

Middle Market M&A Update, Fall 2011

Summary

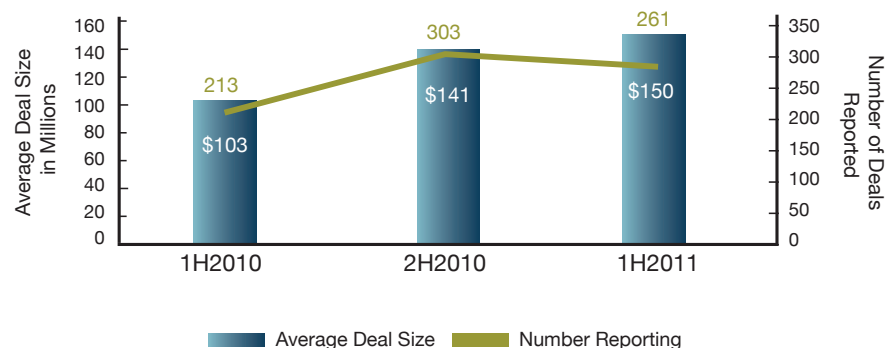
Merger and acquisition activity in the middle market continued to deliver a strong performance throughout the first half of 2011. Despite a tapering off of the frantic activity at 2010 year-end, a comparison of 1H2011 with 1H2010 shows a significant increase in number of transactions specifically in the lower middle market.

Enterprises with annual revenue less than \$250 million remain highly attractive to corporate acquirers seeking immediate, turnkey growth. Valuations continue to hold steady delivering multiples of 5-7x EBITDA with outliers for certain industries.

Year-to-year gains

In our analysis of data from CapitalIQ, we see a 23% gain in the number of U.S. transactions closed during the first six months of 2011 compared with the same period in 2010. The number represents a slight drop from elevated totals seen in the second half of 2010 when a rush to close was prompted by many sellers' perception of capital gains tax increases.

Average Deal Size Continues to Climb



In the data analyzed, the most active market segment for M&A activity continued to be industrials, comprising roughly 20% of activity. Consumer discretionary, information technology and healthcare segments also delivered strong numbers.

Foreign buyers no longer so exotic

Acquisitions of U.S. companies by international buyers gained momentum during the first half of 2011. “We continue to receive strong interest from foreign purchasers who view the weakness of the U.S. dollar as a timely opportunity for acquisition,” says Alan J. Scharfstein, President of The DAK Group.

“The European financial and debt crisis has accelerated a focus on the relatively more stable U.S. economy. The acquisition of North American middle market firms by larger international companies can be an excellent hedge against instability in the buyers’ home markets.”

Clues to corporate development: The appetite for acquisition

A recent survey found that 53% of corporate executives plan to pursue an acquisition in the next year to increase market share.¹ A second study reveals a strong inclination towards middle market opportunities; 42% indicate their targets are \$250 million or less per transaction, with another 13% pursuing transactions in \$250 - \$499 million range.²

Nearly 80% of acquirers say they want to pursue acquisitions to complement an existing line of business.³ Corporate buyers and, increasingly, private equity investors are seeking highly strategic, long-term fits within their value chain, business model or platform.

Yet, despite the focus on the acquisition of high performing, mid-sized companies, we believe most middle market executives are unaware of their business's value or potential attractiveness. This could lead to a risk of a hastily conducted, reactive exit strategy – prompted by a suitor's overture – instead of a carefully planned, competitive divestiture designed to reap maximum value. Proactive planning can yield creative, alternative options such as splitting off and divesting certain operations, ultimately increasing enterprise value.

Action plans

Given the sustained trends fueling acquisition, owners need to be prepared to respond to market conditions.

Potential sellers should:	Potential acquirers should:
<ul style="list-style-type: none">• Assess the transactional fitness of their firm• Proactively enhance areas generating value• Consider the advantages of receiving multiple bids vs. a single suitor• Explore alternative and creative strategies to deliver maximum value	<ul style="list-style-type: none">• Evaluate in advance the scope of favorable financing options available to them• Sharpen their focus on specific, appropriate complements to their long-term corporate strategy• Prepare for an increasingly competitive bidding process for quality acquisitions

About the author

Robin Bear, Vice President at The DAK Group, delivers a unique marketing perspective to identify and facilitate strategic mergers and acquisitions. Ms. Bear offers a background in industrial market analysis, new venture assessment, brand positioning and competitive intelligence to support transactional objectives. Areas of specialty include packaging, materials handling, pharmaceuticals and medical devices.

rbear@dakgroup.com • (201) 478-5261

The DAK Group

Since 1984, The DAK Group has executed hundreds of transactions across a wide range of industries, including industrial manufacturing and distribution, telecommunications and technology, business services, packaging, consumer products and healthcare. As a leading investment bank serving the needs of middle market enterprises, it advises clients on mergers and acquisitions, financial restructuring, capital advisory, valuations and fairness opinions.

1. Mergermarket, "M&A Executive Insights," 2011.
2. Merrill Datasite, "Strategic M&A Deals," 2011.
3. Deloitte, "Mid-market perspectives: Report on America's economic engine," 2011.

The **DAK** Group

Investment Bankers to the Middle Market

Rochelle Park, NJ 07662

201 712 9555

www.dakgroup.com