2019 Private Capital Markets Report

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2019 Private Capital Markets Report

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TABLE OF CONTENTS

LIMITED PARTNER SURVEY INFORMATION **6**

Operational and Assessment Characteristics **6**

BANK LENDING SURVEY INFORMATION **12**

Operational and Assessment Characteristics 12

ASSET-BASED LENDING SURVEY INFORMATION **20**

Operational and Assessment Characteristics 20

MEZZANINE SURVEY INFORMATION **27**

Operational and Assessment Characteristics 27

INVESTMENT BANKER SURVEY INFORMATION **37**

Operational and Assessment Characteristics 37

PRIVATE EQUITY SURVEY INFORMATION **46**

Operational and Assessment Characteristics 46

VENTURE CAPITAL SURVEY INFORMATION **57**

Operational and Assessment Characteristics 57

ANGEL INVESTOR SURVEY INFORMATION **63**

Operational and Assessment Characteristics 63

BUSINESS APPRAISER SURVEY INFORMATION **70**

Operational and Assessment Characteristics 70

BROKER SURVEY INFORMATION **75**

Operational and Assessment Characteristics 75

FACTOR SURVEY INFORMATION **88**

Operational and Assessment Characteristics 88

EQUIIPMENT LEASING SURVEY INFORMATION **95**

Operational and Assessment Characteristics 95

BUSINESS OWNER SURVEY INFORMATION **99**

Operational and Assessment Characteristics 99

MERCHANT CASH ADVANCE SURVEY INFORMATION **118**

Operational and Assessment Characteristics 118

ABOUT THE AUTHOR **123**

INDEX OF TABLES **124**

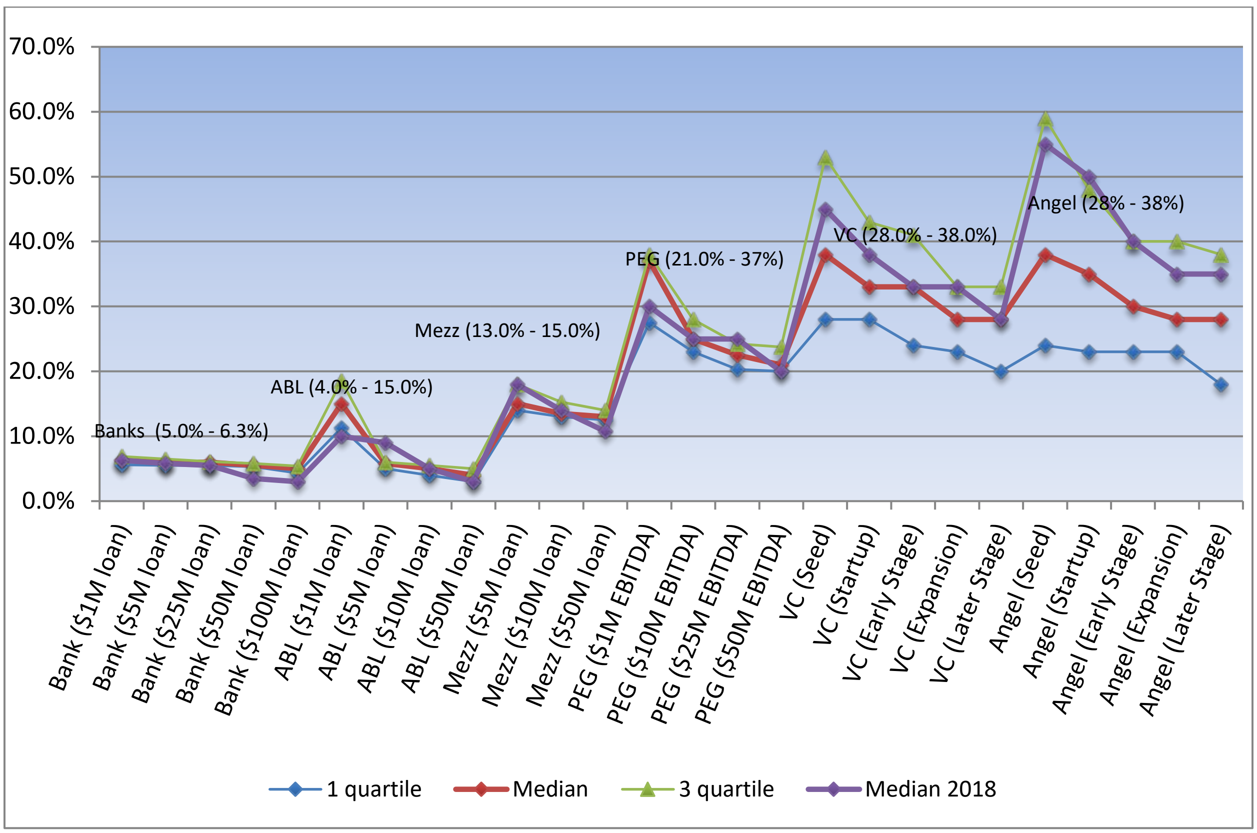
INDEX OF FIGURES **127**

PEPPERDINE PRIVATE CAPITAL MARKETS SURVEY

The Pepperdine private cost of capital (PCOC) survey was originally launched in 2007 and was the first comprehensive and simultaneous investigation of the major private capital market segments. This year's survey was deployed in January 2019 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 loan)	5.6%	6.3%	6.9%
Bank ($5M loan)	5.5%	6.0%	6.5%
Bank ($10M loan)	5.5%	6.0%	6.1%
Bank ($25M loan)	5.3%	5.5%	5.8%
Bank ($50M loan)	4.3%	5.0%	5.4%
ABL ($1M loan)	11.3%	15.0%	18.5%
ABL ($5M loan)	5.0%	5.8%	6.0%
ABL ($10M loan)	4.0%	5.0%	5.5%
ABL ($50M loan)	3.0%	4.0%	5.0%
Mezz ($5M loan)	14.0%	15.0%	18.0%
Mezz ($10M loan)	13.0%	13.5%	15.3%
Mezz ($50M loan)	12.5%	13.0%	14.0%
PEG ($1M EBITDA)	27.5%	37.0%	38.0%
PEG ($10M EBITDA)	23.0%	25.0%	28.0%
PEG ($25M EBITDA)	20.3%	22.5%	24.3%
PEG ($50M EBITDA)	20.0%	21.0%	23.8%
VC (Seed)	28.0%	38.0%	53.0%
VC (Startup)	28.0%	33.0%	43.0%
VC (Early Stage)	24.0%	33.0%	41.0%
VC (Expansion)	23.0%	28.0%	33.0%
VC (Later Stage)	20.0%	28.0%	33.0%
Angel (Seed)	24.0%	38.0%	59.0%
Angel (Startup)	23.0%	35.0%	48.0%
Angel (Early Stage)	23.0%	30.0%	40.0%
Angel (Expansion)	23.0%	28.0%	40.0%
Angel (Later Stage)	18.0%	28.0%	38.0%

LIMITED PARTNER SURVEY INFORMATION

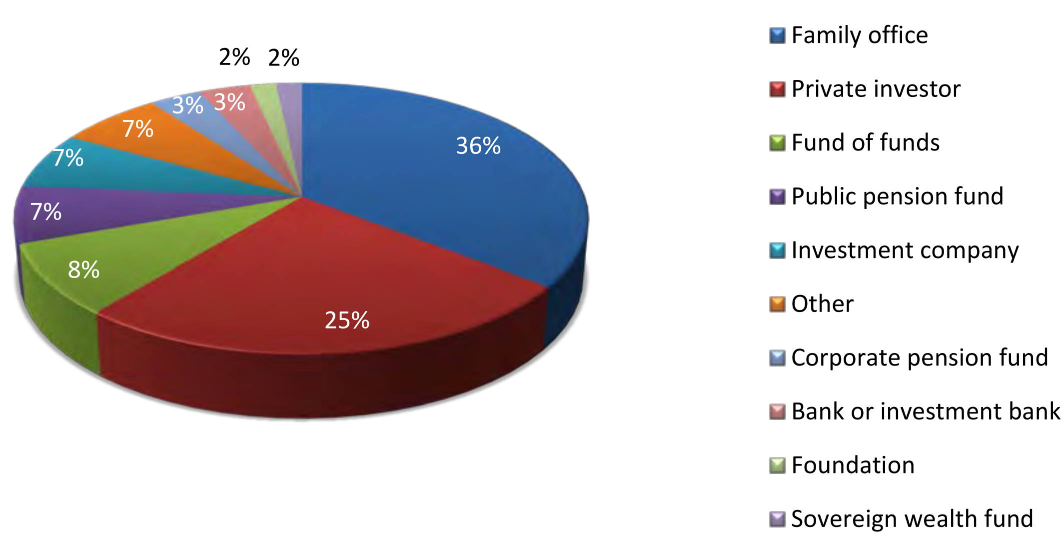
Approximately 21% of the 60 respondents in the limited partner survey reported direct investments as being the best risk/return trade-off investment class and another 19% reported buyout private equity as being the best risk/return trade-off investment class. When asked about which industry currently offers the best risk/return trade-off, 18% of respondents reported information technology.

- On average respondents target to allocate 19% of their assets to direct investments, 18% to buyout private equity and 16% to real estate funds. Respondents expect the highest returns of 12% from direct investments, 10% from buyout private equity, and 10% from venture capital.
- Respondents indicated increased allocation to private equity, real estate funds and direct investments, and decreased allocation to all other alternative assets in the last twelve months. They also reported slightly improved business conditions and decreased expected returns on new investments.
- Respondents also expect further increases in allocation to private equity, real estate funds and direct investments, slightly worsening business conditions and decreasing expected returns.

Operational and Assessment Characteristics

Approximately 36% of respondents indicated being family office followed by private investor (25%).

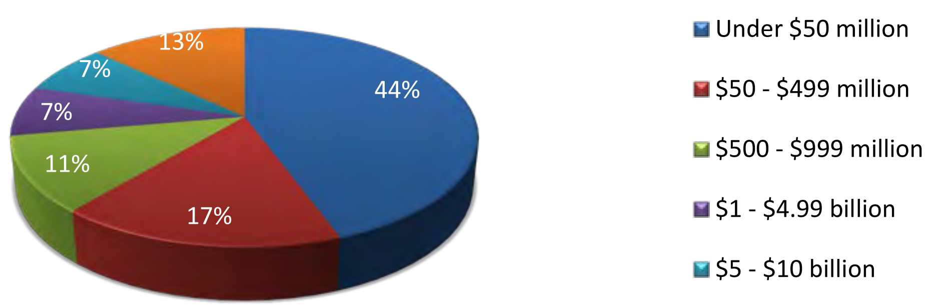
Figure 2. Entity Type



LP cont.

Approximately 44% of respondents reported their asset category being less than $50 million, while another 17% 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)

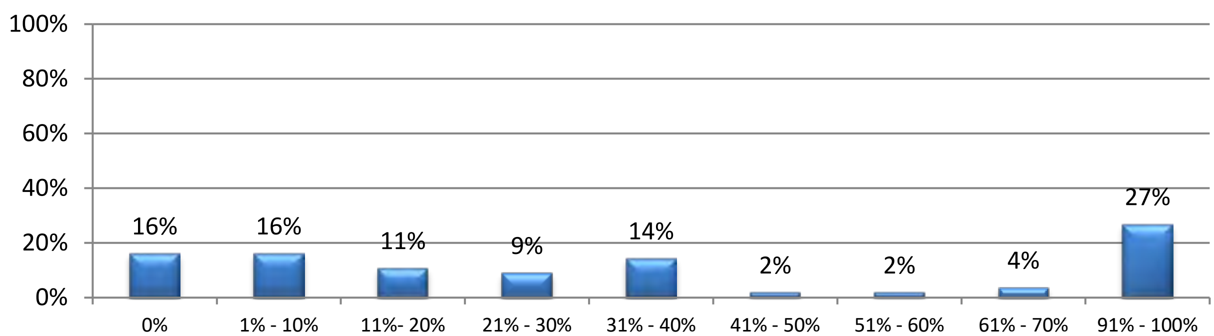
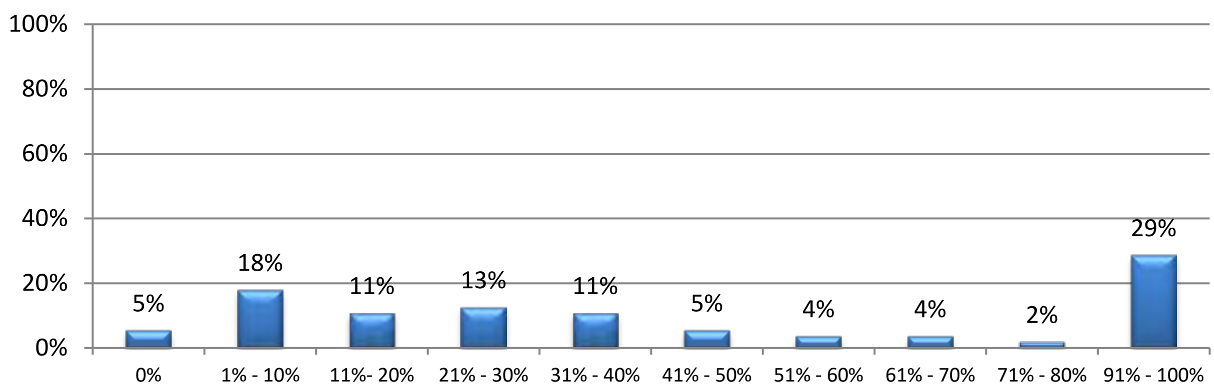


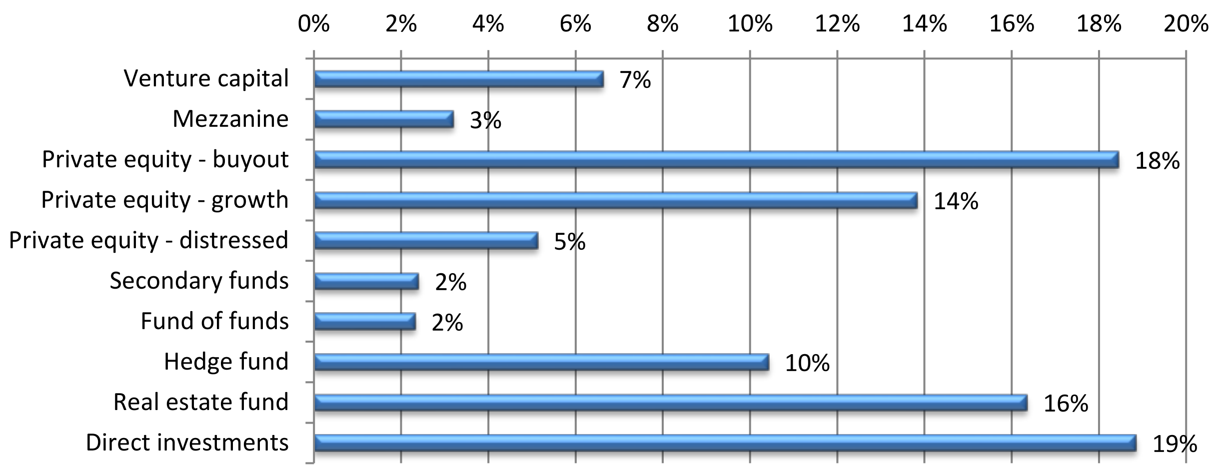
Figure 5. Target Asset Allocation for "Alternative Assets" (% of total portfolio)



LP cont.

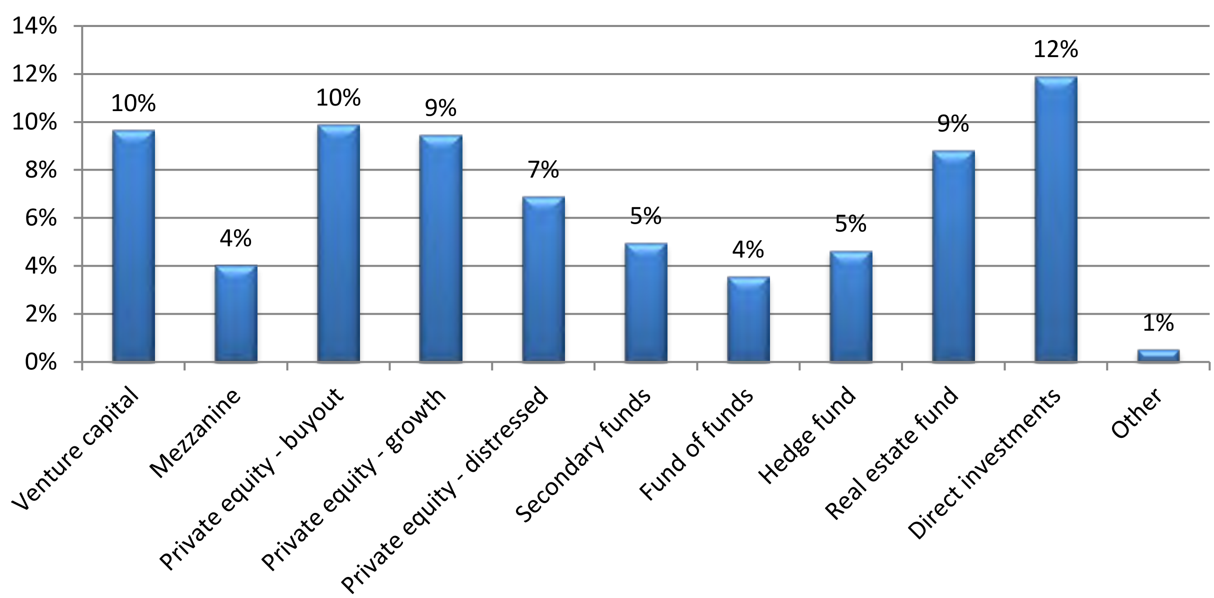
On average, respondents target to allocate 19% of their assets to direct investments, 18% to buyout private equity, and 16% to real estate funds.

Figure 6. Target Asset Allocation by Assets



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

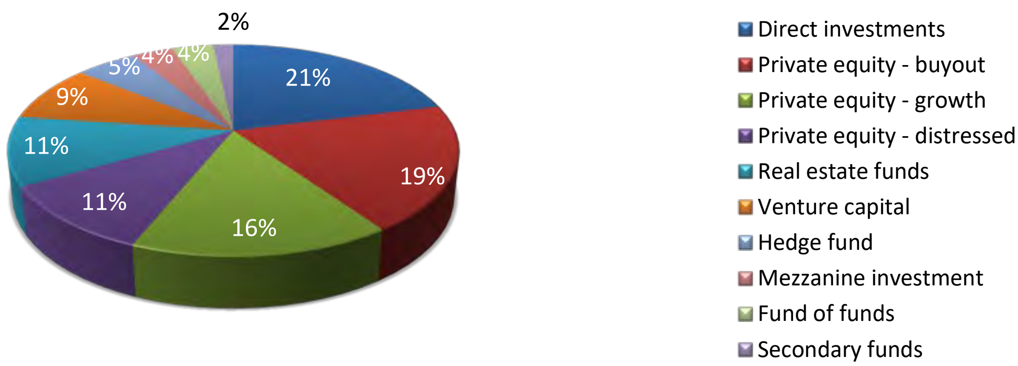
Figure 7. Annual Return Expectations for New Investments



LP cont.

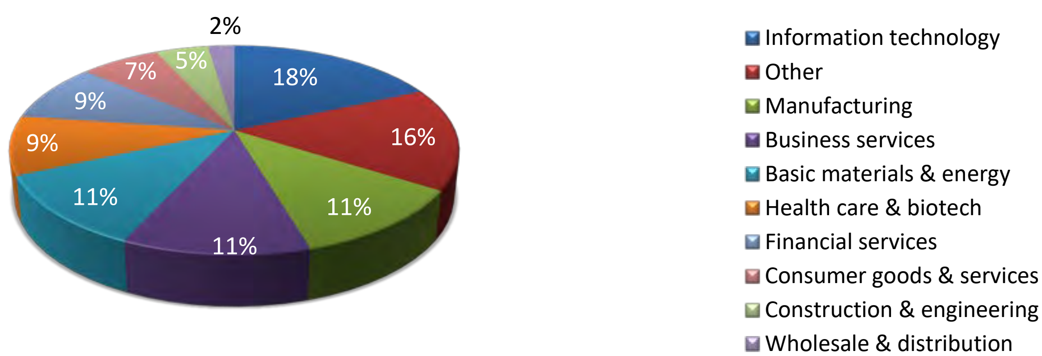
Approximately 27% of the 60 respondents in the limited partner survey reported direct investments as being the best risk/return trade-off investment class and another 19% reported buyout as being the best risk/return trade-off investment class.

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



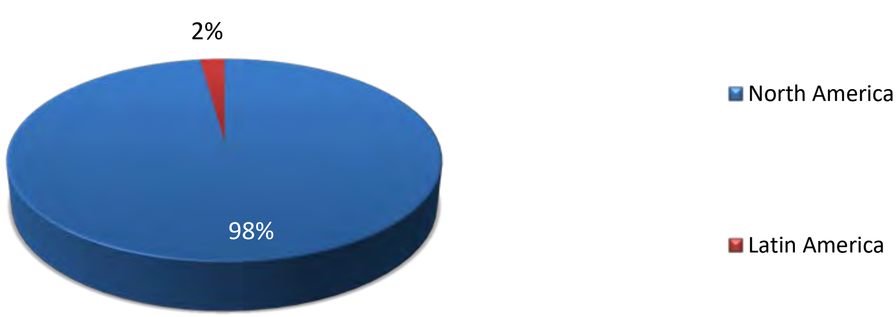
When asked about which industry currently offers the best risk/return trade-off, 18% of respondents reported information technology.

Figure 9. Industry with the Best Risk/Return



With regard to the geographic regions with the best risk/return trade-offs, 98% of respondents reported North America.

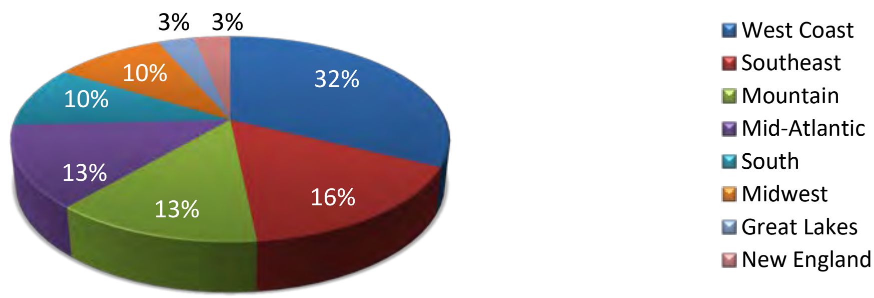
Figure 10. Geographic Regions of the World Offering the Best Risk/Return Tradeoff Currently



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, 13% reported Mountain and another 13% reported Mid-Atlantic.

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



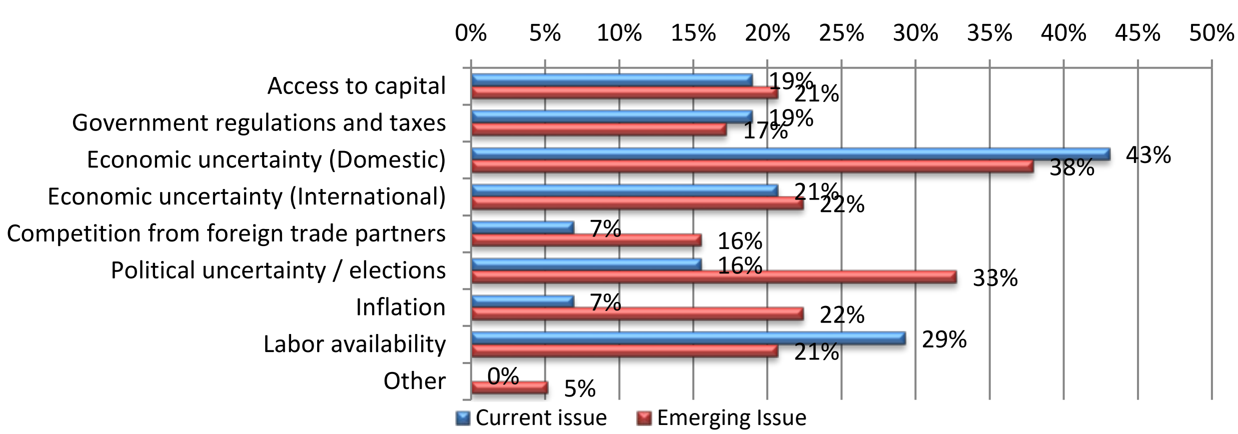
According to respondents, general partner and specific strategy are the most important factors when evaluating investment followed by historical fund performance on all funds.

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	0%	2%	22%	41%	34%	**4.1**
Returned capital from most recent fund (Distribution to Paid-in or DPI)	0%	0%	28%	58%	14%	**3.9**
Residual value of most recent fund (Residual Value to Paid-in or RVPI)	0%	9%	42%	40%	9%	**3.5**
General partner	0%	5%	7%	19%	68%	**4.5**
Specific strategy	0%	4%	16%	39%	42%	**4.2**
Specific location	7%	24%	36%	28%	5%	**3.0**
Gut feel/instinct	2%	19%	34%	26%	19%	**3.4**
Other	22%	22%	0%	0%	56%	**3.4**

Respondents believe domestic economic uncertainty is the most important current issue facing privately-held businesses.

Figure 11. Issues Facing Privately-Held Businesses



LP cont.

Respondents indicated increased allocation to private equity, real estate funds and direct investments, and decreased allocation to all other alternative assets in the last twelve months. They also reported slightly improved business conditions and decreased 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	14%	9%	63%	5%	9%	14%	23%	**-9%**
Allocation to private equity	7%	0%	69%	16%	9%	24%	7%	**17%**
Allocation to mezzanine	16%	4%	72%	6%	2%	8%	20%	**-12%**
Allocation to hedge funds	14%	12%	58%	4%	12%	16%	26%	**-10%**
Allocation to secondary funds	8%	14%	65%	8%	4%	12%	22%	**-10%**
Allocation to real estate funds	8%	10%	46%	32%	4%	36%	18%	**18%**
Direct investments	6%	11%	34%	40%	9%	49%	17%	**32%**
General business conditions	4%	24%	41%	22%	9%	31%	28%	**4%**
Expected returns on new capital deployed	4%	35%	37%	19%	6%	24%	39%	**-15%**

Respondents also expect further increases in allocation to private equity, real estate funds and direct investments, slightly worsening business conditions and decreasing 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	9%	7%	71%	9%	4%	13%	16%	**-4%**
Allocation to private equity	2%	7%	48%	34%	9%	43%	9%	**34%**
Allocation to mezzanine	8%	8%	76%	6%	2%	8%	16%	**-8%**
Allocation to hedge funds	8%	14%	60%	14%	4%	18%	22%	**-4%**
Allocation to secondary funds	6%	14%	69%	8%	4%	12%	20%	**-8%**
Allocation to real estate funds	10%	8%	41%	29%	12%	41%	18%	**24%**
Direct investments	4%	11%	39%	39%	7%	46%	15%	**31%**
General business conditions	6%	30%	32%	25%	8%	32%	36%	**-4%**
Expected returns on new capital deployed	2%	40%	29%	25%	4%	29%	42%	**-13%**

BANK LENDING SURVEY INFORMATION

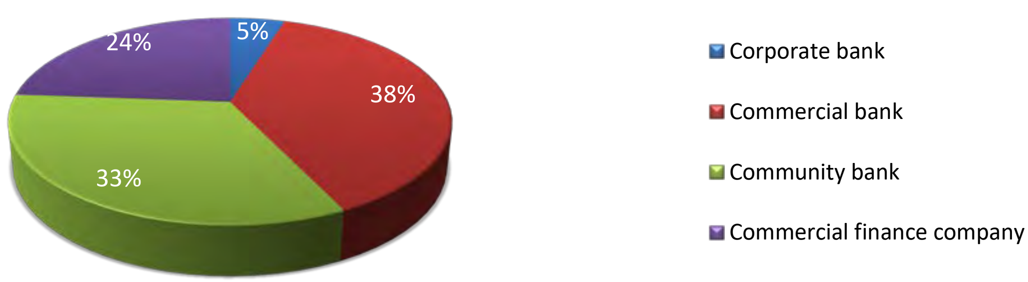
There were 21 responses to the bank lending survey. Over 39% of respondents believe that general business conditions will worsen over the next 12 months and over 44% said demand for loans will increase. Other key findings include:

- Over the last twelve months respondents were seeing increased senior and leverage multiples, with decrease in demand for business loans and flat general business conditions.
- Respondents also expect increases in demand for business loans, lending capacity of banks, worsening general business conditions, flat total and leverage multiples, and further increase in interest rates.
- Currently, 33% lenders see domestic economic uncertainty as the top issue facing privately-held businesses today, followed by labor availability (33%) and access to capital (28%).

Operational and Assessment Characteristics

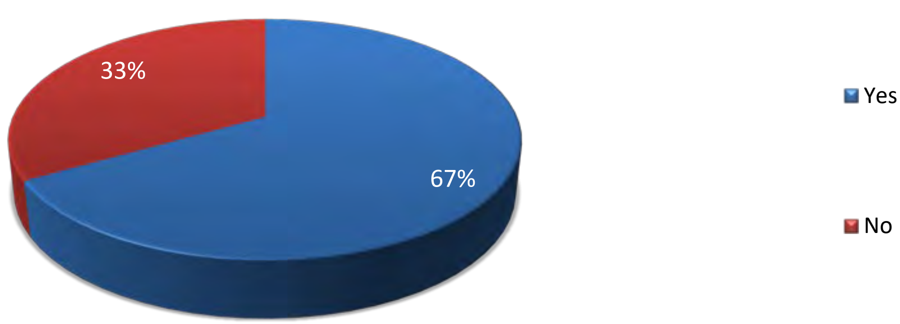
Respondents reported on the type of entity that best describes their lending function.

Figure 12. Description of Lending Entity



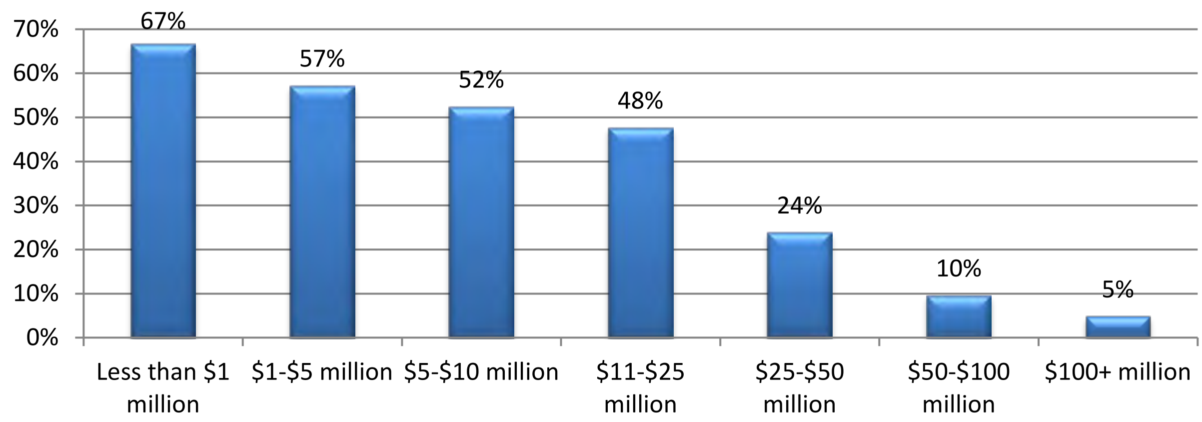
The majority (67%) report participating in government loan programs.

Figure 13. Participation in Government Loan Programs



The largest concentration of loan sizes was between $0 million and $25 million.

Figure 14. Typical Investment Size



Respondents reported on average terms for various loan sizes.

Table 5. General Characteristics – Bank Loans by Size

	Average interest rate	Average term (years)	Commitment fee (%)	Closing fee (%)
Less than $1 million	6.5%	5	0%	0.0%
$1-$5 million	6.3%	5	0.5%	0.1%
$6-$10 million	6.0%	7	0.5%	0.0%
$11-$25 million	6.0%	5	0.5%	0.5%
$25-$50 million	5.5%	5.5	0.5%	0.6%
$50-$100 million	5.0%	6	0.30%	0.6%
$100+ million	5.0%	5	n/a	1.0%

Senior leverage multiples are reported below for the various industries and EBITDA sizes.

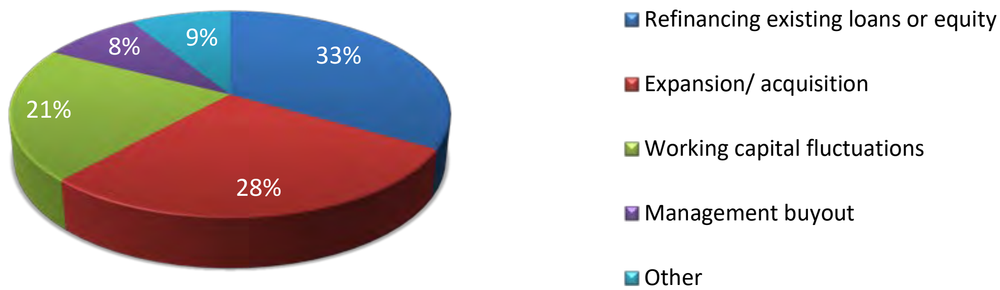
Table 6. Senior Leverage Multiple by EBITDA Size

	$1M EBITDA	$5M EBITDA	$10M EBITDA	$25M EBITDA	$50M EBITDA	$50M+ EBITDA
Manufacturing	3.0	3.1	3.0	3.3	3.5	3.8
Construction & engineering	2.3	2.6	2.3	2.5	3.0	3.3
Consumer goods & services	2.5	3.3	3.0	3.3	3.5	3.4
Wholesale & distribution	2.8	3.0	3.0	3.3	3.5	4.0
Business services	3.3	3.0	3.0	3.0	3.5	3.3
Basic materials & energy	n/a	n/a	2.8	3.3	3.5	3.5
Healthcare & biotech	2.0	2.0	2.5	3.3	3.8	3.0
Information technology	3.0	2.9	3.0	3.6	3.5	3.5
Financial services	2.8	2.5	2.8	3.4	2.0	2.0
Media & entertainment	2.0	3.0	3.1	>4	3.1	3.1
Overall median	**2.8**	**3.0**	**3.0**	**3.3**	**3.5**	**3.3**

BANK cont.

Refinancing was the most commonly described financing motivation at 33%, followed by expansion/ acquisition at 28%.

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



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

Table 7. Importance of Financial Evaluation Metrics

	Unimportant	Of little importance	Moderately important	Important	Very important	Score (1 to 5)
Current ratio	11%	28%	33%	17%	11%	2.9
Senior DSCR or FCC ratio	6%	6%	6%	22%	61%	4.3
Total DSCR or FCC ratio	0%	0%	0%	21%	79%	4.8
Senior debt to cash flow	6%	6%	13%	38%	38%	3.9
Total debt to cash flow	6%	0%	11%	39%	44%	4.2
Debt to net worth	11%	6%	17%	39%	28%	3.7

Table 8. Financial Evaluation Metrics Average Data

	Average borrower data	Limit not to be exceeded
Current ratio	1.3	< 1
Senior DSCR or FCC ratio	1.3	1.1
Total DSCR or FCC ratio	1.3	1.1
Senior debt to cash flow	1.8	1.4
Total debt to cash flow	3.0	3.5
Debt to net worth	1.8	3.3

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

Table 9. Personal Guarantee and Collateral Percentage of Occurrence by Size of Loan (%)

	$1M loan	$5M loan	$10M loan	$25M loan	$50M loan	$500M loan	$100M loan
Personal guarantee	95%	95%	95%	55%	3%	0%	0%
Collateral	95%	95%	90%	85%	80%	43%	0%

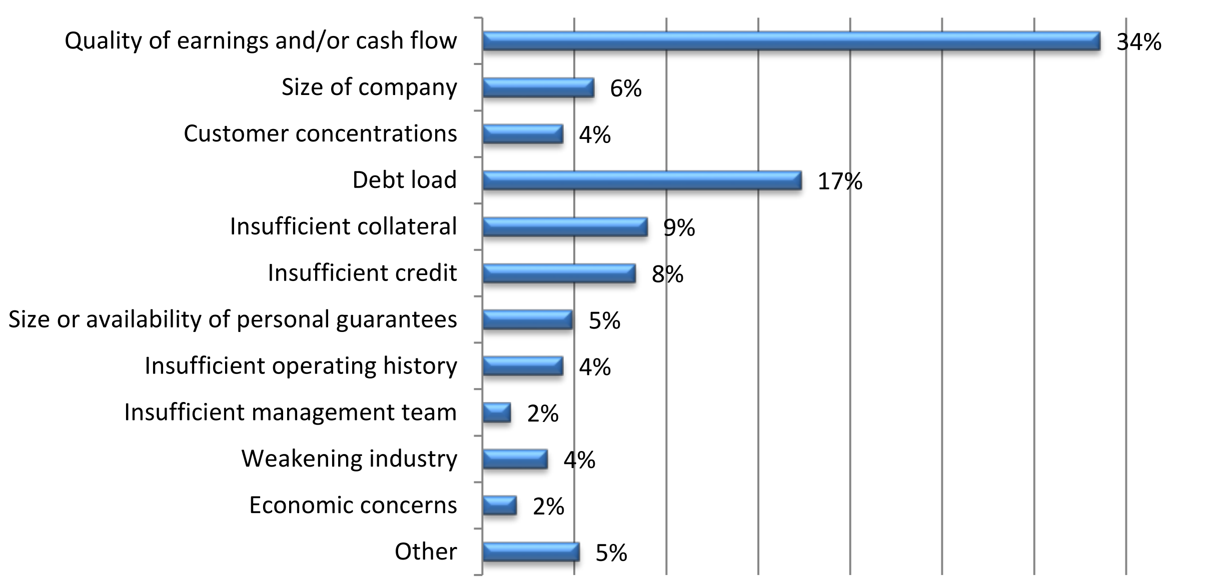
Approximately 31% of cash flow applications were declined.

Table 10. Applications Data

	Reviewed	Offered	Booked	Declined
Cash flow based	841	65%	41%	31%
Collateral based	455	55%	22%	27%
Real estate	422	77%	18%	24%

Approximately 34% of applications were declined due to poor quality of earnings and/or cash flow followed by 19% that were declined due to insufficient collateral.

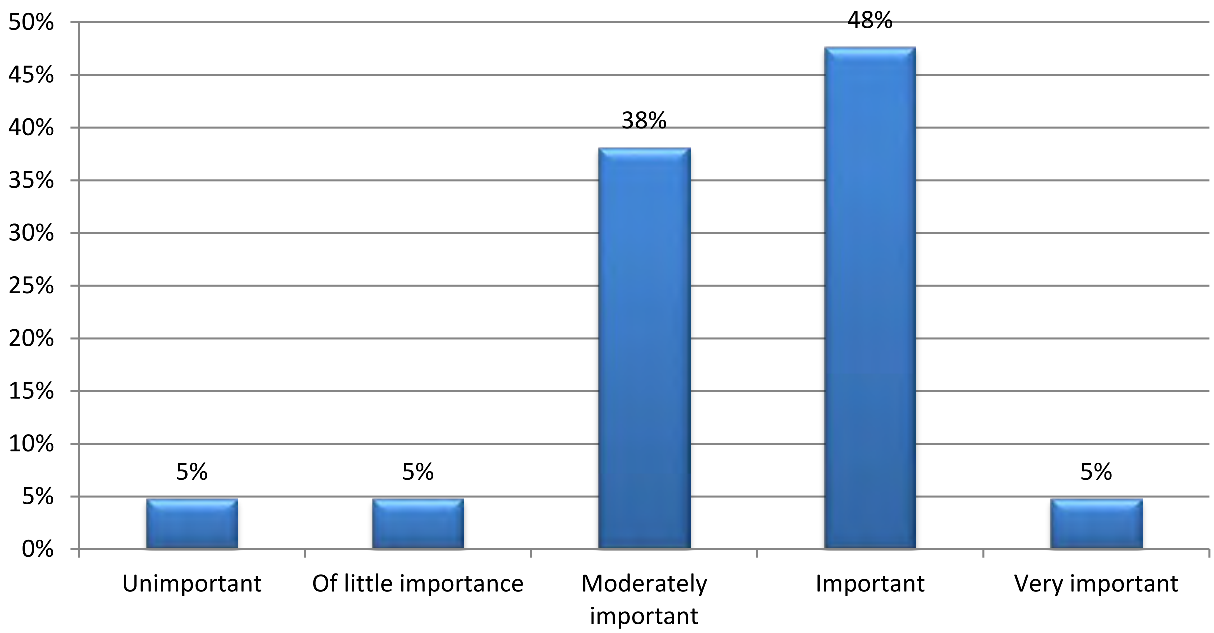
Figure 33. Reason for Declined Loans



BANK cont.

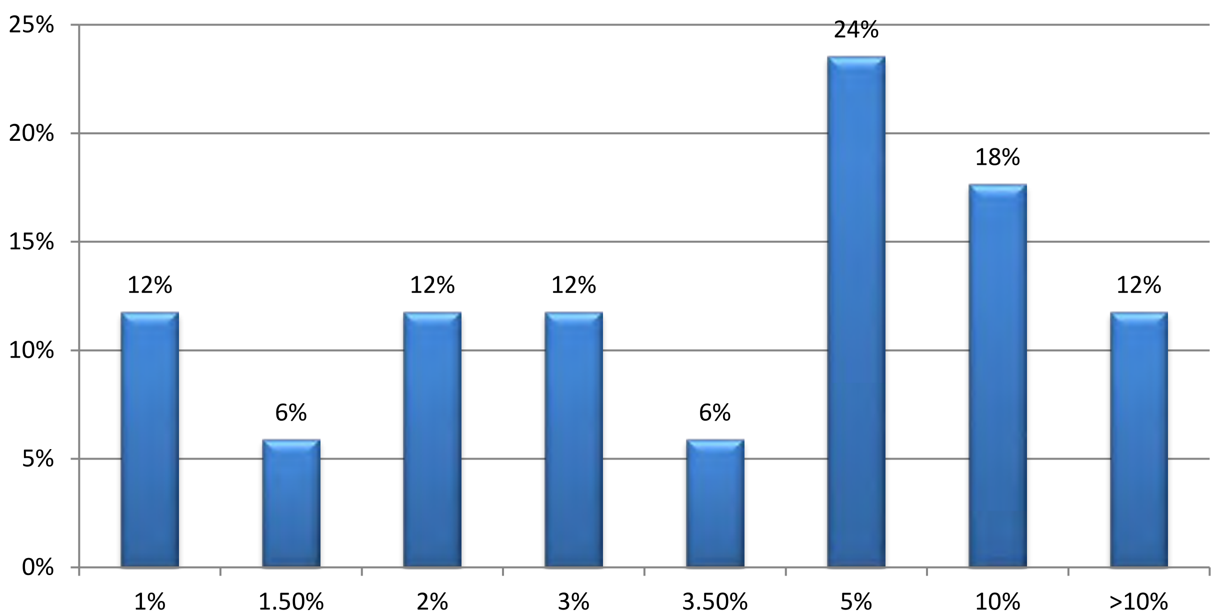
Approximately 52% of respondents identified revenue growth rate as important or very important factor.

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



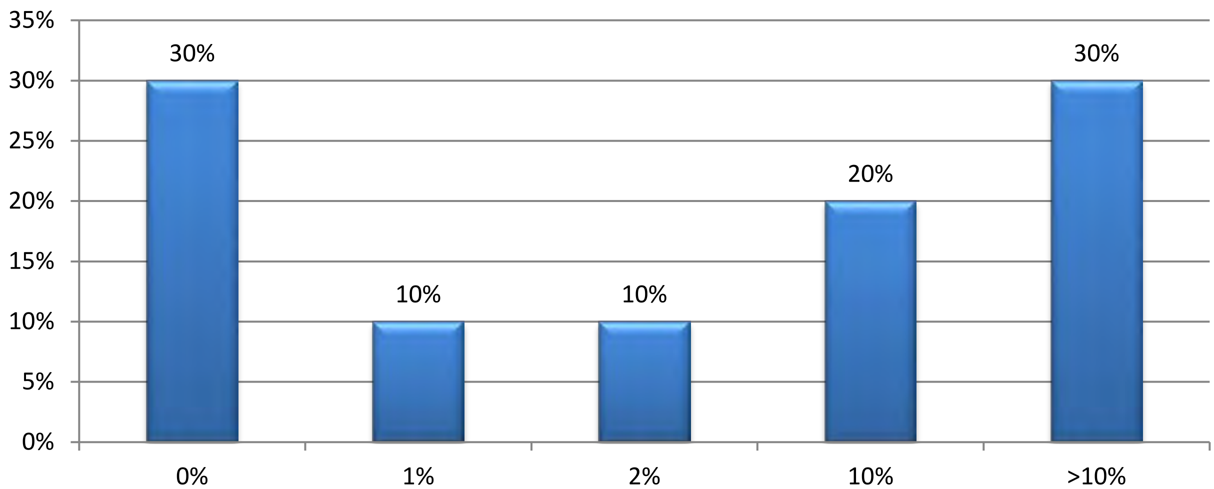
Approximately 53% of applications had a revenue growth rate of 5% or more annually.

Figure 17. Revenue Growth Rate – Average Borrower Data



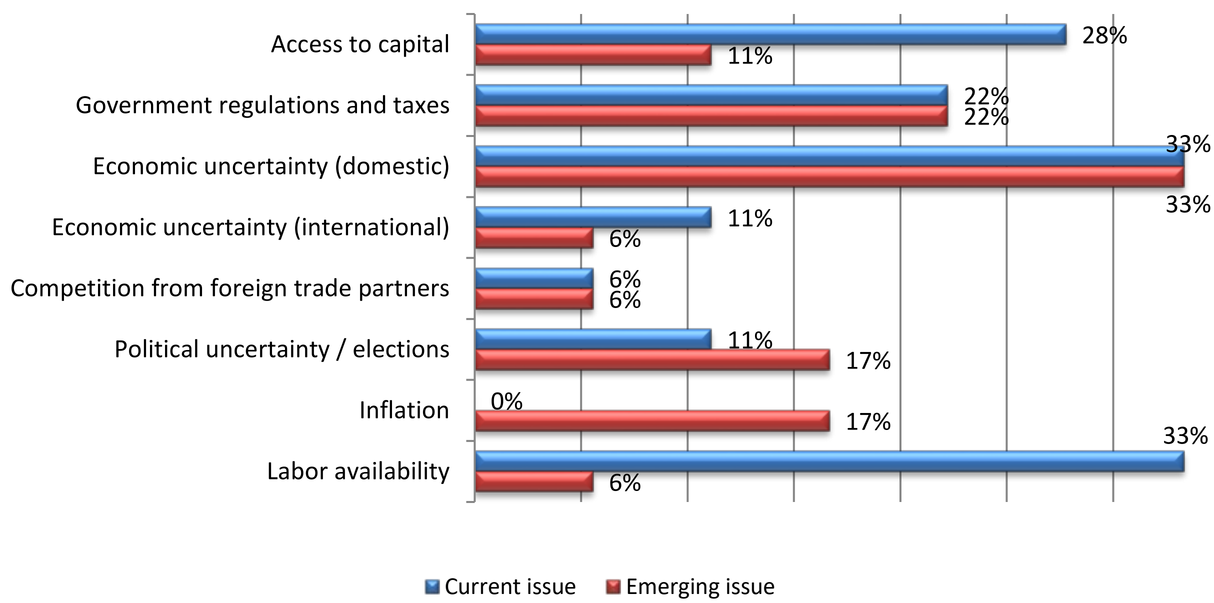
BANK cont.

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



Respondents believe domestic economic uncertainty and labor availability are the most important issues facing privately-held businesses today.

Figure 34. Issues Facing Privately-Held Businesses



Respondents indicated decrease in demand for business loans, increased due diligence efforts, flat general business conditions, decreased loan fees and flat percent of loans requiring personal guarantee.

Table 11. 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)	6%	28%	39%	28%	0%	28%	33%	**-6%**
General underwriting standards	0%	17%	56%	17%	11%	28%	17%	**11%**
Credit quality of borrowers applying for credit	6%	22%	56%	17%	0%	17%	28%	**-11%**
Due diligence efforts	0%	6%	56%	28%	11%	39%	6%	**33%**
Average loan size	0%	11%	33%	39%	17%	56%	11%	**44%**
Average loan maturity (months)	0%	17%	72%	11%	0%	11%	17%	**-6%**
Percent of loans with personal guarantees	0%	6%	88%	6%	0%	6%	6%	**0%**
Percent of loans requiring collateral	0%	0%	89%	11%	0%	11%	0%	**11%**
Size of interest rate spreads (pricing)	0%	28%	22%	44%	6%	50%	28%	**22%**
Loan fees	0%	28%	50%	22%	0%	22%	28%	**-6%**
Senior leverage multiples	0%	11%	56%	33%	0%	33%	11%	**22%**
Total leverage multiples	0%	11%	61%	22%	6%	28%	11%	**17%**
Focus on collateral as backup means of payment	0%	6%	61%	33%	0%	33%	6%	**28%**
SBA lending	8%	31%	54%	0%	8%	8%	38%	**-31%**
Lending capacity of bank	6%	0%	18%	41%	35%	76%	6%	**71%**
General business conditions	0%	24%	53%	18%	6%	24%	24%	**0%**
Appetite for risk	11%	17%	61%	11%	0%	11%	28%	**-17%**

BANK cont.

Respondents expect further increases in demand for business loans, average loan size, lending capacity of bank, flat senior and total leverage multiples, worsening general business conditions, decreasing appetite for risk and flat focus on collateral as backup means of payment.

