



2017 Wannamoisett Forum

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LOOK-BACK AT 2016

- ▶ 2016 marked the 2nd consecutive annual decline in middle market M&A volume; declining by 11% after a 17% decline in 2015.
- ▶ While 2016 may have had lower volume, high performing companies that exceeded competition saw a lot of buyer interest (similar across all industry groups).
- ▶ Valuations increased from ~8.0x in 2015 to ~8.6x in 2016.
- ▶ The deals that saw the largest increase in EBITDA multiples were those transactions with a purchase price in the \$100-250 million range, averaging 10.2x (i.e. \$10mm EBITDA).
- ▶ Globally, M&A volume peaked in 2015. But through the third quarter of last year, there was nearly \$1.7 trillion in M&A value, representing a 10 percent increase compared with the prior-year period.

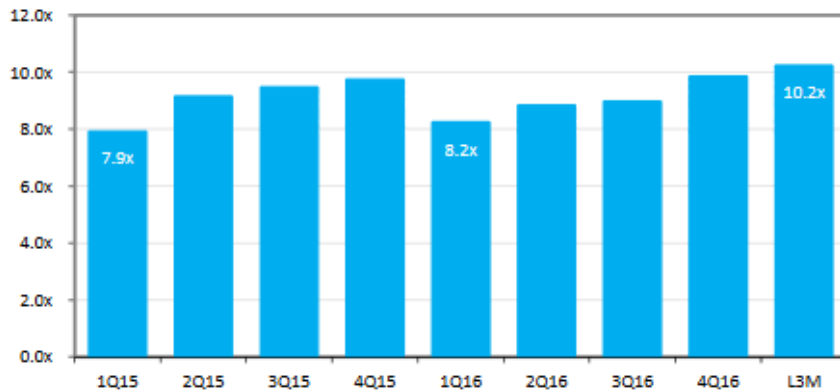
New England Middle Market

- ▶ 101 fewer deals in 2016 than 2015
- ▶ Average amount invested per deal was 7.6% greater than 2015.

