Aramar
Capital Group, LLC

Middle Market Update

2nd Quarter 2016

Second Quarter Economic Performance and Future Outlook

Gross Domestic Product

- The real U.S. GDP increased at an annualized rate of 1.2% in Q2 2016, up from the 0.8% rise in Q1 2016[1]
  - Positive contributions from personal consumption expenditures and exports were partially offset by decreases in private inventory investments, residential/non-residential fixed investments, and state/local government spending, leading to a slight increase in real GDP for the quarter

Consumer Income and Spending

- Real disposable personal income grew 1.2% in Q2 2016, a decelerated pace from the 2.2% growth in Q1 2016[1]
- The personal savings rate, as a percentage of disposable personal income, reached 5.5% in Q2 2016, down from 6.1% in Q1 2016[1]
- The strong dollar and stagnant global demand continue to restrain U.S. economic growth, but Fed officials are optimistic for H2 2016[2]

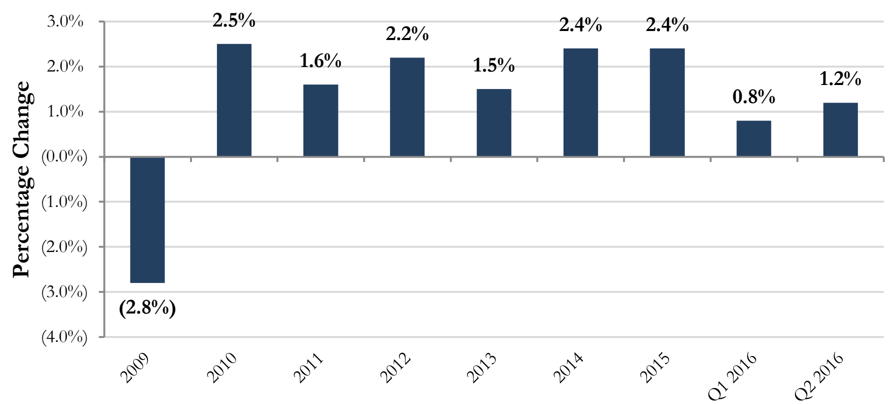
Federal Reserve

- In the most recent Federal Open Market Committee (FOMC) meeting held in June, the Committee stated that economic activity had been expanding at a moderate pace and that the labor market had strengthened, which is what the Committee had predicted at its April meeting[3]
- The FOMC decided to maintain the target range for the Federal Funds Rate at 0.25% to 0.50%, with an accommodative monetary policy to support further improvement in the labor market and a return to 2.0% inflation[3]

Employment

- The unemployment rate decreased slightly from 5.0% in Q1 2016 to 4.9% at the end of Q2 2016, with the number of unemployed persons also decreasing, from 8.0 million to 7.8 million for the same period[4]
  - Job gains in Q2 2016 occurred mainly in education and health services, professional and business services, and financial activities, while employment in mining and logging continued to decrease since reaching its peak in Q3 2014
- Workers still seem discouraged, as the labor force participation rate decreased to 62.7% in Q2 2016 from 63.0% in Q1 2016, remaining far below the 66.4% participation rate prior to the Great Recession[4]

Real GDP Growth Since 2009



Source: U.S. Bureau of Economic Analysis

U.S. Treasury Securities

- U.S. corporate bonds continue to be the global safe haven, accounting for 12% of worldwide investment-grade debt and 33% of investment-grade income[5]

	Q3 2015[6]	Q4 2015[6]	Q1 2016[6]	Q2 2016[6]
5-year Treasury Note	1.62%	1.66%	1.44%	1.29%
10-year Treasury Note	2.30%	2.29%	2.01%	1.82%
30-year Treasury Note	3.21%	3.21%	2.96%	2.81%
10-year Treasury Inflation Protected Security (TIPS)	0.56%	0.66%	0.48%	0.19%

