“a firm belief in the entrepreneurial spirit”

CLEARY GULL

MARKET MONITOR

M&A AND FINANCING UPDATE ▫ 4th QUARTER 2014

Positive Economic Outlook Strengthens Markets

The economic outlook for the U.S. remains positive. More importantly for M&A markets, there seems to be a consensus around positive/improving outlook which makes it far easier for buyers, sellers, lenders and investors to plan and commit to transactions.

GDP increased at an annual rate of 3.9% during the third quarter, which follows an upwardly revised second quarter estimate of 4.2%, the largest back-to-back quarters since 2003. Wells Fargo predicts approximately 2.2% GDP growth for all of 2014, increasing to 2.7% in 2015.

Most economic data continued to strengthen in November. Consumer confidence rose to 94.5, the highest level in seven years. The unemployment rate dropped to 5.8%, down from 7.2% one year earlier. Nonfarm payroll posted a very strong increase of 321,000. And, lower energy prices resulted in the ISM manufacturing index declining slightly to 58.7 from 59.0 in October. Housing starts have also stabilized near 1.0 million most of this year.

With a rallying stock market and a generally improving economy, particularly relative to Europe, the strong M&A and financing market is poised to continue into 2015.

Lower Energy Prices Spurring Economic Growth

Lower energy prices, particularly oil, are likely to have a significant impact on our economy. The slowdown in growth in China, stagnation in Japan and Europe, and increased energy production in the U.S. have combined to drive oil prices well below $70 a barrel.

Lower energy prices are generally good for our economy. According to Wells Fargo, lower oil prices should add approximately 0.5% to 2015 GDP, predominately driven by higher discretionary consumer spending.

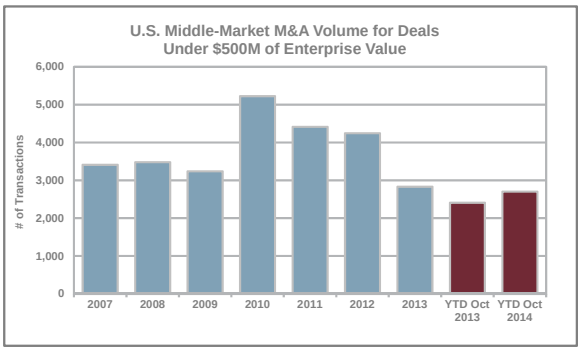
Can the price of oil go too low? Morgan Stanley’s base case for oil is $70 a barrel in 2015, but believes it could average as little as $53. According to Gregory Zuckerman of the *Wall Street Journal*, below $70, many oil and gas drilling projects will not cover their costs and new investment will slow.

KEY INTEREST RATES

	12/12/2014	12/31/2013	12/31/2012
1-Month T Bill	0.02%	0.01%	0.02%
2-Year UST	0.56%	0.38%	0.25%
5-Year UST	1.53%	1.75%	0.72%
10-Year UST	2.10%	3.04%	1.78%
30-Year UST	2.75%	3.96%	2.95%
EUR/USD	$1.24	$1.38	$1.32
1-Month LIBOR	0.16%	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 DURING THE FIRST NINE MONTHS OF 2014



Source: Robert W. Baird & Co.

STRONG M&A AND FINANCING MARKETS

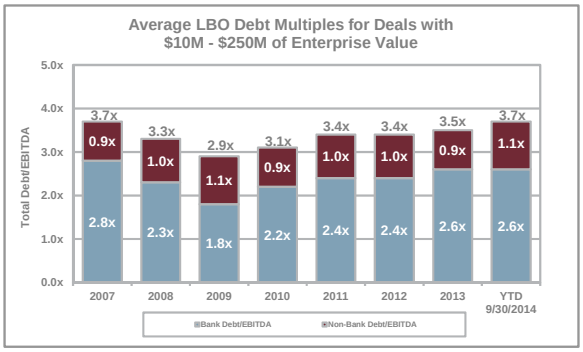
Middle-Market Deal Volume Up Significantly in First Nine Months of 2014

Middle-market transaction volume has increased nicely during 2014. According to Robert W. Baird, the number of transactions with values less than $500 million increased 14.6% during the first nine months of 2014 compared to the year earlier period.

