M&A Insight
Mergers, acquisitions, divestitures and valuations for middle-market companies

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**GLOBAL M&A MARKET COMMENTARY**

**HISTORICAL ANNUAL M&A ACTIVITY**

Total M&A deal counts involving targets based in the U.S., Europe and Asia Pacific increased 7.5% year-over-year in 2019. Despite the increase in volume, total announced deal value declined by 10.4%. In the U.S., Europe and Asia Pacific total disclosed deal value decreased approximately 2.2%, 19.8% and 18.1%, respectively, from 2018 to 2019.

Sequential quarter-over-quarter M&A announced deal value increased 22.3% in 4Q19 driven by an uptick in U.S. strategic mega-mergers announced during the quarter as compared to 3Q19. Despite the significant increase in announced value, total deal volume grew a modest 1.1%, sequentially.

**GLOBAL PUBLIC EQUITIES**

Global equity indices displayed positive returns during the fourth quarter of 2019 influenced by an improved economic outlook and alleviated trade tensions. U.S. equity indices soared with the NASDAQ and S&P increasing 15.3% and 11.9%, respectively. European and Asia equities also followed an upward trend with mid-single digit to low double-digit growth during the quarter.

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(1) Source: FactSet; Number of transactions includes those with undisclosed values; Includes transactions with disclosed values over $10MM.

(2) Source: Capital IQ.
U.S. PRIVATE EQUITY COMMENTARY

U.S. private equity activity slowed down in comparison to 2018 with approximately 4,500 transactions closing in 2019, a 16.5% year-over-year decline. Total capital invested followed a similar downward trend of approximately 14.1%, when compared to 2018, with a total of $627.3 billion being deployed during the year. In addition, approximately 672 private equity transactions with an estimated aggregate deal value of approximately $50.6 billion have been announced but have not yet closed, signaling a healthy near-term backlog of private equity-backed closings.

Middle market companies continue to benefit from ready access to debt capital with median leverage multiples reaching approximately 5.4x in 2019. Debt availability, including via private lenders, continues to be conducive to private equity activity. Significant dry powder, within both equity and debt funds, buoys the landscape for continued M&A activity by financial sponsors.

U.S. MIDDLE MARKET LBO DEBT MULTIPLEs(2)

U.S. CORPORATE FINANCE COMMENTARY

U.S. real GDP growth, historically an accurate indicator of M&A activity, is estimated to have risen at an annualized pace of 2.1% in 4Q19 – an increase from the 1.1% experienced in 4Q18. GDP growth for 3Q19 was revised upwards from 1.9% to 2.1%. In 4Q19, real GDP growth was driven by positive contributions from personal consumption expenditures, residential fixed investment, government spending and net exports were partly offset by negative contributions from private inventory investment and nonresidential fixed investment.

Although credit spreads rose throughout 2018, the M&A financing environment improved in 2019 due to three federal rate cuts. The average size of disclosed M&A transactions in the U.S. increased over 19% to approximately $940 million, in comparison to the $785 million experienced in 2018. A healthy overall economy, access to debt and equity capital, a lower interest rate environment and positive impacts from the favorable tax reform continue to bolster interest for strategic mergers over the near-term.

(1) Source: PitchBook.
(2) S&P LCD Report.
(3) Source: Bureau of Economic Analysis and Factset; GDP growth based on year 2012 dollars.
(4) Source: St. Louis Fed.
M&A MARKET STATISTICS

CONSIDERATION OFFERED IN U.S. M&A TRANSACTIONS\(^{(1)}\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Combination</th>
<th>Stock</th>
<th>Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>4Q17</td>
<td>76%</td>
<td>16%</td>
<td>8%</td>
</tr>
<tr>
<td>1Q18</td>
<td>77%</td>
<td>13%</td>
<td>10%</td>
</tr>
<tr>
<td>2Q18</td>
<td>73%</td>
<td>18%</td>
<td>9%</td>
</tr>
<tr>
<td>3Q18</td>
<td>77%</td>
<td>18%</td>
<td>7%</td>
</tr>
<tr>
<td>4Q18</td>
<td>74%</td>
<td>17%</td>
<td>8%</td>
</tr>
<tr>
<td>1Q19</td>
<td>75%</td>
<td>15%</td>
<td>9%</td>
</tr>
<tr>
<td>2Q19</td>
<td>77%</td>
<td>23%</td>
<td>17%</td>
</tr>
<tr>
<td>3Q19</td>
<td>68%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4Q19</td>
<td>74%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

