M&A AND CORPORATE FINANCE OVERVIEW:

1Q18

Merger & Acquisition
Corporate Finance Advisory
Strategic Consulting

400 Southpointe Boulevard, Plaza I, Suite 440
Canonsburg, PA 15317 • Tel. 724-743-5800
Fax 724-743-5870 • www.strategicad.com

STRATEGIC ADVISORS
Middle Market Investment Bankers

Bringing Efficiency to Inefficient Markets

Executive Summary

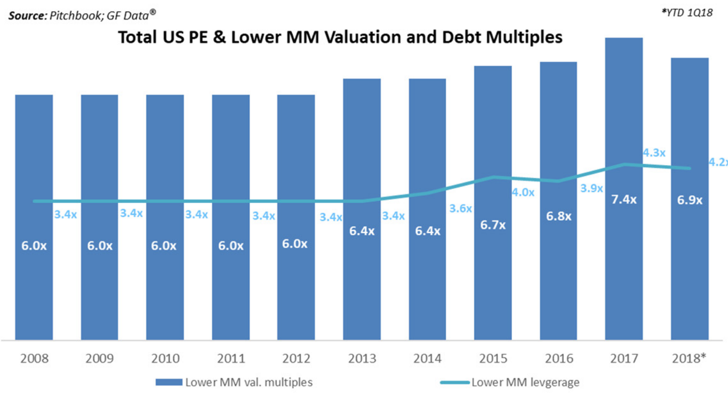
Clear Skies But Muddy Waters: Deal Volume Mixed In 1Q18 But Expected to Recover

1Q18 saw mixed deal and funding activity for PE and the middle market (MM) in the United States. The number of total private equity (PE) deals tracked by Pitchbook was down 4.0% in 1Q18 compared to 4Q17 but was far better than the typical first quarter 25% decline in deal count. However, deal activity for sub-$500.0m transactions as measured by Baird actually increased 4.3% year-over-year through February. Add-on acquisitions continued to gain in popularity, comprising 70% of buy-out activity in 1Q18. US PE Fundraising also declined in 1Q18 compared to 4Q17. Median fund size followed suit, declining slightly in 1Q18 to $252.5m compared to $275.0m in 2017. Questions on price and quality continue to dog deal flow, but these concerns are counter-balanced by strong investor demand and a friendly financing environment.

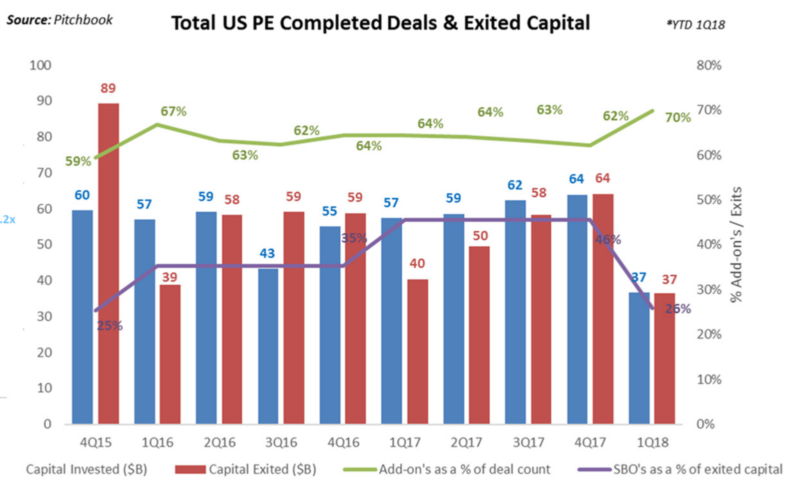
Average valuations in the lower MM (deals of $250.0m or less) declined slightly to 6.9x Total Enterprise Value (TEV) to EBITDA in 1Q18 from 7.4x in 2017. This compares to the aggregate median valuation of all U.S. PE deals (deals of $25.0m to $1.0bn+) of 10.5x in 2017. Since the recession, valuations have been benefiting from intense deal competition driven by bulge-bracket PE firms shopping down-market from non-traditional participants such as family offices, insurance companies, and institutional pension funds.

A competitive financing environment and a glut of available capital have kept deal terms friendly. This supported higher-leverage multiples across all deal levels, albeit with an increase in rep and warranty insurance. Leverage as measured by total debt to EBITDA was 4.2x for the lower MM in 1Q18 (down from 4.3x in 4Q17) and 5.7x for all US PE deals in 2017.

