

Middle Market Update

WESTERN RESERVE

PARTNERS LLC

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Fourth Quarter | 2016

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Sale of Tectum, Inc. to Armstrong World Industries, Inc.

Sell-Side M&A Observations

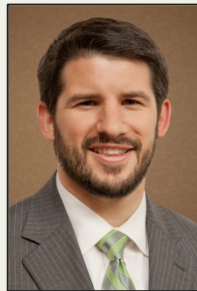
- 2016 was another strong year for M&A activity, albeit slightly down versus 2015. The M&A environment continues to favor the seller as competition for better performing companies remains near all-time highs
- Given the ever increasing cash balances on corporate balance sheets and the growing number of dollars to be deployed by private equity groups, we expect the seller friendly environment to continue
- The Trump administration's desire to reduce taxes, repatriate capital, reduce regulations and create a more "business friendly" environment is expected to add more fuel to the already hot M&A environment
- Western Reserve ended 2016 executing transactions valued at more than \$1B in and is starting off 2017 with more than \$1.3B in backlog, driven primarily by our longstanding relationships with leading privately held companies throughout the Midwest...an indicator that private business owners are becoming more cognizant of the market opportunity and seeking liquidity



David Dunstan
President

Buy-Side M&A Observations

- The market continues to be competitive for high quality companies
- Buyers with a well-articulated strategy, a unique value proposition and the willingness to be creative with deal structure and terms can be successful in this market
- We anticipate an increased interest in companies that are poised to benefit from President Trump's infrastructure plans
- Rates are still historically low and financing sources remain eager to provide capital for acquisitions; further rate increases may increase the overall availability of capital for transactions
- Demand for our buy-side services remains strong as even the most sophisticated companies are looking to "supercharge" their buy-side efforts in this highly competitive M&A environment



David Mariano
Director

Capital Raising Observations

- In a widely anticipated move, the Federal Reserve increased interest rates by another 0.25 percentage points at the March meeting and indicated two additional rate increases throughout the remainder of the year
- The recent rate increase is a signal of confidence as the U.S. economy has expanded for seven years, albeit at a slow pace, driven by 77 consecutive months of job creation and an unemployment rate of 4.7%
- Despite two recent increases in the federal funds rate, interest rates remain low compared to historical levels, providing attractive financing rates for companies
- In addition, traditional banks and alternative lenders, such as Business Development Companies (BDCs), continue to be aggressive in financing transactions and growth initiatives given the significant amount of capital that is still available, which further supports attractive lending rates for businesses
- Overall debt levels are more modest when compared to the peak prior to the most recent downturn, with an average Total Debt/EBITDA multiple of 3.6x for deals with Enterprise Values ranging from \$10 million - \$250 million, according to GF Data



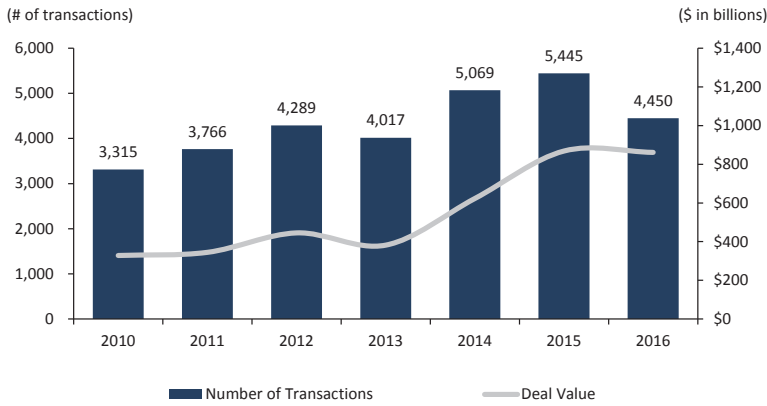
Rebecca White
Director

Western Reserve Partners LLC provides M&A, capital raising and other financial advisory services to middle market companies across a focused set of industry verticals. We deliver thoughtful advice, keen market insight and superior execution to our clients, both nationally and internationally, and our managing directors average nearly 30 years of experience and have directly executed more than 600 transactions throughout their careers.

Western Reserve Partners is a member of Oaklins, the world's most experienced mid-market M&A advisory organization, which provides unparalleled access to global companies and investors. The firm is a FINRA-member broker / dealer and member of SIPC.

