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2018 Private Capital Markets Report

Craig R. Everett
Pepperdine University

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Craig R. Everett, PhD
Director, Pepperdine Private Capital Markets Project

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2018 PRIVATE CAPITAL MARKETS REPORT

Craig R. Everett, PhD

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TABLE OF CONTENTS

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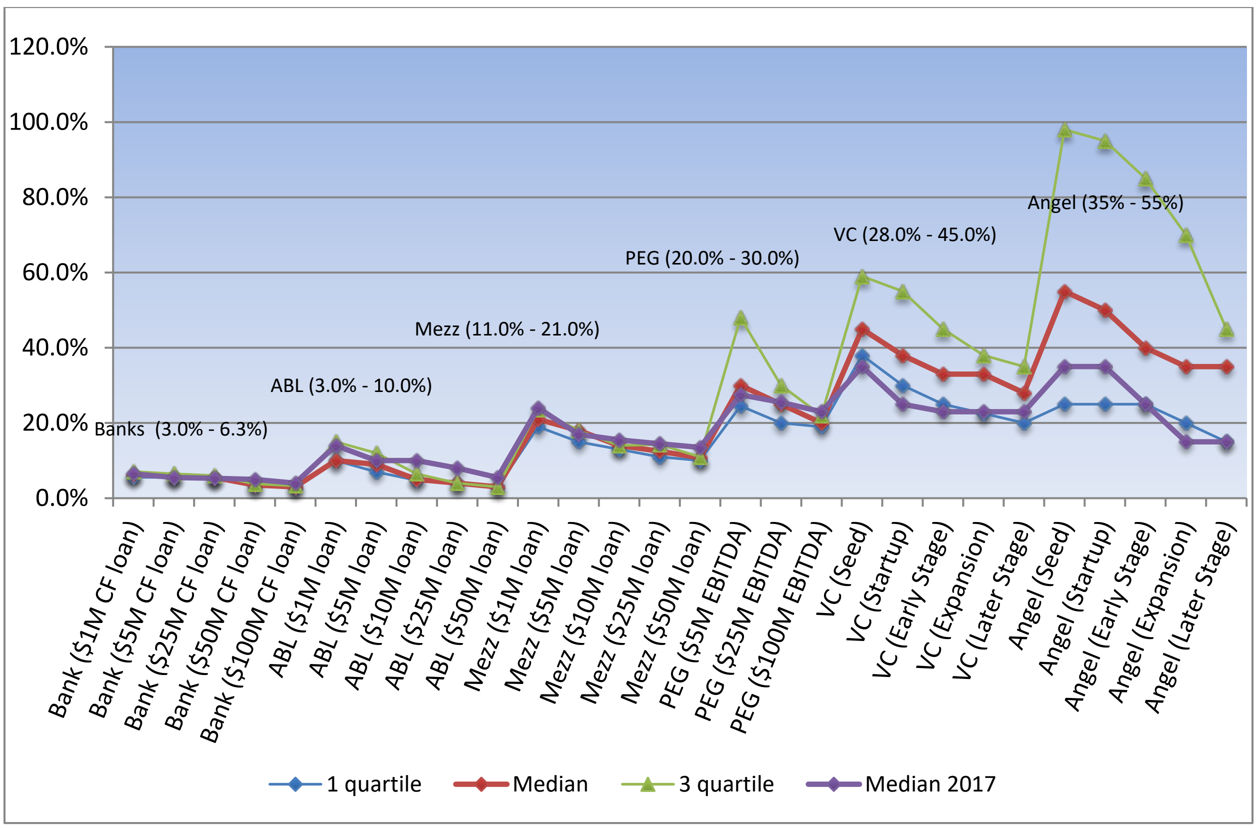
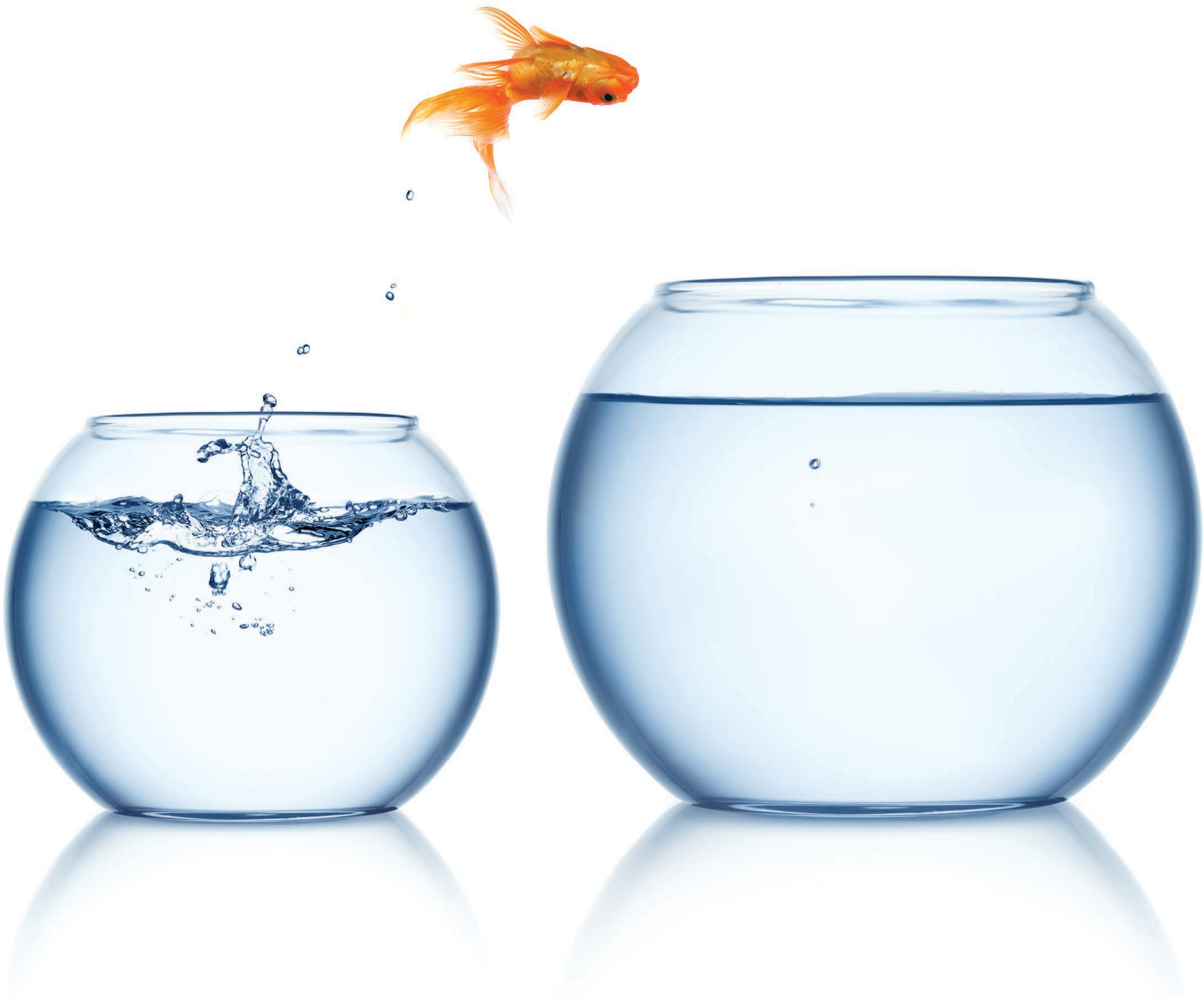
PEPPERDINE PRIVATE CAPITAL MARKETS SURVEY

The Pepperdine private cost of capital (PCOC) survey was originally launched in 2007 and is the first comprehensive and simultaneous investigation of the major private capital market segments. This year's survey was deployed in January 2017 and specifically examined the behavior of senior lenders, asset-based lenders, mezzanine funds, private equity groups, venture capital firms, angel investors, privately-held businesses, investment bankers, business brokers, limited partners, and business appraisers. The Pepperdine PCOC survey investigates, for each private capital market segment, the important benchmarks that must be met in order to qualify for each particular capital type, how much capital is typically accessible, what the required returns are for extending capital in today's economic environment, and outlooks on demand for various capital types, interest rates, and the economy in general.

Our findings indicate that the cost of capital for privately-held businesses varies significantly by capital type, size, and risk assumed. This relationship is depicted in the Pepperdine Private Capital Market Line, which appears below.

Figure 1. Private Capital Market Required Rates of Return





The cost of capital data presented below identifies medians, 25th percentiles (1st quartile), and 75th percentiles (3rd quartile) of annualized gross financing costs for each major capital type and its segments. The data reveal that loans have the lowest average rates while capital obtained from angels has the highest average rates. As the size of loan or investment increases, the cost of borrowing or financing from any of the following sources decreases.

Table 1. Private Capital Market Required Rates of Return

	1 quartile	Median	3 quartile
Bank ($1M CF loan)	5.6%	6.3%	7.1%
Bank ($5M CF loan)	5.5%	5.8%	6.5%
Bank ($10M CF loan)	5.5%	5.5%	6.0%
Bank ($25M CF loan)	3.3%	3.5%	3.8%
Bank ($50M CF loan)	2.9%	3.0%	3.3%
ABL ($1M loan)	10.0%	10.0%	15.0%
ABL ($5M loan)	7.0%	9.0%	12.0%
ABL ($10M loan)	4.8%	5.0%	6.5%
ABL ($25M loan)	4.0%	4.0%	4.0%
ABL ($50M loan)	3.0%	3.0%	3.0%
Mezz ($1M loan)	19.0%	21.0%	23.5%
Mezz ($5M loan)	15.0%	18.0%	18.0%
Mezz ($10M loan)	13.0%	14.0%	14.0%
Mezz ($25M loan)	11.0%	12.5%	14.3%
Mezz ($50M loan)	10.0%	10.8%	11.0%
PEG ($5M EBITDA)	24.5%	30.0%	48.0%
PEG ($25M EBITDA)	20.0%	25.0%	30.0%
PEG ($100M EBITDA)	19.0%	20.0%	22.0%
VC (Seed)	38.0%	45.0%	59.0%
VC (Startup)	30.0%	38.0%	55.0%
VC (Early Stage)	25.0%	33.0%	45.0%
VC (Expansion)	22.5%	33.0%	38.0%
VC (Later Stage)	20.0%	28.0%	35.0%
Angel (Seed)	25.0%	55.0%	98.0%
Angel (Startup)	25.0%	50.0%	95.0%
Angel (Early Stage)	25.0%	40.0%	85.0%
Angel (Expansion)	20.0%	35.0%	70.0%
Angel (Later Stage)	15.0%	35.0%	45.0%

LIMITED PARTNER SURVEY INFORMATION

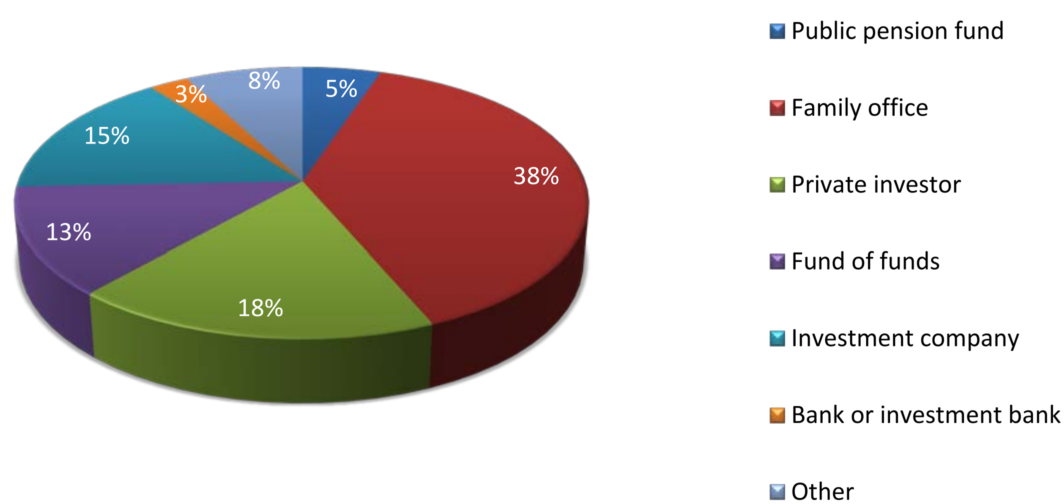
Approximately 38% of the 39 respondents in the limited partner survey reported direct real estate funds as being the best risk/return trade-off investment class and another 21% reported direct investments as being the best risk/return trade-off investment class. When asked about which industry currently offers the best risk/return trade-off, 25% of respondents reported financial services, followed by 15% reporting information technology.

- On average respondents target to allocate 27% of their assets to direct investments, 19% to buyout private equity and 16% to real estate funds. Respondents expect the highest returns of 14% from direct investments, 12% from buyout private equity, and 12% from growth private equity.
- Respondents indicated increased allocation to private equity and direct investments, and decreased allocation to all other alternative assets in the last twelve months. They also reported improved business conditions and increased expected returns on new investments.
- Respondents also expect further increases in allocation to private equity and direct investments, improving business conditions and increasing expected returns.

Operational and Assessment Characteristics

Approximately 38% of respondents indicated being family office followed by private investor (18%).

Figure 2. Entity Type



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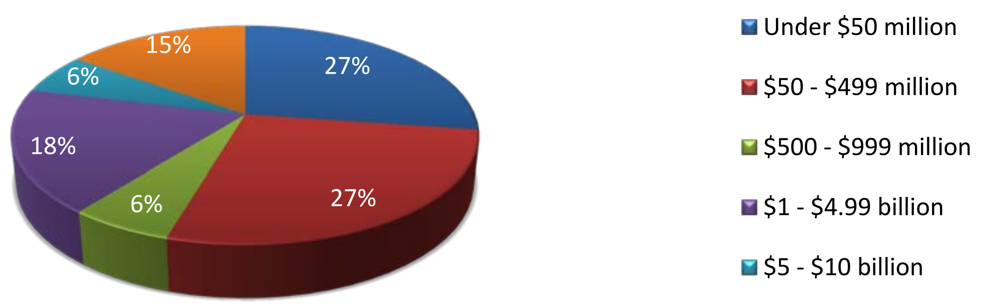
Approximately 27% of respondents reported their asset category being less than $50 million, while another 27% were between $50 million and $500 million.

Figure 3. Assets under Management or Investable Funds



Respondents reported on their % of total asset allocations for “Alternative Assets”.

Figure 4. Current Asset Allocation for "Alternative Assets" (% of total portfolio)

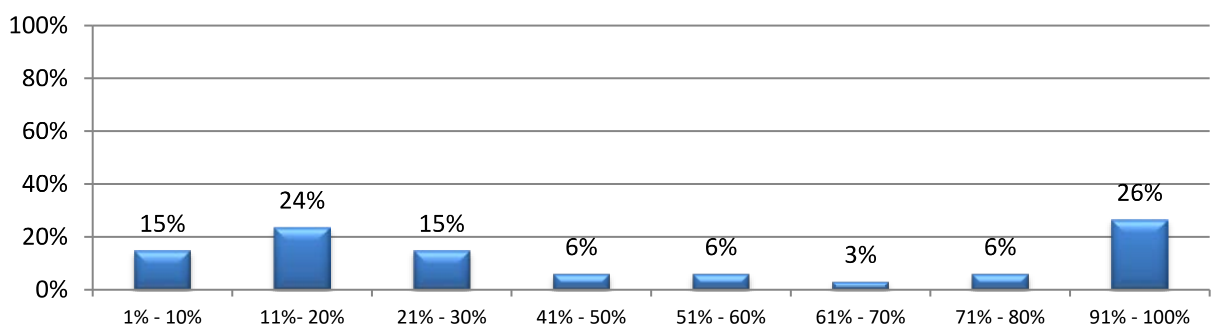
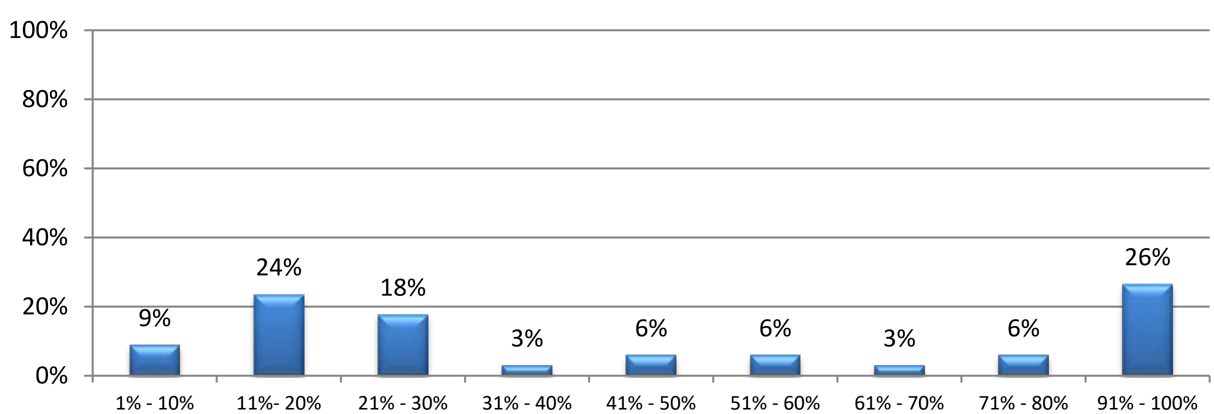


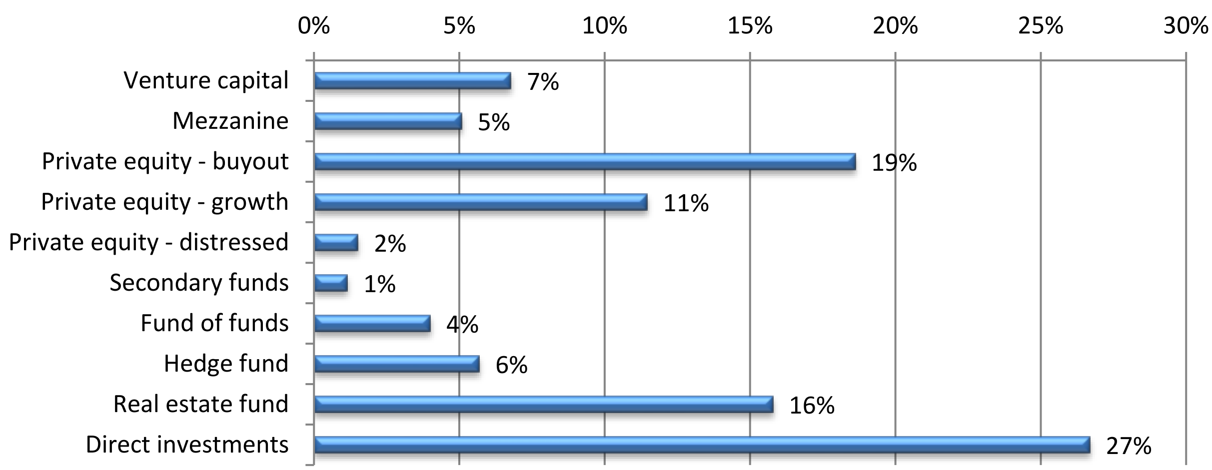
Figure 5. Target Asset Allocation for "Alternative Assets" (% of total portfolio)



LP cont.

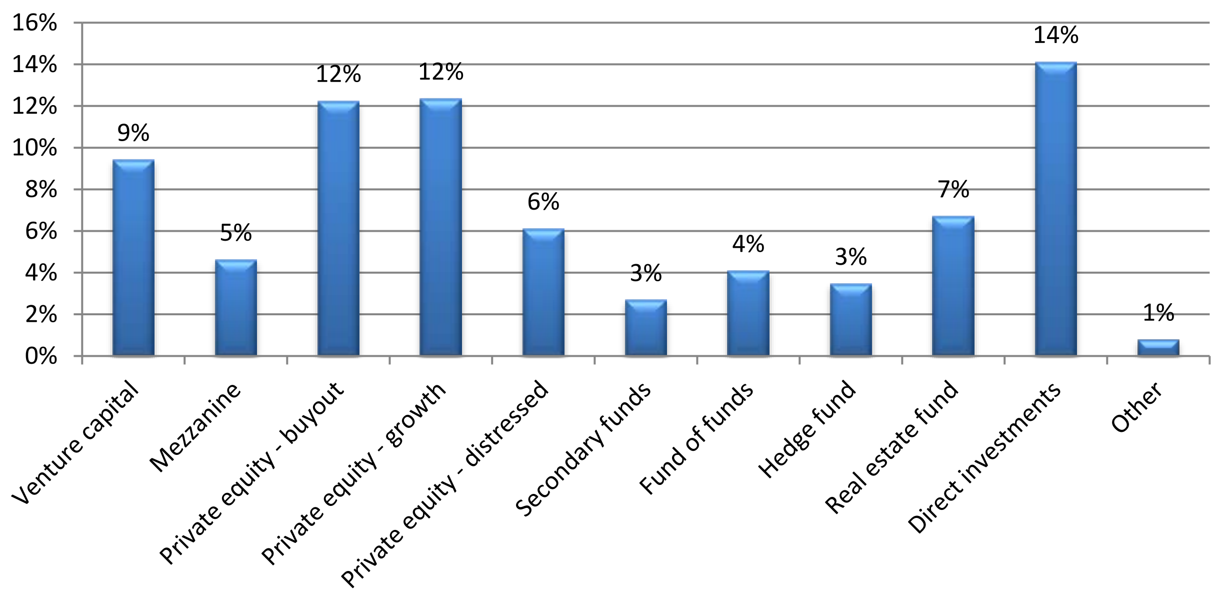
On average, respondents target to allocate 27% of their assets to direct investments, 19% to buyout private equity, and 16% to real estate funds.

Figure 6. Target Asset Allocation by Assets



On average, respondents expect the highest returns from investments in direct investments, and private equity.

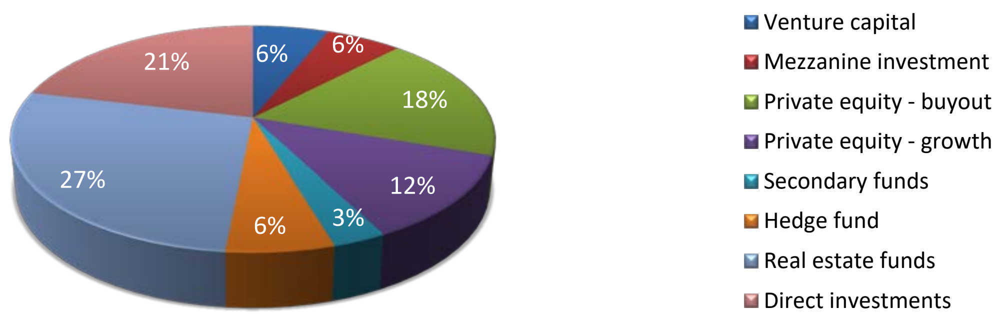
Figure 7. Annual Return Expectations for New Investments



LP cont.

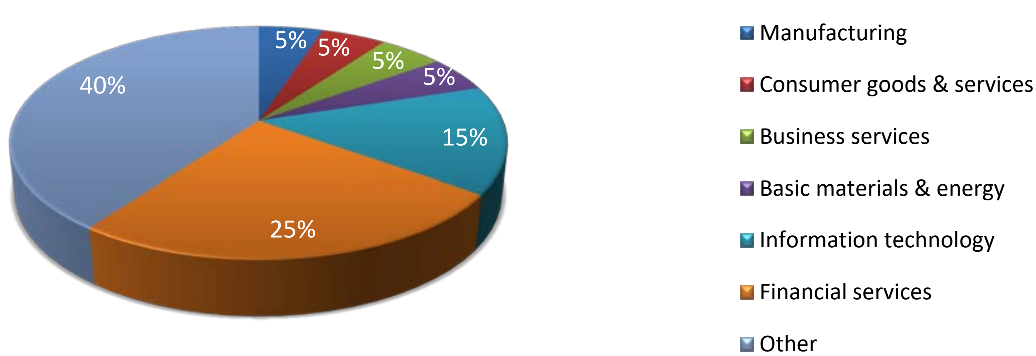
Approximately 27% of the 39 respondents in the limited partner survey reported real estate funds as being the best risk/return trade-off investment class and another 21% reported direct investments as being the best risk/return trade-off investment class.

Figure 8. Assets with the Best Risk/Return Trade-off Currently



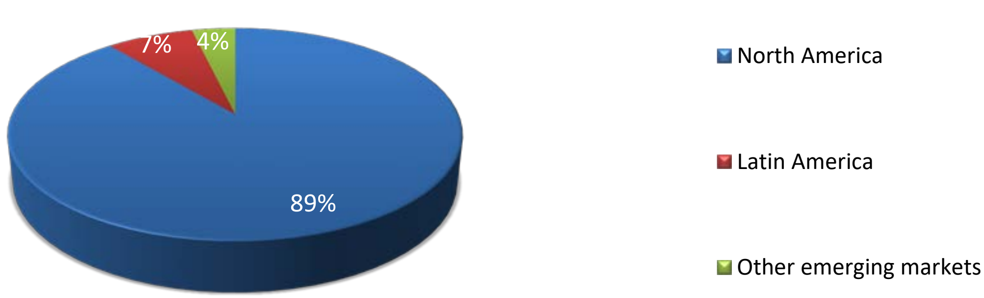
When asked about which industry currently offers the best risk/return trade-off, 25% of respondents reported financial services, followed by 15% reporting information technology.

Figure 9. Industry with the Best Risk/Return



With regard to the geographic regions with the best risk/return trade-offs, 89% of respondents reported North America.

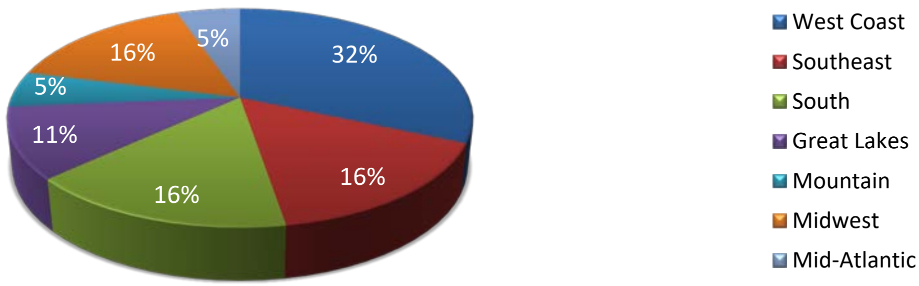
Figure 10. Geographic Regions of the World Offering the Best Risk/Return Tradeoff Currently



LP cont.

Regarding the geographic regions with the best risk/return trade-offs in the US, 32% of respondents reported West Coast, 16% reported Southeast and another 16% reported South.

Figure 60. Geographic Regions in the US Offering the Best Risk/Return Tradeoff Currently



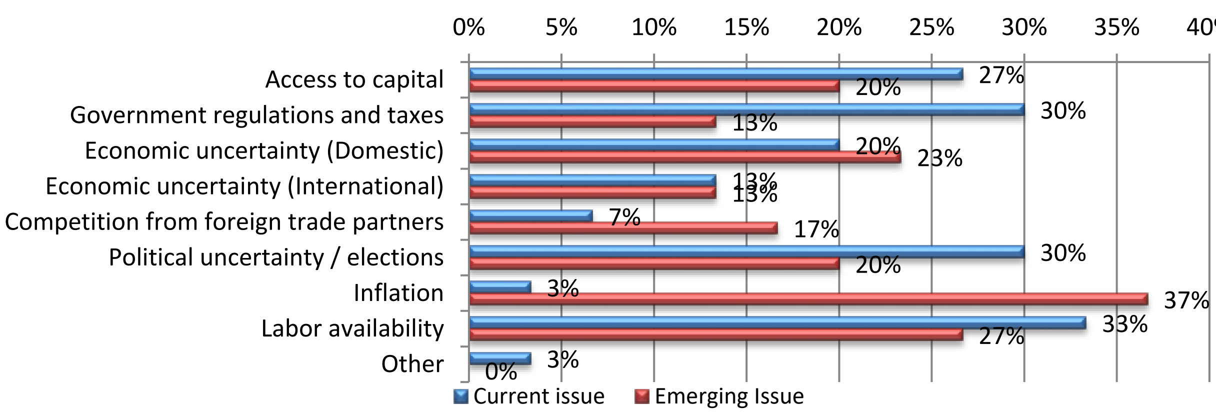
According to respondents, general partner and specific strategy are the most important factors when evaluating investment followed by historical fund performance on all funds.

Table 2. Importance of Factors When Evaluating

Characteristics	Unimportant	Of Little Importance	Moderately Important	Important	Very important	Score (1 to 5)
Historical fund performance on all funds	3%	10%	33%	37%	17%	**3.5**
Returned capital from most recent fund (Distribution to Paid-in or DPI)	0%	20%	20%	43%	17%	**3.6**
Residual value of most recent fund (Residual Value to Paid-in or RVPI)	0%	17%	27%	50%	7%	**3.5**
General partner	3%	7%	7%	17%	67%	**4.4**
Specific strategy	0%	0%	7%	48%	45%	**4.4**
Specific location	3%	23%	37%	20%	17%	**3.2**
Gut feel/instinct	13%	10%	40%	17%	20%	**3.2**
Other	25%	0%	0%	25%	50%	**3.8**

Respondents believe labor availability is the most important current issue facing privately-held businesses. Inflation will be the most important emerging issue.

Figure 11. Issues Facing Privately-Held Businesses



LP cont.

Respondents indicated increased allocation to private equity and direct investments, and decreased allocation to all other alternative assets in the last twelve months. They also reported improved business conditions and increased expected returns on new investments.

Table 3. General Business and Industry Assessment: Today versus 12 Months Ago

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	**Net increase**
Allocation to venture capital	10%	17%	62%	7%	3%	10%	28%	**-17%**
Allocation to private equity	3%	10%	59%	17%	10%	28%	14%	**14%**
Allocation to mezzanine	11%	4%	70%	11%	4%	15%	15%	**0%**
Allocation to hedge funds	10%	10%	69%	10%	0%	10%	21%	**-10%**
Allocation to secondary funds	7%	22%	63%	7%	0%	7%	30%	**-22%**
Allocation to real estate funds	3%	24%	55%	10%	7%	17%	28%	**-10%**
Direct investments	10%	3%	30%	43%	13%	57%	13%	**43%**
General business conditions	0%	10%	24%	59%	7%	66%	10%	**55%**
Expected returns on new capital deployed	0%	23%	40%	33%	3%	37%	23%	**13%**

Respondents reported that they expect further increases in allocation to private equity, hedge funds and direct investments, improving business conditions and increasing expected returns.

Table 4. General Business and Industry Assessment Expectations over the Next 12 Months

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	**Net increase/ decrease**
Allocation to venture capital	10%	10%	66%	10%	3%	14%	21%	**-7%**
Allocation to private equity	7%	3%	67%	17%	7%	23%	10%	**13%**
Allocation to mezzanine	11%	4%	70%	15%	0%	15%	15%	**0%**
Allocation to hedge funds	11%	0%	75%	14%	0%	14%	11%	**4%**
Allocation to secondary funds	11%	7%	71%	11%	0%	11%	18%	**-7%**
Allocation to real estate funds	7%	14%	62%	14%	3%	17%	21%	**-3%**
Direct investments	0%	10%	48%	31%	10%	41%	10%	**31%**
General business conditions	0%	17%	34%	41%	7%	48%	17%	**31%**
Expected returns on new capital deployed	3%	20%	33%	37%	7%	43%	23%	**20%**

BANK LENDING SURVEY INFORMATION

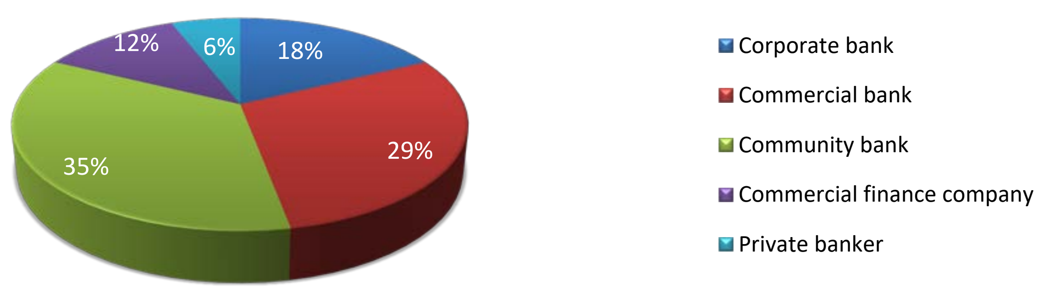
There were 17 responses to the bank lending survey. Over 64% of respondents believe that general business conditions will improve over the next 12 months and over 64% said demand for loans will increase. Other key findings include:

- Over the last twelve months respondents were seeing increased senior and leverage multiples, with increase in demand for business loans and improved general business conditions.
- Respondents also expect increases in demand for business loans, lending capacity of banks, improving general business conditions, total and leverage multiples, and further increase in interest rates.
- Currently, 45% of lenders see access to capital as the top issue facing privately-held businesses today, followed by government regulations and taxes (36%) and labor availability (36%).

Operational and Assessment Characteristics

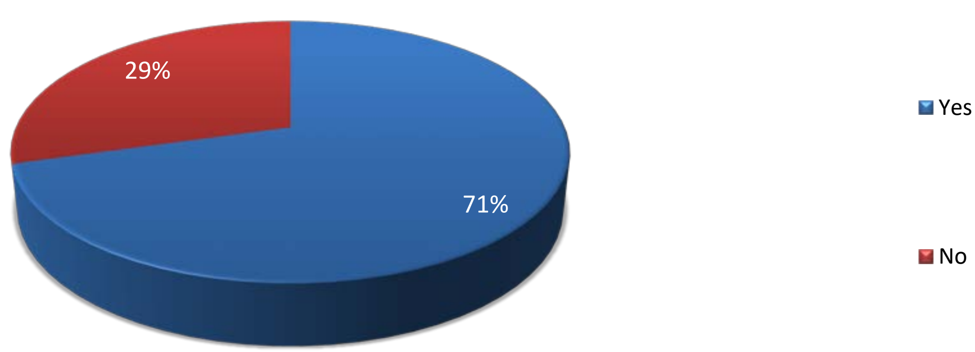
Respondents reported on the type of entity that best describes their lending function.

Figure 12. Description of Lending Entity



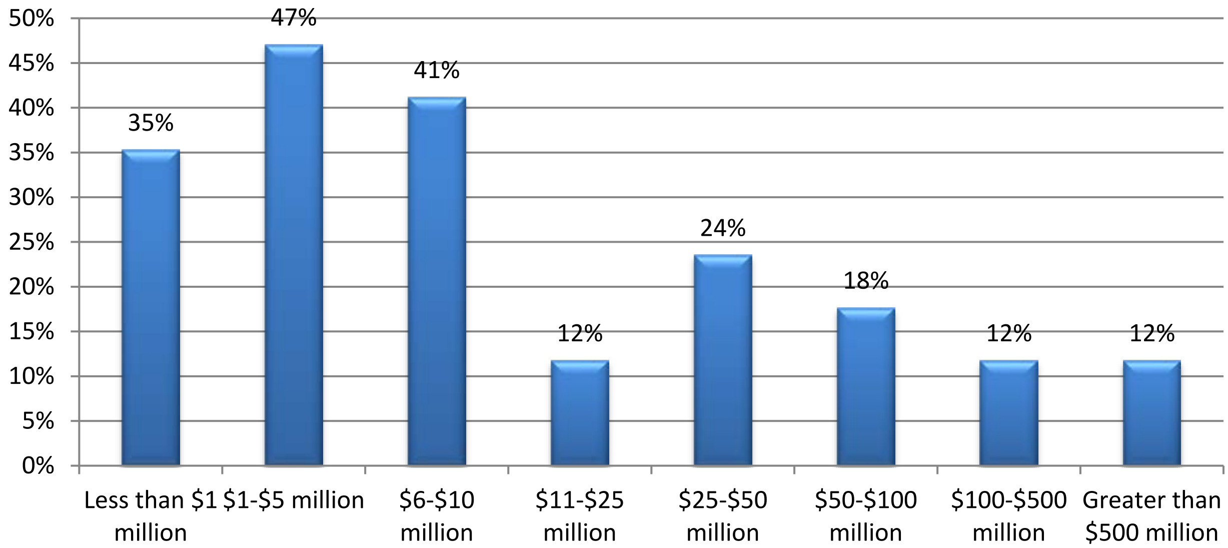
The majority (71%) report participating in government loan programs.

Figure 13. Participation in Government Loan Programs



The largest concentration of loan sizes was between $0 million and $10 million.

Figure 14. Typical Investment Size



Respondents reported on all-in rates for various industries and loan types.

Table 5. All-in Rates by Loan Size and Industry

Loan size	**Less than $1M**	**$1M - $4.99M**	**$5M - $9.99M**	**$10M- $49.99M**	**$50M- $99.99M**	**$100M+**
Manufacturing	5.5%	5.5%	5.5%	3.5%	3.0%	2.8%
Consumer goods and services	6.5%	5.8%	5.5%	3.5%	3.0%	2.8%
Wholesale & distribution	5.8%	5.5%	5.3%	3.5%	3.0%	2.8%
Business services	6.0%	5.8%	5.5%	3.5%	3.0%	2.8%
Basic materials & energy	6.0%	6.3%	5.5%	3.5%	3.0%	2.8%
Health care & biotech	6.5%	5.5%	5.0%	n/a	n/a	n/a
Information technology	6.5%	6.3%	5.5%	n/a	n/a	n/a
Financial services	6.5%	6.8%	5.8%	3.5%	3.0%	2.8%
Typical Fixed-Rate Loan Term (months)	36	60	60	60	60	72

Table 6. All-in Rates by Loan Type

Loan size	**$1M**	**$5M**	**$10M**	**$50M**	**$100M**	**$500M**
Cash flow loan	6.3%	5.8%	5.5%	3.5%	3.0%	2.8%
Working capital loan	6.5%	5.8%	5.5%	3.5%	3.5%	2.9%
Equipment loan	6.5%	6.0%	5.8%	4.0%	3.8%	3.3%
Real estate loan	5.5%	5.5%	5.5%	3.5%	3.3%	3.0%

BANKS cont.

Senior leverage multiples are reported below for the various industries and EBITDA sizes. Leverage multiples are up from last year.

Table 7. Senior Leverage Multiple by EBITDA Size

	$1M EBITDA	$5M EBITDA	$10M EBITDA	$25M EBITDA	$50M EBITDA	$50M+ EBITDA
Manufacturing	2.0	2.0	2.5	3.0	3.5	3.5
Construction & engineering	1.5	1.5	2.0	2.9	3.1	3.1
Consumer goods & services	2.5	2.5	2.8	3.3	3.5	3.5
Wholesale & distribution	1.5	2.0	2.6	3.1	3.1	3.5
Business services	2.6	2.8	2.9	3.0	3.1	3.1
Basic materials & energy	2.0	2.6	2.9	3.1	3.1	3.1
Healthcare & biotech	2.8	2.8	3.0	3.0	3.0	3.0
Information technology	2.0	2.0	2.3	2.3	2.3	2.3
Financial services	3.0	3.1	3.1	3.5	3.5	3.8
Media & entertainment	2.0	2.6	2.9	3.2	3.1	3.1
Total median	**2.0**	**2.6**	**2.8**	**3.1**	**3.1**	**3.1**

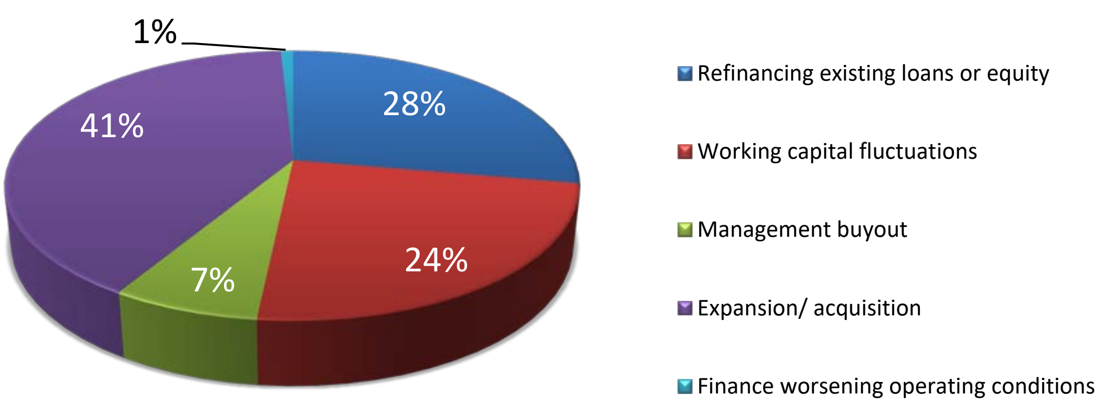
Various fees as reported by lenders are as follows.

Table 8. Fees Charged

	1st Quartile	**Median**	**3rd Quartile**
Closing fee	0.4%	0.5%	1.0%
Modification fee	0.2%	0.3%	0.5%
Commitment fee	0.4%	0.5%	0.8%
Underwriting fee	0.2%	0.2%	0.3%
Arrangement fee	0.1%	0.2%	0.2%
Prepayment penalty (yr 1)	3.0%	4.0%	5.0%
Prepayment penalty (yr 2)	2.3%	3.0%	3.8%
Unused line fee	0.2%	0.3%	0.5%

Expansion/acquisition was the most commonly described financing motivation at 41%, followed by refinancing at 28%.

Figure 15. Borrower Motivation to Secure Financing (past 12 months)



BANKS cont.

Total debt-service coverage ratio (or fixed charge coverage) was the most important factor when deciding whether to invest or not.

Table 9. Importance of Financial Evaluation Metrics

	Unimportant	Of little importance	Moderately important	Important	Very important	Socre (1 to 5)
Current ratio	0%	0%	67%	33%	0%	3.3
Senior DSCR or FCC ratio	0%	10%	20%	10%	60%	4.2
Total DSCR or FCC ratio	0%	13%	0%	38%	50%	4.3
Senior debt to cash flow	0%	11%	22%	33%	33%	3.9
Total debt to cash flow	11%	0%	33%	33%	22%	3.6
Debt to net worth	0%	10%	50%	20%	20%	3.5

Table 10. Financial Evaluation Metrics Average Data

	Average borrower data	Limit not to be exceeded
Current ratio	1.3	1.1
Senior DSCR or FCC ratio	1.2	1.1
Total DSCR or FCC ratio	1.2	1.1
Senior debt to cash flow	1.4	1.3
Total debt to cash flow	2.8	3.5
Debt to net worth	1.4	2.3

Respondents reported on the percentage of loans (by size) that require personal guarantee and collateral.

Table 11. Personal Guarantee and Collateral Percentage of Occurrence by Size of Loan (%)

	$1M loan	$5M loan	$10M loan	$25M loan	$50M loan	$100M loan	$500M loan
Personal guarantee	95%	95%	90%	45%	20%	0%	0%
Collateral	93%	95%	95%	95%	95%	90%	65%

Approximately 23% of cash flow applications were declined.

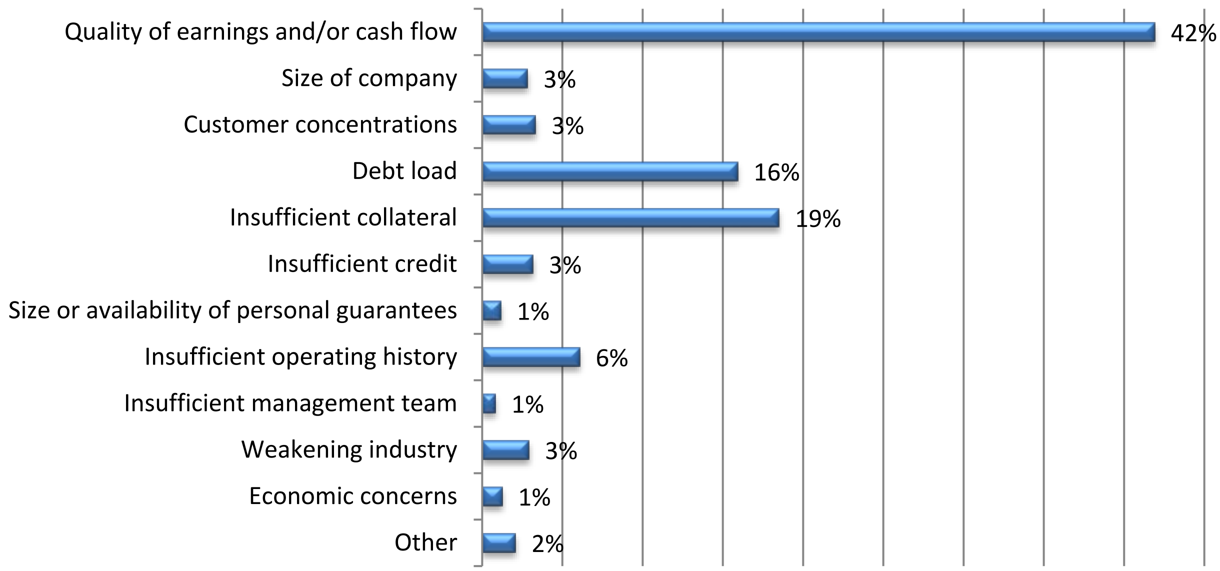
Table 12. Applications Data

	Reviewed	Offered	Booked	Declined
Cash flow based	441	39%	37%	23%
Collateral based	382	38%	30%	27%
Real estate	340	47%	34%	9%

BANKS cont.

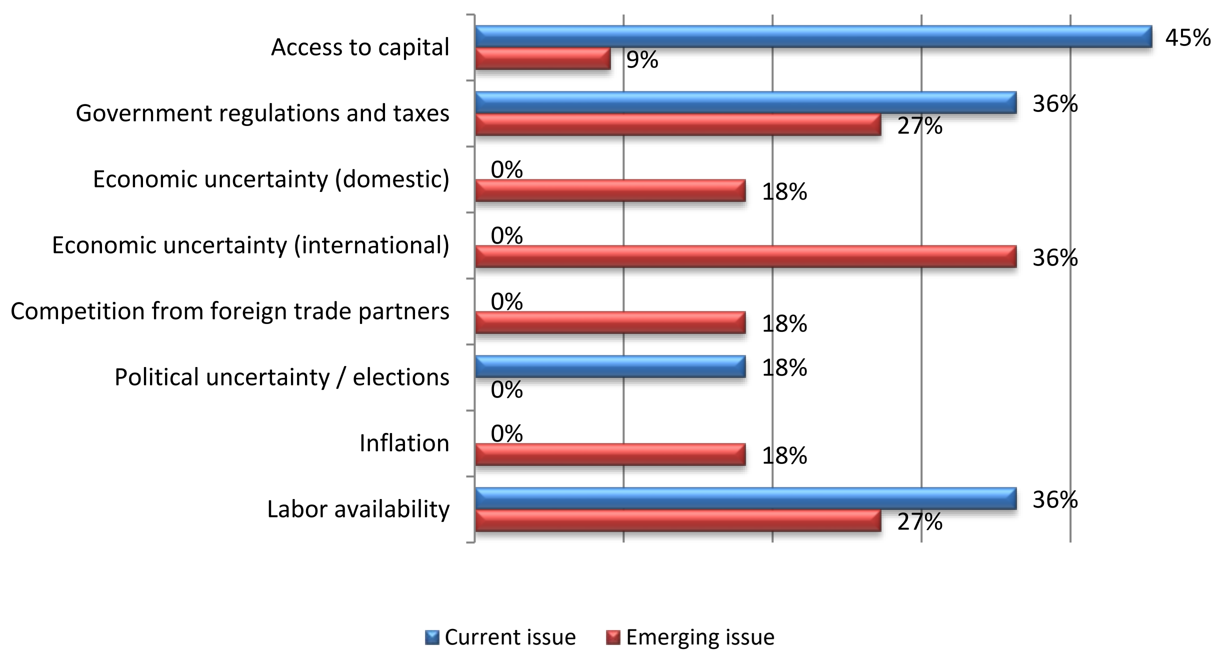
Approximately 42% of applications were declined due to poor quality of earnings and/or cash flow followed by 19% that were declined due to insufficient collateral.

Figure 33. Reason for Declined Loans



Respondents believe access to capital is the most important issue facing privately-held businesses today, followed by government regulations/taxes and labor availability.

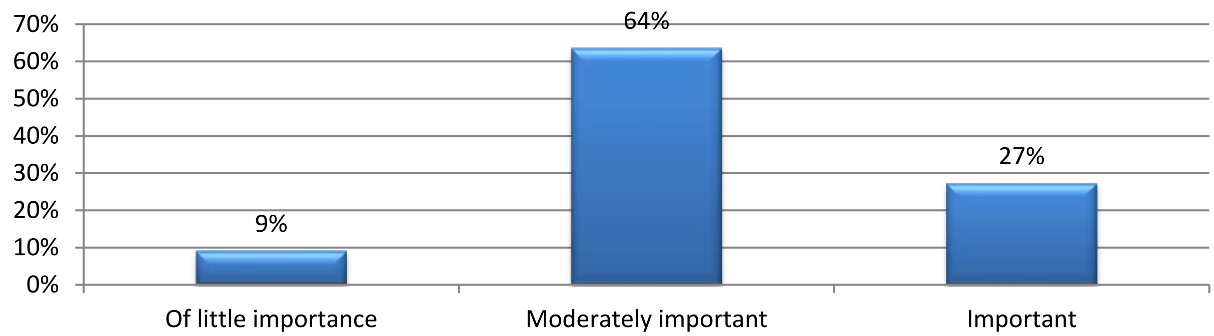
Figure 34. Issues Facing Privately-Held Businesses



BANKS cont.

