Aramar
Capital Group, LLC

Middle Market Update

1st Quarter 2014

First Quarter Economic Performance and Future Outlook

GDP

- 0.1% annualized GDP growth rate in Q1 2014; down from 2.6% in Q4 2013[1]
  - Fell short of an expected 1.2% growth rate[2]
- The GDP growth reflects an increase in personal consumption expenditures offset by decreases in exports, private inventory spending, nonresidential fixed investment, residential fixed investment, and state and local government spending[1]
  - Change in real private inventories subtracted 0.57% from the GDP in Q1 2014 after subtracting 0.02% in Q4 2013[3]
  - Residential investment contracted at a 5.7% annual rate during Q1 2014[2]
  - Nonresidential fixed investment decreased 2.1% in Q1 2014, as compared with an increase of 5.7% in Q4 2013[3]

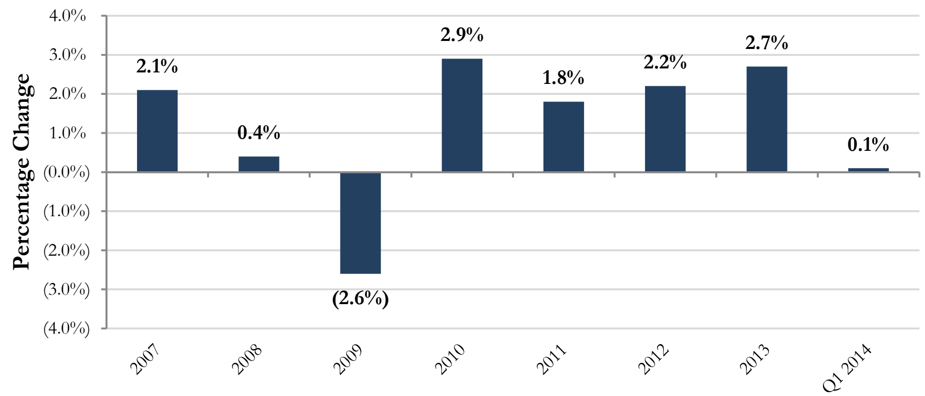
Consumer Spending

- Growth in consumer spending, which fuels roughly two-thirds of the economy, increased in Q1 2014[1]
  - Personal consumption expenditures increased 2.0% in Q1 2014, roughly on par with the rise of 2.2% in Q4 2013
  - Personal income increased in Q1 2014 by $122.0B, above the $78.5B jump in Q4 2013
  - The personal savings rate was 4.1% in Q1 2014 versus a 4.3% rate in Q4 2013

Exports/Imports

- Q1 2014 exports of $2,289.9B and imports of $2,782.9B widened the trade gap to $498.0B from $456.9B in Q4 2013[1]
  - Real exports of goods and services decreased 7.6% in Q1 2014, as compared with an increase of 9.5% in Q4 2013
  - The widening trade gap contributed -0.83% to GDP in Q1 2014

Real GDP Growth Since 2006



Source: Bureau of Economic Analysis.

Stock Markets

- Disappointing economic data and disruptive weather across the U.S. dropped earnings estimates of the S&P 500 from 6% growth to 1% going into earnings season; the index was up 1.8% in Q1 2014
- 61 companies raised over $10B in Q1 2014 IPOs, the largest number of such issuers since Q4 2006 and the best first quarter since 2000[4]
  - The activity would have been greater if not for the blistering pace of acquisitions by tech companies such as Facebook and Google

Employment

- In March, the total number of unemployed remained unchanged at 10.5M, as nonfarm payrolls increased by 192,000; the unemployment rate remained at 6.7% in March[5]
- "Both the labor market and growth have stabilized, albeit at low levels, which has bolstered the confidence of Americans in their own individual personal finances and the state of the national economy," said Joseph Brusuelas, a senior economist at Bloomberg LP in New York[3]

1. *U.S. Bureau of Economic Analysis*
2. *The New York Times*
3. *Bloomberg*
4. *The Wall Street Journal*
5. *Bureau of Labor Statistics*

First Quarter Economic Performance and Future Outlook

U.S. Treasury Securities

- Q1 2014 witnessed a flattening of the Treasury yield curve due to emerging market turmoil and extreme weather conditions that impacted U.S. economic data[1]

