CAPITAL MARKETS UPDATE

Middle Market M&A
Q2 2023

CAPSTONE PARTNERS

MARKET COMMENTARY

Middle Market M&A Volume Reaches its Trough

Following 525 basis points of interest rates hikes since March 2022, the unemployment rate has hovered near 3.5% in 2023, equity markets have recorded positive gains, and consumer spending has incrementally ticked upwards—a scenario that may have been deemed an unrealistic best case outcome at the start of the Fed's monetary tightening campaign. It is too early for the Fed to declare victory but the current state of the market begs the question, is this really an economy on the brink of a recession? The U.S. has seemingly entered a structurally higher rate environment, one that may persist in the near-term. However, through the first half of 2023, the economy has largely shown its ability to contend with a higher cost of capital. Equity indices have continued to record healthy returns, despite a higher rate environment, and even shrugged off a downgrade to U.S. debt. Continued disinflation in the following quarters will likely prove pivotal for near-term economic growth. Through the first half of 2023, macroeconomic headwinds have failed to derail a resilient U.S. economy—which bodes well for near-term dealmaking opportunities.

Merger and acquisition (M&A) volume is likely approaching or has reached its trough, with deal volume declining 15.9% year-over-year (YOY) in Q2. Middle market dealmaking (under $500 million in enterprise value) has continued to remain more resilient than broader M&A markets, as total transaction volume across all deal sizes declined 24.8% YOY. Anecdotally, dealmakers are noting a buildup in transaction inventory, with the expectation for a rebound towards Q1 2024. In addition, following recent years of COVID bumps to revenue, the market has entered a more normalized EBITDA environment for many private businesses. Strategics have continued to pursue quality companies, and while sponsors have largely held off on exits, they have continued to actively evaluate investment opportunities.

"After a historic 2021 for M&A, recessionary fears coupled with rising interest rates and challenging credit markets created a wait-and-see mentality for business owners from Q2 2022 through Q2 2023 regarding the M&A market. However, Q3 2023 has shown a steady increase in business owner response and owners' willingness to transact in 2024. From the conversations we have had in Q3 2023, there is an appearing latent interest in dealmaking and accessing capital and we anticipate those businesses that are best prepared will be in a prime position to capture opportunities as the fog lifts."

Peter Asiaf
Managing Director,
Head of Business Development

MARKET COMMENTARY

Private equity dealmaking through Q2 painted a dim picture of sponsor activity, with transactions closed by private equity firms declining 17.6% YOY through Q2. The dearth of exits has been among the most notable headlines, with the number of realized private equity investments falling 44.1% YOY through Q2—a far greater fall than the decline in closed transactions. This highlights two key takeaways; one, that the sponsor exit market has greater sensitivity to the valuation environment, and two, that financial buyers are optimistic about the next five to seven years as they have continued to deploy capital at relatively healthy levels. Many sponsors have been opportunistic in the current environment—either establishing platforms at lower buy in multiples or providing liquidity through a buy-and-build strategy. The vast reserve of dry powder available to private equity firms is expected to support near-term deal activity.

M&A valuations compressed in Q2 compared to the prior year, falling nearly a full turn to 9.2x EV/EBITDA from 10.0x EV/EBITDA. Rising interest rates have facilitated a tightened lending environment, contributing to downward pressure on transaction pricing. However, quality businesses with sustainable cash flows and a track record of performance have continued to attract buyer attention. Buyers have also increasingly sought businesses with revenues driven by volume growth, rather than elevated prices, an important consideration as U.S. disinflation has continued to moderate the cost environment.

Average multiples in the lower middle market (categorized as having an enterprise value of between $10 and $100 million) have trailed the broader market average, falling to 8.2x EV/EBITDA in Q2 from 9.6x in the previous year. While core middle market ($100-$250 million) and upper middle market ($250-$500 million) outperformed the overall average at 9.6x and 10.9x, respectively, these market levels recorded deeper YOY declines compared to the lower middle market. This has reflected a continuation of buyers moving down market to pursue smaller deal sizes. Notably, average deal value through the first two quarters fell 27% YOY to $49.5 million.

Transaction activity among strategic buyers continued to slow through Q2, with deals closed by private and public acquirers falling 20.3% and 29.9% YOY, respectively. However, the average value of deals closed by public buyers recorded a modest YOY uptick of 5.1%. Many prospective sellers opted to wait for further market transparency in the first half of the year, which depressed the available inventory of transactions. Moving towards the final two quarters of 2023 and into 2024, sellers are likely to increasingly eye liquidity events, providing a boost to strategics seeking efficient growth and synergies through acquisitions.

Middle market deal activity has continually showcased its resilience as business owners do not always have the option to wait out market turbulence. Deal markets ebb and flow as economic cycles permit but the drivers of private markets differ from other areas of the economy. LPs demand return on their invested capital, and strategics in competitive markets are in constant need of operational synergies and new growth channels—all amid one of the most notable wealth transfers in history as the baby boomer generation ages. The exact future inflection point in M&A activity cannot be known, but it is likely sooner than many had forecasted.

MIDDLE MARKET OBSERVATIONS

Q2 2023 TAKEAWAYS & THEMES

Middle market M&A has moderated amid persistent uncertainty over the near-term macroeconomic landscape.

- A flight to quality largely gripped the market in the first two quarters of 2023 as strategic and financial buyers have been increasingly selective when pursuing acquisition opportunities.
- Quality companies in defensible industries with strong margin profiles have continued to command premium valuations.
- Buyers have increasingly targeted core middle market businesses, rather than chase large-scale acquisitions, to conserve cash while also reducing risk.
- Capital overhang has remained robust, with opportunities available for sponsors to acquire assets at attractive prices.

M&A activity in the middle market has likely reached its trough with the expectation for a recovery in the second half of the year and into 2024.

- The Federal Reserve's ability to communicate a clear strategy for their terminal interest rate will likely influence buyer appetite in the second half.
- Private equity buyers are increasingly eye capital deployment opportunities in the second half of the year, benefiting from a wealth of dry powder.
- Demographics are a key catalyst for middle market volume, which has created a healthy pipeline of pent up demand as aging founders and entrepreneurs seek to monetize their business.
- Macroeconomic clarity will likely prove consequential for deal activity in the following quarters.

CAPSTONE PARTNERS

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KEY CONSIDERATIONS FOR BUSINESS OWNERS

	Current State	Takeaways for Business Owners
Dry Powder	Abundant	Private equity firms have maintained a consistent level of fundraising year-over-year (YOY) through Q2 2023. Sponsors remain armed with vast reserves of dry powder, opting to deploy capital mainly for add-on acquisitions as continued interest rate hikes by the U.S. Federal Reserve have increased financing costs for large-scale buyouts.
Buyer Appetite	Highly Selective	Private strategic buyers have been highly selective in their acquisition targets in Q2. Despite lower volume quarter-over-quarter (QoQ), private strategic buyers have experienced less of a decline in transaction volume compared to public strategic buyers.
Debt Market	Tightened lending conditions	The lending environment has remained arduous as the average debt multiple significantly declined YOY in Q2. However, the Q2 average debt multiple only slightly declined QoQ, which may indicate a slowing in debt coverage erosion. Debt capital remains available, although middle market businesses may need to engage a broader universe consisting of multiple lenders.
Valuations	Signs of Improvement	M&A valuations have shown signs of improvement in Q2 2023. Following a sharp decline at the end of 2022 to 7.4x EV/EBITDA, valuations have steadily climbed in the past two quarters. Average EBITDA multiples elevated to 9.2x in Q2, a slight uptick from the 9.1x average in Q1. Buyers have also prioritized profitability and scale, resulting in a robust pricing environment for quality businesses.

Q2 2023 BY THE NUMBERS

15.9% ⇩
DECREASE IN DEAL VOLUME

Deal volume fell 15.9% YOY in Q2 as higher financing costs and unclear macroeconomic signals created a challenging M&A market.

$51.4M ⇧
AVERAGE DEAL VALUE

Average deal value increased by 7.3% QoQ in Q2 as buyers exhibited a continued flight to quality in their acquisition strategies.

9.2x ⇧
AVERAGE EBITDA MULTIPLE

The average EBITDA multiple in Q2 amounted to 9.2x, rising slightly in comparison to 9.1x recorded in Q1.

17.6% ⇩
DECREASE IN PE TRANSACTIONS

Private equity transaction volume fell 17.6% YOY, improving on the sharp 28.9% YOY decline experienced in Q1 2023.

7.3% ⇩
DECREASE IN PE FUNDRAISING

Private equity fundraising fell YOY, however, capital raised has remained in line with historic averages.

9.6x ⇨
$100-$250 EBITDA MULTIPLE

Pricing in the core middle market has fallen QoQ to 9.6x but has remained above the middle market average.

3.1x ⇩
AVERAGE DEBT MULTIPLE

Average debt multiples continued to tighten in Q2, falling to 3.1x EBITDA compared to 3.8x in the prior year.

1.7% ⇧
PUBLIC BUYER AVERAGE DEAL VALUE

A rebound in public equity markets has coincided with an increase in average deal value paid by public strategic buyers.

