



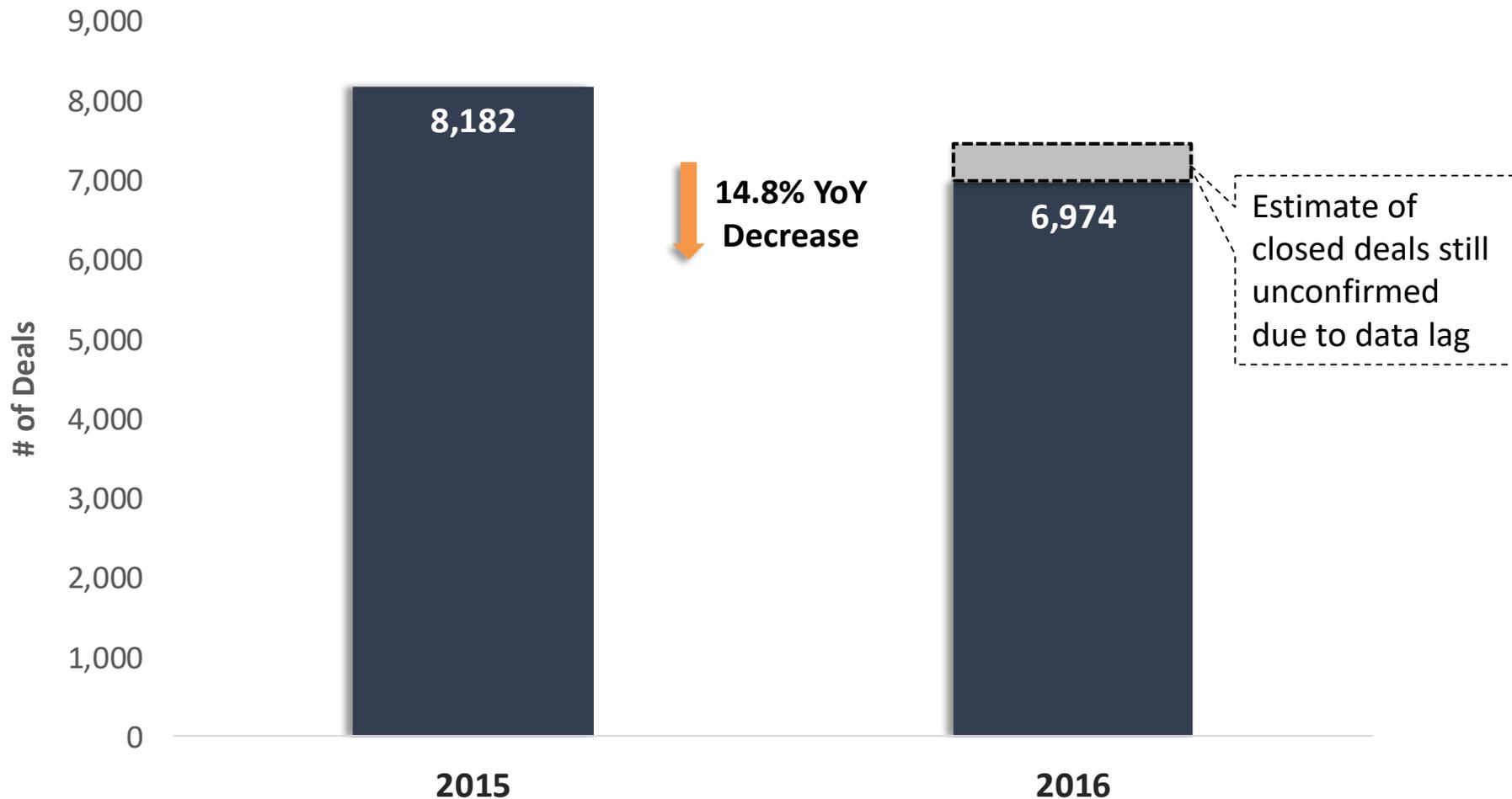
Sutton Place Strategies, LLC

Mezzanine Market and Deal Sourcing SBIA Southern Private Equity Conference March 3rd, 2017

SPS Background

- Founded in 2009 by former Private Equity professionals.
 - Dedicated to helping investors, lenders, corporate buyers, and advisors maximize their business development effectiveness.
 - Proprietary data tracked on a primary basis by SPS.
 - Internally developed technology and software.
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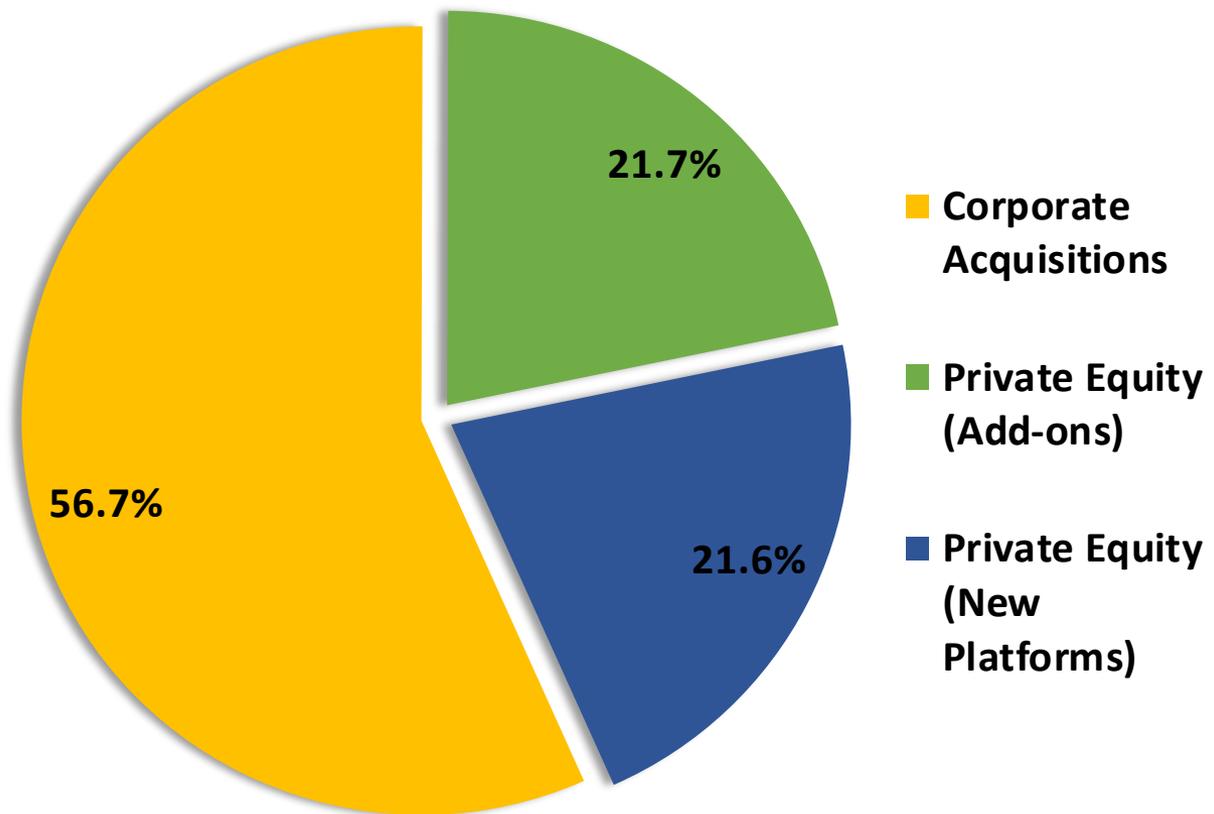
M&A Activity: 2015 vs. 2016



*Based on completed PE and M&A transactions \$10 MM+ in transaction value, with the target located in the U.S. or Canada.

