



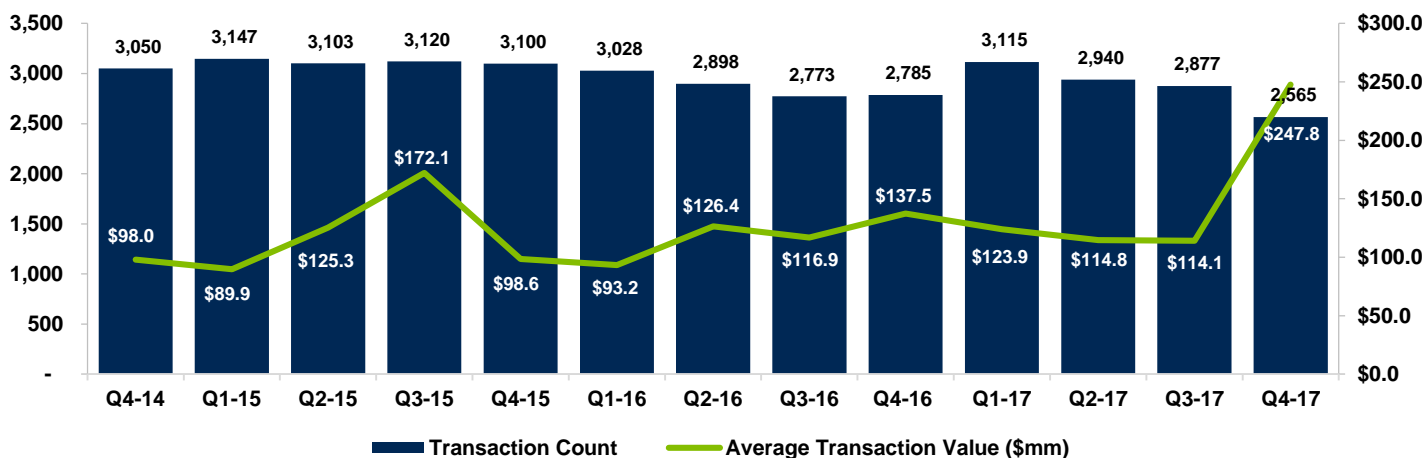
Middle Market M&A Update

Q4 2017

Overview

“The M&A environment remains a healthy seller’s market”

- Transaction multiples were at an all time high in 2017. Factors driving strong valuations include low interest rates, record high levels of private equity capital, and high cash balances at corporations. The M&A market remained healthy throughout the year, with transaction multiple averages up from 2016. The average middle market transaction multiple increased from 8.2x in 2016 to 8.9x in 2017. Strong demand for quality deals is outpacing the number of deals available, which may suggest continued momentum. Strategic and financial buyers are actively looking to deploy capital but they remain selective, resulting in a lower total deal count combined with higher multiples and valuations.
- The number of U.S. middle market M&A transactions with reported value of **less than \$1 billion** decreased slightly during Q4-17. However, as illustrated below, the average total transaction value of deals doubled from Q3 to Q4. The Q4-17 average deal size was up 80.3% YoY and was the highest level in recent years.
- Looking ahead, a continued strong economy and a boost from the recent tax reform both should provide further tailwinds for M&A activity in 2018. With the tax bill reducing the corporate rate from 35% to 21%, we believe higher cash flows will provide incentives to invest in capital expenditures as well as acquisitions.



Source: Lutz M&A, Capital IQ

Note: Includes closed, announced and effective deals with transaction value less than \$1 billion; Excludes Real Estate transactions.

