" a firm belief in the entrepreneurial spirit "

CLEARY GULL

MARKET MONITOR

M&A AND FINANCING UPDATE □ 2nd QUARTER 2017

Why is Transaction Volume Down?

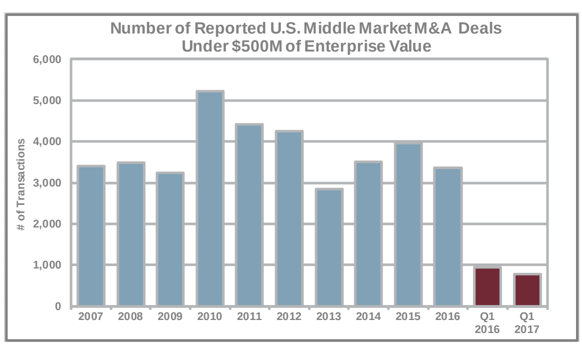
With the macroeconomic environment unusually favorable for companies interested in selling, M&A deal professionals find it surprising there has been a decline in deal volume early this year. Some of the key variables that affect when it is a good time to sell include: 1) purchase price multiples, which are at record highs; 2) stock market indices, which are at or near record highs; 3) interest rates, which remain at historically low levels; 4) real gross domestic product, which continues to expand (albeit slowly); and 5) the unemployment rate, which in May declined to a 16-year low.

Despite the positive macro data, deal volume in Q1 2017 declined 7.7% compared to the same period in 2016, according to Robert W. Baird & Co. Is it the buyers or the sellers that are missing in action?

Some commentators have suggested strategic buyers are reluctant to pursue acquisitions due to global or domestic political or economic uncertainties. For sellers, while the macro environment suggests there is no time like the present, contradictory owner and/or company specific factors may come into play. For example, a business may have unique opportunities or issues that make timing problematic, such as slow or unrealized potential for growth, the addition or loss of a meaningful customer, management transition timing or gaps, a contingent liability, or end market volatility. Or, an owner may be delaying for family, health, or personal reasons (such as lack of a back-up life plan).

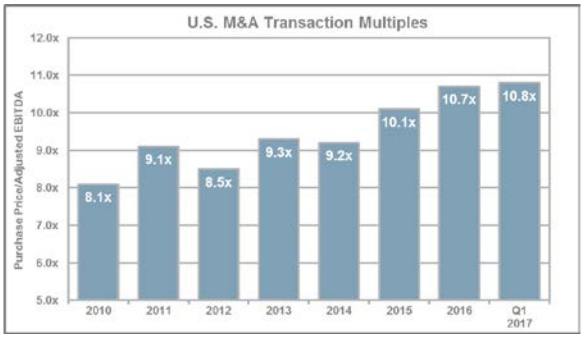
It will be interesting to see whether buyer motivation and the factors influencing sellers align during the remainder of 2017.

M&A DEAL VOLUME DECLINES

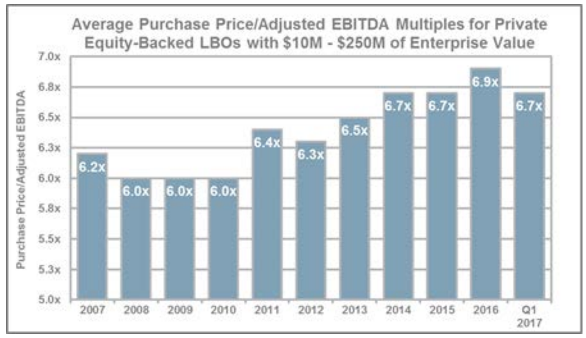


Source: Robert W. Baird & Co.

PURCHASE PRICES REMAIN STRONG



Source: PitchBook



Source: GF Data®

Purchase Prices Remain High

Purchase prices for both strategic and financial buyer transactions have increased significantly during the last five years. According to PitchBook, the average enterprise value/ EBITDA multiple for all reported transactions was 10.8x in Q1 2017 compared to 8.1x in 2010. At the same time, according to GF Data®, the average purchase price for $10 to $250 million enterprise value private equity-backed leveraged buyouts ("LBOs") was 6.7x EBITDA in Q1 2017, almost 1x EBITDA higher than during the 2008-2010 period. While the PitchBook data is likely skewed upward by the tech sector, and GF's LBO data has a high concentration of manufacturing deals, the conclusion implied by both sources is clear.

