

A wide-angle photograph of the Denver skyline under a clear blue sky. In the foreground, a modern bridge with a white, arched steel truss structure spans across a green park area. A road with a green directional sign is visible in the lower foreground. The city buildings are densely packed in the background.

M&A and Capital Markets Update

Q4 2018

THE **FORBES**
M+AGROUP

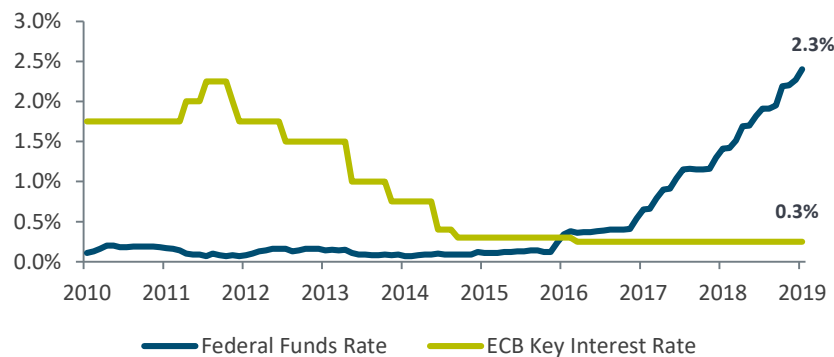
Macro Economic Factors Impacting the M&A Environment

- ▶ In 2018, the stock market had its most volatile year in recent history. The S&P 500 fell ~14.0% in Q4 2018 and ended the year down 6.2%, marking the first annual decline in three years.
- ▶ The Federal Reserve raised the Federal Funds Rate range by 25 basis points in Q4 2018, representing the fourth increase of the year. The Fed indicated that it is expecting two rate increases in 2019, down from its original estimate of four.
- ▶ 10- and 20-year treasury notes finished Q4 relatively flat and in line with Q3 with an average rate of ~3.0% and ~3.2%, respectively.

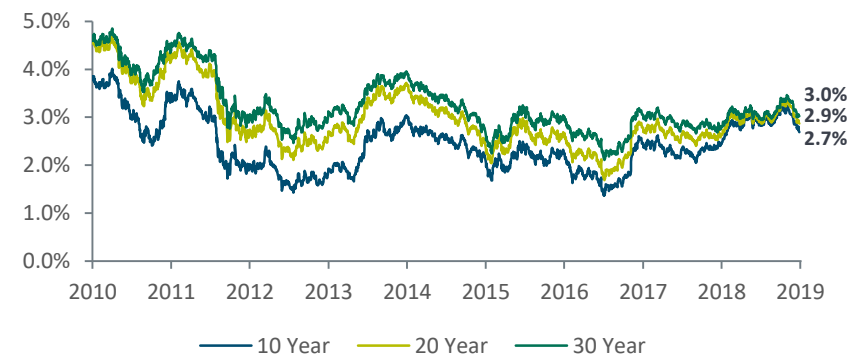
S&P 500 PERFORMANCE



FED FUNDS & ECB RATES



TREASURY NOTE YIELD CURVES



Source: Pitchbook, GF Data, Capital IQ, St. Louis Fed, European Central Bank, U.S. Department of the Treasury

M&A Market Highlights

- ▶ Despite a pullback in public markets at the end of Q4, M&A activity remained strong in 2018, finishing the year with the second-highest total deal value on record.
- ▶ The average EV / EBITDA multiple across North America and Europe rose to 7.2x driven by increased competition and an abundance of undeployed capital.
- ▶ Amid rising interest rates and concerns of a softening economy, 2018 saw a decrease in the amount of debt utilized to fund transactions. Notably, the average debt utilization by middle market private equity firms dropped by half a turn of EBITDA.
- ▶ Despite concerns of an economic slowdown, fundraising activity remained strong with a reported \$109.5 billion raised by middle market private equity firms alone.

7.2x
**Avg. Middle Market
EV/EBITDA Multiple⁽¹⁾**

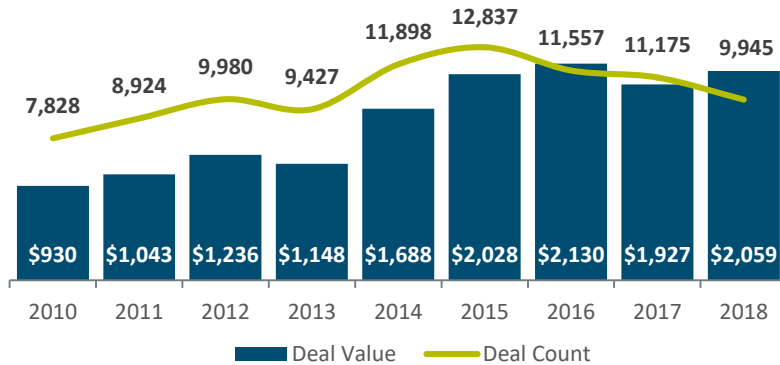
82%
**of Deals were
Under \$250 Million**

