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# 2013 Private Capital Markets Report

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**2013 CAPITAL MARKETS REPORT**

**BY DR. JOHN K. PAGLIA**

*Denney Academic Chair and Associate Professor of Finance*



# Research for the 99%

**ANNUAL CAPITAL MARKETS REPORT** tracks the private cost of capital and benchmarks both the current climate and projected outlook across multiple market segments for lending, investing and acquiring capital.

**ANNUAL PRIVATE CAPITAL ECONOMIC FORECAST** captures the perspective of the privately-held business owner on key economic indicators influencing their prospects for growth and access to capital.

**PRIVATE CAPITAL ACCESS (PCA) INDEX QUARTERLY REPORT**, in partnership with Dun & Bradstreet Credibility Corp., measures the demand for capital, financing activity and health of privately-held businesses.

**MARKET PULSE QUARTERLY SURVEY REPORT**, in cooperation with the International Business Brokers Association and M&A Source, helps brokers and M&A advisors understand trends and current market conditions for businesses sold in Main Street and lower middle market sectors.

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## FORWARD

### ECONOMIC UNCERTAINTY, PENDING FISCAL CLIFF STIFLES PRIVATE BUSINESS

In last year's Capital Markets Report, the Pepperdine Private Capital Markets Project found lenders split on whether they thought access to capital or domestic economic uncertainty was the biggest issue facing private businesses. Flash-forward one year and a large share of private capital lenders and business owners report that domestic economic uncertainty is the biggest issue facing private businesses. While access to capital remains a concern, uncertainty about the future is a foremost concern – to the point that it may be stifling our economic recovery.

A critical factor is the approaching “*fiscal cliff*,” a reduction in the U.S. budget deficit that will trigger in early 2013 when several tax cuts expire and new taxes kick in. Unless a new law is passed, the “Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010” and the spending reductions under the Budget Control Act of 2011 will expire. It is unclear whether a deal will be reached before January 2013. The debate is further complicated when the U.S. reaches the debt ceiling, which is expected by the end of 2012.

In the 2013 Capital Markets Report from the Pepperdine Private Capital Markets Project, nearly half of the 1,613 lenders, investors and business owners surveyed said that they are “very” or “extremely” concerned about the upcoming fiscal cliff. The absence of resolution is spooking consumers and businesses. It also is taking a toll on private capital lenders. Without certainty both investors and businesses cannot plan for the future.

This uncertainty could have a devastating impact on the nation's nascent economic recovery. In recent months there have been a few positive indicators for the first time in years. Unemployment is expected to fall below 8% and vehicle and home sales are on the rise. However, if economic uncertainty prevails, these could be only short-term gains. To head off a 2013 downturn, consumers, corporations and investors must feel greater confidence. Anxiety could be as detrimental as the fiscal policies themselves.

The fiscal cliff may be averted by Congress if they are successful in passing new legislation in December or if a deal is struck in early 2013. With such action we could see our economy continue to move forward, though slowly. Whatever the outcome, uncertainty in the marketplace does not bode well for instilling feelings of economic certainty or encouraging further lending.

U.S. economic recovery is dependent on many factors. One essential ingredient is a sense of stability. Another is reassurance that fiscal policies will not change mid-game. At the moment, neither appear too promising.

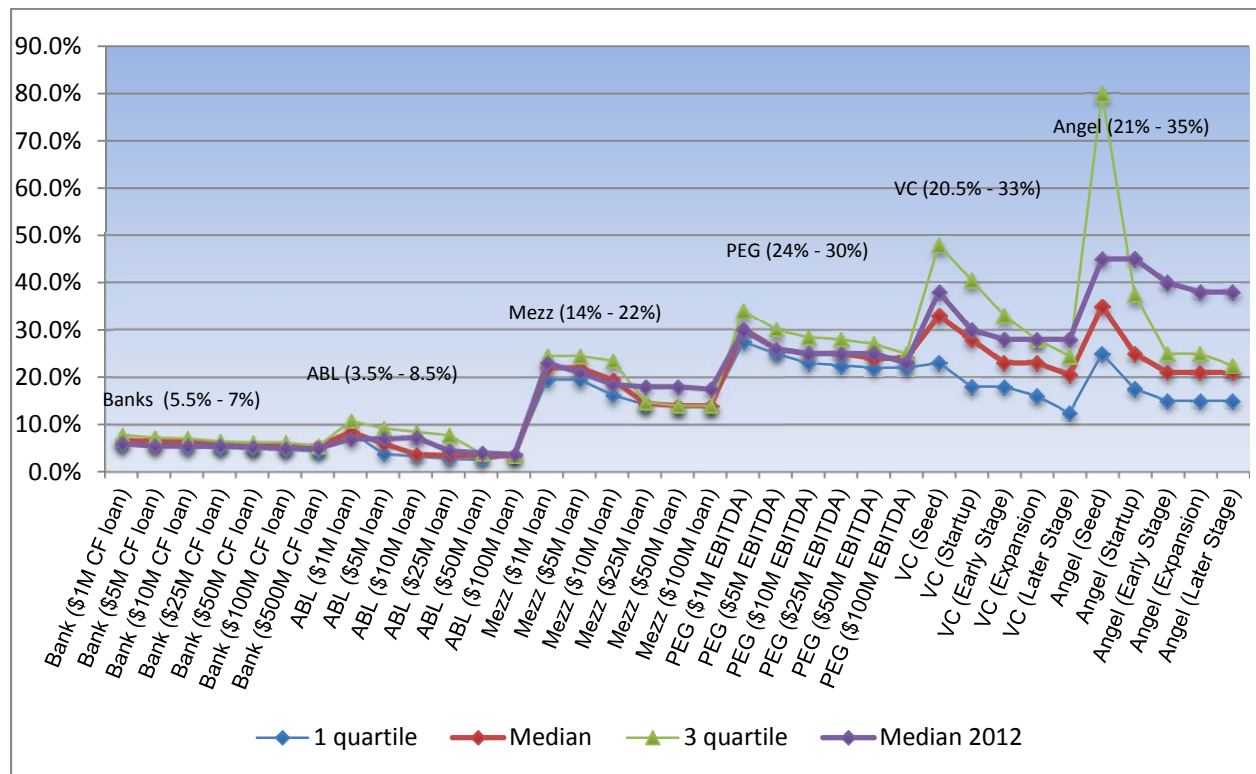
Dr. John K. Paglia  
*November 2012*

**PEPPERDINE PRIVATE CAPITAL MARKETS SURVEY**

The Pepperdine private cost of capital survey (PCOC) is the first comprehensive and simultaneous investigation of the major private capital market segments. The survey deployed in September 2012, specifically examined the behavior of senior lenders, asset-based lenders, mezzanine funds, private equity groups, venture capital firms, angel investors, privately-held businesses, investment bankers, business brokers, limited partners, and business appraisers. The Pepperdine PCOC survey investigated, for each private capital market segment, the important benchmarks that must be met in order to qualify for capital, how much capital is typically accessible, what the required returns are for extending capital in today’s economic environment, and outlooks on demand for various capital types, interest rates, and the economy in general.

Our findings indicate that the cost of capital for privately-held businesses varies significantly by capital type, size, and risk assumed. This relationship is depicted in the Pepperdine Private Capital Market Line, which appears below.

**Figure 1. Private Capital Market Required Rates of Return**



The cost of capital data presented below identifies medians, 25th percentiles (1st quartile), and 75th percentiles (3rd quartile) of annualized gross financing costs for each major capital type and its segments. The data reveal that loans have the lowest average rates while capital obtained from angels has the highest average rates. As the size of loan or investment increases, the cost of borrowing or financing from any of the following sources decreases.

**Table 1. Private Capital Market Required Rates of Return**

	1st quartile	Median	3rd quartile
Bank (\$1M CF loan)	5.9%	6.8%	7.9%
Bank (\$5M CF loan)	5.8%	6.5%	7.3%
Bank (\$10M CF loan)	5.3%	6.5%	7.1%
Bank (\$25M CF loan)	5.1%	5.8%	6.5%
Bank (\$50M CF loan)	5.0%	5.5%	6.3%
Bank (\$100M CF loan)	4.8%	5.5%	6.3%
Bank (\$500M CF loan)	4.4%	5.5%	5.5%
ABL (\$1M loan)	8.5%	8.5%	10.8%
ABL (\$5M loan)	3.9%	6.0%	9.3%
ABL (\$10M loan)	3.3%	3.8%	8.5%
ABL (\$25M loan)	2.8%	3.5%	7.8%
ABL (\$50M loan)	2.6%	3.5%	3.9%
ABL (\$100M loan)	3.5%	3.5%	3.5%
Mezz (\$1M loan)	19.5%	22.0%	24.5%
Mezz (\$5M loan)	19.5%	22.0%	24.5%
Mezz (\$10M loan)	16.3%	19.5%	23.5%
Mezz (\$25M loan)	14.3%	14.5%	14.8%
Mezz (\$50M loan)	14.0%	14.0%	14.0%
Mezz (\$100M loan)	14.0%	14.0%	14.0%
PEG (\$1M EBITDA)	27.5%	30.0%	34.0%
PEG (\$5M EBITDA)	25.0%	26.0%	30.0%
PEG (\$10M EBITDA)	23.0%	25.0%	28.5%
PEG (\$25M EBITDA)	22.5%	25.0%	28.0%
PEG (\$50M EBITDA)	22.0%	24.0%	27.0%
PEG (\$100M EBITDA)	22.0%	24.0%	25.0%
VC (Seed)	23.0%	33.0%	48.0%
VC (Startup)	18.0%	28.0%	40.5%
VC (Early Stage)	18.0%	23.0%	33.0%
VC (Expansion)	16.0%	23.0%	28.0%
VC (Later Stage)	12.5%	20.5%	24.5%
Angel (Seed)	25.0%	35.0%	80.0%
Angel (Startup)	17.5%	25.0%	37.5%
Angel (Early Stage)	15.0%	21.0%	25.0%
Angel (Expansion)	15.0%	21.0%	25.0%
Angel (Later Stage)	15.0%	21.0%	22.5%



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## INVESTMENT BANKER SURVEY INFORMATION

The majority of the 190 respondents to the investment banker survey indicated increasing margin pressure on companies over the last twelve months. They also reported slight increases in deal flow, leverage and deal multiples, increased presence of strategic buyers, and slightly improved business conditions. Domestic economic uncertainty was identified as the most important and emerging issue facing privately-held businesses today.

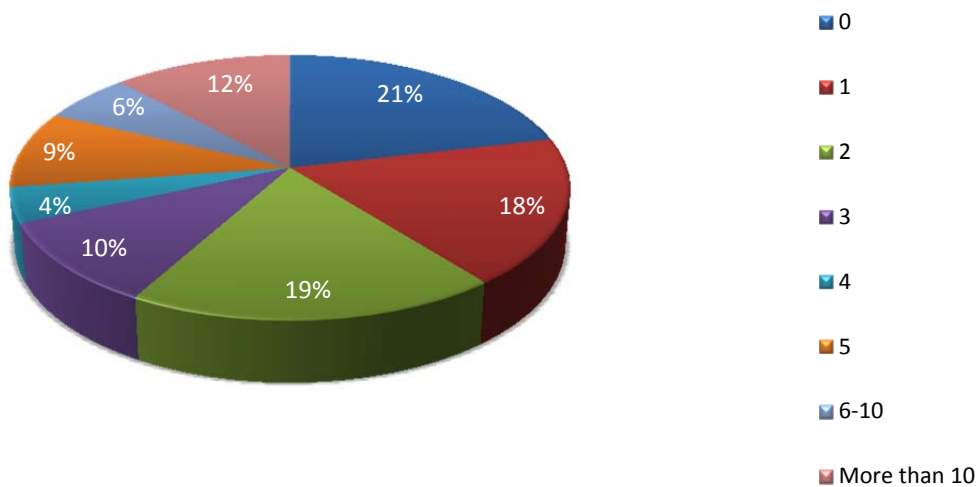
Other key findings include:

- Approximately 28% of respondents expect to close six or more deals in the next 12 months.
- The top three reasons for deals not closing were valuation gap (27%), unreasonable seller or buyer demand (20%) and economic uncertainty (17%).
- Respondents indicated a general imbalance between companies worthy of financing and capital available for the same. There is a reported shortage of capital for those companies with less than \$10 million in EBITDA, but a general surplus for companies with \$10 million in EBITDA or more.
- The most popular valuation approaches used by respondents when valuing privately-held businesses were income and transaction approaches.
- 47% of respondents are very or extremely concerned about the upcoming fiscal cliff.

### Operational and Assessment Characteristics

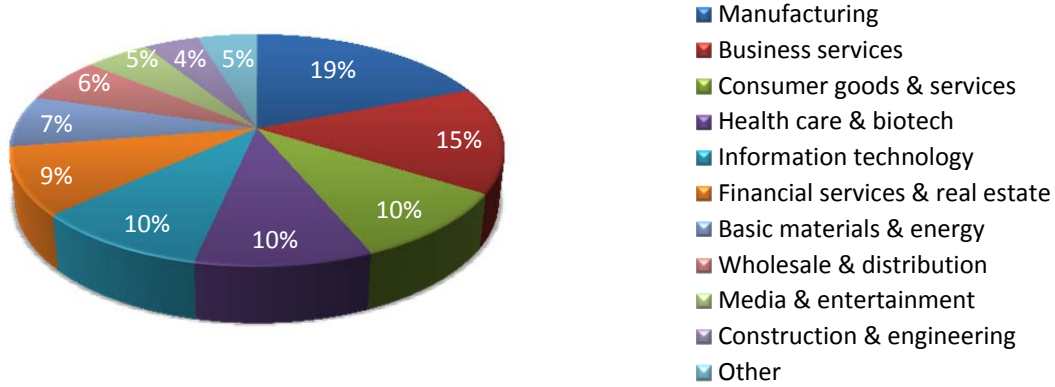
Approximately 21% of the respondents did not close any deals in the last twelve months; 61% closed between one and five deals, while 18% closed six transactions or more.

**Figure 2. Private Business Sales Transactions Closed in the Last 12 Months**



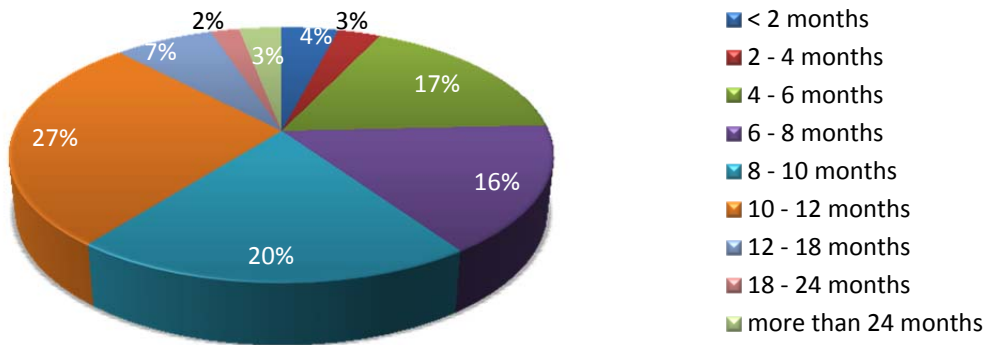
Approximately 19% of all transactions closed in the last twelve months involved manufacturing, followed by 15% that involved business services, and 10% that involved wholesale and manufacturing.

**Figure 3. Business Types That Were Involved in the Transactions Closed in the Last 12 Months**



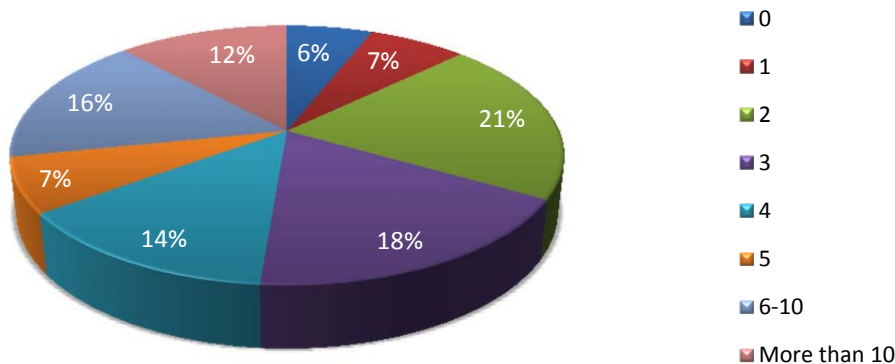
The majority of deals (63%) took 6 to 12 months to close. 12% of closed deals take more than one year to close.

**Figure 4. Average Number of Months to Close One Deal**



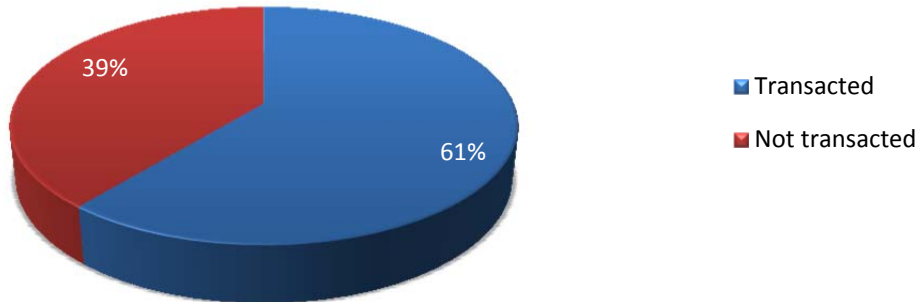
Nearly 6% of the respondents do not expect to close any deals in the next 12 months; 66% expect to close between one and five deals, while 28% expect to close 6 deals or more.

**Figure 5. Private Business Transactions Expected to Close in the Next 12 Months**



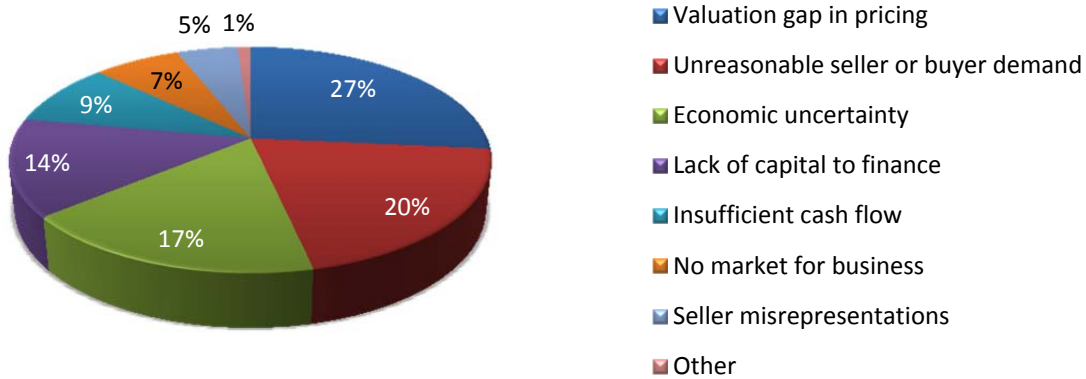
Approximately 39% of deals terminated without transacting over the past year.

**Figure 6. Percentage of Business Sales Engagements Terminated Without Transacting**



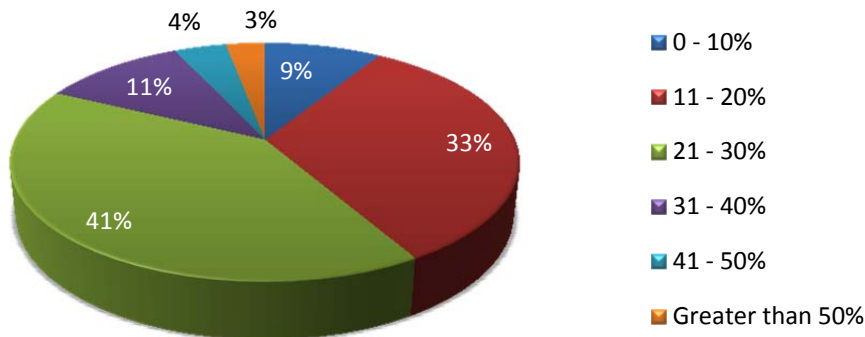
Top three reasons for deals not closing: valuation gap in pricing (27%), unreasonable seller/buyer demand (20%) and economic uncertainty (17%).

**Figure 7. Reasons for Business Sales Engagements Not Transacting**



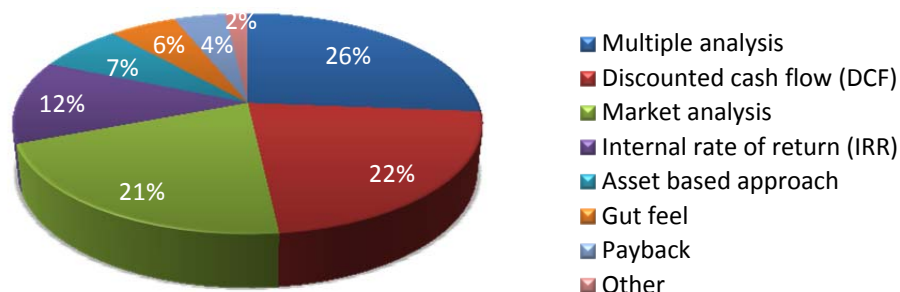
Of those transactions that did not close due to a valuation gap in pricing, approximately 41% had a valuation gap in pricing between 21% and 30%.

**Figure 8. Valuation Gap in Pricing for Transactions That Did Not Close**



The weights of the various valuation approaches used by respondents when valuing privately-held businesses included 26% for multiples analysis.

**Figure 9. Usage of Valuation Approaches**



Average deal multiples on transactions from the prior twelve months as observed by respondents varied from 2.5 to 8.

**Table 2. Median Deal Multiples by EBITDA Size of Company**

EBITDA	Manufacturing	Construction & engineering	Cons. goods & services	Wholesale & distribution	Business services	Basic materials & energy	Health care & biotech	IT	Financial services	Media & entertain.	Avg.
\$0M - \$1M	4	2.5	3.5	4	3.5	4	5	4.5	5	3.5	<b>4.0</b>
\$2M - \$5M	5	3	5	4.5	5	5	5.5	6	5	5.5	<b>5.0</b>
\$6M - \$10M	6	3	5.5	5.5	6	5	6	7	6.5	6.5	<b>5.7</b>
\$11M - \$25M	6.5	3.5	5.5	6.5	6	5.5	6.5	7	6.5	7	<b>6.1</b>
\$26M - \$50M	6.5	5	6.5	6.5	6	5.5	7	7	6.5	8	<b>6.5</b>
>\$50M	7	5	6.5	6.5	7	6	7	8	6.5	8	<b>6.8</b>

Average total leverage multiples observed by respondents varied from 2 to 4.

**Table 3. Median Total Leverage Multiples by Size of Company**

EBITDA	Manufacturing	Construction & engineering	Cons. goods & services	Wholesale & distribution	Business services	Basic materials & energy	Health care & biotech	IT	Financial services	Media & entertain.	Avg.
\$0M - \$1M	2	2	3.5	2.5	2	3	2	2	3.5	2.5	<b>2.5</b>
\$2M - \$5M	3	2.5	3.5	2.5	2.5	3	2.5	2.5	3.5	3.5	<b>2.9</b>
\$6M - \$10M	3	2.75	3.5	3	3	3	3.5	3.5	3.5	3.5	<b>3.2</b>
\$11M - \$25M	3.5	3.5	4	3.5	3	3.5	3.5	3.5	3.75	4	<b>3.6</b>
\$26M - \$50M	3.5	3.5	3.5	3.5	3	3.5	3.5	3.5	3.75	4	<b>3.5</b>
>\$50M	4.5	4	3.5	3.5	4	3.5	3.5	4.5	4	4	<b>3.9</b>

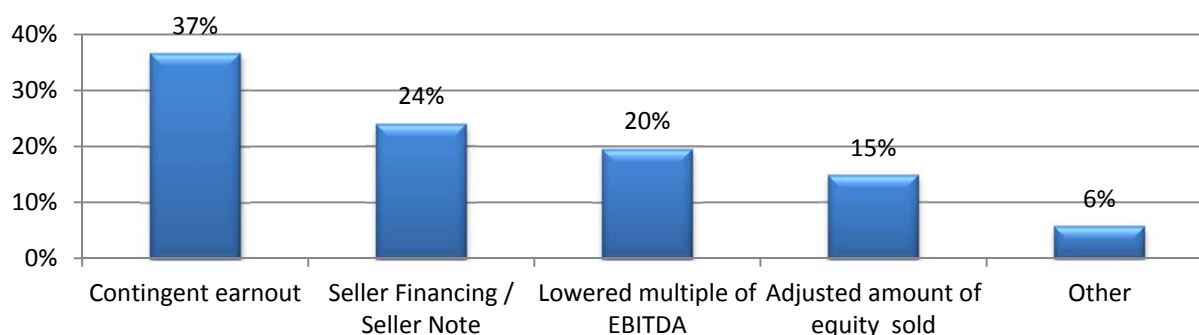
Average total leverage multiples observed by respondents varied from 1.5 to 4.

**Table 4. Median Senior Leverage Multiples by Size of Company**

EBITDA	Manufacturing	Construction & engineering	Cons. goods & services	Wholesale & distribution	Business services	Basic materials & energy	Health care & biotech	IT	Financial services	Media & entertain.	Avg.
\$0M - \$1M	2.5	2	2	2	1.5	2.5	2	2	2	2	<b>2.1</b>
\$2M - \$5M	2	2	2.5	2	2	2	2	2	2	2.5	<b>2.1</b>
\$6M - \$10M	3	2.5	2.5	2.5	2.5	2.5	2	2	2	3	<b>2.5</b>
\$11M - \$25M	2.5	2.5	2.5	2.5	2.5	2.75	2	2.5	2.5	3.5	<b>2.6</b>
\$26M - \$50M	3	2.5	3.5	2.5	2.5	2.75	2.25	2.5	2.5	4	<b>2.8</b>
>\$50M	3	3.5	3	2.5	2.5	3	2.5	2.75	2.5	4	<b>2.9</b>

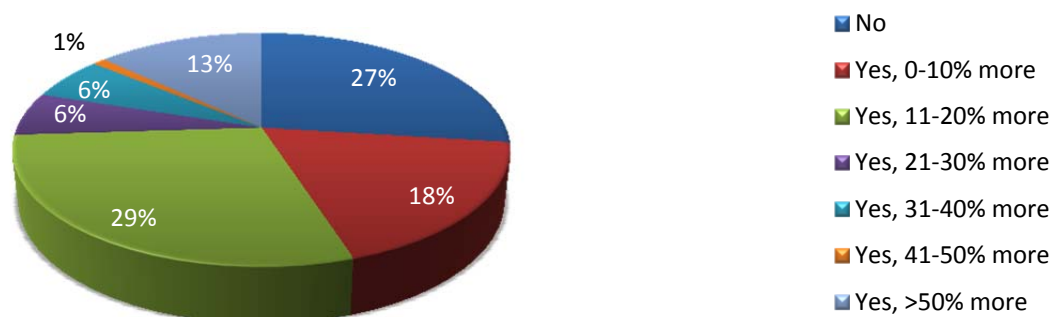
Approximately 37% of business sales transactions closed in the last 12 months involved contingent earnouts.

**Figure 10. Components of Closed Deals**



Approximately 27% of respondents did not witness any premium paid by strategic buyers, while 47% saw premiums between 1% and 20%.

**Figure 11. Premium Paid by Strategic Buyers Relative to Financial Buyers**



Respondents indicated a general imbalance between companies worthy of financing and capital available for the same. There is a reported shortage of capital for those companies with less than \$10 million in EBITDA but a general surplus for companies with \$10 million in EBITDA or more.

**Table 5. Balance of Available Capital with Quality Companies**

EBITDA	Companies worthy of financing GREATLY exceed capital available	Companies worthy of financing exceed capital available	General balance	Capital available exceeds companies worthy of financing	Capital available GREATLY exceeds companies worthy of financing	Score (-2 to 2)
\$1M	33%	26%	20%	14%	7%	<b>-0.6</b>
\$5M	13%	38%	20%	20%	9%	<b>-0.3</b>
\$10M	6%	22%	39%	24%	9%	<b>0.1</b>
\$15M	1%	13%	48%	25%	12%	<b>0.3</b>
\$25M	4%	7%	35%	34%	20%	<b>0.6</b>
\$50M	3%	5%	33%	37%	22%	<b>0.7</b>
\$100M	3%	8%	25%	29%	34%	<b>0.8</b>
>\$100M	3%	7%	26%	21%	43%	<b>0.9</b>

Respondents indicated a general difficulty with arranging senior debt for businesses with less than \$5 million in EBITDA.

**Table 6. How Difficult to Arrange Senior Debt for Transactions over the Past 12 Months**

EBITDA	Extremely difficult	Difficult	Somewhat difficult	Neutral	Somewhat easy	Easy	Extremely easy	Score (-3 to 3)
\$1M	35%	29%	11%	17%	5%	3%	0%	<b>-1.6</b>
\$5M	14%	13%	18%	18%	23%	11%	3%	<b>-0.3</b>
\$10M	8%	13%	11%	15%	26%	17%	9%	<b>0.3</b>
\$15M	5%	11%	18%	8%	24%	26%	8%	<b>0.4</b>
\$25M	5%	8%	15%	8%	28%	28%	10%	<b>0.7</b>
\$50M	9%	0%	3%	16%	31%	25%	16%	<b>1.0</b>
\$100M+	12%	0%	4%	12%	20%	28%	24%	<b>1.1</b>

Respondents indicated increased deal flow, deal multiples, percentage of strategic buyers making deals, and difficulty financing or selling business relative to twelve months ago.

**Table 7. General Business and Industry Assessment: Today versus 12 Months Ago**

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Deal flow	12%	14%	27%	37%	11%	47%	26%	<b>21%</b>
Leverage multiples	2%	15%	42%	38%	3%	41%	17%	<b>24%</b>
Deal multiples	1%	18%	34%	43%	5%	47%	19%	<b>29%</b>
Amount of time to sell business	1%	12%	43%	31%	14%	45%	13%	<b>32%</b>
Difficulty financing/selling business	1%	15%	49%	22%	13%	35%	16%	<b>18%</b>
General business conditions	4%	29%	27%	36%	5%	41%	32%	<b>8%</b>
Strategic buyers making deals	3%	14%	27%	47%	9%	56%	17%	<b>39%</b>
Margin pressure on companies	1%	12%	36%	39%	12%	51%	13%	<b>39%</b>
Buyer interest in minority transactions	10%	16%	57%	16%	2%	17%	25%	<b>-8%</b>

During the next twelve months, respondents expect further increases in deal flow, margin pressure on companies, strategic buyers making deals, and deal multiples.

