State of the Middle Market:

M&A • Private Equity • Financing

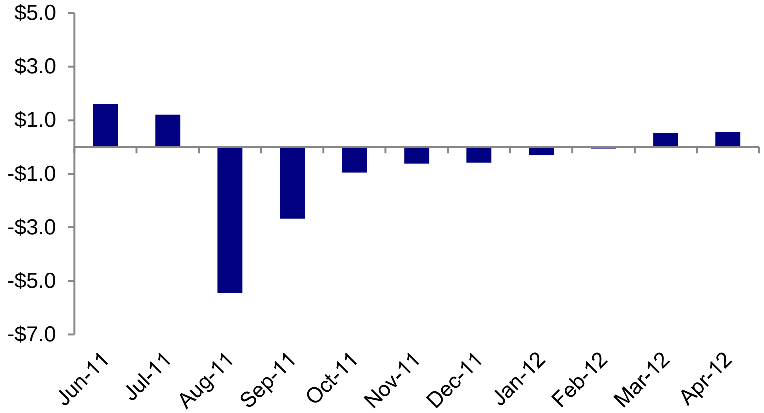
June 2012

DEBT ADVISORY GROUP

The Capital Markets Desk for the Middle Market SM

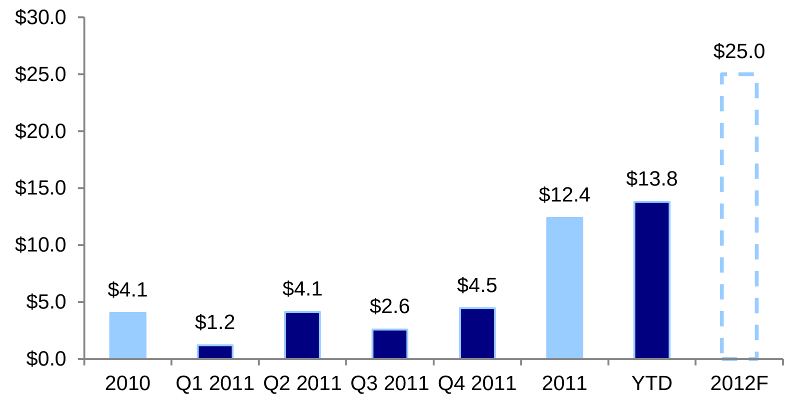
Significant Available Debt Capital in the Market

Monthly Loan Prime Fund Flows ($Bn)



Source: Standard & Poor's Leveraged Commentary and Data

Volume of CLO Issuances ($Bn)



Source: Standard & Poor's Leveraged Commentary and Data
Note: YTD period through May 25, 2012

Commentary

- Improved investor confidence and stable market conditions have resulted in more available debt capital as:
  - Fund flows became positive in Q1 2012 for the first time since July 2011;
  - New CLO issuances have gained traction with $13.8 billion issued during the YTD period;
  - Public BDCs raised significant capital during Q1 2012; however, the window for new equity raises is temporarily closed; and
  - Private BDCs have continued to raise capital
- Lenders are aggressively seeking to put this capital to work

Capital Raised by Existing Public BDCs in 2011 and YTD 2012

Name of BDC	Capital Raised
Ares Capital Corporation*	$1.3 billion
Fifth Street*	$435 million
Golub Capital BDC	$109 million
GSV Capital Corp.	$264 million
Hercules*	$123 million
Kohlberg Capital*	$60 million
Main Street Capital	$117 million
Medley Capital*	$216 million
PennantPark	$194 million
Prospect Capital*	$639 million
TICC Capital Corp.	$42 million
Triangle Capital*	$248 million
Total Follow-on Capital Raised	**$3.8 billion**

Source: BB&T Capital Markets, CapitalIQ, Company press releases
**Issued convertible debt*

