

Mid-Market Private Equity

Date: Tuesday, April 30, 2013

Time: 2:30-3:30 PM

Room: Wilshire Ballroom

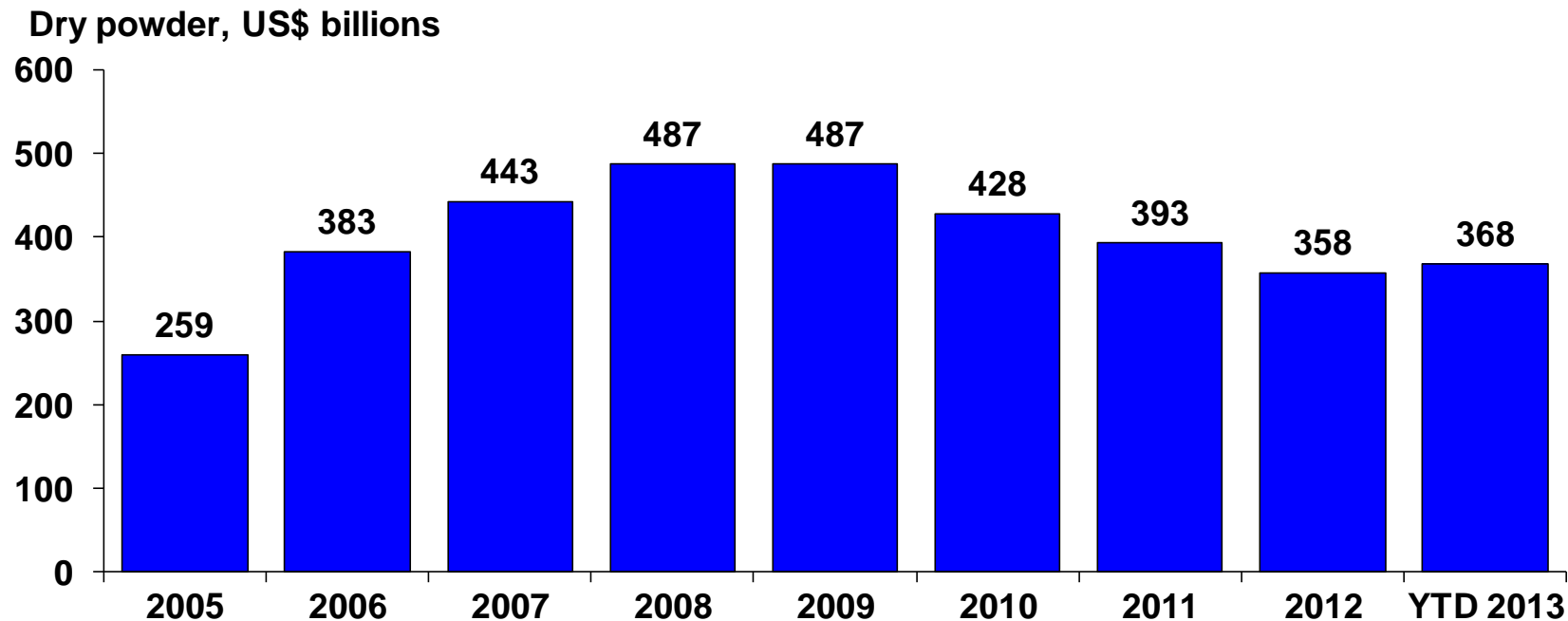
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Sokoloff

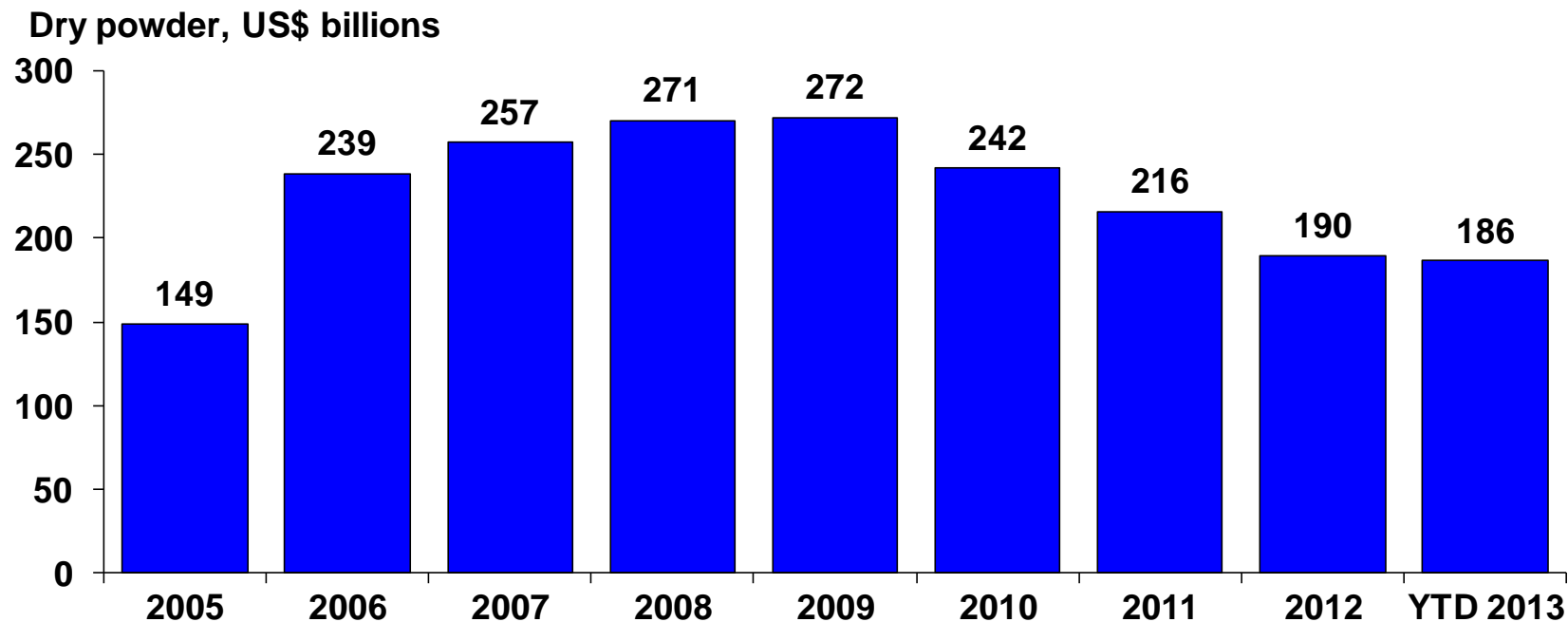


Dry powder in global buyout funds



Source: Preqin.

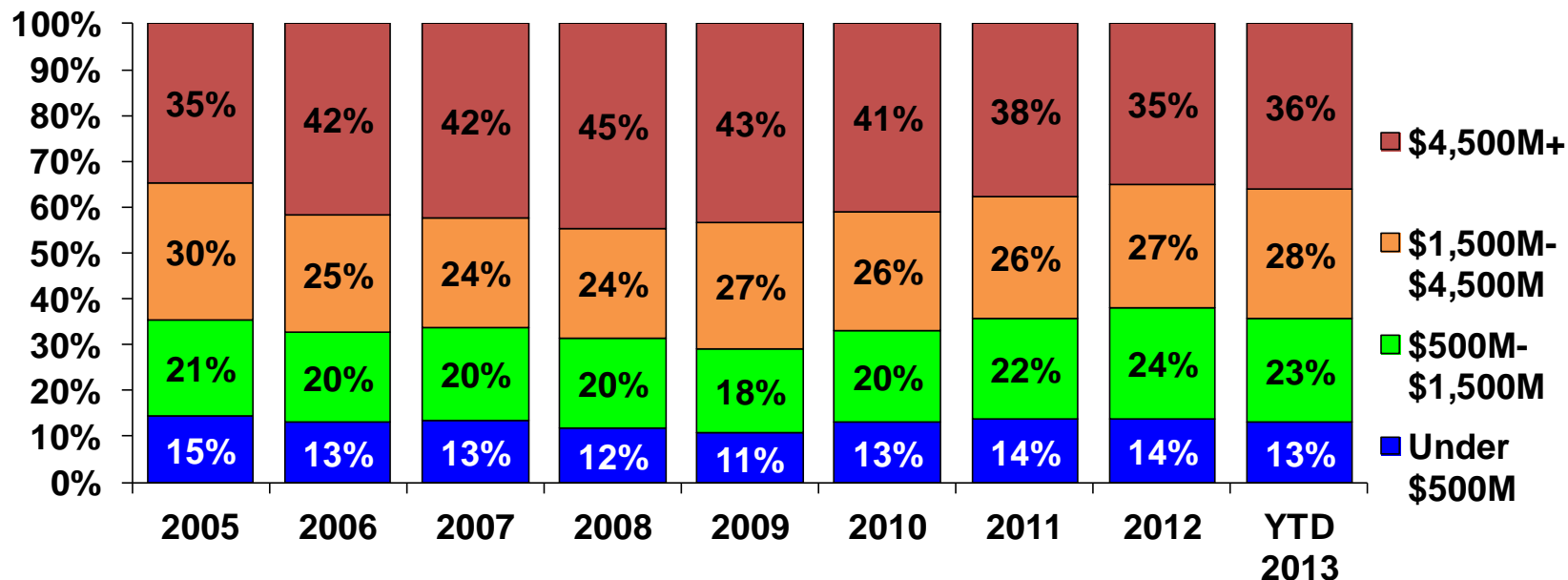
Dry powder in U.S. buyout funds



Source: Preqin.

Dry powder in global buyout funds by size

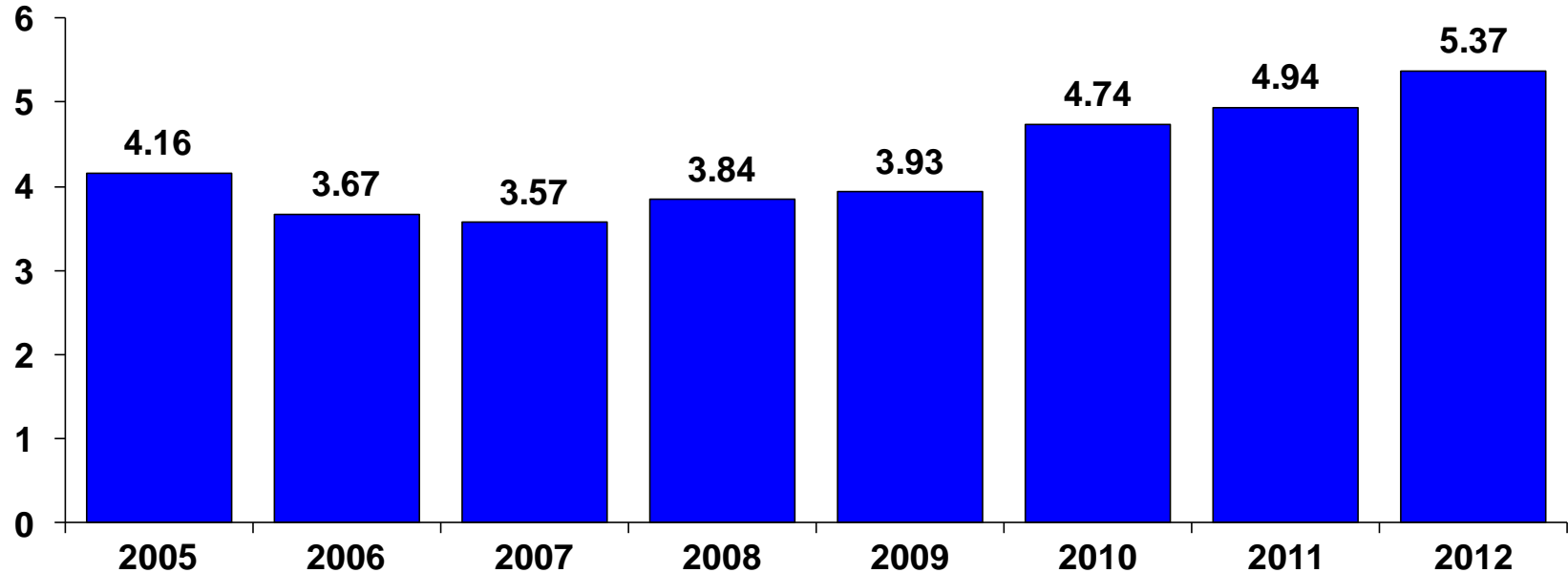
Dry powder, percent



Source: Preqin.

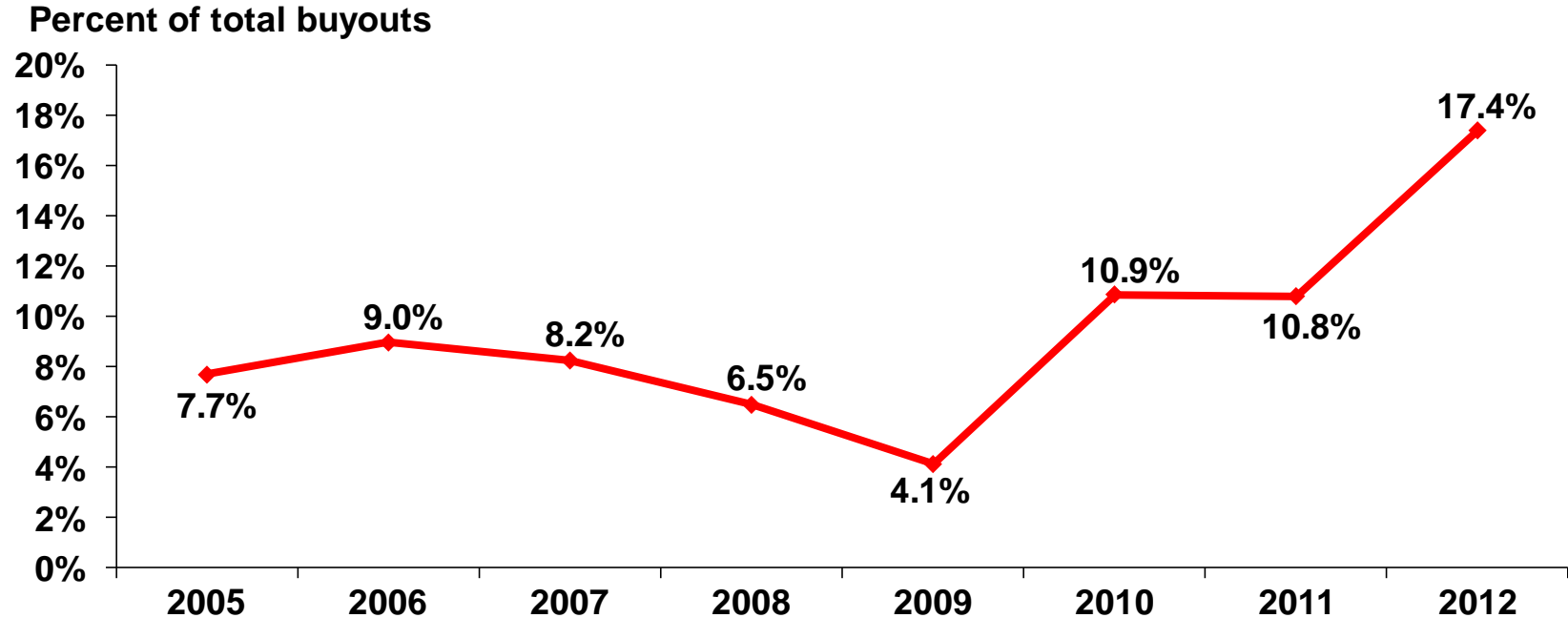
Private equity investment holding time – median holding period by exit year

Median holding period by exit year



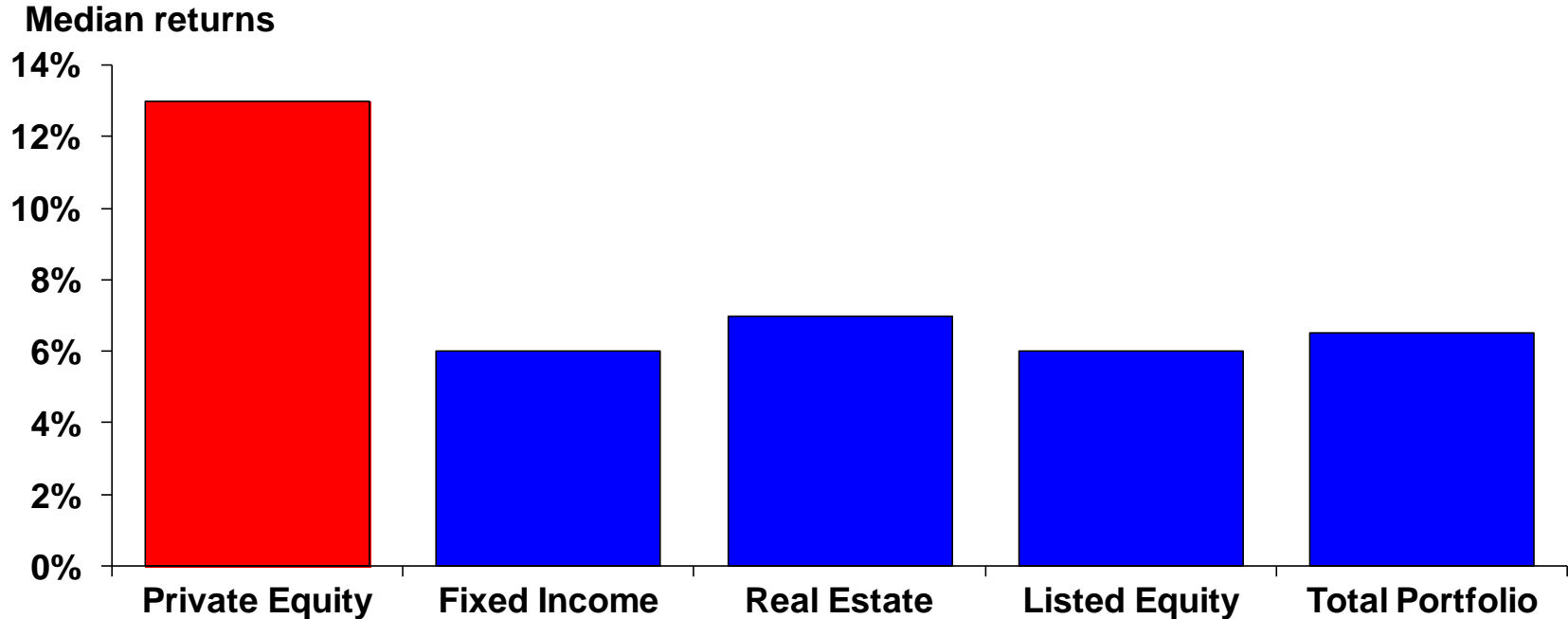
Source: Pitchbook.

Secondary buyouts as a percentage of total buyouts



Source: Pitchbook.

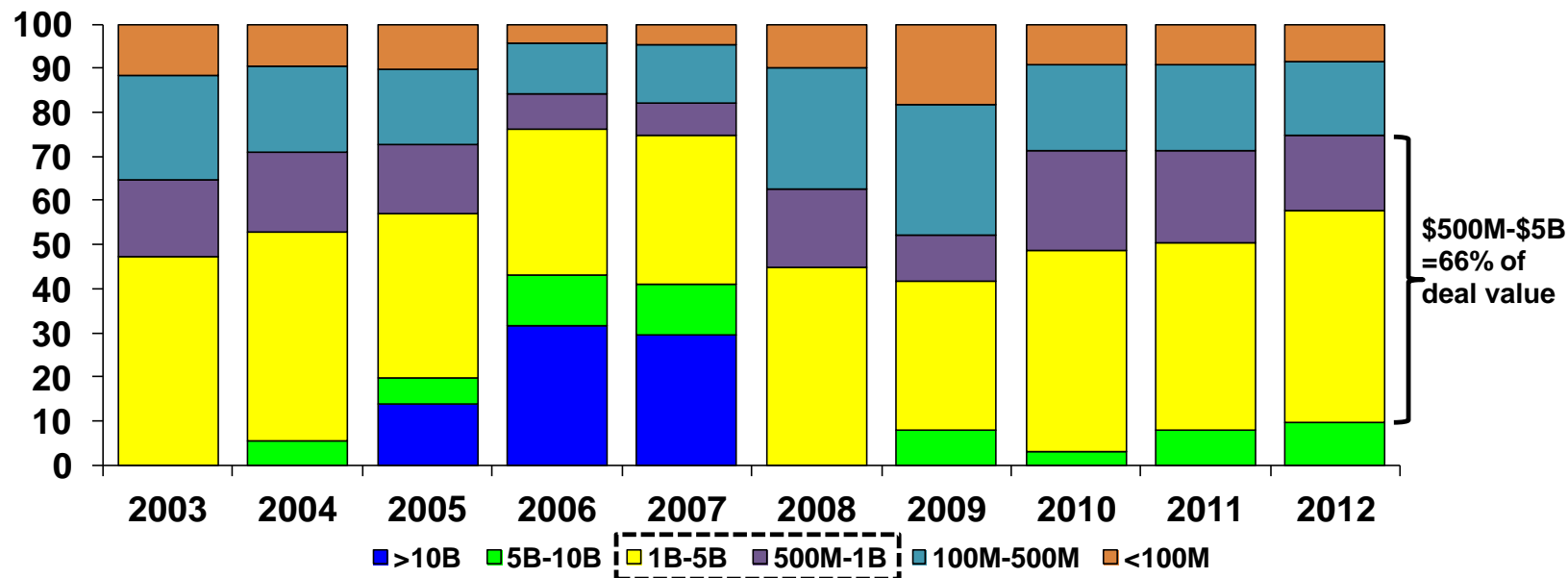
Median returns for public pension funds by asset class



Sources: Preqin, Bain & Company.

Global buyout deal composition by year

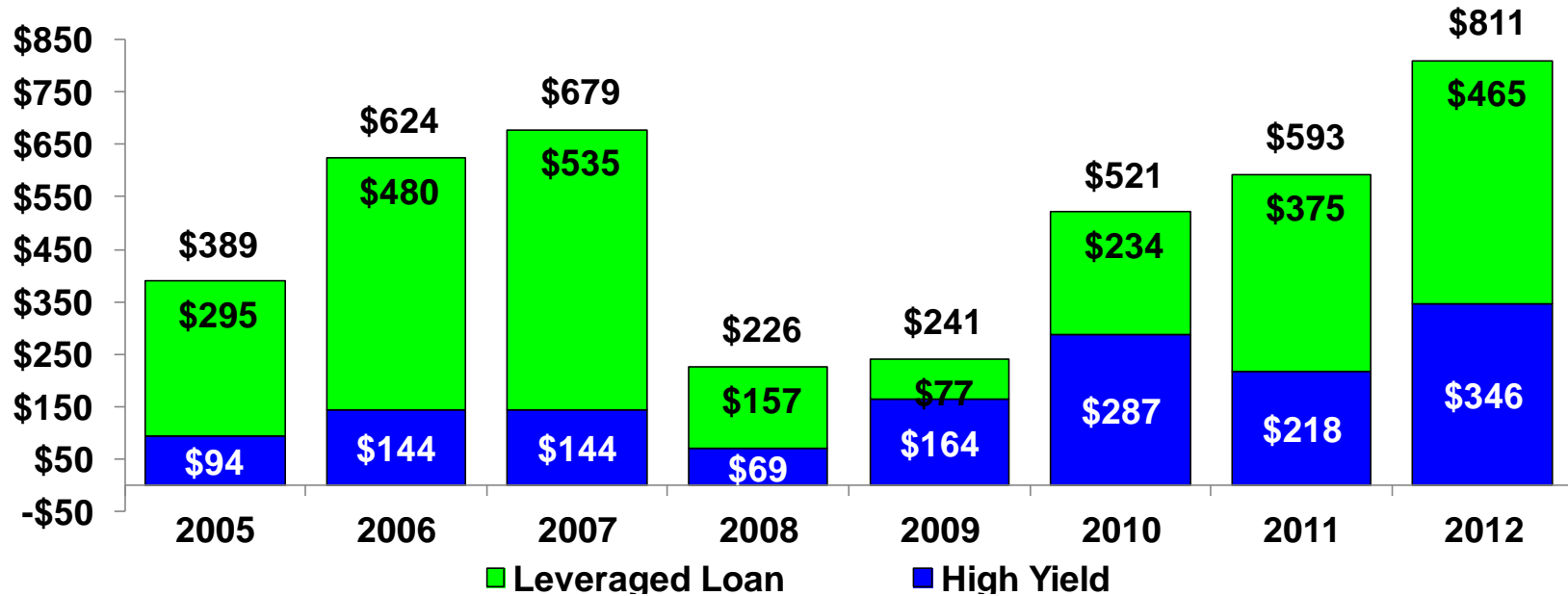
Buyout deal value, percent of global buyout value



Sources: Preqin, Bain & Company.

