

MARKET BRIEF

Economic indicators released in February show mixed results. While the labor market continues to post job gains and new lows in unemployment, February's numbers showed that growth may be slowing. Similar slowing growth trends were apparent in home prices and broad consumer prices. The lack of inflation pressure has given the Federal Reserve more flexibility in monetary policy, and public markets were encouraged by signs that the pace of rate hikes would slow. M&A volumes moderated in February, coming off a multi-year peak in January.

Unemployment Rate Declined to 3.8% in February

Total nonfarm payroll employment increased by 20,000 in February. While the increase represented the slowest since 2017, it continues the streak of consecutive months with jobs gained going back to 2017. The unemployment rate fell to 3.8%. Job gains were concentrated in Professional Services and Healthcare, while employment in Construction declined. Other major industries remained generally unchanged. (<https://www.bls.gov/news.release/pdf/empsit.pdf>)

Consumer Confidence Increased in February

The Conference Board Consumer Confidence Index increased in February, ending a three month stretch of declines. The Index now stands at 131.4, up from 121.7 in January. "The Present Situation Index improved, as consumers continue to view both business and labor market conditions favorably. Expectations, which had been negatively impacted in recent months by financial market volatility and the government shutdown, recovered in February. Looking ahead, consumers expect the economy to continue expanding," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. (<https://www.conference-board.org/data/consumerconfidence.cfm>)

The Case-Shiller Index Posted 4.7% Annual Gain in December

The S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index posted a 4.7% annual gain in December, slowing slightly from 5.1% in November. "The annual rate of price increases continues to fall," says David M. Blitzer, Managing Director and Chairman of the Index Committee at S&P Dow Jones Indices, though "home prices continue to outpace wage gains of 3.5% - 4.0% and inflation of about 2%. A decline in interest rates in the fourth quarter was not enough to offset the impact of rising prices on home sales. The monthly number of existing single family homes sold dropped throughout 2018, reaching an annual rate of 4.45 million in December." (https://www.spice-indices.com/idpfiles/spice-assets/resources/public/documents/880361_cshomeprice-release-0226.pdf)

The Consumer Price Index Increased 0.2% (1.5% Y-o-Y) in February

The Consumer Price Index for All Urban Consumers increased 0.2% in February on a seasonally adjusted basis, after remaining unchanged in January. The energy index rose 0.4%, snapping three months of consecutive declines, as rising gasoline prices offset falling electricity and natural gas indices. (<https://www.bls.gov/news.release/cpi.nr0.htm>)

PUBLIC MARKET

U.S. public equity markets continued their strong start to the year in February, as the Fed signaled a more accommodative rate path and investors grew optimistic for easing trade tensions with China. The Dow Jones Industrial Average increased 3.7% and the S&P 500 Index gained 3.0% in February, bringing the YTD advance of both to 11.1%.

