CEA GROUP
Investment Banking
Mergers & Acquisitions | Capital Raising

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2018 2nd Quarter Recap

Macroeconomics

Interest Rates

2018 marked the end of Federal Reserve Chair Janet Yellen term as she stepped down to welcome the new Chair Jerome Powell. Janet Yellen served as head of the Federal Reserve from February 2014 to February 2018. In her time served, she raised the Federal Funds Rate five times from effectively 0.00% to 1.50% as the Federal Reserve tried to normalize the benchmark interest rate. Since Jerome Powell took over in February of 2018, he has raised the Federal Funds Rate twice: to 1.75% in March 2018 and again in April 2018 to 2.00%. The Federal Reserve is projecting to increase the Federal Funds Rate to 2.40% by the end of 2018, to 2.90% in 2019, and to 3.40% in 2020. The decision to raise rates can be attributed to factors such as an accelerating economy that is exceeding forecasts and a strengthening labor market with lower than expected unemployment.

Unemployment

The United States Unemployment Rate fell from 4.10% in January of 2018 to 3.80% in May 2018, marking the lowest point since April 2000. The unemployment rate has only hit this level a handful of times in history, with the most recent during the dot com bubble in 2000 and then previously in the late 1960s. In June 2018, the unemployment rate rose to 4.00% (a good thing) as more individuals entered the labor force than expected. Average hourly earnings for private workers have risen 2.70% YoY, which isn't enough to evoke inflationary fears. A low unemployment rate with growing workforce participation is indicative of an expanding economy, if workforce participation was decreasing this would show a false positive as people dropped out of the labor force.

Oil

Crude Oil prices have increased throughout 2018, originally starting the year off at $60.37 per barrel and increasing to $74.15 per barrel by the end of Q2. Oil prices have risen due to a strengthening economy and global supply shortage. Economic turmoil in Venezuela inhibits the nation to produce the needed Oil supply while economic sanctions on Iran, whom is the world's 5th largest exporter of Crude Oil, further reduce the global supply of Oil. This has increased global dependence on domestically produced Oil and imports from Saudi Arabia.

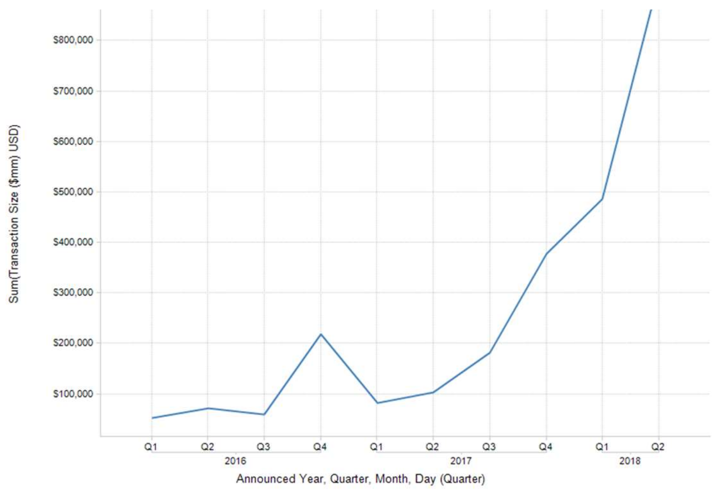
Trade Wars

The 2nd quarter of 2018 started with persistent fears over trade wars continuing through to the end of the quarter, with no resolutions for the trade conflicts. The continued escalation in global trade tensions poses the most obvious threat to global economic forecasting. With multiple dimensions on how a potential trade war can influence economic expansion or contraction. Direct effects are represented by increasing prices and the drag on economic activity resulting from imposed tariffs and supply chain interruptions. Indirect effects are seen through economic drags from tightening financial conditions or losses in business and decreasing consumer confidence.

