WINTER 2020

PRAIRIE

Prairie Middle Market Perspective

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Overall M&A Market Commentary

The fourth quarter of 2019 saw many positive changes in the perception of the U.S. economy and business climate. Corporate optimism increased as strong labor market trends and wage growth led to escalated consumer spending. Uncertainty associated with the China trade and tariff dispute was reduced due to the anticipated signing of a phase one trade agreement with China. Weak holiday sales reported by mall retailers was more than offset by strong online retail sales leading to an overall robust holiday retail season.

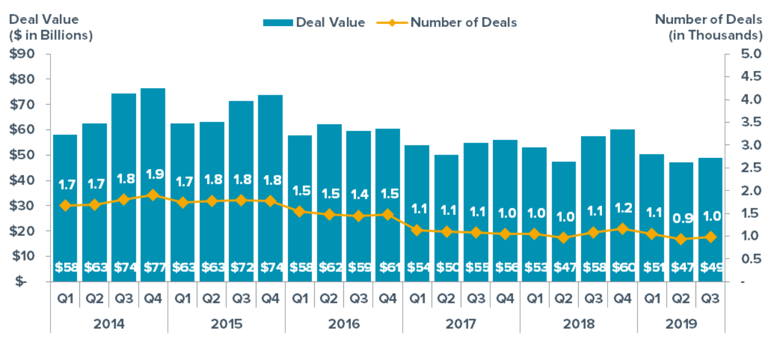
Everything looks positive, but with the economic recovery hitting a record 128-month run, a recession must surely be around the corner! Brian Wesbury, Chief Economist of First Trust, wrote on December 30, 2019, “One of the persistent flaws in economic thinking of many analysts and investors is that an economic expansion has to come to an end because of old age alone. History contradicts this widespread claim. Research from the San Francisco Federal Reserve Bank in 2016 shows that old economic expansions are no more likely than young expansions to die in the following year.” The tail winds for the economy remain strong. Finally, a level of “***recession fever***” has broken as fewer economists and economic prognosticators continue to be obsessed with recession probability predictions and doom and gloom economic forecasts.

The final estimate of third quarter GDP was 2.1% with an initial consensus estimate for full-year 2019 GDP growth of 2.3%. Consumer spending, the main element of U.S. economic growth, more than offset slowing business investment spending to produce this GDP growth. While the broad economy is still growing, the manufacturing sector continues to show weakness. The ISM Manufacturing Index declined to 47.2 in December. However, First Trust sees that trend reversing in 2020, “…if consumers are clearly buying, and companies are apparently – according to today’s report – not producing, something has got to give.” We will watch the manufacturing sector closely in early 2020 to see if the manufacturing sector recovers this year.

According to the National Federation of Independent Business (“NFIB”), in November, the Small Business Optimism Index posted the largest month over month increase since May 2018. According to the NFIB Report, “November reflects a stark departure from previous months of clatter about a possible recession that dampened owners’ economic outlook. But the current focus and noise in Washington D.C. around impeachment is proving to have little, if any, impact on small business owners, no different than during the impeachment proceedings of President Bill Clinton." NFIB Chief Economist William Dunkelbeg added, "Owners are aggressively moving forward with their business plans, proving that when they're given relief from government, they put their money where their mouth is, and they invest, hire, and increase wages."

The middle-market M&A market is beginning to show signs of growth. During 3Q19, deal volume and deal value improved. Furthermore, private equity ("PE") funds increased the number of their portfolio company sales. Valuations are at market highs. Apparently, more business owners have noticed high valuations and are starting to sell their companies. It is beginning to look like 2020 will be a good year for the M&A market.