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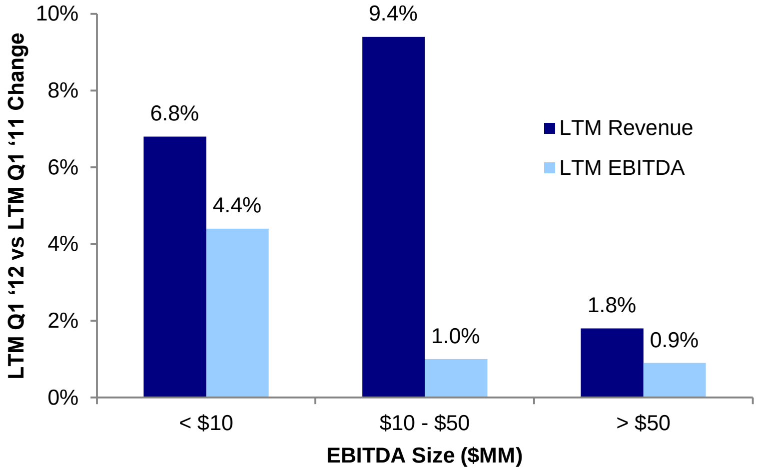
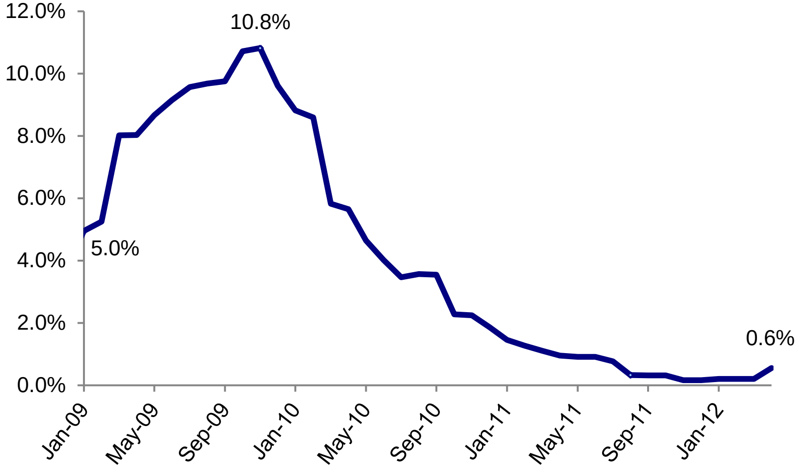
Improved Company Fundamentals Create Favorable Lending Conditions

Company Performance Continues to Improve Over Prior Year



Source: Lincoln International Proprietary Database

Loans Outstanding Under Default (Percent of Principal)

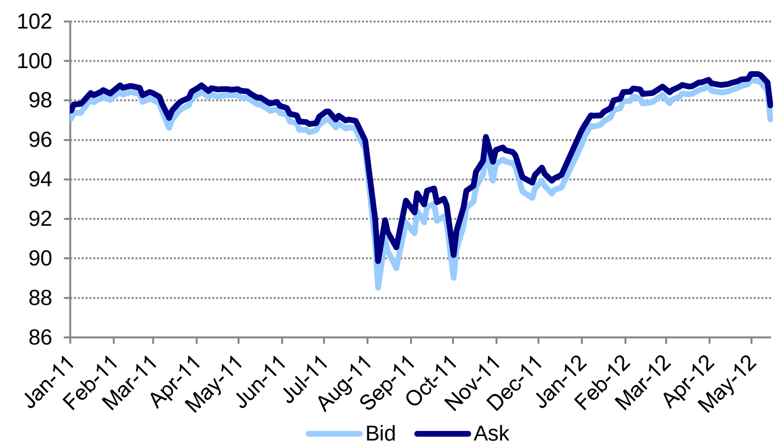


Source: Standard & Poor's Leveraged Commentary and Data

Market Dynamics

- Middle market companies have exhibited fundamental improvements in operating performance, resulting in stronger credit quality
- Improved company fundamentals have driven relatively low default levels, which indicate appropriate capital structures
- The current secondary market conditions make primary issuances more attractive