Approximately 64% of respondents identified revenue growth rate as a moderately important factor.

Figure 16. Importance of the Revenue Growth Rate Pertaining to New Cash Flow Based Loans



Approximately 57% of applications had a revenue growth rate of 5% annually.

Figure 17. Revenue Growth Rate – Average Borrower Data

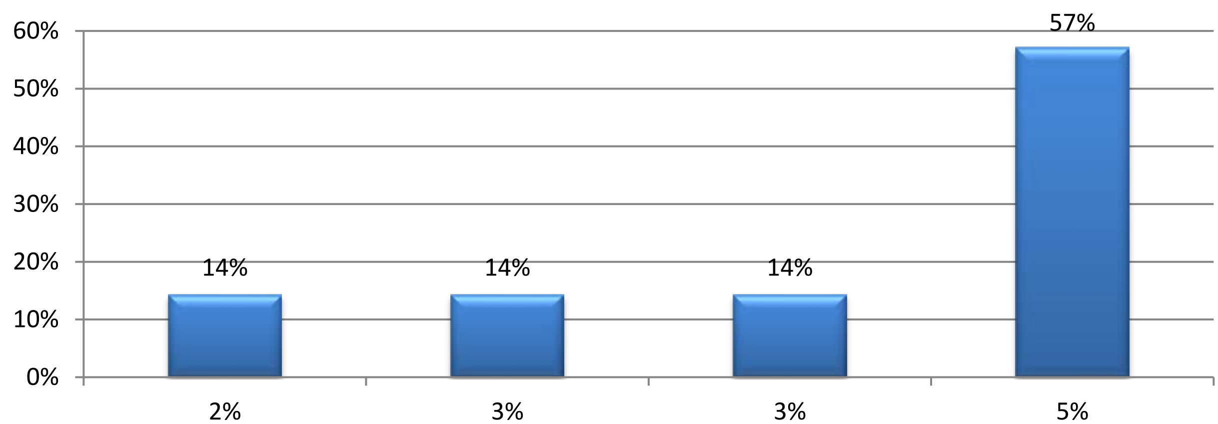
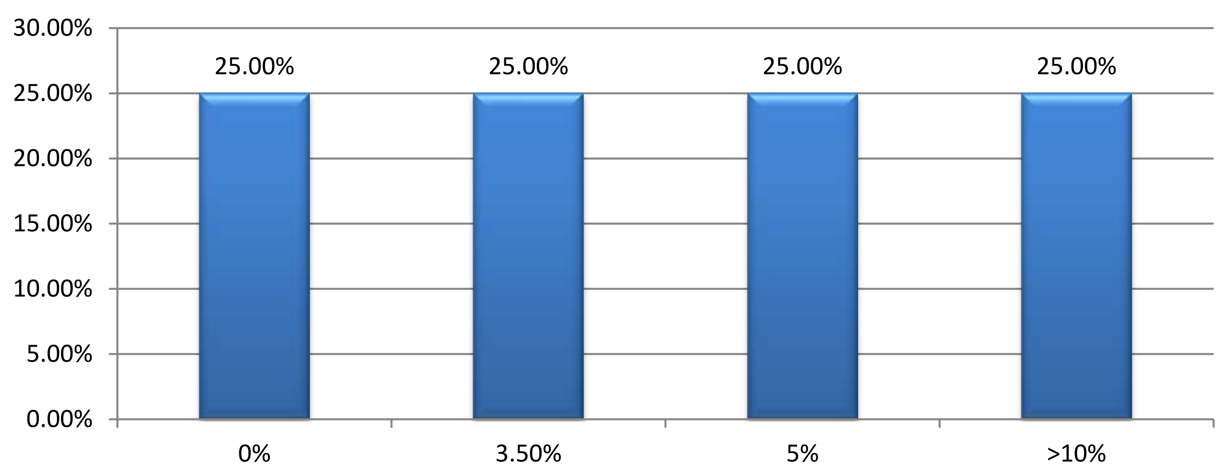


Figure 18. Revenue Growth Rate - Limit Not to Be Exceeded



Respondents indicated significant increases in demand for business loans, due diligence efforts, loan size, leverage multiples and lending capacity. They reported significant decreases in personal guarantees, loan fees and SBA lending.

Table 13. General Business and Industry Assessment: Today versus 12 Months Ago

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	**Net increase/ decrease**
Demand for business loans (applications)	0%	9%	27%	45%	18%	64%	9%	**55%**
General underwriting standards	0%	18%	45%	18%	18%	36%	18%	**18%**
Credit quality of borrowers applying for credit	0%	18%	55%	27%	0%	27%	18%	**9%**
Due diligence efforts	0%	8%	50%	25%	17%	42%	8%	**33%**
Average loan size	0%	0%	25%	42%	33%	75%	0%	**75%**
Average loan maturity (months)	0%	18%	55%	18%	9%	27%	18%	**9%**
Percent of loans with personal guarantees	0%	33%	58%	8%	0%	8%	33%	**-25%**
Percent of loans requiring collateral	0%	0%	91%	0%	9%	9%	0%	**9%**
Size of interest rate spreads (pricing)	0%	25%	42%	33%	0%	33%	25%	**8%**
Loan fees	0%	25%	58%	17%	0%	17%	25%	**-8%**
Senior leverage multiples	0%	0%	60%	40%	0%	40%	0%	**40%**
Total leverage multiples	0%	0%	44%	44%	11%	56%	0%	**56%**
Focus on collateral as backup means of payment	0%	10%	40%	50%	0%	50%	10%	**40%**
SBA lending	0%	29%	57%	14%	0%	14%	29%	**-14%**
Lending capacity of bank	0%	0%	36%	18%	45%	64%	0%	**64%**
General business conditions	0%	18%	18%	55%	9%	64%	18%	**45%**
Appetite for risk	8%	25%	33%	33%	0%	33%	33%	**0%**

Respondents expect further increases in demand for business loans, underwriting standards, due diligence, average loan size, lending capacity of bank, and leverage multiples. They expect decreasing appetite for risk and focus on collateral as backup means of payment.

Table 14. General Business and Industry Assessment Expectations over the Next 12 Months

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	**Net increase/ decrease**
Demand for business loans (applications)	0%	18%	36%	45%	0%	45%	18%	**27%**
General underwriting standards	0%	9%	55%	18%	18%	36%	9%	**27%**
Credit quality of borrowers applying for credit	0%	18%	55%	27%	0%	27%	18%	**9%**
Due diligence efforts	0%	9%	36%	27%	27%	55%	9%	**45%**
Average loan size	0%	0%	36%	55%	9%	64%	0%	**64%**
Average loan maturity (months)	0%	0%	91%	9%	0%	9%	0%	**9%**
Percent of loans with personal guarantees	0%	20%	60%	10%	10%	20%	20%	**0%**
Percent of loans requiring collateral	0%	9%	82%	0%	9%	9%	9%	**0%**
Size of interest rate spreads (pricing)	0%	18%	36%	45%	0%	45%	18%	**27%**
Loan fees	0%	18%	64%	18%	0%	18%	18%	**0%**
Senior leverage multiples	0%	0%	70%	20%	10%	30%	0%	**30%**
Total leverage multiples	0%	0%	67%	22%	11%	33%	0%	**33%**
Focus on collateral as backup means of payment	0%	20%	70%	10%	0%	10%	20%	**-10%**
SBA lending	0%	14%	57%	29%	0%	29%	14%	**14%**
Lending capacity of bank	0%	18%	27%	27%	27%	55%	18%	**36%**
General business conditions	0%	9%	55%	18%	18%	36%	9%	**27%**
Appetite for risk	9%	27%	45%	18%	0%	18%	36%	**-18%**

ASSET-BASED LENDING SURVEY INFORMATION

There were 21 responses to the asset-based lending survey. Over 31% of respondents believe that general business conditions will improve over the next 12 months and over 53% said demand for loans will increase. Other key findings include:

- Over the last twelve months, respondents were seeing increased advance rates, with increase in demand for business loans and improved general business conditions.

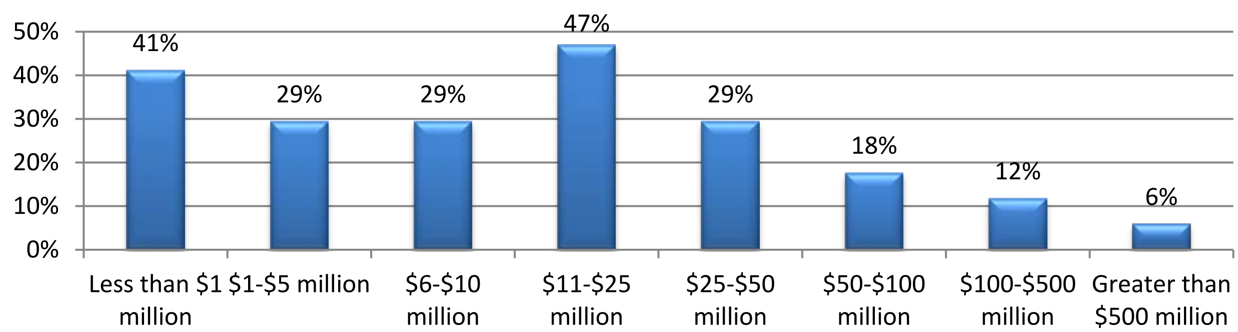
- Respondents also expect increases in demand for business loans, average loan size, improving general business conditions, and decreasing interest rates and loan fees.

- Currently, 35% of lenders see government regulations and taxes, access to capital and labor availability as the top issues facing privately-held businesses today.

Operational and Assessment Characteristics

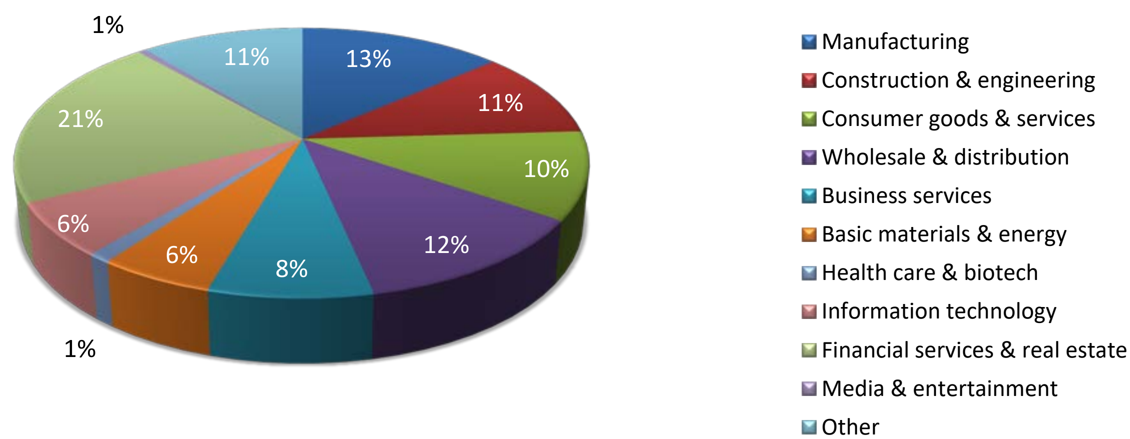
The largest concentration of loan sizes was between $11 million and $25 million.

Figure 19. Typical Investment Size



According to respondents approximately 13% of asset-based loans were issued to manufacturing companies.

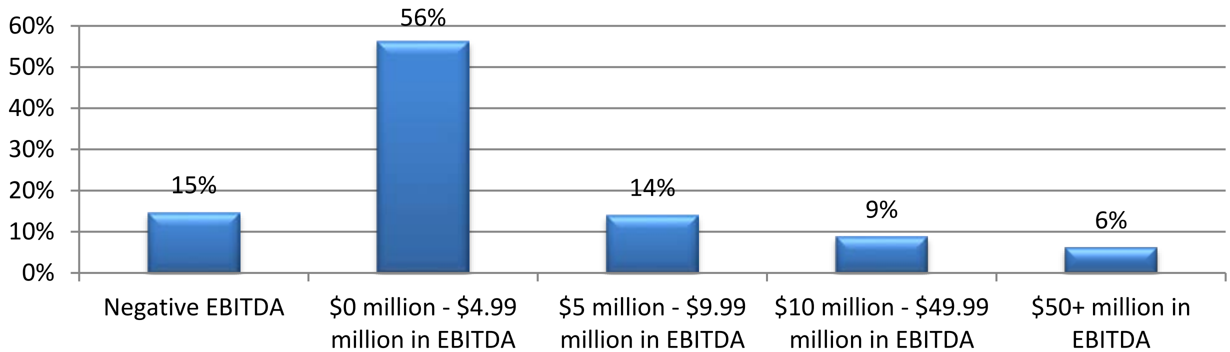
Figure 35. Industries Served by Asset-Based Lenders



ABL cont.

Approximately 71% of the companies that booked asset-based loans in the last twelve months had EBITDA size of less than $5 million.

Figure 20. Typical EBITDA Sizes for Companies Booked



Respondents reported on all-in rates by type and size of current booked loans and the results are reported below.

Table 15. All-in Rates on Current Asset-Based Loans (medians)

	Marketable Securities	Accounts Receivable	Inventory	Equipment	Real Estate	Working Capital	Typical Fixed-Rate Loan Term (months)
Less than $1 million	19.5%	10.0%	n/a	17.5%	11.5%	n/a	20
$1-5 million	10.0%	8.0%	9.8%	13.0%	10.0%	10%	59
$5-$10 million	5.3%	7.0%	9.5%	12.0%	7.0%	7%	12
$10-25 million	5.0%	6.5%	7.0%	6.5%	4.8%	4.8%	20
$25-50 million	n/a	6.3%	6.0%	n/a	4.0%	4.0%	n/a
$50-100 million	n/a	4.5%	n/a	n/a	3.0%	3.0%	n/a

Respondents reported on standard advance rates and the results are reflected below.

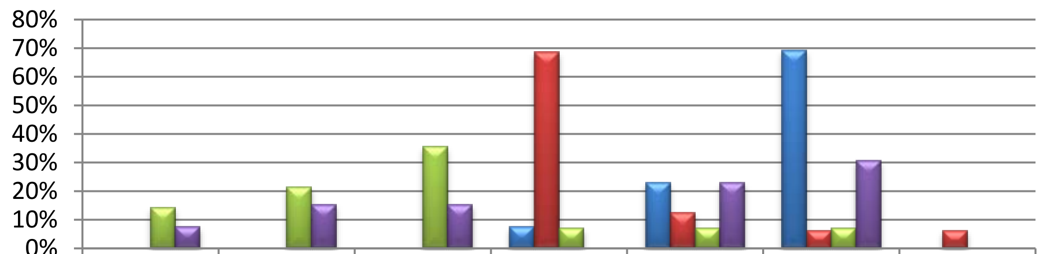
Table 16. Standard Advance Rate (or LTV ratio) for Assets (%)

	Typical Loan			Upper Limit		
	1st Quartile	Median	3rd Quartile	1st Quartile	Median	3rd Quartile
Marketable Securities	86%	90%	100%	54%	82%	96%
Accounts Receivable	70%	85%	85%	85%	87%	90%
Inventory - Low Quality	24%	27%	31%	25%	25%	35%
Inventory - Intermediate Quality	40%	45%	50%	40%	50%	61%
Inventory - High Quality	60%	65%	65%	60%	65%	74%
Equipment	45%	50%	65%	49%	65%	74%
Real Estate	54%	67%	74%	64%	75%	76%
Land	47%	50%	60%	37%	55%	60%

ABL cont.

Respondents reported on valuation standards used to estimate LTV ratios.

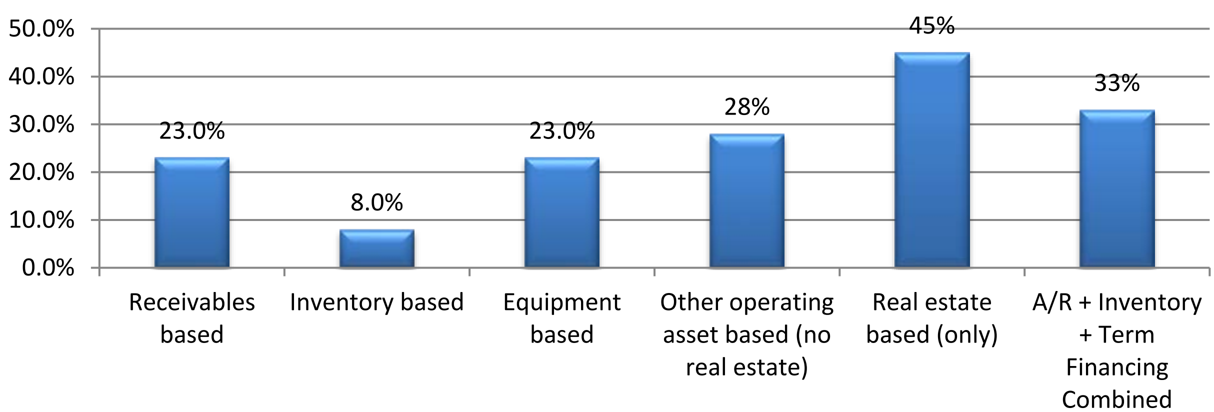
Figure 37. Valuation Standards Used to Estimate LTV Ratio



	Purchase price	Depreciated Value (Book)	Face value	Fair Market Value	Forced liquidation	Orderly liquidation	Other
Equipment	0%	0%	0%	8%	23%	69%	0%
Real estate	0%	0%	0%	69%	13%	6%	6%
Accounts Receivable	14%	21%	36%	7%	7%	7%	0%
Inventory	8%	15%	15%	0%	23%	31%	0%

According to respondents, real estate based loans had the highest rate of decline (45%) over the last twelve months.

Figure 21. Asset-Based Loans Decline Rate



Various fees as reported by lenders are as follows.

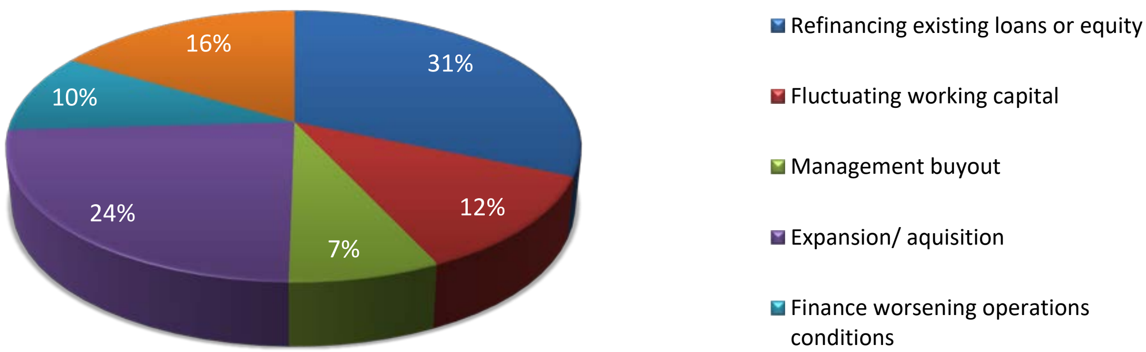
Table 17. Fees Charged

	1st Quartile	Median	3rd Quartile
Closing fee	0.6%	1.0%	2.0%
Modification fee	0.4%	0.5%	1.1%
Commitment fee	0.6%	1.0%	1.1%
Underwriting fee	0.1%	0.3%	0.9%
Arrangement fee	0.1%	1.1%	2.1%
Prepayment penalty (yr 1)	1.1%	2.8%	3.0%
Prepayment penalty (yr 2)	2.0%	2.0%	3.0%
Unused line fee	0.4%	0.5%	0.6%

ABL cont.

Refinancing was the most commonly described financing motivation at 31%, followed by expansion/acquisition at 24%.

Figure 22. Borrower Motivation to Secure Financing (past 12 months)



Senior debt to cash flow ratio was the most important factor when deciding whether to invest or not.

Table 18. Importance of Financial Evaluation Metrics

	Unimportant	Of little importance	Moderately important	Important	Very important	Score (1-5)
Current ratio	38%	15%	23%	15%	8%	0.0
Senior DSCR or FCC ratio	17%	17%	8%	42%	17%	2.4
Total DSCR or FCC ratio	0%	17%	17%	42%	25%	3.3
Senior debt to cash flow	18%	9%	18%	27%	27%	3.8
Total debt to cash flow	17%	17%	33%	8%	25%	3.4
Debt to net worth	31%	15%	31%	15%	8%	3.1

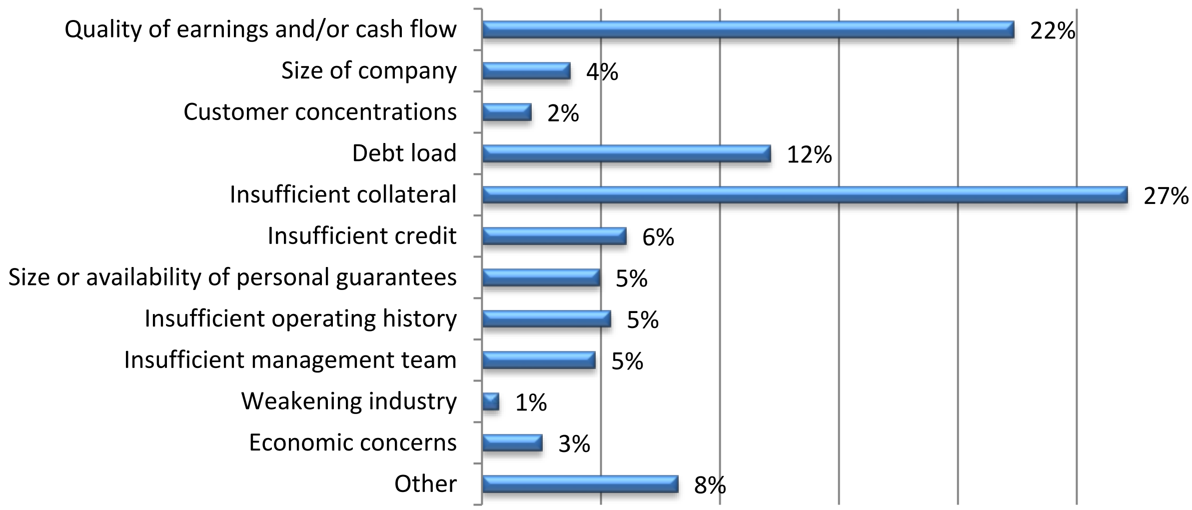
Table 19. Financial Evaluation Metrics Average Data

	Average borrower data	Limit not to be exceeded
Current ratio	1.0	<1
Senior DSCR or FCC ratio	1.0	<1
Total DSCR or FCC ratio	1.1	<1
Senior debt to cash flow	3.0	2.8
Total debt to cash flow	2.5	2.8
Debt to net worth	4.0	>6

ABL cont.

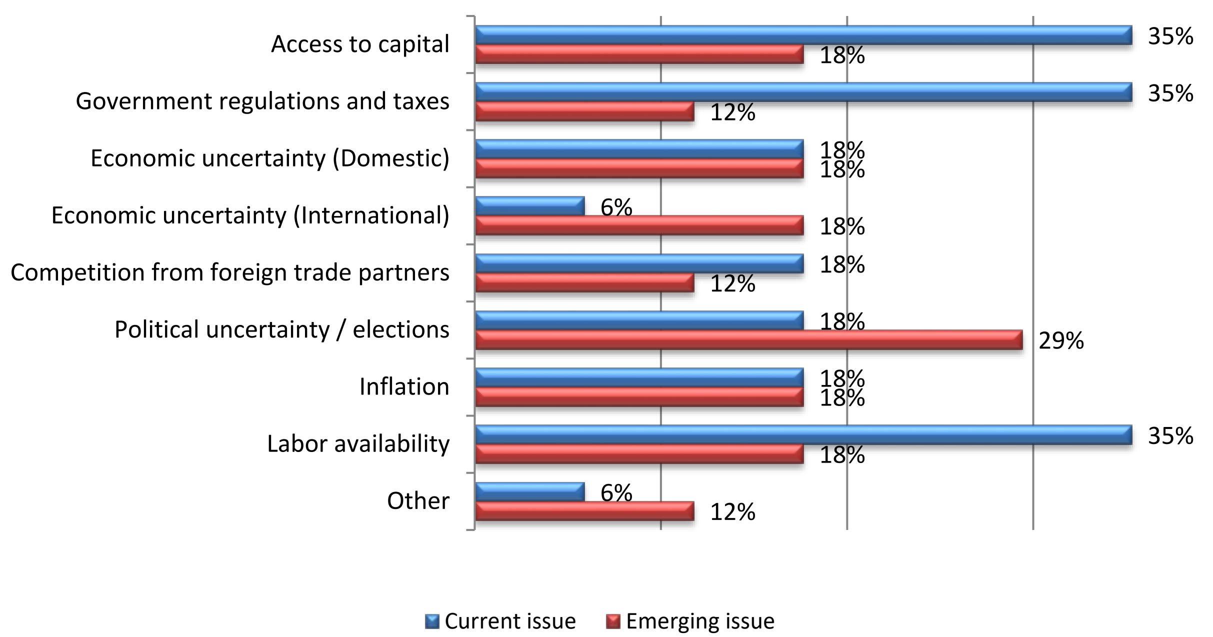
Approximately 27% of applications were declined due to insufficient collateral followed by 22% that were declined due to poor quality of earnings and/or cash flow.

Figure 23. Reason for Declined Loans



Respondents believe access to capital, government regulations and taxes are the most important issues facing privately-held businesses today.

Figure 24. Issues Facing Privately-Held Businesses



ABL cont.

Respondents indicated increases in demand for business loans, due diligence efforts, improved general business conditions, loans outstanding, decreased loan fees and percent of loans with personal guarantees.

Table 20. General Business and Industry Assessment: Today versus 12 Months Ago

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	**Net increase/ decrease**
Demand for loans	0%	18%	24%	35%	24%	59%	18%	**41%**
General underwriting standards	0%	24%	59%	18%	0%	18%	24%	**-6%**
Credit quality of borrowers	0%	24%	53%	18%	6%	24%	24%	**0%**
Due diligence efforts	0%	0%	59%	18%	24%	41%	0%	**41%**
Average loan size	0%	0%	59%	18%	24%	41%	0%	**41%**
Average loan maturity	0%	0%	82%	12%	6%	18%	0%	**18%**
Interest rate spread (pricing)	6%	38%	44%	13%	0%	13%	44%	**-31%**
Loan fees	6%	29%	59%	6%	0%	6%	35%	**-29%**
Loans outstanding	0%	0%	47%	41%	12%	53%	0%	**53%**
Percent of loans with personal guarantees	0%	27%	60%	7%	7%	13%	27%	**-13%**
Focus on cash flow as backup means of payment	0%	6%	69%	13%	13%	25%	6%	**19%**
Nonaccrual loans	7%	20%	60%	13%	0%	13%	27%	**-13%**
Number/ tightness of financial covenants	0%	20%	53%	27%	0%	27%	20%	**7%**
Standard advance rates	0%	0%	69%	31%	0%	31%	0%	**31%**
General business conditions	0%	13%	40%	33%	13%	47%	13%	**33%**
Appetite for risk	0%	6%	47%	35%	12%	47%	6%	**41%**

ABL cont.

Respondents expect further increases in demand for business loans, average loan size, appetite for risk, standard advance rates, improving general business conditions, decreasing interest rates and loan fees.

Table 21. General Business and Industry Assessment Expectations for the Next 12 Months

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	**Net increase/ decrease**
Demand for loans	0%	12%	35%	35%	18%	53%	12%	**41%**
General underwriting standards	0%	12%	59%	29%	0%	29%	12%	**18%**
Credit quality of borrowers	0%	19%	63%	13%	6%	19%	19%	**0%**
Due diligence efforts	0%	0%	71%	24%	6%	29%	0%	**29%**
Average loan size	0%	0%	56%	38%	6%	44%	0%	**44%**
Average loan maturity	0%	0%	88%	12%	0%	12%	0%	**12%**
Interest rate spread (pricing)	6%	35%	35%	24%	0%	24%	41%	**-18%**
Loan fees	6%	24%	59%	12%	0%	12%	29%	**-18%**
Loans outstanding	0%	0%	59%	24%	18%	41%	0%	**41%**
Percent of loans with personal guarantees	0%	13%	73%	7%	7%	13%	13%	**0%**
Focus on cash flow as backup means of payment	0%	7%	53%	27%	13%	40%	7%	**33%**
Nonaccrual loans	7%	0%	73%	20%	0%	20%	7%	**13%**
Number/ tightness of financial covenants	0%	13%	63%	25%	0%	25%	13%	**13%**
Standard advance rates	0%	0%	75%	25%	0%	25%	0%	**25%**
General business conditions	0%	13%	56%	25%	6%	31%	13%	**19%**
Appetite for risk	0%	19%	44%	31%	6%	38%	19%	**19%**

MEZZANINE SURVEY INFORMATION

The majority of the 24 participants that responded to the mezzanine survey typically book deals in the $1 million to $25 million range. Over 20% plan on investing in manufacturing companies over the next 12 months, followed by 17% in healthcare & biotech and another 17% in information technology. Other key findings include:

- Relative to 12 months ago, respondents indicated increases in demand for mezzanine capital, average investment size, leverage multiples, and improved general business conditions. They also reported decreases in warrant coverage and expected returns on new investments.

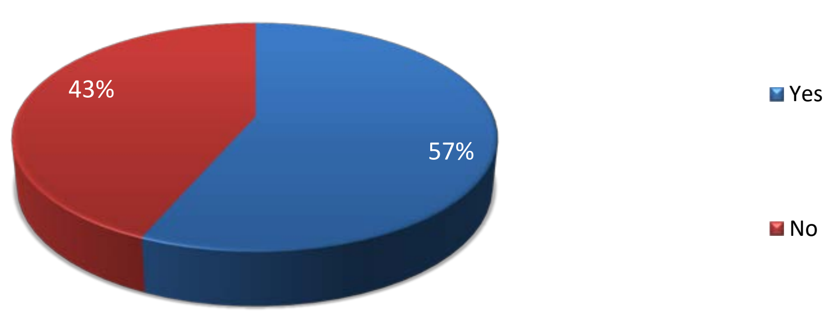
- Respondents expect further increase in demand for mezzanine capital, leverage multiples, appetite for risk, and improving general business conditions; and decrease in warrant coverage and expected returns on new investments.

- Approximately 29% of respondents believe economic uncertainty is the most important issue facing privately-held businesses today.

Operational and Assessment Characteristics

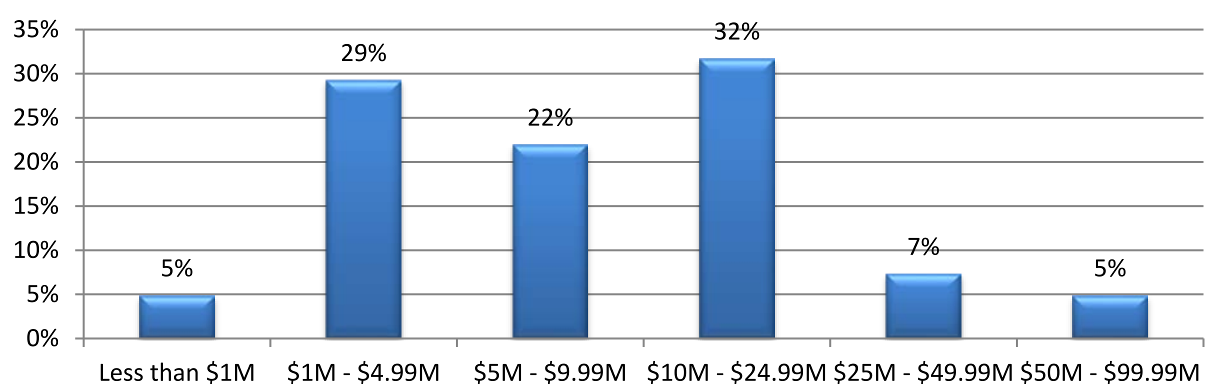
Approximately 57% of respondents are SBIC Firms.

Figure 25. SBIC (small business investment) Firms



The largest concentration of typical loan sizes is between $1 million and $25 million.

Figure 40. Typical Investment Size



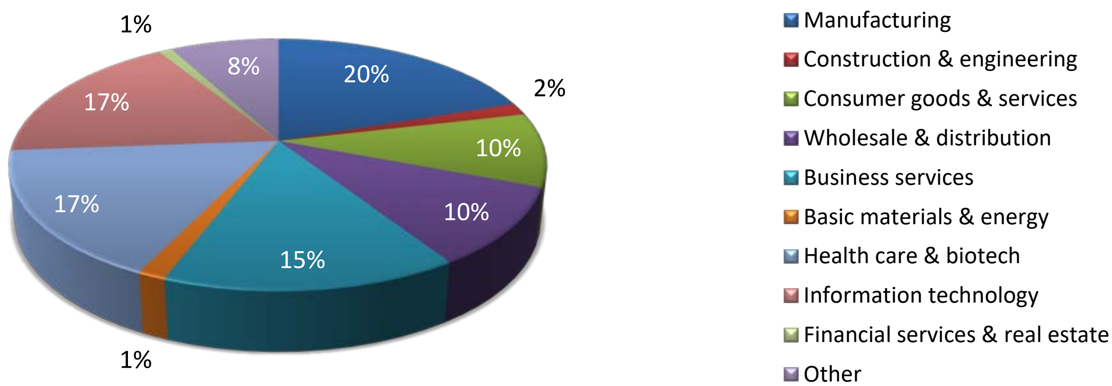
Respondents reported on business practices and the results are reflected below.

Table 22. Mezzanine Fund Data

	1st quartile	Median	3rd quartile
Vintage year (year in which first investment made)	2014	2016	2017
Size of fund ($ millions)	125	250	325
Targeted number of total investments	23	28	40
Target fund return (gross pretax cash on cash annual IRR %)	13%	15%	17%
Expected fund return (gross pretax cash on cash annual IRR %)	13.3%	15%	16.8%

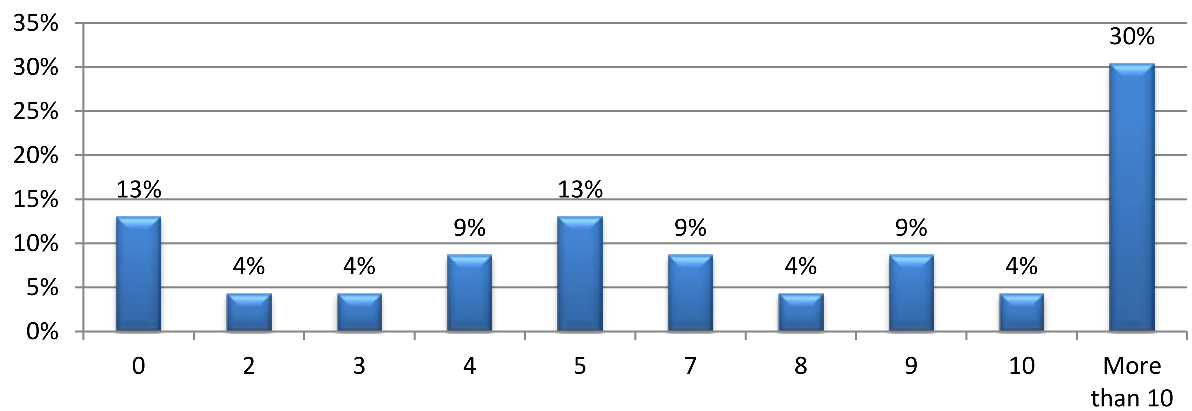
The types of businesses that mezzanine lenders plan to invest in over the next 12 months are very diverse with over 20% targeting manufacturing, followed by 17% who plan to invest in healthcare & biotech and another 17% in information technology.

Figure 26. Type of Business for Investments Planned over Next 12 Months



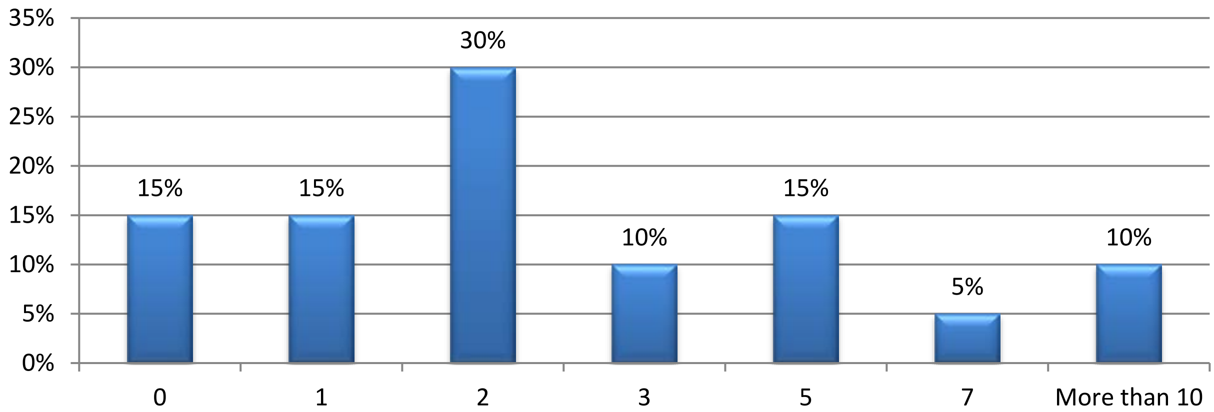
Approximately 70% of respondents made 5 investments or more over the last 12 months.

Figure 27. Total Number of Investments Made in the Last 12 Months



MEZZANINE cont.

Figure 28. Number of Follow-on Investments Made in the Last 12 Months



Approximately 87% of respondents plan to make 5 investments or more over the next 12 months.

Figure 29. Number of Total Investments Planned over Next 12 Months

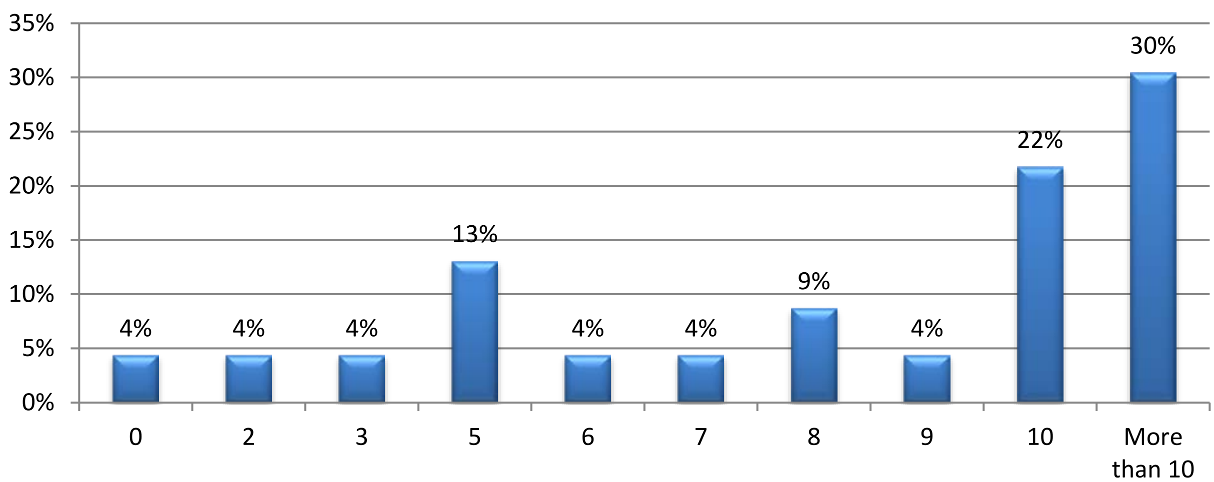
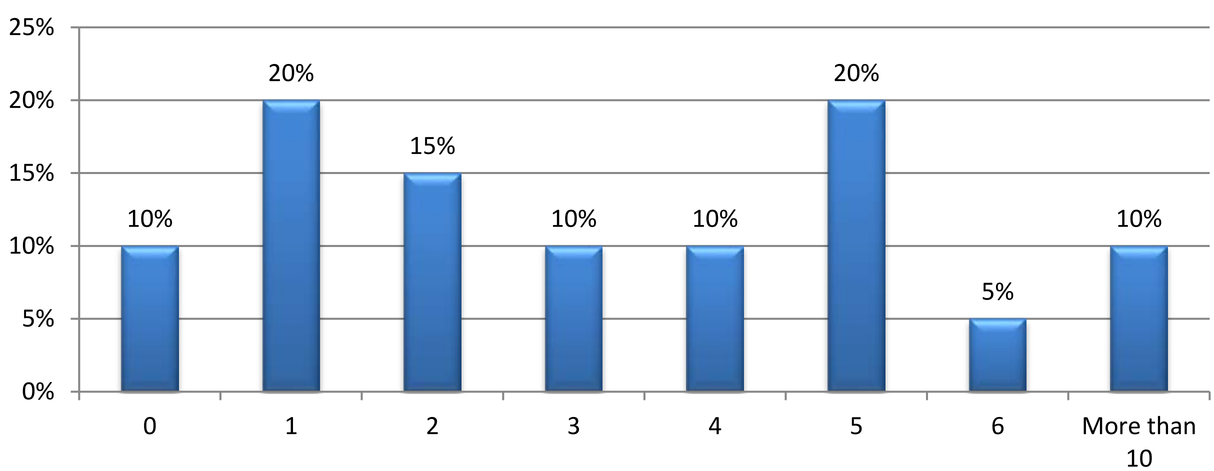
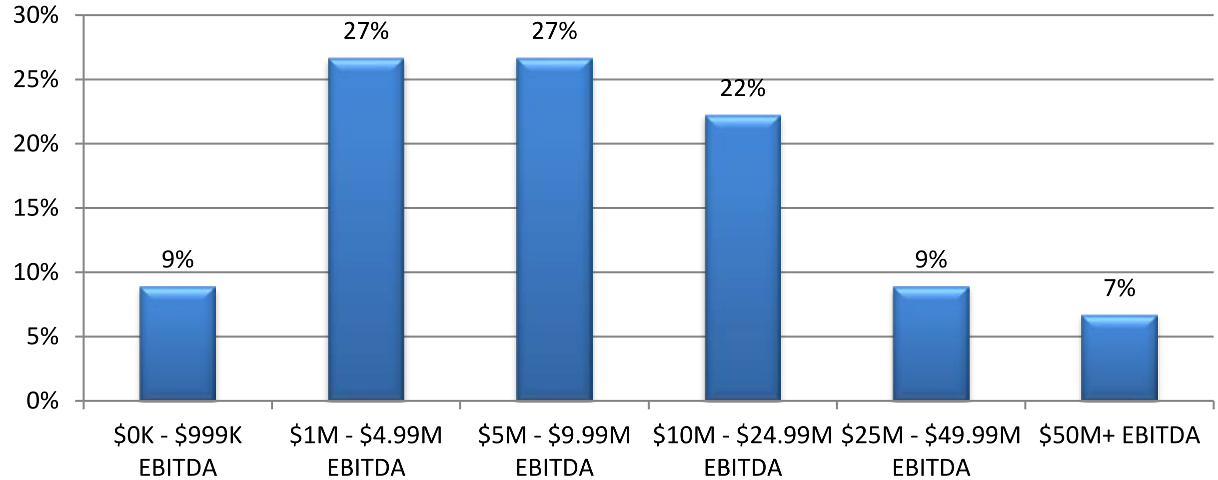


Figure 30. Number of Follow-on Investments Planned over Next 12 Months



Approximately 76% of sponsored deals were in the range between $1 million and $25 million of EBITDA.

Figure 31. Size of Sponsored Deals in the Last 12 Months



Results of responses to sponsored deals based on size of borrower EBITDA are reported below.

Table 23. Sponsored Deals by EBITDA Size (medians)

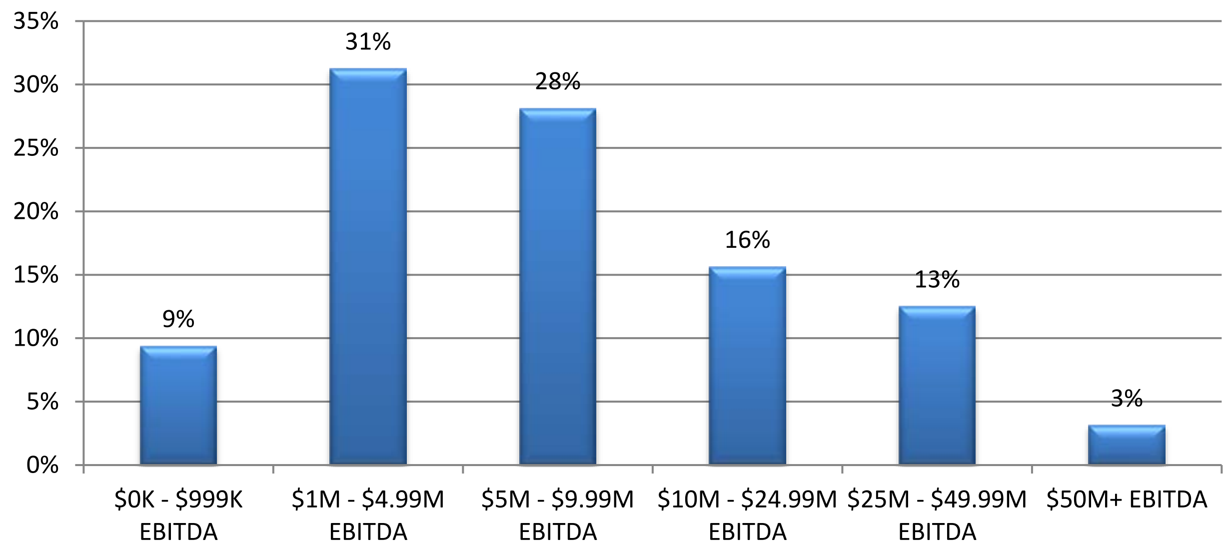
EBITDA size	$0K - $999K	$1M - $4.99M	$5M - $9.99M	$10M - $24.99M	$25M - $49.99M
% of deals with warrants	100%	100%	33%	20%	17%
Average loan terms (years)	5.0	5.0	5.0	5.0	5.0
Senior leverage ratio (multiple of EBITDA)	2.0	3.0	3.3	4.0	4.0
Total leverage ratio (multiple of EBITDA)	3.5	4.0	4.5	4.5	4.5
Average loan size ($ millions)	2.5	4	7.5	15	95
Cash interest rate	13%	12%	10%	10%	8%
PIK	1.5%	1.5%	1%	0%	0%
Warrants expected return (IRR contribution)	12%	4%	n/a	n/a	n/a
Total expected returns (gross cash on pre-tax IRR)	21%	18%	14%	12.5%	10.8%

Table 24. Investment Type by Size of Investee Company, Sponsored Deals

	Senior debt only	Sub debt only	Blended Sr. / Jr.	Other
$0K - $999K EBITDA	33%	0%	67%	0%
$1M - $4.99M EBITDA	11%	56%	22%	11%
$5M - $9.99M EBITDA	0%	56%	33%	11%
$10M - $24.99M EBITDA	13%	50%	38%	0%
$25M - $49.99M EBITDA	0%	0%	100%	0%
$50M+ EBITDA	33%	33%	33%	0%

Approximately 31% of non-sponsored deals were in the range between $1 million and $5 million of EBITDA.

Figure 32. Size of Non-Sponsored Deals in the Last 12 Months



Results of responses to non-sponsored deals based on size of investee EBITDA are reported below.

Table 25. Non-Sponsored Deals by EBITDA Size (medians)

EBITDA size	$0K - $999K	$1M - $4.99M	$5M - $9.99M	$10M - $24.99M	$25M - $49.99M	$50M+
% of deals with warrants	100%	100%	100%	50%	20%	n/a
Average loan terms (years)	5.0	5.0	5.0	5.0	5.0	n/a
Senior leverage ratio (multiple of EBITDA)	7.0	4.5	3.75	3.5	1.5	n/a
Total leverage ratio (multiple of EBITDA)	5.75	4.75	4	3.5	3.25	n/a
Average loan size (S millions)	0.5	7.5	7.5	35	60	n/a
Cash interest rate	12%	10%	10%	8.5%	6.5%	n/a
PIK	6%	4%	2.5%	0%	0%	n/a
Warrants expected return (IRR contribution)	n/a	n/a	n/a	n/a	n/a	n/a
Total expected returns (gross cash on pre-tax IRR)	18%	16%	13%	12%	11%	n/a

Table 26. Investment Type by Size of Borrower Company, Non-Sponsored Deals

EBITDA size	Senior debt only	Sub debt only	Blended Sr. / Jr.
$0K - $999K EBITDA	0%	50%	50%
$1M - $4.99M EBITDA	0%	100%	0%
$5M - $9.99M EBITDA	0%	100%	0%
$10M - $24.99M EBITDA	0%	0%	100%
$25M - $49.99M EBITDA	50%	0%	50%

Acquisition loan was reported by 35% of respondents as a motivation to secure mezzanine funding, followed by refinancing at 23%.

