Capital Markets and Investment Banking

Market Update

SEPTEMBER 2018

Market Snapshots

Middle-Market Mergers & Acquisitions

Q2 2018 M&A Recap

- Global M&A deal value in Q2 2018 became only the fourth quarter since the crisis to breach the US$ 1 trillion mark as M&A activity has been driven by cheap financing and increased competition for traditional corporations by newer, more innovative firms.
- In Q2 2018, there have been 12 megadeals breaching the $10 billion mark, building on volume levels in Q1 2018.
- Overall, global M&A value increased 33% in Q2 2018 to $1 trillion, while volume increased 42% to 4,786 deals.

2018 Outlook

- Continued strong transaction volume in the second half of 2018 based on companies looking to bolster modest organic growth rates, public companies capitalizing on strong equity currency and private equity firms actively seeking to deploy capital.
- Accelerating technological changes are driving strategic investments and M&A activity across all sectors and geographies.
- Tax reform is enabling companies to benefit from lower corporate tax rates and the ability to repatriate cash to the U.S.
- Regulatory and geopolitical environment among major global economies poses certain challenges with increased scrutiny of cross-border M&A transactions.

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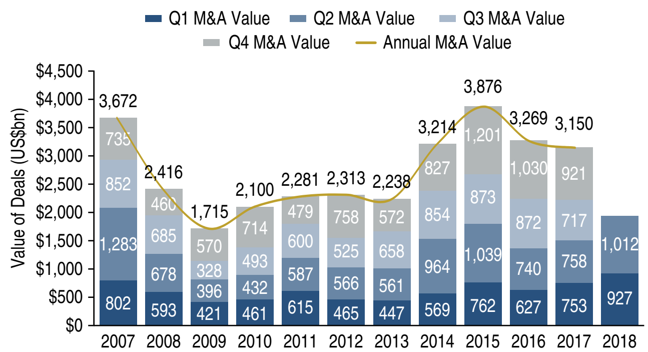
Quarterly Global M&A Comparison



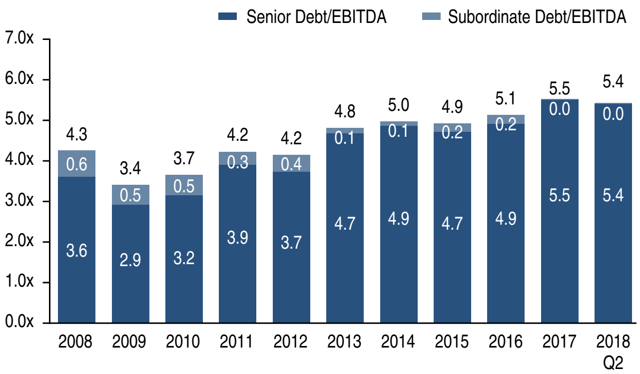
Source: MergerMarket.

Middle-Market Mergers & Acquisitions, continued

Significant Opportunities Exist to Capitalize on the Favorable Financing Environment

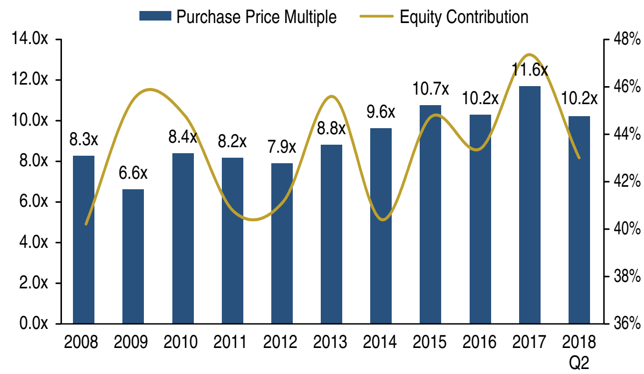
- Financial sponsor-driven acquisition multiples retreated slightly across the U.S. and Europe averaging 10.2x EBITDA in Q2 2018. Equity contribution for middle-market LBOs averaged approximately 43% in Q2 2018.
- Total leverage in Q2 2018 for middle-market issues with less than $50 million of EBITDA averaged 5.4x, down slightly from the 2017 average. Increasing debt capacity and aggressive behavior among leveraged lenders are supporting record valuations being paid by financial sponsors.
- Global private equity activity remains remarkably high, where the first half of 2018 saw private equity buyouts worth a total $272 billion, the highest year-to-date value on record.

