CAPITAL MARKETS UPDATE

Middle Market M&A
Q2 2022

CAPSTONE PARTNERS

MARKET COMMENTARY

Middle Market M&A Withstands Economic Volatility

The U.S. economy has found itself in a precarious position through the first half of the year. On the heels of an additional 75-basis point interest rate hike, consecutive quarters of GDP (gross domestic product) contraction have led many market participants to reason a recession is underway. Volatility continues to ripple through equity markets in response to tightening monetary policy and economic uncertainty. Meanwhile, four-decade high inflation has placed an increased focus on cost controls to defend profitability, echoed across public company earnings calls. Middle market business owners have overwhelmingly indicated that rising costs have fueled their uncertain economic outlook, with 87% of CEOs experiencing negative inflationary impacts in Q1, according to Capstone's Middle Market Business Owners Survey. However, growth strategies remain in focus as nearly 30% of middle market business owners planned to engage in an acquisition in Q2—pointing towards strong fundamentals across the M&A market.

Middle market M&A volume has remained healthy despite persistent economic headwinds, although it has not matched 2021's record level of activity. Transaction activity through Q2 fell a modest 3.4% year-over-year (YOY) as sellers of privately-owned businesses continued to see substantial strategic and private equity (PE) buyer interest.

Strategic and private equity buyers are increasingly assessing potential target companies' defensibility and margin sustainability. This has not prevented buyers from allocating healthy sums to win businesses. Through Q2, the average deal value has increased 2% YOY to $67.8 million. On the other hand, valuation multiples have declined to an average of 9.2x EBITDA in Q2 from the full-year 2021 average of 10.7x, partly owed to increased financing and input costs. However, Q2 multiples have surpassed Q2 2021 by a modest 0.2x. Average valuations

"Thus far, 2022 has served as a tremendous testimony to the resilience of middle market America and the related M&A environment. With significant business challenges, volatile markets, and eased M&A volume (albeit less than expected), the capital markets remain strong and valuation multiples have held at record levels.

That said, we are not in a 'storied' market. Peak multiples are afforded to clean, well-run companies. That is not the case for all companies. 2021 presented a valuation tide that floated all boats—2022 is a more selective market. In many cases, we are seeing higher valuation multiples (compared to the 2021 record levels) for the top-tier middle market businesses."

John Ferrara
Founder & President

at the "core" middle market ($100-$250 million in enterprise value) have revealed an interesting dynamic. Valuations increased two full turns to 12.3x EBITDA from 10.1x and exceeded the average multiple of 11.8x at the upper middle market ($250-$500 million). This supports the thesis that amid uncertainty, larger buyers will often move down market and fuel competition for smaller businesses. Moving through the second half of 2022, the valuation environment remains unclear. Buyers are carefully factoring in supply chain challenges and inflationary costs to earnings projections. Regardless, a strong collection of financial and strategic buyers remain active in the market, with high-quality assets continuing to transact at premium multiples.

Private strategic buyers continued to account for the majority of closed middle market transactions, comprising nearly 64% of deals through Q2. While private strategic volume fell 6.1% YOY, the average deal value increased 5.3% to $66.7 million. Public strategic deal flow has registered deeper declines, falling 22.6%—potentially reflecting a more cautious playbook for inorganic growth amid a potential economic downturn. Average deal value paid by public strategics followed a similar trend as private strategics, rising 3.8% YOY to $69.6 million. Among international buyers, dealmaking has trended lower through the midpoint of the year. Russia's war on Ukraine, supply chain uncertainties, and security issues have stifled transaction activity, with acquisitions by foreign buyers falling 15.2% YOY. The strengthening of the U.S. dollar against world currencies has also reduced the purchasing power of foreign buyers, making domestic assets more expensive. A stronger dollar will continue to play a significant role in foreign acquisition activity and will likely weigh on valuations in the near term.

Private equity firms have been more selective in their acquisition pursuits through Q2 which has contributed to the 27.4% decline in middle market closed transactions by sponsors. The unprecedented surge in private equity activity in 2021 also makes for a complex YOY comparison. While the decline is notable, private equity deal activity remains healthy relative to pre-pandemic years. Rising interest rates, while still historically low, have made leveraged transactions more expensive, emphasizing the importance of robust free cash flows of a potential target as general partners (GPs) seek to meet internal rate of return goals. As private equity exits have slowed, GP-led secondary transactions have emerged as a useful value-creation tool for sponsors with high-performing assets. The prevalence of these continuation vehicles, which serve as an attractive alternative to an exit from a portfolio holding company, is likely to increase in the near term

Recession labels for the current environment have been undermined by the strong U.S. labor market which added 2.7 million jobs in the first half of the year, with the unemployment rate standing at 3.6%. What does this all mean for privately-owned businesses exploring a liquidity event? The M&A markets remain open, absent of any drastic declines in activity that would point to a systemic weakness. Buyers are hungry for quality assets but are increasingly assessing targets through the lens of a downturn. Economic uncertainty tends to drag down dealmaking and valuations, however, middle market M&A activity has demonstrated resilience in the first half of the year. Headwinds to economic growth and deal activity will persist through the end of the year and into 2023, but the middle market remains well-positioned to weather the storm.

MIDDLE MARKET OUTLOOK

Q2 2022 TAKEAWAYS & THEMES

The middle market has demonstrated its defensibility with M&A activity remaining strong despite economic uncertainty and significant interest rate increases.

- Middle market deal flow remained healthy through Q2 2022 with prospective sellers receiving strong interest from buyers despite economic uncertainty.
- The abundance of established middle market businesses pursuing an exit has materialized in strong average deal value.
- Dry powder for U.S.-based private equity firms remains elevated, despite the active deployment of capital in defensible and growing sectors including Food & Beverage, Healthcare Services, and Technology, Media & Telecom.
- Elevated financing costs and dampened earnings have surfaced in select sectors throughout 2022, hindering the valuations of many businesses.

Buyers are projected to remain acquisitive through 2022 due to the abundance of quality assets pursuing an exit.

- The middle market is expected to continue to see healthy deal flow with acquirers pursuing proven assets in defensible markets.
- Private equity firms are forecasted to remain active, pursuing add-ons to provide liquidity to portfolio companies and gain market share.
- While interest rates have pressured valuations, quality businesses have garnered strong EBITDA multiples, particularly if they add scale to the buyer's platform.
- Concern surrounding Russia's war on Ukraine, potential antitrust scrutiny, interest rate increases, and foreign relations will be major factors in cross-border dealmaking through the remainder of 2022.

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Q2 2022 BY THE NUMBERS

3.4%

DECREASE IN DEAL VOLUME

After witnessing historic levels of M&A volume in 2021, deal activity has normalized, falling 3.4% year-over-year (YOY) through Q2 2022

3.9x

AVERAGE DEBT MULTIPLE

Average debt multiples remain healthy, declining slightly to 3.9x in Q2 2022 from an elevated 4.0x in full-year 2021

9.2x

AVERAGE EBITDA MULTIPLE

The average EBITDA multiple for middle market deals was 9.2x in Q2 2022 compared to 9.0x in Q2 2021

27.4%

DECREASE IN PE TRANSACTIONS

Private equity activity declined 27.4% YOY as sponsors have demonstrated selectivity amid economic uncertainty

$67.8M

AVERAGE DEAL VALUE

Average deal value through Q2 increased 2% YOY as buyers pursued established companies with proven defensibility

12.3x

$100-$250 EBITDA MULTIPLE

The average core middle market ($100-$250 million enterprise value) EBITDA multiple through Q2 has risen 21.8% YOY

15.2%

DEALS BY FOREIGN BUYERS

Deal activity involving a foreign buyer has declined 15.2% YOY in Q2 2022 amid economic and geopolitical uncertainty

5.3%

PRIVATE STRATEGIC DEAL VALUE

The average value for acquisitions by private strategic buyers increased 5.3% YOY, reaching $66.7 million through Q2

$1.2T

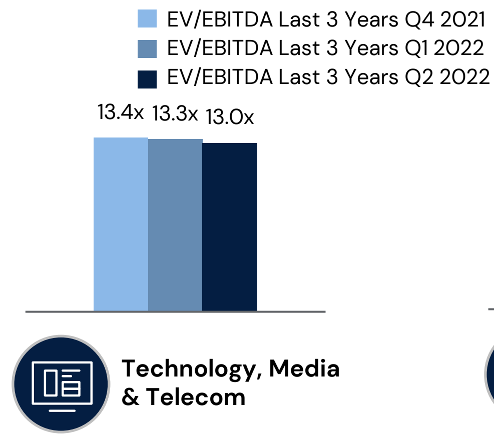
PE DRY POWDER

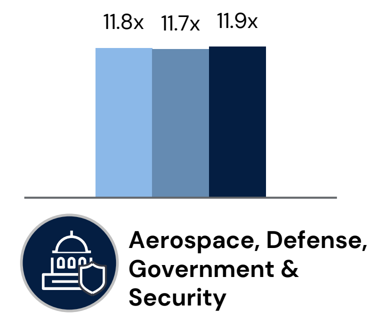
Capital overhang has remained at elevated levels, providing a favorable backdrop for healthy PE deal activity

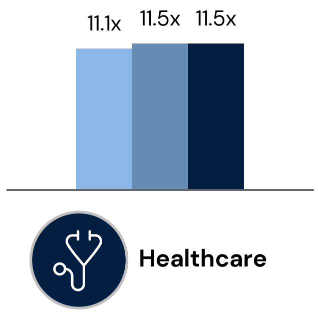
CAPSTONE'S PROPRIETARY MIDDLE MARKET VALUATIONS INDEX

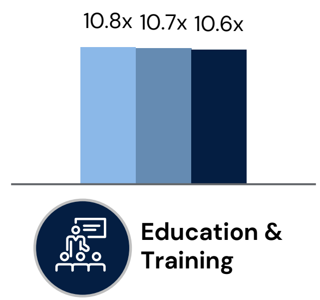
M&A Valuation Takeaways

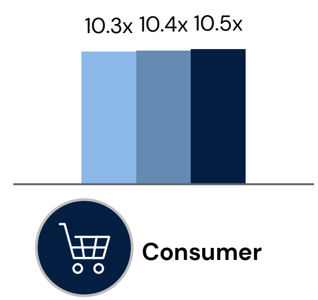
- Capstone actively monitors the purchase multiples of middle market transactions through its proprietary database to provide insight and transparency into the pricing environment.
- While Technology, Media & Telecom valuations have led all sectors at 13.0x, sector multiples have trended downwards in the most recent three years ending in Q2 2022.
- The Aerospace, Defense, Government & Security industry recorded the largest gain in average valuations in the most recent reporting period at 11.9x EBITDA.