Table 12. 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%	28%	28%	44%	0%	44%	28%	**17%**
General underwriting standards	0%	11%	44%	44%	0%	44%	11%	**33%**
Credit quality of borrowers applying for credit	0%	33%	44%	22%	0%	22%	33%	**-11%**
Due diligence efforts	0%	6%	56%	28%	11%	39%	6%	**33%**
Average loan size	0%	6%	50%	39%	6%	44%	6%	**39%**
Average loan maturity (months)	0%	6%	83%	11%	0%	11%	6%	**6%**
Percent of loans with personal guarantees	0%	12%	82%	0%	6%	6%	12%	**-6%**
Percent of loans requiring collateral	0%	11%	78%	11%	0%	11%	11%	**0%**
Size of interest rate spreads (pricing)	0%	17%	39%	44%	0%	44%	17%	**28%**
Loan fees	0%	11%	61%	28%	0%	28%	11%	**17%**
Senior leverage multiples	0%	12%	76%	12%	0%	12%	12%	**0%**
Total leverage multiples	0%	12%	76%	12%	0%	12%	12%	**0%**
Focus on collateral as backup means of payment	0%	6%	78%	17%	0%	17%	6%	**11%**
SBA lending	0%	23%	69%	0%	8%	8%	23%	**-15%**
Lending capacity of bank	0%	0%	56%	39%	6%	44%	0%	**44%**
General business conditions	0%	39%	44%	17%	0%	17%	39%	**-22%**
Appetite for risk	0%	50%	39%	11%	0%	11%	50%	**-39%**

ASSET-BASED LENDING SURVEY INFORMATION

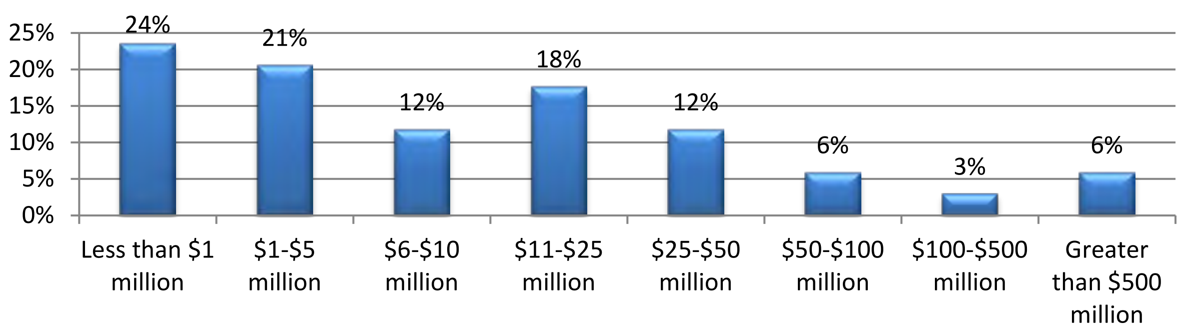
There were 20 responses to the asset-based lending survey. Over 31% of respondents believe that general business conditions will worsen over the next 12 months and over 76% said demand for loans will increase. Other key findings include:

- Over the last twelve months respondents were seeing slightly increased advance rates, with increase in demand for business loans and slightly improved general business conditions
- Respondents also expect increases in general underwriting standards, average loan size, worsening general business conditions, flat interest rates and increasing loan fees.
- Currently, 50% lenders see access to capital as a top issue facing privately-held businesses today, government regulations and taxes and domestic economic uncertainty are the top emerging issues.

Operational and Assessment Characteristics

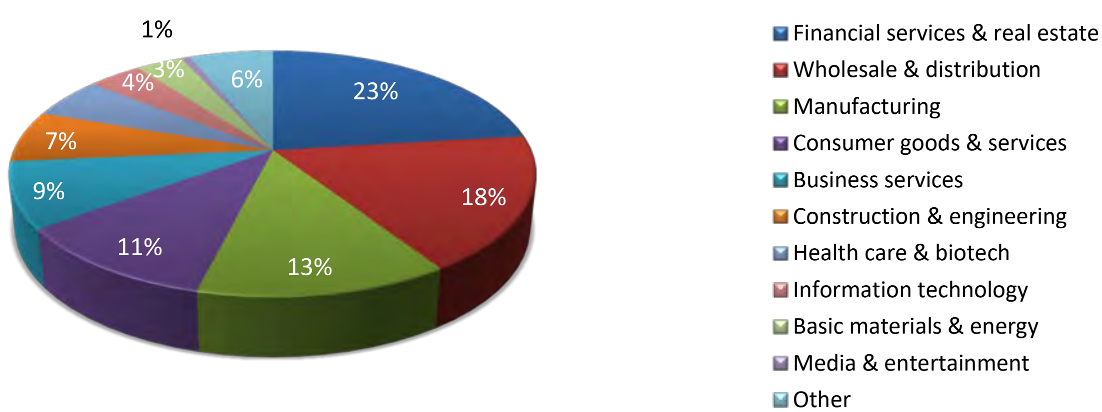
The largest concentration of loan sizes was between $0 million and $25 million.

Figure 19. Typical Investment Size



According to respondents approximately 23% of asset-based loans were issued to financial services & real estate companies.

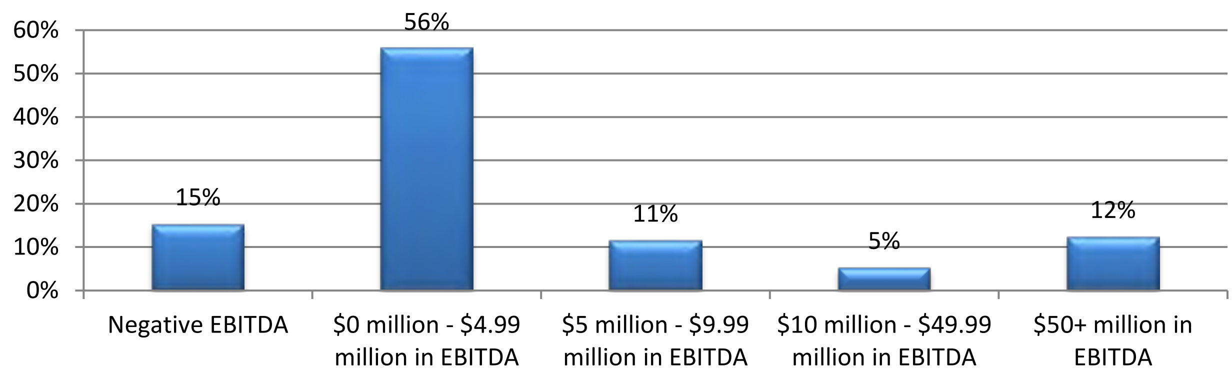
Figure 35. Industries Served by Asset-Based Lenders



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 13. 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	n/a	12.0%	15.0%	12.0%	12.5%	15.0%	12
$1-5 million	n/a	7.0%	5.8%	4.8%	12.0%	5.8%	23
$5-$10 million	n/a	5.5%	4.0%	4.5%	5.3%	5.5%	83
$10-25 million	3.5%	4.0%	4.0%	4.0%	4.0%	5.0%	60
$25-50 million	3.5%	4.0%	4.0%	4.0%	4.0%	5.0%	71
$50-100 million	3.5%	3.8%	n/a	n/a	n/a	4.0%	71

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

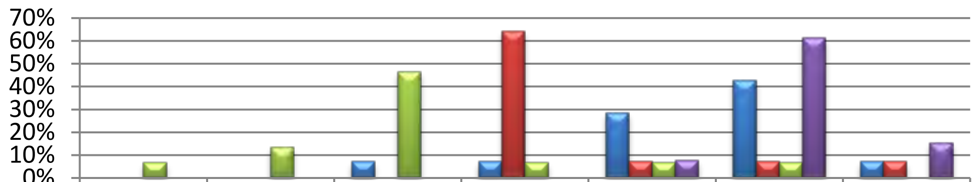
Table 14. Standard Advance Rate (or LTV ratio) for Assets (%)

	Typical Loan			Upper Limit		
	1st Quartile	Median	3rd Quartile	1st Quartile	Median	3rd Quartile
Marketable securities	70%	90%	93%	5%	60%	85%
Accounts Receivable	85%	85%	85%	90%	90%	90%
Inventory - Low quality	20%	30%	30%	30%	35%	41%
Inventory - Intermediate quality	40%	45%	50%	49%	50%	56%
Inventory - High quality	50%	60%	70%	50%	58%	74%
Equipment	56%	75%	80%	58%	83%	80%
Real Estate	61%	70%	71%	70%	78%	80%
Land	5%	5%	14%	20%	33%	44%

ABL cont.

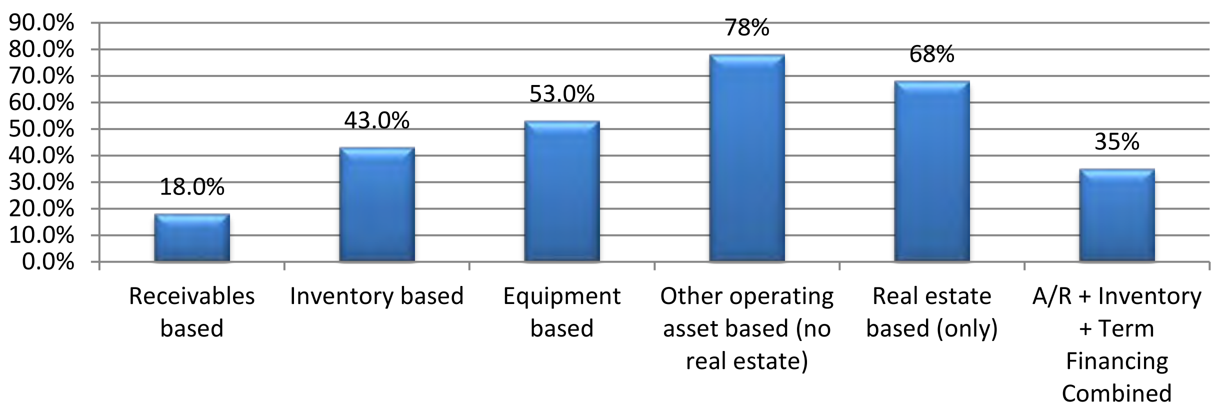
Respondents reported on valuation standards used to estimate LTV ratios.

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%	7%	7%	29%	43%	7%
Real estate	0%	0%	0%	64%	7%	7%	7%
Accounts Receivable	7%	13%	47%	7%	7%	7%	0%
Inventory	0%	0%	0%	0%	8%	62%	15%

Figure 21. Asset-Based Loans Decline Rate



Various fees as reported by lenders are as follows.

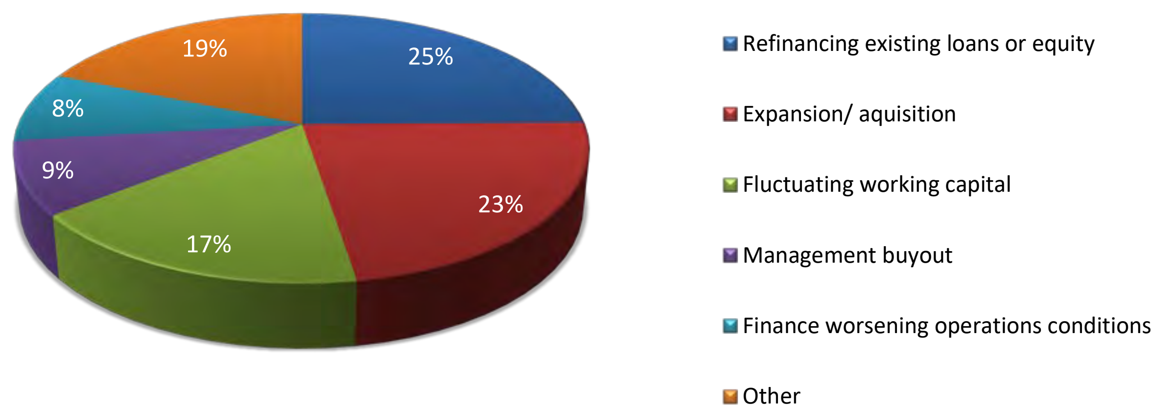
Table 15. Fees Charged

	1st Quartile	Median	3rd Quartile
Closing fee	0.5%	1.0%	2.8%
Modification fee	0.5%	1.0%	1.6%
Commitment fee	0.5%	1.0%	1.4%
Underwriting fee	0.5%	2.0%	2.0%
Arrangement fee	0.5%	1.0%	1.0%
Prepayment penalty (yr 1)	1.5%	3.0%	3.0%
Prepayment penalty (yr 2)	0.8%	2.0%	2.0%
Unused line fee	0.3%	0.4%	0.5%

ABL cont.

Refinancing was the most commonly described financing motivation at 25%, followed by expansion/acquisition at 23%.

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



Total debt service coverage ratio was the most important factor when deciding whether to invest or not.

Table 16. Importance of Financial Evaluation Metrics

	Unimportant	Of little importance	Moderately important	Important	Very important	Score (1-5)
Current ratio	14%	29%	21%	7%	29%	3.1
Senior DSCR or FCC ratio	18%	9%	27%	18%	27%	3.3
Total DSCR or FCC ratio	0%	10%	10%	60%	20%	3.9
Senior debt to cash flow	17%	25%	25%	17%	17%	2.9
Total debt to cash flow	9%	36%	18%	36%	0%	2.8
Debt to net worth	15%	0%	38%	31%	15%	3.3

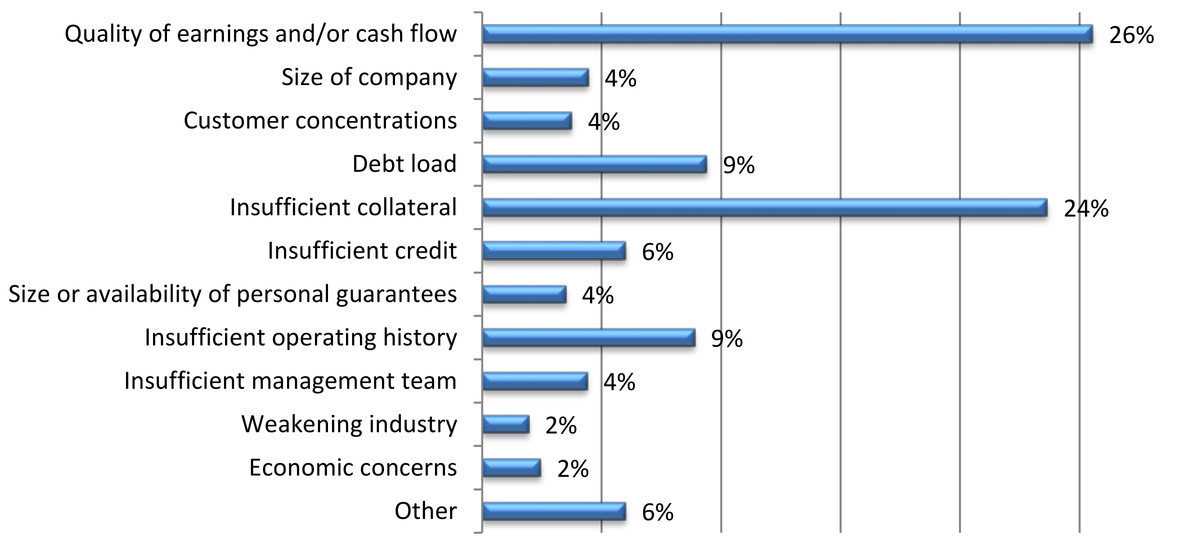
Table 17. Financial Evaluation Metrics Average Data

	Average borrower data	Limit not to be exceeded
Current ratio	1.2	<1
Senior DSCR or FCC ratio	1.1	1.0
Total DSCR or FCC ratio	1.2	1.0
Senior debt to cash flow	3.0	5.3
Total debt to cash flow	4.5	>6
Debt to net worth	2.3	5.0

ABL cont.

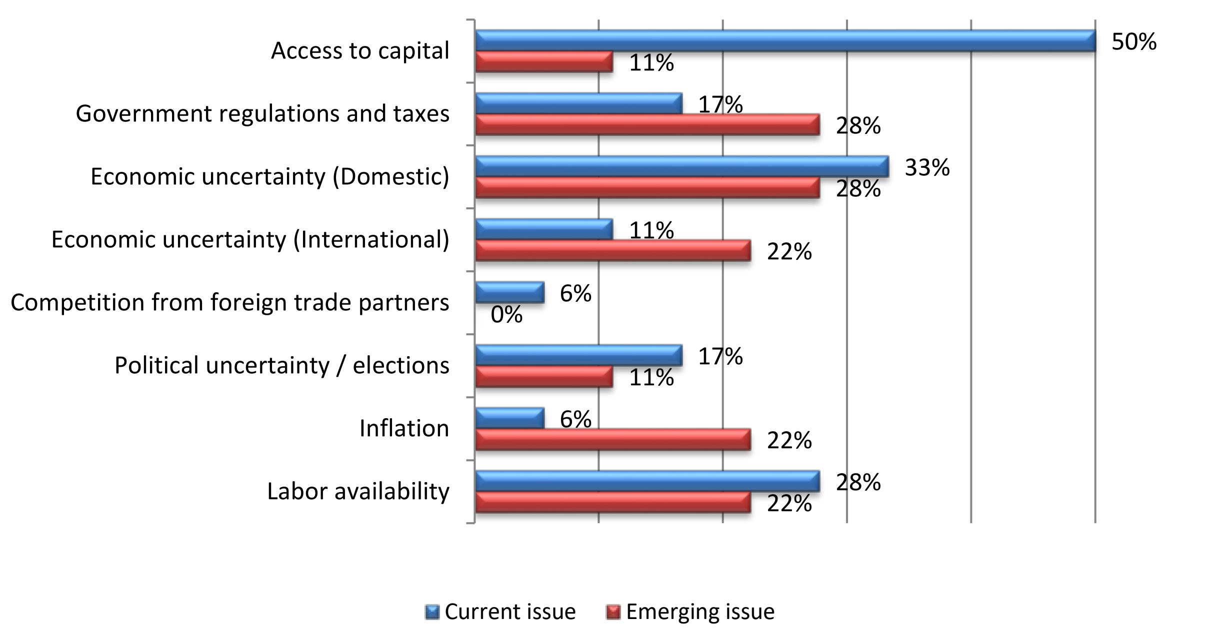
Approximately 26% of applications were declined due to poor quality of earnings and/or cash flow followed by 24% that were declined due to insufficient collateral.

Figure 23. Reason for Declined Loans



Currently, 50% lenders see access to capital as a top issue facing privately-held businesses today, government regulations and taxes and domestic economic uncertainty are the top emerging issues.

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 flat percent of loans with personal guarantees.

Table 18. 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%	11%	28%	50%	11%	61%	11%	**50%**
General underwriting standards	0%	6%	47%	29%	18%	47%	6%	**41%**
Credit quality of borrowers	0%	28%	44%	22%	6%	28%	28%	**0%**
Due diligence efforts	0%	0%	47%	29%	24%	53%	0%	**53%**
Average loan size	0%	6%	33%	56%	6%	61%	6%	**56%**
Average loan maturity	0%	0%	88%	6%	6%	13%	0%	**13%**
Interest rate spread (pricing)	0%	47%	29%	12%	12%	24%	47%	**-24%**
Loan fees	0%	18%	76%	0%	6%	6%	18%	**-12%**
Loans outstanding	0%	11%	17%	44%	28%	72%	11%	**61%**
Percent of loans with personal guarantees	13%	6%	63%	13%	6%	19%	19%	**0%**
Focus on cash flow as backup means of payment	0%	0%	63%	38%	0%	38%	0%	**38%**
Nonaccrual loans	7%	21%	57%	14%	0%	14%	29%	**-14%**
Number/ tightness of financial covenants	0%	13%	69%	19%	0%	19%	13%	**6%**
Standard advance rates	0%	7%	80%	13%	0%	13%	7%	**7%**
General business conditions	0%	18%	53%	24%	6%	29%	18%	**12%**
Appetite for risk	6%	24%	41%	29%	0%	29%	29%	**0%**

ABL cont.

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

Table 19. 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%	0%	24%	59%	18%	76%	0%	**76%**
General underwriting standards	0%	12%	41%	35%	12%	47%	12%	**35%**
Credit quality of borrowers	0%	35%	53%	12%	0%	12%	35%	**-24%**
Due diligence efforts	0%	0%	41%	41%	18%	59%	0%	**59%**
Average loan size	0%	0%	29%	59%	12%	71%	0%	**71%**
Average loan maturity	0%	0%	80%	7%	13%	20%	0%	**20%**
Interest rate spread (pricing)	0%	25%	50%	19%	6%	25%	25%	**0%**
Loan fees	0%	13%	44%	38%	6%	44%	13%	**31%**
Loans outstanding	0%	0%	29%	59%	12%	71%	0%	**71%**
Percent of loans with personal guarantees	13%	13%	53%	13%	7%	20%	27%	**-7%**
Focus on cash flow as backup means of payment	0%	13%	56%	25%	6%	31%	13%	**19%**
Nonaccrual loans	7%	29%	50%	14%	0%	14%	36%	**-21%**
Number/ tightness of financial covenants	0%	13%	60%	27%	0%	27%	13%	**13%**
Standard advance rates	0%	20%	67%	13%	0%	13%	20%	**-7%**
General business conditions	0%	31%	50%	13%	6%	19%	31%	**-13%**
Appetite for risk	0%	31%	50%	19%	0%	19%	31%	**-13%**

MEZZANINE SURVEY INFORMATION

The majority of the 20 participants that responded to the mezzanine survey typically book deals in the $1 million to $25 million range. Over 23% plan on investing in manufacturing companies over the next 12 months, followed by 21% in business services and another 17% in healthcare & biotech. Other key findings include:

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

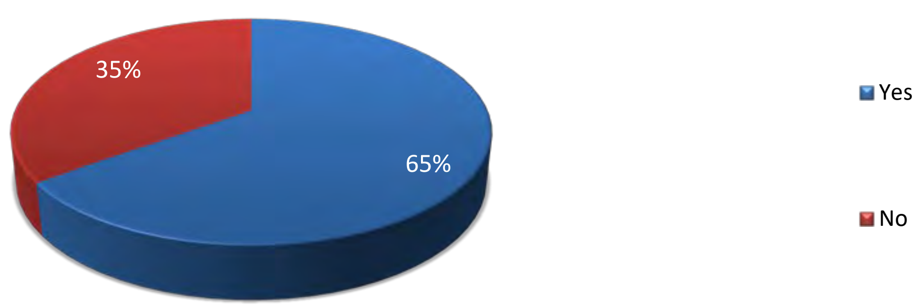
- Respondents expect increasing demand for mezzanine capital, slightly increasing leverage multiples, decreasing appetite for risk, and worsening general business conditions; flat warrant coverage and increasing expected returns on new investments.

- Approximately 50% of respondents believe labor availability is the most important issue facing privately-held businesses today.

Operational and Assessment Characteristics

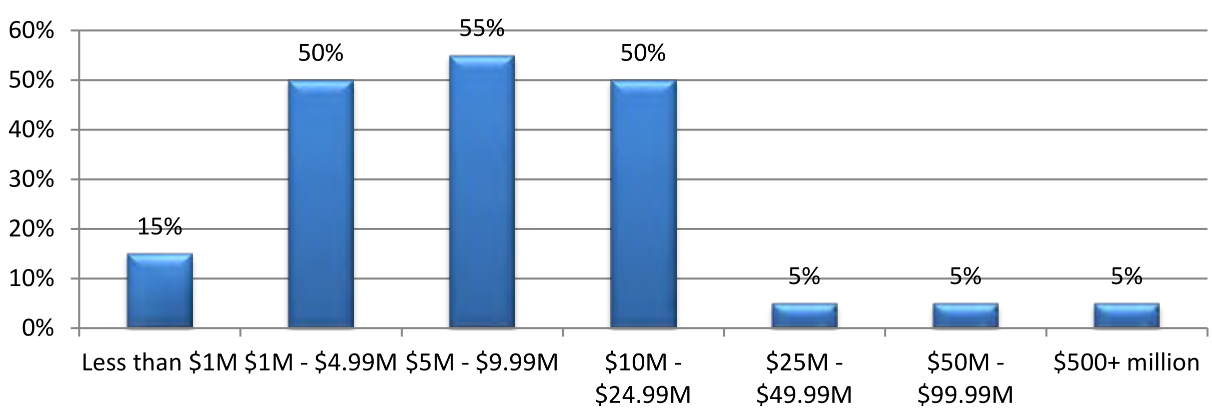
Approximately 65% of respondents are SBIC Firms.

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



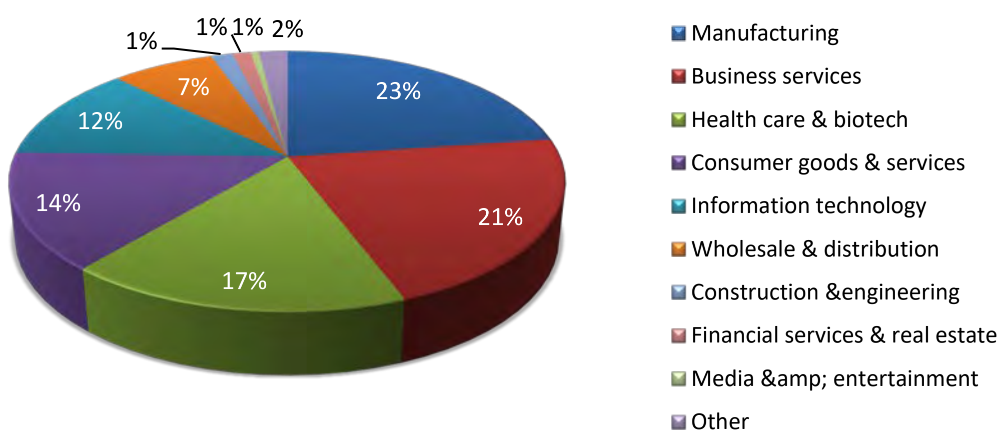
Respondents reported on business practices and the results are reflected below.

Table 20. Mezzanine Fund Data

	1st quartile	Median	3rd quartile
Vintage year (year in which first investment made)	2015	2016	2018
Size of fund ($ millions)	125	250	250
Targeted number of total investments	18	23	27
Target fund return (gross pretax cash on cash annual IRR %)	14.3%	15%	19.5%
Expected fund return (gross pretax cash on cash annual IRR %)	14.3%	15%	18%

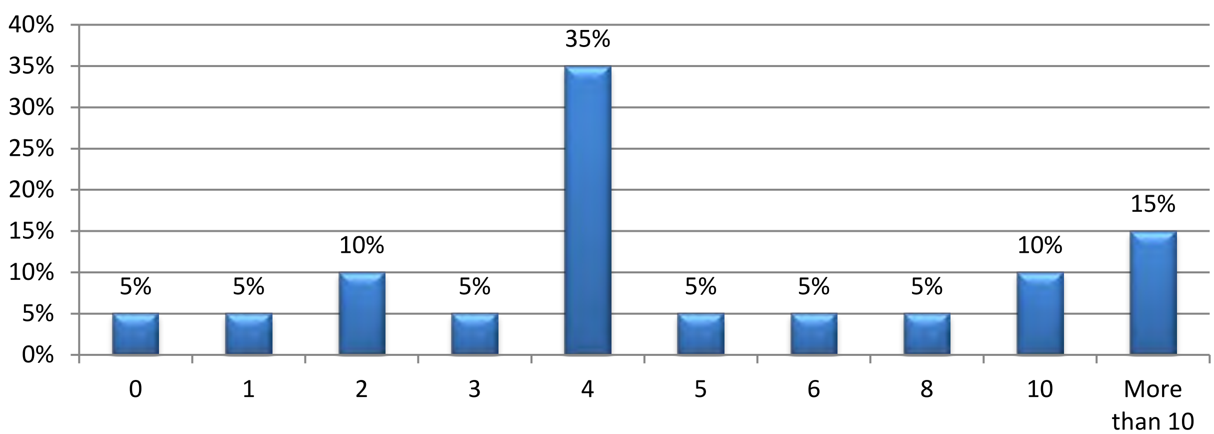
The types of businesses that mezzanine lenders plan to invest in over next 12 months are very diverse with over 23% targeting manufacturing, followed by 21% who plan to invest in business services and another 17% in information health care & biotech.

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



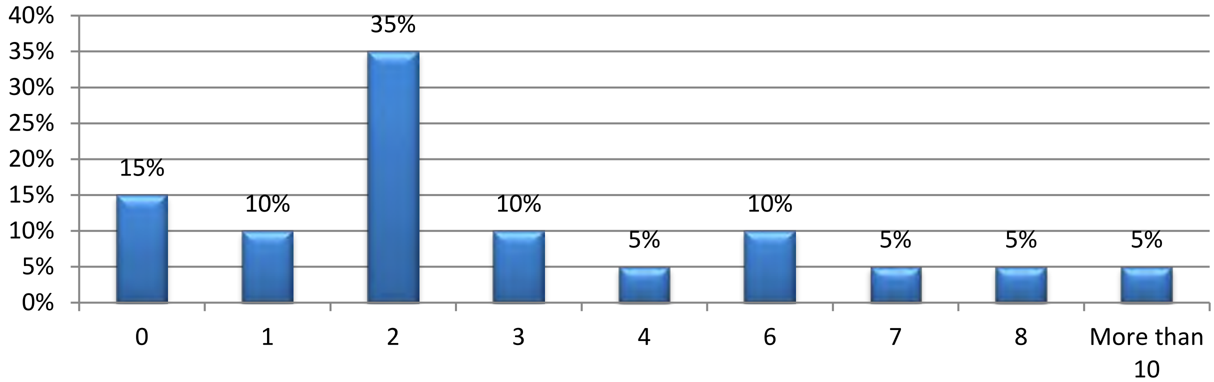
Approximately 75% of respondents made 4 investments or more over the last 12 months.

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

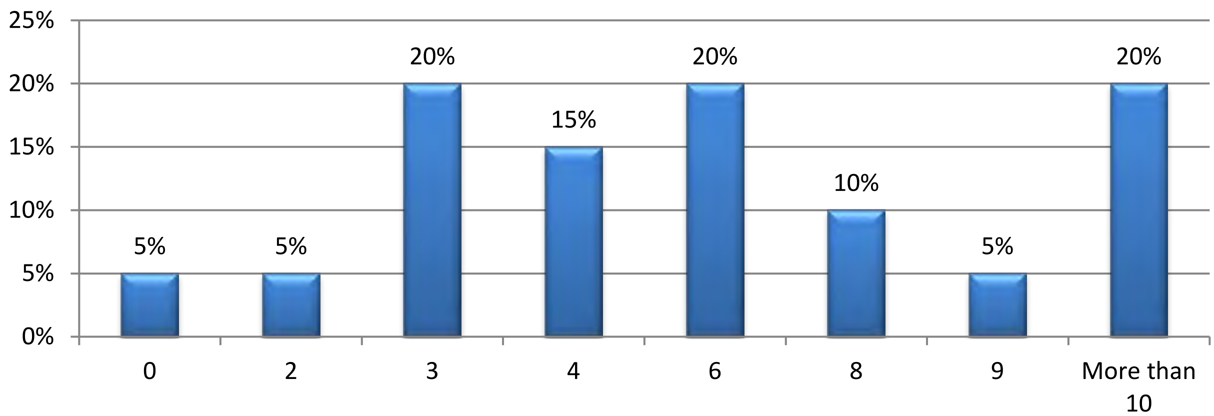
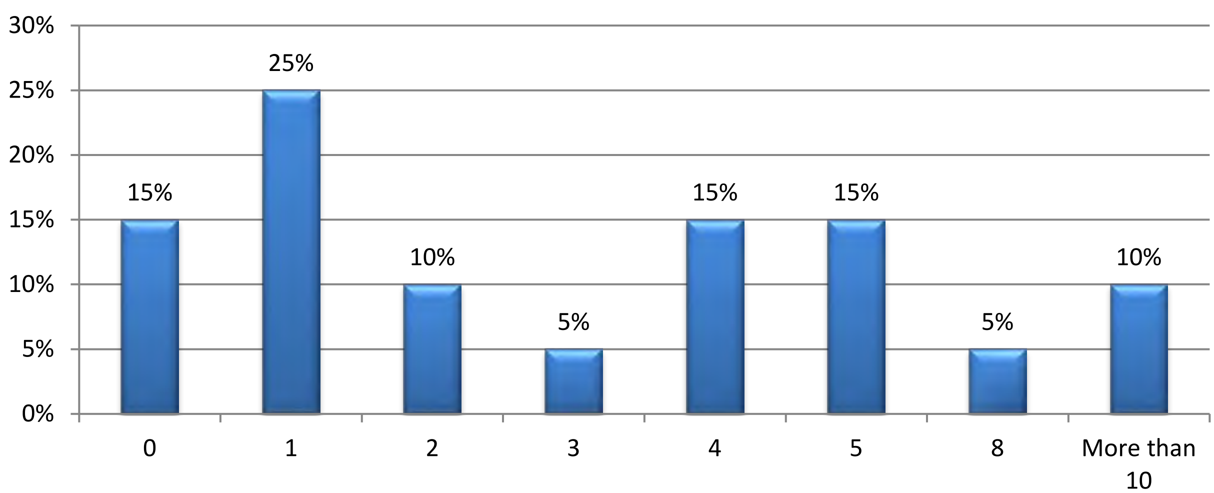
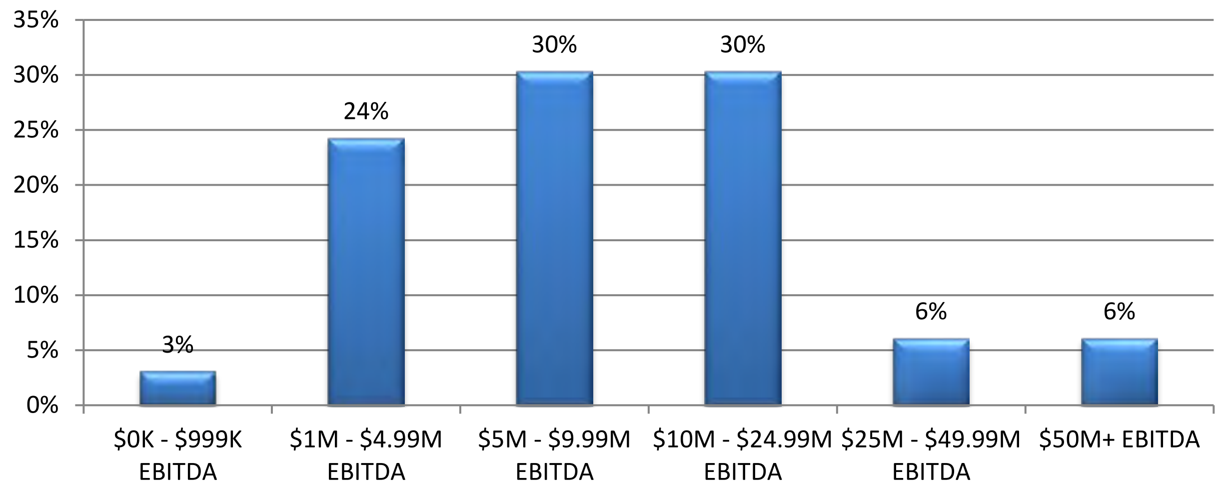


Figure 30. Number of Follow-on Investments Planned over Next 12 Months



Approximately 85% 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 21. Sponsored Deals by EBITDA Size (medians)

EBITDA size	$1M - $4.99M	$5M - $9.99M	$10M - $24.99M	$25M - $49.99M	$50M+
Number of deals	22	26	36	10	5
Average loan terms (years)	5.0	5.0	5.0	4.5	4.5
Senior leverage ratio (multiple of EBITDA)	2.5	2.8	3.0	3.0	3.0
Total leverage ratio (multiple of EBITDA)	4.0	4.0	4.0	4.0	4.5
Commitment fee (%)	0%	1%	1%	1%	1%
Closing fee (%)	2%	1.5%	1%	0.3%	0.3%
Cash interest rate	12%	12%	11%	11%	11%
PIK	1.0%	1.5%	1%	2%	2%
Warrants (% of FDC)	12%	4%	n/a	n/a	n/a
Total expected returns (gross cash on pre-tax IRR)	15%	14%	13.5%	13%	13%

Approximately 90% of non-sponsored deals were in the range between $0 million and $25 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 22. Non-Sponsored Deals by EBITDA Size (medians)

EBITDA size	$0K - $999K	$1M - $4.99M	$5M - $9.99M	$10M - $24.99M	$25M - $49.99M	$50M+
Number of deals	3	4	5	6	11	2
Average loan terms (years)	4.0	4.5	5.0	5.0	5.0	5.0
Senior leverage ratio (multiple of EBITDA)	2.3	2.5	3.0	4.0	4.0	4.0
Total leverage ratio (multiple of EBITDA)	3.3	3.5	3.5	4.0	4.5	5.8
Commitment fee (%)	1.5%	0.5%	1.3%	1.3%	1%	1%
Closing fee (%)	0.8%	1.5%	1.5%	1.3%	1.0%	1.0%
Cash interest rate	14%	11%	11%	10.5%	8%	8%
PIK	4.0%	2.0%	1.0%	1.0%	n/a	n/a
Warrants (% of FDC)	2.5%	2%	1.5%	0%	n/a	n/a
Total expected returns (gross cash on pre-tax IRR)	26%	15.5%	15.5%	15%	n/a	n/a

MEZZANINE cont.

Acquisition loan was reported by 33% of respondents as a motivation to secure mezzanine funding, followed by management or owner buyout (21%) and financing growth or construction (21%).

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

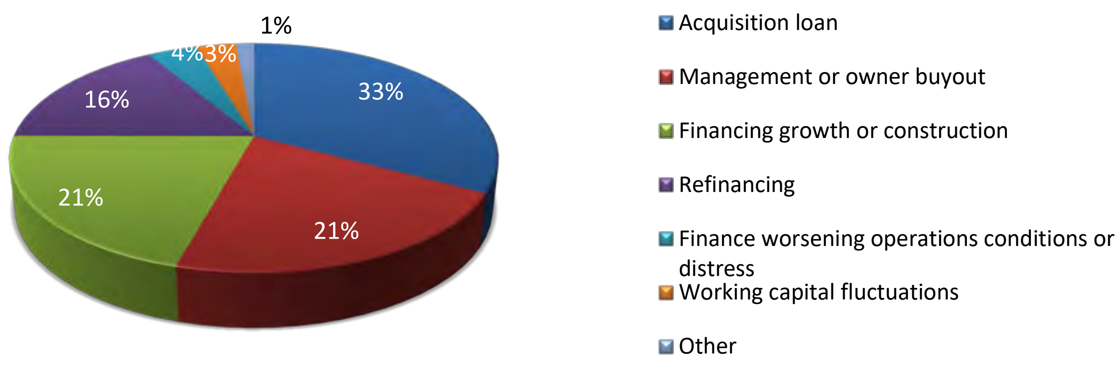
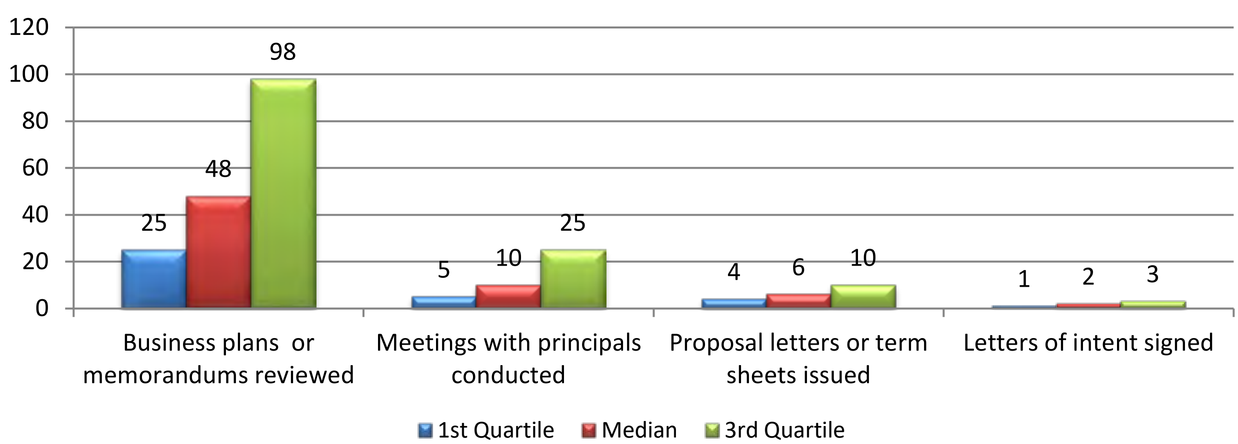


Figure 34. Items Required to Close One Deal



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 23. Importance of Financial Evaluation Metrics

	Unimportant	Of little importance	Moderately important	Important	Very important	Score
Senior DSCR or FCC ratio	7%	7%	27%	53%	7%	3.5
Total DSCR or FCC ratio	7%	0%	7%	33%	53%	4.3
Senior debt to cash flow ratio	0%	13%	50%	25%	13%	3.4
Total debt to cash flow ratio	6%	0%	19%	38%	38%	4.0

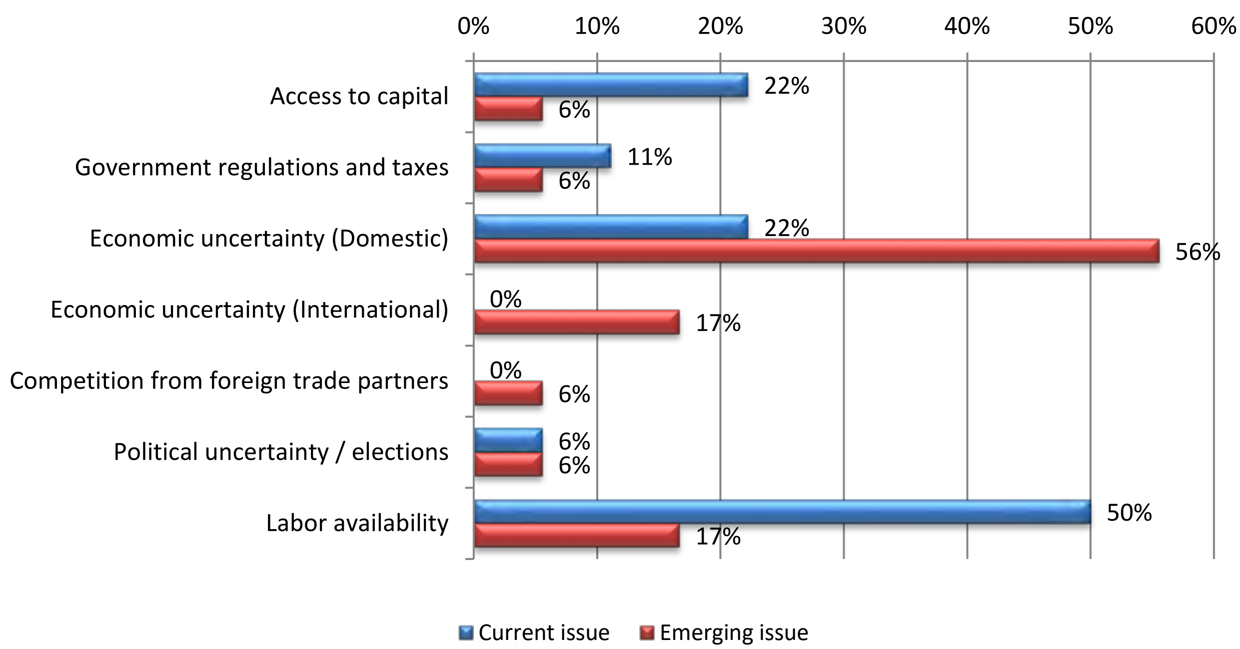
MEZZANINE cont.

Table 24. Financial Evaluation Metrics Average Data

	Average borrower data	Limit not to be exceeded
Senior DSCR or FCC ratio	1.6	1.6
Total DSCR or FCC ratio	1.7	1.3
Senior debt to cash flow ratio	1.9	2.2
Total debt to cash flow ratio	2.6	2.8

Respondents believe labor availability is the most important issue facing privately-held businesses today.

Figure 50. Issues Facing Privately-Held Businesses



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

Table 25. 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	11%	17%	44%	22%	6%	28%	28%	**0%**
Credit quality of borrowers seeking investment	0%	28%	72%	0%	0%	0%	28%	**-28%**
Average investment size	0%	0%	78%	17%	6%	22%	0%	**22%**
Average investment maturity (months)	0%	0%	94%	0%	6%	6%	0%	**6%**
General underwriting standards	0%	17%	67%	17%	0%	17%	17%	**0%**
Warrant coverage	0%	29%	71%	0%	0%	0%	29%	**-29%**
PIK features	0%	12%	76%	6%	6%	12%	12%	**0%**
Loan fees	0%	12%	88%	0%	0%	0%	12%	**-12%**
Leverage multiples	0%	6%	59%	35%	0%	35%	6%	**29%**
Expected returns on new investments	0%	39%	44%	17%	0%	17%	39%	**-22%**
General business conditions	0%	44%	33%	22%	0%	22%	44%	**-22%**
Appetite for risk	0%	22%	50%	28%	0%	28%	22%	**6%**

Respondents expect increasing demand for mezzanine capital, slightly increasing leverage multiples, decreasing appetite for risk, and worsening general business conditions; flat warrant coverage and increasing expected returns on new investments.

Table 26. 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	0%	11%	39%	44%	6%	50%	11%	**39%**
Credit quality of borrowers seeking investment	0%	50%	39%	11%	0%	11%	50%	**-39%**
Average investment size	0%	11%	72%	17%	0%	17%	11%	**6%**
Average investment maturity (months)	0%	0%	89%	6%	6%	11%	0%	**11%**
General underwriting standards	0%	0%	72%	28%	0%	28%	0%	**28%**
Warrant coverage	6%	19%	50%	25%	0%	25%	25%	**0%**
PIK features	0%	12%	71%	18%	0%	18%	12%	**6%**
Loan fees	0%	6%	83%	11%	0%	11%	6%	**6%**
Leverage multiples	0%	22%	50%	28%	0%	28%	22%	**6%**
Expected returns on new investments	0%	11%	56%	33%	0%	33%	11%	**22%**
General business conditions	6%	44%	50%	0%	0%	0%	50%	**-50%**
Size of mezzanine industry	0%	22%	67%	11%	0%	11%	22%	**-11%**
Appetite for risk	0%	39%	56%	6%	0%	6%	39%	**-33%**


Chart a Clear Path Forward
Seize opportunities on the horizon with CCG at the helm of your capital needs

INVESTMENT BANKER SURVEY INFORMATION

Approximately 39% of the 92 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, following by domestic economic uncertainty and access to capital. Domestic economic uncertainty was identified as the most important emerging issue.

Other key findings include:

- Approximately 57% 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 (31%), unreasonable seller/buyer demand (22%), and insufficient cash flow (10%).
- 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 $5 million in EBITDA, but a general surplus for companies with $5 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 (61%), revenue multiple (12%) and EBITDA (unadjusted) multiple (11%) approaches.

Operational and Assessment Characteristics

Approximately 12% of the respondents didn't close any deals in the last twelve months; 58% closed between one and five deals, while 30% closed six deals or more.

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

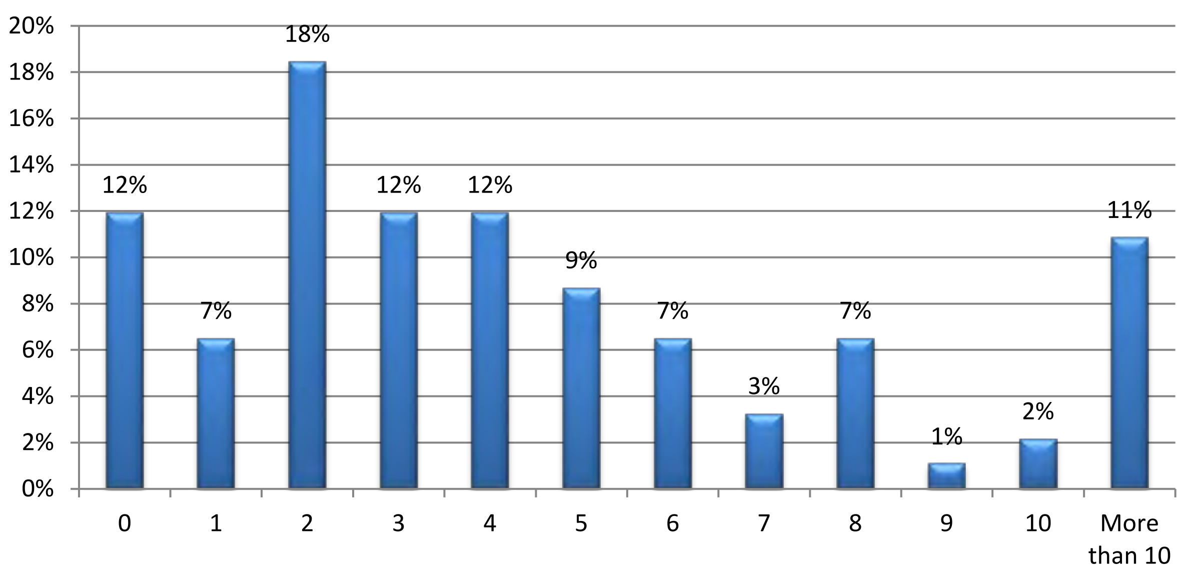
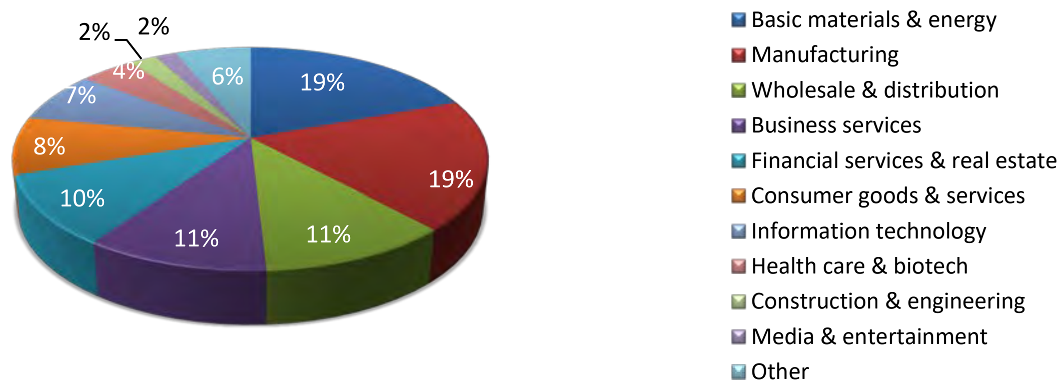
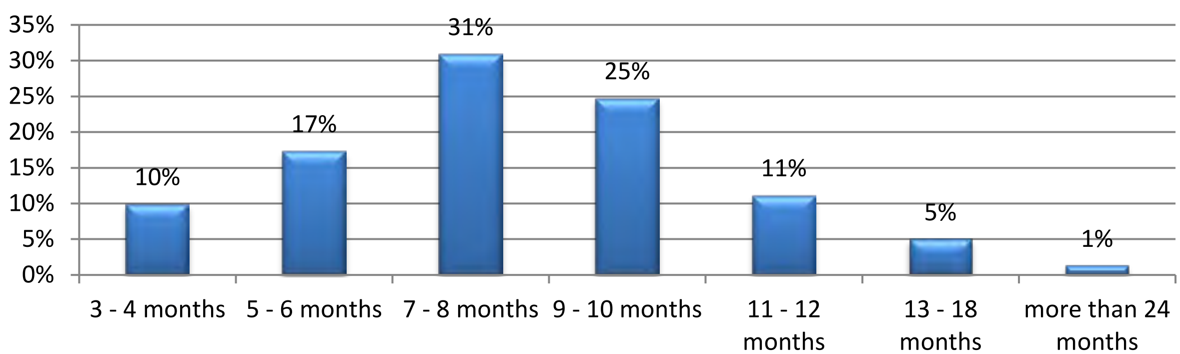


Figure 36. Business Types That Were Involved in the Transactions Closed in the Last 12 Months



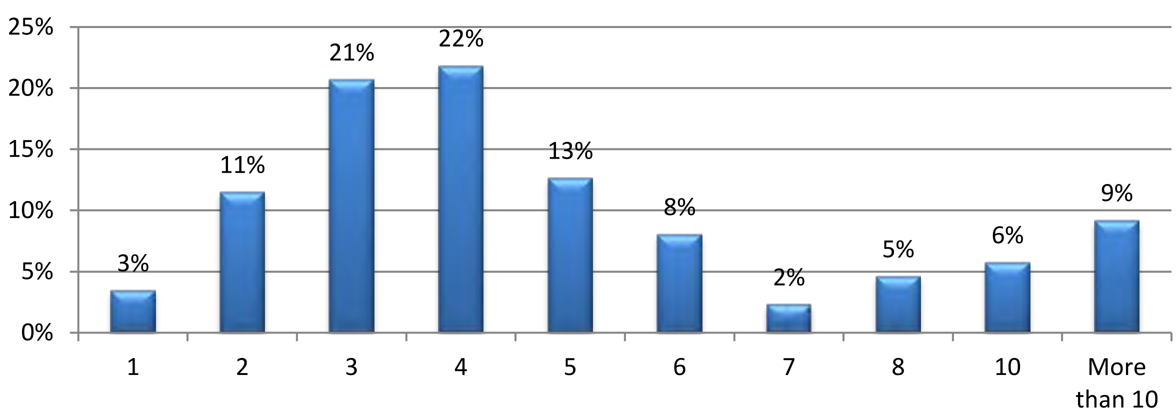
The majority of deals (84%) took 5 to 12 months to close. 6% of closed deals took more than one year to close.

