



FEI Presentation

September 12, 2017

Cleary Gull Overview





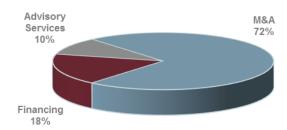
Cleary Gull At-A-Glance

- An employee-owned financial services firm providing high-quality investment banking services to privately held and small publicly traded companies and private equity funds
- ☐ Helping clients achieve their goals for over 30 years
- ☐ Focus on the middle market
- ☐ Extensive experience with manufacturing, consumer, business and industrial service, and software and technology companies
- ☐ International network provides global reach
- ☐ Superior success rate and proven results
- ☐ Senior level attention provided by professionals with significant transaction experience

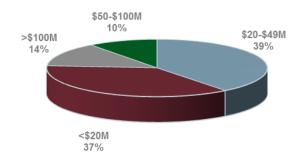


Investment Banking Services

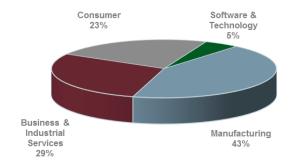




Completed Transactions by Size



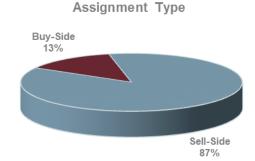
Completed Transactions by Industry



- ☐ Mergers & Acquisitions
 - ☐ Targeting \$10 to \$250 million transactions
 - ☐ Sales of private equity fund portfolio companies, entrepreneur- and family-owned businesses, corporate divisions, and going-private transactions
 - ☐ Acquisitions of specifically targeted companies
- ☐ Capital Placement
 - ☐ Raising from \$10 to \$250 million of capital
 - ☐ Senior debt, mezzanine debt, and/or equity
 - ☐ Management buyouts, recapitalizations, and growth capital
- ☐ Special Situations
 - ☐ Distressed mergers and acquisitions
 - ☐ Debt refinancing and restructuring
- ☐ Other Financial Advisory Services
 - ☐ Valuations, strategic alternative analyses, and fairness opinions



Sell-Side Expertise

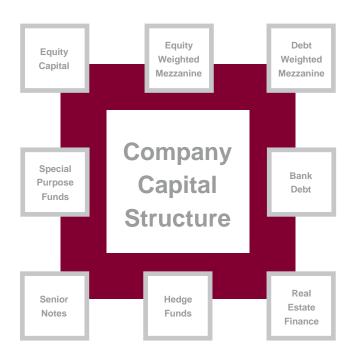




- ☐ Cleary Gull is known for <u>selling excellent</u> companies at <u>premium prices</u>
 - ☐ Skills, experience and track record heavily weighted toward sell-side
 - ☐ Track record of maximizing value
- □ Substantial experience and consistent success making the strategic sale ⇒ Proven ability to identify and articulate:
 - ☐ Strategic fit
 - Synergies
 - Pro Forma cost structure