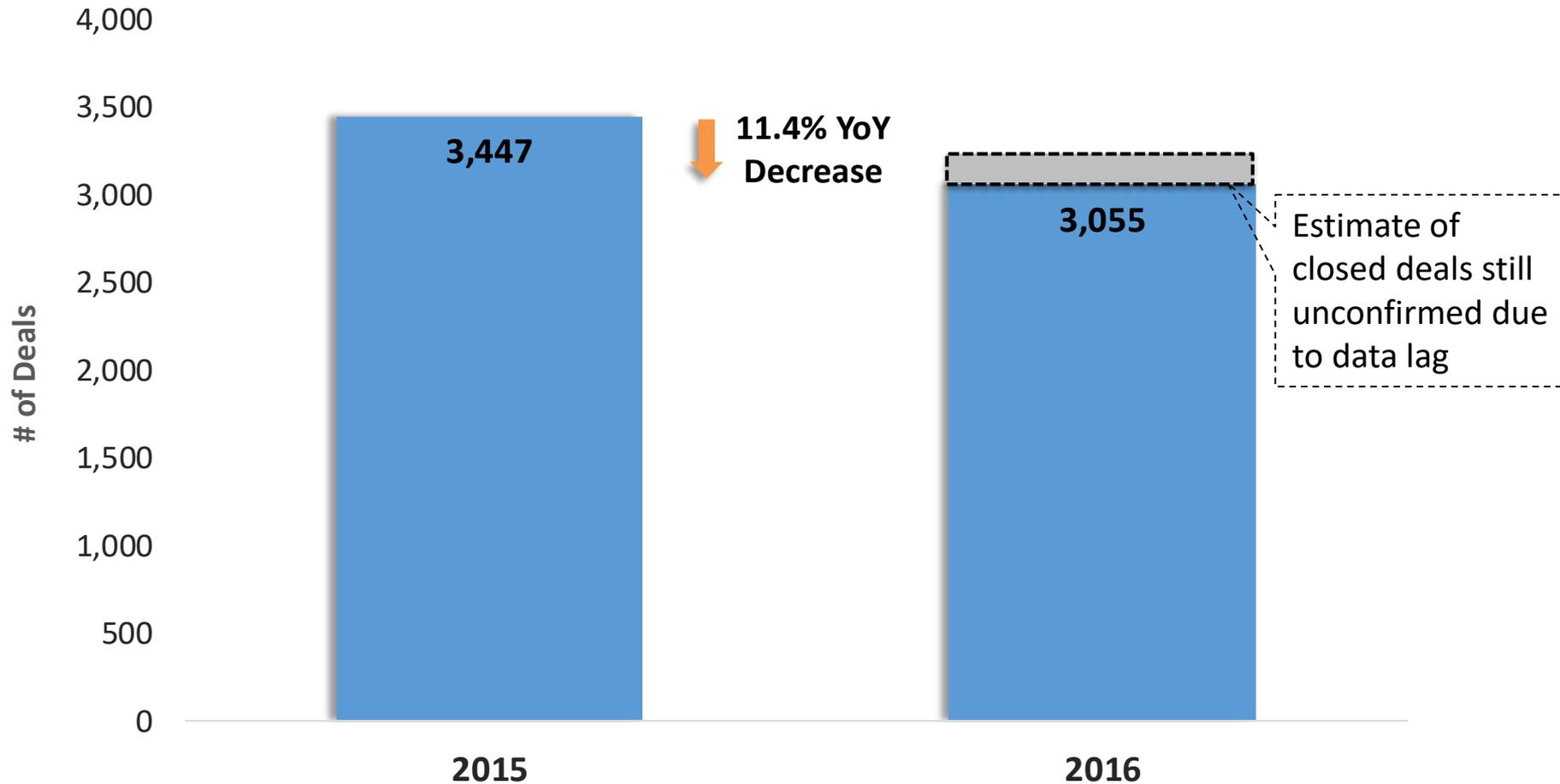
M&A Activity in 2016: Corporate vs. Private Equity

Over 43% of M&A Activity Involves a PE Buyer



*Based on completed PE and M&A transactions \$10 MM+ in transaction value, with the target located in the U.S. or Canada.

PE Activity: 2015 vs. 2016



*Based on completed PE transactions \$10 MM+ in transaction value, with the target located in the U.S. or Canada.

Valuation Overview

Lower Middle Market Purchase Multiples at All Time High

TOTAL ENTERPRISE VALUE (TEV)/EBITDA

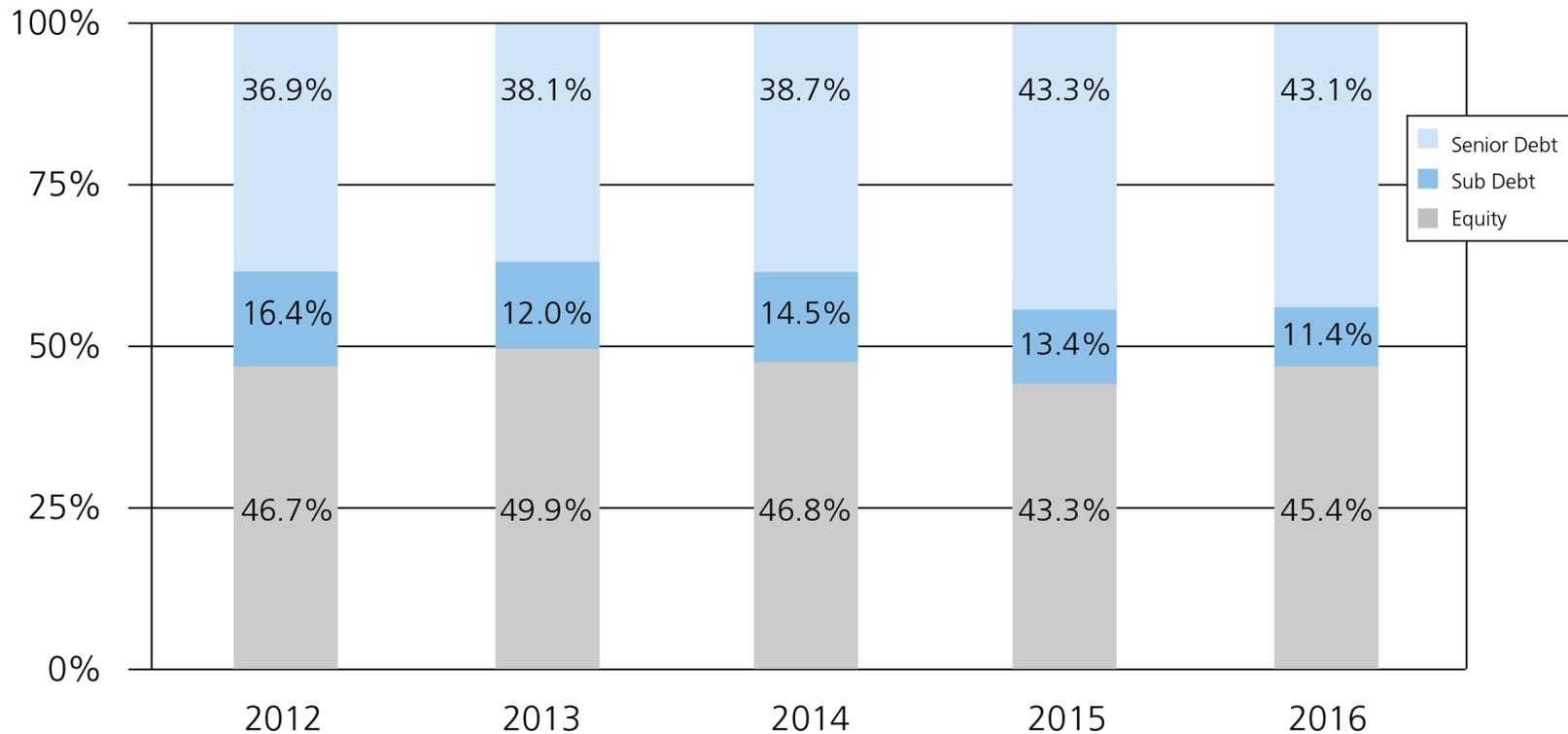
TEV	2003-2011	2012	2013	2014	2015	2016	Total	N =
10-25	5.6	5.8	6.0	5.6	5.8	6.0	5.7	1015
25-50	6.2	6.2	6.8	6.6	6.6	6.4	6.3	764
50-100	6.8	6.7	6.8	8.4	7.8	7.3	7.0	525
100-250	7.3	7.4	7.5	7.8	9.0	9.0	7.8	248
Total	6.2	6.3	6.5	6.7	6.7	6.9	6.4	
N =	1484	247	162	215	235	209		2552

Please note that N for 2003-11 encompasses nine years of activity.

