MIRUS MIDDLE MARKET MONITOR
May 2014

MARKET BRIEF

The US economy decelerated in Q1 2014 to a seasonally adjusted annual rate of 0.1%, one of the slowest rates of growth since the recovery began five years ago and significantly below the forecast for the quarter. While consumer spending rose at a 3.0% rate, largely due to spending on heating and health care, business spending declined at a rate of 2.1%, the first decline in the past year.

Still, many believe that the slowdown was temporary and primarily related to an unusually harsh winter. Macroeconomic Advisors forecasts that the economy will grow at an annual rate of 3.5% in the second quarter, and Paul Ashworth from Capital Economics said that the "unexpectedly weak 0.1% annualized gain in first-quarter GDP growth…was principally due to the unusually severe winter weather. As the weather has returned to seasonal norms, we have already seen a marked improvement in the monthly data for March, which suggests that there will be a big rebound in second-quarter GDP growth." The month of April demonstrated further signs of improvement from the first quarter. The Federal Reserve's survey of regional economic conditions released on April 16th reported increases in consumer spending, improved manufacturing conditions, and stronger demand for loans. Overall, prices were either stable or increased slightly from the prior survey.

Another factor improving the outlook in upcoming months is that following the impact of sequestration on government spending in recent years, federal spending has returned to moderate growth, with 0.7% growth in the first quarter and further growth anticipated through the rest of the year.

Consumer confidence remains relatively strong

After an increase in March to 83.9, the Conference Board Consumer Confidence Index declined slightly to 82.3. Lynn Franco, Director of Economic Indicators at The Conference Board, explained the decline, saying that "consumer confidence declined slightly in April, as consumers assessed current business and labor market conditions less favorably than in March. However, their expectations regarding the short-term outlook for the economy and labor market held steady. Thus, while sentiment regarding current conditions may have slipped a bit, consumers do not foresee the economy, or the labor market, losing the momentum that has been building up over the past several months."

Housing reports are mixed

The Case-Shiller Home Price Indices' February 2014 results, released at the end of April, demonstrated ongoing but slower gains. The 10-City and 20-City Composites reported year-over-year growth of 13.1% and 12.9%, respectively. Despite the indices' gains from a year ago, sales of both new and existing houses are flat or down. Factors contributing to the slowdown of the housing recovery include higher mortgage interest rates which took effect last year, more stringent requirements in qualifying for loans, and slightly subdued consumer confidence.

Unemployment continues to decline gradually

The US economy added 288,000 jobs in April, the strongest gain in recent months. The unemployment rate fell to 6.3%, the lowest that it has been since September 2008, although the decline was due in part to a reduction of 806,000 Americans from the work force.

After uneven growth in 2013, the 2014 outlook for the global economy is moderately optimistic

A recent forecast from the International Money Fund anticipates that the global recovery will strengthen this year, despite some lingering areas of concern. The Eurozone recently experienced a turnaround from recession to recovery and is projected to grow 1.2% in 2014, up slightly from forecasts issued earlier this year, although growth will remain "weak and fragile" in countries facing the most challenging economic situations, including Italy and Spain. Instability in the Ukraine could also have a negative impact on surrounding countries. Japan is undergoing a recovery as well, but tax increases are expected to inhibit the growth rate, currently projected at 1.4%. The growth rate for emerging markets including China, Brazil, India, and Russia, was revised down slightly to 4.9% as rising US interest rates make foreign investments somewhat less attractive.

PUBLIC MARKET

Despite the weak Q1 economic indicators reported during the month, the stock market rose overall in April, with the Dow Jones Industrial Average reaching a record high on the last day of the month. The Dow Jones was up 0.7%, the S&P 500 Index was up 0.6%, and the Nasdaq Composite was down 2.0% for the month. Karyn Cavanaugh, market strategist with ING U.S. Investment Management, said "It is all about earnings. That is the guiding light for the market. Despite everything we've been worried about this year, companies are getting it done."