Figure 37. Average Number of Months to Close One Deal



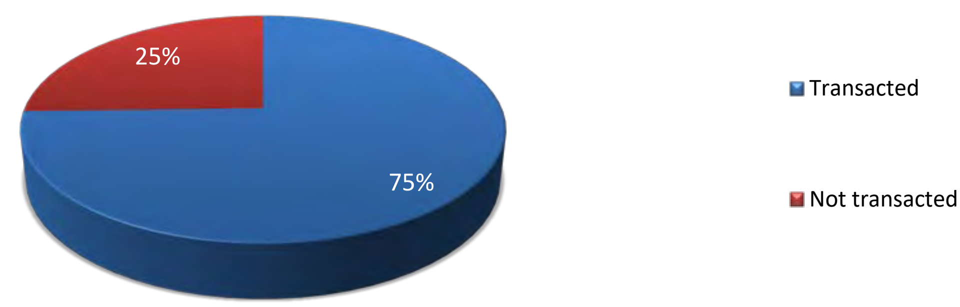
Nearly 67% of respondents expect to close between two and five deals, while 30% expect to close 6 deals or more.

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



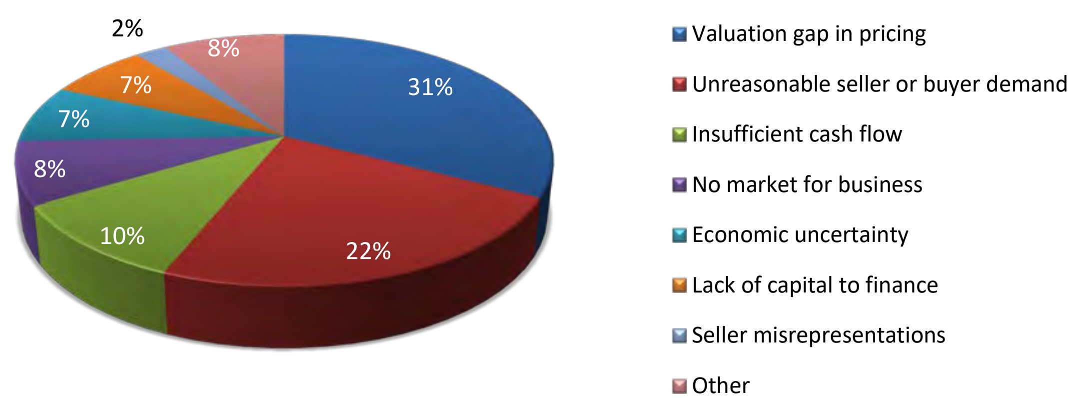
Approximately 25% of deals terminated without transacting over the past year.

Figure 39. Percentage of Business Sales Engagements Terminated Without Transacting



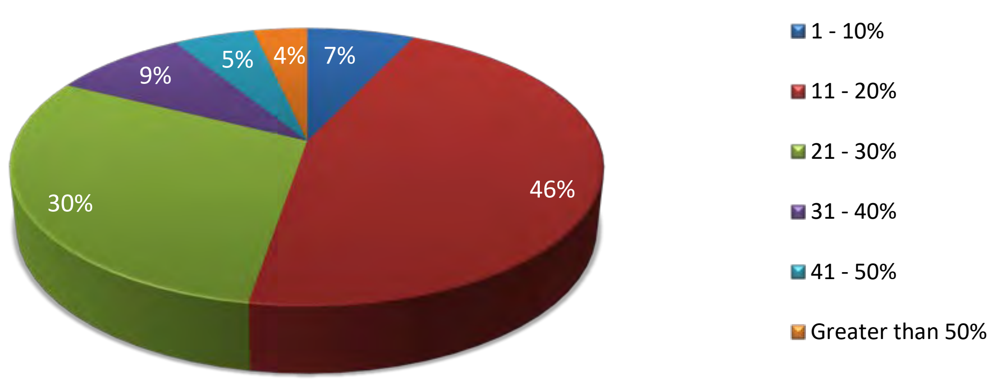
The top three reasons for deals not closing were: valuation gap in pricing (31%), unreasonable seller or buyer demand (22%) and insufficient cash flow (10%).

Figure 40. Reasons for Business Sales Engagements Not Transacting



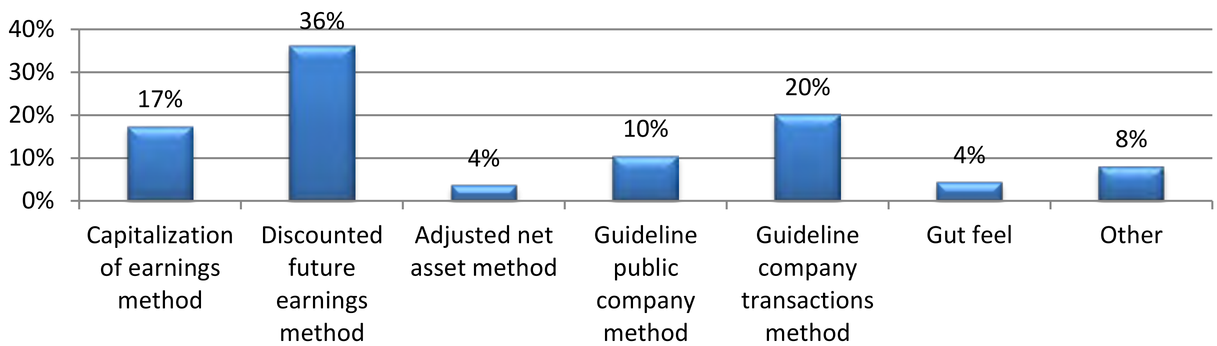
Of those transactions that didn't close due to a valuation gap in pricing, approximately 75% had a valuation gap in pricing between 11% and 30%.

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



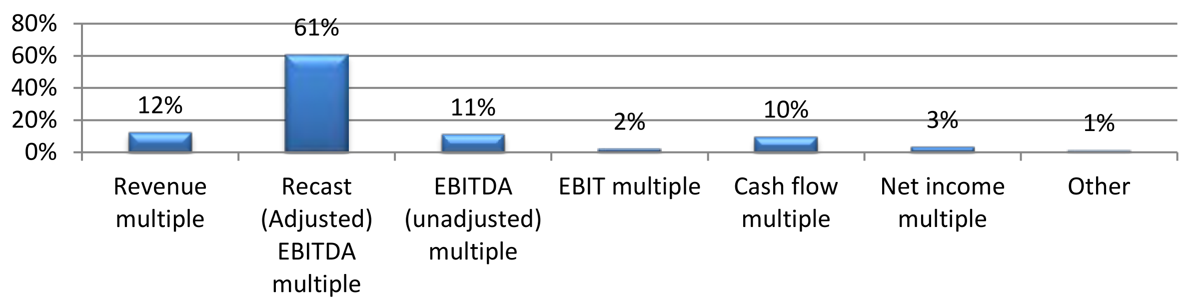
The weights of the various valuation methods used by respondents when valuing privately-held businesses included 36% for discounted future earnings method.

Figure 42. Usage of Valuation Methods



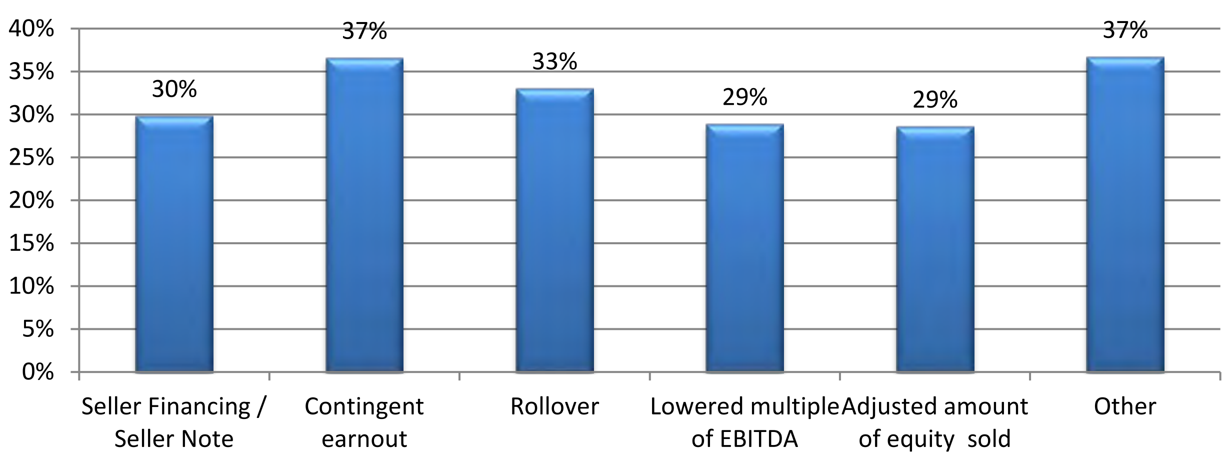
The most popular multiple method used by respondents when valuing privately-held businesses is the recast (adjusted) EBITDA multiple method, utilized by 61% of respondents.

Figure 43. Usage of Multiple Methods



Approximately 37% of business sales transactions closed in the last 12 months involved contingent earnout.

Figure 44. Components of Closed Deals



Average deal multiples on transactions from the prior twelve months as observed by respondents varied from 4.7 to 8.3.

Table 27. Median Deal Multiples by EBITDA Size of Company

EBITDA	Manufacturing	Construction & engineering	Consumer goods & services	Wholesale & distribution	Busines s services	Basic materials & energy	Healthcare & biotech	Information technology	Financial services	Media & entertainment	**Average**
$0K - $999K EBITDA	5.0	3.5	4.3	5.5	3.0	5.0	4.3	7.0	5.5	4.0	**4.7**
$1M - $4.99M EBITDA	5.5	4.5	5.5	5.5	4.8	5.5	5.5	7.5	6.0	5.5	**5.6**
$5M - $9.99M EBITDA	*6.5*	5.0	5.8	5.8	5.3	6.0	7.3	8.0	7.5	6.0	**6.3**
$10M - $24.99M EBITDA	7.5	6.5	6.5	7.5	6.0	6.0	7.5	8.5	7.8	6.5	**7.0**
$25M - $49.99M EBITDA	7.5	9.0	8.0	7.5	7.0	6.5	8.0	9.0	8.0	8.3	**7.9**
$50M+ EBITDA	8.0	n/a	8.0	N/A	7.0	7.0	10.0	10.0	8.0	n/a	**8.3**

Average total leverage multiples observed by respondents varied from 2.8 to 6.2.

Table 28. 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	2.5	3.0	2.3	3.0	3.5	2.0	n/a	3.8	4.0	1.5	**2.8**
$1M - $4.99M EBITDA	3.0	3.5	3.0	3.5	3.8	2.8	3.0	5.0	4.0	2.5	**3.4**
$5M - $9.99M EBITDA	3.5	3.5	4.0	3.5	4.0	3.0	4.3	5.5	5.0	4.0	**4.0**
$10M - $24.99M EBITDA	4.0	5.0	5.0	3.8	4.5	3.5	4.5	5.8	5.0	4.0	**4.5**
$25M - $49.99M EBITDA	4.0	n/a	6.5	5.0	5.0	3.5	4.5	7.5	5.0	4.5	**5.1**
$50M+ EBITDA	5.0	n/a	8.0	n/a	5.0	3.8	5.5	7.5	10.0	4.9	**6.2**

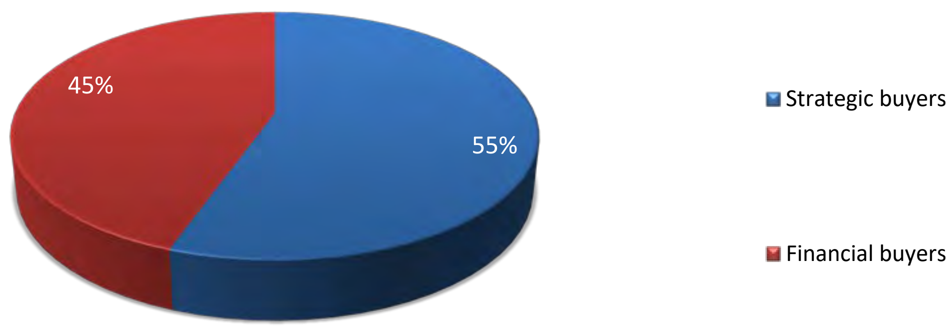
Average senior leverage multiples observed by respondents varied from 2.1 to 5.0.

Table 29. 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	2.0	1.5	1.0	1.0	2.5	2.5	n/a	3.0	2.8	2.3	**2.1**
$1M - $4.99M EBITDA	3.0	2.5	2.5	2.0	3.0	3.0	2.5	4.0	3.8	3.0	**2.9**
$5M - $9.99M EBITDA	3.0	2.5	2.5	2.5	3.5	3.0	2.8	5.5	4.0	3.5	**3.3**
$10M - $24.99M EBITDA	3.5	3.0	3.0	3.0	4.0	3.5	3.5	6.8	4.5	n/a	**3.9**
$25M - $49.99M EBITDA	3.5	n/a	n/a	3.5	4.0	3.5	n/a	7.0	4.8	n/a	**4.4**
$50M+ EBITDA	4.0	n/a	n/a	3.5	4.8	5.0	4.8	7.5	5.3	n/a	**5.0**

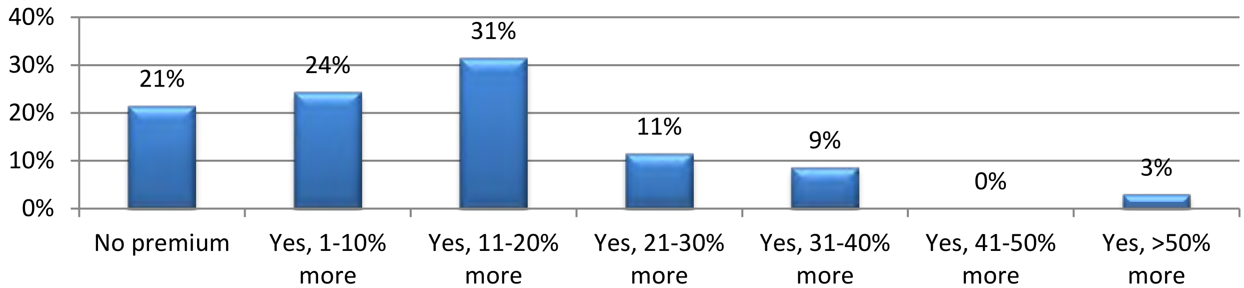
Approximately 55% of closed business sales transactions over the past 12 months involved strategic buyers.

Figure 45. Percent of Transactions Involved Strategic and Financial Buyers



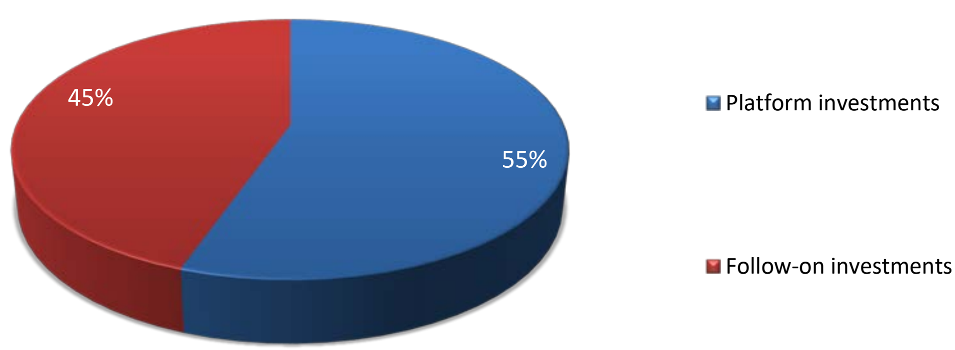
Approximately 21% of respondents did not witness any premium paid by strategic buyers, while 56% saw premiums between 1% and 20%.

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



Approximately 55% 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 $5 million in EBITDA but a general surplus for companies with $5 million in EBITDA or more.

Table 30. 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	32%	28%	21%	15%	4%	**-0.7**
$1M - $4.99M EBITDA	13%	27%	33%	22%	5%	**-0.2**
$5M - $9.99M EBITDA	5%	12%	28%	42%	12%	**0.4**
$10M - $24.99M EBITDA	0%	6%	29%	33%	31%	**0.9**
$25M - $49.99M EBITDA	3%	3%	26%	28%	41%	**1.0**
$50M - $99.99M EBITDA	0%	0%	25%	31%	44%	**1.2**
$100M+ EBITDA	0%	3%	16%	24%	57%	**1.4**

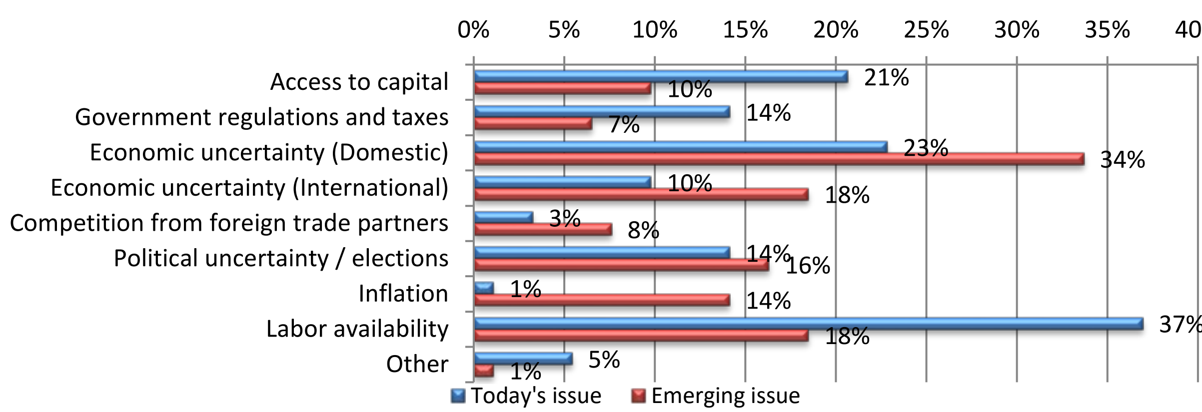
Respondents indicated a general difficulty with arranging senior debt for businesses with less than $1 million in EBITDA.

Table 31. 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%	14%	39%	14%	0%	7%	0%	**-1.3**
$5M EBITDA	4%	11%	15%	30%	23%	15%	2%	**0.1**
$10M EBITDA	0%	5%	14%	19%	32%	24%	5%	**0.7**
$15M EBITDA	0%	0%	11%	7%	26%	33%	22%	**1.5**
$25M EBITDA	0%	0%	7%	13%	20%	47%	13%	**1.5**
$50M EBITDA	0%	0%	9%	9%	27%	36%	18%	**1.5**
$100M+ EBITDA	0%	0%	0%	18%	18%	36%	27%	**1.7**

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

Figure 48. Issues Facing Privately-Held Businesses



Approximately 39% of the 92 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 32. 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	1%	11%	46%	29%	13%	42%	12%	**30%**
Leverage multiples	0%	14%	63%	22%	1%	23%	14%	**9%**
Deal multiples	0%	6%	62%	28%	4%	32%	6%	**26%**
Amount of time to sell business	0%	6%	65%	29%	0%	29%	6%	**23%**
Difficulty financing/selling business	0%	17%	56%	23%	4%	27%	17%	**10%**
General business conditions	1%	18%	48%	28%	5%	33%	20%	**13%**
Strategic buyers making deals	0%	9%	52%	34%	5%	39%	9%	**30%**
Margin pressure on companies	0%	7%	48%	38%	7%	45%	7%	**38%**
Buyer interest in minority transactions	3%	20%	32%	42%	4%	46%	23%	**23%**

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

Table 33. 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	1%	12%	35%	47%	5%	52%	14%	**38%**
Leverage multiples	0%	32%	62%	6%	0%	6%	32%	**-25%**
Deal multiples	0%	29%	63%	9%	0%	9%	29%	**-20%**
Amount of time to sell business	0%	3%	65%	30%	3%	33%	3%	**30%**
Difficulty financing/selling business	0%	4%	51%	41%	4%	45%	4%	**41%**
General business conditions	1%	45%	38%	16%	0%	16%	46%	**-30%**
Strategic buyers making deals	0%	11%	58%	29%	3%	31%	11%	**20%**
Margin pressure on companies	0%	5%	37%	52%	6%	58%	5%	**53%**
Buyer interest in minority transactions	5%	12%	59%	24%	0%	24%	17%	**8%**

PRIVATE EQUITY SURVEY INFORMATION

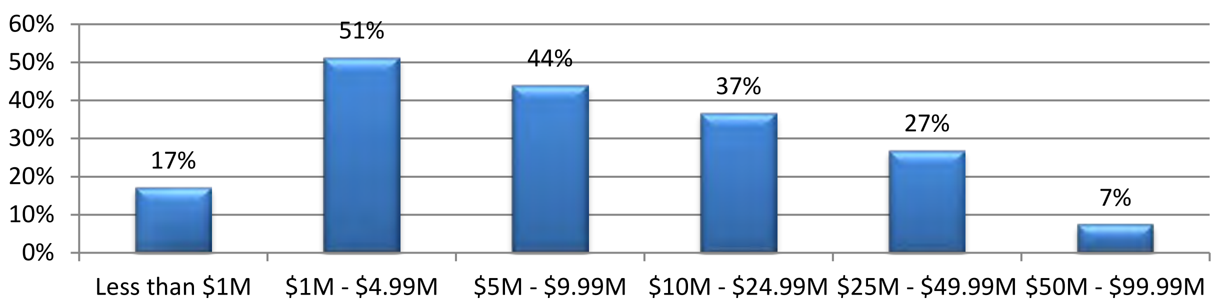
Approximately 51% of the 41 participants who responded to the private equity group survey indicated that they make investments in the $1 million to $5 million range. Nearly 53% of respondents said that demand for private equity is up from twelve months ago, this is up from 46% of respondents indicating increased demand in January 2018. Other key findings include:

- Respondents indicated slightly increasing 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 worsening 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 20% planning to invest in business services.
- Respondents believe labor availability is the most important current issue facing privately-held businesses, while domestic economic uncertainty is the most important emerging issue.
- 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 (35%) and EBITDA multiple (25%).

Operational and Assessment Characteristics

The largest concentration of checks written was in the $1 million - $5 million range (51%), followed by $5 - $10 million (44%), and $10 million - $25 million (37%).

Figure 49. Typical Investment Size



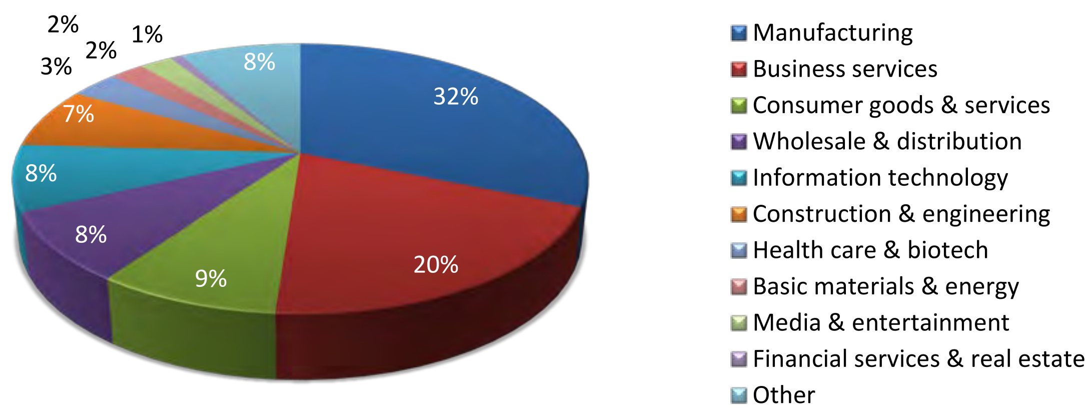
Respondents reported on business practices, and the results are reflected below.

Table 34. PEG Fund Data

	1st Quartile	Median	3rd Quartile
Vintage year (year in which first investment made)	2017	2018	2018
Size of fund ($ millions)	17.5	75.0	125
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 next 12 months are very diverse with nearly 32% targeting manufacturing and another 20% planning to invest in business services.

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



Approximately 43% of respondents made between one and two investments over the last twelve months.

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

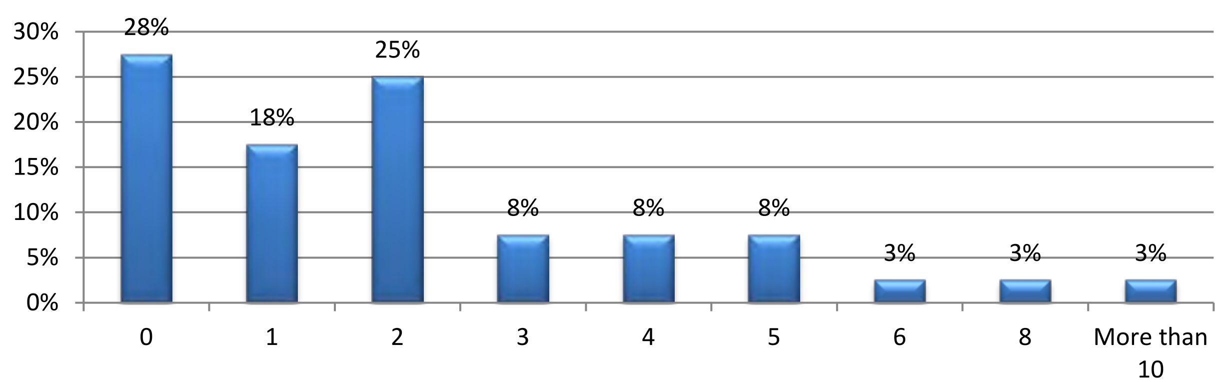
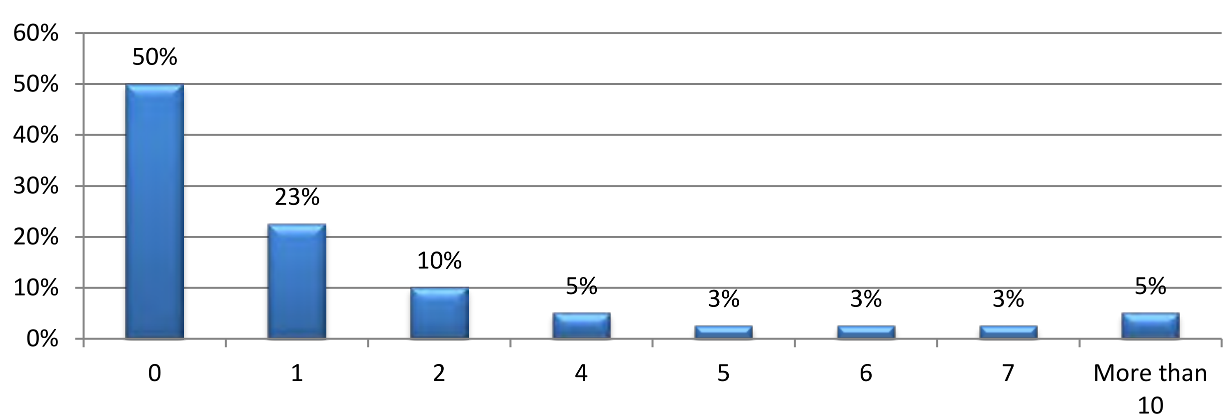


Figure 52. Number of Follow-on Investments Made in the Last 12 Months



The majority (70%) 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

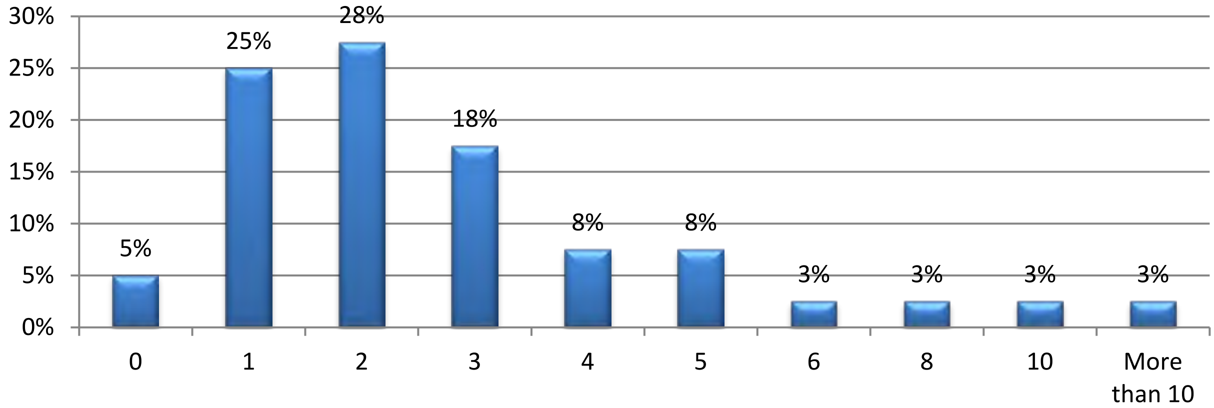
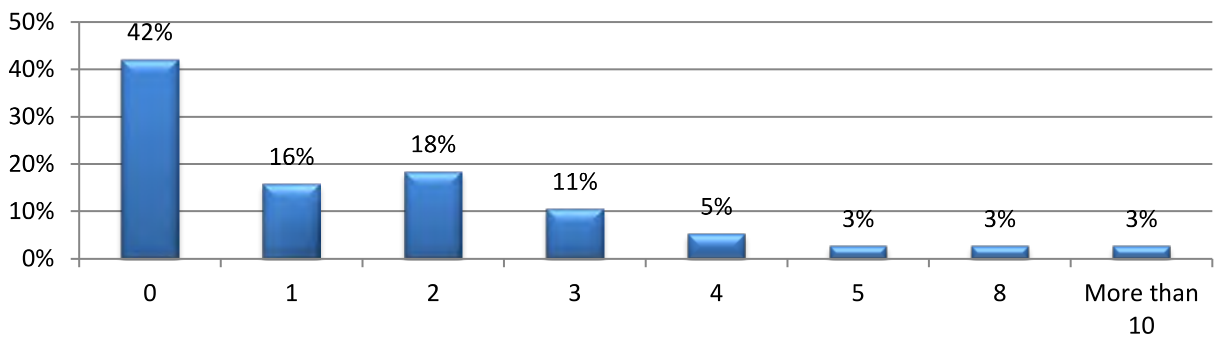
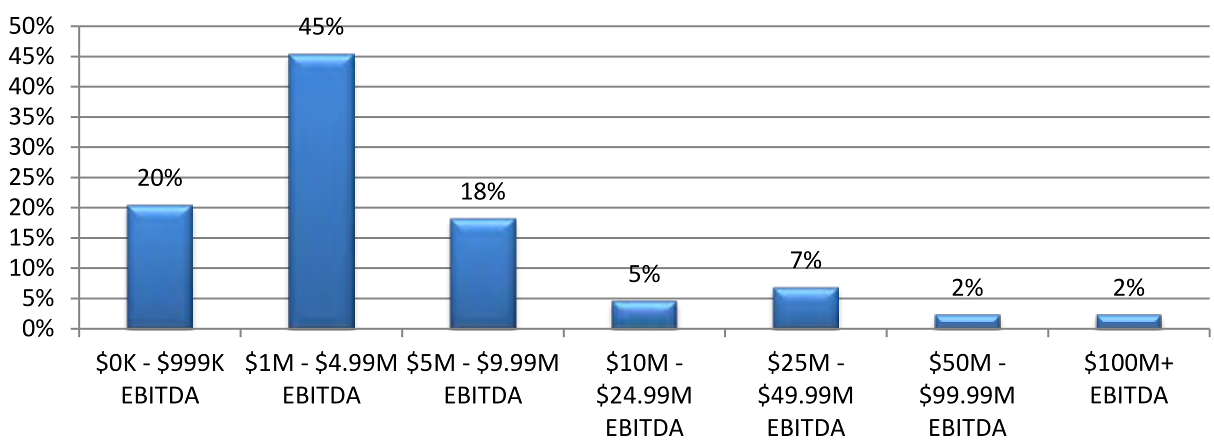


Figure 54. Number of Follow-on Investments Planned over Next 12 Months



Approximately 84% of buyout investments were in the range between $0 million and $10 million of EBITDA.

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



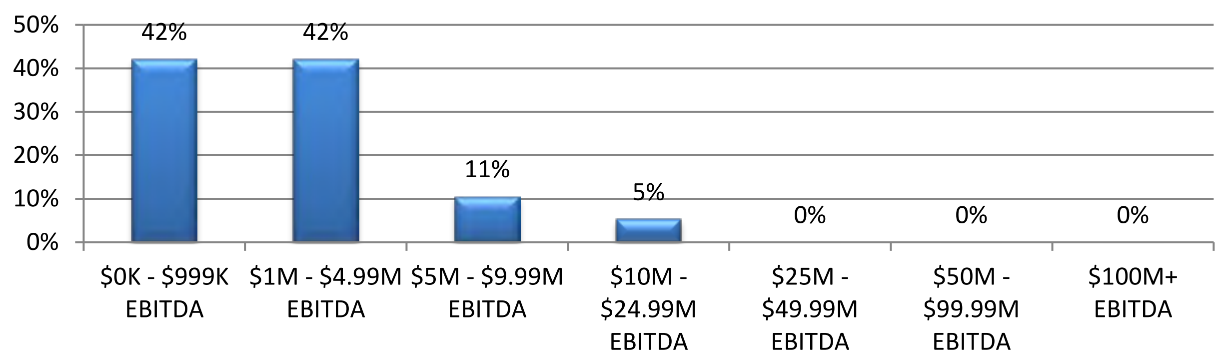
Average deal multiples for buyout deals for the prior twelve months vary from 3.0 to 8.0 times EBITDA depending on the size of the company. Expected returns vary from 21% to 37%.

Table 35. General Characteristics – 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 (total)	8	25	10	7	8	2	5
Average size of investment (in million USD)	1.5	5	15	n/a	55	75	100+
Expected time to exit (years) (median)	>7	5	5	n/a	5	5	7
Equity as % of new capital structure (median)	45%	45%	45%	60%	45%	35%	35%
% of total equity purchased (median)	85%	75%	75%	70%	35%	35%	35%
Average EBITDA multiple	3.0	5.0	5.0	5.0	7.0	7.5	8.0
Average revenue multiple	1.3	1.5	2.0	2.0	4.5	5.0	5.0
Median total expected returns (gross cash on cash pre-tax IRR)	37%	28%	28%	25%	25%	22.5%	21%

Approximately 84% of non-buyout investments were in the range between $0 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 36. General Characteristics – Non-Buyout Transactions (medians)

	$0K - $999K EBITDA	$1M - $4.99M EBITDA	$5M - $9.99M EBITDA	$10M - $24.99M EBITDA
Number of investments (total)	10	10	2	1
Average size of investment (in million USD)	3	7.5	20	1.5
Expected time to exit (years) (median)	5	5	5.5	1
Equity as % of new capital structure (median)	35%	55%	45%	25%
% of total equity purchased (median)	15%	45%	45%	15%
Average EBITDA multiple	3.0	5.0	6.5	10+
Average revenue multiple	2.0	2.5	3.0	n/a
Median total expected returns (gross cash on cash pre-tax IRR)	20%	20%	15%	12%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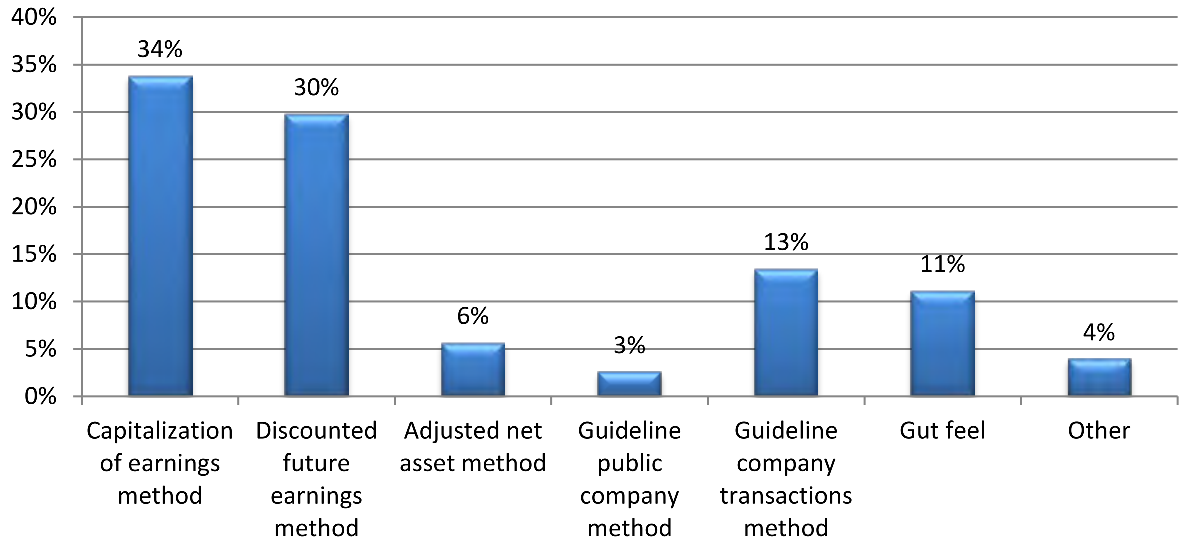
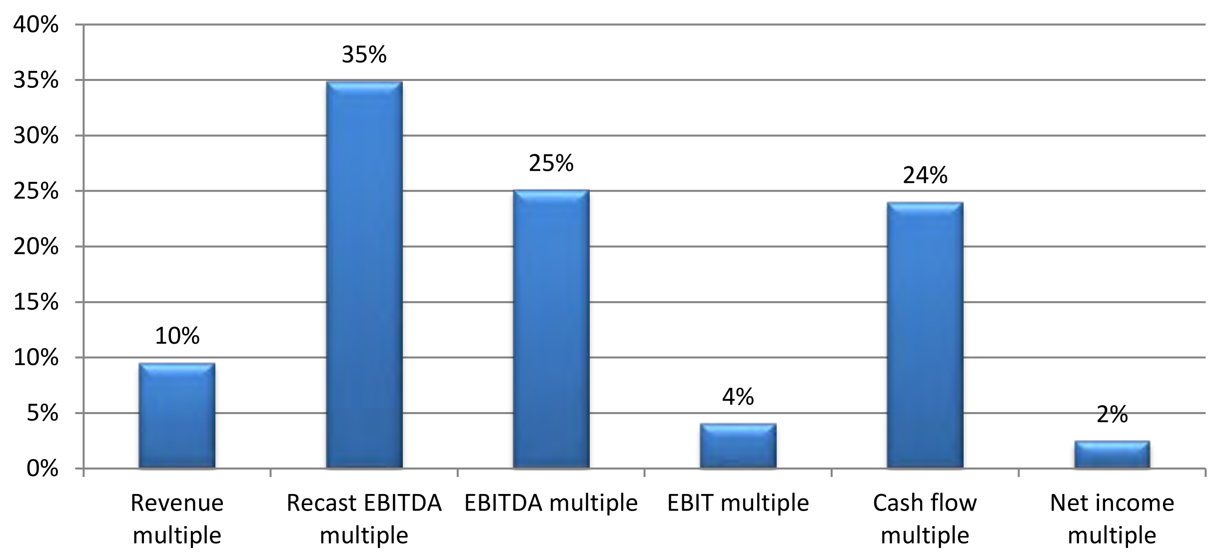
When valuing a business, approximately 34% of the weight is placed on capitalization of earnings method.

Figure 57. Usage of Valuation Approaches



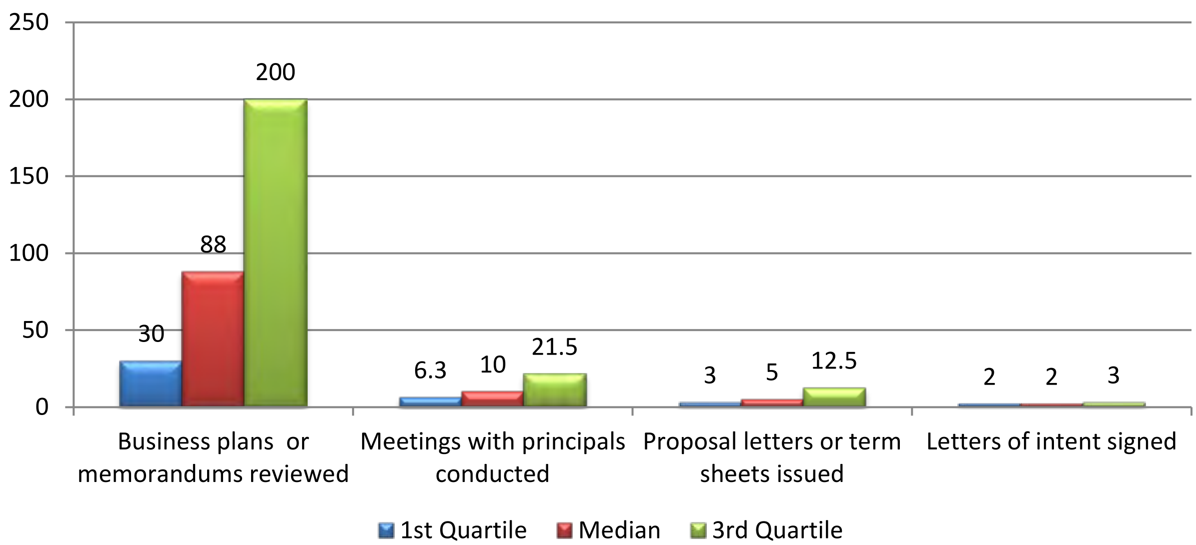
The weights of the various multiple methods used by respondents when valuing privately-held businesses included 35% for recast (adjusted) EBITDA multiple and 25% for EBITDA multiple.

Figure 58. Usage of Multiple Methods



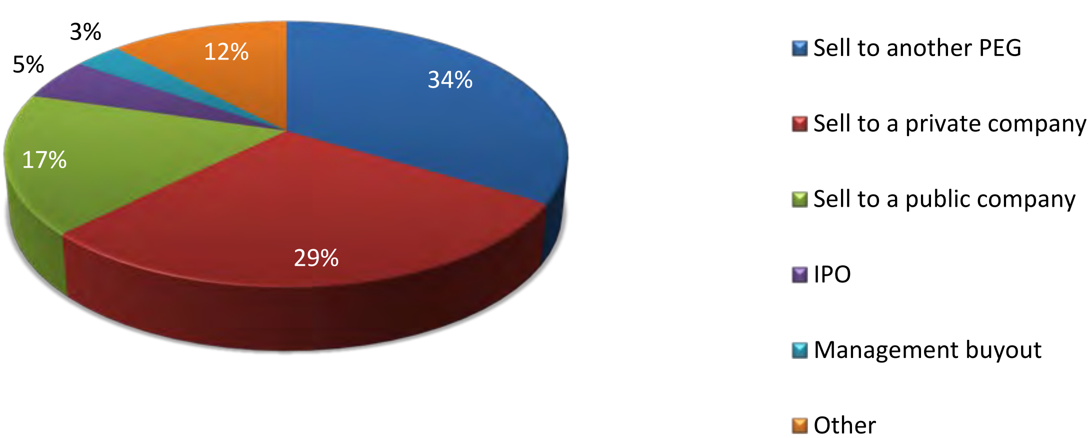
Respondents reported on items required to close one deal.

Figure 59. Items Required to Close One Deal



Respondents reported exit strategies that include selling to another private equity group (34%), selling to private company (29%), and selling to a public company (17%).

Figure 60. Exit Plans for Portfolio Companies



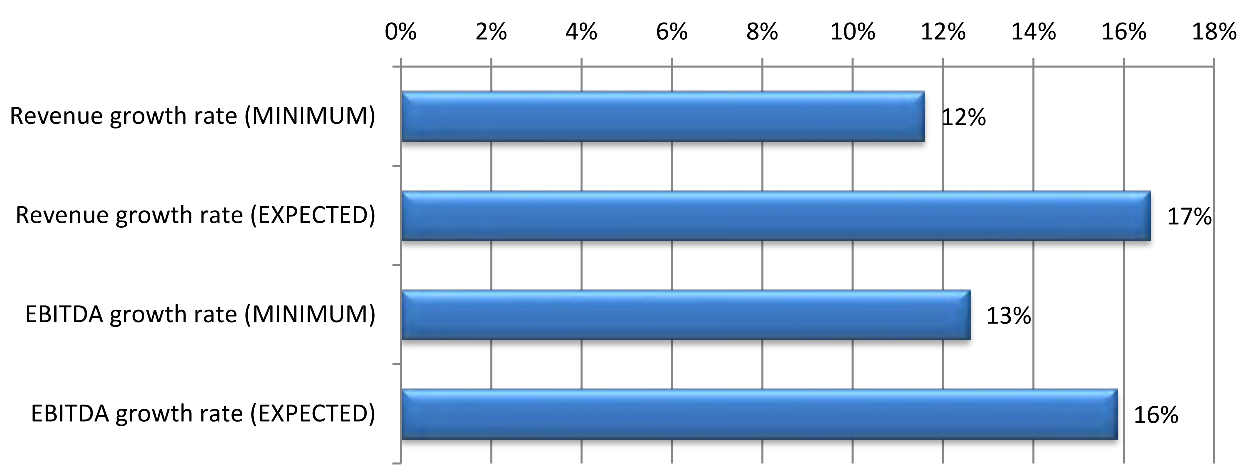
Most of the respondents believe the number of companies "worthy of financing" exceeds "capital available" for the companies with less than $1M in EBITDA. Whereas for the larger companies, "capital available" exceeds the number of companies "worthy of financing."

Table 37. The Balance of Available Capital with Quality Companies for the Following EBITDA Size

	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 EBITDA	23%	19%	26%	23%	10%	**-0.2**
$1M - $4.99M EBITDA	12%	6%	38%	32%	12%	**0.3**
$5M - $9.99M EBITDA	4%	12%	23%	35%	27%	**0.7**
$10M - $14.99M EBITDA	4%	0%	30%	22%	43%	**1.0**
$15M - $24.99M EBITDA	4%	0%	22%	30%	43%	**1.1**
$25M - $49.99M EBITDA	4%	4%	13%	39%	39%	**1.0**
$50M - $99.99M EBITDA	0%	9%	14%	36%	41%	**1.1**
$100M+ EBITDA	10%	0%	19%	24%	48%	**1.1**

Respondents reported average minimum revenue growth rate, when investing in a company today, is 12%

Figure 61. Minimum and Expected Annual Growth Rates for Investee



Respondents identified importance of the following items regarding business risk.

