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2015 Private Capital Markets Report

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2015 CAPITAL MARKETS REPORT

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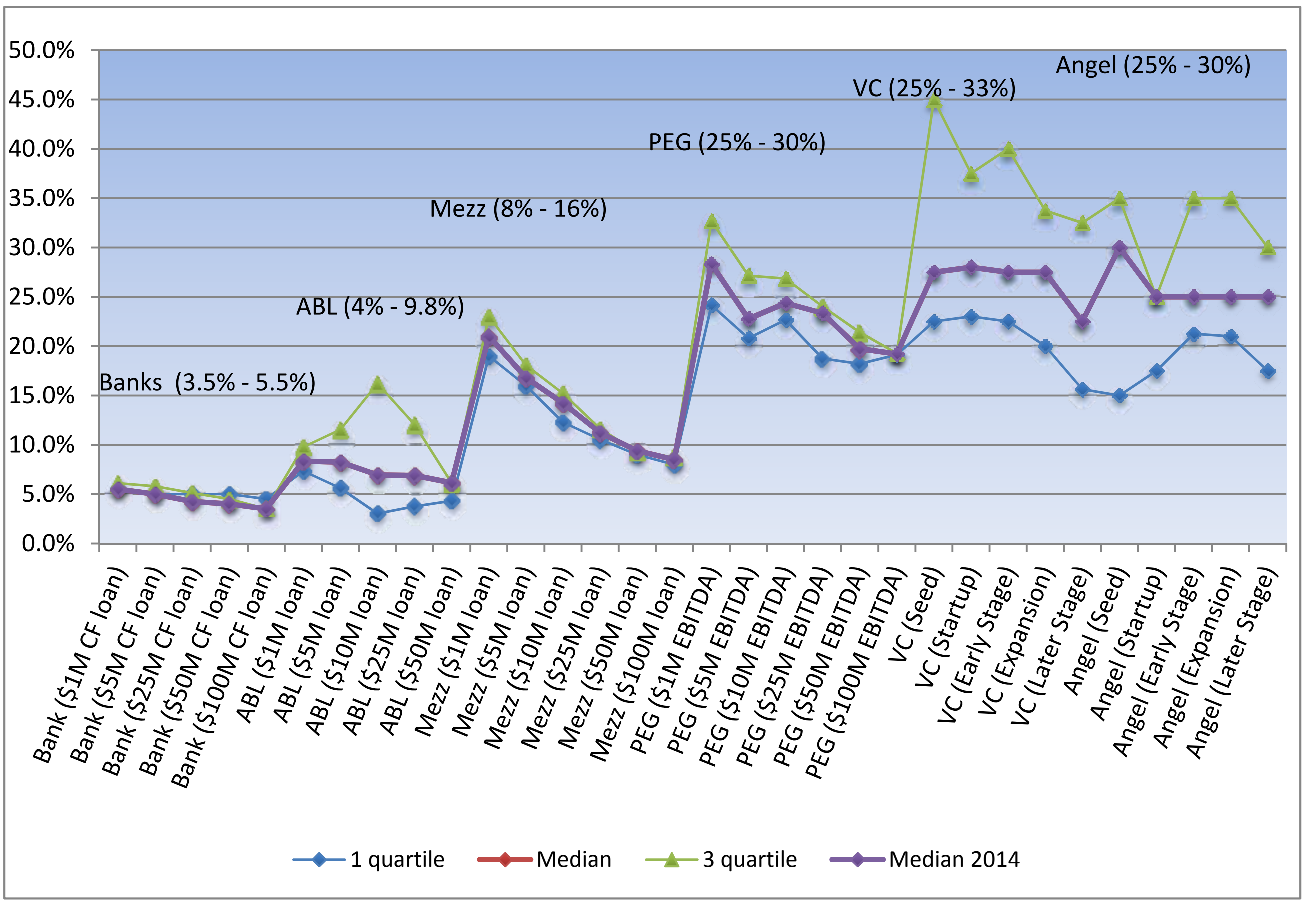
PEPPERDINE PRIVATE CAPITAL MARKETS SURVEY

The Pepperdine private cost of capital survey (PCOC) was originally launched in 2007 and is the first comprehensive and simultaneous investigation of the major private capital market segments. This year's survey deployed in October 2014, 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 investigated, for each private capital market segment, the important benchmarks that must be met in order to qualify for capital, 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)	5.0%	5.5%	6.0%
Bank ($5M CF loan)	4.5%	5.0%	5.5%
Bank ($10M CF loan)	3.8%	5.0%	5.5%
Bank ($25M CF loan)	3.0%	4.0%	5.0%
Bank ($50M CF loan)	3.0%	3.5%	3.5%
ABL ($1M loan)	6.4%	9.8%	12.3%
ABL ($5M loan)	6.1%	7.8%	9.1%
ABL ($10M loan)	4.5%	5.0%	9.0%
ABL ($25M loan)	3.6%	4.3%	4.9%
ABL ($50M loan)	3.5%	4.0%	4.5%
Mezz ($1M loan)	13.0%	16.0%	21.0%
Mezz ($5M loan)	13.0%	16.0%	21.0%
Mezz ($10M loan)	11.0%	14.0%	15.0%
Mezz ($25M loan)	11.0%	13.0%	14.0%
Mezz ($50M loan)	11.0%	12.0%	14.0%
PEG ($25M EBITDA)	24.3%	25.0%	28.8%
PEG ($50M EBITDA)	22.3%	25.0%	26.3%
VC (Seed)	23.0%	33.0%	48.0%
VC (Startup)	23.0%	33.0%	38.0%
VC (Early Stage)	23.0%	28.0%	38.0%
VC (Expansion)	19.0%	25.0%	33.0%
VC (Later Stage)	18.0%	25.0%	33.0%
Angel (Seed)	15.0%	30.0%	35.0%
Angel (Early Stage)	21.3%	25.0%	35.0%
Angel (Expansion)	21.0%	25.0%	35.0%
Angel (Later Stage)	17.5%	25.0%	30.0%

INVESTMENT BANKER SURVEY INFORMATION

The majority of the 104 respondents to the investment banker survey indicated increasing margin pressure on companies over the last twelve months. They also reported increases in deal flow, increased presence of strategic buyers, leverage and deal multiples, and improved business conditions. Domestic economic uncertainty was identified as the most important current and emerging issue facing privately-held businesses, following by government regulations and taxes, and access to capital.

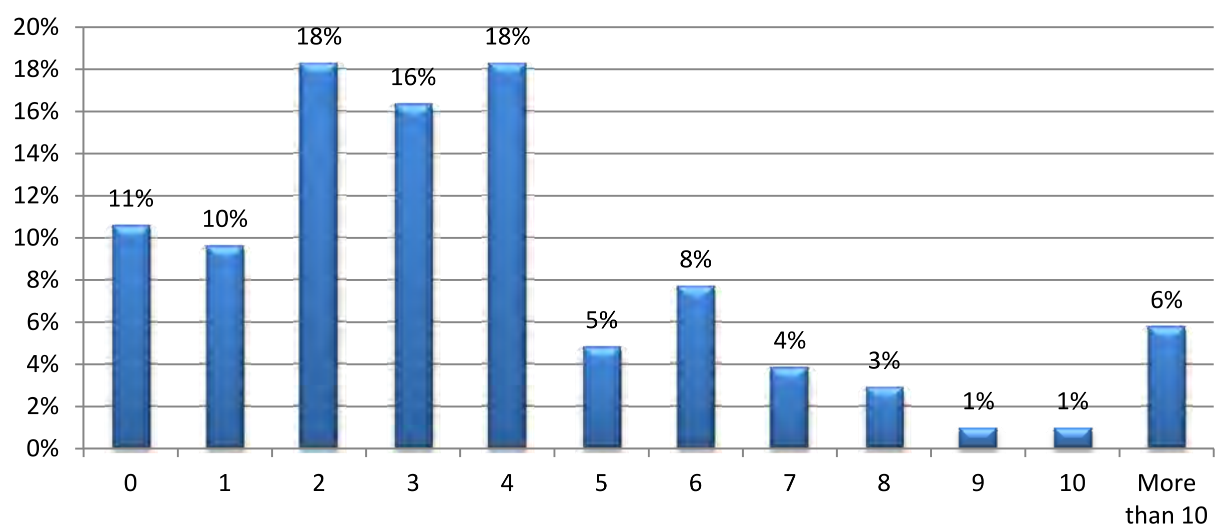
Other key findings include:

- Approximately 41% 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 (29%), insufficient cash flow (22%), and lack of capital to finance (12%).
- Respondents indicated a general imbalance between companies worthy of financing and capital available for the same. There is a reported shortage of capital for those companies with less than $11 million in EBITDA, but a general surplus for companies with $1 million in EBITDA or more.
- The most popular valuation methods used by respondents when valuing privately-held businesses were discounted future earnings, guideline company transactions, and capitalization of earnings approaches.
- When using multiples to determine the value of a business, the most popular methods used by respondents when valuing privately-held businesses were recast (adjusted) EBITDA multiple (58%), revenue multiple (12%) and EBITDA (unadjusted) multiple (11%) approaches.

Operational and Assessment Characteristics

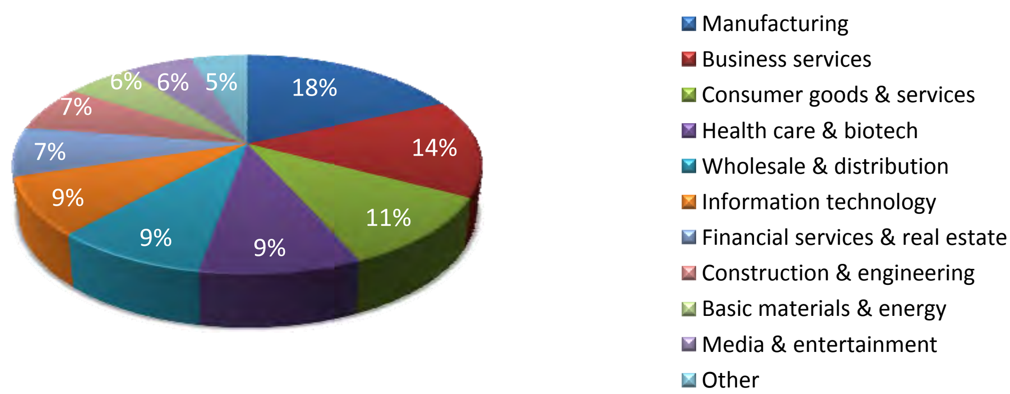
Approximately 11% of the respondents didn't close any deals in the last twelve months; 67% closed between one and five deals, while 22% closed six transactions or more.

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



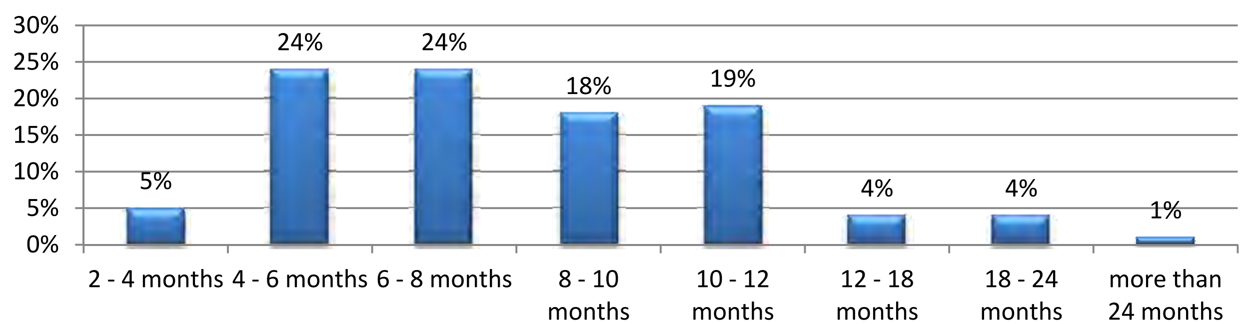
Approximately 18% of all transactions closed in the last twelve months involved manufacturing, followed by 14% that involved business services, and 11% that involved consumer goods and services.

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



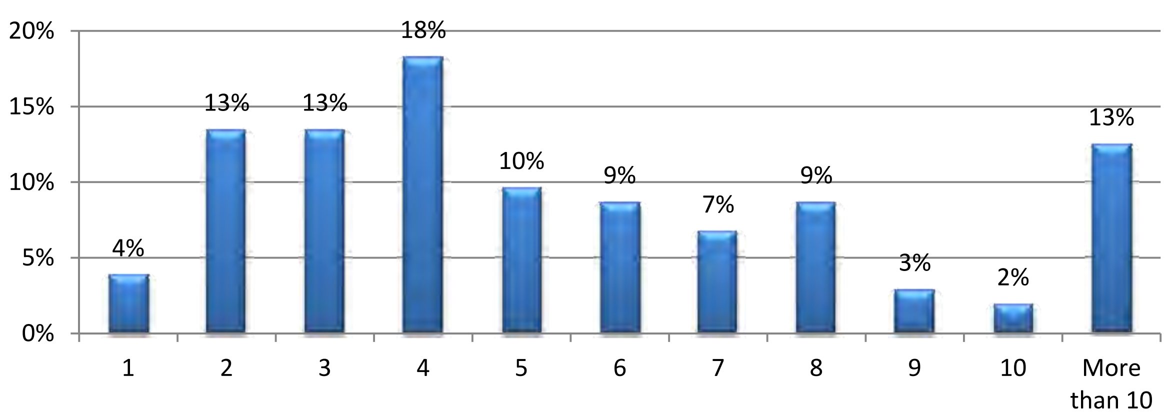
The majority of deals (61%) took 6 to 12 months to close. 9% of closed deals take more than one year to close.

Figure 4. Average Number of Months to Close One Deal



Nearly 59% of respondents expect to close between one and five deals, while 41% expect to close 6 deals or more.

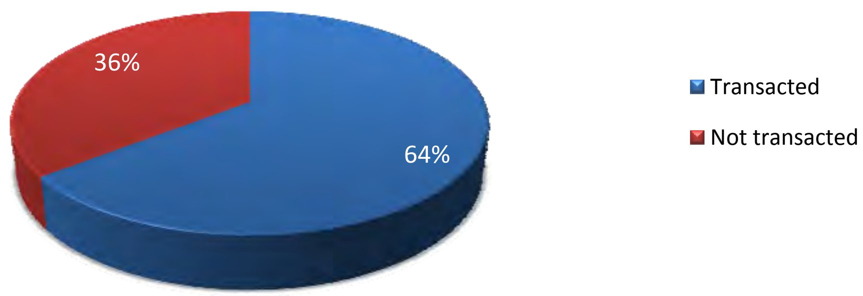
Figure 5. Private Business Transactions Expected to Close in the Next 12 Months



I-BANKER cont.

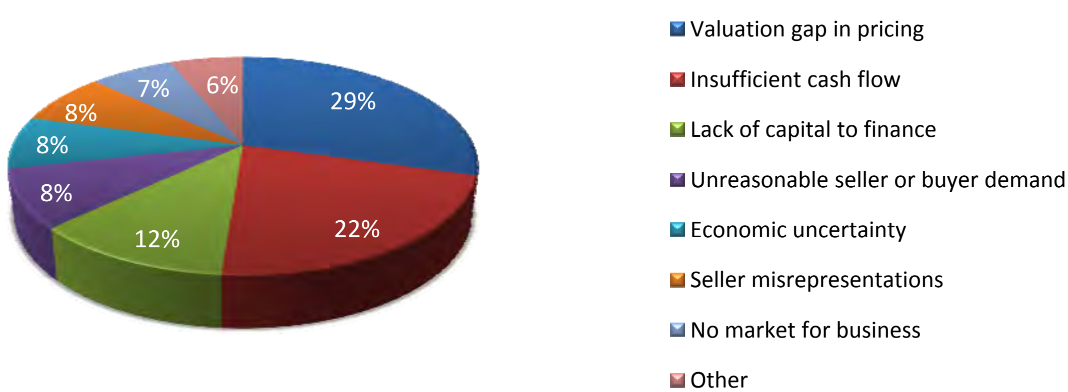
Approximately 36% of deals terminated without transacting over the past year.

Figure 6. Percentage of Business Sales Engagements Terminated Without Transacting



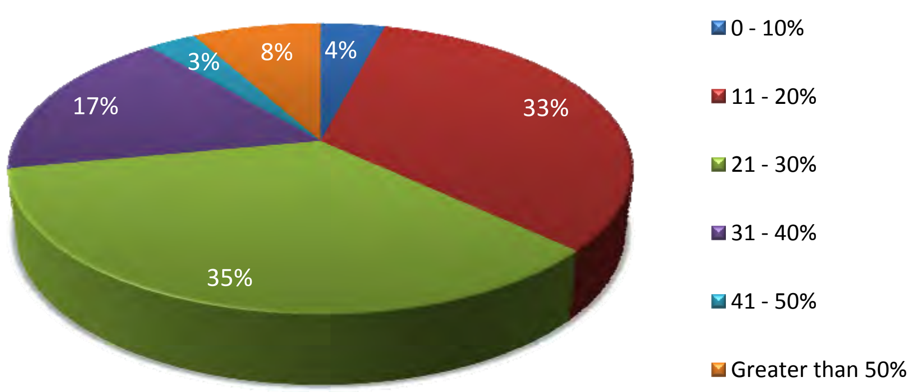
Top three reasons for deals not closing: valuation gap in pricing (29%), insufficient cash flow (22%) and lack of capital to finance (12%).

Figure 7. Reasons for Business Sales Engagements Not Transacting



Of those transactions that didn't close due to a valuation gap in pricing, approximately 35% had a valuation gap in pricing between 21% and 30%.

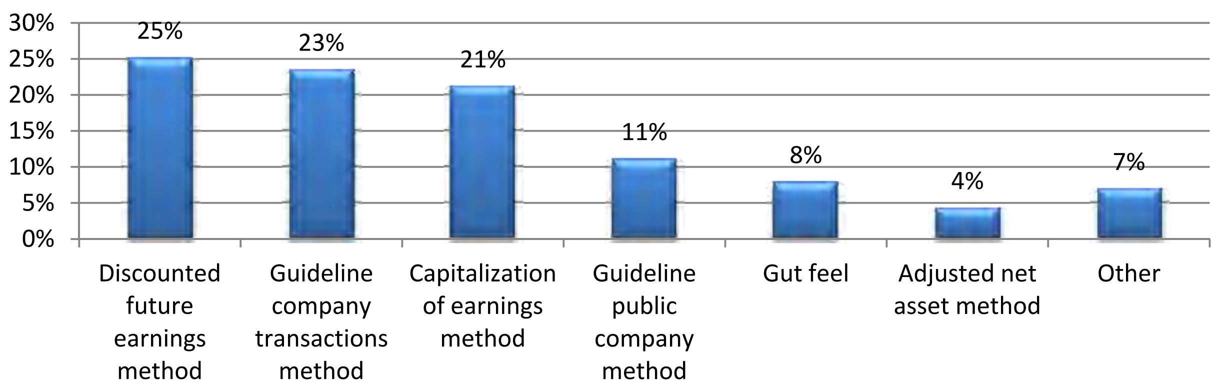
Figure 8. Valuation Gap in Pricing for Transactions That Didn't Close



I-BANKER cont.

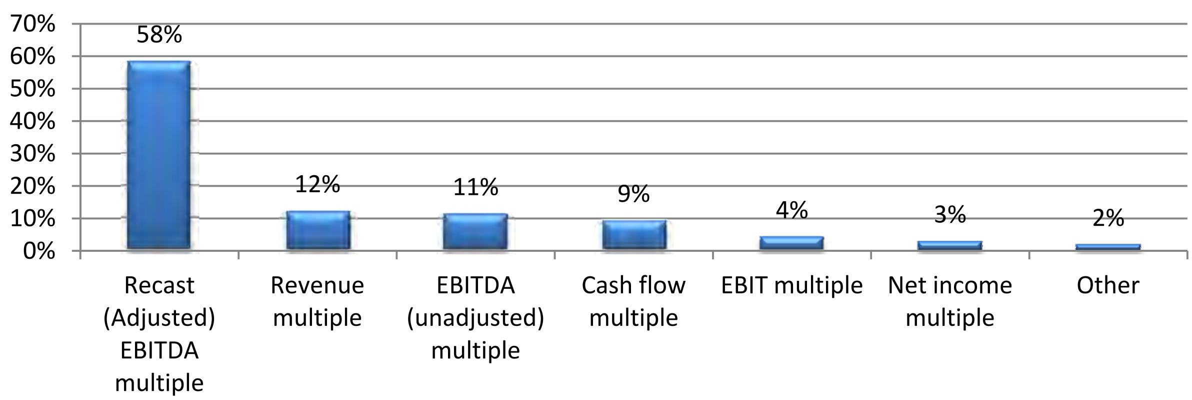
The weights of the various valuation methods used by respondents when valuing privately-held businesses included 25% for discounted future earnings method.

Figure 9. Usage of Valuation Methods



The weights of the various multiple methods used by respondents when valuing privately-held businesses included 58% for recast (adjusted) EBITDA multiple.

Figure 10. Usage of Multiple Methods



Average deal multiples on transactions from the prior twelve months as observed by respondents varied from 4.2 to 8.6.

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.**
$0M - $1M	4.0	3.5	4	4.5	4	3.3	5.5	6.5	5.5	n/a	**4.5**
$2M - $5M	5.0	4.5	5.5	6	5.3	4	6	8	6.5	5.0	**5.6**
$6M - $10M	6.0	5.5	5.8	6.0	7	5	7	8	7	7.5	**6.5**
$11M - $25M	7.5	6	6	6.3	8	5.5	8	9.5	9	8.3	**7.4**
$26M - $50M	7.5	6.5	7.0	n/a	9	n/a	8	10	10	n/a	**8.3**
>$50M	8	6.8	9	8	10	7.3	8	10	10	n/a	**8.6**

Average total leverage multiples observed by respondents varied from 2.9 to 5.2.

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.	**Avg.**
$0M - $1M	3	3	3	n/a	3	2.5	n/a	2.5	3	n/a	**2.9**
$2M - $5M	3.5	3	3	2.5	4	2.5	2	4.0	4.3	3.3	**3.2**
$6M - $10M	4	4	3.3	3.5	4.0	3.3	3	5	4.5	4.0	**3.8**
$11M - $25M	4.5	4	3.5	3.8	4.3	4	4	5	4.8	4.3	**4.2**
$26M - $50M	4.8	n/a	4	n/a	4.8	n/a	5.5	5.5	5	n/a	**4.9**
>$50M	6.3	6	4	4	4.8	4.5	n/a	7	5	n/a	**5.2**

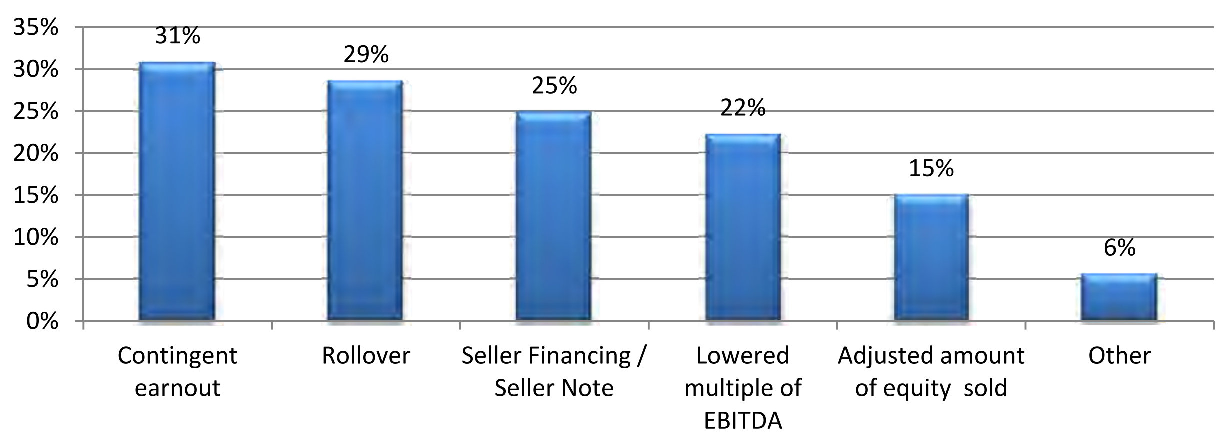
Average senior leverage multiples observed by respondents varied from 2.5 to 4.5.

Table 4. Median Senior Leverage Multiples by Size of Company

EBITDA	Manuf.	Construction & engineering	Cons. goods & services	Wholesale & distribution	Business services	Basic materials & energy	Health care & biotech	IT	Financial services	Media & entertain.	**Median, all industries**
$0M - $1M	2.5	2.0	2.8	2.0	3.0	2.0	2.5	2.5	3.0	3.5	**2.5**
$2M - $5M	3.0	2.0	3.0	2.3	3.0	2.0	2.5	3.0	3.0	3.5	**3.0**
$6M - $10M	3.0	3.5	3.0	2.3	3.3	2.8	3.5	3.5	3.5	4.0	**3.4**
$11M - $25M	3.5	4.0	3.0	3.0	4.0	4.0	3.5	4.5	3.5	4.0	**3.8**
$26M - $50M	4.5	4.0	3.5	3.3	6.0	4.0	4.0	5	4.0	5.3	**4.0**
>$50M	4.5	4.0	3.5	3.3	6.0	4.0	6.0	6.5	4.5	6.5	**4.5**

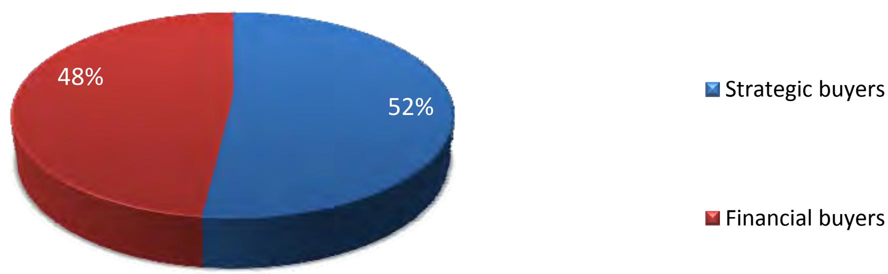
Approximately 31% of business sales transactions closed in the last 12 months involved contingent earnouts.

Figure 11. Components of Closed Deals



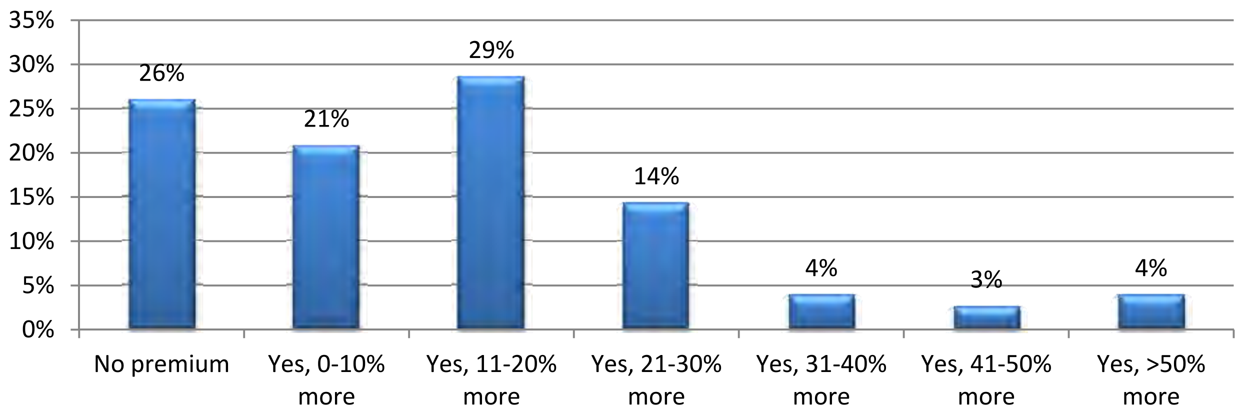
Approximately 52% of closed business sales transactions over the past 12 months involved strategic buyers.

Figure 12. Percent of Transactions Involved Strategic and Financial Buyers



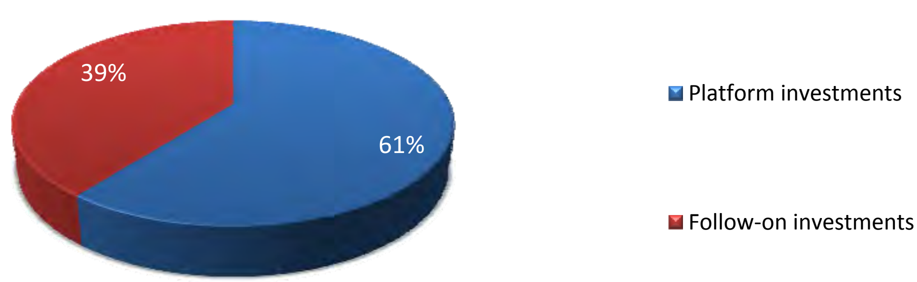
Approximately 26% of respondents didn't witness any premium paid by strategic buyers, while 49% saw premiums between 1% and 20%.

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



Approximately 61% 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 imbalance 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)**
$1M	24%	34%	10%	24%	8%	**-0.4**
$5M	12%	25%	20%	31%	12%	**0.1**
$10M	8%	8%	32%	33%	20%	**0.5**
$15M	3%	14%	38%	28%	17%	**0.4**
$25M	6%	7%	37%	26%	24%	**0.6**
$50M	6%	4%	33%	27%	31%	**0.7**
$100M	10%	6%	25%	33%	25%	**0.6**
>$100M	12%	6%	22%	26%	34%	**0.6**

Respondents indicated a general difficulty with arranging senior debt for businesses with less than or equal to $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)**
$1M	28%	25%	17%	15%	6%	9%	0%	**-1.3**
$5M	9%	12%	13%	15%	24%	25%	3%	**0.2**
$10M	4%	6%	8%	20%	16%	27%	20%	**1.0**
$15M	3%	6%	6%	22%	19%	25%	19%	**1.0**
$25M	3%	3%	6%	23%	26%	16%	23%	**1.0**
$50M	0%	4%	11%	11%	22%	37%	15%	**1.2**
$100M+	4%	4%	7%	7%	25%	29%	25%	**1.3**

Respondents indicated slightly increased deal flow, increased leverage and deal multiples, percentage of strategic buyers making deals, margin pressure on companies, and improved business conditions in the last twelve months.

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	6%	4%	27%	38%	24%	63%	11%	**52%**
Leverage multiples	1%	6%	30%	57%	5%	62%	8%	**55%**
Deal multiples	0%	3%	26%	57%	14%	71%	3%	**68%**
Amount of time to sell business	0%	13%	55%	29%	3%	32%	13%	**19%**
Difficulty financing/selling business	2%	27%	40%	26%	4%	31%	29%	**1%**
General business conditions	3%	11%	36%	47%	3%	51%	14%	**37%**
Strategic buyers making deals	1%	5%	33%	54%	7%	61%	6%	**55%**
Margin pressure on companies	0%	11%	45%	38%	6%	44%	11%	**34%**
Buyer interest in minority transactions	8%	18%	43%	23%	8%	30%	26%	**4%**

I-BANKER cont.

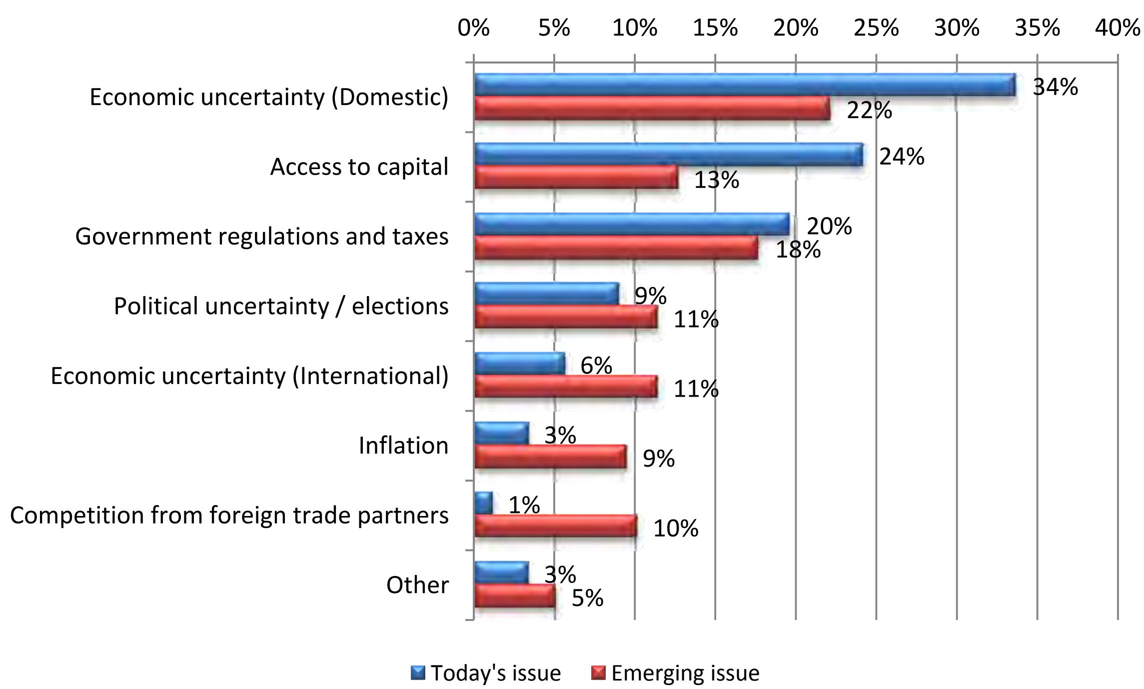
During the next twelve months, respondents expect further increases in deal flow, margin pressure on companies, strategic buyers making deals, leverage and deal multiples and general business conditions.

