CAPITAL MARKETS UPDATE

Middle Market M&A

Q3 2020

Capstone Headwaters

MARKET COMMENTARY

"Buyers with strong balance sheets remained in the game... Some deals were put on hold, but the strategic fit remains. We expect to see a flood of these deals get back on track in early 2021."

Never Out of the Fight

In the third quarter, we proved that free market capitalism will always find a way. American companies acted quickly to adjust supply chains, shift manufacturing to needed equipment, and answered a "call to arms" embracing a work-from-home environment without hesitation following the COVID outbreak in March. The rebound followed strongly in Q3.

The Fed responded quickly, deploying $4 trillion into the U.S. economy empowering private capital markets to rally 30% from the previous quarter.

In middle market M&A, average valuations fell to 7.7x EBITDA, the lowest multiple since 2009 then jumped back up to 8.1x, underscoring market resilience and reflecting a generally higher quality deal mix during the uncertain time. The middle market led the M&A rebound in the third quarter, following the same pattern as we experienced following the Great Recession. Buyers with strong balance sheets remained in the game, completing most in-process transactions despite diligence and sometimes financing challenges. Some deals were put on hold, but the strategic fit remains. We expect to see a flood of these deals get back on track in early 2021. Other buyers underwrote more defensive M&A, paying full multiples for solid businesses less impacted by the pandemic. This action supports consistent valuations for companies between $100-250 million in enterprise value. The deal market has regained its footing. In several channels, we have received record levels of inbound deal flow amid the pandemic.

The thundering return of the M&A market in the third quarter included robust appetite for deals under $100 million in enterprise value. This market segment accounted for 68.7% of all M&A, the highest percentage mix since 2016. Lenders supported transactions, but robust due diligence requirements continue as lenders seek more clarity from the markets and confidence in issuer financial projections. With reduced leverage multiples in some cases, deals may require more equity at closing. We do not see this as an issue. Private equity has over $1.2 trillion of dry powder looking to be deployed and will continue to reach out to business owners to put this money to work into the new year. It has never been more important for business owners to build out a proper team to keep up to speed on market trends, share insight regarding valuation and inbound call interest, and prepare their companies for institutional diligence should an attractive exit opportunity materialize.

As we finalize our third quarter report, the world braces for a challenging winter as COVID cases increase and our government transitions. However, the likely outcome of a divided government and the recent stunningly positive results in COVID vaccine trials have buoyed markets and investor confidence. The darkness has been pierced by light!

To our unconquerable souls,

Daniel McBroom
Head of Private Capital Markets

MIDDLE MARKET OUTLOOK

Q3 2020 TAKEAWAYS & THEMES

We are pleased to present our Q3 2020 Capital Markets Mergers & Acquisitions Update with a look into key trends and statistics for the recently closed quarter.

Middle market M&A activity rebounded substantially in Q3 following historically low levels in the prior quarter.

- Strategic buyers displayed a return to growth strategies as revenue visibility improved in Q3
- Accelerated shift toward higher quality borrowers as lenders seek to add safety to their loan portfolios
- Private equity returned to more traditional buyout activity, often capitalizing on distressed assets at attractive valuations
- Capstone expects a significant level of pent-up demand to come to market in the near term, lending to a healthy M&A environment

M&A activity is expected to continue to improve in the upcoming quarter and into 2021 aided by factors including:

- An arsenal of private equity dry powder that needs to be deployed
- Buyers seeking high-quality targets at lower valuations
- Forecasted imbalance of supply and demand of targets seeking to sell

Activity will be negatively affected by the following:

- Interruptions in the U.S. economy due to COVID-19 including lower levels of consumer and CEO confidence
- Instability in the domestic and global climates

For information on the themes and trends discussed in this report, or to find out about Capstone's full suite of integrated services, please contact us.

Capstone Headwaters

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Q3 2020 BY THE NUMBERS

28.1% ⇧
INCREASE IN DEAL VOLUME

M&A activity improved substantially from the previous quarter as buyers returned to the market contributing to a 28.1% increase in Q3

3.7x ⇧
AVERAGE DEBT MULTIPLE

Debt financing has displayed improvement in Q3, with the average debt multiple rising to 3.7x, following a dramatic decline in Q2

9.0x ⇧
EBITDA MULTIPLE, $100-$250MM

EBITDA multiples in the $100-$250mm segment held steady, rising slightly to 9.0x, while other market ranges declined

36.2% ⇧
NUMBER OF PE TRANSACTIONS

Private equity deal volume surged 36.2% in Q3 from the prior quarter as PE firms emerged from portfolio damage assessment

27.0% ⇧
PRIVATE COMPANY ACQUISITIONS

Following depressed Q2 levels, private acquirers returned to growth strategies and deal volume increased 27%

11.7% ⇩
NON-U.S. BUYER TRANSACTIONS

Foreign buyers accounted for 11.7% of total transactions, a decline from the previous quarter but in line with historic averages

$1.2T ⇧
PE CAPITAL OVERHANG

Private equity dry powder remains at elevated levels, providing a healthy backdrop for PE deal activity to resume

72.1% ⇧
ADD-ONS AS A PERCENT OF LBOs

PE firms continued to utilize add-on acquisitions through Q3, which have amounted to a record share of buyouts

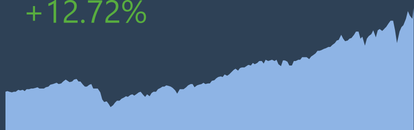
6.7x ⇩
PE EBITDA MULTIPLE PAID

EBITDA multiples paid by financial buyers declined in Q3 although deal volume improved significantly from the prior quarter

CAPITAL MARKET DASHBOARD

YTD EQUITIES

S&P 500
+12.72%



Last	1Y %	P/E LTM
3,581.9	*+17.0*	*26.4*

Dow Jones Industrial
+5.47%

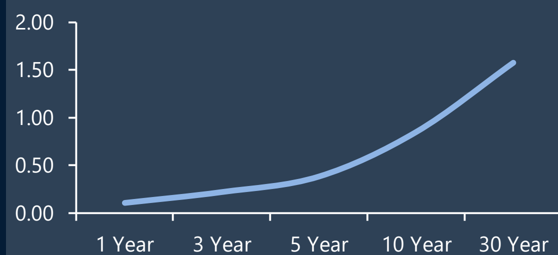
Last	1Y %	P/E LTM
29,483.2	*+8.1*	*24.3*

NASDAQ
+33.77%

Last	1Y %	P/E LTM
11,929.6	*+40.2*	*39.6*

FIXED INCOME

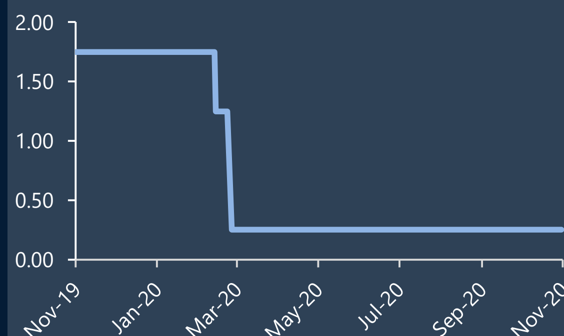
U.S. Yield Curve



1Y	3Y	5Y	10Y	30Y
0.108	*0.21*	*0.384*	*0.851*	*1.576*

POLICY RATE

Federal Funds Target Rate



ECONOMIC INDICATORS

GDP, LABOR MARKET, & INFLATION

	Last	YOY
GDP	*33.1%*	*+11.7%*
Consumer Confidence	*100.9*	*-20.0%*
Unemployment	*6.9%*	*+3.3%*
Consumer Price Index	*269.3*	*+1.6%*

HOUSING MARKET

Housing Starts	*$1,530.0*	*+14.2%*
Total Construction	*$1,414.0*	*+1.5%*

PMI & NMI

Purchasing Managers	*59.3%*	*+10.8%*
Non-Manufacturing	*56.6%*	*+2.2%*

RETAIL

Retail Sales	*$553.3*	*+5.7%*

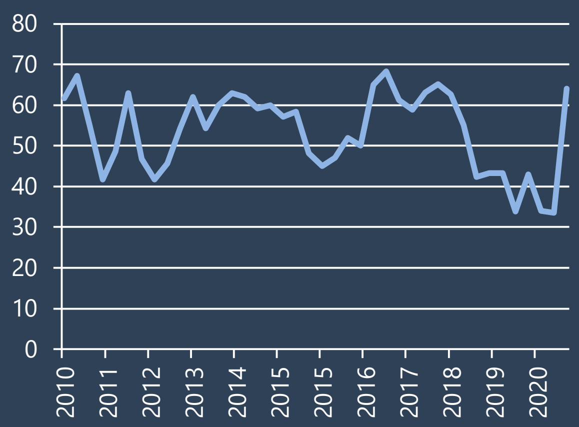
Source: FactSet as of 11/20/20

CORPORATE DASHBOARD

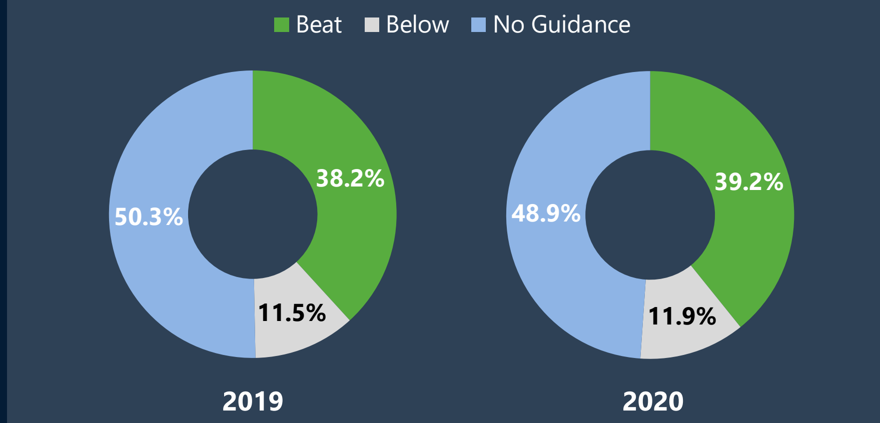
CEO CONFIDENCE

"CEOs across industries continue to adapt to COVID-19's new normal. While Q4 saw a resurgence of optimism, leaders are also cognizant of—and planning for—what may be permanent shifts in consumer preferences and organizational expectations ahead."