Table 38. Importance of Items Regarding Business Risk

Characteristics	Unimportant	Of little importance	Moderately important	Important	Very important	Score (1 to 5)
Firm size	0%	22%	41%	32%	5%	2.2
Customer concentrations	0%	5%	12%	37%	46%	3.2
Market leadership	7%	17%	27%	27%	22%	2.4
Historical operating performance	0%	2%	24%	27%	46%	3.2
Industry sector	2%	5%	17%	46%	29%	3.0
Future prospects of company	0%	0%	12%	22%	66%	3.5
Management team	0%	12%	20%	24%	44%	3.0
Other	33%	0%	0%	0%	67%	2.7

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 39. 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%	5%	43%	38%	15%	53%	5%	**48%**
Quality of companies seeking investment	3%	24%	37%	21%	16%	37%	26%	**11%**
Average investment size	0%	8%	56%	31%	5%	36%	8%	**28%**
Non-control investments (< 50% equity ownership)	0%	4%	61%	32%	4%	36%	4%	**32%**
Expected investment holding period	0%	8%	61%	32%	0%	32%	8%	**24%**
Deal multiples	0%	10%	28%	55%	8%	63%	10%	**53%**
Exit opportunities	0%	14%	47%	28%	11%	39%	14%	**25%**
Expected returns on new investments	0%	36%	33%	28%	3%	31%	36%	**-5%**
Value of portfolio companies	0%	14%	14%	62%	11%	73%	14%	**59%**
General business conditions	0%	20%	25%	38%	18%	55%	20%	**35%**
Size of private equity industry	0%	5%	18%	59%	18%	77%	5%	**72%**
Appetite for risk	5%	23%	28%	33%	10%	44%	28%	**15%**

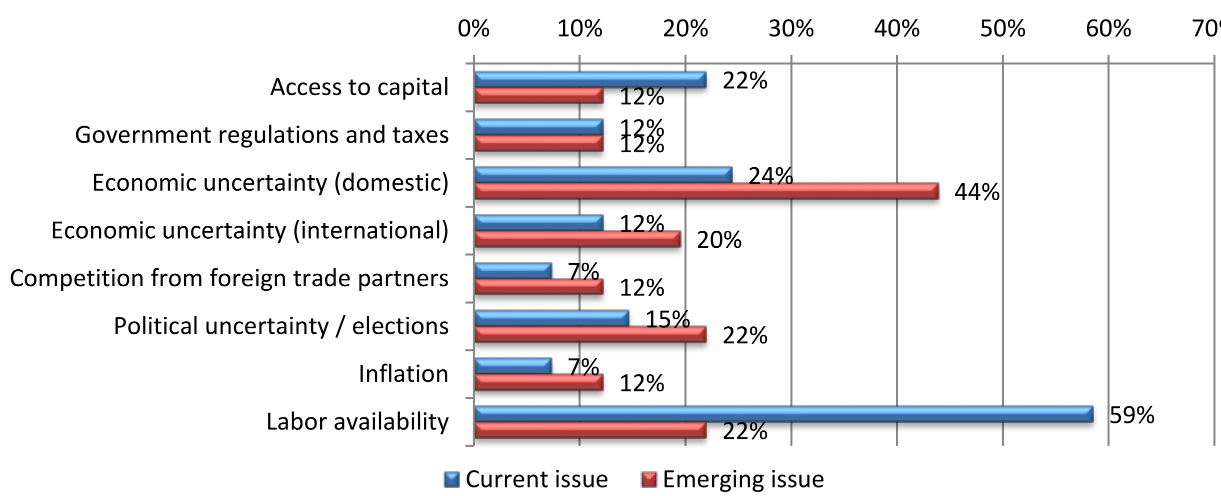
Respondents expect further increases in demand for private equity, decreasing expected returns on new investments, and worsening general business conditions.

Table 40. 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%	15%	39%	32%	15%	46%	15%	**32%**
Quality of companies seeking investment	0%	34%	29%	22%	15%	37%	34%	**2%**
Average investment size	0%	8%	50%	33%	10%	43%	8%	**35%**
Non-control investments (< 50% equity ownership)	0%	9%	48%	33%	9%	42%	9%	**33%**
Expected investment holding period	0%	5%	34%	47%	13%	61%	5%	**55%**
Deal multiples	0%	25%	30%	38%	8%	45%	25%	**20%**
Exit opportunities	3%	26%	47%	16%	8%	24%	29%	**-5%**
Expected returns on new investments	3%	33%	38%	15%	13%	28%	35%	**-8%**
Value of portfolio companies	0%	24%	18%	47%	11%	58%	24%	**34%**
General business conditions	0%	60%	20%	8%	13%	20%	60%	**-40%**
Size of private equity industry	0%	10%	43%	38%	10%	48%	10%	**38%**
Appetite for risk	3%	43%	33%	18%	5%	23%	45%	**-23%**

Respondents believe labor availability is the most important current issue facing privately-held businesses, while domestic economic uncertainty is the most important emerging issue.

Figure 62. Issues Facing Privately-Held Businesses



VENTURE CAPITAL SURVEY INFORMATION

Of the 30 participants who responded to the venture capital survey, approximately 59% of respondents expect an increasing size of the venture capital industry. The majority (37%) 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 the next 12 months are very diverse with over 30% targeting information technology and another 17% planning to invest in health care & biotech.
- Respondents' exit strategies include selling to a public company (37%) followed by selling to a private company (21%).
- Respondents believe access to capital is the most important issue facing privately-held businesses today, while domestic economic uncertainty is the most important emerging issue.

Operational and Assessment Characteristics

Approximately 63% of respondents made five investments or more over the last twelve months.

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

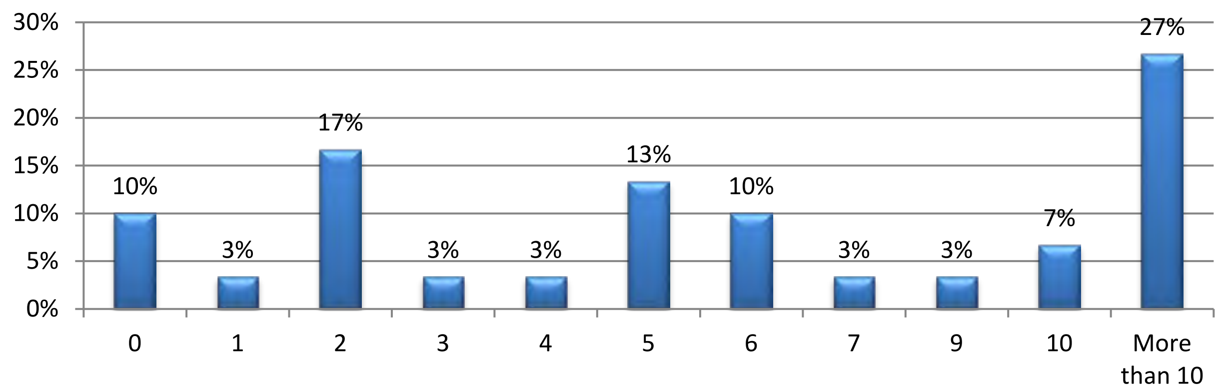
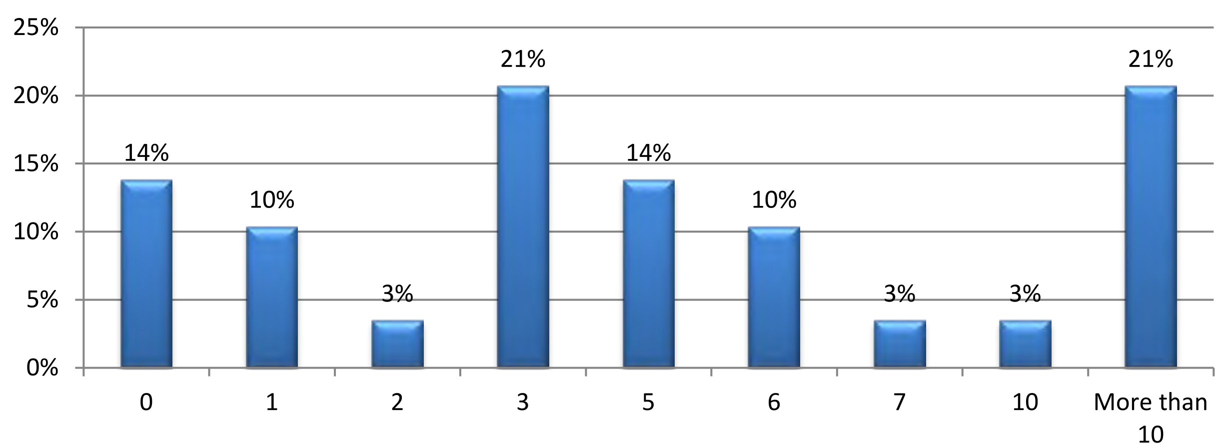


Figure 64. Number of Follow-on Investments Made in the Last 12 Months



The majority (73%) 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

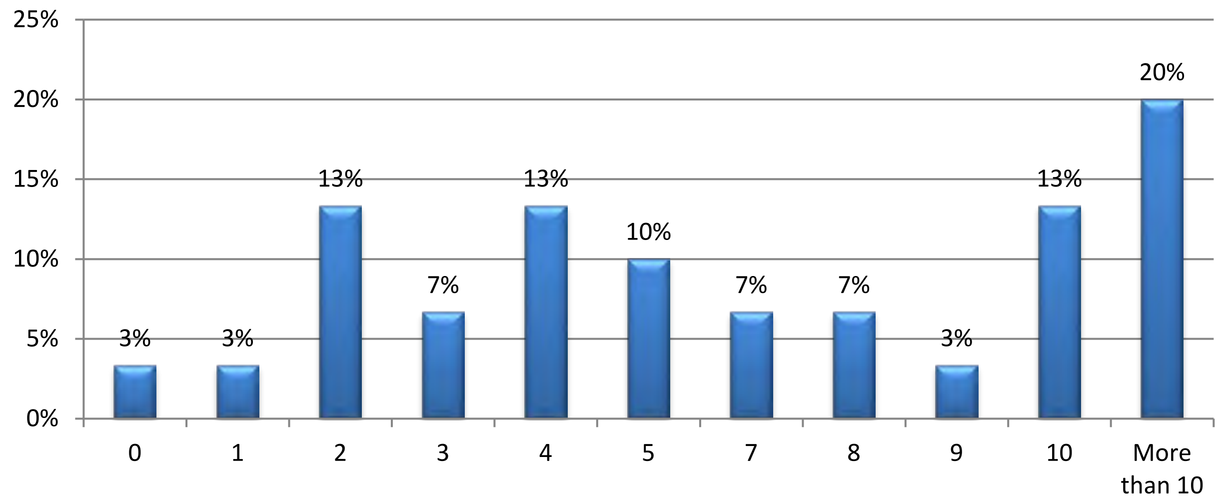
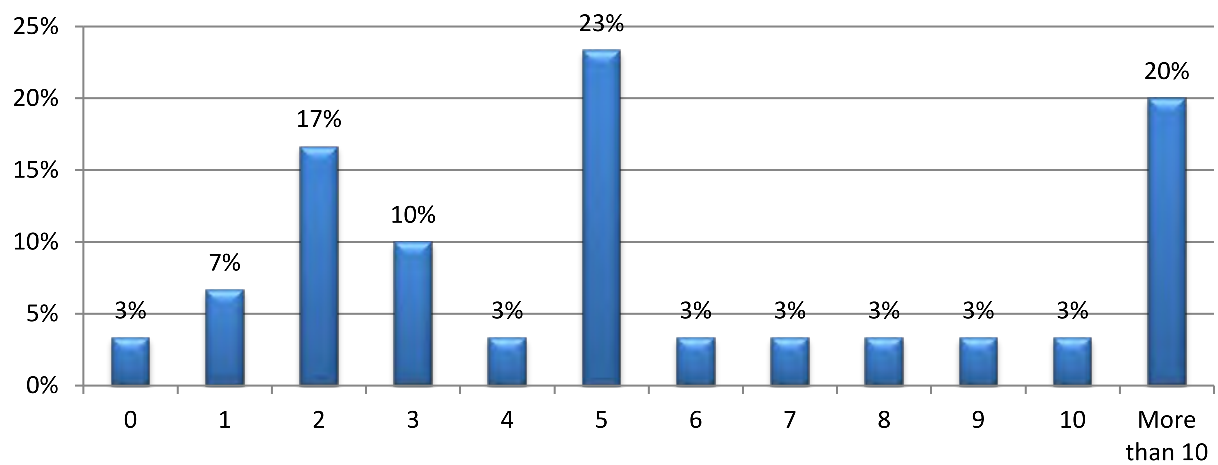


Figure 66. Number of Follow-on Investments Planned over Next 12 Months



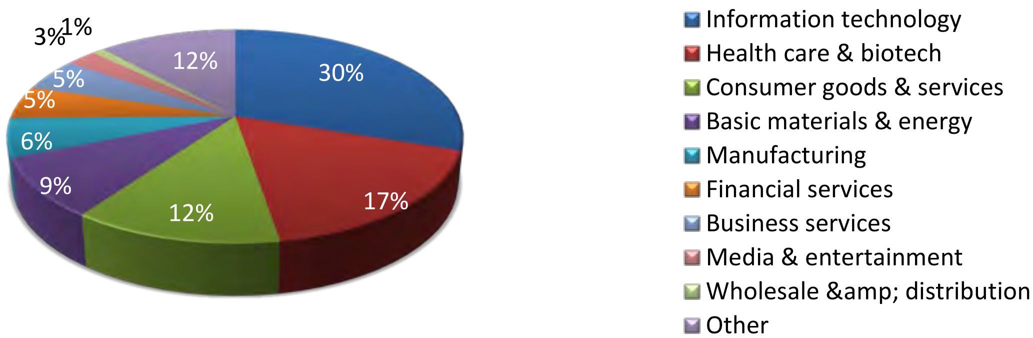
Respondents reported on business practices and the results are reflected below.

Table 41. VC Fund Data

	1st quartile	Median	3rd quartile
Vintage year (year in which first investment made)	2015	2017	2018
Size of fund ($ millions)	$17.5	$50	$163
Targeted number of total investments	13	18	27
Target fund return (gross pretax cash on cash annual IRR %)	25%	30%	35%
Expected fund return (gross pretax cash on cash annual IRR %)	25%	35%	42%

The types of businesses respondents plan to invest in over next 12 months are very diverse with over 30% targeting Information technology, and another 17% planning to invest in health care & biotech.

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



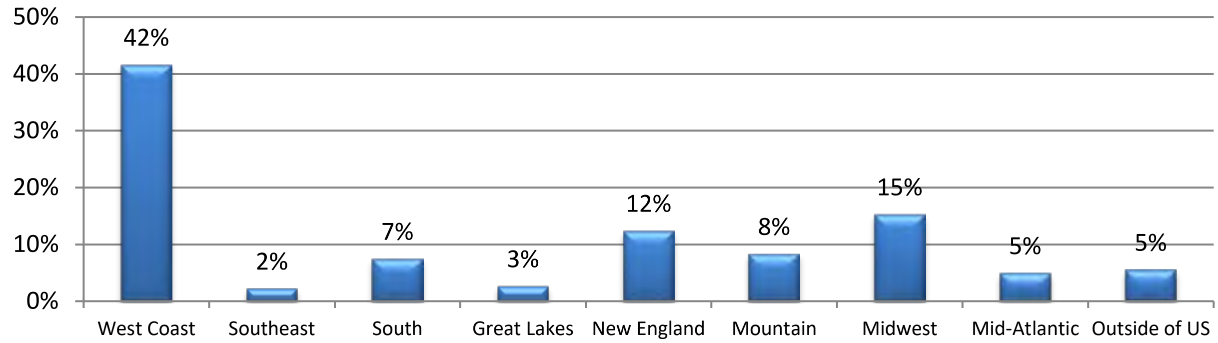
Respondents reported on a variety of statistics pertaining to their investments.

Table 42. General Information on Investments by Company Stages

	Seed	Startup	Early Stage	Expansion	Later Stage
Number of Investments Made in Last twelve months					
	82	69	153	70	24
Average Size of Investment ($ million)					
1st Quartile	1.0	1.0	1.0	1.3	2.5
Median	1.0	2.0	2.0	3.5	5.0
3rd Quartile	1.0	3.0	4.5	6.0	9.8
Average Revenue Multiple					
1st Quartile	1	1.25	2.5	3	4.5
Median	2.5	3	4	4	5
3rd Quartile	4.5	6	>10	>10	>10
Average % of Total Equity Purchased (fully diluted basis)					
1st Quartile	10.0%	7.5%	5.0%	5.0%	5.0%
Median	**15.0%**	**15.0%**	**15.0%**	**15.0%**	**10.0%**
3rd Quartile	75.0%	15.0%	15.0%	15.0%	15.0%
Total expected Returns (gross cash on cash pretax IRR) on new investments					
1st Quartile	28.0%	28.0%	24.0%	23.0%	20.0%
Median	**38.0%**	**33.0%**	**33.0%**	**28.0%**	**28.0%**
3rd Quartile	53.0%	43.0%	41.0%	33.0%	33.0%
Expected Time to Exit (years)					
1st Quartile	6.0	5.0	5.0	3.8	3.0
Median	7.5	6.5	5.5	4.5	3.0
3rd Quartile	8.0	8.0	7.3	5.3	4.0
Average Company Value at Time of Investment (post-money $ millions)					
1st Quartile	1.8	2.5	7.5	25.0	>100
Median	**2.5**	**7.5**	**7.5**	**45.0**	**>100**
3rd Quartile	6.0	15.0	17.5	55.0	>100

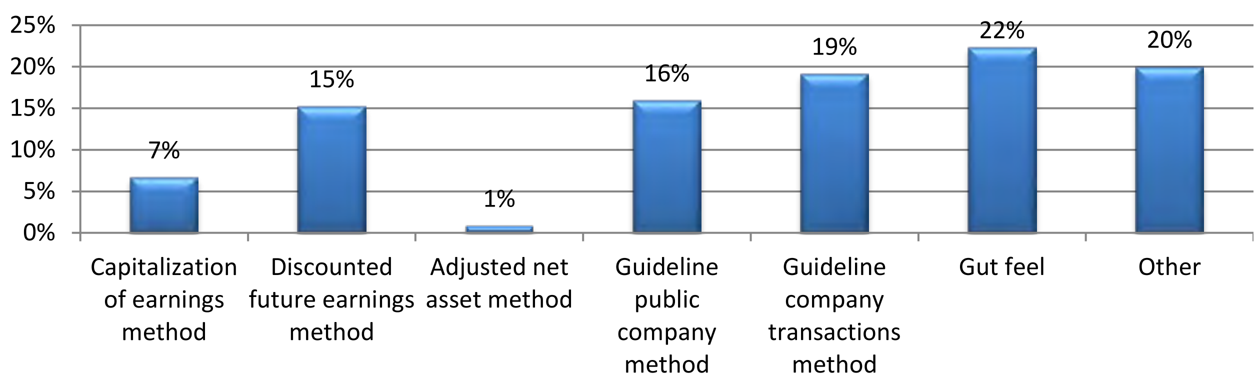
Respondents reported on where they plan to invest over the next 12 months. The results reflect investment throughout the U.S.

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



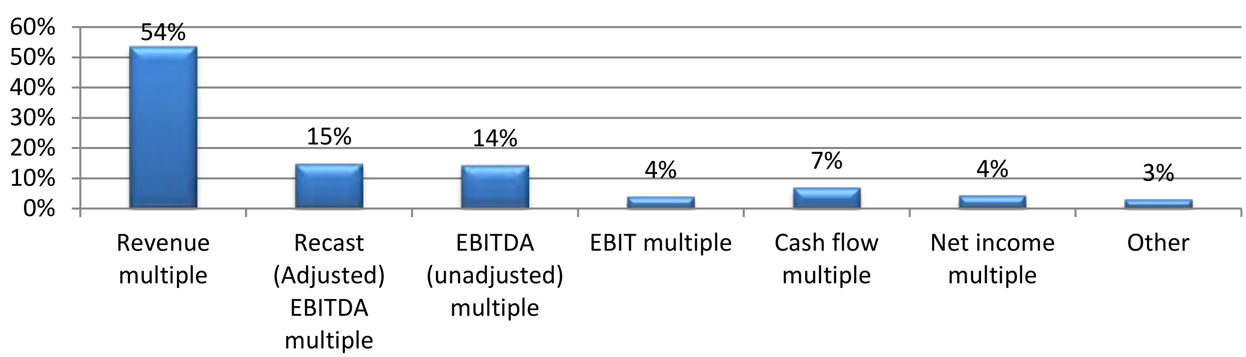
When valuing the company, approximately 22% of respondents use gut feel, 19% use guideline company transactions method and 16% use guideline public company method valuing privately-held businesses.

Figure 69. Usage of Valuation Methods



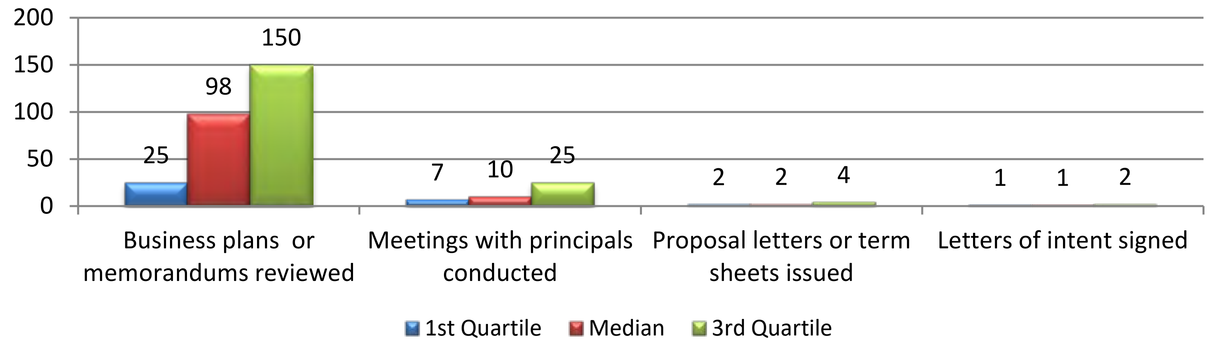
The weights of the various multiple methods used by respondents when valuing privately-held businesses included 54% for revenue multiple and 15% for recast (adjusted) EBITDA multiple methods.

Figure 70. Usage of Multiple Methods



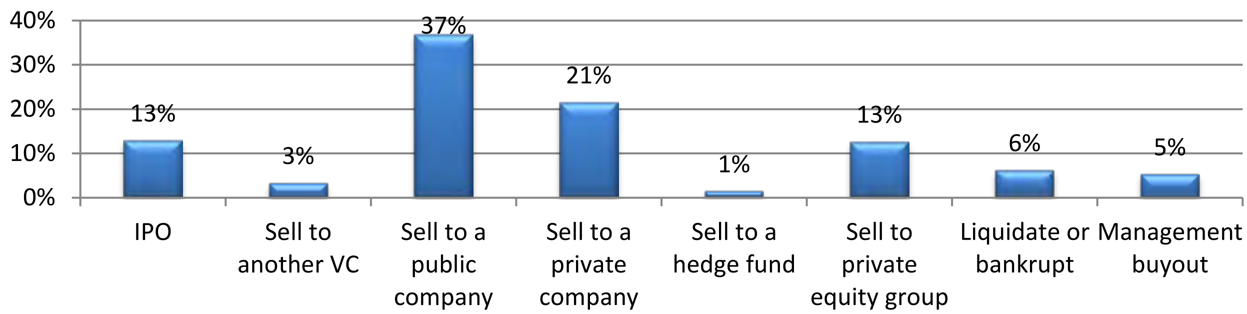
Respondents reported on items required to close one deal.

Figure 70. Items Required to Close One Deal



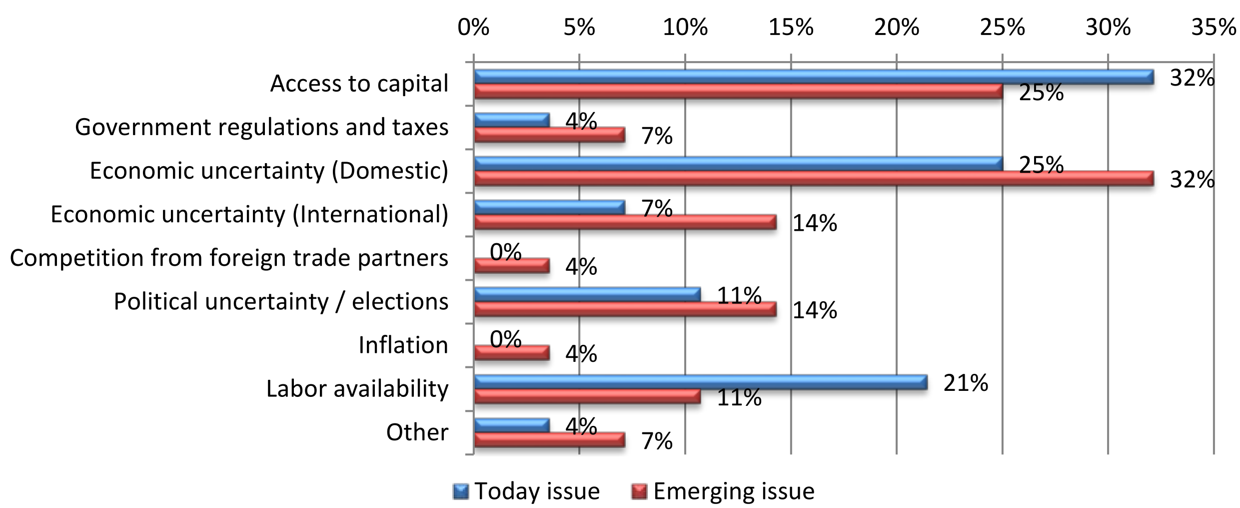
Respondents' exit strategies include selling to a public company (37%) followed by selling to a private company (21%).

Figure 71. Exit Plans for Portfolio Companies



Respondents believe access to capital is 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 43. 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%	4%	43%	32%	21%	54%	4%	**50%**
Quality of companies seeking investment	4%	7%	50%	32%	7%	39%	11%	**29%**
Follow-on investments	4%	7%	39%	25%	25%	50%	11%	**39%**
Average investment size	4%	4%	50%	21%	21%	43%	7%	**36%**
Exit opportunities	4%	18%	29%	36%	14%	50%	21%	**29%**
Time to exit deals	4%	4%	50%	29%	14%	43%	7%	**36%**
Expected returns on new investments	0%	25%	54%	14%	7%	21%	25%	**-4%**
Value of portfolio companies	0%	7%	21%	43%	29%	71%	7%	**64%**
General business conditions	4%	18%	43%	32%	4%	36%	21%	**14%**
Presence of super angels in space formerly occupied by VCs	12%	4%	56%	24%	4%	28%	16%	**12%**
Size of venture capital industry	0%	0%	22%	52%	26%	78%	0%	**78%**
Appetite for risk	7%	29%	36%	18%	11%	29%	36%	**-7%**

Respondents expect further improving general business conditions.

Table 44. 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%	15%	26%	33%	26%	59%	15%	**44%**
Quality of companies seeking investment	0%	15%	52%	26%	7%	33%	15%	**19%**
Follow-on investments	4%	4%	41%	33%	19%	52%	7%	**44%**
Average investment size	0%	11%	44%	30%	15%	44%	11%	**33%**
Exit opportunities	11%	22%	48%	7%	11%	19%	33%	**-15%**
Time to exit deals	7%	4%	37%	37%	15%	52%	11%	**41%**
Expected returns on new investments	4%	26%	59%	7%	4%	11%	30%	**-19%**
Value of portfolio companies	4%	7%	26%	41%	22%	63%	11%	**52%**
General business conditions	15%	30%	48%	7%	0%	7%	44%	**-37%**
Presence of super angels in space formerly occupied by VCs	17%	8%	71%	0%	4%	4%	25%	**-21%**
Size of venture capital industry	8%	15%	42%	31%	4%	35%	23%	**12%**
Appetite for risk	15%	37%	33%	15%	0%	15%	52%	**-37%**

ANGEL INVESTOR SURVEY INFORMATION

Of the 61 participants who responded to the angel investor survey, the majority (65%) of respondents plan to make between one and four investments in the next twelve months. Other key findings include:

- Approximately 25% of respondents base valuations on gut feel when valuing privately-held businesses, another 25% base valuations on discounted future earnings method.
- When using multiples to determine the value of a business, the most popular methods used by respondents were revenue multiple (42%), and EBITDA multiple (18%).
- The types of businesses respondents plan to invest in over next 12 months are very diverse with 34% targeting health care & biotech and another 20% planning to invest in information technology.
- 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 (32%) and selling to a public company (32%).

Operational and Assessment Characteristics

Approximately 65% 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

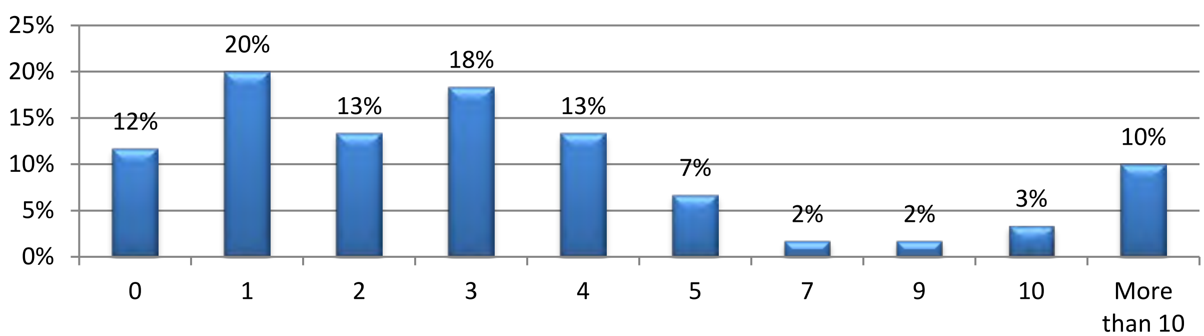
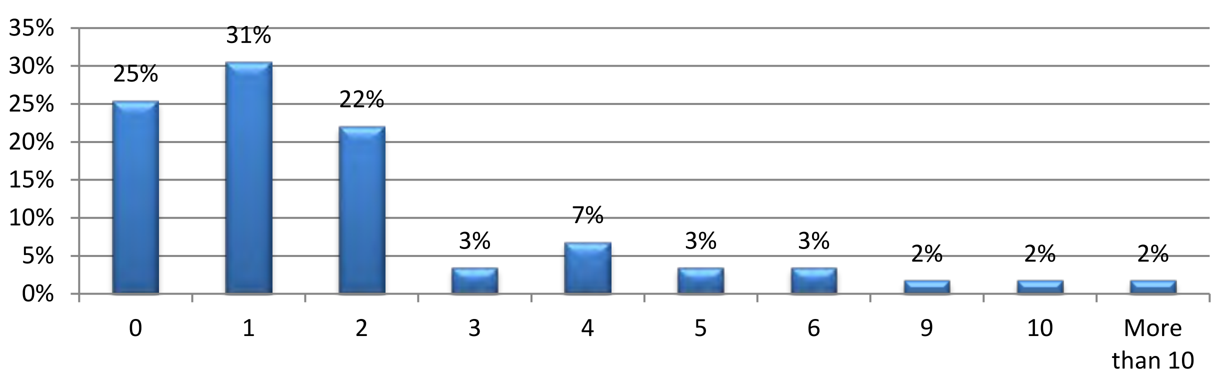


Figure 74. Number of Follow-on Investments Made in the Last 12 Months



The majority (69%) of respondents plan to make between one and five investments over the next 12 months.

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

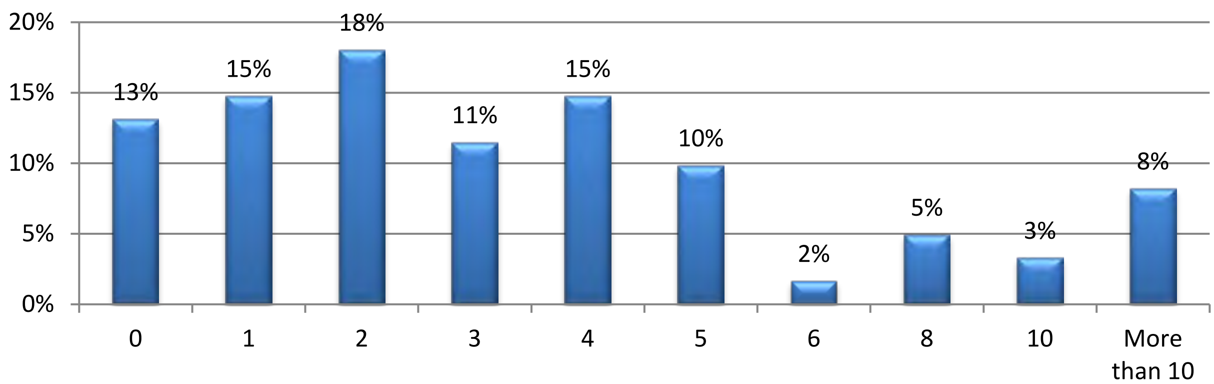
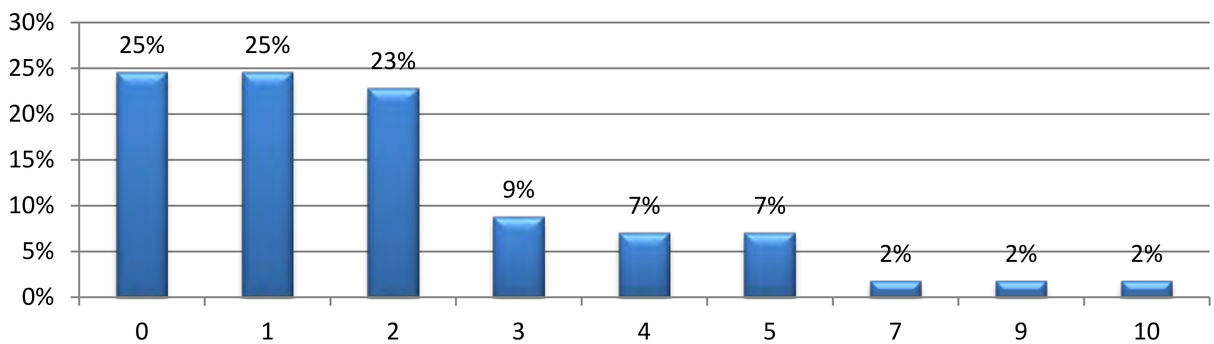
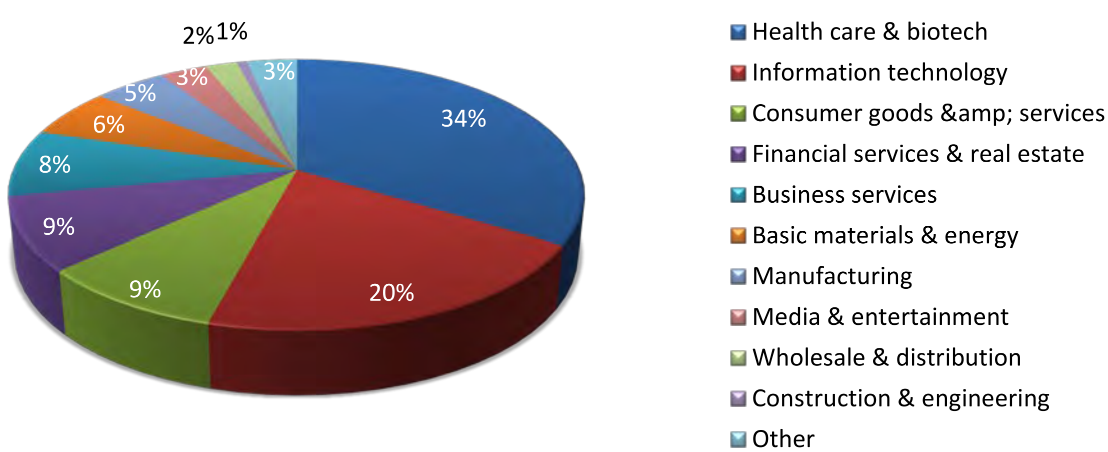


Figure 76. Number of Follow-on Investments Planned over Next 12 Months



The types of businesses respondents plan to invest in over next 12 months are very diverse with over 34% targeting health care & biotech and another 20% planning to invest in information technology.

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



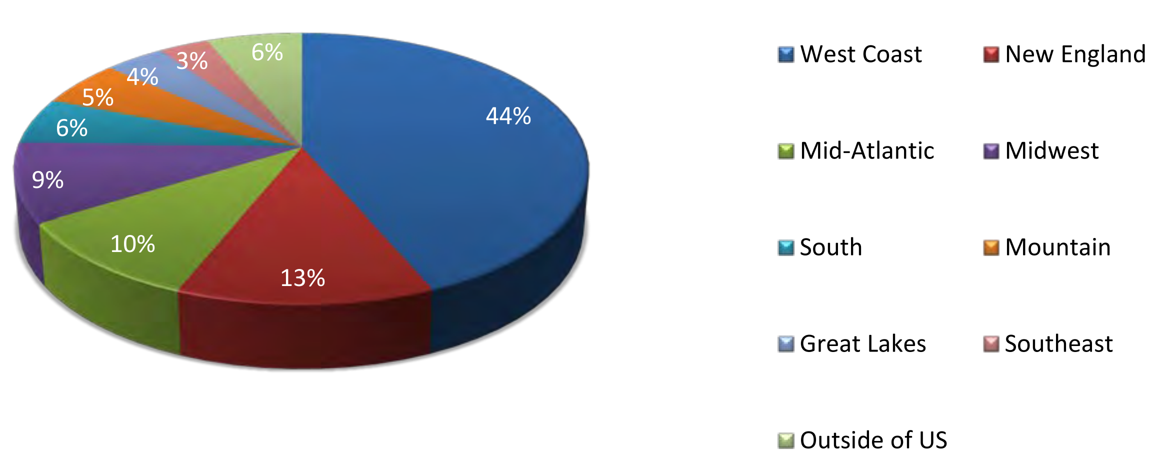
Respondents reported on a variety of stats pertaining to their investments.

Table 45. General Information on Investments by Company Stages

	Seed	Startup	Early Stage	Expansion	Later Stage
Number of investments made in last twelve months					
1st Quartile	141	90	48	14	4
Average revenue multiple					
1st Quartile	<1	1	1	1.1	1
Median	1.5	2.5	3	3.5	3.5
3rd Quartile	3.5	4.5	5.0	6.0	10.0
Total EXPECTED Returns (gross cash on cash pretax IRR) on New Investments (%)					
1st Quartile	24%	23%	23%	23%	18%
Median	**38%**	**35%**	**30%**	**28%**	**28%**
3rd Quartile	59%	48%	40%	40%	38%
Expected Time to Exit (years)					
1st Quartile	4	3	3	2	2
Median	**5**	**5**	**3**	**3**	**2**
3rd Quartile	6	6	5	5	4.3
Average Company Value at Time of Investment (post-money value)					
1st Quartile	$1,500,000	$2,750,000	$7,500,000	$7,500,000	$25,000,000
Median	**$2,500,000**	**$3,500,000**	**$7,500,000**	**$7,500,000**	**$40,000,000**
3rd Quartile	$4,000,000	$7,500,000	$20,000,000	$55,000,000	$100,000,000

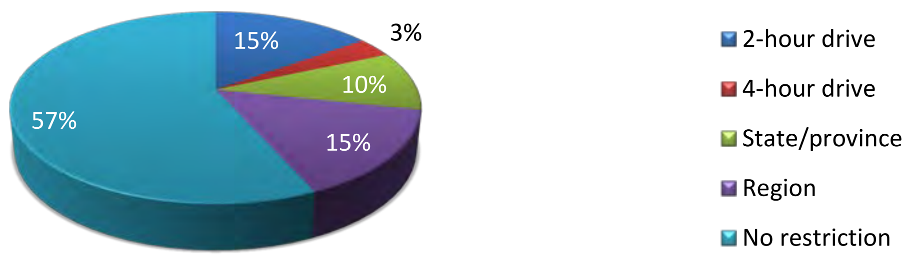
Respondents reported on where they plan to invest over the next 12 months. The results reflect investment throughout the U.S.

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



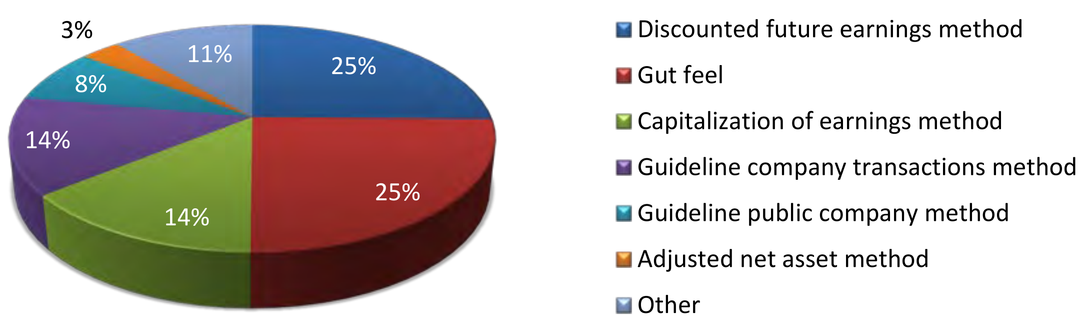
Respondents reported on their geographical limits for investments.

Figure 79. Geographical Limit for Investment



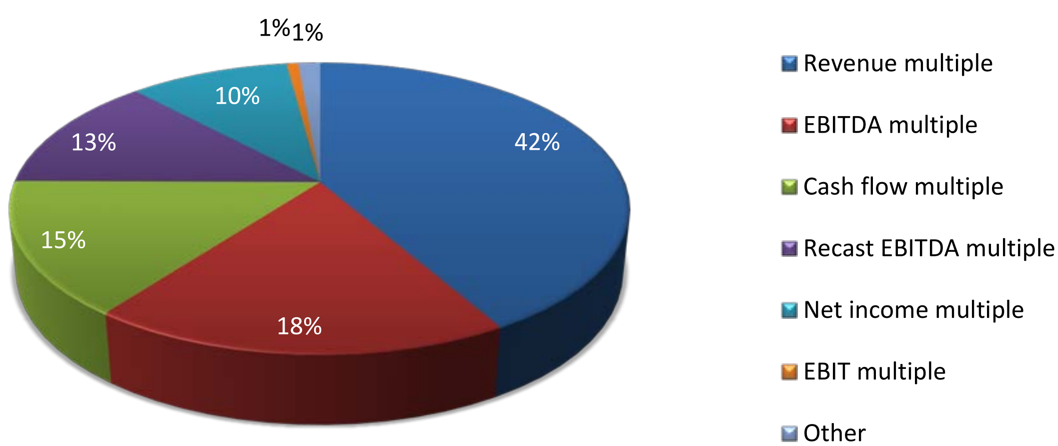
Approximately 25% of respondents base valuations on gut feel when valuing privately-held businesses, another 25% base valuations on discounted future earnings method.

Figure 80. Usage of Valuation Methods



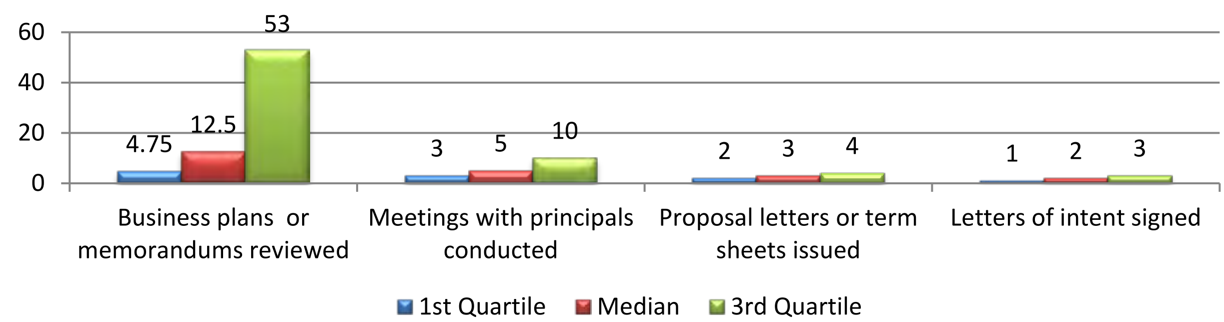
The weights of the various multiple methods used by respondents when valuing privately-held businesses included 42% for revenue multiple, 18% for EBITDA multiple method and 15% for cash flow multiple.

Figure 80. Usage of Multiple Methods



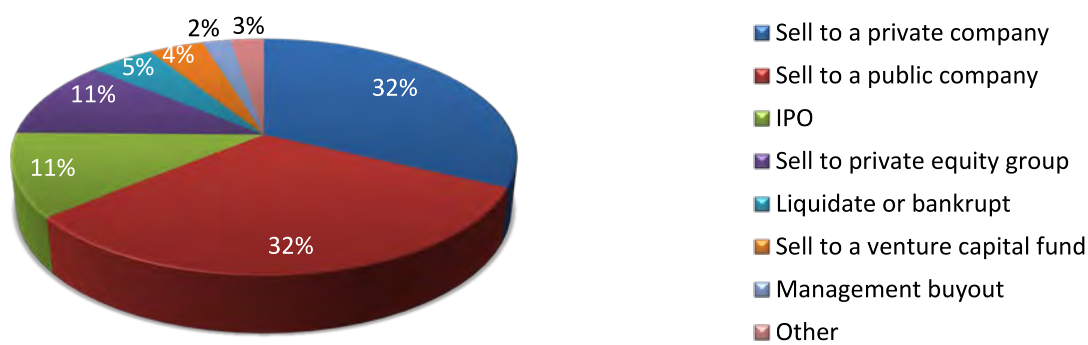
Respondents reported on items required to close one deal.

Figure 81. Items Required to Close One Deal



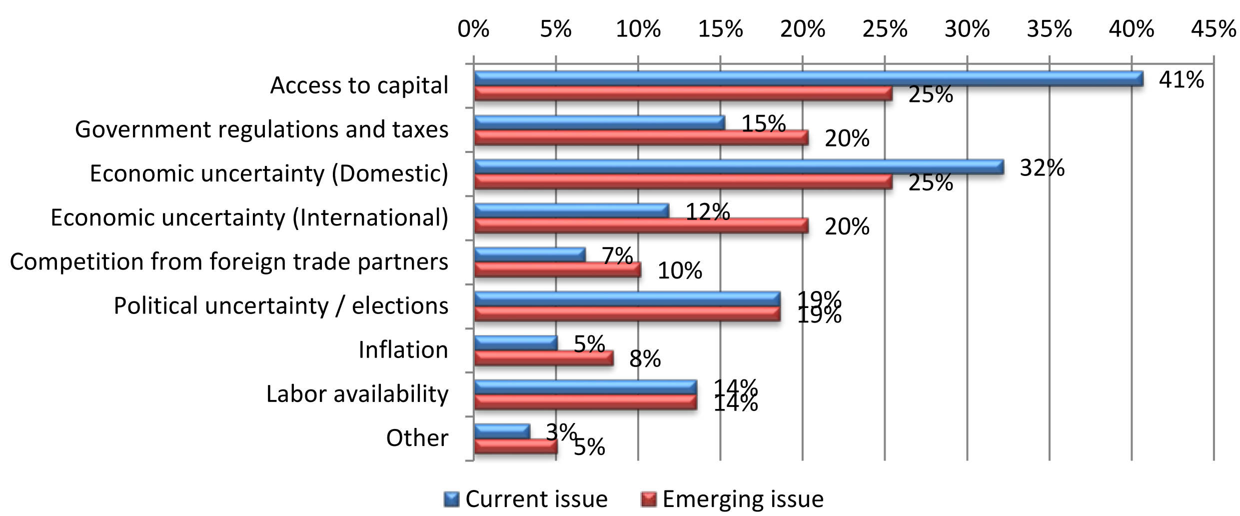
Respondents' exit strategies include selling to a private company (32%) and selling to a public company (32%).

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



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

Table 46. 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	2%	3%	38%	26%	31%	57%	5%	**52%**
Size of angel finance industry	2%	12%	39%	33%	14%	47%	14%	**33%**
Quality of companies seeking investment	5%	17%	48%	22%	7%	29%	22%	**7%**
Follow-on investments	0%	9%	40%	38%	13%	51%	9%	**42%**
Average investment size	2%	5%	46%	33%	14%	47%	7%	**40%**
Exit opportunities	0%	30%	48%	20%	2%	22%	30%	**-7%**
Time to exit deals	2%	5%	41%	34%	18%	52%	7%	**45%**
Expected returns on new investments	0%	16%	57%	20%	7%	27%	16%	**11%**
Value of portfolio companies	0%	5%	41%	41%	13%	54%	5%	**48%**
General business conditions	0%	29%	32%	25%	14%	39%	29%	**11%**
Appetite for risk	5%	33%	33%	18%	11%	28%	39%	**-11%**

Respondents expect slightly worsening general business conditions and decreasing appetite for risk.

Table 47. 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%	7%	34%	34%	24%	58%	8%	**49%**
Size of angel finance industry	4%	12%	39%	30%	16%	46%	16%	**30%**
Quality of companies seeking investment	4%	18%	46%	19%	14%	33%	21%	**12%**
Follow-on investments	2%	15%	40%	31%	13%	44%	16%	**27%**
Average Investment Size	4%	9%	50%	23%	14%	38%	13%	**25%**
Exit opportunities	2%	34%	34%	23%	7%	30%	36%	**-5%**
Time to exit deals	4%	5%	32%	38%	21%	59%	9%	**50%**
Expected returns on new investments	5%	21%	39%	23%	11%	34%	27%	**7%**
Value of portfolio companies	5%	18%	39%	25%	13%	38%	23%	**14%**
General business conditions	7%	32%	37%	18%	7%	25%	39%	**-14%**
Appetite for risk	14%	32%	37%	12%	5%	18%	46%	**-28%**

BUSINESS APPRAISER SURVEY INFORMATION

According to the 198 business appraiser survey respondents, labor availability is 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 worsening business conditions in the next twelve months.

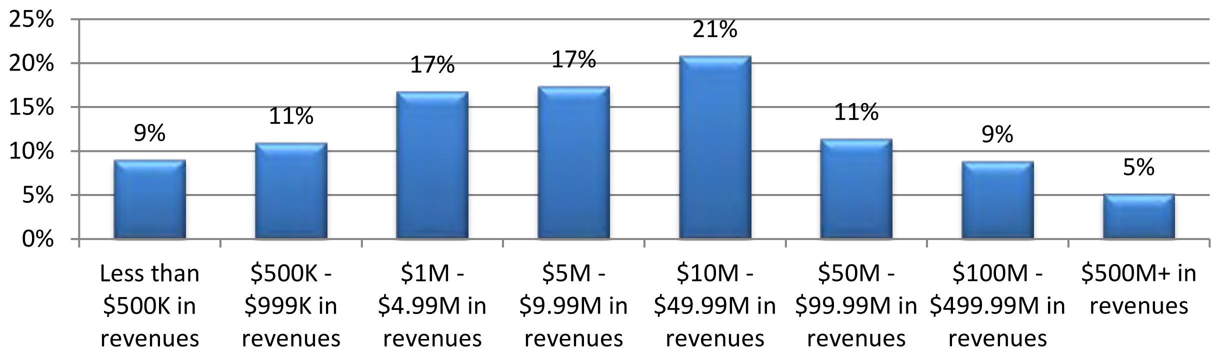
Other key findings include:

- 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 (26%) and guideline company transactions method (16%).
- Recast (adjusted) EBITDA multiple is the most popular when using multiple valuation method
- Respondents use an average risk-free rate of 3.3% and a market (equity) risk premium of 5.9%
- Average long-term terminal growth is estimated at 3.1%

Operational and Assessment Characteristics

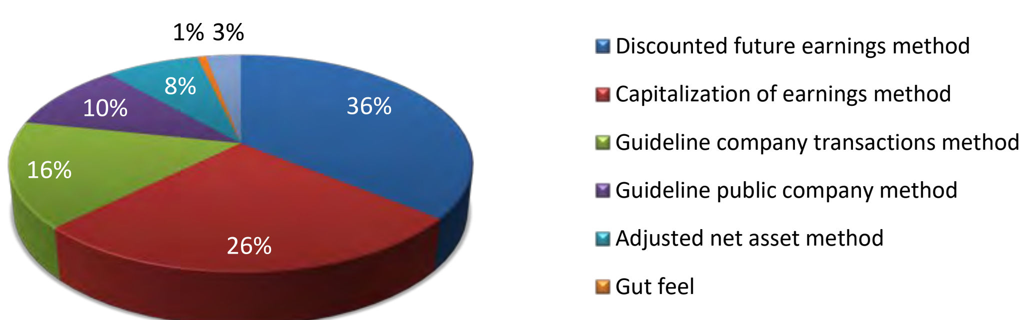
Most of the companies valued by respondents have annual revenues from $1 million to $50 million.