U.S. MEDIAN QUARTERLY EBITDA MULTIPLES\(^{(1)}\)(\(^{(2)}\))

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Median EBITDA Multiples</th>
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<tbody>
<tr>
<td>4Q17</td>
<td>4.0x</td>
</tr>
<tr>
<td>1Q18</td>
<td>2.0x</td>
</tr>
<tr>
<td>2Q18</td>
<td>4.0x</td>
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<tr>
<td>3Q18</td>
<td>6.0x</td>
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<tr>
<td>4Q18</td>
<td>8.0x</td>
</tr>
<tr>
<td>1Q19</td>
<td>10.0x</td>
</tr>
<tr>
<td>2Q19</td>
<td>12.0x</td>
</tr>
<tr>
<td>3Q19</td>
<td>10.0x</td>
</tr>
<tr>
<td>4Q19</td>
<td>12.0x</td>
</tr>
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AVERAGE SIZE OF U.S. M&A TRANSACTIONS\(^{(1)}\)(\(^{(3)}\))

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Disclosed Value ($MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$385</td>
</tr>
<tr>
<td>2013</td>
<td>$512</td>
</tr>
<tr>
<td>2014</td>
<td>$613</td>
</tr>
<tr>
<td>2015</td>
<td>$777</td>
</tr>
<tr>
<td>2016</td>
<td>$774</td>
</tr>
<tr>
<td>2017</td>
<td>$785</td>
</tr>
<tr>
<td>2018</td>
<td>$940</td>
</tr>
<tr>
<td>2019</td>
<td>$301</td>
</tr>
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</table>

U.S. PRIVATE EQUITY FUNDRAISING\(^{(4)}\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital Raised ($B)</th>
<th># of Funds Closed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$78.4B</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>$37.0B</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>$208.4B</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>$15.2B</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>$182.2B</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>$36.3B</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>$78.4B</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>$301</td>
<td></td>
</tr>
</tbody>
</table>

CROSS BORDER M&A DEAL ACTIVITY – 2019\(^{(1)}\)(\(^{(5)}\))

- United States: $208.4B
- Europe: $36.3B
- Asia Pacific: $182.2B

(1) Source: FactSet.
(2) Source: Capital IQ.
(3) Includes transactions with disclosed values over $10MM.
(4) Source: PitchBook.
(5) Includes all announced transactions from 1/1/2019 to 12/31/2019.
U.S. ECONOMIC COMMENTARY
Scott J. Brown, Ph.D. | January 24th, 2020

- Consumer spending growth has been supported by job gains and wage growth. However, real (inflation-adjusted) earnings have slowed toward the end of 2019, as gasoline prices are no longer falling. The December retail sales results, while moderate, suggest a moderation in consumer spending growth in 4Q19. Ex-motor vehicles, building materials, and gasoline, sales rose 0.4%, following three consecutive monthly declines – down at a 0.2% annual rate in 4Q19, vs. +6.3% in 3Q19. It’s not unusual for consumer spending growth to be uneven from month to month or quarter to quarter. Soft spending growth in 4Q18 and 1Q19 was followed by strong growth in 2019 and 3Q19. Core retail sales rose 4.3% y/y in 4Q19 (vs. +3.8% y/y in 4Q18).

The labor market remains tight. Growth in private-sector nonfarm payrolls picked up to a 182,000 monthly pace in 4Q19, but slowed for the year as a whole: 1.98 million, vs 2.58 million in 2018. However, the 2018 job growth figure will be revised down by about 0.5 million in annual benchmark revisions (coming in early February). The employment/population ratio for prime-age workers (aged 25-54) rose to 80.4% in December, the highest since the start of the 2001 recession. We need less than 100,000 net new jobs per month to absorb new entrants into the workforce. We’ve been running well ahead of that in recent years as slack in the job market has been reduced. Temporary hiring for the decennial census will distort the monthly payroll figures this year (investors should focus on the private-sector payrolls instead), but the pace should continue to slow. About 500,000 workers are expected to be added through May, although these jobs will quickly disappear. With tight labor market conditions, hiring is likely to prove challenging for the census, and there already reports of higher wages.

