

North American Middle Market M&A Update

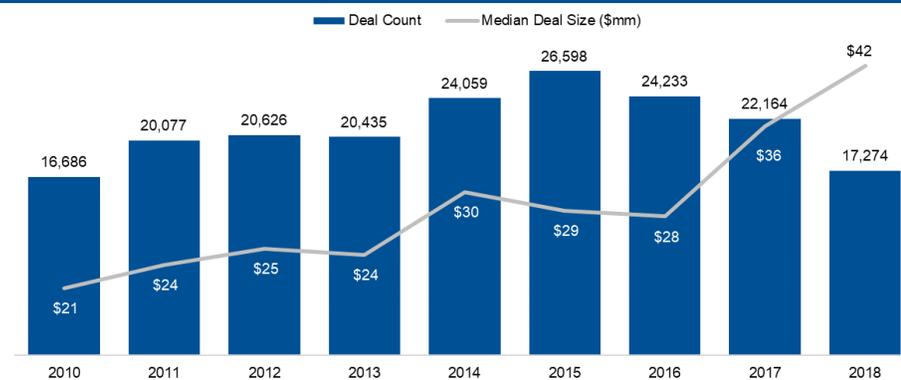
Third Quarter 2018

Market Overview

M&A activity continues to be positively impacted by a strong macroeconomic environment

The middle market M&A landscape in Q2 2018 remained very favorable for sellers, driven by positive market sentiment and strong economic indicators. In Q2 2018, for the first time since 2006, the U.S. GDP growth rate was higher than the U.S. unemployment rate. Further highlighting the macroeconomic strength, 33 out of the last 36 quarters have seen U.S. GDP expand, including 17 consecutive quarters. The healthy economy has led to high levels of consumer confidence and strong demand for quality assets as elevated valuations propelled median deal size to new highs. While total M&A activity has modestly declined, valuation multiples remain at record-highs and premiums for high quality businesses continue to drive median deal size higher.

Focus on Larger Middle Market Transaction Sizes ⁽¹⁾



(1) 2018 has been annualized based on 1H 2018 data

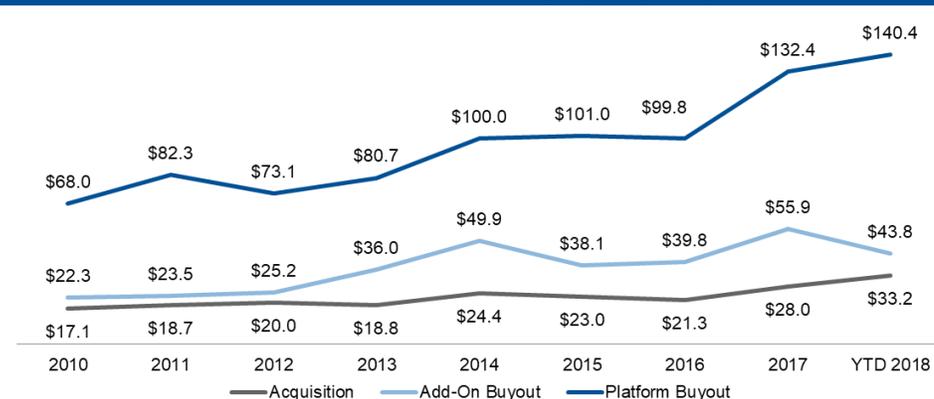
Source: Pitchbook

Growing Deal Size for Platform Buyouts

Record amount of dry powder is fueling transactions on a larger scale, especially for platform buyouts

The financial and strategic buyer landscape has changed dramatically as both the total number of financial buyers and capital available for investment has more than doubled since 2010. Given these factors, platform deal values have risen substantially as buyers are willing to pay more for assets of significant size. The supply of platform investments has not kept pace with increasing demand from buyers, placing scarcity value on quality platforms. As a result, this has driven up the price of platform investments to new multi-year highs.