Public Trading Multiples

As of April 30, 2014

			Revenue Growth		EBITDA Growth		
Category	**EV / Revenue**	**EV/ EBITDA**	**1 Year**	**3 Year**	**1 Year**	**3 Year**	**EBITDA Margin**
Healthcare and Life Sciences							
Healthcare Technology	2.5	25.1	37.3%	35.7%	16.1%	20.0%	12.3%
Healthcare Equipment and Supplies	3.2	12.2	4.3%	4.8%	-0.9%	2.4%	24.1%
Healthcare Providers and Services	0.6	9.0	8.7%	8.5%	6.7%	8.6%	7.0%
Healthcare and Life Sciences Aggregate	1.9	12.1	5.6%	6.5%	-1.8%	3.1%	13.9%
Technology							
Internet Software and Services	6.4	20.2	16.8%	19.0%	17.4%	14.6%	26.0%
IT Services	2.9	11.7	0.2%	3.0%	2.4%	5.3%	24.4%
Software	3.6	10.4	8.7%	7.6%	6.4%	5.9%	31.5%
Computers and Other Electronic Equipment	1.4	8.2	2.5%	6.8%	-2.2%	12.4%	16.6%
Technology Aggregate	2.4	10.6	3.7%	6.2%	2.5%	6.6%	21.4%
Industrial and Distribution							
Aerospace and Defense	1.5	10.5	3.1%	2.4%	9.3%	5.1%	13.8%
Building Products	1.3	12.7	8.9%	6.1%	22.5%	14.6%	10.2%
Construction and Engineering	0.6	8.2	2.2%	6.5%	12.3%	9.6%	6.3%
Machinery	1.6	10.6	-3.7%	7.1%	-4.1%	8.8%	14.3%
Distributors	1.8	11.5	8.1%	13.0%	10.9%	22.0%	12.4%
Industrial and Distribution Aggregate	1.7	11.4	3.1%	6.1%	8.3%	8.2%	14.7%
Consumer Products							
Food and Beverage	1.6	11.3	1.1%	5.2%	9.5%	3.4%	13.5%
Household and Personal Products	2.5	12.1	2.0%	3.0%	2.1%	2.8%	20.5%
Household Durables	1.3	12.4	15.0%	8.3%	33.4%	20.1%	8.5%
Textiles, Apparel, and Luxury Goods	1.9	13.0	7.3%	9.9%	13.3%	10.5%	14.8%
Consumer Products Aggregate	1.4	10.6	2.7%	5.0%	5.8%	5.1%	13.1%
Business Services							
Human Resource and Employment Services	0.6	10.7	2.3%	6.1%	12.2%	17.5%	5.4%
Research and Consulting Services	3.2	13.9	6.6%	7.0%	6.8%	9.3%	21.9%
Business Services Aggregate	1.5	10.6	3.2%	4.9%	3.3%	4.4%	13.4%
Travel and Hospitality							
Hotels, Resorts, and Cruise Lines	3.5	14.3	3.3%	4.1%	1.9%	3.6%	23.6%
Restaurants	2.8	12.6	2.8%	4.6%	3.7%	6.9%	21.7%
Leisure Facilities	3.1	10.3	4.0%	3.5%	8.2%	6.5%	29.6%
Travel and Hospitality Aggregate	3.1	13.1	4.0%	5.9%	5.8%	7.8%	23.2%

