

About GF Data

GF Data provides data on private equity-sponsored M&A transactions with enterprise values of \$10 to 250 million. GF Data gives private equity firms and other users more reliable external information to use in valuing and assessing M&A transactions.

GF Data collects transaction information from private equity groups on a blind and confidential basis. Two hundred and forty one private equity firms have provided information on deals included in this report.

GF Data publishes four products: (1) a quarterly report containing high-level valuation, volume and leverage data; (2) a quarterly supplement providing exhaustive detail on leverage and capital structure; (3) this semi-annual report providing detail on indemnification cap, escrow and other key deal terms; and (4) continuous access, through GF Data's secure web site, to detailed valuation data organized by NAICS industry code.

For information on subscribing, or on contributing data as a private equity participant, contact us at info@gfdataresources.com.

Spring 2016 Report Parameters

- Two hundred and forty one participating private equity firms have provided data on transactions closed between January 1, 2003 and December 31, 2015. Two hundred and four of these firms are active contributors.
- The GF Data universe now comprises 2,314 transactions valued at \$10-250 million, and at multiples ranging from 3 to 15 times Last Twelve Months Adjusted EBITDA.
- The drilldowns by NAICS code offered on the web site follow the same parameters. We provide valuation data on deals in more than 200 NAICS categories.

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Data Highlights

Completed transaction activity in the GF Data universe picked up in the fourth quarter, after a notably fallow 3Q.

The 204 private equity groups and other deal sponsors that are active contributors reported 62 completed 4Q transactions meeting our parameters -- \$10-250 million TEV and TEV/Adjusted EBITDA multiples of 3-15x. This is markedly ahead of 39 closed deals in 3Q, and nearly on par with 65 in the fourth quarter of 2014.

Valuations strengthened in the largest and the smallest TEV tiers in the GF Data sample. At \$100-250 million, average TEV/TTM Adjusted EBITDA jumped from 7.8x to 9.0x. In the \$10-25 million TEV grouping, the average rose from 5.4x to 5.9x.

The "quality premium" – the reward in valuation applied to selling businesses with above-average EBITDA margins and sales growth rates – has never been greater. Firms offering these characteristics were valued in buyout transactions at an average of 7.4x in 2015. Other buyout targets traded at an average of 6.0x. This 23 percent premium dwarfs the historical spread of six percent.

Record valuations on larger deals were accompanied by unprecedented levels of debt. In the \$100-250 million tier, add-on investments were valued at an average of 11.1x, while new portfolio investments averaged 8.7x.

Debt utilization increasing markedly while valuations held essentially steady meant that the average equity contribution required for sponsors to complete their deals fell for the second year. Average equity share in 2015 was 43.5%, down from 49.7% in 2013 and 46.7% in 2014.

The splits for the last four quarters are as follows:

All Transactions	1Q 14	2Q 14	3Q14	4Q 14	1Q 15	2Q 15	3Q15	4Q 15
# of Deals	42	54	50	65	65	52	39	62
TEV/EBITDA	6.4x	6.6x	6.7x	7.0x	7.0x	6.4x	7.2x	6.5x
Total Debt/EBITDA	3.5x	3.9x	3.7x	3.7x	4.0x	4.0x	4.1x	3.8x
Senior Debt/EBITDA	2.4x	2.9x	2.7x	2.7x	3.3x	2.9x	3.2x	2.6x

This Key Deal Terms report provides GF Data's semi-annual view of trends in key details other than price – indemnification cap, escrow/hold back and basket. The charts that follow continue to show that the "seller's market" conditions driving valuations continue to affect key deal terms as well.

- The average cap on indemnification of reps and warranties for 2015 was 14.9 percent of TEV in the year to date – continuing the general downward trend of the last five years. (Chart 3 herein)
- The decline is in evidence across all size brackets (Chart 3 herein) and across the four major business categories most heavily represented in our universe (Charts 5-8)
- Average escrow/holdback in 2015 was 6.6 percent of TEV. This number has been remarkably stable, averaging between six and seven percent for the past five years.
- We also once again look at the incidence of earnouts and seller financing by deal size, with interesting results. See Chart 9 and the adjacent comment for more.

