

Market Overview

M&A activity continues to be driven by positive macroeconomic factors, despite political and regulatory uncertainty

Middle market M&A trends in Q2 2017 continued to indicate strong opportunities for sellers. The current demand for acquisitions is in excess of the supply of assets for sale in the market, consequently driving premium valuations. The overwhelmingly positive market sentiment combined with nominal organic growth opportunities is leading to high demand for acquisitions by strategic buyers. In addition, the abundance of capital available in the debt markets has fueled leverage multiple expansion to the highest level exhibited in a 10-year period, at 4.2x total debt/EBITDA. Strong leverage reads coupled with high demand for deals continues to promote robust valuations in the middle market, evidenced by transaction multiples remaining above 10-year historical averages. The fundamentals of the market remain at all-time highs as demonstrated by:

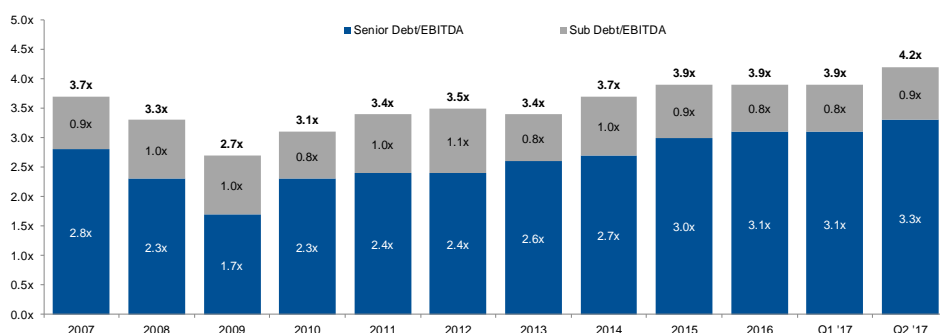
- Equity markets hitting all-time highs in Q2 2017 (S&P and Dow Jones Industrial Average ended the quarter at 2,423 and 21,349, respectively)
- Consumer confidence levels remain above 95 for the seventh straight month
- Fed anticipation of GDP growth of 2.2% in 2017, increasing its March estimate by 10bps
- Historically low unemployment rate (4.4%)

The current M&A market is optimally positioned for sellers given the decline in quality deal volume and favorable macroeconomic trends.

Quarton Adds Debt Advisory Group to Capitalize on Favorable Credit Conditions

In June 2017, Quarton International launched its Debt Advisory Group, which functions as a fully outsourced capital markets desk driving top-of-market execution supporting LBOs/acquisition financings, dividend recapitalizations, refinancings and balance sheet restructurings for private, public and private equity clients. The debt markets remain at historically favorable levels as evidenced by the highest middle market leverage levels since pre-recession (outlined below) and loose monetary policy which continues to make financing readily available. A favorable financing environment will continue to drive higher M&A multiples in the middle market throughout the remainder of 2017.

Average Credit Statistics of Middle Market Transactions



Source: GF Data

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Firm Overview

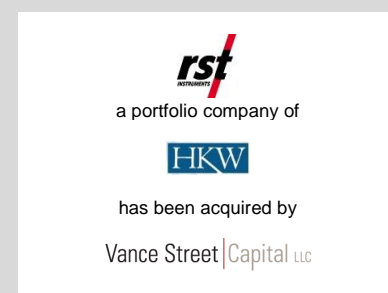
Quarton International is a premier investment banking firm providing M&A, capital raising, and related advisory services to middle market companies in North America and Europe.

