



M&A and Capital Markets Update

Q2 2018

THE **FORBES**
MAGROUP

M&A Key Developments

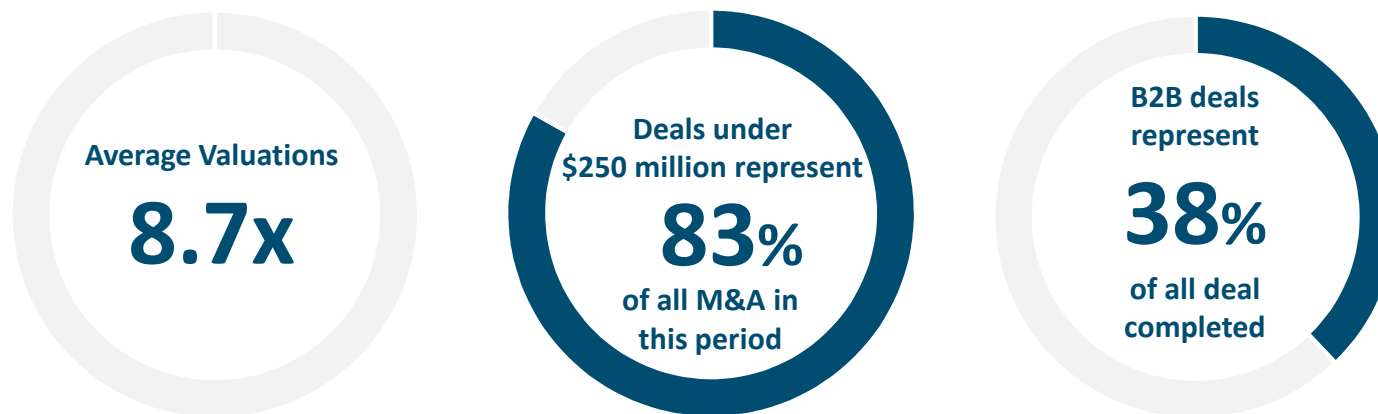
M&A ACTIVITY SAW A SLIGHT INCREASE IN Q2 OF 2018, LARGELY DUE TO FIVE \$10 BILLION+ MEGA-DEALS BEING COMPLETED.

Across North America and Europe, over 4,500 deals were closed with a total value nearing \$1 trillion, marking a 2% decrease and 24% increase respectively over 1Q.

These current trends are directly linked to business sentiment, corporate fundamentals, and macroeconomic forces that continue to progress positively, hinting at another \$3+ trillion year in M&A⁽¹⁾.

Key Themes from 2Q 2018

- ▶ Mega-deals were the driving force in the leap in aggregate deal value during the second quarter with 31 deals of \$5 billion or more being closed.
- ▶ European M&A transactions have been steady at just over 3,400 deals completed during 1H 2018, totaling \$570 billion in deal size. North American transactions eclipsed 5,200 deals completed worth \$1 trillion during the same period. Both regions had an uptick in mega-deals completed during the period.
- ▶ Significant dry powder available as private equity firms continue to raise larger funds and need to actively put capital to work.



(1) PitchBook 2Q 2018 M&A Report

M&A Valuation Data

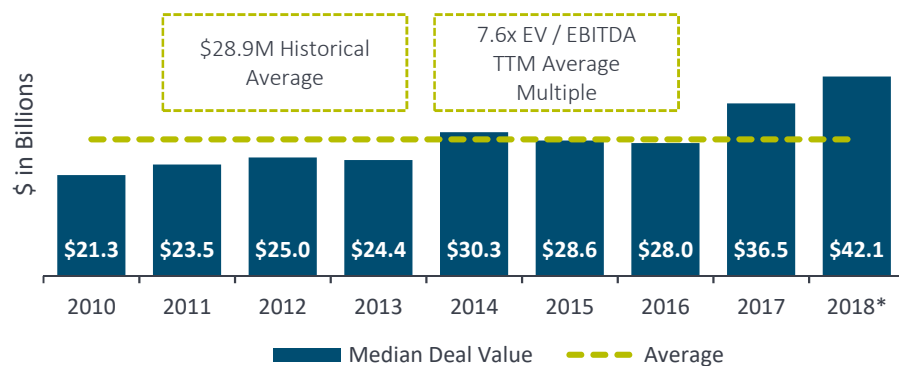
VALUATION DATA DURING THE PAST YEAR FOR TEV DEALS BETWEEN \$10 – 250 MILLION SHOW SELLERS ARE RECEIVING AN AVERAGE MULTIPLE OF 7.3X (TEV/EBITDA).

