Aramar

Capital Group, LLC

Middle Market Update

3rd Quarter 2014

Third Quarter Economic Performance and Future Outlook

GDP

- Real GDP grew 3.5% in Q3 2014, a slight decrease from the 4.6% increase in Q2 2014, beating the consensus estimate of 3.0%[1,2]
- The GDP growth reflects increases in personal consumption expenditures, exports, nonresidential fixed investment, and federal, state, and local government spending that were partly offset by a negative contribution from private inventory investment[1]
  - The change in real private inventories subtracted 0.6% from the change in real GDP in Q3 2014 after adding 1.4% in Q2 2014
  - Real residential investment increased 1.8% during Q3 2014, as compared with an 8.8% increase in Q2 2014
  - Real nonresidential fixed investment increased 5.5%, versus an increase of 9.7% in Q2 2014

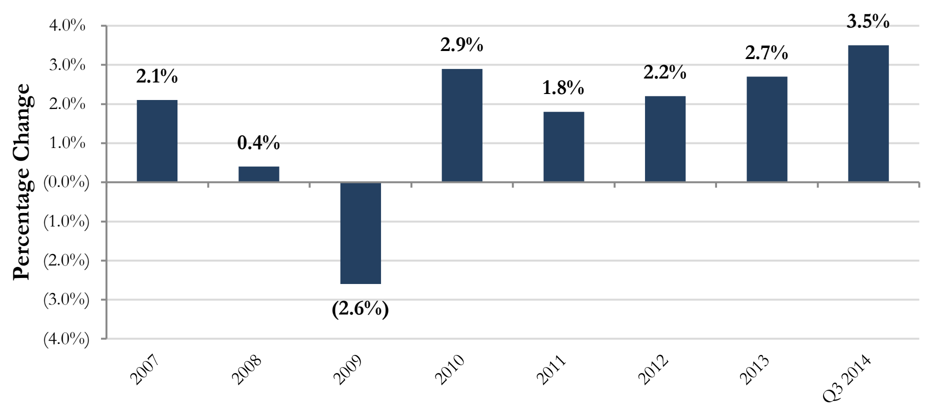
Consumer Spending

- The growth in consumer spending, which fuels roughly two-thirds of the economy, increased moderately in Q3 2014[1]
  - Real personal consumption expenditures increased 1.8% in Q3 2014, as compared with a 2.5% increase in Q2 2014
  - Personal income increased in Q3 2014 by $152.9B, below the $223.0B jump in Q2 2014
  - The personal savings rate was 5.5% in Q3 2014, versus a 5.4% rate in Q2 2014

Exports/Imports

- August exports of $198.5B and imports of $238.6B closed the trade deficit to $40.1B from $40.3B in July 2014[1]
  - Real exports of goods and services increased 7.8%, as compared with an increase of 11.1% in Q2 2014
  - Real imports of goods and services decreased by 1.7% in Q3 2014, a reversal from the 11.3% increase in Q2 2014

Real GDP Growth Since 2007



Source: Bureau of Economic Analysis.

Stock Markets

- The blended earnings growth rate for Q3 2014 was 5.6%; about 75% of the S&P 500 constituent companies have reported earnings above mean estimates and 60% have reported sales above mean estimates;[3] the S&P 500 index was up 1.1% in Q3 2014[4]
- 68 companies raised $38.1B in Q3 2014 IPOs, about flat from the 64 IPOs in Q3 2013, but 222.8% above the $11.8B raised during the same quarter the prior year[5]

Employment

- In September, the total number of unemployed decreased by 329,000 to 9.3M, as nonfarm payrolls increased by 248,000; the unemployment rate fell to 5.9% in September, the lowest since July 2008[6]
- "We're seeing large declines in labor force participation … among prime-age workers," explains University of California-Berkeley economist Jesse Rothstein, "especially among people in their early twenties. It's hard for me to believe that there's this enormous group of people in their early twenties who have decided that they're never going to work"[7]

1. *U.S. Bureau of Economic Analysis*
2. *Bloomberg*
3. *FactSet*
4. *T. Rowe Price*
5. *PwC IPO Watch*
6. *Bureau of Labor Statistics*
7. *MarketPlace.org*

