



1H 2013

Network Activity Report

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Introduction

Axial is a network where private companies connect with capital. Over 12,000 deal professionals use Axial to grow their networks, source deals and clients, build their brand, and connect around live transactions.

[Click here to learn more about Axial](#)

This report is based on real-time data and analysis from activity on the Axial network. There are currently 2,902 active Opportunities on Axial, with cumulative revenue of over \$41 Billion as of June 30, 2013. All industry-specific data highlights Q2-13 data, from April 1, 2013 - June 30, 2013.

Helpful Terms:

Opportunity: A 1-2 page standardized high-level summary of a particular deal, shared with other relevant Members, on a confidential 1-to-1 basis.

Transaction Profile (TPs): Forward-looking investment or acquisition criteria defined and updated by Members. These are then matched and presented to Members with live Opportunities.

Pursuit: Expression of initial interest to initiate a conversation with another Member regarding a particular Opportunity.

Member Insights from...



Alex Koles

Director & Principal at Reinvention Capital Advisors



Aubrey Smith

Director of Consumer at Cowen Group



Don Rice

Managing Partner at Penn Mezzanine



Jerry Henley

Sourcing at Sorenson Capital



Joe May

Managing Principal at Graham Partners



Kisen Nathu

Vice President at Encore Consumer Capital



Stephen Connor

Director of Business Development at Hamilton Robinson Capital Partners

Overview

1H 2013 RECAP: ROAD TO RECOVERY?

As 2012 came to a close, many deal professionals and small business owners were hurrying to capitalize on the expiring tax laws. While the push created one of the most vibrant seasons for M&A activity since 2008, there were concerns for long-term activity.

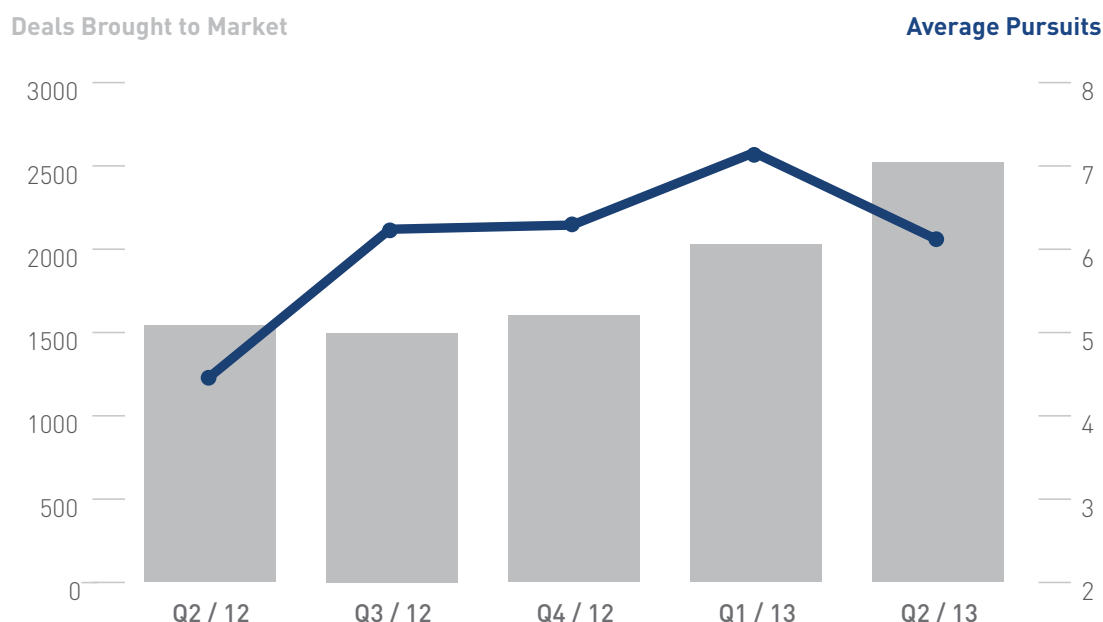
As it turns out, these concerns were warranted. While sensational mega-deals – like Heinz, Dell, and Virgin – topped headlines and encouraged optimism, many middle market deal professionals were still recovering from the frenzy of Q4-12.

As Kisen Nathu of Encore Consumer Capital explained, “The first half of the year has been relatively weak. Not only has the quantity of deal flow been slow, the quality of deals has been underwhelming as well.”

Nathu believes the sub-par deal environment can be attributed to the surge of deal activity at the end of 2012. “Many quality businesses sold at the end of 2012,” he explained. “If you had a business that was performing well, you were incentivized to sell last year to take advantage of the lower tax rates, so there may be a lack of quality sellers at this point as the pipeline builds.”