The number of transactions with values greater than $1 billion increased an even more dramatic 59.2%, as an abundance of credit and the availability of both public debt and equity has made it a favorable transaction environment.

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 into 2015.

LEVERAGE MULTIPLES CONTINUE TO RISE



Source: GF Data®

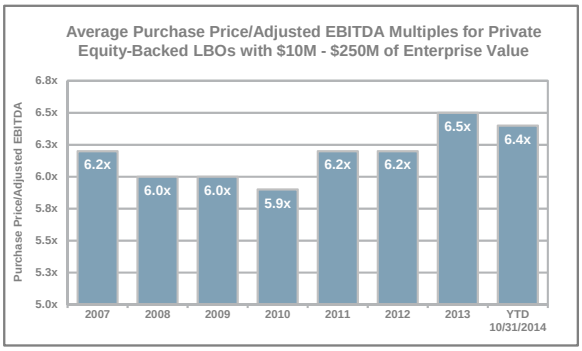
Senior and Mezzanine Lending Markets are Aggressive

Senior debt market support for lower middle-market LBOs remained strong during the first nine months of 2014. According to GF Data, average senior debt/EBITDA multiple for $10 - $250 million enterprise value private equity-backed buyouts was 2.6x during the first nine months of 2014, the same as during 2013. Given low interest rates, a healthy economy, and pressure on banks to grow assets, it continues to be a highly attractive time to borrow money.

Total debt/EBITDA for the LBO segment of the market increased to 3.7x during the first nine months of 2014 compared to 3.5x during 2013. Mezzanine debt accounted for all of the increase, rising to 1.1x EBITDA compared to 0.9x EBITDA during 2013.

There continues to be significantly more debt available for "larger" ($100 - $250 million enterprise value) transactions. Larger transactions achieved 3.5x senior debt and 4.4x total debt compared to 2.3x senior debt and 3.4x total debt for "smaller" ($10 - $25 million enterprise value) transactions.

PURCHASE PRICES REMAIN NEAR HISTORIC HIGHS



Source: GF Data®

A SELLER'S MARKET

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 nine months of 2014, consistent with the 6.5x average EBITDA multiple realized for all of 2013.

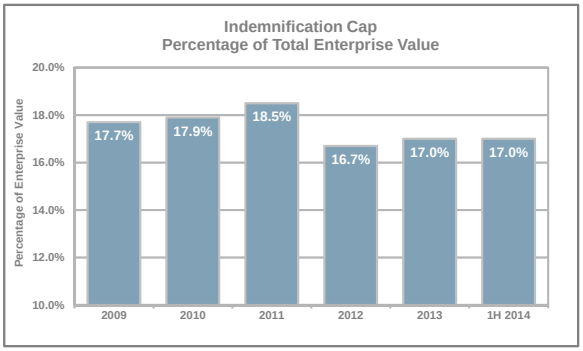
Larger transactions continue to realize significantly higher multiples. Average EBITDA multiples reported for LBO transactions with enterprise values between $100 million and $250 million were 7.7x EBITDA during the first nine months of 2014 compared to 5.4x EBITDA for transactions with enterprise values between $10 to $25 million in EBITDA.

Contract Terms Favor Sellers

Contract terms are an important part of any transaction. According to a recent GF Data analysis, the indemnification cap, escrow amount and indemnification periods for LBOs with less than $250 million enterprise values all slightly improved for sellers.

During the first half of 2014, indemnification caps declined to 17.0% of enterprise value compared to 18.5% in 2011. Escrow/holdbacks decreased to 6.4% of enterprise value during the first half of 2014 compared to 7.0% during 2011. The average indemnification period also declined slightly to 17.0 months from 17.3 months during the same period. During this period, average "baskets" increased slightly to 1.1% from 0.8%.

INDEMNIFICATION LIMITS DECLINE



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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GLOBAL REACH

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

CONTACT

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

Contact us for more information on Cleary Gull and our Investment Banking services.

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