

A wide-angle photograph of the Denver skyline under a clear blue sky. In the foreground, a modern arch bridge spans across a road. The city buildings are densely packed in the background. A semi-transparent grey box is overlaid on the left side of the image, containing the title and date.

M&A and Capital Markets Update

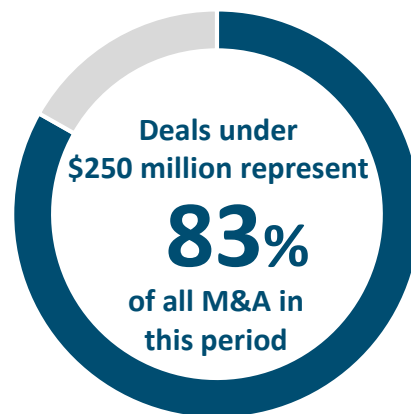
Q3 2018

M&A Key Developments

- ▶ Despite transaction volume slowing (still nearly 15,000 deals completed to date), M&A deal value continues to stay on pace with recent years as Q3 marks the second consecutive quarter with over \$800 billion in value for North America and Europe combined.
- ▶ Year to date a combined \$2.4 trillion in M&A deal value has closed, slightly down YoY from Q3 2017, but on pace for over \$3 trillion in M&A deal value due to pending mega-deals.

Key Themes from Q3 2018

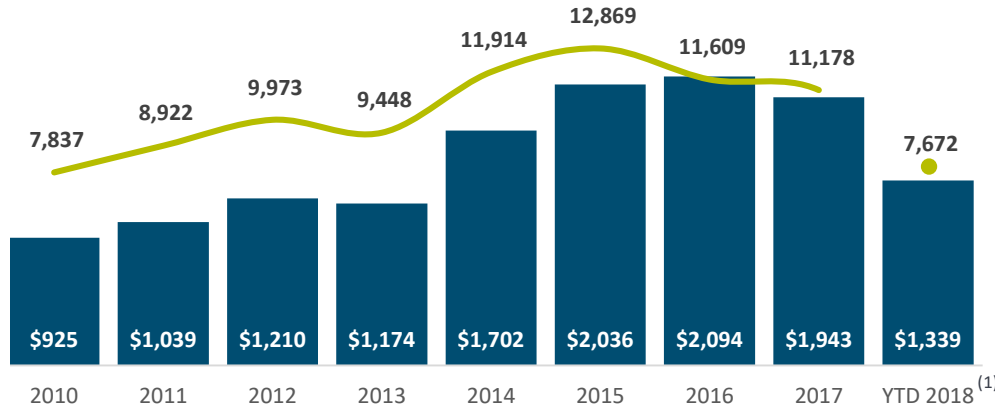
- ▶ Private Equity continues to be a driving influence in M&A markets with the current inventory of PE-backed companies at nearly 5x the inventory of 2000.
- ▶ The IT sector is on pace to complete more deals than B2C for the first time, signifying a shift in where buyers and investors have the strongest interest.
- ▶ Driven by several of the largest deals YTD, North America has accounted for 64.4% of the total deal value and 60.6% of the total deal count, well above the 10-year historical average (2008 – 2017) of 60.3% and 53.5%, respectively.
- ▶ The middle market M&A continues to stay very, with 83% of transactions in Q3 under \$250 million in enterprise value.



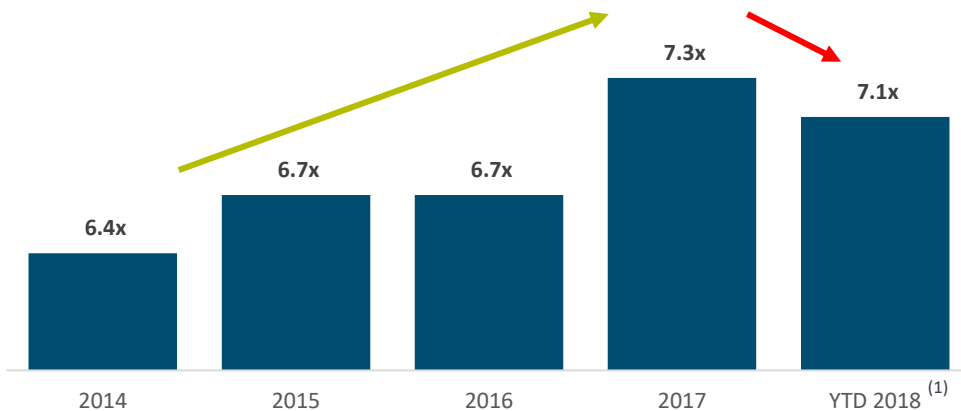
(1) Data as of September 30, 2018. Source: Pitchbook and GF Data.

