

MARKET BRIEF

August represented a month of continued economic improvement, demonstrated by positive indicators in areas ranging from manufacturing to consumer confidence.

In the ongoing speculation about when the Federal Reserve will begin to raise interest rates, most economists anticipate that the Fed will hold off until at least 2015, but many think that it is waiting too long to do so, as reported by the National Association for Business Economics (http://nabe.com/Policy_Survey_August_2014).

Manufacturing results have outpaced expectations

The outlook for manufacturing is optimistic, and the Institute for Supply Management's purchasing managers' index increased from 57.1 in July to 59.0 in August (<http://www.ism.ws/ismreport/mfgrob.cfm>), reaching the highest level since March 2011 despite initial expectations that it would weaken slightly in August. Construction spending also pointed to growth, with a 1.8% gain in July. Based on the latest reported data, Joel Naroff of Naroff Economic Advisors predicted that the economy will grow at an annual rate of 3.2% this quarter and 4.6% in the fourth quarter (<http://online.wsj.com/articles/u-s-manufacturing-pmi-unexpectedly-rises-in-august-1409667587>).

The ongoing shift to international production is expected to decelerate

The US deficit on trade in goods increased to \$372 billion in the first half of 2014 from \$355 billion for the same period in 2013. However, some believe that the trend will slow or even reverse; IHS economist Michael Montgomery said that "lower energy costs, the narrowing wage gap and other factors have a slow-motion effect that isn't yet visible in the trade balance" (<http://online.wsj.com/articles/u-s-factories-keep-losing-ground-to-global-rivals-1409009731>). With rapid growth in wages in China combined with transportation costs, the economic benefit from production in China is lessening.

Consumer confidence continues to strengthen

The Conference Board's consumer confidence index (<https://www.conference-board.org/data/consumerconfidence.cfm>) increased to 92.4 in August, from a revised July number of 90.3, the highest level since October 2007. Lynn Franco, director of economic indicators at the Conference Board, said that "consumer confidence increased for the fourth consecutive month as improving business conditions and robust job growth helped boost consumers' spirits." However, consumer expectations for economic activity over the next six months declined slightly to 90.9 in August from 91.9 in July.

The unemployment rate was expected to decline from 6.2% in July to 6.1% in August. Providing further evidence for an improving labor market, food stamp usage has fallen, with 46.2 million Americans on food stamps in May 2014 (the most recent data available) compared with 47.8 million in December 2012, although the current level is still above pre-recession rates (<http://online.wsj.com/articles/food-stamps-starting-to-fall-1409606700>).

The housing market is stabilizing, with slower growth in home prices

Home prices continued to decelerate through the end of the second quarter, as reported in the June S&P/Case-Shiller Home Price Index results released in August (<http://us.spindices.com/index-family/real-estate/sp-case-shiller>). The 10- and 20-City Composites each increased by about 1.0% from the prior month, or 8.1% over the past year. David Blitzer, Chairman of the Index Committee, said that "for the first time since February 2008, all cities showed lower annual rates than the previous month. Other housing indicators – starts, existing home sales and builders' sentiment – are positive. Taken together, these point to a more normal housing sector."

Global uncertainty is still an area of concern

The European economy remains tenuous, with weaker than expected second quarter results and a manufacturing contraction in August driving reductions in forecasts for this year and next. Rob Dobson, an economist at Markit, said that “the braking effect of rising economic and geopolitical uncertainties on manufacturers is becoming more visible. This is also the case on the demand front, with growth of new orders and new export business both slowing in August” (<http://online.wsj.com/articles/spanish-manufacturing-slows-for-second-straight-month-1409558443>).

PUBLIC MARKET

Despite declines earlier in the month, the stock market experienced strong growth in August, with gains of 3.7% for the S&P 500, 3.2% for the Dow Jones Industrial Average, and 4.8% for the NASDAQ Composite Index from July. The S&P 500 ended August at a new record level.

