Aramar
Capital Group, LLC

Middle Market Update

1st Quarter 2018

Gross Domestic Product

- The real U.S. GDP increased by an annualized rate of 2.3% in Q1 2018, down from the 2.9% rate in Q4 2017, primarily due to[1]:
  - Positive contributions from non-residential fixed investment, personal consumption expenditures, exports, private inventory investment, and federal, state, and local spending, partly offset by
  - Negative contributions from increases in imports

Consumer Income and Savings

- Real disposable personal income grew by 3.4% in Q1 2018, an improvement over the 1.1% growth in Q4 2017[1]
  - One-time bonuses and personal taxes increased by $30.0B and decreased by $115.5B, respectively, in January as a result of the recently passed tax reform
- The personal savings rate, expressed as a percentage of disposable income, was 3.1% in Q1 2018, up from 2.6% in Q4 2017[1]

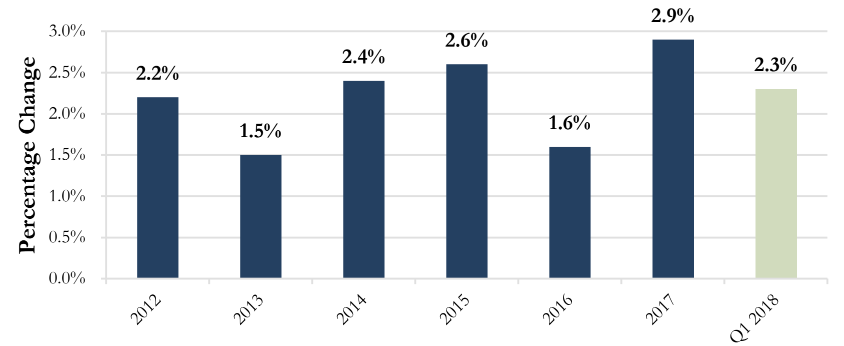
Federal Reserve

- The Federal Open Market Committee (FOMC) views recent economic activity as positive and expects economic activity to continue to expand in the medium-term, as supported by increases in household spending and business fixed investment[2]
  - During its March 2018 meeting, the FOMC decided to maintain the target range for the federal funds rate between 1.50% and 1.75%
- The committee expects that the near-term economic outlook will remain favorable, fueled by expanding economic activity, stable inflation, and strong labor markets[2]

Employment

- The U.S. unemployment rate was unchanged at 4.1% at the end of Q1 2018, leaving the total number of unemployed at 6.6 million[3]
- Average U.S. employee hourly wages rose by 2.7% from Q1 2017 to Q1 2018[3]
  - With historically low unemployment rates, the narrowing gap between available jobs and the number of unemployed persons has created upward pressure on wages[5]
  - This pressure has been mitigated by economic globalization, the decline of unions, and improvements in technology and automation

Real GDP Growth Since 2012 (annualized)



Source: U.S. Bureau of Economic Analysis

U.S. Treasury Securities

- The 10-year U.S. Treasury Note yield increased from 2.40% at the end of Q4 2017 to 2.74% at the end of Q1 2018[4]
  - The yield curve flattened further, with only a 47-basis-point spread between the 2- and 10-year securities

	Q2 2017	Q3 2017	Q4 2017	Q1 2018[5]
5-year Treasury Note	1.86%	1.85%	2.10%	2.56%
10-year Treasury Note	2.32%	2.29%	2.40%	2.74%
30-year Treasury Note	3.12%	3.00%	2.97%	2.97%
10-year Treasury Inflation Protected Security	0.44%	0.45%	0.50%	0.69%