Outlook for 2016

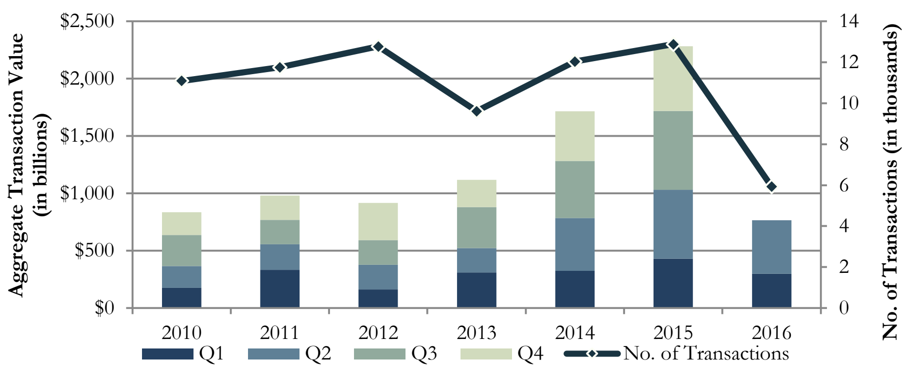
- PwC predicts the Fed will raise interest rates within the next 12 months, following the presidential election in November and after the global economy adjusts to the U.K.'s decision to leave the EU[7]
- The Business Roundtable CEO Economic Outlook Survey results indicate that U.S. CEOs believe the economy is performing below its potential and expect the real GDP to grow by 2.1% in 2016, a decline from their Q1 2016 estimate of 2.2%[8]

1. *U.S. Bureau of Economic Analysis*
2. *Baird*
3. *U.S. Federal Reserve*
4. *Bureau of Labor Statistics*
5. *Bank of America Merrill Lynch*
6. *U.S. Department of the Treasury*
7. *PricewaterhouseCoopers*
8. *Business Roundtable*

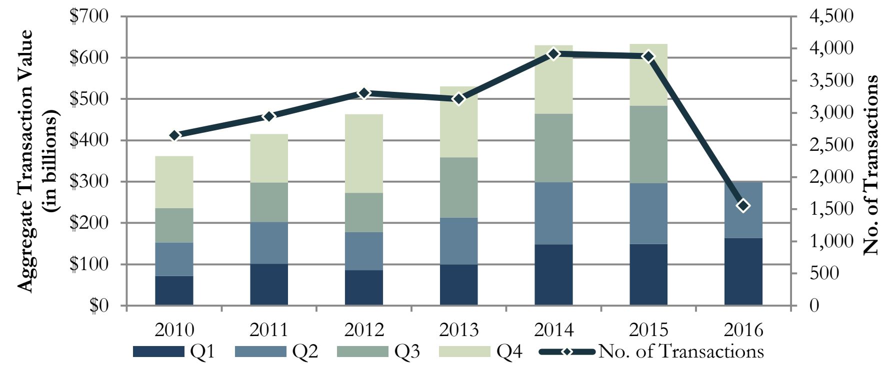
Mergers and Acquisitions and Private Equity

- Global mergers and acquisitions (M&A) activity reached $1.3T across 7,794 deals in H1 2016, a decrease of 26.8% and 10.7%, respectively, from $1.8T across 8,730 deals in H1 2015[1,2]
  - The general cooling off from last year is a result of government antitrust action, geopolitical and economic uncertainty, and market volatility
  - However, Chinese buyers upped their outbound M&A volume in H1 2016 to $146.3B, already far surpassing the $106.2B level for all of 2015; this was spurred by their technological transformation, a maturing economy and slowing organic growth, and a supportive financing environment
  - Technology led global M&A for the first time on record with a value of $294.8B, the second highest H1 volume in the technology sector since the year 2000, which saw $304.6B
- M&A activity in North America witnessed 2,495 deals valued at $594.2B in H1 2016, down 14.3% and 32.1%, respectively, as compared with 2,911 deals worth $874.8B in H1 2015[1]
  - While H1 2016 did witness the lowest first half in M&A value since H1 2013, the period's volume was higher than that of any H1 from 2008-2013
  - Pharmaceuticals, medical, and biotechnology was the most prolific sector in North America for the first half of this year with 258 deals worth $110.0B
- Only 16 megadeals (over $10B in value) were announced in H1 2016, as compared with 24 in H1 2015 and a record 35 in H2 2015[2]
- The $606.4B value of withdrawn M&A deals is the highest H1 total recorded and more than double the $233.3B withdrawn in H1 2015[2]

