BDO CAPITAL ADVISORS, LLC

"Trusted Investment Bankers for the Middle Market"

HORIZONS - NORTH AMERICA

AN EXCERPT FROM BDO'S GLOBAL VIEW OF MID-MARKET DEAL ACTIVITY

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BIG PICTURE

- Mid-market deals fell 29% in Q1 2016 compared to Q1 2015 and decreased 28% from the prior quarter
- The dollar value of mid-market deals fell 5% in Q1 2016 compared to Q1 2015 and decreased 16% from the prior quarter
- Concerns over the global economy, equity market volatility, and the strong dollar negatively impacted activity
- Cross-border and inbound activity reduced significantly
- The Energy, Oil, & Mining sectors were particularly weak – but all sectors down

Mid-Market M&A is down significantly but this is likely to be a lagging indicator.

North American mid-market M&A activity slowed during the first quarter of 2016, continuing the downward trends of 2015. Market participants are concerned that the M&A cycle peaked in mid-2014 and that the hypothesis that market weakness in 2015 was only temporary or a mild correction is not playing out.

The North American capital markets in Q3 2015 and Q1 2016 were dominated by headlines of volatile equity markets and soft corporate debt markets, typically a foreshadowing of slower M&A activity.

Lower than expected GDP growth in China, coupled with a strong U.S. dollar, has negatively impacted corporate earnings and exports. Market volatility, along with a troubling world macro environment, terrorism, and a U.S. election year cycle are fueling a great deal of uncertainty and slowing the pace of deal activity.

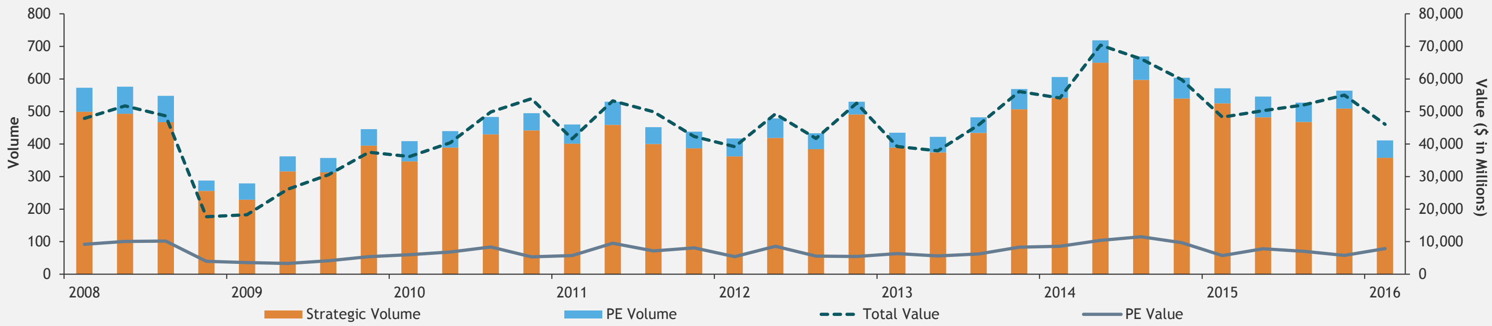
Additionally, many large serial acquirers are either working to complete or are digesting recent acquisitions. Last year, large-scale deals occurred across many industries, and those corporate mega-mergers reshaped the competitive dynamics of certain markets, so it is not surprising to see M&A activity take a breather while a rebalancing takes effect.

MARKET VOLATILITY

Severe equity and commodity market volatility in January disrupted acquisition plans and dampened corporate CEO confidence, which resulted in a stagnated and depressed M&A market for the first quarter. Most equity indices saw drops of 20 percent or more to start the New Year and the debt markets tightened at all levels. In addition, oil prices reached new lows, fueling further concerns of deflation amid a contagion of commodity devaluation. The initial trigger for the volatility in the quarter was once again China, where the government's own GDP estimates missed the mark. Fears over China's slowdown and subsequent falling demand for raw materials, coupled with excess supply, meant a further step down for commodity prices – particularly oil, which hit $27 a barrel in February, a 15-year low.

Market volatility poses some practical challenges for the M&A markets. Valuation is obviously much harder to agree on and ascertain when prices are fluctuating so rapidly. Debt markets tend to turn far less liquid and lenders more cautious in volatile times as bankers wait for the storm clouds to clear.

STRATEGIC AND PRIVATE EQUITY M&A VOLUME AND VALUE



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RECOVERY ON THE WAY?

Ironically, increasing M&A activity is a rational response to the current volatility. The uneasiness the markets experienced in the first quarter was primarily driven by economic concerns such as slow growth, low inflation and excess supply. CEOs are facing enormous pressure to maintain corporate earnings growth. Competitive forces such as sector convergence and changing consumer patterns are adding to the challenges companies are facing. Growing, if not just sustaining, free cash flow has become more difficult. Most North American companies remain cash-rich, with low debt and historic purchasing power and it's only rational for these companies to take action. Volatility might turn companies off mega-deals, but doing nothing simply isn't an option for companies when their earnings, and even their entire business model, are under immense pressure. Add in lower valuations and nervous sellers that may see the window of opportunity closing, and a significant recovery in middle market M&A is a distinct possibility. A further silver lining is that towards the end of the first quarter, the equity and commodity markets stabilized and began to recover. In fact, by the end of March, most market prices recovered to levels seen at the start of the quarter – erasing many of the doomsday scenarios prognosticators spoke of in mid-January.

Meanwhile, the market jitters and uneven economic data caused the U.S. Federal Reserve to delay any further interest rate hikes – further buoying the market recovery and bolstering hopes for better M&A activity ahead as maintaining low interest rates is key to any M&A market bounce-back. The Federal Reserve decided not to raise rates in March despite strong U.S. unemployment figures. Weak domestic inflation on the Federal Reserve's preferred measure was part of the story, but the Federal Reserve also pointed to "recent global economic and financial developments" that may have the potential to restrain economic activity and "put further downward pressure on inflation in the near term".

LOOKING AHEAD

Given recent market stability and recovery in the commodity sector, the M&A markets are poised to improve dramatically from the malaise experienced in the first quarter. Low interest rates, accommodating central banks, and cash-rich corporates looking to grow beyond meager organic means will lead the resurgence, while private equity firms will continue to support overall activity levels for the balance of the year.

NORTH AMERICA HEAT CHART BY SECTOR		
Technology & Media	397	18%
Industrials & Chemicals	369	17%
Pharma, Medical & Biotech	338	16%
Energy, Mining & Utilities	327	15%
Business Services	296	14%
Consumer	173	8%
Financial Services	171	8%
Leisure	76	4%
TOTAL	2,147	100%

NORTH AMERICA MID-MARKET VOLUMES BY SECTOR