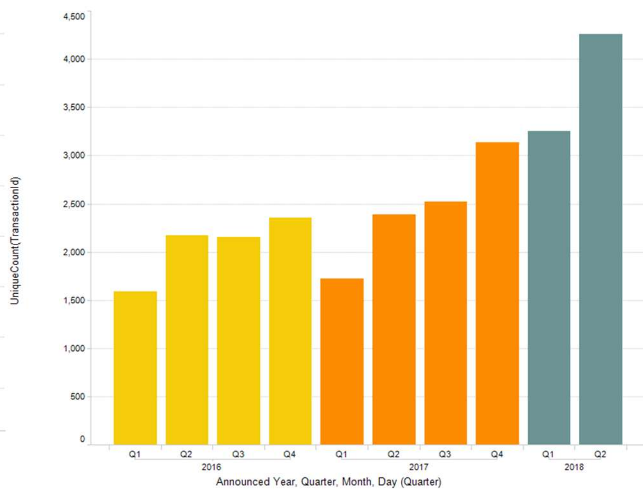
2nd Quarter Notable M&A Deal Activity

There has been an increasing trend of M&A announcements since Q1 of 2017. This can be attributed to a multitude of factors but the consensus points to a booming economy pushing M&A transactions forward. The restructuring of the Tax Code since President Trump has come into office has spurred capital flows into the country, allowing more cash to be invested in inorganic growth initiatives.

Announced Transaction Values



Announced Transaction Count



Below is a brief sampling of some of the interesting deals which have occurred in the first half of 2018:

The Mega Deals

- **Marathon Petroleum** announced the acquisition of **Andeavor** on April 27, 2018 for an agreed upon price of $23.3 billion. This merger would create the largest US refinery by capacity and one of the top five largest refiners globally.
  - This transaction is expected to close in the 2nd half of 2018 and has received unanimous board approval by both companies.
  - The announced merger follows Andeavor's acquisition of Western Refining Inc. which was completed on June 1, 2017 for $6.4 billion.
- **The Walt Disney Corporation** adjusted its acquisition price for **21st Century Fox** to $85.1 billion on June 20, 2018. According to the Department of Justice, 21st Century Fox must divest their sports networks to receive regulatory approval.
  - There seems to be a trend emerging in 2018 where media giants and communications providers are acquiring each other, shown by AT&T's acquisition of Time Warner closing in June of this year.

The Regional Deals

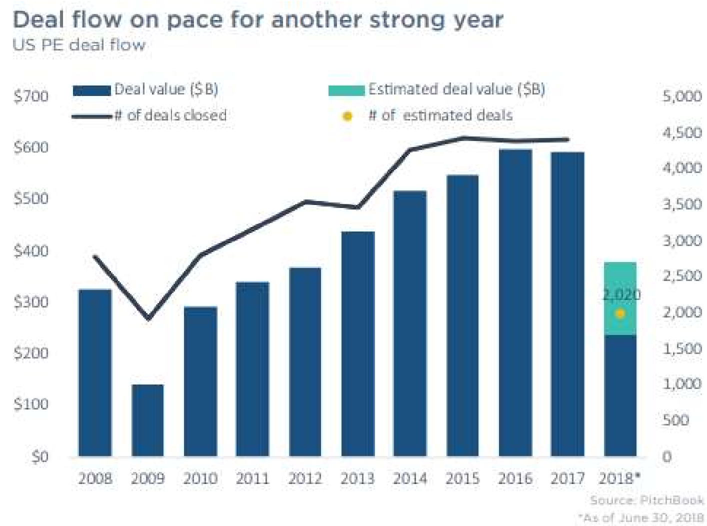
- **Ryder System** acquired **Metro Truck & Tractor Leasing**, which operates in the Washington, D.C. and Baltimore markets.
  - Terms of the deal were not disclosed by Miami-based Ryder (NYSE: R). The acquired business has facilities in Baltimore and Beltsville, Maryland that offer truck leasing, rental and maintenance to over 150 customers. It has a fleet exceeding 900 units.
  - Ryder also purchased mobile maintenance vehicles to serve its customers in the Washington and Baltimore areas.
- **Ameris Bancorp** (Nasdaq: ABCB) (the "Company") announced that it completed the acquisition of **Hamilton State Bancshares, Inc.** ("Hamilton") as of June 29, 2018. Immediately following the acquisition, Hamilton's banking subsidiary, Hamilton State Bank, was merged with and into the Company's banking subsidiary, Ameris Bank, with Ameris Bank the surviving bank in the merger. Hamilton State Bank previously operated 28 banking locations, with 24 located within the Atlanta MSA, two located in the Gainesville, Georgia MSA and the remaining two locations near the Atlanta MSA.
  - Under the terms of the merger agreement between Hamilton and the Company, Hamilton's shareholders are entitled to receive for each share of Hamilton voting and non-voting common stock outstanding $0.93 in cash and 0.16 shares of the common stock of the Company. Cash will be paid in lieu of fractional shares of the Company's common stock.