Source: U.S. Department of Treasury

Outlook for 2018

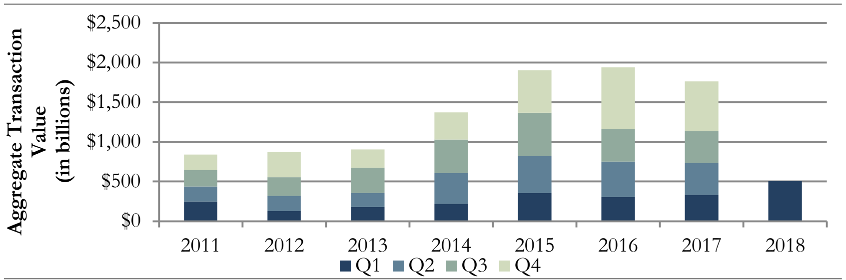
- Leading CEOs surveyed by Business Roundtable projected that the U.S. GDP will grow by 2.8% in 2018, an uptick of 0.3% from the previous quarter's forecast[5]
  - Business leaders are confident in the economy, as plans for hiring and capital investment are at record highs; the results reflect CEO optimism and confidence following the passage of the Tax Cuts and Jobs Act
- The International Monetary Fund predicts that the global economy will increase by 3.9% in 2018, the fastest rate since 2011[6]

1. *U.S. Bureau of Economic Analysis*
2. *U.S. Federal Reserve*
3. *Bureau of Labor Statistics*
4. *Baird*
5. *Business Roundtable*
6. *The Wall Street Journal*

Mergers and Acquisitions and Private Equity

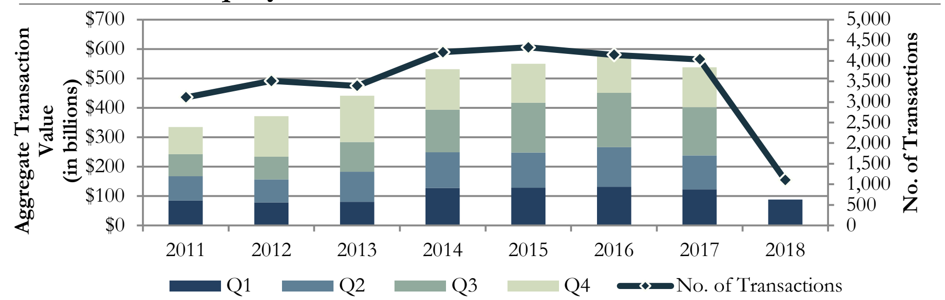
- Global mergers and acquisitions (M&A) activity reached $890.7B across 3,774 transactions, up 18.0% in value from the $754.7B across 4,672 transactions in Q1 2017[1]
  - The surge in M&A deals seen at the end of 2017 has carried through into 2018, as global M&A hit its highest first quarter value since 2001
  - The boost in M&A deal value can be attributed to large technology companies diversifying their offerings, more traditional firms engaging in defensive consolidations, U.S. corporate tax cuts, and a stable European economy
- U.S. M&A volume totaled $393.9B in Q1 2018 across 1,148 deals, 26.1% above the $312.4B over 1,453 transactions in Q1 2017[1]
  - The increase in volume can be attributed to the expansion of technology firms into other sectors as well as the increase in strategic acquisitions due to excess cash flow realized by companies from the recent tax reform
  - In Q1 2018, the U.S. share of global M&A by deal count was 30.4%, down slightly from 31.1% in Q1 2017
  - Two prominent themes in the M&A landscape are private equity-backed deals and deals between public and private companies, reflected in Blackstone's $17.0B carveout of Thomson Reuter's financial and risk business and Keurig Green Mountain's $23.1B take-private of Dr. Pepper Snapple[2]
- Cross-border M&A activity fell by 21.2% in Q1 2018 to $280.4B, compared with $355.8B in Q1 2017[1]
  - The Trump administration has shown a willingness to block deals on national security grounds, with increasingly protectionist policies aimed largely at China
  - U.S. inbound M&A from China fell to $1.1B in Q1 2018, a 42.9% drop from the Q1 2017 value of $2.0B

