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2017 Private Capital Markets Report

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2017 Private Capital Markets Report

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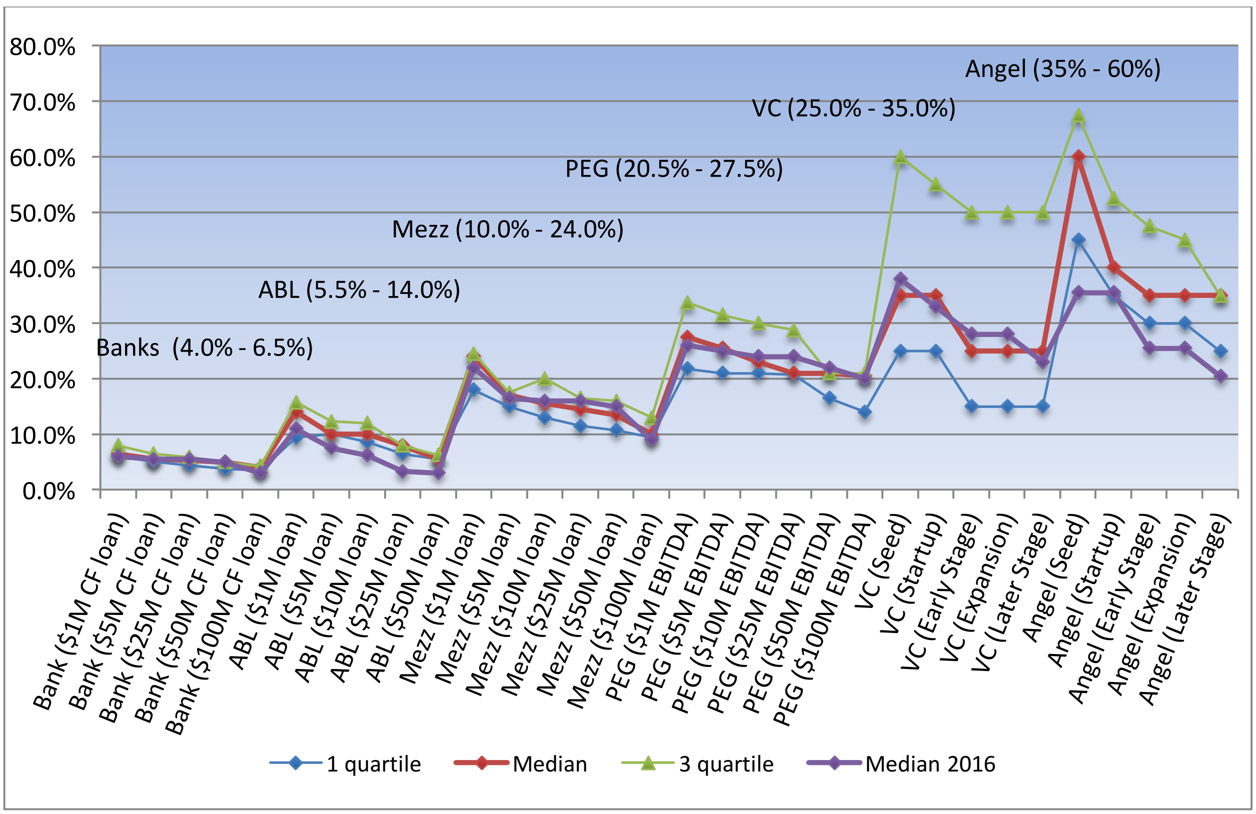
PEPPERDINE PRIVATE CAPITAL MARKETS SURVEY

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

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

Figure 1. Private Capital Market Required Rates of Return



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

Table 1. Private Capital Market Required Rates of Return

	1st quartile	Median	3rd quartile
Bank ($1M CF loan)	6.0%	6.5%	8.0%
Bank ($5M CF loan)	5.1%	5.5%	6.5%
Bank ($10M CF loan)	4.4%	5.3%	5.9%
Bank ($25M CF loan)	3.8%	5.0%	5.0%
Bank ($50M CF loan)	3.5%	4.0%	4.3%
ABL ($1M loan)	9.4%	14.0%	15.8%
ABL ($5M loan)	10.0%	10.0%	12.3%
ABL ($10M loan)	8.6%	10.0%	12.0%
ABL ($25M loan)	6.5%	8.0%	8.0%
ABL ($50M loan)	5.5%	5.5%	6.3%
Mezz ($1M loan)	18.0%	24.0%	24.5%
Mezz ($5M loan)	15.0%	17.0%	17.5%
Mezz ($10M loan)	13.0%	15.5%	20.0%
Mezz ($25M loan)	11.5%	14.5%	16.5%
Mezz ($50M loan)	10.8%	13.5%	16.0%
Mezz ($100M loan)	9.5%	10.0%	13.0%
PEG ($1M EBITDA)	21.8%	27.5%	33.8%
PEG ($5M EBITDA)	21.0%	25.5%	31.5%
PEG ($10M EBITDA)	21.0%	23.0%	30.0%
PEG ($25M EBITDA)	20.8%	21.0%	28.8%
PEG ($50M EBITDA)	16.5%	21.0%	21.0%
PEG ($100M EBITDA)	14.0%	20.5%	21.0%
VC (Seed)	25.0%	35.0%	60.0%
VC (Startup)	25.0%	35.0%	55.0%
VC (Early Stage)	15.0%	25.0%	50.0%
VC (Expansion)	15.0%	25.0%	50.0%
VC (Later Stage)	15.0%	25.0%	50.0%
Angel (Seed)	45.0%	60.0%	67.5%
Angel (Startup)	35.0%	40.0%	52.5%
Angel (Early Stage)	30.0%	35.0%	47.5%
Angel (Expansion)	30.0%	35.0%	45.0%
Angel (Later Stage)	25.0%	35.0%	35.0%

INVESTMENT BANKER SURVEY INFORMATION

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

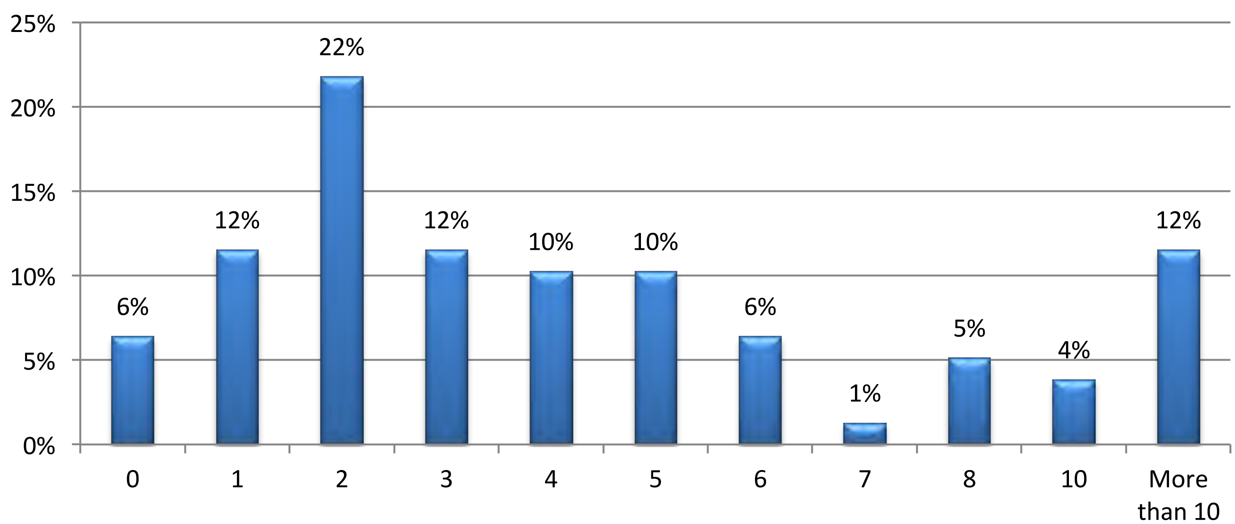
Other key findings include:

- Approximately 50% of respondents expect to close six or more deals in the next 12 months.
- The top three reasons for deals not closing were valuation gap (30%), unreasonable seller/buyer demand (21%), and no market for business (12%).
- Respondents indicated a general balance between companies worthy of financing and capital available for the same. There is a reported shortage of capital for those companies with less than $1 million in EBITDA, but a general surplus for companies with $1 million in EBITDA or more.
- The most popular valuation methods used by respondents when valuing privately-held businesses were guideline company transactions, discounted future earnings, 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 (70%), revenue multiple (11%) and EBITDA (unadjusted) multiple (9%) approaches.

Operational and Assessment Characteristics

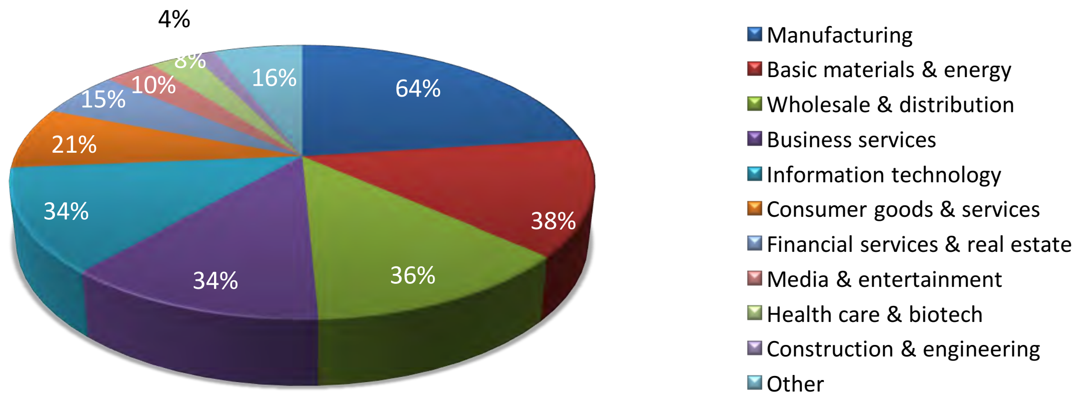
Approximately 6% of the respondents didn't close any deals in the last twelve months; 55% closed between one and five deals, while 38% closed six deals or more.

Figure 2. Private Business Sales Transactions Closed in the Last 12 Months



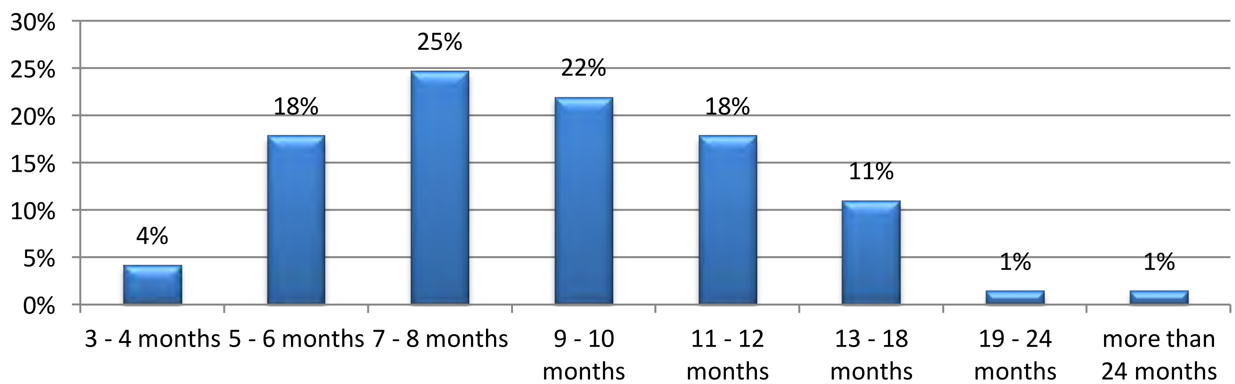
INVESTMENT BANKER cont.

Figure 3. Business Types That Were Involved in the Transactions Closed in the Last 12 Months



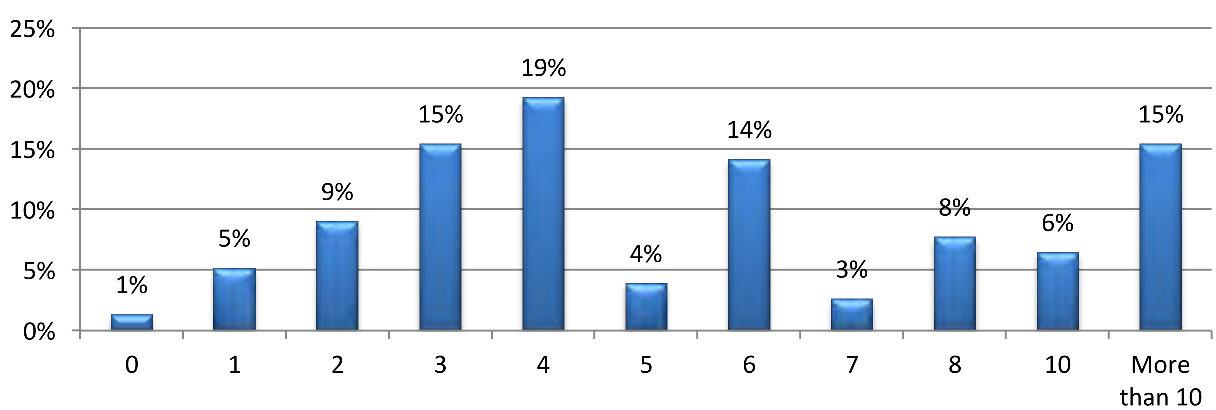
The majority of deals (82%) took 5 to 12 months to close. 14% of closed deals took more than one year to close.

Figure 4. Average Number of Months to Close One Deal



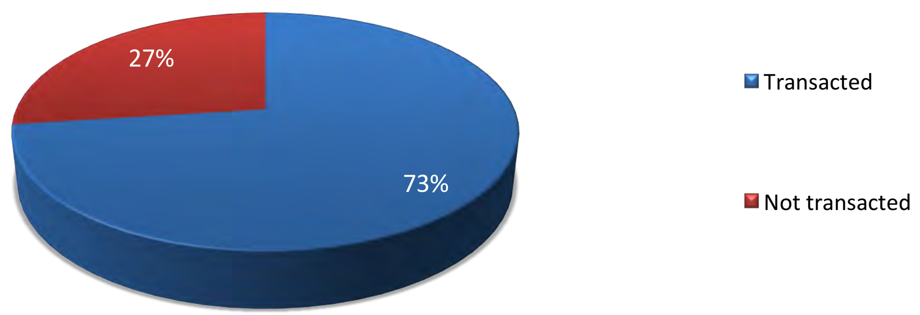
Nearly 53% of respondents expect to close between one and five deals, while 46% expect to close 6 deals or more.

Figure 5. Private Business Transactions Expected to Close in the Next 12 Months



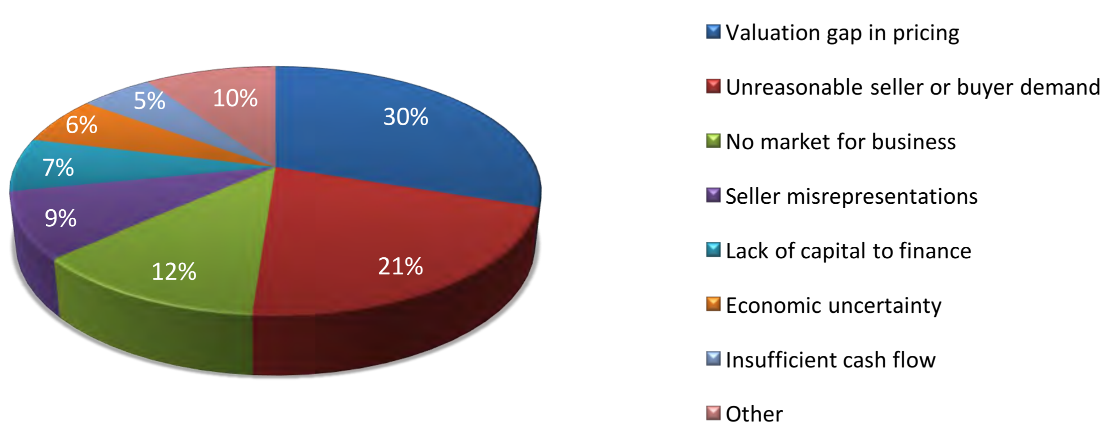
Approximately 27% of deals terminated without transacting over the past year.

Figure 6. Percentage of Business Sales Engagements Terminated Without Transacting



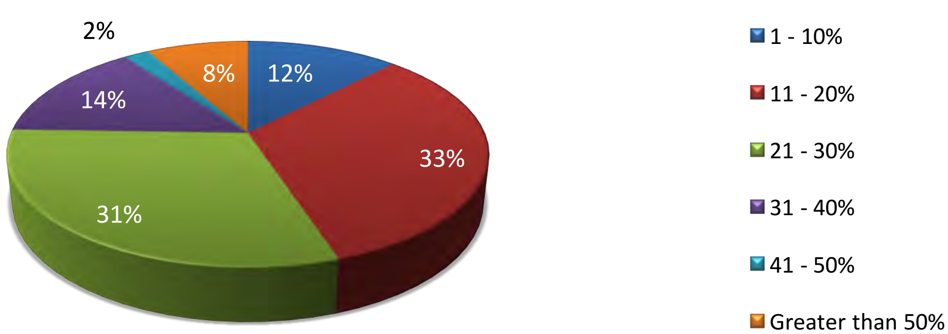
The top three reasons for deals not closing were: valuation gap in pricing (30%), unreasonable seller or buyer demand (21%) and no market for business (12%).

Figure 7. Reasons for Business Sales Engagements Not Transacting



Of those transactions that didn't close due to a valuation gap in pricing, approximately 64% had a valuation gap in pricing between 11% and 30%.

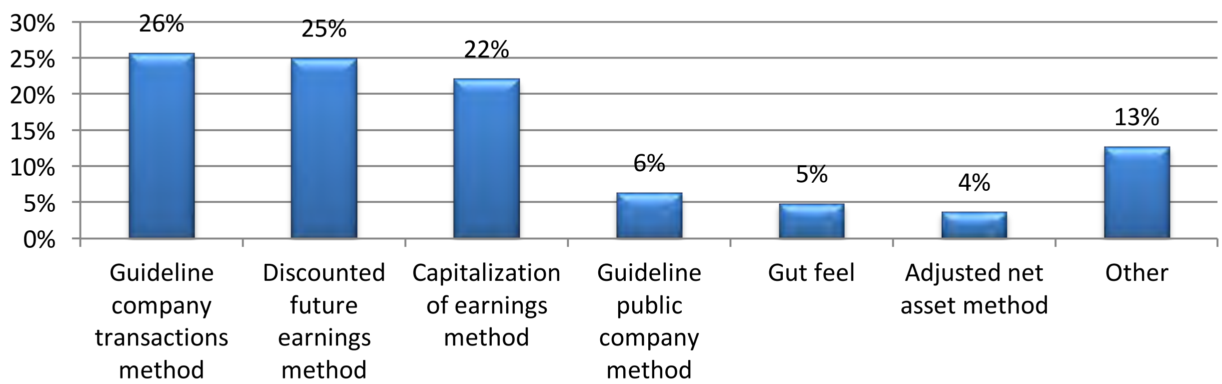
Figure 8. Valuation Gap in Pricing for Transactions That Didn't Close



INVESTMENT BANKER cont.

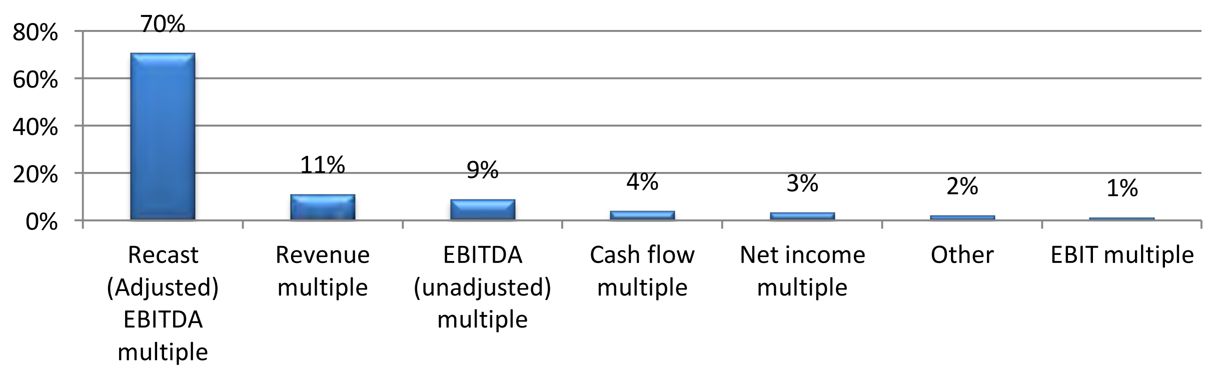
The weights of the various valuation methods used by respondents when valuing privately-held businesses included 26% for guideline company transactions method.

Figure 9. 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 70% of respondents.

Figure 10. Usage of Multiple Methods



Average deal multiples on transactions from the prior twelve months as observed by respondents varied from 3.6 to 8.8.

Table 2. Median Deal Multiples by EBITDA Size of Company

EBITDA	Manufacturing	Construction & engineering	Cons. goods & services	Wholesale & distribution	Business services	Basic materials & energy	Health care & biotech	IT	Financial services	Media & entertain.	**Avg.**
$0K - $999K	4.0	3.0	4.0	4.0	4.3	5.0	5.0	2.0	2.5	2.0	**3.6**
$1M - $4.99M	5.5	5.0	6.0	5.3	6.0	5.3	5.5	6.5	5.0	3.5	**5.4**
$5M - $9.99M	6.8	5.8	8.0	6.0	7.0	6.0	7.5	7.0	5.8	5.0	**6.5**
$10M - $24.99M	7.0	7.0	8.5	7.0	6.3	7.0	9.0	8.5	6.0	7.5	**7.4**
$25M - $49.99M	7.5	7.3	9.0	7.0	6.8	8.5	9.0	9.0	n/a	n/a	**8.0**
$50M+	10.0	7.8	9.0	7.0	6.8	10.0	11.0	10.0	7.5	n/a	**8.8**

INVESTMENT BANKER cont.

Average total leverage multiples observed by respondents varied from 2.5 to 5.6.

Table 3. Median Total Leverage Multiples by Size of Company

EBITDA	Manufacturing	Construction & engineering	Cons. goods & services	Wholesale & distribution	Business services	Basic materials & energy	Health care & biotech	IT	Financial services	Media & entertain.	**Median, all industries**
$0K - $999K	3.5	2.0	2.0	3.0	2.5	n/a	3.0	3.0	1.0	n/a	**2.5**
$1M - $4.99M	4.0	3.8	3.5	3.5	3.0	3.5	4.3	4.0	3.8	2.8	**3.6**
$5M - $9.99M	4.0	4.0	4.0	4.3	4.0	n/a	4.3	4.3	5.3	n/a	**4.3**
$10M - $24.99M	4.5	4.0	4.5	4.5	5.0	n/a	5.5	4.5	7.5	n/a	**5.0**
$25M - $49.99M	5.0	4.5	4.8	4.5	5.0	n/a	6.0	5.0	n/a	n/a	**5.0**
$50M+	6.0	4.8	5.8	5.8	5.5	n/a	6.5	5.0	n/a	n/a	**5.6**

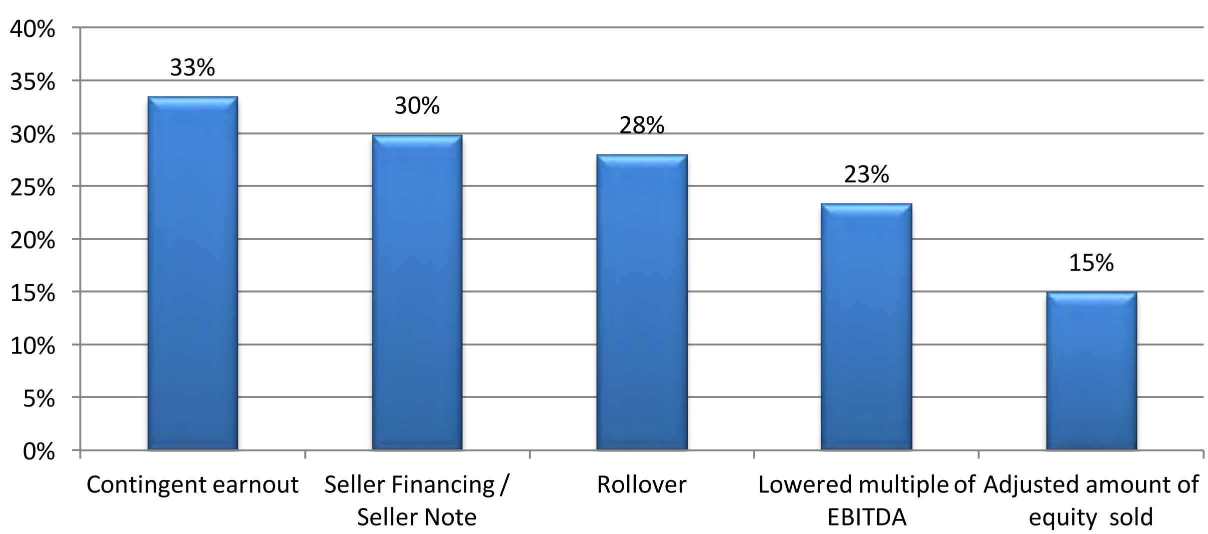
Average senior leverage multiples observed by respondents varied from 1.8 to 4.6.

Table 4. Median Senior Leverage Multiples by Size of Company

EBITDA	Manufacturing	Construction & engineering	Cons. goods & services	Wholesale & distribution	Business services	Basic materials & energy	Health care & biotech	IT	Financial services	Media & entertain.	**Avg.**
$0K - $999K	**2.5**	**1.8**	**2.0**	**1.5**	**2.0**	**n/a**	**2.5**	**1.0**	**2.0**	**1.0**	**1.8**
$1M - $4.99M	**2.8**	**2.0**	**2.0**	**2.3**	**2.0**	**2.5**	**3.0**	**2.0**	**3.3**	**2.0**	**2.4**
$5M - $9.99M	**3.0**	**2.5**	**2.5**	**2.5**	**2.0**	**n/a**	**4.3**	**2.5**	**3.5**	**n/a**	**2.8**
$10M - $24.99M	**3.5**	**3.0**	**4.0**	**2.5**	**3.0**	**3.0**	**5.0**	**2.5**	**n/a**	**n/a**	**3.3**
$25M - $49.99M	**5.0**	**3.0**	**4.0**	**3.0**	**3.3**	**n/a**	**5.8**	**2.5**	**n/a**	**n/a**	**3.8**
$50M+	**7.0**	**3.5**	**5.0**	**3.0**	**3.5**	**n/a**	**6.3**	**3.0**	**5.3**	**n/a**	**4.6**

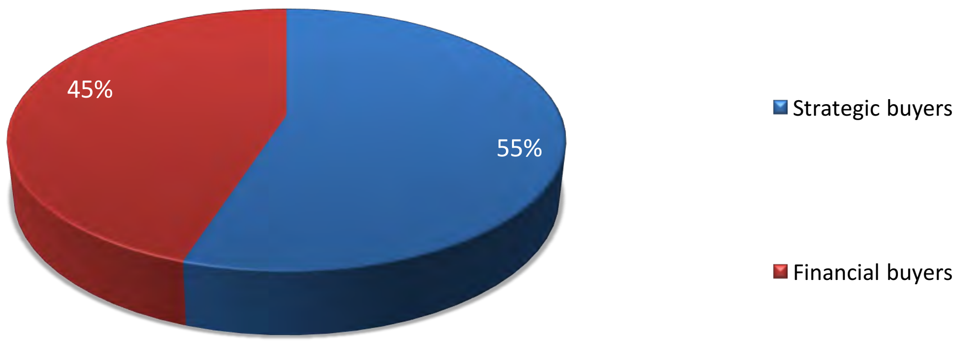
Approximately 33% of business sales transactions closed in the last 12 months involved contingent earnout.

Figure 11. Components of Closed Deals



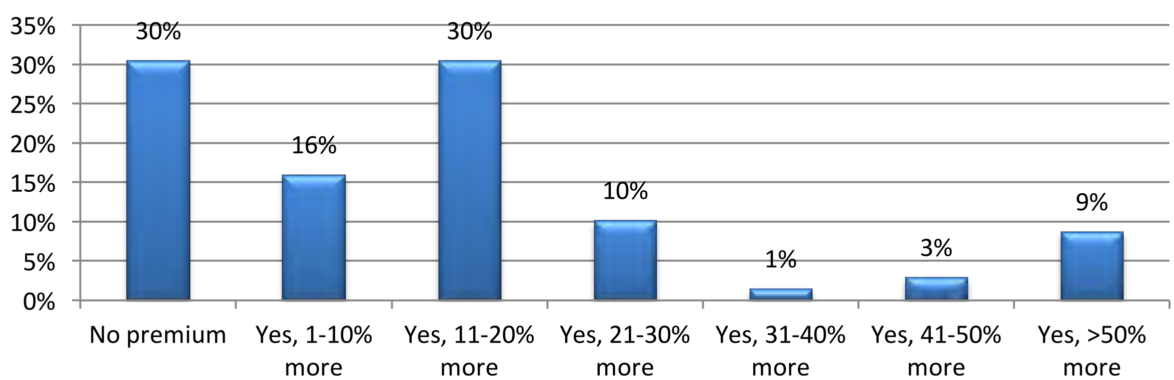
Approximately 55% of closed business sales transactions over the past 12 months involved strategic buyers.

Figure 12. Percent of Transactions Involved Strategic and Financial Buyers



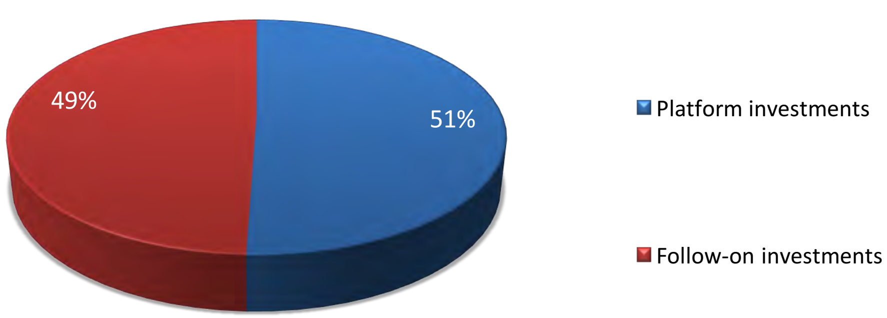
Approximately 30% of respondents did not witness any premium paid by strategic buyers, while 46% saw premiums between 1% and 20%.

Figure 13. Premium Paid by Strategic Buyers Relative to Financial Buyers



Approximately 51% of closed business sales transactions that involved financial buyers over the past 12 months were platform investments.

Figure 14. Percent of Transactions Involved Strategic and Financial Buyers



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

Table 5. 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 (-2 to 2)**
$0K - $999K	25%	27%	27%	16%	4%	**-0.5**
$1M - $4.99M	5%	15%	39%	32%	8%	**0.2**
$5M - $9.99M	0%	6%	30%	47%	17%	**0.8**
$10M - $24.99M	2%	0%	24%	38%	36%	**1.0**
$25M - $49.99M	0%	3%	17%	29%	51%	**1.3**
$50M - $99.99M	0%	0%	19%	22%	59%	**1.4**
$100M+	0%	0%	10%	28%	62%	**1.5**

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

Table 6. 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 (-3 to 3)**
$0K - $999K	15%	15%	24%	9%	24%	12%	0%	**-0.5**
$1M - $4.99M	4%	4%	9%	17%	37%	26%	2%	**0.7**
$5M - $9.99M	0%	7%	7%	7%	33%	29%	17%	**1.2**
$10M - $24.99M	0%	0%	9%	4%	22%	30%	35%	**1.8**
$25M - $49.99M	0%	8%	0%	0%	8%	31%	54%	**2.2**
$50M - $99.99M	0%	0%	0%	0%	0%	38%	63%	**2.6**
$100M+	0%	0%	0%	0%	0%	14%	86%	**2.9**

The majority of the 78 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 7. 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	4%	22%	27%	36%	10%	47%	26%	**21%**
Leverage multiples	3%	14%	55%	27%	1%	28%	16%	**12%**
Deal multiples	1%	10%	47%	36%	5%	42%	12%	**30%**
Amount of time to sell business	0%	6%	57%	30%	6%	36%	6%	**30%**
Difficulty financing/selling business	3%	13%	63%	18%	3%	21%	16%	**5%**
General business conditions	1%	11%	36%	49%	3%	52%	12%	**40%**
Strategic buyers making deals	1%	8%	38%	50%	3%	53%	10%	**43%**
Margin pressure on companies	1%	9%	53%	32%	4%	36%	11%	**26%**
Buyer interest in minority transactions	5%	8%	41%	36%	10%	45%	14%	**32%**

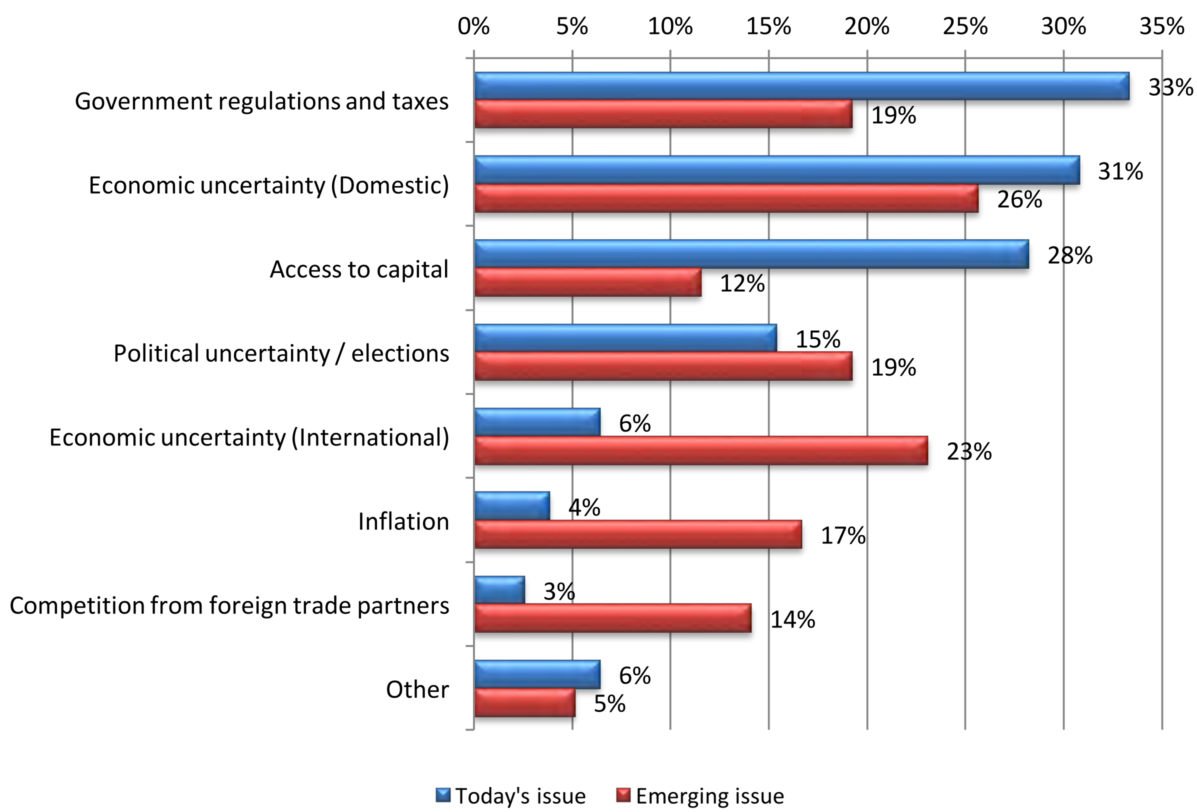
During the next twelve months, respondents expect further increases in deal flow, leverage and deals multiples, strategic buyers making deals, margin pressure on companies and improving general business conditions.

Table 8. General Business and Industry Assessment Expectations over the Next 12 Months

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	**Net increase/ decrease**
Deal flow	0%	6%	23%	52%	18%	70%	6%	**64%**
Leverage multiples	0%	11%	61%	27%	1%	28%	11%	**17%**
Deal multiples	0%	12%	49%	35%	4%	39%	12%	**27%**
Amount of time to sell business	0%	13%	70%	17%	0%	17%	13%	**4%**
Difficulty financing/selling business	3%	18%	68%	10%	1%	12%	21%	**-9%**
General business conditions	0%	9%	24%	59%	8%	67%	9%	**58%**
Strategic buyers making deals	0%	7%	31%	51%	12%	63%	7%	**56%**
Margin pressure on companies	1%	8%	55%	31%	5%	36%	9%	**27%**
Buyer interest in minority transactions	3%	3%	56%	33%	5%	39%	5%	**33%**

Respondents believe domestic government regulations and taxes is the most important current issue facing privately-held businesses, whereas domestic economic uncertainty is the most important emerging issue.

Figure 15. Issues Facing Privately-Held Businesses

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PRIVATE EQUITY SURVEY INFORMATION

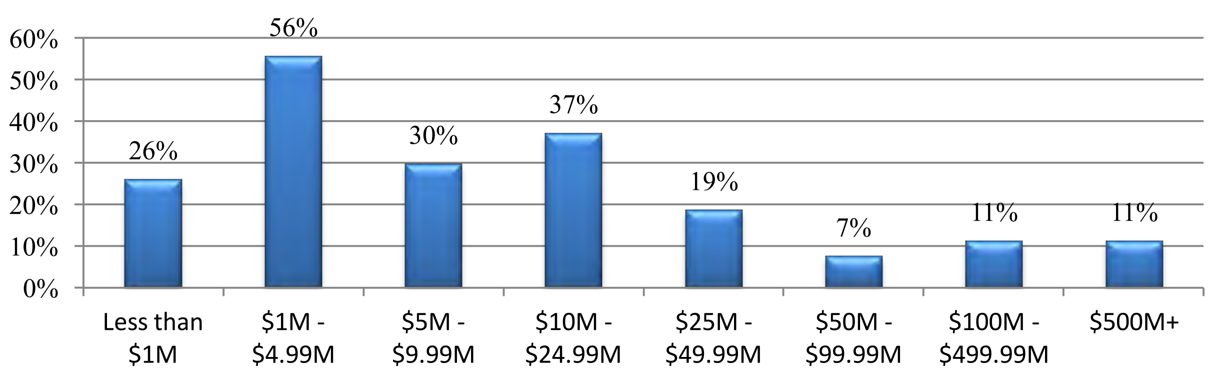
Approximately 56% of the 38 participants who responded to the private equity group survey indicated that they make investments in the $1 million to $5 million range. Nearly 52% of respondents said that demand for private equity is up from twelve months ago, this is up from 42% of respondents indicating increased demand in January 2016. Other key findings include:

- Respondents indicated flat quality of companies seeking investment. They also reported decrease in expected returns on new investments, improved general business conditions and increased deal multiples.
- Respondents expect further increases in demand for private equity, deal multiples, value of portfolio companies and general business conditions.
- The types of businesses respondents plan to invest in over next 12 months are very diverse with over 21% targeting manufacturing and another 18% planning to invest in business services.
- Respondents believe domestic economic uncertainty is the most important current and emerging issue facing privately-held businesses.
- The most popular valuation methods used by respondents when valuing privately-held businesses were discounted future earnings 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 EBITDA multiple (40%) and cash flow multiple (22%).

Operational and Assessment Characteristics

The largest concentration of checks written was in the $1 million - $5 million range (56%), followed by $10 - $25 million (37%), and $5 million - $10 million (30%).

Figure 16. Typical Investment Size



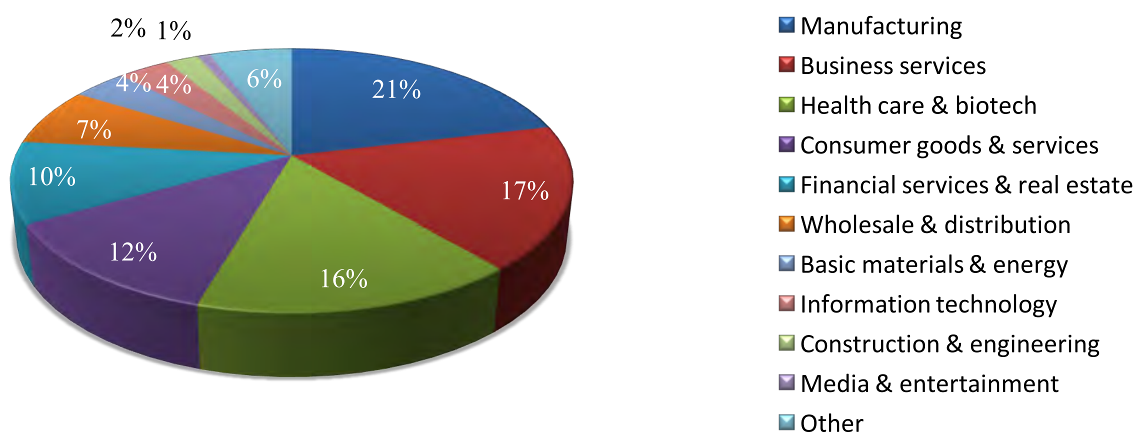
Respondents reported on business practices, and the results are reflected below.

Table 9. PEG Fund Data

	1st Quartile	Median	3rd Quartile
Vintage year (year in which first investment made)	2010	2014	2015
Size of fund ($ millions)	17.5	75	163
Targeted number of total investments	8	8	14
Target fund return (gross pretax cash on cash annual IRR %)	18%	25%	30%
Expected fund return (gross pretax cash on cash annual IRR%)	15%	20%	30%

The types of businesses respondents plan to invest in over next 12 months are very diverse with nearly 21% targeting manufacturing and another 17% planning to invest in business services.

Figure 17. Type of Business for Investments Planned over Next 12 Months



Approximately 46% of respondents made between one and three investments over the last twelve months.

Figure 18. Total Number of Investments Made in the Last 12 Months

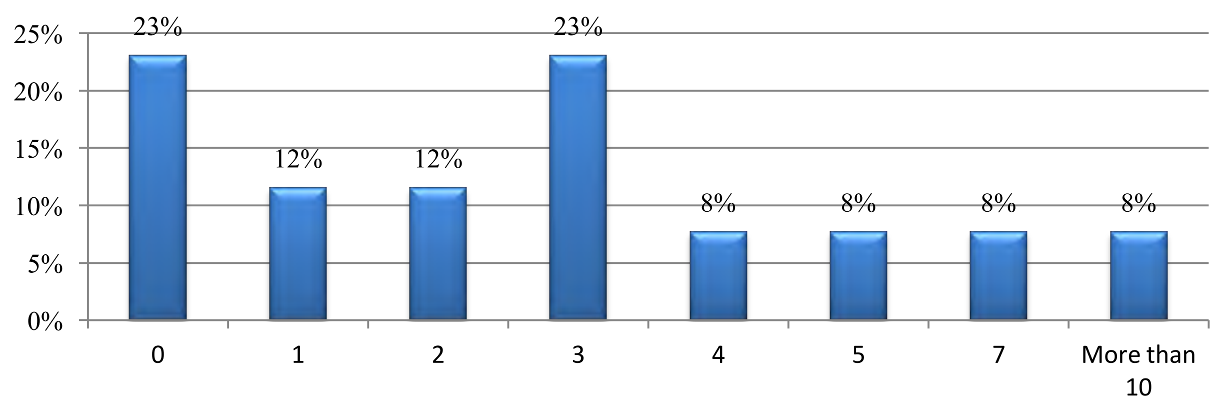
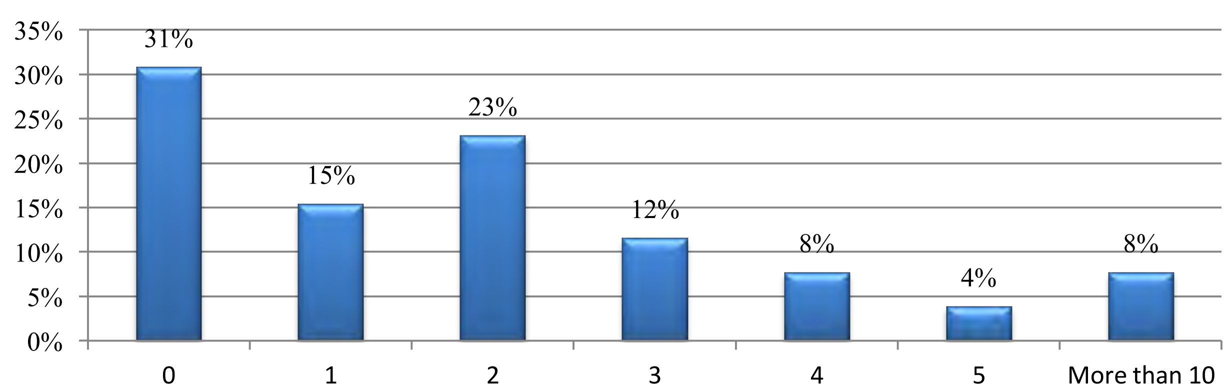


Figure 19. Number of Follow-on Investments Made in the Last 12 Months



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

Figure 20. Number of Total Investments Planned over Next 12 Months

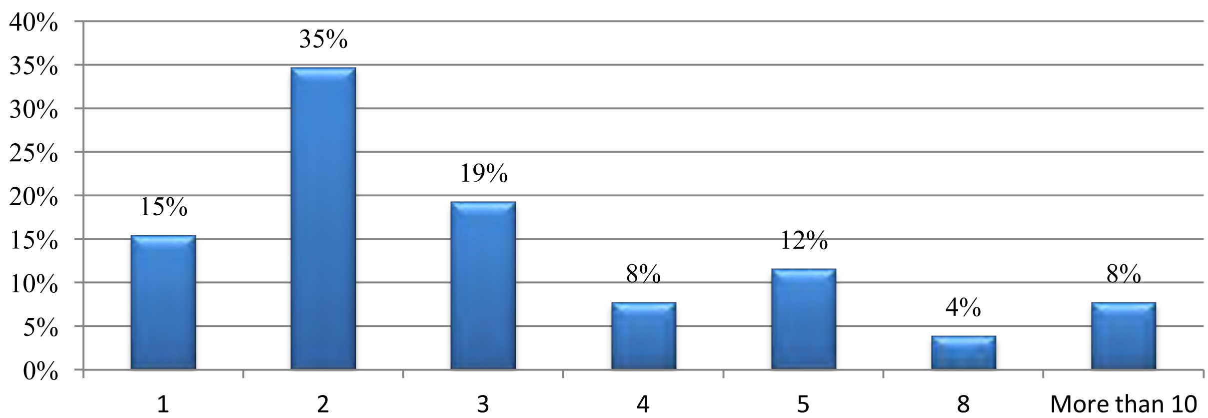
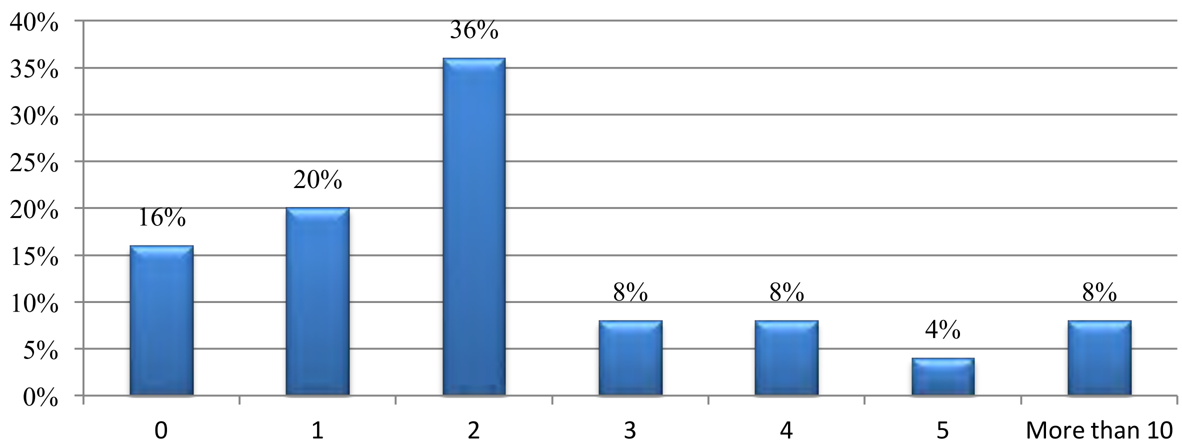
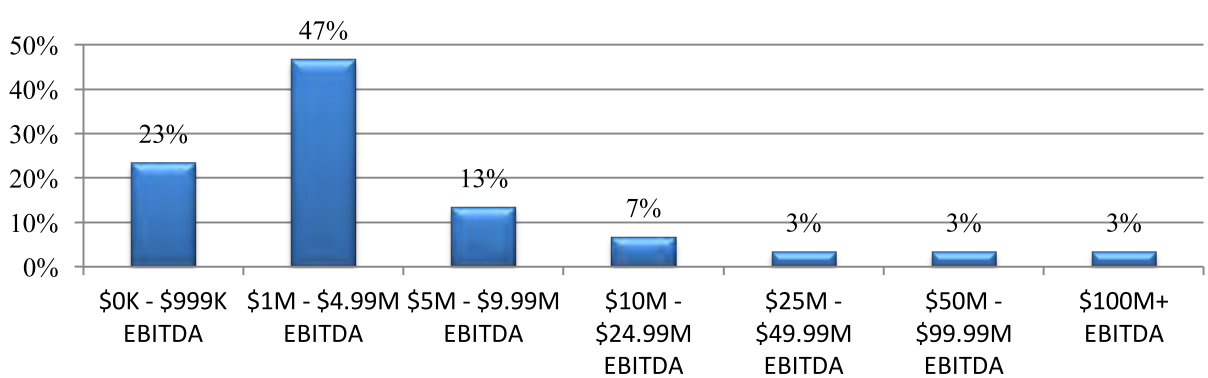


Figure 21. Number of Follow-on Investments Planned over Next 12 Months



Approximately 83% of buyout investments were in the range between $0 million and $10 million of EBITDA.

Figure 22. Size of Buyout Investments in the Last 12 Months



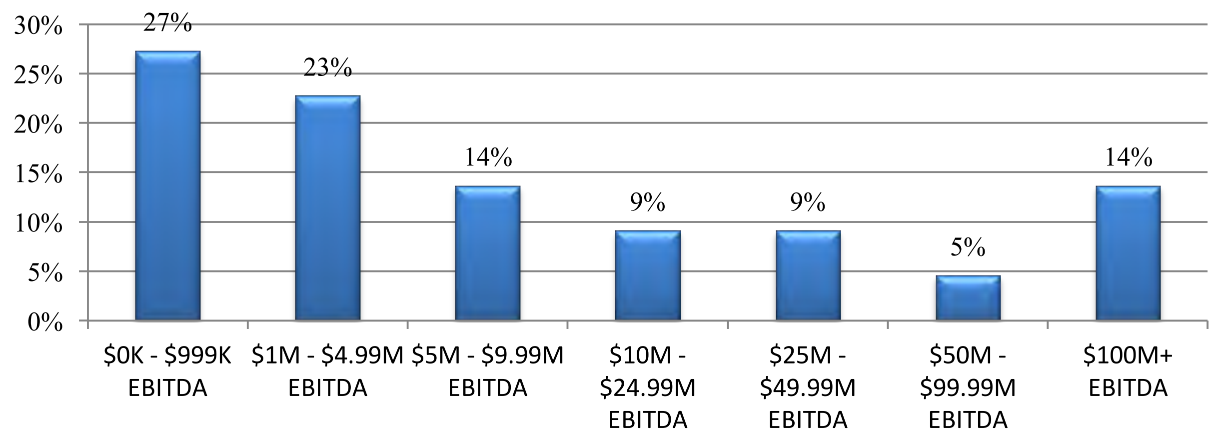
Average deal multiples for buyout deals for the prior twelve months vary from 5.0 to 8.5 times EBITDA depending on the size of the company. Expected returns vary from 20% to 27.5%.

Table 10. General Characteristics – Buyout Transactions (medians)

EBITDA size	$0K - $999K EBITDA	$1M - $4.99M EBITDA	$5M - $9.99M EBITDA	$10M - $24.99M EBITDA	$25M - $49.99M EBITDA	$50M - $99.99M EBITDA
Number of investments (total)	21	33	17	3	3	3
Average size of investment (in million USD)	1.5	3	4	7.5	7.5	25
Expected time to exit (years) (median)	4	5	5	4.5	2	2
Equity as % of new capital structure (median)	45%	35%	30%	10%	5%	5%
% of total equity purchased (median)	80%	75%	65%	15%	5%	5%
Average deal multiple (multiple of EBITDA)	3	4	4.5	6	n/a	n/a
Median total expected returns (gross cash on cash pre-tax IRR)	27.5%	26%	23%	21%	21%	20.5%

Approximately 27% of non-buyout investments were in the range between $0 million and $1 million of EBITDA.