U.S. Treasury Securities[2]	Q3 2013	Q4 2013	Q1 2014
5-year Treasury Note	1.4%	1.8%	1.7%
10-year Treasury Note	2.6%	3.0%	2.7%
30-year Treasury Note	3.7%	4.0%	3.6%
10-year Treasury Inflation Protected Security (TIPS)	0.5%	0.8%	0.6%

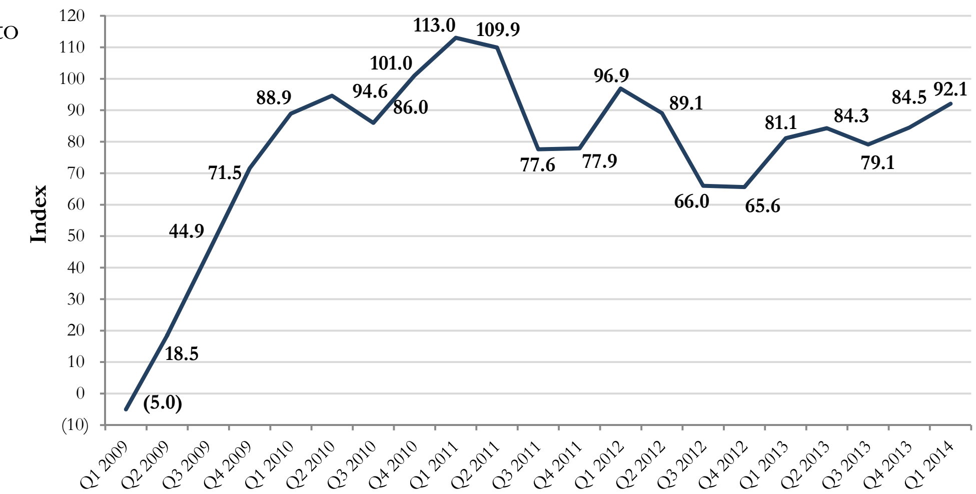
Federal Reserve

- In Q1 2014, the FOMC announced two cuts of $10B each to its monthly bond purchases; beginning in April, the FOMC purchased $55B of bonds per month, down from $75B in Q4 2013 [3]
- The FOMC is expected to continue reducing its monthly bond purchasing program by $10B during each of its next five meetings before ending the program in the fall of 2014[4]

Oil

- The price of WTI crude oil rose to $100.66 per barrel at the end of Q1 2014 from $99.29 per barrel in Q4 2013, while the average retail price per gallon of gasoline increased to $3.54 during March 2014, up from $3.28 in December 2013[5]
- The Energy Information Administration projects the average retail price per gallon of gasoline will be $3.45 in 2014 and the average Brent crude oil spot price will fall from $109 per barrel in 2013 to $105 per barrel in 2014[5]

CEO Economic Outlook Index



Source: Business Roundtable.

Outlook for 2014

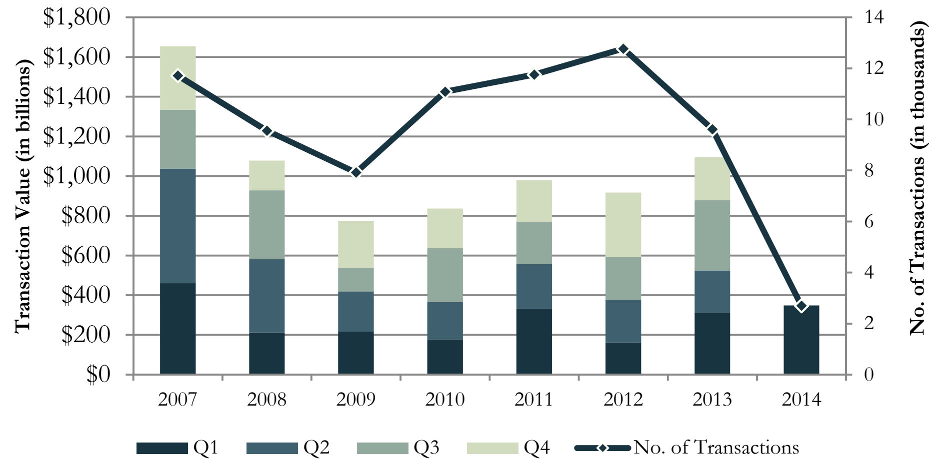
- The CEOs of America's foremost companies modestly increased their expectations, anticipating that sales and capital spending will rise during the next six months and that hiring will remain flat[6]
  - 89% of the surveyed CEOs indicated that government regulation had a moderate to significant impact on their investment and hiring activities
  - Business Roundtable members expect that GDP will grow by 2.4% in 2014, up from an estimate of 2.2% in Q4 2013
- According to Randall Stephenson, Chairman of Business Roundtable, "Increased private-sector capital investment is the critical foundation for economic growth, and its key planks are fiscal stability, business tax reform, expanded trade, and immigration reform. These issues have broad support, they are critical to driving job growth, and we urge Congress to act on them this year."[6]