U.S. M&A Activity



Source: FactSet

U.S. Private Equity Deal Flow



Source: PitchBook

- U.S. private equity (PE) deal value was $88.8B across 1,101 deals in Q1 2018, 32.8% and 4.0% decreases, respectively, from Q1 2017[2]
  - Deal flow is expected to tick upward in the coming months due in part to 124 deals worth an estimated $94.3B that have been announced but not yet closed in 2018
  - Add-on acquisitions accounted for 67.9% of all buyout activity in Q1 2018, indicating that the buy-and-build strategy has become increasingly popular as competition has intensified for private assets
- U.S. middle-market PE firms completed 619 deals worth $53.6B in Q1 2018, a 17% increase and 40% decrease, respectively, compared with Q1 2017[2]
  - More deals but less capital signals a shift toward smaller transactions; the median middle-market deal size was $170.0M in Q1 2018, down from $188.4M in 2017
  - 88.4% of the middle-market deals in Q1 2018 were transactions with enterprise values (EVs) below $500M
- Middle-market PE firms raised $29.0B across 36 funds in Q1 2018, in line with recent middle-market trends[2]
  - Fundraising for mega-sized vehicles of $5.0B or more slowed in the beginning of the year, resulting in 79.2% of the capital raised in Q1 2018 coming from middle-market funds, up from 52.4% in 2017
- Median middle-market EV/EBITDA multiples reached 8.3x in Q1 2018[3,4]
- After totaling at least $20.0B in 16 of the past 17 quarters, U.S. PE-backed middle-market exit value dipped to $11.9B across 165 exits in Q1 2018, representing 42.5% and 26.0% decreases, respectively, from Q1 2017[2]
  - Secondary buyouts accounted for approximately 50% of middle-market exits in 2016 and 2017, a trend that remained unchanged in Q1 2018

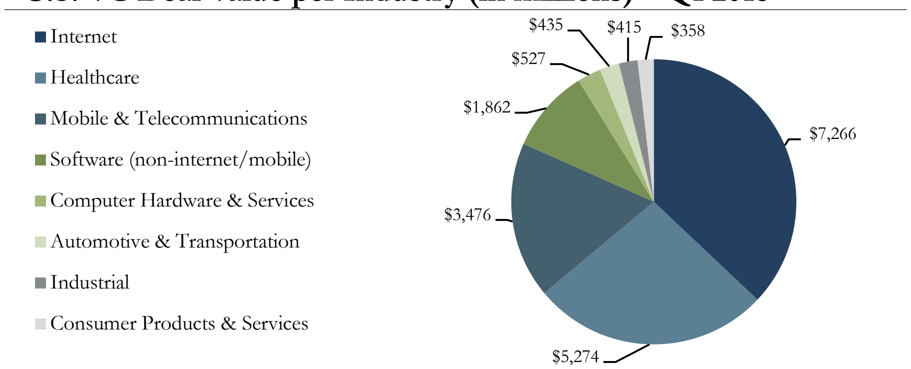
1. *Mergermarket*
2. *PitchBook*
3. *FactSet*
4. *These multiples reflect prices paid for mainly public companies and do not account for smaller private company transactions (for which there typically are no publicly available data) that tend to change hands at much lower multiples*

Venture Capital, PIPEs, and Corporate Earnings

Venture Capital Investing

- In Q1 2018, transactions for venture capital (VC)-backed companies in the U.S. totaled 1,206 deals valued at $21.1B, a year-over-year increase in value of 38.8% and decrease in volume of 12.0%[1]
  - The industry continues its trend of deploying more capital across fewer transactions, as larger expansion- and later-stage deal share increased to 37% of total deal activity in Q1 2018, up from 32% in Q4 2017
  - Increasing deal sizes can be partly attributed to the sustained momentum in VC fundraising, which has resulted in a combined $160B raised since 2014, including approximately $8B raised in Q1 2018[2]
  - Mega-round investment (capital raise rounds of $100M or more) activity continues to remain strong, as 34.6% of total VC dollars raised in Q1 2018 came from 34 mega-round investments
  - Strategic companies' participation in VC deals remained constant at 25% of all U.S. deals in Q1 2018, as acquisitions of startups continue to be an important source of growth for corporations
- The VC exit environment for Q1 2018 was relatively weaker than during the same period last year, with $8.1B in exit volume across 188 deals, representing a 19% year-over-year decrease in deal count[2]
  - Larger VC deals tend to supply VC-backed companies with a longer cash runway and can potentially decrease the sense of urgency to exit