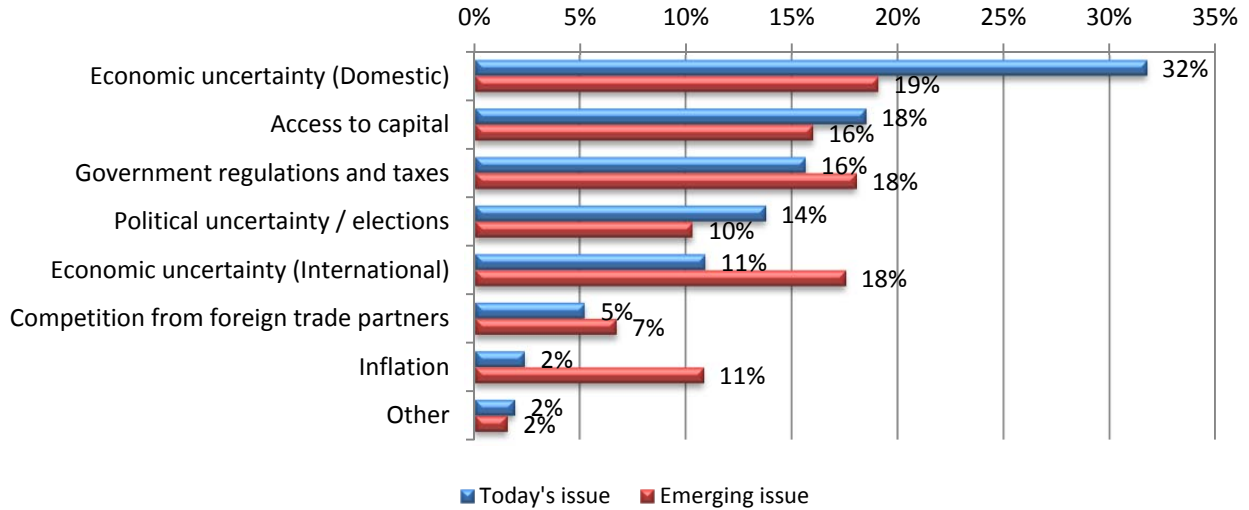
**Table 8. General Business and Industry Assessment Expectations over the Next 12 Months**

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	Net increase/decrease
Deal flow	3%	6%	25%	57%	9%	66%	8%	<b>58%</b>
Leverage multiples	0%	10%	47%	42%	1%	43%	10%	<b>33%</b>
Deal multiples	0%	13%	50%	37%	1%	38%	13%	<b>25%</b>
Amount of time to sell business	0%	13%	59%	25%	3%	28%	13%	<b>14%</b>
Difficulty financing/selling business	0%	22%	50%	20%	8%	28%	22%	<b>6%</b>
General business conditions	6%	20%	35%	38%	2%	40%	25%	<b>14%</b>
Strategic buyers making deals	0%	6%	43%	46%	6%	51%	6%	<b>46%</b>
Margin pressure on companies	2%	8%	42%	41%	7%	48%	10%	<b>38%</b>
Buyer interest in minority transactions	7%	8%	61%	21%	3%	24%	15%	<b>9%</b>



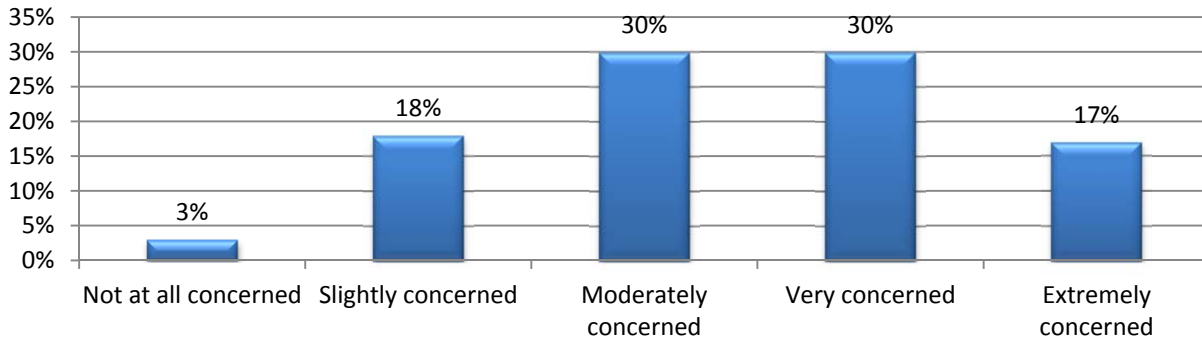
Respondents believe domestic economic uncertainty is the most important and emerging issue facing privately-held businesses today.

**Figure 12. Issues Facing Privately-Held Businesses**



47% of respondents are very or extremely concerned about the upcoming fiscal cliff in the beginning of 2013 year.

**Figure 12. Concerns about the upcoming 'fiscal cliff'**



## PRIVATE EQUITY SURVEY INFORMATION

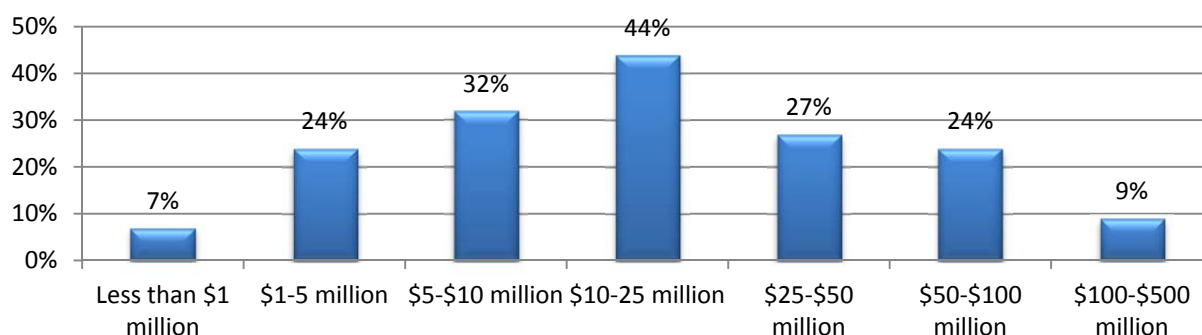
Approximately 44% of the 108 participants who responded to the private equity groups survey indicated that they make investments in the \$10 million to \$25 million range. Nearly 42% of respondents said that demand for private equity is up from twelve months ago, this is down from 52% of respondents indicating increased demand in 2011. Other key findings include:

- Respondents indicated increases in the quality of companies seeking investment. They also reported a decrease in expected returns on new investments, worsened general business conditions and increase in expected investment holding period.
- Respondents expect further increases in demand for private equity, deal multiples, value of portfolio companies and slightly improving business conditions.
- The types of businesses respondents plan to invest in over next 12 months are very diverse with over 19% targeting manufacturing and another 17% planning to invest in business services.
- Respondents believe domestic economic uncertainty is the most important issue facing privately-held businesses today.
- 42% of respondents are very or extremely concerned about the upcoming fiscal cliff in the beginning of 2013 year.

### Operational and Assessment Characteristics

The largest concentration of checks written was in the \$10 - \$25 million range (44%), followed by \$5 - \$10 million (32%), and \$25 - \$50 million (27%)

**Figure 13. Typical Investment Size**



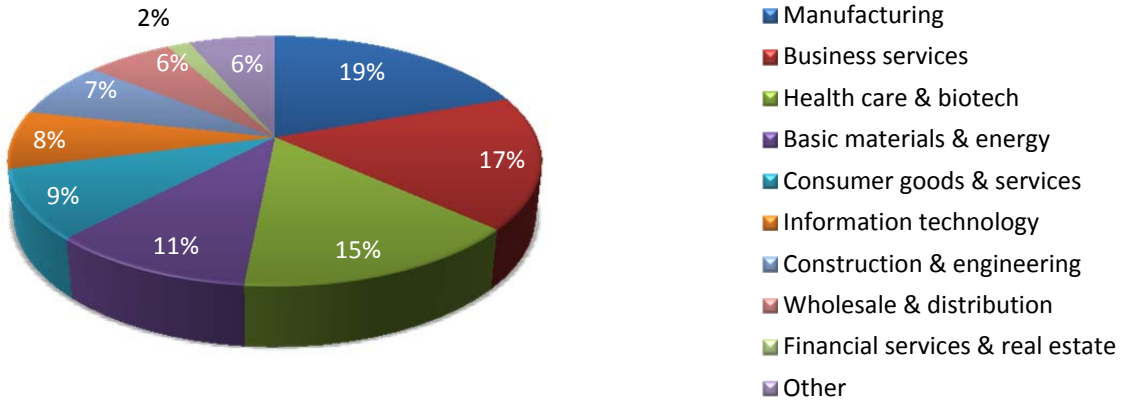
Respondents reported on business practices and the results are reflected below.

**Table 9. PEG Fund Data**

	1st Quartile	Median	3rd Quartile
Vintage year (year in which first investment made)	2006	2010	2012
Size of fund (\$ millions)	100	150	750
Targeted number of total investments	8	8	13
Target fund return (gross pretax cash on cash annual IRR %)	18	25	30
Expected fund return (gross pretax cash on cash annual IRR%)	15	20	25

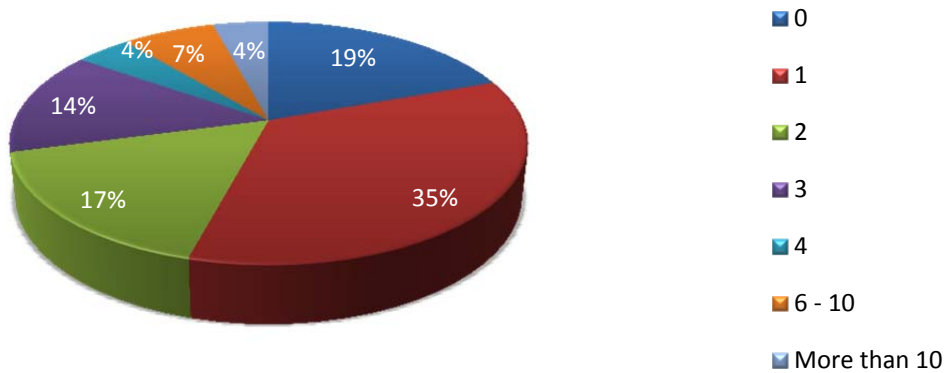
The types of businesses respondents plan to invest in over next 12 months are very diverse with over 19% targeting manufacturing and another 17% planning to invest in business services.

**Figure 14. Type of Business for Investments Planned over Next 12 Months**

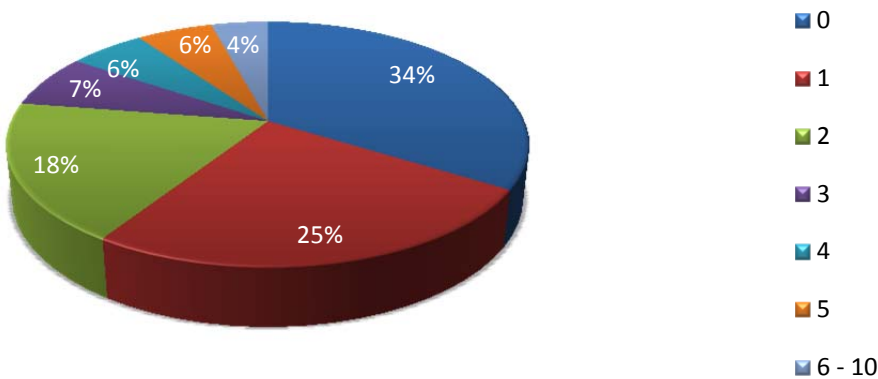


Approximately 58% of respondents made between one and three investments over the last twelve months.

**Figure 15. Total Number of Investments Made in the Last 12 Months**

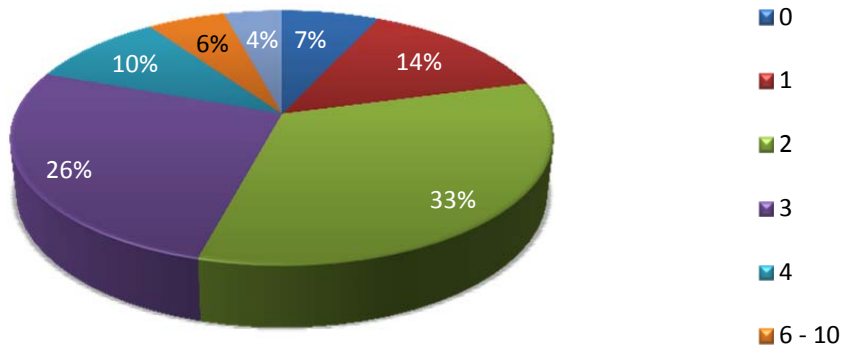


**Figure 16. Number of Follow-on Investments Made in the Last 12 Months**

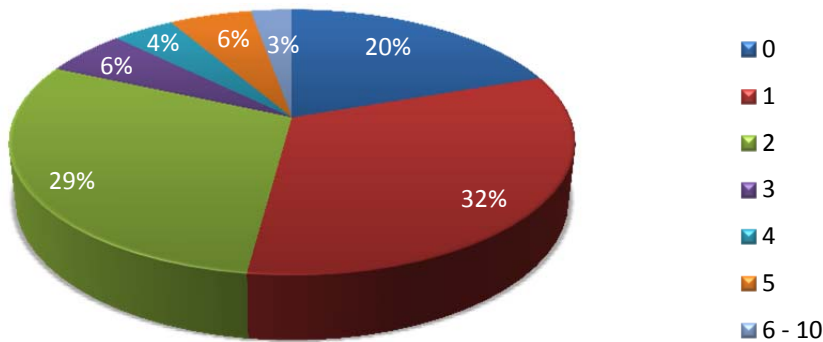


The majority (59%) of respondents plan to make two or three investments over the next 12 months.

**Figure 17. Number of Total Investments Planned over Next 12 Months**



**Figure 18. Number of Follow-on Investments Planned over Next 12 Months**



Average deal multiples for buyout deals for the prior twelve months vary from 3.5 to 7.8 times EBITDA depending on the size of the company. Expected returns vary from 21% to 30%.

**Table 10. General Characteristics – Buyout Transactions (medians)**

	\$1M EBITDA	\$5M EBITDA	\$10M EBITDA	\$25M EBITDA	\$50M EBITDA	\$100M EBITDA	> \$100M EBITDA
Average size of investment in million USD (medians)	0.5	1.5	7.5	20	25	65	100+
Expected time to exit in years (medians)	5	4.5	5	5	4	4	4
Equity as % of new capital structure	48%	45%	51%	40%	55%	58%	55%
% of total equity purchased	62%	68%	72%	79%	62%	85%	95%
Average deal multiple (multiple of EBITDA)	3.5	3.5	5.3	5.7	5.8	7.0	7.8
Total expected returns (gross cash on cash pre-tax IRR)	30%	26%	25%	25%	24%	24%	21%
Revenue CAGR at entry	31.3%	21.6%	16.8%	20.1%	27.3%	23.8%	22.3%

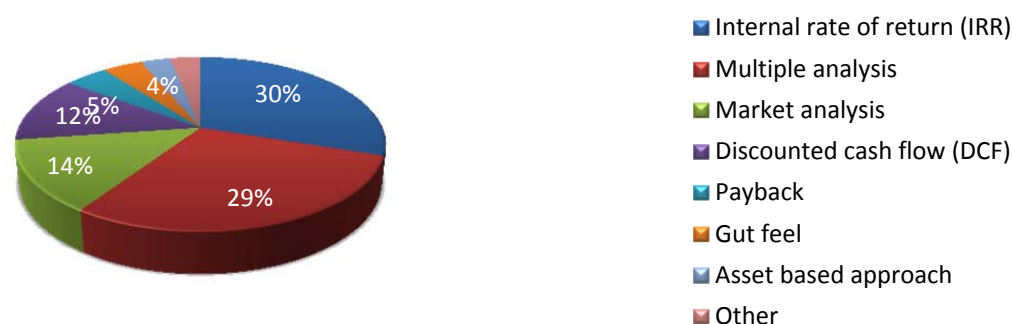
Average expected returns on non-buyout deals vary from 25% to 30%.

**Table 11. General Characteristics – Non-Buyout Transactions (medians)**

	\$1M EBITDA	\$5M EBITDA	\$10M EBITDA	\$25M EBITDA	\$100M EBITDA	> \$100M EBITDA
Average size of investment in million USD (medians)	0.5	0.5	5	15	25	95
Expected time to exit (years) (medians)	7	5	3	5	4	3
Equity as % of new capital structure	95%	35%	45%	93%	35%	n/a
% of total equity purchased	45%	15%	45%	28%	35%	n/a
Average deal multiple (multiple of EBITDA)	4.5	4.5	4.8	n/a	n/a	n/a
Total expected returns (gross cash on cash pre-tax IRR)	30%	26%	25%	25%	n/a	n/a

When valuing a business, approximately 30% of the weight is placed on an internal rate of return (IRR) approach.

**Figure 19. Usage of Valuation Approaches**



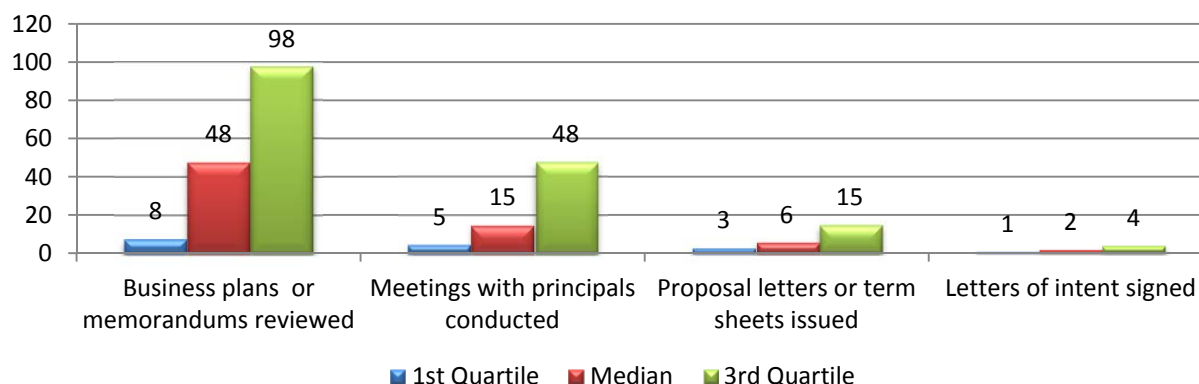
Deal multiples vary from 2.5 to 9, the highest multiples are indicated in health care industry.

**Table 12. Deal Multiples Among Industries (medians)**

	\$1M EBITDA	\$5M EBITDA	\$10M EBITDA	\$15M EBITDA	\$25M EBITDA	\$50M EBITDA	Average
Manufacturing	4	5	6	6.5	6.5	7	5.8
Consumer goods & services	4	5.5	n/a	n/a	6	9	6.1
Wholesale & distribution	n/a	6.5	n/a	n/a	n/a	8.5	7.5
Business services	5	5	5	n/a	n/a	9	6.0
Basic materials & energy	5	n/a	5	5	5	7	5.4
Healthcare	2.5	6	n/a	8	7.5	8	6.4
Information technology	3.5	4.25	n/a	n/a	n/a	6.5	4.8
<b>Average</b>	<b>4.0</b>	<b>5.4</b>	<b>5.3</b>	<b>6.5</b>	<b>6.3</b>	<b>7.9</b>	<b>5.9</b>

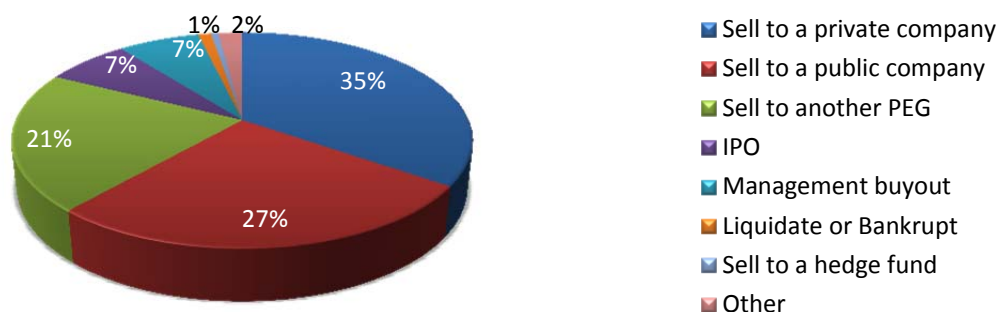
Respondents reported on items required to close one deal.

**Figure 20. Items Required to Close One Deal**



Respondents reported exit strategies that include selling to a private company (35%), selling to a public company (27%) and selling to another private equity group (21%).

**Figure 21. Exit Plans for Portfolio Companies**



Most of the respondents believe companies “worthy of financing” exceeds “capital available” for the companies with less than \$10M in EBITDA. Whereas for the larger companies, “capital available” exceeds “worthy of financing.”

**Table 13. The Balance of Available Capital with Quality Companies for the Following Size**

	Companies worthy of financing GREATLY exceed capital available	Companies worthy of financing exceed capital available	General balance	Capital available exceeds companies worthy of financing	Capital available GREATLY exceeds companies worthy of financing	Score (-2 to 2)
\$5M EBITDA	23%	40%	9%	16%	12%	-0.5
\$10M EBITDA	10%	35%	18%	33%	5%	-0.1
\$15M EBITDA	3%	19%	46%	27%	5%	0.1
\$25M EBITDA	3%	6%	50%	25%	17%	0.5
\$50M EBITDA	3%	8%	31%	42%	17%	0.6
\$100M EBITDA	0%	9%	20%	37%	34%	1.0
> \$100M EBITDA	0%	9%	17%	29%	46%	1.1

Relative to twelve months ago, respondents indicated increases in demand for private equity, quality of companies seeking investment, amount of non-control investments and slight increases in deal multiples. They also reported a decrease in expected returns on new investments, increase in expected investment holding period and worsened general business conditions.

**Table 14. General Business and Industry Assessment: Today versus 12 Months Ago**

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Demand for private equity	1%	7%	41%	35%	17%	52%	8%	44%
Quality of companies seeking investment	1%	25%	29%	38%	7%	45%	26%	19%
Average investment size	1%	14%	52%	30%	3%	33%	15%	18%
Non-control investments	0%	9%	55%	28%	8%	36%	9%	27%
Expected investment holding period	0%	7%	40%	35%	18%	53%	7%	46%
Deal multiples	3%	25%	32%	31%	9%	40%	28%	11%
Exit opportunities	9%	34%	27%	25%	5%	30%	43%	-13%
Expected returns on new investments	2%	31%	45%	21%	1%	21%	34%	-12%
Value of portfolio companies	2%	32%	23%	38%	5%	43%	35%	8%
General business conditions	12%	47%	22%	17%	2%	19%	59%	-40%
Size of private equity industry	2%	27%	43%	22%	5%	28%	29%	-2%

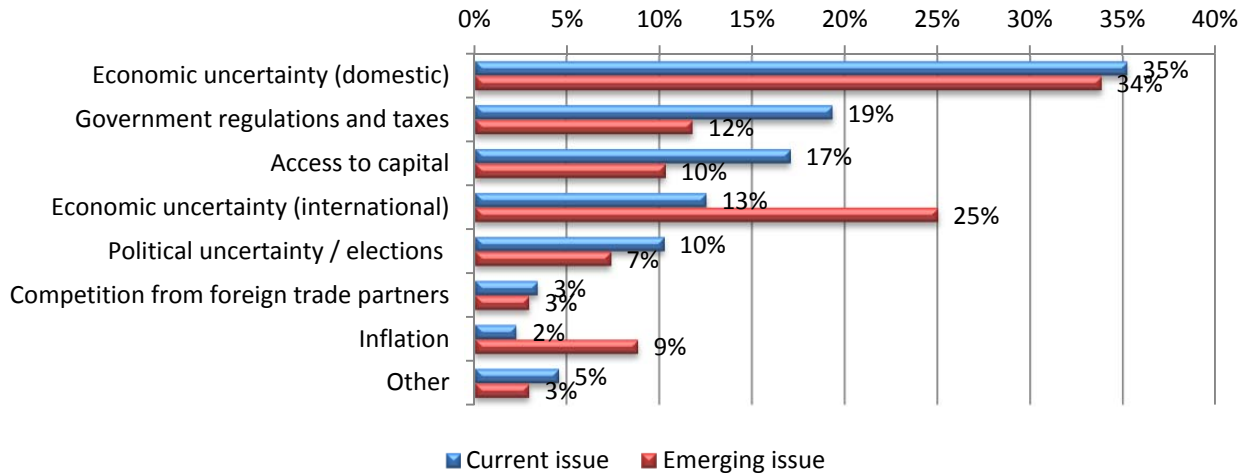
Respondents expect further decreases in size of private equity industry, exit opportunities, expected returns on new investments and worsening general business conditions.

**Table 15. General Business and Industry Assessment Expectations over the Next 12 Months**

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	Net increase/decrease
Demand for private equity	0%	5%	32%	50%	13%	63%	5%	58%
Quality of companies seeking investment	1%	16%	32%	43%	9%	51%	17%	35%
Average investment size	0%	14%	46%	36%	5%	41%	14%	27%
Non-control investments	1%	12%	49%	32%	6%	39%	13%	26%
Expected investment holding period	0%	6%	48%	37%	9%	45%	6%	39%
Deal multiples	3%	25%	38%	31%	2%	34%	28%	6%
Exit opportunities	6%	27%	39%	25%	3%	29%	33%	-4%
Expected returns on new investments	2%	26%	47%	25%	1%	26%	27%	-2%
Value of portfolio companies	4%	22%	36%	32%	6%	38%	26%	12%
General business conditions	11%	33%	28%	25%	3%	28%	44%	-17%
Size of private equity industry	4%	23%	47%	20%	6%	26%	27%	-1%

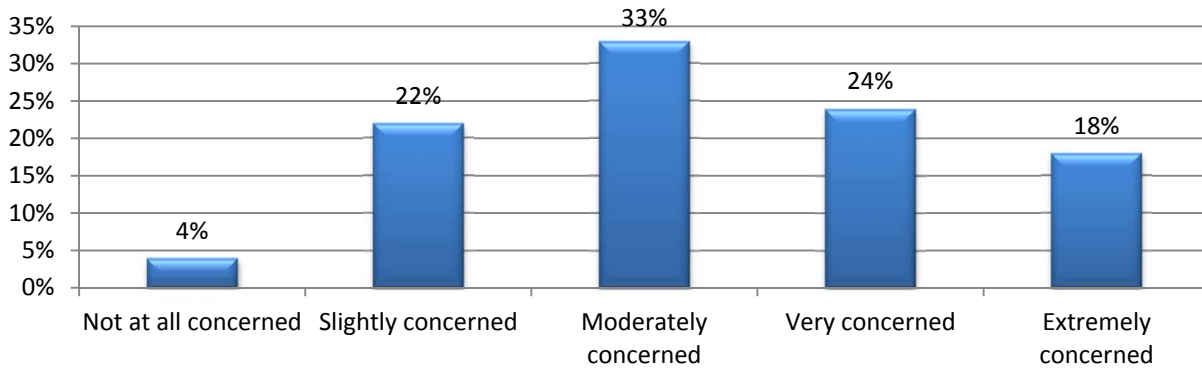
Respondents believe domestic economic uncertainty is the most important issue facing privately-held businesses today.

**Figure 23. Issues Facing Privately-Held Businesses**



42% of respondents are very or extremely concerned about the upcoming fiscal cliff in the beginning of 2013 year.

**Figure 24. Concerns about the upcoming 'fiscal cliff'**





## BANK AND ASSET-BASED LENDING SURVEY INFORMATION

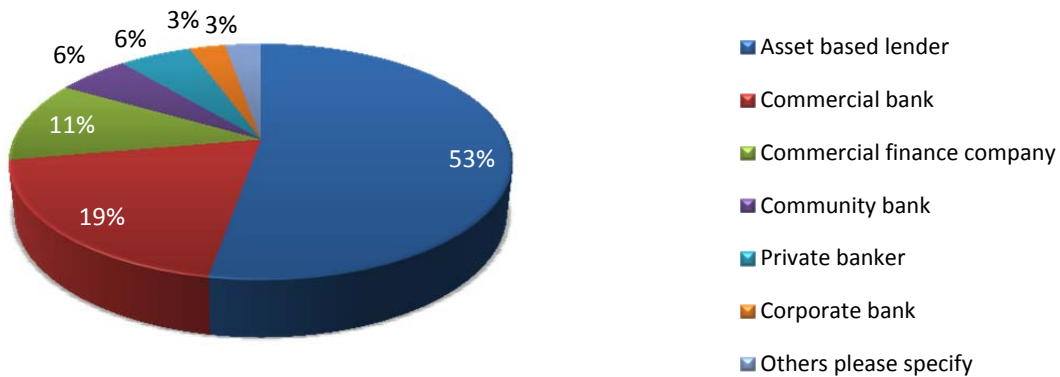
There were 64 responses to the banks survey with commercial banks making up 19% in terms of individual lending function. Over 28% of respondents believe that general business conditions will improve over the next 12 months and over 43% said demand for loans will increase. Other key findings include:

- Over the last twelve months respondents were seeing decreased appetite for risk and underwriting standards with slight increase in credit quality of borrowers, and focus on collateral as a backup means of payment.
- Respondents also expect flat lending capacity of banks, slight increases in underwriting standards, credit quality of borrowers, senior and decreased total leverage multiples, increasing due diligence efforts, and further pricing compression.
- Currently, 41% lenders see domestic economic uncertainty as the top issue facing privately-held businesses.

### Operational and Assessment Characteristics

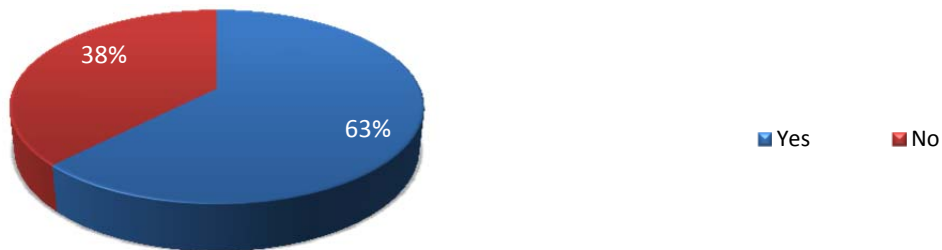
Respondents reported on the type of entity that best describes their lending function.

**Figure 22. Description of Lending Entity**



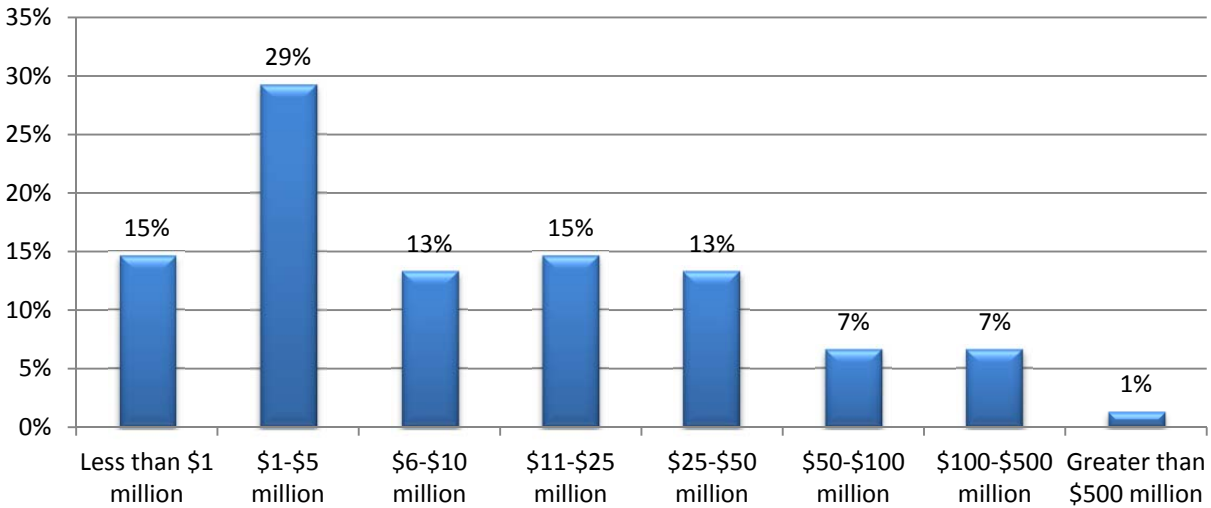
The majority (63%) report participating in government loan programs.

