# Inside the Middle Market



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## State of Middle Market Financing in the U.S.

Lenders are cautiously optimistic. Positive trends suggest the economic environment may be stabilizing, and volatility in the capital markets has eased. Sentiment has improved, and the talked about fear of a double-dip recession has waned. Lenders are closely monitoring the macro environment as issues of high unemployment, budget deficits, and risks in the eurozone and globally are reminders that the road to recovery has been rocky, and all it takes is a "risk speed bump," in the words of one middle market lender, to cool the markets off.

M&A activity was soft in Q1 '12, but the pipeline is building. April brought an uptick in deal flow, and key drivers, notably capital availability and pent up demand from sellers, are expected to support healthy deal activity in the coming months. Flight to quality is still influencing lender selectivity, and competition is fierce for high quality companies coming to market.

Risk appetite is increasing, a function of improving fundamentals, bigger budgets, and scarce deal flow. The primary concern of lenders is putting money to work, and the theme of 'too much capital chasing too few deals' is fueling a supply demand imbalance that is permeating transaction valuations and structures. Middle market lenders are feeling pressure but are not taking the lead of the large market, where today's behaviors of aggressive leverage, cheap pricing, and looser terms are mirroring those seen in 2007. Discipline remains in tact. Practically, leverage has ticked up a quarter to half turn from Q4 '11, and spreads have tightened 25 to 50 basis points. Middle market lenders are still getting reasonable terms.

The window for exits is favorable: purchase price multiples are trending up; buyers with excess capital are in search of quality assets; and access to financing is plentiful. The financing environment is stable and accommodating buyout and dividend activity.

> "There is financing available for all types of deals right now by someone at some price."
>
> —Chris Williams
> Madison Capital Funding LLC

### PARTICIPATING FIRMS

**Abacus Finance Group, LLC**
**Ares Capital Corporation**
**Babson Capital Management LLC**
**Capital One Leverage Finance Corp.**
**The Carlyle Group**
**CapitalSource**
**CapitalSouth Partners**
**CIT Group**
**Crystal Financial**
**Fifth Third Structured Finance Group**
**F.N.B. Capital Corporation**
**GE Antares Capital**
**Golub Capital**
**Kayne Senior Credit Fund**
**Madison Capital Funding LLC**
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**Monroe Capital LLC**
**Northstar Capital, LLC**
**NXT Capital, LLC**
**PNC Mezzanine Capital**
**RBS Citizens Business Capital**
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**TCF Capital Funding**
**THL Credit**
**Triangle Capital**
**US Bank**
**Wells Fargo Bank, N.A.**

# State of Middle Market Financing in the U.S.

## DEAL FLOW

### GREAT EXPECTATIONS

Q1 '12 brought big budgets and big aspirations and the expectation of a blockbuster year for M&A. Another year into a recovery and another year down the path of limited M&A activity, with pent up demand from private equity sponsors and private business owners to sell, the deal market was poised for robust deal flow. The reality is the M&A market has not picked up to the level anticipated which has required lenders to be creative in manufacturing deal flow to get invested. And similar to Q1 '11, opportunistic activity made a comeback in the form of refinancings and dividends with limited LBO activity to support demand. According to a Q1 '12 survey by Thomson Reuters LPC, 70 percent of middle market lenders did not meet lending goals in the first quarter.

"We are just waiting. That is the headline around here," said Ian Larkin, co-founder and managing director at Maranon Capital. "Lenders have been open to opportunities ranging from refinancings to dividend recaps to LBO and acquisition financing to put money to work," said Ira Kreft, a managing director at RBS Citizens Business Capital. "But the lack of quality deal flow has caused competition to be brutal for good lending opportunities."

Senior lenders see competition in refinancings and want to hold on to companies they like and are being more aggressive both on leverage and pricing. "Banks entered this year looking to put assets to work and appear to be getting more aggressive," remarked Steve Gurgovits, chief executive officer at F.N.B. Capital Corporation. "Over the last 12 months, we have had four exits. In each case, we were refinanced out through a senior lender, predicated on the combination of the business growing and the banks being more willing to lend."

Dividend activity made a sharp rebound after a falloff in the second half of 2011. For healthy companies, lender appetite for dividend activity is expected to continue. "There is the age old dilemma for a lender, you don't want to lose the asset, so you pitch a dividend recap," offered Scott Reeds, a managing director at RBS Citizens. "I think we are going to continue to see a lot of dividend activity this year. We know that we have to proactively pitch dividend deals because if we don't someone else is."

Some lenders are struggling with finding quality transactions and are picking their spots. Those with steady deal flow say they have not seen the influx of high quality deals from sponsors, noting an increase in turnarounds, spinoffs, and some challenged industries in the mix. "There seems to be a story around deals," offered a surveyed commercial bank lender.

**What is driving the lull in deal flow?**

When the market reset last August, some companies experienced a hiccup and performance trends were not positive. Uncertainty put some sale processes on hold in Q4 '11, so there wasn't the carryover effect into Q1 '12, lenders said. Kreft offered, "Companies that have a weaker profile or performance issues aren't being brought to market until those matters have been resolved or performance levels demonstrated." "Part of it is the time effect of recovering from the recession," said Mike Foster, a senior managing director at Midwest Mezzanine Funds. "Some companies are still rebuilding their income statements to get their numbers back to pre-recession levels. The companies that are back at a higher level of profitability are better candidates to sell. Many are saleable; it is just a matter of what is the return going to look like to the private equity firms."

Value expectations are keeping some companies on the sidelines. "To be an entrepreneur and own a business, you are by definition an optimist," commented Rich Jander, a managing director at Maranon Capital. "Even with a potential increase in the capital gains rate, private business owners are saying, 'I might pay a little more taxes at the end of the day, but I will be more than compensated for that through growth or multiple expansion.' We are seeing those sellers hold on to companies a little bit longer than we thought they would."

"In our mind, there is a disconnect as to why sponsors aren't unloading more into the marketplace. They are seeing the other side of the trade—what they have to bid to get to a management meeting and where some of the properties are trading," Larkin offered. "Part of it is the businesses haven't quite come back enough to justify putting them to market. Sponsors are also holding fast to the belief that financial performance is going to be better next year, the financial markets are going to hold up, and the multiples are going to hold up."

"What is the right time to optimize the return potential? It is when you think you have very strong EBITDA and potentially a trajectory that would suggest continued growth," remarked Robert Radway, chief executive officer at NXT Capital. "You have buyers looking to deploy capital and believing that now, despite the fact that you might be buying off on an improved EBITDA, that there is still room for continued growth. It is a psychology thing. I think if people are bullish enough they will deploy capital. If sellers are seeing the performance to some degree peaking, I think you are going to see exits increase and therefore deal flow improve across the market."

**Tax change momentum?**

Capital gains is a real issue, and the need for getting liquidity has moved to the fore, said several survey participants. While many lenders held the view that the potential tax risk would move otherwise unmoving sellers into the market, it has not materialized in deal flow—yet. It is believed to be one factor that will drive increased deal flow as the year unfolds.





# State of Middle Market Financing in the U.S.

## DEAL FLOW

### PROCESS

Lenders shared their observations of trends in deal processes today:

"As the M&A market heats up, processes for the high quality businesses (the "haves") will start to move more quickly. Processes will get more aggressive, and you will start to see a requirement for committed financing and accelerated back end timing on processes with due diligence completed before the final bid date. While we have only seen this in select competitive auctions so far, it wouldn't surprise me if more M&A processes move this way in the near future. Processes for the more difficult businesses (the "have nots") will continue to take longer."
*Scott Reeds, RBS Citizens*

"For the high quality companies, you will see more auctions where two or three buyers are run competitively to a close."
*Rich Jander, Maranon Capital*

"Valuations are stretched, and it is becoming very hard for sponsors to win deals. In certain situations, they are being required to go in with very large bids and are later identifying issues in due diligence and clawing back if they need to. It is very difficult to get a handle on what the exact capital structure is going to be until sometimes quite late in the process. The A+ deals get done very quickly and on original LOI terms. In most cases, deals are not that clean."
*Brent Burgess, Triangle Capital*

"We saw a number of deals get pulled because of issues uncovered in the quality of earnings review or from third-party industry studies which didn't support the company's growth forecasts."
*Steve Kuhn, Fifth Third Bank*

"Sponsors are paying considerable dollars on due diligence. The importance of the outcome is greater, especially if you are paying 8x or 9x. To the extent that you have a growth thesis, then you better have it be supported by the industry study."
*Robert Radway, NXT Capital*

"Sponsors are spending significant time and money on legal due diligence. Part of it is the market uncertainty that still exists. Because sponsors are paying more for businesses, they don't want to make a mistake. So they are making sure they get what they want from a legal and documentation standpoint and are negotiating a lot of the finer points in deals. Sponsors are going to the mat on more issues."
*Brent Burgess, Triangle Capital*

"We expect to see more sellers provide seller diligence. What they are doing is preempting due diligence that the buyer normally does to say, 'I know you're going to do your own due diligence, but here is what you're going to find. We've done our own quality of earnings, and here is the EBITDA number.' It is more common in Europe and is starting to emerge in processes here."
*Colin Cross, Crystal Financial*

"In this cycle, sponsors are not taking lenders to a first meeting or bringing them in as early because they know the financing will probably be there. It is not a matter of is it there or not; it is a matter of what is the leverage and the pricing. It is back to the old way of doing business."
*Ian Larkin, Maranon Capital*

"The demand for more fully committed financing from lenders has grown, and lenders' willingness to provide more fully committed financing has increased. I think part of it is a greater degree of confidence in the ability to sell down underwritten commitments. Part of it is the reality of that is how you win the mandate from the sponsor. The sponsor wants that certainty, and lenders need to provide it. Those that can will win the financing mandate. Those that can't won't."
*Robert Radway, NXT Capital*

> "The reality of the market is the competition is seemingly unlikely to abate. You start to see lenders press on every part of their credit screen—you are seeing higher leverage, cheaper pricing, looser covenants, and lowered EBITDA minimums, which is an area where lenders slowly move their way down."
>
> —Howard Widra
> MidCap Financial LLC

