

Middle Market Metrics



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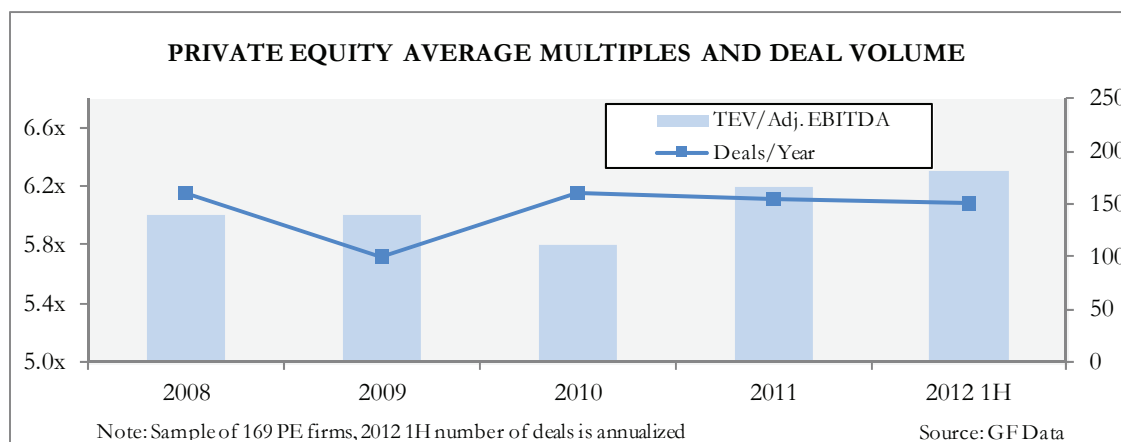
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Business Owners Control the Timing of the Sale Decision

Pent-up Demand: With businesses struggling to achieve organic revenue growth and private equity funds having raised new funds at a rapid pace over the past several years, there is strong pent-up demand to acquire existing businesses. Operating companies, large and small, have utilized the recessionary years to rationalize and streamline their business operations, wringing out as much as possible from operating margins. Keen to improve growth, strategic players are expected to pursue acquisitions to reinvigorate growth and improve profitability. Additionally, private equity and other financial investors are eager to put capital to work through the investment in operating companies.

Pent-up Supply: Sellers are keen to realize value from their businesses to diversify asset portfolios and provide for lifetime and multigenerational income. With corporate sales growth difficult at best and operating costs already streamlined, business owners are considering responding to unsolicited interest or actively pursuing the sale of their business. Estate planning steps to diversify assets may include taking more than one “bite of the apple” by selling less than 100% of a business today. Each of these bites may net different returns to owners. Gifting rules are likely to change from the \$5 million lifetime exclusion today and capital gains taxes may rise from today’s 15% rate in future. While not the right decision for all owners, the sale of all or part of the business offers the chance to capture value and diversify portfolios.

Fear and Greed Continue “Push-Me-Pull-You”: Business owners would prefer to delay selling their business until valuations can be maximized. However, in this period of high economic uncertainty with revenue growth on a see-saw from month-to-month, owners are advised to broaden the range of possible valuations for their businesses. Cost pressures continue, from regulatory pressures and energy price volatility to input and commodity prices. Business owners that ensure greater operating flexibility in sourcing, procurement and operations will be exceptionally well served. Control over the timing of the sale decision also offers flexibility in valuing a business. Buyers are also motivated to invest in profitable businesses both as add-ons to existing businesses and in new platforms. Timing is always important to the ultimate decision. Organic growth, strategic acquisitions or just waiting for the right window is sometimes the best alternative.



MIDDLE MARKET METRICS

Number of Deals Closed: M&A market conditions have improved, even with continued uncertainty on economic growth and capital gains tax treatment. Valuations are steady as demand for deals and the search for growth buffers political and economic headwinds. Transaction size increased as buyers offset political and economic headwinds with larger transaction size and put more capital to work.

Private Equity TEV/EBITDA Multiples by Industry Category

INDUSTRY	2003-07	2008	2009	2010	2011	1H 2012	Total	N =
Manufacturing	5.9	5.8	5.7	5.9	5.9	6.0	5.9	626
Business Services	6.1	6.2	5.9	5.9	6.7	5.5	6.1	251
Healthcare Services	6.7	6.6	6.3	6.6	7.3	7.9	6.8	136
Retail	6.5	6.4	5.2	6.1	6.2	NA	6.5	45
Distribution	5.9	6.3	5.5	5.3	6.0	6.1	5.9	146
Publishing/ Media	7.5	6.1	7.4	4.2	6.1	NA	7.2	31
Technology	5.5	6.5	6.6	5.7	4.6	7.5	6.0	28
Other	5.8	5.4	6.4	5.6	5.0	6.2	5.7	176
N=	783	165	89	169	158	75		1439

Please note that N for 2003-07 encompasses five years of activity.

Source: GF Data

Industry Distribution: During the first half of 2012, sectors tracking higher transaction valuations were health-care services and technology, while valuations in business services and manufacturing reflected greater uncertainty on economic growth.

Recently Completed Transactions...

New Carbon Group



Has been acquired by




Has divested its electronic connector distribution subsidiary



to




Has divested its critical test results management suite to



A subsidiary of




Has been acquired by