Public Trading Multiples

As of September 1, 2014

Category	EV / Revenue	EV/EBITDA	Revenue Growth		EBITDA Growth		EBITDA Margin
			1 Year	3 Year	1 Year	3 Year	
Healthcare and Life Sciences							
Healthcare Technology	3.6	20.3	6.8%	6.3%	1.3%	7.2%	14.4%
Healthcare Equipment and Supplies	3.0	13.5	-3.0%	0.7%	-10.8%	-2.9%	15.9%
Healthcare Providers and Services	0.7	10.6	9.8%	8.2%	3.1%	6.7%	5.2%
Healthcare and Life Sciences Aggregate	2.2	12.8	7.2%	5.3%	2.8%	1.6%	11.8%
Technology							
Internet Software and Services	6.1	20.8	18.4%	17.8%	14.5%	13.0%	28.2%
IT Services	2.0	11.3	3.7%	-2.0%	5.6%	1.4%	9.7%
Software	3.6	12.0	8.5%	5.4%	3.6%	3.3%	16.3%
Computers and Other Electronic Equipment	1.1	9.0	3.2%	1.0%	5.8%	3.3%	9.9%
Technology Aggregate	1.8	10.4	5.9%	1.8%	10.7%	3.8%	17.4%
Industrial and Distribution							
Aerospace and Defense	1.3	10.2	5.9%	3.9%	9.4%	6.6%	9.7%
Building Products	1.1	9.6	8.5%	1.9%	15.4%	0.1%	14.1%
Construction and Engineering	0.6	9.0	6.6%	4.9%	10.8%	1.1%	4.5%
Machinery	1.3	10.5	4.1%	0.7%	4.5%	-2.5%	7.3%
Distributors	0.7	11.6	10.6%	4.5%	13.9%	1.7%	3.4%
Industrial and Distribution Aggregate	1.2	10.4	6.2%	2.8%	8.4%	0.8%	7.4%
Consumer Products							
Food and Beverage	1.9	12.0	4.2%	2.9%	3.9%	1.9%	15.7%
Household and Personal Products	2.4	12.9	3.6%	1.7%	5.0%	3.0%	18.7%
Household Durables	0.8	8.6	9.2%	0.9%	22.2%	4.9%	7.2%
Textiles, Apparel, and Luxury Goods	1.7	10.8	6.6%	5.3%	10.0%	6.0%	8.6%
Consumer Products Aggregate	1.2	10.1	1.7%	4.7%	4.0%	5.0%	12.3%
Business Services							
Human Resource and Employment Services	0.7	11.9	7.1%	2.3%	20.0%	6.8%	15.2%
Research and Consulting Services	2.2	13.3	7.6%	6.0%	6.3%	6.3%	8.3%
Business Services Aggregate	1.2	10.5	4.8%	1.5%	6.3%	1.6%	12.7%
Travel and Hospitality							
Hotels, Resorts, and Cruise Lines	2.0	12.9	6.8%	3.8%	5.7%	5.1%	24.0%
Restaurants	1.8	12.1	2.6%	2.5%	2.4%	3.2%	7.6%
Leisure Facilities	2.5	9.8	7.0%	3.6%	5.1%	5.5%	29.1%
Travel and Hospitality Aggregate	2.2	12.2	5.9%	4.2%	6.0%	5.2%	20.0%

