Aramar
Capital Group, LLC

Middle Market Update

4th Quarter 2019

Fourth Quarter Economic Performance and Future Outlook

Aramar Capital Group, LLC

Federal Reserve Perspective and Inflation

- The Federal Open Market Committee (FOMC) views recent economic activity as positive, as evidenced by the continued strengthening of the labor market, sustained expansion of economic activity, stable inflation, and low unemployment rates, while global trade uncertainties remain[1]
  - During its December 2019 meeting, the FOMC maintained the target federal funds rate range of 1.50% to 1.75% from its October 2019 meeting
- In determining the timing and size of future federal funds rate range adjustments, the FOMC will assess and compare expected versus realized economic conditions against its maximum employment objective and its 2.0% inflation objective[1]
  - This FOMC will take into account the measures of labor market conditions, indicators of inflation pressures and expectations, and readings on financial and international developments
- The U.S. Consumer Price Index (CPI) rose by 0.4% in October 2019 and 0.3% in November 2019; there was a 2.3% CPI increase for the 12-month period that ended in December 2019[2]

Employment

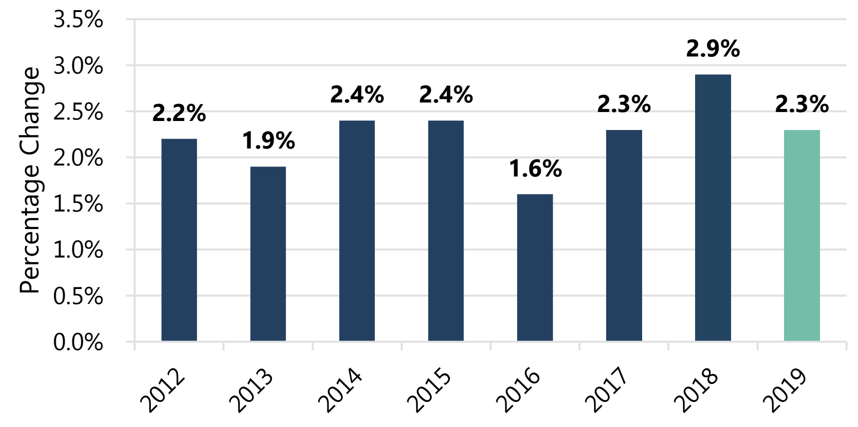
- The U.S. unemployment rate decreased year-over-year (YoY) to 3.5%, or 5.8M people in Q4 2019, as compared with 3.9% in Q4 2018[2]
  - Through December 2019, the U.S. economy grew for 126 consecutive months without any significant decline in economic activity, making it the longest U.S. economic expansion on record[3]
  - U.S. job growth slowed in December, but the pace of hiring has enough momentum to support current U.S. economic expansion despite a deepening downturn in the manufacturing sector from ongoing trade disputes[4]
- In 2019, payroll employment increased by 2.1M, down from a gain of 2.7M in 2018[2]
- The average U.S. employee hourly earnings rose by 2.9% in 2019, which is slower than 2018's gain of 3.2%, the largest annual gain of the past decade[2]

U.S. Treasury Securities

- The 10-year U.S. Treasury Note yield fell slightly from an average of 1.80% in Q3 2019 to an average of 1.79% in Q4 2019[5,6]

	Q1 2019	Q2 2019	Q3 2019	Q4 2019
5-year Treasury Note	2.46%	2.12%	1.63%	1.61%
10-year Treasury Note	2.65%	2.34%	1.80%	1.79%
30-year Treasury Note	3.01%	2.78%	2.29%	2.25%
10-year Treasury (Inflation Protected)	0.79%	0.52%	0.15%	0.14%

