Aramar Capital Group, LLC

Middle Market Update

1st Quarter 2015

First Quarter Economic Performance and Future Outlook

GDP

- Real GDP grew 0.2% in Q1 2015, down from the 2.2% increase in Q4 2014 and short of the consensus estimate of 1.0%[1]
- The muted GDP growth primarily reflected a slowdown in consumer spending and contractions in exports, nonresidential fixed investment, and municipal government spending[1]
  - Real exports of goods and services dropped 7.2% in Q1 2015, as compared with an increase of 4.5% in Q4 2014
  - Real nonresidential fixed investment decreased 3.4% in Q1 2015, versus an increase of 4.7% in Q4 2014
  - Real state and local government consumption expenditures and gross investment slid 1.5%, in contrast to an increase of 1.6% in Q4 2014

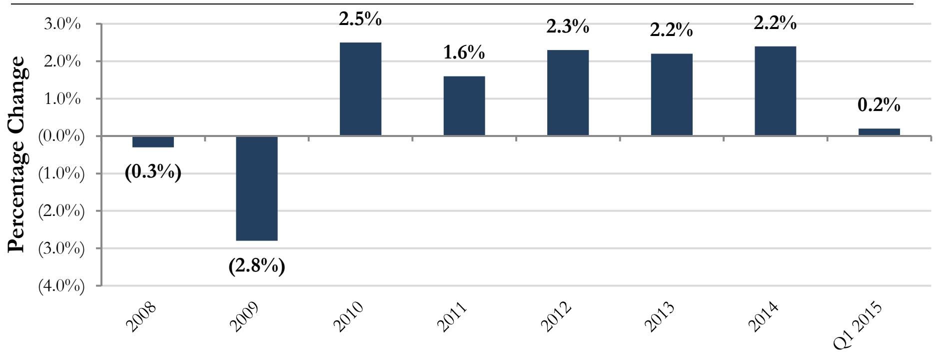
Consumer Spending

- Consumers were net savers this quarter, as the real disposable personal income growth of 6.2% in Q1 2015, up from 3.6% in Q4 2014, was offset by an increase in the personal savings rate of 5.5%[1]
  - Real personal consumption expenditures grew 1.9% in Q1 2015, a decrease from the 4.4% uptick recorded in Q4 2014
- Private, fixed residential investment as a share of GDP has yet to recover to its long-term trend; home improvement spending is expected to increase one or two percentage points faster than GDP[2]

Outlook for 2015

- Despite U.S. GDP growth hitting the brakes in Q1 2015, the economy still is expected to post growth of over 2.5% in 2015[3]
- U.S. CEOs modestly raised their expectations for the U.S. economy, anticipating Congressional action on trade will lead to growth in sales, capital spending, and hiring during the next six months[4]
  - Business Roundtable members expect 2015 GDP growth of 2.8%, an increase of 0.4% over their original projections for 2015 made in Q4 2014

Real GDP Growth Since 2008



Source: Bureau of Economic Analysis.

Employment

- For the first time, the number of Americans out of the labor force exceeded 93 million in March, lowering the labor force participation rate from 62.8% to 62.7%, a 37-year low[5]
- The unemployment rate remained unchanged at 5.5% in March[5]

U.S. Treasury Securities

- The Treasury yield curve continued to flatten in Q1 2015, as shorter-term note yields fell by less than longer-term note yields[6]

	Q2 2014[7]	Q3 2014[7]	Q4 2014[7]	Q1 2015[7]
5-year Treasury Note	1.7%	1.8%	1.7%	1.5%
10-year Treasury Note	2.8%	2.6%	2.4%	2.1%
30-year Treasury Note	3.7%	3.5%	3.2%	2.7%
10-year Treasury Inflation Protected Security (TIPS)	0.3%	0.6%	0.5%	0.6%

Federal Reserve

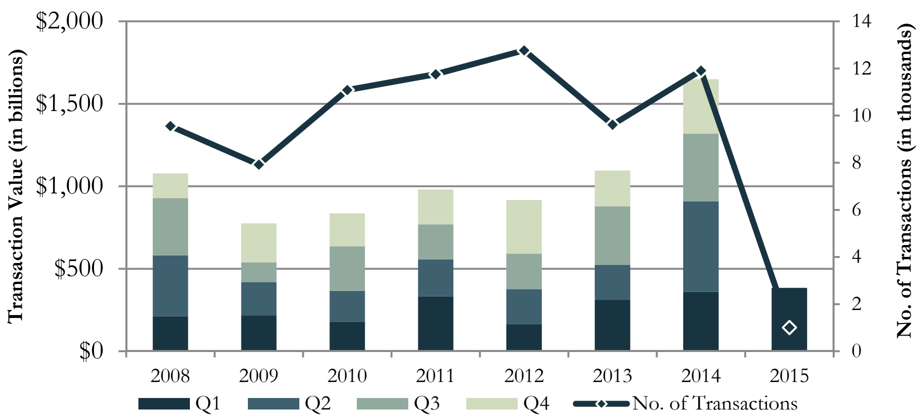
- Amid economic stagnation, moderate job gains, and low inflation readings in Q1 2015, the FOMC reaffirmed in March that the target range for the federal funds rate of 0.0% to 0.3% was appropriate[8]