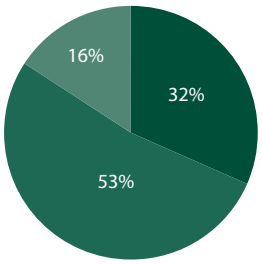


# Private Equity by the Numbers

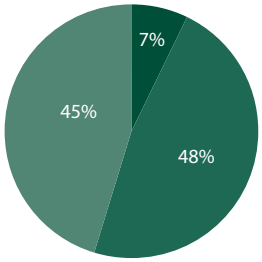
## The Deals

### Share of the Middle Market in 2011

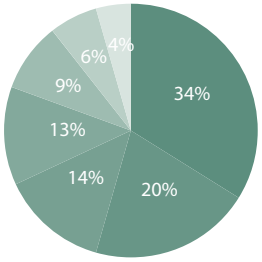
Deal Flow




Capital Investment



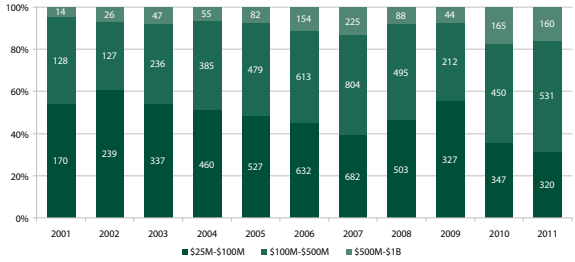

Industry




- Business Products & Services (B2B)
- Consumer Products & Services (B2C)
- Healthcare
- Information Technology
- Financial Services
- Energy
- Materials & Resources

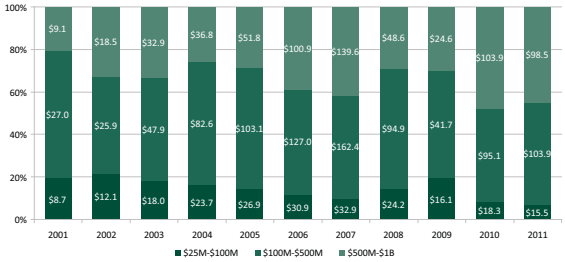
- The Lower Middle Market $25M-$100M
- The Core Middle Market $100M-$500M
- The Upper Middle Market $500M-$1B

### Deal Flow by Year




*Deal counts and values reflect private equity buyout transaction activity only.*

### Capital Investment by Year



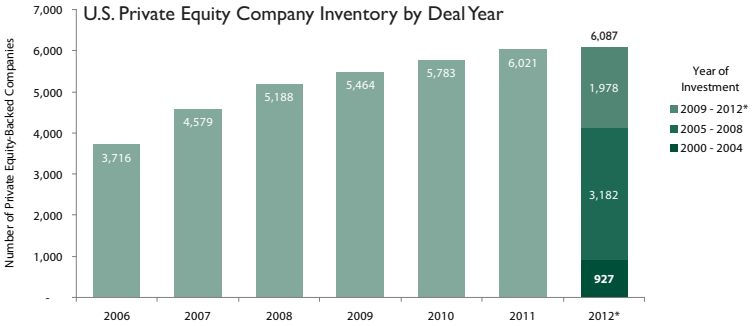

## The Overhang

**6,087** Companies currently held in private equity portfolios.

**68** Percent of the 6,087 private equity companies held in inventory for more than 3 years.

**432** Billions in unspent private equity capital looking to be deployed into new investments.

*Source: PitchBook.*





*Through 3/31/2012

# State of Middle Market Financing in the U.S.

## PERSPECTIVE

### ON MINDSET

Investor sentiment and market tone have steadily improved and volatility in the capital markets has eased, which has most lenders feeling more optimistic. "The market hit a risk speed bump last August. The disruption was much more pronounced in the large market, which saw a 100 to 200 basis point backup in yield, whereas in the lower end, smaller credits got financed. In Q4 '11, the market reverted right back to where it was, setting the stage for a much more aggressive beginning to the year," said Preston Walsh, a partner at PNC Mezzanine Capital.

A seemingly improving economy, pent up demand from sellers, and money chasing deals on an accommodative basis are all signs of a healthier market. "Generally speaking, the economic environment has stabilized. And with a few exceptions such as Europe and JP Morgan, so has headline risk," commented Randy Schwimmer at The Carlyle Group. "Cash needs to be put to work, and investors are getting more comfortable with credit risk. Lender confidence is also growing, and sponsors looking to get deals can find attractive financing."

A supply demand imbalance in the marketplace, driven by the need to originate assets and a dearth of M&A related lending, is leading to increasing leverage and risk in capital structures. "Going into 2012, lenders have new budgets and deployment plans. There isn't a group with capital that isn't trying to deploy more, and that is pushing up leverage multiples, covenant levels are loosening, and structures are getting a little more aggressive," Walsh said.

### ON THE ECONOMY

The concern of a possible double-dip recession is not top of mind in today's credit discussions, said survey participants, but there is a sense of guarded optimism among lenders because there is still reason to be cautious. When you peel back the onion, unresolved issues of high unemployment, budget deficits, and events in the eurozone and globally, render the markets fragile. While the recovery feels like it is getting stronger, it is by no means a robust economy. There are risks as to how fast the economy is going to grow. It wouldn't take much to turn the market to bearish, was the consensus opinion.

"While the double-dip is not part of the everyday conversation, the guidance is, we have a really strong portfolio and want to keep it that way," said Paul Harris, head of commercial banking for Ohio at RBS Citizens. "So we are being directed to stress projections probably a little more than we used to." "We are into the third year of a recovery, and it is difficult for us to say that the next five years will continue on an upward swing. We are concerned about leverage running away from us," commented Mike Klofas, a managing director at Babson Capital Management. "We'd like to be more conservative. I just don't think the market will let us." "I think lenders are looking for reasons to be optimistic but finding reasons to temper their feelings as well," added Rich Jander at Maranon Capital. After three years of slogging through this market, everybody would like to feel like there was more certainty in terms of the credits that we're underwriting and how the businesses will perform. We feel better than we did in 2009, but I don't think lenders are really over it. If they were, you would see more unbridled optimism. I think that is when you start to see lenders push out on pricing or push out further in terms of structure."

"That is the only risk—the macro issues: the global debt crisis looms unresolved; the U.S. economy is not recovering at the forecasted pace. That headline risk tends to cause a slowdown. The portfolio companies that are surviving on the margin tend to break," commented Andy Steuerman, Head of Middle Market Lending at Golub Capital. "We continue to keep a close watch on the economy and on developments in the eurozone. To the extent there are further issues, I think you could see a potential pullback in the market," added Karen DeCastro, a principal at Ares Capital Corporation. "Some of the caution in Q4 '11 was brought about over concerns in the eurozone and the impact to the U.S. banking system. That concern has dissipated to some degree, even though significant risks remain," Harris added. "For lenders, there is a feeling of reprieve. They are saying, 'Let's get back to meeting our budgets.' At credit strategy meetings, we talk about, 'Don't get amnesia. Let's not get irrational.'"

> "I would like to see demand for loans come back more strongly to create balance with the supply of funds. To curtail supply, it will require lenders to become a little satiated. More importantly, something will have to remind them of risk."
>
> Preston Walsh
> PNC Mezzanine Partners



# State of Middle Market Financing in the U.S.

## CAPACITY

Lenders speak to abundant liquidity both in the senior loan market as well as the mezzanine market. "Across the board, there is strong demand from investors to put money to work," said Steve Robinson, a managing director at GE Antares Capital. "The CLOs that are still in business have money to invest, and a number of new CLOs have been structured and priced this year, albeit at more conservative structures, which is a positive sign for the market. The finance companies are active. Banks have a lot of money to put to work and are being very aggressive. A bank doesn't want to be criticized for not lending in this environment."

Liquidity has largely been an expansion of existing players into new pockets of capital. The core group of middle market lenders is very active and has plenty of dry powder. The biggest inflow of new capital into the senior market, some lenders said, is coming from increased bank participation. "Banks need to grow assets and have nowhere else to lend," remarked Ken Berryman, a director at CapitalSouth Partners. "Their capital levels are adequate, and they are in a position to take risk again." "Liquidity is as robust as I've seen it," offered a commercial bank lender in our survey. "Competition has become pretty keen. For the deals that are easy to bank, there is a lot of liquidity chasing them, and it is driving prices down."

"The market not only has fresh liquidity, but it also has new lending products that are flush in the market," offered Ryan Golding, a managing director at CapitalSource. "In the upper middle market you are seeing more senior secured second lien transactions. You're also seeing banks partnering with junior capital providers in either first out last out transactions or unitranche senior stretch products."

"Lenders are all looking for growth. In addition to asset retention, lenders looking to grow within stated plans need to be aggressive on the new business front," observed Jeffrey Kilrea, a managing director at CIT Group. "Overall portfolio performance quality is strong, and the improved market conditions have lifted all of our portfolios. So what are lenders worried about, we are worried about asset growth now. What are our asset targets for the year, and will M&A volume be sufficient to meet them?"

"I certainly think there is financing available for all types of deals right now by someone at some price," remarked Chris Williams, a senior managing director at Madison Capital Funding LLC. "There are some tougher credits that are getting financed. It will depend on the sponsor and the situation, and they might be priced at a premium, but they are still getting done." "Most transactions are getting financed in the middle market, but many are not, and those that get done come at a price," commented Al Ricchio, a managing partner at Kayne Senior Credit Fund. "Some transactions have a higher degree of difficulty than others, and while some easy-to-understand credits have twice the attendance at meetings and lead to leverage and price bidding wars, we are very comfortable that no such dynamics exist at our end of the market, where structure, creativity, and certainty of close dominate."

### BANKS

Banks are aggressively looking to deploy capital, lenders in our survey said. In addition to senior cash flow loans, banks are trying to get more yield through second lien, mezzanine, or stretch senior. "We are seeing commercial banks back in action and being more aggressive," remarked Brian Schneider, a partner at Northstar Capital. "Several factors are driving the increased level of activity. It is always budget driven early in the year, especially for those banks that have origination teams. There is more optimism in the market. Fundamentals seem to be improving, and there is less fear of a double-dip. There still isn't a real estate market, so banks are left with strong balance sheets with surplus deposits and no place to put loans. Banks are focused pretty squarely on the commercial market." "Regional banks are definitely being more active," Robinson added. "A few years ago, you might have gotten only a couple of regional banks to come into a deal. Now, you are getting multiples of that, which has really helped to offset the institutional money that had been lost when a lot of those vehicles went away."

"Q1 '12 has been very competitive. The banks are under pressure just like every other business to meet their budgets, and we are seeing a lot of competition across all the different risk profiles," said Paul Harris at RBS Citizens. "We are not seeing any let up from anybody. It is driving price down and structure down." Jeff Hastings, a senior vice president and president of central Ohio at US Bank, commented, "Every bank that we compete with has double-digit growth goals for commercial banking in what is a relatively flat economy. They are all looking for C&I loans and are being extremely aggressive." Harris added, "We are looking to grow our loan book significantly over last year. We definitely want to put assets on the books."

"Banks are becoming increasingly comfortable with risk assets. There is such pressure to put assets to work in C&I loans because real estate is still in the penalty box, that most banks are entering this year with higher budgets, with growth targets of 5 to 20 percent," offered Scott Reeds, a managing director at RBS Citizens. "To boost interest income, banks need to put money to work in leveraged credits. I don't see that dissipating."

