SOFTWARE
MIDDLE-MARKET UPDATE

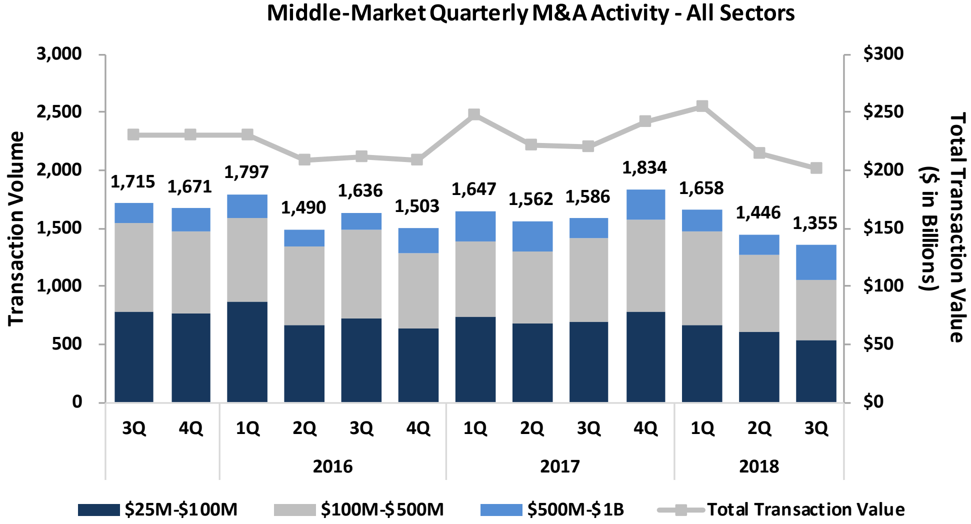
BRENTWOOD CAPITAL ADVISORS

3Q2018

3Q 2018 Overall Market Update and Economic Review

3Q 2018 M&A Update

Middle-market M&A activity declined for the third consecutive quarter, continuing the same trend experienced over the last three years. The number of transactions fell 6.3% from the prior quarter and more than 17% YOY. The value of M&A transactions during these periods declined similarly. With a strong economy fueling organic growth, strategic and financial buyers seem even less interested in bridging the intransigent gap in seller valuation expectations.



Source: Pitchbook.

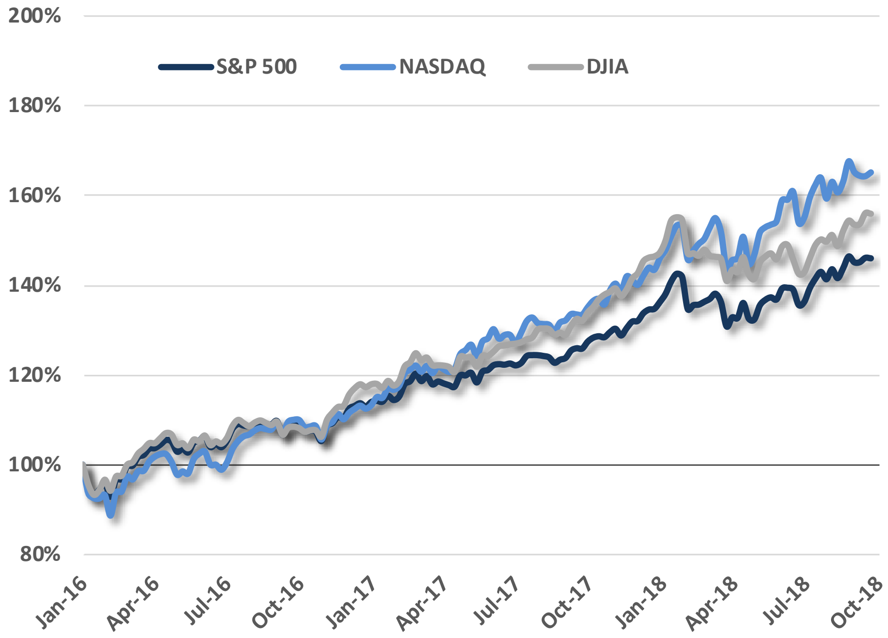
The decline is even more striking when considering today's highly favorable debt and equity capital markets environment. Although rising interest rates have made the cost of debt significantly more expensive, lenders offer and buyers continue to take advantage of aggressive financing terms that can be has high as 5-7x EBITDA. Even with this favorable backdrop, private equity firms are struggling to deploy capital as evidenced by the over one trillion dollars in dry powder. If "idle hands are the devil's workshop", then markets awash with capital are a recipe for excessive risk taking. So far, cooler heads have prevailed among strategic and financial buyers, resulting in lower M&A activity.