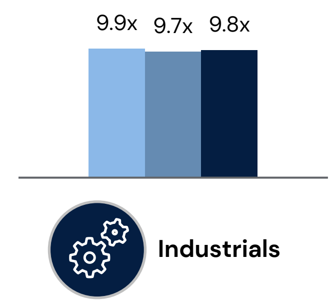


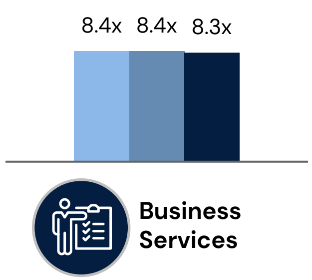


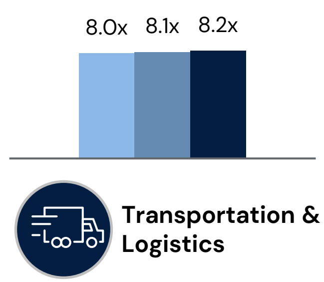


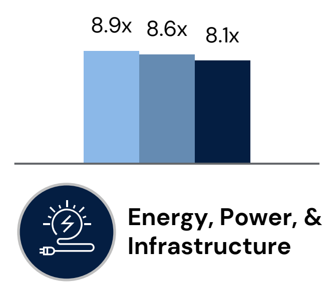


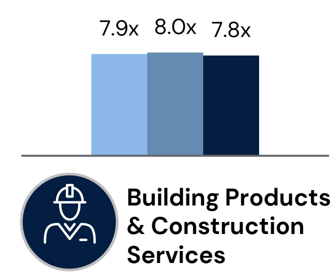












CAPITAL MARKET DASHBOARD

YTD EQUITIES

S&P 500
-10.9%

Last	1Y %	P/E LTM
4,274.0	*-3.9*	*18.6*

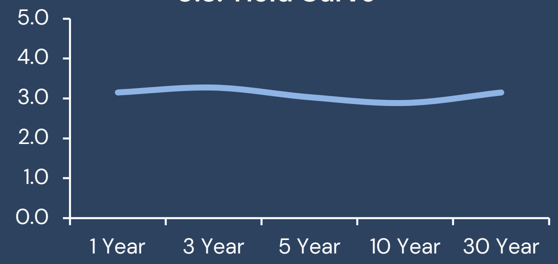
Dow Jones Industrial
-7.1%

Last	1Y %	P/E LTM
33,980.3	*-3.9*	*18.1*

NASDAQ
-18.3%

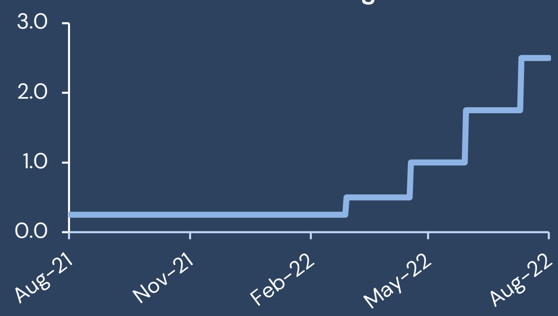
Last	1Y %	P/E LTM
12,938.1	*-11.7*	*24.0*

FIXED INCOME



1Y	3Y	5Y	10Y	30Y
2.314	*2.366*	*2.977*	*3.508*	*3.996*

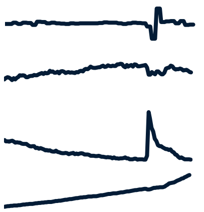
POLICY RATE



ECONOMIC INDICATORS

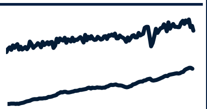
GDP, LABOR MARKET, & INFLATION

	Last	YOY
GDP	*-0.9%*	*-3.2%*
Consumer Confidence	*95.7*	*-23.5%*
Unemployment	*3.5%*	*-1.9%*
Consumer Price Index	*295.3*	*+8.5%*



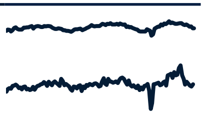
HOUSING MARKET

Housing Starts	*$1,446.0*	*-8.1%*
Total Construction	*$1,762.3*	*+8.3%*



PMI & NMI

Purchasing Managers	*52.8%*	*-7.1%*
Non-Manufacturing	*56.7%*	*-7.4%*



RETAIL

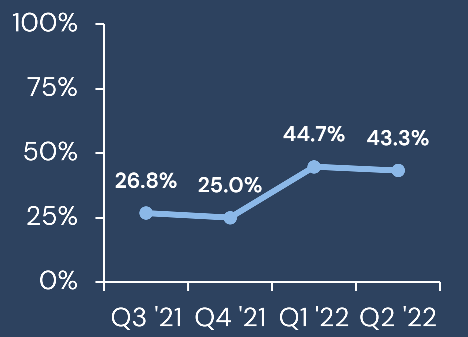
Retail Sales	*$682.8*	*+10.3%*

Source: FactSet as of 08/17/22

CAPSTONE'S MIDDLE MARKET BUSINESS OWNERS SURVEY

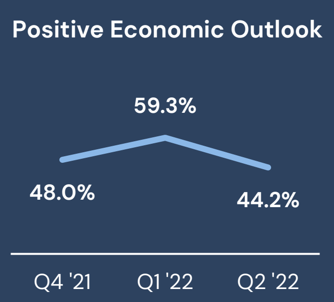
BUSINESS OWNERS PRIORITIZE FINANCIAL STABILITY

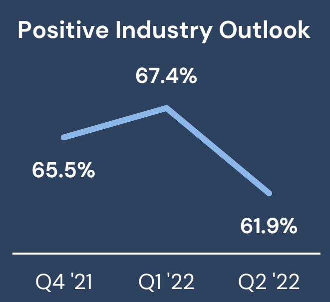
In Q2 2022, 43.3% of business owners planned to implement financial stability measures to mitigate the inflation issue, a slight decline (-1.4% quarter-over-quarter) from Q1 2022



Sample Size (N): 102, 37, 192, 189

CEO CONFIDENCE DECLINES FROM Q1

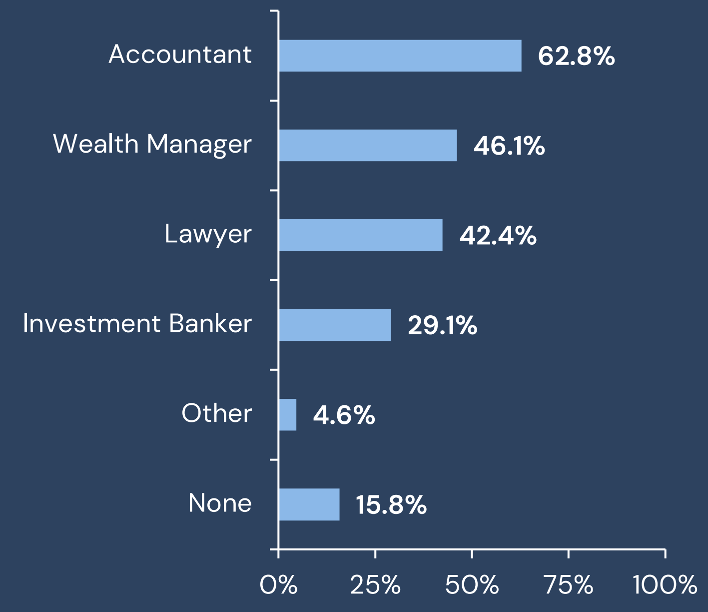




Sample Size (N): 148, 430, 436

TYPES OF PROFESSIONALS USED BY EXECUTIVES

In Q1 2022, only 29.1% of CEOs surveyed indicated they had an investment banker in place for their business. In addition, of the 55 respondents planning to engage in an acquisition in Q2, only 34 stated they have an investment banker in place (61.8% of owners planning to engage in acquisitions).



Source: Capstone Partners' Middle Market Business Owners Survey
Sample Size (N): 436

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Perspective and Experience Boost Results in Performance Improvement Processes

Regardless of how well a business is performing today, most owners, operators, and investors would readily agree that there is always room for improvement. The majority of business professionals maintain a laser focus on operational improvement and, particularly for profitable businesses in stable industries, the company's management team can analyze metrics, review findings, and implement changes that will boost productivity, revenue, and overall results. However, there are times when a business may benefit from the assistance of an outside professional performance improvement consultant.

The Role of a Performance Improvement Consultant

Prospective clients are often unsure how performance consultants can help their business, especially if the client has not identified the cause of their issues. Maybe a company's overhead is higher than optimal, or its profit margin is lower than it should, could, or used to be. An experienced consultant is first and foremost a diagnostic specialist.

Capstone Partners' Financial Advisory Services (FAS) Team typically utilizes a three-pronged approach to its investigation and analysis:

1. Conducts an intensive review of financial trends, operating performance, and go-forward projections.
2. Identifies initiatives designed to drive enhanced performance and build positive momentum for long-term value creation.
3. Models the potential impact of identified initiatives and quantifies expected value creation.

This approach pinpoints the root causes of the performance issues, helps customize best-in-class solutions, and leverages the FAS Team's experiences operating and advising similar businesses to meet the specific needs of the client company. Once the solution is determined, the Team will work closely with the client to develop and execute discrete implementation plans for each performance improvement initiative. In addition to implementing each solution, Capstone's FAS Team will design a system for monitoring progress and tracking the financial impact of the performance improvement program.

Who Performance Improvement Consultants Help

Many larger companies or private equity firms have professionals available in-house who either specialize in performance improvement or have the time and focus to engage in a comprehensive initiative. However, smaller, leaner organizations often lack internal performance improvement functions.

While some businesses or investors may seek a consultant's help in response to a specific and measurable decline in performance, many family businesses will engage an expert primarily as a precursor to a liquidity event to lift the business's overall operations and help set the stage for a smooth sale process.

Benefits of Professional Support

When identifying the best resource to help your business through a performance improvement process, it's important to consider perspective and experience as two of the main value drivers. An effective approach often involves more than a review of financial data, although that can be a significant component. It is important to test the assumption that the data is complete and accurate, which may require on-site and in-person evaluations of facilities, processes, and staff. Having an experienced, and neutral team, with no preconceived conclusions is an advantage when it comes to digging into the mechanics of the business to determine the primary challenges to performance. The next step is to apply that same experience from other engagements to help identify the most effective and efficient solutions for your business.

Real World Results

Case #1: When a private equity-owned software-as-a-service (SaaS) company inexplicably started to experience customer churn 150% of normal levels, the sponsor and management team needed to quickly identify and correct the issues that were pushing customers away. Capstone's FAS Team diagnosed the underlying cause of the increase in customer churn by surveying customers and categorizing their reasons for leaving. Once equipped with an understanding of specific customer issues, the Capstone Team implemented a new process for customers calling to cancel; directing them to the Office of the President, a newly created function intended to triage customer issues. Overall, these performance improvement efforts reduced churn to normal levels within 90 days and gave the client a foundation to improve customer satisfaction going forward.

