

Market Overview

Middle-market M&A posts record valuations

2017 has proven to be a resilient M&A market with transaction multiples at all-time highs. Strategic and financial buyers are flush with cash and there is more demand for deals than there are deals in the market, creating ideal valuation conditions for sellers. The resiliency and strength of the overall market drives Quarton’s view that 2018 will be another strong year for sellers in the middle market. The highlights below support a strong 2018 outlook:

- Average middle market M&A transaction multiples are the highest since pre-recession
- Capital availability remains at all-time highs with S&P 500 companies maintaining a record \$1.6 trillion of cash on their balance sheet and \$900 billion of North American private equity “dry powder” available
- The debt markets remain at historically favorable levels with the average leverage for middle market transactions the highest since pre-recession
- The S&P 500 hit a new high in November, crossing the 2,600 mark for the first time

Proposed Tax Reform

The proposed new tax reform framework could have huge implications on capital allocation

The Senate recently passed the G.O.P.’s proposed new “Unified Framework for Fixing Our Broken Tax Code” plan, propelling the proposed tax cut legislation into a position to undergo final approval in the coming days. The plan centers primarily around tax cuts through a simplified tax code. A summary of the business tax provision proposal is outlined below:

Business Tax Provisions	<ul style="list-style-type: none"> ▪ Reduction of the corporate tax rate from 35% to 21%, which is below the 22.5% average found throughout the industrialized world ▪ Current deferred tax liabilities will be written down to reflect the new rate; will cause a dramatic increase in equity value across the board ▪ Pass through entities would enjoy a 25% top tax rate, regardless of the individual’s personal income tax bracket ▪ Immediate expensing of capital investments in new assets, other than structures / real property ▪ Limits C corporations’ ability to deduct interest expense to 30% of EBIT
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The proposed tax reform will increase cash balances for corporations, which is expected to increase business investments in capital expenditures for organic growth opportunities, as well as investments in acquisitions. We expect the proposed tax reform to support a strong appetite for acquisitions among the strategic buyer community in 2018.

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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 portfolio company of




a portfolio company of



has divested



to



Transaction Environment

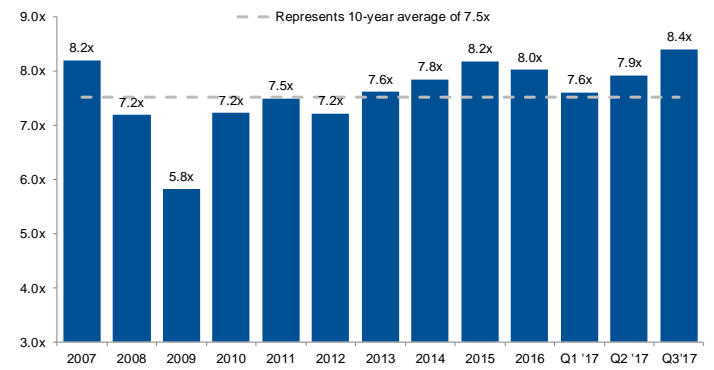
Transaction Multiples – Middle market enterprise value/EBITDA multiples increased to 8.4x in Q3 2017, compared to 7.9x in Q2 2017. The lofty valuations being seen in the middle market are largely being driven by the imbalance between the supply of high-quality assets and the number of potential investors looking to deploy capital.

Deal Volume – Data on middle market deal volume is often subjective, but year-over-year comparisons can provide guidance regarding general market trends. Disclosed transaction volume (enterprise value between \$10 million and \$250 million) remained steady year-over-year as strategic buyers continue to have an appetite for acquisitions and high levels of capital availability drive North American private equity.

Capital Structure – Average equity contributions of middle market transactions decreased to 41.7% compared to 42.6% in Q2 2017. The average equity contribution has continued to steadily decline from nearly 55% in 2009. Strong valuations combined with the debt markets remaining at historically favorable levels (4.2x total debt/EBITDA through YTD 2017) continue to drive equity contributions down.

Strong Foreign M&A Presence – Foreign buyers have accounted for 22% of the overall buyer base through YTD 2017, and the third quarter marked the sixth consecutive quarter that foreign buyers' share of U.S. M&A activity exceeded 20%. This is largely associated with the growth and anticipated stability in the U.S. market and lackluster organic growth opportunities for strategic acquirers abroad. This trend represents a considerable opportunity for middle market sellers.

