

OCTOBER 2013

Transaction Trends provides private equity sponsors with middle-market transaction information and insights compiled by the BMO Harris Sponsor Finance group—information that helps sponsors better understand the current financing climate in the middle market.

Introduction

This issue of *Transaction Trends* includes data and commentary on the most relevant and interesting developments affecting middle market leveraged finance and private equity in the third quarter. We collected this data through our extensive deal sourcing and review and synthesized it into what we believe is an accurate view of the current state of the middle market.

The traditionally quiet third quarter saw a heightened level of activity in August and September as the long-awaited return of buyout candidates finally emerged. Debt markets continue to be supportive of this activity with stable pricing and aggressive leverage and terms. In some cases, even more leverage has been available than private equity investors have chosen to use (more on this later).

Sector Activity

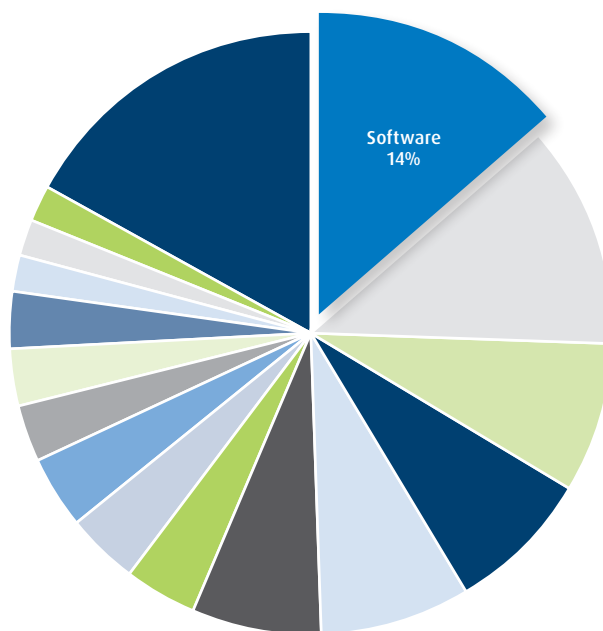
We are frequently asked in which industries we are seeing the most activity. This year we have seen deal flow across our four main sectors—business services, food and consumer, healthcare, and industrial—remain more or less proportionate (a little more in business services, a little less in food and consumer). But by drilling down one layer deeper, we find that software emerges as the sector with the most activity this year, while healthcare services (such as RCM and specialty pharmaceuticals) and healthcare providers (such as urgent care, pain management and anesthesia) remain a strong focus for investors.

Upcoming Event

FRIDAY, OCTOBER 25
7:45 A.M. CST

Join us for ACG's webcast panel discussion with our own Dennis Robleski. The panelists will be providing insights on the middle market: banking, lending and the impact on M&A.

[REGISTER HERE](#) 