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	1%	4%	25%	57%	13%	70%	5%	**64%**
Leverage multiples	0%	10%	64%	26%	0%	26%	10%	**16%**
Deal multiples	0%	16%	53%	30%	1%	31%	16%	**14%**
Amount of time to sell business	0%	21%	52%	24%	3%	27%	21%	**7%**
Difficulty financing/selling business	0%	23%	49%	25%	3%	28%	23%	**5%**
General business conditions	1%	18%	45%	35%	1%	36%	20%	**16%**
Strategic buyers making deals	0%	4%	46%	43%	7%	50%	4%	**46%**
Margin pressure on companies	0%	11%	55%	27%	7%	34%	11%	**23%**
Buyer interest in minority transactions	2%	17%	56%	24%	1%	26%	19%	**7%**

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

Figure 15. Issues Facing Privately-Held Businesses



PRIVATE EQUITY SURVEY INFORMATION

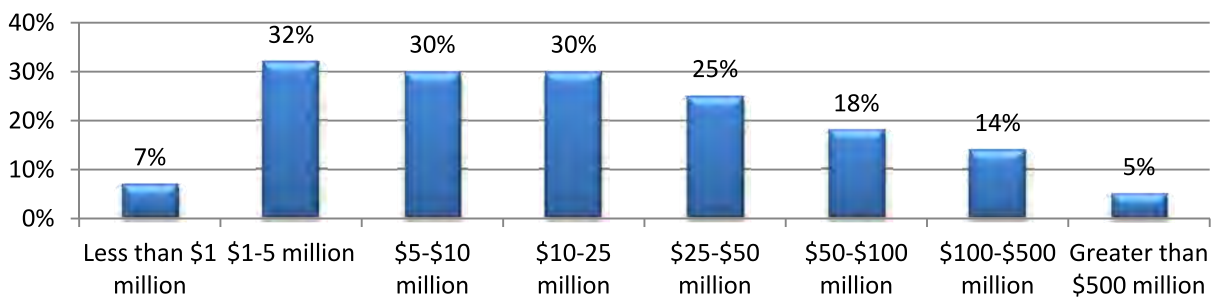
Approximately 42% of the 64 participants who responded to the private equity group survey indicated that they make investments in the $10 million to $25 million range. Nearly 63% of respondents said that demand for private equity is up from twelve months ago, this is up from 43% of respondents indicating increased demand in 2013. Other key findings include:

- Respondents indicated increases in the quality of companies seeking investment. They also reported a slight decrease in expected returns on new investments, improved general business conditions and increase in expected investment holding period.
- Respondents expect further increases in demand for private equity, deal multiples, value of portfolio companies and improving business conditions.
- The types of businesses respondents plan to invest in over next 12 months are very diverse with over 24% targeting manufacturing and another 15% planning to invest in basic materials & energy.
- Respondents believe government regulations and taxes is the most important issue facing privately-held businesses today.
- The most popular valuation methods used by respondents when valuing privately-held businesses were discounted future earnings, capitalization of earnings, and guideline company transactions 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 (30%) and EBITDA multiple (30%).

Operational and Assessment Characteristics

The largest concentration of checks written was in the $1 - $5 million range (32%), followed by $5 - $10 million (30%), and $10 - $25 million (30%).

Figure 16. Typical Investment Size



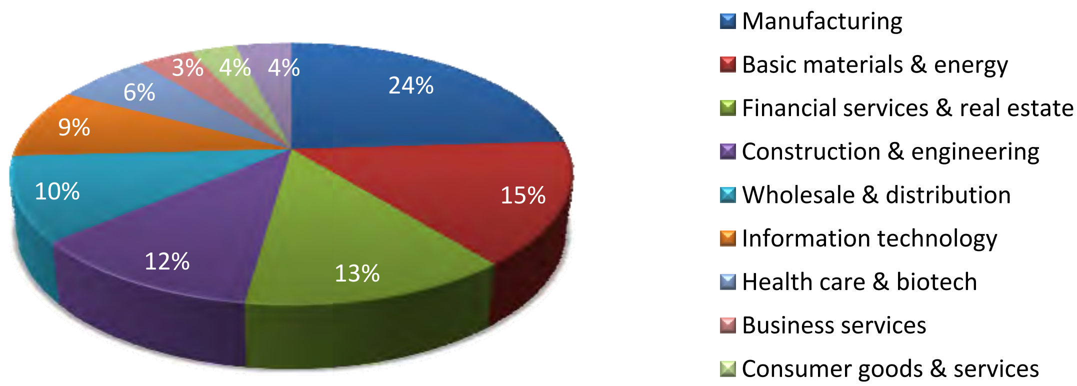
Respondents reported on business practices and the results are reflected below.

Table 9. PEG Fund Data

	1st Quartile	Median	3rd Quartile
Vintage year (year in which first investment made)	2009	2012	2014
Size of fund ($ millions)	20	150	425
Targeted number of total investments	3	7.5	13
Target fund return (gross pretax cash on cash annual IRR %)	20%	25%	30%
Expected fund return (gross pretax cash on cash annual IRR%)	18%	23%	25%

The types of businesses respondents plan to invest in over next 12 months are very diverse with over 24% targeting manufacturing and another 15% planning to invest in basic materials and energy.

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



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

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

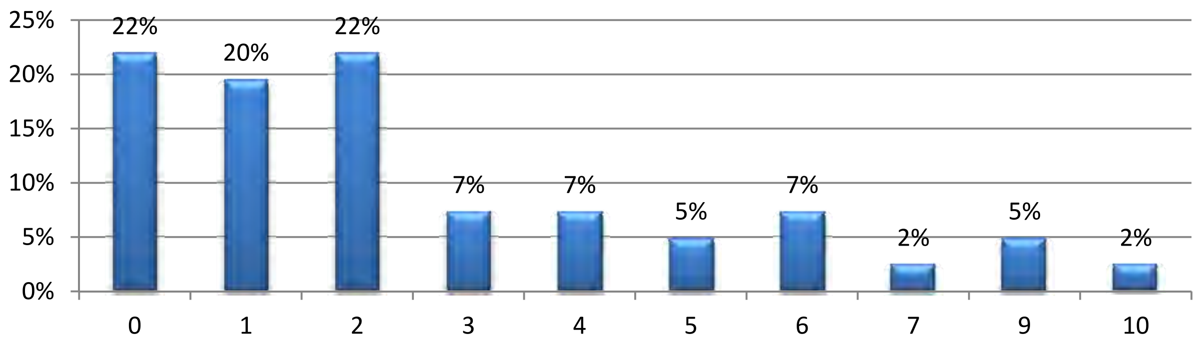
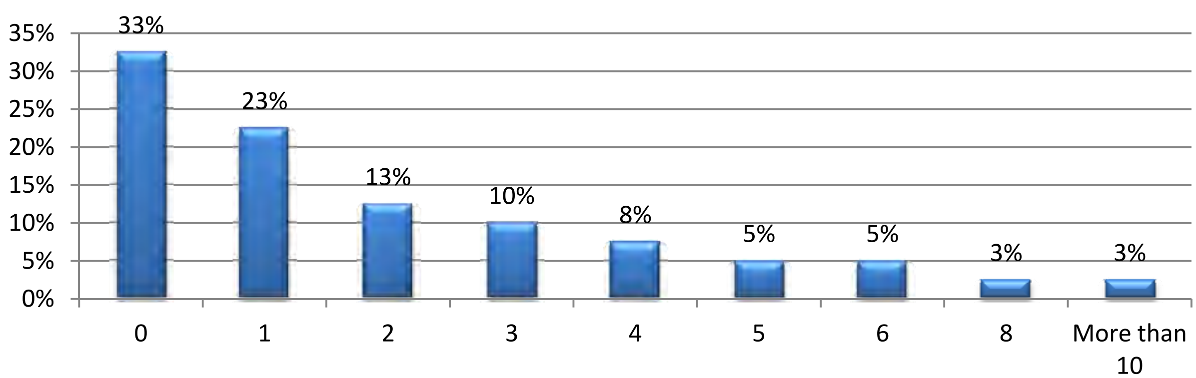


Figure 19. Number of Follow-on Investments Made in the Last 12 Months



The majority (70%) of respondents plan to make one to four investments over the next 12 months.

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

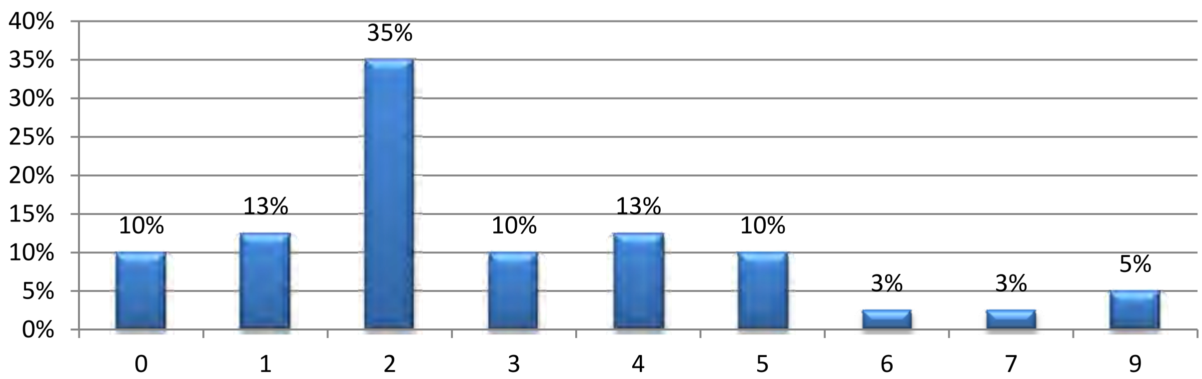
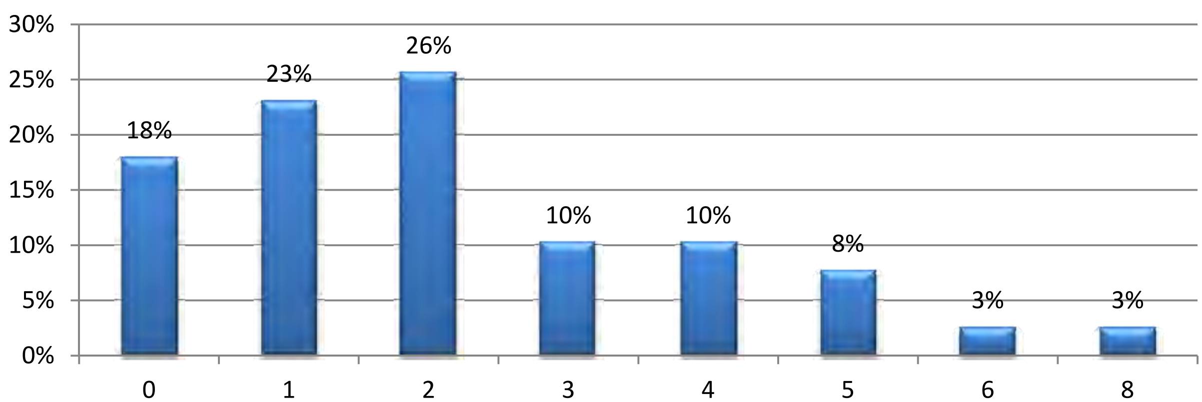
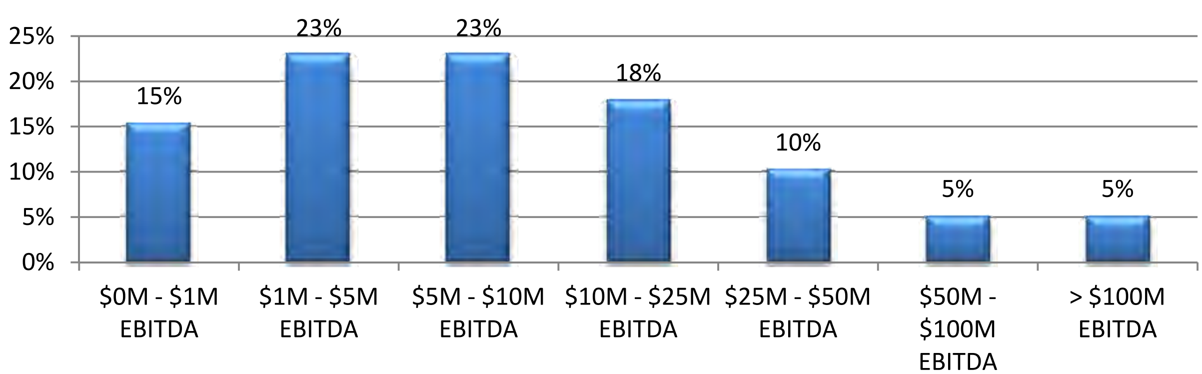


Figure 21. Number of Follow-on Investments Planned over Next 12 Months



Approximately 46% of buyout investments were in the range between $1 million and $10 million of EBITDA.

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



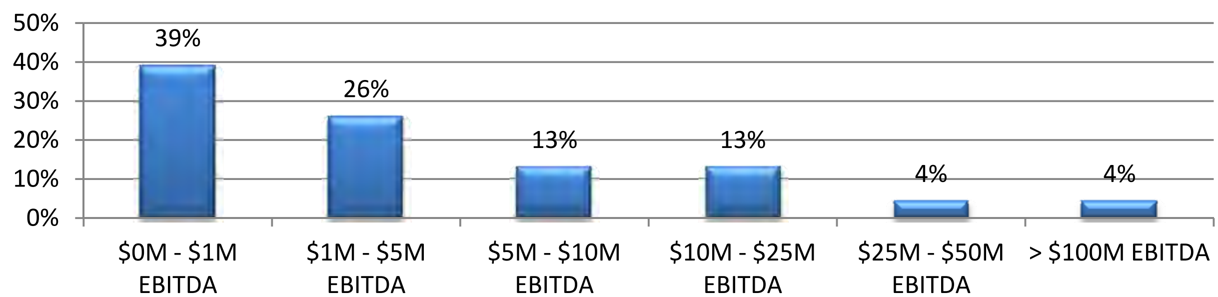
Average deal multiples for buyout deals for the prior twelve months vary from 5.5 to 7.5 times EBITDA depending on the size of the company. Expected returns vary from 20% to 25%.

Table 10. General Characteristics – Buyout Transactions (medians)

	$1M EBITDA	$5M EBITDA	$10M EBITDA	$25M EBITDA	$50M EBITDA	$100M EBITDA	$100M + EBITDA
Number of investments	1	1	2	1	1	2	2
Average size of investment in million USD (medians)	1.5	3.5	7.5	45	90	100	100
Expected time to exit (years) (medians)	4.5	5	4	5	4	5	5
Equity as % of new capital structure	40%	35%	30%	30%	25%	25%	25%
% of total equity purchased	90%	85%	75%	85%	90%	95%	95%
Average deal multiple (multiple of EBITDA) [1]	4.5	5.0	5.5	6.0	6.5	7.0	7.0
Total expected returns (gross cash on cash pre-tax IRR)	30%	30%	25%	25%	25%	25%	25%

Approximately 39% 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 20% to 30%.

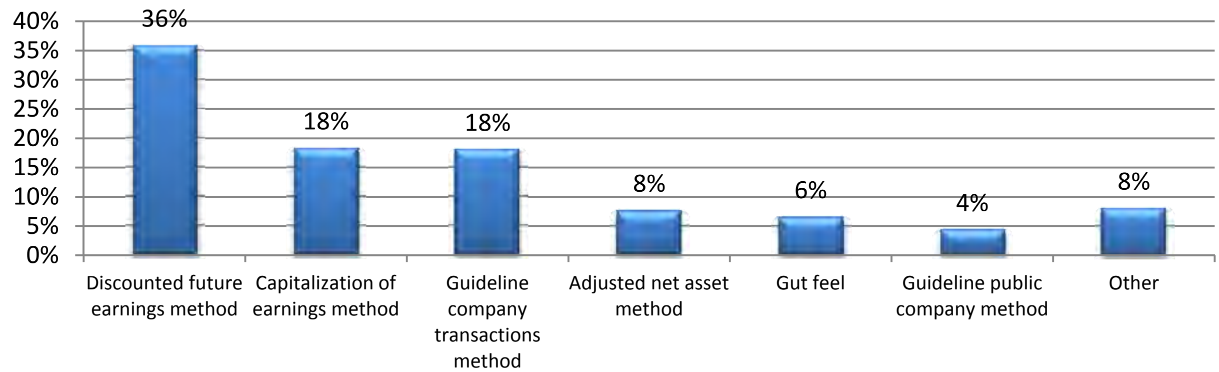
Table 11. General Characteristics – Non-Buyout Transactions (medians)

	$1M EBITDA	$5M EBITDA	$10M EBITDA	$25M EBITDA	$50M EBITDA
Number of investments	3	1	1	2	1
Average size of investment in million USD	1	7.5	7.5	45	100
Expected time to exit (years) (medians)	3.3	3.5	4.5	5	5
Equity as % of new capital structure	25%	35%	45%	45%	55%
% of total equity purchased	25%	25%	35%	35%	45%
Average deal multiple (multiple of EBITDA)	5.0	6	6.5	7	9
Total expected returns (gross cash on cash pre-tax IRR)	30%	25%	25%	20%	20%

[1] The private equity deal multiples reported by this year's survey respondents are somewhat suspect. They are down from last year, but later in the survey when PEGs are asked generically about multiples, they unanimously indicate that multiples have *increased* since last year (which is consistent with anecdotal reports that we have heard from private equity professionals.

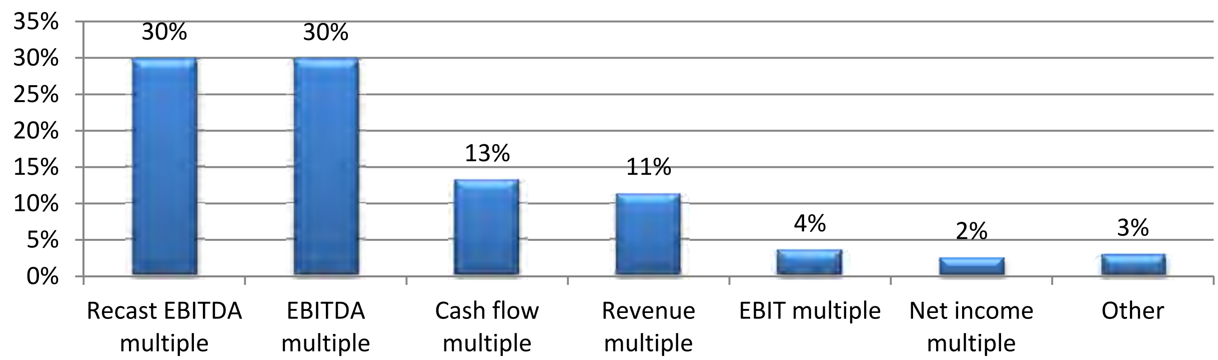
When valuing a business, approximately 36% of the weight is placed on discounted future earnings method.

Figure 24. Usage of Valuation Approaches



The weights of the various multiple methods used by respondents when valuing privately-held businesses included 30% for recast (adjusted) EBITDA multiple and 30% for EBITDA multiple.

Figure 25. Usage of Multiple Methods



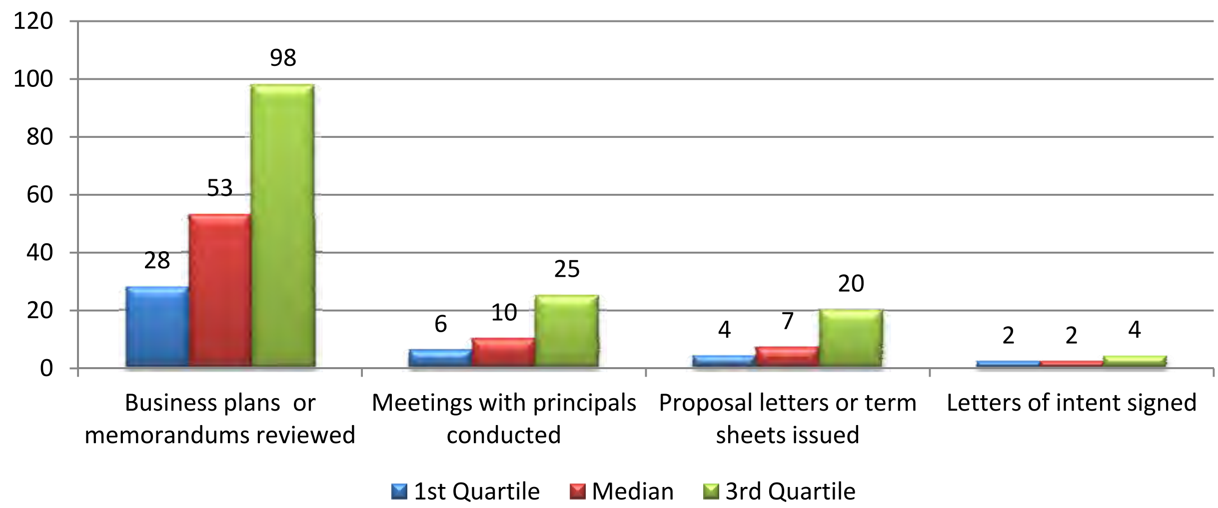
Deal multiples vary from 2 to 8, the highest multiples are indicated in consumer goods and services.

Table 12. Deal Multiples Among Industries (medians)

	\$1M EBITDA	\$5M EBITDA	\$10M EBITDA	\$15M EBITDA	\$25M EBITDA	**Average**
Manufacturing	3.3	5	5.3	6.0	7	**5.3**
Construction & engineering	2	4.5	4.5	6.5	6.5	**4.8**
Consumer goods & services	5.8	5.5	7.3	5.5	7	**6.2**
Wholesale & distribution	n/a	5	5	5.5	n/a	**5.2**
Business services	3.25	5.3	6	6.0	8	**6.1**
Basic materials & energy	4.5	4.5	5	n/a	n/a	**4.7**
Health care & biotech	3	3.8	4.0	7.3	7.5	**5.5**
Information technology	3.5	n/a	n/a	4.0	n/a	**3.8**
Financial services & real estate	4	4	4	4	7	**4.6**
Average	**3.7**	**4.8**	**5.3**	**5.9**	**7.1**	**5.4**

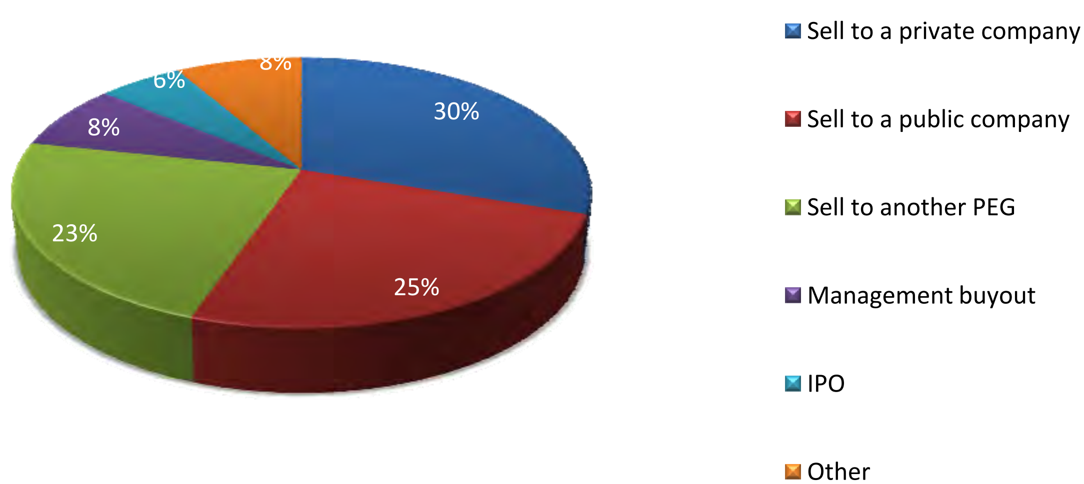
Respondents reported on items required to close one deal.

Figure 26. Items Required to Close One Deal



Respondents reported exit strategies that include selling to a private company (30%), selling to a public company (25%), and selling to another private equity group (23%).

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 13. The Balance of Available Capital with Quality Companies for the Following 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)**
$1M EBITDA	16%	16%	40%	12%	16%	**0.0**
$5M EBITDA	11%	11%	39%	25%	14%	**0.2**
$10M EBITDA	13%	13%	17%	33%	25%	**0.5**
$15M EBITDA	4%	8%	13%	46%	29%	**0.9**
$25M EBITDA	8%	0%	20%	36%	36%	**0.9**
$50M EBITDA	5%	0%	5%	33%	57%	**1.4**
$100M EBITDA	0%	4%	13%	26%	57%	**1.3**
> $100M EBITDA	9%	0%	13%	17%	61%	**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 14. 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	5%	8%	24%	39%	24%	63%	13%	**50%**
Quality of companies seeking investment	3%	21%	34%	32%	11%	42%	24%	**18%**
Average investment size	3%	5%	57%	30%	5%	35%	8%	**27%**
Non-control investments	3%	10%	50%	23%	13%	37%	13%	**23%**
Expected investment holding period	0%	6%	67%	25%	3%	28%	6%	**22%**
Deal multiples	0%	6%	31%	31%	31%	63%	6%	**57%**
Exit opportunities	0%	12%	38%	21%	29%	50%	12%	**38%**
Expected returns on new investments	0%	32%	49%	11%	8%	19%	32%	**-14%**
Value of portfolio companies	0%	3%	46%	37%	14%	51%	3%	**49%**
General business conditions	0%	11%	43%	41%	5%	46%	11%	**35%**
Size of private equity industry	0%	11%	29%	31%	29%	60%	11%	**49%**

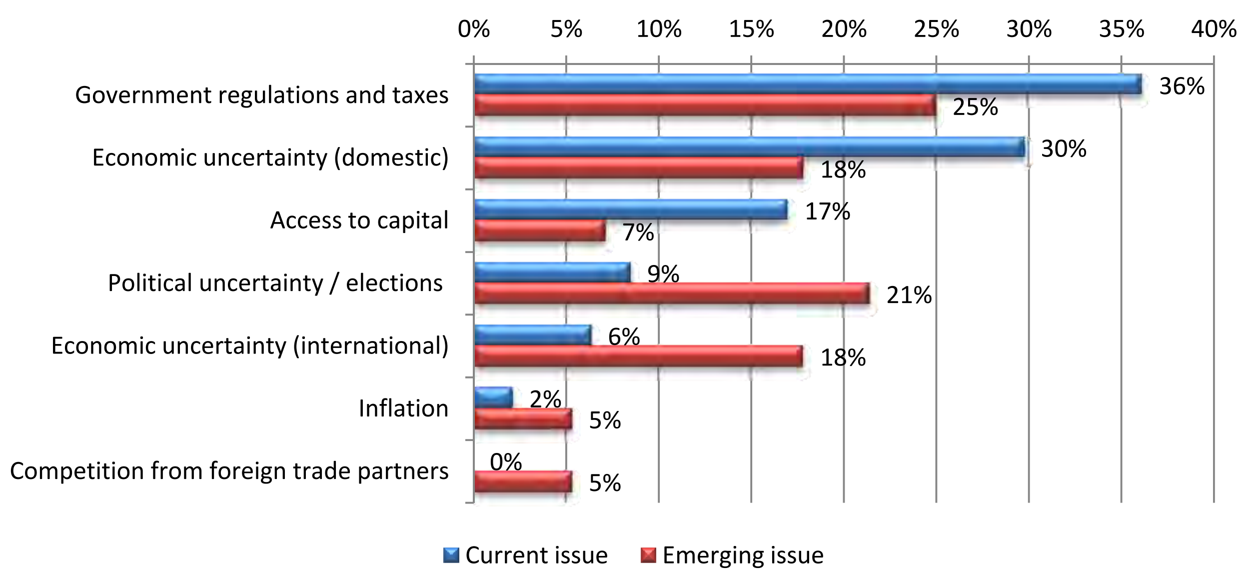
Respondents expect further increases in demand for private equity, deal multiples, value of portfolio companies and improving general business conditions.

Table 15. 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	3%	6%	41%	41%	9%	50%	9%	**41%**
Quality of companies seeking investment	3%	3%	74%	18%	3%	21%	6%	**15%**
Average investment size	0%	3%	56%	38%	3%	41%	3%	**38%**
Non-control investments	0%	0%	77%	20%	3%	23%	0%	**23%**
Expected investment holding period	0%	3%	65%	24%	9%	32%	3%	**29%**
Deal multiples	0%	18%	44%	32%	6%	38%	18%	**21%**
Exit opportunities	3%	12%	53%	29%	3%	32%	15%	**18%**
Expected returns on new investments	0%	21%	62%	18%	0%	18%	21%	**-3%**
Value of portfolio companies	0%	9%	26%	59%	6%	65%	9%	**56%**
General business conditions	0%	21%	41%	38%	0%	38%	21%	**18%**
Size of private equity industry	0%	15%	39%	42%	3%	45%	15%	**30%**

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

Figure 28. Issues Facing Privately-Held Businesses



BANK AND ASSET-BASED LENDING SURVEY INFORMATION

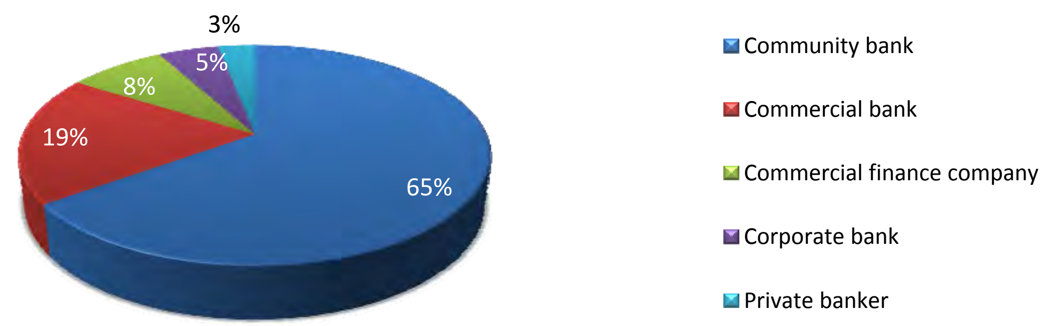
There were 57 responses to the banks and asset-based lenders surveys with community banks making up 65% in terms of individual lending function. Over 63% of respondents believe that general business conditions will improve over the next 12 months and over 52% said demand for loans will increase. Other key findings include:

- Over the last twelve months respondents were seeing decreased credit quality of borrowers applying for credit, 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, average loan size and loan maturity, and further pricing compression.
- Currently, 29% lenders see domestic economic uncertainty as the top issue facing privately-held businesses, followed by government regulations and taxes (26%) and access to capital (23%).

Operational and Assessment Characteristics

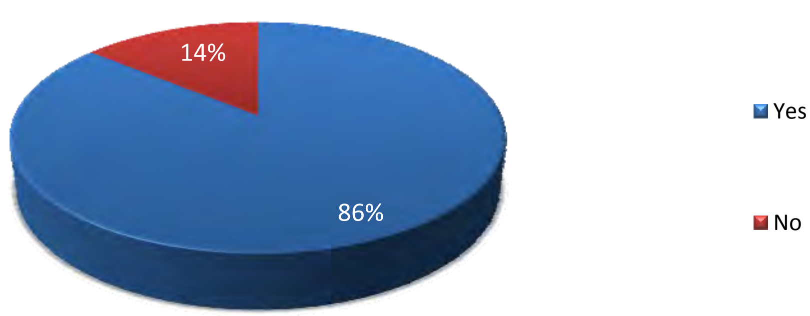
Respondents reported on the type of entity that best describes their lending function.

Figure 29. Description of Lending Entity



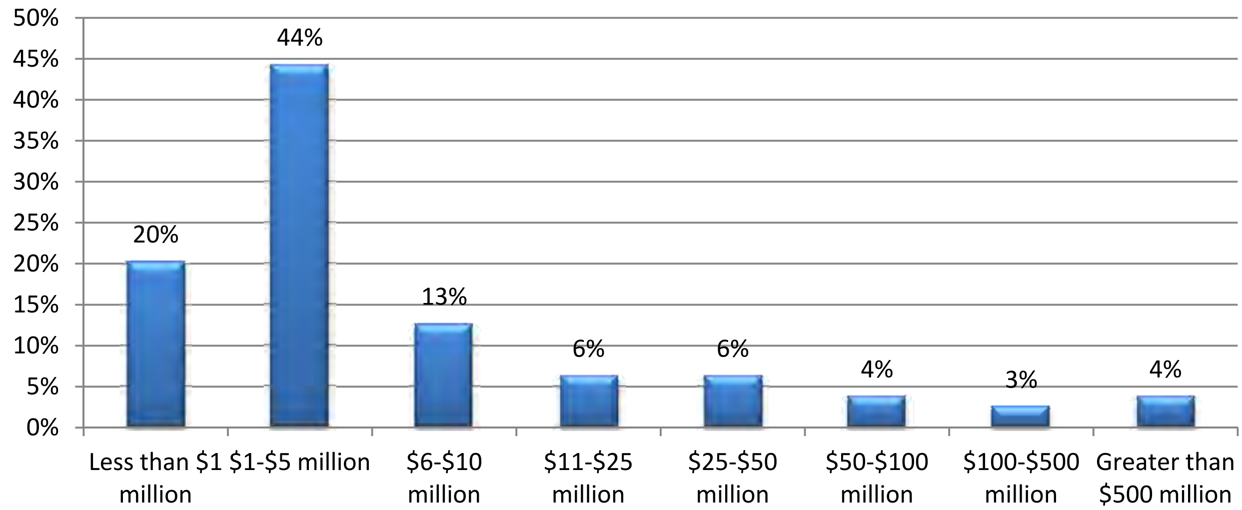
The majority (86%) report participating in government loan programs.

Figure 30. Participation in Government Loan Programs



The largest concentration of loan sizes was between $1 million and $5 million (44%).

Figure 31. Typical Investment Size



Respondents reported on all-in rates for various industries.