Select Midwest Q4-17 M&A Transactions^(a)

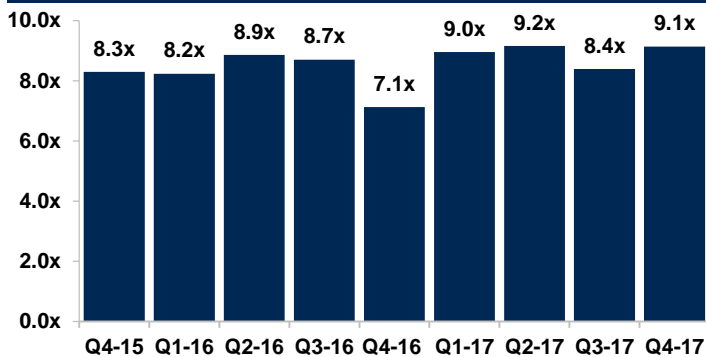
Date Announced	Acquirer	Location	Target	Location	Target Sector	TEV (\$mm)
10/02/2017	Carlisle Construction Materials Incorporated	Pennsylvania	Accella Performance Materials Inc.	Missouri	Materials	\$670.0
11/09/2017	BlackRock, Inc. (NYSE:BLK); Navigator Energy Services, LLC	New York/Texas	Glass Mountain Pipeline LLC	Oklahoma	Energy	\$600.0
10/31/2017	Kissner USA Holdings Inc.	Canada	US Salt, LLC	Missouri	Materials	\$225.0
10/19/2017	Nelnet Diversified Solutions, LLC	Nebraska	Great Lakes Educational Loan Services, Inc.	Wisconsin	Financials	\$150.0
11/28/2017	Jack Henry & Associates, Inc. (NasdaqGS:JKHY)	Missouri	Ensenta Corporation	California	Info Tech	\$130.0
11/02/2017	MAK LLC	Missouri	Ocera Therapeutics, Inc.	California	Healthcare	\$107.1
11/06/2017	Diplomat Pharmacy, Inc. (NYSE:DPLO)	Michigan	Pharmaceutical Technologies, Inc.	Nebraska	Healthcare	\$47.0
10/25/2017	Bridges Investment Management Inc.	Nebraska	Westwood Holdings Group, Inc., Private Wealth Business in Omaha	Nebraska	Financials	\$10.5

(a) Midwest defined as Iowa, Kansas, Missouri, Nebraska, North Dakota, Oklahoma and South Dakota.

Transaction Environment

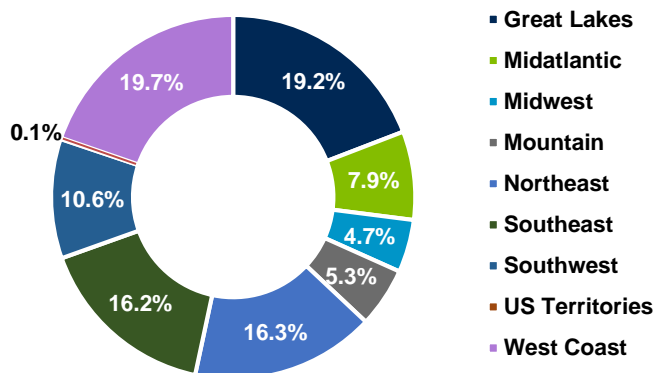
- Transaction Multiples** – Middle market enterprise value/EBITDA multiples increased to 9.1x in Q4-17, up from 8.4x in Q3-17.
- Valuations remain elevated relative to prior years, largely due to a limited supply of high quality deals on the market, combined with healthy demand from both strategic and financial buyers. Lower interest rates enable buyers to maximize leverage on transactions, resulting in favorable pricing for sellers.
- We look for valuations and the M&A market to remain strong in 2018.

Average TEV / EBITDA^{(a)(b)}



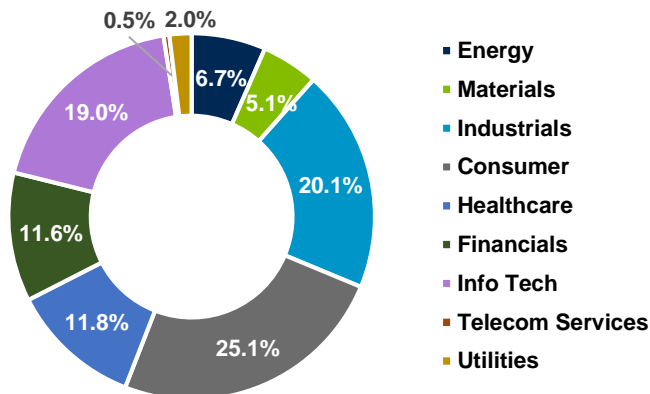
(a) Transactions between \$5 and \$250 million with TEV / EBITDA multiples <15x.
 (b) TEV defined as Total Enterprise Value.