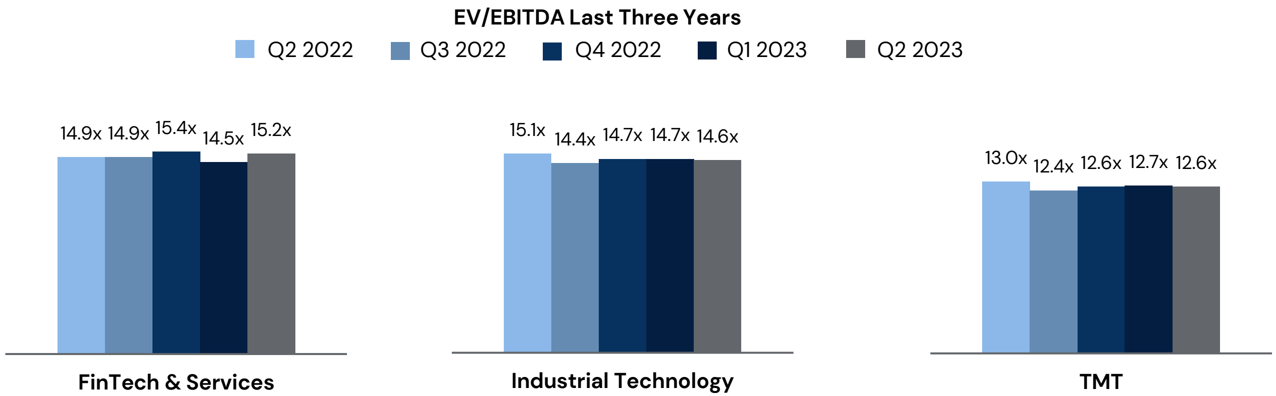
$1.3T ⇧
GLOBAL PE DRY POWDER

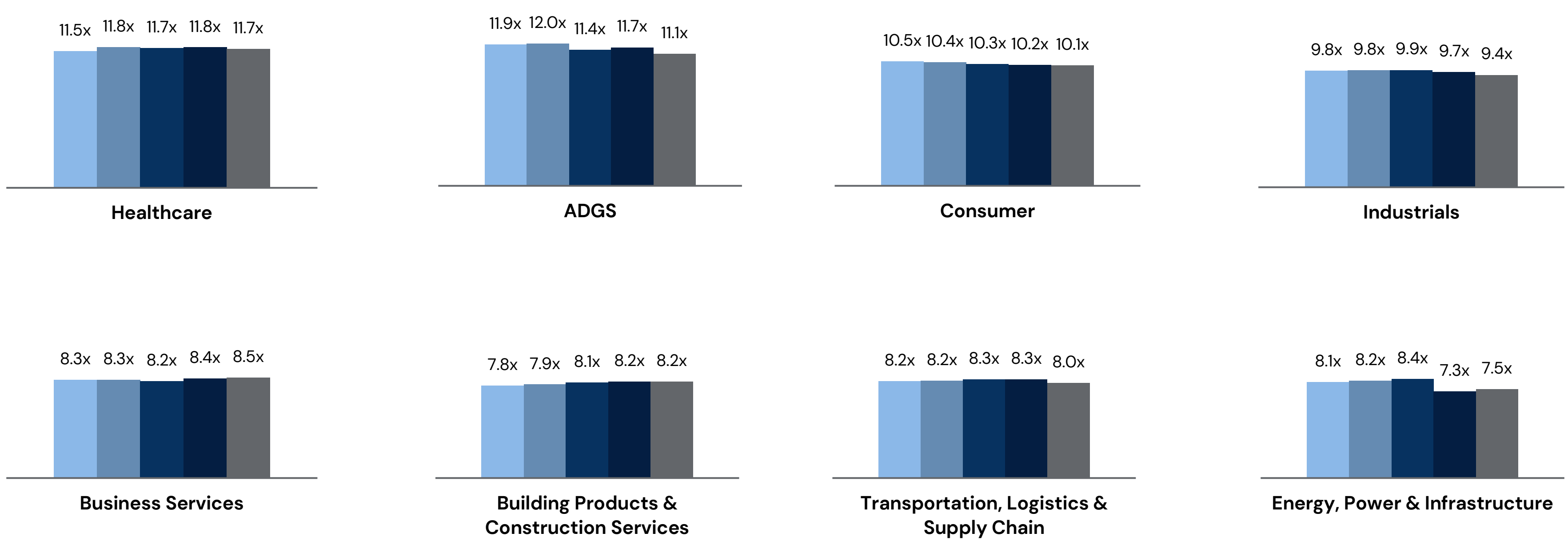
Capital overhang has remained at elevated levels, with an overwhelming majority concentrated in U.S funds.

CAPSTONE'S PROPRIETARY MIDDLE MARKET VALUATIONS INDEX

Middle Market M&A Valuation Takeaways

- Capstone Partners actively monitors the purchase multiples of middle market transactions through its proprietary database to provide insight and transparency into the pricing environment.
- The FinTech & Services industry has commanded the highest valuations in the three-year period ending in Q2 2023, with an average multiple of 15.2x EV/EBITDA.





CAPITAL MARKET DASHBOARD

YTD EQUITIES

S&P 500
+17.4%

Last	1Y %	P/E LTM
4,464.1	*+7.9%*	*22.0*

Dow Jones Industrial
+7.8%

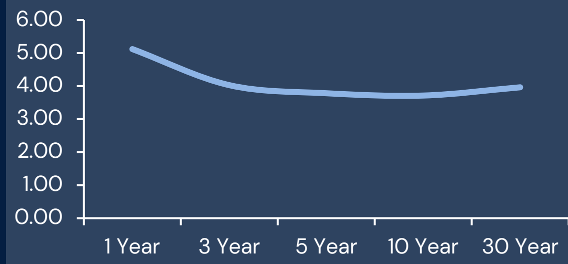
Last	1Y %	P/E LTM
35,281.4	*+8.1%*	*18.9*

NASDAQ
+30.0%

Last	1Y %	P/E LTM
13,644.9	*+7.7%*	*29.4*

FIXED INCOME

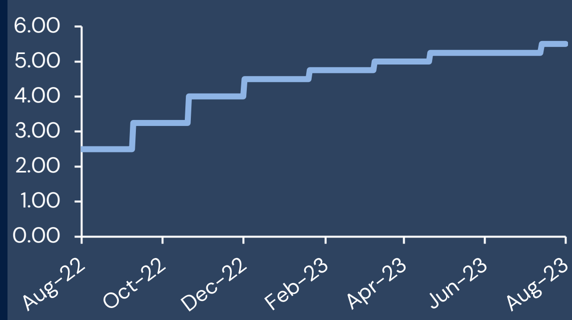
U.S. Yield Curve



1Y	3Y	5Y	10Y	30Y
5.122	*4.027*	*3.782*	*3.712*	*3.963*

POLICY RATE

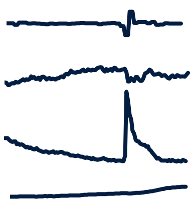
Federal Funds Target Rate



ECONOMIC INDICATORS

GDP, LABOR MARKET, & INFLATION

	Last	YOY
GDP	*2.4%*	*+3.0%*
Consumer Confidence	*117.0*	*+22.8%*
Unemployment	*3.5%*	*+0.0%*
Consumer Price Index	*304.4*	*+3.3%*



HOUSING MARKET

Housing Starts	*1,434.0*	*-8.1%*
Total Construction	*$1,938.7*	*+3.5%*

PMI & NMI

Purchasing Managers	*46.4%*	*-11.9%*
Non-Manufacturing	*52.7%*	*-6.6%*

RETAIL

Retail Sales	*$689.5*	*+1.5%*

Source: FactSet as of 8/11/23

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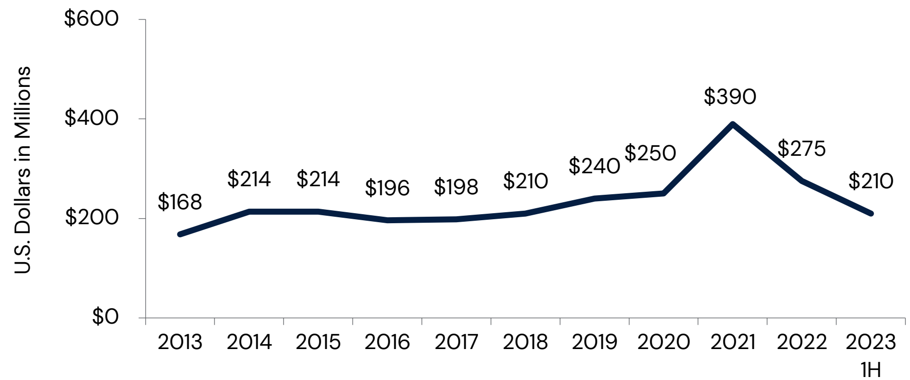
Key Market Themes and Stats

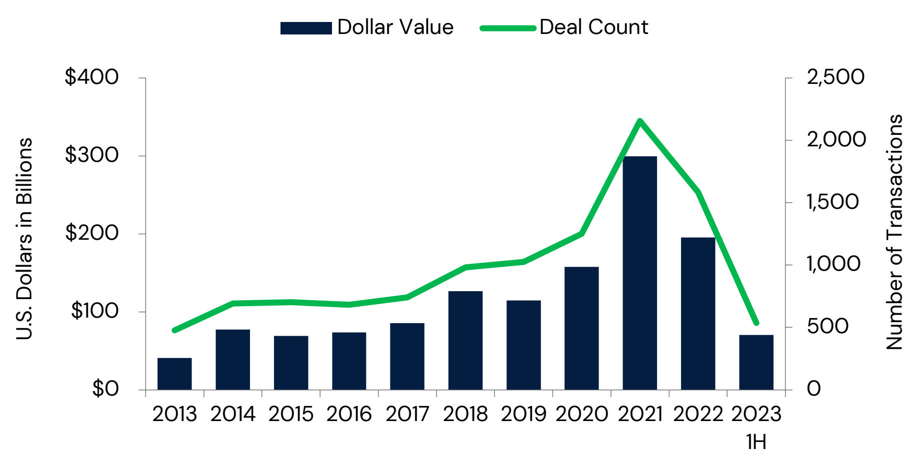
Growth capital volumes continue to lag the bull market years of 2020-2022, but private markets are tracking higher than 2019 levels. Despite the turbulence in public equities and M&A so far this year, growth equity investments into late-stage private companies are tracking with levels seen in 2019, with first-half growth investments totaling $70.2 billion—61% of 2019's full-year total. Furthermore, while deal activity in 2023 has trailed annual levels seen in recent years, ($150 billion+ in each year from 2020-2022), multiple high-profile deals have been announced with 535 transactions closed through the first half of 2023.

Valuations continue to come under pressure as the market resets from 2021 levels. Lingering (but improving) concerns surrounding the U.S. macroeconomic picture, uncertainty in the medium-term interest rate environment, and depressed public comparables continue to moderate valuations for growth-stage companies. However, valuations are following similar trends as the deal value figures discussed previously. While moderated from the bull market years, valuations are largely tracking pre-pandemic levels. Through the first half of the year, median pre-money valuations are consistent with those in 2018, at $210 million. Furthermore, when looking at the median pre-money valuation by quarter, Q2 2023 saw a significant step-up from Q1 2023 as median valuations increased from $149.7 million to $265.0 million.

Median Pre-Money Valuations for Growth Companies



Growth Capital Raised by Year



Sources: PitchBook, Capital IQ, The Wall Street Journal
Note: Growth figures exclude transactions < $25 million

EQUITY PRIVATE CAPITAL MARKETS CONDITIONS (CONTINUED)

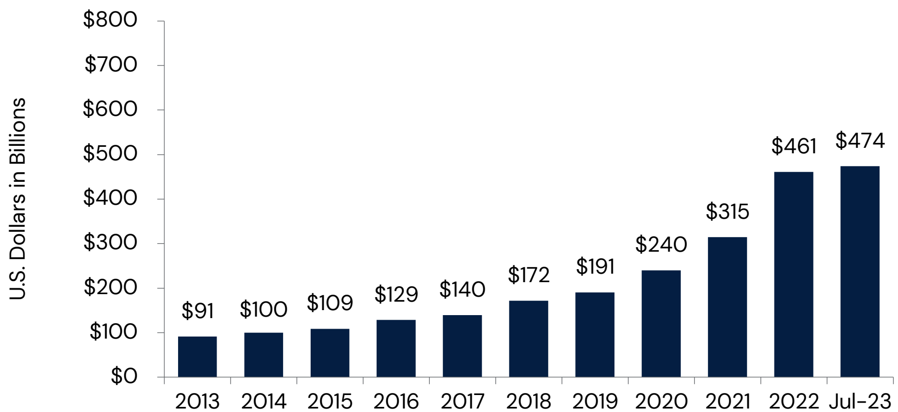
Fundraising remains challenged for private equity and growth equity funds. Following record levels of fundraising in 2022, the environment for new growth equity funds is limited to larger GPs who have a differentiated investment thesis and track record. During the first six months of 2023, $44.0 billion in growth equity has been raised across 39 funds. This marks a 37% decline in dollar amount and a 54% fall in fund count year-over-year according to PitchBook.