Table 16. All-in Rates by Loan Size and Industry

	$1M	$5M	$10M	$500M
Manufacturing	5.3%	5.0%	4.5%	3.3%
Consumer goods and services	6.0%	5.5%	4.3%	3.5%
Wholesale & distribution	5.8%	5.0%	4.3%	3.3%
Business services	5.5%	5.0%	4.3%	3.3%
Basic materials & energy	5.5%	5.0%	4.3%	3.0%
Health care & biotech	5.3%	5.0%	4.8%	3.5%
Information technology	5.5%	5.3%	4.3%	4.0%
Financial services	5.3%	5.0%	4.3%	3.5%

Table 17. All-in Rates by Loan Type

	$1M	$5M	$10M	$100M	$500M
Cash flow loan	5.5%	5.0%	5.0%	4.5%	4.5%
Working capital loan	6.0%	5.0%	5.0%	4.5%	4.0%
Equipment loan	5.5%	5.0%	4.0%	4.0%	4.0%
Real estate loan	5.5%	5.0%	4.0%	4.0%	4.0%
Typical Fixed-Rate Loan Term (months)	60	60	60	60	48

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

Table 18. Senior Leverage Multiple by EBITDA Size

	$1M EBITDA	$5M EBITDA	$10M EBITDA	$25M EBITDA	$50M EBITDA	$50M+ EBITDA
Manufacturing	1.3	1.3	1.5	2.0	2.5	2.5
Construction & engineering	1.3	1.3	1.5	1.9	2.0	2.3
Consumer goods & services	1.3	1.3	1.5	2.2	2.5	2.5
Wholesale & distribution	1.3	1.3	1.5	2.2	2.4	2.6
Business services	1.4	1.4	1.5	2.0	2.5	2.5
Basic materials & energy	1.4	1.4	1.5	2.0	2.8	2.8
Healthcare & biotech	1.4	1.4	1.7	2.0	2.5	2.5
Information technology	1.3	1.3	1.5	2.0	2.5	2.5
Financial services	1.3	1.4	1.6	2.0	2.5	2.8
Media & entertainment	1.3	1.4	1.5	2.0	2.5	2.5
Total median	**1.3**	**1.3**	**1.5**	**2.0**	**2.5**	**2.5**

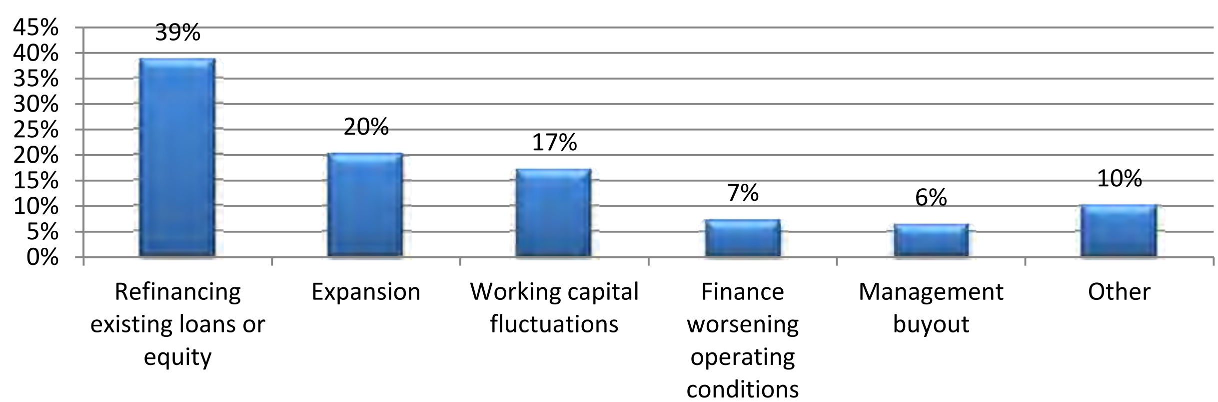
Various fees as reported by lenders are as follows.

Table 19. Fees Charged

	1st Quartile	Median	3rd Quartile	% Reporting
Closing fee	0%	1%	1%	16%
Modification fee	0%	0%	1%	13%
Commitment fee	0%	1%	1%	14%
Underwriting fee	0%	0%	1%	11%
Arrangement fee	0%	0%	0%	7%
Prepayment penalty (yr 1)	1%	3%	3%	14%
Prepayment penalty (yr 2)	1%	2%	3%	13%
Unused line fee	0%	0%	1%	12%

Refinancing was the most commonly described financing by buyers at 41%, followed by expansion at 20%.

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



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

Table 20. Importance of Financial Evaluation Metrics

	Unimportant	**Of little importance**	**Moderately important**	**Important**	**Very important**	**Score (1 to 5)**
Current ratio	16%	16%	21%	33%	14%	3.1
Senior DSCR or FCC ratio	10%	12%	15%	22%	41%	3.7
Total DSCR or FCC ratio	7%	9%	7%	25%	52%	4.1
Senior debt-to-cash flow	15%	10%	10%	41%	24%	3.5
Total debt-to-cash flow	13%	4%	16%	31%	36%	3.7
Debt-to-net worth	9%	7%	20%	43%	20%	3.6

Table 21. Financial Evaluation Metrics Average Data

	Average borrower data	Limit not to be exceeded
Current ratio	1.2	1.2
Senior DSCR or FCC ratio	1.3	1.2
Total DSCR or FCC ratio	1.3	1.2
Senior debt-to-cash flow	1.5	2.4
Debt-to-net worth	2.8	3.0

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

Table 22. Personal Guarantee and Collateral Percentage of Occurrence by Size of Loan (%)

	$1M loan	$5M loan	$10M loan	$25M loan	$50M loan	$100M loan
Personal guarantee	100%	100%	98%	50%	25%	25%
Collateral	100%	95%	95%	50%	25%	25%

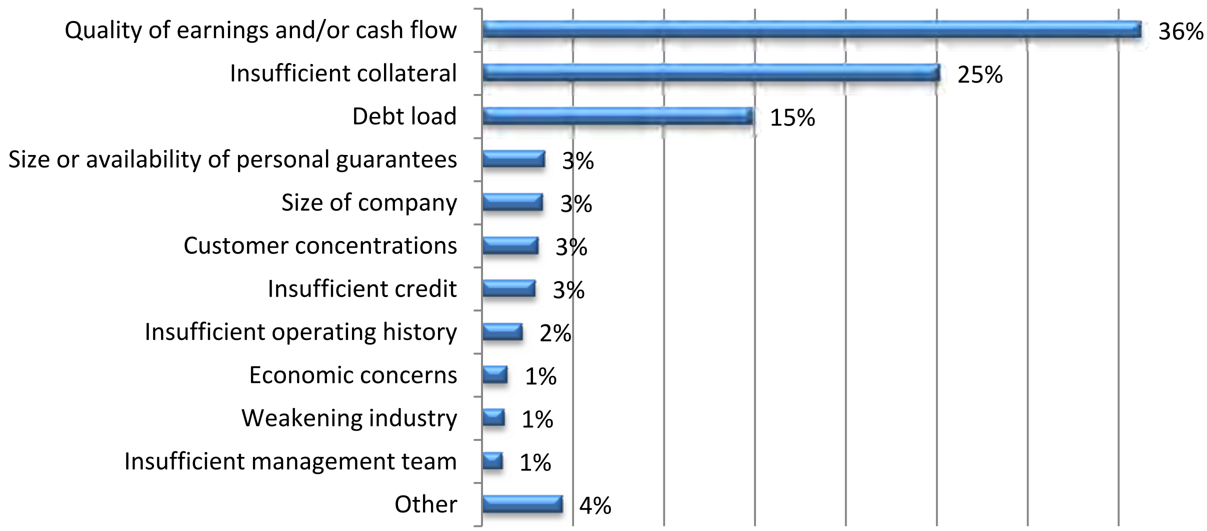
Approximately 40% of cash flow applications were declined.

Table 23. Applications Data

	Reviewed	**Offered**	**Booked**	**Declined**
Cash flow based	970	60%	33%	40%
Collateral based	435	66%	8%	45%
Real estate	435	66%	11%	51%
Other	70	93%	1%	86%
Average	**1910**	**64%**	**26%**	**45%**

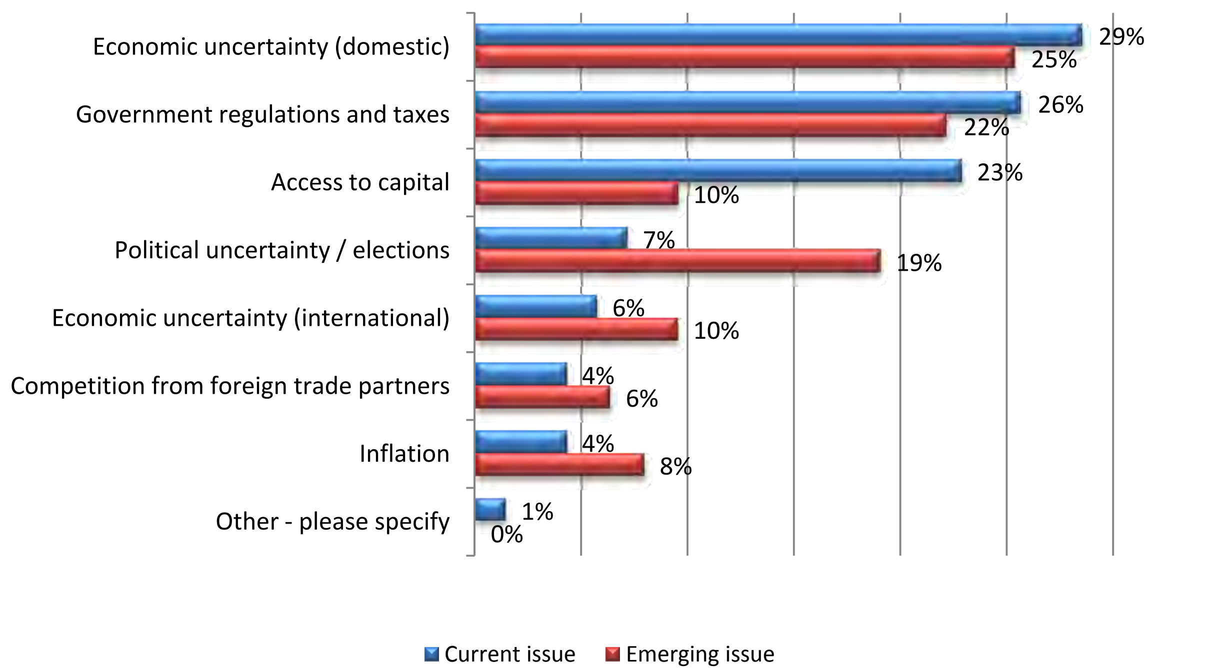
Approximately 36% of applications were declined due to poor quality of earnings and/or cash flow followed by 25% that were declined due to insufficient collateral.

Figure 33. Reason for Declined Loans



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

Figure 34. Issues Facing Privately-Held Businesses



BANKS cont.

Respondents indicated increases in demand for business loans, percent of loans with personal guarantees, improved general business conditions, decreased credit quality of borrowers applying for credit, loan fees, and number/ tightness of financial covenants.

Table 24. 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)	7%	11%	33%	29%	20%	49%	18%	**31%**
Credit quality of borrowers applying for credit	2%	28%	51%	17%	2%	19%	30%	**-11%**
Due diligence efforts	2%	11%	53%	30%	4%	34%	13%	**21%**
Average loan size	0%	2%	57%	30%	11%	41%	2%	**39%**
Average loan maturity (months)	0%	7%	44%	40%	9%	49%	7%	**42%**
Percent of loans with personal guarantees	0%	7%	63%	30%	0%	30%	7%	**24%**
Percent of loans requiring collateral	0%	7%	93%	0%	0%	0%	7%	**-7%**
Size of interest rate spreads (pricing)	0%	7%	85%	7%	0%	7%	7%	**0%**
Loan fees	0%	52%	43%	2%	2%	4%	52%	**-48%**
Senior leverage multiples	7%	30%	59%	4%	0%	4%	37%	**-33%**
Total leverage multiples	0%	8%	68%	24%	0%	24%	8%	**16%**
Focus on collateral as backup means of payment	0%	8%	73%	19%	0%	19%	8%	**12%**
SBA lending	0%	7%	81%	12%	0%	12%	7%	**5%**
Lending capacity of bank	0%	13%	48%	30%	9%	39%	13%	**26%**
General business conditions	0%	4%	27%	54%	15%	69%	4%	**65%**
Appetite for risk	0%	15%	50%	35%	0%	35%	15%	**20%**
Loans outstanding	0%	13%	54%	33%	0%	33%	13%	**20%**
Nonaccrual loans	5%	11%	32%	37%	16%	53%	16%	**37%**
Number/ tightness of financial covenants	0%	27%	73%	0%	0%	0%	27%	**-27%**
Standard advance rates	0%	11%	84%	5%	0%	5%	11%	**-5%**

BANKS cont.

Respondents expect further increases in demand for business loans, percent of loans with personal guarantees, lending capacity of bank, improving general business conditions, as well as decreasing leverage multiples, focus on collateral as backup means of payment and number/ tightness of financial covenants.

Table 25. General Business and Industry Assessment Expectations over the Next 12 Months

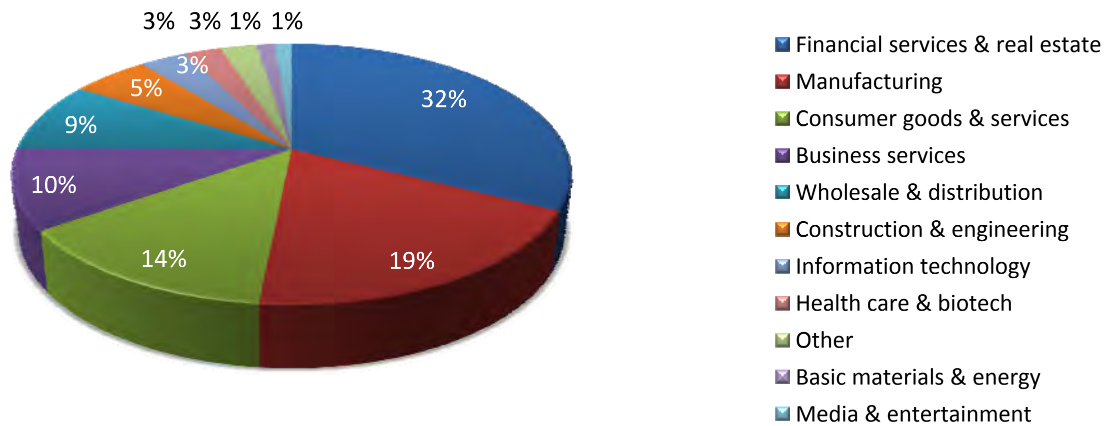
	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	**Net increase/ decrease**
Demand for business loans (applications)	4%	11%	33%	35%	17%	52%	15%	**37%**
Credit quality of borrowers applying for credit	2%	21%	60%	15%	2%	17%	23%	**-6%**
Due diligence efforts	2%	15%	53%	28%	2%	30%	17%	**13%**
Average loan size	0%	2%	70%	24%	4%	28%	2%	**26%**
Average loan maturity (months)	0%	9%	43%	41%	7%	48%	9%	**39%**
Percent of loans with personal guarantees	0%	4%	70%	26%	0%	26%	4%	**22%**
Percent of loans requiring collateral	0%	7%	91%	2%	0%	2%	7%	**-5%**
Size of interest rate spreads (pricing)	0%	4%	96%	0%	0%	0%	4%	**-4%**
Loan fees	0%	37%	48%	13%	2%	15%	37%	**-22%**
Senior leverage multiples	4%	28%	61%	7%	0%	7%	33%	**-26%**
Total leverage multiples	0%	16%	80%	4%	0%	4%	16%	**-12%**
Focus on collateral as backup means of payment	0%	15%	85%	0%	0%	0%	15%	**-15%**
SBA lending	0%	7%	86%	7%	0%	7%	7%	**0%**
Lending capacity of bank	0%	0%	52%	35%	13%	48%	0%	**48%**
General business conditions	0%	0%	37%	56%	7%	63%	0%	**63%**
Appetite for risk	0%	13%	50%	37%	0%	37%	13%	**24%**
Loans outstanding	2%	11%	59%	28%	0%	28%	13%	**15%**
Nonaccrual loans	5%	11%	32%	37%	16%	53%	16%	**37%**
Number/ tightness of financial covenants	0%	27%	73%	0%	0%	0%	27%	**-27%**
Standard advance rates	0%	11%	84%	5%	0%	5%	11%	**-5%**

BANKS cont.

Asset-Based Lending Specific Characteristics

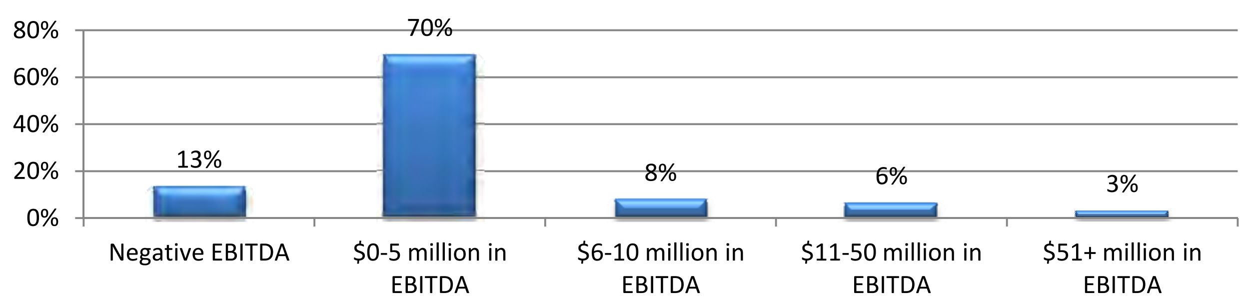
According to respondents approximately 32% of asset-based loans were issued for financial services and real estate companies.

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 less than $5 million.

Figure 36. 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 26. 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	5.0%	17.0%	21.5%	20.0%	9.8%	19.0%	48
$1-5 million	5.0%	13.0%	15.0%	13.5%	9.8%	10.0%	48
$5-$10 million	4.5%	10.0%	12.0%	11.5%	7.8%	7.8%	48
$10-25 million	3.0%	4.0%	4.5%	4.3%	4.0%	4.3%	42
$25-50 million	3.0%	3.5%	4.0%	4.0%	4.3%	3.0%	36
$50-100 million	3.0%	2.8%	3.5%	4.0%	3.5%	3.0%	24

BANKS cont.

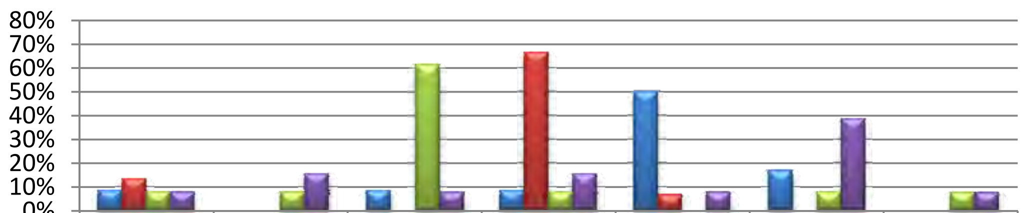
Respondents reported on standard advance rates and the results are reflected below.

Table 27. Standard Advance Rate (or LTV ratio) for Assets (%)

	Typical Loan			**Upper Limit**		
	1st quartile	**Median**	**3rd quartile**	**1st quartile**	**Median**	**3rd quartile**
Marketable securities	58%	80%	95%	83%	90%	98%
Accounts receivable	80%	80%	85%	83%	85%	88%
Inventory - low quality	15%	20%	35%	15%	25%	35%
Inventory - intermediate quality	33%	40%	48%	35%	40%	50%
Inventory - high quality	50%	50%	63%	60%	60%	64%
Equipment	35%	70%	73%	50%	70%	80%
Real estate	60%	65%	65%	60%	65%	70%
Land	18%	28%	34%	24%	38%	46%

Respondents reported on valuation standards used to estimate LTV ratios.

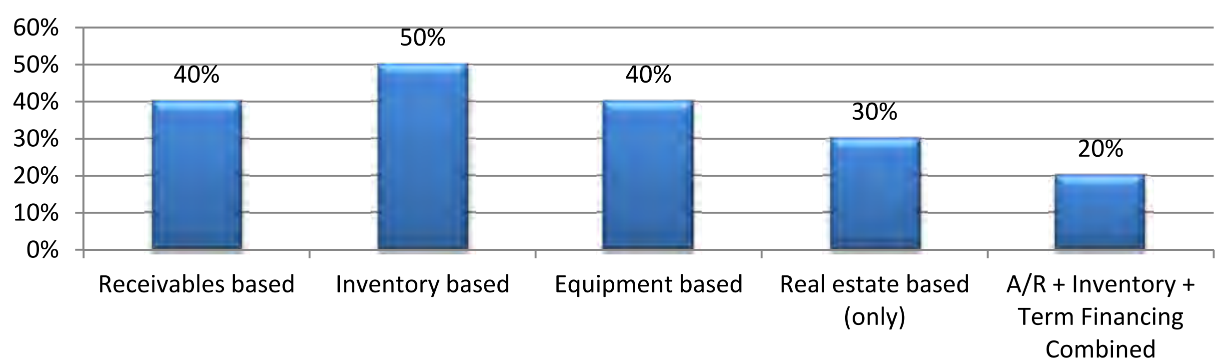
Figure 37. Valuation Standards Used to Estimate LTV Ratio



	Purchase price	Depreciated Value (Book)	Face value	Fair Market Value	Forced liquidation	Orderly liquidation	Other
Equipment	8%	0%	8%	8%	50%	17%	0%
Real estate	13%	0%	0%	67%	7%	0%	0%
Accounts Receivable	8%	8%	62%	8%	0%	8%	8%
Inventory	8%	15%	8%	15%	8%	38%	8%

According to respondents working capital based loans had the smallest decline rate (20%) over the last twelve months.

Figure 38. Asset-Based Loans Decline Rate



MEZZANINE SURVEY INFORMATION

The majority of the 21 participants that responded to the mezzanine survey typically book deals in the $1 million to $25 million range. Over 26% plan on investing in manufacturing companies over the next 12 months, followed by 17% in consumer goods and services. Other key findings include:

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

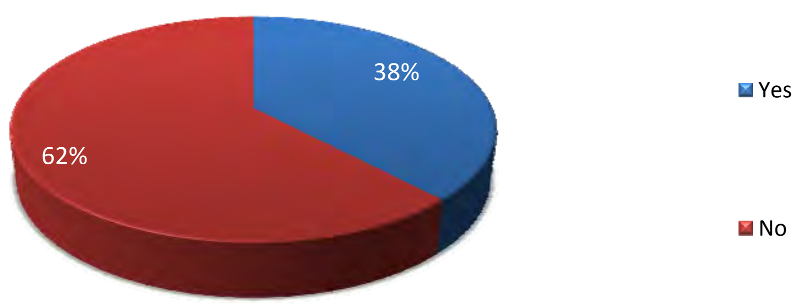
- Respondents expect further increase in demand for mezzanine capital, leverage multiples and appetite for risk; improving general business conditions; and decrease in general underwriting standards, warrant coverage, PIK features, and loan fees.

- Approximately 38% of respondents believe domestic economic uncertainty is the most important issue facing privately-held businesses today.

Operational and Assessment Characteristics

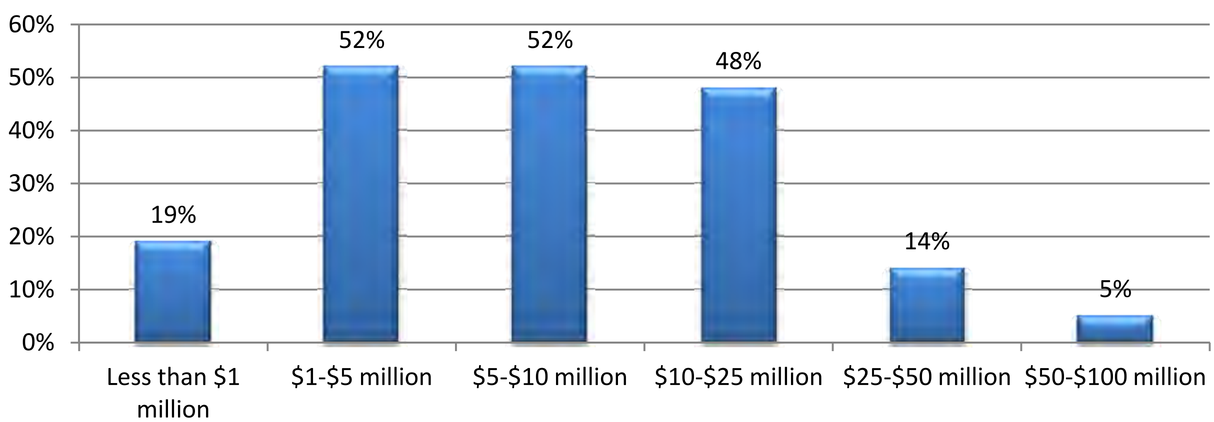
Approximately 38% of respondents are SBIC Firms.

Figure 39. SBIC (small business investment) Firms



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

Figure 40. Typical Investment Size



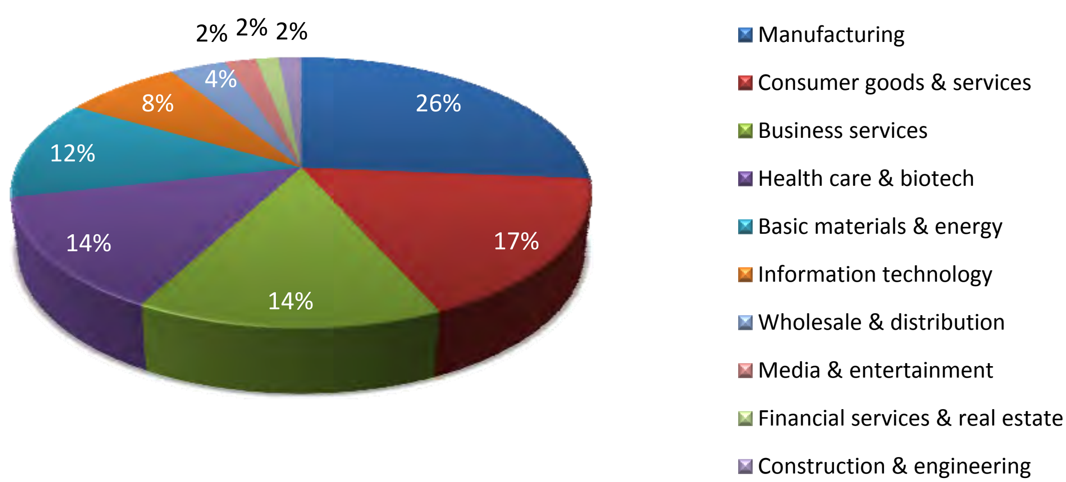
Respondents reported on business practices and the results are reflected below.

Table 28. Mezzanine Fund Data

	1st quartile	Median	3rd quartile
Vintage year (year in which first investment made)	2010	2012	2013
Size of fund ($ millions)	75	175	250
Targeted number of total investments	18	25	39
Target fund return (gross pretax cash on cash annual IRR %)	12.3%	18%	20%
Expected fund return (gross pretax cash on cash annual IRR %)	12.5%	19%	23%

The types of businesses respondents plan to invest in over next 12 months are very diverse with over 21% targeting manufacturing, followed by 18% who plan to invest in business services.

Figure 41. Type of Business for Investments Planned over Next 12 Months



Approximately 56% of respondents made 6 investments or more over the last 12 months.

Figure 42. Total Number of Investments Made in the Last 12 Months

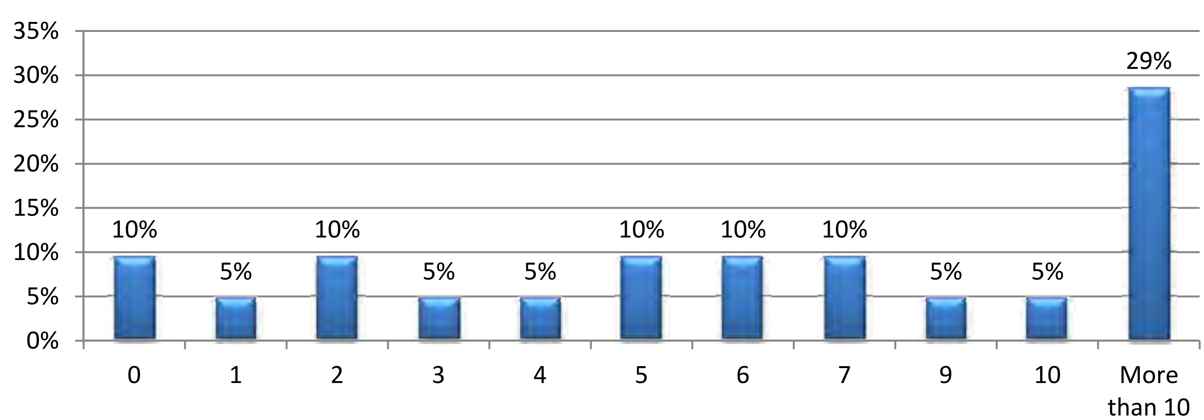
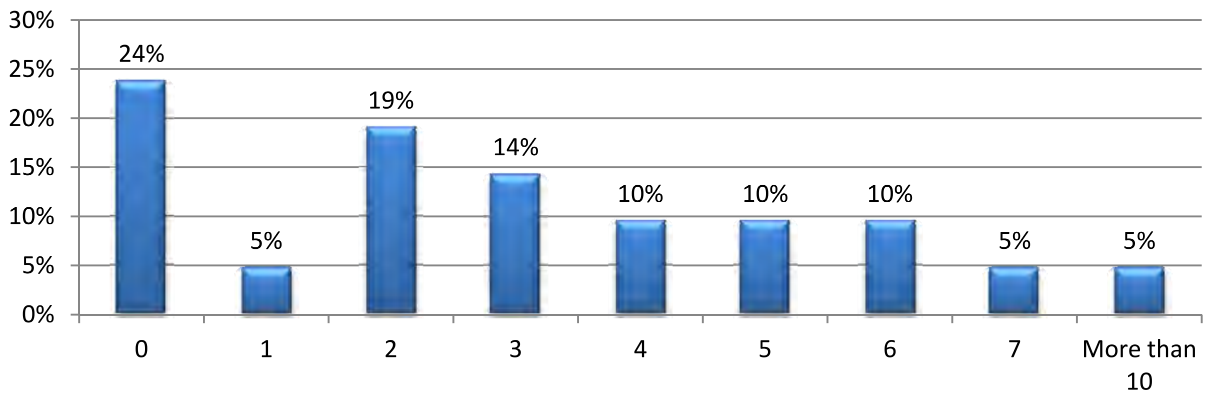


Figure 43. Number of Follow-on Investments Made in the Last 12 Months



Approximately 59% of respondents plan to make 6 investments or more over the next 12 months.

Figure 44. Number of Total Investments Planned over Next 12 Months

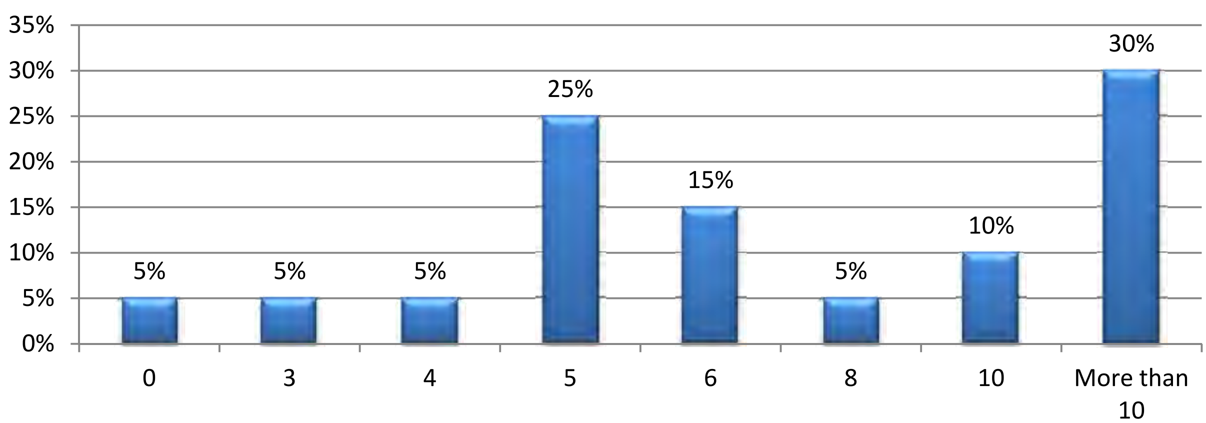
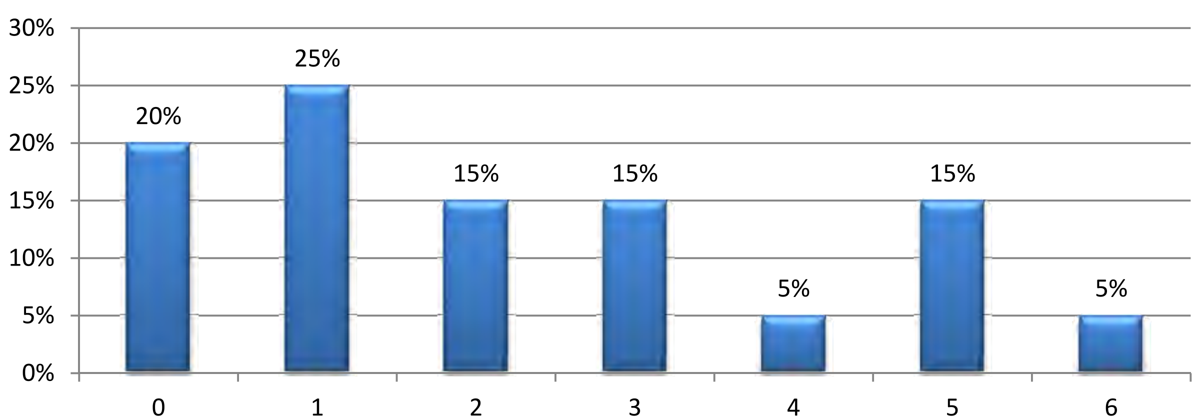


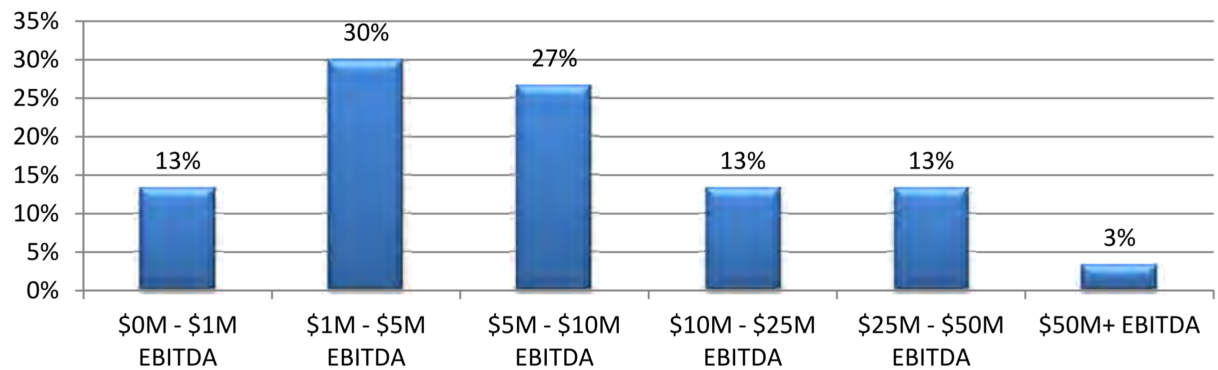
Figure 45. Number of Follow-on Investments Planned over Next 12 Months



MEZZANINE cont.