Leveraged finance volume

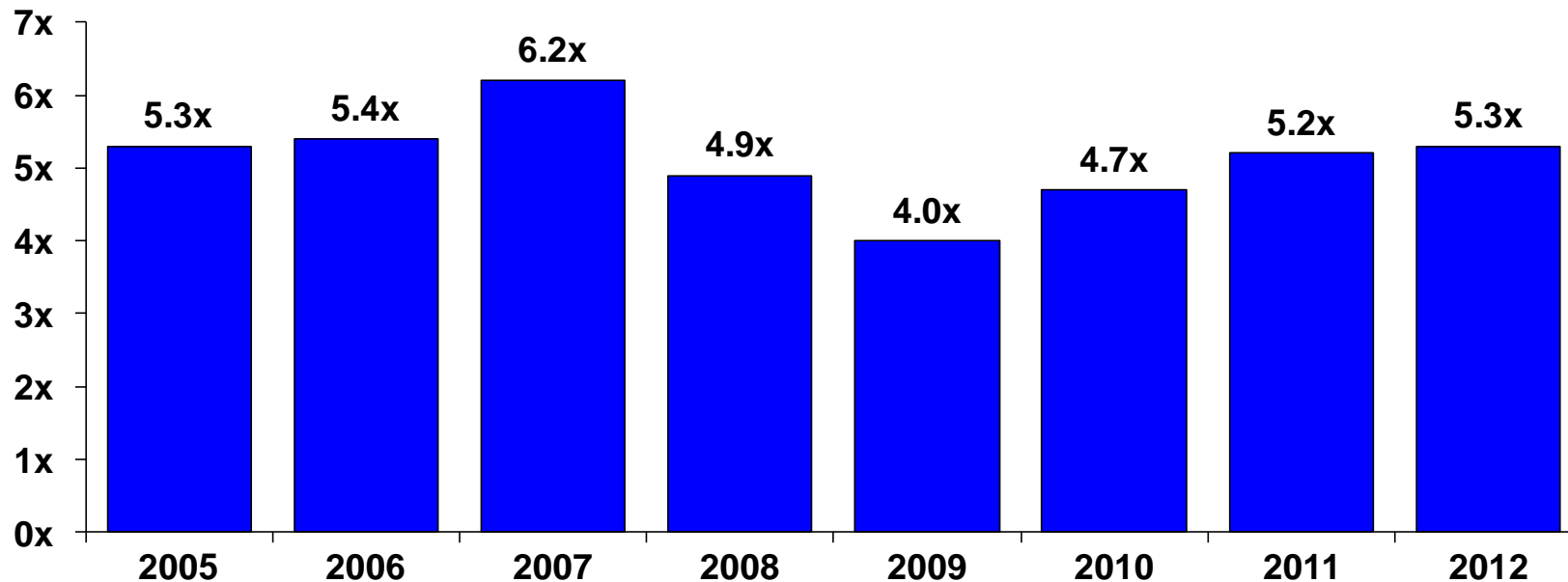
Volume, US\$ billions



Sources: S&P Capital IQ LCD.

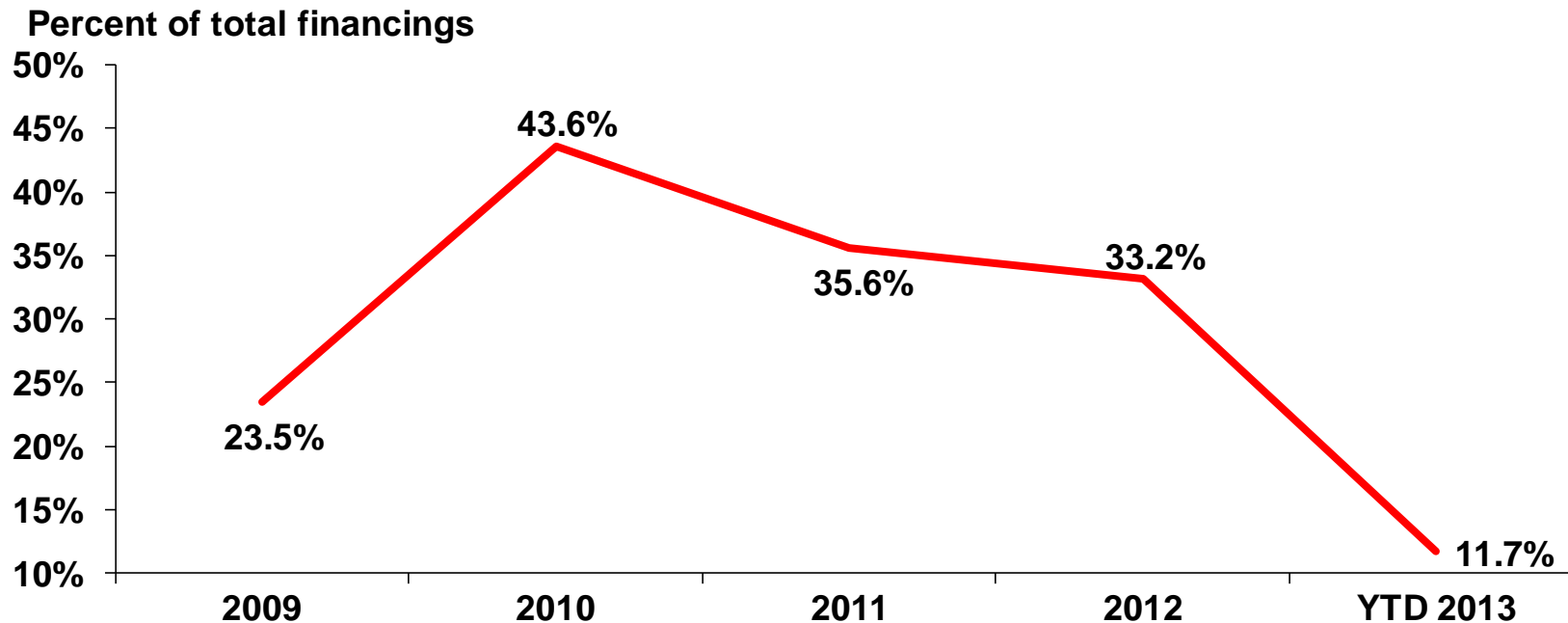
Average pro forma adjusted debt/EBITDA

Average pro forma adjusted debt/EBITDA



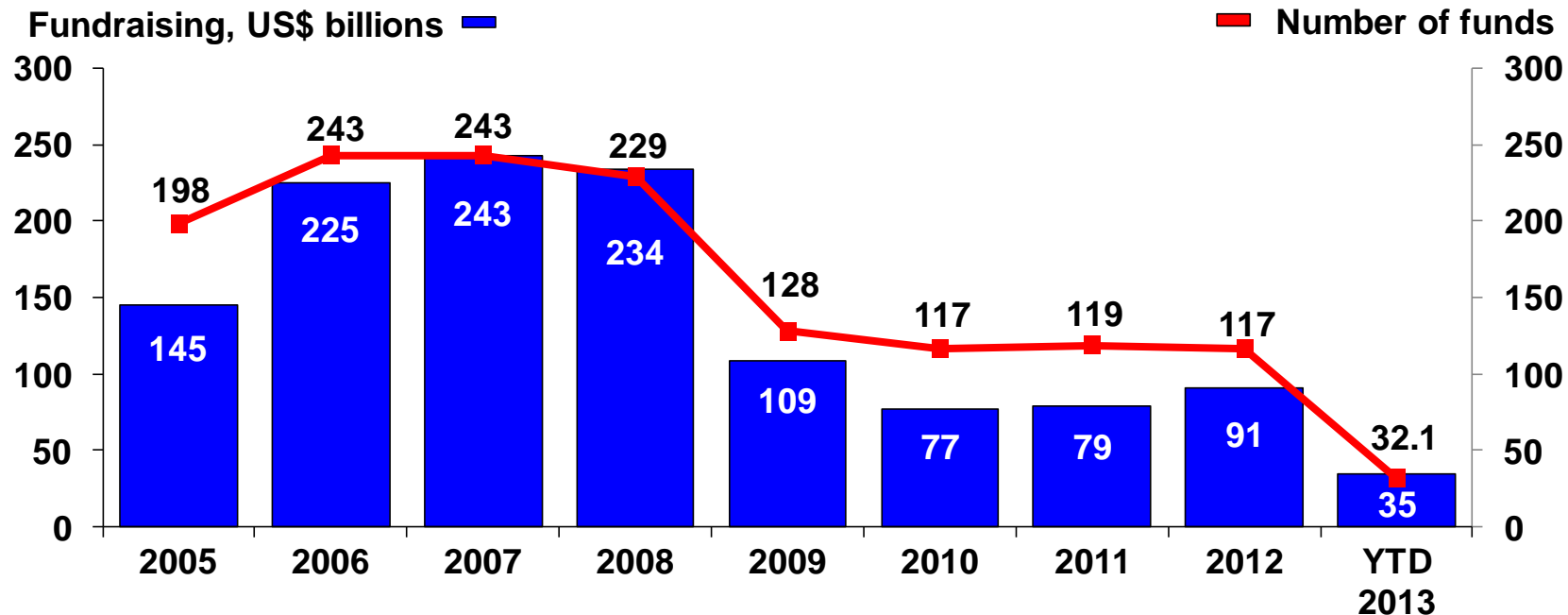
Sources: S&P.

Acquisition financings as a percent of total financings



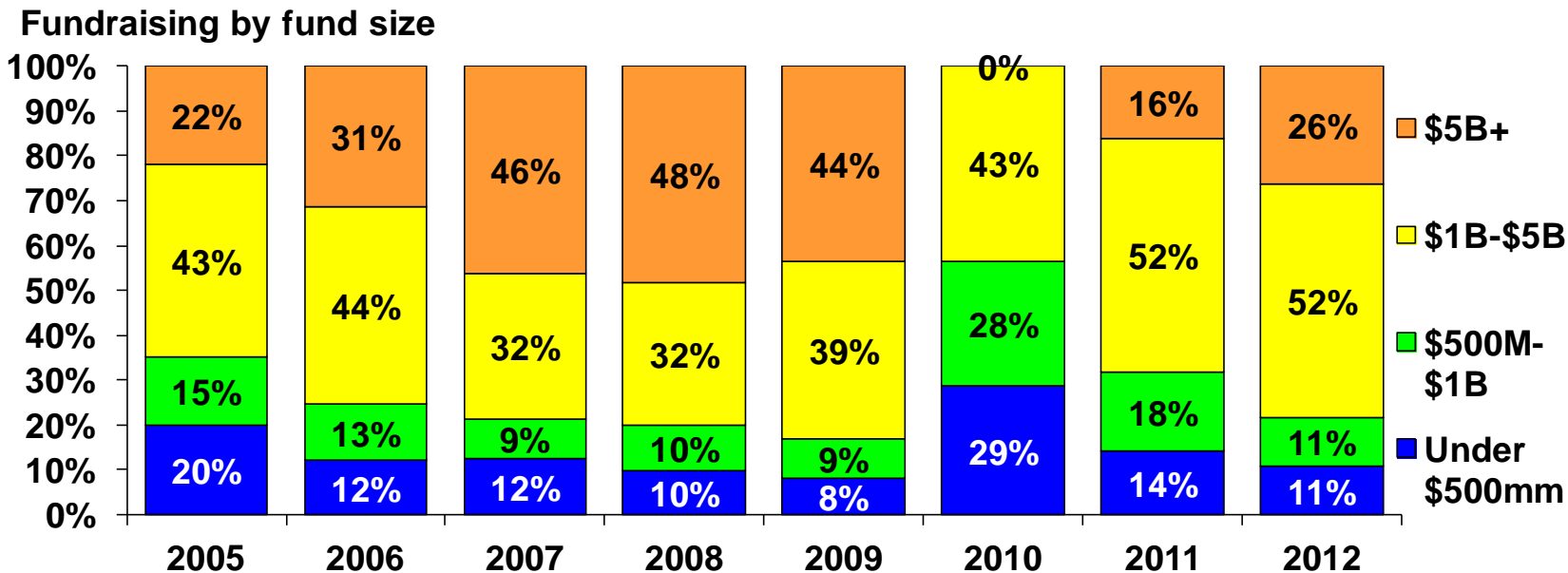
Source: S&P LCD.

Global private equity fundraising



Source: Preqin.

U.S. PE fundraising by fund size

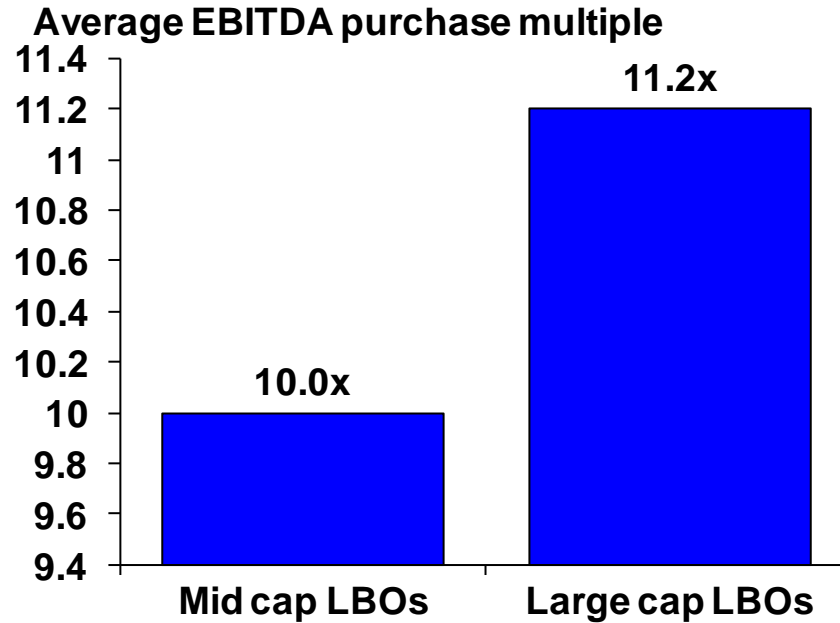


Source: Pitchbook.

Volpert

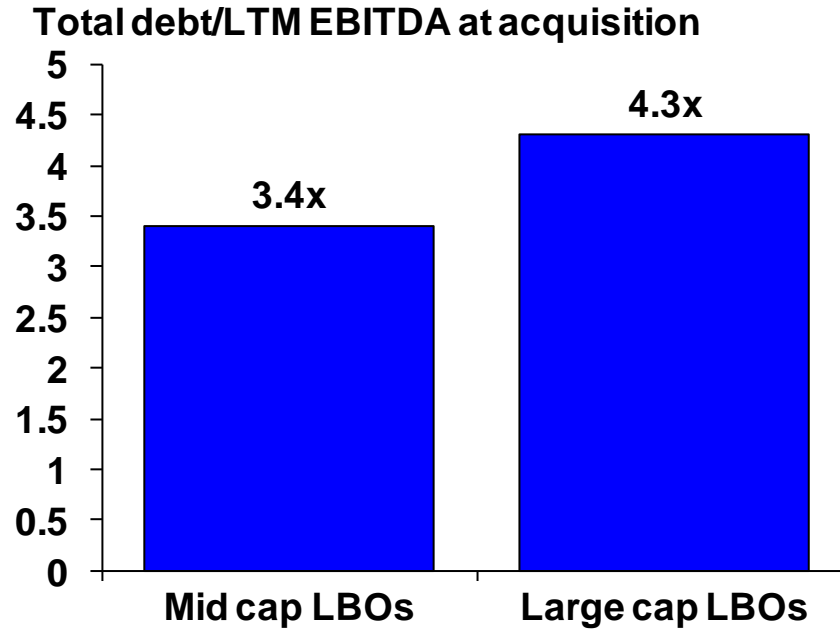


Purchase price multiples



Source: Capital IQ.

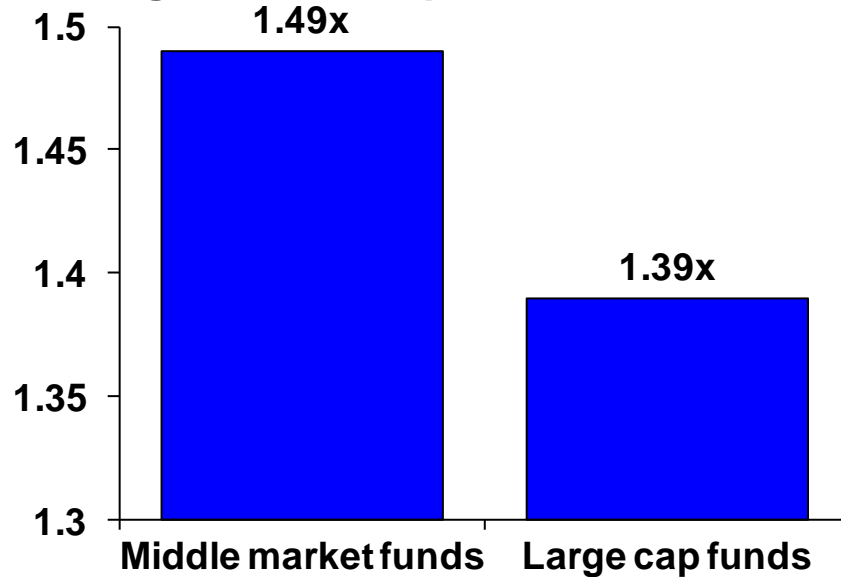
Leverage multiples



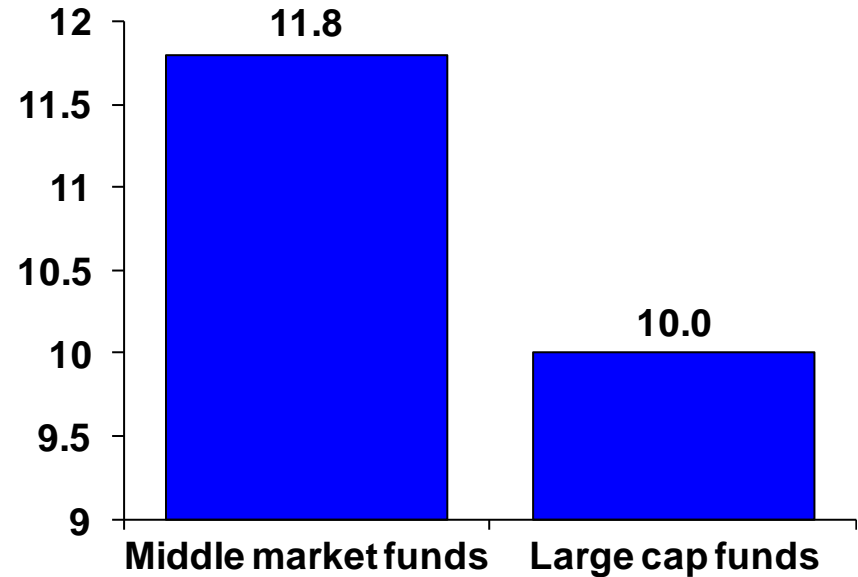
Source: Capital IQ.

Fund performance

Average fund multiple

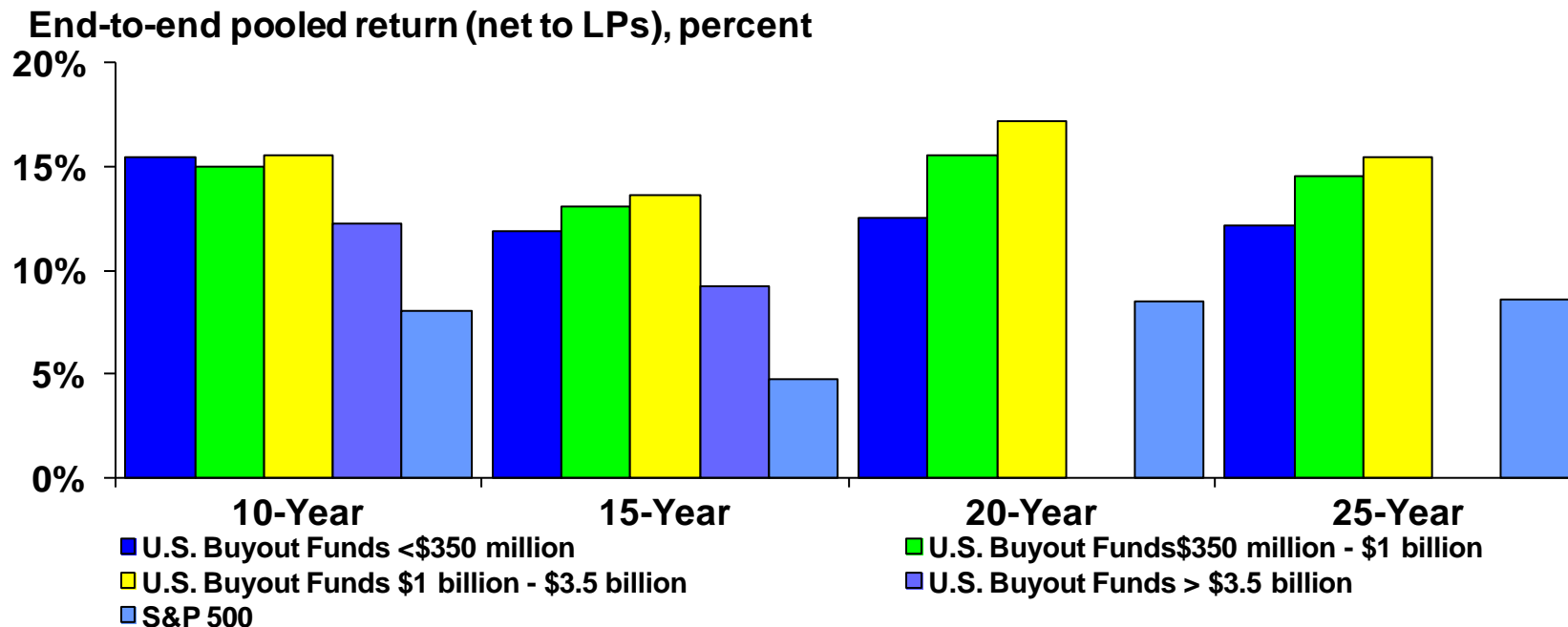


Average fund net IRR, percent



Source: Preqin.