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



rst
a portfolio company of
HKW
has been acquired by
Vance Street Capital LLC



DOUBLE E
Engineering Excellence
a portfolio company of
INCLINE
EQUITY PARTNERS
has been acquired by
RAI River Associates Investments, LLC
Investments with Management

Transaction Environment

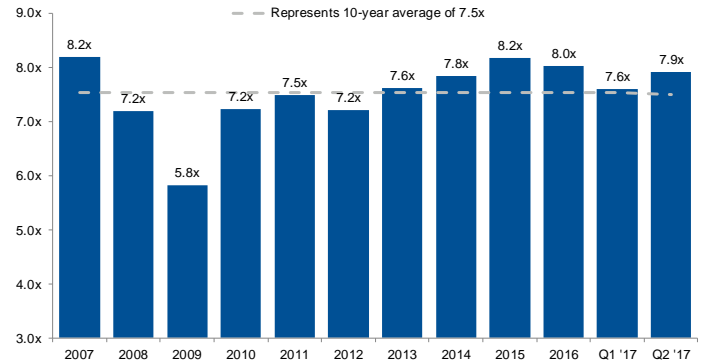
Transaction Multiples – Middle market enterprise value/EBITDA multiples increased to 7.9x in Q2 2017, compared to 7.6x in Q1 2017. The multiple expansion can be attributed to high quality assets trading for outsized premium valuations as demand for acquisitions, from both strategic and financial buyers, exceeds the supply of transactions on the market. The chart below illustrates the premiums which buyers have paid in Q2 for higher quality transactions.

Deal Volume – Middle market disclosed transaction volume (enterprise value between \$10 million and \$250 million) in the first half of 2017 indicated a slight decline from 2016 levels, largely due to political and regulatory uncertainty and additional underlying factors. However, solid fundamentals and favorable market conditions are indicating healthy deal volumes in the second half of the year.

Capital Structure – Average equity contributions of middle market transactions decreased to 40.1% compared to 42.1% in Q1, reaching levels not seen since 2007. As previously discussed, total debt levels increased to 4.2x in Q2, indicative of the loose monetary policy which continues to make financing readily available.

Strong Foreign M&A Presence – Foreign buyers accounted for 23% of the overall buyer base in the first half of 2017 and Q2 marked the fourth consecutive quarter that foreign buyers' share of U.S. M&A activity exceeded 20%. This shift is largely attributable to the stability and growth in the U.S. market which is viewed as a "safe-haven" for foreign investors. This trend is a strong addition for middle market sellers as it represents another potential acquirer source.

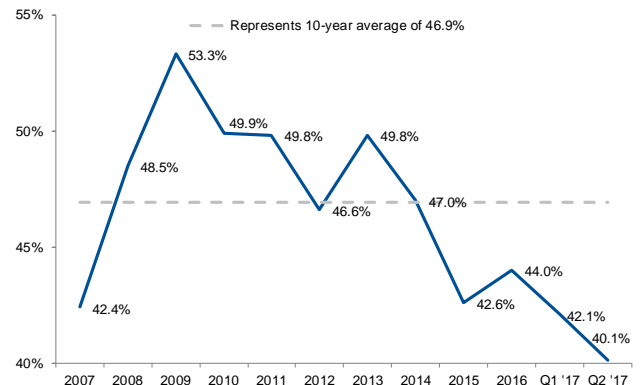
Middle Market Average TEV/EBITDA Transaction Multiples ⁽¹⁾



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

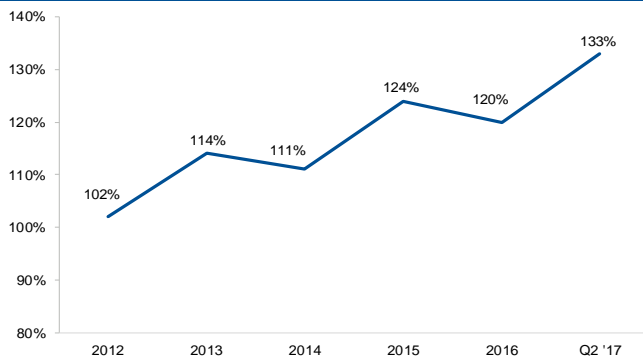
Source: Quarton International Research and S&P Capital IQ

