

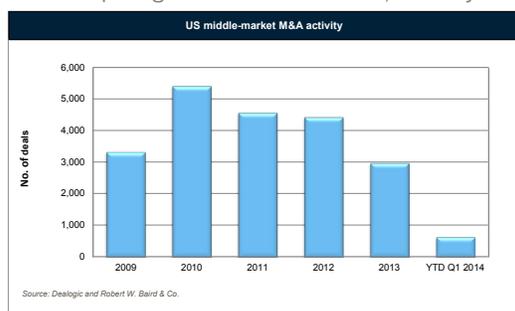
M&A and capital markets update

First quarter 2014

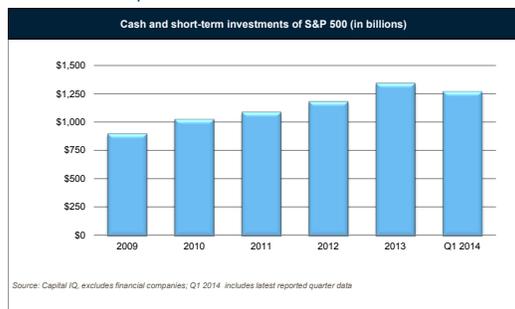


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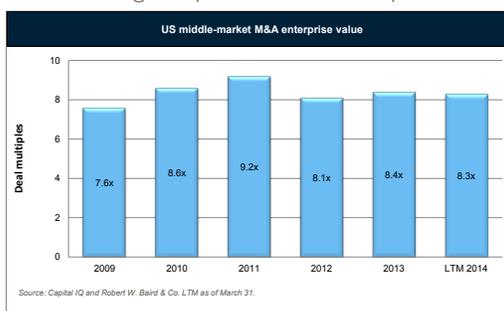
US middle-market M&A activity in first quarter 2014 was disappointing as low volume, high value trends continued from the second half of 2013. Deal volume was down 23.4 percent to 642 for the period compared to first quarter 2013, while dollar volume increased slightly by 4.4 percent to \$24.4 billion over the same time period. Conditions for US leveraged financing markets remain strong and the economy has seen several positive indicators throughout the quarter including improved labor markets, strength in manufacturing, and increased consumer spending. Accordingly, economists are predicting modest economic expansion throughout the rest of 2014 with uncertainties as to the economic and political impact of the start of the Affordable Care Act and the assignment of a new Federal Reserve Chairman. Despite an overall uptrend in the US economy, these uncertainties combined with a lack of sellers will likely have dampening effects on overall M&A, and only modest growth in deal making is expected into second quarter 2014.



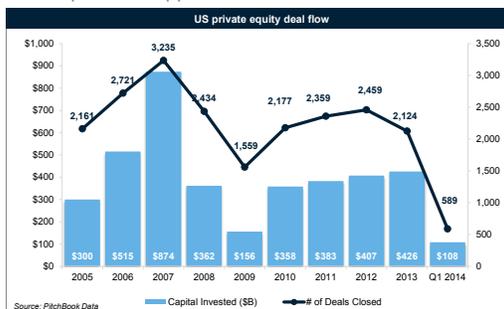
US middle-market M&A deal activity in Q1-2014 was down 23.4 percent compared to Q1-2013, the lowest number of deals since 1995. Larger transactions (\$500 million to \$1 billion) increased slightly by 2.9 percent, as well as medium size deals (\$100 million to \$499 million) by 10.8 percent. The major downturn was the lower middle market deals (under \$100 million) down substantially by 33.1 percent. Despite the number of M&A transactions being down, deal value has still increased 4.4 percent.



Corporations continue to hold large amounts of cash; however, in the first quarter corporate cash reserves experienced a slight decrease of 5.5 percent from 2013. As corporations continue to generate more earnings, a shift in M&A appetite has increased as evidenced by larger \$100 billion deals such as Pfizer's proposed acquisition of AstraZeneca and Comcast's recent agreement to acquire Time Warner Cable.



Deal multiples for the last twelve months of 2014 have remained strong at 8.3x due to the high demand for quality middle market companies and low number of quality sellers. Although deal multiples for Q1-2014 are down slightly from CY 2013, they are up from the previous six month average of 8.2x. It is anticipated that deal multiples will remain relatively high with the continued low cost of capital environment, accommodative credit policies, high competition, and lack of premium opportunities.



The \$108 billion invested in Q1-2014 was the most capital invested in a Q1 over the past 5 years and an increase of 30.1 percent from Q1-2013. Deal activity increased 7.7 percent to 589 deals compared to Q1-2013. Add-on companies again accounted for the majority of the transactions at 59 percent. Deal activity for the rest of 2014 is optimistic and it is anticipated many of the transactions will continue to be add-ons.

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