Average Bid and Ask of Flow Name Leveraged Loans



Source: Standard & Poor's Leveraged Commentary and Data

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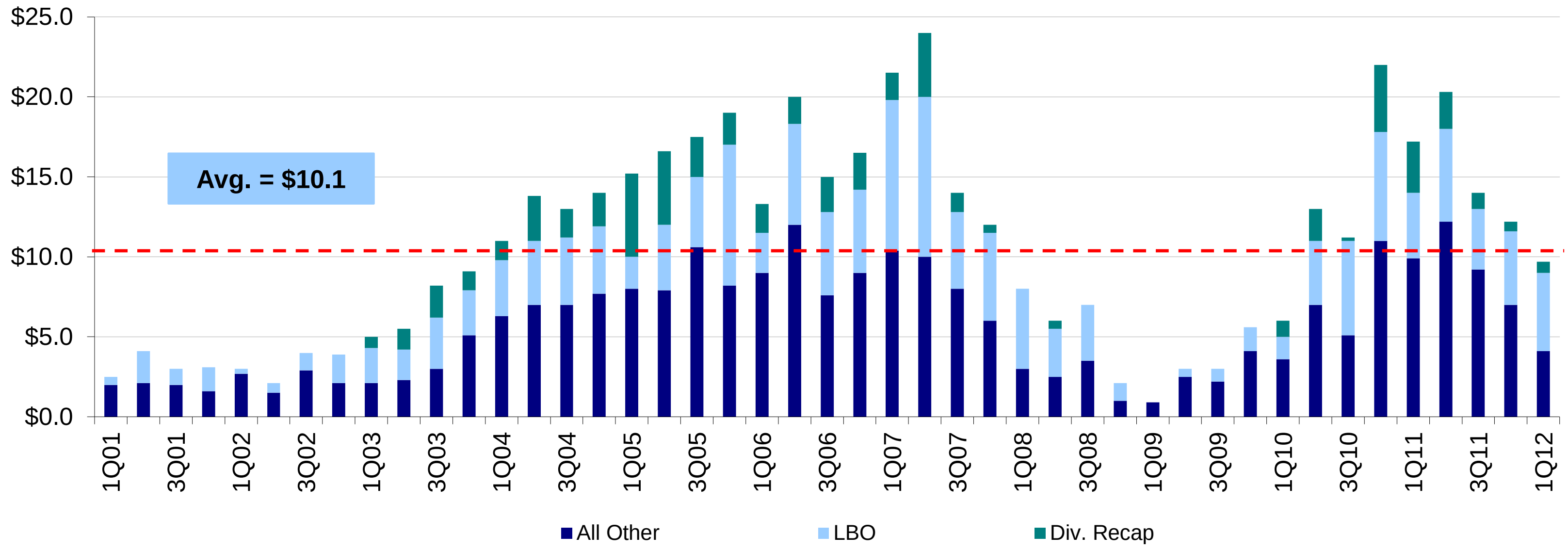
Despite Available Capital & Improved Borrower Characteristics, Loan Volume Has Contracted

Middle Market Sponsored Loan Volume ($Bn)



Source: Thomson Reuters

Market Dynamics

- Coming out of the economic downturn and debt crisis, pent up borrower demand caused rapid increases in middle market lending volume from 2009 through the first half of 2011
- Since the first half of 2011, deal volume has been lackluster
  - Capital raised by lenders has not been met by equal demand
- While the second half of 2012 may experience increased deal activity due to tax motivated sellers, loan volume is just as likely to remain near the historical average
  - As an indicator of lower expected deal activity, some BDCs have announced share repurchases

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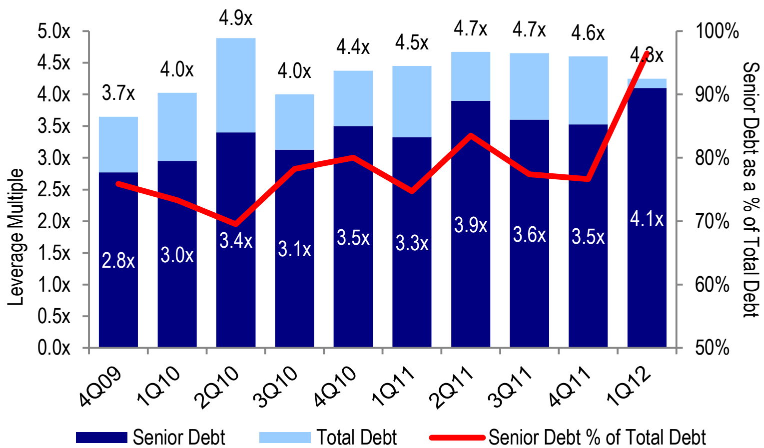
Increased Competition in Redefined Senior Debt Market