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.

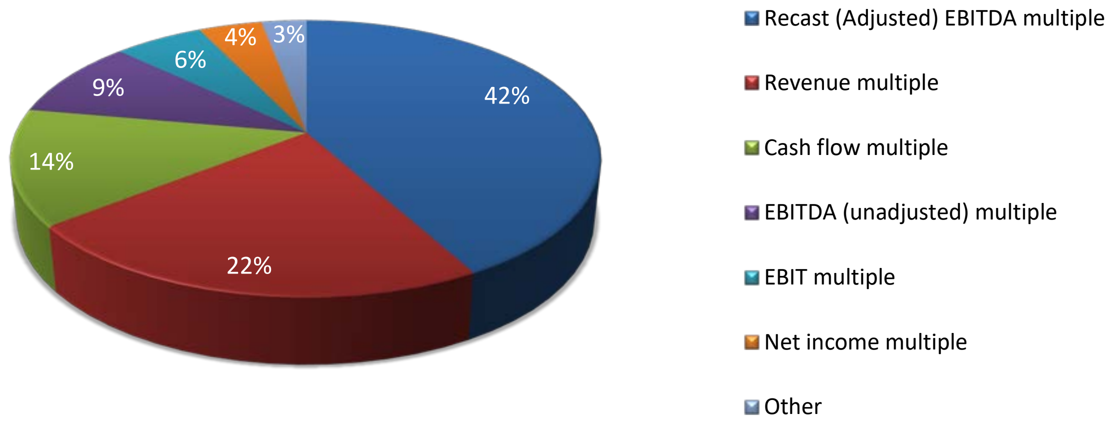
Figure 84. Usage of Valuation Methods



APPRAISER cont.

Respondents using multiples-based approaches indicate a preference for using recast (adjusted) EBITDA multiples (42%), followed by revenue multiples (22%).

Figure 85. Usage of Multiple Methods



Respondents indicated using an average risk-free rate of 3.3%, average market (equity) risk premium of 5.9% and average long-term growth rate of 3.1%.

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

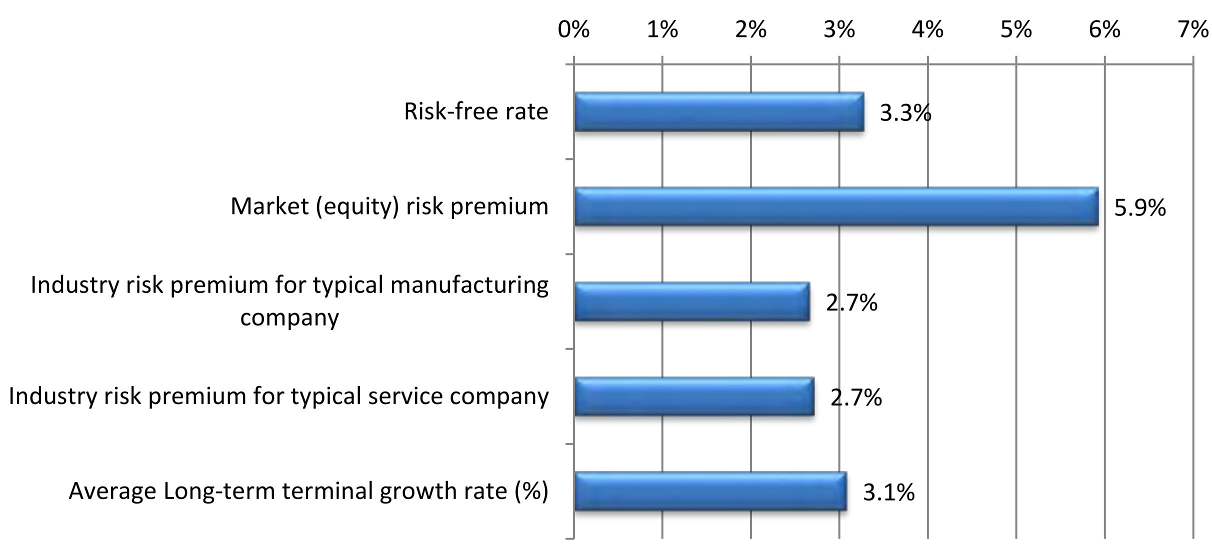
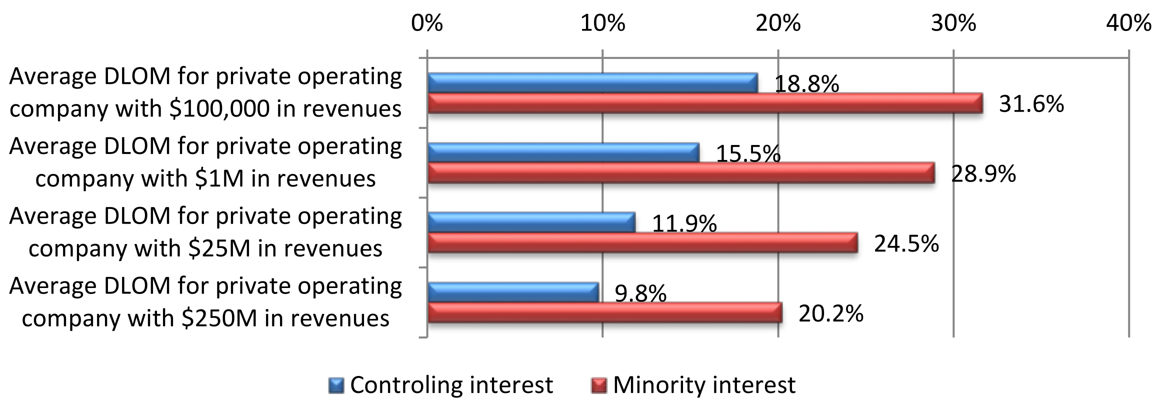


Figure below indicates considerable differences in DLOMs across sizes of companies and subject interests.

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



Only 26% 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

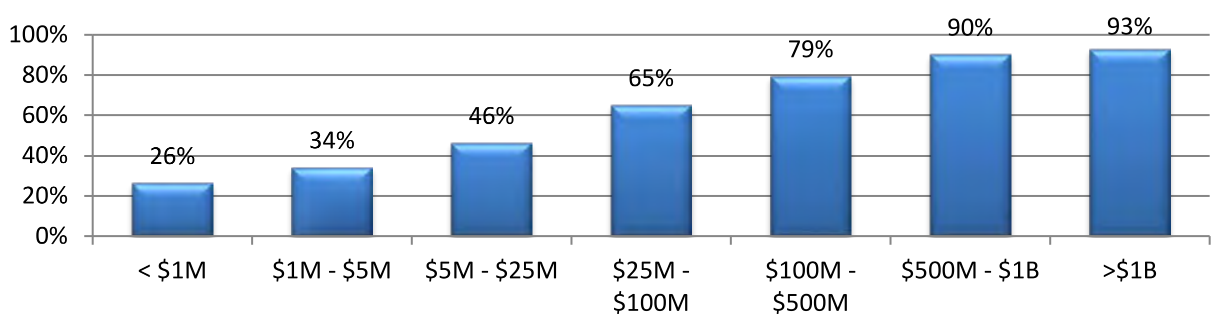
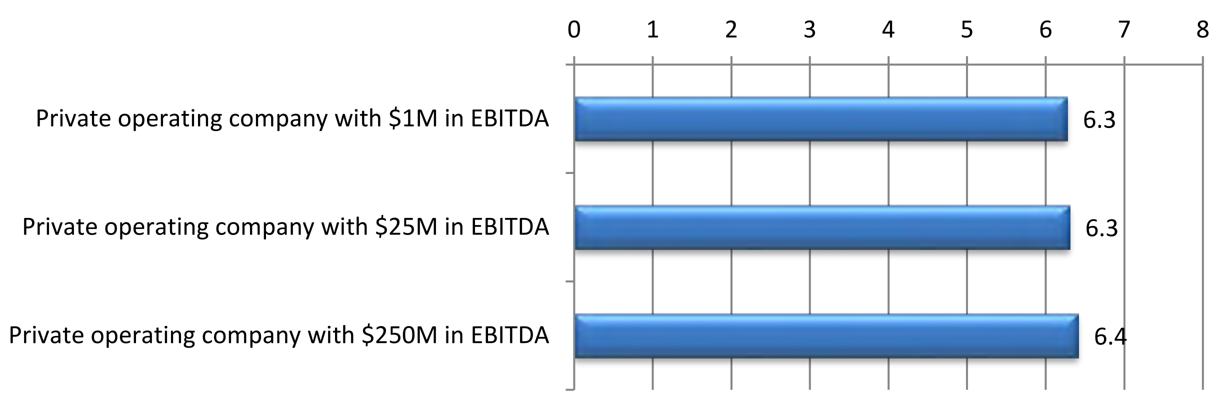


Figure 89. Explicit Forecast Period for High-Growth Companies by Revenue Sizes (years)



APPRAISER cont.

Figure 90. Size Premiums for Private Companies by Revenue Size

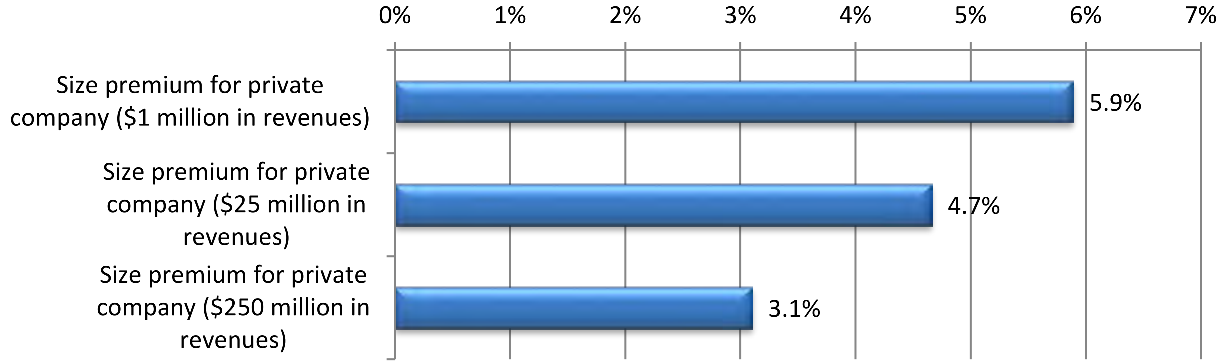
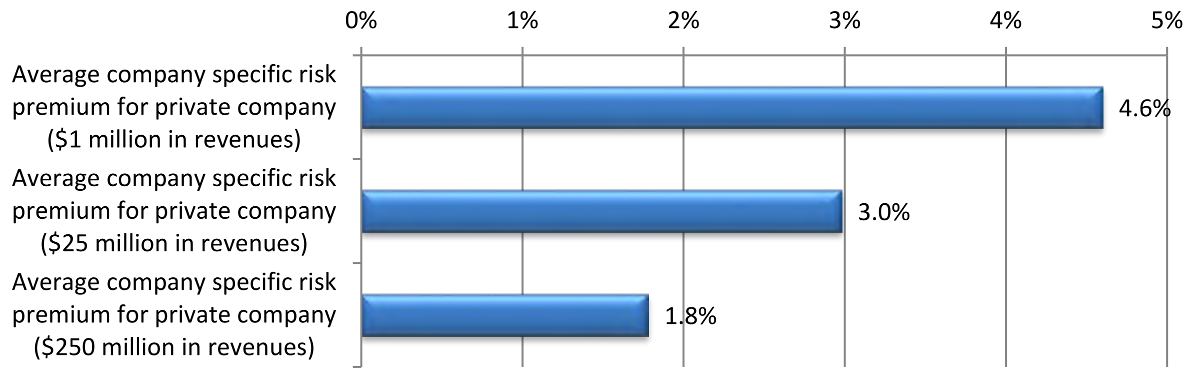
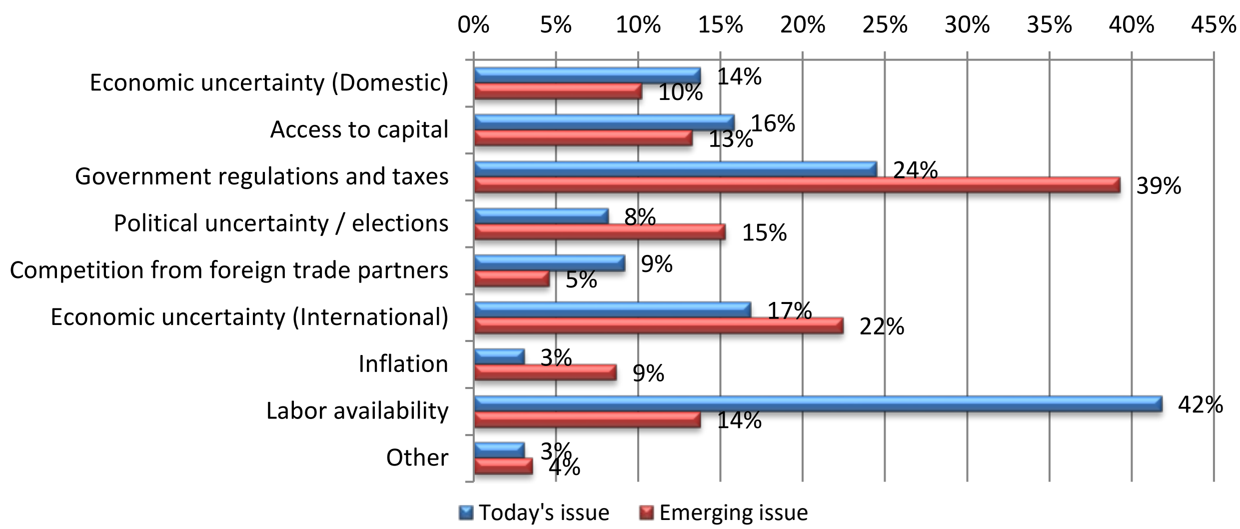


Figure 91. Company Specific Risk Premiums by Revenue Size



Respondents believe labor availability is the most important issue facing privately-held businesses today.

Figure 92. Issues Facing Privately-Held Businesses



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

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/ decrease**
Number of engagements	4%	14%	32%	37%	13%	50%	18%	**32%**
Time to complete a typical appraisal	1%	10%	64%	21%	5%	25%	10%	**15%**
Fees for services	0%	3%	52%	43%	2%	45%	3%	**42%**
Competition	0%	4%	64%	27%	6%	32%	4%	**29%**
Cost of capital	0%	9%	43%	47%	1%	48%	9%	**39%**
Market (equity) risk premiums	0%	8%	67%	25%	1%	25%	8%	**17%**
Discounts for lack of marketability (DLOM)	0%	5%	88%	7%	0%	7%	5%	**1%**
Company specific risk premiums	1%	6%	80%	12%	2%	13%	7%	**6%**
General business conditions	1%	15%	46%	32%	6%	38%	16%	**22%**
Appetite for risk	2%	19%	50%	28%	2%	29%	20%	**9%**

Respondents expect worsening business conditions in the next twelve months.

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/ decrease**
Number of engagements	1%	10%	43%	37%	8%	2%	11%	**-9%**
Time to complete a typical appraisal	1%	9%	73%	13%	3%	1%	9%	**-8%**
Fees for services	0%	5%	48%	44%	1%	3%	5%	**-3%**
Competition	0%	2%	65%	28%	4%	3%	2%	**1%**
Cost of capital	1%	2%	47%	47%	2%	2%	3%	**-1%**
Market (equity) risk premiums	1%	6%	58%	30%	2%	4%	6%	**-3%**
Discounts for lack of marketability (DLOM)	1%	1%	83%	9%	1%	7%	2%	**5%**
Company specific risk premiums	1%	1%	66%	27%	2%	4%	2%	**2%**
General business conditions	1%	32%	45%	20%	1%	2%	32%	**-31%**
Appetite for risk	2%	27%	53%	13%	1%	4%	29%	**-24%**

BROKER SURVEY INFORMATION

Approximately 63% of the 319 participants for the broker survey said they expect to close between three and six deals in the next 12 months.

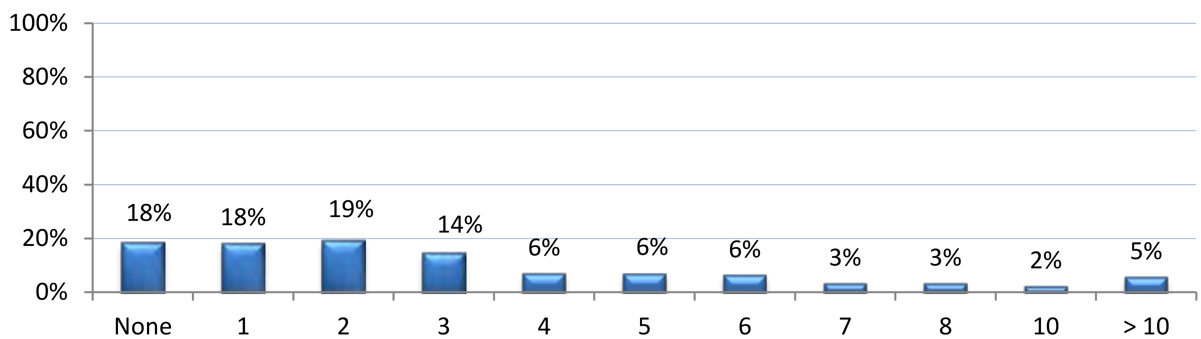
Other key findings include:

- 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.
- 4% of respondents closed more deals in 2018 than in 2017.

Operational and Assessment Characteristics

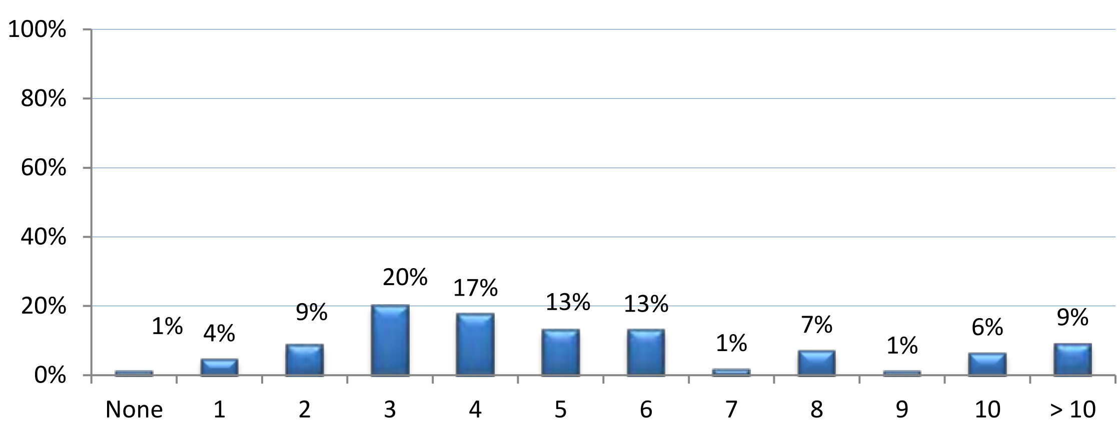
Approximately 18% of the respondents didn't close any deal in the last twelve months; 51% closed between one to three deals, while 31% closed four or more transactions.

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



Approximately 63% of respondents are planning to close between three and six business sales transactions in the next 12 months.

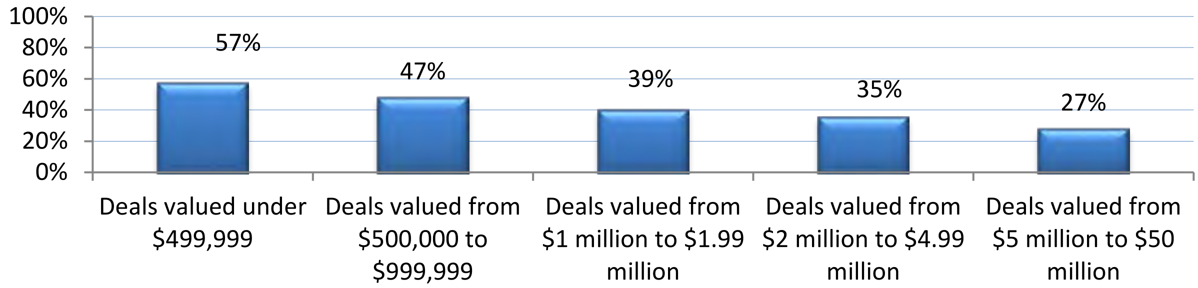
Figure 94. Private Business Sales Transactions Expected to Close in the Next Twelve Months



BROKER cont.

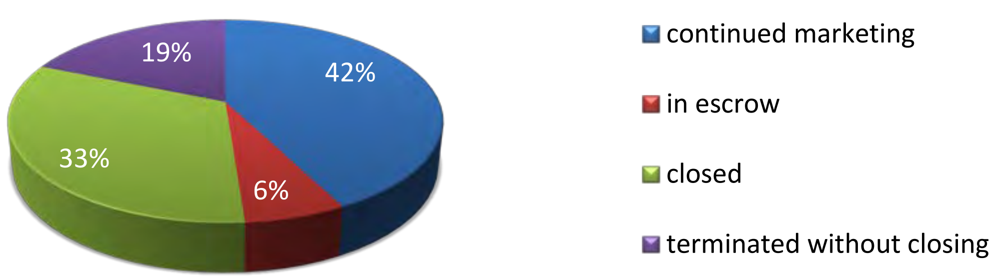
Respondents indicated typical sizes of transactions they are currently working on.

Figure 95. Typical Size of Business Transactions



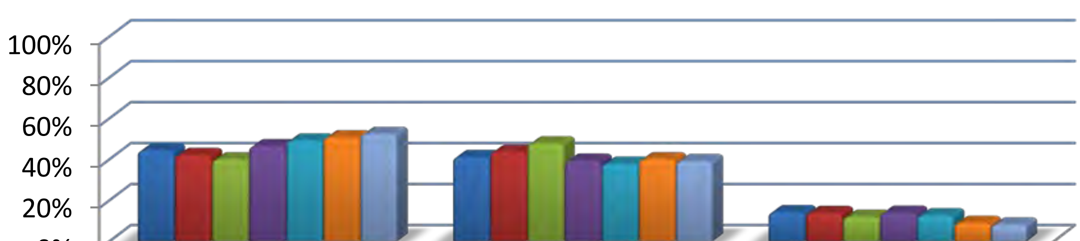
Respondents indicate out of all business transactions they worked on in the last 12 months 33% were closed, 42% are continued marketing, 6% are in escrow and 19% were terminated without closing.

Figure 96. Business Transactions in the Last 12 Months



Nearly 44% of respondents closed more transactions in 2018 than in 2017, 14% of respondents closed equal amount.

Figure 97. Did Respondents Close More Transactions in 2018 than in Previous Years



	Yes	No	Equal amount
2017	44%	41%	14%
2016	42%	44%	14%
2015	40%	48%	12%
2014	46%	39%	14%
2013	49%	38%	13%
2012	51%	40%	9%
2011	52%	39%	8%

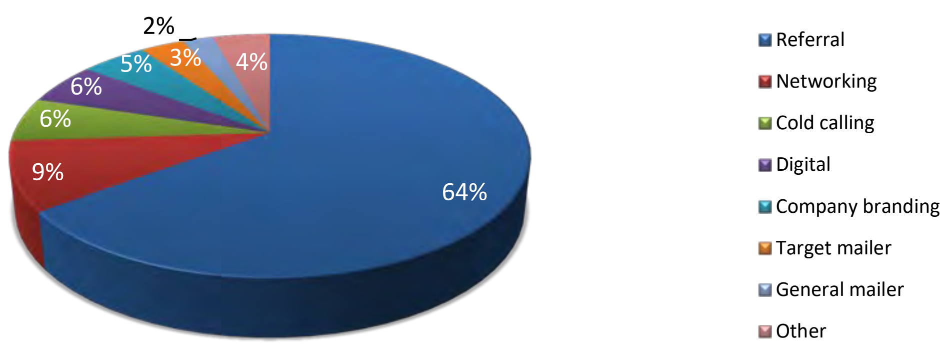
Respondents indicate difficulty to arrange senior debt for transactions with annual revenues under $100 thousands.

Table 50. 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	30%	14%	9%	23%	11%	5%	8%	**-0.8**
$500K	5%	10%	18%	18%	25%	15%	8%	**0.3**
$1M	3%	5%	13%	17%	27%	22%	13%	**0.8**
$5M	1%	3%	18%	14%	23%	29%	12%	**0.9**
$10M	2%	6%	13%	19%	32%	21%	8%	**0.7**
$15M	0%	3%	6%	25%	25%	28%	13%	**1.1**
$25M+	0%	7%	11%	18%	21%	32%	11%	**0.9**

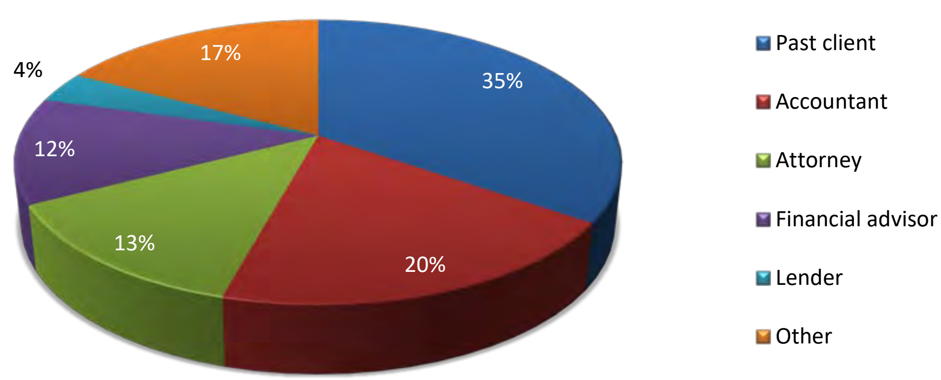
Approximately 64% of respondents indicate best clients arrived by referrals.

Figure 98. Best Client Arrived By:



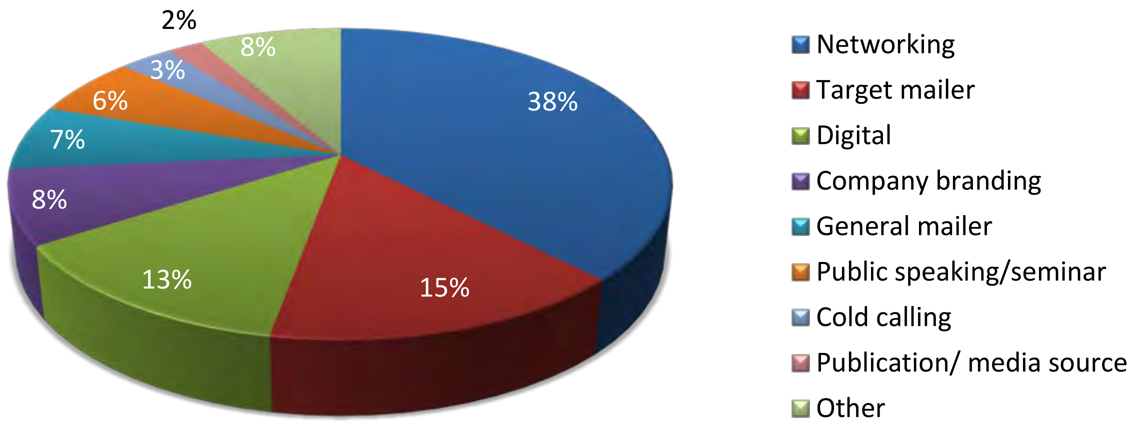
Nearly 35% of referrals were past clients.

Figure 99. Types of Referrals



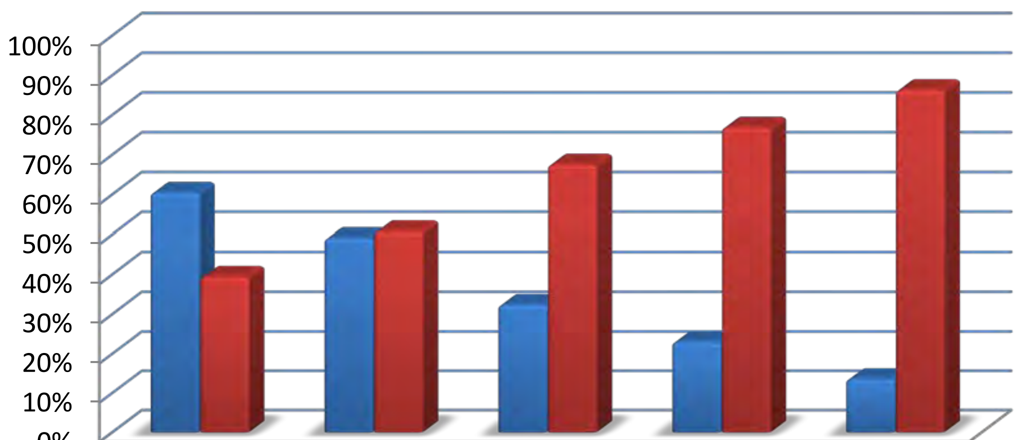
BROKER cont.

Figure 100. Best Marketing Tactic Use in Finding Client Besides Referral



Approximately 61% of respondents indicated it was 'buyer's market' for deals valued under $500 thousands, whereas only 14% of respondents indicated it was 'buyer's market' for deals valued between $5 million and $50 million.

Figure 101. Was It Buyer's or Seller's Market in the Last 3 Months



	Deals valued under $499,999	Deals valued from $500,000 to $999,999	Deals valued from $1 million to $1.99 million	Deals valued from $2 million to $4.99 million	Deals valued from $5 million to $50 million
Buyer's market	61%	49%	32%	23%	14%
Seller's market	40%	51%	68%	77%	86%

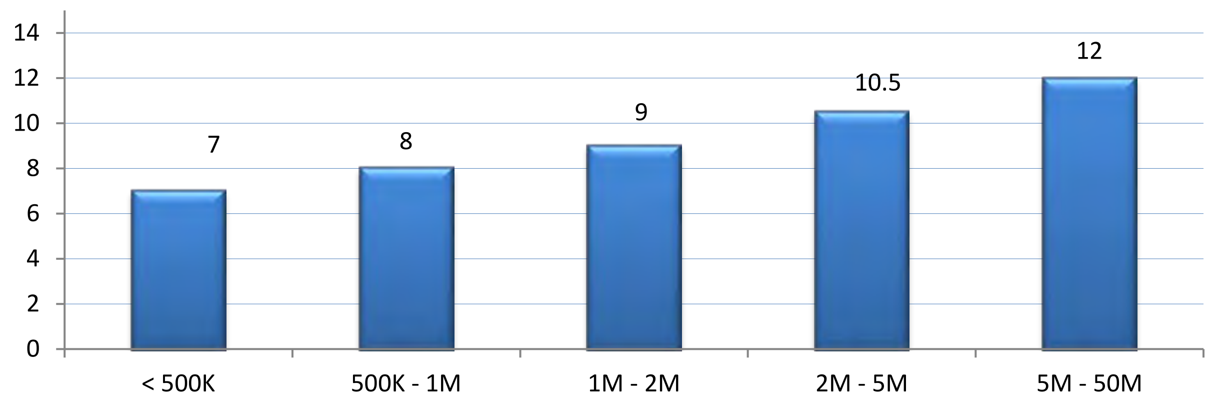
BROKER cont.

Table 51. 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	5%	13%	50%	29%	2%	3.1
Deals valued from $500,000 to $999,999	2%	10%	56%	32%	0%	3.2
Deals valued from $1 million to $1.99 million	1%	12%	54%	31%	1%	3.2
Deals valued from $2 million to $4.99 million	3%	5%	62%	27%	3%	3.2
Deals valued from $5 million to $50 million	0%	5%	69%	24%	2%	3.2

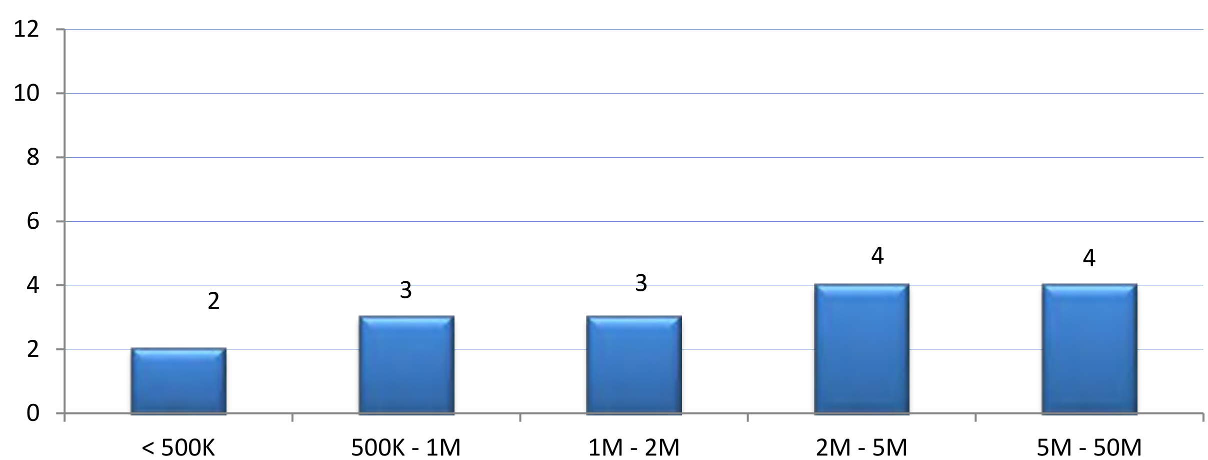
Median number of months from listing / engagement to close varies from 7 to 12 months.

Figure 102. 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 4 months.

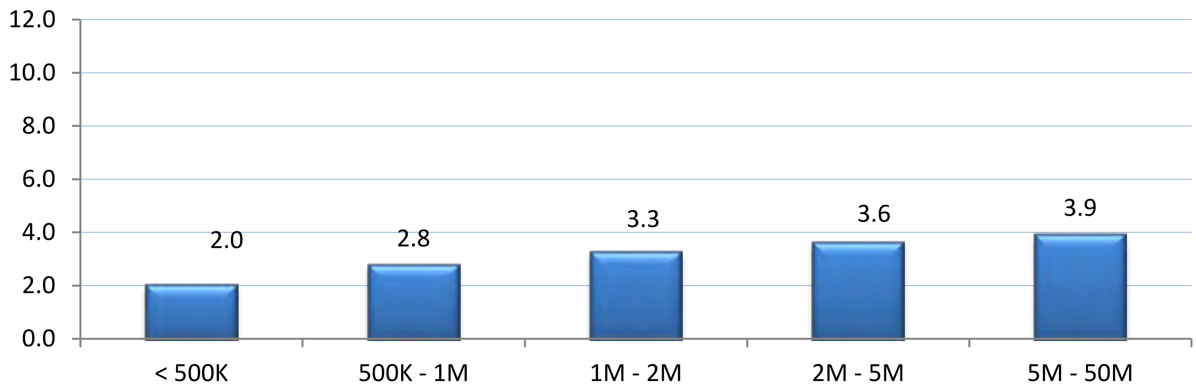
Figure 103. Median Number of Months from LOI / Offer to Close by Deal Size



BROKER cont.

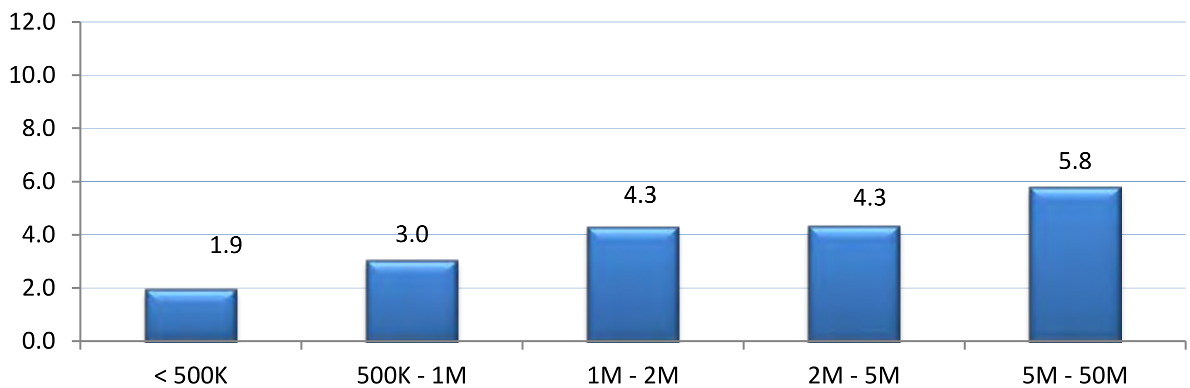
Median SDE multiple paid varies between 2 and 3.9.

Figure 104. Median SDE Multiple Paid by Deal Size



Median EBITDA multiple paid varies between 1.9 and 5.8.

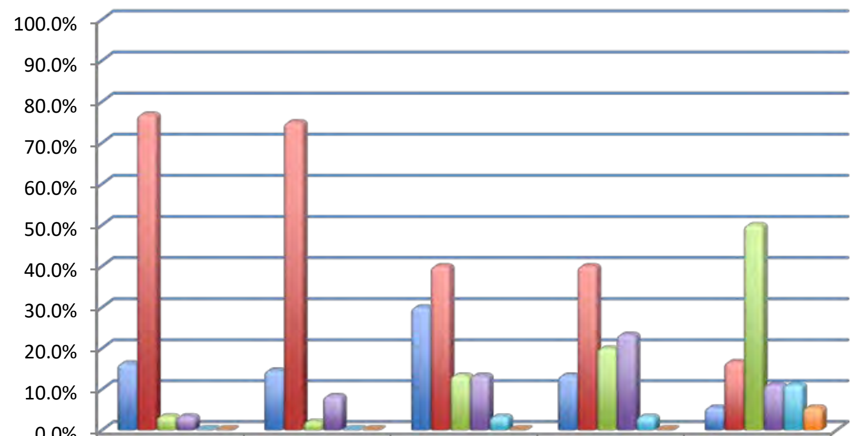
Figure 105. Median EBITDA Multiple Paid by Deal Size



BROKER cont.

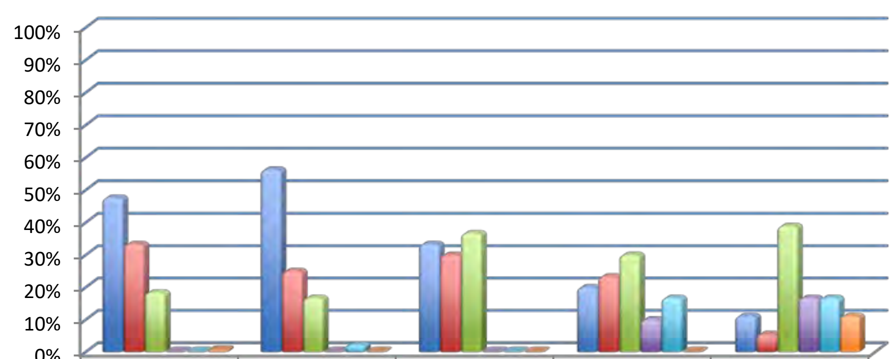
SDE not including working capital was the most popular multiple type used for deals valued under $5 million, while EBITDA including working capital was the most popular type for deals valued between $5 million and $50 million.

Figure 106. Multiple Types by Deal Size



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
SDE including working capital	16.3%	14.6%	30.0%	13.3%	5.6%
SDE not including working capital	76.9%	75.0%	40.0%	40.0%	16.7%
EBITDA including working capital	3.4%	2.1%	13.3%	20.0%	50.0%
EBITDA not including working capital	3.4%	8.3%	13.3%	23.3%	11.1%
TTM EBITDA including working capital	0.0%	0.0%	3.3%	3.3%	11.1%
TTM EBITDA not including working capital	0.0%	0.0%	0.0%	0.0%	5.6%

Figure 107. Buyer Type by Deal Size

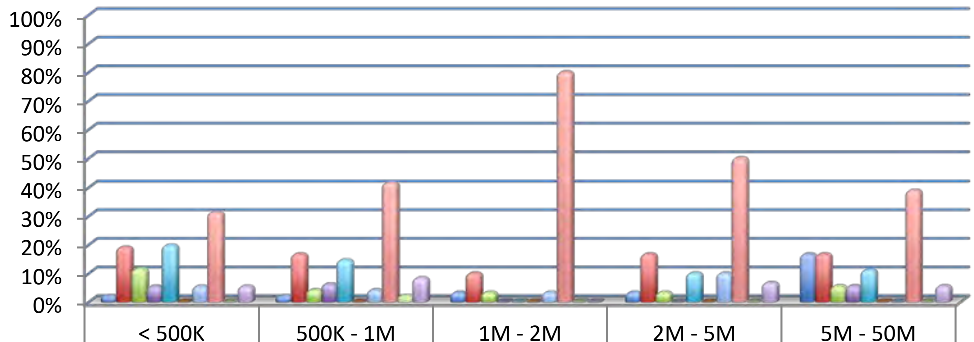


	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
1st time individual	48%	56%	33%	20%	11%
individual who owned a business	33%	25%	30%	23%	6%
existing company/strategic buyer	18%	17%	37%	30%	39%
PE firm - Platform	0%	0%	0%	10%	17%
PE firm - Add-on	0%	2%	0%	17%	17%
Other	1%	0%	0%	0%	11%

BROKER cont.

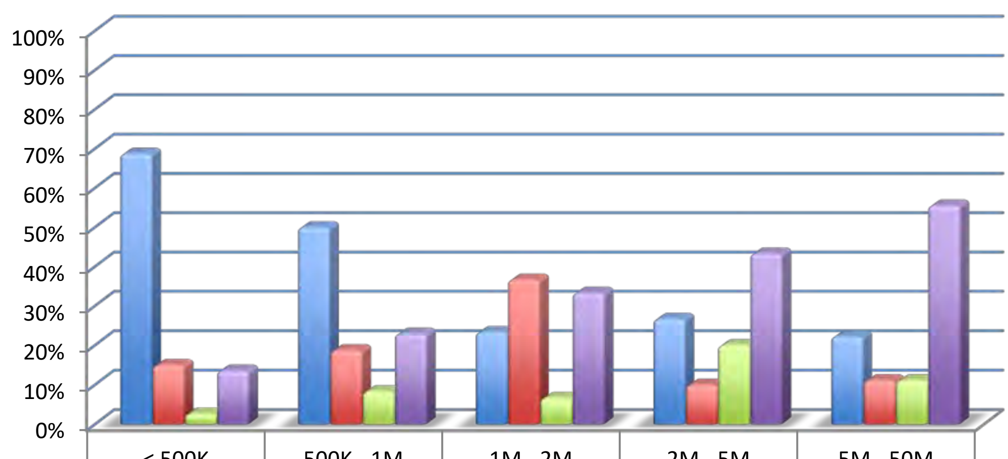
Reason number one for sellers to go to market was retirement.

Figure 108. Reason for Seller to Go to Market by deal Size



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
Recapitalization	2%	2%	3%	3%	17%
Burnt out	19%	17%	10%	17%	17%
Family issues	12%	4%	3%	3%	6%
Health	5%	6%	0%	0%	6%
New opportunity	20%	15%	0%	10%	11%
Potential taxes increases	0%	0%	0%	0%	0%
Relocation/moving	5%	4%	3%	10%	0%
Retirement	31%	42%	80%	50%	39%
Unsolicited offer	0%	2%	0%	0%	0%
Other	5%	8%	0%	7%	6%

Figure 109. Buyer Location by Deal Size

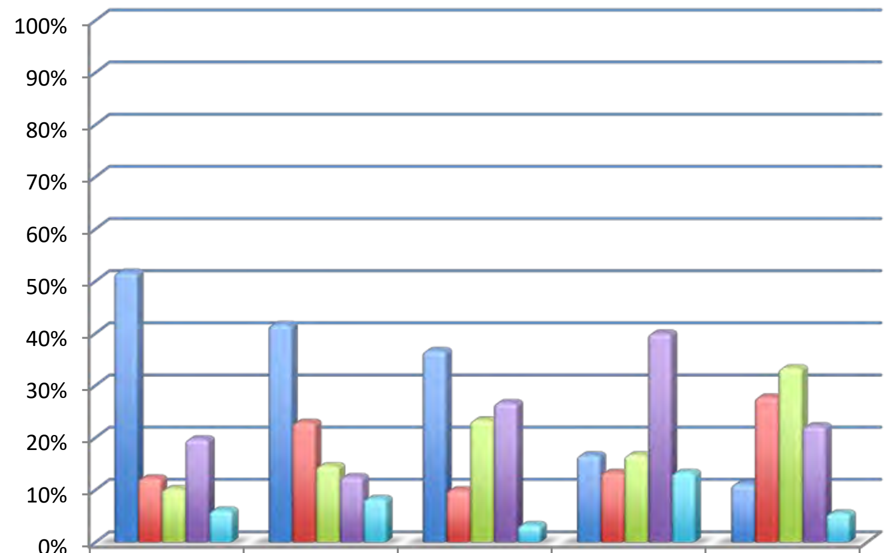


	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
within 20 miles	68.7%	50.0%	23.3%	26.7%	22.2%
within 50 miles	15.0%	18.8%	36.7%	10.0%	11.1%
within 100 miles	2.7%	8.3%	6.7%	20.0%	11.1%
more than 100 miles	13.6%	22.9%	33.3%	43.3%	55.6%

BROKER cont.

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

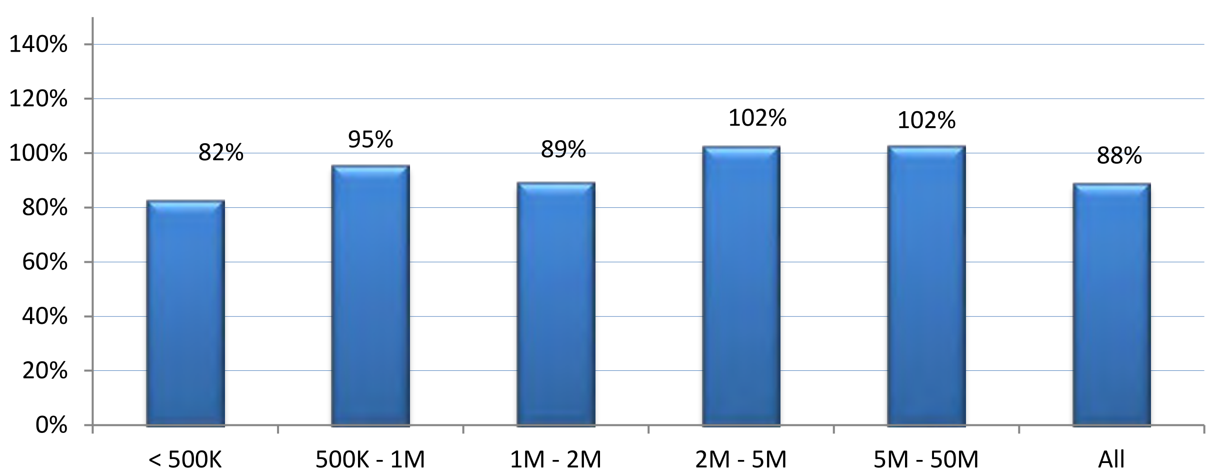
Figure 110. Number One Motivation for Buyer by Deal Size



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
Buying a job	52%	42%	37%	17%	11%
Better ROI than other investment	12%	23%	10%	13%	28%
Vertical add-on	10%	15%	23%	17%	33%
Horizontal add-on	20%	13%	27%	40%	22%
Other	6%	8%	3%	13%	6%

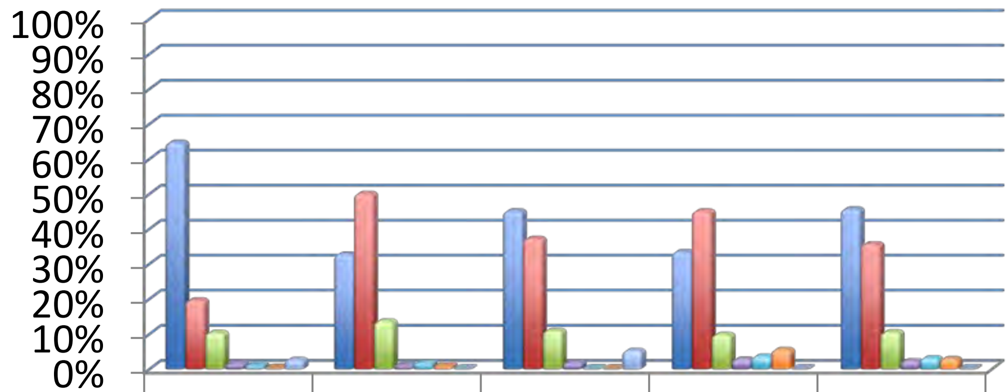
Average percentage of final/ selling price realized to asking/ benchmark price was 88%.

Figure 111. Median Percentage of Final/ Selling Price Realized to Asking/ Benchmark Price by Deal Size



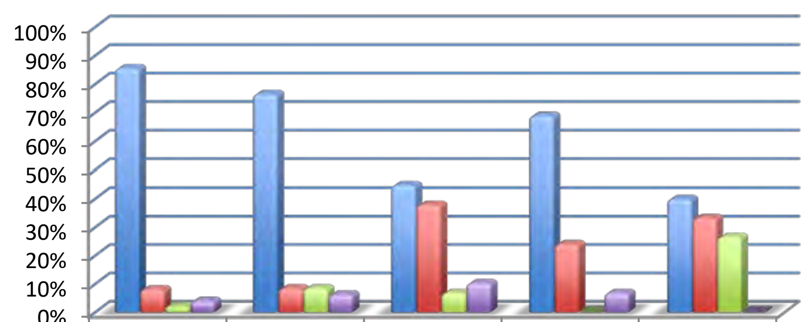
BROKER cont.