1. *R.W. Baird*
2. *T. Rowe Price*
3. *U.S. Department of Treasury*
4. *U.S. Federal Reserve*
5. *The New York Times*
5. *U.S. Energy Information Agency*
6. *CEO Economic Outlook Survey published by Business Roundtable*

Mergers and Acquisitions

- The global aggregate mergers and acquisitions (M&A) transaction value in Q1 2014 was the highest first quarter since Q1 2011[1,2]
- Global M&A activity increased 5.7% over Q4 2013[3]
  - The U.S. contributed 51.0% of the global deal value in Q1 2014
  - Mega-deals, such as Comcast Corporation's $44.8B acquisition of Time Warner Cable and the $24.2B Actavis Inc. purchase of Forest Laboratories, greatly contributed to the surge
  - Eight mega-deals in Q1 2014 accounted for a 27.8% share of global M&A
- Globally, middle-market deals below $500M comprised 93.8% of the transaction count in Q1 2014, though only 21.2% of the total transaction value[4]
- The U.S. M&A transaction volume during Q1 2014 grew to 2,702 deals, up 9.3% from Q4 2013; the aggregate transaction value increased to $348.9B, 55.4% higher than in Q4 2013[5]
  - The U.S. M&A transaction value was the highest first quarter since 2007[5]
  - The average total enterprise value to LTM adjusted EBITDA was 10.1x, an increase from 8.6x in Q1 2013[6]
- The total value of U.S. M&A transactions between $500M and $1B for the year ended March 2014 increased 28.8% to $943.4B, as compared with the year ended March 2013[5]
- The total value of U.S. M&A transactions below $500M dropped to $190.7B for the year ended March 2014, down 4.1% for the year ended March 2013[5]

U.S. M&A Activity



Source: FactSet U.S. Flashwire April Report

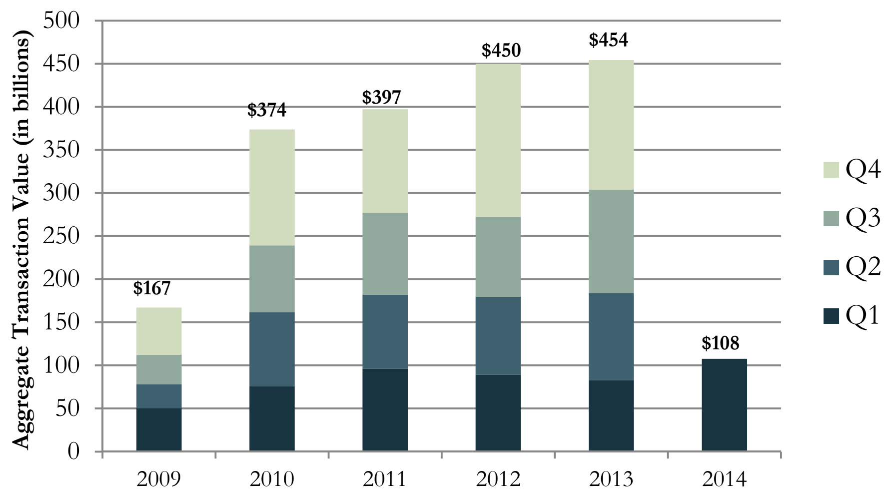
- The most active industry in Q1 2014 was media and entertainment, which accounted for 22.0% of overall global value, followed by real estate and energy and power, which represented 10% each[1]
- The current economic trends benefiting the deal market include increased consumer confidence and large cash reserves; however, M&A will see growth in value but not necessarily volume, as current trends show larger appetites for mega-deals but flat demand for other opportunities[7]
- Pip McCrostie, Global Vice Chair at Ernst & Young, said of the quarter, "The fundamentals for high-value deal-making are very favorable. Historically this would have translated into a wave of global M&A. However, the complexity of the challenges facing executives today means M&A is more measured."[8]