Approximately 57% of sponsored deals were in the range between $1 million and $10 million of EBITDA.

Figure 46. Size of Sponsored Deals in the Last 12 Months



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

Table 29. Sponsored Deals by EBITDA Size (medians)

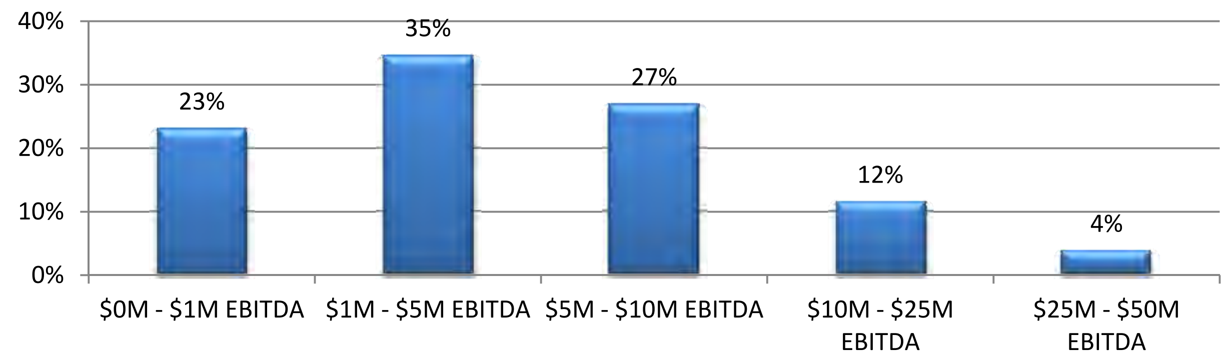
	$0M - $1M EBITDA	$1M - $5M EBITDA	$5M - $10M EBITDA	$10M - $25M EBITDA	$25M - $50M EBITDA	$50M+ EBITDA
% of deals with warrants	35%	67%	67%	0%	0%	0%
Average loan terms (years)	5	5	5	6	6.5	7
Senior leverage ratio (multiple of EBITDA)	0.5	3	3.3	3.5	4	4.5
Total leverage ratio (multiple of EBITDA)	0.5	3.8	4.3	4.5	5.5	6
Average loan size ($ millions)	0.5	7.5	7.5	25	45	100
Cash interest rate	12%	12%	11%	11%	11%	8%
PIK	2%	2%	1%	1%	1.5%	1%
Warrants expected return (IRR contribution)	14%	10.5%	n/a	n/a	n/a	n/a
Total expected returns (gross cash on pre-tax IRR)	16%	16%	14%	13%	12%	8%

Table 30. Investment Type by Size of Investee Company, Sponsored Deals

	Sub debt only	Blended Sr. / Jr.	Other
$1M - $5M EBITDA	43%	57%	0%
$5M - $10M EBITDA	50%	25%	25%
$10M - $25M EBITDA	50%	25%	25%
$25M - $50M EBITDA	67%	0%	33%
$50M+ EBITDA	100%	0%	0%

Approximately 62% of sponsored deals were in the range between $1 million and $10 million of EBITDA.

Figure 47. 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 31. Non-Sponsored Deals by EBITDA Size (medians)

	$1M - $5M EBITDA	$5M - $10M EBITDA	$10M - $25M EBITDA	$25M - $50M EBITDA	$50M+ EBITDA
% of deals with warrants	46%	100%	50%	80%	n/a
Average loan terms (years)	3.5	5	5	5	6
Senior leverage ratio (multiple of EBITDA)	0.8	1.8	2.5	3	4
Total leverage ratio (multiple of EBITDA)	1	3	3.3	4	5.5
Average loan size ($ millions)	0.5	4	7.5	9	100
Cash interest rate	11%	11%	11%	9.5%	8%
PIK	1%	2%	2%	2%	n/a
Warrants expected return (IRR contribution)	12%	10%	5.5%	n/a	n/a
Total expected returns (gross cash on pre-tax IRR)	20%	20%	16%	14.5%	9%

Table 32. Investment Type by Size of Investee Company, Sponsored Deals

	Senior debt only	Sub debt only	Blended Sr. / Jr.	Other
$0M - $1M EBITDA	0%	17%	83%	0%
$1M - $5M EBITDA	13%	38%	38%	13%
$5M - $10M EBITDA	17%	33%	33%	17%
$10M - $25M EBITDA	0%	50%	50%	0%
$25M - $50M EBITDA	0%	100%	0%	0%

MEZZANINE cont.

Financing growth was reported by 26% of respondents as a motivation to secure mezzanine funding, followed by acquisition loan at 25%.

Figure 48. Borrower Motivation to Secure Mezzaine Funding (past 12 months)

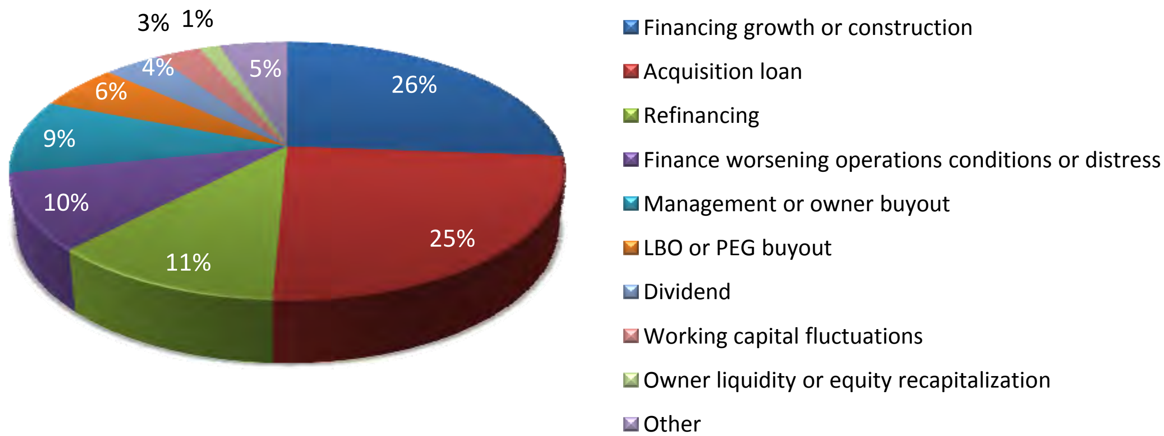
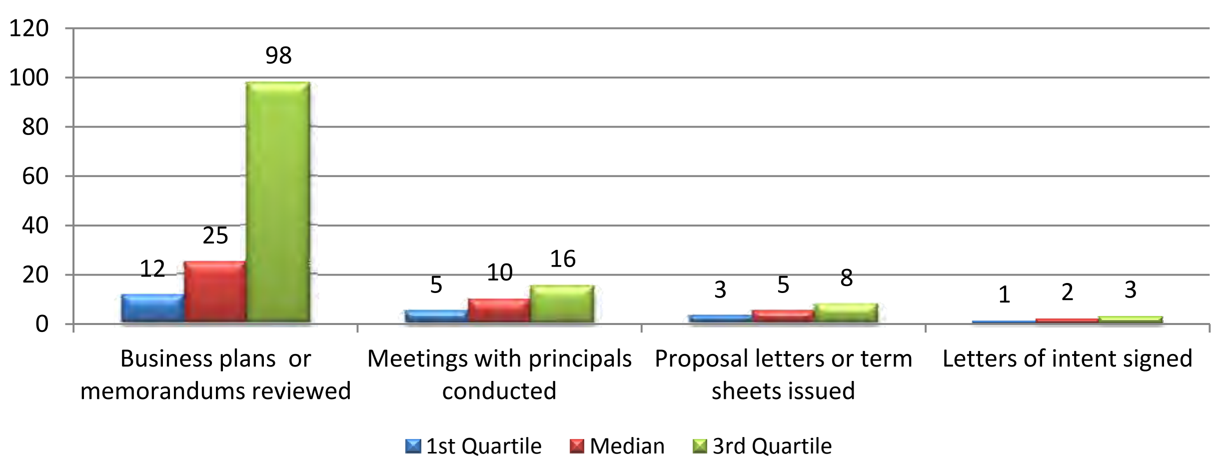


Figure 49. Items Required to Close One Deal



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

Table 33. Importance of Financial Evaluation Metrics

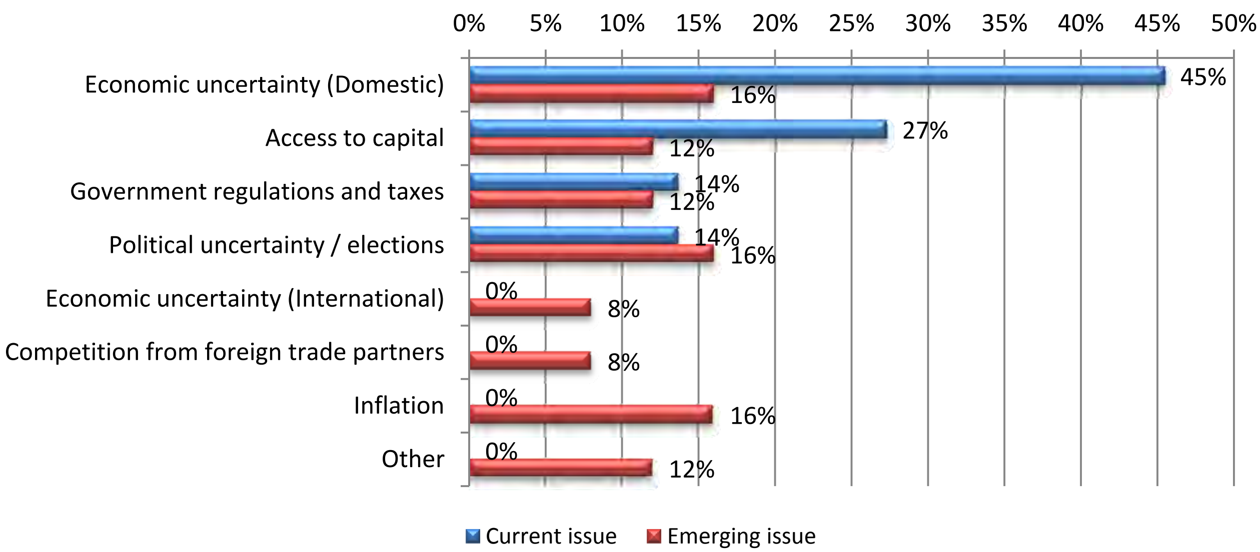
	Unimportant	Of little importance	Moderately important	Important	Very important	Score (1 to 5)
Senior DSCR or FCC ratio	12%	29%	24%	12%	24%	3.06
Total DSCR or FCC ratio	6%	12%	0%	24%	59%	4.18
Senior debt-to-cash flow ratio	12%	12%	24%	24%	29%	3.47
Total debt-to-cash flow ratio	6%	0%	12%	18%	65%	4.35

Table 34. Financial Evaluation Metrics Average Data

	Average borrower data	Limit not to be exceeded
Senior DSCR or FCC ratio	1.5	1.1
Total DSCR or FCC ratio	1.3	1.1
Senior debt to cash flow ratio	2.5	3.3
Total debt to cash flow ratio	3.7	4.2

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, leverage multiples and appetite for risk. They also reported decreases in general underwriting standards, warrant coverage, loan fees, and expected returns on new investments.

Table 35. 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	5%	21%	16%	21%	37%	58%	26%	**32%**
Credit quality of borrowers seeking investment	0%	26%	42%	32%	0%	32%	26%	**5%**
Average investment size	0%	5%	58%	32%	5%	37%	5%	**32%**
Average investment maturity (months)	0%	0%	84%	16%	0%	16%	0%	**16%**
General underwriting standards	0%	26%	63%	11%	0%	11%	26%	**-16%**
Warrant coverage	25%	13%	56%	6%	0%	6%	38%	**-31%**
PIK features	0%	7%	73%	20%	0%	20%	7%	**13%**
Loan fees	0%	11%	89%	0%	0%	0%	11%	**-11%**
Leverage multiples	0%	0%	33%	44%	22%	67%	0%	**67%**
Expected returns on new investments	5%	32%	47%	16%	0%	16%	37%	**-21%**
General business conditions	0%	16%	37%	42%	5%	47%	16%	**32%**
Appetite for risk	0%	5%	42%	37%	16%	53%	5%	**47%**

Respondents expect further increases in all business characteristics except general underwriting standards, warrant coverage, loan fees and expected returns on new investments.

Table 36. 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	5%	5%	37%	42%	11%	53%	11%	**42%**
Credit quality of borrowers seeking investment	0%	21%	53%	26%	0%	26%	21%	**5%**
Average investment size	0%	0%	63%	32%	5%	37%	0%	**37%**
Average investment maturity (months)	0%	0%	95%	5%	0%	5%	0%	**5%**
General underwriting standards	0%	16%	79%	0%	5%	5%	16%	**-11%**
Warrant coverage	6%	6%	82%	6%	0%	6%	12%	**-6%**
PIK features	0%	0%	94%	6%	0%	6%	0%	**6%**
Loan fees	0%	11%	89%	0%	0%	0%	11%	**-11%**
Leverage multiples	0%	0%	44%	50%	6%	56%	0%	**56%**
Expected returns on new investments	0%	37%	53%	11%	0%	11%	37%	**-26%**
General business conditions	0%	16%	47%	32%	5%	37%	16%	**21%**
Appetite for risk	0%	21%	32%	32%	16%	47%	21%	**26%**

LIMITED PARTNER SURVEY INFORMATION

Approximately 43% of the 23 respondents in the limited partner survey reported real estate funds as being the best risk/return trade-off investment class and another 13% 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 healthcare and biotech, followed by 15% reporting basic materials and energy, and another 15% reporting information technology. Other key findings include:

- On average respondents target to allocate 32% of their assets to real estate funds, 14% to hedge funds and 11% to venture capital. Respondents expect the highest returns of 13% from direct investments, 11% from real estate funds, 10% from investments in venture capital, and 10% from growth private equity.

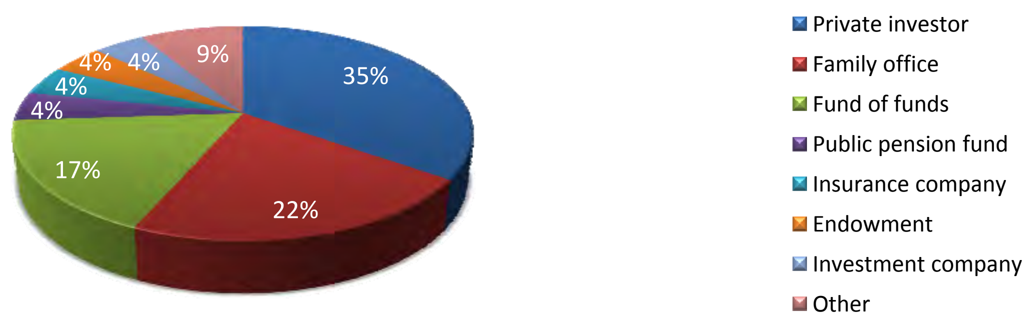
- Respondents indicated increased allocation to private equity, real estate funds, and direct investments, and decreased allocation to all other alternative assets in the last twelve months. They also reported relatively flat business conditions and expected returns on new investments.

- Respondents also expect further increases in allocation to direct investments, private equity, and real estate funds, improving business conditions and increasing expected returns.

Operational and Assessment Characteristics

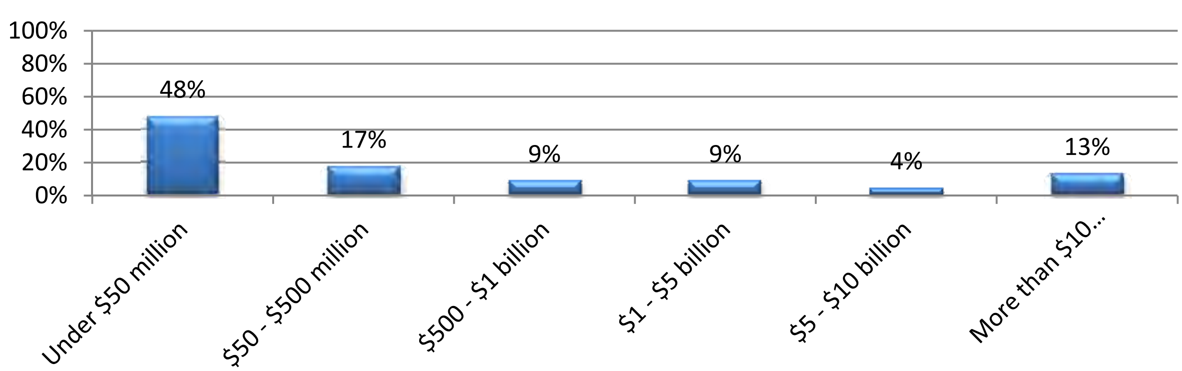
Approximately 35% of respondents indicated being private investor followed by family office (22%).

Figure 51. Entity Type



Approximately 48% of respondents reported their asset category being less than $50 million, while 17% were between $50 million and $500 million.

Figure 52. Assets under Management or Investable Funds



LP cont.

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

Figure 53. Current Asset Allocation for "Alternative Assets" (% of total portfolio)

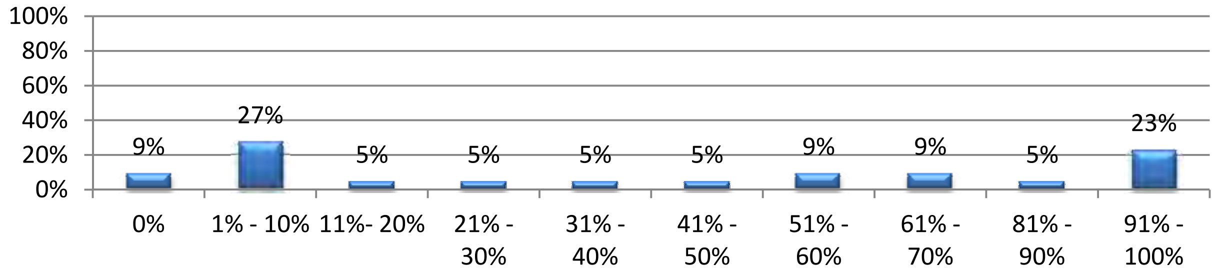
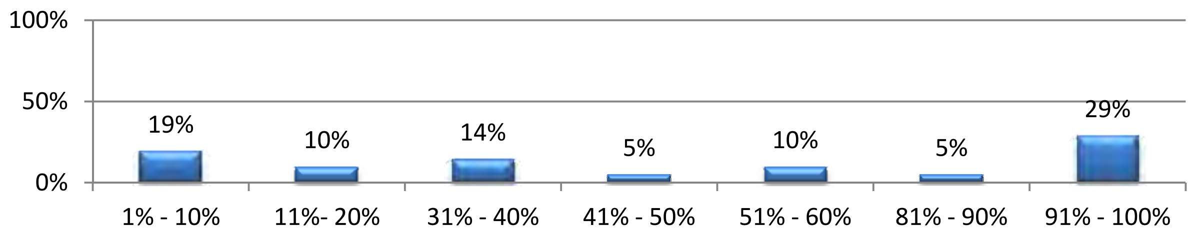
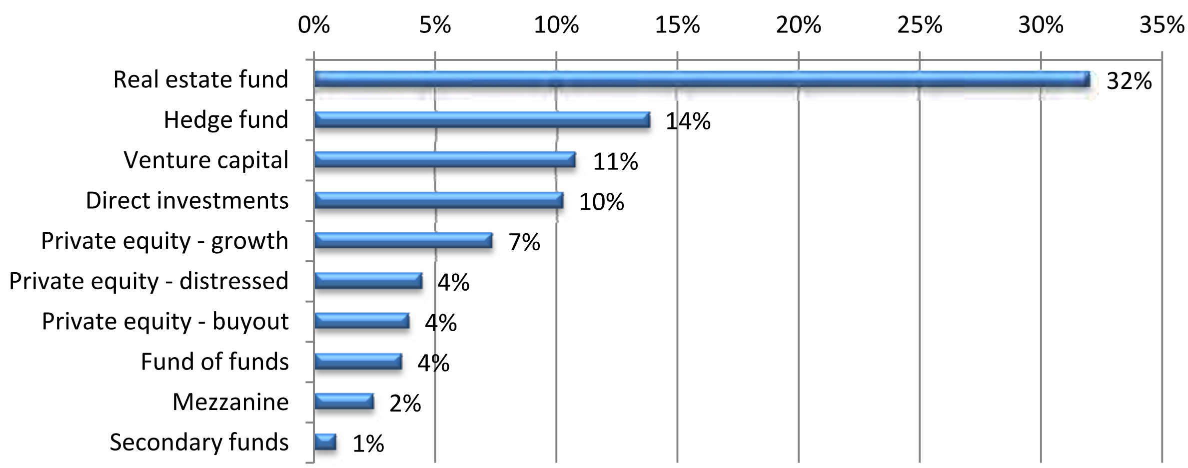


Figure 54. Target Asset Allocation for "Alternative Assets" (% of total portfolio)



On average, respondents target to allocate 32% of their assets to real estate funds, 14% to hedge funds, and 11% to venture capital.

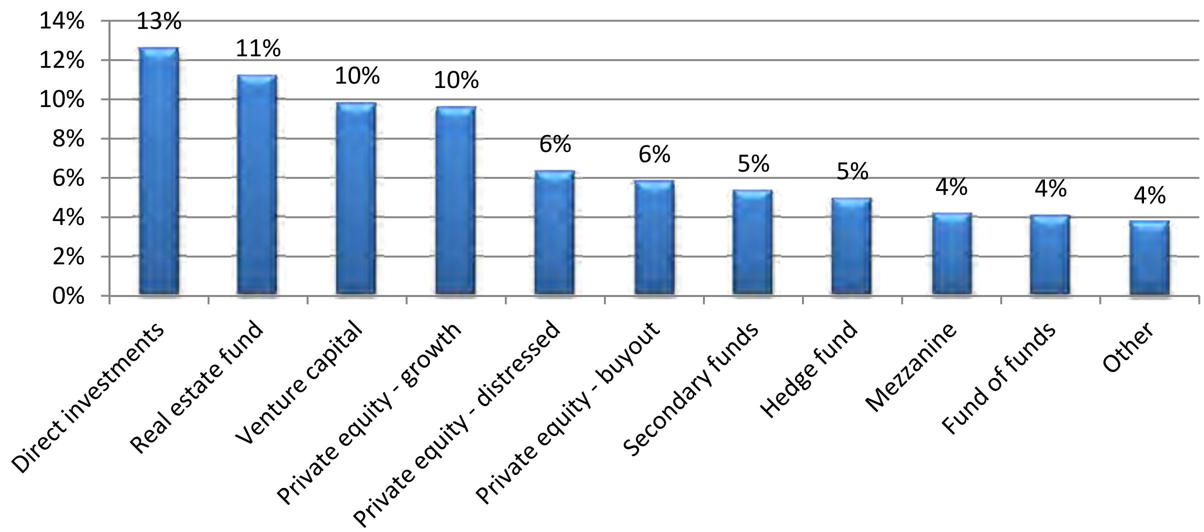
Figure 55. Target Asset Allocation by Assets



LP cont.

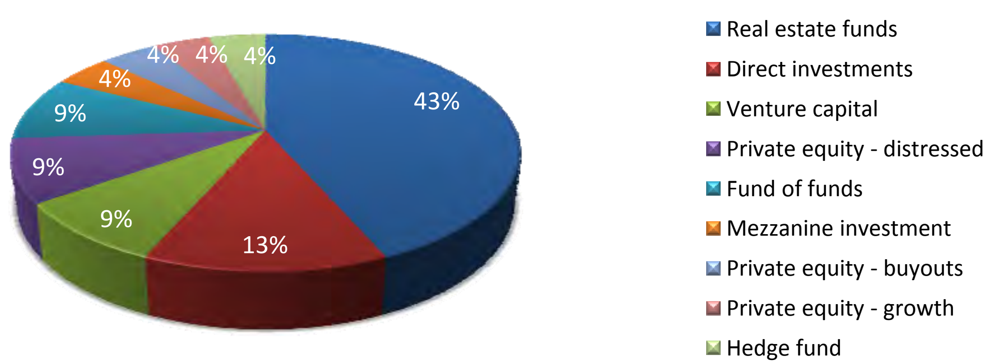
On average, respondents expect the highest returns from investments in direct investments, real estate funds, venture capital and growth private equity.

Figure 56. Annual Return Expectations for New Investments



Approximately 43% of the 23 respondents in the limited partner survey reported real estate funds as being the best risk/return trade-off investment class, another 13% reported direct investments as being the best risk/return trade-off investment class.

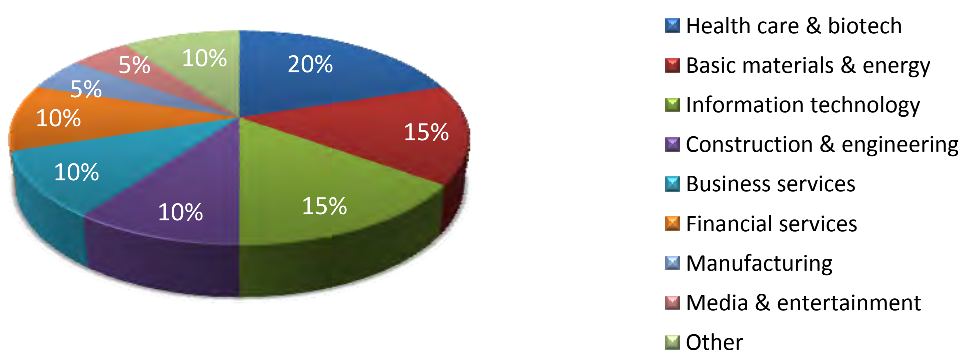
Figure 57. Assets with the Best Risk/Return Trade-off Currently



LP cont.

When asked about which industries currently offer the best risk/return trade offs, 20% of respondents reported health care & biotech, followed by 15% reporting basic material & energy, and another 15% reporting information technology.

Figure 58. Industry with the Best Risk/Return

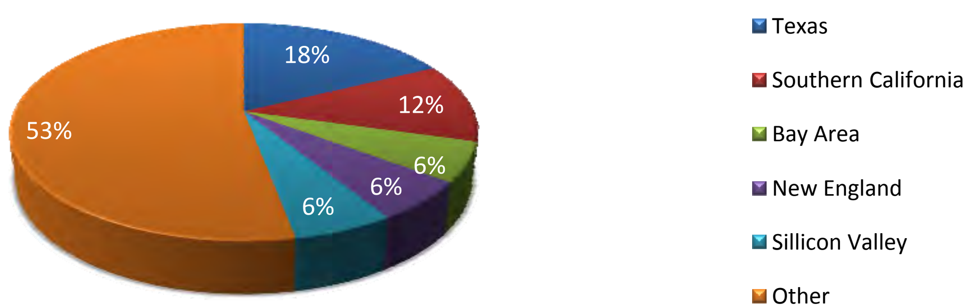


In regard to the geographic regions with the best risk/return trade-offs, 96% of respondents reported North America and 4% reported Western Europe.

Figure 59. Geographic Regions of the World Offering the Best Risk/Return Tradeoff Currently

In regard to the geographic regions with the best risk/return trade-offs in the US, 18% of respondents reported Texas, and 12% reported Southern California.

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



LP cont.

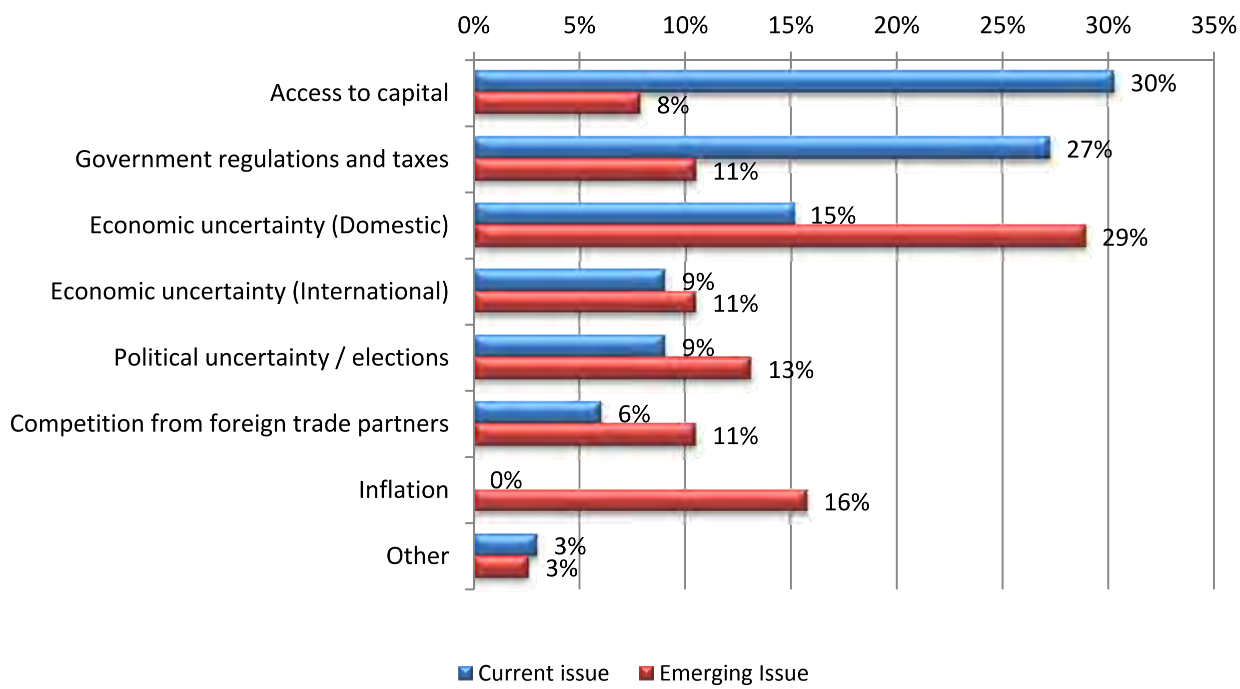
According to respondents, general partner and specific strategy are the most important factors when evaluating investment followed by residual value of most recent fund.

Table 37. Importance of Factors When Evaluating

	Unimportant	Of little importance	Moderately important	Important	Very important	**Score (1 to 5)**
Historical fund performance on all funds	0%	0%	35%	43%	22%	**3.9**
Returned capital from most recent fund (Distribution to Paid-in or DPI)	0%	13%	35%	39%	13%	**3.5**
Residual value of most recent fund (Residual Value to Paid-in or RVPI)	0%	9%	32%	45%	14%	**3.6**
General partner	0%	0%	22%	26%	52%	**4.3**
Specific strategy	0%	9%	13%	22%	57%	**4.3**
Specific location	4%	26%	30%	35%	4%	**3.1**
Gut feel/instinct	9%	9%	32%	41%	9%	**3.3**

Respondents believe access to capital is the most important issue facing privately-held businesses today, while domestic economic uncertainty is indicated as the most important emerging issue.

Figure 61. 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 relatively flat general business conditions and expected returns on new investments.

Table 38. 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	10%	15%	65%	10%	0%	10%	25%	**-15%**
Allocation to private equity	0%	10%	55%	20%	15%	35%	10%	**25%**
Allocation to mezzanine	5%	11%	74%	11%	0%	11%	16%	**-5%**
Allocation to hedge funds	10%	14%	62%	10%	5%	14%	24%	**-10%**
Allocation to secondary funds	11%	11%	58%	16%	5%	21%	21%	**0%**
Allocation to real estate funds	0%	9%	50%	36%	5%	41%	9%	**32%**
Direct investments	5%	5%	24%	43%	24%	67%	10%	**57%**
General business conditions	0%	10%	76%	14%	0%	14%	10%	**5%**
Expected returns on new capital deployed	0%	9%	73%	18%	0%	18%	9%	**9%**

Respondents also expect further increases in allocation to direct investments, private equity and real estate funds, improving business conditions and expected returns.

Table 39. 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	10%	15%	60%	15%	0%	15%	25%	**-10%**
Allocation to private equity	5%	11%	53%	26%	5%	32%	16%	**16%**
Allocation to mezzanine	6%	28%	67%	0%	0%	0%	33%	**-33%**
Allocation to hedge funds	0%	20%	60%	10%	10%	20%	20%	**0%**
Allocation to secondary funds	6%	11%	67%	17%	0%	17%	17%	**0%**
Allocation to real estate funds	0%	5%	60%	30%	5%	35%	5%	**30%**
Direct investments	0%	5%	50%	40%	5%	45%	5%	**40%**
General business conditions	0%	10%	62%	29%	0%	29%	10%	**19%**
Expected returns on new capital deployed	0%	14%	52%	33%	0%	33%	14%	**19%**

VENTURE CAPITAL SURVEY INFORMATION

Of the 28 participants who responded to the venture capital survey, approximately 54% of respondents expect an increasing size of the venture capital industry. The majority (85%) of respondents plan to make four 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 39% targeting information technology and another 19% planning to invest in health care and biotech.
- Respondents' exit strategies include selling to a public company (37%) followed by selling to a private company (23%).
- Respondents believe access to capital is the most important issue facing privately-held businesses today.