**Figure 23. Participation in Government Loan Programs**



The largest concentration of loan sizes was between \$1 million and \$5 million (29%).

**Figure 24. Typical Investment Size**



Respondents reported on all-in rates for various industries.

**Table 16. All-in Rates by Loan Size and Industry**

	\$1M	\$5M	\$10M	\$25M	\$50M	\$100M	\$500M
Manufacturing	6.0%	5.4%	5.3%	5.2%	5.0%	4.4%	4.0%
Retail and consumer services	6.3%	5.8%	5.7%	5.5%	5.3%	5.0%	4.3%
Wholesale & distribution	5.7%	5.5%	5.5%	5.5%	5.5%	4.4%	4.2%
Business services	6.1%	6.0%	5.7%	5.5%	5.0%	4.7%	4.3%
Basic materials & energy	5.8%	5.3%	5.0%	4.8%	4.8%	4.3%	3.0%
Health care	5.3%	5.3%	5.3%	5.0%	4.8%	4.7%	3.0%
Information technology	6.0%	5.8%	5.6%	5.5%	5.0%	5.0%	4.8%
Financial services	6.2%	6.2%	6.0%	5.5%	5.8%	5.3%	4.9%

**Table 17. All-in Rates by Loan Type**

	\$1M	\$5M	\$10M	\$25M	\$50M	\$100M	\$500M
Cash flow loan	6.8%	6.5%	6.5%	5.8%	5.5%	5.5%	5.5%
Working capital loan	6.3%	5.1%	4.3%	4.3%	3.7%	3.0%	3.0%
Equipment loan	5.5%	4.9%	4.5%	4.0%	3.7%	3.5%	3.5%
Real estate loan	4.9%	4.7%	4.8%	4.0%	4.0%	n/a	3.8%
Typical Fixed-Rate Loan Term (months)	63	57	60	60	60	n/a	60

Senior leverage multiples are reported below for the various industries and EBITDA sizes.

**Table 18. Senior Leverage Multiple by EBITDA Size**

	\$1M EBITDA	\$5M EBITDA	\$10M EBITDA	\$25M EBITDA	\$50M EBITDA	\$100M EBITDA
Manufacturing	2.3	2.9	3.0	3.3	3.4	3.9
Retail and consumer services	0.8	n/a	3.3	3.1	3.3	3.7
Wholesale & distribution	2.4	2.8	3.1	3.3	3.5	3.7
Business services	0.5	1.6	2.8	3.3	3.6	3.8
Basic materials & energy	0.8	0.8	3.3	3.4	3.5	3.5
Health care	n/a	n/a	3.3	3.6	3.8	3.9
Information technology	n/a	n/a	3.4	3.5	3.6	3.5
Financial services	2.5	2.8	3.2	3.4	3.5	4.0
<b>Average</b>	<b>1.5</b>	<b>2.2</b>	<b>3.1</b>	<b>3.4</b>	<b>3.5</b>	<b>3.7</b>

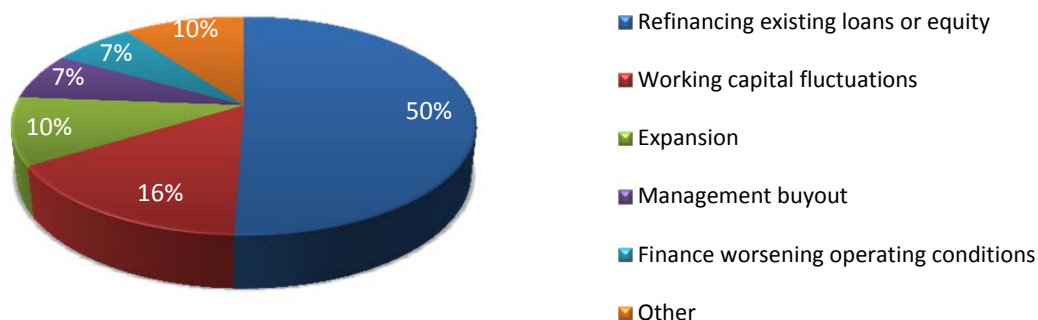
Various fees as reported by lenders are as follows.

**Table 19. Fees Charged**

	1st Quartile	Median	3rd Quartile	% Reporting
Closing fee	0.5	1.0	2.0	17%
Modification fee	0.3	0.5	0.5	12%
Commitment fee	0.4	0.5	1.1	15%
Underwriting fee	0.1	0.9	1.7	11%
Arrangement fee	0.5	0.9	1.4	11%
Prepayment penalty (yr 1)	1.5	3.0	3.0	13%
Prepayment penalty (yr 2)	1.0	2.0	2.0	12%
Unused line fee	0.1	0.4	0.5	8%

Refinancing was the most commonly described financing by buyers at 50%, followed by working capital fluctuations at 16%.

**Figure 25. Borrower Motivation to Secure Financing (past 12 months)**



Total debt-to-cash flow was the most important factor when deciding whether to invest or not.

**Table 20. Importance of Financial Evaluation Metrics**

	Unimportant	Of little importance	Moderately important	Important	Very important	Score (1 to 5)
Current ratio	9%	27%	27%	18%	18%	3.1
Senior DSCR or FCC ratio	10%	0%	20%	10%	60%	4.1
Total DSCR or FCC ratio	8%	0%	0%	25%	67%	4.4
Senior debt-to-cash flow	10%	10%	10%	30%	40%	3.8
Total debt-to-cash flow	0%	0%	27%	36%	36%	4.1
Debt-to-net worth	25%	17%	17%	17%	25%	3.0

**Table 21. Financial Evaluation Metrics Average Data**

	Average borrower data	Limit not to be exceeded
Current ratio	1.8	1.2
Senior DSCR or FCC ratio	1.4	1.1
Total DSCR or FCC ratio	1.3	1.1
Senior debt-to-cash flow	2.6	3.3
Total debt-to-cash flow	3.4	4.1
Debt-to-net worth	2.6	3.5

Respondents reported on the percentage of loans (by size) that require personal guarantee and collateral.

**Table 22. Personal Guarantee and Collateral Percentage of Occurrence by Size of Loan (%)**

	\$1M loan	\$5M loan	\$10M loan	\$25M loan	\$50M loan	\$100M loan	\$500M loan
Personal guarantee	97%	91%	76%	19%	10%	5%	0%
Collateral	99%	96%	81%	70%	76%	65%	63%

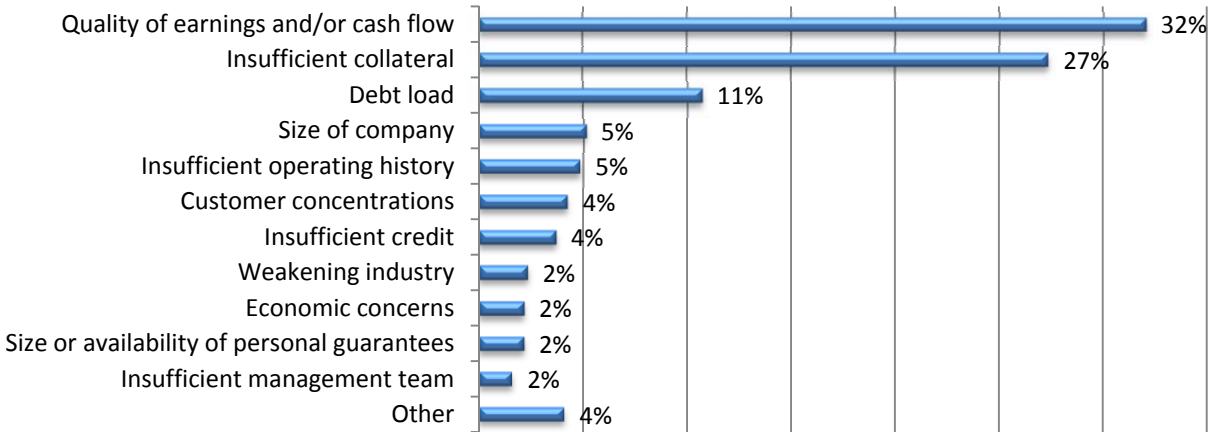
Approximately 53% of cash flow applications were declined.

**Table 23. Applications Data**

	Offered	Declined
Cash flow based	47%	53%
Collateral based	74%	26%
Real estate	72%	28%
<b>Average</b>	<b>64%</b>	<b>36%</b>

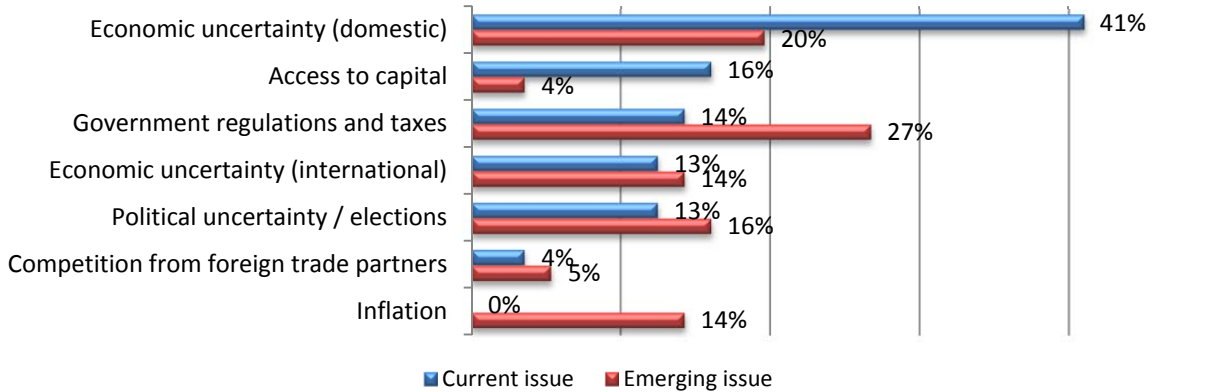
Approximately 32% of applications were declined due to poor quality of earnings and/or cash flow followed by 27% that were declined due to insufficient collateral.

**Figure 26. Reason for Declined Loans**



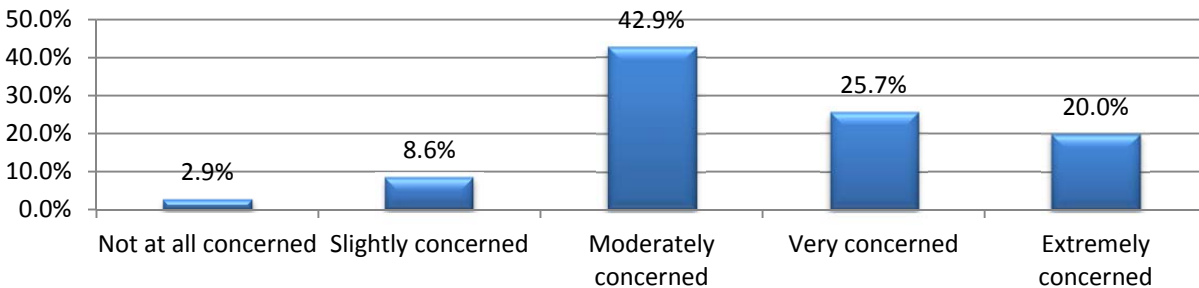
Respondents believe domestic economic uncertainty is the most important issue facing privately-held businesses today.

**Figure 27. Issues Facing Privately-Held Businesses**



Approximately 46% of respondents are very or extremely concerned about the upcoming fiscal cliff.

**Figure 28. Concerns about the upcoming 'fiscal cliff'**



Respondents indicated increases in almost all general business characteristics except general underwriting standards, size of interest rate spreads, business conditions and appetite for risk.

**Table 24. General Business and Industry Assessment: Today versus 12 Months Ago**

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Demand for business loans (applications)	9%	26%	20%	31%	14%	46%	34%	11%
General underwriting standards	0%	20%	64%	12%	4%	16%	20%	-4%
Credit quality of borrowers applying for credit	0%	21%	53%	26%	0%	26%	21%	6%
Loans outstanding	0%	11%	17%	56%	17%	72%	11%	61%
Number/ tightness of financial covenants	6%	11%	61%	17%	6%	22%	17%	6%
Due diligence efforts	0%	0%	48%	40%	12%	52%	0%	52%
Average loan size	3%	9%	43%	43%	3%	46%	11%	34%
Average loan maturity (months)	0%	6%	62%	26%	6%	32%	6%	26%
Percent of loans with personal guarantees	0%	10%	80%	5%	5%	10%	10%	0%
Percent of loans requiring collateral	0%	4%	76%	16%	4%	20%	4%	16%
Size of interest rate spreads (pricing)	0%	48%	24%	20%	8%	28%	48%	-20%
Loan fees	6%	36%	55%	3%	0%	3%	42%	-39%
Standard advance rates	0%	6%	61%	28%	6%	33%	6%	28%
Senior leverage multiples	0%	4%	58%	29%	8%	38%	4%	33%
Total leverage multiples	0%	8%	54%	29%	8%	38%	8%	29%
Focus on collateral as backup means of payment	0%	8%	58%	29%	4%	33%	8%	25%
SBA lending	10%	20%	35%	25%	10%	35%	30%	5%
Lending capacity of bank	8%	8%	17%	38%	29%	67%	17%	50%
General business conditions	6%	18%	52%	18%	6%	24%	24%	0%
Appetite for risk	8%	36%	28%	20%	8%	28%	44%	-16%

Respondents expect further increases in all business characteristics except average loan size, loan fees, total leverage multiples, focus on collateral, and lending capacity of bank.

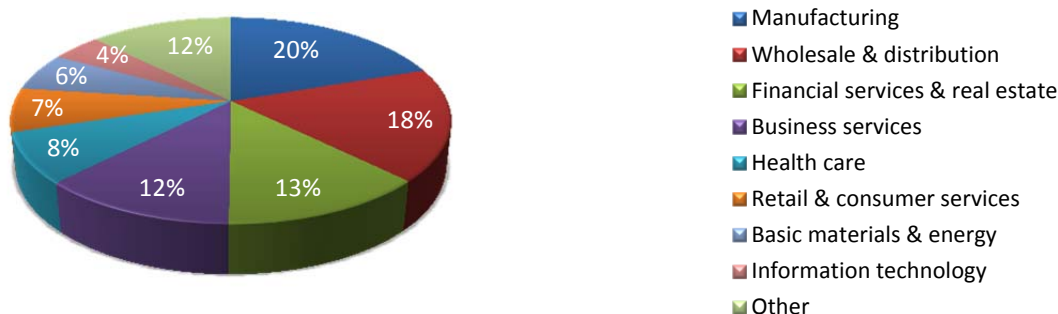
**Table 25. General Business and Industry Assessment Expectations over the Next 12 Months**

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	Net increase/decrease
Demand for business loans (applications)	3%	14%	23%	43%	17%	60%	17%	<b>43%</b>
General underwriting standards	0%	8%	72%	16%	4%	20%	8%	<b>12%</b>
Credit quality of borrowers applying for credit	0%	12%	65%	21%	3%	24%	12%	<b>12%</b>
Due diligence efforts	0%	0%	32%	42%	26%	68%	0%	<b>68%</b>
Average loan size	0%	33%	67%	0%	0%	0%	33%	<b>-33%</b>
Average loan maturity (months)	0%	6%	71%	18%	6%	24%	6%	<b>18%</b>
Percent of loans with personal guarantees	0%	0%	68%	28%	4%	32%	0%	<b>32%</b>
Percent of loans requiring collateral	0%	0%	51%	43%	6%	49%	0%	<b>49%</b>
Size of interest rate spreads (pricing)	0%	6%	62%	29%	3%	32%	6%	<b>26%</b>
Loan fees	0%	14%	82%	0%	5%	5%	14%	<b>-9%</b>
Senior leverage multiples	0%	8%	80%	4%	8%	12%	8%	<b>4%</b>
Total leverage multiples	0%	38%	42%	17%	4%	21%	38%	<b>-17%</b>
Focus on collateral as backup means of payment	0%	21%	62%	18%	0%	18%	21%	<b>-3%</b>
SBA lending	0%	6%	82%	12%	0%	12%	6%	<b>6%</b>
Lending capacity of bank	0%	17%	67%	17%	0%	17%	17%	<b>0%</b>
General business conditions	0%	4%	64%	28%	4%	32%	4%	<b>28%</b>
Appetite for risk	0%	4%	60%	32%	4%	36%	4%	<b>32%</b>

### Asset-Based Lending Specific Characteristics

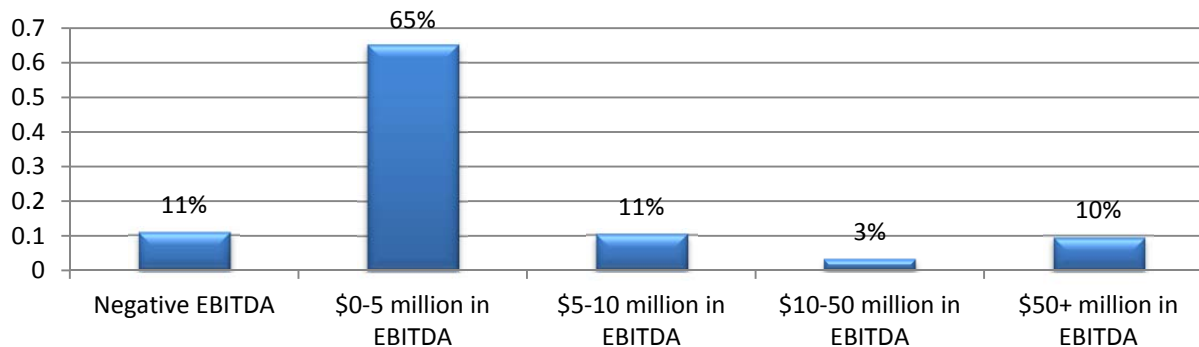
According to respondents approximately 20% of asset-based loans were issued for manufacturing companies.

**Figure 29. Industries Served by Asset-Based Lenders**



Approximately 76% of the companies that booked asset-based loans in the last twelve months had EBITDA size less than \$5 million.

**Figure 30. Typical EBITDA Sizes for Companies Booked**



Respondents reported on all-in rates by type and size of current booked loans and the results are reported below.

**Table 26. All-in Rates on Current Asset-Based Loans (medians)**

	Marketable Securities	Accounts Receivable	Inventory	Equipment	Real estate	Working capital	Average
Less than \$1 million	20.0%	14.7%	17.7%	13.0%	10.0%	13.5%	14.8%
\$1-5 million	19.0%	12.5%	16.0%	15.0%	8.8%	14.3%	14.3%
\$5-\$10 million	19.0%	8.0%	9.0%	11.7%	9.0%	9.3%	11.0%
\$10-25 million	n/a	3.8%	2.9%	6.8%	5.8%	4.5%	4.8%
\$25-\$50 million	n/a	6.2%	2.0%	n/a	n/a	2.0%	3.4%
\$50-\$100 million	n/a	3.5%	n/a	n/a	n/a	n/a	3.5%
\$100-\$500 million	n/a	2.3%	2.3%	2.5%	n/a	2.3%	2.3%
More than \$500 million	n/a	2.0%	2.3%	2.5%	n/a	2.3%	2.3%



Respondents reported on standard advance rates and the results are reflected below.

**Table 27. Standard Advance Rate (or LTV ratio) for Assets (%)**

	Typical Loan			Upper Limit		
	1st quartile	Median	3rd quartile	1st quartile	Median	3rd quartile
Marketable securities	78%	85%	93%	85%	88%	98%
Accounts receivable	75%	85%	85%	85%	85%	90%
Inventory - low quality	10%	23%	29%	25%	30%	48%
Inventory - intermediate quality	29%	48%	50%	45%	50%	65%
Inventory - high quality	50%	60%	63%	56%	63%	75%
Equipment	58%	68%	76%	68%	75%	80%
Real estate	54%	65%	71%	60%	70%	76%
Land	35%	48%	53%	25%	43%	56%

Total debt-to-cash flow was the most important factor when deciding whether to invest or not.

**Table 28. Importance of Financial Evaluation Metrics**

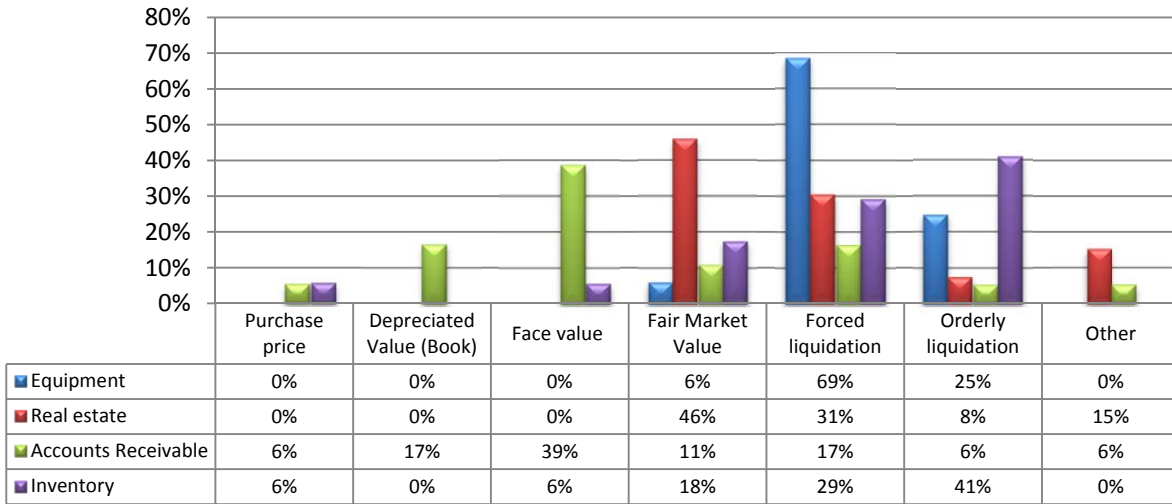
	Unimportant	Of little importance	Moderately important	Important	Very important	Score (1 to 5)
Current ratio	67%	17%	11%	6%	0%	1.6
Senior DSCR or FCC ratio	35%	18%	12%	12%	24%	2.7
Total DSCR or FCC ratio	29%	24%	12%	6%	29%	2.8
Senior debt-to-cash flow	17%	11%	22%	22%	28%	3.3
Total debt-to-cash flow	11%	11%	26%	26%	26%	3.5
Debt-to-net worth	24%	24%	18%	24%	12%	2.8

**Table 29. Financial Evaluation Metrics Average Data**

	Average borrower data	Limit not to be exceeded
Current ratio	1.9	0.7
Senior DSCR or FCC ratio	1.7	1.1
Total DSCR or FCC ratio	1.3	1.1
Senior debt-to-cash flow	2.5	2.6
Total debt-to-cash flow	3.4	3.4
Debt-to-net worth	1.6	2.9

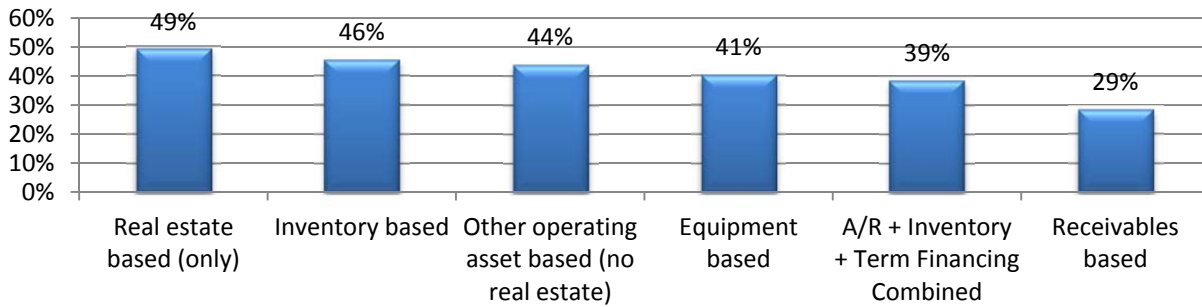
Respondents reported on valuation standards used to estimate LTV ratios.

**Figure 31. Valuation Standards Used to Estimate LTV Ratio**



According to respondents receivables-based loans had the smallest decline rate (29%) over the last twelve months.

**Figure 32. Asset-Based Loans Decline Rate**



## MEZZANINE SURVEY INFORMATION

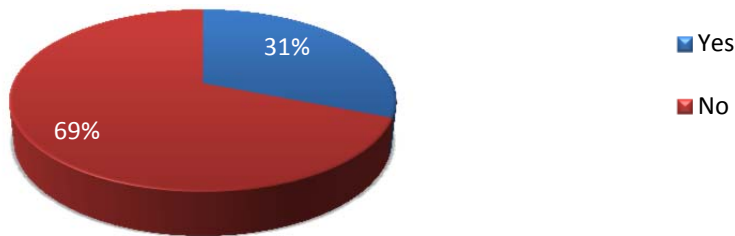
Of the 29 participants that responded to the mezzanine survey, 54% reported making deals over the past twelve months in the \$5 million to \$10 million range and 38% made investments in the \$1 million to \$5 million range. Over 21% plan on investing in business services over the next 12 months, followed by 20% in information technology. Other key findings include:

- Relative to 12 months ago, respondents indicated increases in demand for mezzanine capital, leverage multiples, appetite for risk and improved general business conditions. They also reported decreases in average investment size and investment maturity, warrant coverage, loan fees, and expected returns on new investments, as well as worsened general underwriting standards.
- Respondents expect further increase in demand for mezzanine capital and leverage multiples; relatively flat loan fees, credit quality of borrowers seeking investment and general business conditions; a decrease in general underwriting standards, warrant coverage and PIK features; increasing size of mezzanine industry and appetite for risk.
- The majority of respondents (36%) believe domestic economic uncertainty is the most important issue facing privately-held businesses today.

### Operational and Assessment Characteristics

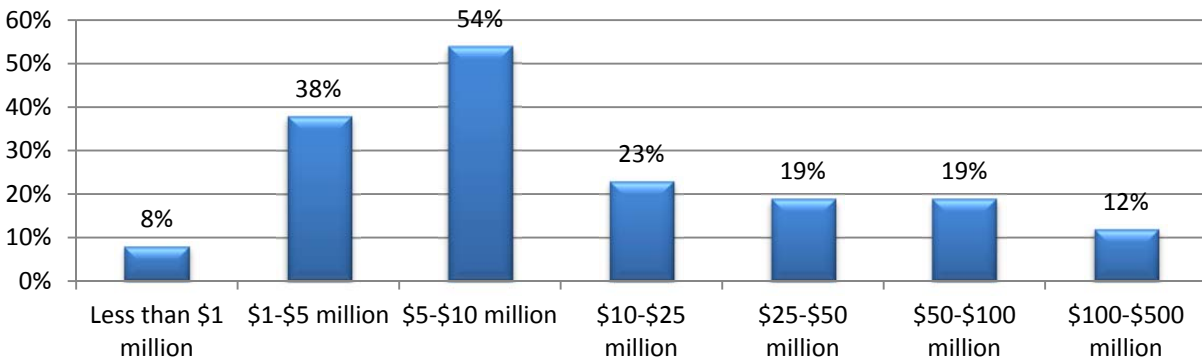
Approximately 31% of respondents are SBIC Firms.

**Figure 33. SBIC (small business investment) Firms**



The largest concentration of loan sizes was between \$5 million and \$10 million (54%).

**Figure 34. Typical Investment Size**



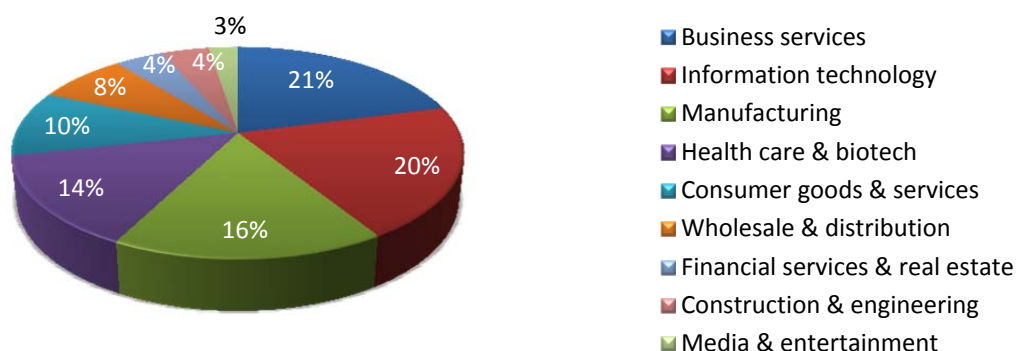
Respondents reported on business practices and the results are reflected below.

**Table 30. Mezzanine Fund Data**

	1st quartile	Median	3rd quartile
Vintage year (year in which first investment made)	2006	2008	2011
Size of fund (\$ millions)	75	125	275
Targeted number of total investments	13	28	33
Target fund return (gross pretax cash on cash annual IRR %)	15%	15%	20%
Expected fund return (gross pretax cash on cash annual IRR %)	13.5%	16.5%	20.0%

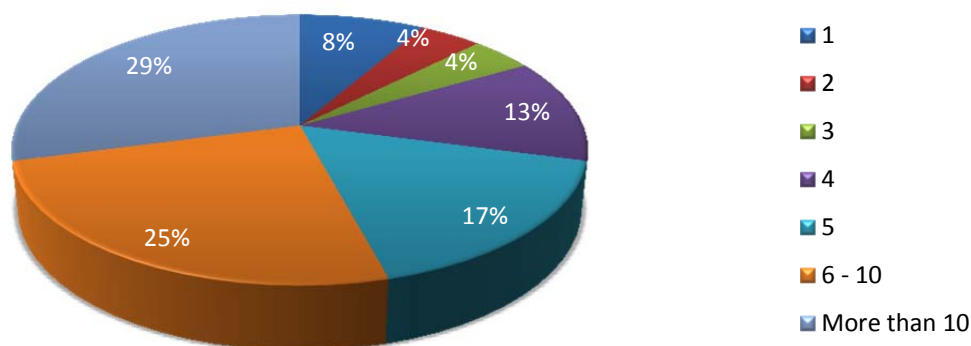
The types of businesses respondents plan to invest in over next 12 months are very diverse with over 21% targeting business services, followed by 20% who plan to invest in information technology.

