Aramar
Capital Group, LLC

Middle Market Update

4th Quarter 2014

Fourth Quarter Economic Performance and Future Outlook

GDP

- Real GDP grew 2.6% in Q4 2014, a decrease from the 5.0% increase in Q3 2014 and short of the consensus estimate of 3.0%[1]
- The deceleration in real GDP growth primarily reflected an upturn in imports, a downturn in federal government spending, and a slowdown in nonresidential fixed investment[1]
  - Real imports of goods and services increased 8.9% in Q4 2014, in contrast to a decrease of 0.9% in Q3 2014
  - Real federal spending shrunk 7.5% in the Q4 2014, a sharp turnaround from the 9.9% growth in Q3 2014
  - Real nonresidential fixed investment advanced 1.9% during Q4 2014, as compared with an 8.9% bump in Q3 2014

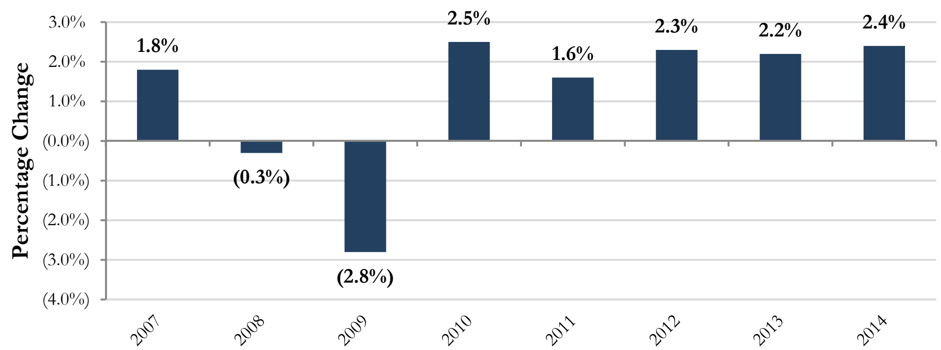
Consumer Spending

- The growth in consumer spending, which fuels roughly two-thirds of the economy, accelerated from Q3 2014 to Q4 2014, supported by momentum in consumer confidence and a strong holiday season[1]
  - Real personal consumption expenditures grew 4.3% in Q4 2014, faster than the 3.2% recorded in Q3 2014

Outlook for Early 2015

- Boosted by a strengthening job market and lower oil prices, U.S. GDP is projected to grow 3.2% in 2015, the fastest pace since 2005[2]
  - Consumers thus far have shown caution with their newfound gas savings, with surveys showing roughly half of the savings being set aside, 25% being used to pay down debt, and the remainder being spent on small purchases[3]
  - The U.S. will face headwinds this year from vulnerable overseas economies like China and Russia, exacerbated by a vastly diminished ability of the U.S. to positively influence the global economy, as our nation accounted for only 22.0% of global GDP and 13.0% of global imports, down from 32.0% in 2002 and 16.0% in 2005, respectively[4]

Real GDP Growth Since 2007



Source: Bureau of Economic Analysis.

Employment

- In January, the civilian labor force expanded by 703,000, and the labor force participation rate rose from 62.7% to 62.9%, which drove the unemployment rate's slight uptick from 5.6% to 5.7%[5]

U.S. Treasury Securities

- The Treasury yield curve flattened significantly in Q4 2014, with longer-term rates driven down by lower inflation expectations and shorter-term rates depressed by a growing anticipation that the Federal Reserve will hike rates in mid-2015[6]

	Q1 2014[7]	Q2 2014[7]	Q3 2014[7]	Q4 2014[7]
5-year Treasury Note	1.7%	1.6%	1.8%	1.7%
10-year Treasury Note	2.7%	2.5%	2.5%	2.2%
30-year Treasury Note	3.6%	3.4%	3.2%	2.8%
10-year Treasury Inflation Protected Security (TIPS)	0.6%	0.3%	0.6%	0.5%