Note: (1) Middle market defined as transactions with values at or below \$500 million. Source: Pitchbook, GF Data

M&A Deal Volume and Value

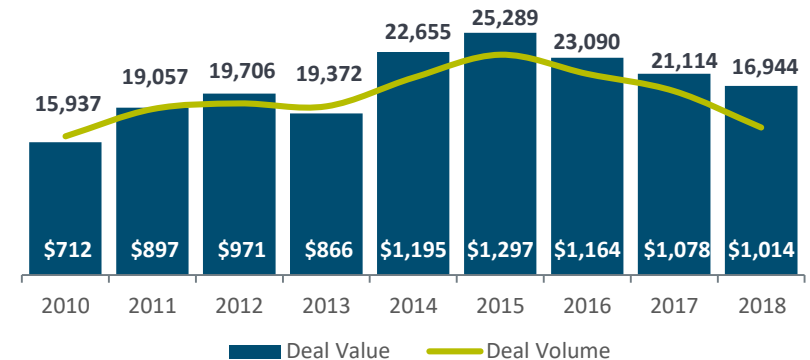
U.S. M&A ACTIVITY

(\$ in billions)



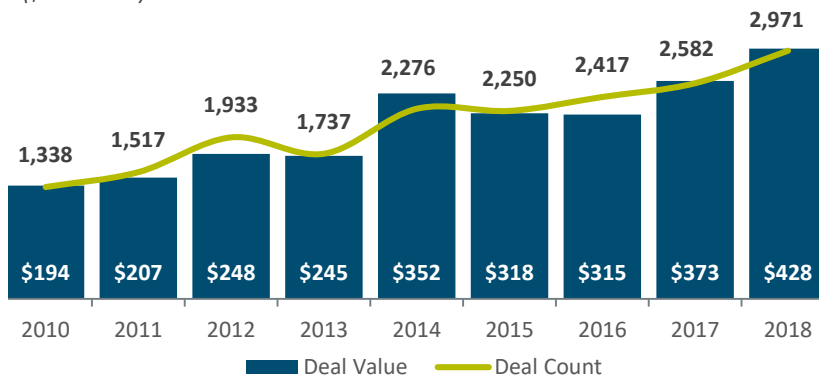
N.A. & EUROPE MIDDLE MARKET M&A ACTIVITY⁽¹⁾

(\$ in billions)

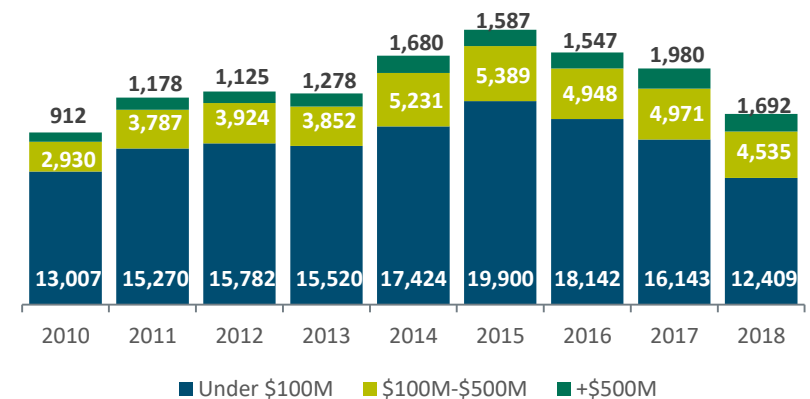


U.S. MIDDLE MARKET PE M&A ACTIVITY⁽¹⁾

(\$ in billions)

