Aramar Capital Group, LLC

Middle Market Update

1st Quarter 2016

First Quarter Economic Performance and Future Outlook

Gross Domestic Product

- Real U.S. GDP increased at an annualized rate of 0.5% in Q1 2016, down from the 1.4% uptick in Q4 2015[1]
- The increase in real GDP was generated by positive contributions from personal consumption expenditures, residential fixed investments, and local government spending, which were offset by negative contributions from private inventory investments, exports, and non-residential fixed investments[1]

Consumer Income and Spending

- The personal savings rate, as a percentage of disposable personal income, reached 5.2% in Q1 2016, as compared with 5.0% in Q4 2015[1]
- Real disposable personal income grew 2.9% for the quarter, a jump from the 2.3% increase in Q4 2015[1]
- Although weakness abroad appears to be weighing on the U.S. economy, a pick-up in consumer spending has offset some of the slowdown and should ease fears of a looming recession in the U.S.[2]

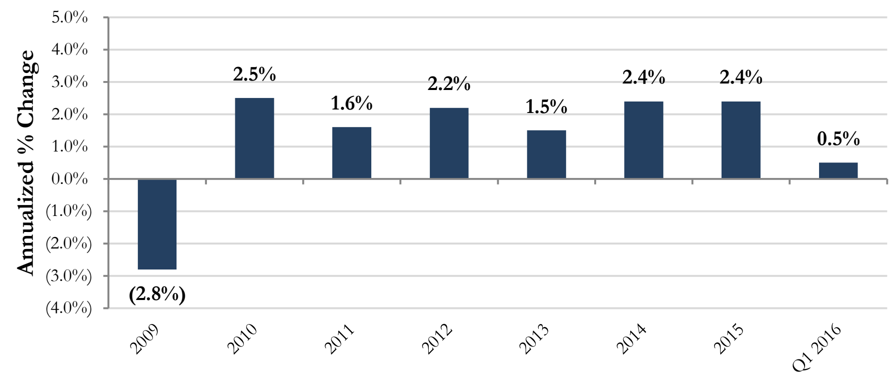
Federal Reserve

- As of the most recent FOMC meeting in April 2016, the Committee expects that economic activity will expand at a moderate pace, and labor market indicators will continue to strengthen[3]
- The Committee decided to maintain the target range for the Fed Funds rate at 0.25% to 0.50% with an accommodative monetary policy, supporting further improvement in the labor market and a return to 2.0% inflation[3]

Employment

- The unemployment rate was unchanged from Q4 2015, holding at 5.0% to end the quarter, while the number of unemployed persons slightly increased to 8.0 million[4]
- Job gains occurred mainly in professional and business services, health care, and financial activities, while employment in mining continued to witness losses, with a decrease of 191,000 jobs since reaching a peak in September 2014[4]

Real GDP Growth Since 2009



Source: Bureau of Economic Analysis

U.S. Treasury Securities

- During Q1 2016 and throughout the year, long-term Treasury security yields posted their sharpest quarterly decline since 2013, leading to a flattening yield curve[2]

	Q2 2015[5]	Q3 2015[5]	Q4 2015[5]	Q1 2016[5]
5-year Treasury Note	**1.58%**	**1.62%**	**1.66%**	**1.44%**
10-year Treasury Note	**2.26%**	**2.30%**	**2.29%**	**2.01%**
30-year Treasury Note	**3.10%**	**3.21%**	**3.21%**	**2.96%**
10-year Treasury Inflation Protected Security (TIPS)	**0.30%**	**0.56%**	**0.66%**	**0.16%**