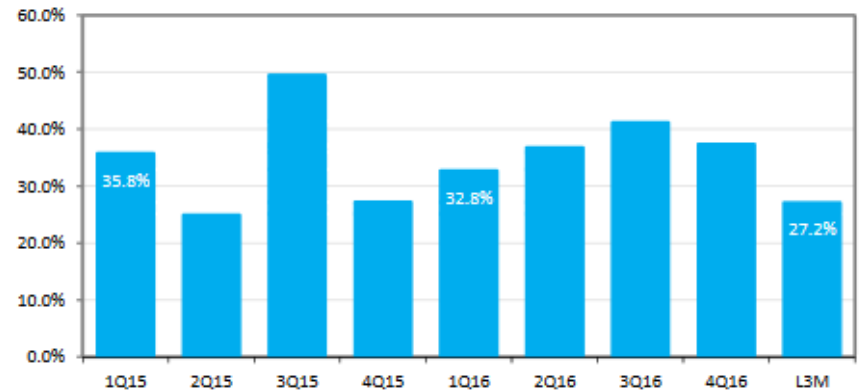
MIDDLE-MARKET M&A TRENDS

US Middle Market Monitor

MEDIAN EV/EBITDA



MEDIAN PREMIUM*

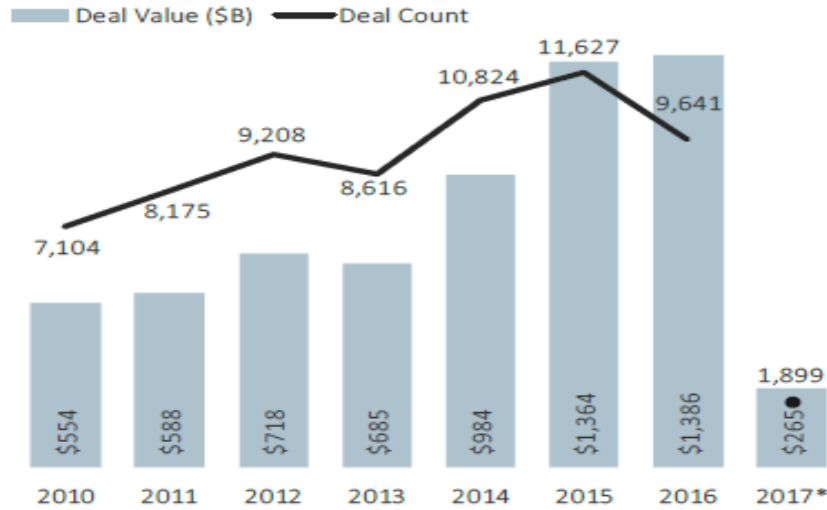


*Middle Market defined as deals valued between \$1 million and \$500 million

* "Premium" is the difference between the estimated real value of a company and the actual price paid to obtain it