Third Quarter Economic Performance and Future Outlook

U.S. Treasury Securities

- The Treasury yield curve flattened further in Q3 2014 amid investor anticipation of the Fed's first rate hike since the Great Recession

U.S. Treasury Securities[1]	Q1 2014	Q2 2014	Q3 2014
5-year Treasury Note	1.7%	1.6%	1.8
10-year Treasury Note	2.7%	2.5%	2.5
30-year Treasury Note	3.6%	3.4%	3.2
10-year Treasury Inflation Protected Security (TIPS)	0.6%	0.3%	0.6%

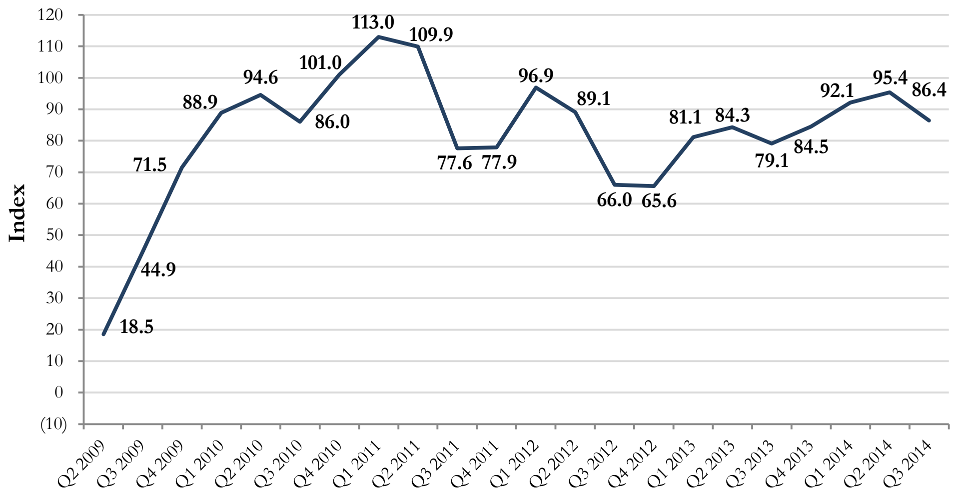
Federal Reserve

- In Q3 2014, the FOMC directed the Open Market Trading Desk at The Federal Reserve Bank of New York to conclude the current asset purchase program by the end of October[3]
- The FOMC also directed the Desk to maintain its existing policy of reinvesting principal payments from the Fed's holdings and of rolling over maturing Treasury securities at auction[3]

Oil

- The price of WTI crude oil fell 14.1% to $91.17 per barrel at the end of Q3 2014 from $106.07 per barrel at the end of Q2 2014[4]
  - WTI prices continued to plunge after the end of the quarter, hitting four-year lows and trading near $75/bbl in mid-November
- The Energy Information Administration projects U.S. crude oil production, which averaged 7.4M bbl/d in 2013, to average 9.5M bbl/d in 2015, and for Brent crude oil prices to average $98/bbl in Q4 2014 and $102/bbl in 2015[4]
  - The WTI-Brent spread, which averaged $11/bbl in 2013, is expected to average $7/bbl in both 2014 and 2015

CEO Economic Outlook Index



Source: Business Roundtable.

