SOFTWARE
MIDDLE-MARKET UPDATE

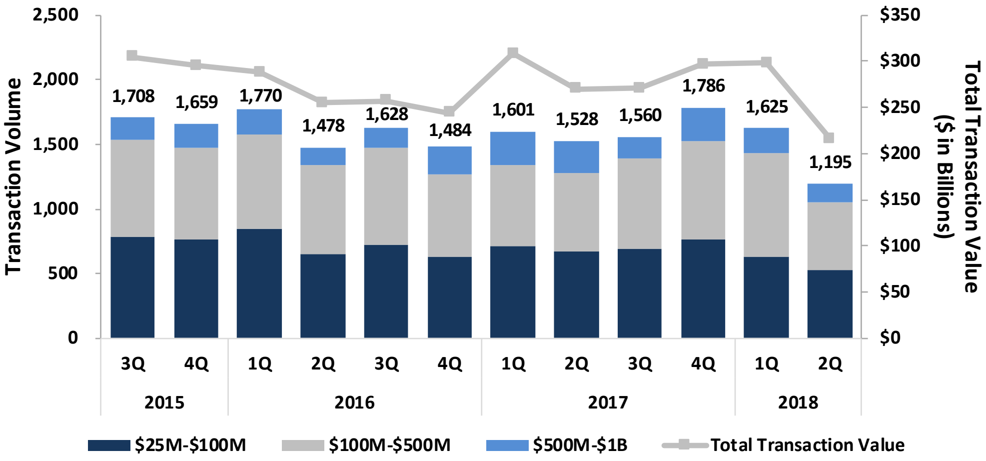
BRENTWOOD CAPITAL ADVISORS

2Q2018

2Q 2018 M&A Update

Middle-market M&A activity slowed dramatically during the first half of 2018 in both the number and value of transactions. Transaction volume peaked at 1,786 in 4Q17 and has steadily fallen to 1,625 in 1Q18 and 1,195 in 2Q18. In this game of financial chicken, the disparity in buyer versus seller value expectations has finally hit the wall.

Middle-Market Quarterly M&A Activity - All Sectors



Source: Pitchbook.

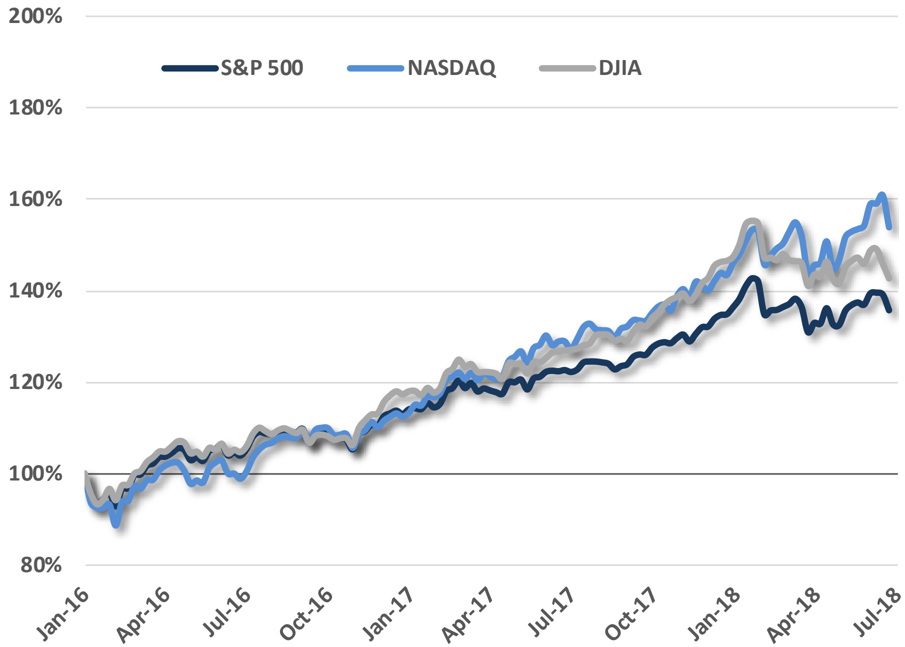
In the current environment, sellers are demanding valuations that would befit perfection when their companies are attractive but have some flaws, such as less relative size, market position and profitability. Over the prior 18 months, buyers have bridged a good portion of this value gap with debt readily available in this very favorable capital markets environment. Today, strategic and financial buyers are focused on smaller add-on acquisitions that are generally less expensive than platform acquisitions and can still add meaningful revenue and earnings growth.