1. *Mergermarket*
2. *These data represent announced, closed, and signed M&A deals*
3. *Thomson Reuters*
4. *Merrill Datasite*
5. *FactSet U.S. Flashwire April Report*
6. *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*
7. *Forbes*
8. *Ernst & Young*

Private Equity

- Completed private equity (PE) transactions in Q1 2014 totaled 589 investments with a value of $107.7B, down from the 633 transactions in Q4 2013 totaling $150.5B[1]
  - The $107.7B of invested capital is the highest first quarter total during the past ten years
- The PE deal count in Q1 2014 was up 7.7% from the same period in 2013, when 547 deals were closed totaling $82.9B[1]
- PE firms faced challenges sourcing new investments, as purchase price multiples continued to grow[1]
  - The median enterprise valuation to EBITDA multiple reached a decade high of 11.6x, up from 10.0x in 2013 and an average of 8.6x over the last 5 years[1,2]
  - 39% of PE fund managers cite pricing at their most challenging hurdle, a significant uptick from the 15% who said the same thing in a prior year's study[3]
- Consistent with past years, PE firms are focusing on add-on transactions to drive operational improvements and growth in their portfolio companies[1]
  - Add-on deals accounted for 59.0% of all PE investments in Q1 2014, up from 53.0% in 2013
  - Platform buyouts made up only 29.0% of all PE transactions in Q1 2014, down from 31.4% in 2013
- Higher valuations and lower interest rates led PE firms to use greater leverage; the median ratio of total debt to EBITDA increased from 6.5x in 2013 to 6.8x in Q1 2014[1]
- PE exits declined in Q1 2014 in both value and volume; total exits decreased to 152, amounting to $46.4B, down from 222 exits in Q4 2013 totaling $58.3B[1]
  - Secondary buyouts increased as a percentage of total exits; secondary buyouts comprised 45.3% of all exits in Q1 2014, up from 41.9% in Q4 2013

U.S. Private Equity Deal Flow



Source: PitchBook.

- Fundraising continued at a brisk pace in Q1 2014, as investors increasingly turned to alternative assets in this low interest rate environment; PE firms raised $39.0B across 74 closed funds, up from 51 closed funds in Q4 2013[1]
  - Clayton, Dubilier & Rice LLC raised $6.25B for Clayton, Dubilier & Rice Fund IX, L.P., which was the largest new fund of Q1 2014
  - 95.0% of PE firms that raised capital in Q1 2014 were able to reach their fundraising target, up from 82.0% in 2013
- "To make good deals, GPs must truly specialize – both across industries and types of deals – so they can develop distinctive investment angles and have the confidence to bid what is required to win a target asset they can transform into a highly lucrative investment," said Hugh MacArthur, Head of Global Private Equity at Bain & Company[4]

1. *PitchBook*
2. *These multiples reflect prices paid for larger private companies and do not account for smaller private company transactions that tend to change hands at much lower multiples*
3. *BDO USA*
4. *Bain & Co.*