Despite a mixed start to 2018, the outlook for the year remains supportive of a strong PE and MM M&A environment reflecting small and MM business optimism and positive views from PE industry participants. Nonetheless, an increased chance of recession looms, which is continuing to increase downside risk to this outlook. Recession will likely be driven by changes to inflation (and the resulting Federal Reserve policy), the strength of the dollar, and trade policy.



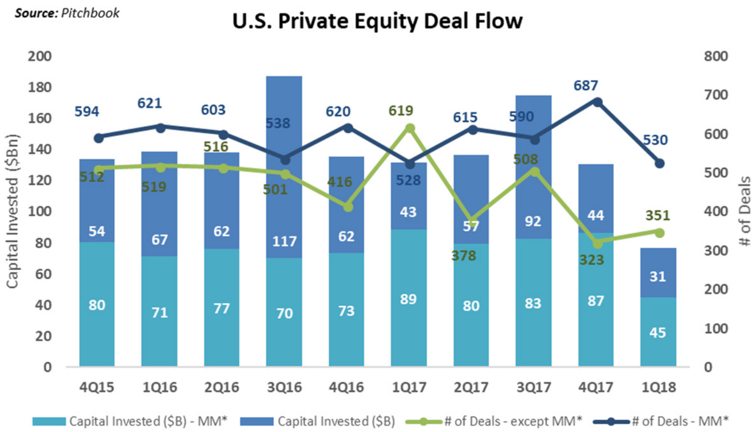
Note: (1) Lower MM defined as deals with a TEV of $10.0 - $250.0m, Total US PE defined as TEV $25.0m - $1.0bn+
(2) Lower MM figures are an **average**
(3) 2006 - 2013 lower MM figures use a 2003 - 2012 average



lote: 2016 and 2017 SBO % estimated at YE total

The View From Above

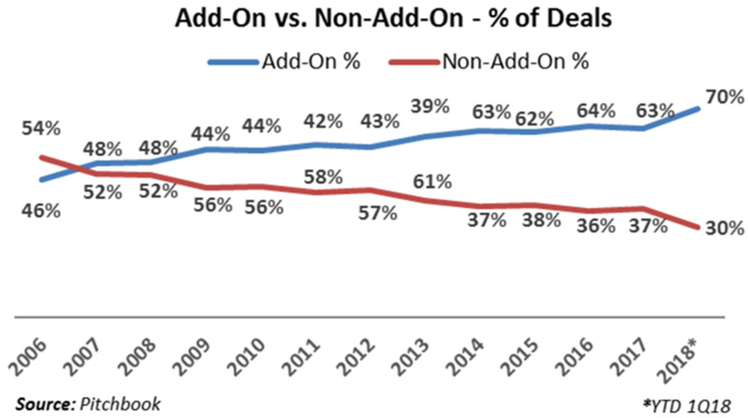
1Q18: A Rocky But Not Unexpected Start to 2018



High valuations and aggressive financing terms remained the norm through 1Q18. However, deal count, fundraising, and valuations experienced mixed results for the quarter. This is in contrast to overall US and Canadian M&A activity, which according to Mergermarket was up 17.4% to $412.2bn year-over-year in 1Q18. According to Pitchbook's *US PE Breakdown 1Q 2018* report, 881 deals were completed across the U.S. in 1Q18 with an aggregate deal value of $76.6bn. When factoring in estimated deals closed, these figures rise to 1,101 deals with a value of $88.8bn for a year-over-year decline of 4.0% and 32.8%, respectively. Partially mitigating deal-flow concerns are the 124 deals worth $94.3bn, which have been announced but have yet to close in 2018. Despite sitting on just over a trillion in dry powder globally, the number of completed PE deals declined due to price and target quality concerns. In terms of split, MM deals contributed 530 (60%) of completed deals and $324.0bn (59%) of total capital.