Figure 112. Financing Structure by Deal Size



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
Buyers equity	65%	33%	45%	33%	46%
Senior debt	20%	50%	37%	45%	36%
Seller financing	10%	14%	11%	10%	11%
Earn out	1%	1%	2%	3%	2%
Seller retained equity	1%	2%	0%	4%	3%
Mezzanine financing	0%	1%	0%	5%	3%
Other	3%	0%	5%	0%	0%

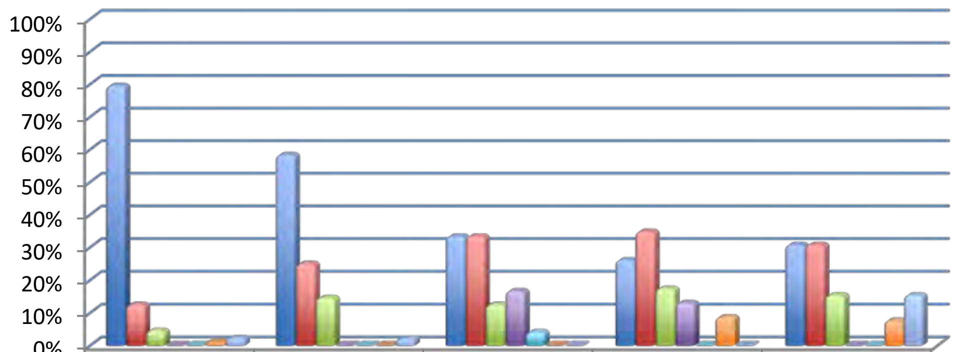
Figure 113. Exit Planning



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
None - no formal planning prior to engagement to sell	86%	77%	45%	69%	40%
Met with an advisor (Wealth, CPA, Attorney) INCLUDING Broker for retirement needs prior to engaging broker	8%	9%	38%	24%	33%
Met with an advisor (Wealth, CPA, Attorney) for retirement needs prior to engaging broker (EXCLUDED Broker)	2%	9%	7%	0%	27%
N/A Represented Buyer	4%	6%	10%	7%	0%

BROKER cont.

Figure 114. Amount of Exit Planning Prior to Marketing Business



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
none	80%	58%	33%	26%	31%
less than 1 year	13%	25%	33%	35%	31%
between 1 and 2 years	5%	15%	13%	17%	15%
between 2 and 3 years	0%	0%	17%	13%	0%
between 3 and 5 years	0%	0%	4%	0%	0%
greater than 5 years	1%	0%	0%	9%	8%
N/A represented buyer	2%	2%	0%	0%	15%

Table 52. Expectations of Business Listings/ Engagements from New Clients in the Next 3 Months

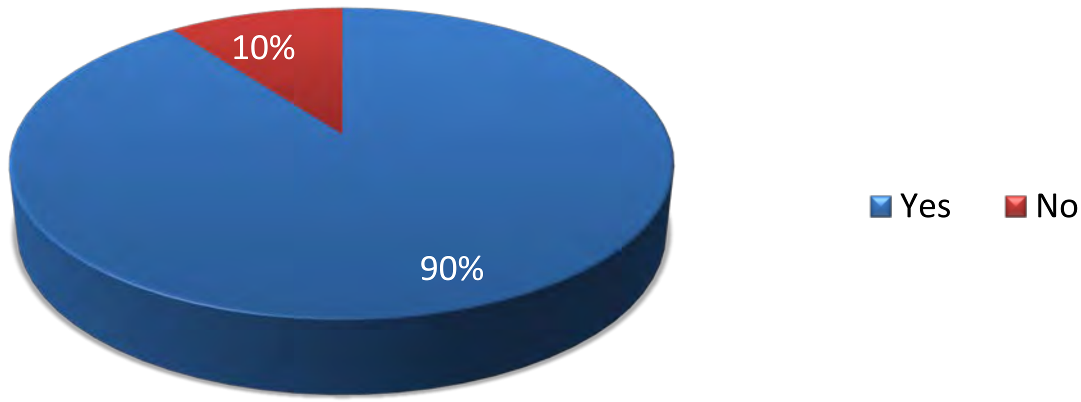
Deal size	Greatly decrease	Decrease	Stay the same	Increase	Greatly increase	Score (1 to 5)
Deals valued under $499,999	2.4%	6.8%	37.4%	49.5%	3.9%	3.5
Deals valued from $500,000 to $999,999	0.6%	2.3%	38.6%	55.7%	2.8%	3.6
Deals valued from $1 million to $1.99 million	0.6%	3.9%	37.4%	53.5%	4.5%	3.6
Deals valued from $2 million to $4.99 million	0.7%	2.2%	34.1%	57.0%	5.9%	3.7
Deals over $5 million	0.9%	5.4%	43.8%	46.4%	3.6%	3.5

Table 53. 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	1.0%	11.1%	85.6%	2.4%	0.0%	2.9
Deals valued from $500,000 to $999,999	0.0%	11.2%	81.6%	7.3%	0.0%	3.0
Deals valued from $1 million to $1.99 million	0.0%	12.7%	77.7%	8.9%	0.6%	3.0
Deals valued from $2 million to $4.99 million	0.0%	11.7%	75.2%	13.1%	0.0%	3.0
Deals over $5 million	0.0%	16.5%	70.4%	13.0%	0.0%	3.0

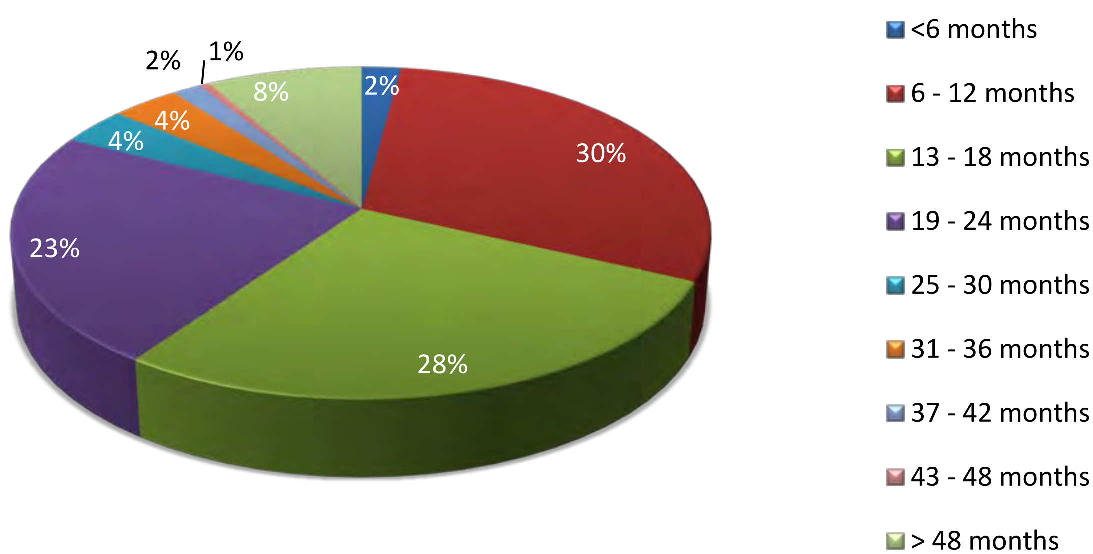
Approximately 90% of respondents agree with economists that we are in strong M&A market.

Figure 115. Do Respondents Agree with Economists That We Are in Strong M&A Market



Approximately 80% of respondents believe that the strong M&A market will last from six to twenty four months.

Figure 116. How Long Will the Strong M&A Market Last



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 worsening general business conditions.

Table 54. 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	7%	13%	41%	26%	13%	39%	20%	**20%**
Ratio of businesses sold / total listings	7%	13%	46%	26%	7%	33%	20%	**13%**
Deal multiples	1%	7%	69%	22%	1%	23%	8%	**15%**
Business exit opportunities	3%	9%	57%	25%	6%	31%	12%	**19%**
Amount of time to sell business	1%	14%	52%	26%	7%	33%	15%	**18%**
Difficulty selling business	2%	13%	55%	25%	4%	29%	16%	**13%**
Business opportunities for growth	1%	7%	60%	27%	5%	32%	8%	**24%**
General business conditions	2%	9%	49%	35%	5%	40%	11%	**28%**
Margin pressure on companies	1%	8%	63%	27%	2%	29%	9%	**20%**

Table 55. 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%	7%	33%	46%	13%	59%	8%	**51%**
Ratio of businesses sold / total listings	1%	7%	43%	39%	10%	49%	8%	**41%**
Deal multiples	0%	16%	66%	17%	1%	18%	16%	**2%**
Business exit opportunities	0%	8%	60%	30%	3%	33%	8%	**25%**
Amount of time to sell business	0%	9%	63%	25%	4%	28%	9%	**19%**
Difficulty selling business	1%	11%	60%	25%	3%	28%	12%	**17%**
Business opportunities for growth	1%	11%	58%	28%	3%	31%	11%	**20%**
General business conditions	2%	30%	45%	20%	2%	23%	32%	**-9%**
Margin pressure on companies	0%	8%	58%	30%	3%	33%	8%	**25%**

FACTOR SURVEY INFORMATION

Approximately 52% 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 66% of factoring facilities have less than or equal to 12 months term.

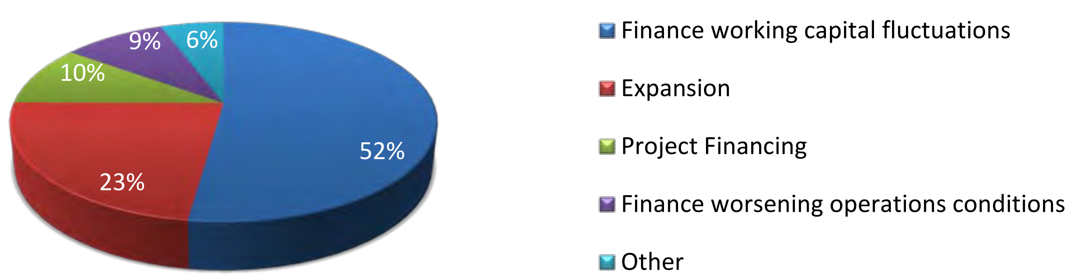
Other key findings include:

- Respondents reported approximately 21% of their company's gross invoices over the last twelve months were originated from wholesale & distribution, another 21% of respondents originated gross invoices from manufacturing.
- When asked about conditions compared to twelve months ago respondents said they saw increased demand for business factoring lines in the last 12 months, flat general business conditions and decreased interest rates.
- Respondents believe access to capital, government regulations and taxes, domestic economic uncertainty and labor availability are the most important issues facing privately-held businesses today. 56% of respondents believe domestic economic uncertainty is the most important emerging issue.

Operational and Assessment Characteristics

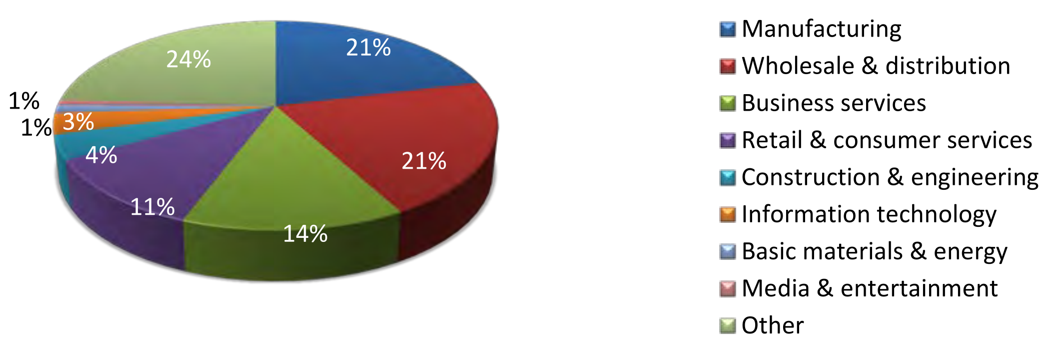
Approximately 52% of respondents indicated working capital fluctuations as the primary uses of factoring facilities.

Figure 117. Primary Use of the Factoring Facilities Over the Last 12 Months



Respondents reported approximately 21% of their company's gross invoices over the last twelve months were originated from wholesale & distribution, another 21% of respondents originated gross invoices from manufacturing.

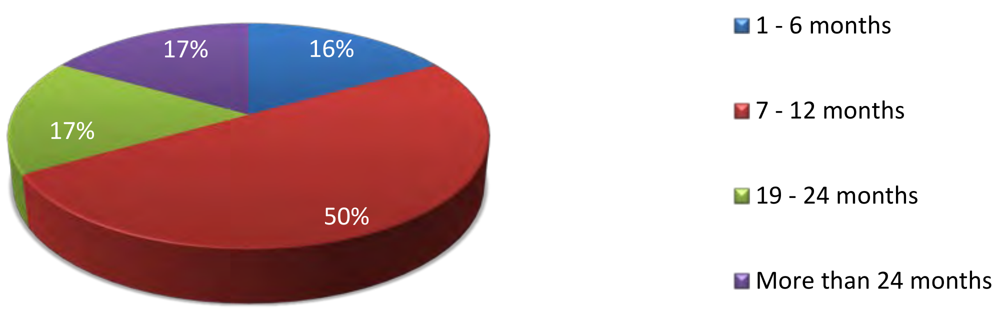
Figure 118. Industries for Gross Invoices for the Last 12 Months



FACTOR cont.

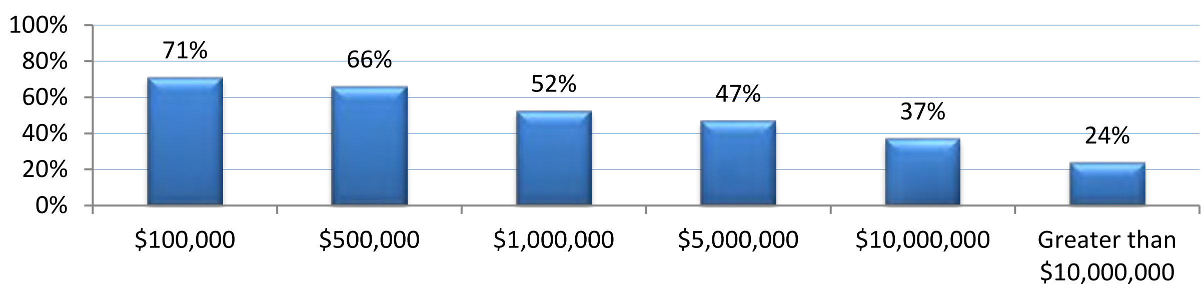
Factoring facilities are relatively short-term compared to other investments with respondents reporting approximately 66% of factoring facilities have less than or equal to 12 months term.

Figure 119. Term of Current Typical Factoring Facility



Respondents reported average advance rates charged for various-sized facilities range from 24% to 71% on a monthly basis.

Figure 120. Current Average Advance Rates for Various-Sized Facilities



Nearly 89% of respondents charge wire transfer / ACH fee, while 39% of respondents charge due diligence fee.

Table 56. Fees Charged

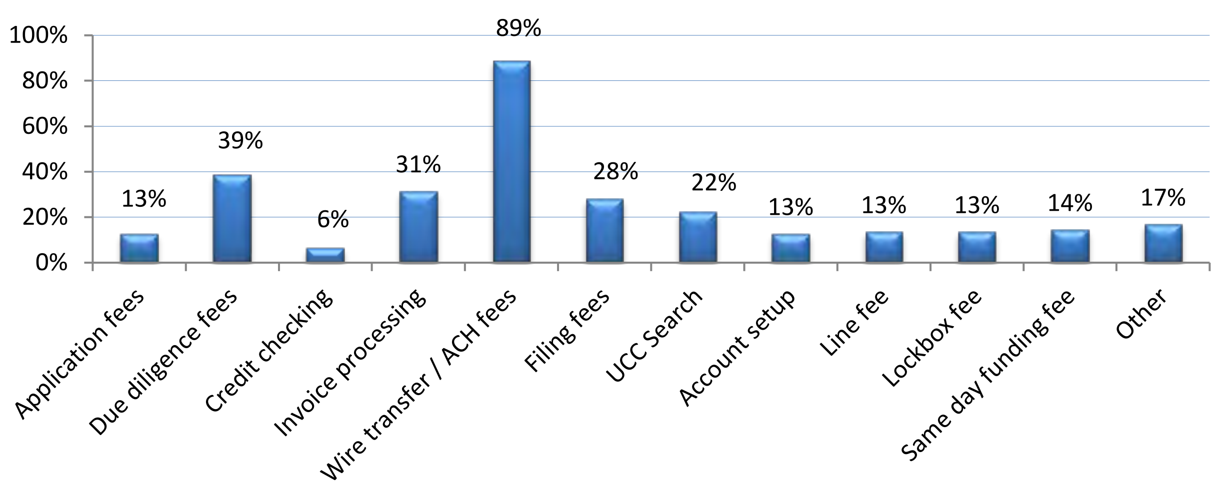


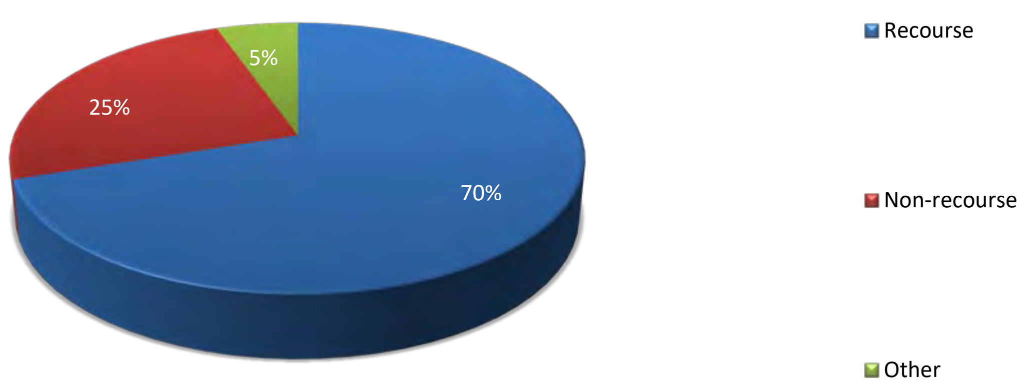
Table 57. Median Percentage or Amount Charged

	Percentage	or Amount
Application fees		$250
Due diligence fees		$300
Credit checking		$175
Invoice processing	1.0%	
Wire transfer / ACH fees		$23
Filing fees		$100
UCC Search		$100
Account setup		$350
Line fee	1.0%	
Lockbox fee		$100
Same day funding fee		$33

Table 58. Spread (%)

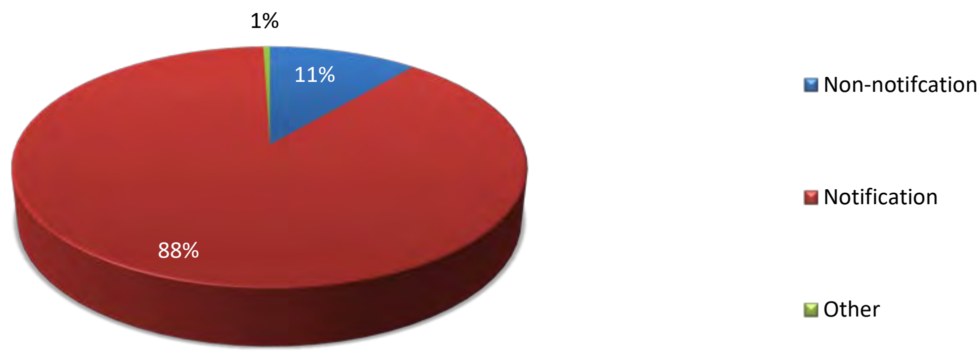
	1st quartile	Median	3rd quartile
Tied to prime	2.0%	2.0%	3.5%

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



Respondents reported 88% 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 59. Typical Current Requirements

Requirement	%
Lien on A/R assets	81%
Background check	100%
Personal guarantee	100%
Financial statements	94%
Lien on all assets	64%
Performance guarantee	75%
Audit	33%

Table 60. 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
First 30 days									
1st quartile	2.0%	2.0%	1.9%	1.5%	1.3%	1.0%	0.8%	0.6%	0.4%
Median	2.5%	2.5%	2.5%	2.0%	1.5%	1.1%	0.9%	0.8%	0.5%
3rd quartile	2.9%	2.8%	2.6%	2.1%	2.0%	1.6%	1.0%	0.8%	0.6%
Next 15 days (31-45)									
1st quartile	1.3%	1.0%	1.0%	0.9%	0.8%	0.6%	0.6%	0.5%	0.3%
Median	1.5%	1.5%	1.5%	1.5%	1.3%	1.0%	0.8%	0.5%	0.3%
3rd quartile	1.9%	1.9%	1.8%	1.6%	1.5%	1.4%	1.0%	0.5%	0.3%
Next 15 days (46-60)									
1st quartile	1.3%	1.0%	1.0%	0.9%	0.9%	0.6%	0.6%	0.5%	0.3%
Median	1.5%	1.4%	1.5%	1.5%	1.4%	1.0%	0.9%	0.5%	0.3%
3rd quartile	2.1%	1.9%	1.8%	1.6%	1.6%	1.4%	1.0%	0.5%	0.3%

On average respondents expect 1% of total write-off.

Table 61. Expected Total Write-off – Percentage of Receivables Purchased on New Arrangements (%)

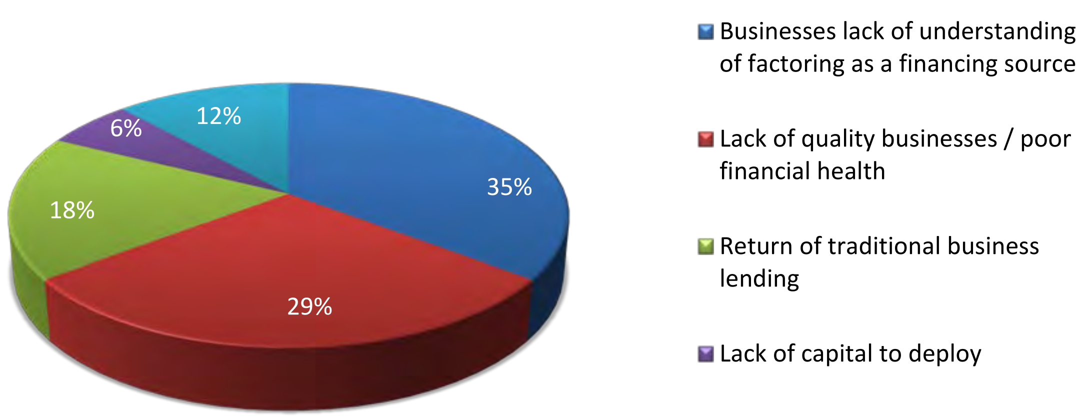
	1st quartile	Median	3rd quartile
Expected total write-off	0.5%	1.0%	1.8%

Table 62. Average Number of Days Outstanding Receivables

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

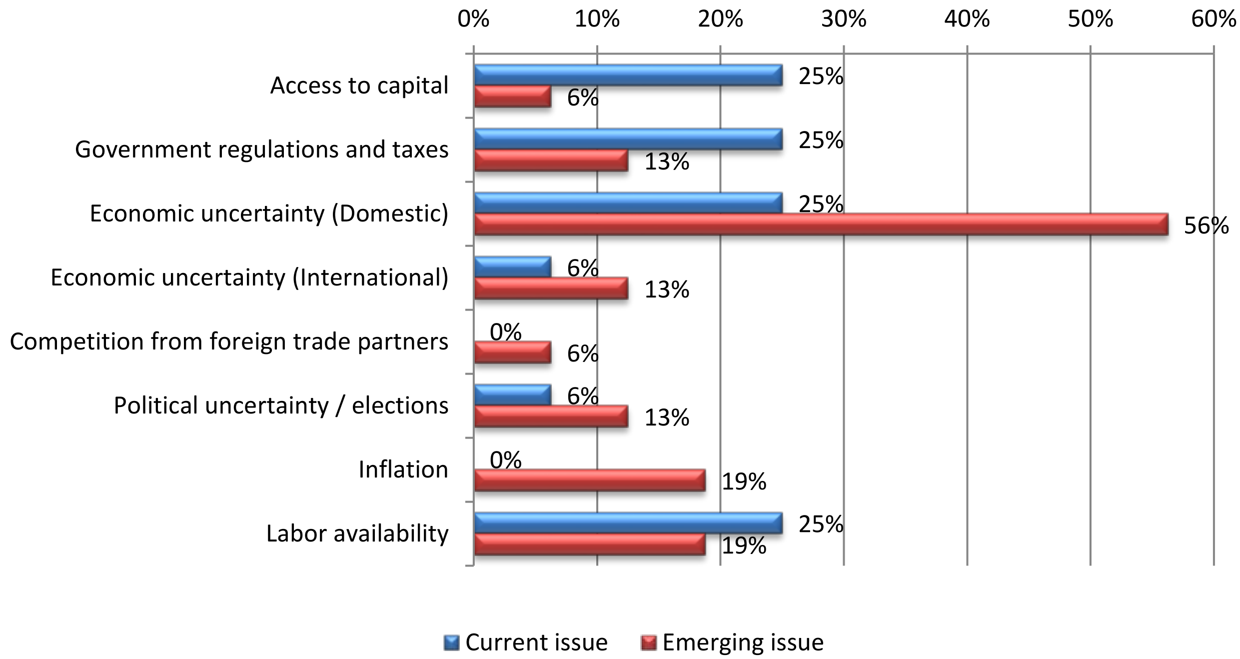
According to the 35% of respondents, the most significant concern to factoring business is businesses lack of understanding of factoring as a financing source.

Figure 123. Most Significant Concern to Factoring Business



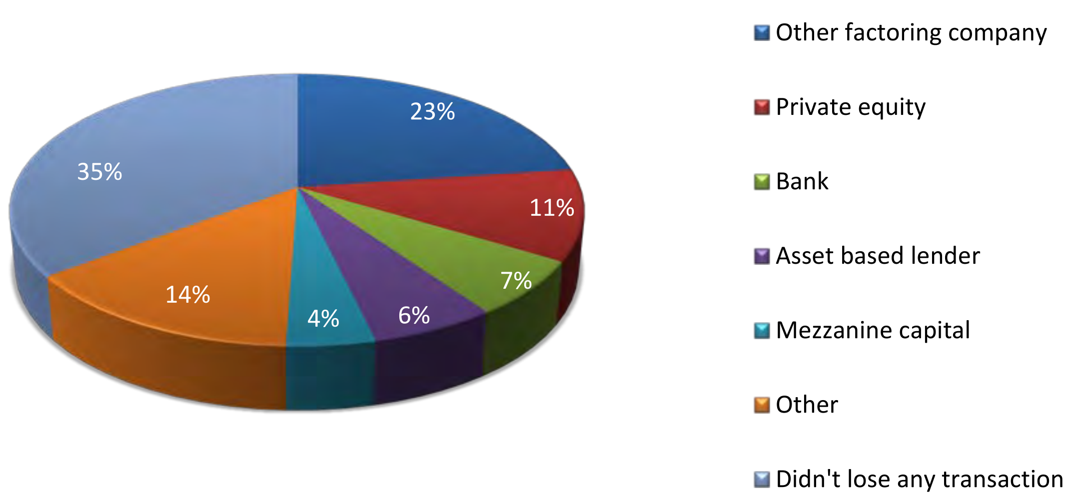
Respondents believe access to capital, government regulations and taxes, domestic economic uncertainty and labor availability are the most important issues facing privately-held businesses today. 56% of respondents believe domestic economic uncertainty is the most important emerging issue.

Figure 124. Issues Facing Privately-Held Businesses



35% of respondents didn't lose any transactions in the last twelve months.

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



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

Table 63. 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)	6%	6%	38%	50%	0%	50%	13%	**38%**
Credit Quality of Borrowers Applying for Credit	0%	38%	44%	19%	0%	19%	38%	**-19%**
Time to Process Facility	13%	13%	63%	13%	0%	13%	25%	**-13%**
Average Facility Size	0%	19%	25%	44%	13%	56%	19%	**38%**
Average Facility Term (Months)	0%	6%	63%	31%	0%	31%	6%	**25%**
Size of Interest Rate Spreads (pricing)	0%	33%	53%	13%	0%	13%	33%	**-20%**
Fees	0%	25%	56%	19%	0%	19%	25%	**-6%**
Standard advance rates on receivables	0%	0%	75%	19%	6%	25%	0%	**25%**
General business conditions	0%	31%	38%	31%	0%	31%	31%	**0%**

Respondents expect further increases in demand for business factoring lines, decreasing credit quality of borrowers and flat interest rates.

Table 64. 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%	19%	38%	31%	69%	13%	**56%**
Credit Quality of Borrowers Applying for Credit	6%	31%	44%	13%	6%	19%	38%	**-19%**
Time to Process Facility	0%	6%	75%	13%	6%	19%	6%	**13%**
Average Facility Size	0%	0%	50%	38%	13%	50%	0%	**50%**
Average Facility Term (Months)	0%	6%	63%	19%	13%	31%	6%	**25%**
Size of Interest Rate Spreads (pricing)	0%	33%	27%	40%	0%	40%	33%	**7%**
Fees	0%	19%	56%	25%	0%	25%	19%	**6%**
Standard advance rates on receivables	0%	13%	63%	25%	0%	25%	13%	**13%**
General business conditions	6%	19%	50%	19%	6%	25%	25%	**0%**

EQUIPMENT LEASING SURVEY INFORMATION

Approximately 21% of 26 respondents to the equipment leasing survey expect to have lease agreements executed to manufacturing industry, followed by construction & engineering (19%) and health care & biotech (14%). 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.

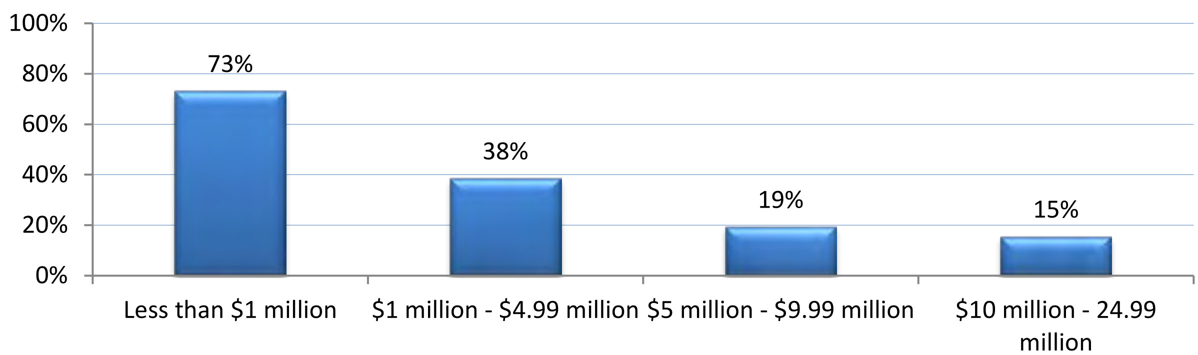
Other key findings include:

- Respondents indicated range of annualized expected returns from leases booked during the past 12 months between 6% and 14% depending on lease size and equipment type.
- When asked about conditions compared to twelve months ago nearly 69% of respondents said they saw increased demand for business leases in the last 12 months. Approximately 56% of equipment leasing companies indicated improved general business conditions in the last twelve months.
- Nearly 38% of respondents believe domestic economic uncertainty is the most important issue facing privately-held businesses today, followed by access to capital (31%) and political uncertainty/ elections (27%).

Operational and Assessment Characteristics

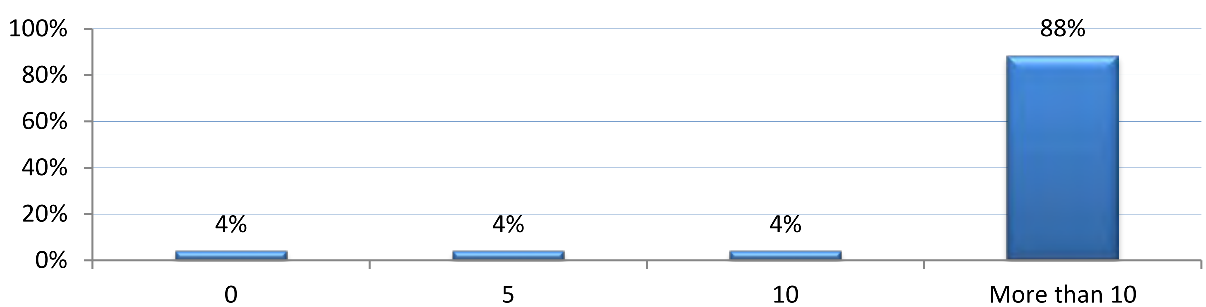
Approximately 73% of respondents book lease agreements less than $1 million.

Figure 126. Typical Size of Business Leases



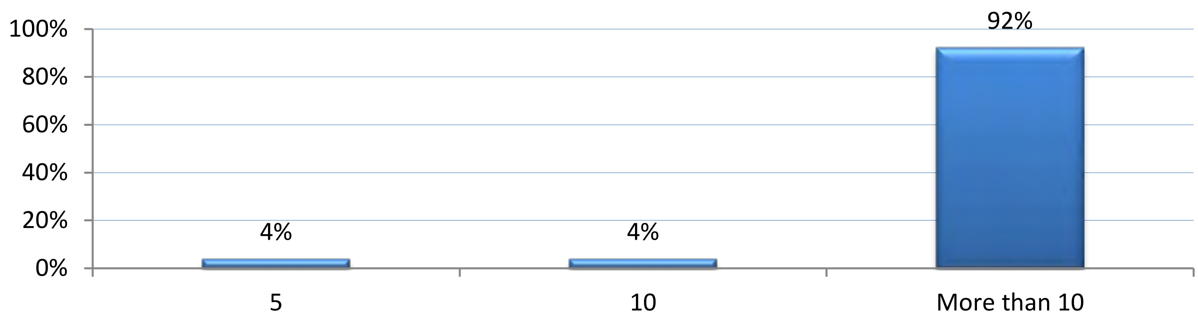
Nearly 88% of respondents booked more than 10 leases in the last 12 months.

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

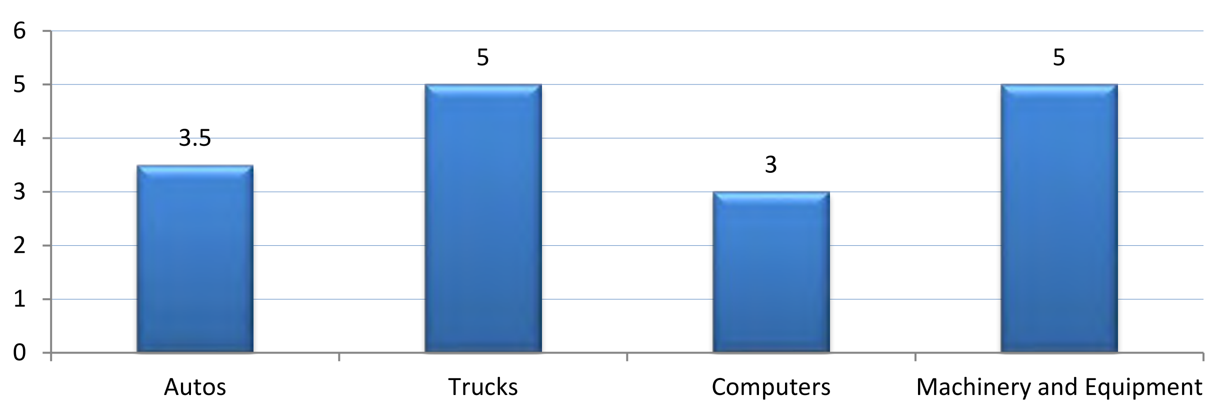


Approximately 21% of 26 respondents to the equipment leasing survey expect to have lease agreements executed to manufacturing industry, followed by construction & engineering (19%) and health care & biotech (14%).

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)



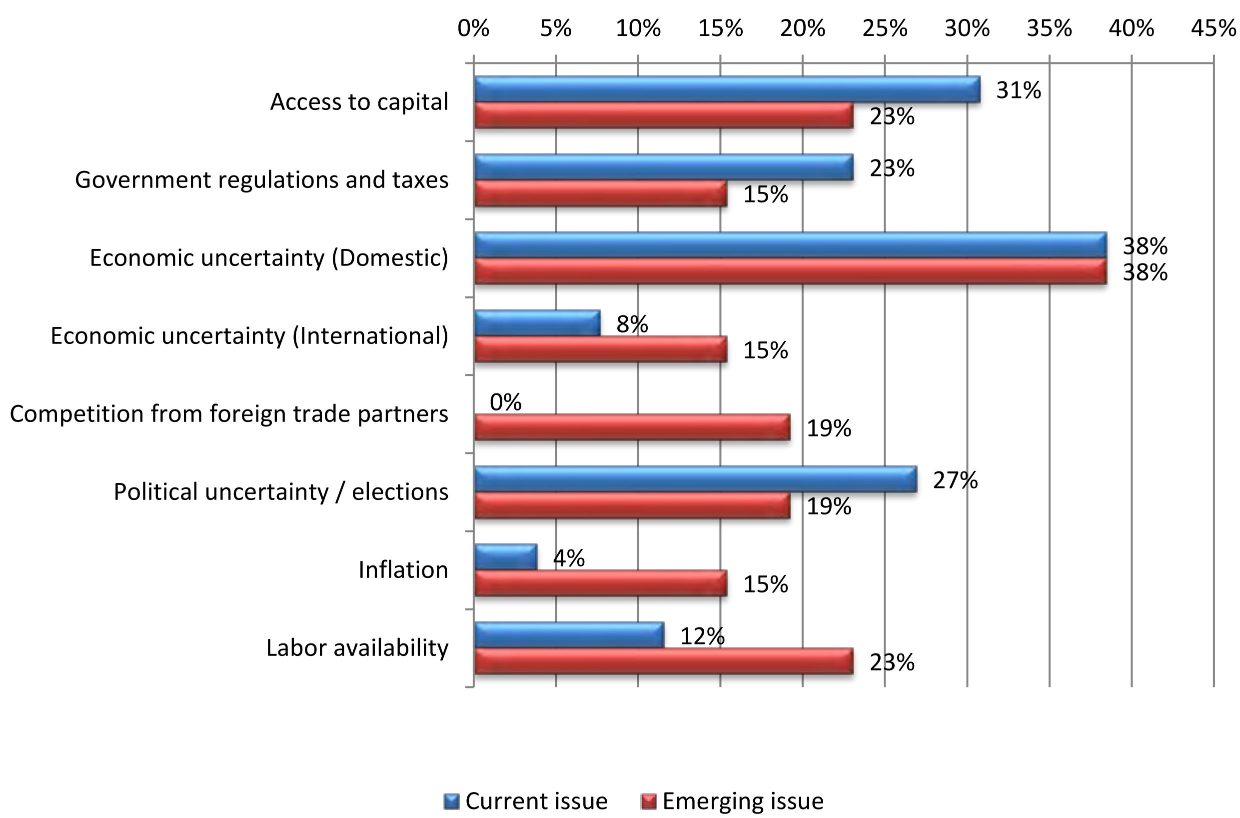
Respondents indicated range of annualized expected returns from leases booked during the past 12 months between 6% and 14% depending on lease size and equipment type.

Table 65. Annualized Expected Returns from Leases Booked during the Past 12 Months

Lease size	Autos	Trucks	Computers	Machinery and equipment
less than $100K	14.0%	10.0%	10.0%	10.0%
$100K - $499K	10.0%	10.0%	10.0%	9.0%
$500K - $999K	10.0%	9.0%	10.0%	8.0%
$1M - $4.99M	9.0%	8.0%	9.0%	7.5%
$5M - $9.99M	n/a	5.5%	7.0%	7.0%
$10M - $24.99M	n/a	5.5%	7.0%	6.0%

Nearly 38% of respondents believe domestic economic uncertainty is the most important issue facing privately-held businesses today, followed by access to capital (31%) and labor political uncertainty / elections (27%).

Figure 131. Issues Facing Privately-Held Businesses



When asked about conditions compared to twelve months ago nearly 69% of respondents said they saw increased demand for business leases in the last 12 months. Approximately 56% of equipment leasing companies indicated improved general business conditions in the last twelve months.

Table 66. 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	0%	0%	31%	50%	19%	69%	0%	**69%**
General lease qualification standards	0%	15%	50%	31%	4%	35%	15%	**19%**
Quality of Companies Seeking Leases	0%	12%	35%	46%	8%	54%	12%	**42%**
Average Lease Size	0%	4%	35%	58%	4%	62%	4%	**58%**
Expected Investment Holding Period	0%	0%	80%	16%	4%	20%	0%	**20%**
Expected returns on new investments	0%	12%	62%	23%	4%	27%	12%	**15%**
Size of equipment leasing industry	0%	8%	31%	54%	8%	62%	8%	**54%**
General business conditions	0%	24%	20%	52%	4%	56%	24%	**32%**
Appetite for Risk	0%	19%	31%	46%	4%	50%	19%	**31%**

Table 67. 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%	8%	31%	50%	12%	62%	8%	**54%**
General lease qualification standards	0%	8%	46%	46%	0%	46%	8%	**38%**
Quality of Companies Seeking Leases	0%	4%	58%	27%	12%	38%	4%	**35%**
Average Lease Size	0%	8%	54%	31%	8%	38%	8%	**31%**
Expected Investment Holding Period	0%	4%	68%	24%	4%	28%	4%	**24%**
Expected returns on new investments	0%	12%	35%	50%	4%	54%	12%	**42%**
Size of equipment leasing industry	0%	12%	42%	42%	4%	46%	12%	**35%**
General business conditions	4%	23%	31%	38%	4%	42%	27%	**15%**
Appetite for Risk	0%	36%	28%	32%	4%	36%	36%	**0%**

BUSINESS OWNER SURVEY INFORMATION

Of the 560 privately-held businesses that responded to the survey, 12% had businesses that involved professional, scientific or technical services, 10% were in business services, 9% were in manufacturing and another 9% were in information technology and services. Approximately 75% of businesses have annual revenues less than $5 million. Nearly 88% of business owners report having the enthusiasm to execute growth strategies, yet just 52% report having the necessary financial resources to successfully execute growth strategies.

Of the respondents who were seeking financing in the last 12 months, approximately 47% anticipated to raise less than $100,000 in capital. Approximately 56% of respondents reported that they were seeking bank business loans or business credit card financing as a source of funding, followed by friends and family (19%). 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 grants. Results also showed that 83% 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.

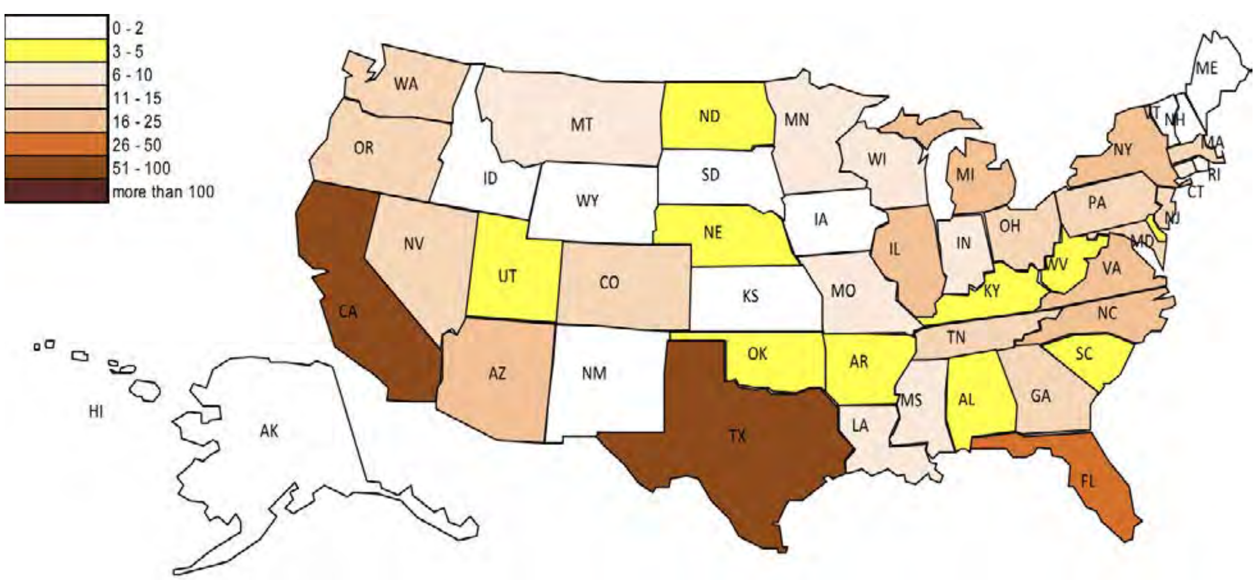
Nearly three quarters of businesses (73%) are planning to hire additional workers. Approximately 27% of respondents believe government regulations and taxes are the number one issue small businesses face today, followed by access to capital (25%), domestic economic uncertainty (25%) and labor availability (25%). According to small businesses, of those policies most likely to lead to job creation in 2019, tax incentives emerged as number one (23%) followed by increased access to capital (23%), and regulatory reform (19%). The study showed that of those that do plan to hire, sales and marketing skills (48%) and skilled labor (43%) are in greatest demand followed by service/customer service (35%). Also, 83% of companies planning to hire indicate they'd need to train those they hire.

45% of respondents believe that general business conditions improved in the twelve months compared to 52% surveyed year ago.

Operational and Assessment Characteristics

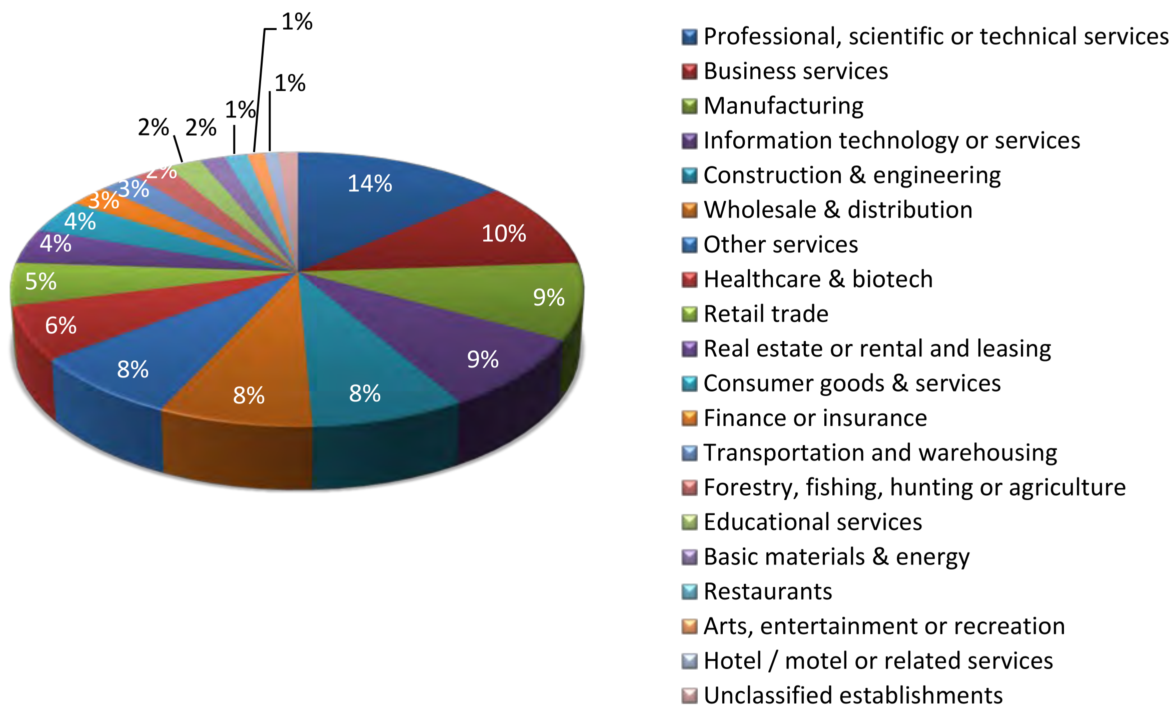
The privately-held business survey results were generated from 560 participants. The locations of businesses are distributed over all regions of the United States.

Figure 132. Respondents Distribution by State



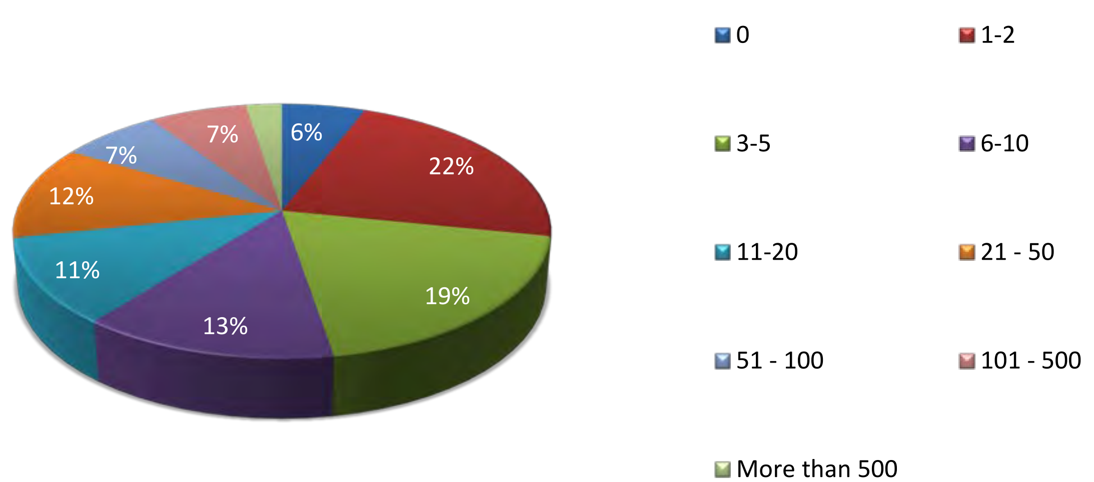
Businesses involved in professional, scientific or technical services accounted for 14% of respondents followed by business services (10%), manufacturing (9%) and information technology or services (9%).