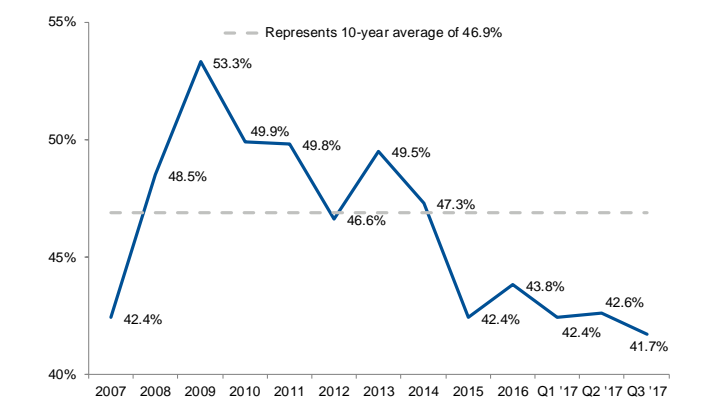
Middle Market Average TEV/EBITDA Transaction Multiples (1)



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

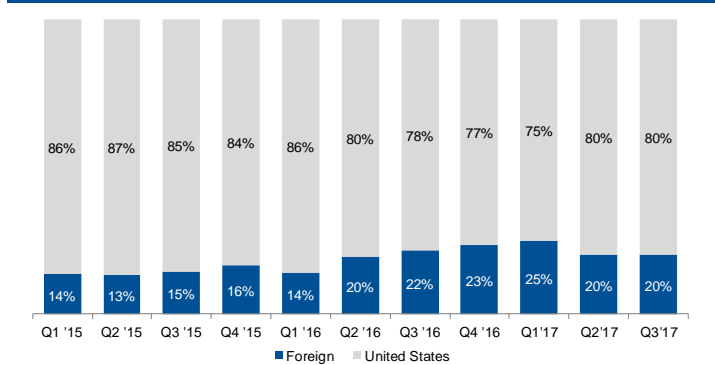
Source: Quarton International Research and S&P Capital IQ

Average Equity Contribution of Middle Market Transactions



Source: GF Data®

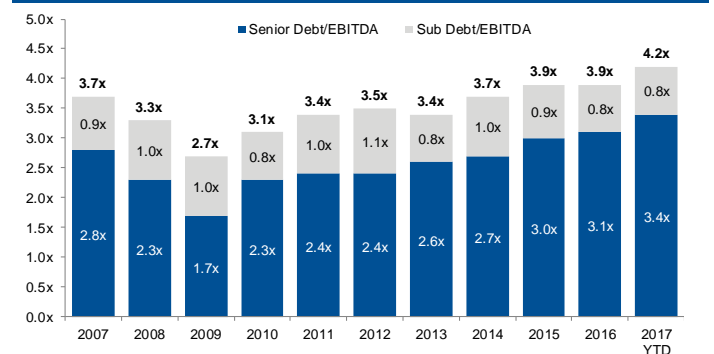
Middle-Market Activity by Buyer Region (2)



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

Source: Quarton International Research and S&P CapitalIQ

Average Credit Statistics of Middle Market Transactions



Source: GF Data®

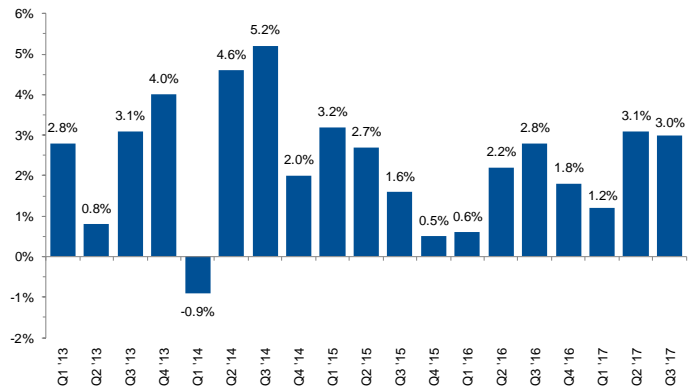
Economic Environment

Gross Domestic Product – U.S. gross domestic product rose faster than expected in the third quarter, showing that consumer and business spending remained strong despite the hurricanes that disrupted activity in some parts of the country. For a second quarter in a row, GDP hit 3%, President Trump's stated target for growth. Consumer spending, which makes the biggest contribution to growth, increased by 2.4% after a 3.3% rise in the second quarter. Nonresidential fixed investment, which reflects business spending on long-term capital, also rose in the third quarter.

Consumer Confidence – Consumer sentiment decreased slightly in the third quarter, which comes as no surprise as southern states affected by the hurricanes reported small declines in current financial situations of households. Confidence has remained favorable in the past year though, moving sideward in a very narrow positive range, despite several issues that could have derailed the overall level of consumer confidence, most recently Charlottesville and active hurricane season.