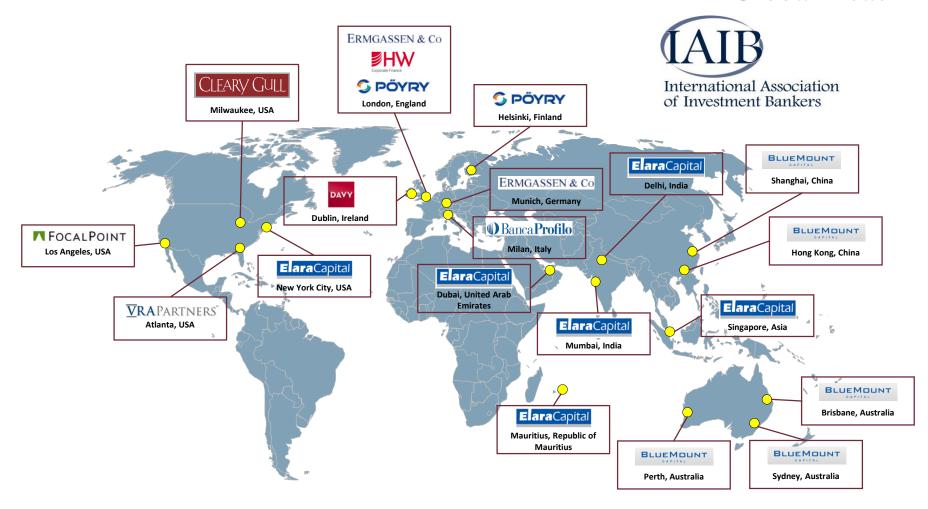
Financing Capabilities



- We are experts at placing private capital for companies in our target market
- ☐ Proprietary database of active relationships with many private capital sources
- ☐ Staying close to the financing market facilitates efficient, competitive transaction processes
- □ Substantial experience ⇒ Well over \$2 billion in completed transaction value



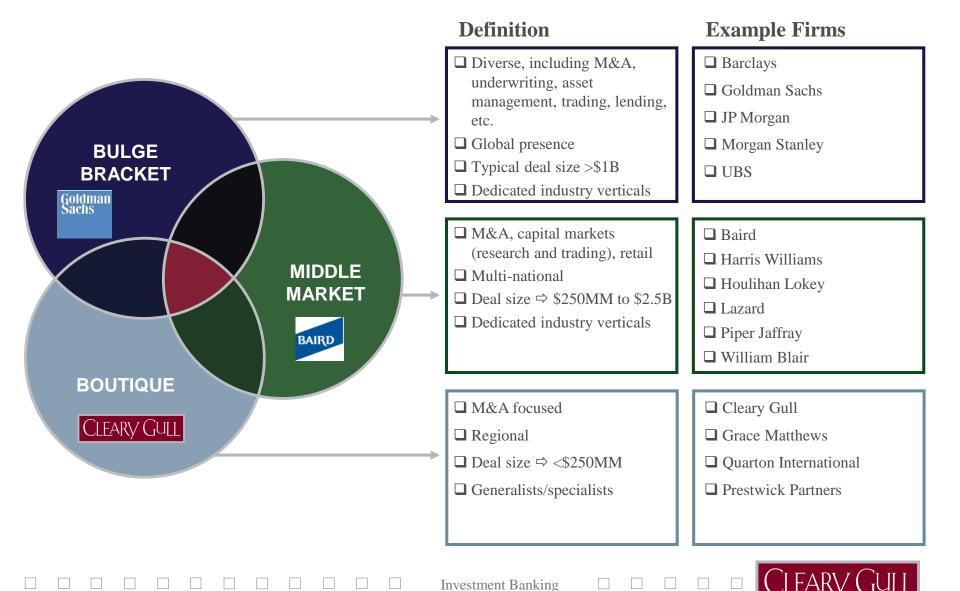
Global Reach



☐ Cleary Gull is a member of the International Association of Investment Bankers ("IAIB") (www.iaib.org)



Investment Banking Hierarchy



Economy and Capital Markets



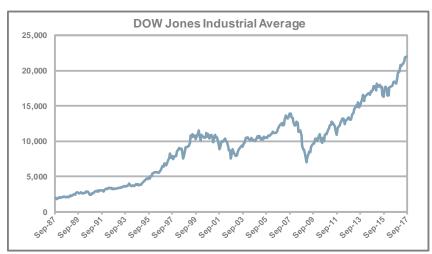
Economic Summary: Late Cycle (?) Growth

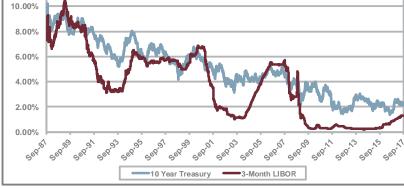
Con	sumer leading the way
	Continued low energy prices have increased disposable income
	Despite declines, auto sales remain near record levels
	Housing market maintaining momentum
	Consumer confidence at record levels
Indu	strial economy growing
	Employment gains have been significant
	Wages mysteriously stagnant
	Sector-specific manufacturing strength
	GDP growth expected to continue into 2018
	Market reacting positively to prospect of less regulation and lower taxes
Pote	ential headwinds
	High valuations
	Optimism may be running ahead of political reality
	Global geopolitical uncertainties
	Spectre of "sovereign debt" concerns
	Rising interest rates