High-quality companies continue to receive materially higher than average valuations. According to GF Data®, post-recession, LBO valuation multiples for companies with continuing management, high margins, and a sustainable, high-growth story are at a 30% premium (1.8x EBITDA) above the average for all LBOs, compared to a negligible pre-recession premium.

Lenders Offering More Leverage than Buyers are Taking

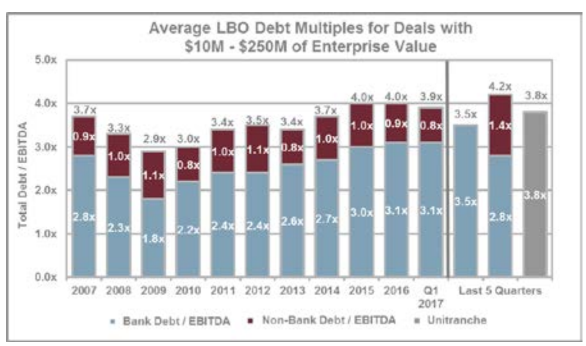
Average total debt/EBITDA multiples for $10 to $250 million enterprise value private equity-backed LBOs remained near its peak level of 3.9x in Q1 2017, according to GF Data®.

Despite high levels of debt, buyers are not utilizing all leverage available to them. According to GF Data®, sponsors did not maximize total debt in 53% of reported transactions.

The use of three-tiered capital structures is declining. Over 40% of LBOs used a two-tier capital structure supported by either a senior only (3.5x) or unitranche (3.8x) facility. Transactions with three tiers of capital utilized 4.2x total leverage.

While deleveraging still is an important factor in LBO returns, it does not appear to be a primary driver for sponsors.

SENIOR DEBT AND TOTAL LEVERAGE



Source: GF Data®

Buying Before Selling

Do acquisitions add value? Frequently we are asked whether buyers pay a premium for a company with the opportunity to grow through acquisition, or whether an acquisition increases the value of a company by more than the purchase price paid for the acquisition. Our answer is a very scientific "it depends".

The table below summarizes our observations about some of the common factors that determine whether a pre-sale acquisition is worth the time and trouble involved.

Acquisition History	Acquisition Stage	Acquisition Stage Description	Valuation Implications
Never Completed a Deal, But May Be Considered a Platform for Future Acquisitions	No Pipeline	Company has not considered acquisitions as part of its growth strategy and management has limited or no M&A experience.	No benefit.
	Actionable Pipeline	Management has received information from, submitted offers to, and maintains active dialog with potential targets.	Potential for slightly higher valuation multiple.
Target(s) Under Letter Of Intent	Early Stages	Diligence in process, but definitive agreement remain unresolved, and closing is still uncertain.	Potential for contingent payment that reflects a sharing of the value creation after acquisition closes.
	Late Stages	Scheduled to close but will not be integrated before sale.	
Acquisition(s) Completed	Early Integration	Acquired business running mostly autonomously.	Valuation increased by proforma earnings and possibly for some of potential synergies.
	Fully-Integrated	Already leveraging revenue, cost, operations, systems and other best practices synergies.	Valuation includes 100% credit for earnings accretion.

FIRM OVERVIEW

Cleary Gull Inc. is an employee-owned investment banking firm serving private equity funds, entrepreneurs, and middle market companies. *"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, while working through complex financial, legal, tax, accounting and other technical issues.

GLOBAL REACH

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

CONTACT

The Cleary Gull Investment Banking team has completed more than 200 transactions since 1995, representing over $7 billion in transaction value.

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

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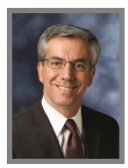

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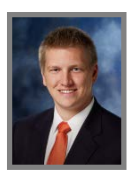

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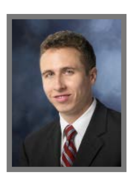

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