Median M&A Deal Size by Type (\$mm)



Source: Pitchbook and Quarton International Research

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Firm Overview

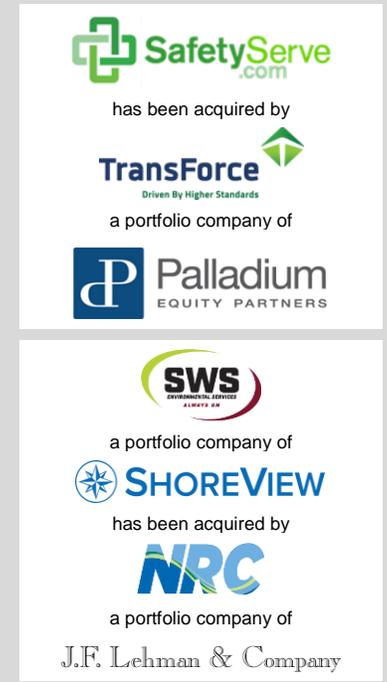
Quarton International is a premier investment banking firm providing M&A, capital raising, and related advisory services to middle market companies in North America and Europe.

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



SafetyServe.com
has been acquired by
TransForce
Driven By Higher Standards
a portfolio company of
Palladium
EQUITY PARTNERS

SWS
ENVIRONMENTAL SERVICES
A MEMBER OF
a portfolio company of
SHOREVIEW
has been acquired by
NRC
a portfolio company of
J.F. Lehman & Company

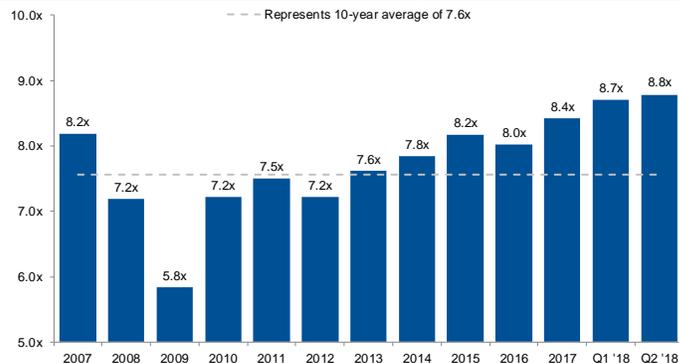
Transaction Environment

Transaction Multiples – Middle market EV-to-EBITDA multiples were 8.8x for Q2 2018, which set another new 10-year high. 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 Q2 2018 declined modestly year over year to 47 transactions from 57. Although overall activity dipped slightly, increased valuation levels and larger deal sizes show that buyers are willing to pay premiums for quality assets.

Capital Structure – Average equity contributions for middle market transactions increased slightly, reaching 49.2% in Q2 2018 compared to 47.6% in Q1 2018. Average middle market leverage levels finished the quarter at 4.5x compared to the 2017 average of 4.7x. For deal sizes up to \$1.0 billion, average leverage levels were 6.0x, largely unchanged over the last few quarters. Strong leverage availability coupled with increasing valuations are leading to elevated total leverage multiples.

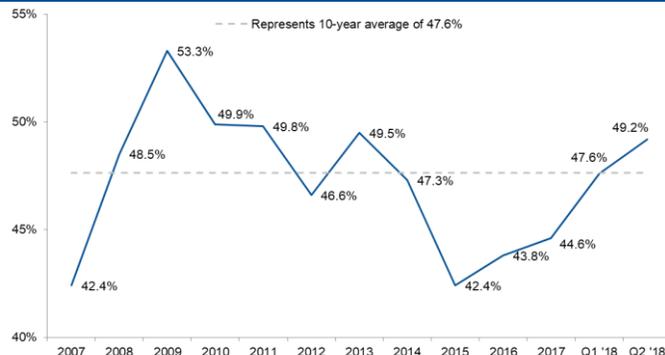
Middle Market Average TEV/EBITDA Transaction Multiples ⁽¹⁾



