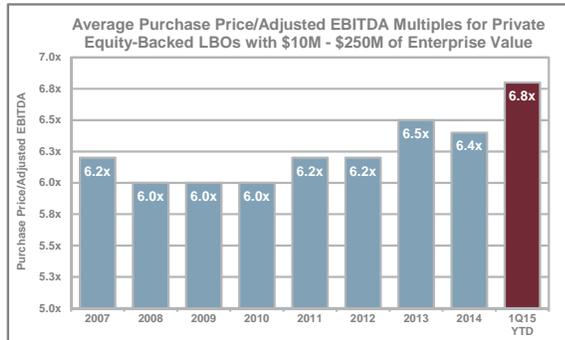




## PURCHASE PRICES SHOW SIGNIFICANT INCREASE



Source: GF Data®

## QUALITY PREMIUM INCREASES

### Purchase Prices Rise Significantly

Along with the rise in transaction volume, middle-market purchase price multiples increased.

Middle-market purchase price multiples for LBO transactions reported to GF Data reached record highs. The average purchase price for middle-market transactions (enterprise values less than \$500 million) was 6.8x EBITDA for the first quarter of 2015, compared with the 6.4x average EBITDA multiple realized for all of 2014.

While we recognize purchase price to EBITDA multiple averages ignore the unique characteristics of each transaction and company, the overall trend in purchase price multiples is clearly upward.

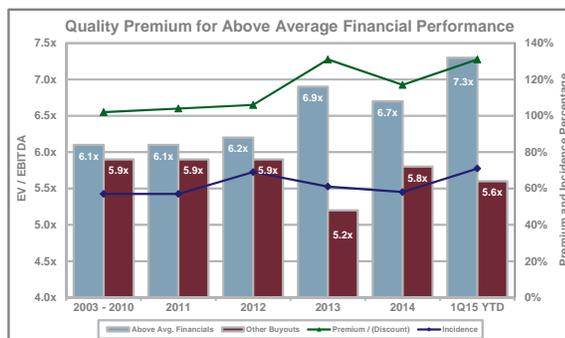
### Quality Gap Widens

According to GF Data, LBO purchase price multiples in the first quarter of 2015 were higher for companies with above average financial characteristics. Companies with these characteristics sold for 7.3x EBITDA compared to 5.6x EBITDA for other transactions, a 1.7x gap.

For purposes of these calculations, “above average financial characteristics” is defined as companies having either latest twelve months (“LTM”) EBITDA margins or LTM revenue growth above 10%, or one above 12% and the other metric at least 8%.

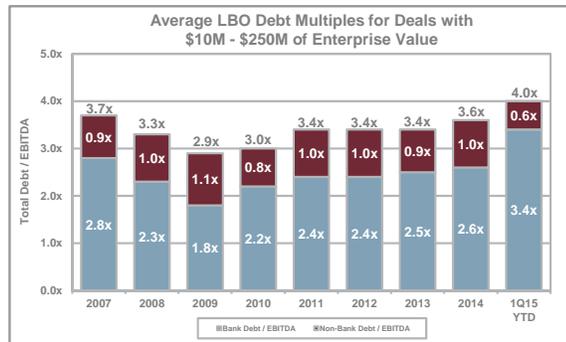
The quality gap continues to widen. During 2003-2010, the gap was only 0.2x. As in many areas of the investment world, the emphasis on quality has increased during the last several years.

## QUALITY PREMIUM WIDENS



Source: GF Data®

## LEVERAGE INCREASES DURING Q1 2015



Source: GF Data®

### Aggressive Senior and Mezzanine Lending Markets

Senior debt market support for lower middle-market LBOs remained strong during the first quarter of 2015. According to GF Data, the average senior debt/EBITDA multiple for \$10 - \$250 million enterprise value private equity-backed buyouts was 3.4x during the first quarter of 2015, compared to 2.6x during 2014. Pressure to grow assets, combined with low interest rates, continue to result in a highly attractive market for borrowers.

Average total debt/EBITDA for the LBO segment of the market increased to 4.0x during the first quarter of 2015 compared to 3.6x during 2014. Mezzanine continues to be squeezed out of buyer capital structures, declining to 0.6x EBITDA during the first quarter of 2015 compared to 1.0x EBITDA during 2014.

Despite the first quarter strength, we are starting to see a small pullback in the lending markets. Both non-bank and traditional bank lenders are becoming more disciplined. Given the new bank High Risk Borrowers (“HRBs”) limitations, banks are hesitant to exceed 3.0x EBITDA on middle-market transactions. Non-bank lenders also seem to be slightly more cautious, maybe waiting for a resolution of the GE Capital sale.

### Contract Terms Slightly Tighten

Contract terms are an important part of any transaction. According to a GF Data analysis, contract terms for LBOs with less than \$250 million enterprise values were mixed, with indemnification caps notably getting slightly less favorable for buyers.

During 2014, indemnification caps increased to 18.0% of enterprise value compared to 16.9% in 2013. Size significantly matters; \$10 - \$25 million transactions had 25.2% indemnification caps during 2014 compared to 18.6% in 2013. \$100 - \$250 million transactions had 12.8% indemnification caps in 2014 compared to 11.6% in 2013.

Other contract terms tilted slightly more favorable to sellers. Escrow/holdbacks decreased to 6.9% of enterprise value during 2014 compared to 7.0% during 2013. The average indemnification period declined to 16.9 months from 17.0 months during the same period. However, average “baskets” became more buyer favorable and decreased to 0.8% in 2014 from 1.0% in 2013.

## 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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