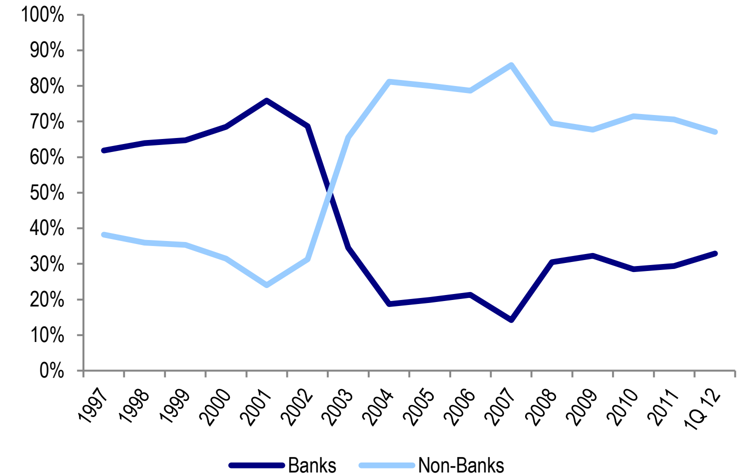
Increased Mid-Market LBO Senior Debt as a % of Total Debt



Source: Thomson Reuters

Note: Senior debt includes unitranche facilities

Investor Share of Primary Mid-Market Leveraged Loans



Source: Standard & Poor's Leveraged Commentary and Data

Commentary

Unitranche Lending Market

- Senior debt is taking a larger share of the total debt structure, driven in part by unitranche lenders who require first liens
- Minimum yield requirements by non-traditional unitranche lenders are resulting in a floor on pricing to borrowers

Senior Cash Flow Loans

- Lenders are competing heavily for high quality credits backed by equity sponsors
- However, the senior cash flow market is still limited for borrowers with EBITDA less than $10 million to $15 million

Asset-Based Lending Market

- Asset-based loans continue to be an attractive source of capital for issuers with a significant collateral base
- ABL lenders are increasingly being utilized in conjunction with unitranche facilities

The Evolution of Unitranche

Types of Unitranche Facilities
(Illustrative Examples)

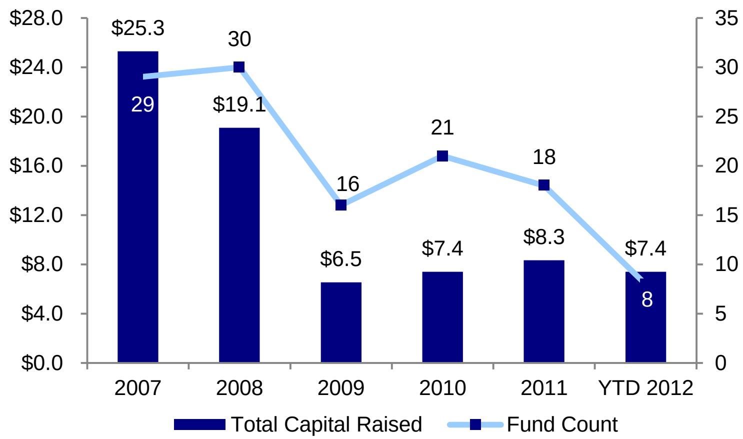
First Dollar	ABL Revolver with Term Loan	ABL Revolver with First Out / Last Out Term Loan	ABL Revolver with First Out / Last Out Term Loan & Mezz
Revolver…...……..$0 Term Loan...……$100 **Total……………..$100**	Revolver…………..$20 Term Loan……..…$80 **Total……..……...$100**	Revolver…………..$20 First Out …..…….$20 Last Out …..…….$60 **Total…………….$100**	Revolver…………..$20 First Out …..…….$20 Last Out ………….$60 Mezzanine………..$20 **Total……………..$120**

Commentary

- The unitranche loan was initially introduced to the market in the form of a "first dollar in" structure, with no other lender ahead of the unitranche provider in the capital structure
- Unitranche loans, in an effort to reduce pricing to the borrower, are often now structured behind an ABL revolver
- Some unitranche providers are now looking to split their facilities, in the form of "first out / last out" structures, so that lenders targeting first lien asset protection and others looking to enhance their yield may participate under the same facility
- As market conditions have improved and leverage has expanded, rather than going deeper in the capital structure certain unitranche lenders are opting to include mezzanine debt to bridge the gap, presenting new opportunities for mezzanine lenders