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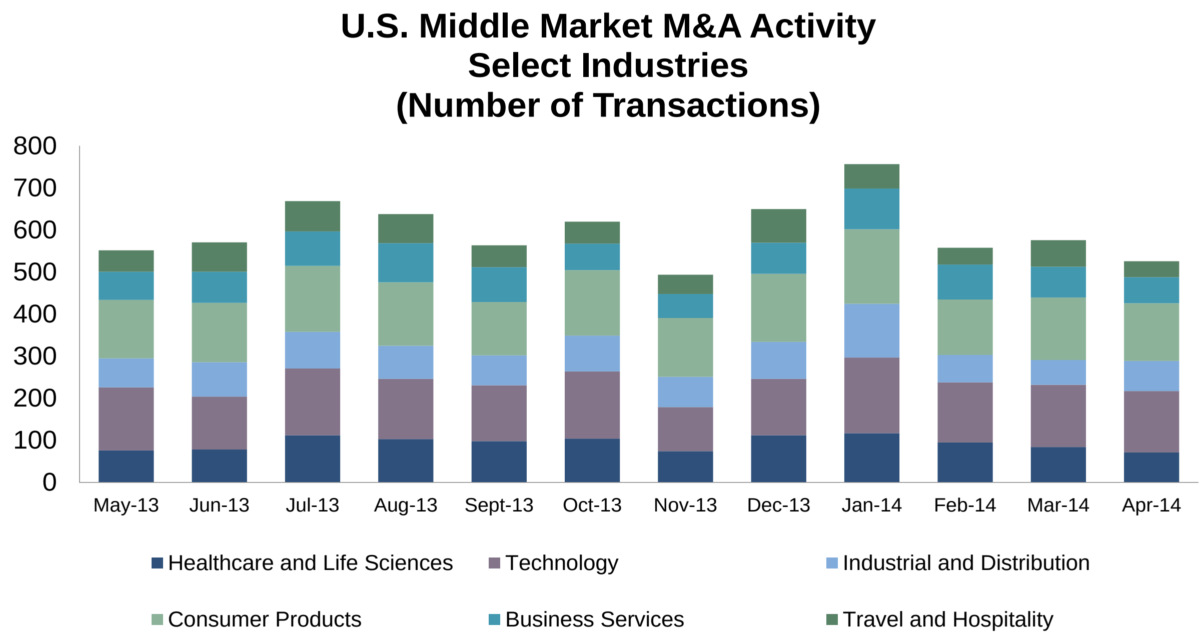
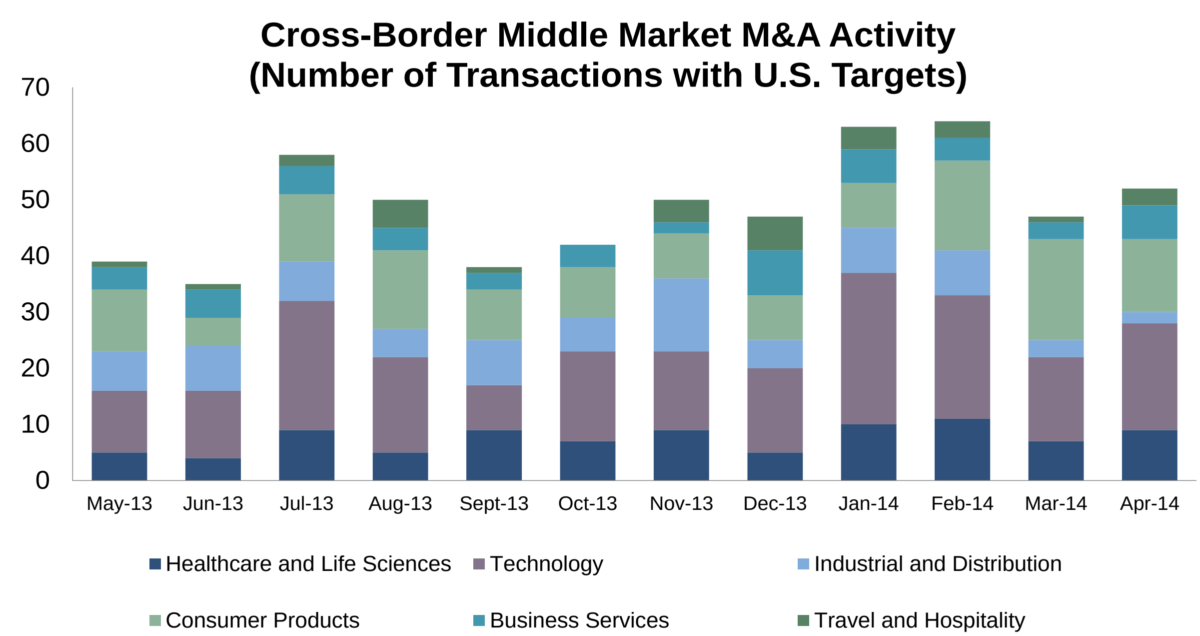
M&A MARKET

Total US M&A deal value rose by over 50% from Q1 2013 to Q1 2014, but the increase was closely tied to the announcement of four mega-deals in the early months of the year. Henrik Aslaksen, Global Head of M&A at Deutsche Bank, said that "we are starting to see a slow but steady growth in large deals which implies an increase in confidence."

US middle market M&A activity was down slightly in April from March, but rose by approximately 8% over April 2013.