Real Gross Domestic Product (GDP) Annual Growth Since 2012



Source: U.S. Bureau of Economic Analysis

Outlook for 2020

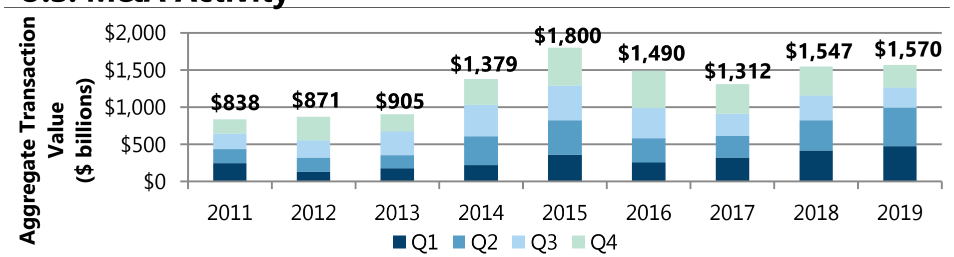
- Leading CEOs surveyed by the Business Roundtable project that the U.S. GDP will grow by 2.1% in 2020, a slight decrease from 2019's U.S. GDP growth of 2.3%[7]
  - In Q4 2019, almost 50% of CEOs identified labor as the top cost pressure
  - This sentiment reflects an active U.S. job market and a strong real wage growth for U.S. workers
    - The 2017 tax law super-charged the economy and helped drive the prevailing tighter labor markets
- The Congressional Budget Office forecasts a budget deficit of $1T for fiscal-year 2020, up slightly from the $984B deficit incurred in 2019[8]
  - The annual budget deficit is expected to average $1.3T between 2021 and 2030, rising from 4.6% of U.S. GDP in 2020 to 5.4% by 2030
  - Driven by large deficits, federal debt held in public markets is projected to grow, from 81% of U.S. GDP in 2020 to 98% by 2030
- The U.S. Consumer Confidence Index increased to 131.6 in January 2020, up from 128.2 in December 2019 due to a positive assessment of the current job market[9]

1. *U.S. Federal Reserve*
2. *Bureau of Labor Statistics*
3. *Forbes*
4. *Reuters*
5. *U.S. Department of Treasury*
6. *Federal Reserve Economic Data*
7. *Business Roundtable*
8. *Congressional Budget Office*
9. *The Conference Board*

Mergers and Acquisitions and Private Equity

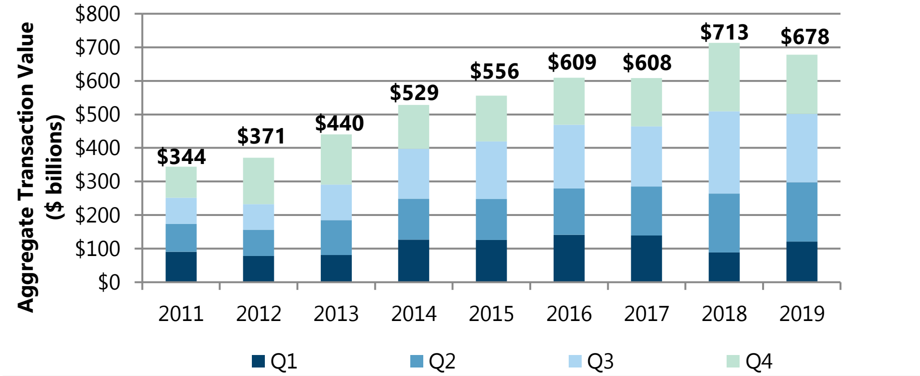
- Global mergers and acquisitions (M&A) activity reached $3.3T across 19,322 transactions in 2019, representing a 6.9% YoY decrease in transaction value[1]
  - The drop in transaction value was driven by global economic uncertainty, such as the unpredictability of Brexit and the ongoing global trade disputes
  - The increased geopolitical tensions between the U.S. and China and the multiple months of anti-Beijing protests in Hong Kong have added to global economic uncertainty
    - China and Hong Kong collectively experienced a transaction value drop of 27.7% in 2019
- U.S. M&A value reached $1.6T, representing a 1.5% increase during 2019; U.S. M&A volume fell by 9.7% to 5,757 transactions over the same period[1]
  - Compared with Europe and Asia-Pacific's decline in transaction activity, the U.S. market showed resistance
  - The U.S. market was supported by a relatively strong economy and several large domestic transactions, including the $88.9B merger between United Technologies and Raytheon and the $87.8B acquisition of Celgene by Bristol-Myers Squibb
- The median North American M&A EV/EBITDA multiple reached 10.1x in 2019, up from 9.4x in 2018, but still lower than the 10.2x recorded in 2017[2,3]
  - PE firms paid elevated prices, as they felt pressure to invest newly raised capital and as they favored investing in technology companies, which tend to trade at higher multiples
- Cross-border M&A volume was $1.3T in 2019, accounting for 38.1% of global M&A in 2019, which represented a 6.2% decrease in value compared with 2018[1]
  - There has been a downturn in global cross-border M&A, as rising trade barriers have resulted in fewer high-profile cross-border deals, and domestic business consolidation has been on the rise
  - 2019 still saw several large cross-border deals, such as the $27B merger between the London Stock Exchange and Refinitiv, based out of the U.K. and the U.S., respectively