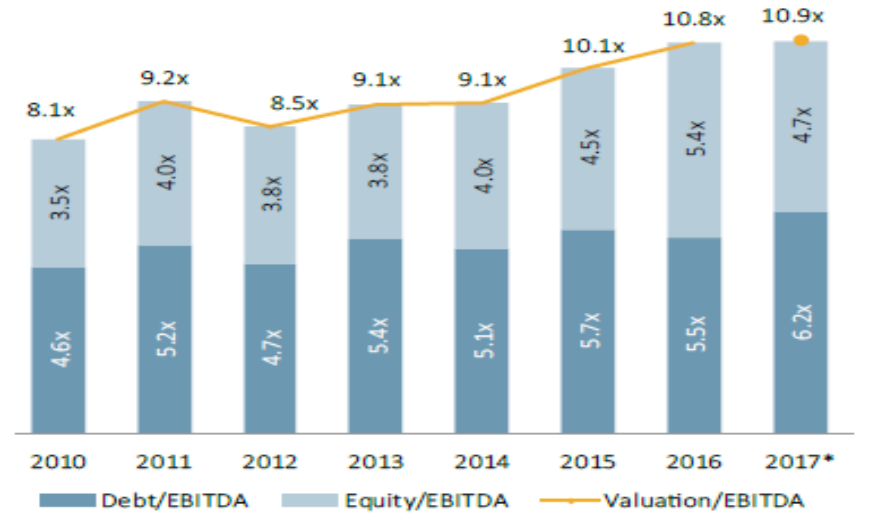
M&A TRENDS

US M&A activity



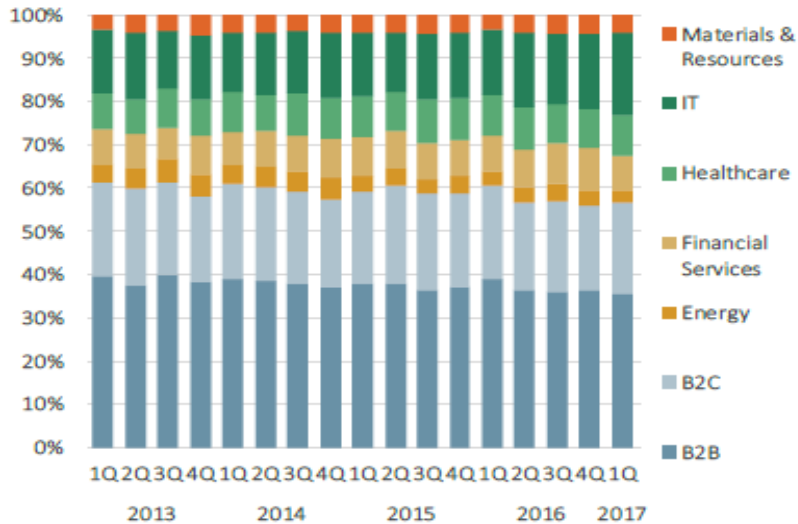
Source: PitchBook
*As of 3/31/2017

US EV/EBITDA multiples

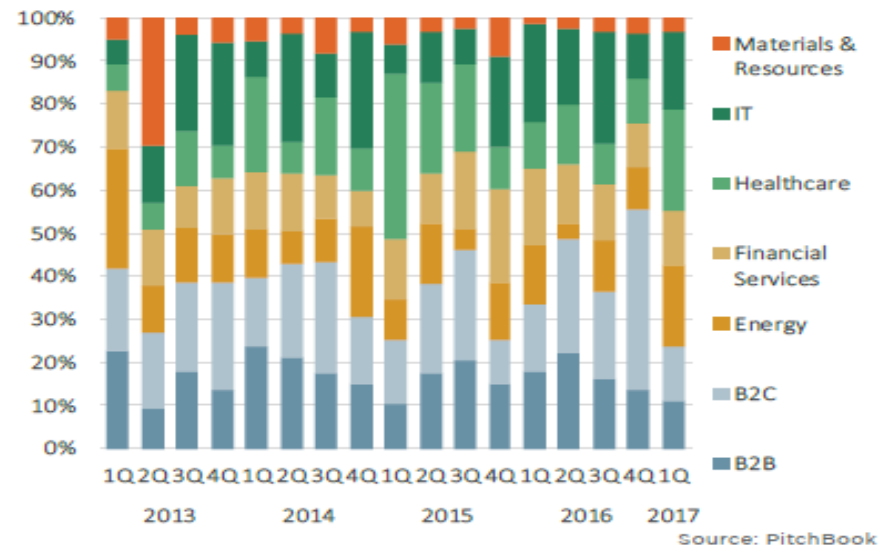


Source: PitchBook
*As of 3/31/2017

M&A activity (#) by sector



M&A activity (\$) by sector



2017 OUTLOOK

- ▶ Year End 2016 picked up steam and 2017 is looking to follow suit.
- ▶ Experts expect a recovery in deal volume
 - ▶ Optimism about the economy has increased 18% since the election, as business leaders anticipate tax and regulatory relief;
 - ▶ Potential for more traditional conservative agenda – tax cuts, deregulation and increased spending on infrastructure / defense;
 - ▶ Trump's Tax Plan:
 - ▶ Tax cuts for high-income earners equal to nearly 19% of after-tax income;
 - ▶ Capital gains rate capped at 20%;
 - ▶ No federal estate and gift taxes;
 - ▶ Reduced corporate tax rate to 15%.
 - ▶ baby boomer business owners seeking a liquidity event.
- ▶ Strong US stock market performance/stability pushed multiples to 10.8x in Q1 2017 from 10.2x in Q4 2016.
- ▶ Unemployment rate is a good indicator of market strength – lowest rate since 2008
- ▶ Some have estimated that 65%-75% of all “small businesses” in the U.S., 4,000,000 of which are Baby Boomer-owned companies, will put themselves up for sale during the next 10 years.
- ▶ Retiring Boomer business owners will sell or bequeath \$10 trillion worth of assets over the next two decades.

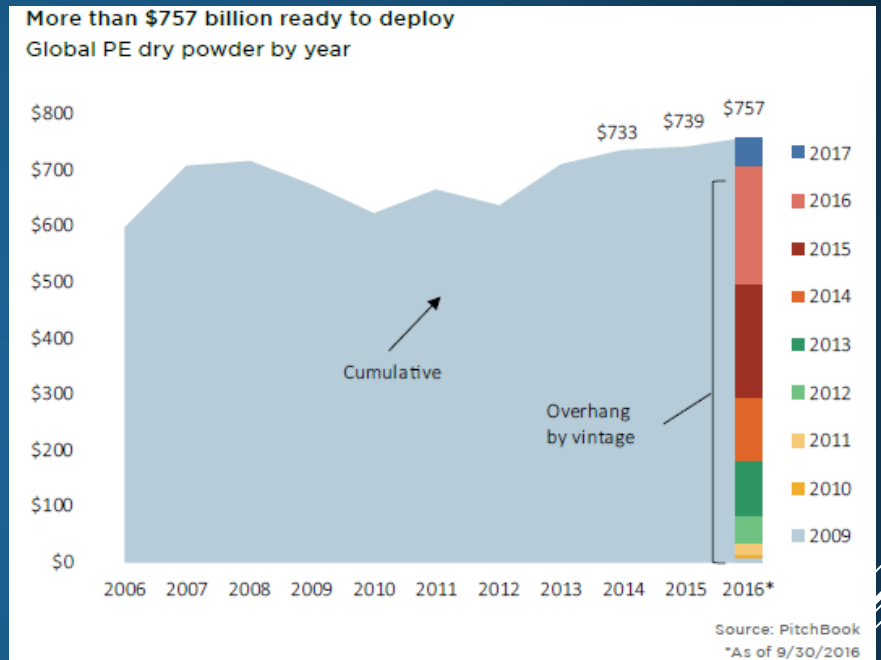
Is This The Right Time for You and Your Company?