U.S. M&A Activity



Source: FactSet



Source: PitchBook

- U.S. private equity (PE) investments totaled $298.4B in H1 2016 across 1,555 transactions, up 0.8% but down 20.8%, respectively, relative to $295.9B across 1,963 deals that closed in H1 2015[3]
- U.S. add-on acquisitions have experienced continued growth in their proportion of deal activity since 2006, representing 64.2% of all buyouts during H1 2016, up from 61.2% for 2015[3]
- The number of U.S. PE deals between $25M and $100M reached 392, accounting for 25.2% of all activity in H1 2016, the highest proportion since 2012[3]
  - Large buyout activity has fallen as PE firms are reluctant to be aggressive with the pending U.S. presidential election, the fallout from the Brexit vote, and the softening of general economic results, thus strengthening activity in the more reasonably-priced middle market
- In line with the 2015 average, PE firms paid an average of 6.7x EBITDA, according to the most recent 2016 data for middle-market transactions (classified as $10M to $250M in total enterprise value)[4]
- With ongoing success in fundraising, PE dry powder continues to grow, reaching a record $818B in June 2016[5]
- Sovereign wealth funds, pension funds, and family-office investment firms bought 17% of assets sold by PE firms in H1 2016, far surpassing the 2% figure for 2007[6]

1. *Mergermarket*
2. *Dealogic*
3. *PitchBook*
4. *GF Data*
5. *Preqin*
6. *Goldman Sachs*

Venture Capital and PIPEs

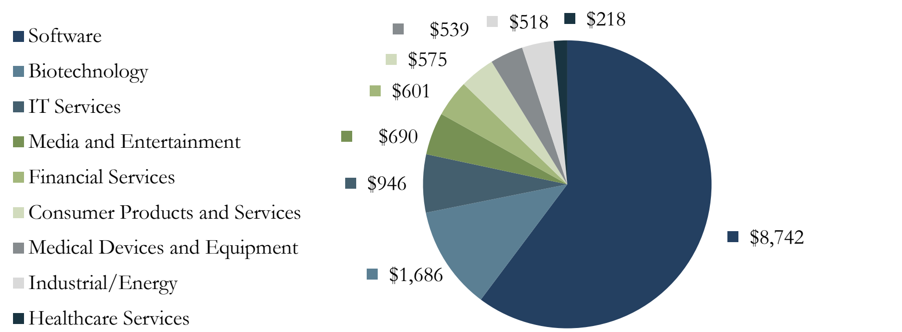
Venture Capital Investing

- In Q2 2016, the venture capital (VC) industry invested $15.3B in 961 deals, an increase of 20.5% in value and decrease of 5.0% in transactions, as compared with $12.7B across 1,011 transactions in Q1 2016[1]
  - Q2 2016 marked the 10th consecutive quarter with $10B or more invested in VC transactions
  - Venture capitalists have been successful in fundraising, but have grown more cautious due to global economic uncertainty and a soft IPO market, focusing more dollars on fewer deals involving companies at advanced stages of development
- For the 27th straight quarter, the software industry received the largest amount of funding, with $8.7B invested through 379 deals in Q2, a 69.9% rise in value despite a 4.3% decrease in number from Q1 2016[1]
- The value of follow-on investments increased by 25.3%, while first-time investments decreased by 8.1%[1]
- There were 30 IPOs in Q2, up from 9 in Q1, but the year is still on track to be the slowest since the most recent financial crisis due to sharp stock market fluctuations, the poor showing of 2015 IPO stocks (which were down 11% from their offering prices, as compared with the 16% increase for 2016 IPO stocks), and lackluster performance by funds that purchase new issues[2]