Investors remain open to new investments, but are focused on durable companies with proven business models. Growth investors are seeking stable growth coupled with a track record of (or clear path to) profitability. With the economic effects of the Fed's tightening cycle yet to-be-seen, investors are looking for stress-tested business models that can provide sufficient returns in multiple economic scenarios. As an example, business services companies with steady growth have been attracting capital in lieu of higher volatility technology companies in the past 12 months.

Investors are also increasingly using structure in deal terms in order to protect against downside risk. Private markets benefit from the structural flexibility that can be utilized, and investors have continued to rely on structured investments as a means of protecting against downside risk in 2023. For companies looking to raise equity, structured equity has also been used to avoid moving forward with a priced "down-round" amid falling valuations. Structured equity has been used in two situations: 1) as an equity/debt hybrid instrument for mature, high-quality issuers to utilize in place of more costly convertible preferred equity, and 2) as a more investor-friendly form of traditional growth equity, in which the investor requires tighter terms for liquidation preference, or may use participating preferred structure, valuation ratchet features, and other protections to navigate investment uncertainty.

Growth investors still have large amounts of capital for deployment. Thankfully for investors, dry powder levels have never been higher, with North American growth equity funds currently sitting on an estimated $474 billion. When factoring in buyout funds, total North American dry powder is more than $1 trillion, according to Preqin.

Dry Powder for Growth Investors



Source: Preqin

EQUITY CAPITAL MARKETS GROUP

The Equity Capital Markets Group focuses on raising equity capital financing for growth-oriented companies and structured equity for more mature middle market enterprises. Our team works closely with companies to secure equity capital to fund growth initiatives, recapitalize the balance sheet (often including shareholder liquidity), and to finance M&A transactions.

FINANCIAL ADVISORY SERVICES

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Assessing Technology Assets to Protect Transaction Value

Many middle market businesses have long viewed technology as a key tool to level the playing field against larger competitors. The challenges of the global pandemic—from the widespread pivot to remote or hybrid workplaces to supply-chain disruptions and labor shortages—have resulted in even more pronounced investments in technological solutions to survive the unprecedented disruption to normal operations.

The organic and crisis-driven adoption of technology into most areas of business operations has resulted in many middle market companies having a comparatively complex technology profile. Additionally, the rapid deployment of cloud-based solutions to manage costs and facilitate work-from-home solutions has heightened a company's cybersecurity risk. Some organizations have been extremely thorough in documenting and managing implementations, while others have struggled to realize the anticipated value from their technological upgrades.

While finance and accounting practices are often consistent from business to business and have not varied significantly over time, technology and digital platforms evolve and change rapidly. Combined with extreme variety in the scalability and success of their real-world execution, this can pose a significant challenge during the due diligence phase of a potential transaction.

Our mission to help provide business owners, acquirers, and investors with the most accurate and comprehensive information on which to base important decisions has grown to include a specific focus on technology. Similar to the Quality of Earnings (QofE) analysis that is a standard item in the transaction due-diligence process, our Quality of Technology (QofT) assessment is designed to provide a detailed analysis of a target company's technology, cybersecurity, digital sales, and marketing platforms and practices.

The Quality of Technology assessment can provide transparency into risks and opportunities, and ultimately help a business owner or investor create an actionable integration strategy that contributes to their desired outcomes. Our review process addresses three main areas:

1. Core Technology – Are these technologies sufficient to grow and run the business, at scale, with speed, and with quality, including:
- Data, applications, infrastructure, and operations
- Software development and engineering
- Communication, service, and support
- Strategy, governance, and compliance

2. Cybersecurity – Does the business have processes and tools to:
- Identify potential threats and systemic vulnerabilities beforehand
- Detect and protect against active incursions
- Recover data and respond to incidents in a way that minimizes cost and disruption to operations

3. Digital Sales & Marketing – Is the business reaching the right customers and maximizing revenue and profits through:
- eCommerce
- Search engine marketing (SEM) and optimization (SEO)
- Websites and social media
- Content and email marketing

FINANCIAL ADVISORY SERVICES (CONTINUED)

Our technology assessment allows clients to understand gaps in strategy and functionality to minimize risk. It also provides sufficient detail to help them calculate remediation costs, including time and human effort involved. When the assessment is complete, clients should have a clear picture of the overall complexity of the various proposed solutions, their potential value to the transaction, and the long-term profitability of the business.

Our reports include comprehensive planning tools that will help clients understand the order and timing of any remediation actions they might choose to take. The report also defines any systemic interdependencies that will need to be addressed in tandem.

While an internal team may possess the ability to identify and address these open items, in-house resources often lack the capacity of time to fully execute on remediation plans, especially If they are critical to the timeline of the deal. So, in addition to having the expertise to evaluate technological assets and liabilities, Capstone can also provide on-the-ground assistance to help with implementation and integration if the client pursues the transaction.

Case Study: $60 Million Enterprise Value Private Equity-Backed Medical Device Company

The client was an innovative medical device company seeking to expand its topline revenue, grow its customer reach, extend its product development pipeline, and improve profitability—all to help support securing the next round of Series B funding.

The company created an intuitive platform-based set of services that were delivered through smart watches. Individuals could use the platform to join a healthcare ecosystem powered by patient journeys, data, analytics, and real-time healthcare monitoring systems.

Faced with operating losses, delayed delivery schedules, a complex product architecture, and an incomplete product roadmap, the private equity investor brought in a new CEO charged with improving the pace and trajectory of the company.

Based on our team's relationship with the new CEO, we were asked to conduct a complete Technology Assessment, including reviews covering talent, product and architecture, cybersecurity, infrastructure, hardware, and vendor management.

Our Quality of Technology assessment uncovered significant gaps and opportunities in the product road map, while validating the cybersecurity program. We also identified other gaps concerning financials, data management, and product testing and development.

We produced a set of prioritized action plans to close the product roadmap gaps, accelerate delivery, and remediate the remaining issues.

As a result, the company was able to deliver on its operating plan, forecasted profitability for the first time, and subsequently oversubscribed their Series B funding round.

Taking the Next Step

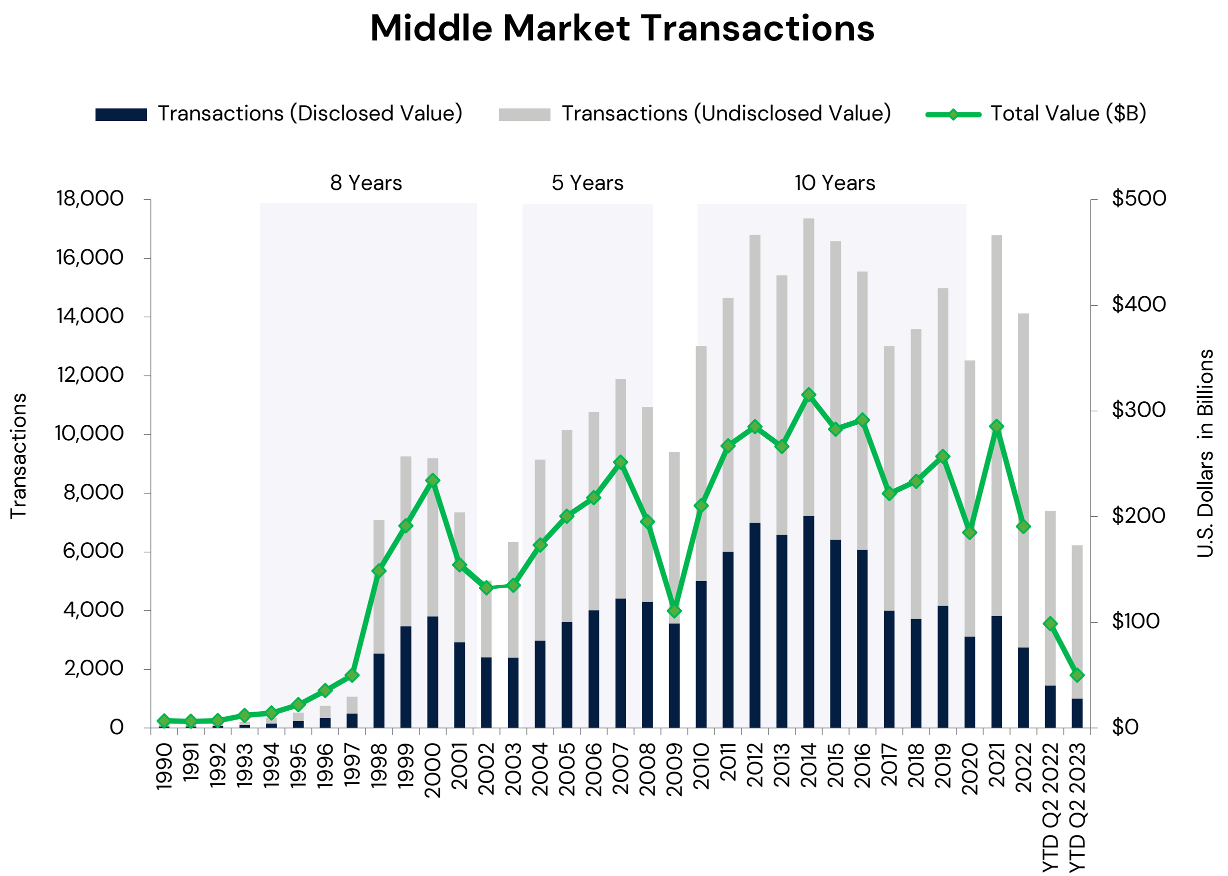
Capstone's Financial Advisory Services Team consists of professionals with deep experience advising clients across all states of the business lifecycle including preparing for a transaction. If you would like more information about our services or have a specific question, please contact us.