1. *U.S. Bureau of Economic Analysis*
2. *The Home Depot*
3. *PricewaterhouseCoopers LLC*
4. *CEO Economic Outlook Survey published by Business Roundtable*
5. *Bureau of Labor Statistics*
6. *R.W. Baird*
7. *U.S. Department of the Treasury*
8. *U.S. Federal Reserve*

Mergers and Acquisitions and Private Equity

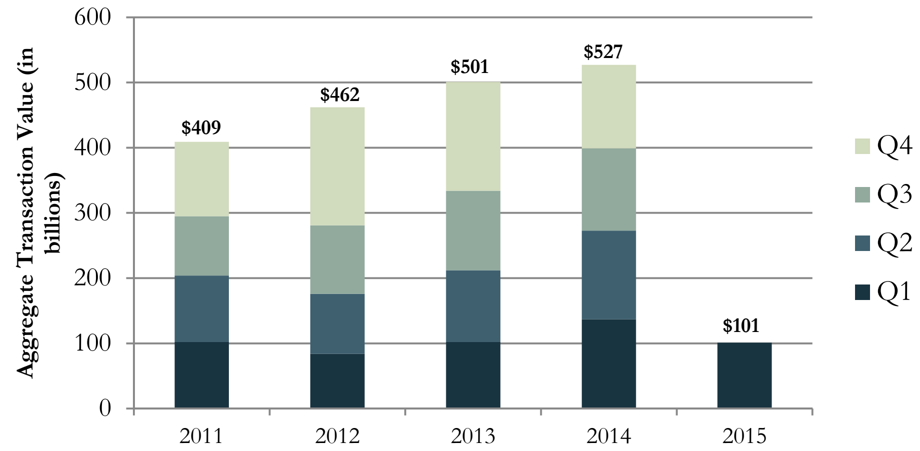
- The aggregate global mergers and acquisitions (M&A) transaction value rose 13.4% to $719.1B in Q1 2015 from $634.0B in Q1 2014[1]
- The U.S. accounted for 46.5% of the global deal value[1]
  - U.S. M&A transactions in Q1 2015 ended up with $325.5B across 1,010 deals, an increase of 13.9% in value compared with $285.8B in Q1 2014
  - The market strength in the U.S. was led by healthy quarters in the healthcare and technology sectors, offsetting weakness in energy and mining
  - Mega-deals, such as H.J. Heinz Company's $54.5B planned acquisition of Kraft Foods, contributed to the positive start in 2015 and the 18.9% uptick in the average deal value from $271.0M in Q4 2014 to $322.2M in Q1 2015
  - Low interest rates, significant corporate cash balances, a thirst for growth vehicles, a stable economy, and a strong currency combined to create a favorable deal environment
- The U.S. experienced a slowdown in private equity (PE) buyouts, with 182 buyouts worth $26.9B, representing the slowest quarter since Q4 2013[1]

U.S. M&A Activity



Source: FactSet U.S. Flashwire January Report.

U.S. Private Equity Deal Flow



Source: PitchBook.

- PE firms struggled to compete with strategic buyers and pay prevailing high valuations, though they were able to justify pursuing add-on acquisitions due to the potential synergies with their portfolio companies[2]
  - Add-on deals accounted for 63.0% of all PE investments in 2015, up from 61.0% in 2014 and 58.0% in 2013
- Valuations of PE-acquired companies settled back to historical norms in Q1 2015, as PE investors feared potential corrections in public markets and displayed caution in using leverage[2,3]
  - The median enterprise value to EBITDA multiple fell to 7.7x in Q1 2015, a 28.0% decrease as compared with the 10.7x average in 2014
  - The median debt percentage for PE buyouts dropped from 60.0% in 2014 to 50.0% in Q1 2015, as investors wary of interest-rate increases dialed down debt usage
  - 21% of U.S. PE deals have been financed with leverage at or above levels considered risky by regulators, down from 60% and 35% in Q3 and Q4 2014, respectively[4]