Operational and Assessment Characteristics

Approximately 48% of respondents made five investments or more over the last twelve months.

Figure 62. Total Number of Investments Made in the Last 12 Months

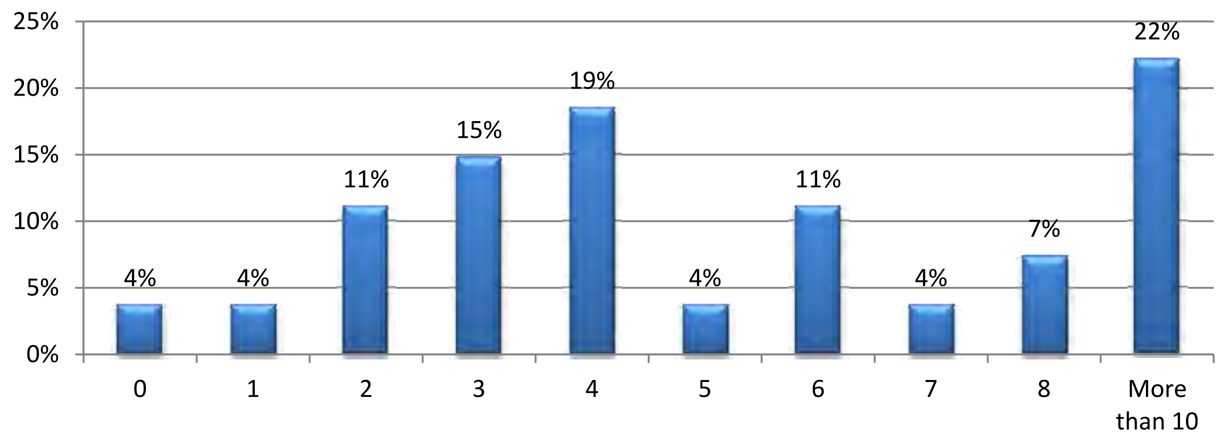
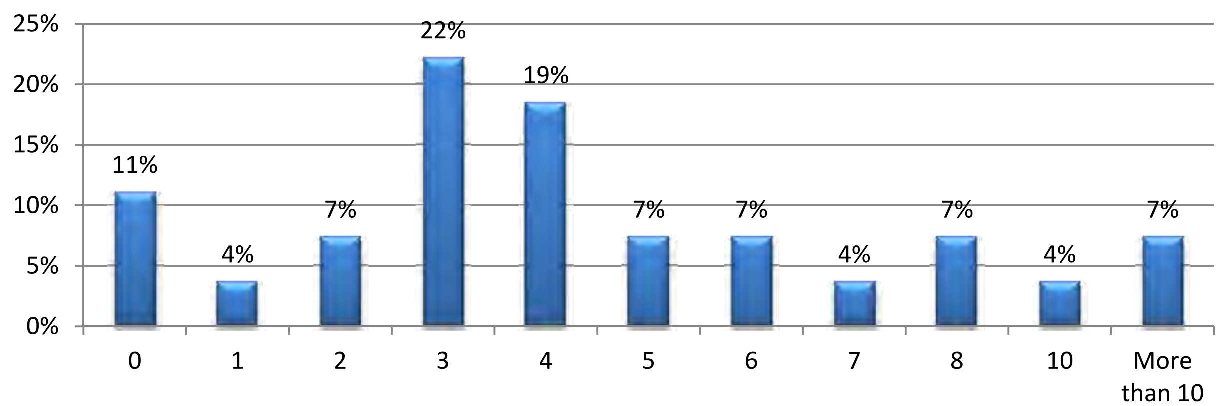


Figure 63. Number of Follow-on Investments Made in the Last 12 Months



The majority (85%) of respondents plan to make four investments or more over the next 12 months.

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

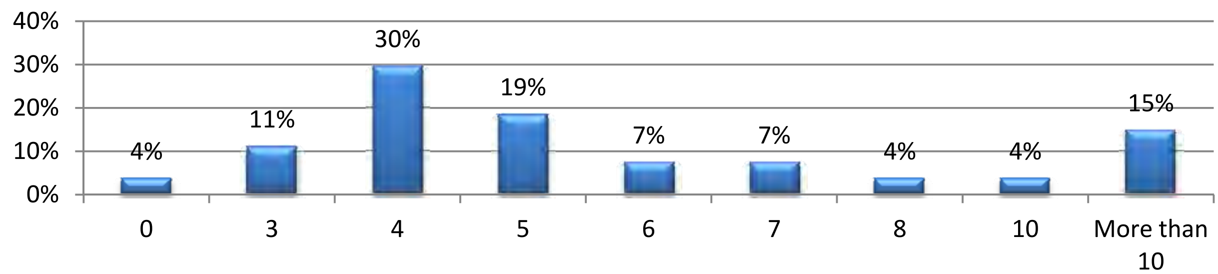
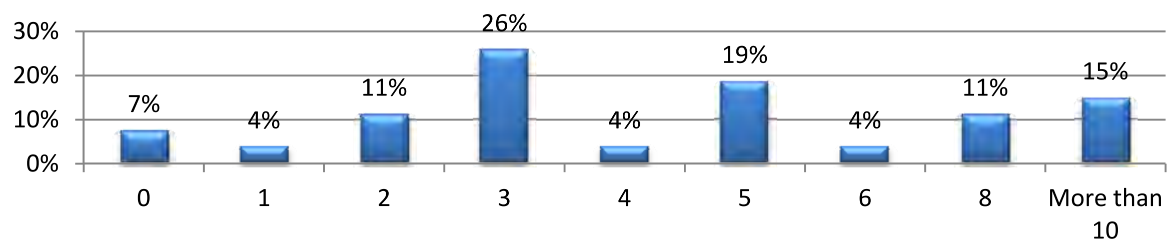


Figure 65. Number of Follow-on Investments Planned over Next 12 Months



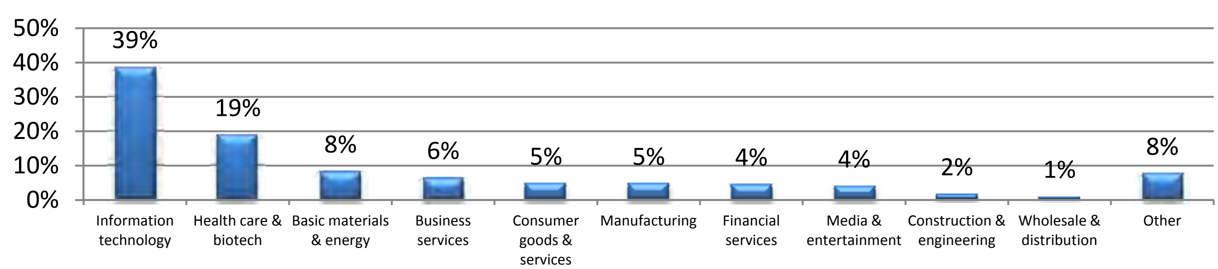
Respondents reported on business practices and the results are reflected below.

Table 40. VC Fund Data

	1st quartile	Median	3rd quartile
Vintage year (year in which first investment made)	2008	2011	2013
Size of fund ($ millions)	$18	$38	$175
Targeted number of total investments	13	18	23
Target fund return (gross pretax cash on cash annual IRR %)	25%	25%	35%
Expected fund return (gross pretax cash on cash annual IRR %)	25%	25%	35%

The types of businesses respondents plan to invest in over next 12 months are very diverse with over 39% targeting Information technology, and another 19% planning to invest in health care and biotech.

Figure 66. Type of Business for Investments Planned over Next 12 Months



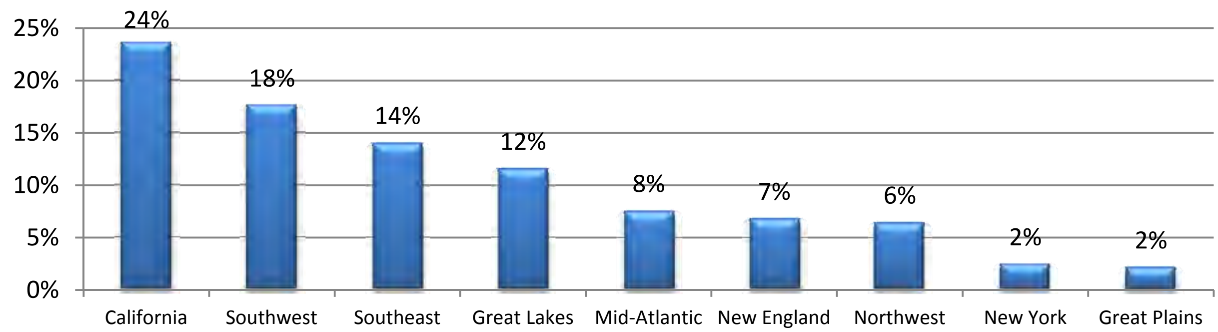
Respondents reported on a variety of stats pertaining to their investments.

Table 41. General Information on Investments by Company Stages

	Seed	Startup	Early Stage	Expansion	Later Stage
Number of Investments Made in Last six months					
1st Quartile	2	1.75	1	2	2
Median	**3**	**3**	**3**	**2.5**	**3**
3rd Quartile	5	3.5	4	4	5
Average Size of Investment ($ million)					
1st Quartile	0.5	0.5	0.5	0.5	0.5
Median	**0.5**	**1**	**1.5**	**2.5**	**2.5**
3rd Quartile	0.5	2.5	2.5	4.25	4.25
Average % of Total Equity Purchased (fully diluted basis)					
1st Quartile	8%	5%	5%	5%	5%
Median	**20%**	**15%**	**20%**	**5%**	**5%**
3rd Quartile	25%	25%	15%	10%	10%
Total expected Returns (gross cash on cash pretax IRR) on new investments					
1st Quartile	23%	23%	23%	19%	18%
Median	**33%**	**33%**	**28%**	**25%**	**25%**
3rd Quartile	48%	38%	38%	33%	33%
Expected Time to Exit (years)					
1st Quartile	5	3	3	3	2
Median	**5**	**5**	**4.5**	**4**	**2.5**
3rd Quartile	7.25	7	6	5	3
Average company 'pre-money' value ($ million)					
1st Quartile	1.5	2.5	4.5	15.0	31.0
Median	**2.5**	**4.5**	**8.0**	**25.0**	**70.0**
3rd Quartile	4.5	8.0	15.0	30.0	100.0
Average Company Value at Time of Investment (post-money $ millions)					
1st Quartile	1.0	1.3	7.0	20.0	25.0
Median	**3.0**	**8.0**	**15.0**	**40.0**	**70.0**
3rd Quartile	8.0	10.0	15.0	72.5	100.0

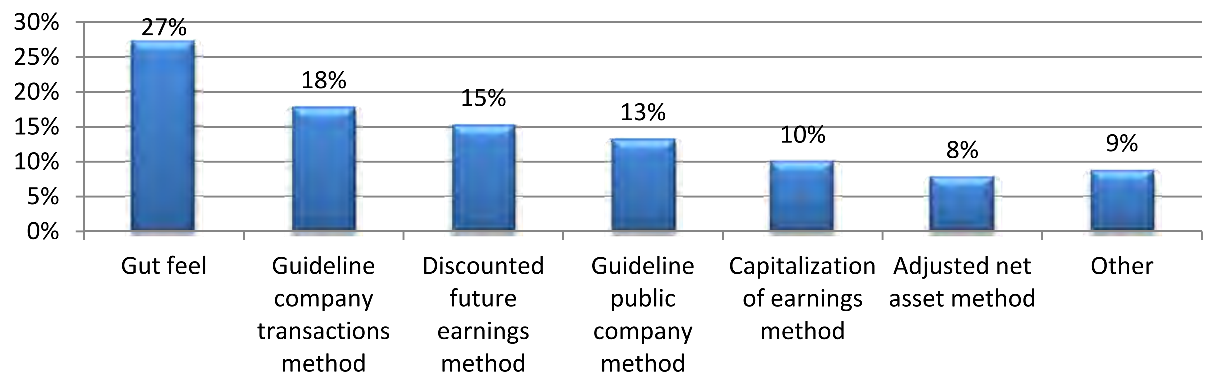
Respondents reported on where they plan to invest over the next 12 months. The results reflect investment throughout the U.S.

Figure 67. Geographic Location of Planned Investment over Next 12 Months



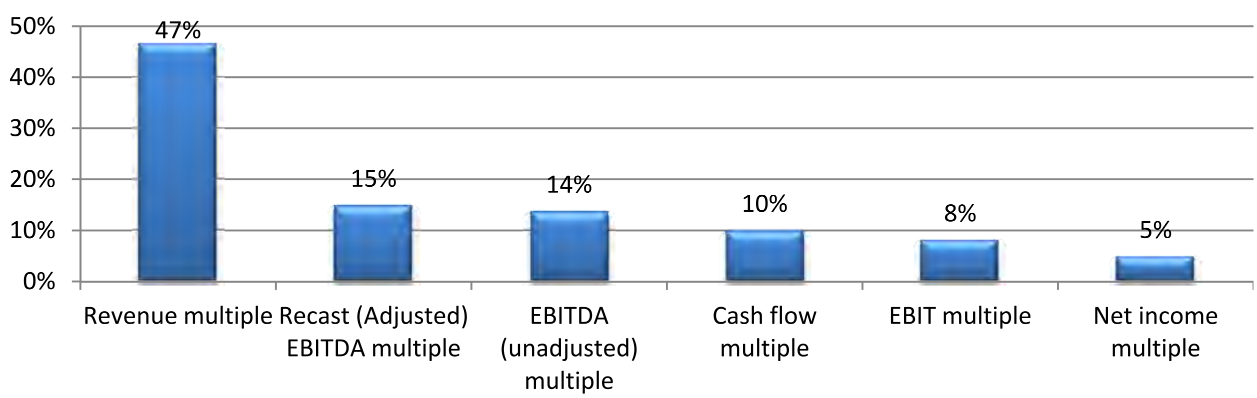
When valuing the company, approximately 27% of respondents use gut feel when valuing privately-held businesses.

Figure 68. Usage of Valuation Methods



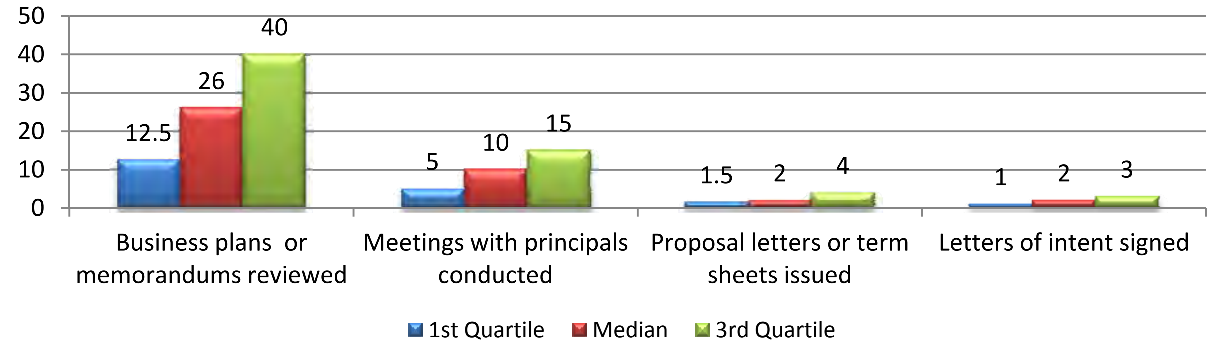
The weights of the various multiple methods used by respondents when valuing privately-held businesses included 47% for revenue multiple and 15% for recast (adjusted) EBITDA multiple methods.

Figure 69. Usage of Multiple Methods



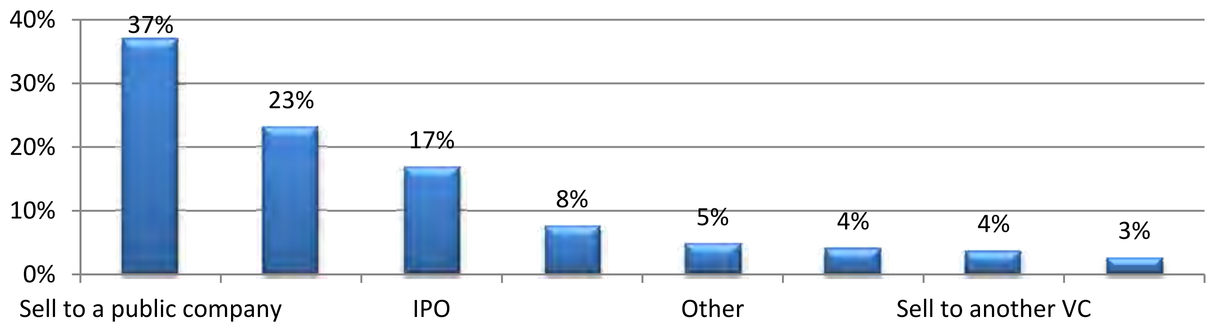
Respondents reported on items required to close one deal.

Figure 70. Items Required to Close One Deal



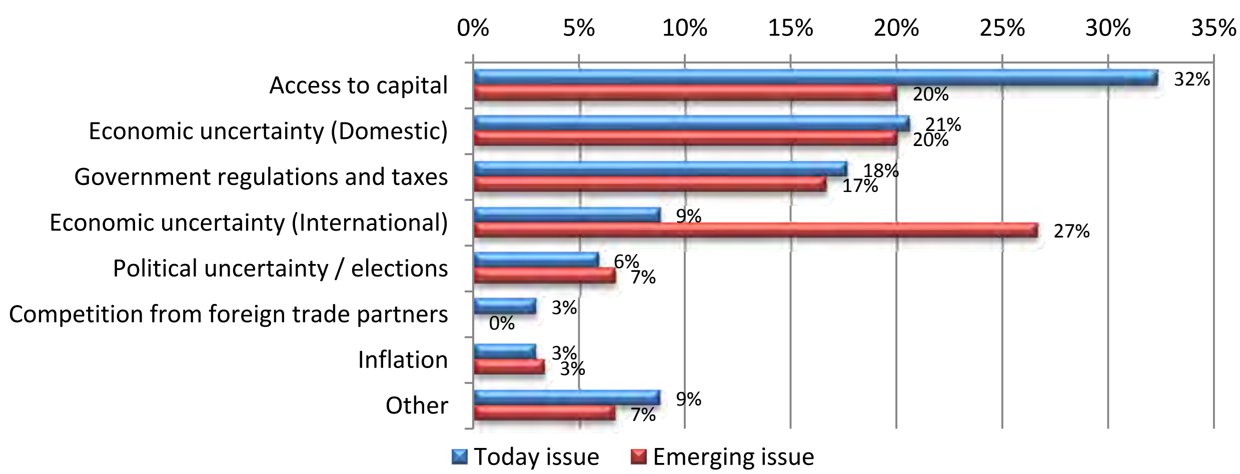
Respondents' exit strategies include selling to a public company (37%) followed by selling to a private company (23%).

Figure 71. Exit Plans for Portfolio Companies



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

Figure 72. Current Issues Facing Privately-Held Businesses



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

Table 42. 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%	19%	54%	27%	81%	0%	**81%**
Quality of companies seeking investment	4%	16%	40%	28%	12%	40%	20%	**20%**
Follow-on investments	0%	4%	29%	54%	13%	67%	4%	**63%**
Average investment size	0%	0%	52%	28%	20%	48%	0%	**48%**
Exit opportunities	0%	17%	42%	17%	25%	42%	17%	**25%**
Time to exit deals	0%	16%	60%	20%	4%	24%	16%	**8%**
Expected returns on new investments	4%	8%	65%	19%	4%	23%	12%	**12%**
Value of portfolio companies	0%	4%	19%	38%	38%	77%	4%	**73%**
General business conditions	4%	4%	23%	62%	8%	69%	8%	**62%**
Presence of super angels in space formerly occupied by VCs	0%	12%	24%	40%	24%	64%	12%	**52%**
Size of venture capital industry	8%	15%	35%	35%	8%	42%	23%	**19%**
Appetite for risk	12%	15%	35%	35%	4%	38%	27%	**12%**

Respondents expect further increases in all business characteristics.

Table 43. 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%	8%	38%	33%	21%	54%	8%	**46%**
Quality of companies seeking investment	4%	4%	67%	13%	13%	25%	8%	**17%**
Follow-on investments	0%	8%	38%	42%	13%	54%	8%	**46%**
Average investment size	0%	4%	46%	38%	13%	50%	4%	**46%**
Exit opportunities	4%	4%	50%	33%	8%	42%	8%	**33%**
Time to exit deals	0%	13%	54%	29%	4%	33%	13%	**21%**
Expected returns on new investments	0%	8%	46%	25%	21%	46%	8%	**38%**
Value of portfolio companies	0%	8%	21%	54%	17%	71%	8%	**63%**
General business conditions	4%	13%	25%	50%	8%	58%	17%	**42%**
Presence of super angels in space formerly occupied by VCs	4%	13%	35%	30%	17%	48%	17%	**30%**
Size of venture capital industry	8%	21%	25%	42%	4%	46%	29%	**17%**
Appetite for risk	8%	17%	46%	25%	4%	29%	25%	**4%**

ANGEL INVESTOR SURVEY INFORMATION

Of the 20 participants who responded to the angel investor survey, the majority (55%) of respondents plan to make between two and four investments. Other key findings include:

- Approximately 24% of respondents base valuations on gut feel when valuing privately-held businesses.
- When using multiples to determine the value of a business, the most popular methods used by respondents were revenue multiple (37%), EBITDA multiple (21%) and cash flow multiple (14%).
- The types of businesses respondents plan to invest in over next 12 months are very diverse with 26% targeting information technology and another 17% planning to invest in health care or biotech.
- Respondents indicated a sharp increase in demand for angel capital, increases in size of angel industry, follow-on investments, quality of companies seeking investment and improved general business conditions. They also reported decreased expected returns on new investments.
- Respondents' exit strategies include selling to a private company (30%) and selling to a public company (29%).

Operational and Assessment Characteristics

Approximately 25% of respondents made either five investments or more over the last twelve months.

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

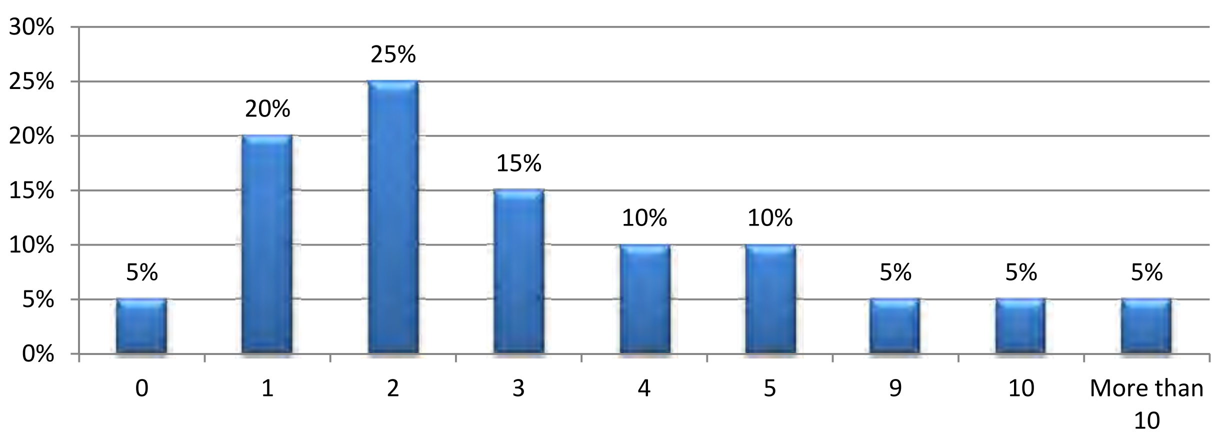
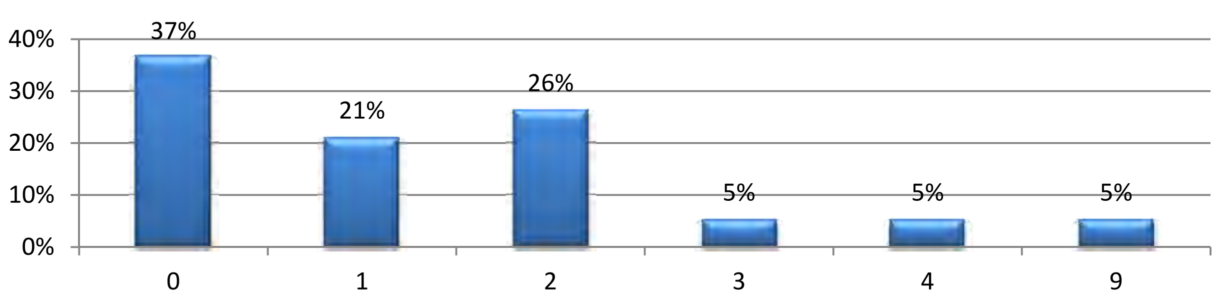


Figure 74. Number of Follow-on Investments Made in the Last 12 Months



ANGEL cont.

The majority (55%) of respondents plan to make between two and four investments over the next 12 months.

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

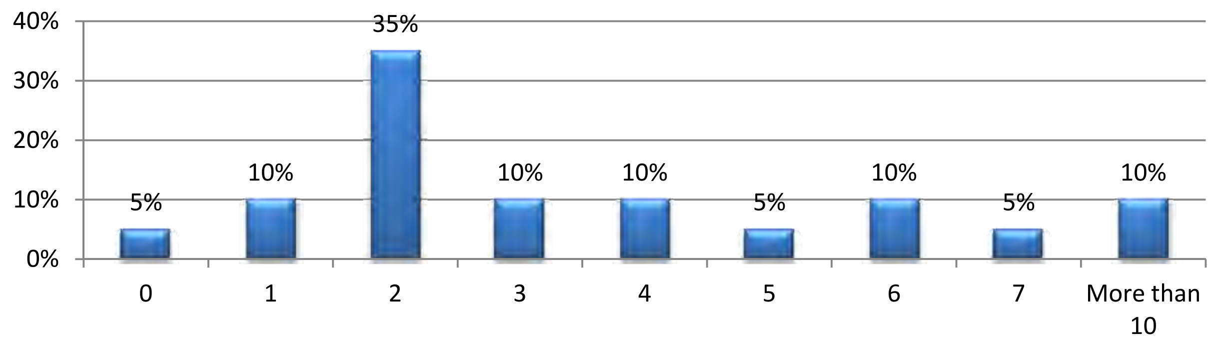
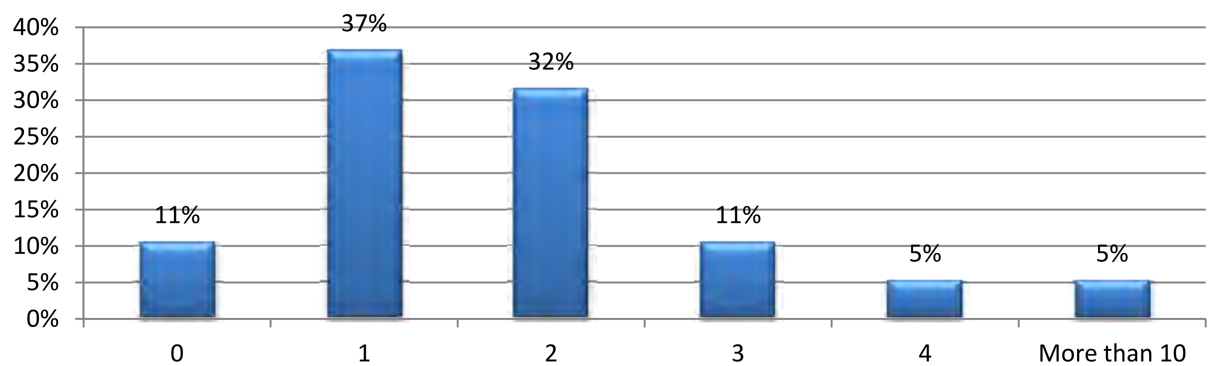
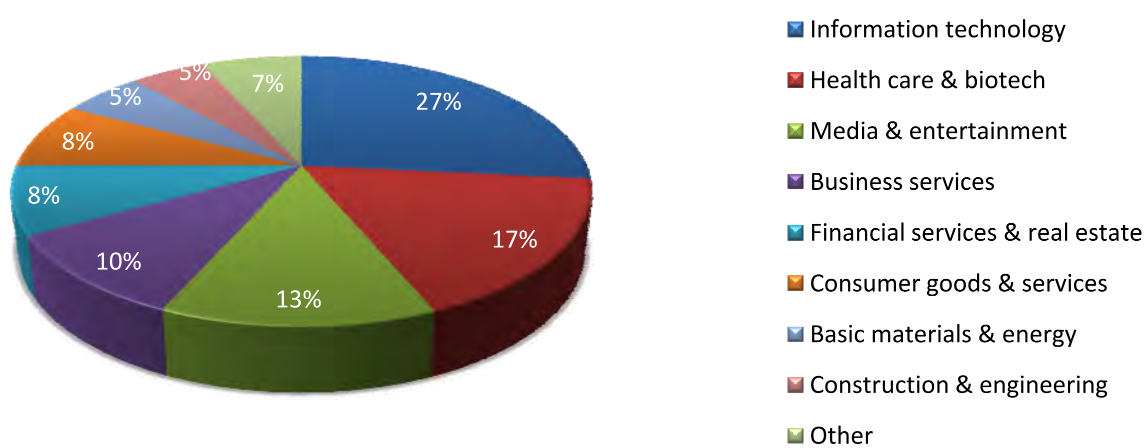


Figure 76. Number of Follow-on Investments Planned over Next 12 Months



The types of businesses respondents plan to invest in over next 12 months are very diverse with over 27% targeting information technology and another 17% planning to invest in health care & biotech.

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



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

Table 44. General Information on Investments by Company Stages

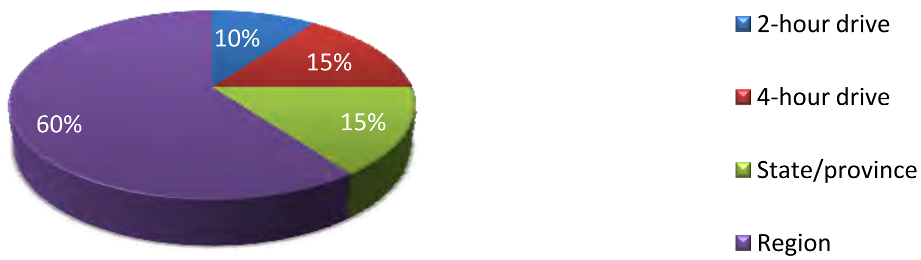
	Seed	Startup	Early Stage	Expansion	Later Stage
Number of Investments Made in Last six months					
1st Quartile	1.0	1.0	1.0	1.0	3.0
Median	**1.0**	**1.5**	**1.0**	**2.0**	**5.0**
3rd Quartile	2.0	2.0	2.3	2.0	5.0
Average Size of Investment (in thousands)					
1st Quartile	$25	$25	$25	$50	$500
Median	**$25**	**$75**	**$75**	**$100**	**$950**
3rd Quartile	$150	$150	$250	$650	$2,500
Average % of Total Equity Purchased (fully diluted basis)					
1st Quartile	4%	3.5%	1.3%	5%	11%
Median	**5%**	**5%**	**3%**	**7.5%**	**12%**
3rd Quartile	10%	5%	5%	17.5%	14%
Total EXPECTED Returns (gross cash on cash pretax IRR) on New Investments (%)					
1st Quartile	15%	17.5%	21.3%	21%	17.5%
Median	**30%**	**25%**	**25%**	**25%**	**25%**
3rd Quartile	35%	25%	35%	35%	30%
Expected Time to Exit (years)					
1st Quartile	4	3.5	3.8	4	4
Median	**5**	**5**	**5**	**5**	**5**
3rd Quartile	7.5	5	5	7.5	6.5
Average company 'pre-money' value (in millions)					
1st Quartile	$0.23	$0.43	$0.7	$0.7	$1.5
Median	**$1**	**$1.5**	**$1.5**	**$2.5**	**$3.5**
3rd Quartile	$1.8	$2.5	$3.5	$4.0	$7.5
Average Company Value at Time of Investment (post-money $ millions)					
1st Quartile	$0.4	$0.83	$1.3	$3.0	$3.3
Median	**$1.5**	**$1.8**	**$3.5**	**$3.8**	**$4.5**
3rd Quartile	$2.3	$3.5	$4.8	$8.5	$13.0

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

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

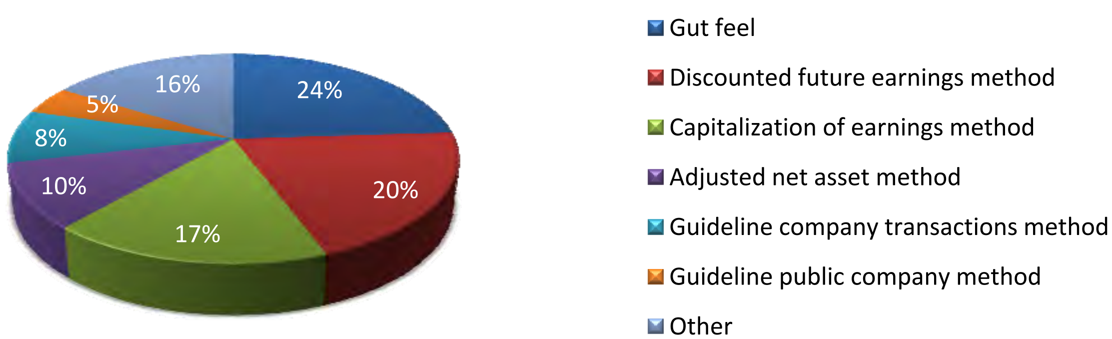
Respondents reported on their geographical limits for investments.