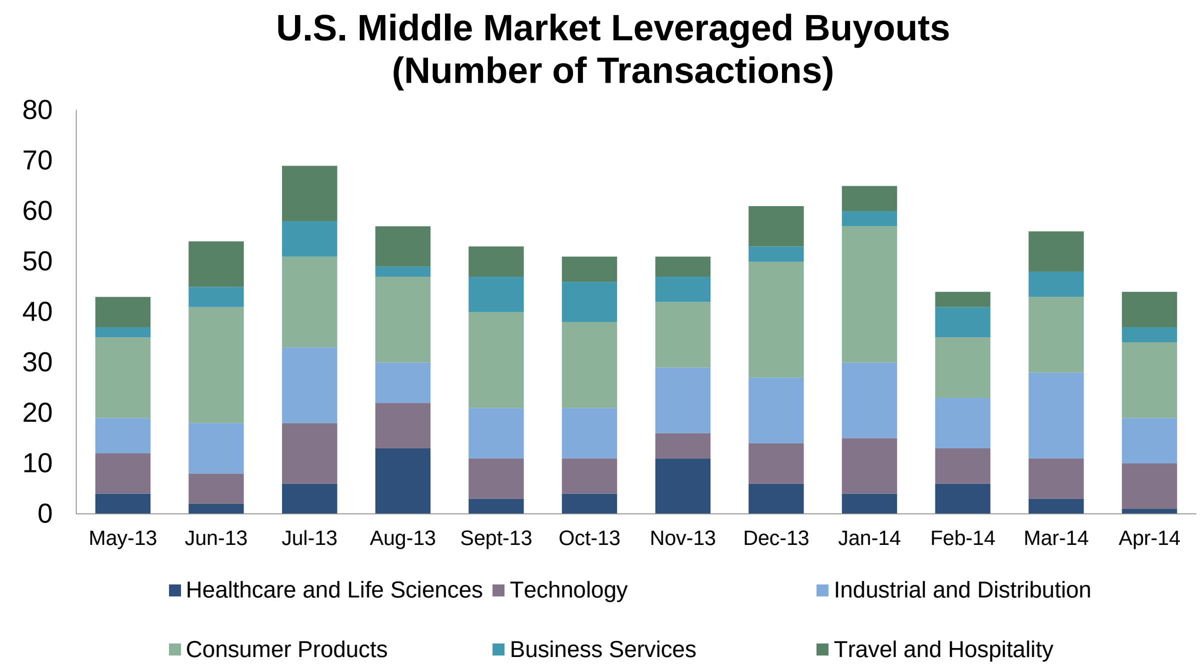


The US remains an attractive target, with approximately 36% of total Q1 global deal volume involving US targets. Overall, cross-border transaction value was up approximately 8% in Q1 2014 from Q4 2013.



Median debt levels continued to increase in the fourth quarter of 2013, making leveraged buyouts more attractive. However, while global aggregate LBO value was up 31% in Q1 2014 from the previous quarter, that increase was driven by a greater number of large cap deals, and the total number of deals was down 11% from Q4 2013, according to a report from Preqin.

A greater proportion of private equity transactions, representing 37% of the total number of LBOs, were add-on acquisitions.



SELECT M&A TRANSACTIONS – FOCUS ON INDUSTRIAL & DISTRIBUTION SECTOR

Westport Axle Corp. acquired by Universal Truckload Services Inc. (NasdaqGS:UACL)

Universal Truckload Services Inc. (NasdaqGS:UACL) entered into a unit purchase agreement to acquire Westport Axle Corp. from SM Brasil Participacoes S/A for approximately $120 million on November 27, 2013. The implied enterprise value was approximately 2.0x revenue, or 8.6x EBITDA.

Westport Axle Corporation is engaged in the assembly and sale of heavy-duty truck axles, and the sale of other forged machine components in the North America. The company was founded in 1986 and is based in Louisville, Kentucky. Universal Truckload Services, Inc. provides transportation and logistics solutions in the United States, Mexico, and Canada. Universal Truckload Services, Inc. was founded in 1981 and is headquartered in Warren, Michigan.