- Robert Ferguson, Jr., Trustee, The Conference Board, Vice Chairman, The Business Council

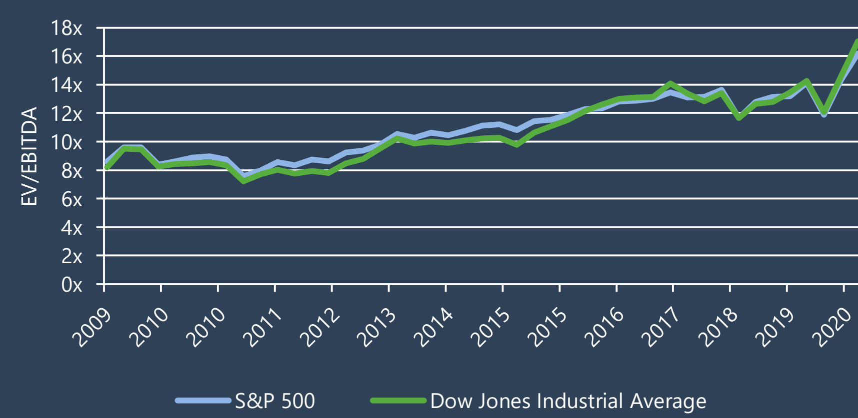


S&P 500 EARNINGS PERFORMANCE



NFIB PRIVATE BUSINESS EXPECTATIONS

S&P 500 VS. DJIA EBITDA MULTIPLES



LEVERAGED FINANCE CONDITIONS

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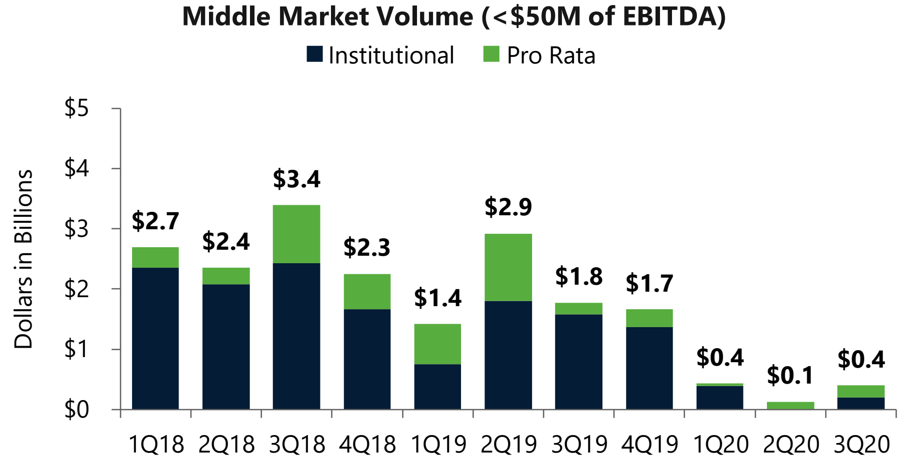
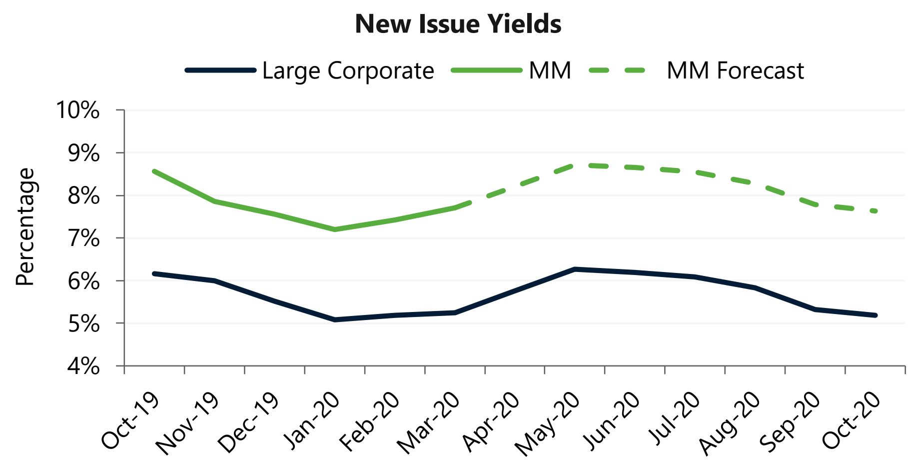
Key Market Stats

Volume - While Middle Market (MM) loan issuance saw a modest recovery in Q3, overall volume remained significantly depressed when compared to prior quarters as lenders continue to focus on fundamentally sound businesses in select recession-resistant sectors. With borrowers operating in industries that have been directly (or tangentially) impacted by the COVID-19 pandemic only able to attract financing at lower leverage levels and higher pricing, if at all, refinancing and LBO-related activity remains slow when compared to pre-pandemic levels.

Pricing - Depressed activity within the MM has provided limited visibility into recent pricing trends. However, regular discussions with various MM lenders have indicated that the market experienced a ~75-125 bps (basis points) increase in pricing at the outset of the pandemic. This elevated pricing persisted for several months but has begun to revert toward pre-pandemic levels, particularly for borrowers minimally impacted by COVID. A strong supply of institutional capital should provide continued pricing stability for those more highly-coveted borrowers.

Leverage - Leverage levels have varied based on industry sector, company size, and performance through the COVID-19 crisis. Market feedback indicates leverage levels for new loans have decreased 0.25x-1.25x with more highly sought-after borrowers closer to pre-COVID levels.





Source: S&P Global Market Intelligence

LEVERAGED FINANCE CONDITIONS (CONTINUED)

Quarterly Market Observations

Defaults On The Horizon

The rapid adoption of the government's Paycheck Protection Program has somewhat mitigated the initial impact COVID-19 has had on loan portfolios. Still, LCD's survey of portfolio managers yielded an average anticipated default rate of ~5.3% for 2020 and over 6.0% for the period ending June 30, 2021, an increase of nearly 4.0% compared to the same survey results at the end of 2019. If this sentiment proves true, total defaults as of June 30, 2021 could eclipse $70 billion, breaking the 2009 record of $63 billion.

Credit Agreement Amendment Trends

Current and anticipated defaults due primarily to COVID-19 have caused lenders to rethink how they amend credit agreements for distressed borrowers, with key trends including:

- **Liquidity Covenants.** Minimum liquidity covenants have temporarily replaced leverage tests for borrowers that have experienced temporary declines in earnings due to COVID-19.
- **Capital Infusions From Sponsors.** Recently, finalized credit agreement amendments have increasingly included incremental capital contributions from sponsors used to alleviate near-term liquidity concerns and cure potential covenant breaches.
- **Heightened EBITDA Addback Scrutiny.** COVID-19-related addbacks are frequently being limited to a one-time addback, capped as a percentage of EBITDA or disallowed altogether.
- **Decreased Unfunded Commitments.** Lenders have decreased the size of unfunded revolvers and delayed draw term loans (DDTLs) and tightened the conditions required to access them.
- **Increased Reporting Requirements.** Many lenders have increased reporting requirements for their borrowers with 13-week cash flow forecasts and more regular financial reporting requirements common amendments to credit agreements.

The Takeaways

With COVID-19 disproportionately impacting certain industries, the shift toward higher quality borrowers has increased as lenders seek to add safety to their loan portfolios.

This has exacerbated the bifurcation of the market between the haves and have nots as issuers with consistent and/or growing cash flows are able to attract new capital while lesser-quality borrowers are at times left searching for financing alternatives. This strain is particularly felt in the Middle Market and loan terms should continue to favor lenders for smaller, less fortunate borrowers.

While interest has increased for higher quality issuers, pricing and terms among proposals should continue to vary widely as uncertainty in the broader market persists.

DEBT ADVISORY SERVICES GROUP

Capstone's Debt Advisory Services Group helps privately-owned and sponsor-backed companies secure debt capital for organic growth, acquisitions, dividend recapitalizations and refinancing. The team works closely with clients to optimize their debt structures and secure the best long-term institutional partners for the business, with services including:

- First-lien/senior secured loans
- Second-/split-lien facilities
- Mezzanine debt
- Unitranche facilities
- Asset-based loans (ABLs)
- Bridge and stapled financings
- Structured equity capital

FINANCIAL ADVISORY SERVICES

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Questions & Answers with FAS

What advisory services do you most frequently provide?
When we started years ago, we focused on operational restructurings, meaning we were part of management and would decide on the downsizing of the business or strategy. Today, our biggest clients are sizable capital and balance sheet restructurings and the only thing we're doing tactically is related to helping run a 13-week cashflow. Otherwise we're building the story. We're marketing debt or equity.

We also offer transaction advisory work that can take the form of buy-side diligence and quality of earnings reviews. My favorite service over the last couple of years has been transactional CFO work, where we help get deals into the end zone so that they don't stall on the 20-yard line for six months and slowly fall apart.

Since we're part of a robust investment bank, it really distinguishes us in the middle market. We have the industry depth. We have the technical ability to value businesses that are in distress. We have the Debt Advisory Group to help us get access to the market. We have everything under one roof.

How has service demand changed during COVID-19?
COVID has been the catalyst for turning over capital in the market, we've been waiting for it since 2009. But this capital recycling process started before the pandemic, making it really hard to distinguish how much of the trend we're experiencing was COVID-driven versus, just what was happening at the beginning of the year anyway. But we do think we have a couple of guideposts.

If we think about the clients we were working on before COVID, that was capital turning plain and simple. The amount of liquidity in the system was massive and there were a lot of bad to moderately bad businesses that were being propped up by liquidity that should not have been available to them. Suddenly, in the volatile market, the liquidity is no longer available to them. So one of two things has happened: companies started having struggles right away, or they were propped up by the federal funds that eventually will push them into a restructuring situation. That was the tightening we were seeing coming out of 2019 and the early part of 2020.

How have you seen COVID-19 impacting the market?
When the government poured $4 trillion into the system overnight, the market reaction reverberated in many ways. There were industries that got a significant amount of those dollars, putting their restructuring on hold.

A great example of this is the Restaurant industry. Restaurants will undergo a substantial change in the future. It just hasn't happened yet because of the amount of investment dollars that have been dumped into the industry.

The Auto industry is one we're watching. Not so much because as the percentage of dollars, they got a huge amount of PPP money relative to restaurants, but because they had to fully shut down operations and those are lost sales. The Airline industry is another whose infrastructure just can't be shut down and then turned back on again—all revenue is lost. And while we know COVID is going to end, the question is when?

FINANCIAL ADVISORY SERVICES (CONTINUED)

As the timespan for COVID-19 lengthens, what are clients doing?
Initially, clients focused on leveraging their balance sheets. It was all about managing liquidity by enhancing cashflow and preserving working capital. At the same time, clients in the Restaurant space have just been a whole different animal. For them, it wasn't performance improvement as much as just life saving, you know, cut staff down to zero and hope you have enough runway to get out the other side.