Figure 79. Geographical Limit for Investment



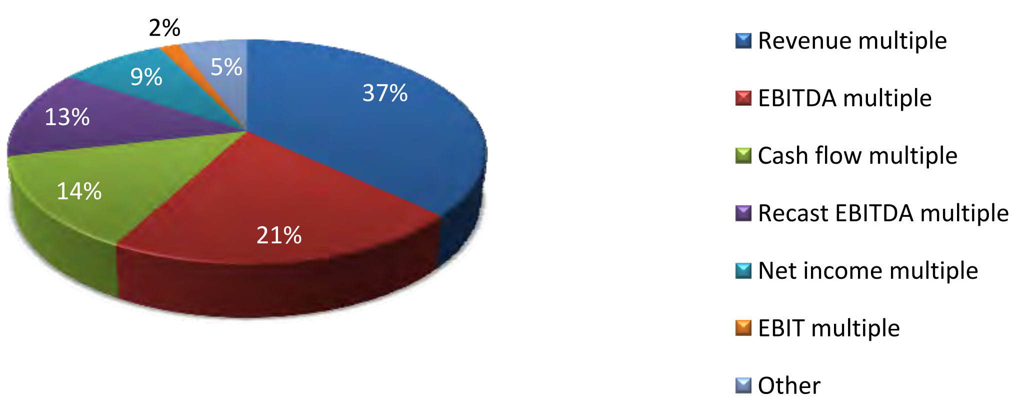
Approximately 24% of respondents base valuations on gut feel when valuing privately-held businesses followed by discounted future earnings method (20%).

Figure 80. Usage of Valuation Methods



The weights of the various multiple methods used by respondents when valuing privately-held businesses included 37% for revenue multiple and 21% for EBITDA multiple methods.

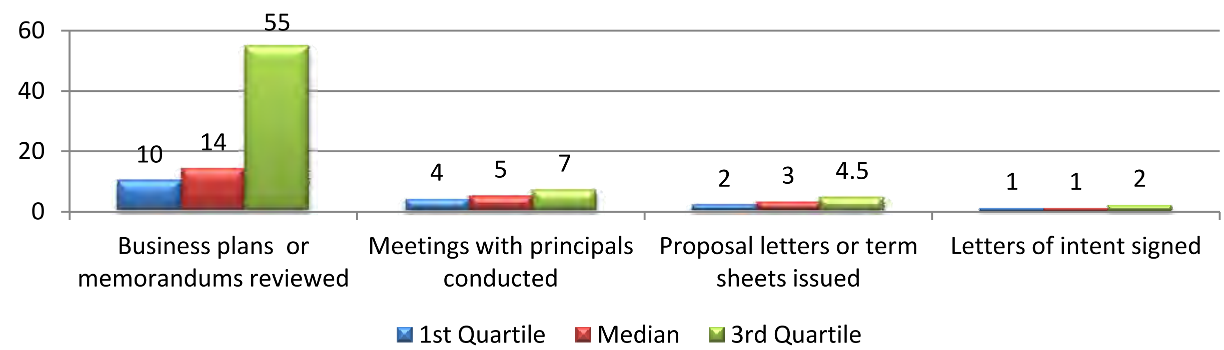
Figure 81. Usage of Multiple Methods



ANGEL cont.

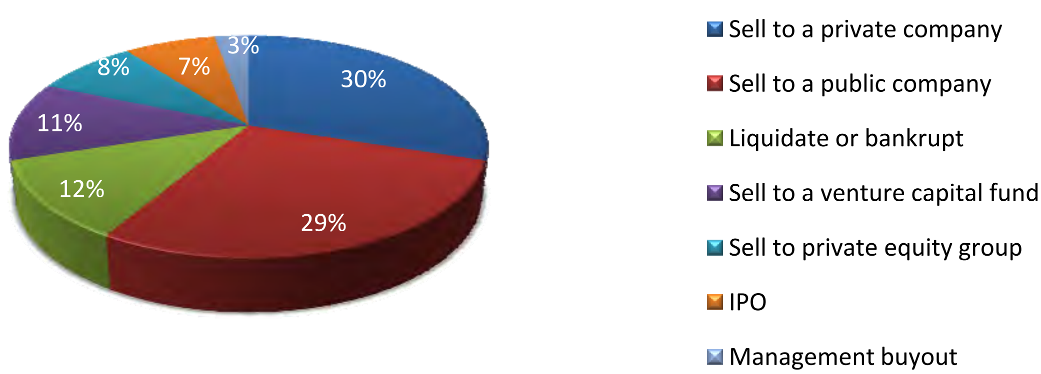
Respondents reported on items required to close one deal.

Figure 82. Items Required to Close One Deal



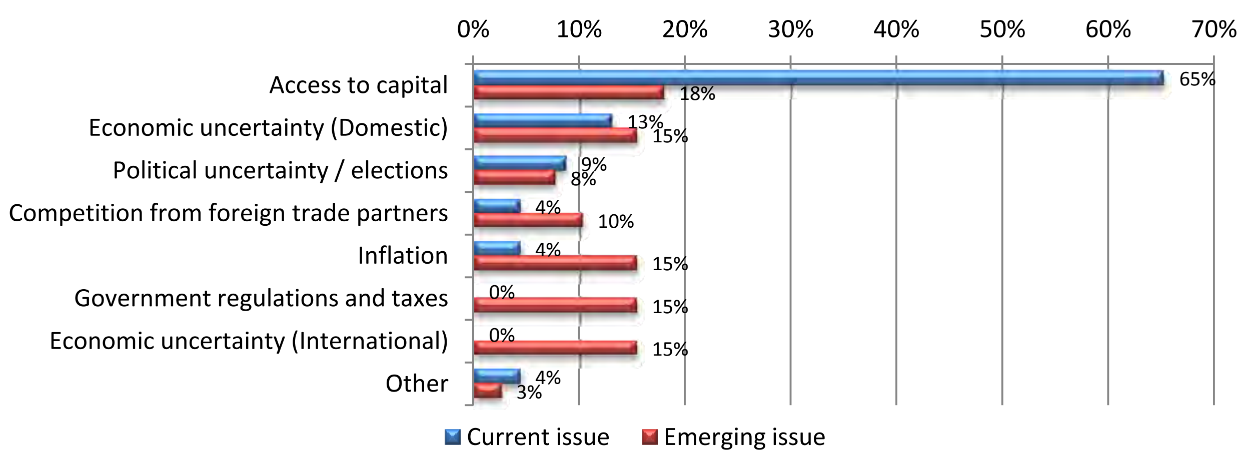
Respondents' exit strategies include selling to a private company (30%) and selling to a public company (29%).

Figure 83. Exit Plans for Portfolio Companies



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

Figure 84. Issues Facing Privately-Held Businesses



ANGEL cont.

Respondents indicated a sharp increase in demand for angel capital, increases in size of angel industry, follow-on investments, time to exit deals and improved general business conditions. They also reported decreased expected returns on new investments.

Table 45. 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	5%	11%	21%	26%	37%	63%	16%	**47%**
Size of angel finance industry	0%	5%	11%	47%	37%	84%	5%	**79%**
Quality of companies seeking investment	5%	21%	16%	47%	11%	58%	26%	**32%**
Follow-on investments	0%	6%	24%	53%	18%	71%	6%	**65%**
Average investment size	0%	16%	42%	21%	21%	42%	16%	**26%**
Exit opportunities	5%	11%	37%	42%	5%	47%	16%	**32%**
Time to exit deals	0%	21%	47%	16%	16%	32%	21%	**11%**
Expected returns on new investments	5%	16%	68%	5%	5%	11%	21%	**-11%**
Value of portfolio companies	0%	0%	44%	44%	11%	56%	0%	**56%**
General business conditions	0%	5%	37%	42%	16%	58%	5%	**53%**
Appetite for risk	0%	11%	47%	26%	16%	42%	11%	**32%**

Respondents expect further increases in business characteristics except appetite for risk.

Table 46. 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	5%	16%	21%	42%	16%	58%	21%	**37%**
Size of angel finance industry	5%	16%	21%	53%	5%	58%	21%	**37%**
Quality of companies seeking investment	5%	26%	26%	42%	0%	42%	32%	**11%**
Follow-on investments	6%	0%	24%	65%	6%	71%	6%	**65%**
Average investment size	5%	0%	53%	42%	0%	42%	5%	**37%**
Exit opportunities	11%	11%	50%	22%	6%	28%	22%	**6%**
Time to exit deals	0%	0%	56%	28%	17%	44%	0%	**44%**
Expected returns on new investments	6%	6%	67%	22%	0%	22%	11%	**11%**
Value of portfolio companies	0%	24%	47%	29%	0%	29%	24%	**6%**
General business conditions	0%	22%	50%	22%	6%	28%	22%	**6%**
Appetite for risk	6%	17%	61%	17%	0%	17%	22%	**-6%**

BUSINESS APPRAISER SURVEY INFORMATION

According to the 166 business appraiser survey respondents domestic economic uncertainty is the most important issue facing privately-held business today. Respondents indicated increases in number of engagements, fees for services, competition, and improved general business conditions over the last twelve months. They also expect decreases in all general business characteristics over the next year.

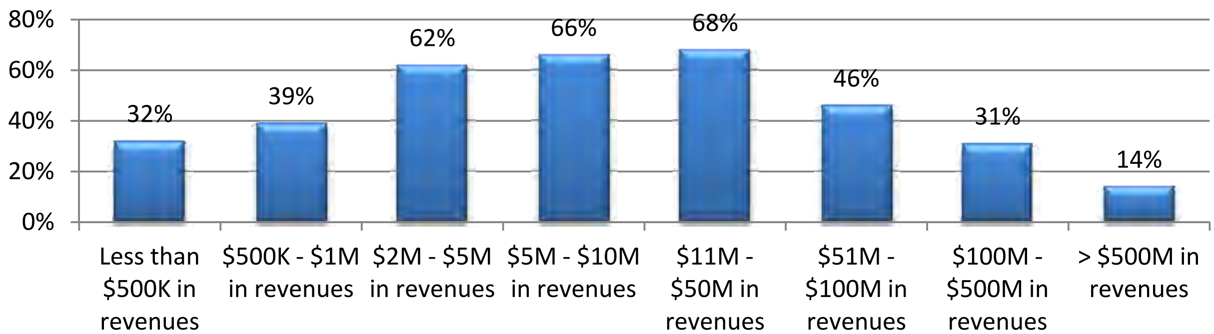
Other key findings include:

- When using valuation methods to determine the value of a business, the most popular methods used by respondents were discounted future earnings method (37%), capitalization of earnings method (24%) 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 3.4% and a market (equity) risk premium of 6.1%
- Average long-term terminal growth is estimated at 3.3%

Operational and Assessment Characteristics

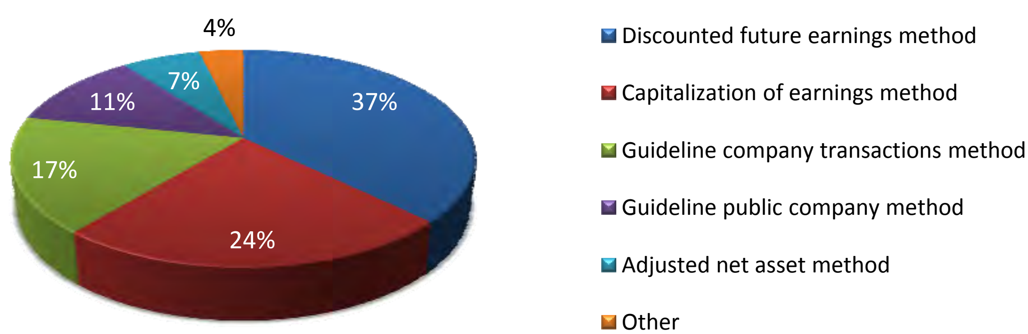
Most of the companies valued by respondents have annual revenues from $2 million to $50 million.

Figure 85. Annual Revenues of Companies Valued



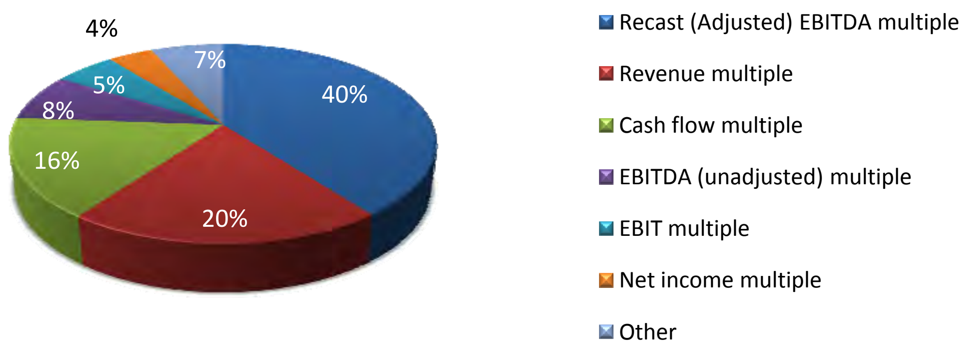
Appraisers, on average, apply a 37% weight to discounted future earnings method when valuing a privately-held business.

Figure 86. Usage of Valuation Methods



Respondents using multiples-based approaches indicate a preference for using recast (adjusted) EBITDA multiples (40%), followed by revenue multiples (20%).

Figure 87. Usage of Multiple Methods



Respondents indicated using an average risk-free rate of 3.4%, average market (equity) risk premium of 6.1% and average long-term growth rate of 3.3%.

Figure 88. Average Risk-Free Rat and Market (equity) Risk Premium and Long-Term Growth Rate

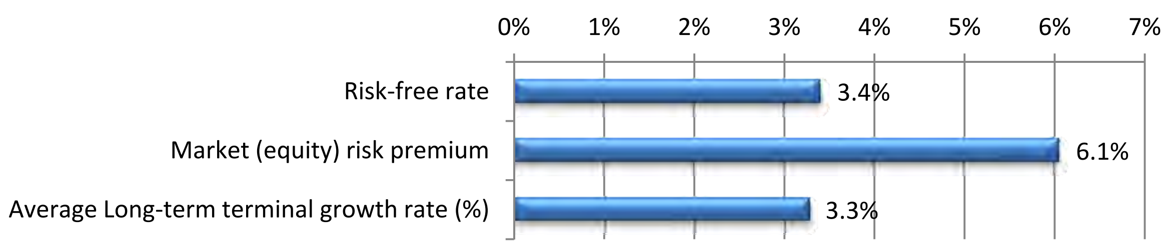
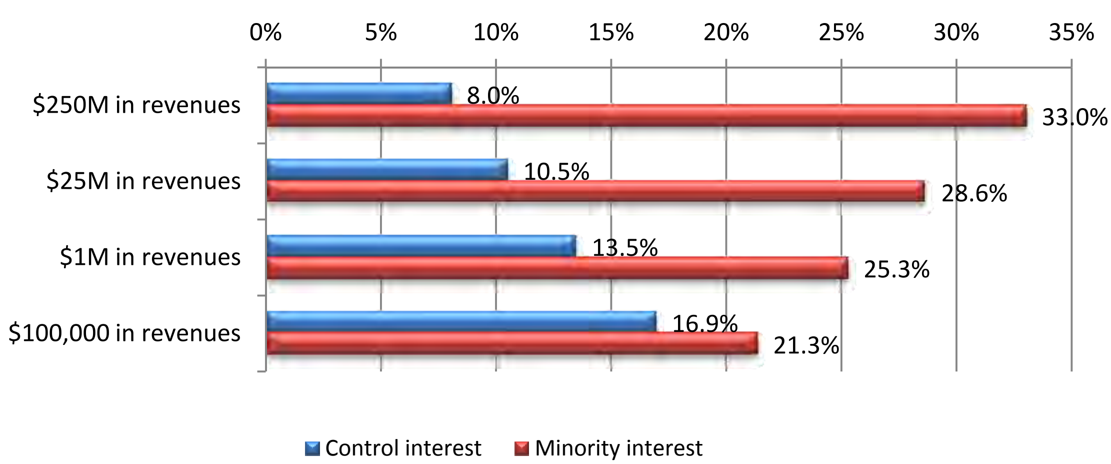


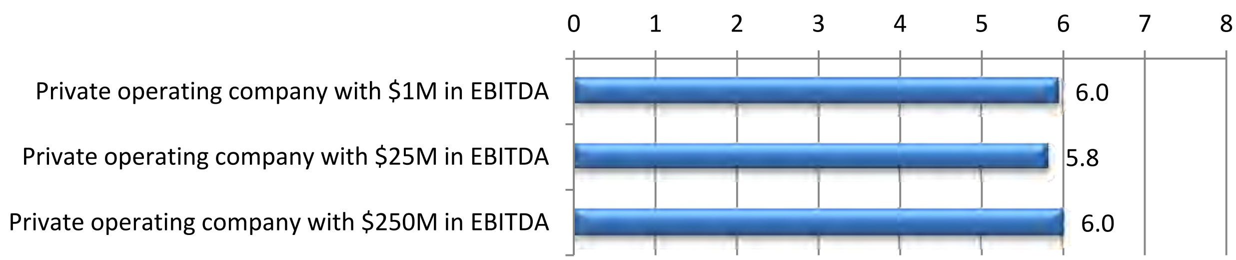
Figure 81 indicates considerable differences in DLOMs across sizes of companies and subject interests.

Figure 89. Discount for Lack of Marketability (DLOM) by Revenue Sizes



APPRAISERS cont.

Figure 90. 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 47. 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	5%	22%	32%	25%	16%	41%	27%	**14%**
Time to complete a typical appraisal	0%	14%	68%	15%	3%	18%	14%	**4%**
Fees for services	2%	8%	55%	31%	3%	34%	11%	**23%**
Competition	0%	2%	59%	28%	12%	39%	2%	**37%**
Cost of capital	0%	20%	62%	15%	2%	17%	20%	**-3%**
Market (equity) risk premiums	0%	13%	74%	11%	2%	13%	13%	**0%**
DLOM	0%	8%	85%	6%	1%	7%	8%	**-1%**
Company specific risk premiums	0%	15%	71%	13%	1%	14%	15%	**-1%**
General business conditions	1%	9%	47%	40%	3%	43%	10%	**33%**

Respondents expect decreases in all general business characteristics except DLOMs over the next year.

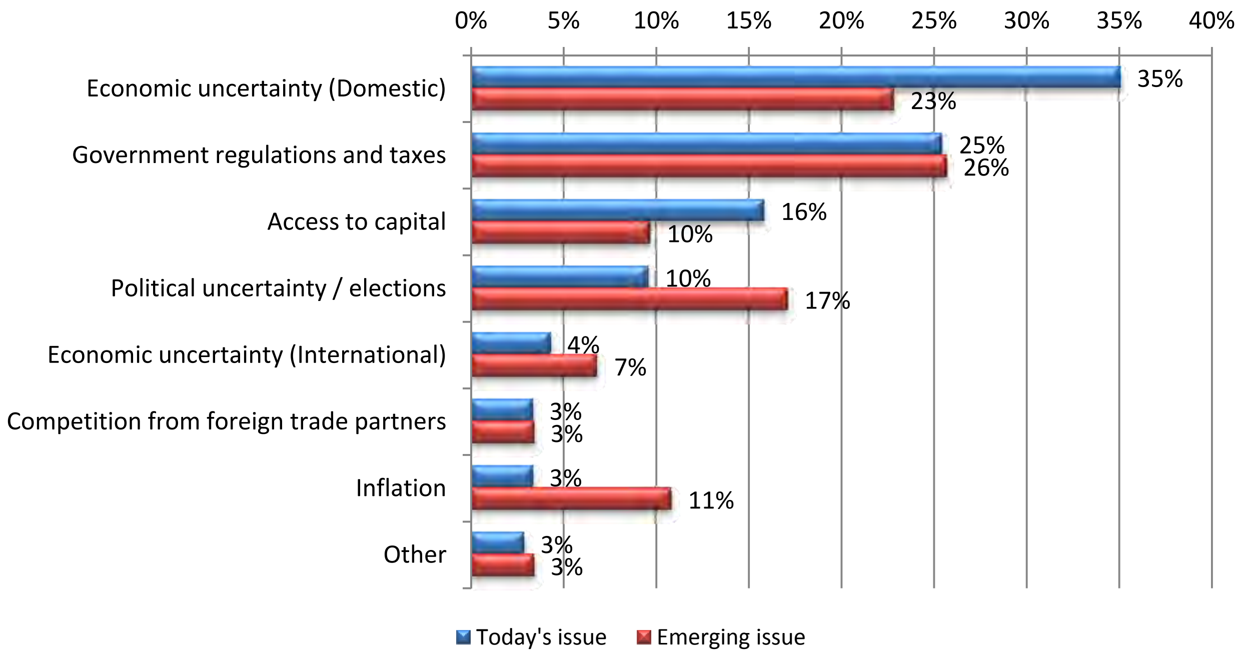
Table 48. General Business and Industry Assessment Expectations over the Next 12 Months

Characteristics	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	Net increase/ decrease
Number of engagements	2%	8%	34%	45%	12%	0%	10%	**-10%**
Time to complete a typical appraisal	0%	9%	80%	10%	2%	0%	9%	**-9%**
Fees for services	0%	5%	54%	39%	2%	0%	5%	**-5%**
Competition	0%	2%	62%	30%	5%	1%	2%	**-1%**
Cost of capital	0%	4%	62%	32%	1%	2%	4%	**-2%**
Market (equity) risk premiums	0%	4%	71%	21%	2%	2%	4%	**-2%**
DLOM	0%	2%	85%	5%	1%	6%	2%	**4%**
Company-specific risk premiums	0%	5%	78%	12%	2%	4%	5%	**-1%**
General business conditions	1%	9%	52%	35%	1%	2%	10%	**-8%**

APPRAISERS cont.

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

Figure 91. Issues Facing Privately-Held Businesses



BROKER SURVEY INFORMATION

Approximately 39% of the 41 participants in the broker survey said they expect to close six deals or more in the next 12 months. Respondents believe access to capital is the most important issue facing privately-held businesses today. Domestic economic uncertainty is indicated as the most important emerging issue.

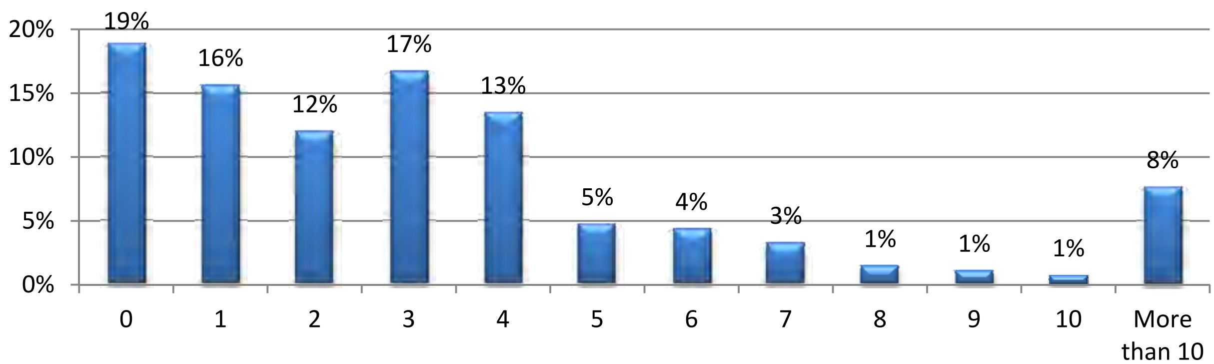
Other key findings include:

- The majority of deals (85%) took less than 1 year to close with the largest concentration being the nine to ten month category. Another 11% took about a year and a half.
- Respondents indicated increases in deal flow, ratio of businesses sold to total listings, business exit opportunities and difficulty selling business.
- Top three reasons for deals not closing: unreasonable non-price seller or buyer demand (29%), valuation gap in pricing (23%), and no market for business (11%).

Operational and Assessment Characteristics

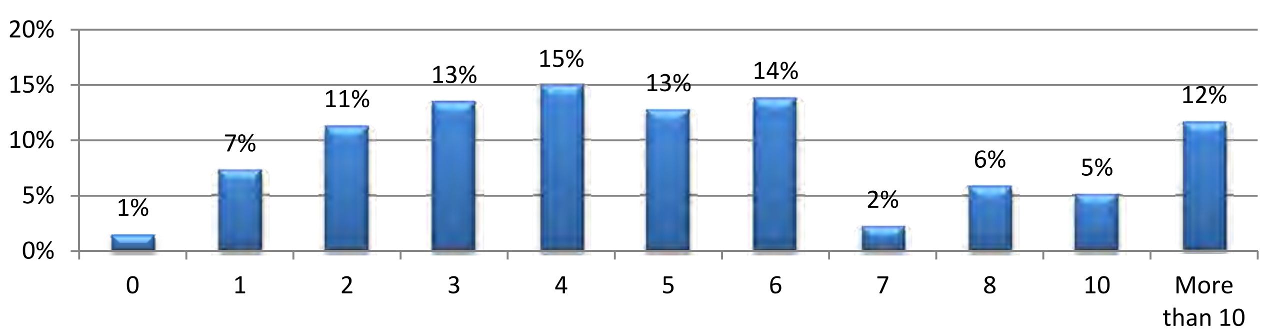
Approximately 19% of the respondents didn't close any deal in the last twelve months; 63% closed between one to five deals, while 19% closed six or more transactions.

Figure 92. Private Business Sales Transactions Closed in the Last Twelve Months



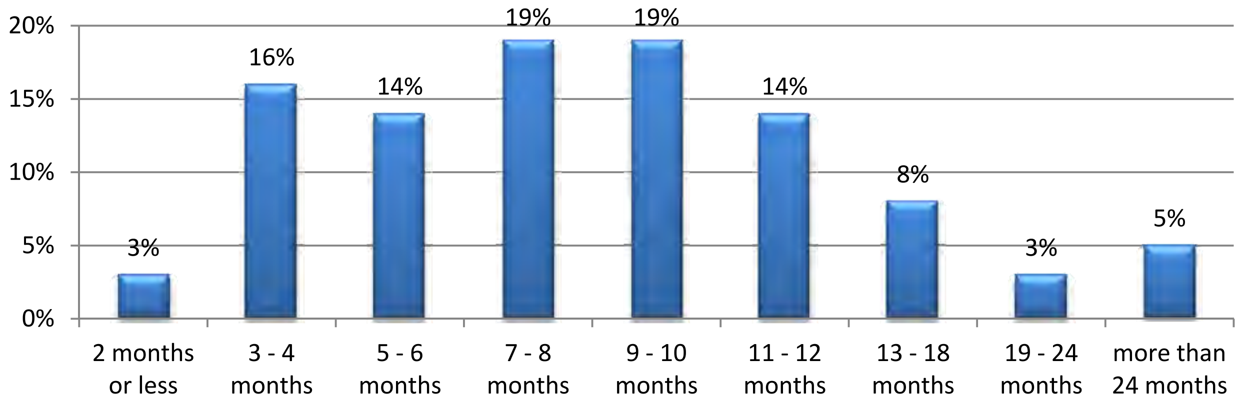
Approximately 60% of respondents are planning to close between one and five business sales transactions in the next 12 months.

Figure 93. Private Business Sales Transactions Expected to Close in the Next Twelve Months



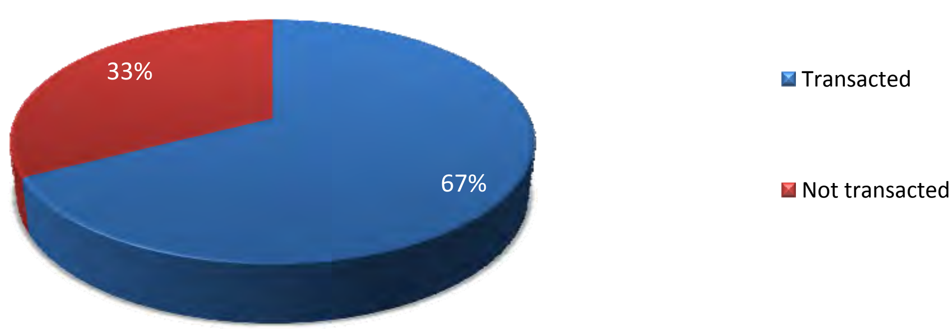
The majority of business transactions (38%) took 7 to 10 months to close.

Figure 94. Average Number of Months to Close One Business Transaction



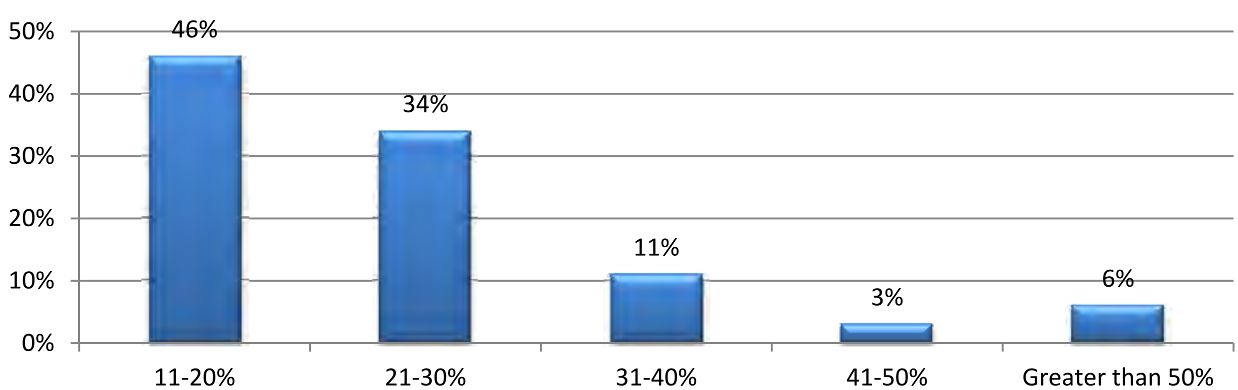
Approximately 33% of deals terminated without transacting over the past year.

Figure 95. Percentage of Business Sales Engagements Terminated Without Transacting



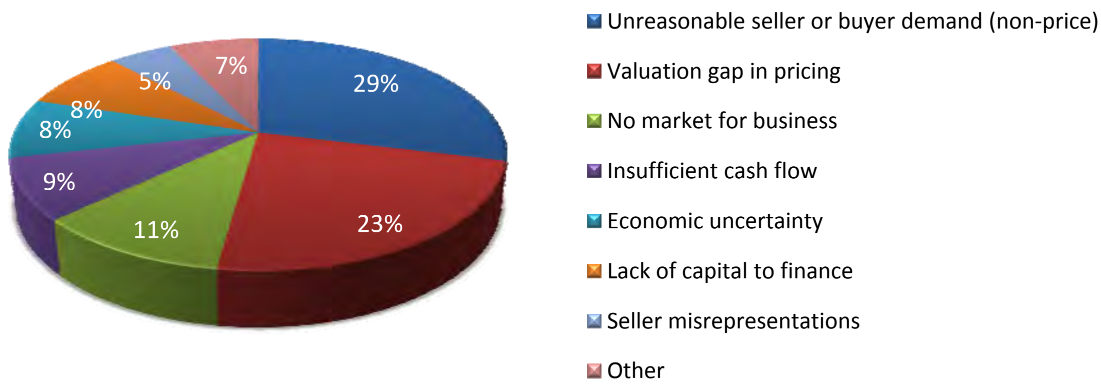
Approximately 46% of deals that were not transacted had a valuation gap in pricing between 11% and 20%.

Figure 96. Valuation Gap in Pricing for Transactions That Didn't Close



Top reasons for deals not closing: unreasonable seller/buyer demand (29%) and valuation gap in pricing (23%).

Figure 97. Reasons for Business Sales Engagements Not Transacting



The most popular valuation method used by respondents when valuing privately-held businesses was capitalization of earnings method.

Figure 98. Usage of Valuation Methods

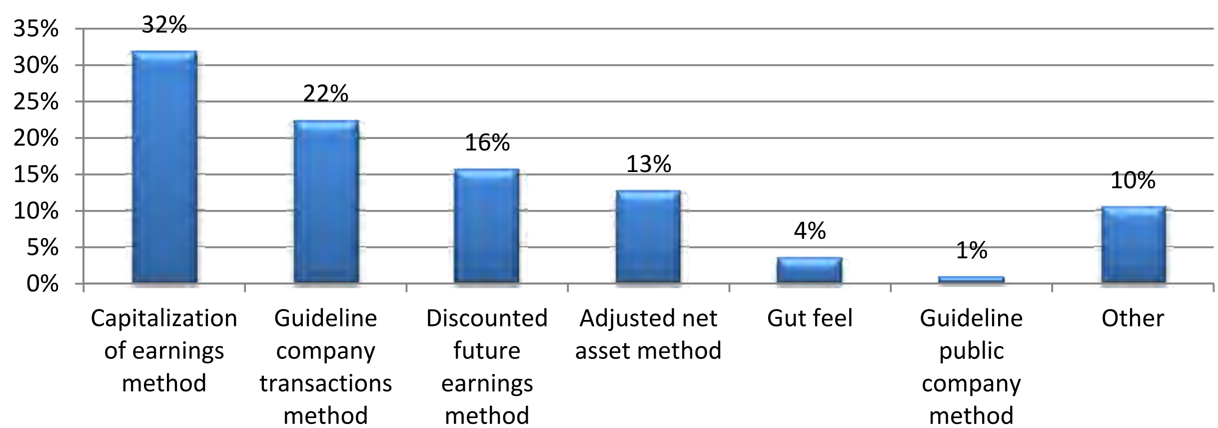
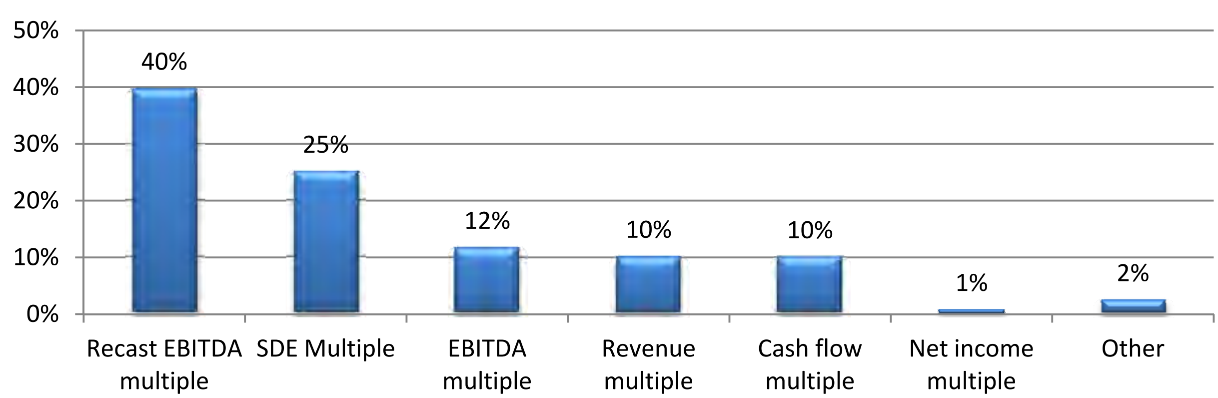


Figure 99. Usage of Multiples



Approximately 57% of business sales transactions closed in the last 12 months involved seller financing or seller note.