Average Debt Multiples of Middle-Market LBO Loans (Issuers with Less than $50M of EBITDA)



Source: S&P Capital IQ LCD.

Average LBO Purchase Price Multiples



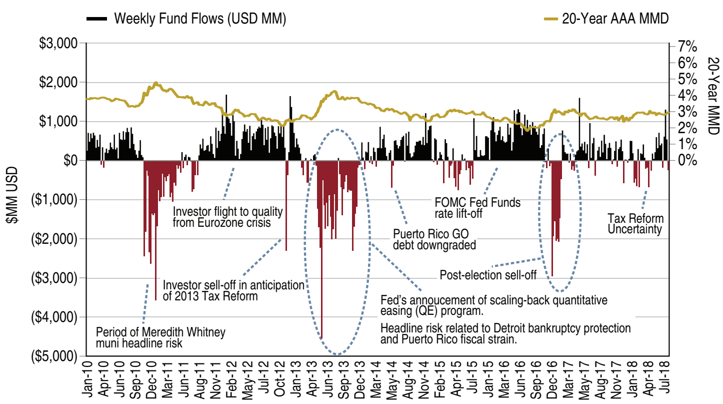
Source: S&P Capital IQ LCD.

Municipal Bonds

Municipal Bond Fund Flows and Municipal Market Data (MMD)

The second quarter of 2018 experienced several moments of volatility, but overall, municipal market conditions continued to improve. The market, as represented by the Bloomberg Barclays Municipal Bond Index, posted a .17% return for June, with a 1.73% return since its low on April 25, 2018. Overall, tax-exempt rates declined, with the 5-year AAA MMD dropping by more than 10 basis points and the 20 and 30-year AAA MMD each experiencing rate declines of more than 5 basis points. Market conditions have driven both taxable and tax-exempt 20 and 30-year rates below 3%, with ratios continuing to remain just below 100%. Municipal fund flows remained varied throughout the quarter, with outflows occurring in April followed by eight consecutive weeks of inflows through the months of May and June. Municipal issuance continues to remain low for 2018, with year-to-date issuance down by more than 20% compared to this time last year and remaining below the 5-year average. The subdued primary market issuance during the first half of the year, paired with investor demand, continues to provide issuers with compressed credit spreads and favorable market conditions. June saw the second target rate hike for the year from the Federal Reserve, which brought the key interest rate to 2.0% and encouraged expectations for an additional hike later in the year. Long-term rates continued to remain under pressure with concerns over a trade war with China, which has driven demand into the safety of municipal debt. Heading forward into the late summer, supply has historically been negative after the spring supply push, and market expectations still have 2018 year-end total supply at levels ~20% lower than in 2017. However, we expect an increase in year-end issuer activity, as first and second quarter calendar effects moderate and tax reform distortions subside. For 2018 and beyond, we recognize potential difficulties from more significant policy changes – including limitations on private activity bonds, curtailment of the state and local tax (SALT) deduction, and corporate tax rate changes. Additional market concerns include upcoming interest rate hikes from the Federal Reserve, wage and price inflation, and market fluctuations from federal trade and policy negotiations.

Municipal Bond Fund Flows and 20-Year MMD



As of the weekly reporting date 08/01/2018
Data Source: EPFR Global Fund Flows and Allocations Data – All Muni Funds (Retail and Institutional Funds).

