

“ a firm belief in the entrepreneurial spirit ”

CLEARY GULL

MARKET MONITOR

M&A AND FINANCING UPDATE



3rd QUARTER 2014

High Prices Add to Due Diligence Pressure

Competition for deals is fierce! Purchase prices are being bid up to lofty levels due to an abundance of buyers chasing too few deals and a strong financing market.

Despite this “froth”, transactions can be difficult to close. At high prices, due diligence must be nearly perfect to support buyer valuation and financing assumptions.

Sellers need to understand many things before entering into exclusivity: What is the buyer’s diligence plan? Does the buyer have the capital to consummate the deal? How thorough is the buyer’s knowledge about the company and industry? What are the seller’s back up plans if the buyer tries to change the terms of a transaction?

In a strong M&A market, being well-prepared before selling your business is just as important as ever.

The Long, Slow Recovery Continues

Growth in the first half of 2014 was stronger than previously reported. Gross Domestic Product (“GDP”) was revised upward during the second quarter to 4.2%, following a decline of 2.1% during the first quarter.

Economists expect modest growth the remainder of the year. Wells Fargo predicts approximately 2.0% GDP growth for all of 2014, increasing to 2.9% in 2015.

Housing starts, which lagged during most of 2014, showed some improvement in July. They increased to an annualized rate of 1.09 million, the strongest since last November.

The unemployment rate dropped to 6.1% in August, down from 7.2% one year earlier. Nonfarm payroll employment increased 142,000 in August, the first month since January that hiring gains slipped below the 200,000 level. And, the ISM manufacturing index registered 57.9 in August, showing expansion for the 15th straight month (above 50 signals growth).

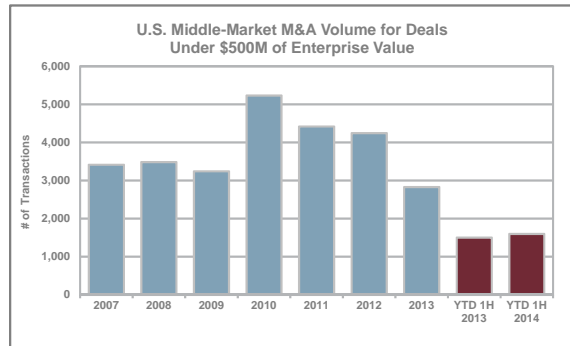
With a rallying stock market and a generally improving economy, we expect the M&A market to be strong for the remainder of 2014.

KEY INTEREST RATES

	9/16/2014	12/31/2013	12/31/2012
1-Month T Bill	0.01%	0.01%	0.02%
2-Year UST	0.55%	0.38%	0.25%
5-Year UST	1.78%	1.75%	0.72%
10-Year UST	2.60%	3.04%	1.78%
30-Year UST	3.36%	3.96%	2.95%
EUR/USD	\$1.29	\$1.38	\$1.32
1-Month LIBOR	0.15%	0.17%	0.21%
Federal Funds	0.25%	0.25%	0.25%
Prime	3.25%	3.25%	3.25%

Source: Capital IQ

DEAL VOLUME INCREASED SLIGHTLY IN THE FIRST OF HALF 2014



Source: Robert W. Baird & Co.

IMPROVING M&A AND FINANCING MARKETS

Middle-Market Deal Volume Up Significantly in Q2 and Modestly in First Half of 2014

Transaction volume during 2014 is gaining momentum. According to Robert W. Baird, the number of transactions with values less than \$500 million increased 6.3% during the first half of 2014.

However, volume was not equal during the first and second quarters. Transaction volume declined by 13.2% during the first quarter compared to the year earlier period, only to increase 43.8% in the second quarter compared to the second quarter of 2013.

With aging private equity portfolios, a growing number of baby boomers looking to retire, and strong credit markets, we expect transaction volume to continue to gain momentum during the remainder of 2014.

Senior and Mezzanine Lending Markets are Aggressive

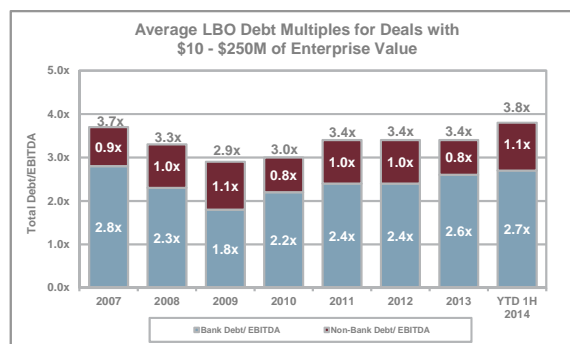
Senior debt market support for lower middle-market LBOs increased during the first half of 2014 compared to 2013. According to GF Data for \$10 - \$250 million enterprise value private equity-backed buyouts, average senior debt/EBITDA multiples were 2.7x during the first half of 2014 compared to 2.6x during 2013. Pressure to grow assets, combined with historically low interest rates, continues to result in a highly attractive market for borrowers.