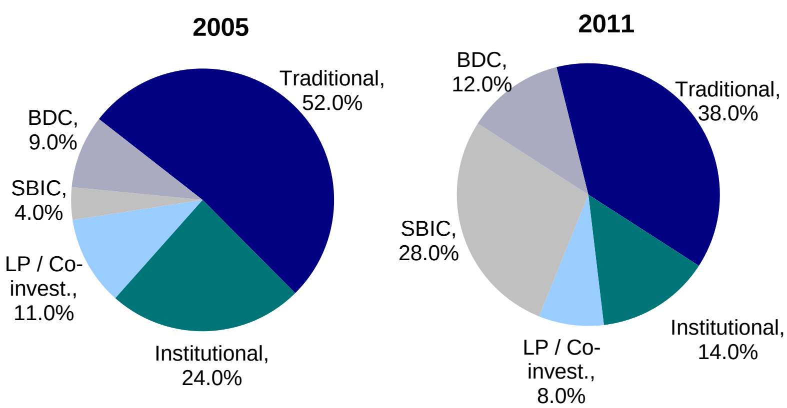
Competition from Unitranche Is Also Changing the Mezzanine Lending Landscape

New Mezzanine Funds Raised ($Bn)



Source: PitchBook

Changing Universe of Mezzanine Lenders



Source: PNC Mezzanine Market Survey
Note: Data reflects number of firms

Commentary

- As a result of unitranche loans' continued growth in popularity, fewer new mezzanine funds are being raised, albeit with larger amounts of capital raised per fund
- In order to co-exist with unitranche lenders, an increasing number of mezzanine funds have realized the need to adapt and evolve into two new models

  Sponsor / Relationship Bank:

  – Raise large amounts of capital, often in excess of $500 million, and cater to financial sponsors

  – Acknowledge low rates of return on sub debt, with no warrants or other potential for upside

  – Sacrifice yield for volume, relying on fee as a percentage of a larger capital base, along with a modest carried interest

  Small Business Focused:

  – Raise far less capital, often $50 million to $75 million, and participate in the SBIC leverage program

  – Seek smaller deals, often involving companies with less EBITDA, in an effort to get better pricing, along with a warrant or equity co-invest

  – Increased focus on smaller EBITDA companies, to which senior debt capital is largely unavailable, provides opportunity to enter at lower multiples yet extract greater yield

  – Trade volume for price, resulting from the riskier nature of smaller transactions, with modest management fees

Overview of U.S. Middle Market Pricing and Terms

Lincoln's View on Pricing and Terms

	Borrowers with less than \$10 - \$15mm EBITDA		Borrowers with at least \$10 - \$15mm EBITDA	
	Pricing	Multiples	Pricing	Multiples
Asset Based Senior	• L + 200 – 300 • LIBOR Floor: none	• *n/a*	• L + 175 – 250 • LIBOR Floor: none	• *n/a*
Cash Flow Senior	• L + 550 – 650 • LIBOR Floor: 100 - 150	• 2.00x – 3.00x EBITDA	• L + 500 – 600 • LIBOR Floor: 100 - 150	• 3.00x – 3.50x EBITDA
Unitranche	• L + 750 – 850 • LIBOR Floor: 200		• L + 750 – 850 • LIBOR Floor: 200	
2nd Lien Loans	• Unlikely	• 3.50x – 4.50x EBITDA	• L + 900 – 1100 • LIBOR Floor: 200	• 4.00x – 5.00x EBITDA
Sub Debt	• Cash of 11.0% - 13.0% • PIK of 2.0% - 4.0% • All-in of 14.0% - 16.0%		• Cash of 11.0% - 12.0% • PIK of 1.5% - 2.5% • All-in of 12.5% - 14.5%	
Equity	• *n/a*	• 35% - 40%	• *n/a*	• 35% - 40%