Total U.S. M&A Deal Volume and Value <$300M Transaction Value
Q1-2014 to Q3-2019



Source: Capital IQ

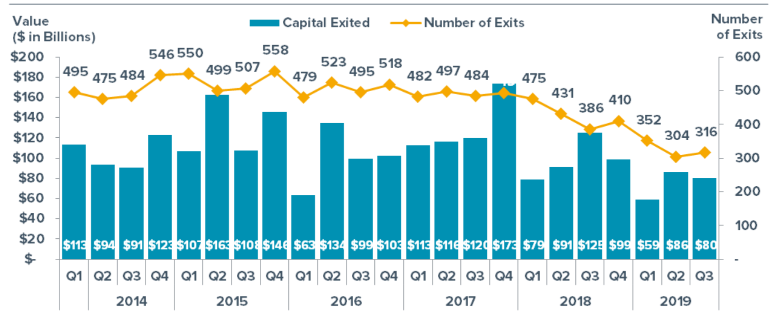
The supply and demand imbalance continues to make the current M&A market a sellers' market. The lower volume of M&A activity has kept company valuations high for an extended period, although the window could close at any time. We encourage business owners to look at their transition goals and objectives to determine whether a company sale makes sense for their circumstances.

M&A Market Activity

M&A activity in 3Q19 showed modest increases as the growing economy, benign inflation, improvements in employment and jobs trends, and relatively strong wage growth suggests that the U.S. economy still has momentum going into 2020. Middle-market business owners buoyed by the economy are increasingly looking at liquidity events for their companies. Even the domestic political detractions and the remaining trade uncertainty have not significantly eroded positive business optimism and consumer sentiment.

- $49 billion of middle-market deals recorded in 3Q19 reflects a 4.3% increase in dollar value from 2Q19. In year-over-year comparisons, 3Q19 deal value was about 15.5% less than a particularly strong 3Q18.
- The number of middle-market closed deals in 3Q19 increased 11.1% compared to the number of closed deals in 2Q19. In year-over-year comparisons, the number of deals in 3Q19 was down 9.1% from 3Q18's tally.
- The average middle-market deal size of $49.0 million through the first three quarters of 2019 was 3.9% smaller than the average $51.0 million deal size closed in the first three quarters of 2018.

Private Equity Exits
Q1-2014 to Q3-2019



Source: Pitchbook

PE exit activity during 3Q19 showed an increasing volume trend, while the dollar value decreased over the same period, implying that PEs are selling smaller portfolio companies. On a year-over-year basis, the number of PE exits in 3Q19 decreased 18.1% from 3Q18, while the capital exited decreased 36.0% during the same period.

With a record $1.4 trillion of committed cash, PE funds are anxious to put money to work in new deals. However, the PE community has been more restrained in their exit activities, suggesting that they see a continuation of the M&A sellers' market and believe that they can achieve more favorable valuations at a later time.

Middle Market Deal Valuations

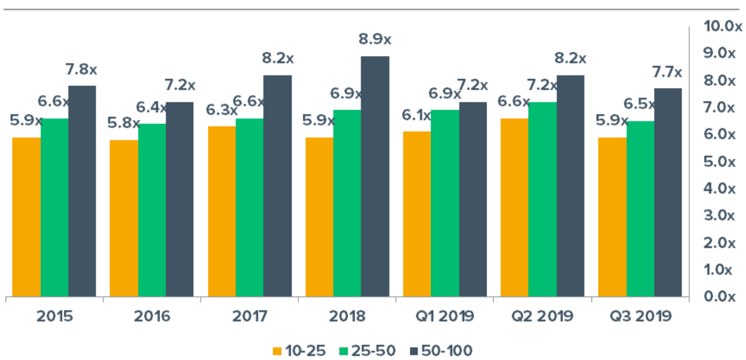
The M&A market supply/demand imbalance has sustained elevated deal valuations over the last several years. Abundant PE buyer funds, low cost debt financing and active well-capitalized strategic buyers help continue a sellers' market into 2020.

While unanticipated events could negatively impact elevated middle-market valuation levels, it feels as if we have reached a "new valuation normal." Valuations across the middle-market size spectrum are about one multiple of cash flow higher than they were a decade ago and are likely to stay at these elevated levels for the foreseeable future. Well-prepared sellers are at a distinct advantage in the deal process. All business owners with a liquidity event on the horizon should review their strategic options and prepare their businesses for a sale.

