

# RSM TRANSACTION ADVISORY SERVICES UPDATE

Q4 2016

## WHAT'S HAPPENING IN THE M&A MARKETPLACE

Key takeaways from PitchBook's Q4 2016 U.S. PE Breakdown:

- 2016 saw \$649 billion invested across 3,538 deals, representing 12% and 14% YoY declines. Falling off is primarily attributed to an expensive market and fewer quality acquisition targets.
- Median multiple was 10.9x, nearly a full turn higher than 2015's 10.0x and far above 7.9x from 2010. The higher multiples were caused in part by competition from strategic acquirers.
- 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 64% of buyout activity in 2016 compared to 61% in 2015.
- In 2016 there were 283 add-on acquisitions in the healthcare industry, which continues to see increased consolidation amidst speculation about potential changes to the Affordable Care Act.
- The tech sector saw more investment from PE firms in 2016 than it did at any time in the last 15 years. 567 deals were completed, worth a total of \$160 billion. As more venture-backed companies stay private for longer amidst a sluggish VC-backed exit market, there is an opportunity for PE investors to step in and help provide liquidity for aging venture portfolio companies.
- For deals that are completed, PE is using more equity as a percentage of total deal value. Median debt percentages for PE buyouts and M&A fell to just 50.5% of enterprise value in 2016, a noticeable decrease from 56.8% in 2015.
- 2016 saw 1,097 PE-backed exits, totaling \$316 billion, representing 18% and 22% YoY declines. One potential reason for the decrease is the current quality of assets in many PE portfolios may not be able to justify a sale in the current high-multiple environment.

## 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, 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
<b>Total</b>	<b>329</b>	<b>324</b>	<b>374</b>	<b>398</b>	<b>430</b>

## 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: Operational Due Diligence – Go-Forward Operating Requirements

**Situation:** A PE firm was evaluating the acquisition of a \$20 million manufacturer of high tech audio systems.

**Challenge:** The transaction involved carving out this manufacturing division from a larger enterprise with shared services for finance, IT and certain administrative functions.

**Solution:** Analyzed financial results of the target division, including a financial and operational assessment of shared service functions, processes and systems to identify and quantify stand-alone capabilities, capacity, gaps and related financial considerations.

**Results:** Helped the PE firm determine the full extent of the go-forward operating requirements, allowing them to renegotiate the financial terms of the transaction.

---

+1 800 274 3978

[www.rsmus.com](http://www.rsmus.com)

RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Visit [rsmus.com/aboutus](http://rsmus.com/aboutus) for more information regarding RSM US LLP and RSM International.

© 2017 RSM US LLP. All Rights Reserved.