prairie capital advisors, inc.
an employee owned company

PRAIRIE MIDDLE MARKET PERSPECTIVE

M&A AND CAPITAL MARKETS OUTLOOK — FALL 2016

Inside this Issue:	M&A Market Overview	Financial Markets Outlook	Transaction Highlight
	▪ M&A Market Activity ▪ Middle Market Deal Valuations ▪ Private Equity vs Strategic Valuations ▪ Middle Market Leveraged Buy Out Capitalizations	▪ Total U.S. Middle Market Loan Issuance ▪ Interest Rate Environment ▪ Middle Market Debt Multiples	▪ Prairie acts as exclusive financial advisor to Door Engineering and Manufacturing, LLC

Overall M&A Market Commentary

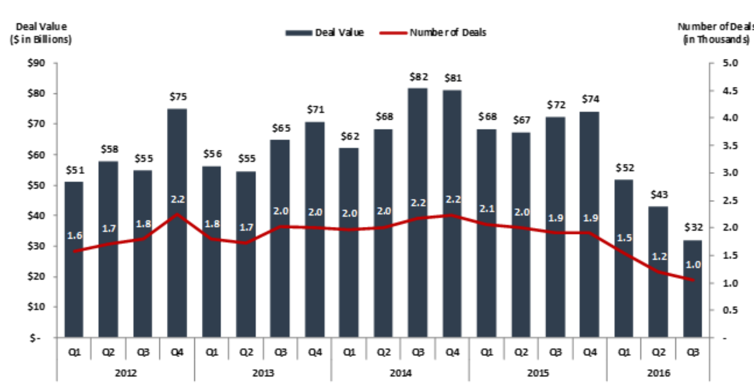
The U.S. has endured seven years of a slow, mediocre recovery that has struggled to produce sustained economic growth above 2%. Without sustained growth of greater than 2%, the demand for goods and services is muted and there is little need to ramp up spending on plant and equipment to expand and grow businesses. While it is true that the growth in new jobs has been relatively consistent during this period and that the unemployment rate has fallen over the last seven years, productivity and wage growth have been lackluster and the labor participation rate remains stubbornly low. The first two quarters of 2016 have continued this mediocre trend with GDP growth of 0.8% in 1Q16 and 1.4% in 2Q16. Making matters worse, the U.S. Presidential election, pitting two candidates with the highest negative favorability ratings ever recorded, and candidate proposed economic plans that will increase taxes, reduce international trade and increase regulation does nothing to help improve investor confidence in the economy. These negative economic factors and a concern that the country is on the wrong track have led to the current malaise over the U.S. economy.

Reflecting this malaise, the National Federation of Independent Business ("NFIB") Small Business Optimism Index fell slightly in September indicating concern in the middle market business community. The direction of the global economy and the rise of more nationalistic political rhetoric throughout the world is leading to more uncertainty in the global business community. Couple these economic concerns with the untested, world central banker monetary stimulus programs including negative interest rates and various asset purchase programs and the risk of unintended consequences becomes a bigger factor. In the U.S., these unintended consequences might inhibit corporate investment and additional economic growth. According to William Dunkelberg, the NFIB Chief Economist, "Fed policies have prompted firms to spend their resources on mergers and stock buybacks and dividends, not real investment. And with fiscal policy M.I.A., everything is on hold until after the elections bring more clarity – good or bad."

But despite these concerns there are ***some signs for M&A market optimism***. There is evidence that the improving job market is increasing consumer confidence. The latest data from the Conference Board, a business research organization, shows consumers are currently the most upbeat since August 2007. In addition, according to Principal Investors economist Bob Baur, "The key to a sustainable expansion is capital spending, which has been moribund for months. It's still a question mark, but the latest indications hint a turn for the better. Orders for nondefense capital goods ex aircraft, a good proxy for future capital spending, have risen for three consecutive months, the first time that's happened since mid-2013. Core durable goods orders are also up three months in a row. Further, the third estimate of second-quarter real gross domestic product revised business investment to up 1%, the first advance in three quarters. Business surveys for September are much improved." All of these factors appear to point to a better economy ahead.