- ▶ Median deal values remain high and continue to beat the historical average, edging the average deal value over the \$30 million level in the past two years.
- ▶ The number of M&A deals completed at deal sizes below \$100 million is still the largest portion of overall deals at 70%, however larger deals are gaining overall activity share due to the abundance of easy access to cash and cheap financing.

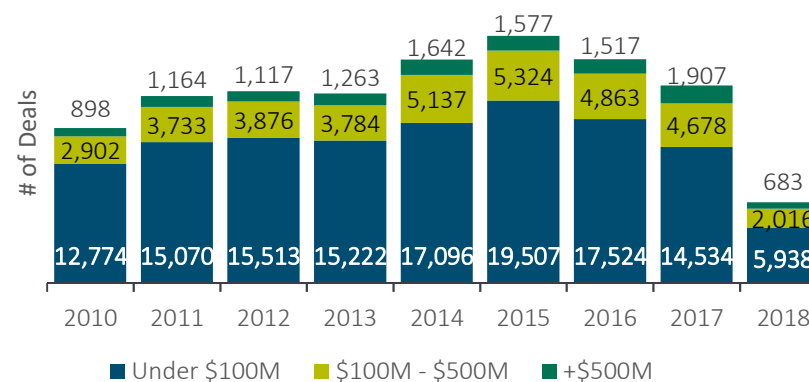
Total Enterprise Value / EBITDA⁽¹⁾

All Transactions	1Q 17	2Q 17	3Q 17	4Q 17	1Q18
# of Deals	64	52	51	69	52
TEV/EBITDA	6.6x	7.4x	7.5x	8.0x	6.9x
Total Debt/EBITDA	4.0x	4.4x	4.5x	4.3x	4.2x
Senior Debt/EBITDA	3.0x	3.6x	3.7x	3.5x	3.4x

Median M&A Deal Value⁽¹⁾



Number of Deals by Size⁽¹⁾



(1) 2018 values as of March 31, 2018, Source: PitchBook M&A Report 2Q 2018 (2): Values from GF Data M&A report, May 2018

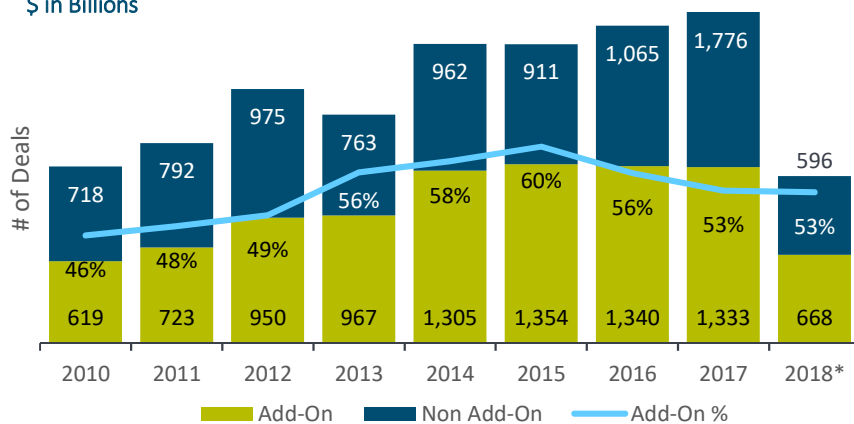
Deal Size and PE Deal Trends

EBITDA MULTIPLES FOR BUSINESSES VALUED BETWEEN \$25-100 MILLION TEV HAVE SHOWN A 28% DECREASE IN DEAL VOLUME WHEREAS VALUATION MULTIPLES INCREASED, FROM THE SAME PERIOD IN 2017.