As regularly published in: Buyouts

UK Debt Markets – *Leverage and Enterprise Value*

Equity contribution

Equity contribution decreasing after a 13-year high in 2010

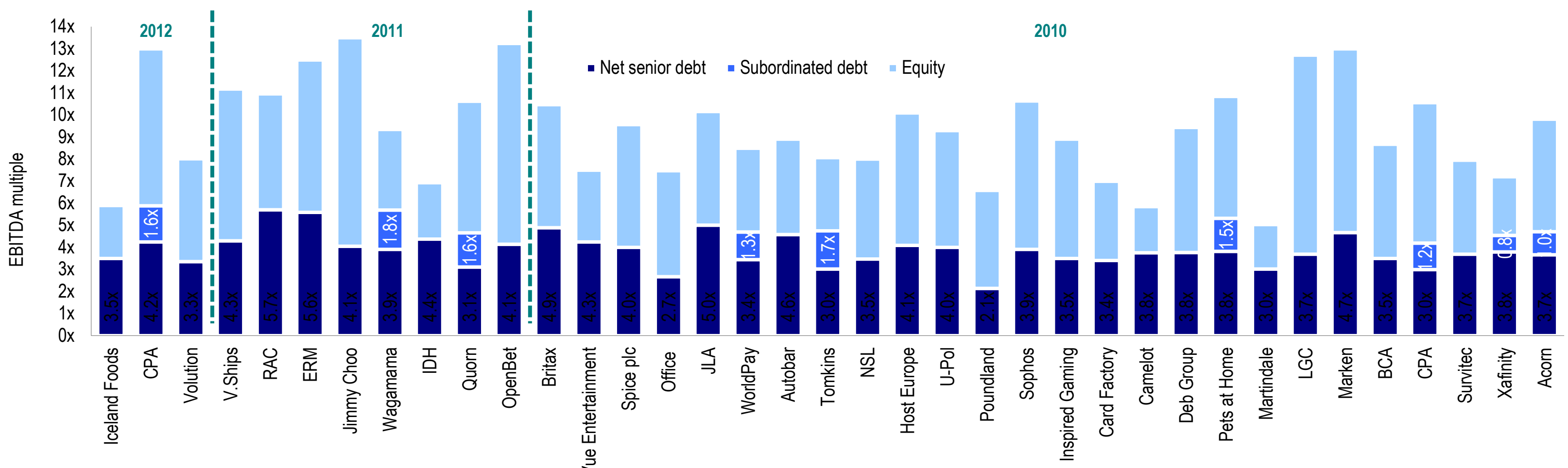
- Some post-crunch deals saw more than 50% equity, driven by the relatively low levels of leverage in conjunction with the high purchase multiple
- Average equity contribution in 2011 dropped to 47.9% from 50.6% in 2010 and 53.1% in 2009. Half of the LBOs in 2011 had equity of below 50%
- Recent benchmarks/term sheets indicate minimum 40% equity where structures include mezzanine

Leverage

Leverage increased from its trough in Q1 2009 to July 2011 but since the beginning of July, the stretched senior deal appears to have ended for the time-being

- Sponsored transactions launched in 2011 had an average leverage ratio of 4.5x at closing
  - up slightly from 4.4x in 2010 but well under the 5-6x area seen in the boom years
- Leverage through senior debt stood at 4.2x on average
  - up from 3.9x last year and close to the levels seen in 2005-2006
- In 2012 maximum senior leverage is in the 4.0x-4.5x range

Recent UK leveraged transactions



Source: LCD news, Lincoln International

Note:
(1) In the Wagamama deal, Hutton Collins invested in mezzanine and equity. Split is assumed 50/50

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UK Debt Markets – *Transaction structures*

