If 50 is the new 40, is 8 the new 6 in the world of purchase price multiples and what are the implications for corporate renewal professionals?
“There is no normal life, Wyatt, just life, so get on with it”

Doc Holliday (Val Kilmer), Tombstone, 1993
Moderator -

- Joe Fobbe
- MB Business Capital
Panelist -

- Marc Liebman
- Alvarez & Marsal Securities
Panelist -

- David E. Fraimow
- LBC Credit Partners, Inc.
Panelist -

• Larry Klaff
• Gordon Brothers Finance Company
Panelist -

- Duncan Bourne
- Wynnchurch Capital
M&A Activity Has Accelerated

North American M&A Volume ($B)[1]

North American M&A Valuation[2]
Middle Market M&A Activity is as strong as ever

Middle Market – North American M&A Volume ($B)[3]

Middle Market - North American M&A Valuation[4][5]

#TMA15 / OCTOBER 5-7 / SCOTTSDALE, ARIZONA
Credit Markets are Robust

Leveraged Loan & High Yield Issuance ($B)


$389 $144 $624 $679 $535 $224 $241 $523 $595 $810 $929 $839 $797

$94 $480 $144 $68 $164 $287 $236 $377 $466 $310 $339 $458

$295 $400 $500 $600 $700 $800 $900 $1,000

High Yield Bond Yields[6][7]

Aug-15 BB B CCC[8]
S&P LSTA 4.10% 5.28% 8.88%
BAML HY 5.48% 7.27% 13.20%

Leveraged Loan Yields

Pre-Crisis Trough
April 27, 2007
LL = 7.70%
HY = 7.65%

Today
Aug 2015
S&P = 6.09%
BAML = 8.65%

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#TMA15 / OCTOBER 5-7 / SCOTTSDALE, ARIZONA
Leverage Levels – History Repeating?

Debt Multiples for Highly Leveraged Loans[^9]

<table>
<thead>
<tr>
<th>Year</th>
<th>Senior Debt / EBITDA</th>
<th>Junior Debt / EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>3.5x</td>
<td>0.8x</td>
</tr>
<tr>
<td>2006</td>
<td>3.7x</td>
<td>0.7x</td>
</tr>
<tr>
<td>2007</td>
<td>4.0x</td>
<td>0.9x</td>
</tr>
<tr>
<td>2008</td>
<td>2.9x</td>
<td>0.8x</td>
</tr>
<tr>
<td>2009</td>
<td>3.0x</td>
<td>0.8x</td>
</tr>
<tr>
<td>2010</td>
<td>3.0x</td>
<td>0.8x</td>
</tr>
<tr>
<td>2011</td>
<td>3.8x</td>
<td>0.8x</td>
</tr>
<tr>
<td>2012</td>
<td>4.1x</td>
<td>0.6x</td>
</tr>
<tr>
<td>2013</td>
<td>4.4x</td>
<td>0.5x</td>
</tr>
<tr>
<td>2014</td>
<td>4.1x</td>
<td>0.6x</td>
</tr>
<tr>
<td>1H 2015</td>
<td>5.3x</td>
<td>0.0x</td>
</tr>
</tbody>
</table>

All-In Sponsor-Backed Leverage Multiples[^10]

<table>
<thead>
<tr>
<th>Year</th>
<th>Senior Debt / EBITDA</th>
<th>Junior Debt / EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>5.3x</td>
<td>4.4x</td>
</tr>
<tr>
<td>2006</td>
<td>5.4x</td>
<td>4.9x</td>
</tr>
<tr>
<td>2007</td>
<td>6.2x</td>
<td>4.0x</td>
</tr>
<tr>
<td>2008</td>
<td>4.9x</td>
<td>4.7x</td>
</tr>
<tr>
<td>2009</td>
<td>4.0x</td>
<td>5.2x</td>
</tr>
<tr>
<td>2010</td>
<td>4.1x</td>
<td>5.3x</td>
</tr>
<tr>
<td>2011</td>
<td>5.2x</td>
<td>5.4x</td>
</tr>
<tr>
<td>2012</td>
<td>5.4x</td>
<td>5.8x</td>
</tr>
<tr>
<td>2013</td>
<td>5.6x</td>
<td>5.6x</td>
</tr>
<tr>
<td>1H 2015</td>
<td>5.3x</td>
<td>0.0x</td>
</tr>
</tbody>
</table>
**Source: Capital IQ & S&P LCD:**