1. *Mergermarket*
2. *PitchBook*
3. *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*
4. *S&P Capital IQ*

Venture Capital and PIPEs

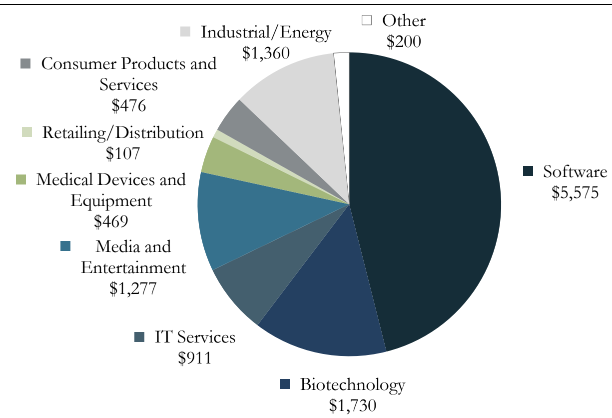
Venture Capital Investing

- In Q1 2015, the venture capital (VC) industry invested $13.4B across 1,020 deals, a decrease of 10.0% in deal value and 8.0% in deal flow, as compared with $14.4B across 1,109 deals in Q4 2014[1]
- First-time financings in Q1 2015 fell 33.0% in terms of the number of deals versus the previous quarter[2]
- There were 17 VC-backed IPOs in Q1 2015 totaling $1.4B, a 54.0% decrease in the number of offerings and a 58.0% decline in deal value compared with Q4 2014[2]
  - Q1 2015 was the first quarter to see fewer than 20 venture-backed IPOs since Q1 2013
- U.S. VC firms raised $7.0B across 61 funds during Q1 2015, a decrease of 24.0% as compared with Q4 2014 in fund count, but a 21.0% increase in total dollar commitments[2]
  - VC dollar commitments during Q1 2015 declined 30.0% as compared with Q1 2014, and the number of funds raised during Q1 2015 marked the lowest quarter since Q2 2013
  - The top fundraiser during Q1 2015 was Bessemer Venture Partners IX, L.P., which raised $1.6B

PIPE Investing

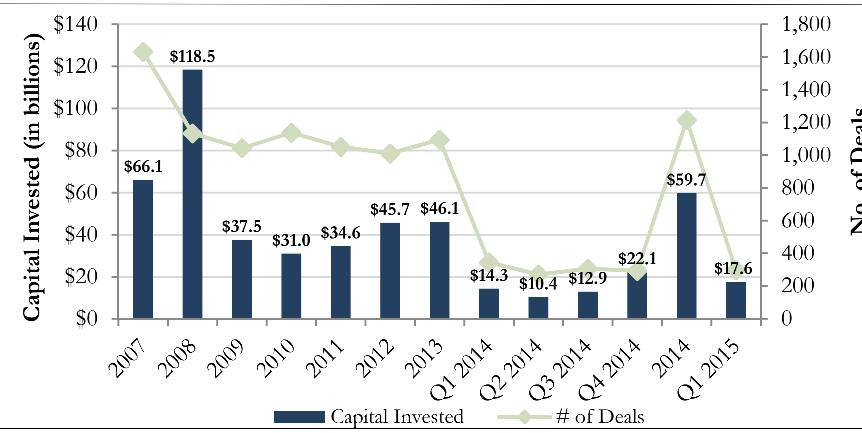
- $17.6B was raised across 296 PIPE transactions that were announced or completed in Q1 2015, marking a sharp dollar value decline of 20.4% from the $22.1B raised across 293 transactions in Q4 2014[3]
  - Q1 2015 included 47 at-the-market (ATM) offerings worth $9.9B, up 84.9% in value from the same quarter in 2014[4]
  - 171 placements were unregistered and 78 were registered, representing $5.4B and $2.3B, respectively
- Empery Asset Management LP was the most active institutional investor in the U.S. PIPE market during Q1 2015 in deal count, with 24 private placements worth on average $0.5M[3,5]
- Morgan Stanley & Co. was the most active in deal value, deploying $1.8B in Q1 2015[3]
- Many investors and companies were waiting in Q1 2015 to participate in PIPE offerings until the release last month of changes to the SEC's new Regulation A, which expands the amount that can be raised from $5.0M to $50.0M annually[3]

VC Deals Per Industry – Q1 2015 (in millions)



Source: MoneyTree Report.

U.S. PIPE Activity



Source: PrivateRaise/DealFlow.