Healthcare M&A has mirrored the activity levels in the broader market; however, strong demand from corporate and financial buyers continues to drive up valuation multiples even in the face of regulatory uncertainty. Volume versus value-based care models, outsourced services-driven cost reduction and physician services consolidation strategies continue to be popular themes.

Stock Market

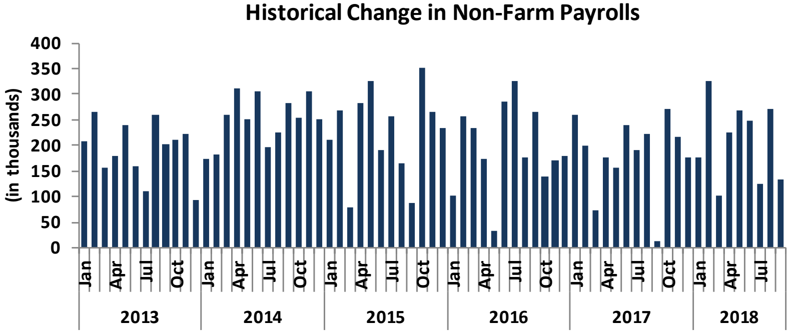
All major indices performed well in 3Q, recovering all of the ground lost during the first half of the year. The Dow, S&P 500 and NASDAQ were up 8.8%, 7.2% and 6.3%, respectively. Although fears of a trade war with China persist, the new USMCA replacement of NAFTA, the abating of tensions with EU allies and continued strong economic performance paved the way for the rebound. Unfortunately, the Federal Reserve spit in the monetary policy punch bowl at the end of September, signaling a commitment to steadily increase interest rates to temper economic growth and quell any associated inflation. Since this announcement, market volatility has increased dramatically and all indices are down significantly. There are no signs of inflation.

In the midst of this volatility, companies continue to report strong earnings. With 48% of the companies comprising the S&P 500 reporting, 77% have announced better than expected earnings and 59% have exceeded sales forecasts. Estimated earnings growth for 3Q is a very robust 19.3%. The technology sector has been particularly hard hit, with the FAANG stocks selling off sharply based upon perceived weakness in growth prospects. In reality, these stocks were all priced for perfection and just succumbed to gravity.



Non-Farm Payroll

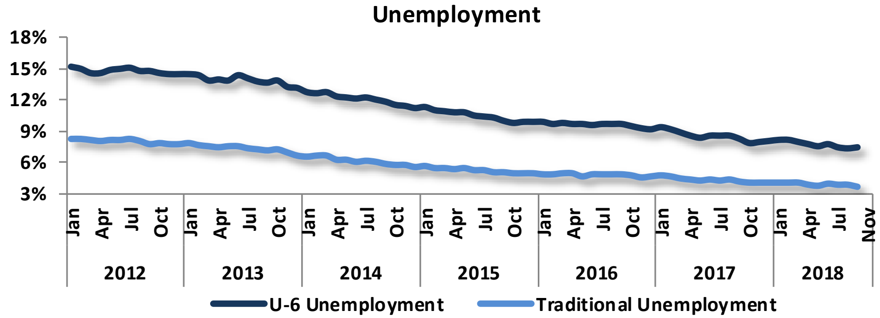
Job growth slowed slightly in 3Q, adding ~147,000 versus ~203,000 jobs per month for the first half of the year. The slower 3Q brought the average monthly increase in non-farm payroll down to ~184,000 through September 30, 2018. As we have indicated in previous commentaries, any additions above 150,000 per month are very positive this late in an economic recovery. Non-farm payroll increased dramatically in October, reaching 250,000. Although one month does not make a trend, perhaps the effect of the $1.5 trillion tax cut that included the lowering of corporate taxes from 35% to 21% is beginning to take hold. Business confidence is soaring in the current softer regulatory environment and consumer confidence is at its highest level in 18 years.