In healthcare, there continues to be strong strategic and financial buyer interest in physician services platforms that have a surgery component, companies that provide high-quality patient care in a low cost setting and technologies that help providers and payers successfully transition from volume- to value-based reimbursement. BCA's deal flow remains strong, having closed five deals year-to-date representing over $400 million in transaction value.

Stock Market

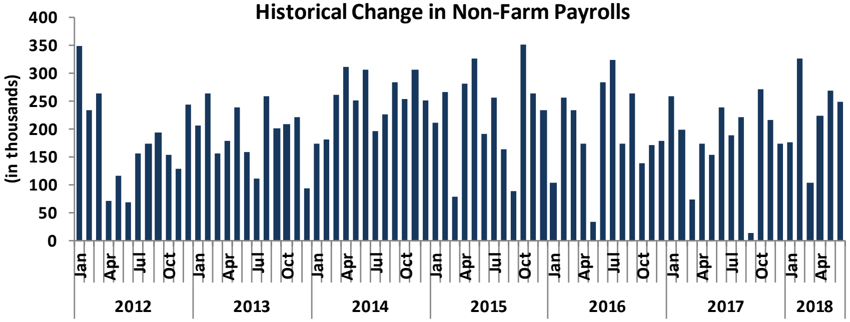
All major indices have been treading water over the last six months, with very strong economic news being largely offset by fears of a trade war with China, European Union and NAFTA allies. Tailwinds from significantly lower corporate taxes and reduced governmental regulations have been buffeted by imposed and threatened tariffs. Overall, the market has performed well, up approximately 40% since President Trump was elected, even as the Fed has shifted from an extremely accommodating zero interest rate policy to raising the Fed Funds target rate seven times since December 2015.

Companies continue to report strong earnings. With 53% of the companies comprising the S&P 500 reporting results, 83% have announced higher earnings and 77% higher sales. If the 2Q18 earnings growth of 21.3% holds up, it will be the best quarter since 3Q10 when the market was recovering from the Great Recession. Technology companies, led by FAANG have provided the largest lift to the market YTD. With anything even approximating 50%+ of this level of continued earnings growth, a good economy and favorable trade news, the market is poised to go higher.



Non-Farm Payroll

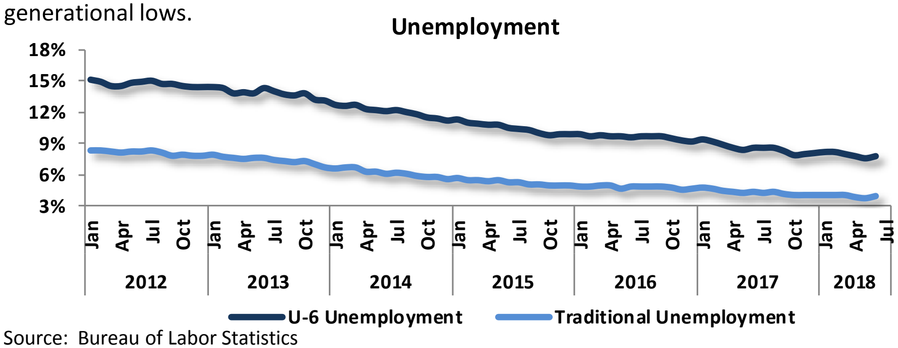
Job growth appears to be accelerating based upon non-farm payrolls, adding on average approximately 227,000 jobs per month for the first six months of 2018. This growth is particularly impressive this late in a recovery and with traditional unemployment and U-6 rates sitting at 4.0% and 7.8%, respectively. In June, the economy added 213,000 new jobs. The composition of these new jobs is also positive with a higher percentage increasingly being created in the manufacturing sector. Although the economy created only 157,000 in July, approximately 37,000 were manufacturing and represent a 13.8% increase over the same period last year. At current levels of U-3 and U-6 unemployment, any non-farm payroll increase greater than 100,000 should signal continued solid economic growth.



Source: Bureau of Labor Statistics

Unemployment

U-3 or traditionally measured unemployment was 4.0% in June, a slight increase from May's 3.8%. Similarly, U-6 was 7.8% versus 7.6% the previous month. There was good news behind both increases in unemployment with the labor participation rate rising from 62.7% to 62.9%, resulting in 601,000 previously discouraged workers reentering the workforce. In July, both unemployment measures resumed their downward trajectory, falling to 3.9% and 7.5%, respectively. Black, Hispanic and women's unemployment are all at or nearing generational lows.