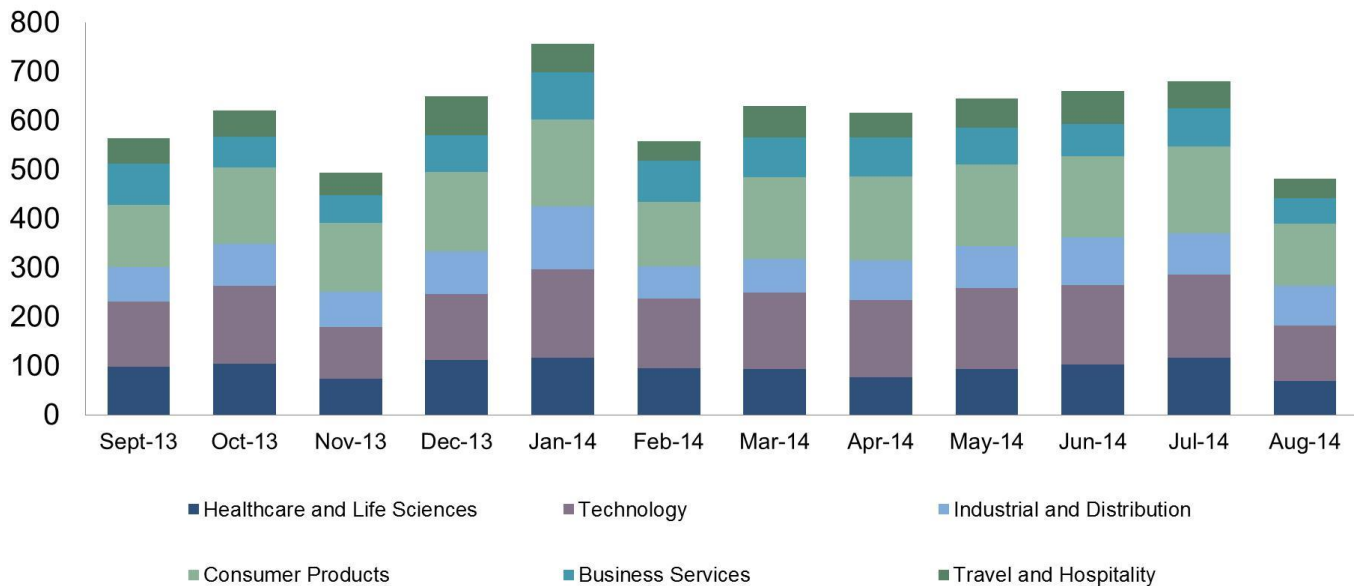
M&A MARKET

KPMG’s August 2014 M&A Predictor report (<http://www.kpmg.com/global/en/issuesandinsights/articlespublications/ma-predictor/pages/ma-predictor-aug-2014.aspx>) stated that year-to-date deal completions were down somewhat from last year, but that deal announcements were up. Tom Franks, Global Head of Corporate Finance at KPMG, said that “overall the picture is a positive one. Appetite remains strong, capacity is going up and we are starting to see an increasing number of deals being announced. There is a danger, though, that domestic protectionism, certainly in markets like the UK, France and Canada, could damage the recovery. Furthermore, whilst increasing political instability...has not yet appeared to impact sentiment it remains a very real threat.”

Financier Worldwide reported that in the US middle market, “there is considerable demand for acquisitions from both financial and strategic buyers, but the most significant overhang in the mid-market today is a lack of quality sellers. This has created a significant imbalance in the market, leading to highly competitive auction processes for deals which, when coupled with the availability of inexpensive debt capital, is resulting in substantial valuations being placed on these assets. This makes it an ideal time for sellers to consider raising capital or to pursue the sale of a business given the premiums placed on quality companies with strong cashflow and growth prospects” (<http://www.financierworldwide.com/outlook-for-global-mid-market-ma-onwards-and-upwards/#.VAh5zMVdUk0>).