Venture Capital and PIPEs

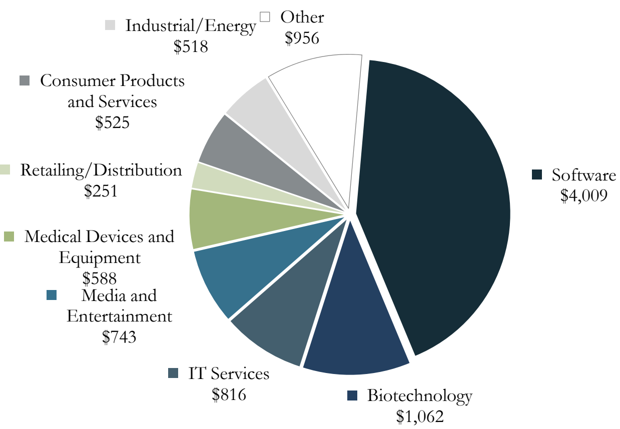
Venture Capital Investing

- In Q1 2014, the venture capital (VC) industry invested $9.5B across 951 deals, an increase of 12.0% in value and decrease of 14.0% in deal flow, as compared with $8.4B across 1,077 deals in Q4 2013[1]
- $1.2B, or 13.0% of all VC fundings, went to first-time financings[1]
- There were 36 VC-backed IPOs in Q1 totaling $3.3B in aggregate, a 50.0% increase in deal flow and 37.7% decrease in deal value from Q4 2013[2]
  - Q1 2014 was the fourth consecutive quarter to see 20 or more venture-backed IPOs and the strongest quarter since Q3 2000
- U.S. VC firms raised $8.9B across 58 funds during Q1 2014, an 81.0% increase from the amount raised during Q4 2013 and a 9.0% increase in the number of funds[2]
  - Commitments in Q1 were up 102.2% from the same period in 2013, marking the strongest quarter for VC fundraising since Q4 2007
- The top fundraiser during Q1 2014 was TCV VIII, L.P., which raised $1.4B, followed by General Founders Fund V, L.P., which picked up $1.0B[2]

PIPE Investing

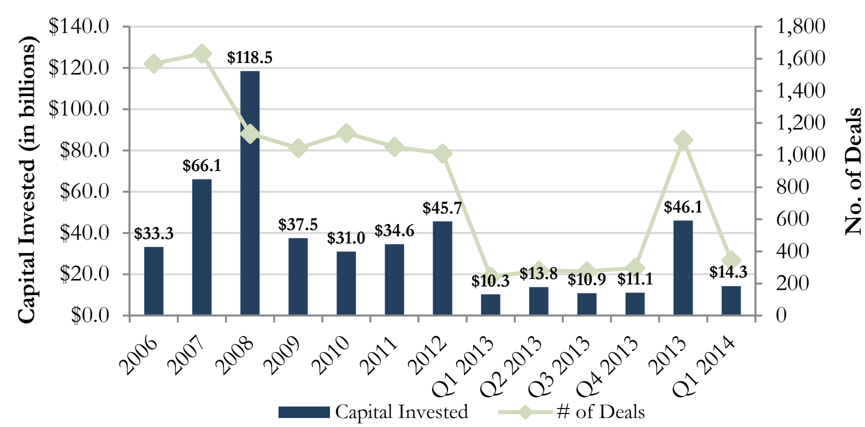
- $14.3B was raised across 344 U.S. transactions that were announced or completed in Q1 2014, as compared with 242 transactions that raised $10.3B in the prior-year period[3]
  - At the market (ATM) offerings made up 10.8% of the total deal flow and 37.2% of the total value of PIPE transactions in Q1[4]
  - 226 placements were unregistered and 118 were registered, representing $6.35B and $7.89B, respectively[3]
- Heights Capital Management was ranked as the most active institutional investor in the U.S. PIPE market during Q1 2014 in terms of the number of deals, investing $15.3M in 10 transactions[3]
- The Coca-Cola Company was the largest investor, deploying $1.3B in Q1 2014[3]
- Dan Lonkevich, Senior Editor for The Deal, said, "The increased activity was helped by a rising stock market and a slowly improving economy and increased investor appetite for risk."[3]

VC Deals Per Industry – Q1 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. *PrivateRaise/DealFlow*
4. *ATM (at the market) offerings are commitments to raise money through the issuance of stock at the issuer's discretion*