Current M&A Environment

U.S M&A Deal Value and Volume ⁽¹⁾
(\$ in billions)



U.S. Middle Market EV / EBITDA Multiples ⁽¹⁾



KEY TAKEAWAYS

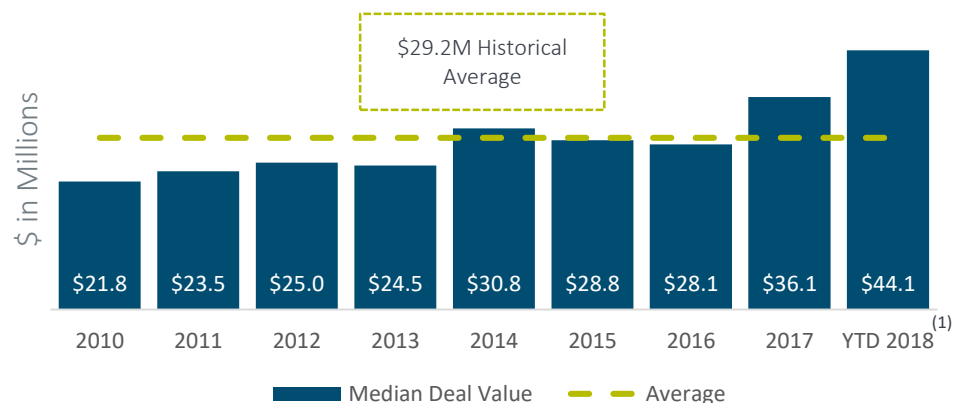
- ▶ Though deal values and volumes remain high relative to historic levels, overall these have continued to decline from their peaks in 2015.
- ▶ 2018 overall middle market Enterprise Value (“EV”) / EBITDA multiples have fallen from the 7.3x peak in 2017 to 7.1x in 2018 YTD.
- ▶ Strategic and financial buyers are sitting on record amounts of capital and are seeking ways to utilize it. In many cases, management teams are highly incentivized to generate incremental growth through acquisition.
- ▶ As valuations remain high relative to historic levels, investors are becoming more disciplined in selecting high quality opportunities.

(1) Data as of September 30, 2018. Source: Pitchbook and GF Data.

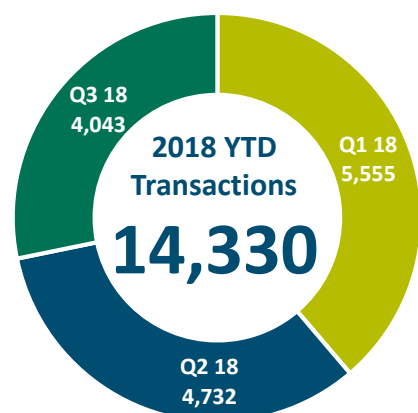
M&A Valuation Data

- ▶ Valuations during Q3 for deals with TEV between \$10 – 250 million show sellers are receiving an average multiple of 7.3x TEV/EBITDA, essentially unchanged from Q2 and in line with TTM averages.
- ▶ Additionally, median deal values remain high and continue to beat the historical average, edging the average deal value over the \$35 million level in the past two years.
- ▶ Activity in deal sizes below \$100 million remains strong, accounting for over 67% of overall deal activity to date.