Figure 33. Borrower Motivation to Secure Mezzanine Funding (past 12 months)

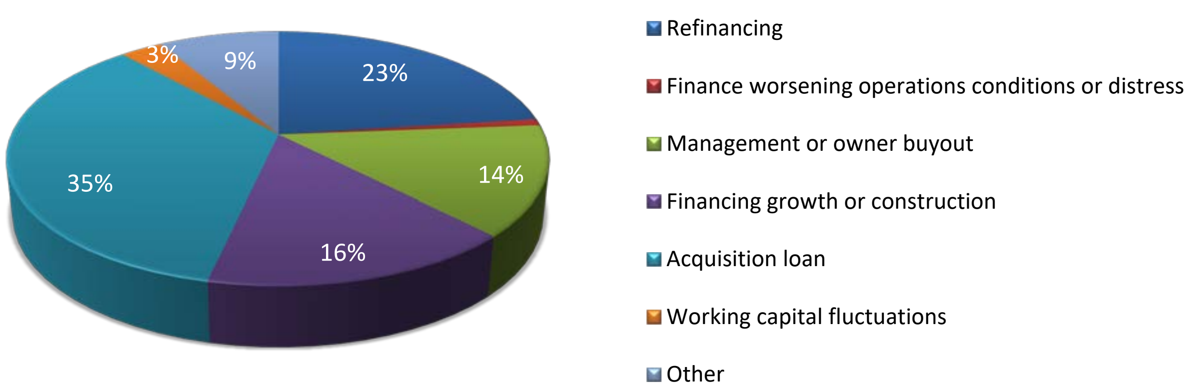
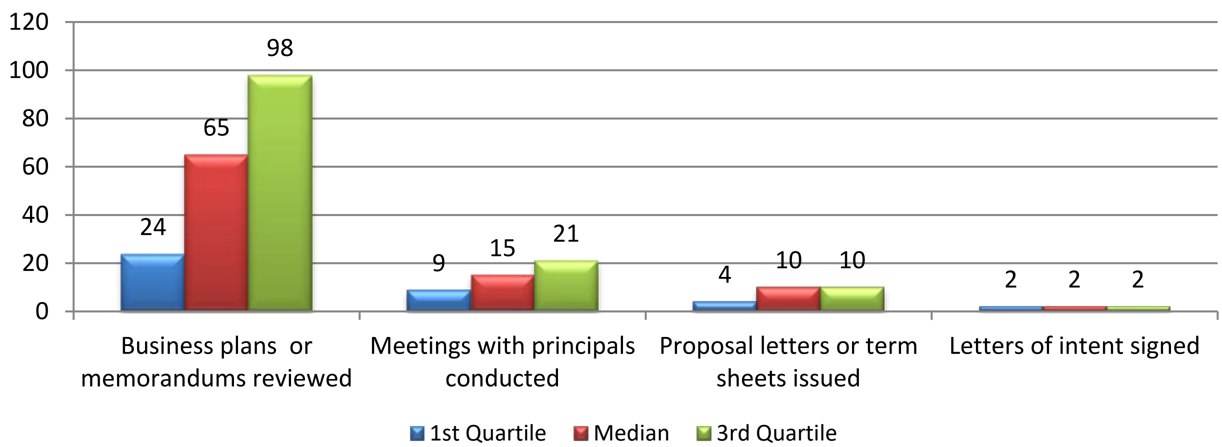


Figure 34. Items Required to Close One Deal



Total debt service coverage ratio was the most important factor when deciding whether to invest or not, followed by total debt-to-cash flow ratio.

Table 27. Importance of Financial Evaluation Metrics

	Unimportant	Of little importance	Moderately important	Important	Very important	Score
Senior DSCR or FCC ratio	0%	18%	27%	45%	9%	3.5
Total DSCR or FCC ratio	0%	0%	18%	18%	64%	4.5
Senior debt to cash flow ratio	0%	18%	45%	36%	0%	3.2
Total debt to cash flow ratio	0%	9%	9%	18%	64%	4.4

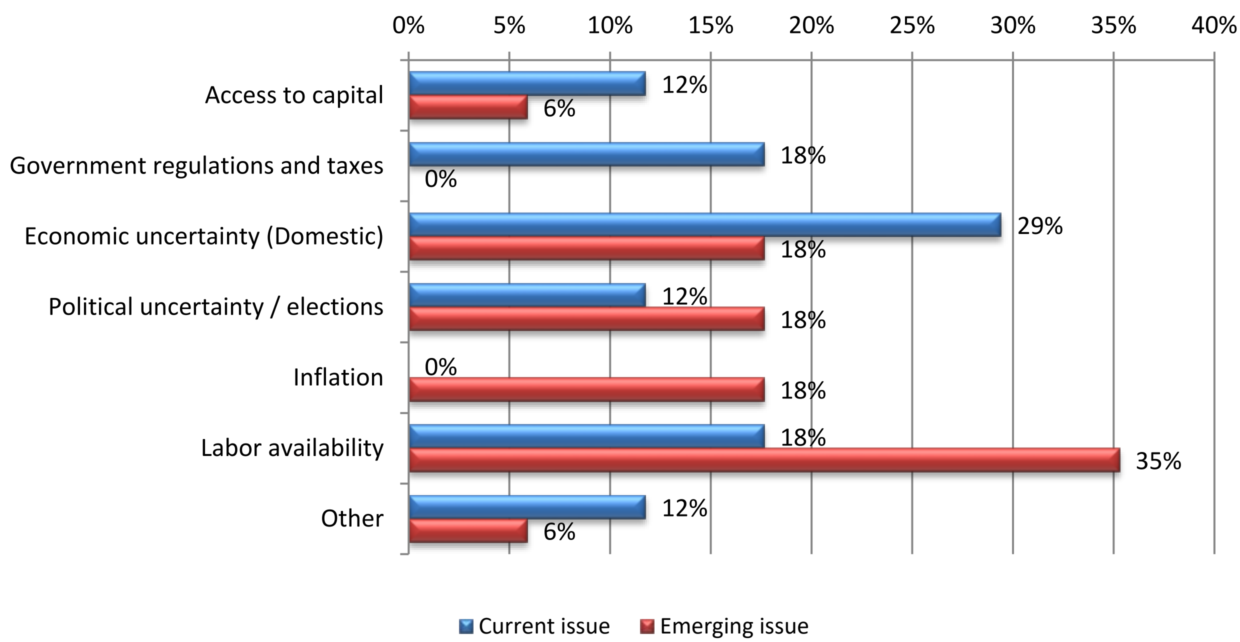
MEZZANINE cont.

Table 28. Financial Evaluation Metrics Average Data

	Average borrower data	Limit not to be exceeded
Senior DSCR or FCC ratio	1.6	1.3
Total DSCR or FCC ratio	1.6	1.3
Senior debt to cash flow ratio	2.1	2.3
Total debt to cash flow ratio	2.5	2.9

Respondents believe domestic economic uncertainty is the most important issue facing privately-held businesses today. Labor availability is expected to be the most important emerging issue.

Figure 50. Issues Facing Privately-Held Businesses



MEZZANINE cont.

Relative to 12 months ago, respondents indicated increases in demand for mezzanine capital, average investment size, leverage multiples, and improved general business conditions. They also reported decreases in warrant coverage, and expected returns on new investments.

Table 29. General Business and Industry Assessment: Today versus 12 Months Ago

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Demand for mezzanine capital	6%	13%	44%	38%	0%	38%	19%	**19%**
Credit quality of borrowers seeking investment	0%	7%	67%	27%	0%	27%	7%	**20%**
Average investment size	0%	0%	75%	25%	0%	25%	0%	**25%**
Average investment maturity (months)	0%	0%	100%	0%	0%	0%	0%	**0%**
General underwriting standards	0%	13%	69%	13%	6%	19%	13%	**6%**
Warrant coverage	25%	33%	42%	0%	0%	0%	58%	**-58%**
PIK features	0%	15%	69%	15%	0%	15%	15%	**0%**
Loan fees	0%	0%	100%	0%	0%	0%	0%	**0%**
Leverage multiples	0%	0%	38%	50%	13%	63%	0%	**63%**
Expected returns on new investments	0%	38%	63%	0%	0%	0%	38%	**-38%**
General business conditions	0%	6%	31%	63%	0%	63%	6%	**56%**
Appetite for risk	0%	13%	44%	38%	6%	44%	13%	**31%**

Respondents expect further increase in demand for mezzanine capital, leverage multiples, appetite for risk, and improving general business conditions. They reported decreases in warrant coverage, PIK and expected returns on new investments.

Table 30. General Business and Industry Assessment Expectations over the Next 12 Months

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	Net increase
Demand for mezzanine capital	6%	0%	69%	19%	6%	25%	6%	**19%**
Credit quality of borrowers seeking investment	0%	0%	88%	13%	0%	13%	0%	**13%**
Average investment size	0%	0%	69%	31%	0%	31%	0%	**31%**
Average investment maturity (months)	0%	0%	100%	0%	0%	0%	0%	**0%**
General underwriting standards	0%	0%	94%	6%	0%	6%	0%	**6%**
Warrant coverage	0%	23%	77%	0%	0%	0%	23%	**-23%**
PIK features	0%	7%	93%	0%	0%	0%	7%	**-7%**
Loan fees	0%	0%	94%	6%	0%	6%	0%	**6%**
Leverage multiples	0%	0%	75%	25%	0%	25%	0%	**25%**
Expected returns on new investments	0%	31%	63%	6%	0%	6%	31%	**-25%**
General business conditions	0%	6%	69%	25%	0%	25%	6%	**19%**
Size of mezzanine industry	0%	0%	69%	31%	0%	31%	0%	**31%**
Appetite for risk	0%	6%	63%	31%	0%	31%	6%	**25%**

INVESTMENT BANKER SURVEY INFORMATION

The majority of the 88 respondents to the investment banker survey indicated increasing presence of strategic buyers making deals over the last twelve months. They also reported increases in deal flow, leverage and deal multiples, margin pressure on companies and improved general business conditions. Labor availability was identified as the most important current issue facing privately-held businesses, followed by access to capital and government regulations and taxes. Labor availability was also identified as the most important emerging issue.

Other key findings include:

- Approximately 67% of respondents expect to close from two to five deals in the next 12 months.
- The top three reasons for deals not closing were valuation gap (36%), unreasonable seller/buyer demand (20%), and no market for business (11%).
- Respondents indicated a general balance between companies worthy of financing and capital available for the same. There is a reported shortage of capital for those companies with less than $1 million in EBITDA, but a general surplus for companies with $1 million in EBITDA or more.
- The most popular valuation methods used by respondents when valuing privately-held businesses were discounted future earnings, guideline company transactions and capitalization of earnings approaches.
- When using multiples to determine the value of a business, the most popular methods used by respondents when valuing privately-held businesses were recast (adjusted) EBITDA multiple (66%), revenue multiple (12%) and EBITDA (unadjusted) multiple (8%) approaches.

Operational and Assessment Characteristics

Approximately 6% of the respondents didn't close any deals in the last twelve months; 75% closed between one and five deals, while 20% closed six deals or more.

Figure 35. Private Business Sales Transactions Closed in the Last 12 Months

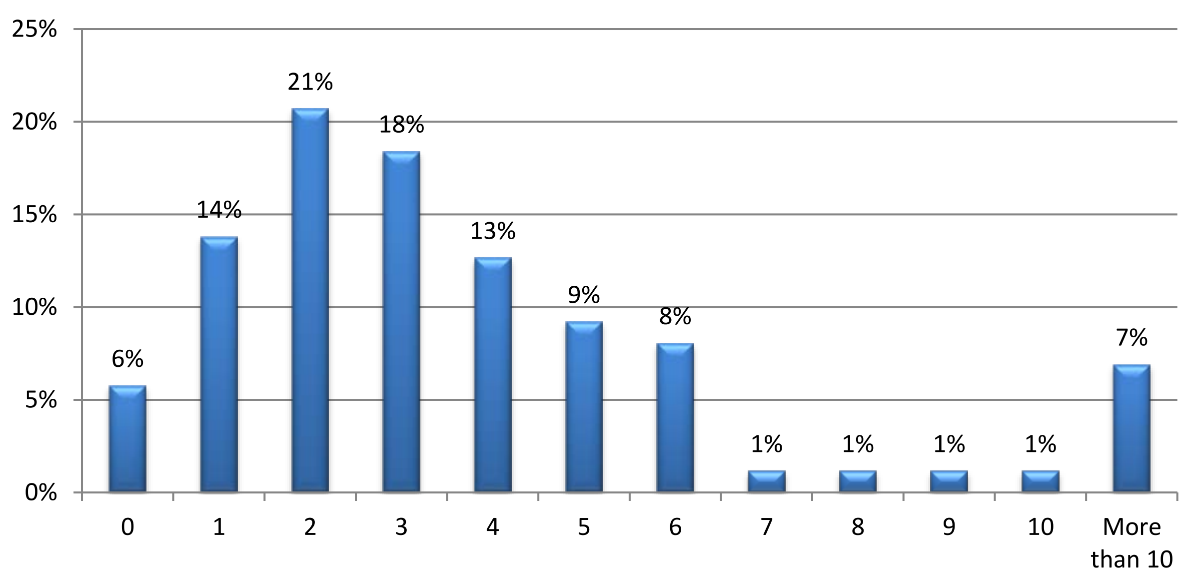
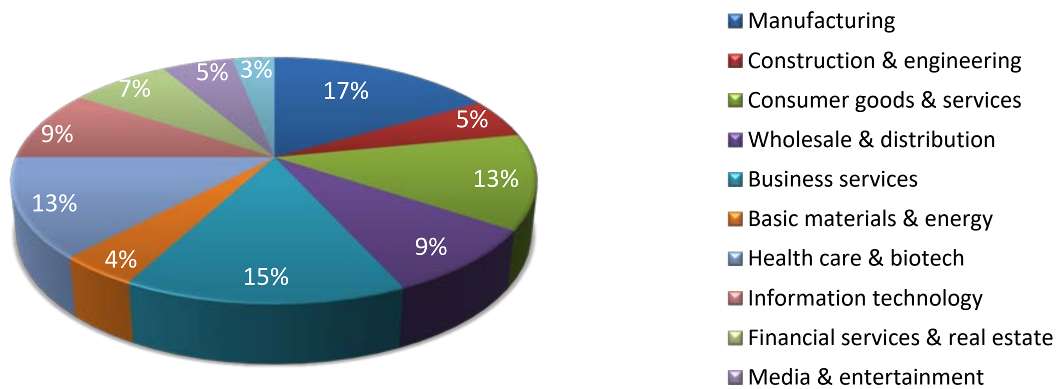
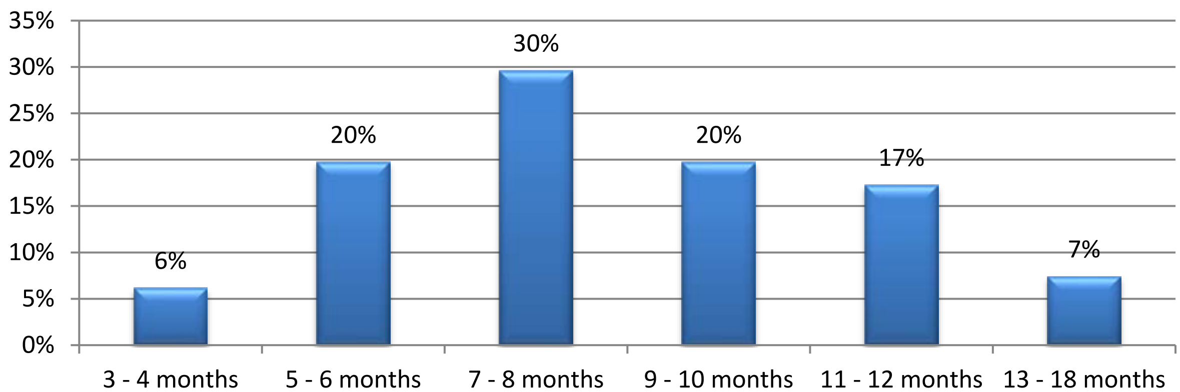


Figure 36. Business Types That Were Involved in the Transactions Closed in the Last 12 Months



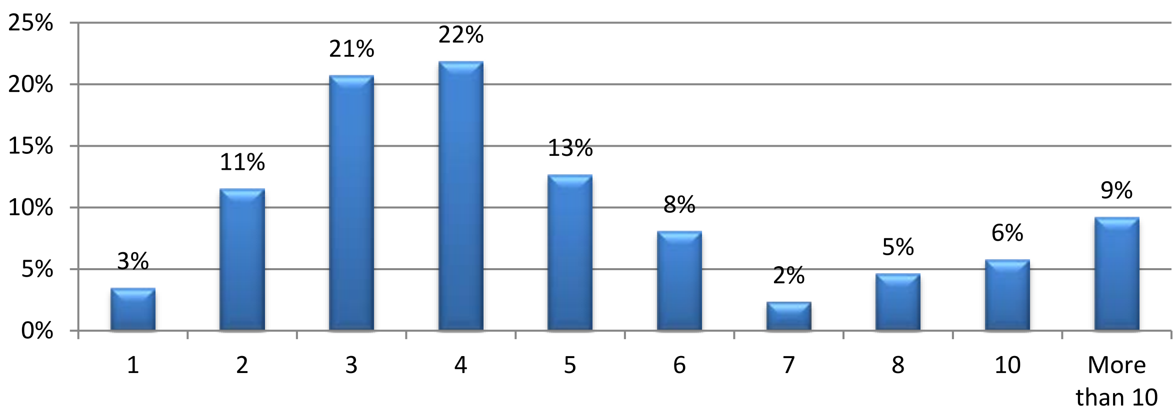
The majority of deals (87%) took 5 to 12 months to close. 7% of closed deals took more than one year to close.

Figure 37. Average Number of Months to Close One Deal



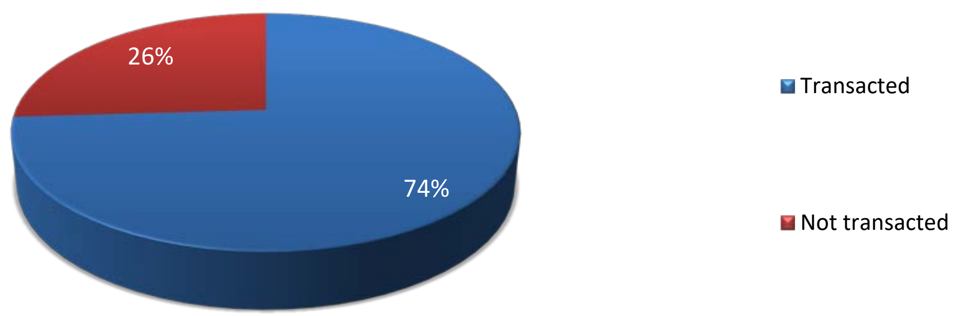
Nearly 67% of respondents expect to close between two and five deals, while 30% expect to close 6 deals or more.

Figure 38. Private Business Transactions Expected to Close in the Next 12 Months



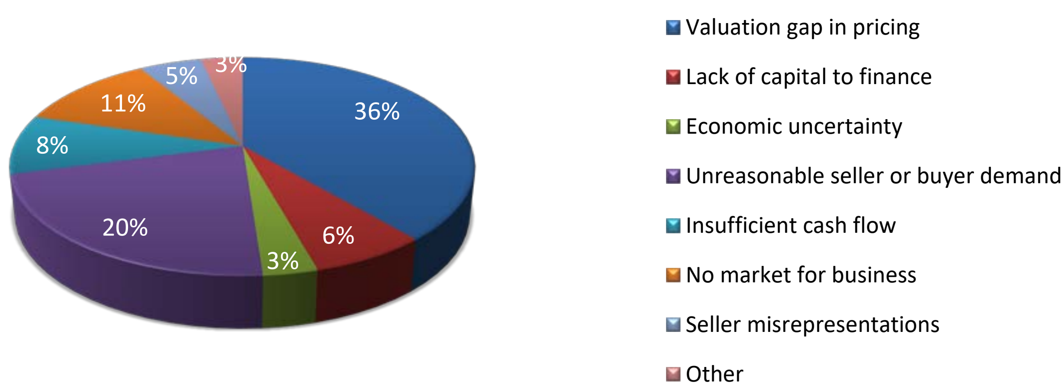
Approximately 26% of deals terminated without transacting over the past year.

Figure 39. Percentage of Business Sales Engagements Terminated Without Transacting



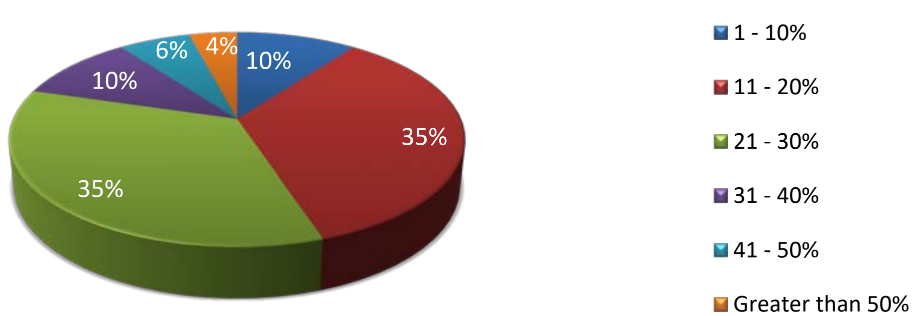
The top three reasons for deals not closing were: valuation gap in pricing (36%), unreasonable seller or buyer demand (20%) and no market for business (11%).

Figure 40. Reasons for Business Sales Engagements Not Transacting



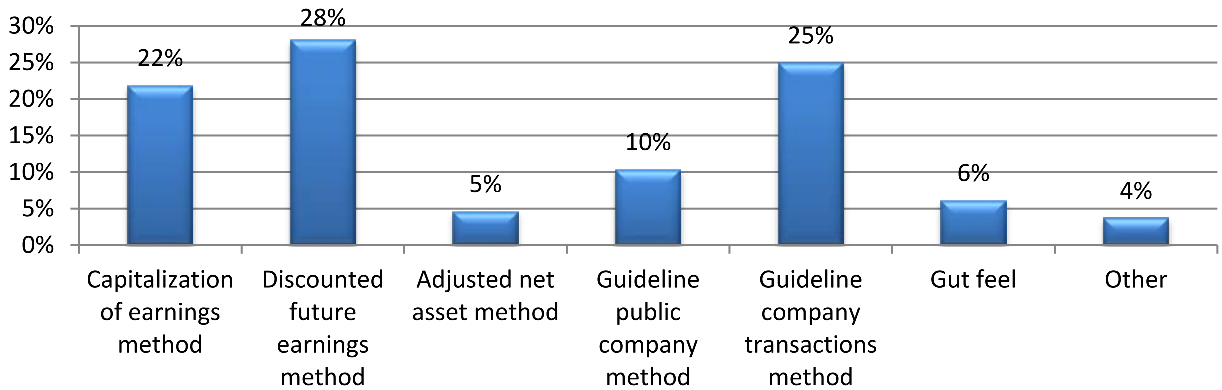
Of those transactions that didn't close due to a valuation gap in pricing, approximately 69% had a valuation gap in pricing between 11% and 30%. Note: this graph can be confusing. The red segment, for example, means that 35% of valuation gaps were between 11% and 20%.

Figure 41. Valuation Gap in Pricing for Transactions That Didn't Close



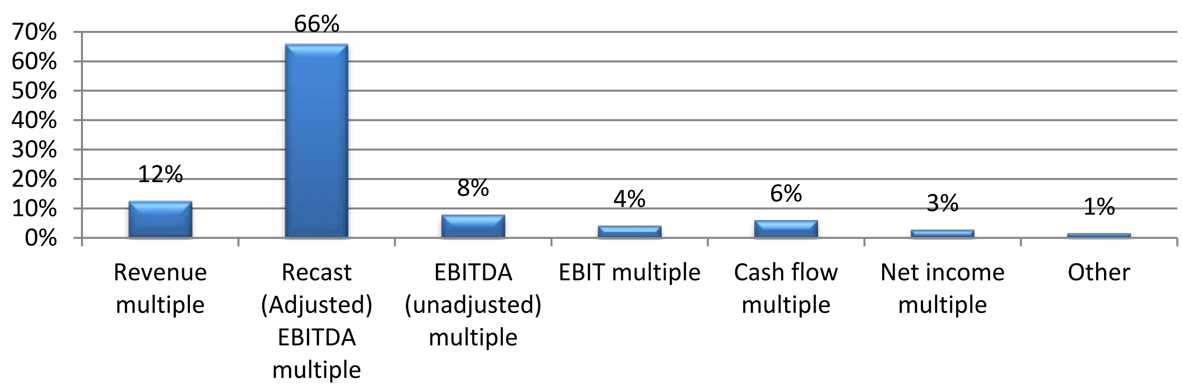
The weights of the various valuation methods used by respondents when valuing privately-held businesses included 28% for discounted future earnings method.

Figure 42. Usage of Valuation Methods



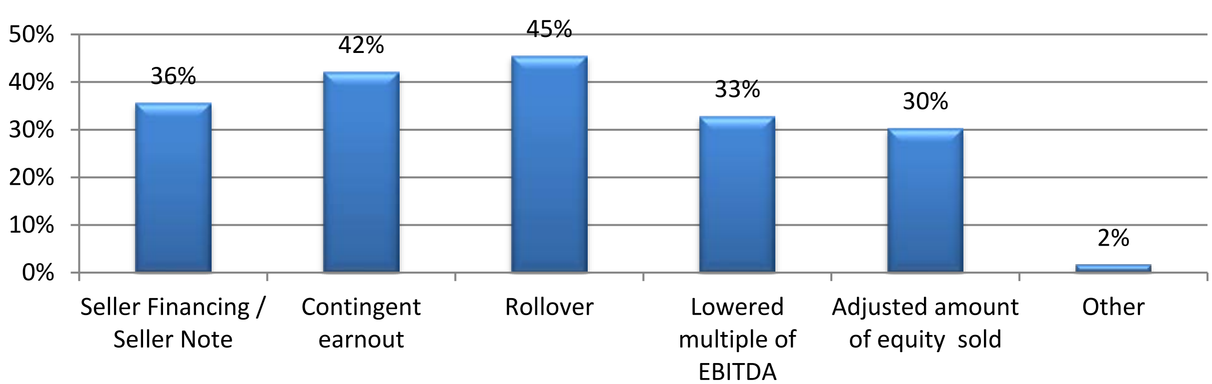
The most popular multiple method used by respondents when valuing privately-held businesses is the recast EBITDA multiple method, utilized by 66% of respondents.

Figure 43. Usage of Multiple Methods



Approximately 45% of business sales transactions closed in the last 12 months involved rollover.

Figure 44. Components of Closed Deals



Average deal multiples on transactions from the prior twelve months as observed by respondents varied from 4.3 on the small deals to 9.5 for the large deals. These multiples are higher than last year.

Table 31. Median Deal Multiples by EBITDA Size of Company

EBITDA	Manufacturing	Construction & engineering	Consumer goods & services	Wholesale & distribution	Business services	Basic materials & energy	Healthcare & biotech	Information technology	Financial services	Media & entertainment	**Avg**
$0K - $999K EBITDA	3.5	3.8	4.8	3.8	4.3	2.5	6.0	5.5	6.0	2.5	**4.3**
$1M - $4.99M EBITDA	5.5	5.0	5.8	5.0	5.5	4.5	6.5	5.8	6.0	6.5	**5.6**
$5M - $9.99M EBITDA	*6.5*	6.5	7.5	6.0	5.8	5.0	6.5	6.3	6.5	7.0	**6.4**
$10M - $24.99M EBITDA	6.8	6.5	7.5	7.3	6.5	5.5	8.0	8.0	6.8	11.0	**7.4**
$25M - $49.99M EBITDA	9.0	n/a	9.5	n/a	7.3	6.5	11.0	9.0	8.3	n/a	**8.7**
$50M+ EBITDA	10.0	n/a	11.0	n/a	8.8	7.5	11.0	10.0	8.3	n/a	**9.5**

Average total leverage multiples observed by respondents varied from 3.0 to 7.0. Total leverage is up from last year.

Table 32. Median Total Leverage Multiples by Size of Company

EBITDA	Manufacturing	Construction & engineering	Consumer goods & services	Wholesale & distribution	Business services	Basic materials & energy	Healthcare & biotech	Information technology	Financial services	Media & entertainment	**Average**
$0K - $999K EBITDA	3.5	n/a	3.3	3.3	2.8	1.3	2.5	4.8	n/a	n/a	**3.0**
$1M - $4.99M EBITDA	4.0	2.3	4.0	4.0	3.0	2.3	4.0	4.0	4.0	4.5	**3.6**
$5M - $9.99M EBITDA	4.0	5.5	4.3	n/a	3.5	2.5	5.3	4.0	n/a	n/a	**4.1**
$10M - $24.99M EBITDA	4.5	n/a	4.5	n/a	4.0	3.0	6.3	4.0	10.0	n/a	**5.2**
$25M - $49.99M EBITDA	6.3	n/a	6.0	n/a	4.0	3.5	8.5	5.5	10.0	n/a	**6.3**
$50M+ EBITDA	6.8	n/a	7.8	n/a	4.8	4.3	8.5	n/a	10.0	n/a	**7.0**

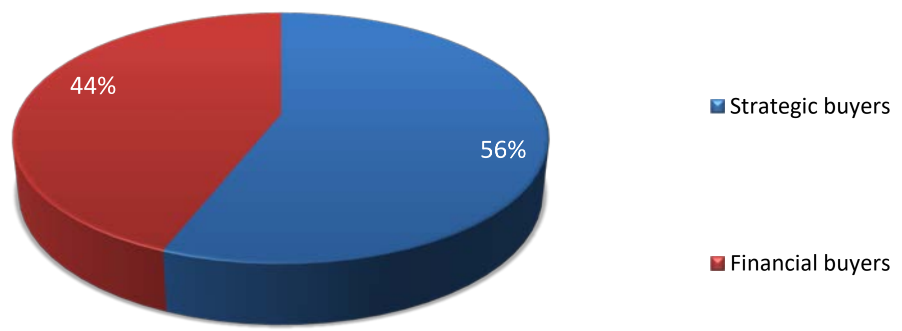
Average senior leverage multiples observed by respondents varied from 2.4 to 6.3. Senior leverage is up from last year.

Table 33. Median Senior Leverage Multiples by Size of Company

EBITDA	Manufacturing	Construction & engineering	Consumer goods & services	Wholesale & distribution	Business services	Basic materials & energy	Healthcare & biotech	Information technology	Financial services	Media & entertainment	**Average**
$0K - $999K EBITDA	3.0	n/a	2.8	2.8	2.5	1.3	2.5	2.0	n/a	n/a	**2.4**
$1M - $4.99M EBITDA	3.0	2.0	3.0	2.8	2.5	2.3	2.5	3.3	3.0	3.5	**2.8**
$5M - $9.99M EBITDA	3.5	2.0	3.5	5.0	2.5	2.5	5.0	3.5	n/a	n/a	**3.4**
$10M - $24.99M EBITDA	3.5	3.0	4.0	6.0	2.5	3.0	5.0	4.0	8.0	n/a	**4.3**
$25M - $49.99M EBITDA	5.3	n/a	4.5	n/a	2.5	3.5	7.5	4.0	10.0	n/a	**5.3**
$50M+ EBITDA	6.3	n/a	5.0	n/a	4.0	3.8	8.5	n/a	10.0	n/a	**6.3**

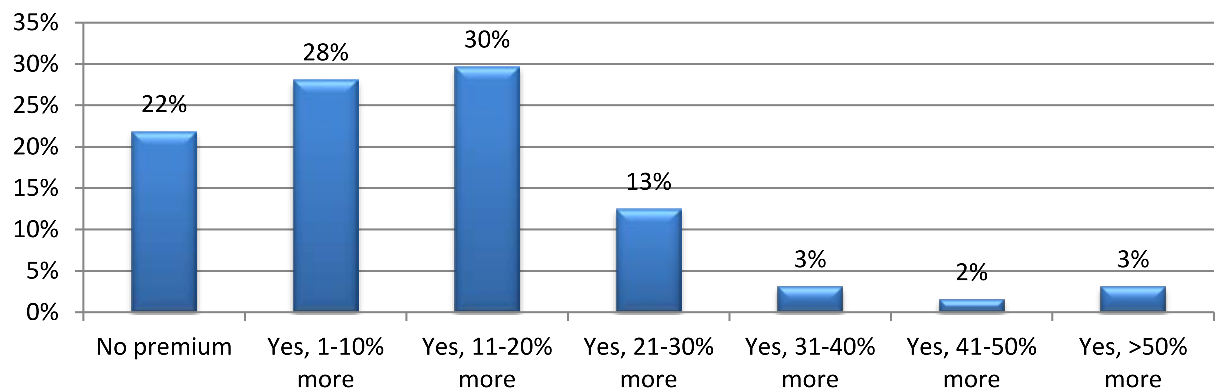
Approximately 56% of closed business sales transactions over the past 12 months involved strategic buyers.

Figure 45. Percent of Transactions Involved Strategic and Financial Buyers



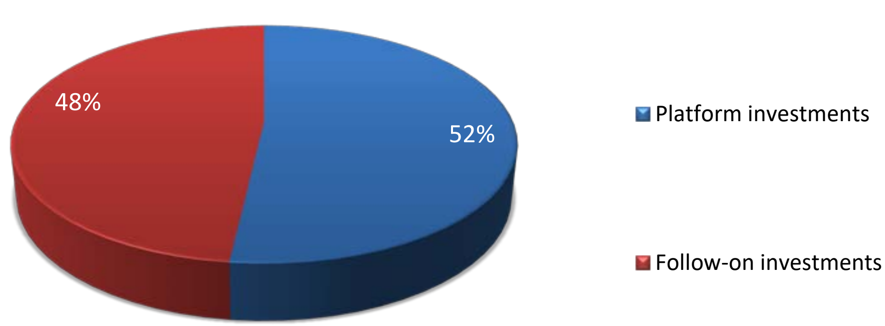
Approximately 22% of respondents did not witness any premium paid by strategic buyers, while 58% saw premiums between 1% and 20%.

Figure 46. Premium Paid by Strategic Buyers Relative to Financial Buyers



Approximately 52% of closed business sales transactions that involved financial buyers over the past 12 months were platform investments.

Figure 47. Percent of Transactions Involved Strategic and Financial Buyers



Respondents indicated a general balance between companies worthy of financing and capital available for the same. There is a reported shortage of capital for those companies with less than $1 million in EBITDA but a general surplus for companies with $1 million in EBITDA or more.

Table 34. Balance of Available Capital with Quality Companies

EBITDA	Companies worthy of financing GREATLY exceed capital available	Companies worthy of financing exceed capital available	General balance	Capital available exceeds companies worthy of financing	Capital available GREATLY exceeds companies worthy of financing	**Score**
$0K - $999K EBITDA	21%	30%	9%	26%	14%	**-0.2**
$1M - $4.99M EBITDA	4%	27%	35%	22%	12%	**0.1**
$5M - $9.99M EBITDA	2%	8%	29%	43%	18%	**0.7**
$10M - $24.99M EBITDA	0%	13%	18%	51%	18%	**0.7**
$25M - $49.99M EBITDA	3%	0%	18%	53%	26%	**1.0**
$50M - $99.99M EBITDA	3%	0%	14%	45%	38%	**1.1**
$100M+ EBITDA	4%	0%	12%	28%	56%	**1.3**

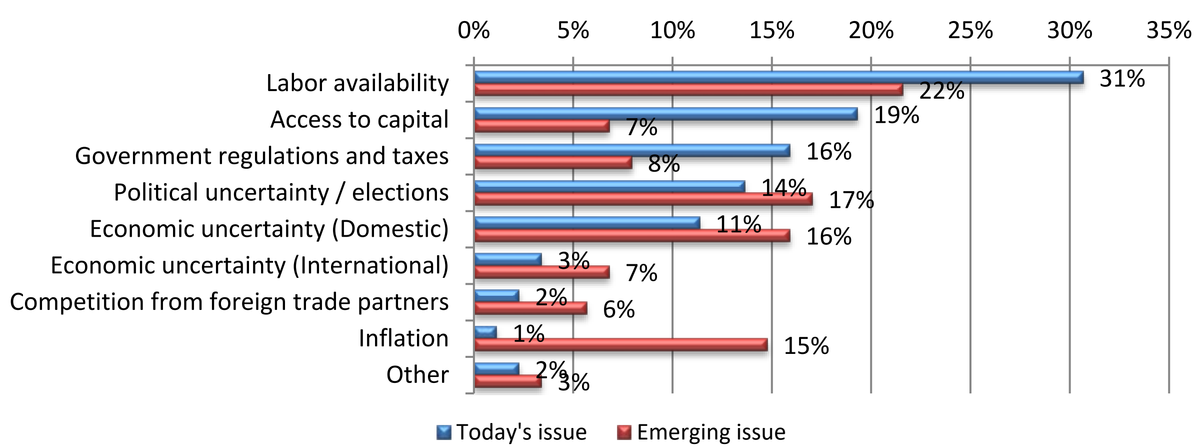
Respondents indicated a general difficulty with arranging senior debt for businesses with less than $1 million in EBITDA.

Table 35. How Difficult to Arrange Senior Debt for Transactions over the Past 12 Months

EBITDA	Extremely difficult	Difficult	Somewhat difficult	Neutral	Somewhat easy	Easy	Extremely easy	**Score**
$1M EBITDA	25%	16%	19%	16%	13%	9%	3%	**-0.8**
$5M EBITDA	2%	14%	16%	16%	30%	19%	2%	**0.2**
$10M EBITDA	0%	7%	14%	17%	38%	21%	3%	**0.6**
$15M EBITDA	0%	0%	16%	12%	28%	36%	8%	**1.1**
$25M EBITDA	0%	0%	0%	13%	31%	44%	13%	**1.6**
$50M EBITDA	0%	0%	0%	0%	33%	25%	42%	**2.1**
$100M+ EBITDA	0%	0%	0%	0%	38%	13%	50%	**2.1**

Respondents believe labor availability is the most important current and emerging issue facing privately-held businesses.

Figure 48. Issues Facing Privately-Held Businesses



The majority of the 88 respondents to the investment banker survey indicated increasing presence of strategic buyers making deals over the last twelve months. They also reported increases in deal flow, leverage and deal multiples, margin pressure on companies and improved general business conditions.

Table 36. General Business and Industry Assessment: Today versus 12 Months Ago

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	**Net increase/ decrease**
Deal flow	0%	14%	28%	41%	17%	58%	14%	**44%**
Leverage multiples	0%	6%	59%	35%	0%	35%	6%	**29%**
Deal multiples	0%	3%	46%	46%	6%	51%	3%	**49%**
Amount of time to sell business	1%	7%	68%	21%	3%	24%	8%	**15%**
Difficulty financing/selling business	0%	13%	71%	15%	1%	16%	13%	**3%**
General business conditions	0%	3%	38%	49%	10%	59%	3%	**56%**
Strategic buyers making deals	0%	3%	43%	40%	13%	54%	3%	**51%**
Margin pressure on companies	0%	9%	50%	40%	1%	41%	9%	**33%**
Buyer interest in minority transactions	4%	10%	50%	28%	7%	35%	15%	**21%**

During the next twelve months, respondents expect further increases in deal flow, leverage and deals multiples, strategic buyers making deals, margin pressure on companies and improving general business conditions.

Table 37. General Business and Industry Assessment Expectations over the Next 12 Months

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	**Net increase/ decrease**
Deal flow	0%	6%	25%	57%	12%	69%	6%	**63%**
Leverage multiples	0%	13%	59%	28%	0%	28%	13%	**16%**
Deal multiples	0%	13%	50%	34%	3%	37%	13%	**24%**
Amount of time to sell business	0%	13%	69%	18%	0%	18%	13%	**4%**
Difficulty financing/selling business	0%	10%	75%	15%	0%	15%	10%	**4%**
General business conditions	0%	12%	56%	25%	7%	32%	12%	**21%**
Strategic buyers making deals	1%	6%	40%	46%	7%	53%	7%	**46%**
Margin pressure on companies	1%	4%	50%	40%	4%	44%	6%	**38%**
Buyer interest in minority transactions	6%	7%	54%	28%	4%	33%	13%	**19%**

PRIVATE EQUITY SURVEY INFORMATION

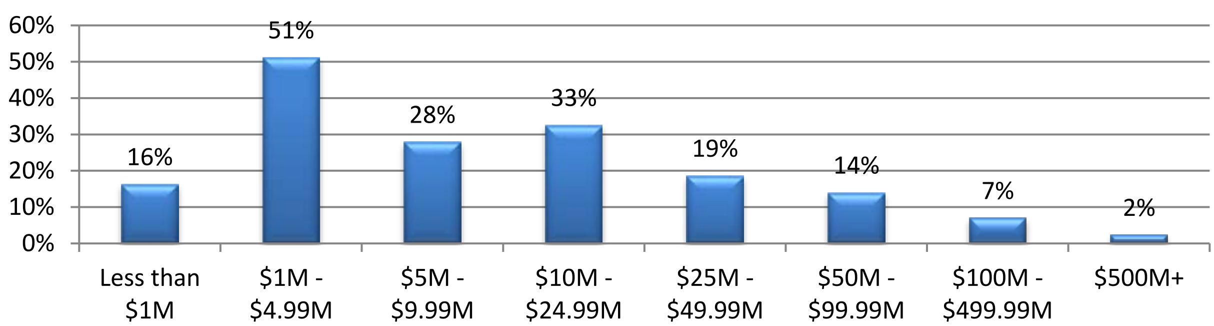
Approximately 51% of the 43 participants who responded to the private equity group survey indicated that they make investments in the $1 million to $5 million range. Nearly 46% of respondents said that demand for private equity is up from twelve months ago, this is down from 52% of respondents indicating increased demand in January 2017. Other key findings include:

- Respondents indicated flat quality of companies seeking investment. They also reported decrease in expected returns on new investments, improved general business conditions and increased deal multiples.
- Respondents expect further increases in demand for private equity, deal multiples, value of portfolio companies and improving general business conditions.
- The types of businesses respondents plan to invest in over next 12 months are very diverse with over 31% targeting manufacturing and another 28% planning to invest in business services.
- Respondents believe labor availability is the most important current and emerging issue facing privately-held businesses.
- The most popular valuation methods used by respondents when valuing privately-held businesses were capitalization of earnings and discounted future earnings approaches.
- When using multiples to determine the value of a business, the most popular methods used by respondents when valuing privately-held businesses were recast EBITDA multiple (43%) and cash flow multiple (23%).

Operational and Assessment Characteristics

The largest concentration of checks written was in the $1 million - $5 million range (51%), followed by $10 - $25 million (33%), and $5 million - $10 million (28%).

Figure 49. Typical Investment Size



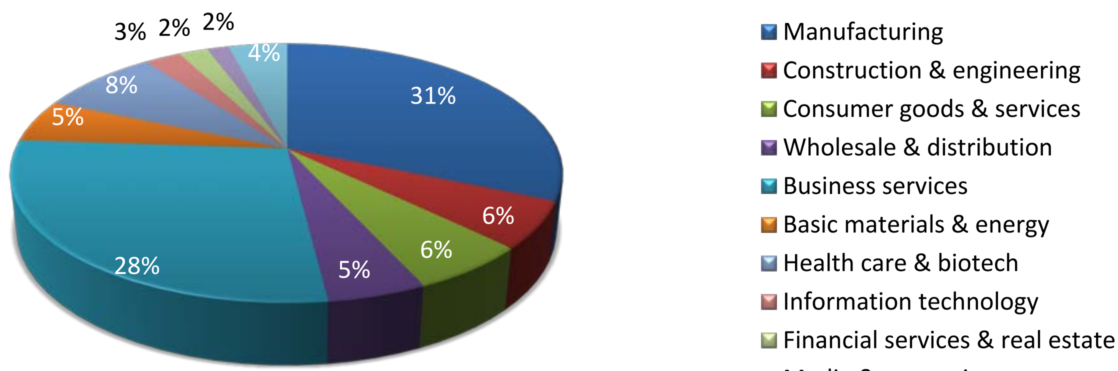
Respondents reported on business practices and the results are reflected below.

Table 38. PEG Fund Data

	1st Quartile	Median	3rd Quartile
Vintage year (year in which first investment made)	2012	2015	2017
Size of fund ($ millions)	17.5	37.5	250
Targeted number of total investments	3	8	8
Target fund return (gross pretax cash on cash annual IRR %)	20%	25%	30%
Expected fund return (gross pretax cash on cash annual IRR%)	20%	25%	30%

The types of businesses respondents plan to invest in over the next 12 months are very diverse with nearly 31% targeting manufacturing and another 28% planning to invest in business services.

Figure 50. Type of Business for Investments Planned over Next 12 Months



Approximately 49% of respondents made between one and three investments over the last twelve months.

Figure 51. Total Number of Investments Made in the Last 12 Months

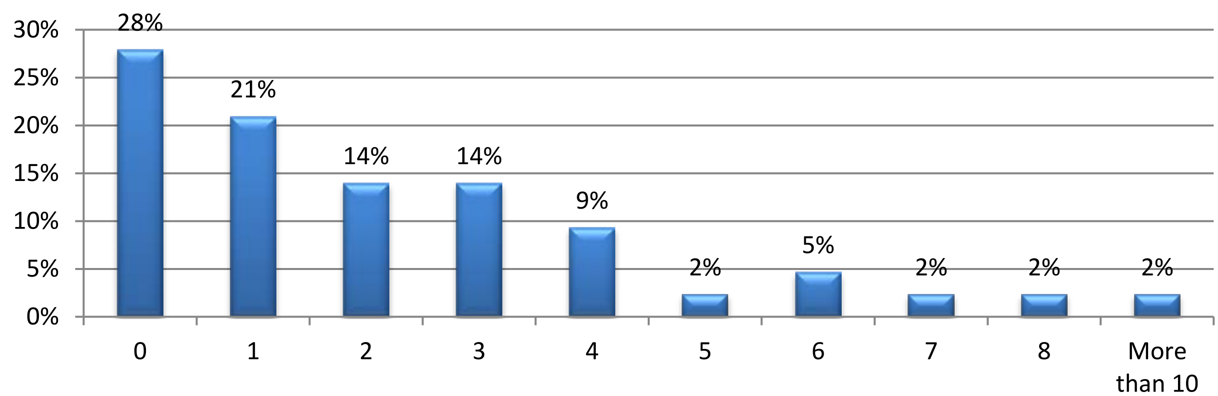
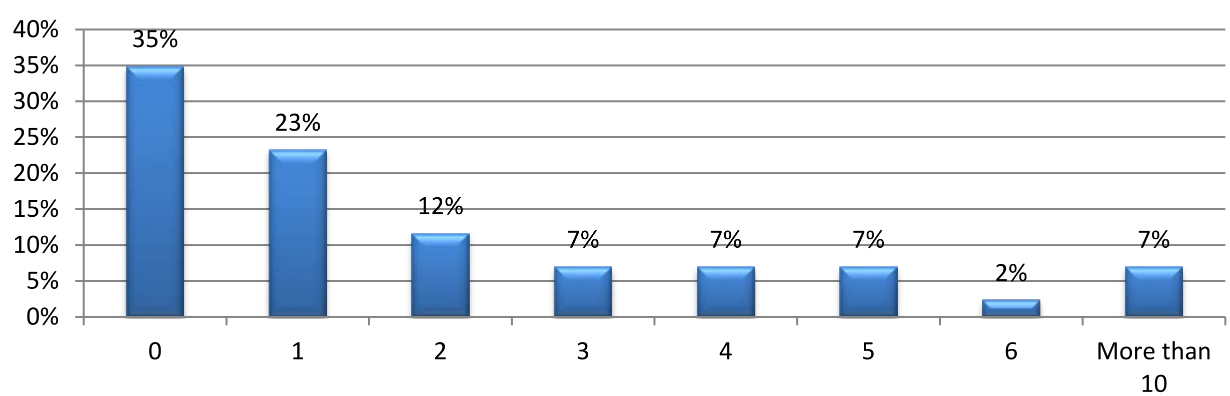


Figure 52. Number of Follow-on Investments Made in the Last 12 Months



The majority (67%) of respondents plan to make one to three investments over the next 12 months.

