

Market Overview

Coming off a strong year in 2016, the M&A market has kept pace in Q1

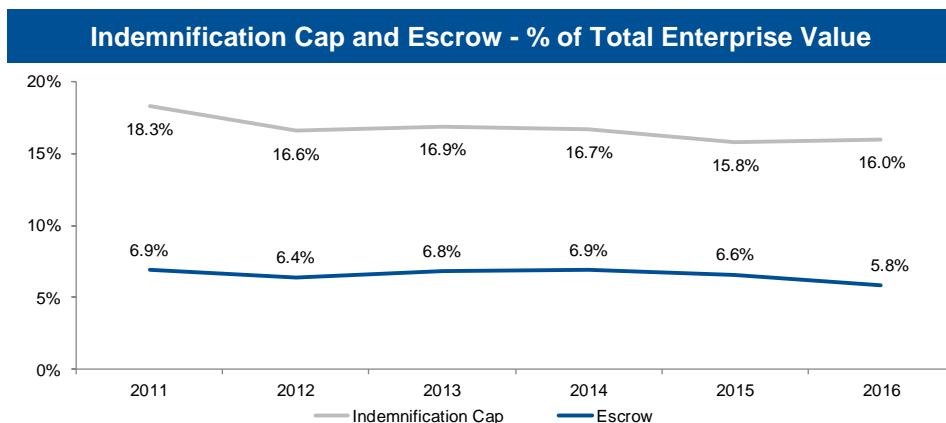
The M&A market remains strong following the presidential election. Equity markets reached record highs in the first quarter, and the lowest unemployment rate since the downturn reflect positive market fundamentals. Although transaction multiples were slightly down compared to 2016 at 7.6x vs. 8.0x, multiples are still above 10-year averages and the overall strength of the market will continue to drive M&A activity in 2017.

High Levels of Capital Availability	<ul style="list-style-type: none"> S&P 500 companies are maintaining record levels of cash on their balance sheets - \$1.6 trillion as of May 2017 \$839 billion of North American private equity “dry powder” is currently available, surpassing pre-crisis levels Debt markets remain accommodative and resilient, which will continue to boost M&A activity
Positive Macroeconomic Factors	<ul style="list-style-type: none"> After growing 1.6% in 2016, the Fed expects GDP to grow between 1.7% and 2.3% in 2017 Unemployment in April was 4.4%, the lowest since the financial crisis Consumer confidence remains on a high plateau post-election, increasing to 97 in April The Federal Reserve raised interest rates in March by 25 basis points amid rising confidence in the economy
Optimism Around New Administration’s Economic Policies	<ul style="list-style-type: none"> Equity markets hit all-time highs in early March and the S&P and Dow Jones ended the quarter at 2,363 and 20,663, respectively Dealmakers will be closely watching the new administration’s stance on a number of issues from regulatory oversight to tax reform initiatives, which will have a significant impact on the M&A environment in 2017 and beyond

Favorable Deal Terms for the Seller

Competitive deal environment is driving better terms for sellers

Indemnification caps and escrow amounts as a percentage of total enterprise value have continued to decrease over the past five years favoring the seller for deals between \$10 million and \$250 million of enterprise value, according to GF Data. The indemnification cap refers to the general indemnification provided by the seller to the buyer against breaches of reps and warranties against the seller. The average cap on indemnification of reps and warranties was 16% in 2016 compared to 18% in 2011. Escrow amounts as a percentage of total enterprise value, have also decreased, giving sellers more upfront money when a transaction is closed.



Source: GF Data

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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



has been acquired by



a subsidiary of




North America Operations

a portfolio company of



has been acquired by



Transaction Environment

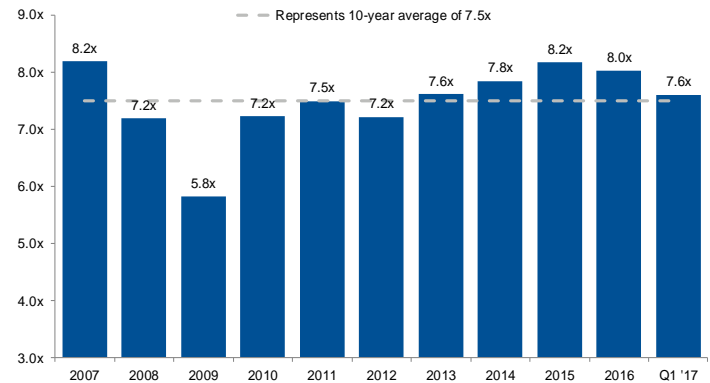
Deal Volume – Middle market disclosed transaction volume (enterprise value between \$10 million and \$250 million) was steady year-over-year and quarter-over-quarter. We expect volume to increase throughout 2017 as several positive macroeconomic factors, optimism around the new administration’s economic policies, high levels of capital availability and favorable financing markets continue to drive the strong M&A market.