economy
is strong

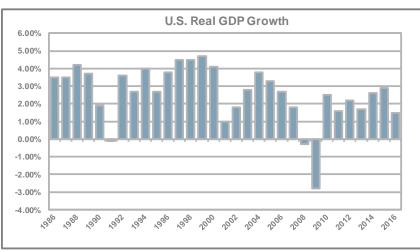
30 Year "Macro" Data Trends

10-Year Treasury vs. 3-Month LIBOR



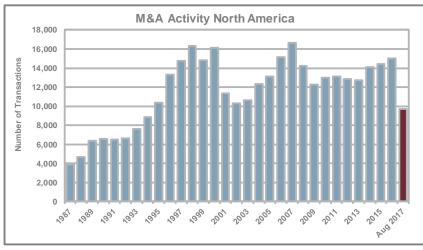






Source: FRED

12.00%



Source: FRED Source: IMMA



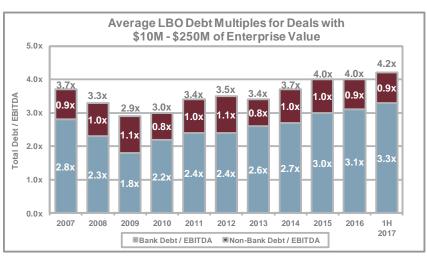
Capital Markets Update

Low	ver middle market M&A remains strong
	Both strategic and financial buyers are eager to acquire Record amounts of uninvested capital and corporate cash
	With organic growth often difficult, both strategic and financial buyers looking to "buy" growth
	Limited supply of high-quality companies resulting in premium prices
Acq	uisition financing remains plentiful
	Active mezzanine market
	Senior debt markets competitive for middle market transactions
	 Commercial banks struggling to grow loan balances
	 "One-stop", business development companies, commercial finance companies, credit opportunity funds, and insurance companies active in financing middle market transactions
	 Cash flow and asset-based lenders competing on price and terms (amortization, availability, covenants)
	Favorable market for "storied" credits
	Leverage ratios at record levels

market is strong



Middle Market Leverage Multiples





Source: GF Data® Source: GF Data®

- ☐ Total debt availability for middle market companies edged up during first half of 2017
 - ☐ Asset-based market healthy and competitive
 - ☐ Cash flow market highly competitive on leverage, price, covenants, and amortization
 - □ Non-bank lenders now interested in transactions < \$5 million in EBITDA ⇒ Most competitive for transactions >\$10 million EBITDA
- ☐ Larger transactions support higher leverage



Middle Market Deal Volume



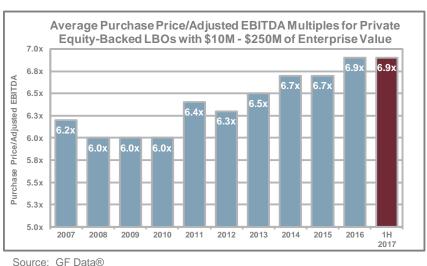


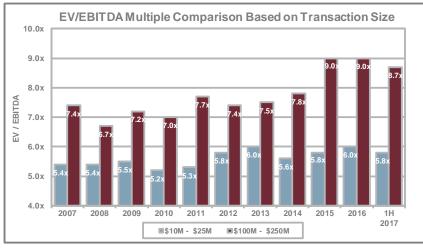
Source: Robert W. Baird

- ☐ U.S. middle market transaction volume down 14.4% in YTD 2017 compared to YTD 2016
- ☐ Global dollar value of transactions basically flat YTD 2017 vs LY



