M&A AND FINANCING UPDATE

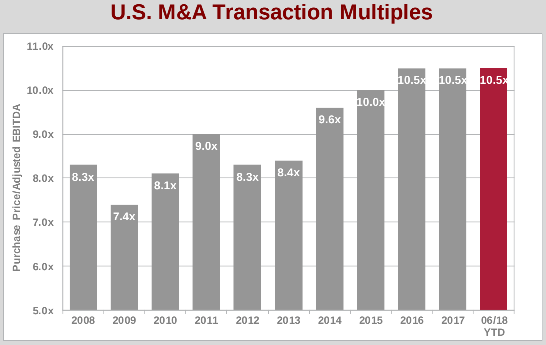
3rd QUARTER 2018

Purchase Price Multiples Holding Steady at the Peak

The rising multiple tide may finally be plateauing at a lofty enterprise value/EBITDA multiple average of 10.5x, where it has held steady for the last 30 months, according to PitchBook and Capital IQ. According to GF Data®, the average purchase price multiple for $10 to $250 million enterprise value LBO transactions was 7.0x EBITDA for the first half ("H1") of 2018. The average purchase price multiples for all LBOs reported by GF Data® rebounded to 7.4x EBITDA in Q2 2018 after posting an average of 6.8x in Q1 2018. The reported data for Q2 2018 is more consistent with the overall pulse of the market and the valuations at levels at least a multiple turn higher than historical averages. In addition, the scarcity of $50 to $250 million enterprise value companies available for sale continues to drive the unprecedented size premium spread of 3.4x EBITDA when compared to multiples for companies sold in the $10 to $50 million enterprise value range.

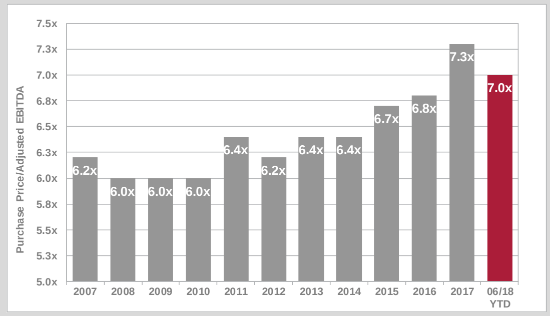
Demand for companies with above average financial performance (as defined by GF Data® with over 10% annual growth and over 15% EBITDA margins), strong management teams, and a proven growth strategy remains at an all-time high, while the supply of companies for sale that meet this definition is noticeably absent from the market. As a result of the scarcity of above average companies, we are starting to see the reemergence of the "quick flip" by private equity owners, who are selling their high performing companies within the first three years of ownership, despite the negative tax consequences. The primary reason for the short hold period from a small sample of private equity groups that have sold portfolio companies quickly was significant growth. In almost every case, management under the new partnership was able to achieve its five-year growth plan in 18 to 24 months organically or through acquisition and decided to sell to take advantage of the hot M&A market.

U.S. M&A Transaction Multiples



Source: PitchBook and Capital IQ

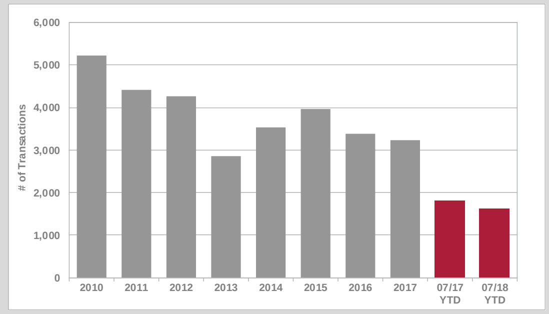
Average Purchase Price/Adjusted EBITDA Multiples for Private Equity-Backed LBOs with $10M - $250M of Enterprise Value



Source: GF Data®

When will the entrepreneur sellers emerge to take advantage of the seller's market?

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



Source: Robert W. Baird & Co.