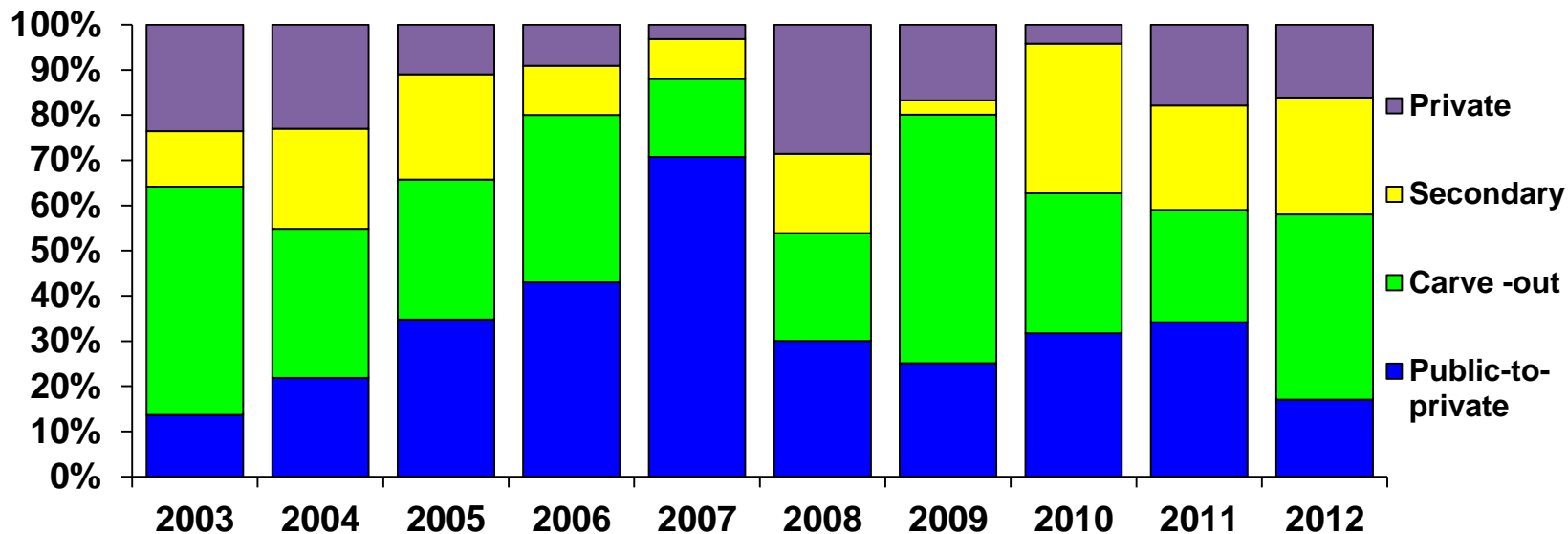
Fund performance



Source: Cambridge Associates.

Carveouts were popular in the U.S.

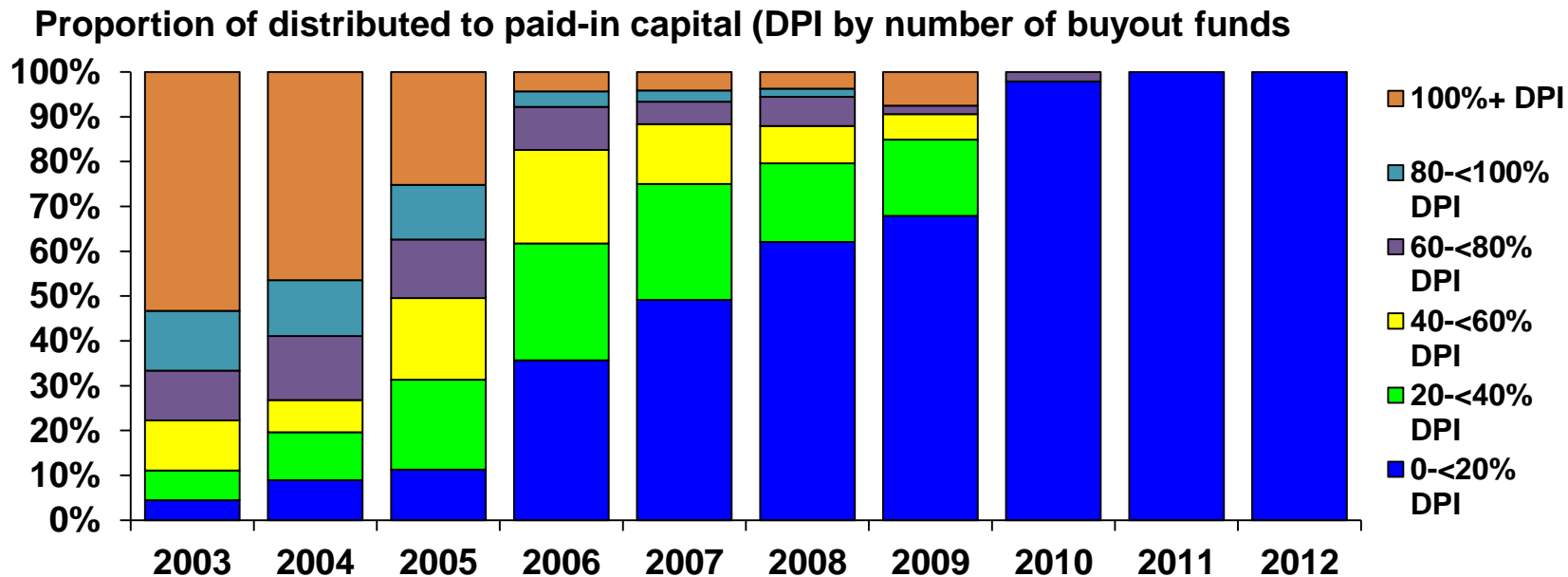
U.S. buyout deal value



Sources: Bain US LBO deal database, Bain & Company Global Private Equity Report 2013.

Notes: Represents control buyout transactions by US-based firms; includes closed deals only; represents year deals were closed

Boom-year vintage funds have yet to return significant capital to their LPs

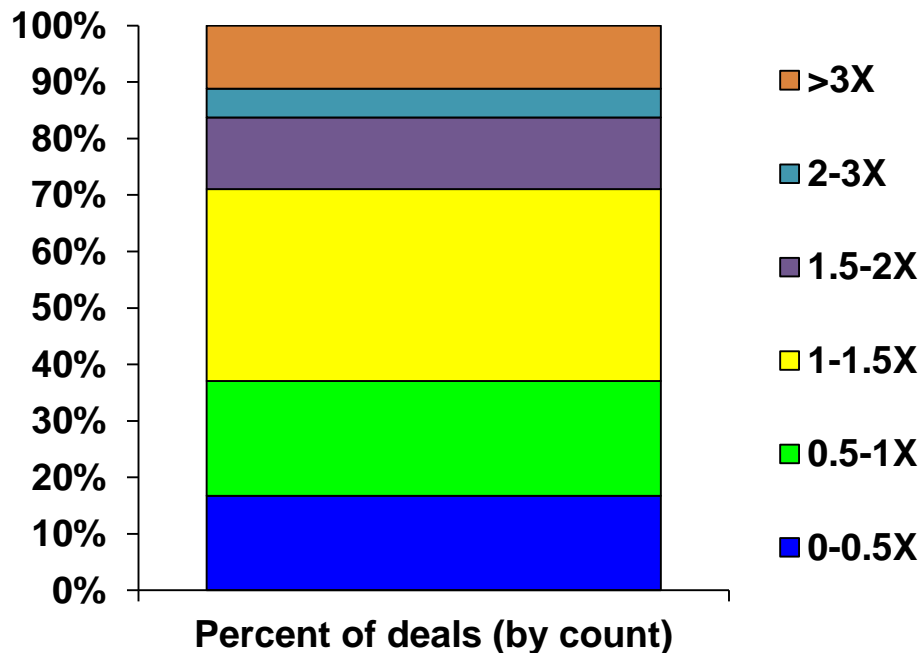


Sources: Preqin; Bain analysis.

Notes: Includes all buyout funds globally of any size that have held a final close; excludes funds with insufficient data; based on most recent performance, primarily as of Q2 2012

PE funds continue to hold most portfolio assets at values below what they needed to earn carry

Valuation of unrealized deals

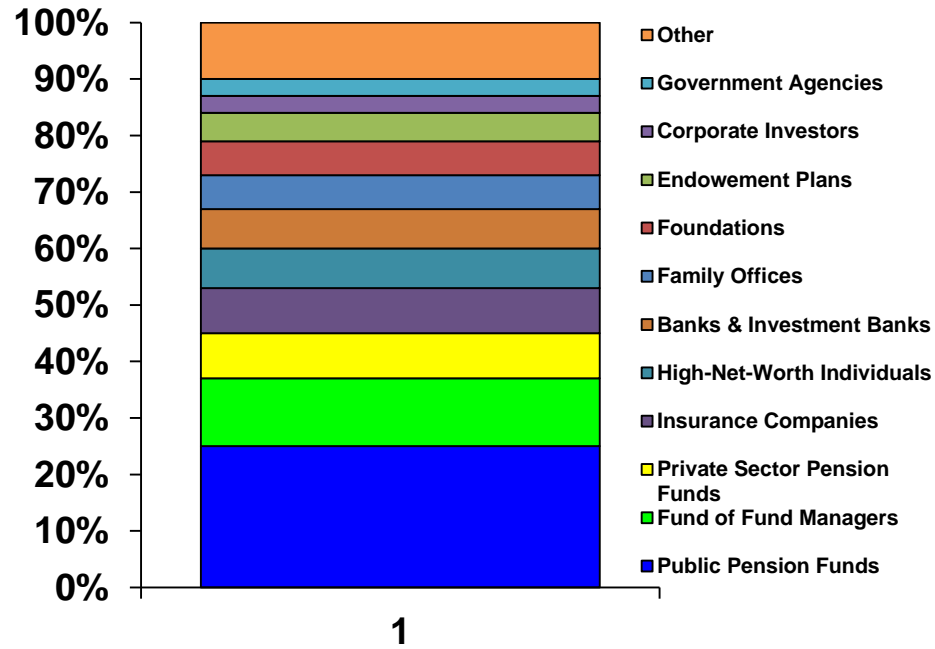


Source: Bain analysis

Notes: Fund vintages in same range from 2004-08; analysis includes unrealized investments and partially realized investments; valuation multiples are before payment of fees; PE firms have different policies regarding how they report the value of portfolio investments.

Most of the capital committed to PE has come from traditional sources

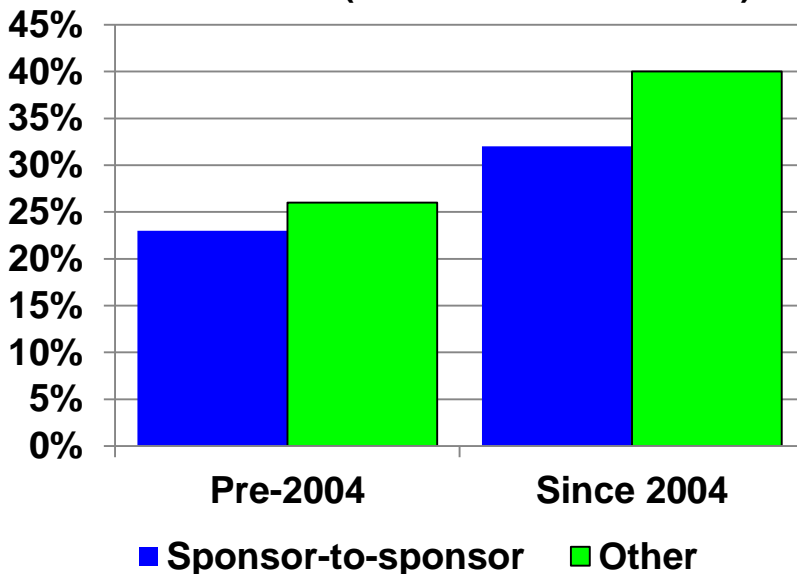
Percent of capital committed to PE funds, type



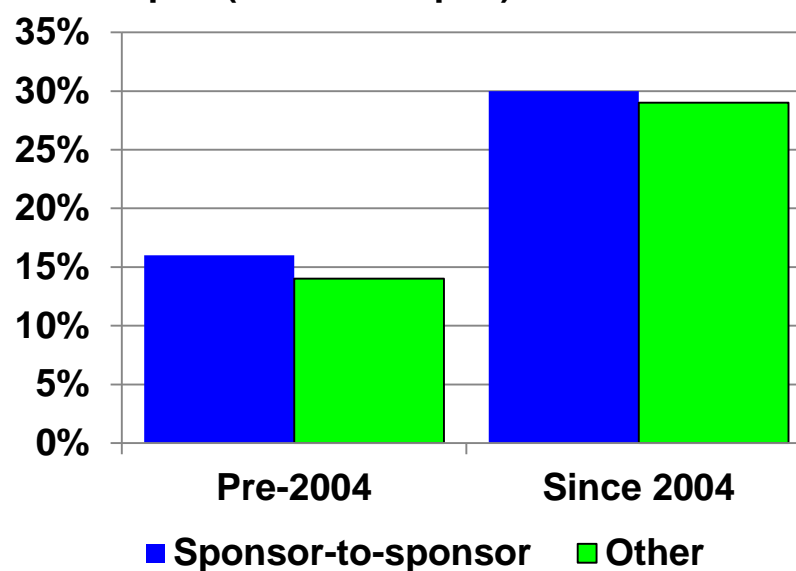
Sources: Bain & Company Global Private Equity Report 2013, Prequin 2012 Global Annual Report (FIG. 11.10)
Note: Year of fund close 2009-2011.

Sponsor-to-sponsor deals perform well compared with other deal types and are significantly less risky

Deal rate of return (PERACS rate if return)



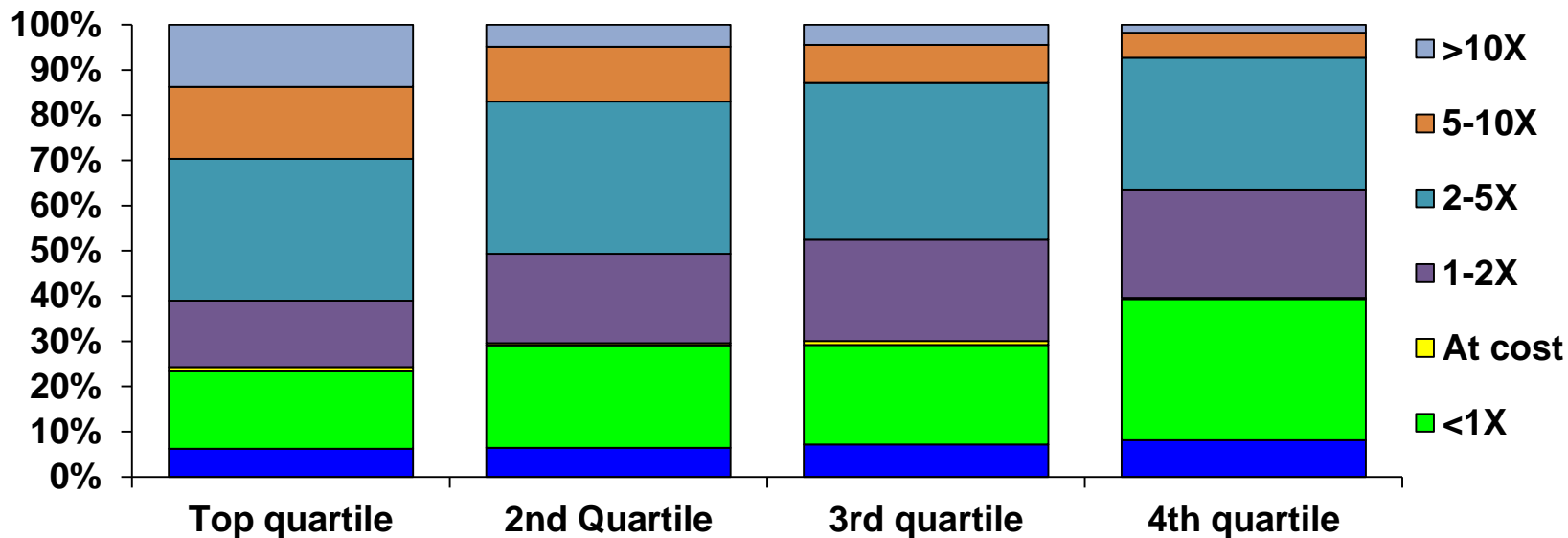
Deal alpha (PERACS alpha)



Sources: Bain & Company Global Private Equity Report 2013, data from HEC Paris; analysis by PERACS PE Analysis and Track Record Certification analysis includes 101 sponsor-to-sponsor deals and 660 other deals, all fully realized.

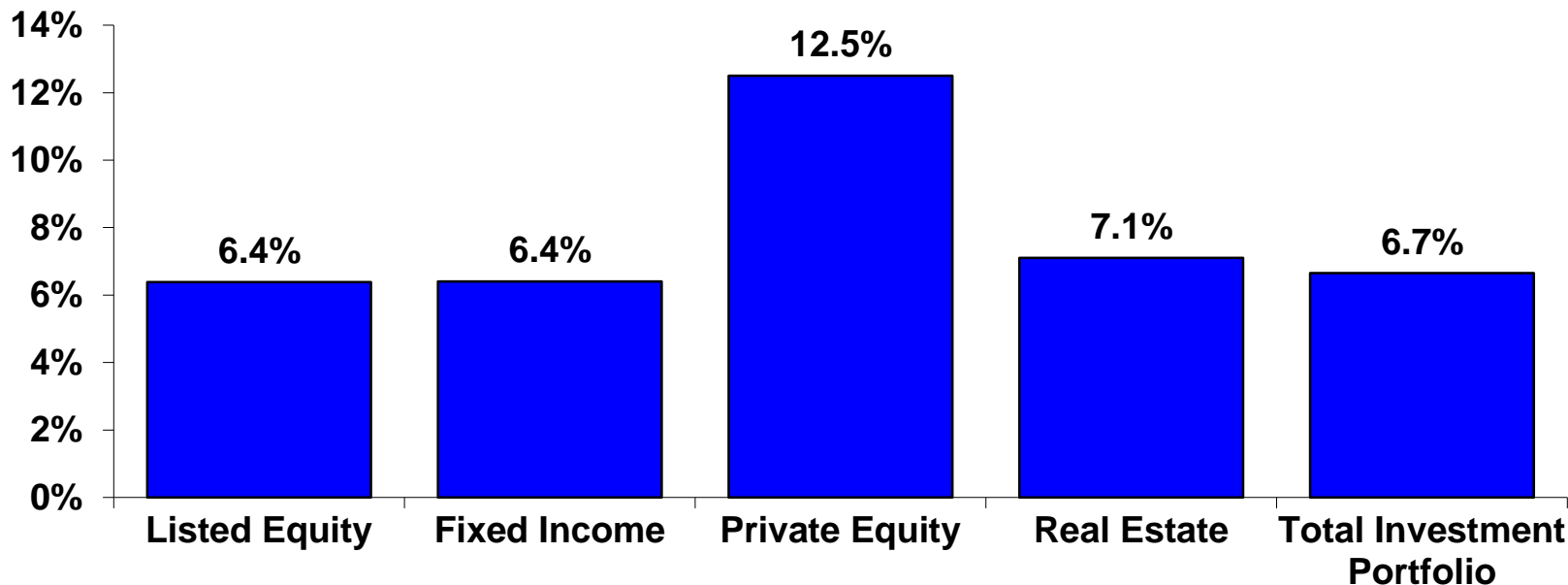
All funds generated both good deals and bad, but the top performers produced more winners and fewer losers

Distribution of gross deal returns for sample of buyout funds by quartile



For public pension funds, PE has outperformed other asset classes over the long term

Median returns for public pension funds



Source: Bain & Company Global Private Equity Report 2013, Preqin.

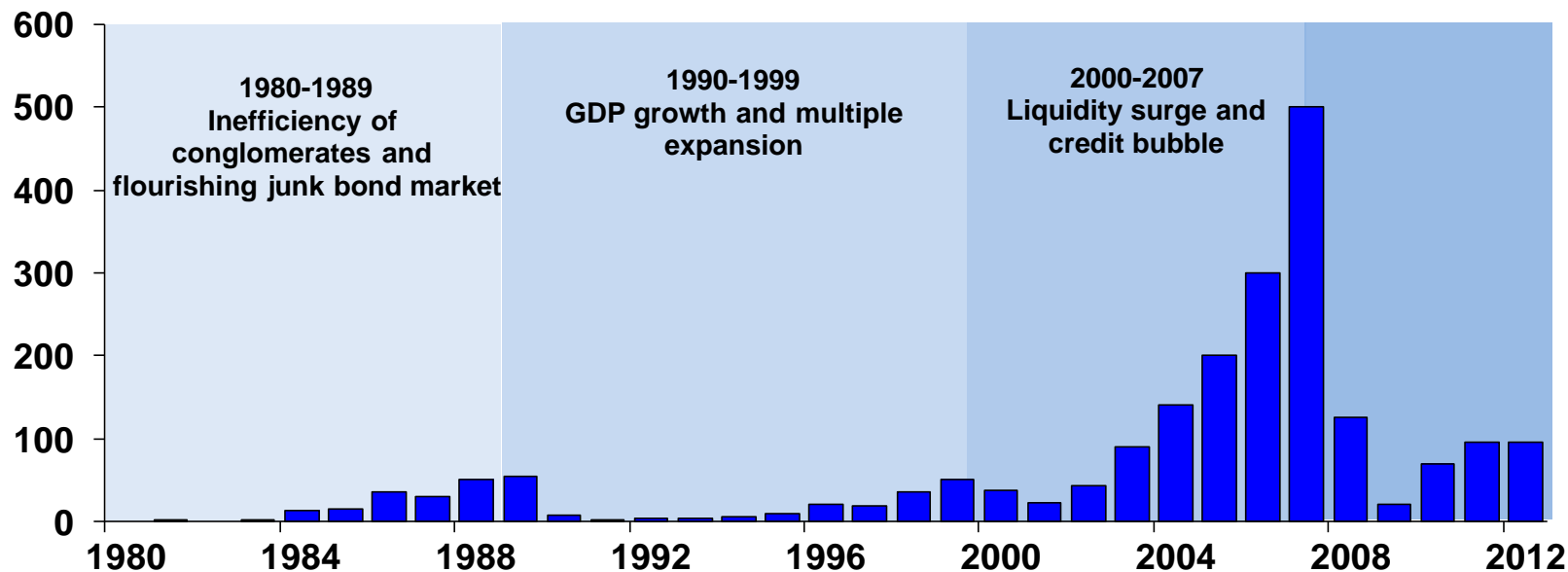
Note: Data based on review of public pension funds in North America and Europe.