PIPE Investing

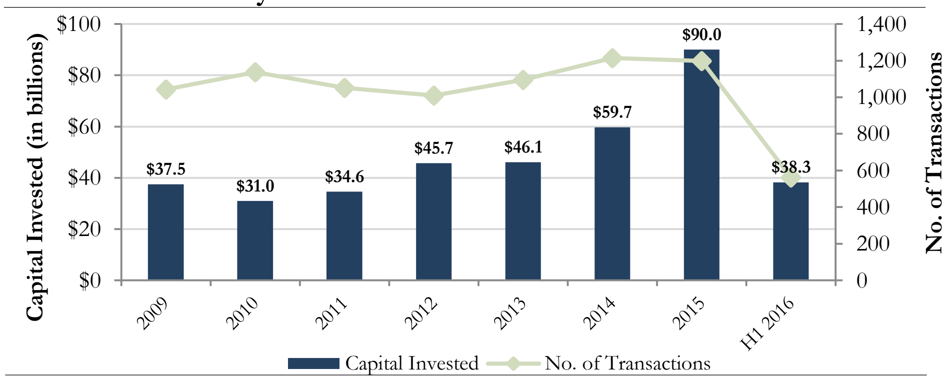
- $26.0B was raised across 345 private-investment-in-public-equity (PIPE) transactions that were announced or completed in Q2 2016, a 12.8% increase in value from Q2 2015[3]
  - Q2 witnessed the largest quarter for PIPE transactions since Q1 2008, which had $43B in PIPEs; this quarter's biggest increase in offerings came from companies with market capitalizations below $50M, encompassing 156 transactions and representing an increase of greater than 50%
- Healthcare PIPEs accounted for the majority of deals at 132, a 46.7% increase compared with 90 in Q1 2016[3]
- Media PIPEs unexpectedly experienced the most dollar activity with $9.5B raised, as compared with $151M last quarter[3]
  - Energy, last quarter's leading sector, experienced an increase to $5.0B raised, with the majority of these capital raises below $50M
  - All of these energy PIPEs below $50M involved actual raises of capital, as opposed to ATM (at-the-market) offerings, which do not necessarily raise any capital upon announcement or thereafter
- Sabby Management was the most active investor, with 12 investments in PIPEs[3]

VC Deals Per Industry (in millions)



Source: PricewaterhouseCoopers

U.S. PIPE Activity



Source: PrivateRaise/DealFlow/The Deal

1. *PricewaterhouseCoopers*
2. *Dealogic*
3. *The Deal*

Debt Capital

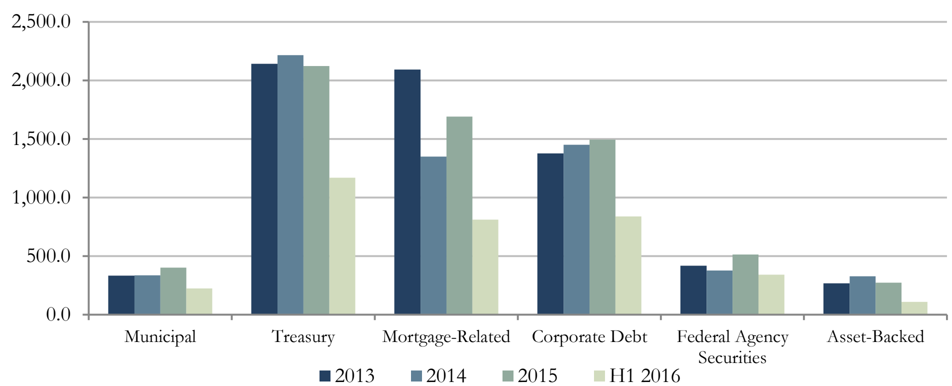
Debt Capital

- The Barclays U.S. Aggregate Bond index posted a 2.2% return in Q2 2016, a slight decrease from the 3.0% return in Q1 2016[1]
  - Relative trepidation in the U.S. financial markets came into play after Brexit, which further slowed European growth and made the Federal Reserve reluctant to raise interest rates, posing a greater threat to global economic stability if other nations were to follow suit
- The Barclays Investment Grade U.S. Corporate Bond index generated a positive return of 3.6% in Q2 2016, marginally below the 4.0% return in Q1 2016, but promising compared with the negative 0.7% return experienced during all of 2015[1]
  - Global quantitative easing coupled with slow and stable conditions in the U.S. have compelled investors to continue looking for higher yields
- Total debt issuances increased 14.7% in Q2 2016 reaching $1.9T, up from $1.6T during Q1 2016[2]
  - The overall increase was driven largely by a 27.9% rise in mortgage-related debt issuances, which reached $455.7B in Q2 2016, up from the $356.4B issued in Q1 2016
- U.S. investment-grade corporate bond issuances decreased 1.7% to $356.3B in Q2 2016 from $362.5B in Q1 2016[2]
- The Credit Suisse High-Yield Bond and Leveraged Loan indices posted gains of 5.9% and 2.9%, respectively, in Q2 2016[3]
- A drop in shadow lending is tightening credit on Main Street; bonds backed by personal, corporate, and real-estate loans fell $98.0B, or 37% in H1 2016, versus the year-earlier period, due to an investor flight to safety, regulation requiring producers to hold some of the securities they create, and uncertainty due to Brexit[4]

