M&A AND FINANCING UPDATE

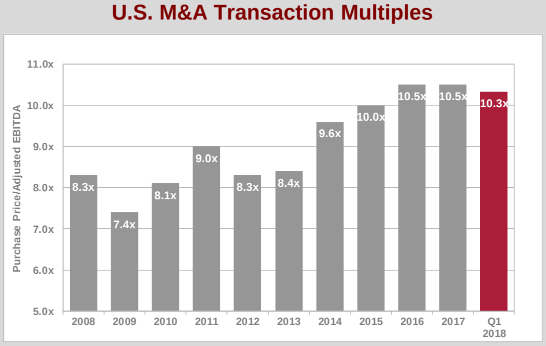
2nd QUARTER 2018

Purchase Price Multiple Remains at Near Record Levels

The average purchase price multiple for both strategic and financial buyer transactions remains strong. For many reasons, the "song remains the same" with high valuations attributed to: 1) record amount of uninvested capital available to private equity groups and on corporate balance sheets; 2) an abundance of senior and mezzanine debt; and 3) a strong U.S. economy as evidenced by macroeconomic factors such as positive consumer sentiment and spending. According to PitchBook and Capital IQ, the average enterprise value/EBITDA multiple for all reported transactions for Q1 2018 was 10.3x – remaining above 10.0x EBITDA for the 8th consecutive quarter. According to GF Data®, the average purchase price multiple on transactions from \$10 to \$250 million enterprise value LBOs was 6.9x EBITDA in Q1 2018, which is below the full year 2017 average but higher than the comparable period in Q1 2017.

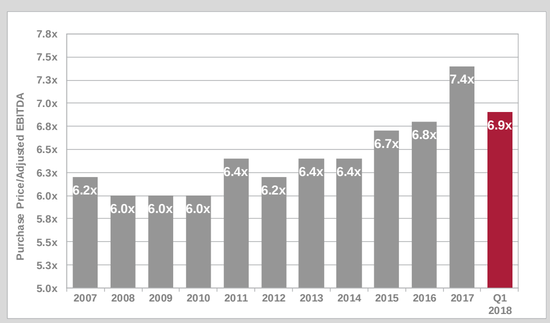
The EBITDA multiple can mostly be attributed to the mix of larger and smaller deals in Q1 2018. According to GF Data®, EBITDA multiple for transactions in the \$10 to \$50 million enterprise value range accounted for approximately 75% of the reported data and an average EBITDA multiple of 5.8x for the quarter, compared to 6.5x for the full year 2017. The higher volume of slightly lower-priced smaller deals masked the strong performance for larger deals. The average EBITDA multiple for transactions in the \$50 to \$250 million enterprise value range was 9.2x for the quarter, compared to 8.5x for the full year 2017. This translates to a size premium of 3.4x EBITDA, well up from the 2.1x average multiple premium paid for larger transactions over the last five years. While the data shows a slight decline in average multiples, the key takeaway from Q1 2018 is that larger deals command a significant premium in today's market.

U.S. M&A Transaction Multiples



Source: PitchBook and Capital IQ

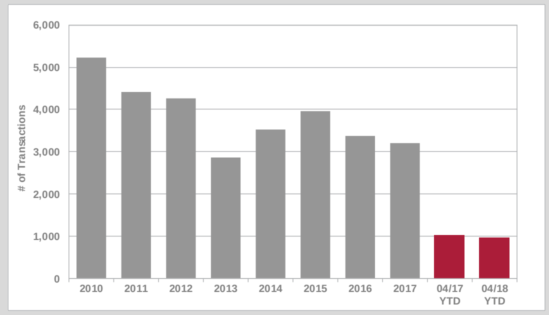
Average Purchase Price/Adjusted EBITDA Multiples for Private Equity-Backed LBOs with \$10M - \$250M of Enterprise Value



Source: GF Data®

Where have all the deals gone? Decline in transaction volume continues

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



Source: Robert W. Baird & Co.

Transaction Volume

The pick-up in deal volume experienced in January and February 2018 quickly reverted back to the multi-year trend of decline. Through April 2018, transactions under $500 million have fallen 5.4%, compared to the first four months of 2017, according to Robert W. Baird & Co. While the number of closed transactions is down, both private equity groups and strategic buyers are commenting that the volume of inbound deal activity has recently increased. Cleary Gull has heard anecdotally that some strategic and PE buyers have recently closed new platform deals on the rebound from broken processes – which could explain timing differences between inbound deal flow and closing announcements. Meanwhile, positive economic data should spur an increase in deal activity. For example, in the U.S. according to the Bureau of Economic Analysis, the GDP grew up to 2.8% in Q1 2018, which was higher than most economists predicted, and oil has rebounded to around $70 per barrel, sparking a resurgence in oil & gas M&A to support the demand.

