M&A AND FINANCING UPDATE

4th QUARTER 2017

POSITIVE EXPECTATIONS

Shared sentiment regarding a positive economic outlook and favorable business conditions may be the most telling indicator of strong M&A market activity. At the moment, while sentiment isn't unanimous (is it ever?) and predictions of economic growth are not as robust in all sectors as they have been, the broad consensus for growth and expansion next year bodes well for the continuation of favorable M&A markets. Add in the recently approved tax cut, and it could be a very good year.

The U.S. economy is performing well. The GDP growth rate rose to 3.3% in Q3 2017, which was the highest since Q2 2014. Q3 2017 also was the second straight quarter of GDP growth over 3.0%. The U.S. economy had not posted back-to-back 3.0% growth quarters since 2014.

As we look to the future, economists are forecasting very good, but not great, economic performance in 2018 and 2019. These predictions are an improvement over what economists were predicting earlier in 2017 when the economic consensus was continued economic expansion in 2018 followed by a two quarter slow down in 2019 with expansion resuming in late 2019 for a sustainable period.

Many economists with an optimistic outlook for the next two years are attributing it to a lack of headwinds. A few of the positive indicators from October and November often mentioned include: 1) strong job gains; 2) wage expansion; 3) expanding industrial production; and 4) the consumer confidence index (which recently posted a 17-year high). One of the most frequently cited concerns is an unforeseen geopolitical event.

U.S. tax reform has the potential to accelerate economic growth. Hopefully by this time next year we will be able to speak definitively about tax reform having a favorable impact on the economy. Until then, enjoy the positive outlook.

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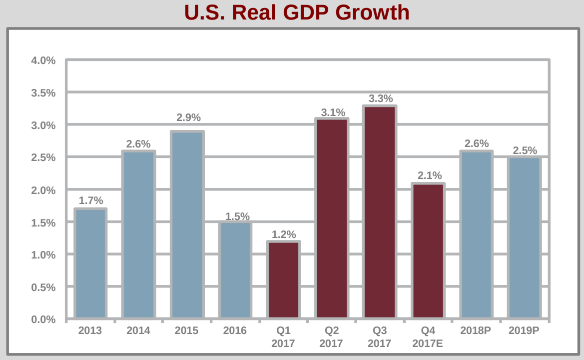
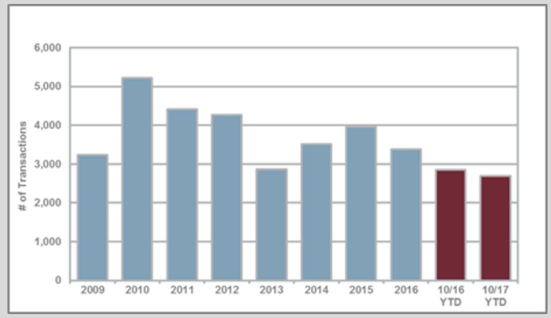
U.S. Real GDP Growth



Source: Wells Fargo Securities Economics Group

Purchase prices continue to increase

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



Source: Robert W. Baird & Co.

Transaction Volume Rebounding

The summer "buzz" from sponsors that they were experiencing increased deal volume did, in fact, translate into deal closings, which narrowed the deal volume gap between 2016 and 2017 from a 14.4% year-over-year decline in July to a 5.5% decline through October 2017, according to Robert W. Baird & Co.

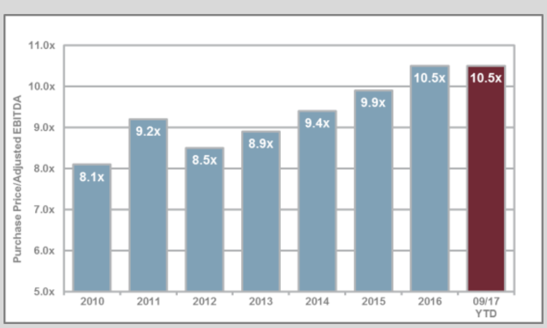
While the market experienced a pick-up in volume from July through October, there was a decline in the proportion of deals closed by strategic buyers as compared to financial buyers, according to PitchBook. The decline in strategic buyers was attributed to the pace of strategic acquisitions over the last two years and a focus on acquisition integration and existing operations instead of additional M&A. In addition, the decline in quality companies for sale has resulted in a higher percentage of private equity secondary buyout activity. According to PitchBook, through Q3 2017 52.6% of sponsor-backed companies were sold to other sponsors.

Purchase Prices Remain At Record Levels

Purchase prices for both strategic and financial buyer transactions continue to increase as a result of increases in debt availability and scarcity of quality companies for sale. According to PitchBook, the average enterprise value/EBITDA multiple for all reported transactions was 10.5x through Q3 2017, which is consistent with the lofty valuations achieved in 2016. According to GF Data®, the average purchase price for $10 to $250 million enterprise value private equity-backed leveraged buyouts ("LBOs") was 7.1x EBITDA, which was the highest in the past decade. GF Data® also reported that LBOs in the $10 to $25 million enterprise value range achieved average multiples of 6.3x EBITDA, which is the first time since GF Data® started tracking data in 2003 that an average above 6.0x has been achieved for small deals.