Middle-Market Loan Issuances

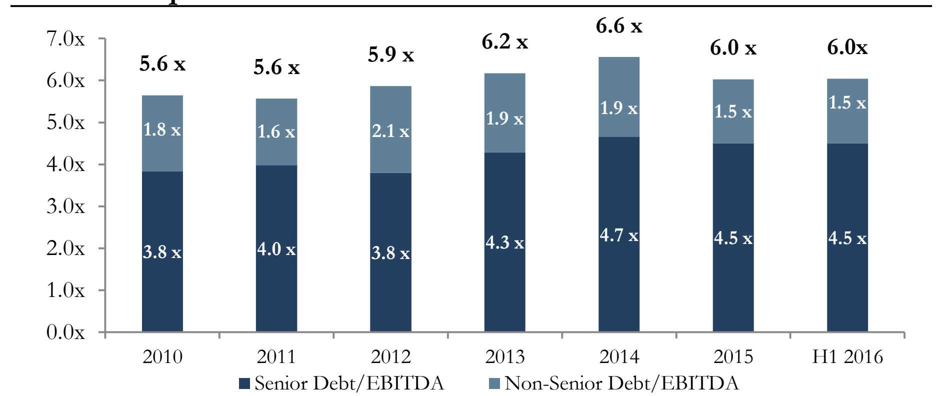
- Total middle-market lending reached $53B in H1 2016, a decrease from $71B in H1 2015[5]
  - The volume is comprised of $39B in large middle-market loan issuances (classified as $100M to $500M in deal size) and $14B in traditional middle-market loan volume (deals less than $100M)
  - Overall leveraged loan issuance in Q2 2016 was up 64% from Q1 2016 due to an increase in institutional issuances, which rose to $108B in Q2 2016 from $91B in Q1 2016
- New issue yields tightened further to 6.3% for middle-market loans in Q2 2016 from 7.3% in Q1 2016[5]
  - The top industry in terms of leveraged loan issuance was technology, followed by retail and healthcare

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



Source: SIFMA

Debt Multiples of Middle-Market LBO Loans



Source: Thomson Reuters LPC

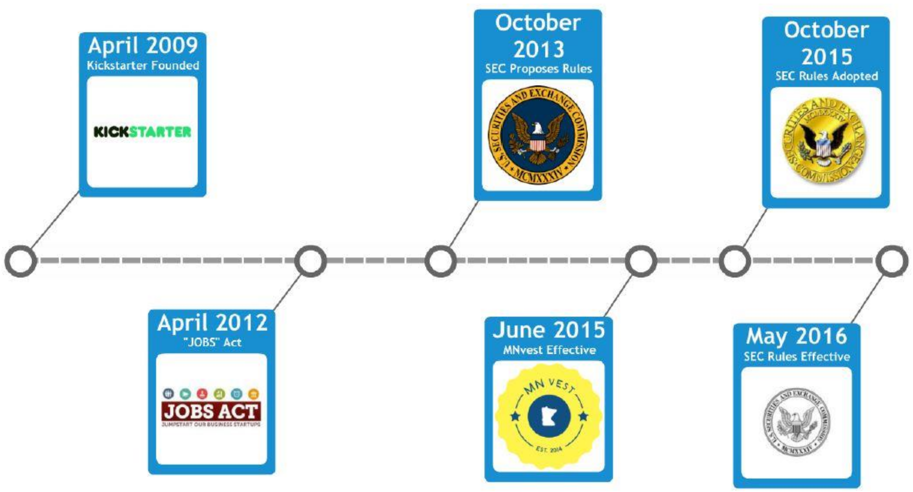
1. *Prudential Financial*
2. *SIFMA*
3. *Guggenheim Partners*
4. *Asset-backed Alert*
5. *Thomson Reuters LPC*

Equity Crowdfunding Finally Has Arrived

By JUX Law Firm

Equity crowdfunding has been in the gestation stage for many years. Congress first paved the legal way when it enacted the Jumpstart Our Business Startups ("JOBS") Act in April 2012. Equity crowdfunding – the sale of equity securities by a business to the "crowd" through an internet portal – differs greatly from the now mainstream capital-raising activity known simply as crowdfunding, where all sorts of organizations, projects, or people can use the power of websites like Kickstarter and Indiegogo to raise money for projects, causes, or organizations. While the JOBS Act ordered the Securities and Exchange Commission (SEC) to promulgate rules and regulations for equity crowdfunding, the SEC has been slow to act. The SEC's slow implementation of workable equity crowdfunding rules and regulations inspired many states, including Minnesota, to enact state equity crowdfunding legislation.

