

## **MARKET BRIEF**

Coming off a year of political uncertainty, economic indicators released in February showed mixed results. While home prices continue to rise, consumer confidence increased and the Consumer Price Index reported its largest increase in four years, unemployment remains unchanged. At the same time, the public markets closed February with across-the-board increases, and there is growing consensus for a strong 2017 M&A market despite slightly lower middle market deal volume in February.

### ***Unemployment remains unchanged***

The US economy added 227,000 jobs in January, building upon the 145,000 jobs added in December 2016. The unemployment rate increased slightly to 4.8%, up from 4.7% in December 2016, and down from 4.9% in January 2016. In its February 2017 press release, the Bureau of Labor Statistics attributes the increase in jobs to three growing industries: retail trade, construction and financial services (<https://www.bls.gov/news.release/empsit.nr0.htm>).

### ***Consumer confidence increased in February***

The Conference Board's Consumer Confidence Index increased to 114.8 in February, up from 111.6 in January. Lynn Franco, Director of Economic Indicators at The Conference Board explained, "Consumers rated current business and labor market conditions more favorably this month than in January. Expectations improved regarding the short-term outlook for business, and to a lesser degree jobs and income prospects. Overall, consumers expect the economy to continue expanding in the months ahead." (<https://www.conference-board.org/data/consumerconfidence.cfm>).

### ***The housing market is stabilizing, and home prices continue to rise***

Home prices continued to rise as reported in the December S&P/Case-Shiller Home Price Index results released in February. The 10- and 20-City Composites each increased by about 0.3% from the prior month. The 20-City Composite reported a year-over-year gain of 5.6%, up from 5.2% in November. Seattle, Portland and Denver reported the highest year over year increases among the 20 cities with 10.8%, 10.0% and 8.9% respective increases (<http://us.spindices.com/index-family/real-estate/sp-corelogic-case-shiller>).

### ***The Consumer Price Index reported largest increase since February 2013***

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.6% in January on a seasonally adjusted basis, the largest seasonally adjusted increase since February 2013. As the Bureau of Labor Statistics explained, "a sharp rise in the gasoline index accounted for nearly half the increase, and advances in the indexes for shelter, apparel, and new vehicles also were major contributors." (<https://www.bls.gov/news.release/cpi.nr0.htm>)

## **PUBLIC MARKET**

Despite an uncertain start to the year driven by geopolitical tensions, the stock market closed February with increases of 3.7% for the S&P 500, 4.8% for the Dow Jones Industrial Average, and 0.8% for the NASDAQ Composite Index. As Andrew Wetzel, CFA, of Putnam Investment Management explained: "Since the election, the market has quickly priced in the assumed winners and losers of the Trump era. Banks have rallied on higher interest rates and an expectation that the Dodd-Frank Wall Street Reform and Consumer Protection Act will be dismantled."