Banks are on the right track but can be hot and cold depending on regulatory constraints which guide risk appetite, said some survey participants:

"There are pockets of liquidity geographically, and each area of the country will have its own particular players. If a company is already a customer, they will do everything they can to hold onto it," said Tim Clifford, president and CEO at Abacus Finance. "Commercial banks have been aggressive," said Chris Williams at Madison Capital Funding. "If you are looking at a company in a certain geographical area where there is a strong regional bank and the sponsor has a tie, that is going to be a tough deal to win. You are not going to win on the pricing," Williams added. "The banks are always available. In a deal that fits within their risk framework, they are going to be extremely aggressive and competitive to win. High leverage tends not to be one of those areas. They will wait and pick their spots," added Andy Steuerman at Golub Capital.



# State of Middle Market Financing in the U.S.

## LENDER NEWS

### Madison Capital Funding LLC launches several new initiatives

In April 2012, Madison Capital Funding LLC announced a partnership with Apollo Investment Corporation in a newly launched senior loan vehicle. The new vehicle purchased an existing pool of middle market senior secured loans with combined face value of approximately $250 million originated by Madison over the past year. "The transaction will allow us to commit larger positions in the credit facilities that we lead or co-lead," said Chris Williams, senior managing director at Madison Capital. Prior to the transaction announcement, Madison's high hold was $45 million. "It is a beginning of a good relationship with Apollo," Williams said. In 2010, Madison partnered with Orchard First Source in a $225 million senior vehicle.

In January 2012, Madison Capital launched a new micro cap initiative that lowers its minimum EBITDA requirement to $3.5 million and is dedicating a team to support its lending efforts in the lower middle market. Madison has historically been active in the sub $10 million EBITDA market, with roughly 20 to 25 percent of its portfolio comprised of companies with EBITDA between $5 million and $10 million. Commenting on the new initiative, Williams told us, "We know that we are comfortable financing smaller businesses under $10 million of EBITDA. Five million had been our bright red line, and now we are lowering that minimum EBITDA threshold to $3.5 million. As the business and team has grown, we saw that we were missing out on a lot of nice opportunities in the lower end of the market that have pretty attractive economics." Williams indicated that market reception to the new program has been positive. "We have been seeing a tremendous amount of activity. It is almost like a breath of fresh air for the sponsors," Williams said.

In November 2011, Madison teamed up with a mezzanine provider to begin offering unitranche term loans. More crafted toward the middle market, Williams indicated that the unitranche product will provide a one-stop financing solution tailored to companies with up to $20 million of EBITDA. Madison has been in the market with the product for six months and is… "seeing good deal flow," Williams said.

### NXT Capital, LLC closes first CLO

In May 2012, NXT Capital, LLC announced that it closed a $308 million CLO, NXT Capital CLO 2012-1, serving to further expand and diversify its funding platform.

### Kayne Senior Credit Fund launches senior debt platform

Kayne Anderson Capital Advisors, L.P. recently launched a middle market senior debt fund, Kayne Senior Credit Fund, L.P., which will further augment the firm's existing presence in the middle market credit arena. The fund will invest in senior term loans, unitranche term loans, last-out term loans, and second lien term loan facilities in support of sponsored and non-sponsored companies with up to $50 million in EBITDA, with a core focus on companies with EBITDA between $7.5 million to $20 million. The management team is comprised of former principals and co-founders of Dymas Capital, led by managing partners Al Ricchio, Ken Leonard, and Andy Marek. Mr. Ricchio calls the new senior lender…"an extremely well established team that has partnered with a relationship-focused, alternative asset manager to provide optimal solutions to our middle market clients."

The group closed its first transaction in December 2011 and has a number of additional financings expected to close shortly. The new senior credit fund builds off of Kayne Anderson's successful middle market lending platform, which closed a $600 million mezzanine fund in 2010. In addition to being a generalist lender, the senior credit fund will be able to take advantage of Kayne Anderson's extensive expertise and deal flow in several sectors, including energy.

"Because of our senior and subordinated debt capability and our relationships, we should be viewed as a whiteboard lender," Ricchio said. "Whatever the capital need is of the particular company or the particular transaction, we can provide a solution, and we are not scared off by transactions that have a higher degree of difficulty, so long as we can ultimately prove through due diligence that we are lending to a business with a durable cash flow profile."

### TCF Bank launches TCF Capital Funding

In February 2012, TCF National Bank ("TCF Bank") launched a new division, TCF Capital Funding, specializing in asset-based and cash flow lending to lower middle market businesses. National in scope, this senior leveraged lending group focuses on providing asset-based loans and private equity sponsor-backed cash flow loans to companies with less than $100 million in revenue and between $2 million and $10 million of EBITDA. The management team is comprised of former principals of MFC Capital Funding, including Joe Gaffigan, Ed Ryczek, and Thom Karle, which over the past five years, completed more than $600 million in commitments working directly with companies and also with more than 30 private equity sponsors in the lower middle market.

TCF Bank is a subsidiary of TCF Financial Corporation (NYSE: TCB), a national bank holding company with $19 billion in total assets. "TCF Bank is well-capitalized and has a desire to grow the commercial side of the business. It was important for us to partner with a bank that was interested in pursuing a national strategy to finance lower middle market businesses," Joe Gaffigan said. "Throughout our careers, we have focused on serving the smaller companies and private equity sponsors, and we believe that our combined experience and unique product offering provide us with a competitive advantage in the lower middle market. Today, particularly for transactions with less than $5 million in EBITDA, there is significantly less lender depth, and equally important, lender expertise. We established TCF Capital Funding to help fill that void," Gaffigan added. "The market has already welcomed us back warmly, and we are pleased with the deal flow that we are seeing. TCF Capital Funding is a committed lender to the lower middle market, and we look forward to significant growth in the years to come."



# State of Middle Market Financing in the U.S.

## CAPACITY

### BANKS (cont. from Page 6)

"Even though banks are getting more involved, their credit committees are saying, 'We want to be in this market, but we're not going to chase mediocre, riskier credits. If they like a deal and it is a good business, you will see banks get aggressive on pricing, not structure," commented Mike Foster at Midwest Mezzanine Funds. "Banks have a box and if they can play inside of that box, they are being very aggressive," added Rich Jander at Maranon Capital. "For asset covered deals or smaller deals that might be in-market, we see them playing very aggressively in the lower middle market. However, once you dial outside of that box for leverage or amortization, they are not going to meet the structural elements of the deal."

"In general, I would say that regional banks are slightly more aggressive this year. They are more aggressive within their existing footprint, and that footprint is expanding for some," remarked Doug Goodwillie, a managing director at Kayne Senior Credit Fund. "The more unusual or complex a company, the less the banks generally want to play a role. For example, can they come in and provide a comprehensive financing solution for a $75 million cash flow deal? I certainly don't think most banks are playing in that space."

### BDCs

When the credit markets tightened during the second half of 2011, BDCs saw the window to raise capital close. As a result, BDCs exhibited more discipline and became more selective with their capital. That same behavior continued into Q1 '12 with respect to capital deployment and pricing, surveyed lenders said. BDCs were less active over the last couple of quarters based on net new originations, according to public filings. As the market opened up to some BDCs for capital raising in Q1 '12, lenders say the competitive dynamic has noticeably increased because of the pace at which fresh capital must be deployed.

The BDCs that have been able to raise capital continue to be active participants, and the unitranche product is gaining greater acceptance, lenders said. Because of their return requirement, the natural place for BDCs to play is in unitranche and for mezzanine opportunities. As yields have been coming in, BDCs have been getting more aggressive on structure. BDCs are wrestling with equity valuations, commented surveyed lenders. "With market levels trading up, there are certainly new entrants at the window trying to get them done. But there is still a lot of volatility in the public markets, and it is still difficult for BDCs, even with the net asset values now trading around par," Goodwillie added.

Surveyed lenders speak to a bifurcation in the market, with the existing larger players continuing to go up market (EBITDA of $25 million and up) because the BDC is just one part of their strategy. Those players have different pockets of liquidity and have grown substantially. And there are the smaller BDCs that focus more on mezzanine because they need higher yields.

### POCKETS

The greatest shortage of capital is for companies under $5 million of EBITDA across the range of providers. It is also where the greatest need is, indicated Ira Kreft at RBS Citizens Business Capital. "For smaller sponsors there is a need for small cash flow loans (even those with low leverage such as 2.0x to 2.5x) and smaller mezzanine tranches. Providers tend to be more regional than national," Kreft said. Availability improves in the $5 million to $10 million size range but opens up much more above $10 million. Above $25 million, lenders say that the market can be very aggressive, as institutional players will come down into the market and play as crossover investors.

Lenders say weak deal flow has forced some lenders to move down market to try to put capital to work. "While some players in the cash flow market initially focused on deals with $15 million to $20 million of EBITDA and above, as competition has heated up, they have now come slightly down market into the $10 million to $15 million EBITDA size range," Kreft said. "Some lenders are lowering their investment criteria and targeting slightly smaller companies, those with 20 to 30 percent lower EBITDA. It is reflective of the market in that they need to broaden their investment criteria to get the deal flow that works for them from a pricing and structure standpoint," added Colin Cross, a senior managing director at Crystal Financial. "The question is how low will they go and how long will they stay down in the lower end of the middle market?" commented Randy Schwimmer at The Carlyle Group. "If a company looks attractive and it has all the quality attributes—sustainable cash flows, defendable niche in a healthy industry, strong management team—we'll view a $10 million EBITDA company the same way we would a $20 million EBITDA company. But if it has any hair on it, then we want to see a little more critical mass," offered Paul Harris at RBS Citizens.

The line of delineation is blurring, and the quest for assets is leading to more aggressive behavior, which is even trickling down into the sub $10 million EBITDA market, some lenders say. "We are seeing some of the banks come down market, especially on the smaller deals, where they can take the entire facility down and maybe have to sell off a ticket or two," said Mark Tauber, a managing director at CapitalSource. "It is competitive for all deals. If it is a good credit, there are lenders trying to take it down."

"I expect the senior cash flow market to be more aggressive this year, and that includes the sub $10 million EBITDA market," offered Ken Berryman at CapitalSouth Partners. "We are looking in the $5 million to $10 million EBITDA space and are seeing a pretty healthy bid out there for loans. If I can call three lenders and get competitive quotes, I call that market healthy, even if it may just be the top five firms in the senior lending business."





# State of Middle Market Financing in the U.S.

## CAPACITY

### POCKETS (cont. from Page 8)

### THE SUB 10

Lenders surveyed say liquidity is returning. The market is competitive, and deals are getting financed. Regional and local banks are very active. Core middle market players are lending into the space. The unitranche product is also gaining traction as a one-stop solution in a market with less depth of senior lenders and a higher degree of selectivity of assets. And for deals getting done on an ABL stretch basis, the risk tolerance of asset based lenders has increased. "We are seeing more and more cash flow lenders that are willing to finance companies down to $5 million or $6 million in EBITDA," commented Brian Schneider at Northstar Capital. Companies must have very strong fundamentals, and there is not a lot of tolerance for noise in the story, surveyed lenders said.