Although the year has been off to a slow start, Nathu has sensed a positive trend. “There

Activity on the Axial Network



was some marginal improvement from Q1 to Q2,” he explained. Activity on the Axial Network reflects Nathu’s sentiments. Between Q1 and Q2, there was a 23% increase in deal flow on the Axial Network. At the same time, however, there was a slight drop in pursuits per deal, down from 7.16 to 6.12.

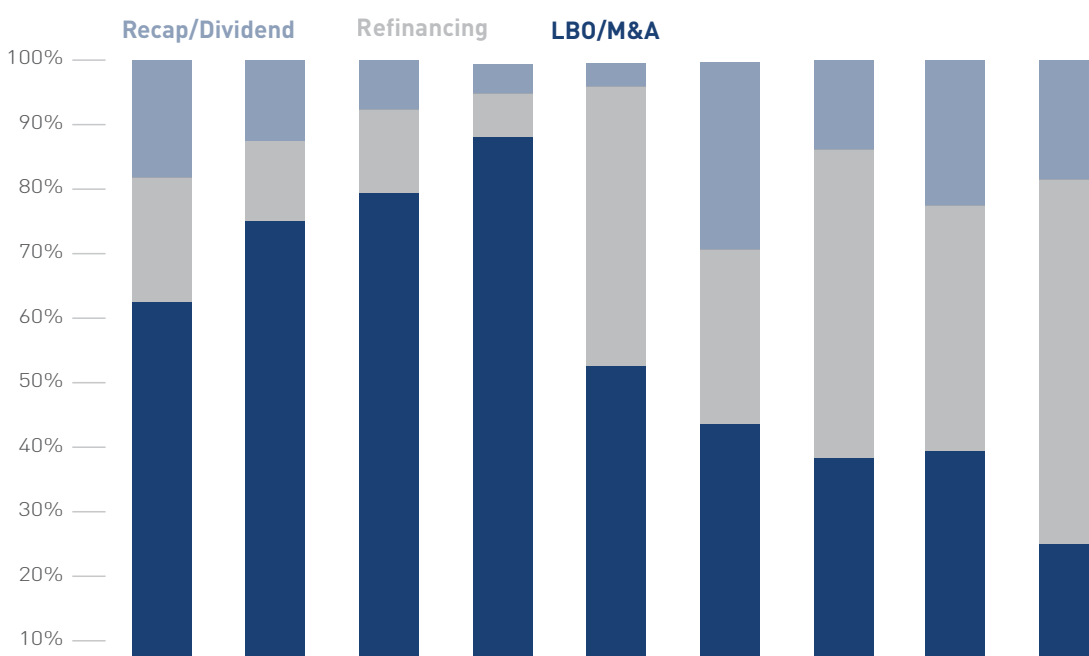
Much like Nathu, Don Rice of Penn Mezzanine believes the first few months of the year have been relatively difficult. “While deal flow is strong, there have been fewer quality deals,” he explained. “We closed one deal in March, but have been sending fewer term sheets than normal to date in 2013.” Rice, too, believes that, “the rush of activity at the end of last year is likely contributing to the sub-par deals.”

The slower deal activity has not only made sourcing more difficult, it has posed a challenge to current transactions. Rice explained, “The primary concern for 2013 is pricing -- pricing is driven by debt available and the level of deal flow. Since there is a great deal of capital available, competition for quality deals is more intense with lower pricing options.” As a result, “The price for a good company is rising.”

DEBT MARKETS FAVOR REFINANCING

The lackluster deal environment has been particularly surprising given the incredibly positive debt markets. Last time interest rates were this low – in 2007 – mega-deals and activity ensued. However, buyers today seem much more cautious. “Since lending rates

Private equity-related loan volume by purpose



Source: Forbes

have been so favorable, many private equity groups chose to focus on recapitalizations instead of new transactions and add-ons,” explained Aubrey Smith of Cowen Group.

“As debt markets begin to tighten, the focus will likely return to more traditional M&A activity.”



- Aubrey Smith,
Cowen Group

A recent Forbes article supported Smith’s analysis. “Thinly priced refinancing loans have dominated in 2013,” it read.¹

Private equity professionals looking for these favorable loans have been encountering little resistance from the banks. As Rice explained, “Banks have dramatically picked up their activity over the past 12-18 months. They have become much more aggressive in the types of cash flow credits they will go after.” He continued, “SBICs have also certainly become a factor. For the past few years, there have been over 15 new licensed SBICs a year. They, too, can be aggressive on pricing.”