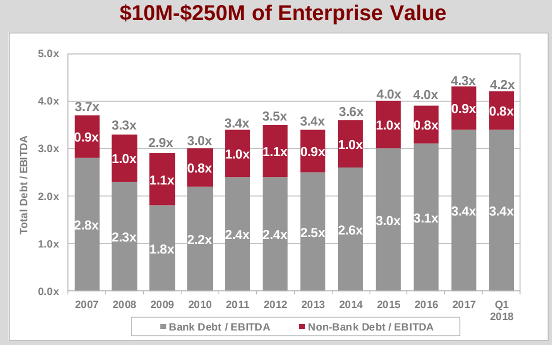
Debt Availability Near Record Level Amid Signs of Lender Retrenching

The average total debt/EBITDA multiple for $10 to $250 million enterprise value private equity-backed LBOs ("LBOs") was 4.2x EBITDA in Q1 2018, remaining at near record levels, according to GF Data®.

While the overall average remains strong, there are storylines buried in the underlying data. After five consecutive years of increase in senior debt/EBITDA multiple for platform buyouts, there was a decline to 2.4x in Q1 2018, which is below the 2017 average of 3.0x but consistent with the historical average of 2.5x. The decline was influenced by average senior debt/EBITDA availability for $10 to $25 million and $25 to $50 million transactions, which experienced 0.4x to 0.7x declines, respectively. Offsetting these declines were increases in senior debt/EBITDA multiple for $50 to $100 million and $100 to $250 million transactions, which experienced 0.4x and 0.5x increases, respectively.

Average total debt/EBITDA multiples at near record levels

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



Source: GF Data®

Indemnification Caps and Purchase Price Multiples with and without Deal Insurance

	Transaction Size	EV/Adjusted EBITDA Multiple		% of Deals	Indemnification Cap	
		Rep & Warranty Insurance	Without Insurance	With Insurance	Rep & Warranty Insurance	Without Insurance
2016	$10M - $25M	5.2x	5.8x	5.7%	4.8%	17.1%
	$25M - $50M	6.1x	6.6x	5.3%	8.8%	17.5%
	$50M - $250M	8.4x	7.4x	11.8%	6.8%	23.4%
	Total	**7.0x**	**6.5x**	**7.7%**	**6.4%**	**19.2%**
2017	$10M - $25M	6.0x	6.5x	13.5%	15.3%	16.5%
	$25M - $50M	6.5x	6.8x	40.6%	5.0%	14.3%
	$50M - $250M	8.5x	8.8x	65.6%	5.5%	10.2%
	Total	**7.7x**	**7.1x**	**42.0%**	**6.6%**	**14.6%**

Source: GF Data®

Average Indemnification Basket as Percentage of Enterprise Value for Private Equity-Backed LBOs with $10M - $250M of Enterprise Value

Transaction Size	Basket – % of Enterprise Value						
	2012	2013	2014	2015	2016	2017	Total
$10M - $25M	1.0%	0.9%	2.0%	1.0%	1.1%	1.0%	1.1%
$25M - $50M	0.8%	0.7%	0.6%	0.8%	0.6%	0.6%	0.7%
$50M - $100M	0.7%	0.7%	0.8%	0.8%	1.0%	0.7%	0.8%
$100M - $250M	0.6%	0.6%	0.6%	0.9%	0.7%	0.6%	0.7%
Total	**0.9%**	**0.8%**	**1.1%**	**0.9%**	**0.9%**	**0.8%**	**0.9%**

Source: GF Data®

Deal Terms Update – With Prices High, Savvy Buyers Using Purchase Agreement Terms as Part of Their Bidding Strategies

According to GF Data®, private equity buyers significantly increased their usage of rep and warranty ("R&W") insurance in 2017. As shown in the table below, the number of deals with a private equity buyer using insurance increased to 42.0% in 2017, up from 7.7% in 2016. In those deals, the presence of R&W insurance led to lower indemnification caps ("caps") and may have influenced buyers to pay higher EBITDA multiples. In 2017, deals with R&W insurance had an average cap of 6.6%, compared to 14.6% for deals without R&W insurance. Plus, private equity buyers paid an average EBITDA multiple that was 0.6x higher when they used R&W insurance, compared to deals that closed without insurance. The combination of the higher EBITDA multiple and lower cap results in more cash in the seller's pockets and lower post-deal risks. The potential presence of bids with R&W insurance in a process positively influenced the cap on deals without insurance as the average cap declined from 19.2% in 2016 to 14.6% in 2017.

