M&A AND FINANCING UPDATE 1st QUARTER 2018

New Tax Laws Are a Positive for M&A

The Tax Cuts and Jobs Act of 2017 ("TCJA") should be positive for M&A market valuations and activity.

Although the TCJA contains some offsets, reduction in the federal corporate tax rate from 35% to 21% is good news for corporations not taxed as a pass through entity. Pass through entity income may qualify for a new 20% deduction, but with some limitations. As a result, the value of acquired companies that can take advantage of these provisions should increase. At the same time, buyers with lower tax rates should have more funds available for acquisitions. The new 15.5% repatriation tax on cash held offshore should also increase capital available in the U.S. for acquisitions.

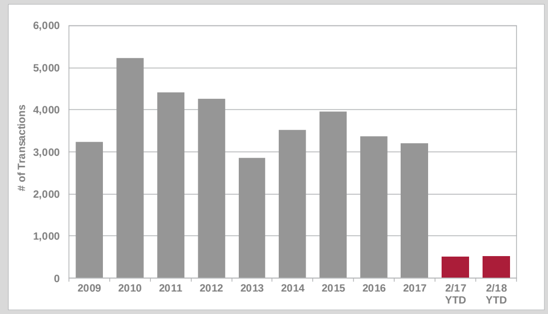
Another important change is in depreciation. Until 2022, buyers can depreciate 100% of new and used qualified property (including fixed assets and software) in the year purchased. This new provision applies to the portion of purchase price allocated to these assets in asset acquisitions or in the acquisition of an entity taxed as an asset acquisition (such as stock purchase with a 338(h)(10) election, the acquisition of an entity taxed as a partnership, or the acquisition of stock of a disregarded entity). Although this additional depreciation is subject to ordinary income recapture if acquired assets are sold within their tax useful life, the "up front" cash flow benefit from reducing tax liability in the year of an acquisition should positively impact business valuations.

A negative impact of the TCJA is the limitation on the deductibility of interest expense. Interest expense deductions for tax purposes are limited to 30% of EBITDA through 2021 and 30% of EBIT thereafter. Interest deductions not allowed in a year carry forward and are deductible in future years, subject to that year's limitation. This limitation will have a potential impact on rates of return, free cash flow and availability of debt in highly leveraged transactions. At current interest rate levels, we do not anticipate the initial 30% of EBITDA limitation to have much of an impact on valuation or capital structures, but it will be interesting to see the effect at the higher restriction after 2021 if interest rates continue to rise.

These new provisions and the difference between tax rates and deductibility of state income tax for entities that are or are not taxed as pass through mean that tax structure for both buyers and sellers will have a larger impact on valuations than ever before. As a result, it will be important to coordinate your tax and investment banking advice prior to embarking on a transaction and to understand counterparties' tax characteristics and objectives as transactions are executed.

Transaction volume increasing, but supply/demand imbalance continues

U.S. Middle Market M&A Volume for Deals Under $500M of Enterprise Value



Source: Robert W. Baird & Co.

Transaction Volume

After a decline in 2017, deal volume for transactions under $500 million has increased 4.3% through February 2018 when compared to year-to-date February 2017, according to Robert W. Baird & Co. Both private equity groups and strategic buyers are commenting that the volume of inbound new deal activity in January and February has been higher in 2018, compared to the two previous years.

The primary drivers of M&A momentum remain in place. The economic outlook is positive. The World Bank recently published a global GDP growth forecast of 3.1%, slightly higher than its previous estimate of 3.0% for 2017. Lending markets remain at peak levels. Strategic buyers have strong leadership, cash on balance sheets, and strategic plans focused on supplementing organic growth with strategic acquisitions. Private equity groups are actively deploying record amount of capital in new platforms and "bolt-on" acquisitions. Based on these factors, and barring unforeseen changes, the uptick in M&A volume appears poised to continue.

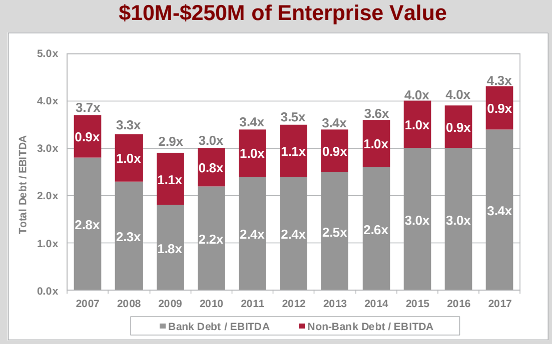
Debt Availability at Record Level

Average total debt/EBITDA multiples for $10 to $250 million enterprise value private equity-backed LBOs ("LBOs") reached record levels in 2017, averaging 4.3x EBITDA, according to GF Data®.

The increase in total debt/EBITDA in 2017 was the result of a senior debt average of 3.4x EBITDA, compared to an average of 3.0x in 2015 and 2016. Several factors seem to be influencing the increase in the average senior debt multiple. The use of unitranche debt facilities to support LBOs is increasing. Unitranche debt averaged 4.7x EBITDA. The use of senior only debt facilities supporting LBOs also increased. Senior debt facilities averaged 4.2x EBITDA. Senior debt facilities supporting add-on acquisitions increased to an average of 5.2x EBITDA. Finally, higher total debt availability may be related to lenders applying a "size premium" to the combined entity in a transaction. According to GF Data®, $100+ million transactions used 1.0x more debt than $10 to $25 million transactions.