Figure 133. Description of Entity



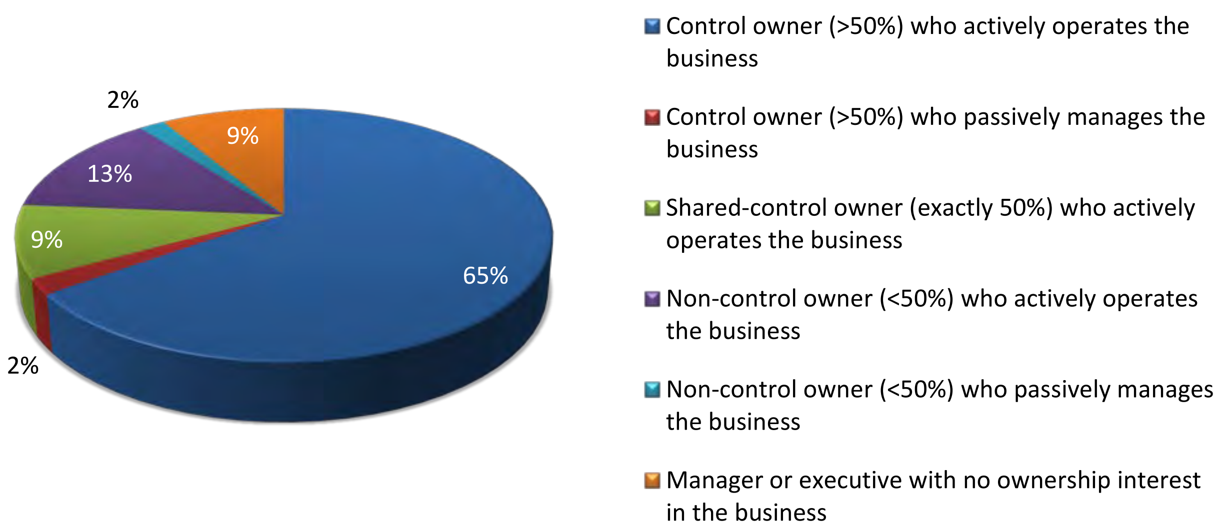
Approximately 41% of businesses have between one and five employees.

Figure 134. Number of Employees



Approximately 65% of the respondents are active control owners of their businesses.

Figure 135. Ownership Role



Approximately 75% of respondents have less than or equal to $5M in annual revenues.
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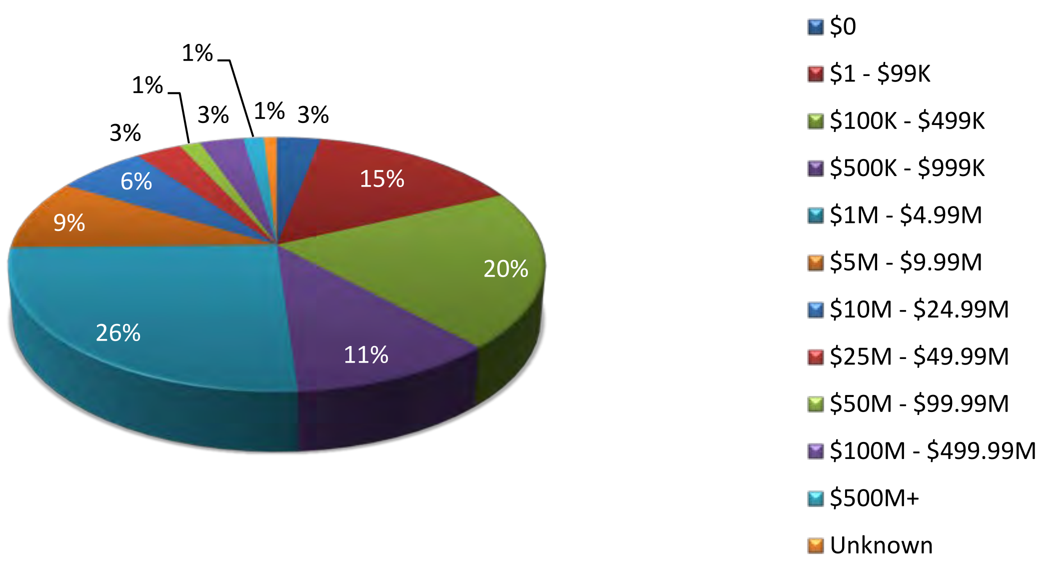
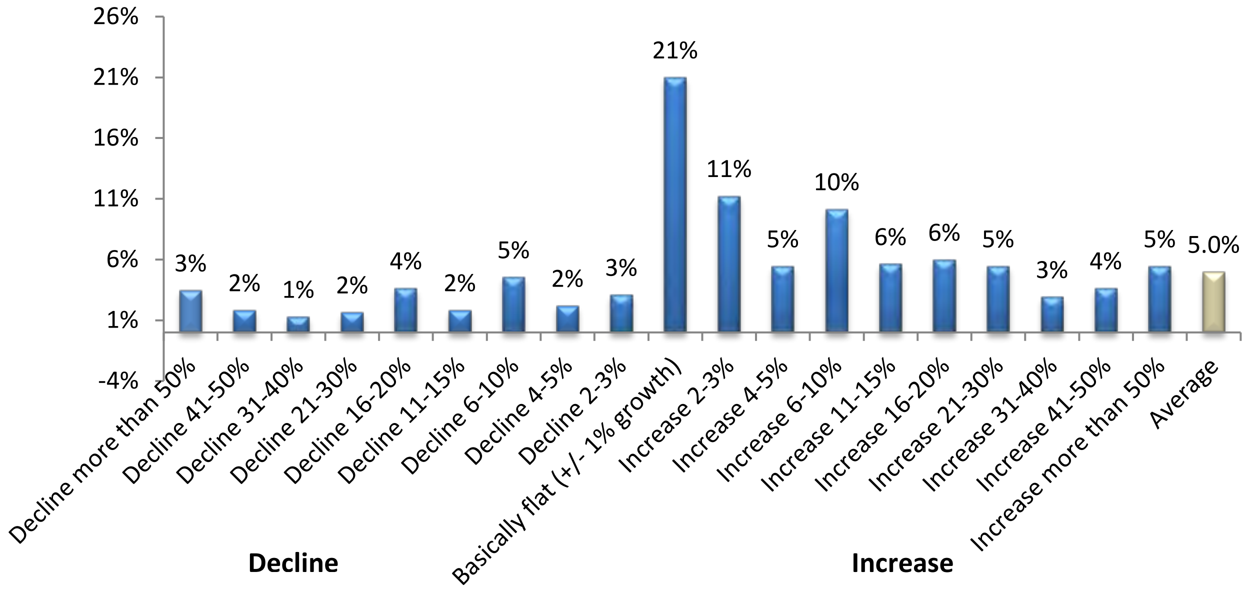
Figure 136. Annual Revenues



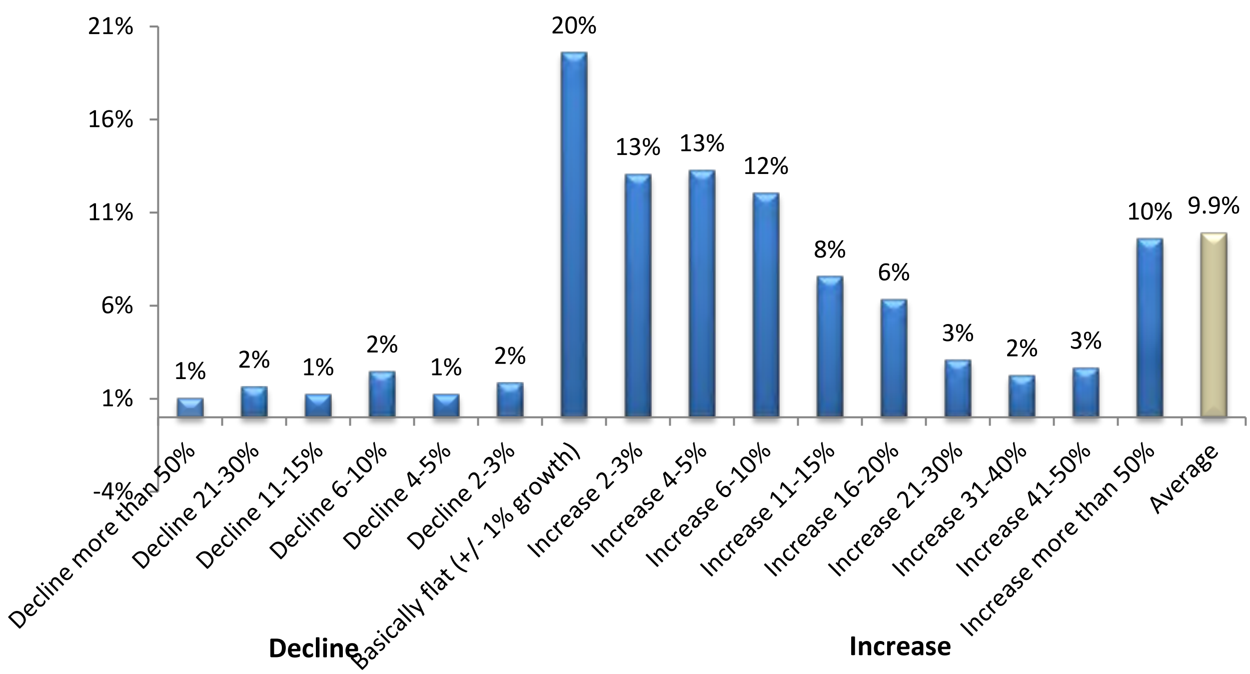
Average change in annual revenues in the last 12 months was 5.0%.

Figure 137. Annual Revenues Change in the Last 12 Months



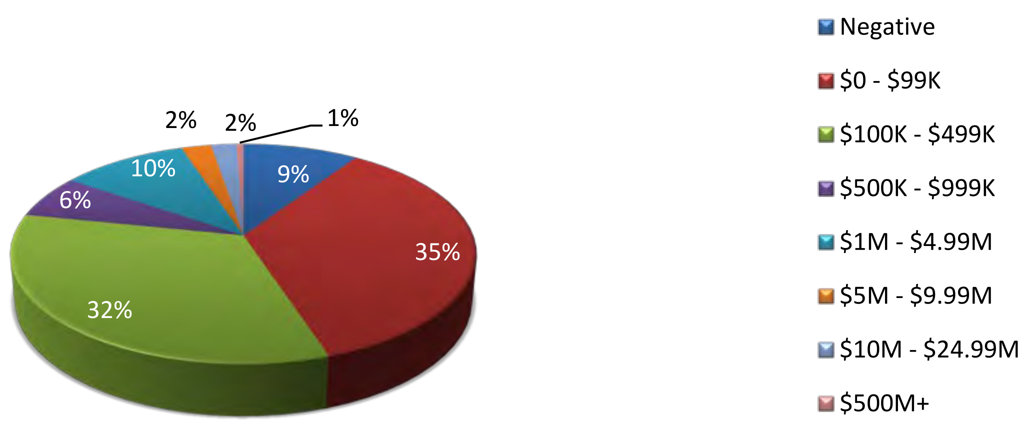
On average respondents expect their annual revenues to grow by 9.9% in the next 12 months.

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



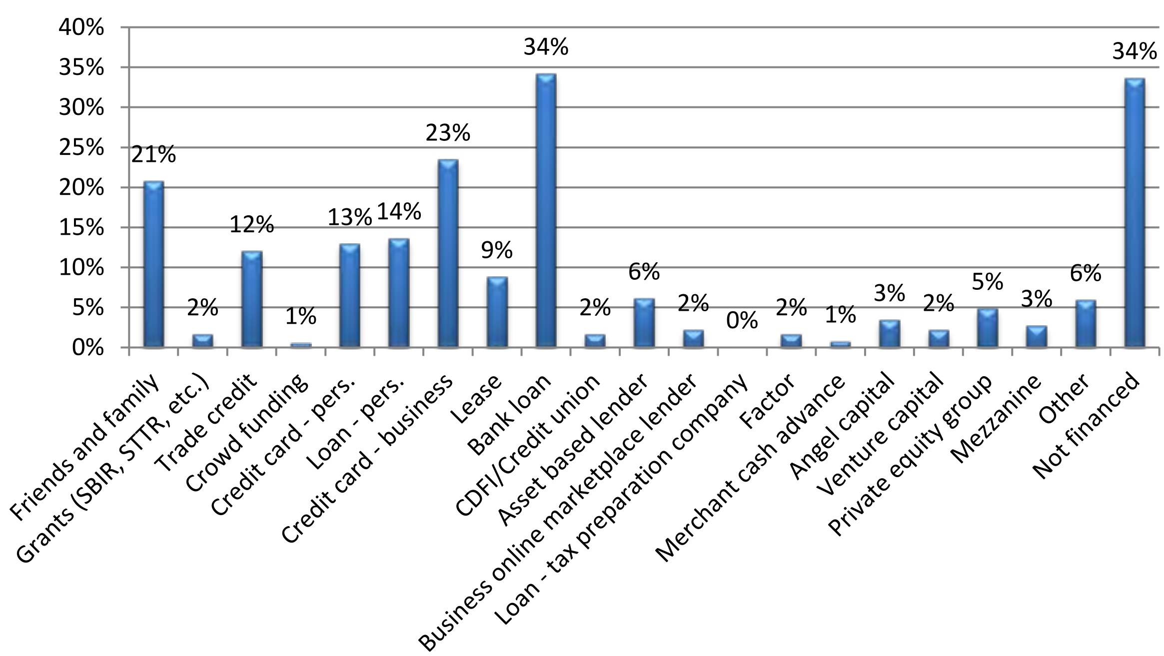
Approximately 93% of businesses have net income less than or equal to $5 million, 8% of those have negative net income.

Figure 139. Net Income



Approximately 34% of respondents are currently not financed by any external capital sources. Nearly 34% and 23% 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 37% applied for bank business loan and 83% were successful, whereas 24% of respondents didn't try to raise capital from any source.

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

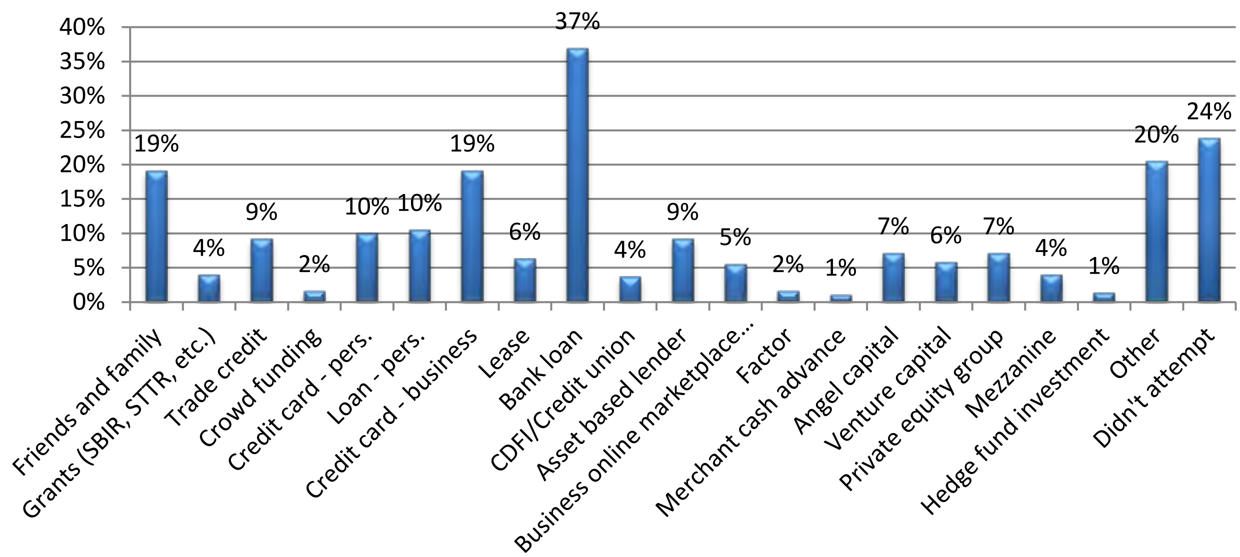
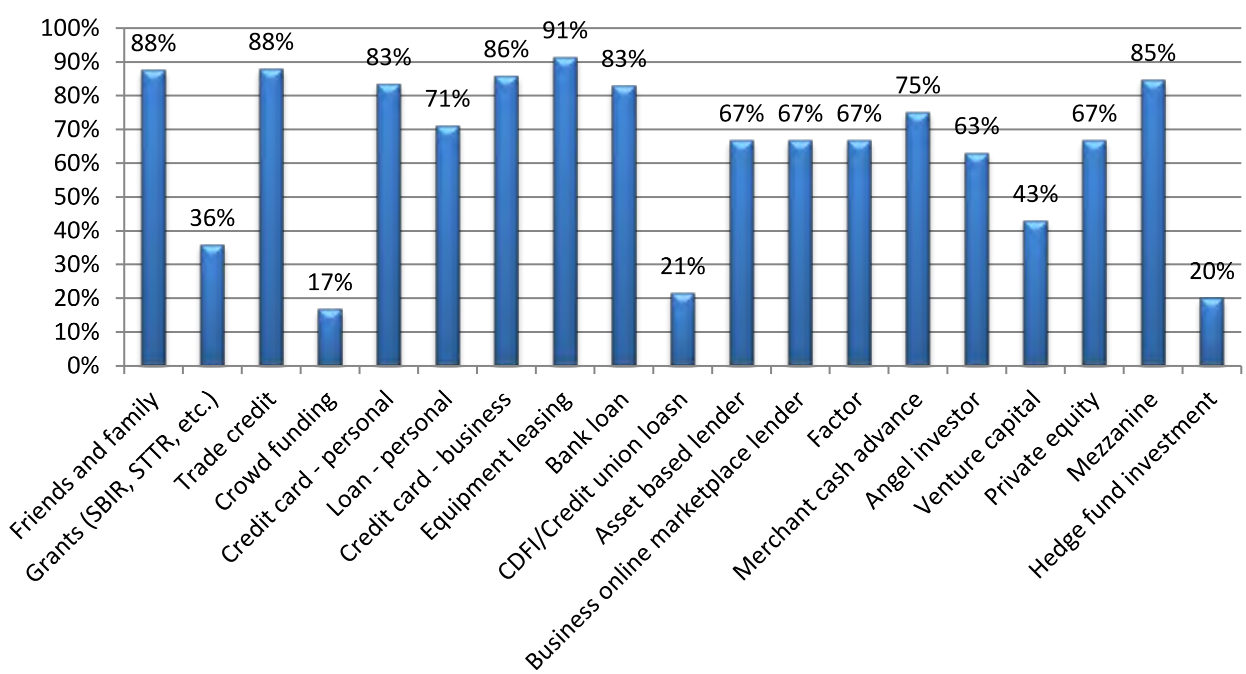


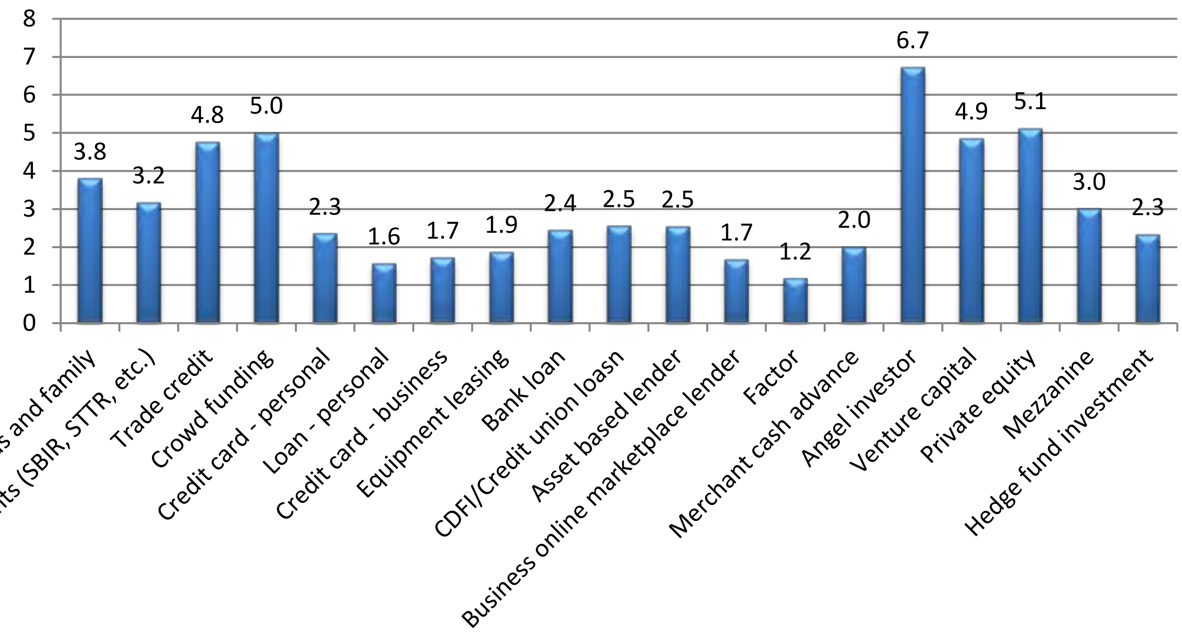
Figure 142. Success Rates



BUSINESS OWNER cont.

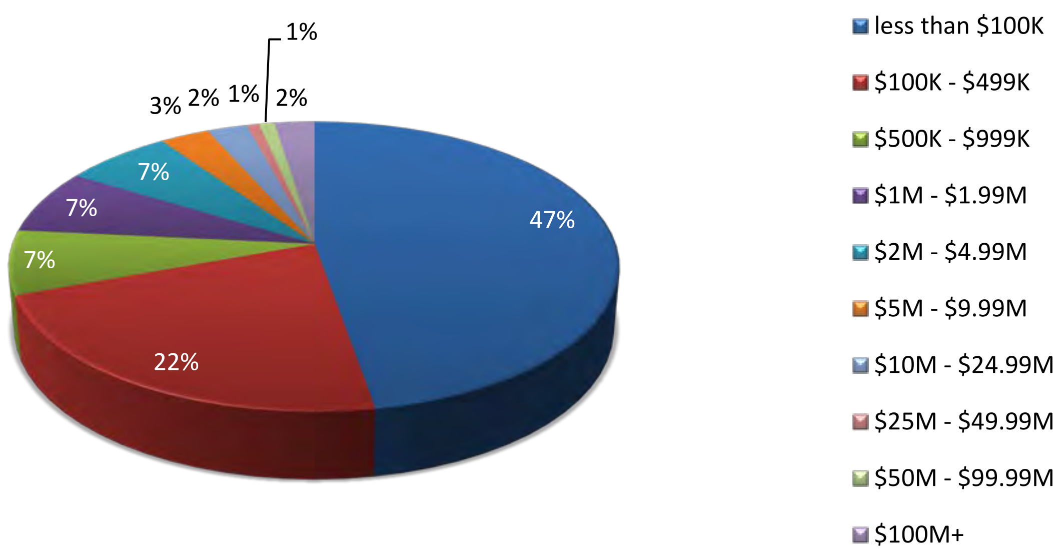
On average respondents who successfully raised capital contacted 3 capital providers.

Figure 143. Average Number of Capital Providers Contacted



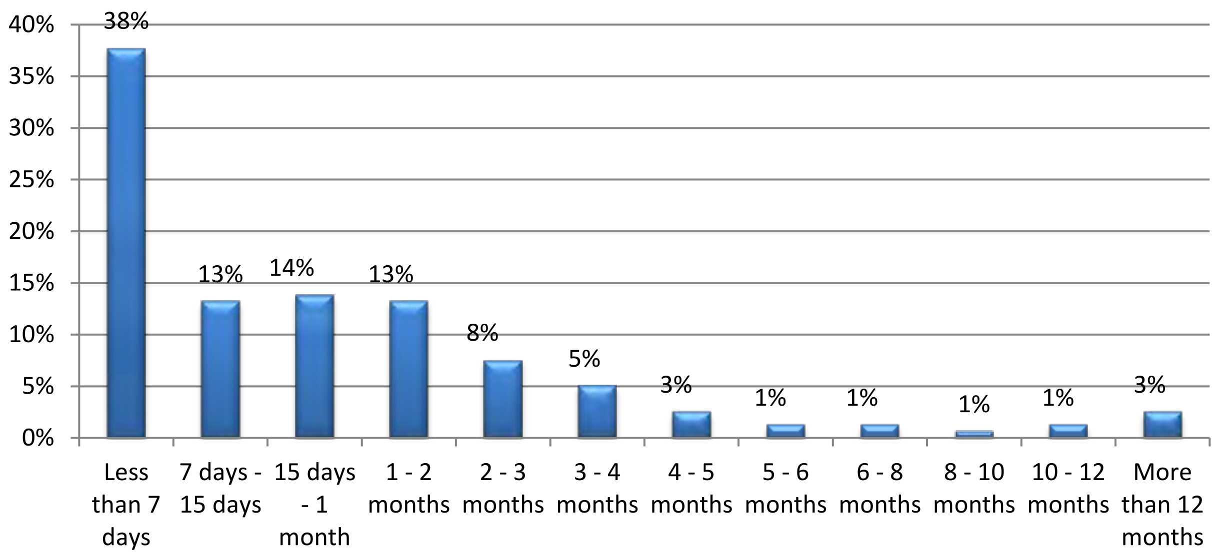
Approximately 69% of respondents attempted to raise less than $500K in the last 12 months.

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



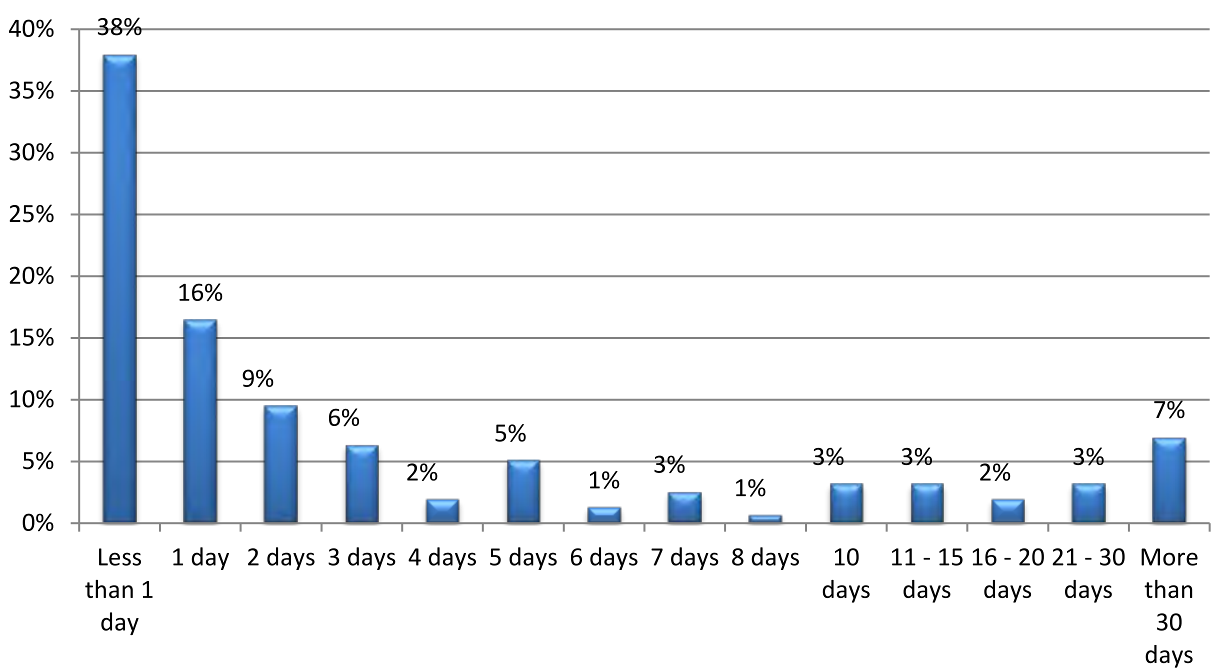
Approximately 38% of respondents took less than 7 days to complete financing process.

Figure 145. Average Time to Complete Financing Process in Days



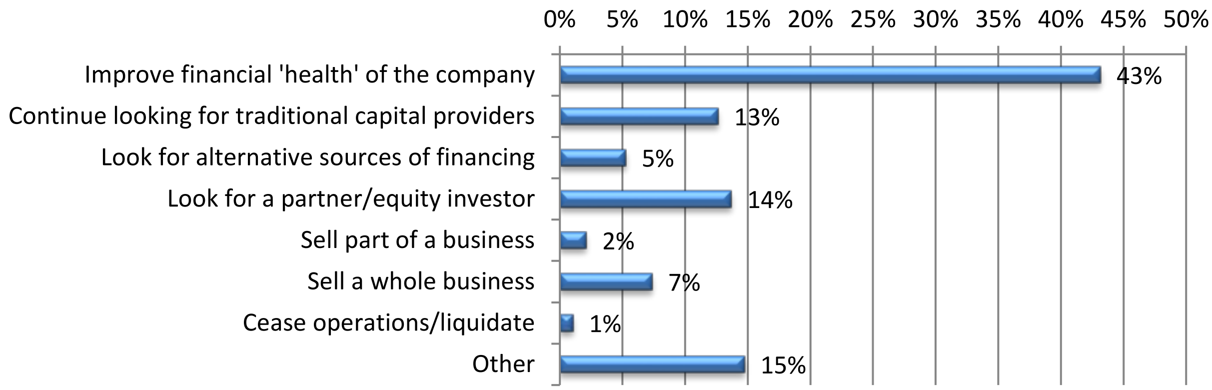
38% of respondents spent less than one day during the process to successfully obtain financing (time spent by all employees and hired outsiders making inquiries, submitting proposals, meeting with capital providers, furnishing documents).

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



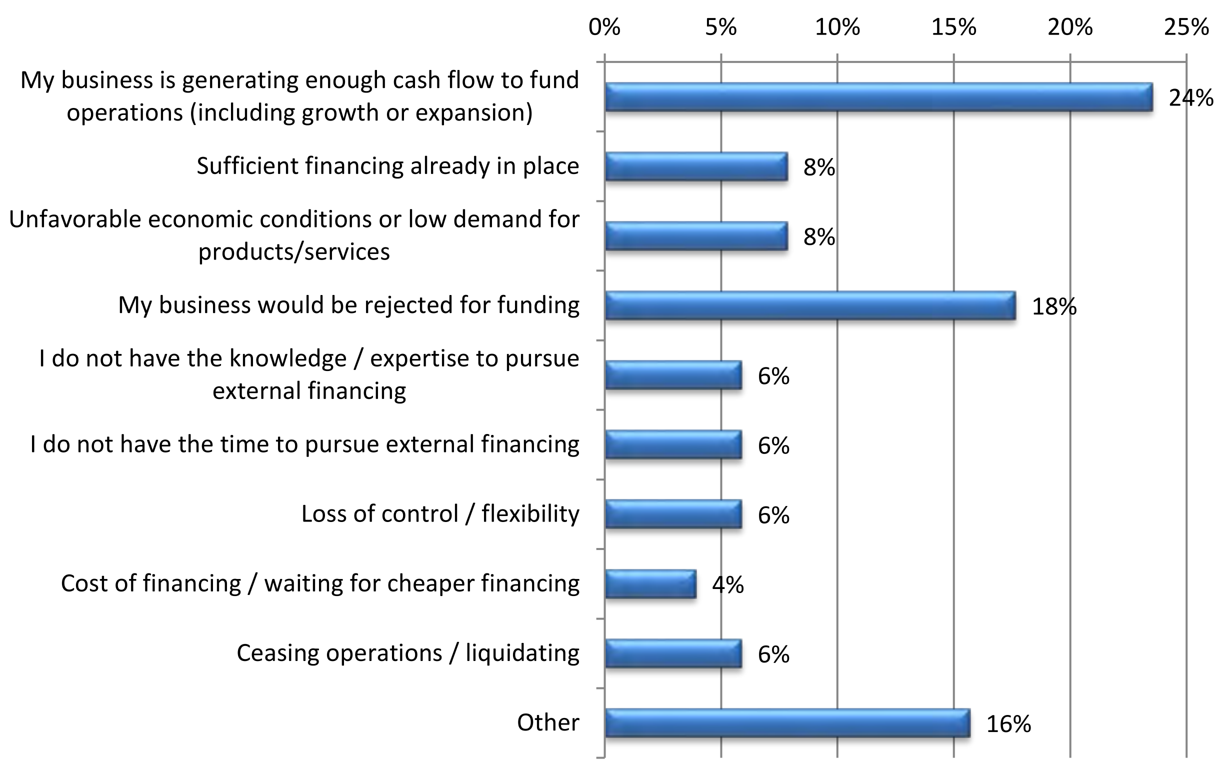
Among those respondents who were not able to obtain external financing in the last 12 months 43% are planning to improve financial health of their businesses before attempting to raise capital in the future.

Figure 147. Next Steps to Satisfy Financial Needs



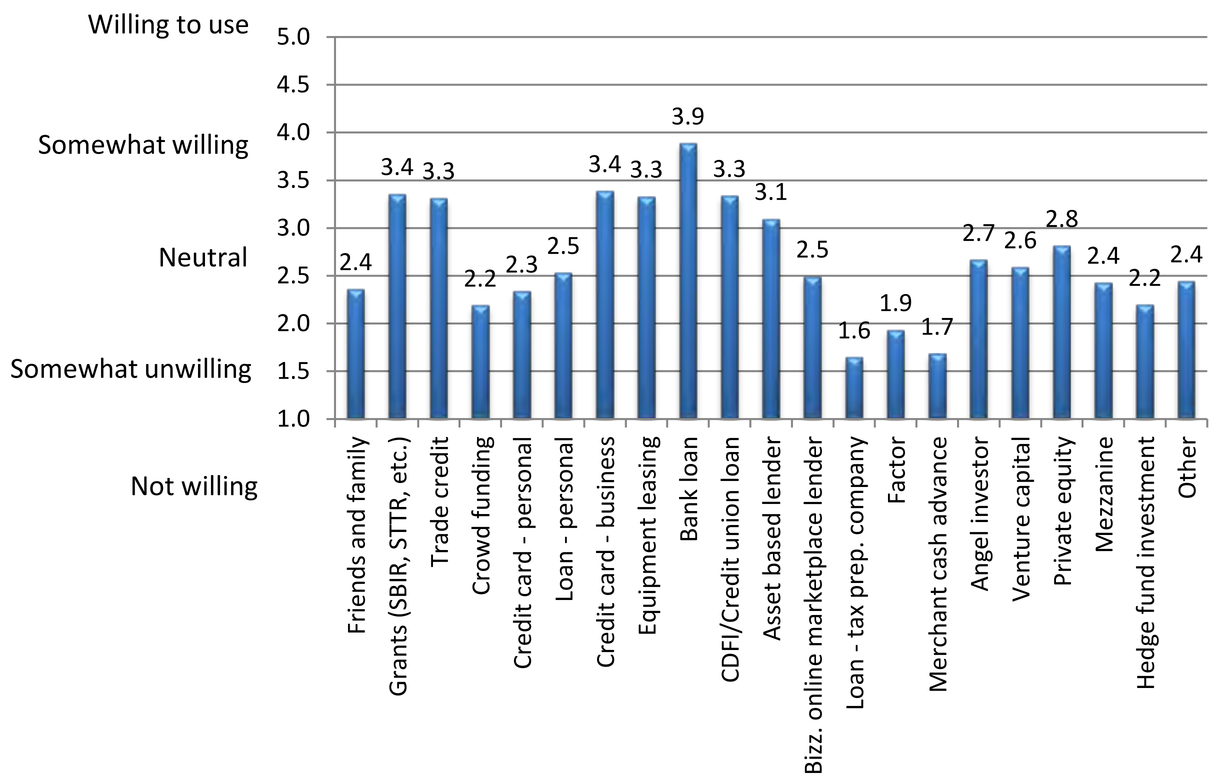
Among those respondents who didn't attempt to obtain any external financing in the last 12 months, 24% said their businesses are generating enough cash flow fund operations (including growth expansion), followed by 18% of respondents who would be rejected for funding.

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



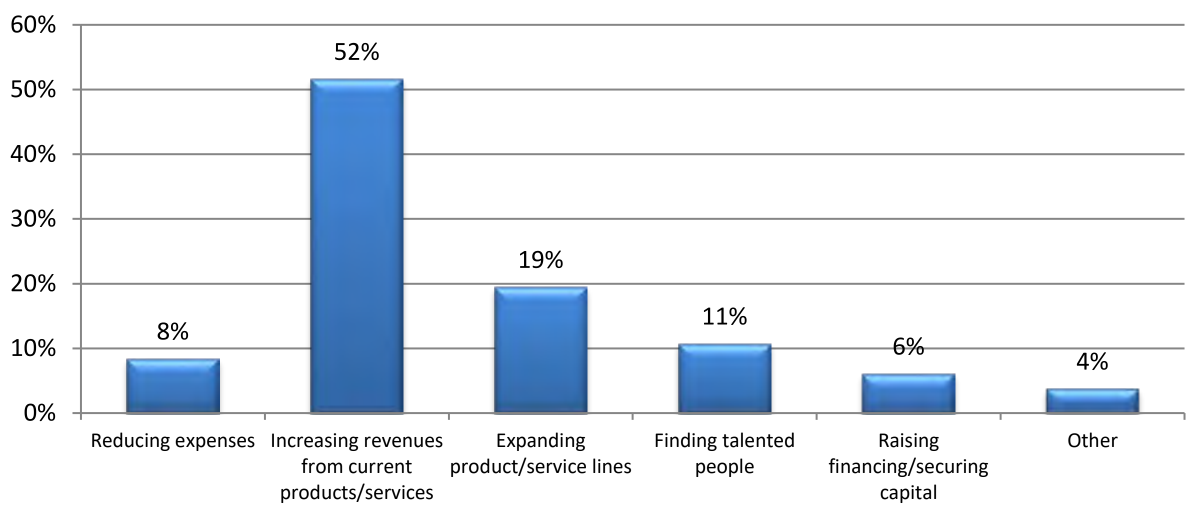
According to the respondents, "bank loans" as a category is the most appealing option to obtain financing.

Figure 149. Willingness to Obtain Financing



Approximately 52% of respondents indicated increasing revenues from current products or services as the area their businesses are most focused on today.

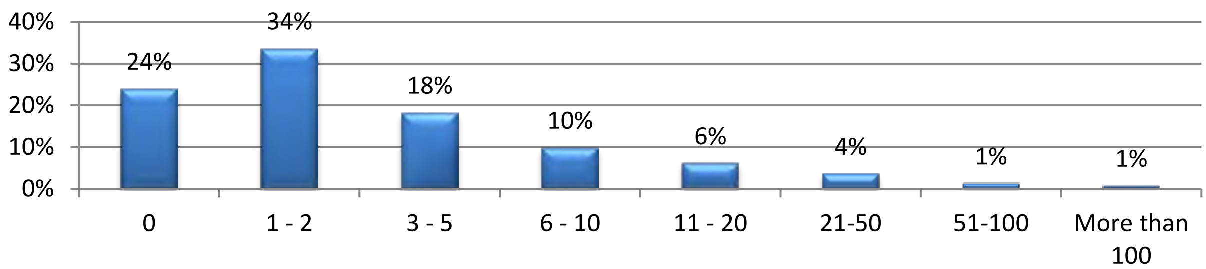
Figure 150. The Most Important Area to Focus On



BUSINESS OWNER cont.

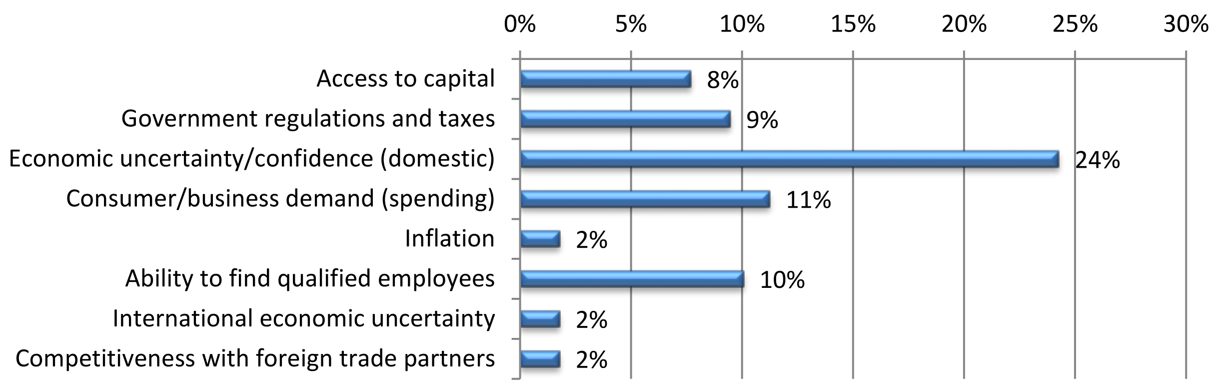
Approximately 24% of respondents are not planning to hire additional employees in the next 12 months, while 34% of respondents are planning to hire one or two additional employees in the next twelve months.

Figure 151. Number of Employees Planned to be Hired



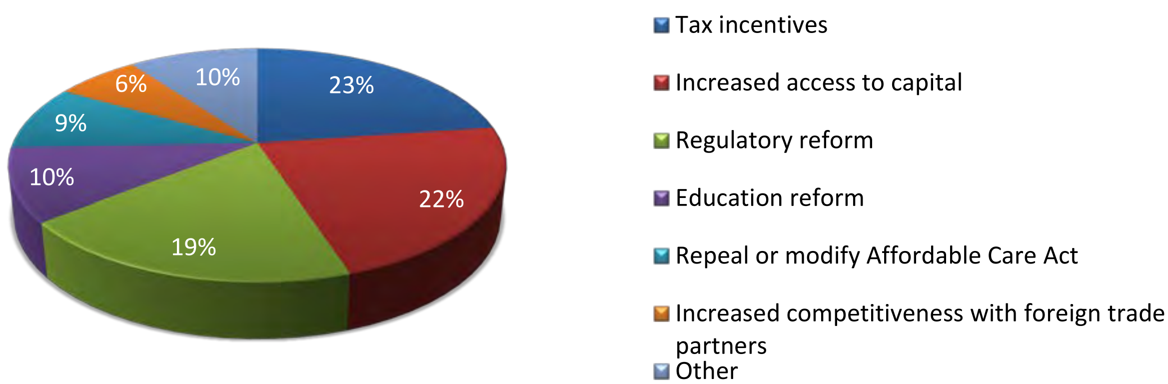
Approximately 24% of respondents believe domestic economic uncertainty is the number one reason preventing them from hiring, followed by consumer/business demand (spending) (11%).

Figure 152. Reasons Preventing Privately-Held Businesses from Hiring



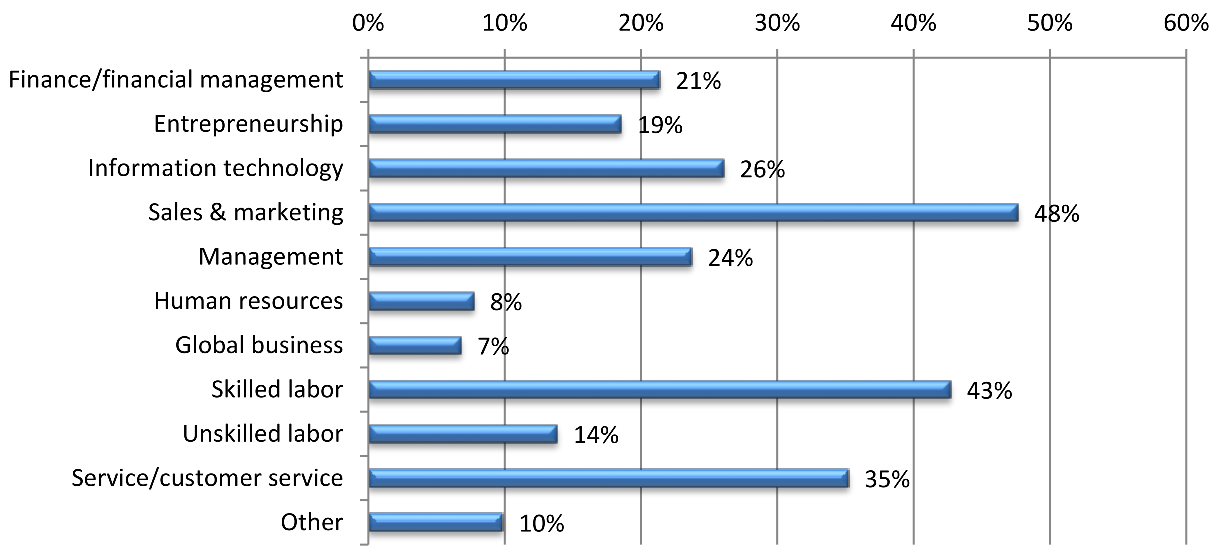
According to respondents, of those policies most likely to lead to job creation in 2019 increased tax incentives emerged as number one (23%) followed by increased access to capital (22%).

Figure 153. Government Policies to Lead to Job Creation



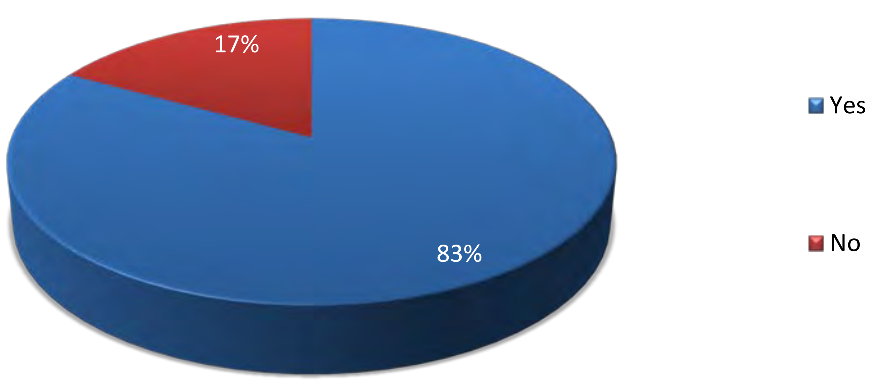
For those businesses which do plan to hire, sales and marketing skills (48%) and skilled labor (43%) are in greatest demand followed by service/customer service (35%).

Figure 154. The Skills in Demand for New Hires



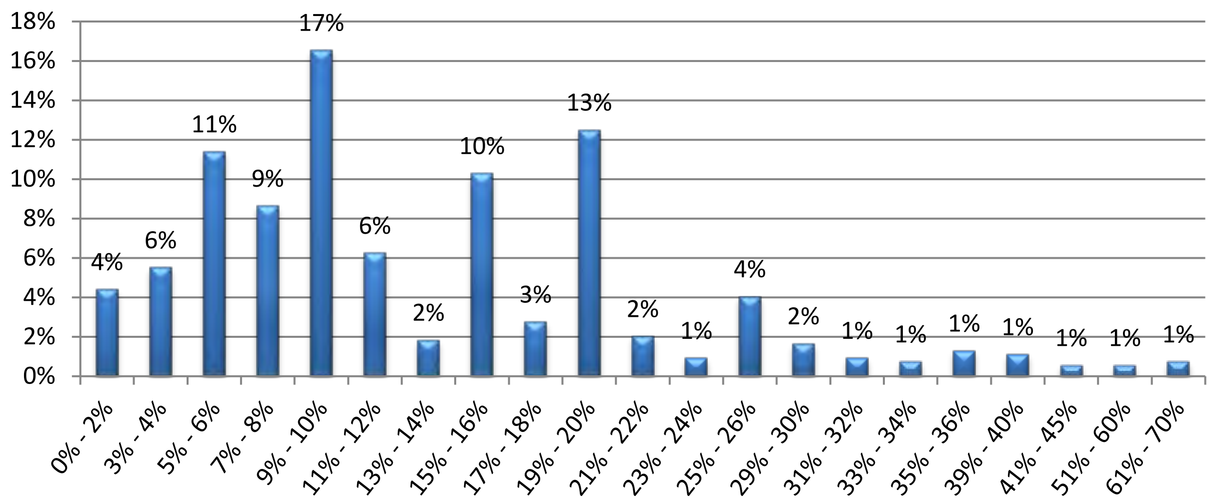
83% of businesses planning to hire indicate need to train those they hire.

Figure 155. Need for Training of New Hires



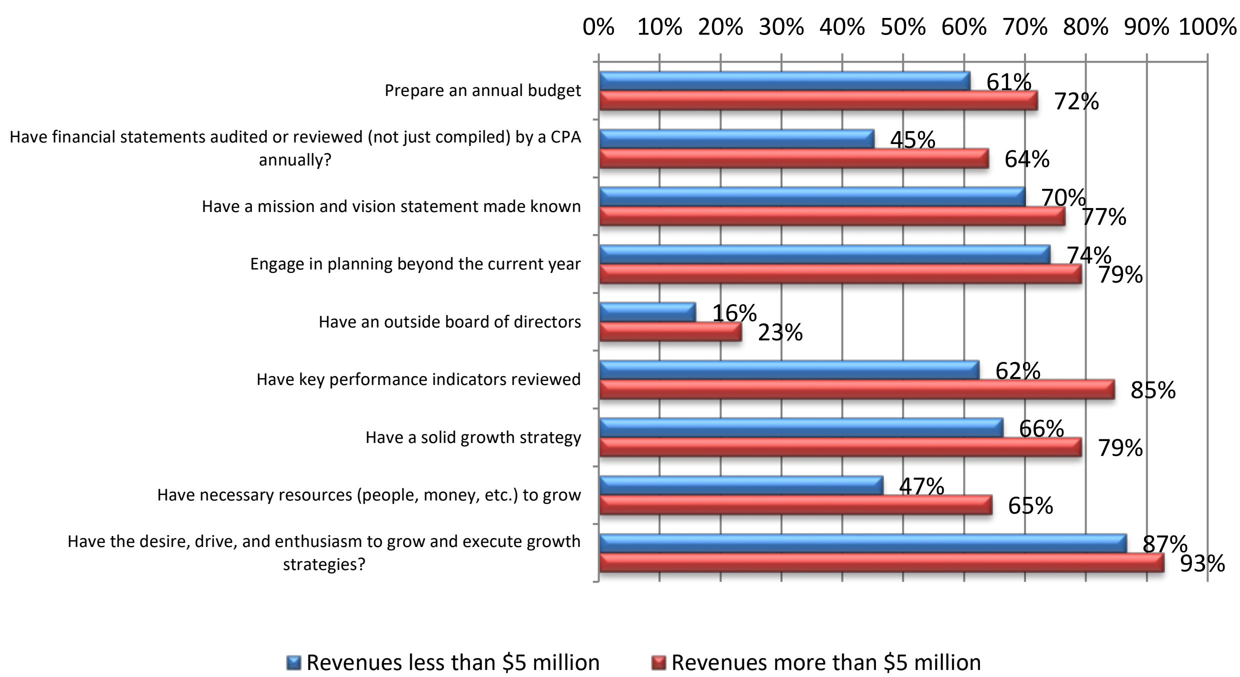
Approximately 17% of respondents indicated their business cost of equity capital is in the range of 9% - 10%.