## Public Trading Multiples

As of March 1, 2017

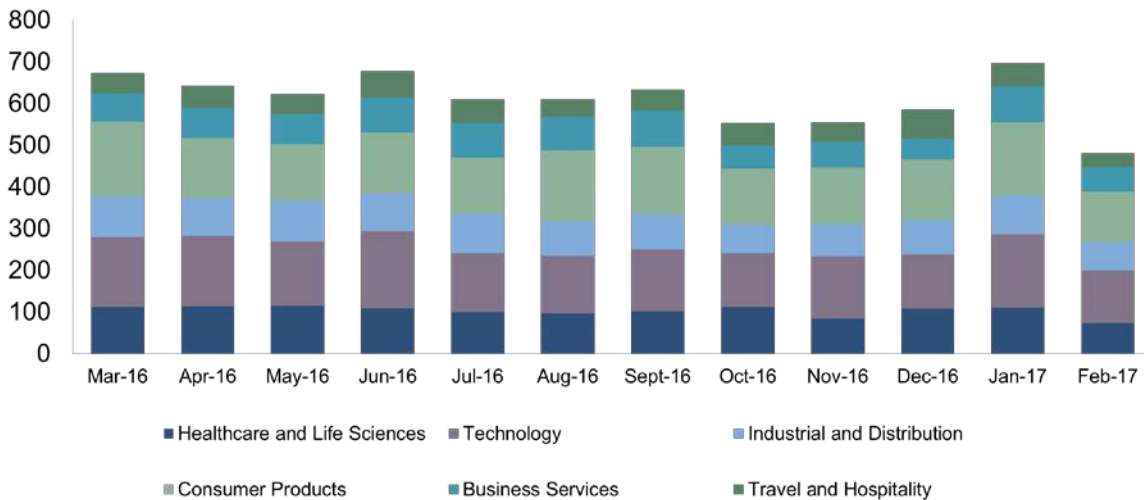
Category	EV / Revenue	EV/ EBITDA	Revenue Growth		EBITDA Growth		EBITDA Margin
			1 Year	3 Year	1 Year	3 Year	
<b>Healthcare and Life Sciences</b>							
Healthcare Technology	3.7x	18.3x	9.7%	5.1%	9.6%	8.4%	18.2%
Healthcare Equipment and Supplies	3.9x	16.6x	5.2%	4.4%	7.3%	5.6%	17.0%
Healthcare Providers and Services	0.7x	10.8x	8.6%	9.7%	8.2%	8.3%	6.8%
Healthcare and Life Sciences Aggregate	2.3x	13.1x	7.2%	6.7%	6.4%	5.5%	12.2%
<b>Technology</b>							
Internet Software and Services	6.2x	21.5x	25.8%	18.8%	31.7%	18.5%	14.4%
IT Services	2.6x	13.3x	5.2%	1.6%	8.3%	2.7%	9.8%
Software	4.8x	18.0x	3.9%	3.3%	-0.9%	-1.6%	17.2%
Computers and Other Electronic Equipment	1.2x	9.6x	-3.5%	-0.9%	-7.3%	0.0%	17.0%
Technology Aggregate	2.3x	12.8x	1.6%	1.8%	2.1%	3.9%	17.1%
<b>Industrial and Distribution</b>							
Aerospace and Defense	1.5x	12.5x	-0.7%	-1.3%	-12.1%	-1.2%	9.7%
Building Products	1.4x	11.1x	3.2%	-1.0%	7.7%	3.0%	13.3%
Construction and Engineering	0.7x	9.3x	-0.5%	-1.4%	5.2%	1.1%	8.5%
Machinery	1.7x	13.8x	-3.4%	-3.9%	-1.1%	-4.3%	4.9%
Distributors	0.8x	13.6x	-5.9%	-5.4%	-1.9%	-2.0%	4.3%
Industrial and Distribution Aggregate	1.4x	10.9x	-0.3%	-1.6%	0.1%	2.1%	11.3%
<b>Consumer Products</b>							
Food and Beverage	1.9x	13.1x	1.1%	-2.6%	2.0%	-1.2%	14.2%
Household and Personal Products	2.9x	15.4x	-1.1%	-3.9%	1.7%	-2.1%	18.9%
Household Durables	1.0x	10.1x	1.9%	0.2%	0.4%	5.2%	5.8%
Textiles, Apparel, and Luxury Goods	1.7x	11.7x	4.8%	2.7%	0.0%	-2.3%	7.6%
Consumer Products Aggregate	1.4x	11.3x	3.4%	0.4%	4.2%	1.0%	11.7%
<b>Business Services</b>							
Human Resource and Employment Services	0.7x	10.6x	6.3%	2.3%	7.4%	8.0%	22.4%
Research and Consulting Services	2.9x	15.3x	3.3%	0.4%	3.3%	1.1%	12.7%
Business Services Aggregate	1.5x	12.2x	2.2%	-0.3%	2.3%	1.6%	13.2%
<b>Travel and Hospitality</b>							
Hotels, Resorts, and Cruise Lines	2.8x	13.0x	-0.4%	-0.4%	9.8%	7.7%	11.8%
Restaurants	2.1x	13.1x	-0.8%	0.1%	1.9%	2.1%	7.4%
Leisure Facilities	3.2x	11.9x	2.0%	0.8%	-2.8%	-1.1%	33.7%
Travel and Hospitality Aggregate	2.6x	12.8x	0.1%	-0.8%	4.9%	1.5%	13.6%

## M&A MARKET

After a relatively strong 2016, the consensus among analysts is for an active M&A market in 2017, with deal volumes consistent with 2016 totals. As Ernst & Young summarizes in its M&A Outlook and Firepower Report: “Heading into 2017, we expect dealmakers to return to the table in earnest. The strategic drivers and deal conditions are set.” Dealmakers are expected to leverage their experience navigating the uncertain landscape of 2016 to adjust to ongoing political and regulatory challenges. In its 2017 M&A Outlook, JP Morgan explains: “While markets assess the effect of key global elections and regulatory changes, we expect 2017 to be driven by an ongoing active deal count rather than any meaningful increase in megadeals of more than \$10 billion. Notwithstanding uncertainty, opportunities may emerge from potential new U.S. policies, such as proposed cash repatriation, corporate tax reform and more modest regulation.”