Scott Wolfe, the CEO of Universal Truckload Services, commented that “the acquisition of Westport strategically enhances our customer base by further penetrating industrial markets, specifically to manufacturers of medium and heavy-duty trucks. We believe that Westport's value-added services and limited capital requirements fit nicely into Universal's business model and long-term growth strategy.”

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Advance Tooling Concepts LLC acquired by ARC Group Worldwide, Inc. (NasdaqCM:ARCW)

ARC Group Worldwide, Inc. (NasdaqCM:ARCW) acquired Advance Tooling Concepts for $24 million in cash on April 8, 2014. The implied enterprise value was approximately 1.4x revenue. In a related transaction, ARC Group acquired Thixoforming LLC.

Advance Tooling Concepts LLC manufactures plastic injection molds and tools for customers in North America. It offers mold and tooling design, unscrewing tools, and MIM tooling; plastic injection moldings for medical and other clean-critical applications; other plastic injection molded products; and tool transfer programs. The company was founded in 1999 and is based in Longmont, Colorado. ARC Group Worldwide, Inc. manufactures and sells precision components, flanges, fittings, and wireless equipment in North America and Europe. The company is based in Deland, Florida.

“ARC’s acquisition of ATC and Thixoforming provide a strategic fit within our calculated growth plan. The companies add key capabilities, and accelerate our goal of being a holistic solutions provider for our customer base – from product development, to prototyping, to low- to high-volume production. Further, in-house tooling enables ARC to reduce its lead time, and help our customers get to market quicker, a key focus of our strategy," said Jason T. Young, Chairman and CEO of ARC.

Precision Gear Holdings, LLC acquired by Rexnord Corporation (NYSE:RXN)

Rexnord Corporation (NYSE:RXN) acquired the assets of Precision Gear Holdings, LLC from OEP Precision Holdings LLC for $78 million, or 1.7x revenue, on December 16, 2013.

Precision Gear Holdings, LLC manufactures gears primarily serving the aerospace market. The company was incorporated in 2004 and is based in Twinsburg, Ohio. Rexnord Corporation designs, manufactures, markets, and services process and motion control, and water management products worldwide. Rexnord Corporation was incorporated in 2006 and is headquartered in Milwaukee, Wisconsin.

“Precision Gear represents ongoing strategic investment into Rexnord’s aerospace product portfolio within its Process and Motion Control platform,” said Darryl Mayhorn, President, Rexnord Aerospace.

Stiles Machinery Inc. acquired by HOMAG Group AG (DB:HG1)

HOMAG Group AG (DB:HG1) acquired the remaining 73.3% stake in Stiles Machinery Inc. from the prior owner on February 3, 2014.

Stiles Machinery Inc. engages in the distribution of CNC equipment for processing wood panels, solid wood, wood composites, plastic, glass, stone, and other materials. Stiles Machinery Inc. was founded in 1965 and is based in Grand Rapids, Michigan. HOMAG Group AG manufactures and sells plant and machinery for woodworking industry and cabinet makers worldwide. The company operates in four segments: Industry, Cabinet Shops, Sales & Service, and Other. The company was founded in 1960 and is based in Schopfloch, Germany.

The CEO of HOMAG Group, Dr. Markus Flik, said of the acquisition, “this measure allows us to benefit directly from the anticipated re-industrialization in the US in which we will now play a role on account of our direct market access… Within our industry, the US is one of the dynamic markets with growth opportunities and is for us of strategic importance. As market leader in the US, we are acquiring the leading distribution and service organization in this industry.” Prior to the acquisition, Stiles Machinery sold and supported much of HOMAG Group’s equipment.

FURTHER INFORMATION

Founded in 1987, Mirus Capital Advisors is a middle-market investment bank that specializes in merger advisory, capital-raising services, fairness opinions and valuations to entrepreneurs, corporations and professional investors. By combining a proven process, industry and transactional expertise, and personalized service, Mirus has completed hundreds of transactions for both public and private companies.

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For any questions about the Middle Market Monitor or Mirus Capital Advisors, please contact Mirus Capital Advisors at 781-418-5900 or visit www.merger.com. You can also contact our senior bankers directly:

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Sources: CapitalIQ, Bloomberg, Reuters, CNN, Forbes, The New York Times, The Wall Street Journal, Bureau of Labor Statistics, other sources as referenced within, and Mirus analysis.