



MERIDIAN CAPITAL MIDDLE MARKET M&A SNAPSHOT – Q3 2015

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M&A OUTLOOK

Each quarter Meridian Capital publishes its Middle Market M&A Snapshot that focuses on key trends in Middle Market M&A. The Q3 2015 Newsletter addresses new developments in the debt and equity markets and discusses the merits of a minority recapitalization.

In 2015, private equity firms, strategics, and subordinated debt lenders continue to have significant un-invested capital that they wish to deploy. Given the competitive marketplace, equity and debt investors have increased their appetites for “alternatives investments”. The favorable market dynamics have driven an upswing in M&A activity and are providing business owners with attractive alternative liquidity options. In the right situation, a minority recapitalization can be a powerful tool for shareholders to benefit from strong valuations, readjust the capitalization table, and provide capital for further growth.



Minority Recapitalizations Can Be A Powerful Tool For Shareholders

Macroeconomic Trends and Monetary Policy

In the first half of 2015, the major domestic economic indicators – inflation, unemployment, consumer spending, and the price of oil – all moved in a positive direction. Economists are projecting accelerated domestic GDP growth of 2-3% for both 2015 and 2016. However, the global economy remains lackluster with central banks outside of the United States responding with a massive use of quantitative easing, leading international interest rates to plummet. In Europe, the possibility of Greece exiting the eurozone has caused yields on many sovereign bonds with a 9-year or shorter duration to turn negative for the first time. The low interest rate environment continues to encourage investors who are seeking yield to move up the risk curve and target alternative investment assets.

More Flexibility, More Leverage, More Options

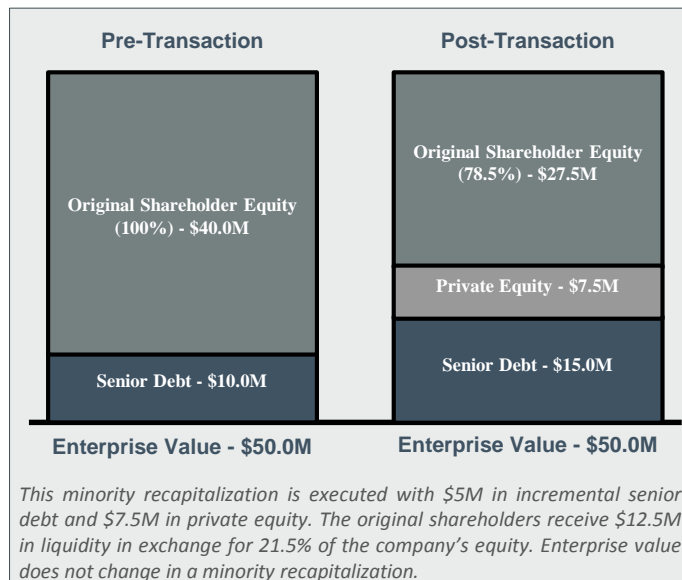
Investors are piling into high yield bonds, leveraged loans, second lien, and mezzanine debt causing yields on those assets to drop. The competitive dynamics favor borrowers who are now able to obtain financing at lower rates with more friendly terms, increased leverage, and less stringent covenants. The capital markets have been buoyed by BDCs, CLOs, and traditional institutional investors’ increased appetite for leveraged loans and their desire to move down the capital stack to find higher yielding assets.

Simultaneously, private equity firms are facing an increasingly competitive marketplace and, at times, are challenged to find quality investments to deploy capital. Private equity firms are turning to creative deal structures and are increasingly receptive to minority investments in quality companies. The current market dynamics present an attractive opportunity for entrepreneurs who are seeking near-term liquidity without sacrificing majority control or future equity upside.

The Nuts & Bolts of Minority Recapitalizations

In minority recapitalizations, a business owner converts a portion of the company’s equity into liquidity for shareholders or growth capital while continuing to maintain a majority ownership position. The company raises debt typically with the support of a private equity or subordinated debt sponsor eliminating the requirement that the business owner personally guarantee the financing. The debt and equity proceeds are used to purchase shares from the existing

shareholders at a market valuation. The resulting capital structure leaves the existing shareholder with a controlling interest in the business. An example is shown below.



The key benefits of a minority recapitalization include: (i) increased access to capital to support growth, (ii) increased ability for shareholders to diversify wealth, (iii) likely removal of personal guarantee on debt, (iv) ability to take chips off of the table at a strong market valuation, (v) alignment of personal and business risk tolerance, (vi) access to operational experience.