Federal Reserve

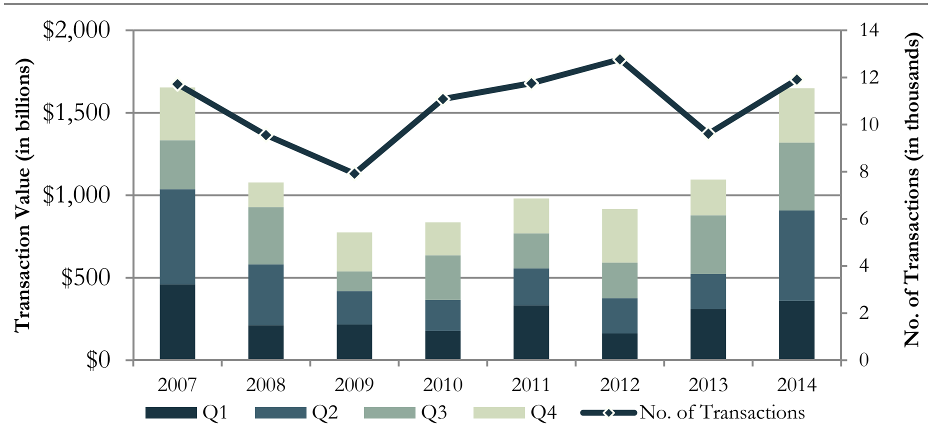
- Amid low inflation readings of 0.8% in December and expectations of a further decline, the FOMC reaffirmed in January that the target range for the federal funds rate of 0.0% to 0.3% was appropriate[8]

1. *U.S. Bureau of Economic Analysis*
2. *PricewaterhouseCoopers LLC*
3. *Visa Inc.*
4. *World Bank*
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

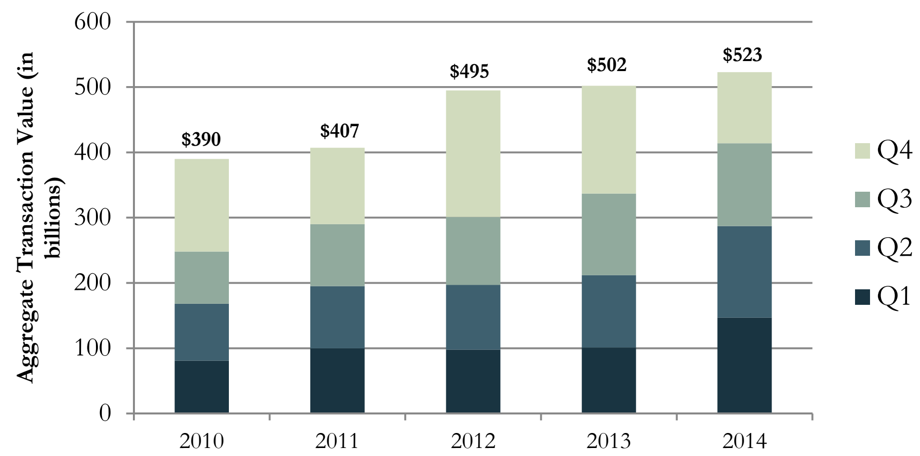
- The aggregate global mergers and acquisitions (M&A) transaction value of $787.8B in Q4 2014 made 2014 ($3,230.0B) the third-highest year on record after 2006 and 2007[1]
- The U.S. contributed 48.0% of the global deal value[1]
  - U.S. M&A transactions in 2014 ended with 5,591 deals and $1,514.0B, the top value since 2007
  - H2 2014 closed with 2,697 transactions worth $808.7B, representing a 6.8% decrease in volume, but a 14.6% increase in value as compared with H1 2014, and up 10.0% and 38.2% in volume and value, respectively, from H2 2013
  - The average U.S. deal value during 2014 was $271.0M, also the highest since the most recent financial crisis and up 25.8% from 2013
- Because of corporations' ability to pay higher prices for targets based on synergies and use stock, rather than cash, as consideration, acquisitions by private equity (PE) firms of public companies accounted for only 15.2% of global leveraged buyouts through November 2014, the lowest level in at least a decade and down from 60.5% in 2007[2]

U.S. M&A Activity



Source: FactSet U.S. Flashwire January Report.

U.S. Private Equity Deal Flow



Source: PitchBook.