"There is no challenge in getting a quality $5 million EBITDA business financed. We do it. Our competitors (referencing Madison Capital and NXT Capital) will look at those opportunities. It's not only enough lenders, it's competitive. If you have a good company, no matter what the size is, you will get it financed. It is more a matter of finding something we like." "We participate in the lower middle market quite frequently. For good, solid credits that happen to have a smaller business and smaller EBITDA, there still is financing available on terms that would make sense to a sponsor, no question about it," offered Robert Radway at NXT Capital, LLC. "The general receptivity of a transaction closer to $5 million of EBITDA will be much lower and the selectivity on the part of lenders greater than you would see for EBITDA above $10 million."

"We are seeing a fair amount of senior cash flow lenders that will look at opportunities north of $3 million to $4 million in EBITDA," commented Steve Kuhn, a vice president in the Structured Finance Group at Fifth Third Bank. Fifth Third provides senior cash flow loans to middle market companies with EBITDA between $3 million and $15 million. "Banks are very active in the space. I have not seen a deal that we looked at where somebody came back and said they couldn't find a senior lender."

"Cash flow lending is alive and well. And there are definitely banks that have a strategy of financing smaller EBITDA cash flow deals, so much so that there are even asset based shops chasing those transactions," added Paul Harris at RBS Citizens. "Sponsors are telling us that there are banks willing to do 24 and 36 months of collateral shortfall, when they usually don't do any air. Seeing an asset based group take a cash flow approach is a sign of how competitive the market is right now."

### MEZZANINE

Mezzanine is feeling the pressure of slow deal flow as competition has increased from a growing list of institutional mezzanine funds, bank mezzanine funds, and SBICs. The market is competitive across the EBITDA size spectrum. Unitranche term loans have become more of a competitive factor as the product gains favor.

"We're in a distorted market because of the lack of supply and excess liquidity," commented Ken Berryman at CapitalSouth Partners. "You have to fight hard to be able to get what you're going to get and be flexible and creative." The dynamic of increasing valuations in the current environment has been favorable for capital providers given better than average demand for mezzanine for buyers to be able to afford companies, Berryman said.

"Mezzanine lenders are trying to fight the fight today," said Mike Foster at Midwest Mezzanine Funds. "Lenders are taking the view, 'We haven't been able to put a lot of money out over the last few years. If it is a good company and a good sponsor, am I going to risk losing the opportunity to make an investment for 100 basis points? Is it really going to change my return that much?" Foster added, "There is a lot of capital chasing deals. And lenders are really only focusing on good deals, so when they find one, they are willing to aggressively price it."

> "Seeing an asset based group take a cash flow approach is a sign of how competitive the market is right now."
>
> —Paul Harris
> RBS Citizens



# State of Middle Market Financing in the U.S.

## COMPANY PERFORMANCE

With the Great Recession in the rear view mirror, lenders are taking a harder look at quality of earnings and the sustainability of future cash flows. They are examining how well business models stood up during the downturn; how companies performed relative to their competitors; and how proactive management teams were in addressing cost cutting and right sizing the business—doing what was necessary to mitigate the impact of the recession. In addition to showing some resiliency, companies need to demonstrate a strong rebound. "We were looking at a company that showed weaker trends relative to competitors which experienced a fairly significant rebound from post-recession lows. We asked ourselves, what is wrong with this company?" offered Mike Klofas at Babson Capital Management.

Lenders say flight to quality is continuing. Competition is fierce for the "super premium" credits, where quality dictates valuation, structure, and terms. However, as market sentiment has improved and risk appetite has increased, lenders have widened their net. There is a broadening of interest across industries. Cyclical businesses are getting more looks. It is easier to find a home for less appealing companies as there are more dollars chasing fewer deals.

> "Companies that we are lending to now have been through the recession. We have seen how they have responded and how management has done its job. We have some comfort that they can weather the storm."
>
> —Steve Robinson
> GE Antares Capital

## Scorecard

**Lenders sound off on how performance measures up for companies in the middle market:**

"Company performance has been on plan but not exceptional. Companies are finding it difficult to raise prices and margins are always under attack, whether it is commodity price increases that can't be fully passed along or customers getting a little bit sharper on price. It is challenging to find organic growth."
*Rich Jander, Maranon Capital*

"There are haves and have nots. Some businesses have performed well through the downturn and are showing double-digit growth because they are in the right sectors. The number of companies not performing well is fewer now, and I think the overall trend continues to be favorable."
*Randy Schwimmer, The Carlyle Group*

"In many transactions we are evaluating, the trailing-twelve month period that we are looking at is the best period that the company's ever had. It is difficult to get comfortable that what we are seeing now is sustainable."
*Steve Kuhn, Fifth Third Bank*

"Companies have rebounded nicely from the 2008/2009 time period. In some cases, they might have reached a high point depending on the business they are in and basic fundamentals in terms of demand and growth potential. I do think that there is some susceptibility to a downturn based on the fact that a lot of the improvements in EBITDA have come from efficiencies and cost takeouts. The pertinent question is can you find ways to sustain EBITDA even if you see a falloff in demand?"
*Robert Radway, NXT Capital*





# State of Middle Market Financing in the U.S.

## COMPANY PERFORMANCE

### QUALITY DEFINED

Now that the survivors have proven their staying power, selectivity rests on differentiation and growth prospects of businesses. There are a number of attributes that define quality, and "...you know it when you see it," said Scott Reeds at RBS Citizens.

**Setting the Bar:**
Lenders are looking for high marks on attributes such as:

- High free cash flow margins
- Differentiation of the business
- Diversification of the business
- Industry and market niche showing growth
- High barriers to entry
- Defensible market position
- Growth prospects

Higher multiples are being paid for those companies that have recurring, quantifiable revenues; stable and predictable cash flows; double-digit EBITDA margins (high teens to 20 percent-plus); and better clarity on their forward earnings.

### PAYING FOR GROWTH

Growth has been stable for most middle market businesses. Lenders feel like the economy is on more sound footing which makes it easier to underwrite reasonable projections. Unless there is an industry- or company-specific phenomenon that justifies above-average growth, lenders are relatively conservative in modeling growth over the next few years given the outlook for the economy. "We don't think it is prudent to say businesses will grow at double-digit rates over the next few years. Even for the well-performing companies, spectacular growth is tough to find," commented Rich Jander at Maranon Capital. "You are underwriting a lower growth profile than you would have been, say in 2007. For the middle-of-the-road company, you are banking on them staying flat in the current economic environment." Ward Mooney, chief executive officer at Crystal Financial added, "There are a lot of companies in many sectors that are trying to figure out how to grow their top line over the next three to four years."

In the slow economy, acquisitions remain vital to growth. Discussions with lenders indicate that companies are struggling not so much with EBITDA growth but with top line growth. Companies have made great strides from an operating efficiency perspective but growing the top line is still challenging. They have started taking a hard look at acquisitions to boost revenue growth. "Everyone has had a pick at the carcass over the last few years so you can't cut to get to EBITDA improvement. You have to figure out how to grow into new markets or acquire new customers; you have to go out and find add-on acquisitions, all of which is very difficult to do," Jander commented. "If a sponsor is paying 8x or 9x for a company and it is going to be difficult to grow that business organically, they are going to be doing a lot more add-on acquisitions."

Buyers have to pay up for growth. High single-digit, double-digit growth combined with strong free cash flow will garner a premium multiple, which in today's market seems to start at 8x. Transformative businesses are growing organically—those that are realizing the benefits of automation, outsourcing, or scale. Platforms in industries that lend themselves to natural roll-up strategies help support a growth thesis. Some lenders say that consistent growth, while not "spectacular," combined with other key elements of quality, such as high margins and high barriers to entry, will still warrant a premium valuation in the market today.

### SECTORS IN FOCUS

The general recovery of the economy is helping many industries. Most are seeing steady improvement, with the frequently cited business services, healthcare, and technology sectors seeing greater lender interest, which mirrors private equity investment activity. Sponsors are spending their time and their money on industries where there are likely to be better than average growth prospects, even in a down or flat economy, high margins, and high free cash flow.

"Areas within technology look pretty strong," commented Mike Foster at Midwest Mezzanine Funds. Companies have been deferring capital investment and are reaching the point where they need to start spending money, whether it is on machinery and equipment, technology, or software, Foster said. "A number of our portfolio companies are looking to spend more on their capital budgets than they have in four or five years," Foster added. "There is a lot of pent up demand for business spending that has to happen."

Energy is seeing an influx of deal flow, most lenders said, with some conveying surprise by the level of senior lender activity in the space. The industry warrants specialization, and some lenders lack the necessary capability and resources to devote to the sector, said some survey participants. Given the highly cyclical nature of the industry,

> "We are certainly poised to finance transactions. The question always is, do we like the deals. Are the companies of quality, and are the structures appropriate. That is the 'x' factor."
>
> —Ken Berryman
> CapitalSouth Partners

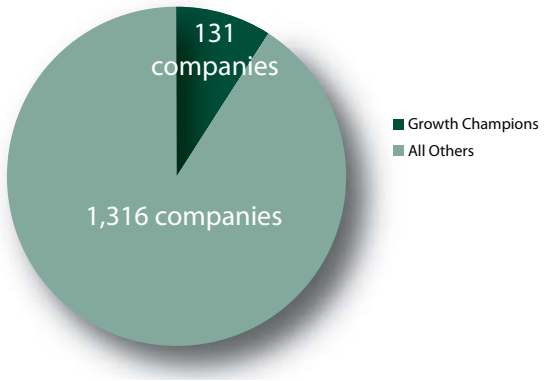


# Achieving Growth

The *Middle Market Indicator* (MMI), a survey released in April 2012 by The National Center for the Middle Market,[1] analyzes the business performance and outlook of U.S. middle market companies. The MMI surveys more than 1,000 C-Suite executives of middle market companies with annual revenues between $10 million and $1 billion and is designed to reflect the 195,000 companies that comprise the "middle market" in the United States.

Key to the analysis was an examination of revenue performance, which analyzed growth during the post-recessionary period as well as projected growth (NTM revenues) of companies surveyed. Companies were defined as "Growth Champions" if growth exceeded 10 percent on both measures.