Indemnification baskets ("basket") have remained relatively consistent in 2017 ranging from 0.6% to 1.0% of total enterprise, depending on the size of the transaction. In 2017, the average basket was 0.8% for all private equity LBOs.

As might be expected, the presence of R&W insurance also influenced indemnification periods and indemnification escrows. The average indemnification period for LBOs increased from 18.1 months in 2016 to 19.5 months in 2017. The increase in the term is directly correlated to the average two-year retention period required as a deductible for R&W insurance policies. In addition, indemnification escrows as a percentage of total enterprise value declined to 5.8% in 2017 from 6.2% in 2016. The continued reduction in escrow holdbacks can be linked to the lower policy retention amount, which buyers are linking to the escrow amount.

In summary, it is a great time to be a seller due to the combination of high valuation multiples and advantageous indemnification terms. Collectively, the higher prices and advantageous deal terms are leading to increased cash at closing and reduced post-closing risk for sellers.

Average Indemnification Period for Private Equity-Backed LBOs with $10M - $250M of Enterprise Value

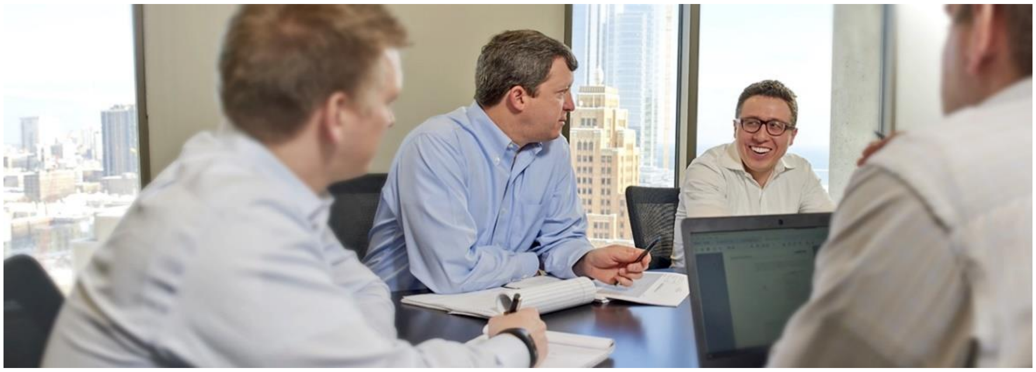
Transaction Size	Indemnification Period - Months						
	2012	2013	2014	2015	2016	2017	Total
$10M - $25M	18.5	20.0	18.1	18.2	17.4	19.8	18.6
$25M - $50M	17.9	18.2	16.5	19.4	21.2	17.9	18.4
$50M - $100M	18.3	16.9	18.8	19.1	18.0	19.7	18.6
$100M - $250M	20.8	15.0	23.4	14.3	14.1	21.9	18.5
Total	**18.5**	**18.7**	**18.1**	**18.4**	**18.1**	**19.5**	**18.5**

Source: GF Data®

Average Indemnification Escrow as Percentage of Enterprise Value for Private Equity-Backed LBOs with $10M - $250M of Enterprise Value

Transaction Size	Escrow – % of Enterprise Value						
	2012	2013	2014	2015	2016	2017	Total
$10M - $25M	7.2%	7.9%	8.5%	7.1%	8.2%	7.9%	7.7%
$25M - $50M	7.2%	6.4%	6.9%	6.6%	6.1%	5.7%	6.5%
$50M - $100M	5.7%	4.5%	4.3%	3.9%	4.2%	3.8%	4.4%
$100M - $250M	5.3%	3.4%	6.0%	10.2%	2.2%	2.3%	4.6%
Total	**6.7%**	**6.7%**	**7.1%**	**6.7%**	**6.2%**	**5.8%**	**6.5%**

Source: GF Data®



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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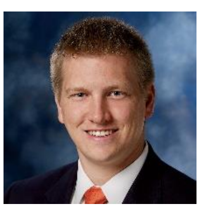

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