

Market Overview

Despite deal activity shifting to the lower middle market, valuations continue to surge

The S&P 500 corporate cash balance increased \$200 billion to \$1.9 trillion in Q3 '16 and the private equity capital that still needs to be put to work in the middle market stands at \$749 billion. With deal volume in Q3 '16 lower than the prior year period, strong demand from corporations and private equity firms chasing a limited number of deals has led to outsized valuations; the total enterprise value/EBITDA valuation multiple for middle market businesses averaged 8.0x during the quarter. With sluggish deal flow, buyers are searching for transactions outside of their typical criteria. Private equity buyers in particular have moved downstream to the lower middle market for acquisition targets. As of September 2016, PE-backed deals under \$25 million accounted for over 46% of all private equity transactions year-to-date – the highest level of activity since 2009.

With the election behind us, we expect transaction volume to accelerate in 2017 and anticipate healthy valuations as competition for deals among strategic buyers and private equity firms remains strong.

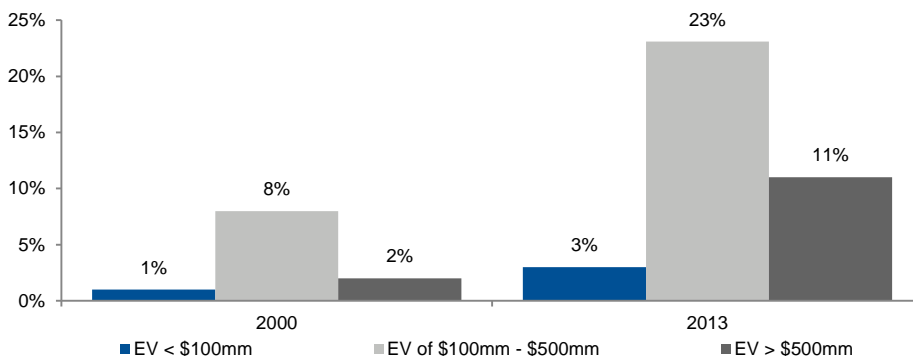
Expansion of Private Equity

The number of middle market PE-backed companies has increased significantly

The role of private equity in today's M&A market continues to grow as its influence expands. According to a recent Preqin study, the number of private equity firms has increased from 24 in 1980 to 6,628 in 2015, 620 of which were founded in 2015. In addition to a higher number of firms investing in the market, fund sizes have grown and private equity investors are more aggressively seeking add-on acquisitions to support growth, which has driven a higher percentage of PE-backed companies in the middle market.

According to a study by Bain & Company, the percentage of PE-owned companies in the U.S. between \$100 and \$500 million in enterprise value increased from 8% in 2000 to 23% in 2013. This dynamic will make it more challenging for private equity firms to acquire private, family-owned businesses and will likely result in more private equity firms purchasing companies from each other.

PE-Backed Companies as a % of all U.S. Companies



Source: Bain & Company

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Firm Overview

Quarton International is a premier investment banking firm providing M&A, capital raising, and related advisory services to middle market companies in North America and Europe.

Our transaction experience covers a broad range of industries, end markets and business models. Our focus sectors are listed below.

Focus Sectors

- Automotive & Diversified Industrial
- Business Services
- Consumer
- Healthcare
- Real Estate
- Retail & E-Commerce
- Technology, Media & Telecommunication

Recent Transactions



JAC PRODUCTS
a portfolio company of
WC WYNNSCHURCH
has been acquired by
Argonaut Private Equity and **HALL CAPITAL**



Allied RELIABILITY GROUP
a portfolio company of
PFLINGSTEN
has been acquired by
T.F. HUDGINS INCORPORATED