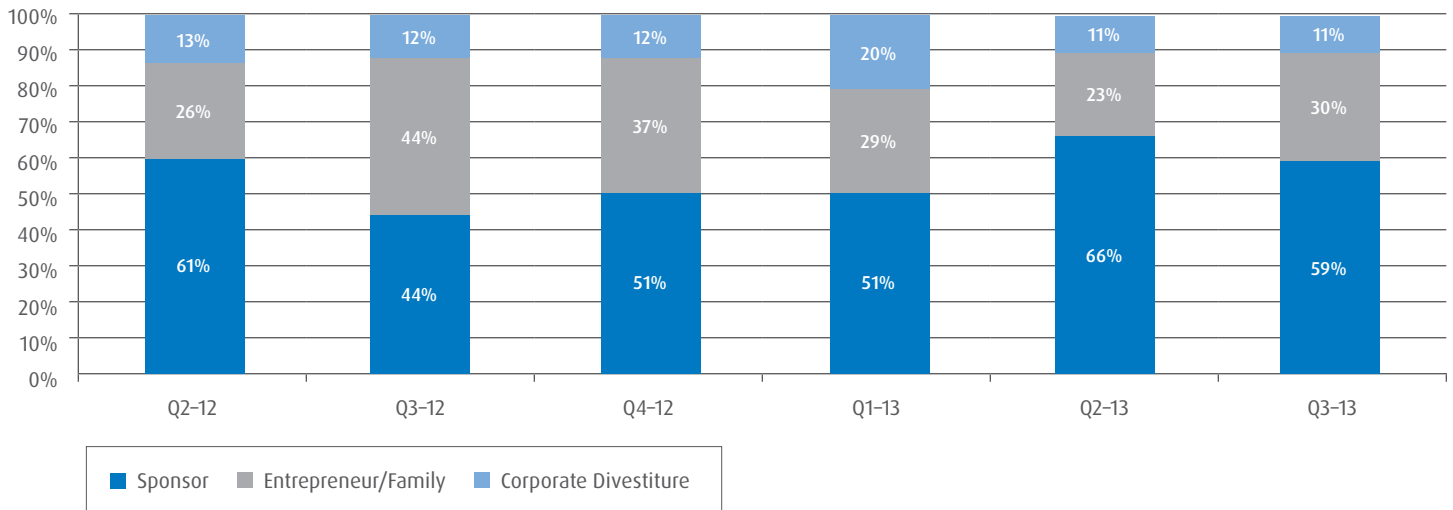


DEALS BY SUB INDUSTRY

Software	14%
General Manufacturing	12%
Other Healthcare Svcs	8%
Healthcare Providers	8%
Financial Services	8%
Consumer Products/Svcs	7%
Diversified Services	4%
Information Services	4%
Transportation/Logistics	4%
Technology	3%
Food	3%
Packaging	3%
Healthcare IT/Consulting	2%
Retail/Wholesale Distribution	2%
Medical Devices/Technology	2%
Other	17%