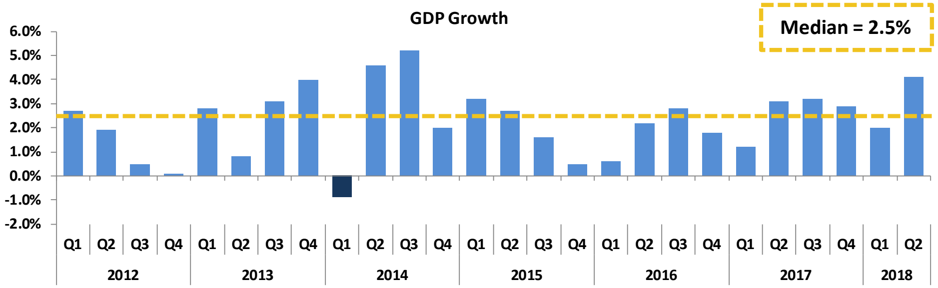


Source: Bureau of Labor Statistics

Gross Domestic Product

By almost any measure, the economy is booming. In President Trump's first full year in office, GDP grew 2.55%, higher than six of the eight years under President Obama and five of the eight years under President Bush. This growth rate is higher than the entire presidencies of Obama at 2.05% and Bush at 1.71%. To put all these numbers in perspective, since 1953, GDP has averaged 2.95%. Based on this data, the Trump economy is very strong but still has to expand significantly to get the U.S back to historical levels, which is a more difficult task for a considerably larger economy.

Growth for 2Q18 was an impressive 4.1%. The real question is whether or not this level of growth is sustainable. Approximately 1% of 2Q18's growth is driven by higher exports, some portion of which can be attributed to higher soybean purchases made in advance of tariff fears if a trade war breaks out. The 4.1% growth was also subdued by a change in private inventories that reduced GDP by 1%. No matter how you slice it, the economy is performing well.



The foundation of this economic growth is also much sounder than in previous periods. Most of the growth has been led by capital investment, which typically supports longer term growth. Previous GDP growth was largely focused on policies that would stimulate consumer spending. There is no ZIRP or Cash for Clinkers here. Most of the growth is being driven by U.S. companies making long-term capital investments due to a much more business friendly environment that includes lower corporate tax rates and significantly reduced regulation.

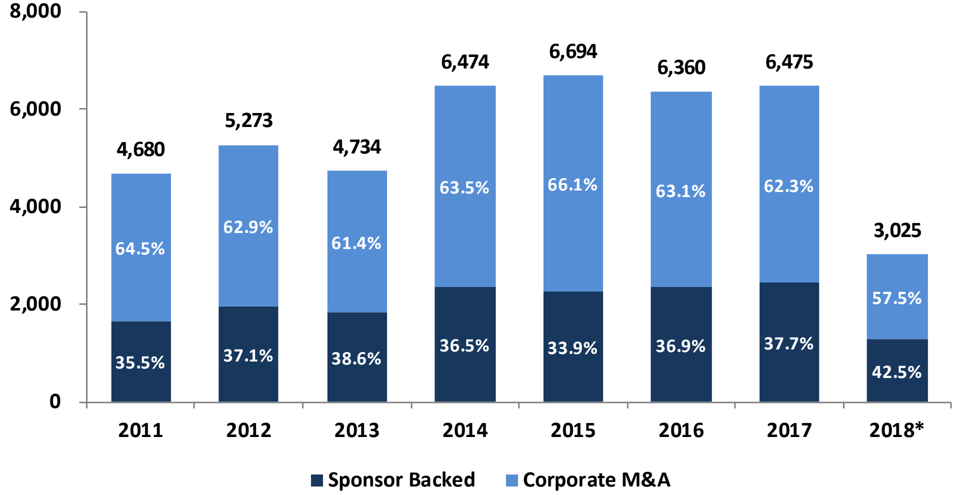
Perhaps as importantly, this growth has been accomplished without a lot of additional debt. U.S. national debt stands at $21.3 trillion today, an increase of ~$800 billion over the last six quarters. By contrast, the national debt expanded by almost 60% from $5.8 trillion to $9.2 trillion under the two-term Bush administration and more than doubled under two-term President Obama, expanding from $9.2 trillion to $19.9 trillion.

We believe the economy will continue to expand over the next few quarters. Most economists expect 2Q18 GDP to be revised upward to 4.5% before finalized and the Atlanta Fed is expecting almost 5% growth in 3Q18. Save a trade war and significantly higher interest rates, we are bullish on the economy.