At this point, owners are trying to figure out how to make the runway longer. And wondering how to pay back PPP. They're asking themselves: "How long can they sustain this? When will the end be in sight?"

On the other side, there are plenty of businesses out there who have actually done quite well during the last six or seven months. So that's a different answer for them.

What industries are doing well?
Broadly speaking, any company that's in technology is doing well right now, especially any technology that enables people to make money while they're at home. We're working for a technology company that's in the midst of three M&A transactions—two buy-side and a potentially big sell-side transaction. So market activity is healthy.

Another industry that we're helping with a lot, which most people don't even consider, is the waste business. That industry is doing very well right now. The company has to be well-diversified though, because there are plenty of waste businesses that are too far into the construction side of waste and they're getting hit hard. But, if you diversified your business out, you can take advantage of a lot of these smaller businesses that didn't. So we have a client that we've had for quite some time who is using their balance sheet right now to continue to buy and acquire businesses that are struggling a little bit during this time.

Looking ahead to 2021, what do you expect to see? Any advice?
We see restructuring increasing. The cost of debt can only go up from here as well, which will bring up even more financial distress. I also think there will be a lot of work on the transactional side. As the market normalizes to a certain extent, there's going to be a lot of opportunistic buyers out there.

As for advice, when we come out on the other side of COVID-19 there are two possible paths in my mind. One is that you crater, and you have to pick up the broken pieces. That's basically a restructuring or sliding into bankruptcy. And the other, is that your business recovery comes at you fast and you don't know how to finance it or get yourself off the mat quick enough to be competitive.

Whether you're going up or down after this, you're going to need to be prepared. That way, when you start seeing any turn at all, you can react quickly so that you have the right systems, and the right liquidity, and the right people in place to get your business back on track.

FINANCIAL ADVISORY SERVICES GROUP

Capstone's Financial Advisory Services Group specializes in performance improvement and value creation in difficult time. It serves both private and public companies, private equity sponsors, management teams, and commercial lenders by delivering immediate leadership and financial & operational acumen. The group is comprised of C-level operators and financial engineers with capabilities including:

- Turnarounds & Interim Management
- Corporate Restructurings
- Operational reengineering
- Valuations
- Due Diligence
- Specialty M&A

INDUSTRY SPOTLIGHT

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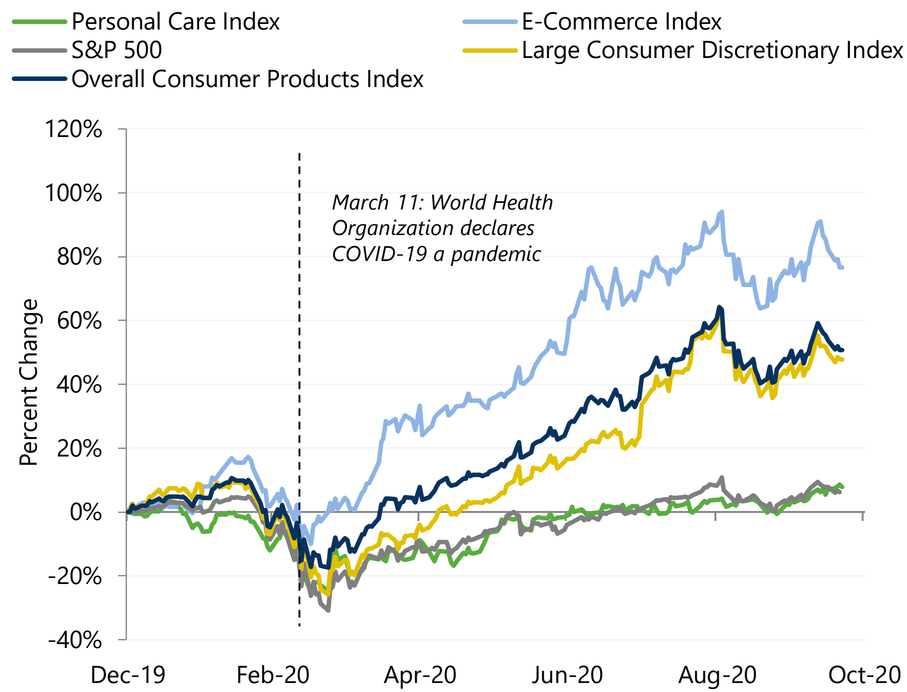
Consumer Products in 2020

Overview - In middle-market M&A, Consumer Products are at the forefront of changing consumer behavior, lets look at how the industry has performed and the effect on M&A volumes and multiples paid. So far in 2020, most sectors within the Consumer Products universe have traded up based on a basket of representative public companies, with Capstone's Overall Consumer Products index up 51% YTD. Industry M&A volumes have declined 23.6% (1,640 versus 2,147 for comparative YTD) and multiples have increased from 11.7x to 12.9x. The largest driver of M&A has been strategic buyers representing 72% of 2020 transactions YTD while financial buyers have largely sat out this year. Some changes are intuitive, others are not. However, almost all are intricately linked to the acceleration of e-commerce, continued prioritization of health and wellness, and increased personal leisure time. A few industries are worth discussing in more detail.

Large Discretionaries are Booming - Surprisingly, the Large Consumer Discretionaries segment has outperformed the markets handedly (Capstone Discretionary index +47% YTD versus S&P 500 +5%). Everything from Boats (+33% L9M), Large Sporting Goods (+97% L9M), Lawn & Garden (+12% L9M) to Electronics (+19% L9M) have accelerated. One exception being Outdoor Power Sports, which has been erratic throughout the year due to lower demand for motorcycles and RVs (-2% L9M). Although the total number of deals are down in Consumer Discretionaries (1,185 versus 1,654 for comparative YTD), average multiples have increased (13.1x versus 11.5x YTD EBITDA for comparative periods), driven largely by strategic buyers that have dominated the space with 73% of transactions. The more notable transactions have been Lululemon Athletica's acquisition of Mirror and MarineMax's acquisition of Northrop & Johnson. With strategic buyers on the hunt and paying higher multiples, it's an ideal time to bring a Large Discretionary goods company to market.

CAPSTONE YEAR-TO-DATE INDEX RETURNS



Source: Capital IQ and Capstone Research

E-Commerce Accelerates and DNBs Start Coming to Market - Capstone believes the recent surge in e-commerce is not a COVID-19-related aberration but the acceleration of a permanent trend towards the channel. Consumers' home confinement, dark retail stores, and greater leisure time have increased digital shopping. We do not believe these advancements will be given back.

Notably, in Q2 2020, e-commerce sales increased a record 44.5% year-over-year, accounting for 16% of all retail sales, a new highwater mark. This is reflected in the pure play e-commerce basket trading significantly up (+82% L9M). While M&A volumes have declined (101 versus 137 L9M), average multiples paid for e-commerce companies remain in the double digits at 14.0x. Interestingly, ~78% of deals were to strategic buyers.

A significant trend Capstone is witnessing is the rise of Digitally Native Brands ("DNB") and what we believe to be a bow wave of M&A activity to come. The typical DNB client we are in active discussions with are 3 to 5 years old, sell upwards of 90% through marketplaces and own sites, experiencing growth rates over 30% annually and have always been profitable. We see these DNBs in Personal Care, Household Products, and Fitness (including supplements), although they are increasingly popping up in other categories. Capstone has successfully sold DNBs to visionary PE and strategic buyers and we are beginning to see a greater openness towards them on the street. We believe an attractive window will open for DNBs in the first quarter of 2021 as we start to lap the virus impact and the DNBs further prove out their sustainability.

The Beauty Buyer Remains Faithful - 2020 proved that certain beauty categories, like healthy skin, are evergreen in nature. Despite wholesale changes to consumer lifestyles, purchases of beauty products linked to healthy skin and hair have been maintained and, for several brands, have actually accelerated. One example of this is e.l.f. Beauty, Inc. whose revenue and profitability are both up from mid-March. The offset to that growth is fashion-oriented makeup and accessories have leveled off. Beauty giants like Revlon, L'Oreal, and Coty have all seen revenue and profitability decrease in the same period. The sector remains a favorite of Private Equity as evidenced by Blackstone's majority stake acquisition of leading physician-dispensed skincare brand Zo Skin Health. Physician dispensed skincare has proven to be one of the most resilient sectors in personal care.

Privately held, more flexible brand manufacturers with a focus on natural/organic (and the contract manufacturers supporting them) are seeing a sales boost from both DTC and other online sales channels, garnering interest from both larger strategic players, and private equity. While the demand for soap or sanitizers may dwindle, Capstone believes nimble players will continue to see sales growth, and sustainability of profits desired by investors.

CONSUMER & RETAIL GROUP

Capstone has worked with some of the most recognized companies across the consumer and retail landscape, and our collective tenure and deep sector knowledge allows us to truly maximize valuation drivers and positioning for our clients. We have established relationships with thought leaders, private equity, consumer and retail focused family offices and other key industry participants. Capstone is currently active or has recently completed transactions within:

- Apparel, Footwear & Accessories
- Vehicle Aftermarket
- Beauty & Wellness
- Food & Beverage
- Household Products
- Retailing & E-Commerce
- Outdoor Recreation & Enthusiast