Transaction Multiples – Middle market enterprise value/EBITDA multiples decreased to 7.6x in Q1 2017, compared to 8.0x in 2016. The decrease in value can be attributed to an increase in lower middle market deal activity as a percentage of total middle market deal volume, which command lower multiples. Multiples remain above the 10-year average of 7.5x, and the large amounts of available capital coupled with increasing strategic M&A activity will keep multiples high throughout 2017.

Debt Financing Markets – Financing markets remain on steady ground in Q1 2017 with spreads continuing to tighten and markets showing signs of strengthening investor confidence. \$169 billion in total leveraged loans were issued in Q1 2017, on track to shatter the all-time high of \$607 billion set in 2013. Sponsors and companies are expected to continue to access the accommodative and resilient debt markets to boost M&A activity in 2017.

Average equity contribution of middle market transactions decreased to 43.9% compared to 45.4% in 2016 – approaching levels last seen since pre-recession. While total debt levels remained unchanged at 3.9x in Q1 2017 compared to 2016, average debt on transactions featuring uni-tranche financing surged, from 3.6x in 2016 to 4.3x in the year to date.

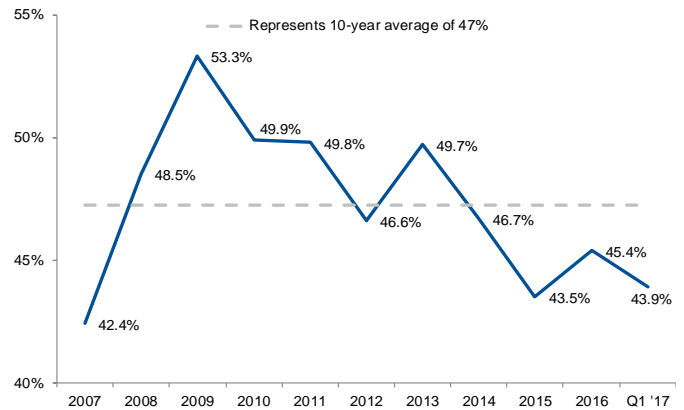
Middle Market Average TEV/EBITDA Transaction Multiples ⁽¹⁾



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

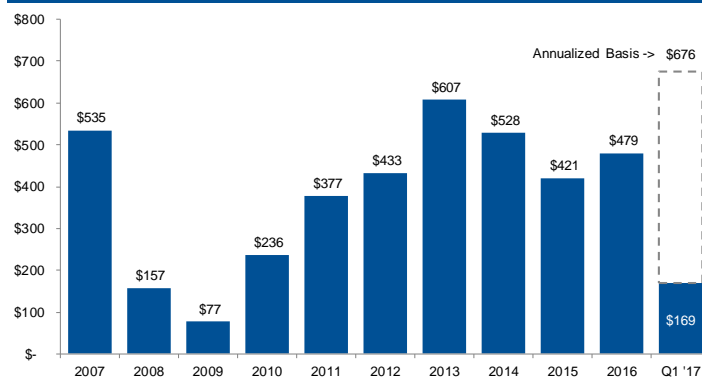
Source: Quarton International Research and S&P Capital IQ

Average Equity Contribution of Middle Market Transactions ⁽¹⁾



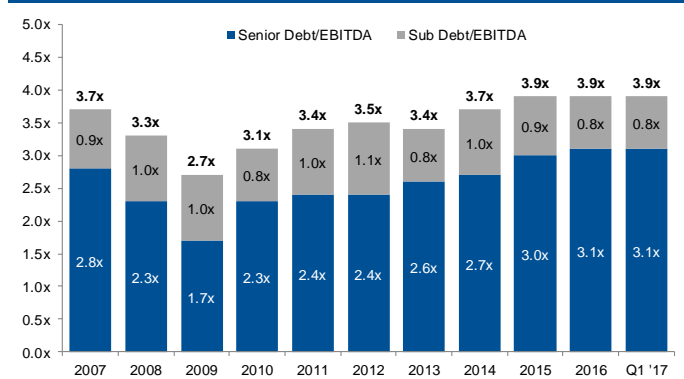
Source: GF Data

Leveraged Loan Volume



Source: S&P Leveraged Commentary & Data

Average Credit Statistics of Middle Market Transactions



Source: GF Data

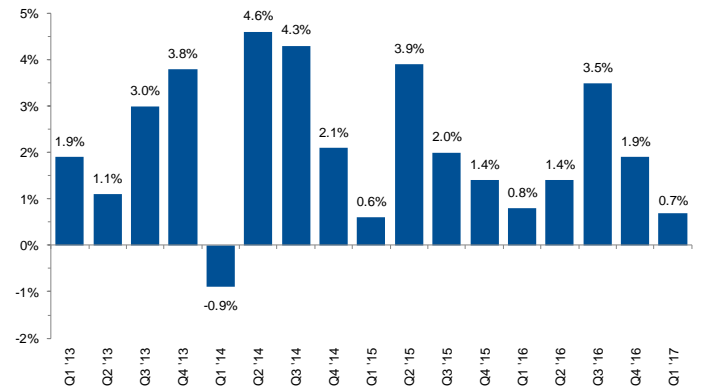
Economic Environment

Gross Domestic Product – Real Gross Domestic Product expanded by 0.7% in the first quarter, reflecting increases in business investment, exports, housing investment and consumer spending. The deceleration in Real Gross Domestic Product compared to the fourth quarter reflected decreases in private inventory investment and state, local and federal government spending. Imports, which are a subtraction in the calculation of GDP, also increased in the first quarter of 2017.