Quarterly M&A Middle-Market Activity

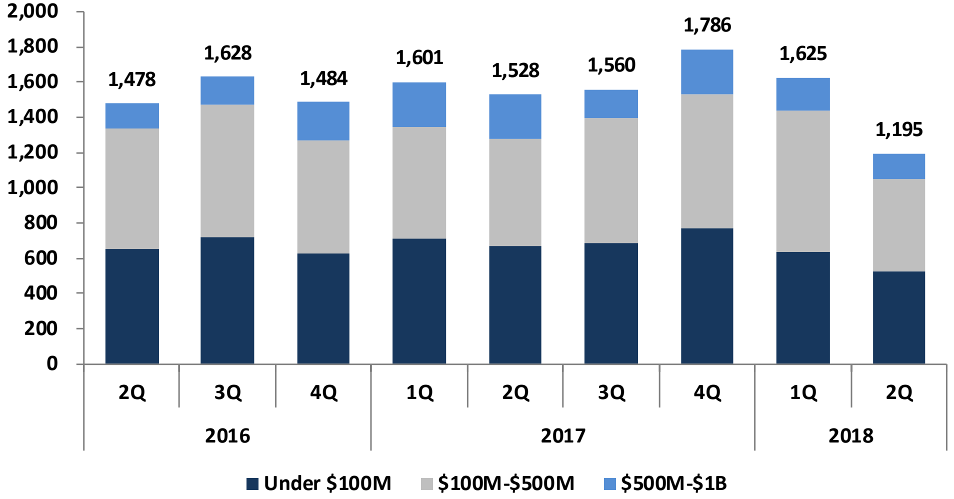
- Overall, 1H18 middle-market M&A volume was lower versus 1H17 with 2,820 and 3,129 transactions, respectively.
  - 1Q18 volume of 1,625 deals was essentially flat compared to 1,601 in 1Q17 and 9.0% lower than the 1,786 transactions in 4Q17.
  - Transaction value for 1Q18 totaled $297.8 billion, 3.4% lower than 1Q17 and essentially flat to 4Q17.
  - Note: 2Q18 transaction volume and value are artificially low due to the lag in gathering data on middle-market transactions.
- Sponsor-backed transactions represent a growing percentage of M&A deals as private equity funds have ample capital to invest.
- Middle-market M&A activity will likely continue to be slow because of high seller valuation expectations relative to buyers' perception of transaction quality.

M&A Acquirer Type



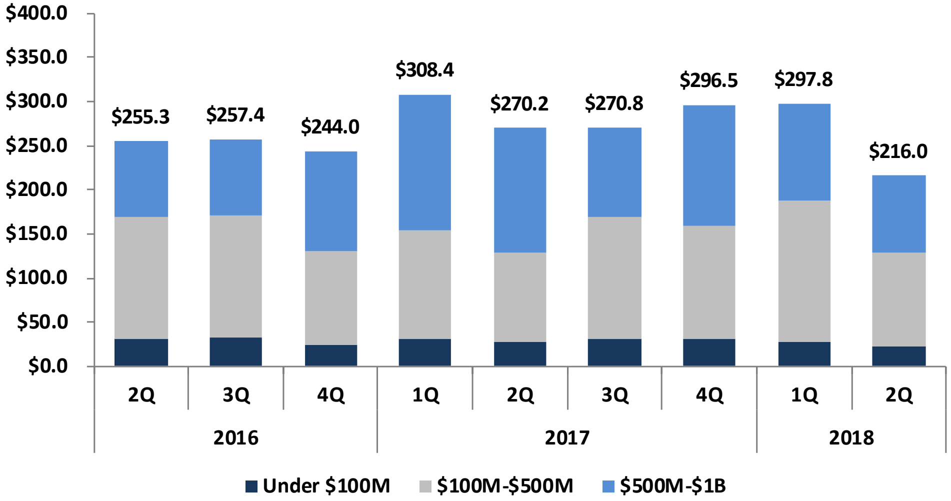
*Through 7/16/18

Quarterly Middle-Market M&A - Volume



Quarterly Middle-Market M&A - Value

($B)

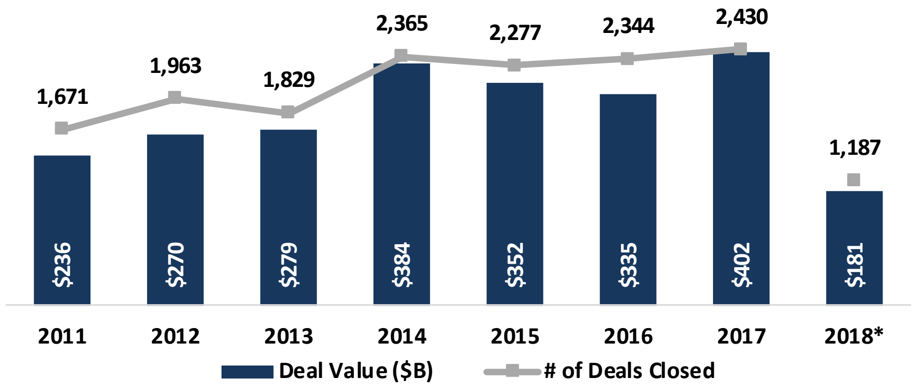


Source: PitchBook. Includes all U.S.-based disclosed, closed deals under $1 billion, through June 30, 2018.