MIDDLE MARKET M&A ACTIVITY

M&A AMID ECONOMIC CYCLES

MIDDLE MARKET M&A TOPS BROADER MARKET

- Total middle market M&A volume declined 15.9% YOY through YTD Q2 2023 as macroeconomic headwinds caused a slowdown in dealmaking. However, middle market deal volume continued to outperform the broader M&A market, as total M&A volume declined 24.8% YOY through Q2.
- Seller caution and tightened credit conditions have hindered deal activity. Gross margin strength has been increasingly emphasized amid higher costs.
- Through YTD Q2, the average disclosed enterprise value dropped 27% YOY to $49.5 million as buyers have increasingly pursued smaller middle market deals.



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

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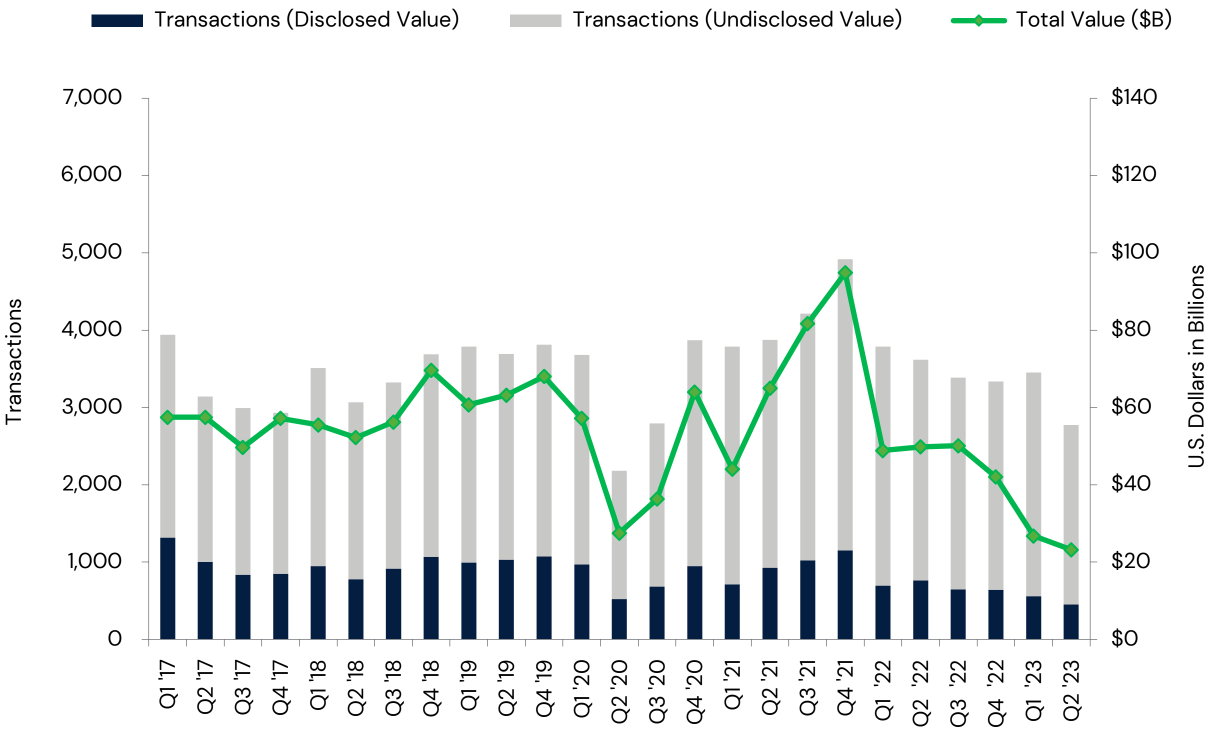
QUARTERLY M&A VOLUME

AVERAGE DEAL VALUE SEES UPTICK IN Q2 2023

- Total closed transactions in Q2 fell 19.7% QoQ. In Q2 2023, strategic and financial acquirers have exhibited greater selectivity amid significant macroeconomic uncertainty.
- Total disclosed transaction value in Q2 declined 13.4% QoQ, however, the average transaction value amounted to $51.4 million in Q2, representing an uptick of 7.3% QoQ.
- The M&A market is likely approaching, or has reached, its trough. Historical precedent witnessed post 2009 and 2020 has shown that a substantial rebound has often followed these periods of depressed transaction activity.

Quarterly Middle Market Transactions

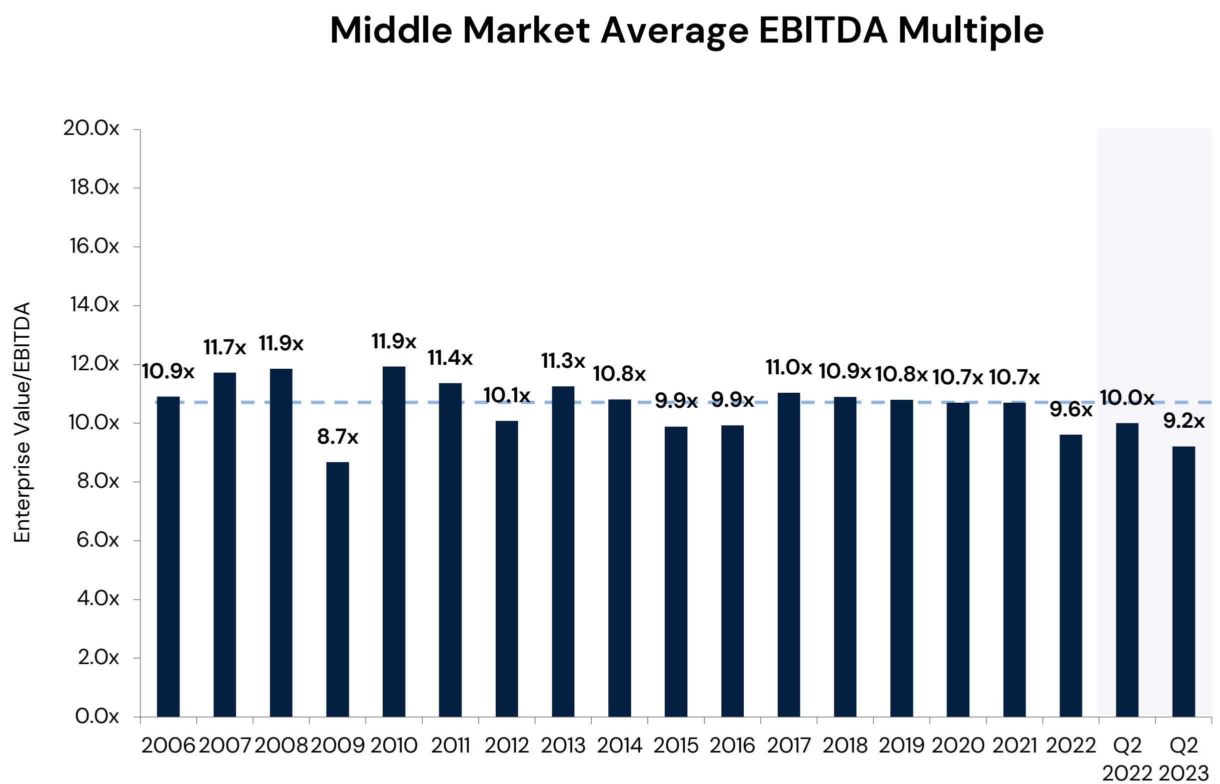


Source: Capital IQ
Enterprise Value < $500mm

PRICING TRENDS

TRANSACTION MULTIPLES REBOUND FROM Q4 LOW

- The middle market has experienced valuation compression, with the average purchase multiple falling from 10.0x EV/EBITDA in Q2 2022 to 9.2x in Q2 2023. While a decline YOY, the Q2 2023 multiple increased from Q1, potentially showcasing the optimism market participants have in avoiding a drastic recession.
- High-quality targets in resilient industries including Industrial Technology, FinTech & Services, and TMT have continued to draw healthy multiples.
- Buyers have continued to scrutinize profitability, sustainability of earnings, and customer stickiness.



Dotted line indicates 2006 to 2022 average of 10.7x
Source: Capital IQ and Capstone Partners
Includes multiples 3x-30x
Enterprise Value < $500mm

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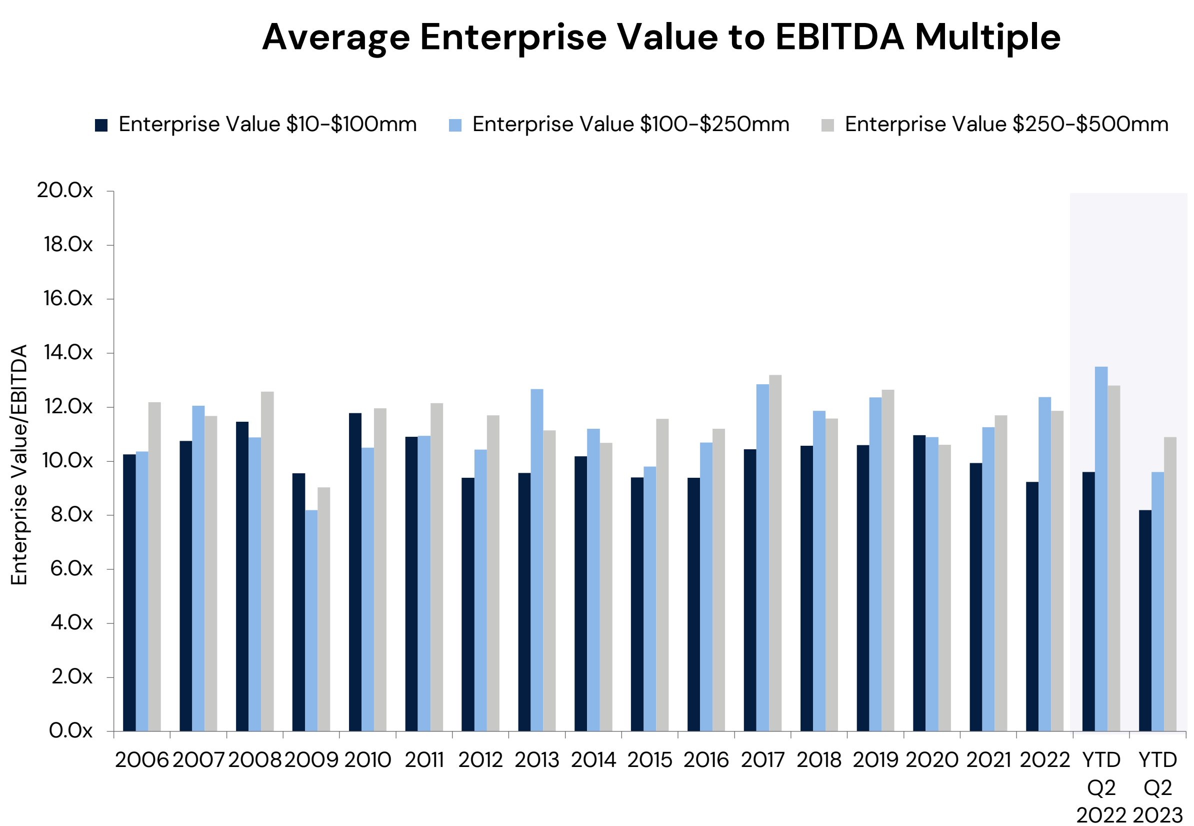
BREAKING IT DOWN BY SIZE

MULTIPLES FALL FOR SMALLER DEAL SIZES

- Valuations among smaller target companies ($10-$100 million) have come under pressure, with the average multiple falling a full turn below the middle market average to 8.2x EV/EBITDA.
- Core ($100-$250 million) and upper ($250-$500 million) middle market transactions have registered YOY declines in valuations but have remained above the market average at 9.6x and 10.9x, respectively.
- Acquirers have prioritized core middle market targets with operational competency, gross margin strength, and quality products and services.



