

# Middle Market Update

WESTERN RESERVE

PARTNERS LLC

www.wesrespartners.com

Third Quarter | 2015

## Inside this issue:

M&A Market Observations

2

Debt Market Observations

3

Transaction in Focus  
Growth Equity Capital Raise for Verisma Systems, Inc.

4

Western Reserve Partners LLC provides M&A, capital raising and other financial advisory services to middle market companies across a focused set of industry verticals. We deliver thoughtful advice, keen market insight and superior execution to our clients, both nationally and internationally, and our managing directors average nearly 30 years of experience and have directly executed more than 600 transactions throughout their careers.

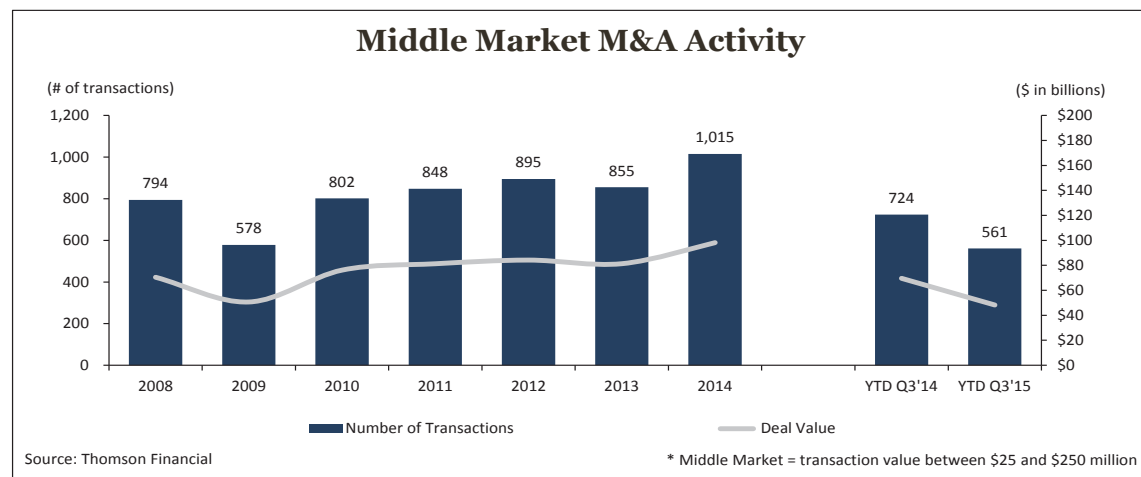
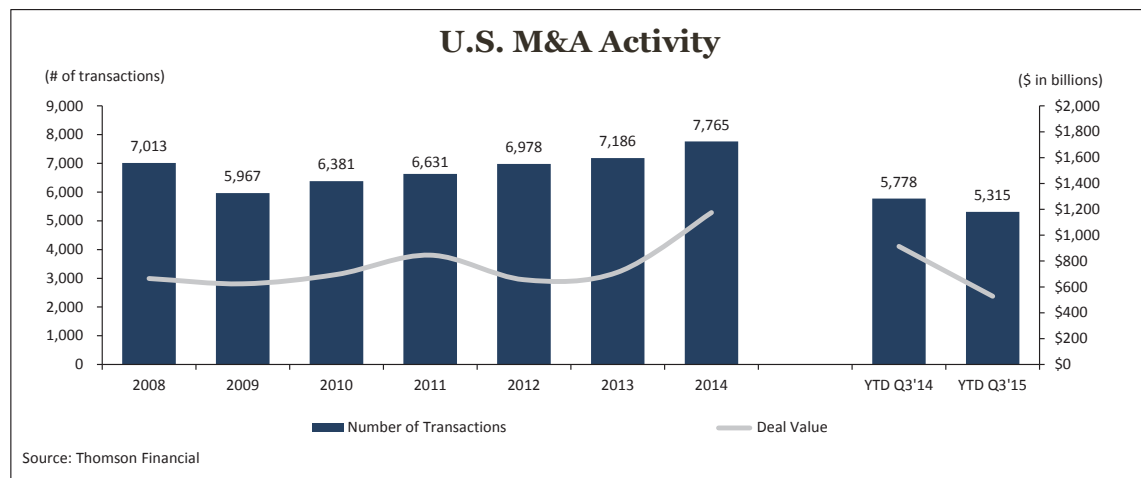
Western Reserve Partners is a member of M&A International, the world's largest alliance of investment banking firms, as well as World Services Group, a global consortium of middle market focused law firms and other advisors, which provides unparalleled access to global companies and investors. The firm is a FINRA-member broker / dealer and member of SIPC.