Average Equity Contribution of Middle Market Transactions



Source: GF Data

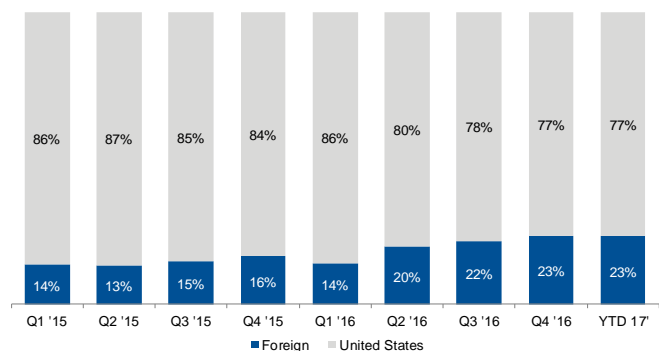
Quality Premium for Above Average Transactions ⁽²⁾



(2) The quality premium is defined by GF Data as businesses which receive a higher multiple due to above-average financial performance.

Source: GF Data

Middle-Market Activity by Buyer Region ⁽³⁾



(3) Transactions between \$10 and \$250 million; excludes technology, media and telecom

Source: Quarton International Research and S&P CapitalIQ

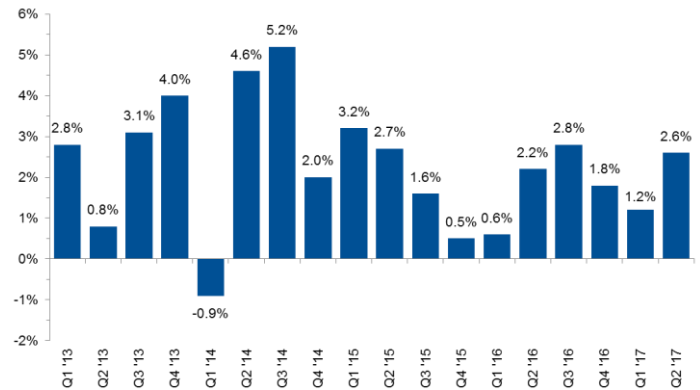
Economic Environment

Gross Domestic Product – Real Gross Domestic Product expanded by 2.6% in the second quarter. The increase in Real Gross Domestic Product compared to the first quarter reflected increases in personal consumption expenditures, exports and federal government spending. Increases were partly offset by negative contributions from private residential fixed investment, private inventory investment and state and local spending.

Consumer Confidence – The Thomson Reuters/University of Michigan Surveys of Consumers reported that consumer confidence decreased to 95 in June. Recent political events have led to lingering skepticism regarding the new administration’s ability to push its pro-growth agenda through Congress. Despite a modest pullback, the consumer confidence outlook remains favorable as households have been buoyed by steady job and income growth, cheap gasoline and near-record stock prices.

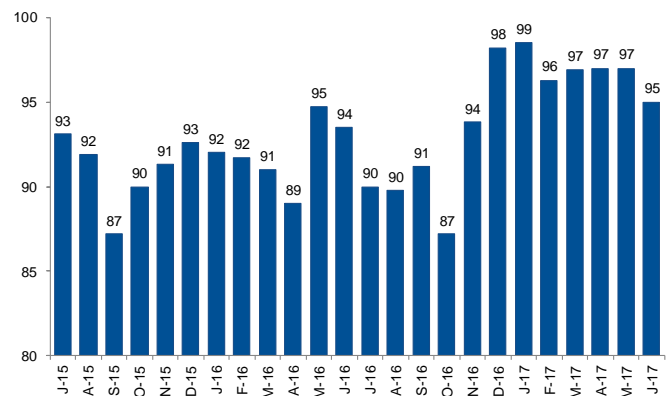
Employment – The unemployment rate in June was reported at 4.4%. U.S. job growth surged more than anticipated in June and signs of labor market strength indicate the Federal Reserve may be on course for a third interest rate hike. U.S. employers added 231,000 jobs in June with the number of open jobs increasing 8% to 6.2 million. Job openings showed strong growth in construction, manufacturing, financial services, health care and in state and local government.