Transaction Volume Still Low

Just when we thought deal volume had hit its trough, another month of low deal volume was reported. Through July 2018, transactions under $500 million fell 10.2%, compared to the first seven months of 2017, according to Robert W. Baird & Co. There appears to be a growing disconnect in the market between the reported data and the market "chatter". At M&A conferences and on update calls with private equity groups and strategic buyers alike, we are being told that year-to-date 2018 inbound deal volume is up significantly (in some cases, over 10-20%). However thus far this market activity is not translating to an increase in completed transactions. Assuming that buyers are telling the truth, the market may be experiencing a period in which the number of broken deals is increasing. In today's M&A market, it would not be uncommon for a seller to take their company "off the market" if valuation expectations were not met. We have heard of several instances of this phenomenon, but not enough to account for the continued drop in deal volume. It will be interesting to see the reported deal volume during the second half of 2018.

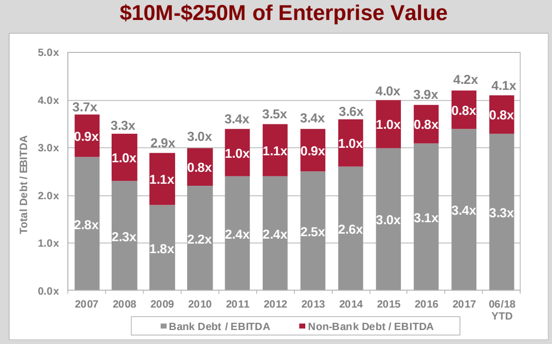
Debt Availability Grows for $100 to $250 million Transactions and Declines for Smaller Deals

The average total debt/EBITDA multiple for $10 to $250 million enterprise value private equity-backed LBOs ("LBOs") was 4.1x EBITDA in H1 2018, remaining at near record levels, according to GF Data®.

The lender retrenching that we noted for $10 to $25 million and $25 to $50 million platform deals during Q1 2018 continued in Q2 2018 with YTD total debt/EBITDA multiples averaging 2.8x and 3.2x EBITDA, respectively, which is an approximately 0.5x decline in debt availability when compared to 2017. While debt availability for small deals is becoming more conservative, total debt availability for $100 to $250 million transactions remains aggressive. According to GF Data®, total debt/EBITDA multiples for deals of this size increased from an average of 5.0x in 2017 to 5.9x for H1 2018. This is a significant increase, which can be partially tied to a growth in add-on acquisitions activity. In today's market, the acquiring platform frequently is able to raise total debt to support an acquisition that is significantly lower than the total debt available for a new platform.

Average total debt/EBITDA multiples remain strong

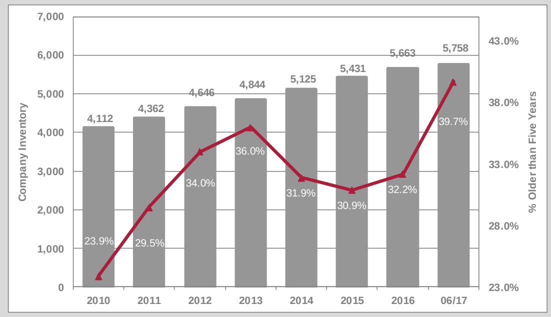
Average LBO Debt Multiples for Deals with $10M-$250M of Enterprise Value



Source: GF Data®

Does a longer private equity hold period equate to fine wine or sour grapes for company vintages in this decade?

U.S. Private Equity Middle-Market Company Inventory



Source: Pitchbook

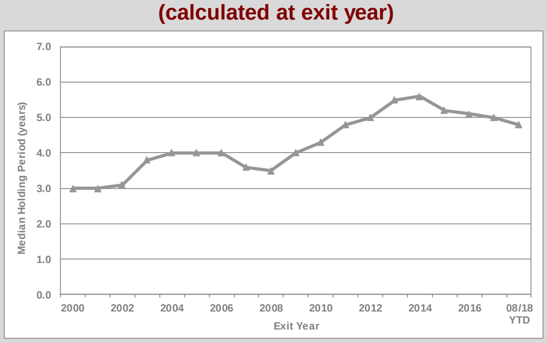
Aging Company Inventory, Declining Hold Periods and an Increasing Number of Secondary Buyouts

