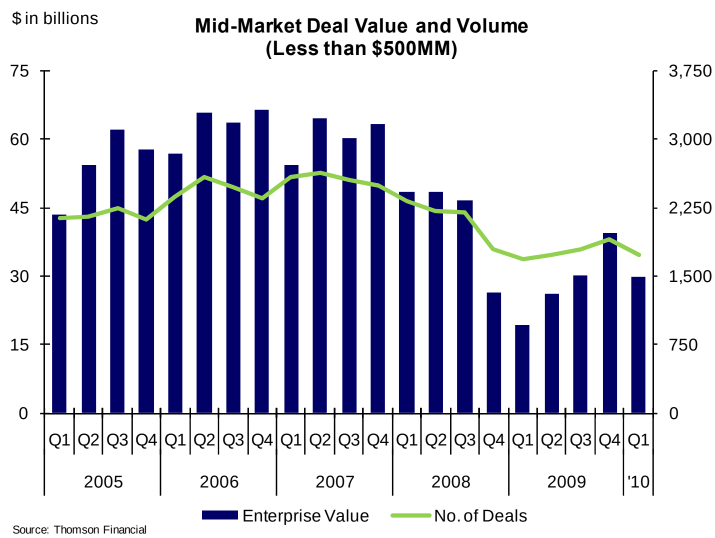
Middle Market M&A News

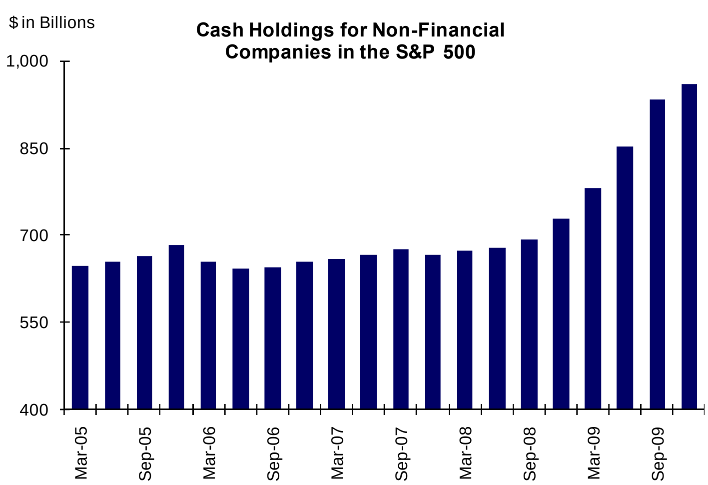
Recovery Momentum Mounting

Sustained Increase in Deal Value and Volume

The opening quarter of 2010 included more than 1,700 middle market transactions worth an estimated $30 billion. This represents a pullback from the levels reached during the prior quarter, but a sustained increase from the lows occurring during the first quarter of 2009. The decline may be the result of the lull in activity frequently following a year-end push to complete transactions. Within today's marketplace, there is pent-up demand for quality assets following the recent flood of distressed transactions coming to market. With strategic acquirors sitting on their largest cash reserves in recent years, and private equity investors flush with capital to be put to work before the looming end of finite fund lives, heightened competition may drive an increase in activity and valuations. Furthermore, the current curbs imposed on deal activity by contrasting buyer and seller expectations should subside through the remainder of the year as financial results recover from the economic downturn.



Source: Thomson Financial



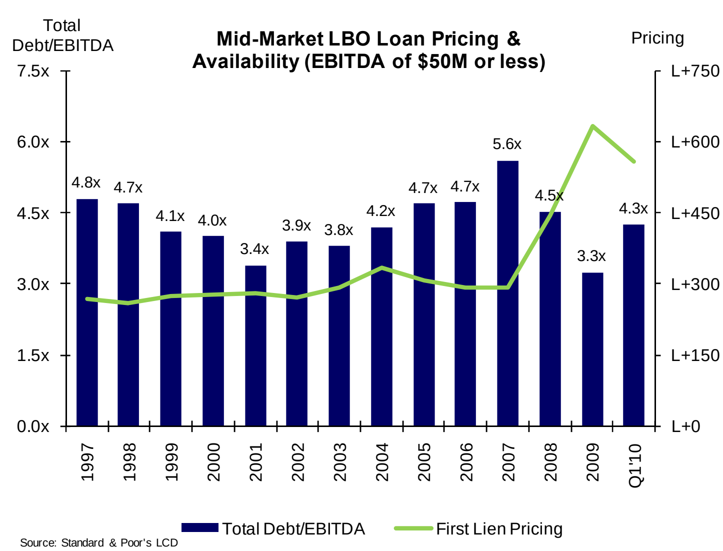
Source: Capital IQ
Notes: Cash includes short-term investments Data limited to 398 companies reporting complete quarterly data over the past five years.

The End of the Great Cash Stash?