Figure 23. Size of Non-Buyout Investments in the Last 12 Months



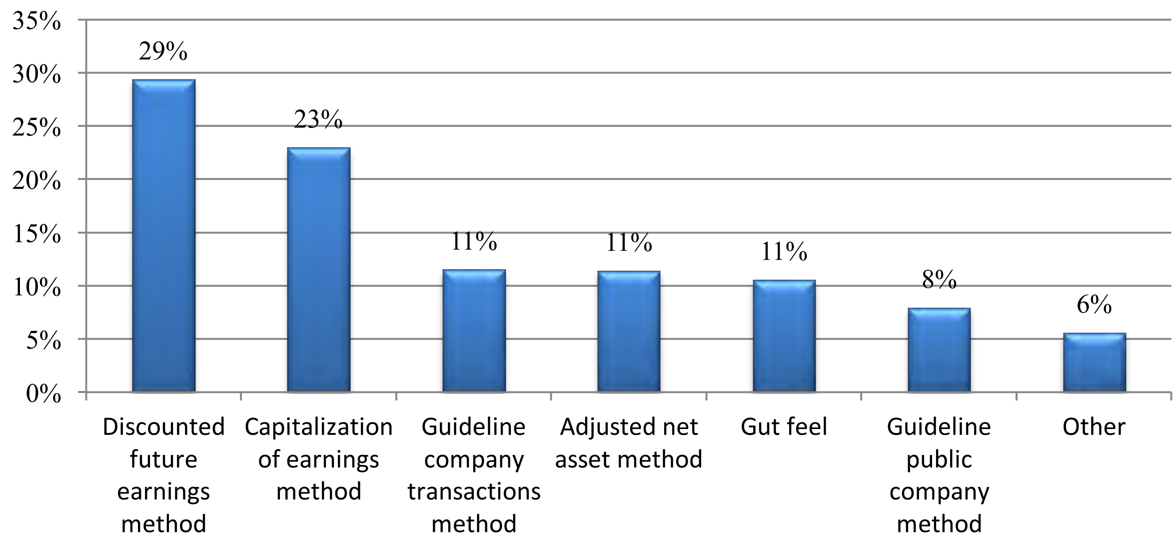
Average expected returns on non-buyout deals vary from 15% to 50%.

Table 11. General Characteristics – Non-Buyout Transactions (medians)

	$0K - $999K EBITDA	$1M - $4.99M EBITDA	$5M - $9.99M EBITDA	$10M - $24.99M EBITDA	$25M - $49.99M EBITDA	$50M+ EBITDA
Number of investments	7	2	3	3	n/a	2
Average size of investment in million USD	0.5	2	2.5	25	n/a	n/a
Expected time to exit (years) (medians)	6	3	4	5	n/a	5.5
Equity as % of new capital structure	10%	20%	20%	45%	n/a	60%
% of total equity purchased	25%	25%	50%	65%	n/a	50%
Average deal multiple (multiple of EBITDA)	4	3.5	4.5	5	n/a	9.3
Total expected returns (gross cash on cash pre-tax IRR)	50%	27.5%	27.5%	25%	n/a	16%

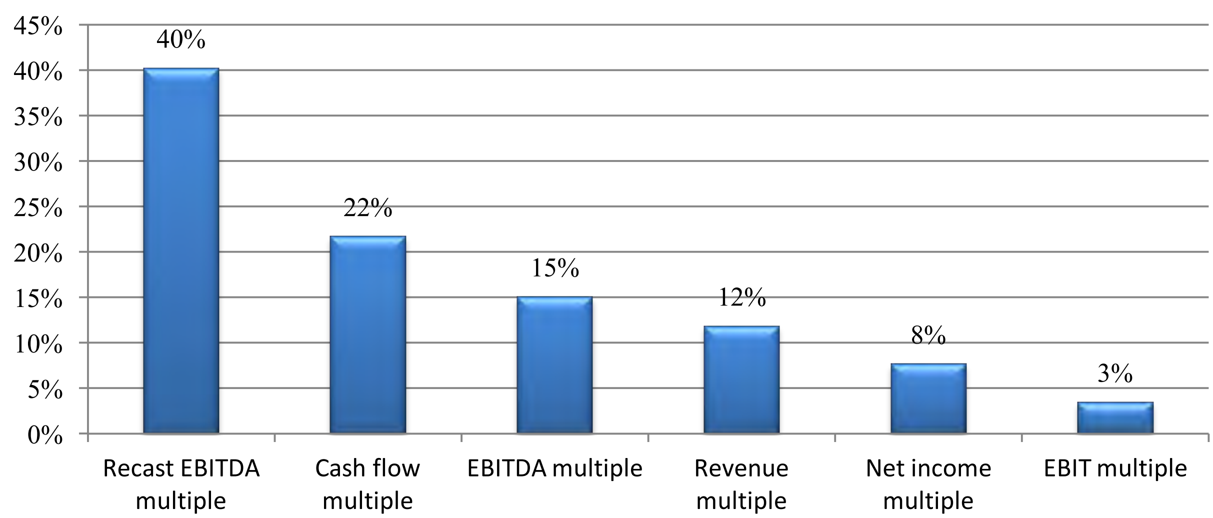
When valuing a business, approximately 29% of the weight is placed on discounted future earnings method.

Figure 24. Usage of Valuation Approaches



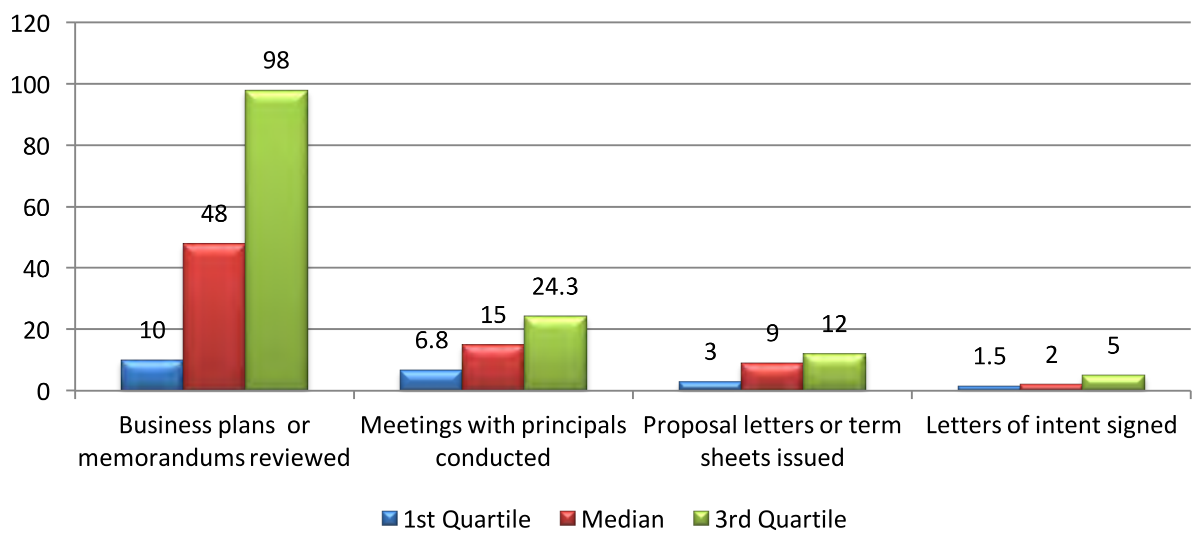
The weights of the various multiple methods used by respondents when valuing privately-held businesses included 40% for recast (adjusted) EBITDA multiple and 22% for cash flow multiple.

Figure 25. Usage of Multiple Methods



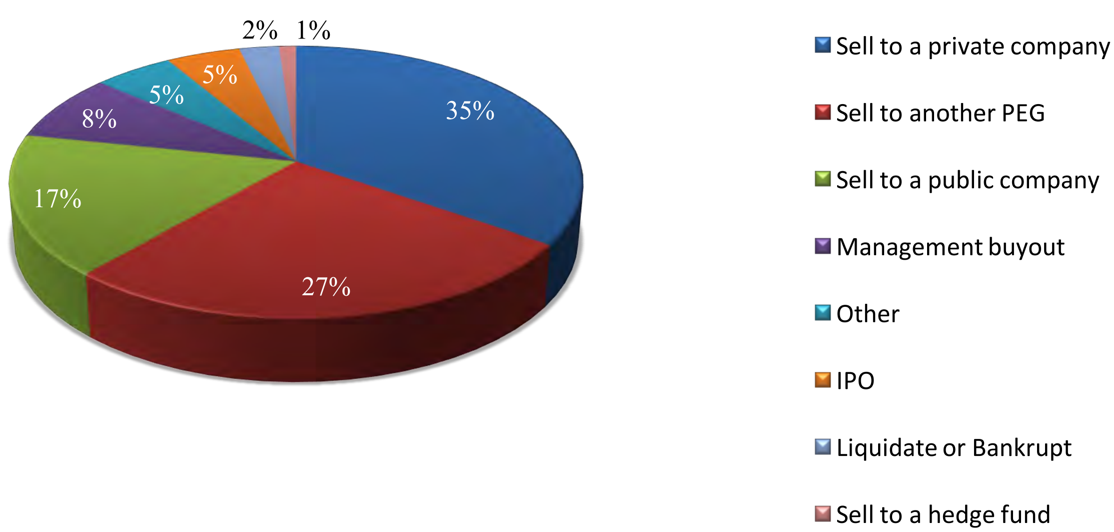
Respondents reported on items required to close one deal.

Figure 26. Items Required to Close One Deal



Respondents reported exit strategies that include selling to private company (35%), selling to another private equity group (27%), and selling to a public company (17%).

Figure 27. 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 12. The Balance of Available Capital with Quality Companies for the Following EBITDA Size

	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 (-2 to 2)**
$0K - $999K	14%	27%	23%	27%	9%	**-0.1**
$1M - $4.99M	14%	18%	32%	23%	14%	**0.0**
$5M - $9.99M	0%	5%	47%	26%	21%	**0.6**
$10M - $14.99M	0%	6%	28%	44%	22%	**0.8**
$15M - $24.99M	0%	0%	33%	28%	39%	**1.1**
$25M - $49.99M	0%	0%	29%	29%	41%	**1.1**
$50M - $99.99M	0%	0%	29%	24%	47%	**1.2**
$100M+	0%	0%	19%	44%	38%	**1.1**

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

Table 13. 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**
Demand for private equity	0%	4%	44%	24%	28%	52%	4%	**48%**
Quality of companies seeking investment	0%	19%	46%	35%	0%	35%	19%	**15%**
Average investment size	0%	23%	46%	27%	4%	31%	23%	**8%**
Non-control investments	0%	0%	52%	38%	10%	48%	0%	**48%**
Expected investment holding period	0%	8%	69%	23%	0%	23%	8%	**15%**
Deal multiples	0%	15%	31%	42%	12%	54%	15%	**38%**
Exit opportunities	0%	16%	40%	36%	8%	44%	16%	**28%**
Expected returns on new investments	0%	50%	27%	15%	8%	23%	50%	**-27%**
Value of portfolio companies	0%	0%	38%	50%	12%	62%	0%	**62%**
General business conditions	0%	19%	35%	46%	0%	46%	19%	**27%**
Size of private equity industry	0%	4%	36%	40%	20%	60%	4%	**56%**

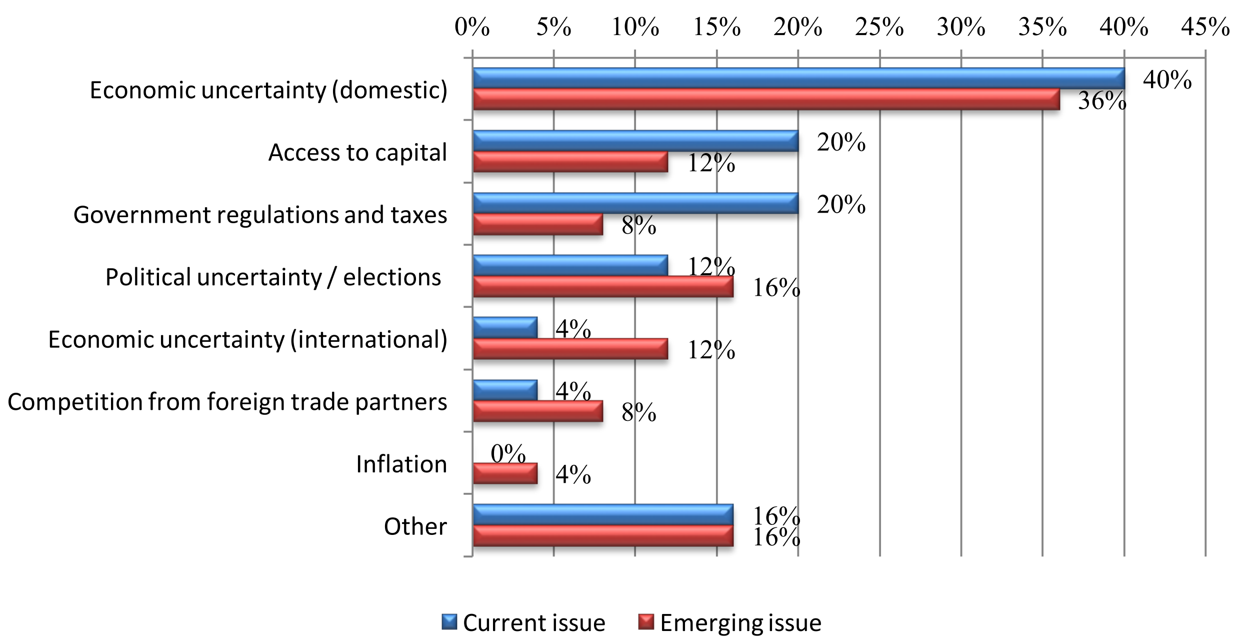
Respondents expect further increases in demand for private equity, decreasing expected returns on new investments, and improving general business conditions.

Table 14. 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**
Demand for private equity	0%	4%	28%	44%	24%	68%	4%	**64%**
Quality of companies seeking investment	0%	20%	44%	28%	8%	36%	20%	**16%**
Average investment size	0%	4%	48%	44%	4%	48%	4%	**44%**
Non-control investments	0%	5%	75%	20%	0%	20%	5%	**15%**
Expected investment holding period	0%	8%	60%	32%	0%	32%	8%	**24%**
Deal multiples	0%	20%	40%	40%	0%	40%	20%	**20%**
Exit opportunities	0%	8%	44%	40%	8%	48%	8%	**40%**
Expected returns on new investments	0%	36%	44%	12%	8%	20%	36%	**-16%**
Value of portfolio companies	0%	4%	36%	44%	16%	60%	4%	**56%**
General business conditions	4%	17%	29%	38%	13%	50%	21%	**29%**
Size of private equity industry	0%	4%	42%	42%	13%	54%	4%	**50%**

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

Figure 28. Issues Facing Privately-Held Businesses



BANK AND ASSET-BASED LENDING SURVEY INFORMATION

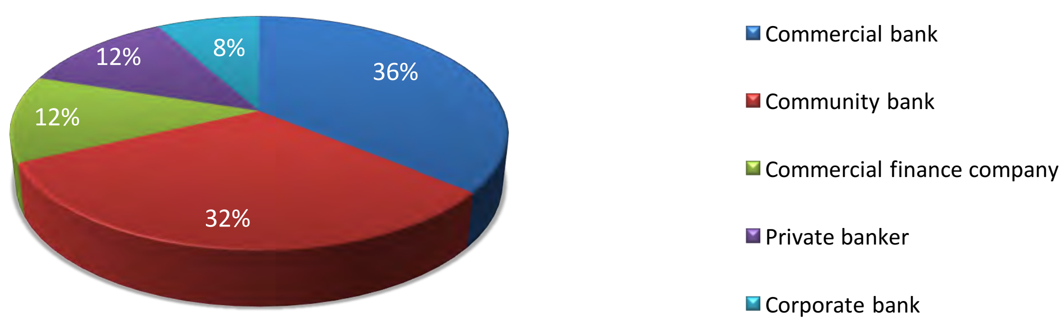
There were 54 responses to the bank and asset-based lending surveys. Over 36% of respondents believe that general business conditions will improve over the next 12 months and over 66% said demand for loans will increase. Other key findings include:

- Over the last twelve months respondents were seeing slightly increased senior and leverage multiples, with increase in demand for business loans and improved general business conditions
- Respondents also expect increases in demand for business loans, lending capacity of banks, improving general business conditions, total and leverage multiples, and further increase in interest rates.
- Currently, 27% lenders see government regulations and taxes and domestic economic uncertainty as the top issue facing privately-held businesses today, followed by access to capital (24%) and international economic uncertainty (20%).

Operational and Assessment Characteristics

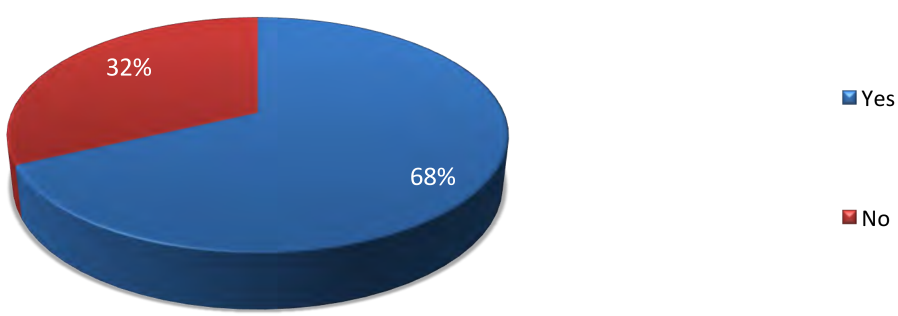
Respondents reported on the type of entity that best describes their lending function.

Figure 29. Description of Lending Entity



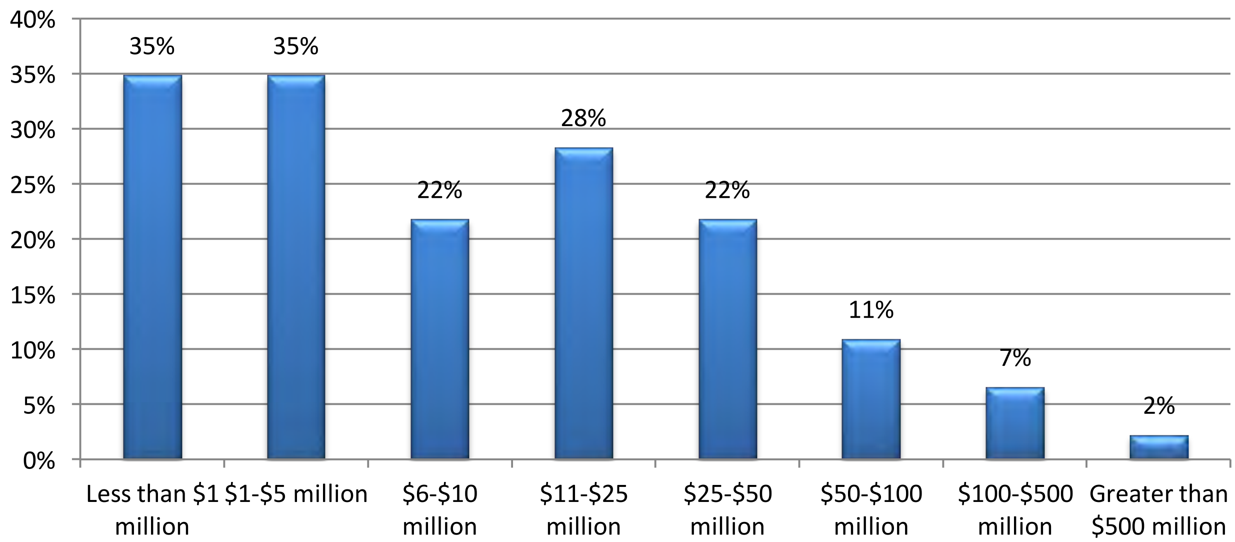
The majority (68%) report participating in government loan programs.

Figure 30. Participation in Government Loan Programs



The largest concentration of loan sizes was between $0 million and $5 million (70%).

Figure 31. Typical Investment Size



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

Table 15. All-in Rates by Loan Size and Industry

Loan size	**Less than $1M**	**$1M - $4.99M**	**$5M - $9.99M**	**$10M - $24.99M**	**$25M+**	**$100M**	**$500M**
Manufacturing	7.8%	5.5%	4.8%	5.0%	4.5%	4.0%	3.0%
Consumer goods and services	6.5%	6.0%	5.0%	5.0%	4.5%	4.0%	3.0%
Wholesale & distribution	6.5%	5.8%	4.8%	4.5%	4.5%	4.0%	3.0%
Business services	7.8%	5.8%	5.0%	5.0%	4.5%	4.0%	3.0%
Basic materials & energy	7.0%	5.5%	4.8%	4.5%	4.5%	4.5%	4.0%
Health care & biotech	6.5%	5.5%	5.0%	4.5%	3.5%	3.5%	2.6%
Information technology	8.3%	6.8%	5.5%	5.0%	4.5%	3.5%	3.0%
Financial services	8.0%	4.8%	5.0%	5.0%	3.5%	3.5%	3.5%
Typical Fixed-Rate Loan Term (months)	60	60	60	60	60	60	60

Table 16. All-in Rates by Loan Type

	$1M	**$5M**	**$10M**	**$25M**	**$50M**	**$100M**	**$500M**
Cash flow loan	6.5%	5.5%	5.5%	5.3%	5.0%	4.0%	3.5%
Working capital loan	7.0%	4.8%	4.0%	3.5%	3.5%	3.5%	3.5%
Equipment loan	6.5%	5.0%	4.5%	3.8%	3.0%	3.0%	3.0%
Real estate loan	5.8%	5.0%	5.0%	5.0%	4.8%	4.5%	4.0%

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

Table 17. Senior Leverage Multiple by EBITDA Size

EBITDA size	**$0K - $999K**	**$1M - $4.99M**	**$5M - $9.99M**	**$10M - $24.99M**	**$25M - $49.99M**	**$50M+**
Manufacturing	1.5	1.8	1.9	1.9	3.0	3.0
Construction & engineering	1.0	1.3	1.5	1.8	1.9	2.8
Consumer goods & services	0.5	1.3	1.4	1.8	2.3	3.0
Wholesale & distribution	1.5	2.0	2.0	2.3	2.3	3.0
Business services	1.5	1.5	1.5	2.4	2.5	3.0
Basic materials & energy	1.3	1.9	1.9	2.0	2.0	2.3
Healthcare & biotech	1.3	2.0	2.3	2.4	2.5	2.5
Information technology	1.3	2.0	2.4	2.5	2.8	2.8
Financial services	1.4	1.5	1.9	2.0	2.0	2.0
Media & entertainment	1.3	2.0	2.0	2.3	2.3	3.0
Total median	**1.3**	**1.8**	**1.9**	**2.1**	**2.3**	**2.9**

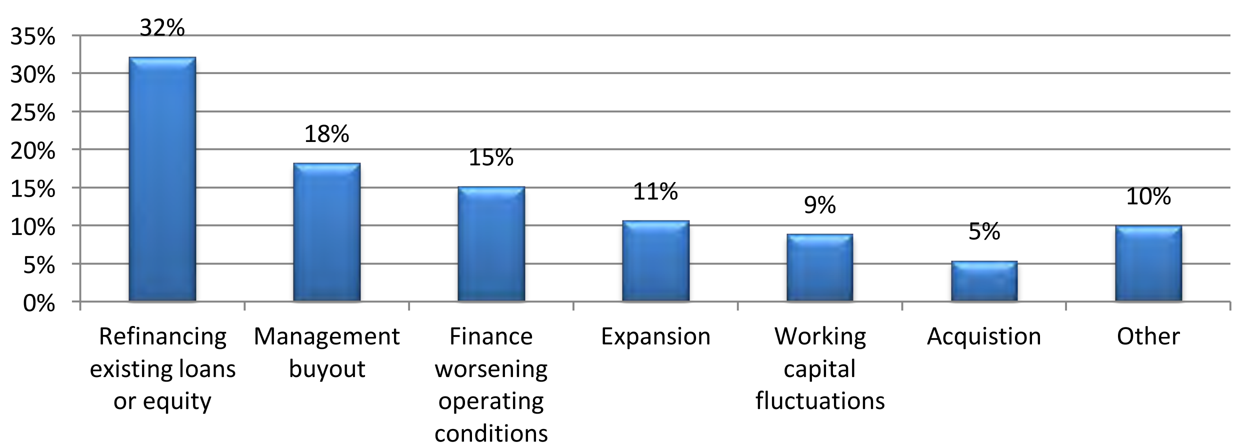
Various fees as reported by lenders are as follows.

Table 18. Fees Charged

	1st Quartile	**Median**	**3rd Quartile**
Closing fee	0.1%	0.6%	1.0%
Modification fee	0.2%	0.3%	0.5%
Commitment fee	0.0%	0.3%	1.0%
Underwriting fee	0.0%	0.2%	0.6%
Arrangement fee	0.0%	0.2%	0.5%
Prepayment penalty (yr 1)	0.5%	2.0%	3.0%
Prepayment penalty (yr 2)	0.9%	1.5%	2.8%
Unused line fee	0.2%	0.3%	0.5%

Refinancing was the most commonly described financing motivation at 32%, followed by management buyout at 18%.

Figure 32. Borrower Motivation to Secure Financing (past 12 months)



BANKS cont.

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

Table 19. Importance of Financial Evaluation Metrics

	Unimportant	Of little importance	Moderately important	Important	Very important	Score (1 to 5)
Current ratio	31%	22%	17%	19%	11%	2.6
Senior DSCR or FCC ratio	11%	3%	20%	29%	37%	3.8
Total DSCR or FCC ratio	8%	3%	16%	30%	43%	4.0
Senior debt-to-cash flow	15%	12%	30%	18%	24%	3.2
Total debt-to-cash flow	6%	17%	19%	22%	36%	3.7
Debt-to-net worth	17%	8%	33%	28%	14%	3.1

Table 20. Financial Evaluation Metrics Average Data

	Average borrower data	Limit not to be exceeded
Current ratio	1.35	1.05
Senior DSCR or FCC ratio	1.5	1.2
Total DSCR or FCC ratio	1.3	1.15
Senior debt to cash flow	2.4	3.1
Total debt to cash flow	3.0	4.0
Debt to net worth	2.0	3.0

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

Table 21. Personal Guarantee and Collateral Percentage of Occurrence by Size of Loan (%)

Loan size	Less than $1M	$1M - $4.99M	$5M - $9.99M	$10M - $24.99M	$50M - $99.99M	$100M+
Personal guarantee	95%	95%	95%	55%	0%	0%
Collateral	83%	93%	95%	90%	95%	70%

Approximately 25% of cash flow applications were declined.

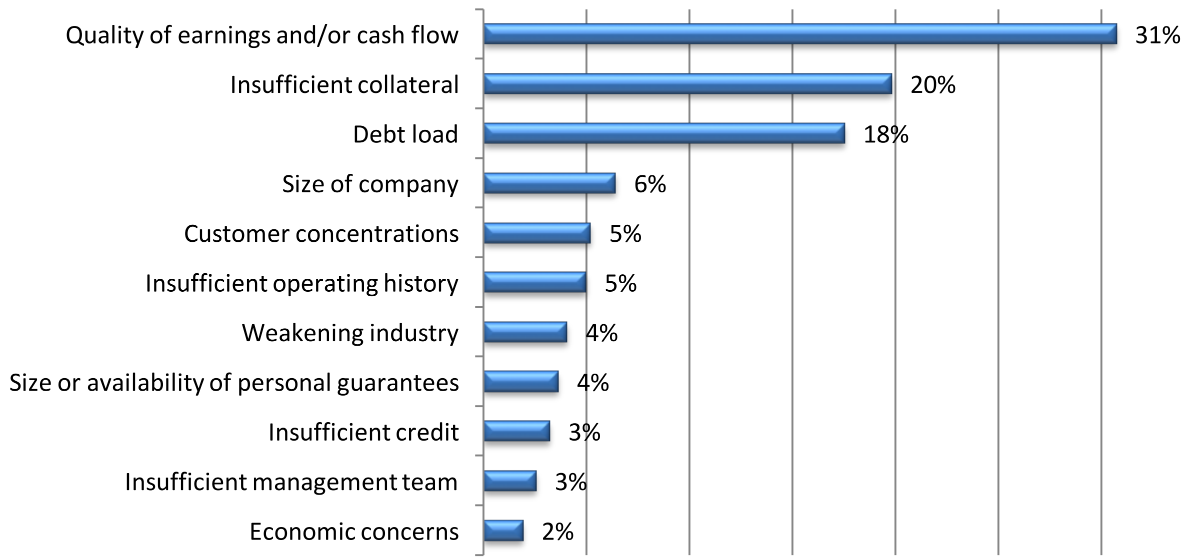
Table 22. Applications Data

	Reviewed	Offered	Booked	Declined
Cash flow based	664	40%	35%	25%
Collateral based	683	41%	36%	24%
Real estate	517	42%	23%	28%

BANKS cont.

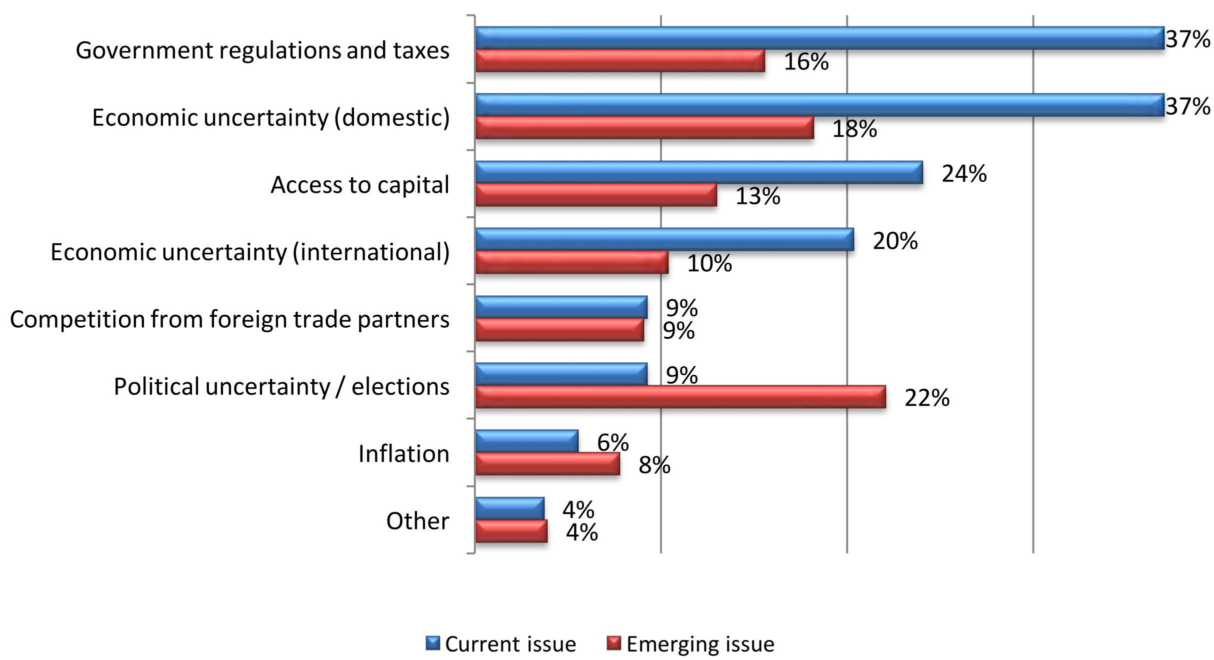
Approximately 31% of applications were declined due to poor quality of earnings and/or cash flow followed by 20% that were declined due to insufficient collateral.

Figure 33. Reason for Declined Loans



Respondents believe government regulations and taxes and domestic economic uncertainty are the most important issues facing privately-held businesses today.

Figure 34. Issues Facing Privately-Held Businesses



BANKS cont.

Respondents indicated increases in demand for business loans, due diligence efforts, improved general business conditions, loans outstanding, decreased loan fees, and interest rates.

Table 23. 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**
Demand for business loans (applications)	0%	9%	25%	48%	18%	66%	9%	**57%**
General underwriting standards	4%	18%	49%	13%	16%	29%	22%	**7%**
Credit quality of borrowers applying for credit	2%	11%	59%	25%	2%	27%	14%	**14%**
Due diligence efforts	0%	2%	52%	30%	16%	45%	2%	**43%**
Average loan size	0%	2%	49%	40%	9%	49%	2%	**47%**
Average loan maturity (months)	0%	7%	69%	19%	5%	24%	7%	**17%**
Percent of loans with personal guarantees	0%	8%	82%	8%	3%	10%	8%	**3%**
Percent of loans requiring collateral	0%	0%	82%	5%	14%	18%	0%	**18%**
Size of interest rate spreads (pricing)	0%	42%	30%	26%	2%	28%	42%	**-14%**
Loan fees	0%	28%	53%	16%	2%	19%	28%	**-9%**
Senior leverage multiples	0%	14%	59%	18%	9%	27%	14%	**14%**
Total leverage multiples	0%	14%	48%	24%	14%	38%	14%	**24%**
Focus on collateral as backup means of payment	0%	8%	70%	15%	8%	23%	8%	**15%**
SBA lending	13%	13%	47%	20%	7%	27%	27%	**0%**
Lending capacity of bank	0%	19%	43%	38%	0%	38%	19%	**19%**
General business conditions	0%	18%	45%	30%	7%	36%	18%	**18%**
Appetite for risk	9%	20%	39%	30%	2%	32%	30%	**2%**
Loans outstanding	11%	0%	32%	42%	16%	58%	11%	**47%**
Nonaccrual loans	11%	11%	56%	17%	6%	22%	22%	**0%**
Number/ tightness of financial covenants	0%	6%	83%	11%	0%	11%	6%	**6%**
Standard advance rates	0%	5%	90%	5%	0%	5%	5%	**0%**

BANKS cont.

Respondents expect further increases in demand for business loans, average loan size, lending capacity of bank, senior and total leverage multiples, improving general business conditions, focus on collateral as backup means of payment, and leverage multiples, decreasing percent of loans with personal guarantees.

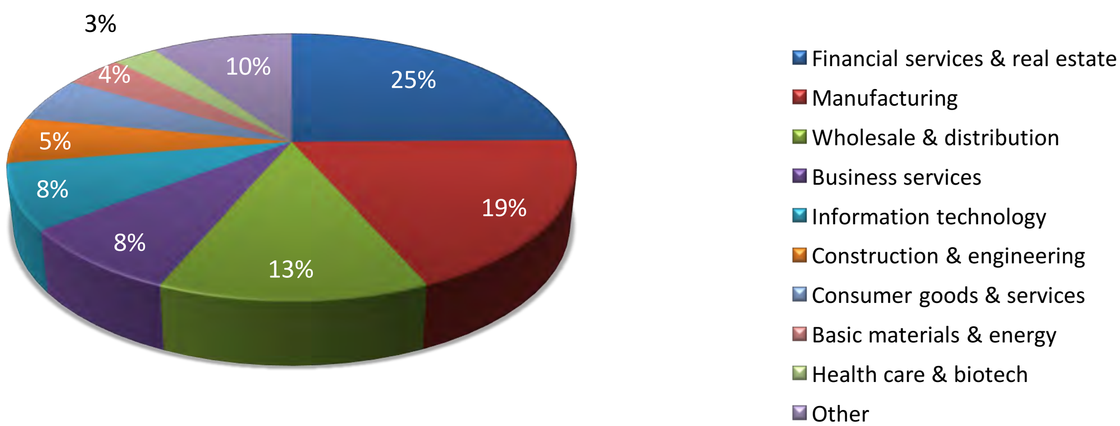
Table 24. General Business and Industry Assessment Expectations over the Next 12 Months

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	**Net increase/ decrease**
Demand for business loans (applications)	0%	5%	31%	50%	14%	64%	5%	**60%**
General underwriting standards	0%	7%	71%	15%	7%	22%	7%	**15%**
Credit quality of borrowers applying for credit	0%	12%	54%	32%	2%	34%	12%	**22%**
Due diligence efforts	0%	0%	63%	34%	2%	37%	0%	**37%**
Average loan size	0%	0%	48%	43%	10%	52%	0%	**52%**
Average loan maturity (months)	0%	3%	80%	15%	3%	18%	3%	**15%**
Percent of loans with personal guarantees	0%	8%	86%	6%	0%	6%	8%	**-3%**
Percent of loans requiring collateral	0%	11%	61%	17%	11%	28%	11%	**17%**
Size of interest rate spreads (pricing)	0%	22%	39%	39%	0%	39%	22%	**17%**
Loan fees	0%	20%	58%	20%	3%	23%	20%	**3%**
Senior leverage multiples	0%	5%	68%	26%	0%	26%	5%	**21%**
Total leverage multiples	0%	5%	68%	26%	0%	26%	5%	**21%**
Focus on collateral as backup means of payment	0%	5%	70%	16%	8%	24%	5%	**19%**
SBA lending	8%	15%	46%	8%	23%	31%	23%	**8%**
Lending capacity of bank	0%	5%	47%	37%	11%	47%	5%	**42%**
General business conditions	0%	18%	40%	40%	3%	43%	18%	**25%**
Appetite for risk	0%	15%	63%	23%	0%	23%	15%	**8%**
Loans outstanding	0%	0%	32%	58%	11%	68%	0%	**68%**
Nonaccrual loans	0%	11%	83%	6%	0%	6%	11%	**-6%**
Number/ tightness of financial covenants	0%	11%	78%	11%	0%	11%	11%	**0%**
Standard advance rates	0%	5%	85%	10%	0%	10%	5%	**5%**

Asset-Based Lending Specific Characteristics

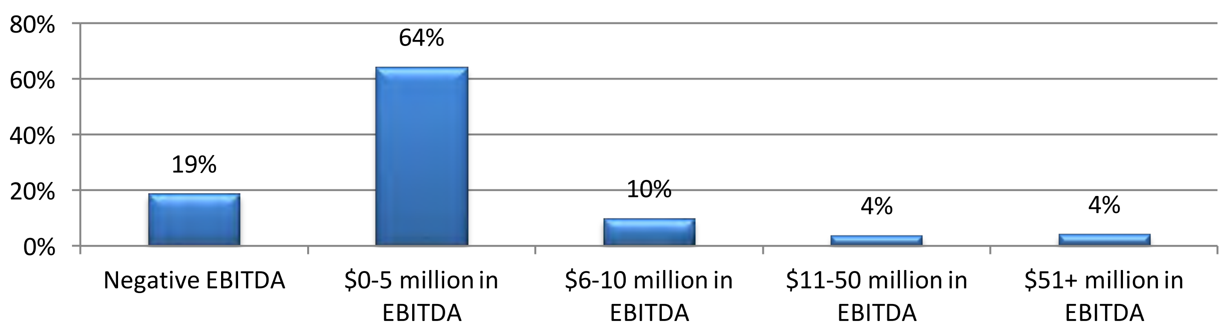
According to respondents approximately 25% of asset-based loans were issued to financial services & real estate companies.

Figure 35. Industries Served by Asset-Based Lenders



Approximately 83% of the companies that booked asset-based loans in the last twelve months had EBITDA size of less than $5 million.

Figure 33. 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 25. 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	14.0%	14.0%	12.0%	12.0%	14.0%	16
$1-5 million	9.3%	10.5%	12.0%	12.0%	9.4%	10.0%	28
$5-$10 million	n/a	10.0%	10.0%	10.0%	8.0%	10.0%	28
$10-25 million	n/a	8.0%	8.0%	9.0%	8.0%	8.0%	16
$25-50 million	n/a	5.5%	7.0%	8.0%	7.8%	5.5%	16
$50-100 million	n/a	4.0%	n/a	n/a	n/a	5.5%	52

BANKS cont.

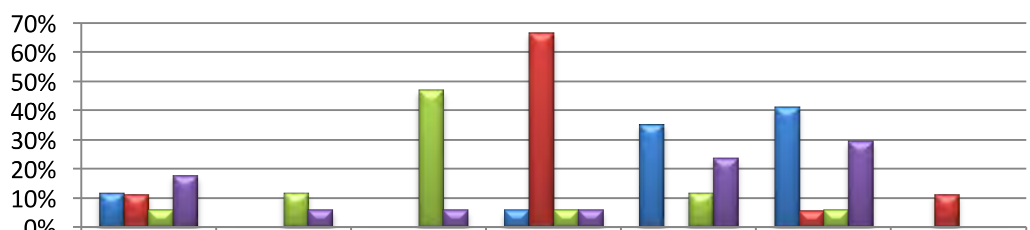
Respondents reported on standard advance rates and the results are reflected below.

Table 26. 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%	100%	100%	70%	100%	100%
Accounts receivable	85%	85%	85%	85%	85%	90%
Inventory - low quality	19%	25%	30%	20%	30%	39%
Inventory - intermediate quality	34%	38%	43%	35%	43%	54%
Inventory - high quality	50%	55%	60%	50%	60%	73%
Equipment	50%	53%	80%	54%	73%	85%
Real estate	50%	65%	75%	65%	70%	80%
Land	5%	23%	46%	5%	5%	45%

Respondents reported on valuation standards used to estimate LTV ratios.

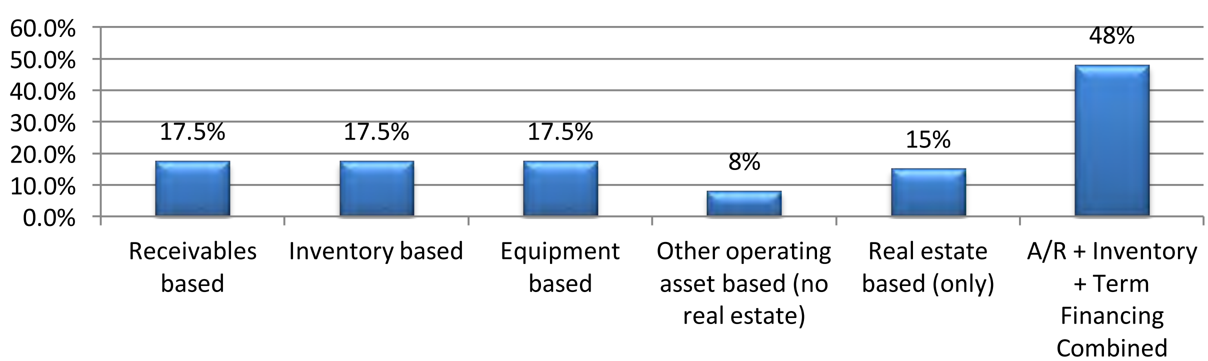
Figure 37. Valuation Standards Used to Estimate LTV Ratio



	Purchase price	Depreciated Value (Book)	Face value	Fair Market Value	Forced liquidation	Orderly liquidation	Other
Equipment	12%	0%	0%	6%	35%	41%	0%
Real estate	11%	0%	0%	67%	0%	6%	11%
Accounts Receivable	6%	12%	47%	6%	12%	6%	0%
Inventory	18%	6%	6%	6%	24%	29%	0%

According to respondents, receivables, inventory and term financing combined loans had the highest rate of decline (48%) over the last twelve months.

Figure 34. Asset-Based Loans Decline Rate



MEZZANINE SURVEY INFORMATION

The majority of the 24 participants that responded to the mezzanine survey typically book deals in the $5 million to $10 million range. Over 24% plan on investing in manufacturing companies over the next 12 months, followed by 20% in basic materials & energy. Other key findings include:

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

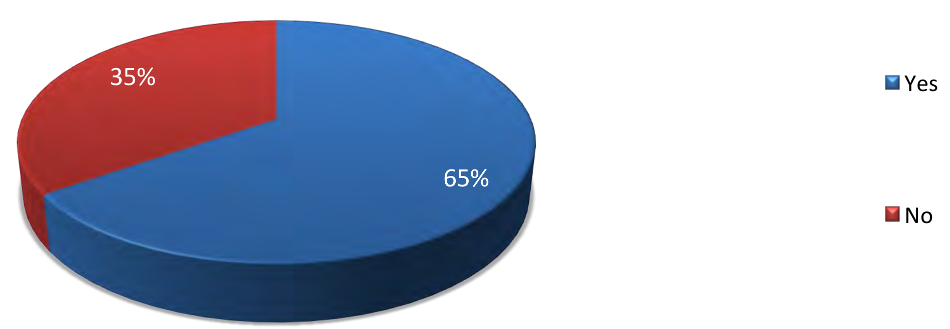
- Respondents expect further increase in demand for mezzanine capital, leverage multiples, appetite for risk, and improving general business conditions; and decrease in general underwriting standards, warrant coverage, and expected returns on new investments.

- Approximately 35% of respondents believe economic uncertainty is the most important issue facing privately-held businesses today.

Operational and Assessment Characteristics

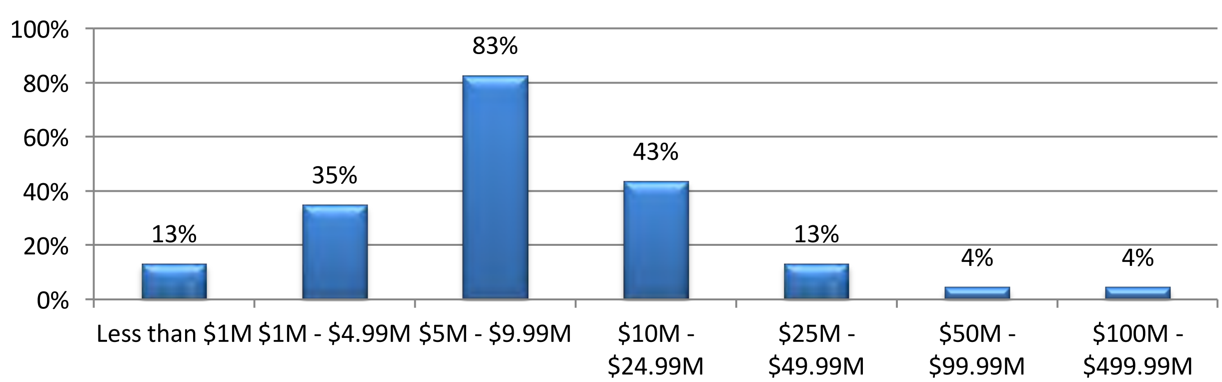
Approximately 65% of respondents are SBIC Firms.

Figure 35. SBIC (small business investment) Firms



The largest concentration of typical loan sizes is between $5 million and $10 million.

Figure 40. Typical Investment Size



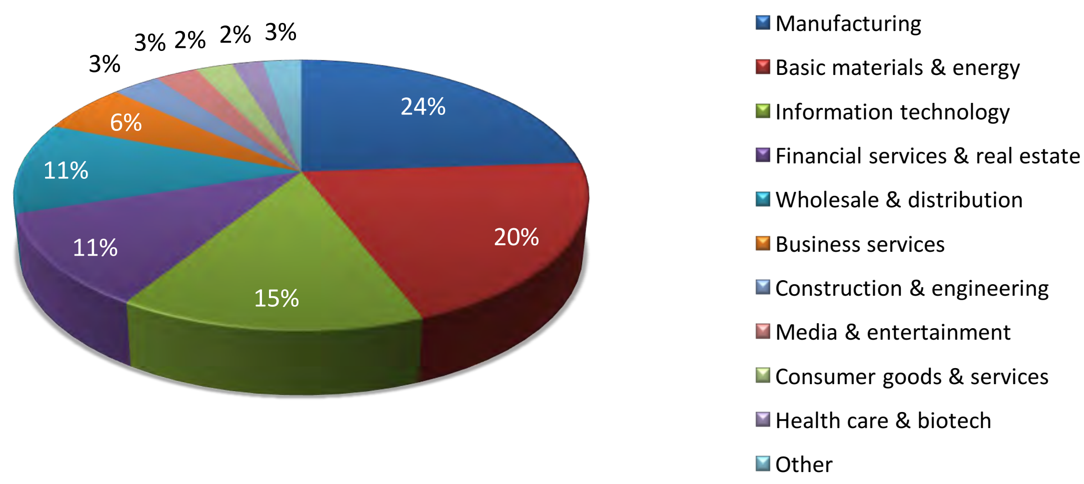
Respondents reported on business practices and the results are reflected below.

Table 27. Mezzanine Fund Data

	1st quartile	Median	3rd quartile
Vintage year (year in which first investment made)	2012	2013	2014
Size of fund ($ millions)	125	175	275
Targeted number of total investments	18	22	28
Target fund return (gross pretax cash on cash annual IRR %)	15%	17%	20%
Expected fund return (gross pretax cash on cash annual IRR %)	15%	17%	18%

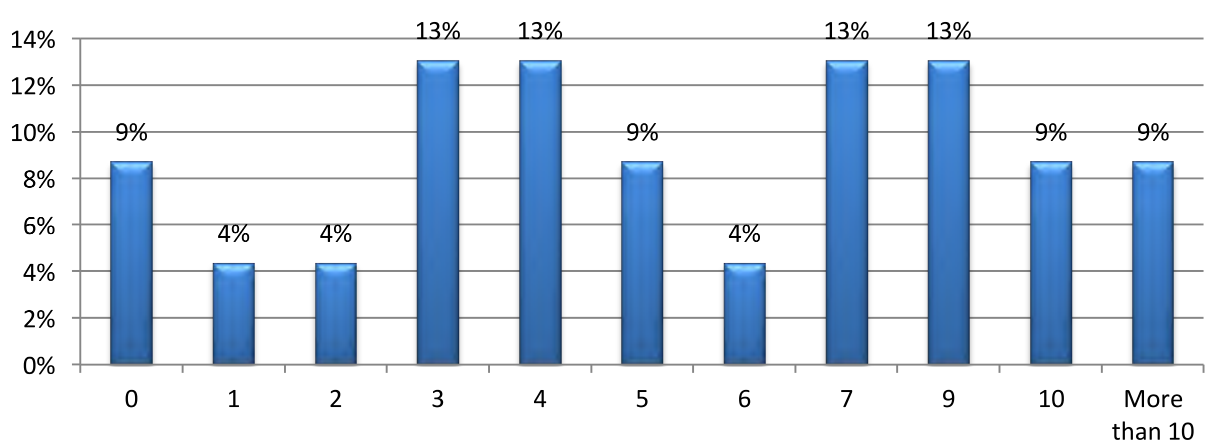
The types of businesses that mezzanine lenders plan to invest in over next 12 months are very diverse with over 24% targeting manufacturing, followed by 20% who plan to invest in basic materials & energy.

Figure 36. Type of Business for Investments Planned over Next 12 Months



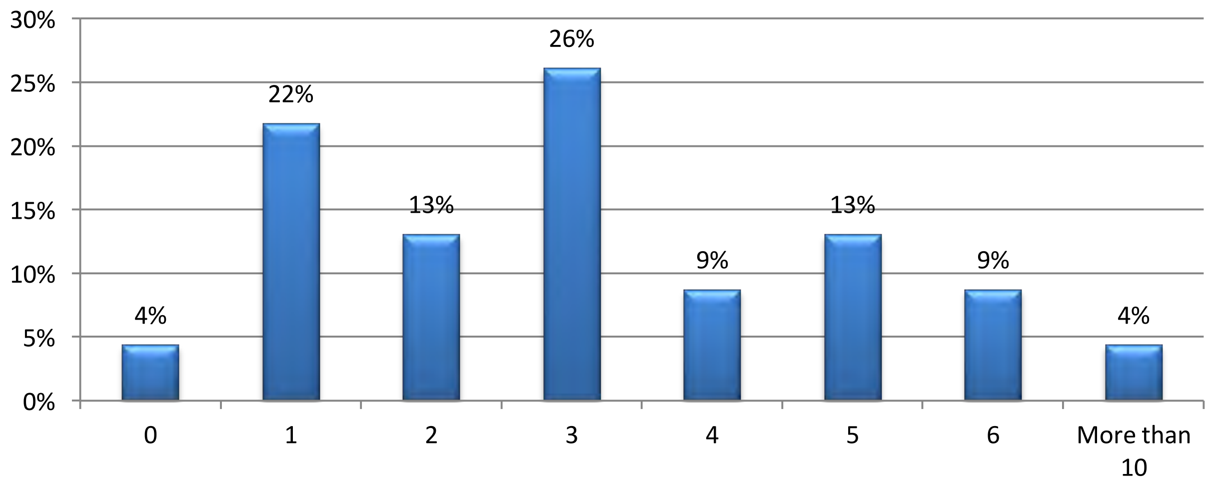
Approximately 57% of respondents made 5 investments or more over the last 12 months.

Figure 37. Total Number of Investments Made in the Last 12 Months



MEZZANINE cont.

Figure 38. Number of Follow-on Investments Made in the Last 12 Months



Approximately 70% of respondents plan to make 5 investments or more over the next 12 months.