MIDDLE MARKET M&A ACTIVITY

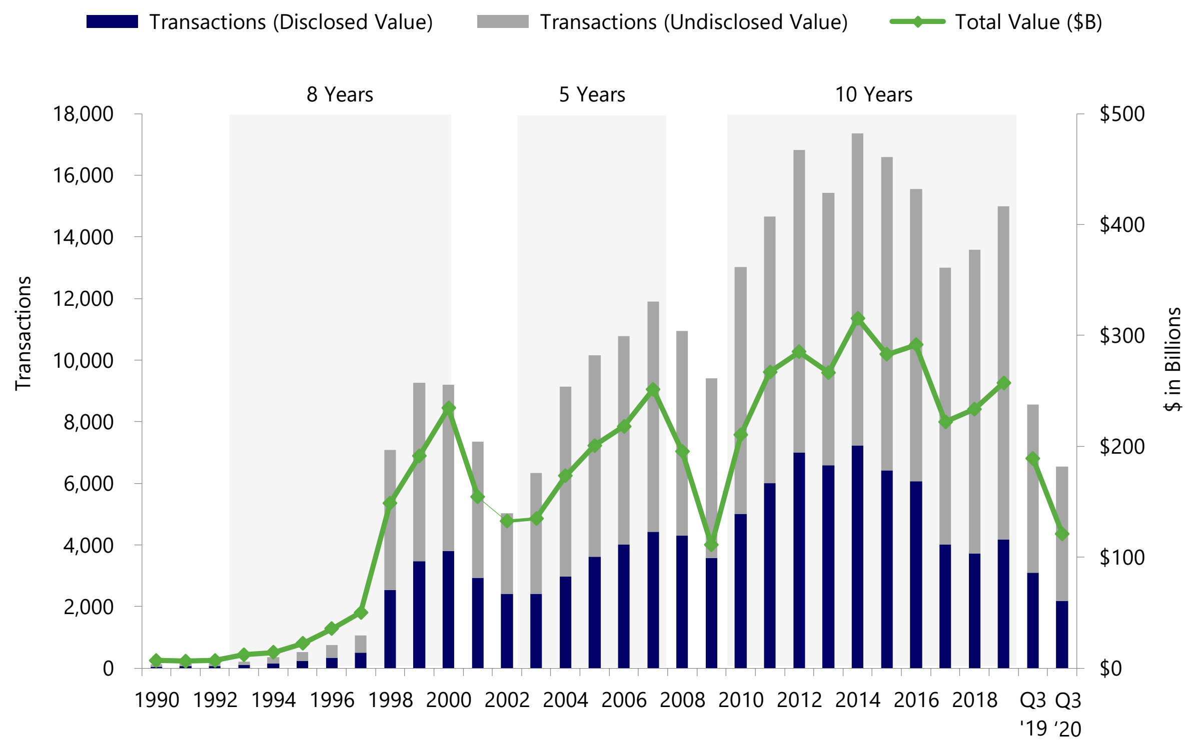
Capstone Headwaters

M&A AMID ECONOMIC CYCLES

M&A VOLUME RISES 28% FROM PRIOR QUARTER

- While M&A activity remains lower year-over-year, transaction volume rebounded substantially in Q3 from the prior quarter, rising 28.1%.
- After falling to its lowest levels since 2017, average transaction value has begun to recover, increasing by 1.2% quarter-over-quarter to $53.3 million in Q3.
- Deal volume likely reached its trough in Q2 and buyers have leveraged greater visibility to reengage in M&A activity, whether capitalizing on distressed businesses or acquiring COVID-resistant assets to bolster defensibility.

Middle Market Transactions

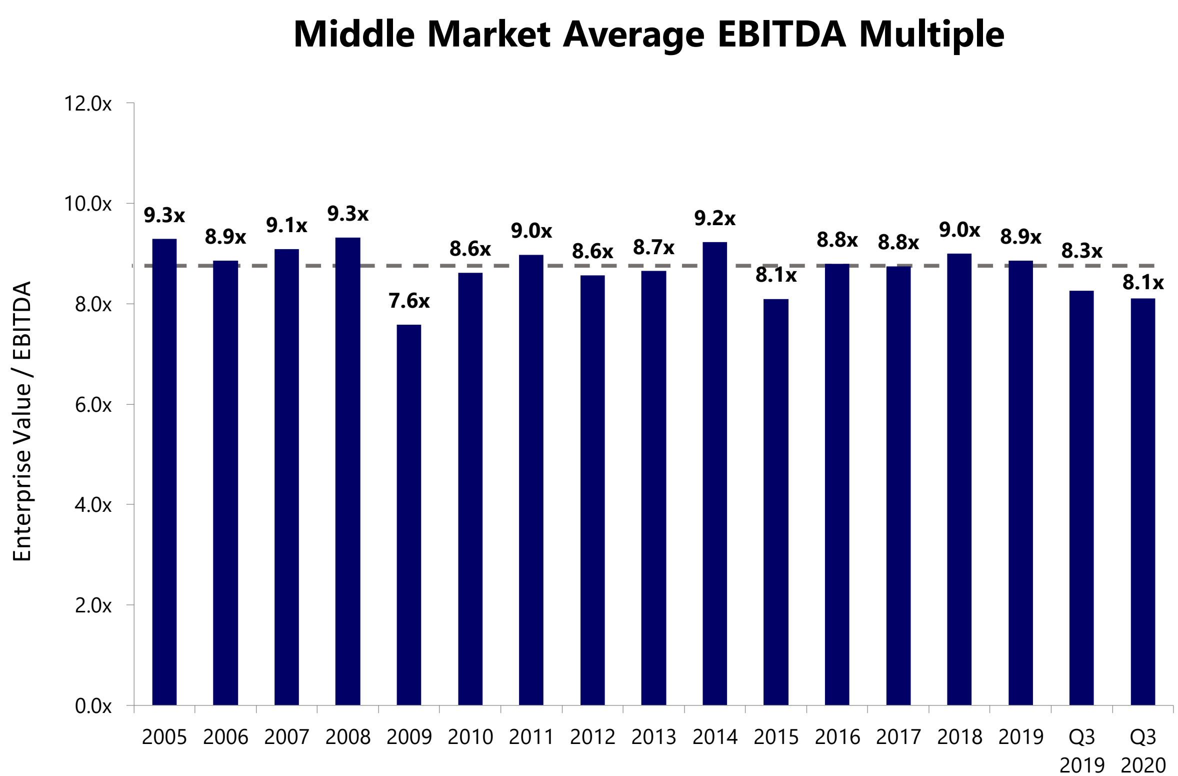


Note: Shaded areas indicate expansion
Source: Capital IQ
Enterprise Value < $500mm

PRICING TRENDS

AVERAGE EBITDA MULTIPLE NEARS Q3 2019 FIGURE

- Following the lowest valuations since 2009 at 7.7x in Q2, EBITDA multiples have recovered significantly, rising to 8.1x in Q3, modestly lower than the prior year valuations.
- The uptick in EBITDA multiples from the prior quarter suggests a potentially swift recovery in valuations, further supporting Q2 as a trough in the M&A market, as businesses with robust COVID performance are likely to drive premiums.
- The event-driven pullback of multiples through 2020 differs from past cyclical or secular downturns. Notably, quarterly valuations recovered much slower following the 2008-2009 global recession.



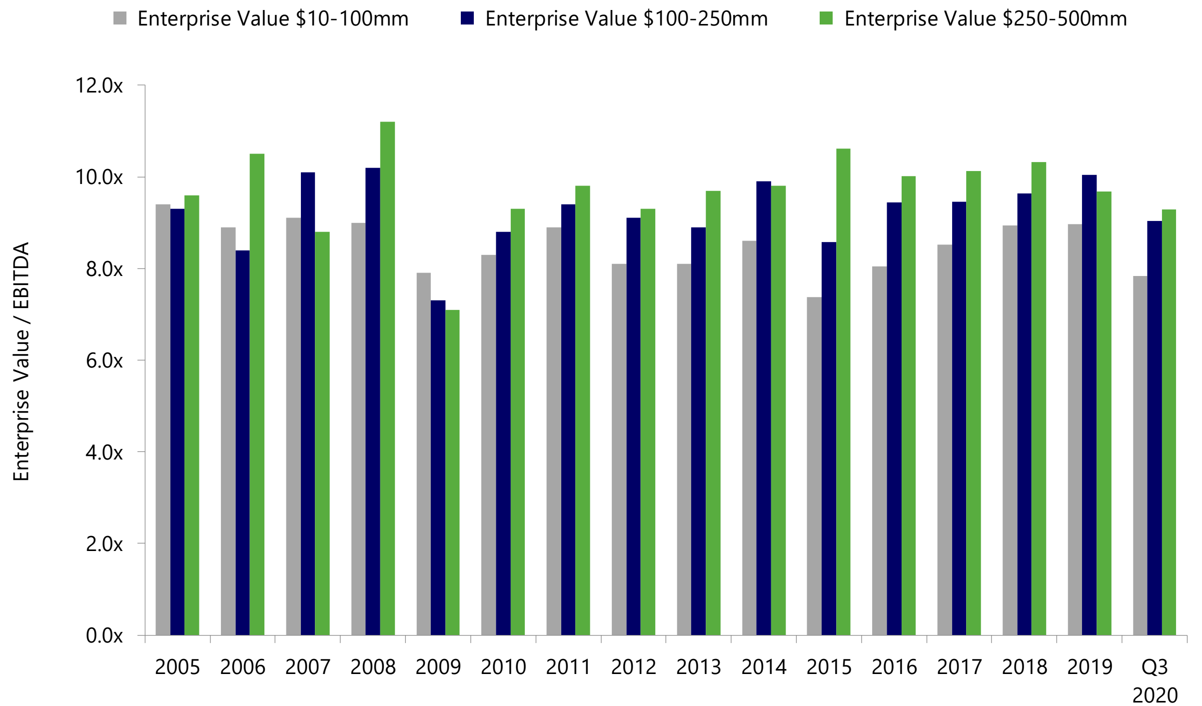
Source: Capital IQ
Includes multiples 3x-16x
Enterprise Value < $500mm

BREAKING IT DOWN BY SIZE

CORE MIDDLE MARKET VALUATIONS HOLD STEADY

- Transactions in the $100-$250mm enterprise value range have demonstrated the most stability, with EBITDA multiples improving slightly from 8.9x in the prior quarter to 9.0x in Q3.
- Transactions in the $10-$100mm segment, have continued to experience depressed valuations, failing to exceed Q2 levels of 7.8x. The $250-$500mm segment has continued to garner the highest valuations, although declined in Q3 to 9.3x.
- Lenders have demonstrated more willingness to provide leverage towards acquisitions of targets with scale and market share as opposed to targets lacking significant industry penetration.