Equity and Debt Contribution

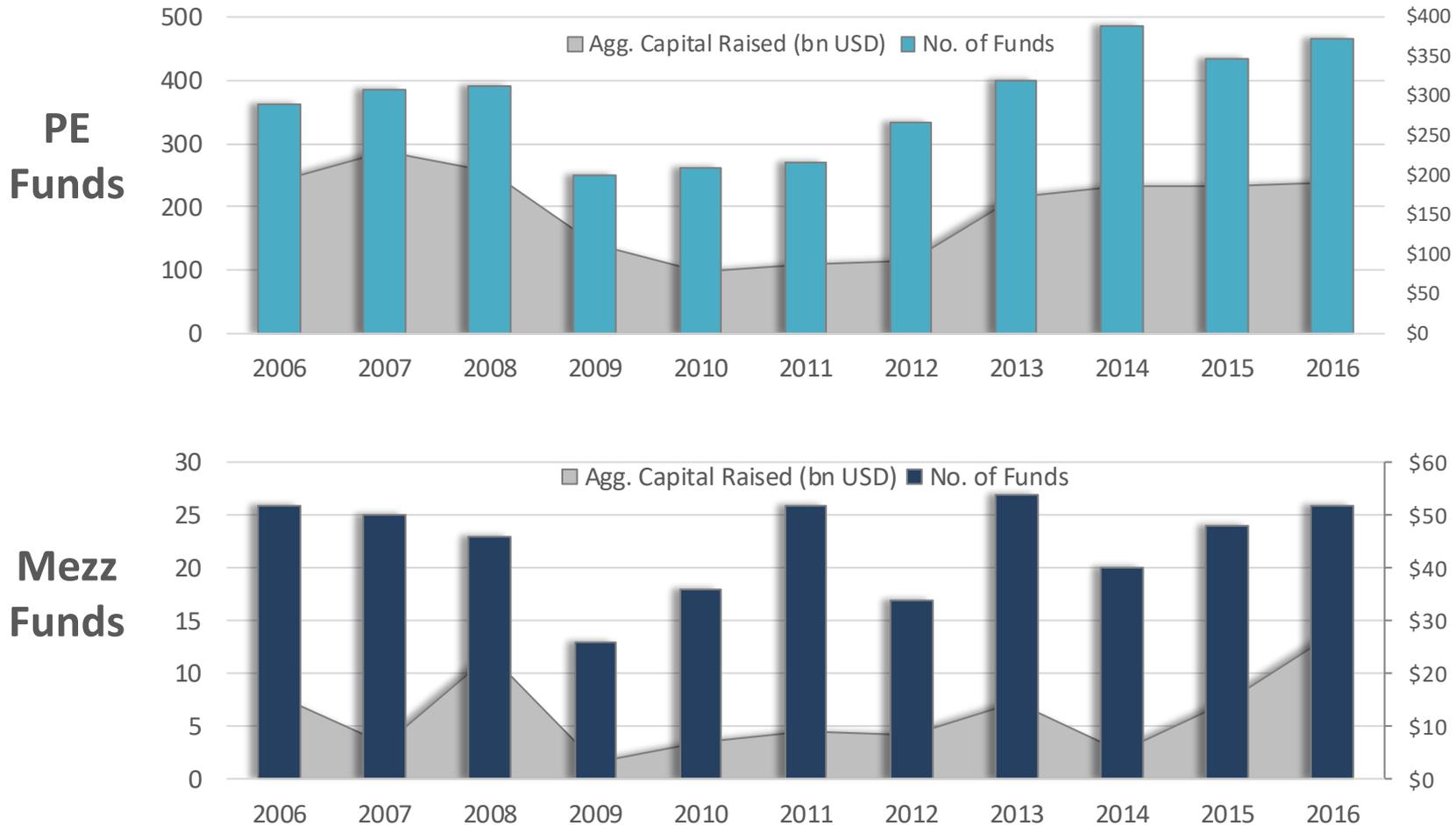
Leverage Markets and Equity Contribution Are Key Factors

EQUITY AND DEBT CONTRIBUTION BY YEAR



*Source: GF Data

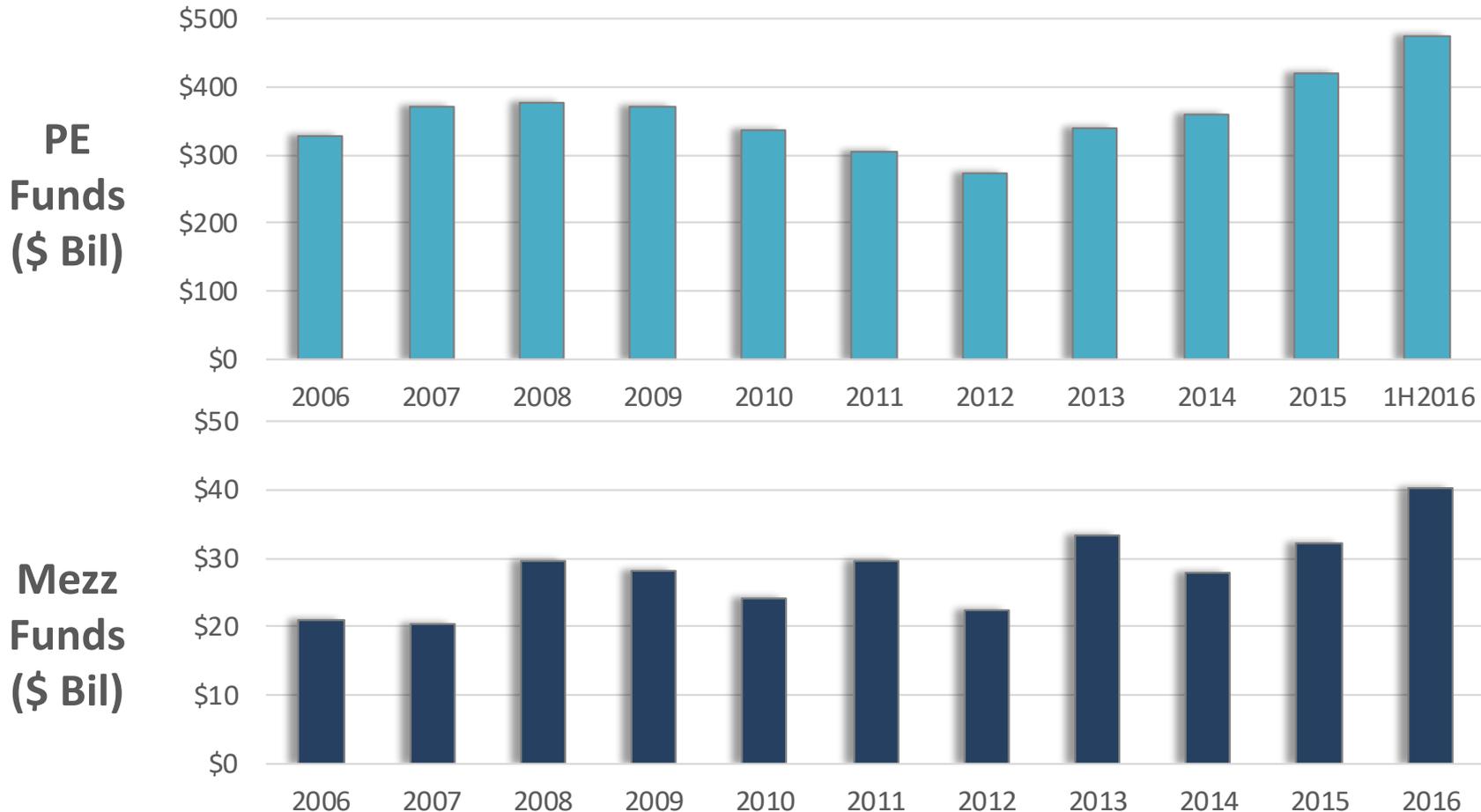
Fundraising Activity for Sponsor & Mezz Funds