Deal volume in the M&A markets has been soft for the last few quarters but there appears to be emerging trends that will help increase deal activity in the near future. There are many family businesses with majority owners in their 70's and 80's. While "80 might be the new 60," the life expectancy and family ownership transition issues will increasingly lead to the consideration of shareholder transition or liquidity events and more M&A activity.

Total U.S. M&A Deal Volume and Value <$300 M Transaction Value
Q1-2012 to Q3-2016



Source: Capital IQ

Even with a slow economy, both strategic and financial buyers remain anxious to make acquisitions. Low interest rates make the costs of acquisition debt capital very low. Low interest rates coupled with the unsatisfied demand for acquisition targets has kept business valuations at elevated levels. We encourage business owners to look at their transition goals and objectives and determine whether a company sale makes sense for their circumstances.

M&A Market Activity

Middle market deal activity continued its downward slide through 3Q16 producing activity levels and dollar volume totals just slightly better than the post-recession low point recorded in 3Q09. The large company M&A market is facing similar trends. Global M&A deal volume is down 24% this year from the same period last year. In addition, 2016 has seen a record number of withdrawn deals in the large company M&A market due to increased regulatory scrutiny and stricter rules on tax inversions. PE exit activity slowed as well through 3Q16, where the number and dollar volume of deals exited or sold by PEs was down significantly. While, these activity trends are observations of the recent past, we see some reason for market optimism in the near future. We are seeing an increased number of inquiries by middle market business owners who are interested in their strategic alternatives including a potential company sale. ***We believe this strong level of business owner interest in exploring their strategic alternatives may be a leading indicator for future growth in middle market M&A activity.***

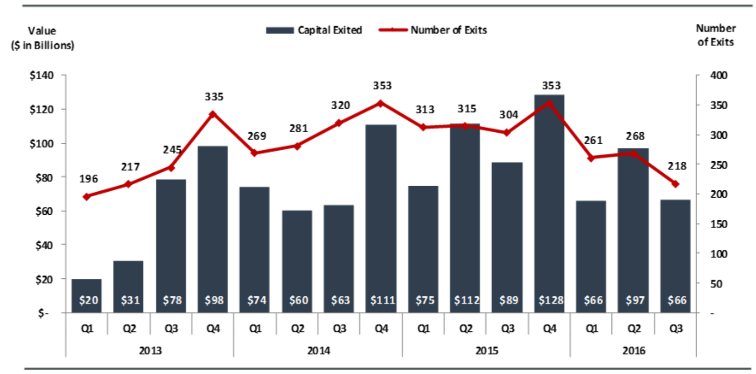
- The $32 billion of middle market deals recorded in 3Q16 reflects a 26% reduction in dollar value from 2Q16. Furthermore, the 3Q16 dollar value of deals was down 56% compared to levels experienced in 3Q15. Similarly, year to date activity showed weakness as well with the three quarters of 2016 recording $127 billion of deals, down 39% from the $207 billion recorded over the same period in 2015.
- The number of middle market deals recorded in 3Q16 declined 47% from the number of deals in 3Q15 and the number of deals closed during the three quarters of 2016 as 38% lower than the number of deals over the same period in 2015.
- The average middle market deal size of $34 million in the three quarters of 2016 was down slightly from the average $35 million deal size closed in the first three quarters of 2015.

PE exit activity showed a similar negative trend in 3Q16, with the number of exits decreasing about 19% from the 2Q16 exits and the capital exited down about 32% from 2Q16. During the first three quarters of 2016, the number of PE exits fell 20% from the first three quarters of 2015. Like the trends in the overall M&A market, this decline in activity is somewhat disconcerting.