Case #2: After a private equity-owned distribution company went through a poor enterprise resource planning (ERP) system implementation, the company was faced with a number of issues that bogged down its performance. Customers were receiving incorrect invoices causing a severe increase in past-due receivables, and poor inventory management was driving up fulfillment times, making a once healthy company in need of serious help.

Capstone's FAS Team developed specific solutions to address each area in need of performance improvement and worked with the Management Team to establish best practices to avoid a repeat scenario. By designing and implementing processes to reconcile and collect past due receivables, and ensure accurate invoicing, the FAS Team was able to help the client collect over $6 million of past-due accounts receivable in a six-week period while eliminating invoicing discrepancies going forward. The Team also developed procedures to improve warehouse operations and achieve same-day order fulfillment, leading to increases in customer satisfaction, operating efficiency, and profitability along the way.

Capstone's Financial Advisory Services Team consists of professionals with deep experience working as business operators and performance improvement specialists that can help you determine if and how a consultant can help your business thrive. If you would like more information or have a specific question, please contact us.

MIDDLE MARKET M&A ACTIVITY

M&A AMID ECONOMIC CYCLES

MIDDLE MARKET M&A REMAINS HEALTHY IN 2022

- Middle market M&A has remained healthy at the midpoint of the year, trailing 2021's historic pace by a modest 3.4%. Prospective sellers continue to see strong interest from acquirers, despite economic uncertainties.
- Average deal value through Q2 2022 increased 2% YOY, reaching $67.8 million and demonstrating the abundance of sizable middle market companies pursuing a corporate sale or liquidity event.
- While elevated interest rates discount future cash flows at a higher rate, quality companies with a strong footprint in growing markets continue to garner high valuations.

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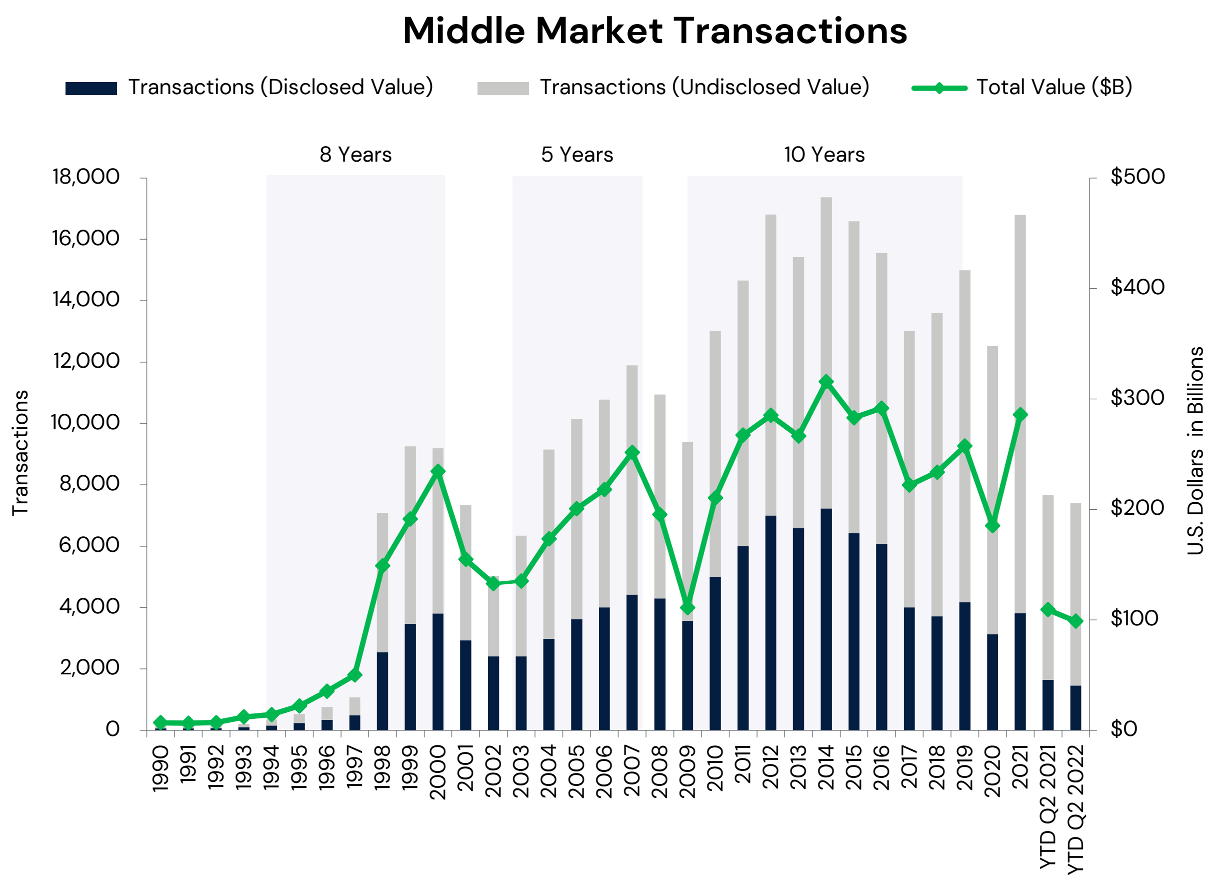

Shaded areas indicate expansion
Source: Capital IQ
Enterprise Value < $500mm

QUARTERLY M&A VOLUME

DEAL VOLUME REMAINS STABLE THROUGH Q2

- M&A volume fell 4.6% quarter-over-quarter (QOQ) in Q2, however, the transaction market remains robust, absent of drastic declines in volume. Total M&A transaction counts in the coming quarters will provide greater transparency to the health of the middle market.
- Average deal value fell 6.6% QOQ to $65.6 million but remains above the five-year (2017-2021) average of $62.6 million—demonstrating healthy buyer appetite for quality businesses in the middle market.
- Despite economic uncertainty, the middle market is expected to continue to see healthy deal activity through 2022.

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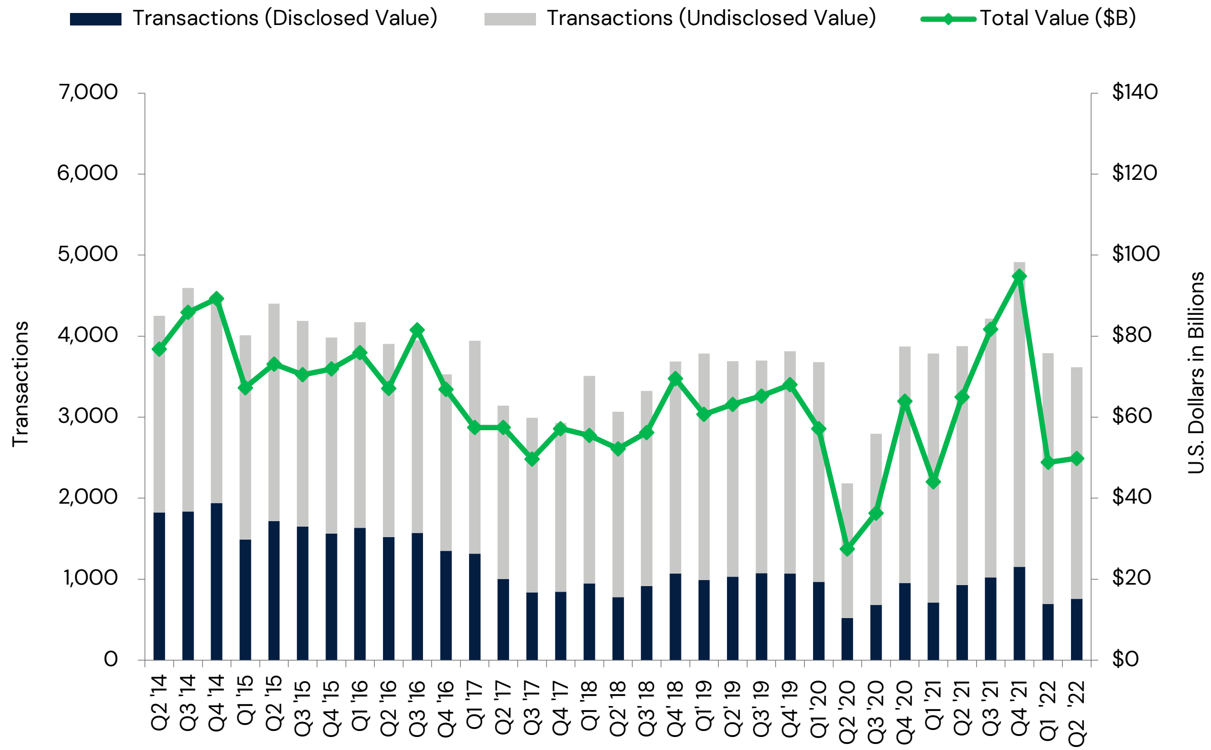
Quarterly Middle Market Transactions