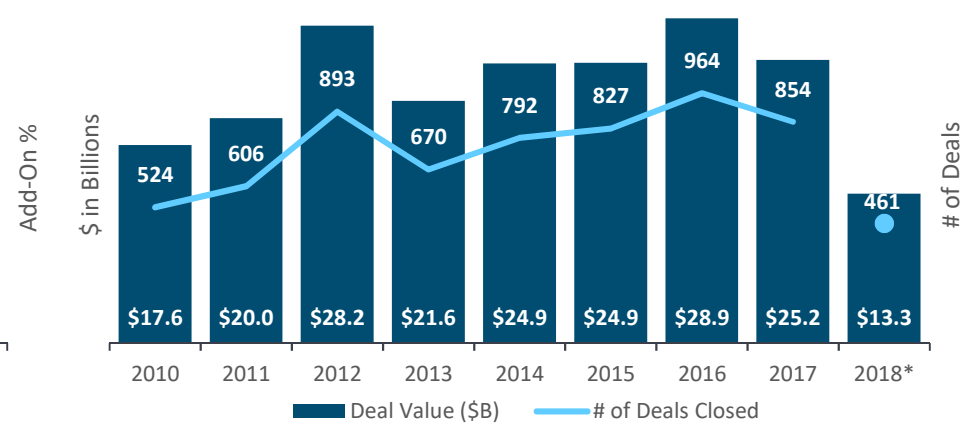
- ▶ Fundraising activity among U.S. middle market private equity firms remains at elevated levels.
- ▶ Add-on transactions continue to represent more than half of all private equity backed M&A transactions.
- ▶ Capital markets for transaction financing remain open with ample dry powder and favorable pricing and terms.

TEV	2003-2013	2014	2015	2016	2017	YTD 2018	Total	N =
10 to 25	5.5x	5.5x	5.8x	5.8x	6.4x	5.9x	5.6x	1183
25 to 50	6.1x	6.4x	6.6x	6.4x	6.6x	6.6x	6.3x	861
50 to 100	6.7x	7.5x	7.8x	7.3x	8.3x	9.1x	7.1x	594
100 to 250	7.2x	7.5x	9.0x	8.9x	9.2x	8.5x	7.9x	296
Total	6.1x	6.4x	6.7x	6.8x	7.4x	7.0x	6.3x	
N =	1897	213	242	228	244	110		2934

Private Equity Deals by Type⁽¹⁾
\$ in Billions



Lower Middle Market Private Equity Deals and Value^(2,3)



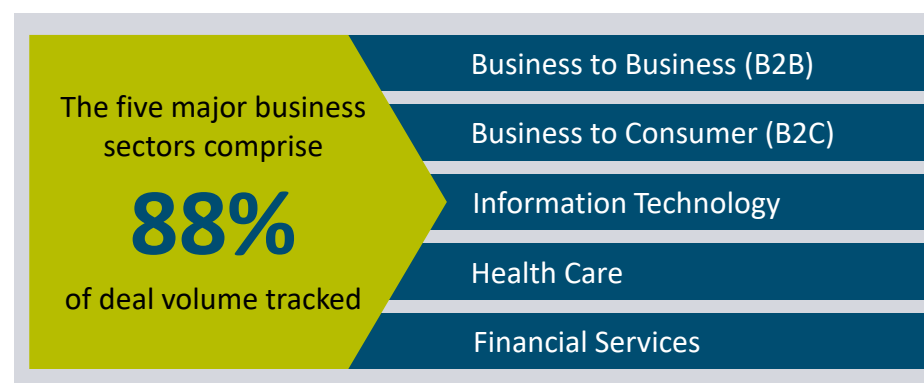
(1) Middle market defined as transactions with values at or below \$1 billion;
 (2) Lower middle market defined as transactions with values at or below \$100 million;
 (3) 2018 values as of June, 30, 2018. Source: PitchBook

Industry Category Multiples

THE FIVE HIGHEST INDUSTRY TEV/EBITDA MULTIPLES – RETAIL, TECHNOLOGY, DISTRIBUTION, MANUFACTURING, AND HEALTH CARE SERVICES ARE AT ALL-TIME HIGHS OR NEAR ALL-TIME HIGHS.

Industry	2003-2013	2014	2015	2016	2017	YTD 2018	Total	N=
Manufacturing	5.9	6.1	6.6	6.1	6.9	6.7	6.1	1258
Business services	6.1	6.1	6.3	7.3	7.5	6.9	6.4	555
Health Care Services	6.8	7.2	7.8	7.6	8.1	7.6	7.1	278
Retail	6.4	6.0	5.5	7.1	7.6	8.1	6.6	91
Distribution	6.0	7.1	6.7	7.5	7.6	7.6	6.4	296
Media & Telecom	7.2	NA	6.4	6.7	8.2	5.0	7.1	48
Technology	6.6	7.7	8.0	7.4	10.2	9.4	7.6	96
Other	5.8	6.4	5.6	7.0	6.6	6.2	6.0	312
N=								2864

61%
Are from manufacturing & business service industries



Key Projections & Drivers for the Remainder of 2018

Projections

- ▶ The M&A environment will continue to slow in terms of deal volume, although average deal value will continue to trend up.
- ▶ Mega-deals over \$5 billion will continue to increase deal share as overall deal activity falls due to currently favorable economics.
- ▶ Private Equity funds will continue to pull together larger funds to buy larger companies and to properly allocate capital. Blackstone's newly announced \$20 billion buyout fund is an example of the expansion in fund sizes¹.
- ▶ M&A deal value is expected to easily eclipse the \$3 trillion mark in FY 2018, projected to roughly match 2016 and 2017 in overall deal value, despite lower deal volume¹.