Public Trading Multiples

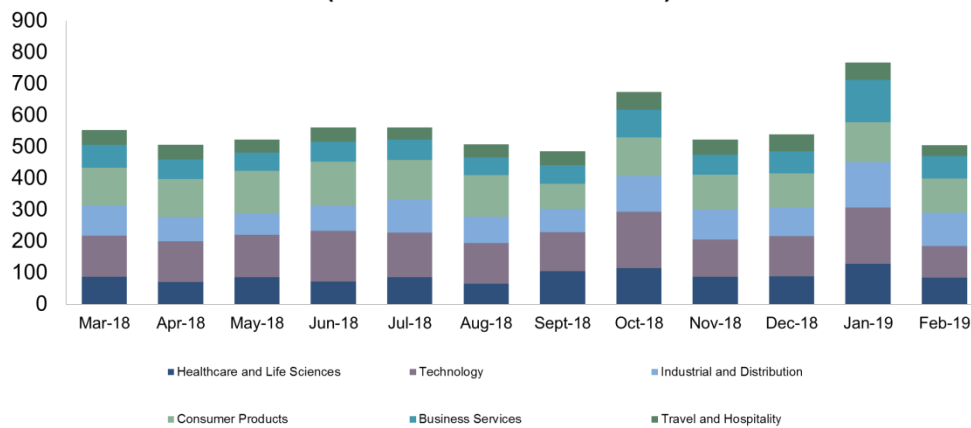
As of February 28, 2019

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	2.6x	12.0x	91.4%	33.8%	137.1%	39.8%	15.9%
Healthcare Equipment and Supplies	4.4x	18.7x	7.5%	6.7%	8.4%	10.0%	16.3%
Healthcare Providers and Services	0.8x	12.1x	6.6%	7.2%	7.2%	7.0%	8.8%
Healthcare and Life Sciences Aggregate	2.6x	14.3x	35.1%	15.9%	50.9%	19.0%	13.7%
Technology							
IT Services	3.0x	15.2x	6.8%	8.4%	11.4%	11.0%	9.4%
Software	6.2x	19.6x	15.0%	10.4%	29.4%	12.8%	8.1%
Computers and Other Electronic Equipment	1.1x	8.4x	7.6%	5.6%	5.1%	5.3%	22.0%
Technology Aggregate	3.4x	14.4x	9.8%	8.1%	15.3%	9.7%	13.1%
Industrial and Distribution							
Aerospace and Defense	1.8x	13.4x	4.7%	3.4%	8.9%	5.3%	5.4%
Building Products	1.2x	9.2x	5.4%	5.3%	3.5%	8.5%	13.1%
Construction and Engineering	0.6x	8.3x	5.0%	5.0%	4.8%	7.3%	10.0%
Machinery	1.3x	10.1x	6.2%	5.2%	6.4%	10.3%	7.0%
Distributors	0.7x	9.8x	15.9%	6.5%	14.6%	10.3%	4.1%
Industrial and Distribution Aggregate	1.1x	10.2x	7.4%	5.1%	7.6%	8.3%	7.9%
Consumer Products							
Food and Beverage	2.1x	12.6x	1.3%	3.6%	0.6%	5.4%	15.6%
Household and Personal Products	3.0x	15.0x	-1.0%	2.3%	0.3%	4.7%	18.8%
Household Durables	0.9x	8.3x	5.7%	7.4%	2.3%	10.0%	9.0%
Textiles, Apparel, and Luxury Goods	1.9x	12.1x	3.8%	6.6%	9.0%	8.3%	7.9%
Consumer Products Aggregate	2.0x	12.0x	2.4%	5.0%	3.1%	7.1%	12.8%
Business Services							
Human Resource and Employment Services	0.9x	11.9x	7.6%	9.7%	6.6%	10.2%	17.5%
Research and Consulting Services	3.3x	17.0x	2.7%	3.2%	-3.0%	2.3%	20.6%
Business Services Aggregate	2.1x	14.5x	5.2%	6.4%	1.8%	6.2%	19.1%
Travel and Hospitality							
Hotels, Resorts, and Cruise Lines	2.5x	11.7x	8.4%	5.9%	6.4%	7.9%	10.7%
Restaurants	2.2x	14.1x	3.8%	3.1%	0.5%	3.0%	9.1%
Leisure Facilities	3.7x	12.7x	7.4%	7.3%	8.6%	9.0%	36.7%
Travel and Hospitality Aggregate	2.8x	12.8x	6.5%	5.4%	5.1%	6.6%	18.8%

M&A MARKET

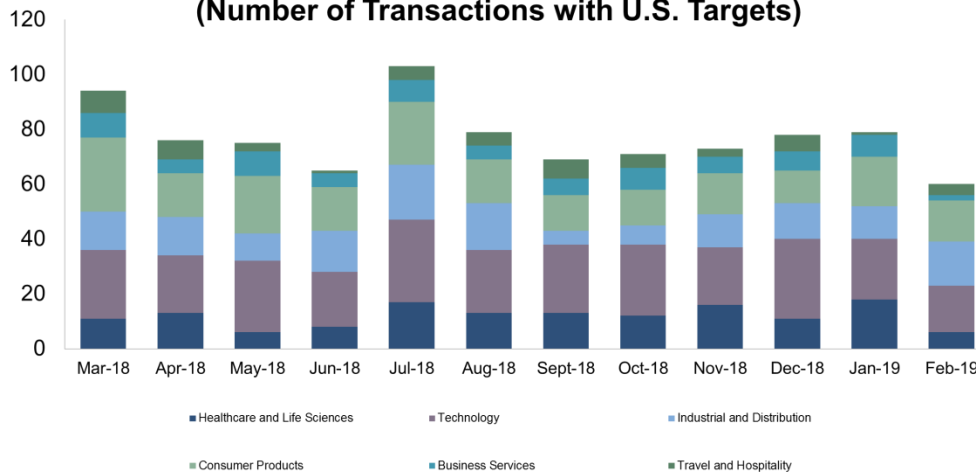
U.S. middle market M&A activity moderated in February 2019 relative to the 3-year high hit in January, though transaction volumes were just slightly below the LTM average. Analysts continue to expect 2019 to be a strong year for M&A as the macroeconomic environment remains robust and financial market sentiment has firmed since Q4 of 2018. According to E&Y's latest M&A Report, 9 in 10 businesses are reporting growing confidence in the M&A market.