Consumer Confidence – The Thomson Reuters/University of Michigan Surveys of Consumers reported that consumer confidence remained at 97 in April. Over half of all households reported improved finances – the best result in fifteen years. Although consumer confidence remains high, there is a partisan divide on the future economic outlook. 66% of Republicans expect an improved economy going forward, while just 18% of Democrats feel the same way. The 48% differential is an improvement vs. March’s 68% difference, mainly driven by improving employment trends.

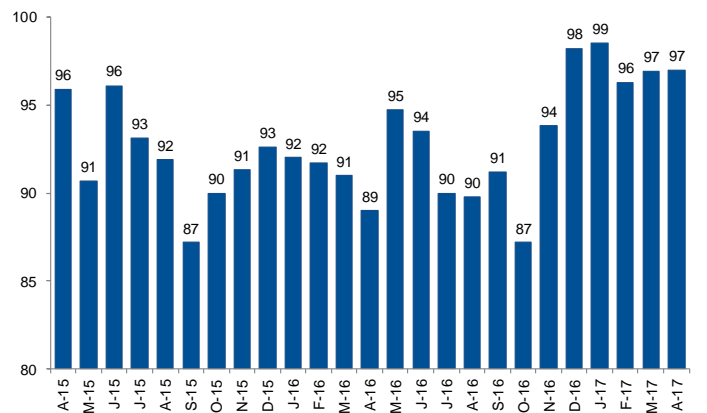
Employment – The unemployment rate in April was reported at 4.4%, a slight decrease compared to the unemployment rate of 4.5% in March 2017. The U.S. economy has added jobs for 79 consecutive months and the unemployment rate is the lowest in 10 years. April’s job growth was driven by job gains in leisure and hospitality, healthcare, financial activities and mining. Over the past three months, job gains have averaged 174,000 – a figure most economists believe will drive the Fed to raise rates again at its June meeting. As the remainder of 2017 unfolds, economists are keeping a close watch on the impact rising interest rates will have on the labor force.

Change in Real Gross Domestic Product



Source: U.S. Bureau of Economic Analysis

Consumer Confidence Index



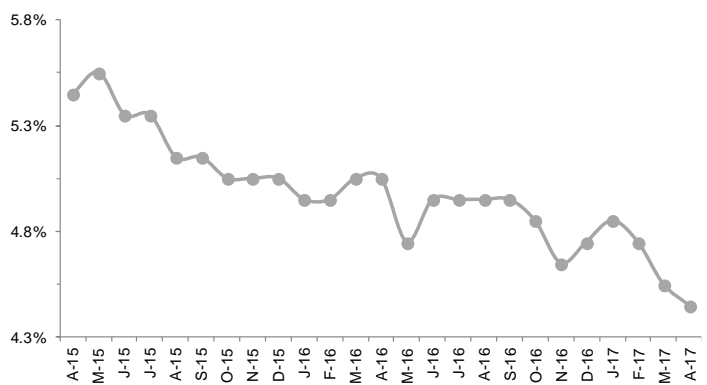
Source: Thomson Reuters / University of Michigan Surveys of Consumers

Ten-Year Treasury Yield



Source: U.S. Department of Treasury

U.S. Unemployment Rate



Source: U.S. Bureau of Labor Statistics

North American Middle Market M&A Update

Second Quarter 2017

Recent Transactions

 <p>has been acquired by</p>  <p>a subsidiary of</p> 	 <p>Mexico Operations</p> <p>a portfolio company of</p>  <p>has been acquired by</p> 	 <p>North America Operations</p> <p>a portfolio company of</p>  <p>has been acquired by</p> 	 <p>a portfolio company of</p>  <p>has been acquired by</p> 
<p>Provider of Network Security and Unified Communications Solutions</p>	<p>Manufacturer of Highly Engineered Driveline Solutions</p>	<p>Manufacturer of Highly Engineered Driveline Solutions</p>	<p>Manufacturer of Architectural Railings for Multi-Family Units</p>
 <p>Transforming Lives[®]</p> <p>has been recapitalized by</p> 	 <p>has acquired</p> 	 <p>a portfolio company of</p>  <p>has been acquired by</p> 	 <p>a portfolio company of</p>  <p>has acquired</p> 
<p>Manufacturer of Healthcare Rehabilitation Equipment</p>	<p>Orthopaedic Spinal Implant Devices</p>	<p>Manufacturer of Aftermarket Performance Wheels</p>	<p>Countertop Fabricator and Installer</p>

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