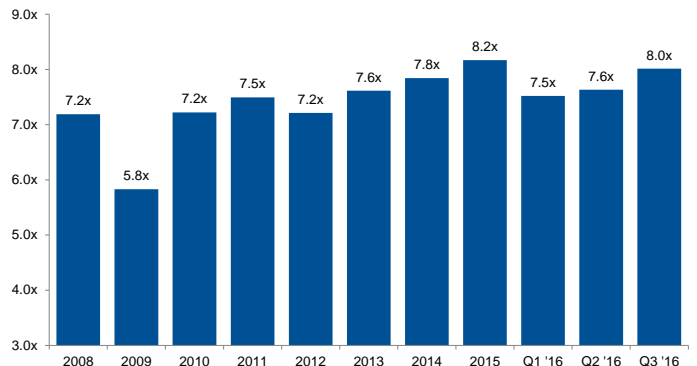
Transaction Environment

Deal Volume – Consistent with the prior two quarters, middle market deal volume in Q3 '16 decreased year-over-year. According to GF Data, 148 private equity transactions with total enterprise of \$10 to \$250 million and an enterprise value/EBITDA multiple between 3.0x and 15.0x closed in the first nine months of the year. Comparatively, 167 transactions meeting the same criteria closed in the first nine months of last year. Transactions in cyclical industries (i.e. automotive, building products, energy, rail, etc.) have been driven by strategic buyers as private equity firms are exhibiting some caution around investments in these industries. With uncertainty surrounding the election, some business owners were reluctant to go to market, preferring to wait for better market visibility. Deal volume is expected to accelerate in 2017 as uncertainty dissipates and sellers look to capitalize on favorable dynamics.

Transaction Multiples – Middle market enterprise value/EBITDA multiples showed a significant increase in Q3 '16, reaching a valuation of 8.0x compared to 7.6x in Q2 '16 and 7.5x in Q1 '16. Momentum is strong in the marketplace, and 8.0x is the highest transaction multiple year-to-date. Significant demand from buyers is resulting in competitive valuations.

Capital Availability – Both strategic and private equity buyers have ample capital to deploy. The total cash balance of the S&P 500 has climbed to its highest in seven quarters, reaching \$1.9 trillion. Private equity fundraising also demonstrated a strong pick up, with \$33 billion of capital raised. A meaningful portion of the fundraising was driven by private equity mega-funds, which have seen significant success in the market.

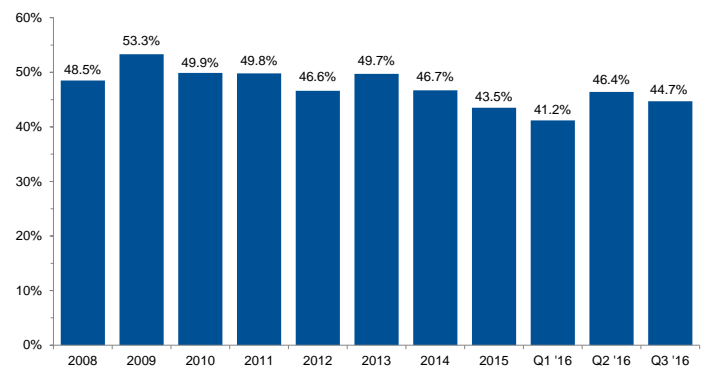
Middle Market Average TEV/EBITDA Transaction Multiples ⁽¹⁾



(1) Transactions between \$10 and \$250 million with TEV/EBITDA multiples < 15x; excludes technology, media and telecom

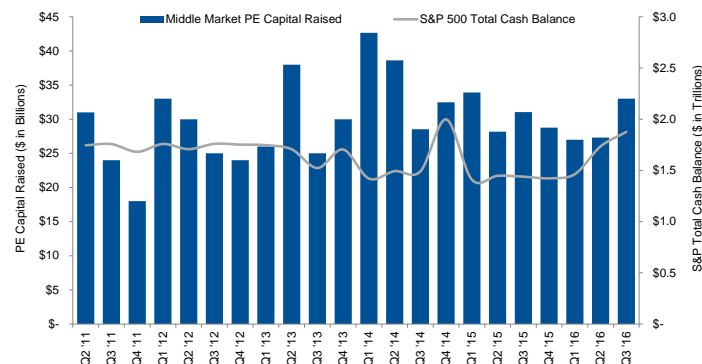
Source: Quarton International Research and S&P Capital IQ