U.S. M&A Activity



Sources: Mergermarket, Refinitiv, FactSet

U.S. Private Equity Deal Flow



Source: PitchBook

- Total private equity (PE) fundraising increased to $301.3B for a 52.3% gain compared with the $197.8 billion in 2018[2,4]
- Mega-funds dominated the PE space in 2019 amidst continued U.S.-China trade tensions and an impending Brexit[2,4]
  - 15 mega-funds closed on a total of $162.2B in 2019, accounting for 53.8% of total capital raised and serving as the driving force for these ballooning fundraising numbers[2]
- U.S. PE deal value was $678.0B across 5,133 transactions in 2019, representing a 7.2% decrease in value and a 4.0% decrease in volume compared with 2018[2]
  - PE deal activity in the U.S. was relatively resilient in 2019, but ended up lower compared with 2018 levels largely due to U.S. trade policy uncertainty and fears of an economic downturn[4]
- For PE-led transactions between $10.0M and $250.0M, the average EV/EBITDA multiple was 7.4x during Q3 2019 according to the most recent data, down from 7.6x in the previous trailing 12-month period[5]
- There was almost $1.5T in unspent PE capital globally at the end of Q4 2019, the highest year-end balance on record; PE firms raised more capital to capitalize on investors' searches for higher returns[6]
- U.S. PE-backed company exit activity remained busy throughout 2019 with a total value of $318.2B across 1,035 exits, though representing 28.0% and 16.5% YoY declines, respectively[2]
  - An "exit" refers to an event in which the owners sell their shares of a company, including after an IPO, acquisition, secondary buyout, or recapitalization
  - The drop in activity and value can be attributed more so to PE firms not being in a rush to sell rather than on whether the economic expansion still has legs
  - PE firms recorded just 53 exits above $1.0B during the year, a steep drop from the 95 recorded in 2018

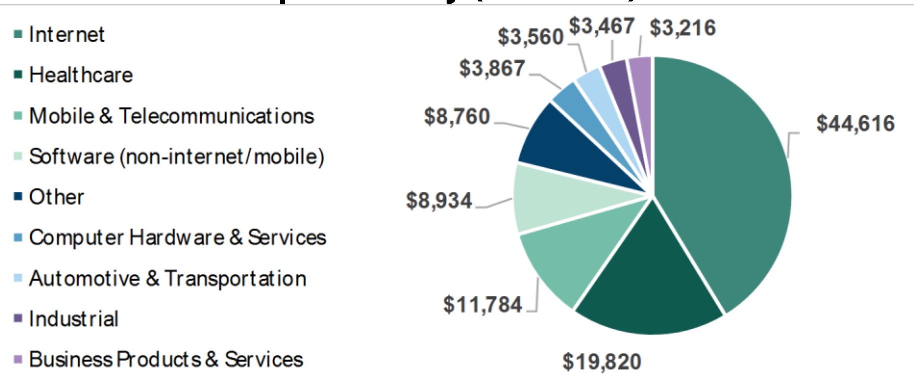
1. MergerMarket
2. PitchBook
3. These multiples reflect prices paid for mainly public companies and do not account for smaller private company transactions that tend to change hands at much lower multiples
4. PricewarterhouseCoopers
5. GF Data
6. Preqin

Venture Capital, PIPEs, Equity Markets, and Corporate Earnings

Venture Capital Investing

- In 2019, investments in U.S. venture capital (VC)-backed companies totaled $136.5B in value across 10,777 transactions, a decrease in value of 2.6% and an increase in transaction volume of 2.2%, respectively, as compared with 2018[1]
  - U.S. transaction activity continued to thrive in 2019 due to the positive economic trends, combined with larger deals that closed at all stages of VC funding and across most sectors
  - 2019 recorded 237 mega-deals, an 11.8% increase compared with the previous year, with non-traditional investors participating in more than 85.0% of those outsized deals
  - In addition to robust deal value, the other big story of 2019 was the record-setting VC exit value of over $250.0B, with nearly 80.0% coming from VC-backed IPOs
- Much of the growth in VC deal count in the U.S. was driven by corporate VC participation, accounting for roughly 25.0% of all U.S. VC transactions over the past four years[1]
  - In 2019, corporate VCs participated in roughly 1,700 transactions, signaling how corporations consider startup investments to be important factors in their overall growth strategies
- Global VC investments rose from $55.7B in Q3 2019 across 4,154 transactions to $63.1B in Q4 2019 across 4,289 transactions[2]
  - However, the number of new VC-backed unicorns (companies valued at $1.0B and above) dropped from 35 in Q3 2019 to 22 in Q4 2019
    - 2019 saw a record number of 110 unicorns created globally
    - The U.S. accounted for more than two-thirds of these unicorn births: with 71 total in 2019 and 15 in Q4 2019, including Ripple and Scopely