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

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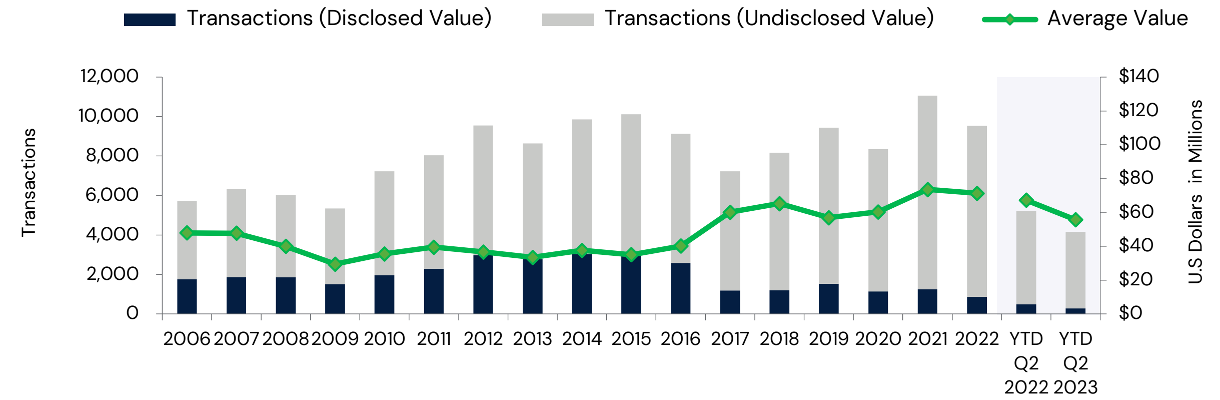
STRATEGIC ACQUIRERS

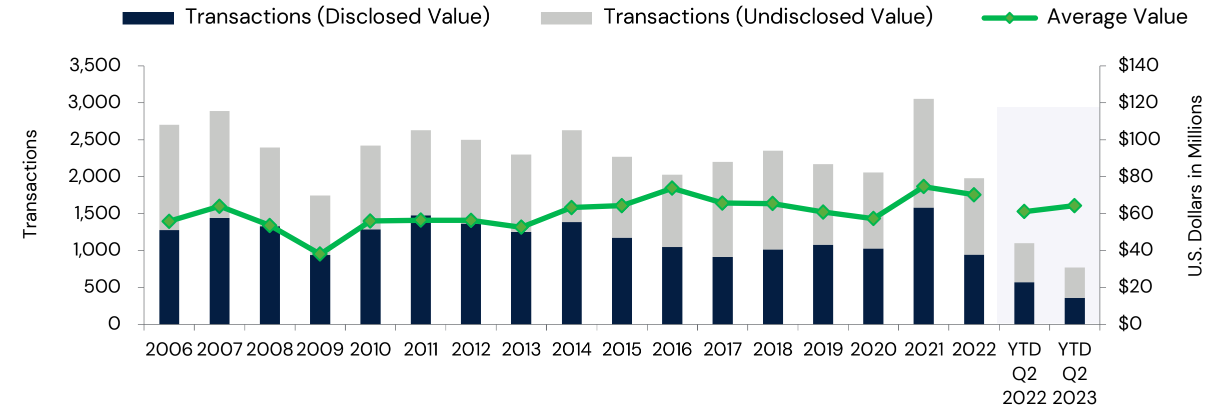
PRIVATE BUYERS OUTPACE PUBLIC STRATEGICS

- The number of closed transactions by private companies declined 20.3% YOY in YTD Q2. The average transaction value fell to $55.7 million, which remained in line with pre-pandemic levels.
- Closed transactions by public companies recorded deeper declines, falling 29.9% YOY in YTD Q2. In contrast, the average deal value rose 5.1% YOY in YTD Q2 to $64.2 million.
- The pursuit of operational synergies, complementary offerings, and enhanced scale have continued to drive strategic consolidation, despite a lack of visibility in the macroeconomic landscape.

Acquisitions by Private Companies



Acquisitions by Public Companies



Source: Capital IQ
Enterprise Value < $500mm

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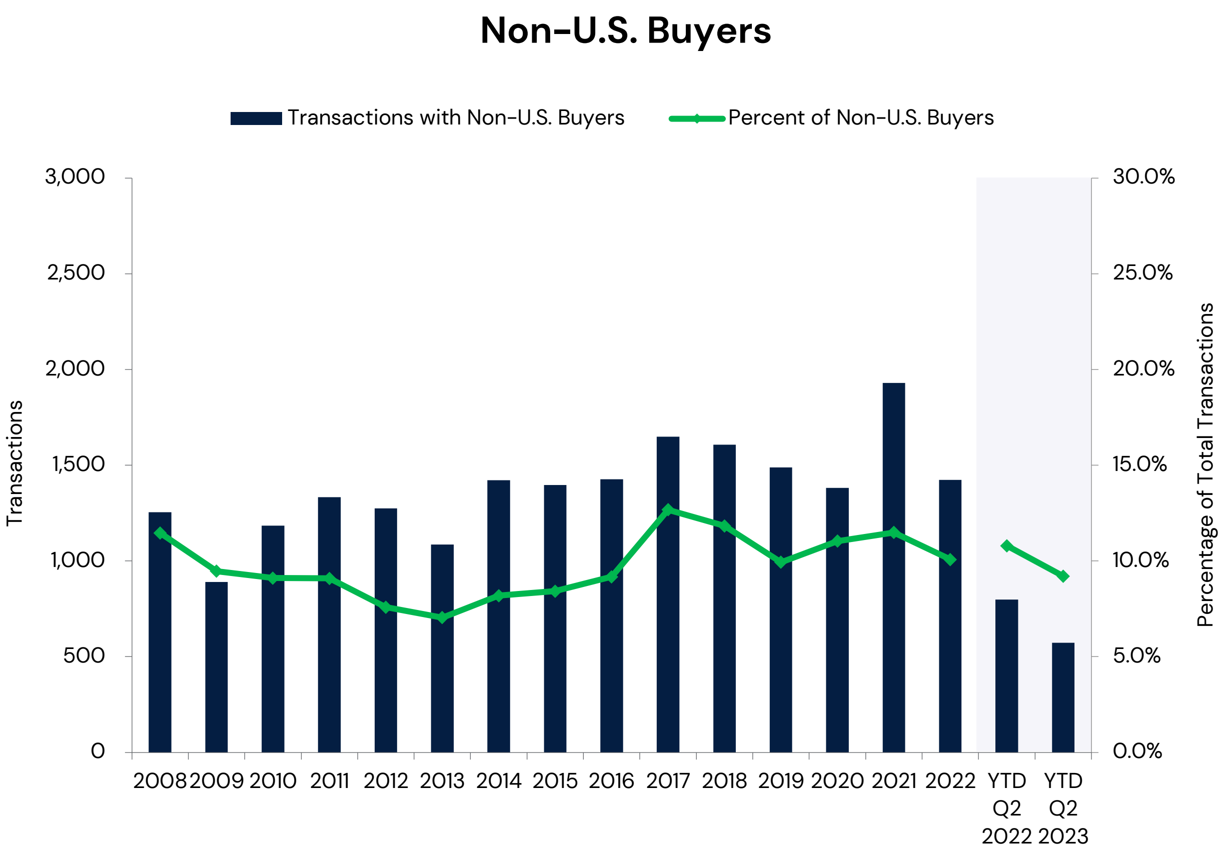
FOREIGN ACQUIRERS

CROSS-BORDER ACTIVITY REMAINS SLUGGISH

- In the first half of 2023, the volume of transactions and the share of total deals involving a foreign buyer fell 28.3% and 1.6%, respectively, compared to YTD Q2 2022.
- Near-term cross-border M&A is likely to be impacted by Russia's war on Ukraine, antitrust scrutiny, and a persistently higher interest rate environment. Central banks across the globe have continued to combat elevated inflation through tightened monetary policy.
- Canadian and U.K.-based buyers have been the most active foreign acquirers of U.S. businesses through the first half of 2023.



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

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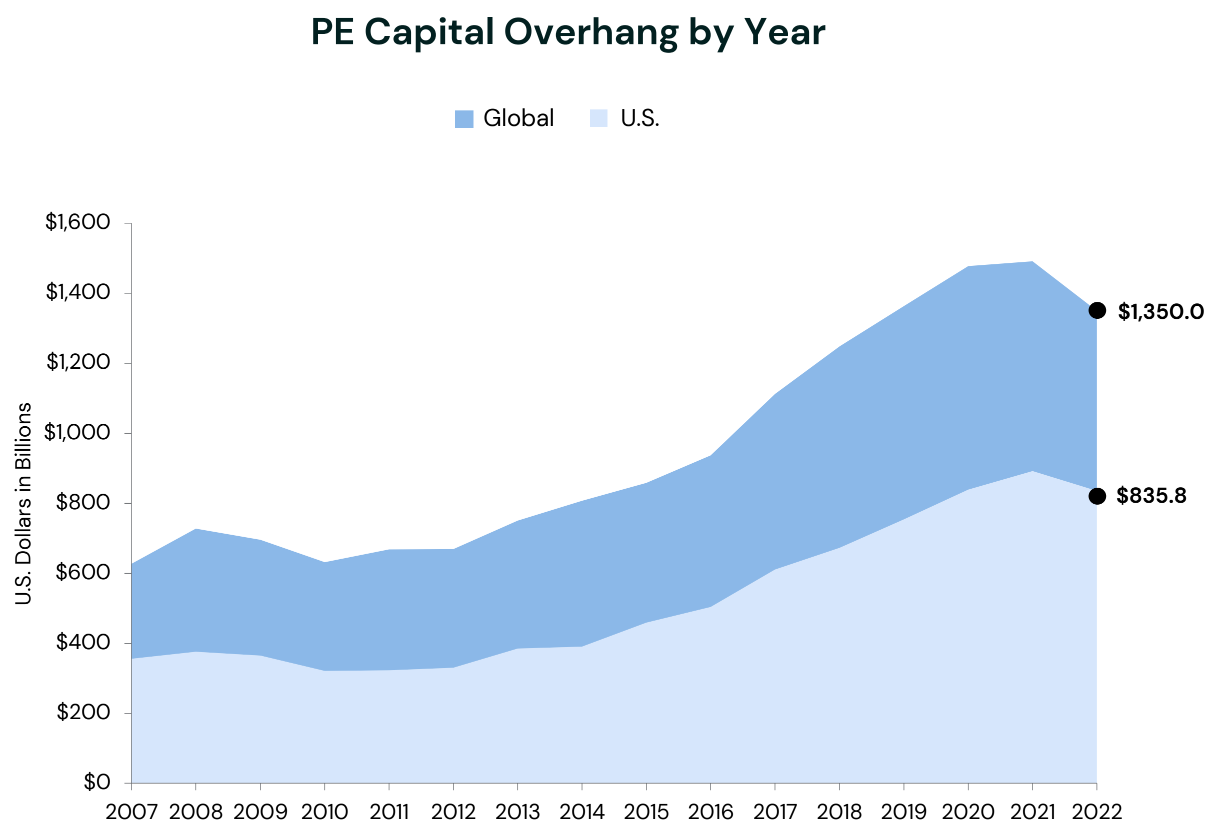
PRIVATE EQUITY DRY POWDER