Reynolds



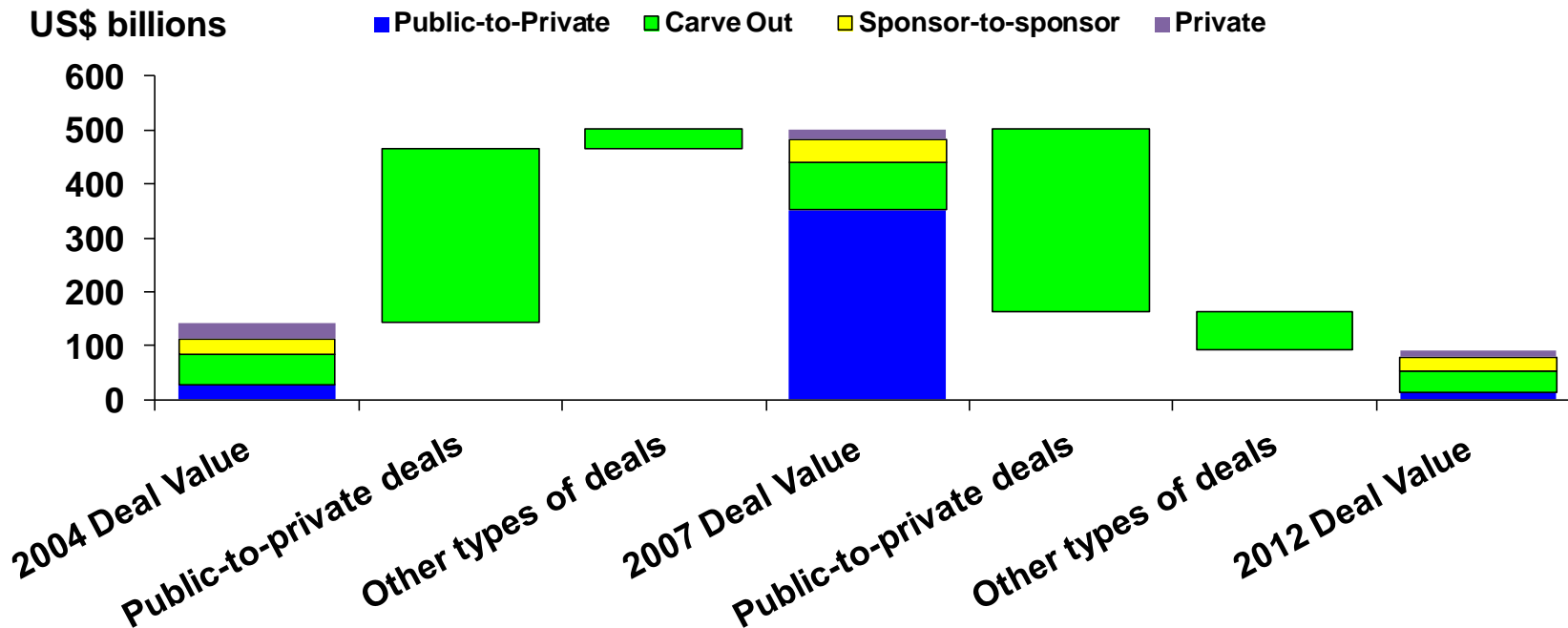
U.S. buyout deal value

U.S. buyout deal value, US\$ billions



Source: Bain U.S. LBO database.

U.S. buyout deal value: 2004-2012



Source: Bain U.S. LBO database.

U.S. mid-market M&A deal overview



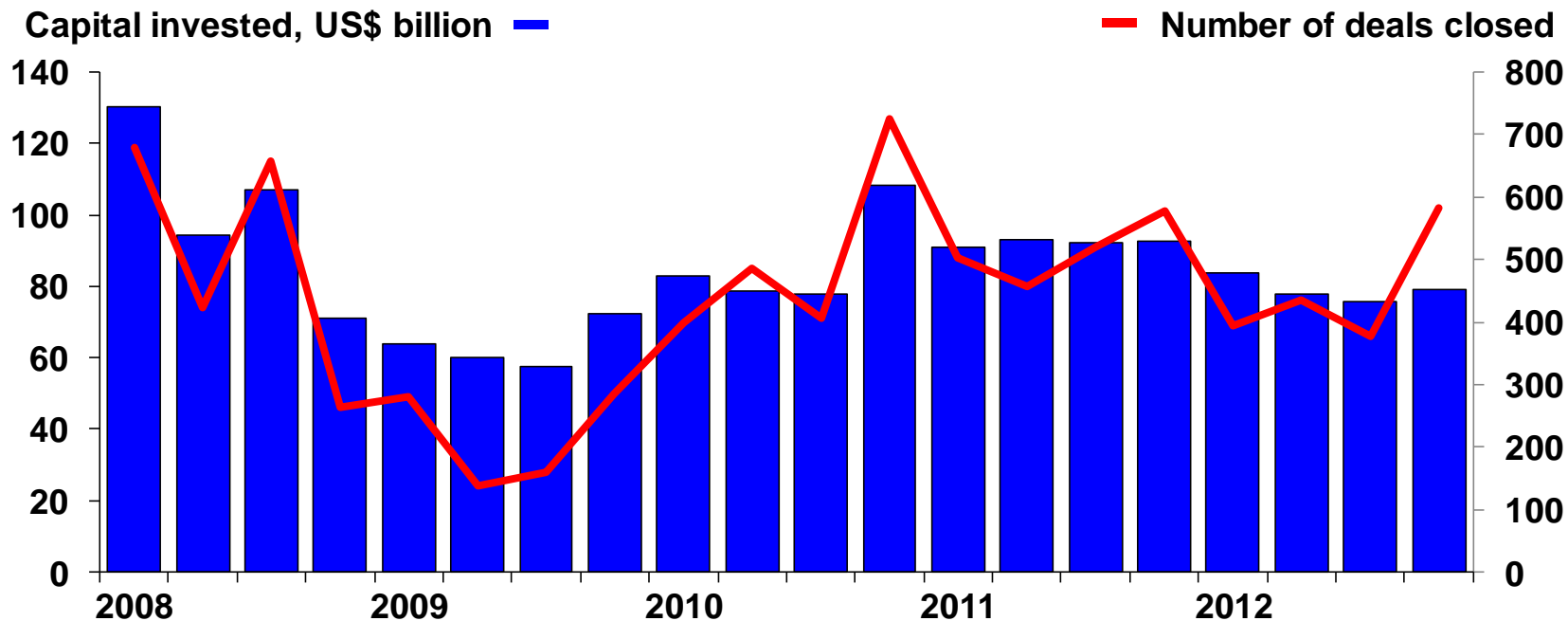
Source: Thomson Financial.

Despite a strong fourth quarter, mid-market M&A activity for 2012 ended the year approximately flat in both value and volume compared to 2011



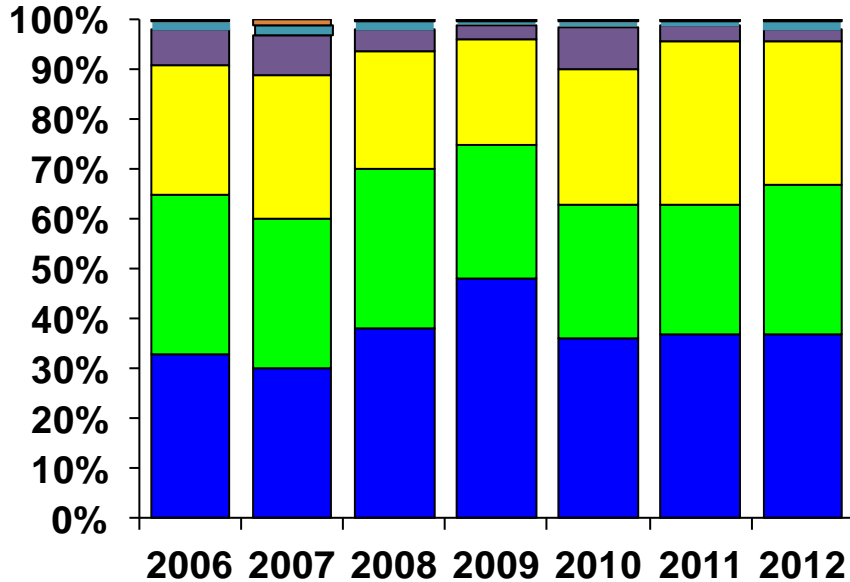
Private equity continued to be active in the marketplace as the volume and value of deals involving financial buyers increased 14.4% and 20.4% respectively in 2012

Middle market deal flow

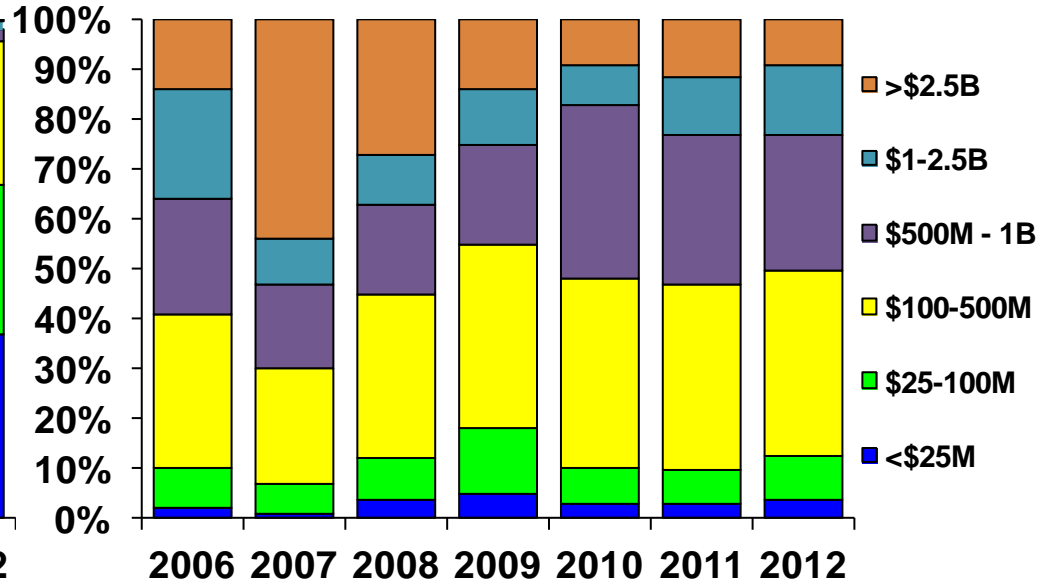


Investment by deal size

Investments (count) by deal size



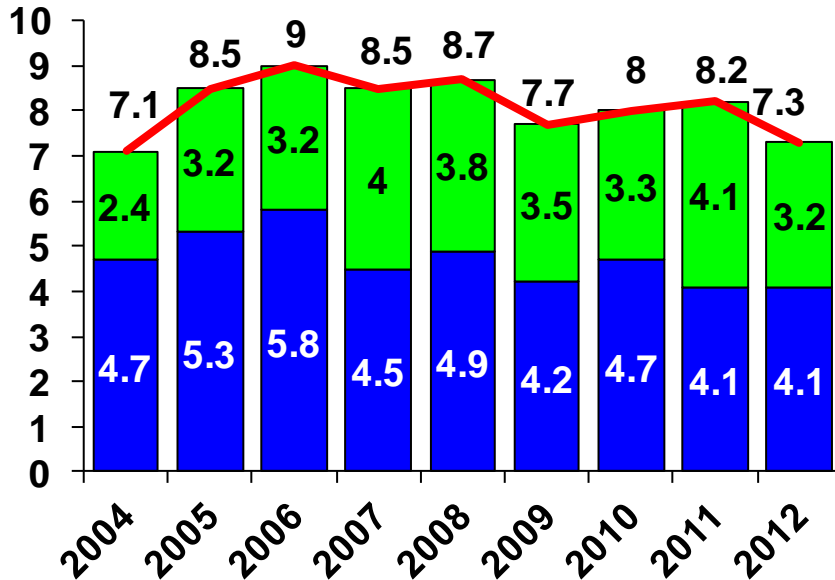
Investments (amount) by deal size



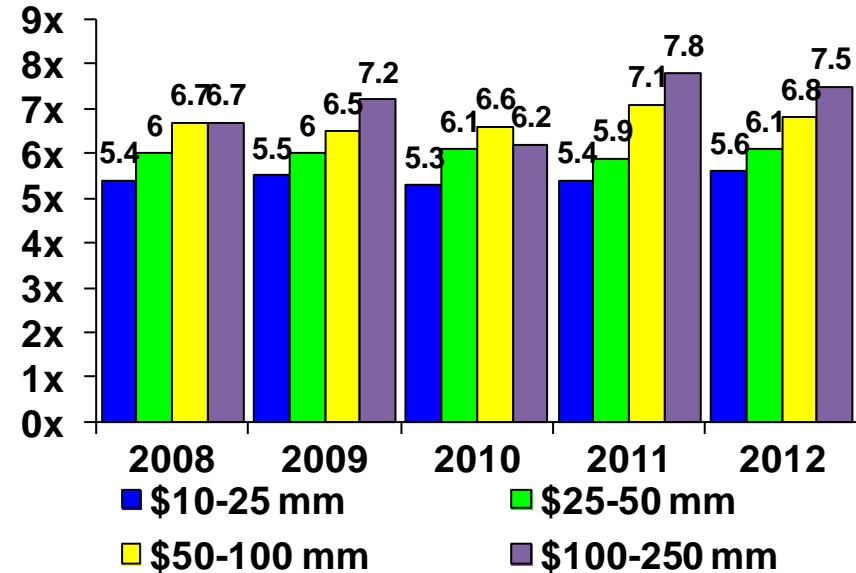
Middle Market deals represent more than 95% of total deals closed in 2012, accounting for about half of total deal value.

Transaction size

Multiples of U.S. buyouts

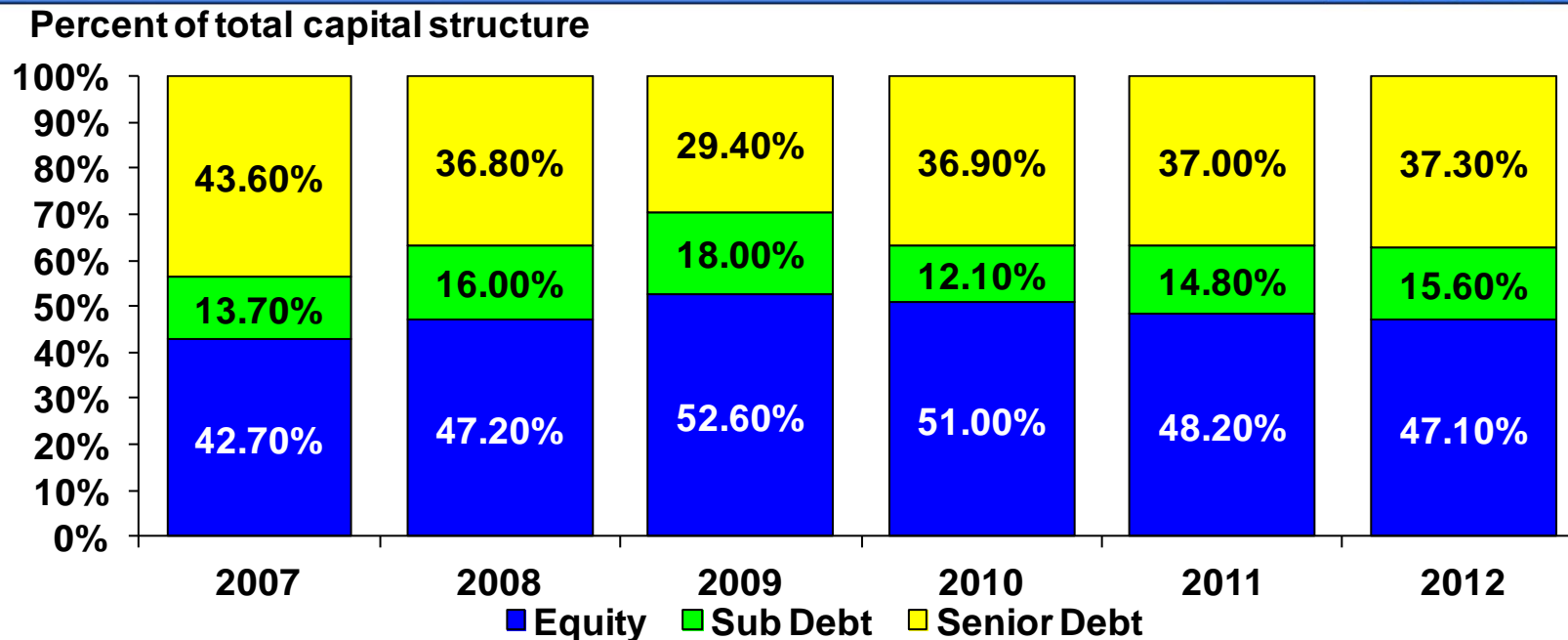


EBITDA multiples by transaction size



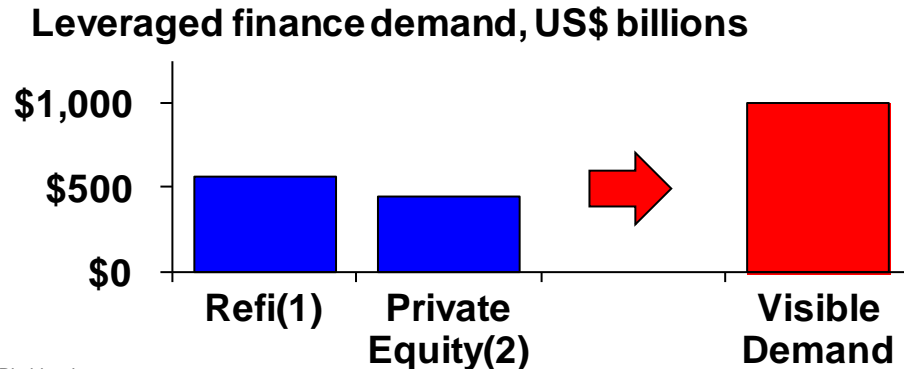
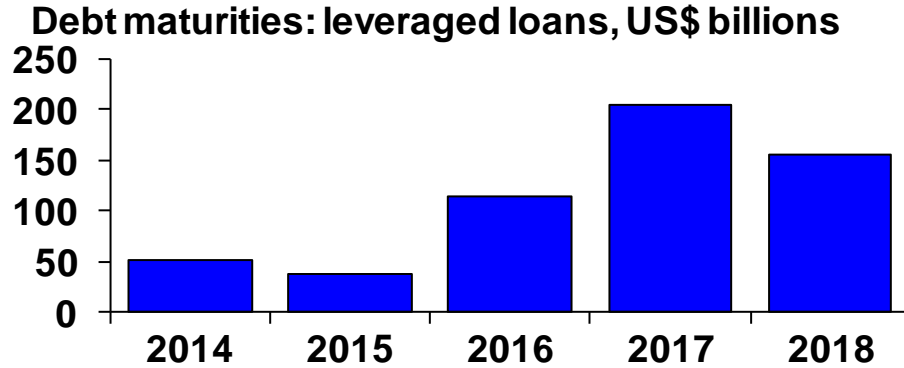
2012 EBITDA multiples for private equity transactions increased year-over-year for transactions < \$50M, but decreased slightly for transactions > \$50M

Historical debt & equity contribution



Equity as a % of total capital structure at 47.1% in 2012

Visible demand for debt capital



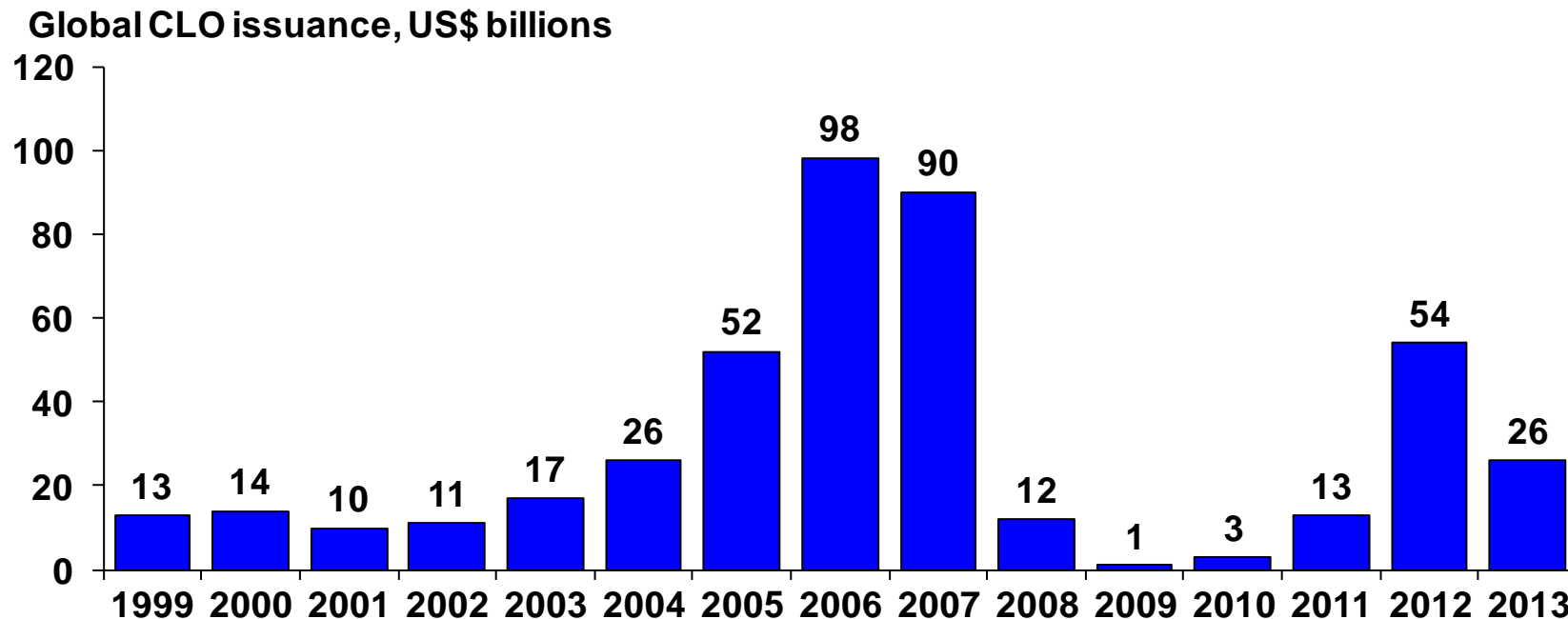
Source: Pitchbook.

Refinancing Demand: Nearly \$564 billion in leveraged loans are scheduled to come due in the next five years.