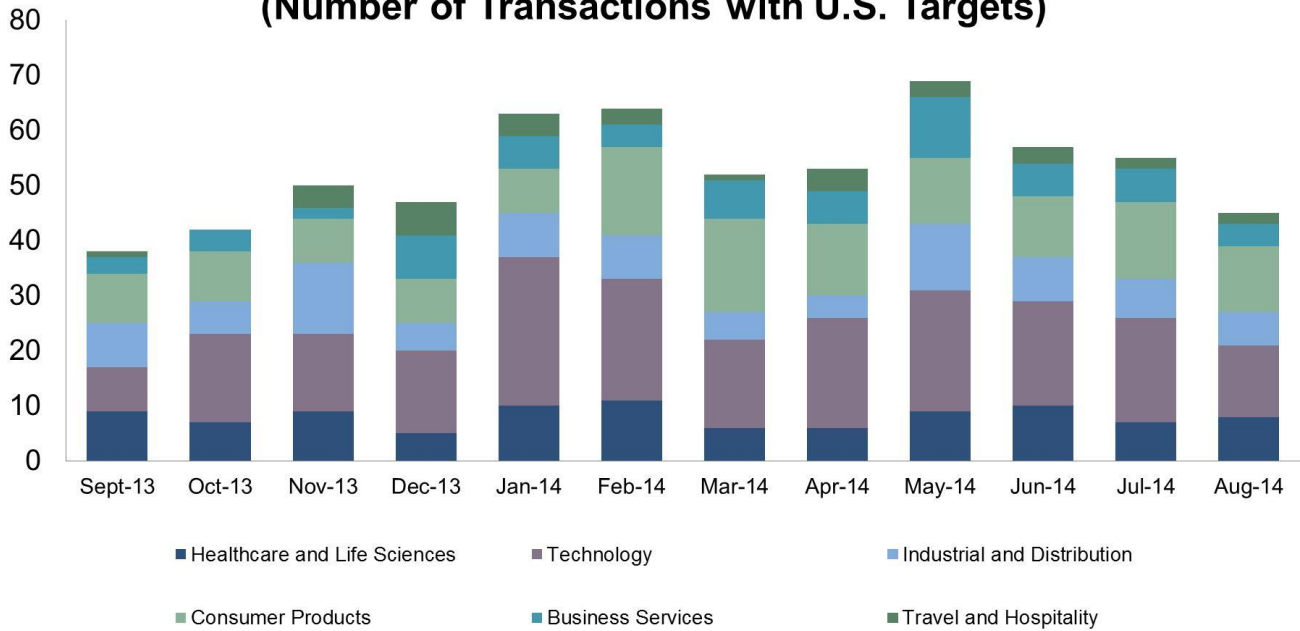
After a strong start to the third quarter in July, US middle market deal activity slowed somewhat in August.

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



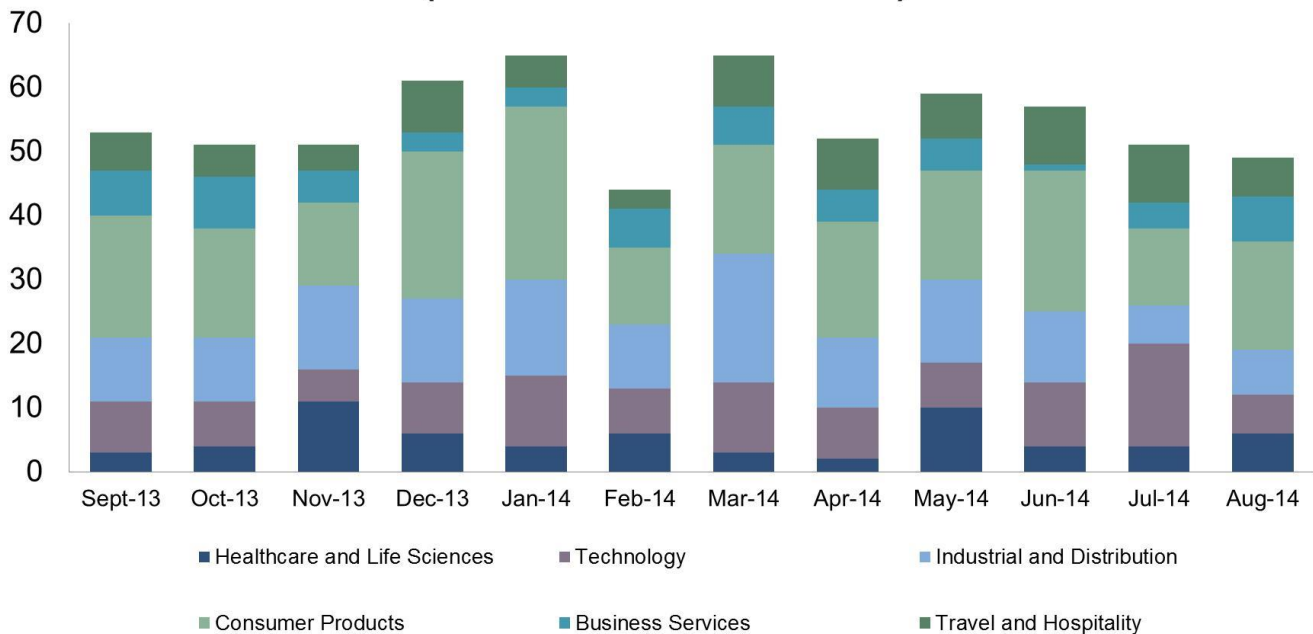
The outlook for cross-border transactions targeting US companies remains positive. Dan Tiemann, lead for Transactions & Restructuring at KPMG in the US, said that “executives are reassured by the improving global economy and decreasing uncertainty. Large cash reserves and attractive investment opportunities have and will continue to result in more deal-making for US companies.”