- U.S. PE exits totaled 904 deals valued at an all-time high of $240.9B, up 36.9% in value and 9.8% in volume over 2013[3]
- Sustained elevated valuations in the public equity markets and intense competition among PE firms for a select group of attractive opportunities have kept purchase prices high[3,4]
  - The median enterprise value to EBITDA remained relatively high at 8.9x through Q4 2014, about the same as the previous quarter's trailing 12-month median
- Add-on acquisition activity continues to climb as a relative share of total PE investing activity, as PE firms continue looking to M&A as a key growth driver for their portfolio companies[3]
  - Add-on deals accounted for 60.0% of all PE investments in 2014, up from 58.0% in 2013 and 53.0% in 2012
- Sitting on $1.2T in global unspent capital and under pressure from investors demanding steady dealmaking, PE firms increasingly have turned to investing growth equity in smaller companies[5]

1. *Mergermarket*
2. *Thomson Reuters LPC*
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

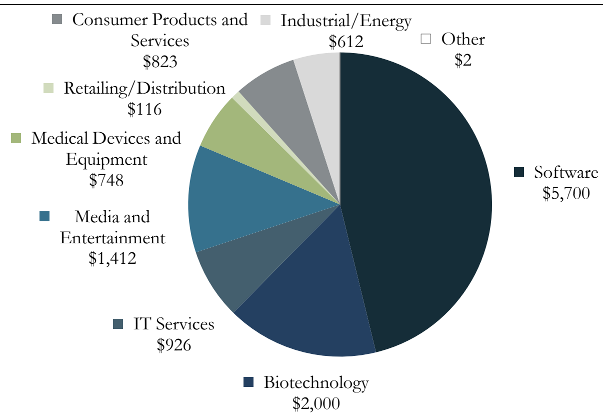
Venture Capital Investing

- In Q4 2014, the venture capital (VC) industry invested $14.4B across 1,109 deals, an increase of 45.0% in value and 8.0% in deal flow, as compared with $9.9B across 1,023 deals in Q3 2014[1]
- First-time financings in Q4 2014 rose 57.0% in dollars and 8.0% in the number of deals, as compared with the previous quarter[1]
- There were 27 VC-backed IPOs in Q4 2014 totaling $4.4B, a 17.0% increase in deal flow and 69.0% jump in value from Q3 2014[2]
  - Q4 2014 was the seventh consecutive quarter to see 20 or more VC-backed IPOs
- U.S. VC firms raised $5.6B across 75 funds during Q4 2014, an increase of 14.0%, as compared with Q3 2014 in fund count, but a 9.0% decrease in dollar commitments[2]
  - VC firms worldwide took $29.8B into 254 funds in 2014, a 69.0% growth in dollar commitments compared to 2013 and the strongest annual period for fundraising dollars since 2007
  - The top fundraiser during Q4 2014 was Canaan X, L.P., which raised $675.0M

PIPE Investing

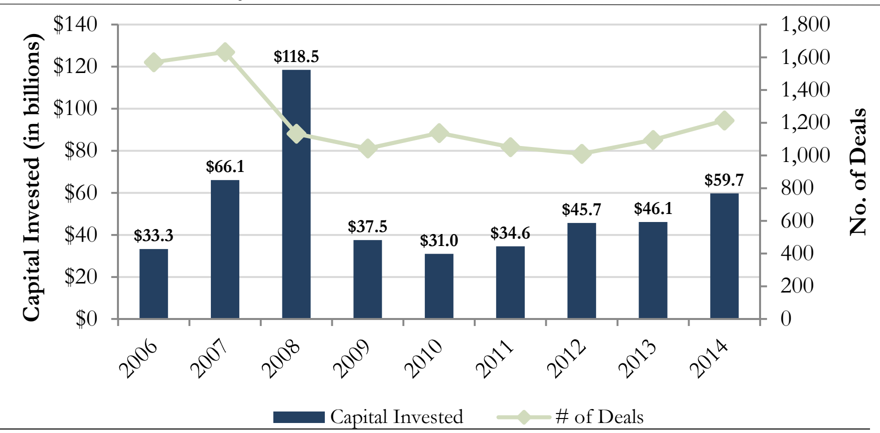
- $22.1B was raised across 293 PIPE transactions that were announced or completed in Q4 2014, marking a sharp dollar value surge from the 297 transactions totaling $10.9B in the same prior-year period[3]
  - Q4 2014 included 48 at-the-market (ATM) offerings worth $12.4B, as compared with $4.9B in the prior-year period[4]
  - 213 placements were unregistered and 80 were registered, representing $4.6B and $11.7B, respectively
- Sabby Management LLC was the most active institutional investor in the U.S. PIPE market during Q4 2014, with eight private placements worth $18.8M[3]
- Morgan Stanley & Co. was the most active in deal value, deploying $6.0B in Q4 2014[3]
- Markets grew more volatile starting in October with stepped up ISIS terrorist attacks, the Ebola outbreak, plummeting oil prices, and a controversial election in Greece, making it more challenging for PIPE-issuing companies and investors to negotiate pricing[3]