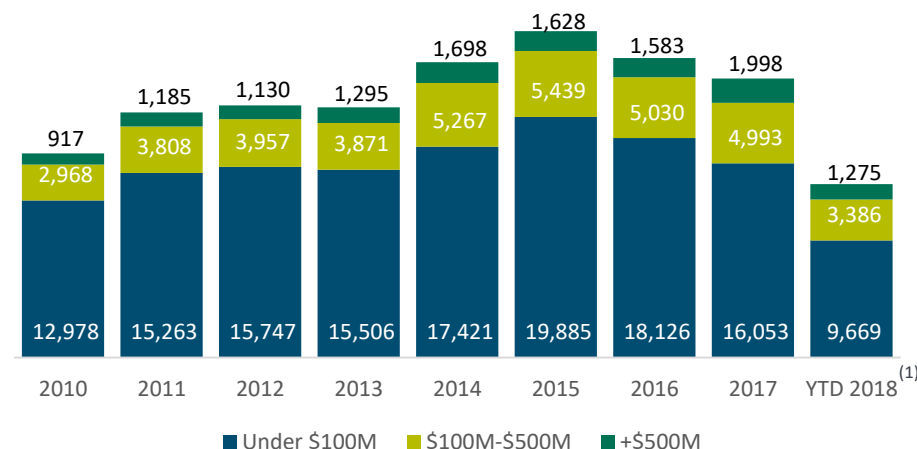
Median M&A Deal Value⁽¹⁾



Number of Deals by Quarter⁽¹⁾



Number of Deals by Size⁽¹⁾



(1) Data as of September 30, 2018. Source: Pitchbook and GF Data.

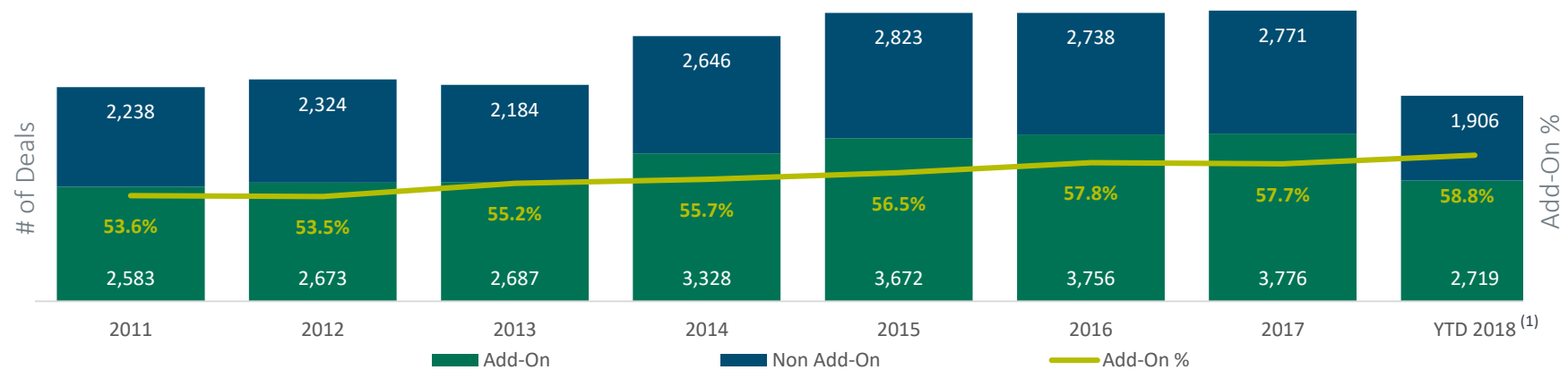
Deal Size and PE Deal Trends

- ▶ While larger transactions typically command higher multiples, YTD 2018 is flipping the script with \$50 - \$100 million transactions outpacing the \$100 - \$250 million deals, confusing many researchers, time will tell if this is an anomaly or a shift in deal trends.
- ▶ U.S. middle market private equity firms continue fundraising activity at elevated levels with AUM approaching \$2 trillion for North America and Europe combined.
- ▶ Platform acquisitions are garnering higher multiples than add-on acquisitions again after previously experiencing a period where aggressive leverage was beginning to fuel higher valuations for add-on transactions.