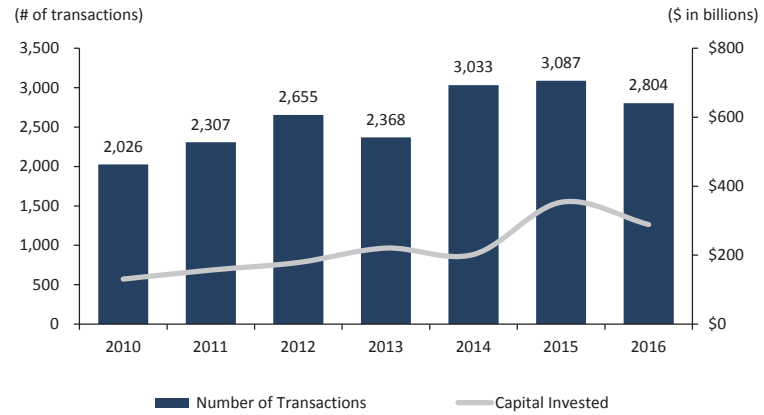
Oaklins

Strategic M&A Activity



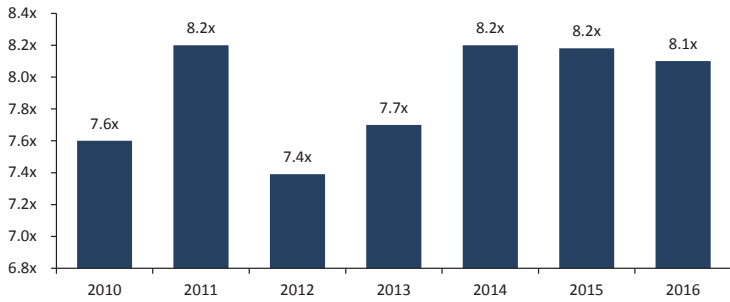
Source: Pitchbook

Financial Sponsor M&A Activity



Source: Pitchbook

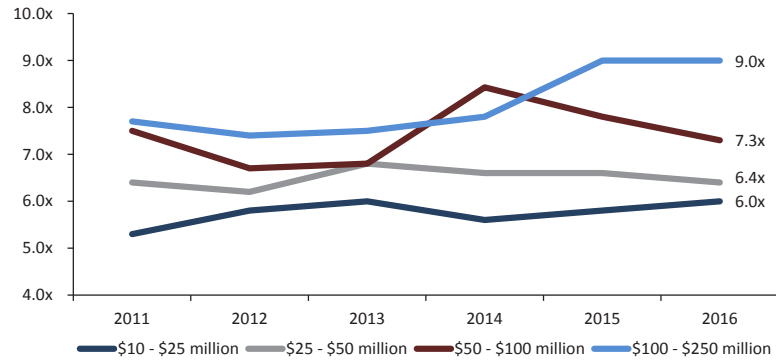
Strategic Middle Market EV / EBITDA Multiples



Source: Standard & Poor's

* Middle Market = transaction value between \$25 and \$250 million

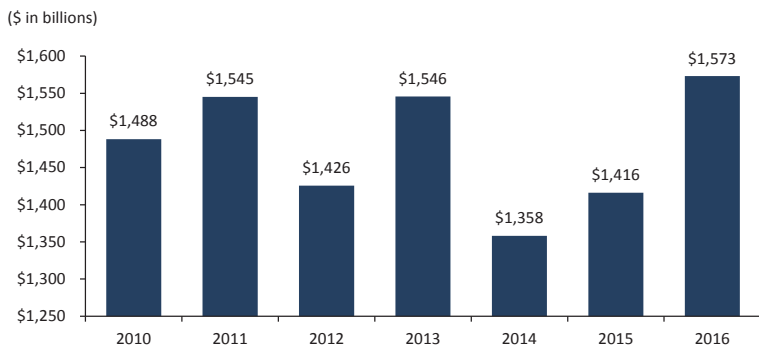
Financial Sponsor Middle Market EV / EBITDA Multiples