State of Your Company

- ▶ Define growth and capital needs for next 5 years – debt/CAPEX
- ▶ Retirement and family succession planning
- ▶ Health and family
- ▶ Personal and company specific goals, including philanthropy and personal “bucket lists”
- ▶ Tax planning

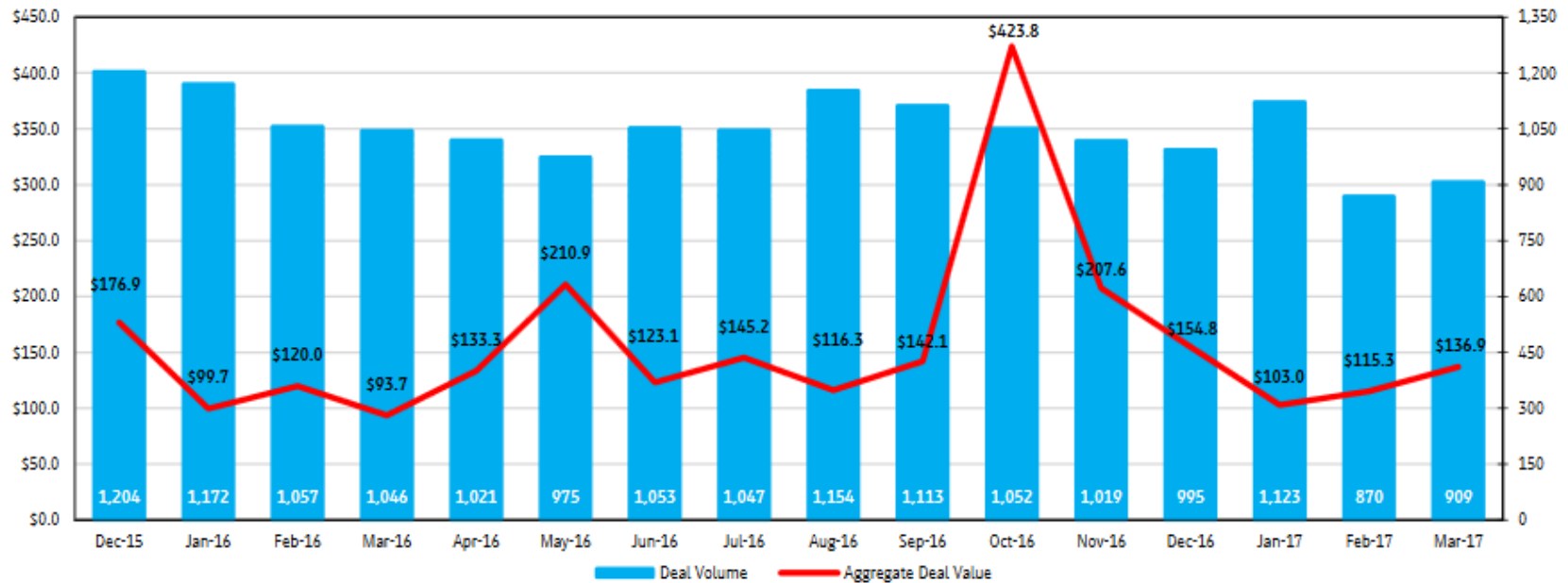
Is This The Right Time for You and Your Company?

- ▶ Lower Buyer RoE expectations has expanded multiples.
- ▶ Private equity sponsors have record amounts of capital to invest (a/k/a “dry powder”) and strategic buyers have record cash on their balance sheets.
- ▶ Financial institutions and “non-bank lenders” have capital that needs to earn returns; debt for good deals is still competitively priced and widely available.
- ▶ Financial covenants are still flexible for permissible leverage (4x1 in mid-market deals) but starting to tighten.
- ▶ Based on the above – the mid-market “window” although starting to cool off at higher mid-market, has grown throughout 2015 and Q1 2017.



Is This the Right Time to Sell?