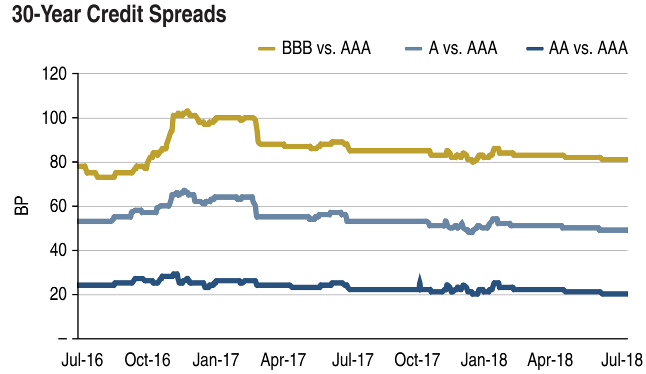
Trailing 16-Week Data

Muni Fund Reporting Date	Weekly Fund Flow ($MM USD)	20-Yr AAA MMD (%)
4/18/2018	(682.76)	2.84
4/25/2018	(2.27)	3.03
5/2/2018	(265.22)	2.93
5/9/2018	170.11	2.87
5/16/2018	34.77	2.93
5/23/2018	205.92	2.91
5/30/2018	591.01	2.77
6/6/2018	309.17	2.86
6/13/2018	703.48	2.90
6/20/2018	382.33	2.84
6/27/2018	430.27	2.83
7/5/2018	(191.36)	2.80
7/11/2018	604.39	2.79
7/18/2018	1,293.73	2.81
7/25/2018	533.94	2.87
8/1/2018	(245.94)	2.94

Credit Spreads

In mid-July, Moody's changed trends broadly speaking across the State of Illinois and Chicago municipal credit complex from "negative" to "stable." Arguably, the market saw this rating move as having placed a temporary rating floor under the Chicago and Illinois credits. While the credit ratings on Illinois' bonds remain low, this perceived rating stability has led to some significant market price recovery. Net issuance is down substantially in 2018 versus 2017 due in large part to fallout from the Tax Cuts and Jobs Act ("TCJA"). There was a race to issue tax-exempt bonds ahead of the anticipated tax law changes in December 2017, which resulted in a surge in issuance, as bonds were forced through the pipeline before year-end. Additionally, the TCJA's disallowance of advance refunding has led to some issuer caution, which may have further impacted the decline of issuance. Mid-way through 2018, credit spreads remain tight and tax-exempt yields remain relatively low in spite of market concerns about the potential for Fed tightening over the next 36 months in response to a strengthening economy and full employment.

30-Year Credit Spreads



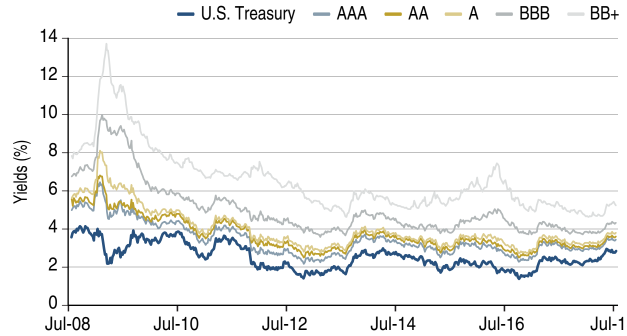
Source: The Municipal Market Monitor (TM3).

Corporate Debt and Infrastructure Finance

Corporate Debt Spreads – Finance Market Summary

- Yields on 10-year Treasuries have continued to hover just under the 3% threshold in the second quarter and the beginning of the third quarter. 10-year Treasury rates have risen approximately 52 basis points year to date.
- Corporate spreads are following suit, with spreads to Treasuries widening across credit categories since the beginning of the year. On average, 10-year investment grade credit spreads to Treasuries have increased by approximately 12 basis points.
- Total corporate issuances in 2018 after 6 months were \$777.4 billion, approximately 13% lower than issuances in the first half of 2017.[1] Domestic industrial issuance is down 13% from last year, while utility issuance is up 22%. Financial institutions issuance is down 12% from over a year ago.

Historical Corporate Bond Yields – 10-Year Maturity



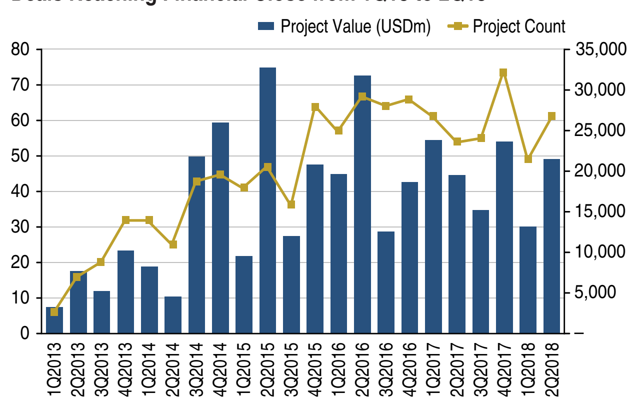
Data as of February 14, 2018.
Source: S&P Global Fixed Income Research.