VC Deals Per Industry – Q4 2014 (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*

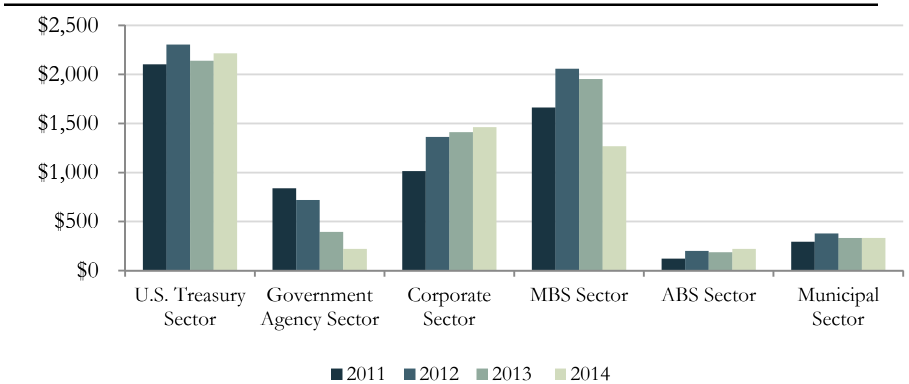
Debt Capital

- The Barclays U.S. Aggregate Bond Index posted a 1.8% return in Q4 2014, resulting in a full-year return of 6.0% in 2014[1]
  - The performance exceeded expectations due to slower than anticipated monetary tightening by the Fed
- The Barclays U.S. Corporate Bond Index generated a total return of 7.5% in 2014, buoyed by falling yields on intermediate- and long-term Treasuries and an investor preference towards the relatively higher coupons that corporate bonds offer[1]
  - Spreads widened to 131bp in December 2014, underperforming duration-matched Treasuries by 38bp[2]
- Driven by weakness in mortgage-backed securities (MBS), total debt issuances fell 9.0% from $6,463.2B in 2013 to $5,846.2B in 2014[3]
  - The 35.2% plunge in MBS issuances, from $2.0T to $1.3T, was due in part to low mortgage refinancing activity
  - Municipal bonds issuances were up 17.5% in Q4 2014, increasing to $100.1B from $76.8B in Q3 2014
  - Asset-backed securities issuances dropped 19.4% in Q4 2014, down to $43.4B from $53.9B in Q3 2014
- High-yield bond prices fell 1.1% in Q4 2014, as market uneasiness, fueled by economic concerns about Europe, China, Japan, and Russia, drove heightened volatility in the riskier asset class[2]
  - The Barclays U.S. Corporate High Yield index reached as high as 7.3% in early December before pulling back to 6.6% by year-end[4]

