

MARKET BRIEF

July economic indicators portray a slowly, but steadily growing US economy, with the unemployment rate continuing to hover near 50-year lows. At the same time, with a continuation of US-China trade negotiations and geopolitical tensions, the Fed cut interest rates on July 31st by a quarter-point which pushed markets higher in July.

Unemployment Rate Remains Near Record Low 3.7% in July

Total nonfarm payroll employment rose by 164,000 in July, and the unemployment rate was unchanged at 3.7 percent, the U.S. Bureau of Labor Statistics reported today. Notable job gains occurred in professional and technical services, health care, social assistance, and financial activities. Notably, average hourly earnings increased by 3.2% over the past year to \$27.98. (<https://www.bls.gov/news.release/pdf/empst.pdf>)

Consumer Confidence Index Remains High in July

The *Consumer Confidence Index* rebounded in July, following a decrease in June. The Index now stands at 135.7, up from 124.3 in June. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – increased from 164.3 to 170.9. The Expectations Index – based on consumers' short-term outlook for income, business and labor market conditions – increased from 97.6 last month to 112.2 this month. Consumers' assessment of present-day conditions improved in July. Those claiming business conditions are "good" increased from 37.5 percent to 40.1 percent, however, those saying business conditions are "bad" also increased slightly, from 10.6 percent to 11.2 percent. Consumers' appraisal of the job market was also more favorable. Those saying jobs are "plentiful" increased from 44.0 percent to 46.2 percent, while those claiming jobs are "hard to get" declined from 15.8 percent to 12.8 percent. (<https://www.conference-board.org/data/consumerconfidence.cfm>)

The Case-Shiller Index Posted 3.4% Annual Gain in May

The S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index, covering all nine U.S. census divisions, reported a 3.4% annual gain in May, down from 3.5% in April. The 10-City Composite annual increase came in at 2.2%, down from 2.3% in the previous month. The 20-City Composite posted a 2.4% year-over-year gain, down from 2.5% in the previous month. (https://us.spindices.com/documents/indexnews/announcements/20190730-965771/965771_cshomeprice-release-0730.pdf?force_download=true)

The Consumer Price Index Increased 0.3% in July

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.3 percent in July on a seasonally adjusted basis, after rising 0.1% in June, the U.S. Bureau of Labor Statistics reported today. Over the last 12 months, the all items index increased 1.8 percent before seasonal adjustment. (<https://www.bls.gov/news.release/cpi.nr0.htm>)

PUBLIC MARKET

The U.S. public equity market experienced minimal volatility in July, but the S&P 500 rose only 0.54%. The index still stands near an all-time high, with a YTD gain of 18.70%, as of July 31. Markets continue to feel the effects of tensions in US-China trade negotiations, though the signed US-Mexico Agreement, already ratified by Mexico, has shown promise and potential for growth. Recent high-profile IPOs have performed variably, with increased volatility in July. Beyond Meat (BYND) continues to perform well, while the Lyft and Uber struggle to meet expectations. The Renaissance Capital IPO ETF, a basket of the 60 or so most recent large IPOs, ended July with a slight loss, but is still up nearly 40% this year.