Even the private equity groups looking for acquisitions may have found that the low

interest rates have created a hurdle. Steve Connor, of Hamilton Robinson recently explained, “If an owner were to sell his business today, he would have limited options to invest his proceeds on decent yielding investments. Rather than parking their money in low-yielding CDs, many owners are deciding to hold on to their businesses.”

While the debt market is expected to tighten in the next few months, after Bernanke explained the Fed plans to slow its stimulus activity in a “few meetings,” it remains unclear exactly when we will see a shift. According to a recent CNN article, “The quantitative easing program is unlikely to come to a full stop until mid-2014, and actual tightening -- when the Fed starts to sell assets and raise short-term interest rates -- is not expected until mid-2015.”²

While the shift may seem threatening, Smith believes the change will positively impact middle market activity. “As the debt markets begin to tighten...the focus will likely return to more traditional M&A activity.”

BUSINESS OWNERS LOOKING FOR PARTNERS

While the cautious optimism felt among deal professionals may suggest a better 2H 2013,

1 - <http://www.forbes.com/sites/spleverage/2013/06/17/private-equity-sponsors-tap-loan-market-at-record-pace-but-still-few-lbos/>

2 - <http://finance.yahoo.com/news/federal-not-expected-taper-qe3-132500752.html>

business owners are still sorting their expectations. According to Smith, “During the downturn, many business owners were focused on preserving their businesses and making them as efficient as possible. Now that we’re out of the woods, many of these owners are beginning to seriously consider the options available to them.”

However, many entrepreneurs are not simply looking to completely exit their companies. Smith explained, “Most entrepreneurs are looking for partners -- someone that can help them grow, not just provide capital. I think many of these owners learned during the recession that having money can’t get you all the way there.” She continued, “As a result, they are looking to connect with experienced partners.”

Still, the desires of a business owner vary by case. “Interest in a strategic or financial buyer has largely depended on where the company is in its lifecycle,” explained Smith. “In one conversation, the owner only wanted growth capital because he was not ready to fully exit. In a different conversation, the owner was ready to sell a controlling stake and move on to another venture, which made a strategic acquirer the more logical fit.”

2H 2013 OUTLOOK

Rice explained that he and his team are optimistic that 2013 will be a strong year overall. “We have already seen deal flow ramp up in the last 60 days and we are hoping to see a strong second half of 2013,” explained Rice.

Nathu is equally optimistic about the rest of the year. He said, “I think we will see activity pick up during the second half of the year. Part of that confidence comes from speaking with a variety of bankers, who seem to be busier now than they were a couple of months ago.” He also added, “There is still plenty of capital sitting on the sidelines waiting to be deployed.”

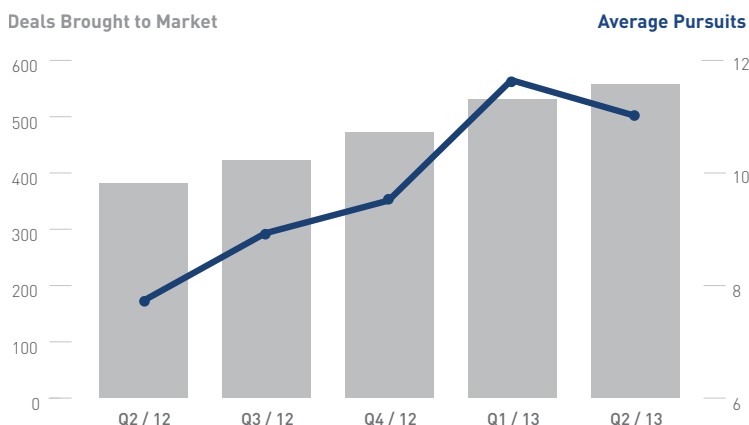
Rice agreed, “There is a lot of money in the private equity world driving transactions. With five-year investment periods expiring, many firms need to deploy their remaining capital or lose it. This deadline will likely help drive activity levels.”

Industrials

Industrials is one of the most active industries on the Axial network. Although activity -- in both deal flow and pursuits -- trended up throughout 2012, shifting regulatory changes, the sequester, and lingering investor cautiousness slowed investor appetite in Q2-13.

Despite the hiccup, the ongoing manufacturing resurgence, cheap energy, growing population, and infrastructure demands suggest that Industrials will continue to grow through the rest of the year.

