

## Middle Market M&A News November 2014

### Middle market M&A activity grows through Q3

While 2014 has been a big year for large, high-profile deals such as Facebook's acquisition of WhatsApp (\$19.7 billion) and Comcast's acquisition of Time Warner Cable (\$69.2 billion), middle market M&A continues to comprise the majority of deal volume and has shown steady growth alongside the rest of the market. These high-visibility "mega-deals" have increased confidence in the overall M&A market and should continue to help drive transaction activity further down the deal chain in the middle market.

On a last-twelve-month ("LTM") basis, M&A activity has shown solid growth through Q3 2014, primarily in deal value. One reason that deal value growth has outpaced volume growth is that transaction multiples continue to increase, reflective of the competitive nature of the market and the scarcity of quality acquisition targets. According to Thomson Reuters, total deal value was \$219 billion across 8,653 deals during LTM Q3 2014, representing an increase of 12.7% in value and 0.7% increase in volume over LTM Q3 2013. This growth was consistent with the overall U.S. M&A market, which saw increases of 36.0% in value and 1.3% in volume in LTM Q3 2014 compared to LTM Q3 2013 (per Thomson Reuters).



Source: Thomson Reuters

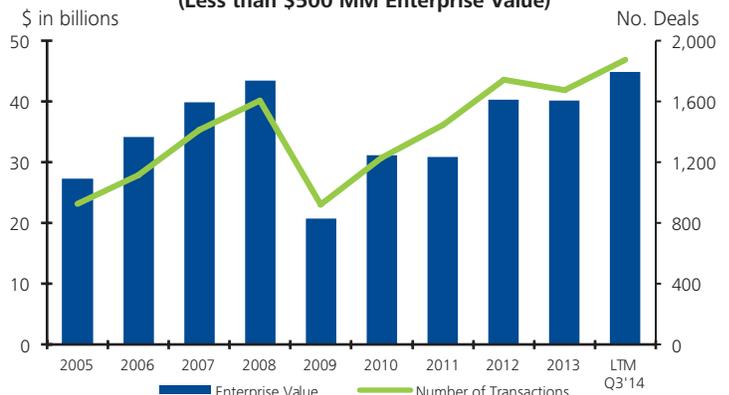
As mentioned above, transaction multiples for 2014 have increased, with the median Enterprise Value/EBITDA multiple for U.S. middle market transactions reaching 7.5x, a 5.6% increase from a median of 7.1x in 2013, according to Thomson Reuters. The median transaction multiple rose from 6.2x in Q2 2014 to 7.2x in Q3 2014, representing a 16.1% increase.

Market conditions will likely remain favorable for increased deal making in the future as strategic buyers sit on large cash reserves and can borrow additional cash at low rates. In LTM Q3 2014, deal activity by strategic acquirors saw an improvement of 12.7% to \$173.7 billion compared to \$154.2 billion in LTM Q3 2013 (per Thomson Reuters).

### Middle market private equity deal activity grows

- U.S. middle market private equity deal value and volume for LTM Q3 2014 increased by 12.9% to \$44.9 billion and 8.1% to 1,876 transactions, respectively, compared to LTM Q3 2013. In LTM Q3 2014, private equity transactions accounted for approximately 21% of middle market deal value and volume, which is in line with historical trends (per Thomson Reuters).
- With deal multiples remaining elevated and quality platform investments hard to find, private equity firms have continued to focus on add-on acquisitions for their current portfolio companies. Through Q3 2014, add-ons comprised 61% of all controlling investments, up from 57% in 2013 and 49% in 2012. If this pace continues, 2014 will easily surpass last year as the new record year for add-ons (per PitchBook).