**Figure 35. Type of Business for Investments Planned over Next 12 Months**

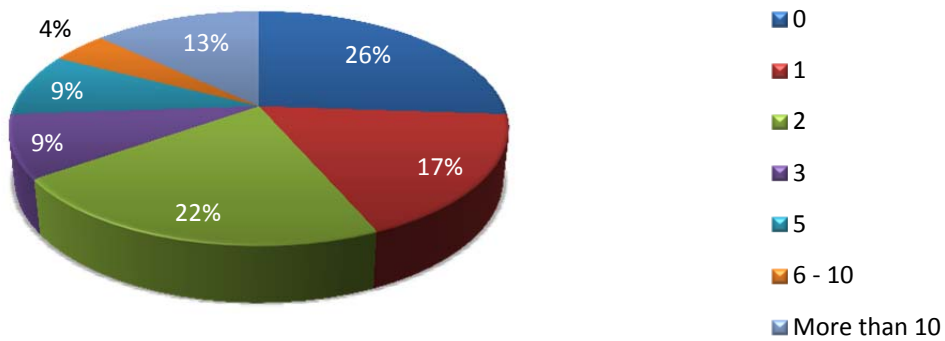


Approximately 54% of respondents made 6 investments or more over the last 12 months.

**Figure 36. Total Number of Investments Made in the Last 12 Months**

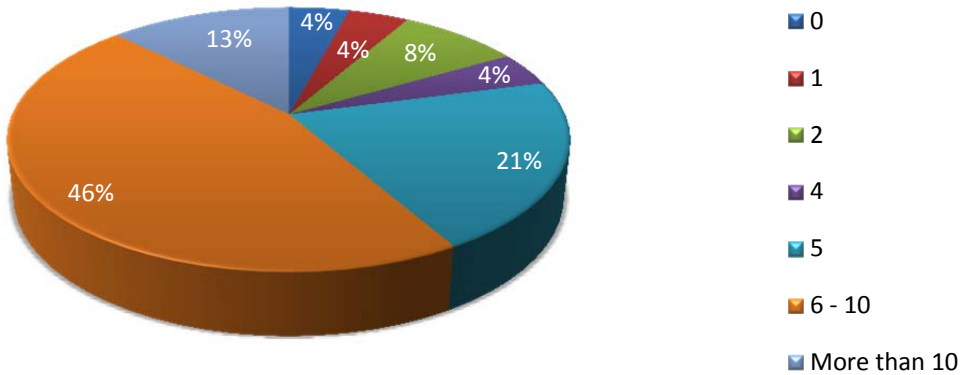


**Figure 37. Number of Follow-on Investments Made in the Last 12 Months**

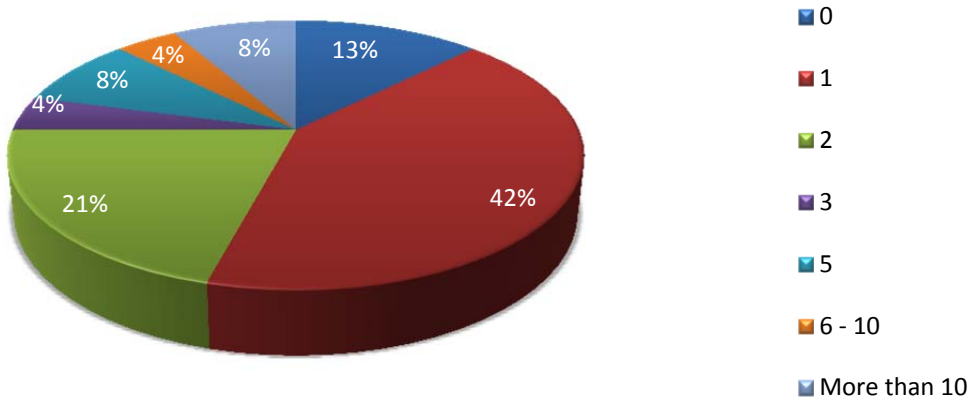


Approximately 59% of respondents plan to make 6 investments or more over the next 12 months.

**Figure 38. Number of Total Investments Planned over Next 12 Months**



**Figure 39. Number of Follow-on Investments Planned over Next 12 Months**



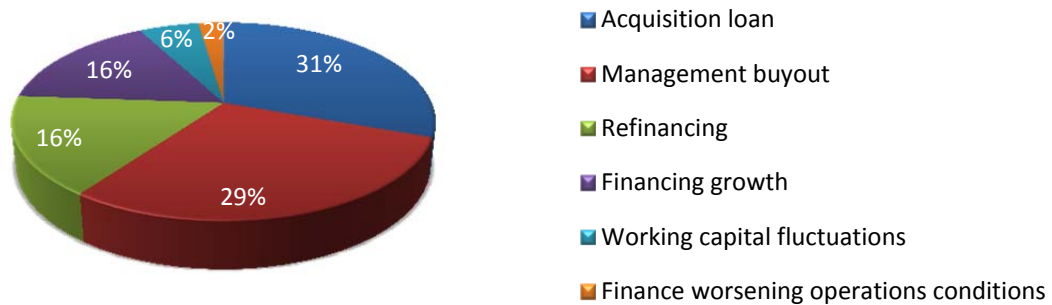
Results of responses to sponsored deals based on size of investee EBITDA are reported below.

**Table 31. Sponsored Deals by Loan Size (medians)**

	\$1M loan	\$5M loan	\$10M loan	\$25M loan	\$50M loan	\$100M loan
% of deals with warrants	100%	33%	47%	0%	0%	6%
Average loan terms (years)	4	5	5	6	6	6
Senior leverage ratio (multiple of EBITDA)	1.75	2	2.5	3	3.25	3.75
Total leverage ratio (multiple of EBITDA)	3	3	4.5	4.5	5	5.5
Cash interest rate	14%	14%	13%	12%	12%	12%
PIK	n/a	4%	3%	3%	2%	n/a
Total expected returns (gross cash on pre-tax IRR)	22%	20%	18%	15%	14%	12%

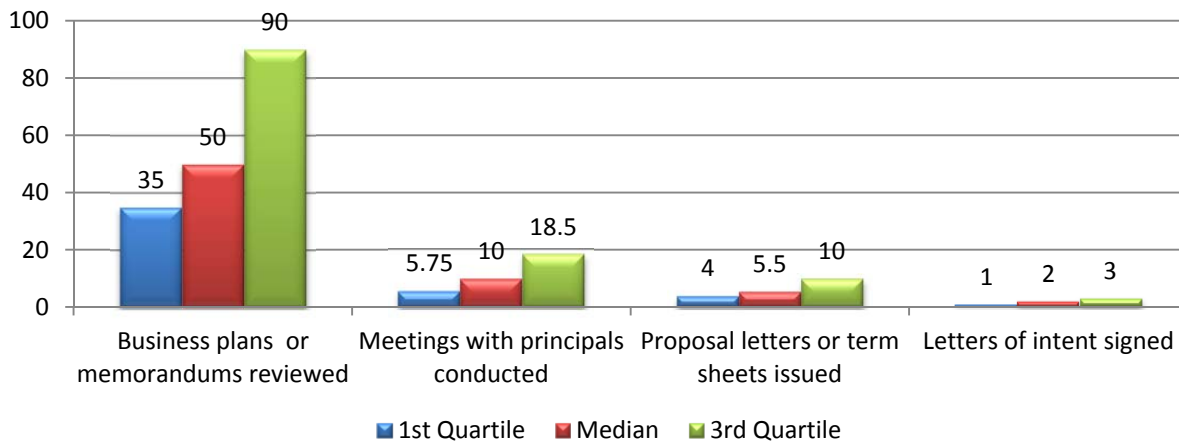
Acquisition loan was reported by 31% of respondents as borrower motivation, followed by management buyouts at 29%.

**Figure 40. Borrower Motivation to Secure Mezzanine Funding (past 12 months)**



Respondents reported on items required to close one deal.

**Figure 41. Items Required to Close One Deal**



Total debt-to-cash flow ratio was the most important factor when deciding whether to invest or not, followed by total debt service coverage ratio.

**Table 32. Importance of Financial Evaluation Metrics**

	Unimportant	Of little importance	Moderately important	Important	Very important	Score (1 to 5)
Senior DSCR or FCC ratio	0%	22%	44%	33%	0%	3.1
Total DSCR or FCC ratio	0%	0%	27%	27%	45%	4.2
Senior debt-to-cash flow ratio	0%	0%	50%	50%	0%	3.5
Total debt-to-cash flow ratio	0%	0%	9%	36%	55%	4.5

**Table 33. Financial Evaluation Metrics Average Data**

	Average borrower data	Limit not to be exceeded
Senior DSCR or FCC ratio	1.8	1.7
Total DSCR or FCC ratio	1.5	1.5
Senior debt to cash flow ratio	2.2	2.7
Total debt to cash flow ratio	3.4	4.2

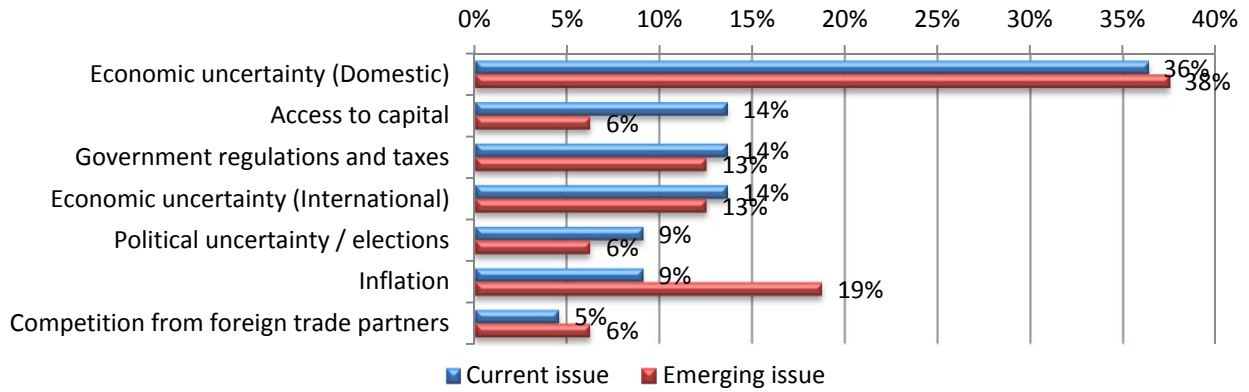
Relative to 12 months ago, respondents indicated increases in demand for mezzanine capital, leverage multiples, appetite for risk and improved general business conditions. They also reported decreases in average investment size and investment maturity, warrant coverage, loan fees, and expected returns on new investments, as well as worsened general underwriting standards. Respondents expect further increases in all business characteristics except general underwriting standards, warrant coverage, PIK features and expected returns on new investments.

**Table 34. General Business and Industry Assessment**

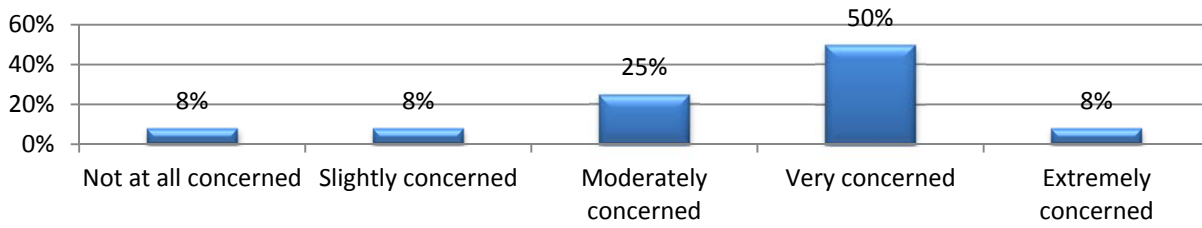
	Net increase / decrease (-)	
	Today versus 12 months ago	Expectations over the next 12 months
Demand for mezzanine capital	33%	58%
Credit quality of borrowers seeking investment	0%	8%
Average investment size	-8%	25%
Average investment maturity	-8%	25%
General underwriting standards	-33%	-25%
Warrant coverage	-60%	-36%
PIK features	11%	-20%
Loan fees	-8%	8%
Leverage multiples	67%	33%
Expected returns on new investments	-17%	-8%
General business conditions	9%	8%
Appetite for risk	8%	42%

Respondents believe domestic economic uncertainty is the most important issue facing privately-held businesses today.

**Figure 42. Issues Facing Privately-Held Businesses**



**Figure 43. Concerns about the upcoming 'fiscal cliff'**





## LIMITED PARTNER SURVEY INFORMATION

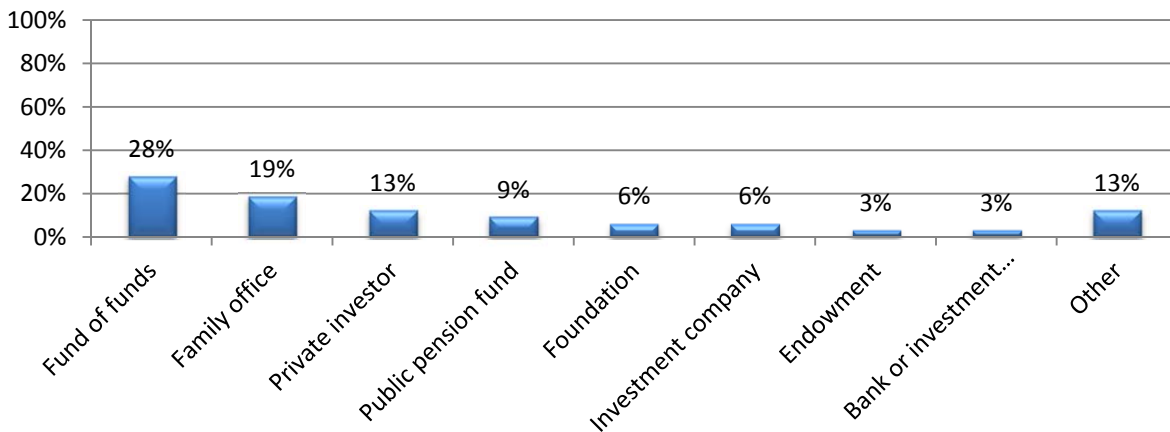
Approximately 33% of the 36 respondents in the limited partner survey reported buyout private equity as being the best risk/return trade-off investment class, followed by distressed private equity at 19%. When asked about which industry currently offers the best risk/return trade-off, 36% of respondents reported information technology, followed by 29% reporting business services. Other key findings include:

- Approximately 32% of respondents reported their asset category being less than \$50 million, while another 32% were between \$1 billion and \$5 billion.
- On average respondents target to allocate 23% of their assets to buyout private equity, 18% to growth private equity and 14% to venture capital. Respondents expect the highest returns of 14% from investments in growth private equity, 13% from investments in buyout private equity, and 11.5% from investments in venture capital.
- Respondents indicated increased allocation to direct investments, private equity and hedge funds, and decreased allocation to all other alternative assets in the last twelve months. They also reported flat business conditions but increased expected returns on new investments.
- Respondents also expect further increases in allocation to direct investments, hedge funds and private equity, as well as real estate funds, improving business conditions and slight increase in expected returns.

### Operational and Assessment Characteristics

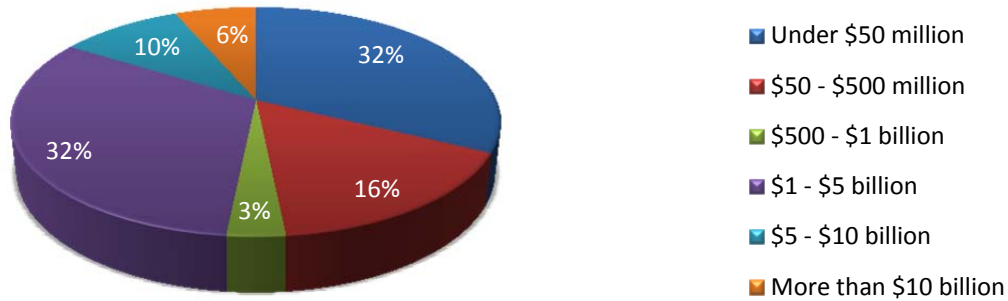
Approximately 28% of respondents indicated being fund of funds followed by family office (19%).

**Figure 44. Entity Type**



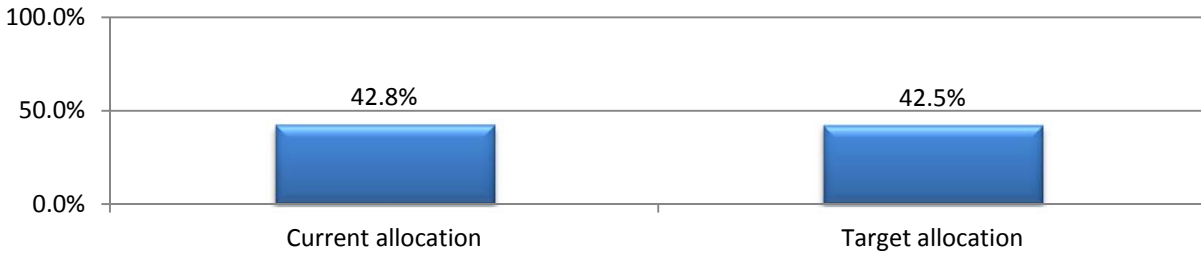
Approximately 32% of respondents reported their asset category being less than \$50 million, while 16% were between \$50 million and \$500 million.

**Figure 45. Assets under Management or Investable Funds**



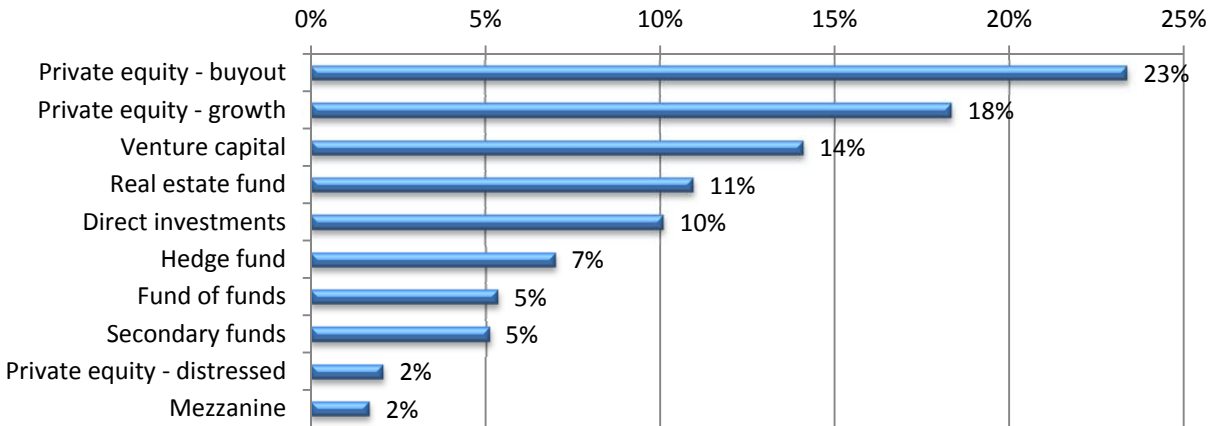
Respondents reported on their % of total asset allocations for "Alternative Assets".

**Figure 46. Current and Target Asset Allocations for "Alternative Assets" (% of total portfolio)**



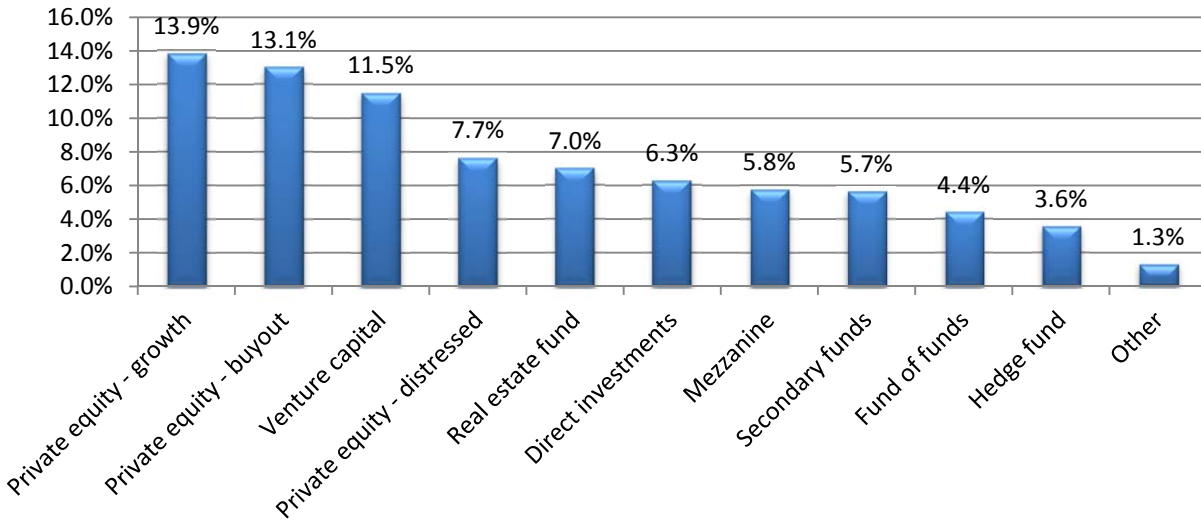
On average, respondents target to allocate 23% of their assets to buyout private equity, 18% to growth private equity, and 14% to venture capital.

**Figure 47. Current Target Asset Allocation**



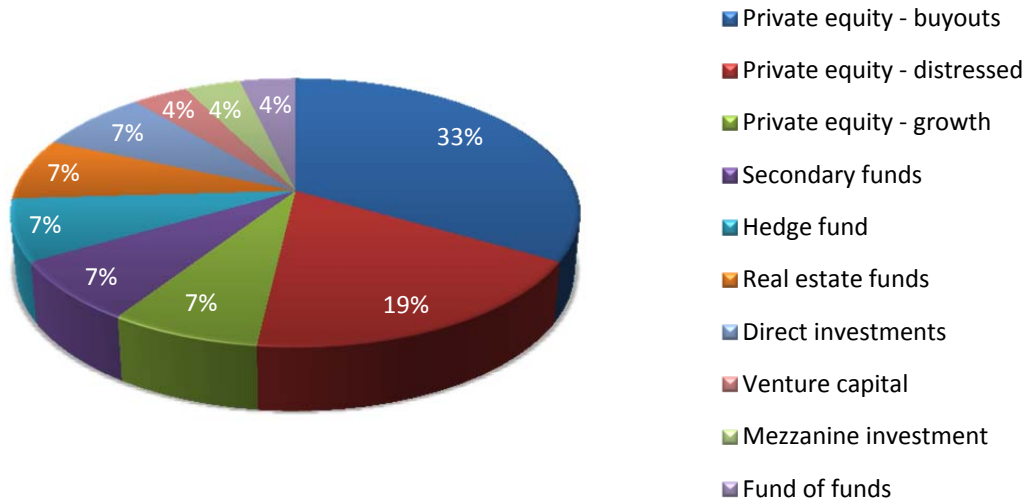
On average respondents expect the highest returns from investments in growth private equity, buyout private equity and venture capital.

**Figure 48. Annual Return Expectations for New Investments**



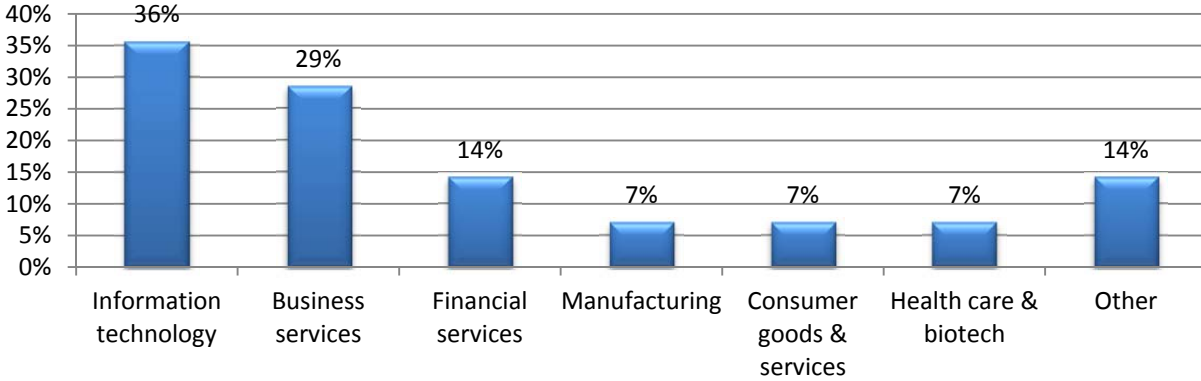
Approximately 33% of respondents reported buyout private equity as being the best risk/return trade-off investment class, followed by distressed private equity at 19%.

**Figure 49. Assets with the Best Risk/Return Trade-off Currently**



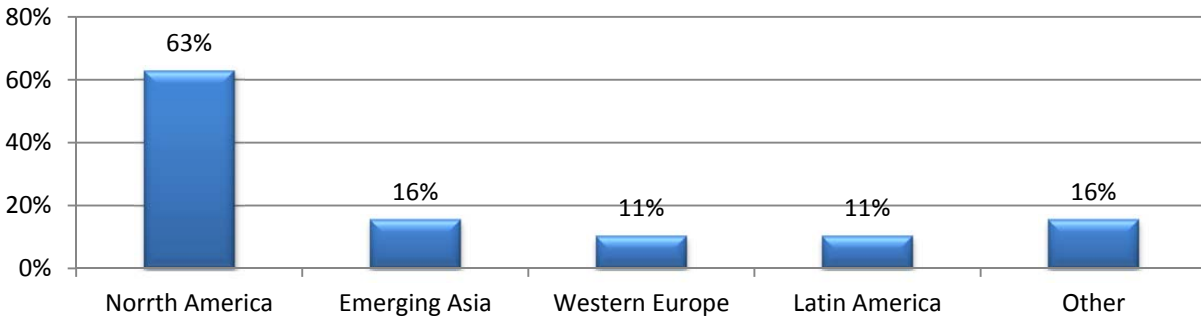
When asked about which industries currently offer the best risk/return trade offs, 36% of respondents reported information technology, followed by 29% reporting business services.

**Figure 50. Industry with the Best Risk/Return**



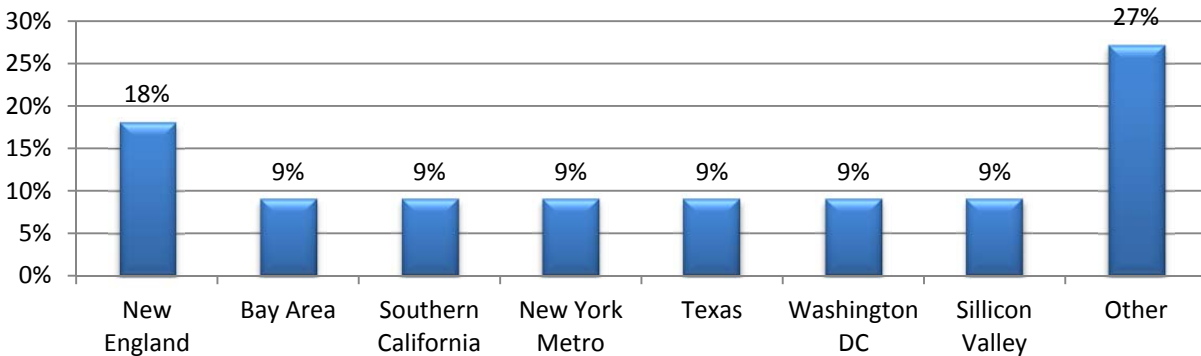
In regard to the geographic regions with the best risk/return trade-offs, 60% of respondents reported North America, followed by emerging Asia (15%), and Western Europe (10%) areas.

**Figure 51. Geographic Regions of the World Offering the Best Risk/Return Tradeoff Currently**



According to 18% of respondents the geographic region with best risk/return trade offs is New England.

**Figure 52. Geographic Regions of the USA with the Best Risk/Return Currently**



According to respondents, a returned capital from most recent fund is the most important factor when evaluating investment followed by residual value of most recent fund.

**Table 35. Importance of Factors When Evaluating**

	Unimportant	Of little importance	Moderately Important	Important	Very important	Score (1 to 5)
General partner	0%	0%	29%	42%	29%	4
Specific strategy	0%	13%	25%	33%	29%	3.8
Historical fund performance on all funds	0%	4%	42%	38%	17%	3.7
Returned capital from most recent fund (distribution to paid-in or DPI)	0%	0%	0%	100%	0%	4.5
Residual value of most recent fund (residual value to paid-in or RVPI)	0%	0%	4%	40%	56%	4.2
Gut feel/instinct	0%	4%	16%	40%	40%	3.4
Specific location	4%	21%	29%	25%	21%	3.7
Other	0%	4%	46%	29%	21%	4

Respondents indicated increased allocations to direct private equity, hedge funds and direct investments, and decreased allocations to all other alternative assets in the last twelve months. Respondents also indicated increased expected returns on new capital deployed and flat general business conditions.

**Table 36. General Business and Industry Assessment: Today versus 12 Months Ago**

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Allocation to venture capital	17%	22%	57%	4%	0%	4%	39%	-35%
Allocation to private equity	0%	10%	52%	38%	0%	38%	10%	29%
Allocation to mezzanine	5%	15%	70%	10%	0%	10%	20%	-10%
Allocation to hedge funds	10%	5%	60%	15%	10%	25%	15%	10%
Allocation to secondary funds	5%	10%	70%	10%	5%	15%	15%	0%
Allocation to real estate funds	0%	35%	55%	5%	5%	10%	35%	-25%
Direct investments	0%	5%	73%	9%	14%	23%	5%	18%
General business conditions	10%	24%	33%	29%	5%	33%	33%	0%
Expected returns on new capital deployed	0%	24%	43%	29%	5%	33%	24%	10%

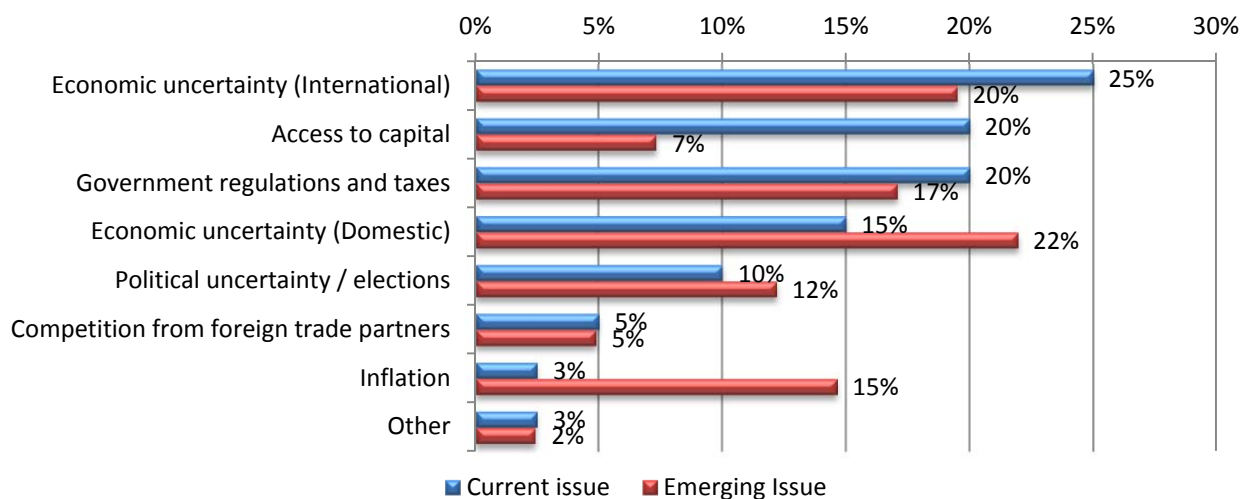
Respondents expect further increases in allocation to direct investments, hedge funds and private equity, as well as real estate funds.

