

North American Middle Market M&A Update

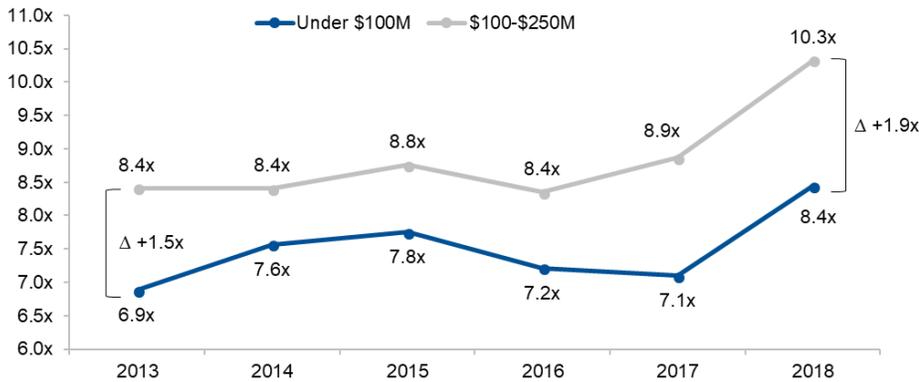
Second Quarter 2018

Market Overview

M&A valuation multiples favor larger middle market transactions

Valuations for middle market transactions set a very strong pace to start 2018, while overall deal count in North America and Europe was down 18% year over year. Increased purchasing power, a healthy economy and scarcity of quality assets have rewarded larger transactions while total volume declines. The positive market sentiment combined with nominal organic growth opportunities is leading to high demand for acquisitions by strategic and financial buyers. The current M&A market is positioned favorably for sellers given the decline in overall deal volume and favorable valuation trends for high quality, larger assets.

Premium Valuations for Larger Transactions



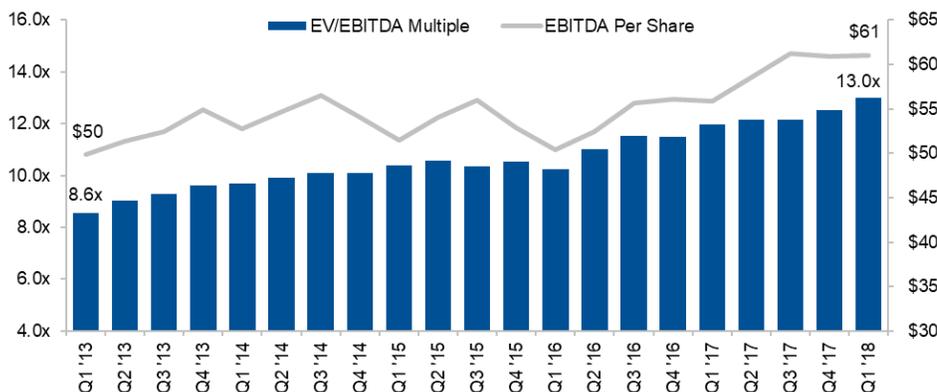
Source: S&P Capital IQ and Pitchbook. Transactions between \$10 and \$250 million with TEV/EBITDA multiples < 15x; excludes technology, media and telecom

S&P 500 Multiple Expansion

Strong corporate earnings and multiple expansion are driving higher purchase price multiples

The increase in corporate purchasing power due to an extended period of strong earnings has enabled strategic buyers to pay more for acquisitions. The S&P 500 EV-to-EBITDA ratio is currently at 13.0x, compared to 8.6x just five years ago. Over the same time period, EBITDA per share for the S&P 500 increased over 22%, reaching \$61.0 in Q1 2018. The expanding valuations in public markets coupled with strong corporate earnings have created a buoying effect on middle market transaction multiples.

S&P 500 EV/EBITDA Multiple



Source: Pitchbook, Quarton International Research, and S&P Capital IQ

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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 acquired



a portfolio company of



has been recapitalized by



Transaction Environment

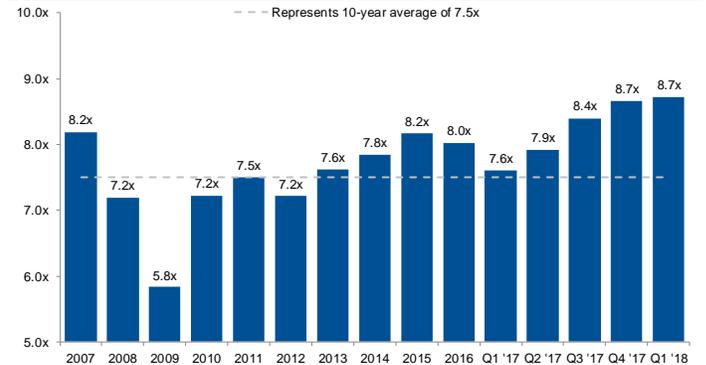
Transaction Multiples – Middle market EV-to-EBITDA multiples were 8.7x for Q1 2018, matching a 10-year high set last quarter. The elevated transaction multiples in the middle market are supported by healthy leverage levels and heavy competition amongst private equity and strategic buyers.