Total Enterprise Value / EBITDA by TEV Size⁽¹⁾

| TEV (\$mm) | 2003-2013 | 2014 | 2015 | 2016 | 2017 | YTD 2018 ⁽¹⁾ | Total |
|--------------|-------------|-------------|-------------|-------------|-------------|-------------------------|-------------|
| 10 to 25 | 5.5x | 5.5x | 5.9x | 5.8x | 6.3x | 5.8x | 5.6x |
| 25 to 50 | 6.1x | 6.4x | 6.6x | 6.4x | 6.6x | 6.8x | 6.3x |
| 50 to 100 | 6.7x | 7.6x | 7.8x | 7.2x | 8.2x | 8.9x | 7.1x |
| 100 to 250 | 7.2x | 7.5x | 9.0x | 8.9x | 9.1x | 8.5x | 7.9x |
| Total | 6.1x | 6.4x | 6.7x | 6.7x | 7.3x | 7.1x | 6.4x |

Private Equity Deals by Type⁽¹⁾



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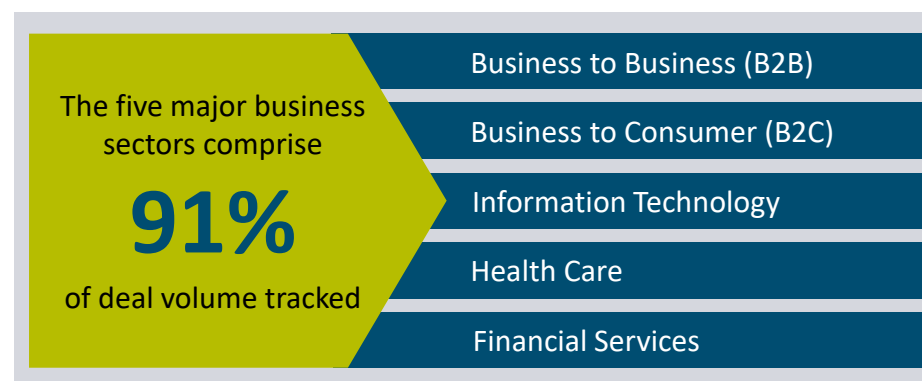
Sector Performance

- ▶ The industries with the four highest TEV/EBITDA multiples (Technology, Health Care Services, Business Services, and Distribution) continue to perform well and remain near industry all-time highs.
- ▶ Manufacturing has exceeded the industry's previous all-time high set in 2017.

| Industry | 2003-2013 | 2014 | 2015 | 2016 | 2017 | YTD 2018 | Total |
|----------------------|-----------|------|------|------|-------|----------|-------|
| Manufacturing | 5.9x | 6.1x | 6.6x | 6.1x | 6.8x | 6.9x | 6.1x |
| Business Services | 6.1x | 6.1x | 6.4x | 7.3x | 7.4x | 7.1x | 6.4x |
| Health Care Services | 6.8x | 7.2x | 7.8x | 7.6x | 8.1x | 7.5x | 7.2x |
| Retail | 6.4x | 6.0x | 5.5x | 7.0x | 7.6x | 6.7x | 6.5x |
| Distribution | 6.0x | 7.2x | 6.7x | 7.5x | 7.7x | 7.0x | 6.4x |
| Media & Telecom | 7.2x | NA | 6.4x | 6.6x | 6.2x | 5.0x | 7.1x |
| Technology | 6.6x | 7.7x | 8.0x | 7.4x | 10.2x | 9.8x | 7.6x |
| Other | 5.8x | 6.6x | 5.6x | 6.9x | 6.5x | 6.9x | 6.0x |

