

M&A MARKET

EXECUTIVE SUMMARY

- After a modest rise in third-quarter M&A volume, preliminary data suggests fourth-quarter volume dipped to about 2,600 transactions, which represents greater than a 10% quarter-over-quarter decline.
- Equity markets experienced significant volatility, the magnitude of which has not been seen since early 2016. Much of this can be attributed to ongoing tariff battles, the Federal Reserve continuing to raise interest rates amidst general economic uncertainty, and the U.S. Government shutdown.
- Despite market volatility, economic data remains relatively healthy, and fears of a recession are likely overblown. In this period of uncertainty, first-quarter equity and credit market dynamics may set the M&A climate for 2019.

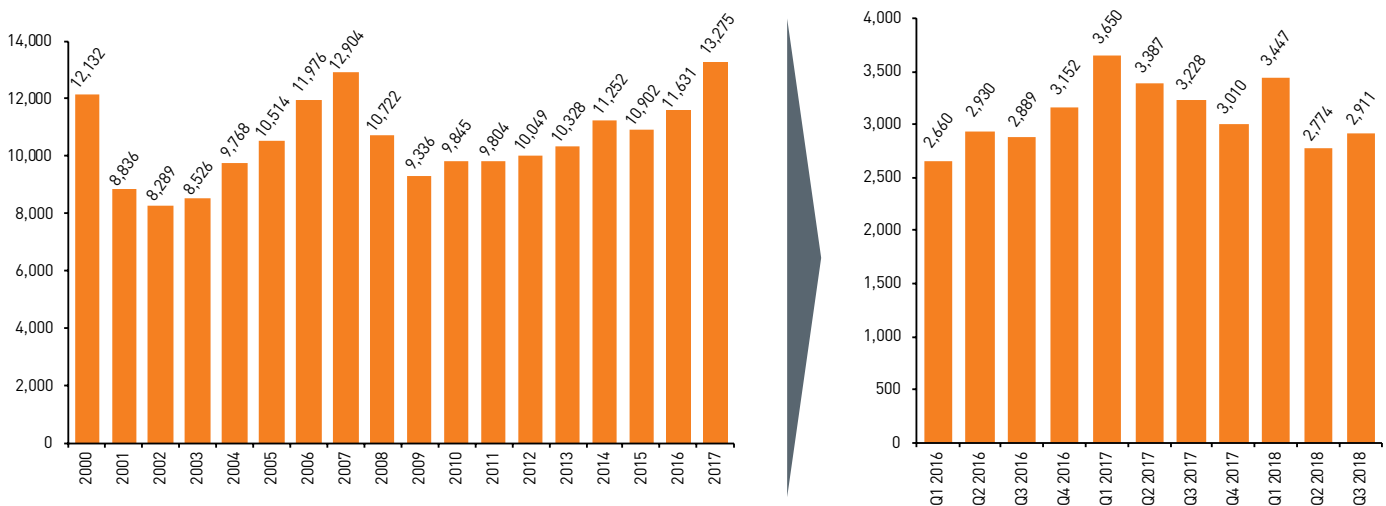
4Q 2018 M&A MARKET REVIEW

Strong third-quarter market dynamics were followed by a more volatile fourth quarter. Along with the equity market downdraft, credit conditions weakened, particularly in the last 6 weeks of the year. This had a negative impact on a number of upper middle market M&A transactions, including delayed closings.

Given that the M&A market is a lagging indicator, some observers expect less activity in early 2019. However, M&A market conditions remain relatively strong, and investors indicate a continued desire to put capital to work. As such, we remain optimistic that the M&A market will be somewhat insulated from broader market volatility in 2019.