1. *MoneyTree Report by PricewaterhouseCoopers LLC and the NVCA*
2. *Thomson Reuters LPC*
3. *Private Raise/Dealflow*
4. *ATM offerings are commitments to raise money through the issuance of stock at the issuer's discretion*
5. *Excludes transactions for which the investment amount has not yet been disclosed*

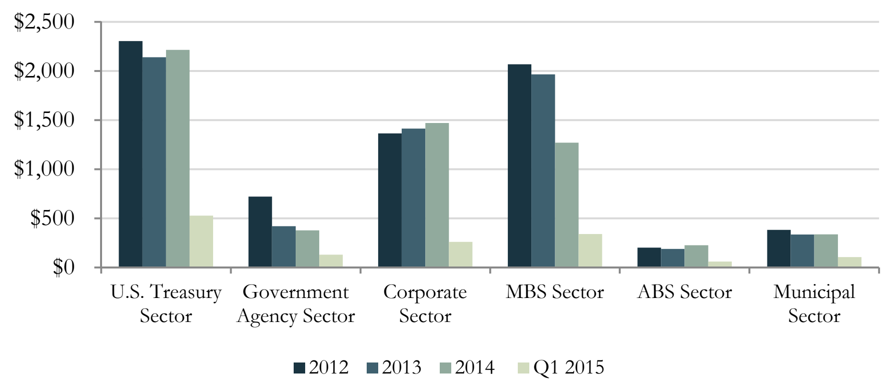
Debt Capital

- The Barclays U.S. Aggregate Bond Index posted a 1.6% return in Q1 2015, down from 1.8% in Q4 2014[1]
  - Heavy new issuances dominated the market for much of the period, as issuers rushed to capture low borrowing costs before the Federal Reserve begins to lift rates
- The Barclays U.S. Corporate Bond Index posted a total return of 2.3% in Q1 2015, as both the ECB and Bank of Japan implemented aggressive monetary actions, making the higher-yielding U.S. issuances significantly more attractive[1]
  - U.S. corporate spreads over similar maturity Treasuries ended up relatively unchanged from year-end at 129 bps
- Total debt issuances decreased 2.8% from $1,465.8B in Q4 2014 to $1,424.1B in Q1 2015[2]
  - The overall decline was driven by a 22.3% drop in corporate bond issuances, down to $259.5B from $334.1B in Q4 2014
  - The 33.0% increase in asset-backed securities issuances to $60.0B was largely attributable to activity in the auto sector
  - Federal agency securities increased 30.0% from $100.1B to $130.2B in Q1 2015
- Despite actions by foreign central banks driving performance across fixed-income markets in early 2015, the recent weakness in U.S. economic data led to a moderate loss of 0.4% in the high-yield bond market at the end of Q1 2015[3]
- The Barclays U.S. Corporate High Yield Index was higher by 30 bps in March, finishing the month at 6.2%[4]

Middle-Market Loan Issuance

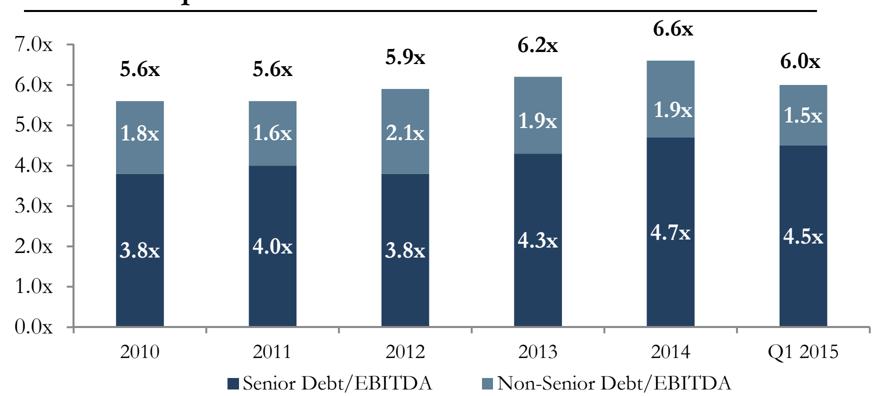
- Middle-market yields ticked lower to 5.8% in Q1 2015, the lowest yields seen since June 2014[4]
- Leverage multiples decreased in Q1 2015, after four years of consecutive growth[4,5]
  - The average debt to EBITDA multiple decreased in Q1 2015 to 6.0x for broadly syndicated LBOs and 5.3x for institutional middle-market LBOs
- Largely thanks to reduced LBO activity, middle-market lending plunged 52.5% from $53.5B in Q4 2014 to $25.4B in Q1 2015[4]
  - This total consisted of $7.8B in traditional middle-market lending for transactions below $100.0M and $17.6B for larger middle-market deals from $100.0M to $500.0M

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



Source: Thomson Reuters LPC.