U.S. VC Deal Value per Industry (in millions) – Q1 2018

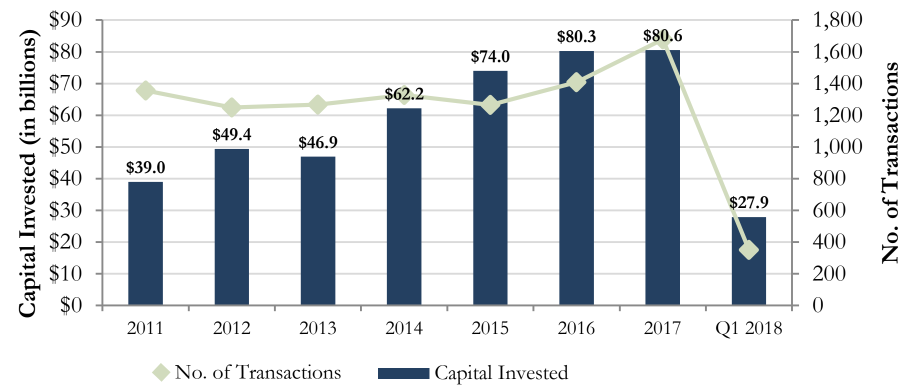


Source: MoneyTree Report

PIPE Investing

- Approximately 350 private-investment-in-public-equity (PIPE) deals totaling $27.9B closed in Q1 2018, a 27% increase over Q4 2017 volume and the most quarterly capital raised in the past 10 years[3]
  - Largely due to the promising Canadian regulatory landscape, Canadian cannabis company offerings saw a dramatic increase with 50 closed deals in Q1 2018
- The healthcare sector saw the largest number of PIPEs with over 150 deals in Q1 2018, while the technology sector generated the most amount of capital raised at over $7B[3]

U.S. PIPE Activity



Source: DealFlow Report

Corporate Earnings

- S&P 500 company earnings for Q1 2018 are on pace to increase 24.9% year-over-year, which would mark the highest increase since Q3 2010[4]
  - Of the 91.0% of S&P 500 companies that have reported earnings thus far, 78.2% have met or exceeded their consensus EPS estimates
  - Leading all sectors with a year-over-year earnings growth of 95.0%, the energy industry's growth was due to the significant increase in oil prices and the unusually low earnings experienced in Q1 2017

1. *PricewaterhouseCoopers*
2. *PitchBook*
3. *The Deal*
4. *FactSet*

Debt Capital and IPO Markets

Debt Capital

- The Barclays U.S. Aggregate Bond Index recorded a 1.46% loss during Q1 2018, a decrease from the 0.39% return in Q4 2017[1]
  - Investors are becoming increasingly wary of rising interest rates as the Federal Reserve continues its quantitative tightening efforts, which are draining liquidity from the market and ultimately leading to increased volatility
- The Barclays Investment Grade U.S. Corporate Bond Index generated a loss of 2.32% in Q1 2018, below the 1.17% return in Q4 2017[1]
  - Despite favorable economic fundamentals, U.S. corporate bonds weakened in Q1 2018 due to rising interest rates, market volatility, political and trade policy rhetoric, and a shift in investor sentiment to reduce risk
  - Investor demand remains supportive as new issues were oversubscribed during the quarter, although excess supply to fund acquisitions weighed on the market, and longer-term issuances rose as a result of a flattening of the corporate yield curve
- Total U.S. bond issuances reached $1,687.4B in Q1 2018, a 9.2% decrease from the Q4 2017 level of $1,859.4B and a 15.1% decrease from the Q1 2017 level of $1,987.1B[2]
  - The largest contributing factor to this decrease was the sharp decline in municipal and asset-backed bond issuances, which fell 59.1% and 33.2%, respectively, to a total of $63.3B and $77.8B, respectively
  - U.S. corporate bond issuances in Q1 2018 increased slightly relative to Q4 2017, driven by an increase in investment-grade debt of 22.0%, which was offset by a decrease in high-yield debt of 10.4%; total investment-grade and high-yield issuances in Q1 2018 were $261.6B and $68.8B, respectively