Outlook for Late 2014 and Early 2015

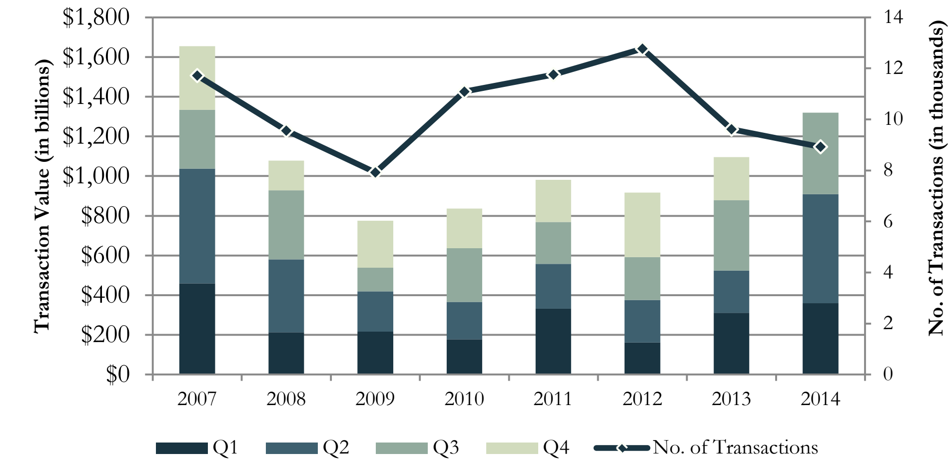
- The CEOs of leading U.S. companies see the U.S. economy underperforming in the next six months[5]
  - Nearly 90% of CEOs said that tax reform – including lowering the corporate income tax rate to 25% – would encourage additional investment or cause them to expand their companies' U.S. operations
  - Business Roundtable members expect 2014 GDP to grow by 2.4%, similar to last quarter's estimate of 2.3%
- According to Randall Stephenson, Chairman of Business Roundtable, "While some U.S. economic indicators are improving moderately, the results from our survey of CEOs seem to reflect an underperforming U.S. economy held back by policy uncertainty and growing conflicts around the world"[5]

1. *T. Rowe Price*
2. *PIMCO*
3. *U.S. Federal Reserve*
4. *U.S. Energy Information Administration*
5. *CEO Economic Outlook Survey published by Business Roundtable*

Mergers and Acquisitions

- The aggregate global mergers and acquisitions (M&A) transaction value in Q3 2014, at $877.4B, made 2014's nine-month total ($2,486.1B) the third-highest annual value on record after 2006 ($3,295.4B) and 2007 ($3,669.7B)[1,2]
- A heady combination of the cash piles held by corporations and investment firms, persistently accommodative debt markets, and steadily improving economic fundamentals in the U.S. have yielded a historically fertile and active M&A market
- The U.S. contributed 44.5% of the global deal value[1,2]
  - The 3,433 U.S. deals announced during Q3 formed the third-highest Q3 volume ever, with 636 more transactions than the same period in 2013[1,2]
  - The U.S. M&A transaction value decreased 25.0% to $411.0B in Q3, down from $547.9B in Q2[1,2]
  - The total value of U.S. M&A transactions between $500.0M and $1.0B YTD as of August 31 was $81.2B, an 11.9% increase from the same period in 2013[3]
- Mega deals continued to buoy aggregate value; globally, middle-market deals below $500.0M comprised 93.3% of the transaction count from Q3 2014, but only 19.8% of the total transaction value[2,4]
- In August, the median total enterprise value to LTM adjusted EBITDA was 8.9x, consistent with valuations over the past 12 months[5,6]
- The global average transaction value during 2014 reached $406.4M[1]
  - This represents the largest average value on record, exceeding 2007's annual average of $350.1M

U.S. M&A Activity



Source: FactSet U.S. Flashwire July Report.

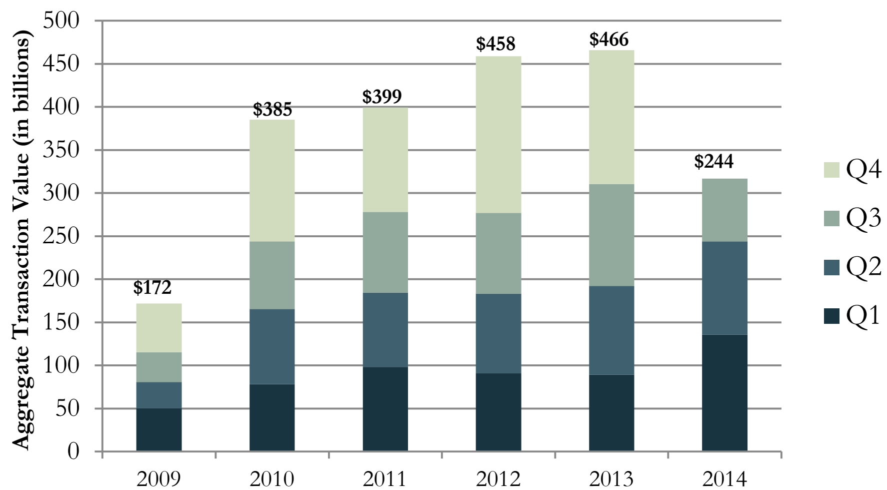
- The energy, mining, and utilities sector was the most active during the first nine months of 2014, accounting for 17.0% of overall global volume, followed by pharma, medical, and biotech and consumer, which represented 14.2% and 11.8% of total volume, respectively [1,2]
- So far this year, acquirers of U.S. companies have closed transactions within an average of 57 days of their announcement, 30 days faster than the average time requirement in 2013 and a blistering pace compared with the 107 and 96 days it took to close deals during the frothy M&A markets of 2006 and 2007, respectively[6]
- "In the absence of a strong improvement in global end demand and with balance sheets as robust as they are, many businesses will seek to create value for shareholders through consolidating their industries or accessing new markets through M&A," said Paras Anand, head of European equities at Fidelity[7]