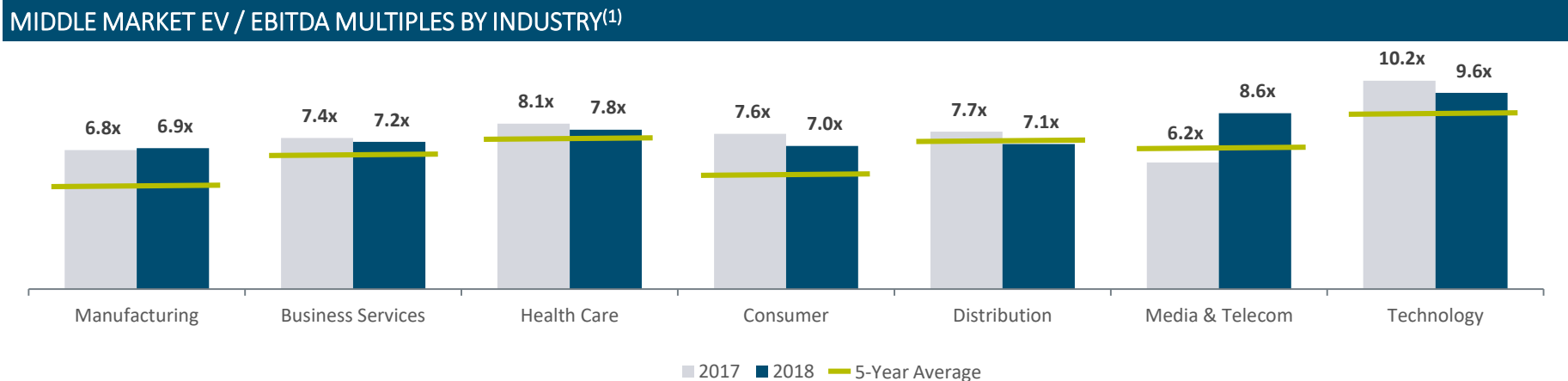
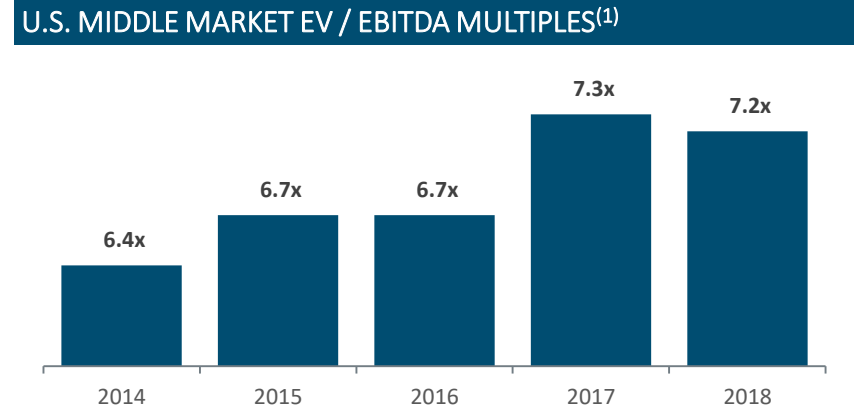
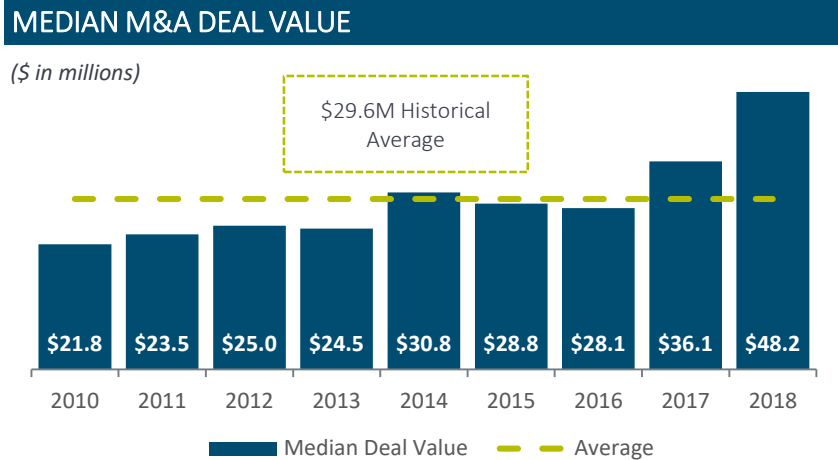


NORTH AMERICA & EUROPE M&A VOLUME BY SIZE



Note: (1) Middle market defined as transactions with values at or below \$500 million. Source: Pitchbook, GF Data, Capital IQ

M&A Valuation Trends

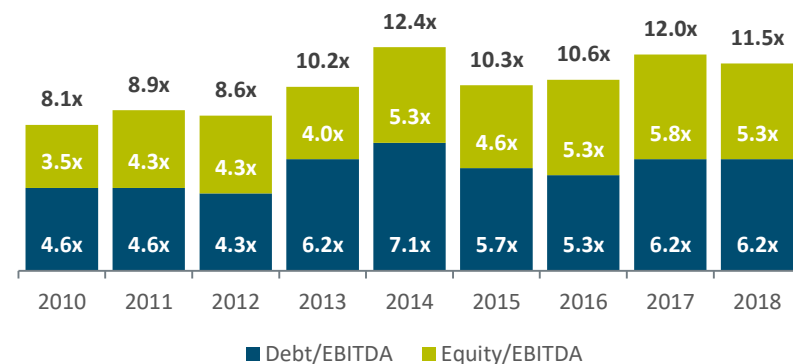


Note: (1) Middle market defined as transactions with values at or below \$500 million. Source: Pitchbook, GF Data, Capital IQ

