"a firm belief in the entrepreneurial spirit"

CLEARY GULL

MARKET MONITOR

M&A AND FINANCING UPDATE ◻ 3rd QUARTER 2017

Deal Volume Declines Despite Robust Valuations

July 2017 tallied the fewest number of completed transactions in a single month since November 2009, and year-to-date ("YTD") July 2017 deal volume declined 14.4% compared to the same period in 2016, according to Robert W. Baird & Co.

PitchBook attributed the M&A deal volume slowdown in the first half ("1H") of 2017 to market perceptions of political and economic uncertainty.

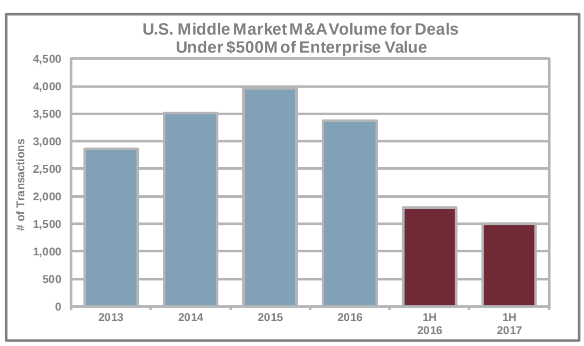
The continued decline in deal volume runs counter to positive economic indicators like Q2 2017 GDP growth of 2.6%, lower unemployment levels, higher Purchasing Managers' Index (PMI), and the positive outlook of consumers on the economy and/or their personal financial situations as reported by The Conference Board.

PitchBook observed that financial sponsors are becoming a bigger part of the overall M&A market during this period of high valuations, possibly because strategic buyers have the luxury of waiting for prices to come down. Strategic buyers also typically have a much longer time horizon than the finite life of PE fund investments.

Financial sponsors are also holding their portfolio companies for longer periods of time. One could speculate that the longer hold periods are the result of paying a higher price for each platform company and the challenges that many companies face to produce significant organic growth in today's economy.

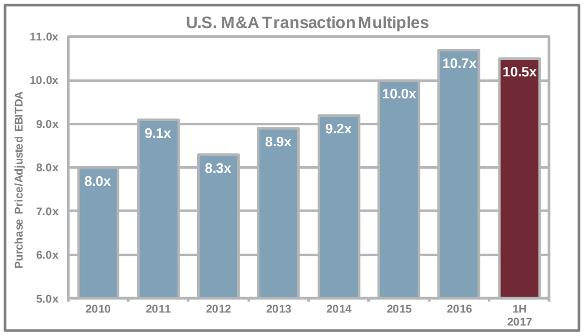
Despite the lower volume through July, the "buzz" is that sponsors are seeing very high inbound deal volume this summer. If so, this volume pick-up could translate to more completed deals in Q3 and Q4 2017.

DEAL VOLUME DOWN

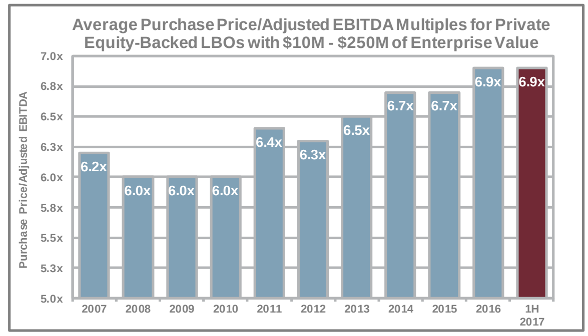


Source: Robert W. Baird & Co.

PURCHASE PRICES REMAIN AT PEAK LEVELS



Source: PitchBook



Source: GF Data®

Purchase Prices Maintain Peak Levels

Purchase prices for both strategic and financial buyer transactions continue to trend near the record average multiples established in 2016. According to PitchBook, the average enterprise value/EBITDA multiple for all reported transactions was 10.5x for the 1H 2017, in line with the 10.7x average in 2016. On the lower end of the market, the average purchase price for $10 to $250 million enterprise value private equity-backed leveraged buyouts ("LBOs") reported by GF Data® for the 1H of 2017 remained consistent with 2016 at 6.9x EBITDA.