## With Seller-Friendly M&A Markets Peaking, the Time to Sell Is Now

- **Broader M&A Transaction Activity Declining:** M&A transaction volume declined 8.0% and valuations per transaction declined 37% YTD through Q3'15 compared to the same period in 2014, suggesting that high performing companies (many of which were private equity owned) were first to market during the period and that private business owners continue to stay 'on the sidelines' despite extremely seller-friendly market conditions
- **Middle Market Competition for Quality Assets Remains Intense:** Strategic buyers remain flush with cash and are aggressively seeking acquisitions to fuel growth in the face of tepid organic revenue growth, while private equity firms continue to compete aggressively to deploy capital in quality assets; private sellers that have entered the market (many of which are PE-backed) are receiving significant valuation premiums with seller-friendly terms
- **Debt Capital Available to Fund Transactions:** Banks and non-bank lenders have continued to lend aggressively into transactions, with competitive pricing and covenant terms; this is an attractive time for middle-market companies to fund growth initiatives and buy side activity
- **Fed Poised to Increase Interest Rates:** The Federal Reserve Bank is widely expected to increase interest rates at its December policy meeting, ending the seven-year run of 0.25 rate, and continue hiking rates through 2016; while this change will take time to effect middle-market M&A transactions, it will impact buyers' cost of capital and ability to utilize leverage to maximize enterprise values and equity returns

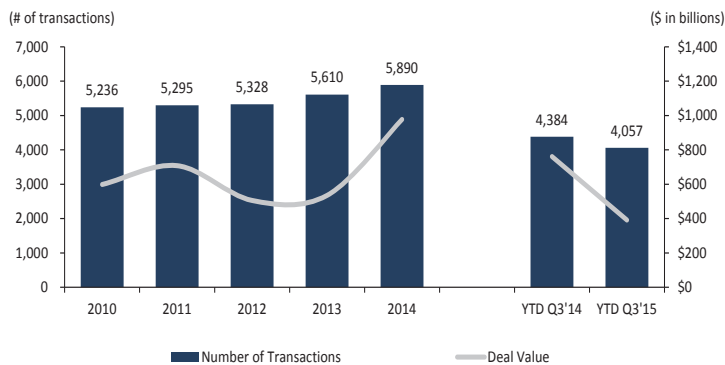
Western Reserve believes that the premium valuations and seller-friendly transaction terms of the last two years will begin to revert to the mean in 2016 as more private sellers (finally) enter the market and as the cost of capital begins its long-awaited climb from post-recession recovery rates.



## 2015 YTD M&A activity (value and volume) was lower than the same period in 2014, suggesting that seller-friendly market conditions may have peaked

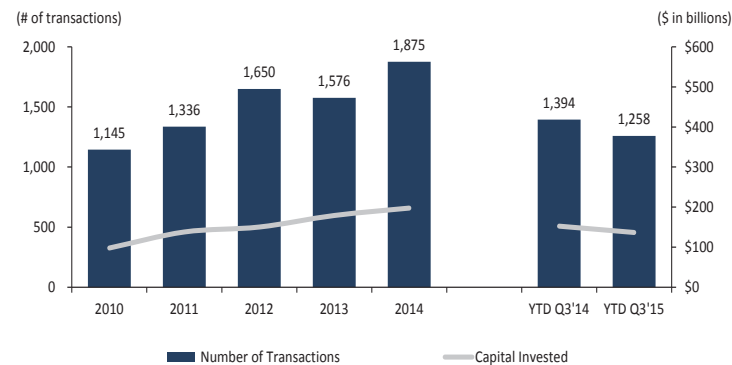
- While competition for quality assets remains intense, both transaction volumes and values did not keep pace in Q3'15 with the previous year
- EV/EBITDA multiples from strategic buyers reverted from 8.3x to 8.1x, while values for sponsor-backed deals between \$50 million and \$100 million declined from 8.5x to 7.8x; an increase in \$100 million+ valuations, however, highlights continued demand for quality assets
- Strategic and financial buyers have significant cash on hand but continue to struggle to find high quality deals with private sellers still 'sitting on the sidelines', leading to the reallocation of capital from M&A to stock buybacks and dividends