NORTH AMERICAN M&A VOLUME¹

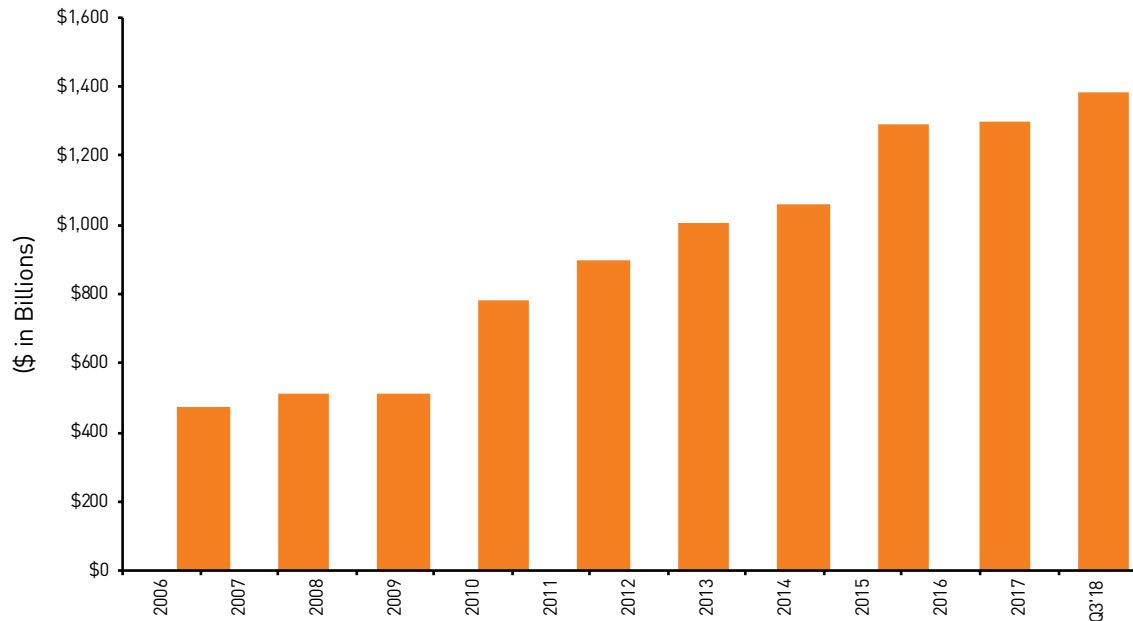
(Number of Transactions)



¹ Includes transactions with a target located in the U.S. or Canada
Source: Thomson Financial

- S&P 500 aggregate cash positions (excluding financial companies) were near \$1.6 trillion at the end of the third quarter of 2018, up slightly from 2017's \$1.5 trillion mark. The pressure to supplement organic growth via acquisitions continues to be top-of-mind for boards and shareholders as they scrutinize balance sheet management and utilization.

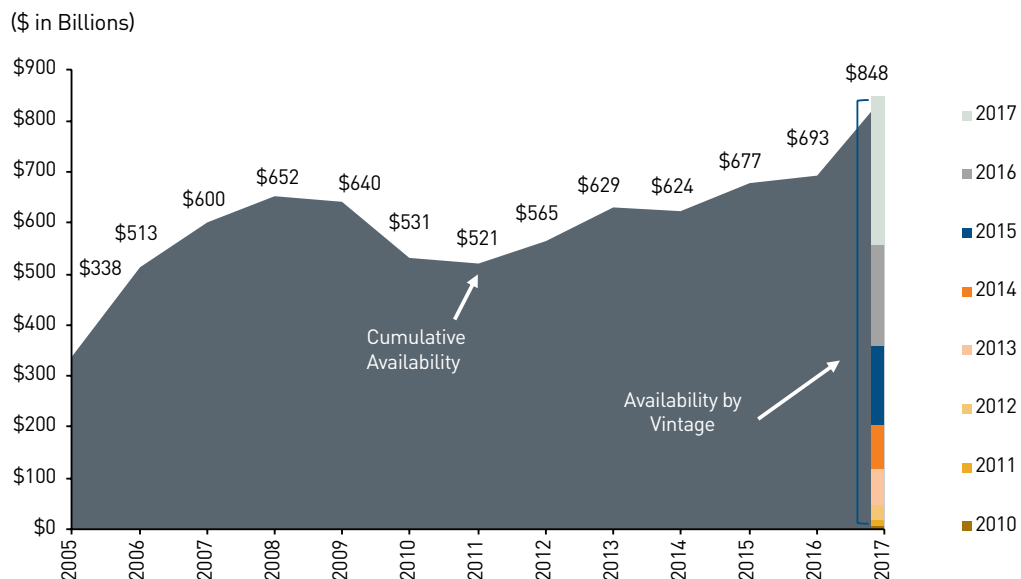
S&P 500 – AGGREGATE CORPORATE CASH BALANCES¹



¹ Excluding financial companies
Source: FactSet

- North American and European private equity firms possessed a record-setting base of deployable capital to invest in 2017, and likely eclipsed \$1 trillion at the end of 2018. Despite equity and credit market uncertainty, firms remain eager to put capital to work, particularly in companies with a proven track record through economic cycles.