VALUATION AND KEY DEAL TERM OVERVIEW

CHART 1

TOTAL ENTERPRISE VALUE (TEV)/EBITDA

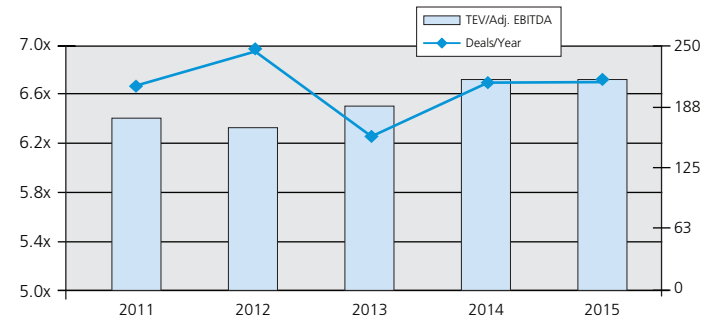
TEV	2003-2010	2011	2012	2013	2014	2015	Total	N =
10-25	5.6	5.3	5.8	6.0	5.4	5.9	5.6	922
25-50	6.2	6.4	6.2	6.8	6.6	6.7	6.3	698
50-100	6.7	7.5	6.7	6.8	8.6	7.5	7.0	481
100-250	7.2	7.7	7.4	7.5	7.8	9.0	7.6	213
Total	6.1	6.4	6.3	6.5	6.7	6.7	6.3	
N =	1273	211	246	155	211	218		2314

Please note that N for 2003-10 encompasses eight years of activity.

GF SOURCE: GF DATA®

CHART 2

AVERAGE MULTIPLES AND DEAL VOLUME



GF SOURCE: GF DATA®

CHART 3

INDEMNIFICATION CAP— % OF TOTAL ENTERPRISE VALUE

TEV	2010	2011	2012	2013	2014	2015	Total	N=
10-25	23.0%	27.3%	23.0%	19.9%	23.0%	16.2%	21.8%	359
25-50	15.3%	12.1%	14.1%	16.5%	14.6%	16.2%	14.8%	259
50-100	13.4%	9.2%	10.4%	14.3%	10.7%	11.2%	11.4%	163
100-250	16.0%	15.4%	10.1%	10.3%	12.8%	10.6%	10.2%	75
Total	18.0%	18.3%	16.6%	17.4%	16.9%	14.9%	16.9%	
N =	129	132	170	104	146	175		856

GF SOURCE: GF DATA®

Indemnification Cap—Quarterly Splits

TEV	1Q 2014	2Q 2014	3Q 2014	4Q 2014	1Q 2015	2Q 2015	3Q 2015	4Q 2015	N=
10-25	15.2%	23.4%	24.6%	26.4%	15.3%	14.1%	27.4%	16.4%	135
25-50	12.7%	17.5%	9.8%	14.9%	13.7%	12.9%	17.4%	17.9%	103
50-100	9.6%	12.5%	10.5%	10.6%	8.2%	5.8%	19.2%	7.8%	53
100-250	7.3%	7.8%	4.6%	38.0%	5.0%	5.5%	4.2%	34.8%	30
Total	12.5%	18.4%	15.6%	18.6%	13.0%	11.4%	18.5%	17.8%	
N =	22	34	36	54	52	43	34	46	321

CHART 4

INDEMNIFICATION PERIOD—MONTHS

TEV	2010	2011	2012	2013	2014	2015	Total	N=
10-25	19.8	18.7	18.5	21.3	18.1	17.8	18.9	367
25-50	18.0	17.9	17.8	19.3	16.6	19.4	18.1	261
50-100	21.1	17.5	18.0	16.8	18.3	18.9	18.5	165
100-250	21.2	16.6	20.6	14.6	22.3	14.4	18.4	79
Total	19.7	18.0	18.4	19.5	18.1	18.1	18.5	
N =	129	133	177	105	148	180		872