While deal activity is up overall, US middle market deal activity slowed somewhat in February. However, this came on the heels of a particularly strong January, which had the highest monthly deal volume in more than a year.

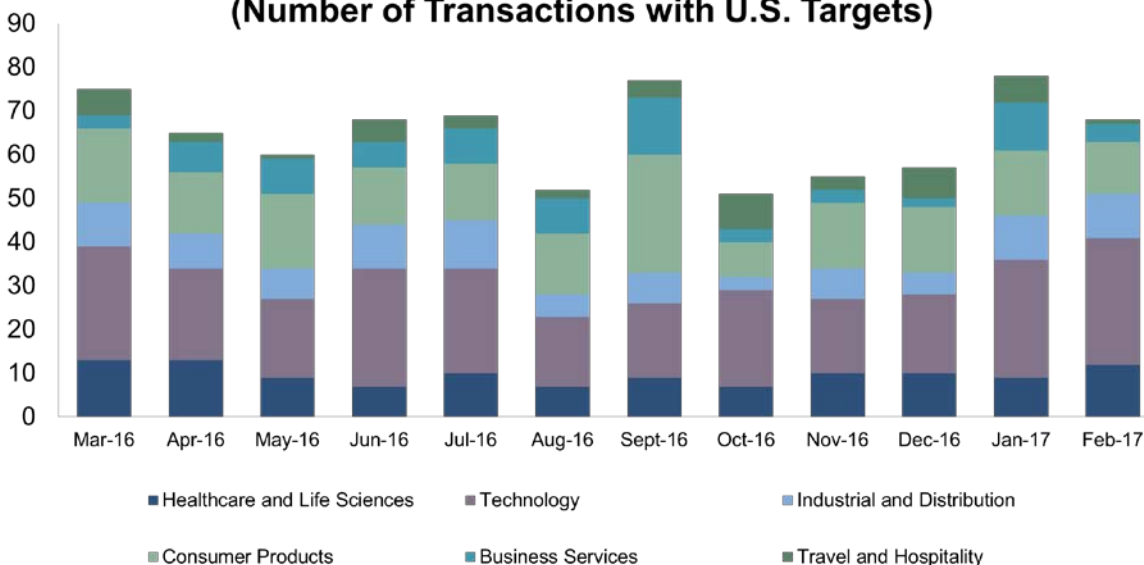
### U.S. Middle Market M&A Activity Select Industries (Number of Transactions)



Continued cross-border M&A activity is expected in 2017. As the Financial Times reports: “In light of UK and European uncertainties, and given continued growth opportunities in the US, it appears that UK and European companies will seek to deepen their investments in the US.”

Cross-border activity involving middle-market US targets increased in December 2016 through February 2017 by nearly 11% from the previous three months. This is largely driven by January cross-border transaction volume which was the highest in more than a year.

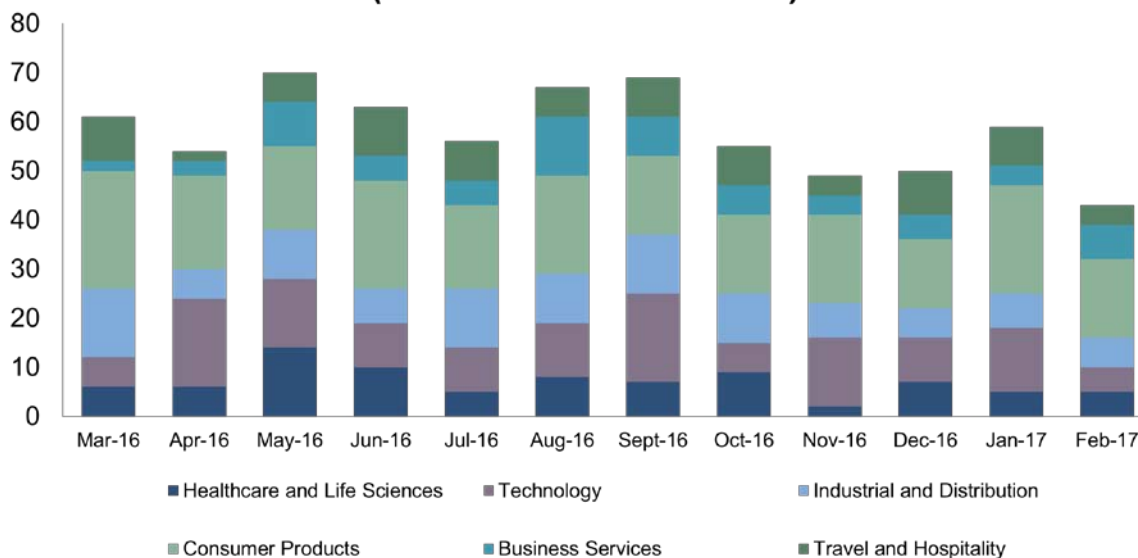
### Cross-Border Middle Market M&A Activity (Number of Transactions with U.S. Targets)