Deal Volume – Middle market transaction volume (enterprise value between \$10 million and \$250 million) in Q1 2018 was unchanged year over year. Although overall activity remains modest, increased valuation levels for quality assets show both private equity and strategic buyers are willing to pay higher multiples in order to put cash to work.

Capital Structure – Average equity contributions of middle market transactions increased slightly, reaching 47.6% compared to 47.1% in Q4 2017. The increase is a result of continuing strength in valuations while lending markets have reached a plateau at historically aggressive levels. Average middle market leverage levels finished the quarter at 6.1x compared to the 2017 average of 6.0x.

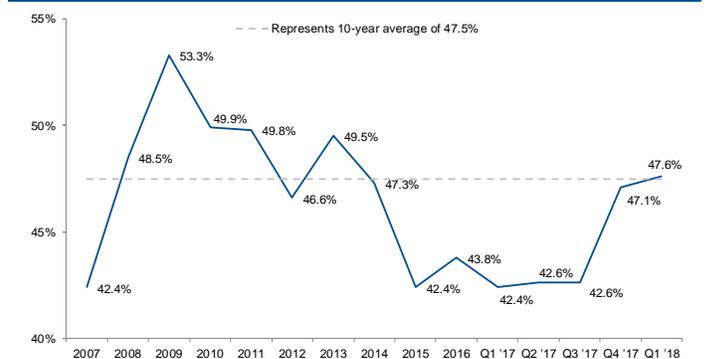
High Corporate Cash Balances – Cash and short-term investments on the S&P 500 constituent companies' balance sheets continue to set new highs reaching \$1.8 trillion – the highest level seen in over 10 years. The companies considered exclude financial companies as those companies are required to hold 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)



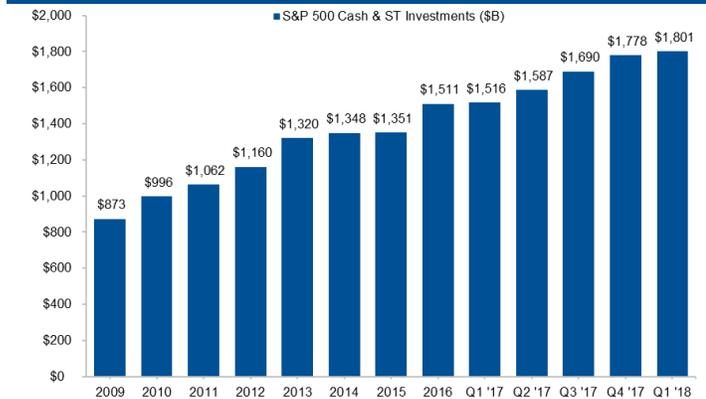
(1) Transactions between \$10 and \$250 million with TEV/EBITDA multiples < 15x; excludes technology, media and telecom; average multiple based on weighted average
Source: Quarton International Research and S&P Capital IQ

Average Equity Contribution of Middle Market Transactions



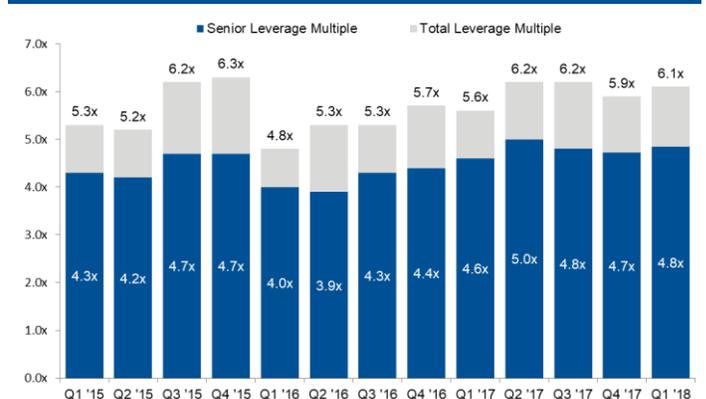
Source: GF Data®

High Corporate Cash Balances



Source: Quarton International Research and S&P Capital IQ

Middle Market LBO Debt Multiples



Source: Thomson Reuters

Economic Environment

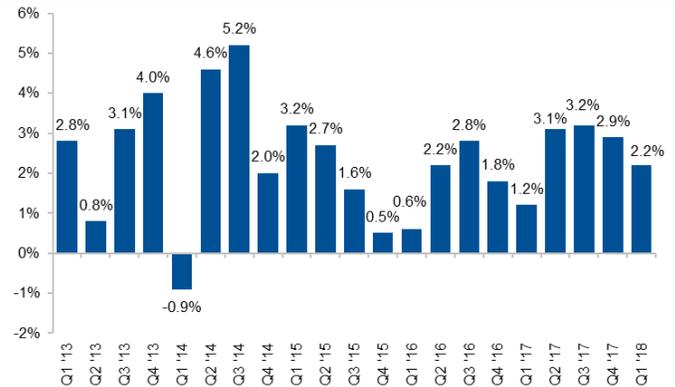
Gross Domestic Product – U.S. gross domestic product continued its expansion through Q1 2018, albeit at a slower pace than late 2017. The deceleration is largely the result of weaker consumer spending and international exports. Despite the weakness in exports, investments in fixed assets, equipment, structures and intellectual property were stronger than expected.