Figure 100. Components of Closed Deals

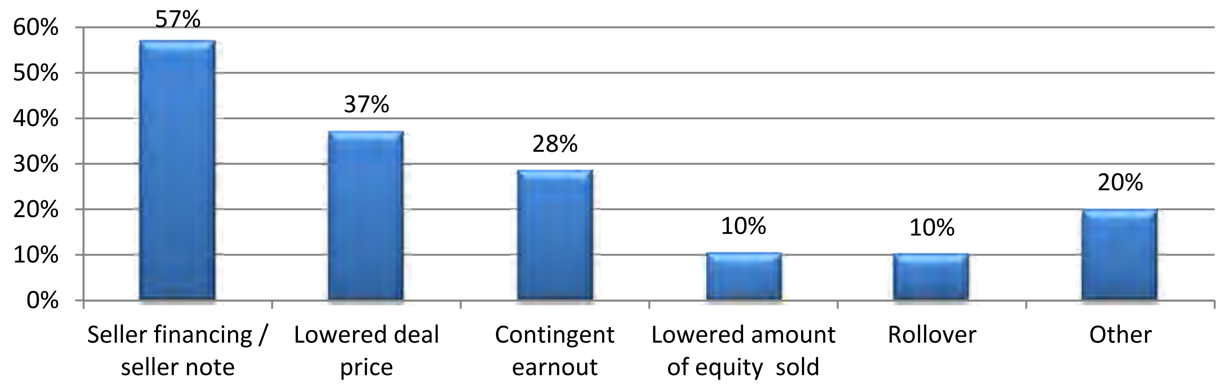


Table 49. How Difficult to Arrange Senior Debt for Transactions over the Past 12 Months

Revenue size	Extremely difficult	Difficult	Somewhat difficult	Neutral	Somewhat easy	Easy	Extremely easy	**Score (-2 to 2)**
$100K	37%	16%	11%	15%	10%	7%	4%	**-1.3**
$500K	9%	23%	23%	21%	13%	9%	3%	**-0.7**
$1M	6%	13%	16%	25%	19%	15%	6%	**-0.2**
$5M	10%	6%	16%	23%	23%	15%	7%	**0.0**
$10M	11%	9%	11%	23%	20%	15%	12%	**0.0**
$15M	14%	6%	8%	24%	16%	16%	16%	**0.1**
$25M+	14%	2%	10%	26%	19%	10%	19%	**0.2**

Average seller's discretionary earnings (SDE) deal multiples on transactions by revenue size from the prior twelve months as observed by respondents varied from 1.3 to 4.1.

Table 50. Median Seller's Discretionary Earnings (SDE) Deal Multiples by Revenue Size

Revenue	< 500K revenue	$500K - $1M revenue	$1M - $2M revenue	$2M - $5M revenue	$5M - $50M revenue
Basic materials & energy	2.5	n/a	n/a	n/a	n/a
Business services	1.4	2.6	3	3.2	3.4
Construction & engineering	1.8	2	2.1	2.8	n/a
Consumer goods & retail	1.8	2	2.3	2.5	n/a
Information technology	1.3	2	2.6	4	n/a
Health care & biotech	1.5	2.5	2.8	n/a	4.1
Manufacturing	1.3	2.5	2.8	3.5	4
Restaurants	1.5	2.8	3	n/a	n/a
Financial services	2	2	n/a	n/a	n/a
Personal services	1.5	1.8	2.3	3.8	n/a
Wholesale & distribution	1.9	2	2.4	3.2	n/a

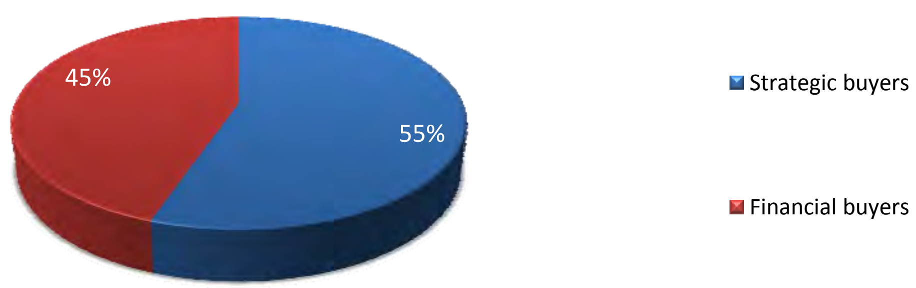
Average deal multiples on transactions by EBITDA size from the prior twelve months as observed by respondents varied from 1.5 to 5.1.

Table 51. Median EBITDA Deal Multiples by Revenue Size of Company

Revenue	< 500K revenue	$500K - $1M revenue	$1M - $2M revenue	$2M - $5M revenue	$5M - $50M revenue
Basic materials & energy	n/a	n/a	n/a	n/a	3.9
Business services	2	2.6	3	4.5	5.1
Construction & engineering	n/a	2	2.5	2.8	3.6
Consumer goods & retail	2.3	2.4	2.5	3.1	n/a
Information technology	1.5	2.3	2.6	4	5
Health care & biotech	2	2.5	2.8	2.8	4.1
Manufacturing	n/a	2.5	3	3.5	4
Restaurants	1.5	2.8	n/a	3	n/a
Financial services	2	n/a	n/a	n/a	n/a
Personal services	2.5	4	2.3	n/a	n/a
Wholesale & distribution	2.5	3.8	3.8	4	4.6

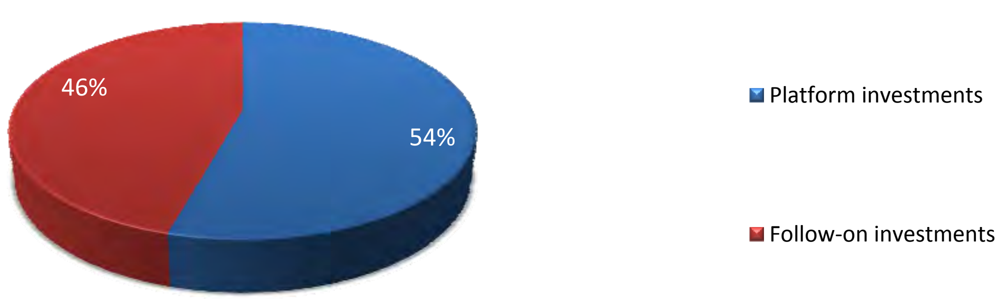
Approximately 55% of closed business sales transactions over the past 12 months involved strategic buyers.

Figure 101. Percent of Transactions Involved Strategic and Financial Buyers



Approximately 46% of closed business sales transactions over the past 12 months involved strategic follow-on investments.

Figure 102. Percent of Transactions Involved Platform and Follow-on Investments



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

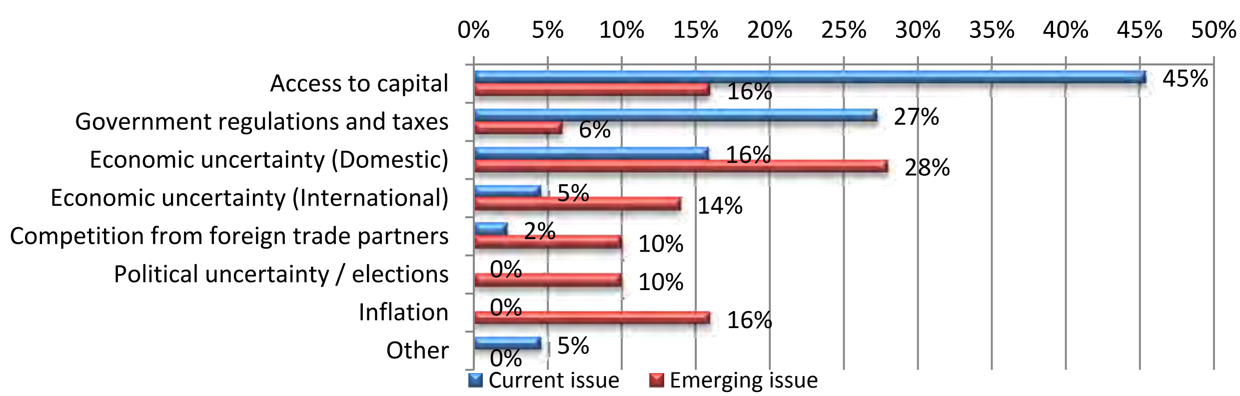
	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	**Net increase**
Deal flow	4%	13%	31%	40%	11%	51%	18%	**33%**
Ratio of businesses sold / total listings	4%	13%	47%	29%	7%	37%	16%	**21%**
Deal multiples	0%	8%	67%	22%	2%	24%	9%	**15%**
Business exit opportunities	2%	11%	52%	30%	5%	35%	13%	**22%**
Amount of time to sell business	0%	11%	57%	23%	8%	31%	12%	**19%**
Difficulty selling business	1%	13%	55%	22%	9%	31%	14%	**17%**
Business opportunities for growth	1%	10%	46%	40%	4%	44%	11%	**33%**
General business conditions	2%	13%	38%	44%	4%	47%	15%	**33%**
Margin pressure on companies	0%	12%	60%	23%	5%	28%	12%	**16%**

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	2%	5%	30%	53%	11%	64%	6%	**58%**
Ratio of businesses sold / total listings	2%	4%	36%	50%	9%	59%	5%	**54%**
Deal multiples	0%	6%	64%	29%	1%	29%	7%	**23%**
Business exit opportunities	0%	6%	50%	38%	6%	44%	7%	**37%**
Amount of time to sell business	0%	18%	58%	21%	4%	25%	18%	**7%**
Difficulty selling business	0%	20%	57%	19%	4%	23%	20%	**3%**
Business opportunities for growth	1%	6%	52%	39%	2%	41%	7%	**35%**
General business conditions	1%	11%	44%	41%	4%	45%	12%	**33%**
Margin pressure on companies	0%	6%	67%	24%	4%	27%	6%	**22%**

Respondents believe domestic access to capital is the most important issue facing privately-held businesses today. Government regulations and taxes are indicated as the most important emerging issues.

Figure 103. Issues Facing Privately-Held Businesses



BUSINESS OWNER SURVEY INFORMATION

Of the 681 privately-held businesses that responded to the survey, 15% had businesses that involved manufacturing, 12% were in professional, scientific or technical services, another 12% were in business service, followed by construction and engineering (9%). Approximately 50% of businesses have annual revenues less than $1 million. Nearly 89% of business owners report having the enthusiasm to execute growth strategies, yet just 52% report having the necessary financial resources to successfully execute growth strategies. Other findings include:

Of the respondents who were seeking financing in the last 12 months, approximately 49% anticipated to raise less than $100,000 in capital. Approximately 47% 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 (13%). Of all financing options, bank loans emerged as the financing source with highest "willingness" for small business to use, followed by grants and credit unions. Results also showed that 77% 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 1.9 banks.

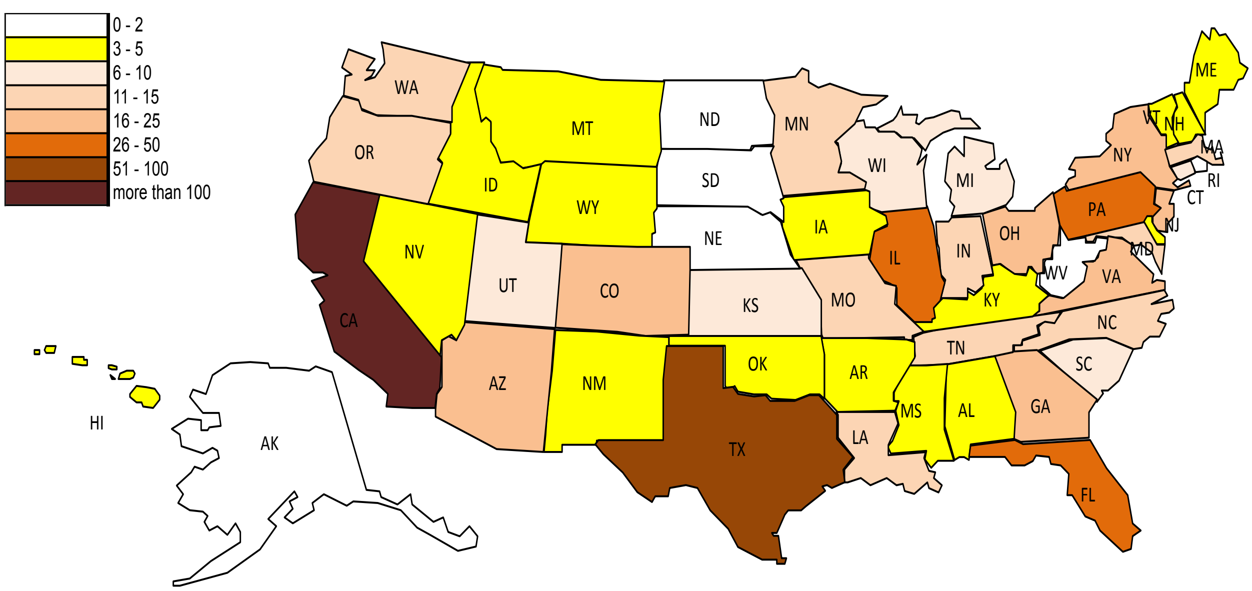
Nearly half of small businesses (57%) are planning to hire additional workers. Nearly 22% of respondents believe domestic economic uncertainty is the number one issue small businesses face today, another 21% believe government regulations and taxes is the most important current issue, followed by access to capital (18%). According to small businesses, of those policies most likely to lead to job creation in 2014, increased access to capital emerged as number one (31%) followed by "repeal or modify Affordable Care Act" (21%), and regulatory reform (19%). The study showed that of those that do plan to hire, skilled labor is in greatest demand (47%) followed by sales and marketing skills (44%) and service/customer service (37%). Also, 87% of companies planning to hire indicate they'd need to train those they hire.

37% of respondents believe that general business conditions improved in the twelve months compared to 33% surveyed year ago.

Operational and Assessment Characteristics

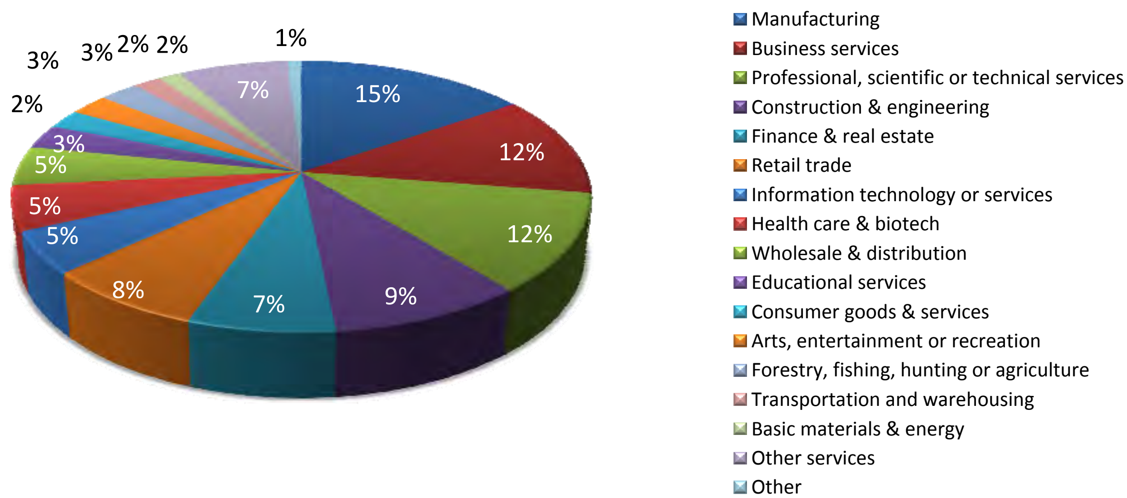
The privately-held business survey results were generated from 681 participants. The locations of businesses are distributed over all regions of the United States.

Figure 104. Respondents Distribution by State



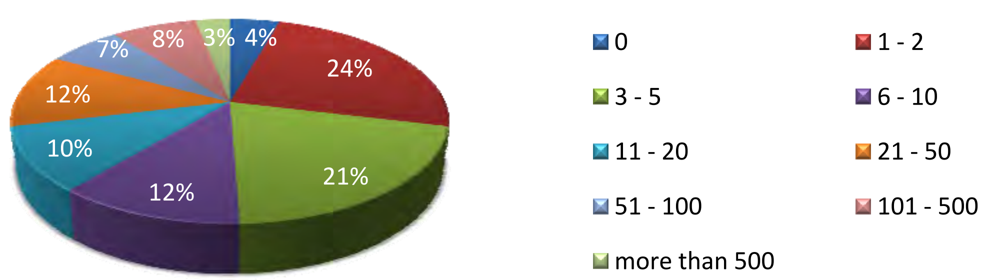
Businesses involved in manufacturing accounted for 15% of respondents followed by professional, scientific or technical services (12%) and business services (12%).

Figure 105. Description of Entity



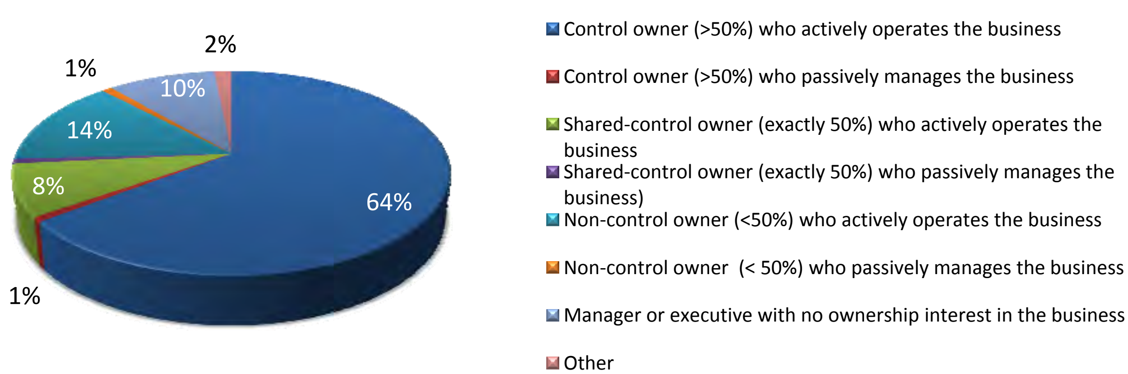
Approximately 49% of businesses have less than or equal to five employees.

Figure 106. Number of Employees



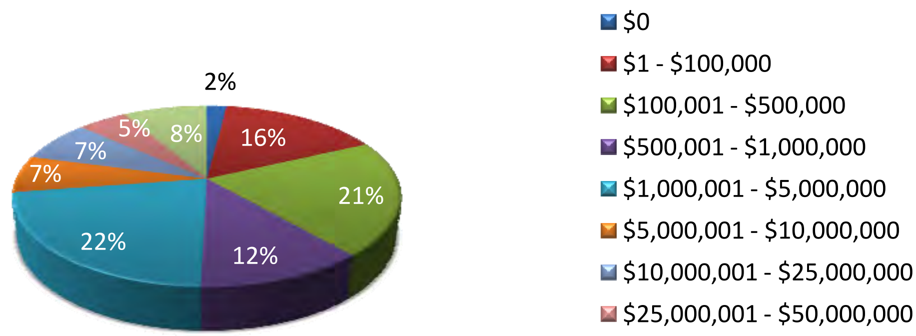
Approximately 64% of the respondents are active control owners of their businesses.

Figure 107. Ownership Role



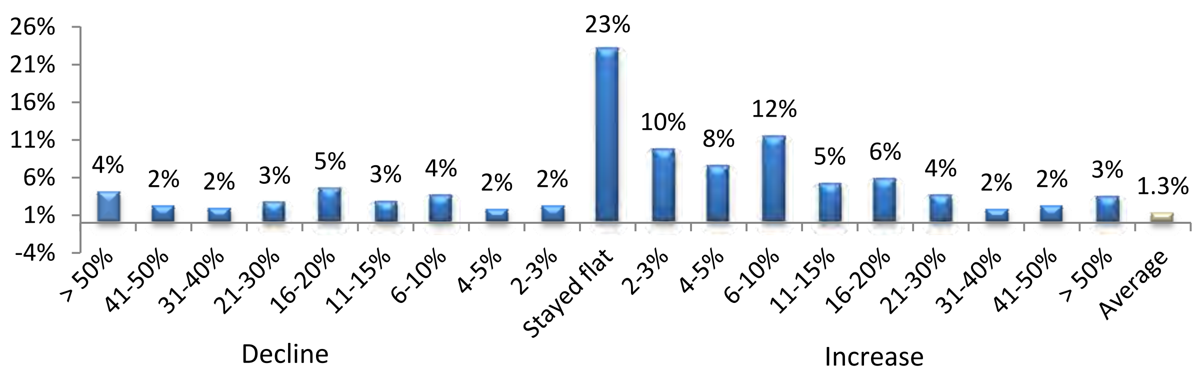
Approximately 50% of respondents have less than or equal to $1M in annual revenues, followed by 22% reporting between $1M and $5M.

Figure 108. Annual Revenues



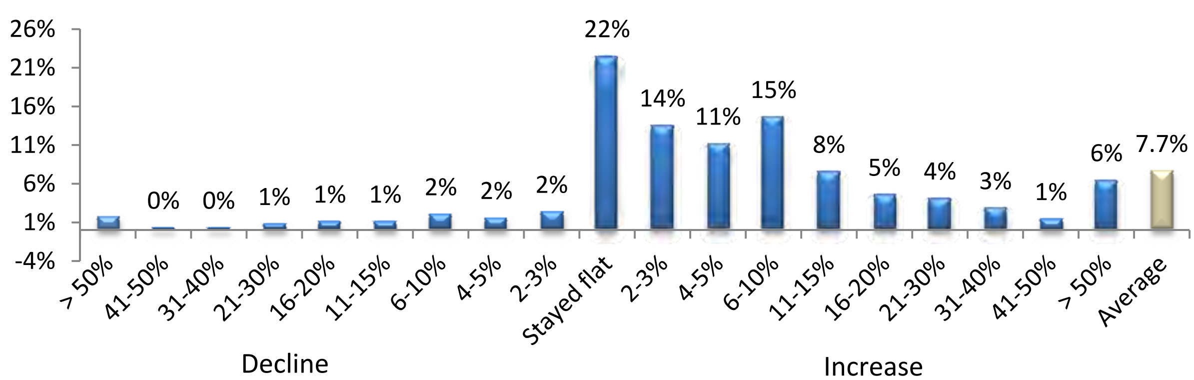
Average change in annual revenues in the last 12 months was 1.3%.

Figure 109. Annual Revenues Change in the Last 12 Months



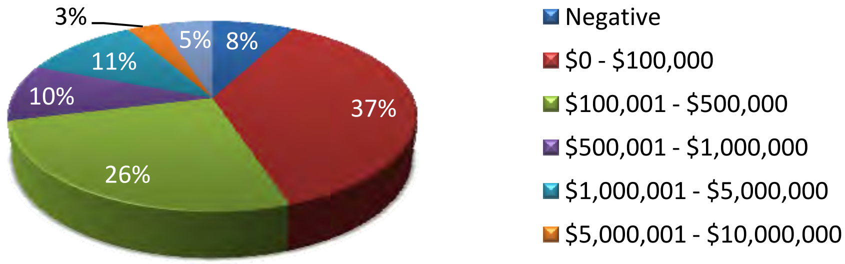
On average respondents expect their annual revenues to grow by 7.7% in the next 12 months.

Figure 110. Annual Revenues Change Expectations in the Next 12 Months



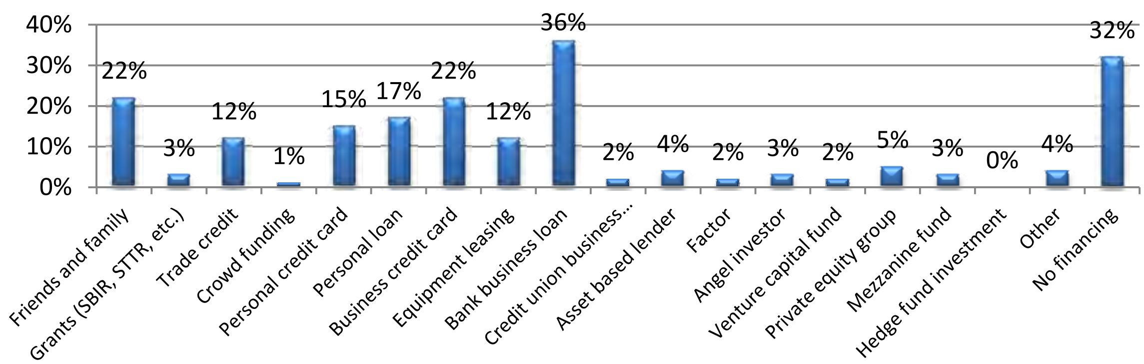
Approximately 71% of businesses have net income less than or equal to $500,000, 8% of those have negative net income.

Figure 111. Net Income



Approximately 32% of respondents are currently not financed by any external capital sources. Nearly 36% and 22% of respondents' businesses are financed by bank business loans and business credit card financing, respectively.

Figure 112. Current Sources of Financing



Among the businesses that tried to raise capital in the last 12 months 33% applied for bank business loan and 77% were successful, whereas 35% of respondents didn't try to raise capital from any source.

Figure 113. Capital Sources Contacted To Raise Capital in the Last 12 Months

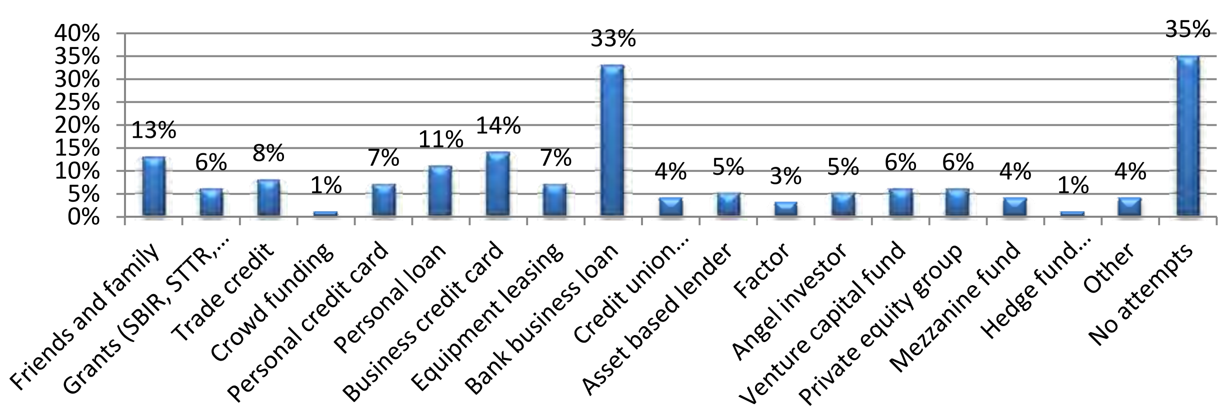
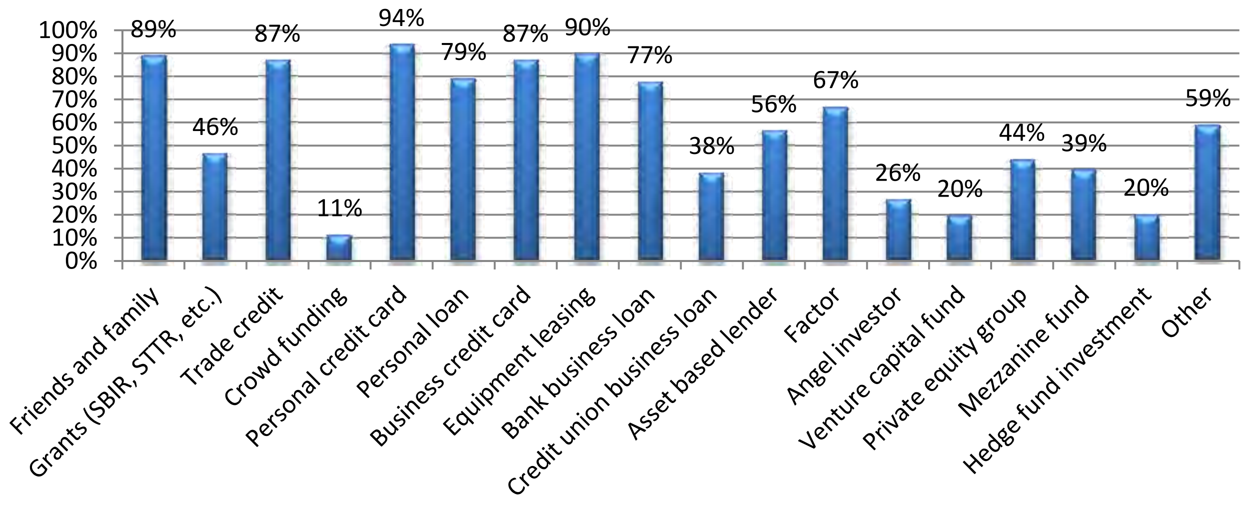
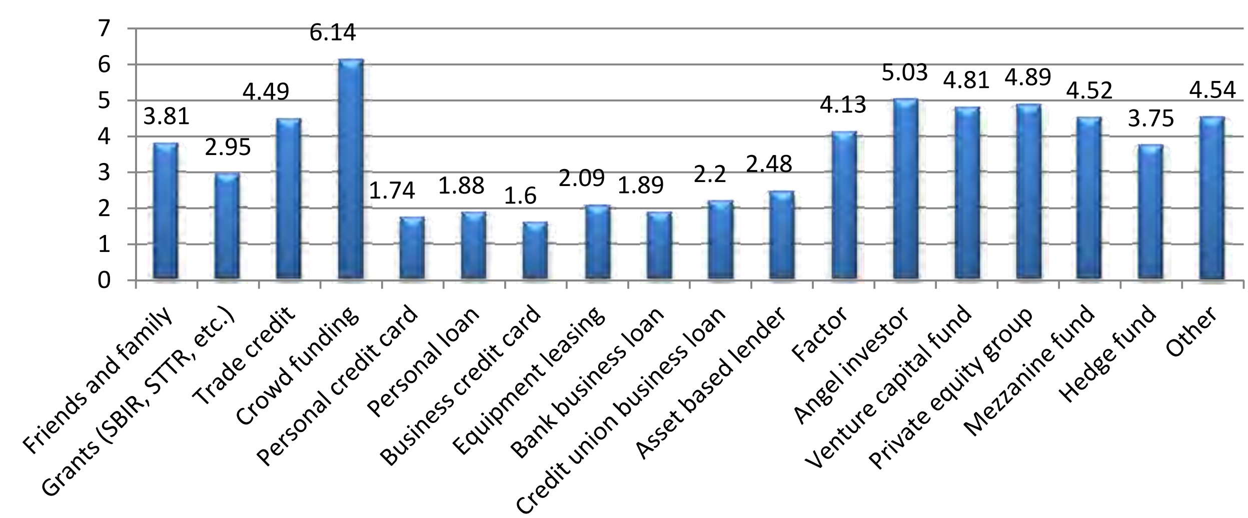


Figure 114. Success Rates



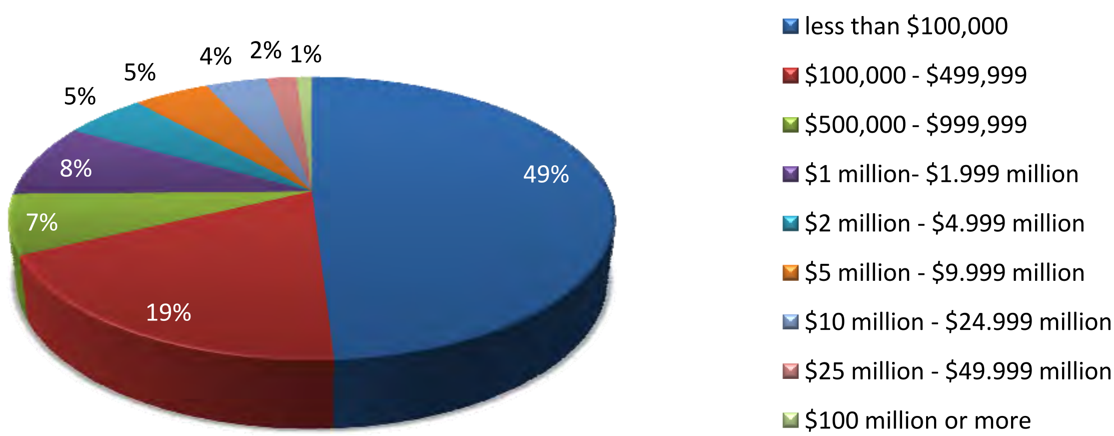
Among respondents who successfully raised capital the average number of capital providers contacted was 2.9.