Middle Market Deal Valuations

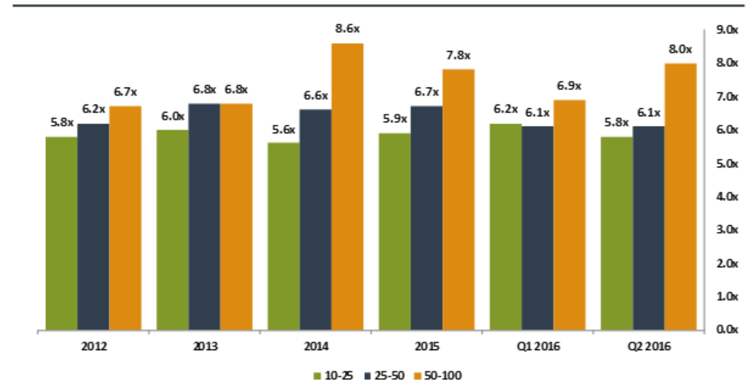
As noted in previous quarters, a lack of supply of new middle market deals has helped sustain higher valuation levels in the

Private Equity Exits
Q1-2013 to Q3-2016



Source: PitchBook

Total Enterprise Value / EBITDA by Deal Size ($ Millions)
2012 to Q2-2016



Source: GF Data

M&A market. PEs have more than $500 billion in unused investable capital and strategic buyers have more than $1.5 trillion in balance sheet cash balances. This abundant capital and an unsatisfied demand for acquisitions has continued the post-recession sellers' market. We believe strong strategic buyer activity has created intense competition for PEs wanting to acquire platform companies. As a result, almost 70% of PE deals in the first three quarters of 2016 were add-ons and not platform acquisitions. With the low levels of deal volume, the quarterly data comparisons are especially volatile and can move significantly from quarter to quarter. Therefore, in our opinion, the 1Q16 and 2Q16 data displayed does not portray accurate trend data for the first part of 2016.

- Sub-$25 million deal valuation multiples continued to drift upward settling at a 5.9x multiple for 2015 and around 6.0x for the first half of 2016 reflecting the deal supply/demand imbalance in middle market deal volume. Buyers continue to aggressively pursue deals across the middle market size spectrum.
- Valuations on the large end of the middle market ($50 to $100 million segment) climbed through the first half of 2016 likely buoyed by increased strategic buyer activity in the M&A market.

- Valuations in the $25 to $50 million segment trended a little lower in the first half of 2016, but because of the volatility of the quarterly statistics, will likely be higher by the end of the year.
- As we have suggested in our previous reports, properly prepared, solid performing companies are always welcome in the M&A market and will continue to receive strong buyer interest and premium valuations.

Private Equity versus Strategic Valuations

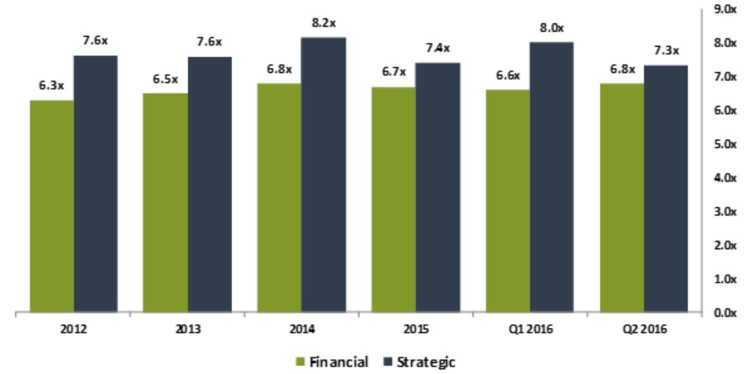
In the low growth economy strategic buyers have limited organic growth opportunities and use acquisitions to increase revenues and meet earnings growth objectives. The market data and our recent deal experience suggests that strategic buyers continue to be aggressive and active M&A market participants. Strategic buyer acquisition synergies and more aggressive pursuit of acquisition targets has resulted in a trend of strategic buyers paying about 1.0x more that the PEs. While PE funds remain motivated to put capital to work, PEs are far more cautious at these higher valuation levels and more conservative in their acquisition offers. As a result, successful sellers in the M&A market are shifting from PEs toward strategic buyers.