Average Equity Contribution of Middle Market Transactions ⁽¹⁾



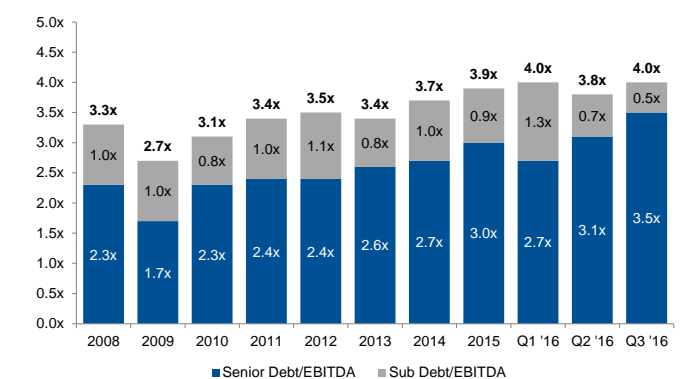
Source: GF Data

Strategic and Financial Capital Availability



Source: PitchBook and S&P Capital IQ

Average Credit Statistics of Middle Market Transactions ⁽¹⁾



Source: GF Data

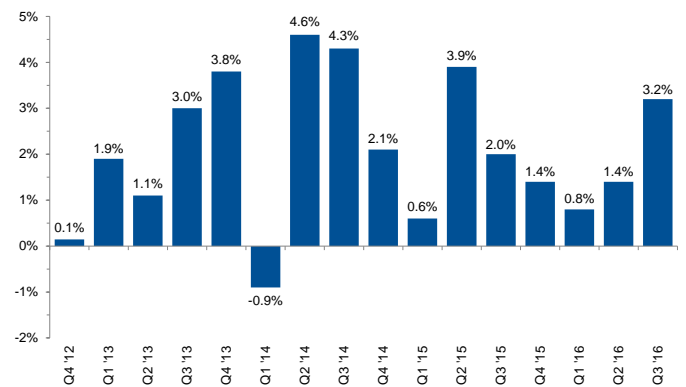
Economic Environment

Gross Domestic Product – Real Gross Domestic Product expanded by 3.2% in the third quarter, indicating steady economic growth. Consumption grew at an annual rate of 2.1% in Q3 '16, with strength in the durable goods segment outweighing a slowdown in the services sector. An increase in exports, primarily tied to agricultural-related products, was a heavy contributor to growth although exports were slightly offset by a corresponding influx of imports. Private inventory investment increased for the first time after five quarters of shrinkage, which also played a role in overall GDP expansion.

Consumer Confidence – The Thomson Reuters/University of Michigan Surveys of Consumers reported that consumer confidence increased to 93.8 in November after dipping to 87.2 in October. The rebound in confidence is reflected in consumer demand and subsequent spending, which was supported by wage expansion in a relatively low inflation, low interest rate environment. Consumers also have a very positive outlook on personal finances. In November, more consumers expected personal finances to improve in the next 12 months than in any other confidence survey administered in the past decade.