Quarterly data is more volatile than annual data, so looking at trends rather than actual values in quarterly data is more appropriate.

- Sub-$25 million deal valuation multiples moved slightly lower in 3Q19 declining to a 5.9x multiple, which is slightly less than the long-run average of about 6.0x for this size category.
- Larger middle-market valuations ($50 to $100 million segment) similarly moved lower in 3Q19 to 7.7x, below the long run annual average of 8.0x for this segment.
- Valuations in the $25 to $50 million segment moved lower, closer to the long run average showing a general movement downward across all deal size categories.

TEV*/EBITDA by Deal Size ($ Millions)
2015 to Q3-2019



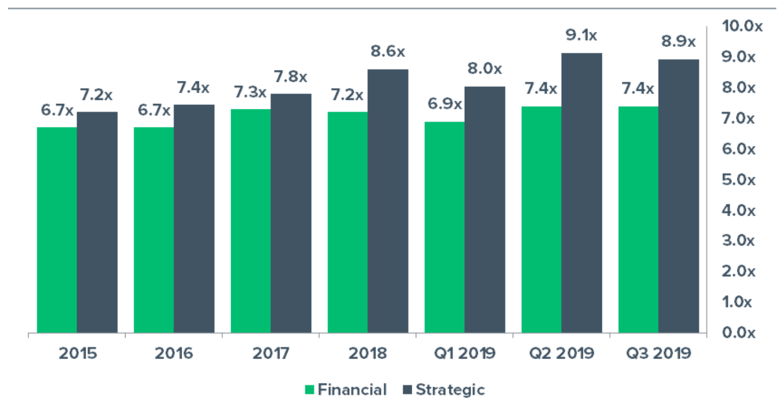
Source: GF Data
**TEV = Total Enterprise Value*

Private Equity versus Strategic Valuations

Strategic buyers continue to be very active in the M&A market. During the last five years, the strategic buyer premium has averaged 0.75x, meaning strategic buyers have paid 0.75x of EBITDA more than the average PE buyer. However, as reflected in our 2018 and quarterly 2019 data, this premium is increasing, which shows more aggressive strategic buyer participation in M&A transactions. Our data show that strategic buyer premiums are now exceeding more than 1.0x over the last seven quarters.

- Strategic buyers continue to be a significant factor in middle-market M&A. In 3Q19, strategic buyers, on average paid about 1.5x multiple of EBITDA more than financial buyers.
- Over the last couple of years, PE acquisition multiples have remained in a stable range at or above 7.0x. While the 1Q19 data show a slight valuation decrease, the 3Q19 and 2Q19 data returned the range above 7.0x.
- The long-run trend data on valuations still indicates that the supply demand imbalance continues in the middle-market. Well-prepared, attractive sellers can take advantage of interest in M&A deals by both strategic buyers and PE funds and achieve reasonably high valuations.
- Prairie estimates that for middle-market deals below $50 million, valuations are generally 1.0x to 2.0x multiples of EBITDA lower than the levels reflected in the chart below.

TEV/EBITDA Multiple by Buyer Type ($10-250M of TEV)
2015 to Q3-2019



Source 1: Financial Buyers: GF Data ($10-250M TEV)
Source 2: Strategic Buyers: Capital IQ ($10-250M TEV; Excluding outliers defined as transactions with TEV/EBITDA of less than 3.0x and more than 14.0x)

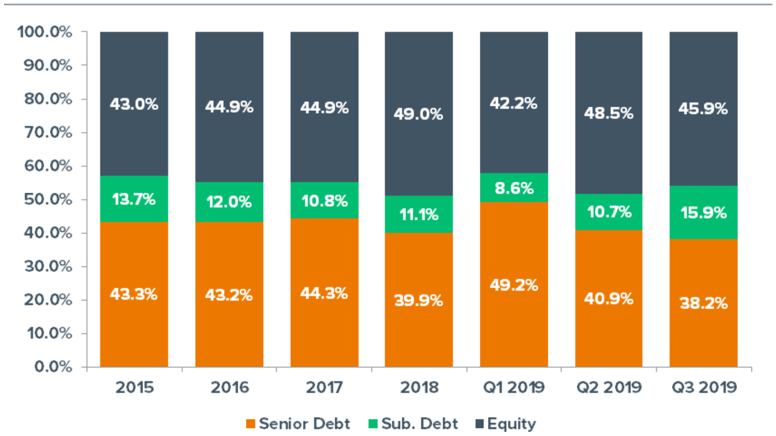
Middle Market Leveraged Buy Out Capitalizations