The Local Deals

- **Roper Technologies Inc.** agreed to sell a business unit that makes instruments and software for electron microscopes to **Thermo Fisher Scientific Inc.**
  - Thermo Fisher (NYSE: TMO) will pay $925 million in cash for Gatan Inc., a wholly-owned subsidiary of Roper.
  - Roper (NYSE: ROP), a Sarasota software and engineered products firm, bought Gatan 22 years ago, paying about $51.8 million, according to a May 1996 *Wall Street Journal* report about the deal. Gatan was expected to report revenue of about $26.5 million in revenue for the fiscal year beginning May 31, 1996, the *Journal* said.
- **Tarrant Concrete Co.** will now be part of **LafargeHolcim Ltd.**, a building products company that recorded sales of more than $26 billion last year, the companies announced Tuesday.
  - LafargeHolcim noted that the Dallas-Fort Worth metro area has averaged a 2% annual population growth rate over the last decade, adding a total of 1.3 million residents during that time. That kind of population growth translates into more building and more business for concrete companies.
  - By being highly complementary to our existing business, Tarrant Concrete will allow us to expand our ability to serve customers in a high growth area of Texas," said Jan Jenisch, CEO of LafargeHolcim, in a prepared statement.

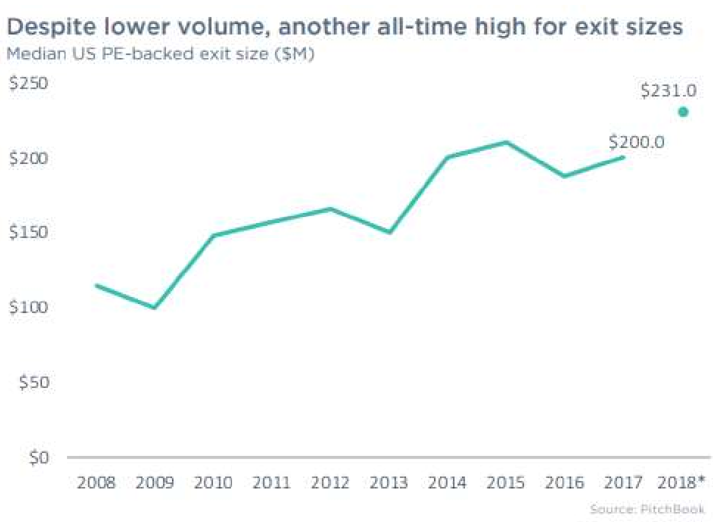
Middle Market Private Equity

Looking back over the first half of 2018, Middle Market Private Equity activity took off. Deal volume increased 2% in volume and decreased 6% in value totaling 2,247 deals worth $263.9 billion in value, relative to the first half of 2017. As fundraising activity continues, easy access to credit and increasing dry powder will stay the main factors to this success. These same drivers will continue to increase deal flow into the second half of 2018, experts predict.



In the past, growth equity was often forgotten as a portion of the Private Equity market. Concluding the first half of 2018, growth equity transactions made up 23% of all Private Equity deals, keeping on track with the 10-year trailing average of 22%. Non-tech companies in their expansion phase tend to be most in need of growth capital.

As the volume of Private Equity deals have grown, the size of these deals has also grown. During the first half of 2018, the median deal size increased to $197.1 million, a 31% increase from the average deal size in 2017. Firms can afford to pay higher price multiples due to the increase in fund sizes. This has created a “bidding war” scenario between fund managers for multiple deals. Because of these factors, only 40% of deals in first half of 2018 have been under $25 million, the lowest such percentage since 2007. Along with deal sizes, Private Equity targeted companies have also changed. From 2011 to 2018, the number of publicly traded companies targeted by Private Equity firms has shrunk from 2.9% to 1.4%.



Concluding the first half of 2018, Private Equity exit volume has trended downwards for the third year in a row. US CEO’s economic outlook continues to stay at record levels; with cheap credit financing and fierce competition, median transaction values are making new highs.

Recently, there has been a record number of Private Equity portfolio companies exiting to other Private Equity funds. This transaction is known as a secondary buyout and have accounted for over half of the exits in the first half of 2018, the highest number on record. The increase in secondary buyouts have been accompanied by an increasing number of IPOs. This activity has suppressed corporate acquisitions, whose proportion of exits has decreased consecutively since 2011. Corporate acquirers have still been active in this space; however, they are unable to keep up with the appetite of secondary buyouts from Private Equity firms. Experts believe that corporations will continue to actively purchase Private Equity backed companies and now Private Equity firms have more exit opportunities for their portfolio companies.