Figure 53. Number of Total Investments Planned over Next 12 Months

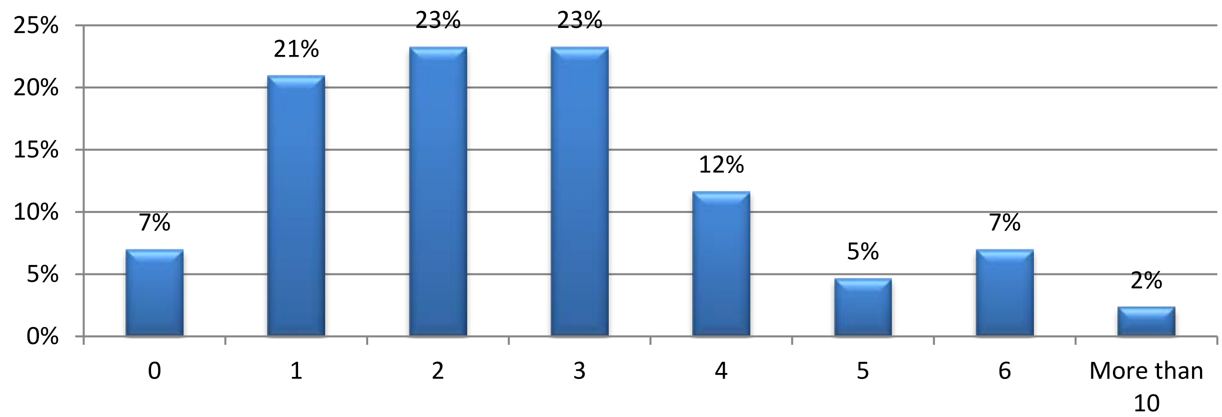
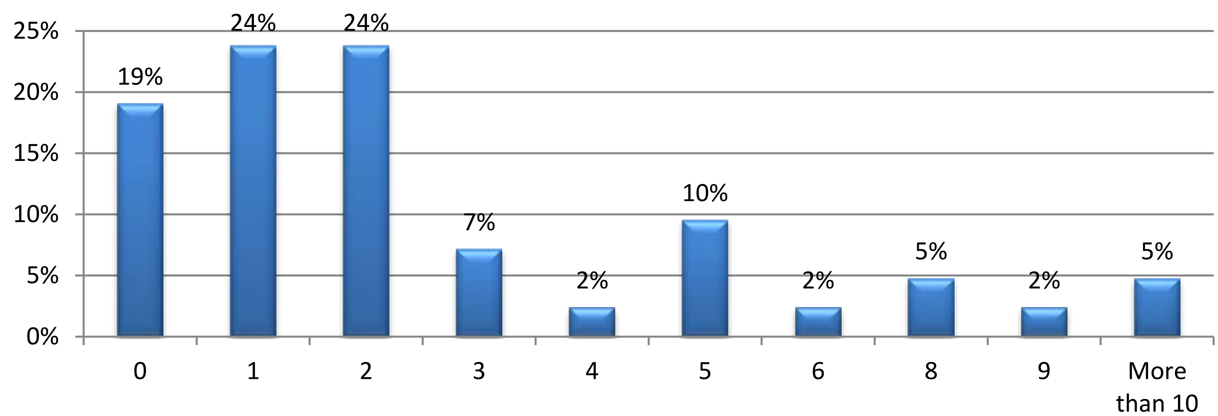
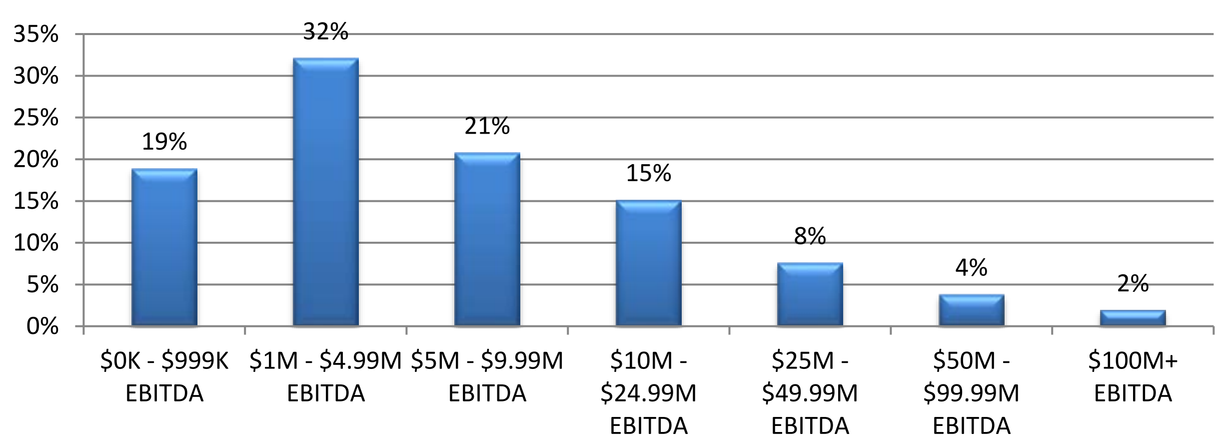


Figure 54. Number of Follow-on Investments Planned over Next 12 Months



Approximately 72% of buyout investments were under $10 million of EBITDA.

Figure 55. Size of Buyout Investments in the Last 12 Months



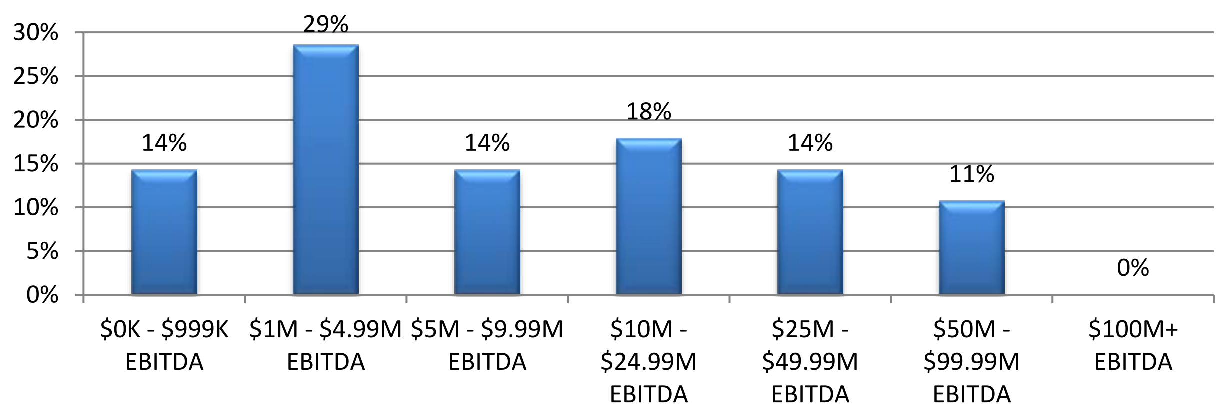
Average deal multiples for buyout deals for the prior twelve months vary from 4.0 to 10 times EBITDA depending on the size of the company. Expected returns vary from 20% to 48%.

Table 39. General Characteristics – Buyout Transactions (medians)

	$0K - $4.99M EBITDA	$5M - $24.99M EBITDA	$25M-$99.99M EBITDA
Number of investments (total)	35	29	6
Average size of investment (in million USD)	3	5	>10
Expected time to exit (years) (median)	5	5	5
Equity as % of new capital structure (median)	15%	45%	45%
% of total equity purchased (median)	95%	85%	75%
Average deal multiple (multiple of EBITDA)	5.5	7.8	9.5
Median total expected returns (gross cash on cash pre-tax IRR)	30%	25%	20%

Approximately 29% of non-buyout investments were in the range between $1 million and $5 million of EBITDA.

Figure 56. Size of Non-Buyout Investments in the Last 12 Months



Average expected returns on non-buyout deals vary from 16% to 30%.

Table 40. General Characteristics – Non-Buyout Transactions (medians)

	$0K - $999K EBITDA	$1M - $4.99M EBITDA	$5M - $9.99M EBITDA	$10M - $24.99M EBITDA	$25M - $49.99M EBITDA	$50M - $99.99M EBITDA	$100M+ EBITDA
Number of investments	5	11	7	11	3	6	0
Average size of investment in million USD (medians)	0.5	4	7.5	20	25	60	n/a
Expected time to exit (years) (medians)	2	2.5	3	4.5	4.5	5	n/a
Equity as % of new capital structure	85%	25%	95%	65%	50%	35%	n/a
% of total equity purchased	85%	35%	95%	15%	50%	30%	n/a
Average deal multiple (multiple of EBITDA)	8.3	8.00	6.5	5.0	5.00	3.3	n/a
Total expected returns (gross cash on cash pre-tax IRR)	30%	30%	25%	20%	18.5%	16%	n/a

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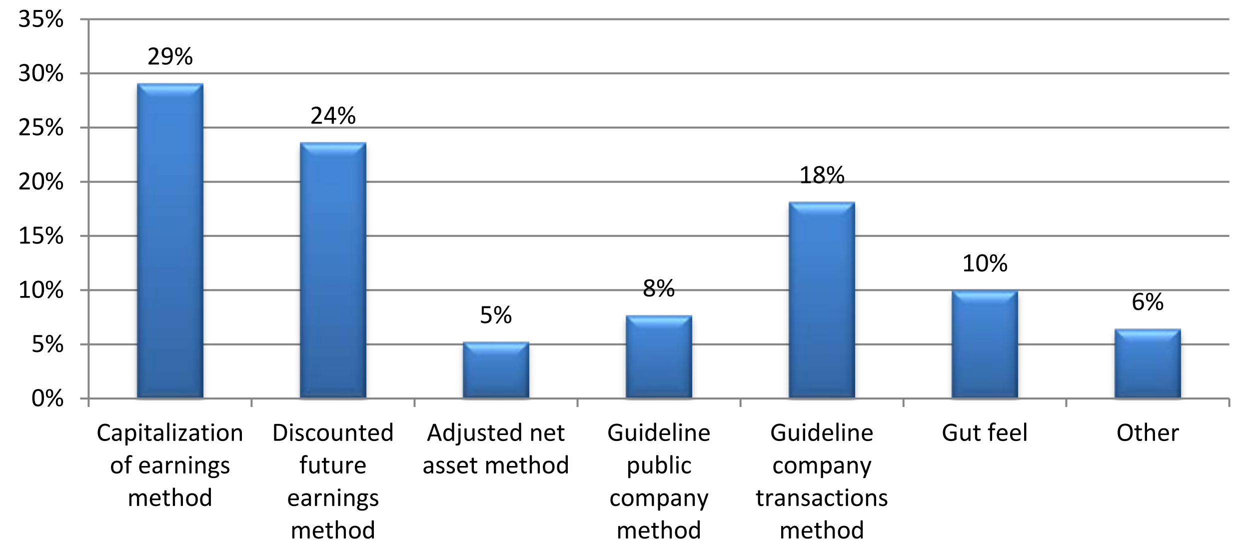
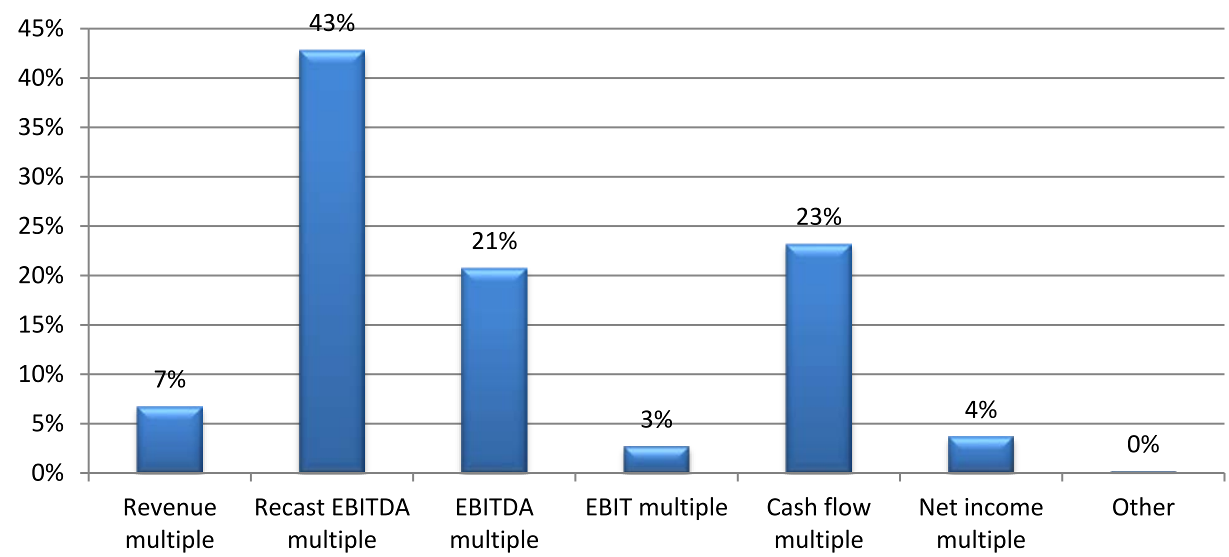
When valuing a business, approximately 29% of the weight is placed on capitalization of earnings method.

Figure 57. Usage of Valuation Approaches



The weights of the various multiple methods used by respondents when valuing privately-held businesses included 43% for recast (adjusted) EBITDA multiple and 23% for cash flow multiple.

Figure 58. Usage of Multiple Methods



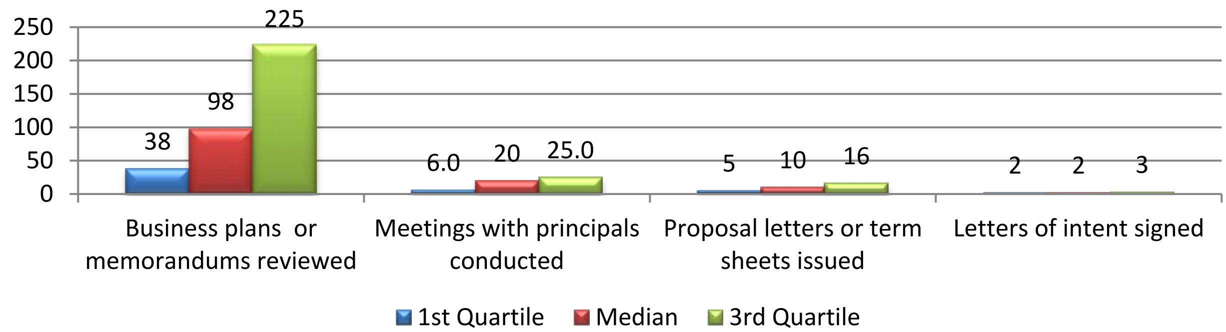
Average deal multiples on transactions from the prior twelve months as observed by respondents varied from 2.5 to 7.1.

Table 41. Median Deal Multiples by EBITDA Size of Company

	$1M EBITDA	$5M EBITDA	$10M EBITDA	$15M EBITDA	$25M EBITDA	$50M EBITDA	$100M EBITDA	**Average**
Manufacturing	4.0	4.0	4.0	4.0	5.0	6.0	n/a	**4.5**
Construction & engineering	2	2.5	n/a	n/a	n/a	3.0	n/a	**2.5**
Consumer goods & services	2.0	2.3	3.0	3.0	3.5	5.8	6.5	**3.7**
Wholesale & distribution	3	3.8	4	4	4	4.5	5.5	**4.1**
Business services	2.5	3.5	3.8	4.0	4.0	6.0	6.0	**4.3**
Basic materials & energy	1.5	2.5	3	3.3	3.5	3.5	7.0	**3.5**
Healthcare & biotech	2.5	3.0	3.5	3.5	4.5	6.5	7.0	**4.4**
Information technology	2	3.5	3.5	4.5	5	5.0	6.75	**4.3**
Financial services & real estate	2.5	3	4.5	4.5	5.5	6.5	9.5	**5.1**
Media & entertainment	2.5	2.5	3.0	3.0	3.0	7.5	8.5	**4.3**
Average	**2.5**	**3.1**	**3.6**	**3.8**	**4.2**	**5.4**	**7.1**	**4.2**

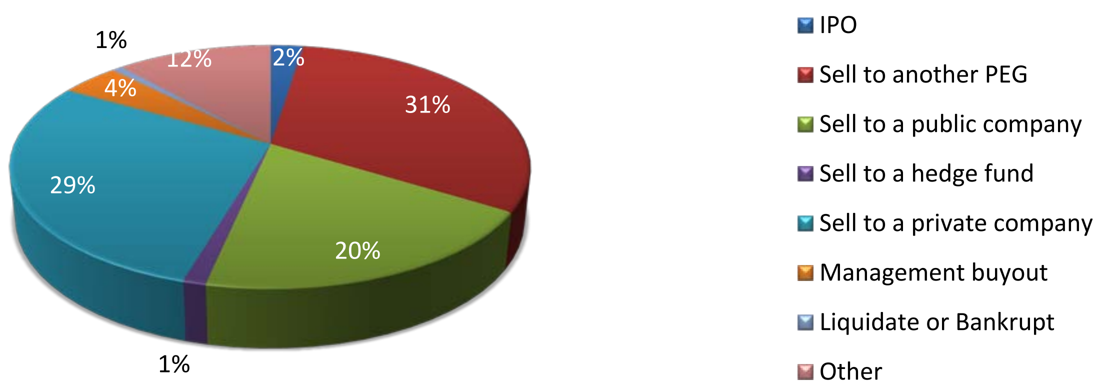
Respondents reported on items required to close one deal.

Figure 59. Items Required to Close One Deal



Respondents reported exit strategies that include selling to another private equity group (31%), selling to private company (29%), and selling to a public company (20%).

Figure 60. Exit Plans for Portfolio Companies



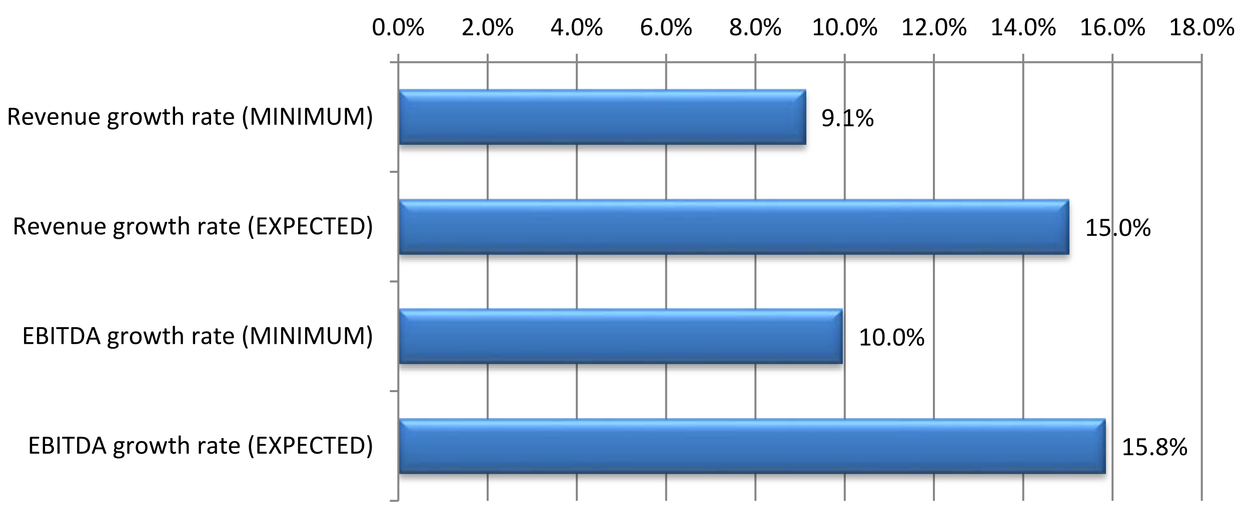
Most of the respondents believe the number of companies "worthy of financing" exceeds "capital available" for the companies with less than $1M in EBITDA. Whereas for the larger companies, "capital available" exceeds the number of companies "worthy of financing."

Table 42. The Balance of Available Capital with Quality Companies for the Following EBITDA Size

EBITDA	Companies worthy of financing GREATLY exceed capital available (capital shortage)	Companies worthy of financing exceed capital available	General balance between companies worthy of financing and capital available	Capital available exceeds companies worthy of financing	Capital available GREATLY exceeds companies worthy of financing (capital surplus)	**Score**
$0K - $999K	34%	29%	9%	20%	9%	**-0.6**
$1M - $4.99M	18%	24%	21%	26%	11%	**-0.1**
$5M - $9.99M	0%	18%	27%	36%	18%	**0.5**
$10M - $14.99M	0%	6%	16%	47%	31%	**1.0**
$15M - $24.99M	0%	6%	13%	34%	47%	**1.2**
$25M - $49.99M	3%	3%	13%	16%	65%	**1.4**
$50M - $99.99M	3%	6%	9%	19%	63%	**1.3**
$100M+	3%	6%	12%	18%	61%	**1.1**

Respondents reported average minimum revenue growth rate when investing in a company today is 9.1%

Figure 61. Minimum and Expected Annual Growth Rates for Investee



Respondents identified importance of the following items regarding business risk.

Table 43. Importance of Items Regarding Business Risk

Characteristics	Unimportant	Of little importance	Moderately important	Important	Very important	Score (1 to 5)
Firm size	2%	14%	47%	28%	9%	2.3
Customer concentrations	0%	5%	19%	47%	30%	3.0
Market leadership	0%	21%	35%	28%	16%	2.4
Historical operating performance	0%	7%	23%	30%	40%	3.0
Industry sector	2%	7%	28%	51%	12%	2.6
Future prospects of company	0%	5%	9%	40%	47%	3.3
Management team	0%	12%	19%	26%	44%	3.0
Other	9%	0%	18%	18%	55%	3.1

Relative to twelve months ago, respondents indicated increases in demand for private equity, quality of companies seeking investment, amount of non-control investments and deal multiples. They also reported a decrease in expected returns on new investments, increase in expected investment holding period and improved general business conditions.

Table 44. General Business and Industry Assessment: Today versus 12 Months Ago

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	**Net increase**
Demand for private equity	0%	11%	43%	35%	11%	46%	11%	**35%**
Quality of companies seeking investment	3%	21%	58%	18%	0%	18%	24%	**-5%**
Average investment size	3%	11%	57%	24%	5%	30%	14%	**16%**
Non-control investments (< 50% equity ownership)	3%	7%	59%	24%	7%	31%	10%	**21%**
Expected investment holding period	3%	16%	41%	30%	11%	41%	19%	**22%**
Deal multiples	0%	3%	15%	49%	33%	82%	3%	**79%**
Exit opportunities	0%	13%	34%	45%	8%	53%	13%	**39%**
Expected returns on new investments	3%	36%	41%	15%	5%	21%	38%	**-18%**
Value of portfolio companies	0%	5%	15%	58%	23%	80%	5%	**75%**
General business conditions	0%	5%	21%	59%	15%	74%	5%	**69%**
Size of private equity industry	0%	3%	19%	53%	25%	78%	3%	**75%**
Appetite for risk	0%	3%	31%	44%	23%	67%	3%	**64%**

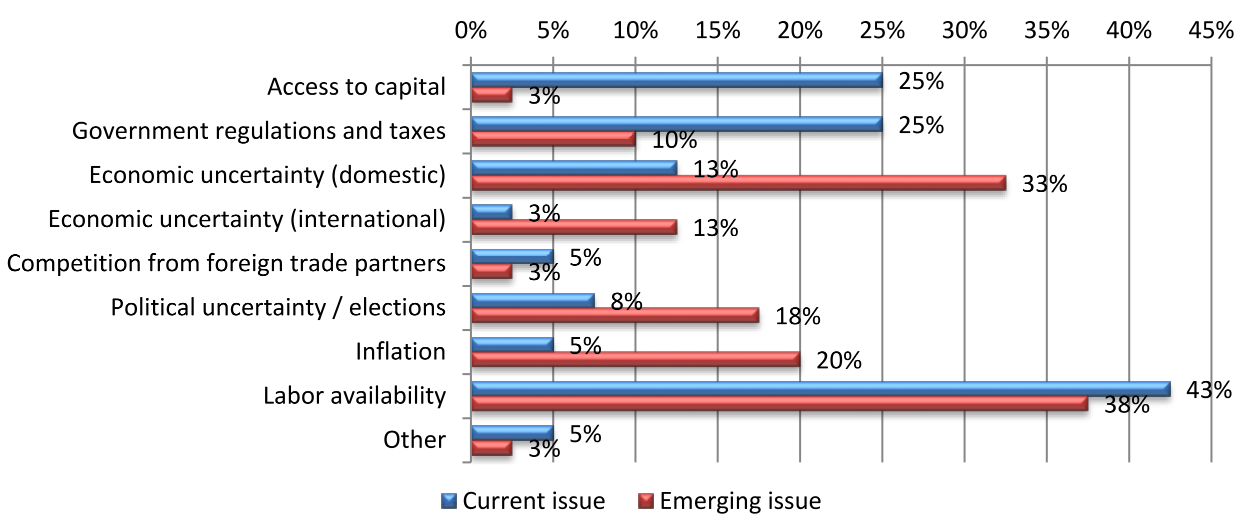
Respondents expect further increases in demand for private equity, decreasing expected returns on new investments, and improving general business conditions.

Table 45. General Business and Industry Assessment Expectations over the Next 12 Months

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	**Net increase**
Demand for private equity	0%	5%	49%	41%	5%	46%	5%	**41%**
Quality of companies seeking investment	0%	33%	44%	21%	3%	23%	33%	**-10%**
Average investment size	0%	10%	54%	28%	8%	36%	10%	**26%**
Non-control investments (< 50% equity ownership)	0%	3%	55%	31%	10%	41%	3%	**38%**
Expected investment holding period	0%	5%	55%	24%	16%	39%	5%	**34%**
Deal multiples	0%	5%	38%	48%	10%	58%	5%	**53%**
Exit opportunities	0%	8%	55%	25%	13%	38%	8%	**30%**
Expected returns on new investments	3%	43%	43%	8%	5%	13%	45%	**-33%**
Value of portfolio companies	0%	5%	30%	55%	10%	65%	5%	**60%**
General business conditions	0%	10%	30%	50%	10%	60%	10%	**50%**
Size of private equity industry	0%	8%	28%	56%	8%	64%	8%	**56%**
Appetite for risk	0%	16%	29%	42%	13%	55%	16%	**39%**

Respondents believe labor availability is the most important current and emerging issue facing privately-held businesses.

Figure 62. Issues Facing Privately-Held Businesses



VENTURE CAPITAL SURVEY INFORMATION

Of the 25 participants who responded to the venture capital survey, approximately 65% of respondents expect an increasing size of the venture capital industry. The majority (63%) of respondents plan to make between two and five investments over the next 12 months.

Other key findings include:

- The types of businesses respondents plan to invest in over the next 12 months are very diverse with over 39% targeting healthcare & biotech and another 32% planning to invest in information technology.
- Respondents' exit strategies include selling to a public company (41%) followed by selling to a private company (20%) and IPO (20%).
- Respondents believe access to capital and labor availability are the most important issue facing privately-held businesses today.

Operational and Assessment Characteristics

Approximately 58% of respondents made five investments or more over the last twelve months.

Figure 63. Total Number of Investments Made in the Last 12 Months

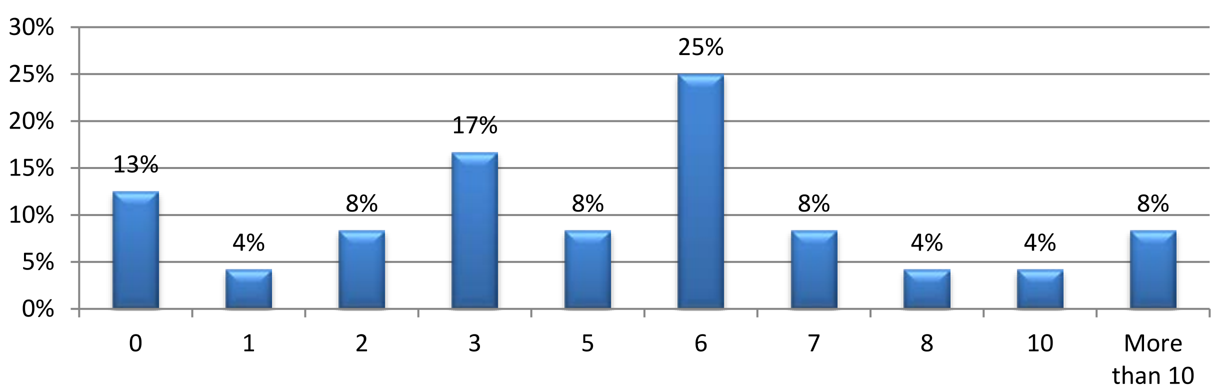
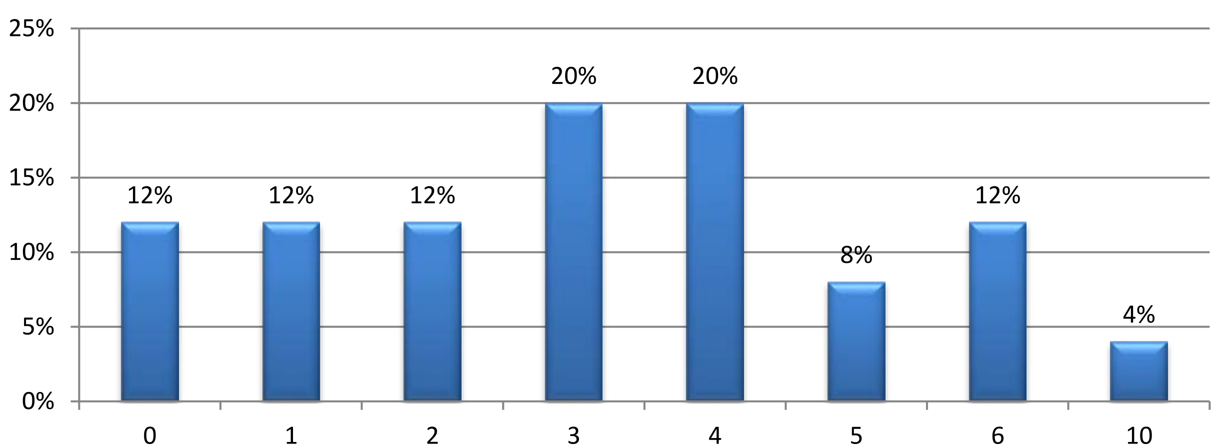


Figure 64. Number of Follow-on Investments Made in the Last 12 Months



The majority (71%) of respondents plan to make four investments or more over the next 12 months.

Figure 65. Number of Total Investments Planned over Next 12 Months

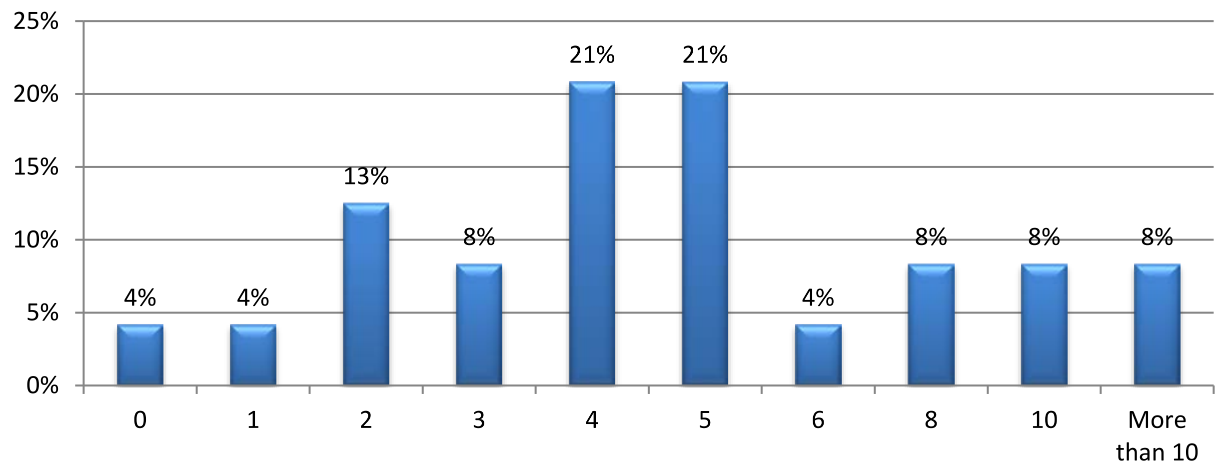
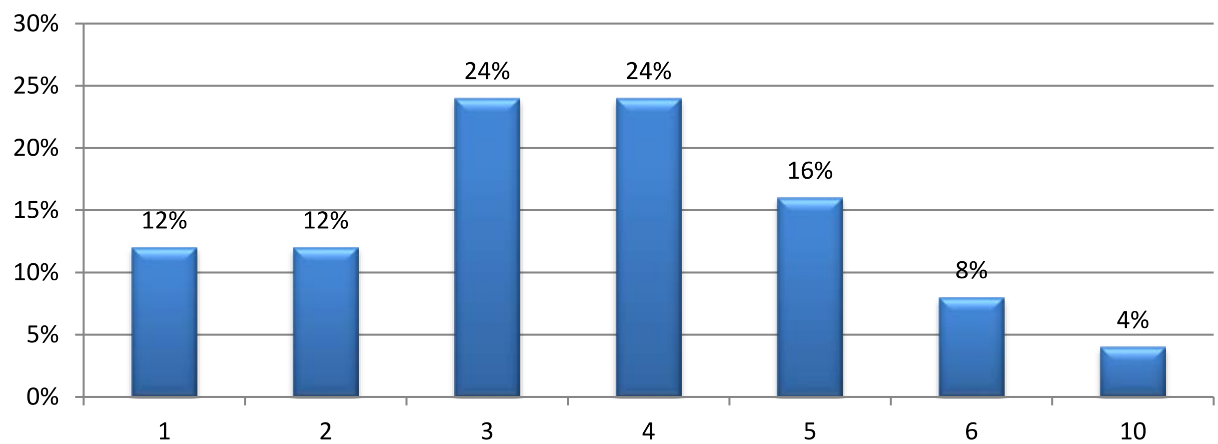


Figure 66. Number of Follow-on Investments Planned over Next 12 Months



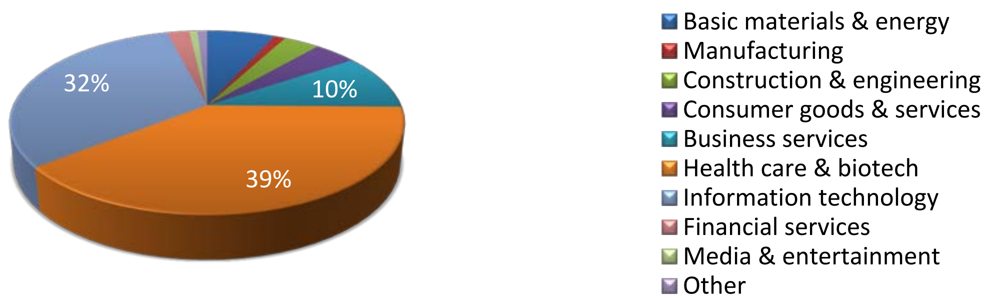
Respondents reported on business practices and the results are reflected below.

Table 46. VC Fund Data

	1st Quartile	Median	3rd Quartile
Vintage year (year in which first investment made)	2012	2015	2016
Size of fund ($ Millions)	$18	$75	$75
Targeted number of total investments	8	13	18
Target fund return (gross pretax cash on cash annual IRR %)	25%	25%	35%
Expected fund return (gross pretax cash on cash annual IRR %)	25%	25%	35%

The types of businesses respondents plan to invest in over the next 12 months are very diverse with over 39% targeting financial services and another 32% planning to invest in information technology.

Figure 67. Type of Business for Investments Planned over Next 12 Months



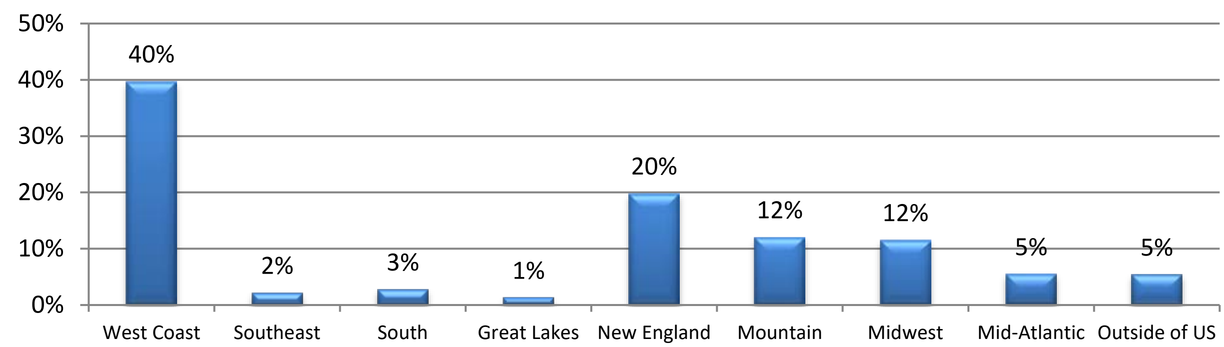
Respondents reported on a variety of statistics pertaining to their investments.

Table 47. General Information on Investments by Company Stages

	Seed	Startup	Early Stage	Expansion	Later Stage
Number of Investments Made in Last Twelve Months					
	27	30	30	16	7
Average Size of Investment ($ million)					
1st Quartile	1.0	1.0	1.5	2.0	3.0
Median	1.0	1.0	1.5	3.5	3.5
3rd Quartile	1.0	2.5	3.5	3.5	4.0
Average % of Total Equity Purchased (fully diluted basis)					
1st Quartile	15.0%	5.0%	5.0%	5.0%	5.0%
Median	**15.0%**	**15.0%**	**5.0%**	**5.0%**	**5.0%**
3rd Quartile	45.0%	45.0%	15.0%	15.0%	5.0%
Total Expected Returns (gross cash on cash pretax IRR) on New Investments					
1st Quartile	38.0%	30.0%	25.0%	22.5%	20.0%
Median	**45.0%**	**38.0%**	**33.0%**	**33.0%**	**28.0%**
3rd Quartile	59.0%	55.0%	45.0%	38.0%	35.0%
Expected Time to Exit (years)					
1st Quartile	5.0	4.5	3.3	3.0	3.0
Median	5.5	5.0	5.0	4.0	3.5
3rd Quartile	7.0	5.0	5.0	4.5	3.8
Average Company 'Pre-money' Value ($ million)					
1st Quartile	1.5	2.0	3.5	30.0	47.5
Median	**2.0**	**2.5**	**7.5**	**45.0**	**50.0**
3rd Quartile	3.8	5.0	15.0	45.0	53.0
Average Company Value at Time of Investment (post-money $ million)					
1st Quartile	2.0	3.5	7.5	37.5	100.0
Median	**3.0**	**7.5**	**15.0**	**50.0**	**100.0**
3rd Quartile	7.5	7.5	25.0	62.5	100.0

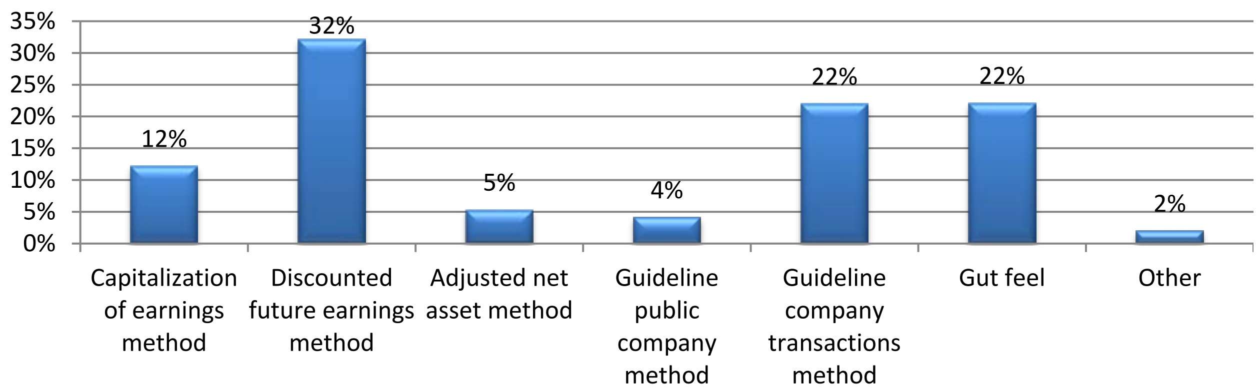
Respondents reported on where they plan to invest over the next 12 months. The results reflect investment throughout the U.S.

Figure 68. Geographic Location of Planned Investment over Next 12 Months



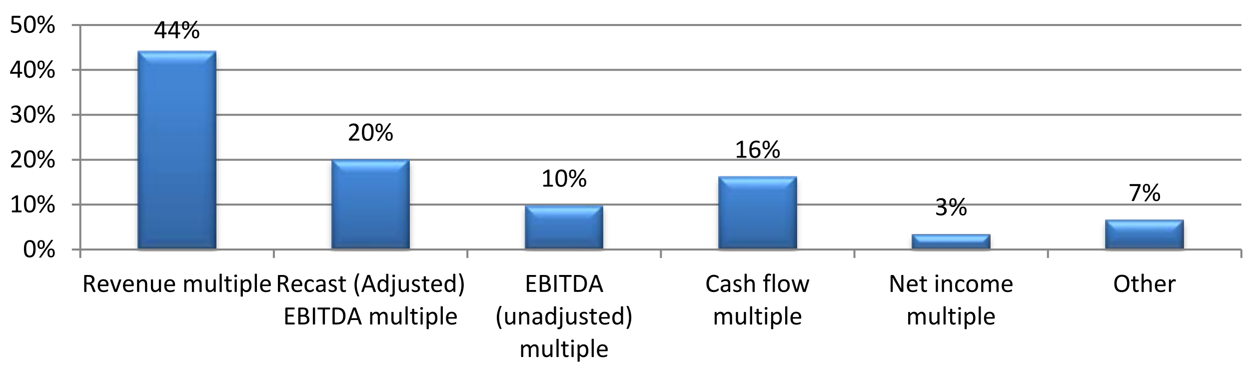
When valuing the company, approximately 32% of respondents use discounted future earnings method, 22% use guideline company transactions method and another 22% use gut feel when valuing privately-held businesses.

Figure 69. Usage of Valuation Methods



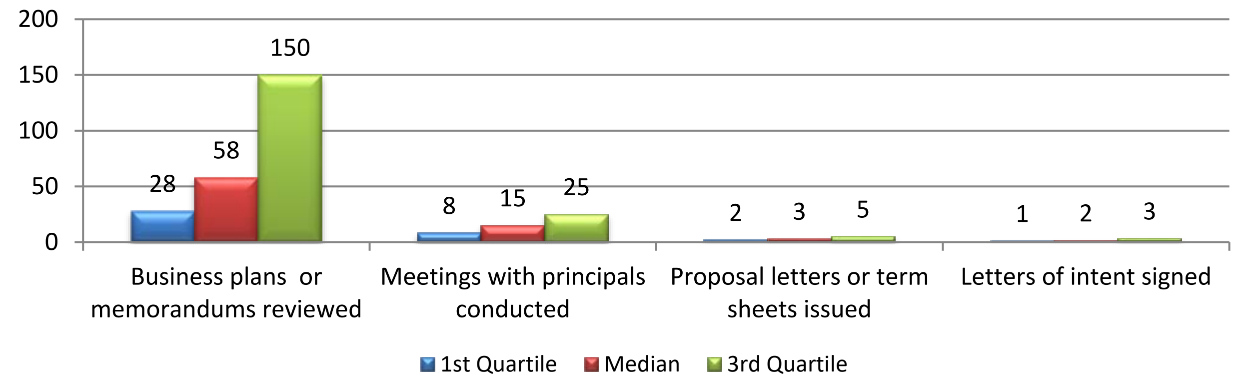
The weights of the various multiple methods used by respondents when valuing privately-held businesses included 44% for revenue multiple and 20% for recast (adjusted) EBITDA multiple methods.

Figure 70. Usage of Multiple Methods



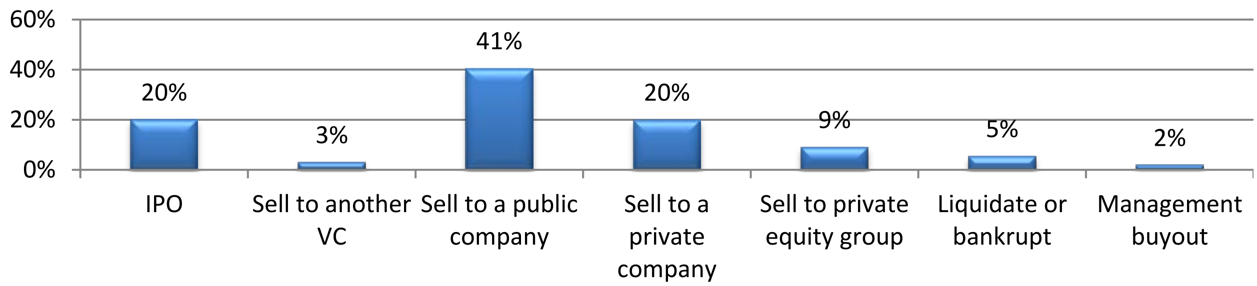
Respondents reported on items required to close one deal.

Figure 70. Items Required to Close One Deal



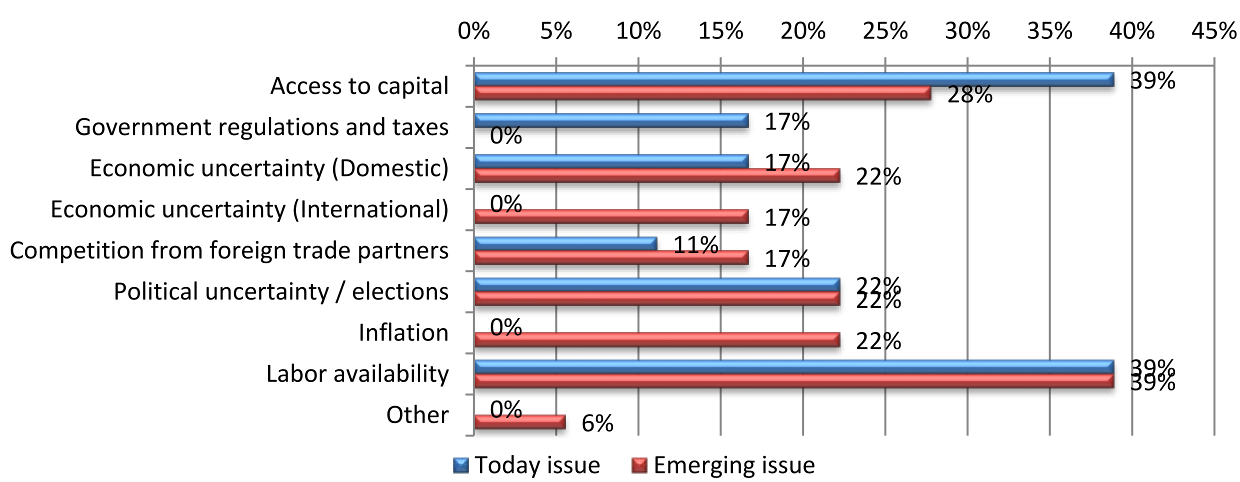
Respondents' exit strategies include selling to a public company (41%) followed by selling to a private company (20%) and IPO (20%).

Figure 71. Exit Plans for Portfolio Companies



Respondents believe access to capital and labor availability are the most important issue facing privately-held businesses today.

Figure 72. Current Issues Facing Privately-Held Businesses



Respondents indicated increases in demand for venture capital, follow-on investments, value of portfolio companies, presence of super angels in space formerly occupied by VCs, and improved general business conditions.

Table 48. General Business and Industry Assessment: Today versus 12 Months Ago

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	**Net increase**
Demand for venture capital	0%	0%	12%	59%	29%	88%	0%	**88%**
Quality of companies seeking investment	6%	12%	35%	35%	12%	47%	18%	**29%**
Follow-on investments	6%	0%	28%	44%	22%	67%	6%	**61%**
Average investment size	0%	0%	29%	41%	29%	71%	0%	**71%**
Exit opportunities	11%	17%	6%	56%	11%	67%	28%	**39%**
Time to exit deals	6%	17%	17%	56%	6%	61%	22%	**39%**
Expected returns on new investments	0%	6%	56%	28%	11%	39%	6%	**33%**
Value of portfolio companies	0%	0%	33%	39%	28%	67%	0%	**67%**
General business conditions	0%	0%	24%	35%	41%	76%	0%	**76%**
Presence of super angels in space formerly occupied by VCs	0%	6%	19%	69%	6%	75%	6%	**69%**
Size of venture capital industry	0%	0%	35%	35%	29%	65%	0%	**65%**
Appetite for risk	6%	6%	41%	29%	18%	47%	12%	**35%**

Respondents expect further improving general business conditions.

Table 49. General Business and Industry Assessment Expectations over the Next 12 Months

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	**Net increase**
Demand for venture capital	0%	6%	33%	33%	28%	61%	6%	**56%**
Quality of companies seeking investment	0%	11%	39%	39%	11%	50%	11%	**39%**
Follow-on investments	0%	0%	44%	39%	17%	56%	0%	**56%**
Average investment size	0%	0%	39%	39%	22%	61%	0%	**61%**
Exit opportunities	0%	0%	44%	44%	11%	56%	0%	**56%**
Time to exit deals	0%	17%	61%	17%	6%	22%	17%	**6%**
Expected returns on new investments	0%	0%	78%	11%	11%	22%	0%	**22%**
Value of portfolio companies	0%	0%	11%	67%	22%	89%	0%	**89%**
General business conditions	0%	6%	33%	39%	22%	61%	6%	**56%**
Presence of super angels in space formerly occupied by VCs	0%	0%	56%	38%	6%	44%	0%	**44%**
Size of venture capital industry	0%	0%	41%	35%	24%	59%	0%	**59%**
Appetite for risk	0%	6%	35%	41%	18%	59%	6%	**53%**

ANGEL INVESTOR SURVEY INFORMATION

Of the 47 participants who responded to the angel investor survey, the majority (59%) of respondents plan to make between one and four investments in the next twelve months. Other key findings include:

- Approximately 24% of respondents base valuations on gut feel when valuing privately-held businesses.
- When using multiples to determine the value of a business, the most popular methods used by respondents were revenue multiple (36%), and cash flow multiple (17%).
- The types of businesses respondents plan to invest in over next 12 months are very diverse with 28% targeting information technology and another 23% planning to invest in health care or biotech.
- Respondents indicated increase in demand for angel capital, size of angel industry, expected returns on new investments and improved general business conditions.
- Respondents' exit strategies include selling to a private company (34%) and selling to a public company (32%).