Opportunities & Average Pursuits



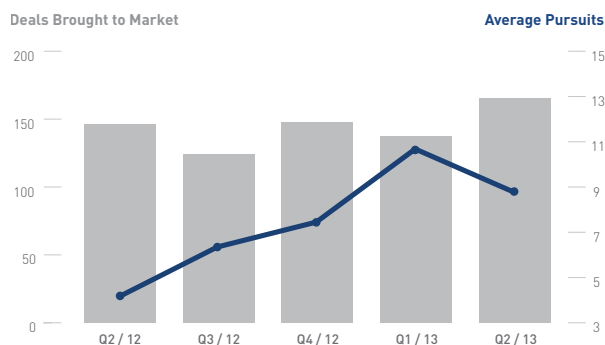
Top 5 Areas of Deal Flow in Industrials

Industry	Q2-13 Opps
Construction & Engineering	165
Industrial Machinery & Equipment	126
Trading Companies & Distributors	85
Aerospace & Defense	74
Trucking	60

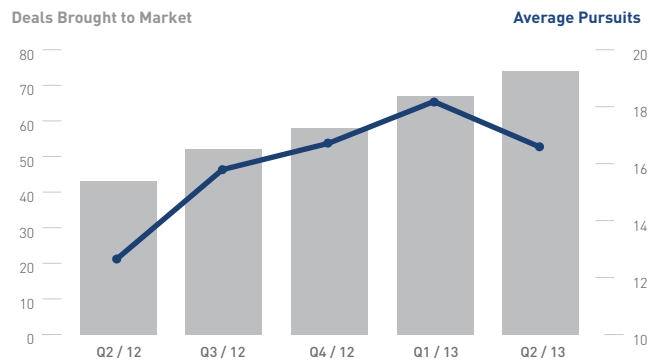
Top 5 Areas of Interest in Industrials

Industry	Pursuits/Deal
Heavy Electrical Equipment	18.93
Aerospace & Defense	16.59
Industrial Machinery & Equipment	13.63
Electrical Components & Equipment	13.56
Air Freight & Logistics	12.01

Construction & Engineering Trends



Aerospace & Defense Trends



Energy

Thanks to the development of fracking and shale gas in the United States, Energy has been experiencing an increased demand among investors. However, the interest is reserved only for traditional oil & gas deals. As Member Alex Koles explained, “The gap between traditional energy and alternative energy is only growing -- it is a game changer. If the price of natural gas continues to decline, it could remain troublesome for renewables.”

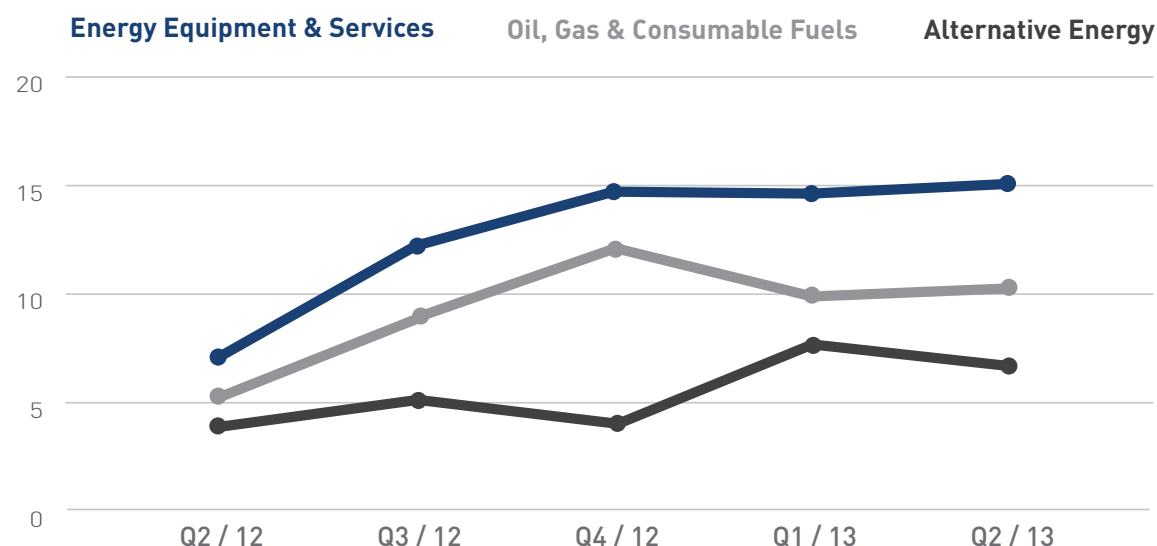
Top 5 Areas of Deal Flow in Energy

Industry	Q2-13 Opps
Oil & Gas Equipment & Services	99
Oil & Gas Drilling	46
Oil & Gas Exploration & Production	45
Alternative Energy Production	42
Oil & Gas Storage & Transportation	24

Top 5 Areas of Interest in Energy

Industry	Pursuits/Deal
Oil & Gas Equipment & Services	16.77
Oil & Gas Drilling	13.35
Oil & Gas Storage & Equipment	12.83
Electric Utilities	12.23
Oil & Gas Exploration & Production	10.71

Energy Pursuits/Deal



To demonstrate the split, Koles added, “I’m working on refinancing an alternative energy developer in Canada. It has been extremely difficult to find capital for the company at the corporate parent level. At the same time, I’m working on a traditional oil and gas turnaround and we have 7 term sheets. Traditional oil and gas is in demand right now.”