- During 2016, strategic buyers continued to bid on middle market acquisitions but slightly decreased the premium they pay over the PEs.
- PE acquisition multiples have remained in a stable range in the high 6x valuation level. It is interesting to note that the PE valuations remain relatively static with the strategic buyer valuations ebbing and flowing from year to year.
- The supply demand imbalance continues in the middle market, although the quality of the average companies coming to market has declined somewhat. Well-prepared, attractive sellers can still take advantage of interest in M&A deals by both strategic buyers and PE funds and achieve reasonably high valuations.
- The data reflects valuation multiples for all size deals. Prairie Capital Advisors estimates that for middle market deals below $50 million, valuations are generally 1.0 to 2.0 multiples lower than the levels reflected in the table.

Middle Market Leveraged Buy Out Capitalizations

The amount of senior debt leverage employed during 2Q16 in the Leveraged Buyout ("LBO") market decreased slightly from earlier periods. In addition, during the second quarter the use of mezzanine declined to less than 10% of a typical LBO structure. As a result, the amount of equity used in LBOs has increased to about 47% of the total capitalization during 2Q16. Capital availability has not been a limiting factor for deal activity in the current market, although more conservative lending parameters will likely lead to the use of less debt and future valuation issues. Quarterly data

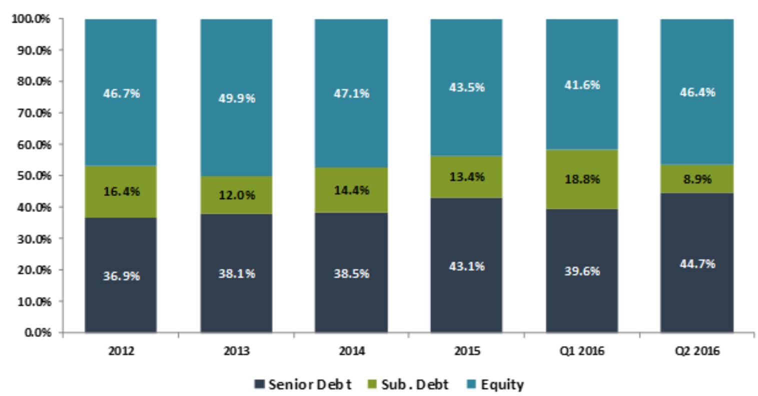
TEV/EBITDA Multiple by Buyer Type ($10-250M of TEV*)
2012 to Q2-2016



Source – Financial Buyers: GF Data ($10-250M TEV)
Source – Strategic Buyers: Capital IQ ($10-250M TEV; Excluding outliers defined as transactions with TEV/EBITDA of less than 3.0x and more than 14.0x)

**TEV = Total Enterprise Value*

Equity and Debt Capitalization
2012 to Q2-2016



Source: GF Data

tends to be more volatile so data in future quarters will tell us if this is a sustained trend.

- The use of debt leverage decreased slightly in the first half of 2016. As a result of lower debt usage, equity is now more than 45% of the LBO capital structure. This may reflect more business uncertainty which requires a more conservative capital structure.
- Growth in the number of lending sources coupled with the greater sophistication of borrowers has made the use of and amount of debt capital employed an important decision in the acquisition process. PEs, for example, use debt leverage to offset the effects that high valuations have on their expected investment returns.
- Banks and other debt sources are all competing aggressively for new opportunities leading to continued low capital costs. Deal structure and terms on the other hand are starting to tighten reflecting a more discerning lending community.

prairie capital advisors, inc. an employee owned company

- The mezzanine funds continue to aggressively pursue deal opportunities but for 2Q16 the use of this type of funding was slightly reduced. While interest only and payment in kind structures still dominate the markets, warrants have started to return to the mezzanine return structure, particularly in smaller or more leveraged deal structures. Mezzanine funds continue to pursue equity co-investment opportunities to improve their returns and increase their investment amount in deals.