*Source: Preqin, North America only

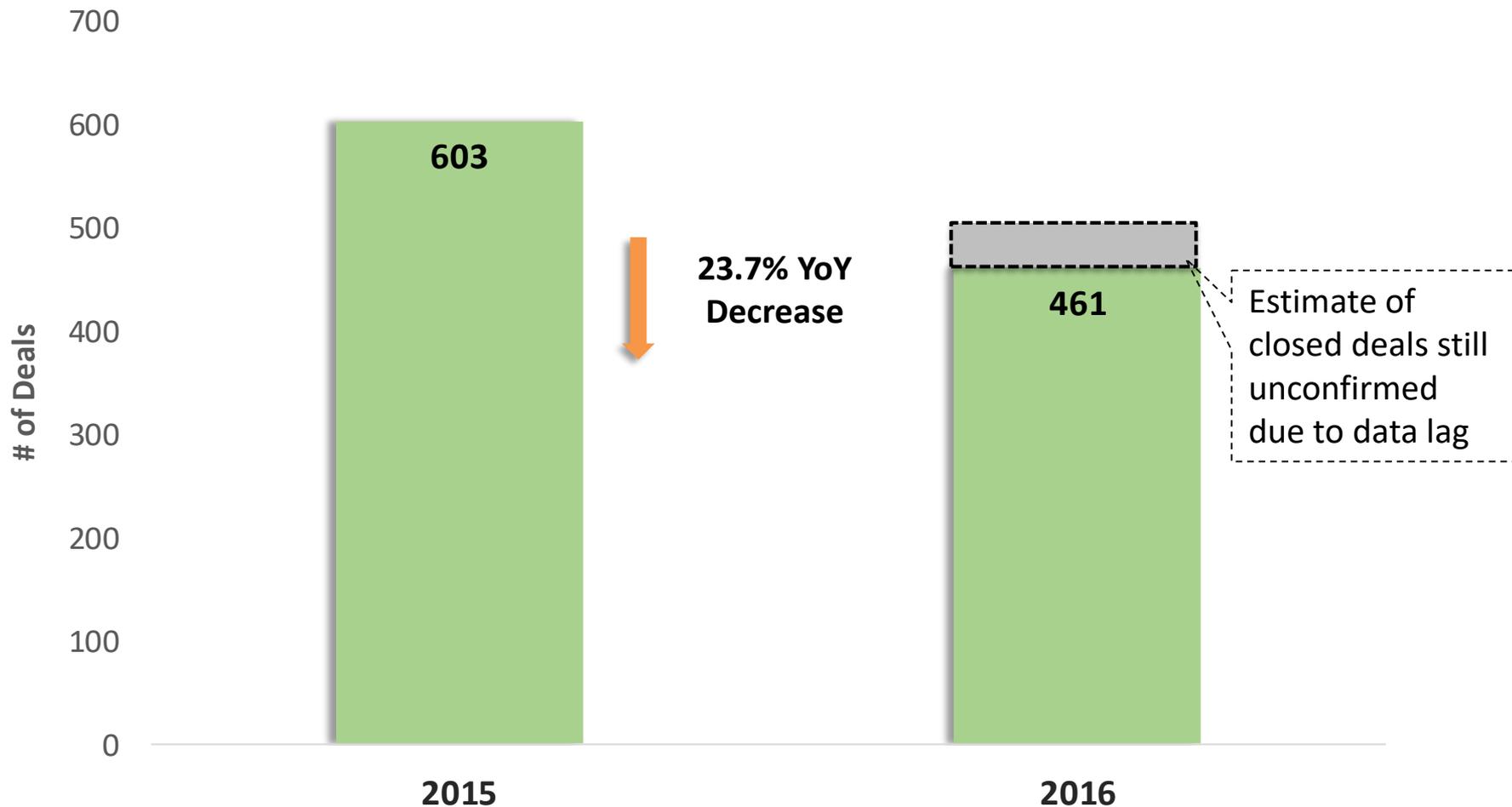
Private Equity and Mezzanine Dry Powder

There is Currently More Dry Powder Than Ever



*Source: Preqin, North America only. Dry Powder defined as the amount of capital that has been committed to a private equity fund minus the amount that has been called by the GP for investment.

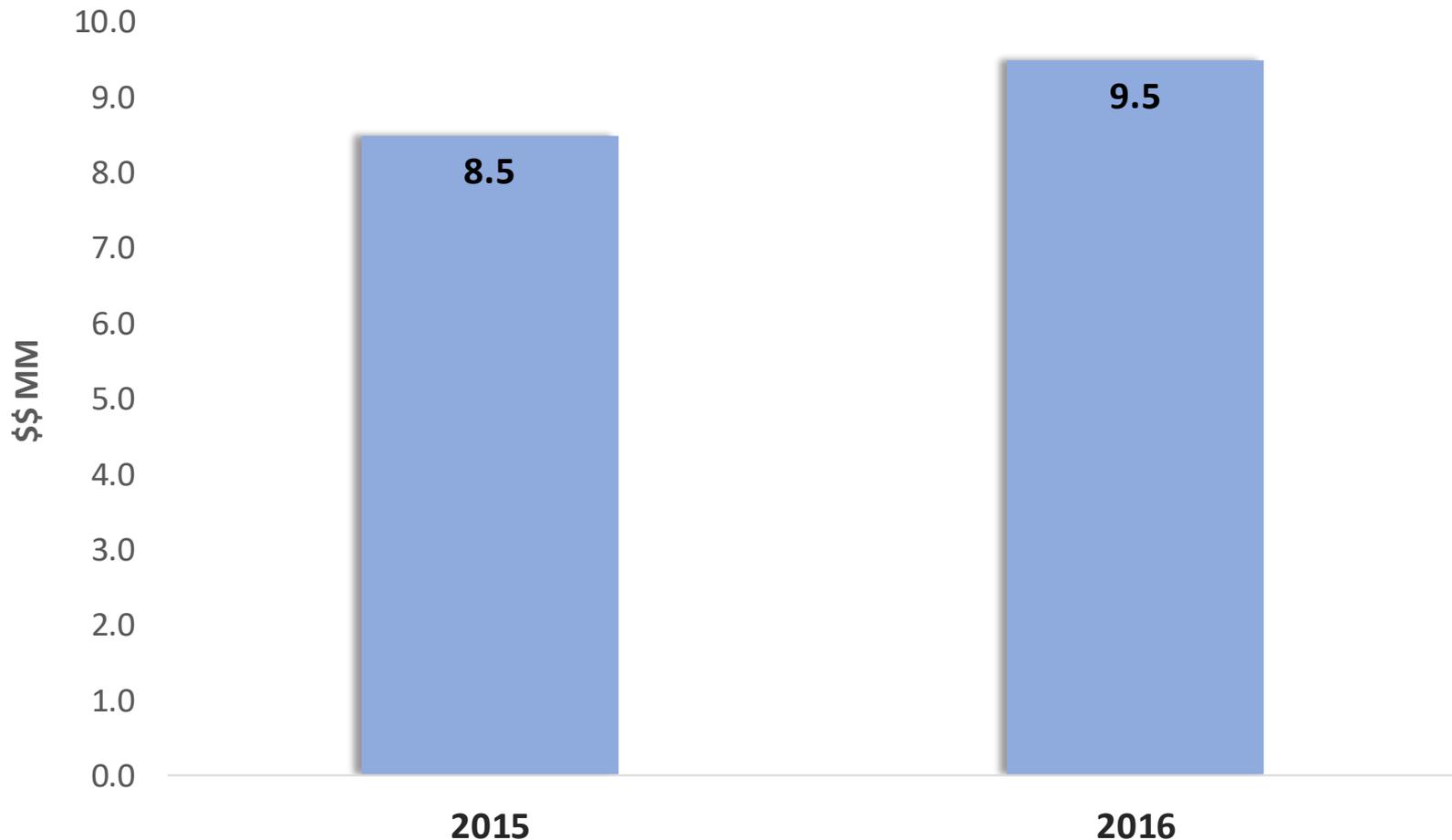
Mezzanine Activity: 2015 vs. 2016 *



*Based on completed mezzanine deals \$3MM and greater, with the target located in the U.S. or Canada. Includes select unitranche and senior secured financings with pricing or other features similar to mezzanine.