Operational and Assessment Characteristics

Approximately 66% of respondents made between one and four investments over the last twelve months.

Figure 73. Total Number of Investments Made in the Last 12 Months

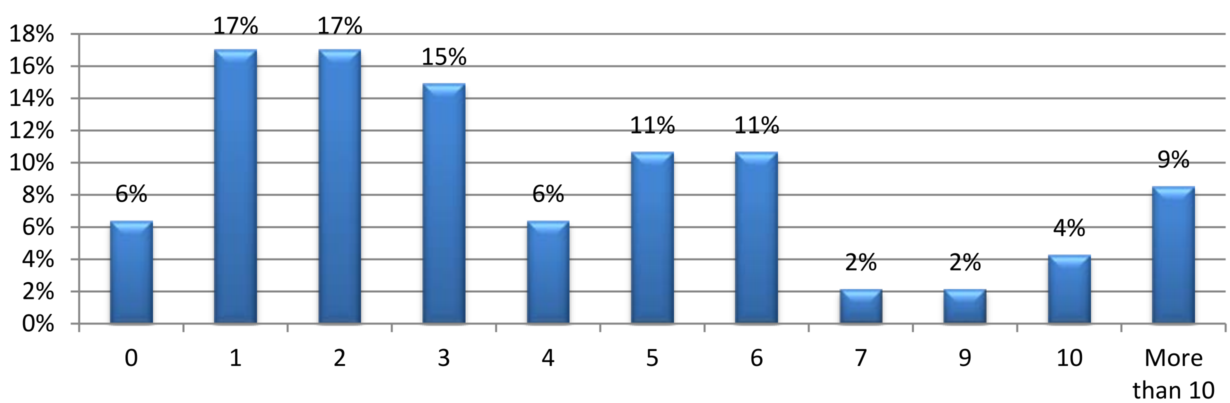
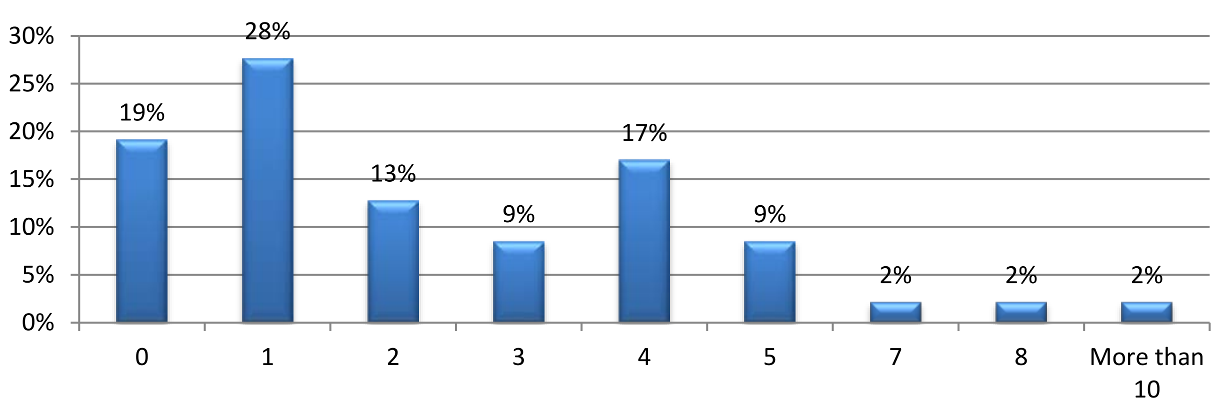


Figure 74. Number of Follow-on Investments Made in the Last 12 Months



The majority (58%) of respondents plan to make between one and four investments over the next 12 months.

Figure 75. Number of Total Investments Planned over Next 12 Months

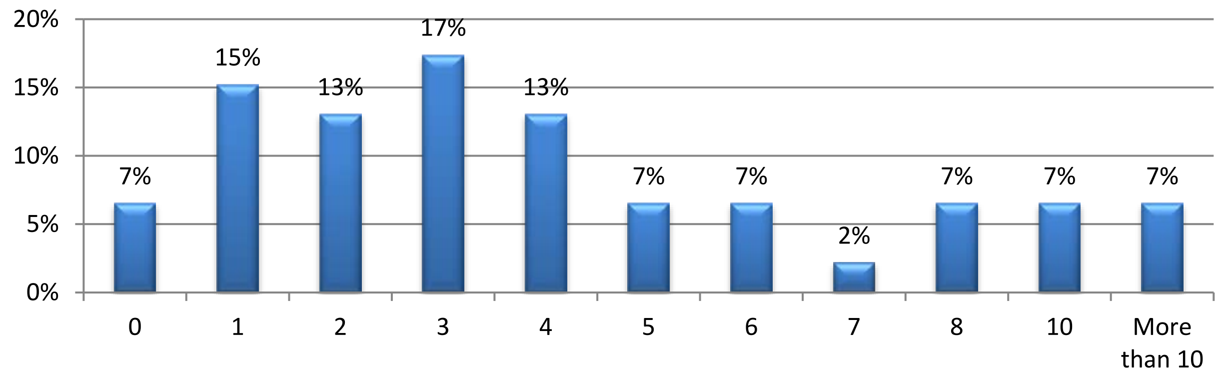
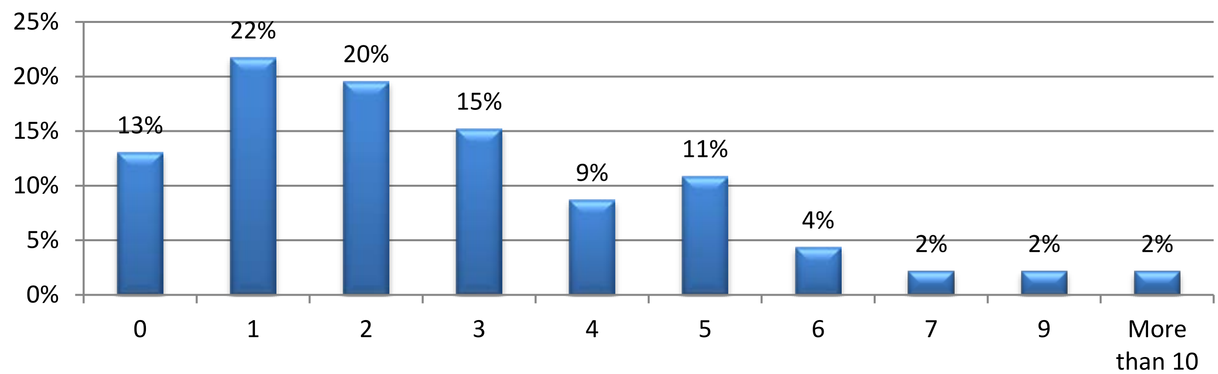
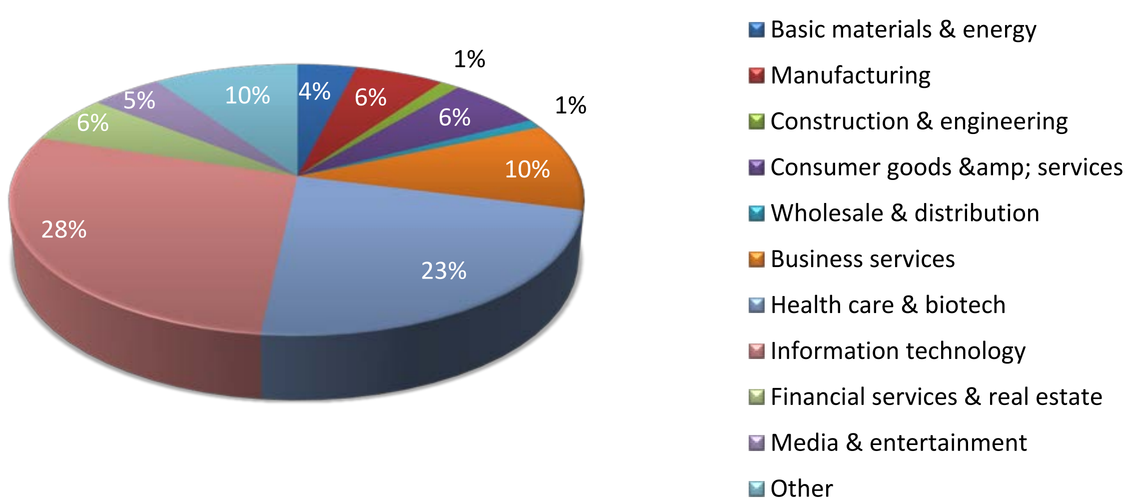


Figure 76. Number of Follow-on Investments Planned over Next 12 Months



The types of businesses respondents plan to invest in over next 12 months are very diverse with over 28% targeting information technology and another 23% planning to invest in healthcare & biotech.

Figure 77. Type of Business for Investments Planned over Next 12 Months



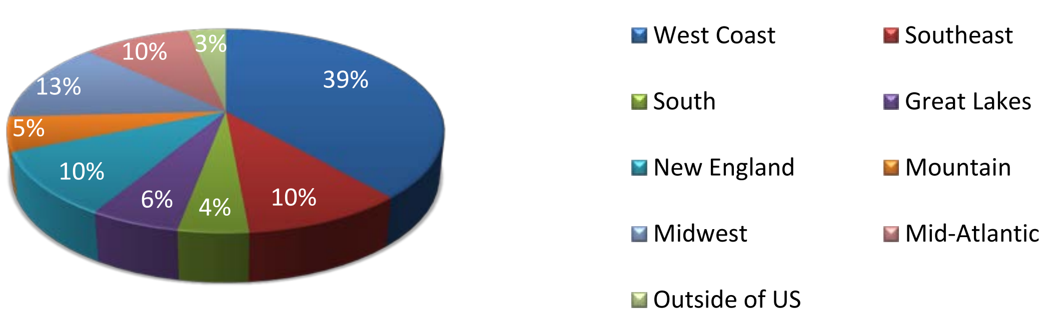
Respondents reported on a variety of stats pertaining to their investments.

Table 50. General Information on Investments by Company Stages

	Seed	Startup	Early Stage	Expansion	Later Stage
Number of Investments Made in Last Twelve Months					
1st Quartile	122	55	64	41	6
Average Size of Investment					
1st Quartile	$25,000	$25,000	$25,000	$25,000	$25,000
Median	**$25,000**	**$50,000**	**$75,000**	**$150,000**	**$250,000**
3rd Quartile	$150,000	$250,000	$275,000	$450,000	$1,500,000
Average % of Total Equity Purchased (fully diluted basis)					
1st Quartile	2%	1%	2%	5.0%	4%
Median	**5%**	**5%**	**5%**	**5.5%**	**5%**
3rd Quartile	15%	20%	6.50%	9.5%	9%
Total EXPECTED Returns (gross cash on cash pretax IRR) on New Investments (%)					
1st Quartile	25%	25%	25%	20%	15%
Median	**55%**	**50%**	**40%**	**35%**	**35%**
3rd Quartile	98%	95%	85%	70%	45%
Expected Time to Exit (years)					
1st Quartile	5	4	4	3	3
Median	**6**	**5**	**4**	**3**	**3**
3rd Quartile	8	5	5	4.5	5.5
Average Company 'Pre-money' Value					
1st Quartile	$550,000	$925,000	$3,000,000	$4,000,000	$10,000,000
Median	**$2,500,000**	**$2,500,000**	**$4,500,000**	**$7,500,000**	**>10000000**
3rd Quartile	$3,500,000	$3,500,000	$4,750,000	$8,750,000	>10000000
Average Company Value at Time of Investment (post-money value)					
1st Quartile	$1,000,000	$1,500,000	$2,000,000	$2,500,000	$3,250,000
Median	**$3,500,000**	**$4,500,000**	**$4,500,000**	**$4,500,000**	**$8,000,000**
3rd Quartile	$4,750,000	$6,000,000	$6,500,000	$10,000,000	$10,000,000

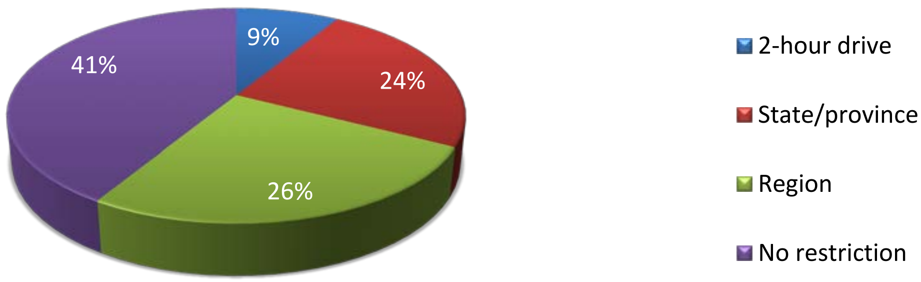
Respondents reported on where they plan to invest over the next 12 months. The results reflect investment throughout the U.S.

Figure 78. Geographic Location of Planned Investment over Next 12 Months



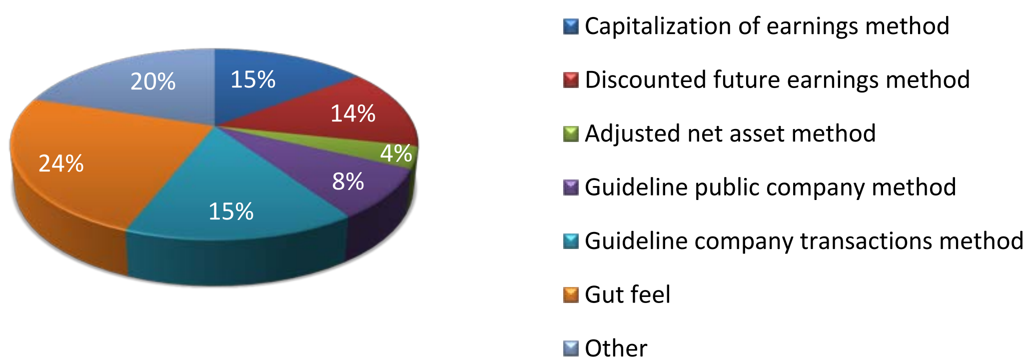
Respondents reported on their geographical limits for investments.

Figure 79. Geographical Limit for Investment



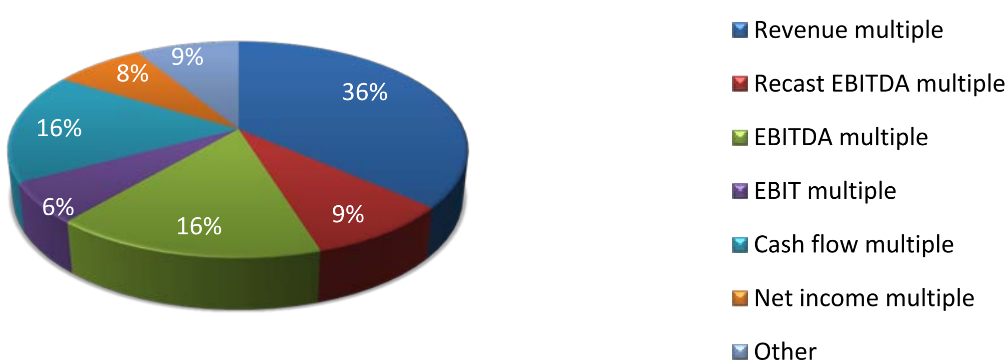
Approximately 24% of respondents base valuations on gut feel when valuing privately-held businesses followed by capitalization of earnings method (15%) and guideline company transaction method (15%).

Figure 80. Usage of Valuation Methods



The weights of the various multiple methods used by respondents when valuing privately-held businesses included 36% for revenue multiple, 16% for EBITDA multiple method and another 16% for cash flow multiple.

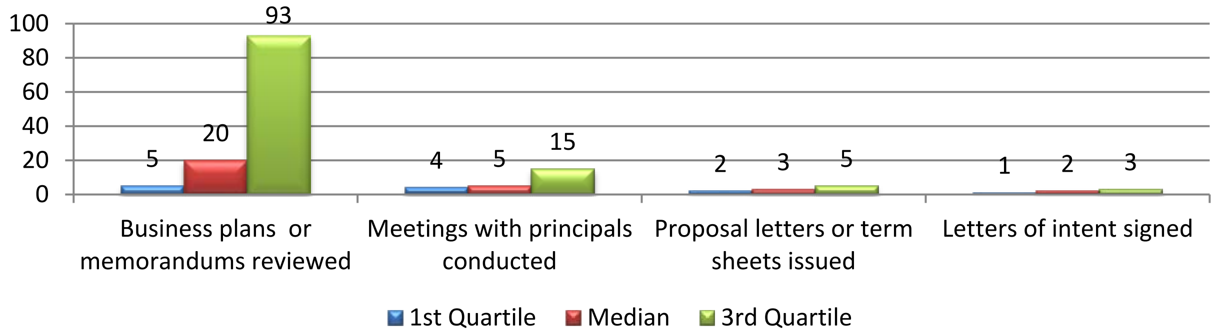
Figure 80. Usage of Multiple Methods



ANGEL cont.

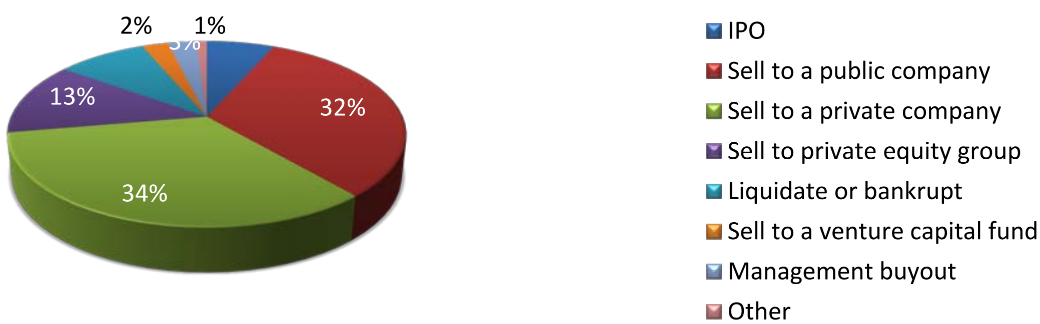
Respondents reported on items required to close one deal.

Figure 81. Items Required to Close One Deal



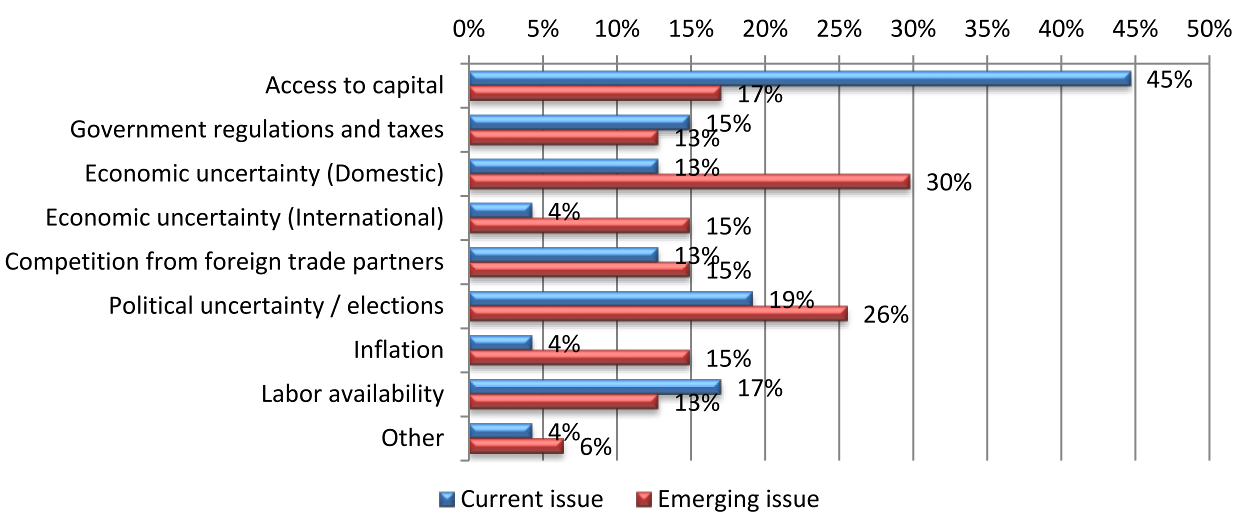
Respondents' exit strategies include selling to a private company (34%) and selling to a public company (32%).

Figure 82. Exit Plans for Portfolio Companies



Respondents believe access to capital is the most important current issue facing privately-held businesses.

Figure 84. Issues Facing Privately-Held Businesses



ANGEL cont.

Respondents indicated increase in demand for angel capital, size of angel industry, expected returns on new investments and improved general business conditions.

Table 51. General Business and Industry Assessment: Today versus 12 Months Ago

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	**Net increase**
Demand for angel capital	0%	7%	33%	29%	31%	60%	7%	**52%**
Size of angel finance industry	2%	7%	35%	37%	19%	56%	9%	**47%**
Quality of companies seeking investment	7%	21%	38%	24%	10%	33%	29%	**5%**
Follow-on investments	5%	9%	47%	23%	16%	40%	14%	**26%**
Average investment size	5%	12%	38%	36%	10%	45%	17%	**29%**
Exit opportunities	9%	12%	47%	16%	16%	33%	21%	**12%**
Time to exit deals	2%	12%	45%	24%	17%	40%	14%	**26%**
Expected returns on new investments	2%	12%	53%	21%	12%	33%	14%	**19%**
Value of portfolio companies	0%	7%	30%	51%	12%	63%	7%	**56%**
General business conditions	0%	7%	28%	42%	23%	65%	7%	**58%**
Appetite for risk	5%	7%	44%	26%	19%	44%	12%	**33%**

Respondents expect further increases in all business characteristics.

Table 52. General Business and Industry Assessment Expectations over the Next 12 Months

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	**Net increase**
Demand for angel capital	2%	5%	26%	43%	24%	67%	7%	**60%**
Size of angel finance industry	0%	14%	33%	40%	12%	52%	14%	**38%**
Quality of companies seeking investment	0%	15%	46%	34%	5%	39%	15%	**24%**
Follow-on investments	2%	12%	41%	34%	10%	44%	15%	**29%**
Average Investment Size	2%	10%	46%	24%	17%	41%	12%	**29%**
Exit opportunities	5%	24%	24%	29%	17%	46%	29%	**17%**
Time to exit deals	2%	20%	41%	24%	12%	37%	22%	**15%**
Expected returns on new investments	0%	20%	39%	22%	20%	41%	20%	**22%**
Value of portfolio companies	2%	12%	29%	41%	15%	56%	15%	**41%**
General business conditions	3%	23%	28%	28%	20%	48%	25%	**23%**
Appetite for risk	0%	17%	41%	24%	17%	41%	17%	**24%**

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BUSINESS APPRAISER SURVEY INFORMATION

According to the 164 business appraiser survey respondents, government regulations and taxes are the most important issue facing privately-held business today. Respondents indicated increases in number of engagements, fees for services, competition, and improved general business conditions over the last twelve months. They also expect slightly worsening business conditions in the next twelve months.

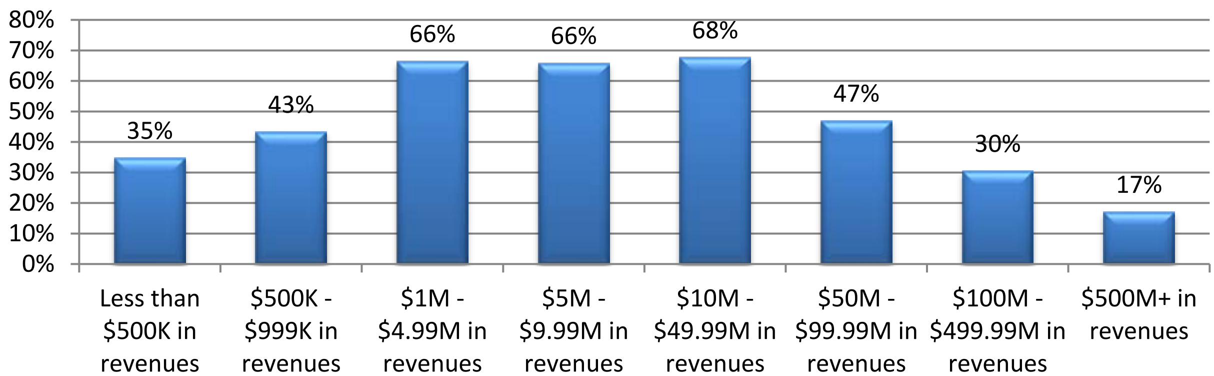
Other key findings include:

- When using valuation methods to determine the value of a business, the most popular methods used by respondents were discounted future earnings method (36%), capitalization of earnings method (27%) and guideline company transactions method (15%).
- Recast (adjusted) EBITDA multiple is the most popular when using multiple valuation method.
- Respondents use an average risk-free rate of 3.02% and a market (equity) risk premium of 6.02%.
- Average long-term terminal growth is estimated at 3.17%.

Operational and Assessment Characteristics

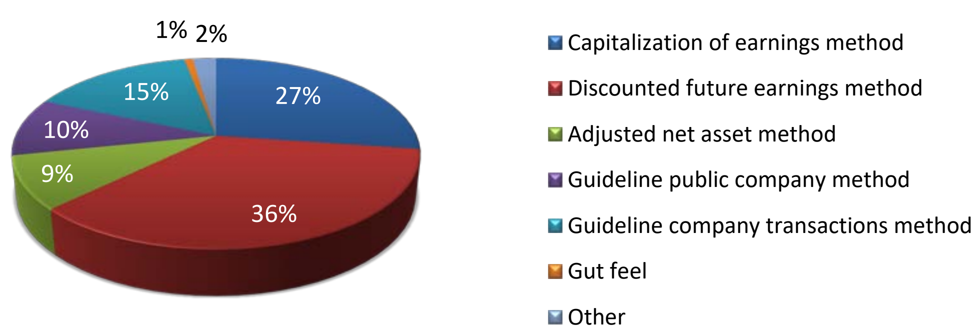
Most of the companies valued by respondents have annual revenues from $1 million to $50 million.

Figure 83. Annual Revenues of Companies Valued



Appraisers, on average, apply a 36% weight to discounted future earnings method when valuing a privately-held business.

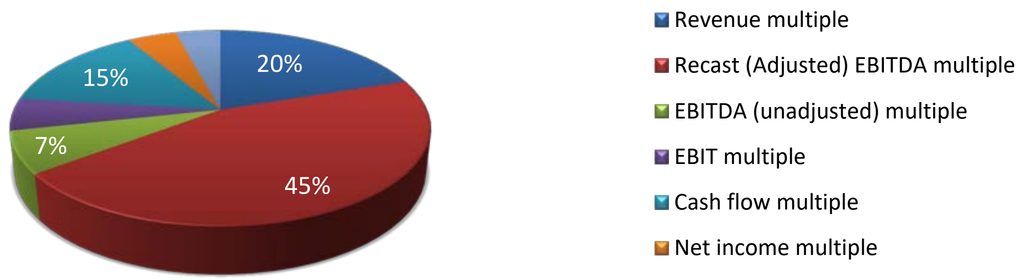
Figure 84. Usage of Valuation Methods



APPRAISERS cont.

Respondents using multiples-based approaches indicate a preference for using recast (adjusted) EBITDA multiples (45%), followed by revenue multiples (20%).

Figure 85. Usage of Multiple Methods



Respondents indicated using an average risk-free rate of 3.02%, average market (equity) risk premium of 6.02% and average long-term growth rate of 3.17%.

Figure 86. Average Risk-Free Rate, Market (equity) Risk Premium, Industry Risk Premiums and Long-Term Growth Rate

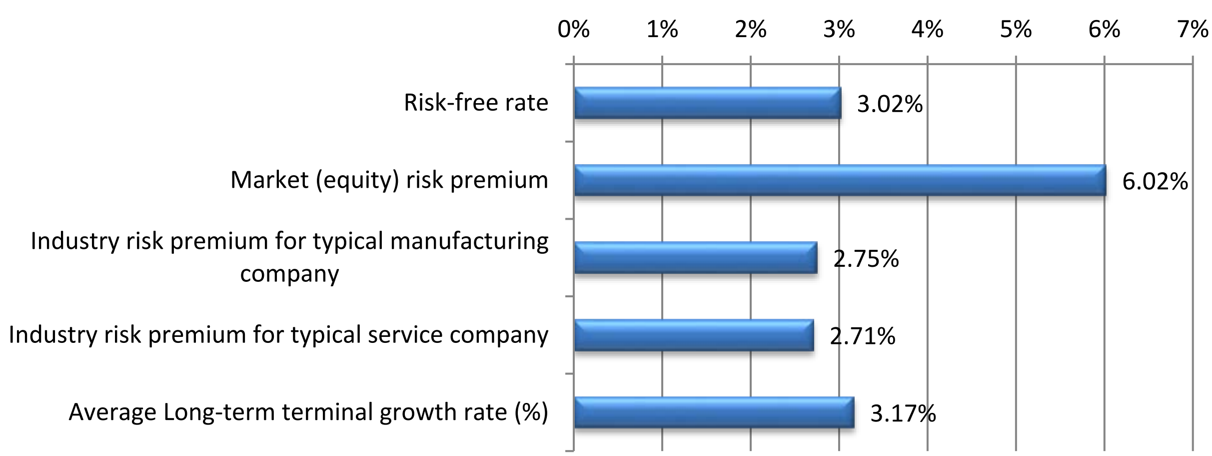
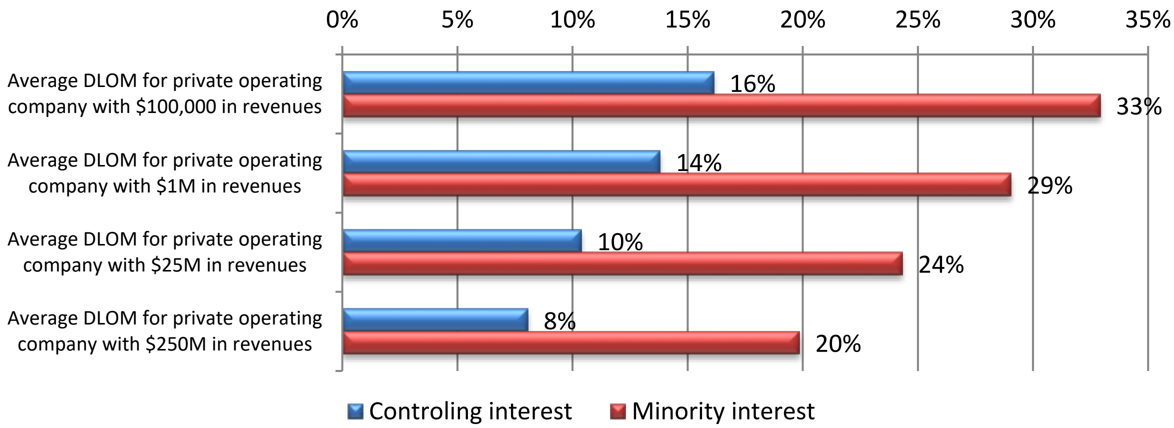


Figure below indicates considerable differences in DLOMs across sizes of companies and subject interests.

Figure 87. Discount for Lack of Marketability (DLOM) by Revenue Sizes



Only 24% of respondents are comfort applying public cost of capital to privately-held companies with annual revenues less than $1 million.

Figure 88. Overall Comfort Level with Applying Public Cost of Capital to Privately-held Companies of Various Sizes

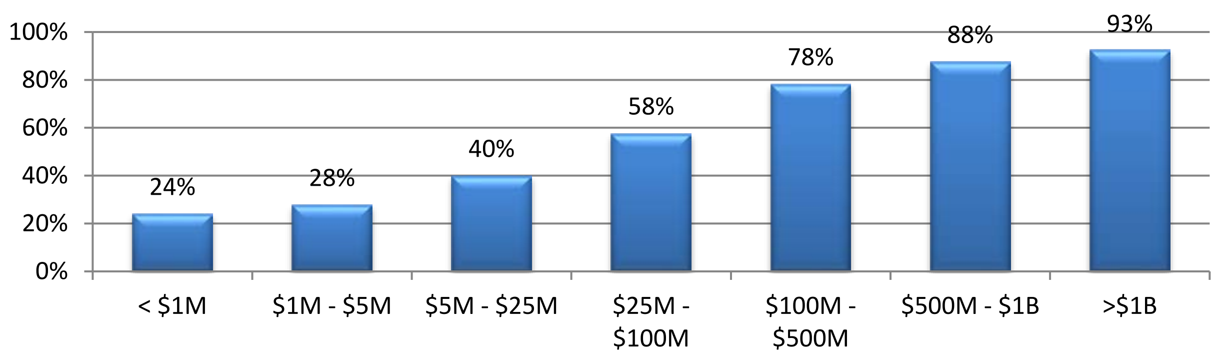
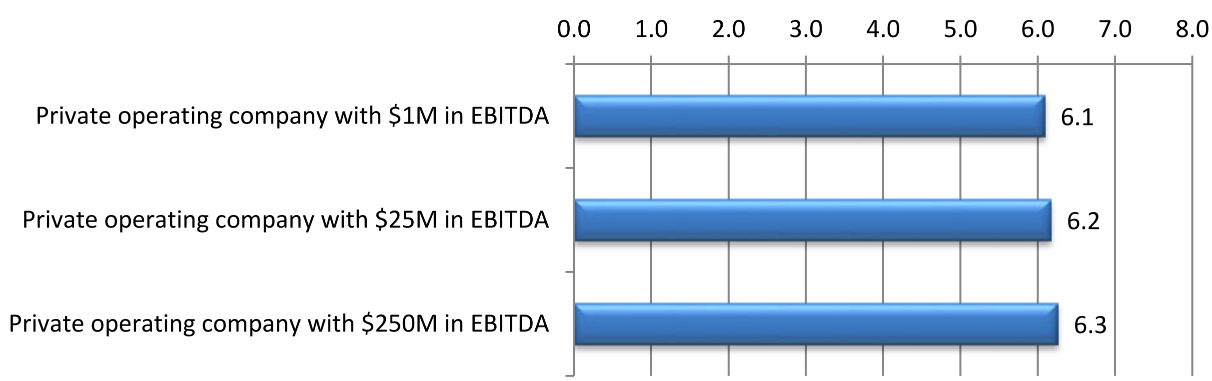


Figure 89. Explicit Forecast Period for High-Growth Companies by Revenue Sizes (years)



APPRAISERS cont.

Figure 90. Size Premiums for Private Companies by Revenue Size

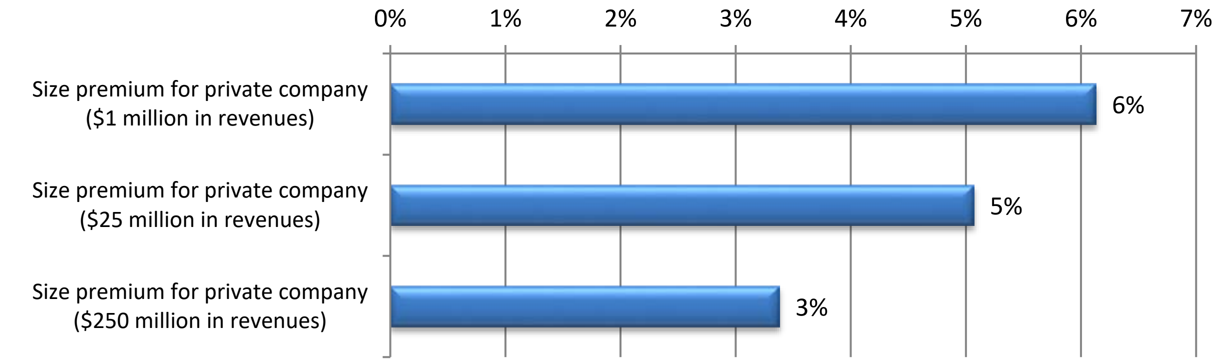
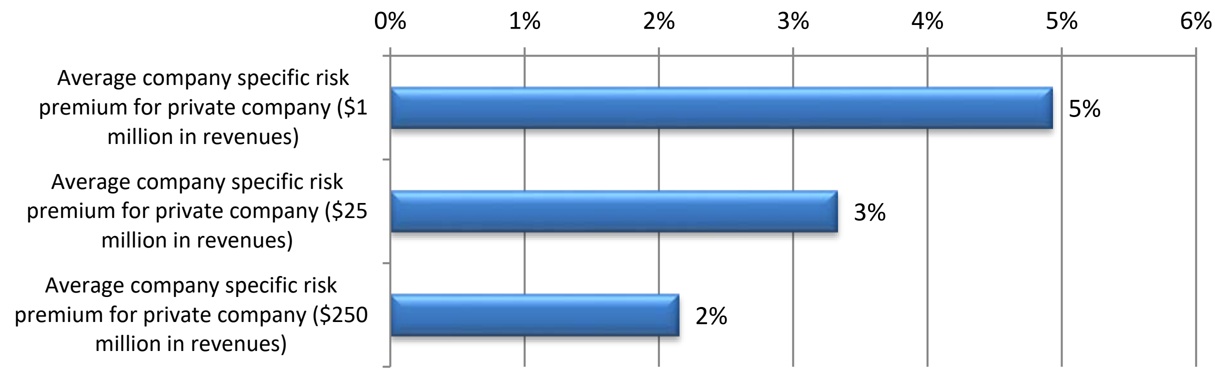
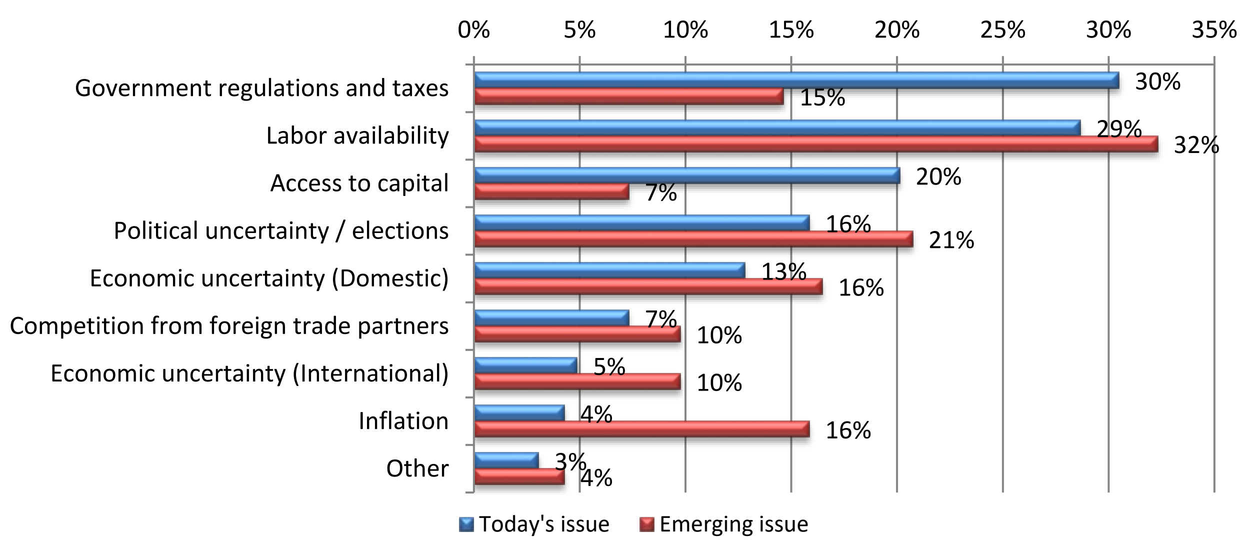


Figure 91. Company Specific Risk Premiums by Revenue Size



Respondents believe government regulations and taxes is the most important issue facing privately-held businesses today. Their expectation is that labor availability will be the greatest issue going forward.

Figure 92. Issues Facing Privately-Held Businesses



APPRAISERS cont.

Respondents indicated increases in number of engagements, fees for services, competition and improved general business conditions over the last twelve months.

Table 53. General Business and Industry Assessment: Today versus 12 Months Ago

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	**Net increase**
Number of engagements	4%	12%	40%	26%	17%	44%	16%	**28%**
Time to complete a typical appraisal	1%	15%	64%	19%	1%	20%	15%	**5%**
Fees for services	0%	7%	56%	36%	1%	37%	7%	**30%**
Competition	0%	5%	64%	28%	3%	31%	5%	**27%**
Cost of capital	0%	14%	58%	28%	0%	28%	14%	**14%**
Market (equity) risk premiums	0%	11%	74%	15%	1%	16%	11%	**5%**
Discounts for lack of marketability (DLOM)	0%	9%	86%	4%	1%	5%	9%	**-4%**
Company specific risk premiums	0%	11%	81%	7%	1%	8%	11%	**-3%**
General business conditions	0%	5%	29%	59%	8%	66%	5%	**62%**
Appetite for risk	2%	3%	47%	43%	5%	49%	5%	**44%**

Respondents expect slightly worsening business conditions in the next twelve months.

Table 54. General Business and Industry Assessment Expectations over the Next 12 Months

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	**Net increase**
Number of engagements	1%	10%	38%	44%	8%	0%	10%	**-10%**
Time to complete a typical appraisal	0%	12%	76%	12%	0%	0%	12%	**-12%**
Fees for services	0%	2%	56%	40%	1%	2%	2%	**0%**
Competition	0%	3%	66%	26%	2%	3%	3%	**0%**
Cost of capital	0%	10%	43%	46%	1%	1%	10%	**-9%**
Market (equity) risk premiums	0%	8%	55%	32%	1%	3%	8%	**-6%**
Discounts for lack of marketability (DLOM)	0%	6%	83%	5%	1%	6%	6%	**0%**
Company specific risk premiums	1%	7%	76%	12%	1%	4%	8%	**-4%**
General business conditions	0%	5%	39%	46%	10%	1%	5%	**-4%**
Appetite for risk	1%	7%	49%	36%	4%	3%	8%	**-6%**

BROKER SURVEY INFORMATION

Approximately 72% of the 264 participants for the broker survey said they expect to close between two and six deals in the next 12 months.

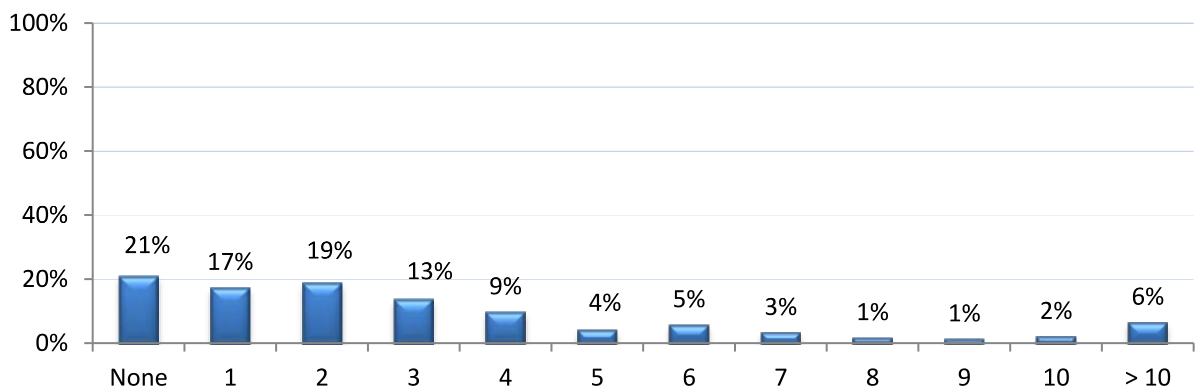
Other key findings include:

- Approximately 19% of business listings/engagements terminated without closing in the last 12 months.
- Respondents indicated increases in deal flow, ratio of businesses sold to total listings, business exit opportunities, difficulty selling business and improved general business conditions.
- 38% of respondents closed more deals in 2017 than in 2016.

Operational and Assessment Characteristics

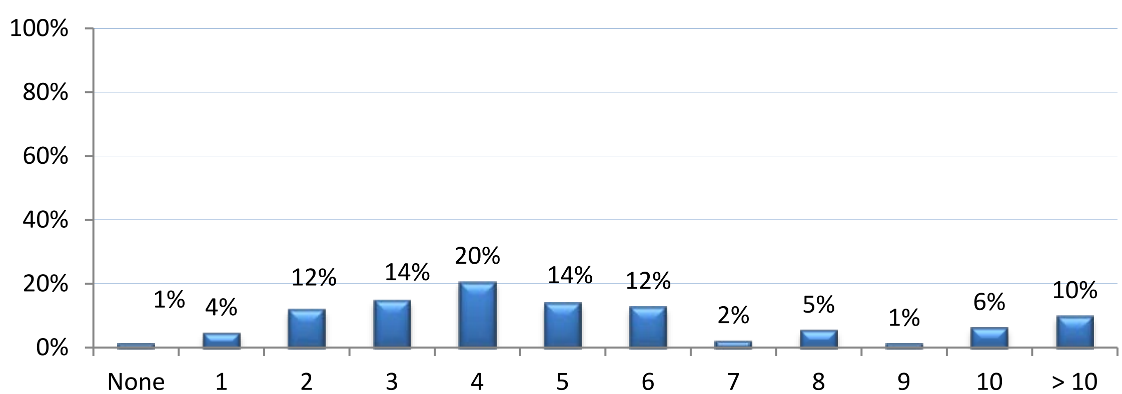
Approximately 21% of the respondents didn't close any deal in the last twelve months. 62% closed between one to five deals, while 18% closed six or more transactions.

Figure 93. Private Business Sales Transactions Closed in the Last Twelve Months



Approximately 72% of respondents are planning to close between two and six business sales transactions in the next 12 months.

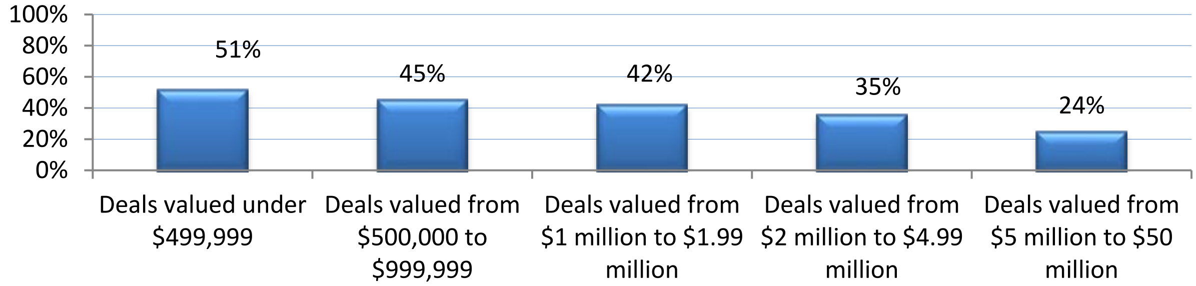
Figure 94. Private Business Sales Transactions Expected to Close in the Next Twelve Months



BROKER cont.

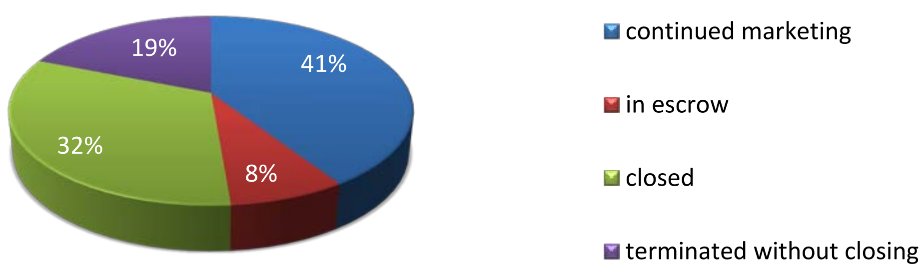
Respondents indicated typical sizes of transactions they are currently working on.

Figure 95. Typical Size of Business Transactions



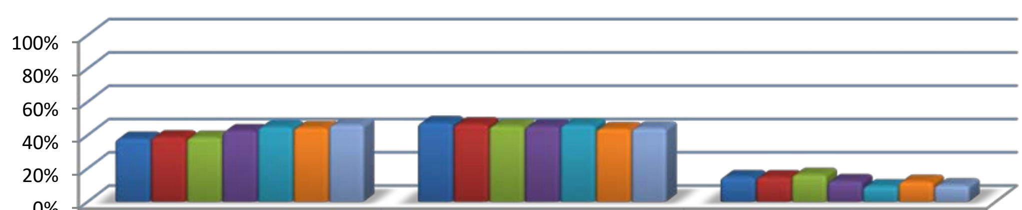
Respondents indicate out of all business transactions they worked on in the last 12 months 32% were closed, 41% are continued marketing, 8% are in escrow and 19% were terminated without closing.