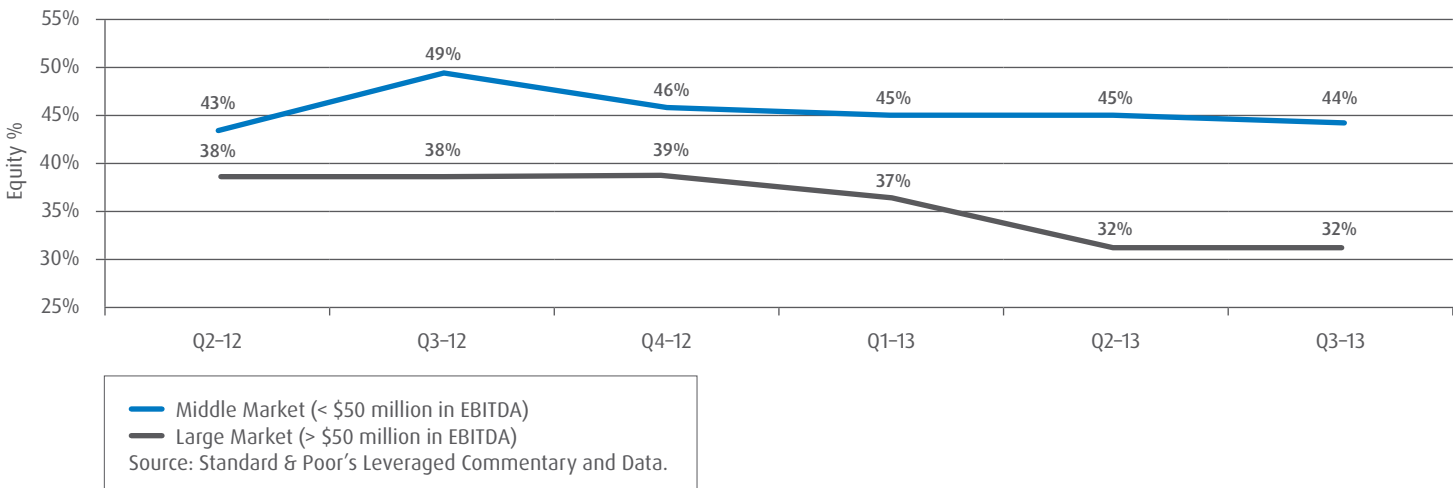
Seller Type

For the fourth quarter in a row, private equity groups represented the majority of the sellers of businesses we have reviewed. Based on our current activity, we expect that trend to hold in the last quarter of the year as well. With high expectations on valuations, it will bear watching to see if buyers and sellers (particularly private equity sellers) can find common ground or if some businesses will be pulled and dividends pursued instead (as happened in the fourth quarter of 2010 and 2012).



Equity Contribution in LBOs

Interestingly, the large and middle markets have diverged on equity contributions. The large market has shown continued downward movement from a peak in the mid-40 percent range in 2009 to around 30 percent currently, while the middle market has held steadier in the mid-40 percent range over the last six quarters. We attribute this at least in part to more middle market deals closing with senior-only structures, thus requiring a higher equity component.

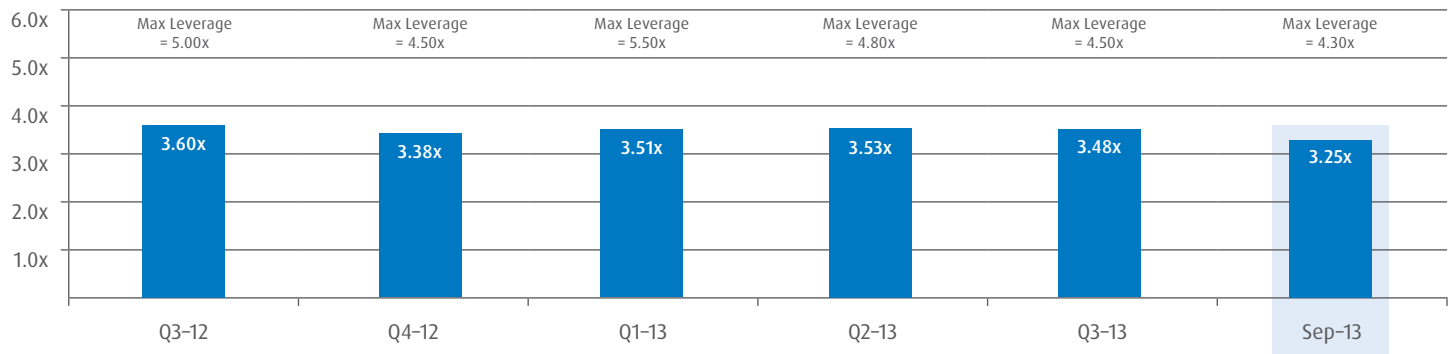


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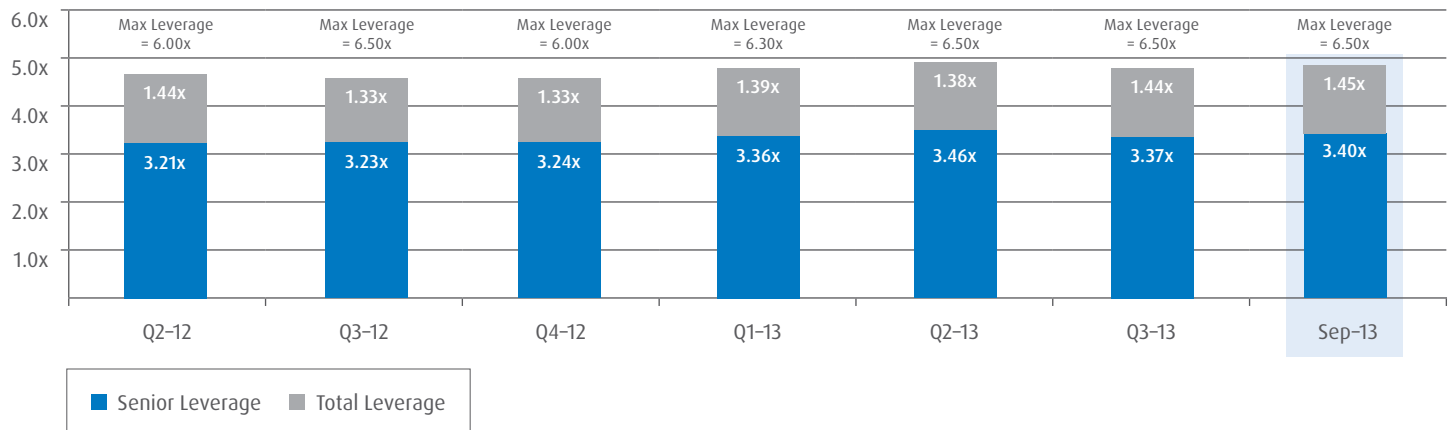
Leverage

