

Franklin Place Capital

October 2017

Capital Markets

The S&P 500 index gained 4% in the third quarter as markets continued to experience record setting highs. Macroeconomic concerns related to North Korea, interest rates and stretched valuations remained subdued by strong earnings and expectations for tax reform by the end of the year.

The Federal Reserve's fate remains in the hands of Trump as he plans to make the Chair decision shortly. Uncertainty remains related to interest rates and the drawdown of the roughly \$4.5 trillion balance sheet. Markets continue to price a 50% probability of a 25bps rate hike at the December 2017 Fed meeting.

After a dismal second quarter, WTI Crude prices rebounded nearly 12.5% from the June lows. As supply side issues persist, (OPEC cuts, growing rig counts, U.S. Crude) oil looks to remain within the \$50 - \$60 range during the near-term.

The global economy continues to experience stable expansion amid low levels of inflation. Equity valuations in the U.S. remain historically high while conditions for rising government bond yields are supportive. The dollar however has continued to decline from its dominance creating downward pressure on European and other market growth. The overall short-term risk of U.S. recession remains low.

M&A Highlights

Middle market M&A trends persisted during the third quarter of 2017 as PE groups continued to amass record levels of dry powder. PE deal volumes increased YoY supporting an average EBITDA multiple of more than 9x. The overall economic environment continues to favor sellers as cheap money, foreign buyers, deep pockets and premium valuations continue to dominate the market.

Macro Environment

In the period, economic growth remained resilient despite the impact from both Hurricanes Harvey & Irma. Reported job growth for the quarter is expected to reach 2.5%.

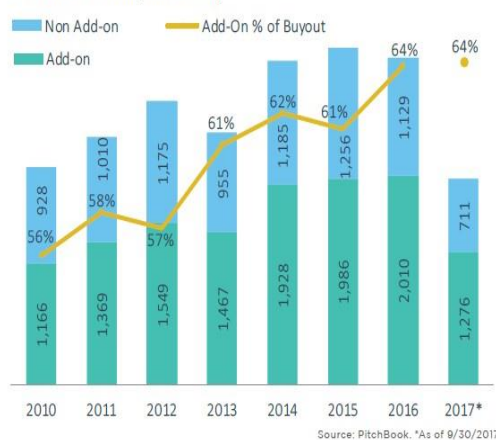
Corporate Buyers

Corporate buying activity remains soft - YTD as compared to record levels set during 2014 and 2015. In addition, competition from Private Equity buyers remains stiff.

Transaction Based Debt

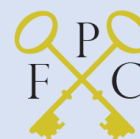
Levels of debt related to transaction multiples reached new heights, not seen in over a decade, as deal structures have utilized more than 50% debt to total transaction value.

Add-ons still show no sign of stopping
Add-on % of US buyout activity



PE firms continue to hold onto portfolio companies longer creating greater demand for add-on investments. YTD, add-ons comprised 64% of all US-based buyout transactions. Add-ons, which typically retain lower multiples, can be a useful source of revenue growth, in addition to helping average down the cost of platform companies. Overall, this has furthered demand for lower end add-on deals and has continued to support the elevated level of multiples.

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