



# 2016 Economic Outlook

April 13, 2016



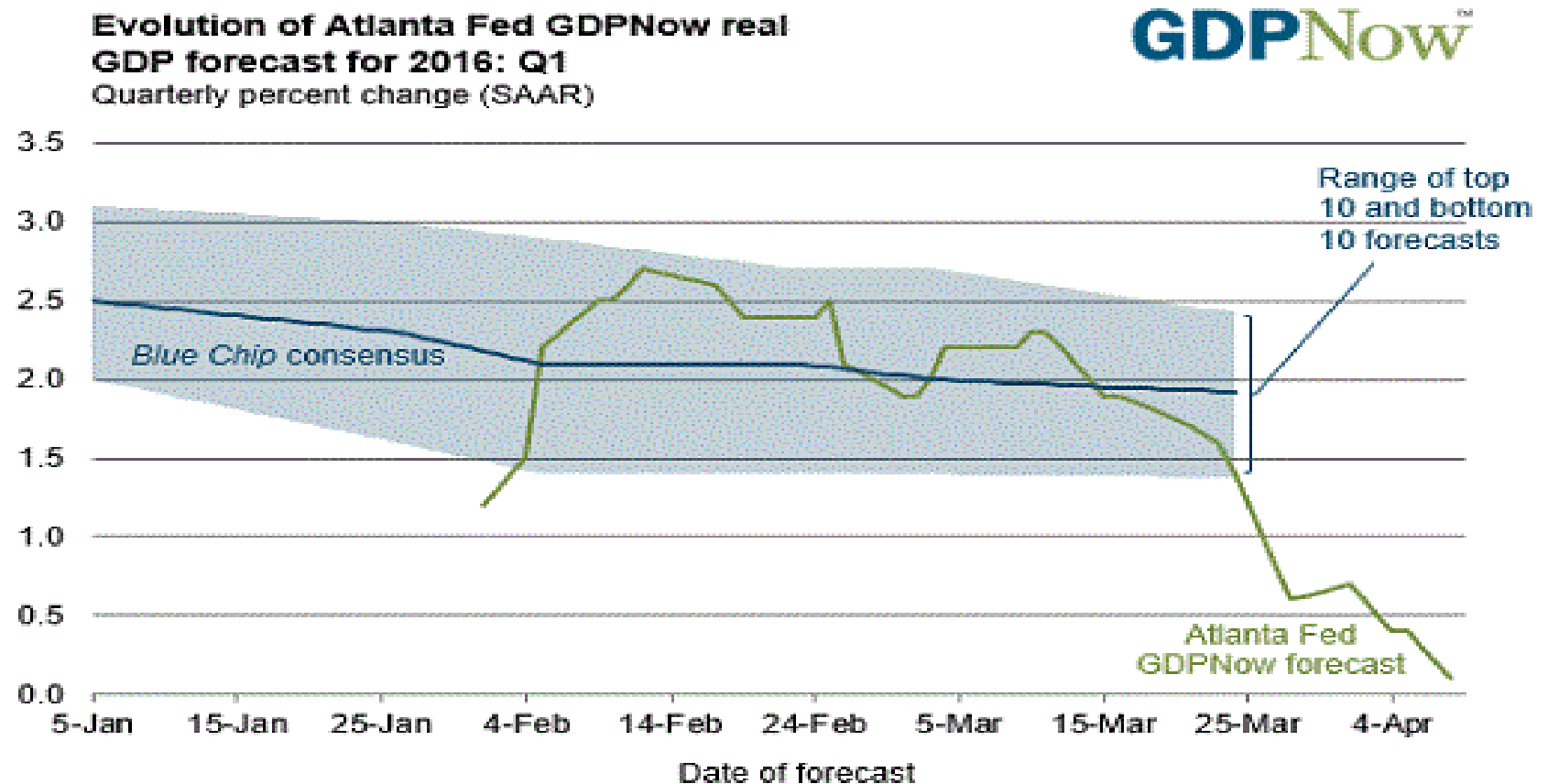
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# GDP Growth

