



## DEAL VOLUME DOWN



Source: Robert W. Baird & Co.

## LOW TRANSACTION VOLUME RESULTING IN HIGHER PRICES FOR QUALITY COMPANIES

### Favorable Market for Sellers

The first nine months of 2012 saw a modest decline in M&A volume compared to the same period in 2011. According to Robert W. Baird & Co., the number of middle-market transactions (enterprise values less than \$500 million) declined 10.8% in the first nine months of 2012 compared to the year earlier period.

A sluggish economy, combined with economic and political uncertainty, has reduced transaction volume despite record corporate cash and billions of uninvested private equity capital.

Lower supply of quality companies, combined with significant demand, has resulted in an increase in purchase prices.

Nonetheless, we continue to see strong demand, at very attractive prices, for quality companies.

### Purchase Price Strong; Size Still Matters

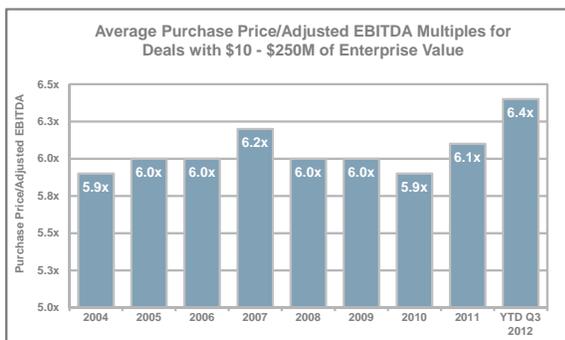
Middle-market purchase price multiples for LBOs increased to 6.4x EBITDA for the first nine months of 2012, compared to 6.1x for the full year of 2011.

Larger transactions continue to realize significantly higher multiples. Average enterprise value/EBITDA multiples reported for LBO transactions with enterprise values between \$100 million and \$250 million increased to 7.9x EBITDA during the first nine months of 2012 compared to 7.8x for all of 2011.

Purchase price multiples for LBO transactions with \$10 to \$25 million enterprise values increased to 5.7x EBITDA for the first nine months of 2012 compared to 5.4x for all of 2011.

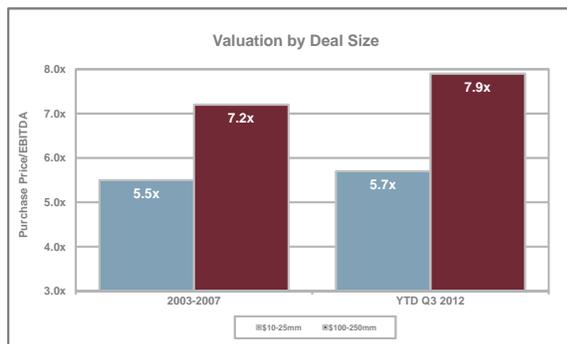
The gap in valuations between larger and smaller middle-market transactions is 2.2x EBITDA, up from the historical spread of 1.7x.

## PURCHASE PRICE MULTIPLES REMAIN STRONG



Source: GF Data Resources

## PREMIUM FOR LARGER DEALS



Source: GF Data

## FINANCING MARKETS STRONG FOR TRANSACTIONS OR SPECIAL DIVIDENDS

### Modest Increase in Leverage for Transactions

Total debt market support for lower middle-market M&A transactions (enterprise values less than \$250 million) remained stable during the first nine months of 2012 compared to all of 2011. Average total debt/EBITDA multiples remained stable at 3.3x during the first nine months of 2012, the same as 2011.

However, leverage for \$100 - \$250 million transactions increased to 4.3x EBITDA compared to 3.9x in 2011. The entire increase in leverage was the result of additional mezzanine availability.

Mezzanine debt for \$100 - \$250 million transactions increased to 1.4x EBITDA for the first nine months of 2012 compared to 0.9x EBITDA in 2011.

The combination of low interest rates and stable to expanding lending criteria makes it an attractive time for companies to borrow money for acquisitions or dividends.

### Borrowers Taking Advantage of Low Tax Rates in 2012

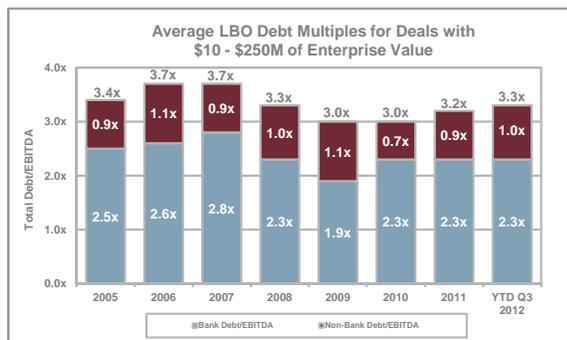
Hundreds of corporations are issuing special dividends or accelerating normal dividends prior to year-end due to likely tax increases next year.

According to the Wall Street Journal, a record 173 companies have already announced special dividends, including Costco, Carnival Corp., Walgreens Co., and Dillards. Other companies like Leggett & Platt and Wal-Mart Stores are moving up their 2013 quarterly dividends into 2012.

If Congress takes no action, the 15% tax rate on dividends will end on January 1, 2013 and dividends will be taxed at least at 23.8% (including the ObamaCare surcharge).

Whether you are a public or private company, it is not too late to draw down on your bank facility or amend your financing to take advantage of the favorable tax environment.

## IMPROVING DEBT MARKET



Source: GF Data

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## CONTACT

The Cleary Gull Investment Banking team has completed more than 120 transactions since 1995, representing over \$6 billion in transaction value.

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