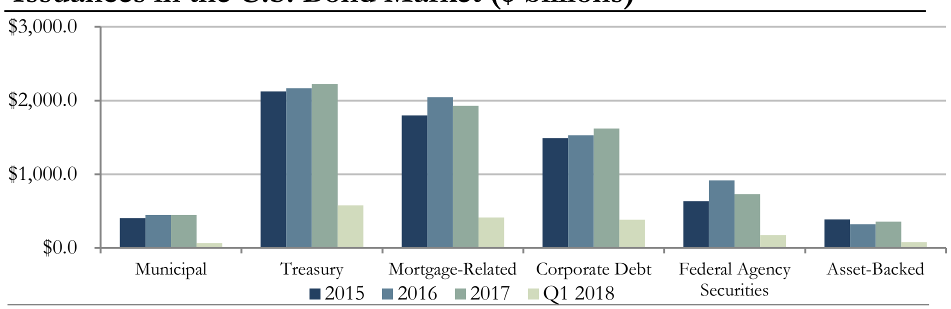
Middle-Market Lending

- Total U.S. middle-market lending in Q1 2018 was $32B, a 27.2% decrease from the prior quarter's issuance level of $44B[3]
  - The new issuances were most pronounced in the larger segment of the middle market ($100M to $500M), accounting for 84% of Q1 2018 volume
  - The technology sector led the way for new issuance volume, comprising $8.6B or 13.9% of the total
  - A rising LIBOR rate helped offset previous contractions to average yields on newly issued loans, with large corporate-credit yields and middle-market yields increasing 5.0% and 6.2%, respectively, in Q1 2018
- The average debt-to-EBITDA level for broadly syndicated LBO transactions stayed constant at 6.5x in Q1 2018 relative to Q4 2017[3]
  - The debt-to-EBITDA ratio for institutional middle-market LBOs increased to 6.0x in Q1 2018, up slightly from 5.9x in Q4 2017
- U.S. leveraged loan volume decreased 33.0% from $220B in Q4 2017 to $148B in Q1 2018, yet lending activity remains historically high[3]

IPO Market

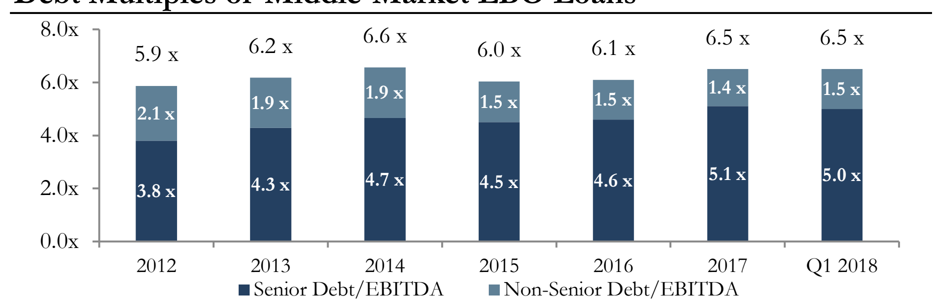
- In Q1 2018, 287 companies went public globally, raising $42.8B in proceeds, a year-over-year decrease of 27% in deal volume and an increase of 28% in proceeds[4]
  - Despite 2017 recording the highest IPO since 2007, Q1 2018 experienced a decrease in IPO activity as activity in February was dampened due to market volatility and a rise in U.S. Treasury rates

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



Source: SIFMA

Debt Multiples of Middle-Market LBO Loans



Source: Thomson Reuters LPC

1. *Prudential*
2. *SIFMA*
3. *Thomson Reuters LPC*
4. *Ernst & Young*

What Facebook's Data Changes Mean for Middle-Market and PE Portfolio Companies

By Jenny Son, General Manager, Social Media, Wpromote

Navigating the Future of Facebook

Facebook's recent policy changes have left digital marketers, brands, agencies, and media companies to question where the dust is going to settle. We have seen many companies take a "wait and see" approach and in some extreme cases even quit the platform altogether.