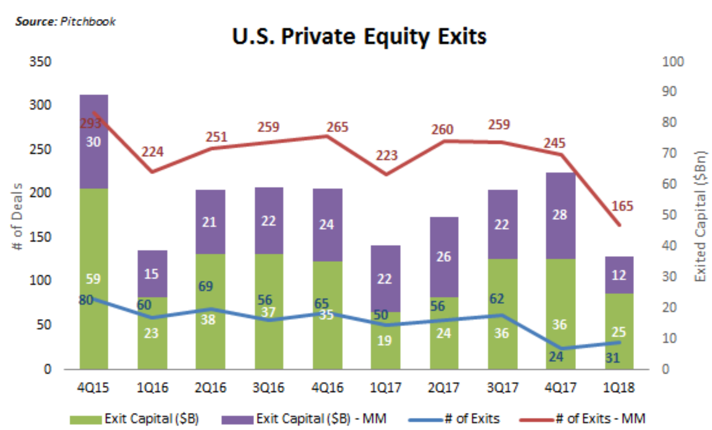
Although the pace of completed deals has continued to decelerate compared to 2014-2016, competition has sustained high median valuation multiples. 2017 mutiples for all PE transactions were 10.5x Total Enterprise Value (TEV) to EBITDA and 10.4x for the MM. Multiples for the lower MM (TEV of $10.0m to $250m) declined slightly during 1Q18 to 6.9x but were within the range of previous quarters. Despite this, robust valuations have been noted by the Lincoln Middle Market Index (MMI) over 1Q18, which saw a growth rate in enterprise values of 2.9% compared to 0.9% for the S&P 500. This index measures quarterly changes in enterprise values for 350 MM companies, primarily owned by PE groups. Since 1Q14 the MMI has appreciated by 28.2%. The technology segment led the index over the last year, increasing 16.4%, followed by industrials at 10%.

Add-on acquisitions continued to represent the majority of buy-out activity (70%) in 1Q18. The grab for add-on acquisitions will likely diminish the investible universe of these assets and support high multiples across lower-tier EBITDA thresholds.



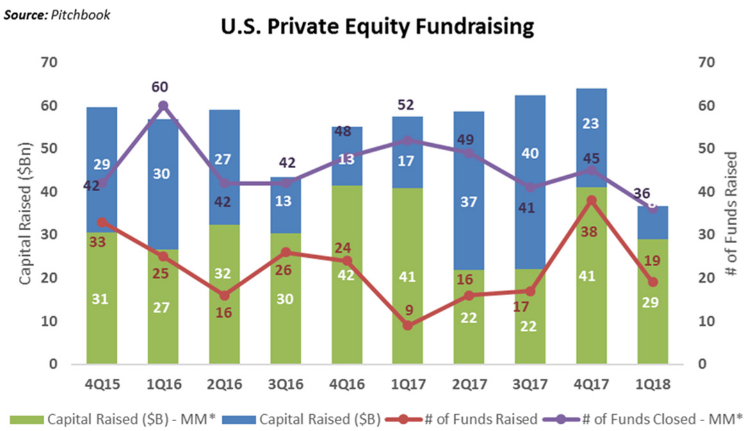
Deal exit volume dropped 27% in 1Q18 to 196 exits worth $36.6bn (compared to 269 exits worth $64.2bn in 4Q17). Of total US PE exits, 84% of exited deals and 33% of exited capital was attributed to the MM. The decline in the number of exited deals was largely due to the continued decline in Secondary Buyouts (SBO's), which were down from 46% of exited capital in 2017 to 25% in 1Q18. SBO's are transactions where a PE-owned portfolio company sells to another PE fund. Corporate acquisitions accounted for 61% of exited capital in 1Q 2018, comprised of 505 deals worth $85.1bn.

SBO's have until 1Q18 trended as an increasingly popular exit opportunity. SBO's will likely rebound in the coming quarters given that many PE funds are maturing (more than a third of portfolio companies are more than five years old) in an environment flush with dry powder, thereby making other PE firms the most likely buyers in an exit. Median buyout size continued to increase through 1Q18 to $175.0m (up 17% over FY 2017) due to the aforementioned increase in deal multiples.

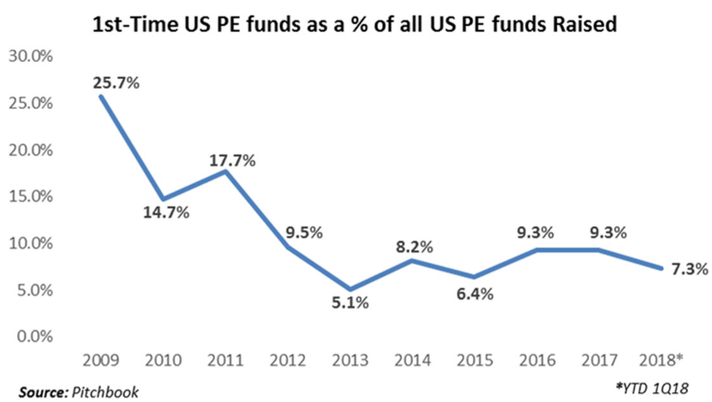


From a sector standpoint, healthcare PE deals fell the most over the last quarter as a percentage of deal value in dollars (from 16% to 14%), whereas IT, financial services, and B2B had the largest increase at 1% each. All other sectors remained flat or decreased slightly.