Debt Multiples of Middle-Market LBO Loans



Source: Thomson Reuters LPC.

1. *Prudential*
2. *SIFMA*
3. *Guggenheim Partners*
4. *Thomson Reuters LPC*
5. *These multiples mostly reflect prices paid for larger private companies and generally do not account for smaller private company transactions that tend to change hands at much lower multiples and with lower debt ratios*

By Darrick Elliott
BKD, LLP

The IRS and Treasury Department released a proposed regulation that could limit taxpayers' ability to allocate income and expense items during a merger or acquisition of a corporation. Parties involved in an acquisition often negotiate which day items such as success-based fees and termination payments occur, allowing one party to benefit more from the resulting tax deduction. The rules apply to corporations joining or leaving a consolidated tax group. If finalized, the proposed regulation will remove the ability of transaction parties to negotiate certain tax deductions.

Under current regulations, a C corporation joins or leaves a consolidated group at the end of the day of acquisition. The change of ownership causes the acquired corporation's current tax year to end, and items occurring on or before the day of the acquisition closing are included on the acquired corporation's last tax return before joining the new group, even if the items relate to the acquisition.

The current regulations contain an optional "next-day rule" exception, allowing taxpayers to allocate items occurring after the acquisition is official to the next day—and to the new owner's tax return—if the item is paid or incurred after the acquisition's closing. This rule applies even if the item occurs before the end of the day of acquisition when the acquired company joins the buyer's tax group. The next-day rule gives the buyer and seller flexibility to negotiate who claims the deduction for termination payments and success-based fees, as long as the items are properly allocable to the portion of the day after the acquisition closing.

Under the exception, the parties generally allocate items happening before the acquisition closing to the acquired company's final return before joining the consolidated group and items occurring after closing to the buyer's return. However, under the current rules, the IRS will respect an allocation as reasonable if all parties to the acquisition treat the item consistently and allocate all items of income and deductions consistently. As such, the parties often analyze the relative value of the tax deductions, allocate where most favorable, and adjust the purchase price if appropriate.

The proposed regulation removes the optional application of the next-day rule and clarifies that the rule applies only to extraordinary items named in the Internal Revenue Code, not to other income and expense items. Extraordinary items include compensation-related expenses, abandonment and sale of unwanted assets, cancellation of debt income, and any remaining tax effects of net operating losses and change of accounting method adjustments. Under the proposed regulation, the next-day rule would no longer apply to extraordinary items becoming fixed and determinable before or at the same time as the acquisition closing. The proposed regulation clarifies that the IRS believes success-based fees qualify as a compensation-related expense.

Because the closing of the deal triggers termination payments and success-based fees, the acquired company would recognize these payments on its final return. The new rules preclude the buyer from deducting these expenses on their return. Similarly, the rules require that the buyer recognize the gain or loss on the sale of a division of the acquired company after the close of the acquisition, even if the division sale closes before the end of the day of acquisition. Current rules allow taxpayers the opportunity to allocate the proceeds of the sale to the acquired company's final return if the allocation more reasonably reflects the reality of the sale event.

The proposed regulation also creates a new rule requiring S corporations to allocate extraordinary items arising before or at the same time as the acquisition closing to the acquired company's last return before joining the group. This ensures that a company cannot structure as an S corporation to avoid the updated next-day rules. Further, the proposed regulation contains an anti-avoidance rule that allows the IRS to recast a transaction in which parties to an acquisition modified an existing contract to ensure an item is deductible by either the buyer or seller.

Rather than close the accounting books on the date of acquisition, current rules allow corporations to irrevocably elect to allocate tax items—other than extraordinary items—between the short tax years created by the acquisition event and the day after the acquisition closing. This allows companies with less sophisticated accounting systems to avoid the stress of a mid-year closing of accounting books. The proposed regulation does not change this election, but requests comments as to whether the rule should be eliminated. This suggests the IRS and Treasury Department are considering eliminating or modifying the rule in the final regulations.

If the IRS finalizes the proposed regulation without modification, taxpayers will lose flexibility in allocating transaction costs. There is no published timeline for when the IRS will finalize the regulation. Taxpayers should consult with their tax advisor if planning mergers or acquisitions to determine the impact on the transaction if the IRS finalizes the regulation prior to the close of the transaction.

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BKD, a top-tier CPA and advisory firm in the U.S., has approximately 2,250 dedicated professionals offering solutions to clients in all 50 states and internationally. BKD and its subsidiaries offer clients a variety of services in accounting, audit and assurance, tax, risk management, technology, corporate finance, forensics and valuation services, and wealth management.

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 $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.