CAPITAL OVERHANG LEVELS REMAIN ROBUST

- Sponsors remain armed significant dry powder, which has exceeded $1.3 trillion. While capital overhang fell 9.5% YOY in 2022, middle market companies that complement sponsors' investment theses have continued to attract investment.
- Many sponsors have become more selective in acquisition pursuits. However, the current economic downturn will likely present private equity firms with ample opportunities to acquire underperforming assets trading at a discount.
- The majority ($835.8 billion) of dry powder is held in U.S.-domiciled funds, with a favorable outlook for stateside private equity deals through year end.



Source: PitchBook

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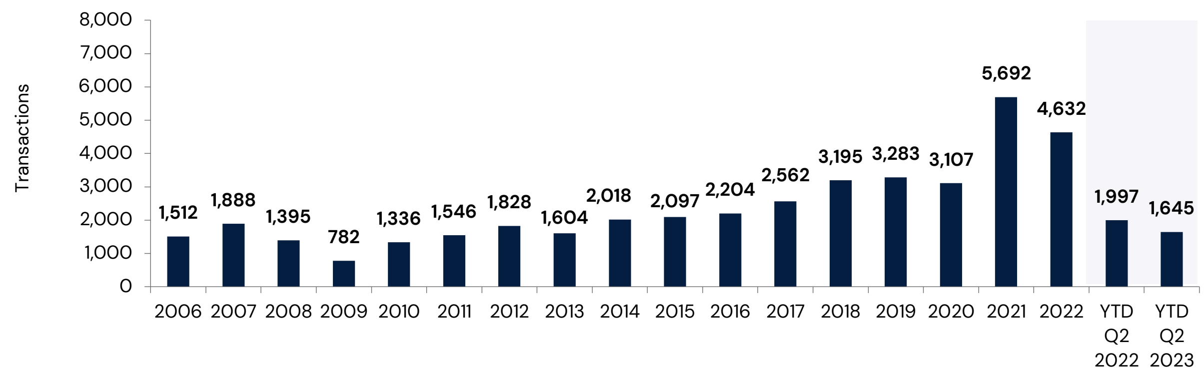
PRIVATE EQUITY ACTIVITY

PRIVATE EQUITY BUYOUTS SLOW IN YTD Q2 2023

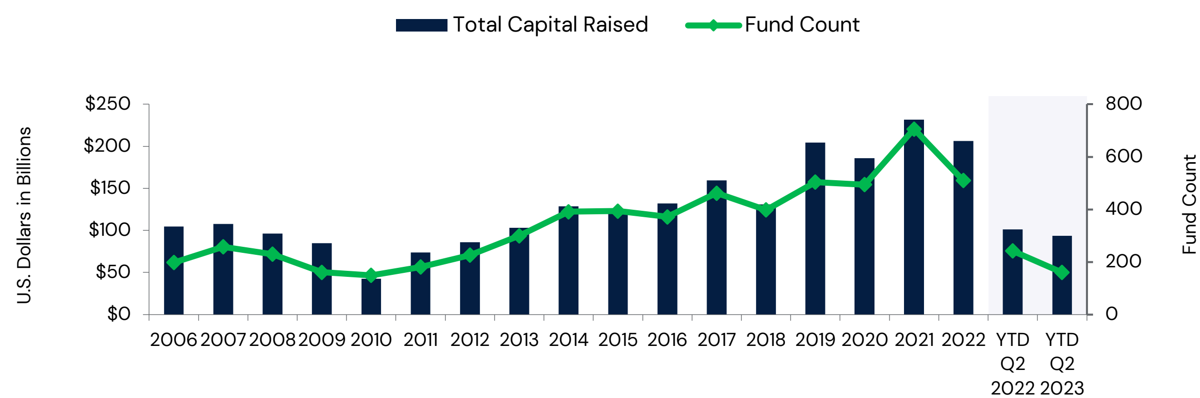
- Closed transactions by private equity firms declined 17.6% YOY through Q2 2023 as higher borrowing costs have impacted sponsor dealmaking. However, private equity transaction activity has remained in line with pre-pandemic levels.
- Many sponsors have placed heightened scrutiny on the cash flow defensibility of potential target companies and the target's ability to weather recessionary headwinds.
- Private equity fundraising fell 7.3% YOY in YTD Q2 to $93.8 billion in capital raised as many sponsors have retained significant amounts of undeployed dry powder.

CAPSTONE PARTNERS

Middle Market Transactions Closed by Private Equity Firms



Middle Market Fundraising by Private Equity Firms



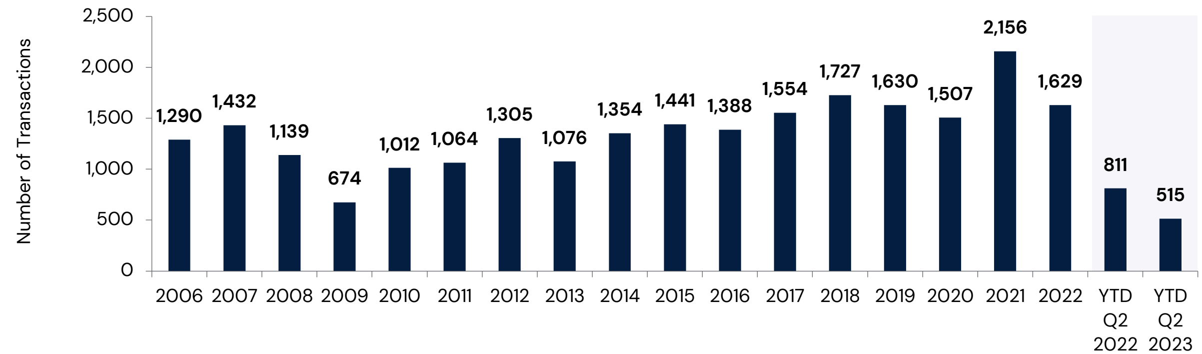
Source: PitchBook
Enterprise Value; $25-$500mm, Fund size < $5B

PRIVATE EQUITY TRANSACTION TYPES

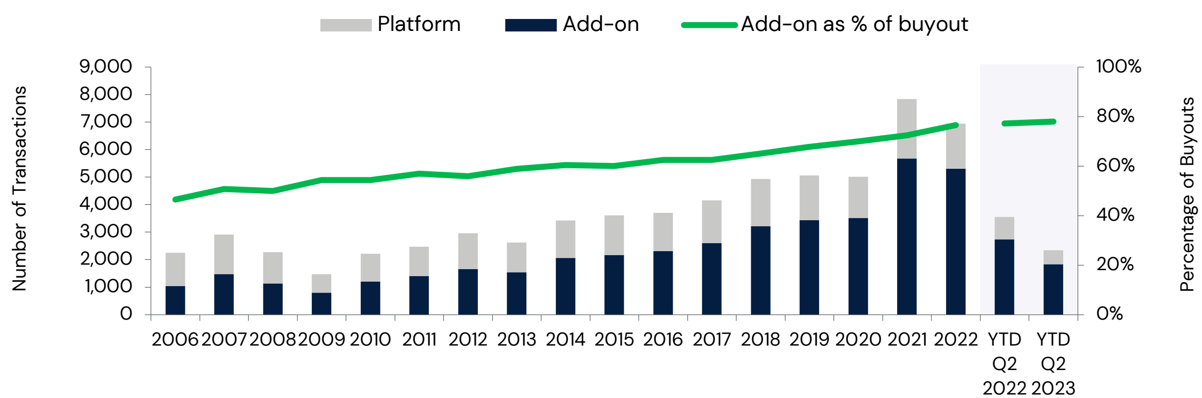
SPONSORS CREATE VALUE THROUGH ADD-ON DEALS

- Platform investments declined 36.5% YOY in YTD Q2 2023 as GPs focused on maintaining the financial and operational health of their existing holdings amid current economic headwinds.
- Add-ons comprised a historic 78% of buyouts in YTD Q2 as sponsors increasingly pursued complementary middle market businesses to bolster their portfolio holdings with effective operational synergies.
- Many sponsors turned to growth equity transactions, which often require far less debt usage than traditional buyouts. Notably, growth equity investments accounted for 24.3% of PE deals in Q2 2022, an uptick from 20.5% Q1 2022.