According to Pitchbook, from 2010 to 2017 the inventory of middle market companies owned by private equity groups has grew at a compound average growth rate ("CAGR") of 4.9% from 4,112 to 5,758 companies. While the inventory growth of private equity-owned companies is "as expected" based on the continued proliferation of private equity groups, the continued aging of this inventory is not. From 2010 to 2017, the percentage of companies that have been held for five years or longer increased from 23.9% (983 companies) to 39.7 (2,286 companies). This represents a CAGR of 12.8%, which is significantly higher than might be expected based on the state of today's M&A market, with its peak valuation multiples and unprecedented amount of capital for deals. Based on a ten-year fund life for committed funds and funds averaging 3.6 exits for each new platform investment over the last twelve months, according to PrivateEquityInfo.com, this aging trend should reverse itself, but only time will tell.

Aging inventory is never a good sign in a hot M&A market, but shorter hold periods are. The market is starting to see an increase in the number of companies sold after a short hold period. This increase in "quick flips" is translating to a lower average hold for private equity portfolio companies. The average hold period has declined to 4.8 years YTD 2018 from a peak average hold period of 5.6 years in 2014, according to PrivateEquityInfo.com. If private equity groups continue to sell their inventory of "finely aged" portfolio companies over the next 12 to 18 months, the average hold period should continue to decline. As a point of comparison, the average hold period was 3.0 years from 2000 to 2002 and 3.5 years in 2008 before the Great Recession.

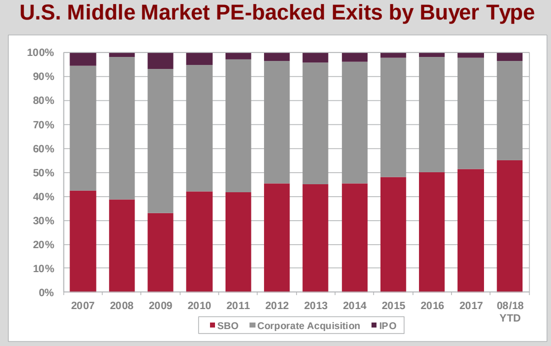
The market is seeing an increase in secondary buyouts ("SBOs"), which account for over 50% of the YTD 2018 deal volume. Historically, private equity groups were reluctant to purchase a PE-backed company because of concern it could already have been "optimized". However, as company strategies evolve "low hanging fruit" is still available for private equity groups with the right tools to help a company accelerate its growth strategy.

Private Equity Holding Periods (calculated at exit year)

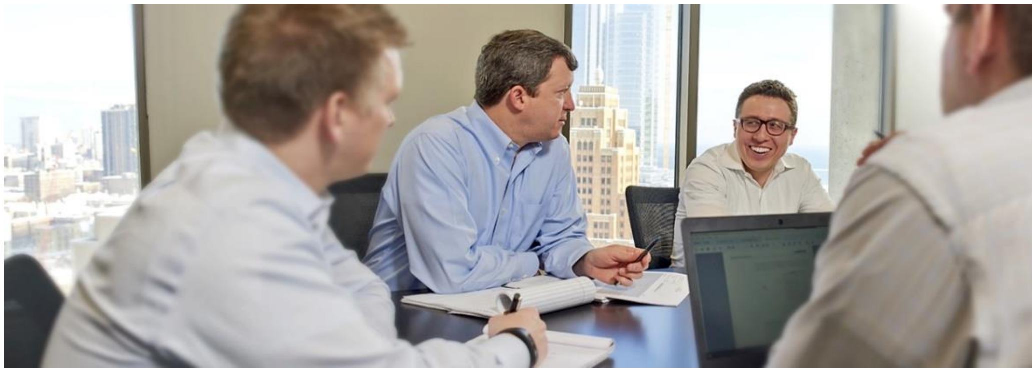


Source: www.PrivateEquityInfo.com

U.S. Middle Market PE-backed Exits by Buyer Type



Source: Pitchbook



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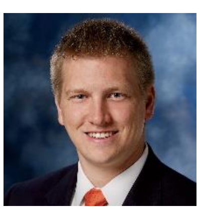

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