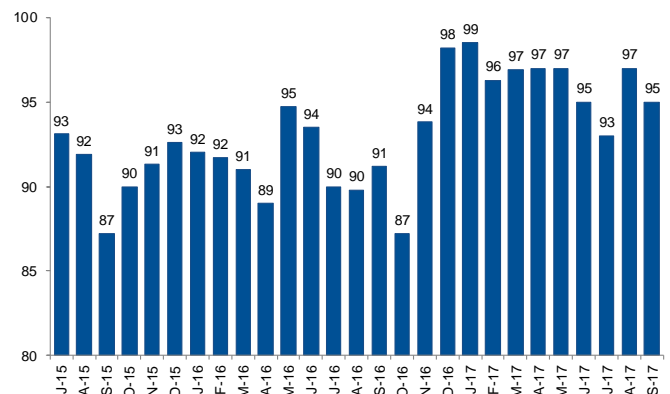
Employment – The U.S. lost jobs for the first time in seven years in September after the hurricanes drove down employment. Wages grew however, and the unemployment rate fell to 4.2%, a new 16-year low. Employers shed 33,000 jobs in September, the first decline since September 2010. Economists have written off the decline to the hurricanes and remain confident that the labor markets remain in good shape. With such a low unemployment rate, employers are having a tougher time finding job candidates, forcing them to increase wages. Overall, the labor market remains strong and economists still expect the Federal Reserve to raise interest rates late this year as the economy continues to improve.

Change in Real Gross Domestic Product



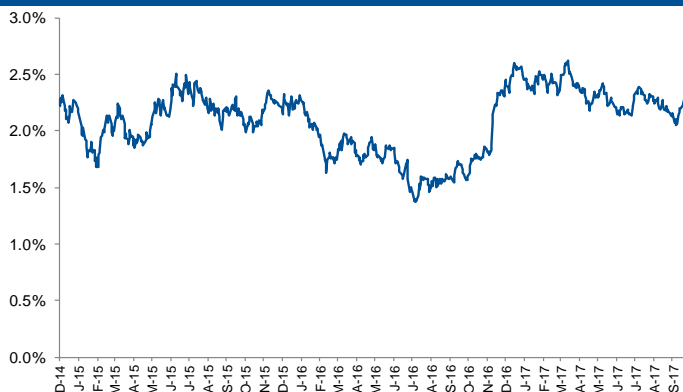
Source: U.S. Bureau of Economic Analysis

Consumer Confidence Index



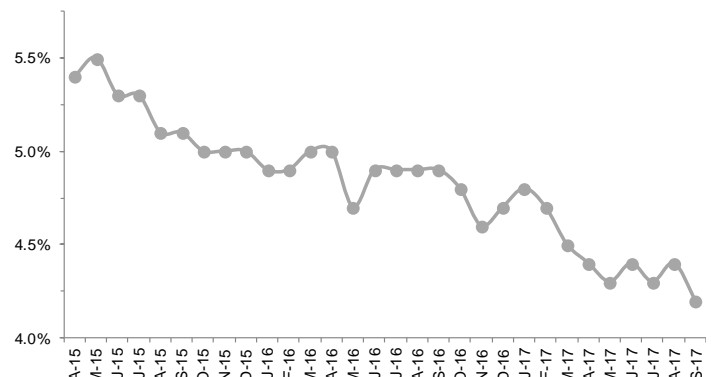
Source: Thomson Reuters / University of Michigan Surveys of Consumers

Ten-Year Treasury Yield



Source: U.S. Department of Treasury

U.S. Unemployment Rate



Source: U.S. Bureau of Labor Statistics

Recent Quarton Transactions

GEM
CIRCULARITY • engineering and manufacturing

a portfolio company of

LONE STAR FUNDS

has been acquired by

CAPITALWORKS

Supplier of Complex Electro-Mechanical Assemblies and Automated Equipment

Wastebuilt

a portfolio company of

MCM MILLBROOK CAPITAL MANAGEMENT INC.

has divested

Galfab

to

MOSAIC CAPITAL PARTNERS

Designer and Manufacturer of Waste Management Equipment

RESOLUTION

has merged with

iPDATATEL

and the combined business was recapitalized by

ABS CAPITAL PARTNERS and **ADAMS STREET PARTNERS**

High Performance Wireless Home Security Solutions

AMERICAN FORCE

has been acquired by

WHEELPROS

a portfolio company of

Audax Group

Leading Brand of Forged, Aluminum Aftermarket Wheels

Secure Bill Pay

has been acquired by

ABILITY

a portfolio company of

SUMMIT PARTNERS

Healthcare Payment Software Provider

rst

a portfolio company of

HKW

has been acquired by

Vance Street Capital LLC

Manufacturer of Test and Measurement Products

DOUBLE E
Engineering Excellence

a portfolio company of

INCLINE
EQUITY PARTNERS

has been acquired by

RAI River Associates Investments, LLC

Manufacturer of Replacement Components for Web Converting Applications

SunTel SERVICES

has been acquired by

CBTS

a subsidiary of

Cincinnati Bell
connecting what matters

Provider of Network Security and Unified Communications Solutions

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