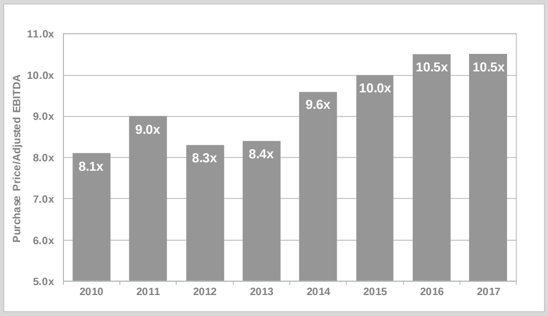
Average total debt/EBITDA multiples increased in 2017

Average LBO Debt Multiples for Deals with $10M-$250M of Enterprise Value



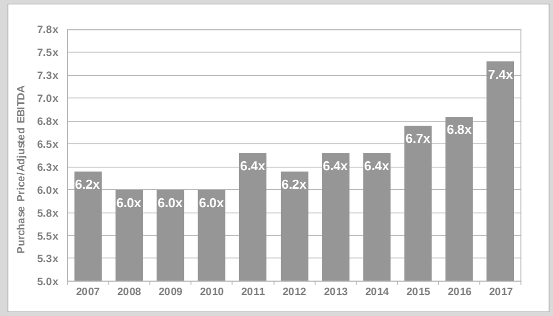
Source: GF Data®

U.S. M&A Transaction Multiples



Source: PitchBook

Average Purchase Price/Adjusted EBITDA Multiples for Private Equity-Backed LBOs with $10M - $250M of Enterprise Value



Source: GF Data®

Purchase Price At Record Level

Average purchase price for both strategic and financial buyer transactions posted records in 2017, with a significant amount of capital (debt and equity) chasing a limited supply of quality companies for sale. According to PitchBook, the average enterprise value/EBITDA multiple for all reported transactions remained at 10.5x in 2017 - the same lofty valuations achieved in 2016. According to GF Data®, the average purchase price for $10 to $250 million enterprise value LBOs was 7.4x EBITDA, which is the first time this average for a year has been above 7.0x EBITDA. The high average valuation multiple was influenced by LBOs in several size ranges that saw significant increases from 2016. LBOs in the $10 to $25 million enterprise value range achieved average multiples of 6.4x EBITDA, a 0.5x increase from 2016, while those in the $50 to $100 million range achieved average multiples of 8.3x EBITDA, a 1.0x increase from 2016.

Currently, there are no signs of purchase price multiples diminishing, with positive economic indicators and a growing pool of uninvested capital raised by private equity groups and on strategic buyer balance sheets.

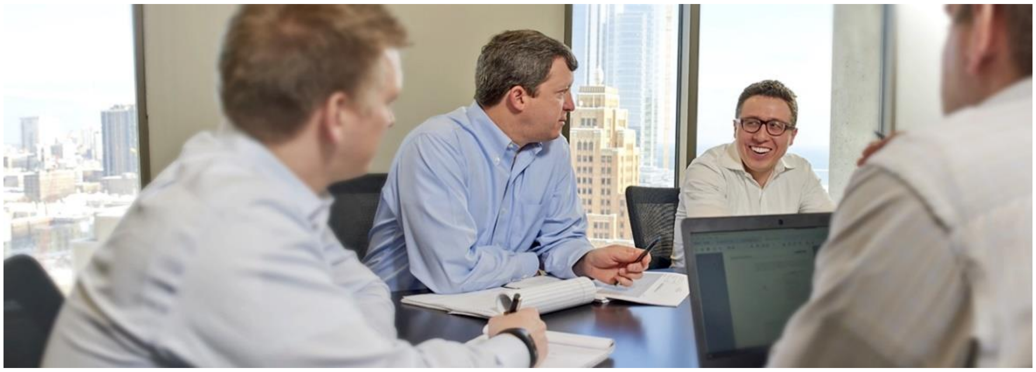
The expansion of purchase price multiples is also being driven by buyers paying a premium for private equity owned companies with continuing management and above average financial characteristics (defined as 10%+ growth and EBITDA margins). As the chart below illustrates, the competition in auctions for companies with $5 to $10 million of EBITDA is fierce and buyers have been willing to pay up to a 1.9x premium for great management teams. According to GF Data®, 15% of the companies sold met the criteria to be classified as above average, so the laws of supply and demand are playing a role in driving the high premiums. As private equity groups continue to struggle to deploy capital, one trend that is helping to fuel higher prices is large private equity funds coming down market and paying large deal multiples for smaller deals. Based on current market conditions, we expect these premium prices to continue in 2018.

Buyers are paying a premium for high-quality companies

2017 Multiples for Above Average Companies

	EV/EBITDA Multiple		
Transaction Size	All Transactions	Above Average Companies	Valuation Premium
$10M - $25M	6.4x	6.5x	0.1x
$25M - $50M	6.6x	7.0x	0.4x
$50M - $100M	8.1x	10.0x	1.9x
$100M - $250M	9.2x	10.1x	0.9x

Source: GF Data®



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Firm Overview

Founded in 1987, Cleary Gull Inc. is a nationally recognized, employee-owned boutique investment banking firm with a global reach. We advise private equity funds, entrepreneurs, and small publicly traded companies on mergers and acquisitions, private debt and equity financings and recapitalizations and other transactions.

Our talented team has completed hundreds of middle market transactions delivering more than $8 billion in value. With an average of more than 20 years of deal experience, our skilled senior investment bankers bring knowledge, integrity and relentless determination to deliver great outcomes for our clients.

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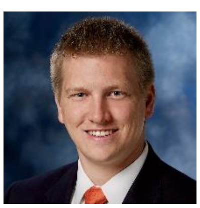

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