The use of debt in a typical middle-market leveraged buyout ("LBO") has been relatively consistent from 2015 through 2017, with 2018 and early 2019 showing a move to more leverage in capital structures. Even with a strong U.S. economy and reduced trade uncertainty, the growing dysfunctional political environment is causing acquirers to be careful as they approach leverage in their acquisitions.

- Debt capital is readily available across the middle-market. Commercial banks, asset-based lenders, business development corporations ("BDC") and mezzanine lenders are anxious to support acquisitions and growth financing situations.

- The wide variety of non-bank debt sources and increased competition among banks for new lending opportunities has kept borrowing costs low. Increased lender competition has led to more borrower-friendly terms and a borrowers' market. In addition, the downward shift in the interest rate yield curve is leading to lower nominal interest rates.
- Mezzanine funds continued to aggressively pursue deal opportunities in 2019. The use of this type of financing in leveraged transactions remains an important part of the LBO capital structure. Interest-only and payment-in-kind structures still dominate the markets. Mezzanine funds continue to pursue equity co-investment opportunities to improve their returns and increase their investment amount in deals.

Equity and Debt Capitalization
2015 to Q3-2019



Source: GF Data

Overall Comment on the Financing Markets

Banks and other lenders are facing a trend of declining demand for their lending products. Middle-market bank lending loan volume has been slowly moving lower over the last five years. Investment in capital equipment is one of the key drivers to bank lending and according to Keefe, Bruyette & Woods bank analyst Brian Klock, "we're just not seeing that big capex coming through." According to Refinitiv Lipper Alpha Insight, capital expenditures made by S&P 500 companies rose just 1% in 4Q19 compared to 12% a year earlier. Muted M&A volume is also contributing to lower loan demand as capital for acquisitions. Banks, non-bank lenders and mezzanine funds have abundant available capital and are anxious to put their money to work. There is plenty of capital available for middle-market companies; the lack of loan growth is a demand driven problem that has continued for several years now.

The protracted trade situation with China and other international partners has muted positive business owner sentiment. JP Morgan Chase's CFO, Jennifer Piepszak in an interview at the December 2019 Goldman Sachs Financial Services Conference, said that "confidence among chief executives has improved since the summer" due in part to apparent success in the China trade talks. She also said "the elections in the U.S. will contribute to an uncertain environment in 2020." It appears as though we traded one form of uncertainty for another.

The interest rate yield curve began to normalize late in 2019, with the 2 Year to 10 Year Treasury yield spread moving from 5 basis points at the end of 3Q19 to 34 basis points at the end of 2019. Typically, a flat or inverted yield curve signals an increase in the risk of a recession, but with low inflation, a strong labor market and an improving economy, any recession will likely occur in 2021 or later.

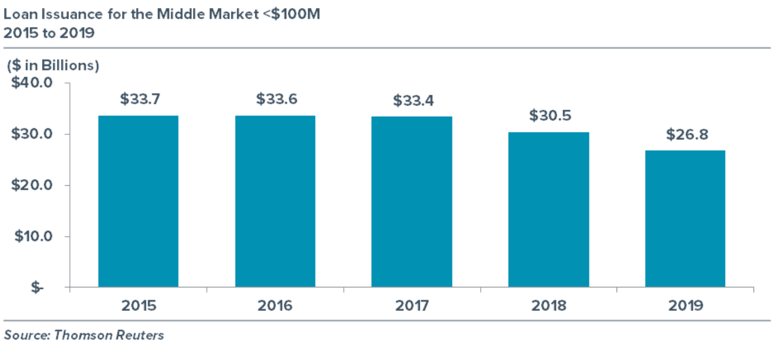
We remain in a favorable interest rate environment with low business borrowing costs. Low interest rates coupled with borrower-friendly terms makes this a borrowers' market. Credit worthy companies still have an opportunity to structure loans with favorable terms and are welcome in the lending market.