Capital raised by PE funds in 1Q18 totaled $36.6bn committed across 55 funds, compared to $63.9bn in capital raised across 83 funds in 4Q17. 2017 had been the strongest fundraising year in a decade, which likely took some steam out of early 1Q18. Breaking down the figures, the MM accounted for 79% of capital raised across 65% of funds raised. Larger funds (over $1.0bn) continue to raise a large portion of funds, taking in over half of raised capital in 1Q18.



Median US PE size of raised funds declined slightly in 1Q18 from $275.0m in 2017 to $252.5m in 1Q18. Approximately 19% of these investments are concentrated in mega-funds with more than $5.0bn at closing, a decrease from 47% of all capital raised in 2017. Despite continued consolidation into mega-funds, the number of first-time funds, as a percentage of all funds raised, has remained above the historical trough seen in 2013..

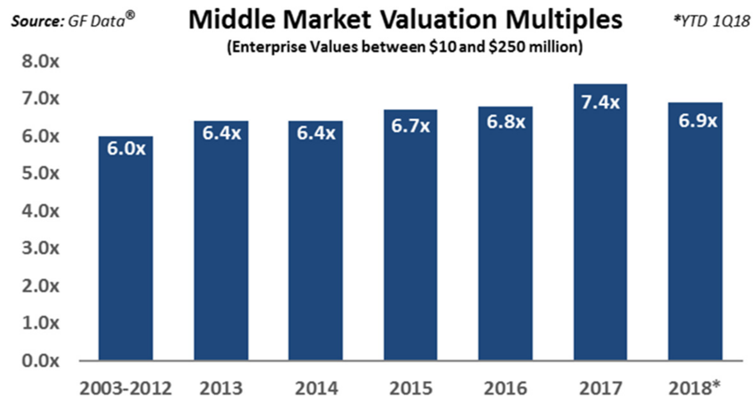


Lower Middle Market Close-up

Valuations Decline Slightly But Remain Healthy

According to data reported to GF Data® from 52 transactions of $250.0m or less, the average valuation multiple in the lower MM in 1Q18 was 6.9x. This was down from 7.4x in 2017. Further, MM valuation multiples ranged from 5.7x for deals with a TEV of $10.0-$25.0m to 9.2x for deals with a TEV of $50.0-$100.0m

GF Data® CEO Andrew Greenberg believes that continued high valuations could be frothy market conditions extending to businesses that are more pedestrian and may signal a peak in market valuations. GF Data co-founder, Mr. Graeme Frazier, noted that another reason for high multiples may be the continued trend favoring add-on acquisitions. Yet another reason is likely due to strong MM earnings, which according to a Golub Capital MM report grew 6.22% year-over-year through 1Q18 and 12.77% in FY 2017.

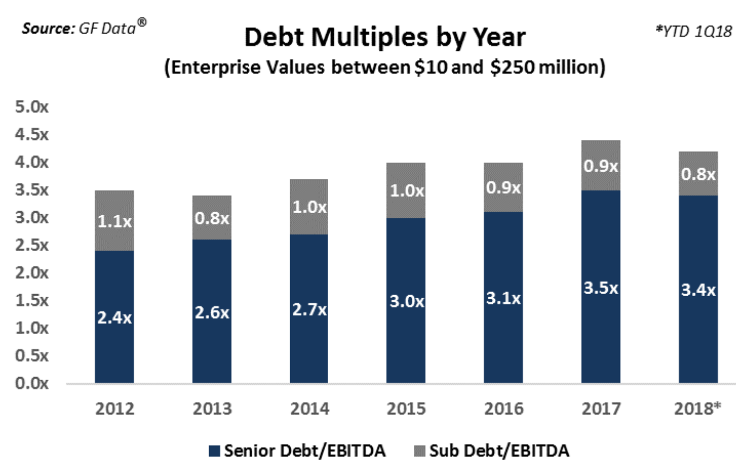


There is a continued re-assertion of the *quality premium*, which GF Data refers to as the valuation reward offered for above-average financial performance (defined as those with both EBITDA margins and revenue growth rates at or above 10%, or with one factor above 12% and the other metric at 8% or above). In 1Q18, this premium was at 21% (flat since 2016) and was in line with 2015 and 2016 figures.