Private Equity Demand: Over \$348B of private equity funds sit idle awaiting deployment, which indicates that \$443B of debt will be needed to fund transaction

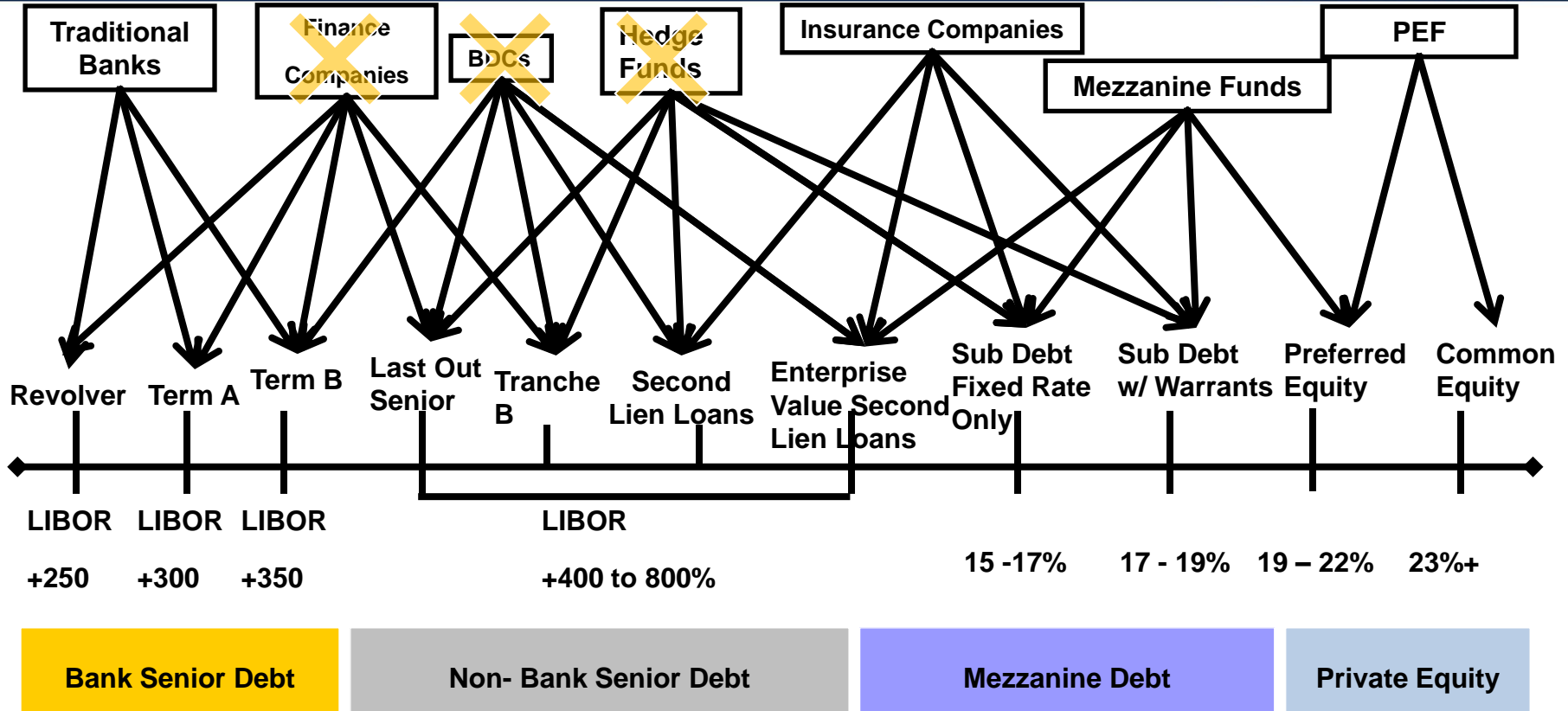
Visible Demand: Refinancing and private equity needs for debt capital are over \$1 trillion over next 5 years

Collapse of the parallel banking market



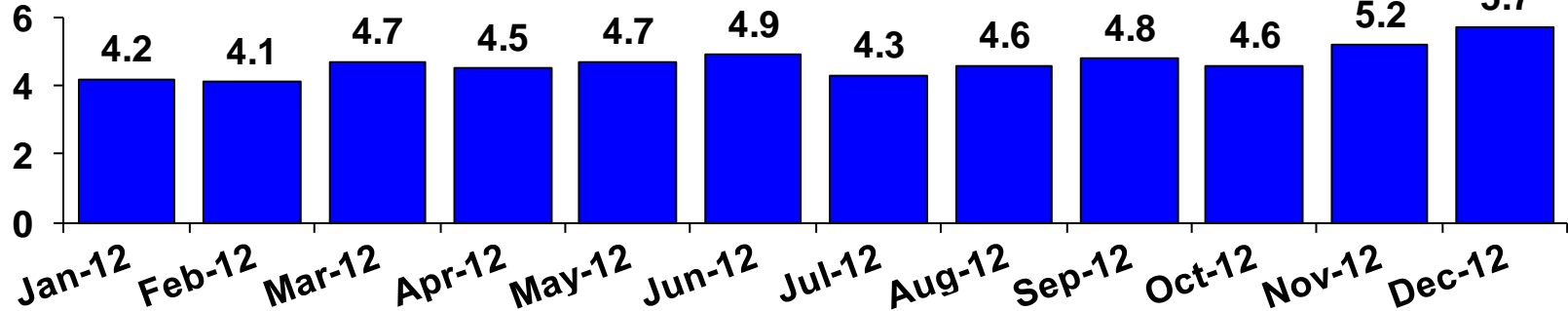
Supply of capital drastically reduced; CLOS provided 55% of all lending in 2006
– 2007

Industry participants exit

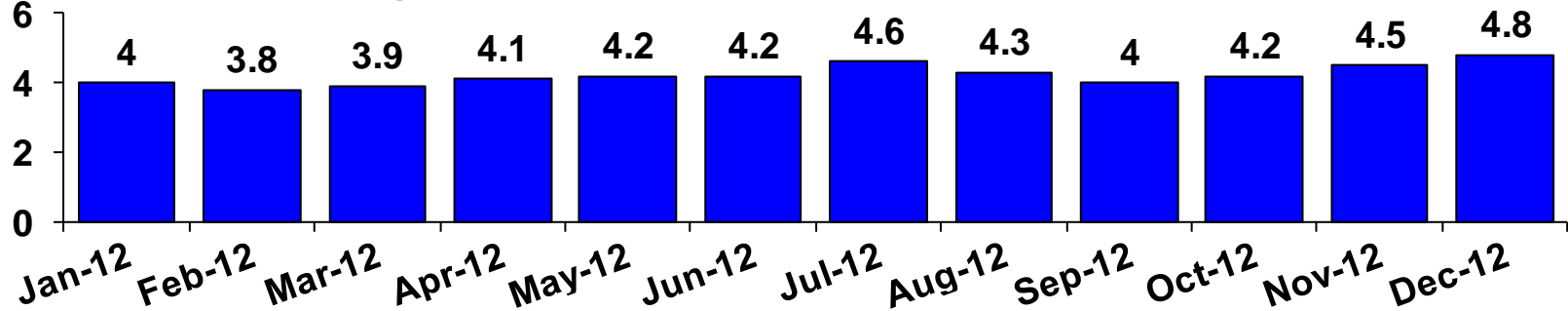


Average debt multiples

Large corporate loans, average debt multiple

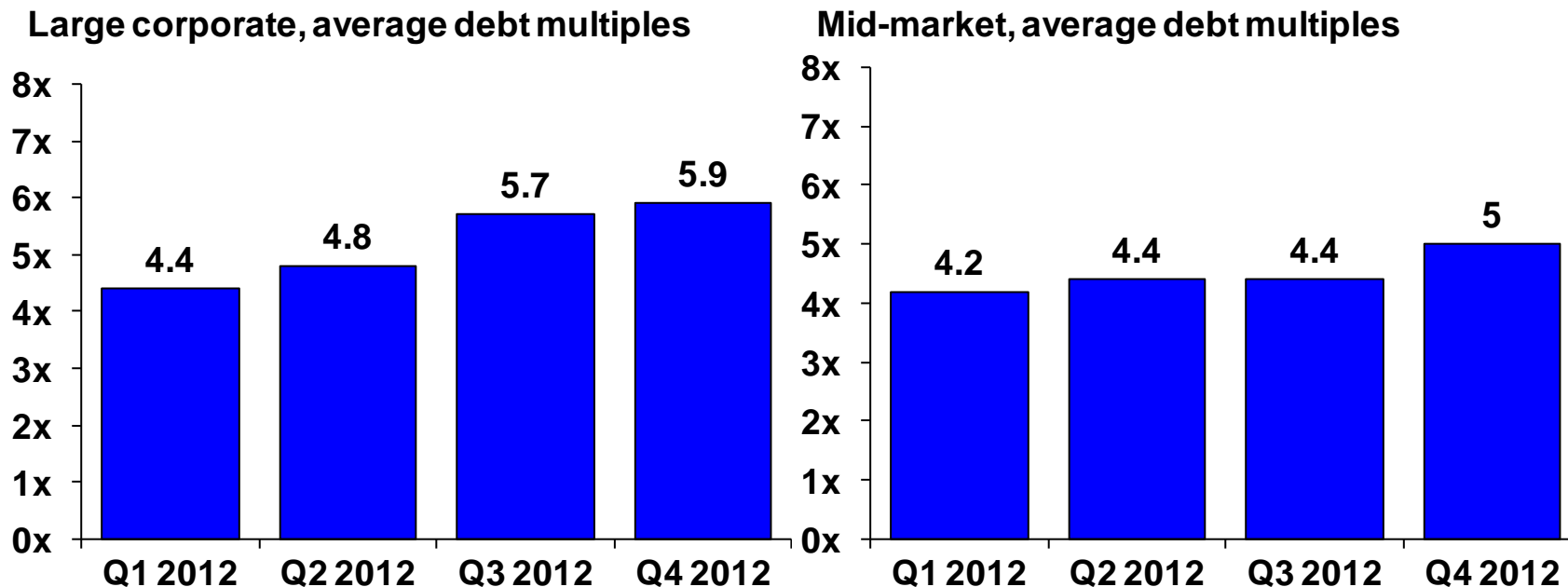


Mid-market loans, average debt multiple



On average, debt multiples for large corporate loans exceed middle market loans by approximately 0.5x

Average debt multiples – LBO loans



For LBOs, average debt multiples for large corporate loans exceed middle market loans by approximately 0.7x

Summary of market terms

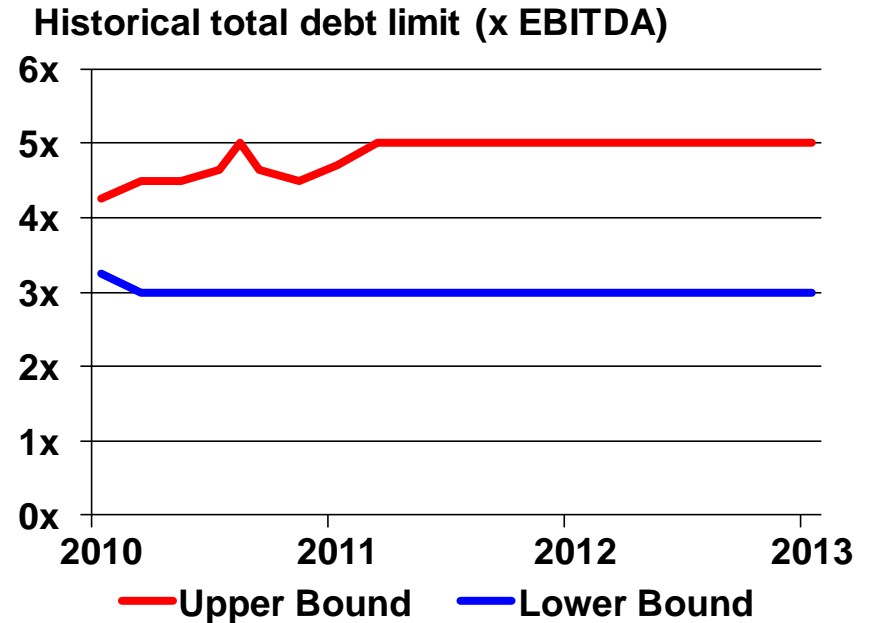
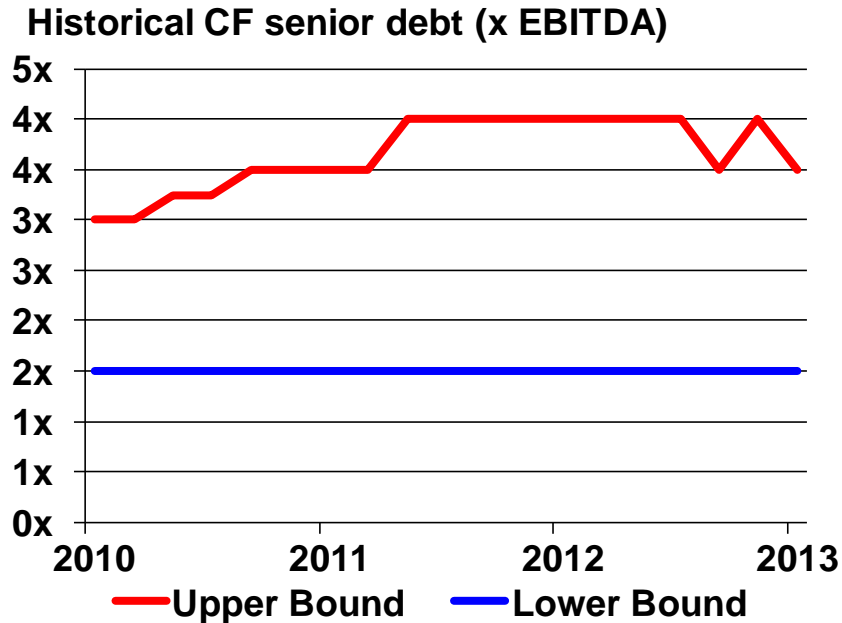
Deal component	April 2013	April 2012
Cash flow Senior Debt (Debt/EBITDA)	<\$8MM EBITDA 1.50-2.50x >\$10MM EBITDA 2.00-3.00x >\$25MM EBITDA 2.50-4.0x	<\$10MM EBITDA 1.50-2.25x >\$15MM EBITDA 2.50-3.50x >\$25MM EBITDA 2.75-4.00x
Total Debt Limit (x EBITDA):	<\$8MM EBITDA 3.00-4.25x >\$10MM EBITDA 3.50-4.50x >\$25MM EBITDA 4.00-5.00x	<\$10MM EBITDA 3.00-4.00x >\$15MM EBITDA 3.50-4.75x >\$25MM EBITDA 4.00-5.00x
Senior Cash Flow Pricing:	L+3.50%-4.50% (bank) L+4.50%-6.50% (non-bank)	L+3.50%-4.50% (bank) L+4.50%-6.00% (non-bank)
Second Lien Pricing (Avg):	<\$10MM EBITDA L+9%-12% (1% floor) >\$15MM EBITDA L+7.5%-9% (1% floor)	L+8%-10%, (1% floor)
Subordinated Debt Pricing:	<\$10MM EBITDA 14%-17% >\$15MM EBITDA 13%-15% >\$20MM EBITDA 11%-14%	<\$10MM EBITDA 14%-17% >\$15MM EBITDA 13%-15% >\$20MM EBITDA 12%-14%

Sources: SPP Capital.

Summary of market terms

Deal component	April 2013	April 2012
“One Stop” Pricing	<\$8MM EBITDA 10%-12% >\$10MM EBITDA L+7.5%-9%	8.5%-11.5% L+8%-9% (1% floor)
Warrants Feature:	Coupon only deals the norm in the market absent compelling circumstances (>4.5x leverage, sub-\$7.5MM EBITDA, challenged/distressed credits)	Coupon only deals the norm in the market absent compelling circumstances (>4.5x leverage, sub-\$7.5MM EBITDA, challenged/distressed credits)
LIBOR Floors:	No LIBOR Floor for most bank deals 1.0%-1.5% Libor for non-bank deals	0.0%-1.0% for most bank club deals 1.0%-1.75% for syndicated or non-bank deals
Mezzanine Opt. Pre-Payment (first 3 years):	Highly negotiated; Coupon-only deals: No-Call 1-2 years; (SBIC 5,4,3,2,1)	Highly negotiated; Coupon-only deals: No-Call 1-2 years (SBIC 5,4,3,2,1)
Minimum Equity Contribution:	25%-30% (incl rollover); minimum 20.0% new cash in	25%-35%

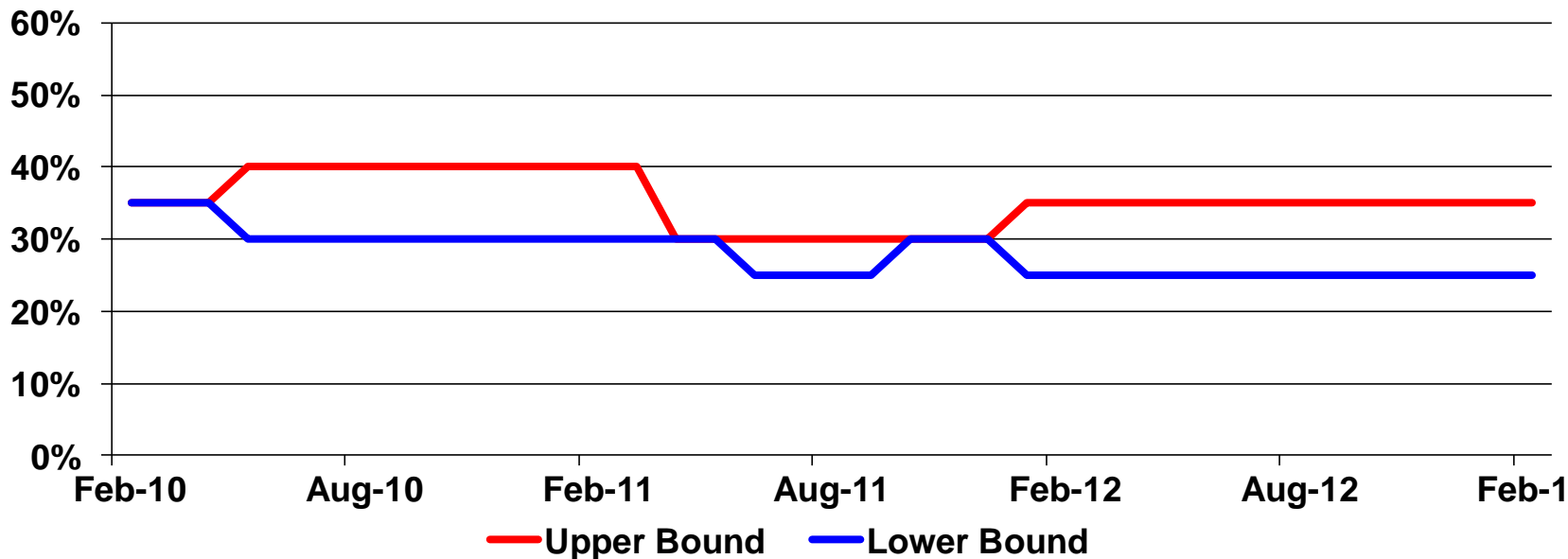
Historical debt limit



Senior debt limit upper bound peaks at 4x with the total debt limit peaking at 5x

Historical minimum equity contribution

Historical minimum equity contribution

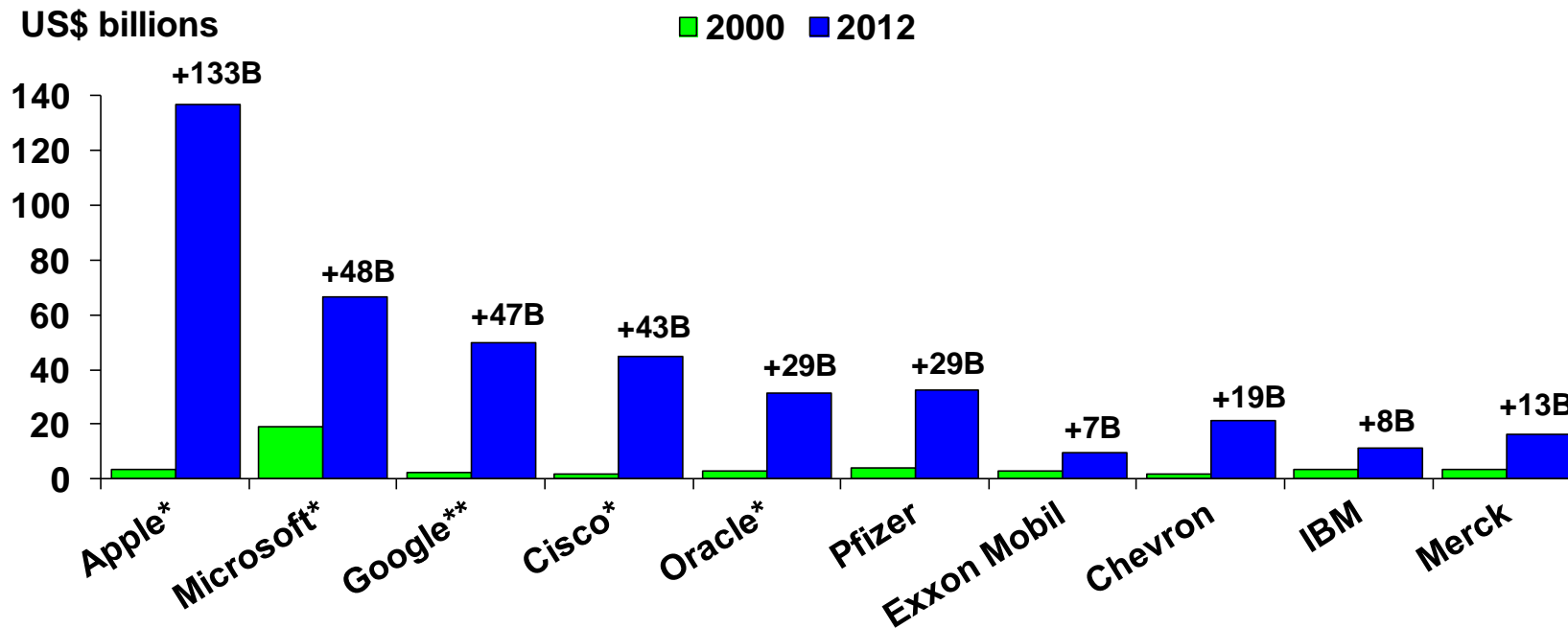


Minimum equity contribution upper bound peaked at 40% back in 2010 and has been constant at about 35% since February 2012

Background



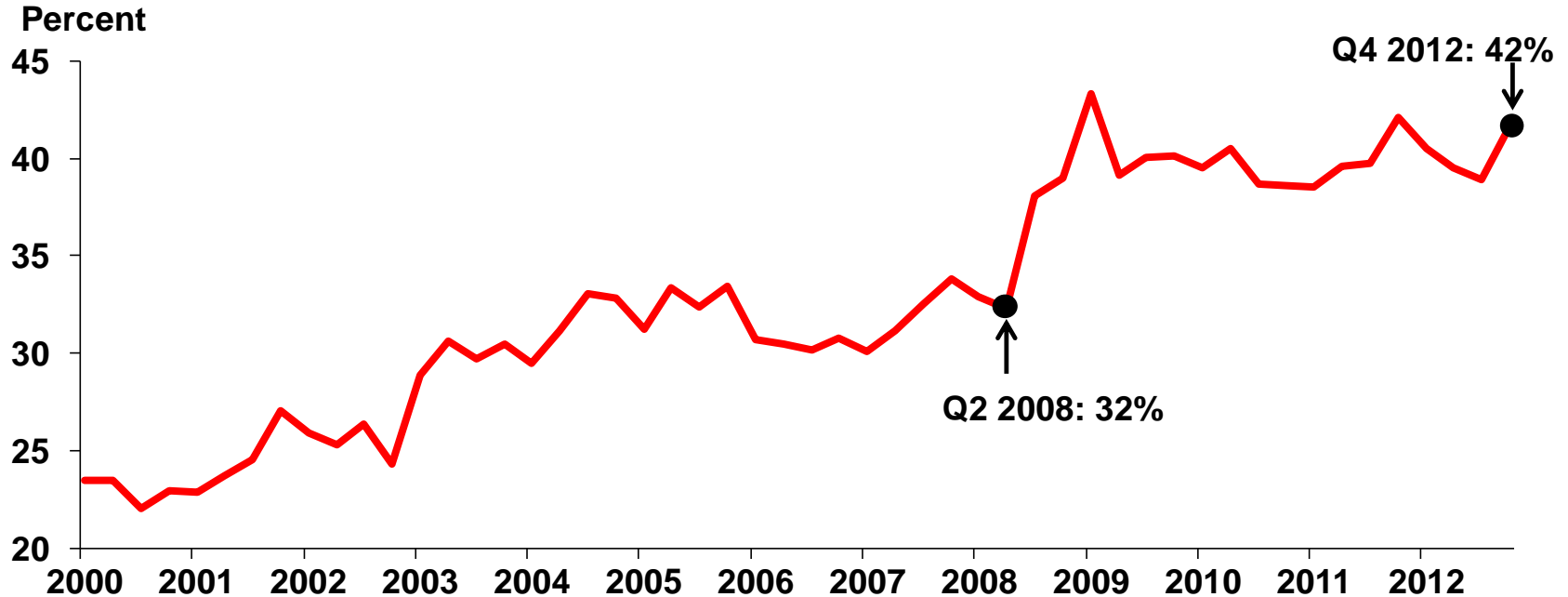
U.S. companies are accumulating hoards of cash



Source: Bloomberg.