*The Consistent Theme Of The Current Cycle Remains Low/Slow GDP Growth*



Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*

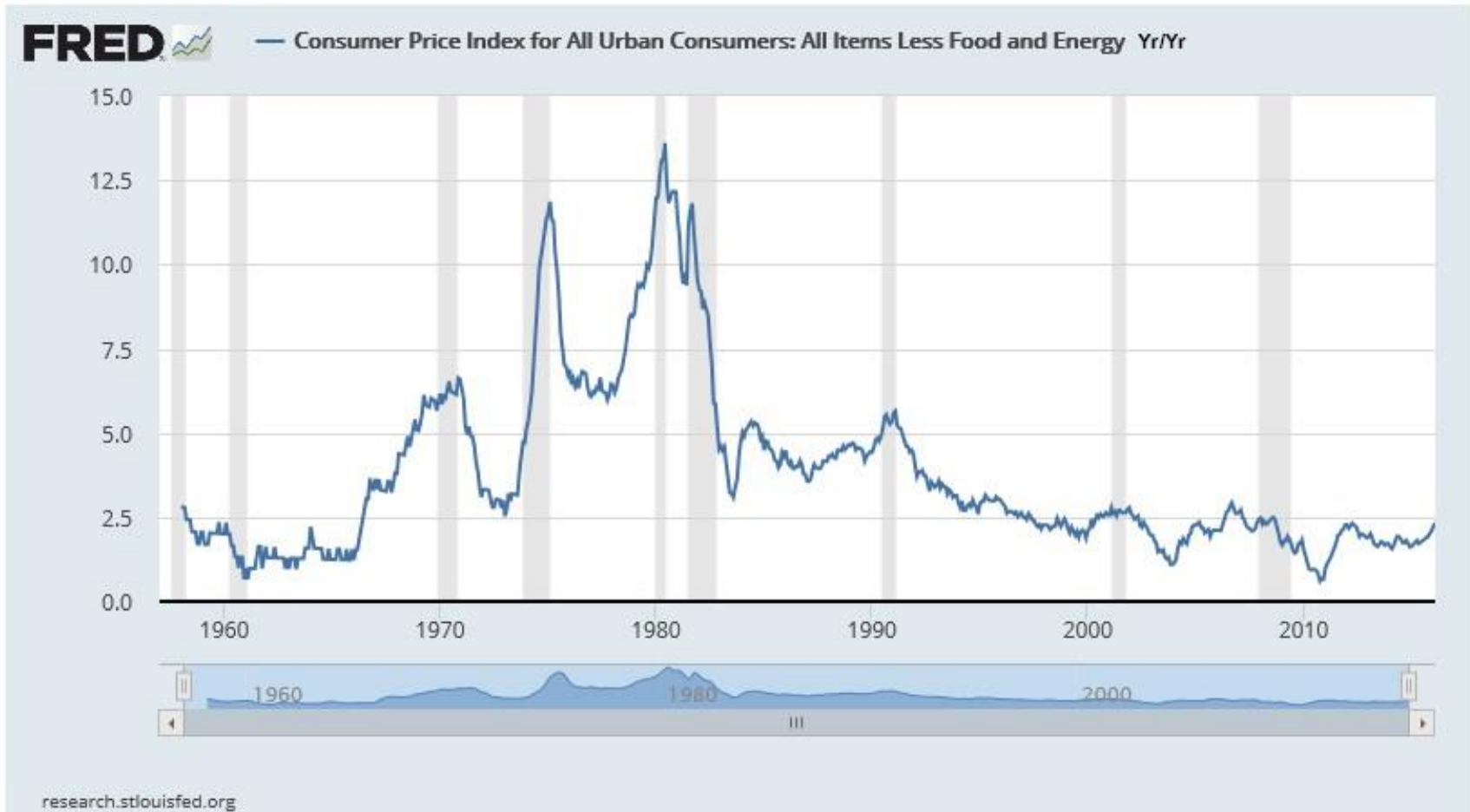
# Wages

*We're Finally Seeing A Bit Of A Pickup In Average Hourly Wages – Will It Be Enough?*