Outlook for 2016

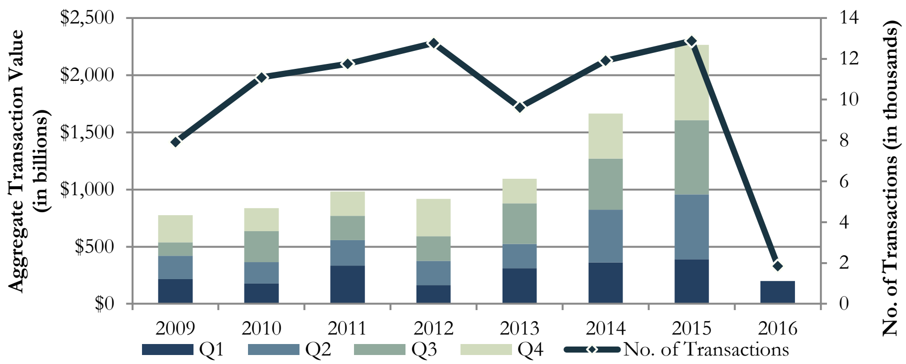
- PWC projects that the real U.S. GDP growth rate will be 2.3% in 2016 and that the next interest rate hike will take place later in 2016[6]
- The Business Roundtable CEO Economic Outlook Survey results indicate that U.S. CEOs believe the economy is performing below its potential and expect real GDP to grow 2.2% in 2016, a decline from the 2.4% growth rate in 2015[7]

1. *U.S. Bureau of Economic Analysis*
2. *Baird*
3. *U.S. Federal Reserve*
4. *Bureau of Labor Statistics*
5. *U.S. Department of the Treasury*
6. *PWC*
7. *CEO Economic Outlook Survey published by Business Roundtable*

Mergers and Acquisitions and Private Equity

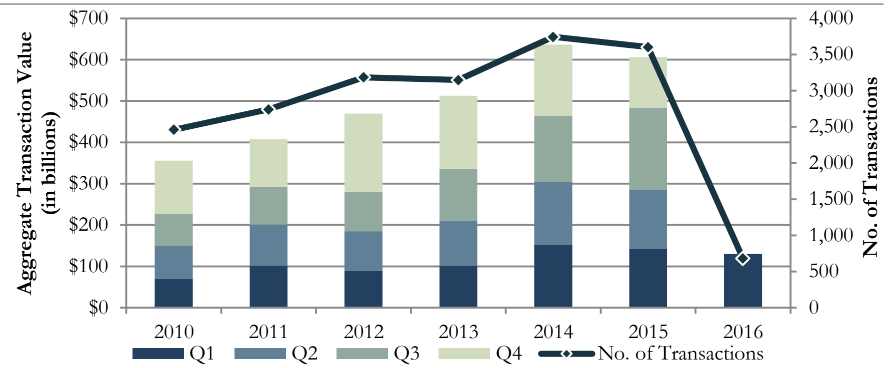
- The aggregate global mergers and acquisitions (M&A) value dropped 22.9% to $605.5B over 3,474 deals in Q1 2016, from $785.5B over 4,126 deals in Q1 2015[1]
  - — This decrease in M&A activity could be the beginning of a "rebalancing" from the record year of deal making in 2015
  - — Industrials and chemicals was the leading sector, capturing the period's largest transaction, China National Chemical Corporation's $45.9B bid for Switzerland-based Syngenta AG
  - — Q1 2016 saw eight megadeals valued at $158.5B, a decline from 13 megadeals worth $243.1B in Q1 2015
- M&A activity in North America experienced a considerable slowdown of 30.6% in value between Q1 2015 and Q1 2016, despite a relatively stable economic performance for the quarter[1]
  - — The $396.0B value of withdrawn M&A deals is not only the highest level for the year-to-date period, but also the highest for any full year[2]
- Corporate acquirers accounted for 84% of acquisition value in North America and Europe in Q1, the highest level since the most recent economic crisis[3]
- Driving the increasing appetite by corporate acquirers are their need to mitigate muted organic growth, the historically lofty equity markets and low interest rates, and increased caution by private equity (PE) firms with respect to platform investment valuations