Public Trading Multiples

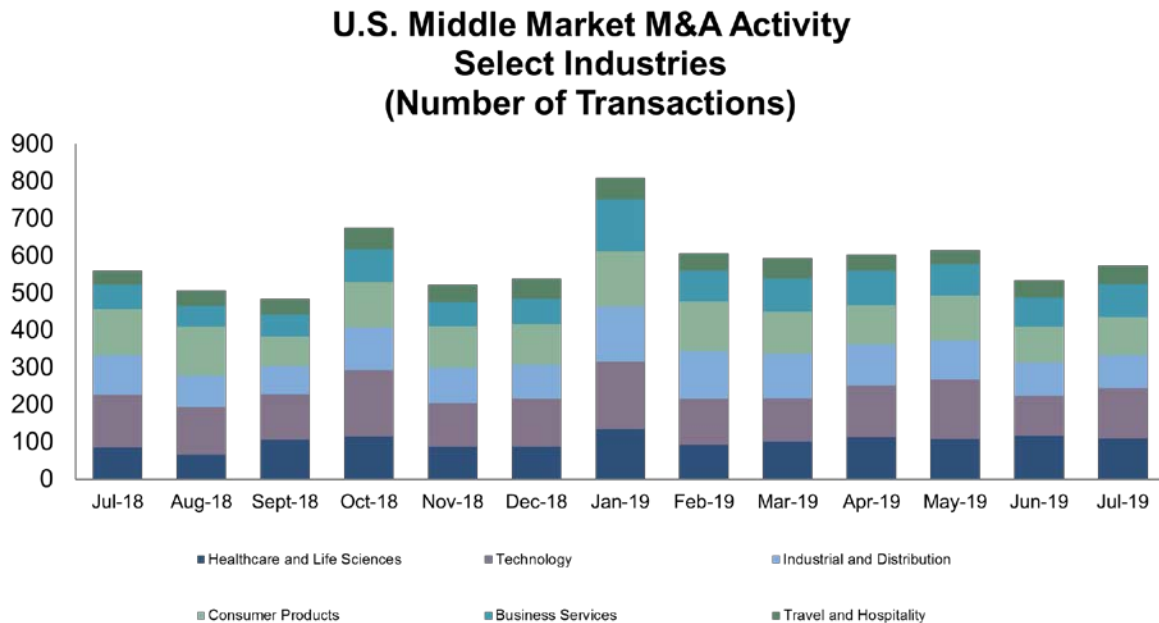
As of July 31, 2019

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	5.1x	27.3x	8.2%	9.5%	9.9%	7.9%	13.3%
Healthcare Equipment and Supplies	4.8x	20.6x	5.3%	5.5%	4.2%	6.9%	16.1%
Healthcare Providers and Services	0.8x	11.4x	9.5%	7.7%	9.0%	7.9%	7.8%
Healthcare and Life Sciences Aggregate	3.6x	19.8x	7.6%	7.6%	7.7%	7.6%	12.4%
Technology							
IT Services	3.4x	17.4x	5.5%	7.3%	4.4%	8.2%	8.4%
Software	6.8x	21.9x	11.8%	11.8%	15.4%	16.8%	5.4%
Computers and Other Electronic Equipment	1.3x	10.0x	1.9%	4.8%	-3.3%	4.2%	19.0%
Technology Aggregate	3.8x	16.5x	6.4%	7.9%	5.5%	9.8%	10.9%
Industrial and Distribution							
Aerospace and Defense	1.9x	15.0x	4.9%	3.9%	1.9%	5.1%	7.2%
Building Products	1.3x	10.0x	3.4%	3.9%	0.5%	6.1%	13.0%
Construction and Engineering	0.7x	8.3x	2.4%	5.9%	0.5%	8.2%	9.5%
Machinery	1.4x	10.4x	3.5%	5.3%	2.7%	10.7%	7.2%
Distributors	0.7x	10.0x	11.1%	8.2%	10.6%	13.2%	4.3%
Industrial and Distribution Aggregate	1.2x	10.7x	5.1%	5.4%	3.2%	8.7%	8.2%
Consumer Products							
Food and Beverage	2.3x	13.6x	0.7%	3.8%	0.2%	5.1%	15.3%
Household and Personal Products	3.3x	15.3x	-0.7%	2.2%	7.2%	6.7%	19.0%
Household Durables	0.9x	9.1x	1.7%	6.3%	-1.4%	9.9%	8.2%
Textiles, Apparel, and Luxury Goods	2.1x	13.4x	2.5%	6.3%	4.7%	8.4%	8.4%
Consumer Products Aggregate	2.1x	12.9x	1.0%	4.7%	2.7%	7.5%	12.7%
Business Services							
Human Resource and Employment Services	0.9x	12.5x	1.7%	7.1%	3.5%	6.7%	14.7%
Research and Consulting Services	3.4x	19.1x	0.4%	4.4%	-2.3%	3.8%	20.7%
Business Services Aggregate	2.2x	15.8x	1.1%	5.7%	0.6%	5.2%	17.7%
Travel and Hospitality							
Hotels, Resorts, and Cruise Lines	2.5x	12.2x	5.7%	5.3%	3.8%	6.6%	11.9%
Restaurants	2.7x	16.8x	2.5%	2.5%	1.0%	2.7%	8.9%
Leisure Facilities	4.0x	13.8x	3.3%	5.2%	6.9%	7.3%	32.4%
Travel and Hospitality Aggregate	3.1x	14.3x	3.9%	4.3%	3.9%	5.5%	17.7%