# Inflation

*Core Inflation Measures Are Heating Up Just A Touch*



# Interest Rates

*Interest Rates – Just What Is The Fed Afraid Of?*



# Equity Markets

*The Fed Is Afraid Of A Potential “Reverse Wealth Effect” Caused By An Equity Market Decline*



# Commodity Prices

*The Collapse In Commodity Prices Speaks Volumes About The Strength Of The Global Economy*

\$CRB Reuters/Jefferies CRB Index (EOD) INDX

31-Mar-2016

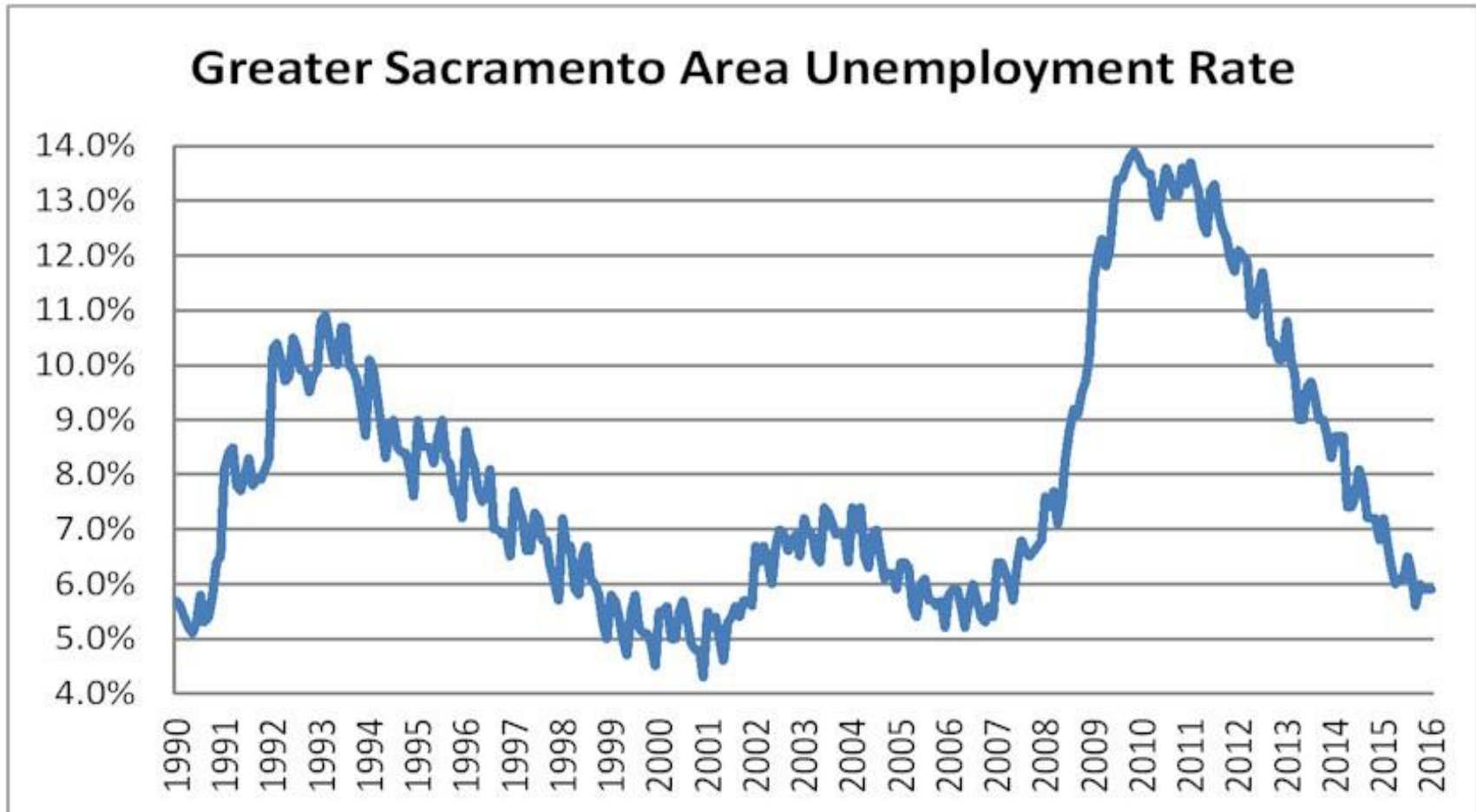
100 \$CRB (Monthly) 170.52





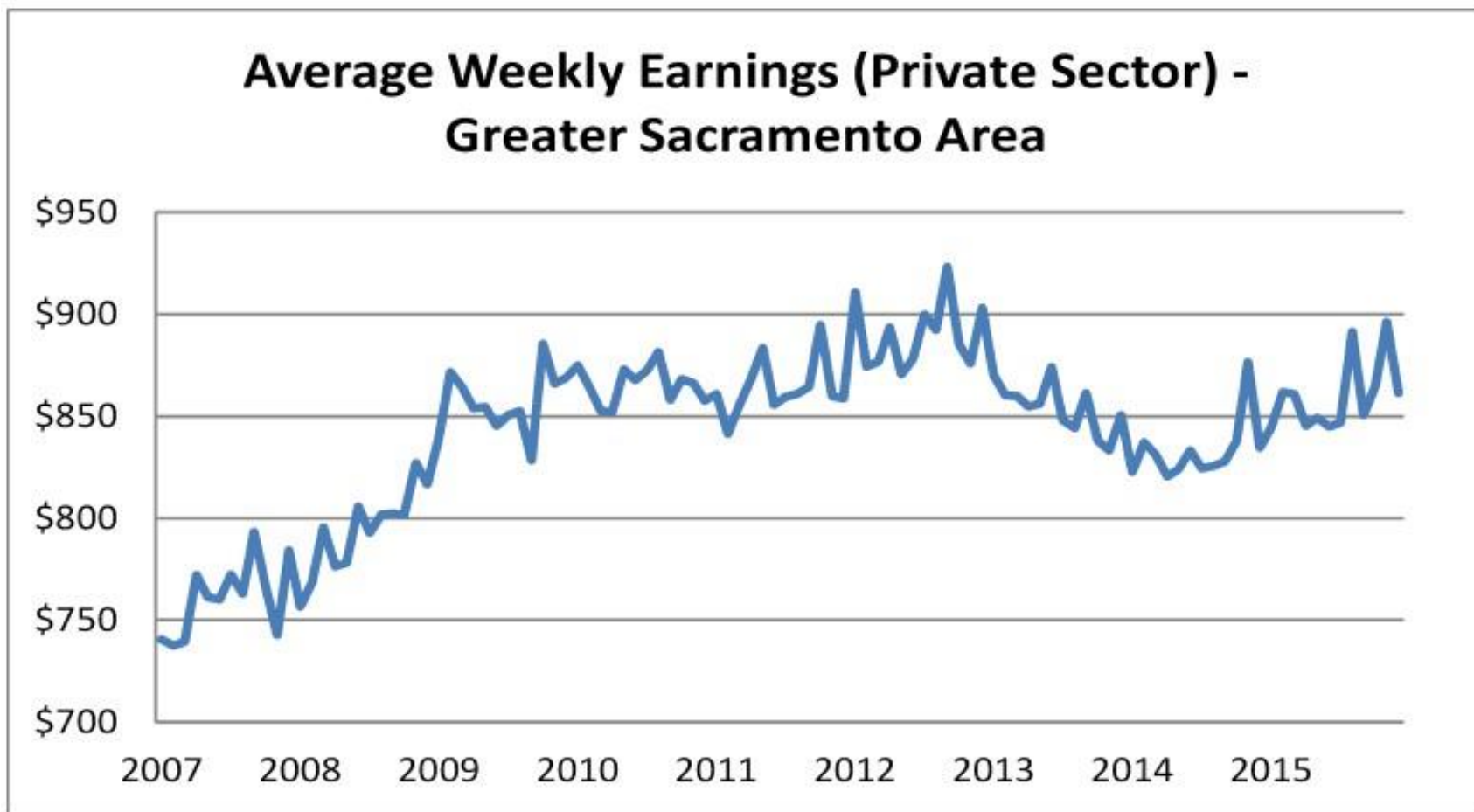
