

North American Middle Market M&A Update

First Quarter 2018

Market Overview

M&A Valuations Reach New All-Time Highs

2017 was marked by positive underlying macroeconomic conditions continuing to bolster a resilient market and robust valuations. The overall economy continued to expand in 2017 as unemployment reached new lows, the stock market hit record highs and new tax cut legislation improved consumer confidence and corporate outlooks. Middle market enterprise value/EBITDA multiples increased to 8.7x in Q4 2017 – representing the highest levels seen in over 10 years, and significantly above the 10-year average of 7.5x.

2017: A Look in the Rearview Mirror

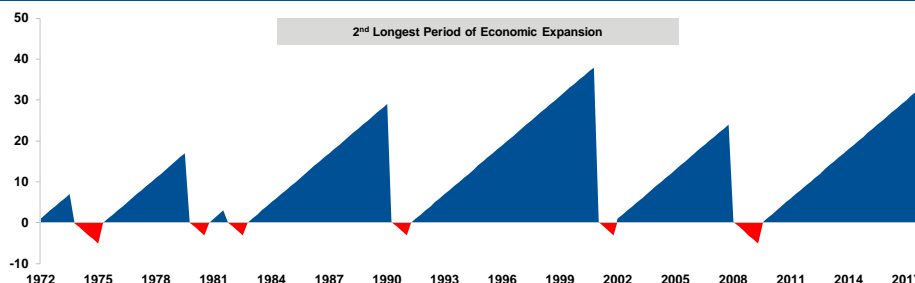
Increased Demand for High-Quality Assets	<ul style="list-style-type: none"> Buyers – both strategic and financial – have an abundance of capital to deploy to the tune of nearly a trillion dollars in private equity dry powder and \$1.8 trillion in available cash for the S&P 500 constituent companies The improvement of high-quality assets in the market drove premium valuations as investors aggressively competed for these assets
Robust Leverage Levels	<ul style="list-style-type: none"> The debt capital markets continued to plateau at historically aggressive levels, creating a favorable environment for middle market issuers In a low interest rate environment, lenders risk appetite continued to grow as they chased yield
Continued Economic Growth	<ul style="list-style-type: none"> Positive macroeconomic trends and an overall strong U.S. economy continued in 2017 which bolstered the M&A market <ul style="list-style-type: none"> GDP growth of 2.5% in 2017 Lowest unemployment in 17 years – 4.1% in Q4 2017 Consumer confidence remained strong averaging 97.5 for the year

Outlook for 2018 and Beyond

M&A momentum poised to continue into 2018

Given 2017's strong M&A market and 34 consecutive quarters of positive GDP growth, a key question facing potential market participants is the duration of the current expansionary economic cycle. Key considerations include the newly enacted tax plan and rising interest rates. The tax plan stimulates an already healthy economy and puts more cash in the hands of corporations to deploy for acquisitions. In addition, investors remain mindful of recent interest rate hikes and will be closely monitoring the impact future increases could have on the cost of capital and subsequently, future returns. Despite recent economic stimulus and an overall positive sentiment for 2018, the longer-term outlook sees downside risk stemming from exogenous macro shocks, potential for mean reversion in risk appetite and inflation/rising interest rates becoming increasingly prominent. Business owners contemplating a sale should look to capitalize on the current favorable market conditions as eventually risk aversion and higher interest rates could impact the recent record high valuations.

Quarters of Economic Expansion vs. Contraction



Source: U.S. Bureau of Economic Analysis

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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



PTI
PTI INTERNATIONAL CORP.


a portfolio company of



TB TONKA BAY
has been acquired by




INCLINE
EQUITY PARTNERS




MONROE

a portfolio company of



ELLIPSE
CAPITAL

has been acquired by



SHOREVIEW

Transaction Environment

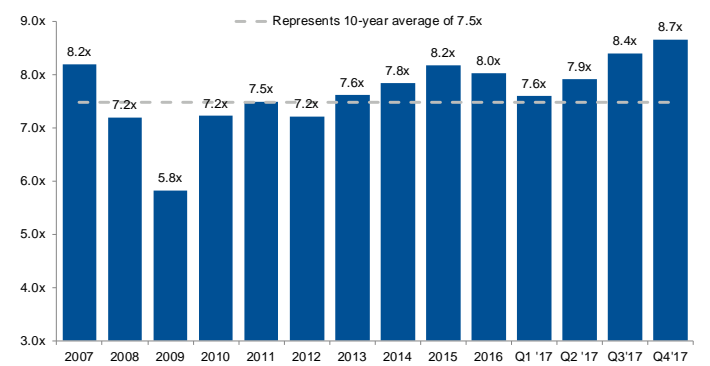
Transaction Multiples – Middle market enterprise value/EBITDA multiples increased from 8.4x in Q3 2017 to 8.7x in Q4 2017, surpassing valuation levels at the start of the year. The continued multiple expansion in the middle market is supported by healthy leverage levels and heavy competition amongst private equity and strategic buyers.