(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

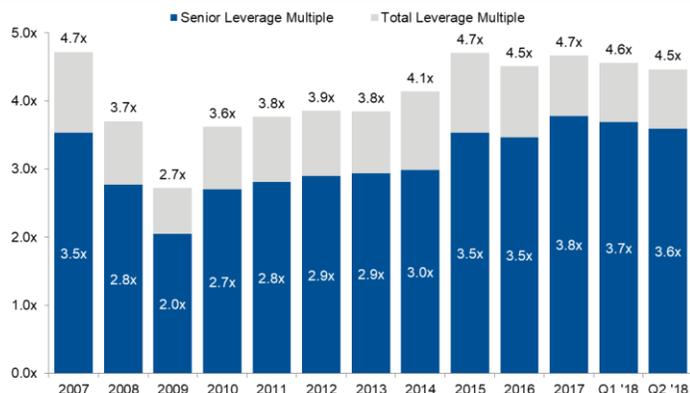
Average Equity Contribution of Middle Market Transactions ⁽²⁾



(2) Transactions between \$10 and \$250 million

Source: GF Data®

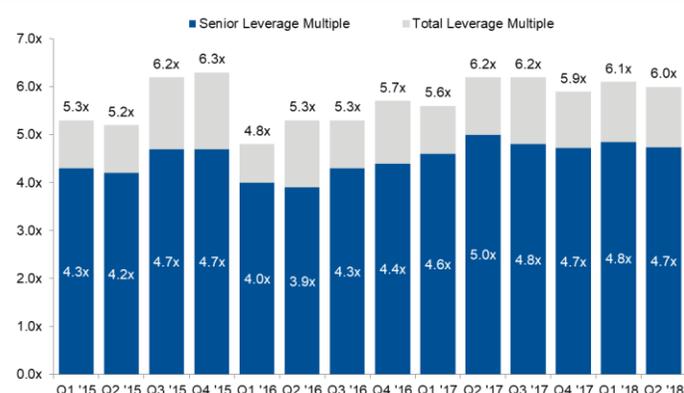
Middle Market LBO Debt Multiples ⁽³⁾



(3) Transactions between \$10 and \$250 million

Source: GF Data® and S&P Capital IQ

Broad Middle Market LBO Debt Multiples ⁽⁴⁾



(4) Transactions less than \$1 billion

Source: Thomson Reuters

Economic Environment

High Corporate Cash Balances – Cash and short-term investments on the S&P 500 constituent companies’ balance sheets continue to set new highs, eclipsing \$2.0 trillion in Q2 2018. 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 is a result of a prolonged period of steady growth coupled with a positive macroeconomic environment.

Gross Domestic Product – U.S. gross domestic product saw a strong increase in Q2 2018. The strong growth was attributed to upward momentum in fixed asset spending, primarily in the non-residential space. Weakness in personal consumption partially offset the strength in overall GDP.

Employment – The U.S. unemployment rate dipped once again in Q2 2018, reaching 4.0%. Although the pace of job growth has slowed in recent months, the unemployment rate remains at a 17-year low. June marked 93 straight months that the United States has added jobs, extending the longest streak on record.

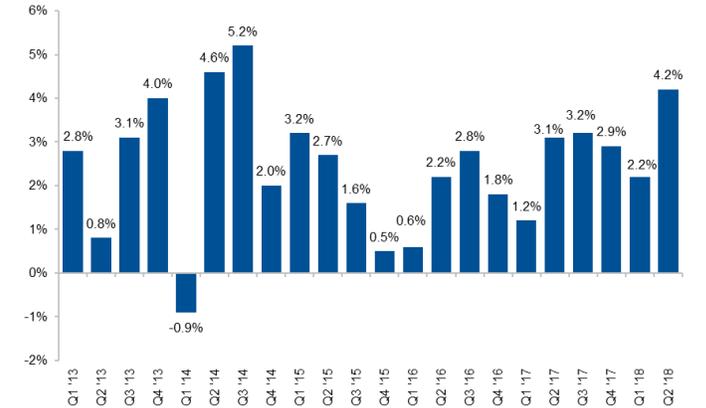
Interest Rates – During the second quarter of 2018, the ten-year treasury yield remained largely flat, rising just 12 basis points from 2.73% to 2.85%. The rise in interest rates was largely attributable to the FOMC raising interest rates in June and signaling 2 additional rate increases by the end of the year.