Middle Market Deal Structure & Terms

Leverage Declines Slightly; Still Near Record Highs

The average total debt multiple on MM deals with a TEV of up to $250.0m declined slightly in 1Q18 to 4.2x (comprised of 3.4x senior debt & 0.8x sub-debt) compared to 4.4x in 4Q17. Debt multiples ranged from 3.3x for deals with a TEV of $10.0m-$25.0m to 4.9x for deals with a TEV of $100.0m-$250.0m. The median leverage in 2017 was 5.7x for the entire US PE MM. Lower MM average debt multiples have been on the rise since 2011-2013, when they averaged 3.4-3.5x.



Leverage has remained elevated due in part to the competitive financing environment. Banks are continuing to loosen underwriting standards in order to put abundant capital to work in a low-yield environment. As a result, high-yield credit spreads remain low, and debt continues to increase as a component of the capital structure in order to boost returns.

According to *Pitchbook*, in 2017 the median debt percentage for all US PE deals increased to 53% of enterprise value (compared to 59% for MM deals of $250.0m and less in 1Q18). Although sustainable in the current environment, should a recession occur or interest rates rise too quickly, companies purchased in highly leveraged deals will unlikely be able to service their debt.

The prevalence of cheap debt financing has lowered the average equity contribution as a percentage of a deal's capital structure. According to the *Spring 2018 GF Data Key Deal Terms* report, this figure averaged 44% in 2017, which is down from the 2009 high of 53%. In response to the lower equity requirement in the capital structure, there has been a substantial increase in the utilization of rep and warranty insurance (7.7% of reported deals in 2016 compared to 42% in 2017). Deals utilizing rep and warranty insurance have closed at half a turn of leverage higher than deals without (7.7x versus 7.1x).

In addition, indemnification cap levels, the maximum liability for a seller as a percentage of the purchase price, declined to 12% in 2017 from 16% in 2015-2016.

2018 Outlook

Key Message Remains "Cautious Optimism"

2018 is set to be another promising year of deal activity driven by small and MM business optimism, continued economic growth, and favorable views from PE industry participants. This is despite Intralinks® and FACTSET data, which suggest an alternative view of the next six months and last three months, respectively.

Intralinks Q2 Deal Flow Predictor forecasts M&A activity based on the number of M&A transactions that are being planned or have begun early-stage due diligence. This suggests that although global M&A volume will increase between 6% and 10% in the first half of 2018, North American volume will decrease by 5%. This is in line with data from FACTSET that noted US M&A activity dropped 5.7% in terms of aggregate transaction value in the three months ending in April 2018. It is important to mention, however, that this is in comparison to a remarkably strong first half for 2017 as well as the overall M&A market, which is having its own challenges surrounding mega-deals.

Turning to factors that support 2018 PE and MM deal activity; according to NFIB's Small Business Economic Trends, the Index of Small Business Optimism remained robust but declined slightly in April to 104.8 from near Reagan-era highs of 107.6 in February 2018. Given the removal of uncertainty from the passage of recent tax legislation and the current deregulatory environment, this index will likely continue to remain elevated. Nonetheless, remaining uncertainty on healthcare reform, the stalled pace of deregulation, and a smorgasbord of geopolitical issues could cap the upper bounds of this index for the time being.

Additional metrics that highlight business optimism include data from the Q1 2018 RSM US Middle Market Index (which surveyed 700 MM executives) and the SunTrust 2018 Business Pulse Survey (which surveyed 264 businesses with $2.0m-$9.99m in revenues and 250 with revenues of $10.0m to $250.0m). According to the RSM data, its index is at an all-time high of 136.7 (> 100 notes expansion) supported by the strong economy, a robust labor market, and changes to the aforementioned tax legislation. SunTrust echoed this by noting that 80% of its surveyed participants viewed their firms as strong, and 70% thought their business conditions would improve over the next 6 months.

Capital spending (as measured by the NFIB) signaled further business owner optimism with 61% of respondents making capital expenditures (capex) in the last six months. The majority of capex was used to purchase new equipment and vehicles.