[2] N.A. M&A Valuation: Majority Stake, US & Canada Location, Closed Transaction, Transaction Value > $0M, EV/EBITDA > 0.0x
[4] N.A. Middle Market M&A Valuation – <$1B: Majority Stake, US & Canada Location, Closed Transaction, Transaction Value < $1B, EV/EBITDA > 0.0x
[5] N.A. Middle Market M&A Valuation – <$100M: Majority Stake, US & Canada Location, Closed Transaction, Transaction Value < $100M, EV/EBITDA > 0.0x
[6] S&P/LSTA Average is the average of BB Index, B Index & CCC Only
[7] BAML High Yield Average is the average of BB, B & CCC or Below
[8] “CCC” means “CCC Only” for the S&P LSTA Leverage Loan Index & “CCC or Below” for the BAML High Yield Index
[9] Senior Debt is composed of 1st Lien & 2nd Lien, while Junior Debt is composed of Other Senior & Subordinated Debt
[10] Average debt multiples of Large Corporate LBO loans
Purchase Multiples ‘01 to ‘14

Levered Up
Between January and November 2014, leverage levels matched the peak set in 2007

Source: Standard & Poor's Capital IQ Leveraged Commentary and Data | WSJ.com
Perspective and the search for normal

OVERALL M&A VALUATIONS

Note: There were no relevant valuation multiples reported by SDC prior to 1984.
Source: Securities Data Corporation
Lending Multiples – ’87 to ‘02

Note: There were too few deals in 1991 to provide a meaningful sample.
Source: Standard & Poor’s Portfolio Management Data
Bring back the 80’s!

LBO EQUITY CONTRIBUTION

Note: There were too few deals in 1991 to provide a meaningful sample.
Source: Standard & Poor's Portfolio Management Data
Number of Financial Sponsors – 90’s

FINANCIAL SPONSORS

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of LBO Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>200</td>
</tr>
<tr>
<td>1995</td>
<td>225</td>
</tr>
<tr>
<td>1996</td>
<td>250</td>
</tr>
<tr>
<td>1997</td>
<td>275</td>
</tr>
<tr>
<td>1998</td>
<td>300</td>
</tr>
<tr>
<td>1999</td>
<td>325</td>
</tr>
<tr>
<td>2000</td>
<td>350</td>
</tr>
<tr>
<td>2001</td>
<td>375</td>
</tr>
</tbody>
</table>

Source: Buyouts
A world awash with capital
Two new Characters this time around..

- **BDCS** (Business Development Corporations)
  - Public
  - Private

- **Unitranche Structure**
  - Overview
  - Benefits
## Unitranche

<table>
<thead>
<tr>
<th></th>
<th>Senior - Mezz</th>
<th>2 Lien</th>
<th>Unitranche</th>
</tr>
</thead>
<tbody>
<tr>
<td>Documentation</td>
<td>2 sets of documents/no lien for the mezz</td>
<td>2 sets of documents/2 liens</td>
<td>1 set of documents/1 lien</td>
</tr>
<tr>
<td>Debt Subordination</td>
<td>Yes - mezz facility is subordinated</td>
<td>No</td>
<td>FOLO waterfall upon triggering event</td>
</tr>
<tr>
<td>Lien Subordination</td>
<td>N/A</td>
<td>Yes – the 2nd lien is subordinated</td>
<td>FOLO waterfall upon triggering event</td>
</tr>
<tr>
<td>Remedies Standstill (“senior”)</td>
<td>None</td>
<td>None</td>
<td>FOLs from 0 – 90 days</td>
</tr>
<tr>
<td>Remedies Standstill (“junior”)</td>
<td>Sometimes claim / collection standstill for mezz lender</td>
<td>2nd lien for up to 180 days</td>
<td>LOLs from 60 – 90 days</td>
</tr>
<tr>
<td>Amendments and Waivers</td>
<td>Operate independently</td>
<td>Operate independently except for short list</td>
<td>A variety of voting constructs</td>
</tr>
<tr>
<td>Buyout Right</td>
<td>None</td>
<td>2nd lien has a buyout right</td>
<td>LOLs have a buyout right</td>
</tr>
<tr>
<td>Bankruptcy Provisions</td>
<td>Subordination agreement has few bankruptcy provisions</td>
<td>Intercreditor agreement has detailed bankruptcy provisions</td>
<td>AAL has select bankruptcy provisions</td>
</tr>
<tr>
<td>Pricing</td>
<td>Blended pricing is typically higher than 2 lien or unitranche</td>
<td>Blended pricing is typically less than mezz and close to, or slightly less than, unitranche</td>
<td>Pricing is typically less than mezz and close to, or slightly more than, 2 lien</td>
</tr>
</tbody>
</table>
Capital, cont’d…..