1. *Mergermarket*
2. *These data represent announced, closed, and signed M&A deals*
3. *R.W. Baird*
4. *Merrill DataSite*
5. *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*
6. *Dealogic*
7. *FTAdviser*

Private Equity

- 588 private equity (PE) transactions were completed in Q3 2014, deploying $110.1B in capital overall, ahead 1.9% in volume and 14.2% in value in contrast to the 515 transactions in Q2 2014 that totaled $108.1B[1]
  - The Q3 activity was up 20.3% in volume and 26.6% in value from the $87.0B spent across 489 deals in Q3 2013
- Despite the overall increase, global lower middle-market transactions, or transactions with values below $25.0M, are on pace to hit 453 in 2014, well below the 615 announced in 2013[1]
  - The lower middle-market slowdown has been driven largely by a significant decrease in U.S. activity, which, in the first nine months of 2014, was about half the deal flow recorded during the same period in 2013
- 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
  - The median enterprise value to EBITDA remained relatively high at 9.7x through Q3 2014, barely moving from the previous 12-month median[1,3]
- Add-on 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[1]
  - Add-on deals accounted for 61.0% of all PE investments through Q3 2014, up from 57.0% in 2013 and 49.0% in 2012
- Fluid debt markets have helped push the median debt percentage for 2014 deals to 71.8%, up from 65.6% in 2013[1,3]
- The $47.0B in PE exits across 193 deals in Q3 2014 were down slightly in both value and volume from the 209 exits in Q2 2014 totaling $48.0B[1]

U.S. Private Equity Deal Flow



Source: PitchBook.

- Fundraising slowed in Q3 2014, as PE firms raised $34.5B across 50 closed funds, a decrease from 75 closed funds in Q2 2014[1]
  - Lone Star Fund IX (U.S.), L.P. was the largest fund closed in Q3 2014 at $7.2B raised[2]
  - About 88% of U.S.-focused PE funds hit their targets through Q3 2014, up from 80% in 2013 and 70% in 2012
- Individual investors have begun to play a more significant role in fundraising; in the first ten months of 2014, individuals with more than $1 million in investable assets provided about 10% of the capital raised by PE firms globally, up from the 6% supplied in 2008[4]
- "When valuations attain lofty heights, like we've seen over the past 12 to 18 months, owners, including both family-owned and private equity-backed companies, have increasingly become willing sellers," said Richard Martin, Senior Director at Merrill DataSite[1]

1. *PitchBook*
2. *Preqin*
3. *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 with lower debt ratios*
4. *Triago*