Median Mezzanine Investment: 2015 vs. 2016*

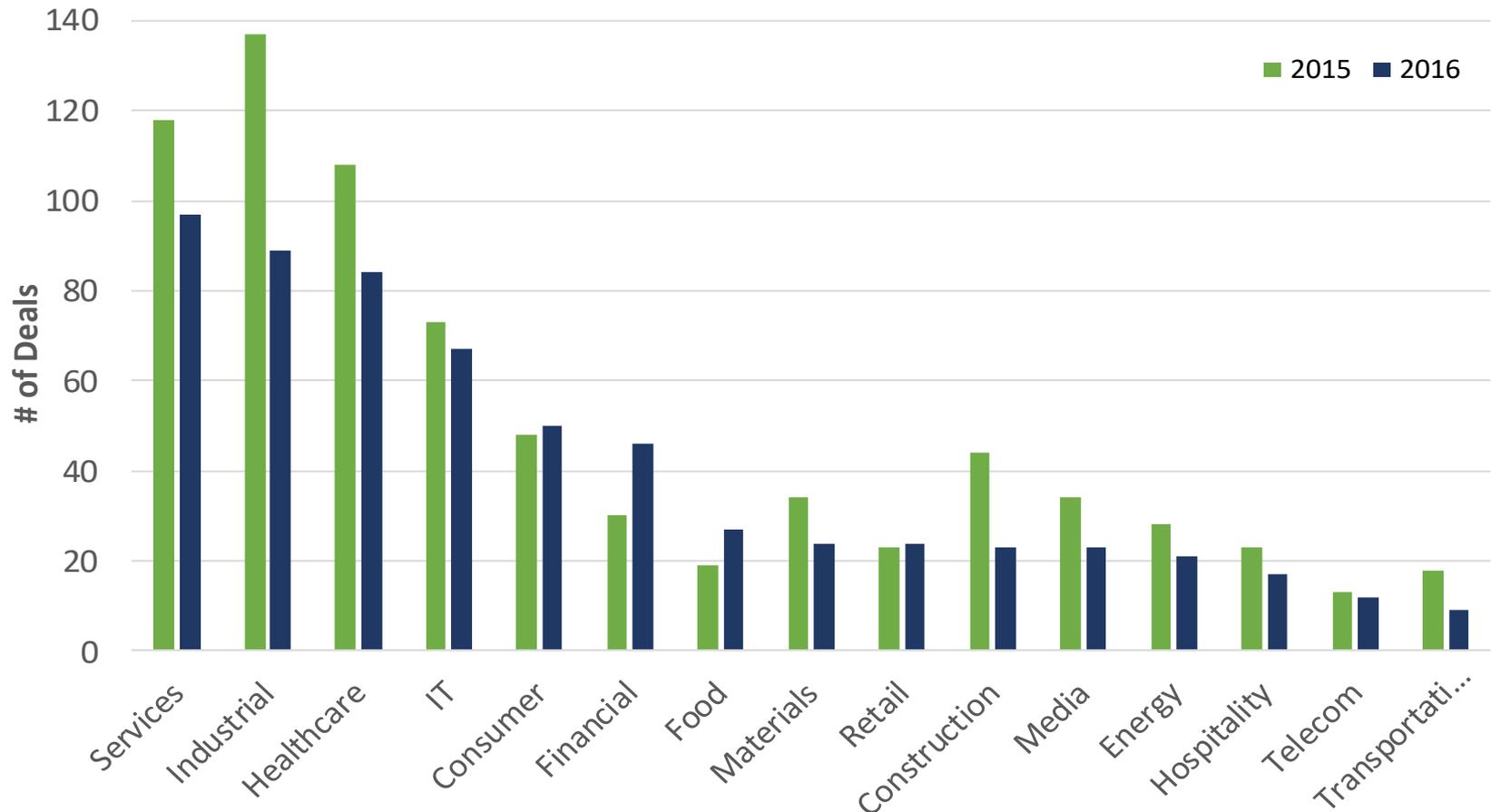
Median Mezzanine Investment Size is Up Slightly



*Based on completed mezzanine investments \$3MM and greater, with the target located in the U.S. or Canada.

Mezzanine Activity by Industry: 2015 vs. 2016 *

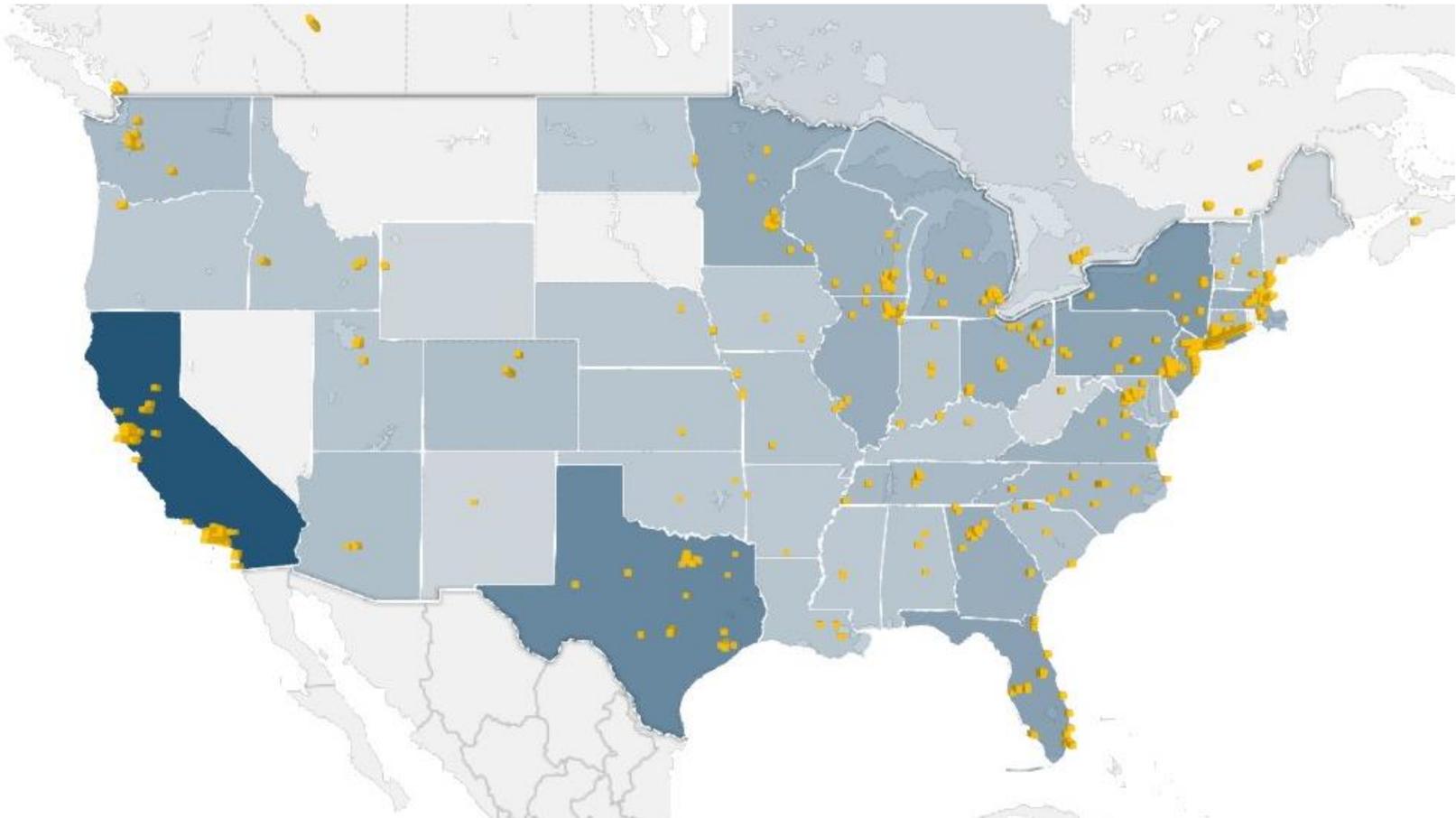
The Services Sector Saw The Greatest Activity in 2016



*Based on completed mezzanine deals \$3MM and greater, with the target located in the U.S. or Canada. Includes select unitranche and senior secured financings with pricing or other features similar to mezzanine.

Mezzanine Investment: Target Location*

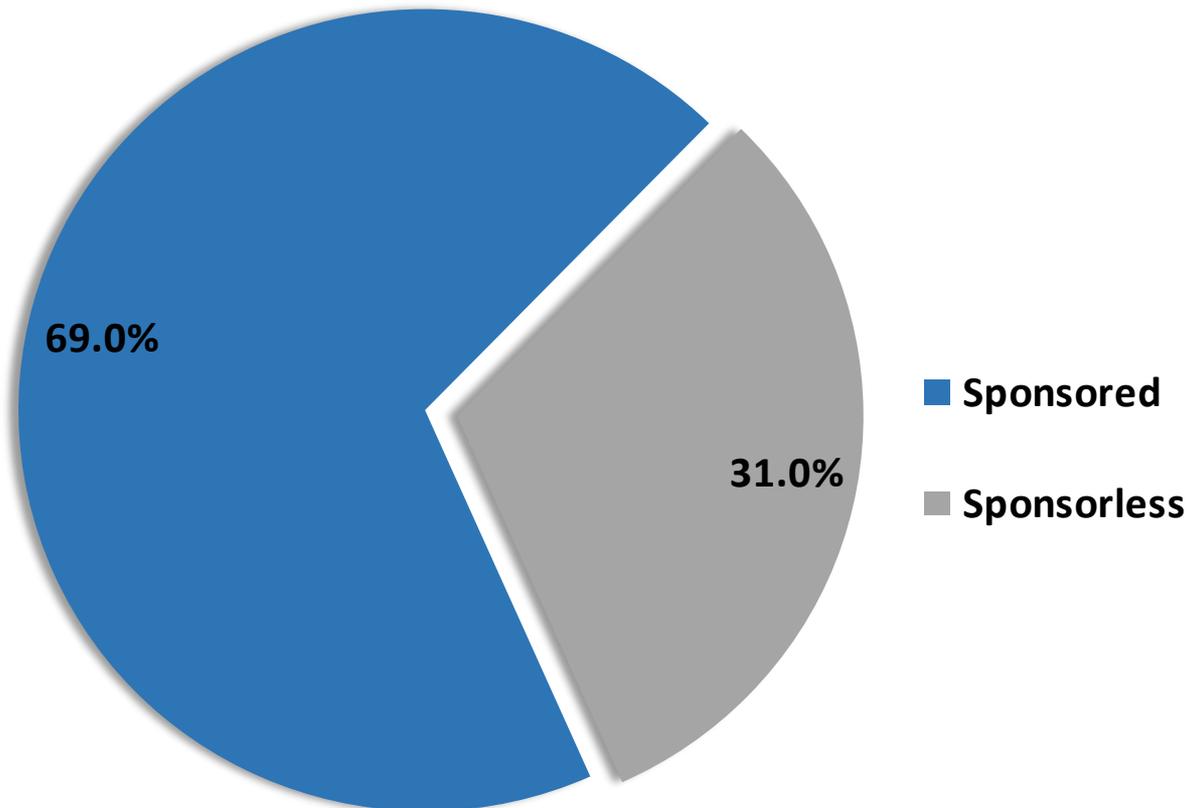
California and Texas Had the Most Transactions in 2016