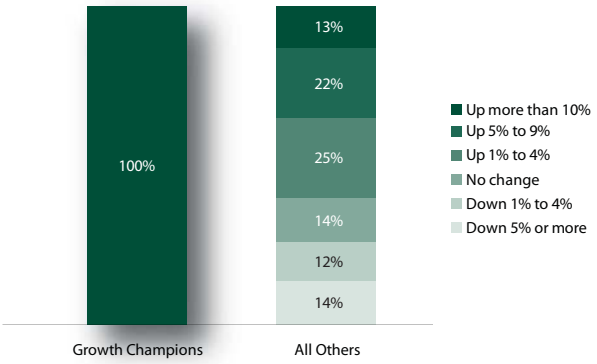
## The Companies



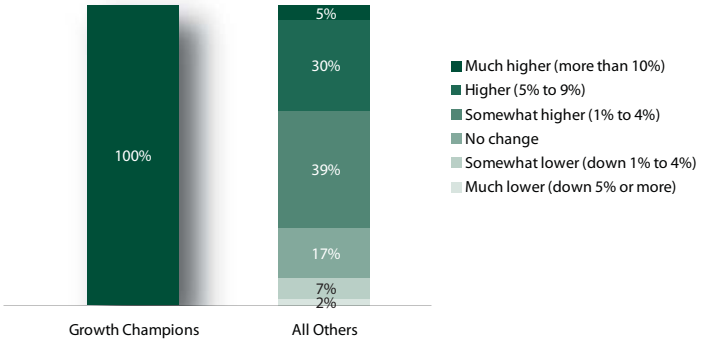

## Survey highlights:

- More than one-third of middle market executives reported greater than 10 percent revenue growth for 2010 versus the pre-crisis 2007-2008 period, which compares to 25 percent of large businesses (greater than $1 billion in revenue) and 28 percent of small businesses (less than $10 million in revenue) which reported similar results.
- Middle market companies are forecasting 7 percent growth over the next 12 months, which exceeds by nearly 50 percent the 4.7 percent growth projected for S&P companies over the same period.
- Eighty percent of surveyed companies expect to grow in 2012.
- More than 70 percent reported increased gross revenue in Q1 '12 compared to the year-ago period.
- Growth is moderating, down from 8.4 percent recorded in the previous 12 months.

## Revenue Growth - Post Financial Crisis




## Anticipated Revenue Growth - Next 12 Months




[1] *Partnership between The Ohio State University Fischer College of Business and GE Capital*
*Source: The National Center for the Middle Market.*





# State of Middle Market Financing in the U.S.

## COMPANY PERFORMANCE

### SECTORS IN FOCUS (cont. from Page 11)

critical to lenders is understanding the sponsor's mindset on hold period and making sure the capital structure is appropriate to withstand a downturn. "I think we are in the very early innings for investing in these ancillary businesses that are going to support drilling activities," said Steve Gurgovits at F.N.B. Capital Corporation. "The challenge will be finding the niche companies that already have a strong base business but are seeing incremental growth because of these developing shale plays."

Manufacturing and industrials have received more attention because of the trajectory of the economy. Food is still garnering interest and healthy valuations because of the safety factor, even though companies are generally slower growth.

Lenders are skeptical of business models that heavily rely on government funding. Under greater scrutiny are post-secondary for-profit education, defense, and healthcare. Some survey participants said lenders are filled up in the education space. Regulatory uncertainty has put pressure on valuations, with "value" plays presenting a buying opportunity for some sponsors. Reimbursement risk is a red flag within certain areas of healthcare, causing some lenders to be wary. "In healthcare, regulatory uncertainty related to the Affordable Care Act creates more headline risk than practical risk to most companies," said Howard Widra at healthcare lender MidCap Financial, LLC. "There is nothing about the act that takes money out of the system. There certainly are sectors that have real exposure and reimbursement will change. However, the view that before healthcare was defensive and less volatile and now is more volatile is a misunderstanding of the practical implications. There is a separate risk and that is state budget issues, and therefore funding for certain healthcare services through Medicaid is under more scrutiny." Widra said within the broader healthcare industry, areas of particular interest include healthcare IT and preventive medicine.

### HUNGER FUELS GROWING RISK APPETITE

As the economic climate has improved and company performance is strengthening, growing confidence has hungry lenders expanding their risk appetite. "There is more optimism that companies are performing better; therefore, lenders are more willing to go back into some sectors that they probably put a stop on," commented Ryan Golding at CapitalSource. "People aren't in the defensive investing mode as much anymore; they are broadening out a bit," commented Ken Berryman at CapitalSouth Partners. "We are looking at cyclicals again. They have to demonstrate they are on the front end of the growth curve again. I think that would imply we are taking full risk in deals again. I believe that others are too since we are seeing competition for those deals." Scott Reeds at RBS Citizens, added, "Cyclicals can get financed in today's market, whereas 12 months ago it would have been tougher. Those deals are still going to be modestly leveraged and with the right structures on them." Auto continues to be under scrutiny, although those companies have shown the greatest improvement in performance over the last six to nine months according to surveyed lenders.

Lenders say competition is the fiercest around the premium credits in the market, where you will see banks and other low-priced providers compete hard for a seat at the table. The non-premium credits are not the core focus for most middle market players, according to Doug Goodwillie at Kayne Senior Credit Fund. "Businesses that cycled and dipped 20 percent on the EBITDA line, that right-sized their cost structure, can provide fairly attractive financing candidates. You can really test your downside cases versus that downturn," Goodwillie said. "There are lenders like us that are willing to dig in and learn a little bit more and get those transactions done. It is just a lot less competitive in those situations."

Industries that went through severe downturns—automotive and building products—are showing varying degrees of interest from lenders, indicated Ira Kreft at RBS Citizens Business Capital. "In the automotive industry, companies reduced their costs and break-even points and are now generating strong cash flow on higher sales volumes. The industry drew increased interest from senior lenders and sponsors last year. The recovery has been slower in building products. Cost cuts have not been enough to generate positive cash flow and companies are still awaiting sales volume increases. Private equity sponsors and lenders that have shown a willingness to play in this sector are taking the view of getting in at the bottom with a return to profitability and cash flow close on the horizon." Most lenders agree that building products requires a pristine deal to get attention. Some believe there will be more opportunities coming to the market towards the back half of the year.

> "Lenders have a greater tolerance for risk. This is true from a leverage perspective for good companies that have performed well, but it also includes weaker companies in challenging industries such as building products, where certain lenders have a view that conditions are improving and this may be a good time to lend."
>
> —Ira Kreft
> RBS Citizens Business Capital



# State of Middle Market Financing in the U.S.

## VALUATION

Lack of supply coupled with surplus capital is creating a highly competitive M&A market and driving up purchase multiples, with lenders calling the current environment an aggressive market for buyers. Higher quality companies, irrespective of industry or size, are attracting full prices. Several themes were evident from lenders' observations on valuations in today's market:

**The quest for quality assets is fueling a bifurcated market:**

"There is a group of buyers that only looks for quality. They have concluded that if you buy quality, you can earn attractive returns. There is another group that believes you can change many things about a company, but you can never change the purchase price. Those buyers don't want to pay 9x or 10x. They are looking for businesses at 6x. They want to fix something up. Very rarely have we seen a deal in the 7's. Usually every process has to be at 8 or 9 times-plus to make it."
*Andy Steuerman, Golub Capital*

We are seeing the very attractive businesses (the "haves") get bid way up to 8x or more. The really storied or cyclical businesses (the "have nots") remain at muted levels of 5x to 6x. We are seeing the in-between or middle ground companies, which can be very strong businesses that happen to have slower growth or are modestly cyclical, in the 6.5x-7.5x range. The level of discipline from buyers ranges across that spectrum. If it is a really attractive business, there is less discipline."
*Scott Reeds, RBS Citizens*

"Flight to quality is driving the market. I am not seeing many 7x purchase multiples. I am either seeing 9x-10x, or I am seeing 5x. There really are very few down the middle-of-the-fairway transactions."
*Scott Turco, THL Credit*

"Overall, the trend has been toward higher multiples as competition for good deals is fierce. We see a lot of good middle market companies going for 7x–9x EBITDA. For companies with weaker business value characteristics, we see deals in the 4x-5.5x range."
*Ira Kreft, RBS Citizens Business Capital*

**Buyers are paying for growth:**

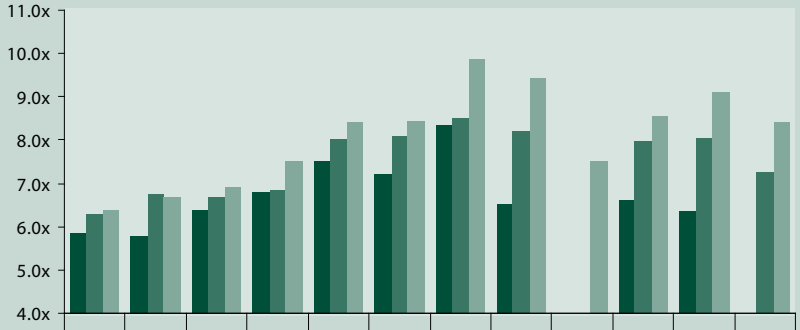
"High multiples are all about growth. Size is less of a factor."
*Andy Steuerman, Golub Capital*

"At the multiple levels we are at, sponsors are betting on growth because you can't pay those multiples without it. You're not going to find a 5x-6x deal unless there is a story to it or a size or leverage issue."
*Ken Berryman, CapitalSouth Partners*

"For the high quality companies that come to market, buyers are paying up for those businesses. Any companies that are showing real growth, assuming you buy into the growth story, probably will trade for 9x to 10x or more."
*Scott Turco, THL Credit*

### Purchase Price Multiples in Middle Market LBO Transactions

*EBITDA Valuation Multiples by Transaction Size*




| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | YTD Apr '12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| <$250 million | 5.9x | 5.8x | 6.4x | 6.8x | 7.5x | 7.2x | 8.3x | 6.5x | NA* | 6.6x | 6.3x | NA* |
| $250-$499 million | 6.3x | 6.8x | 6.7x | 6.9x | 8.0x | 8.1x | 8.5x | 8.2x | NA* | 8.0x | 8.0x | 7.2x |
| $500 million+ | 6.4x | 6.7x | 6.9x | 7.5x | 8.4x | 8.5x | 9.9x | 9.4x | 7.5x | 8.5x | 9.1x | 8.4x |

*NOTE: Data not reported due to limited number of observations for period.

Source: Standard & Poors LCD.