**Table 37. General Business and Industry Assessment Expectations over the Next 12 Months**

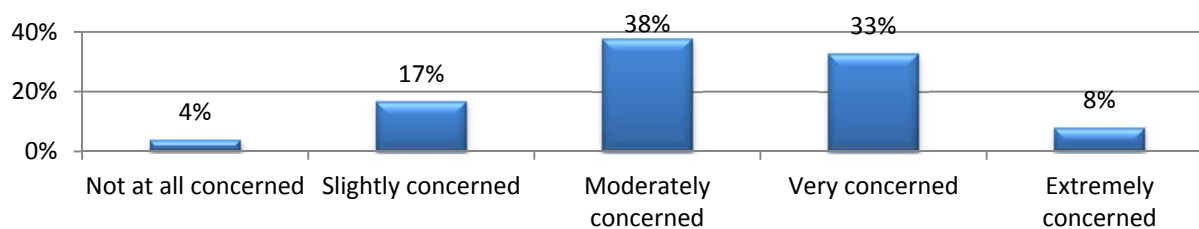
Characteristics	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	Net increase/decrease
Allocation to venture capital	22%	13%	65%	0%	0%	0%	35%	-35%
Allocation to private equity	5%	0%	48%	43%	5%	48%	5%	43%
Allocation to mezzanine	0%	11%	79%	11%	0%	11%	11%	0%
Allocation to hedge funds	0%	5%	75%	20%	0%	20%	5%	15%
Allocation to secondary funds	0%	11%	79%	5%	5%	11%	11%	0%
Allocation to real estate funds	0%	5%	70%	20%	5%	25%	5%	20%
Direct investments	0%	5%	68%	14%	14%	27%	5%	23%
General business conditions	9%	14%	41%	36%	0%	36%	23%	14%
Expected returns on new capital deployed	0%	25%	45%	30%	0%	30%	25%	5%

Respondents believe international economic uncertainty is the most important issue facing privately-held businesses today. Domestic economic uncertainty is indicated as the most important emerging issue.

**Figure 53. Issues Facing Privately-Held Businesses**



**Figure 54. Concerns about the upcoming 'fiscal cliff'**



## VENTURE CAPITAL SURVEY INFORMATION

Of the 71 participants who responded to the venture capital survey, approximately 28% of respondents expect a shrinking of the venture capital industry. The majority (55%) of respondents plan to make five investments or more over the next 12 months.

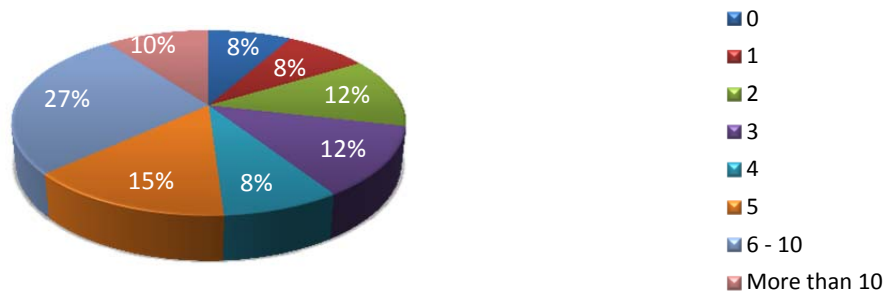
Other key findings include:

- The types of businesses respondents plan to invest in the next 12 months are very diverse with over 33% targeting information technology and another 23% planning to invest in health care or biotech. Approximately 44% of respondents plan to make new investments outside of the U.S.
- Respondents' exit strategies include selling to a public company (40%) followed by selling to a private company (25%).
- Respondents believe access to capital is the most important issue facing privately-held businesses today. Domestic economic uncertainty is indicated as the most important emerging issue.

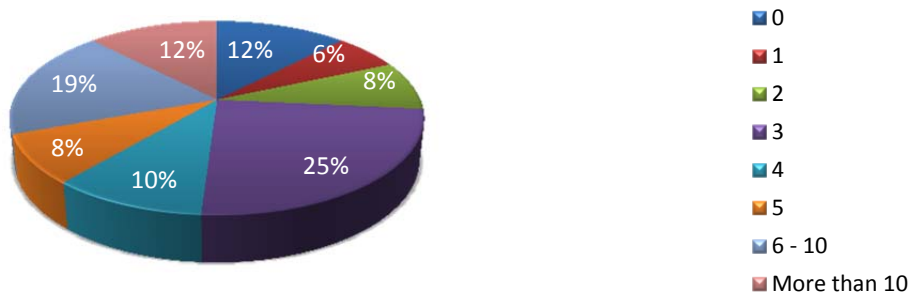
### Operational and Assessment Characteristics

Approximately 52% of respondents made five investments or more over the last twelve months.

**Figure 55. Total Number of Investments Made in the Last 12 Months**

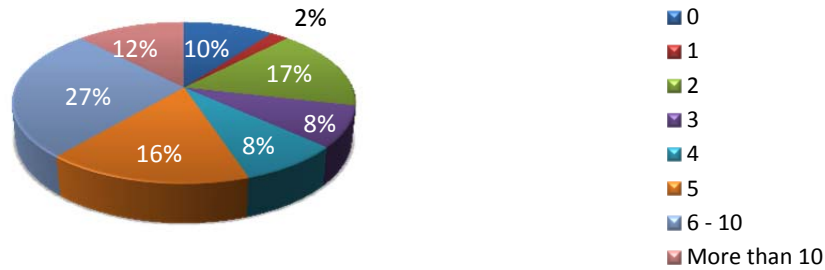


**Figure 56. Number of Follow-on Investments Made in the Last 12 Months**

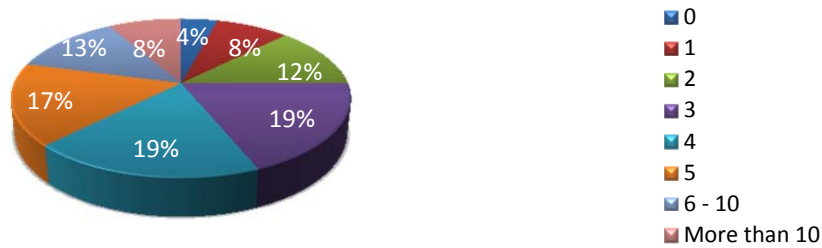


The majority (55%) of respondents plan to make five investments or more over the next 12 months.

**Figure 57. Number of Total Investments Planned over Next 12 Months**



**Figure 58. Number of Follow-on Investments Planned over Next 12 Months**



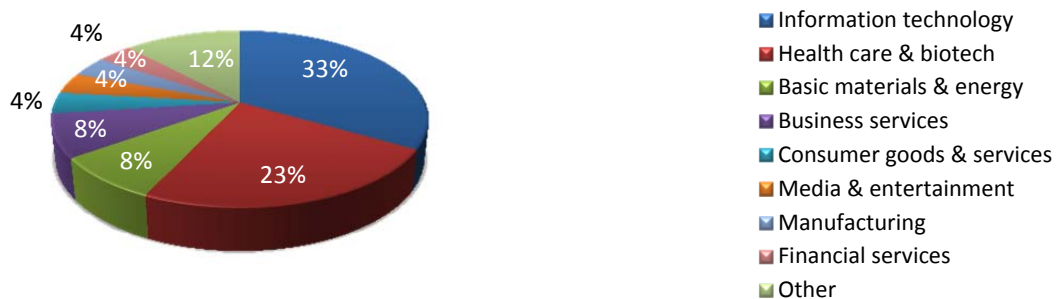
Respondents reported on business practices and the results are reflected below.

**Table 38. VC Fund Data**

	1st quartile	Median	3rd quartile
Vintage year (year in which first investment made)	2006	2010	2011
Size of fund (\$ millions)	30	75	125
Targeted number of total investments	13	17	22
Target fund return (gross pretax cash on cash annual IRR %)	17.50%	25%	35%
Expected fund return (gross pretax cash on cash annual IRR %)	15%	20%	30%

The types of businesses respondents plan to invest in over next 12 months are very diverse with over 33% targeting Information technology and another 23% planning to invest in health care or biotech.

**Figure 59. Type of Business for Investments Planned over Next 12 Months**





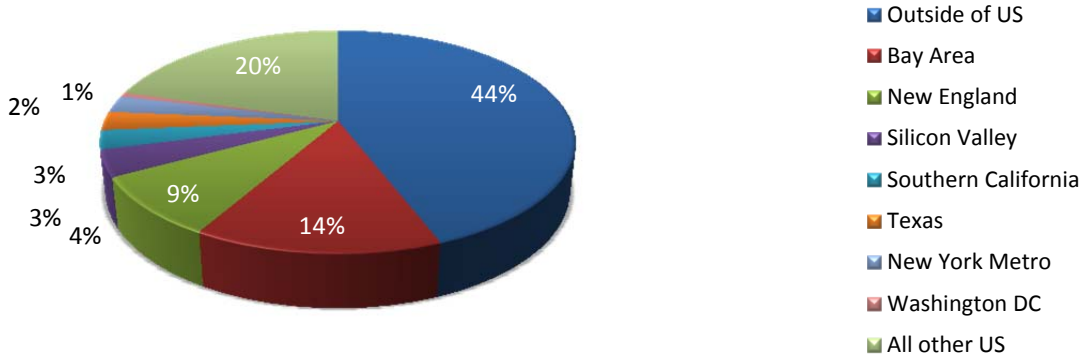
Respondents reported on a variety of stats pertaining to their investments.

**Table 39. General Information on Investments by Company Stages**

	Seed	Startup	Early stage	Expansion	Later stage
<b>Number of investments made in last twelve months</b>					
1st quartile	2	1.5	2	2	2
<b>Median</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>
3rd quartile	3	3	4.75	4	4
<b>Average size of investment (\$ millions)</b>					
1st quartile	1	1	1	1.75	3
<b>Median</b>	<b>1</b>	<b>1.5</b>	<b>3</b>	<b>4</b>	<b>4</b>
3rd quartile	1	2.75	4	5	8
<b>Average % of total equity purchased (fully diluted basis)</b>					
1st quartile	15%	15%	15%	5%	5%
<b>Median</b>	<b>15%</b>	<b>20%</b>	<b>15%</b>	<b>15%</b>	<b>5%</b>
3rd quartile	25%	25%	25%	25%	8%
<b>Total expected returns (gross cash on cash pretax IRR) on new investments</b>					
1st quartile	23%	23%	18%	18%	16%
<b>Median</b>	<b>33%</b>	<b>23%</b>	<b>23%</b>	<b>28%</b>	<b>21%</b>
3rd quartile	48%	41%	33%	28%	25%
<b>Expected time to exit</b>					
1st quartile	5	4	3	3	2
<b>Median</b>	<b>7</b>	<b>5</b>	<b>4</b>	<b>4</b>	<b>3</b>
3rd quartile	7	5	5	4	3
<b>Average company "pre-money" value (\$ millions)</b>					
1st quartile	1.0	2.0	3.3	15.0	25.0
<b>Median</b>	<b>1.0</b>	<b>3.5</b>	<b>4.5</b>	<b>15.0</b>	<b>75.0</b>
3rd quartile	2.0	4.8	15.0	25.0	80.0

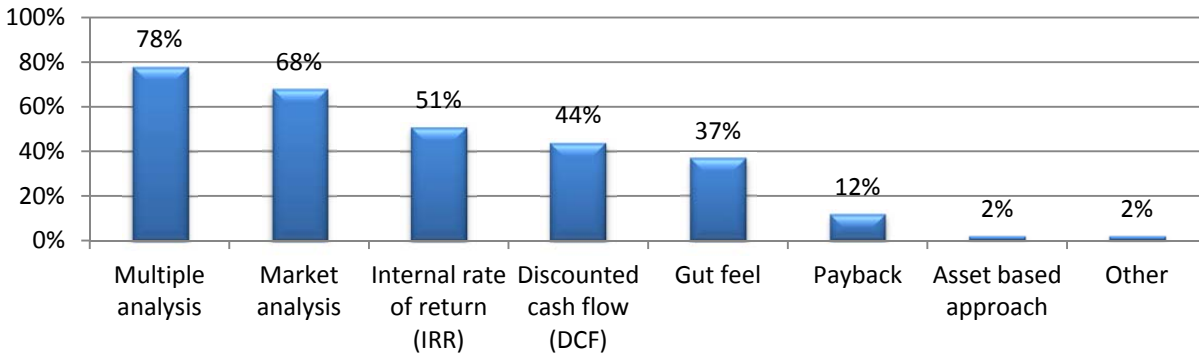
Respondents reported on where they plan to invest over the next 12 months. The results reflect investment throughout the U.S., 44% of respondents are planning to invest outside of the U.S.

**Figure 60. Geographic Location of Planned Investment over Next 12 Months**



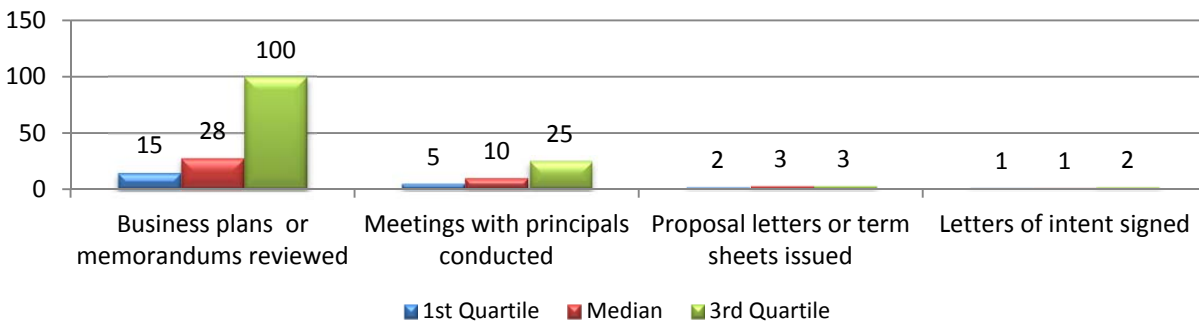
When valuing the company, approximately 78% of respondents use multiple analysis when valuing privately-held businesses.

**Figure 61. Usage of Valuation Approaches**



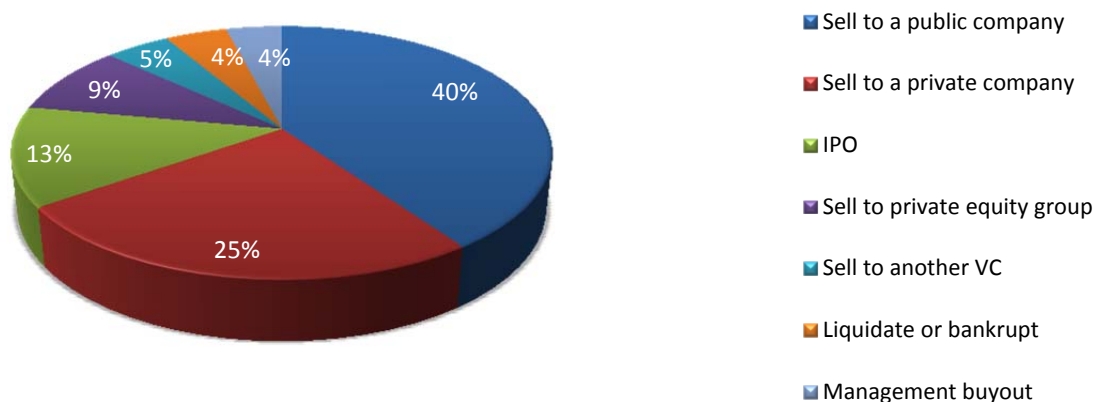
Respondents reported on items required to close one deal.

**Figure 62. Items Required to Close One Deal**



Respondents' exit strategies include selling to a public company (40%) followed by selling to a private company (25%).

**Figure 63. Exit Plans for Portfolio Companies**



Respondents indicated increases in demand for venture capital, quality of companies seeking investment, follow-on investments, and presence of super angels in space formerly occupied by VCs. They also reported decreased size of venture capital industry and worsened general business conditions in the last twelve months.

**Table 40. General Business and Industry Assessment: Today versus 12 Months Ago**

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Demand for venture capital	3%	8%	43%	28%	20%	48%	10%	38%
Quality of companies seeking investment	8%	10%	44%	36%	3%	38%	18%	21%
Follow-on investments	0%	5%	41%	26%	28%	54%	5%	49%
Average investment size	3%	20%	58%	18%	3%	20%	23%	-3%
Exit opportunities	18%	24%	29%	21%	8%	29%	42%	-13%
Time to exit deals	3%	16%	24%	27%	30%	57%	19%	38%
Expected returns on new investments	5%	29%	45%	16%	5%	21%	34%	-13%
Value of portfolio companies	0%	28%	30%	25%	18%	43%	28%	15%
General business conditions	8%	28%	38%	20%	8%	28%	35%	-8%
Presence of super angels in space formerly occupied by VCs	5%	5%	32%	35%	22%	57%	11%	46%
Size of venture capital industry	21%	46%	15%	18%	0%	18%	67%	-49%

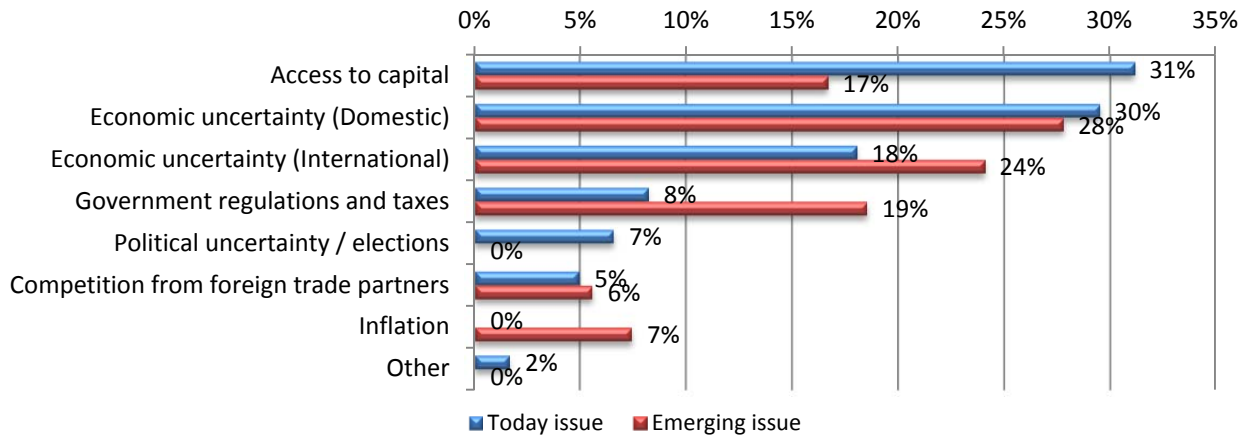
Respondents expect further increases in all business characteristics except size of venture capital industry.

**Table 41. General Business and Industry Assessment Expectations over the Next 12 Months**

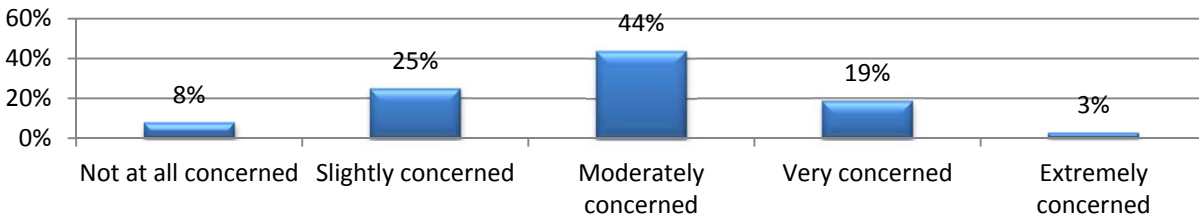
	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	Net increase/decrease
Demand for venture capital	0%	3%	33%	48%	18%	65%	3%	63%
Quality of companies seeking investment	0%	8%	45%	38%	10%	48%	8%	40%
Follow-on investments	0%	8%	30%	45%	18%	63%	8%	55%
Average investment size	5%	13%	53%	30%	0%	30%	18%	13%
Exit opportunities	5%	21%	31%	26%	18%	44%	26%	18%
Time to exit deals	0%	8%	47%	32%	13%	45%	8%	37%
Expected returns on new investments	3%	10%	64%	21%	3%	23%	13%	10%
Value of portfolio companies	0%	15%	43%	35%	8%	43%	15%	28%
General business conditions	10%	26%	21%	36%	8%	44%	36%	8%
Presence of super angels in space formerly occupied by VCs	3%	11%	50%	33%	3%	36%	14%	22%
Size of venture capital industry	10%	38%	33%	20%	0%	20%	48%	-28%

Respondents believe access to capital is the most important issue facing privately-held businesses today. Domestic economic uncertainty is indicated as the most important emerging issue.

**Figure 64. Issues Facing Privately-Held Businesses**



**Figure 65. Concerns about the upcoming 'fiscal cliff'**



## ANGEL INVESTOR SURVEY INFORMATION

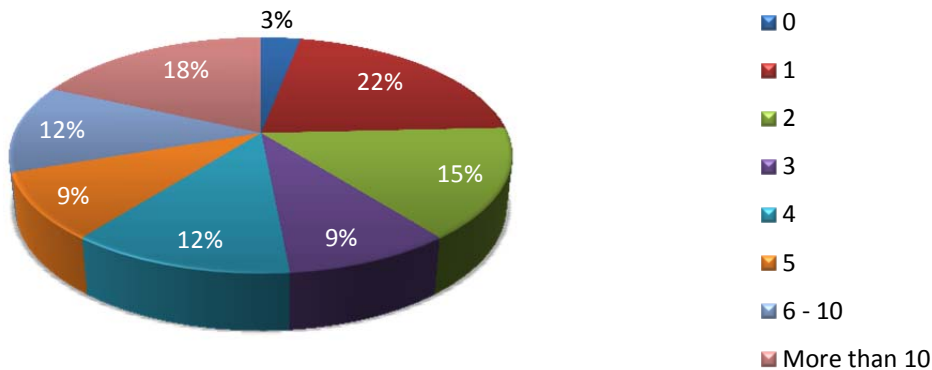
Approximately 25% of the 46 respondents to the angel investor survey plan to invest outside of the U.S. over the next 12 months, the majority (51%) of respondents plan to make between two and four investments. Other key findings include:

- Approximately 24% of respondents base valuations on a market analysis when valuing privately-held businesses.
- The types of businesses respondents plan to invest in over next 12 months are very diverse with over 33% targeting information technology and another 20% planning to invest in health care or biotech.
- Respondents indicated a sharp increase in demand for angel capital, increases in size of angel industry, follow-on investments and time to exit deals. They also reported decreased opportunities to exit, worsened general business conditions, and appetite for risk.
- Respondents' exit strategies include selling to a private company (37%), selling to a public company (32%) and selling to private equity group (11%).

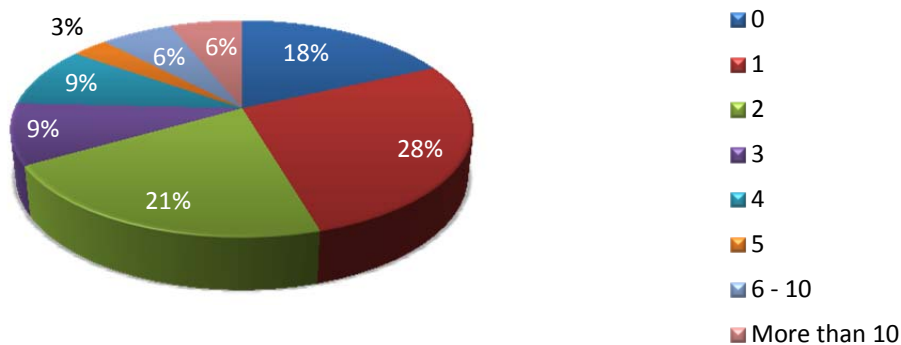
### Operational and Assessment Characteristics

Approximately 39% of respondents made either five investments or more over the last twelve months.

**Figure 66. Total Number of Investments Made in the Last 12 Months**

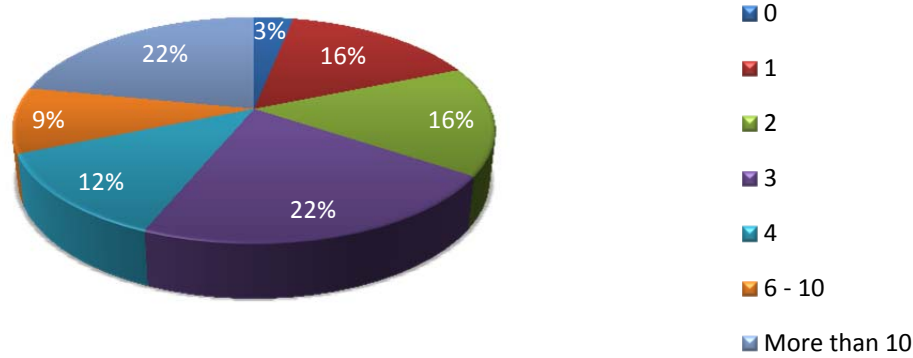


**Figure 67. Number of Follow-on Investments Made in the Last 12 Months**

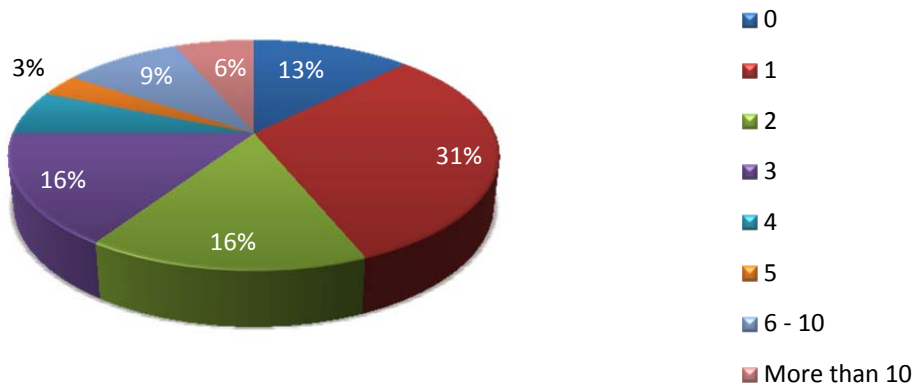


The majority (51%) of respondents plan to make between two and four investments over the next 12 months.

**Figure 68. Number of Total Investments Planned over Next 12 Months**

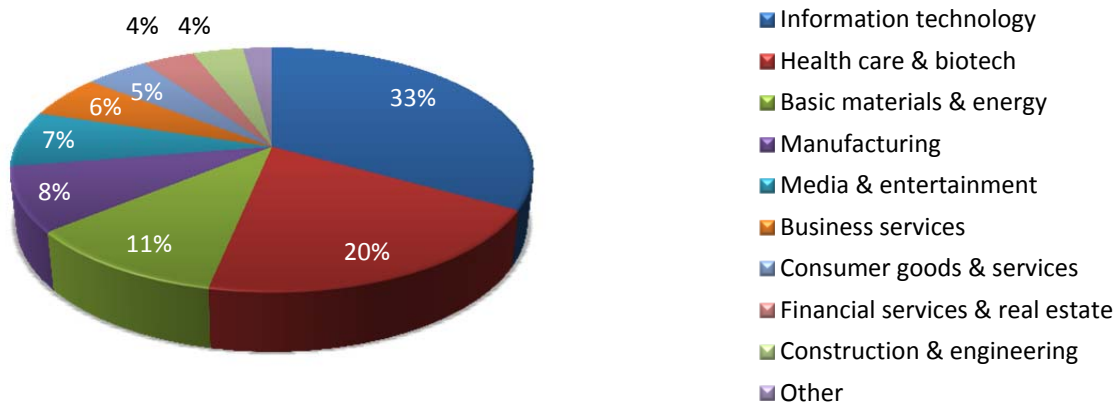


**Figure 69. Number of Follow-on Investments Planned over Next 12 Months**



The types of businesses respondents plan to invest in over next 12 months are very diverse with over 34% targeting information technology and another 20% planning to invest in health care & biotech.

**Figure 70. Type of Business for Investments Planned over Next 12 Months**



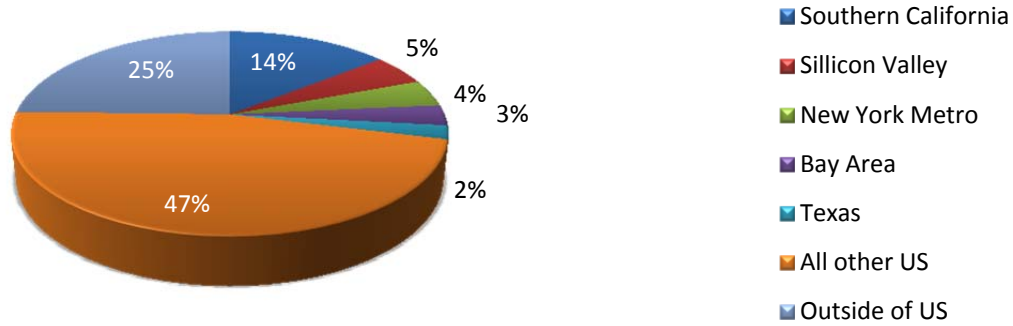
Respondents reported on a variety of stats pertaining to their investments.

**Table 42. General Information on Investments by Company Stages**

	Seed	Startup	Early stage	Expansion
<b>Number of investments made in last twelve months</b>				
1st quartile	1	1	1	1
<b>Median</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>2</b>
3rd Quartile	4	3	4	2
<b>Average size of investment (\$)</b>				
1st quartile	50,000	75,000	150,000	200,000
<b>Median</b>	<b>150,000</b>	<b>200,000</b>	<b>250,000</b>	<b>300,000</b>
3rd quartile	150,000	350,000	325,000	375,000
<b>Average % of total equity purchased (fully diluted basis)</b>				
1st quartile	5%	5%	5%	7%
<b>Median</b>	<b>10%</b>	<b>13%</b>	<b>10%</b>	<b>9%</b>
3rd quartile	12%	22%	15%	20%
<b>Total EXPECTED returns (gross cash on cash pretax IRR) on new investments (%)</b>				
1st quartile	15%	15%	15%	18%
<b>Median</b>	<b>25%</b>	<b>20%</b>	<b>20%</b>	<b>20%</b>
3rd quartile	35%	23%	25%	38%
<b>Expected time to exit (years)</b>				
1st quartile	3	4	3	3
<b>Median</b>	<b>5</b>	<b>5</b>	<b>4</b>	<b>3</b>
3rd quartile	7	6	5	4
<b>Average company "pre-money" value (\$)</b>				
1st quartile	450,000	600,000	875,000	1,000,000
<b>Median</b>	<b>550,000</b>	<b>850,000</b>	<b>1,000,000</b>	<b>2,500,000</b>
3rd quartile	950,000	1,500,000	2,250,000	2,500,000

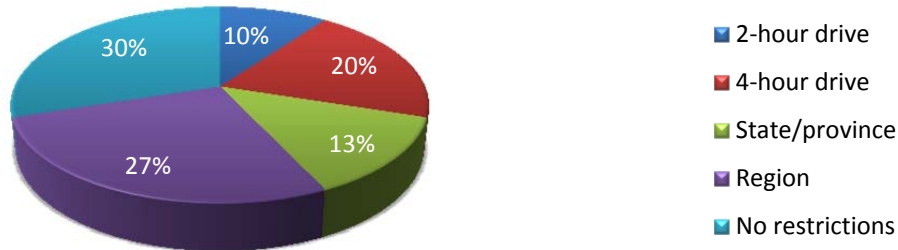
Respondents reported on where they plan to invest over the next 12 months. The results reflect investment throughout the U.S., 25% of respondents are planning to invest outside of the U.S.