Source: Bureau of Labor Statistics

Unemployment

U-3, or the traditional measure of unemployment, continued its downward trend, falling from 4.0% at the end of the 2Q to 3.7% in September. U-6 fell from 7.8% to 7.5% over the same period. During this period, the labor participation rate was fairly constant at approximately 62.7%. During the first 19 months of the Trump Administration, 3.9 million new workers have entered the workforce and the economy grew by $1.4 trillion.

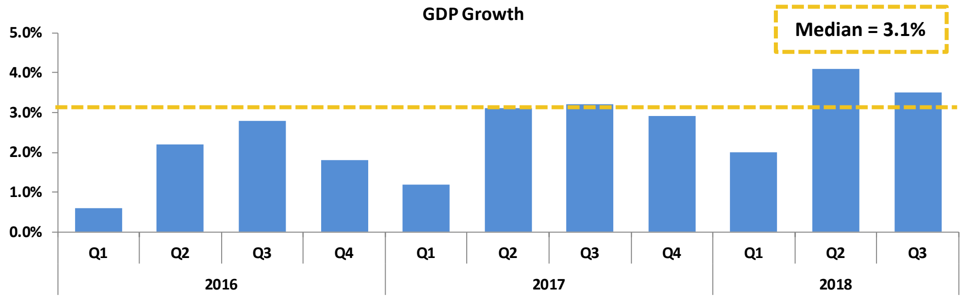


Source: Bureau of Labor Statistics

Gross Domestic Product

The $19.4 trillion GDP U.S. economy is the world's largest and represents ~24% of its total. The next largest is either China at $12 trillion or the combined members of the EU at $17.3 trillion. At $19.4 trillion, every 1% of GDP growth is worth $190 billion to the U.S. This is precisely why it is important to recognize the benefit of GDP growing 3%+ currently versus at less than 2% from 2008-2015. At 2% growth, it takes 36 years for the economy to double; at 3-4% it takes only 18 to 24 years.

By any measure, the U.S. economy is on fire. 4.1% growth in 2Q was followed by 3.5% in 3Q. For the 18-month period ending 2Q18, the economy grew by an impressive $1.4 trillion. Ten years after the bankruptcy filing of Lehman Brothers, real questions remain: "is the music about to stop" and "are things different this time"? The U.S. is in the 9th year of economic recovery since the Great Recession of 2009. Typical expansions last seven years. Is there any gas left in the U.S. economy's tank?



Data suggests that the economy never really recovered immediately following the Great Recession. Although there was nominal economic growth, the U.S. borrowed heavily to provide stimulus and expanded entitlement programs designed to increase consumer spending and rates were held artificially low for ten years. In contrast, most of the current growth is driven by corporations making long-term capital investments in this pro-business, lower regulatory and tax rate environment. It's working, as business investment is up approximately 7%.

