Pittsburgh regional M&A update: Q4 2018

M&A activity

There were 40 transactions that closed in the Pittsburgh regional market during the fourth quarter of 2018 (Q4 2018), down slightly from the 43 closed transactions in the prior quarter. The 40 closed transactions marked a decrease from the 53 closed transactions during the same period in 2017.

In 2018, North America’s overall M&A value exceeded $2.0 trillion for the fourth consecutive year. M&A volume decreased 11.4 percent, but aggregate transaction size increased 6.9 percent compared to 2017. Increased deal value, despite the notable drop in number of deals, was largely driven by megadeals, with four deals closing at a value above $50 billion in 2018. Median deal size in North America rose to a record $60 million in 2018, a dramatic increase from $49 million in 2017.

Part of the reason for increased deal sizes was the growth in private equity as a proportion of overall M&A. Since 2015, private equity has jumped from accounting for 25.4 percent of M&A deals to 34.2 percent in 2018. By the end of 2018, the median LBO size rose to $140 million, nearly triple the median M&A deal size. With private market participants posting record-setting fundraising figures, corporations showing an increased willingness to spend on M&A and access to credit remaining relatively cheap, competition in the M&A market looks to remain strong.

A competitive bidding market has led to many deals in recent years closing at double-digit EV/EBITDA multiples, which had risen near all-time highs in 2017 due to ample private equity dry powder reserves and readily available debt financing. The median valuation/EBITDA multiple for North American M&A transactions fell slightly to 9.7x in 2018, after an impressive figure of 10.1x in 2017.

### Pittsburgh regional market M&A activity

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Number of Deals</th>
<th>Aggregate Transaction Value ($BB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1-2015</td>
<td>26.9</td>
<td>$0.4</td>
</tr>
<tr>
<td>Q2-2015</td>
<td>26.9</td>
<td>$0.4</td>
</tr>
<tr>
<td>Q3-2015</td>
<td>58.7</td>
<td>$58.7</td>
</tr>
<tr>
<td>Q4-2015</td>
<td>26.9</td>
<td>$0.4</td>
</tr>
</tbody>
</table>

### M&A activity by industry

The consumer sector led the Pittsburgh region’s M&A activity with 25.0 percent of the total deals closed in Q4 2018. The information technology sector accounted for the second largest percentage of the total deals closed, with 20.0 percent. The industrials, materials and healthcare sectors all represented 15.0 percent of closed deals for the quarter. The financials sector rounded out the completed deals, accounting for 10.0 percent. The relatively even disbursement in M&A activity by industry is a positive sign, as it helps to show that the Pittsburgh market is not dependent on one sector for its M&A market.

Source: S&P Capital IQ, PitchBook and Baker Tilly Capital research (December 2018)
There were five middle-market\(^1\) transactions with reported values that closed during Q4 2018, up from just one transaction during the third quarter of 2018 (Q3 2018). Q4 2018 was down from the six middle-market deals with reported values for the same period in 2017.

The median transaction size of $14.0 million for the five middle-market deals with reported values in Q4 2018 was a $71.0 million decrease from the median transaction size of the one middle-market deal with a reported value in Q3 2018. We note that the median transaction size for the previous quarter is not meaningful, as it only accounts for a single deal with reported value.

\(^1\) Middle-market is defined as transaction values between $10 million and $200 million
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Buyers and targets by location

As presented below, the largest number of buyers and targets were located in the Pittsburgh area during Q4 2018. It is encouraging, however, to see the increase in diversity of location for targets from prior quarters.

Buyer by location

Target by location

Notable Q4 2018 closed transactions

<table>
<thead>
<tr>
<th>Closed Date</th>
<th>Buyers/Investors</th>
<th>Target</th>
<th>Value ($MM)</th>
<th>Buyer Type</th>
<th>Target Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>11/26/2018</td>
<td>Ontic Engineering and Manufacturing, Inc.</td>
<td>Firstmark Corporation</td>
<td>97.0</td>
<td>Strategic</td>
<td>Industrials</td>
</tr>
<tr>
<td>10/01/2018</td>
<td>Emclaire Financial Corp. (NasdaqCM:EMCF)</td>
<td>Community First Bancorp, Inc.</td>
<td>21.9</td>
<td>Strategic</td>
<td>Financials</td>
</tr>
<tr>
<td>10/01/2018</td>
<td>Tobii Dynavox LLC</td>
<td>Smartbox Assistive Technology Ltd</td>
<td>14.0</td>
<td>Strategic</td>
<td>Info. Tech.</td>
</tr>
<tr>
<td>10/05/2018</td>
<td>Creative Pultrusions, Inc.</td>
<td>Composite Advantage LLC</td>
<td>12.2</td>
<td>Strategic</td>
<td>Materials</td>
</tr>
<tr>
<td>11/01/2018</td>
<td>Evertz Technologies Limited (TSX:ET)</td>
<td>Quintech Electronics and Communications Inc.</td>
<td>6.6</td>
<td>Strategic</td>
<td>Telecom</td>
</tr>
</tbody>
</table>

Source: S&P Capital IQ and Baker Tilly Capital research (December 2018)
Baker Tilly Capital, LLC

Baker Tilly Capital, LLC is a boutique investment bank specializing in merger and acquisition (M&A), capital sourcing, project finance, and corporate finance advisory services. The Baker Tilly Capital team is led by investment bankers and corporate finance specialists that have meaningful experience advising clients in evaluating strategic and financial alternatives, creating and executing sell-side and buy-side M&A strategies, and identifying cost-effective financing alternatives and sources. Backed by Baker Tilly Virchow Krause, LLP, a national accounting and advisory firm with significant industry expertise, Baker Tilly Capital offers value added insights before, during, and after the transaction.

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