62%

Are from manufacturing & business service industries

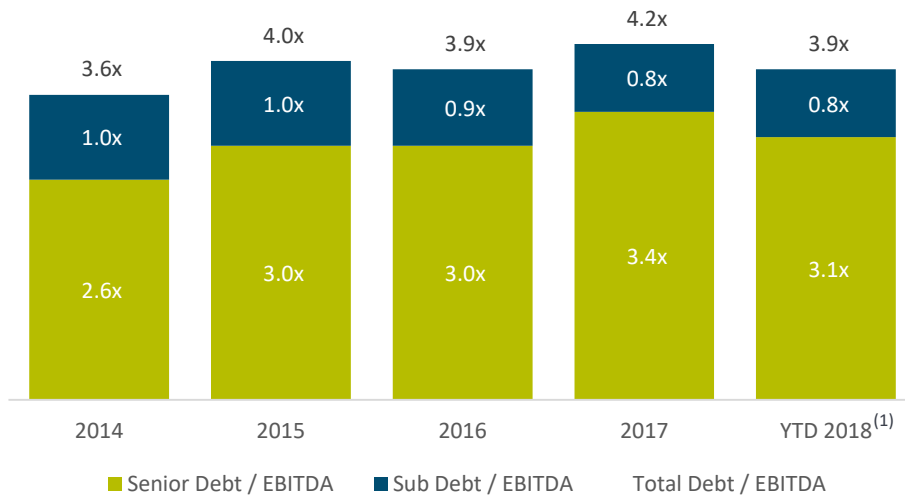


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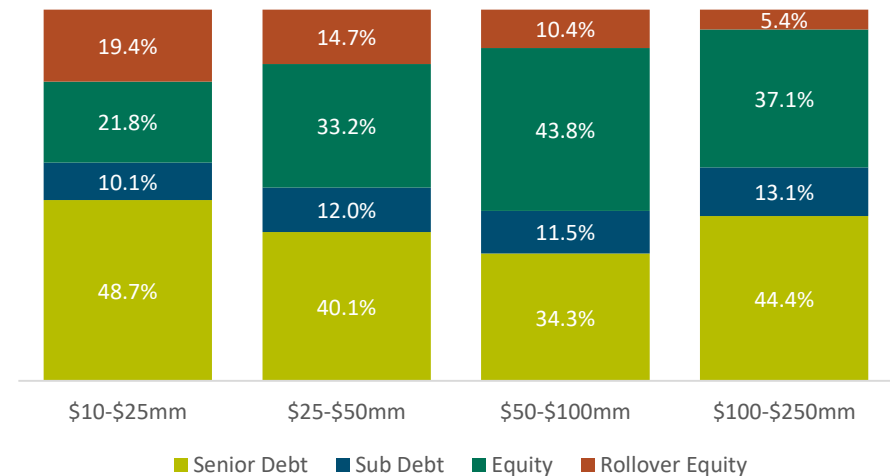
Leverage Trends

- ▶ Leverage multiples have decreased steadily from a high of 4.2x in 2017 to 3.9x through 2018 YTD.
- ▶ Total debt averaged ~3.5x in 2011-13 before rising to 3.7x in 2014 and 4.0x in '15 and '16.
- ▶ According to GF Data, debt loads continue to be restrained on platform investments, with 2018 YTD averaging 3.5x total debt and 2.7x senior debt.

Debt Multiples by Year⁽¹⁾



Debt and Equity Contribution by TEV Range YTD 2018⁽¹⁾



(1) Data as of September 30, 2018. Source: Pitchbook and GF Data.

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.
- ▶ Private Equity funds will use more conservative amounts of debt despite strong deal volume and value.
- ▶ M&A deal value is expected to roughly match 2016 and 2017 in overall deal value, despite lower deal volume.⁽¹⁾

Drivers

- ▶ Strong economic growth has been accompanied by rising energy prices. After a peak of oil prices in June 2014 and a subsequent collapse to February 2016, oil prices have been increasing over the past two years.
- ▶ The long-term interest rate (ten-year Treasury rate) is forecasted to increase 88 basis points in 2018, to 3.25%, and 25 basis points in 2019, to 3.50%.⁽²⁾
- ▶ The passage of the Tax Cuts and Jobs Act of 2017 has prompted many corporations to commit towards M&A rather than growth through other investment options like stock buybacks or increased dividends. The law has also further increased the availability of capital for both strategic companies and investors.
- ▶ 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 is expected to grow by 2.8% in 2018 and 2.2% in 2019. This leveling off of growth comes on the heels of many years of strong GDP growth.⁽²⁾

(1) PitchBook M&A Report Q3 2018

(2) Federal Reserve Bank of Chicago, Chicago Fed Letter, No. 399, 2018 “Economic Growth to Accelerate in 2018 and Then Ease in 2019 as Auto Sales Downshift” 2018 (<https://www.chicagofed.org/publications/chicago-fed-letter/2018/399>)