Figure 156. Cost of Equity Capital



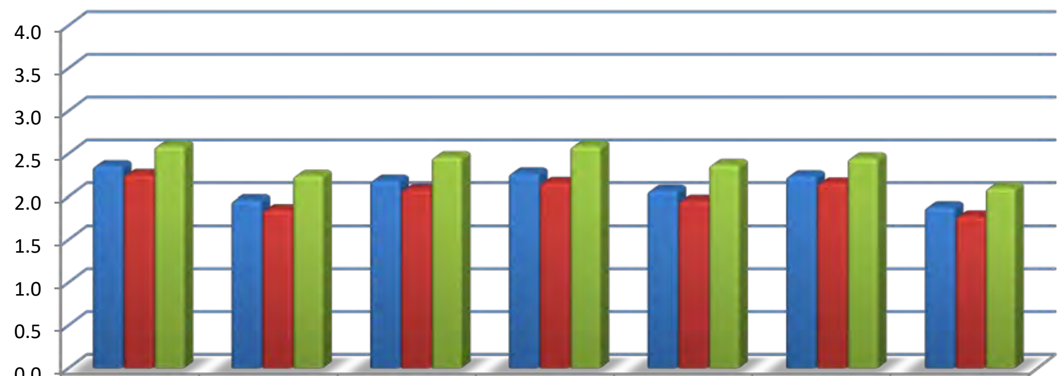
Privately-held businesses with revenues less than $5 million on average have almost the same desire to execute growth strategies (87%) as privately-held businesses with revenues greater than $5 million (93%). However, privately-held businesses with smaller revenues report lower levels of necessary resources (people, money, etc.) to grow (47%) as compared to privately-held businesses with higher revenues (65%).

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).

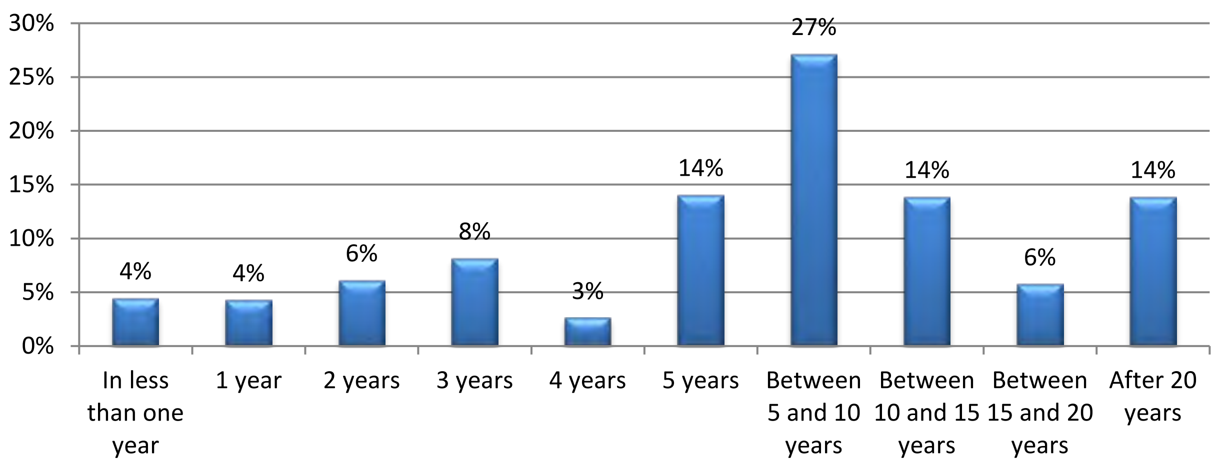
Figure 158. Level of Knowledge of Financing Components



	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	2.4	2.0	2.2	2.3	2.1	2.2	1.9
< $5 million	2.3	1.9	2.1	2.2	2.0	2.2	1.8
$5 - $100 million	2.6	2.2	2.5	2.6	2.4	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.

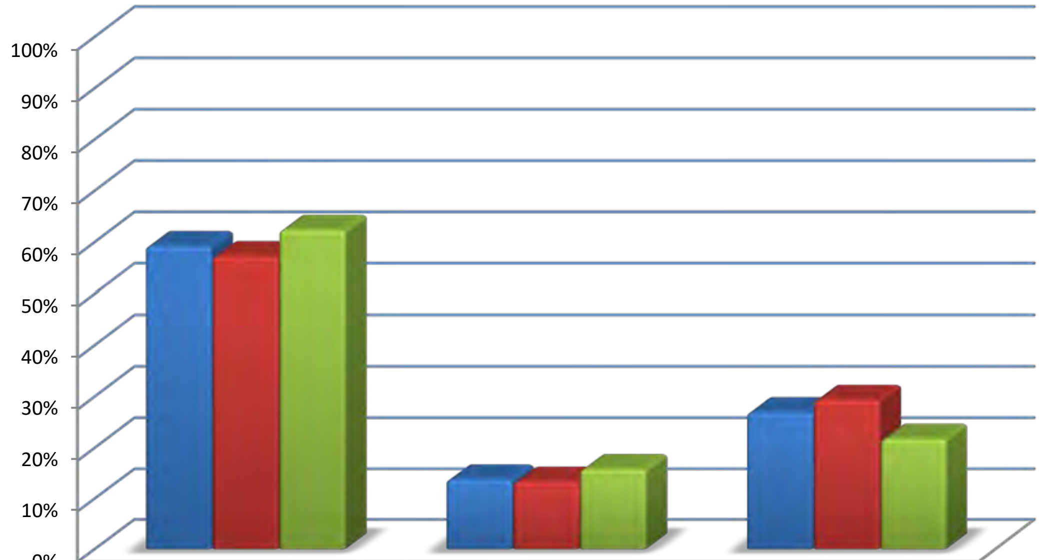
Figure 159. Anticipation of the Ownership Transfer



BUSINESS OWNER cont.

Assuming respondents' businesses were eligible to raise financing from both private equity and a public stock offering (IPO), 59% of them would choose private equity.

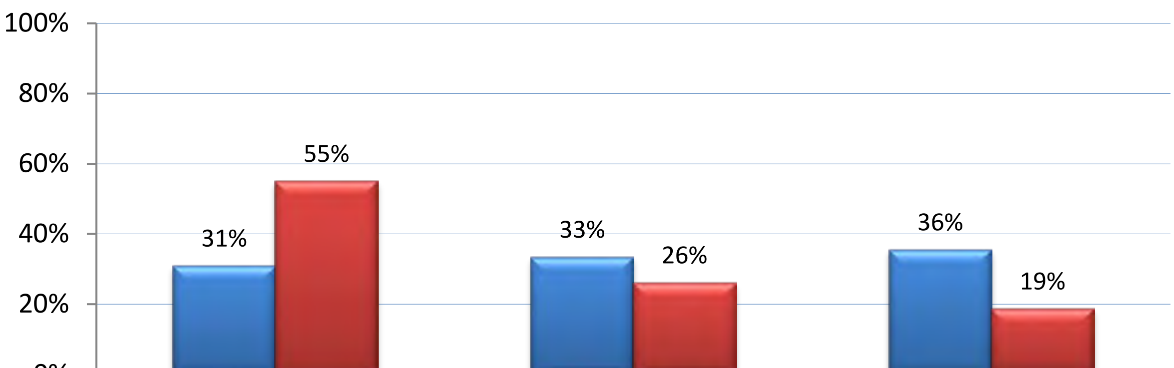
Figure 160. Private Equity vs Initial Public Offering



	Private equity	Initial public offering (IPO)	Unsure
Whole sample	59%	14%	27%
< $5 million	57%	13%	29%
$5 - $100 million	62%	16%	22%

When asked about general view, 55% 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%	33%	36%
PE	55%	26%	19%

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

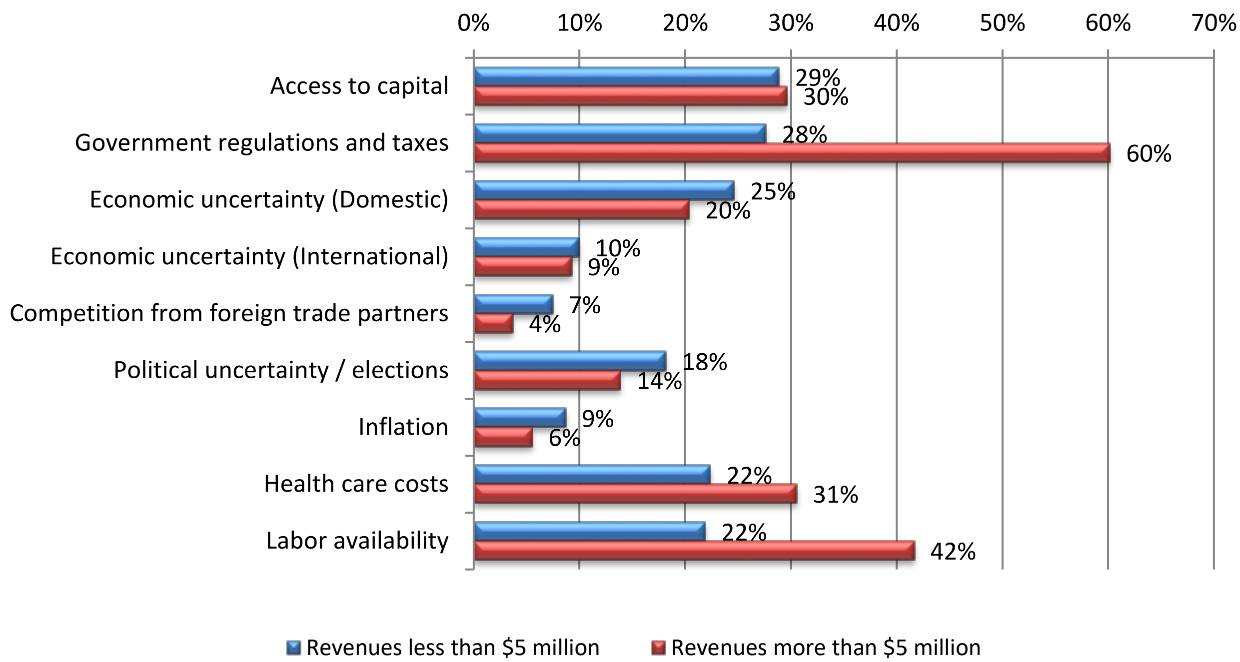
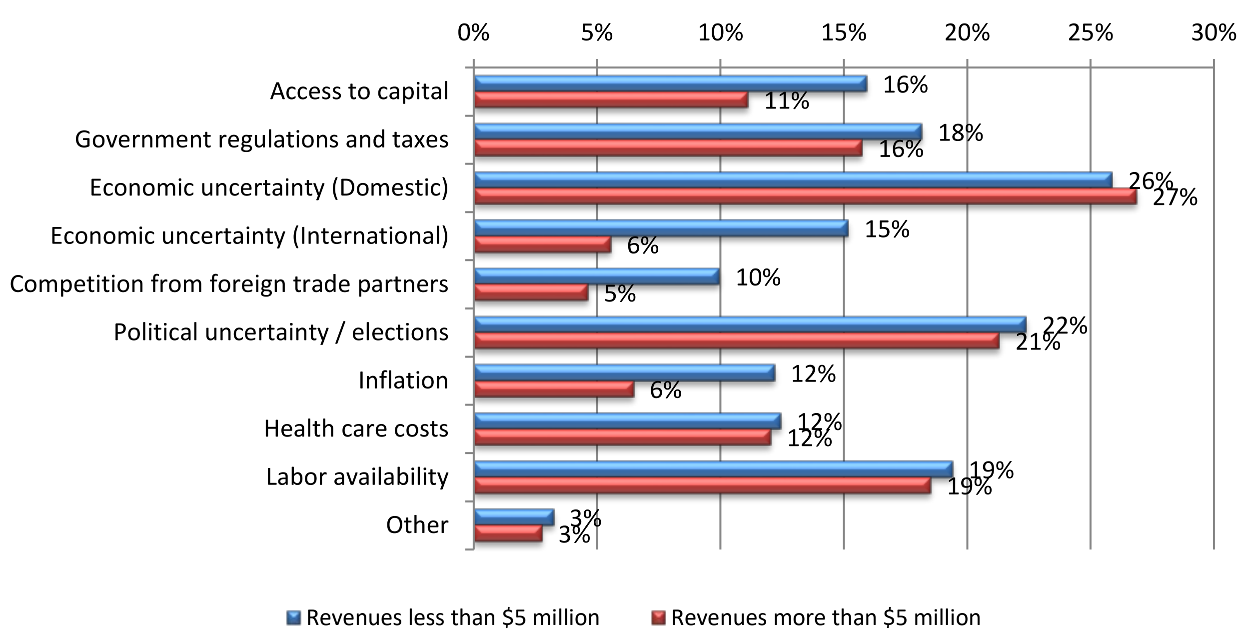
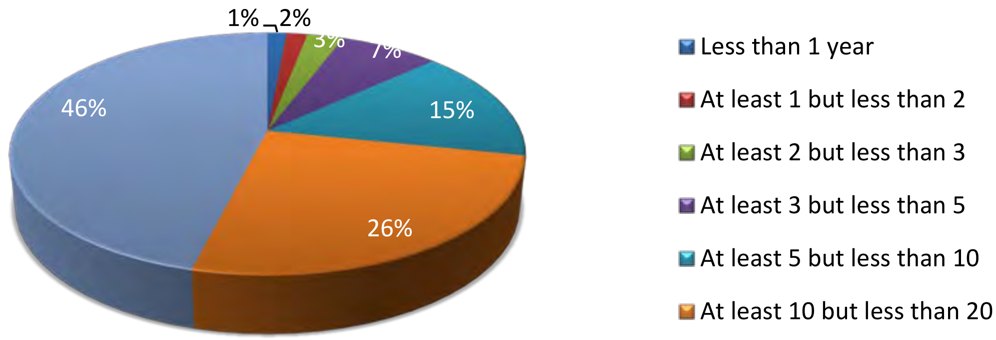


Figure 163. The Number One Emerging Issue Facing Privately-Held Businesses by Revenue Sizes



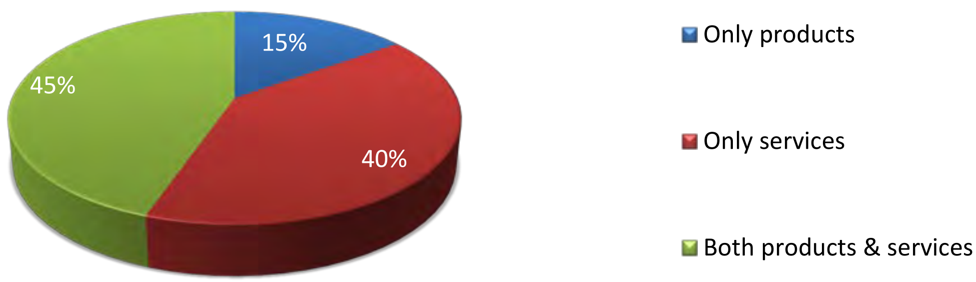
Approximately 46% of respondents have firms 20 or more years old.

Figure 164. Firm Age



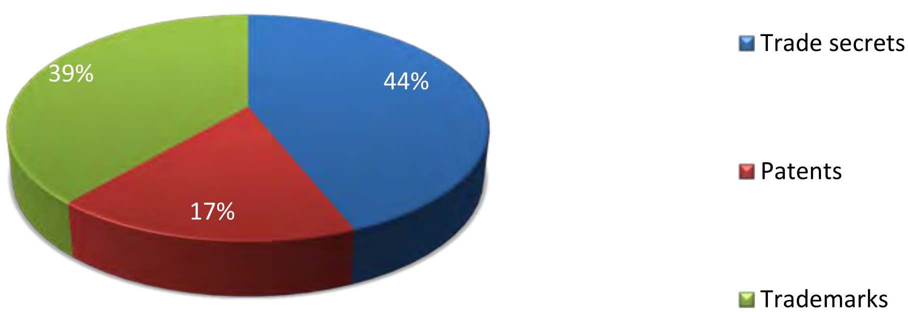
Approximately 45% of respondents sell both products and services to their clients.

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, increased access to capital, and improved general business conditions.

Table 68. 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/ decrease**
Unit sales	8%	12%	27%	30%	23%	53%	21%	**32%**
Prices of labor and materials	1%	3%	33%	50%	14%	64%	4%	**60%**
Net income	8%	14%	25%	34%	19%	53%	22%	**30%**
Inventory levels	5%	13%	52%	22%	8%	30%	18%	**12%**
Capital expenditures	5%	9%	47%	28%	11%	39%	14%	**25%**
Opportunities for growth	2%	9%	23%	38%	28%	66%	11%	**55%**
Access to bank loans	5%	7%	56%	21%	10%	31%	13%	**19%**
Access to equity capital	7%	9%	56%	20%	8%	28%	15%	**13%**
Prices of your products or services	1%	3%	39%	51%	6%	57%	4%	**53%**
Time to collect receivables	2%	7%	61%	24%	6%	30%	9%	**20%**
Number of employees	3%	6%	58%	27%	6%	33%	9%	**24%**
Competition	1%	7%	53%	30%	10%	39%	8%	**31%**
General business conditions	2%	14%	39%	35%	10%	45%	16%	**28%**
Appetite for risk	3%	13%	48%	28%	8%	36%	16%	**20%**
Probability of business closure	24%	21%	39%	11%	4%	16%	45%	**-29%**
Time worrying about economy	12%	15%	37%	21%	15%	36%	27%	**8%**

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

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/ decrease
Unit sales	1%	5%	19%	51%	24%	75%	6%	**68%**
Prices of labor and materials	1%	1%	30%	59%	10%	69%	1%	**67%**
Net income	2%	8%	20%	49%	21%	70%	10%	**61%**
Inventory levels	2%	10%	57%	26%	7%	32%	11%	**21%**
Capital expenditures	4%	9%	48%	30%	9%	39%	13%	**26%**
Opportunities for growth	2%	5%	25%	42%	27%	69%	7%	**62%**
Access to bank loans	3%	6%	57%	25%	8%	33%	9%	**24%**
Access to equity capital	4%	7%	55%	22%	12%	34%	11%	**22%**
Prices of your products or services	1%	2%	37%	55%	5%	60%	3%	**57%**
Time to collect receivables	1%	8%	73%	17%	2%	18%	9%	**10%**
Number of employees	2%	2%	39%	50%	8%	58%	4%	**54%**
Competition	1%	6%	56%	28%	8%	37%	7%	**30%**
General business conditions	3%	15%	44%	30%	8%	39%	17%	**21%**
Appetite for risk	3%	13%	52%	24%	8%	32%	16%	**16%**
Probability of business closure	25%	21%	44%	8%	2%	11%	46%	**-35%**
Time worrying about economy	12%	13%	45%	17%	14%	31%	24%	**7%**

MERCHANT CASH ADVANCE SURVEY INFORMATION

This is the first year that we have surveyed providers of merchant cash advances (MCA), which are typically used by retail or service businesses with significant credit card sales. Cash advances are made against future credit card sales. According to our survey, the businesses most likely to use MCA are restaurants/bars, auto service and other services. The median rate factor (payback amount divided by advance amount) was 1.39.

Other key findings include:

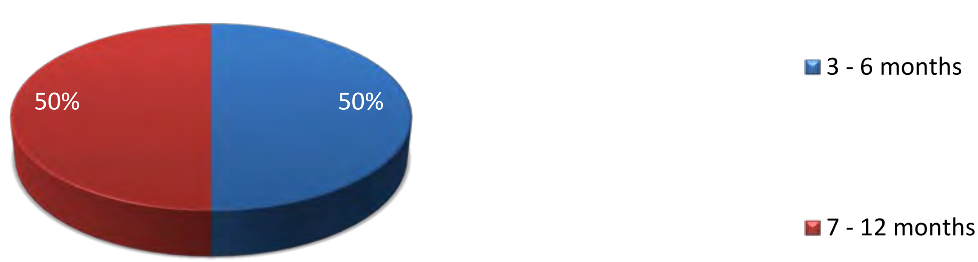
- Majority of respondents indicate daily repayment frequency.
- Respondents indicate lack of quality businesses/ poor financial health as the most significant concern to cash advance business at the moment.
- Respondents believe access to capital and government regulations and taxes are the most important issues facing privately-held businesses today, while the most important emerging issue is economic uncertainty.
- When asked about conditions compared to twelve months ago respondents said they saw increased demand for merchant cash advances in the last 12 months, flat general business conditions and decreased factor rates and fees. In the next 12 months respondents expect flat business conditions, decreasing credit quality of borrowers, average advance size and term, and decreasing factor rate.

Operational and Assessment Characteristics

Figure 167. Business Types of Cash Advance Customers

Typical terms for cash advance agreements are between three and twelve months.

Figure 168. Typical Terms of Cash Advance Agreements



Approximately 33% use cash advances to finance worsening operations conditions.

Figure 169. Primary Uses of The Cash Advances

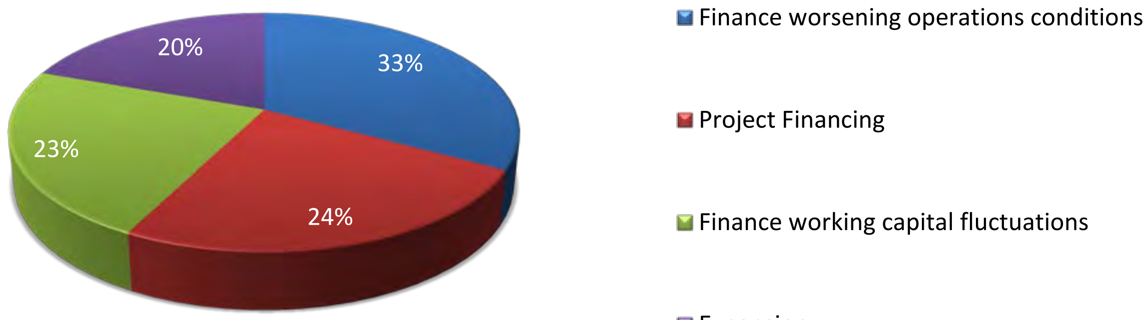
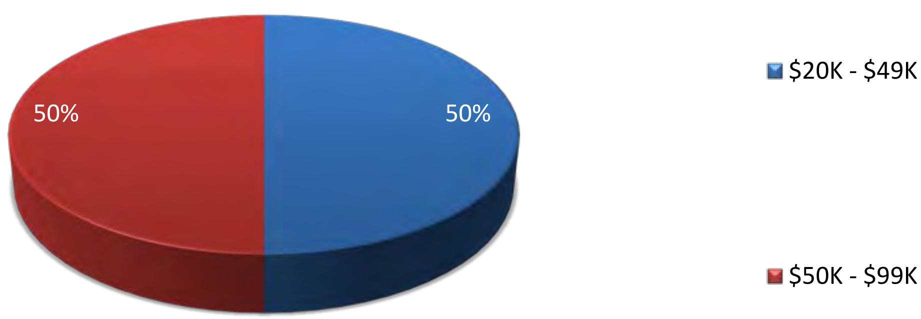
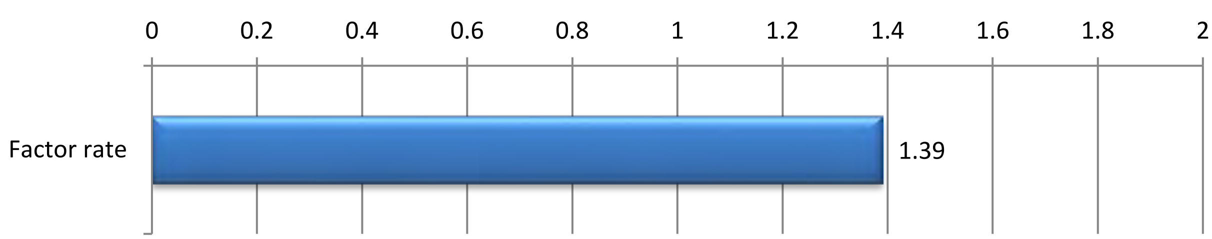


Figure 170. Size of Average Advance



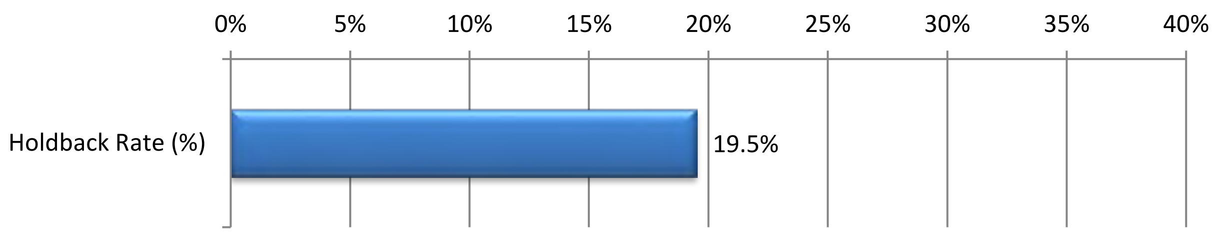
Median factor rate for cash advances (calculated as payback amount/ advance amount) was 1.39.

Figure 171. Median Factor Rate



Median holdback (retrieval) rate was 19.5%.

Figure 172. Median Holdback Rate



The majority of respondents charge application fee, origination fee and wire transfer/ ACH fee.

Figure 173. Fees Charged

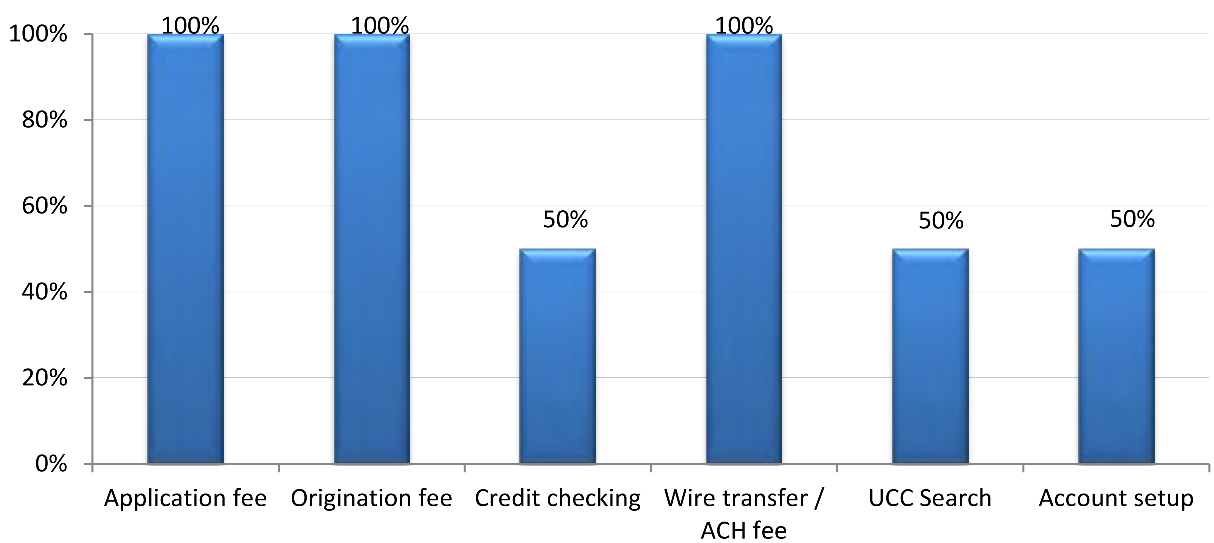


Table 70. Median Percentage or Amount Charged

	Percentage	or Amount
Application fee	2%	
Origination fee		$300
Wire transfer / ACH fee		$35
Account setup		$50

On average respondents expect 7.5% of total write-off.

Table 71. Expected Total Write-off – Percentage of Receivables Purchased on New Arrangements (%)

	1st quartile	Median	3rd quartile
Expected total write-off	6.8%	7.5%	8.3%

Figure 174. Typical Time of Funding (days)

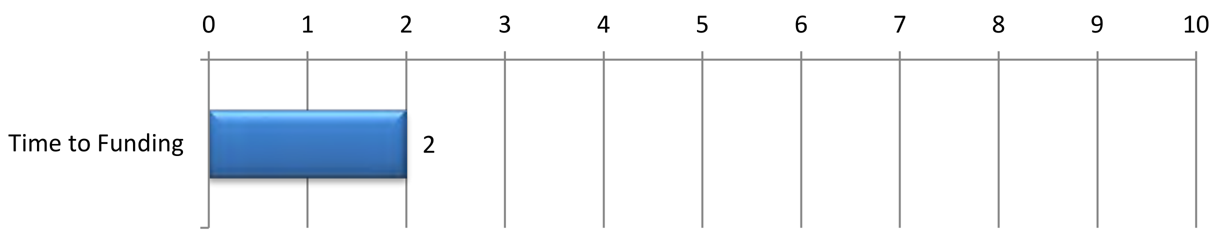


Figure 175. Minimum Required Sales Revenue (Thousands)

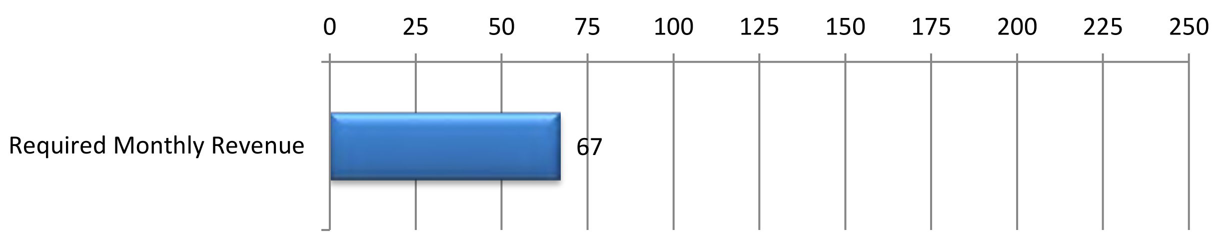


Figure 176. Minimum Required Personal Credit Score

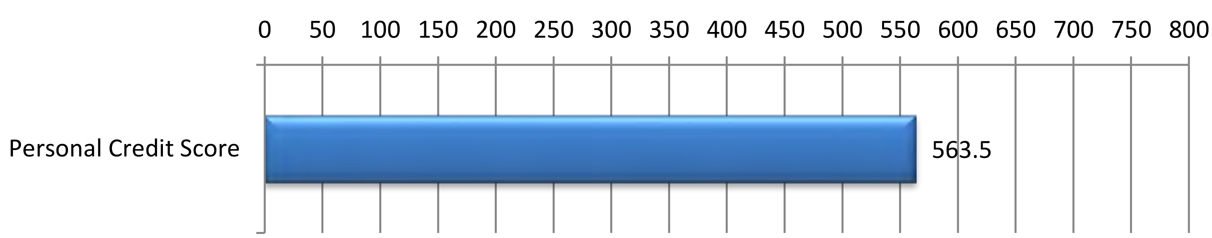
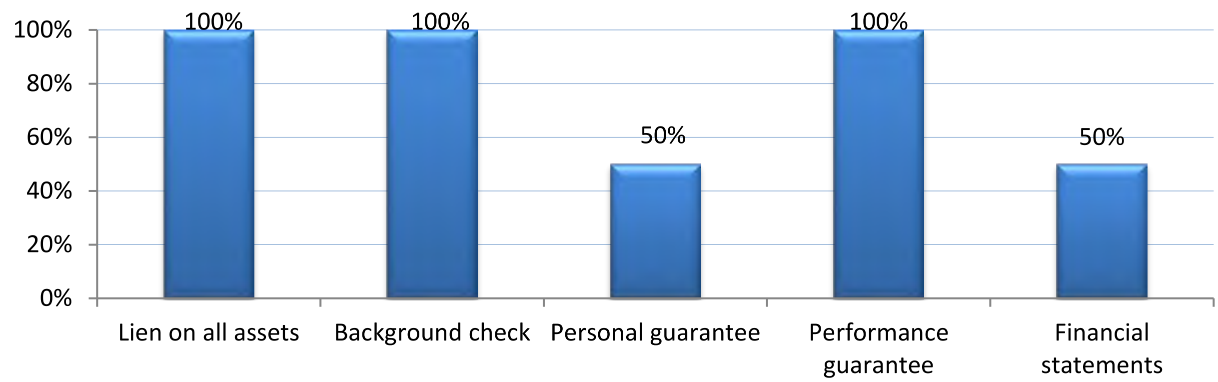
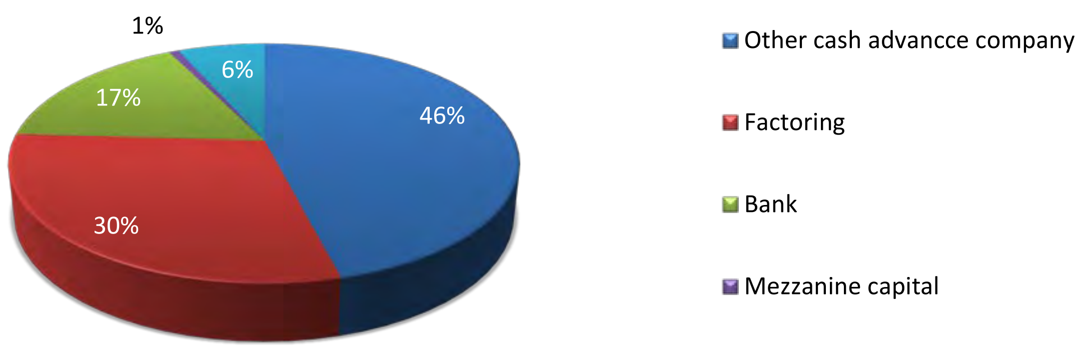


Figure 177. Typical Requirements



35% of respondents didn't lose any transactions in the last twelve months.

Figure 178. Types of Financing Sources Respondents Lost Transactions to in the Last 12 Months



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INDEX OF TABLES

Table 1. Private Capital Market Required Rates of Return 5

Table 2. Importance of Factors When Evaluating 10

Table 3. General Business and Industry Assessment: Today versus 12 Months Ago 11

Table 4. General Business and Industry Assessment Expectations over the Next 12 Months 11

Table 5. General Characteristics – Bank Loans by Size 13

Table 6. Senior Leverage Multiple by EBITDA Size 13

Table 7. Importance of Financial Evaluation Metrics 14

Table 8. Financial Evaluation Metrics Average Data 14

Table 9. Personal Guarantee and Collateral Percentage of Occurrence by Size of Loan (%) 15

Table 10. Applications Data 15

Table 11. General Business and Industry Assessment: Today versus 12 Months Ago 18

Table 12. General Business and Industry Assessment Expectations over the Next 12 Months 19

Table 13. All-in Rates on Current Asset-Based Loans (medians) 21

Table 14. Standard Advance Rate (or LTV ratio) for Assets (%) 21

Table 15. Fees Charged 22

Table 16. Importance of Financial Evaluation Metrics 23

Table 17. Financial Evaluation Metrics Average Data 23

Table 18. General Business and Industry Assessment: Today versus 12 Months Ago 25

Table 19. General Business and Industry Assessment Expectations for the Next 12 Months 26

Table 20. Mezzanine Fund Data 28

Table 21. Sponsored Deals by EBITDA Size (medians) 30

Table 22. Non-Sponsored Deals by EBITDA Size (medians) 31

Table 23. Importance of Financial Evaluation Metrics 32

Table 24. Financial Evaluation Metrics Average Data 33

Table 25. General Business and Industry Assessment: Today versus 12 Months Ago 34

Table 26. General Business and Industry Assessment Expectations over the Next 12 Months 35

Table 27. Median Deal Multiples by EBITDA Size of Company 41

Table 28. Median Total Leverage Multiples by Size of Company 41

Table 29. Median Senior Leverage Multiples by Size of Company 41

Table 30. Balance of Available Capital with Quality Companies 43

Table 31. How Difficult to Arrange Senior Debt for Transactions over the Past 12 Months 43

Table 32. General Business and Industry Assessment: Today versus 12 Months Ago 44

Table 33. General Business and Industry Assessment Expectations over the Next 12 Months 44

Table 34. PEG Fund Data 46

Table 35. General Characteristics – Buyout Transactions (medians) 49

Table 36. General Characteristics – Non-Buyout Transactions (medians) 49

Table 37. The Balance of Available Capital with Quality Companies for the Following EBITDA Size 53

Table 38. Importance of Items Regarding Business Risk 54

Table 39. General Business and Industry Assessment: Today versus 12 Months Ago 54

Table 40. General Business and Industry Assessment Expectations over the Next 12 Months 55

Table 41. VC Fund Data 58

Table 42. General Information on Investments by Company Stages 59

Table 43. General Business and Industry Assessment: Today versus 12 Months Ago 62

Table 44. General Business and Industry Assessment Expectations over the Next 12 Months 62

Table 45. General Information on Investments by Company Stages 65

Table 46. General Business and Industry Assessment: Today versus 12 Months Ago 68

Table 47. General Business and Industry Assessment Expectations over the Next 12 Months 68

Table 48. General Business and Industry Assessment: Today versus 12 Months Ago 74

Table 49. General Business and Industry Assessment Expectations over the Next 12 Months 74

Table 50. How Difficult to Arrange Senior Debt for Transactions over the Past 12 Months 77

Table 51. Number of New Clients in the Last 3 Months.. 79

Table 52. Expectations of Business Listings/ Engagements from New Clients in the Next 3 Months 85

Table 53. Expectations for Business Valuation Multiples in the Next 3 Months 85

Table 54. General Business and Industry Assessment: Today versus 12 Months Ago 87

Table 55. General Business and Industry Assessment: Expectations over the Next 12 Months 87

Table 56. Fees Charged 89

Table 57. Median Percentage or Amount Charged 90

Table 58. Spread (%) 90

Table 59. Typical Current Requirements 91

Table 60. Discount fee (%) on Outstanding Invoices for Notification Basis 91

Table 61. Expected Total Write-off – Percentage of Receivables Purchased on New Arrangements (%) 92

Table 62. Average Number of Days Outstanding Receivables 92

Table 63. General Business and Industry Assessment: Today versus 12 Months Ago 94

Table 64. General Business and Industry Assessment Expectations over the Next 12 Months 94

Table 65. Annualized Expected Returns from Leases Booked during the Past 12 Months 97

Table 66. General Business and Industry Assessment: Today versus 12 Months Ago 98

Table 67. General Business and Industry Assessment Expectations over the Next 12 Months 98

Table 68. General Business and Industry Assessment: Today Versus Twelve Months Ago 116

Table 69. General Business and Industry Assessment Expectations Over the Next 12 Months 117

Table 70. Median Percentage or Amount Charged 120

Table 71. Expected Total Write-off – Percentage of Receivables Purchased on New Arrangements (%) 121

INDEX OF FIGURES

Figure 1. Private Capital Market Required Rates of Return 3

Figure 2. Entity Type 6

Figure 3. Assets under Management or Investable Funds 7

Figure 4. Current Asset Allocation for "Alternative Assets" (% of total portfolio) 7

Figure 5. Target Asset Allocation for "Alternative Assets" (% of total portfolio) 7

Figure 6. Target Asset Allocation by Assets 8

Figure 7. Annual Return Expectations for New Investments 8

Figure 8. Assets with the Best Risk/Return Trade-off Currently 9

Figure 9. Industry with the Best Risk/Return 9

Figure 10. Geographic Regions of the World Offering the Best Risk/Return Tradeoff Currently 9

Figure 11. Issues Facing Privately-Held Businesses 10

Figure 12. Description of Lending Entity 12

Figure 13. Participation in Government Loan Programs 12

Figure 14. Typical Investment Size 13

Figure 15. Borrower Motivation to Secure Financing (past 12 months) 14

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

Figure 17. Revenue Growth Rate – Average Borrower Data 16

Figure 18. Revenue Growth Rate - Limit Not to Be Exceeded 17

Figure 19. Typical Investment Size 20

Figure 20. Typical EBITDA Sizes for Companies Booked 21

Figure 21. Asset-Based Loans Decline Rate 22

Figure 22. Borrower Motivation to Secure Financing (past 12 months) 23

Figure 23. Reason for Declined Loans 24

Figure 24. Issues Facing Privately-Held Businesses 24

Figure 25. SBIC (small business investment) Firms 27

Figure 26. Type of Business for Investments Planned over Next 12 Months 28

Figure 27. Total Number of Investments Made in the Last 12 Months 28

Figure 28. Number of Follow-on Investments Made in the Last 12 Months 29

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

Figure 30. Number of Follow-on Investments Planned over Next 12 Months 29

Figure 31. Size of Sponsored Deals in the Last 12 Months 30

Figure 32. Size of Non-Sponsored Deals in the Last 12 Months 31

Figure 33. Borrower Motivation to Secure Mezzanine Funding (past 12 months) 32

Figure 34. Items Required to Close One Deal 32

Figure 35. Private Business Sales Transactions Closed in the Last 12 Months 37

Figure 36. Business Types That Were Involved in the Transactions Closed in the Last 12 Months 38

Figure 37. Average Number of Months to Close One Deal 38

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

Figure 39. Percentage of Business Sales Engagements Terminated Without Transacting 39

Figure 40. Reasons for Business Sales Engagements Not Transacting 39

Figure 41. Valuation Gap in Pricing for Transactions That Didn't Close 39

Figure 42. Usage of Valuation Methods 40

Figure 43. Usage of Multiple Methods 40

Figure 44. Components of Closed Deals 40

Figure 45. Percent of Transactions Involved Strategic and Financial Buyers 42

Figure 46. Premium Paid by Strategic Buyers Relative to Financial Buyers 42

Figure 47. Percent of Transactions Involved Strategic and Financial Buyers 42

Figure 48. Issues Facing Privately-Held Businesses 43

Figure 49. Typical Investment Size 46

Figure 50. Type of Business for Investments Planned over Next 12 Months 47

Figure 51. Total Number of Investments Made in the Last 12 Months 47

Figure 52. Number of Follow-on Investments Made in the Last 12 Months 47

Figure 53. Number of Total Investments Planned over Next 12 Months ... 48

Figure 54. Number of Follow-on Investments Planned over Next 12 Months ... 48

Figure 55. Size of Buyout Investments in the Last 12 Months ... 48

Figure 56. Size of Non-Buyout Investments in the Last 12 Months ... 49

Figure 57. Usage of Valuation Approaches ... 51

Figure 58. Usage of Multiple Methods ... 51

Figure 59. Items Required to Close One Deal ... 52

Figure 60. Exit Plans for Portfolio Companies ... 52

Figure 61. Minimum and Expected Annual Growth Rates for Investee ... 53

Figure 62. Issues Facing Privately-Held Businesses ... 55

Figure 63. Total Number of Investments Made in the Last 12 Months ... 57

Figure 64. Number of Follow-on Investments Made in the Last 12 Months ... 57

Figure 65. Number of Total Investments Planned over Next 12 Months ... 58

Figure 66. Number of Follow-on Investments Planned over Next 12 Months ... 58

Figure 67. Type of Business for Investments Planned over Next 12 Months ... 59

Figure 68. Geographic Location of Planned Investment over Next 12 Months ... 60

Figure 69. Usage of Valuation Methods ... 60

Figure 70. Usage of Multiple Methods ... 60

Figure 71. Exit Plans for Portfolio Companies ... 61

Figure 72. Current Issues Facing Privately-Held Businesses ... 61

Figure 73. Total Number of Investments Made in the Last 12 Months ... 63

Figure 74. Number of Follow-on Investments Made in the Last 12 Months ... 63

Figure 75. Number of Total Investments Planned over Next 12 Months ... 64

Figure 76. Number of Follow-on Investments Planned over Next 12 Months ... 64

Figure 77. Type of Business for Investments Planned over Next 12 Months ... 64

Figure 78. Geographic Location of Planned Investment over Next 12 Months ... 65

Figure 79. Geographical Limit for Investment ... 66

Figure 80. Usage of Multiple Methods 66

Figure 81. Items Required to Close One Deal 67

Figure 82. Exit Plans for Portfolio Companies 67

Figure 83. Annual Revenues of Companies Valued 70

Figure 84. Usage of Valuation Methods 70

Figure 85. Usage of Multiple Methods 71

Figure 86. Average Risk-Free Rate, Market (equity) Risk Premium, Industry Risk Premiums and LT Growth Rate 71

Figure 87. Discount for Lack of Marketability (DLOM) by Revenue Sizes 72

Figure 88. Overall Comfort Level with Applying Public Cost of Capital to Private Companies of Various Sizes 72

Figure 89. Explicit Forecast Period for High-Growth Companies by Revenue Sizes (years) 72

Figure 90. Size Premiums for Private Companies by Revenue Size 73

Figure 91. Company Specific Risk Premiums by Revenue Size 73

Figure 92. Issues Facing Privately-Held Businesses 73

Figure 93. Private Business Sales Transactions Closed in the Last Twelve Months 75

Figure 94. Private Business Sales Transactions Expected to Close in the Next Twelve Months 75

Figure 95. Typical Size of Business Transactions 76

Figure 96. Business Transactions in the Last 12 Months 76

Figure 97. Did Respondents Close More Transactions in 2018 than in Previous Years 76

Figure 98. Best Client Arrived By: 77

Figure 99. Types of Referrals 77

Figure 100. Best Marketing Tactic Use in Finding Client Besides Referral 78

Figure 101. Was It Buyer's or Seller’s Market in the Last 3 Months 78

Figure 102. Median Number of Months from Listing / Engagement to Close by Deal Size 79

Figure 103. Median Number of Months from LOI / Offer to Close by Deal Size 79

Figure 104. Median SDE Multiple Paid by Deal Size 80

Figure 105. Median EBITDA Multiple Paid by Deal Size 80

Figure 106. Multiple Types by Deal Size 81

Figure 107. Buyer Type by Deal Size 81

Figure 108. Reason for Seller to Go to Market by deal Size 82

Figure 109. Buyer Location by Deal Size 82

Figure 110. Number One Motivation for Buyer by Deal Size 83

Figure 111. Median Percentage of Final/ Selling Price Realized to Asking/ Benchmark Price by Deal Size 83

Figure 112. Financing Structure by Deal Size 84

Figure 113. Exit Planning 84

Figure 114. Amount of Exit Planning Prior to Marketing Business 85

Figure 115. Do Respondents Agree with Economists That We Are in Strong M&A Market 86

Figure 116. How Long Will the Strong M&A Market Last 86

Figure 117. Primary Use of the Factoring Facilities Over the Last 12 Months 88

Figure 118. Industries for Gross Invoices for the Last 12 Months 88

Figure 119. Term of Current Typical Factoring Facility 89

Figure 120. Current Average Advance Rates for Various-Sized Facilities 89

Figure 121. Percentage of Factoring Business - Recourse vs Non-recourse 90

Figure 122. Percentage of Purchases on a Non-notification Basis 91

Figure 123. Most Significant Concern to Factoring Business 92

Figure 124. Issues Facing Privately-Held Businesses 93

Figure 125. Types of Financing Sources Respondents Lost Transactions to in the Last 12 Months 93

Figure 126. Typical Size of Business Leases 95

Figure 127. Business Leases Booked in the Last Twelve Months 95

Figure 128. Business Leases Expected to Book in the Next Twelve Months 96

Figure 129. Industries to Have Lease Agreements Executed in the Next Twelve Months 96

Figure 130. Lease Terms from Leases Booked during the Past Twelve Months (Years) 96

Figure 131. Issues Facing Privately-Held Businesses 97

Figure 132. Respondents Distribution by State 99

Figure 133. Description of Entity 100

Figure 134. Number of Employees 100

Figure 135. Ownership Role 101

Figure 136. Annual Revenues 101

Figure 137. Annual Revenues Change in the Last 12 Months 102

Figure 138. Annual Revenues Change Expectations in the Next 12 Months 102

Figure 139. Net Income 103

Figure 140. Current Sources of Financing 103

Figure 141. Capital Sources Contacted to Raise Capital in the Last 12 Months 104

Figure 142. Success Rates 104

Figure 143. Average Number of Capital Providers Contacted 105

Figure 144. Amount of Capital Attempted to Raise in the last 12 Months 105

Figure 145. Average Time to Complete Financing Process in Days 106

Figure 146. Days Spent During the Process to Successfully Obtain Financing 106

Figure 147. Next Steps to Satisfy Financial Needs 107

Figure 148. Reasons for Not Trying to Obtain Capital in the Last 12 Months 107

Figure 149. Willingness to Obtain Financing 108

Figure 150. The Most Important Area to Focus On 108

Figure 151. Number of Employees Planned to be Hired 109

Figure 152. Reasons Preventing Privately-Held Businesses from Hiring 109

Figure 153. Government Policies to Lead to Job Creation 109

Figure 154. The Skills in Demand for New Hires 110

Figure 155. Need for Training of New Hires 110

Figure 156. Cost of Equity Capital 111

Figure 157. Usage of Financial Analysis by Revenue Sizes 111

Figure 158. Level of Knowledge of Financing Components 112

Figure 159. Anticipation of the Ownership Transfer 112

Figure 160. Private Equity vs Initial Public Offering 113

Figure 161. General Views on Initial Public Offering and Private Equity ... 113

Figure 162. The Number One Issue Facing Privately-Held Businesses Today by Revenue Sizes ... 114

Figure 163. The Number One Emerging Issue Facing Privately-Held Businesses by Revenue Sizes ... 114

Figure 164. Firm Age ... 115

Figure 165. Types of Companies ... 115

Figure 166. Protected Intellectual Property ... 115

Figure 167. Business Types of Cash Advance Customers ... 118

Figure 168. Typical Terms of Cash Advance Agreements ... 118

Figure 169. Primary Uses of The Cash Advances ... 119

Figure 170. Size of Average Advance ... 119

Figure 171. Typical Factor Rate ... 119

Figure 172. Typical Holdback Rate ... 120

Figure 173. Fees Charged ... 120

Figure 174. Typical Time of Funding (days) ... 121

Figure 175. Minimum Required Sales Revenue (Thousands) ... 121

Figure 176. Minimum Required Personal Credit Score ... 121

Figure 177. Typical Requirements ... 122

Figure 178. Types of Financing Sources Respondents Lost Transactions to in the Last 12 Months ... 122