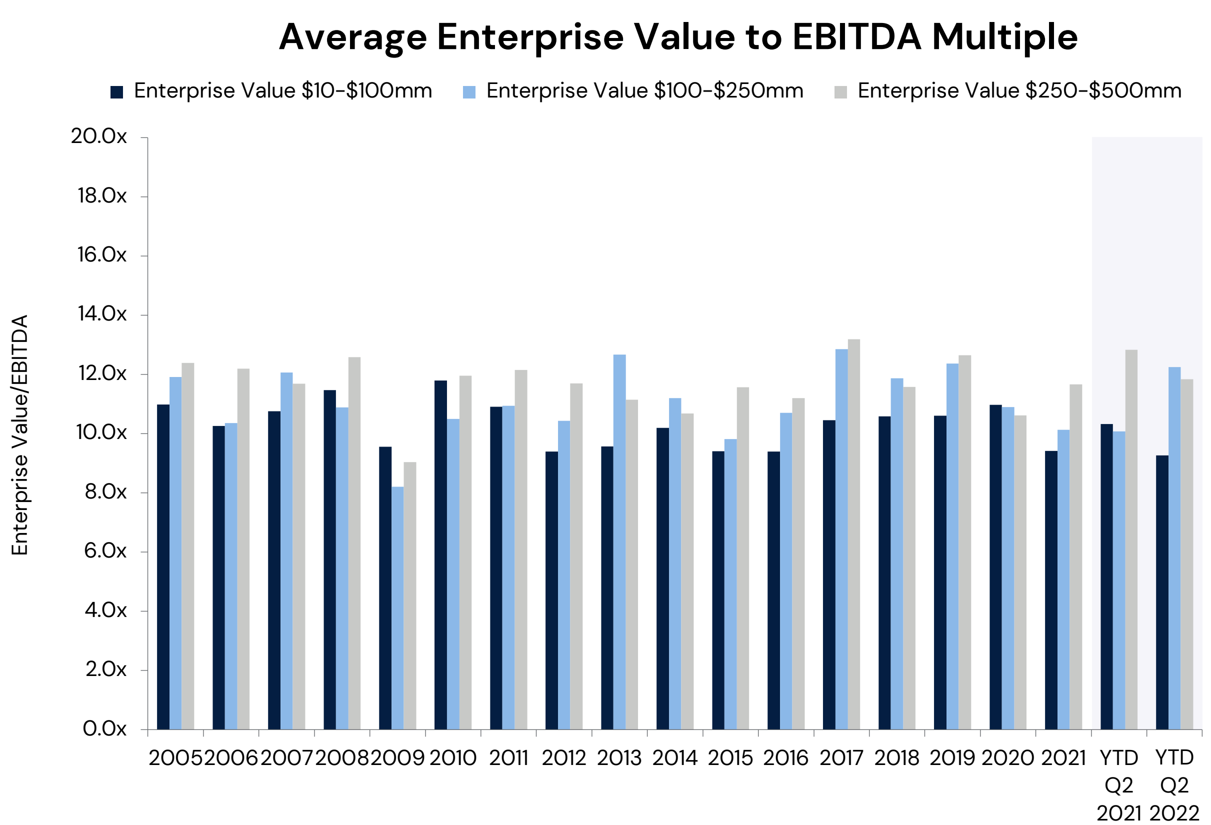


Source: Capital IQ
Enterprise Value < $500mm

BREAKING IT DOWN BY SIZE

CORE MIDDLE MARKET EBITDA MULTIPLES SURGE

- Increased competition in the core middle market ($100-$250 million enterprise value range) has driven valuations to rise substantially to 12.3x EBITDA from 10.1x in the prior year. Strategic and financial buyers may be hesitant to pursue large-scale deals in the current environment, fueling acquisition interest slightly down market.
- EBITDA multiples for lower middle market M&A deals, characterized by enterprise values of $10-$100 million, fell to 9.3x through Q2 2022 compared to 10.3x through Q2 2021.
- Valuations for upper middle market deals ($250-$500 million in enterprise value) normalized, falling to 11.8x from 12.8x.



Source: Capital IQ
Includes multiples 3x-30x
Enterprise Value < $500mm

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PRICING TRENDS

TRANSACTION VALUATIONS ALIGN WITH PRIOR YEAR

- Elevated financing costs and dampened earnings in select sectors pressured valuations in Q2, averaging 9.2x EBITDA although still exceeding Q2 2021. Valuations in both Q2 2022 and Q2 2021 were bounded by a vast number of smaller deals.
- While the average EBITDA multiple in both the lower and upper middle market declined by a full turn, strong valuations in the core middle market lifted the overall average.
- Opportunistic private equity firms are expected to capitalize on the current market, acquiring companies at low multiples and maximizing the internal rate of return upon exit.

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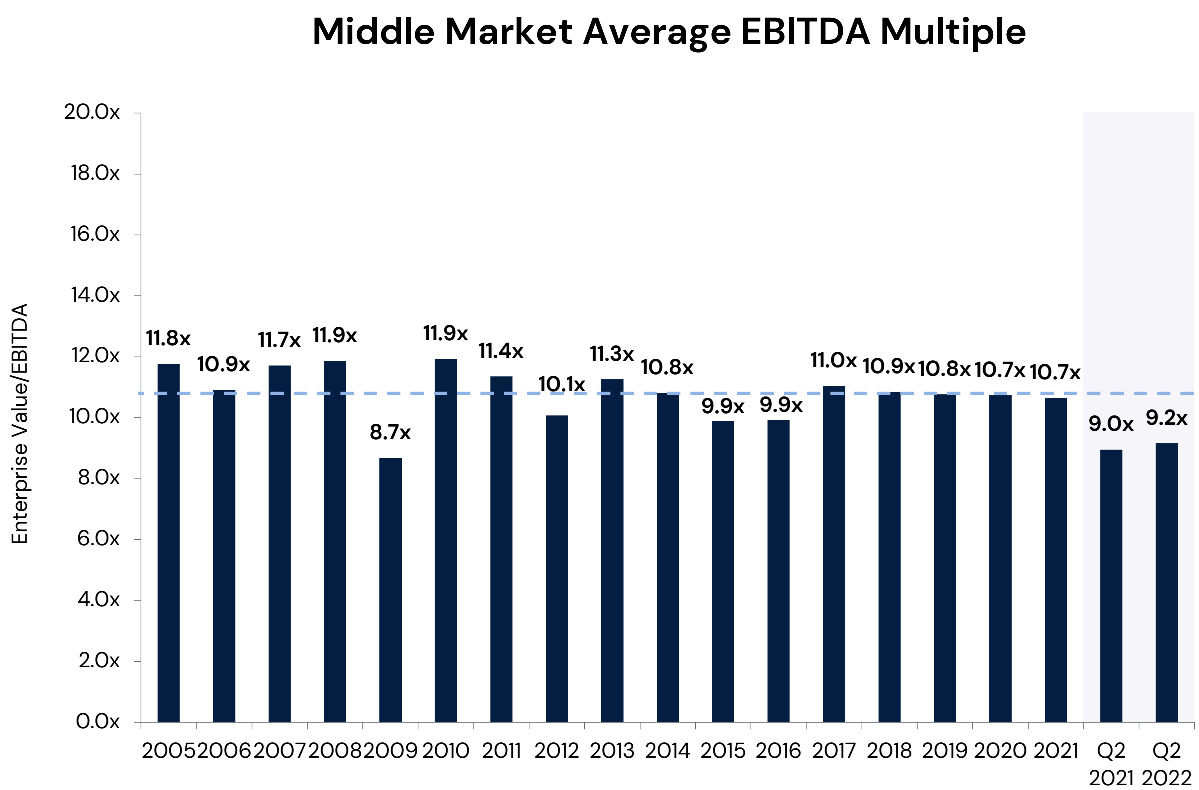
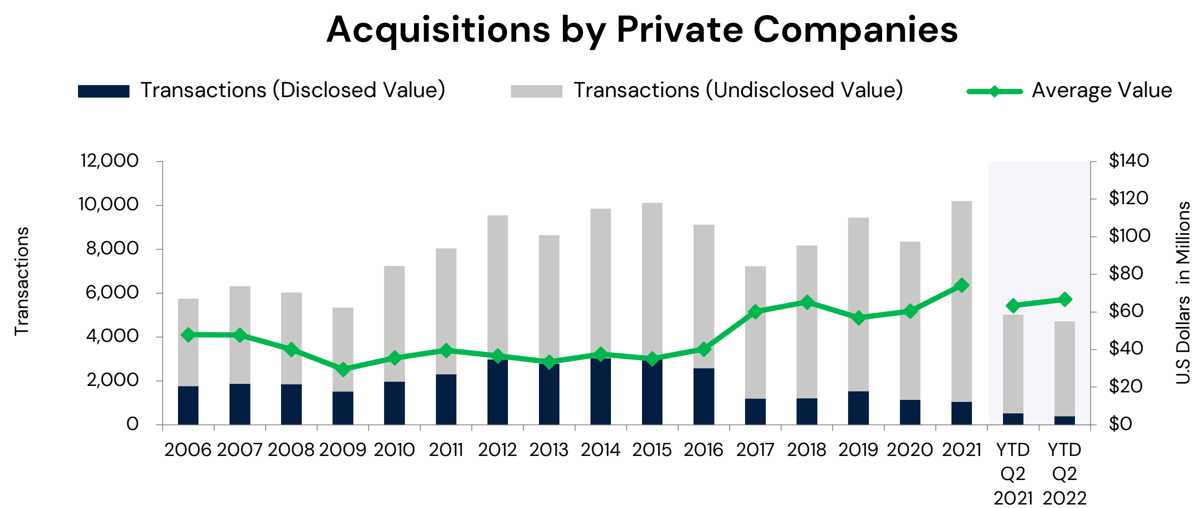


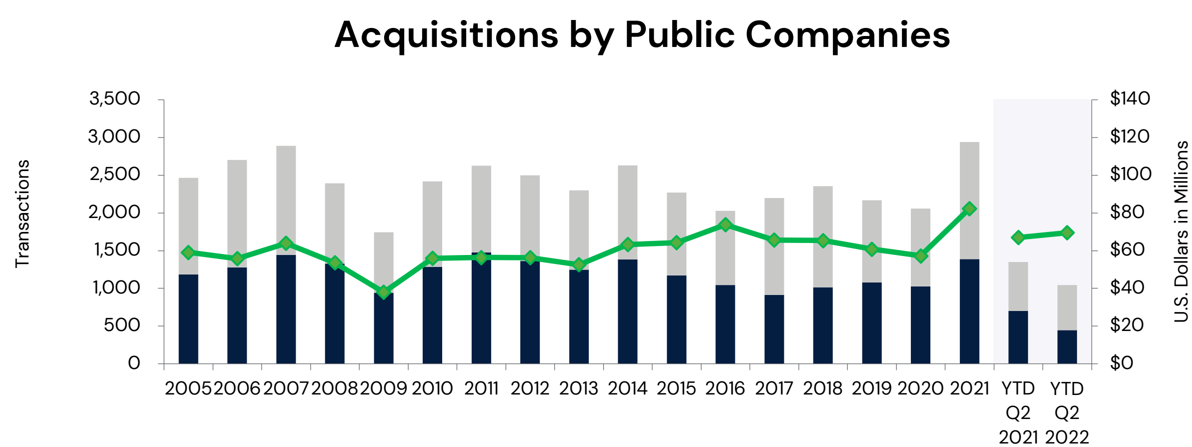
Dotted line indicates 2005 to 2021 average of 10.8x
Source: Capital IQ and Capstone Partners
Includes multiples 3x-30x
Enterprise Value < $500mm

STRATEGIC ACQUIRERS

DEAL VALUE RISES FOR ACQUISITIONS BY STRATEGICS

- The quantity of transactions closed by strategic acquirers has normalized through Q2 2022, with acquisitions by public strategic buyers and private strategic buyers falling 22.6% and 6.1% YOY, respectively.
- Average deal value for acquisitions by public and private buyers increased 3.8% to $69.6 million and 5.3% to $66.7 million respectively as companies consolidated competitors of scale.
- Private strategics remain acquisitive, leveraging inorganic growth to gain market share while public companies have demonstrated more hesitancy, carefully selecting acquisition targets to pursue.





Source: Capital IQ
Enterprise Value < $500mm

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FOREIGN ACQUIRERS

UNCERTAINTY REDUCES CROSS-BORDER ACTIVITY

- The volume of deals and percentage of total transactions involving a foreign buyer through Q2 2022 have fallen 15.2% and 1.4% respectively from the same period in 2021.
- Throughout 2022, cross-border M&A will be impacted by the war in Ukraine, potential antitrust scrutiny, interest rate increases, and foreign relations. In addition, U.S. dollar strength has reduced the purchasing power of foreign buyers, making domestic assets more expensive.
- The U.K. has continued to lead acquisitions of U.S. companies by foreign buyers through Q2. Application software companies have attracted the most foreign buyer attention.