Figure 96. Business Transactions in the Last 12 Months



Nearly 38% of respondents closed more transactions in 2017 than in 2016, 15% of respondents closed equal amount.

Figure 97. Did Respondents Close More Transactions in 2017 than in Previous Years



	Yes	No	Equal amount
2016	38%	47%	15%
2015	39%	47%	15%
2014	38%	45%	16%
2013	42%	45%	12%
2012	45%	46%	9%
2011	44%	44%	12%
2010	46%	44%	10%

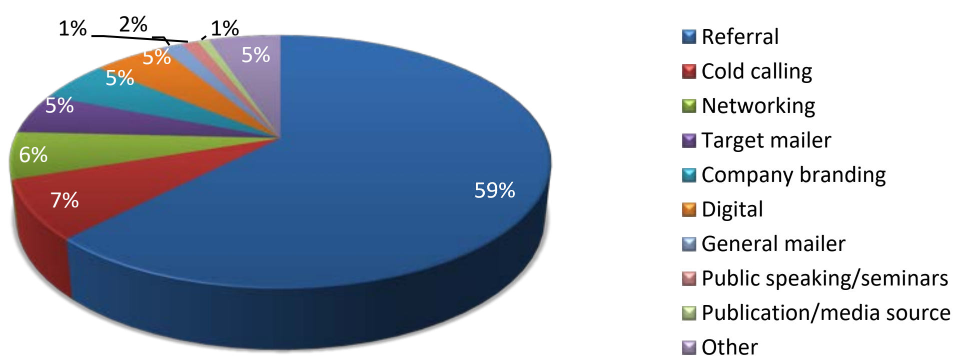
Respondents indicate difficulty to arrange senior debt for transactions with annual revenues under $500 thousand.

Table 55. How Difficult to Arrange Senior Debt for Transactions over the Past 12 Months

Revenue size	Extremely difficult	Difficult	Somewhat difficult	Neutral	Somewhat easy	Easy	Extremely easy	**Score (-3 to 3)**
$100K	32%	17%	11%	17%	11%	6%	7%	**-1.0**
$500K	6%	10%	20%	18%	21%	17%	8%	**0.2**
$1M	3%	7%	14%	20%	26%	22%	8%	**0.6**
$5M	2%	7%	7%	21%	25%	25%	11%	**0.8**
$10M	3%	9%	10%	20%	30%	19%	9%	**0.6**
$15M	3%	19%	0%	26%	23%	19%	10%	**0.4**
$25M+	11%	4%	7%	29%	18%	18%	14%	**0.5**

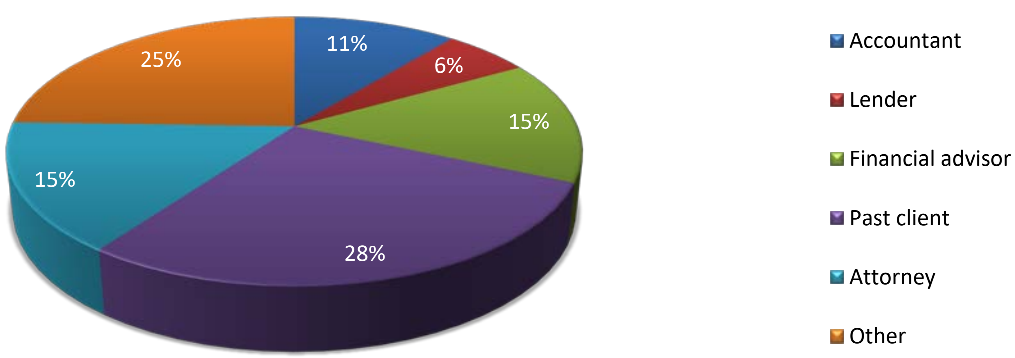
Approximately 59% of respondents indicate best clients arrived by referrals.

Figure 98. Best Client Arrived By:



Nearly 28% of referrals were past clients.

Figure 99. Types of Referrals



BROKER cont.

Figure 100. Types of Publication/ Media Source

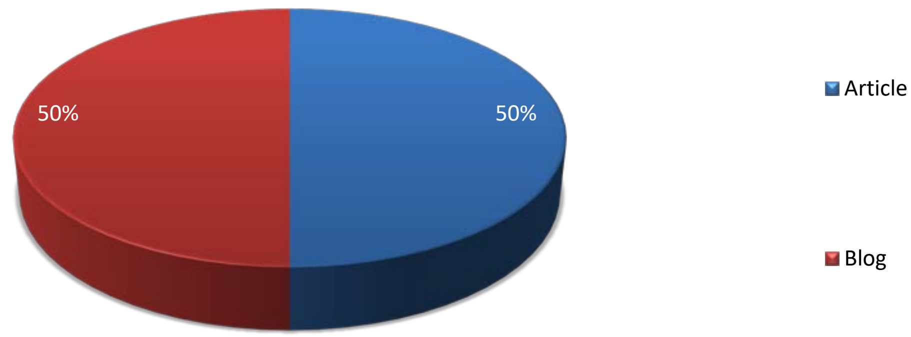
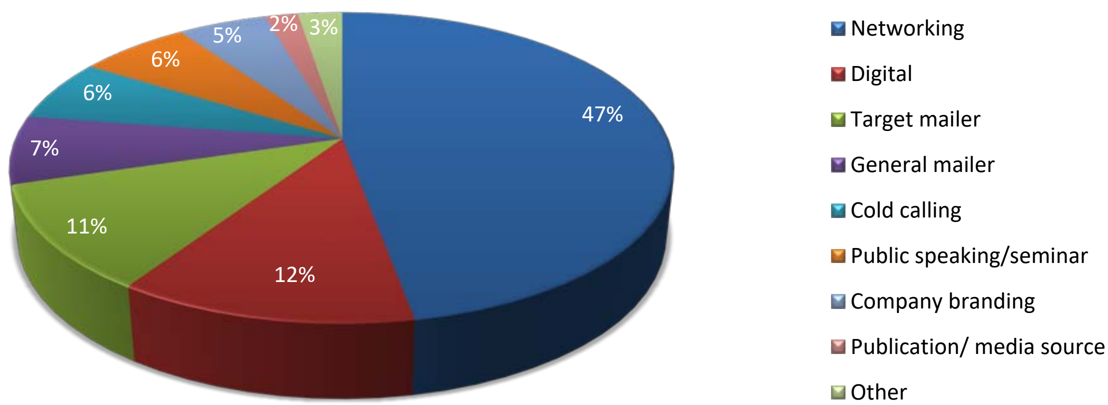
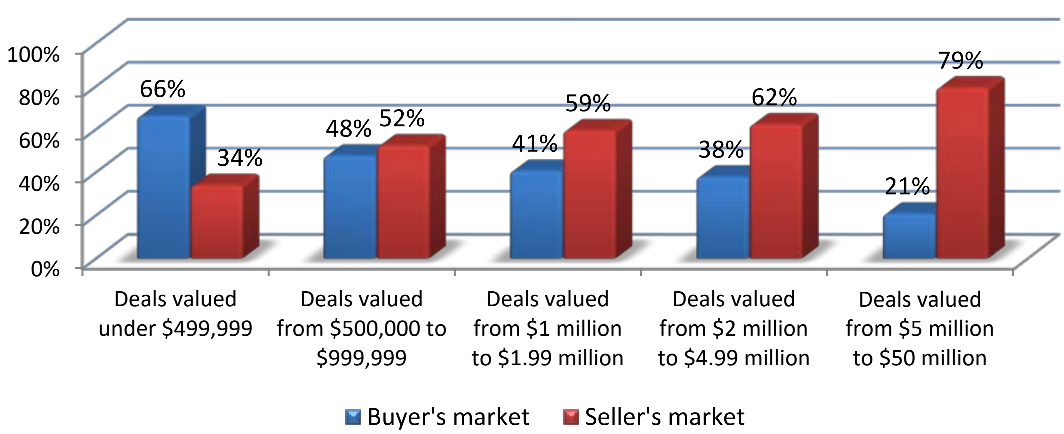


Figure 101. Best Marketing Tactic Used in Finding Client (Excluding Referral)



Approximately 66% of respondents indicated it was 'buyer's market' for deals valued under $500 thousand, whereas only 21% of respondents indicated it was 'buyer's market' for deals valued between $5 million and $50 million.

Figure 102. Was It Buyer's or Seller's Market in the Last 3 Months?



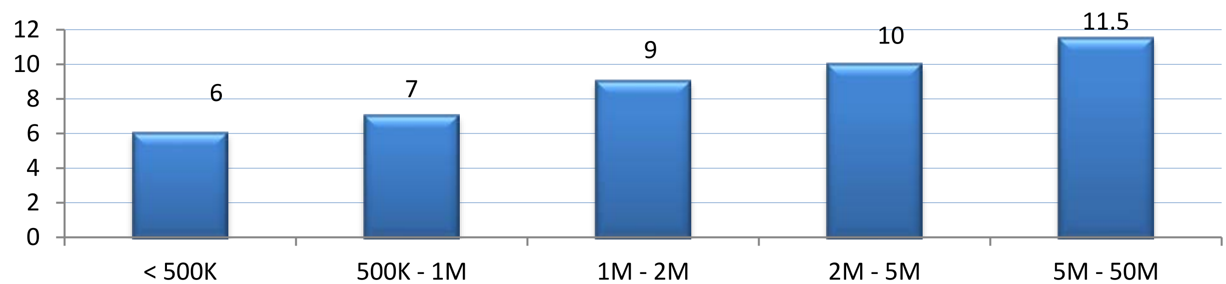
BROKER cont.

Table 56. Number of New Clients in the Last 3 Months

Deal size	Greatly decreased	Decreased	Stayed the same	Increased	Greatly increased	Score (1 to 5)
Deals valued under $499,999	3%	11%	49%	30%	8%	3.3
Deals valued from $500,000 to $999,999	1%	10%	56%	30%	2%	3.2
Deals valued from $1 million to $1.99 million	1%	11%	60%	25%	3%	3.2
Deals valued from $2 million to $4.99 million	1%	5%	66%	22%	5%	3.3
Deals valued from $5 million to $50 million	2%	13%	60%	19%	6%	3.1

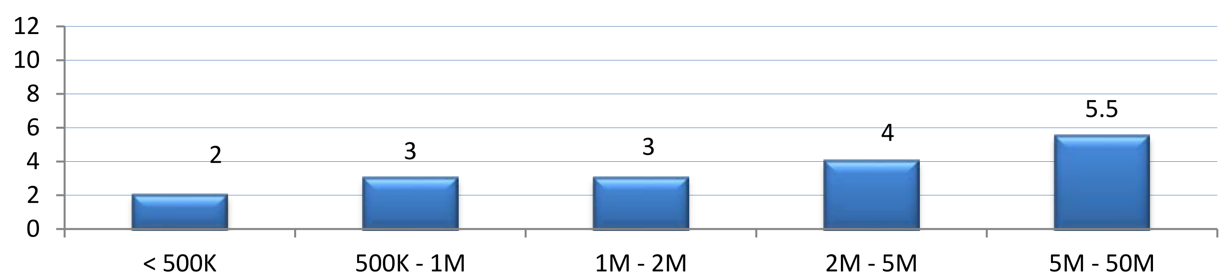
Median number of months from listing / engagement to close varies from 6 to 11.5 months.

Figure 103. Median Number of Months from Listing / Engagement to Close by Deal Size



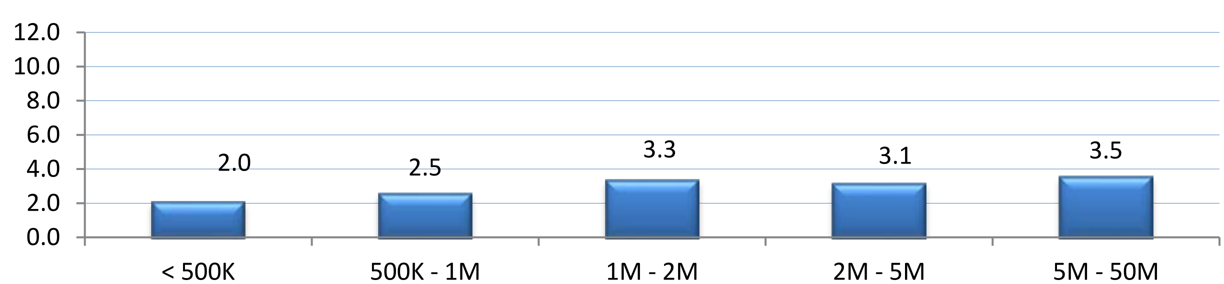
Median number of months from LOI/Offer to close varies from 2 to 5.5 months.

Figure 104. Median Number of Months from LOI / Offer to Close by Deal Size



Median SDE multiple paid varies between 2 and 3.5.

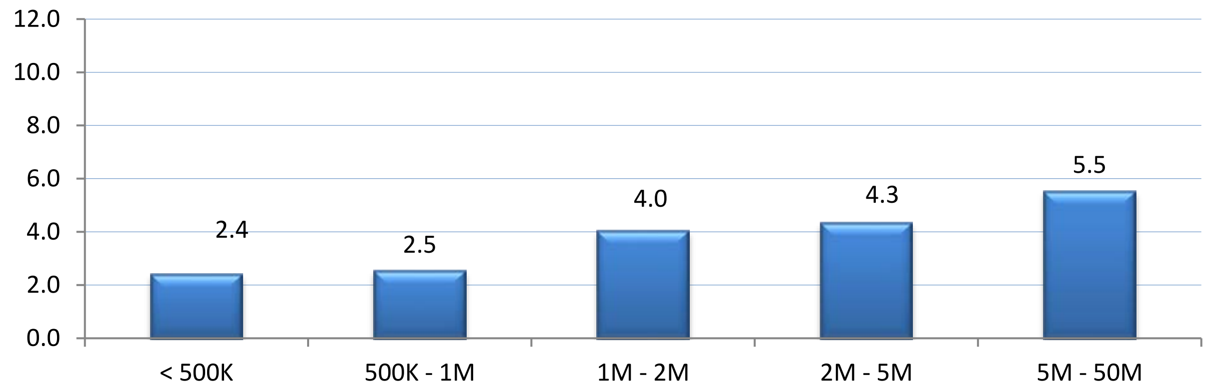
Figure 105. Median SDE Multiple Paid by Deal Size



BROKER cont.

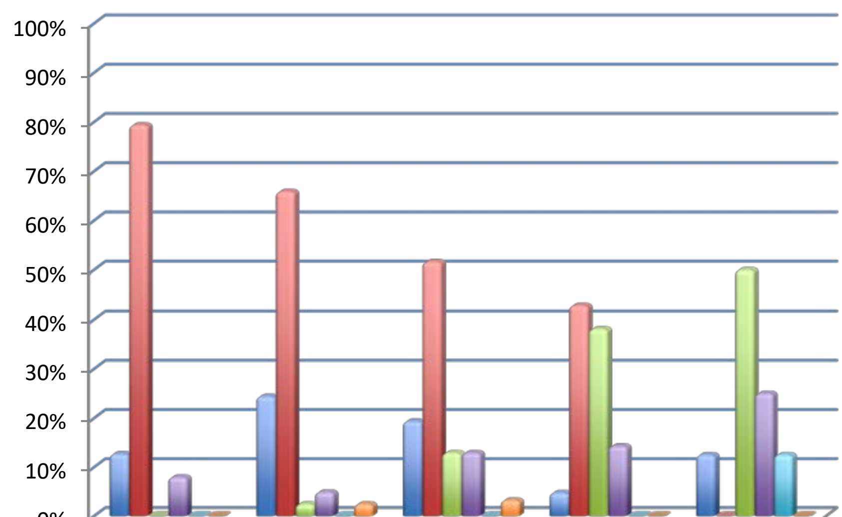
Median EBITDA multiple paid varies between 2.0 and 5.5.

Figure 106. Median EBITDA Multiple Paid by Deal Size



SDE not including working capital was the most popular multiple type used for deals valued under $5 million, while EBITDA including working capital was the most popular type for deals valued between $5 million and $50 million.

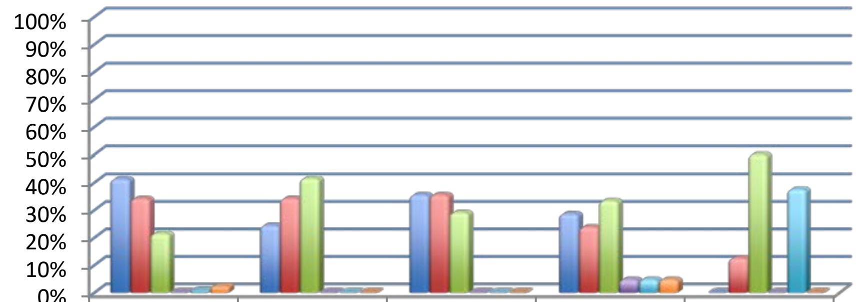
Figure 107. Multiple Types by Deal Size



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
SDE including working capital	13%	24.4%	19.4%	4.8%	12.5%
SDE not including working capital	79%	65.9%	51.6%	42.9%	0.0%
EBITDA including working capital	0%	2.4%	12.9%	38.1%	50.0%
EBITDA not including working capital	8%	4.9%	12.9%	14.3%	25.0%
TTM EBITDA including working capital	0%	0.0%	0.0%	0.0%	12.5%
TTM EBITDA not including working capital	0%	2.4%	3.2%	0.0%	0.0%

BROKER cont.

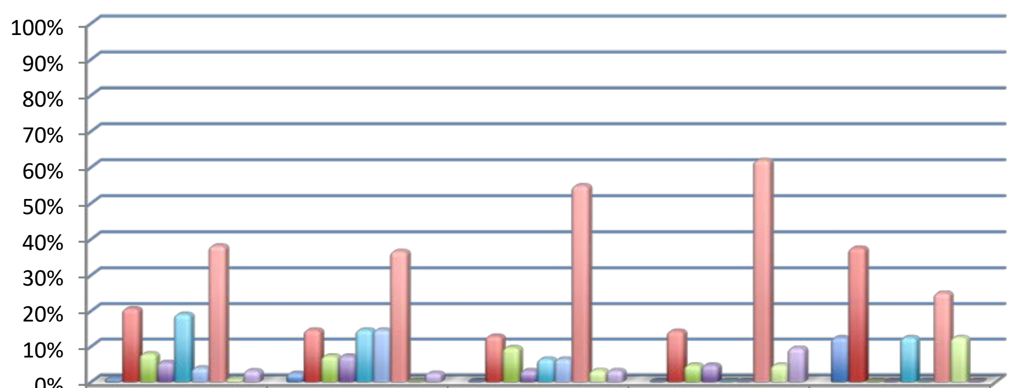
Figure 108. Buyer Type by Deal Size



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
1st time individual	41%	24%	35%	29%	0%
individual who owned a business	34%	34%	35%	24%	13%
existing company/strategic buyer	21%	41%	29%	33%	50%
PE firm - Platform	0%	0%	0%	5%	0%
PE firm - Add-on	1%	0%	0%	5%	38%
Other	2%	0%	0%	5%	0%

Reason number one for sellers to go to market was retirement.

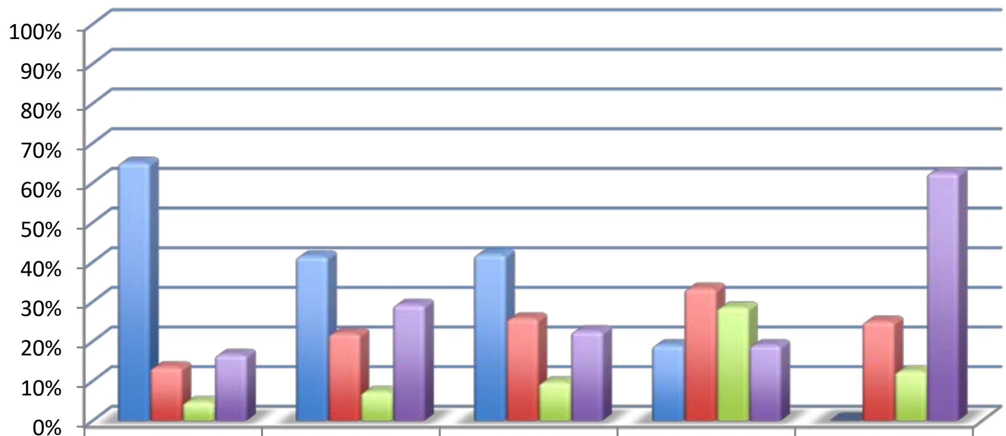
Figure 109. Reason for Seller to Go to Market by Deal Size



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
Recapitalization	0.8%	2%	0%	0%	13%
Burnt out	20.6%	15%	13%	14%	38%
Family issues	7.9%	7%	10%	5%	0%
Health	5.6%	7%	3%	5%	0%
New opportunity	19.0%	15%	6%	0%	13%
Relocation/moving	4.0%	15%	6%	0%	0%
Retirement	38.1%	37%	55%	62%	25%
Unsolicited offer	0.8%	0%	3%	5%	13%
Other	3.2%	2%	3%	10%	0%

BROKER cont.

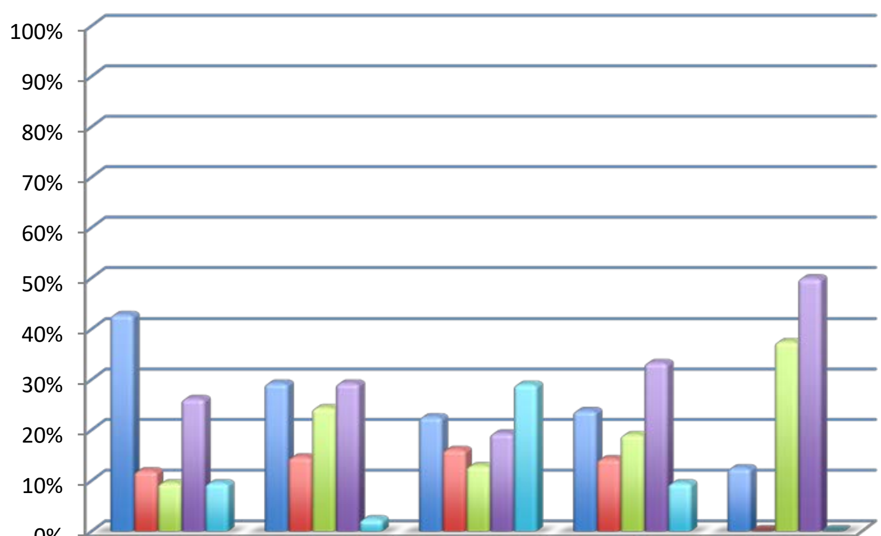
Figure 110. Buyer Location by Deal Size



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
within 20 miles	65.1%	41.5%	41.9%	19.0%	0.0%
within 50 miles	13.5%	22.0%	25.8%	33.3%	25.0%
within 100 miles	4.8%	7.3%	9.7%	28.6%	12.5%
more than 100 miles	16.7%	29.3%	22.6%	19.0%	62.5%

Buying a job was the number one motivation for buyer for deals valued under $1 million..

Figure 111. Number One Motivation for Buyer by Deal Size



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
Buying a job	43%	29%	23%	24%	13%
Better ROI than other investment	12%	15%	16%	14%	0%
Vertical add-on	10%	24%	13%	19%	38%
Horizontal add-on	26%	29%	19%	33%	50%
Other	10%	2%	29%	10%	0%

BROKER cont.

Average percentage of final/selling price realized to asking/benchmark price was 99%.

Figure 112. Median Percentage of Final/ Selling Price Realized to Asking/ Benchmark Price by Deal Size

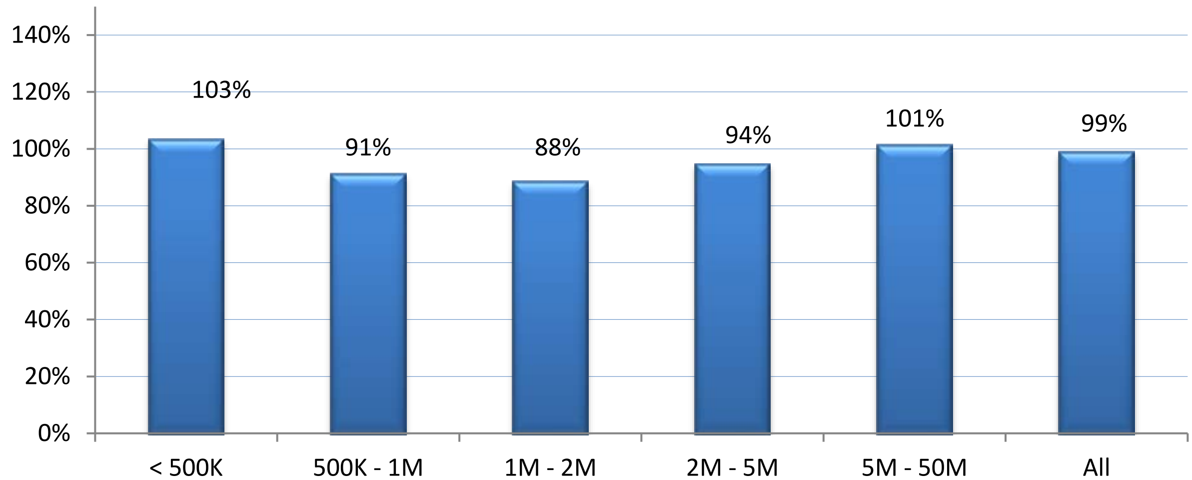
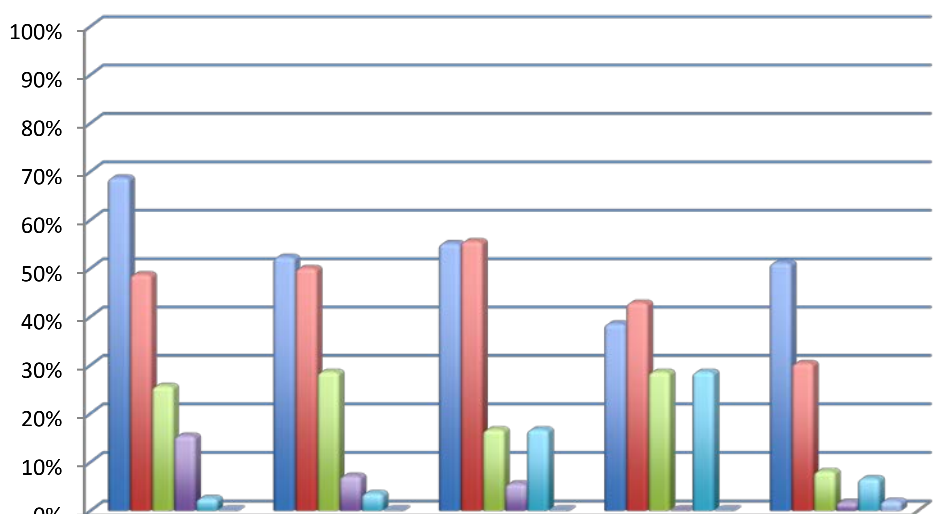


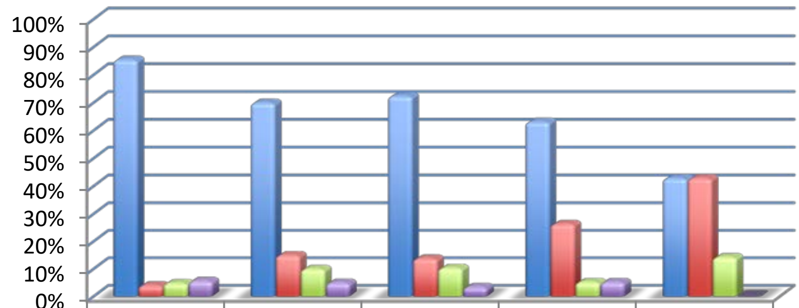
Figure 113. Financing Structure by Deal Size



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
Buyers equity	69%	52%	55%	39%	51%
Senior debt	49%	50%	56%	43%	30%
Seller financing	26%	29%	17%	29%	8%
Earn out	15%	7%	6%	0%	2%
Seller retained equity	3%	4%	17%	29%	7%
Other	0%	0%	0%	0%	2%

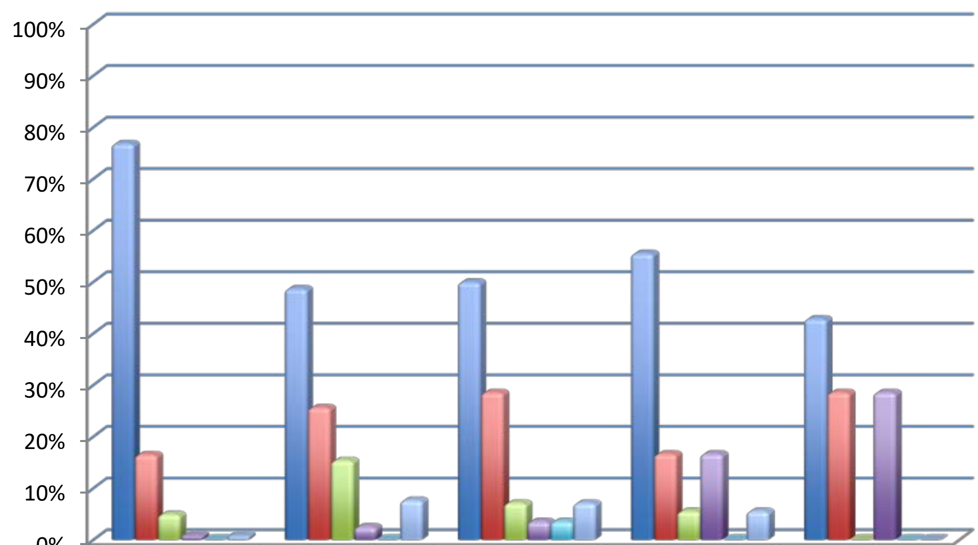
BROKER cont.

Figure 114. Exit Planning



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
None - no formal planning prior to engagement to sell	85%	70%	72%	63%	43%
Met with an advisor (Wealth, CPA, Attorney) INCLUDING Broker for retirement needs prior to engaging broker	4%	15%	14%	26%	43%
Met with an advisor (Wealth, CPA, Attorney) for retirement needs prior to engaging broker (EXCLUDED Broker)	5%	10%	10%	5%	14%
N/A Represented Buyer	6%	5%	3%	5%	0%

Figure 115. Amount of Exit Planning Prior to Marketing Business



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
none	77%	49%	50%	56%	43%
less than 1 year	17%	26%	29%	17%	29%
between 1 and 2 years	5%	15%	7%	6%	0%
between 2 and 3 years	1%	3%	4%	17%	29%
between 3 and 5 years	0%	0%	4%	0%	0%
N/A represented buyer	1%	8%	7%	6%	0%

BROKER cont.

Table 57. Expectations of Business Listings/ Engagements from New Clients in the Next 3 Months

Deal size	Greatly decrease	Decrease	Stay the same	Increase	Greatly increase	Score (1 to 5)
Deals valued under $499,999	1.9%	4.9%	27.2%	56.8%	9.3%	3.7
Deals valued from $500,000 to $999,999	0.0%	4.8%	24.8%	66.2%	4.1%	3.7
Deals valued from $1 million to $1.99 million	0.0%	4.2%	30.8%	62.9%	2.1%	3.6
Deals valued from $2 million to $4.99 million	0.0%	4.0%	38.7%	55.6%	1.6%	3.5
Deals over $5 million	0.0%	4.3%	44.6%	48.9%	2.2%	3.5

Table 58. Expectations for Business Valuation Multiples in the Next 3 Months

Deal size	Greatly decrease	Decrease	Stay the same	Increase	Greatly increase	Score (1 to 5)
Deals valued under $499,999	0.6%	7.3%	78.7%	12.8%	0.6%	3.1
Deals valued from $500,000 to $999,999	0.0%	4.8%	83.0%	10.9%	1.4%	3.1
Deals valued from $1 million to $1.99 million	0.0%	3.5%	73.8%	22.0%	0.7%	3.2
Deals valued from $2 million to $4.99 million	0.0%	4.0%	63.7%	31.5%	0.8%	3.3
Deals over $5 million	0.0%	3.3%	59.8%	34.8%	2.2%	3.4

BROKER cont.

Compared to twelve months ago, respondents indicated increases in deal flow, ratio of businesses sold to total listings, business exit opportunities and improved general business conditions. During the next twelve months, respondents expect further increases in deal flow, margin pressure on companies, and improving general business conditions.

Table 59. General Business and Industry Assessment: Today versus 12 Months Ago

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	**Net increase**
Deal flow	3%	15%	34%	35%	14%	48%	18%	**31%**
Ratio of businesses sold / total listings	5%	13%	49%	24%	8%	32%	19%	**13%**
Deal multiples	0%	7%	66%	25%	2%	26%	8%	**19%**
Business exit opportunities	1%	11%	49%	34%	5%	38%	12%	**26%**
Amount of time to sell business	1%	13%	52%	26%	7%	33%	15%	**19%**
Difficulty selling business	2%	10%	56%	27%	5%	32%	12%	**20%**
Business opportunities for growth	0%	5%	53%	36%	6%	41%	5%	**36%**
General business conditions	0%	4%	38%	47%	10%	57%	4%	**53%**
Margin pressure on companies	1%	7%	65%	25%	3%	27%	8%	**20%**

Table 60. General Business and Industry Assessment: Expectations over the Next 12 Months

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Deal flow	1%	2%	21%	57%	19%	76%	3%	**73%**
Ratio of businesses sold / total listings	0%	2%	33%	53%	12%	65%	2%	**63%**
Deal multiples	0%	3%	61%	31%	5%	36%	3%	**33%**
Business exit opportunities	0%	2%	42%	48%	8%	56%	2%	**54%**
Amount of time to sell business	0%	12%	66%	19%	3%	22%	12%	**10%**
Difficulty selling business	1%	14%	64%	17%	3%	21%	15%	**6%**
Business opportunities for growth	0%	3%	50%	40%	7%	47%	3%	**44%**
General business conditions	0%	3%	34%	52%	11%	63%	3%	**60%**
Margin pressure on companies	0%	7%	63%	25%	5%	30%	7%	**23%**

FACTOR SURVEY INFORMATION

Approximately 60% of 18 respondents to the factor survey said the primary uses of factoring facilities are financing working capital fluctuations, followed by expansion (23%), and project financing (10%). Factoring facilities are relatively short-term compared to other investments with respondents reporting approximately 53% of factoring facilities have less than or equal to 12 months term.

Other key findings include:

- Respondents reported approximately 21% of their company's gross invoices over the last twelve months were originated from wholesale & distribution. Wholesale & distribution was responsible for 23% of invoices followed by business services at 17% and manufacturing at 17%.
- When asked about conditions compared to twelve months ago, nearly 56% of respondents said they saw increased demand for business factoring lines in the last 12 months. Approximately 50% of lenders indicated increased general business conditions in the last twelve months.
- Nearly 38% of respondents believe access to capital is the most important issue facing privately-held businesses today, followed by government regulations and taxes (31%), domestic economic uncertainty (19%) and labor availability (19%).

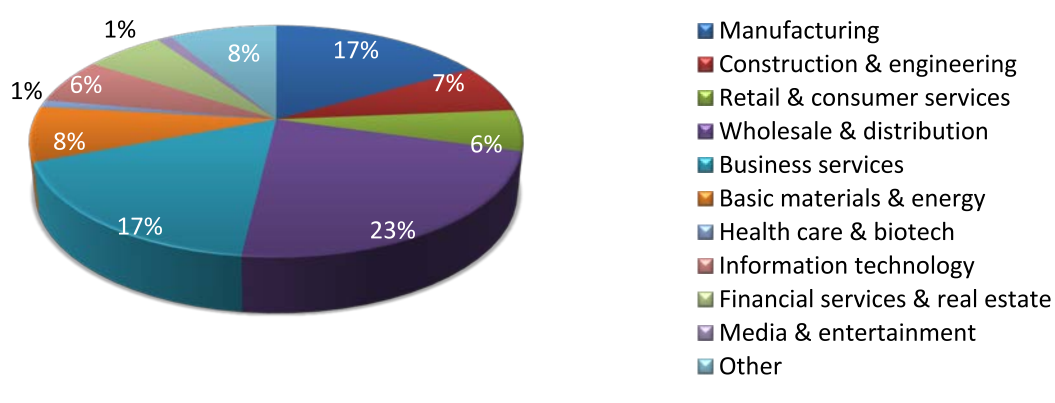
Operational and Assessment Characteristics

Approximately 60% of respondents indicated working capital fluctuations as the primary uses of factoring facilities.

Figure 116. Primary Use of the Factoring Facilities for the Last 12 Months

Respondents reported approximately 23% of their company's gross invoices over the last twelve months were originated from wholesale & distribution.

Figure 117. Industries for Gross Invoices for the Last 12 Months



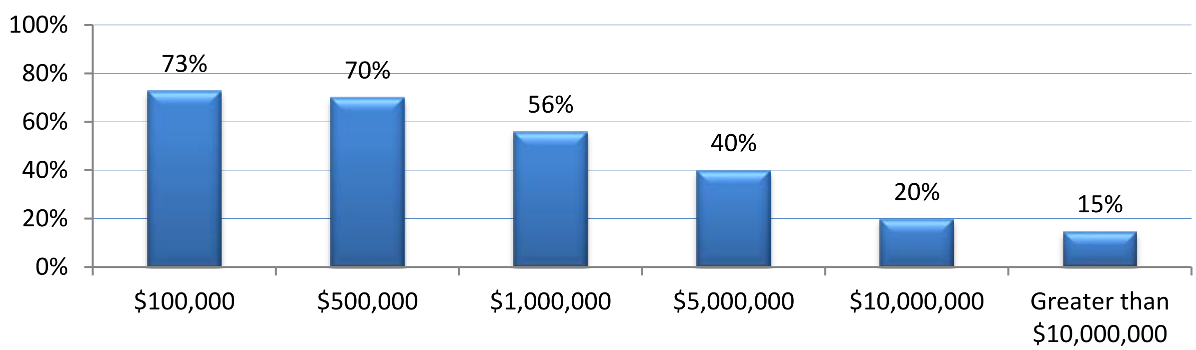
FACTOR cont.

Factoring facilities are relatively short-term compared to other investments with respondents reporting approximately 53% of factoring facilities have less than or equal to 12 months term.

Figure 118. Term of Current Typical Factoring Facility

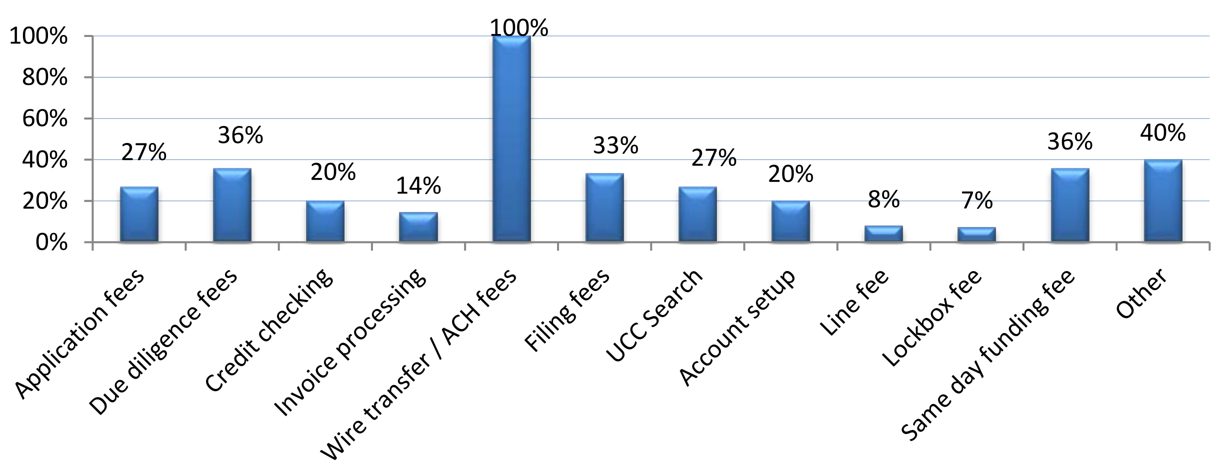
Respondents reported average advance rates charged for various-sized facilities range from 15% to 73% on a monthly basis.

Figure 119. Current Average Advance Rates for Various-Sized Facilities



Nearly 100% of respondents charge wire transfer / ACH fee, while 36% of respondents charge due diligence fees.

Table 61. Fees Charged



FACTOR cont.

Table 62. Median Percentage or Amount Charged

	Percentage	or Amount
Application fees		$500
Due diligence fees		$1,250
Credit checking	1%	$45
Invoice processing	0.5%	
Wire transfer / ACH fees		$25
Filing fees		$175
UCC Search		$200
Account setup	0.50%	$150
Same day funding fee		$25

Approximately 50% of respondents are using prime rate to price items.

Figure 120. Usage of Reference Rates

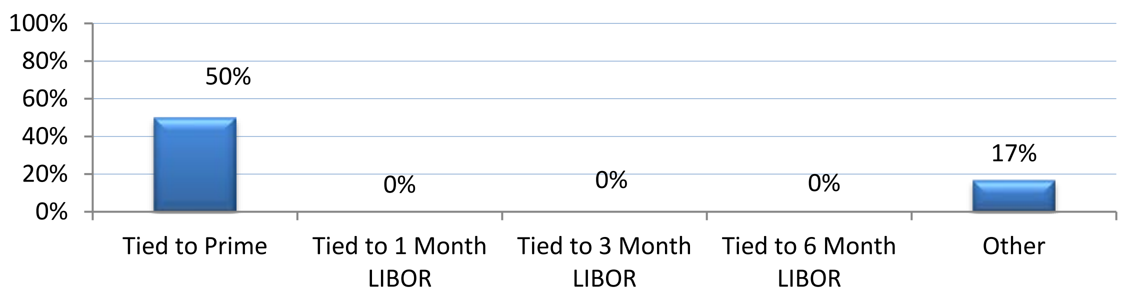
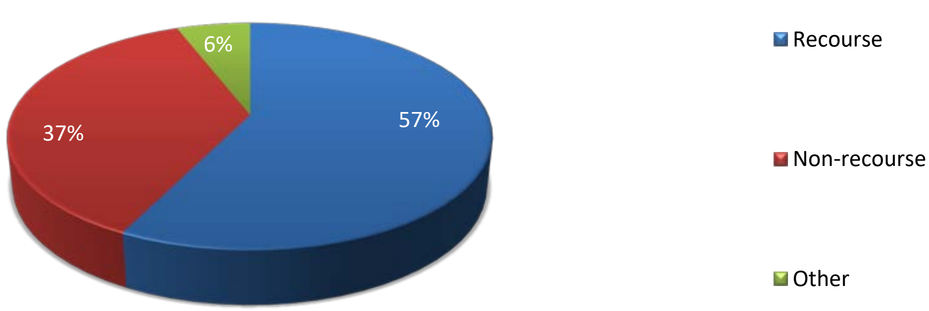


Table 63. Spread (%)

	1st Quartile	Median	3rd Quartile
Tied to prime	1.8%	2.0%	3.4%

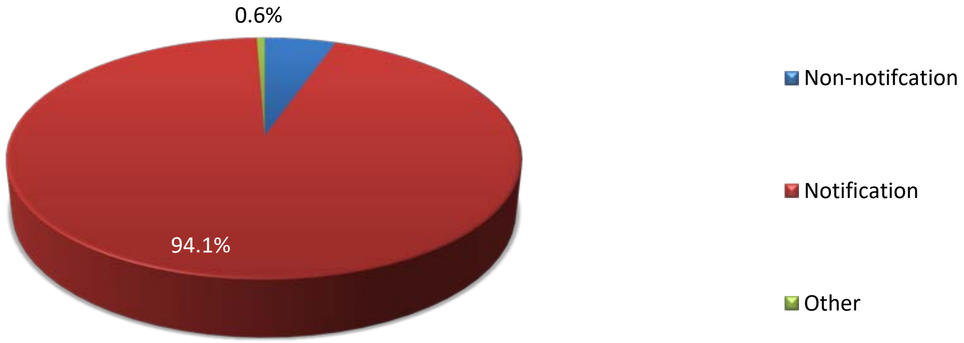
Figure 121. Percentage of Factoring Business - Recourse vs Non-recourse



FACTOR cont.

Respondents reported 94.1% of their current purchases were on a notification basis.

Figure 122. Percentage of Purchases on a Non-notification Basis



Nearly 100% of respondents require personal guarantee and 93% require a background check.

Table 64. Typical Current Requirements

Requirement	%
Lien on A/R assets	82%
Background check	100%
Personal guarantee	100%
Financial statements	88%
Lien on all assets	47%
Performance guarantee	59%
Audit	18%

Table 65. Discount fee (%) on Outstanding Invoices for Notification Basis

	$0 - $25K	$25K - $50K	$50K - $100K	$100K - $250K	$250K - $1M	$1M - $5M	$5M - $10M	$10M - $25M	$25M - $50M	$50M - $100M	$100M+
First 30 days											
1st Quartile	2.1%	2.0%	2.0%	1.4%	1.5%	0.9%	0.9%	0.6%	0.4%	0.3%	0.3%
Median	3.5%	3.3%	3.0%	2.5%	2.5%	1.8%	1.6%	0.6%	0.5%	0.3%	0.3%
3rd Quartile	4.3%	4.0%	3.6%	3.3%	2.9%	2.3%	2.1%	0.7%	0.6%	0.3%	0.3%
Next 15 days (31-45)											
1st Quartile	1.5%	1.0%	1.0%	1.0%	0.5%	0.5%	0.5%	0.5%	n/a	n/a	0.4%
Median	1.5%	1.5%	1.5%	1.5%	1.3%	0.5%	0.5%	0.5%	n/a	n/a	0.5%
3rd Quartile	2.5%	1.9%	1.8%	1.5%	1.5%	1.3%	1.1%	0.5%	n/a	n/a	0.5%
Next 15 days (46-60)											
1st Quartile	1.5%	1.0%	1.0%	0.9%	0.5%	0.5%	0.5%	0.3%			0.3%
Median	1.5%	1.5%	1.5%	1.3%	1.3%	1.1%	0.8%	0.3%			0.3%
3rd Quartile	2.5%	1.9%	1.8%	1.5%	1.5%	1.3%	1.2%	0.3%			0.3%

FACTOR cont.

Table 66. Expected Total Write-off – Percentage of Receivables Purchased on New Arrangements (%)

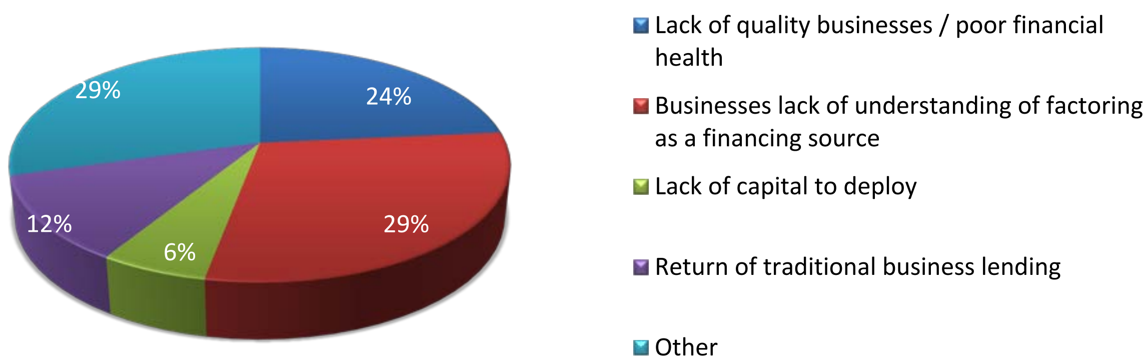
	1st Quartile	Median	3rd Quartile
Expected total write-off	0.5%	0.5%	2.0%

Table 67. Average Number of Days Outstanding Receivables

	1st Quartile	Median	3rd Quartile
During Last 12 Months	35	45	45
Expected for Next 12 Months	40	45	50

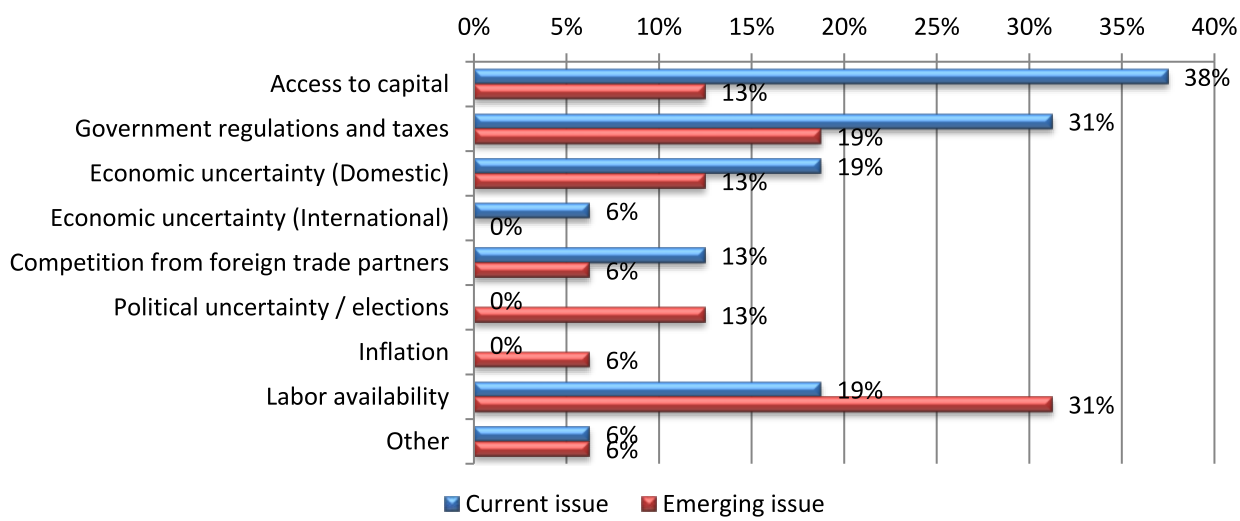
According to 29% of respondents, the most significant concern to factoring business is businesses lack of understanding of factoring as a financing source.