U.S. M&A Activity



Source: FactSet

U.S. Private Equity Deal Flow



Source: PitchBook

- U.S. PE investments totaled $130B in Q1 2016 across 680 transactions, down 8.4% and 23.3%, respectively from Q4 2015[3]
- Add-on acquisitions have experienced continued growth in their proportion of activity in the U.S. since 2006, representing 68% of all buyouts during Q1 2016, up from 61% at the end of Q4 2015[3]
  - — In North America and Europe, the median size of add-on acquisitions was halved from the prior quarter to $35.3M
- The average enterprise value-to-EBITDA multiple for U.S. buyouts declined from 11.5x in 2014 to 10.0x in 2015[3,4]
- Debt usage in U.S. buyouts continued its four-year slide amid macro uncertainty, as median debt percentages for U.S. buyouts reached 53.8% in Q1 2016, down from 56.0% in 2015 and 64.8% in 2013[3]
- While large buyouts are off due to PE caution, a focus on add-on acquisitions, and competition from corporate acquirers, activity in the more reasonably priced middle market is strengthening
  - — The total value of U.S. buyouts between $25M and $100M in Q1 was close to $12B, an 81.5% quarterly increase and a high since 1998[3]
- The median holding period for U.S. PE-owned middle-market portfolio companies that exited via corporate acquisition was 7.4 years in Q1 2016, far greater than the 5.3-year median in 2015[3]
- PE dry powder rose 6% during Q1 2016, reaching $881B[5]

1. *Mergermarket*
2. *Dealogic*
3. *PitchBook*
4. *These multiples reflect prices paid for mainly public companies and do not account for smaller private company transactions (for which there typically are no publicly available data) that tend to change hands at much lower multiples*
5. *Preqin*

Venture Capital and PIPEs

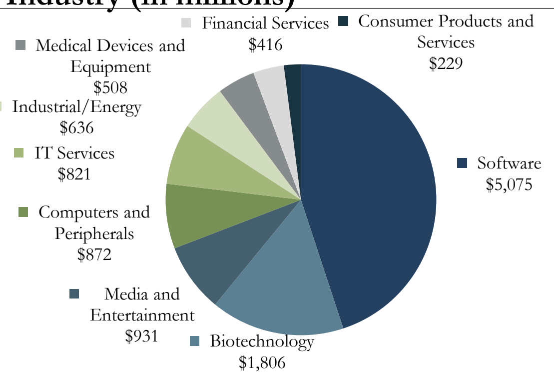
Venture Capital Investing

- In Q1 2016, the venture capital (VC) industry invested $12.1B in 969 deals, a slight increase of 1.7% in value and decrease of 5.1% in transactions, as compared with $12.0B across 1,021 transactions in Q4 2015[1]
  - Q1 2016 marks the ninth consecutive quarter with $10B or more invested in venture capital transactions
  - During Q1, 25% of total VC dollars invested came from the top ten deals, an increase from 18% in Q4 2015
- The software industry continued to received the highest amount of funding, with $5.1B invested through 376 deals in Q1, a 11.7% increase in value and 4.8% decrease in deal number from Q4 2015[2]
- Seed-stage companies experienced a 10.1% decrease in VC investments from Q4 2015 to Q1 2016, totaling 62 deals worth $418.0M, and representing only 3.5% of all VC investment dollars[2]
- With $4.1B invested across 288 deals, "expansion-stage" investments saw a 25% increase in value and 9% in deals, as compared with Q4 2015[2]
- The robust VC investment activity indicates that investors still have faith in the venture ecosystem, and increases in expansion-stage deals, a higher average transaction size, and decreases in first-time financings and seed-stage investments suggest a shift towards more mature startups[1]
- Nine U.S. IPOs raised $1.2B in Q1, the lowest amount since Q1 2009[3]