*Based on completed mezzanine deals \$3MM and greater, with the target located in the U.S. or Canada. Includes select unitranche and senior secured financings with pricing or other features similar to mezzanine.

Mezzanine Activity: Sponsored vs. Sponsorless

Almost 70% of Mezz Transactions Involved a Sponsor in 2016

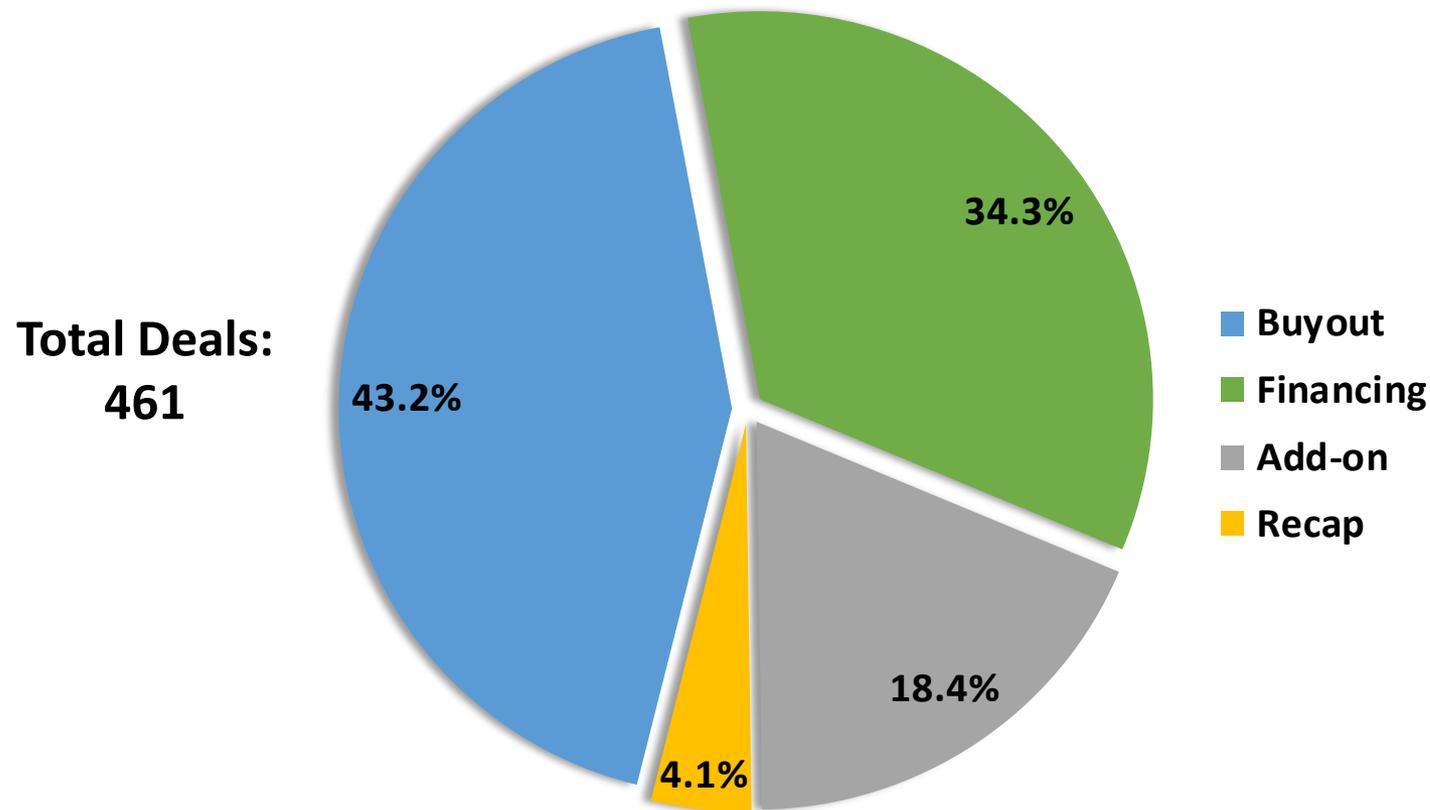


Total Deals: 461

*Based on completed mezzanine deals \$3MM and greater, with the target located in the U.S. or Canada. Includes select unitranche and senior secured financings with pricing or other features similar to mezzanine.

Mezzanine Activity: Deal Type

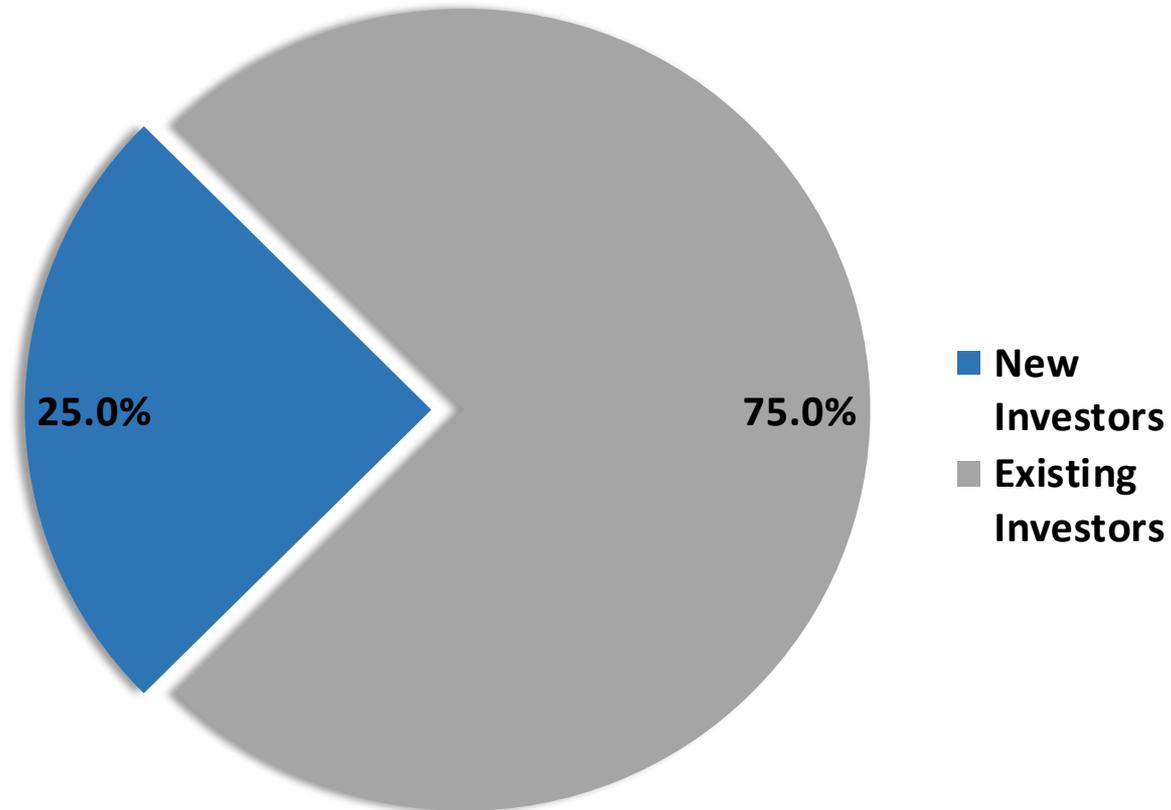
Over 40% of Mezz Investments in 2016 Supported New Platform Acquisitions by Sponsors



*Based on completed mezzanine deals \$3MM and greater, with the target located in the U.S. or Canada. Includes select unitranche and senior secured financings with pricing or other features similar to mezzanine.