The US Mergers & Acquisitions Market Index



You have built a great business, but have you sold many great businesses?

Preparing for your “Deal”

Key Focus Points:

Preparation should begin as much as 18 months prior to actual deal opening to maximize your valuation, minimize delay and ensure a successful outcome.

- ▶ Assemble the key internal management team to assess – valuation, expectation, market, future succession, key employee retention and prepare information for the sale process.
- ▶ Assess how an asset can best be packaged for sale – estate and wealth management planning
- ▶ Identify potential risk issues/trouble spots that may need attention
- ▶ Complete internal due diligence, sell-side Q of E, audits, set up data rooms, etc. – time is critical
- ▶ Prepare to communicate to the larger team that the company is preparing for a transaction

How Will a Buyer Value My Business?

Typical Methodologies for Mid-market Private Companies

- ▶ Majority of mid-market buyers use enterprise/equity valuation methodology - Multiple of TTM Adjusted EBITDA = Enterprise value less debt plus excess cash = Equity value
- ▶ Discounted Cash Flow, for high growth where TTM does not value notable rapid ramp up
- ▶ Other valuation methods – weighted comps, PE arbitrage
- ▶ “Adjusted EBITDA” - GAAP earnings before interest, taxes, depreciation, and amortization revised to exclude the effects of nonrecurring items of revenue or gain and expense or loss including excess owner compensation and benefits
- ▶ Free Cash Flow = operating cash flow minus maintenance capital expenditures – considered where CAPEX does not equal annual depreciation

Other Key Value Factors to Negotiate

- ▶ Net Working Capital – e.g. prepaids, deposits, and setting the peg – seeing many issues here – clarify at LOI
- ▶ Liabilities – e.g. pending litigation, pensions
- ▶ Deal Structure – impacts peg for buyer and seller - e.g. capital gains or ordinary income – step up in basis heavily negotiated
- ▶ Leverage drives returns, drives multiples up or down.
- ▶ Same business can be worth significantly more in one year vs. another
- ▶ Real Estate considerations

KEY POINTS IN EVERY DEAL

- ▶ Valuation/method?
- ▶ Purchase price paid at closing vs. earn out or required PE/financial buyer “rollover equity”
- ▶ GAAP or not GAAP - need to be consistent with past practices
- ▶ Reconcile seller to buyer to avoid disputes post-closing
- ▶ Examples:
 - NWC
 - Revenue redemption
 - Inventory reserves
- ▶ Indebtedness and financial reps - no projections and beware the word “prospects” and “prospective”
- ▶ IP rep – “knowledge battle”
- ▶ Indemnity Package
 - Cap/Deductible
 - Time limit
 - Deductible
 - Escrow
 - Pro-seller vs. pro-buyer
 - Rep and Warranty Insurance – Game Changer



DeWal Industries, Inc., a leading manufacturer of high-performance polymer films and pressure sensitive tapes, has been acquired by Rogers Corporation.



NYSE:ROG

Duffy & Sweeney served as counsel to DeWal Industries, Inc. and its shareholders.



Atrion Holdings, Inc., the parent company of Atrion, Inc., a leading IT services firm, has been acquired by Carousel Industries of North America, Inc.



Duffy & Sweeney served as counsel to Atrion Holdings, Inc. and its shareholders.



HTP-Meds, LLC, Hi Tech Machine and Fabrication, LLC, and HTP-Biomerics Medical LLC, have been acquired by Hitachi Metals America, LLC.



TSE: 5486

Duffy & Sweeney served as counsel to the members of HTP-Meds, LLC, Hi Tech Machine and Fabrication, LLC, and HTP-Biomerics Medical LLC.



National Glass & Gate Service, Inc. has been acquired by Miner Fleet Management Group, LLC, a subsidiary of Material Handling Services, LLC which is a portfolio company of CI Capital Partners.



Duffy & Sweeney served as counsel to National Glass & Gate Service, Inc.



Isle Brewers Guild has acquired, developed and financed a state-of-the-art brewery and packaging facility using RIIFC/IRBA and USSBA backed financing.

Duffy & Sweeney served as counsel to Isle Brewers Guild.



Vanguard Renewables LLC has developed its closed loop, farm-based energy-producing anaerobic digestion facilities in MA.