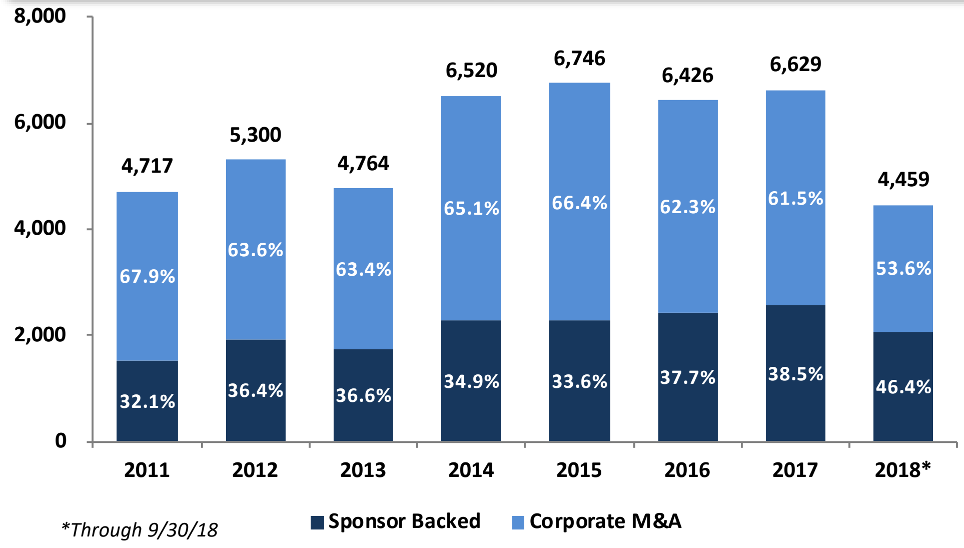
The biggest risks to continued economic expansion appear to be the Fed's monetary policy and excessive national debt. In September, the Fed raised rates for the eighth time since 2015. At 2.25%, the Fed Funds rate is now at its highest since 2008, hurting housing starts and raising the cost of capital. There are no signs of inflation on the horizon. The national debt now stands at $21.8 trillion, an increase of $1.3 trillion over the last 1.75 years. Although this is a staggering figure, the rate of growth has slowed dramatically under the Trump administration despite a $1.5 trillion tax cut.

Overall, we believe there is another one to two years of strong economic growth and M&A activity before any meaningful slowing or significant contraction in the U.S. economy.