Deal Volume – Middle market transaction volume (enterprise value between \$10 million and \$250 million) in Q4 2017 remained resilient and concluded a strong year from a deal volume perspective. There was a direct correlation between the number of quality assets on the market and increased valuation levels as buyers, both strategic and financial, appeared to be more than willing to pay higher multiples in order to put cash to work.

Capital Structure – Average equity contributions of middle market transactions surged to 47.1% compared to 42.6% in Q3 2017. The spike is a consequence of an increase in valuations while lending markets continues to plateau at historically aggressive levels. Average middle market leverage levels finished the year at 5.9x compared to the 2017 average of 6.0x.

High Corporate Cash Balances – Cash and short-term investments on the S&P 500 constituent companies' balance sheets continue to surge and currently sit at \$1.8 trillion – the highest levels seen in over 10 years. The companies considered exclude financial companies as those companies are required to hold a certain amount of cash and debt for regulatory purposes. This record amount of cash coupled with lower organic growth prospects for corporations continues to drive the stimulus for strategic-led deals.

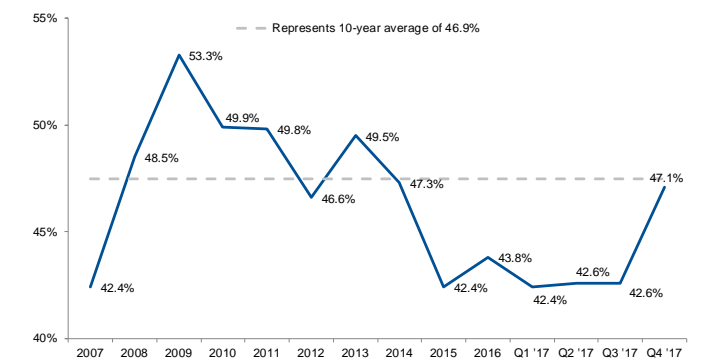
Middle Market Average TEV/EBITDA Transaction Multiples (1)



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

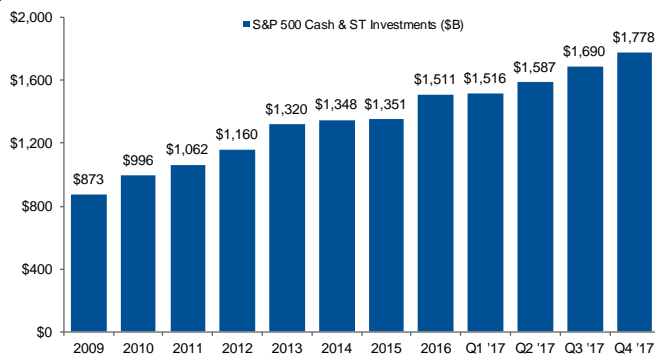
Source: Quarton International Research and S&P Capital IQ

