

# Porter, White & Company

## What's it Worth?

Valuation Review, Q2 2015, Number 3

This report explores recent valuation trends in the public and private markets, directed to small and middle market business owners and the professionals and financial institutions that serve them. The review is designed to provide realistic guidance on the question “What’s it Worth?,” keeping in mind that proper preparation for real world transactions requires analysis of specific situations based on up to date data. This is the third edition of the Porter, White & Company Valuation Review, which is published quarterly.

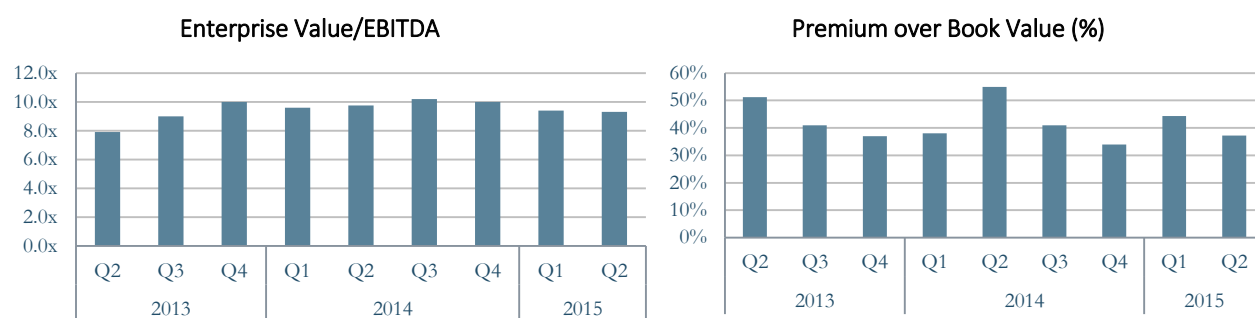
### I. Overview

U.S Middle-market private equity activity remained strong in Q2 2015 with elevated multiples holding steady. Deal multiples of 15.0x EBITDA are no longer seen as outliers, prompting data providers to increase their deal parameters to include these transactions. The continued abundance of cheap liquidity will likely keep deal prices elevated for the near term, which is good news for sellers. With strong lending competition, buyers’ required equity contributions have declined from 50 percent in 2011 to almost 43 percent at the end of Q2 2015.<sup>1</sup> Alabama has been slow to recover from the recession, but at PW&Co, we have finally begun to see an uptick in businesses looking to grow – raising growth capital or expanding through acquisition – a positive sign for the Alabama economy.

### II. Valuation Multiples in M&A Deals

Multiples of middle-market companies (defined here as companies with transaction values between \$1M and \$500M) have remained strong in 2015, as shown in Figure A below. This is consistent with what we are hearing from private equity professionals around the country. As shown in the table below, middle-market companies sold for an average of 9.3x trailing twelve month EBITDA during Q2 2015, a slight decrease from transactions during Q2 2014. The target companies were purchased (on average) at a 37 percent premium above the book value, a decrease from Q2 2014 and Q1 2015.