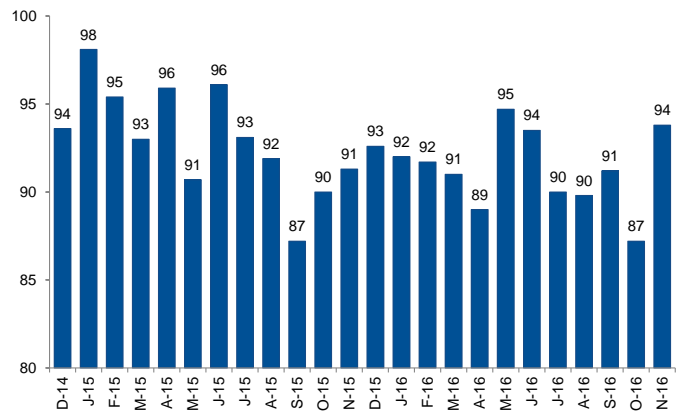
Employment – The unemployment rate in October was reported at 4.9%, a slight decline compared to the unemployment rates of 5.0% in September and 4.9% in August. Employment gains occurred in the professional & business services and healthcare segments, but these additions were offset by an increase in short-term unemployed workers (unemployed less than 5 weeks). The short-term unemployed workers were primarily in the construction and manufacturing sectors.

Change in Real Gross Domestic Product



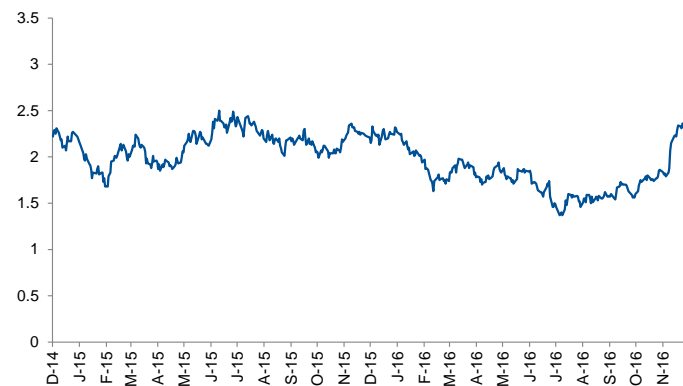
Source: U.S. Bureau of Economic Analysis

Consumer Confidence Index



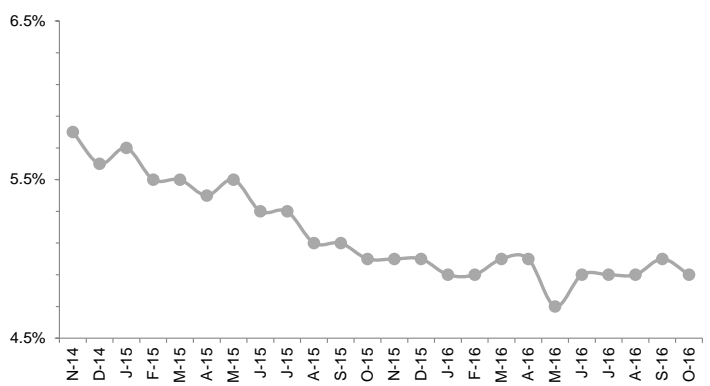
Source: Thomson Reuters / University of Michigan Surveys of Consumers

Ten-Year Treasury Yield



Source: U.S. Department of Treasury

Unemployment Rate



Source: U.S. Bureau of Labor Statistics

Recent Transactions

 <p>a portfolio company of</p>  <p>has been acquired by</p>  <p>Manufacturer of Automotive Exterior Trim Components</p>	 <p>a portfolio company of</p> <p>PFINGSTEN</p> <p>has merged with</p>  <p>Industrial Maintenance and Reliability Services</p>	 <p>a portfolio company of</p>  <p>has been recapitalized by</p>  <p>Event Equipment Rental Service Provider</p>	 <p>a portfolio company of</p>  <p>has been acquired by</p>  <p>Home Furnishings Manufacturer</p>
 <p>has been acquired by</p>  <p>Prototyping and Metalformed Parts Manufacturer</p>	 <p>has been acquired by</p>  <p>Smart Energy Storage System Supplier</p>	<p>Minority Shares of</p>  <p>has been acquired by</p>  <p>and</p> <p>BO-Beteiligungsgesellschaft</p> <p>Radio Station and Marketing Service Provider</p>	 <p>has been acquired by</p>  <p>Manufacturer of Customized Transformers and Inductors</p>

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- | | | | | |
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