Average Equity Contribution of Middle Market Transactions



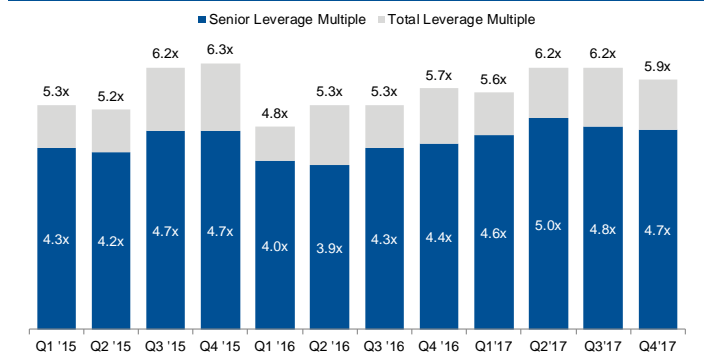
Source: GF Data®

High Corporate Cash Balances



Source: Quarton International Research and S&P Capital IQ

Middle Market LBO Debt Multiples



Source: Thomson Reuters

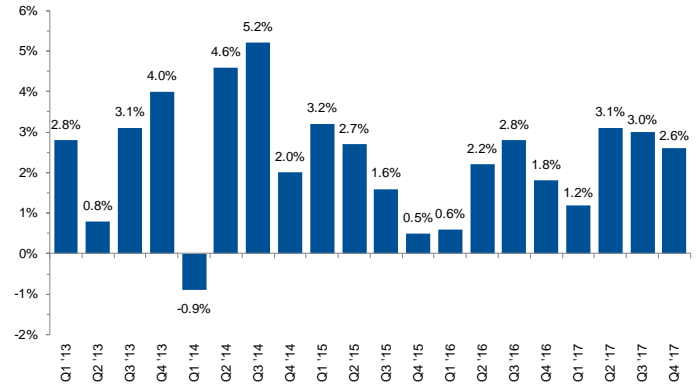
Economic Environment

Gross Domestic Product – U.S. gross domestic product continued its expansion through 2017 despite unexpectedly slowing in Q4 2017. The deceleration in the fourth quarter was largely a result of the strongest pace of consumer spending seen in three years which resulted in increased import levels. Imports, which deduct from GDP growth, increased at the fastest rate in over seven years. The late-summer hurricanes continued their impact into Q4 2017 as individuals rebuilt homes, replaced cars and corporations delayed by idled ports in Q3 2017 saw an increased level of imports at the end of 2017.

Consumer Confidence – The University of Michigan Surveys of Consumers reported that consumer confidence increased to 100.7 in October and remained strong throughout the quarter, finishing above 95 to end the year. The December decline was driven by uncertainty surrounding future economic prospects (e.g., tax reform). Party affiliation was the dominant underlying factor of consumer assessments of the tax legislation. 2017 averages represent the highest consumer confidence levels exhibited since 2000.

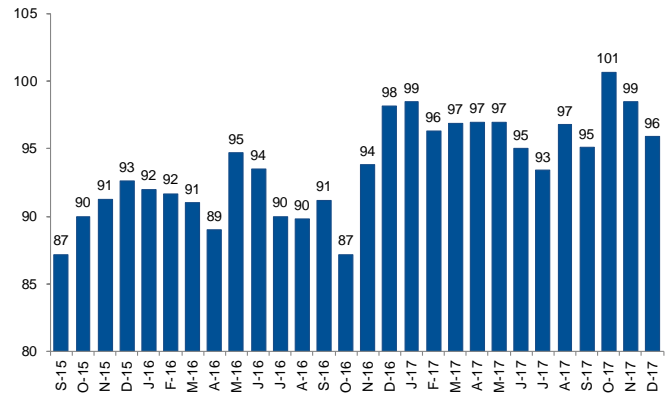
Employment – The U.S. unemployment rate continued to decline into Q4 2017 and remained at 4.1% through the end of the year – representing the lowest unemployment rate in 17 years. Employers added nearly 2.1 million jobs in 2017 with October seeing 261,000 new jobs added as industries affected by Hurricanes Harvey and Irma began to recover. December marked 85 straight months that the United States has added jobs, the longest streak on record.

Change in Real Gross Domestic Product



Source: U.S. Bureau of Economic Analysis

Consumer Confidence Index



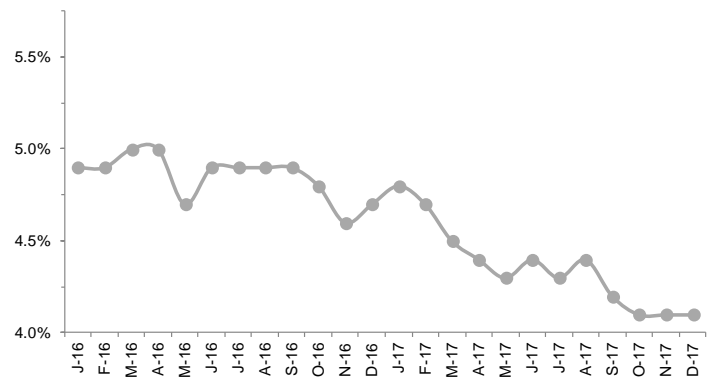
Source: University of Michigan Surveys of Consumers

Ten-Year Treasury Yield



Source: U.S. Department of Treasury

U.S. Unemployment Rate



Source: U.S. Bureau of Labor Statistics

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Recent Quarton Transactions



has been acquired by



a portfolio company of



Manufacturer and Distributor of Precision Cutting Tools



a portfolio company of



has divested



to



Manufacturer of Custom Molded Rubber Components



a portfolio company of



has been acquired by



Value-Added Supplier of Mechanical Power Transmission Components

THOMAS PIPE

a portfolio company of




has been acquired by




Wholesale Distributor of Industrial Pipes, Valves and Fittings


"GO WITH THE NAME YOU KNOW"




has been acquired by




Provider of HVAC Maintenance, Repair and Replacement Services



a portfolio company of



has been acquired by



Supplier of Hardware Component Products for OEMs



a portfolio company of



has been acquired by



Supplier of Complex Electro-Mechanical Assemblies and Automated Equipment



a portfolio company of



has divested



to



Designer and Manufacturer of Waste Management Equipment

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