Venture Capital and PIPEs

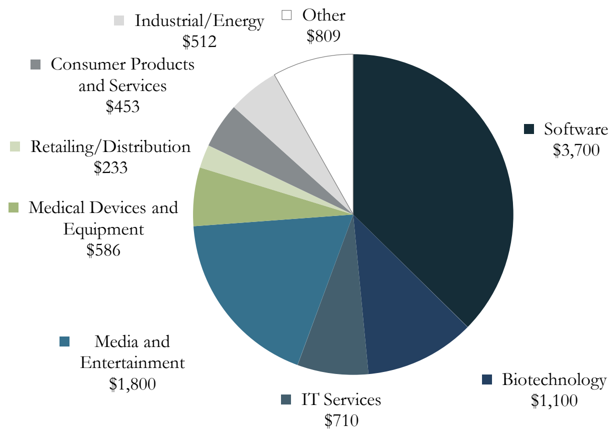
Venture Capital Investing

- In Q3 2014, the venture capital (VC) industry invested $9.9B across 1,023 deals, a decrease of 27% in value and 9% in deal flow, as compared with $13.5B across 1,129 deals in Q2 2014[1]
- $1.6B, or 17.0% of all dollars and 33% of all deals, went to first-time financings[1]
- There were 23 VC-backed IPOs in Q3 2014 totaling $2.6B, an 18.0% decrease in deal flow and 48.0% drop in value from Q2 2014[2]
  - Q3 2014 was the sixth consecutive quarter to see 20 or more VC-backed IPOs
- U.S. VC firms raised $6.1B across 60 funds during Q3 2014, a 21.0% decrease from the amount raised during Q2 2014 and a 26.0% decrease in the number of funds[2]
  - Commitments in Q3 were up 39.5% in dollars from the same period in 2013
- The top fundraiser during Q3 2014 was J.P. Morgan Digital Growth Fund II, L.P., which raised $996.4M, followed by SG Growth Partners III, L.P., which raised $500.0M[2]

PIPE Investing

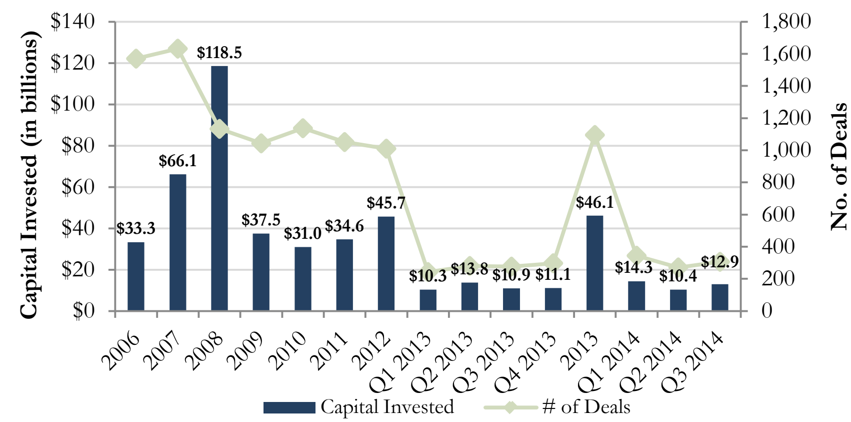
- $11.4B was raised across 275 PIPE transactions that were announced or completed in Q3 2014, as compared with 267 transactions that raised $10.2B in the prior-year period[3]
  - At the market (ATM) offerings made up 9.8% of the total deal flow and 28.6% of the total value of PIPE transactions in Q3[4]
  - 201 placements were unregistered and 74 were registered, representing $6.9B and $4.5B, respectively
- Millennium Management, LLC was the most active institutional investor in the U.S. PIPE market during Q3 2014 in deal flow, investing $1.0B in 39 transactions[3]
- Bank of America Merrill Lynch was the most active in deal value, deploying $3.5B in Q3 2014[3]
- "Fund managers are telling us they still hate the illiquid stuff, but there is an appetite for unregistered PIPEs," said Kerry Propper, CEO of Chardan Capital Markets LLC. "What you're giving up in liquidity, you're gaining enough in value to make up for it"[3]

VC Deals Per Industry – Q3 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*
3. *Private Raise/Dealflow*
4. *ATM offerings are commitments to raise money through the issuance of stock at the issuer's discretion*