# Sacramento Unemployment

*Sacramento – Very Near Multi-Decade Lows On Unemployment*



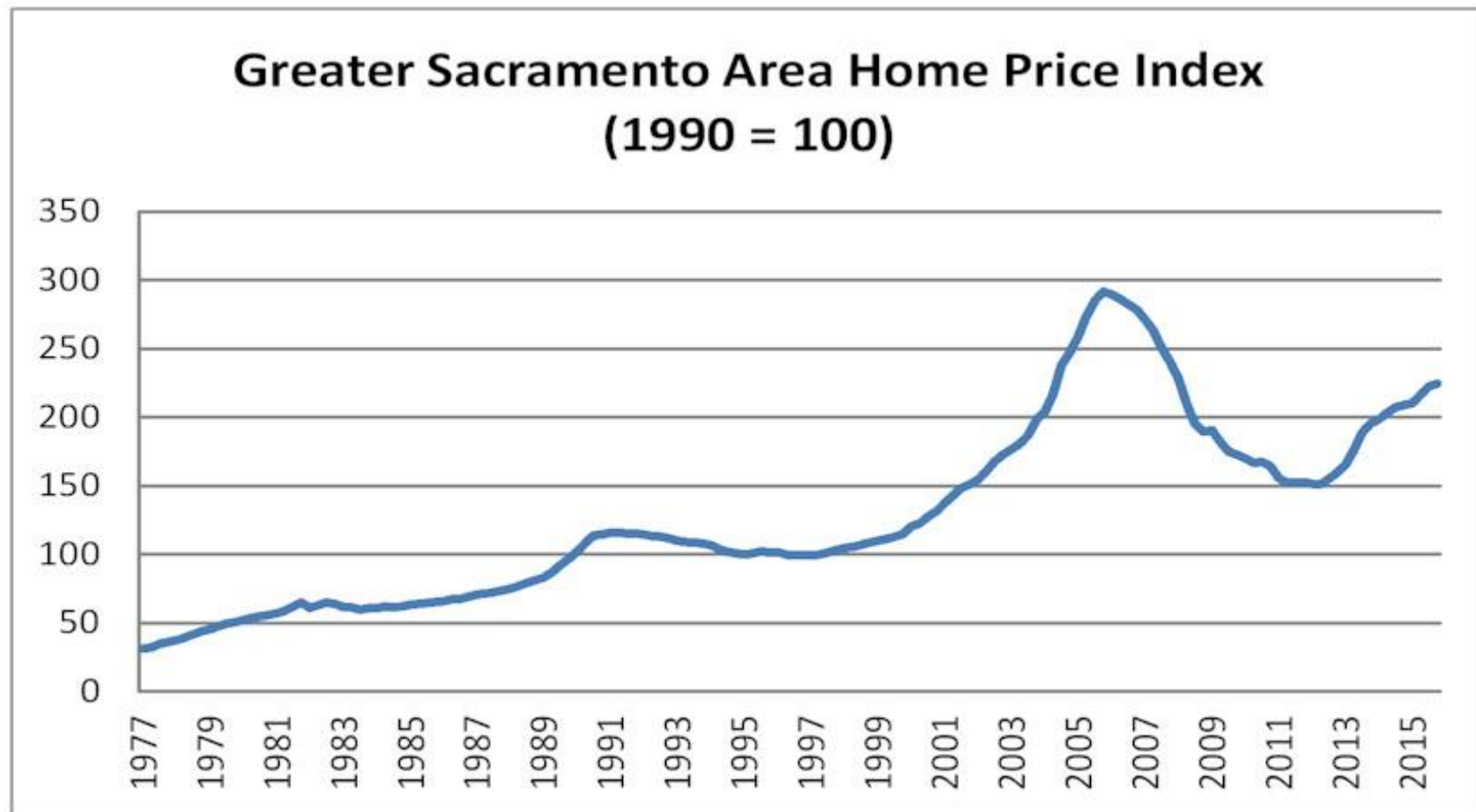
# Sacramento Wages

*Sacramento – Average Weekly Earnings Relatively Stagnant*



# Sacramento Housing

*Sacramento – Housing Price Index Not Back To The Old Highs, But A Respectable Recovery*



