Franklin Place Capital

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Capital Markets

The US economy remained positive despite political & global economic uncertainty during the fourth quarter. U.S. markets were swallowed by volatility during the period, with the S&P500 slumping nearly 20%. Three major concerns continue to be tariffs & trade tensions, slowing global growth and the FED / raising interest rates.

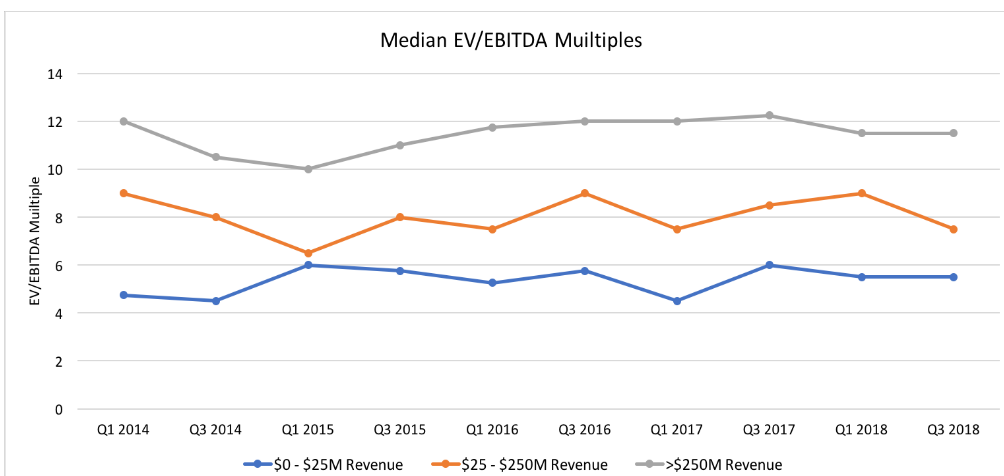
In recent weeks, The Federal Reserve walked back its hawkish stance after raising the federal funds rate for a fourth time in 2018 to a target rate of 2.25% - 2.50%. In early January 2019 the Fed communicated a more dovish - reactionary rhetoric regarding rate hikes, calming a highly volatile stock market. 2019 estimates project less than 2 quarter-point hikes, however, many speculate that the Fed may not hike at all in 2019. Fed funds futures indicate only a 25% probability of a rate hike by July of 2019.

Treasury yields began to retreat during the stock market rout through the end of 2018. The 10-Year Treasury Yield, which hit 3.25% in November, now sits at roughly 2.70%. While good for borrowers, the decline represents the growing uncertainties facing markets today. Drawn down by both over-supply and demand issues, oil prices fell rapidly into the end of 2018, sliding to nearly $40/Barrel in December. Many analysts predict $60 oil in 2019.

M&A Highlights

In 2018, US based PE funds raised more than $165B in capital across 186 funds, a roughly 25% decrease from the year prior. Total deal value however rose 32% on the year to $803B, (5,050 deals) the second largest deal value on record. Despite volatility in the public markets, PE valuations remained a source of stability ending the year averaging 8.3x EV/EBITDA for lower middle-market transactions.

Targeting Growth	According to the 2018 Annual Global PE Deal Multiples report by Pitchbook, more than 50% of targeted companies by PE firms reported TTM revenue growth of more than 10%.
Easy Money Environment	Despite rising rate tensions and alarm at the FED, interest rates remain supportive of debt financing backed by growing levels of dry powder in both strategic and financial markets.
Financial Leverage	The average buyout in 2018 utilized more than 53% debt to finance transactions. Of that 53%, roughly 40% was senior debt with the remaining balance being sub-debt etc.



Data Source: PitchBook 2018 Global PE Multiples, 11/15/18

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