Average Enterprise Value to EBITDA Multiple



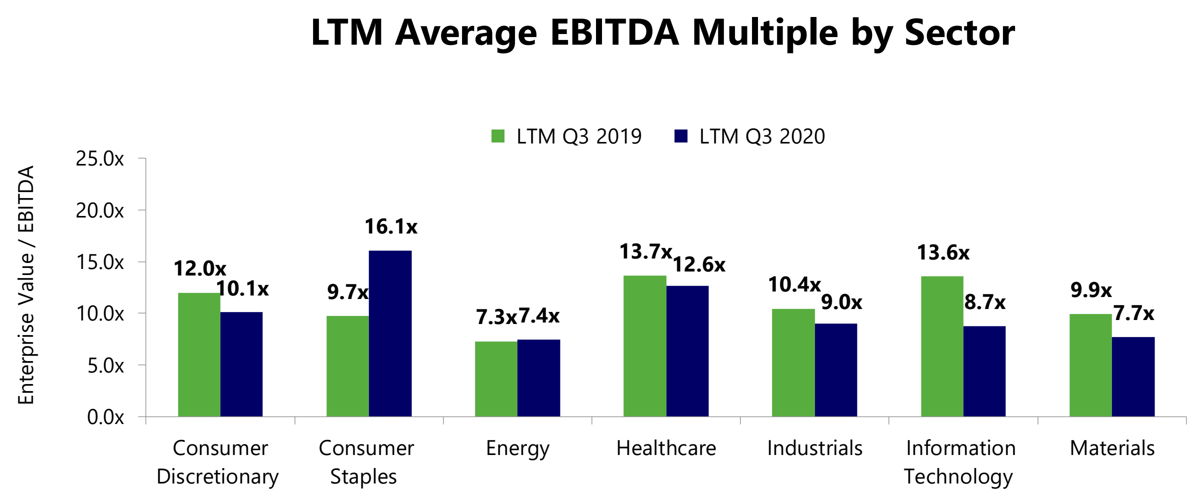
Source: Capital IQ
Includes multiples 3x-16x

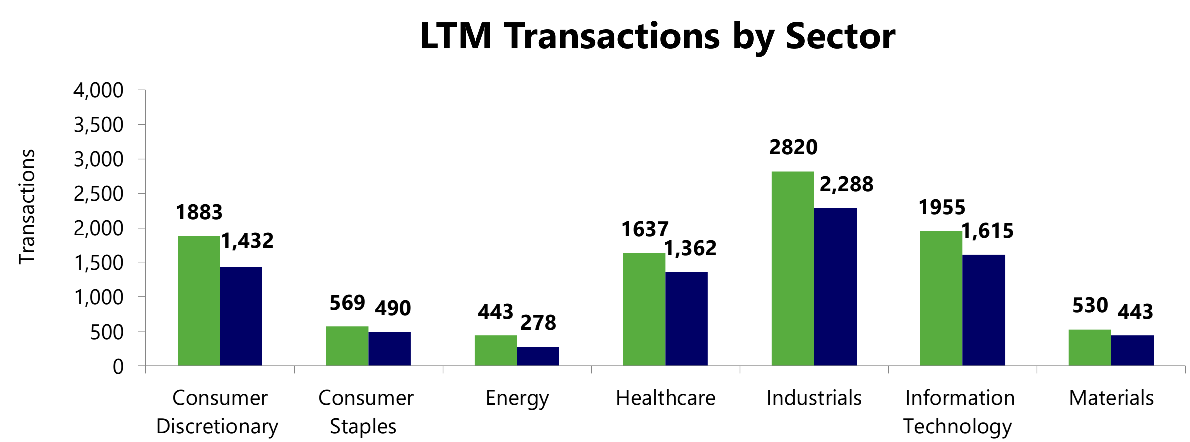
Capstone Headwaters

BREAKING IT DOWN BY SECTOR

CONSUMER STAPLES SECTOR OUTPERFORMS

- Industry multiples largely remain lower year-over-year, leading to a favorable market for buyer's seeking to capitalize on depressed valuations.
- M&A activity continued to slow across all sectors in LTM 2020, although strategics and financial buyers have begun to emerge from COVID-19 mitigation strategies and resume consolidation efforts.
- COVID-19 performance may become an additional deal consideration for buyers in the future, assessing the resilience and defensibility of cash flows among target companies.



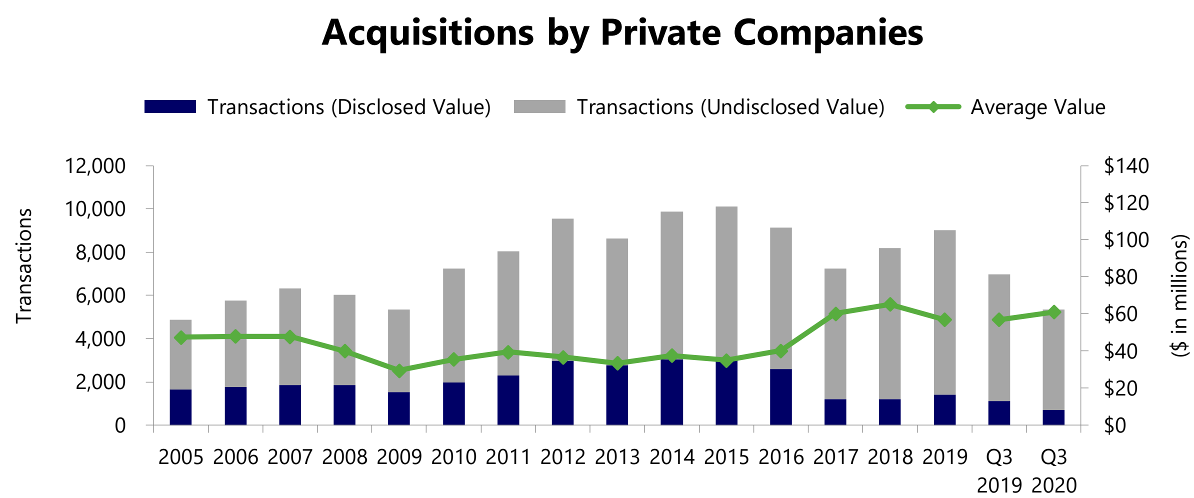


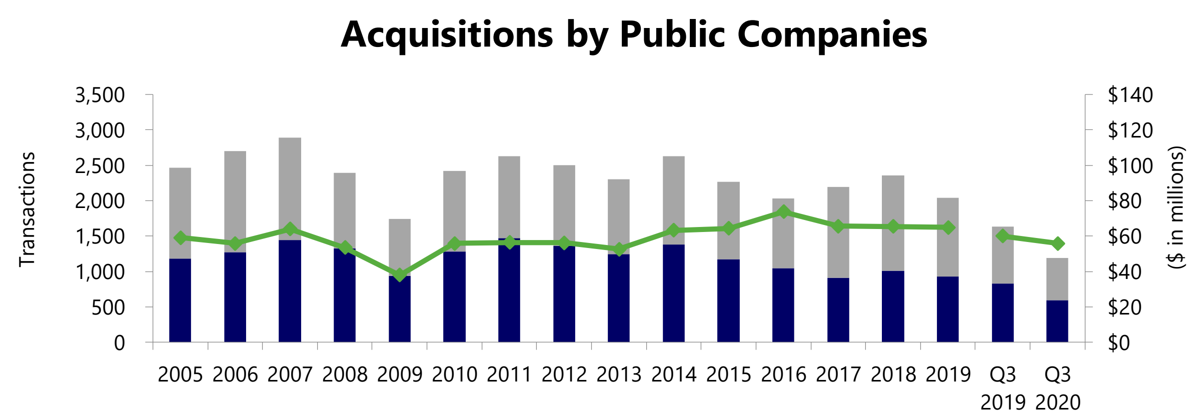
Source: Capital IQ
Includes multiples 3x-30x; Enterprise Value < $500mm

STRATEGIC ACQUIRERS

DEAL VOLUME FOR STRATEGICS IMPROVES FROM Q2

- Private companies have resumed M&A activity following the Q2 pause with acquisitions increasing 27% from the prior quarter and average deal value increasing nearly 6%.
- Public companies have also reengaged in M&A, with deal volume rising 20.5% from Q2 while average deal values continued to trail the prior quarter.
- Quality companies that have shown defensibility and proven resilience early in the pandemic are attracting heightened interest from buyers who are returning to the market. At the same time, distressed companies are often being targeted by opportunistic buyers.



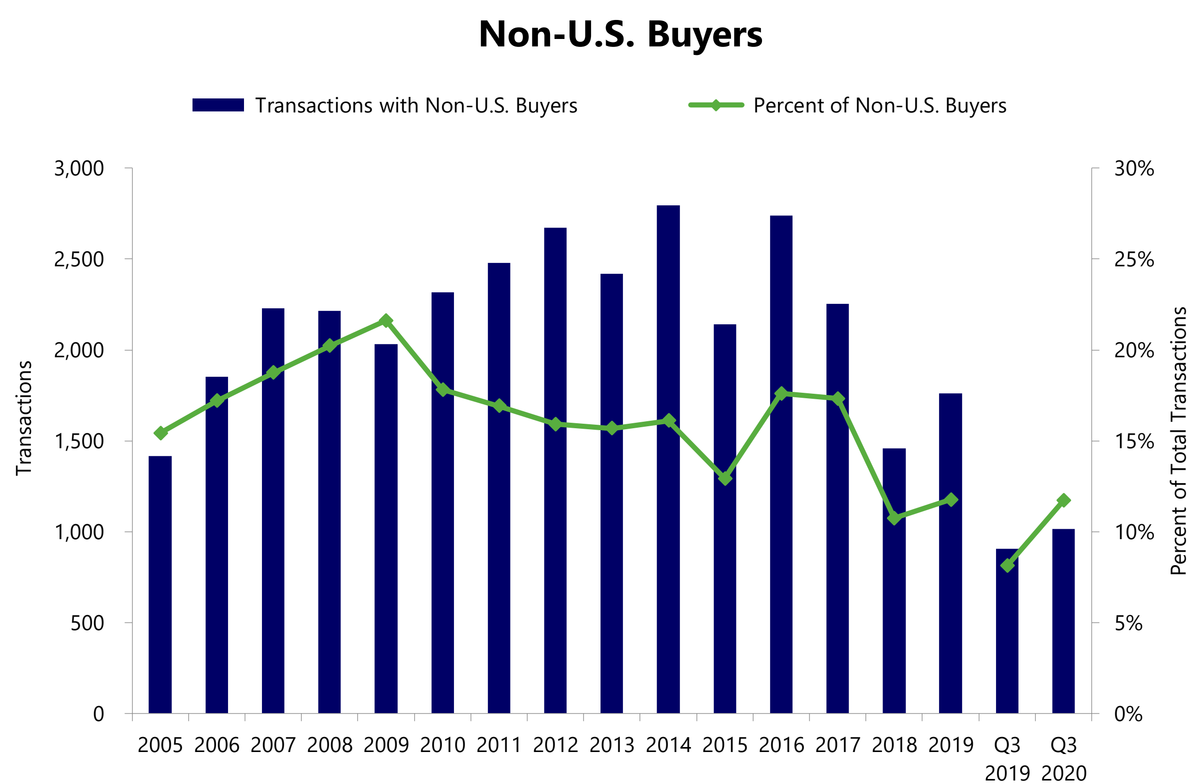


Source: Capital IQ
Enterprise Value < $500mm

FOREIGN ACQUIRERS

NON-U.S. BUYERS REMAIN BELOW HISTORIC AVERAGES

- Non-U.S. buyers increased year-over-year to comprise 11.7% of total transactions but remain below historic averages. Through Q3, the United Kingdom has been the most active foreign acquirer followed by Australia and Germany.
- Application Software has been the most commonly sought-after industry among foreign acquirers, highlighting the pervasiveness of technology applications amid COVID-19.
- The long-term acceptance of virtual deal processes remains to be seen, but if adopted, could bolster cross border activity in the near and long term.