Total U.S. Middle Market Loan Issuance

- New bank loan issuance for middle-market companies in 2019 was 12.1% lower than the $30.5 billion issued in 2018. This continued the downward trend in new loan issuance observed over the last five years.
- In an effort to normalize interest rates, the Fed increased rates nine times through December 2018. Concerns with the slowing global economy and the effects of the protracted trade war with China caused the Fed to reverse course and execute three rate cuts of 25 basis points in 2019. However, with the strong economy, heathy labor markets and reduced recession risk, the Fed has signaled they will not change interest rates in the near future.
- Bank lenders continue to focus on relationship banking, corporate borrowers' lines of credit and areas where they have a competitive advantage like operating business needs,

including payroll and checking accounts. Due to regulatory scrutiny, banks continue to be selective in making new loans and are very selective in new leveraged transactions.

- While concerns with tariffs and recessions have subsided, U.S. borrowers and lenders remain conservative in the use of debt due to concerns associated with a potential global economic slowdown and political uncertainty .



Interest Rate Environment

- The short-end of the yield curve (Prime and one-month LIBOR), in a year-over-year comparison, reflects the three Fed rate reductions orchestrated in late July, September and October 2019. Prime similarly moved lower by 75 basis points reflecting the effects of the three rate adjustments. While the Fed executed these rate decreases because of the perception of a weak global economy and its potential impact on the U.S., later in 2019, the Fed signaled that due to a strong labor market and a robust U.S. economy, it doesn't expect to make changes to interest rates in the near-term.
- The yield curve has "normalized" during 2019, now having an upward slope. The 2 Year to 10 Year Treasury differential was 5 basis points at the end of 3Q19 and it has moved to 34 basis points at the end of 2019. An inverted yield curve is a source of concern for analysts because it is considered to be a predictor of a future recession. However, concerns with a recession have subsided as the U.S. economy has strengthened and the business outlook has improved.
- A tight labor market with strong wage growth, particularly at the low wage end of the market, has resulted in robust consumer spending and an expectation for continued economic growth. Even with unemployment at a 50-year low of 3.5%, inflationary pressures are muted and business outlook is good.

KEY INTEREST RATES

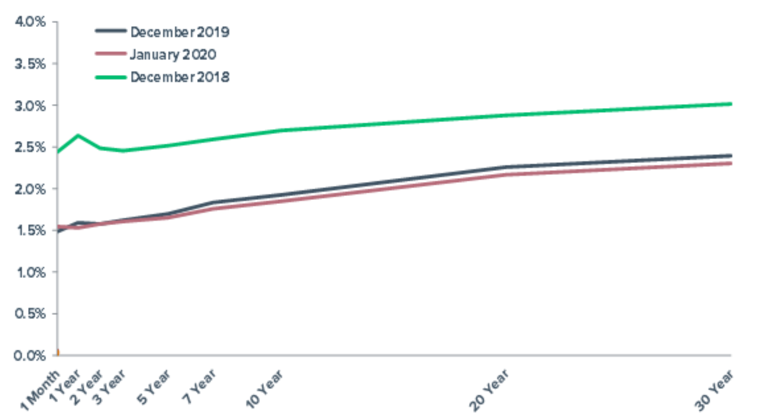
	12/31/2018	12/31/2019	1/14/2020
Prime Rate	5.50%	4.75%	4.75%
Libor - 1 Month	2.50%	1.76%	1.68%
Libor - 3 Month	2.81%	1.91%	1.83%
U.S. Treasury - 2 Year	2.48%	1.58%	1.58%
U.S. Treasury - 5 Year	2.51%	1.69%	1.65%
U.S. Treasury - 10 Year	2.69%	1.92%	1.85%