While most market watchers report escalating levels of senior and total leverage in transactions, we believe this is primarily happening at the larger end of the middle market, where we have seen a 100- to 150-bps increase in leverage over the past year. In transactions under \$30 million in EBITDA, leverage levels have risen moderately, at least in part to sponsors choosing to finance either with senior-only structures or simply not taking all the leverage that is available from financing sources.

ALL-SENIOR LEVERAGE ALL COMPANIES



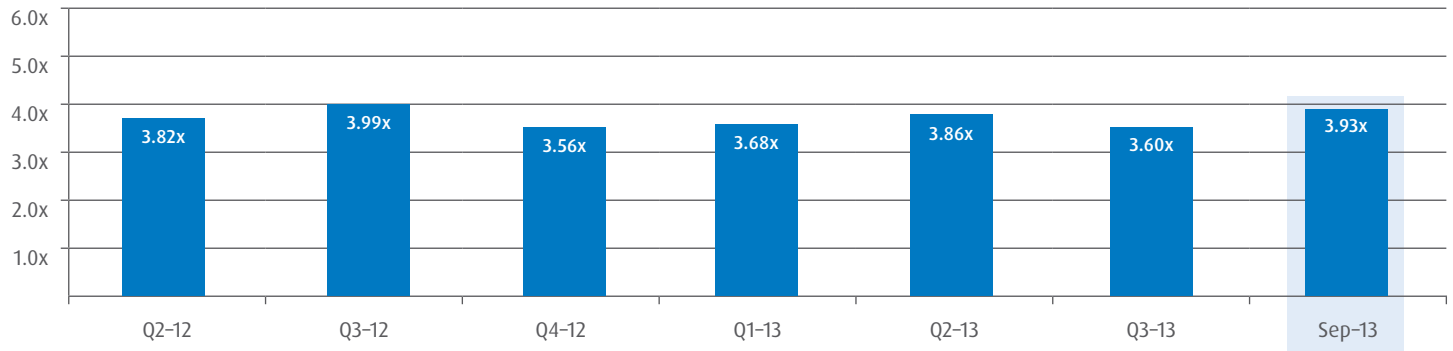
SENIOR/TOTAL LEVERAGE ALL COMPANIES



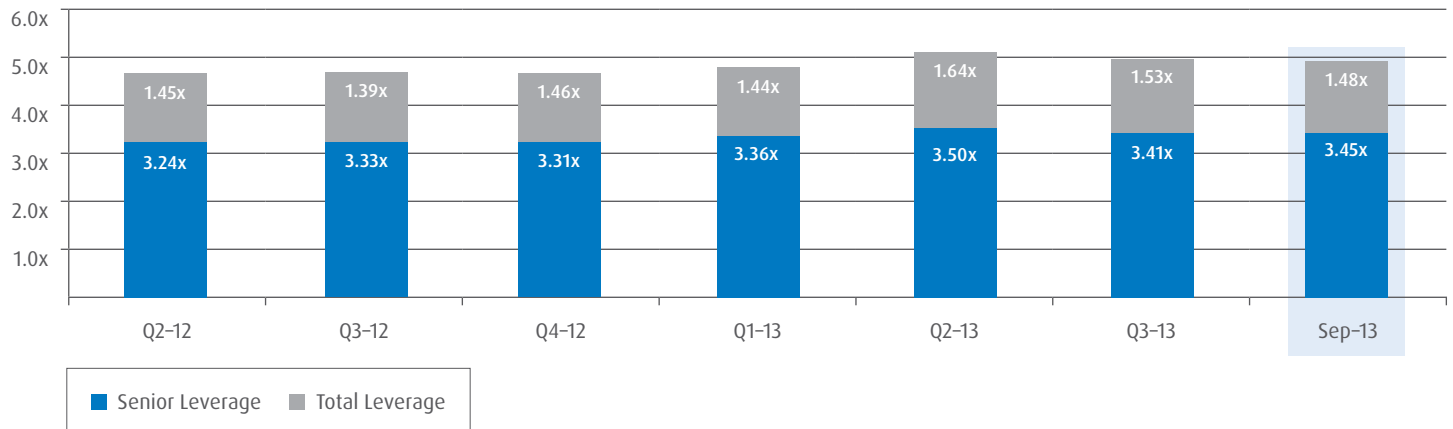
Leverage in LBOs

Carrying forward the prior point, we presumed that middle market leverage levels have not shown a dramatic spike due to the preponderance of dividend recaps and refinancings in the market, which will generally carry lower leverage. The charts below, however, illustrate that even leverage levels in LBOs have risen only modestly.