# State of Middle Market Financing in the U.S.

## VALUATION

**Buyers are paying for growth:**

"Sponsors are prepared to pay up for a platform, expecting to add-on a number of acquisitions at lower multiples. With the cost of capital lower and required return lower, they can afford to pay higher multiples."
*Robert Radway, NXT Capital*

**Lenders are supporting higher valuations:**

"We have seen a few transactions this year, all involving companies with less than $10 million of EBITDA, starting at a 7x purchase multiple. The incumbent lenders wanted to stay in the deals pretty badly, so were putting out fairly aggressive leverage numbers. It is as much about asset retention as it is about growing."
*Brian Schneider, Northstar Capital*

"If there is any trend that we've seen year over year is an increase in multiples. In some situations, we have seen companies selling at 9x that should have been selling for 7x-7.5x. Some of that inflation is fueled by the private equity capital overhang, coupled with lenders moving down market and putting out some aggressive term sheets."
*Tim Clifford, Abacus Finance*

"The scarcity factor is pushing up multiples. The best companies can always fetch a premium, but multiples are elevated even for lesser quality companies because of scarce deal flow. We're not immune to it. If we like a deal, we have to make a determination. The market is going to be competitive, how competitive do we want to be. We have a scarcity of loans, and we have to pick our spots."
*Andy Steuerman, Golub Capital*

**Strategic buyers are active:**

"Strategic buyers, who have considerable liquidity and the need to demonstrate growth, have put upward pressure on multiples."
*Ira Kreft, RBS Citizens Business Capital*

"There are a lot of strategic players sitting on a ton of cash that are looking for ways to grow. That is keeping private equity buyers pretty honest from a pricing perspective."
*Bob Erwin, Babson Capital Management*

"Strategics absolutely have played a bigger role in middle market M&A processes in 2011 and 2012."
*Rich Jander, Maranon Capital*

**Size matters but quality is the trump card:**
For many sponsors and lenders, EBITDA size is a defining measure of quality. Lenders say as you move up the EBITDA scale to $15 million or more, the large company premium can equate to a multiplier of 1x or more of EBITDA added to the purchase price, with multiples commonly starting at 8x. And as you move down the EBITDA scale to $5 million and below, lenders observe that the multiple falls, consistently averaging in the 4x-6x range.

> "You have a scarcity of product. You have lenders with targets that need to put out money. You have a private equity capital overhang. You have buyers required to overpay because of scarcity of product—which all leads to collective froth."
>
> —Andy Steuerman
> Golub Capital

Some lenders say quality often matters more than size, and even smaller companies are garnering healthy multiples in the current environment. "For companies that have all the attributes of quality: high growth, double-digit margins, experienced and deep management teams, and a strong value proposition, they are fetching multiples north of 8x EBITDA," commented Tim Clifford at Abacus Finance. Clifford recalled looking at three different opportunities this year, all won by private equity sponsors, that were bid at 9x EBITDA. In each case, the EBITDA of the company was between $5 million and $10 million.

"Very attractive companies are getting fully priced and are trading for 8x-10x. Even smaller companies can attract higher multiples if they performed well through the downturn and have some growth aspect to them," offered Preston Walsh at PNC Mezzanine Capital. "There always used to be some historical protection in the lower market, where you could get a good company for a six handle. We haven't seen anything less than 7x in this marketplace, even for businesses with less than $10 million of EBITDA. Seven times seems to be the entry ticket to get to the next round," added Mike Klofas at Babson Capital Management.

**Even amid today's frothy market, buyers are maintaining discipline:**

Corporate and private equity buyers have been fairly rational. Although flush with cash, strategic buyers have been disciplined, according to Ira Kreft at RBS Citizens Business Capital, who recalled recent deals where the buyers pulled back significantly on valuations during the sale process as economic reality or company-specific issues became clearer. "Some privately-owned companies have the expectation that a strategic may come into the sale process and pay an above-market price for their company, but we have not seen this. Rationality has generally prevailed," Kreft said. "Quality businesses are getting bid up to high multiples. That is not that different than last year. I think you are seeing more discipline around the lesser quality or cyclical businesses. They are still getting healthy multiples, but I don't think you're seeing irrational things done," added Scott Reeds at RBS Citizens.

Deal flow will be the litmus test for valuations, said Mike Foster at Midwest Mezzanine Funds. "In an environment where there is excess liquidity and the only deals are good deals, it is great for a seller. If the market really does heat up, as it appears to be in the process of doing, and there is more activity and more capital being deployed, will sponsors be choosier and push back on valuations?"



# State of Middle Market Financing in the U.S.

## TERMS AND STRUCTURE

### SUMMARY HIGHLIGHTS

- The supply demand imbalance in the market is putting pressure on pricing and terms. Broadly, senior leverage has moved up a quarter turn to a half turn from Q4 '11. The total leverage multiple has crept up with greater availability of financing options, from mezzanine and unitranche to second lien facilities.

  "There is a flight to quality, and once senior lenders find a quality deal, they are comfortable putting on more leverage," said Brian Schneider at Northstar Capital. "Before, the senior leverage multiple might have been 2.5x; if a senior lender likes a quality asset, they will put on 3x-3.5x leverage." "We are very much in a binary credit world. It is, I'm either going to lend that capital, or I'm not," added Scott Turco, a director at THL Credit. "If financing the transaction, lenders are going a little bit deeper on leverage, largely driven by senior attachment points."

- Banks are trying to stay competitive by being more aggressive on pricing and going deeper on leverage for the higher quality credits. Bank senior leverage today is in the 3x-3.5x range versus 2.5x two years ago. Lenders said that 3.5x is the high end of senior leverage; to get there, banks need to show some modest amortization. "In this market, the mentality is, if we're in good assets, let's keep the good assets," Schneider commented. "If a bank is the incumbent lender in the deal, and the company has performed well and the credit committee likes it, the mindset is, 'Let's just double down.' To protect the asset, they might put on an extra quarter to a half turn of leverage or lower a closing fee to win a deal."

- Many sponsors are being prudent and not always taking the highest level of leverage being offered in the marketplace. Lenders see some sponsors dialing leverage back a quarter to a half turn off of what is being proposed by some senior lenders.

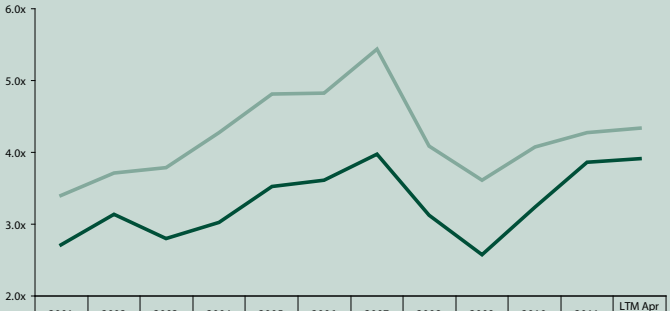
- Senior institutional spreads have tightened 25 to 50 basis points from Q4 '11. Libor floors have come in 25 basis points and range from 1.0% to 1.5%.

- Middle market lenders are keeping a watchful eye on the large market, where some behaviors are reverting back to those we saw in 2007. "The behaviors that we experienced in 2007 are some of the same behaviors that we are starting to see again, particularly in the large market," commented Preston Walsh at PNC Mezzanine Capital. "The top end of the market ($30 million-plus) EBITDA is going back to 5x senior and 6x+ total leverage and covenants have gone from 4 to 2 if you get them at all." "It feels like 2007, with the only difference being at least now the EBITDA levels are not artificially inflated because we are several years into a recovery coming off a severe recession," added Andy Steuerman at Golub Capital. Covenant-lite is making a return, although surveyed lenders say not to the same level as in 2007, and not in the lower market.

  "You are going to find those transactions where lenders are absolutely willing to stretch on leverage based on a name, the sponsor, and the cash flow profile of the company," offered Rich Jander at Maranon Capital. "But broadly speaking, I think lenders are being pretty selective. And even though they are hungry, they are looking at opportunities and saying, 'Is this the kind of credit that I want to live with in an economic environment that may still be a little bit shaky.'" "We haven't seen irrational behavior just because the deal market is a little thin," added Ian Larkin at Maranon Capital.

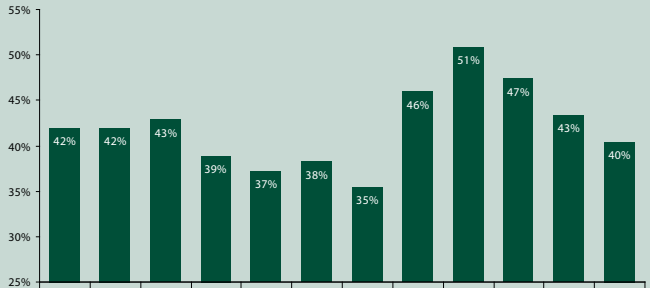
### Acquisition Financing Trends

*Leverage*




| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | LTM Apr '12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Senior Debt/EBITDA | 2.7x | 3.1x | 2.8x | 3.0x | 3.5x | 3.6x | 4.0x | 3.1x | 2.6x | 3.2x | 3.9x | 3.9x |
| Total Debt/EBITDA | 3.4x | 3.7x | 3.8x | 4.3x | 4.8x | 4.8x | 5.4x | 4.1x | 3.6x | 4.1x | 4.3x | 4.3x |

*Equity Contribution*




| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | LTM Apr '12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Equity Contribution | 42% | 42% | 43% | 39% | 37% | 38% | 35% | 46% | 51% | 47% | 43% | 40% |

*Middle market enterprise values between $25 million and $500 million.*
*Source: Standard & Poors LCD.*





# State of Middle Market Financing in the U.S.

## TERMS AND STRUCTURE

### EBITDA below $10 million

Broadly, multiples dial back a quarter to a half turn in leverage when you dip below $10 million in EBITDA, surveyed lenders said. The senior leverage number is fairly volatile in the lower market and can range anywhere from 2x to 3.25x depending on the credit profile, lenders say. "Because purchase price multiples have increased, in certain situations we are required to put more leverage on a structure," commented Tim Clifford at Abacus Finance. Clifford indicated that leverage multiples in the lower market have increased from 2.5x/3.5 a year ago and are now closer to 3x/4x today, which is a function of increasing valuations and more competition in the marketplace. "The regional banks typically are going to offer lower leverage at 2x-3x and want straight-line amortization, so they will not be as competitive, certainly in today's market. There is no question that the larger banks are competitive, not just on price but now also on leverage."

#### Leverage

For a senior mezzanine execution, senior leverage will be in the range of 2.5x-3x. Total leverage will be in the range of 3.5x-4x. For a senior stretch execution, leverage will be at 3x. Leverage for a unitranche facility is matching the leverage level on a comparable senior mezzanine execution.

#### Pricing

Senior institutional pricing will range from L+500-650 with a Libor floor of 100-150 basis points. Bank pricing will range from L+450-550 with a Libor floor of zero to 150 basis points. Senior stretch facilities will conservatively price up 50-75 basis points on the stretch piece. Unitranche structures are pricing typically at a minimum all-in rate of 10 percent.