GF SOURCE: GF DATA®

Indemnification Period—Quarterly Splits

TEV	1Q 2014	2Q 2014	3Q 2014	4Q 2014	1Q 2015	2Q 2015	3Q 2015	4Q 2015	N=
10-25	17.8	16.8	17.3	20.3	17.4	17.6	16.7	19.0	135
25-50	15.0	17.8	15.5	16.5	21.0	17.7	21.0	18.0	105
50-100	28.8	17.5	15.0	15.6	16.3	13.4	24.7	27.0	54
100-250	17.3	36.0	13.0	34.0	14.5	14.0	15.0	14.4	34
Total	19.8	18.9	15.8	18.4	17.8	16.4	20.6	18.5	
N =	22	35	37	54	53	45	34	48	328

INDEMNIFICATION CAP DRILLDOWN

CHART 5

INDEMNIFICATION CAP—BUSINESS SERVICES

TEV	2010	2011	2012	2013	2014	2015	Total	N=
10-25	36.9%	23.8%	23.3%	22.7%	28.4%	18.0%	25.1%	79
25-50	13.1%	11.6%	16.6%	12.9%	16.0%	20.1%	15.7%	54
50-250	23.2%	12.3%	8.9%	6.0%	7.0%	12.0%	10.4%	44
Total	26.1%	17.4%	18.1%	14.1%	19.6%	17.7%	19.1%	
N =	29	28	35	18	28	39		177

GF SOURCE: GF DATA®

CHART 6

INDEMNIFICATION CAP—DISTRIBUTION

TEV	2010	2011	2012	2013	2014	2015	Total	N=
10-25	15.9%	35.6%	24.0%	10.8%	14.5%	27.1%	22.2%	43
25-50	8.7%	9.5%	9.2%	14.5%	21.9%	11.6%	13.7%	35
50-250	14.0%	2.9%	19.1%	5.4%	17.6%	17.3%	12.4%	24
Total	14.0%	19.3%	18.5%	11.6%	19.4%	21.2%	17.6%	
N =	14	12	27	14	18	17		102

GF SOURCE: GF DATA®

CHART 7

INDEMNIFICATION CAP—HEALTH CARE SERVICES

TEV	2010	2011	2012	2013	2014	2015	Total	N=
10-25	16.3%	41.1%	14.0%	42.3%	17.2%	12.1%	21.3%	32
25-50	30.4%	12.0%	33.6%	50.0%	15.2%	10.2%	21.9%	19
50-250	10.6%	20.8%	7.6%	29.6%	30.0%	6.0%	14.3%	28
Total	18.0%	26.4%	15.5%	38.0%	19.4%	10.2%	19.2%	
N =	17	15	18	7	5	17		79

GF SOURCE: GF DATA®

CHART 8

INDEMNIFICATION CAP—MANUFACTURING

TEV	2010	2011	2012	2013	2014	2015	Total	N=
10-25	20.6%	24.7%	20.7%	17.7%	23.2%	13.6%	19.9%	151
25-50	12.3%	15.4%	11.5%	17.8%	9.5%	15.5%	13.2%	110
50-250	10.2%	7.4%	10.2%	11.2%	5.8%	8.2%	6.8%	108
Total	14.3%	16.7%	14.0%	16.9%	14.3%	12.6%	14.6%	369
N =	50	58	64	46	75	76		369

GF SOURCE: GF DATA®

CHART 9

SELLER FINANCING/EARNOUT IMPACT—ALL DEALS 2014/ 2015

2014 TEV	All Transactions			No Seller Fin or Earnout		Seller Fin or Earnout			% of All Deals
	TEV/Adj. EBITDA	N =	Indem Cap	TEV/Adj. EBITDA	Indem Cap	TEV/Adj. EBITDA	Indem Cap		
10-25	5.4	76	23.0%	5.6	19.8%	5.2	27.4%	44.7%	
25-50	6.6	66	14.6%	6.8	14.2%	6.4	15.2%	40.9%	
50-250	8.2	69	11.4%	8.1	8.7%	8.8	20.7%	21.7%	
Total	6.7	211	16.9%	6.9	14.3%	6.3	21.3%	36.0%	