Type of Capex

(% of Small Businesses Purchasing or Leasing In The Last 6-months)

Type	Current	1-yr ago	2-yrs ago	10-yr avg.
Vehicles	30	26	24	22
Equipment	45	45	40	38
Furniture / Fixtures	15	16	12	12
Buildings & Land (B&L)	6	7	5	6
Improvements to B&L	15	17	16	15

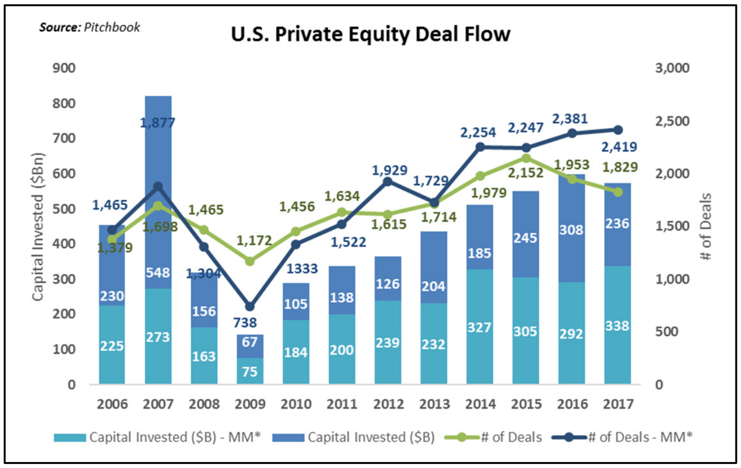
PE firms were equally as optimistic as business owners about their 2018 outlook. In a recent Pitchbook survey 75%+ to 90%+ of PE firms surveyed were optimistic about their portfolios' performance. In addition, they had a similar outlook for the performance of all industry sectors within their portfolios.

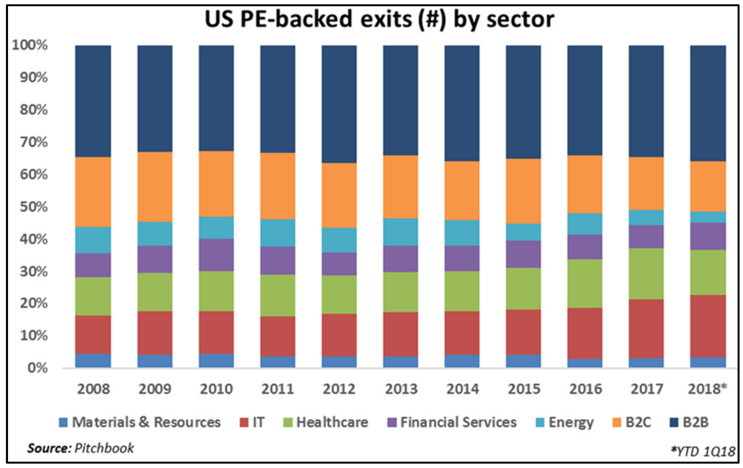
Three other factors conducive to deal making and sustaining high valuations in the short to intermediate term concerned dry powder, the availability of debt, and taxes. First, a large amount of dry powder remains that needs to be invested, and PE firms have a glut of aged inventory they will need to liquidate in the near term. As mentioned earlier, global PE dry powder is sitting at just over $1.0 trillion. This concentration is likely to spur continued mega-fund raises, platform add-on acquisitions, and continued investment into less traditional PE sectors such as technology. Second, investors will continue to seek debt financing while rates remain low and creditors are willing to lend. Third, lower corporate taxes will likely boost portfolio returns and corporate spending. These three factors and strong optimism on both the part of businesses and PE firms suggests a strong 2018 M&A environment.

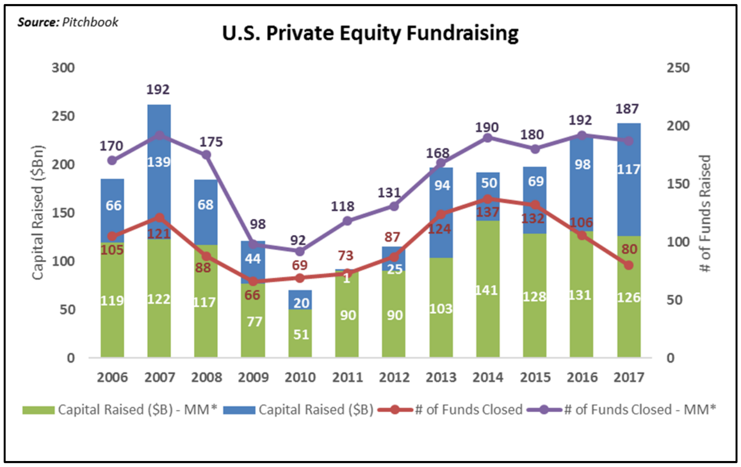
Additional trends that are likely to help sustain the current M&A environment include efficiencies gained from AI and the trend of "aqui-hiring", whereby companies are seeking to grow their workforce through acquisitions.