Overall Comment on the Financing Markets

Loan growth continues to be very weak through the first half of 2016. Interest rates have been low for so long it has become the new normal. The new normal, low interest rate environment reduces the urgency to “lock in current rates” and borrow. With an economy growing at less than 2% annually it has become increasingly difficult to find compelling projects like plant expansion or plant improvements with strong enough returns to make borrowing necessary. Loan demand has been further muted by lackluster middle market M&A activity. There is evidence that more intense bank regulation is starting to cause higher loan costs and more conservative lending terms for the less than average credits. The continuing effects of these regulations are likely to filter through the lending markets and affect the M&A market in the future. For credit worthy companies with a need for long term debt capital this continues to be a borrowers’ market.

Investor confidence in the Fed’s ability to manage the economy has been reduced by the Fed’s poor forecasting of future GDP growth rates and the trends in the labor markets. The use of asset purchases and other non-standard measures to maintain low interest rates to stimulate the growth in the economy has not been a great success. As future recession risks increase the Fed will need to have policy tools, including future interest rate cuts to manage through a recession. For this reason many economists are predicting a number of additional 25 basis point interest rate increases in the next 18 to 24 months. Continued Fed rate increases, should they occur later in 2016 and into 2017, will continue to shift the yield curve higher leading to higher future borrowing costs.

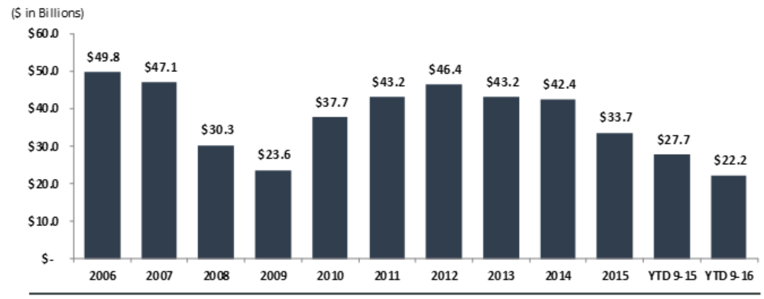
The continued availability of relatively cheap debt capital is the central factor in supporting elevated M&A market valuations. There is evidence that due to more regulation and economic concerns senior lenders are becoming more conservative in making new loans. This trend should be carefully followed because any future decrease in debt availability will likely cause declines in M&A market valuations.

Total U.S. Middle Market Loan Issuance

- Loan issuance continued to show softness in the first half 2016 continuing a trend that started several years ago. As pointed out in previous quarters, muted acquisition activity coupled with lower capital spending and slow economic growth all have reduced the need for additional borrowing.

Loan Issuance for the Middle Market < $100 M

2006 to September 2016



Source: Thomson Reuters

- A Fed interest rate increase in late 2016 seems to be more probable that it was last quarter. Strong labor market conditions and concerns that the Fed may have already delayed too long seem to point to a rate increase in December 2016 or early in 2017 at the latest. The continuously low interest rate environment continues to reduce the urgency to “lock in” rates with long term financing.
- Bank lenders continue to focus on relationship banking, corporate borrowers’ lines of credit and areas where they have a competitive advantage like operating business needs including payroll and checking accounts. Due to regulatory scrutiny, banks continue to be selective in making new loans and are very selective in new leverage transactions.
- The non-bank BDC lenders, due to their problems in attracting new funding, have reduced their participation in the leveraged loan market and have become more conservative in their lending practices.