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



KPMG reported that the increase in leveraged buyout transaction volume in the second quarter was driven by “a robust M&A pipeline and attractive financing terms” (<http://www.kpmg-institutes.com/institutes/global-enterprise-institute/articles/2014/07/q202014-credit-markets-update.html>). Middle market LBO activity remained relatively flat in August from the prior month.

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



SELECT M&A TRANSACTIONS – FOCUS ON HEALTHCARE & LIFE SCIENCES

B&V Testing, Inc. acquired by Stericycle, Inc. (Nasdaq:SRCL)

Stericycle (Nasdaq:SRCL) acquired B&V Testing, Inc. of Waltham, Massachusetts in late 2013. Mirus Capital Advisors represented B&V Testing, Inc. in the transaction.

B&V Testing is the leading provider of cleanroom and controlled environment testing and certification services for the East Coast's life science, hospital, and healthcare leaders. Stericycle, a biohazard waste disposal company and the industry's environmental and safety leader, was founded on the belief in the need for safe, environmentally responsible management of regulated wastes.

Peter Harris, principal shareholder of B&V said, "I hired Mirus to represent me in the sale of my family's life sciences services company. Mirus delivered great value. Its team was highly professional and actively involved in all aspects of the negotiation, from diligence preparation and tactical advice to deal strategy, resulting in a successful sale to a \$2 billion public acquirer. The Mirus team is very good at what they do and I'd happily recommend them to other business owners."

LCA-Vision Inc. acquired by PhotoMedex, Inc. (NasdaqGS:PHMD)

PhotoMedex, Inc. (NasdaqGS:PHMD) entered into a definitive agreement to acquire LCA-Vision Inc. (NasdaqGS:LCAV) from Coliseum Capital Management, LLC and others for approximately \$100 million on February 13, 2014. The transaction closed on May 12, 2014. The implied enterprise value was approximately \$77 million, or 0.8x revenue.

LCA-Vision Inc. provides fixed-site laser vision correction services through its LasikPlus vision centers. LCA-Vision was founded in 1985 and is headquartered in Cincinnati, Ohio. PhotoMedex, Inc., a skin health company, provides integrated disease management and aesthetic solutions to dermatologists, professional aestheticians, and consumers in North America, the Asia Pacific, Europe, and South America. PhotoMedex, Inc. was founded in 1980 and is headquartered in Horsham, Pennsylvania.