**Figure 71. Geographic Location of Planned Investment over Next 12 Months**



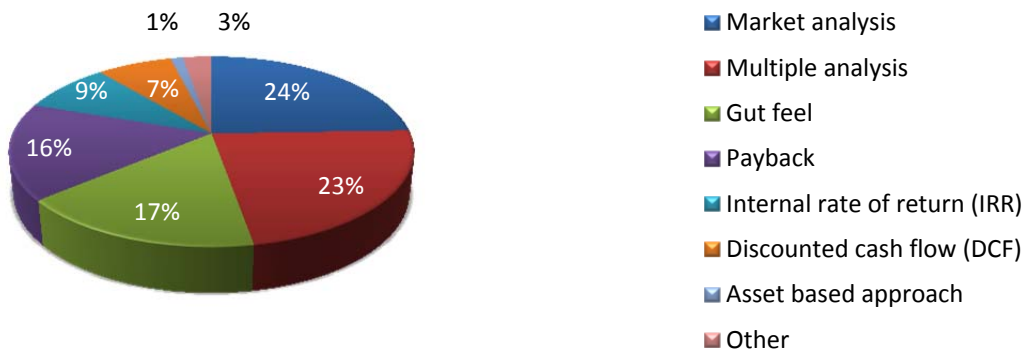
Approximately 30% of respondents do not have geographical restrictions for their future investments.

**Figure 72. Geographical Limit for Investment**



Approximately 24% of respondents base valuations on market analysis when valuing privately-held businesses followed by multiple analysis (23%).

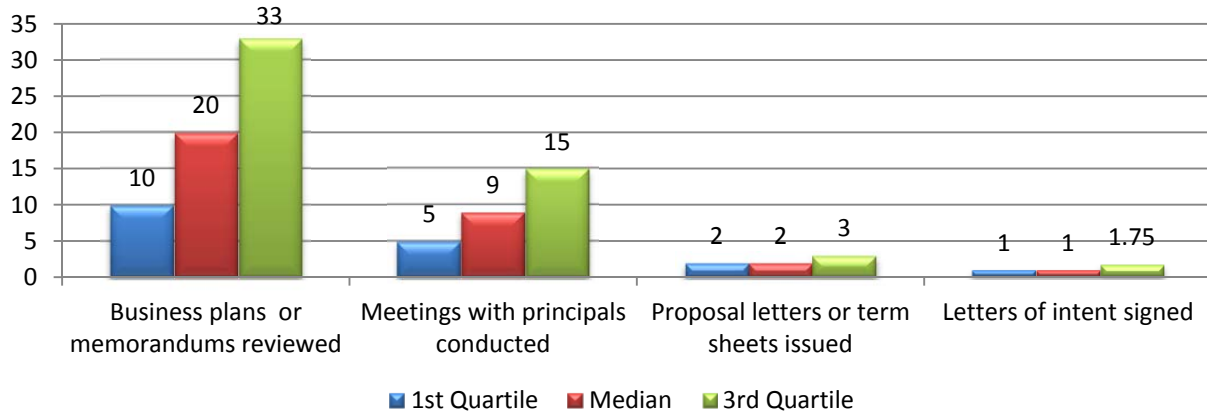
**Figure 73. Usage of Valuation Approaches**





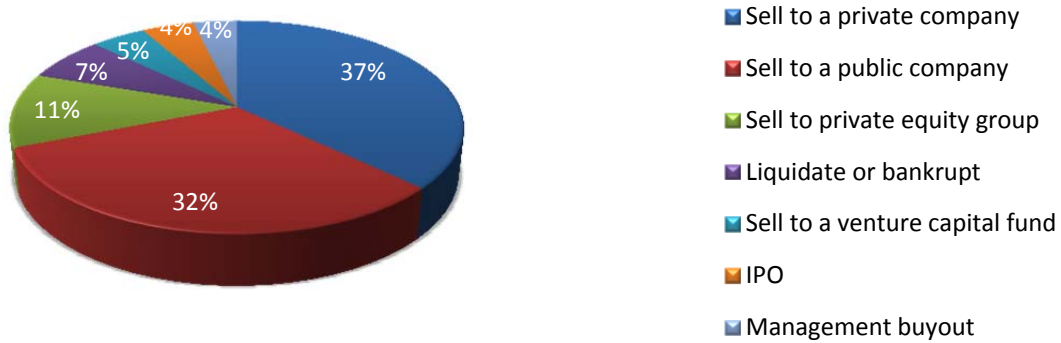
Respondents reported on items required to close one deal.

**Figure 74. Items Required to Close One Deal**



Respondents' exit strategies include selling to a private company (37%), selling to a public company (32%) and selling to private equity group (11%).

**Figure 75. Exit Plans for Portfolio Companies**



Respondents indicated a sharp increase in demand for angel capital, increases in size of angel industry, follow-on investments and time to exit deals. They also reported decreased opportunities to exit, worsened general business conditions, and appetite for risk.

**Table 43. General Business and Industry Assessment: Today versus 12 Months Ago**

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Demand for angel capital	0%	7%	38%	14%	41%	55%	7%	<b>48%</b>
Size of angel finance industry	7%	18%	32%	25%	18%	43%	25%	<b>18%</b>
Quality of companies seeking investment	4%	21%	46%	25%	4%	29%	25%	<b>4%</b>
Follow-on investments	0%	7%	28%	55%	10%	66%	7%	<b>59%</b>
Average investment size	0%	21%	57%	18%	4%	21%	21%	<b>0%</b>
Exit opportunities	14%	24%	38%	21%	3%	24%	38%	<b>-14%</b>
Time to exit deals	0%	0%	52%	21%	28%	48%	0%	<b>48%</b>
Expected returns on new investments	0%	24%	52%	17%	7%	24%	24%	<b>0%</b>
Value of portfolio companies	0%	21%	41%	24%	14%	38%	21%	<b>17%</b>
General business conditions	10%	24%	41%	21%	3%	24%	34%	<b>-10%</b>
Appetite for risk	7%	24%	45%	21%	3%	24%	31%	<b>-7%</b>

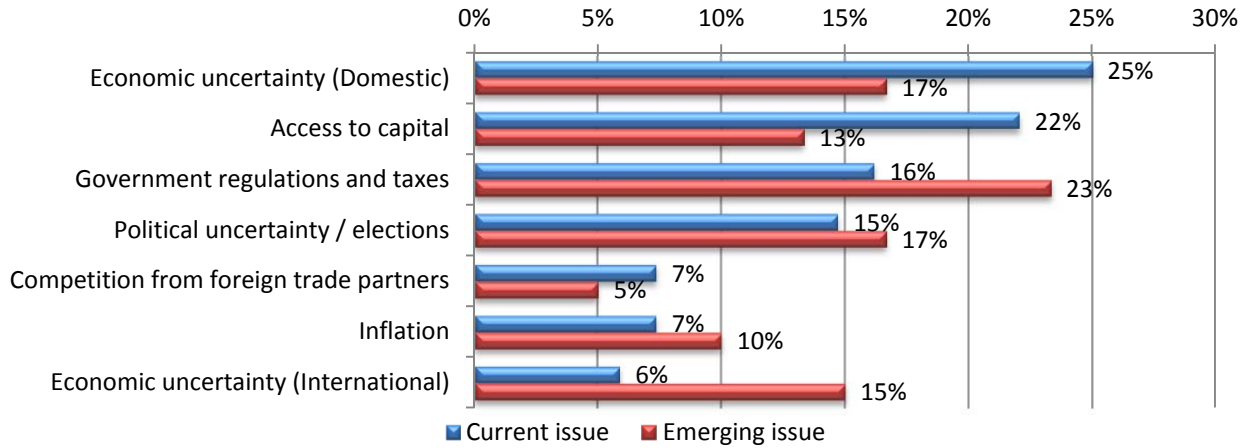
Respondents expect further increases in business characteristics except general business conditions.

**Table 44. General Business and Industry Assessment Expectations over the Next 12 Months**

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	Net increase/decrease
Demand for angel capital	0%	3%	30%	33%	33%	67%	3%	<b>63%</b>
Size of angel finance industry	3%	13%	40%	27%	17%	43%	17%	<b>27%</b>
Quality of companies seeking investment	3%	10%	47%	37%	3%	40%	13%	<b>27%</b>
Follow-on investments	0%	3%	27%	37%	33%	70%	3%	<b>67%</b>
Average investment size	0%	10%	33%	43%	13%	57%	10%	<b>47%</b>
Exit opportunities	3%	13%	40%	33%	10%	43%	17%	<b>27%</b>
Time to exit deals	0%	10%	57%	27%	7%	33%	10%	<b>23%</b>
Expected returns on new investments	0%	20%	57%	17%	7%	23%	20%	<b>3%</b>
Value of portfolio companies	0%	17%	43%	27%	13%	40%	17%	<b>23%</b>
General business conditions	10%	13%	40%	30%	7%	37%	23%	<b>13%</b>
Appetite for risk	11%	14%	61%	14%	0%	14%	25%	<b>-11%</b>

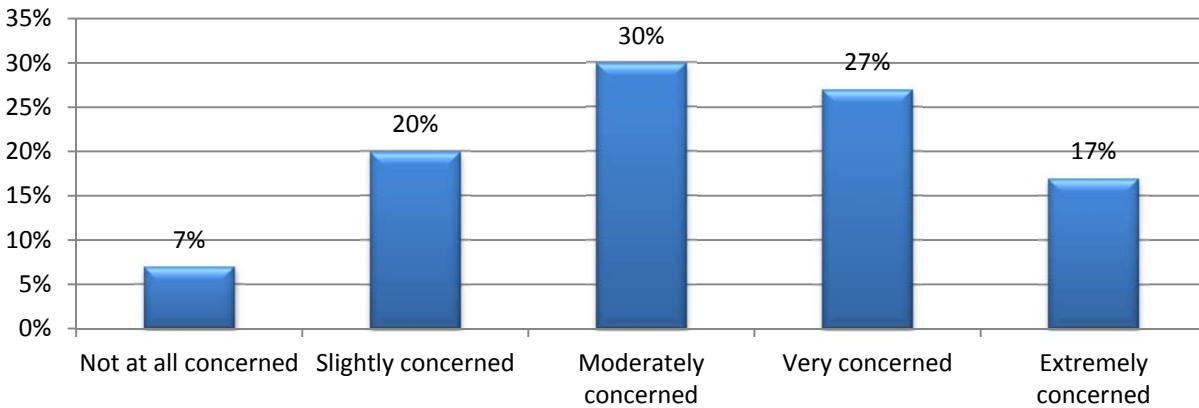
Respondents believe domestic economic uncertainty is the most important issue facing privately-held businesses today. Government regulations and taxes are indicated as the most important emerging issue.

**Figure 76. Issues Facing Privately-Held Businesses**



44% of respondents are highly concerned about the upcoming fiscal cliff.

**Figure 76. Concerns about the upcoming 'fiscal cliff'**



## BUSINESS APPRAISER SURVEY INFORMATION

According to the 159 survey respondents the most important issues facing privately-held business today are government regulations and taxes. Respondents indicated increases in number of engagements, time to complete a typical appraisal, fees for services, and competition over the last twelve months. They also expect decreases in all general business characteristics over the next year.

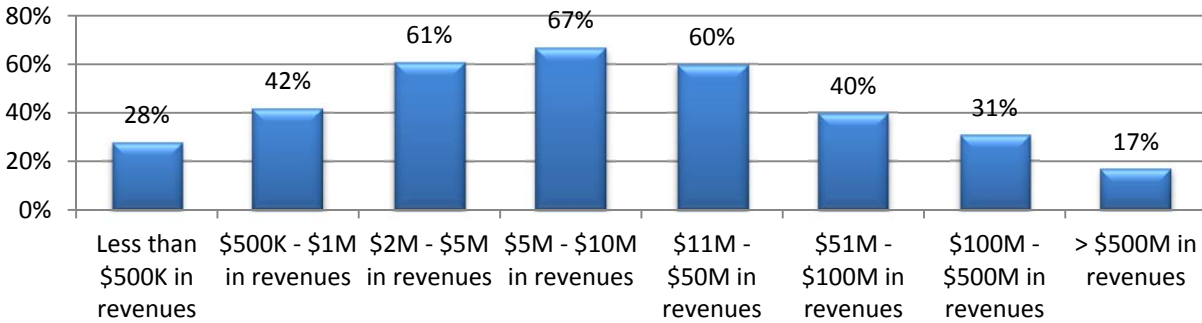
Other key findings include:

- Discounted cash flow valuation approach is the overwhelming favorite among respondents
- Respondents use an average risk-free rate of 3.1% and a market (equity) risk premium of 6.3%
- Average long-term terminal growth is estimated at 3.2%
- Approximately 42% of respondents are highly concerned about the upcoming fiscal cliff

### Operational and Assessment Characteristics

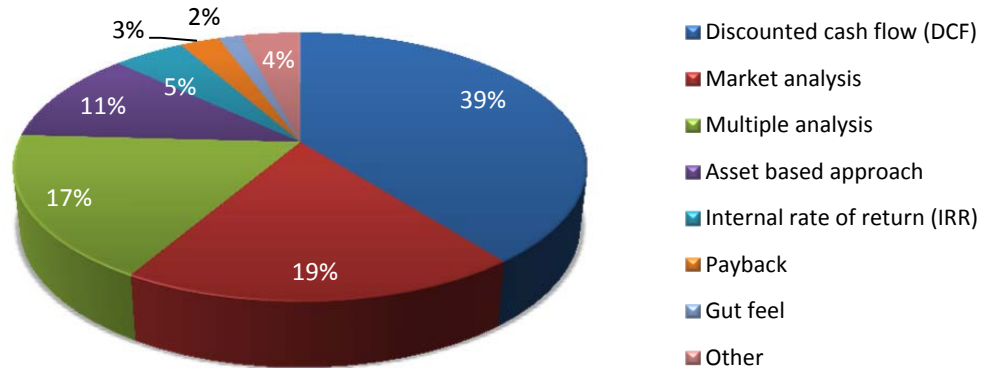
Most of the companies valued by respondents have annual revenues from \$2 million to \$50 million.

**Figure 77. Annual Revenues of Companies Valued**



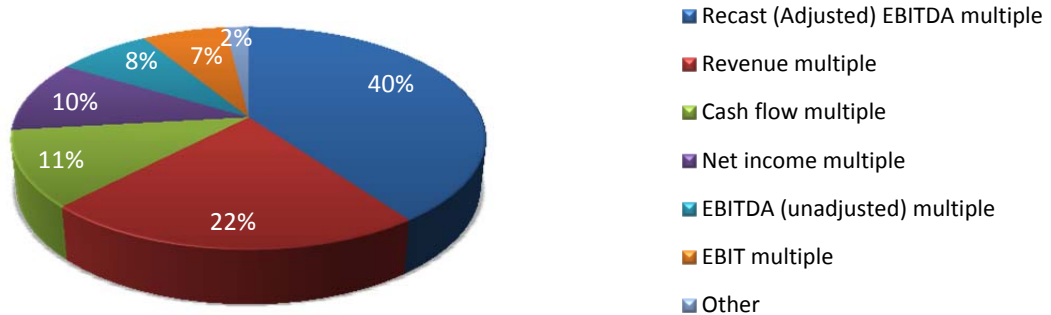
Appraisers, on average, apply a 39% weight to discount cash flow approach when valuing a privately-held business.

**Figure 78. Usage of Valuation Approaches**



Respondents using multiples-based approaches indicate a preference for using recast (adjusted) EBITDA multiples (40%), followed by revenue multiples (22%).

**Figure 79. Usage of Multiples**



Respondents indicated using an average risk-free rate of 3.1%, average market (equity) risk premium of 6.3% and average long-term growth rate of 3.2%.

**Figure 80. Average Risk-Free Rate and Market (equity) Risk Premium and Long-Term Growth Rate**

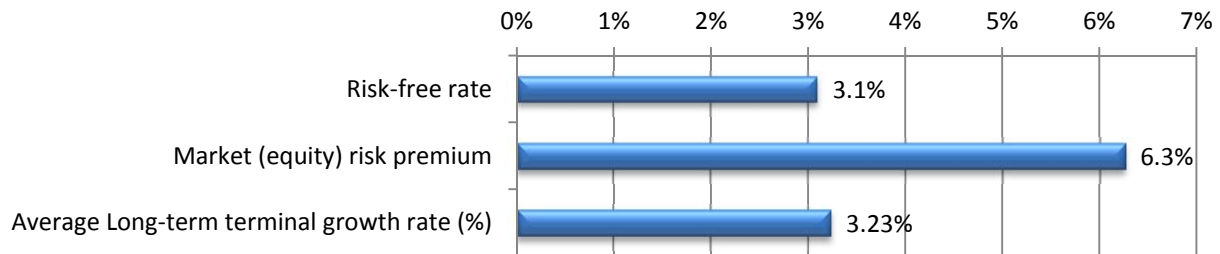
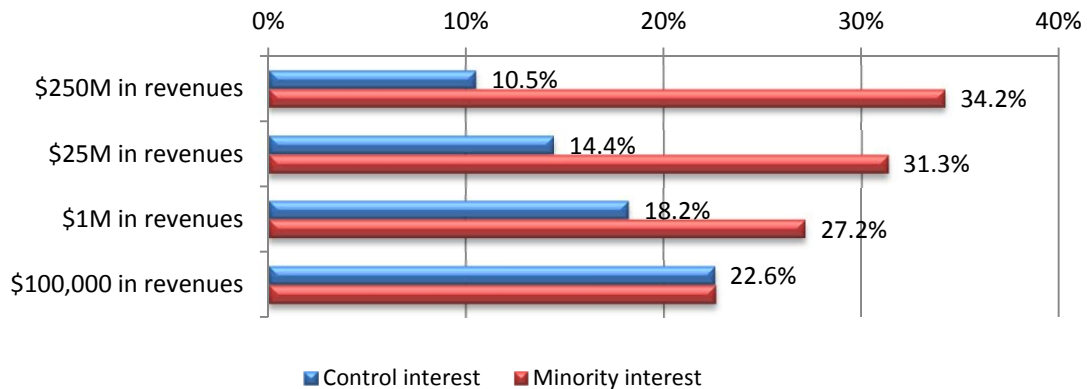
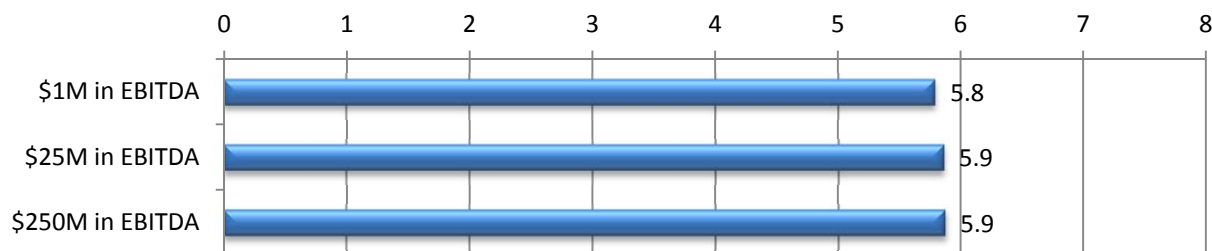


Figure 82 indicates considerable differences in DLOMs across sizes of companies and subject interests.

**Figure 81. Discount for Lack of Marketability (DLOM) by Revenue Sizes**



**Figure 82. Explicit Forecast Period for High-Growth Companies by Revenue Sizes (years)**



Respondents indicated increases in number of engagements, time to complete a typical appraisal, fees for services, and competition over the last twelve months.

**Table 45. General Business and Industry Assessment: Today versus 12 Months Ago**

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Number of engagements	3%	12%	24%	35%	25%	60%	16%	44%
Time to complete a typical appraisal	4%	12%	57%	23%	3%	26%	17%	10%
Fees for services	1%	10%	57%	30%	3%	32%	11%	21%
Competition	0%	2%	56%	34%	8%	42%	2%	40%
Cost of capital	1%	23%	52%	21%	3%	23%	24%	-1%
Market (equity) risk premiums	0%	17%	64%	17%	3%	19%	17%	3%
DLOM	0%	7%	82%	10%	1%	11%	7%	5%
Company specific risk premiums	0%	8%	58%	31%	3%	33%	8%	25%
General business conditions	3%	26%	36%	34%	1%	35%	29%	6%

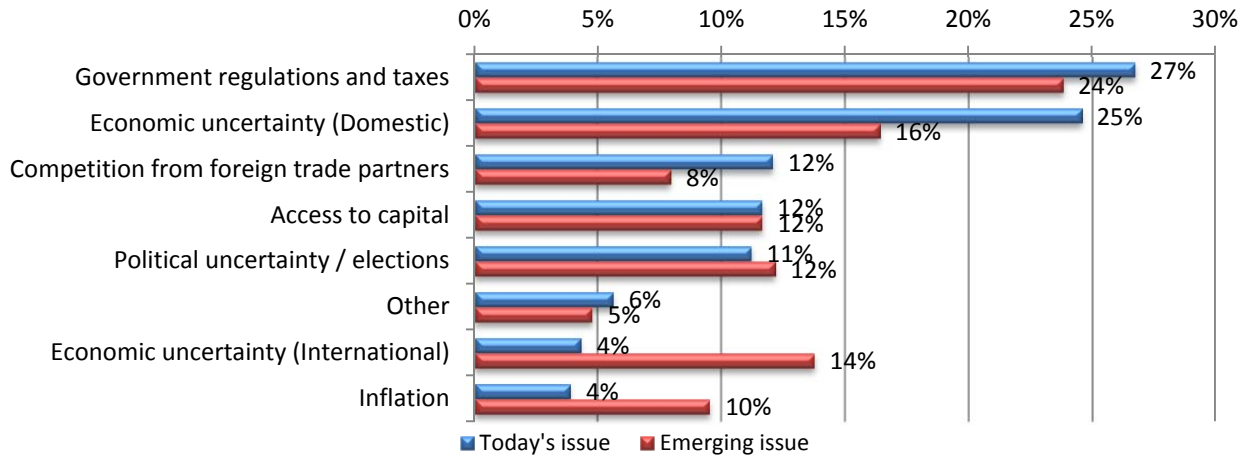
Respondents expect decreases in all general business characteristics except DLOMs over the next year.

**Table 46. General Business and Industry Assessment Expectations over the Next 12 Months**

Characteristics	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	Net increase/decrease
Number of engagements	3%	11%	27%	46%	12%	1%	14%	-13%
Time to complete a typical appraisal	1%	11%	73%	15%	1%	0%	12%	-12%
Fees for services	1%	3%	64%	29%	4%	0%	4%	-4%
Competition	0%	3%	62%	27%	8%	0%	3%	-3%
Cost of capital	0%	8%	57%	32%	1%	3%	8%	-5%
Market (equity) risk premiums	0%	6%	68%	21%	2%	4%	6%	-3%
DLOM	0%	4%	80%	6%	2%	8%	4%	4%
Company-specific risk premiums	0%	8%	67%	16%	3%	6%	8%	-2%
General business conditions	2%	17%	42%	36%	3%	1%	18%	-18%

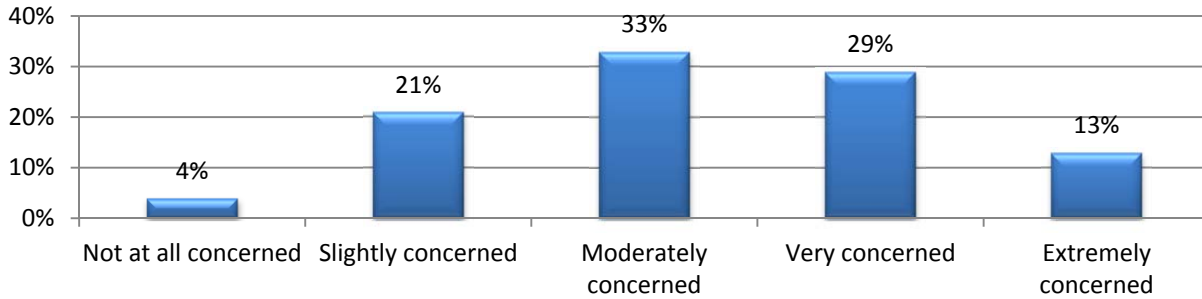
Respondents believe government regulations and taxes is the most important issue facing privately-held businesses today.

**Figure 83. Issues Facing Privately-Held Businesses**



Approximately 42% of respondents are highly concerned about the upcoming fiscal cliff.

**Figure 84. Concerns about the upcoming 'fiscal cliff'**



## BROKER SURVEY INFORMATION

Approximately 32% of the 59 participants in the broker survey said they expect to close six deals or more in the next 12 months. Respondents believe domestic economic uncertainty is the most important issue facing privately-held businesses today. Government regulations and taxes and domestic economic uncertainty are indicated as the most important emerging issues.

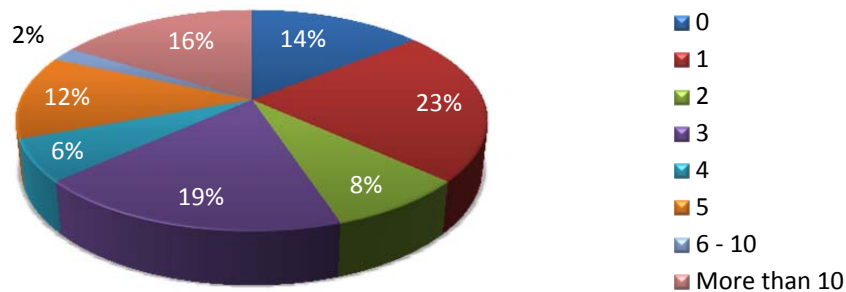
Other key findings include:

- The majority of deals (87%) took less than 1 year to close with the largest concentration being the in six to eight month category. Another 10% took about a year and a half and rarely did a deal take more than two years to close.
- Approximately 45% of respondents expect worsening business conditions in the next 12 months. Respondents also further increases in deal flow, margin pressure on companies, and strategic buyers making deals.
- Top three reasons for deals not closing: lack of capital to finance (23.5%), valuation gap in pricing (23.2%), and economic uncertainty (18.9%).

### Operational and Assessment Characteristics

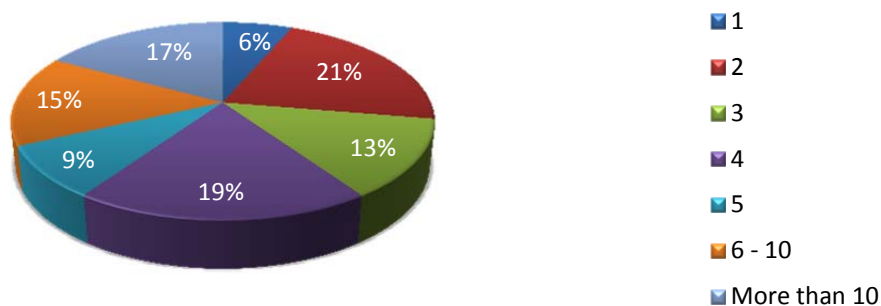
Approximately 14% of the respondents did not close any deal in the last twelve months; 67% closed between one and five deals, while 18% closed six or more transactions.

**Figure 85. Private Business Sales Transactions Closed in the Last Twelve Months**



Approximately 68% of respondents are planning to close between one and five business sales transactions in the next 12 months.

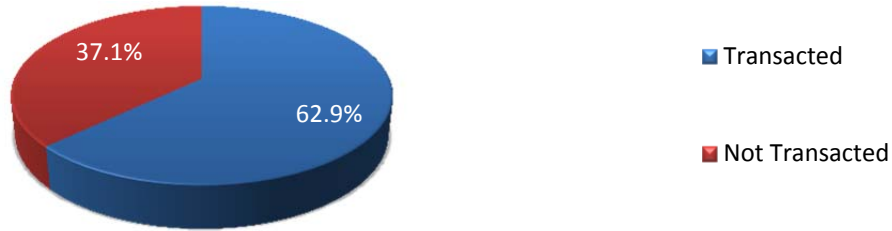
**Figure 86. Private Business Sales Transactions Expected to Close in the Next Twelve Months**





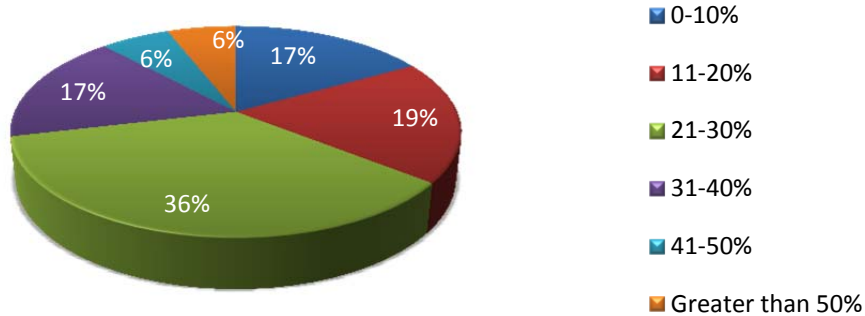
Approximately 37% of deals terminated without transacting over the past year.

**Figure 87. Percentage of Business Sales Engagements Terminated Without Transacting**



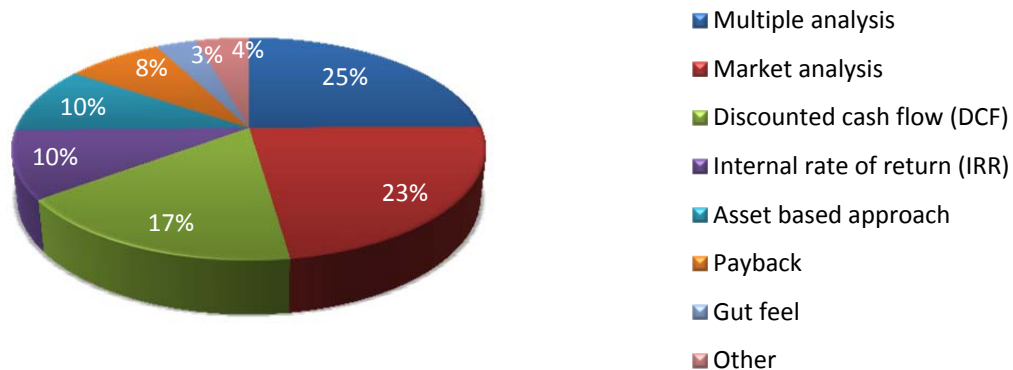
Approximately 36% of deals that were not transacted had a valuation gap in pricing between 21% and 30%.