Figure 123. Most Significant Concern to Factoring Business



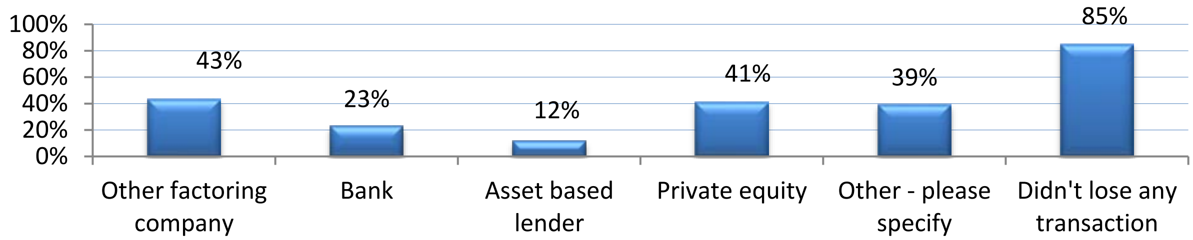
Nearly 38% of respondents believe access to capital is the most important issue facing privately-held businesses today, followed by government regulations and taxes (31%), domestic economic uncertainty (19%) and labor availability (19%).

Figure 124. Issues Facing Privately-Held Businesses



FACTOR cont.

Figure 125. Types of Financing Sources Respondents Lost Transactions to in the Last 12 Months



Respondents indicated decreases in demand for business factoring lines, credit quality of borrowers, interest rate spreads, fees and improved general business conditions.

Table 68. General Business and Industry Assessment: Today versus 12 Months Ago

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	**Net increase**
Demand for business factoring lines (applications)	0%	13%	31%	56%	0%	56%	13%	**44%**
Credit Quality of Borrowers Applying for Credit	0%	6%	75%	19%	0%	19%	6%	**13%**
Time to Process Facility	6%	13%	75%	6%	0%	6%	19%	**-13%**
Average Facility Size	0%	0%	63%	19%	19%	38%	0%	**38%**
Average Facility Term (Months)	0%	6%	88%	6%	0%	6%	6%	**0%**
Size of Interest Rate Spreads (pricing)	0%	38%	44%	19%	0%	19%	38%	**-19%**
Fees	0%	38%	50%	13%	0%	13%	38%	**-25%**
Standard advance rates on receivables	0%	0%	81%	19%	0%	19%	0%	**19%**
General business conditions	0%	13%	38%	50%	0%	50%	13%	**38%**

Respondents expect further decreases in interest rate spreads, fees and improving general business conditions.

Table 69. General Business and Industry Assessment Expectations over the Next 12 Months

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	**Net increase**
Demand for business factoring lines (applications)	0%	13%	38%	31%	19%	50%	13%	**38%**
Credit Quality of Borrowers Applying for Credit	0%	19%	38%	44%	0%	44%	19%	**25%**
Time to Process Facility	0%	25%	69%	6%	0%	6%	25%	**-19%**
Average Facility Size	0%	0%	69%	31%	0%	31%	0%	**31%**
Average Facility Term (Months)	0%	0%	94%	6%	0%	6%	0%	**6%**
Size of Interest Rate Spreads (pricing)	0%	19%	69%	6%	6%	13%	19%	**-6%**
Fees	0%	19%	69%	13%	0%	13%	19%	**-6%**
Standard advance rates on receivables	0%	0%	88%	13%	0%	13%	0%	**13%**
General business conditions	0%	19%	44%	31%	6%	38%	19%	**19%**

EQUIPMENT LEASING SURVEY INFORMATION

Approximately 24% of 28 respondents to the equipment leasing survey expect to have lease agreements executed to manufacturing industry, followed by information technology (14%) and healthcare & biotech (13%). Nearly 88% of respondents booked more than 10 leases in the last 12 months. 92% of respondents plan to book more than 10 leases in the next 12 months.

Other key findings include:

- Respondents indicated range of annualized expected returns from leases booked during the past 12 months between 6% and 20%, depending on lease size and equipment type.

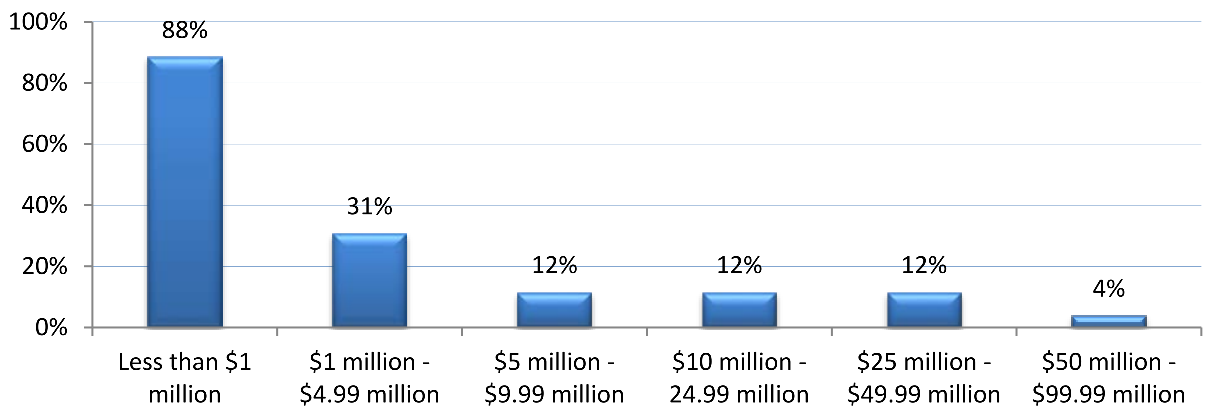
- When asked about conditions compared to twelve months ago, nearly 74% of respondents said they saw increased demand for business leases in the last 12 months. Approximately 79% of equipment leasing companies indicated improved general business conditions in the last twelve months.

- Nearly 33% of respondents believe access to capital is the most important issue facing privately-held businesses today, followed by political uncertainty (28%) and labor availability (22%).

Operational and Assessment Characteristics

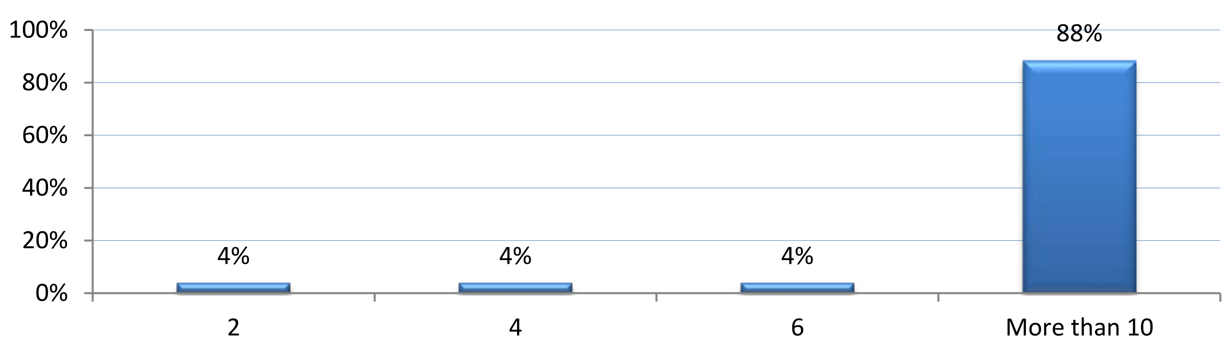
Approximately 88% of respondents book lease agreements less than $1 million.

Figure 126. Typical Size of Business Leases



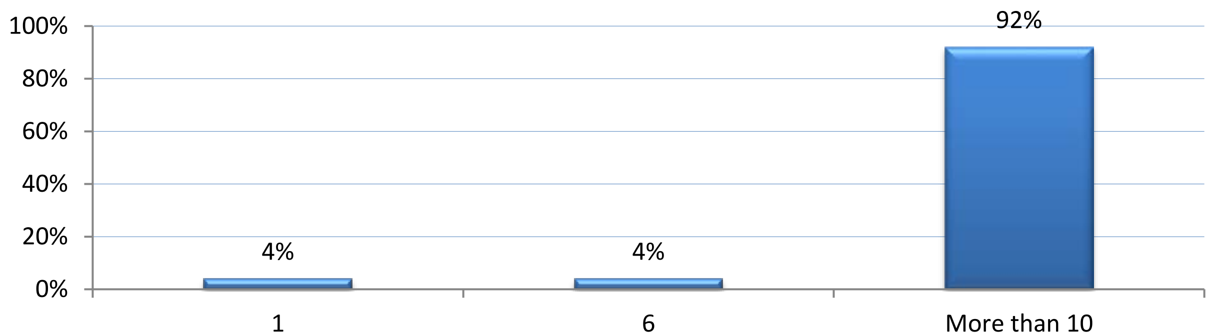
Nearly 88% of respondents booked more than 10 leases in the last 12 months.

Figure 127. Business Leases Booked in the Last Twelve Months



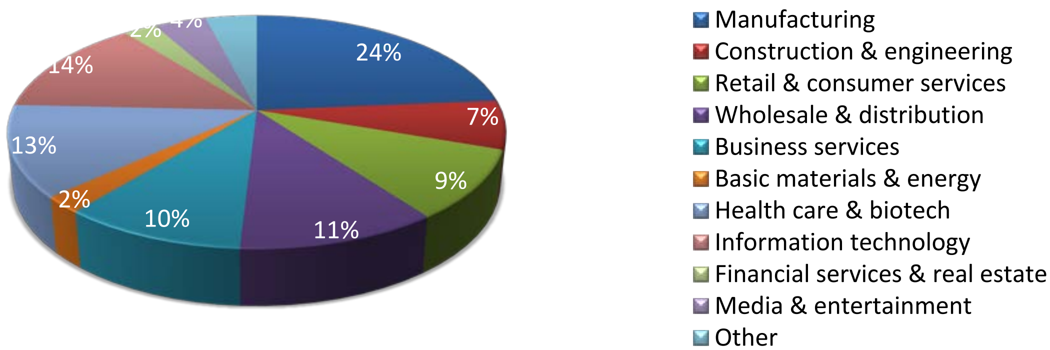
92% of respondents plan to book more than 10 leases in the next 12 months.

Figure 128. Business Leases Expected to Book in the Next Twelve Months



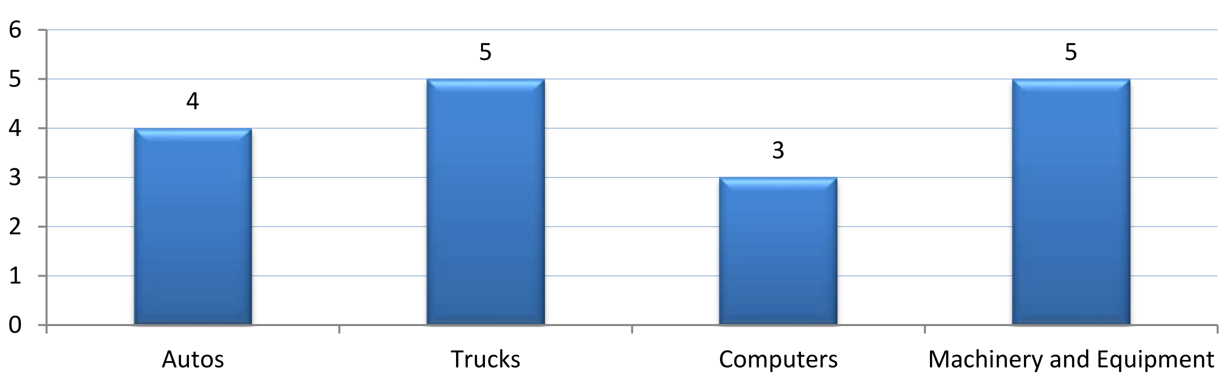
Approximately 24% of 28 respondents to the equipment leasing survey expect to have lease agreements executed to manufacturing industry, followed by information technology (14%) and healthcare & biotech (13%).

Figure 129. Industries to Have Lease Agreements Executed in the Next Twelve Months



Average lease terms from leases booked during the past 12 months vary from 3 to 5 years.

Figure 130. Lease Terms from Leases Booked during the Past Twelve Months (Years)



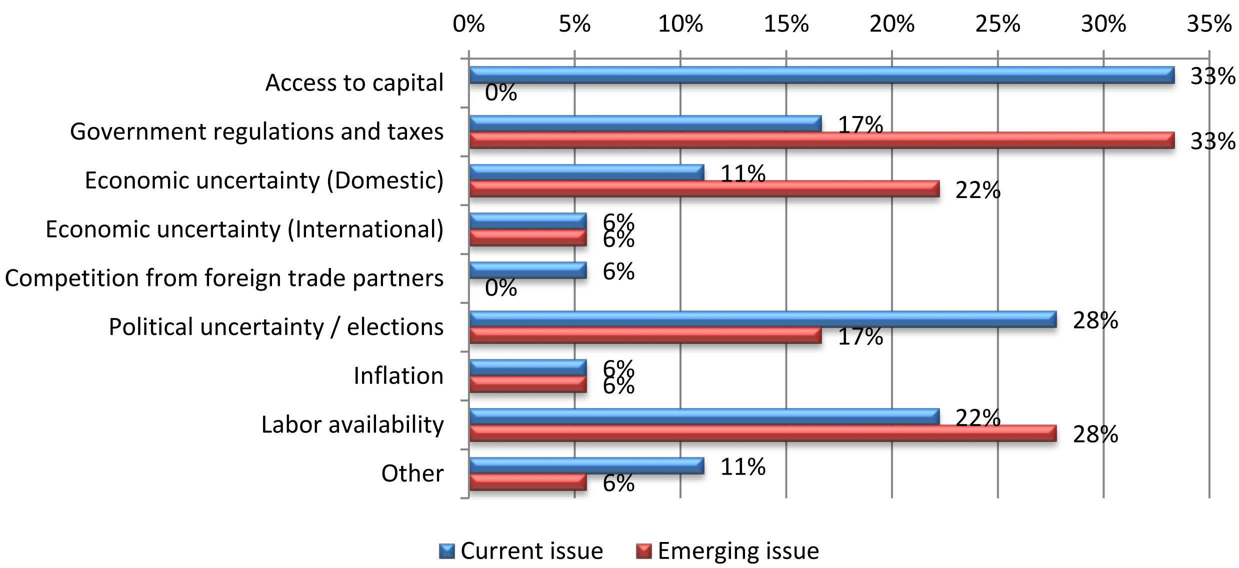
Respondents indicated range of annualized expected returns from leases booked during the past 12 months between 6% and 20% depending on lease size and equipment type.

Table 70. Annualized Expected Returns from Leases Booked during the Past 12 Months

Lease size	Autos	Trucks	Computers	Machinery and equipment
less than $100K	16.0%	20.0%	20.0%	15.5%
$100K - $499K	15.0%	16.0%	20.0%	10.0%
$500K - $999K	14.0%	13.0%	17.0%	9.0%
$1M - $4.99M	12.0%	12.0%	16.0%	7.0%
$5M - $9.99M	10.0%	11.0%	16.0%	7.0%
$10M - $24.99M	7.0%	10.0%	12.0%	6.5%
$25M - $49.99M	7.0%	7.0%	10.0%	6.0%
$50M+	7.0%	7.0%	7.0%	6.0%

Nearly 33% of respondents believe access to capital is the most important issue facing privately-held businesses today, followed by political uncertainty (28%) and labor availability (22%).

Figure 131. Issues Facing Privately-Held Businesses



When asked about conditions compared to twelve months ago nearly 74% of respondents said they saw increased demand for business leases in the last 12 months. Approximately 79% of equipment leasing companies indicated improved general business conditions in the last twelve months.

Table 71. General Business and Industry Assessment: Today versus 12 Months Ago

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Demand for business leases	5%	0%	21%	68%	5%	74%	5%	68%
General lease qualification standards	0%	21%	58%	11%	11%	21%	21%	0%
Quality of Companies Seeking Leases	0%	21%	42%	26%	11%	37%	21%	16%
Average Lease Size	0%	11%	42%	42%	5%	47%	11%	37%
Expected Investment Holding Period	0%	11%	74%	11%	5%	16%	11%	5%
Expected returns on new investments	0%	11%	47%	42%	0%	42%	11%	32%
Size of equipment leasing industry	0%	6%	22%	67%	6%	72%	6%	67%
General business conditions	0%	5%	16%	68%	11%	79%	5%	74%
Appetite for Risk	0%	21%	26%	47%	5%	53%	21%	32%

Table 72. General Business and Industry Assessment Expectations over the Next 12 Months

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	**Net increase**
Demand for business leases	0%	11%	6%	61%	22%	83%	11%	**72%**
General lease qualification standards	0%	12%	59%	18%	12%	29%	12%	**18%**
Quality of Companies Seeking Leases	0%	11%	50%	33%	6%	39%	11%	**28%**
Average Lease Size	0%	0%	28%	67%	6%	72%	0%	**72%**
Expected Investment Holding Period	0%	6%	67%	22%	6%	28%	6%	**22%**
Expected returns on new investments	0%	11%	33%	56%	0%	56%	11%	**44%**
Size of equipment leasing industry	0%	6%	22%	61%	11%	72%	6%	**67%**
General business conditions	0%	11%	22%	56%	11%	67%	11%	**56%**
Appetite for Risk	0%	28%	28%	39%	6%	44%	28%	**17%**

BUSINESS OWNER SURVEY INFORMATION

Of the 775 privately-held businesses that responded to the survey, 12% had businesses that involved manufacturing, 11% were in professional, scientific or technical services, and 10% were in business services. Approximately 74% of businesses have annual revenues less than $5 million. Nearly 90% of business owners report having the enthusiasm to execute growth strategies, yet just 54% report having the necessary financial resources to successfully execute growth strategies.

Of the respondents who were seeking financing in the last 12 months, approximately 46% anticipated to raise less than $100,000 in capital. Approximately 51% of respondents reported that they were seeking bank business loans or business credit card financing as a source of funding, followed by credit union (34%). Of all financing options, bank loans emerged as the financing source with the highest "willingness" for small business to use, followed by business credit cards and credit unions. Results also showed that 72% of privately-held businesses that sought bank loans over the past 12 months were successful. Survey results indicated that business owners who raised capital on average contacted 2.4 banks.

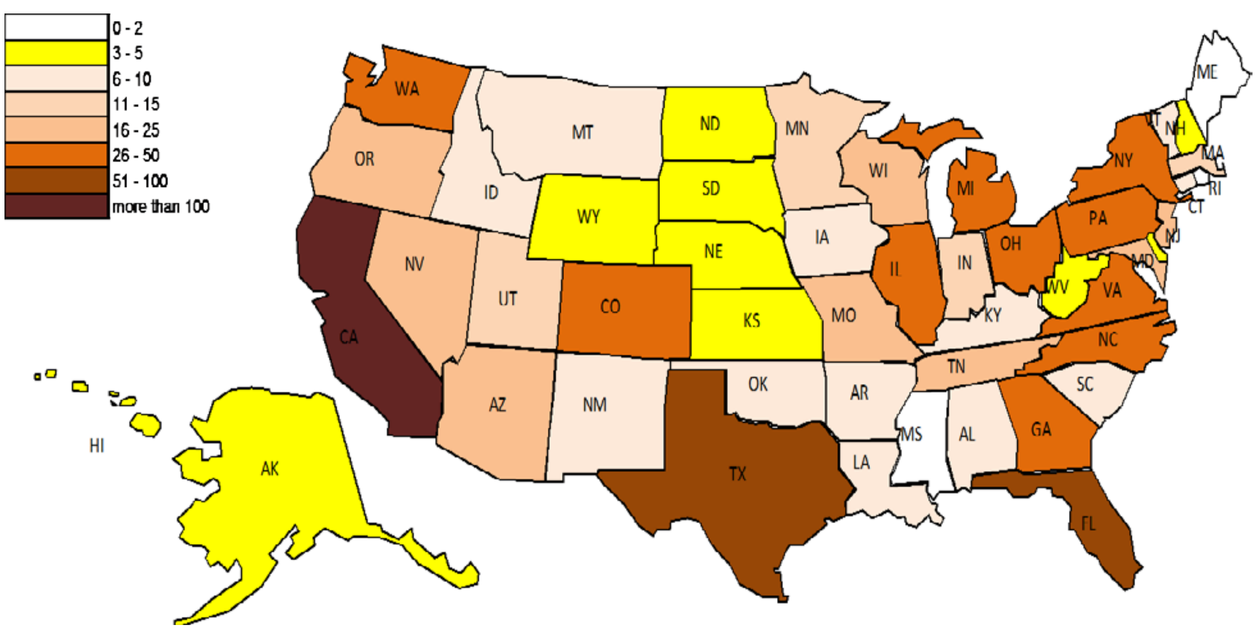
Nearly three quarters of businesses (75%) are planning to hire additional workers. Approximately 35% of respondents believe government regulations and taxes are the number one issue small businesses face today, another 29% believe access to capital is the most important current issue, followed by healthcare costs (24%). According to small businesses, of those policies most likely to lead to job creation in 2018, increased access to capital emerged as number one (25%) followed by tax incentives (23%), and regulatory reform (21%). The study showed that of those that do plan to hire, sales and marketing skills (36%) and skilled labor (30%) are in greatest demand followed by service/customer service (27%). Also, 82% of companies planning to hire indicate they'd need to train those they hire.

52% of respondents believe that general business conditions improved in the last twelve months compared to 36% surveyed year ago.

Operational and Assessment Characteristics

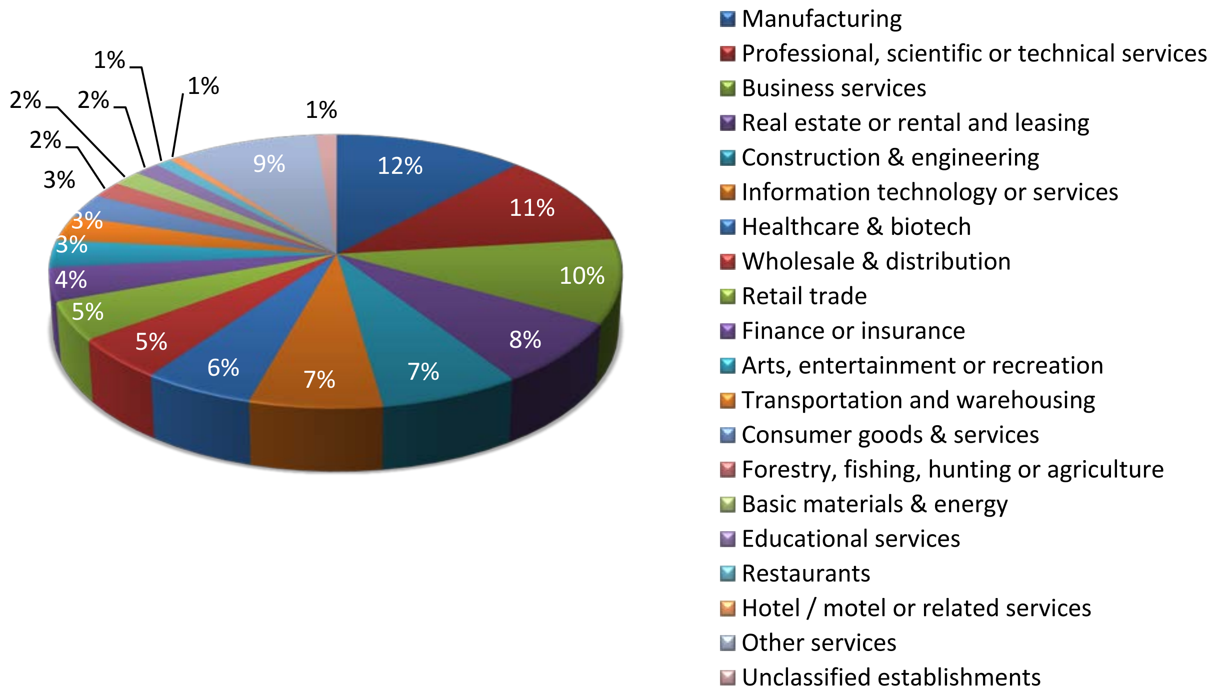
The privately-held business survey results were generated from 775 participants. The locations of businesses are distributed over all regions of the United States.

Figure 132. Respondents Distribution by State



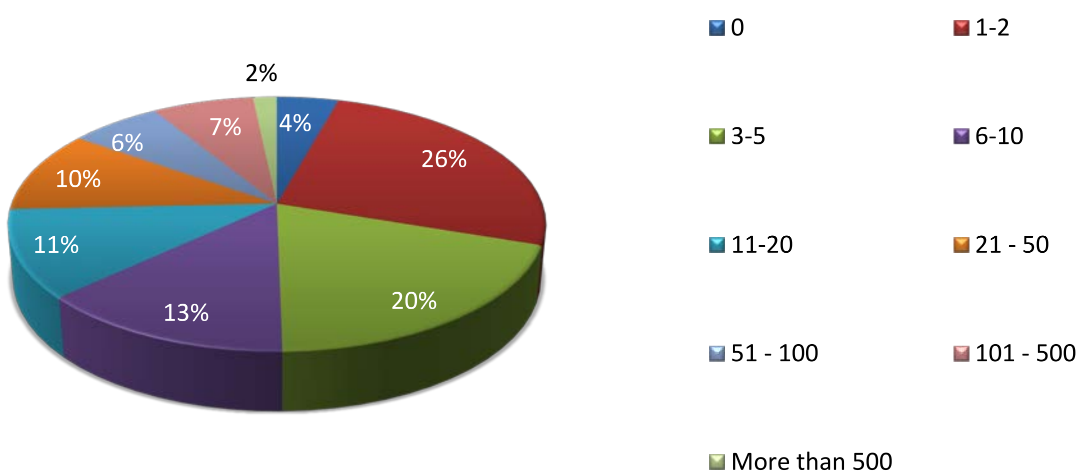
Businesses involved in manufacturing accounted for 12% of respondents followed by professional, scientific or technical services (11%) and business services (10%).

Figure 133. Description of Entity



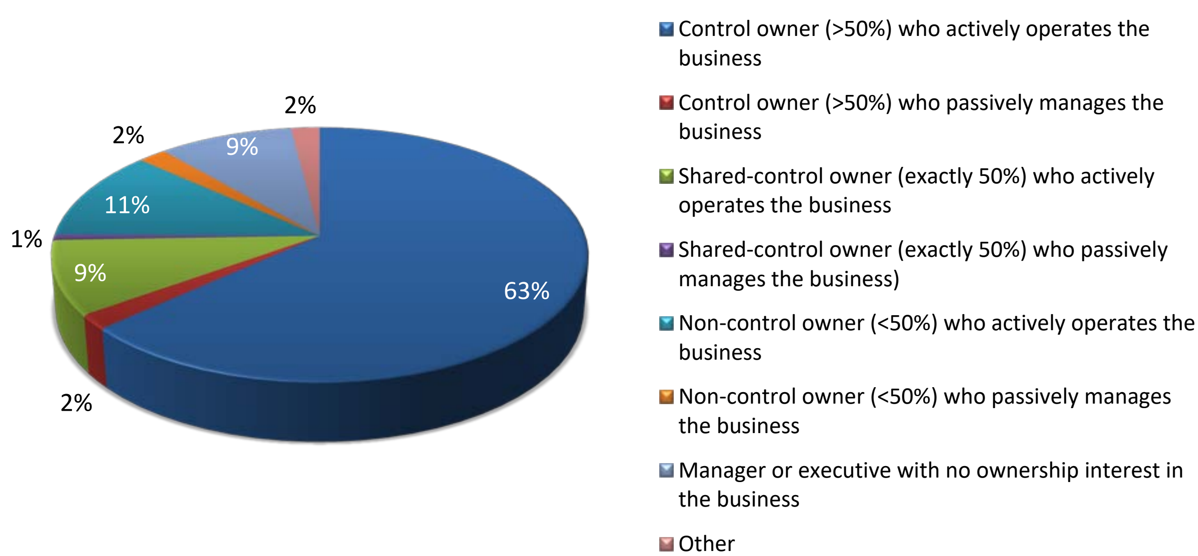
Approximately 45% of businesses have between one and five employees.

Figure 134. Number of Employees



Approximately 63% of the respondents are active control owners of their businesses.

Figure 135. Ownership Role



Approximately 74% of respondents have less than or equal to $5M in annual revenues.
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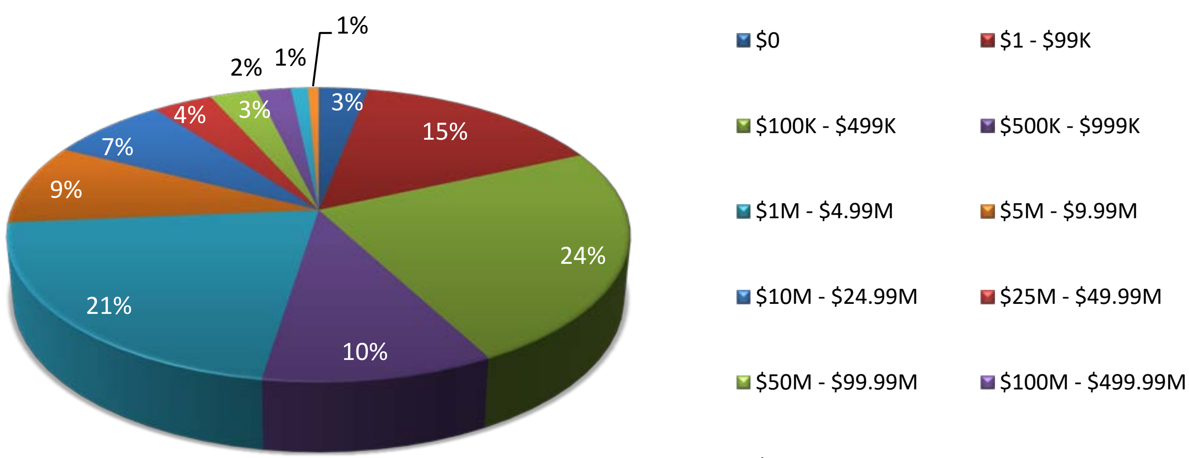
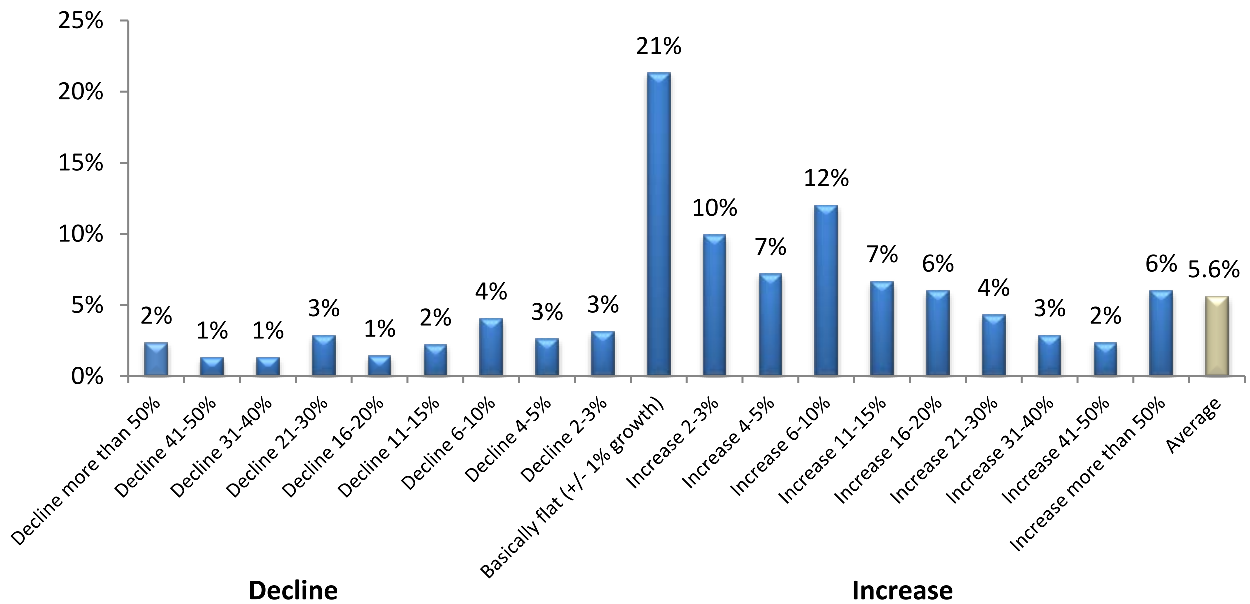
Figure 136. Annual Revenues



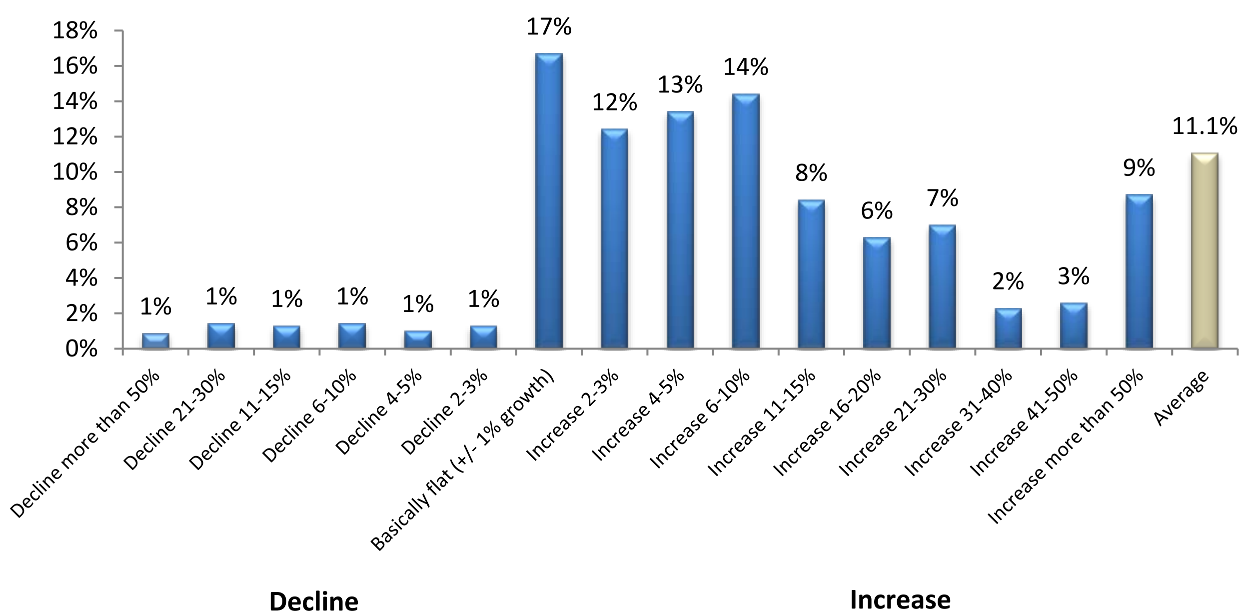
Businesses reported that annual revenues for the last 12 months increased by an average of 5.6%.

Figure 137. Annual Revenues Change in the Last 12 Months



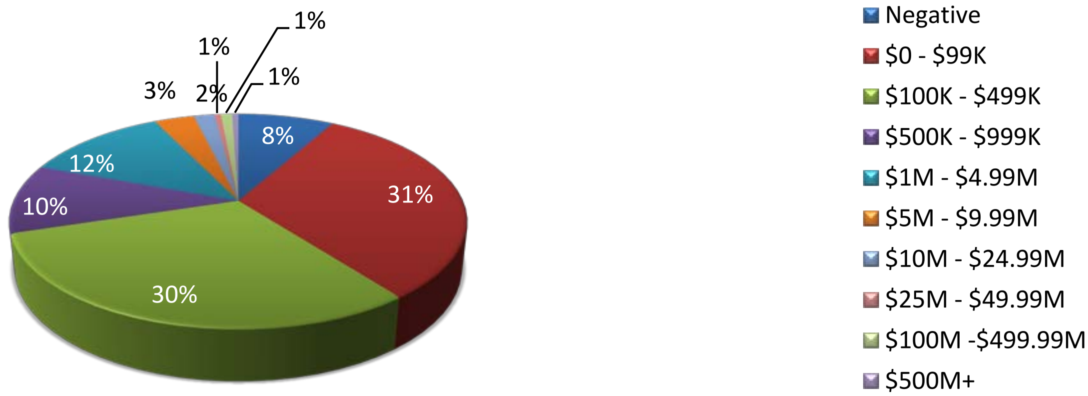
On average respondents expect their annual revenues to grow by 11.1% in the next 12 months.

Figure 138. Annual Revenues Change Expectations in the Next 12 Months



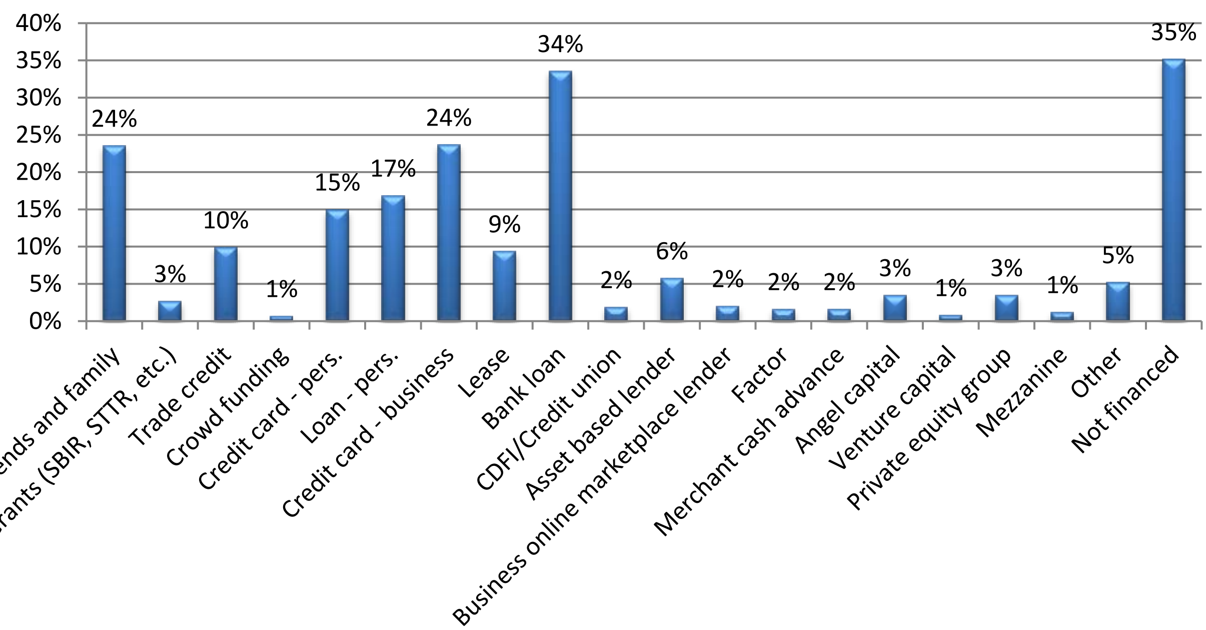
Approximately 92% of businesses have net income less than or equal to $5 million, 8% of those have negative net income.

Figure 139. Net Income



Approximately 35% of respondents are currently not financed by any external capital sources. Nearly 34% and 24% of respondents' businesses are financed by bank business loans and business credit card financing, respectively.

Figure 140. Current Sources of Financing



Among the businesses that tried to raise capital in the last 12 months, 43% applied for bank business loan and 72% were successful, whereas 31% of respondents didn't try to raise capital from any source.

Figure 141. Capital Sources Contacted To Raise Capital in the Last 12 Months

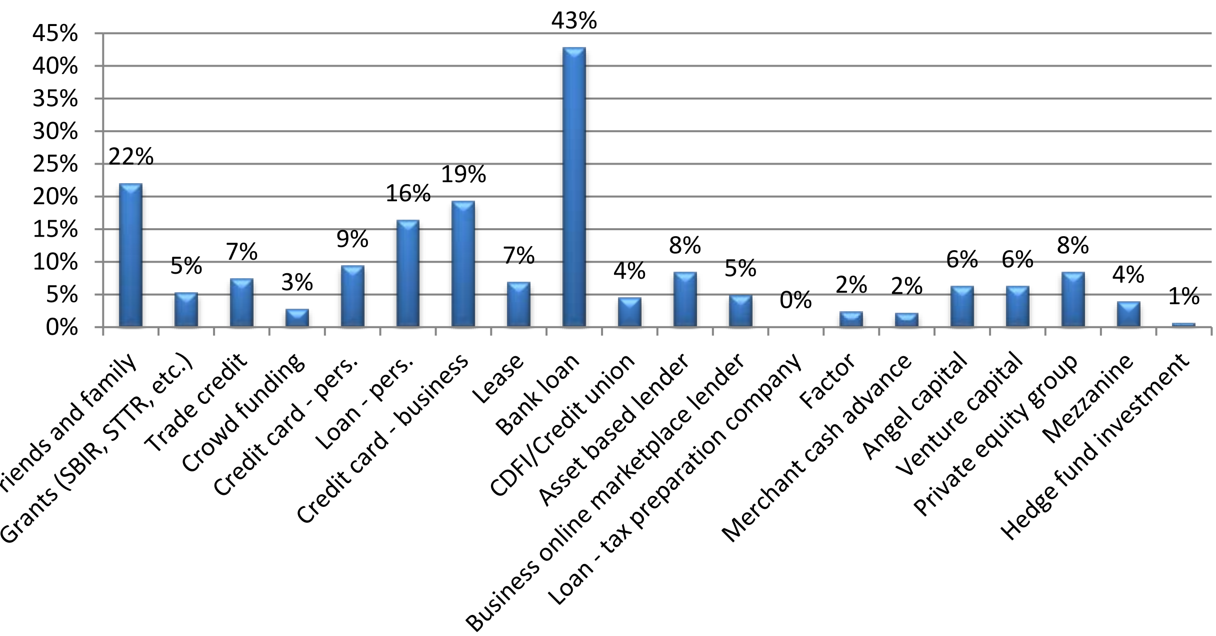
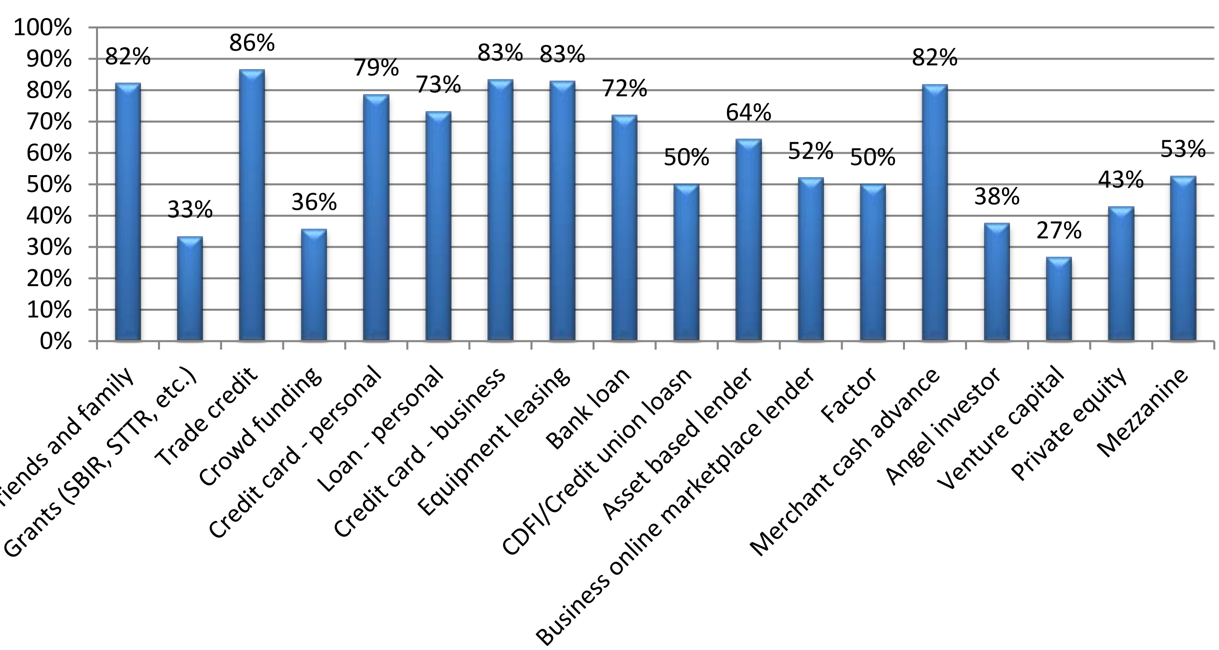
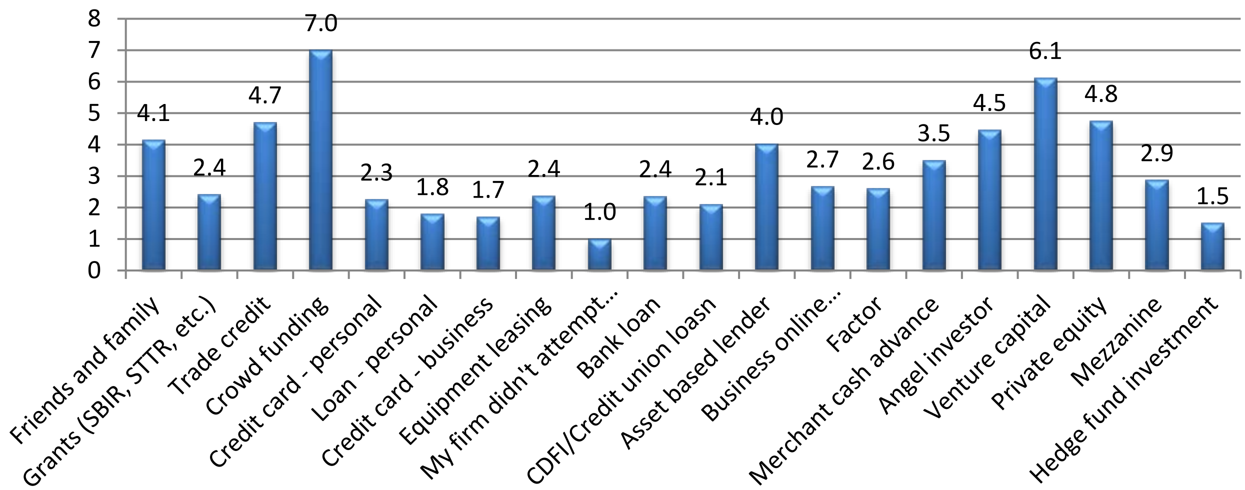


Figure 142. Success Rates



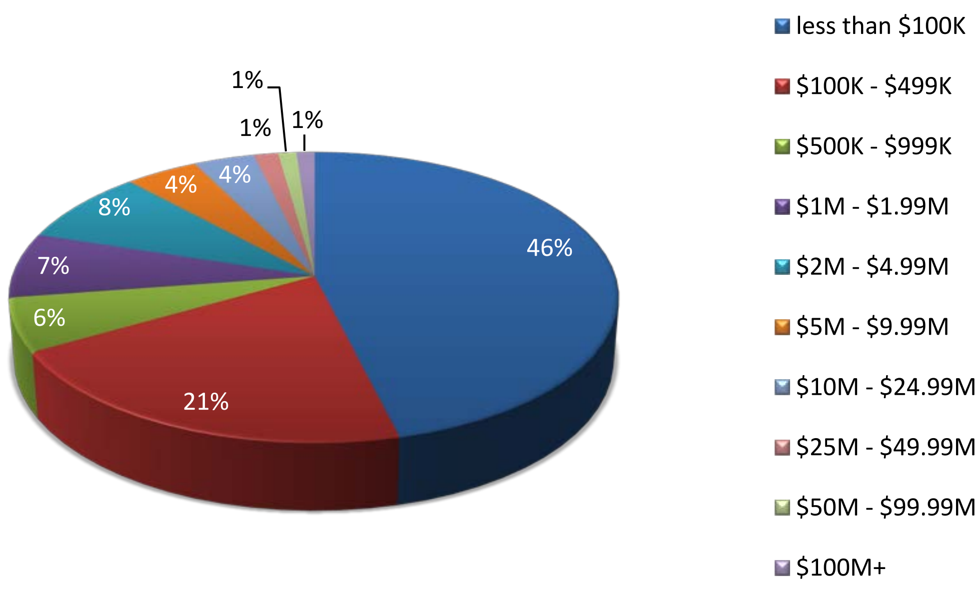
On average, respondents who successfully raised capital contacted 3.2 capital providers.