Duffy & Sweeney served as counsel to Vanguard Renewables LLC.



Liberty Title & Escrow Co. has been acquired by a national, publicly traded title insurance company.

Duffy & Sweeney served as counsel to Liberty Title & Escrow Co.



Rhode Island Textile Company has acquired its new corporate headquarters and added manufacturing facilities in Cumberland, RI and in Landrum, SC.

Duffy & Sweeney served as counsel to Rhode Island Textile Company.



Rhode Island independent CPA firm LGC&D, LLP has combined with Citrin Cooperman, a national accounting firm with offices throughout the Northeast.



CITRIN COOPERMAN

Duffy & Sweeney served as counsel to LGC&D, LLP.



WASHINGTON TRUST®

The Washington Trust Company completed a multi-facility financing for construction of a major medical office facility in New England.

Duffy & Sweeney served as counsel to Washington Trust.



Duffy & Sweeney represented a leading Rhode Island manufacturer in a \$50 million redemption and recapitalization, including several foreign affiliated entities.

Duffy & Sweeney served as counsel to the company and the remaining continuing shareholder.



Rumford Center has completed financing and commenced construction of a new 80-unit apartment building adding to the mixed-use commercial and residential campus in Rumford, RI.

Duffy & Sweeney served as counsel to Rumford Center.

CELEBRATING
20
YEARS

DUFFY & SWEENEY, LTD
BUSINESS LAW & LITIGATION

Representative Transactions

Experience. Value. Results.

Dallas Spring  **EAGLE**

Dallas Spring Canada and Eagle Suspensions and affiliated entities have been sold to AEA Investors, a New York-based private equity group.

AEA

Duffy & Sweeney served as counsel to the shareholders of Eagle Suspensions and Dallas Spring.

gencorp
INSURANCE GROUP

Gencorp Insurance Group has been acquired by the Hill Group, a portfolio company of HRF Partners.

ABRY
PARTNERS

Duffy & Sweeney served as counsel to Gencorp Insurance Group.

EAGLE AMERICA, INC.

Eagle America, Inc. of Rhode Island has been acquired by Dixon Value & Coupling, Co. of Maryland.

DIXON

The Right Connection™

Duffy & Sweeney served as counsel to Eagle America, Inc.

HFP-MEDS
A Hittachi Medical Company

HFP Meds, LLC, Hi Tech Machine and Fabrication, LLC, and HFP Biometrics Medical, LLC, have been acquired by HITACHI MEDICAL AMERICA, LLC.

HITACHI
Inspire the Next

TSE 1466

Duffy & Sweeney served as counsel to the members of HFP Meds, LLC, Hi Tech Machine and Fabrication, LLC, and HFP Biometrics Medical, LLC.

MST
MATERIALS SAMPLING TECHNOLOGIES
ACCURACY. INTEGRITY. CONFIDENCE.

Materials Sampling has been acquired by LEO Corporation.

LKQ
OEM Recognized • Aftermarket by Keylines

Duffy & Sweeney served as counsel to the majority shareholder of Materials Sampling Technologies.

WASHINGTON TRUST
NASDAQ: WASH

Halsey Associates Incorporated has been acquired by Washington Trust Bancorp, Inc.

HALSEY ASSOCIATES

Duffy & Sweeney served as counsel to Washington Trust Bancorp, Inc.

THE MATLET GROUP

The Matlet Group, a leading packaging company doing business worldwide, has completed a recapitalization.

Duffy & Sweeney served as counsel to The Matlet Group.

ximedica
Living Innovation™

Ximedica, LLC has been acquired by SV Life Sciences, an international life sciences venture capital firm.

SV Life Sciences

Duffy & Sweeney served as counsel to Ximedica, LLC and its equity holders.

Neptune-Benson

Neptune-Benson, a recognized leader in the design and manufacture of aquatic components, has been acquired by The Aubus Group.

Aubus Group

Duffy & Sweeney served as counsel to Neptune-Benson.

NHC

Newport Harbor Corporation, a leading employer owned hospitality company, has acquired the restaurant chain Papa Razzi.

PAPA-RAZZI
TRATTORIA • BAR

Duffy & Sweeney served as counsel to Newport Harbor Corporation.