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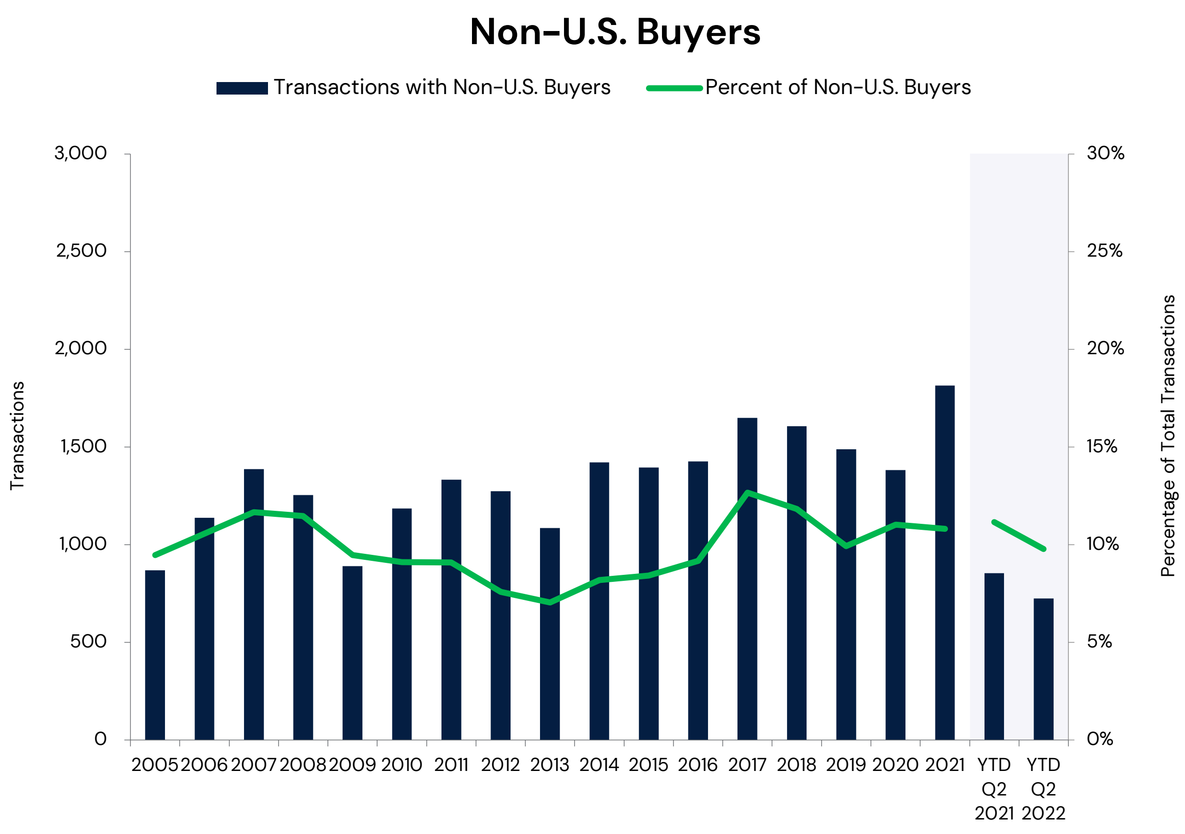

Source: Capital IQ
Enterprise Value < $500mm
To ensure accuracy, data methodology has changed as of 2022 publication

PRIVATE EQUITY DRY POWDER

ELEVATED CAPITAL OVERHANG SUPPORTS PE DEALMAKING

- Global PE dry powder remains high at $1.2 trillion, despite falling 9.6% year-over-year as PE firms have actively deployed capital in growing sectors. Take-private deals present an opportunity for PE as companies look to delist due to public market sell-offs.
- The rise of GP-led secondaries has added another value-creation tool to sponsors' playbooks. These continuation vehicles allow GPs to secure liquidity by holding high-performing assets rather than pursuing a traditional exit.
- PE firms have increasingly considered environmental, social, and governance (ESG) factors in investment theses to increase returns while rewarding sustainable business practices.

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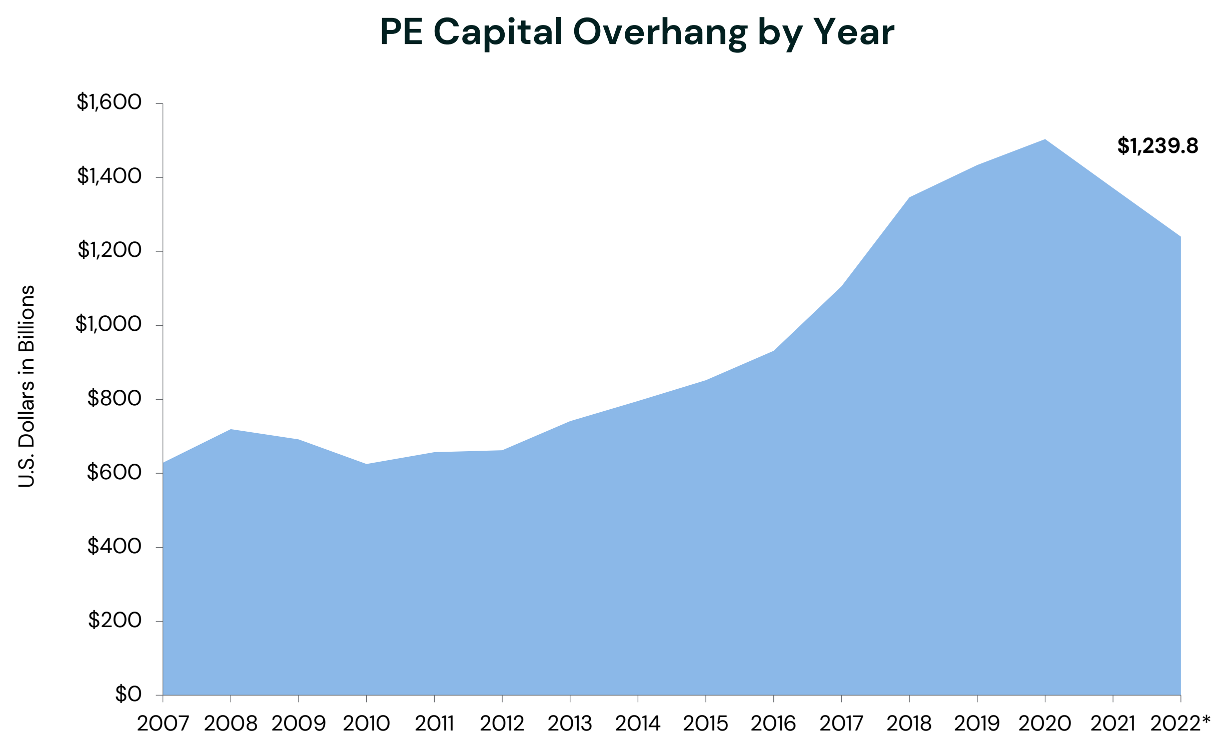


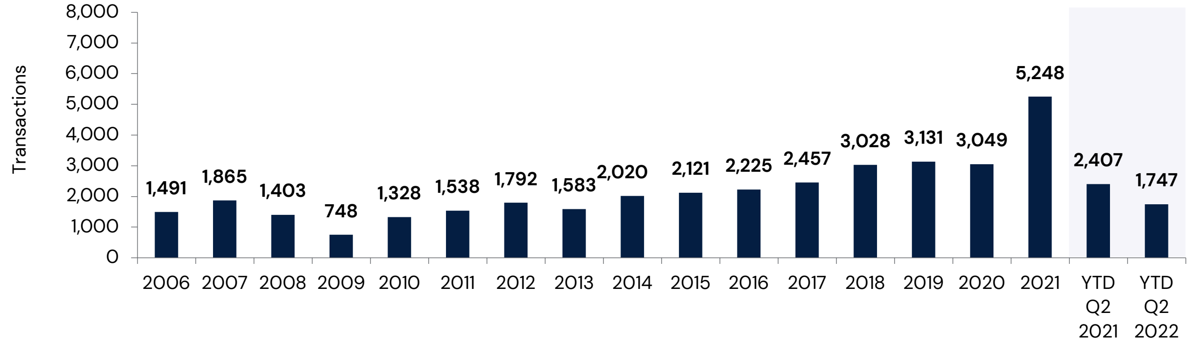
2022 dry powder figure as of June 30, 2022
Source: PitchBook

PRIVATE EQUITY ACTIVITY

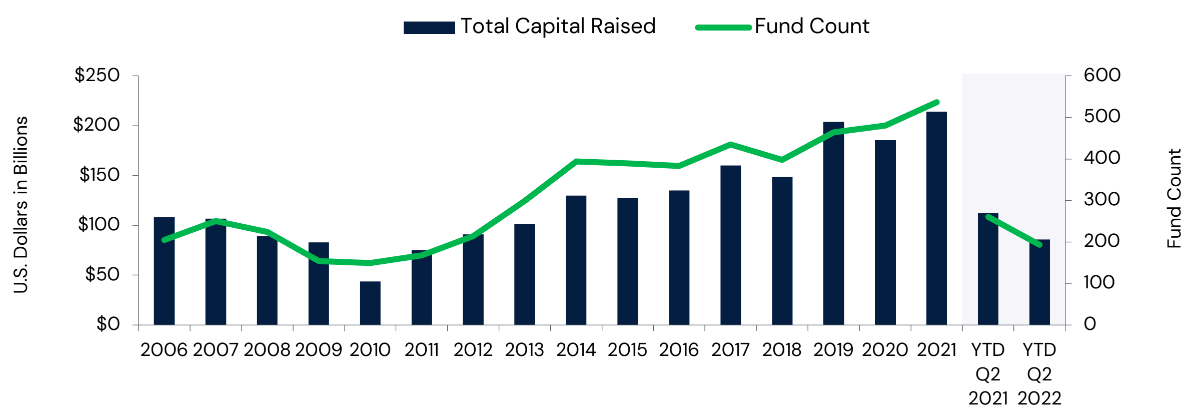
PRIVATE EQUITY DEALMAKING REMAINS DEPRESSED

- Private equity transaction activity has declined a substantial 27.4% YOY through Q2 2022, following unprecedented volume in 2021. However, PE deal flow remains healthy relative to pre-pandemic years, with total closed deals through Q2 2022 increasing 8.6% compared to the same period in 2019.
- Private equity fund count and total capital raised witnessed YOY declines of 25.8% and 23.6%, respectively, as sponsors have significantly slowed fundraising from the prior year's rapid pace.
- Elevated interest rates are likely to pressure large-scale buyouts as transaction financing becomes more expensive.