PIPE Investing

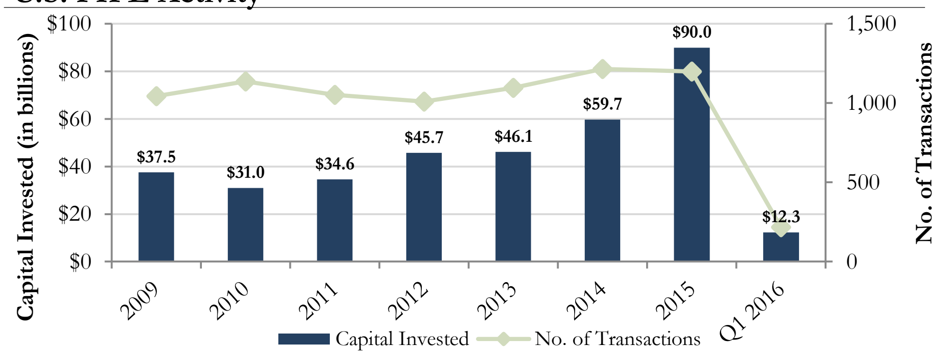
- $12.3B was raised across 217 PIPE transactions that were announced or completed in Q1 2016, a decrease of 28.1% in value from the $17.1B invested across 293 transactions in Q1 2015[4]
  - Although Q1 2016 witnessed a slowdown in PIPE activity, the pace of deals picked up significantly with over 44% of the quarter's deals occurring in March, potentially signaling a stronger Q2[4]
  - Total PIPE deal value includes equity lines of credit and at-the-market (ATM) transactions[5], neither of which necessarily represent an actual cash raise upon announcement; excluding ATMs, Q1 2016 actually saw more capital raised than in Q1 2015, with $8.6B raised vs. $6.5B, respectively[4]
- Healthcare PIPEs accounted for the most deals at 87, or 40.1% of the total volume, which was a sharp decline from the sector's 112 transactions in Q1 2015[4]
- Energy PIPEs experienced the most dollar activity with $3.9B raised, including four convertible preferred PIPEs, accounting for almost all of the sector's value within the PIPE market[4]
  - A plunge in oil prices to below $30 per barrel during 2015 followed by a rebound to $38 per barrel in Q1 2016 has led to disparate consequences, as some companies disappeared, while others found opportunities to acquire companies and assets[4]

VC Deals Per Industry (in millions)



Source: MoneyTree Report

U.S. PIPE Activity



Source: PrivateRaise/DealFlow

1. *MoneyTree Report by PricewaterhouseCoopers LLC*
2. *NVCA*
3. *The Wall Street Journal*
4. *PrivateRaise/Dealflow*
5. *ATMs are at-the-market offering facilities, which may not raise capital initially – or ever*