Middle-market Loan Issuance

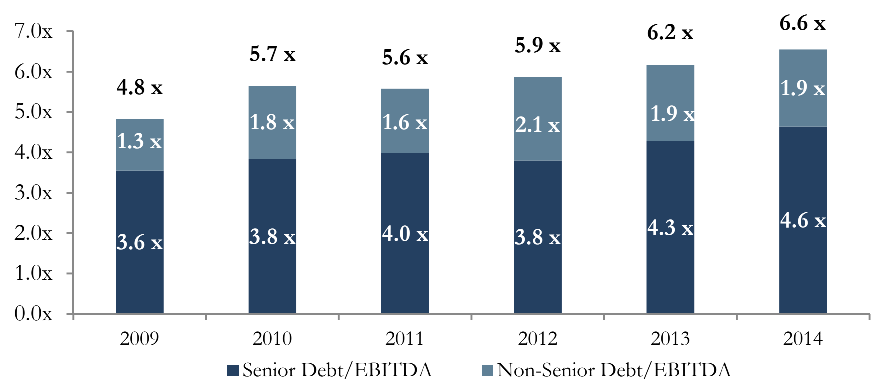
- Middle-market yields hit a peak of 7.0% in Q4 2014 before falling to the Q3 level of 6.0% by the end of the quarter[4]
- Leverage multiples continue to advance and are reaching some of the highest levels since the most recent recession[4,5]
  - The average debt to EBITDA level increased in 2014 to 6.6x for broadly syndicated LBOs and 5.4x for institutional middle-market LBOs
- In 2014, middle-market lending reached $202.0B, slightly below the annual volume of $203.5B recorded in 2013[4]
  - This total consisted of $42.4B in traditional middle-market lending for transactions below $100.0M and $159.6B 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[6]



Source: Thomson Reuters LPC

1. *Charles Schwab Corporation*
2. *Guggenheim Partners*
3. *SIFMA*
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*

2015 Starts With Record Profitability For Private Companies

By Libby Bierman
Analyst, Sageworks

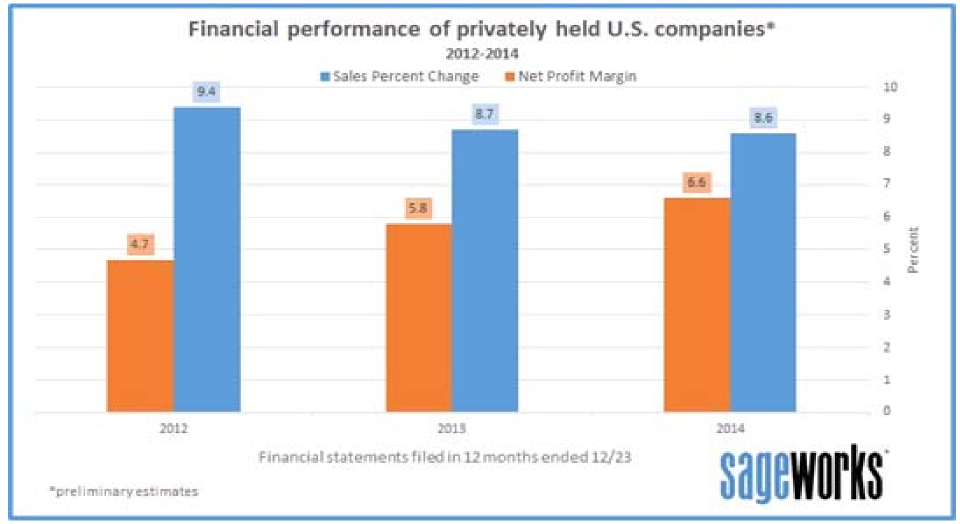
At a time when many of us are resolving to "lose weight" or "get organized," business owners of privately held companies can celebrate knowing they have already achieved higher profitability rates at the end of 2014 than at any point during the past three years.

At Sageworks, a financial information company, we aggregate financial-statement data from privately held companies across the U.S. to measure the performance of that economic sector and identify trends within industries.

According to our latest data, private companies in the U.S. are heading into 2015 with strong profitability and healthy sales growth. In an analysis of financial statements collected over the past 12 months, these privately held firms (not traded on a U.S. exchange) have increased sales at an average annual rate of 8.6 percent.

More impressively, the companies also have seen record-high net profit margins. Sageworks' data show private companies averaged a net profit margin of 6.6 percent during 2014, a significant increase from 4.7 percent in 2012.

This positive profitability trend may stem from a variety of blended factors, but a likely driving force is the sustained increases to revenue that these companies have experienced since the most recent recession.