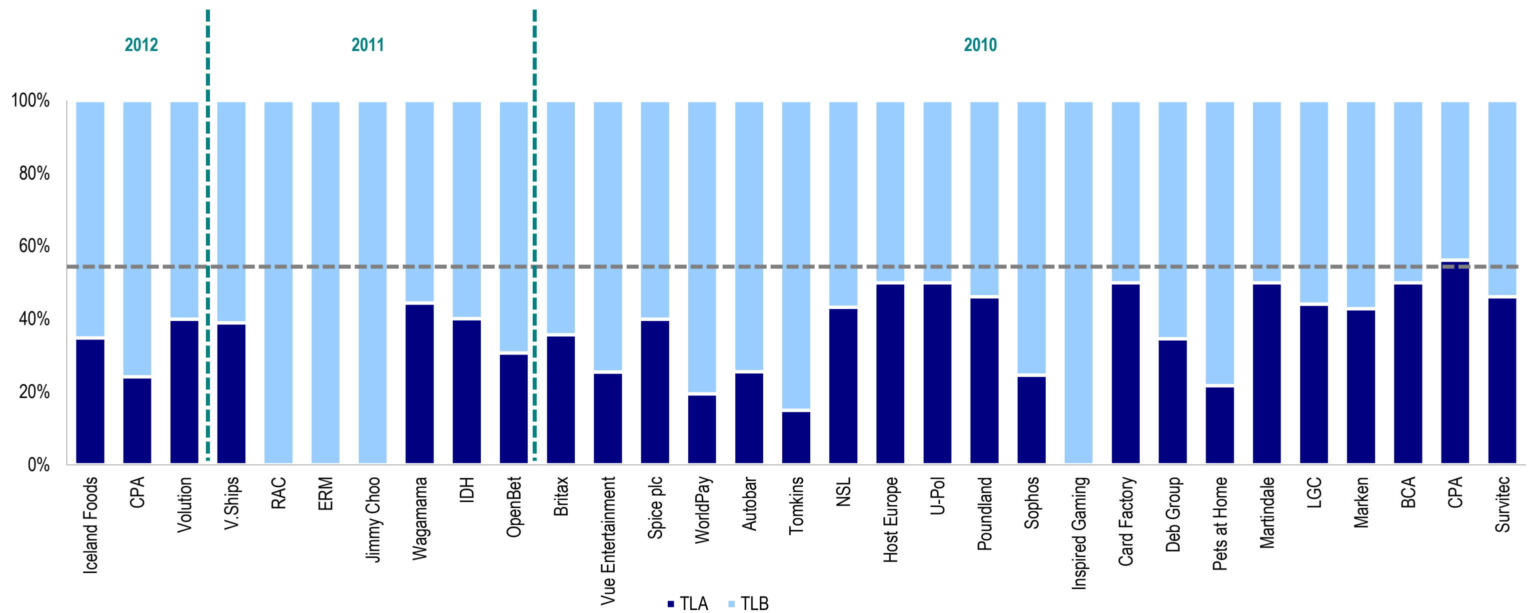
Senior structures

- Proportion of amortising loans in senior structures reached 50% and then declined rapidly in 2011
- In 2012 40% on a mid-market A-loan is achievable, with less if the transaction can be structured for the institutional market

Bullet only structures

- Driven by institutional demand and their need to have cash invested (both due to repayments and the upcoming expiry of their re-investment periods), there were three UK bullet only structures:
  - RAC, ERM and Jimmy Choo
- However, these structures are unachievable in 2012 as the institutions have limited funds to invest in new deals

A-loan vs. Bullet – UK deals



Source: LCD news, Lincoln International

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UK Debt Markets – *Pricing*

Consensus pricing

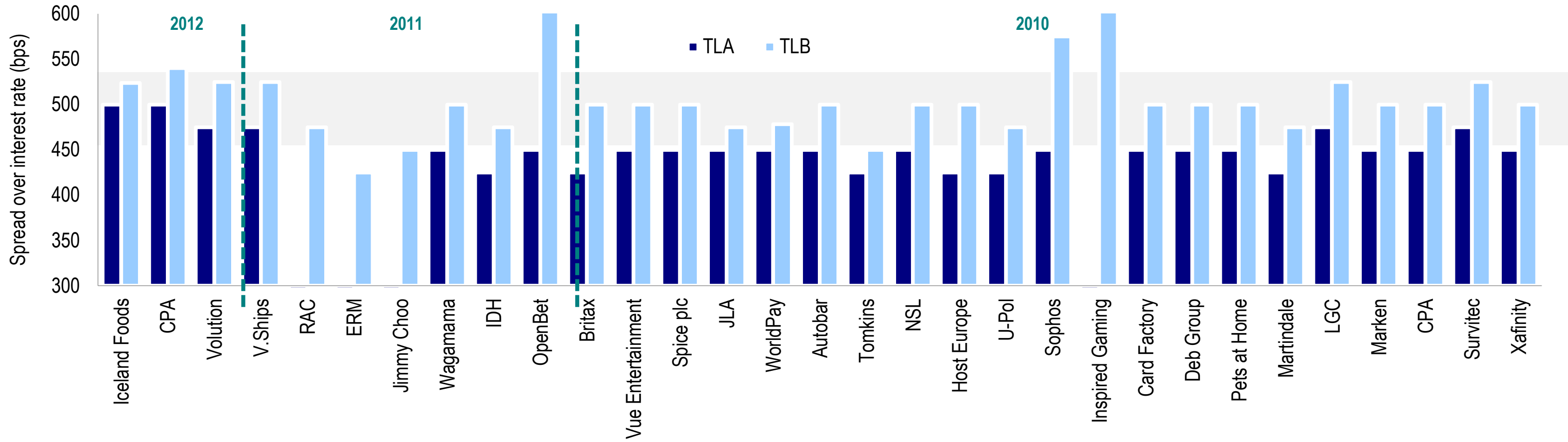
- Banks are favouring existing relationships and providing facilities to them on the following terms:

Tranche:	**Pricing:**
Senior A	400bps – 500bps
Senior B	450bps – 550bps
Senior C	500bps – 600bps (if available)
Second lien	n.a.
High Yield Bond	c.7% (BB+) to 12% (CCC)
Mezzanine	1,100bps – 1,300bps + warrants
Fees	400bps – 500bps
OIDs	1% – 10% (where applicable)

Drivers of pricing

- Pricing has increased since the beginning of July 2011 as
  - The secondary market has fallen, resulting in higher implied yields
  - Wholesale funding costs have increased for banks
- Sterling pricing is perhaps 25bps higher than Euro's in deals arranged for the institutional market
- Benchmark pricing is 450-475bps for an A-loan and 500-525bps for a B-loan

Recent senior pricing – UK deals



Source: LCD news, Lincoln International

Note:
(1) TLB pricing for OpenBet and Inspired Gaming is respectively 550bps cash / 2% PIK and 700bps cash / 3% PIK

Bringing Efficiency to the Middle Market

Lincoln International U.S. Advised on Over $1 Billion of Financing in 2011

Atlas Holdings
has refinanced its portfolio company
ideas brought to life
SHOREWOOD PACKAGING
$70,000,000
Senior Credit Facility

Atlas Holdings
has refinanced its portfolio company
Forest Resources LLC
$45,000,000
Senior Credit Facilities
$48,000,000
Junior Capital

Industrial Opportunity Partners
has acquired
TRANTECH RADIATOR PRODUCTS, INC.
$16,000,000
Senior Credit Facilities
$9,000,000
Junior Capital

Exponent Private Equity
has financed the U.S. subsidiary of its portfolio company
pattonair
Senior Credit Facility

Gridiron Capital
has acquired
HMD
and
NEX-TECH AEROSPACE
Senior Credit Facilities

Atlas Holdings
has refinanced its portfolio company
BRIDGEWELL RESOURCES™
$50,000,000
Senior Credit Facility

Industrial Opportunity Partners
has refinanced its portfolio company
center manufacturing, inc.
$27,000,000
Senior Credit Facilities
$7,500,000
Junior Capital

Shareholders
have refinanced
THE STRIVE GROUP
$44,500,000
Senior Credit Facilities
$28,000,000
Second Lien Facilities

Gryphon Investors
has recapitalized its portfolio company
Intelligrated® Material Handling Solutions & Services
$155,000,000
Senior Credit Facilities

Graham Partners
has acquired
SP
Senior Credit Facilities
and
Junior Capital

Recent Lincoln International U.K. Capital Raise Assignments

TowerBrook
has acquired the company
VOLUTION
£75,000,000
Senior Debt
£5,000,000
Revolving Credit Facility

Undisclosed
Covenant Restructuring
£50,000,000
Senior Debt

H.I.G. Capital
has acquired the company
brand addition creative merchandise solutions
£14,000,000
Senior Debt
£3,000,000
PIK
£6,000,000
Revolving Credit Facility

Management / ICG
have acquired the company
SYMINGTON'S
£56,500,000
Senior Debt
£6,000,000
Acquisition Facility
£20,000,000
Mezzanine Debt
£7,500,000
Revolving Credit Facility

Tinopolis
A portfolio company of
Vitruvian Partners
has raised acquisition financing
£39,000,000
Senior Debt
£10,000,000
Accordion
£4,000,000
Revolving Credit Facility

Lincoln's Debt Advisory Group adds the following value to each assignment:

- Robust process ensures *best available pricing and terms*
- Strong relationships with *over 300 capital sources throughout the world*
- Multiple capital structure alternatives are generated which *enhances certainty of closing*
- Provides clients with *transparency and control over financing process*
- Lincoln's independence assures there is *no conflict of interest*
- *Maximum leverage of time and resources* for management team and financial sponsor

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