Cautious of the traditionally cyclical nature of the Energy industry, Koles also identified a different trend to keep an eye on: distributed generation. He explained, “Distributed generation -- which focuses on smaller, 1-10 megawatt power facilities -- is becoming more technologically and economically feasible than large utility-scale power facilities.”

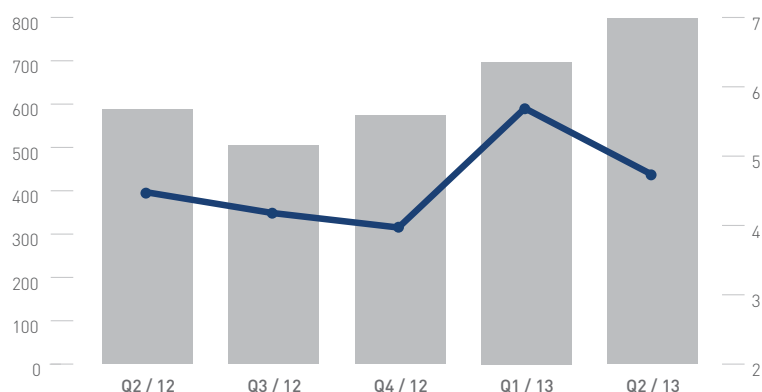
Consumer

According to Aubrey Smith, “Anticipating consumer behavior has been particularly difficult [in 2013].” She continued, “While there has been an uptick in spending recently -- thanks to warmer weather and spring trends -- the improvement has still been slow. There seems to be trepidation despite

Opportunities & Average Pursuits

Deals Brought to Market

Average Pursuits



the myriad of positive statistics and indicators.”

Kisen Nathu of Encore Consumer commented, “While overall activity is slow, we continue to see interest in the consumer sector since it has always been a stable category. Long term trends in the category such as natural/organic foods and health and wellness oriented products help drive sector growth.”

Top 5 Areas of Deal Flow in Consumer

Industry	Q2-13 Opps
Specialized Consumer Services	257
Restaurants	203
Specialty Stores	109
Leisure Facilities	90
Packaged Foods & Meats	56

Top 5 Areas of Interest in Consumer

Industry	Pursuits/Deal
Consumer Electronics	10.80
Auto Parts & Accessories	10.38
Leisure Products	9.11
Packaged Foods & Meats	8.02
Agricultural Products	7.76

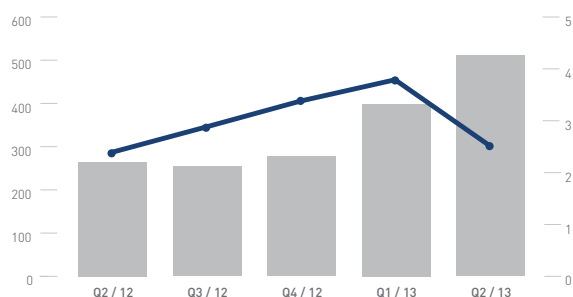
Snapshot: Retail on Axial

- **Automotive Retail** had the greatest deal flow in Q2-12 with 175 active Opportunities
- **Drug Retail** Opportunities were the most pursued in Q2-12 with an average of 7.28 pursuits per opportunity
- The average Retail Opportunity had **2.52 pursuits in Q2-12**, down from 3.79 pursuits in Q1-12