Figure 115. Average Number of Capital Providers Contacted



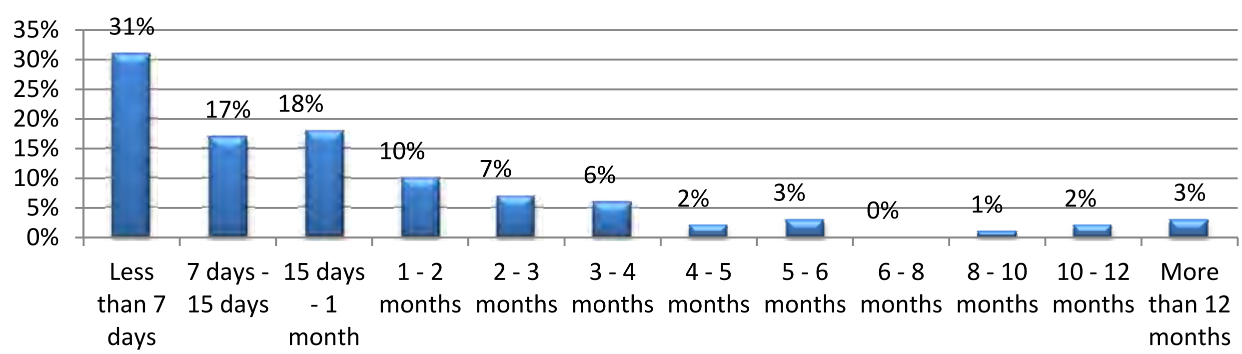
Approximately 75% of respondents attempted to raise less than $1 million in the last 12 months.

Figure 116. Amount of Capital Attempted to Raise in the last 12 Months



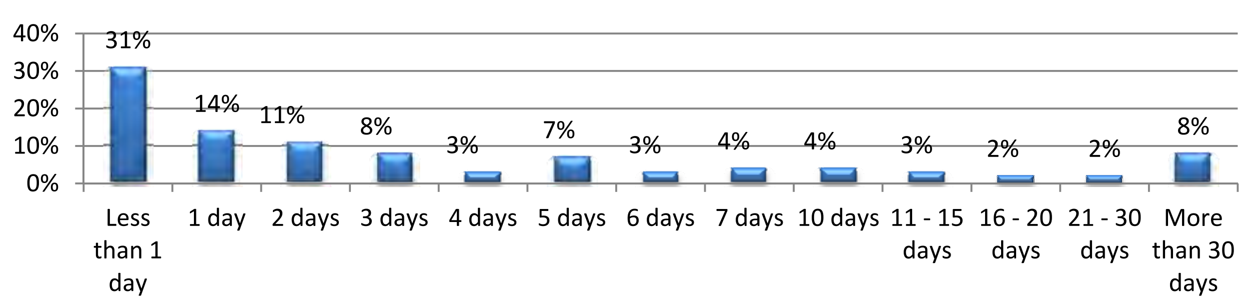
Approximately 31% of respondents took less than 7 days to complete financing process.

Figure 117. Average Time to Complete Financing Process in Days



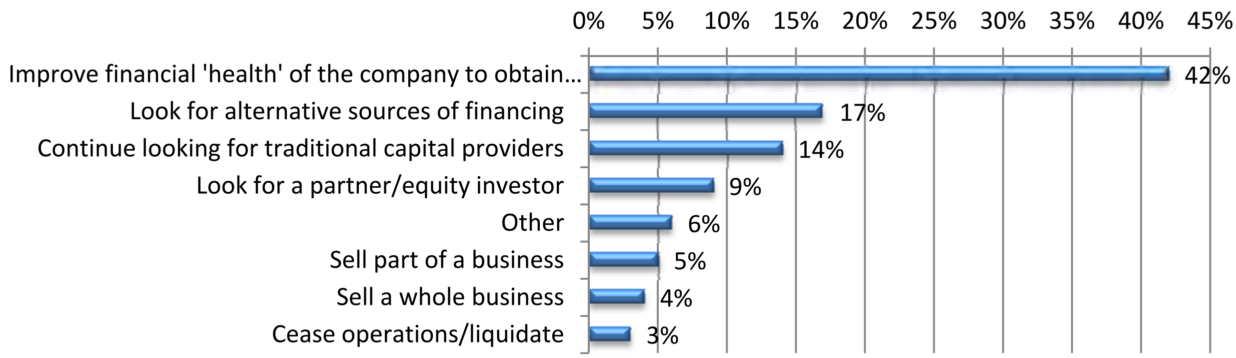
31% of respondents spent less than one day during the process to successfully obtain financing (time spent by all employees and hired outsiders making inquiries, submitting proposals, meeting with capital providers, furnishing documents).

Figure 118. Days Spent During the Process to Successfully Obtain Financing



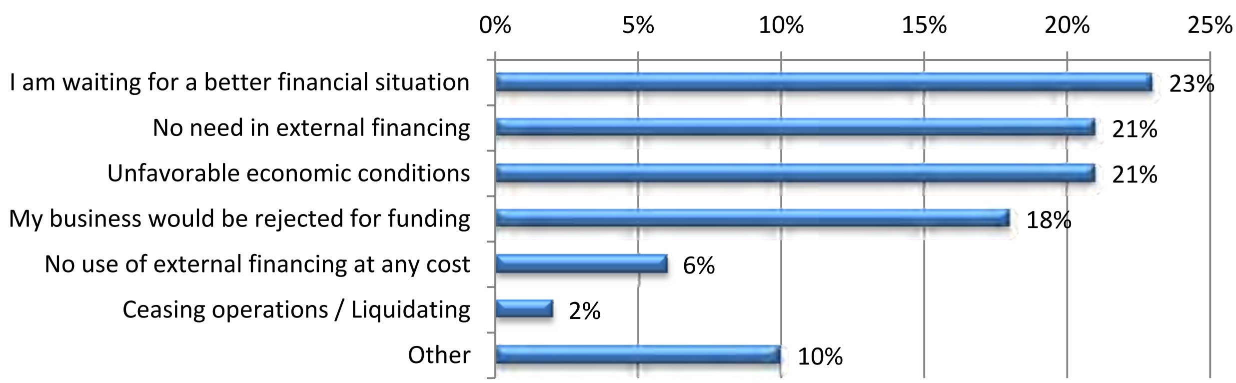
Among those respondents who were not able to obtain external financing in the last 12 months 42% are planning to improve the financial health of their businesses before attempting to raise capital in the future.

Figure 119. Next Steps to Satisfy Financial Needs



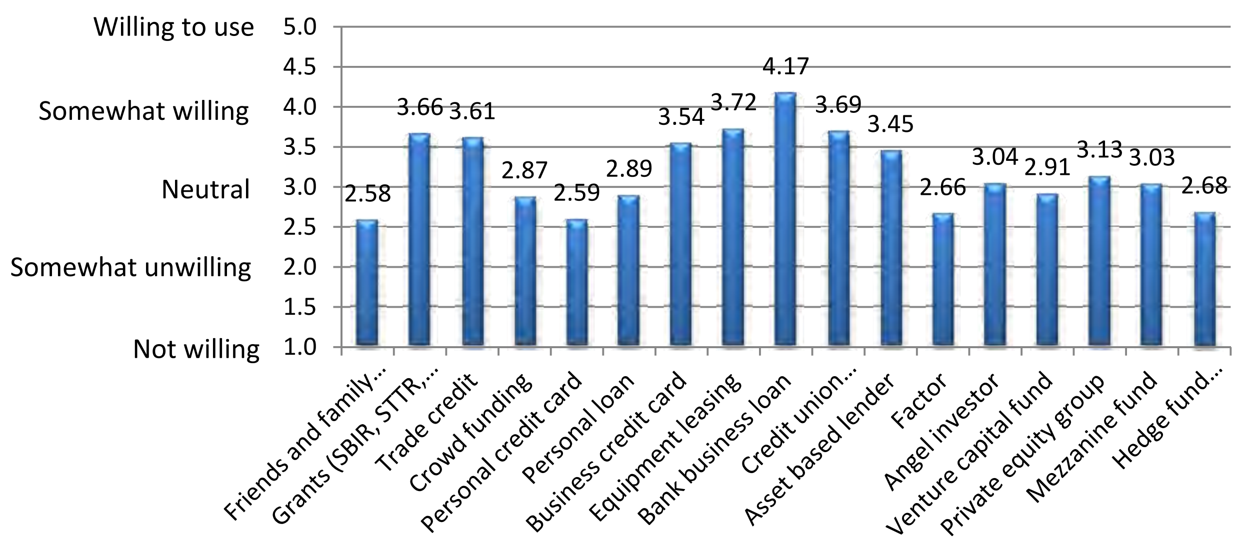
Among those respondents who didn't attempt to obtain any external financing in the last 12 months 23% said they are waiting for a better financial situation, followed by 21% who mentioned unfavorable conditions as a main reason for not trying to obtain capital. 21% of respondents had no need for external financing.

Figure 120. Reasons for Not Trying to Obtain Capital in the Last 12 Months



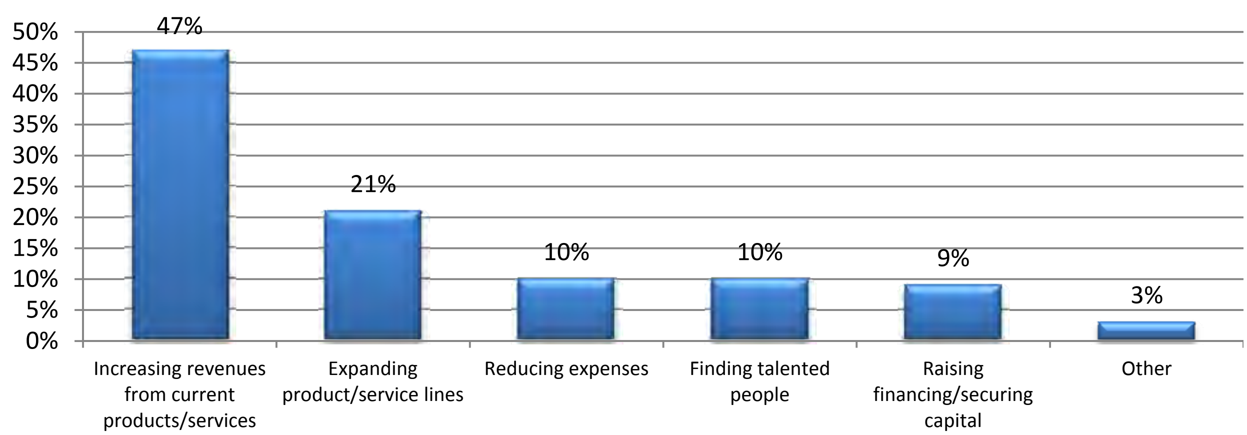
According to the respondents, “bank loans” as a category is the most appealing option to obtain financing, whereas “personal credit card financing” is the least desirable source of capital to obtain.

Figure 121. Willingness to Obtain Financing



Approximately 47% of respondents indicated increasing revenues from current products or services as the area their businesses are most focused on today.

Figure 122. The Most Important Area to Focus On

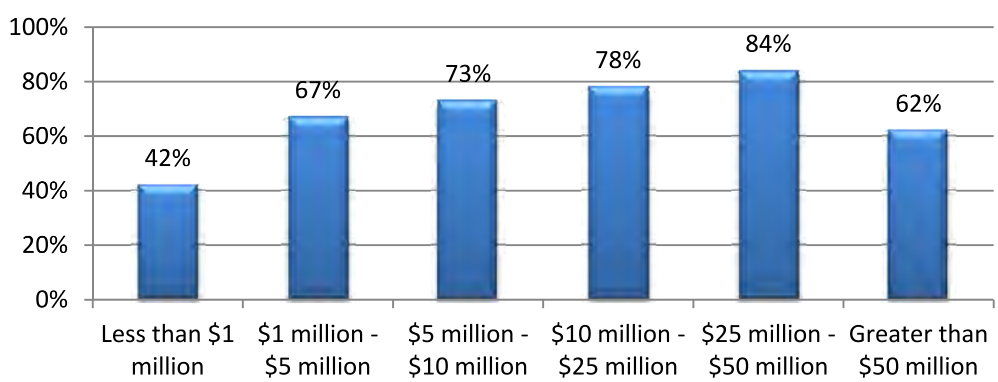


Approximately 57% of respondents are planning to hire additional workers in the next twelve months.

Figure 123. Plans to Hire Additional Workers in the Next 12 Months

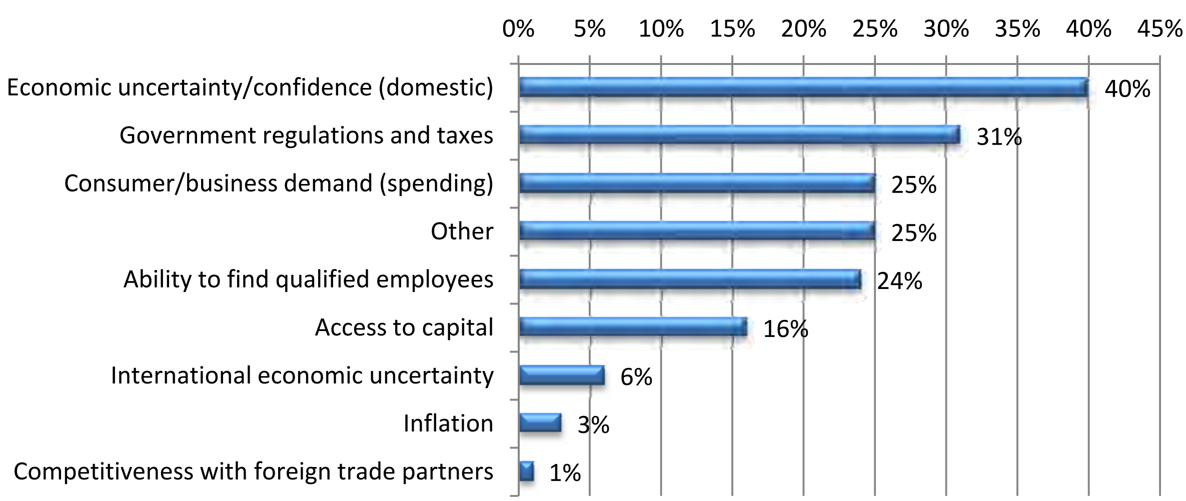
Only 42% of privately-held businesses whose annual revenues are less than $1 million are planning to hire additional workers in the next twelve months.

Figure 124. Plans to Hire Additional Workers by Annual Revenues Sizes



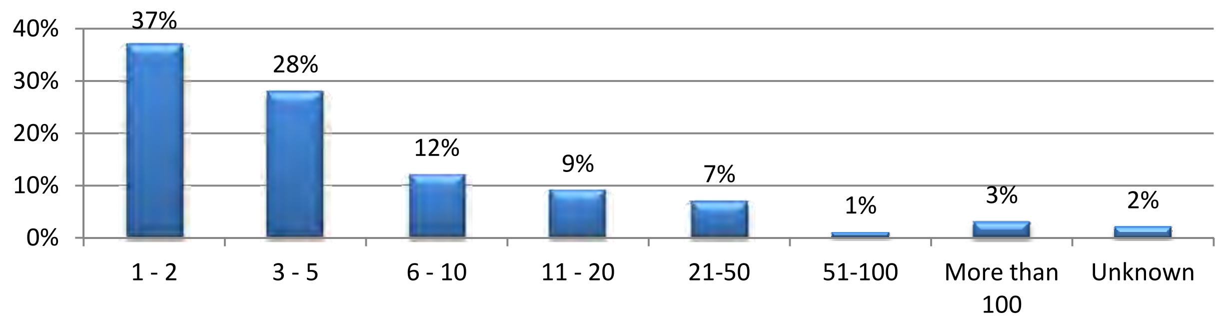
Approximately 40% of respondents believe economic uncertainty in the U.S. market is the reason preventing them from hiring, followed by government regulations and taxes (34%).

Figure 125. Reasons Preventing Privately-Held Businesses from Hiring



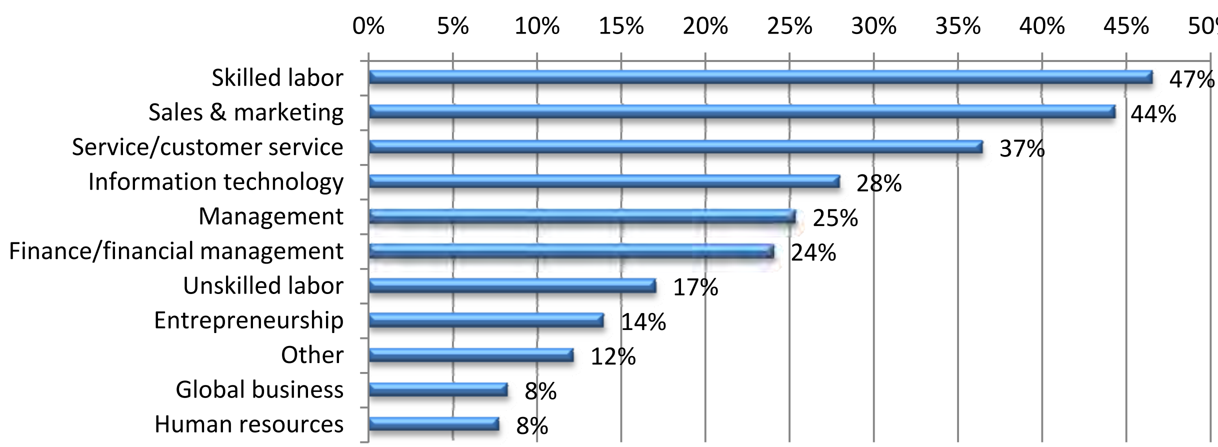
Among those respondents who do expect to hire, 37% are planning to hire one or two additional employees in the next twelve months.

Figure 126. Amount of Employees Planned to be Hired



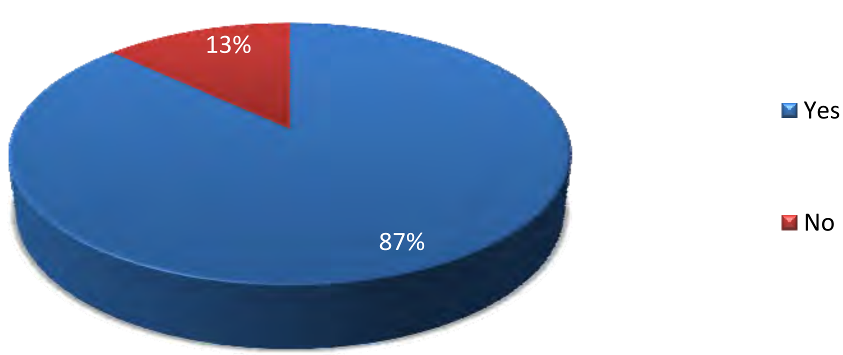
For those businesses who do plan to hire, skilled labor is in greatest demand (47%) followed by sales and marketing skills (44%) and service/customer service (37%).

Figure 127. The Skills in Demand for New Hires



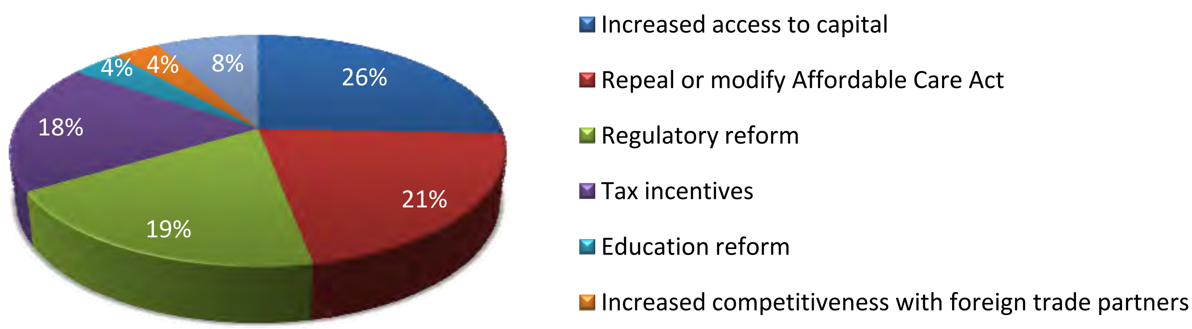
87% of business planning to hire indicate they would need to train those they hire.

Figure 128. Need for Training of New Hires



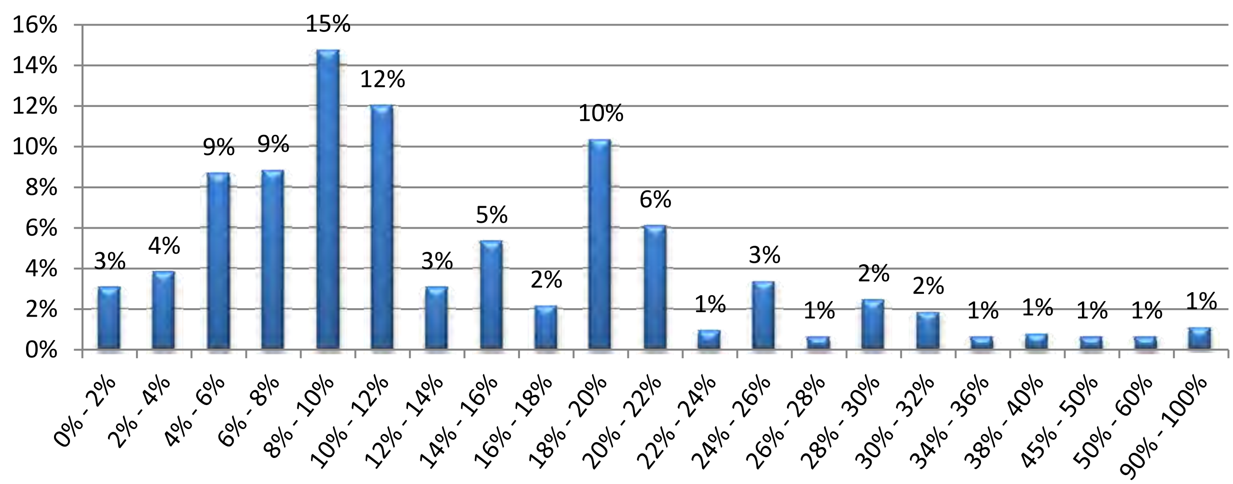
According to respondents of those policies most likely to lead to job creation in 2014, increased access to capital emerged as number one (26%) followed by "repeal or modify affordable care act" (21%).

Figure 129. Government Policies to Lead to Job Creation



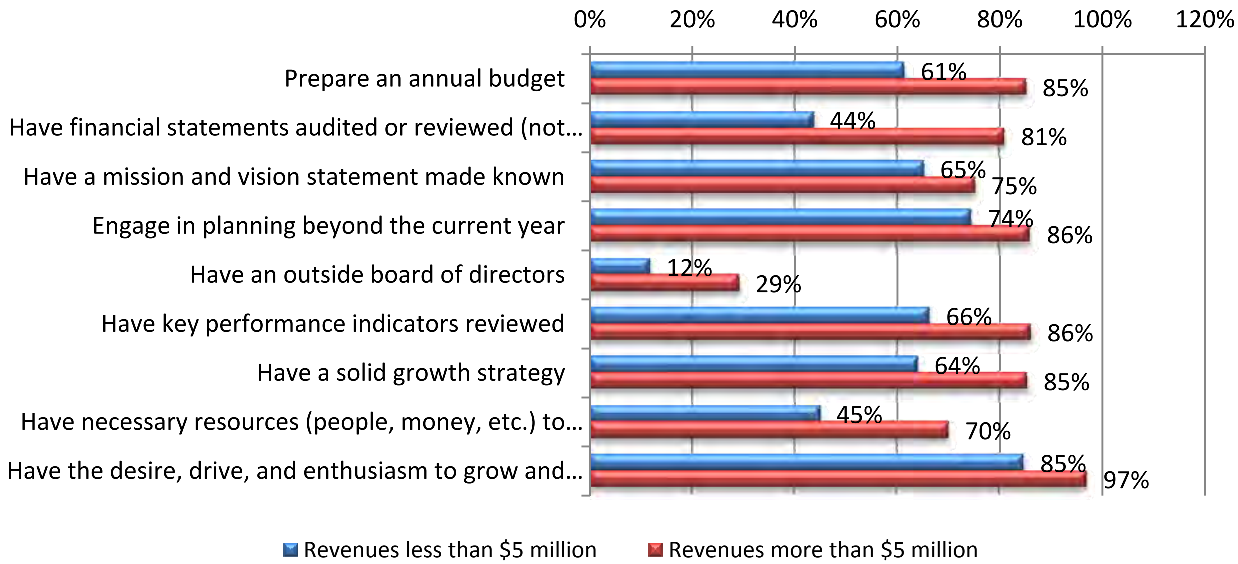
Approximately 15% of respondents indicated their business cost of equity capital is in the range of 8% - 10%.

Figure 130. Cost of Equity Capital



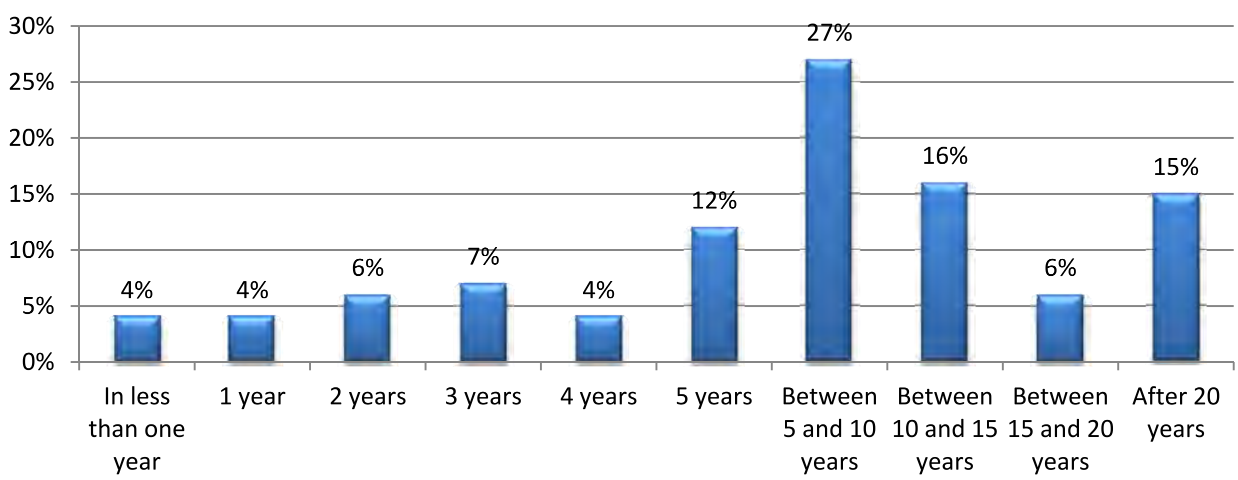
Privately-held businesses with revenues less than $5 million on average have almost the same desire to execute growth strategies (85%) as privately-held businesses with revenues greater than $5 million. However, privately-held businesses with smaller revenues report lower levels of necessary resources (people, money, etc.) to grow (45%) as compared to privately-held businesses with higher revenues (70%).

Figure 131. Usage of Financial Analysis by Revenue Sizes



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

Figure 132. Anticipation of the Ownership Transfer



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

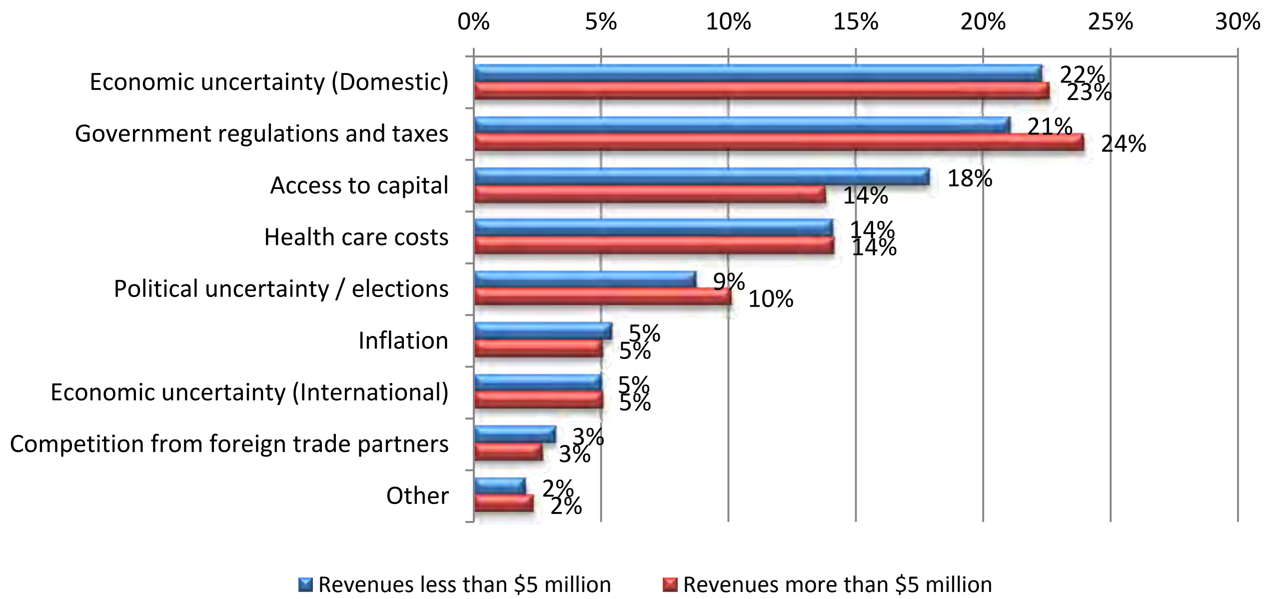
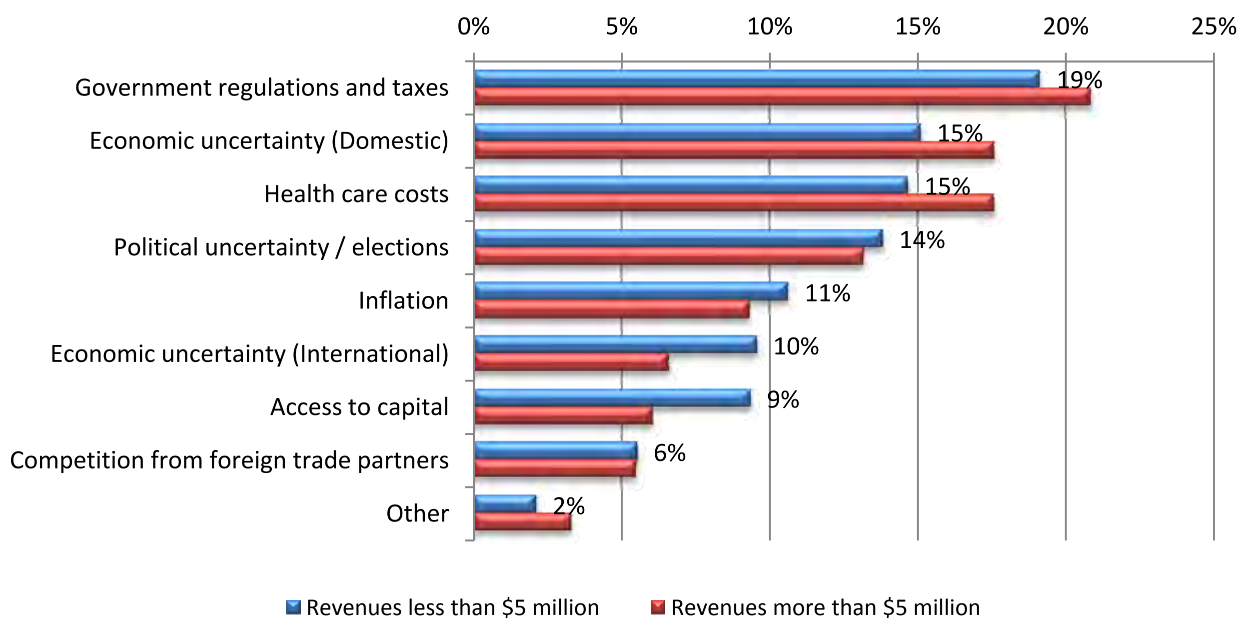


Figure 134. The Number One Emerging Issue Facing Privately-Held Businesses by Revenue Sizes



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

Table 54. 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	11%	12%	23%	33%	21%	54%	23%	31%
Prices of labor and materials	1%	3%	28%	52%	16%	68%	4%	65%
Net income	11%	15%	25%	34%	15%	49%	26%	23%
Inventory levels	4%	13%	57%	19%	7%	26%	17%	9%
Capital expenditures	7%	9%	46%	24%	13%	38%	17%	21%
Opportunities for growth	4%	10%	27%	34%	24%	59%	14%	45%
Access to bank loans	10%	10%	58%	16%	6%	22%	20%	1%
Access to equity capital	10%	10%	58%	17%	6%	23%	20%	3%
Prices of your products or services	2%	6%	45%	43%	3%	47%	9%	38%
Time to collect receivables	2%	8%	58%	25%	8%	33%	9%	24%
Number of employees	2%	8%	62%	23%	5%	27%	10%	17%
Competition	1%	8%	53%	28%	9%	38%	9%	28%
General business conditions	6%	17%	40%	30%	7%	37%	23%	14%
Appetite for risk	5%	13%	52%	25%	4%	29%	19%	11%
Probability of business closure	20%	21%	41%	14%	4%	18%	41%	-23%
Time worrying about economy	9%	15%	41%	21%	15%	36%	24%	12%

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

Table 55. 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%	4%	21%	47%	27%	74%	5%	**69%**
Prices of labor and materials	0%	2%	30%	60%	8%	68%	2%	**67%**
Net income	2%	8%	21%	45%	24%	70%	9%	**61%**
Inventory levels	1%	9%	55%	26%	9%	35%	10%	**25%**
Capital expenditures	3%	8%	45%	33%	10%	44%	12%	**32%**
Opportunities for growth	2%	5%	26%	40%	27%	67%	7%	**59%**
Access to bank loans	3%	5%	61%	24%	7%	30%	8%	**22%**
Access to equity capital	4%	4%	61%	19%	11%	30%	9%	**22%**
Prices of your products or services	1%	5%	41%	49%	4%	54%	6%	**48%**
Time to collect receivables	1%	6%	73%	18%	3%	21%	7%	**14%**
Number of employees	1%	3%	42%	45%	9%	54%	3%	**51%**
Competition	1%	5%	55%	32%	7%	39%	6%	**33%**
General business conditions	4%	10%	43%	37%	7%	43%	14%	**30%**
Appetite for risk	4%	9%	57%	25%	6%	30%	12%	**18%**
Probability of business closure	20%	21%	46%	9%	3%	13%	41%	**-28%**
Time worrying about economy	9%	14%	52%	14%	11%	25%	23%	**2%**

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Craig R. Everett is an assistant professor of finance at Pepperdine University 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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