Figure 39. Number of Total Investments Planned over Next 12 Months

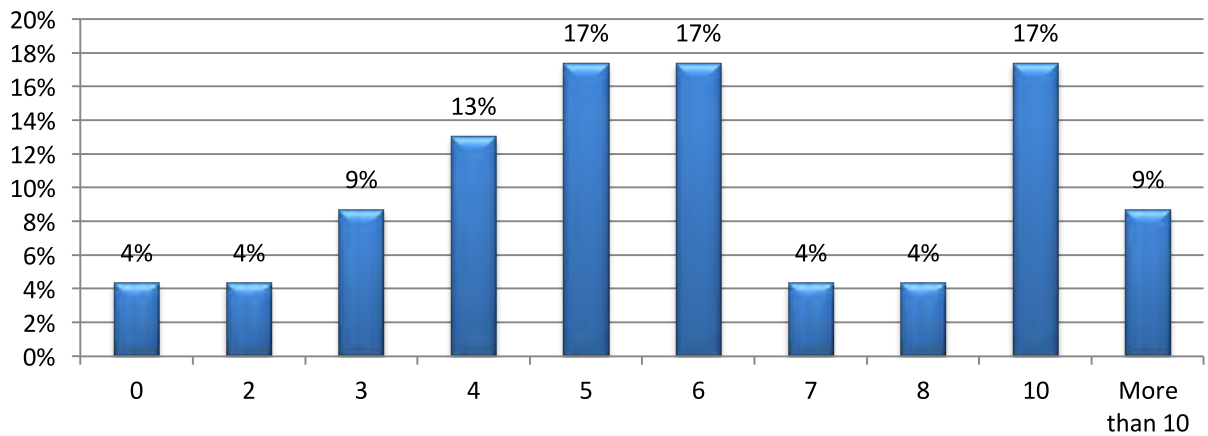
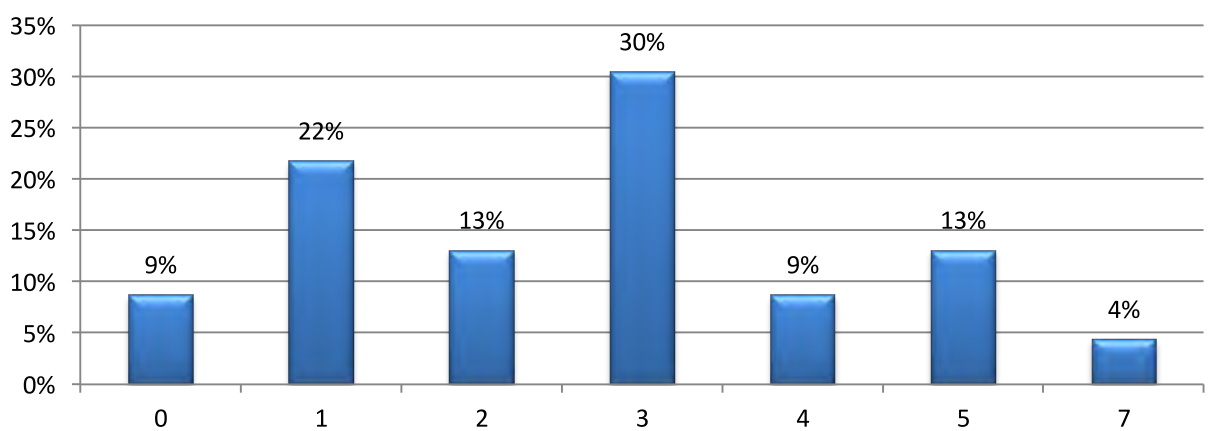
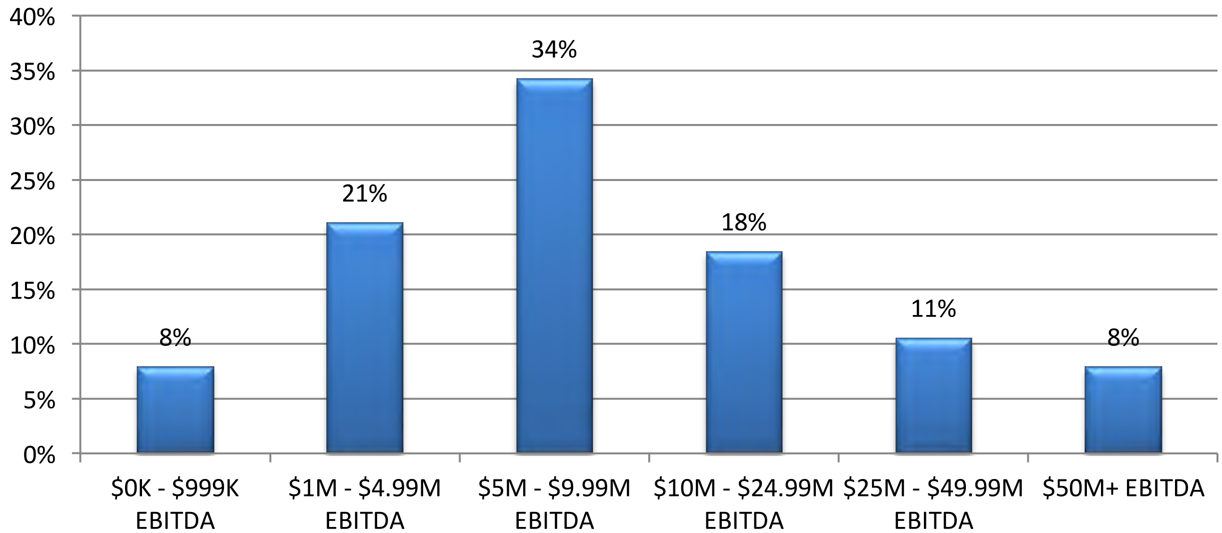


Figure 40. Number of Follow-on Investments Planned over Next 12 Months



Approximately 34% of sponsored deals were in the range between $5 million and $10 million of EBITDA.

Figure 41. 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 28. Sponsored Deals by EBITDA Size (medians)

EBITDA size	$0K - $999K	$1M - $4.99M	$5M - $9.99M	$10M - $24.99M	$25M - $49.99M	$50M+
% of deals with warrants	100%	50%	50%	67%	0%	0%
Average loan terms (years)	2.5	5.0	5.0	5.0	5	6
Senior leverage ratio (multiple of EBITDA)	2.5	2.5	2.5	3.75	4.25	4.5
Total leverage ratio (multiple of EBITDA)	3.5	3.5	3.5	4.5	5.75	6
Average loan size ($ millions)	4	4	7.5	15	35	15
Cash interest rate	11%	12%	11%	11%	10.5%	9%
PIK	0%	2%	1%	0%	0%	0%
Warrants expected return (IRR contribution)	9%	3%	1%	n/a	n/a	n/a
Total expected returns (gross cash on pre-tax IRR)	24%	17.0%	16%	15%	14%	10%

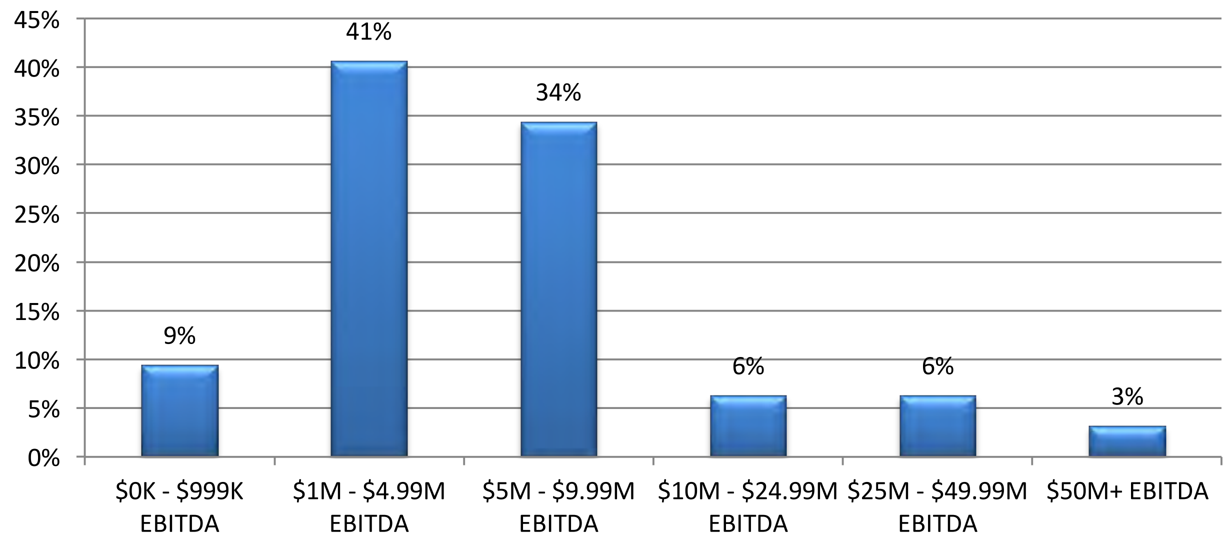
Table 29. Investment Type by Size of Investee Company, Sponsored Deals

	Sub debt only	Blended Sr. / Jr.	Other
$0K - $999K EBITDA	0%	100%	0%
$1M - $4.99M EBITDA	14%	71%	0%
$5M - $9.99M EBITDA	0%	73%	18%
$10M - $24.99M EBITDA	0%	50%	50%
$25M - $49.99M EBITDA	0%	75%	25%

MEZZANINE cont.

Approximately 41% of non-sponsored deals were in the range between $1 million and $5 million of EBITDA.

Figure 42. 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 30. Non-Sponsored Deals by EBITDA Size (medians)

EBITDA size	$0K - $999K	$1M - $4.99M	$5M - $9.99M	$10M - $24.99M
% of deals with warrants	100%	50%	100%	0%
Average loan terms (years)	3	5	5	5
Senior leverage ratio (multiple of EBITDA)	2.5	2.5	2.5	3
Total leverage ratio (multiple of EBITDA)	3.5	3.5	4	4
Average loan size ($ millions)	2	7.5	7.5	25
Cash interest rate	11%	11%	11%	8.5%
PIK	4%	2%	1.5%	n/a
Warrants expected return (IRR contribution)	2.5%	9%	9.0%	n/a
Total expected returns (gross cash on pre-tax IRR)	19%	17%	17%	11.0%

Table 31. Investment Type by Size of Borrower Company, Sponsored Deals

	Senior debt only	Sub debt only	Blended Sr. / Jr.	Other
$0K - $999K EBITDA	0%	100%	0%	0%
$1M - $4.99M EBITDA	8%	54%	8%	31%
$5M - $9.99M EBITDA	11%	67%	11%	11%
$10M - $24.99M EBITDA	50%	0%	50%	0%
$25M - $49.99M EBITDA	0%	100%	0%	0%

MEZZANINE cont.

Acquisition loan was reported by 38% of respondents as a motivation to secure mezzanine funding, followed by management or owner buyout at 19%.

Figure 43. Borrower Motivation to Secure Mezzanine Funding (past 12 months)

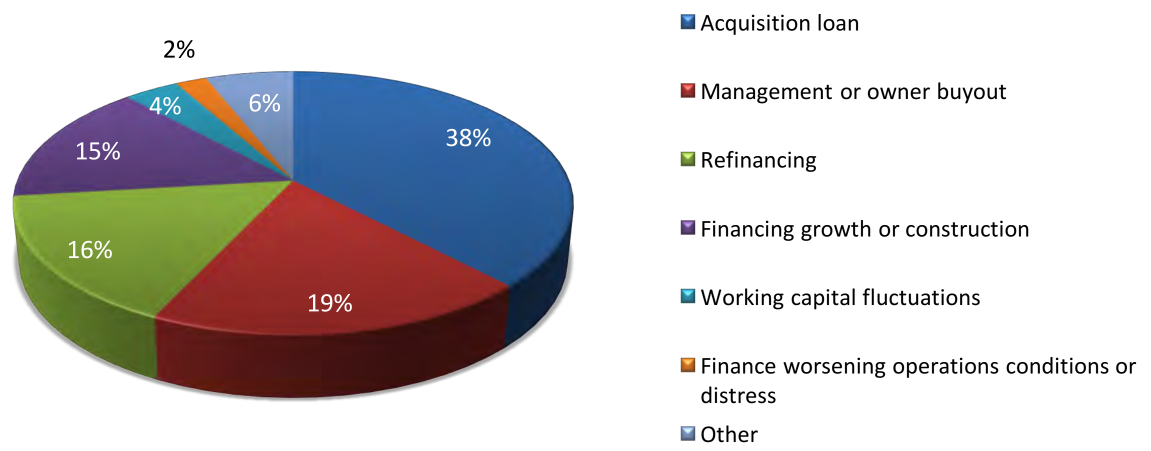
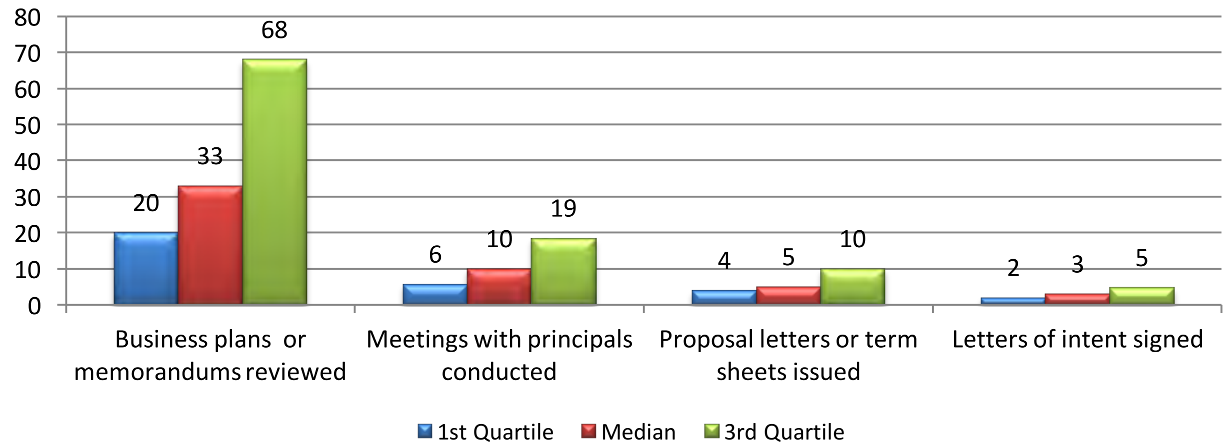


Figure 44. Items Required to Close One Deal



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 32. Importance of Financial Evaluation Metrics

	Unimportant	Of little importance	Moderately important	Important	Very important	Score (1 to 5)
Senior DSCR or FCC ratio	0%	10%	45%	35%	10%	3.5
Total DSCR or FCC ratio	0%	0%	0%	50%	50%	4.5
Senior debt-to-cash flow ratio	0%	5%	40%	35%	20%	3.7
Total debt-to-cash flow ratio	0%	0%	10%	25%	65%	4.6

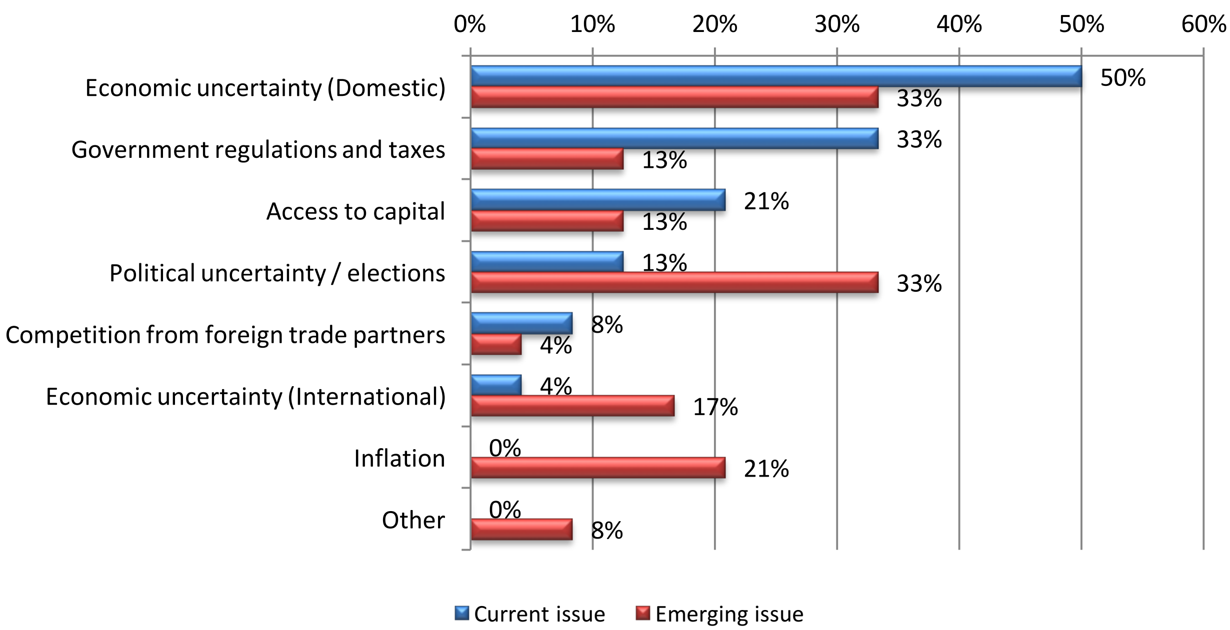
MEZZANINE cont.

Table 33. Financial Evaluation Metrics Average Data

	Average borrower data	Limit not to be exceeded
Senior DSCR or FCC ratio	1.5	1.4
Total DSCR or FCC ratio	1.4	1.2
Senior debt to cash flow ratio	2.5	2.5
Total debt to cash flow ratio	3.6	4.6

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

Figure 50. Issues Facing Privately-Held Businesses



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

Table 34. 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**
Demand for mezzanine capital	0%	9%	52%	35%	4%	39%	9%	**30%**
Credit quality of borrowers seeking investment	4%	13%	52%	22%	9%	30%	17%	**13%**
Average investment size	4%	4%	39%	43%	9%	52%	9%	**43%**
Average investment maturity (months)	0%	5%	77%	18%	0%	18%	5%	**14%**
General underwriting standards	0%	9%	77%	9%	5%	14%	9%	**5%**
Warrant coverage	10%	33%	43%	10%	5%	14%	43%	**-29%**
PIK features	0%	5%	75%	20%	0%	20%	5%	**15%**
Loan fees	0%	13%	83%	4%	0%	4%	13%	**-9%**
Leverage multiples	0%	0%	43%	48%	9%	57%	0%	**57%**
Expected returns on new investments	0%	35%	65%	0%	0%	0%	35%	**-35%**
General business conditions	0%	4%	70%	26%	0%	26%	4%	**22%**
Appetite for risk	0%	9%	57%	35%	0%	35%	9%	**26%**

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

Table 35. 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**
Demand for mezzanine capital	0%	5%	65%	25%	5%	30%	5%	**25%**
Credit quality of borrowers seeking investment	5%	5%	70%	20%	0%	20%	10%	**10%**
Average investment size	0%	0%	65%	30%	5%	35%	0%	**35%**
Average investment maturity (months)	0%	0%	89%	11%	0%	11%	0%	**11%**
General underwriting standards	0%	10%	85%	5%	0%	5%	10%	**-5%**
Warrant coverage	6%	28%	61%	0%	6%	6%	33%	**-28%**
PIK features	0%	11%	79%	11%	0%	11%	11%	**0%**
Loan fees	0%	10%	80%	10%	0%	10%	10%	**0%**
Leverage multiples	0%	5%	55%	40%	0%	40%	5%	**35%**
Expected returns on new investments	0%	35%	55%	10%	0%	10%	35%	**-25%**
General business conditions	0%	10%	55%	35%	0%	35%	10%	**25%**
Appetite for risk	0%	10%	45%	45%	0%	45%	10%	**35%**

LIMITED PARTNER SURVEY INFORMATION

Approximately 38% of the 40 respondents in the limited partner survey reported direct real estate funds as being the best risk/return trade-off investment class and another 32% reported direct investments as being the best risk/return trade-off investment class. When asked about which industry currently offers the best risk/return trade-off, 20% of respondents reported health care & biotech, followed by 13% reporting information technology, and another 10% reporting basic materials and energy. Other key findings include:

- On average respondents target to allocate 27% of their assets to direct investments, 26% to real estate funds and 9% to buyout private equity and 9% to hedge funds. Respondents expect the highest returns of 10% from direct investments and real estate funds, 9% from venture capital, and 8% from growth private equity.

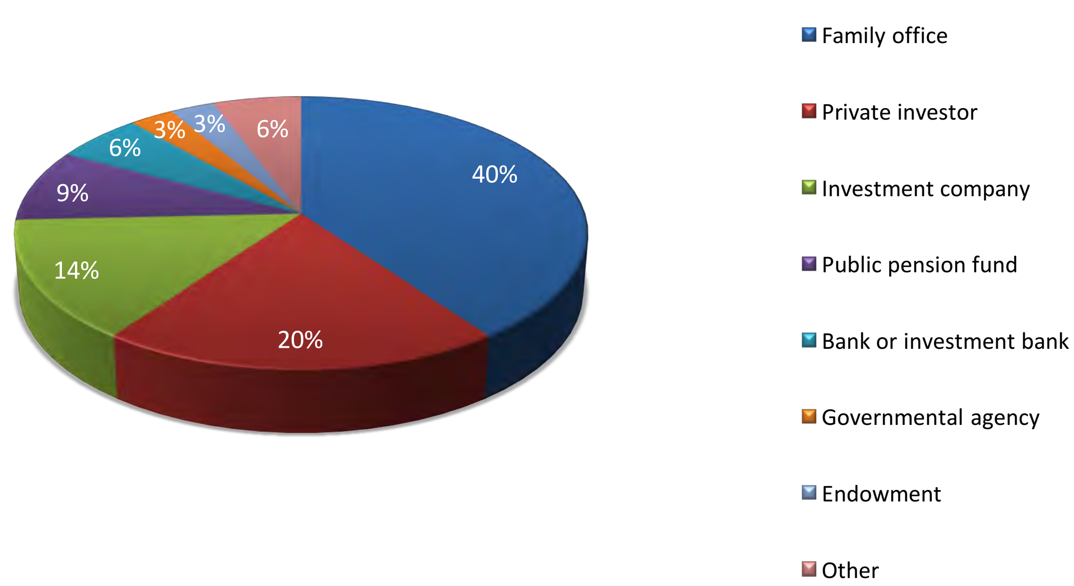
- Respondents indicated increased allocation to private equity, real estate funds and direct investments, and decreased allocation to all other alternative assets in the last twelve months. They also reported improved business conditions and increased expected returns on new investments.

- Respondents also expect further increases in allocation to all other alternative assets except mezzanine and hedge funds, improving business conditions and increasing expected returns.

Operational and Assessment Characteristics

Approximately 40% of respondents indicated being family office followed by private investor (20%).

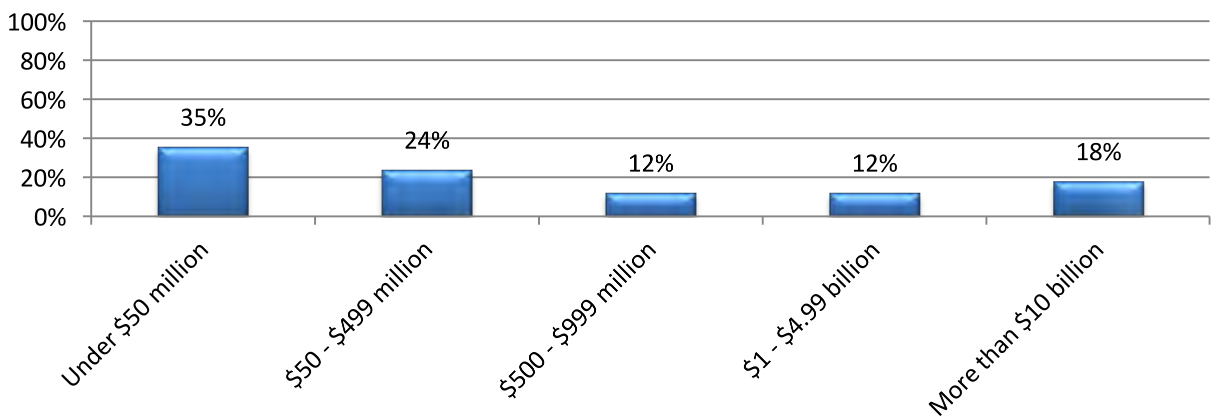
Figure 45. Entity Type



LP cont.

Approximately 35% of respondents reported their asset category being less than $50 million, while 24% were between $50 million and $500 million.

Figure 46. Assets under Management or Investable Funds



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

Figure 47. Current Asset Allocation for "Alternative Assets" (% of total portfolio)

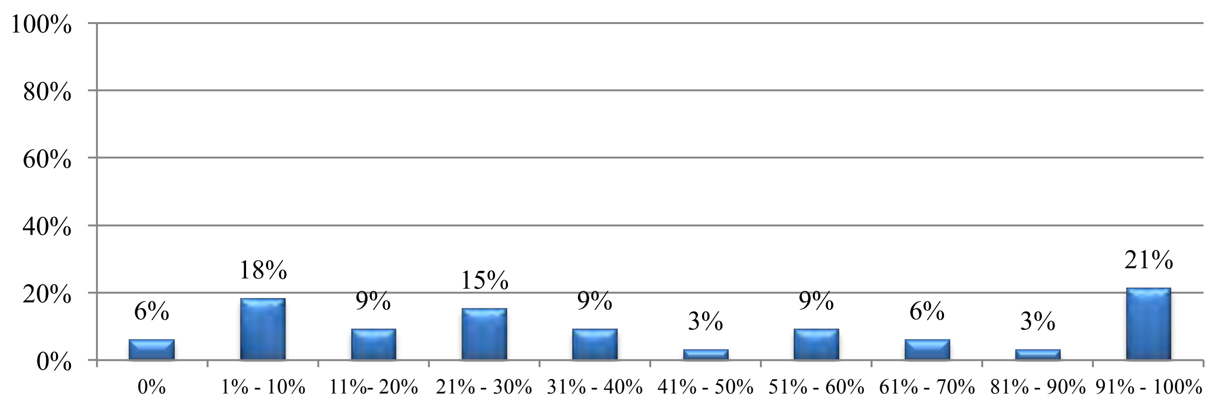
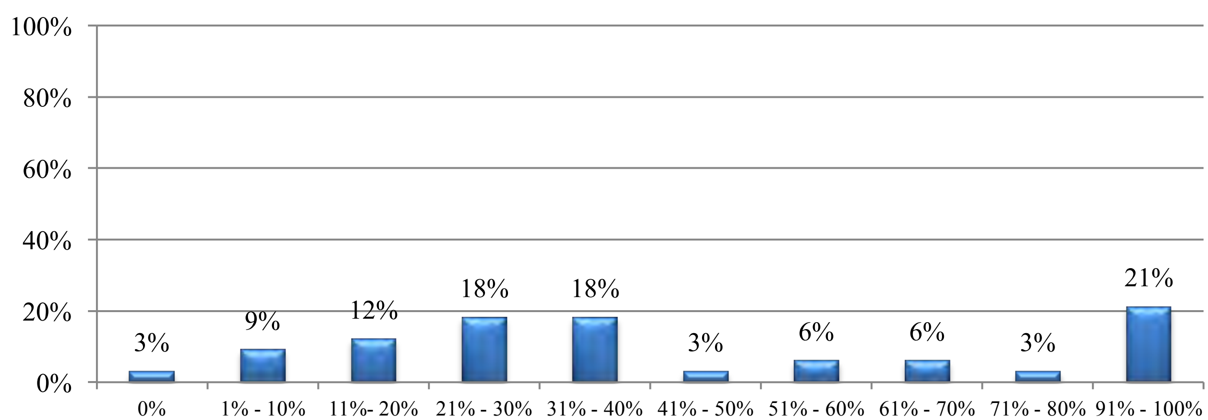


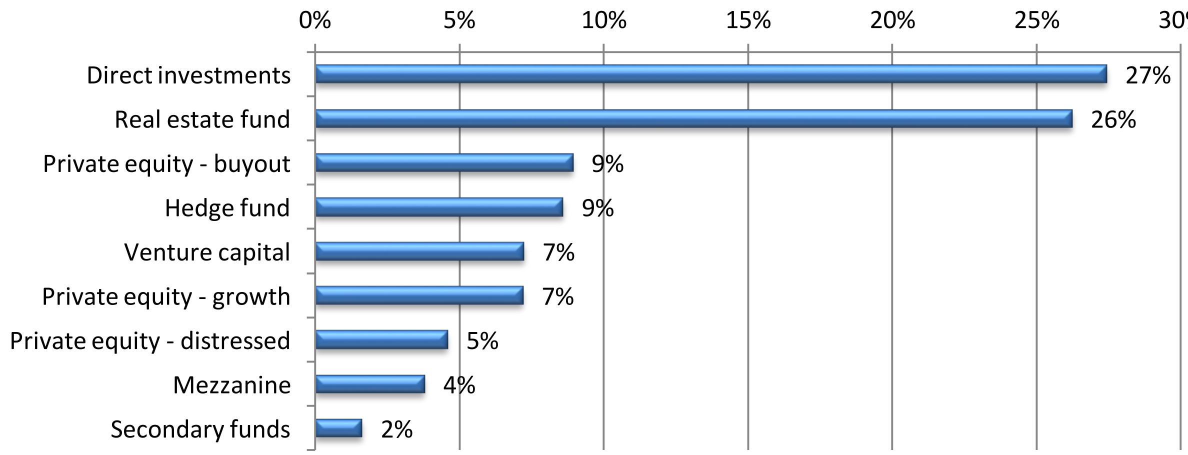
Figure 48. Target Asset Allocation for "Alternative Assets" (% of total portfolio)



LP cont.

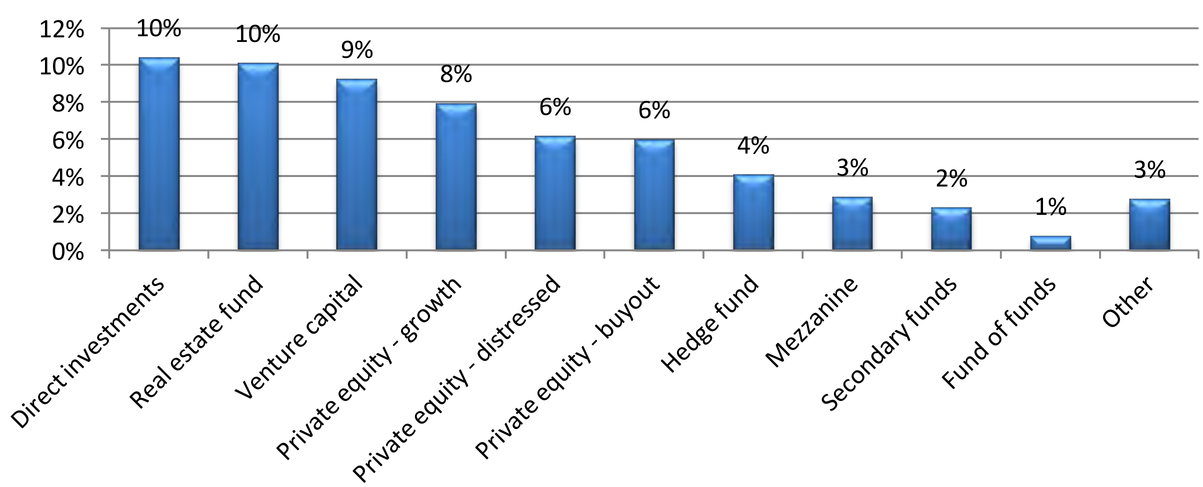
On average, respondents target to allocate 27% of their assets to direct investments, 26% to real estate funds, 9% to private equity - buyouts and 9% to hedge funds.

Figure 49. Target Asset Allocation by Assets



On average, respondents expect the highest returns from investments in direct investments, real estate funds, and venture capital.

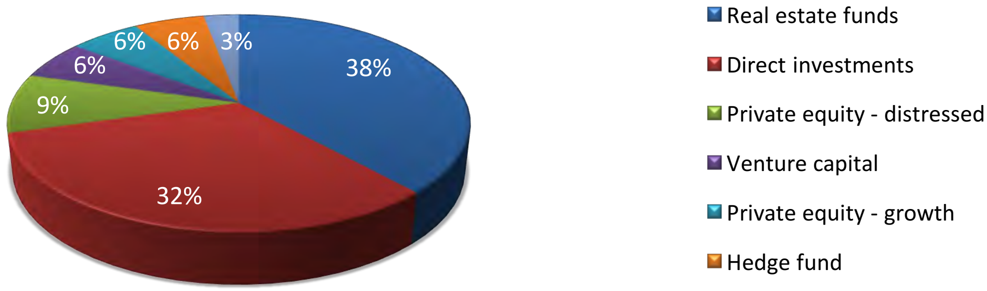
Figure 50. Annual Return Expectations for New Investments



LP cont.

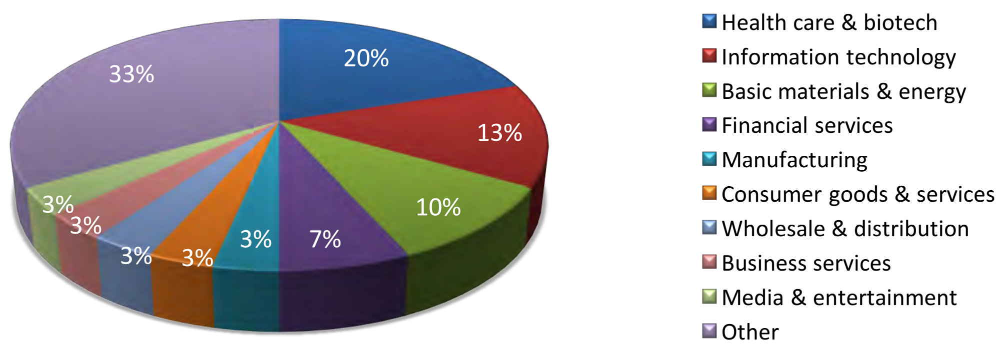
Approximately 38% of the 40 respondents in the limited partner survey reported real estate funds as being the best risk/return trade-off investment class and another 32% reported direct investments as being the best risk/return trade-off investment class.

Figure 51. Assets with the Best Risk/Return Trade-off Currently



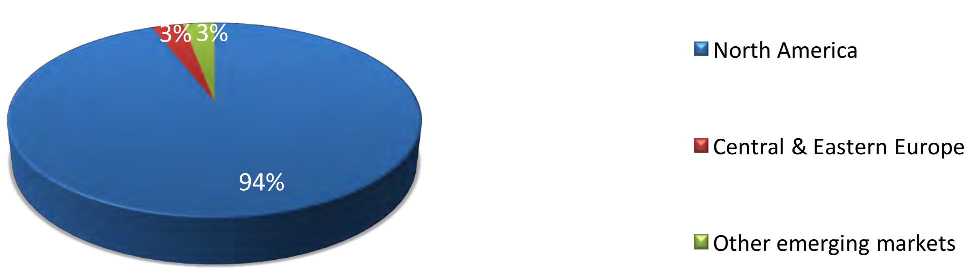
When asked about which industry currently offers the best risk/return trade-off, 20% of respondents reported health care & biotech, followed by 13% reporting information technology, and another 10% reporting basic materials and energy.

Figure 52. Industry with the Best Risk/Return



With regard to the geographic regions with the best risk/return trade-offs, 94% of respondents reported North America.

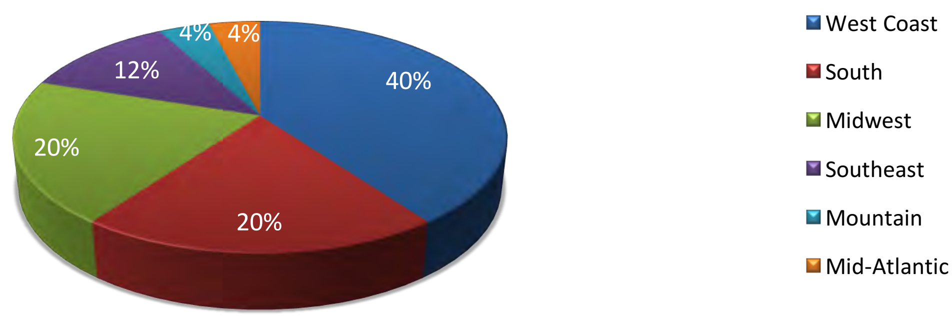
Figure 53. Geographic Regions of the World Offering the Best Risk/Return Tradeoff Currently



LP cont.

Regarding the geographic regions with the best risk/return trade-offs in the US, 40% of respondents reported West Coast, 20% reported South and another 20% reported Midwest.

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



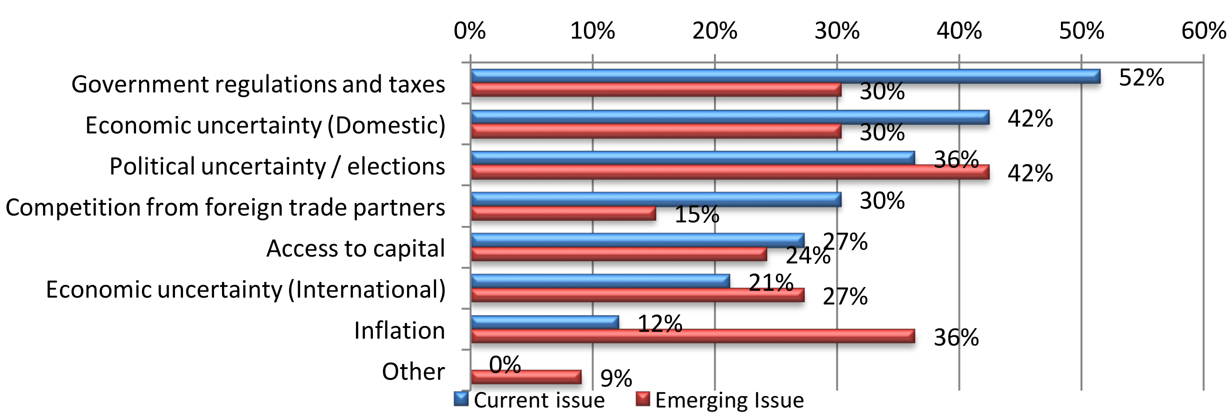
According to respondents, general partner and specific strategy are the most important factors when evaluating investment followed by historical fund performance on all funds.

Table 36. Importance of Factors When Evaluating

	Unimportant	Of little importance	Moderately important	Important	Very important	**Score (1 to 5)**
Historical fund performance on all funds	3%	0%	30%	48%	18%	**3.8**
Returned capital from most recent fund (Distribution to Paid-in or DPI)	3%	9%	30%	36%	21%	**3.6**
Residual value of most recent fund (Residual Value to Paid-in or RVPI)	3%	13%	13%	59%	13%	**3.7**
General partner	6%	3%	12%	24%	55%	**4.2**
Specific strategy	0%	3%	16%	41%	41%	**4.2**
Specific location	6%	15%	52%	9%	18%	**3.2**
Gut feel/instinct	0%	18%	42%	27%	12%	**3.3**

Respondents believe government regulations and taxes are the most important current issue facing privately-held businesses.

Figure 54. Issues Facing Privately-Held Businesses



LP cont.

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

Table 37. 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**
Allocation to venture capital	6%	19%	65%	10%	0%	10%	26%	**-16%**
Allocation to private equity	0%	13%	61%	23%	3%	26%	13%	**13%**
Allocation to mezzanine	11%	11%	68%	11%	0%	11%	21%	**-11%**
Allocation to hedge funds	19%	4%	67%	11%	0%	11%	22%	**-11%**
Allocation to secondary funds	8%	8%	81%	4%	0%	4%	15%	**-12%**
Allocation to real estate funds	0%	10%	53%	23%	13%	37%	10%	**27%**
Direct investments	7%	4%	25%	46%	18%	64%	11%	**54%**
General business conditions	3%	3%	43%	40%	10%	50%	7%	**43%**
Expected returns on new capital deployed	3%	10%	52%	29%	6%	35%	13%	**23%**

Respondents also expect further increases in allocation to all other alternative assets except mezzanine and hedge funds, improving business conditions and increasing expected returns.

Table 38. General Business and Industry Assessment Expectations over the Next 12 Months

Characteristics	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	**Net increase/ decrease**
Allocation to venture capital	3%	10%	67%	17%	3%	20%	13%	**7%**
Allocation to private equity	0%	6%	55%	33%	6%	39%	6%	**33%**
Allocation to mezzanine	0%	14%	76%	10%	0%	10%	14%	**-3%**
Allocation to hedge funds	11%	11%	64%	11%	4%	14%	21%	**-7%**
Allocation to secondary funds	4%	8%	77%	8%	4%	12%	12%	**0%**
Allocation to real estate funds	0%	7%	43%	43%	7%	50%	7%	**43%**
Direct investments	3%	7%	37%	30%	23%	53%	10%	**43%**
General business conditions	3%	6%	47%	31%	13%	44%	9%	**34%**
Expected returns on new capital deployed	0%	13%	48%	29%	10%	39%	13%	**26%**

VENTURE CAPITAL SURVEY INFORMATION

Of the 25 participants who responded to the venture capital survey, approximately 44% of respondents expect an increasing size of the venture capital industry. The majority (89%) of respondents plan to make three investments or more 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 34% targeting information technology and another 30% planning to invest in financial services.
- Respondents' exit strategies include selling to a public company (42%) followed by selling to a private company (24%).
- Respondents believe access to capital is the most important issue facing privately-held businesses today.

Operational and Assessment Characteristics

Approximately 56% of respondents made five investments or more over the last twelve months.

Figure 55. Total Number of Investments Made in the Last 12 Months

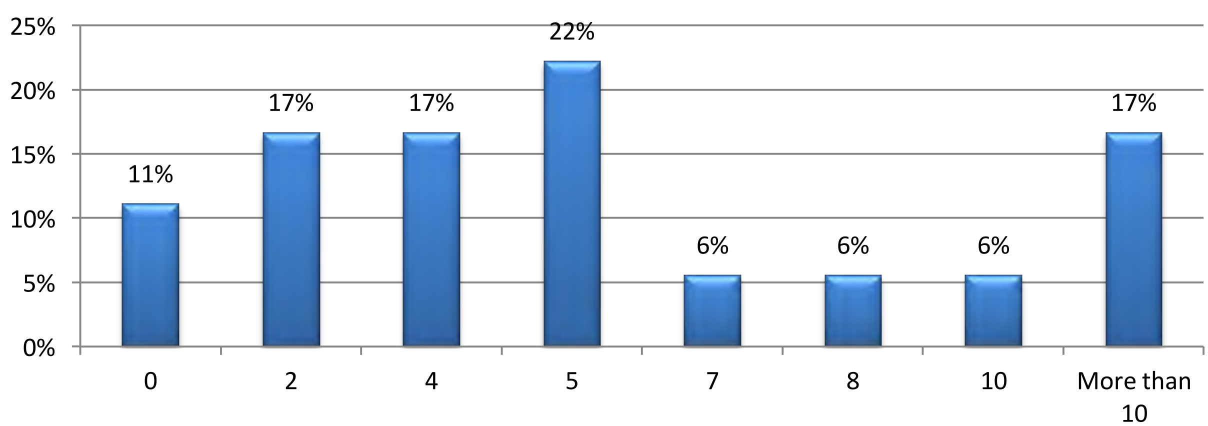
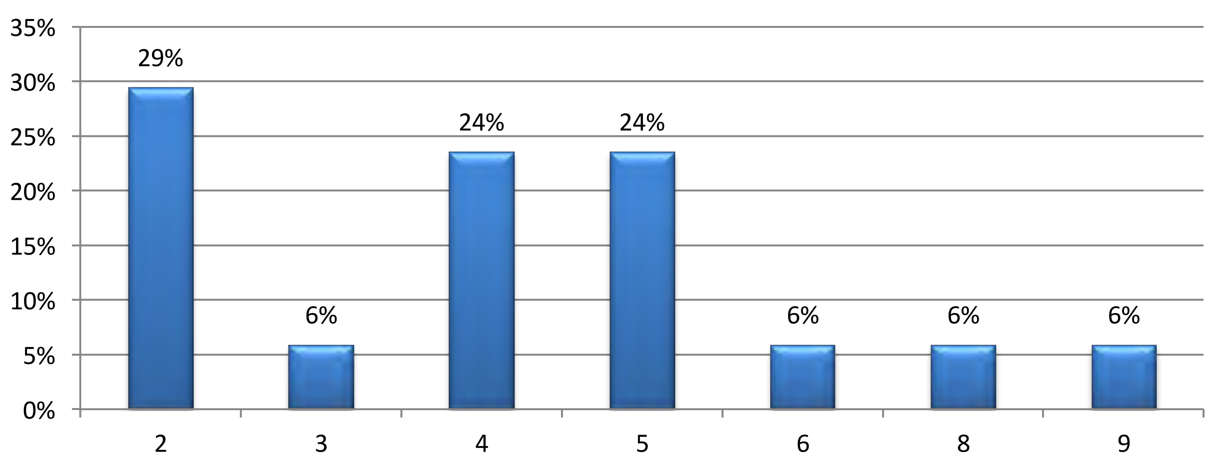


Figure 56. Number of Follow-on Investments Made in the Last 12 Months



The majority (61%) of respondents plan to make four investments or more over the next 12 months.

Figure 57. Number of Total Investments Planned over Next 12 Months

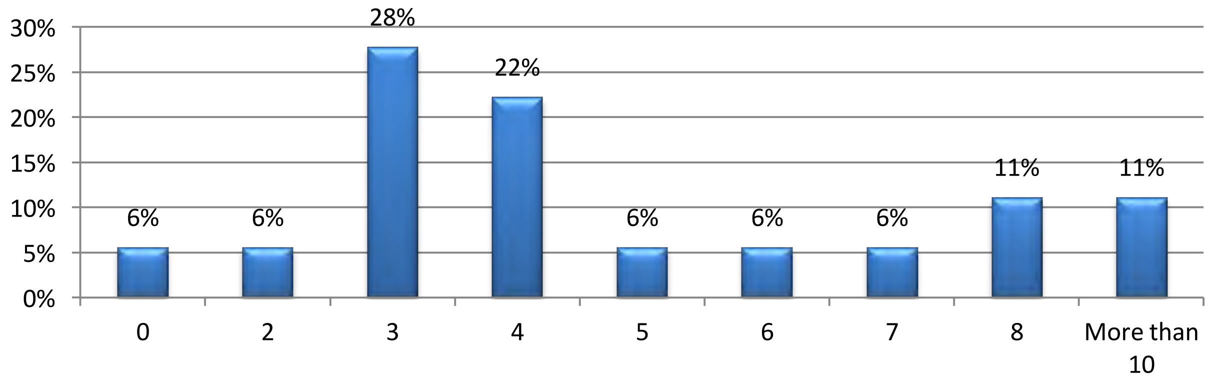
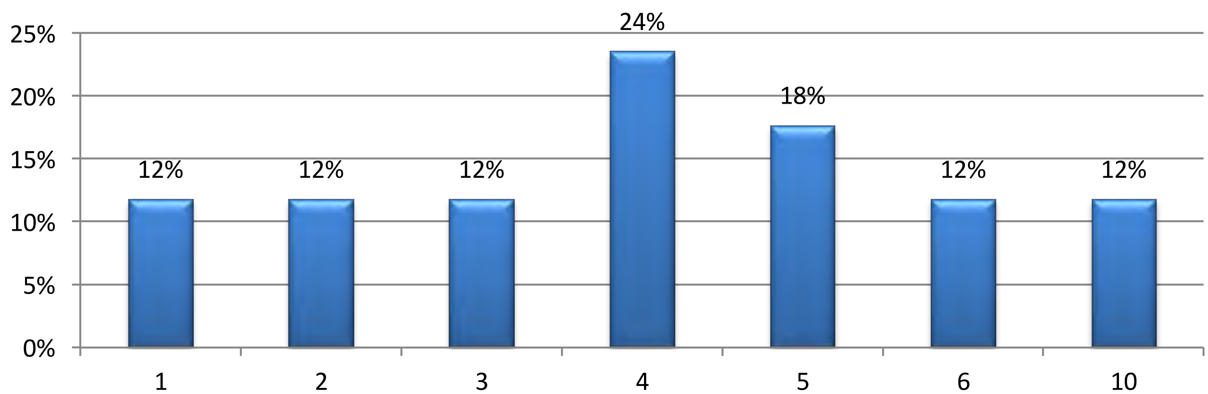


Figure 58. Number of Follow-on Investments Planned over Next 12 Months



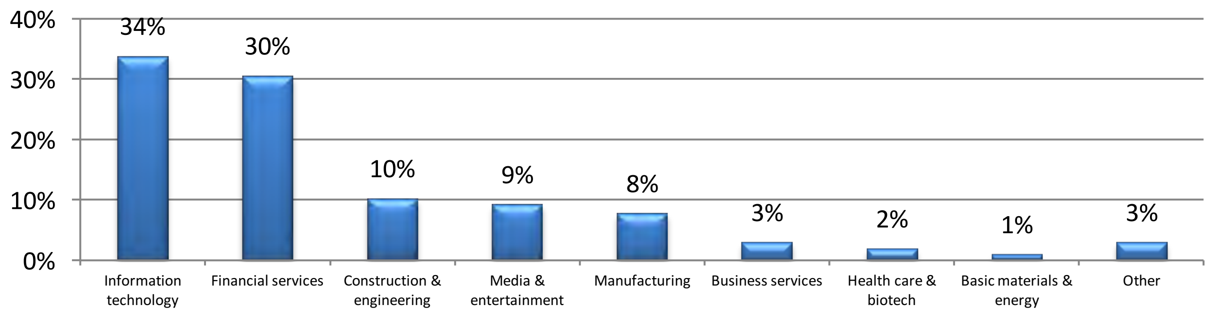
Respondents reported on business practices and the results are reflected below.

Table 39. VC Fund Data

	1st quartile	Median	3rd quartile
Vintage year (year in which first investment made)	2006	2012	2015
Size of fund ($ millions)	$18	$75	$125
Targeted number of total investments	8	15	22
Target fund return (gross pretax cash on cash annual IRR %)	15%	25%	25%
Expected fund return (gross pretax cash on cash annual IRR %)	15%	15%	25%

The types of businesses respondents plan to invest in over next 12 months are very diverse with over 34% targeting Information technology, and another 30% planning to invest in financial services.

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



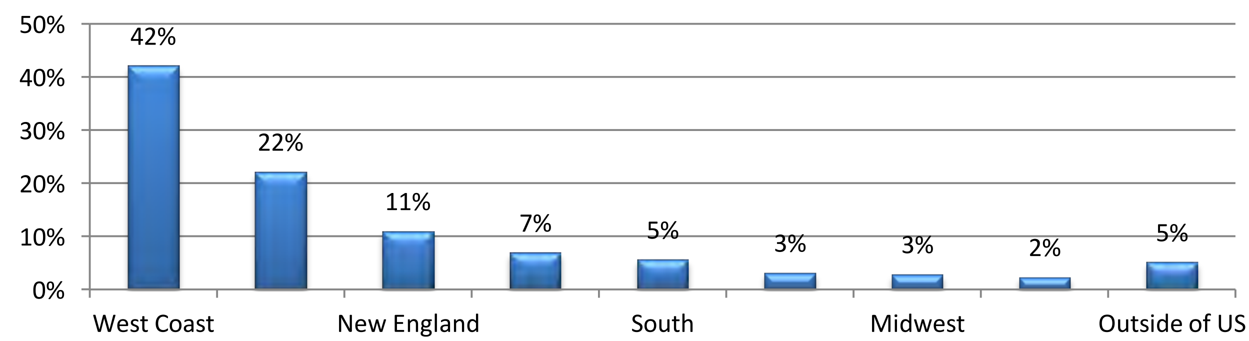
Respondents reported on a variety of statistics pertaining to their investments.

Table 40. General Information on Investments by Company Stages

	Seed	Startup	Early Stage	Expansion	Later Stage
Number of Investments Made in Last twelve months					
	35	48	63	42	29
Average Size of Investment ($ million)					
1st Quartile	0.5	0.75	1.5	2	5.5
Median	0.5	1.5	2.5	3.5	10
3rd Quartile	0.5	1.5	4	8.5	10
Average % of Total Equity Purchased (fully diluted basis)					
1st Quartile	15%	13%	15%	7.5%	5%
Median	**15%**	**15%**	**15%**	**15%**	**5%**
3rd Quartile	35%	25%	25%	15%	20%
Total expected Returns (gross cash on cash pretax IRR) on new investments					
1st Quartile	28%	20%	18%	20%	23%
Median	**35%**	**25%**	**23%**	**23%**	**23%**
3rd Quartile	39%	29%	32%	23%	28%
Expected Time to Exit (years)					
1st Quartile	5	4	3.5	2.5	3
Median	5	5	4	3	4
3rd Quartile	7	5	5	4.5	5
Average company 'pre-money' value ($ million)					
1st Quartile	2.5	3.5	4.5	20	65
Median	**2.5**	**7.5**	**10**	**25**	**100**
3rd Quartile	3.5	7.5	15	55	100
Average Company Value at Time of Investment (post-money $ millions)					
1st Quartile	4.0	10	7.5	37.5	75
Median	**7.5**	**15**	**25**	**50.0**	**95**
3rd Quartile	15.0	15	25	62.5	100

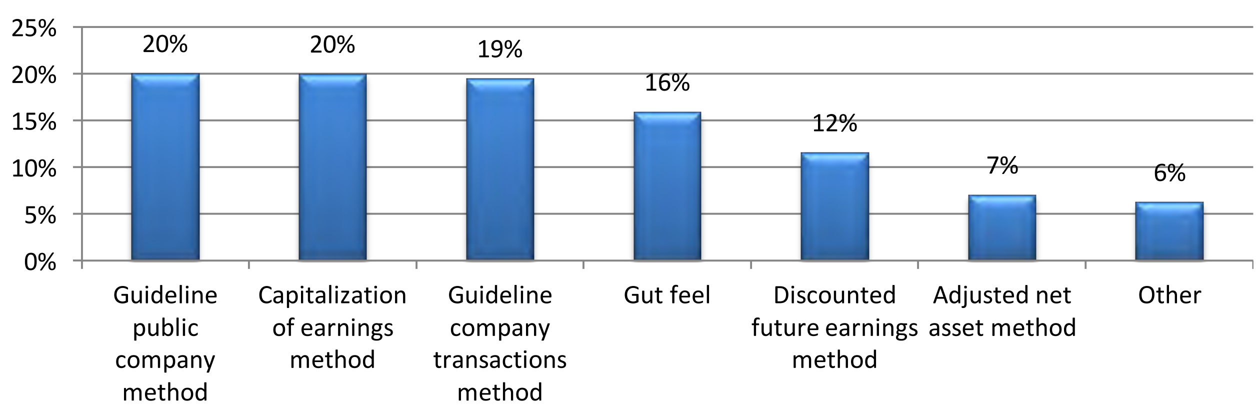
Respondents reported on where they plan to invest over the next 12 months. The results reflect investment throughout the U.S.