Trends in Retail

Deals Brought to Market

Average Pursuits

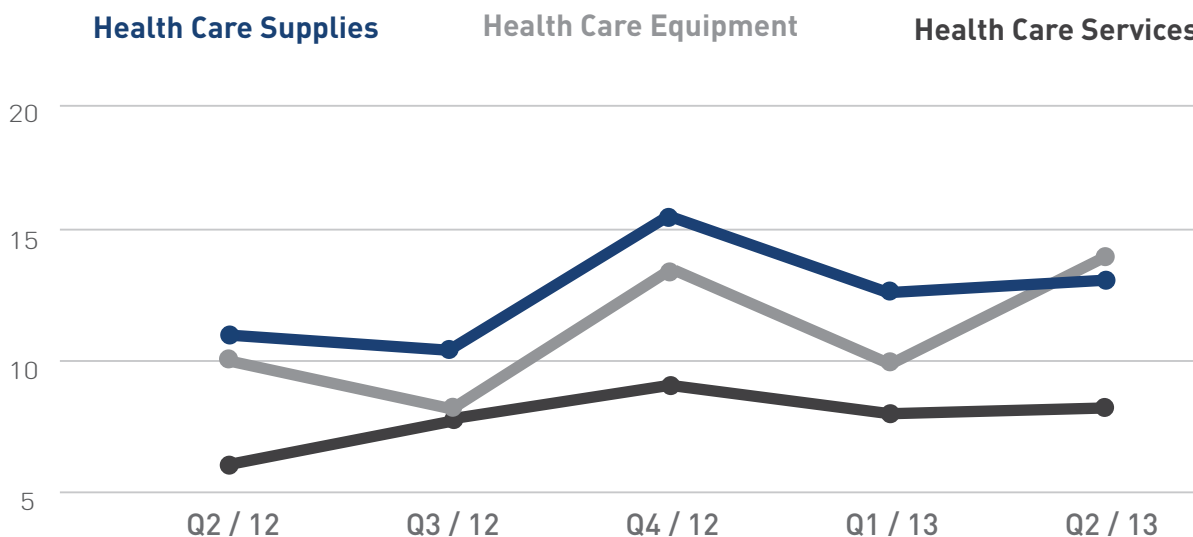


Health Care & Life Sciences

Investments in Health Care appear to be centered on the demographic change. As Don Rice, managing partner of Penn Mezzanine, explained, “Health care has become such a large part of our economy. As the baby boomer generation continues to age, the importance of medical products/ services is becoming increasingly important.”

Interest in Health Care Services has grown at a slower pace than Health Care Supplies and Health Care Equipment, suggesting that reimbursement risk may be a concern for many investors.

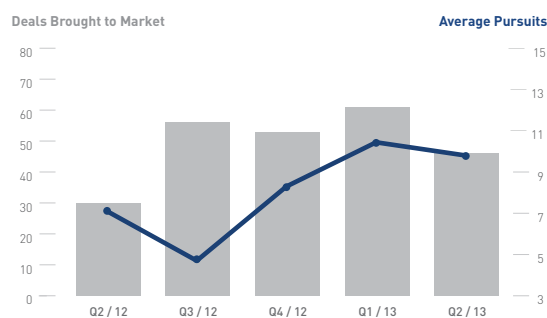
Health Care Pursuits/Deal: Supplies, Equipment, & Services



Health Care Trends



Life Sciences Trends



Top 5 Areas of Deal Flow in HC & LS

Industry	Q2-13 Opps
Health Care Services	124
Health Care Facilities	67
Health Care Distributors	49
Health Care Technology	47
Health Care Supplies	43

Top 5 Areas of Interest in HC & LS

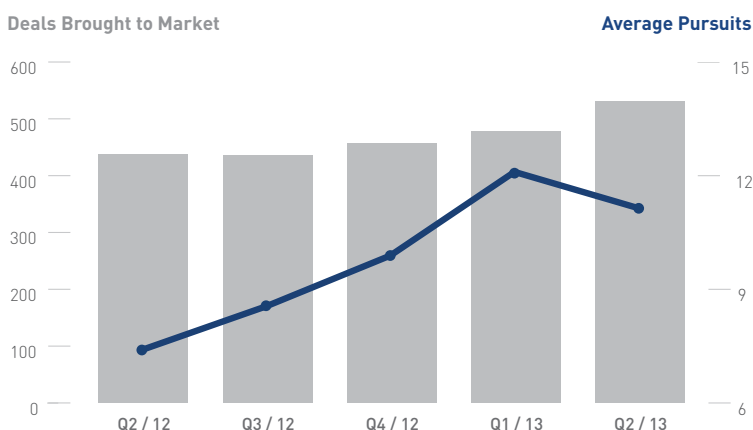
Industry	Pursuits/Deal
Nutraceuticals	16.25
Health Care Equipment	13.43
Health Care Supplies	12.58
Health Care Distributors	11.31
Health Care Technology	10.15

Manufacturing

Over the past few years, the phrase “manufacturing resurgence” has grown in popularity throughout the United States. Industry analysts have identified a variety of positive factors that suggest America may reclaim its bygone title of a manufacturing powerhouse.

As Joe May of Graham Partners explained, “The simultaneous rise in transportation cost for foreign-produced goods and the fall in energy costs in the US has led many manufacturers to rethink their foreign manufacturing efforts,” said May. “For many manufacturers, the cost of shipping goods from another country is beginning to negate the benefits.”