Middle Market Transactions Closed by Private Equity Firms



Middle Market Fundraising by Private Equity Firms



Source: PitchBook
Enterprise Value; $25-$500mm, Fund size < $5B

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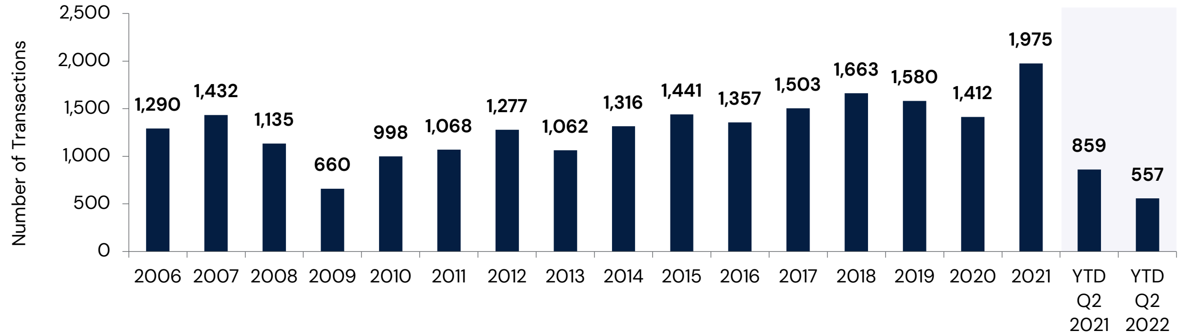
PRIVATE EQUITY TRANSACTION TYPES

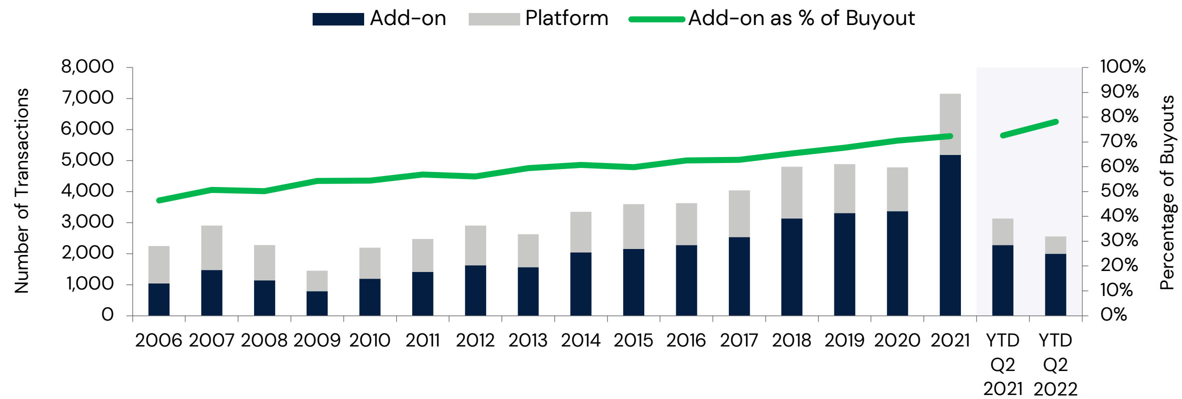
PE ADD-ONS ACCOUNT FOR LARGER SHARE OF DEALS

- Private equity platform acquisitions through Q2 fell a considerable 35.2% YOY as sponsors were reluctant to establish footprints in highly cyclical sectors amid economic uncertainty.
- Private equity add-ons comprised 78.2% of buyouts in Q2 2022, compared to 72.6% in Q4 2021.
- Add-ons accounted for a larger share of buyouts through Q2 2022 as sponsors sought to support and provide liquidity to portfolio companies. With elevated levels of dry powder, private equity firms are expected to continue to pursue add-ons in order to safely deploy capital.

PE Platform Investments



PE Add-On Acquisitions



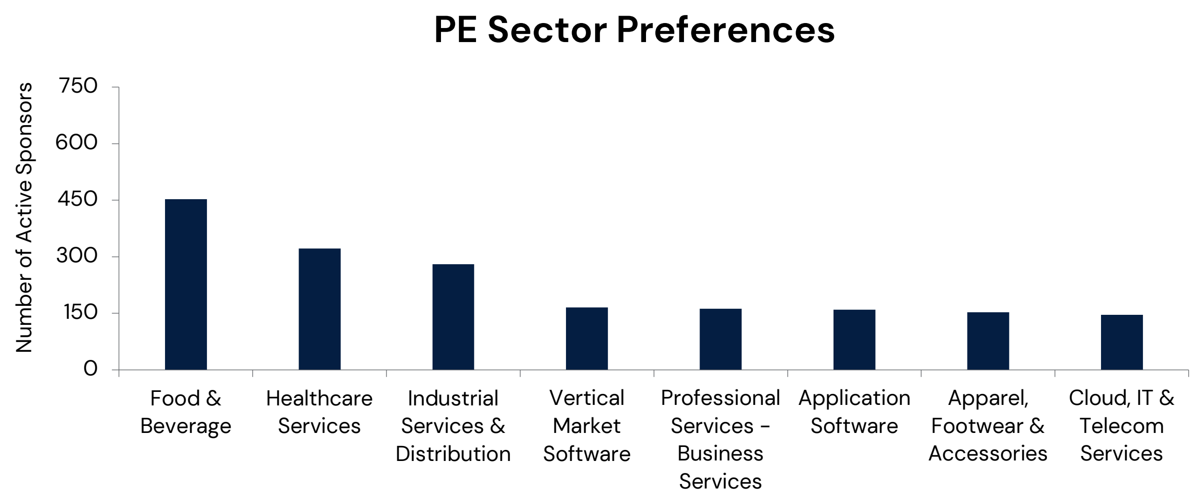
Source: PitchBook
Includes all U.S. PE transactions

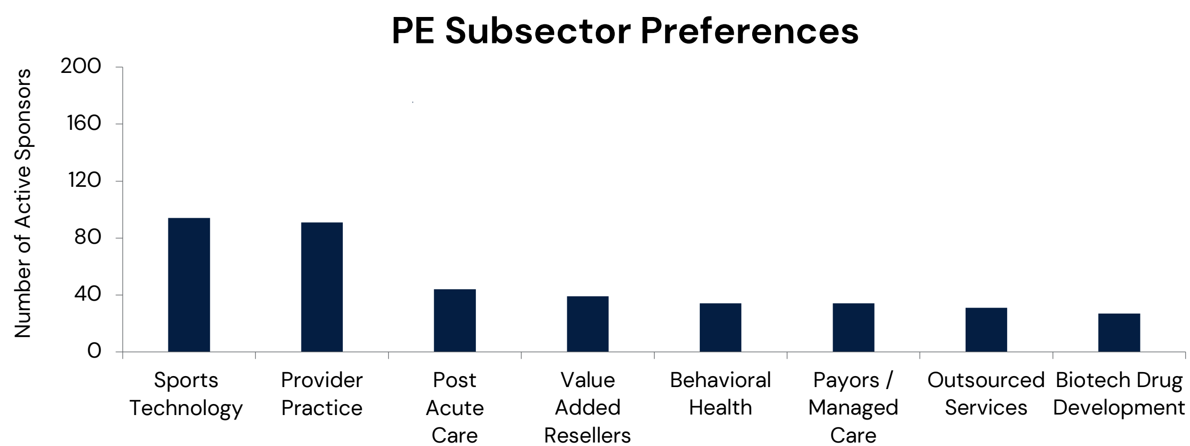
CAPSTONE PARTNERS

CAPSTONE'S PRIVATE EQUITY NETWORK PREFERENCES

PE CONTINUES TO PURSUE FOOD & BEVERAGE TARGETS

- Private equity activity has normalized with sponsors prioritizing the health of existing holdings amid uncertainty and practicing cautiousness in acquisition pursuits.
- The Vertical Market Software sector experienced increased PE interest through Q2 2022 as the accelerated digitization that occurred during the pandemic has persisted, supporting a favorable near-term outlook.
- Sports Technology has become the most preferred subsector among Capstone's sponsor network, passing Provider Practice, as growing digital fan engagement capabilities have prompted sponsors to build platforms in the space.





Source: Capstone proprietary data

PRIVATE EQUITY ACTIVITY

PE EXITS FALL AMID DIFFICULT OPERATING ENVIRONMENT

- Private equity exit activity through Q2 2022 fell 16.5% YOY as sponsors continue to hold onto portfolio companies amid economic uncertainty.
- Sponsors have extended hold periods for their portfolio companies due to ongoing supply chain and labor challenges, elevated input costs, and the prospect of a recession.
- Despite recording sequential declines in the last two quarters, the average EBITDA multiple paid by private equity buyers remains strong in Q2 2022 at 7.4x EBITDA compared to 7.1x EBITDA in Q2 2021 as sponsor competition for quality assets in defensible markets has driven pricing upwards.

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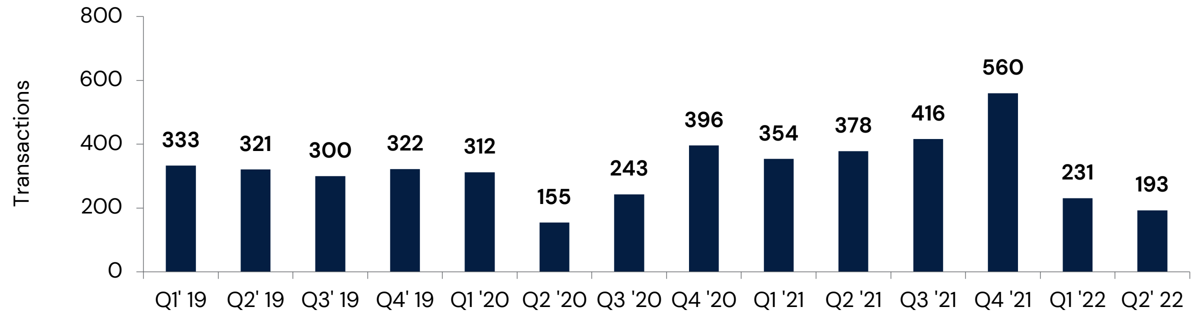
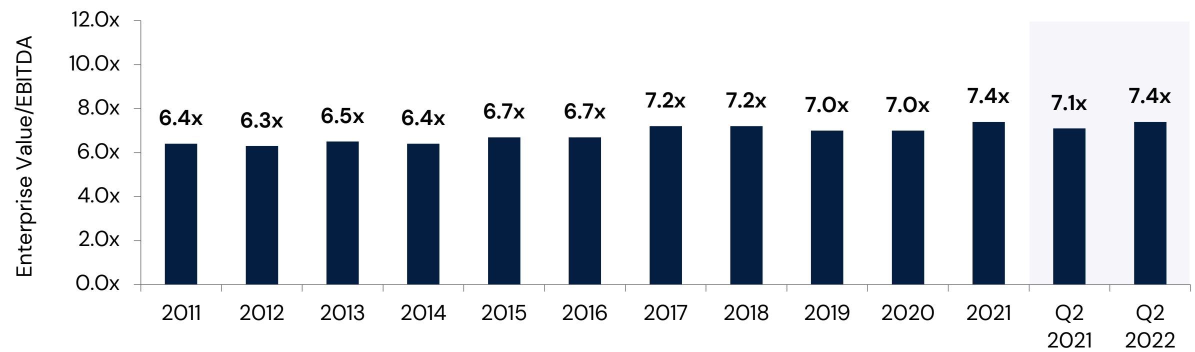