Consumer Confidence – The University of Michigan Surveys of Consumers reported that consumer confidence increased to 101.4 in March, the highest level since January 2004. Worries about increasing interest rates and stock market volatility remained muted as expected gains in personal income and job growth were the largest contributors to the positive number.

Employment – The U.S. unemployment rate held steady in Q1 2018, remaining at 4.1% for the 6th consecutive month. Although the pace of job growth has slowed in recent months, the unemployment rate remains at a 17-year low. March marked 90 straight months that the United States has added jobs, the longest streak on record.

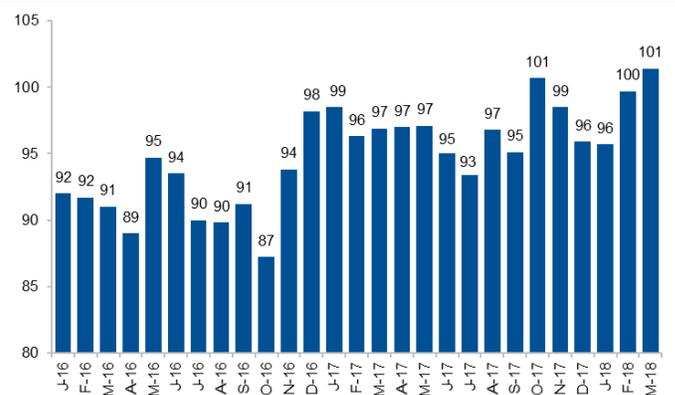
Interest Rates – During the first quarter of 2018, the ten-year treasury yield rose 28 basis points from 2.46% to 2.74%. The rise in interest rates was largely attributable to expectations of higher growth and inflation. Additionally, the FOMC indicated that it would stay committed to the rising rate policy adopted in the previous quarters.

Change in Real Gross Domestic Product



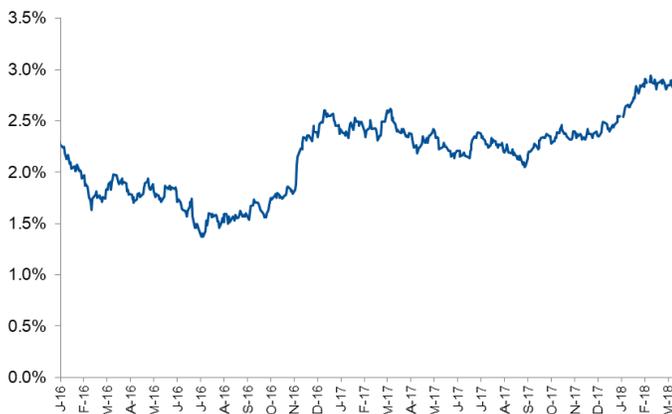
Source: U.S. Bureau of Economic Analysis

Consumer Confidence Index



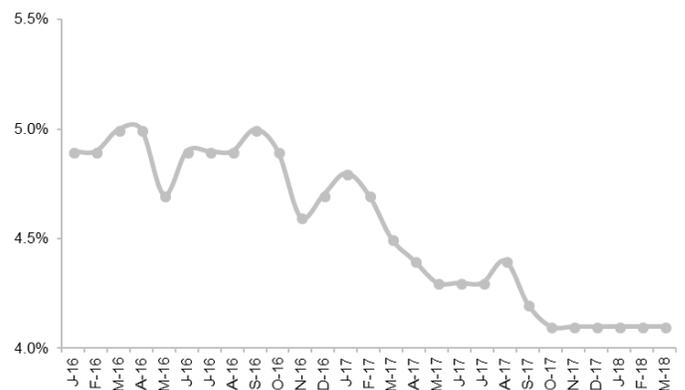
Source: University of Michigan Surveys of Consumers

Ten-Year Treasury Yield



Source: U.S. Department of Treasury

U.S. Unemployment Rate



Source: U.S. Bureau of Labor Statistics

Recent Quarton Transactions



a portfolio company of



has been acquired by



a portfolio company of

J.F. Lehman & Company

Provider of Maintenance and
Emergency Environmental
Services



a portfolio company of



has acquired



Provider of Aftermarket Parts
for Classic, Off-Road, and Late
Model Muscle Cars



has acquired



a portfolio company of



Manufacturer of Leather
Products for the Apparel
Industry



has been acquired by



MERITOR

Provider of Gears for Highly
Engineered Automotive
Components



has been recapitalized by



Provider of Substance Abuse
Treatment Clinics



a portfolio company of



has refinanced

Outstanding debt obligations

Designer and Distributor of
Fashion Casual and Athletic
Socks



FORT WAYNE METALS

has acquired



Manufacturer of High Quality
Materials for Demanding
Applications



a portfolio company of



has been acquired by



Value-Added Supplier of
Mechanical Power
Transmission Components

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