U.S. Middle Market Private Equity M&A Environment⁽¹⁾

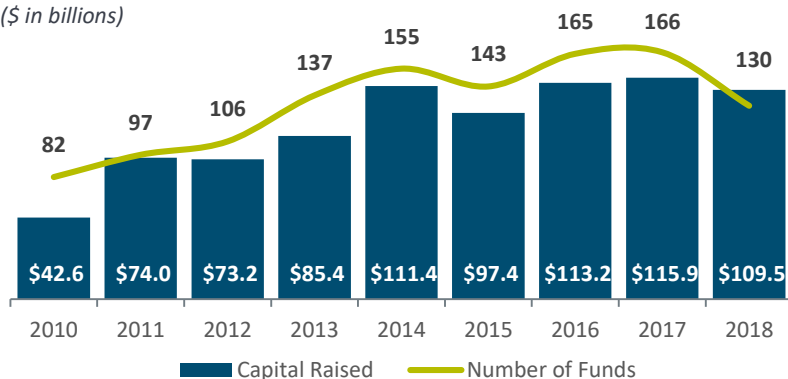
- ▶ Though private equity firms continued to pay elevated multiples in 2018, the amount of debt used to fund transactions fell by half a turn of EBITDA.
- ▶ 2018 marked another healthy year for fundraising with capital raised exceeding \$100 billion, indicating 2019 will continue to see increased investment activity from private equity firms.
- ▶ “Buy and build” continued to be a dominant strategy for private equity firms in 2018 as 59.4% of completed deals were add-on transactions.

PE BUYOUT MULTIPLES

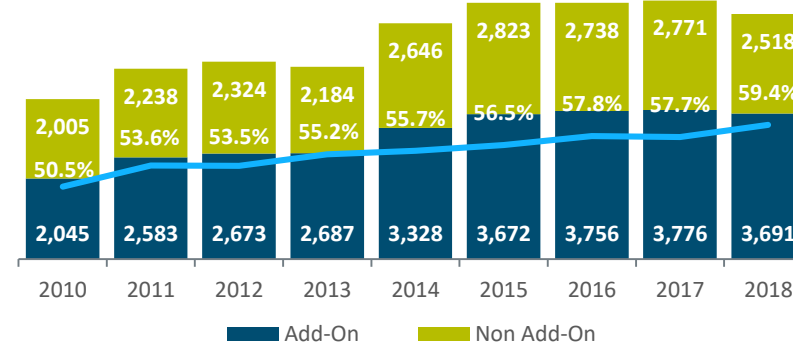


PE FUNDRAISING ACTIVITY

(\$ in billions)



PE DEALS BY TYPE



Note: (1) Middle market defined as transactions with values at or below \$500 million. Source: Pitchbook, GF Data, Capital IQ

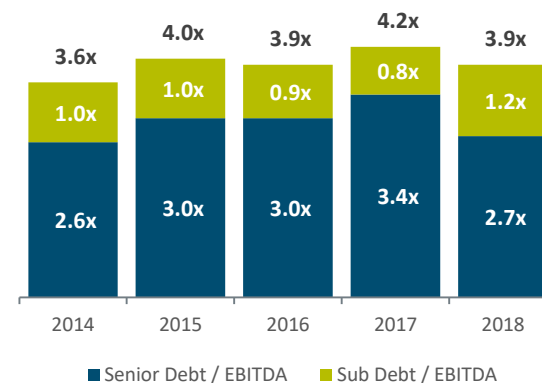
Leverage Multiples & Pricing

DEBT PRICING

Debt Type	Company Size / Lender Type	Q3 2018	Q4 2018 ⁽¹⁾
Senior Cash Flow Debt	Bank	L+ 2.5% - 5.0%	L+ 2.5% - 5.0%
	Non-Bank <\$7.5 Million EBITDA	L+ 4.5% - 7.0%	L+ 4.0% - 6.5%
	Non-Bank >\$15.0 Million EBITDA	L+ 4.5% - 6.0%	L+ 4.0% - 6.0%
Unitranche Debt	<\$5.0 Million EBITDA	L+ 7.5% - 10.0%	L+ 7.0% - 10.0%
	>\$10.0 Million EBITDA	L+ 6.5% - 8.5%	L+ 6.0% - 8.5%
	>\$20.0 Million EBITDA	L+ 5.5% - 7.0%	L+ 5.0% - 7.0%
Subordinated / Mezzanine Debt	<\$5.0 Million EBITDA	12.0% - 14.0%	11.0% - 14.0%
	>\$10.0 Million EBITDA	10.0% - 12.0%	10.0% - 12.0%
	>\$20.0 Million EBITDA	9.0% - 11.0%	8.5% - 11.0%

Note: (1) Blue Font Indicates a change from previous the quarter. Source: Pitchbook, GF Data, Capital IQ LCD

DEBT MULTIPLES



2018 DEBT AND EQUITY CONTRIBUTION