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



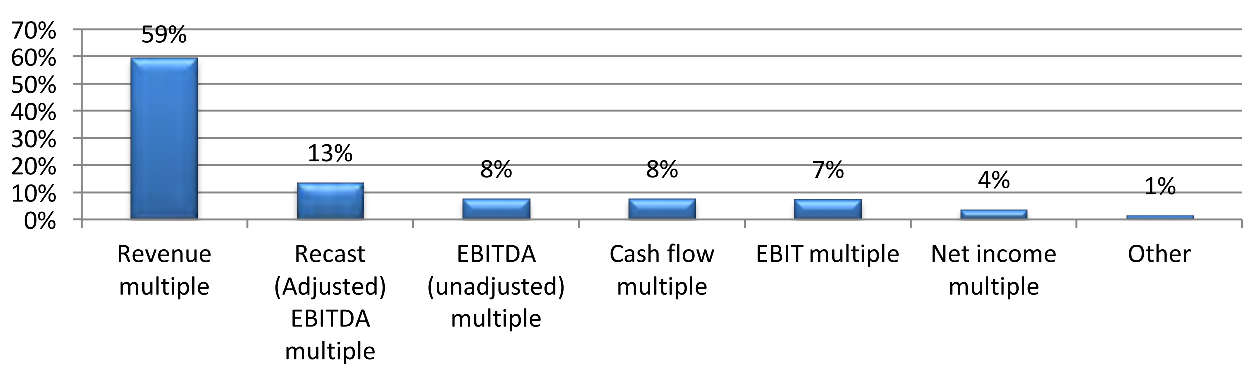
When valuing the company, approximately 20% of respondents use guideline public company method and 20% use capitalization of earnings method when valuing privately-held businesses.

Figure 61. Usage of Valuation Methods



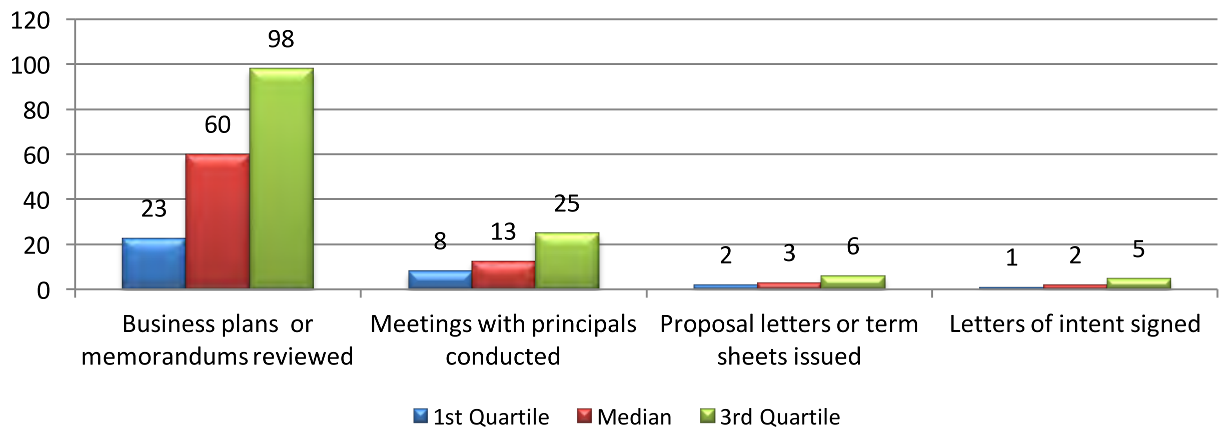
The weights of the various multiple methods used by respondents when valuing privately-held businesses included 59% for revenue multiple and 13% for recast (adjusted) EBITDA multiple methods.

Figure 62. Usage of Multiple Methods



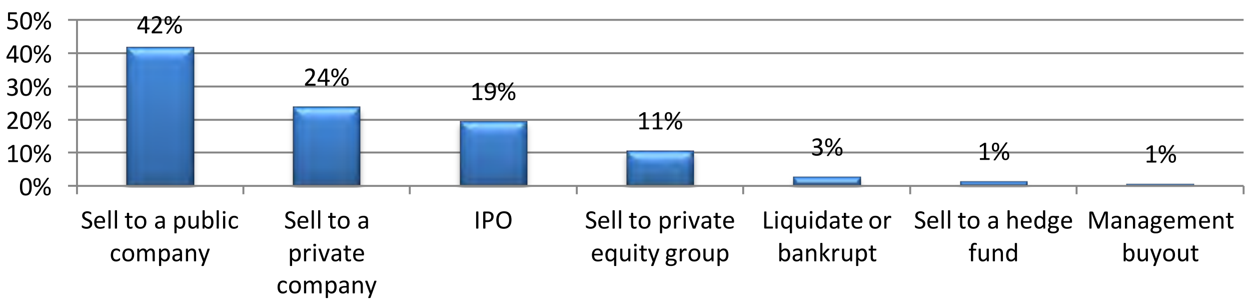
Respondents reported on items required to close one deal.

Figure 70. Items Required to Close One Deal



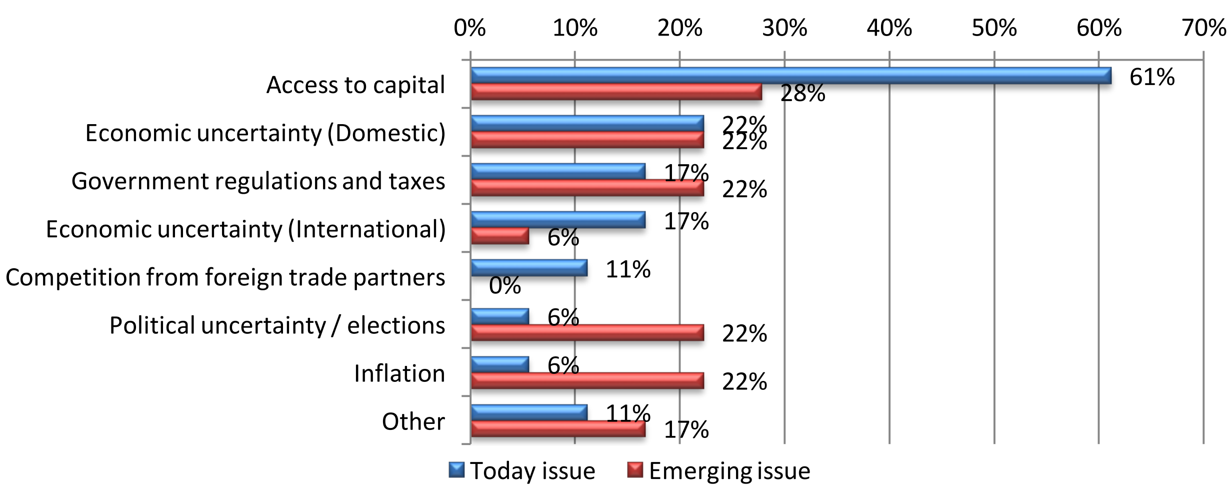
Respondents' exit strategies include selling to a public company (42%) followed by selling to a private company (24%).

Figure 63. Exit Plans for Portfolio Companies



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

Figure 64. 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 41. 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**
Demand for venture capital	0%	0%	39%	33%	28%	61%	0%	**61%**
Quality of companies seeking investment	0%	11%	56%	28%	6%	33%	11%	**22%**
Follow-on investments	6%	11%	28%	56%	0%	56%	17%	**39%**
Average investment size	6%	11%	44%	33%	6%	39%	17%	**22%**
Exit opportunities	6%	25%	38%	25%	6%	31%	31%	**0%**
Time to exit deals	0%	18%	29%	35%	18%	53%	18%	**35%**
Expected returns on new investments	0%	17%	56%	28%	0%	28%	17%	**11%**
Value of portfolio companies	0%	0%	17%	61%	22%	83%	0%	**83%**
General business conditions	0%	17%	50%	28%	6%	33%	17%	**17%**
Presence of super angels in space formerly occupied by VCs	0%	24%	24%	47%	6%	53%	24%	**29%**
Size of venture capital industry	0%	33%	22%	39%	6%	44%	33%	**11%**
Appetite for risk	11%	22%	44%	17%	6%	22%	33%	**-11%**

Respondents expect further improving general business conditions.

Table 42. 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**
Demand for venture capital	0%	6%	22%	39%	33%	72%	6%	**67%**
Quality of companies seeking investment	0%	11%	39%	39%	11%	50%	11%	**39%**
Follow-on investments	0%	11%	17%	61%	11%	72%	11%	**61%**
Average investment size	0%	6%	44%	33%	17%	50%	6%	**44%**
Exit opportunities	0%	11%	39%	22%	28%	50%	11%	**39%**
Time to exit deals	0%	22%	50%	22%	6%	28%	22%	**6%**
Expected returns on new investments	0%	11%	50%	22%	17%	39%	11%	**28%**
Value of portfolio companies	0%	11%	39%	28%	22%	50%	11%	**39%**
General business conditions	0%	17%	56%	6%	22%	28%	17%	**11%**
Presence of super angels in space formerly occupied by VCs	0%	18%	29%	41%	12%	53%	18%	**35%**
Size of venture capital industry	0%	22%	33%	33%	11%	44%	22%	**22%**
Appetite for risk	6%	17%	39%	17%	22%	39%	22%	**17%**

ANGEL INVESTOR SURVEY INFORMATION

Of the 46 participants who responded to the angel investor survey, the majority (67%) of respondents plan to make between two and four investments in the next twelve months. Other key findings include:

- Approximately 32% of respondents base valuations on gut feel when valuing privately-held businesses.
- When using multiples to determine the value of a business, the most popular methods used by respondents were revenue multiple (30%), and EBITDA multiple (22%).
- The types of businesses respondents plan to invest in over next 12 months are very diverse with 22% targeting information technology and another 20% planning to invest in health care or biotech.
- Respondents indicated increase in demand for angel capital, size of angel industry, quality of companies seeking investment and improved general business conditions. They also reported worsened exit opportunities and decreased expected returns on new investments.
- Respondents' exit strategies include selling to a public company (33%) and selling to a private company (28%).

Operational and Assessment Characteristics

Approximately 64% of respondents made between two and four investments over the last twelve months.

Figure 65. Total Number of Investments Made in the Last 12 Months

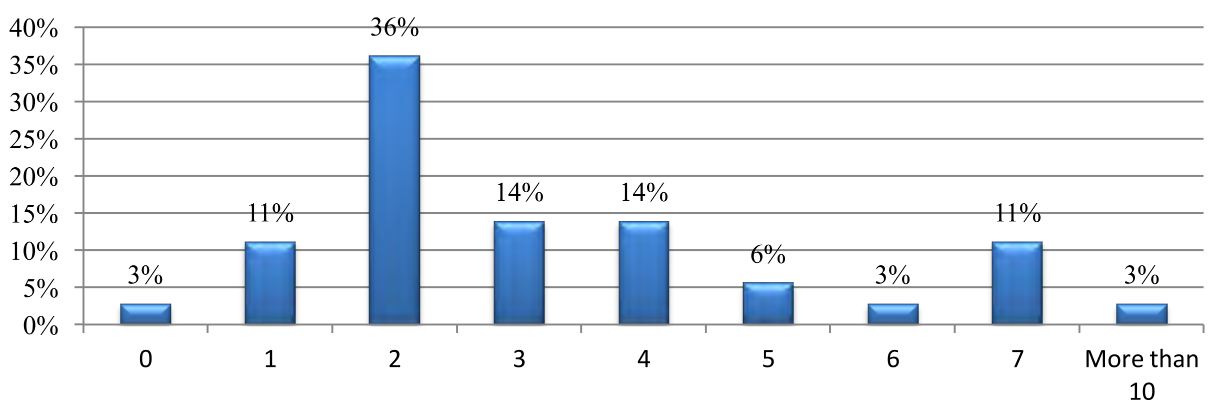
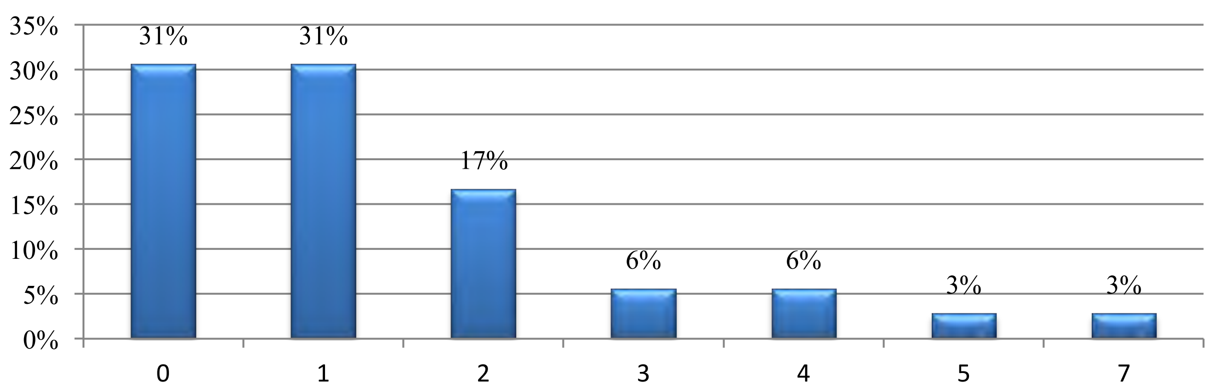


Figure 66. Number of Follow-on Investments Made in the Last 12 Months



The majority (67%) of respondents plan to make between two and four investments over the next 12 months.

Figure 67. Number of Total Investments Planned over Next 12 Months

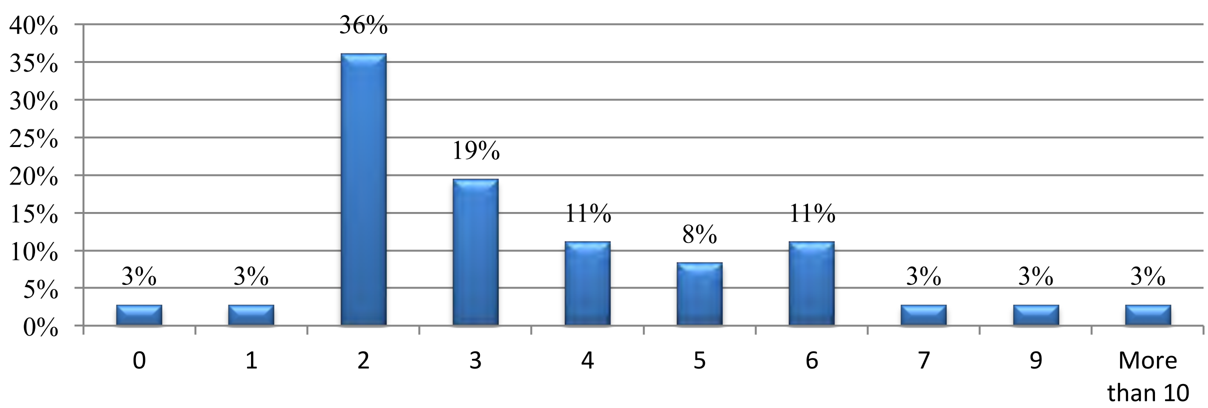
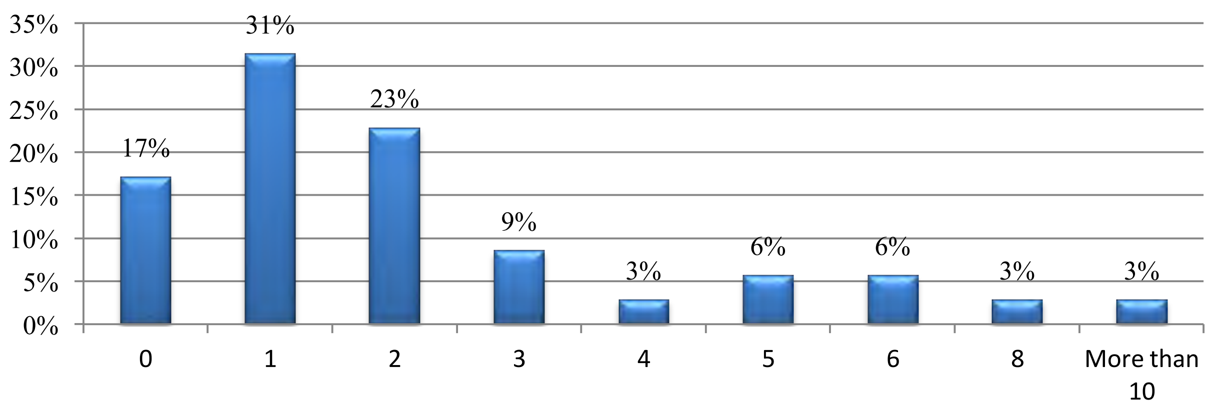
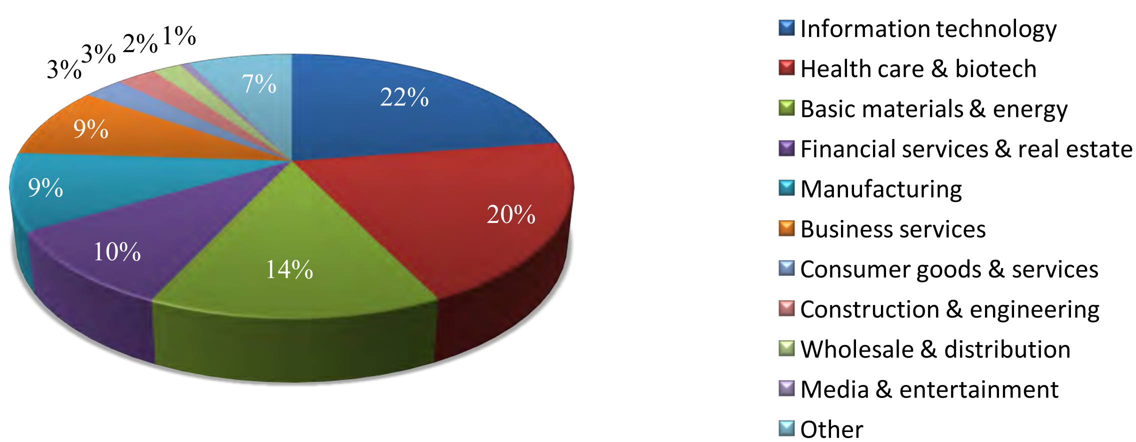


Figure 68. Number of Follow-on Investments Planned over Next 12 Months



The types of businesses respondents plan to invest in over next 12 months are very diverse with over 22% targeting information technology and another 20% planning to invest in health care & biotech.

Figure 69. Type of Business for Investments Planned over Next 12 Months



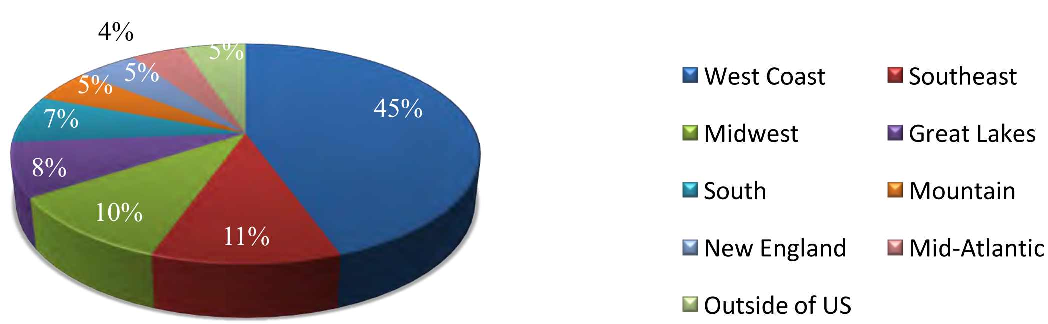
Respondents reported on a variety of stats pertaining to their investments.

Table 43. General Information on Investments by Company Stages

	Seed	Startup	Early Stage	Expansion
Number of investments made in last twelve months				
1st Quartile	91	30	28	14
Average Size of Investment				
1st Quartile	$25,000	$25,000	$25,000	$75,000
Median	**$75,000**	**$100,000**	**$75,000**	**$150,000**
3rd Quartile	$250,000	$150,000	$150,000	$150,000
Average % of Total Equity Purchased (fully diluted basis)				
1st Quartile	6%	5%	2%	2.5%
Median	**13%**	**10%**	**3%**	**3%**
3rd Quartile	26%	20%	6.75%	17.5%
Total EXPECTED Returns (gross cash on cash pretax IRR) on New Investments (%)				
1st Quartile	25%	25%	15%	15%
Median	**35%**	**35%**	**25%**	**15%**
3rd Quartile	60%	55%	50%	28%
Expected Time to Exit (years)				
1st Quartile	3	3	3	3
Median	**5**	**4**	**3.5**	**3**
3rd Quartile	5	5	4.5	3.5
Average company 'pre-money' value				
1st Quartile	$75,000	$550,000	$1,500,000	$3,250,000
Median	**$350,000**	**$950,000**	**$3,500,000**	**$4,500,000**
3rd Quartile	$1,500,000	$2,500,000	$4,750,000	$8,750,000
Average Company Value at Time of Investment (post-money value)				
1st Quartile	$300,000	$750,000	$1,375,000	$4,000,000
Median	**$750,000**	**$1,000,000**	**$3,750,000**	**$4,250,000**
3rd Quartile	$1,500,000	$4,000,000	$4,625,000	$12,500,000

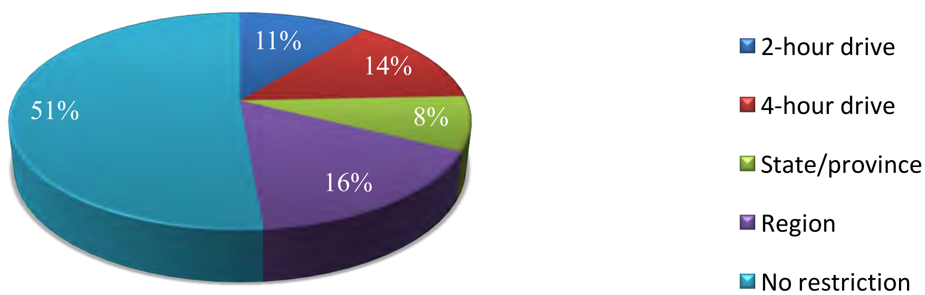
Respondents reported on where they plan to invest over the next 12 months. The results reflect investment throughout the U.S.

Figure 70. Geographic Location of Planned Investment over Next 12 Months



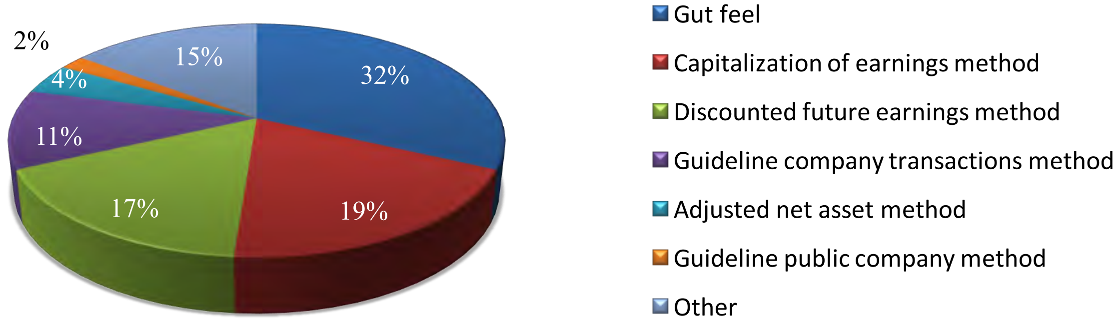
Respondents reported on their geographical limits for investments.

Figure 71. Geographical Limit for Investment



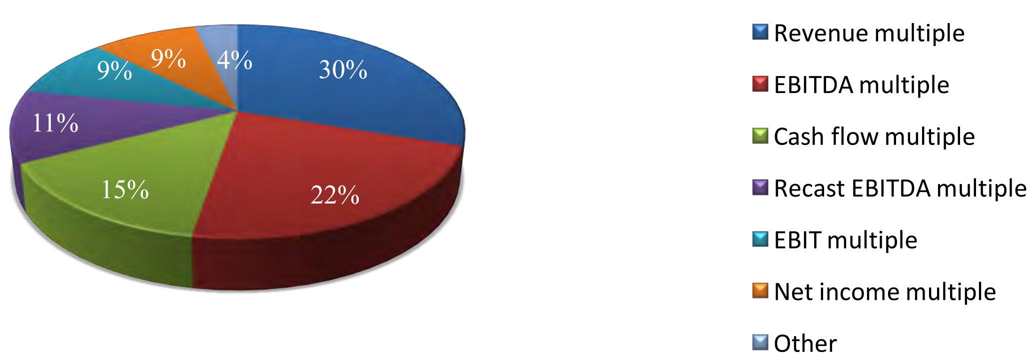
Approximately 32% of respondents base valuations on gut feel when valuing privately-held businesses followed by capitalization of earnings method (12%).

Figure 80. Usage of Valuation Methods



The weights of the various multiple methods used by respondents when valuing privately-held businesses included 30% for revenue multiple and 22% for EBITDA multiple methods.

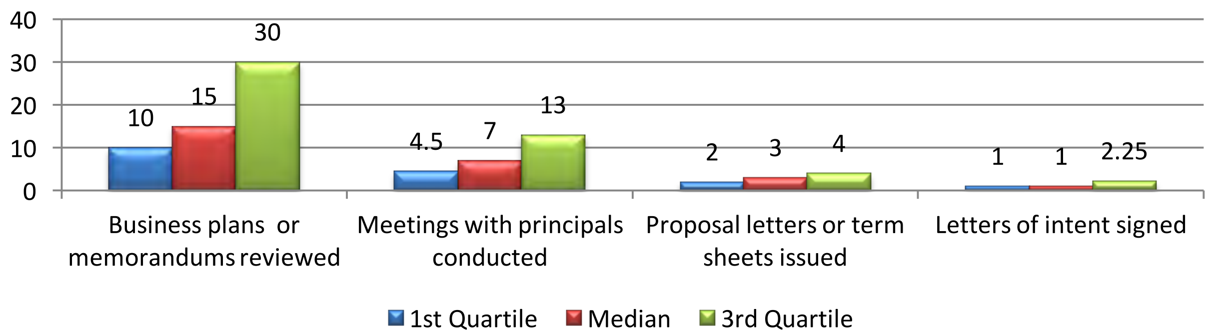
Figure 72. Usage of Multiple Methods



ANGEL cont.

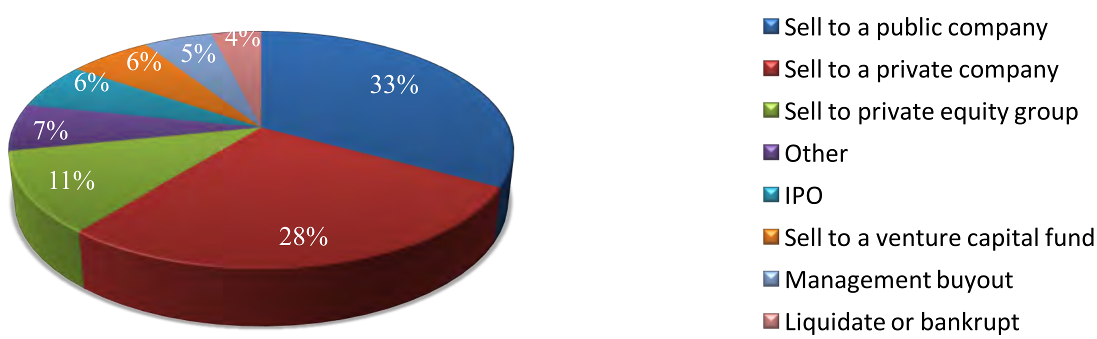
Respondents reported on items required to close one deal.

Figure 73. Items Required to Close One Deal



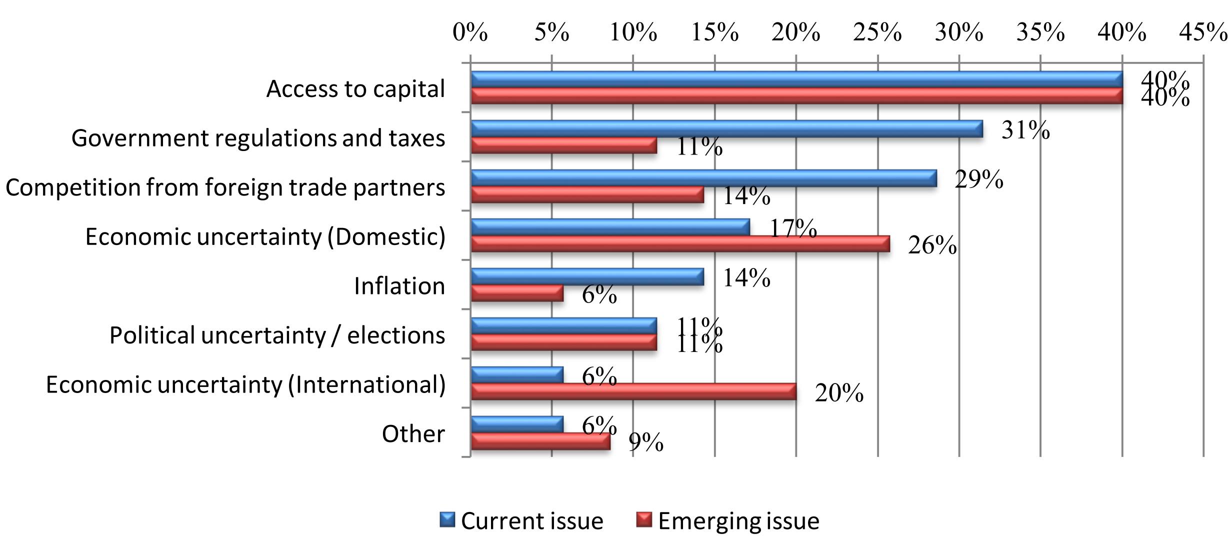
Respondents' exit strategies include selling to a public company (33%) and selling to a private company (28%).

Figure 74. Exit Plans for Portfolio Companies



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

Figure 84. Issues Facing Privately-Held Businesses



ANGEL cont.

Respondents indicated increase in demand for angel capital, size of angel industry, quality of companies seeking investment and improved general business conditions. They also reported worsened exit opportunities and decreased expected returns on new investments.

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

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	**Net increase/ decrease**
Demand for angel capital	6%	6%	35%	29%	24%	53%	12%	**41%**
Size of angel finance industry	3%	9%	36%	36%	15%	52%	12%	**39%**
Quality of companies seeking investment	3%	15%	44%	24%	15%	38%	18%	**21%**
Follow-on investments	0%	18%	39%	30%	12%	42%	18%	**24%**
Average investment size	0%	19%	56%	19%	6%	25%	19%	**6%**
Exit opportunities	0%	27%	52%	21%	0%	21%	27%	**-6%**
Time to exit deals	0%	12%	42%	27%	18%	45%	12%	**33%**
Expected returns on new investments	0%	26%	62%	9%	3%	12%	26%	**-15%**
Value of portfolio companies	3%	26%	24%	32%	15%	47%	29%	**18%**
General business conditions	0%	12%	44%	24%	21%	44%	12%	**32%**
Appetite for risk	6%	21%	38%	26%	9%	35%	26%	**9%**

Respondents expect further increases in all business characteristics.

Table 45. 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**
Demand for angel capital	6%	6%	31%	29%	29%	57%	11%	**46%**
Size of angel finance industry	3%	14%	31%	43%	9%	51%	17%	**34%**
Quality of companies seeking investment	3%	12%	41%	35%	9%	44%	15%	**29%**
Follow-on investments	0%	6%	31%	46%	17%	63%	6%	**57%**
Average investment size	0%	0%	49%	51%	0%	51%	0%	**51%**
Exit opportunities	0%	17%	34%	37%	11%	49%	17%	**31%**
Time to exit deals	0%	20%	49%	29%	3%	31%	20%	**11%**
Expected returns on new investments	0%	14%	57%	29%	0%	29%	14%	**14%**
Value of portfolio companies	3%	9%	29%	54%	6%	60%	11%	**49%**
General business conditions	6%	6%	31%	46%	11%	57%	11%	**46%**
Appetite for risk	9%	11%	40%	31%	9%	40%	20%	**20%**

BUSINESS APPRAISER SURVEY INFORMATION

According to the 131 business appraiser survey respondents, government regulations and taxes are the most important issue facing privately-held business today. Respondents indicated increases in number of engagements, fees for services, competition, and improved general business conditions over the last twelve months. They also expect slightly worsening business conditions in the next twelve months.

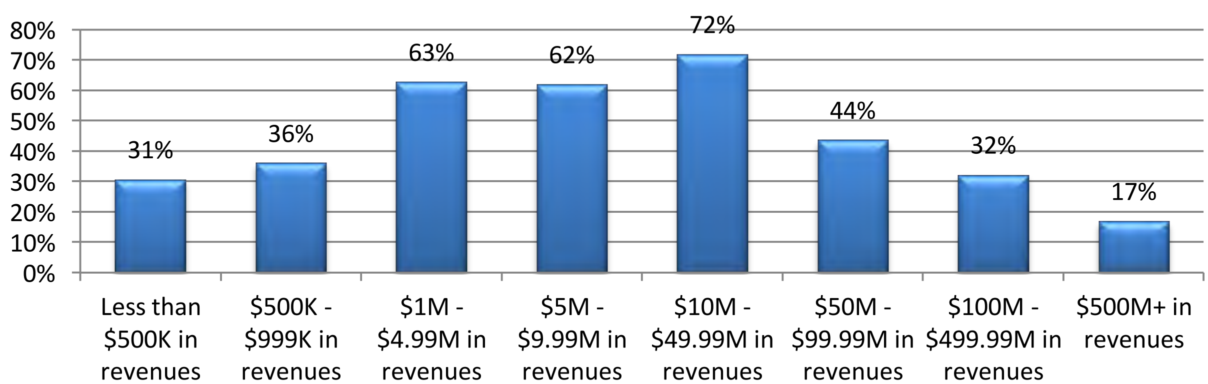
Other key findings include:

- When using valuation methods to determine the value of a business, the most popular methods used by respondents were discounted future earnings method (33%), capitalization of earnings method (25%) and guideline company transactions method (17%).
- Recast (adjusted) EBITDA multiple is the most popular when using multiple valuation method
- Respondents use an average risk-free rate of 3.16% and a market (equity) risk premium of 6.14%
- Average long-term terminal growth is estimated at 3.28%

Operational and Assessment Characteristics

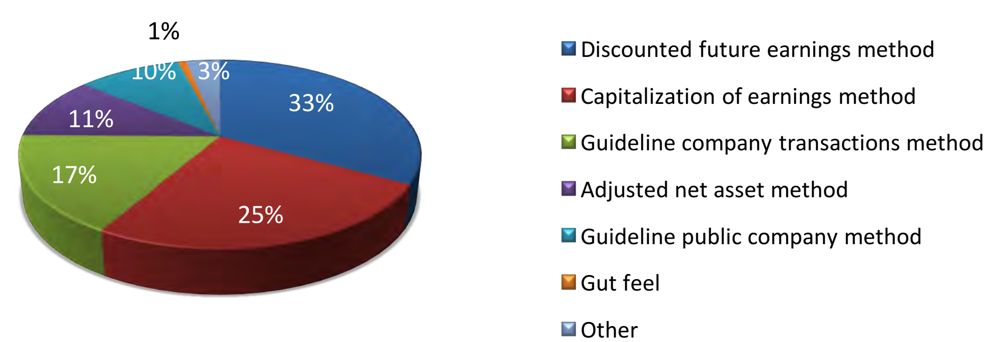
Most of the companies valued by respondents have annual revenues from $1 million to $50 million.

Figure 75. Annual Revenues of Companies Valued



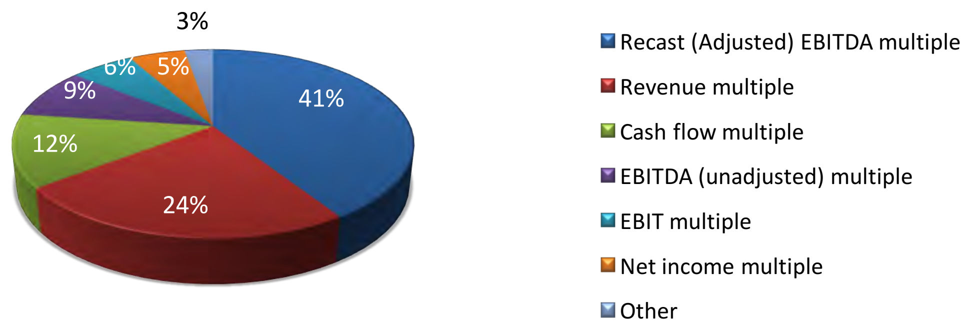
Appraisers, on average, apply a 33% weight to discounted future earnings method when valuing a privately-held business.

Figure 76. Usage of Valuation Methods



Respondents using multiples-based approaches indicate a preference for using recast (adjusted) EBITDA multiples (41%), followed by revenue multiples (24%).

Figure 77. Usage of Multiple Methods



Respondents indicated using an average risk-free rate of 3.16%, average market (equity) risk premium of 6.14% and average long-term growth rate of 3.28%.

Figure 78. Average Risk-Free Rate and Market (equity) Risk Premium and Long-Term Growth Rate

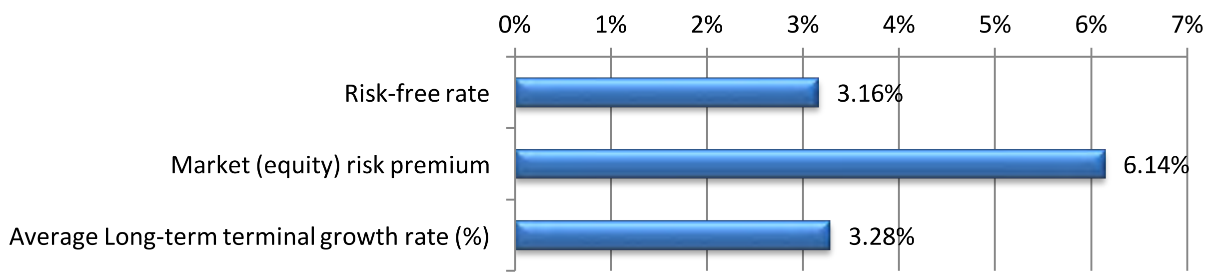
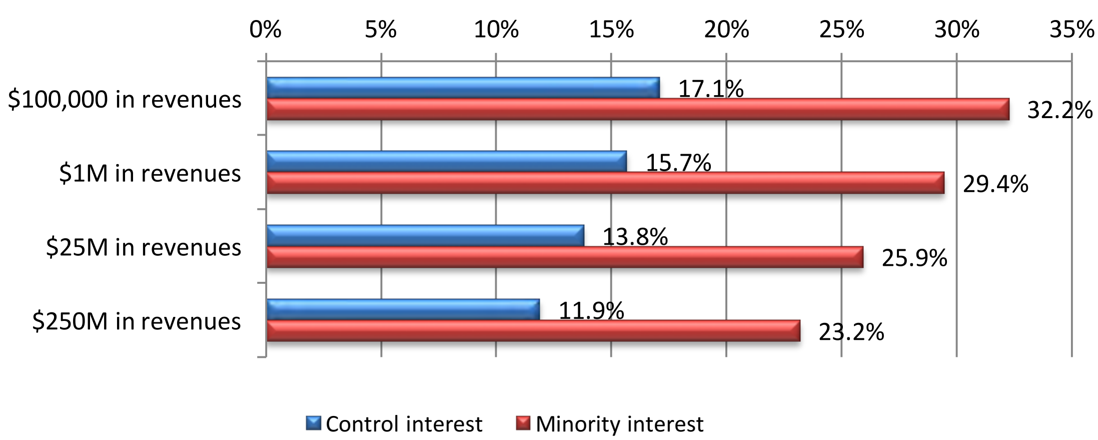


Figure below indicates considerable differences in DLOMs across sizes of companies and subject interests.

Figure 79. Discount for Lack of Marketability (DLOM) by Revenue Sizes



APPRAISERS cont.

Only 28% of respondents are comfort applying public cost of capital to privately-held companies with annual revenues less than $1 million.

Figure 80. Overall Comfort Level with Applying Public Cost of Capital to Privately-held Companies of Various Sizes

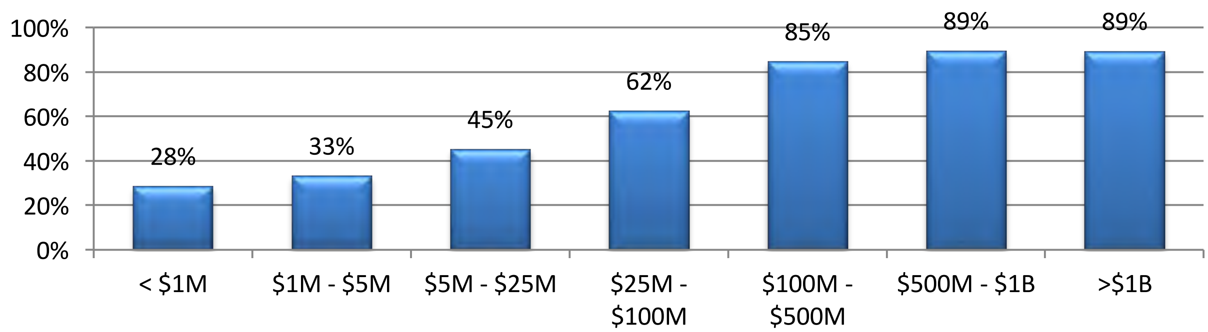
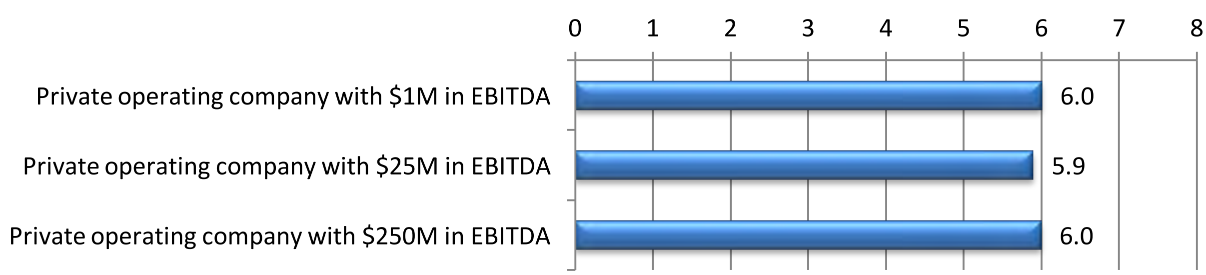


Figure 81. Explicit Forecast Period for High-Growth Companies by Revenue Sizes (years)



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

Table 46. 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
Number of engagements	4%	12%	32%	38%	13%	52%	16%	**35%**
Time to complete a typical appraisal	2%	16%	61%	19%	3%	22%	17%	**5%**
Fees for services	1%	7%	56%	33%	3%	36%	8%	**28%**
Competition	0%	3%	57%	33%	7%	40%	3%	**37%**
Cost of capital	1%	10%	63%	24%	2%	25%	11%	**14%**
Market (equity) risk premiums	0%	4%	76%	19%	1%	20%	4%	**15%**
Discounts for lack of marketability (DLOM)	0%	8%	84%	7%	1%	8%	8%	**0%**
Company specific risk premiums	1%	7%	76%	15%	1%	16%	8%	**8%**
General business conditions	1%	9%	46%	42%	2%	45%	9%	**35%**
Appetite for risk	2%	8%	47%	41%	1%	42%	11%	**32%**

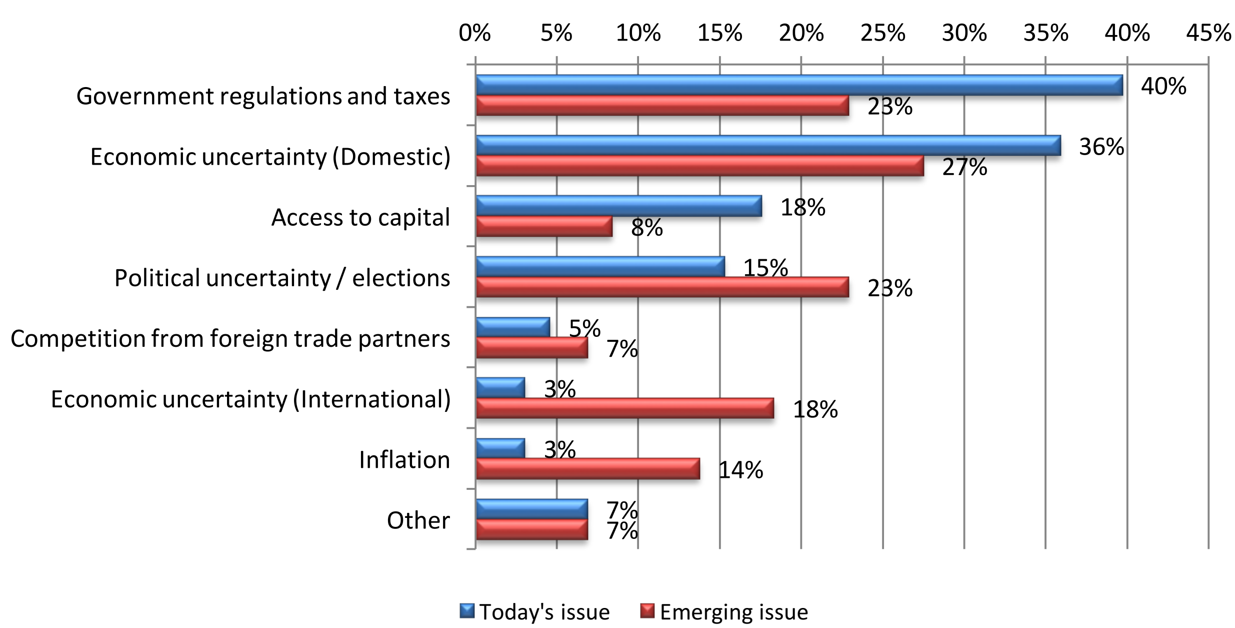
Respondents expect slightly worsening business conditions in the next twelve months.

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

Characteristics	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	Net increase/ decrease
Number of engagements	2%	7%	34%	48%	9%	0%	8%	**-8%**
Time to complete a typical appraisal	1%	14%	69%	16%	0%	1%	15%	**-14%**
Fees for services	0%	5%	50%	40%	2%	3%	5%	**-2%**
Competition	0%	1%	58%	35%	5%	2%	1%	**1%**
Cost of capital	0%	1%	40%	56%	1%	2%	1%	**2%**
Market (equity) risk premiums	0%	2%	57%	34%	3%	4%	2%	**2%**
Discounts for lack of marketability (DLOM)	1%	5%	80%	8%	0%	5%	6%	**-1%**
Company specific risk premiums	1%	5%	70%	18%	2%	5%	5%	**0%**
General business conditions	0%	7%	42%	44%	5%	2%	7%	**-5%**
Appetite for risk	2%	8%	46%	37%	4%	5%	9%	**-5%**

Respondents believe government regulations and taxes is the most important issue facing privately-held businesses today.

Figure 82. Issues Facing Privately-Held Businesses



BROKER SURVEY INFORMATION

Approximately 36% of the 373 participants for the broker survey said they expect to close six deals or more in the next 12 months.

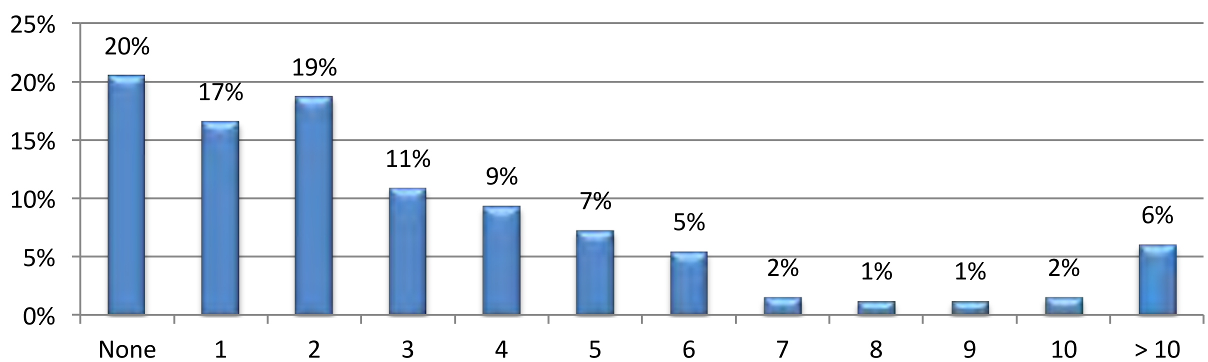
Other key findings include:

- Approximately 17% 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.
- 41% of respondents closed more deals in 2016 than in 2015.

Operational and Assessment Characteristics

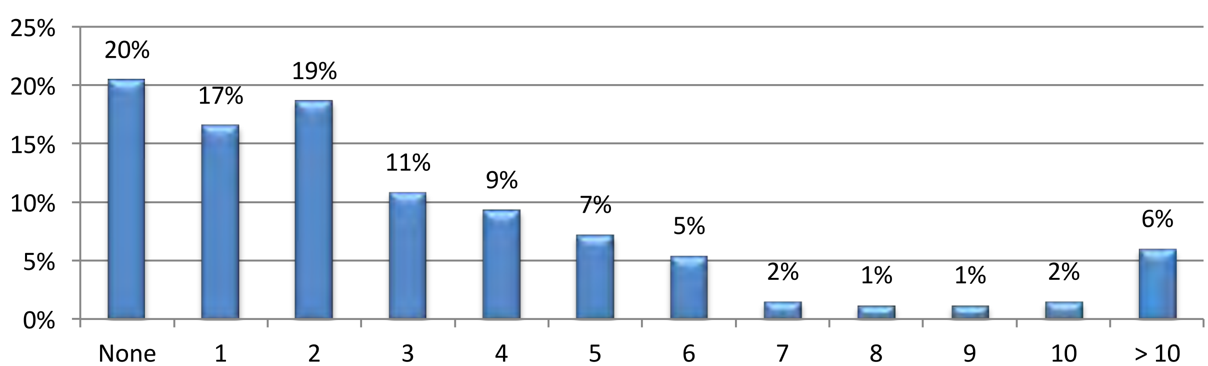
Approximately 20% of the respondents didn't close any deal in the last twelve months; 63% closed between one to five deals, while 17% closed six or more transactions.

Figure 83. Private Business Sales Transactions Closed in the Last Twelve Months



Approximately 62% of respondents are planning to close between one and five business sales transactions in the next 12 months.

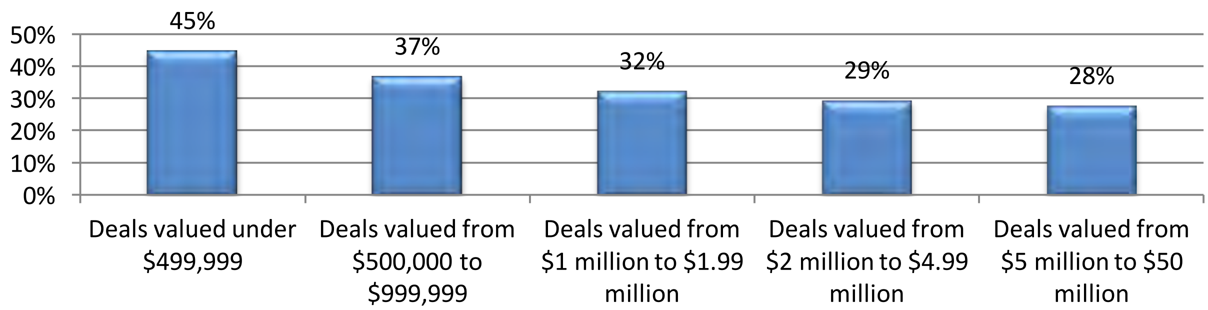
Figure 84. Private Business Sales Transactions Expected to Close in the Next Twelve Months



BROKER cont.