Business fixed investment was restrained in 2019 by slower global growth, trade policy uncertainty, a decrease in energy exploration (which is capital-intensive), and problems at Boeing. Despite the grounding of the Boeing 737-Max, production of components, such as bodies and cockpits, continued in 2019. However, production has now been halted, which will dampen GDP growth in 1Q20, mostly through slower inventory growth. Moreover, there is limited scope for a quick turnaround in production in the second half of the year.

Global growth is expected to improve in 2020. In the latest update to its World Economic Outlook (“Tentative Stabilization, Sluggish Recovery?”), the IMF expects world output to grow 3.3% in 2020 and 3.4% in 2021 (following 2.9% in 2019). However, that outlook was a bit slower than in projections made in October. Risks to global growth remain weighted predominately to the downside, but appear less worrisome than a few months ago. Signs of stabilization may continue, helping to lift business spending. However, trade tensions remain elevated. Emerging-market economies have been especially sensitive to U.S. monetary policy. The Fed’s three rate cuts in 2019 should be supportive for these economies, although one needs to consider the situation country by country.

The Phase 1 trade deal between the U.S. and China helps remove some uncertainty. Tariffs are a tax paid by U.S. consumers and businesses, not China. Tariffs raise costs, disrupt supply chains, invite retaliation, and undermine business fixed investment. Tariffs had a dampening impact on U.S. growth in 2019 and a further increase in tariffs would have dampened U.S. growth further. However, while the agreement does not impose the final round of tariffs on Chinese goods (mostly consumer goods), it leaves the earlier tariffs in place (oddly, the 94-page document did not even include the word “tariffs”). China could boost imports from the U.S. by decreasing imports from other countries, but Chinese import goals appear unrealistically high. The agreement emphasizes managed trade, which is likely to be problematic. Tougher enforcement mechanism will be in place, but much will depend on who wins the White House in November. If Trump is reelected, we can expect a further hardline stance on China in 2021.

China’s problems go well beyond trade issues with the U.S. Unlike previous decades, when growth was driven by exports and infrastructure investment, Chinese growth over the last ten years has been fueled more by debt. There has also been a shift away from free-market enterprises to state-owned enterprises. The Wuhan coronavirus is a wildcard, which may dampen activity in the important lunar new year celebrations, or spread more widely given the seasonal surge in travel (hundreds of millions of Chinese people travel during the extended holiday).

Impeachment proceedings have had little impact on consumer confidence or the financial markets. That may change, but there is a strong belief that we won’t see the two-thirds majority needed in the Senate to remove President Trump from office (20 Republican senators would have to cross party lines). The impeachment trial may hamper legislative progress, but not much happens in an election year anyway.

Both parties agree that the federal budget deficit, now above $1 trillion, is a primary concern, but are split on what to do about it. Democrats would raise taxes on the wealthy; Republicans would reform Social Security and Medicare. The government currently has little problem borrowing, and that borrowing does not appear to have crowded out private borrowing. Interest rates remain relatively low.

Perhaps the biggest concern is that leaders in Washington will get religion on the debt at precisely the wrong time. That is, the deficit would rise sharply in a recession, leading lawmakers to do something about that – raising taxes or cutting spending – which would make the recovery worse and restrain the recovery (and efforts to reduce the deficit would be self-defeating).

Debt doesn’t matter until it does. That is, high levels of consumer or business debt are not a catalyst for economic weakness, but high debt becomes more meaningful during an economic downturn. Consumer debt levels currently appear manageable. According to the Fed’s Financial Stability Report, “yields on corporate bonds are also very low, in line with very low Treasury yields.” However, “the spread between yields on investment-grade corporate bonds and yields on Treasury securities is close to its long-run median.” In contrast, “the spread between yields on high-yield corporate bonds and yields on Treasury securities is narrower than its long-run median.”

Despite a tight labor market, inflation has remained low. The Fed has consistently undershot its 2% inflation goal (as measured by the PCE Price Index). There has been some debate about the Phillips curve, which describes the trade-off between low unemployment and higher inflation. The consensus view among economists is that the curve is likely flatter than in the past, but begins to steepen when the unemployment rate falls more than enough to dampen the pace of growth in the first half of 2019. The three rate cuts last year were viewed as insurance against downside economic risks in 2020.