# Sacramento Employment Growth

*Sacramento – The Complexion Of Employment Growth Since January 2011*

Industry Category	Jobs Added Since Jan 2011	Total Job Base Feb 2016
Goods Producing	14,800	86,600
Service Sector	86,200	835,600
Manufacturing	3,100	36,300
Construction	12,400	49,800
Accommodations	19,700	81,800
Food Services/Drinking	19,600	73,200
Health Care	20,400	132,000



**Craig Mitchell, MBA**

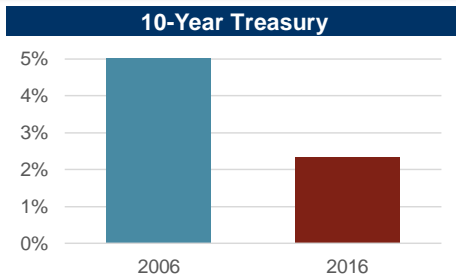
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# M&A Market Drivers

***Key drivers still support M&A strength, but market volatility is creating uncertainty***

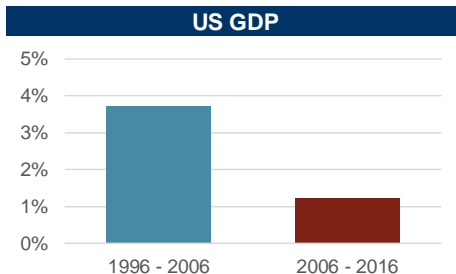
## Interest Rates



[www.treasury.gov](http://www.treasury.gov)

- Interest rates remain at historical lows
- Fed tempering rate increase expectations

## Growth Rates



[www.economagic.com](http://www.economagic.com)

- US GDP growth remains tepid
- China struggling to support growth targets

## Market Volatility

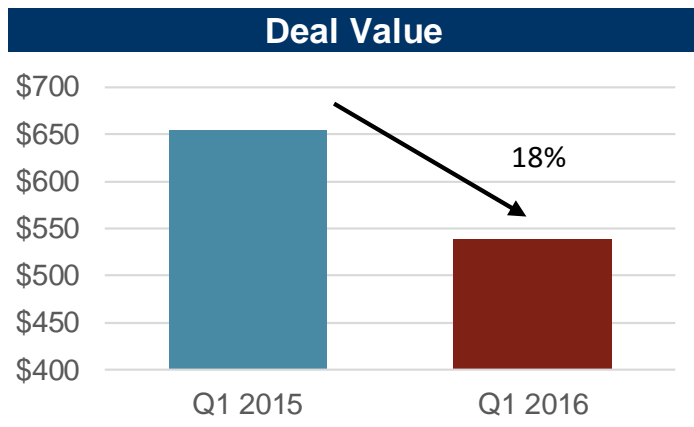


[www.google.com](http://www.google.com)

- S&P 500 fell over 10% to start 2016 and then recovered
- Public companies use stock for acquisitions