- **Asset managers**
  - Portfolio restrictions/diversity
  - buckets

- **Banks**
  - Money center, Regional, “small”
  - Risk Ratings
  - European, other
  - Lbc & Gordon Brothers (oppty/threat?)
Capital, cont’d…..

- Mezzanine anyone?
  - Is the “traditional” deal dead?
  - SBIC

- Equity
  - New investors?
  - Return expectations
Capital, cont’d…..

• Insurance companies
• Hedge funds
• Credit opportunity funds
• Private equity direct lending/debt purchasing
• Strategics
  – Trillions of cash
  – Stagnant growth
The Macro Environment

Back to our hero……

“There is no normal life, Wyatt, just life, so get on with it”
Global GDP

GDP per capita (inflation adjusted)

Year

$0

$5,000

$10,000

$15,000

$20,000

$25,000

$30,000

$35,000

USA

UK

Japan

Germany

China

India
China & India GDP only
Normal Anyone?
Normal Anyone?
55 years of inflation history

U.S. Inflation since the 1960s

Note: The data are quarterly. The data for the long-term trend start in 1985:Q1. PCE is personal consumption expenditures.

Source: U.S. Department of Commerce, Bureau of Economic Analysis; Federal Reserve Board staff calculations (see note 3 of speech text for additional discussion).
OPEC Declared Reserves

The diagram illustrates the declared reserves (in billions of barrels of oil) for various OPEC countries from 1980 to 2009. The countries included are Iran, Iraq, Kuwait, Saudi Arabia, UAE, Venezuela, and Qatar. The reserves show significant increases over the years, particularly for Iran and Iraq, with a notable spike for Iran in the early 1980s and for Iraq in the mid-1990s. The reserves for the other countries show more stable growth patterns over the period.
Maybe the most “normal” slide

Federal Funds Rate (effective)
1954-06 to 2014-05

Percent

Date
“Although I don’t foresee conditions in the banking sector getting as bleak as during the credit crunch of the early ‘90’s, the parallels to those events are striking……in the current situation, most banks are in pretty good shape”

Janet Yellen, December 11, 2007
“The sub prime market is too small to impact the broader economy”

March, 2007 Large bank economist at TMA Chicago breakfast program
Time to be fearful or greedy?

- What aren’t we talking about that you think we should be talking about?
- What scares you most?
- What early warning signs are you seeing?
- Where looking to invest?
- Asset Valuations
Fed Takes Firm Position

“Global economic weakness won’t likely be significant enough to deter the fed from raising key short term rates from zero by December”

Janet Yellen message, Sept 24, 2015
Déjà vu all over again

“…..But if the economy surprises us, our judgements about appropriate monetary policy will change”

Janet Yellen message, Sept 24, 2015
last sentence of her speech, literally!
Rates

- How can we afford a stronger dollar?
- predictions
Industries

• Oil & Gas
• Automotive
• Retail/Consumer
• Other
So where do purchase price multiples go in near term?
When does the bubble burst?
Don’t find yourself waiting for Godot

- The world is awash with capital and that is not going to change anytime soon.
- We’re in a global economic environment we’ve never seen before.
- Uncertainty abounds
How to be a Huckleberry