As economic conditions deteriorated and credit markets constricted, businesses of all shapes and sizes went into cash hoarding modes. Business leaders across the globe reigned in expenses and trimmed workforces to help their companies weather one of the most severe economic storms in recent memory. During the twelve months ended December 31, 2009, cash held by the members of the S&P 500 index increased by more than 30% to $960 billion. As conditions have stabilized and signs of a recovery become more widespread, shareholder activists have pressured CEOs and CFOs to begin evaluating the best uses of this cash. Included for consideration are share buybacks, dividends, and acquisitions. With new avenues for growth top of mind in many boardrooms, acquisitions are expected to be a popular means of deploying capital. While a select number of these acquisitions will be large corporate takeovers, a substantial amount of activity is expected to flow down to the middle market.

Credit Flow Resumes

The recent months have brought a welcomed reprieve from the deep freeze engulfing the credit markets. During the first quarter of 2010, total debt-to-EBITDA ratios for middle market LBO loans increased to 4.3x from 3.3x in 2009. While the present ratio is more than a full turn below the highs reached in 2007, it represents substantial progress in terms of availability. Pricing has also improved with LIBOR spreads narrowing to approximately 550 basis points. Issuance of middle market LBO loans during the most recent quarter, however, was at less than 15% of the highs reached during the boom of 2007. LBO loan volume could pick up significantly in the coming months. Transactions which capitalize on the recent improvement in the lending markets are likely still in negotiations, but should come to a close in the coming months.



Source: Standard & Poor's LCD

Related Content

For additional M&A related news, refer to content made available through Deloitte Corporate Finance LLC ("DCF") and the subsidiaries of Deloitte LLP:

- **DCF Industry Updates**
  DCF's investment bankers have extensive industry-specific experience and knowledge. We produce industry updates that summarize the current M&A environment including the most recent transaction information on the most active buyers, current transaction valuation multiples and an overview of the public market's perception of the industry.

- **Corporate Development 2010: Refining the M&A Playbook**
  Deloitte LLP and The Deal LLC recently conducted a survey on Corporate Development – those activities that support and enable M&A-related growth. To gain a better understanding of how the Corporate Development function has evolved, and the critical role it will play as the market enters a new deal cycle, we surveyed executives at approximately 150 companies, across many industries, to find out how their Corporate Development groups are structured and managed and what it is that makes them effective.

- **Manufacturing M&A: Doing deals in a reset world**
  In this point of view, Deloitte Consulting LLP looks at changes in manufacturing mergers and acquisitions, including techniques for bridging the value gap between buyers and sellers, heightened risks associated with cross-border deals and post-merger integration issues.

Leader in Global Middle Market Investment Banking

DCF together with the member firms of DTT and their affiliates, ranked No.2 among firms providing investment banking services (in terms of number of deals closed) for the first quarter ending March 31, 2010, according to Thomson Financial.

Mid-Market (≤$250m) Financial Advisors League Table

Mid-Market Financial Advisor	Rank	No. of Deals	Deal Value ($mm)
KPMG	1	31	702
Deloitte Touche Tohmatsu - Corporate Finance	**2**	**28**	**359**
Rothschild	3	25	775
Mizuho Financial Group	4	25	435
Morgan Stanley	5	24	1,809
UBS	6	23	1,457
Houlihan Lokey	7	23	850
PricewaterhouseCoopers	8	21	1,111
Ernst & Young LLP	9	21	419
RBC Capital Markets	10	20	942
Credit Suisse	11	18	2,241
Nomura	12	17	537
Lazard	13	15	823
Mitsubishi UFJ Financial Group	14	15	174
Grant Thornton LLP	15	15	109
JP Morgan	16	14	484
Goldman Sachs & Co	17	14	242
Global M&A	18	13	52
RBS	19	12	484
IMAP	20	11	125

Contact Us:

Atlanta:

Hector Calzada
+1 404 631 3015
hcalzada@deloitte.com

Justin Silber
+1 404 942 6960
jsilber@deloitte.com

Chicago:

Will Frame
+1 312 486 4458
wframe@deloitte.com

Andrew Isgrig
+1 312 486 4160
aisgrig@deloitte.com

Dallas:

Richard A. Sukkar, Jr.
+1 214 840 7330
rsukkar@deloitte.com

Detroit:

Ellen Clark
+1 313 396 2682
elclark@deloitte.com

Robert Coury
+1 313 396 3811
rcoury@deloitte.com

Los Angeles:

Kevan Flanigan
+1 213 688 6560
keflanigan@deloitte.com

Michael McArthur
+1 213 688 3257
mimcarthur@deloitte.com

Kevin McFarlane
+1 213 553 1423
kemcfarlane@deloitte.com

New York:

Simon Gisby
+1 212 436 2495
sgisby@deloitte.com

Constantine Korologos
+1 212 436 4820
ckorologos@deloitte.com

Jonathan Ohm
+1 212 436 2287
johm@deloitte.com

Irene Walsh
+1 212 436 4620
iwalsh@deloitte.com

www.investmentbanking.deloitte.com