For high-growth PE-backed and owner-operator-controlled companies, success is dependent on the ability to act with agility in spite of change and adapt to ever-evolving digital landscapes quickly and at scale. While other companies with expansive media budgets can afford to take a back seat and wait for the impact to reach them, PE-backed and owner-operator-controlled companies must be pioneers if they want to remain competitive and capitalize on opportunity.

Evaluating the Aftermath

Despite concerns and predictions that wavering consumer trust would trickle down to decreased use, Facebook's current daily active users and monthly active users are massive and huge opportunities remain across Facebook's family of apps. The recent changes do, however, strive to put the control of data into the hands of consumers in more ways than we could have anticipated.

Huge Opportunities Remain for Companies that Know How to Navigate and Adapt

Here are the Top Three Changes to Facebook You Need to Know:

1. *Audience Insights Tool:*

   You can no longer use the tool with Custom Audience Data. The tool still exists and can be used for insights into people connected to your page and other general groups of people based on interests, location, life events, etc.

2. *Custom Audiences:*

   You can no longer see reach estimates for the custom audiences within a variety of Facebook tools (Ads Manager, Campaign Planner, Dynamic Ads, Delivery Insights, Audience Insights, Reach & Frequency, Audience Manager, and Ads API). In the coming months, Facebook will be implementing a custom audience permissions tool to enable advertisers to work with services providers (such as agencies) to manage audiences on their behalf (Q2 2018).

3. *Third-Party Data Access:*

   You can no longer use Partner Categories (audiences created by third-party data providers) as a targeting solution (May 25, 2018 for the EU and October 1, 2018 for the U.S.). As of July 1, 2018, you will also no longer have third-party API access directly to Facebook.

How PE-portfolio and Owner-Operator-Controlled Companies Need to Structure Their Facebook Acquisition Efforts to Take Advantage of These Changes

Strategy: Holistic Brand Planning

- Plan ahead to develop a comprehensive strategy, including brand messaging, persona development, value propositions, and creative direction
- Use social listening tools to gain insights on custom audiences

Creative: Disruptive Development

- Design for each platform and follow best-practice guidelines to enhance performance
- Be intentional with the design aesthetic, messaging, and goals

Ads: Testing, Units, and Placement Diversity

- Test a variety of creative and audiences
- Use audience response to performance KPIs to inform direction rather than rely on insights to inform direction
- Test a variety of ad units and placements in order to explore untapped opportunities that resonate with various audiences and serve ads where the audience prefers to consume media (Facebook, Instagram, Audience Network, Messenger, etc.)

Dynamic: Trust Real-Time User Behavior Signals

- Build a first-party data strategy to get the best advertising performance
- Optimize your pixel and feed
    - Implement sophisticated pixel tracking – both measurement and targeting
    - Invest resources into the product feed to ensure you are serving the best content to retargeting and prospecting audiences
- Use dynamic ads for broad audiences

Maintaining Brand Trust in Light of Recent Events

While these kinds of changes can cause marketing headaches, you can navigate changes and take advantage of new opportunities with the right strategy. Without leveraging the right social media opportunities, you may be missing out on potential growth.

About the Author

Wpromote is the leading digital marketing agency for PE-backed portfolio companies, driving customer acquisition through multi-channel, content-centric campaigns. The company's team is comprised of dedicated experts across every social and digital channel, including paid search and media, SEO and content marketing, paid and earned social, email marketing, creative services, and digital marketing intelligence.

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.