Mezzanine Activity: New Investors

There were 42 New Mezzanine Investors in 2016



Total Investors: 168

*Based on completed mezzanine deals \$3MM and greater, with the target located in the U.S. or Canada. Includes select unitranche and senior secured financings with pricing or other features similar to mezzanine.

2016 Middle Market: Sponsor Breakdown

Firm	# of Deals	% of Total	Cumulative % of Total
Audax Group	9	0.6%	0.6%
ABRY Partners	9	0.6%	1.3%
Fonds De Solidarité FTQ	8	0.6%	1.8%
TA Associates	8	0.6%	2.4%
Caisse de Depot et Placement du Quebec	7	0.5%	2.9%
LLR Partners	7	0.5%	3.4%
TZP Group	7	0.5%	3.9%
Main Street Capital Corporation	6	0.4%	4.3%
Accel-KKR	6	0.4%	4.7%
Bregal Sagemount	6	0.4%	5.1%
Oaktree Capital Management	6	0.4%	5.5%
Platinum Equity	6	0.4%	6.0%
Providence Equity Partners	6	0.4%	6.4%
Riverside Company, The	6	0.4%	6.8%
Silversmith Capital Partners	6	0.4%	7.2%
Warburg Pincus	6	0.4%	7.6%
Tenex Capital Management	6	0.4%	8.1%
Thompson Street Capital Partners	6	0.4%	8.5%
Carlyle Group	6	0.4%	8.9%
Vista Equity Partners	6	0.4%	9.3%

The Rest of the Market	# of Deals	% of Total	Cumulative % of Total
12 Firms completed 5 Deals	60	4%	13.5%
22 Firms completed 4 Deals	88	6%	19.7%
67 Firms completed 3 Deals	201	14%	33.8%
163 Firms completed 2 Deals	326	23%	56.6%
620 Firms completed 1 Deal	620	43%	100.0%

Of the 904 Sponsors active in 2016, **783 (87%)** completed only 1-2 transactions

*Based on completed new PE platform transactions in 2016 between \$10-\$250 MM in transaction value.

**Total exceeds actual number of deals closed in 2016 due to multiple sponsors on some transactions.

Sponsored Transactions With Mezzanine Breakdown

211 Sponsors Used Mezzanine Financing in 2016

Firm	# of Deals	% of Total	Cumulative % of Total
Audax Group	11	4.0%	4.0%
Clearview Capital	5	1.8%	5.8%
Sentinel Capital Partners	4	1.4%	7.2%
Shoreview Industries	4	1.4%	8.7%
Balance Point Capital	3	1.1%	9.7%
Generation Growth Capital	3	1.1%	10.8%
Guardian Capital Partners	3	1.1%	11.9%
Harvest Partners	3	1.1%	13.0%
Northern Pacific Group	3	1.1%	14.1%
O2 Investment Partners	3	1.1%	15.2%
Oakland Standard Co.	3	1.1%	16.2%
Revelstoke Capital Partners	3	1.1%	17.3%
Riverside Company, The	3	1.1%	18.4%
Southfield Capital Advisors	3	1.1%	19.5%
Tenex Capital Management	3	1.1%	20.6%
The Rest of the Market			
24 Firms completed 2 Deals	48	17.3%	37.9%
172 Firms completed 1 Deal	172	62.1%	100.0%

*Based on completed PE transactions in 2016 that included mezzanine financing.

**Total exceeds actual number of deals closed in 2016 due to multiple sponsors on some transactions.

2016 Middle Market: Intermediary Breakdown

Firm	# of Deals	% of Total	Cumulative % of Total
Houlihan Lokey	82	3.0%	3.0%
Raymond James	68	2.5%	5.6%
Lincoln International	50	1.9%	7.4%
William Blair & Co.	42	1.6%	9.0%
Robert W. Baird	37	1.4%	10.4%
Sandler O'Neill & Partners	33	1.2%	11.6%
Piper Jaffray & Co.	31	1.2%	12.8%
Generational Equity	30	1.1%	13.9%
Harris Williams	29	1.1%	14.9%
Cascadia Capital	24	0.9%	15.8%
Wells Fargo Securities	23	0.9%	16.7%
RBC Capital Markets	22	0.8%	17.5%
Duff & Phelps Securities	21	0.8%	18.3%
Headwaters MB	21	0.8%	19.1%
Moelis & Co.	21	0.8%	19.9%
Evercore Partners	20	0.7%	20.6%
Jefferies & Co.	20	0.7%	21.3%
Stifel, Nicolaus & Co.	20	0.7%	22.1%

The Rest of the Market	# of Deals	% of Total	Cumulative % of Total
12 Firms completed 15-19 Deals	203	7.5%	29.6%
29 Firms completed 10-14 Deals	331	12.3%	41.9%
83 Firms completed 5-9 Deals	538	20.0%	61.9%
43 Firms completed 4 Deals	172	6.4%	68.3%
90 Firms completed 3 Deals	270	10.0%	78.4%
119 Firms completed 2 Deals	238	8.8%	87.2%
344 Firms completed 1 Deals	344	12.8%	100.0%

Of the 738 Sell-Side Advisors active in 2016, **553 (75%)** completed 3 or less transactions

*Based on completed PE and M&A transactions in 2016 between \$10-\$250 MM in transaction value with intermediary identified.

**Total exceeds actual number of deals closed in 2016 due to multiple intermediaries on some transactions.

Mezzanine Placement Intermediary Breakdown*

79 Intermediaries Completed At Least One Mezzanine Financing In 2014-2016

Firm	# of Deals	% of Total	Cumulative % of Total
Sandler O'Neill & Partners	10	9.7%	9.7%
Business Capital	4	3.9%	13.6%
Ambassador Financial Group	3	2.9%	16.5%
Deloitte Corporate Finance	3	2.9%	19.4%
Bluestone Capital Partners	2	1.9%	21.4%
Duff & Phelps Securities	2	1.9%	23.3%
Griffin Financial Group	2	1.9%	25.2%
Hovde Group	2	1.9%	27.2%
Lincoln International	2	1.9%	29.1%
Madison Park Group	2	1.9%	31.1%
Peakstone Group	2	1.9%	33.0%
SPP Capital Partners	2	1.9%	35.0%
The Rest of the Market			
67 Firms completed 1 Deal	67	65.0%	100.0%

*Based on unsponsored mezzanine investments in 2014-2016 with intermediary identified.

**Total exceeds actual number of deals closed in 2014-2016 due to multiple intermediaries on some transactions.

PE Middle Market: Deal Origination

Market Coverage	Median	Max	Min	Top Quartile
All Intermediaries ¹	17.7%	59.7%	2.8%	25.5%
Boutique Intermediaries ²	11.4%	51.4%	1.6%	16.7%
Most Active Intermediaries ³	21.0%	63.7%	1.0%	30.5%
PE Firm Peer Groups				
Upper Middle Market	36.5%	47.1%	27.6%	43.7%
Generalist	17.2%	35.0%	9.7%	22.0%
Quasi-Generalist	17.7%	43.2%	3.1%	24.7%
Sector Focused	20.9%	59.7%	7.8%	30.0%
Lower Middle Market	8.5%	25.6%	2.8%	10.8%