### U.S. Mid-Market Financial Buyer Deal Value & Volume (Less than \$500 MM Enterprise Value)

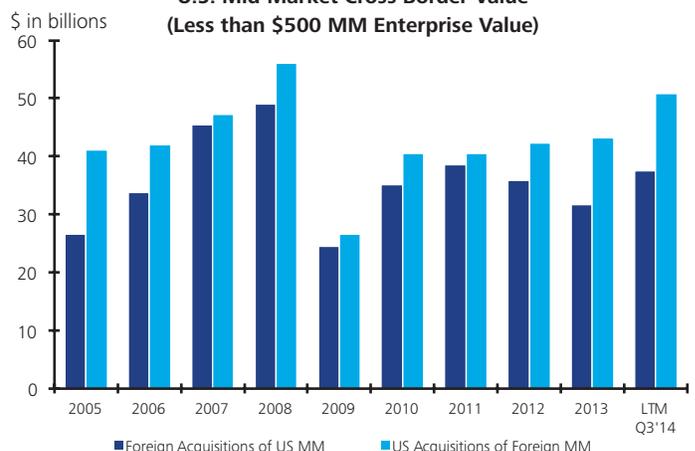


Source: Thomson Reuters

### Cross-border transaction activity increases

- Foreign acquisitions by U.S. companies continued to grow in LTM Q3 2014, as buyouts of middle market companies grew by 20.9% over LTM Q3 2013 to reach \$50.8 billion. Similarly, deal volume increased by 13.9% to 1,609 deals over the same time period (per Thomson Reuters).
- International investment in U.S. companies via M&A activity also increased for LTM Q3 2014 to \$37.5 billion, spread across 1,178 transactions, according to Thomson Financial. This is an increase of 8.1% and 7.0% in value and volume, respectively, compared to LTM Q3 2013.

### U.S. Mid-Market Cross Border Value (Less than \$500 MM Enterprise Value)



Source: Thomson Reuters

## Deloitte Corporate Finance LLC (“DCF”)

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For additional information or to find out more about how DCF can assist the deal initiation and execution process, please contact one of our DCF Managing Directors:

### Kevan Flanigan

National Managing Director  
keflanigan@deloitte.com  
+1 213 688 6560

### Phil Colaco

philcolaco@deloitte.com  
+1 704 333 0533

### Shingo Kayama

shikayama@deloitte.com  
+1 212 653 3848

### Matt Preece

mpreece@deloitte.com  
+1 704 731 7186

### Dave Vorhoff

dvorhoff@deloitte.com  
+1 704 333 0519

### Tracy Albert

talbert@deloitte.com  
+1 213 996 4939

### John Deering

jdeering@deloitte.com  
+1 704 333 0574

### Jamie Lewin

jlewin@deloitte.com  
+1 214 840 7057

### Ron Rivera

rorivera@deloitte.com  
+1 404 631 3710

### Paul Warley

pwarley@deloitte.com  
+1 404 220 1331

### Eric Andreozzi

eandrezzi@deloitte.com  
+1 704 333 0518

### Lorin DeMordaunt

ldemordaunt@deloitte.com  
+1 704 333 0591

### Michael McArthur

mimcarthur@deloitte.com  
+1 213 688 3257

### Matthew Seidner

mseidner@deloitte.com  
+1 312 486 4359

### Sharon Weinstein

shweinstein@deloitte.com  
+1 212 436 6076

### Vin Batra

vbatra@deloitte.com  
+1 212 492 4234

### Sara Elinson

selinson@deloitte.com  
+1 212 436 5665

### Kevin McFarlane

kemcfarlane@deloitte.com  
+1 213 553 1423

### Justin Silber

jsilber@deloitte.com  
+1 404 942 6960

### Charlie Welch

charliewelch@deloitte.com  
+1 704 731 7201

### Tony Blanchard

anblanchard!@deloitte.com  
+1 313 396 3738

### Will Frame

wframe@deloitte.com  
+1 312 486 4458

### Matt Meyer

mattmeyer@deloitte.com  
+1 213 892 6053

### Thomas Sloop

tsloop@deloitte.com  
+1 713 982 4450

### Brad Winer

bwiner@deloitte.com  
+1 704 333 0568

### Hector Calzada

hcalzada@deloitte.com  
+1 404 631 3015

### Simon Gisby

sgisby@deloitte.com  
+1 212 436 2495

### Jonathan Ohm

johm@deloitte.com  
+1 212 436 2287

### Tom Spivey

tspivey@deloitte.com  
+1 214 840 7014

### Robert Young

robertyoung@deloitte.com  
+1 212 492 4024

### Ellen Clark

elclark@deloitte.com  
+1 313 396 2682

### Sherry House

shhouse@deloitte.com  
+1 312 486 4220

### Lou Paone

lpaone@deloitte.com  
+1 704 731 7202

## Deloitte Corporate Finance Business Development Group:

### Brad Heston

Senior Vice President —  
Business Development Leader  
bheston@deloitte.com  
+1 404 631 3839

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