As M&A activity continues to pick up in 2017, driven by tax reform, fiscal stimulus and other policy changes, many analysts anticipate a similar upswing in leveraged buyouts (LBOs). According to Brendan Dillon, co-head of global leveraged finance at UBS, 2017 could be one of the biggest years for LBOs. “In terms of the LBO space, I think there’s going to be a ton of activity,” Dillon said.

However, despite widespread optimism, the US middle-market has not yet seen the expected uptick.

### U.S. Middle Market Leveraged Buyouts (Number of Transactions)



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

#### *GM&P Consulting and Glazing Contractors, Inc. acquired by Tecnoglass Inc. (NasdaqCM:TGLS)*

GM&P Consulting and Glazing Contractors, Inc. was acquired by Tecnoglass Inc. for \$35 million on March 1, 2017. The transaction enterprise value was approximately 0.3x GM&P’s trailing twelve month revenues.

GM&P provides design and installation of various building enclosure systems, such as curtain and window walls. The company was incorporated in 2010 and is based in Miami, Florida.

Tecnoglass Inc. manufactures and sells architectural glass and windows for the residential and commercial construction industries in North, Central, and South America. The company was founded in 1984 and is headquartered in Barranquilla, Colombia.

José M. Daes, the Company’s Chief Executive Officer, commented, “The acquisition of GM&P is a highly complementary addition to our rapidly expanding Company. The GM&P team has been a strong partner to Tecnoglass over the past five years, making this acquisition a logical next step in our ongoing efforts to strengthen our position in the United States. This accretive addition fits well with our existing strategy as it augments our vertically integrated operations, enhances our distribution capabilities, and provides us with a unique opportunity to directly install value-add products in select projects. We look forward to integrating these operations into our platform, which we expect to add additional value for our shareholders.”

***Butler America Aerospace, LLC acquired by HCL America, Inc.***

Butler America Aerospace, LLC was acquired by HCL America, Inc. from Butler America, Inc. for approximately \$85 million on January 3, 2017. The transaction enterprise value was approximately 1.0x Butler America Aerospace's trailing twelve month revenues.

Butler Aerospace America provides engineering, design services and aftermarket engineering services to US aerospace and defense customers, providing services in areas of mechanical and structural design, electrical design, tool design and aftermarket engineering services. The company is headquartered in Santa Barbara, California.

HCL America provides consulting and information technology (IT) services in North America, and is a subsidiary of Indian parent, HCL Technologies, Limited. HCL America was founded in 1988 and is headquartered in Sunnyvale, California.

HCL explained the strategic fit of the acquisition in its press release: "With over 900 highly skilled engineers and 7 design centers in the US, Butler Aerospace has a marquee list of clients in the Aerospace & Defense industries and works with OEMs and their suppliers. The acquisition will bolster HCL's capabilities in this space and access to clients with large R&D spends."

***Atlas Lighting Products, Inc. acquired by LSI Industries (NasdaqGS:LYTS)***

Atlas Lighting Products, Inc. was acquired by LSI Industries (NasdaqGS:LYTS) for approximately \$97 million on February 21, 2017. The transaction enterprise value was approximately 1.7x Atlas' trailing twelve month revenue and 10.0x trailing twelve month EBITDA.

Atlas Lighting Products, Inc. manufactures energy saving lighting products in the United States. The company was founded in 1992 and is based in Burlington, North Carolina.

LSI Industries Inc. provides corporate visual image solutions in the United States, Canada, Australia, and Latin America. It operates in three segments: Lighting, Graphics, and Technology. The company was founded in 1976 and is headquartered in Cincinnati, Ohio.

Dennis W. Wells, Chief Executive Officer and President, commented, "I am very excited to announce the acquisition of Atlas Lighting Products. This highly strategic acquisition, the largest in LSI's history, will immediately broaden our lighting product offering, expand our sourcing capabilities, improve our profit margins, and provide significant revenue and cost synergies."

James H. Bennett, President of Atlas Lighting Products, commented, "I am thrilled to join forces with LSI Industries. I have always known LSI as a quality manufacturer of custom lighting fixtures, and am looking forward to continuing in my role as President of Atlas Lighting, working with Dennis and the LSI team to grow the business."

## **FURTHER INFORMATION**

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