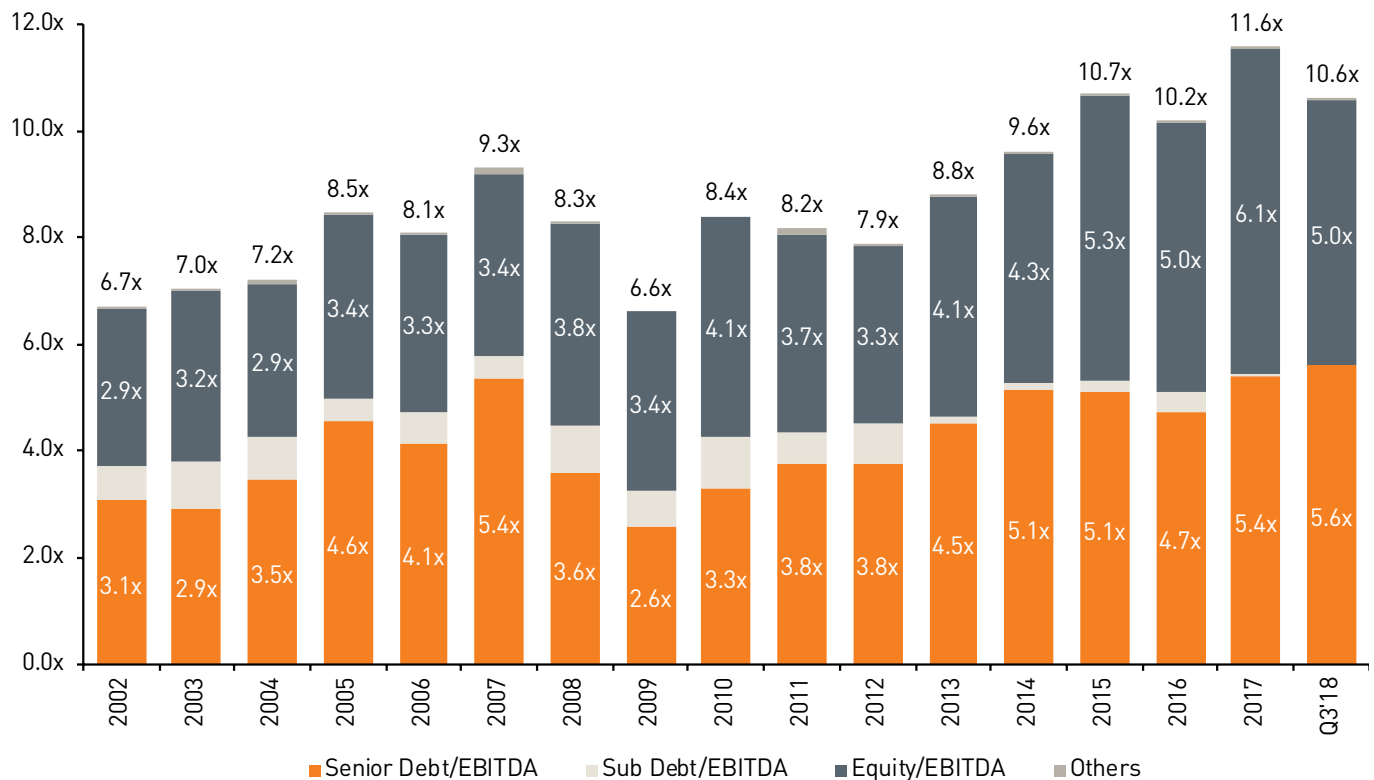
NORTH AMERICAN AND EUROPEAN PE CAPITAL



Source: PitchBook

- Private equity-backed deal multiples for middle market companies reflected continued strength in the M&A market in the third quarter of 2018. This will be an important metric to watch as market conditions evolve in the coming quarters.

AVERAGE PURCHASE PRICE BREAKDOWN BY SPONSORS¹



¹ Deals less than \$50 million of EBITDA
Source: Standard & Poor's

INDUSTRY UPDATES

Harris Williams professionals continue to see strong M&A activity across a wide range of industries. The following insights reflect some of the firm's most recent experience.

Getting Smart: Opportunities in Educational Technologies and Services

Four powerful trends are providing the educational products and services segment with strong and steady tailwinds, attracting the attention of financial and strategic buyers. Within the segment, a wide variety of business models and value propositions are creating compelling opportunities for an equally diverse range of buyers and investors. Recent Harris Williams transactions exemplify these opportunities, demonstrating **the many ways to participate in the educational space.**

2018 Harris Williams Transportation & Logistics 3PL Conference

The third-party logistics (3PL) market is booming, driven in large part by strong consumer demand and a surge in e-commerce that shows no signs of slowing. To discuss the current state of the 3PL market, the underlying trends, and some of the opportunities the market presents for buyers, Harris Williams conducted **three panel discussions at its recent Transportation & Logistics 3PL Conference.**

Exit Row: Three Points to Consider

At the 2018 Inc. 5000 Conference honoring the fastest-growing businesses in the U.S., Glenn Gurtcheff, a managing director at Harris Williams, participated in a panel discussion with Caroline Young, a partner at Hammond, Kennedy, Whitney & Company; and Ross Croley, the executive chairman of Ministry Brands, LLC. Combined, these panelists have been involved in hundreds of M&A transactions. **Here, we share the panel's perspectives on what business owners should know as they contemplate their exit strategy, summarized into three essential ideas.**

FOR MORE INFORMATION

To discuss opportunities in M&A for your business, please contact Bill Watkins at wwatkins@harriswilliams.com.

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