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



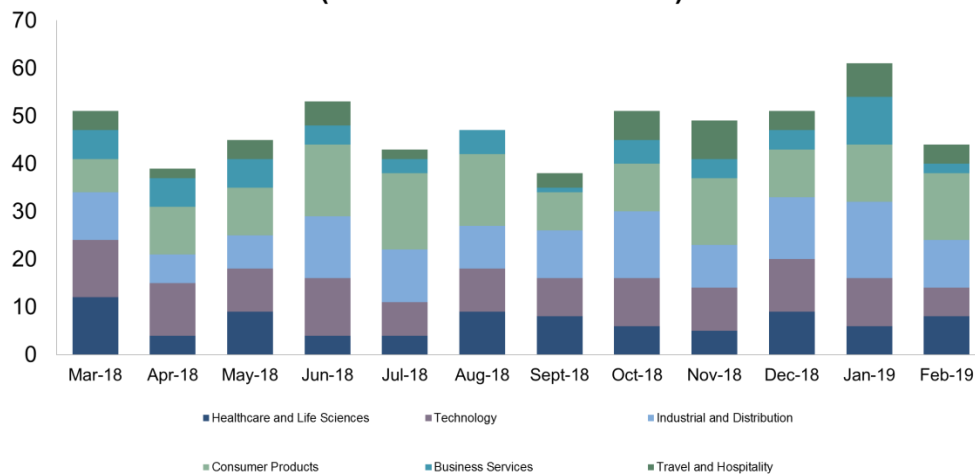
Cross border activity declined as well in February, hitting the lowest number of transactions since December 2017. The decline was particularly concentrated in the Healthcare sector, for which January was its most active month in three years.

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



Middle market LBO activity slowed in February to LTM averages, after peaking in January. However, 2019 is still expected to be a strong year overall – private equity fundraising has exceeded \$400bn each of the past five years according to Preqin, a provider of alternative investments data. While the inflows are indicative of a strong market, the impact on deal valuations could drive investors to demonstrate more “caution in terms of where and with which firms they deploy their capital” this late in the business cycle, notes Christopher Elvin, Preqin’s head of private equity. In Q4 2018, EV/Adjusted EBITDA multiples averaged 7.8x.

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



SELECT MIDDLE MARKET M&A TRANSACTIONS – INDUSTRIAL & DISTRIBUTION

Cory 1st Choice Home Delivery acquired by J.B. Hunt

On January 9, 2019, J.B. Hunt announced its acquisition of Cory 1st Choice Home Delivery for \$100 million, representing a valuation of ~1.3x revenue.

Cory, based in New Jersey, specializes in “last-mile” furniture delivery, a business that has benefited recently from the boom in e-commerce. They complete ~2 million deliveries annually through a network of over a thousand carriers, contractors and drivers. Online orders of furniture were forecasted to grow by 18.2% in 2018, hitting \$50.32 billion overall.

J.B. Hunt is America’s third-largest trucking company by revenue, and is competing with other giants such as UPS and XPO Logistics in the rapidly growing furniture delivery segment of e-commerce. This transaction represents another strategic acquisition in the space by J.B. Hunt, which bought Special Logistics Dedicated in 2017 for \$136mm.

“This is a strategic investment that will further advance our final mile delivery capabilities of ‘big and bulky’ products to consumers and expand our expertise in furniture delivery,” said John Roberts, president and CEO of J.B. Hunt.

Armstrong Wood Products acquired by American Industrial Partners

On December 31, 2018, Armstrong Flooring (NYSE: AFI) divested its Wood Flooring segment to American Industrial Partners for \$100 million, representing ~7.2x EV/EBITDA.

Don Maier, Chief Executive Officer, commented, "We are excited to enter 2019 with an exclusive focus on resilient flooring, which improves the profitability of our award-winning product portfolio. This transaction is immediately accretive to our EBITDA margin and together with the right-sizing of our cost structure unlocks additional value for Armstrong Flooring's shareholders. This divestiture positions us well for the future, as we are now able to concentrate our efforts on attractive and growing resilient categories. Additional financial information regarding the transaction will be available to shareholders after the New Year."

American Industrial Partners is an operationally-oriented private equity firm that makes control investments in industrial businesses serving domestic and global markets. Rick Hoffman, Partner at AIP, said, "Don and I believe this strategic decision empowers both the resilient and wood flooring businesses to better realize their core strengths and pursue strategies for growth, product innovation and quality, and exceptional service to customers."

PB Heat acquired by Noritz

On January 7, 2019 PB Heat was acquired by Noritz Corporation for \$47 million, representing ~5.6x revenue.

PB Heat, based in Bally, PA, is a manufacturer of high-efficiency, cast iron and stainless steel boilers and indirect-fired water heaters for both residential and commercial applications. Noritz Corporation, based in Japan with significant US operations, is a global leader in tankless water heating.

Post-acquisition, there are no planned organizational or product shifts. PB Heat will continue selling its branded Peerless Boilers as an independent subsidiary with its existing sales and marketing team. The acquisition enhances Noritz's product and geographic diversification.

FURTHER INFORMATION

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