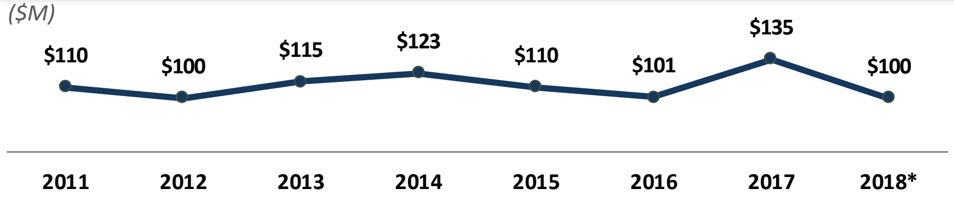
Private Equity Activity

- Private equity ("PE") funds continue to be very active in the US middle-market with $181.3 billion invested across 1,186 transactions in 1H18, representing an 11% value decrease and essentially flat volume compared to 1H17. Many funds are focusing on add-on acquisitions rather than new platforms due to high valuations.
  - In 2Q18, PE invested $81.6 billion across 526 transactions, slightly below 1Q18.
  - YTD nearly 70% of PE invested capital has been in the middle-market, and deal activity is on pace to match last year's record figures.
- Exit activity continues to decrease as PE firms generated $34.4 billion in proceeds from 115 sale transactions in 1H18, compared to $48.4 billion across 172 exits in 1H17.
- The middle-market PE fundraising environment continues to be strong though $61.4 billion in capital raised across 73 funds in 1H18 represented a YoY decrease of 30% and 4%, respectively, as few mega funds were raised and new, first-time specialty funds proliferated.
  - Fundraising is expected to grow over 2018 with 38 open middle-market PE funds currently seeking at least $1 billion.
- Significant dry powder and demand for high-quality, growing platforms continues to support elevated valuation multiples.