From start to "implementation," the road of equity crowdfunding has taken years.



So has equity crowdfunding's time truly come?

The SEC's final rules on equity crowdfunding became effective on May 16, 2016. The key provisions are as follows:

- **$1 Million Limit.** Companies can raise up to $1 million in a 12-month period through equity crowdfunding. If a company wants to raise more money, there are still other options, such as Regulation A+ mini-IPOs, which are initial public offerings of up to $50 million with less burdensome disclosure and fee requirements and open to accredited and non-accredited investors.
- **Investor Limits.** An individual member of the crowd can invest: (a) the greater of $2,000 or 5 percent of the lesser of his or her annual income or net worth, if either the annual income or the net worth of the investor is less than $100,000, and (b) 10 percent of the lesser of his or her annual income or net worth, if both the annual income and net worth of the investor is equal to or more than $100,000. In either case, an investor may not invest more than an aggregate amount of $100,000 in one year.
- **Risk of Forfeiture.** If a company attempting to raise money through equity crowdfunding does not secure the full amount of its funding goal, the company does not get to keep *any* of the money raised and loses out-of-pocket up-front costs.
- **Financial Statement Requirements.** A company seeking money through equity crowdfunding must have reviewed financial statements in order to raise more than $100,000 and fewer financial disclosure requirements when raising less than $100,000.
- **Disclosure Requirements.** A company must disclose to investors (and file with the SEC) the price of the equity securities sold, the method for determining the price, the target offering amount, the deadline to reach the target, and whether the company will accept investments in excess of the target. Disclosure must also include a discussion of the company's financial condition, a description of the business and the use of proceeds from the offering, information about officers and directors and owners of 20 percent or more of the company, and annual financial statements.

- **No Secondary Market.** Much like most shares sold through private placements, the shares in equity crowdfunding cannot be sold (in most circumstances) by investors for at least one year. There is no marketplace or exchange for these shares and, in all likelihood, never will be unless a company registers with the SEC and becomes a public company.
- **Crowdfunding Portals.** A company raising money in reliance on the equity crowdfunding rules must conduct its offering through a registered funding portal and must conduct its offering exclusively through only one intermediary platform at a time. There are complicated rules and compliance obligations for crowdfunding portals.
- **Liability for Misrepresentations.** Equity crowdfunding involves the sale of securities, and not just pre-selling a gadget like on Kickstarter. The federal and state laws that govern the sale of securities still apply, so if a company is untruthful in its materials or disclosures or otherwise violates these laws, the company (and its officers and directors) can be sued, and in some cases these officers and directors can face criminal prosecution.

An opportunity for startups to raise capital by way of the sale of equity securities through the internet (and to non-accredited investors) has never existed before. It goes without saying that there will be costs (some substantial) to equity crowdfund a startup business. Legal fees, compliance costs, funding portal fees, broker-dealer fees, and marketing expenses will add up. It will take entrepreneurial-minded attorneys offering affordable services and innovative businesses offering compliance services for a reasonable cost for equity crowdfunding to take hold. In the near term, however, capital probably will still be out of reach for most young companies.

About the Authors

JUX Law Firm is a progressive, pioneering business law firm based in Minneapolis. JUX provides actionable knowledge to meet clients' immediate and long-term needs in practice areas such as business guidance, corporate law, contracts, litigation, intellectual property, and estate planning.

JUX attorney Kim Lowe is a locally and nationally recognized transactional lawyer specializing in advising entrepreneurs and businesses in the for-profit, nonprofit, and social enterprise sectors. With 18 years of transactional legal practice as well as extensive leadership and business experience, Lowe brings to her clients sophisticated options for all aspects of the business life cycle from formation to operation to exit.

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.