As private companies have continued to grow sales since 2010, it has become easier to reach economies of scale and more quickly cover the fixed costs of running the business. For example, if a retail store pays $4,000 per month in rent, it will continue to pay $4,000 in rent whether sales for the month are $100,000 or $300,000. There is a limit, a time when they will have to expand space and potentially pay more for rent, but in the interim, the increase in sales more quickly falls to the bottom line for a profitability boost.

Other factors that may be at play in the increasing net profit margin include efficiency gains through technology and a sense of "doing more with less" that owners may have learned as a result of the recession.

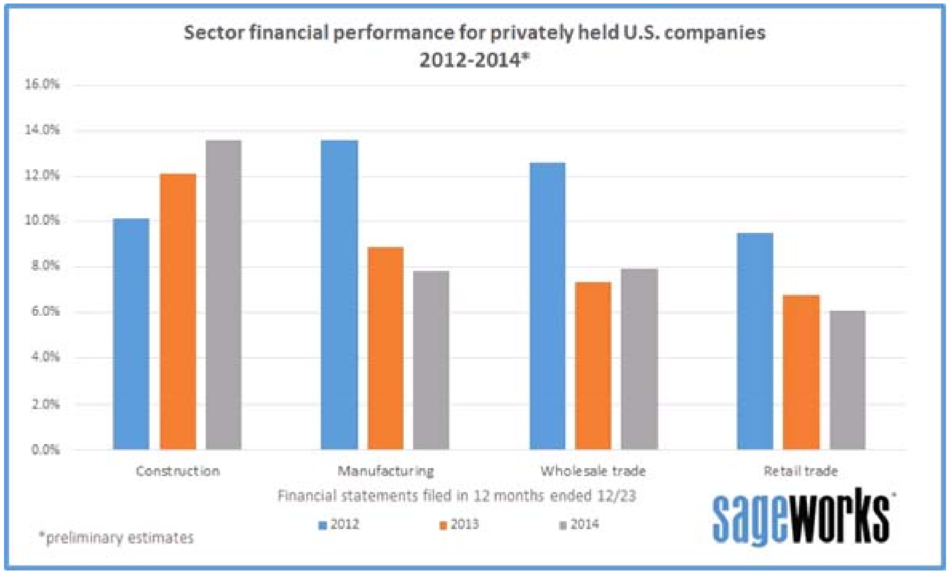
Given the outsized role private companies play in the U.S. economy, we are surprised it's taken so long for GDP and the unemployment rate to reflect this performance. Slowly but surely, we are finally seeing the broader U.S. economic indicators catch up to private company growth.

1. *These figures are estimates as of January 2015. As Sageworks collects additional 2014 financial statement data, there may be slight changes in these statistics.*

According to the Bureau of Economic Analysis, GDP for the third quarter 2014 was up 5 percent over the previous period, the strongest rate of growth seen in the past three years. For the fourth quarter of 2014, GDP increased at a slower, while still healthy, rate of 2.6 percent.

When segmenting the latest data by industry classification, we see that Construction outpaced the other sectors with the highest annual sales growth in 2014, nearly 13.5 percent. The other sectors, Manufacturing, Wholesale, and Retail, also maintained a healthy increase in revenue, between 6 and 8 percent, according to year-over-year rates.

Although we can't use these data to predict the future for private companies, the consistent performance suggests private-company business owners are on track to continue solid performance in 2015, barring drastic changes in demand.



Through its cooperative data model, Sageworks collects financial statements for private companies from accounting firms, banks, and credit unions, and aggregates the data at an approximate rate of 1,000 statements a day. Net profit margins have been adjusted to exclude taxes and include owner compensation in excess of their market-rate salaries. These adjustments are commonly made to private company financials in order to provide a more accurate picture of the companies' operational performance.

Libby Bierman is an Analyst at Sageworks, a financial information company and Inc. 500 honoree. Ms. Bierman is responsible for analyzing trends in the financial data collected from private companies. She received her degree from the Mendoza College of Business at the University of Notre Dame, where she graduated summa cum laude.

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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.

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