Opportunities & Average Pursuits



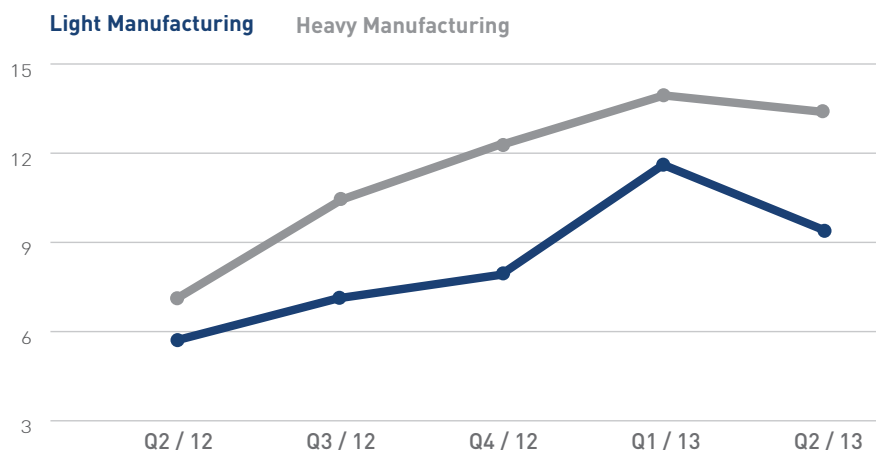
Top 5 Areas of Deal Flow in Manufacturing

Industry	Q2-13 Opps
Industrial Machinery & Equipment	126
Aerospace & Defense	74
Auto Parts & Accessories	74
Building Products	61
Health Care Supplies	43

Top 5 Areas of Interest in Manufacturing

Industry	Pursuits/Deal
Heavy Electrical Equipment	18.93
Electronic Manufacturing Svcs	18.11
Aerospace & Defense	16.59
Health Care Equipment	13.43
Metal, Glass & Plastic Containers	12.95

Pursuits/Deal: Light vs. Heavy Manufacturing



However, not all manufacturers will benefit equally. May added, “Businesses with strong industrial technologies at the core are likely to experience the greatest gains from the ongoing resurgence,” explained May. “They are becoming quite attractive to investors.”

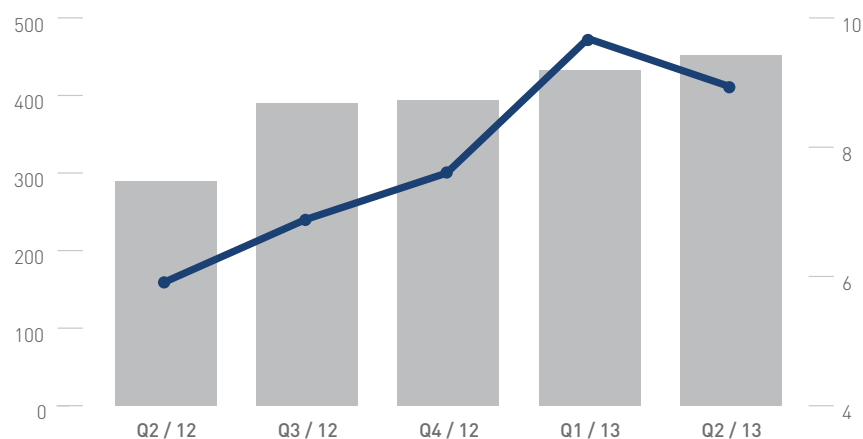
TMT

Between the growing trends in mobile, tablet, and interactive computing, TMT has begun to appeal to an increasing variety of investors. Despite a slight drop in average pursuits between Q1-13 and Q2-13, TMT has experienced a positive trend in both deal flow and interest. “We are generalist

Opportunities & Average Pursuits

Deals Brought to Market

Average Pursuits



but locally one focus is on technology because we believe it is at the forefront of nearly every industry,” said Jerry Henley of Sorenson Capital.

He continued, “Software is the traditional focus because of its ability to generate recurring revenue.” While Henley looks primarily to Software, there appears to be broader interest on Axial for Hardware companies.

Top 5 Areas of Deal Flow in TMT

Industry	Q2-13 Opps
Internet Software & Services	118
Advertising	102
Application Software	100
Systems Software	52
Electrical Components & Eqpt	48

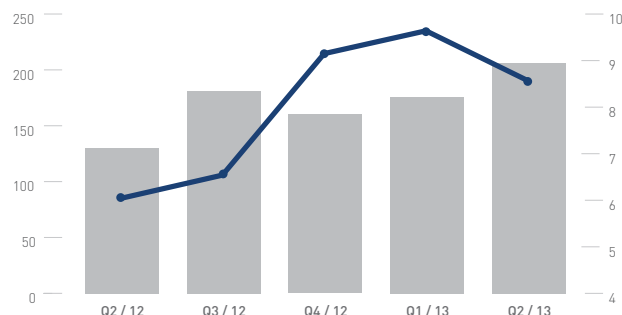
Top 5 Areas of Interest in TMT

Industry	Pursuits/Deal
Electronic Components	29.79
Electronic Equipment & Instruments	21.38
Electronic Manufacturing Services	18.10
Communications Equipment	13.76
Electrical Components & Equipment	13.56