Middle Market Prices





Source: GF Data®

- ☐ Average multiples for middle market transactions at or near cyclical highs
- Averages conceal important detail relating to size, industry, financial performance, and management continuity ⇒ Average for larger deals nearly 3x EBITDA higher than for smaller transactions
- ☐ High performance and management continuity add more than 1.0x EBITDA to PE-backed LBO valuation multiple



Multiples by Industry Sector

INDUSTRY	2003- 2012	2013	2014	2015	2016	YTD 2017	Total	N =
Manufacturing Business services Health care services Retail Distribution Media & Telecom Technology Other	5.9 6.2 7.0 6.5 6.1 7.8 6.6 6.0	5.9 6.5 7.5 7.4 6.8 5.5 10.0 6.0	6.3 6.5 7.8 8.5 7.1 NA 9.1 6.9	6.6 6.3 7.8 5.6 6.7 6.4 8.0 5.6	6.2 7.3 7.6 7.5 7.4 6.7 7.4 7.3	6.6 6.7 7.5 6.9 6.8 7.3 9.0 7.0	6.0 6.4 7.2 6.7 6.4 7.4 7.6 6.1	1138 489 257 82 274 46 90 286
N=								2662

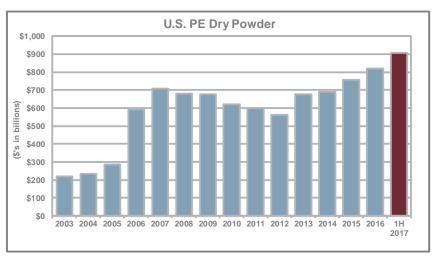
Source: GF Data®

Note: Reported multiples are TEV/EBITDA

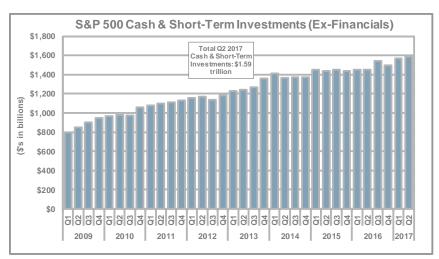
- Average multiples vary considerably by industry and are driven by various factors including growth outlook, stability, and profitability
- ☐ Nearly all industries' multiples are above historic averages



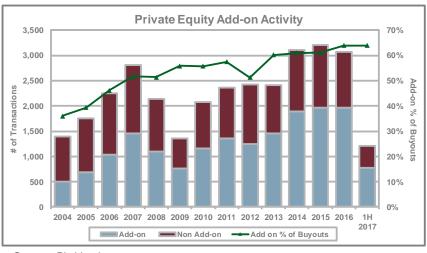
Demand for Transactions



Source: Pitchbook and Prequin Ltd.



Source: FactSet and Capital IQ



Source: Pitchbook

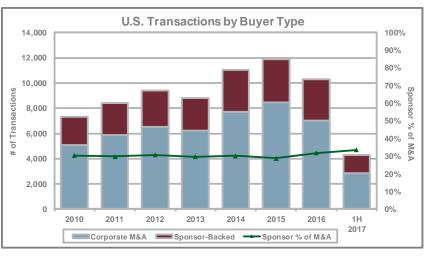
- ☐ Private equity firms have a large amount of "dry powder" ⇒ \$906 billion of uncalled capital through the first half of 2017
- Add-ons as a percentage of private equity transactions have climbed dramatically

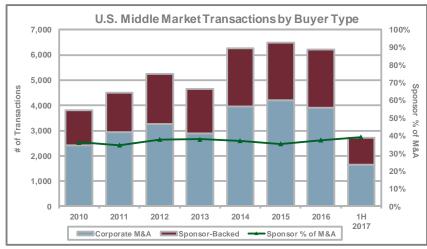


Recent Developments and Best Practices



Completed Transactions by Type of Buyer





Source: Pitchbook

Source: Pitchbook

■ Ratio of PE-backed to strategic buyer deals remarkably consistent



Strategic Buyer Trends

Strategic buyers are more focused on their core business ⇒ Highly competitive if it is a
strategic fit, but less willing to consider new markets/channels