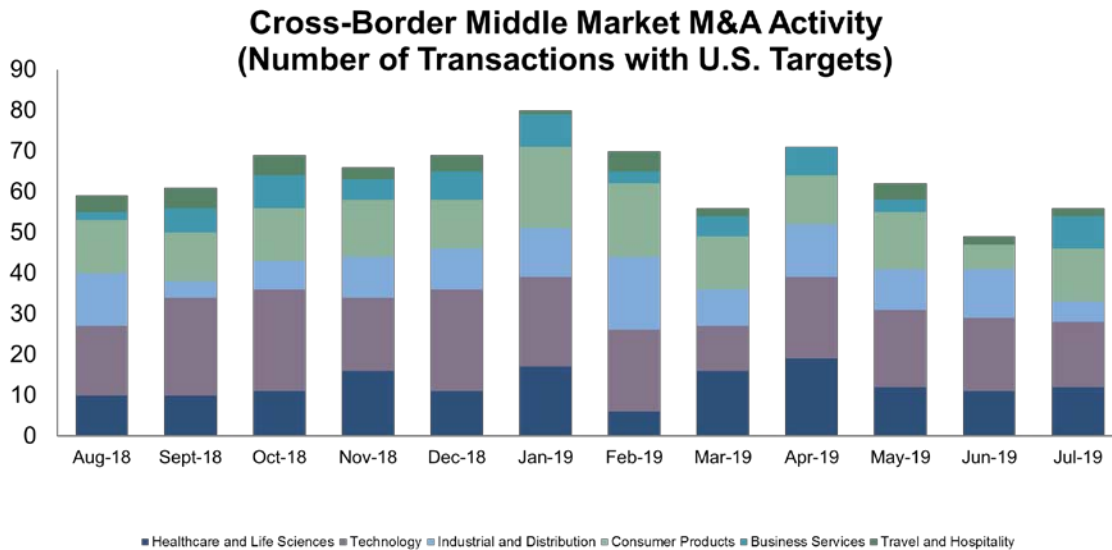
M&A MARKET

Deal volume continued at a moderate rate in July. Increasing tariffs and a potential for their further escalation are still affecting how US companies define their strategic priorities, both near and long term. On the other hand, concerns about the continuous economic upcycle are ameliorated by the broad lack of over-extended debt, low unemployment rates and strong company performance.