Maintaining Control and Liquidity

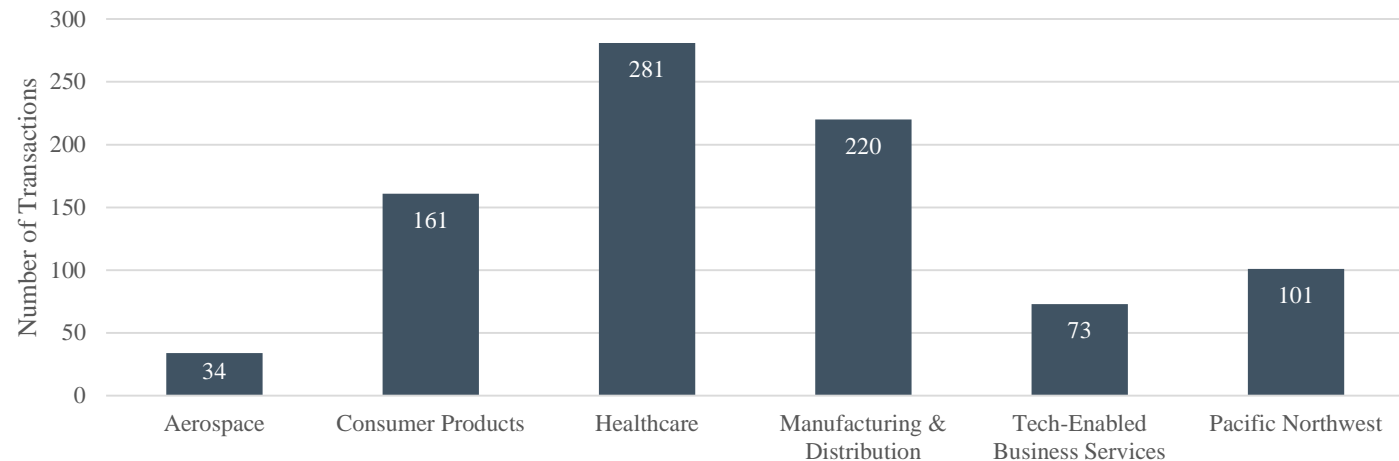
A minority recapitalization is a great solution for business owners who want to diversify and de-risk their portfolios by taking chips off the table while retaining equity and allowing the potential for a “second bite of the apple” during a future M&A event.

It can also be employed by shareholder groups who have diverging short and long term interests. For example, a minority recap can provide one shareholder with liquidity at a market price while the remaining shareholders maintain, or even increase, their equity position. This can be particularly beneficial for buyouts of inactive shareholders or for management buyouts.

Meridian Capital can help determine if a minority recapitalization is the right structure for your situation and, if so, help facilitate the transaction.

Middle Market M&A: Select Recent Transactions

April 2015 – June 2015 Transaction Activity in Meridian’s Core Industries and the Pacific Northwest