**Figure 88. Valuation Gap in Pricing for Transactions That Did Not Close**



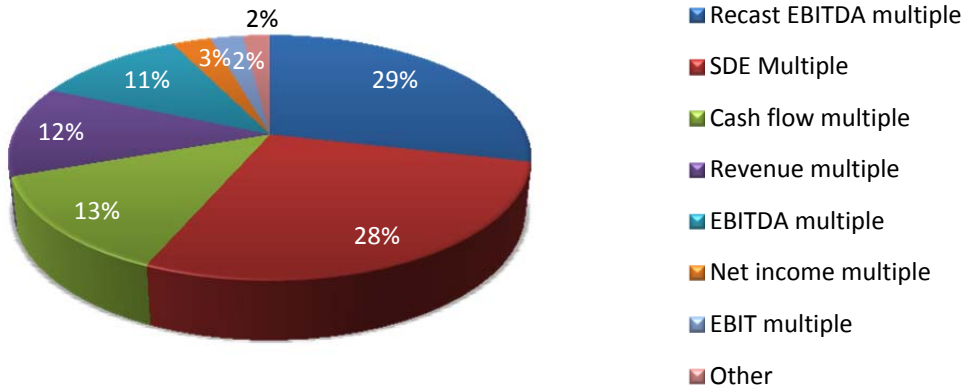
The most popular valuation approaches used (by weight) by respondents when valuing privately-held businesses were multiple analysis and market analysis.

**Figure 89. Usage of Valuation Approaches**



Most of respondents use recast EBITDA multiples (29%) and SDE multiples (28%).

**Figure 90. Usage of Multiples**



Approximately 57% of business sales transactions closed in the last 12 months involved seller financing or seller note.

**Figure 91. Components of Closed Deals**



Respondents indicated a general difficulty with arranging senior debt for businesses with less than \$5 million in revenues.

**Figure 92. How Difficult to Arrange Senior Debt for Transactions over the Past 12 Months**

Revenue size	Extremely difficult	Difficult	Somewhat difficult	Neutral	Somewhat easy	Easy	Extremely easy	Score (-2 to 2)
\$100K	65%	10%	5%	15%	5%	0%	0%	-2.2
\$500K	24%	20%	24%	16%	16%	0%	0%	-1.2
\$1M	27%	14%	14%	14%	18%	14%	0%	-0.8
\$5M	15%	15%	15%	19%	15%	19%	0%	-0.4
\$10M	15%	8%	8%	15%	23%	31%	0%	0.2
\$15M	10%	10%	0%	30%	20%	30%	0%	0.3
\$25M+	0%	11%	0%	33%	0%	22%	33%	1.2

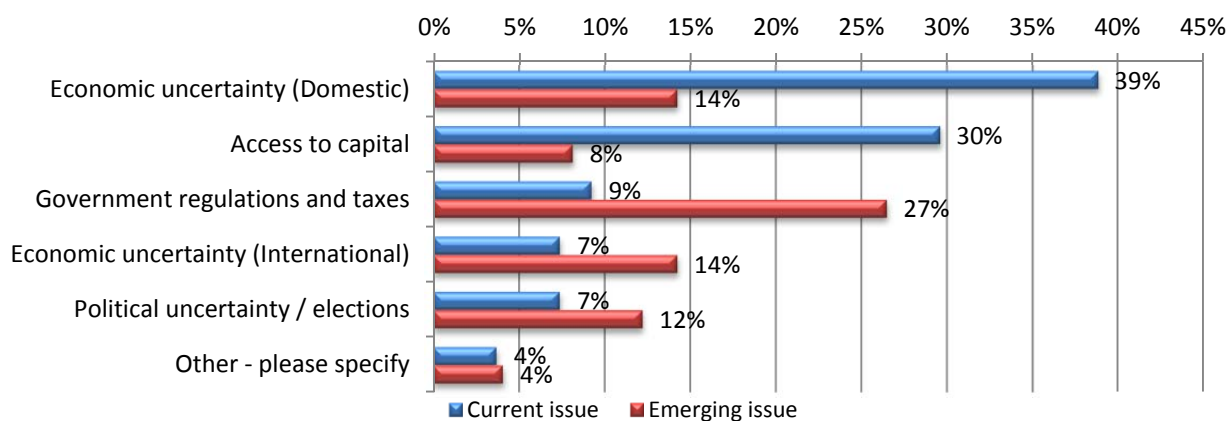
Compared to twelve months ago, respondents indicated increases in deal flow and difficulty financing or selling business, increase in margin pressure on companies and deteriorated general business conditions. Respondents also indicated decreased deal multiples. During the next twelve months, respondents expect further increases in deal flow, margin pressure on companies, and worsening general business conditions.

**Table 47. General Business and Industry Assessment**

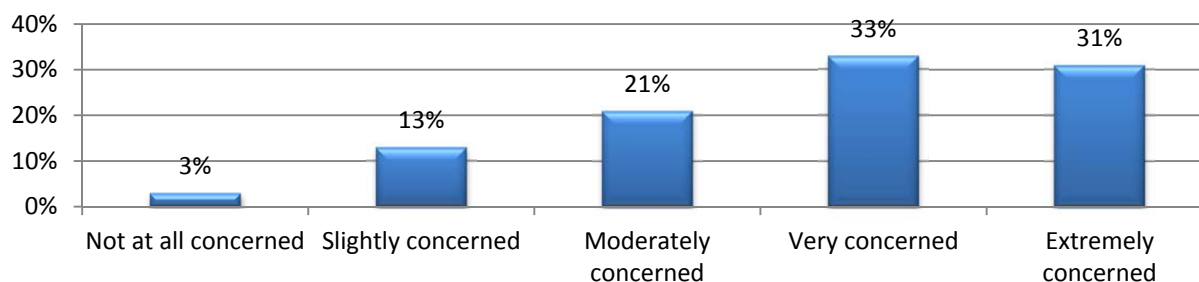
	Net increase/ decrease	
	Today versus 12 months ago	Expectations over the next 12 months
Deal flow	21%	29%
Ratio of businesses sold/total listings	22%	6%
Deal multiples	27%	-11%
Business exit opportunities	19%	3%
Amount of time to sell business	17%	31%
Difficulty selling business	14%	33%
Business opportunities for growth	35%	-11%
General business conditions	41%	-8%
Margin pressure on companies	11%	34%

Respondents believe domestic economic uncertainty is the most important issue facing privately-held businesses today. Government regulations and taxes are indicated as the most important emerging issues.

**Figure 93. Issues Facing Privately-Held Businesses**



**Figure 94. Concerns about the upcoming 'fiscal cliff'**



## BUSINESS OWNER SURVEY INFORMATION

Of the 851 privately-held businesses that responded to the survey, 29% had businesses that involved services, 15% were in the manufacturing, 11% were in construction and engineering industry, and 10% were in information technology and services. Approximately 45% of businesses have annual revenues less than \$1 million. Nearly 91% of business owners report having the enthusiasm to execute growth strategies, yet just 51% report having the necessary financial resources to successfully execute growth strategies. Other findings include:

Of the respondents who were seeking financing in the last 12 months, approximately 41% anticipated to raise less than \$100,000 in capital. Approximately 50% of respondents reported that they were seeking bank loans or credit card financing as a source of funding, followed by friends and family (13%). Of all financing options, bank loans emerged as the financing source with highest “willingness” for small business to use, followed by credit unions and equipment leasing. Results also showed that 78% of privately-held businesses that sought bank loans over the past 12 months were successful. Survey results indicated that business owners who raised capital on average contacted two banks.

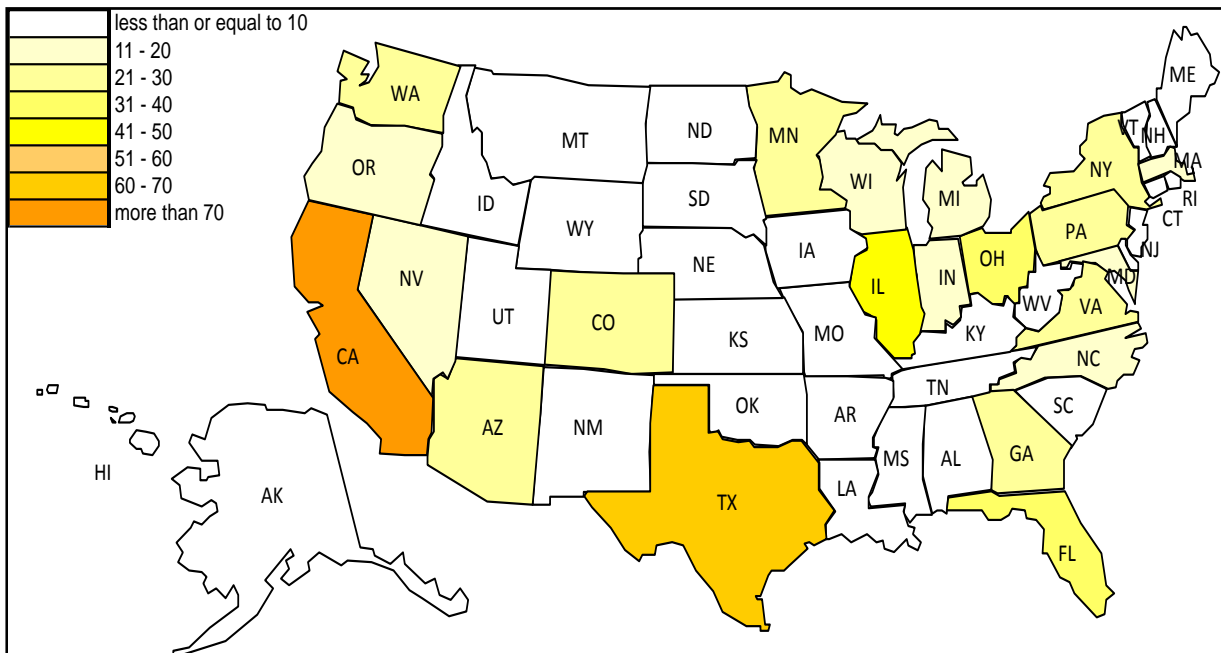
Nearly half of small businesses (59%) are planning to hire additional workers. Nearly 25% of respondents believe economic uncertainty is the number one issue small businesses face today, followed by access to capital (20%), and government regulations and taxes (20%). According to small businesses, of those policies most likely to lead to job creation in 2012, “increased access to capital” emerged as number one (29%) followed by regulatory reform (20%), and tax incentives (20%). The study showed that of those that do plan to hire, sales and marketing skills are in greatest demand (54%) followed by skilled labor (44%) and service/customer service (34%). Also, 85% of companies planning to hire indicate they’d need to train those they hire.

29% of respondents believe that general business conditions improved in the twelve months compared to 19% surveyed year ago. Approximately 54% of respondents are highly concerned about upcoming fiscal cliff.

### Operational and Assessment Characteristics

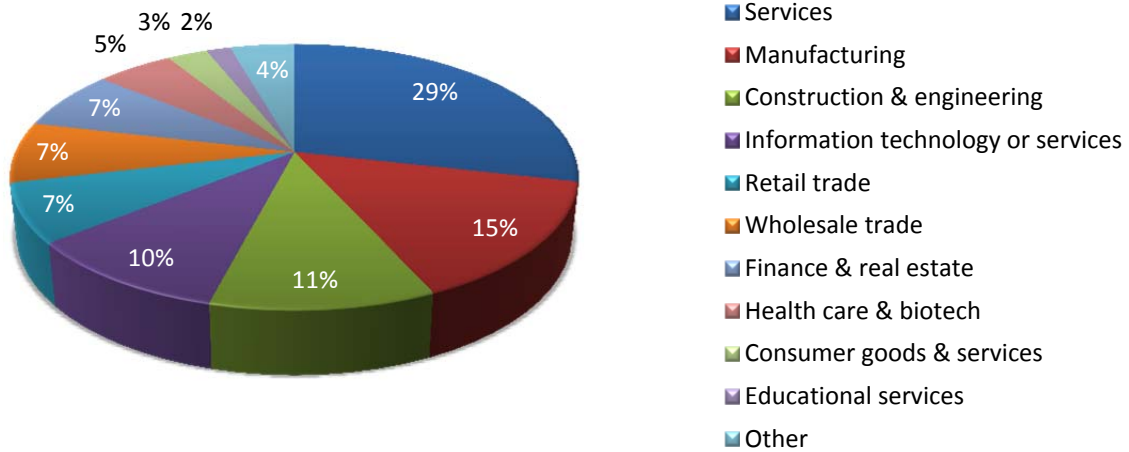
The privately-held business survey results were generated from 851 participants. The locations of businesses are distributed over all regions of the United States.

**Figure 95. Respondents Distribution by State**



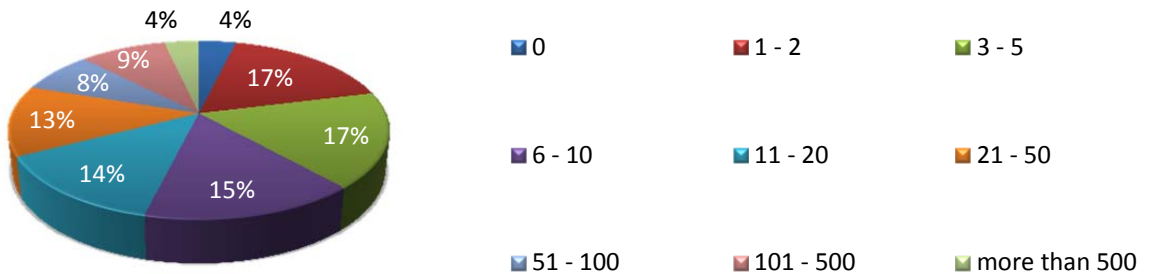
Businesses involved in services accounted for 29% of respondents followed by manufacturing (15%) and construction and engineering (11%).

**Figure 96. Description of Entity**



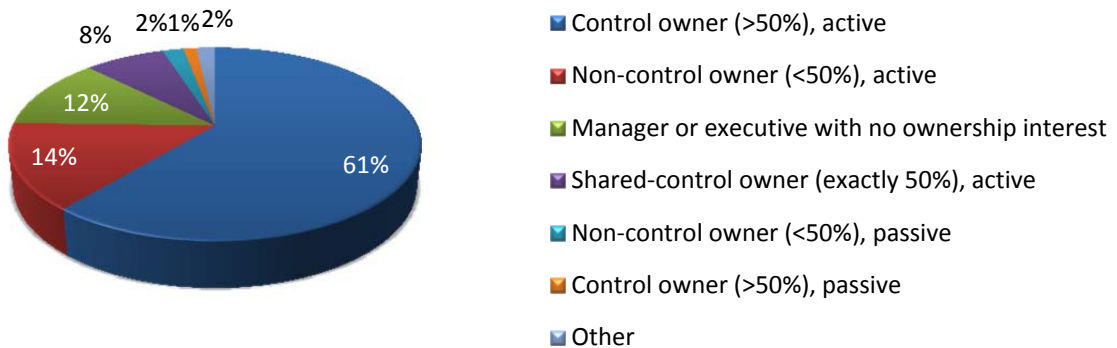
Approximately 38% of business have less than or equal to five employees.

**Figure 97. Number of Employees**



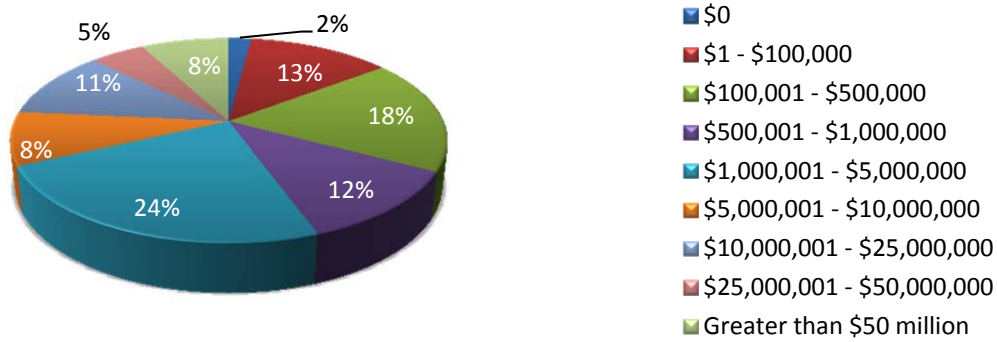
Approximately 61% of the respondents are active control owners of their businesses.

**Figure 98. Ownership Role**



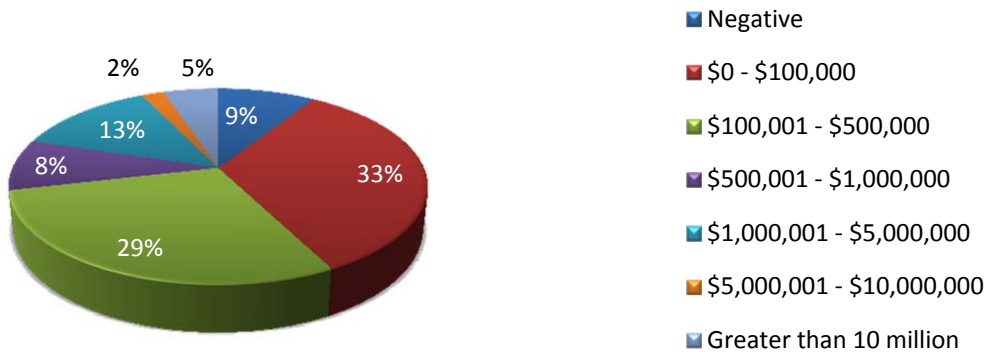
Approximately 45% of respondents have less than or equal to \$1M in annual revenues, followed by 24% reporting between \$1M and \$5M.

**Figure 99. Annual Revenues**



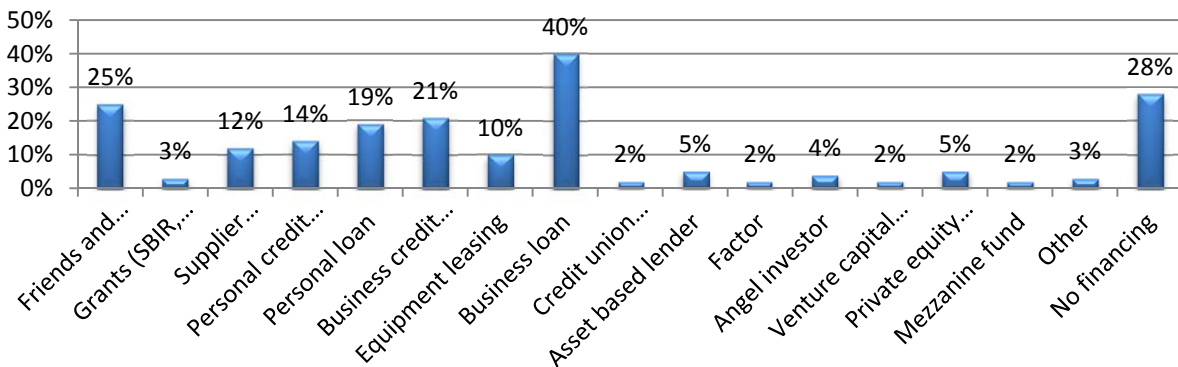
Approximately 71% of businesses have net income less than or equal to \$500,000, 12% of those have negative net income.

**Figure 100. Net Income**



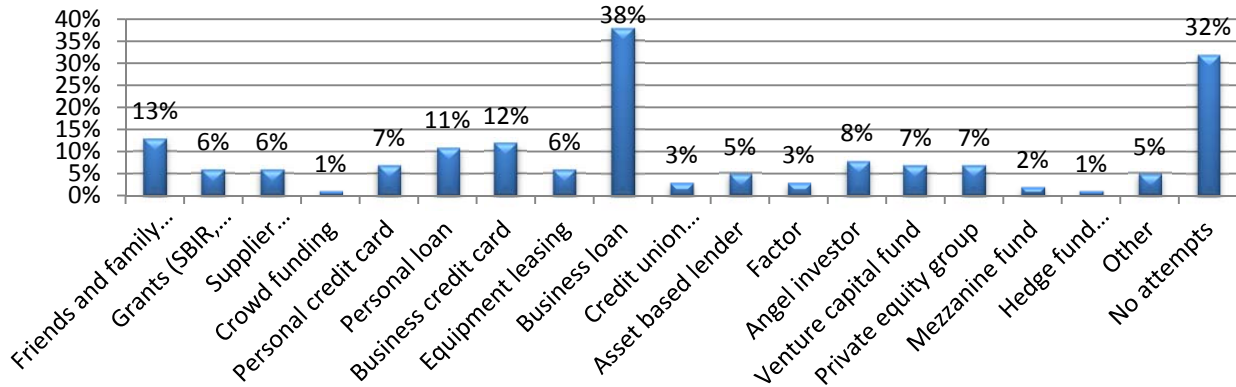
Approximately 28% of respondents are currently not financed by any external capital sources. Nearly 40% and 21% of respondents' businesses are financed by bank loans and credit card financing, respectively.

**Figure 101. Current Sources of Financing**

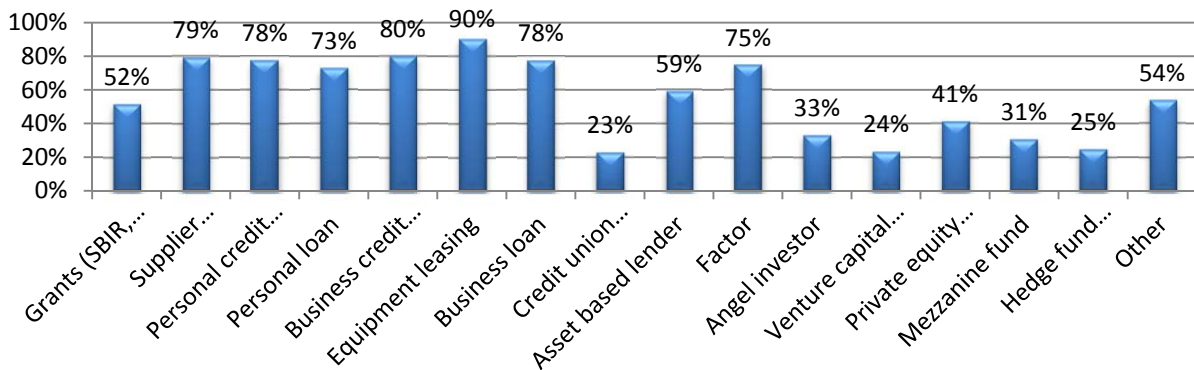


Among the businesses that tried to raise capital in the last 12 months 38% applied for bank loan and 78% were successful, whereas 32% of respondents did not try to raise capital from any source.

**Figure 16. Capital Sources Contacted To Raise Capital in the Last 12 Months**

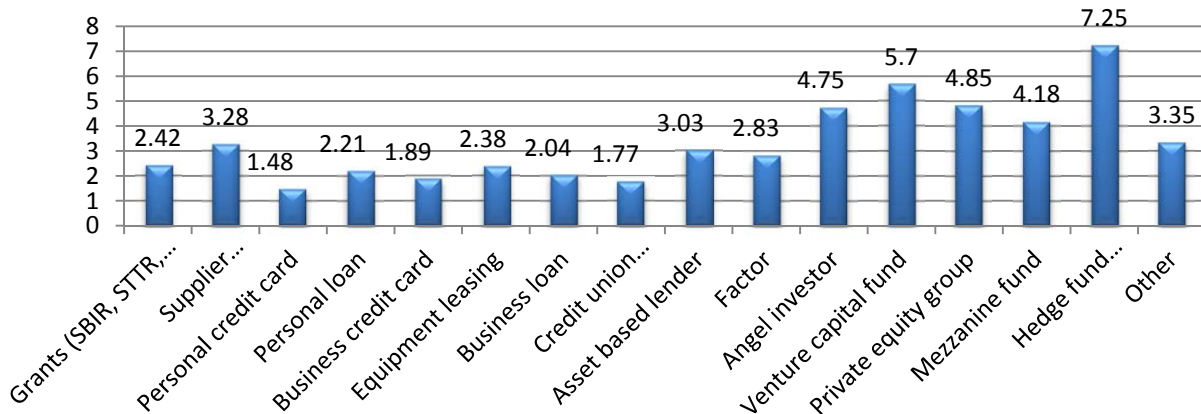


**Figure 102. Success Rates, All Revenue Sizes**



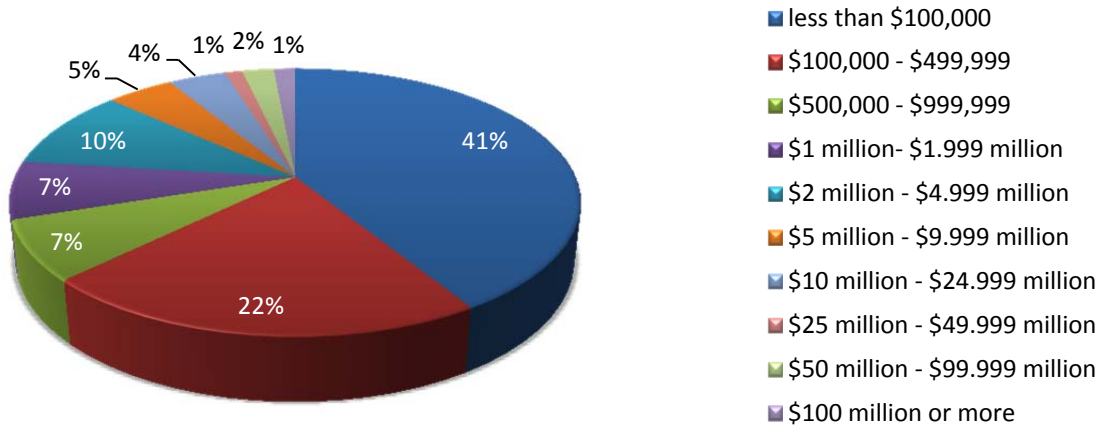
Among respondents who successfully raised capital the average number of capital providers contacted was 3.2, whereas for those who were not able to raise capital the average number of capital providers contacted was 3.7.

**Figure 103. Average Number of Capital Providers Contacted**



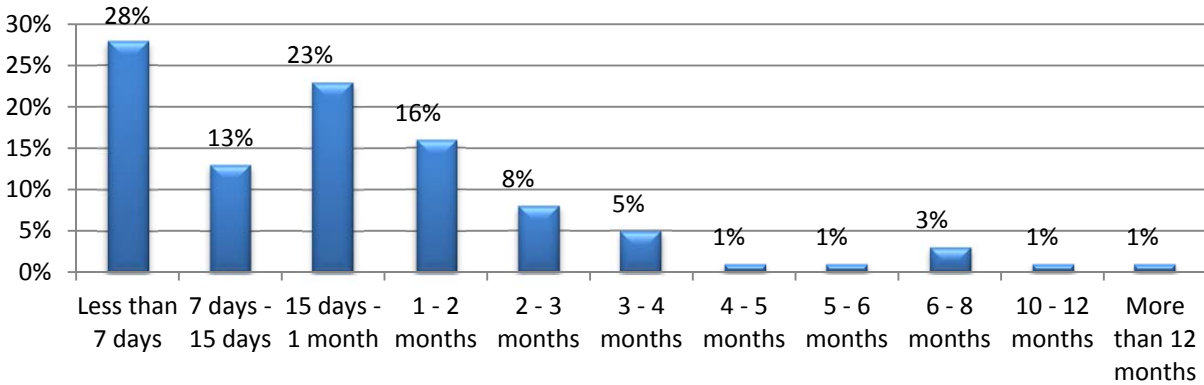
Approximately 70% of respondents attempted to raise less than \$1 million in the last 12 months.

**Figure 104. Amount of Capital Attempted to Raise in the last 12 Months**



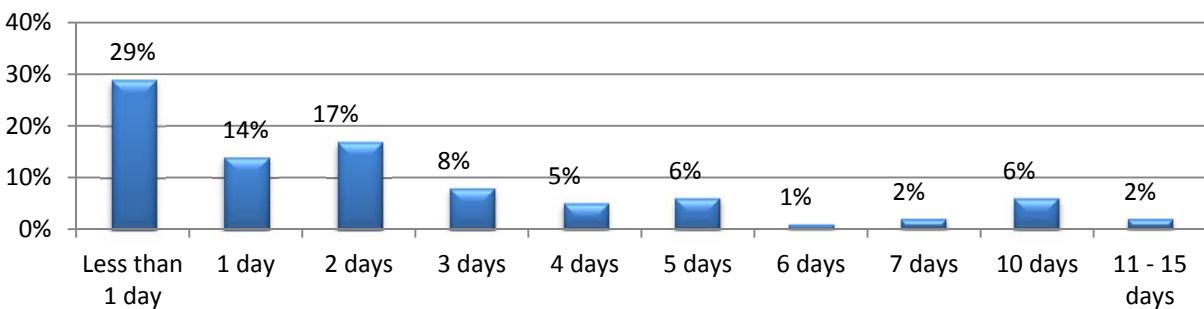
Approximately 28% of respondents took less than 7 days to complete financing process.

**Figure 105. Average Time to Complete Financing Process in Days**



29% of respondents spent less than one day during the process to successfully obtain financing (time spent by all employees and hired outsiders making inquiries, submitting proposals, meeting with capital providers, furnishing documents).

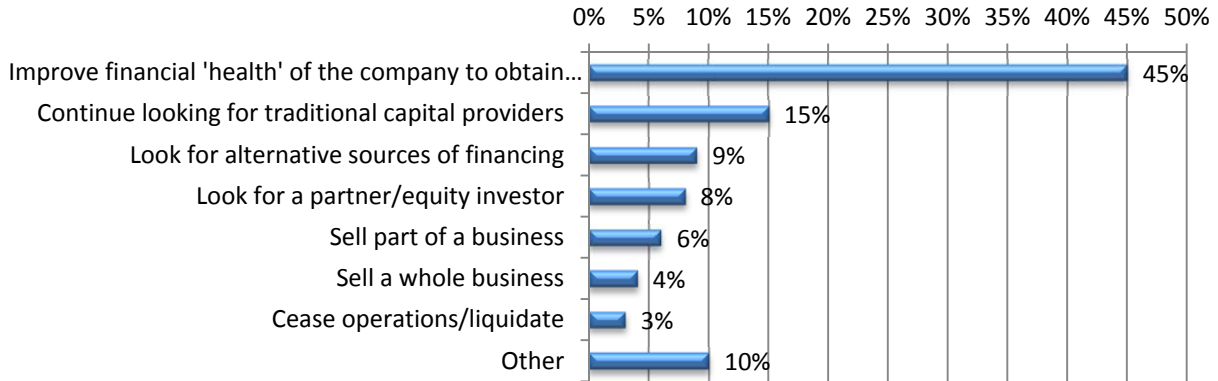
**Figure 106. Days Spent During the Process to Successfully Obtain Financing**





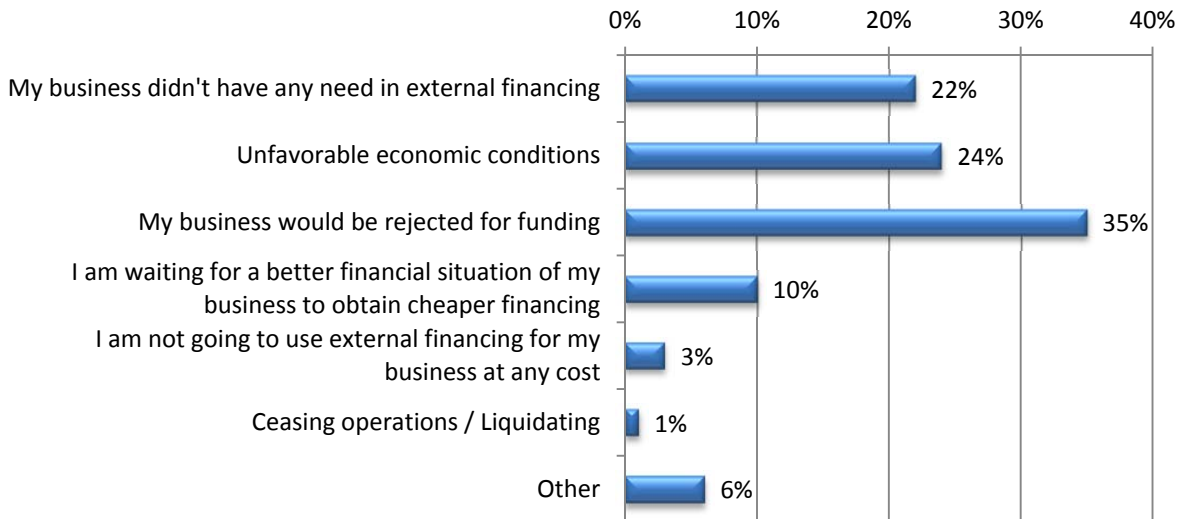
Among those respondents who were not able to obtain external financing in the last 12 months 45% are planning to improve the financial health of their businesses before attempting to raise capital in the future.