Total debt/EBITDA for these transactions increased to 3.8x during the first half of 2014 compared to 3.4x during 2013. Mezzanine debt played a larger role in financing LBOs, increasing to 1.1x EBITDA from 0.8x EBITDA during 2013.

There is an even greater credit appetite for “larger” (\$100 - \$200 million enterprise value) transactions, particularly from non-bank lenders.

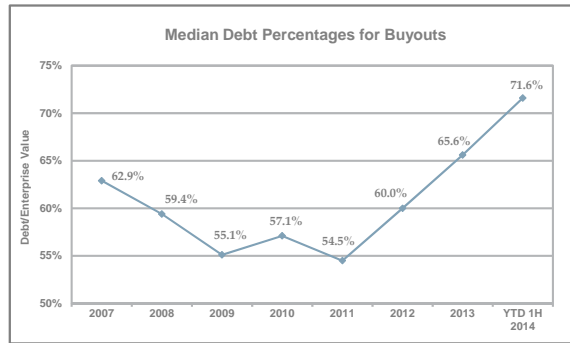
Larger transactions achieved 3.6x senior debt and 4.3x total debt compared to 2.5x senior debt and 3.6x total debt for “smaller” (\$10 - \$50 million enterprise value) transactions.

LEVERAGE MULTIPLES CONTINUE TO INCREASE



Source: GF Data®

MEDIAN DEBT PERCENTAGES FOR BUYOUTS



Source: PitchBook

Buyers Utilizing More Debt

Higher debt levels typically result in higher purchase prices. According to PitchBook, the median debt percentage for all 2014 buyouts hit 72%, a six percentage-point jump from 2013's 66%. This leverage level is significantly higher than 2009-2011 when 54%-57% debt was more common.

Although middle-market transactions utilize lower debt levels, their leverage has increased as well. Buyers used, on average, 57.3% debt during the first half of 2014, up from 52.0% in 2011 according to GF Data, which tracks transactions with enterprise values less than \$250 million.

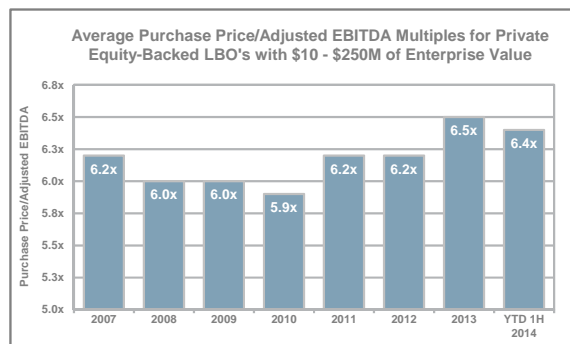
Cheap and abundant debt is driving purchase prices higher, often resulting in financial buyer valuations exceeding what strategic buyers often are willing to pay.

Purchase Price Multiples Remain Strong

Middle-market purchase price multiples for LBO transactions reported to GF Data remained near historic highs. The average purchase price multiple (enterprise values less than \$500 million) was 6.4x EBITDA for the first half of 2014, consistent with the 6.5x average EBITDA multiple realized for all of 2013.

Larger transactions continue to realize significantly higher multiples. Average EBITDA multiples reported for LBO transactions with enterprise values between \$50 million and \$250 million were 7.6x EBITDA during the first half of 2014 compared to 5.4x EBITDA for transactions with enterprise values between \$10 to \$50 million in EBITDA.

PURCHASE PRICES REMAIN NEAR HISTORIC HIGHS



Source: GF Data®

FIRM OVERVIEW

Cleary Gull Inc. is an employee-owned firm providing specialized financial services since 1987 to individuals, institutional investors, and middle-market companies through two operating divisions: Investment Banking and Investment Management Services. “*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, working through complex financial, legal, tax, accounting and other technical issues.

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The Cleary Gull Investment Banking team has completed more than 120 transactions since 1995, representing over \$6 billion in transaction value.

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