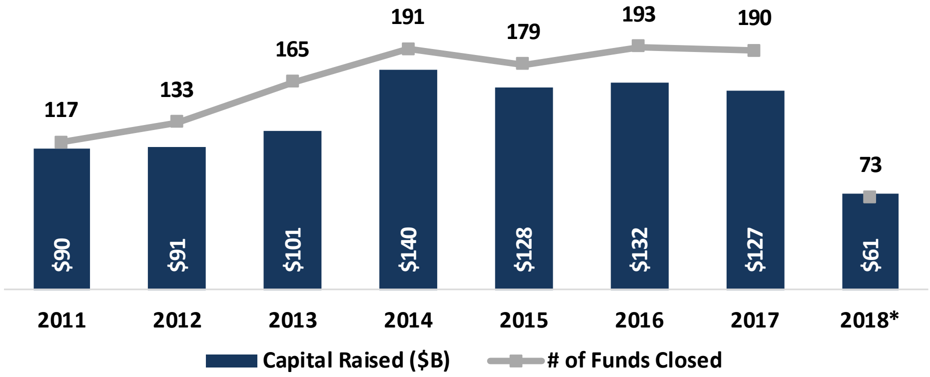
Middle-Market PE Acquisition Activity



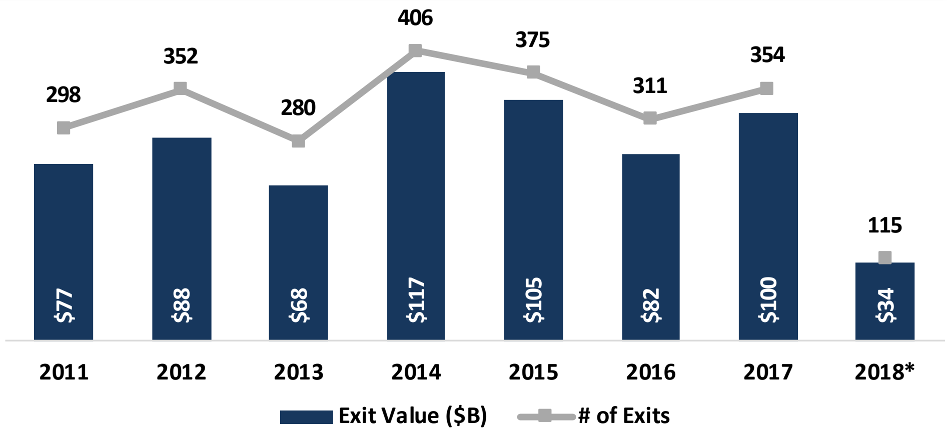
Middle-Market PE Median Deal Size



Middle-Market PE Fundraising Activity



Middle-Market PE Exit Activity



*As of June 30, 2018. Source: PitchBook

LEVERAGED LOAN MARKET

- The capital markets remain issuer friendly and are both hungry and competitive for high-quality transactions across a broad range of industries.
- The imbalance between new transaction volume and demand from lenders continues to drive higher leverage ratios and covenant-lite structures.
- Rates in the broader leverage loan market continue to creep higher, though middle-market pricing remains favorable due to strong demand.
- The FOMC increased its benchmark rate 50 bps through two increases in 1H18 resulting in the current overnight funds rate targeting 1.75% - 2.0%. Many expect two more rate hikes prior to year-end.
- The passage of the Small Business Credit Availability Act in March 2018 provides non-bank BDCs more leniency in asset coverage and reporting requirements, and will likely continue the growth of BDCs in the middle-market.
- M&A activity is a strong driver of institutional loan volume, with approximately $68 billion of M&A loan volume in 1Q18. The significant availability of debt financing has helped sustain elevated middle-market valuations.
- Low transaction volume relative to high lender demand is expected to drive favorable middle-market credit conditions throughout 2018.

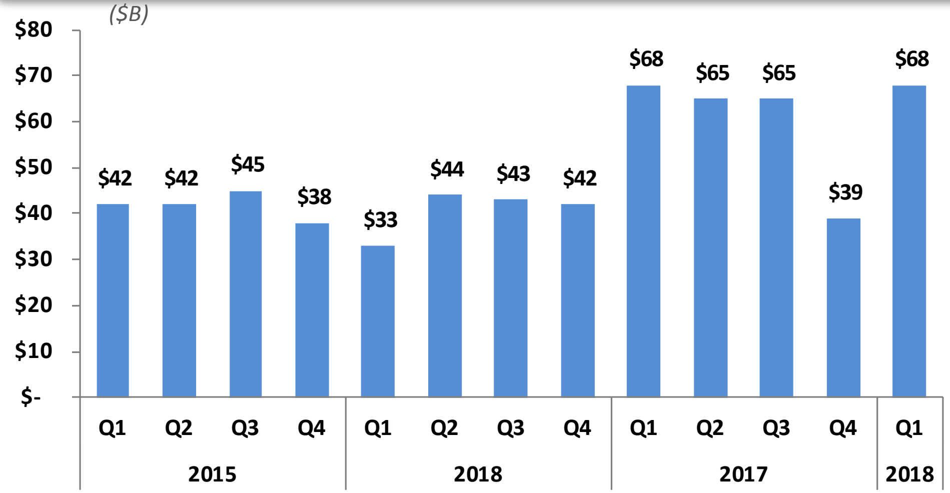
RECENT LEVERAGED LOAN STATISTICS

	Leverage Pricing and Fees	
	Bank	Non-Bank
Pricing	L + (4.0 - 4.75%)	L + (5.0 - 6.0%)
Floor	-	-
Upfront Fees	50 bps	100 bps
Unused	25 - 37.5 bps	50 bps

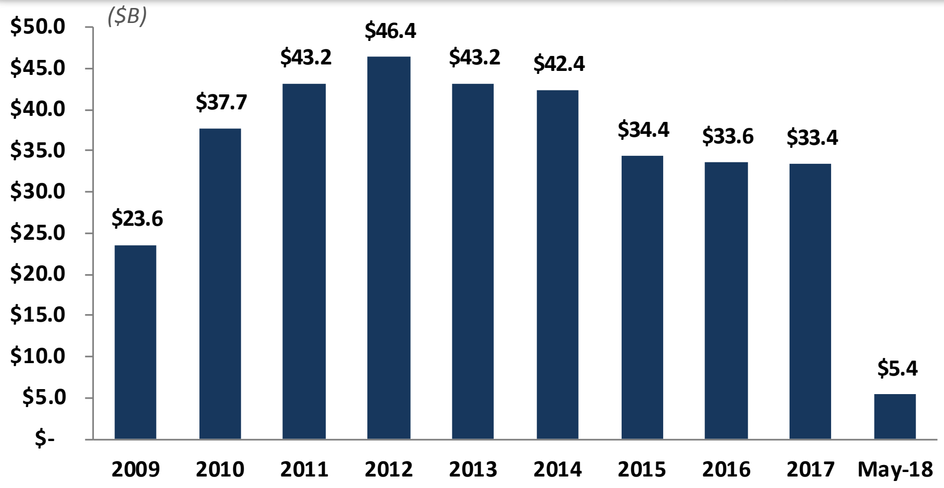
	Debt as a Multiple of EBITDA	
	Senior Debt	Total Debt
Healthcare Services	4.0x	5.0x
Healthcare IT	5.0x	6.0x
Non-Healthcare	4.0x	5.0x