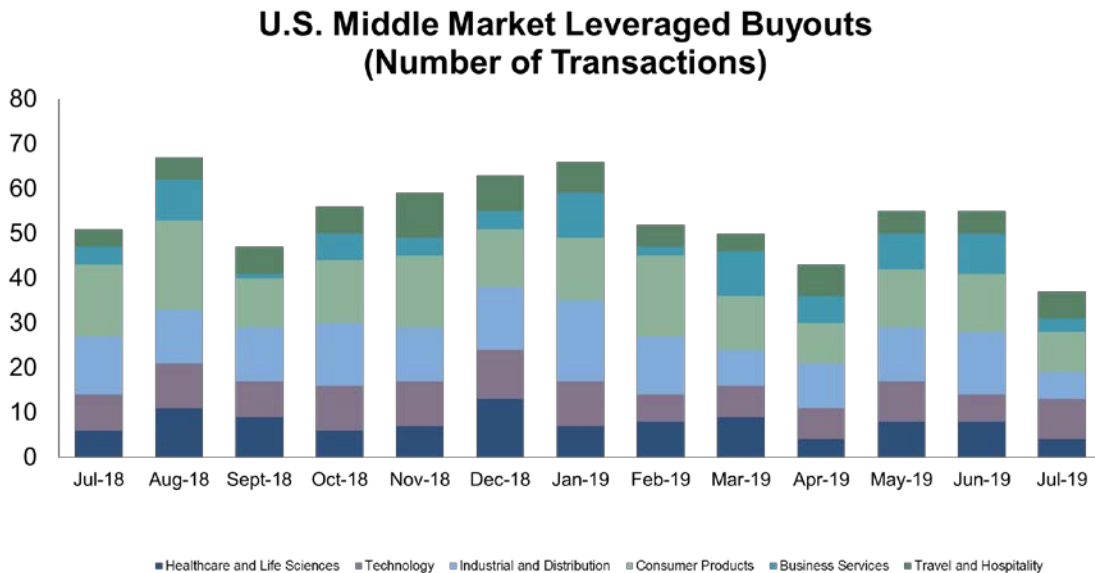
Financial sponsors continue to play an active role in U.S. M&A, with U.S. private equity transactions comprising a significant percentage of global private equity activity. Overall, private equity activity represented approximately 30 percent of total U.S. deal activity measured by value in the first quarter, according to figures from Mergermarket.



Middle market cross-border deal flow also remained strong in July despite uncertainty caused by underlying geopolitical tensions. Manolo Falco, Citigroup's long-serving head of corporate and investment banking in Europe says, "What we have seen missing is the cross-border deals, and the M&A market has been increasingly regional this year, whether in the U.S. or in Europe or Asia."



Middle market LBO activity had a strong showing in July with the Consumer products and Industrials and Distribution Services sectors recovering from a slow June. Though high public market valuations and business cycle risks are raising concerns of a potential correction, fund managers and industry analysts maintain an overall positive outlook for future deal activity given record levels of dry powder. U.S. economic and regulatory trends have continued to encourage deal-making this year.



SELECT MIDDLE MARKET M&A TRANSACTIONS – Technology

Hewlett Packard Enterprise Acquires Supercomputer Pioneer Cray

Hewlett Packard Enterprise announced that they will acquire Cray, a provider of SaaS-based clinical development software, for \$1.4 billion (\$35/Share in cash).

Cray is the premier provider of high-end supercomputing solutions that address customers' most challenging, data-intensive workloads for making critical decisions. HPE, one of two companies created in the 2015 breakup of Hewlett-Packard, is a major supercomputer supplier and sells general-purpose server systems.

"This is an amazing opportunity to bring together Cray's leading-edge technology and HPE's wide reach and deep product portfolio, providing customers of all sizes with integrated solutions and unique supercomputing technology to address the full spectrum of their data-intensive needs," said Peter Ungaro, President and CEO of Cray

Nvidia Acquires Mellanox

NVIDIA and Mellanox today announced that the companies have reached a definitive agreement under which NVIDIA will acquire Mellanox for \$6.9 billion.

The acquisition will unite two of the world's leading companies in high performance computing (HPC). Together, NVIDIA's computing platform and Mellanox's interconnects power over 250 of the world's TOP500 supercomputers and have as customers every major cloud service provider and computer maker. With Mellanox, NVIDIA will optimize datacenter-scale workloads across the entire computing, networking and storage stack to achieve higher performance, greater utilization and lower operating cost for customers.

Perspecta announces it will Acquire Knight Point

Perspecta—the new company formed by the spin-off of the DXC Technology announced that it has acquired Knight Point Systems for \$250 million.

Knight Point was founded in 2006 and focuses on cloud computing, cybersecurity, digital transformation and agile "DevSecOps" environments. Perspecta said the acquisition, which is their first as a publicly traded company, will bolster its offerings in "cloud, cyber, digital transformation and enterprise IT that modernize and transform government mission delivery."

FURTHER INFORMATION

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