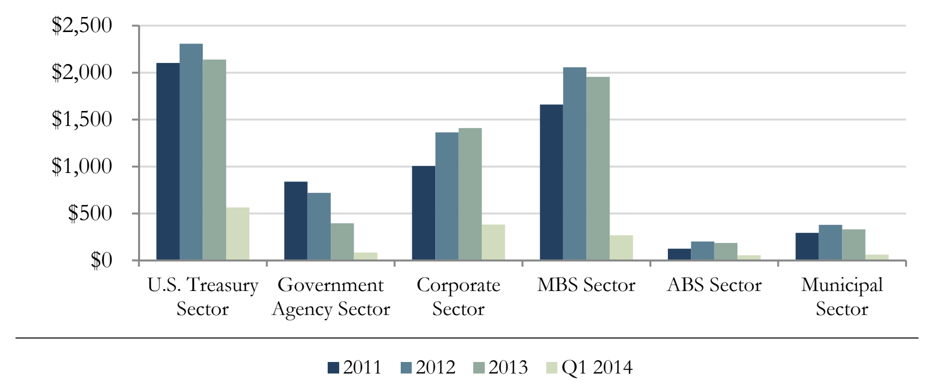
Debt Capital

- The Barclays Aggregate Bond Index posted a return of 1.84% in Q1 2014, up from -0.14% in Q4 2013[1]
  - The fixed income asset class bounced back after posting a negative return in 2013 for the first time in 14 years[2]
  - Interest rates remain low as Janet Yellen, Chairwoman of the Federal Reserve, continued her predecessor's policies[3]
- Total debt issuances increased slightly from $1.40T in Q4 2013 to $1.41T in Q1 2014; total debt issuances were still down 13.2% compared with Q1 2013[4]
- $383.0B of U.S. corporate bonds were issued in Q1 2014, up 22.1% from $313.7B in Q4 2013[4]
- Spreads for high yield bonds continued to tighten in Q1 2014
  - The spread between high yield debt and 10-year Treasury securities decreased from 436 basis points at the end of Q4 2013 to 409 basis points at the end of Q1 2014[6]
  - The spread between high yield debt and investment grade debt reached a historic low of 251 basis points in Q1 2014, well below its average of 424 basis points over the last 14 years[3]
- Investment grade corporate bond issuances totaled $311.5B in Q1 2014; this marked a 12% increase from Q1 2013 and is the highest Q1 total on record[7]
- The value of outstanding commercial loans under $1M at federally insured banks – a proxy for small business – has declined nearly 15% since 2008 to $287.6B[9]

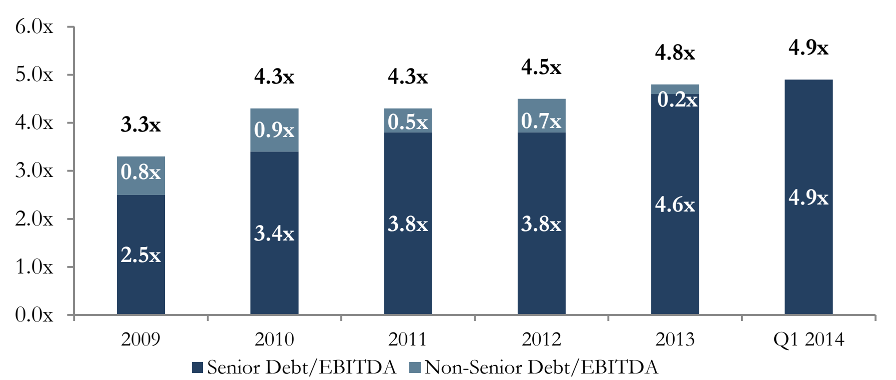
Middle Market LBO Lending

- Availability of debt continues to grow and favor borrowers
- Leverage multiples continue to advance and are at the highest level since the latest recession
  - 55% of middle market buyout volume was leveraged at 5.0x or greater in Q1 2014, up from 41% in 2013[10]
  - Senior debt is squeezing out higher cost junior capital, providing greater availability at a significantly lower all-in cost
- Equity contributions as a percentage of total deal value declined to 36% in Q1 2014, down from 46% in 2013[10]