Note: Indicative debt multiples are for borrowers with at least $10 million of EBITDA.

INSTITUTIONAL RECAP VOLUME



LOAN ISSUANCE FOR THE MIDDLE-MARKET (<$100M)



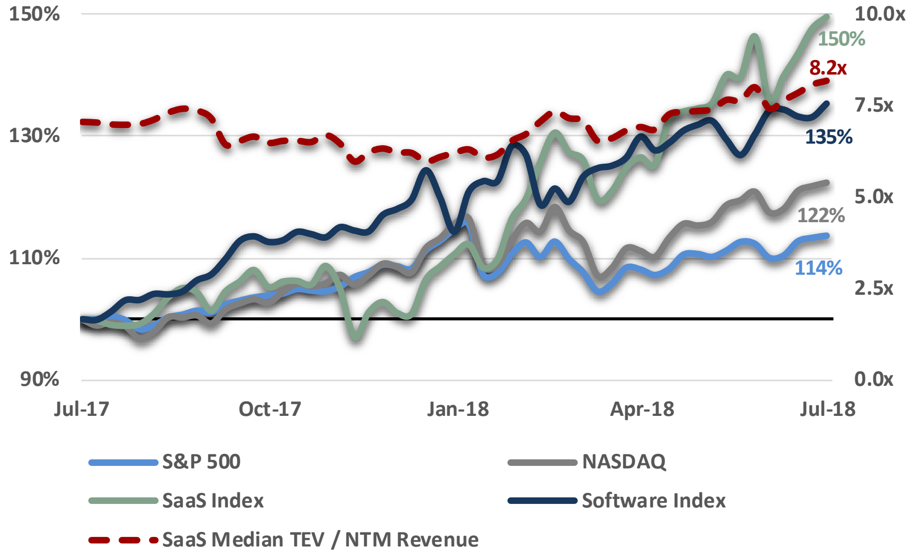
Enterprise Software: Overview of M&A and Valuation Trends

- Private equity investors continue raising more and larger technology-focused funds, leading to record-high levels of dry powder and creating intense competition for high quality software assets.
- Supply-demand imbalance for high-quality growth platforms is driving aggressive private market software valuations, and high valuations are causing PE firms to be more discerning in what deals they pursue.
- SaaS companies become attractive PE and growth equity targets as they approach $10 million of annual recurring revenue with growth rates generally above 40% YOY. For larger, leverageable software businesses, investors can get comfortable with lower growth rates.
- Investors value SaaS platforms due to their sticky, scalable recurring revenue streams and favorable demand trends, though the universe is bifurcated between niche-focused companies addressing smaller TAMs and broader offerings addressing larger addressable markets.
- Maturing strategic buyers with significant cash are pursuing M&A to boost growth, penetrate new markets, acquire innovative technology and product development capabilities, and expand competitive moats.
- Positive macroeconomic and IT spending environments and continued increase in SAAS adoption create positive tailwinds for software companies and attract interest from both traditional and non-traditional software buyers and investors.

Recent BCA Deal:

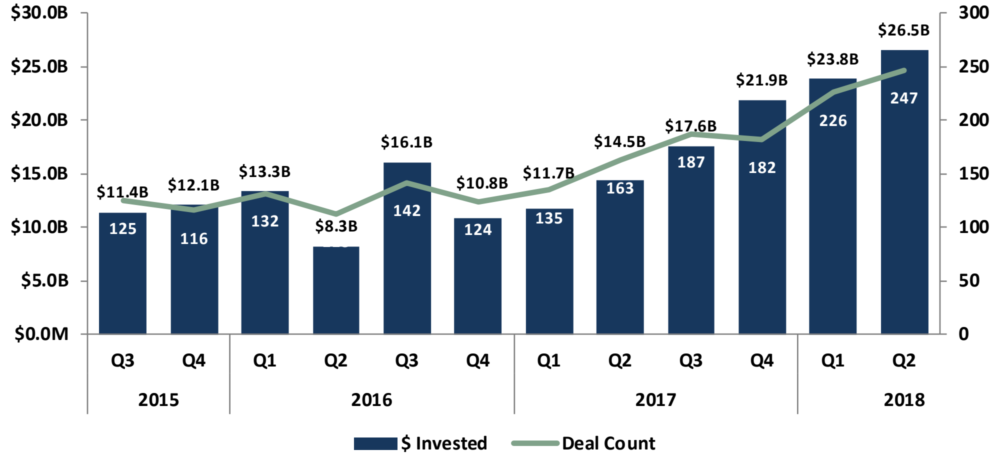
Growth Equity
inmotionnow
Equity Investment
Led by
LEVEL EQUITY

LTM Enterprise Software Index vs. S&P & NASDAQ



Source: Pitchbook

Quarterly Middle-Market(1) Enterprise Software M&A Trends



(1) *Middle-market includes deal values of $25M - $1B.*

Select Deals

Acquiror	Target	Date	TEV (1)	TEV/LTM Revenue	TEV / NTM Revenue	% Rev Growth ('18E)
Paypal	Hyperwallet	PENDING	Confidential - BCA Market Knowledge			
Adobe	Magento Commerce	6/19/18	1,680.0	11.2x	N/A	N/A
Workday	Adaptive Insights	6/11/18	1,550.0	13.6x	10.5x	30.0%
Bain Capital	Tritech	6/22/18	Confidential - BCA Market Knowledge			
Salesforce	Mulesoft	5/2/18	6,800.0	20.1x	11.9x	51.0%
Trimble	Viewpoint	4/23/18	1,200.0	N/A	6.0x	N/A
SAP	Callidus	4/5/18	2,400.0	9.5x	8.4x	22.4%
Trimble	E-Builder	2/2/18	500.0	8.0x	N/A	25.0%

(1) Data per SEC filings and Pitchbook.

Brentwood Capital Advisors Overview

Transaction Activity

- 93 transactions with aggregate value of approximately $6.0 billion, since 2002.
- 75 M&A and equity raising assignments with aggregate volume of $5.3 billion, since 2002.
- 18 debt raises representing approximately $700 million in capital, since 2002.
- Average enterprise value per M&A transaction of approximately $85 million, since 2002.

Transaction Expertise

- Sell-Side M&A Advisory
- Buy-Side M&A Advisory
- Recapitalizations
- Fairness Opinions
- Growth Equity
- Senior Debt
- Subordinated Debt
- PE-Sponsored Transactions

Industry Focus

- Healthcare
- Enterprise Software
- Business Services
- Technology-enabled and Outsourced Services
- Financial Technology & Services
- Medical Devices, Specialty Pharma & Contract Research Organizations

The Best Deal. Done.

Representative Transactions

Recapitalization Project Hindsight Recapitalization Led by Private Equity Firm	**Growth Equity** inmotionnow Equity Investment Led by Level Equity	**Sell-Side** Camellia Healthcare Sell-Side Advisory to Encompass Health	**Recapitalization** Comprehensive EyeCare Partners Recapitalization Led by Gauge Capital
Sell-Side HealthStream Sell-Side Advisory to Press Ganey	**Sell-Side** Standard Functional Foods Group Sell-Side Advisory to Hearthside	**Sell-Side** IDS Sell-Side Advisory to GTL	**Sell-Side** Imaging Advantage Sell-Side Advisory to Envision Healthcare
Sell-Side Arbor Health Sell-Side Advisory to Equian	**Recapitalization** EnableComp Recapitalization Led by Primus	**Sell-Side** WhiteCloud Analytics Sell-Side Advisory to Relias Learning	**Debt Raise** Camellia Home Health & Hospice Senior Debt Placement Led by Cadence Bank
Sell-Side Catheter Connections Sell-Side Advisory to Merit Medical	**Recapitalization** American Physician Partners Recapitalization Led by Brown Brothers Harriman	**Sell-Side** Acadia Healthcare Sell-Side Advisory to Oceans Healthcare	**Recapitalization** Haven Behavioral Healthcare Recapitalization Led by Brown Brothers Harriman
Sell-Side Physicians Care Sell-Side Advisory to urgent team	**Sell-Side** Ascend Management Innovations Sell-Side Advisory to Maximus	**Sell-Side** MMO Sell-Side Advisory to Acadia Healthcare	**Debt Raise** Low T Center Senior Debt Placement Led by Pinnacle Financial Partners