Select Pacific Northwest Transactions

Date	Target	Description	Buyer
06/26/2015	Icicle Seafoods, Inc.	Seafood wholesaler	Dominion Catchers, LLC; Convergence Holdings, Inc.
06/25/2015	Zonar Systems, Inc.	Software solutions for transportation companies	Daimler Trucks North America LLC
06/23/2015	Radiant Vision Systems, LLC	Machine vision test and measurement solutions	Konica Minolta, Inc. (TSE:4902)
06/16/2015	Unisource Manufacturing, Inc.	Manufactures industrial hoses, accessories, and flexible connectors	Singer Equities, Inc.
06/08/2015	TetriDyn Solutions, Inc.	IT solutions for the healthcare industry	Ocean Thermal Energy Corporation
06/03/2015	Blue Box Group, Inc.	Cloud hosting and managed services	International Business Machines Corporation (NYSE:IBM)
06/01/2015	FabTrol Systems, Inc.	Steel fabrication management software for steel companies	AVEVA Group plc (LSE:AVV)
05/26/2015	Peaks & Plains, Inc.	Distributes medical supplies	Mi-Med Supply Co., Inc.
05/19/2015	Maritime Management Services, Inc.	Vessel management and crewing company	Crowley Maritime Corporation
05/13/2015	RANDYS Worldwide Automotive	Distributes automotive aftermarket parts and components	Linsalata Capital Partners
05/12/2015	Liberty Welding Supply Inc.	Supplies welding and industrial gases, supplies, and equipment	Airgas, Inc. (NYSE:ARG)
04/22/2015	Timbersled Products Inc.	Manufactures snowmobile and snow bike products	Polaris Industries Inc. (NYSE:PII)
04/16/2015	Heritage Assisted Living, Inc.	Operates retirement homes	The Ensign Group, Inc. (NasdaqGS:ENSG)
04/15/2015	Intellibot Robotics LLC	Manufactures commercial robotic floor care equipment	Sealed Air Corporation (NYSE:SEE)
04/08/2015	Tool Supply, Inc.	Industrial distributor	DXP Enterprises, Inc. (NasdaqGS:DXPE)
04/07/2015	Critical Intelligence, Inc.	Cyber situational awareness and threat intelligence services	iSight Security, Inc.
04/07/2015	Pointmarc, LLC	Data-related solutions	Merkle Inc.
04/01/2015	Carlson Formetec	Manufactures titanium parts for the aerospace industry	Omada International, LLC
04/01/2015	Connect-Air International, Inc.	Manufactures low voltage wires and cables for HVAC, security, and fire alarm system applications	EIS, Inc.

Middle Market M&A: Select Recent Transactions (continued)

Aerospace

Date	Target	Description	Buyer	EV (M)
06/30/2015	Firstmark Corporation	Manufactures aerospace components and sub-assemblies	H-D Advanced Manufacturing Company	N/A
06/11/2015	Sheets Manufacturing Inc.	Manufactures engine cowlings and nose lipskins	GKN plc (LSE:GKN)	N/A
05/26/2015	StandardAero Business Aviation Services, LLC	Provides MRO services	Veritas Capital	N/A
05/05/2015	FMH Aerospace Corp.	Manufactures metal bellows, bellow joints, metal ducting, and metal hoses	Industrial Growth Partners	N/A
04/14/2015	Kellstrom Materials	Operates as a supply chain partner to provide components to air transport providers and MROs	AE Industrial Partners, LLC	N/A

Consumer Products

06/24/2015	One World Foods, Inc.	BBQ sauces, rubs, and marinades	McCormick & Company, Incorporated (NYSE:MCK)	\$100.0
06/10/2015	Cardinal Industries, Inc.	Toy company	Spin Master US Holdings, Inc.	\$69.5
06/09/2015	Garden Fresh Salsa Company, Inc.	Refrigerated salsa products	Wm. Bolthouse Farms, Inc.	\$231.0
05/20/2015	Billy Goat Industries, Inc.	Manufacturer of property and lawn power equipment	Briggs & Stratton Corporation (NYSE:BGG)	\$26.0
04/29/2015	Reed & Barton Corporation	Tabletop and home decor items	EMI, Inc.	\$22.2

Healthcare

06/29/2015	Spinifex Pharmaceuticals Inc.	Specializes in the discovery and development of drug candidates for the treatment and management of pain	Novartis International AG	\$200.0
06/19/2015	CardioInsight Technologies Inc.	A medical device company, develops a cardiac mapping technology to map electrical disorders of the heart	Medtronic plc (NYSE:MDT)	\$93.0
06/02/2015	X-BODY, Inc.	Develops monoclonal antibody therapeutics	Juno Therapeutics Inc. (NasdaqGS:JUNO)	\$42.8
04/20/2015	Spinal Modulation, Inc.	Develops medical devices for improving the lives of patients with chronic pain	St. Jude Medical Inc. (NYSE:STJ)	\$175.0
04/13/2015	Innocutis Medical, LLC	Specializes in the development of therapies and devices for the medical treatment of dermatological conditions	Cipher Pharmaceuticals Inc. (TSX:CPH)	\$48.5

Manufacturing & Distribution







06/29/2015	Protonex Technology Corporation	Manufactures power management products and portable fuel cell solutions	Ballard Power Systems Inc. (TSX:BLD)	\$30.0
06/19/2015	Sherwood Valve LLC	Manufactures precision valves and accessories	Mueller Industries Inc. (NYSE:MLI)	\$25.0
05/18/2015	Industrial Air & Gas Technologies	Distributes blower and compressor technologies for water treatment, chemical production, and power generation	Colfax Corporation (NYSE:CFX)	\$185.0
05/04/2015	PMFG, Inc. (NasdaqGS:PMFG)	Custom-engineered systems and products primarily for power generation and petrochemical processing markets	CECO Environmental Corp. (NasdaqGS:CECE)	\$157.4
04/13/2015	GPA, Specialty Substrate Solutions Inc.	Provides substrate solutions for offset, digital, and wide format printing	Fedrigoni S.p.A.	\$50.0