Figure A: Valuation Multiples in Middle-Market M&A Deals<sup>2</sup>

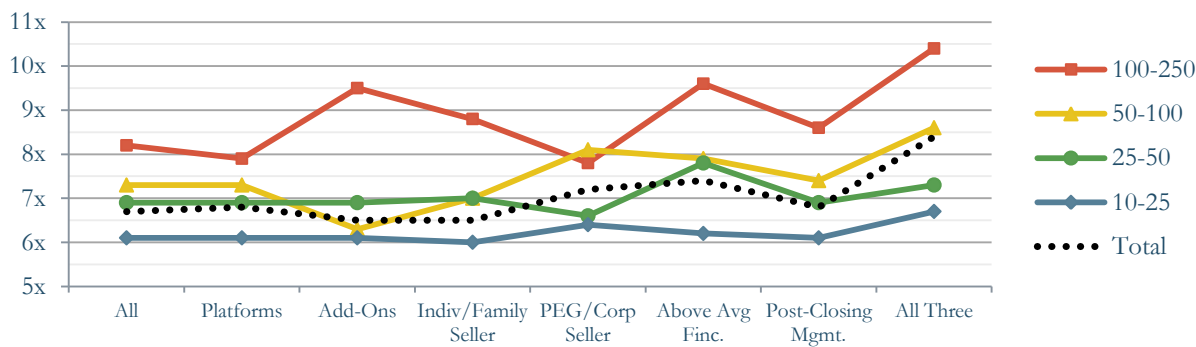


Source: Factset

As shown in the chart below, value is driven by a variety of factors, including existing ownership (individual/family or institutional), transaction purpose (platform or add-on), financial character-

istics, and continuation of management post-closing. In almost all of these categories, private equity buyers have paid a “size premium” for larger businesses over comparable smaller ones. At the lower end of the middle market with enterprise value less than \$25 million, sellers appear to be getting less of a bump for relative value factors compared to larger deals.

Figure B: Valuation Drilldown: Private Equity Buyout Multiples in 2015<sup>3</sup>



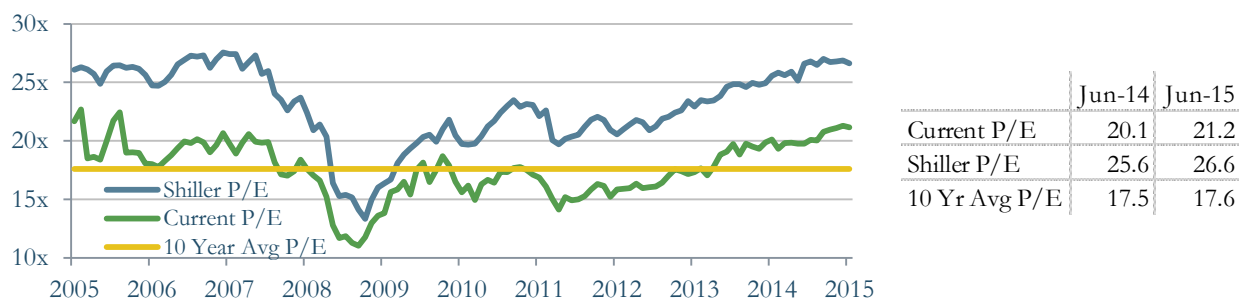
Source: GF Data®

Note: ‘All Three’ denotes buyouts featuring above-average financial characteristics, a post-closing management solution and private equity/corporate seller.

### III. Publicly Traded Valuation Multiples

Private transaction multiples are the most direct evidence of valuations in the private markets. However, public markets also provide an important view of valuation metrics and show how sophisticated investors currently view and quantify risk in a given company, industry, or geography. The current P/E ratio (current price divided by latest 12 month earnings) of the S&P 500 index increased to 21.2 at the end of June 2015, up from 20.1 one year prior. The Shiller P/E ratio (current price divided by average earnings over 10 years) also increased to 26.6 from 25.6 over the same time period.

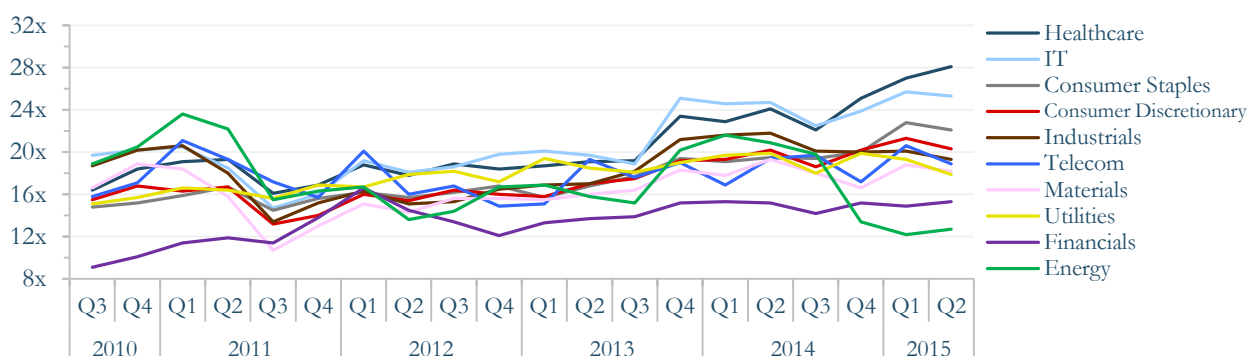
Figure C: Publicly Traded Valuation Multiples Over Last 10 Years<sup>4</sup>