U.S. VC Deal Value per Industry ($ millions): Q4 2019

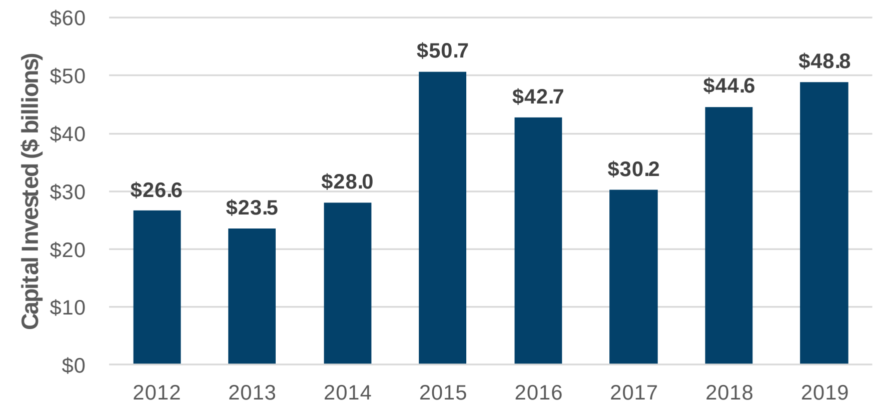


Source: MoneyTree Report

PIPE Investing

- There were 1,033 U.S. private-investments-in-public-equity (PIPEs) valued at $48.8B in 2019, an increase in volume and value of 18.1% and 9.9%, respectively, as compared with 2018[3]

U.S. PIPE Activity



Source: Placement Tracker

Equity Markets and Corporate Earnings

- Equity markets ascended higher in Q4 2019 thanks to an improved economic environment, alleviated trade tensions, and an amicable Fed[4]
  - The S&P 500 rose 9.1% during Q4 2019 and 31.5% throughout all of 2019, which was the index's best annual performance since 2013
- The desire by investors to back disruptive companies coupled with the increasing number of companies struggling to turn a profit from traditional businesses have propelled the percentage of publicly-listed U.S. companies losing money to 40%, the highest level since the late 1990s outside of post-recession periods[5]
- S&P 500 company quarterly earnings for Q4 2019 are expected to fall by 1.7%[6]
  - Approximately 87% of companies have reported earnings during Q4 2019 thus far, with 70% having had a positive EPS surprise and 66% having had a positive revenue surprise
  - 61 S&P 500 corporations have issued negative EPS guidance for Q1 2020, and 28 S&P 500 companies have issued positive EPS guidance, though the coronavirus impact has not been fully reflected

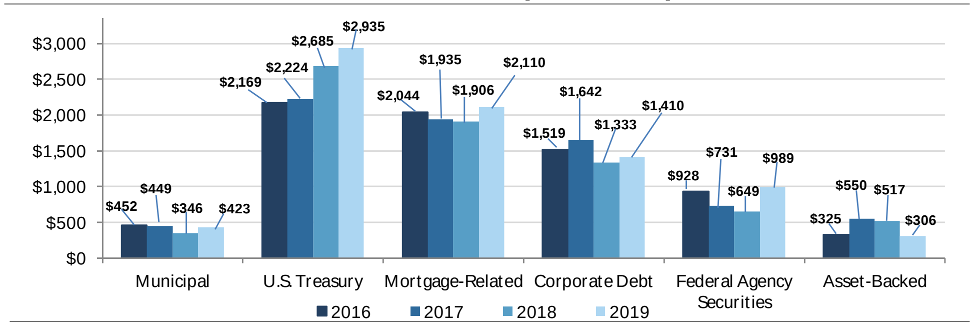
1. *PitchBook*
2. *KPMG*
3. *Placement Tracker*
4. *Baird*
5. *The Wall Street Journal*
6. *FactSet*