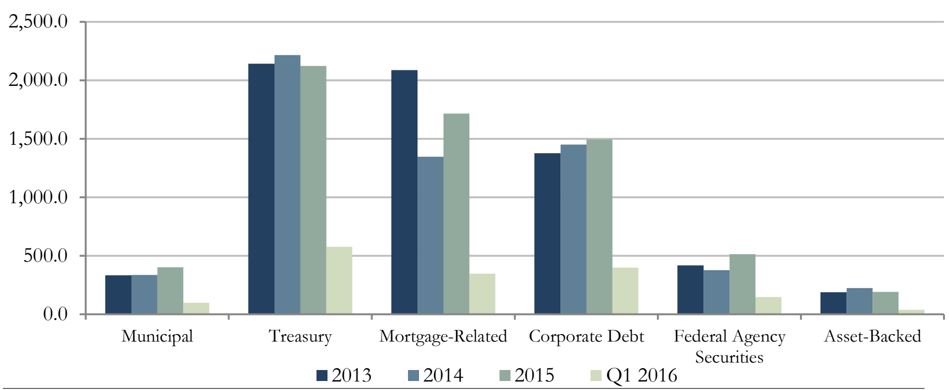
Debt Capital

- The bond market is off to a positive start in 2016, with strong returns after a difficult 2015[1]
- The Barclays U.S. Aggregate Bond index posted a 3.0% return in Q1 2016, a significant increase from the 0.6% annual return for 2015[1]
  - Prudential predicts a slightly positive outlook for the rest of 2016 despite risks that include energy oversupply, Fed interest rate hikes, China's slowing growth, European sovereign stress, a potential British exit from the E.U., and other geopolitical factors[1]
- The Barclays Investment Grade U.S. Corporate Bond index generated a positive return of 4.0% in Q1 2016, which is encouraging when compared with the negative 0.7% return experienced during 2015[1]
  - The FOMC's easing pace of rate hikes has been a leading contributor to the reversal of the vicious cycle that started in mid-2013 – when fears of interest rate hikes inadvertently tightened financial conditions – resulting in calmer rate, spread, and currency markets[1]
- Total debt issuances increased 11.7% from $1,441.6B in Q4 2015 to $1,610.7B in Q1 2016[2]
  - The overall increase was driven largely by a 35.4% rise in corporate debt issuances, from $294.1B in Q4 2015 to $398.2B in Q1 2016[2]
- U.S. investment grade corporate bonds issuances increased to $362.2B in Q1 2016 from $348.5B in Q1 2015 and $259.0B in Q4 2015, upticks of 3.9% and 39.8%, respectively[3]
  - However, these issuances are slowing down, posting $85.5B in April 2016, as compared with $127.3B in March 2016 and $110.7B in April 2015[3]
- The Credit Suisse High-Yield Bond and Leveraged Loans indices posted gains of 3.1% and 1.3%, respectively, in Q1 2016[3]

Middle-Market Loan Issuances

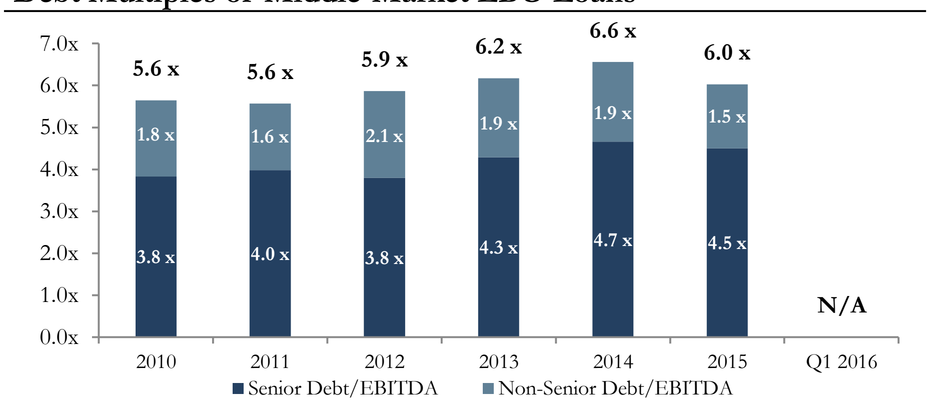
- Total middle-market lending reached $27B in Q1 2016, a decrease from $39B in Q1 2015[4]
  - The volume is comprised of $21B in large middle-market loan issuances and $6B in traditional middle-market loan volume[4]
  - Factors that contributed to this slowdown include the current lull in U.S. PE investments, a mismatch between the perspectives of buyers and sellers on forward-looking EBITDA in a slowing economy, and a weakening macroeconomic picture[5]
- New issue yields tightened further to 6.7% for middle-market loans in Q1 2016 from 7.9% in Q4 2015[4]
  - The top industry in terms of leveraged loan issuance was technology, followed by general manufacturing and retail[4]

Issuance in the U.S. Bond Market (in billions)



Source: SIFMA

Debt Multiples of Middle-Market LBO Loans



Source: Thomson Reuters LPC

1. *Prudential Financial*
2. *SIFMA*
3. *Guggenheim Partners*
4. *Thomson Reuters LPC*
5. *Fifth Street Finance*

By David O. Kahn, Laurence J. Stein, Kirt Switzer, and Joseph J. Curran, Latham & Watkins

On December 18, 2015, President Obama signed the Protecting Americans from Tax Hikes Act of 2015 (the PATH Act) into law. The PATH Act retroactively renews and permanently extends the 100% capital gain exclusion relating to a gain realized on certain dispositions of "qualified small business stock" (QSBS) acquired after September 27, 2010.