High Corporate Cash Balances



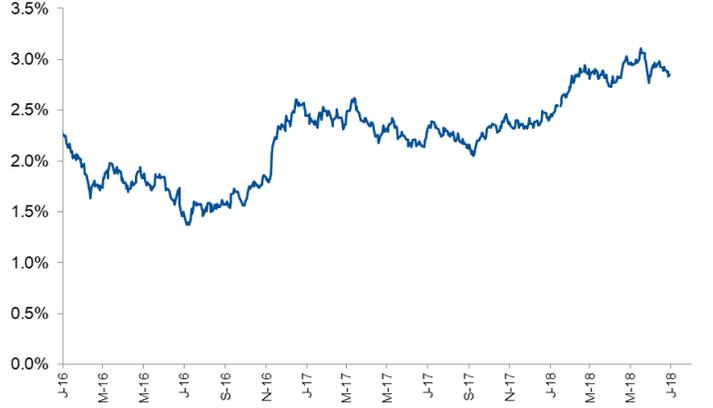
Source: Quarton International Research and S&P Capital IQ

Change in Real Gross Domestic Product



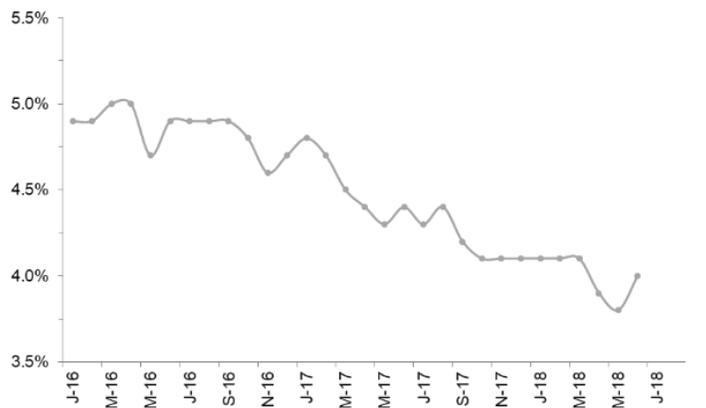
Source: U.S. Bureau of Economic Analysis

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

 <p>has been acquired by</p>  <p>a portfolio company of</p>  <p>Provider of Online Safety Training Courses</p>	 <p>a portfolio company of</p>  <p>has been acquired by</p>  <p>a portfolio company of</p> <p>J.F. Lehman & Company</p> <p>Provider of Maintenance and Emergency Environmental Services</p>	 <p>a portfolio company of</p>  <p>has acquired</p>  <p>Provider of Aftermarket Parts for Classic, Off-Road, and Late Model Muscle Cars</p>	 <p>has acquired</p>  <p>a portfolio company of</p>  <p>Manufacturer of Leather Products for the Apparel Industry</p>
 <p>has been acquired by</p>  <p>Provider of Gears for Highly Engineered Automotive Components</p>	 <p>has been recapitalized by</p>  <p>Provider of Substance Abuse Treatment Clinics</p>	 <p>a portfolio company of</p>  <p>has refinanced</p> <p>Outstanding debt obligations</p> <p>Designer and Distributor of Fashion Casual and Athletic Socks</p>	 <p>has acquired</p>  <p>Manufacturer of High Quality Materials for Demanding Applications</p>

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