1 SIFMA.

U.S. Infrastructure Market

- The first half of 2018 showed a slowing of U.S. project finance activity with roughly \$34+ billion in infrastructure transactions reaching financial close, lagging the first half of 2017 in terms of aggregate transaction size. Most transactions were in the power and renewable energy sectors, which is consistent with prior periods. There was an increase in telecommunications transactions, primarily in data center projects, and we anticipate additional deal activity going forward in the transportation and social infrastructure sectors.
- High-profile transportation P3s progressed in the second quarter. For example, the LAX Automated People Mover transportation project, a \$1.9 billion greenfield, reached financial close. Also, Elon Musk's The Boring Company was chosen as the selected respondent on the Chicago O'Hare Express P3 and will proceed to the exclusive negotiations stage on this groundbreaking project for the City of Chicago.
- Trump's preliminary infrastructure plan released in February has stalled in Congress and will likely be put on hold under after the midterms, when we anticipate renewed interest in the bill. Nevertheless, infrastructure continues to attract significant interest from investors and public officials at state and local levels.

Deals Reaching Financial Close from 1Q18 to 2Q18



Graph includes Greenfield, Brownfield and Refinancing transactions.
Source: Inframation.

Featured Mesirow Financial Deals

IBH
Integrated Behavioral Health

has been acquired by

PERISCOPE
EQUITY

— Sell-side Advisor —

M&A Sell-side Advisor to Integrated Behavioral Health, Inc.

Mesirow Financial acted as the exclusive financial advisor to Integrated Behavioral Health, Inc. (“IBH”) on an investment from Periscope Equity LLC. Based in Costa Mesa, CA, IBH provides employee engagement and administration solutions, including managed behavioral health (“MBH”), employee assistance programs (“EAP”), wellness programs and impaired professional monitoring. IBH serves a diverse set of clients, including self-insured companies, commercial insurance carriers, health plans and third-party administrators across the United States. IBH provides these services to over 7 million lives, across more than 26,000 employers, delivering these employees access to IBH’s clinical services team and its distributed national network of more than 23,000 healthcare providers. The transaction represents another successful assignment completed by Mesirow Financial’s Investment Banking group.

City of New Britain, CT
$91,645,000
Series 2018 (Taxable)

— Sole-Manager —

Sole Manager for the City of New Britain, Connecticut

Mesirow Financial served as the sole underwriter for the $91,645,000 Taxable General Obligation Refunding Bonds, Series 2018 (the “Bonds”) issuance for the City of New Britain, Connecticut (the “City”). The Bonds were issued to help the City mitigate the major financial challenges it was facing, including; structural budgetary distress and state aid funding reductions which posed a potential threat of employee layoffs, temporary closure of certain public facilities and services, or significant increases in tax rates. Mesirow Financial was engaged by the City to evaluate debt restructuring options and provide an optimal solution. MFI carefully examined the City’s debt portfolio to determine the present value cost to defease each outstanding maturity in order to maximize the efficiency of the restructuring. Mesirow Financial’s analysis of prevailing market conditions showed high tax-exempt-to-taxable ratios, historically low interest rates and a flat yield curve, which were indicative of the technically strong market conditions necessary for executing the City’s restructuring. Mesirow Financial structured the transaction to be comprehensive, fundamentally reshape the debt profile of the City and create manageable annual debt service payments in order to assist the City with stabilizing its future operations. This debt restructuring demonstrates Mesirow Financial’s ability to provide innovative & thoughtful strategies, as well as superior execution, to our public sector clients.

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- Fixed Income Sales and Trading
- Public Finance
- Sale-Leaseback Capital
- Structured Debt Products

Investment Banking

Boutique M&A advisor serving the middle-market and providing customized solutions to meet the unique needs of our clients.

About Mesirow Financial
Mesirow Financial is an independent, employee-owned firm founded in 1937. As specialists in investment, risk management and advisory services, we are committed to helping our institutional, corporate and individual clients achieve their objectives. Our professionals are inspired by an entrepreneurial desire to develop tailored solutions designed to deliver measurable results. To learn more, please visit mesirowfinancial.com.

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