### Strategic M&A Activity



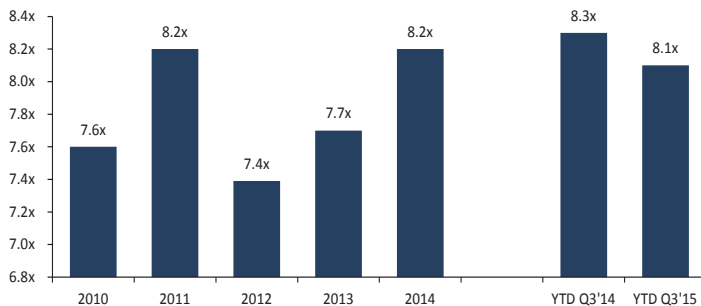
Source: Thomson Financial

### Financial Sponsor M&A Activity



Source: Thomson Financial

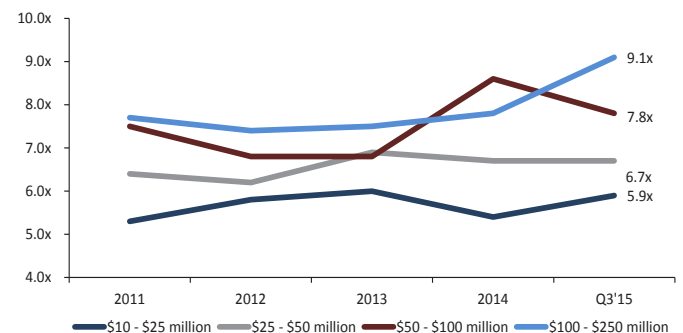
### Strategic Middle Market EV / EBITDA Multiples



Source: Standard & Poor's

\* Middle Market = transaction value between \$25 and \$250 million

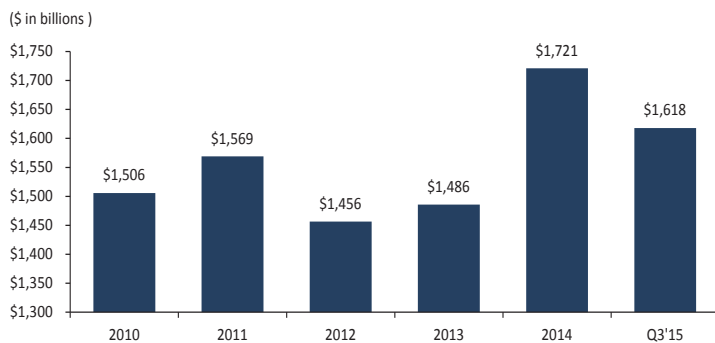
### Financial Sponsor Middle Market EV / EBITDA Multiples



Source: GF Data™

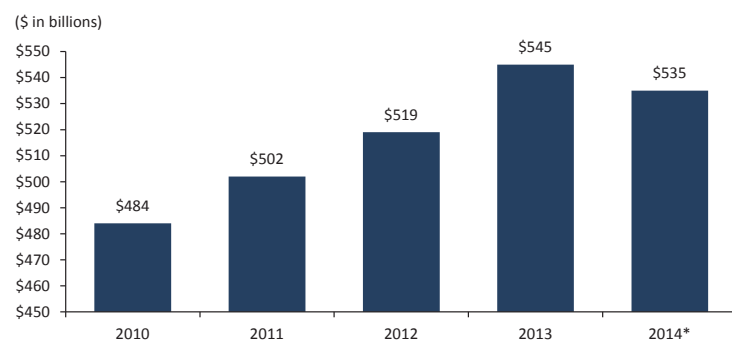
\* Middle Market = transaction enterprise value between \$10 and \$250 million