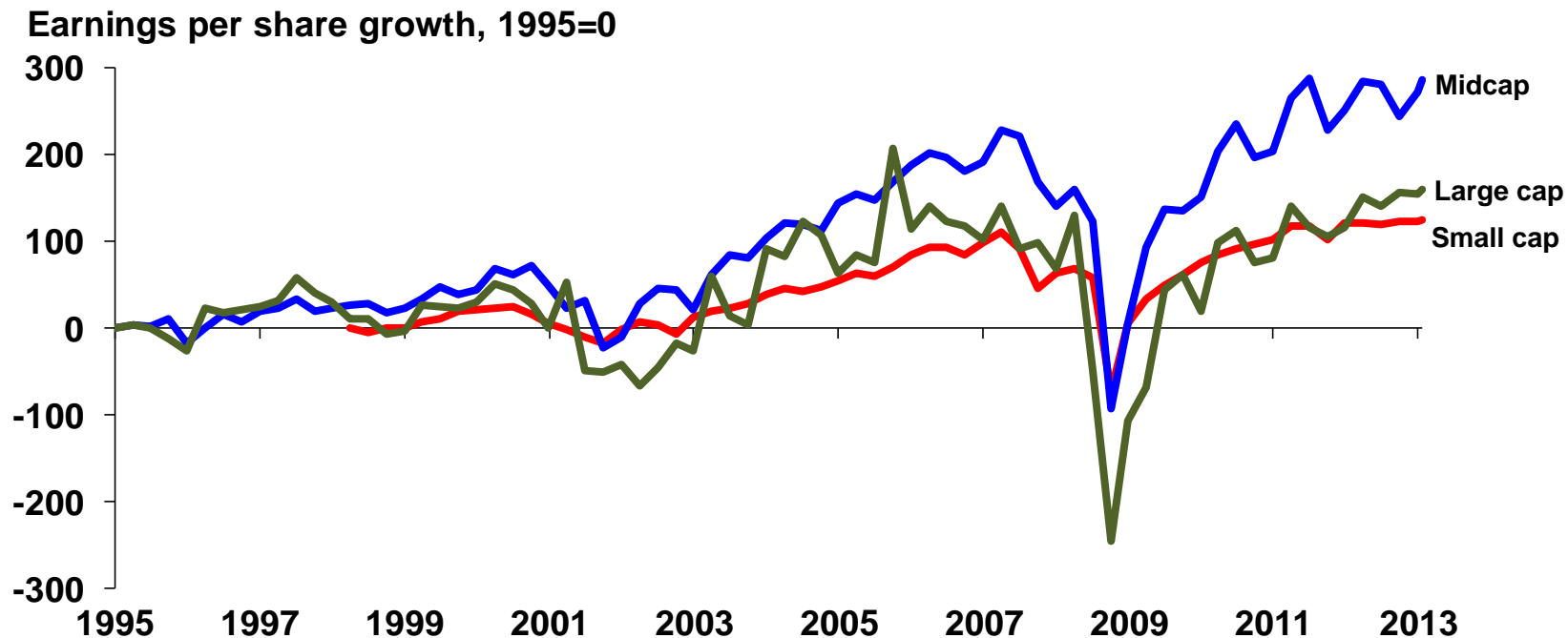
Acquiring companies are holding large amounts of cash

Percent of total current assets, S&P 500 companies



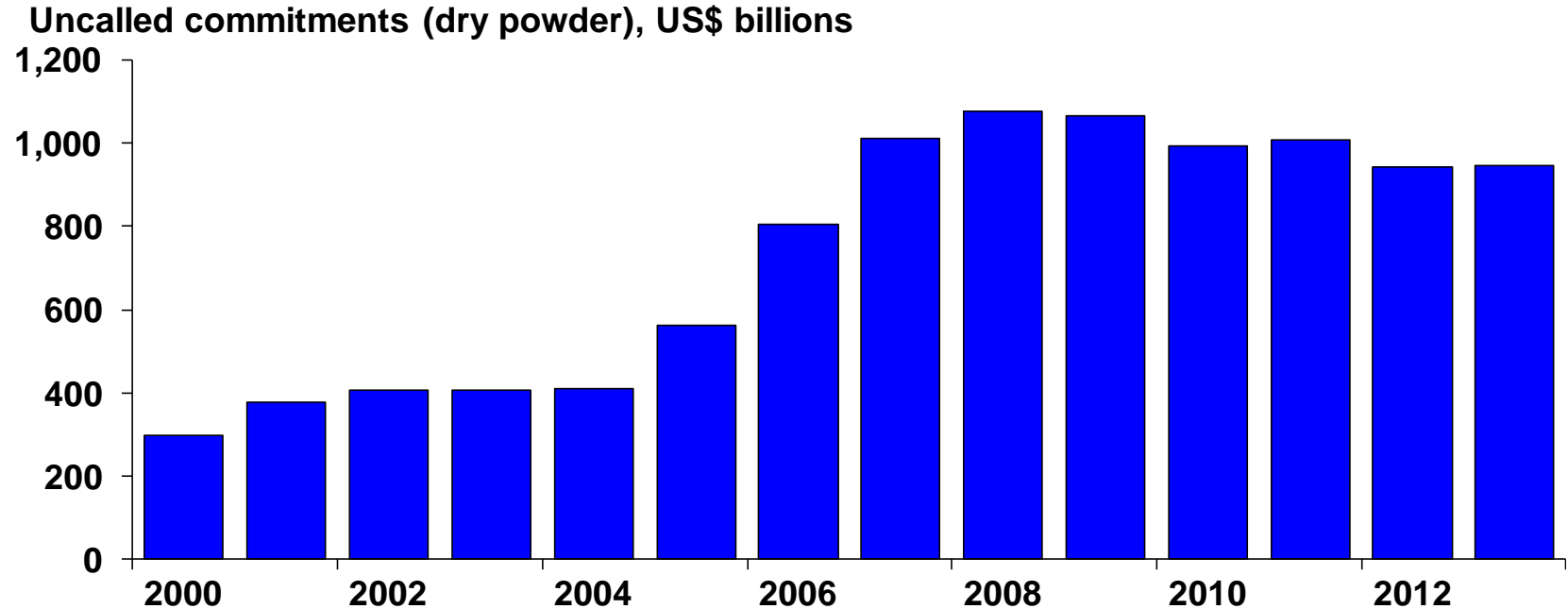
Source: Bloomberg.

Earnings growth rates favor mid caps



Source: Bloomberg.

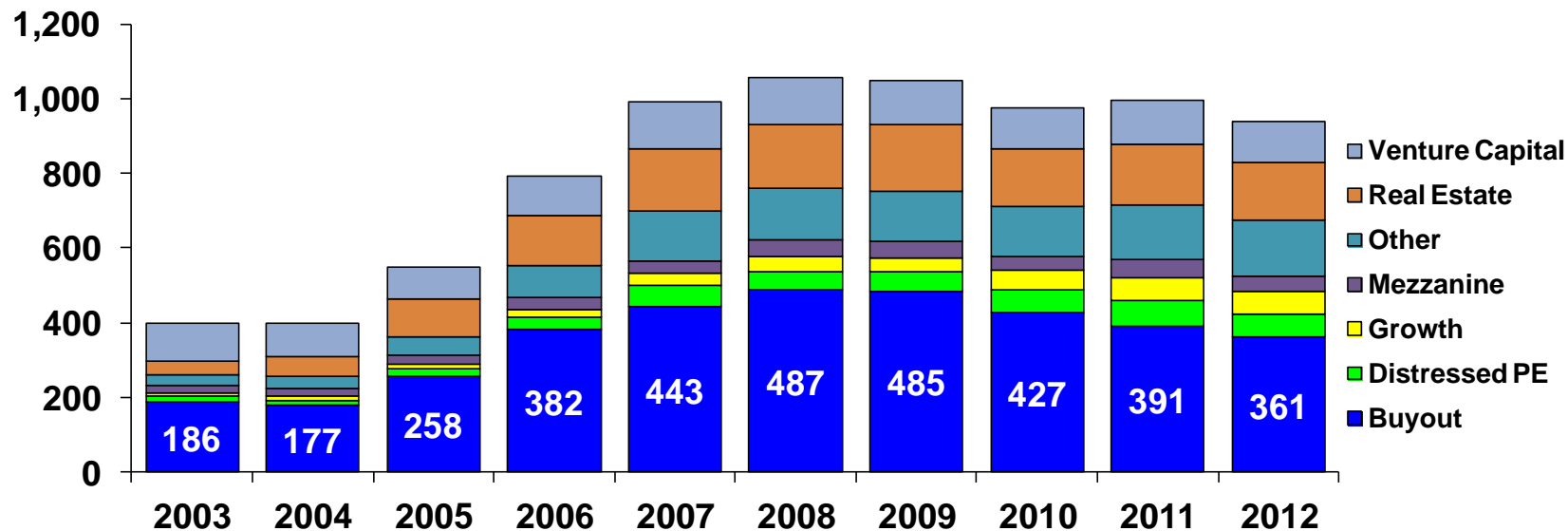
U.S. private equity firms are holding high levels of uncalled capital



Source: Pitchbook.

Global private equity firms are holding high levels of uncalled capital

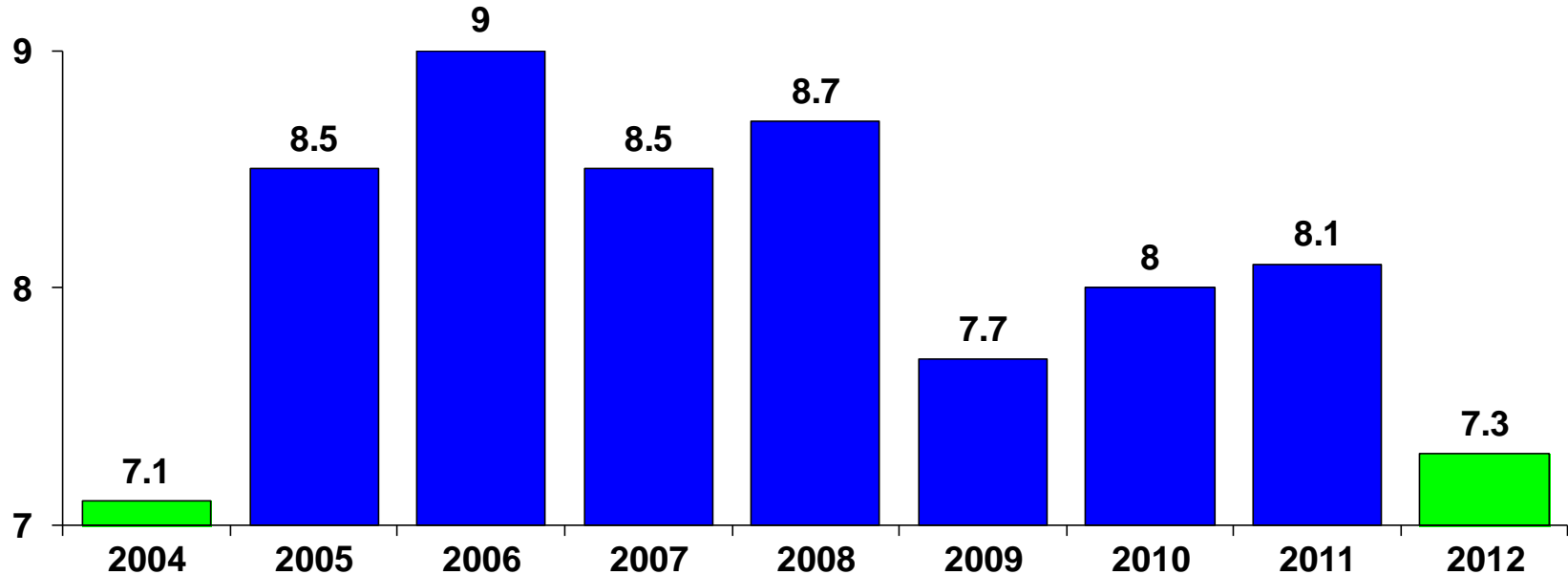
Global private equity uncalled funds, US\$ billions



Source: PEGCC.

Target companies are relatively underpriced

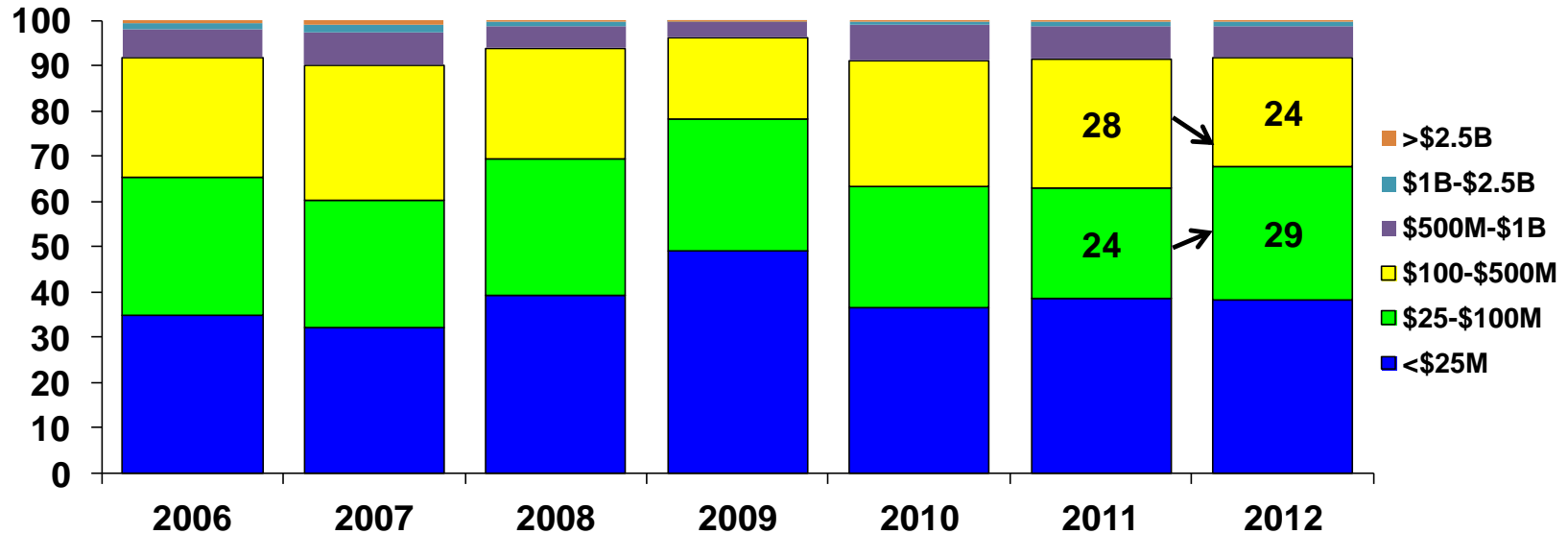
Buyout purchase price multiples, valuation/EBITDA



Source: Pitchbook.

Investors focused on smaller mid-market deals

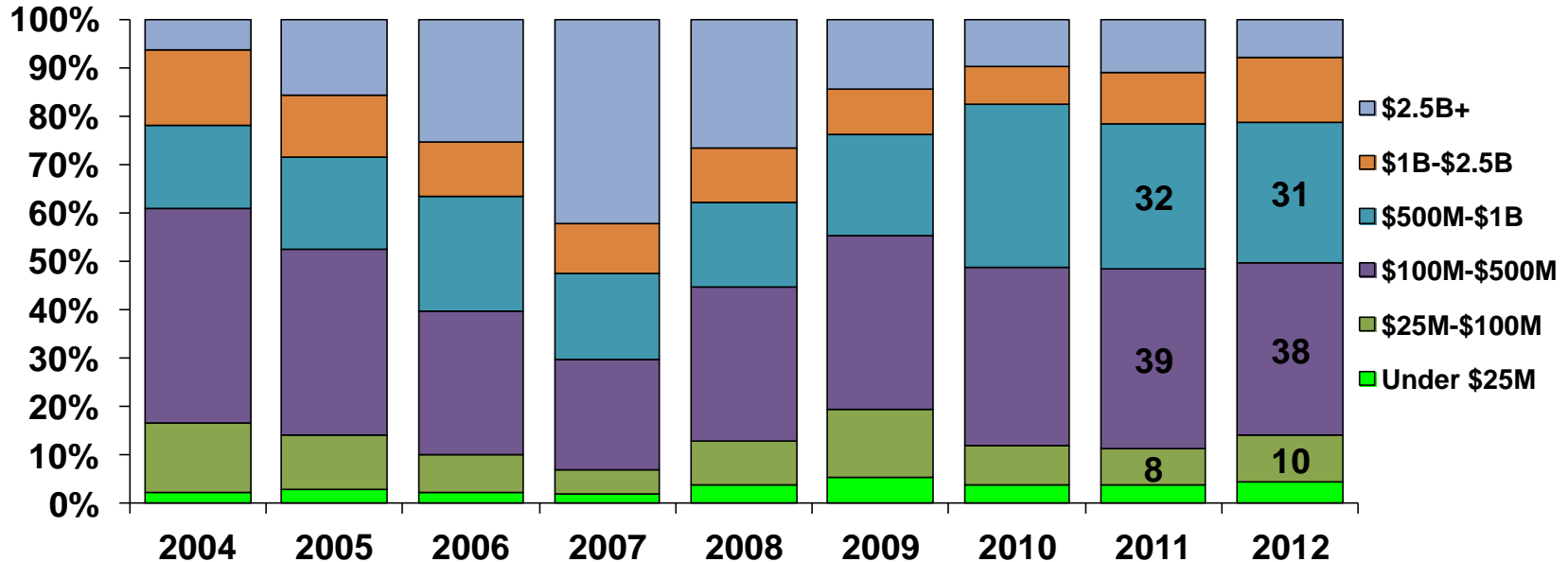
Number of investments by deal size, percent of total deal count



Source: Pitchbook.

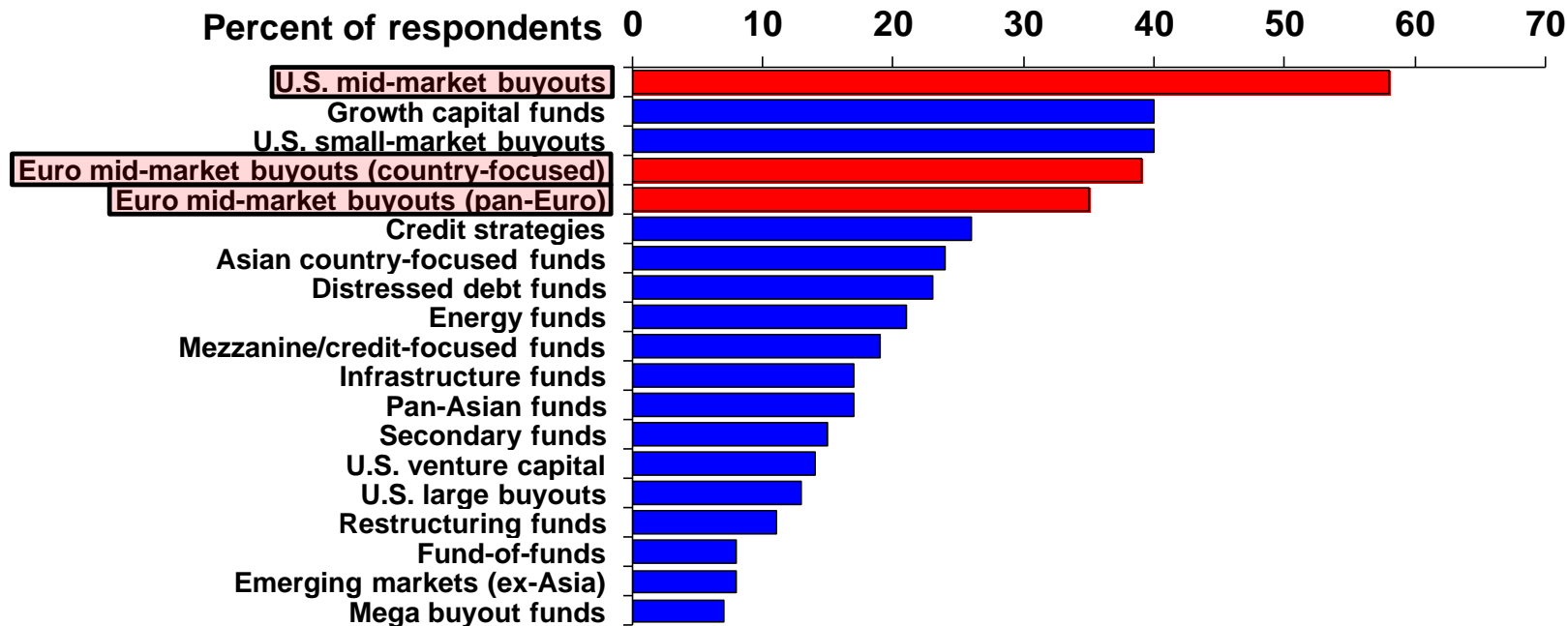
Mid-market composed the majority of deal volume

Deal volume by deal size, percent of total volume



Source: PEGCC.

LPs continue to strongly favor the mid-market in 2013

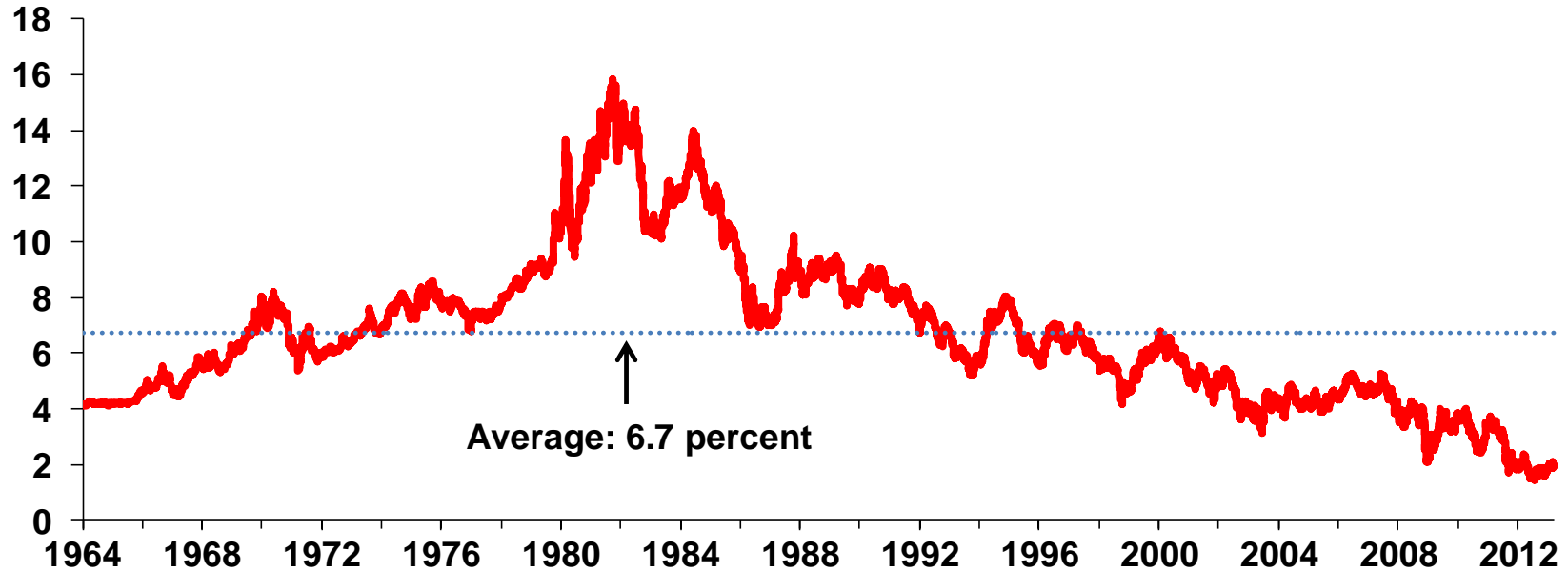


Source: Probitas.