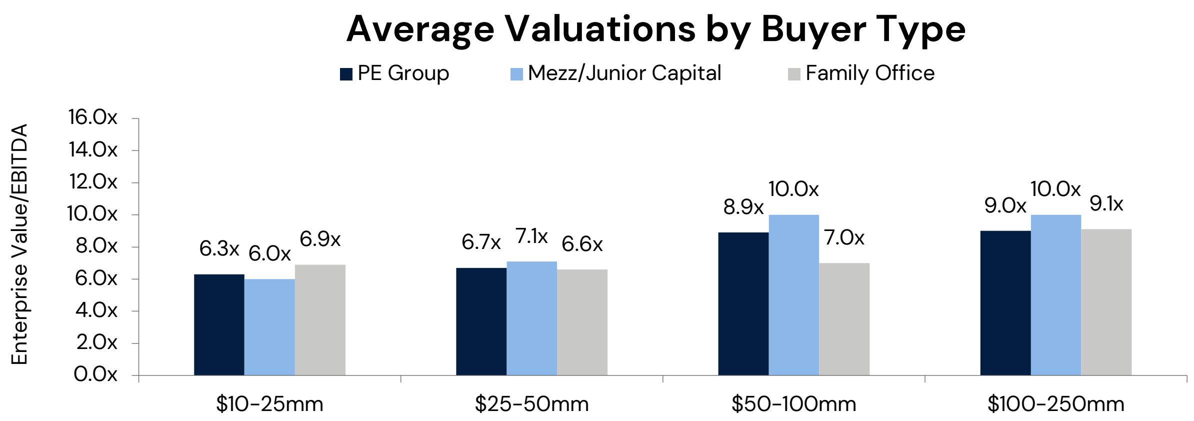


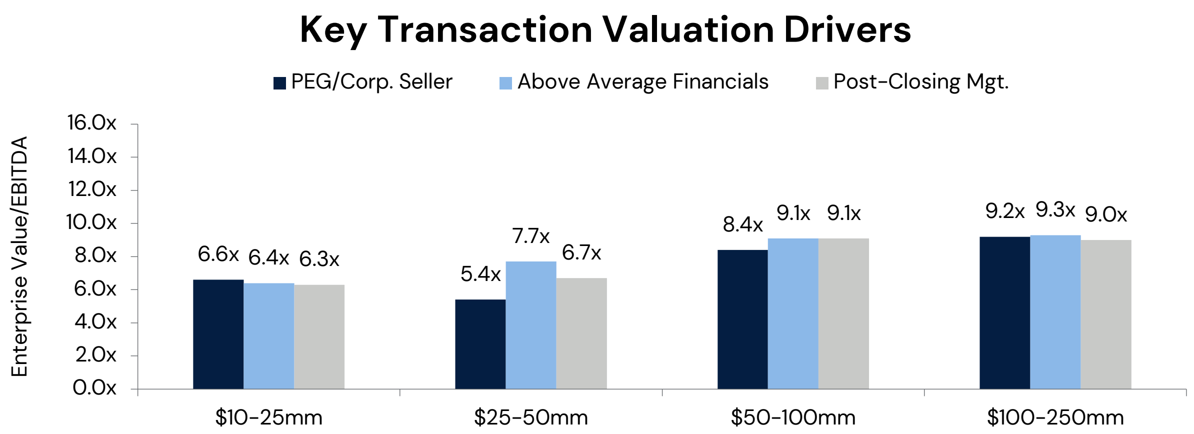
Note: Exit activity inclusive of all enterprise value ranges
Source: PitchBook and GF Data®
Includes multiples 3x-15x; Enterprise Value $10mm-$250mm

PRIVATE EQUITY VALUATIONS

FINANCIAL BUYERS PRIORITIZE PROVEN FINANCIALS

- Companies with higher enterprise values have attracted strong pricing from financial acquirers as scale and proven stability have become increasingly appealing qualities amid a more challenging operating environment.
- Notably, family offices have paid a higher average multiple for companies in the $100-$250 million enterprise value range than private equity firms.
- Amid elevated dry powder, pressure from Limited Partners to deploy private equity capital into new investments has materialized in heightened competition and valuations for companies with proven financials in growing markets.





Source: GF Data®
GF Data® defines Above Average Financial Performers as businesses with TTM EBITDA margins and revenue growth above 10%, or one above 12% and the other metric at least 8%
Includes multiples 3x-15x; Enterprise Value $10mm-$250mm

CAPSTONE PARTNERS

PRIVATE EQUITY VALUATIONS

DEBT MULTIPLES REMAIN HEALTHY DESPITE RATE HIKES

- Despite interest rate increases, the average debt multiple in LBO transactions remains healthy at 3.9x EBITDA in Q2 2022 with buyers continuing to utilize leverage to win bids.
- Average equity contributions reached 48.8% in to-date 2022, rising from the full-year 2021 average of 48.2%. The largest increase in equity contribution from full-year 2022 occurred in the $10-$25 million enterprise value range, which increased to 42.9% in Q2 2022 from 37.3%.
- While an abundance of debt capital remains in the market, higher interest rates are expected to result in lower debt multiples and more conservative deal terms.

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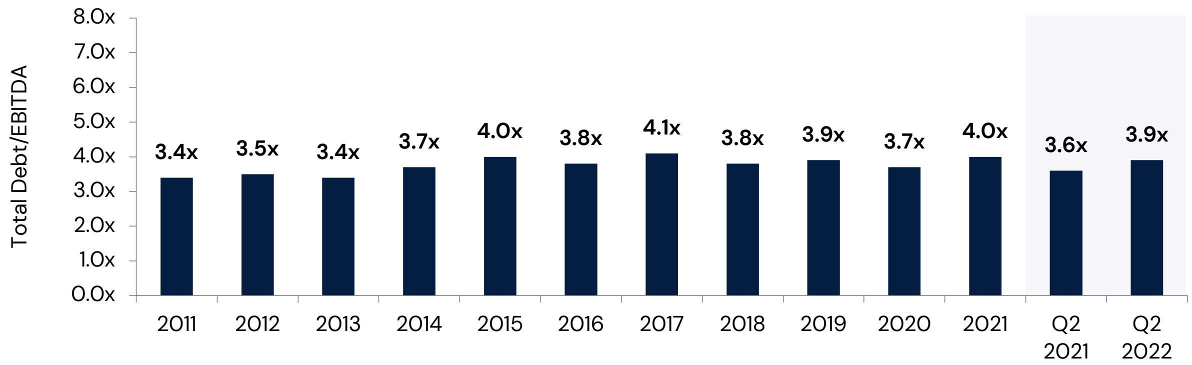
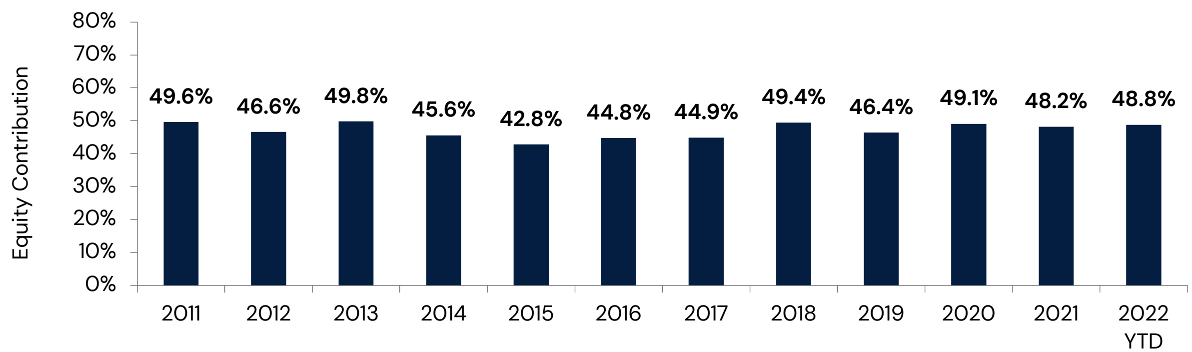
Average Debt Multiples of Middle Market LBO Transactions



Average Middle Market LBO Equity Contribution



Source: GF Data®
Includes multiples 3x-15x; Enterprise Value $10mm-$250mm

CAPSTONE BAROMETERS

CAPSTONE PARTNERS' FULLY INTEGRATED EXPERTISE

We have developed a service delivery model that can address the needs of any client situation, supported by vast internal resources. These capabilities are delivered together with deep domain expertise across 12 dedicated industry groups with an established, real-time access to the private equity community.

Mergers & Acquisitions

- Sell-side Advisory
- Buy-side Advisory
- Recapitalizations
- Mergers & Joint Ventures

Capital Advisory

- Equity Advisory
- Debt Advisory
- Infrastructure Finance

Financial Advisory

- Transaction Advisory
- Interim Management
- Performance Improvement
- Valuation Advisory
- Litigation Support

Special Situations & Restructuring

- Special Situations
- Turnaround
- Restructuring
- Bankruptcy
- Insolvency

Industry Groups

- Aerospace, Defense, Government & Security
- Building Products & Construction Services
- Business Services
- Consumer
- Education & Training
- Energy, Power, & Infrastructure
- FinTech & Services
- Healthcare
- Industrials
- Industrial Technology
- Technology, Media, & Telecom
- Transportation & Logistics