Dr. Dolev Rafaeli, CEO of PhotoMedex, said that the combination "holds potential for powerful financial leverage and profitable long-term growth" and went on to explain that currently LASIK procedures "are typically performed only one or two days a week in a costly infrastructure while the other days are devoted to patient screening, pre-operative and post-operative care. LasikPlus centers and staff, who deal one-on-one with patients, are ideally suited for expanding procedures beyond LASIK to include Xtrac laser treatments for various dermatologic disorders such as psoriasis and vitiligo, as well as utilizing the patient interaction for additional clinical brand dispensing."

Health Care Compliance Strategies, Inc. acquired by Healthstream Inc. (NasdaqGS:HSTM)

Healthstream Inc. (NasdaqGS:HSTM) acquired Health Care Compliance Strategies, Inc. for \$16 million on March 3, 2014. The implied enterprise value was approximately 2.4x revenue.

Health Care Compliance Strategies, Inc. provides online training courses and learning management systems to hospitals and healthcare institutions. The company was founded in 1998 and is based in Jericho, New York. HealthStream, Inc. provides suite of software-as-a-service solutions for the healthcare industry in the United States. The company operates in two segments, HealthStream Workforce Development Solutions and HealthStream Research/Patient Experience Solutions. HealthStream, Inc. was founded in 1990 and is headquartered in Nashville, Tennessee.

Healthstream's chief executive officer, Robert A. Frist, Jr., commented on the transaction, saying that "providing OSHA & accreditation compliance solutions to healthcare organizations has been a core offering for HealthStream for over a

decade and we are excited to expand the scope of our solutions in this important area. HCCS' premium content and thought leadership add important dimensions to our compliance solution strategy."

Selah Genomics, Inc. acquired by EKF Diagnostics Holdings plc (AIM:EKF)

EKF Diagnostics Holdings plc (AIM:EKF) acquired Selah Genomics, Inc. on April 17, 2014 for initial consideration of \$35.6 million in EKF shares, plus deferred compensation of up to \$35.0 million to be paid based on meeting revenue targets. The implied enterprise value at the maximum consideration is over 50.0x revenue, due to Selah's status as an early-stage company which only recently began to generate revenue.

Selah Genomics Inc. engages in developing and commercializing nanotechnology-enabled products for the biomedical industry. It offers Selah Dots, which are bio-sensing and bio-imaging contrast agents that replace fluorescent dyes, microbeads and heavy metal based quantum dots. The company was founded in 2006 and is based in Pendleton, South Carolina. EKF Diagnostics Holdings plc is engaged in the design, development, manufacture, and sale of diagnostic instruments, reagents, and other ancillary products in the United Kingdom, the United States, Germany, Poland, Russia, Ireland, and Asia. EKF Diagnostics Holdings plc was founded in 1990 and is headquartered in Cardiff, the United Kingdom.

Julian Baines, CEO of EKF said that the acquisition provides EKF with a "huge opportunity to establish ourselves as a leading global player in point-of-care haemoglobin testing and to consolidate our position in molecular diagnostics and personalized medicine, an area that we consider to be one of the most exciting areas in diagnostics."

Integrated Medical Systems International, Inc. acquired by Steris Corp. (NYSE:STE)

Steris Corp. (NYSE:STE) signed a definitive agreement to acquire Integrated Medical Systems International, Inc. for approximately \$170 million on March 31, 2014. The transaction closed on May 9, 2014.

Integrated Medical Systems International, Inc. provides surgical instrument repair services. Integrated Medical Systems International, Inc. was founded in 1990 and is based in Birmingham, Alabama with research and repair facilities in Alabama, Arizona, Florida, and Maryland. Steris Corporation develops, manufactures, and markets infection prevention, contamination control, microbial reduction, and procedural support products and services for healthcare, pharmaceutical, scientific, research, industrial, and governmental customers worldwide. Steris Corporation was founded in 1985 and is headquartered in Mentor, Ohio.

Walt Rosebrough, President and CEO of Steris, stated that "a key element of our growth strategy has been to expand our specialty services business through a combination of organic growth and acquisition. We are excited about this opportunity to build upon what we do best – help our hospital customers improve processes, increase quality and save money."

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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