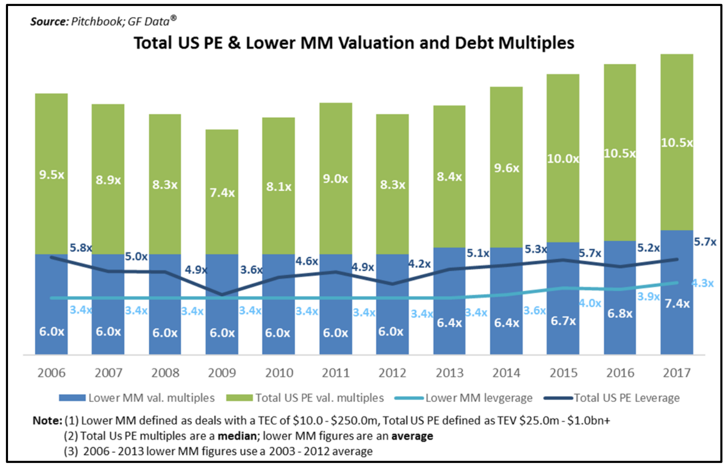
The caveat to the above outlook, however, is that high valuation multiples are forcing industry participants to alter their strategies by focusing more on operational efficiencies, SBO's, and add-on acquisitions. Further, these participants are doing so during a period of increasing recession risk. The US is in its longest-ever economic recovery and concerns regarding inflation, the strength of the dollar, and economic policies are causing respected market participants such as KKR to state that the odds of a recession occurring within the next two years is 100% (compared to JP Morgan, which recently forecast the odds of a recession at >75% during the same time frame).