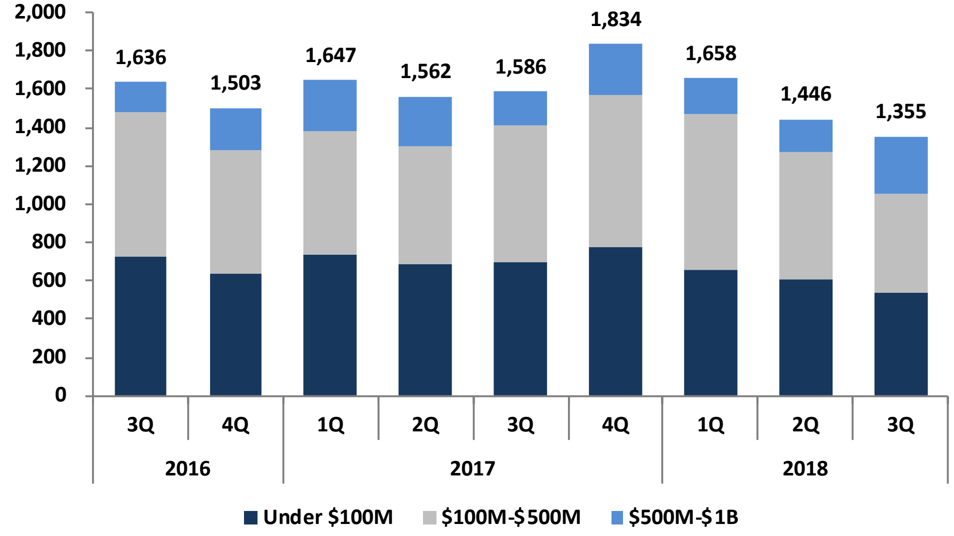
QUARTERLY MIDDLE-MARKET M&A ACTIVITY

- Overall, YTD 2018 middle-market M&A volume was lower than the first three quarters of 2017 with 4,459 and 4,795 transactions, respectively.
  - 3Q18 volume of 1,355 deals was 14.6% lower than the 1,586 transactions in 3Q17 and 6.3% lower than the 1,446 transactions in 2Q18.
  - Transaction value for the first three quarters of 2018 totaled $669.8 billion, approximately 2.9% lower than the same period in 2017.
  - Note: 3Q18 transaction volume and value are artificially low due to the lag in gathering data on middle-market transactions.
- Sponsor-backed transactions continue to represent a growing percentage of M&A deals, expanding from 42.5% of transactions through 2Q18 to 46.4% YTD.
- Middle-market M&A activity will continue to be steady, but it is unlikely to reach the record-breaking 2017 volume due to high seller valuation expectations.
- Despite declining M&A activity, valuations remain high in the sector.

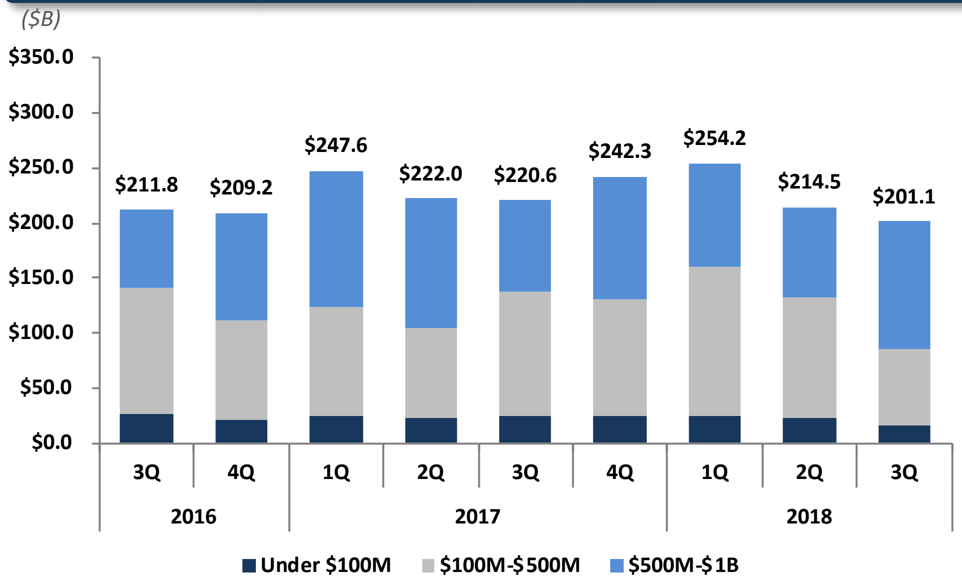
M&A ACQUIRER TYPE



QUARTERLY MIDDLE-MARKET M&A - VOLUME



QUARTERLY MIDDLE-MARKET M&A - VALUE

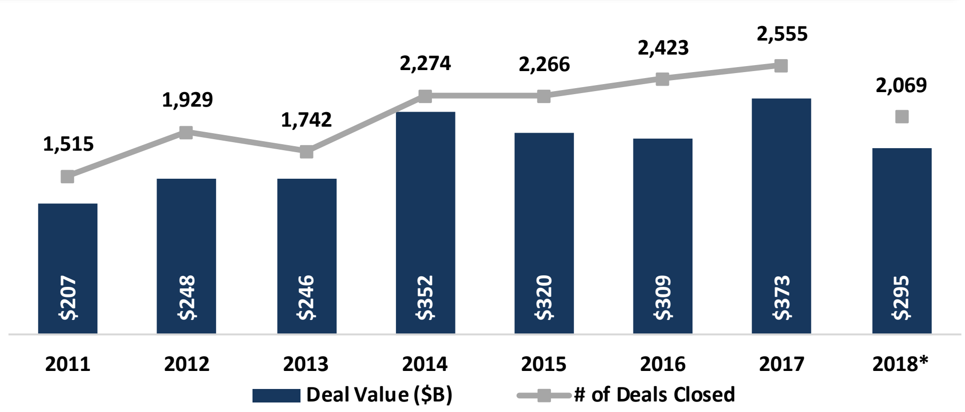


Source: PitchBook. Includes all U.S.-based disclosed, closed deals under $1 billion through September 30, 2018.