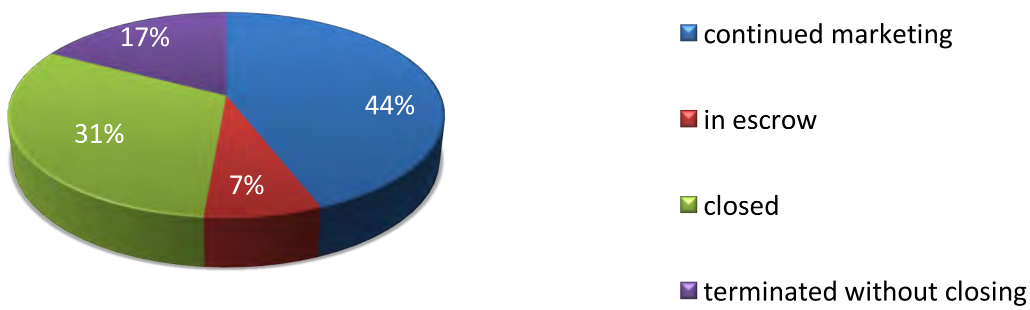
Respondents indicated typical sizes of transactions they are currently working on.

Figure 85. Typical Size of Business Transactions



Respondents indicate out of all business transactions they worked on in the last 12 months 33% were closed, 44% are continued marketing, 6% are in escrow and 16% were terminated without closing.

Figure 86. Business Transactions in the Last 12 Months



Nearly 41% of respondents closed more transactions in 2015 than in 2014, 14% of respondents closed equal amount.

Figure 87. Did Respondents Close More Transactions in 2016 than in Previous Years

	Yes	No	Equal amount
2015	41%	44%	15%
2014	38%	45%	17%
2013	42%	47%	11%
2012	37%	49%	14%
2011	42%	42%	16%
2010	45%	43%	12%

Approximately in 43% of business transactions sellers had planned for their exit.

Figure 88. Closed Business Transactions

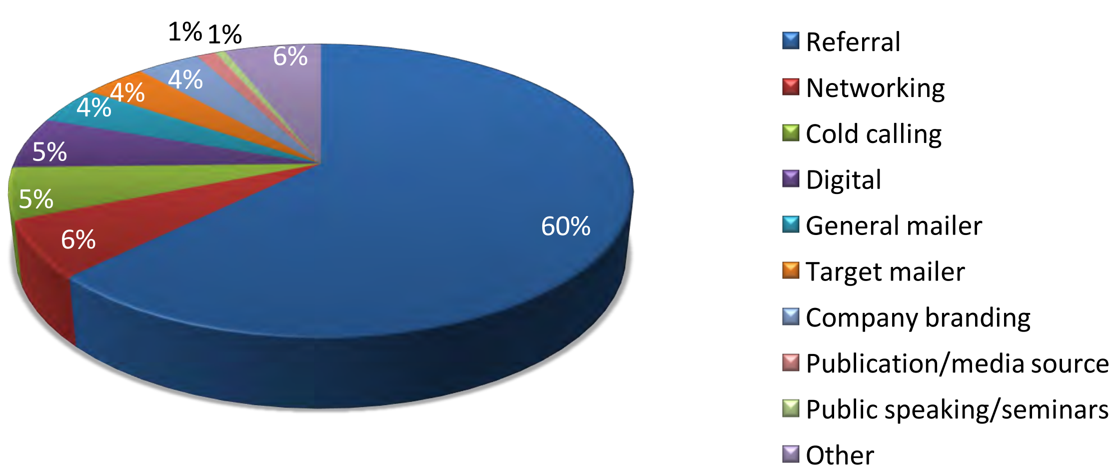
Respondents indicate difficulty to arrange senior debt for transactions with annual revenues under $500 thousands.

Table 48. 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	24%	16%	20%	15%	6%	12%	7%	**-0.9**
$500K	7%	15%	18%	14%	25%	15%	7%	**-0.1**
$1M	4%	6%	15%	23%	26%	18%	8%	**0.2**
$5M	2%	10%	10%	20%	31%	19%	8%	**0.3**
$10M	7%	5%	16%	31%	19%	15%	7%	**0.0**
$15M	6%	8%	11%	30%	25%	13%	8%	**0.1**
$25M+	9%	9%	6%	41%	15%	9%	12%	**0.0**

Approximately 60% of respondents indicate best clients arrived by referrals.

Figure 89. In 2016, Best Client Arrived By:



BROKER cont.

Nearly 27% of referrals were past clients.

Figure 90. Types of Referrals

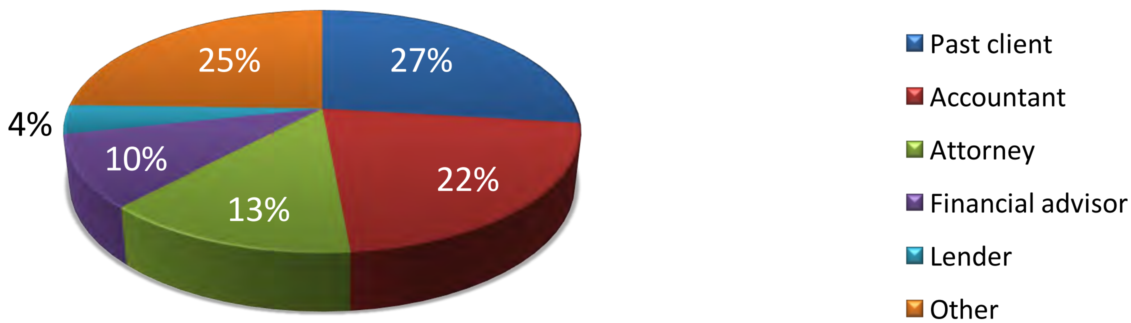
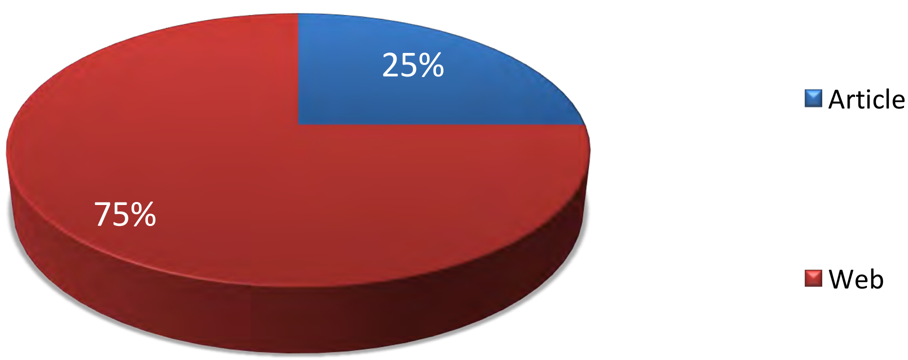


Figure 91. Types of Publication/ Media Source



Approximately 69% of respondents indicated it was 'buyer's market' for deals valued under $500 thousands, whereas only 32% of respondents indicated it was 'buyer's market' for deals valued between $5 million and $50 million.

Figure 92. Was It Buyer's or Seller's Market in the Last 3 Months

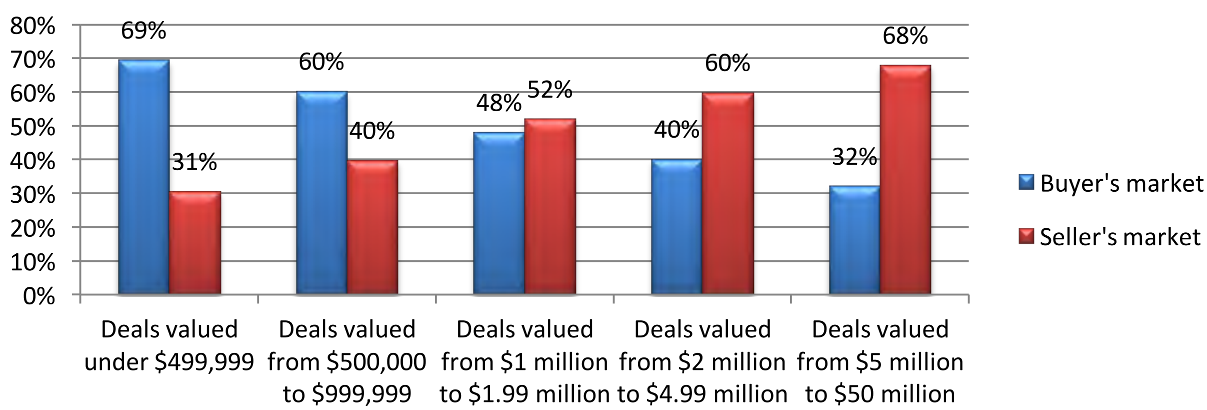
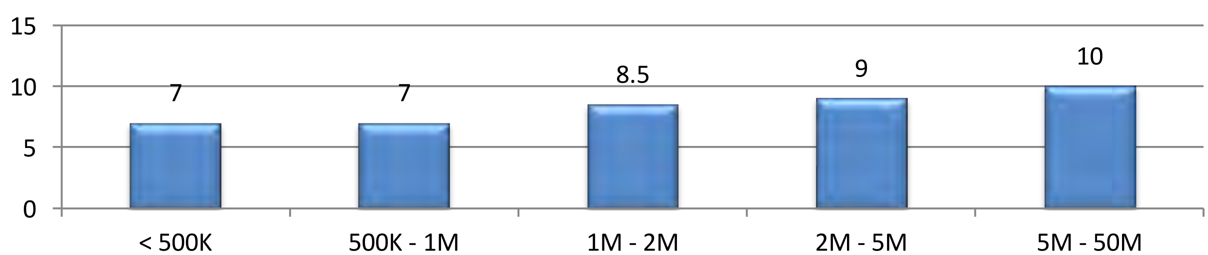


Table 49. Number of New Clients in the Last 3 Months

Deal size	Greatly decrease	Decrease	Stay the same	Increase	Greatly increase	Score (1 to 5)
Deals valued under $499,999	8%	12%	53%	22%	5%	3.8
Deals valued from $500,000 to $999,999	7%	12%	59%	19%	3%	4.0
Deals valued from $1 million to $1.99 million	6%	11%	63%	17%	2%	4.1
Deals valued from $2 million to $4.99 million	7%	8%	57%	28%	1%	3.8
Deals over $5 million	7%	9%	56%	24%	3%	3.8

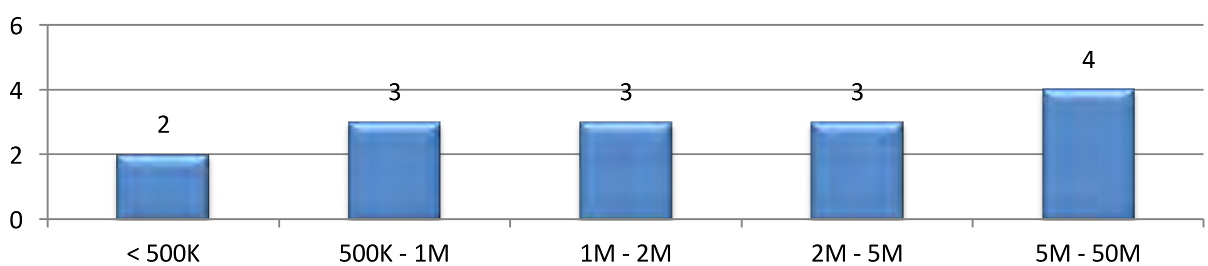
Median number of months from listing / engagement to close varies from 7 to 10 months.

Figure 93. Median Number of Months from Listing / Engagement to Close by Deal Size



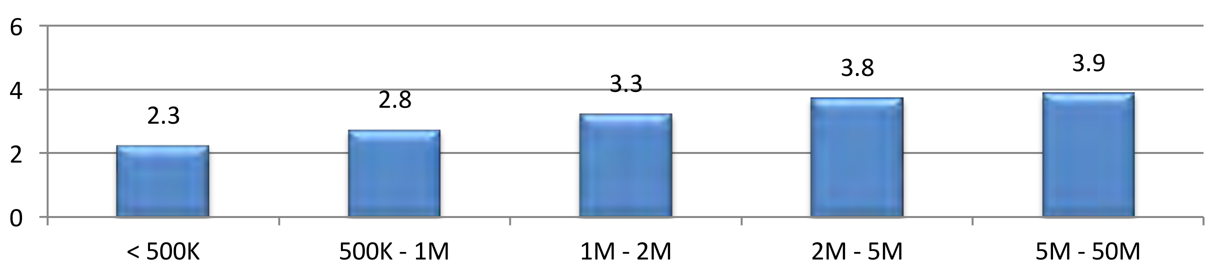
Median number of months from LOI / Offer to close varies from 2 to 4 months.

Figure 94. Median Number of Months from LOI / Offer to Close by Deal Size



Median SDE multiple paid varies between 2.3 and 3.9.

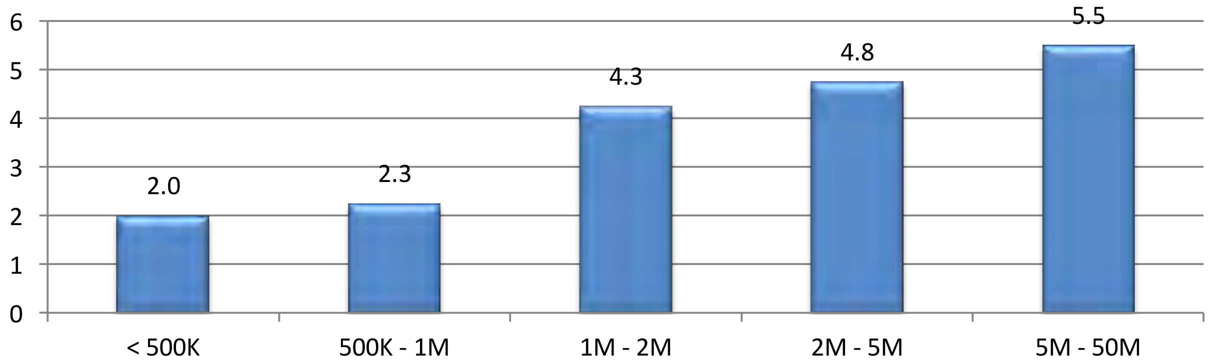
Figure 95. Median SDE Multiple Paid by Deal Size



BROKER cont.

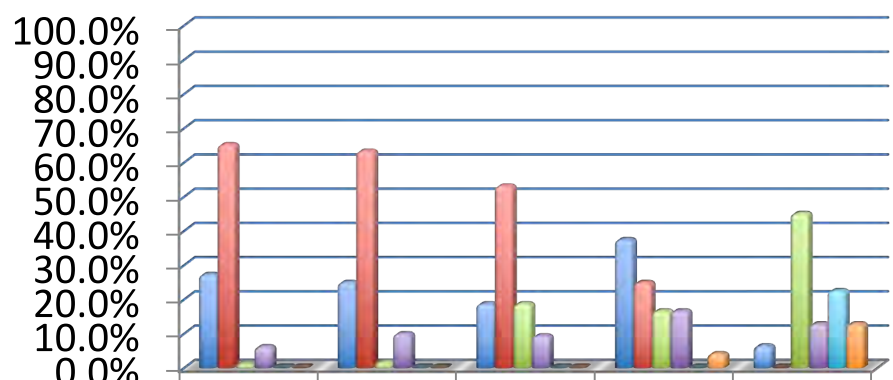
Median EBITDA multiple paid varies between 2.0 and 5.5.

Figure 96. Median EBITDA Multiple Paid by Deal Size



SDE not including working capital was the most popular multiple type used for deals valued under $2 million, while EBITDA including working capital was the most popular type for deals valued between $2 million and $50 million.

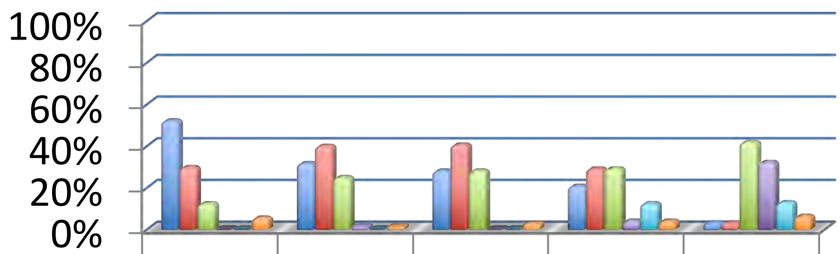
Figure 97. Multiple Types by Deal Size



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
SDE including working capital	27.3%	25.0%	18.8%	37.5%	6.5%
SDE not including working capital	65.2%	63.3%	53.1%	25.0%	0.0%
EBITDA including working capital	1.2%	1.7%	18.8%	16.7%	45.2%
EBITDA not including working capital	6.2%	10.0%	9.4%	16.7%	12.9%
TTM EBITDA including working capital	0%	0.0%	0.0%	0.0%	22.6%
TTM EBITDA not including working capital	0.0%	0.0%	0.0%	4.2%	12.9%

BROKER cont.

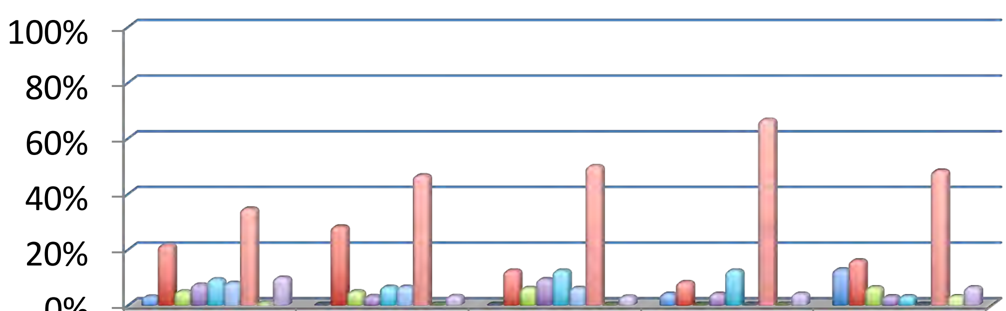
Figure 98. Buyer Type by Deal Size



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
1st time individual	52%	32%	28%	21%	3%
individual who owned a business	30%	40%	41%	29%	3%
existing company/strategic buyer	12%	25%	28%	29%	42%
PE firm - Platform	0%	2%	0%	4%	32%
PE firm - Add-on	0%	0%	0%	13%	13%
Other	6%	2%	3%	4%	6%

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

Figure 99. Reason for Seller to Go to Market by deal Size

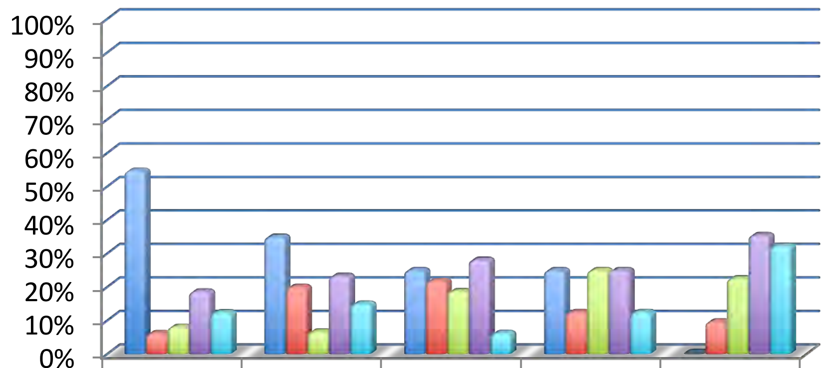


	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
Recapitalization	3%	0%	0%	4%	13%
Burnt out	22%	28%	13%	8%	16%
Family issues	5%	5%	6%	0%	6%
Health	7%	3%	9%	4%	3%
New opportunity	9%	7%	13%	13%	3%
Relocation/moving	8%	7%	6%	0%	0%
Retirement	35%	47%	50%	67%	48%
Unsolicited offer	1%	0%	0%	0%	3%
Other	10%	3%	3%	4%	6%

BROKER cont.

Buying a job was the number one motivation for buyer for deals valued under $1 million, while horizontal add-on was the number one motivation for buyer for deals valued between $1 million and $50 million.

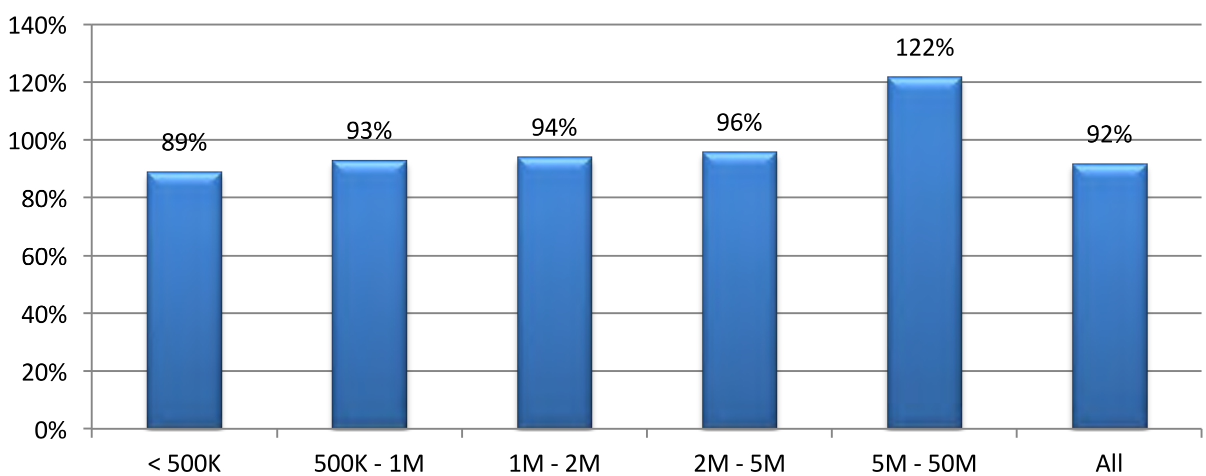
Figure 100. Number One Motivation for Buyer by Deal Size



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
Buying a job	55%	35%	25%	25%	0%
Better ROI than other investment	6%	20%	22%	13%	10%
Vertical add-on	8%	7%	19%	25%	23%
Horizontal add-on	19%	23%	28%	25%	35%
Other	12%	15%	6%	13%	32%

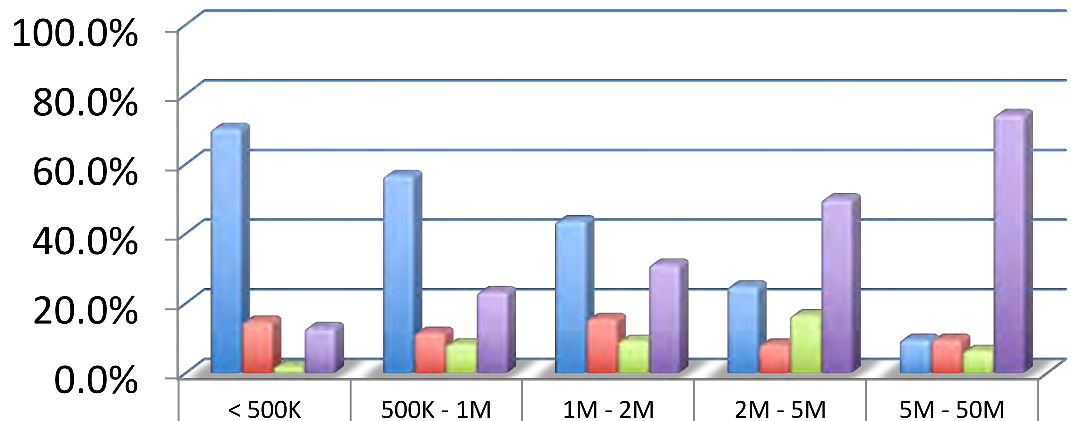
Average percentage of final/ selling price realized to asking/ benchmark price was 92%.

Figure 101. Median Percentage of Final/ Selling Price Realized to Asking/ Benchmark Price by Deal Size



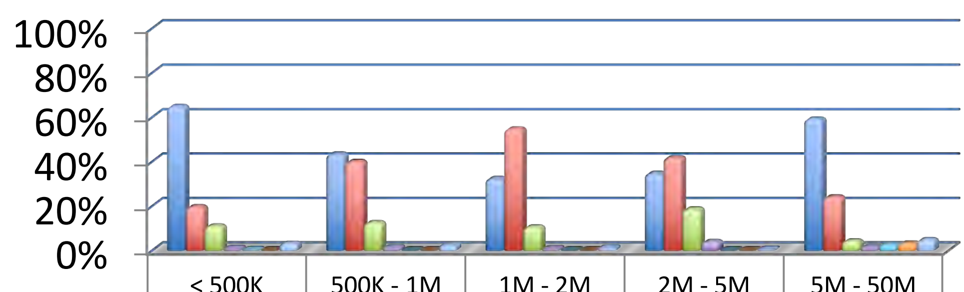
BROKER cont.

Figure 102. Buyer Location by Deal Size



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
within 20 miles	70.2%	56.7%	43.8%	25.0%	9.7%
within 50 miles	14.9%	11.7%	15.6%	8.3%	9.7%
within 100 miles	1.9%	8.3%	9.4%	16.7%	6.5%
more than 100 miles	13.0%	23.3%	31.3%	50.0%	74.2%

Figure 103. Financing Structure by Deal Size



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
Buyers equity	65%	43%	32%	35%	59%
Senior debt	20%	40%	55%	42%	24%
Seller financing	11%	13%	11%	19%	4%
Earn out	1%	1%	1%	4%	1%
Seller retained equity	0%	0%	0%	0%	3%
Mezzanine financing	0%	0%	0%	0%	3%
Other	3%	2%	1%	0%	5%

Business Transactions Valued Under $499 Thousand

Figure 104. Number of Months from Engagement/ Listing to Close

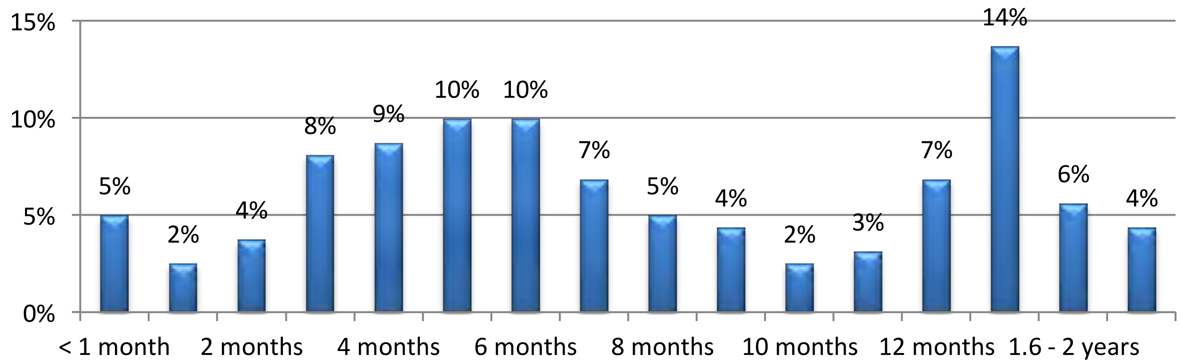


Figure 105. Number of Months from LOI/ Offer to Close

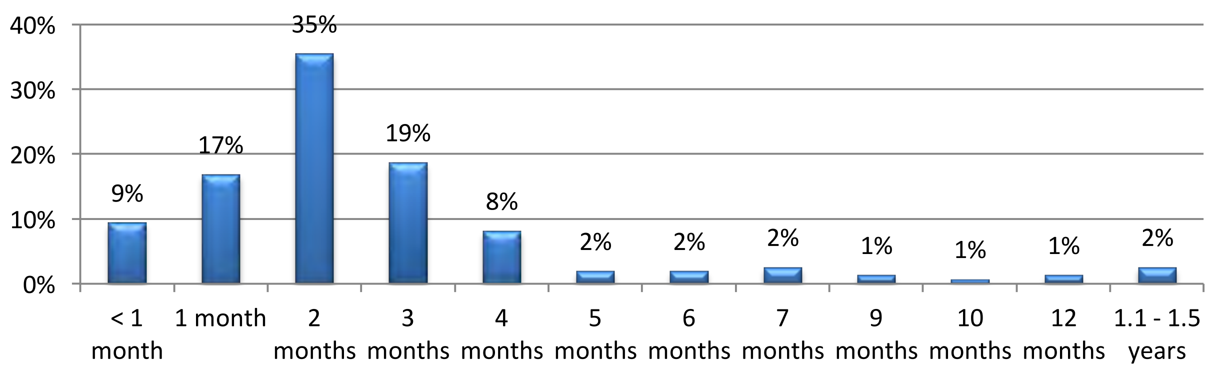
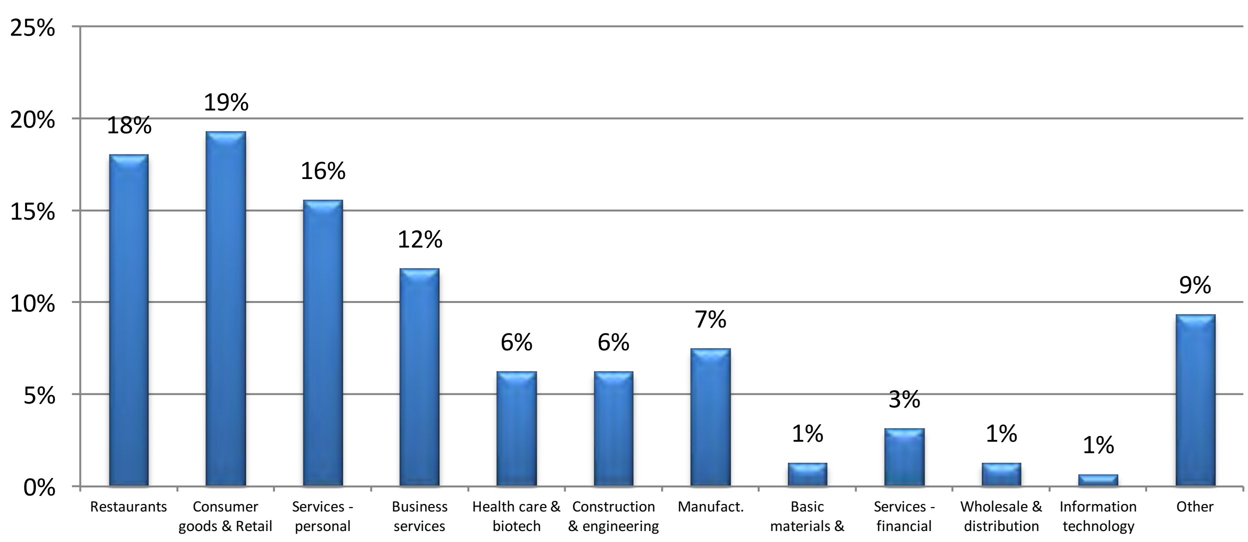


Figure 106. Industry Type



BROKER cont.

Figure 107. SDE Multiple Paid

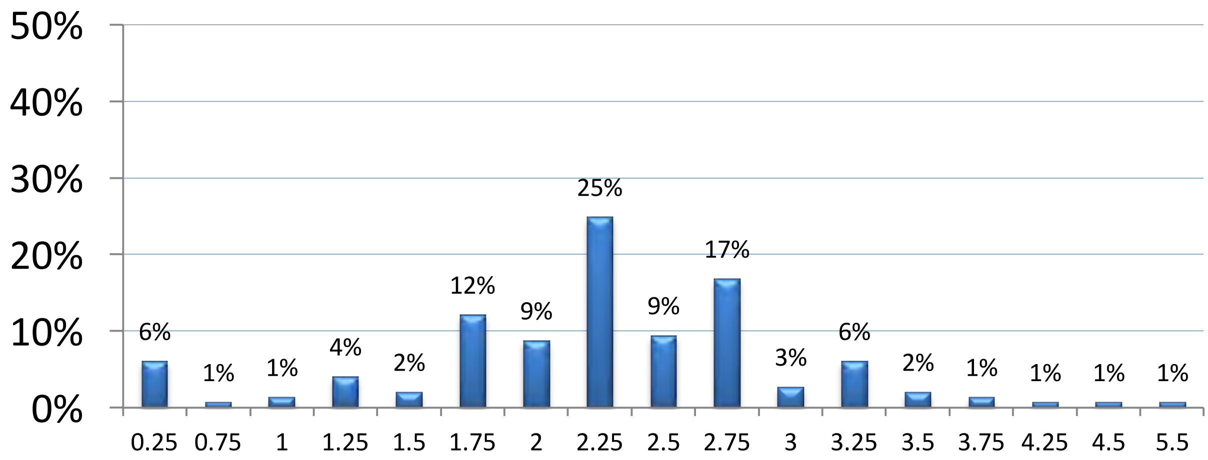


Figure 108. EBITDA Multiple Paid

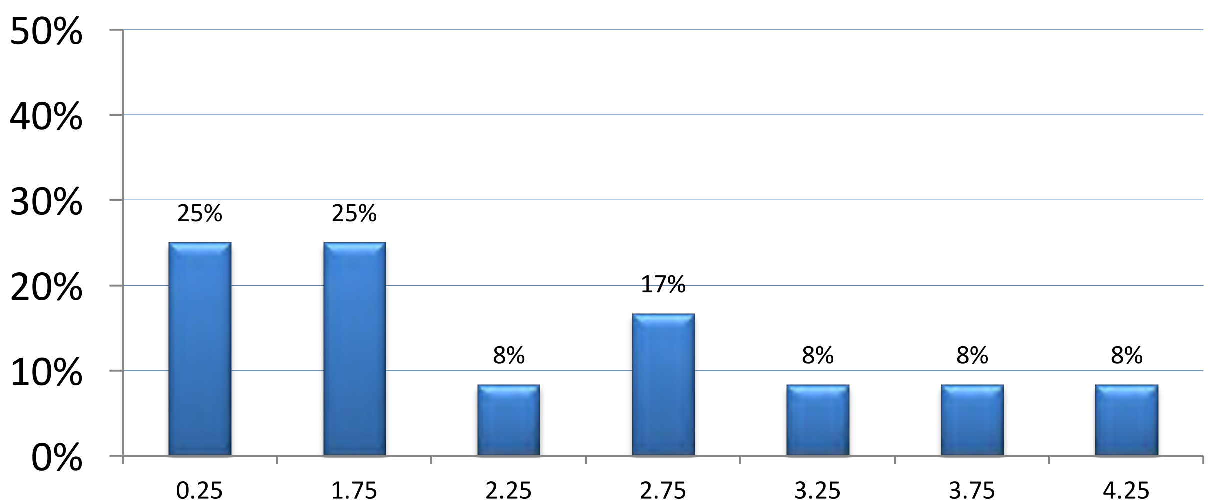
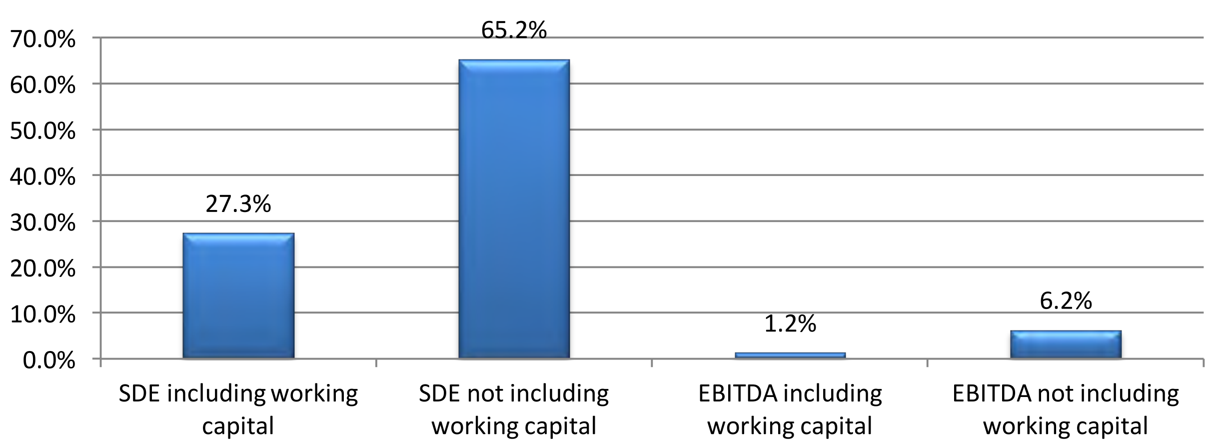


Figure 109. Multiple Paid



BROKER cont.

Figure 110. Buyer Type

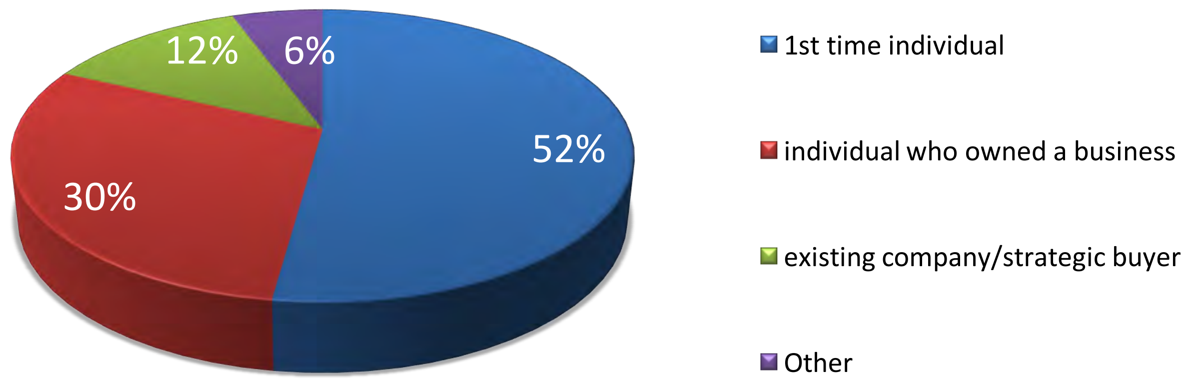


Figure 111. Reason for Seller to Go to Market

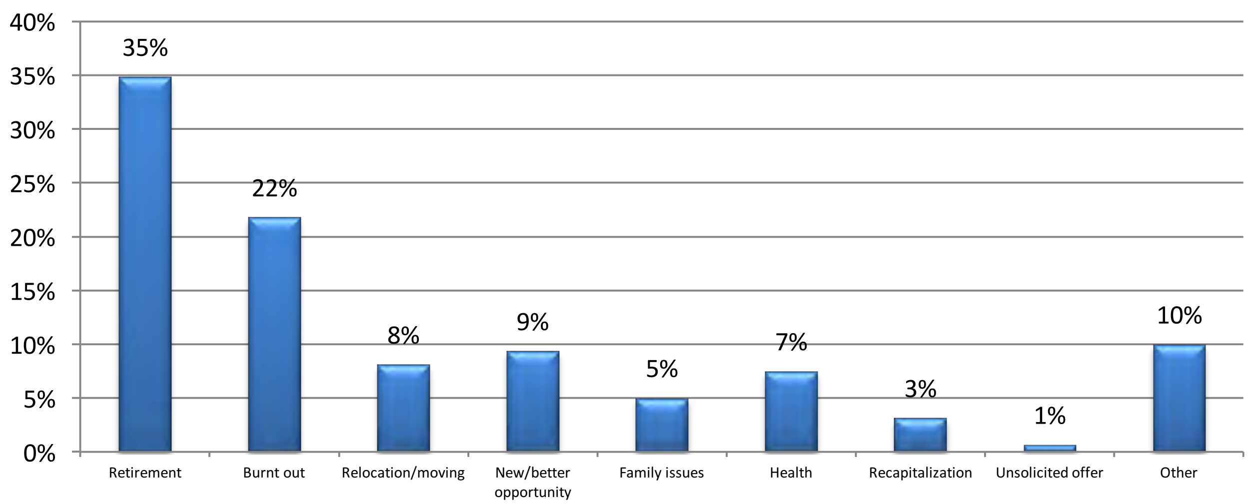


Figure 112. Buyer Location

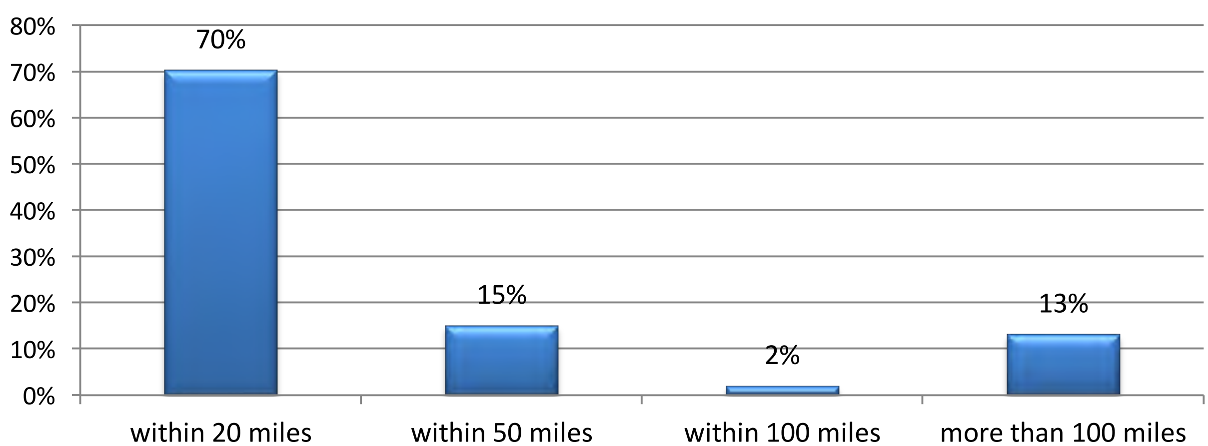


Figure 113. Number One Motivation for Buyer

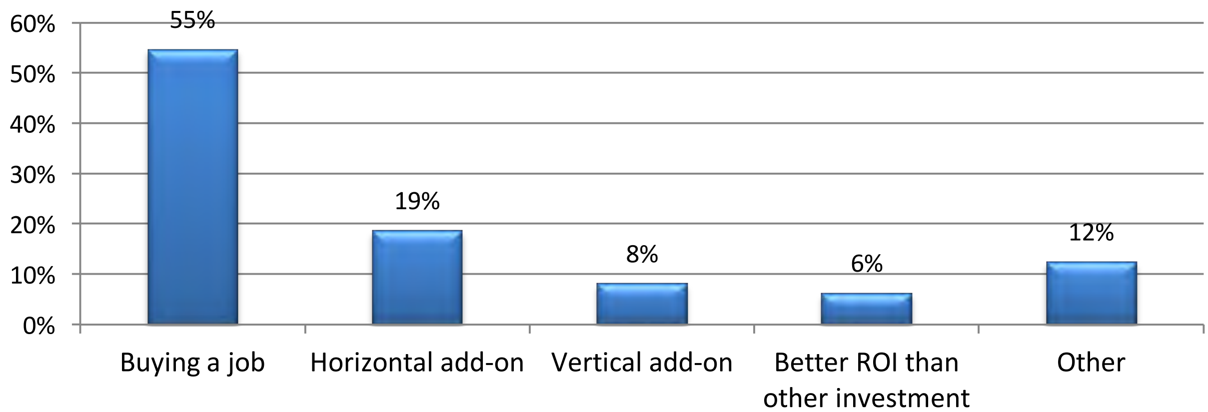
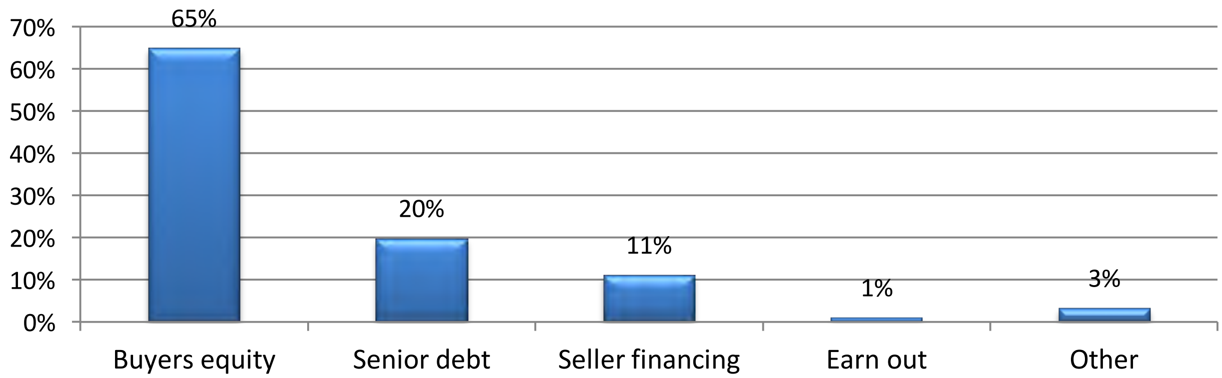


Figure 114. Financing Structure



Business Transactions Valued from $500 to $999 Thousand

Figure 115. Number of Months from Engagement/ Listing to Close

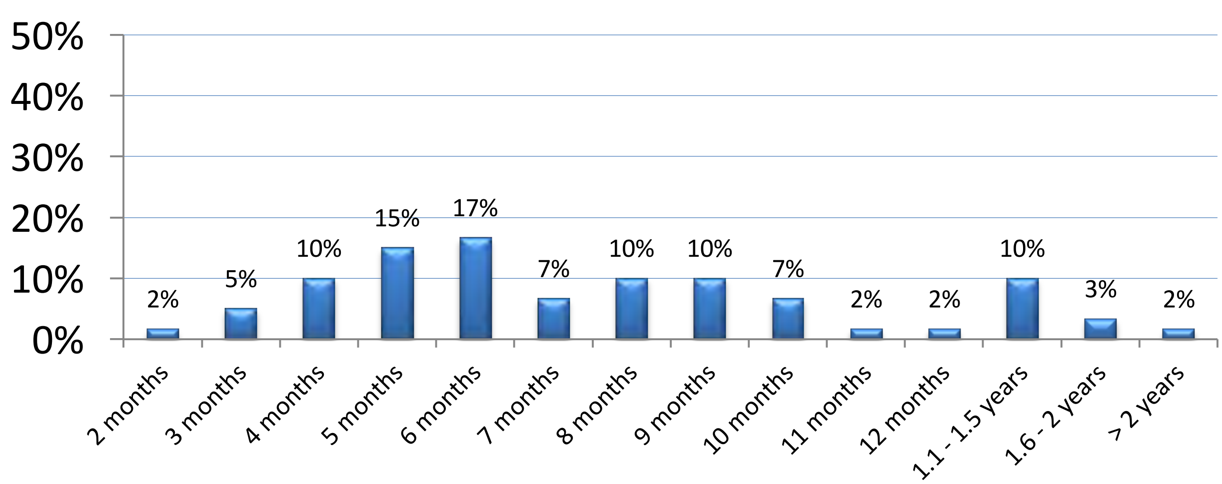


Figure 116. Number of Months from LOI/ Offer to Close

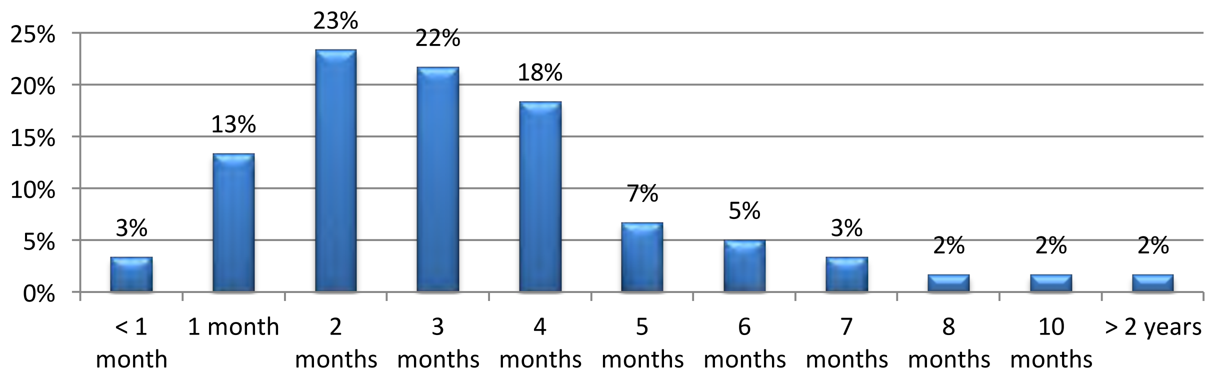


Figure 117. Industry Type

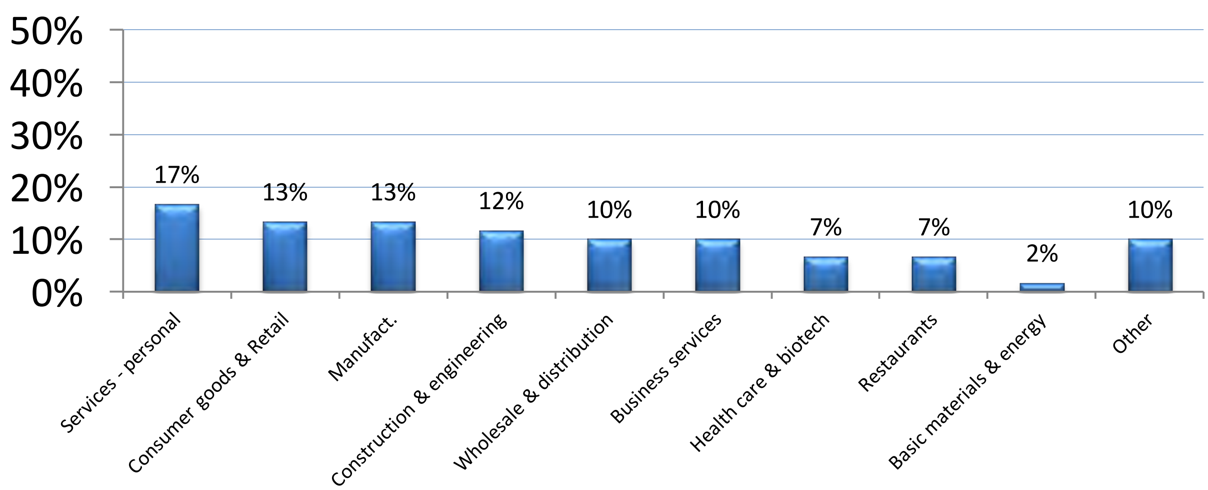
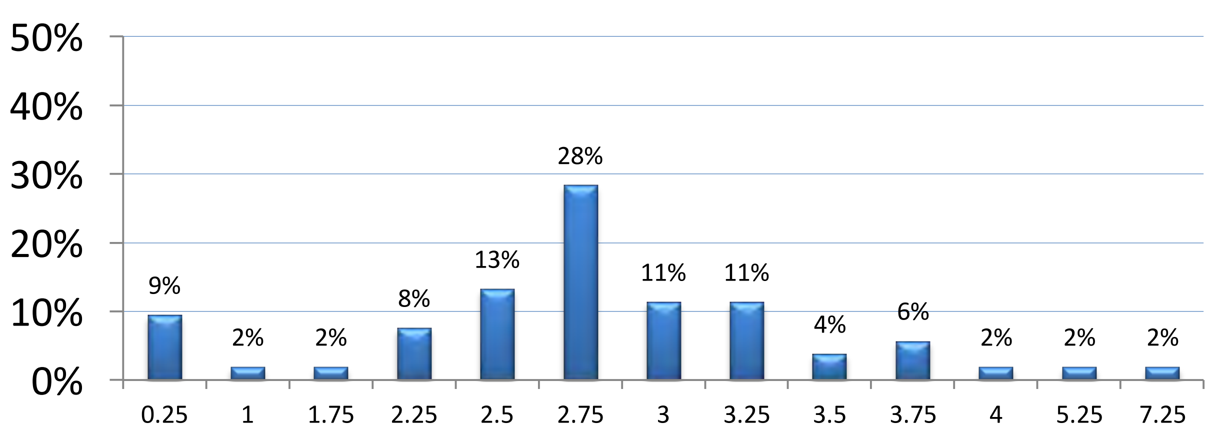


Figure 118. SDE Multiple Paid



BROKER cont.