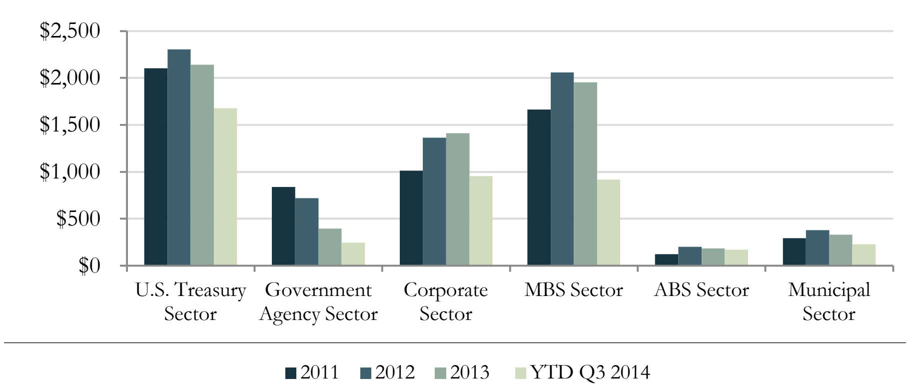
Debt Capital

- The Barclays Aggregate Bond Index posted a return of 0.2% in Q3 2014, down from 2.0% in Q2 2014[1]
  - Interest rates remain low and should continue as such in the foreseeable future, as the Fed has signaled that next year's rate increases will be gradual and cautious
- Total debt issuances decreased slightly from $1.5T in Q2 2014 to $1.4T in Q3 2014; total debt issuances dropped16.1% in the first nine months of 2014, as compared with the same period in 2013[2]
- Municipal bonds issued were down 17.5% in Q3 2014, decreasing to $73.9B from $89.7B in Q2 2014[2]
- High-yield bond spreads widened to 485 basis points in July from 398 basis points, a 13% increase[3]
  - This move was a result of over-valued high-yield credit markets, which has been the case since 2010
- Investment-grade corporate bond issuances totaled $1.1T through Q3 2014, a 1.8% increase from the same period in 2013[2]
- Slowdowns in municipal offerings drove the overall drop in debt issuances, as state and local governments have been focusing on funding employee pensions and other fixed costs in their budgets rather than new projects[4]
- Spreads widened in U.S. corporate bonds by 12 basis points in Q3 2014 to 112 basis points over similar-maturity U.S. Treasuries[1]
  - The YTD Q3 2014 spread is off two basis points
- Asset-backed securities issued fell by 31.4% in Q3 2014, down to $48.1B from $70.0B in Q2 2014[2]

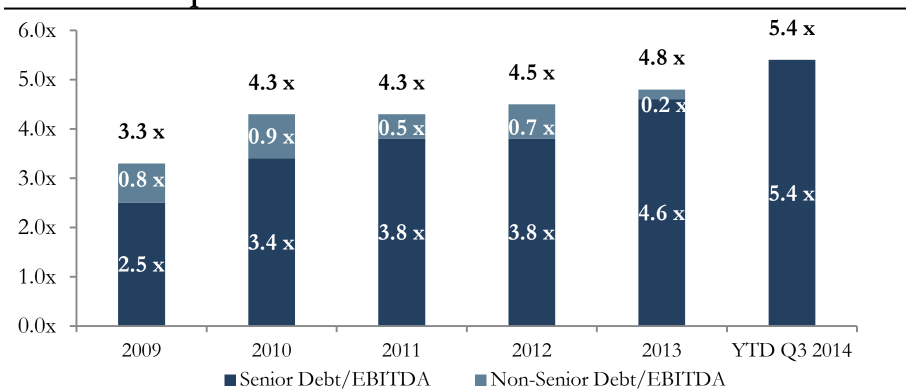
Middle Market Loan Issuance

- Middle market yields continue to remain low, reaching 6.1% in Q3, although yields are up from the recent lows of 5.8% in Q3 2013[5]
- Leverage multiples continue to advance and are reaching some of the highest levels since the recession[5]
  - The average debt to EBITDA level in the first nine months of 2014 was 5.4x for institutional middle market LBOs and 6.6x for broadly syndicated LBOs, well above the full-year averages from 2008 through 2013[5,6]
- Middle-market lending is at $144.0B this year, down from the $152.0B recorded in the corresponding period last year[5]
  - $32.0B (22.2%) was lent for transactions at or below $100.0M, while the remainder was lent for transactions between $100.0M and $500.0M

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



Debt Multiples of Middle Market LBO Loans[6]