ALL-SENIOR LEVERAGE LBOs



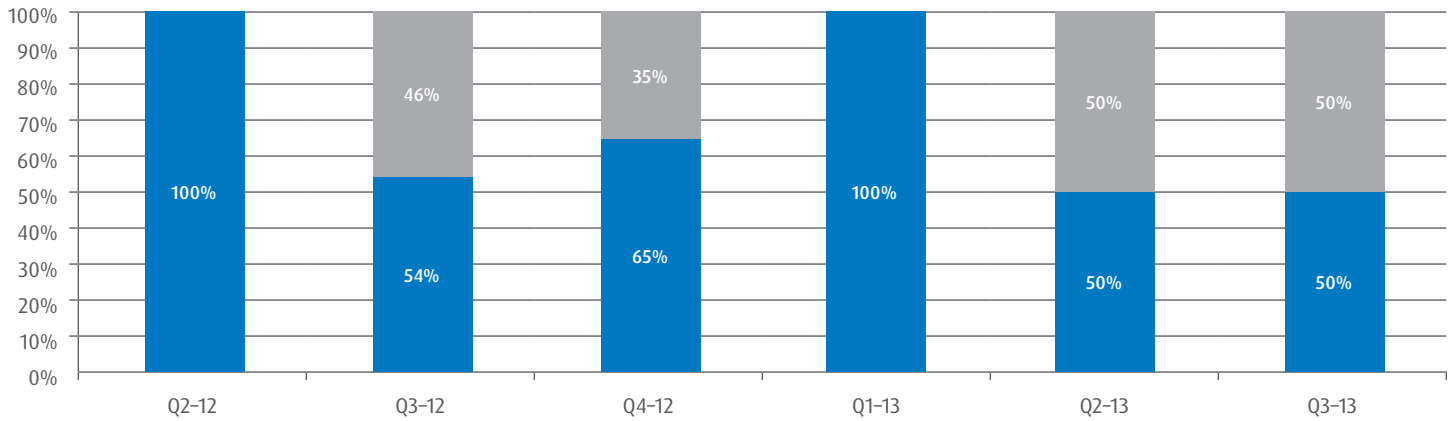
SENIOR/TOTAL LEVERAGE FOR LBOs



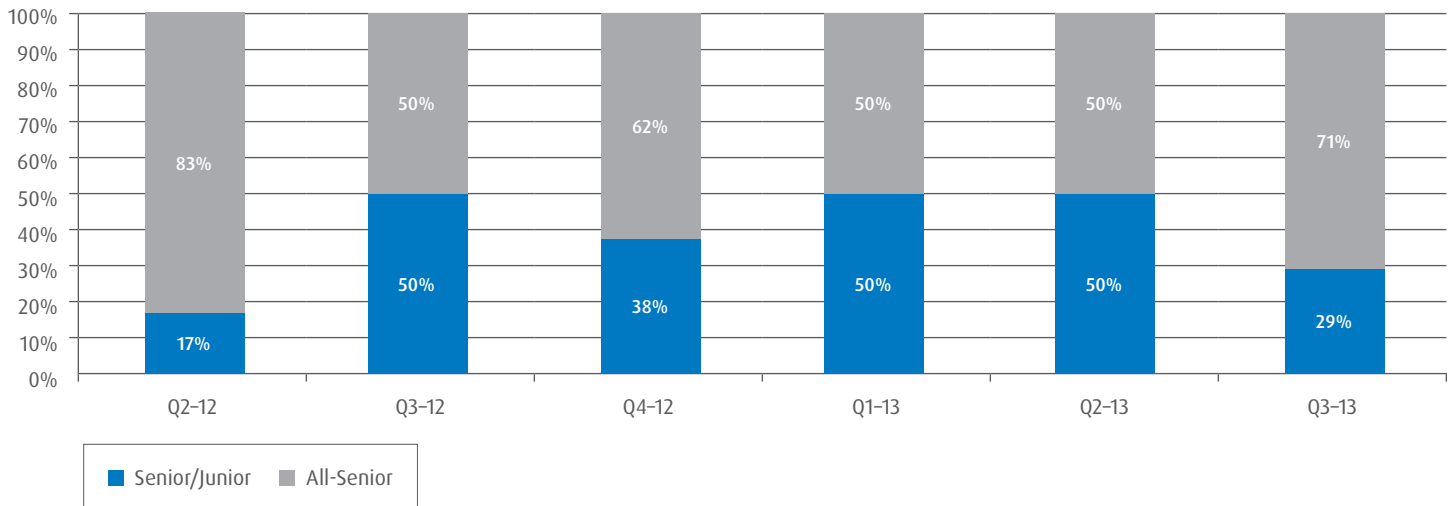
Deals Employing Junior Debt

We have split this analysis into LBOs and other transactions (refinancings, recaps, etc.) to show that LBOs continue to employ a junior debt tranche (second lien or mezzanine debt) in