Tech-Enabled Business Services

06/28/2015	Mediaocean LLC	Software platforms for the advertising community	Vista Equity Partners	N/A
05/28/2015	Energy Solutions International Inc.	Software solutions and services to oil and gas, and energy transportation and storage markets	Emerson Process Management Limited	N/A
05/06/2015	Oltis Software LLC	Customized financial planning and client management solutions for financial services institutions and advisors	Envestnet, Inc. (NYSE:ENV)	\$32.4
05/05/2015	ColdLight Solutions, LLC	Predictive analytics software solutions	PTC Inc. (NasdaqGS:PTC)	\$103.8
04/06/2015	Imagitek, Ltd. (d/b/a Prodigio Software)	Business applications to automate processes in accounts payable, contract management, and case management	Gimmel LLC	N/A

Meridian Capital Overview

Select Recent Transactions – Meridian Capital

 <p>Provider of portable aerospace automation tools -Growth Capital-</p>   <p>MERIDIAN CAPITAL INVESTMENT BANKERS</p>	 <p>Manufacturer and distributor of abrasives and cutting tools -Acquired By-</p>   <p>MERIDIAN CAPITAL INVESTMENT BANKERS</p>	 <p>Manufacturer of private label apparel and accessories -Merged With-</p>   <p>MERIDIAN CAPITAL INVESTMENT BANKERS</p>	 <p>Manufacturer of precision machined components for the aerospace industry -Acquired By-</p>   <p>MERIDIAN CAPITAL INVESTMENT BANKERS</p>	 <p>Mexico-based provider of machining and special processing services -Acquired By-</p>   <p>MERIDIAN CAPITAL INVESTMENT BANKERS</p>
 <p>Designer and Distributor of Christmas Ornaments -Acquired By-</p>   <p>MERIDIAN CAPITAL INVESTMENT BANKERS</p>	 <p>Producer of bulk and bottled juice -Debt Financing-</p>  <p>MERIDIAN CAPITAL INVESTMENT BANKERS</p>	 <p>Manufacturer of hot tubs and spas -Acquired By-</p>   <p>MERIDIAN CAPITAL INVESTMENT BANKERS</p>	 <p>Full service crane rental and construction company -Acquired By-</p>   <p>MERIDIAN CAPITAL INVESTMENT BANKERS</p>	 <p>Tier I manufacturer of precision aerospace components -Acquired By-</p>   <p>MERIDIAN CAPITAL INVESTMENT BANKERS</p>
 <p>Provider of innovative workplace environments -Acquired By-</p>   <p>MERIDIAN CAPITAL INVESTMENT BANKERS</p>	 <p>Manufacturer of specialty glass compositions -Acquired By-</p>   <p>MERIDIAN CAPITAL INVESTMENT BANKERS</p>	 <p>Branded Athletic Shoes Sold by</p>  <p>-Acquired By-</p>   <p>MERIDIAN CAPITAL INVESTMENT BANKERS</p>	 <p>Designer of eco-friendly children's toys -Acquired By-</p>   <p>MERIDIAN CAPITAL INVESTMENT BANKERS</p>	 <p>Leading UK manufacturer of advanced ceramics -Acquired By-</p>   <p>MERIDIAN CAPITAL INVESTMENT BANKERS</p>

Services & Industry Sectors

Sales Process

- Strategic Sale
- Minority Sale
- Subsidiary Divestitures
- Succession Planning

Recapitalization

- Management Buy-Outs
- New Growth Capital
- Liquidity Events
- Alternative Debt

Buy-side Process

- Targeted Buy-Side
- Add-on Acquisitions
- Merger of Equals
- Vertical & Horizontal Acquisitions

Strategic Advisory

- Strategic Issues & Projects
- Ownership Transition Plans
- Corporate Finance
- Exit Strategy Assessment



Aerospace



Manufacturing and Distribution



Consumer Products



Healthcare



Tech- Enabled Business Services



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