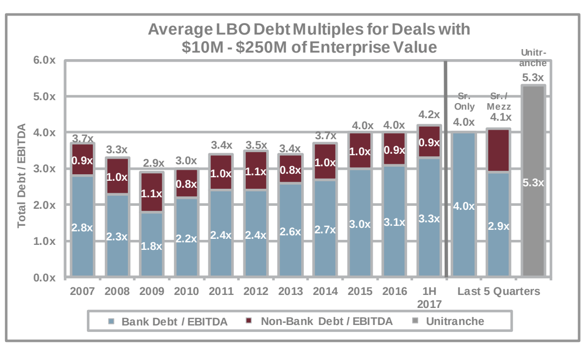
The high purchase price multiples can be partially explained by the availability of cheap debt and firms raising larger funds.

Debt For Deals is Abundant

Average total debt/EBITDA multiples for $10 to $250 million enterprise value private equity-backed LBOs expanded to 4.2x in 1H 2017, according to GF Data®. This total debt level represents the highest recorded by GF Data® in the 15 years it has been tracking the statistic.

During Q2 2017, GF Data® reported buyers for deals over $50 million in enterprise value funded them with an average of over 5.4x EBITDA, which is significantly higher than the 4.8x total debt levels in 2015 and 2016. Unitranche facilities may have contributed to the increase in total leverage. The average unitranche facility was 5.3x total debt compared to 4.0x for senior only and 4.1x for traditional, two tier structures of senior and mezzanine debt.

SENIOR DEBT AND TOTAL LEVERAGE REMAIN STRONG



Source: GF Data®

Investment and Approval Decisions for Strategic Buyers, Private Equity Groups, and Lenders Are More Challenging in Today's "Priced to Perfection" Market

Before 2015, the concerns of buyers and their lenders when contemplating a transaction were relatively consistent and often predictable. Buyers focused their diligence on quality of earnings, environmental, customer relationships, and definitive agreement terms. If a diligence issue arose, it was customary for the buyer and seller to negotiate a path forward via a mutual compromise to complete a transaction.

In today's "priced to perfection" M&A market, buyers and their lenders and investors are submitting aggressive valuation proposals at the Indications of Interest ("IOI"), term sheets, or Letter of Intent ("LOI") stage. The aggressive proposals are pushing many deals to the point of indifference for a buyer if diligence does not check out perfectly. As a result of buyers priced to perfection mindset, many are just as content to walk away from a deal and their "sunk" deal costs as they are to negotiate to find a mutually acceptable compromise to close a transaction. The following table highlights some of the important differences between initial and final agreement of a deal by strategic buyers, financial buyers, and lenders.

Capital Source	Approval Stage	Approvers	Rationale for Approval or Disapproval
Strategic Buyer	IOI	Corporate Development or Divisional Management	Products/Services Sales channels Margin Profile Transaction Size Management and employee base Domestic/International locations Valuation
	LOI	C-Suite Executives or Board of Directors	*In addition to the above considerations:* Capital allocation strategy Comparison to alternative transactions Earnings accretion/dilution Balance sheet implications
Financial Buyer	IOI	Partner or Deal Team	Business sector (e.g., manufacturing, service, healthcare) Go-to-market strategy and sales channels Growth profile Customer concentration Management continuity Margin profile Valuation
	LOI	Investment Committee	*In addition to the above considerations:* Quality of earnings/diligence issues Alternative transaction opportunities Past history in sector Access to operating partners or management resources Availability and cost of financing
Lender	Term Sheet	Business Development Officer or Regional Office	Business sector (e.g., manufacturing, service, healthcare) Knowledge of the company Cashflow model Ratio of debt to equity Industry experience Management Performance in a cycle or season
	Commitment Letter	Chief Credit Officer or Credit Committee	*In addition to the above considerations:* Quality of earnings/diligence issues Lending history in a sector Portfolio allocation issues Timing in a cycle (pre- or post-recession) Equity commitment

FIRM OVERVIEW

Cleary Gull Inc. is an employee-owned investment banking firm serving private equity funds, entrepreneurs, and middle market companies. *"A Firm Belief in the Entrepreneurial Spirit"* is our core ideology and the foundation for all of our client engagements.

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.

GLOBAL REACH

Cleary Gull is a member of the International Association of Investment Bankers. The IAIB *(www.iaib.org)* is a global network of investment banking firms in Australia, Asia, Europe, and North America working together to broaden their reach and leverage their expertise.

CONTACT

The Cleary Gull Investment Banking team has completed more than 200 transactions since 1995, representing over $7 billion in transaction value.

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