Interest Rate Environment

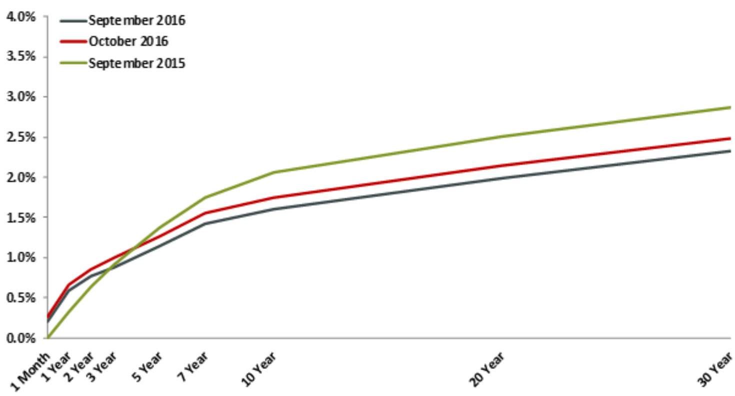
- At the end of 3Q16, one month and three month LIBOR were up over the rates at the end of 2015. Three month LIBOR was 25 basis points higher than the rate at the end of 2015 perhaps reflecting the market’s anticipation of a rate increase later this year.
- The September 30, 2016 yields of the five and ten year U.S. Treasuries, the long end of the yield curve, are down 23 and 46 basis points respectively from the end of the third quarter in 2015, reflecting the “flight to safety” provided by U.S. Treasuries in the face of the slowing global economy and the Brexit uncertainty. However, these same rates have trended higher since the end of 3Q16 reflecting emerging inflation concerns and the increased certainty of a Fed rate increase.

Key Interest Rates

	9/30/2015	9/30/2016	10/14/2016
Prime Rate	3.25%	3.50%	3.50%
Libor - 1 Month	0.19%	0.53%	0.54%
Libor - 3 Month	0.33%	0.85%	0.88%
U.S. Treasury - 2 Year	0.64%	0.77%	0.84%
U.S. Treasury - 5 Year	1.37%	1.14%	1.28%
U.S. Treasury - 10 Year	2.06%	1.60%	1.80%

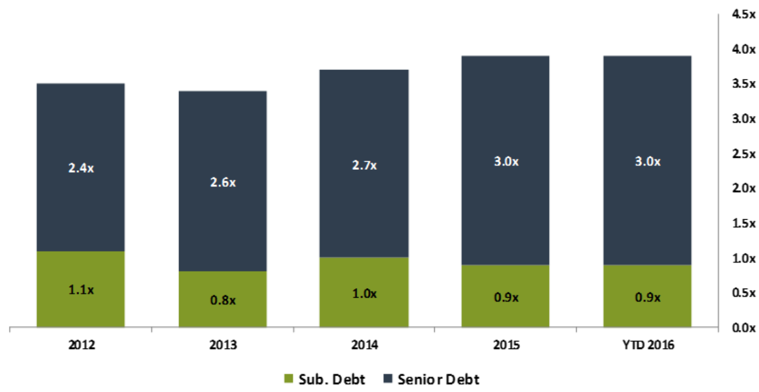
Source: Capital IQ

Yield Curves – U.S. Treasuries



Source: Capital IQ

Senior Debt and Sub. Debt / EBITDA – EV of $10-250 Million
2012 to YTD 2016



Source: GF Data

- The unemployment rate stabilized slightly below 5% and the improving monthly new job numbers are positive signs in the slow growth economy. However, wage growth and the labor participation rates still cause concerns and reflect economic softness.
- Low LIBOR base rates coupled with stable-to-narrowing lending spreads make this an attractive market for borrowers.

Middle Market Debt Multiples

- Total acquisition debt leverage levels have remained just under 4x during the first half of 2016 sustaining the leverage multiple observed in 2015. Market tolerance for higher leverage in the middle market has remained muted since the recession.
- As stated earlier, the use of senior and mezzanine debt was reduced during 2016 but the total leverage of 3.9x is still within the market "norm." This reflects continued conservatism in leverage tolerance since the recession ended in 2009.
- The use of debt leverage helps sustain high middle market M&A valuations which means that M&A valuations may face downward pressure if leverage decreases from these levels.
- Bank lenders continue to maintain credit discipline largely to satisfy their regulators. The regulators limit the amount of HLT ("Highly Leveraged Transactions") exposure that a bank can hold. Bank provided senior credit facilities remain at the relatively conservative 3.0x EBITDA senior debt ratio, so the slight decrease in the use of senior debt is likely due to less aggressive BDC lenders.