Change in Real Gross Domestic Product



Source: U.S. Bureau of Economic Analysis

Consumer Confidence Index



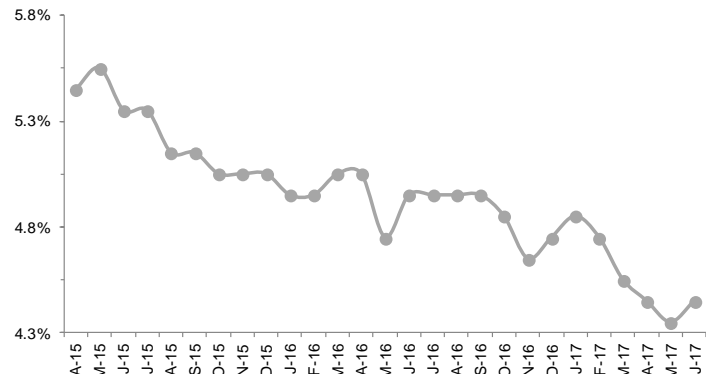
Source: Thomson Reuters / University of Michigan Surveys of Consumers

Ten-Year Treasury Yield



Source: U.S. Department of Treasury

U.S. Unemployment Rate



Source: U.S. Bureau of Labor Statistics

Recent Quarton Transactions

 <p>a portfolio company of</p>  <p>has been acquired by</p> <p>Vance Street Capital LLC</p> <p>Manufacturer of Test and Measurement Products</p>	 <p>a portfolio company of</p>  <p>has been acquired by</p>  <p>Manufacturer of Replacement Components for Web Converting Applications</p>	<p>Secure Bill Pay</p> <p>has been acquired by</p>  <p>a portfolio company of</p>  <p>Online Healthcare Payment Provider</p>	 <p>has been acquired by</p>  <p>a subsidiary of</p>  <p>Provider of Network Security and Unified Communications Solutions</p>
 <p>a portfolio company of</p>  <p>has been acquired by</p>  <p>Manufacturer of Highly Engineered Driveline Solutions</p>	 <p>a portfolio company of</p>  <p>has been acquired by</p>  <p>Manufacturer of Highly Engineered Driveline Solutions</p>	 <p>a portfolio company of</p>  <p>has been acquired by</p>  <p>Manufacturer of Architectural Railings for Multi-Family Units</p>	 <p>has been recapitalized by</p>  <p>Manufacturer of Healthcare Rehabilitation Equipment</p>

Office Locations

- | | | | |
|--|--|---|---|
| <p>Berlin, Germany
Joachimsthaler Straße 34
10719 Berlin
+49 (341) 98 379 0</p> | <p>Detroit, USA
300 Park Street, Suite 480
Birmingham, MI 48009
+1 (248) 594-0400</p> | <p>Frankfurt, Germany
Hochstraße 33
60313 Frankfurt am Main
+49 (172) 6291547</p> | <p>Graz, Austria
Glacisstraße 27
8010 Graz
+49 (341) 98 379 0</p> |
| <p>Indianapolis, USA
Coming Soon
+1 (317) 808 7283</p> | <p>Leipzig, Germany
Universitätsstrasse 14
04109 Leipzig
+49 (341) 98 379 0</p> | <p>London, England
Newcombe House, 6th Floor
45 Notting Hill Gate
London W11 3LQ
+44 (207) 243 4764</p> | <p>Minneapolis, USA
601 Carlson Pkwy, Suite 900
Minnetonka, MN
+1 (612) 669 8119</p> |
| | <p>Munich, Germany
Theatinerstrasse 7
80333 Munich
+49 (89) 2000 393 0</p> | <p>Zurich, Switzerland
Winkelwiese 2
8001 Zurich
+41 (44) 265 40 80</p> | |

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