# M&A Activity

**Marked decline in M&A activity in Q1 2016**



Lowest quarterly deal value since Q3 2014

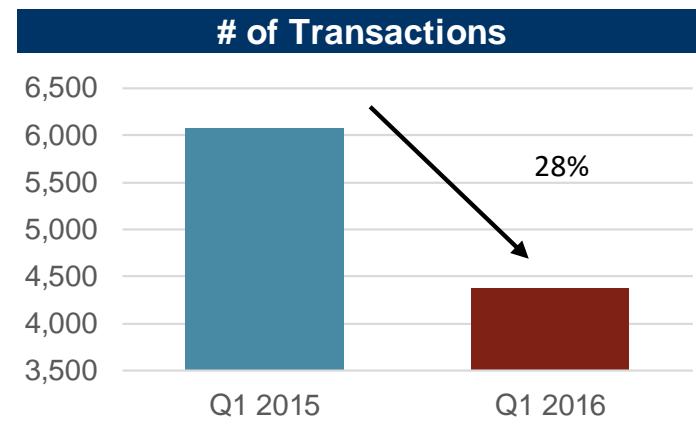
**Average Deal Size:** \$30 million

Source: Pitchbook

Transactions declined precipitously

**Region:** 47% US | 41% Europe | 12% ROW

**Buyers:** 78% Strategic | 22% PE



Source: Pitchbook

# Large Transactions

## *Multi-billion dollar transactions continued*

- Baxalta to be acquired by Ireland-based Shire for \$34B in cash and stock, a 14% premium
- Protection 1 / Apollo to acquire ADT for \$7 billion in cash, a 56% premium
- IHS, Inc. (IHS) agreed to merge with Markit, Ltd. in a merger of equals

### Top Ten U.S. M&A Transactions

*As of March 31, 2016 (\$ in millions)*

Date	Target	Buyer	Enterprise Value	Enterprise Revenue	Enterprise Value / EBITDA
01/11/16	Baxalta Incorporated (NYSE:BXLT)	Shire plc (LSE:SHP)	31,959.5	5.2x	15.2x
03/17/16	Columbia Pipeline Group, Inc. (NYSE:CPGX)	Transcanada Pipeline USA Ltd.	12,848.3	9.6x	20.3x
02/16/16	The ADT Corporation (NYSE:ADT)	Protection 1, Inc.	12,179.6	3.4x	6.7x
02/09/16	ITC Holdings Corp. (NYSE:ITC)	Fortis Inc. (TSX:FTS)	10,970.1	10.5x	15.7x
03/20/16	The Valspar Corporation (NYSE:VAL)	The Sherwin-Williams Company (NYSE:SHW)	10,377.5	2.4x	14.9x
03/21/16	IHS Inc. (NYSE:IHS)	Markit Ltd. (NasdaqGS:MRKT)	11,171.8	5.0x	19.2x
03/22/16	Linn Energy, LLC (NasdaqGS:LINE)	Linn Co, LLC (NasdaqGS:LNCO)	9,153.9	5.2x	6.1x
02/01/16	Alere Inc. (NYSE:ALR)	Abbott Laboratories (NYSE:ABT)	8,113.4	3.3x	14.3x
02/17/16	Ingram Micro Inc. (NYSE:IM)	Tianjin Tianhai Investment Co., Ltd. (SHSE:900938)	5,432.7	0.1x	7.1x
<b>Median</b>			<b>\$ 10,970.1</b>	<b>5.0x</b>	<b>14.9x</b>

Source: S&P CapitalIQ.



# Failed Transactions

## *Regulatory pressures causing cancellations and delays of high-profile transactions*

- Over \$415 billion in deals have been withdrawn so far in 2016, 50% more than the same period in 2007, the peak for canceled transactions (*S&P Global Market Intelligence*)
- Regulators have impacted numerous large transactions
  - ***Treasury Department***
    - Ruling results in cancellation of Pfizer's \$160 billion tax inversion deal with Allergan
  - ***Justice Department***
    - Filed a lawsuit to block #1 Halliburton's \$34 billion acquisition of #3 Baker Hughes
  - ***Federal Trade Commission:***
    - Challenging merger of Staples and Office Depot
    - Scrutinizing Aetna and Human, Anthem and Cigna and Anheuser-Busch InBev and SAB Miller mergers

# California Transactions

## *Technology companies dominate M&A activity in California*

- Ingram Micro to be acquired by a Chinese company for \$6 billion in cash, a 32% premium
- Atmel sold to Microchip Technology for \$3.9 billion cash and \$0.5 billion in stock

### Top California Transactions

As of March 31, 2016 (\$ in millions)