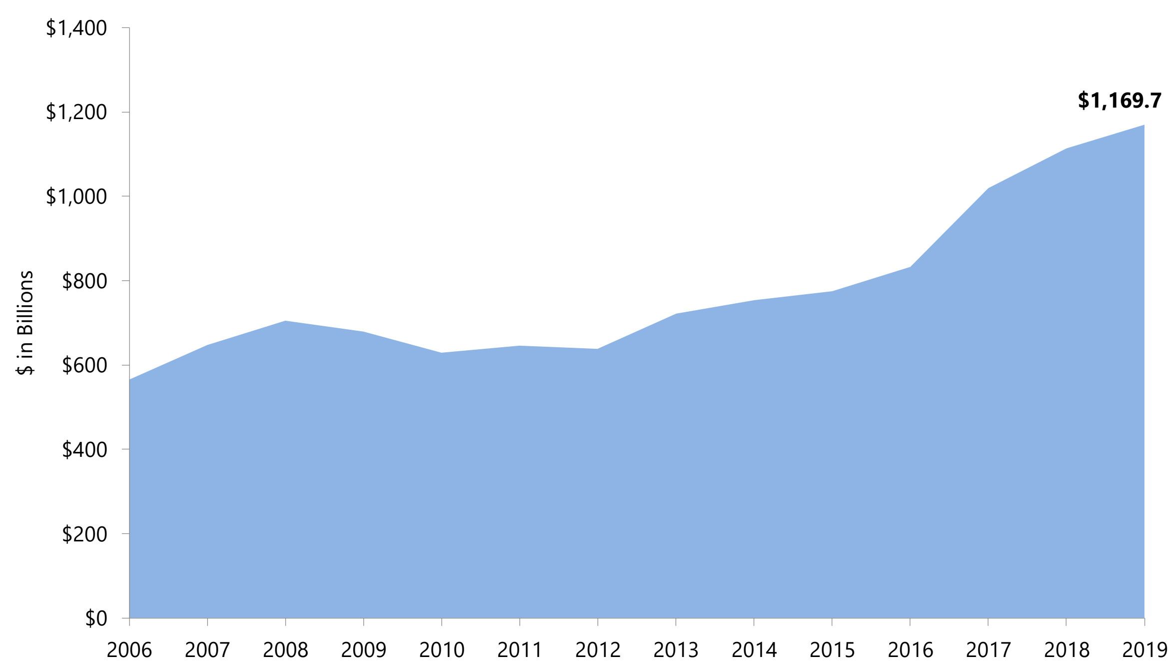
Source: Capital IQ
Enterprise Value < $500mm

PRIVATE EQUITY DRY POWDER

DRY POWDER LEVELS REMAIN FAVORABLE FOR PE DEALS

- Capital overhang, or equity that private equity (PE) firms need to deploy into investment opportunities, has surged since the Great Recession and reached historic levels in 2019, approaching $1.2 trillion.
- PE firms have refocused on platform acquisitions after a period of internal portfolio risk mitigation. Many firms processed tuck-in acquisitions remotely during Q2 and Q3 but failed to close new platforms.
- Capital deployment troughed in Q2 and many sponsors remain behind their portfolio deployment goals. Vast reserves of dry powder will technically underpin valuations for companies in favored sectors for years to come.

PE Capital Overhang by Year



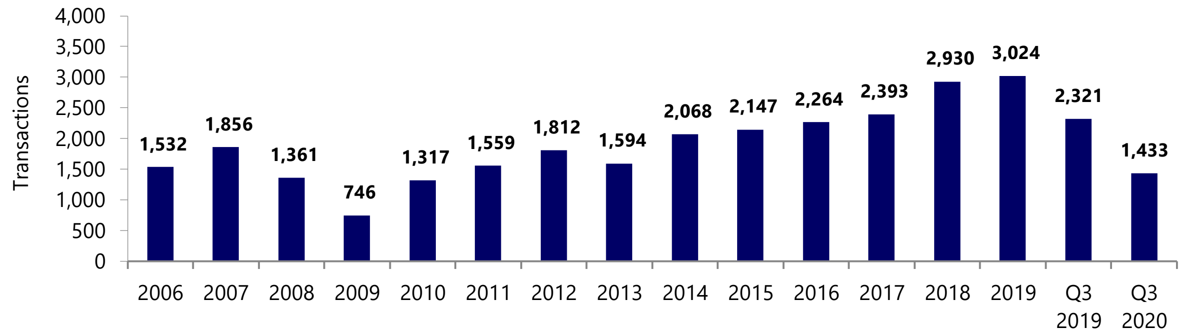
Source: PitchBook

PRIVATE EQUITY ACTIVITY

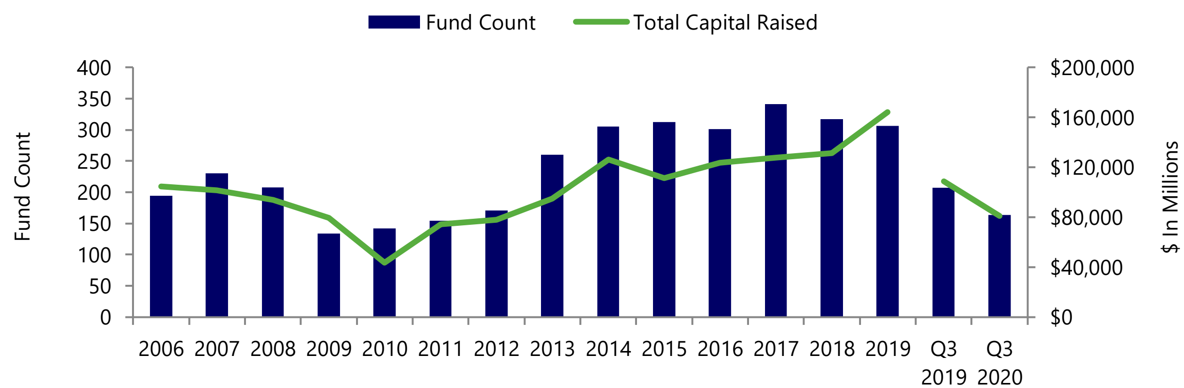
VOLUME RISES SHARPLY FOR PE-CLOSED TRANSACTIONS

- PE middle market deal activity bounced off the Q2 bottom rising over 36% but remain significantly off the pre-pandemic pace.
- PE fundraising reverted to fundraising patterns last seen in 2017 and 2018 at $81 billion through Q3. Many sponsors cite inability to meet with prospective LPs in person as the culprit.
- Younger funds with less established LP bases and 2nd and 3rd Quartile performers will be susceptible to fundraising difficulties.

Middle Market Transactions Closed by Private Equity Firms



Middle Market Fundraising by Private Equity Firms



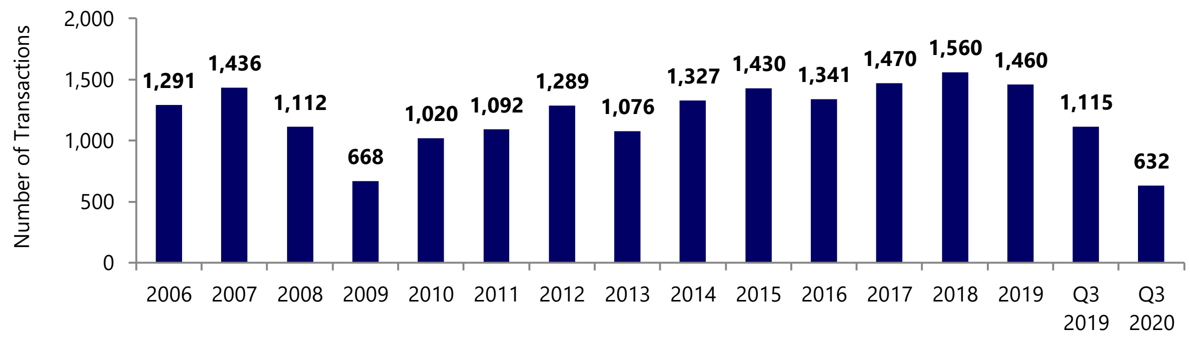
Source: PitchBook
Note: EV; $25-$500mm, Fund size < $5B

PRIVATE EQUITY TRANSACTION TYPES

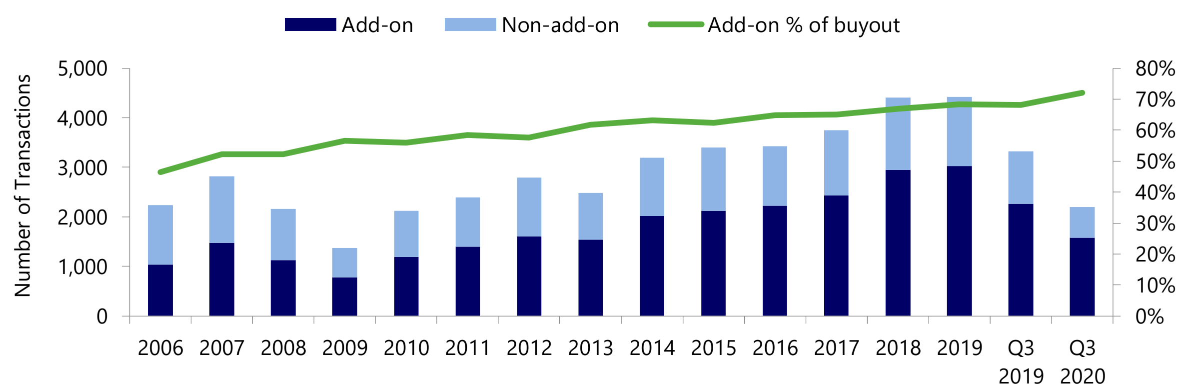
PE PLATFORM DEALS RISE, ADD-ONS REMAIN ELEVATED

- The volume of platform investments declined 43% year-over-year. The death of in-person diligence is greatly exaggerated. Almost no sponsors will close a major investment without at least one face-to-face meeting with Management.
- Borrowers in industries impacted by COVID-19 have only been able to attract financing at lower leverage levels and higher pricing, if at all, leading to lower refinancing and LBO-related activity compared to pre-pandemic levels.
- Add-on acquisitions continued to comprise a large percentage of U.S. PE deals, accounting for 72% of volume through Q3, an increase from 68% in the prior year period.