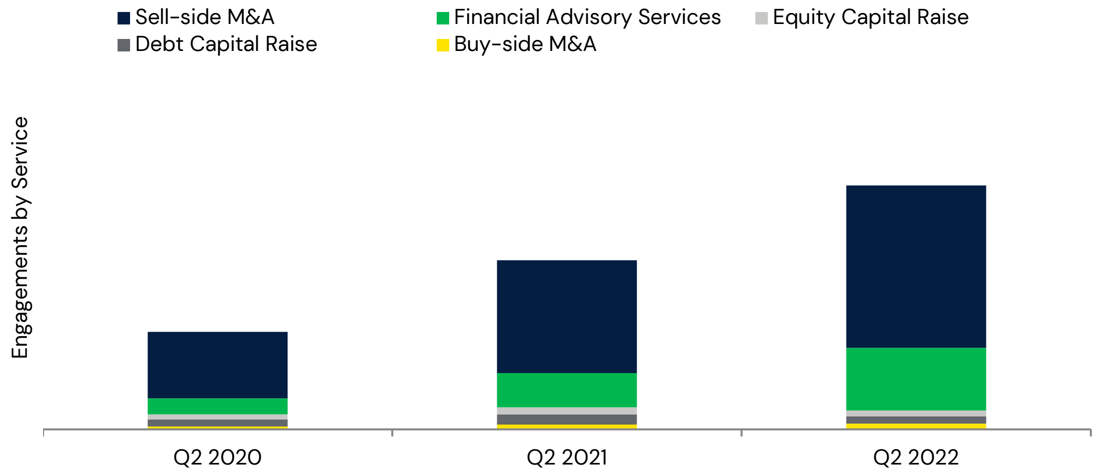
Sponsor Coverage Group

FIRM DATA

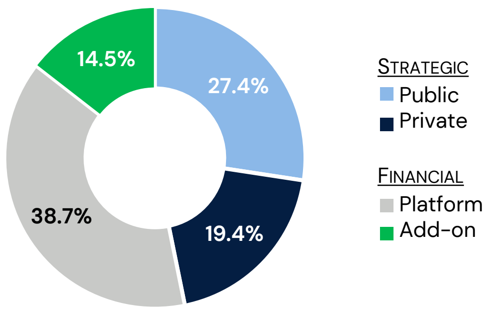
M&A ENVIRONMENT REMAINS FAVORABLE FOR SELLERS

- Sell side deal activity remains strong as processes that were delayed due to robust backlogs in the previous year have relaunched in 2022.
- Financial buyers have accounted for the largest share of acquisitions in the trailing twelve months (TTM). Private equity firms utilize buy-and-build strategies, establishing platforms in lucrative markets through direct acquisitions (38.7%) which are expanded upon through tuck-in deals (14.5%).
- Despite interest rate increases, dealmakers are noting that middle market valuations remain at healthy levels, particularly in defensible sectors, creating a favorable environment for sellers.

Capstone Engagements By Service



Capstone TTM Buyer Breakdown



Source: Capstone proprietary data based on live engagements and closed sell-side engagements

CAPSTONE PARTNERS

RECENT DEAL CLOSINGS

Capstone is an active leader in middle market M&A advisory, serving many clients and their needs, despite the unprecedented disruptions to the economy. Select our recent tombstones below to read the full press release.

ICS HAS BEEN ACQUIRED BY KORN FERRY	KASH CA INC. LAX HAS BEEN ACQUIRED BY FERNANDEZ HOLDINGS, INC.	TELESIS a portfolio company of CRIMSON HAS BEEN ACQUIRED BY HITACHI	ACC ACCELERATION Community of Companies HAS RECEIVED DEBT FINANCING FROM CSWC CAPITAL SOUTHWEST	saur A portfolio company of EQT HAS ACQUIRED AQUA CHEM GLOBAL • WATER • SOLUTIONS	ConcealFab Corporation HAS BEEN ACQUIRED BY valmont	RAFAEL ADVANCED DEFENSE SYSTEMS LTD. HAS ACQUIRED PVP ADVANCED EO SYSTEMS
RESIDENTIAL WARRANTY SERVICES, INC. HAS BEEN ACQUIRED BY Porch	CALCULATED RISK MOTORCYCLE GROUP HAS BEEN ACQUIRED BY NAVIGANTOAK	MonroneyLabels.com HAS BEEN ACQUIRED BY LEADVENTURE a portfolio company of TRUE WIND TA ASSOCIATES	NOR-CAL CONTROLS ENERGY SOLUTIONS STRATEGIC AND TRANSACTION ADVISORY SERVICES	UNCLE JOHN'S PRIDE HAS BEEN RECAPITALIZED BY maranon STAR MOUNTAIN CAPITAL PROMISE HOLDINGS LLC.	MENOLABS HAS BEEN ACQUIRED BY amyris	Eaglestone HAS RECEIVED DEBT FINANCING FROM BMO Harris Bank
nationalgrid HAS DIVESTED VAMCO Water Heater Rentals	AATCarriers HAS BEEN ACQUIRED BY COVENANT TRANSPORT	Bolton REMOTE HAS BEEN ACQUIRED BY SUPPORT NINJA a portfolio company of bv	PROVISION CARES PROTON THERAPY FINANCIAL ADVISORY AND INSOLVENCY SERVICES	innovate MR HAS RECAPITALIZED WITH CIVC PARTNERS	WEP HAS BEEN ACQUIRED BY E-CAPITAL EQUITY MANAGEMENT	sentaca HAS BEEN ACQUIRED BY IBM

LEADERSHIP TEAM

JOHN FERRARA, FOUNDER AND CEO
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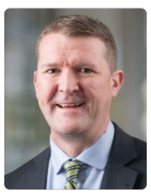
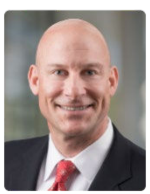
John has dedicated 30+ years to serving as a trusted advisor to privately held businesses. Representative of over 200 engagements, he has acted as investment banker, management consultant, interim executive, investor, founder and board member. John has been recognized as one of the Top 50 M&A advisors in the U.S. and honored as an M&A Advisor Hall of Fame inductee. Under his leadership, Capstone has expanded to 19 offices in the U.S., U.K., and Brazil with an international platform that spans over 450 professionals in 40 countries worldwide. John graduated from Wesleyan University with an MBA from UCLA and The London School of Economics.

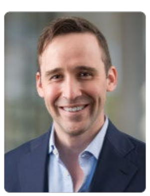
PAUL JANSON, COO
pjanson@capstonepartners.com | 303-887-0174
With 25 years of executive experience, Paul manages all administrative, legal and compliance matters for the firm and serves on Chairman of the Investment Banking Committee. On the M&A Advisory side, he is active in telecommunications services, manufacturing and infrastructure. Previously, Paul served as President & CEO of Camiant, a Packet Cable Multimedia broadband company. Paul was also CEO of Worldbridge Broadband Services Inc, a broadband and telecommunications company that was later acquired by C-Cor. Paul then became President of C-Cor's Global Services Division. He earned a BA-Business from Saint Anselm College.



JACOB VOORHEES, HEAD OF EDUCATION & TRAINING
jvoorhees@capstonepartners.com | 617-216-1543
Jacob brings over 15 years of experience to the Capstone Partners investment banking team. As one of the founding members of Capstone Partners, he helped build Capstone's brand over the past decade until the merger with Headwaters MB in late 2017. Jacob received an MBA from the Sloan School of Management at Massachusetts Institute of Technology (MIT) and a BS from Cornell University.



PETER ASIAF, HEAD OF BUSINESS DEVELOPMENT
pasiaf@capstonepartners.com | 617-619-3368
Peter has more than 20 years of experience as a senior business development executive across the professional and financial services industries. He has been a growth-oriented leader in early-stage, middle-market and Fortune 500 enterprises, helping them to design and execute strategic expansion plans, optimize brand positioning and strengthen key market relationships. Peter is a Certified Exit Planning Advisor (CEPA) designated by the Exit Planning Institute



BRENDAN BURKE, HEAD OF SPONSOR COVERAGE
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Brendan has 16 years in investment banking experience. He oversees the firm's outreach to private equity sponsors and recruitment of senior investment bankers. Since joining Headwaters MB (now Capstone) in 2004, he has held roles in transaction execution, business development, recruiting and marketing. In 2012, he was awarded 40 UNDER 40 by the M&A Advisor. He received a BA in Politics, Philosophy, Economics from Pomona College.

LEADERSHIP TEAM (CONTINUED)

DANIEL MCBROOM, HEAD OF PRIVATE CAPITAL MARKETS

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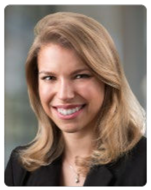
Daniel has 15 years of private and investment banking experience and is responsible for sourcing and analyzing hundreds of companies a year introduced by the firm's institutional clients and partners. Select companies are engaged and his team will stay involved until the transaction is closed. Before his financial career, Daniel spent seven years as a pilot in the United States Air Force. He earned an MBA from the University of Notre Dame and a BS from the United States Air Force Academy.



SARAH DOHERTY, DIRECTOR OF MARKET INTELLIGENCE

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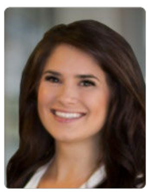
Sarah has nearly 10 years of professional research, writing, and data visualization experience and leads the strategic coverage and development of Capstone's middle market insights. She manages the firm's Market Intelligence Team, which produces 150+ reports, articles, white papers, surveys, and capital markets updates each year. Her team's award-winning M&A commentary and analysis has been featured in more than 50 of the nation's top news outlets. Sarah earned a BA from Biola University and was recognized in 2021 with the "Emerging Leader Award" by the M&A Advisor.



OLIVIA FERRIS, DIRECTOR OF STRATEGY & OPERATIONS

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Olivia Ferris has over 10 years of investment banking experience with Capstone Partners and currently serves as Director of Strategy & Operations on the firm's executive team. In this role, Olivia is responsible for overall firm strategy, corporate development, partnerships, strategic initiatives, and investments. She is central to communicating, executing, and sustaining Capstone's priorities and translating them into a comprehensive strategic plan. Olivia earned a BSBA in Finance from Daniels College of Business, University of Denver.

BRIAN DAVIES, MANAGING PARTNER, FINANCIAL ADVISORY SERVICES GROUP

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Brian has 20+ years of experience working in the fields of corporate recovery, business reorganization and interim management services. He has provided financial advisory services to lenders, debtors, creditors' committees, trustees and equity holders in bankruptcy matters and out-of-court restructurings. Brian has provided assistance to under-performing businesses, acquirers of distressed companies. He has worked with companies to develop cost containment and asset rationalization plans, improve liquidity, re-engineer financial and other back-office functions. He received a MS from Bentley University and MSF from The McCallum School, Bentley University.

JIM CALANDRA, HEAD OF FINANCIAL ADVISORY SERVICES GROUP

jcalandra@capstonepartners.com | 617-619-3395

Jim has more than 25 years of experience in turnaround management consulting, interim management, fraud and forensic accounting, mergers and acquisitions, and recapitalizations. He has advised more than 50 companies through significant strategic transitions involving both public and private middle market companies with varying situations. Jim received a BS in Accountancy from Bentley University and an MS in Accountancy from The McCallum Graduate School of Business, Bentley University.

Capstone Partners, a subsidiary of Huntington Bancshares Incorporated (NASDAQ:HBAN), has been a trusted advisor to leading middle market companies for over 20 years, offering a fully integrated range of investment banking and financial advisory services uniquely tailored to help owners, investors, and creditors through each stage of the company's lifecycle. Capstone's services include M&A advisory, debt and equity placement, corporate restructuring, special situations, valuation and fairness opinions, and financial advisory services. Headquartered in Boston, the firm has 175+ professionals in multiple offices across the U.S. With 12 dedicated industry groups, Capstone delivers sector-specific expertise through large, cross-functional teams. For more information, visit www.capstonepartners.com.

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