Debt Capital, IPO Markets, and Middle-Market Lending

Debt Capital

- The Barclays U.S. Aggregate Bond Index recorded a 0.2% increase during Q4 2019, a decrease from the 2.3% gain in Q3 2019[1]
  - The growth in Q4 2019 was inhibited by investors' fears that interest rates have already approached floor levels and that the business cycle is approaching its maturity
    - Despite these factors, a small yield gain demonstrates that investors can still add value through active management even in adverse investment environments
- The Barclays Investment Grade U.S. Corporate Bond Index recorded a return of 1.2% in Q4 2019, a decline from the 3.1% increase in Q3 2019[1]
  - In Q4 2019, credit metrics remained stable amid strong corporate profit margins and ample free cash flow even though corporate earnings growth and M&A activity weakened in 2019
  - In 2020, the higher absolute level of U.S. yields is expected to continue to attract non-U.S. investors, particularly from countries with negative real yields such as Japan, Sweden, and Switzerland
- Total U.S. bond issuances for Q4 2019 were $2,163.5B, an 8.2% decrease from the Q3 2019 level of $2,355.6B, and a 19.0% YoY jump from the Q4 2018 level of $1,818.1B[2]
  - U.S. bond issuances across the U.S. Treasury, corporate debt, federal agency securities, and asset-backed securities debt markets decreased from Q3 to Q4 2019
  - The largest contributing factor to this decrease was the shrinking of corporate debt and asset-backed bond issuances, with a total of $267.1B and $59.3B, respectively, representing YoY declines of 34.2% and 20.7%, respectively
- Driven largely by the large outflows from mutual funds that purchase buyout loans, collateralized loan obligations (CLOs) now account for 72% of the allocations for newly issued leveraged loans, up from their historical range of 60% to 65%[3]

Issuances in the U.S. Bond Market ($ billions)



Source: SIFMA

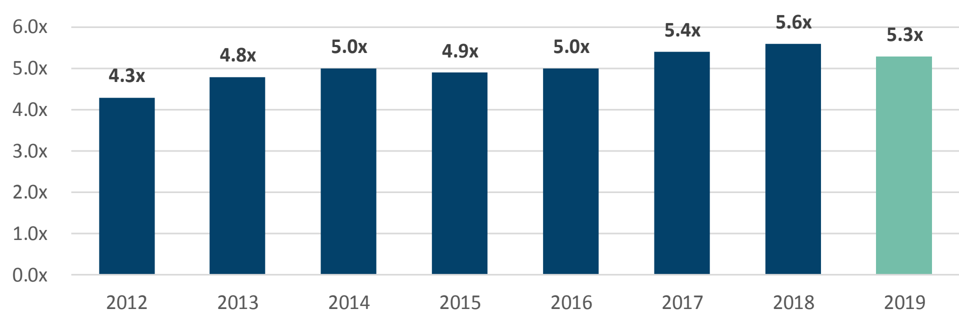
IPO Market

- 2019 saw 1,115 IPOs globally with proceeds of $198.0B, decreases of 19% and 4%, respectively, as compared with 2018[4]
  - U.S.-China-EU trade tensions, concerns about future economic growth, and other geopolitical issues continued to restrain IPO activity in global markets throughout Q4 2019
  - The market volatility stemming from the coronavirus outbreak most likely will suppress IPO activity, which otherwise would have been aided by the easing of global trade tensions and greater clarity around Brexit combined with a strong pipeline in major markets
- The U.S. IPO market saw 165 IPOs raising a total of $50.0B in 2019, decreases of 20% and 5%, respectively, compared with 20184
  - Despite the geopolitical and trade uncertainties that ran throughout 2019, the U.S. IPO market was able to remain vibrant
  - With 2020 being an election year, the political calendar and campaign events are likely to increase volatility

Middle-Market Lending

- Broadly Syndicated Loan (BSL) volume within the middle market in 2019 saw a plunge of 26% as compared with 2018 as lenders, apprehensive about cyclical credits and increasing spreads, are limiting refinancing activity[5]
  - Continued growth in direct lending and a quiet leveraged buyout (LBO) market also drove down BSL volume in the middle market
- Middle-market leverage multiples in Q4 2019 ticked up modestly versus Q3 2019 to 5.3x, but are expected to remain flat or fall in 2020 as lenders continue to seek out more conservative transaction structures and stronger credits in the face of increasing macroeconomic volatility[5]

