MUSINGS from the –Middle–

With all the anticipation (and perhaps delicateness) of a mayoral press conference in Toronto (so as to keep it nationally balanced, “San Diego” would also do), we’re pleased to bring you the latest, bigger and better Musings from the Middle. Admittedly, it’s been a few months since our last treatise, but we’ve got a good excuse: our own merger…and like PAYton Manning in a new uni, we’ve emerged bigger and better!

2013 Year in Review

From MHT MidSpan’s perspective, 2013 was a bit of a tale of two cities: the first half, particularly the first quarter, was exceptionally slow, and the second half became increasingly busy. As generally acknowledged, while the second half of 2012 saw a record spate of “tax driven” deal closings, nary a new deal was kicked off in that time period. The unfortunate upshot of this tsunami of deal closings was that the cupboard was relatively bare entering January 2013 and largely remained that way through the first quarter, as the market worked off the excess bingeing of late 2012.

In line with the seasonal weather patterns, the ice jam in the market did start to break in the second quarter with a noticeable uptick in conversations, deal pitches, and mandates. From the nadir early in the year, the market steadily picked up momentum, though getting nowhere near that of mid-2012. With no specific catalyst to drive year-end activity, deals have proceeded at a consistent, if not “measured” pace with buyers and sellers taking their time at spots.

Dialing activity down to our wallets, err….a more micro level, 2013 was a good year in terms of deals done, and a spectacular year from a firm transformation perspective. On the latter point first, MidSpan merged with MHT Partners late in the year to form what we believe is a premier national middle market investment bank, MHT MidSpan (we know--the name rolls of the tongue…). Why the merger? A couple of key points sum it up: 1) If you’re not growing, you’re moving backwards, and 2) we are a people-driven business, and culture is key. In MHT Partners (and vice versa) we found a great cultural fit, with similar backgrounds, a shared vision of the middle market and complementary relationships with sponsors, a compelling industry/vertical mix with strengths in different sectors and complementary overlap in others, and a highly logical geographic footprint. All told, on a combined basis, we bring to bear the talents of 40 or so bankers, across seven key verticals (Technology, Business & Information Services, Education, Consumer/Retail, Healthcare Services, Energy Services and Industrial Growth), in three offices (Boston, Dallas and San Francisco). We should also point out, it’s a cashless merger (read “no liquidity event”) so everyone, top to bottom, is fired up to make it happen every day!

Some Other Observations on 2013:

1. Much of the year could be characterized by a scarcity of great deals. As a function of quantity, versus quality, we also witnessed a decided movement of larger middle market investment banks moving down market and chasing smaller deals in the $5-$10mm EBITDA range, as deal flow remained challenged through the first half.
2. In the middle market, leverage “flocked like the salmon of Capistrano” to good deals (and beer flowed liked wine!...to honor a classic that turns 20 this year). Consistently rising leverage levels raised acquisition prices across the board. While hard to believe, we saw firsthand leverage pushing 5x on deals with EBITDA between $5-$10mm.
3. “Pristine/‘A’” companies commanded stratospheric multiples, while “average/“C” companies commanded middling multiples (or didn’t get done at all).
4. Related to points 2 and 3 above, it was unambiguously a better year to be a seller than a buyer.
5. We saw more activity from sponsors relative to founder/entrepreneurs than in 2012. A not uncommon, nor unreasonable, position of founder/entrepreneurs seemed to be “starting to think about doing something…but likely give it another year or so….”
6. Financial performance across our client base is generally strong, though as is always the case, certain sectors are stronger than others. Real estate/housing related assets and SaaS models, amongst others, are performing exceptionally well.
7. The Red Sox won their 3rd World Series in a dynastic decade!

Our People

On the people front, key senior additions were made in all three of our offices:

Dallas: Stuart Brown joined to spearhead our Energy practice. Stuart previously was with Southwest Securities’ Energy practice.

Boston: The Boston office saw significant growth this year. Kevin Jolley joined from Capstone, while Tech bankers Garin Arevian and Jason Myler joined from Harris Williams and Falvey Partners (and previously Revolution Partners) respectively.

San Francisco: Mal Thompson, after a several year stint running PE for a family office, rejoined his former colleagues. Mal has an MBA from HBS and unlike many of us, previously held a “real job” as a Green Beret in Afghanistan and Iraq.

Select Deals of 2013

ExecSense – Represented the shareholders of ExecSense, a leading digital content provider in the eLearning space, in their sale to The Financial Times Group, a division of Pearson (LSE:PSON)

A. H. Belo Corporation's *The Press Enterprise* – Represented the shareholders of A. H. Belo Corporation, a distinguished newspaper publishing three daily newspapers and a diverse group of websites in their sale to Freedom Communications, Inc., publisher of *The Orange County Register*.

Provista – Represented the shareholders of Provista, a leading supply chain improvement company serving the health care, education and corporate markets in their acquisition of NationalIPA.

Red Line Oil Corp – Represented the shareholders of the iconic branded synthetic oil and fuel additives company in their sale to Dominus Capital.

What's in Store in 2014

Looking ahead to the New Year, we are optimistic. From a macro level, the economy appears to be picking up steam in general (which isn't to say we won't continue to navigate various potholes), interest rates, while rising, remain historically low, the equity markets are strong, corporations are sitting on copious amounts of cash, sponsors have ample dry powder, and a generational shift continues with founder entrepreneurs of the baby boom generation. From a firm perspective, our backlog has never been stronger as we presently have 20 plus deals mandated across a spectrum of sectors. If you're contemplating a deal in Technology, Business & Information Services, Education, Consumer/Retail, Healthcare Services, Energy Services or Industrial Growth, we'd love to be helpful.

You stay classy Middle Market!

Best,
The MHT MidSpan Team