Date	Target	Buyer	Enterprise Value	Enterprise Revenue	Enterprise Value / EBITDA
02/17/16	Ingram Micro Inc. (NYSE:IM)	Tianjin Tianhai Investment Co., Ltd. (SHSE:900938)	\$ 5,432.7	0.1x	7.1x
01/13/16	Atmel Corporation	Microchip Technology Inc. (NasdaqGS:MCHP)	3,293.4	2.8x	25.4x
01/08/16	Affymetrix Inc.	Thermo Fisher Scientific, Inc. (NYSE:TMO)	1,116.9	3.1x	25.1x
02/23/16	Newport Corp. (NasdaqGS:NEWP)	MKS Instruments, Inc. (NasdaqGS:MKSI)	930.3	1.5x	12.0x
02/04/16	Multi-Fineline Electronix, Inc. (NasdaqGS:MFLX)	Suzhou Dongshan Precision Manufacturing Co.,Ltd	359.2	0.6x	4.2x
01/26/16	Pivot Technology Solutions, Inc. (TSXV:PTG)	PTS Holdings Corporation	300.2	0.2x	12.4x
03/11/16	GCS Holdings, Inc. (GTSM:4991)	Xiamen San'an Integrated Circuit Co., Ltd.	152.4	3.0x	14.0x
03/14/16	Acacia Research Corporation (NasdaqGS:ACTG)	Uniloc Luxembourg SA	72.6	0.6x	7.5x
02/05/16	LeapFrog Enterprises Inc.	Vtech Holdings Ltd. (SEHK:303)	38.2	0.2x	NM
<b>Median</b>			<b>\$ 359.2</b>	<b>0.6x</b>	<b>12.2x</b>

Source: S&P CapitalIQ. Targets with headquarters in Northern California denoted with shading.

# Sacramento

*Local economy concentrated in services, healthcare and agriculture industries*

Transactions	Sellers	<ul style="list-style-type: none"> <li>California Family Fitness, Black Bear Diners, Cesca Therapeutics, Genica Research, Sunverge Energy, Aplos Software, New Wave Industries, MCC Control Systems</li> </ul>
	Buyers	<ul style="list-style-type: none"> <li>Flyers Energy acquired Goodspeed Oil</li> <li>Beck Ag acquired Adayana Agribusiness Group</li> </ul>
Industries	Healthcare	<ul style="list-style-type: none"> <li>Pharma/Biotech &amp; Healthcare Providers expected to see most M&amp;A activity, outside Technology (<i>KPMG</i>)                             <ul style="list-style-type: none"> <li>Healthcare M&amp;A being driven by cost containment efforts</li> </ul> </li> </ul>
	Agriculture	<ul style="list-style-type: none"> <li>Influenced by large conglomerates (Cargill, ADM, Monsanto)</li> <li>Dow / Dupont \$130B merger will spin-off ag business with \$19B in revenue</li> <li>Increasing interest from venture capital with a focus on Biotech and Agtech</li> </ul>

# Minimum Wage

*Substantial minimum wage increases will impact businesses dependent on unskilled labor*

**New York:** Increase in tiers to \$12.50 - \$15.00 by 2021

**California:** Minimum wage to increase statewide to \$15 by the end of 2022

- Equates to 50% increase in 5 years, or a CAGR of 8.4%
- May be difficult to raise prices quickly enough to offset higher labor costs

Illustrative Example			
	Before	Increase	After
Revenue	100%		100%
Cost of Goods	(30%)		(30%)
Direct Labor	(40%)	(20%)	(60%)
Overhead	(20%)		(20%)
Profit	10%	(20%)	(10%)

# Conclusion

*The M&A market faces new challenges, but opportunities remain*

## Sellers

- Stock market recovery is supporting continued high valuations in the near-term
  - Stock market volatility could impact sales to public companies
- Fed funds rate increase delays should support continued M&A strength
- Potential earnings growth vs. potential declines M&A valuations and activity

## Buyers

- Low cost debt is readily available for accretive acquisitions
- Acquisitions of smaller companies at lower multiples → multiple expansion
- Proactively contacting targets → attractive acquisitions and avoid competition



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