RSM TRANSACTION ADVISORY SERVICES UPDATE

Q1 2017

WHAT'S HAPPENING IN THE M&A MARKETPLACE

Key takeaways from PitchBook's Q1 2017 U.S. PE Breakdown:

- Q1 saw $119 billion invested across 745 deals, compared to $139 billion across 867 deals in Q1 of last year.
- Median multiple increased slightly in the first quarter. The median EV/EBITDA multiple hit 10.8x in Q1 up from 10.7x in Q1 of last year.
- The PE industry's strong returns have led to significant stores of dry powder available, which in turn has created more competition for suitable buyout targets. Additionally, rising public market valuations have driven mark-to-market PE prices higher.
- Dealmakers have continued to look lower down the value spectrum to find relative value as multiples remain historically high.
- Lower-middle-market deals at attractive valuations are out there, but the deals often require more time and hands-on work from the fund.
- With prices as high as they are, it has become imperative for firms to use buy-and-build strategies in order to blend multiples and create a lower aggregate pricing for portfolio acquisitions.
- Add-ons made up 66% of buyout activity in Q1, up from 64% last year. As smaller companies tend to trade at lower multiples, add-on transactions have emerged as an effective way to lower a fund's aggregate multiple.
- Approximately one-fifth of all PE deals completed in Q1 involved companies in the IT sector, above the 10% to15% range seen for most of the last decade.
- PE-backed exits of all types fell to their lowest level in almost four years. In Q1 there were just 207 exits, totaling $31.2 billion in deal value, representing a quarter-over-quarter decrease of 28.9% and 58.0%.
- PE fundraising in Q1 was $55.8 billion across 57 vehicles. Extrapolated across the entire year, that puts PE funds on track for a 15.8% year-over-year increase in commitments across 14.6% fewer funds.

MIDDLE-MARKET TRANSACTION ADVISORY PRACTICE

- Dedicated national transaction team of over 200 professionals specializing in financial, tax, technology, risk, operational due diligence, and integration assistance.
- Largest dedicated team outside of the Big Four and approximately three times the size of the next middle-market competitor.
- Completed over 2,300 transactions in the last eight years.
- Completed over 100 sell-side transactions in the last year.
- Over 1,300 private equity and venture capital client relationships.
- Over 1,700 portfolio company clients.
- Transaction advisory teams in key international markets.
- Primary service offerings include buy-side due diligence, sell-side due diligence and assistance, merger integration and carve-outs, purchase agreement assistance, business performance analysis and working capital support.

A CLOSER LOOK AT INDUSTRY

RSM Quarterly Industry Spotlights are designed to provide insights into four key industries: business products and services, consumer products, health care, and information technology. With data powered by PitchBook, the spotlights examine private equity deals, M&A trends, and economic implications for each industry.

RSM transaction advisory projects by industry

	2012	2013	2014	2015	2016
Business and professional services	48	31	35	30	35
Healthcare and life sciences	30	25	37	51	52
Software and technology	28	39	43	62	49
Consumer products and household goods	27	28	41	33	46
Food and beverage	15	14	35	26	25
Governmental, aerospace, and defense	14	11	8	18	15
Energy, oil, gas, and utilities	7	9	13	5	4
Industrial equipment and machinery	26	34	25	43	38
Construction, building, and contractors	18	15	15	25	38
Chemicals, plastics, and materials	18	13	14	17	21
Automotive, auto parts, and dealers	13	9	21	13	18
Other	85	96	87	75	89
Total	**329**	**324**	**374**	**398**	**430**

VALUE CREATION THROUGHOUT THE INVESTMENT LIFE CYCLE

Pre- and post-closing, our approach is designed to optimize value – from driving profitable growth to permanent cost restructuring to providing ongoing management visibility.

Case study: RSM helps private equity firm proactively manage cybersecurity risks

Situation: A publicly traded private equity firm takes a proactive approach to risk management and corporate governance, with a risk identification culture at the parent level and within its eight middle market portfolio companies. The PE firm executives understood potential cybersecurity risks and the challenges for PE firms and public companies, and decided to take action—putting an emphasis on cybersecurity to protect investments both at the parent level and within its portfolio companies.

Solution: Performed a risk evaluation for the parent and for each company, analyzing governance and policies and procedures, determining each entity's cyberattack vulnerability and ranking how attractive each would be to cybercriminals. The top cybersecurity risks and potential emerging concerns were ranked and detailed, as well as suggested policy improvements, including defining authorized roles and security processes for third-party vendors.

Results: Helped develop an effective cybersecurity program at the parent level and within each portfolio company. Key benefits include:

- Increased cybersecurity awareness from the parent level to individual portfolio companies
- Stronger insights into the risks at portfolio companies and how hackers can infiltrate private equity groups
- Targeted insights into key risks and potential process and policy improvements
- Enhanced internal audit exposure to key risk areas for SOX compliance efforts

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