the majority of cases, while other transactions are slightly more oriented to senior-only financing structures.

PERCENTAGE OF CLOSED LBOs WITH JUNIOR DEBT



PERCENTAGE OF CLOSED OTHER TRANSACTIONS WITH JUNIOR DEBT



■ Senior/Junior ■ All-Senior

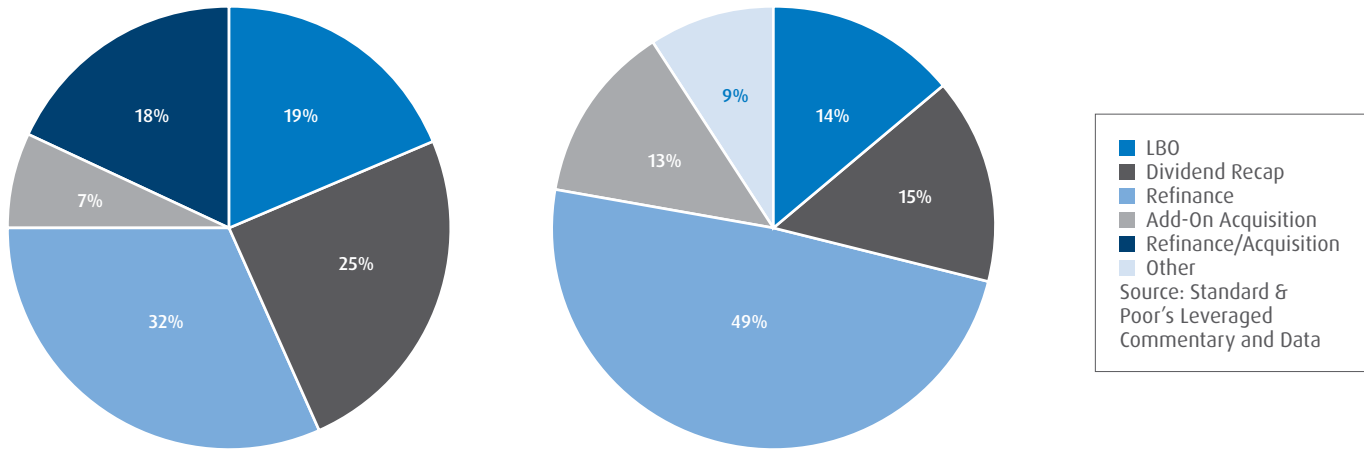
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Use of Proceeds