**Figure 107. Next Steps to Satisfy Financial Needs**



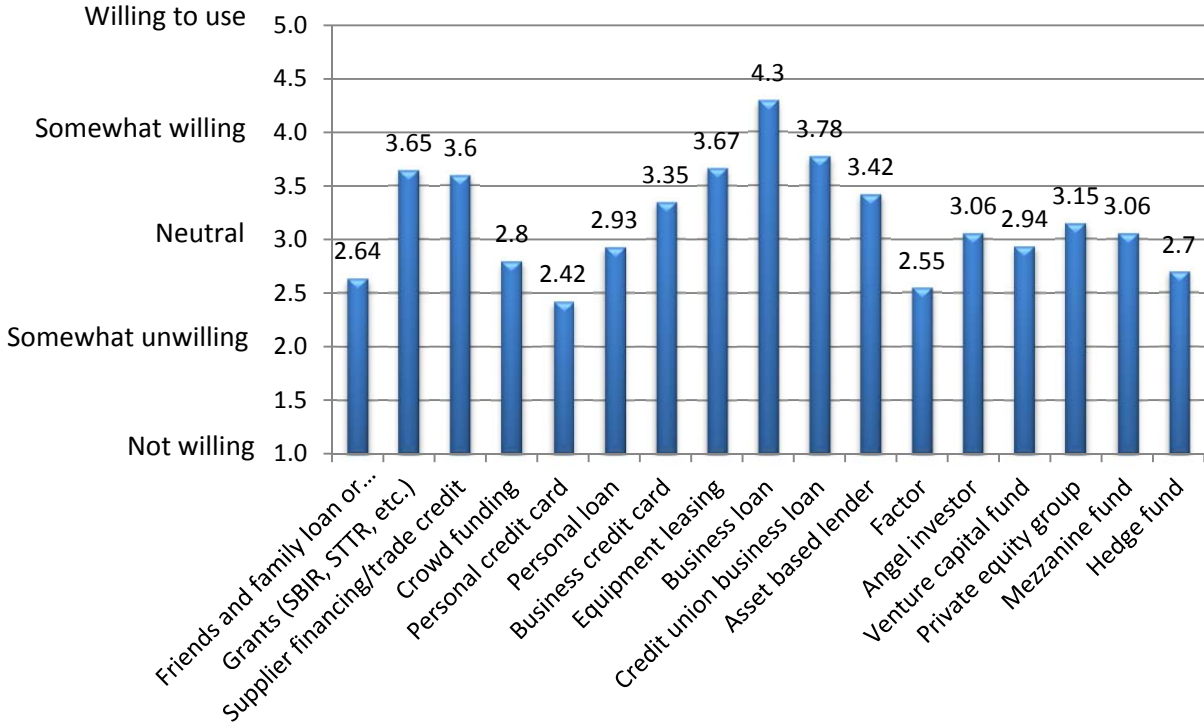
Among those respondents who did not attempt to obtain any external financing in the last 12 months 22% had no need for outside capital, followed by 24% who mentioned unfavorable conditions as a main reason for not trying to obtain capital. 35% of respondents think their businesses would be rejected for funding.

**Figure 108. Reasons for Not Trying to Obtain Capital in the Last 12 Months**



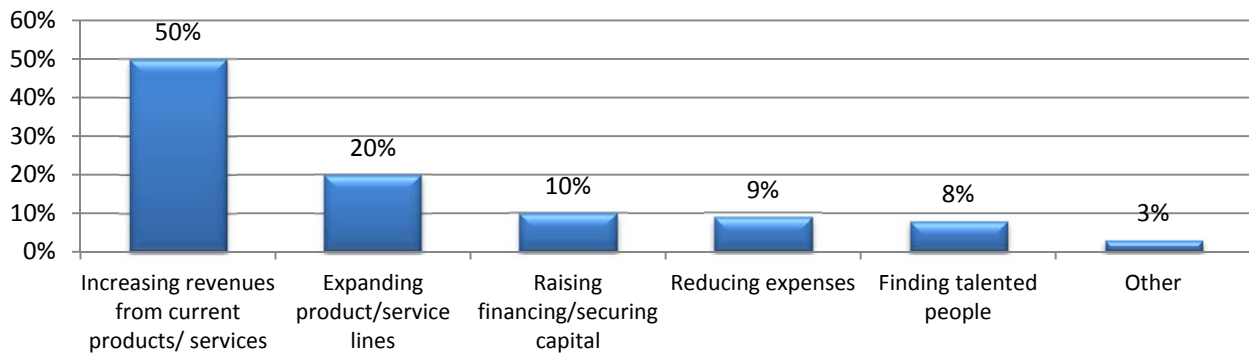
According to the respondents, “bank loans” as a category is the most appealing option to obtain financing, whereas “personal credit card financing” is the least desirable source of capital to obtain.

**Figure 109. Willingness to Obtain Financing, All Revenue Sizes**



Approximately 50% of respondents indicated increasing revenues from current products or services as the area their businesses are most focused on today.

**Figure 110. The Most Important Area to Focus On, All Revenue Sizes**



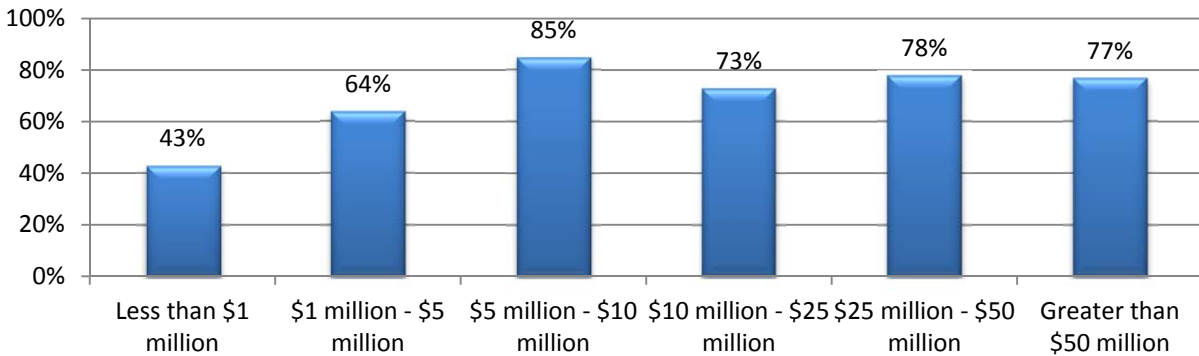
Approximately 59% of respondents are planning to hire additional workers in the next twelve months.

**Figure 111. Plans to Hire Additional Workers in the Next 12 Months**



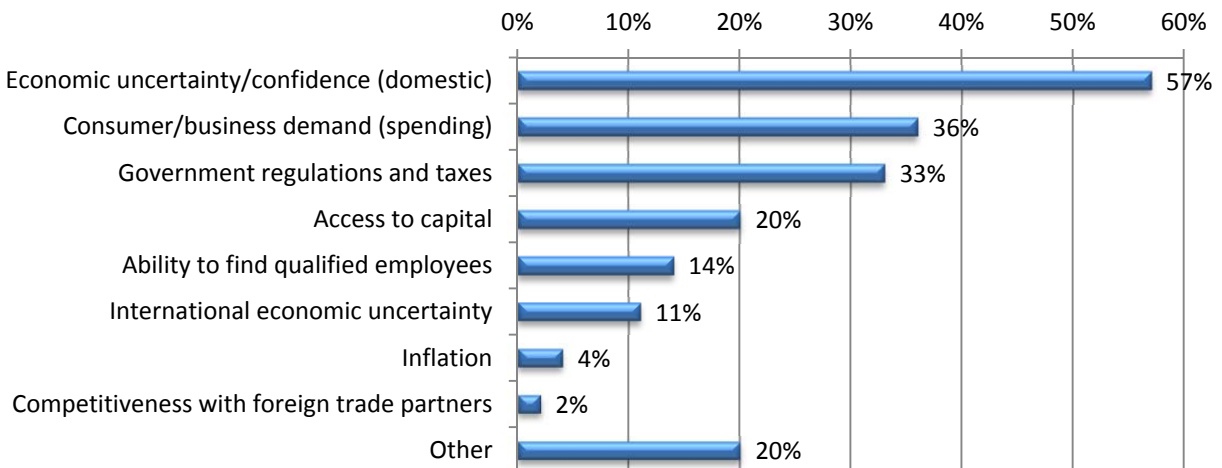
Only 43% of privately-held businesses whose annual revenues are less than \$1 million are planning to hire additional workers in the next twelve months.

**Figure 112. Plans to Hire Additional Workers by Annual Revenues Sizes**



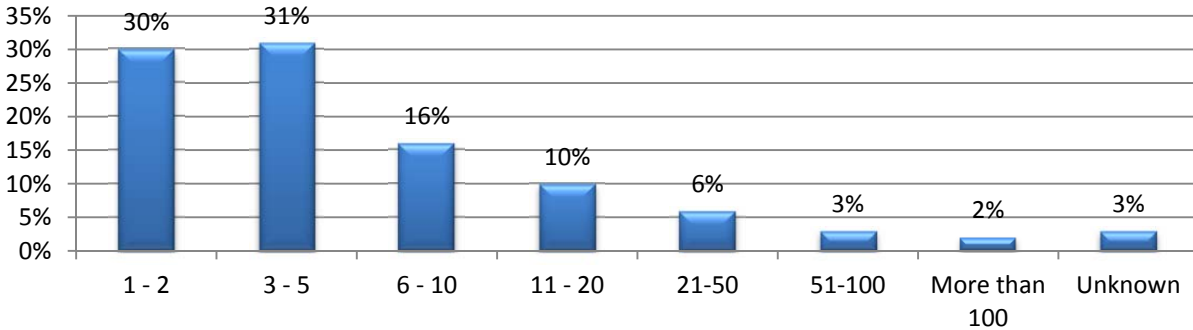
Approximately 57% of respondents believe economic uncertainty in the U.S. market is the reason preventing them from hiring, followed by consumer/business demand (36%).

**Figure 113. Reasons Preventing Privately-Held Businesses from Hiring, All Revenue Sizes**



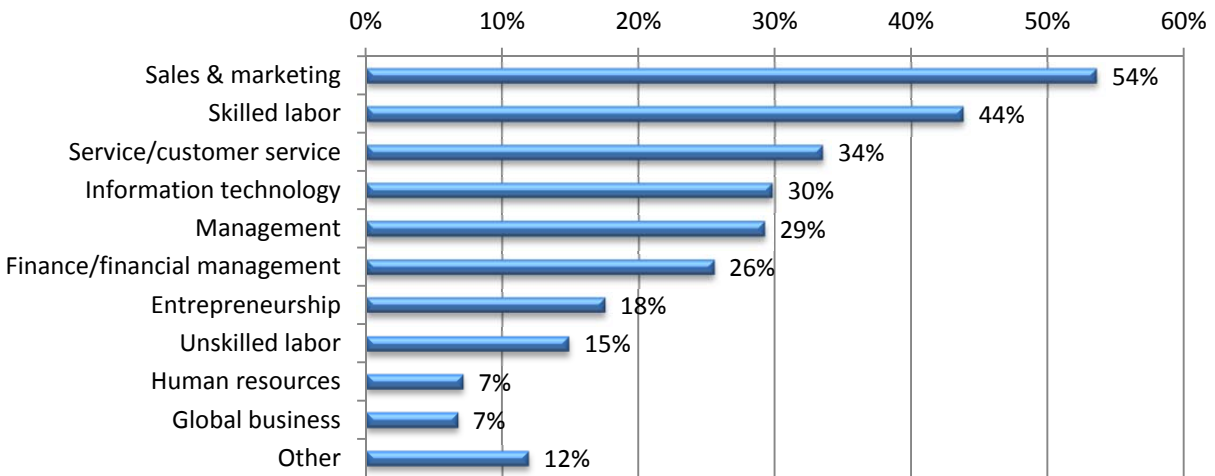
Among those respondents who do expect to hire, 30% are planning to hire one or two additional employees in the next twelve months.

**Figure 114. Amount of Employees Planned to be Hired**



For those businesses who do plan to hire, sales and marketing skills are in greatest demand (54%) followed by skilled labor (44%) and service/customer service (34%).

**Figure 115. The Skills in Demand for New Hires**



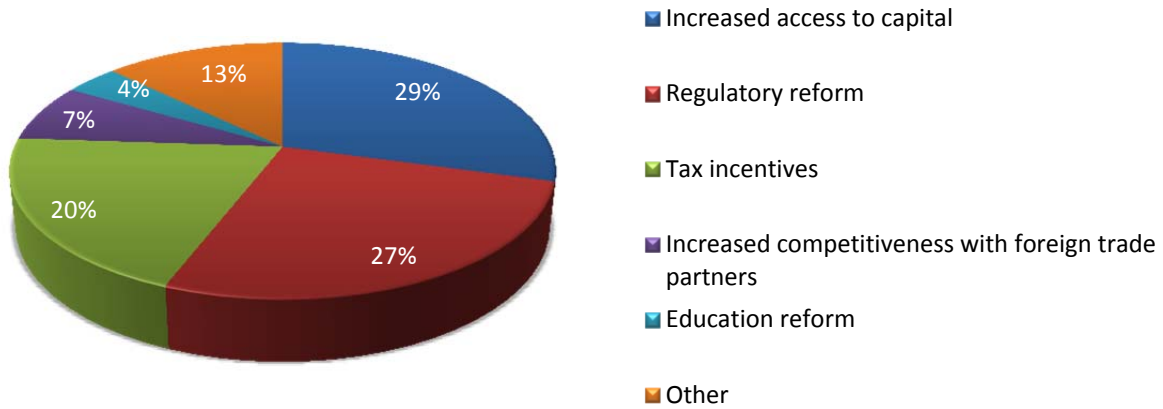
85% of business planning to hire indicate they would need to train those they hire.

**Figure 116. Need for Training of New Hires**



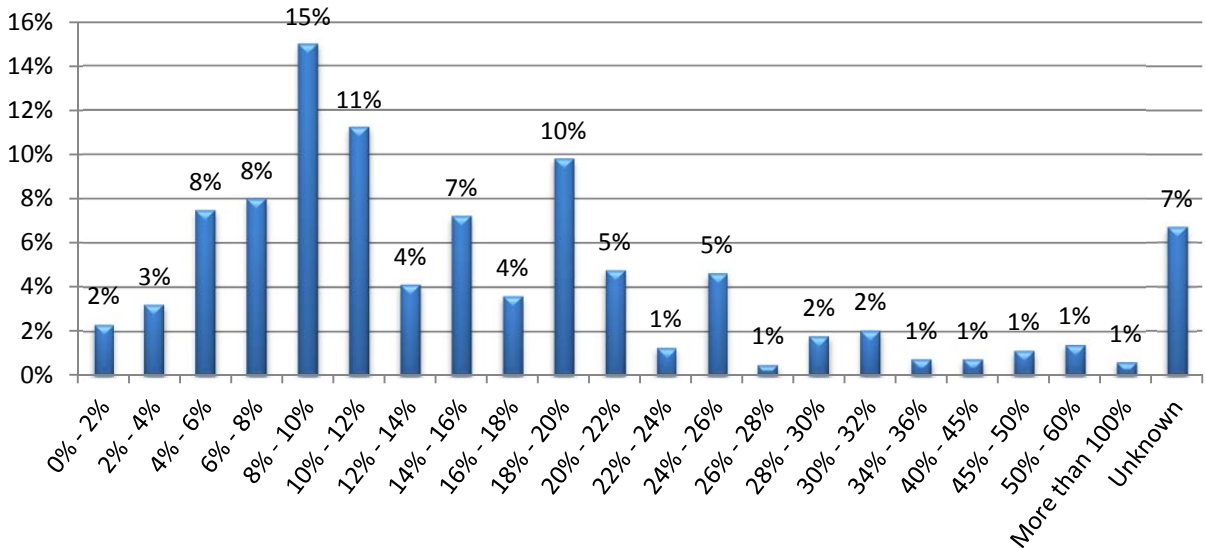
According to respondents of those policies most likely to lead to job creation in 2012, “increased access to capital” emerged as number one (29%) followed by regulatory reform (27%), and tax incentives (20%).

**Figure 117. Government Policies to Lead to Job Creation**



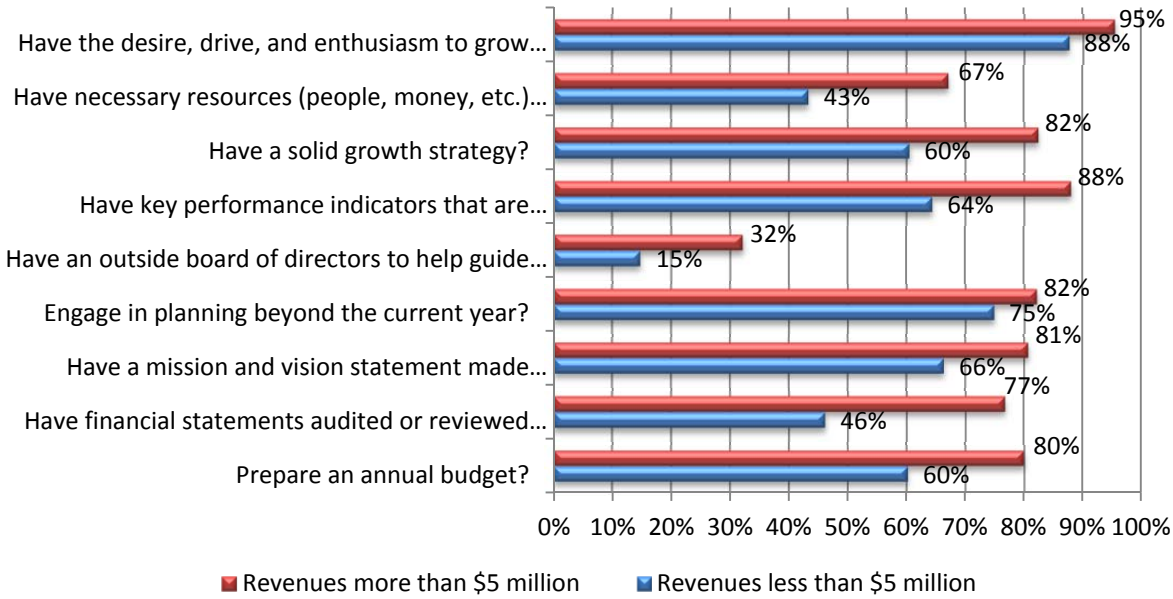
Approximately 15% of respondents indicated their business cost of equity capital is in the range of 8% - 10%.

**Figure 118. Cost of Equity Capital**



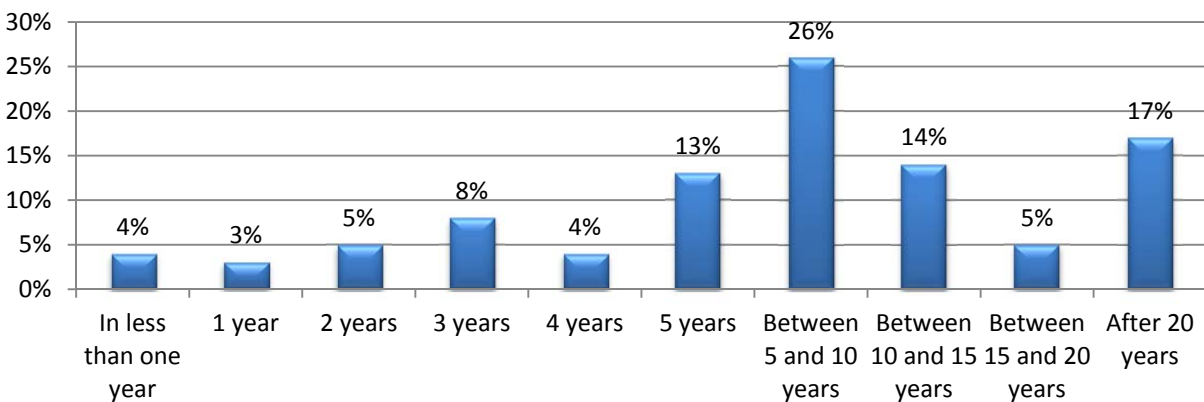
Privately-held businesses with revenues less than \$5 million on average have almost the same desire to execute growth strategies (88%) as privately-held businesses with revenues greater than \$5 million. However, privately-held businesses with smaller revenues report lower levels of necessary resources (people, money, etc.) to grow (43%) as compared to privately-held businesses with higher revenues (67%).

**Figure 119. Usage of Financial Analysis by Revenue Sizes**



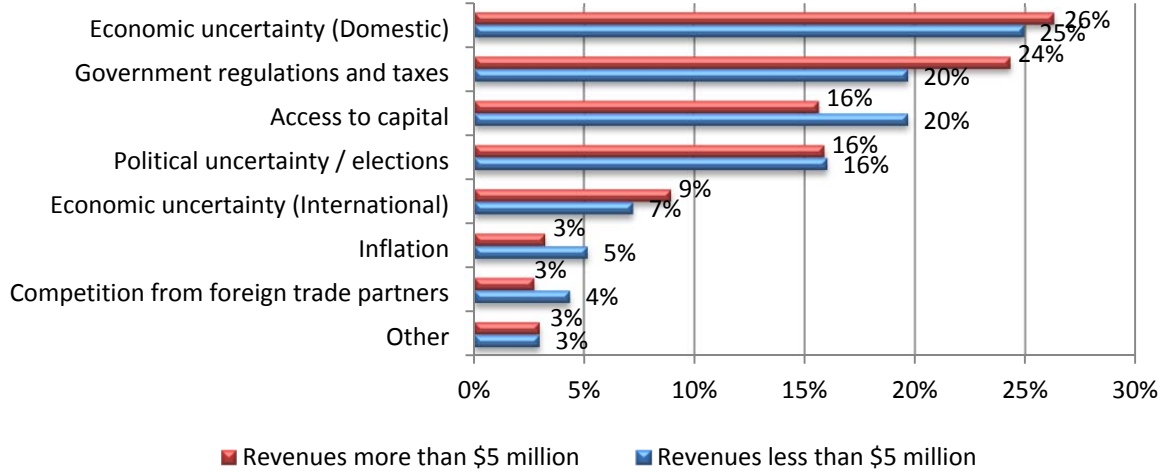
Most of the respondents are planning to transfer their ownership interest in more than five years from now while only 4% plan to transfer their ownership at the first available opportunity.

**Figure 120. Anticipation of the Ownership Transfer**

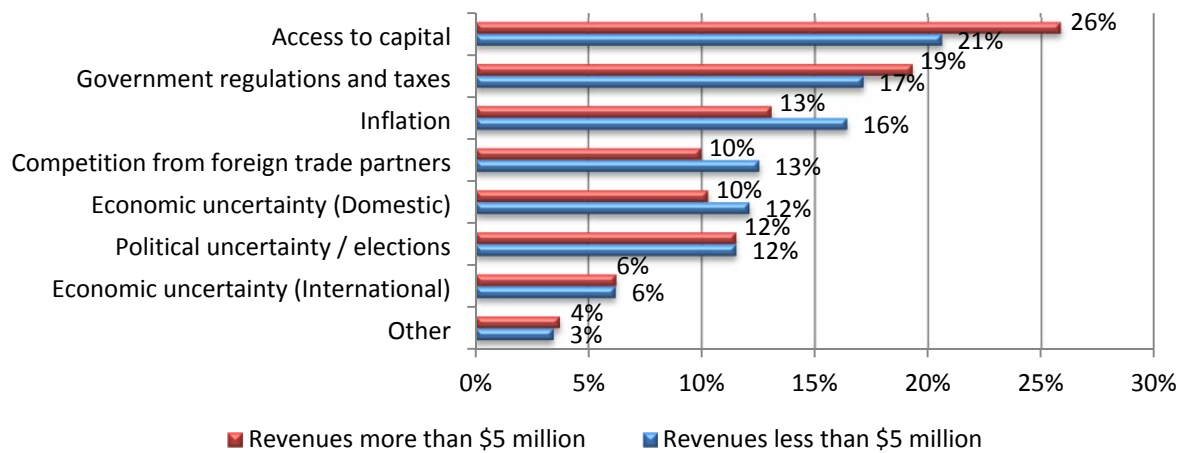


Privately-held businesses with annual revenues less than \$5 million are much more concerned about access to capital than those with revenues greater than \$5 million. Larger privately-held businesses are more concerned about government regulations and taxes.

**Figure 121. The Number One Issue Facing Privately-Held Businesses Today by Revenue Sizes**

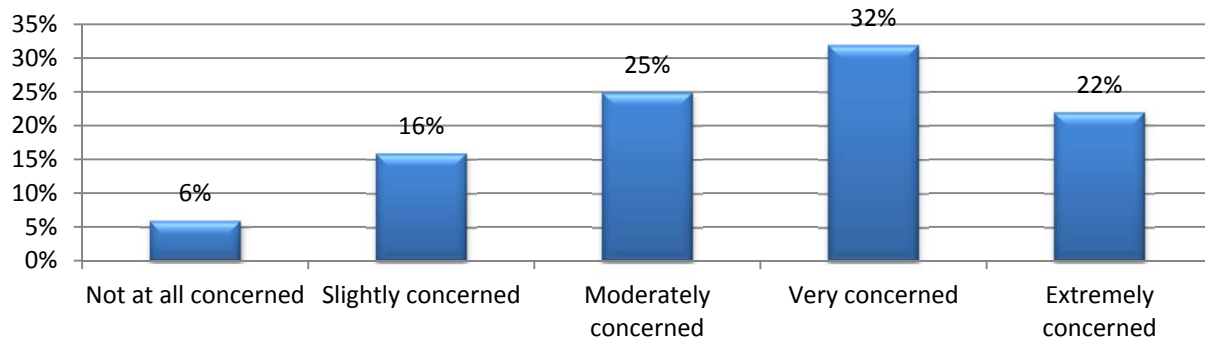


**Figure 122. The Number One Emerging Issue Facing Privately-Held Businesses by Revenue Sizes**



Approximately 54% of respondents are highly concerned about upcoming fiscal cliff.

**Figure 123. Concerns About Upcoming 'Fiscal Cliff'**



Most of respondents indicated slightly increased unit sales and prices of labor and materials, decreased access to capital, and worsened general business conditions.

**Table 48. General Business and Industry Assessment: Today Versus Twelve Months Ago**

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Unit sales	12%	16%	20%	26%	26%	52%	28%	25%
Prices of labor and materials	1%	3%	29%	50%	17%	67%	4%	63%
Net income	14%	16%	20%	31%	18%	49%	30%	19%
Inventory levels	6%	18%	51%	17%	8%	26%	24%	2%
Capital expenditures	12%	10%	43%	24%	12%	35%	22%	14%
Opportunities for growth	7%	13%	24%	33%	23%	56%	20%	36%
Access to bank loans	18%	13%	48%	17%	5%	21%	31%	-10%
Access to equity capital	19%	14%	49%	14%	5%	19%	33%	-14%
Prices of your products or services	1%	10%	44%	39%	6%	45%	11%	33%
Time to collect receivables	2%	7%	54%	26%	11%	37%	9%	28%
Number of employees	3%	9%	51%	29%	7%	36%	13%	23%
Competition	1%	12%	49%	25%	12%	38%	13%	25%
General business conditions	12%	25%	34%	25%	4%	29%	37%	-9%
Appetite for risk	8%	18%	45%	23%	5%	28%	26%	2%
Probability of business closure	18%	19%	44%	14%	5%	19%	37%	-18%
Time worrying about economy	5%	11%	36%	22%	26%	48%	16%	32%



Participants of the survey believe almost all general business characteristics will increase slightly in the next 12 months.

**Table 49. General Business and Industry Assessment Expectations Over the Next 12 Months**

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Unit sales	2%	5%	21%	43%	28%	72%	8%	64%
Prices of labor and materials	1%	2%	30%	58%	9%	67%	3%	64%
Net income	3%	8%	20%	45%	23%	69%	11%	57%
Inventory levels	3%	10%	56%	25%	6%	31%	13%	17%
Capital expenditures	5%	9%	44%	30%	11%	41%	14%	27%
Opportunities for growth	3%	7%	27%	37%	26%	64%	10%	54%
Access to bank loans	7%	8%	56%	23%	6%	29%	15%	13%
Access to equity capital	8%	8%	56%	20%	8%	28%	16%	13%
Prices of your products or services	0%	5%	42%	48%	5%	53%	5%	48%
Time to collect receivables	1%	6%	71%	18%	5%	22%	7%	16%
Number of employees	1%	3%	38%	48%	9%	58%	4%	53%
Competition	1%	7%	55%	31%	7%	38%	8%	30%
General business conditions	5%	15%	40%	34%	6%	40%	20%	20%
Appetite for risk	4%	13%	52%	25%	6%	31%	17%	14%
Probability of business closure	19%	18%	53%	7%	4%	10%	37%	-27%
Time worrying about economy	7%	14%	51%	15%	13%	27%	21%	6%

## ABOUT THE AUTHOR

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His work on the Pepperdine Private Capital Markets Project—the first simultaneous, comprehensive, and on-going investigation of the major private capital market segments—has resulted in over 20,000 report downloads in more than 70 countries and has earned him the 2011 George Award, which is given to the one faculty member annually who best leverages the business community to make a difference in the classroom.

His research has appeared in the *Wall Street Journal*, *CNBC*, *USA Today*, and the *New York Times*, been published in a number of journals and been presented at domestic and international conferences. Dr. Paglia holds a PhD in finance, an MBA, a BS in finance, and is a Certified Public Accountant (CPA) and Chartered Financial Analyst (CFA) charterholder.

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