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



Debt Multiples of Middle Market LBO Loans



Source: S&P Cap IQ LCD

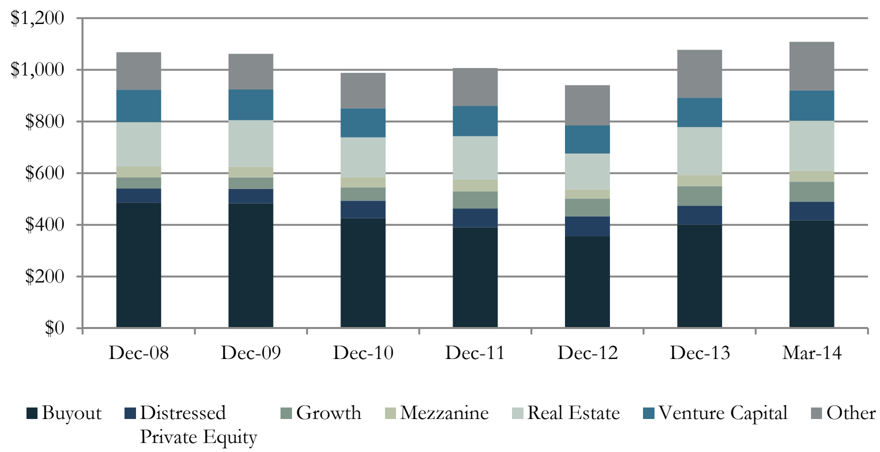
1. *Prudential*
2. *Raymond James*
3. *BMO*
4. *SIFMA*
5. *R.W. Baird*
6. *Guggenheim Partners*
7. *Thomson Reuters*
8. *Eaton Vance*
9. *Federal Deposit Insurance Corp*
10. *S&P Cap IQ LCD*

Conclusion

- Abundant cash and a thirst for returns that exceed those in the bond and stock markets are driving the M&A, high yield debt, and IPO markets
  - Global PE dry powder reached a record level of $1.11T at the end of Q1 2014, up 2.9% from Q4 2013[1]
  - U.S. corporations have record-high amounts of cash, with non-financial S&P 500 companies holding $1.41T at the end of 2013, a 13.9% increase over 2012[2]
  - The recent allure of lofty valuations in the U.S. public markets has drawn a flurry of IPOs, with 275 transactions in the last twelve months, more than double the total from the year ended March 31, 2013[3]

- Global political stability and economic growth in China remain concerns, but the U.S. economy continues to steam forward, albeit at a slow pace, which (combined with the excess cash and search for returns) portends favorable deal markets for the balance of the year

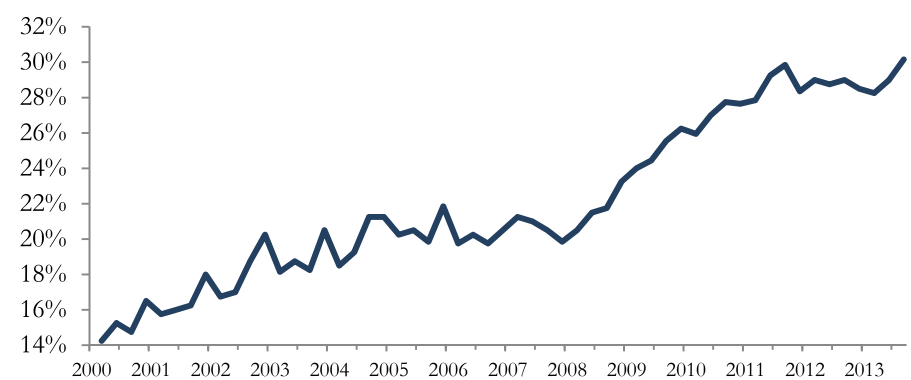
Private Equity Dry Powder



Source: Preqin.

Corporate Cash as a Percentage of Current Assets

Quarterly cash and cash equivalents of S&P 500 companies



Source: J. P. Morgan Chase & Co.

1. *Preqin*
2. *Factset*
3. *PricewaterhouseCoopers*

One Small Step for the SEC, One Giant Step for Equity Crowdfunding

By Michael Harrington
Fox Rothschild LLP

On October 23, 2013, after more than 15 months of delays, the SEC finally issued proposed rules and forms that would implement Title III of the Jumpstart Our Business Startups (JOBS) Act. President Obama signed the JOBS Act into law on April 5, 2012. One of its key provisions is Title III, also known as "equity crowdfunding," which amended the Securities Act of 1933 to add a registration exemption to allow companies to raise capital from a large number of people through the Internet and social media.

Equity crowdfunding is intended to enable small or startup businesses that may not have easy access to traditional fundraising methods (senior lending, mezzanine lending, venture capital, or other capital sources) to raise the capital necessary to further their businesses. It further enables these businesses to raise capital with significantly less "red tape" and reach angel and other non-institutional investors that otherwise could not be identified, as well as allow these investors to invest in opportunities they otherwise would not have been presented.