Figure 119. EBITDA Multiple Paid

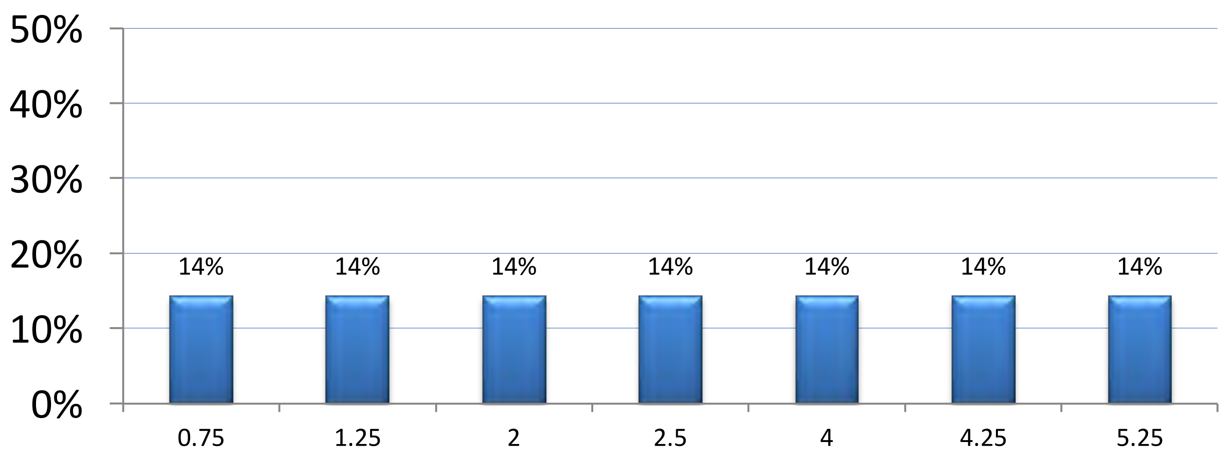


Figure 120. Multiple Paid

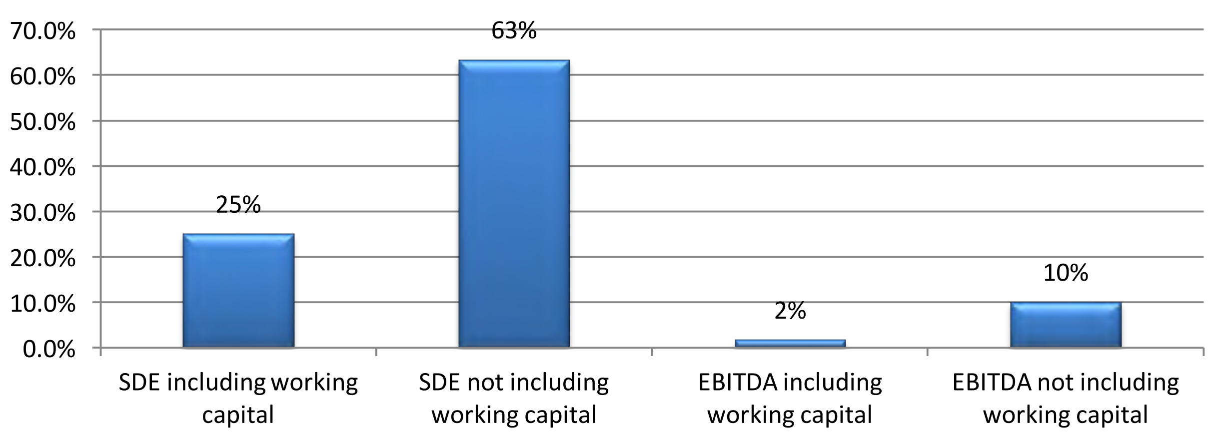
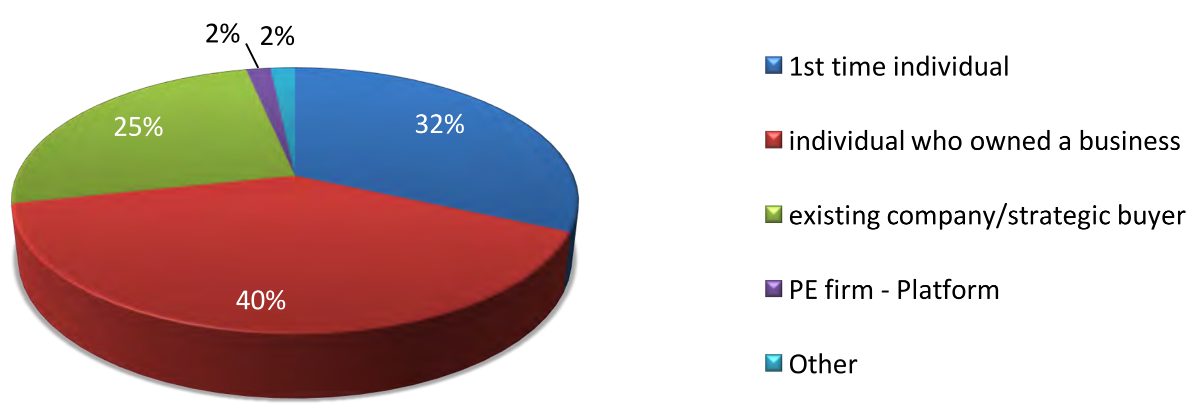


Figure 121. Buyer Type



BROKER cont.

Figure 122. Reason for Seller to Go to Market

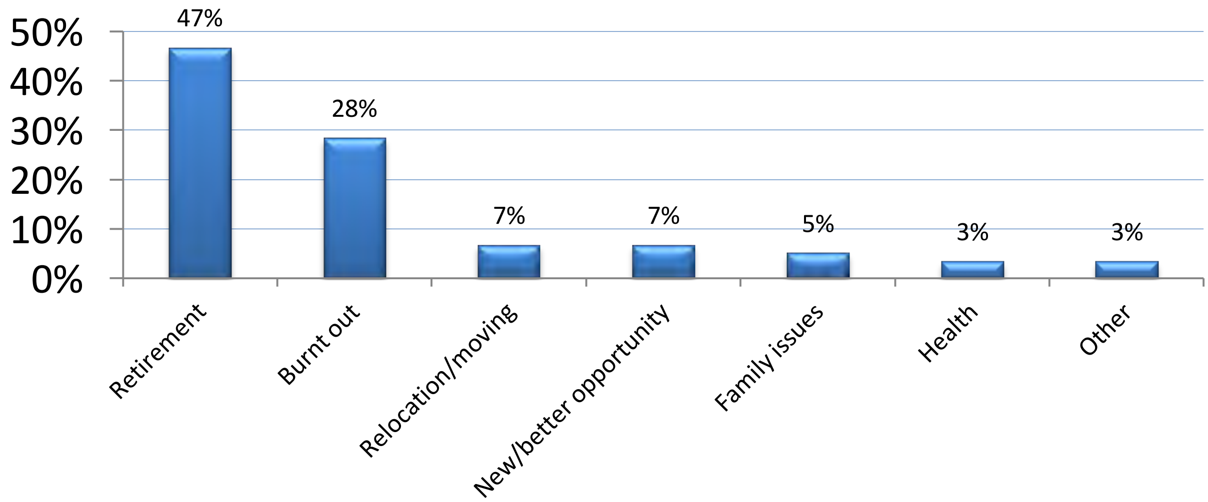


Figure 123. Buyer Location

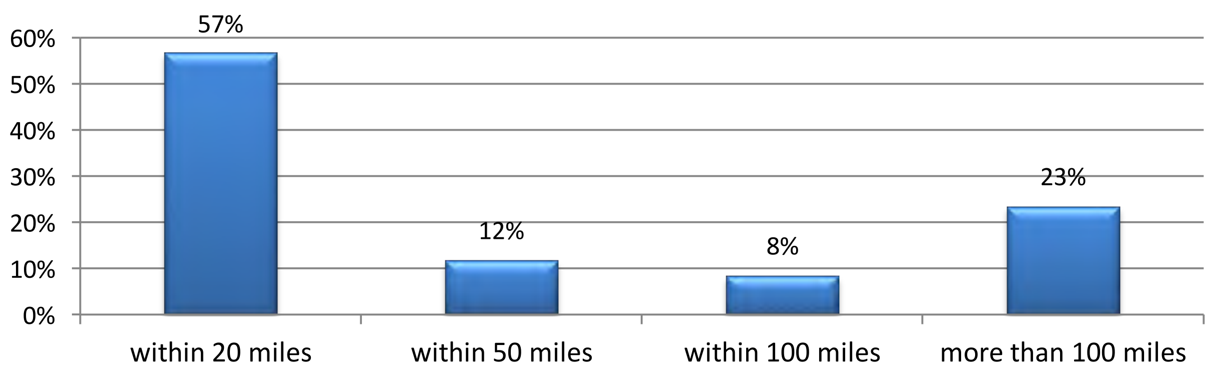
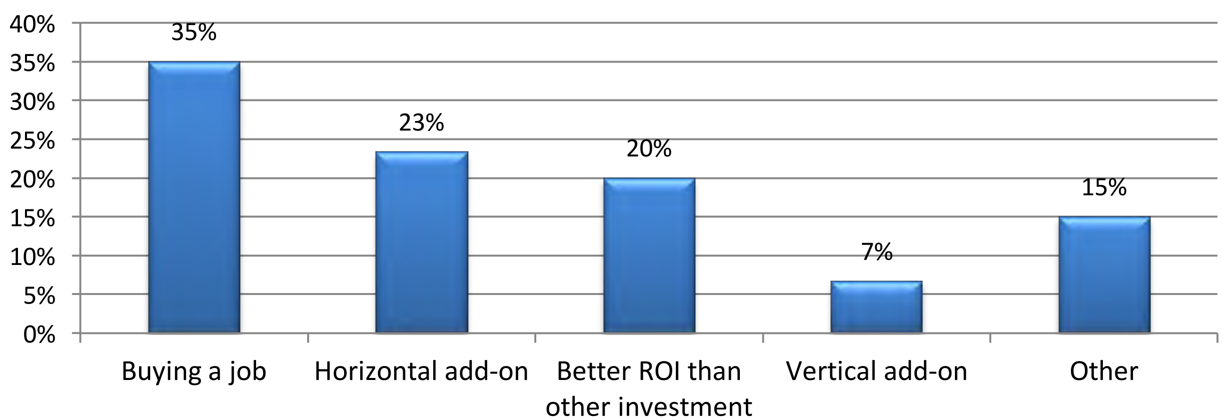
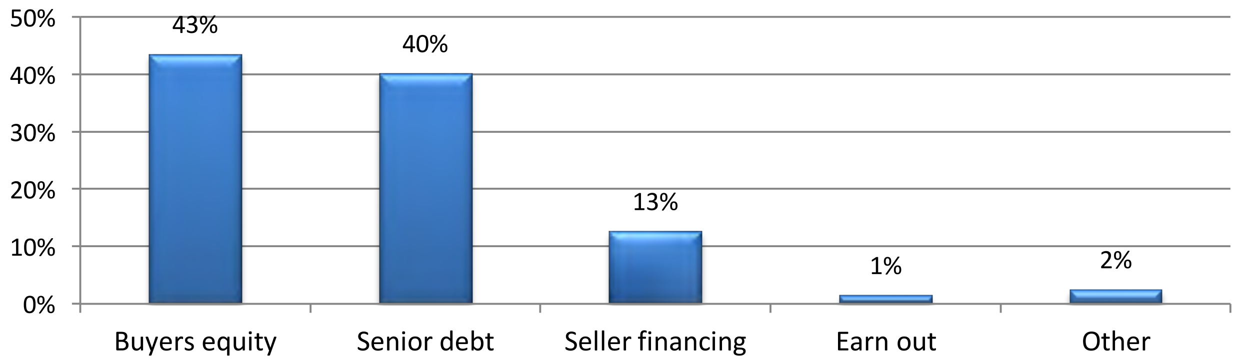


Figure 124. Number One Motivation for Buyer



BROKER cont.

Figure 125. Financing Structure



Business Transactions Valued from $1 to $1.99 Million

Figure 126. Number of Months from Engagement/ Listing to Close

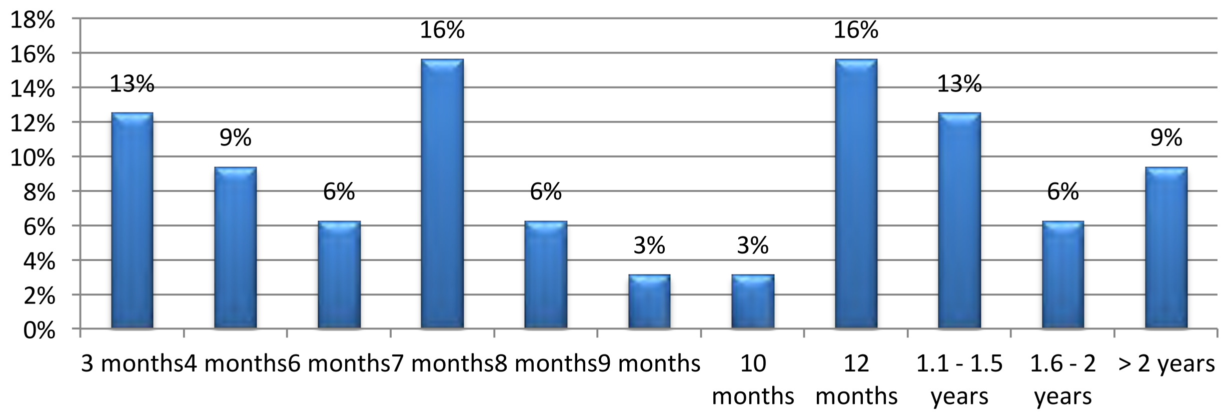


Figure 127. Number of Months from LOI/ Offer to Close

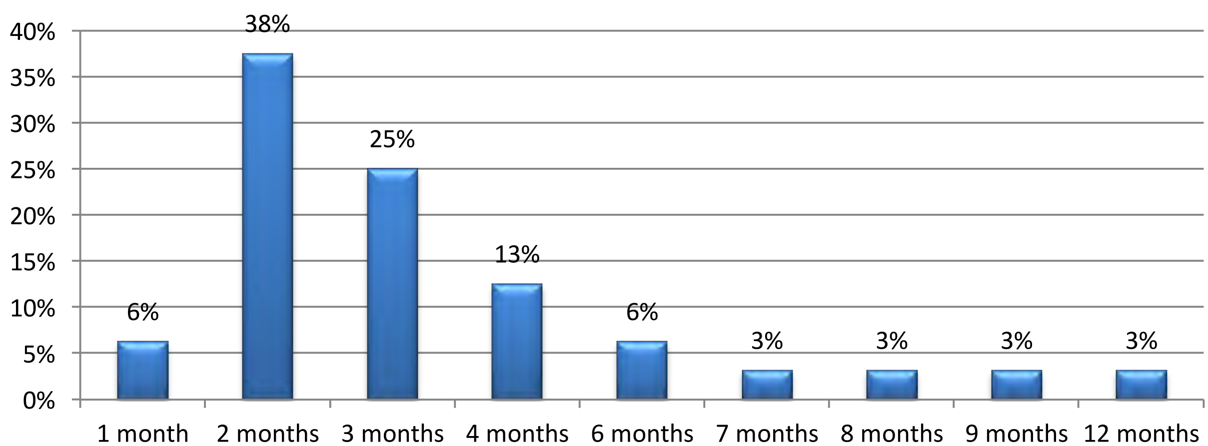


Figure 128. Industry Type

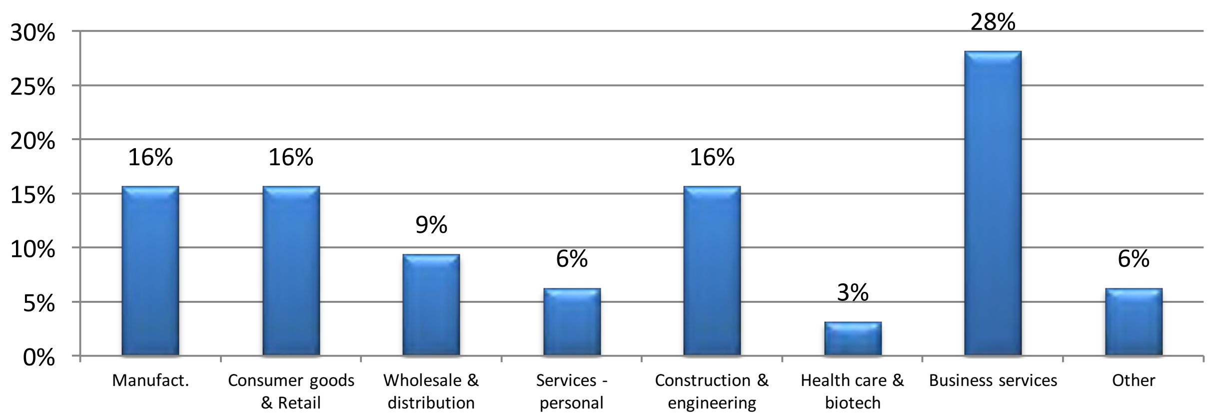


Figure 129. SDE Multiple Paid

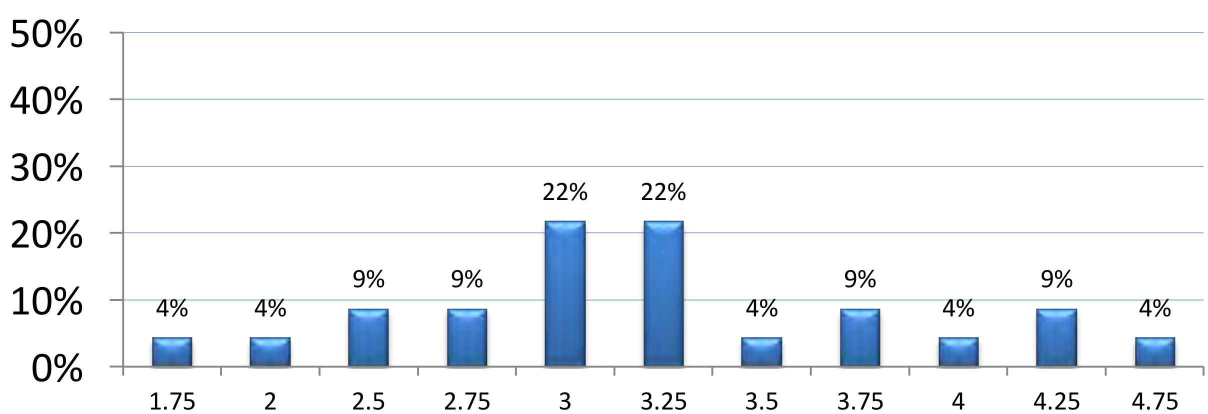
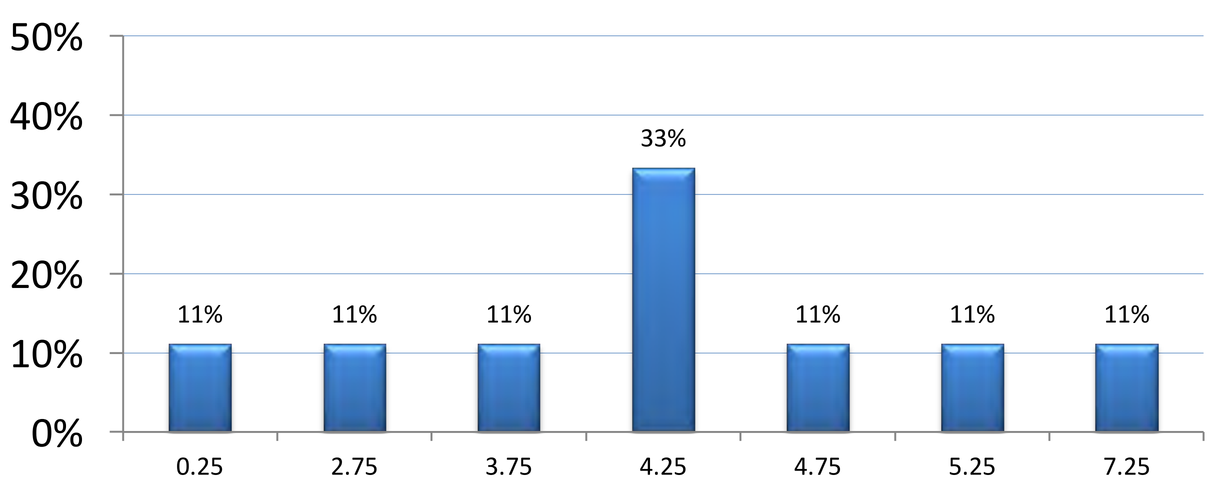


Figure 130. EBITDA Multiple Paid



BROKER cont.

Figure 131. Multiple Paid

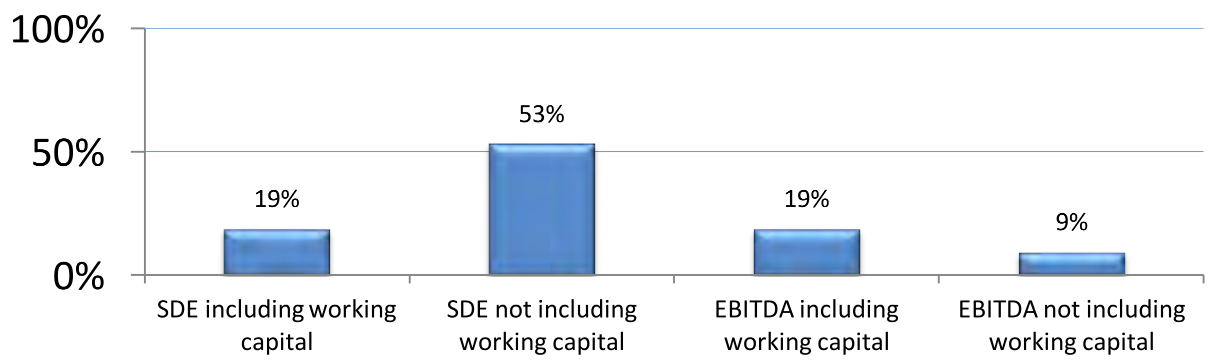


Figure 132. Buyer Type

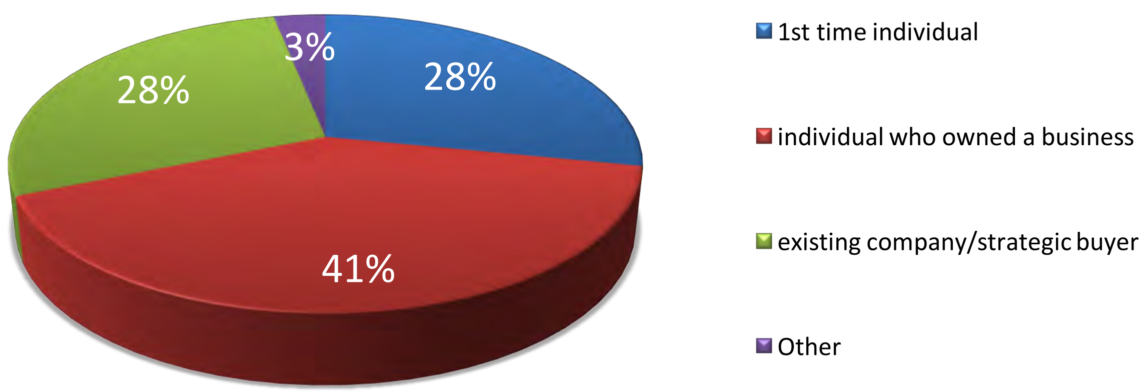
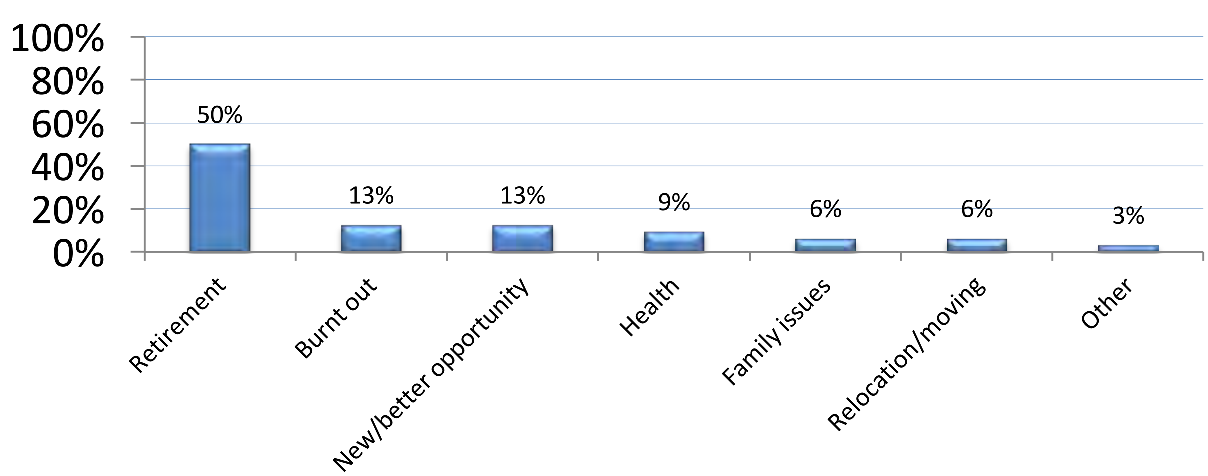


Figure 133. Reason for Seller to Go to Market



BROKER cont.

Figure 134. Buyer Location

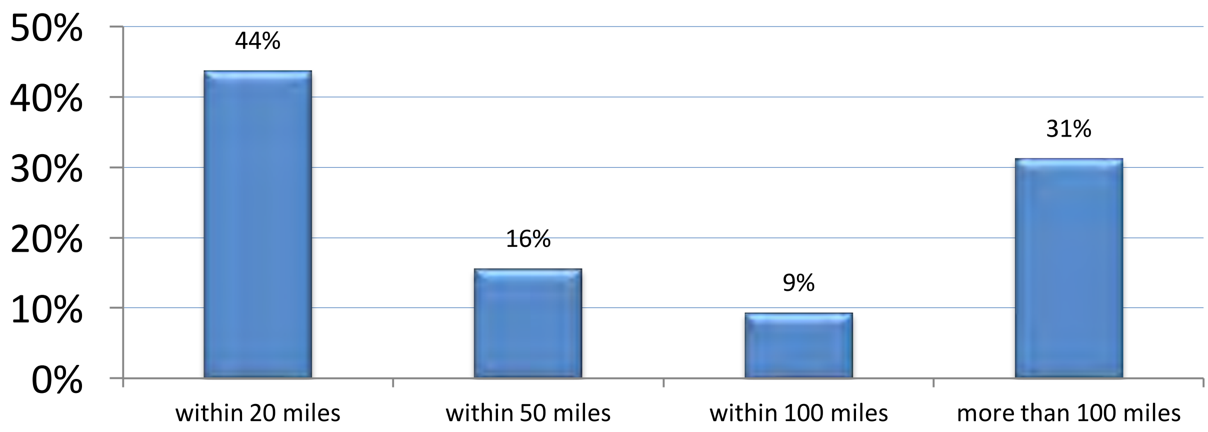


Figure 135. Number One Motivation for Buyer

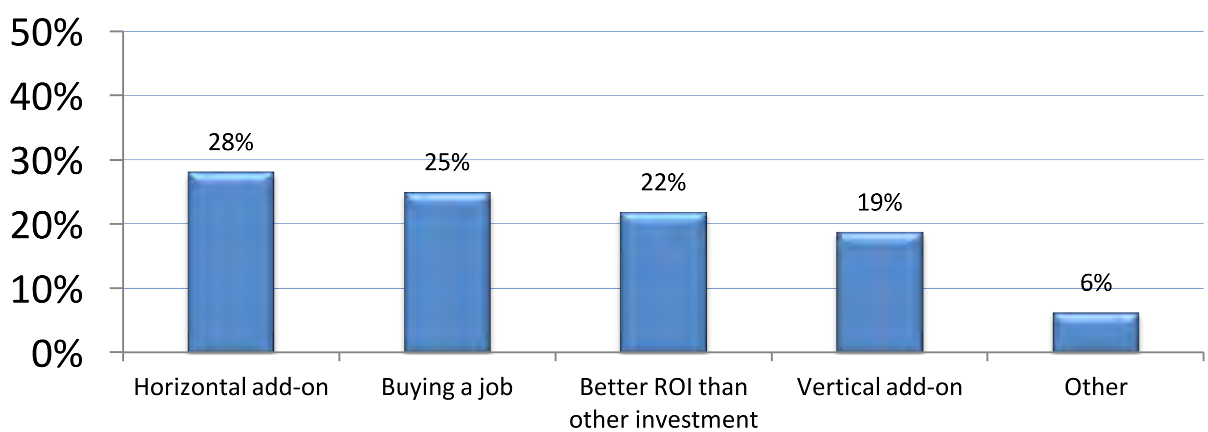
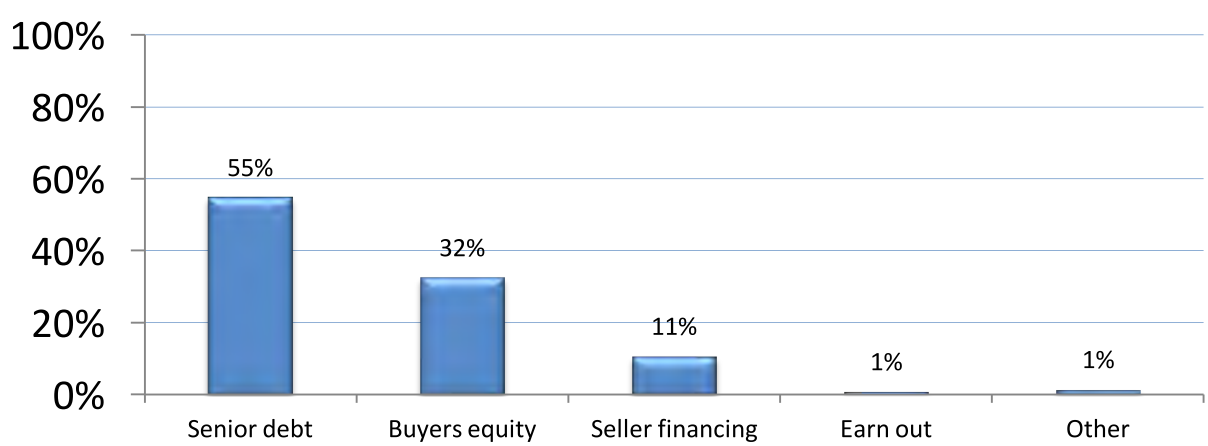


Figure 136. Financing Structure



BROKER cont.

Business Transactions Valued from $2 to $4.99 Million

Figure 137. Number of Months from Engagement/ Listing to Close

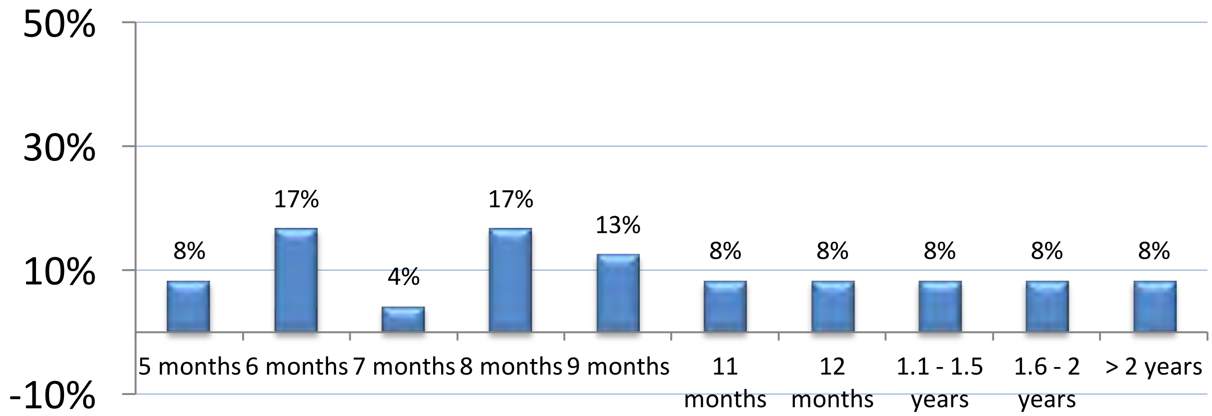


Figure 138. Number of Months from LOI/ Offer to Close

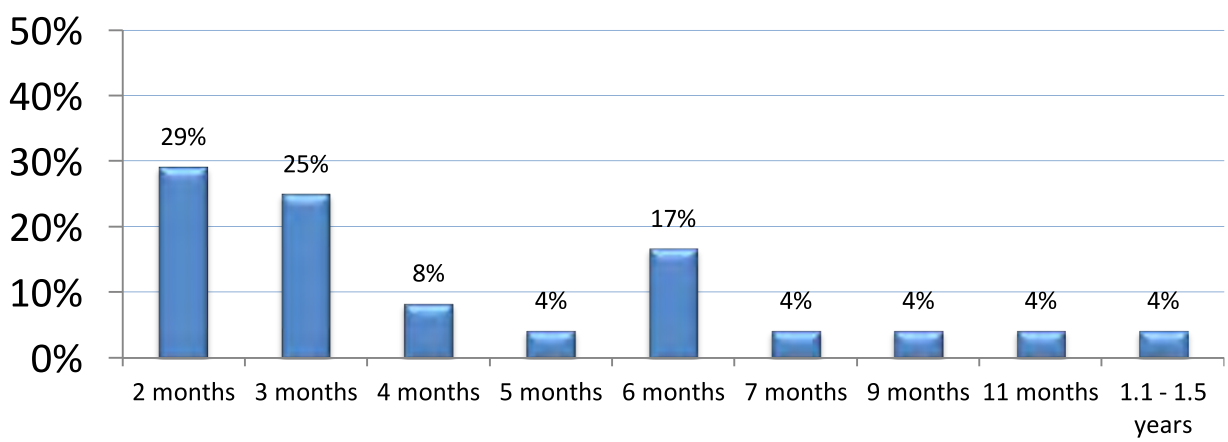


Figure 139. Industry Type

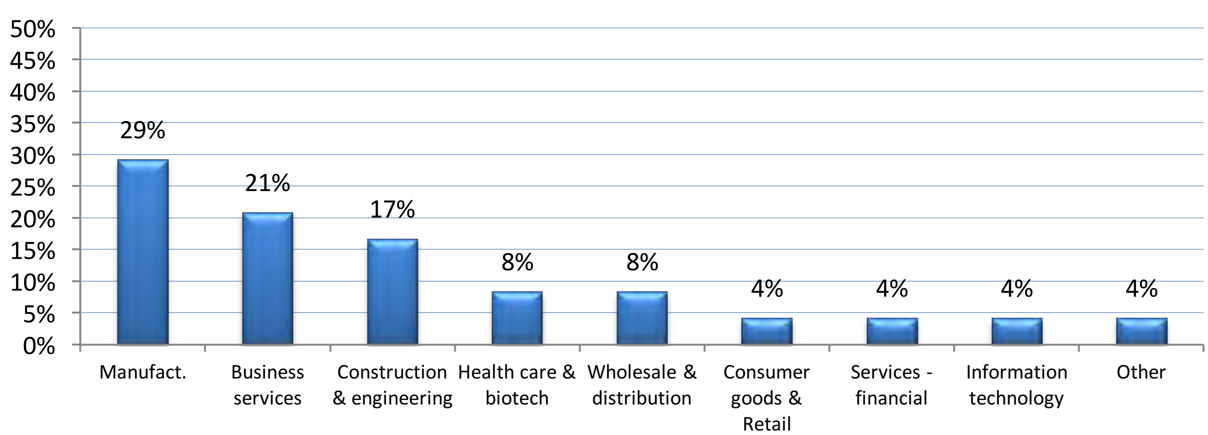


Figure 140. SDE Multiple Paid

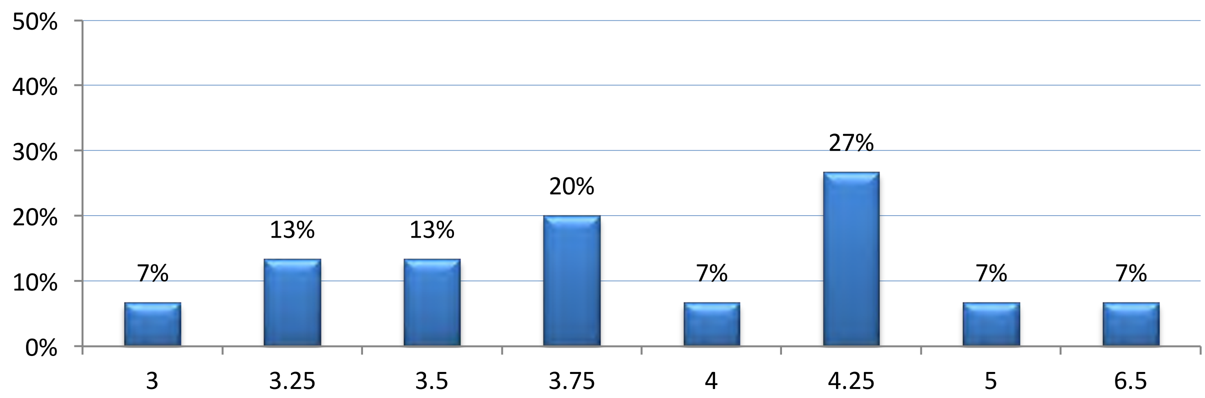


Figure 141. EBITDA Multiple Paid

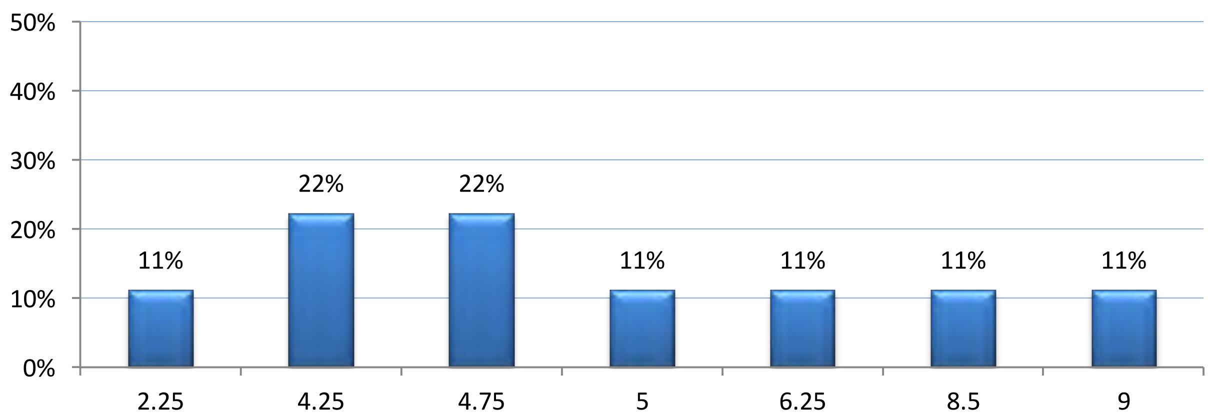
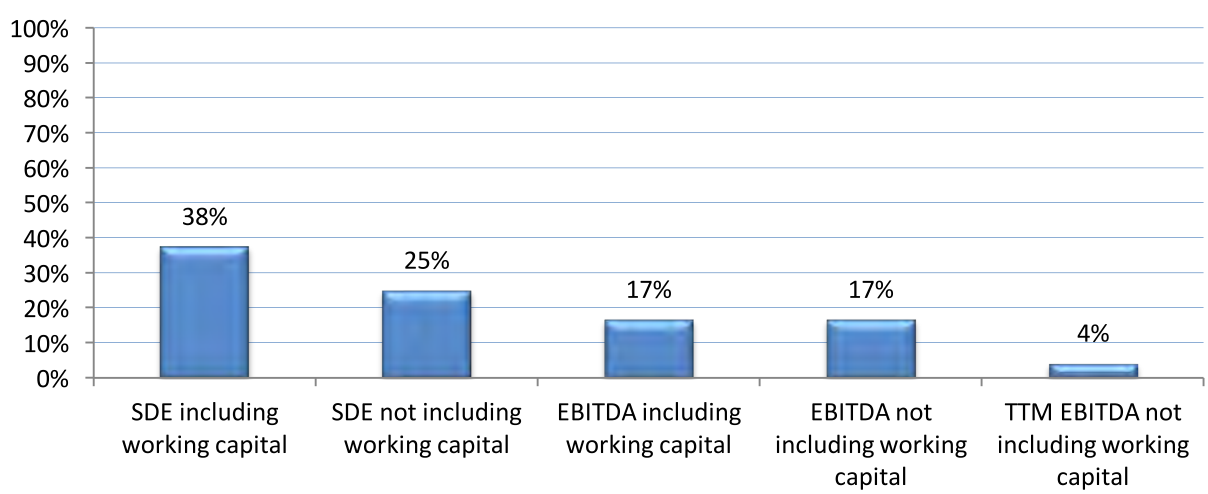


Figure 142. Multiple Paid



BROKER cont.

Figure 143. Buyer Type

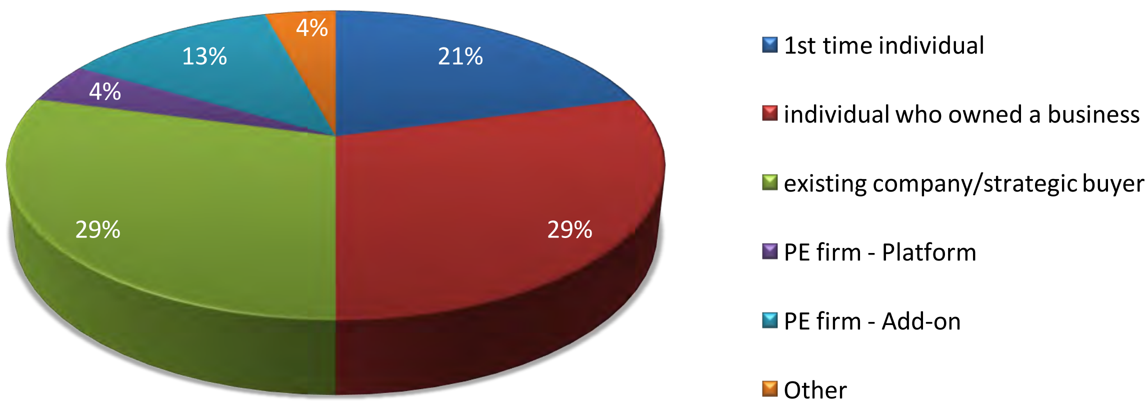


Figure 144. Reason for Seller to Go to Market

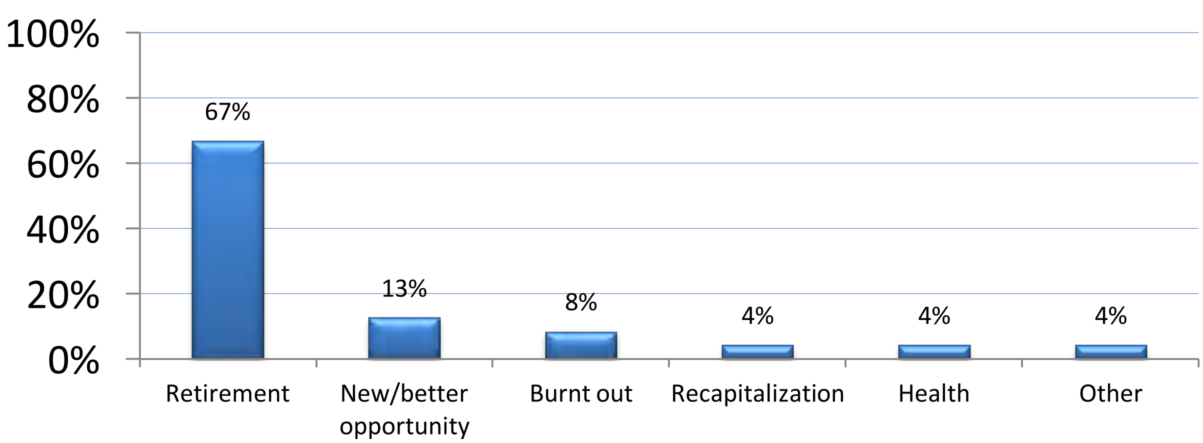
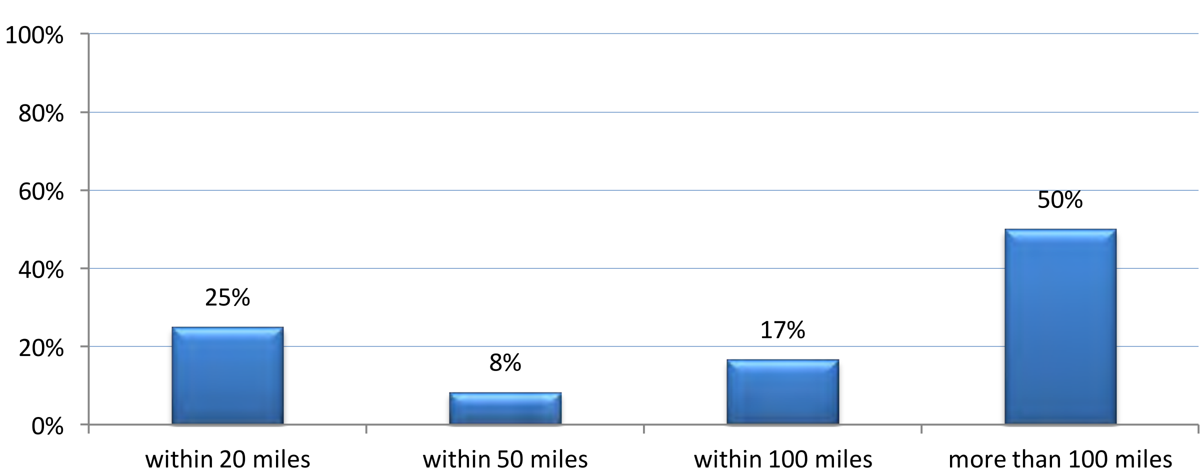


Figure 145. Buyer Location



BROKER cont.

Figure 146. Number One Motivation for Buyer

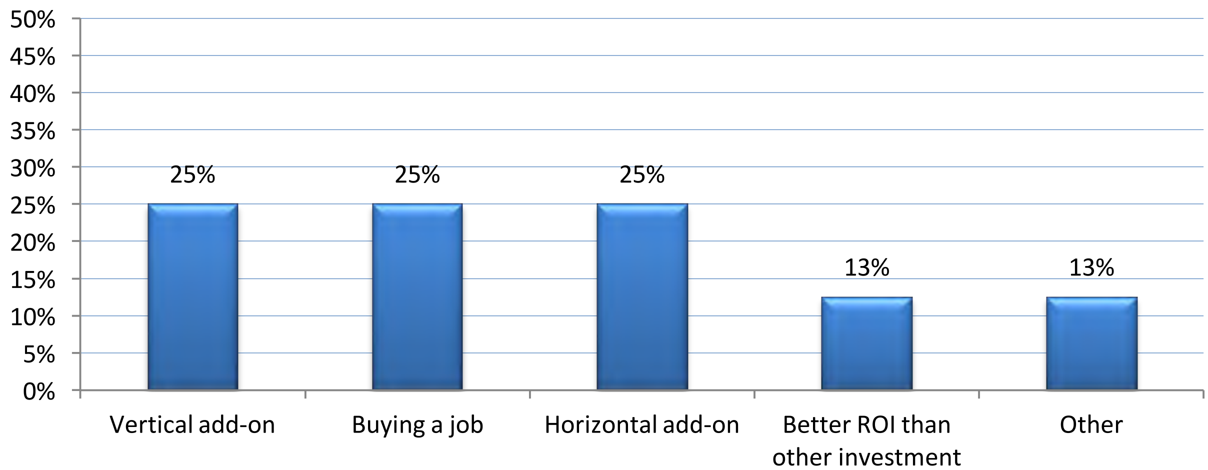
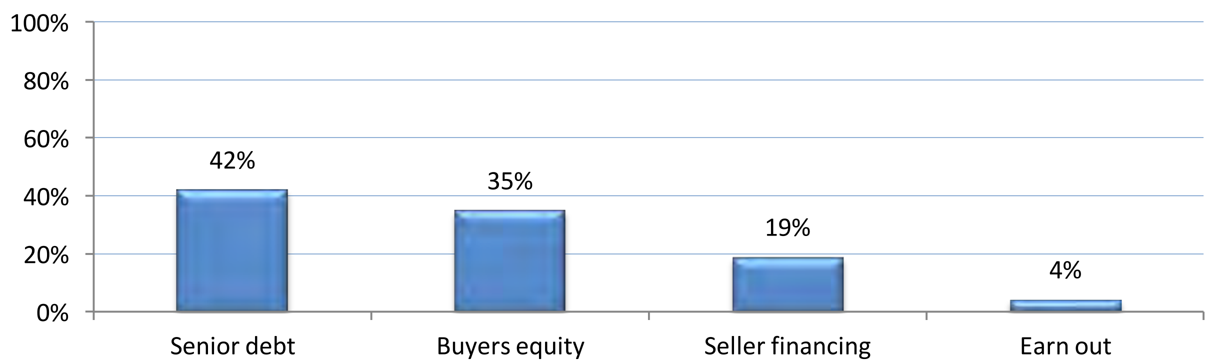
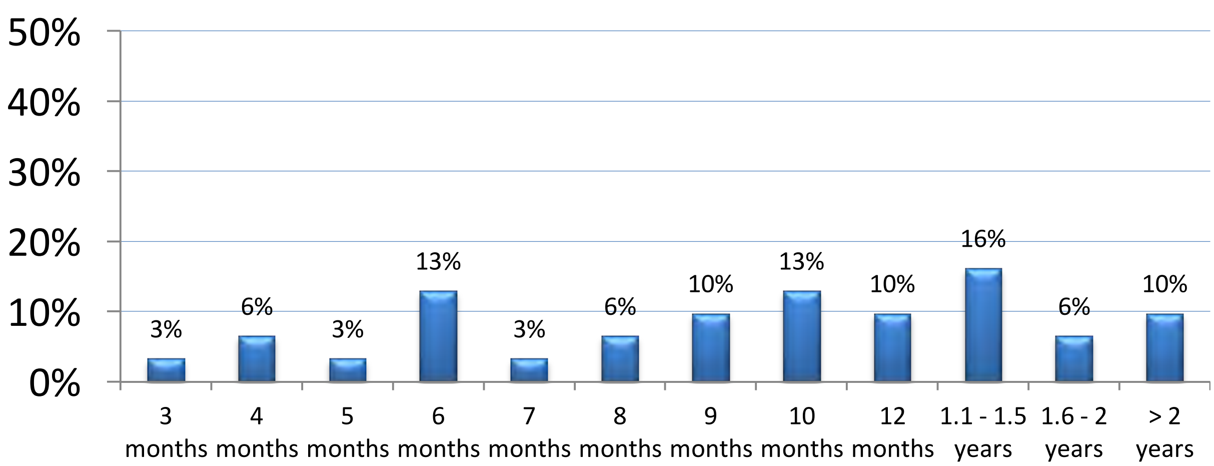


Figure 147. Financing Structure



Business Transactions Valued from $5 to $50 Million

Figure 148. Number of Months from Engagement/ Listing to Close



BROKER cont.

Figure 149. Number of Months from LOI/ Offer to Close

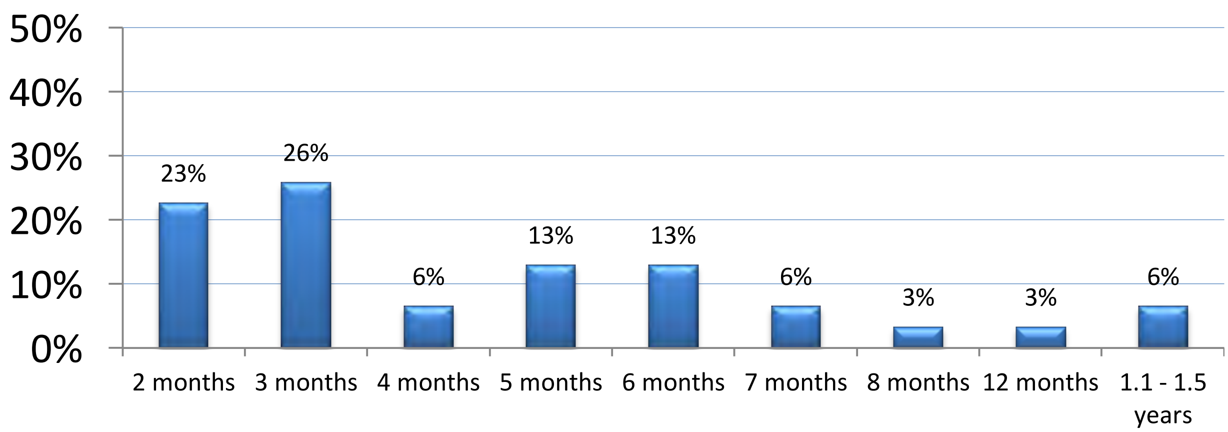


Figure 150. Industry Type

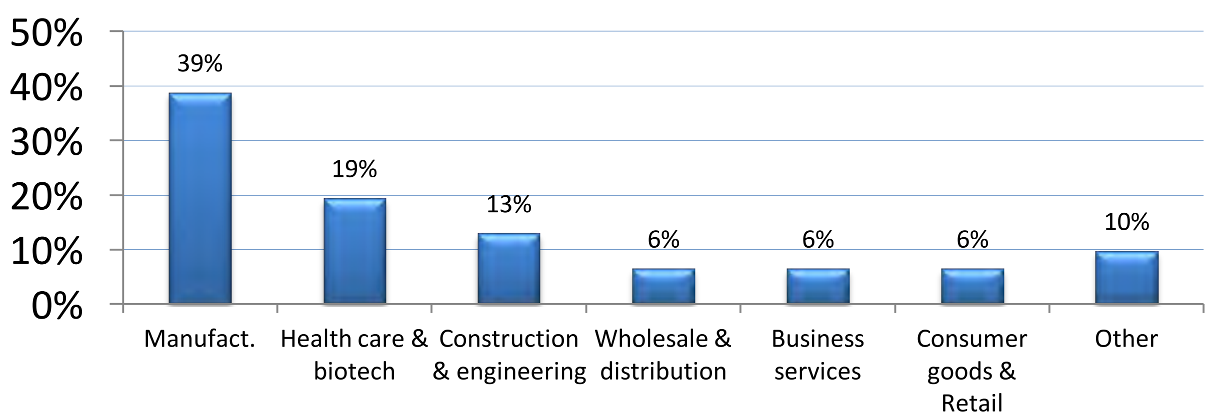
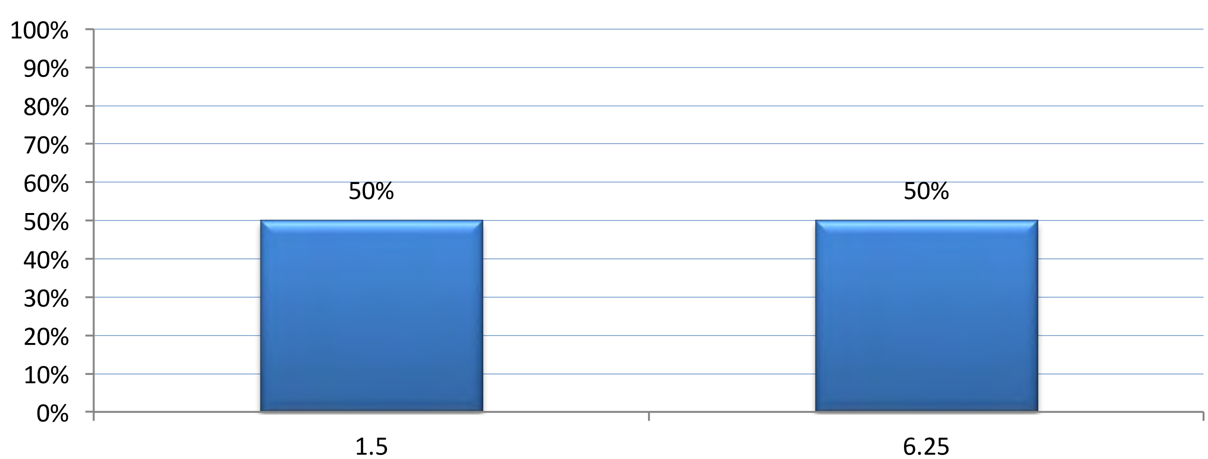


Figure 151. SDE Multiple Paid



BROKER cont.