PE Platform Investments



PE Add-On Acquisitions



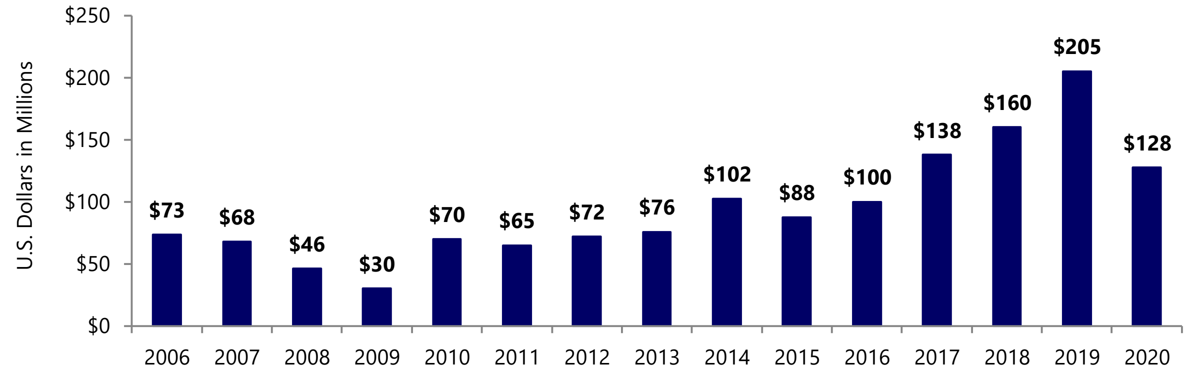
Source: PitchBook
Note: Includes all U.S. PE transactions

PRIVATE EQUITY BUYOUT SIZE AND HOLDING TIMES

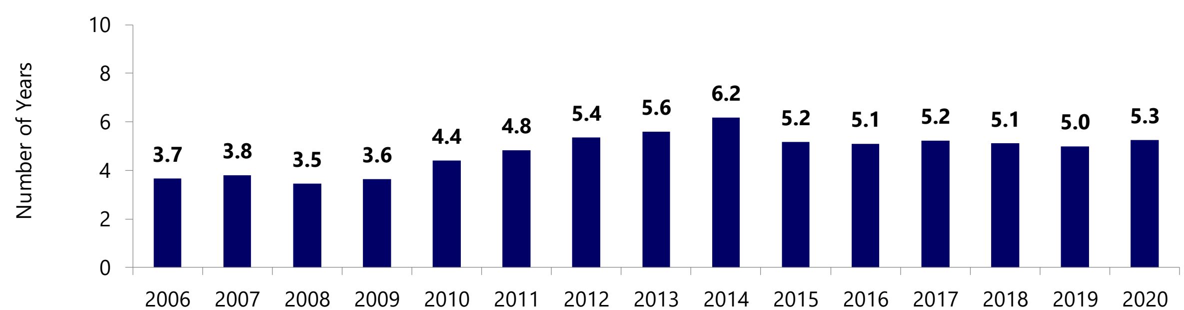
PE BUYOUT SIZE MOVES FURTHER DOWNSTREAM

- PE firms have continued to follow deals down market to deploy capital – the median buyout size fell below Q2 levels to $128 million in Q3. As leverage levels for affected industries remain depressed, Capstone expects PE to continue to pursue smaller deals.
- Unabashed market timers, sponsors have postponed exits while awaiting further market transparency and buoyant pricing, particularly for mediocre assets.
- Following the financial crisis of '08-09, PE holding times increased steadily over the following five years. We expect holds to lengthen over the next 24 months.

PE Median Buyout Size



PE Median Holding Times



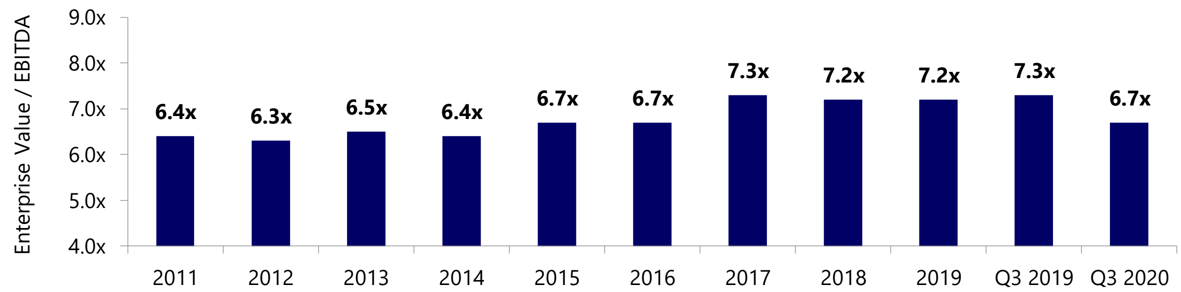
Source: PitchBook
Note: Holding time data as of 03/31/20

PRIVATE EQUITY VALUATIONS

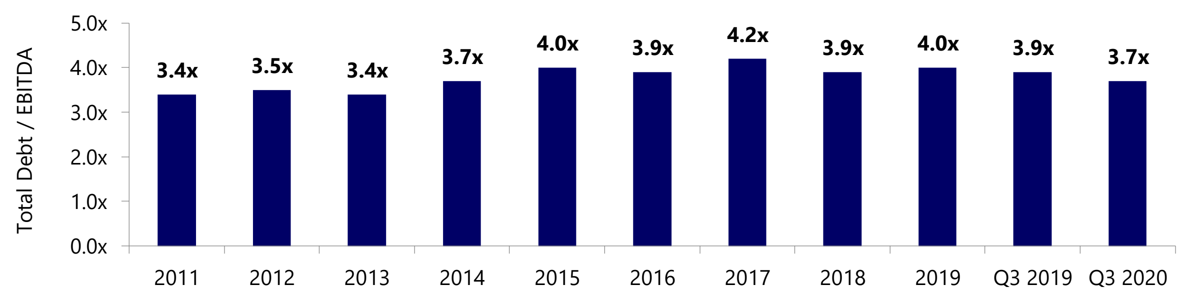
PRIVATE EQUITY EBITDA MULTIPLES DECLINE

- The average EBITDA multiple paid by financial buyers in Q3 declined from the prior quarter, falling from 7.4x to 6.7x. While valuations fell in Q3, the elevated multiples experienced in Q2 were on markedly lower transaction volume.
- Average debt multiples have begun to return to pre-COVID levels, standing at a more normalized 3.7x in Q3, compared to a steep decline to 3.3x in Q2. Senior debt multiples recorded modest declines from the prior quarter.
- Debt multiples for platform buyouts alone have remained relatively steady at 3.4x through the first nine months, a decline from 3.6x in 2019.

Average EBITDA Multiple Paid by Financial Buyers



Average Debt Multiple of Middle Market LBO Transactions



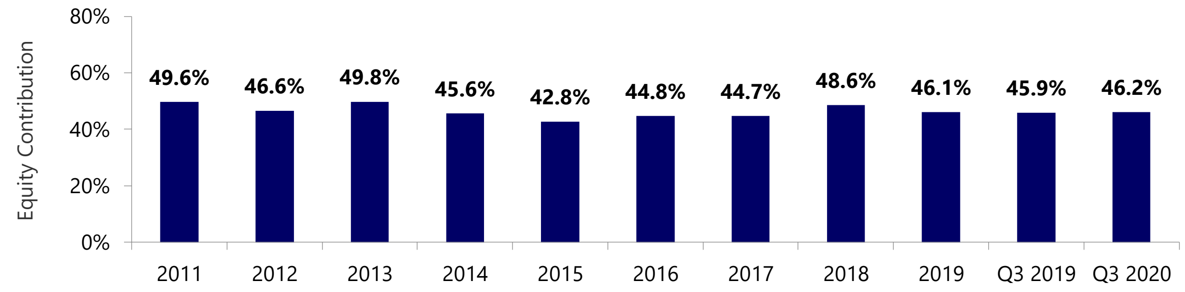
Source: Source: GF Data®
Includes multiples 3x-15x; Enterprise Value $10mm-$250mm

PRIVATE EQUITY VALUATIONS

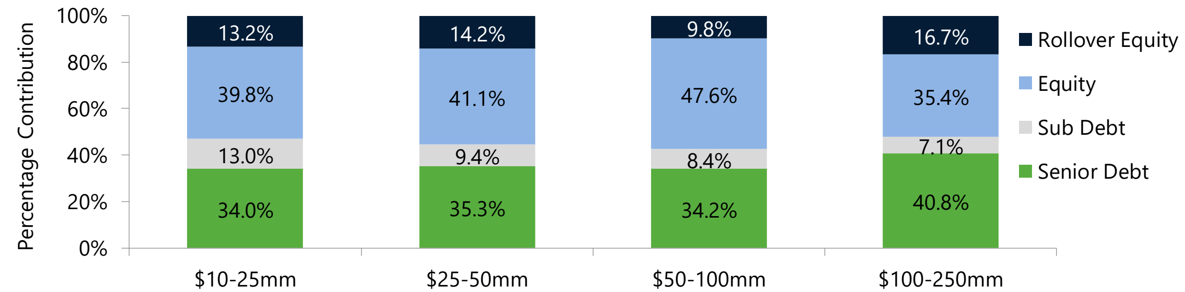
DEBT UTILIZATION INCREASES FROM Q2

- Equity contribution levels have lowered to a more normalized composition at 46.2%, following a dramatic uptick in equity usage in Q2 that amounted to 56.1%.
- The increased utilization of debt points to a cautious loosening of credit markets as financing conditions improve for platform investments. Notably, after spiking to 61.6% in Q2, equity share on platform deals fell to 51.4% in Q3.
- Transactions in the $50-$100mm enterprise value range utilized the largest percentage of equity at 57.4%. However, the $100-$250mm market size employed the least amount of equity, with senior debt comprising a 40.8% contribution in Q3.

Average Middle Market LBO Equity Contribution



Equity and Debt Contribution by Enterprise Value



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

CAPSTONE BAROMETERS

Capstone Headwaters

LEADERSHIP THROUGH COVID-19 ERA

As a firm, we have mobilized our resources to deliver an integrated solution to business owners navigating through these times. We can help frame your decisions, access capital to protect your position, and provide specialty transaction expertise to capture opportunities as they arise. We are engineered to help companies through every stage of the business lifecycle.

Mergers & Acquisitions

We assist opportunist acquisitions, execute sales, and navigate distressed transactions.

