



Newsletter

March

IS DEAL-MAKING STILL ALIVE?

The economic turmoil of 2008 had an adverse effect on M&A transactions. The number of transactions declined. Total Enterprise Value (TEV) multiple of Earnings Before Interest, Taxes on Income, Depreciation and Amortization (EBITDA) softened. Senior Debt as a percentage of EBITDA declined. The primary impact took place in the second half of 2008 and continues in 2009. Fortunately, the impact has not been as draconian as News Media reports predicted and the overall deal environment remains upbeat for progressive companies.

MULTIPLES

Yes, deal volume declined by approximately 32% in 2008 as compared to 2007[1]. The average overall TEV/EBITDA decline was small, generally 6.1x to 5.9x. We believe that the relative strength of this valuation multiple was the result of quality companies with good growth potential remaining on the sidelines, with less desirable companies remaining on the sidelines. Over the years, Janas Associates has achieved Recast EBITDA multiples that are higher than market multiples.

[1] GF Data Resources LLC provides data on private equity-sponsored M&A transactions with enterprise values of \$10 to \$250 million.

FINANCING

Business people are acutely aware of the credit markets freeze. This lack of availability of debt capital impacted M&A transactions. In the 4th quarter of 2007, senior debt was used to finance 40.8% of a typical transaction. Subordinated debt was used to finance 13.5% of a typical transaction. The remainder of a typical transaction (45.6%) was completed using equity. By the 4th quarter of 2008, senior debt had dropped to 31.6%, subordinated debt had declined to 8.5%, and equity had increased to 59.9%. In other words, Private Equity Funds had to rely on increased equity capital to complete a transaction. If a deal is not completed, the Seller carried back a higher portion of the sale price, or some combination of the two.

WHAT'S IN STORE?

Despite the gloom being reported by the News Media and others, an active market remains for well run middle-market companies. Those companies that operate efficiently and demonstrate growth potential continue to be in high demand in 2009. High demand typically translates into relative TEV/EBITDA multiples. Private Equity Funds continue to invest capital of which there is a significant supply.

Janas Associates is a leading middle market Investment Banker and Management Consultant that represents owners of middle market companies. For more information, please visit www.janascorp.com or contact a Janas Associates professional.

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