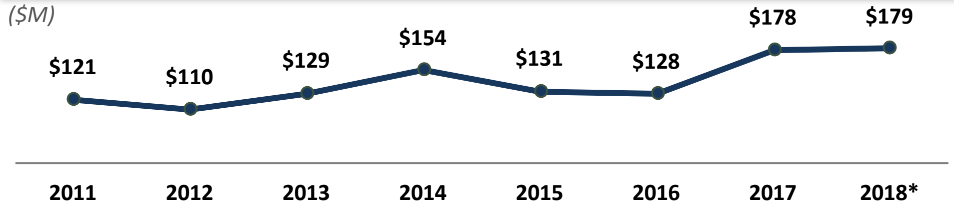
Private Equity Activity

- Private equity ("PE") funds invested $508.8 billion in 3,501 transactions YTD, representing YoY increases of 2.1% and 3.4%, respectively. Middle-market PE activity accounted for $295.4 billion invested across 2,069 transactions YTD.
  - Middle market deal activity continues to grow with the largest increase in deals valued between $100 million and $500 million.
  - With valuations remaining elevated, investors are focusing on add-on acquisitions, which represent nearly two-thirds of U.S. PE buyouts YTD compared to 56% in 2010.
  - YTD there has been a large increase in the number of IT and healthcare transactions as investors seek high growth opportunities.
- Middle-market exit activity continues to slow. PE firms generated $39.0 billion in proceeds from 123 sale transactions YTD.
- Fundraising activity has retreated from the record level of 2017 due to a decrease in new mega funds; however, middle-market fundraising continues to grow.
  - New funds $1 billion to $5 billion in size represent 51.5% of capital raised YTD and account for 30 final closes, the same number as in full year 2017.
- High-quality, growing platforms continue to garner large valuation multiples as PE investors have over one trillion dollars in dry powder to put to work.