Software Trends

Deals Brought to Market

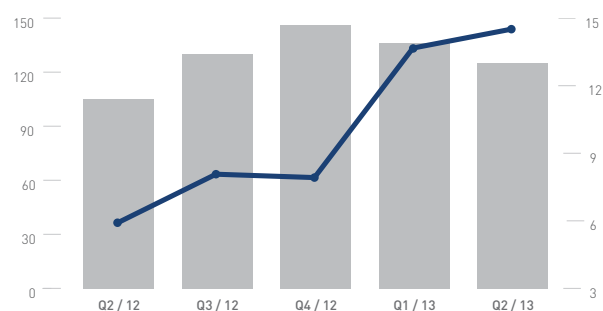
Average Pursuits



Hardware Trends

Deals Brought to Market

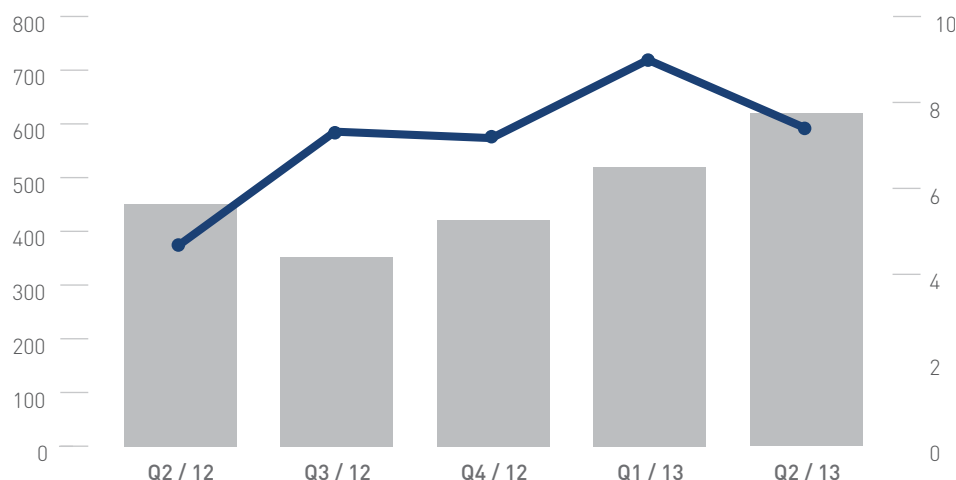
Average Pursuits



Business Services

Opportunities & Average Pursuits

Deals Brought to Market



Like Industrials, Business Services is one of the largest industries on Axial. While the deal flow in Business Services has risen consistently since Q3-12, the investor demand has been much less predictable.

Top 5 Areas of Deal Flow in Business Services

Industry	Q2-13 Opps
Diversified Support Services	179
Environmental & Facilities Services	156
IT Consulting & Other Services	108
Advertising	102
Research & Consulting Services	73

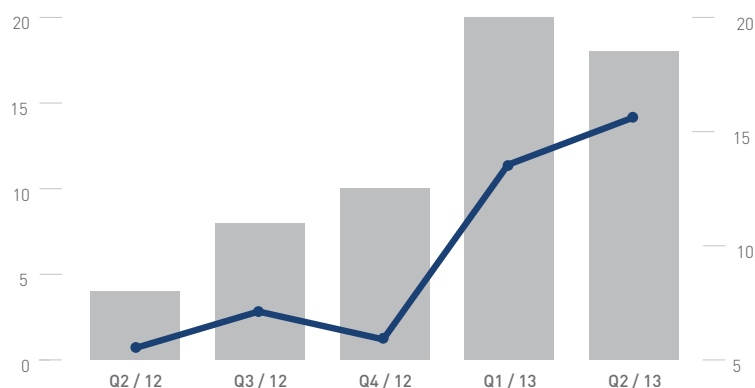
Top 5 Areas of Interest in Business Services

Industry	Pursuits/Deal
Airport Services	15.61
Payment Processors	10.56
Data Processing & Outsourced Svcs	10.44
Research & Consulting Services	9.56
Security & Alarm Services	9.00

While Airport Services deals are relatively rare, those that come to market tend to garner significant attention. With continued mergers in the airline space, the related services may continue to benefit.

Trends in Airport Services

Deals Brought to Market





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To request membership visit www.axial.net

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