Source: Multipl.com

The following graph shows the current and historical market EBITDA multiples by sector over the last five years. It is critical to know what the industry and sector looks like when valuing a business, and industry multiples provide a current market view of growth and risk. The sectors are sorted in the legend from highest (Healthcare) to lowest (Energy) based on the median EBITDA multiple of companies in the sector. The energy sector is currently trading at a lower EBITDA multiple than five years prior, while every other sector’s multiples have increased. Valuation multiples in the healthcare sector have improved significantly over the last five years, growing from 16.4 to 28.1 as of June 30, 2015.

Figure D: Publicly Traded Valuation EBITDA Multiples Over Last 5 Years by Industry<sup>5</sup>



Source: Duff & Phelps

#### IV. Industry Snapshot – Staffing Industry

As in previous reports, we aim to highlight one industry each quarter that has a strong local presence. Staffing companies offer a wide range of employment-related services, including temporary and contract staffing, permanent placement, human resource outsourcing, and human resource consulting services. M&A activity in the Staffing industry has remained strong since 2012, averaging approximately 30 transactions each quarter.<sup>6</sup> Professional services (e.g., IT, Healthcare, Finance and Accounting) continue to receive the most demand from buyers. The following table summarizes the public valuation multiples for segments of the staffing industry as of June 30, 2015.

Figure E: Staffing Industry Valuations<sup>7</sup>

Company Name	EV/EBITDA		Company Name	EV/EBITDA		Company Name	EV/EBITDA	
	LTM	2015E		LTM	2015E		LTM	2015E
<b>Professional Staffing</b>			<b>Commercial Staffing</b>			<b>Healthcare Staffing</b>		
BG Staffing, Inc.	8.7x	NA	Adecco S.A.	14.7x	11.7x	AMN Healthcare Services	16.7x	12.6x
Ciber, Inc.	12.4x	NA	Barrett Business Services	NM	5.1x	Cross Country Healthcare	20.0x	13.2x
Kelly Services, Inc.	9.5x	6.0x	CDI Corp.	7.8x	16.9x	<i>Average</i>	18.3x	12.9x
Kforce Inc.	13.8x	10.7x	Kelly Services, Inc.	9.5x	6.0x	<b>Executive Search</b>		
ManpowerGroup Inc.	9.1x	9.4x	ManpowerGroup Inc.	9.1x	9.4x	Heidrick & Struggles Intl.	29.9x	30.2x
On Assignment Inc.	13.1x	10.9x	Randstad Holding NV	16.6x	12.2x	Korn/Ferry International	17.1x	15.0x
Randstad Holding NV	16.6x	12.2x	TrueBlue, Inc.	8.1x	7.2x	<i>Average</i>	23.5x	22.6x
RCM Technologies	3.1x	NA	<i>Average</i>	10.3x	9.3x			
Resources Connection	9.7x	9.6x						
Robert Half International	13.1x	11.7x						
<i>Average</i>	11.2x	10.5x						

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<sup>1</sup> Source: GF Data®, Leverage Report, August 2015.

<sup>2</sup> Figure A. Source: Factsset, Flashwire US Monthly, July 2015, accessed September 25, 2015

<sup>3</sup> Figure B. Source: GF Data®, M&A Report, August 2015.

<sup>4</sup> Figure C. Source: Multpl.com, accessed October 5, 2015.

<sup>5</sup> Figure D. Source: Duff & Phelps, Valuation Insights, accessed October 8, 2015.

<sup>6</sup> Source: Duff & Phelps, Staffing Sector Review – July 2015

<sup>7</sup> Figure E. Source: Duff & Phelps, Staffing Sector Review – July 2015