Industry Spotlight:

Insurance Companies and Agencies

2017 was a slow year for Mergers & Acquisitions activity in the insurance industry. Towards the end of 2017, activity started to pick up and accelerated through the first half of 2018. In the first three months of this year, we saw two mega deals. In January, AIG announced plans to acquire the outstanding common shares of Validus Holdings for $5.6 billion in cash. Then in March it was revealed that AXA agreed to pay $15.3 billion in cash to purchase XL Group. With two large acquisitions so early in the year, we are expecting to see an uptick in deal activity as smaller insurance carriers aim to grow.

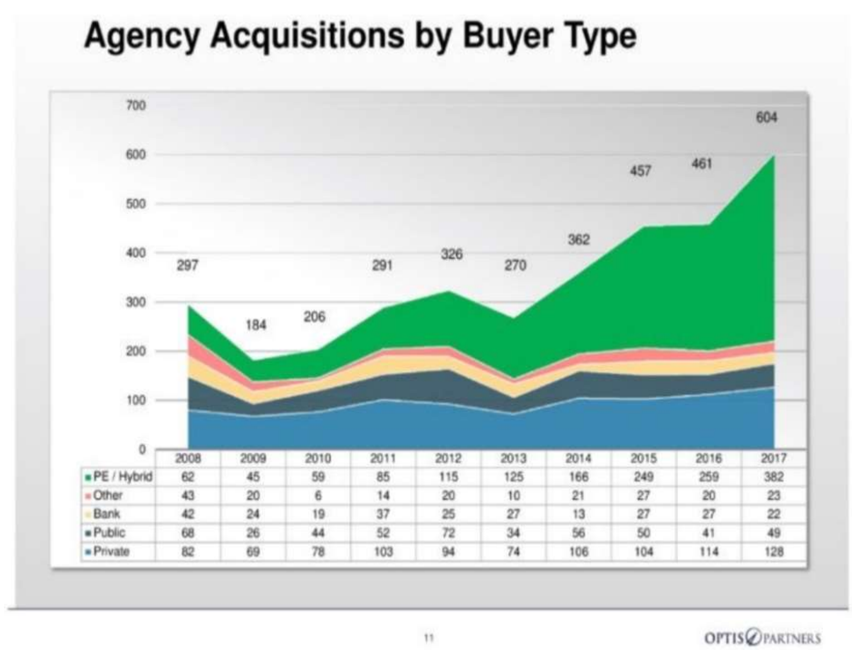
M&A will become an even more attractive option for insurers due to the challenging operating environment of recent years. As the industry starts to crowd, small and midsized insurers are likely to consolidate to achieve scale while remaining competitive. This includes strategic acquisitions of smaller firms including insurtech startups.

There has been a growing trend in the consolidation of insurtech startups as technology. Previously, insurers invested solely in technology to improve distribution, administration, and internal controls. However, now insurers are leveraging technology to make smarter decisions through telematics and data analytics. These start up acquisitions can come with solutions from improving pricing and customer experiences as well as improving back office functions.

In addition, the insurance brokerage and agency industry has seen a massive roll up in recent years. There has been increased interest by Private Equity groups to enter the insurance brokerage and agency industry, which is pushing up valuations. Private equity groups have been incentivized due to the noncyclical nature of this business along with a recurring revenue model with increasing margins.

Pre-financial crisis Private Equity groups accounted for less than 20% of acquisitions in the insurance brokerage and agency industry but recently have climbed higher than 50% of the acquisition activity as they attempt to roll up this industry.

According to one source, there were 604 reported agency and brokerage transactions in the US & Canada in 2017. That's an increase of 31% over the 461 transactions completed in 2016. In 2017, the top five buyers consisted of Acrisure (92 acquisitions), Hub International (49 acquisitions), Alera Group (38 acquisitions), Broadstreet Partners (32 acquisitions), and Gallagher (30 acquisitions). It's important to note that all of these were classified as Private Equity backed buyers or privately-owned buyers with material financial support, except for publicly owned Gallagher.



4 Ways CEOs Kid Themselves About an Exit

Giff Constable Axial | June 13, 2018

(Reprinted with permission from Axial)

It's not easy being a CEO, let alone surviving an exit process while in the hot seat. I've been through three, most recently selling Neo to Pivotal (PVTL). While there are many classic mistakes to avoid, this series is really about the ways we deceive ourselves. Here are four:

Self-deception #1: "My buddy Joe got 10x for his business, so I can too."