Strategic Acquisitions

- Target Identification
- Valuation & Structure
- Buy-Side Due Diligence
- Quality of Earnings
- Buy-Side M&A Execution

Sales & Divestitures

- Corporate Valuation
- Market Assessment
- Transaction Readiness
- Sell-Side M&A Execution
- Asset Divestiture

Distressed Transactions

- Business Unit Divestiture
- Distressed M&A
- §363 Sale

Financial Advisory

We specialize in performance improvement and value creation in difficult situations.

Board Advisory

- Strategic Blueprinting
- Evaluate Capital Adequacy
- Performance Tracking
- Management Accountability
- Communication

Operational Effectiveness

- Cost Structure Management
- Operational Assessment
- Management Assessment
- Sales Augmentation
- Organizational Optimization

Crises Management

- Turnaround / Interim Mgmt.
- Corporate Restructuring
- Bankruptcy Protection

Capital Access

We help manage through new or existing lenders or investors and secure an optimal solution.

Debt Financing

- Bridge / Interim Financing
- ABL and Cash Flow Revolvers
- 1st and 2nd Lien Term Loans
- Subordinated Debt
- Sale-Leasebacks

Equity Financing

- Growth Equity
- Secondary Equity Recaps
- Structured Equity
- Acquisition Financing
- Investor Management

Alternatives

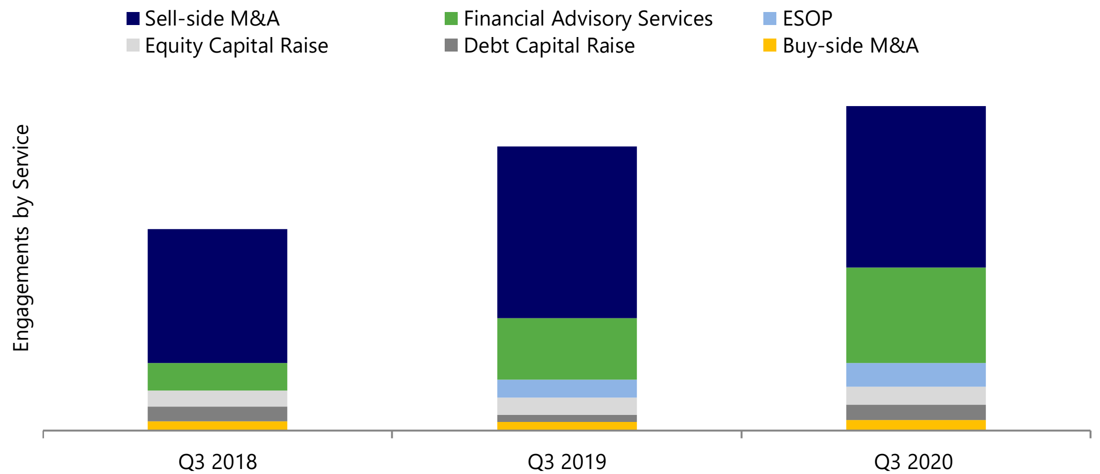
- Creditor Mediation
- DIP and Exit Financing
- Government Support Programs

FIRM DATA

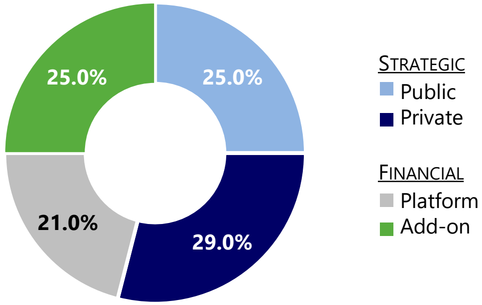
CAPSTONE SEES STRONG BUYER INTEREST DESPITE VOLATILITY

- There is still strong buyer interest and scarcity in the market, making it an ideal time to get in front of potential acquirers and investors. Following this period of increased market volatility, there will be a backlog of pent-up activity that will provide acquirers with more alternatives, including acquiring companies in distress.
- Over the trailing twelve-month (TTM) period, 54% of our clients completed a merger or acquisition with a strategic buyer, where private companies accounted for 29% and public companies accounted for 25% of buyers. Notably, within the remaining 46% of deals completed by financial buyers, the share of add-on acquisitions increased, echoing the uptick in the overall market.

Capstone Engagements By Service



Capstone TTM Buyer Breakdown



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

RECENT DEAL CLOSINGS

Capstone is an active leader in middle market M&A advisory and has closed a number of deals this year, serving clients and their needs despite the unprecedented disruptions to the economy. Select the deal tombstones below to read the full press release.

Provides Managed Security Services

STRATOZEN
has been acquired by
ConnectWise
A portfolio company of
THOMABRAVO

Provides Modular Water Treatment Solutions

newterra
clean water. modular solutions. simple.
A portfolio company of
XPV Water Partners
Angeleno Group
has been acquired by
Frontenac

Manufactures Switching Technologies

DRI
First - Switchtech
a U.S. subsidiary of
First Switchtech
has been acquired by
TE connectivity

Distributes Electricity and Natural Gas

nationalgrid
has divested
Metro Energy
to
MUSS Development LLC

Provides International Money Transfers

Maxi Money Services
a portfolio of
Investar Financial
has been recapitalized by
HOUSATONIC

Provides Waste and Recycling Solutions

Quest Resource Holding Corporation
has secured debt financing for its acquisition of
Green Remedies Waste & Recycling

Provides Health Insurance

CAA Clifford Allen Associates
has been acquired by
GBG Insurance Without Borders

Provides Mechanical, HVAC, and Plumping Services

Rogers Mechanical Contractors, Inc.
has been acquired by
Craftwork Capital
backed by
Aterian Investment Partners

Provides Radar Cross Sections Measurement Technology, Products, and Services

SCI Sensor Concepts Inc.
has been acquired by
Raptor Scientific
a portfolio company of
L2 Capital Partners

Provides Floorplan Financing in 13 States

XLFunding
has secured a $40 million senior secured facility from
Wingspire Capital

LEADERSHIP TEAM

JOHN FERRARA, FOUNDER AND CEO

jferrara@capstoneheadwaters.com | 617-619-3325

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.

PHIL SEEFRIED, PRESIDENT

pseefried@capstoneheadwaters.com | 303-572-6004

Phil has 30+ years of experience across most major financial markets. He was the co-founder and CEO of Headwaters MB until the acquisition by Capstone in 2017. He started his career with Bankers Trust, later working for Credit Suisse/First Boston. He was named Co-Head of Leveraged Finance at CSFB, responsible for managing close to 200 deals totaling $40 billion. Seefried was then named CFO of the 350-person Global Credit Group. He left Credit Suisse in 2000 and spent a year as CFO of Open Access Broadband Services before launching Headwaters in 2001. Phil holds an MBA from Stanford University and a BA from Williams College.

PAUL JANSON, COO

pjanson@capstoneheadwaters.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.

BRIAN DAVIES, HEAD OF FINANCIAL ADVISORY SERVICES GROUP

bdavies@capstoneheadwaters.com | 617-619-3328

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.

LEADERSHIP TEAM (CONTINUED)

JACOB VOORHEES, HEAD OF GLOBAL M&A

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Jacob brings over 15 years of experience to the Capstone Headwaters 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. Today, Jacob serves as the Head of Global M&A and is responsible for spearheading our international capabilities and coverage. Formerly, Jacob was with Andersen Corporate Finance LLC, where he focused his efforts on the software and direct marketing industries. Jacob received an MBA from the Sloan School of Management at Massachusetts Institute of Technology (MIT) and a BS from Cornell University.

KENT BROWN, HEAD OF DEBT ADVISORY GROUP

kbrown@capstoneheadwaters.com | 303-951-7127

Kent brings over 30 years of corporate debt placement and advisory experience. He has extensive experience in arranging various forms of middle-market corporate debt, including leveraged loans, asset-based loans, subordinated debt, second-lien and uni-tranche facilities, syndicated credit facilities, venture debt, equipment leases, private securitizations, sale-leasebacks, and mortgages, among other structures. Previously, Kent was a Managing Director at William Blair & Company, where he worked for over 25 years. Kent began his career with Arthur Andersen. He earned an MBA from the University of Chicago and a BS from the University of Colorado at Boulder.

DANIEL MCBROOM, HEAD OF PRIVATE CAPITAL MARKETS

dmcbroom@capstoneheadwaters.com | 303-951-7128

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. These deals total over six billion of enterprise value annually. Prior to Capstone Daniel worked at Bear Stearns and Goldman Sachs. Before his financial career, Daniel spent seven years as a pilot in the United States Air Force. As an Air Force Officer, he was deployed to forward locations in support of Operation Enduring Freedom. He earned an MBA from the University of Notre Dame and a BS from the United States Air Force Academy.

BRENDAN BURKE, HEAD OF PRIVATE EQUITY SPONSOR COVERAGE

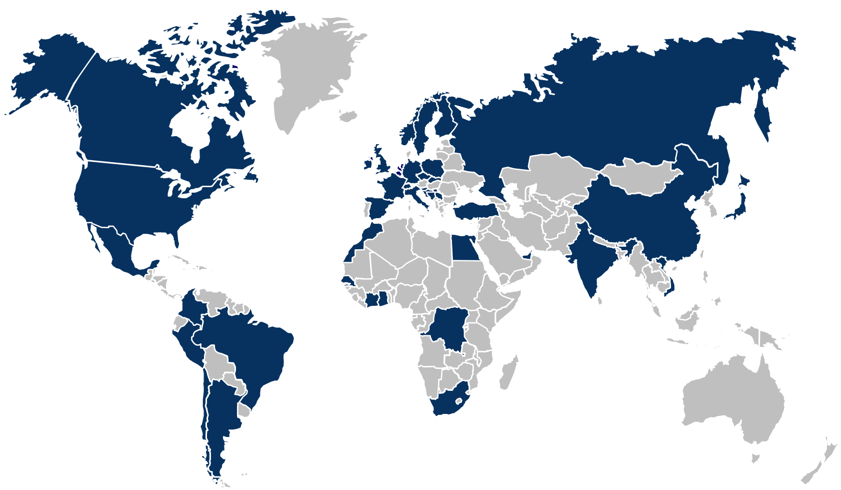
bburke@capstoneheadwaters.com | 303-531-4603

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.

Capstone Headwaters

Capstone Headwaters is an elite investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. Capstone Headwaters provides merger & acquisition, private placement, corporate restructuring and financial advisory services across 16 industry verticals to meet the life cycle needs of emerging enterprises. Headquartered in Boston, MA and Denver, CO, Capstone Headwaters has 19 offices in the U.S., U.K., and Brazil with a global reach that includes over 450 professionals in 40 countries.

BUILT FOR THE MIDDLE MARKET



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