M&A Activity By Region



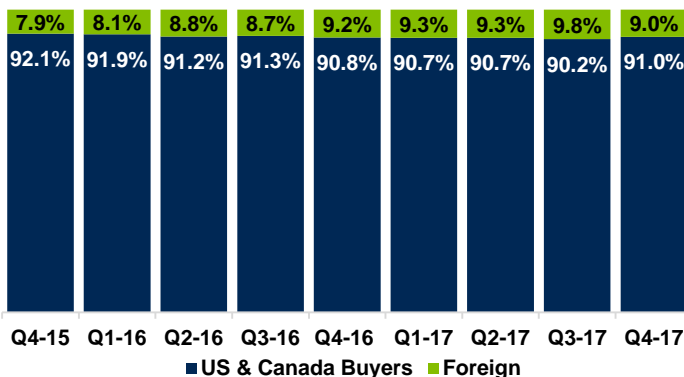
- The West Coast had the most activity in Q4-17 with 19.7% of total middle market transactions, followed by the Great Lakes, and Northeast regions.

M&A Activity By Sector



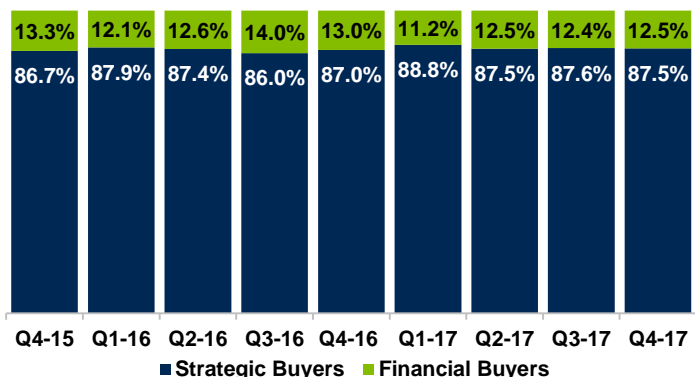
- Consumer, Industrials, and Information Technology accounted for 64.3% of total U.S. Middle Market M&A transaction volume in Q4-17.

M&A Activity By Buyer Region



- Non-U.S. buyers continue to grow their presence in the U.S. market, accounting for 9% of total Middle Market buyers in Q4-17.

M&A Activity By Buyer Type



- Both strategic and financial buyers have remained active, accounting for 87.5% and 12.5% of total acquisitions, respectively, in Q4-17.

Private Equity Environment / Data Highlights

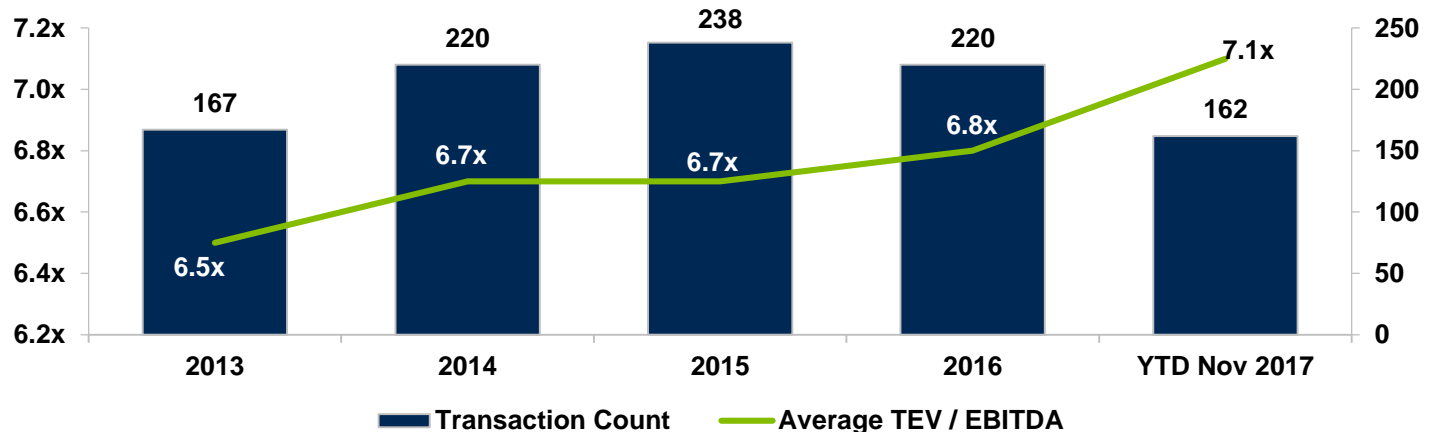
All Transactions	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
# of Deals	50	76	36	58	62	51	49	N/A
TEV / EBITDA	6.5x	7.1x	6.6x	6.7x	6.6x	7.3x	7.5x	N/A
Total Debt / EBITDA	4.4x	4.0x	3.8x	3.7x	3.9x	4.3x	4.6x	N/A
Senior Debt / EBITDA	2.8x	3.3x	3.2x	2.8x	3.1x	3.6x	3.8x	N/A