The purpose of the move is to incentivize small business investments by non-corporate investors. The resultant tax benefit is very favorable news and potentially a source of substantial tax savings for entrepreneurs and investors in early stage companies and venture capital funds. And there is little or no alternative minimum tax (AMT) offset to the benefit.

Defining Qualified Small Business Stock

"Qualified Small Business"

QSBS may generally only be issued by a "qualified small business," within the meaning of Code Section 1202, which generally requires that the issuer:

- Be a domestic (U.S.) C corporation,
- Have aggregate gross assets which, at all times on or after August 10, 1993, through and immediately following the issuance of the QSBS, do not exceed $50 million, and
- Agree to submit such reports to the IRS and stockholders as the IRS may require to carry out the purposes of Section 1202.

In calculating whether a corporation meets the aggregate gross asset test, subject to certain exceptions, cash is included at face value and other assets are valued at their adjusted tax bases. To date, the IRS has yet to issue any reporting requirements applicable to qualified small businesses or QSBS.

"Qualified Small Business Stock"

Section 1202 also requires that securities meet the following conditions in order to qualify as QSBS:

- The stock must be "originally issued" to the taxpayer by a U.S. corporation that is a qualified small business on the date of issuance.
- During substantially all of the taxpayer's holding period, at least 80% (by value) of the corporation's assets must be used in the active conduct of one or more qualified trades or businesses.
- The corporation must be an "eligible corporation" during substantially all of the taxpayer's holding period.
- The corporation may not (directly or indirectly) redeem more than a de minimis number of shares held by a taxpayer to which the QSBS is issued, or certain related parties, within a four-year period beginning two years prior to the issuance of the QSBS.
- There may be no "significant redemptions" of the issuing corporation's stock from any party during the two-year period beginning one year prior to the QSBS's issuance.

Stock can be originally issued within the meaning of this requirement by the qualified small business directly or through an underwriter. The stock can be acquired in exchange for money or other property (but not other stock), or as compensation for services other than underwriting. Special rules apply to stock received by a partner from a partnership, as well as to stock received in certain reorganizations.

A qualified trade or business specifically includes start-up activities and certain research and experimentation activities. The term is otherwise defined as any trade or business other than certain specifically excluded activities (for example, professional activities such as law, medicine, banking, finance, farming, mining, and the operation of hotels and restaurants).

For the purposes of determining whether the 80% requirement is satisfied, a corporation is treated as owning its proportional share of the assets of any subsidiary in which it holds more than 50% of the combined voting power or value. Cash or other assets held to meet the reasonable working capital needs of a qualified trade or business, or which are reasonably expected to be used within two years to finance research and experimentation in a qualified trade or business, count toward the 80% requirement, subject to certain limitations. Other than these cash assets, no more than 10% of the value of a corporation's assets less its liabilities may consist of securities of corporations other than controlled subsidiaries, and no more than 10% of the value of a corporation's total assets may consist of real estate not used in the active conduct of a qualified trade or business.

Certain entities that enjoy special tax privileges are excluded from the definition of an "eligible corporation." For example, domestic international sales corporations, regulated investment companies, real estate investment trusts, and cooperatives may not issue QSBS.

Tax Benefits and Limitations

If the requirements associated with the issuance of QSBS are satisfied, potentially significant tax benefits may apply. In addition to certain recognition deferral and rollover rights provided under Code Section 1045, Section 1202 now allows non-corporate taxpayers to exclude from gross income either 100%, 50%, or 75%, depending on the date the QSBS was issued, of the gain arising on the sale of QSBS. In order to benefit from this exclusion:

- The QSBS must have been held for more than five years.
- Gains realized on certain "offsetting short positions" are limited.
- The amount of gain that any single taxpayer can exclude with respect to a particular issuer is generally limited to the greater of $10 million or 10 times the taxpayer's adjusted basis of the QSBS.