Source: Capital IQ

Middle Market Debt Multiples

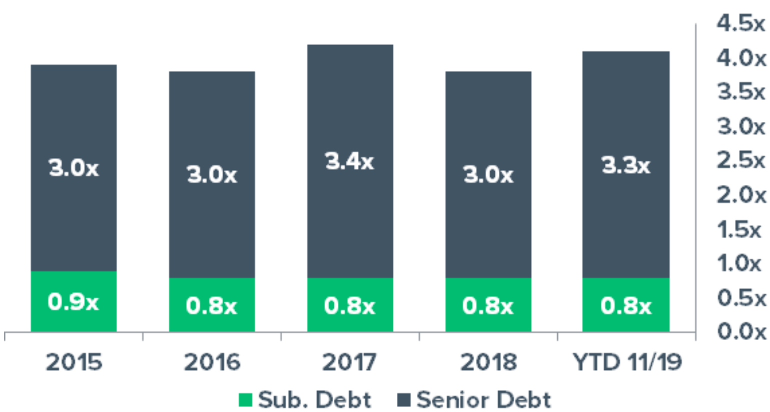
- Total debt leverage in middle-market deals has moved to 4.1x in 2019, up from 3.8x in 2018. The senior debt component of the total leverage increased to 3.3x, contributing to the total leverage increase. A preliminary resolution of the tariff issues, positive U.S. economic momentum offset by political uncertainty has reduced recession concerns. As a result, banks continue to actively seek new loan opportunities.
- Mezzanine capital still plays an important role in a leveraged capital structure. Over the last few years, mezzanine debt has represented about 0.8x EBITDA in the capital structure. Aggressive banks and senior lenders have reduced the need for mezzanine capital.
- The use of debt leverage helps sustain high middle-market M&A valuations. The current low interest rate environment helps companies support higher debt leverage in transactions contributing to high M&A valuations.
- Regulators enforce credit discipline in the banking community. The regulators limit the amount of Highly Leveraged Transactions ("HLT") exposure that a bank can hold and therefore helps maintain senior leverage at the relatively conservative 3.0x EBITDA senior debt ratio. Other non-regulated lenders like BDC, while conservative in their lending practices, have allowed slightly more senior leverage leading to the 3.3x leverage multiple in YTD19.

Yield Curves – U.S. Treasuries



Source: Capital IQ

Senior Debt and Sub. Debt/EBITDA – TEV of $10-250 Million 2015 to YTD 2019



Source: GF Data

Financing Pricing

Bank Financing	Upfront Fees	LIBOR Spread
Asset Based Loans	25-50 bps	150-200 bps
Cash Flow Loans		
EBITDA less than $10M		
Unleveraged Loans	0-50 bps	150-250 bps
Leveraged Loans	75-150 bps	300-425 bps
Cash Flow Loans		
EBITDA more than $10M:		
Unleveraged Loans	0-50 bps	150-250 bps
Leveraged Loans	100-150 bps	350-475 bps
Mezzanine Debt	**<$10M EBITDA**	**>$10M EBITDA**
Upfront Fees	2.00%	2.00%
Current Pay Coupon	11.00%-13.00%	10.00%-12.00%
Payment-in-Kind (PIK) Interest	0.00%-3.00%	0.00%-2.00%
All in IRRs	14.00%-17.00%	10.00%-13.00%

Source: Pricing is based on guidance provided by a number of commercial and mezzanine lenders
Note: Warrants and other yield enhancements comprise the incremental return required to meet the all-in internal rate of return ("IRR")

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Transaction Highlight

Fairness Opinion

APi Group, Inc.

was acquired by

J2 Acquisition Limited
(LSE: JTWO)

Advisor to the ESOP Trustee

About APi Group, Inc.

APi Group is a multi-billion-dollar parent company to more than 40 independently managed life safety, energy, specialty construction and infrastructure companies in over 200 locations worldwide. APi Group combines the personal attention of small-to-medium sized construction companies with the strength of an industry leader to bring innovation to the construction industry.

APi Group, Inc. has been acquired by J2 Acquisition Limited.