One of the most dispiriting things for a good banker, all of whom are trying to help their clients achieve their best outcome (I promise), is to meet a CEO or owner with crazy valuation expectations.

A surprising number of people fall prey to fantastical "what if" thinking. The way to keep yourself grounded is to be realistic about your own context, by which I mean the industry, size, growth rate, and overall health of your business.

First of all, get free advice from relevant bankers. Filter out the ones who just tell you what you want to hear. If they have done relevant deals in your industry, they likely will know "comparables" for how companies like yours are exiting. Bankers know that they have to build trust with potential clients — use that to your advantage to get market intel and market knowledge.

Second, be realistic about whether you have strength or weakness in terms of supply and demand in your market. In the real world, valuation isn't set by financial theory, but rather by what someone is willing to pay. I don't believe in super-broad auctions, but I do believe in competition and leverage.

Of course, when you have the right leverage, you can often beat the comparables. For example, in 2005, my colleagues and I advised Tax Partners on their sale to Thomson Reuters. Thomson is an infamously tough negotiator, but because we had two motivated parties AND we managed to keep either from walking too early, we basically doubled the expected price.

Self-deception #2: "I might be worth X today, so I'll be worth much more tomorrow"

Have you ever thought to yourself, "I think my business is pretty valuable today, but if I can hit my goals for the next two years, it's going to be amazing!" That might be true, but just be very clear-eyed about two things:

The first is execution risk. At Broadview/Jefferies, we sold a fintech company called OIS to SS&C. OIS had extremely rosy projections. They were *convinced* of their plans and had a lot of data to back it up. I ran into the founder/CEO a year after they were bought. It turned out that market conditions changed and they totally missed their numbers. I think that he was pretty glad he exited when he did.

The second concern is macro risk. The American economy has had a pretty good run for almost a decade now, and human memories are short. But anyone who remembers trying to sell or raise money in 2007/8, or 2002/3, or 1990/1, or even 1981/2 (you get the picture), remembers how hard it was. Buyers and capital froze up. I hope that this run continues for a good long while, but I do believe that we are in the latter innings of this particular economic cycle. It might sound like I'm saying, "sell now!" but I'm really just saying, "stay clear-eyed about your goals, your timing, and the possibilities."

Self-deception #3: "I know how to sell — why do I need a banker?"

The most critical advisor to have during an exit is a great lawyer. That said, I also am a firm believer in having a banker involved. Not a lot of people talk about this, but when push comes to shove, the most valuable thing a banker brings to the table is acting as a *skilled* buffer between the two sides. So, is that really worth the fee?

When I sold my first startup, Ithority, I didn't use a banker but the buyer did. His involvement saved the deal. When I was a banker, I and my colleagues also saved deals on behalf of our clients. The reason why is very simple and very human. In deal negotiations, emotions run high, and your banker can prevent things from overheating past the point of no return.

Yes, there are other elements of value add, not least wisdom around negotiation and process, freeing you up to keep a hand on the wheel of the business, and maybe even keeping you and your family sane through the process, but if I'm honest, just by being a skilled and experienced buffer, bankers keep good deals from blowing up. A fee on a good deal is better than no fee on no deal.

Self-deception #4: "I'll talk to buyers when it's time to sell"

The famous tech investor, Paul Graham, once wrote an entire essay *Don't Talk to Corp Dev*, laying out all the dangers of wasting time with corp dev types. I completely disagree. Yes, be aware of possible shenanigans, but here's the thing:

It's harder to get a process moving from a standing start. Remember how I wrote about supply and demand up top? Regardless of how narrowly you want to run your process, you *will* want competition. Unquestionably, Axial can help you and your banker by connecting you with relevant, active counter-parties, but you should also build informal relationships with potential acquirers. You want to be on each other's radar. It will make it easier to get momentum if you ever do decide that the time has come to seek an exit.

Sources used in this publication: CEA Research, Axial, CapitalIQ, Pitchbook, Optis Partners, JPMorgan Research

About CEA:

Founded in 1973, CEA is a leading provider of investment banking services locally, nationally and internationally. With a team of highly experienced personnel worldwide, CEA has an unequaled depth and breadth of industry knowledge, expertise and long-standing industry relationships. CEA has completed over 900 transactions totaling $45 billion in 60 countries and, through its affiliates, previously managed or co-managed private equity funds with $1.15 billion under management. The CEA reputation and track record of success are built on delivering innovative, value-added solutions and services to clients worldwide.

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