2015 TEV	All Transactions			No Seller Fin or Earnout		Seller Fin or Earnout			% of All Deals
	TEV/Adj. EBITDA	N =	Indem Cap	TEV/Adj. EBITDA	Indem Cap	TEV/Adj. EBITDA	Indem Cap		
10-25	5.9	94	16.2%	6.3	15.9%	5.4	16.5%	48.9%	
25-50	6.7	63	16.2%	6.8	13.4%	6.7	21.4%	33.3%	
50-250	8.1	61	13.0%	8.1	15.0%	8.1	7.2%	24.6%	
Total	6.7	218	15.4%	7.1	14.8%	6.2	16.3%	37.6%	

Note: Valuation and N = data and are for the entire sample, not just deals featuring indemnification caps.

GF SOURCE: GF DATA®

- Chart 9 brings to light some interesting shifts from 2014 to 2015 in the treatment of deals featuring seller financing or earnouts (SFEs).
- The incidence of SFEs was remarkably consistent from year to year – in the 45-50 percent range at \$10-25 million TEV, in the 30-40 percent range at \$25-50 million, and in the 20-25 percent range at \$50-250 million.
- At \$10-25 million TEV, deals involving an SFE were valued about a half turn less than those with, while in the two larger groups, the average multiples for the two groups net of SFE were the same. This suggests the SFE is bridging a gap against the seller's sense of "market" on the smaller deals, while providing an added premium on the larger ones.
- While indemnification caps have declined for both groups, the drop was more pronounced in the deals with SFEs, from 21.3 to 16.3 percent. Another way of looking at it – the spread in indemnification cap between non-SFE and SFE deals has narrowed from more than four percent in 2014 to about one percent in '15.

BASKET AND ESCROW/HOLDBACK DATA

CHART 10

BASKET—% OF TOTAL ENTERPRISE VALUE

TEV	2010	2011	2012	2013	2014	2015	Total	N=
10-25	1.2%	0.8%	1.0%	0.9%	2.1%	0.9%	1.1%	326
25-50	0.7%	0.8%	0.8%	0.7%	0.6%	0.8%	0.7%	244
50-100	0.8%	0.7%	0.7%	0.7%	0.8%	0.8%	0.7%	158
100-250	1.1%	0.6%	0.6%	0.7%	0.6%	0.9%	0.7%	68
Total	0.9%	0.8%	0.8%	0.8%	1.2%	0.8%	0.9%	
N =	125	118	161	92	140	160		796

Basket—Quarterly Splits

TEV	1Q 2014	2Q 2014	3Q 2014	4Q 2014	1Q 2015	2Q 2015	3Q 2015	4Q 2015	N=
10-25	2.2%	2.3%	1.9%	2.0%	0.9%	0.9%	0.6%	1.0%	119
25-50	0.7%	0.6%	0.8%	0.6%	0.7%	0.8%	0.9%	0.7%	99
50-100	0.6%	0.8%	0.9%	0.8%	0.9%	0.7%	0.8%	1.0%	54
100-250	0.7%	0.9%	0.3%	0.7%	1.2%	0.8%	0.7%	0.5%	28
Total	1.4%	1.2%	1.2%	1.1%	0.9%	0.8%	0.8%	0.9%	
N =	20	34	35	51	49	41	31	39	300

GF SOURCE: GF DATA®

CHART 11

ESCROW/HOLDBACK—% OF TOTAL ENTERPRISE VALUE

TEV	2010	2011	2012	2013	2014	2015	Total	N=
10-25	8.1%	7.4%	7.4%	8.0%	8.6%	6.9%	7.7%	323
25-50	7.9%	6.4%	7.3%	6.5%	6.9%	6.5%	6.8%	242
50-100	5.5%	6.9%	5.5%	4.4%	4.2%	3.9%	5.2%	141
100-250	5.1%	6.8%	6.0%	3.3%	6.0%	10.2%	6.7%	66
Total	7.4%	6.9%	6.8%	6.7%	7.0%	6.6%	6.9%	
N =	106	127	147	95	137	160		772