Notes: Indicates which sectors institutional investors will focus the most attention upon.

Record low ten-year treasury yields

Ten-year Treasury yield, percent

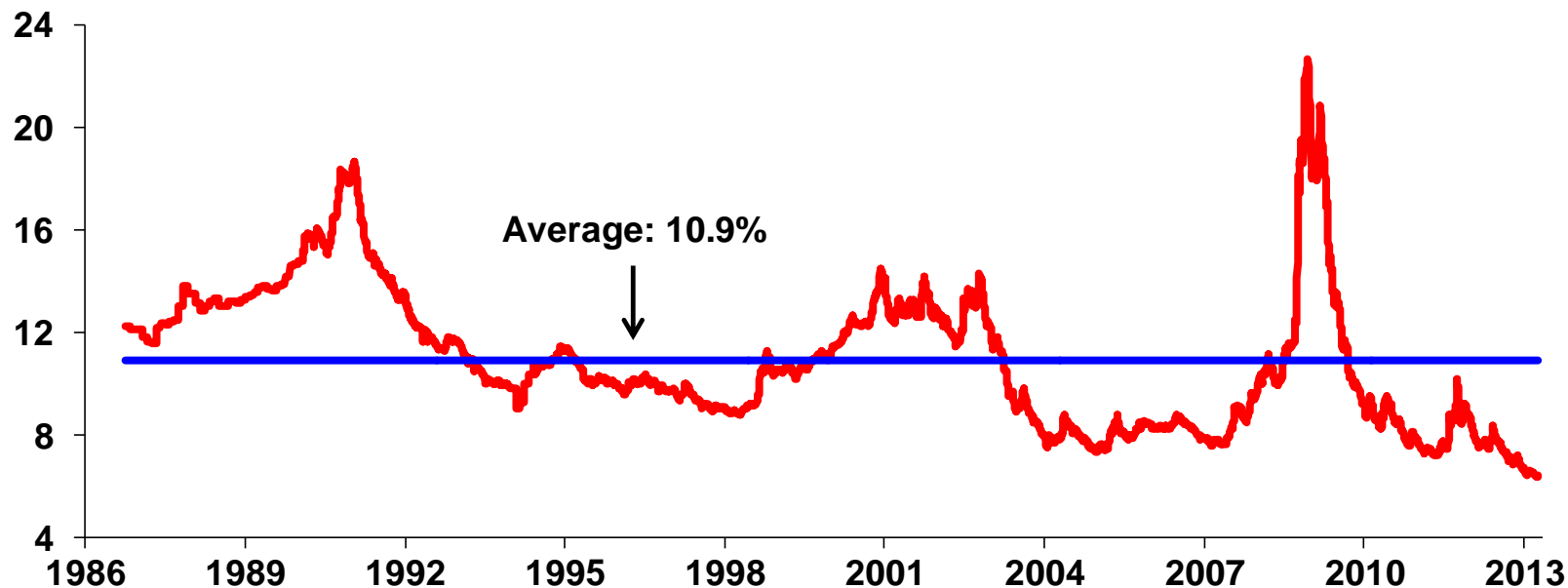


Source: Bloomberg.

Record low high-yield bond yields

BofA Merrill Lynch U.S. High Yield Master II

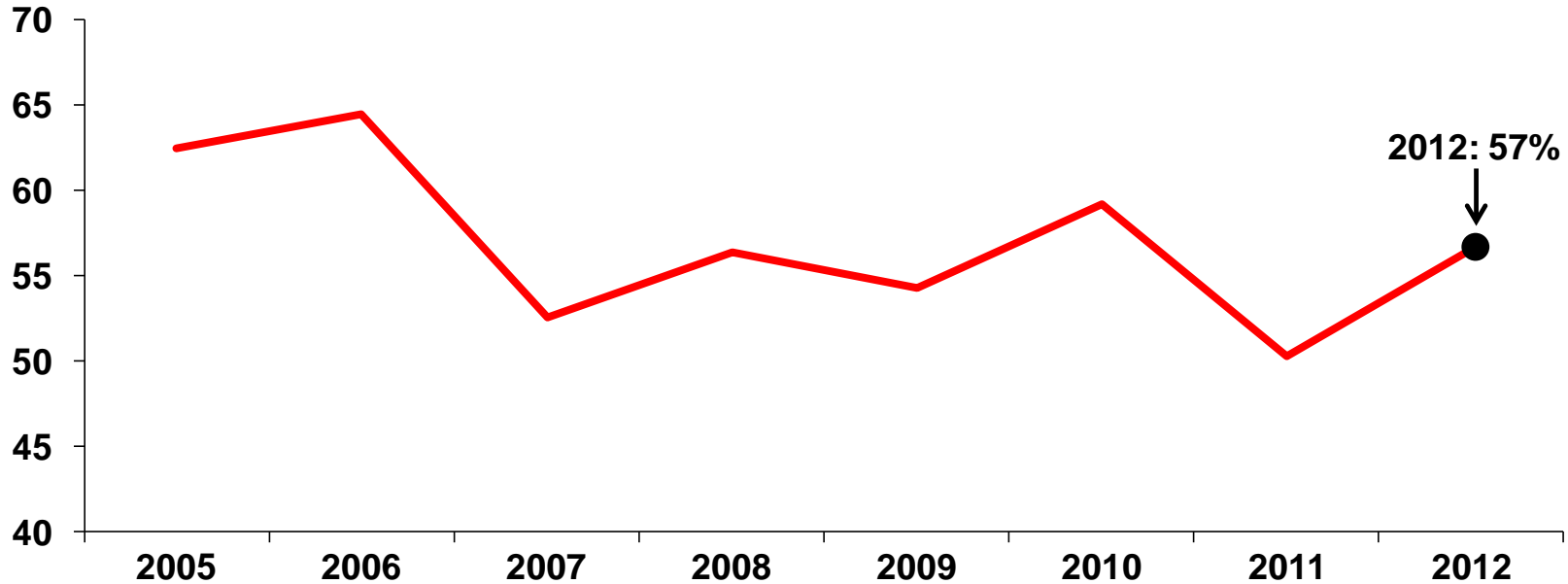
Yield, percent



Source: Bloomberg.

U.S. firms gained easier access to debt and use of leverage

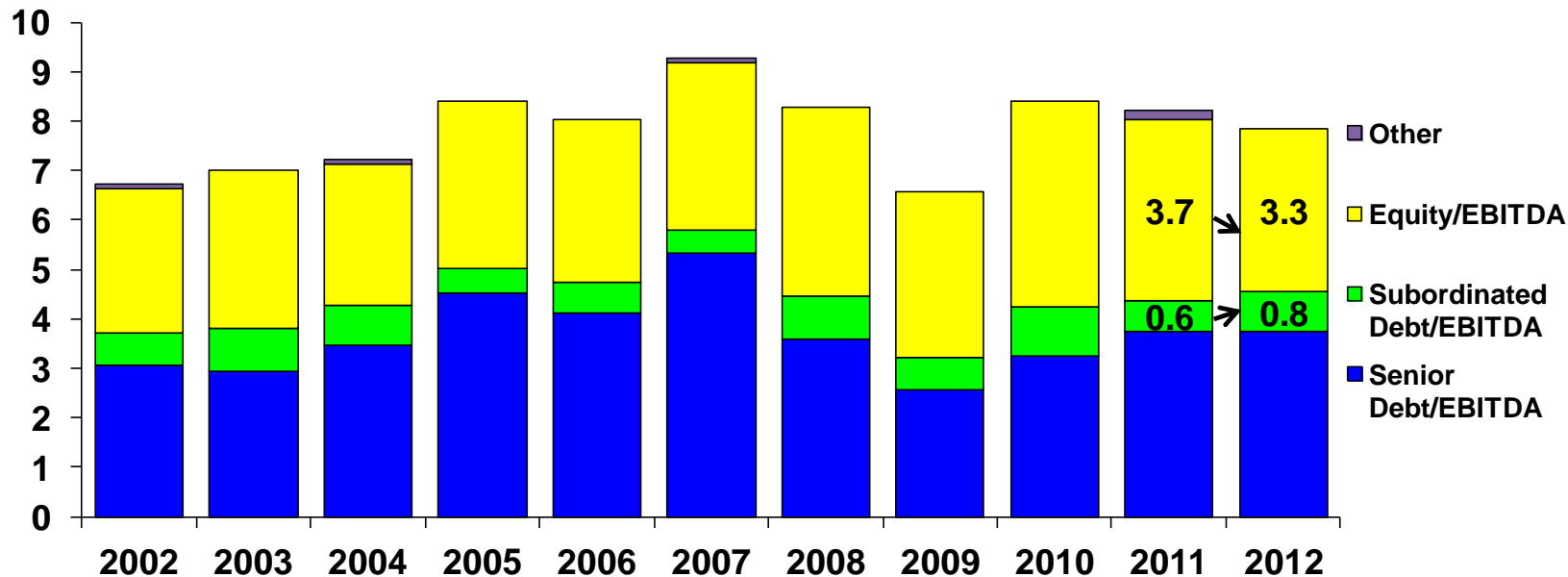
Median debt used in buyouts, percent



Source: Pitchbook.

Usage of subordinated debt surged

EBITDA multiple, by contributions

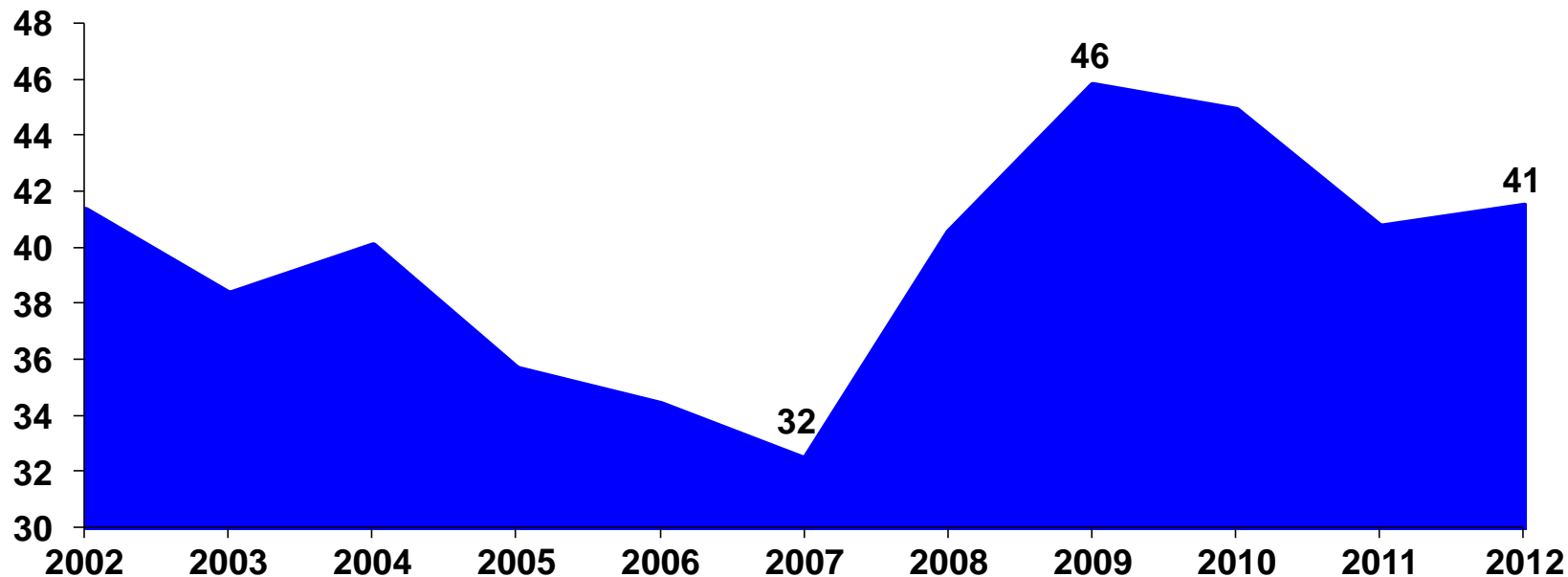


Source: Deloitte.

Note: Deals under US\$ 500 million

Equity contributions to mid-market LBOs

Percent of total mid-market LBOs

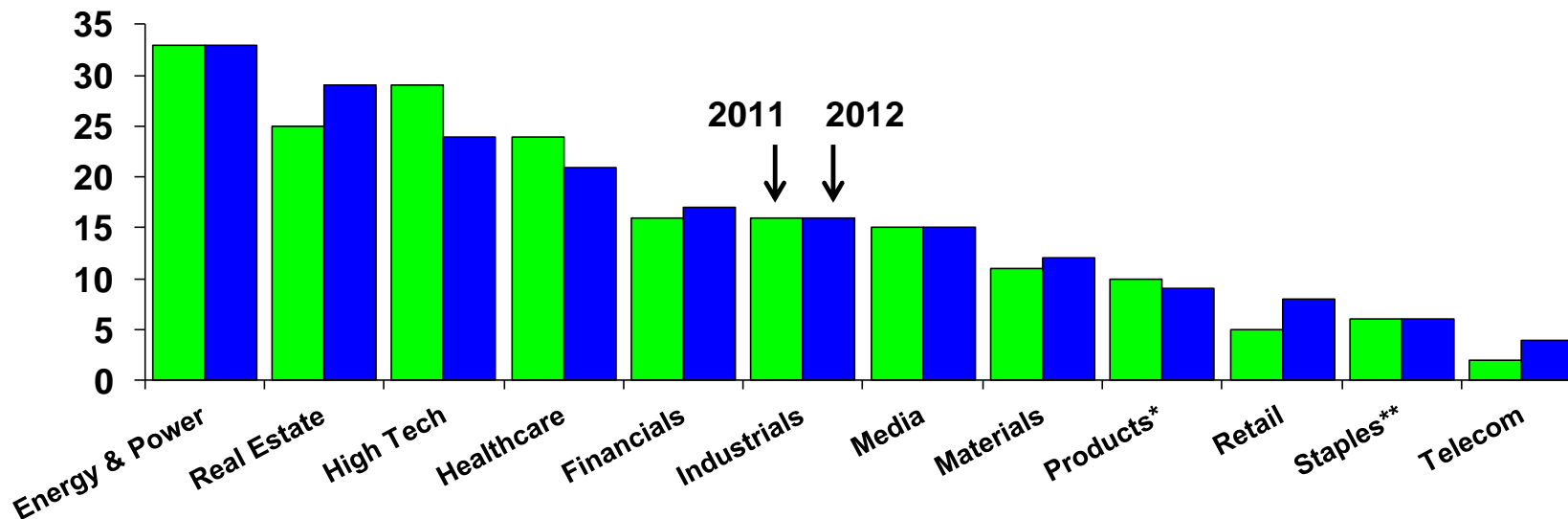


Source: Deloitte.

Note: Deals under US\$ 500 million

U.S. mid-market M&A value by industry

Value, US\$ billions

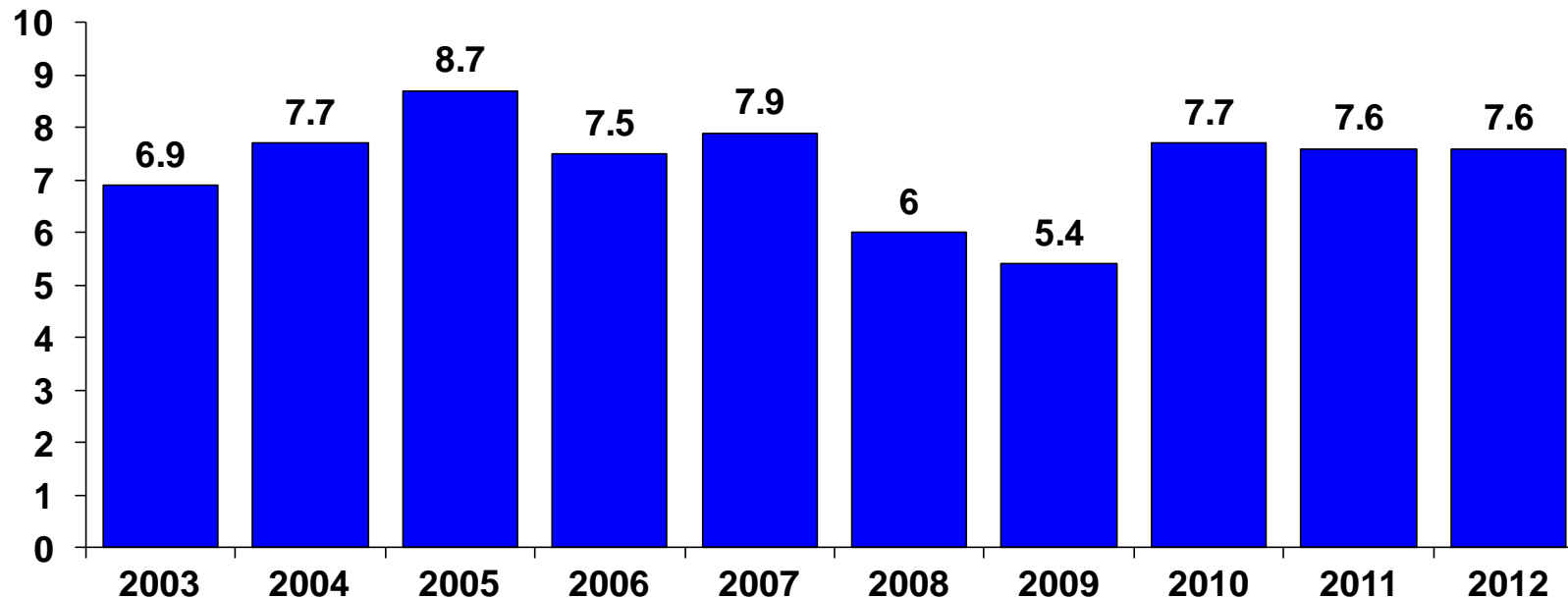


Source: Deloitte.

Note: Deals less than US\$ 500 million, Products* refers to consumer products, while Staples** refers to consumer staples

Purchase price multiple remained flat

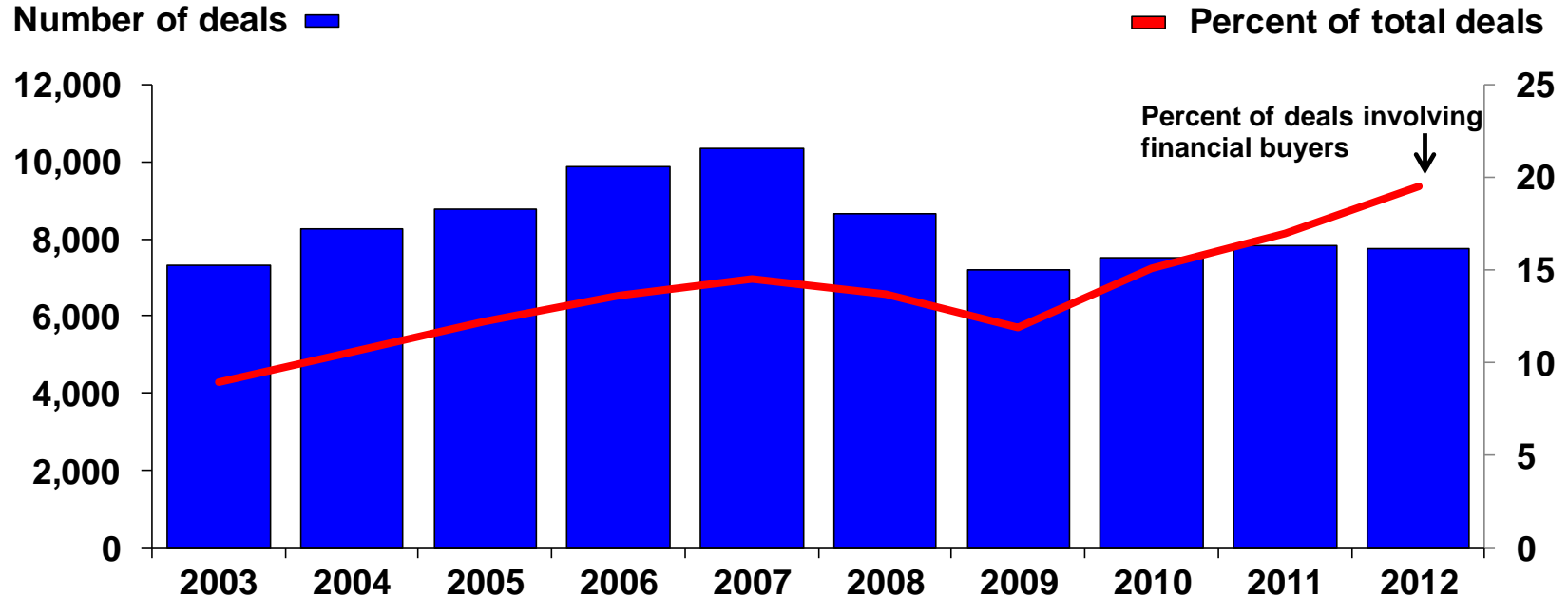
Median enterprise value to EBITDA multiple



Source: Deloitte.