During late 2018, the Fed had been in the process of normalizing monetary policy, moving short-term interest rates gradually toward a neutral level. Following the December 2018 rate increase, the Fed still saw monetary policy as accommodative (the federal funds target rate was near the bottom of the range of estimates of “neutral”). However, slower global growth and trade policy uncertainty were seen as dampening the pace of growth in the first half of 2019. The three rate cuts last year were viewed as insurance against downside economic risks in 2020.

Following the December 2019 policy meeting, the FOMC indicated that “the current stance of monetary policy is appropriate to support sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee’s symmetric 2 percent objective.” In his post-FOMC press conference, Chair Powell noted that “of course, if developments emerge that cause a material reassessment of our outlook, we would respond accordingly – policy is not on a preset course.”

The slope of the yield curve currently suggests about a 25% chance of entering a recession in the next 12 months. That’s down from 40% in August, but still relatively high by historical standards. The Conference Board’s Index of Leading Economic Indicators fell 0.3% in December, partly reflecting a seasonal adjustment quirk in jobless claims (which will unwind in January). However, even accounting for that quirk, the LEI has been trending lower – down in four of the last five months – although the pace of decline has been relatively shallow. The three-month average of the Chicago Fed National Activity Index, a composite of 85 economic indicators, has remained below zero – consistent with below-trend growth in the near term. Manufacturing output has been soft, but is not falling sharply (as one would see in a recession).

The economy is expected to expand at a lackluster-to-moderate pace in the near term, partly reflecting the impact of the Boeing production halt. Trade policy uncertainty has ebbed somewhat, but has not gone away. Tensions with China may remain in 2021 and Trump’s attention has recently turned to Europe. Global growth is expected to improve, but downside risks remain (although not as severe). Fed policy is on hold for the foreseeable future.
Raymond James Investment Banking recognized with three "Deal of the Year" awards by M&A Advisor

ST. PETERSBURG, Fla. – Raymond James Investment Banking was recognized with top honors in the 18th annual M&A Advisor Awards. The awards were presented at a ceremony held during the 2019 M&A Advisor Summit on November 19 in New York.

This year, the Raymond James Technology & Services and Real Estate teams were recognized with three deal of the year awards.

1. **Corporate/Strategic Deal of the Year (OVER $5B):** Merger of Pebblebrook Hotel Trust with LaSalle Hotel Properties completed by Brad Butcher and Preston Puryear from Real Estate group.

2. **Private Equity Deal of the Year (OVER $1B):** Acquisition of Millennium Trust Company by Abry Partners completed by Brendan Ryan, Garrett DeNinno and Graham Hurtt from the Technology and Services group, along with Richard Durkes from the Financial Services group.

3. **Technology deal of the Year ($500MM-$1B):** Majority investment in Invoice Cloud from General Atlantic completed by Jon Steele, Christian Clifford and Paul Fricilone from the Technology and Services group.

“This recognition is a testament to the strength of our teams and the results we deliver for our clients,” said Jim Bunn, president of Global Equities & Investment Banking at Raymond James. “The M&A Advisor awards some of the very best in the industry, and we are honored to be recognized.”

The 18th Annual M&A Advisor Awards Gala honored the professionals whose activities set the standard for M&A transactions. This year, over 200 nominees, representing over 500 companies, became finalists for the awards. An independent judging committee of 28 top M&A industry experts determined the ultimate recipients of the awards.

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President, Global Equities and Investment Banking
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Sources of data include FactSet, Capital IQ, PitchBook and other news organizations. Information obtained from third-party sources is considered reliable, but we do not guarantee that the information herein is accurate or complete. This report was prepared within Raymond James’ Investment Banking Department and is for information purposes only. This report is not a product of Raymond James’ Research Department; recipients of this report should not interpret the information herein as sufficient grounds for any investment decision. The report shall not constitute an offer to sell or the solicitation of an offer to buy any of the securities mentioned herein; past performance does not guarantee future results.