Figure 152. EBITDA Multiple Paid

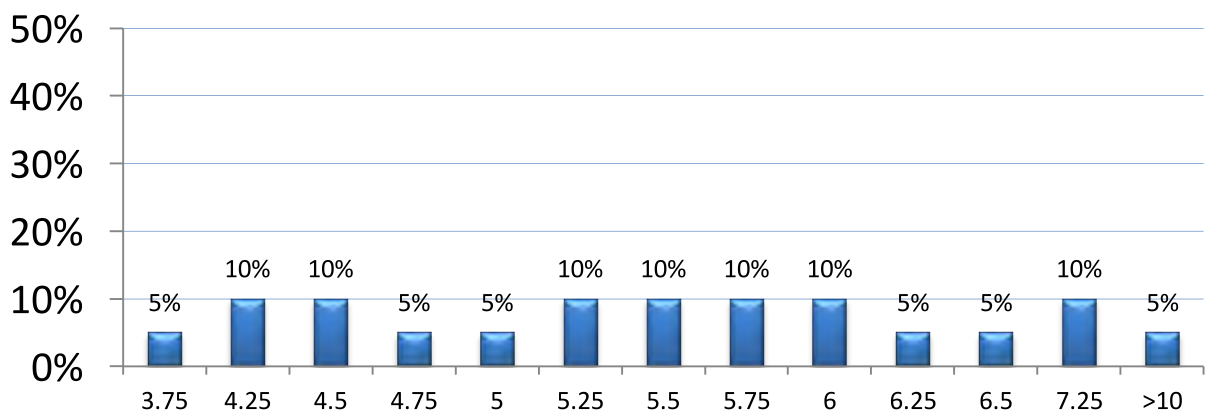


Figure 153. Multiple Paid

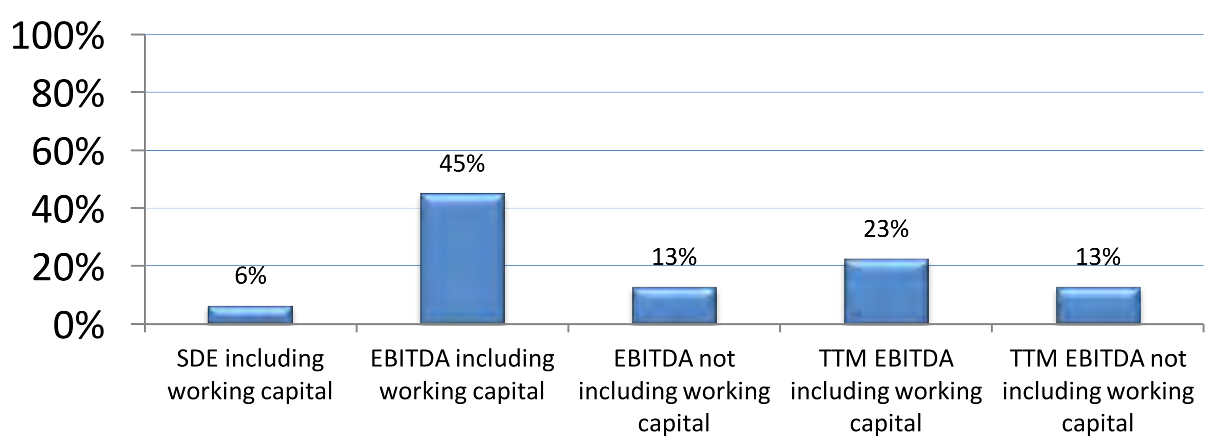
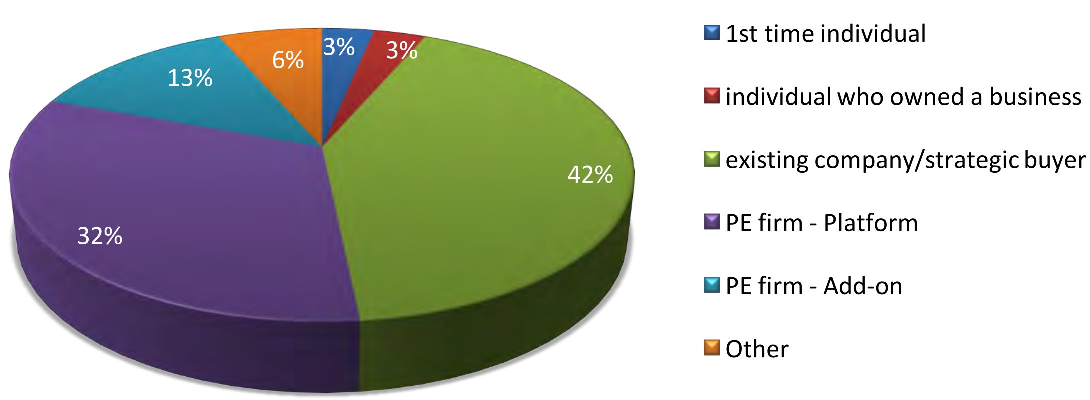


Figure 154. Buyer Type



BROKER cont.

Figure 155. Reason for Seller to Go to Market

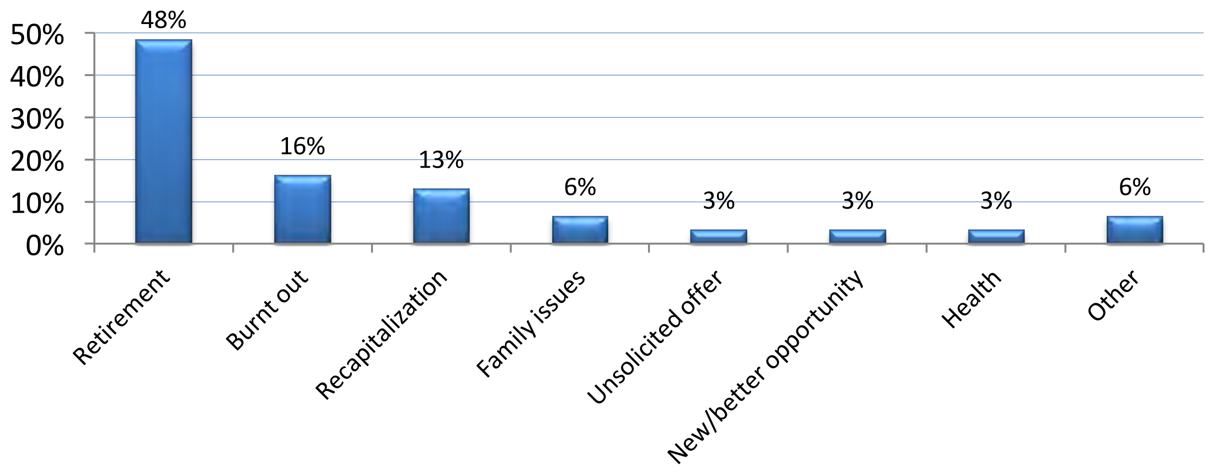


Figure 156. Buyer Location

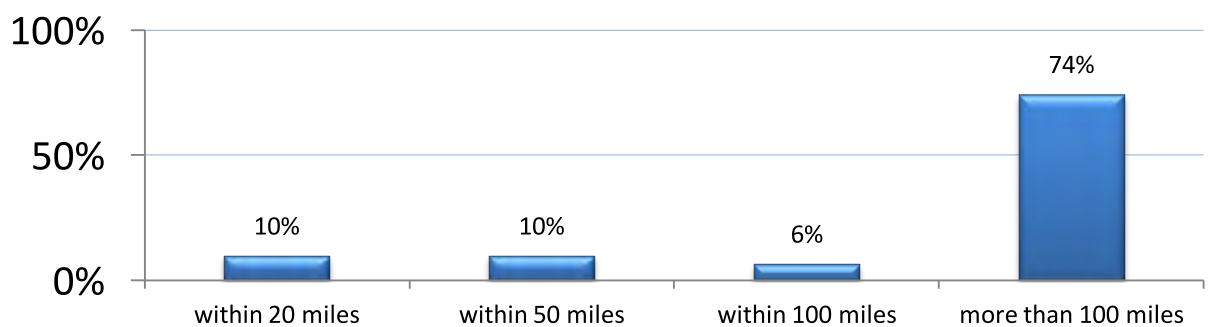
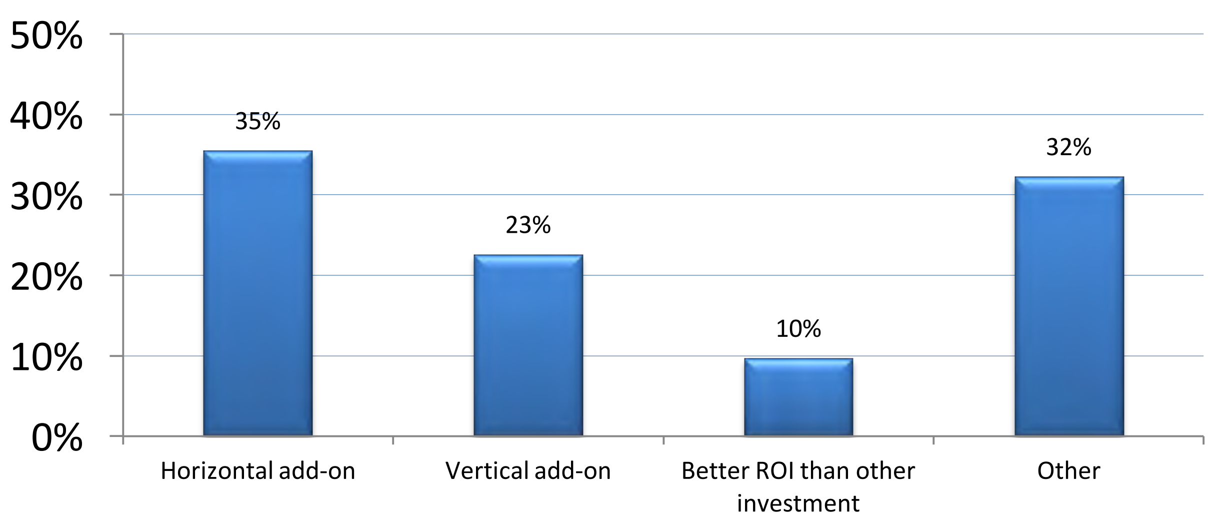


Figure 157. Number One Motivation for Buyer



BROKER cont.

Figure 158. Financing Structure

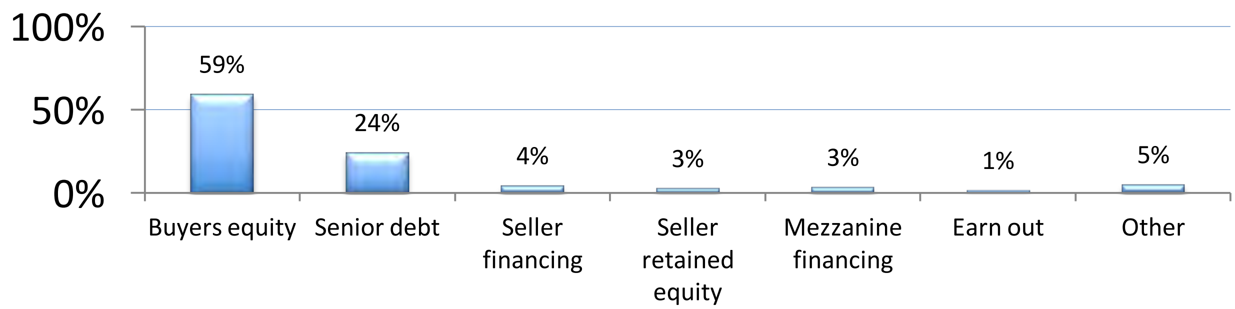


Table 50. Expectations of Business Listings/ Engagements from New Clients in the Next 3 Months

Deal size	Greatly decrease	Decrease	Stay the same	Increase	Greatly increase	Score (1 to 5)
Deals valued under $499,999	1.4%	4.7%	36.3%	52.8%	4.7%	3.5
Deals valued from $500,000 to $999,999	1.1%	2.7%	35.7%	55.1%	5.4%	3.6
Deals valued from $1 million to $1.99 million	1.2%	2.4%	37.3%	56.6%	2.4%	3.6
Deals valued from $2 million to $4.99 million	0.7%	1.3%	44.7%	50.7%	2.7%	3.5
Deals over $5 million	0.7%	2.7%	49.7%	43.5%	3.4%	3.5

Table 51. Expectations for Business Valuation Multiples in the Next 3 Months

Deal size	Greatly decrease	Decrease	Stay the same	Increase	Greatly increase	Score (1 to 5)
Deals valued under $499,999	0.5%	6.2%	81.5%	11.8%	0.0%	3.0
Deals valued from $500,000 to $999,999	1.1%	3.2%	80.5%	15.1%	0.0%	3.1
Deals valued from $1 million to $1.99 million	0.6%	1.8%	78.4%	19.2%	0.0%	3.2
Deals valued from $2 million to $4.99 million	0.6%	1.9%	73.4%	23.4%	0.6%	3.2
Deals over $5 million	0.7%	2.7%	70.7%	24.0%	2.0%	3.2

BROKER cont.

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

Table 52. 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%	12%	35%	35%	11%	46%	19%	**27%**
Ratio of businesses sold / total listings	6%	14%	48%	25%	6%	31%	21%	**10%**
Deal multiples	3%	7%	66%	21%	2%	24%	10%	**14%**
Business exit opportunities	3%	9%	54%	29%	5%	34%	13%	**21%**
Amount of time to sell business	2%	11%	55%	25%	7%	32%	13%	**19%**
Difficulty selling business	2%	11%	54%	28%	5%	33%	13%	**20%**
Business opportunities for growth	2%	5%	53%	35%	4%	39%	7%	**32%**
General business conditions	2%	7%	43%	44%	3%	47%	10%	**38%**
Margin pressure on companies	2%	9%	61%	26%	2%	28%	11%	**17%**

Table 53. 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**
Deal flow	0%	3%	23%	54%	20%	74%	3%	**70%**
Ratio of businesses sold / total listings	0%	2%	31%	54%	13%	67%	2%	**65%**
Deal multiples	0%	5%	61%	30%	4%	34%	5%	**29%**
Business exit opportunities	0%	4%	47%	40%	9%	49%	4%	**45%**
Amount of time to sell business	1%	17%	61%	19%	1%	20%	19%	**1%**
Difficulty selling business	2%	21%	61%	16%	0%	16%	23%	**-7%**
Business opportunities for growth	1%	3%	48%	42%	7%	49%	3%	**45%**
General business conditions	0%	4%	31%	54%	11%	65%	4%	**60%**
Margin pressure on companies	1%	10%	65%	22%	1%	24%	11%	**12%**

FACTOR SURVEY INFORMATION

Approximately 55% of 16 respondents to the factor survey said the primary uses of factoring facilities are financing working capital fluctuations, followed by expansion (22%), and finance worsening operations conditions (16%). Factoring facilities are relatively short-term compared to other investments with respondents reporting approximately 60% of factoring facilities have less than or equal to 12 months term.

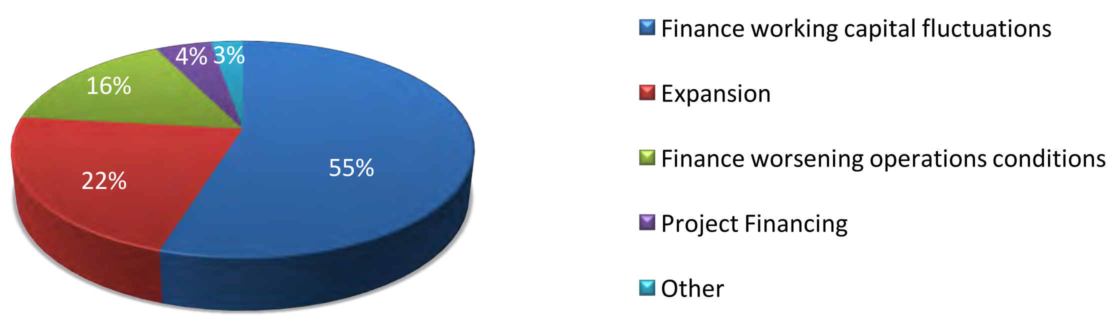
Other key findings include:

- Respondents reported approximately 21% of their company's gross invoices over the last twelve months were originated from wholesale & distribution. Manufacturing was responsible for 20% of invoices followed by business services at 17%.
- When asked about conditions compared to twelve months ago nearly 53% of respondents said they saw decreased demand for business factoring lines in the last 12 months. Approximately 40% of lenders indicated increased general business conditions in the last twelve months.
- Nearly 47% of respondents believe government regulations and taxes are the most important issue facing privately-held businesses today, followed by economic uncertainty (40%) and access to capital (20%).

Operational and Assessment Characteristics

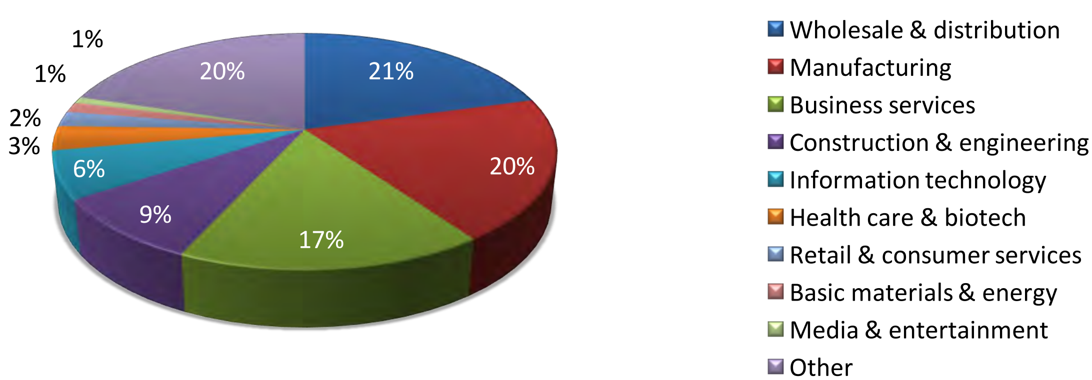
Approximately 55% of respondents indicated working capital fluctuations as the primary uses of factoring facilities.

Figure 159. 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.

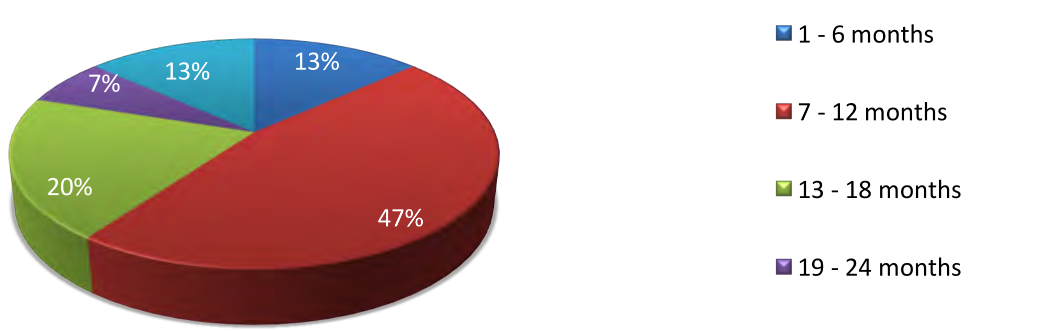
Figure 160. Industries for Gross Invoices for the Last 12 Months



FACTOR cont.

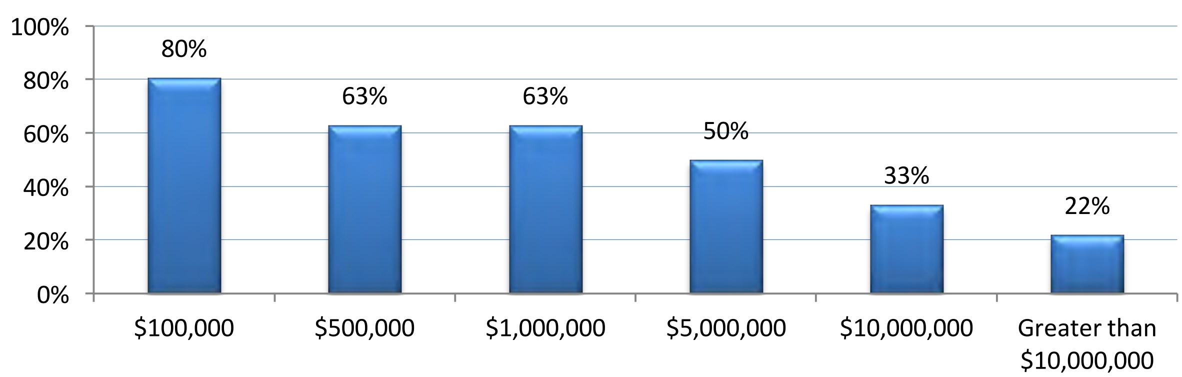
Factoring facilities are relatively short-term compared to other investments with respondents reporting approximately 60% of factoring facilities have less than or equal to 12 months term.

Figure 161. Term of Current Typical Factoring Facility



Respondents reported average advance rates charged for various-sized facilities range from 22% to 80% on a monthly basis.

Figure 162. Current Average Advance Rates for Various-Sized Facilities



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

Table 54. Fees Charged

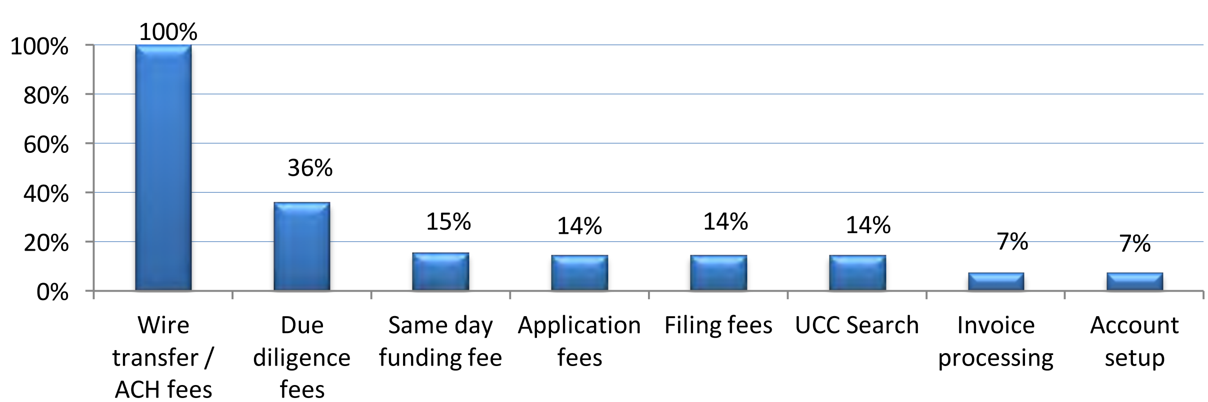


Table 55. Median Percentage or Amount Charged

	Percentage	or Amount
Application fees	n/a	$225
Due diligence fees	0.1%	$3,250
Invoice processing	n/a	$25
Wire transfer / ACH fees	n/a	$150
Filing fees	n/a	$50
UCC Search	n/a	$150
Line fee	1%	$100
Same day funding fee	n/a	$225

Approximately 36% of respondents are using prime rate to price items.

Figure 163. Usage of Reference Rates

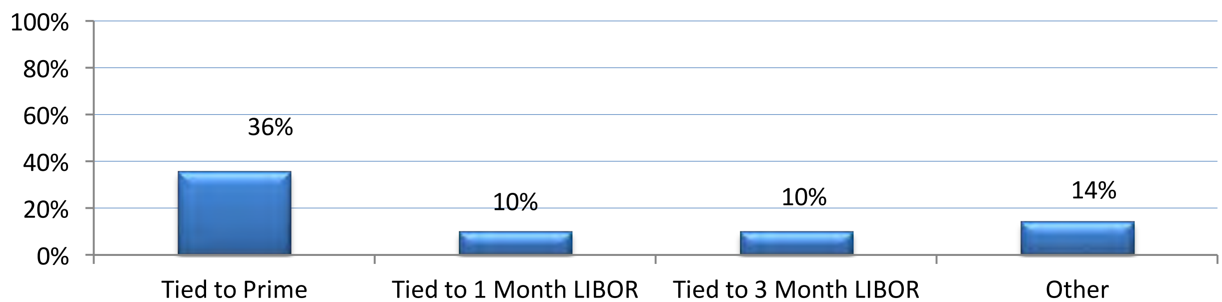
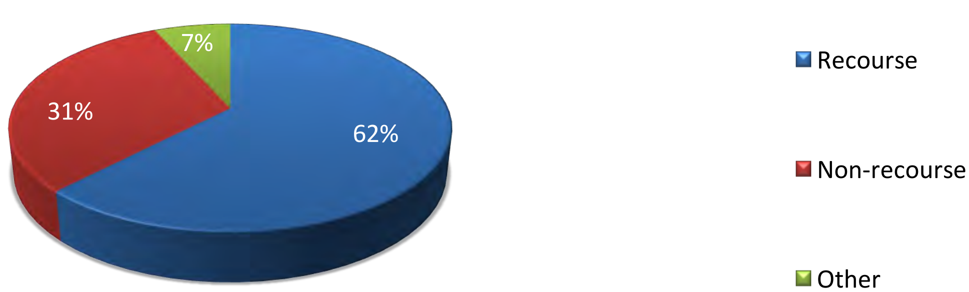


Table 56. Spread (%)

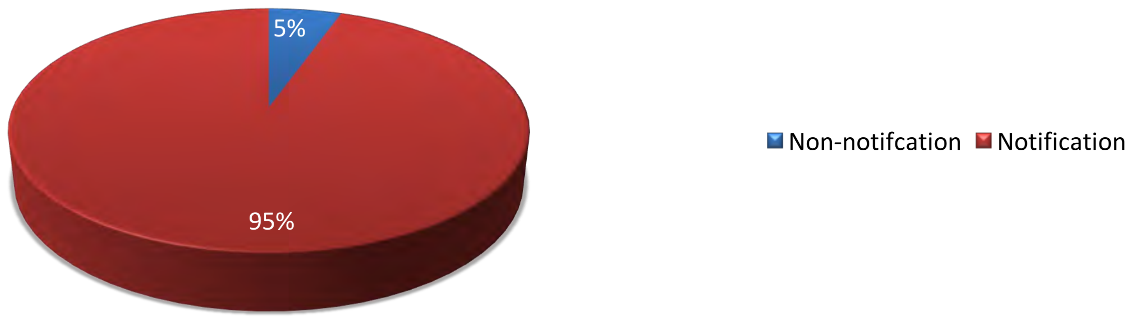
	1st quartile	Median	3rd quartile
Tied to prime	2	2.5	3.5
Tied to three-month LIBOR	4	4	4
Tied to six-month LIBOR	3	3	3

Figure 164. Percentage of Factoring Business - Recourse vs Non-recourse



Respondents reported 95% of their current purchases were on a notification basis.

Figure 165. Percentage of Purchases on a Non-notification Basis



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

Table 57. Typical Current Requirements

Requirement	%
Lien on A/R assets	80%
Background check	93%
Personal guarantee	100%
Financial statements	87%
Lien on all assets	67%
Performance guarantee	64%
Audit	23%

Table 58. Discount fee (%) on Outstanding Invoices for Notification Basis

	$0 - $25K	$25K - $50K	$50K - $100K	$100K - $250K	$250K - $1M	$1M - $5M	$5M - $10M	$10M - $25M	$25M - $50M	$50M - $100M	$100M+
First 30 days											
1st quartile	2.5%	2.2%	2.0%	1.9%	1.2%	1.0%	0.7%	0.9%	0.8%	0.8%	0.6%
Median	3.0%	3.0%	2.5%	2.4%	1.6%	1.0%	0.9%	1.0%	1.0%	1.0%	1.0%
3rd quartile	3.6%	3.0%	2.8%	2.6%	2.1%	1.8%	1.5%	1.1%	1.3%	1.3%	1.3%
Next 15 days (31-45)											
1st quartile	1.0%	1.5%	1.3%	1.0%	1.0%	0.8%	0.4%	1.0%	1.0%	1.0%	1.0%
Median	1.5%	1.5%	1.3%	1.3%	1.0%	1.0%	0.6%	1.0%	1.0%	1.0%	1.0%
3rd quartile	1.8%	1.7%	1.5%	1.5%	1.3%	1.0%	0.8%	1.0%	1.0%	1.0%	1.0%
Next 15 days (46-60)											
1st quartile	1.3%	1.5%	1.3%	1.0%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Median	1.6%	1.5%	1.3%	1.3%	1.0%	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%
3rd quartile	1.8%	1.7%	1.5%	1.5%	1.3%	0.9%	0.5%	0.5%	0.5%	0.5%	0.5%

FACTOR cont.

Table 59. Expected Total Write-off – Percentage of Receivables Purchased on New Arrangements (%)

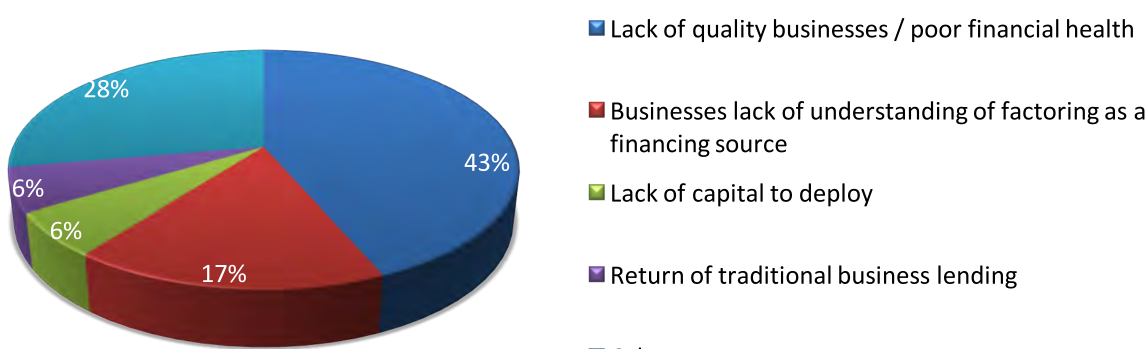
	1st quartile	Median	3rd quartile
Expected total write-off	0.5%	0.5%	0.75%

Table 60. 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

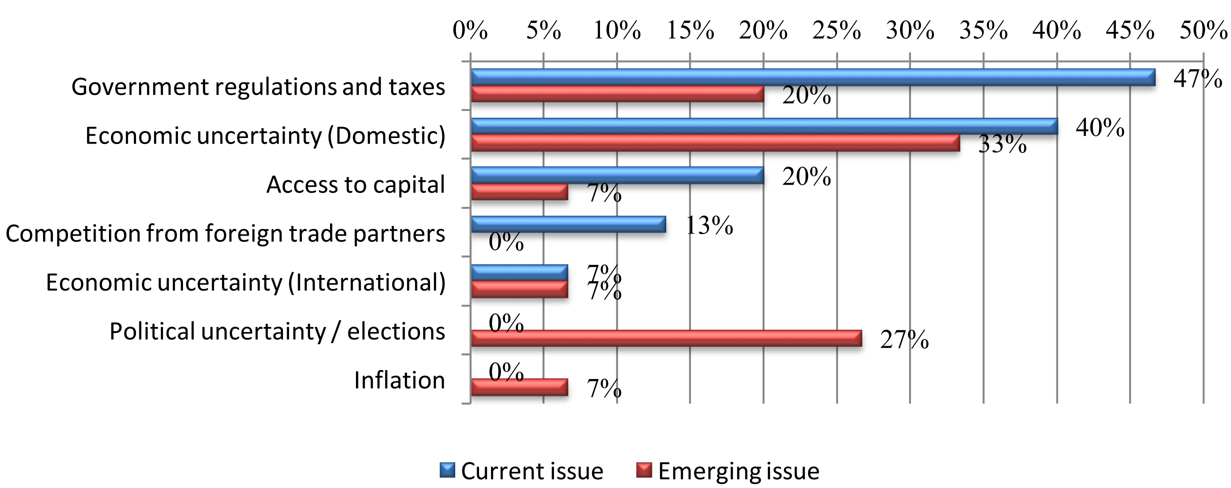
According to the 43% of respondents, the most significant concern to factoring business is lack of quality businesses or poor financial health.

Figure 166. Most Significant Concern to Factoring Business



Respondents believe government regulations and taxes are the most important current issue facing privately-held businesses.

Figure 167. Current Issues Facing Privately-Held Businesses



FACTOR cont.

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

Table 61. 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**
Demand for business factoring lines (applications)	27%	27%	7%	40%	0%	40%	53%	**-13%**
Credit quality of borrowers applying for credit	7%	27%	60%	7%	0%	7%	33%	**-27%**
Time to process Facility	0%	27%	53%	20%	0%	20%	27%	**-7%**
Average facility size	7%	7%	60%	20%	7%	27%	13%	**13%**
Average facility term (months)	0%	0%	93%	7%	0%	7%	0%	**7%**
Size of interest rate spreads (pricing)	0%	21%	71%	7%	0%	7%	21%	**-14%**
Fees	0%	40%	53%	7%	0%	7%	40%	**-33%**
Standard advance rates on receivables	7%	0%	67%	27%	0%	27%	7%	**20%**
General business conditions	0%	27%	33%	40%	0%	40%	27%	**13%**

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

Table 62. 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**
Demand for business factoring lines (applications)	7%	27%	27%	27%	13%	40%	33%	**7%**
Credit quality of borrowers applying for credit	0%	27%	60%	13%	0%	13%	27%	**-13%**
Time to process Facility	0%	13%	60%	20%	7%	27%	13%	**13%**
Average facility size	0%	7%	57%	14%	21%	36%	7%	**29%**
Average facility term (months)	0%	14%	86%	0%	0%	0%	14%	**-14%**
Size of interest rate spreads (pricing)	0%	15%	77%	8%	0%	8%	15%	**-8%**
Fees	0%	29%	64%	7%	0%	7%	29%	**-21%**
Standard advance rates on receivables	0%	0%	87%	13%	0%	13%	0%	**13%**
General business conditions	0%	7%	33%	47%	13%	60%	7%	**53%**

BUSINESS OWNER SURVEY INFORMATION

Of the 1,034 privately-held businesses that responded to the survey, 10% had businesses that involved manufacturing, another 10% were in construction & engineering, another 10% were in professional, scientific or technical services, followed by business services (9%). Approximately 58% of businesses have annual revenues less than $1 million. Nearly 88% of business owners report having the enthusiasm to execute growth strategies, yet just 51% report having the necessary financial resources to successfully execute growth strategies.

Of the respondents who were seeking financing in the last 12 months, approximately 51% anticipated to raise less than $100,000 in capital. Approximately 45% 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 (23%). 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. Results also showed that 71% 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 2.3 banks.

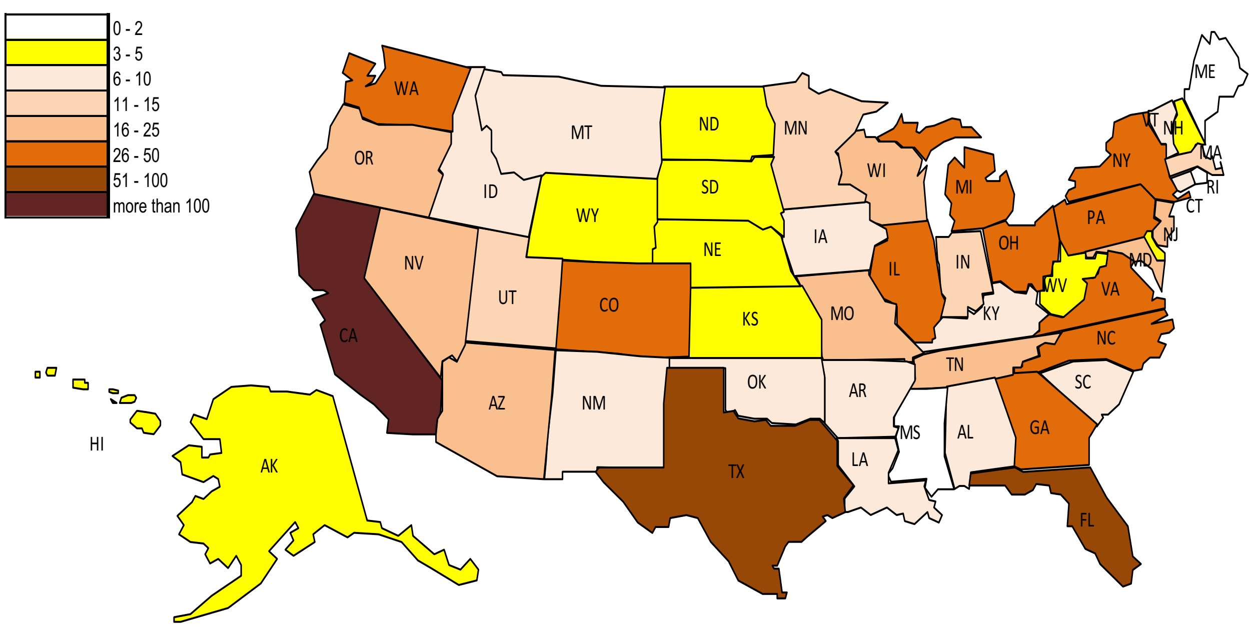
Nearly three quarters of businesses (73%) are planning to hire additional workers. Approximately 45% of respondents believe government regulations and taxes are the number one issue small businesses face today, another 31% believe access to capital is the most important current issue, followed by domestic economic uncertainty (23%) and health care costs (23%). According to small businesses, of those policies most likely to lead to job creation in 2016, regulatory reform emerged as number one (27%) followed by increased access to capital (24%), and tax incentives (22%). The study showed that of those that do plan to hire, sales and marketing skills (34%) and skilled labor (34%) are in greatest demand followed by service/customer service (27%). Also, 85% of companies planning to hire indicate they’d need to train those they hire.

36% of respondents believe that general business conditions improved in the twelve months compared to 49% surveyed year ago.

Operational and Assessment Characteristics

The privately-held business survey results were generated from 1,034 participants. The locations of businesses are distributed over all regions of the United States.

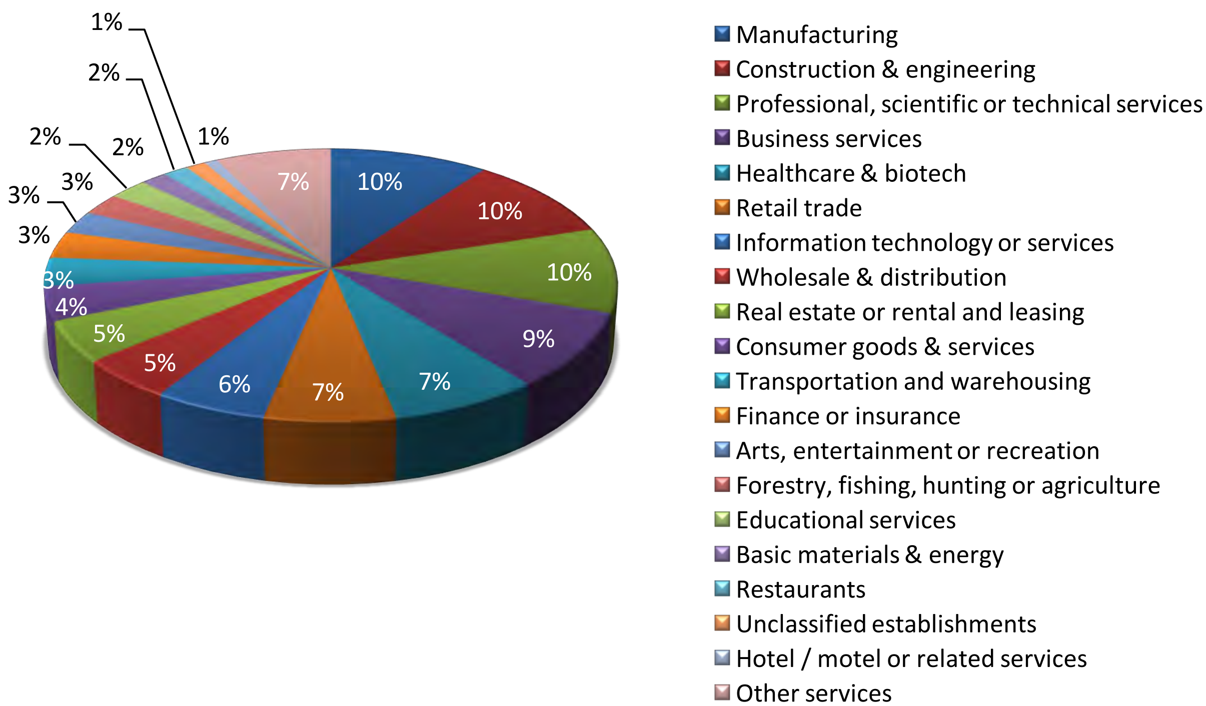
Figure 168. Respondents Distribution by State



BUSINESS OWNER cont.

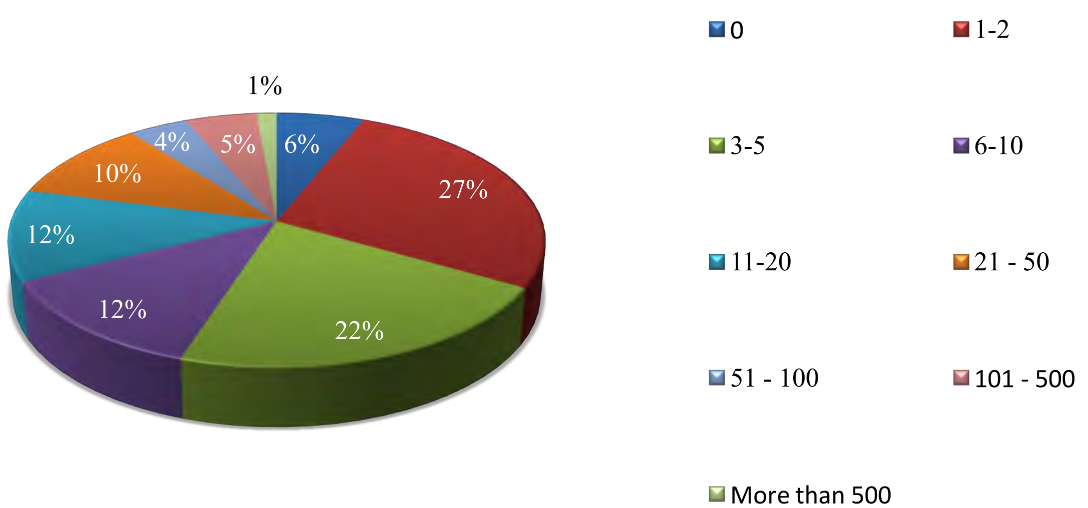
Businesses involved in manufacturing accounted for 12% of respondents followed by professional, scientific or technical services (11%) and business services (9%).

Figure 169. Description of Entity



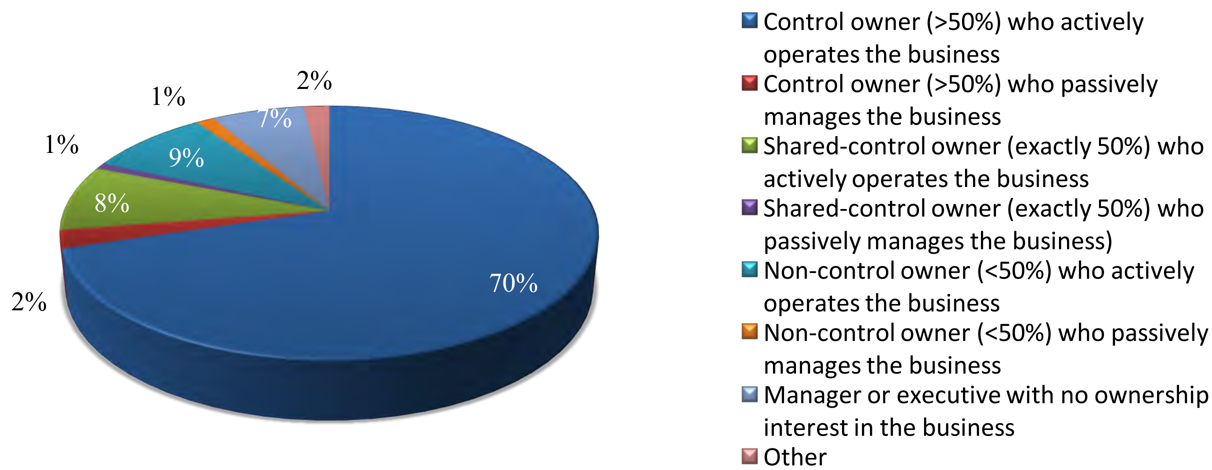
Approximately 55% of businesses have less than or equal to five employees.

Figure 170. Number of Employees



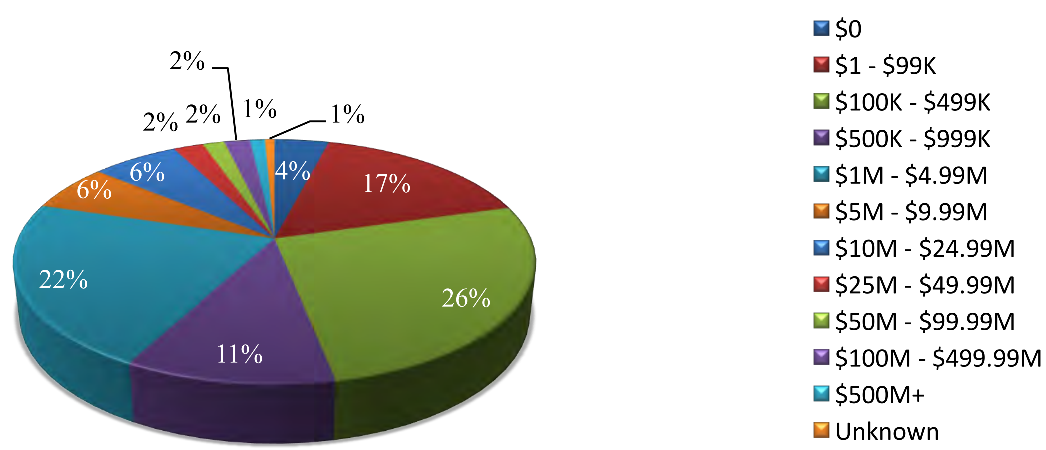
Approximately 70% of the respondents are active control owners of their businesses.

Figure 171. Ownership Role



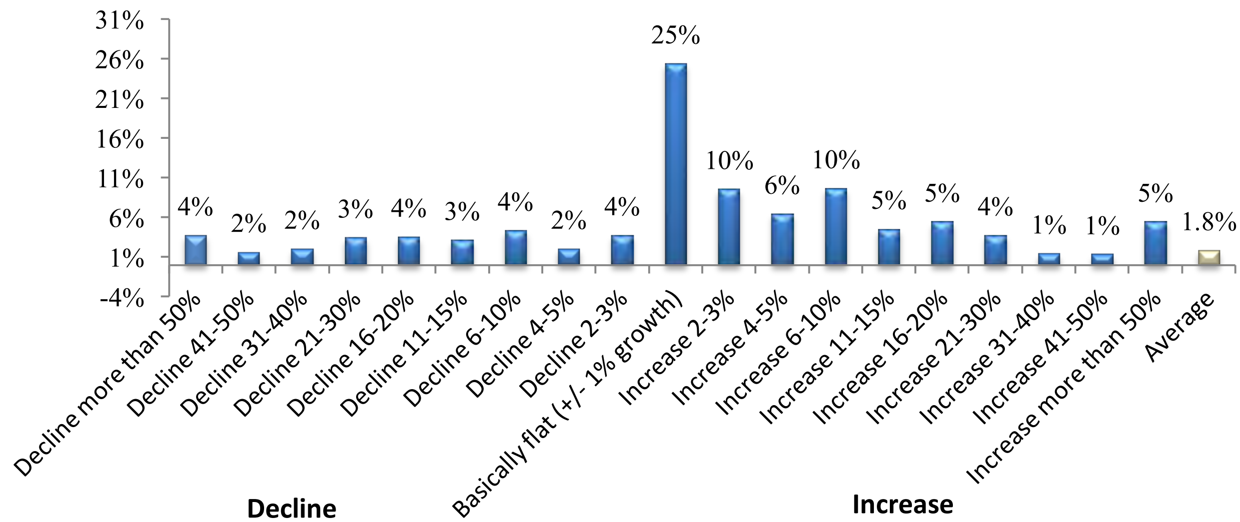
Approximately 58% of respondents have less than or equal to $1M in annual revenues, followed by 22% reporting between $1M and $5M.

Figure 172. Annual Revenues



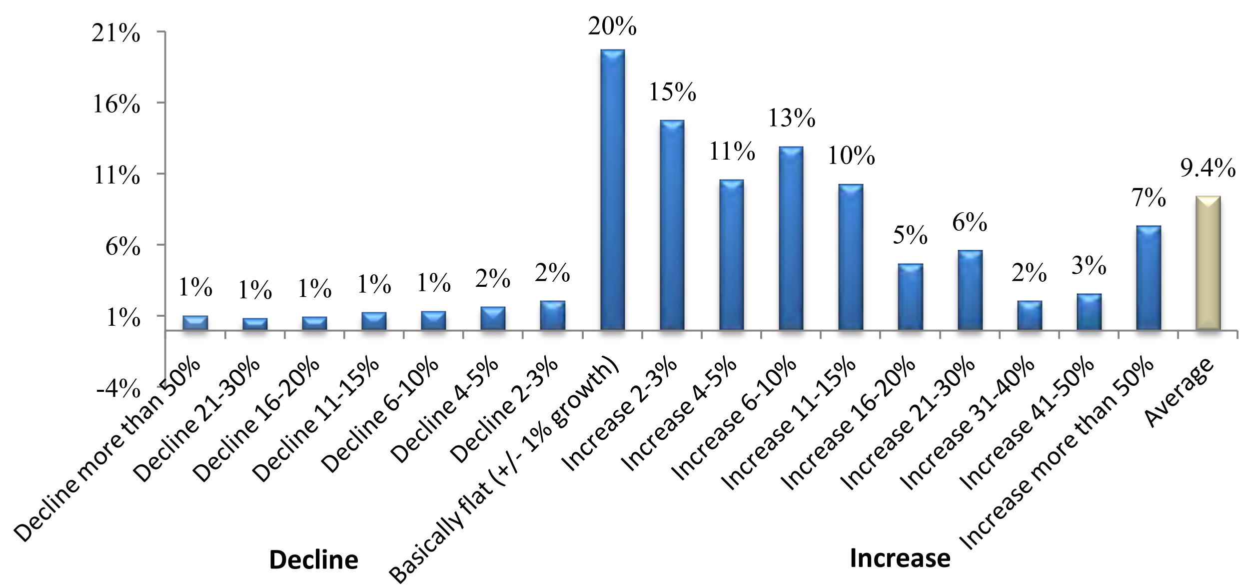
Average change in annual revenues in the last 12 months was 1.8%.