Title III accomplishes this by creating an exemption from registration under the Securities Act of 1933 for certain "crowdfunding" securities offerings conducted through "crowdfunding intermediaries." Title III sets forth a number of criteria required to satisfy the equity crowdfunding exemption, including:

- $1 million limitation on the amount raised in any 12-month period;
- $100,000 limitation on the amount an investor may invest in an issuer's crowdfunding offerings during a 12-month period based on the investor's annual income or net worth;
- requiring offerings to be conducted through a broker or a newly registered funding portal;
- requiring certain mandatory disclosures to potential investors; and
- limiting the exemption to issuers organized in the U.S. that are not already subject to the reporting requirements of the Securities Exchange Act of 1934 (Exchange Act).

Under the proposed rules, only securities sold in the crowdfunding offering would count towards an issuer's $1 million capital raise maximum. In addition, the rules will permit issuers to rely on the efforts of crowdfunding intermediaries to determine whether an investor has reached the per investor limits prescribed by the statute.

In order to conduct a crowdfunding offering, issuers will be required to file certain information with the SEC and provide this information to investors, potential investors, and the crowdfunding intermediary they'll be using.

The SEC's proposed rules follow the original statutory framework and require an equity crowdfunding issuer to provide the following financial information:

For offerings of $100,000 or less:

- U.S. GAAP financial statements for the two most recently completed fiscal years or shorter period during which the issuer has been operating
- Filed income tax returns for the most recently completed fiscal year

For offerings between $100,000 and $500,000:

- CPA reviewed U.S. GAAP financial statements along with the CPA's review report

For offerings more than $500,000:

- CPA audited U.S. GAAP financial statements

An issuer also would be required to provide a discussion of its financial condition covering, among other things, historic results of operations and liquidity and capital resources. This narrative will be similar to – yet not as detailed as – a Management Discussion and Analysis, which provides an explanation from management of how an entity has performed in the past, its financial condition, and its future prospects.

In addition, a Form C will need to be filed on EDGAR before the offering is started. Among other things, Form C requires the reporting of:

- information on the issuer, directors, officers, and owners (if they own 20 percent or more of the issuer);
- the intended use of proceeds;
- the targeted offering amounts;
- a business plan;
- details on the intermediary in use; and
- the offering price and how it was determined.

The disclosure of certain information not previously required by the JOBS Act will now be required, such as the number of current employees of the issuer, risk factors relating to the offering, the issuer's debt position, and related party transactions.

Each issuer will need to file an annual report with the SEC and post it to its website within 120 days of the end of each fiscal year. That report will disclose information about ongoing business and capital-raising activities. In addition, issuers are restricted in their ability to advertise their crowdfunding offering only through a print or electronic notice containing specific limited information.

The notice must direct potential investors to the crowdfunding intermediary platform in use (e.g., Kickstarter and Indiegogo), where investors could then access additional information about the offering. However, under the proposed rules, there would be no restriction on an issuer's ability to communicate with investors or potential investors on the intermediary's platform, or make communications that do not refer to the terms of the offering (e.g., an issuer can advertise its products or services as long as it doesn't refer to its crowdfunding offering in the advertisement).

Since the 90-day period that the SEC provided in seeking public comment on the proposed rules has passed, it is expected that final regulations will be released soon. The SEC's final rules are eagerly awaited, as they are poised to change the landscape and make the visions of entrepreneurs and startups more attainable.

Michael Harrington, Partner, *mharrington@foxrothschild.com*

Named as one of the leading corporate attorneys in Pennsylvania by Chambers USA, Michael concentrates his practice on representing early and growth stage technology, life science, and clean tech companies in: corporate finance, private equity, mergers, acquisitions, venture capital, and technology law.

Fox Rothschild LLP

Fox Rothschild LLP is a national law firm with more than 550 attorneys practicing in 19 offices coast to coast. Fox Rothschild's lawyers provide a full range of legal services to public and private companies – from family-run businesses to multinational corporations and charitable, medical, and educational institutions both in the United States and worldwide.

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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