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# RAYMOND JAMES RECENT ADVISORY TRANSACTIONS (10/1/19 – 12/31/19)

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>December</td>
<td><strong>CVC Capital Partners</strong> has entered into a definitive agreement to acquire webpros. A portfolio company of Oakley Capital</td>
</tr>
<tr>
<td>December</td>
<td><strong>PATHSTONE</strong> has sold a majority stake to LMP LOVELLE MANNICK PARTNERS.</td>
</tr>
<tr>
<td>December</td>
<td><strong>AIKARE</strong> has entered into a definitive agreement to sell a majority interest to amneal PHARMACEUTICALS.</td>
</tr>
<tr>
<td>December</td>
<td><strong>FEDNAT</strong> has acquired the homeowners’ insurance operations of 110 PROPERTY INSURANCE HOLIDAYS.</td>
</tr>
<tr>
<td>November</td>
<td><strong>PRIME</strong> has acquired <strong>RUNOVS CREDIT</strong>. A portfolio company of Frontenac.</td>
</tr>
<tr>
<td>November</td>
<td><strong>Desalitech</strong> has entered into a definitive agreement to be acquired by <strong>DUPONT</strong>.</td>
</tr>
<tr>
<td>November</td>
<td><strong>Pinnacle</strong> has been acquired by <strong>Arizona Federal</strong>.</td>
</tr>
<tr>
<td>November</td>
<td><strong>Fi360</strong> has been acquired by <strong>Broadridge</strong>. A portfolio company of <strong>BLUERPINT</strong>.</td>
</tr>
<tr>
<td>November</td>
<td><strong>JENSEN communities</strong> has been acquired by <strong>SUN COMMUNITIES, INC.</strong>.</td>
</tr>
<tr>
<td>November</td>
<td>** Shore COMMUNITY BANK** has been acquired by <strong>1 Constitution</strong>.</td>
</tr>
<tr>
<td>November</td>
<td><strong>Tri-County Financial Group, Inc.</strong> has acquired <strong>State Bank</strong>.</td>
</tr>
<tr>
<td>October</td>
<td><strong>VONQ</strong> has been acquired by <strong>CapitalD</strong>.</td>
</tr>
<tr>
<td>October</td>
<td><strong>FIRST</strong> has been acquired by <strong>Keypoint Intelligence</strong>.</td>
</tr>
<tr>
<td>October</td>
<td><strong>BUILDFAUX</strong> has been acquired by <strong>Verisk</strong>.</td>
</tr>
<tr>
<td>October</td>
<td><strong>CAPSTONE LOGISTICS</strong> has been acquired by <strong>PriorityExpress</strong>.</td>
</tr>
<tr>
<td>October</td>
<td><strong>BEST HOMETOWN BANCORP</strong> has entered into a definitive agreement to merge with <strong>National Bank</strong>.</td>
</tr>
<tr>
<td>October</td>
<td><strong>FRONTIER WATER SYSTEMS</strong> has received a majority investment from <strong>EVOQUA WATER TECHNOLOGIES</strong>.</td>
</tr>
<tr>
<td>October</td>
<td><strong>QUANTROS</strong> has divested its patient safety business to <strong>RLDatix</strong>.</td>
</tr>
</tbody>
</table>

Past performance is not indicative of future results.
RAYMOND JAMES RECENT CAPITAL MARKETS TRANSACTIONS (10/1/19 – 12/31/19)

December 2019
- Phreesia
  - $201,825,000
  - Follow-On Offering

December 2019
- Brigham Minerals
  - $288,965,000
  - Follow-On Offering

December 2019
- Arbor
  - $105,696,500
  - Follow-On Offering

December 2019
- Ryman
  - $293,320,000
  - Follow-On Offering

December 2019
- Everi
  - $129,375,000
  - Follow-On Offering

December 2019
- Dynatrace
  - $722,178,750
  - Follow-On Offering

December 2019
- Whitehorse Capital
  - $31,117,500
  - Follow-On Offering

December 2019
- FirstService
  - $200,262,500
  - Follow-On Offering

November 2019
- Alpine
  - $142,500,000
  - Initial Public Offering

November 2019
- SiTime
  - $64,285,000
  - Initial Public Offering

November 2019
- Safehold
  - $117,300,000
  - Follow-On Offering

November 2019
- Purple
  - $80,500,000
  - Follow-On Offering

November 2019
- Yeti
  - $333,500,000
  - Follow-On Offering

November 2019
- Metro
  - $1,063,750,000
  - Follow-On Offering

October 2019
- HBT Financial
  - $150,876,704
  - Initial Public Offering

October 2019
- City Office
  - $996,565,000
  - Follow-On Offering

October 2019
- Algonquin Power & Utilities Corp
  - $154,409,317
  - Follow-On Offering

October 2019
- Metro City Bank
  - $21,176,500
  - Follow-On Offering

Past performance is not indicative of future results.