Financing Pricing

Bank Financing	Upfront Fees	LIBOR Spread
Asset Based Loans	25-50 bps	150-200 bps
Cash Flow Loans		
EBITDA less than $10M		
Unleveraged Loans	0-50 bps	150-250 bps
Leveraged Loans	75-150 bps	300-425 bps
Cash Flow Loans		
EBITDA more than $10M:		
Unleveraged Loans	0-50 bps	150-250 bps
Leveraged Loans	100-150 bps	350-475 bps
Mezzanine Debt	**<$10M EBITDA**	**> $10M EBITDA**
Upfront Fees	2.00%	2.00%
Current Pay Coupon	11.00%-13.00%	10.00%-12.00%
Payment-in-Kind (PIK) Interest	0.00%-3.00%	0.00%-2.00%
All in IRRs	14.00%-17.00%	10.00%-13.00%

Source: Pricing is based on guidance provided by a number of commercial and mezzanine lenders

Note: Warrants and other yield enhancements comprise the incremental return required to meet the all-in internal rate of return ("IRR").

Prairie Capital Advisors, Inc. is an employee owned company offering investment banking, ESOP advisory and valuation services to support the growth and ownership transition strategies of middle-market companies. Since 1996, we have led hundreds of sale, merger, acquisition, ESOP and financing transactions for our clients.

prairie capital advisors, inc. an employee owned company

SELECT RECENT M&A TRANSACTION EXPERIENCE

M&A Advisory	M&A Advisory	M&A Advisory
DIEDRICH DRILL	TELESCOOP INC.	CLC / ABC Arrow Building Center
acquired by	*acquired by*	*acquired by*
CAPE KAURI PARTNERS, LLC	Meyer	AIGLON CAPITAL MANAGEMENT
Advisor to the Seller	Advisor to the Seller	Advisor to the Seller

TRANSACTION HIGHLIGHT

M&A Advisory

DOOR ENGINEERING AND MANUFACTURING

A Portfolio Company of

The Mendota Group

acquired by

SENNECA HOLDINGS

Advisor to the Seller

About Door Engineering and Manufacturing, LLC

Headquartered in Kasota, Minnesota, Door Engineering designs and manufactures customized industrial, commercial, aviation and specialty doors. With over 10,000 door systems installed worldwide, Door Engineering's door systems are built for not only long-lasting durability but also for low maintenance, speed and safety.

CONTACTS

Terrel Bressler
Managing Director
312.348.1323
tbressler@prairiecap.com

Robert Auer
Managing Director
630.413.5583
rauer@prairiecap.com

Timothy Witt
Managing Director
630.413.5593
tim.witt@prairiecap.com

Anthony Dolan
Director
630.413.5587
adolan@prairiecap.com

Oakbrook Terrace
One Mid America
Plaza, Suite 1000
Oakbrook Terrace, IL
630.413.5565

Atlanta
3715 Northside Pkwy
Bldg 200, Suite 675
Atlanta, GA
404.809.2440

Boston
225 Franklin Street,
Suite 2600
Boston, MA
617.758.1001

Cedar Rapids
425 2nd Street SE
Suite 1225
Cedar Rapids, IA
319.364.0315

Chicago
311 S. Wacker Drive
Suite 2370
Chicago, IL
312.348.1323

Louisville
312 S. 4th Street,
Suite 700
Louisville, KY
502.915.2120

Philadelphia
100 N. 18th Street
Suite 300
Philadelphia, PA
215.246.0269