NuLabel TECHNOLOGIES

NuLabel Technologies has completed multiple offers of preferred and common stock to facilitate research and development of the commercialization of new intellectual property.

Duffy & Sweeney served as counsel to NuLabel Technologies.

GHM

Global Management has completed over ten acquisitions of hotels in New England that significantly advanced its properties holdings.

Hilton **Best Western** **Days Inn**

Duffy & Sweeney served as counsel to Global Management, LLC.

POLYTOP

Polytop, an innovative leader in the design and manufacturing of dispensing devices, has been acquired by MedFlowtron Corporation, a global leader in packaging solutions.

MWV

Duffy & Sweeney served as counsel to Polytop Corporation.

DENISON pharmaceuticals

Denison Pharmaceuticals, an over the counter pharmaceutical manufacturer, has been acquired by Brookstone Partners.

BROOKSTONE PARTNERS
Private Equity Investors

Duffy & Sweeney served as counsel to Denison Pharmaceuticals.

BENRUS
★ ★ ★

Gr Asset Management, LLC has acquired Benrus from M.Z. Berger & Co.

MZB

Duffy & Sweeney served as counsel to Gr Asset Management, LLC.

Economy Spring and Stamping

Economy Spring & Stamping has been acquired by Matthew Warren Inc., the second largest manufacturer of springs and specialty fasteners in North America.

MW INDUSTRIES

Duffy & Sweeney served as counsel to Economy Spring and Stamping.

Atrion

Atrion Holdings, Inc., a leading IT services provider, has acquired Atrion Networking Corporation and Jamon Corporation.

Duffy & Sweeney served as counsel to Atrion Holdings, Inc.

AMERICAN RULING

American Ruling, Inc. has been acquired by an affiliate of Graham Capital Company.

G

Duffy & Sweeney served as counsel to the shareholders of American Ruling, Inc.

WH WASTE HAULERS

Waste Haulers, LLC has sold its material and waste collection business to Waste Management, Inc.

WM WASTE MANAGEMENT

Duffy & Sweeney served as counsel to Waste Haulers, LLC.

inMusic

inMusic Brands has acquired the operating assets and trademark license of global brand Denon. Monitors for use in the professional audio space.

DENON marantz professional

Duffy & Sweeney served as counsel to inMusic Brands, Inc.

ORCO

Organic Dyes and Pigments solutions for all industries.

Organic Dyes & Pigments has been acquired by Castle Island Partners, LLC.

CASTLE ISLAND PARTNERS, LLC
Creating Strategic Investment Opportunities in Global Growth Markets

Duffy & Sweeney served as counsel to Organic Dyes & Pigments Corporation.

Numark

Numark has acquired 100 Professional from Solitika.

ALTO PROFESSIONAL SEIKAKU

Duffy & Sweeney serves as general counsel to Numark Industries and its affiliates.

STIRRINGS
Simply Better Cocktails

Stirrings, LLC has been acquired by Diageo, NA, an international alcoholic spirits and beverage manufacturer.

DIAGEO
NYSE: DDO

Duffy & Sweeney served as counsel to Stirrings, LLC.

WASHINGTON TRUST
NASDAQ: WASH

The Washington Trust Company has sold its merchant services business to Vantiv.

vantiv

Duffy & Sweeney served as counsel to The Washington Trust Company.

METS UV Technology

Engineering Treatment Systems has been acquired by Neptune-Benson, a portfolio company of Aubus Group.

Neptune-Benson **Aubus Group**

Duffy & Sweeney served as counsel to Engineering Treatment Systems.

ADC American Dryer Corp.

American Dryer Corporation has been acquired by Stonebridge Partners.

STONEBRIDGE PARTNERS

Duffy & Sweeney served as counsel to American Dryer Corporation.

SIMS METAL MANAGEMENT

Sims Metal Management, Inc. has acquired and developed its export and material processing facilities in Providence, RI.

Duffy & Sweeney served as counsel to Sims Metal Management, Inc.

For more information regarding our corporate and mergers and acquisitions practice, please contact:
Michael Sweeney 401.457.1801, Jean Harrington 401.457.1809, Joshua Celeste 401.457.1806