PE Platform Investments



PE Add-On Acquisitions



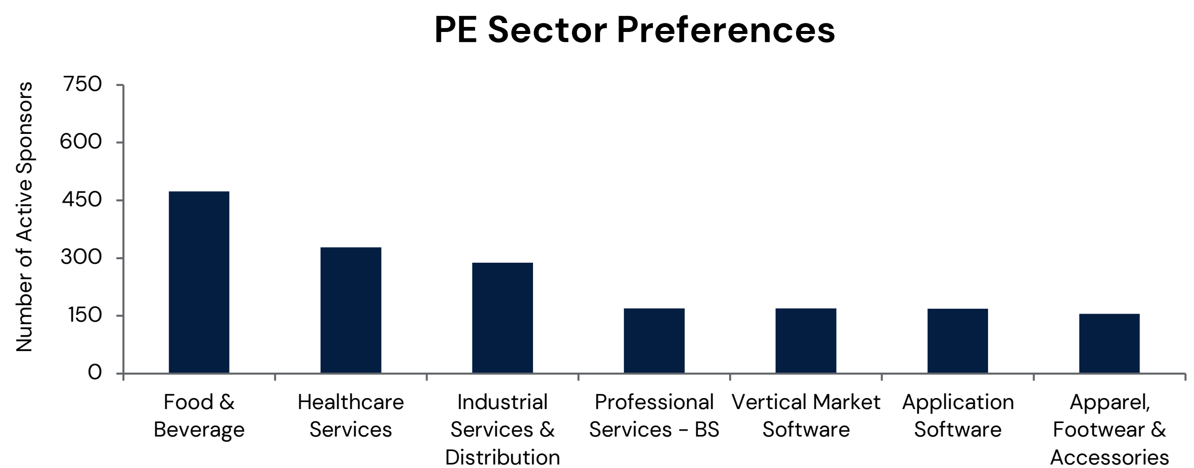
Source: PitchBook
Includes all U.S. PE transactions

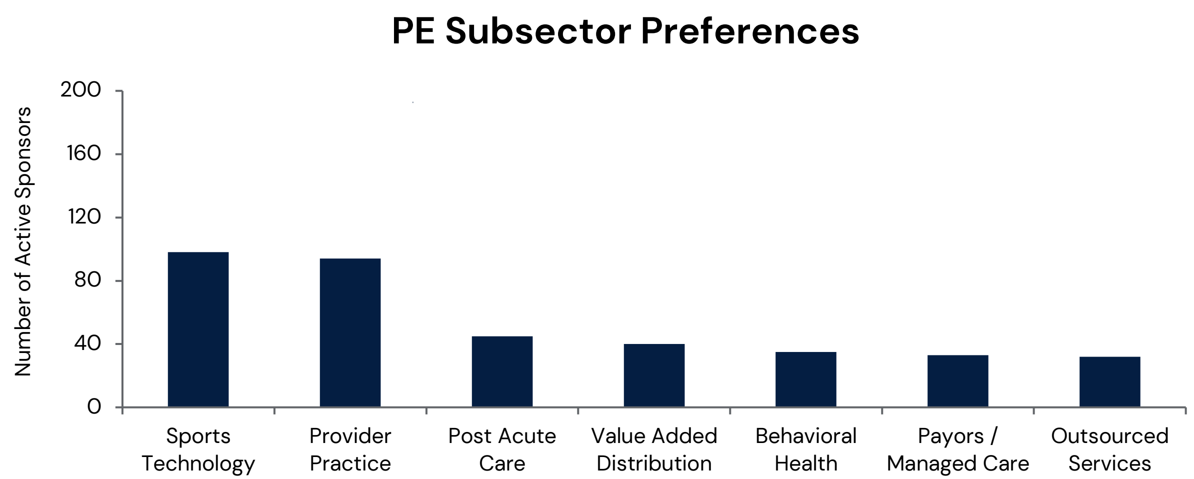
CAPSTONE PARTNERS

CAPSTONE'S PRIVATE EQUITY NETWORK PREFERENCES

FOOD & BEVERAGE REMAINS TOP PE SECTOR

- Food & Beverage and Healthcare Services remain the most preferred sectors among Capstone's sponsor network, followed by Industrial Services & Distribution.
- Healthcare subsectors have been highly sought after by private equity, comprising four out of the top seven most preferred spaces by Capstone's sponsor network.
- 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.





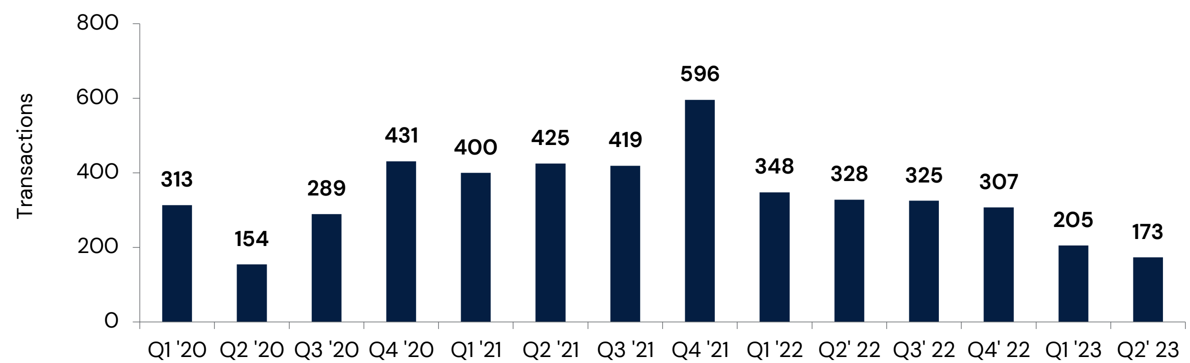
Source: Capstone proprietary data

PRIVATE EQUITY ACTIVITY

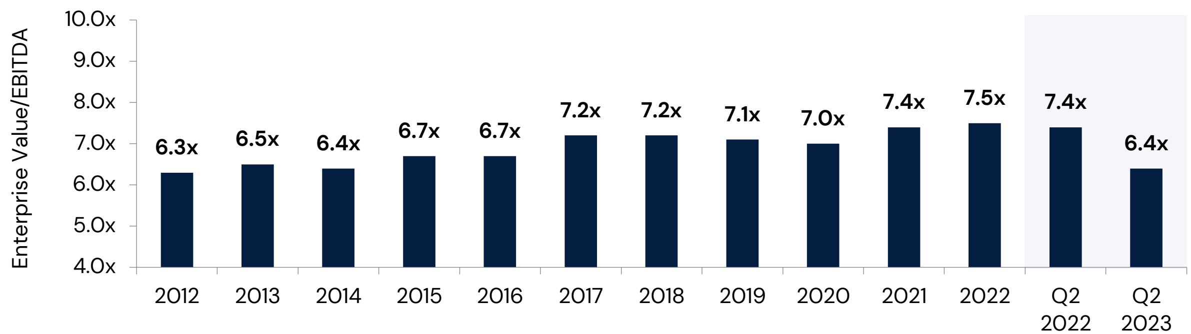
SPONSOR EXITS AND VALUATIONS FALL IN Q2

- Private equity exit activity in Q2 2023 fell to its lowest level since Q2 2020 as poor equity market performance discouraged widespread public listings. Exits may remain lower over the next few quarters if economic headwinds persist.
- EBITDA multiples paid by sponsors in Q2 2023 have fallen a full turn to 6.4x from 7.4x in Q2 2022. An elevated interest rate environment has undoubtedly contributed to lower pricing, as transaction financing has remained arduous.
- Sponsors have been starved for acquisition targets, presenting an opportunity for middle market businesses engaging in sell-side M&A.

Private Equity Exit Activity



Average EBITDA Multiple Paid By Financial Buyers



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

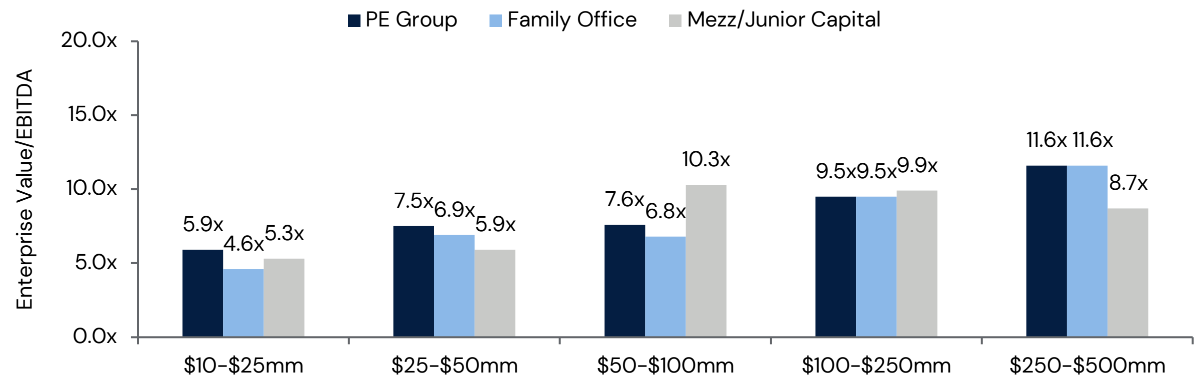
PRIVATE EQUITY VALUATIONS

INCREASED EMPHASIS ON STRONG MANAGEMENT

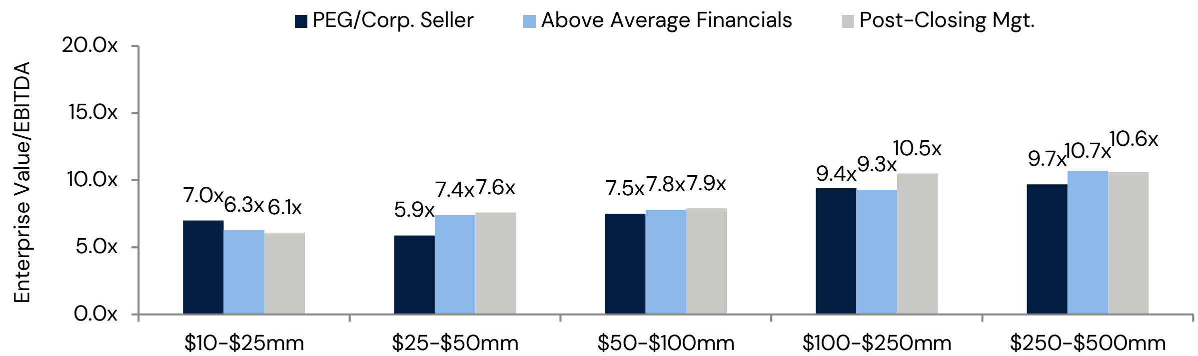
- Larger transactions in Q2 continued to command elevated valuations from sponsors and family offices. Mezzanine/junior capital providers seemingly moved down market, paying an average of 10.3x EV/EBITDA for businesses in the $50-$100 million range as the risk profile for mezzanine/junior capital deployment skews higher.
- Buyout targets with strong post-closing management teams garnered premium valuations in Q2, especially for larger deals.
- Above average financials has remained a key determinant of pricing, however, buyers have recently loosened financial expectations amid limited acquisition opportunities.