Subject to these requirements, the PATH Act provides for the exclusion of 100% of any gain realized on the disposition of QSBS acquired after September 27, 2010. For QSBS acquired before February 18, 2009, the exclusion is limited to 50%, and for QSBS acquired between February 18, 2009 and September 27, 2010, the exclusion amount is limited to 75%.

In addition, for dispositions of QSBS that are eligible for this 100% capital gain exclusion, no portion of the excluded gain is treated as a preference item for purposes of the AMT. For dispositions of QSBS that are eligible for the 50% or 75% exclusion (*i.e.*, issued prior to September 28, 2010), a portion of any excluded gain will continue to be treated as a preference item.

Finally, any gain realized in a disposition of QSBS held for less than five years may, under Code Section 1045, be "rolled over" into new QSBS, provided such stock is acquired within 60 days of the sale. QSBS acquired in such a rollover transaction will have a carry-over tax basis, and the holding period for such newly acquired QSBS will include the holding period for the QSBS that was sold.

Conclusion

The permanent, retroactive extension of the 100% capital gain exclusion under the PATH Act results in a potentially significant federal income tax benefit to non-corporate investors, in some cases reducing the federal tax rate for the capital gain on QSBS to zero. Investors and entrepreneurs should consult their legal and tax professionals when considering QSBS investments and their tax implications.

About the Authors

Latham & Watkins is a full-service global law firm with more than 2,200 lawyers in its offices in the world's major financial, business, and regulatory centers. The firm handles complex business transactions, litigation, and regulatory matters for corporations, individuals, and government agencies worldwide.

David O. Kahn is a tax partner in the Boston office and a member of the firm's Finance Committee. Laurence J. Stein is a tax partner in the Los Angeles office. Kirt Switzer is a tax partner in the San Francisco office and Global Chair of the firm's transactional tax practice. Joseph J. Curran is a tax associate in the Boston office.

Differentiation

- Aramar Capital Group, LLC is a boutique investment bank focused on providing merger, acquisition, and strategic private placement services. We are unique among our investment banking peers in that:
  - We focus on middle-market transactions; these transactions are a priority, not a default for when larger deals are dormant;
  - We have significant transactional expertise;
  - We offer senior level attention; and
  - We have a proprietary marketing process that follows a comprehensive approach tailored to each buyer or investor candidate, rather than a typical generic approach utilizing "blast" e-mails, letters, and other contacts.

Services

- Aramar offers a highly focused set of corporate finance services to assist our clients in conceiving, defining, executing, and optimizing their objectives:
  - Mergers and Acquisitions
    - Negotiated Sales of Closely-held Companies
    - Corporate and Private Equity Firm Divestitures
    - Leveraged Buyouts
    - Managed Buyouts
    - Buy-side Advisory
  - Private Equity Placements
  - Private Debt Placements
  - Recapitalizations
  - Fairness Opinions
  - Valuations
  - Financial Advisory

Clientele

- Aramar focuses on providing a superior level of service to "middle-market" clients. Our M&A transactions range in size from approximately $10 million to $200 million. Our strategic private placements range in size from approximately $10 million to $100 million.
- We provide the high quality of service and substantial transactional experience offered by a major national investment bank, but to a clientele that either is too small for, or cannot receive, the proper level of attention from a larger investment bank, or would receive lesser services and capabilities from a business broker, consultant, or smaller investment bank. This encompasses access to Aramar's senior professionals and proprietary marketing process.

Team

- Aramar has assembled a unique team of professionals with a comprehensive and attractive mix of skills and experience. This team has significant investment banking experience, including stints at many other prominent financial services firms.
- Equally important, however, our team has entrepreneurial, managerial, and ownership experience that sets apart Aramar's "principal" perspective from that of most investment banks, where professionals tend to act simply as "agents." As principals, our team members have founded firms, acquired other companies, sold and merged our own companies, and acted as officers and directors of both public and private enterprises. As such, we can relate more closely to our clients and better advise them, at the same time as ensuring senior level investment banking attention.