



Middle:Market:Pulse

EXECUTIVE BRIEFING

Mergers, Acquisitions and Capital Resources Since 1956

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In the Middle Market M&A world, many factors enter into the ultimate success of selling a business, not the least of which are deal structure and financing options. Q4 2010 debt metrics remains relatively unchanged from that of the third quarter and show that the modest improvements in the capital markets we saw in 2010 continue. A case can be made... no new news is actually good news.

When a deal is being structured, one of the key decisions that an acquirer makes is how to blend the debt and equity components. When the capital markets dried up during 2008 and 2009, the percentage of equity in completed transactions hit levels not seen in years. In order to purchase good, quality companies, buyers were contributing more and more of their own cash to the deal. In the second quarter of 2009 we saw average equity contributions reach near 60%. The balance of the deal structure was usually a combination of senior and mezzanine debt. These high levels of equity contributions were a direct result of the limited capital available in the market. As lending has slowly improved, we are now seeing the blend of debt to equity more equally balanced.

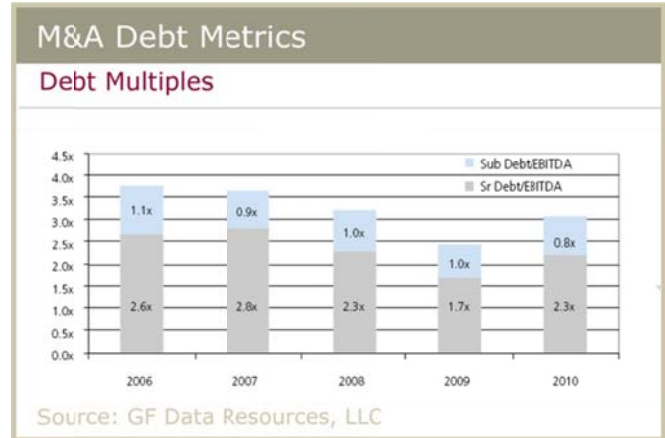


Figure 1

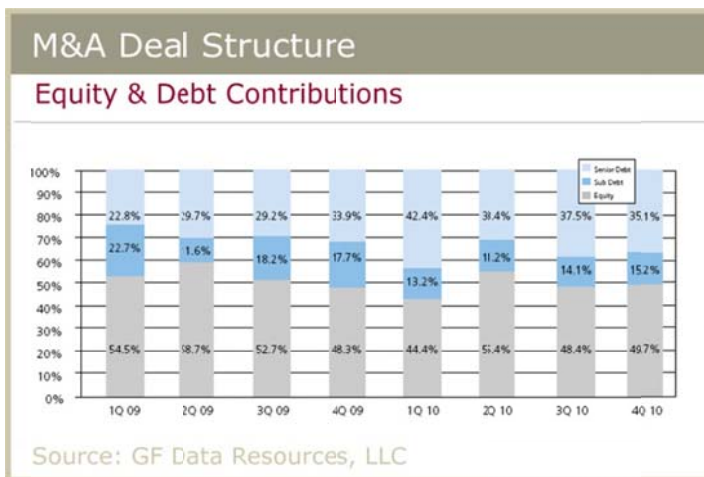


Figure 2

While there has been an improvement in the availability of capital in the marketplace, the price of that capital does not yet reflect the improving conditions. In Q4 2010 average initial price on senior debt remained at 7.1%, or LIBOR plus 6.8%. These are similar figures seen throughout 2009 and 2010. During the peak of the M&A boom in 2006 and 2007, senior debt pricing was approximately LIBOR plus 2.5%, so the spread is still relatively wide. With conditions continuing to improve we would expect to see the LIBOR spread narrow and price of capital respond accordingly.

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NOTICE:

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