### EBITDA between $10 million and $25 million

#### Leverage

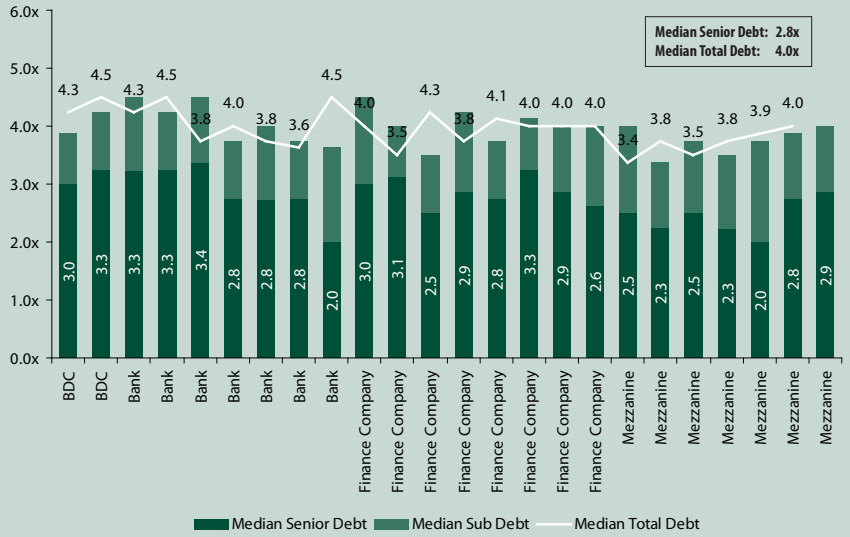
Leverage on a "middle of the strike zone company" can look like 2.75x-3.25x senior and 4.5x-4.75x total. A cyclical business might see a reduction in leverage of a quarter to a half turn, which might look like 2.5x-3x/4x, plus or minus. Lenders say that for really nice credits, 3.5x/5x is a more commonly seen structure today, which compares to 3x/4.5x a year ago. Total leverage of 5x is the outlier for better credits. At the larger end of the EBITDA scale (EBITDA above $20 million), some deals are getting talked up at 4x/6x structures.

Leverage on a senior stretch execution is roughly a half turn less than the total leverage on a comparable senior mezzanine execution. For a senior mezzanine leverage structure of 3x/4.5x, leverage on a senior stretch might look like 3.75x or 4x.

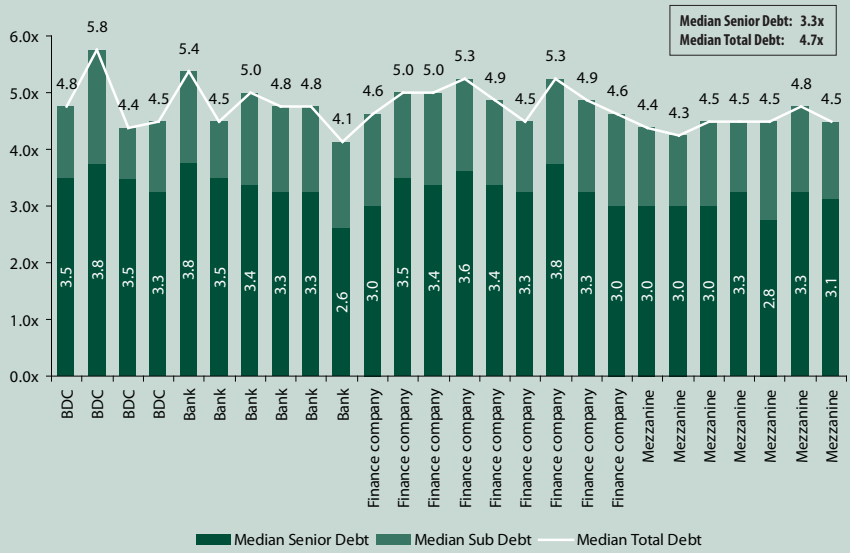
Survey of Capital Providers

*Leverage Multiples (Debt to EBITDA)*

*EBITDA below $10 million*




*EBITDA between $10 million and $25 million*




*Source: BGL Research.*

# State of Middle Market Financing in the U.S.

## TERMS AND STRUCTURE

**EBITDA between $10 million and $25 million**

**Leverage**

Leverage for a unitranche facility is matching the leverage level on a comparable senior mezzanine execution. If the mezzanine goes to total leverage of 5x, some lenders say leverage can dial back a quarter to a half turn.

**Pricing**

Middle market senior spreads tightened from Q4 '11 by 25 to 50 basis points in response to market competition. Senior institutional pricing will range from L+500-550 with a Libor floor of 150 basis points. Bank pricing will come in 100-150 basis points lower on the spread typically with no Libor floor. Senior stretch pricing will range from L+575-625 with a Libor floor of 150 basis points. Unitranche structures are pricing at all-in rates of 9-11 percent depending on size and credit profile.

### TERM B

Lenders cited a return of the bifurcated Term Loan A and B structure in deals. There is availability of Tranche B money for companies with $8 million in EBITDA and up, with greater availability at the $10 million to $15 million levels, indicated Ira Kreft at RBS Citizens Business Capital. "Within these structures, a bifurcated collateral package has been more of the norm, but second lien structures can get done. Institutional Term Loan B deals are more common for larger middle market companies, where the size of the Term Loan B is over $100 million, with the best execution for those where the Term Loan is $150 million or more to provide additional liquidity for investors," Kreft said. Term B will be used in structures where leverage is not being pressed to accommodate bank participation in the deals.

### MEZZANINE

Competitive pressures continue to tighten mezzanine pricing, with lenders citing a coupon of 11-12 percent cash pay and 1-2 points of PIK. Mezzanine lenders surveyed said they continue to get equity co-invest in deals but no warrants, with some exceptions in the case of smaller deals, storied credits, and dividend recaps. All-in rates on smaller deals are pricing in the 14-15 percent range and 13-14 percent in larger deals.

### SECOND LIEN

Traditional second lien pricing will range from L+ 900-1000. Facilities are used when EBITDA size exceeds $20 to $30 million, said lenders surveyed. Lenders speak to the use of split-lien facilities in the lower market where asset based lenders partner with a cash flow provider to create a cash flow facility.

### EQUITY

Sponsor equity contribution is trending down, averaging between 35 and 40 percent, lenders say, indicative of higher leverage structures in deals. Equity contribution declined to 40 percent through the April LTM period—down from 43 percent reported in 2011 according to Standard & Poors LCD, and has continued to trend down from a historical high of 51 percent in 2009. Sponsors are sometimes being required to overequitize the higher multiple deals where equity can top 50 percent-plus.

### TERMS

Sponsors are asking for as few and as loose of covenants as possible, some survey participants said. The middle market is starting to feel pressure, but sponsors are generally not successful getting terms. Lenders provided insights on trends observed in the market:

- Lenders say they are continuing to get covenants in middle market deals but covenant cushions may be slightly wider or sponsor-friendly. In some cases the covenant package is not as fulsome, but maintenance financial covenants continue to be structured in deals.
- There has been some push back on amortization and pressure on larger unused acquisition facilities.
- Bank participants indicated that amortization has moved over the last year from a straight five-year amortization to a straight seven-year amortization. Three- and five-year commitments have gone to five- and seven-year commitments.
- There is increased sensitivity on prepayment provisions. Mezzanine lenders are seeing senior lenders proactively offering refinancing options to portfolio companies. "In Q1 '12, we've had five complete sub debt refinancings and another seven that are in process. It is as high a level of refinancing activity in our portfolio as we have ever seen," said Mike Klofas at Babson Capital Management.
- Lenders are not seeing push back to get a reduction of floors.

### HOLDS

A consistent theme in the market is greater emphasis on hold levels. Competitive dynamics are requiring senior lenders to increase hold levels to achieve loan growth and for positioning to get lead arranger status in deals. Hold levels for the right credits are important, and the more competitive deals with the better sponsors may require larger hold sizes and will have less flex, which is as much deal-driven as it sponsor-driven, lenders said. Hold levels for lead agent status have pushed up from $25 to $35 million to $40 million, and in some cases, $50 to $60 million to win deals.

Broadly, lenders are seeing more interest from banks to either participate or lead cash flow transactions. "All institutions are taking much larger hold levels in deals. Banks are willing, in many cases, to step up in what used to be a club or a small syndication and pitch them as one bank deals," commented Jeff Hastings at US Bank. "We have dramatically increased our hold levels for customers with the idea of picking up lead left or lead right positions in credit facilities. We are really stepping up." "We are willing to take big holds," added Paul Harris at RBS Citizens. "If we like the company, we don't mind putting our balance sheet out there."



# State of Middle Market Financing in the U.S.

## TERMS AND STRUCTURE

### HOLDS (cont. from Page 18)

"Optically, the more balance sheet-oriented lenders are using hold size to their advantage," said Ryan Golding at CapitalSource. "In reality, there is a lot of prudence across the industry dictating where lenders ultimately end up on hold size. There is more discipline in terms of spreading risk and building a more granular portfolio." "Sponsors are careful about who they will allow in a transaction," offered Rich Jander at Maranon Capital. "For lenders, there is still a high degree of selectivity in terms of where and how you play in the capital structure." Most cash flow lenders will look to hold somewhere between $15 to $30 million, said survey participants.

"Some lenders have the capacity to speak for a significant hold position, which is function of either having captive distribution or the ability to underwrite and distribute either concurrent with close or post close," commented Robert Radway at NXT Capital. "There are a handful of lenders, including us, that are able to speak to a fairly sizable hold principally because we have the ability to distribute very effectively." "We've always had a big hold appetite. It is definitely continuing," said Steve Robinson at GE Antares Capital. "We added another joint venture recently that has allowed us, to the extent our partner is interested in the transaction, to increase our effective hold size." "A sizable hold level has become the ticket for a seat at the table for lead arranger on a deal," commented Chris Williams at Madison Capital Funding. "It is not the only factor, but having the ability to speak to a large hold is pretty powerful." Madison's recently announced partnership with Apollo will enable the lender to increase its effective hold size as well.

"If you can provide a full solution where you don't have to syndicate and can speak to the whole debt structure on a buy and hold basis, that puts a lender at a competitive advantage because it provides financing certainty, as well as simpler execution (i.e., no ratings requirements, no pricing flex, etc.)," commented Karen DeCastro at Ares Capital Corporation.

### UNDERWRITING

Arrangers are more comfortable taking underwriting risk today, said survey participants. The market is healthy enough where there is a lot of visibility to getting deals done. "There is definitely more appetite," Williams added. "Because there is so much liquidity in the market, you are seeing lenders stepping up and underwriting. There is still flex associated with those underwritings." "Underwriting appetite is pretty robust. We are using our balance sheet for the right opportunities," Robinson said. "Flex came down in Q1 '12, reflective of a market that is very aggressive as it relates to new deals."

While lenders are more willing to underwrite than they were in the second half of 2011, they are taking a cautious view towards it, and flex terms will reflect that. Depending on the facility, flex can still be relatively wide, lenders said. "We are continuing to see banks arranging and underwriting deals but still with a good amount of flex to protect their balance sheet," DeCastro said. "Anyone who is not a buy and hold investor will continue to maintain flex because of the significant swings we have seen in the market over the past 12 to 18 months."

The club environment that has prevailed during the last few years still carries the day in the middle market, said some survey respondents. "Given macro uncertainty, the sponsors that had good relationships and were well-banked needed to rely on clubs and have become adept at using that dynamic. They still heavily rely on one lender to anchor and arrange the deal but then utilize their existing lending relationships to fill out the club," said Ryan Golding at CapitalSource. "I will say that we have, for the first time over the last quarter, started to see a few middle market transactions where there has been some value placed on a full underwrite."