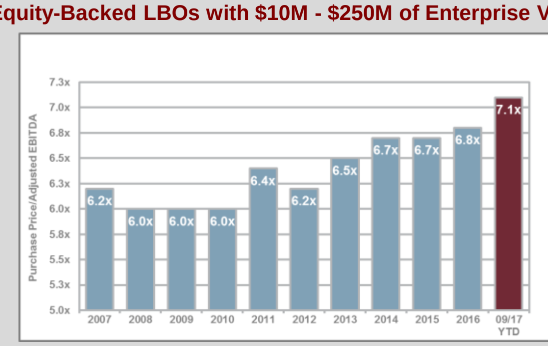
Valuation multiples expanded fastest in three markets with high transaction volume in 2017: manufacturing, healthcare, and technology. Based on current trends, 2018 could be another year of strong multiples.

U.S. M&A Transaction Multiples



Source: PitchBook

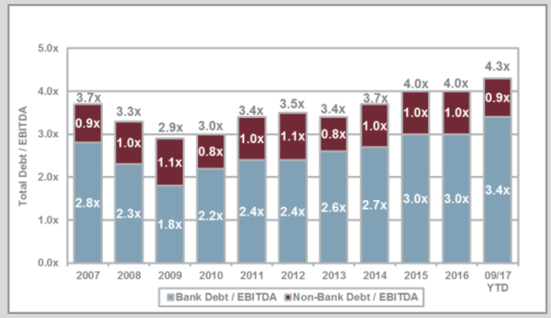
Average Purchase Price/Adjusted EBITDA Multiples for Private Equity-Backed LBOs with $10M - $250M of Enterprise Value



Source: GF Data®

Average total debt/EBITDA multiples increased in 2017

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



Source: GF Data®

Increased Debt Availability Trickling Down to Smaller Transactions

Average total debt/EBITDA multiples for $10 to $250 million enterprise value private equity-backed LBOs has continued to increase throughout 2017, reaching 4.3x through Q3 2017 according to GF Data®.

As indicated in the chart below, the increase in total leverage multiples is occurring in large (>$100 million) and small (<$25 million) deals. In contrast, buyers for deals in the $25 to $100 million range appear to be using more equity than necessary, which may be intended to preserve flexibility or borrowing capacity for growth or acquisitions.

The continued expansion of total debt multiples for transactions over $100 million is not a surprise based on the significant amount of available capital from senior banks, unitranche lenders, BDCs, and subordinated debt providers chasing fewer deals in the marketplace.

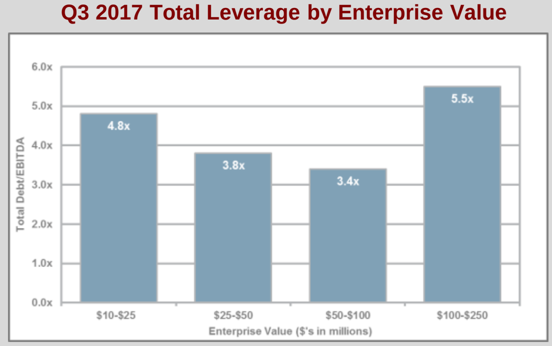
The scarcity of deals and the competitive landscape is influencing lenders to compete on price, terms and covenants.

The expansion of total leverage multiples for $10 to $25 million transactions is unprecedented. Historically, lenders have applied a size premium to companies with over $10 to $15 million of EBITDA which translated into a willingness to lend at least 1.0x EBITDA more to larger companies than companies with less than $5 million of EBITDA. However, the data below suggests that lenders are becoming more aggressive on smaller deals by offering higher leverage multiples and aggressive price and terms to smaller companies. This trend is consistent with the expansion of purchase price multiples for smaller companies in today's market when compared to historical periods.

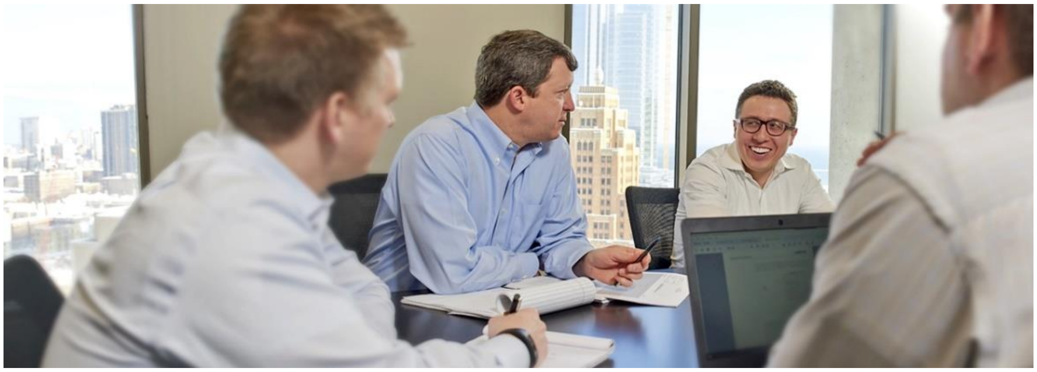
As 2017 comes to a close, there are no apparent signals in the debt markets that indicate a reduction in debt availability in 2018.

Total leverage multiples for $10 to $25 million transactions is unprecedented

Q3 2017 Total Leverage by Enterprise Value



Source: GF Data®



Firm Overview

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Cleary Gull's investment bankers help clients throughout the U.S. achieve their financial and business goals with advice on exclusive sales, mergers, acquisitions, raising debt and equity in private capital markets, and other transactions, while working through complex financial, legal, tax, accounting and other technical issues.

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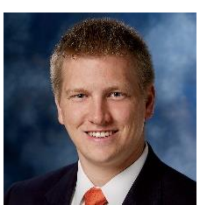

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