- ☐ Can be highly competitive on price and speed ➡ Often less competitive on indemnification terms
- □ "Dropping" later in the process ⇒ Deal team likes the deal, but board makes a different capital allocation decision
- Less concerned about interim performance, more concerned about contingent liabilities



PE Buyer Trends

Significant increase in the number of buyers in the market				
☐ PE funds, family offices, independent sponsors				
☐ "Changing of the guard" with new funds being created by younger partners from established firms				
Winning bidders usually have an "angle"				
Seemingly fewer "platform" buyers ⇒ Many funds focused on add-on acquisitions				
Diverging diligence strategies				
☐ Growing number of buyers willing to do more work pre-LOI to differentiate their proposals				
☐ Post-LOI due diligence more thorough than ever ⇒ Can be a "game" to re-trade a deal				



Independent Sponsor Trends

☐ More difficult than ever to qualify independent sponsors

☐ Usually bid high to win ➡ May not have their capital providers identified pre-LOI

Can be attractive buyer when they partner with a family office, bring relationships, have industry expertise, or help facilitate management transition

Transaction Process Environment

Competition is resulting in deals "priced to perfection"			
☐ Results in buyers doing much more due diligence			
☐ Buyers pushing all deficiencies back to the seller			
☐ "Time is the enemy of all deals"			
More important than ever to carefully compare buyer proposals			
☐ Investment thesis/strategic rationale			
☐ Financing			
☐ Diligence plan			
☐ Timeline to close			
Advantageous to defer picking a winner as long as possible			

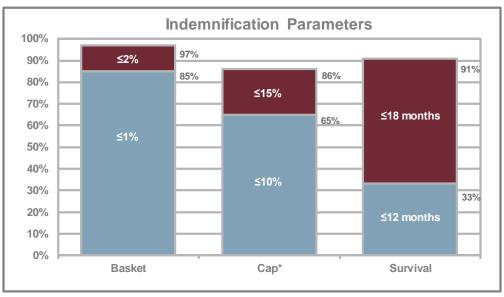


Sell Side Q of E

"Q of E" now required by buyers to close most deals ⇒ Consumes time and resources				
A pr	A profit center for buyers ⇒ Balance sheet and income statement			
Sellers increasingly using "sell side Q of E"				
	Required by some PE sellers			
	Some sellers engage <u>before</u> investment bankers			
Especially useful for				
	Carve outs			
	No audit			
	Heavy addbacks and/or significant pro forma adjustments			
Budget				
	6-10 weeks			
	\$50K - \$150K			



Current Transaction Terms



Note: Median cap for smaller deals (≤\$25 million) is 20%

Earnouts

- ☐ Present in 14% of deals
- □ Roughly equally distributed over 1, 2 or 3 year periods
- □ 2/3 based on revenue and 1/4 based on earnings

Source: June 2017 SRS Acquiom M&A Deal Terms Study



R&W Insurance Overview

Coverage Descriptions			
	Breach of R&W in a definitive agreement		
	May cover buyer or seller		
Tran	nsaction Size		
	Policy < \$10 million considered "small"		
	\$5 million minimum		
Prer	nium		
	Typically 3% - 4% of amount of coverage		
Rete	ention		
	Generally 2% of enterprise value		
Dur	ation		
	Typically 18 months – 3 years (6 years for "fundamental")		
Who	o Pays		
	A negotiated point		



Other R&W Insurance Considerations

Tim	ning				
	Usually 2-4 weeks <u>after</u> nearly final definitive agreement available				
Con	nmon concerns/exclusions				
	Requires audited financial statements				
	Foreign exposure				
	Environmental (consider separate policy)				
	IP				
	Collectability of A/R, salability of inventory, or tax attributes				
	Adequacy of product liability coverage				
	Healthcare and financial services				
Exc	lusions				
	Most diligence findings				
The	bottom line: may be more trouble than it's worth				



Questions?