CAPSTONE PARTNERS

Average Valuations by Buyer Type



Key Transaction Valuation Drivers



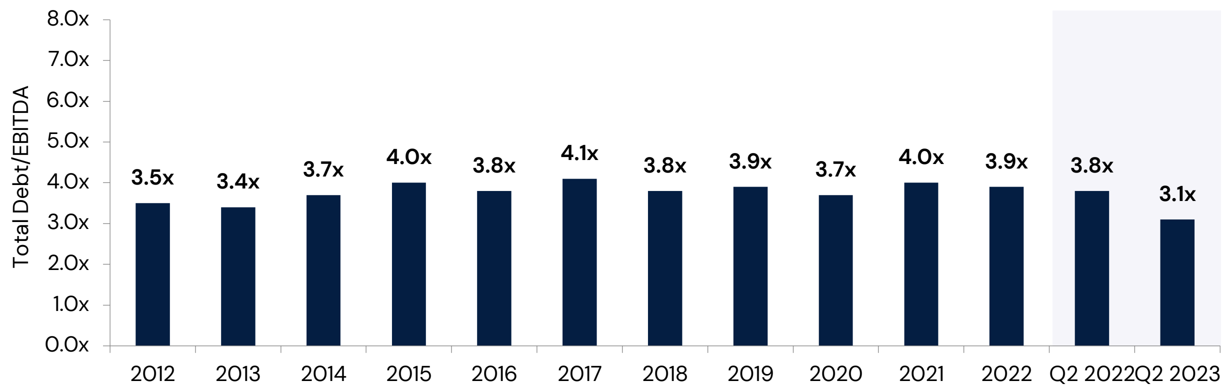
Source: GF Data®
GF Data® defines Above Average Financial Performers as businesses with TTM EBITDA margins and revenue growth above 10%, or one above 12% and the other metric at least 8%
Includes multiples 3x-15x; Enterprise Value $10mm-$500mm

PRIVATE EQUITY VALUATIONS

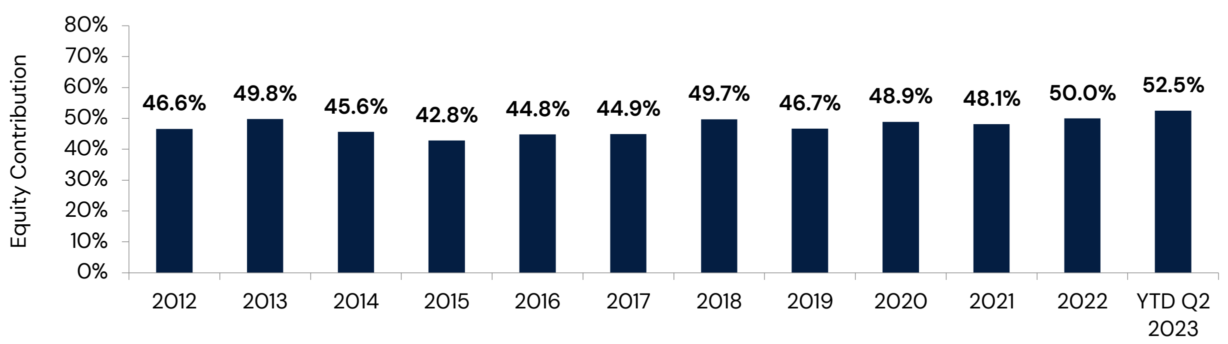
AVERAGE DEBT MULTIPLES DECLINE YEAR-OVER-YEAR

- The average debt multiple declined to 3.1x in Q2 2023 from 3.8x in Q2 2022, showcasing an increasingly difficult lending environment. However, the Q2 average debt multiple only slightly declined QoQ, which may indicate a slowing in debt coverage erosion.
- Lenders, particularly commercial banks, have increased senior debt pricing in Q2, further contributing to lower debt utilization in private equity platform transactions.
- The lower levels of debt utilization in deals has encouraged buyers to increase equity contributions. In YTD, the average equity commitment reached a record high of 52.5%.

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

ESOP Advisory

- Preliminary Analysis
- Feasibility Study
- ESOP Implementation
- Liability Study
- IRC § 1042 Design

Industry Groups

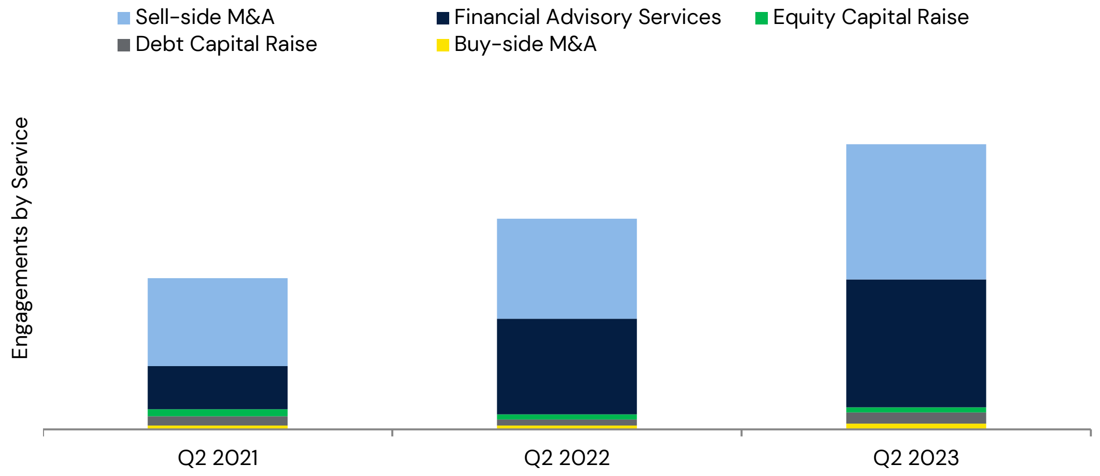
- Aerospace, Defense, Government & Security
- Building Products & Construction Services
- Business Services
- Consumer
- Education & Training
- Energy, Power, & Infrastructure
- FinTech & Services
- Healthcare
- Industrials
- Industrial Technology
- Technology, Media, & Telecom
- Transportation & Logistics

Sponsor Coverage Group

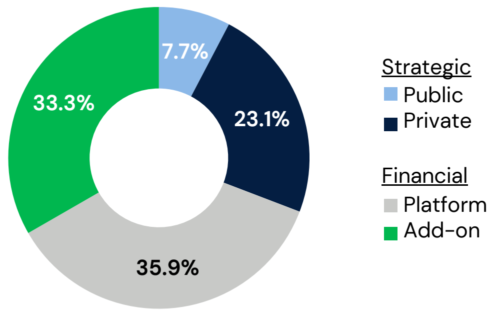
MIDDLE MARKET ACTIVITY PERSISTS AMID HEADWINDS

- While middle market dealmaking has been challenged by economic headwinds, the backlog of transaction inventory has remained robust. Increased visibility in near term market conditions may provide momentum for dealmaking in the second half of the year and into 2024.
- Financial buyers have accounted for 69.2% of trailing twelve-month transactions (TTM), with platform deals comprising 35.9%.
- Strategic buyers have maintained their presence in the middle market, accounting for 30.8% of TTM transactions, led by private buyers which comprised 23.1%.

Capstone Engagements By Service



Capstone TTM Buyer Breakdown



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

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.

BIRD
HAS BEEN ACQUIRED BY
BLACK & VEATCH

ops CONSULTING
HAS BEEN ACQUIRED BY
The Swift Group
a portfolio company of
DC CAPITAL PARTNERS

Mama Rosie's SINCE 1976
HAS BEEN ACQUIRED BY
SEVIROLI
MILL POINT CAPITAL

Aldinger
HAS BEEN ACQUIRED BY
INCLINE EQUITY PARTNERS

ARCANE CAPITAL PARTNERS
ENGAGED CAPSTONE PARTNERS TO PROVIDE BUY-SIDE TRANSACTION ADVISORY SERVICES

orangelogic
HAS RECEIVED A GROWTH INVESTMENT FROM
BregalSagemount

RR Waste Solutions
ENGAGED CAPSTONE PARTNERS DURING A CHAPTER 11 REORGANIZATION

INSA
HAS ACQUIRED
Integra Data Systems Corp.

ARTISTIC PAVER
HAS BEEN ACQUIRED BY
BLUE RIDGE CONSTRUCTION CAPITAL

CONNORS GROUP
HAS BEEN RECAPITALIZED BY
RLH Equity Partners

PATERSON
HAS BEEN ACQUIRED BY
hoffmaster Group, Inc.
a portfolio company of
WELLSPRING CAPITAL MANAGEMENT LLC

SC SHADPOUR CONSULTING ENGINEERS
HAS BEEN ACQUIRED BY
LEGENCE
a portfoliocompany of
Blackstone

TJP
HAS BEEN ACQUIRED BY
RENOVUS CAPITAL

TARONIS FUELS
HAS BEEN ACQUIRED BY
MERITUS GAS PARTNERS

GPT Industries
a portfolio company of
ENPRO
HAS BEEN ACQUIRED BY
BRANFORD CASTLE PARTNERS
and executed facility sale & leaseback with
Tempus

Tioga Hardwoods, Inc.
HAS BEEN ACQUIRED BY
AN EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

OnPoint Insurance Technology and Warranty Services
HAS RAISED 20 MM IN EQUITY FROM
WATERFALL Asset Management
ATALAYA

STELLAR TECHNOLOGY SOLUTIONS, LLC
HAS BEEN ACQUIRED BY
Ren

ToxStrategies
HAS BEEN ACQUIRED BY
RENOVUS CAPITAL

FIVE STAR GOLF CARS & UTILITY VEHICLES
HAS BEEN ACQUIRED BY
JLAM

Pregistry
HAS BEEN ACQUIRED BY
COREVITAS Excellence in Evidence
A portfolio company of
Audax Group

LEADERSHIP TEAM

JOHN FERRARA, FOUNDER AND PRESIDENT
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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.

OLIVIA FERRIS, COO
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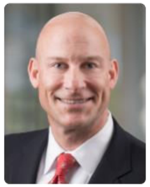
Olivia Ferris has over 10 years of investment banking experience with Capstone Partners and currently serves as Chief Operating Officer on the firm's executive team. In this role, Olivia is responsible for overall firm strategy, corporate development, partnerships, strategic initiatives, and investments. 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.

PAUL JANSON, HEAD OF INVESTMENT BANKING
pjanson@capstonepartners.com | 303-887-0174
With 25 years of executive experience, Paul manages all investment banking operations for the firm. 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 in Business from Saint Anselm College.



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.

MARK CASPER, CHIEF FINANCIAL OFFICER, SUPERVISING PRINCIPAL
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Mark joined Capstone in 2016 and currently serves as the CFO and the Supervising Principal. In that capacity, Mark manages the FPA, oversees tax, financial, and regulatory reporting, and heads the firm's corporate development. Mark works in tandem with the President and COO ensuring financial feasibility for strategic initiatives as well as current business lines. In addition, he works closely with each banker to assist them in client management, regulatory efforts, and provides guidance around finance, accounting, and taxation. Prior to his current role, Mark spent over 11 years in public accounting. During his career, he has specialized in assurance, taxation, and business valuation consulting.

SARAH DOHERTY, DIRECTOR OF MARKET INTELLIGENCE
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Sarah has more than 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.

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
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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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