Escrow/Holdback—Quarterly Splits

TEV	1Q 2014	2Q 2014	3Q 2014	4Q 2014	1Q 2015	2Q 2015	3Q 2015	4Q 2015	N=
10-25	7.8%	8.0%	8.9%	9.4%	7.7%	6.2%	5.5%	7.1%	125
25-50	5.3%	6.6%	7.8%	6.9%	6.8%	7.4%	7.0%	5.7%	96
50-100	3.2%	5.1%	6.6%	3.5%	4.1%	4.6%	4.0%	0.5%	50
100-250	7.6%	6.3%	4.5%	7.6%	4.4%	2.5%	1.1%	50.0%	26
Total	6.4%	6.8%	7.6%	6.9%	6.6%	5.7%	5.5%	8.3%	
N =	21	30	35	51	49	40	29	42	297

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CHART 12

ESCROW/HOLDBACK PERIOD—MONTHS

TEV2010	2011	2012	2013	2014	2015	Total	N=	
10-25	17.1	16.6	17.8	15.7	17.0	16.0	16.8	320
25-50	16.2	15.5	16.6	17.1	19.0	16.6	16.9	234
50-100	17.5	19.1	14.4	18.4	15.4	16.3	16.7	141
100-250	16.6	19.4	17.1	11.3	16.3	14.3	16.4	65
Total	16.9	17.2	16.7	16.4	17.3	16.1	16.8	
N =	104	125	144	90	135	162		760

Escrow/Holdback Period—Quarterly Splits

TEV	1Q 2014	2Q 2014	3Q 2014	4Q 2014	1Q 2015	2Q 2015	3Q 2015	4Q 2015	N=
10-25	14.5	16.8	20.4	15.5	16.6	13.8	13.7	18.0	124
25-50	13.5	17.5	27.6	16.4	18.0	16.7	17.2	15.2	94
50-100	16.8	17.8	15.0	14.2	16.5	14.9	17.1	18.0	51
100-250	15.0	17.0	14.0	21.3	14.5	14.4	15.0	13.5	28
Total	15.1	17.3	20.7	15.9	16.7	14.6	16.2	16.5	297
N =	20	30	35	50	50	39	29	44	297

GF SOURCE: GF DATA®

KEY DEAL TERMS OVERVIEW

GF Data's searchable data base is available on line at www.gfdataresources.com.

Key Deal Term Definitions

As deal professionals, we are aware of the many variations and refinements raised by general terms like "indemnification cap" or "basket." Below are the guidelines GF Data has provided to private equity data contributors:

- **Indemnification cap** refers to the general indemnification provided by the seller to the buyer against breaches of reps and warranties. **This does not include carveouts for specific issues or items.** For example, parties often agree that the general cap will not apply in the event of fraud.
- **Survival period** refers to the period after closing during which a buyer may assert a breach of the reps and warranties against seller. **Again, this does not include carveouts.** For example, exposure on tax, environmental, and ERISA issues often exceeds the general survival period.
- **Basket** refers to the amount that damages or losses must exceed before a seller is liable for any indemnification payments. We are interested in this threshold amount irrespective of whether the threshold functions as a deductible or triggers "first-dollar" payment on any claims.
- **Escrow/Holdback** refers to transaction consideration either placed in escrow or retained by the seller subject to events or conditions expected to occur post-closing. For example, the parties may agree to a working capital adjustment based on financial statements that will not be available until after the end of the fiscal period. **This does not include earnouts or other payments payable to Seller post-closing contingent on the selling company's performance for a certain period post-closing.**
- **Escrow/Holdback Period** refers to the time when the last of funds placed in escrow or held back are scheduled to be released.

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