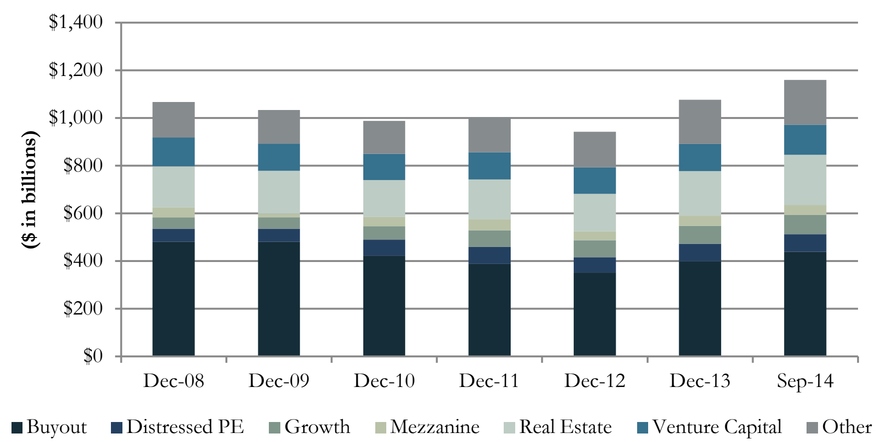
Source: Thomson Reuters LPC

1. *Prudential*
2. *SIFMA*
3. *Guggenheim Partners*
4. *Putnam Investments*
5. *Thomson Reuters LPC*
6. *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*

Conclusion

- The M&A environment is at its most active since the Great Recession, fueled by vast cash reserves on corporate balance sheets and in investment firms' coffers, a steady stream of encouraging economic news, and a continued low-interest-rate environment
  - Nonfinancial companies held $1.88T of cash at the end of June, up more than 8% from a year earlier[1]
  - On top of better manufacturing readings from Europe, central bankers have signaled that they may take new steps to support Continental economies, perhaps stepping in to buy corporate bonds[2]
  - The U.S., one of the world's steadiest economies of late, has been an attractive target for international investors, with solid job creation, upbeat GDP and real estate data, and oil prices—at rare lows—heralding a boost in consumer spending[2]
  - Interest rates and bond yields have remained exceptionally low around the world, holding down acquisition financing costs, mortgage rates, and the cost of business investment[2]
- However, the October volatility in the public markets has exposed several reasons to remain cautious about macro conditions[2]
  - Eurozone economic growth still is running below 1% annually, and growth has slowed in the Chinese economy, whose faltering demand for industrial commodities threatens other developing economies
  - Stocks are no longer cheap by historical standards, with the S&P 500 trading near 20 times its companies' net earnings in mid-November, well above the long-term average of 15.5 times
  - Central banks' monetary policies are shifting and inconsistent, with the Fed preparing to slowly raise interest rates for the first time since 2006 and European banks attempting to loosen credit

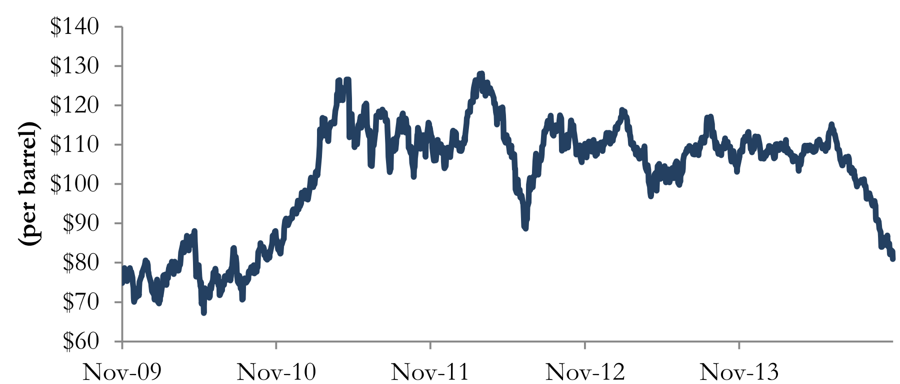
PE Dry Powder



Source: Preqin.

Crude Oil Prices

Brent Spot Price FOB



Source: U.S. Energy Information Administration.

1. *U.S. Federal Reserve*
2. *The Wall Street Journal*

By Marianne Halvorsen
Vice President, Lockton Companies

Market Overview

The representations and warranties insurance (RWI) marketplace has been firming throughout the course of 2014. There are many factors that have contributed to this trend; the most prominent is significantly increased demand for RWI, with some insurers seeing year-over-year increases in submission flow of 50 percent or more. While demand has increased substantially, the market capacity and the number of insurers have remained fairly consistent. As a result, insurers are able to be more selective in the deals that they consider, have a greater ability to dictate pricing, and have more leverage to negotiate terms and conditions.