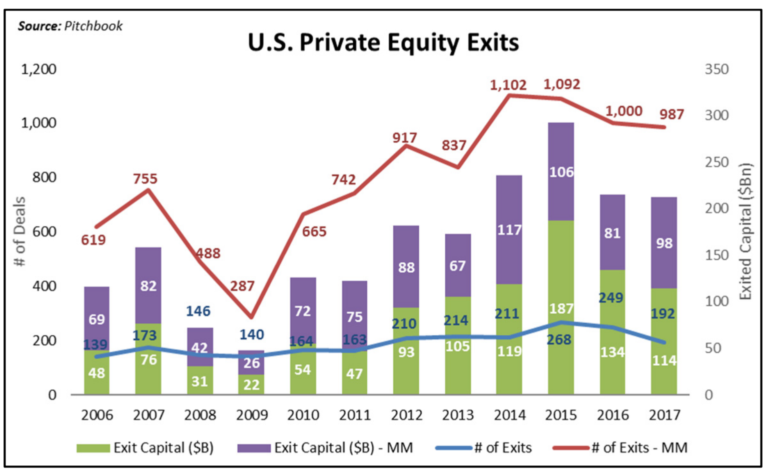
APPENDIX – HISTORICAL CHARTS

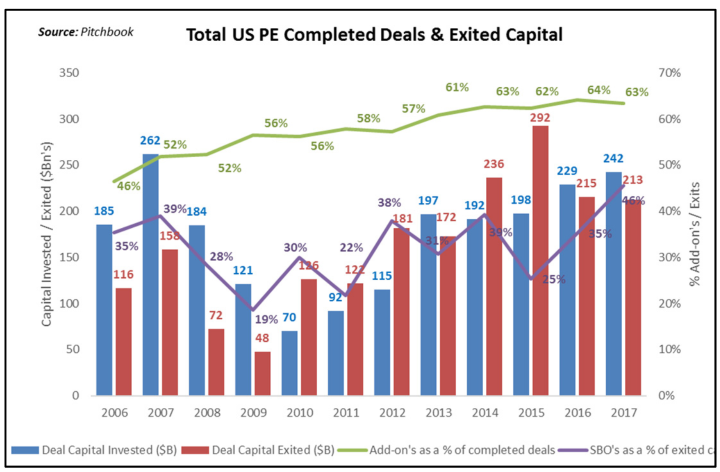










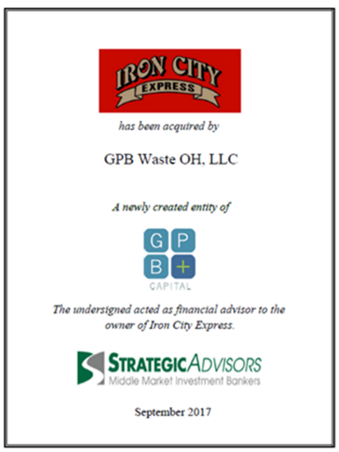


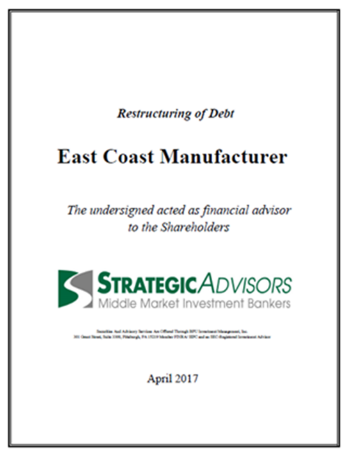
About Strategic Advisors

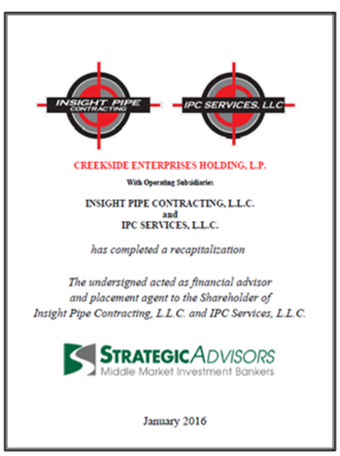
Strategic Advisors is a middle market investment-banking firm that helps clients achieve financial and business goals by providing merger and acquisition advisory, corporate finance advisory and strategic consulting services. Along with many years of experience in advising middle market clients, our Managing Directors have experience investing in and managing portfolio companies. As a result, Strategic Advisors not only has expertise in advisory services but also firsthand knowledge of what stakeholders, investors, and lenders expect and desire.

When considering a sale of your business, the acquisition of a business, or the restructuring or recapitalization of your balance sheet, the best pathway for achieving your expectations is a well-run process that addresses all your business and personal goals. Strategic Advisors is accustomed to working with business owners to determine the best pathway to achieve their goals and objectives. Give us a call to discuss your possibilities.

Strategic Advisors works with clients across diverse industries. Selected recent transactions include:







Author: Richard Wilusz, Investment Banking MBA Intern

Sources: Pitchbook – US PE Middle Market 2017 Annual, US PE Breakdown 2017 Annual, 2018 Crystal Ball Report, 2018 PE Outlook, Private Market Playbook; GF Data® Key Deal Terms, Spring 2018; NFIB Small Business Economic Trends, February 2018; MERGERS&ACQUISITIONS, S&P Global Market Intelligence – M&A Trends; Lincoln International Middle Market Index; Merrill Corporation M&A Deal Forecaster, Mergermarket FY 2017 Monthly M&A Insider; RSM (and U.S. Chamber of Commerce) US Middle Market Business Index; SunTrust 2018 Business Pulse Survey; FACTSET Flashwire US Monthly; Intralinks ® Deal Flow Predictor

Important Information:
Securities and investment advisory services are offered through BPU Investment Management, Inc.
301 Grant Street, Suite 3300
Pittsburgh PA 15219
412-288-9150
www.bpuinvestments.com
Member FINRA/SIPC
An SEC-Registered Investment Advisor

Please be advised that the accuracy and completeness of this information are not guaranteed. The opinions expressed are those of the author(s) and are not necessarily those of Strategic Advisors or BPU Investment Management, Inc.

The material is distributed solely for informational purposes and is not a solicitation of an offer to buy any security or instrument or to participate in any trading strategy. Any forecasts contained herein are for illustrative purposes only and are not to be relied upon as advice or interpreted as a recommendation.

For more information, please contact any of the professionals listed below or visit our website at: www.strategicad.com

Name	Title	Email	Phone
Andy Bianco	**Managing Director**	ajbianco@strategicad.com	724-743-5820
Anthony Ventura	**Managing Director**	ajventura@strategicad.com	724-743-5810
Eric Wissinger	**Managing Director**	eawissinger@strategicad.com	724-743-5840
Richard Wilusz	**MBA Intern**	rwilusz@tepper.cmu.edu	724-743-5830
Viktoriia Koshelieva	**MBA Intern**	viktoriia@strategicad.com	724-743-5830
Marcia McCracken	**Office Manager**	mjm@strategicad.com	724-743-5800

STRATEGIC ADVISORS
Middle Market Investment Bankers

Bringing Efficiency to Inefficient Markets