

“ *a firm belief in the
entrepreneurial spirit* ”

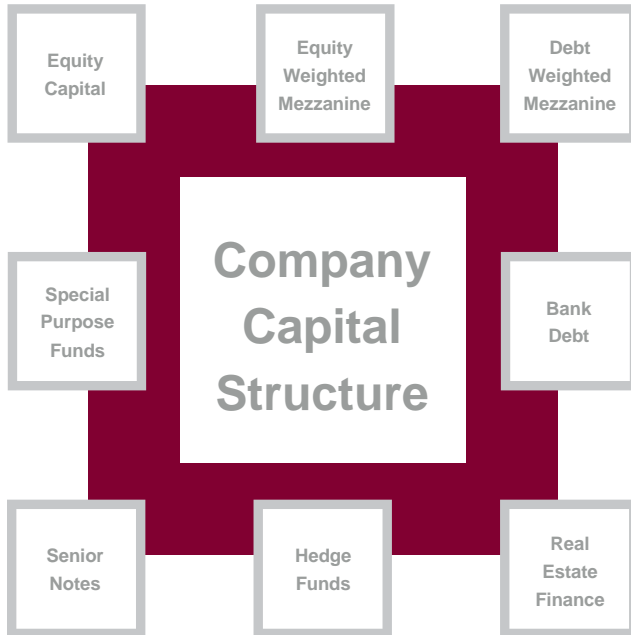
CLEARY GULL

FEI Presentation

September 12, 2017

Cleary Gull Overview

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

Economy and Capital Markets

Economic Summary: Late Cycle (?) Growth

- ❑ Consumer 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
- ❑ Industrial 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
- ❑ Potential 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*

Capital Markets Update

- ❑ Lower 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
- ❑ Acquisition 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*

Multiples by Industry Sector

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

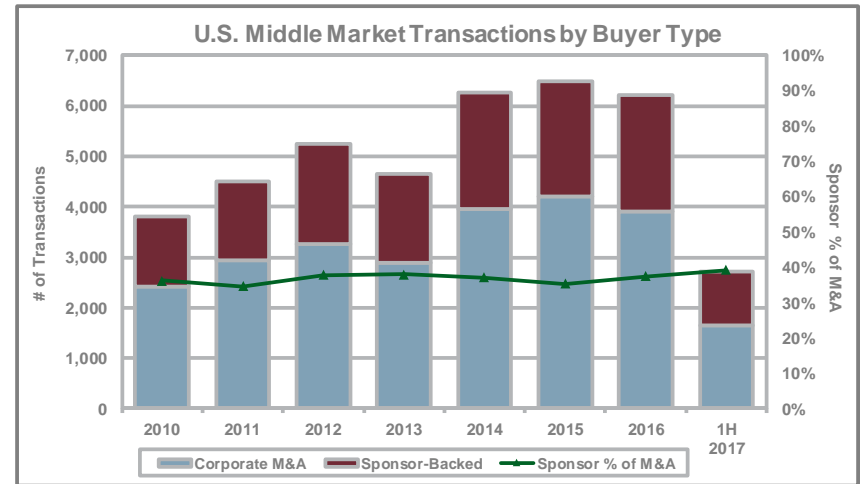
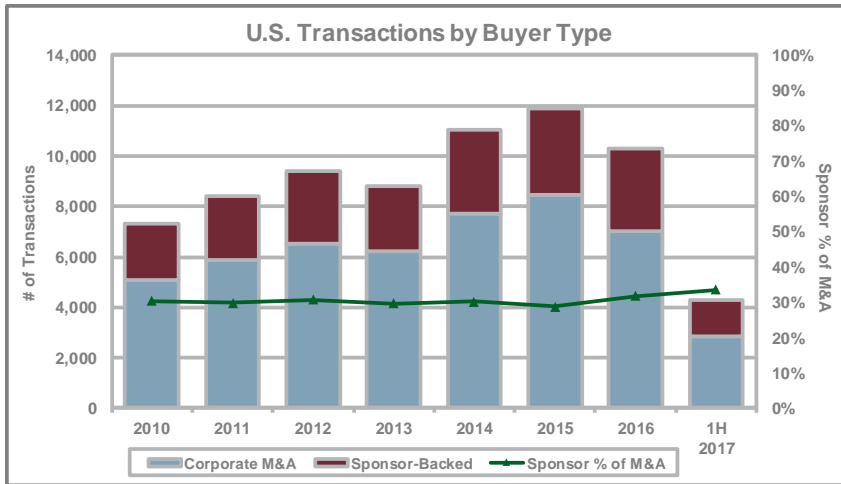
Source: GF Data®

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

Recent Developments and Best Practices

Completed Transactions by Type of Buyer



Source: Pitchbook

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☐ 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” ⇒ Advisory board members, portfolio company, prior investments
- ❑ 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

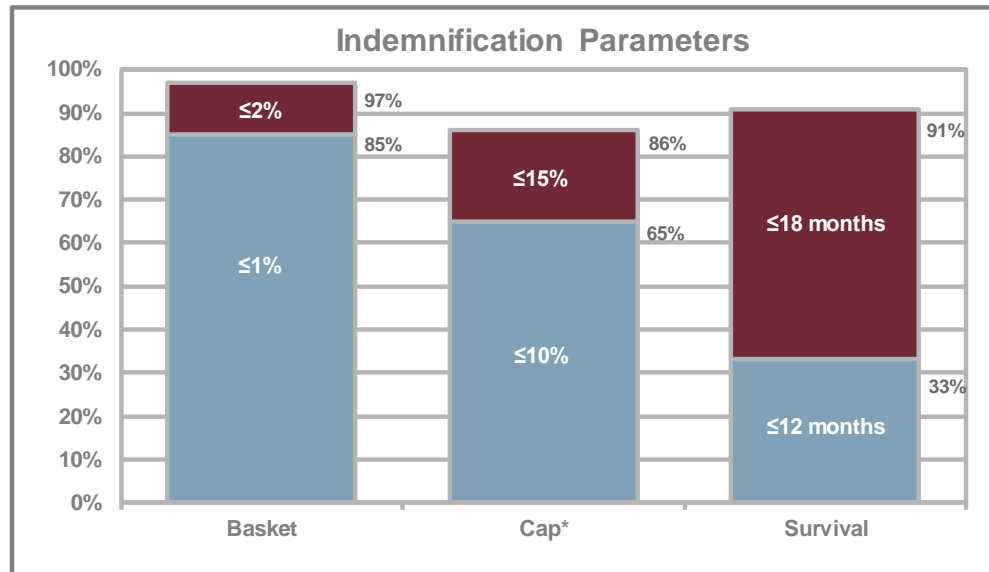
Independent Sponsor Trends

- ❑ 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 ⇨ Many relevant factors
 - ❑ Investment thesis/strategic rationale
 - ❑ Financing
 - ❑ Diligence plan
 - ❑ Timeline to close
- ❑ Advantageous to defer picking a winner as long as possible

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

Questions?