### S&P 500 Cash Balances



Source: Standard & Poor's

### Uninvested Private Equity Capital



Source: Pitchbook

\* As of June 30, 2014

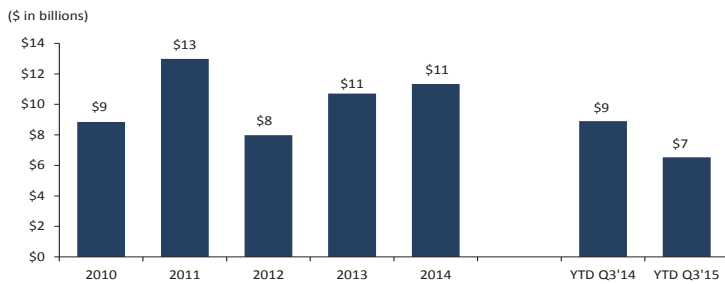
WESTERN RESERVE

PARTNERS LLC

## All signals indicate an increase in interest rates by year-end and potential further increases in 2016

- The Federal Reserve Bank is widely expected to increase interest rates at its December 16 policy meeting
  - Federal Reserve Chairwoman Janet Yellen has signaled to the markets that the Federal Reserve, with unemployment at 5.0% and generally favorable economic conditions, will likely raise interest rates by 0.25%, representing the first such raise in seven years
  - Borrowers will not be impacted significantly in the near-term as forthcoming increases are expected to be at a measured pace, with rates remaining near historic lows for the foreseeable future
  - Banks will benefit from the increase by utilizing the spread to boost margins
- Debt levels have reached a multi-year high at 4.1x as companies are utilizing cheap financing to fund acquisitions and growth
  - Although a modest increase in interest rates will not have a dramatic effect on the M&A market, it will signify the beginning of a shift in the market as it becomes more expensive to finance deals
  - M&A leverage is experiencing a peak and the time is now for corporations to utilize it for growth initiatives, share repurchases and acquisitions

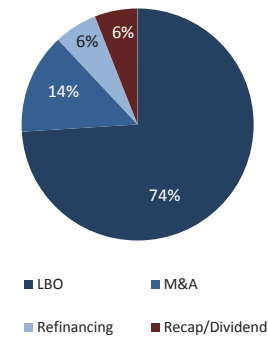
### Middle Market Loan Issuance



Source: Standard &amp; Poor's

\* Middle Market= issuers with EBITDA of &lt;\$50 million

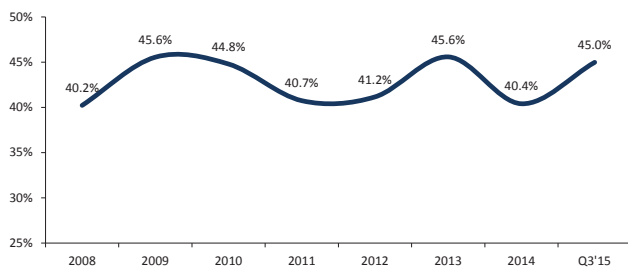
### Middle Market Loan Issuance by Purpose (Q2'15)



Source: Standard &amp; Poor's

\* Middle Market= issuers with EBITDA of &lt;\$50 million

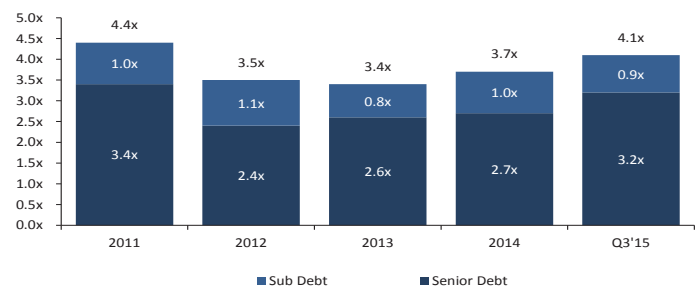
### Middle Market LBO Equity Contributions