For a facility size of $125 million or less, there are enough middle market players to get the deal done on a club basis, said some lenders. Above that amount, it will depend on the credit. If it is a "hot" credit, there is enough depth that all the active lead arrangers will be competing to lead and participate in the deal. Other lenders pegged the senior debt requirement between $50 to $80 million to warrant a club. Transactions above that amount tend to involve some degree of an underwritten syndication. "The lower middle market typically requires a sole lender or a two lender execution and the need for underwriting is not as prevalent," said Tim Clifford at Abacus Finance, "provided that you can hold $20 to $25 million."

"I think there is a willingness of arrangers in the middle market to provide underwritten facilities at all size levels," said Scott Reeds at RBS Citizens. "As the M&A market gets a little more heated, I think you are going to see pressure on buyers to support their bids with committed financing. Lenders will underwrite smaller deals if the M&A process dictates it."

> "The right companies with the right sponsors are going to get aggressive financings put in place for them. Businesses with a story or with a lesser name sponsor will get financed, but not necessarily at as attractive terms. This is not such a white hot and deep market where everything is getting done aggressively."
>
> —Scott Reeds
> RBS Citizens



# State of Middle Market Financing in the U.S.

## OUTLOOK

### LIQUIDITY

Capital formation continues to be a concern of lenders, particularly as CLOs begin to wind down in a meaningful way in 2012 and 2013 leaving an apparent shortage of capital to replace the capacity that is going offline. Others believe if the CLO market goes away, the capital markets will find other pockets of money to fill the void. Capacity also hinges on deal flow. "Liquidity is still strong, and there is sufficient senior and junior capital relative to deal flow in the market. However, if deal flow ramps up, it doesn't feel like the supply of senior lenders is that deep," commented Scott Turco at THL Credit.

Survey respondents believe there are a core number of lenders that will continue to provide solid liquidity to middle market businesses, and there is enough financing activity to support them and doesn't create an overheated market. "I think there will be enough capital for good companies, and the middle market will be stable," offered Al Ricchio at Kayne Senior Credit Fund. "I do think the very clean deals will get all of the attention and all of the financing, and there will be deals, either because of cyclicality or other issues, that will require more creativity and the cost of capital is going to depend on the degree of difficulty. Harder working, experienced lenders can bring capital to bear and structure them appropriately to get them completed."

"Banks are always the wildcard," commented Mike Foster at Midwest Mezzanine Funds. "In a better economy and a stronger M&A market, they are much more actively involved, and because there is so much capital available, their participation tends to cause senior pricing to tighten. The banks can overwhelm the senior market depending on their level of participation." Looking ahead, recent proposed legislation governing bank participation in leveraged loan transactions is expected to exert more pressure on structures and more scrutiny on hold sizes which could restrict lending activity.

### LEVERAGE AND PRICING

Lenders are hopeful that M&A volume picks up and pricing and structures will stabilize. We asked lenders surveyed to provide their outlook on leverage and pricing in the coming months:

"We've seen the market swing pretty meaningfully in either direction from quarter to quarter. Whether the driver is an increase in supply or some other external factor, we expect that the market is likely going to turn in the other direction. It is hard to imagine that it will get much more aggressive than it is today."
*Karen DeCastro, Ares Capital Corporation*

"If the market opens up as we expect, it will be a better market for lenders. Lenders will have choice and get more selective. Leverage, certainly for the better credits, will likely stay where it is. Pricing could widen. If volume does not improve, you could see leverage creep up and pricing start to tighten. The market will get better for issuers."
*Andy Steuerman, Golub Capital*

"As M&A activity increases, lenders will be a little more selective, so you will see a better balance and a slowdown in the aggressiveness of the market, which will result in some push back or leveling off of leverage and pricing. Until that happens, certain quality deals will continue to get more aggressive on pricing and structures, while storied or cyclical credits will continue to see push back. Overall, until the market picks up, I would expect continued pressure on structures in the form of loosening of terms - covenant cushions, amortization, etc. - over the course of the year."
*Scott Reeds, RBS Citizens*

"For the premium deals, total leverage has gone up roughly a half turn from Q4 '11 to Q1 '12. Pricing has come down roughly 25 to 50 basis points. We expect to see some movement depending on supply. Leverage may continue to creep up and pricing continue to tighten. The impact of the market cooling will stop multiples from rising significantly."
*Steve Robinson, GE Antares Capital*

"There is better pricing discipline in the market today. Pricing is likely to stay within a relatively tight band or trend slightly downwards depending on new issue volume and sponsor to sponsor activity. Leverage trends are still somewhat unpredictable as the market is still very sensitive to headline risk and can fluctuate from quarter to quarter."
*Ryan Golding, CapitalSource*

"Banks can always compete on price. If leverage continues to creep up the way it has been so far this year, it will be interesting to see if the banks follow suit. That is the next place where they are going to have to go. On the highly leveraged deals (above 3.5x senior and 5x total leverage), do bank structures work so that their cost of capital advantage can come into play? We will see."
*Scott Reeds, RBS Citizens*





# State of Middle Market Financing in the U.S.

## OUTLOOK

### LEVERAGE AND PRICING (cont. from Page 20)

Lenders are concerned that demand will continue to outstrip supply in the marketplace. "We are not in a normalized market in terms of purchase multiples, and certainly at this stage of an economic cycle, we are ahead of ourselves in terms of risk tolerance. I am hoping that with more supply, the market stabilizes," commented Ken Berryman at CapitalSouth Partners. "That being said, there is still a huge overhang of capital to be deployed that even if the deals coming to market increase significantly, it is going to take awhile for it all to clear the market." Mike Klofas at Babson Capital Management added, "I don't know what level of deal flow would be required to meet everyone's capital needs. To me that implies even if deal flow really picks up, it still could be a very aggressive market going forward." "The market will continue to get more competitive and it will be a challenge for lenders to grow in the way they want to grow," commented Howard Widra at MidCap Financial. "Lender demand will outstrip whatever supply of M&A comes to market, resulting in continued compression in yields and deterioration in credit dynamics. Leverage will creep up and spreads will tighten."

### DEAL FLOW

A primary concern for lenders is M&A volume. Limited supply coupled with the capital overhang is forcing competition to be unusually high, and the good deals that come to market continue to be aggressively bid. "I am more worried about deal-specific issues—micro issues, not macro issues. I am more interested in making sure that we continue to find healthy companies to invest in," commented Berryman.

Trending into April, lenders say deal flow has picked up substantially. Evidence of increased deal activity—more sell-side processes underway and deeper forward pipelines—has many lenders believing that 2012 will best 2011 in M&A volume. "Market players are fairly bullish about deal flow for the rest of the year, despite a softer first quarter," remarked Randy Schwimmer at The Carlyle Group. "The financing environment is very receptive to good credits, so private equity firms should feel reasonably confident about getting deals done. And lenders are generally expecting the deal pipeline will continue to fill."

Sponsor-to-sponsor trades are expected to be a significant driver of deal flow this year. "I do think we will see a good balance between supply and demand throughout 2012," commented Robert Radway at NXT Capital. "There are fundamental drivers that will create flow for lenders and will drive good activity levels across the business." Radway pointed to the inventory of more than 6,000 sponsor-backed companies, 68 percent of which have been held more than three years, and the more than $400 billion in purchasing power on the sidelines. "The biggest driver of deal flow for us is sponsor to sponsor transactions," commented Preston Walsh at PNC Mezzanine Capital. "There is a big fund raising cycle coming as the 2006/2007 vintage funds are running their course. There is selling going on to attract interest from LPs. There is buying going on to use the money that GPs have before they complete their investment period."

"We are starting to see more M&A activity, which helps to ease up some of that demand that has been outstripping supply," offered Steve Robinson at GE Antares Capital. "In the first quarter, most deals that were getting launched were getting done and getting done at very favorable terms to borrowers. I would say we've seen some of the froth coming off over the last few weeks. Now lenders are being a little more discerning in the opportunities they will look at. It is still a good market for issuers. There is still a lot of money that needs to be put to work."



# Global Leaders

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ECS REFINING
— recapitalized by —
ZS Fund L.P.
BROWN GIBBONS LANG & COMPANY
ENVIRONMENTAL SERVICES

BATORY FOODS
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Massey Fair
— a portfolio company of —
HIGH STREET CAPITAL
BROWN GIBBONS LANG & COMPANY
CONSUMER

Celsis International Ltd.
— sold —
Celsis | Analytical Services
to
AAI PHARMA SERVICES
— a portfolio company of —
WATER STREET
BROWN GIBBONS LANG & COMPANY
HEALTHCARE

Edgetech
— a wholly-owned subsidiary of
Lauren International, Inc.
— acquired by —
Quanex building products
BROWN GIBBONS LANG & COMPANY
BUILDING PRODUCTS

AP SPECIALTY METALS
— acquired by —
SAMUEL
Samuel, Son & Co., Limited
BROWN GIBBONS LANG & COMPANY
METALS

METACA
— a division of —
SECURE PRODUCTS INTERNATIONAL
— acquired by —
cpi card group
— a portfolio company of —
TRICOR PACIFIC CAPITAL, INC.
BROWN GIBBONS LANG & COMPANY
CONSUMER

Metrics MARKETING GROUP
— acquired by —
NWM
— a portfolio company of —
KCP
BROWN GIBBONS LANG & COMPANY
MARKETING & MEDIA

NOVAPAK
PVC Container Corporation
— a portfolio company of —
KCP
— merged with —
PRETIUM PACKAGING
— which has been acquired by —
CASTLE HARLAN, INC.
BROWN GIBBONS LANG & COMPANY
PLASTICS & PACKAGING

PharMedCorp
— obtained financing provided by
OXFORD FINANCE
BROWN GIBBONS LANG & COMPANY
HEALTHCARE

SKIPJACK FINANCIAL SERVICES
— acquired by —
FIFTH THIRD BANK
BROWN GIBBONS LANG & COMPANY
BUSINESS SERVICES

BHP Management
and affiliated
skilled nursing facilities
Aristocrat West · West Park · Crestmont North HEALTHCARE
— obtained financing provided by
OXFORD FINANCE
BROWN GIBBONS LANG & COMPANY
REAL ESTATE

TAD
TAD Metals, Inc.
— acquired by —
O'NEAL
BROWN GIBBONS LANG & COMPANY
METALS

TEMPUS
— acquired by —
GRUPO FINANCIERO monex
BROWN GIBBONS LANG & COMPANY
BUSINESS SERVICES

Visual Physics, LLC
— a subsidiary of —
Nanoventions
— acquired by —
CRANE & CO.
BROWN GIBBONS LANG & COMPANY
GOVERNMENT & SECURITY

West Village Apartments
— a property of —
National Champion Real Estate
— acquired by —
FCP FEDERAL CAPITAL PARTNERS
BROWN GIBBONS LANG & COMPANY
REAL ESTATE

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