced they would agree to pay Cigna shareholders \$188 per share. According to S&P Capital IQ, the offer was originally announced on June 20, 2015. At that date, the offered price per share was \$184.

As previously mentioned regarding the Aetna and Humana deal, the Affordable Care Act has paved the way for health insurance companies to consolidate in an effort to reduce costs. According to S&P Capital IQ, the deal was valued at 12.9 times Cigna’s LTM EBITDA on June 20, 2015, the date of the announced offer.

Notable Transactions (continued)



MARKWEST

Also in July of 2015, the pipeline unit of Marathon Petroleum Corp. (“Marathon”) announced a deal to purchase Markwest Energy Partners LP (“Markwest”) and create the fourth largest MLP by market value. Marathon’s pipeline unit is involved in transporting crude oil from production fields to refineries and Markwest is involved in the transport and processing of natural gas. According to S&P Capital IQ, the value of the transaction, including debt, was announced at approximately \$20.6 billion.

The deal would be one of the largest transactions within the midstream energy sector. The oil and gas industry has seen a lot of consolidation as well, primarily due to low oil prices. Marathon operates primarily in the Midwest and Gulf Coast regions, while Markwest has operations in Pennsylvania, a market Marathon will now gain access to. According to S&P Capital IQ, the announced deal is valued at approximately 21.1 times EBITDA.



In July of 2015, the megadeal between H.J. Heinz Corporation (Heinz) and Kraft Foods Group, Inc. (Kraft) was completed. On July 6, The Kraft Heinz Company (Kraft Heinz) began trading on the NASDAQ under the ticker symbol KHC. The deal created the third largest food and beverage company in North America and the fifth largest globally.

The deal was originally announced in March of 2015. According to S&P Capital IQ, the implied enterprise value of the deal was \$53.7 billion, which translated to a 22.6 times latest twelve month EBITDA multiple. The structure of the newly formed company resulted in Kraft shareholders owning 49% of the newly formed company and Heinz shareholders owning 51%.

BERKSHIRE HATHAWAY INC.



In August of 2015, Berkshire Hathaway Inc. (Berkshire Hathaway) announced an agreement to purchase Precision Castparts Corp. (Precision Castparts) for approximately \$37.2 billion, including debt. The deal would result in Berkshire Hathaway paying \$235 per share, which represents a 21% premium relative to Precision Castpart’s latest closing price. At June 30, 2015, Berkshire Hathaway’s cash pile was at approximately \$66 billion. This move may result in Berkshire

Hathaway holding off on further acquisitions until they refresh their cash level.

If the deal is completed, it would become one of the largest acquisitions in Berkshire Hathaway’s history. Precision Castparts, which engineers specialized metal products for the aerospace and oil industries, would add to an already diverse line of companies held by Berkshire Hathaway. According to S&P Capital IQ, the deal is valued at approximately 13.9 times Precision Castparts’ latest twelve month EBITDA as of the announced date.

Source: S&P Capital IQ, BusinessWire, Bloomberg

About MPI

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

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