Continuing with the theme of comparing the large and middle markets, the charts below demonstrate the similarities (light LBO volume) and differences (refinancing levels) in the uses of loan proceeds between the markets. The dollars in the middle market have clearly been flowing more to add-on acquisitions and dividend recaps than to refinancings.

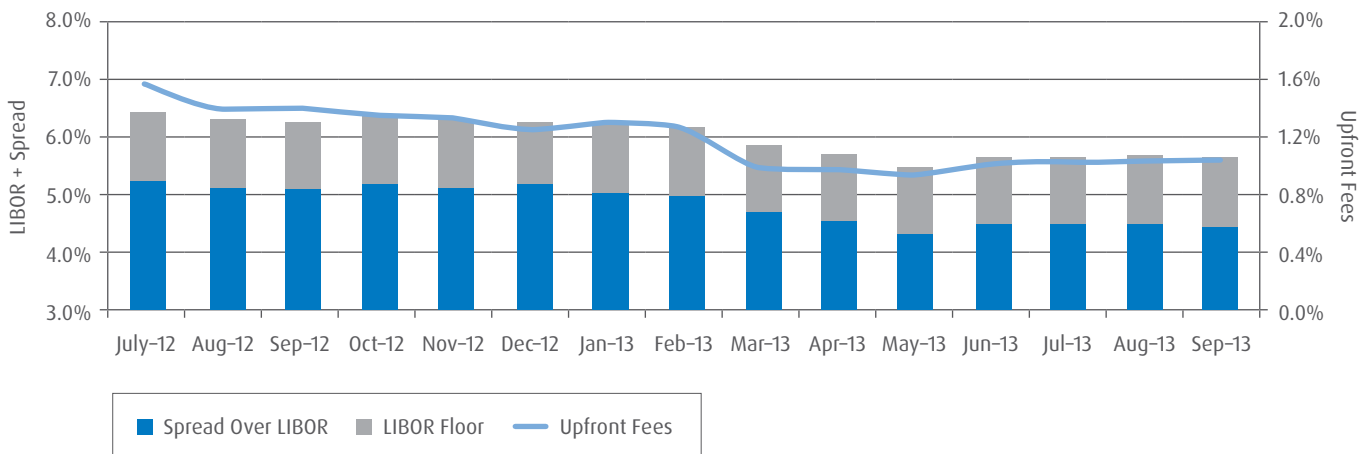
USE OF PROCEEDS—MIDDLE MARKET

USE OF PROCEEDS—LARGE MARKET



Senior Debt Pricing

While the second quarter experienced volatility in loan pricing, the third quarter saw stable rates and fees throughout.





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About Us

BMO Harris Bank Sponsor Finance combines proven middle market lending expertise with the committed resources of a leading global investment bank. The results for our private equity clients and their portfolio companies are comprehensive financing solutions consistently delivered across a wide range of industry sectors. Our portfolio has grown rapidly over the last three years to nearly \$4 billion in commitments to over 200 companies.

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