Source: GF Data®

- GF Data provides data on reported private equity sponsored M&A transactions only, with enterprise values of \$10 to \$250 million. The data is obtained from over 200 PE firms that contribute confidential information on completed transactions.
- Valuations for Q3-17 averaged 7.5x, up from 7.3x in Q2-17. This 7.5x multiple represented the highest recorded in the 15-year history of GF Data surveys. Debt levels are also at recent highs. Data for Q4-17 has yet to be published.

Total Enterprise Value (TEV) / EBITDA By Transaction Size

TEV	2003-2012	2013	2014	2015	2016	YTD Nov 2017
\$10-\$25 million	5.6x	5.9x	5.7x	5.8x	5.9x	6.3x
\$25-\$50 million	6.2x	6.5x	6.6x	6.6x	6.5x	6.5x
\$50-\$100 million	6.8x	6.8x	8.4x	7.8x	7.3x	7.9x
\$100-\$250 million	7.3x	7.5x	7.8x	9.0x	9.0x	8.9x
Average TEV / EBITDA	6.2x	6.5x	6.7x	6.7x	6.8x	7.1x
Transaction Count	1761	167	220	238	220	162



Source: GF Data®

- Valuations are particularly high for \$100-250 million transactions, at 8.9x YTD through Nov 2017. Larger companies tend to command higher multiples, all else being equal. There is a discount applied to smaller companies due to several reasons such as market power, dependency on key customers as well as key management, etc.
- YTD Nov 2017 saw strength in valuations on smaller transactions (\$10-\$25 million) as well – TEV / EBITDA multiples increased to 6.3x from 5.9x in 2016.
- Currently, the M&A market remains strong and should be an attractive option for companies to explore a potential sale transaction.

About Lutz M&A

Lutz M&A is an Omaha-based mergers and acquisitions advisory firm. We provide M&A services to profitable businesses with sales of \$5 million and above, across a wide range of industries. We bring the M&A deal marketing process of larger investment banks to the lower middle market.

Our focus is to represent Midwest-based companies for buyout or recapitalization. Our services begin with initial planning and cover the entire deal spectrum, from marketing to tax consulting, due diligence, deal structuring, and closing. Our team will run a market driven process designed to maximize buyer interest that drives higher valuations and better outcomes.

Lutz M&A exists to deliver results, exceed expectations, and provide superior service to our clients. We believe the lower middle-market deserves service that is typically reserved for larger companies.

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Lutz M&A – Recent Transactions

January / 2016



Acquired by
NE-Based Family
Business

Lutz M&A was the
exclusive financial advisor

January / 2016



Acquired by an
affiliate of
SUN CAPITAL PARTNERS, INC.

Lutz M&A was the
exclusive financial advisor

June / 2016



Acquired by
helpsystems

Lutz M&A was the
exclusive financial advisor

February / 2017



Acquired by
McCarthy Capital

Lutz M&A was the
exclusive financial advisor

September / 2017



Acquired by
GRC
GREAT RANGE CAPITAL

Lutz M&A was the
exclusive financial advisor

November / 2017



Acquired by
evolve

Lutz M&A was the
exclusive financial advisor