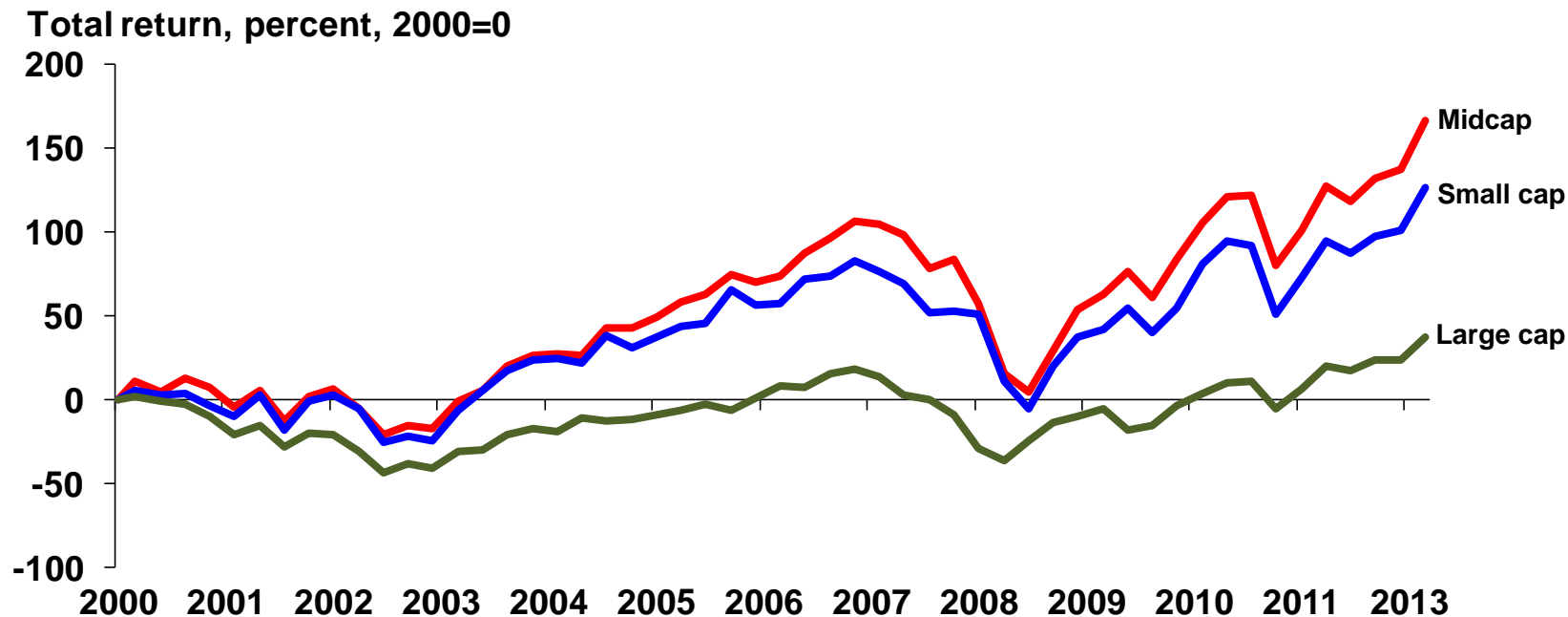
Note: Deals less than US\$ 500 million,

Private equity continues to be active in M&A marketplace



Source: Deloitte.
Note: Deals less than US\$ 500 million,

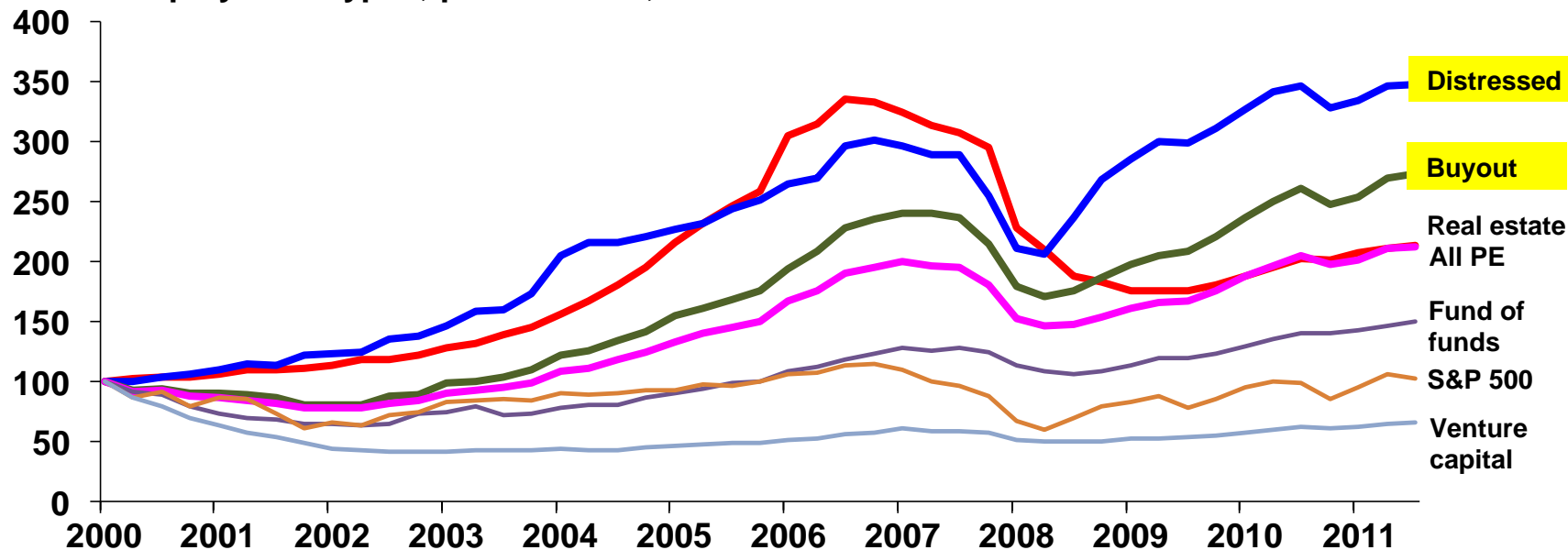
Mid cap firms have outperformed small and large cap firms



Source: Bloomberg.

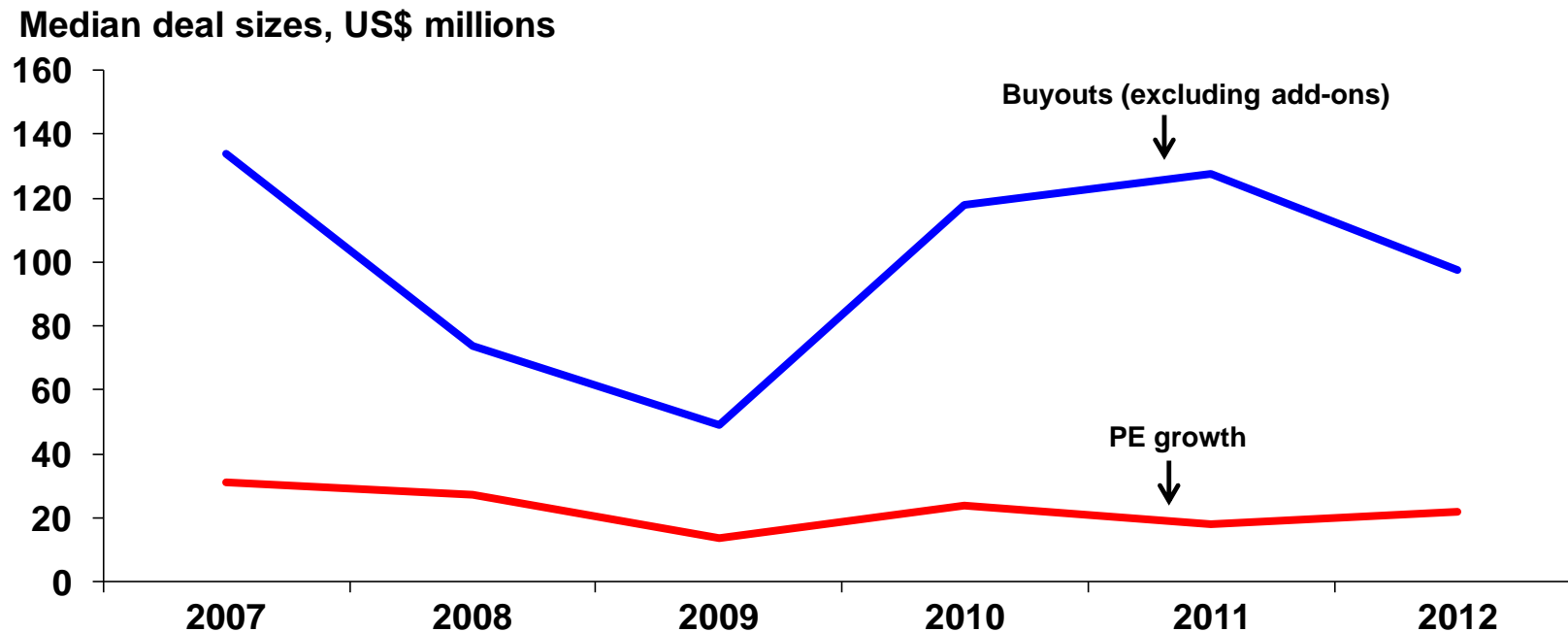
Distressed PE and buyout strategies have outperformed the broader private equity market

Private equity fund types, performance, Dec 2000 = 100



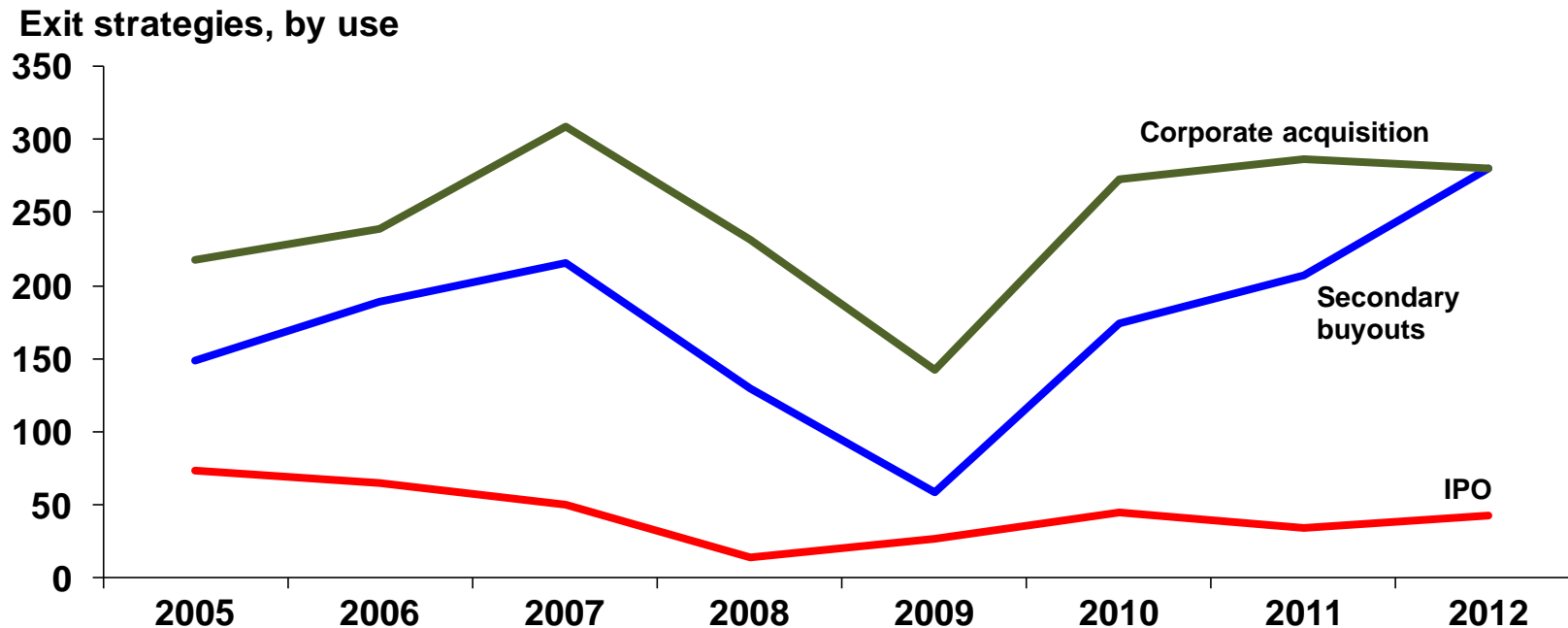
Source: Prequin.

U.S. trend in 2012 was again towards smaller transactions



Source: Pitchbook.

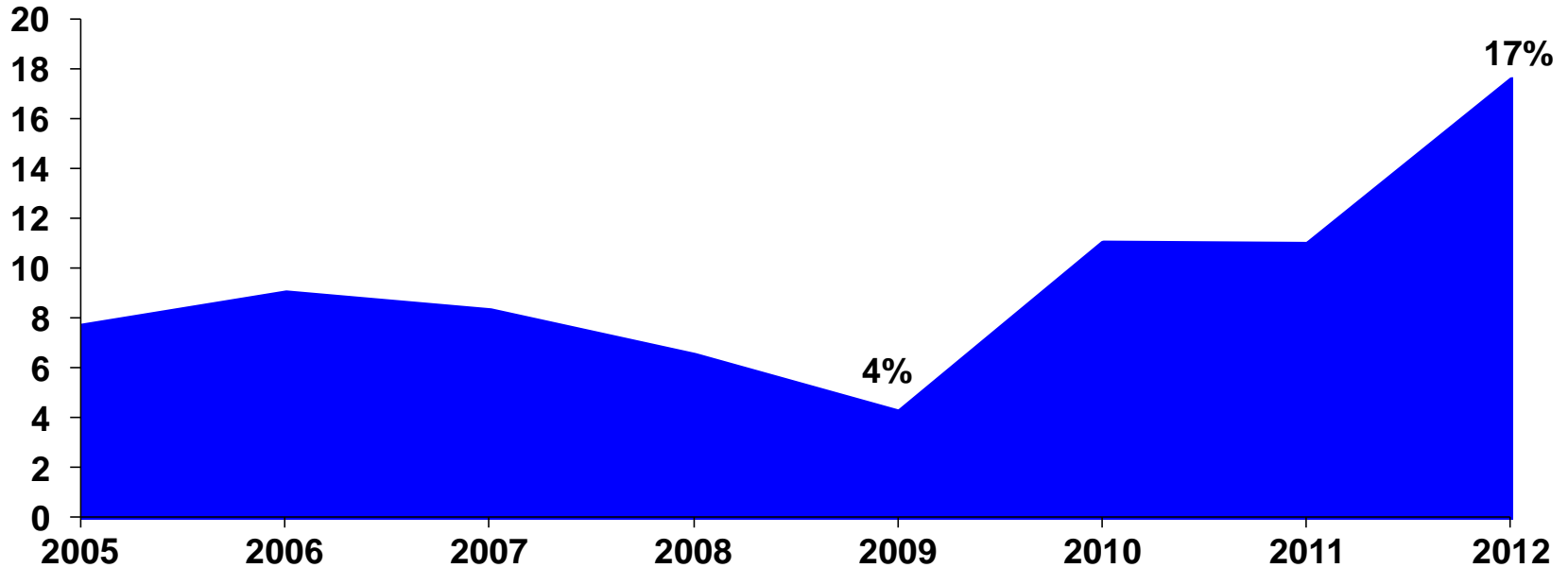
Secondary buyouts exceed corporate acquisitions as an exit strategy



Source: Pitchbook.

More firms are sourcing deals from one another

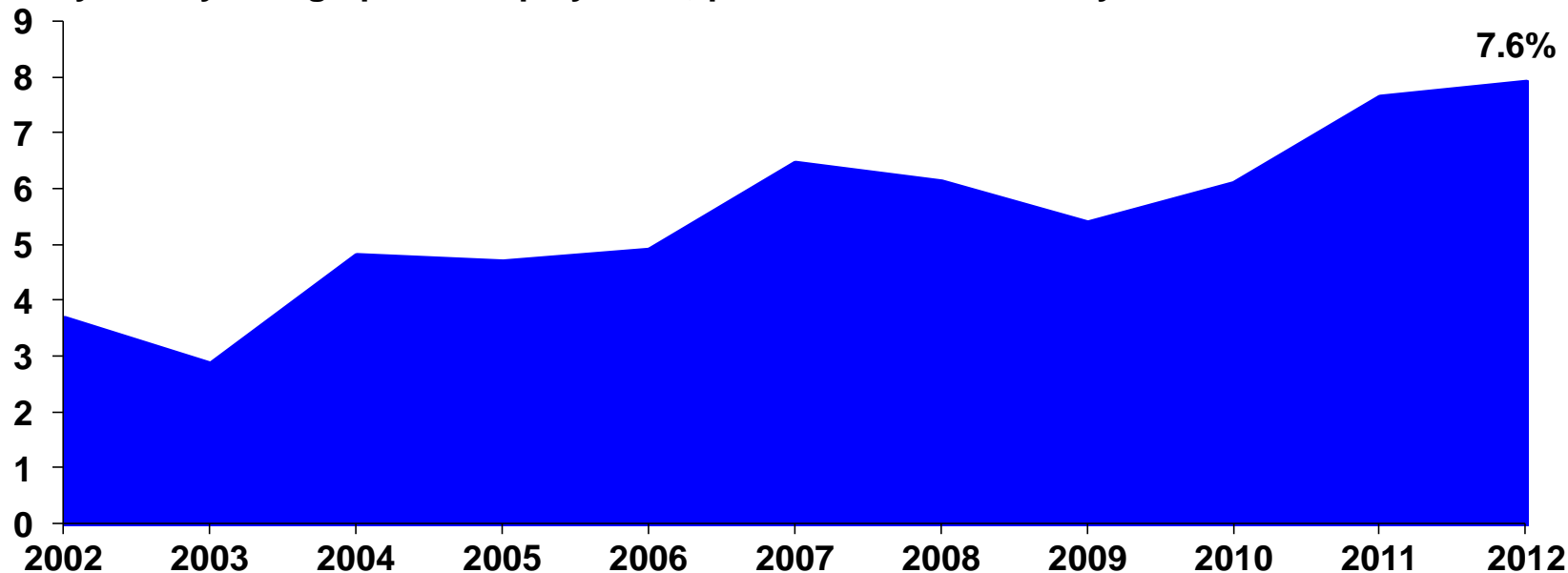
Secondary buyouts, percent of total buyouts



Source: Pitchbook.

Foreign PE firm investments in the U.S. reach a record high

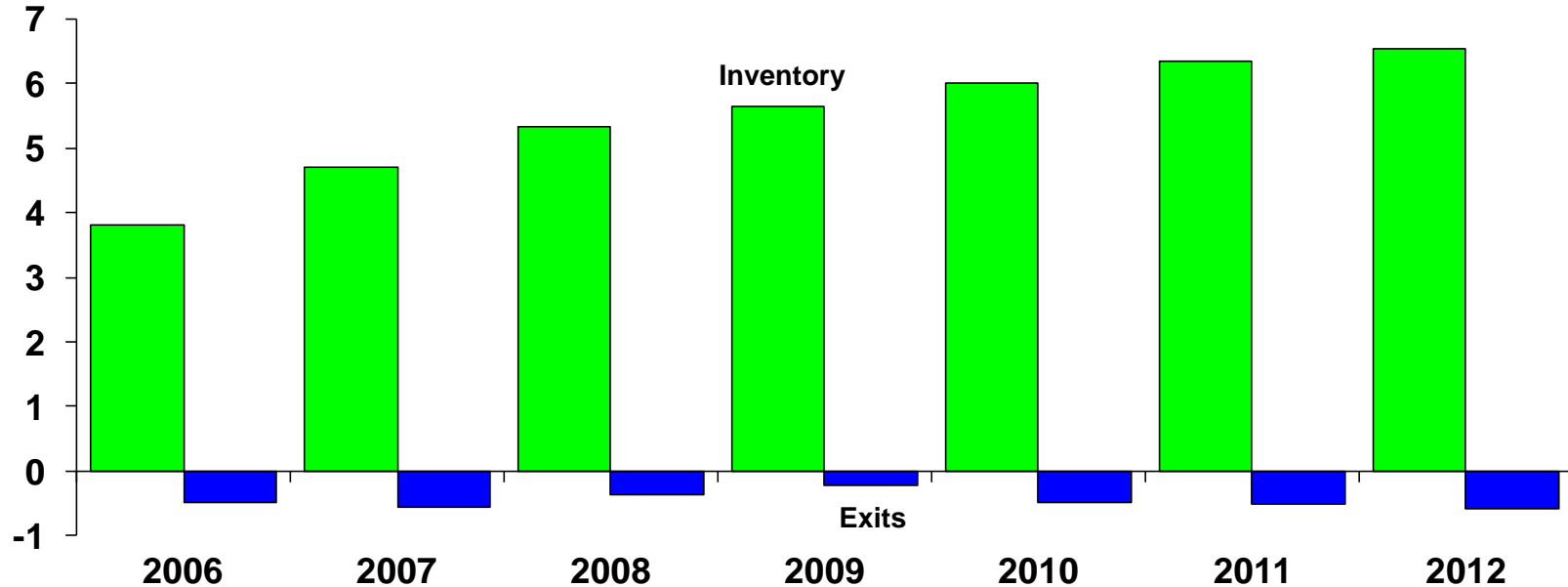
Buyouts by foreign private equity firms, percent of total U.S. buyouts



Source: Pitchbook.

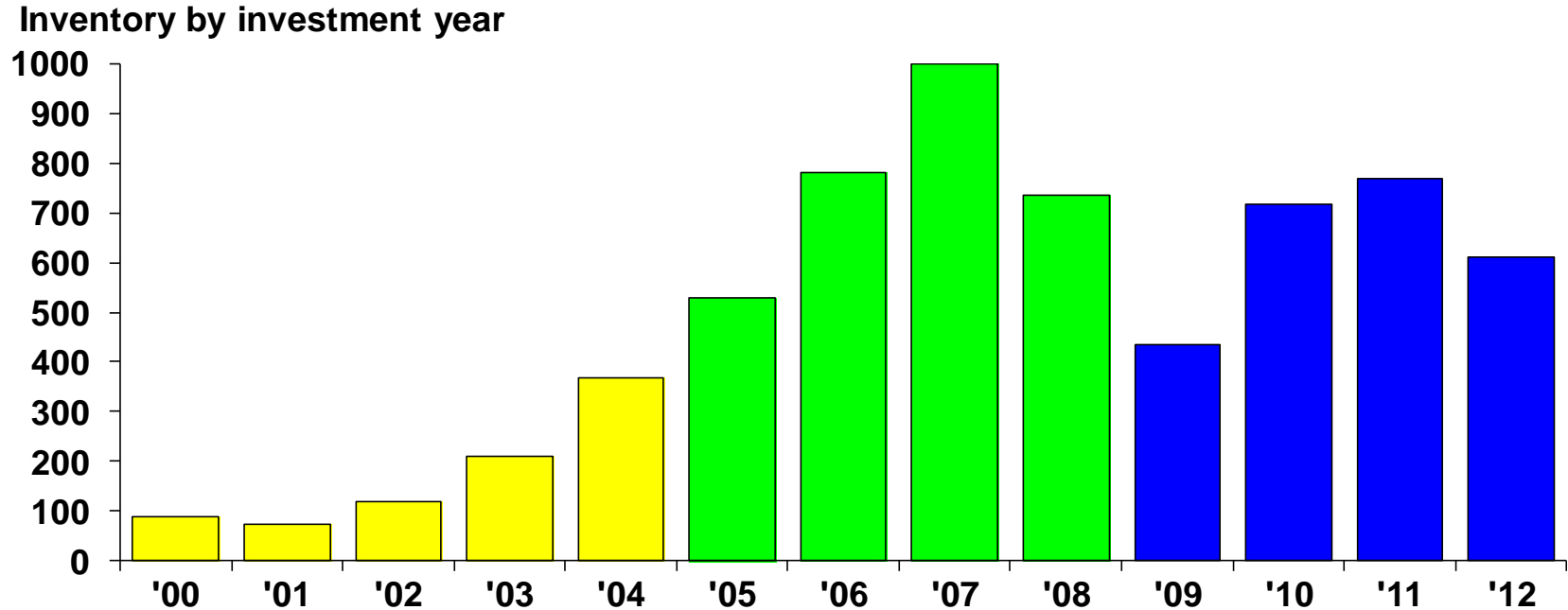
Exits vs existing inventory stacked chart

Inventory of PE-backed companies vs number of exits, thousands



Source: Pitchbook.

Company inventory continues to grow, but at a slower pace



Source: Pitchbook.