The most notable impact is on the middle market space (i.e., enterprise values of less than $100 million), where the minimum premiums charged by most carriers have increased to between $250,000 and $300,000 versus the prior year's common minimum premiums of between $100,000 and $150,000. Furthermore, the carriers that provide insurance for the lower end of the middle market require the target company to have audited financial statements.

The market capacity remains consistent with prior years. The average limits available are up to $50 million per carrier, and the total combined limits among all carriers in the U.S. RWI market is approximately $300 million. Rates have seen a moderate increase year over year, with an average range of 2.5 to 3.5 percent of insured limits. However, during the fourth quarter of 2014, the most recent placements have seen a jump in rates of up to 3 to 4 percent of the purchased limit. There also are due diligence fees of between $25,000 and $45,000 per deal and, in some cases, an additional fee of up to $25,000 charged for "emergency/expediency" situations.

Consequently, in the current market, the cost/benefit trade-offs of purchasing RWI versus adopting traditional indemnification arrangements may not be worthwhile for deals on the lower end of the middle market spectrum.

Increased Demand for Representations and Warranties Insurance

When the product was first introduced over 15 years ago, many looked at RWI as a last resort for when the parties to a transaction could not agree on indemnification terms. However, in the past two years, there has been increased acceptance of RWI as a favorable alternative to traditional seller indemnities. This change is primarily due to a shift to a competitive seller's market, an increased awareness of the product and its benefits, coverage enhancements, and improvements in the underwriting process.

The shift to a seller's market has contributed significantly to an increased demand for RWI. In many cases, more so with larger transactions, sellers require that bids are submitted with RWI terms or are offering reduced indemnification. As such, buyers now are the predominant purchasers of RWI; buyer-side policies have represented more than three-quarters of all bound policies in 2014. The end result of using an RWI solution is to simplify negotiations between buyers and sellers, resulting in a more efficient negotiations process.

Increased awareness of the benefits of RWI is another factor contributing to demand. These benefits include additional protection for buyers, a reduced escrow for sellers, the mitigation of solvency or collection risks in distressed asset transactions, and the preservation of key relationships. More competitive acquisition agreement negotiations surrounding buyers' rights to recover consequential, special, and indirect damages have had an impact on the structure of these RWI policies. The insurers' consideration of these negotiations has led to broader policy provisions.

Another driver of the demand surge for RWI is the payment of claims by insurers. As the RWI market matures, more claims are being paid, which provides greater comfort to prospective buyers that the product will perform as intended.

The increased submission flow and demand for RWI are causing longer quotation and underwriting processes. This is largely due to the fact that the market demand for this product has outpaced the current insurance companies' ability to hire and train new underwriters to meet this demand.

Market Outlook

In the near term it is anticipated that submission flow will remain consistently high. Until new entrants to the market provide additional capacity and current insurers hire more underwriters to handle deal flow, it is likely the market will continue to harden. In addition, as the volume of policies written increases, so does the possibility of claims. A surge in claims payments by insurers also could have a hardening effect on the insurance market, causing further increases to rates and limitations of available capacity.

In the long term, it is difficult to predict whether current market trends will persist. Given the cyclical nature of both the insurance market as well as the PE market, it is probable that fluctuations will occur. There are a myriad of factors that could contribute to a decrease in demand; however, any short-term decrease in demand is likely to be offset by the growing acceptance in the M&A market of RWI as an alternative to traditional seller indemnities. An exception to this trend would be a shift to a buyer's market, eliciting a more traditional approach to more fulsome seller indemnities and escrows. In this case, a shift likely would result in a greater number of seller-side policies, so that selling entities could backstop their indemnification obligations.

Marianne Halvorsen, CPCU, AIS is a Vice President of Lockton Companies, which is the world's largest privately held insurance brokerage firm, providing insurance, risk management, and employee benefits solutions from 65 locations in 17 countries.

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.

489 Fifth Avenue, 16th Floor • New York, NY 10017 • 212-708-0700