Drivers

- ▶ The current state of interest rates is presenting opportunities for corporations and businesses to grow through M&A before expected and planned increases across North America and Europe (currently has historically low rates)¹.
- ▶ GDP Increase the GDP has increased at levels much higher than expected, growing at a 4% clip in 1Q 2018, continuing to drive the consumer confidence index higher, signaling overall good sentiment about the state of the market.
- ▶ Access to capital is at a very high level and with re-patriated cash from overseas accounts, creating record amounts of available capital that will influence deal values through the remainder of 2018^{2,3}.

(1) PitchBook M&A Report 2Q 2018

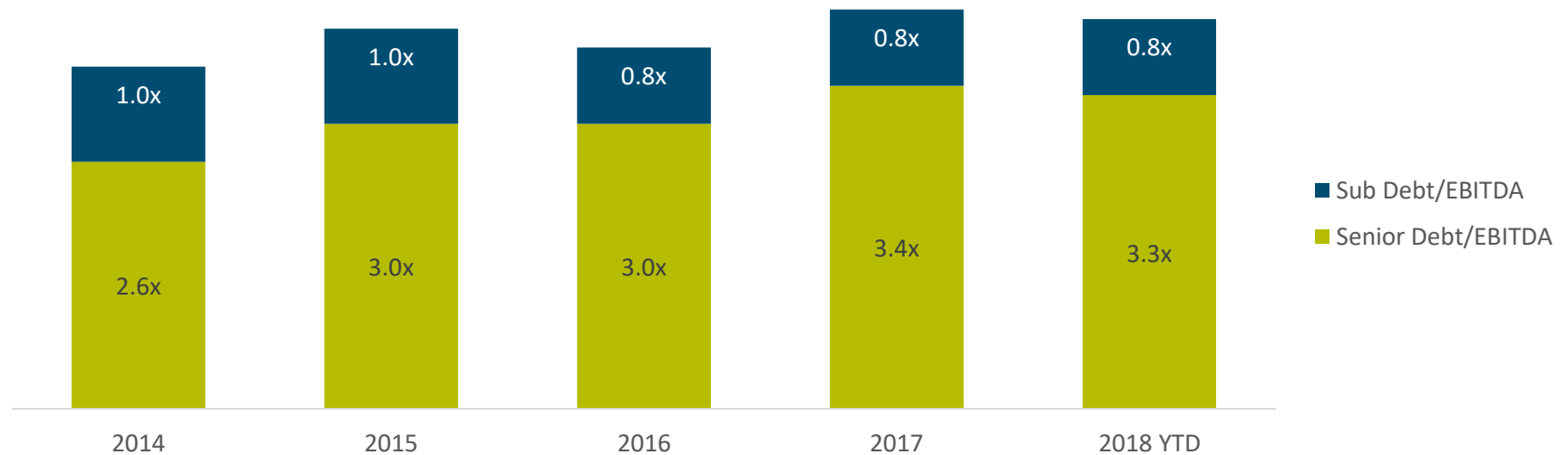
(2) M&A momentum continues" June, 2018 (<https://www.pwc.com/us/en/services/deals/deals-2018-mid-year-review-outlook.html>)

(3) "JEGI first half 2-18 M&A overview, Larger deals at 'Top of Food Chain' Driving Activity and Value" July 9, 2018 (<http://www.jegi.com/resources/jegi-h1-2018-ma-overview/>)

Leverage Trends

OVERALL TOTAL DEBT LEVELS HAVE REMAINED AT A HISTORICALLY ELEVATED LEVEL – AVERAGING 4.1X IN 2018YTD VERSUS 4.2X IN 2017¹.

- ▶ Debt utilization among U.S. middle market private equity firms remains at elevated levels.
- ▶ Total debt averaged 3.4x - 3.5x in 2011-13 before rising to 3.7x in 2014, 4.0x in '15 and '16.
- ▶ According to GF Data, debt loads were more restrained when looking at only platform investments – 3.3x total debt, 2.5x senior.



(1) GF Data (May 2018) M&A Report