Middle-Market Leverage Multiples



Source: Capstone Headwaters

1. *Prudential*
2. *SIFMA*
3. *Goldman Sachs Group Inc.*
4. *Ernst & Young*
5. *S&P Global Market Intelligence*

TURBULENT DEAL MARKET CONDITIONS

The financing and M&A markets are encountering more turbulent macro conditions than usual, compounded by the fear of the coronavirus. The headwinds are strong, but the economic and financial foundation that has driven strong markets over the past few years remains sound. Where does that leave the financing and M&A markets?

Headwinds

Coronavirus: The extent of the impact of the coronavirus on the global economy is vast and changing rapidly. Approximately one-third of the world's products are made in China, which is the epicenter of the virus, and Chinese factories are now operating at only 60% to 70% of capacity. Furthermore, there is a ripple effect, as many other countries rely on Chinese components for production, and consumers and businesses are cutting back on purchases given the prevailing economic uncertainty and market volatility.

This uncertainty carries into the deal markets, as valuing companies in falling equity markets is challenging, especially those companies that are reliant on Chinese production and strength in the economy.

That said, we live in a world dominated by social media, viral stories, and sensationalism. The bark thus far appears more dangerous than the bite. Quite a lot of money is being invested in virus containment and medical solutions. Savvy investment fund professionals and other investors tend not to over-react to dramatic news and often view that as a buying opportunity, so the deal markets hopefully will not be materially impacted long term unless and until the contagion and its implications were to become more widespread.

Trade wars: The tit-for-tat tariff battles have seemingly abated, at least for now, in large part due their adverse impact on the global economy and the desire by politicians and government officials to avoid being blamed for economic softness and higher prices. Because of the significant disparity between imports and exports in many nations, most importantly in the U.S., the risk of a resumption of the recent trade wars is a possibility, though that would seem more likely after the American presidential election. One upside of the U.S. tariffs on Chinese goods is that they have propelled importers to seek alternative supply sources in other countries, which may somewhat mitigate the effect of the coronavirus on our economy.

U.S. presidential election: The surge by Bernie Sanders, a self-proclaimed democratic socialist, in the Democratic primary process has raised concerns among investors about the impact of his policies on the U.S. economy in the event he were to be elected. In particular, there are worries about higher taxes on individuals and companies and about a potentially severe escalation in the budget deficit to cover the healthcare-for-all, free tuition, and other plans proposed by Senator Sanders and certain other Democratic contenders.

The fact is there is a long way before the Democratic nominee is selected, he or she would have to defeat an incumbent president, and the various bills would need to be passed by Congress. The likelihood of the election having a meaningful impact on the deal markets is not strong and certainly not in the short term.

Continued migration of purchases to online channels: The internet obviously has transformed industrial, commercial, and consumer shopping. Inventory is now virtually unlimited, pricing for both products and services is transparent, and brands are less important in commodity categories. Barriers to entry are lower (over 40% of sellers on Amazon are based in China), and the ability for product and service suppliers to project revenues and profits is more difficult. There certainly are winners and losers in this seismic shift in commerce, and the deal markets still are finding their way and making errors in judgment along the route.

Tailwinds

Abundant cash: Private equity funds are sitting on a record amount of dry (uninvested) powder. U.S. companies have significant cash on their balance sheets as a result of a vibrant economy and reduced taxes. This is capital that is not going away any time soon regardless of the various headwinds described above.

Low interest rates: Rates are lower now than at any time in history and trending even lower. This drives investors to seek vehicles with higher returns (and more risk) and enables acquirers to lower their cost of capital and thus be more aggressive. Where senior lending is lacking, collateralized loan obligation (CLO) funds and non-traditional lenders often stand ready to step in.

Add-on acquisitions: The ability to make add-on acquisitions that can generate cost savings, revenue enhancements, and purchase price multiple arbitrage (*i.e.,* buying a smaller company at one multiple and selling the combined larger entity at a higher one) are continuing to drive transactions and high multiples.

Conclusion

The world certainly is facing challenging macro circumstances, but our deal markets are more resilient – or perhaps numb is the right word – than ever to shocks. There is always a market for good companies. We see the continuation of a strong deal environment given the favorable capital markets.

Aramar Capital Group, LLC

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 $250 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.