

“ a firm belief in the entrepreneurial spirit ”

CLEARY GULL

MARKET MONITOR

M&A AND FINANCING UPDATE



3rd QUARTER 2015

U.S. REMAINS STRONG AMONGST INCREASED GLOBAL UNCERTAINTIES

Despite the recent stock market correction, most data indicates the economic outlook for the U.S. remains positive. For example, first quarter Gross Domestic Product (“GDP”) was revised up from a negative 0.7% to a positive 0.6%; second quarter GDP growth was revised up from 2.3% to 3.7% and, according to Wells Fargo, full-year growth is expected to be 2.4%, increasing to 2.6% in 2016.

Outside the U.S., growth in many countries has slowed. A private survey from Markit/Caixin showed China's factory sector shrank in August at its fastest pace in almost 6-1/2 years, with the Caixin China Manufacturing Purchasing Managers' Index dropping to its lowest since March 2009. In the second quarter, GDP growth turned negative in many countries that rely on commodity production, including Canada, Brazil and Russia, which declined 0.1%, 1.9% and 4.6%, respectively.

U.S. financial markets have been turbulent. As of September 1st, the Dow Jones Commodity Index declined approximately 30% over the last twelve months. In addition to oil, which is down approximately 50% over the same period, iron ore declined 46%, nickel 40%, silver 30%, sugar 36% and wheat 30%.

In a world of increased volatility, varied economic growth, and political uncertainties, even the fate of U.S.-focused companies increasingly depends on global forces.

In order to determine the best time to pursue a transaction, it is important to understand the impact of global trends and market fluctuations on a business. Obviously, if external and internal factors line up, transaction timing is easier to decide, but that is not always the case. When the signs are mixed, it is important to consult advisors who understand how buyers or capital providers will evaluate them.

KEY INTEREST RATES

	9/8/2015	12/31/2014	12/31/2013
1-Month T-Bill	0.02%	0.03%	0.01%
2-Year UST	0.71%	0.67%	0.38%
10-Year UST	2.13%	2.17%	3.04%
30-Year UST	2.89%	2.75%	3.96%
EUR/USD	\$0.894	\$0.826	\$0.726
1-Month Libor	0.203%	0.171%	0.168%
Federal Funds	0.25%	0.25%	0.25%
Prime rate	3.25%	3.25%	3.25%
WTI Crude Oil	\$44.29	\$53.27	\$98.42

Source: Capital IQ

M&A DEAL VOLUME RISES DURING FIRST HALF OF 2015



Source: Robert W. Baird & Co.

INCREASED TRANSACTION VOLUME HOLDING PRICES HIGH

Transaction Volume Increases

Middle-market transaction volume increased nicely during the first half of 2015. According to Robert W. Baird, the number of transactions with values less than \$500 million increased 9.5% during the first half of 2015 compared to the year earlier period.

The larger deal market was even stronger. The dollar value of transactions with values greater than \$1 billion increased an incredible 88.4% during the first half of 2015 compared to the same period a year earlier.

It will be very interesting to see if the recent weakness in the stock market and concerns about global growth will slow the deal market during the second half of 2015. Based on our pipeline and recent activity, we do not see a slowdown.

Purchase Prices Remain Strong

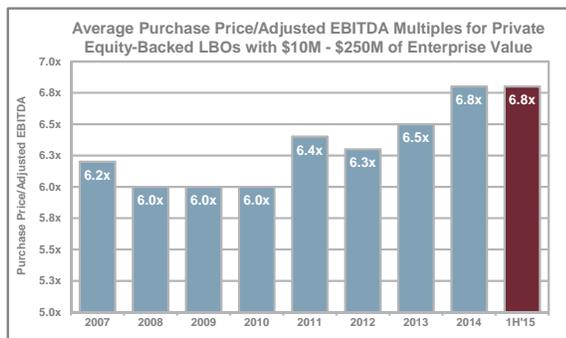
Middle-market purchase price multiples held their strong gains from 2015.

Average middle-market purchase price multiples for LBO transactions (enterprise values less than \$500 million) reported to GF Data® remained at 6.8x EBITDA for the first half of 2015, the same multiple as for all of 2014.

Although each transaction has unique characteristics, the aggregate statistics show the continued strength of the current market.

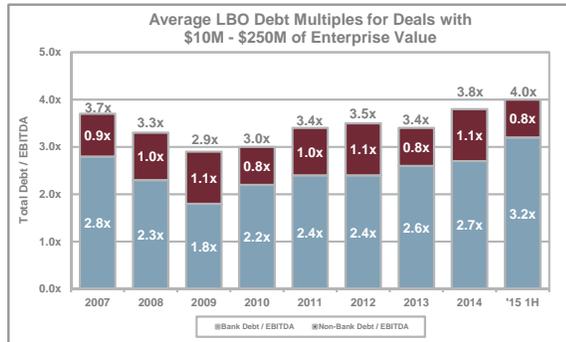
We have seen a heightened interest in businesses that are either fast growing or stable. Given the difficulty to find transactions, low interest rates, and the pressure to deploy capital, buyers are willing to pay significant premiums for growth or predictability.

PURCHASE PRICES HIGH



Source: GF Data®

LEVERAGE INCREASES DURING FIRST HALF OF 2015



Source: GF Data®

Lending Markets Strengthen

Senior debt market support for lower middle-market LBOs improved during the first half of 2015. According to GF Data®, the average senior debt/EBITDA multiple for \$10 - \$250 million enterprise value private equity-backed buyouts increased to 3.2x during the first half of 2015, from 2.7x during all of 2014. Pressure on lenders to grow assets, combined with low interest rates, continue to result in a highly attractive market for borrowers. Both bank and non-bank lenders are active in the leverage finance market.

Average total debt/EBITDA for the LBO segment of the market increased to 4.0x during the first half of 2015, from 3.8x during all of 2014.

Mezzanine lenders continue to be squeezed out of buyer capital structures, as mezzanine debt declined to 0.8x EBITDA during the first half of 2015 compared to 1.0x EBITDA during all of 2014. In many cases, one-stop (or stretch-senior) lenders are providing all the debt capital to transactions.

Labor Shortage Heightening

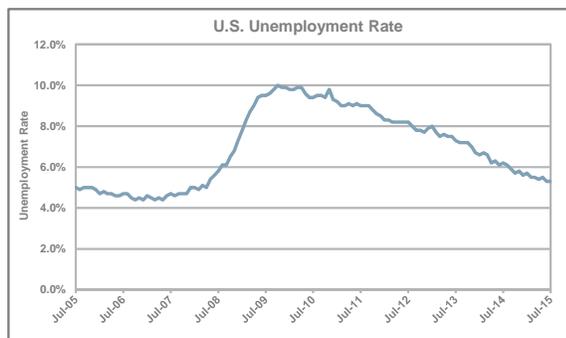
One of the largest obstacles to corporate growth is the ability to hire and retain skilled labor.

Whether it is welders, electricians, or white-collar professional talent, hiring and retaining employees is more difficult than ever. With the unemployment rate down to 5.5%, even unskilled workers can be difficult to find and keep.

A recent report by Deloitte and The Manufacturing Institute called “The Skills Gap in U.S. Manufacturing 2015 and Beyond,” projects that over the next decade nearly 3.5 million manufacturing jobs will likely need to be filled, and the skills gap is likely to result in 2.0 million jobs being unfilled.

Many entrepreneurs we have spoken to have concerns about employee retention and have now included the ability to attract and retain employees as a reason why they are considering an M&A transaction.

UNEMPLOYMENT LEVELS DECLINE



Source: Federal Reserve Bank of St. Louis

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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