Source: Standard &amp; Poor's

\* Middle Market= issuers with EBITDA of &lt;\$50 million

### Middle Market Debt Multiples



Source: GF Data™

\* Middle Market= transaction enterprise value between \$10 and \$250 million

**WESTERN RESERVE**

PARTNERS LLC

**verisma®**  
WE MAKE ROI SIMPLE

has received growth equity capital from an investor group led by

**NEWSPRING HEALTHCARE** and **Blue Heron CAPITAL**

The undersigned served as exclusive financial advisor to Verisma Systems, Inc. in this transaction

**WESTERN RESERVE PARTNERS LLC**

## Transaction Overview

Western Reserve Partners served as the exclusive investment banker to Verisma Systems, Inc. in the healthcare technology company's first institutional capital raise. The growth equity financing was led by Radnor, PA-based NewSpring Capital and Richmond, VA-based Blue Heron Capital, among other investors, including Jim Crook, former President of IDX Systems Corporation, and Jim Riley, former President of Capario. The growth capital will be used to fund the Verisma's marketing, technology and management expansion initiatives.

Verisma is a leading provider of technology-enabled Release of Information (ROI) services to healthcare organizations across the country. The company's patented, cloud-based software platform allows healthcare systems to securely manage the release of medical records, improve workflow efficiency, decrease error rates and lower administrative costs. Verisma is a recognized innovator in the ROI market, known for developing next generation functionalities related to HIPAA compliance, audit reporting and dashboard analytics.

Leading the transaction for Western Reserve Partners was CEO Ralph Della Ratta, Jr., President David Dunstan, Director Andrew Male and Sr. Analyst Margaret Graham. "We are very pleased to have assisted Verisma in this transformative financing," said Mr. Male, who executes Western Reserve's healthcare technology transactions. "With NewSpring and Blue Heron's strategic and financial backing, Verisma can accelerate the inflection-point growth it is experiencing and meet providers' increasing demand for highly compliant, secure and efficient patient health information."

"We are greatly appreciative to Western Reserve Partners for advising us through this transaction process, which resulted in our partnering with two excellent healthcare investment firms in NewSpring and Blue Heron," said Verisma executive chair Ken Thompson. "This is the third transaction I have engaged Western Reserve Partners on and greatly value our longstanding relationship."

## Contacts

**Ralph M. Della Ratta**  
Chief Executive Officer  
216.589.9557  
rdellaratta@wesrespartners.com

**David D. Dunstan**  
President  
216.589.9530  
ddunstan@wesrespartners.com

**Charles V. Aquino**  
Managing Director  
216.589.9534  
caquino@wesrespartners.com

**Victor F. Faris**  
Managing Director  
216.589.9531  
vfaris@wesrespartners.com

**Mark A. Filippell**  
Managing Director  
216.589.9532  
mfilippell@wesrespartners.com

**Kevin J. Mayer**  
Managing Director  
216.574.2117  
kmayer@wesrespartners.com

**Andrew P. Male**  
Director  
216.574.2104  
amale@wesrespartners.com

**David P. Mariano**  
Director  
216.574.2108  
dmariano@wesrespartners.com

**Matthew J. Mueller**  
Director  
216.574.2103  
mmueller@wesrespartners.com

**Rebecca L. White**  
Director  
216.574.2109  
rwhite@wesrespartners.com

This newsletter is published solely for the general information of clients and friends of Western Reserve Partners LLC. Information contained in this publication may not be used or redistributed without expressed written permission from Western Reserve Partners LLC. Information contained in this publication is based on data obtained from sources we deem to be reliable; however, we do not guarantee or represent that it is accurate or complete, and it should not be relied upon as such. Opinions expressed are our current opinions as of the date appearing on this material only. This material should not be read as advice or recommendations, and we are not soliciting any action based upon receipt of this information. Nothing in this publication is intended to be an offer to buy or sell or the solicitation of an offer to buy or sell any specific security or company. The testimonials presented are applicable to the individuals depicted and may not be representative of the experience of others. The testimonials are not paid and are not indicative of future performance or success.