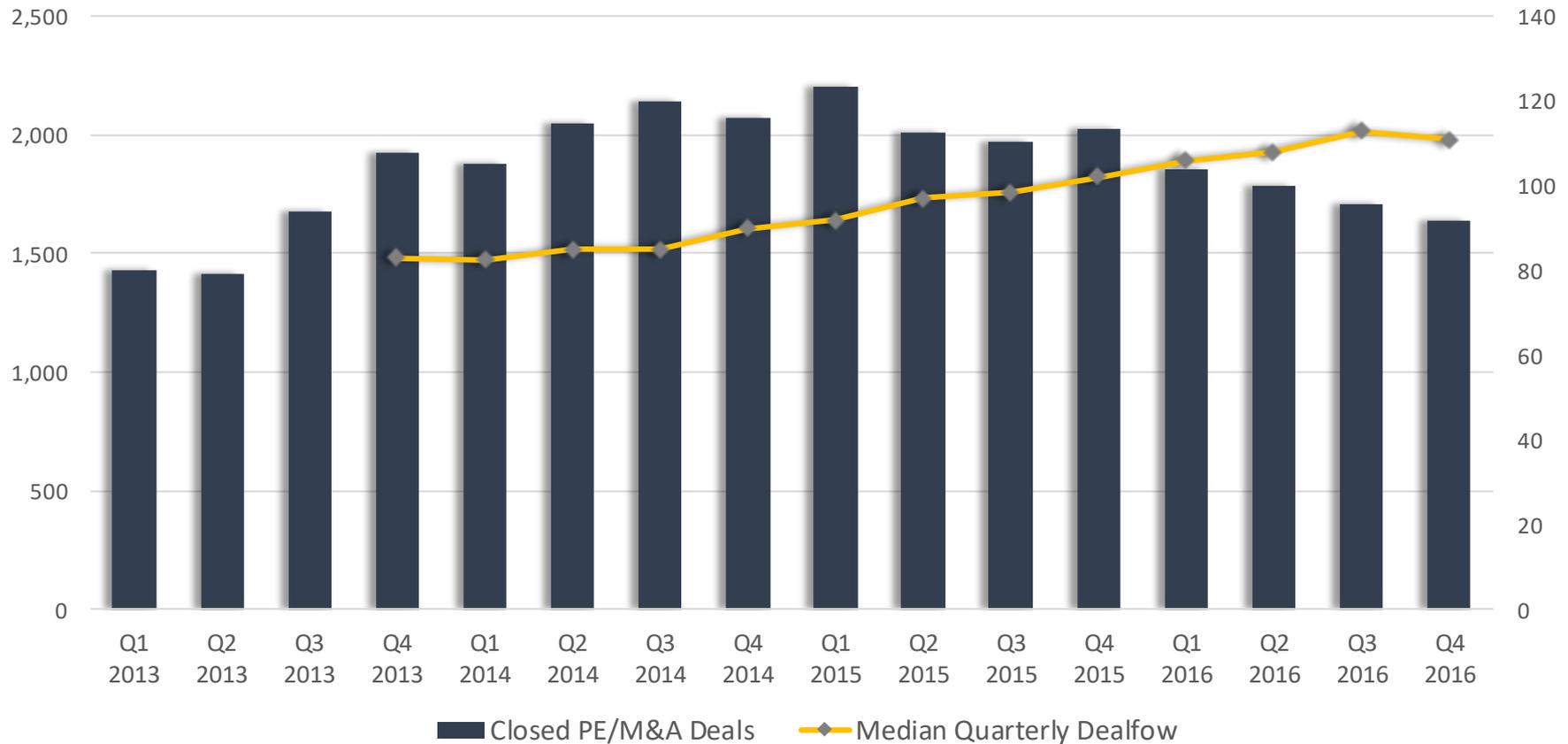
* As of June 2016, based on SPS' 110 clients that qualified for the annual Deal Origination Benchmark Report (DOBR).

1) Percentage of completed PE transactions with a sell-side advisor in relevant size ranges and sectors reviewed by a PE firm.

2) Market coverage of transactions in a PE firm's target market represented by sell-side advisors closing only 1-2 deals per year to a PE firm.

3) Market coverage of transactions in a PE firm's target market represented by sell-side advisors closing 3 or more deals per year to a PE firm.

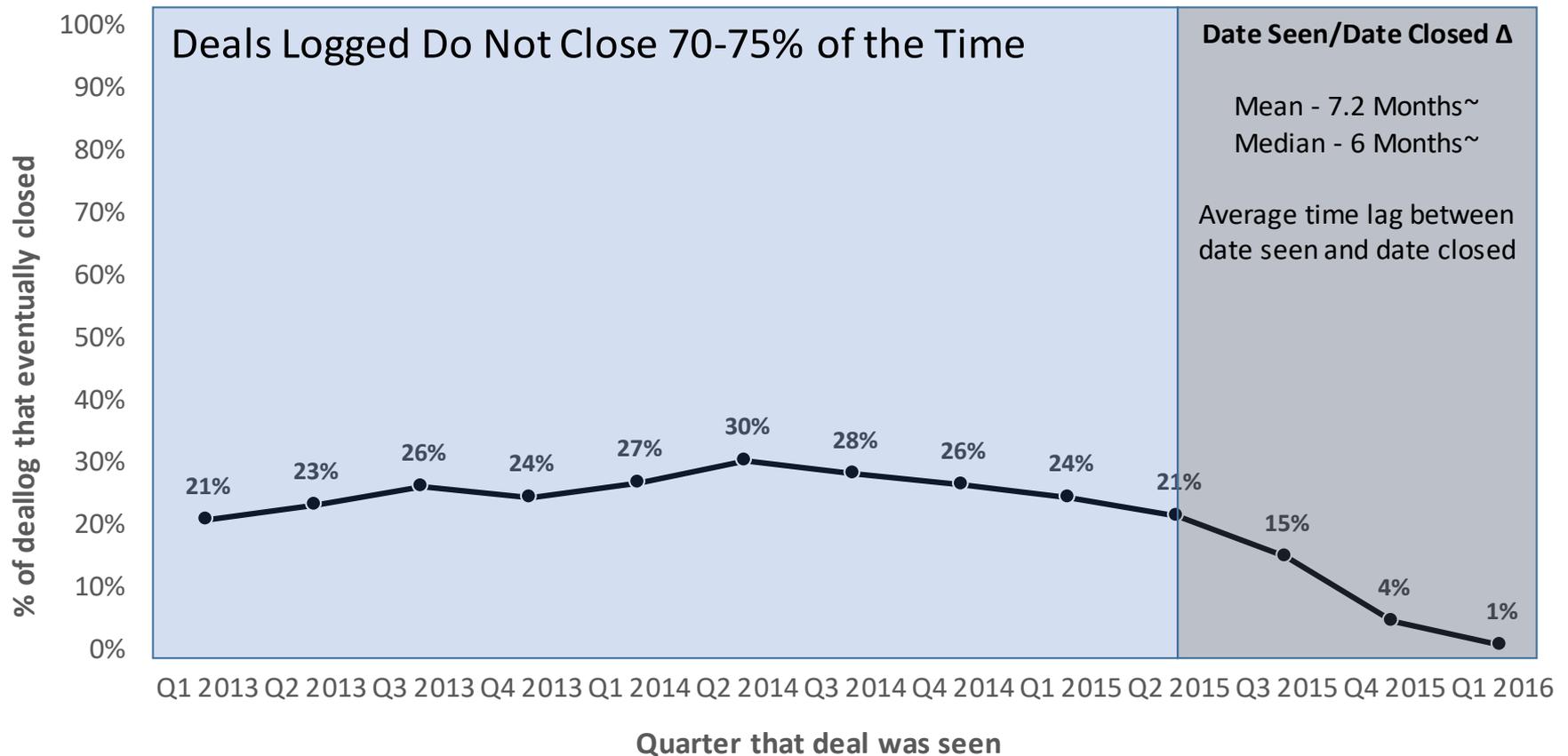
M&A Activity vs. Sponsor Deal Flow



1) Deals closed in North America, \$10+ MM in transaction value, with a private equity or corporate investor.
 2) Median deals seen per quarter by a PE firm for the trailing 4 quarter period.

Percentage Of Deals Logged That Close Increasing

Key Takeaway: PE Deal Flow Increasing Due To Well-Run Processes Becoming Even More Efficient



Breaking Down Intermediaries By Sell-Side Process

		Limited	Moderate	Broad	Total
Firm Category	Boutique (1-3 Deals)*	695	283	320	1,298
	<i>% of Total</i>	54%	22%	25%	
	Mid-Tier (4-20 Deals)*	17	91	57	165
	<i>% of Total</i>	10%	55%	35%	
	Large (20+ Deals)*	0	17	12	29
	<i>% of Total</i>	0%	59%	41%	
Total		712	391	389	1,492

*Closed annually on average

◆ Key Takeaways

- ✓ Over 50% of Boutique firms run Limited processes; great long-term play as some will grow and close more deals becoming Mid-Tier over time
- ✓ 65% of Mid-Tier firms run Moderate or Limited processes; great return on time invested in building relationships with serial deal flow
- ✓ While some assumptions are now called into question, others are confirmed:
 - Largest firms running the Broadest processes: Harris Williams, Duff & Phelps Securities, Lincoln International, Robert W. Baird, and William Blair & Co.

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