Figure 143. Average Number of Capital Providers Contacted



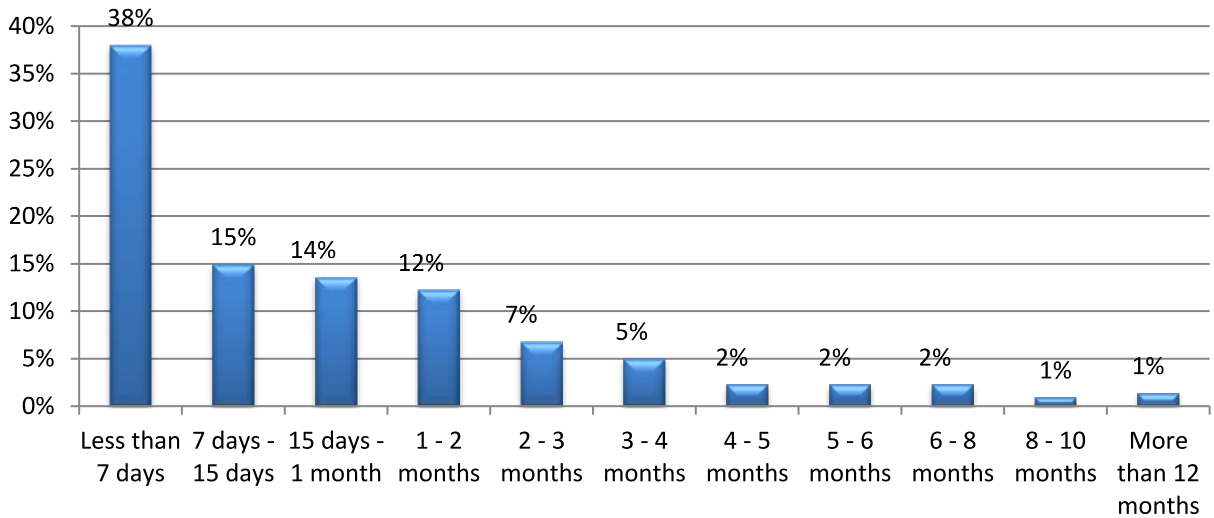
Approximately 67% of respondents attempted to raise less than $500K in the last 12 months.

Figure 144. Amount of Capital Raise Attempted in the last 12 Months



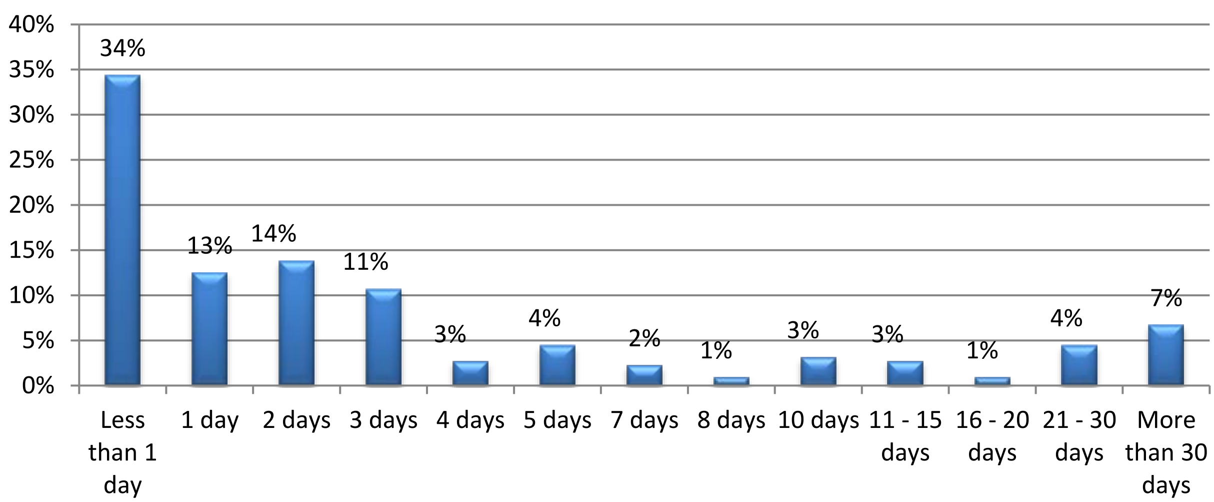
Approximately 38% of respondents took less than 7 days to complete financing process.

Figure 145. Average Time to Complete Financing Process in Days



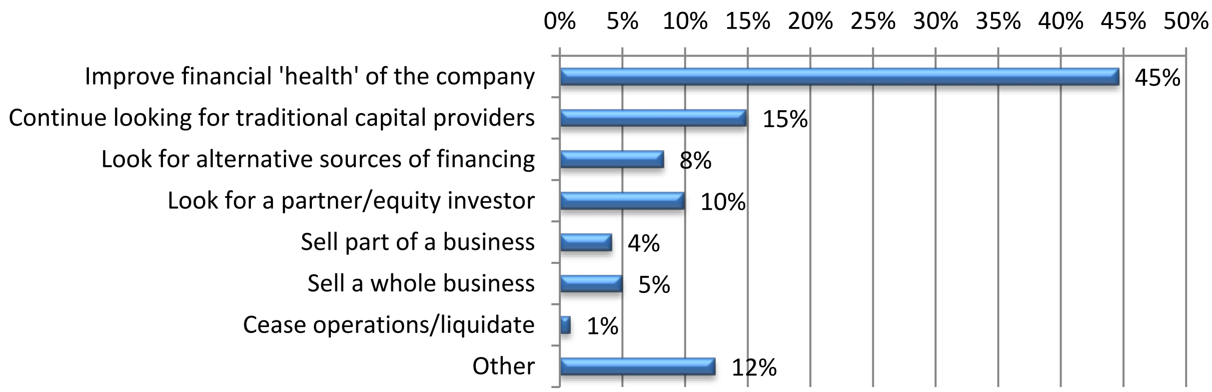
34% of respondents spent less than one day during the process to successfully obtain financing (time spent by all employees and hired outsiders making inquiries, submitting proposals, meeting with capital providers, furnishing documents).

Figure 146. Days Spent During the Process to Successfully Obtain Financing



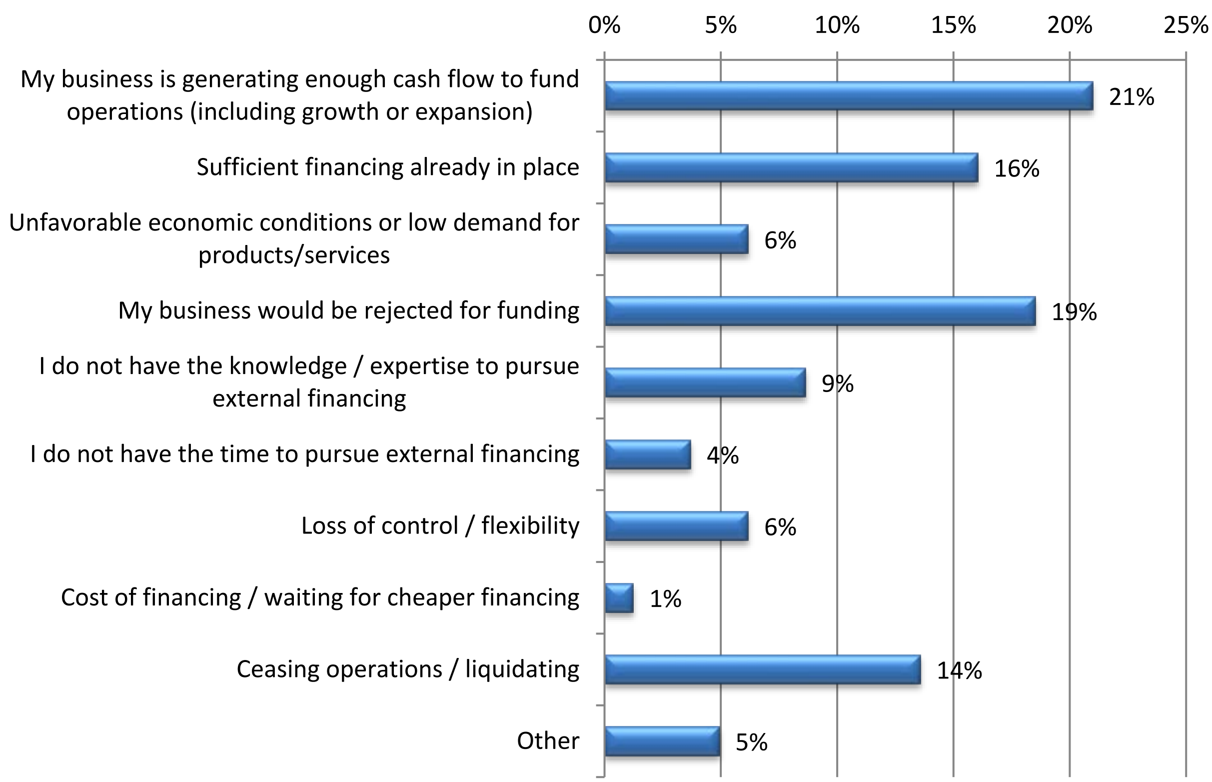
Among those respondents who were not able to obtain external financing in the last 12 months 45% are planning to improve financial health of their businesses before attempting to raise capital in the future.

Figure 147. Next Steps to Satisfy Financial Needs



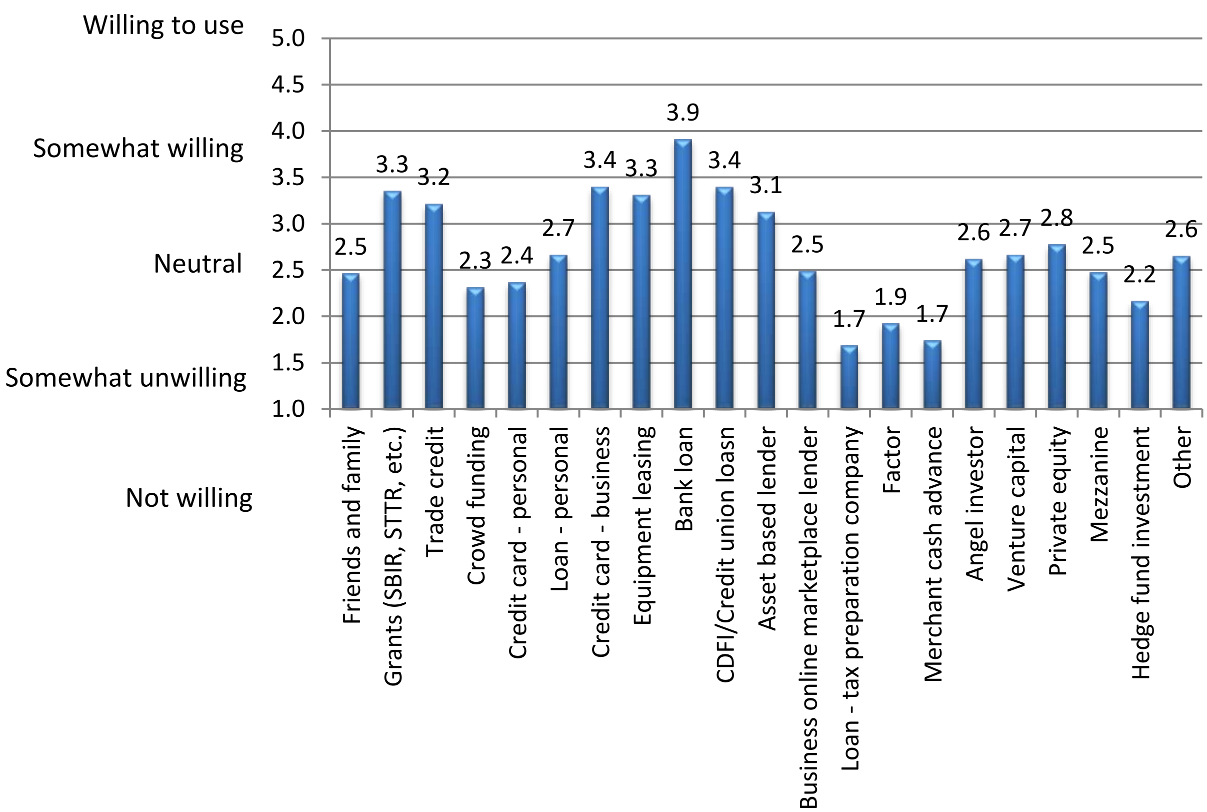
Among those respondents who didn't attempt to obtain any external financing in the last 12 months, 21% said their businesses are generating enough cash flow fund operations (including growth expansion), followed by 19% of respondents who would be rejected for funding, and 16% of respondents who have sufficient financing already in place.

Figure 148. Reasons for Not Trying to Obtain Capital in the Last 12 Months



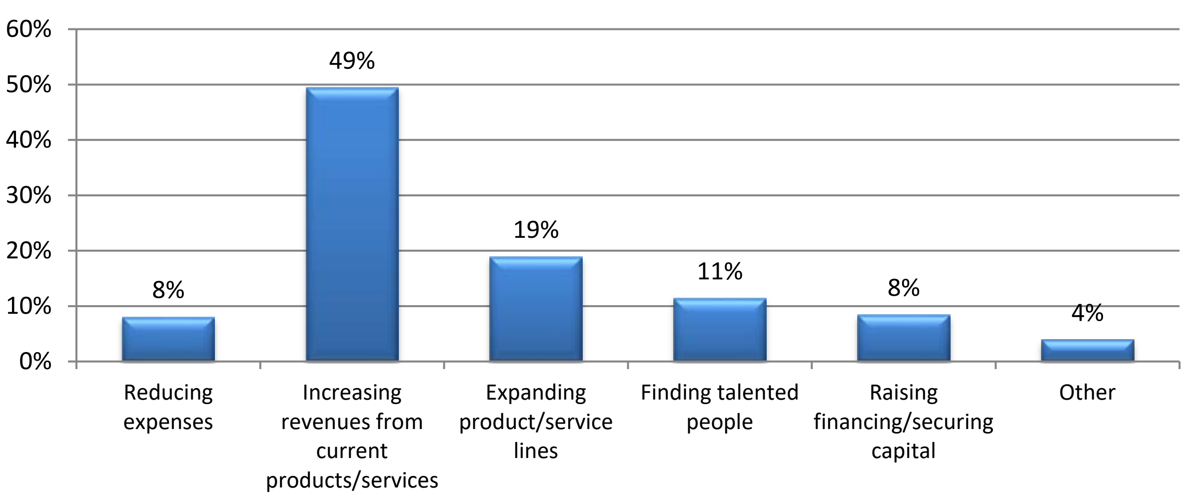
According to the respondents, "bank loans" as a category is the most appealing option to obtain financing.

Figure 149. Willingness to Obtain Financing



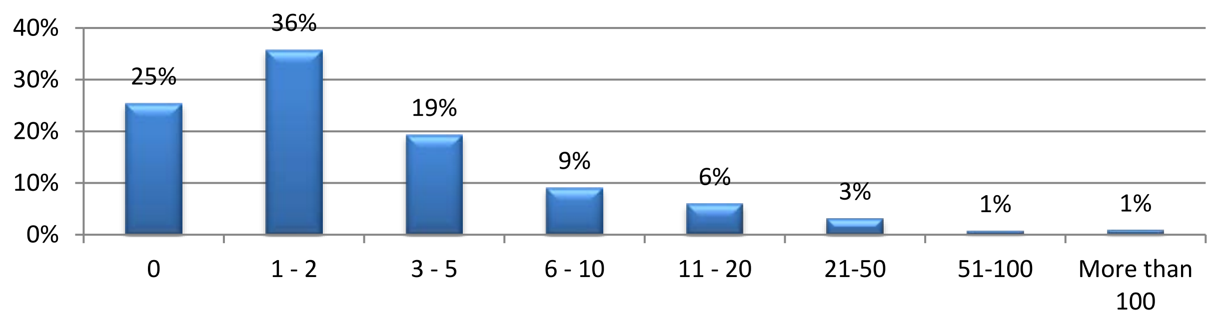
Approximately 49% of respondents indicated increasing revenues from current products or services as the area their businesses are most focused on today.

Figure 150. The Most Important Area to Focus On



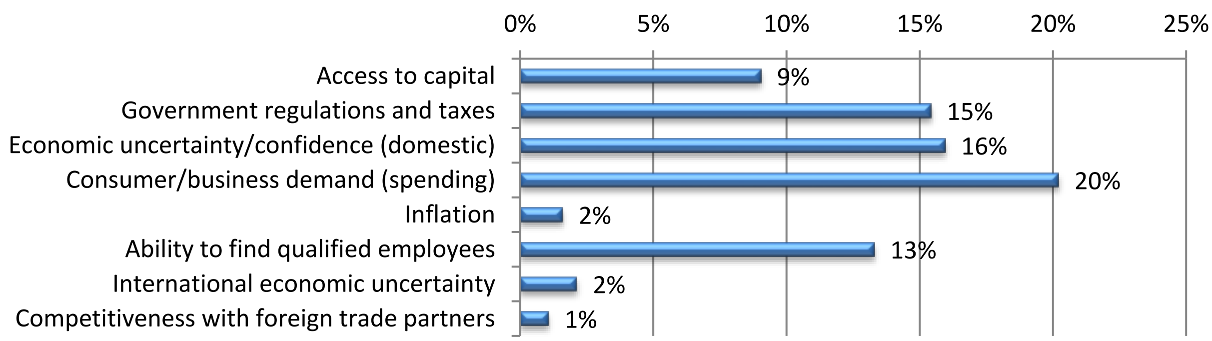
Approximately 25% of respondents are not planning to hire additional employees in the next 12 months, while 36% of respondents are planning to hire one or two additional employees in the next twelve months.

Figure 151. Amount of Employees Planned to be Hired



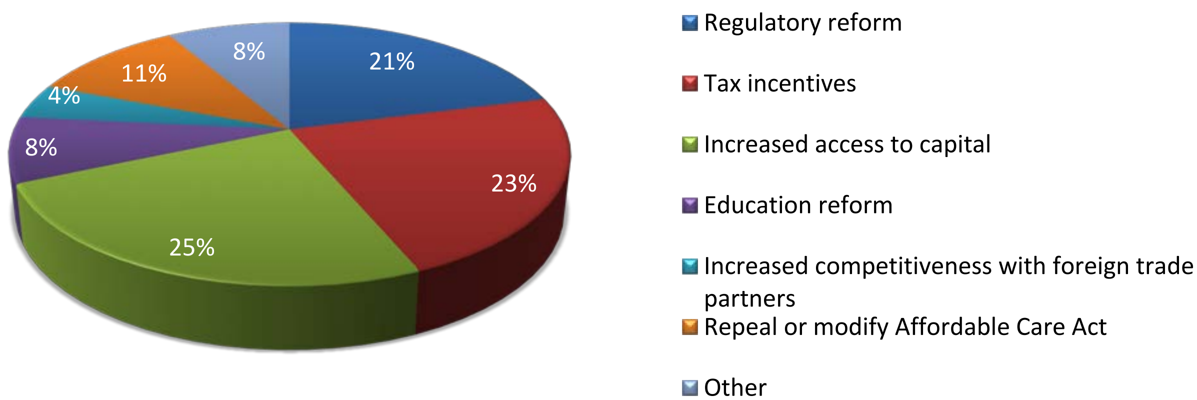
Approximately 20% of respondents believe consumer/business demand (spending) is the number one reason preventing them from hiring, followed by domestic economic uncertainty/confidence (16%).

Figure 152. Reasons Preventing Privately-Held Businesses from Hiring



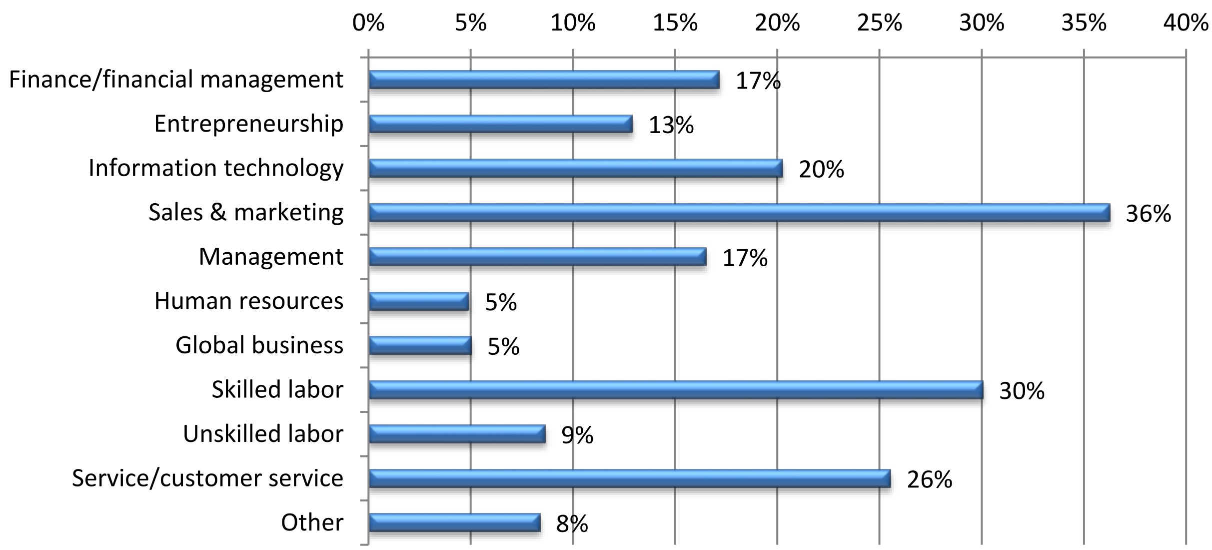
According to respondents, of those policies most likely to lead to job creation in 2018, increased access to capital emerged as number one (25%) followed by tax incentives (23%).

Figure 153. Government Policies to Lead to Job Creation



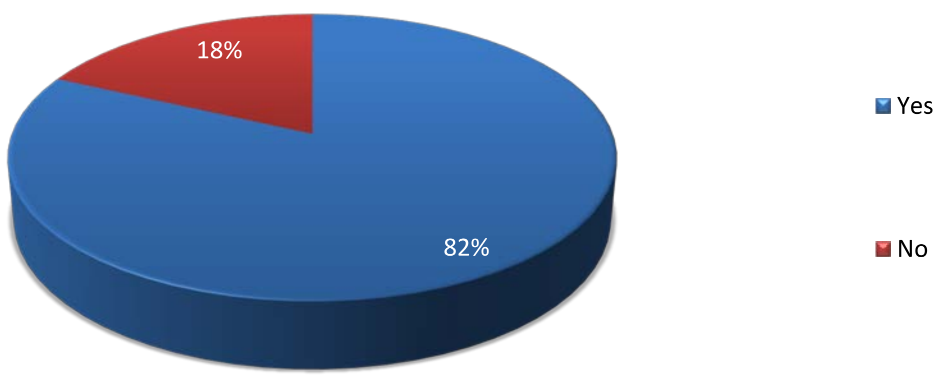
For those businesses which do plan to hire, sales and marketing skills (36%) and skilled labor (30%) are in greatest demand followed by service/customer service (26%).

Figure 154. The Skills in Demand for New Hires



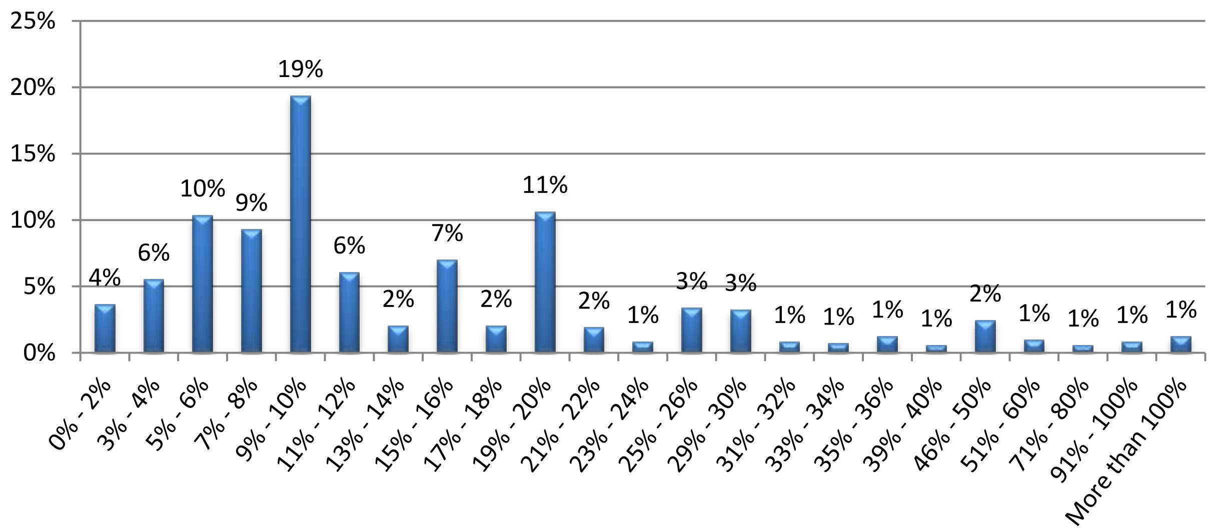
82% of businesses planning to hire indicate need to train those they hire.

Figure 155. Need for Training of New Hires



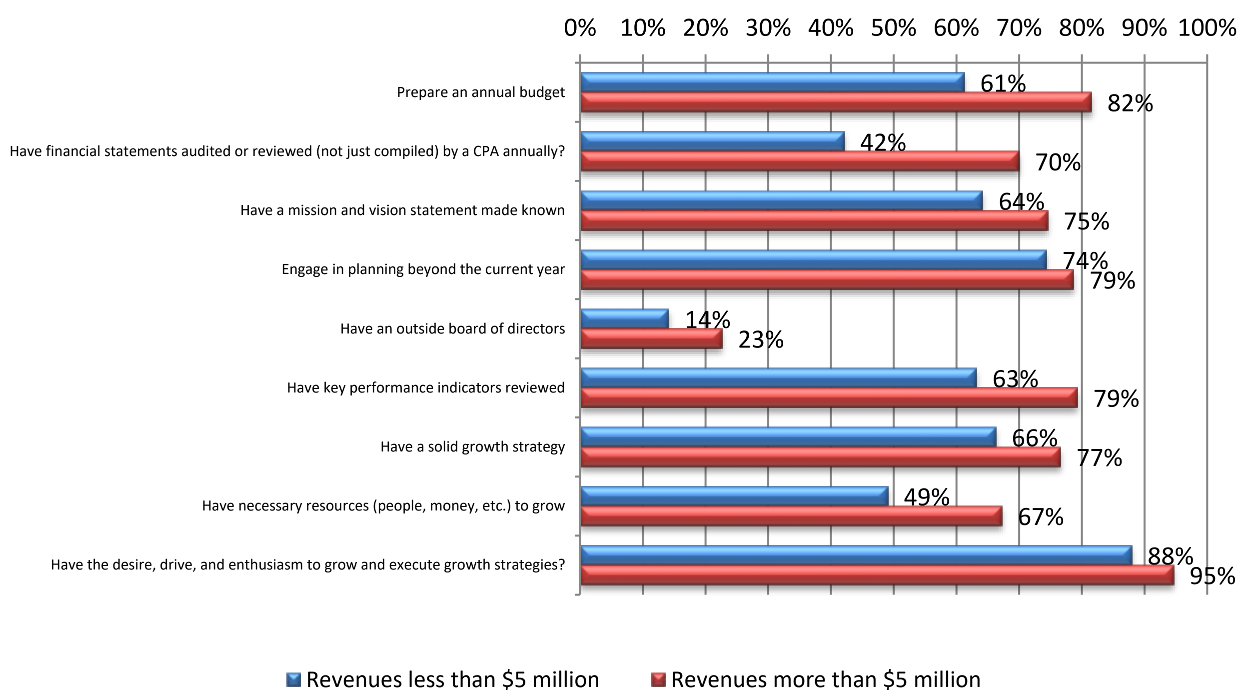
Approximately 19% of respondents indicated their business cost of equity capital is in the range of 9% - 10%. This represents a significant misunderstanding by many business owners of their cost of equity.

Figure 156. Cost of Equity Capital



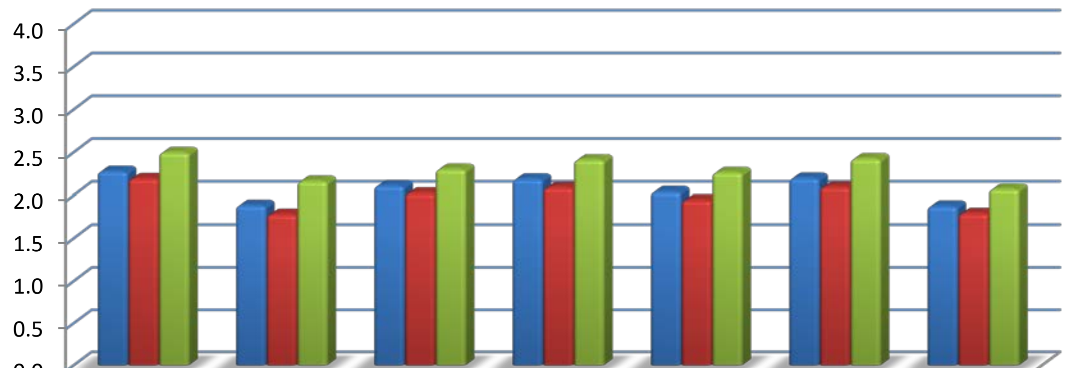
Privately-held businesses with revenues less than $5 million on average have almost the same desire to execute growth strategies (88%) as privately-held businesses with revenues greater than $5 million (95%). However, privately-held businesses with smaller revenues report lower levels of necessary resources (people, money, etc.) to grow (49%) as compared to privately-held businesses with higher revenues (67%).

Figure 157. Usage of Financial Analysis by Revenue Sizes



Respondents reported on their level of knowledge financing components (scale 0-4: none, some, moderate, very, completely).

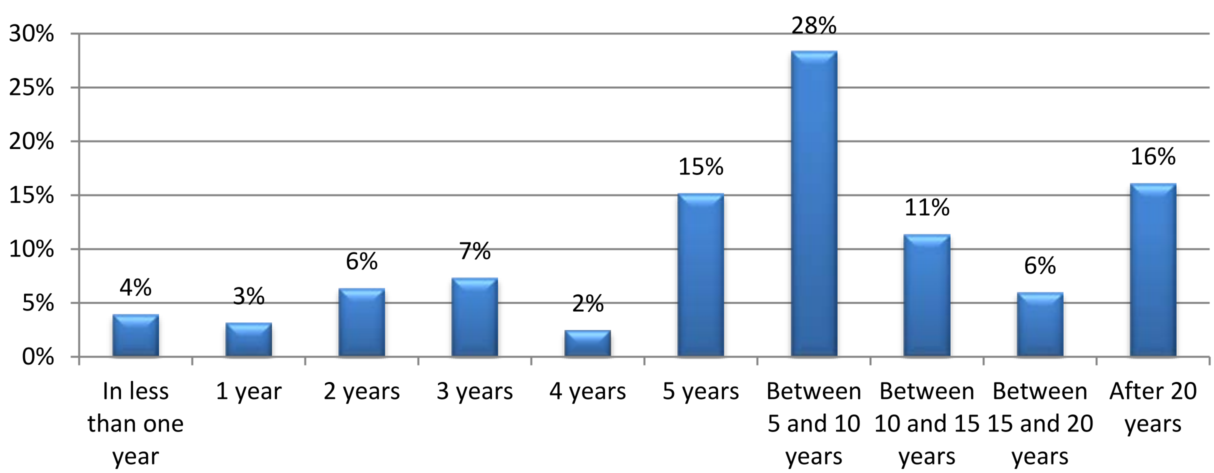
Figure 158. Level of Knowledge of Financing Components



	Types of financing	Specific firms to contact to seek various types of financing	Advantages/ disadvantages of various types of financing	"Costs of capital"	Process to obtain financing	Specific benchmarks to qualify for financing	Financing acceptance rates
Whole sample	2.3	1.9	2.1	2.2	2.0	2.2	1.9
< $5 million	2.2	1.8	2.0	2.1	1.9	2.1	1.8
$5 - $100 million	2.5	2.2	2.3	2.4	2.3	2.4	2.1

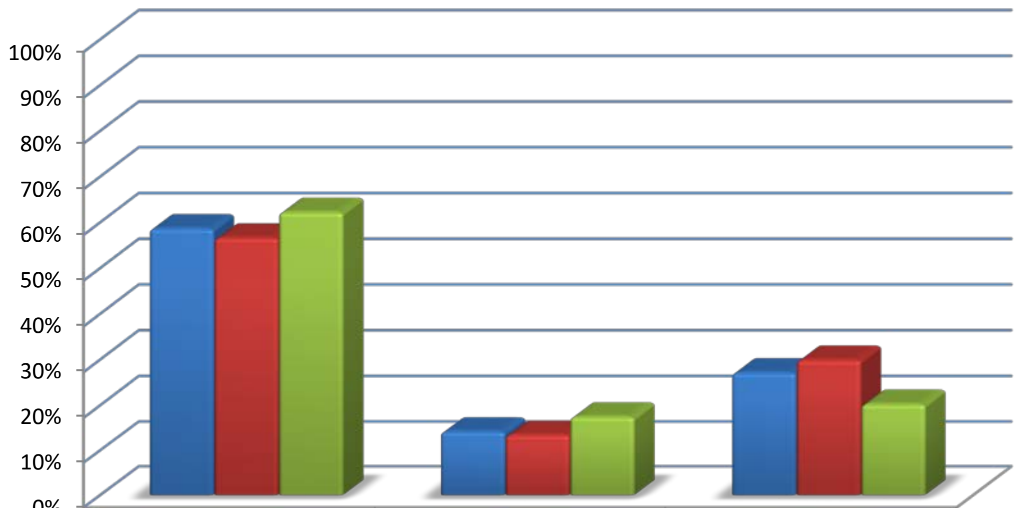
Most of the respondents are planning to transfer their ownership interest in more than five years from now while only 4% plan to transfer their ownership at the first available opportunity.

Figure 159. Anticipation of the Ownership Transfer



Business owners were asked whether they would choose IPO or private equity if they were eligible to raise financing from both. 59% of them would choose private equity.

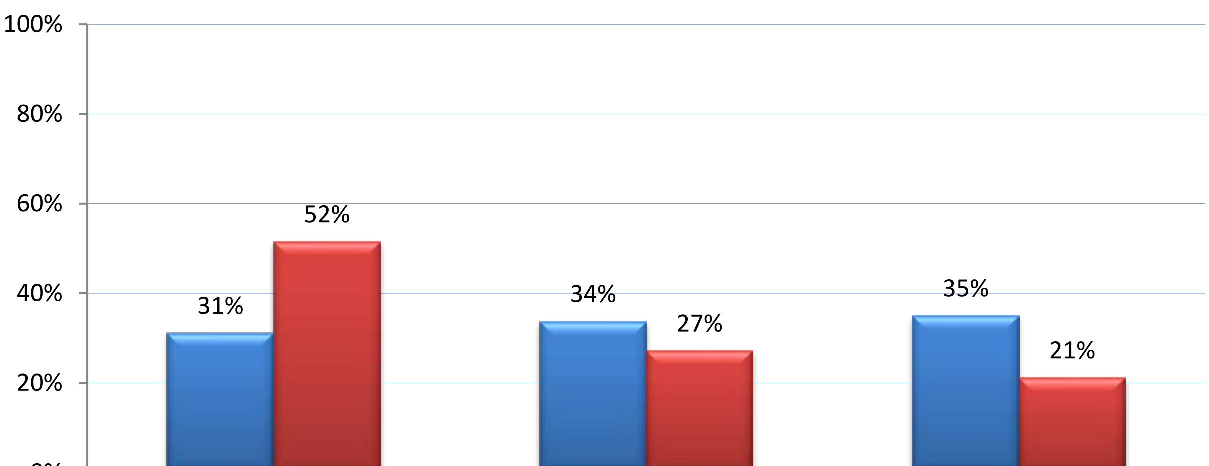
Figure 160. Private Equity vs Initial Public Offering



	Private equity	Initial public offering (IPO)	Unsure
Whole sample	59%	14%	27%
< $5 million	57%	13%	30%
$5 - $100 million	62%	17%	20%

When asked about general view, 52% of respondents indicated private equity as favorable financing source.

Figure 161. General Views on Initial Public Offering and Private Equity



	Favorable	Neither favorable nor unfavorable	Unfavorable
IPO	31%	34%	35%
PE	52%	27%	21%

BUSINESS OWNER cont.

Privately-held businesses with annual revenues less than $5 million are more concerned about access to capital than those with revenues greater than $5 million. Larger privately-held businesses are more concerned about government regulations and taxes.

Figure 162. The Number One Issue Facing Privately-Held Businesses Today by Revenue Sizes

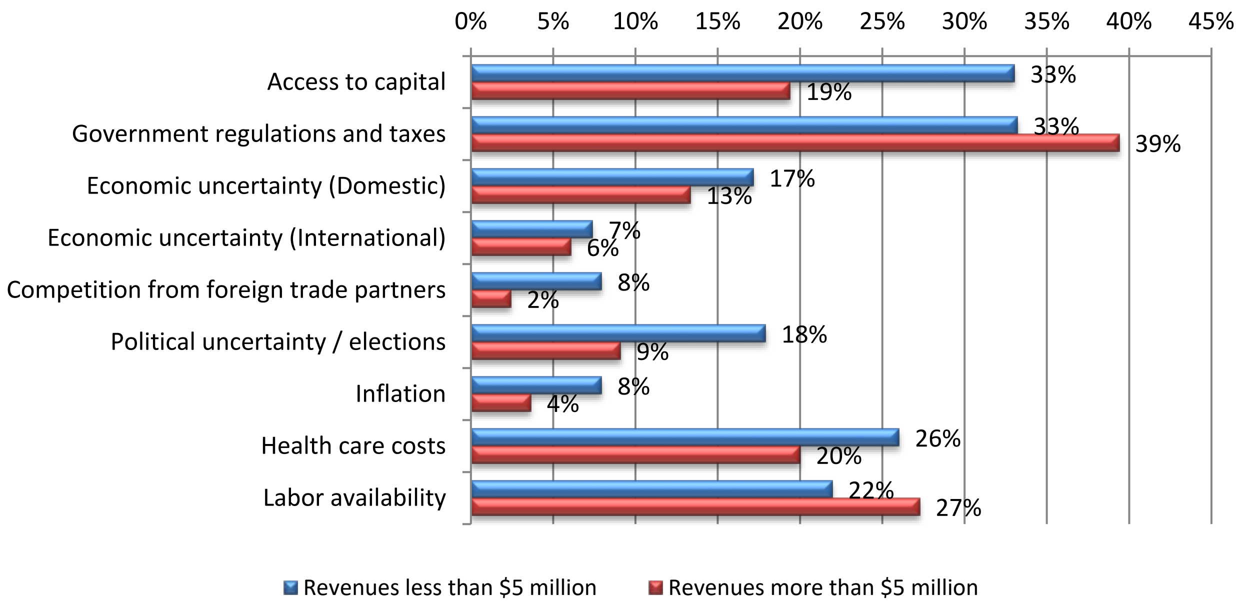
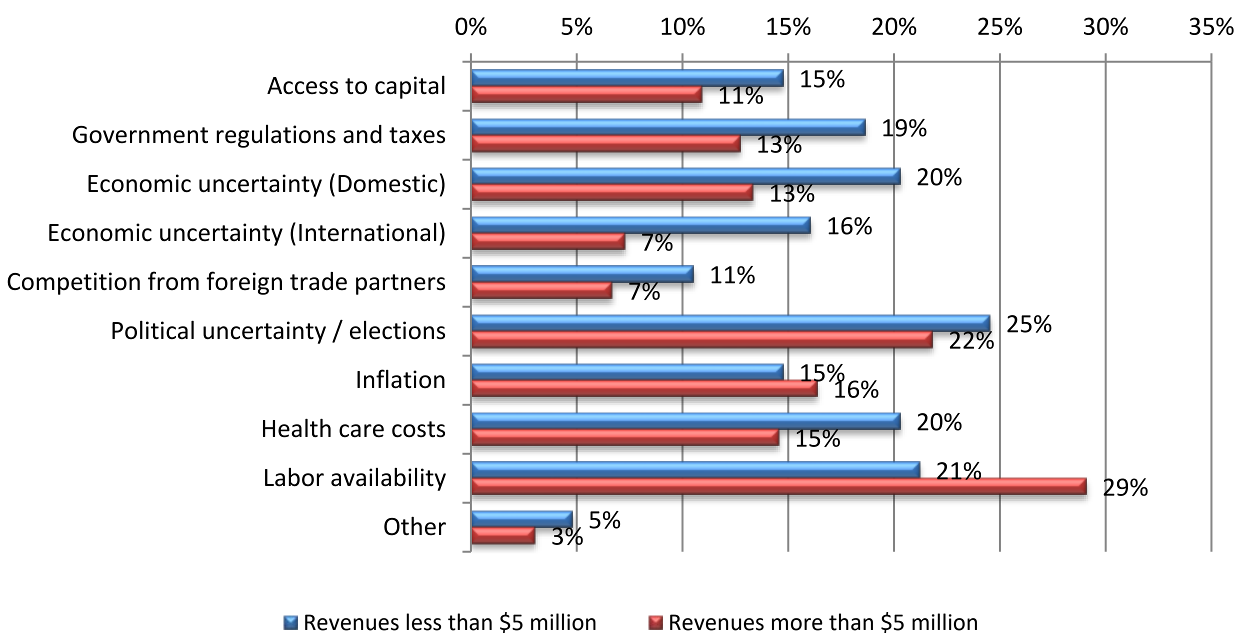
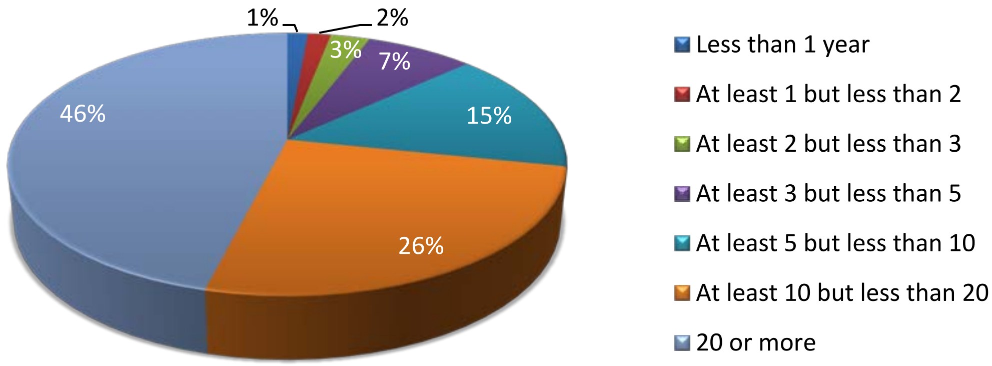


Figure 163. The Number One Emerging Issue Facing Privately-Held Businesses by Revenue Sizes



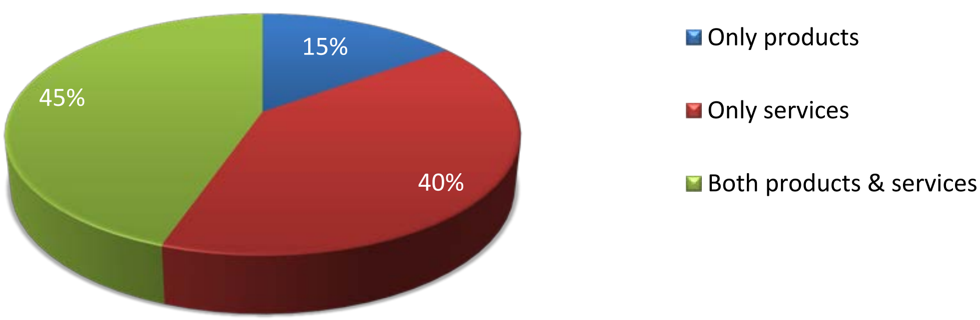
Approximately 46% of respondents have firms 20 or more years old.

Figure 164. Firm Age



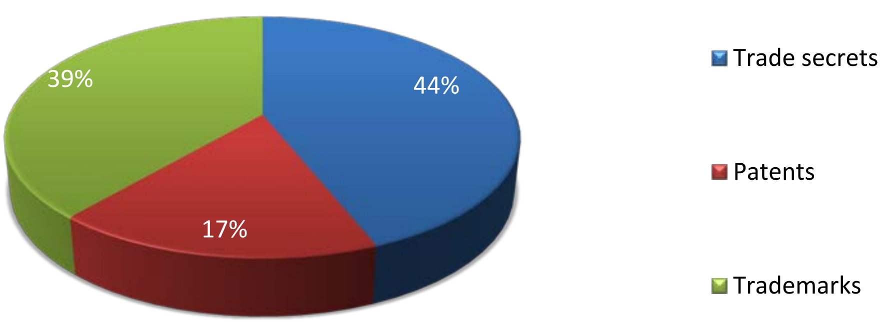
Approximately 45% of respondents sell both products and services to their clients.

Figure 165. Types of Companies



Nearly 44% of respondents have protected trade secrets.

Figure 166. Protected Intellectual Property



Most of respondents indicated increased unit sales and prices of labor and materials, flat access to capital, and slightly improved general business conditions.

Table 73. General Business and Industry Assessment: Today Versus Twelve Months Ago

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Unit sales	5%	14%	22%	33%	26%	59%	20%	39%
Prices of labor and materials	1%	3%	34%	53%	10%	63%	3%	60%
Net income	5%	15%	27%	32%	21%	52%	20%	32%
Inventory levels	5%	12%	56%	21%	6%	27%	17%	10%
Capital expenditures	5%	11%	43%	29%	12%	41%	15%	26%
Opportunities for growth	2%	7%	22%	37%	31%	68%	10%	59%
Access to bank loans	7%	8%	50%	26%	10%	35%	15%	20%
Access to equity capital	5%	11%	55%	20%	8%	29%	16%	13%
Prices of your products or services	1%	4%	43%	47%	5%	52%	5%	46%
Time to collect receivables	2%	8%	66%	19%	6%	24%	10%	14%
Number of employees	2%	6%	59%	27%	7%	34%	7%	27%
Competition	2%	7%	53%	29%	9%	38%	9%	29%
General business conditions	2%	9%	36%	40%	12%	52%	12%	40%
Appetite for risk	2%	10%	48%	31%	9%	40%	12%	28%
Probability of business closure	30%	22%	36%	9%	2%	12%	52%	-40%
Time worrying about economy	15%	23%	40%	14%	8%	22%	38%	-16%

Participants of the survey believe almost all general business characteristics will increase in the next 12 months.

Table 74. General Business and Industry Assessment Expectations for the Next 12 Months

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Unit sales	1%	5%	19%	49%	25%	75%	7%	**68%**
Prices of labor and materials	1%	3%	34%	55%	7%	62%	4%	**57%**
Net income	1%	7%	19%	49%	24%	73%	8%	**64%**
Inventory levels	2%	7%	56%	29%	6%	36%	8%	**27%**
Capital expenditures	3%	8%	46%	32%	10%	43%	11%	**31%**
Opportunities for growth	1%	5%	25%	41%	29%	69%	6%	**63%**
Access to bank loans	4%	5%	54%	28%	8%	36%	10%	**26%**
Access to equity capital	5%	5%	57%	25%	9%	34%	9%	**25%**
Prices of your products or services	1%	3%	40%	51%	5%	56%	4%	**51%**
Time to collect receivables	2%	8%	69%	18%	3%	21%	10%	**11%**
Number of employees	1%	2%	45%	46%	6%	52%	3%	**49%**
Competition	2%	6%	56%	30%	6%	36%	8%	**28%**
General business conditions	2%	8%	41%	39%	10%	49%	10%	**39%**
Appetite for risk	2%	11%	51%	28%	8%	36%	13%	**23%**
Probability of business closure	23%	22%	44%	7%	4%	12%	45%	**-33%**
Time worrying about economy	11%	20%	45%	14%	11%	24%	31%	**-7%**

ABOUT THE AUTHOR

Craig R. Everett, PhD
Director, Pepperdine Private Capital Markets Project

Craig R. Everett is an assistant professor of finance at Pepperdine Graziadio Business School and the Director of the Pepperdine Private Capital Markets Project. His teaching and research interests include entrepreneurial finance, private capital markets, business valuation and behavioral corporate finance.

He holds a PhD in finance from Purdue University, an MBA from George Mason University, and a BA in quantitative economics from Tufts University. Dr. Everett is the author of the best-selling children's fantasy novel, Toby Gold and the Secret Fortune, which incorporates such financial literacy topics as saving, investing, banking, entrepreneurship, interest rates, return on investment, and net worth.

His research has appeared in the *Wall Street Journal*, CNBC, *USA Today*, and the *New York Times*, been published in a number of journals and been presented at domestic and international conferences. Craig Everett is member of the Beta Gamma Sigma Honor Society, Financial Executives International, and the National Association of Corporate Directors (NACD).

Contact: privatecap@pepperdine.edu

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INDEX OF TABLES

INDEX OF FIGURES