Source: GF Data™

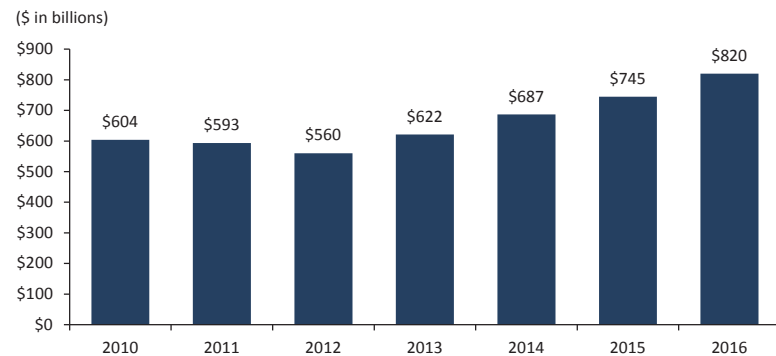
* Middle Market = transaction enterprise value between \$10 and \$250 million

S&P 500 Cash Balances



Source: Standard & Poor's

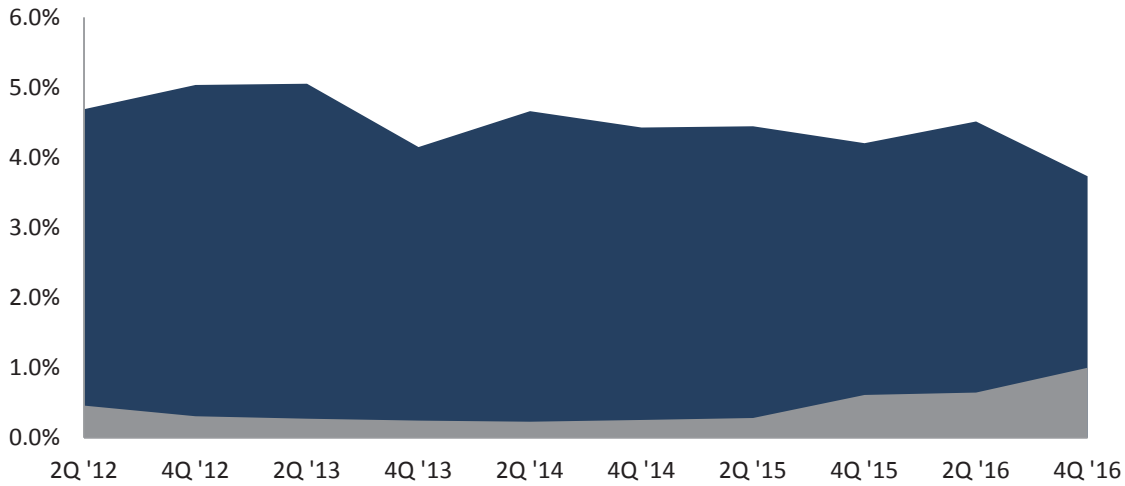
Uninvested Private Equity Capital



Source: Preqin



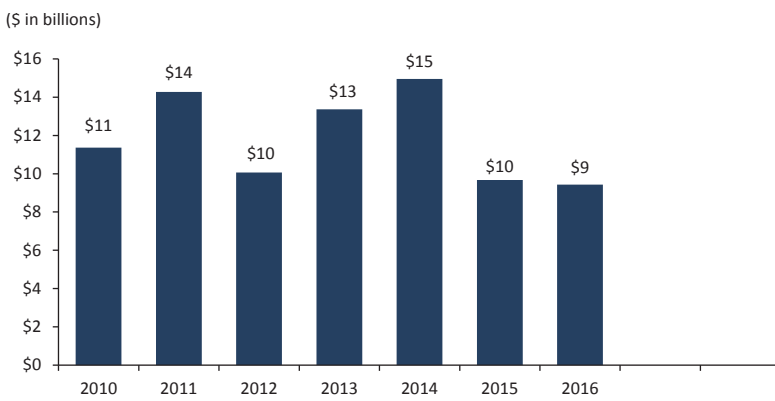
Senior Debt to LIBOR Spread



Source: GF Data™

■ Spread vs. LIBOR ■ 90 day LIBOR

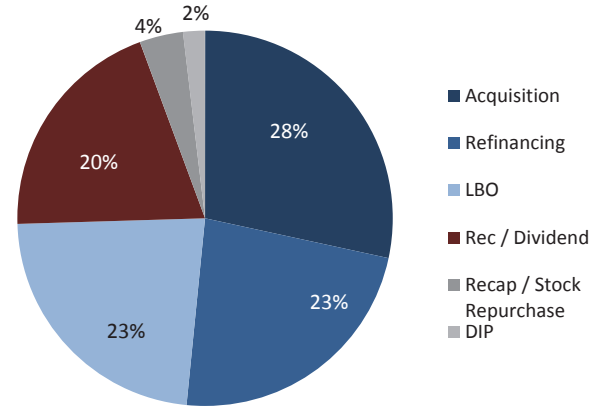
Middle Market Loan Issuance



Source: Standard & Poor's

* Middle Market= issuers with EBITDA of <\$50 million

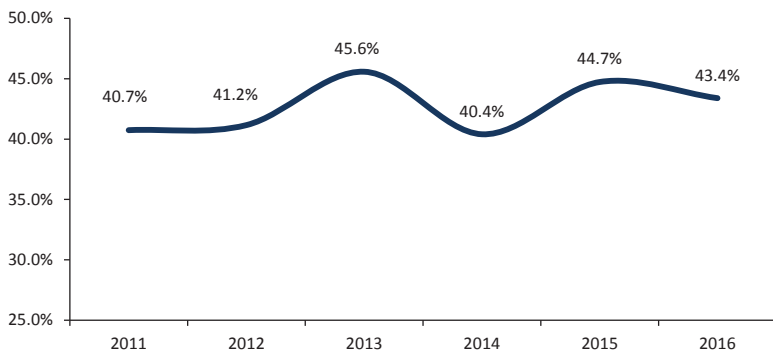
Middle Market Loan Issuance by Purpose (Q4'16)



Source: Standard & Poor's

* Middle Market= issuers with EBITDA of <\$50 million

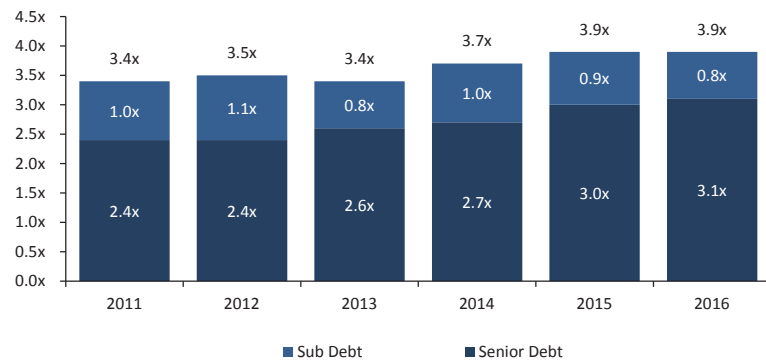
Middle Market LBO Equity Contributions



Source: Standard & Poor's

* Middle Market= issuers with EBITDA of <\$50 million

Middle Market Debt Multiples



Source: GF Data™

* Middle Market= transaction enterprise value between \$10 and \$250 million



TECTUM INC.
The Noise Control Solution

has been acquired by

Armstrong
WORLD INDUSTRIES

The undersigned served as exclusive financial advisor to Tectum, Inc. in this transaction

WESTERN RESERVE
PARTNERS LLC

Transaction Overview

Western Reserve Partners served as the exclusive financial advisor to Tectum, Inc. (“Tectum”) in its sale to Armstrong World Industries, Inc. (NYSE: AWI) (“AWI”). The acquisition complements the growth strategy of AWI’s Architectural Specialties business under its Ceiling Solutions umbrella. The transaction was led by Managing Director Kevin Mayer and supported by Vice President Jason Anderson and Analyst Andrew Ripich.

Based in Newark, Ohio, Tectum is a manufacturer of high-impact wood fiber acoustical panels and roof deck for the commercial and institutional construction industries with a history spanning over 65 years. In particular, the company has a very strong presence in the education market providing noise absorption solutions for decades in school hallways, gymnasiums and indoor swimming pools.

Mike Massaro, President of Tectum, commented, “We are pleased with Western Reserve and their commitment throughout this competitive process. As advisors, they successfully helped us in evaluating and selecting a great strategic partner. Western Reserve provided tremendous support and guidance throughout a very complex transaction and their team members were helpful, responsive and ensured that we achieved the desired result.”

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