Figure 173. Annual Revenues Change in the Last 12 Months



On average respondents expect their annual revenues to grow by 9.4% in the next 12 months.

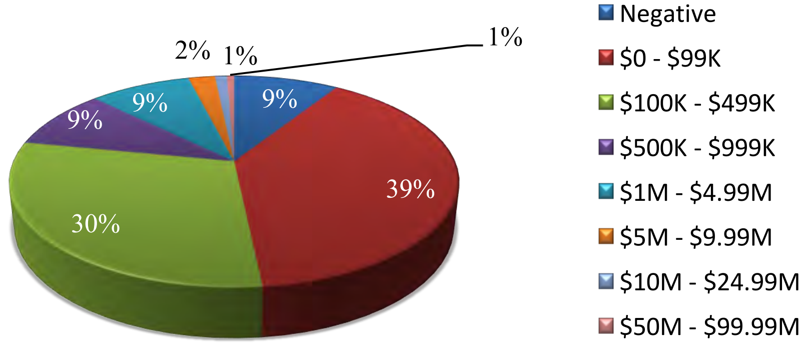
Figure 174. Annual Revenues Change Expectations in the Next 12 Months



BUSINESS OWNER cont.

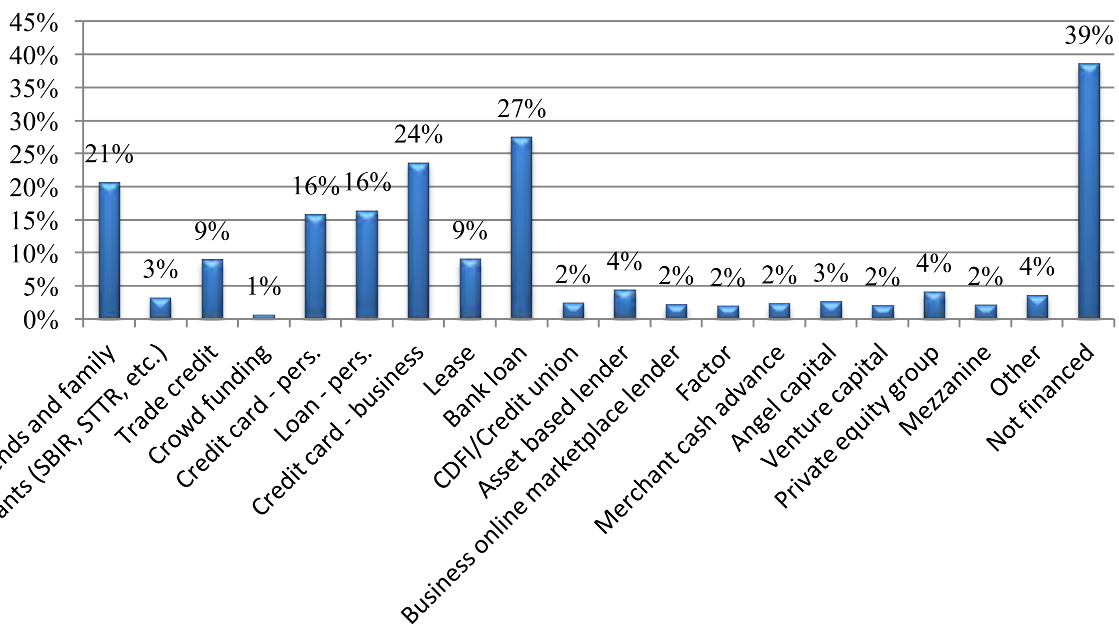
Approximately 78% of businesses have net income less than or equal to $500,000, 9% of those have negative net income.

Figure 175. Net Income



Approximately 39% of respondents are currently not financed by any external capital sources. Nearly 27% and 24% of respondents' businesses are financed by bank business loans and business credit card financing, respectively.

Figure 176. Current Sources of Financing



Among the businesses that tried to raise capital in the last 12 months 45% applied for bank business loan and 71% were successful, whereas 40% of respondents didn't try to raise capital from any source.

Figure 177. Capital Sources Contacted To Raise Capital in the Last 12 Months

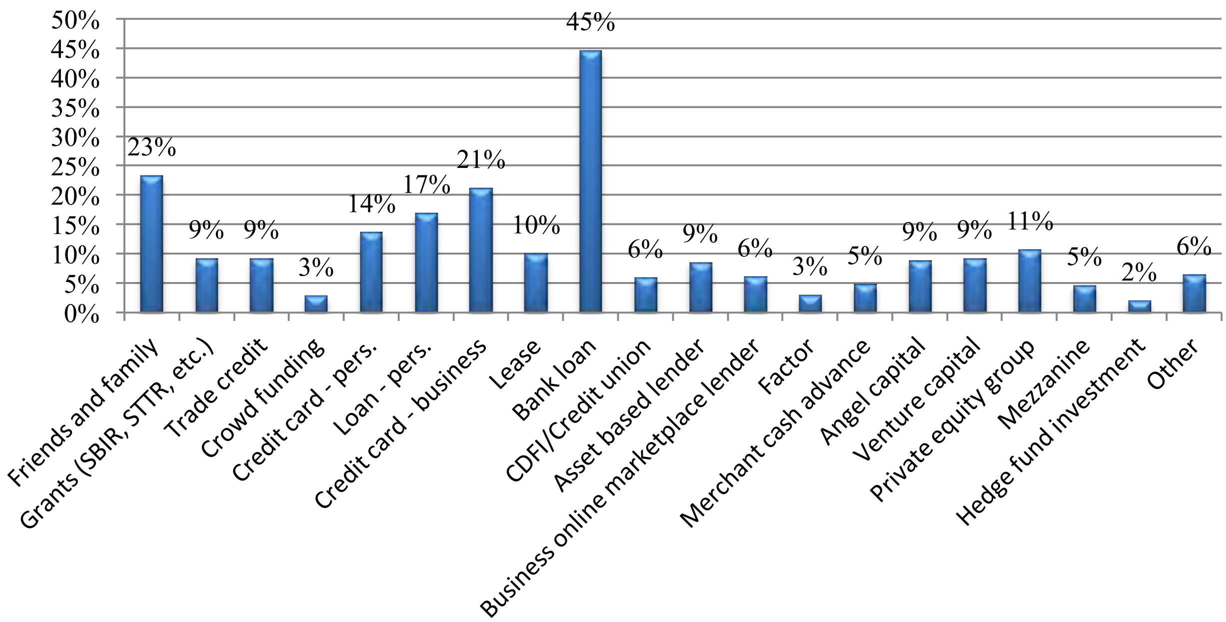
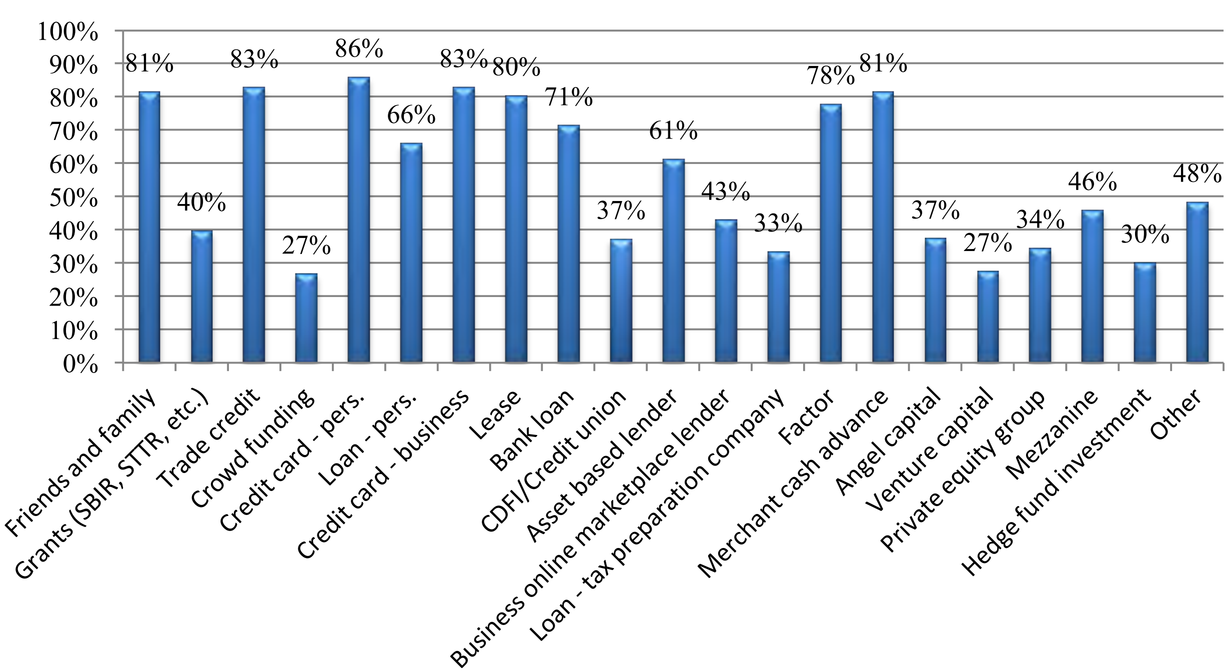
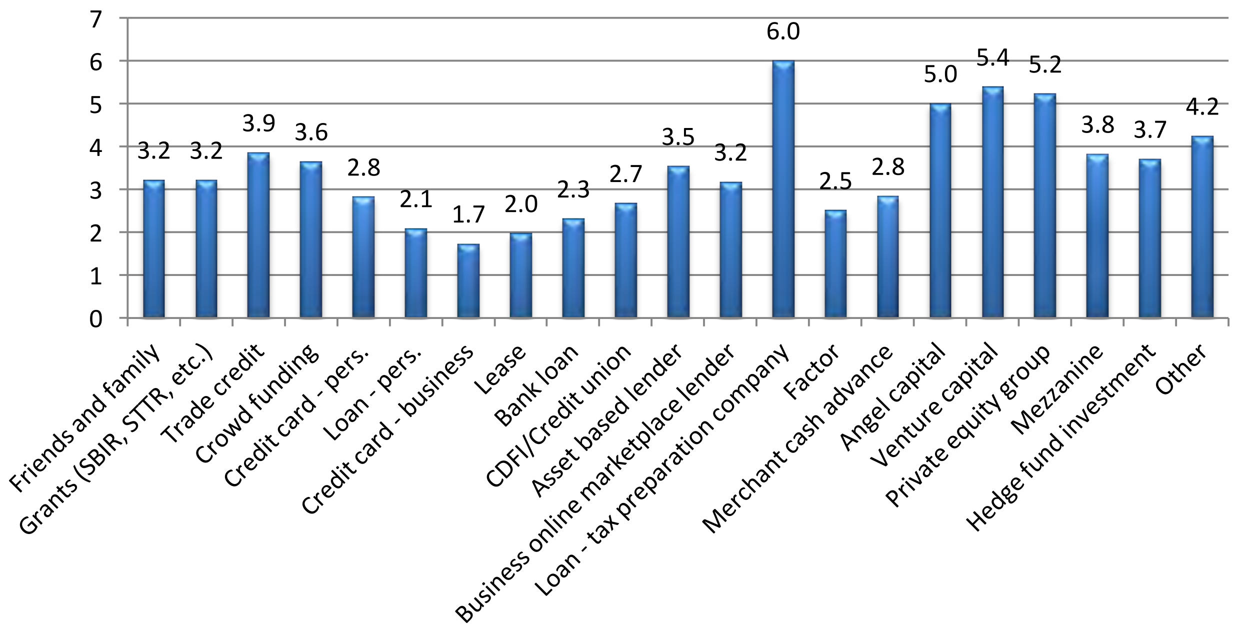


Figure 178. Success Rates



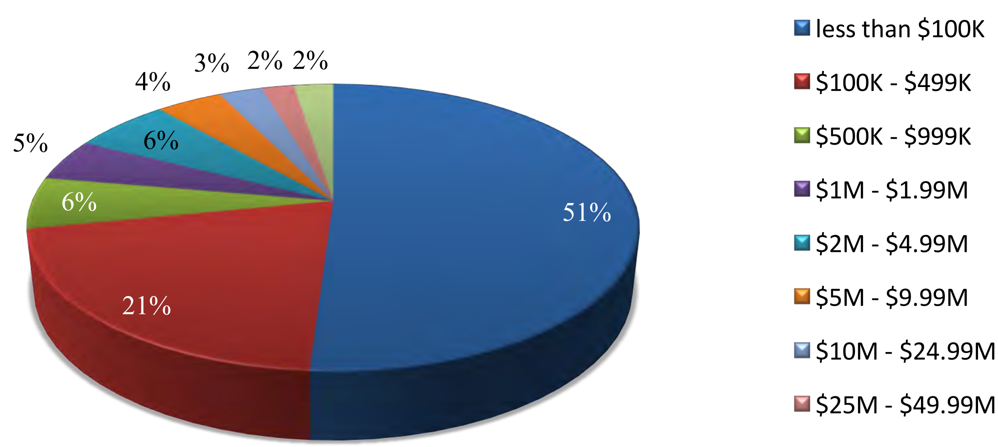
On average respondents who successfully raised capital contacted 3 different capital providers.

Figure 179. Average Number of Capital Providers Contacted



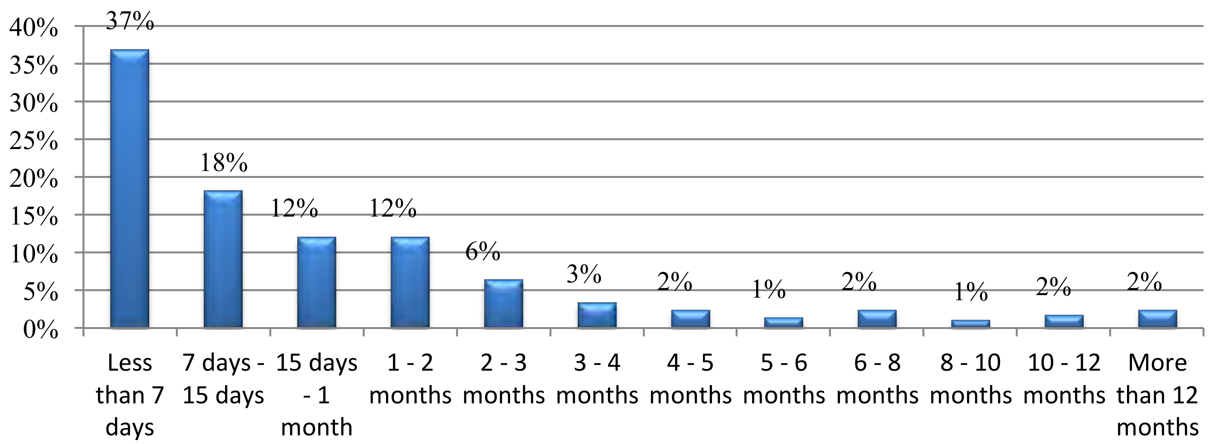
Approximately 77% of respondents attempted to raise less than $1 million in the last 12 months.

Figure 180. Amount of Capital Attempted to Raise in the last 12 Months



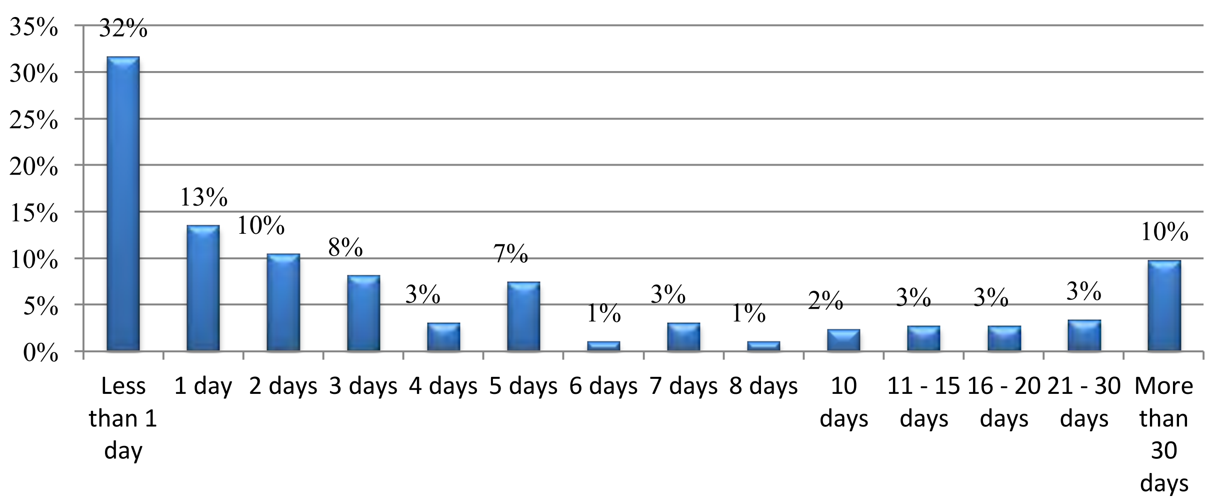
Approximately 37% of respondents took less than 7 days to complete financing process.

Figure 181. Average Time to Complete Financing Process in Days



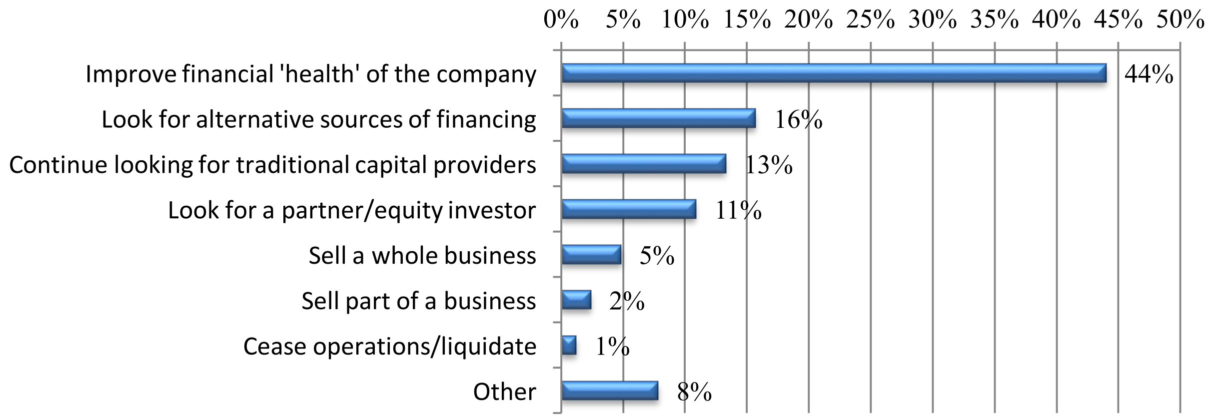
32% of respondents spent less than one day during the process to successfully obtain financing (time spent by all employees and hired outsiders making inquiries, submitting proposals, meeting with capital providers, furnishing documents).

Figure 182. Days Spent During the Process to Successfully Obtain Financing



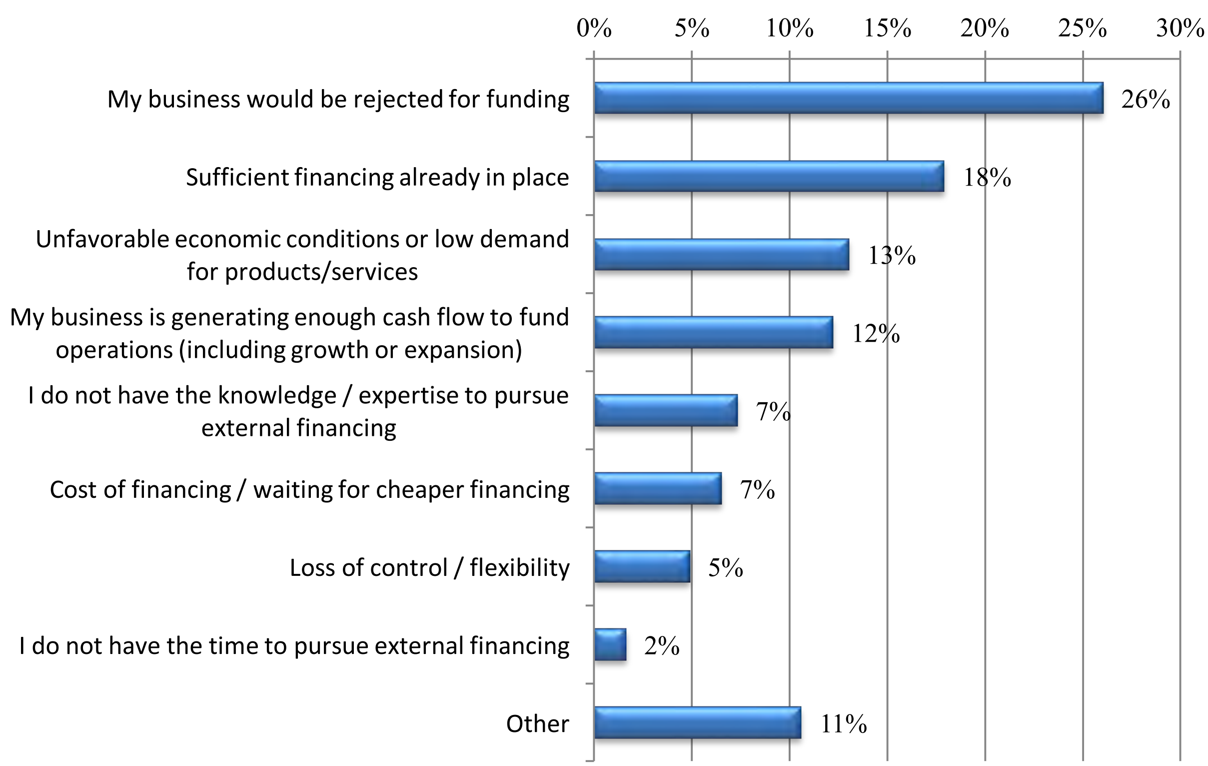
Among those respondents who were not able to obtain external financing in the last 12 months 44% are planning to improve the financial health of their businesses before attempting to raise capital in the future.

Figure 183. Next Steps to Satisfy Financial Needs



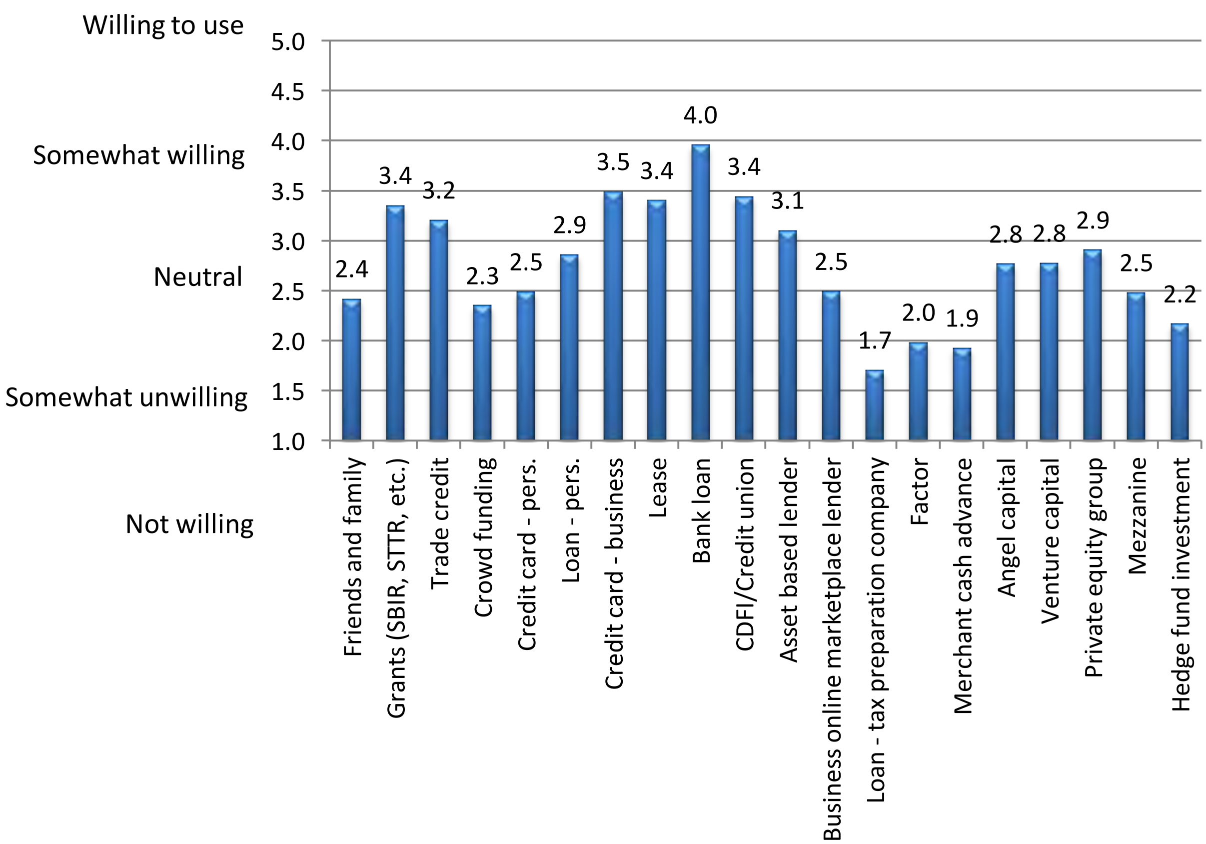
Among those respondents who didn't attempt to obtain any external financing in the last 12 months, 26% said their businesses would be rejected for funding, followed by 18% of respondents who have sufficient financing already in place, and 13% of respondents who said there were unfavorable economic conditions or low demand for products/services.

Figure 184. Reasons for Not Trying to Obtain Capital in the Last 12 Months



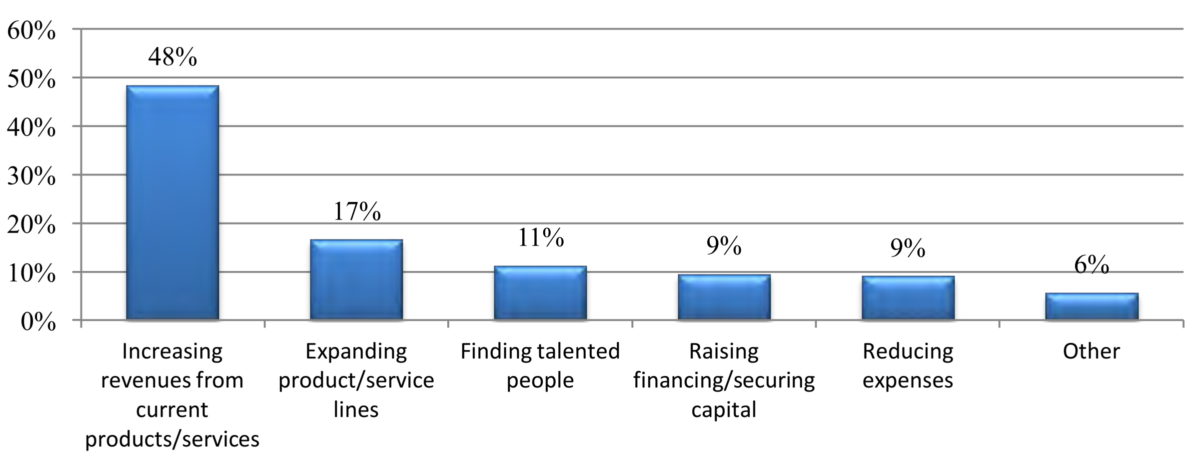
According to the respondents, "bank loans" as a category is the most appealing option to obtain financing.

Figure 185. Willingness to Obtain Financing



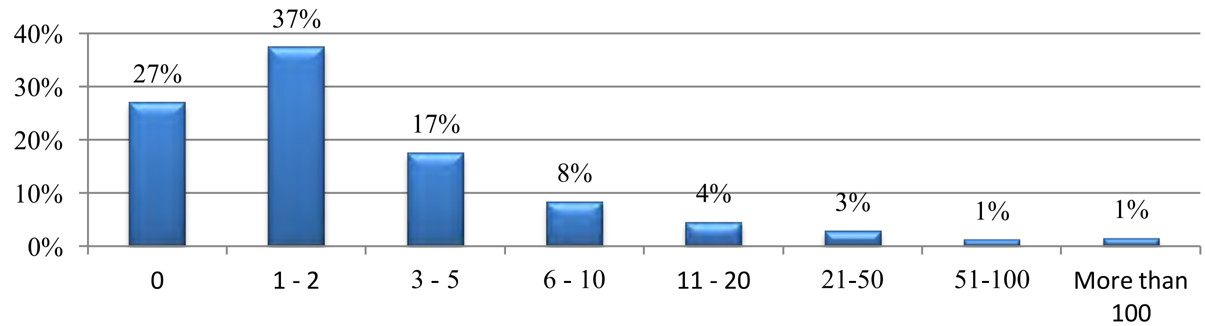
Approximately 48% of respondents indicated increasing revenues from current products or services as the area their businesses are most focused on today.

Figure 186. The Most Important Area to Focus On



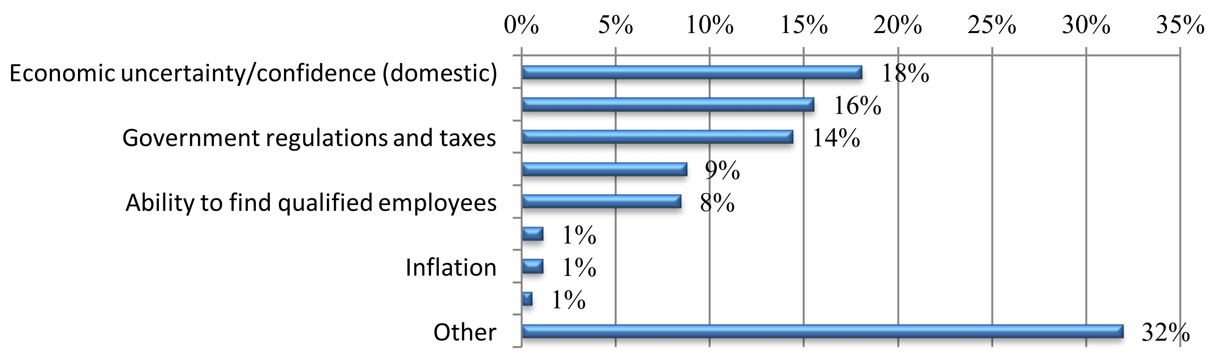
Approximately 27% of respondents are not planning to hire additional employees in the next 12 months, while 32% of respondents are planning to hire one or two additional employees in the next twelve months.

Figure 187. Amount of Employees Planned to be Hired



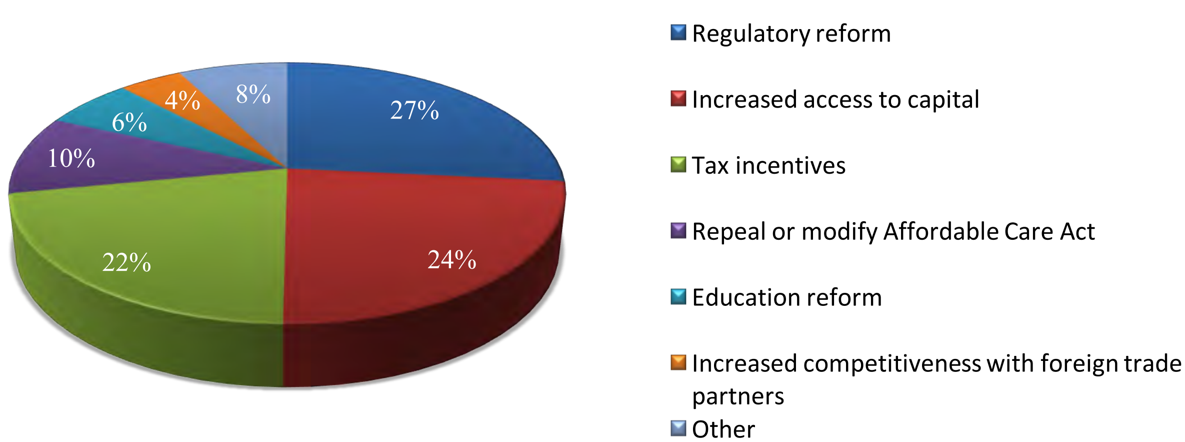
Approximately 18% of respondents believe economic uncertainty in the U.S. market is the number one reason preventing them from hiring, followed by consumer/business demand (16%).

Figure 188. Reasons Preventing Privately-Held Businesses from Hiring



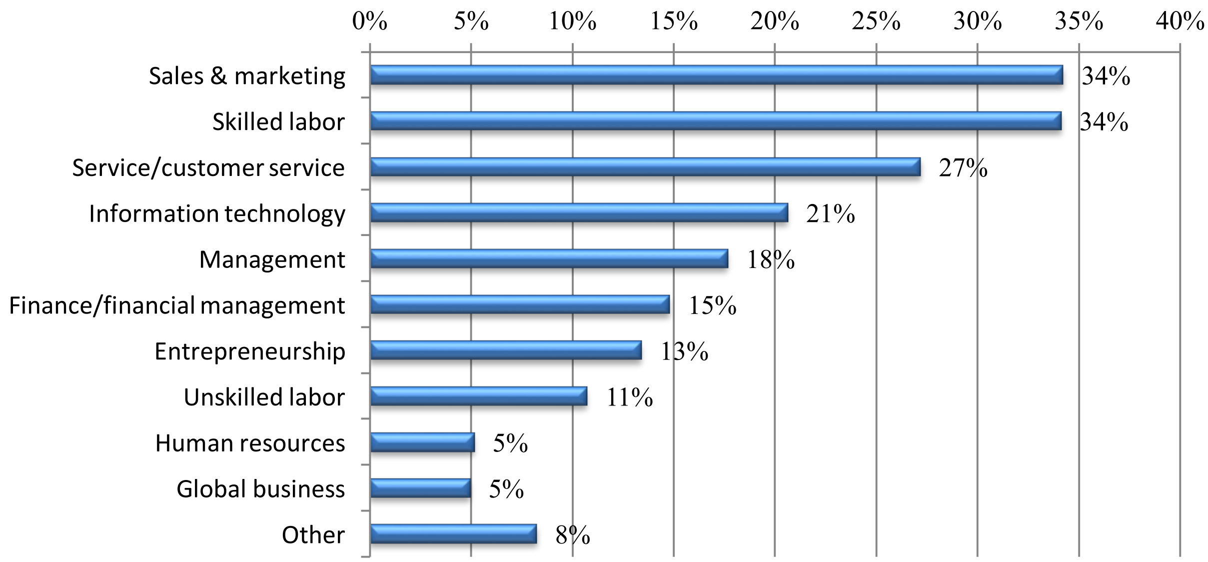
According to respondents, of those policies most likely to lead to job creation in 2016, regulatory reform emerged as number one (27%) followed by increased access to capital (24%).

Figure 189. Government Policies to Lead to Job Creation



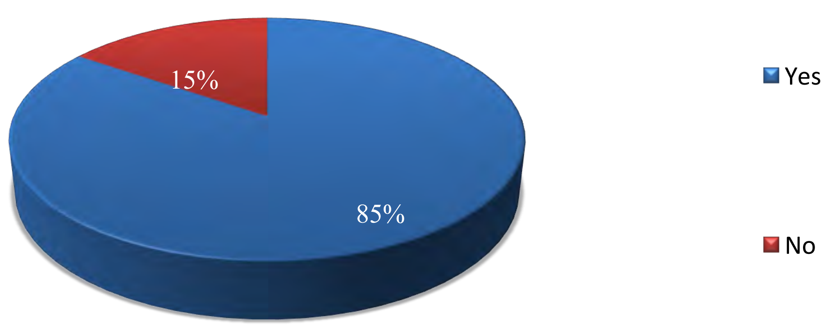
For those businesses which do plan to hire, sales and marketing skills (34%) and skilled labor (34%) are in greatest demand followed by service/customer service (27%).

Figure 190. The Skills in Demand for New Hires



85% of businesses planning to hire indicate need to train those they hire.

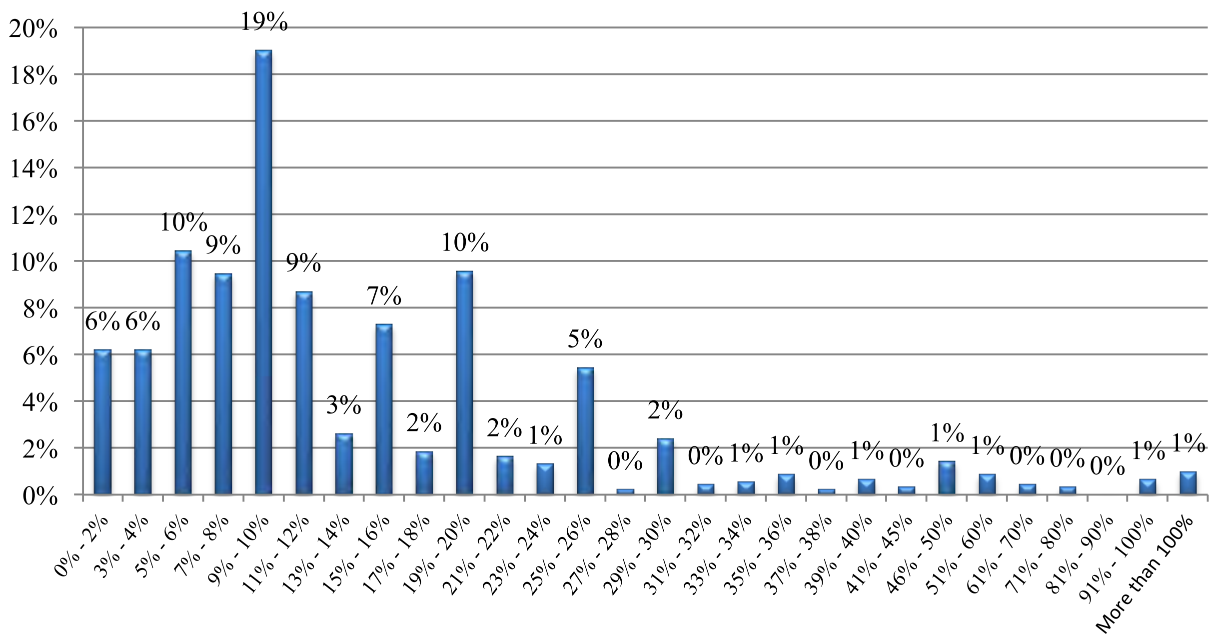
Figure 191. Need for Training of New Hires



BUSINESS OWNER cont.

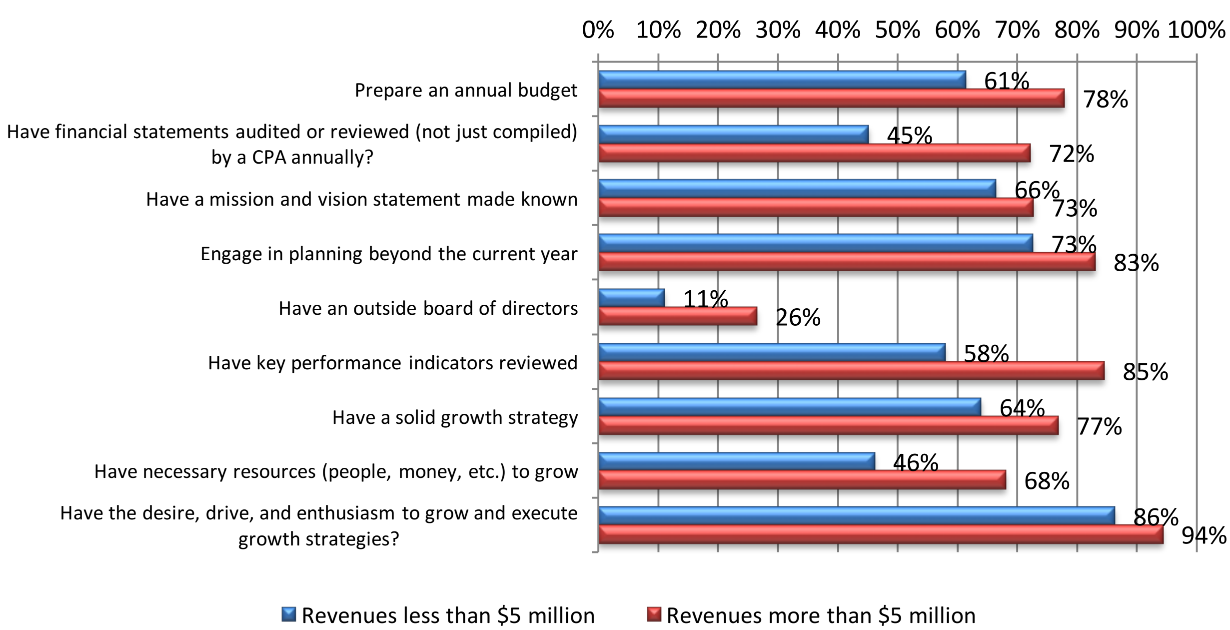
Approximately 19% of respondents indicated their business cost of equity capital is in the range of 9% - 10%.

Figure 192. Cost of Equity Capital



Privately-held businesses with revenues less than $5 million on average have almost the same desire to execute growth strategies (86%) as privately-held businesses with revenues greater than $5 million (94%). However, privately-held businesses with smaller revenues report lower levels of necessary resources (people, money, etc.) to grow (46%) as compared to privately-held businesses with higher revenues (68%).

Figure 193. Usage of Financial Analysis by Revenue Sizes



BUSINESS OWNER cont.

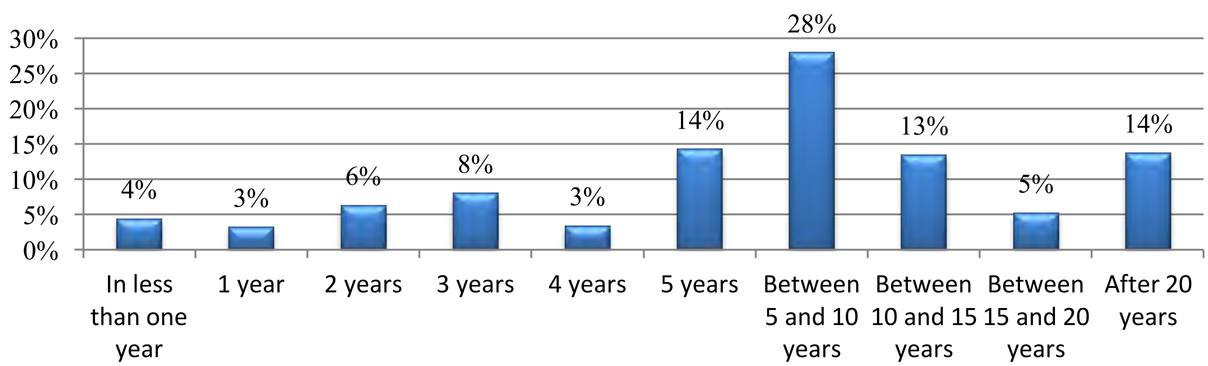
Respondents reported on their level of knowledge financing components (scale 0-4: none, some, moderate, very, completely).

Figure 194. 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	2.2	1.9	2.0	2.1	2.0	2.1	1.8
< $5 million	2.1	1.8	1.9	2.0	1.9	2.0	1.7
$5 - $100 million	2.6	2.3	2.5	2.6	2.5	2.4	2.2

Most of the respondents are planning to transfer their ownership interest in more than five years from now while only43% plan to transfer their ownership at the first available opportunity.

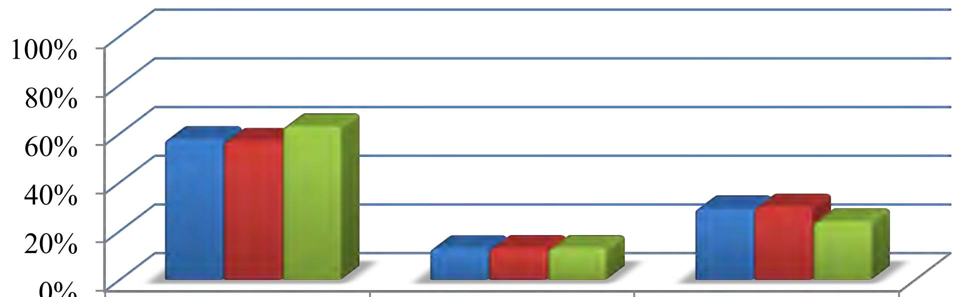
Figure 195. Anticipation of the Ownership Transfer



BUSINESS OWNER cont.

Assuming respondents businesses were eligible to raise financing from both private equity and a public stock offering (IPO), 58% of them would choose private equity.

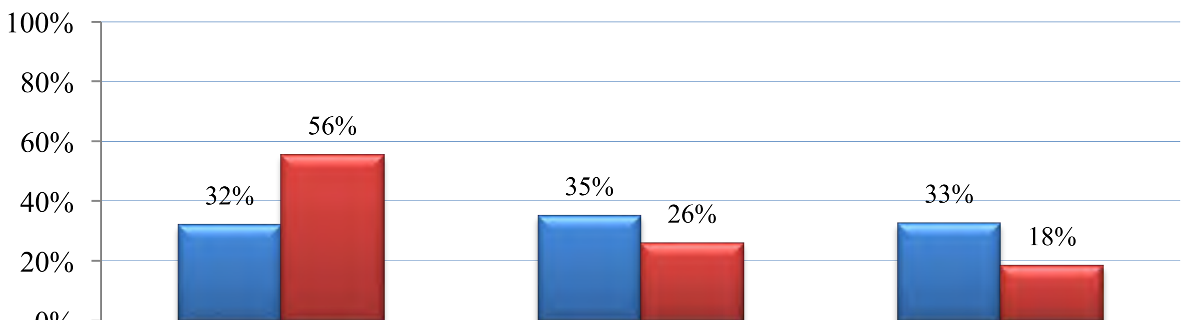
Figure 196. Private Equity vs Initial Public Offering



	Private equity	Initial public offering (IPO)	Unsure
Whole sample	58%	13%	29%
< $5 million	57%	13%	30%
$5 - $100 million	63%	13%	24%

When asked about general view, 56% of respondents indicated private equity as favorable financing source.

Figure 197. General Views on Initial Public Offering and Private Equity



	Favorable	Neither favorable nor unfavorable	Unfavorable
IPO	32%	35%	33%
PE	56%	26%	18%

BUSINESS OWNER cont.

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

Figure 198. The Number One Issue Facing Privately-Held Businesses Today by Revenue Sizes

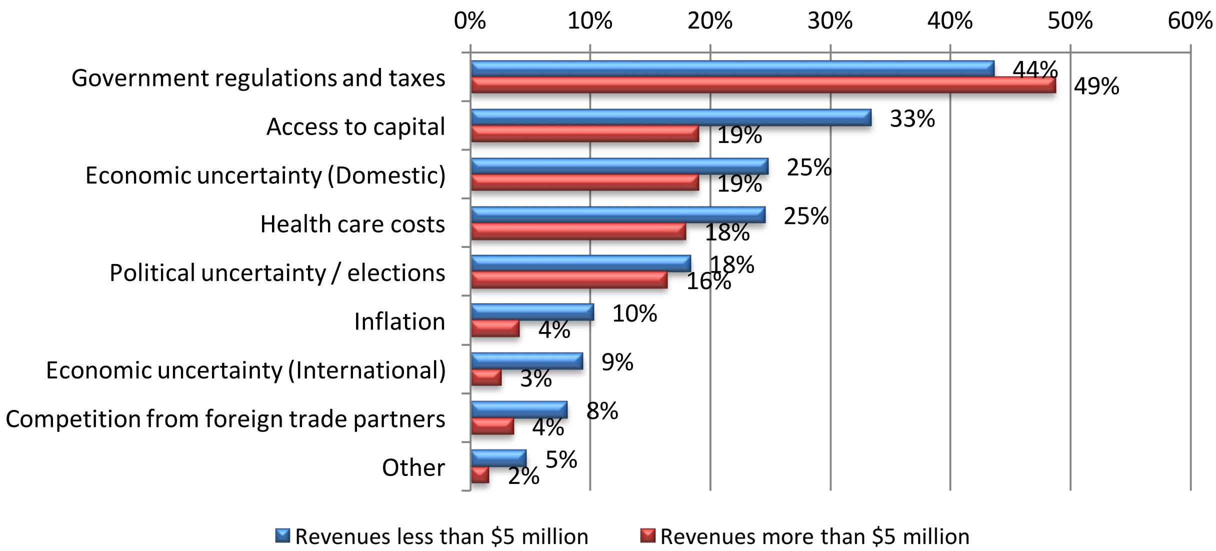
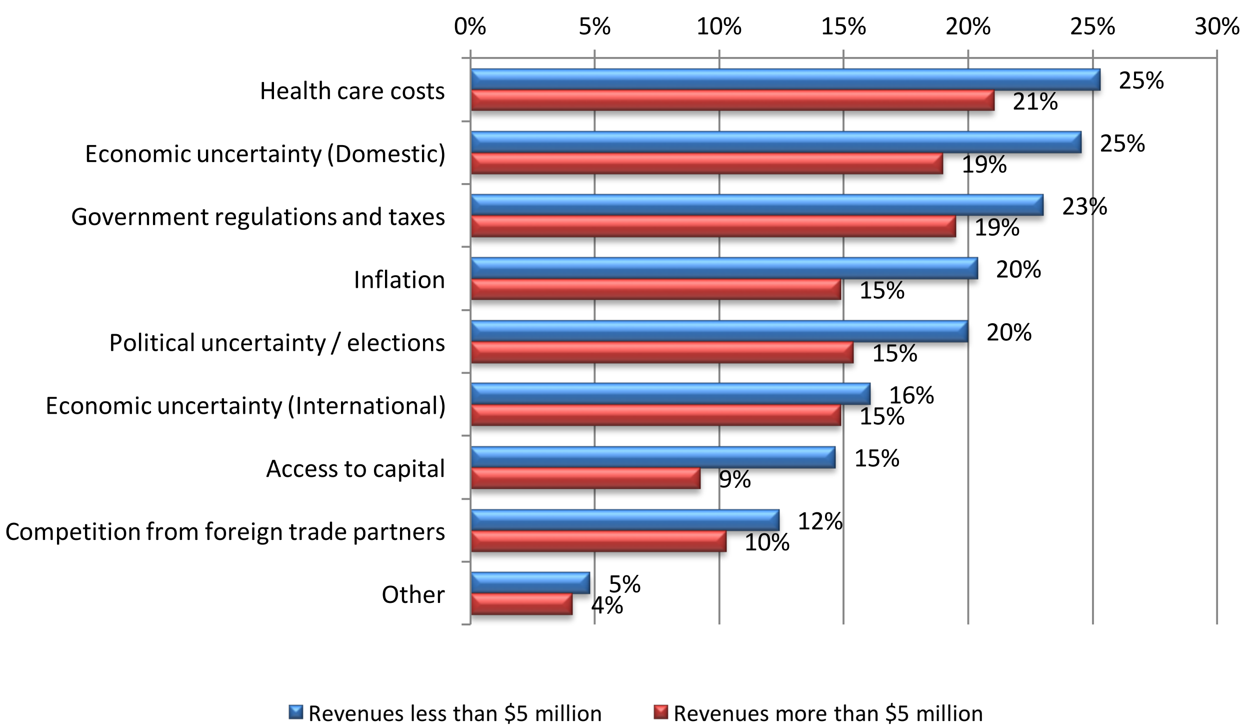


Figure 199. The Number One Emerging Issue Facing Privately-Held Businesses by Revenue Sizes



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

Table 63. 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	9%	15%	25%	31%	20%	51%	24%	27%
Prices of labor and materials	1%	4%	37%	46%	13%	58%	5%	54%
Net income	9%	17%	25%	33%	16%	50%	26%	24%
Inventory levels	2%	14%	59%	19%	6%	25%	16%	8%
Capital expenditures	4%	10%	46%	28%	12%	40%	14%	26%
Opportunities for growth	4%	10%	28%	36%	23%	58%	14%	45%
Access to bank loans	8%	10%	54%	20%	7%	28%	18%	10%
Access to equity capital	7%	10%	61%	16%	5%	22%	17%	5%
Prices of your products or services	1%	7%	43%	43%	5%	49%	8%	41%
Time to collect receivables	2%	9%	64%	19%	7%	26%	10%	15%
Number of employees	2%	7%	62%	25%	3%	28%	9%	19%
Competition	1%	9%	53%	28%	9%	36%	10%	26%
General business conditions	5%	15%	43%	29%	7%	36%	20%	16%
Appetite for risk	3%	12%	52%	26%	7%	34%	15%	19%
Probability of business closure	19%	21%	45%	11%	5%	16%	39%	-23%
Time worrying about economy	8%	16%	41%	20%	15%	35%	24%	12%

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

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

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

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His research has appeared in the *Wall Street Journal*, CNBC, *USA Today*, and the *New York Times*, been published in a number of journals and been presented at domestic and international conferences. Craig Everett is member of the Beta Gamma Sigma Honor Society, Financial Executives International, and the Los Angeles World Affairs Council. Dr. Everett is a certified mergers & acquisitions advisor (CM&AA), and a registered investment advisor (RIA) with the state of California.

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