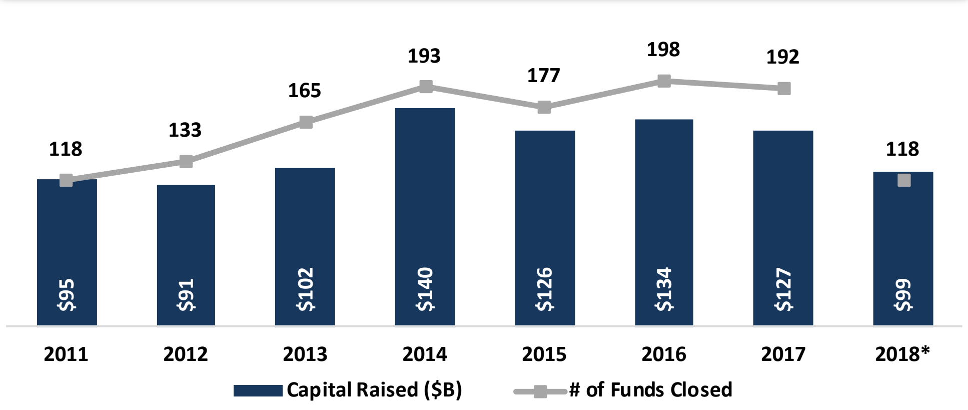
Middle-Market PE Acquisition Activity



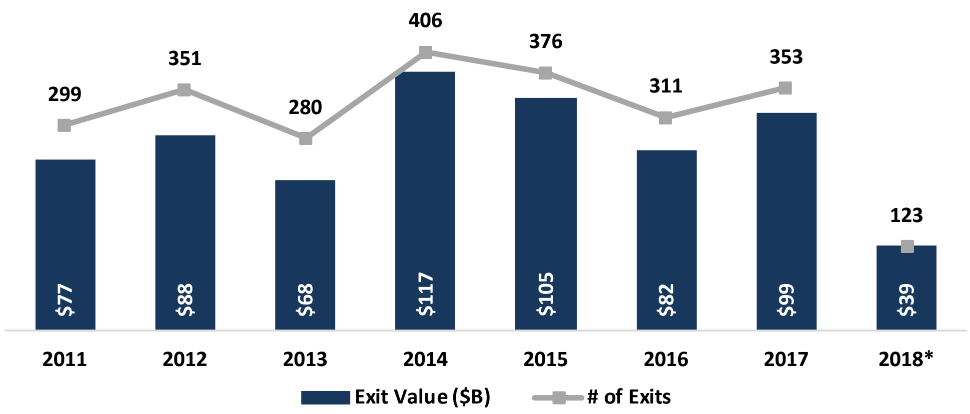
Middle-Market PE Median Deal Size



Middle-Market PE Fundraising Activity



Middle-Market PE Exit Activity



**As of September 30, 2018. Source: PitchBook*

Leveraged Loan Market

- The strong capital markets backdrop provides high-quality companies significant access to debt for M&A, refinancing and growth initiatives.
- Lenders continue to be aggressive with leverage ratios, providing ample capital for M&A transactions and supporting elevated valuations.
- Middle-market loan issuance is on pace to be essentially flat for the fourth year in a row, despite strong demand from both traditional and non-traditional lenders.
- Due to this supply / demand imbalance, middle market loan terms remain favorable with covenant-lite structures and low credit or borrowing spreads, despite the slight creep-up of rates in the broader market.
- The FOMC increased its benchmark rate 25 bps in 3Q18, resulting in the current overnight funds rate reaching 2.00% - 2.25%. The FOMC is projecting one more hike before the end of the year and three in 2019.
- Low transaction volume relative to high lender demand is expected to drive favorable middle-market credit conditions through the remainder of 2018.

Recent BCA Deal:

Unitranche Debt

MEDHOST

Debt-Private Placement
Led By

Goldman Sachs | COMVEST

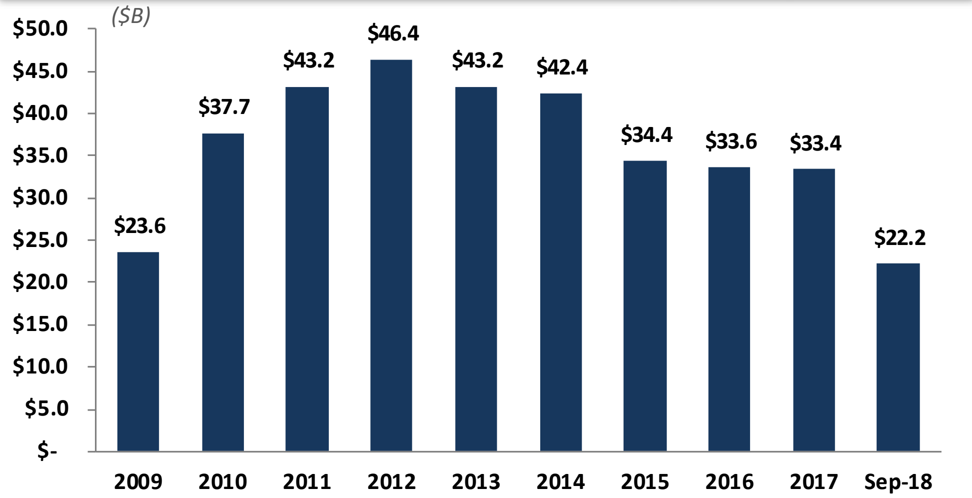
Recent Leveraged Loan Statistics

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

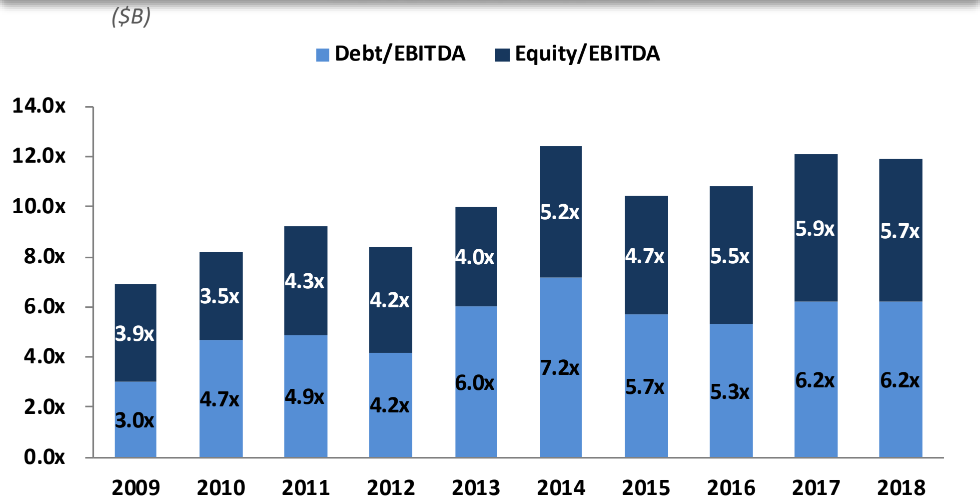
	Debt as a Multiple of EBITDA	
	Senior Debt	**Total Debt**
Healthcare Services	4.5x	5.5x
Healthcare IT	5.0x	7.0x
Non-Healthcare	5.0x	6.0x

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

Loan Issuance for the Middle-Market (<$100M)



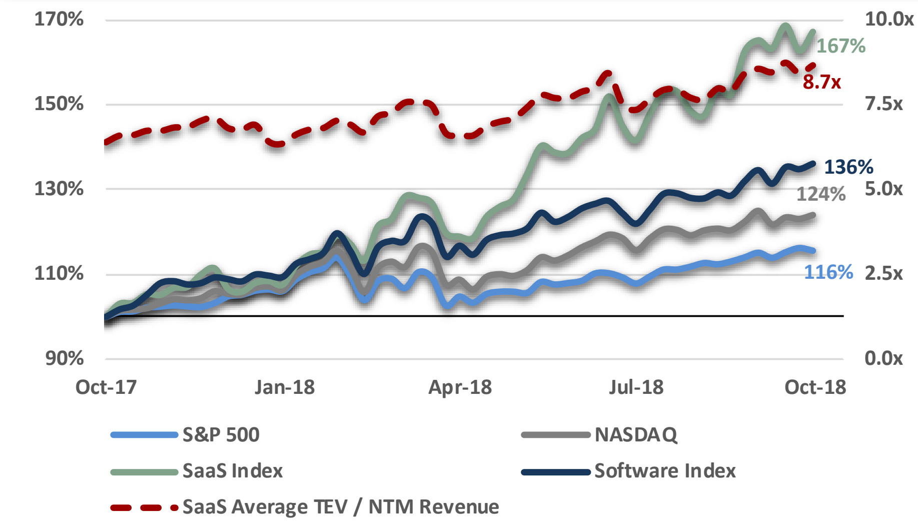
U.S. PE Buyout Multiples



Enterprise Software: Overview of M&A and Valuation Trends

- Public software stocks continued their run during 3Q18, appreciating ~12% during the quarter and ~24% YTD (vs. 6% and 15% for the NASDAQ, respectively).
- 89% of software companies beat 2Q18 consensus revenue estimates, a higher percentage than the 5-year average of 78%[(1)].
- With median 2018E valuation multiples at 9.3x revenue for the total software universe and 12.3x for growth software companies[(2)] as of 3Q18, software multiples have expanded significantly during 2018 to surpass all-time highs set in early 2014.
- Several important drivers of continued strong software performance remain in place, including an ongoing shift to the cloud, legacy tool replacement by corporate buyers, and strong U.S. economic tailwinds driving a historically positive IT buying environment.
- Private software investors and acquirers who amassed large cash stockpiles during a low interest rate environment remain aggressive buyers of high-quality assets with recurring revenue, experienced management teams, complementary technology platforms and large market opportunities.

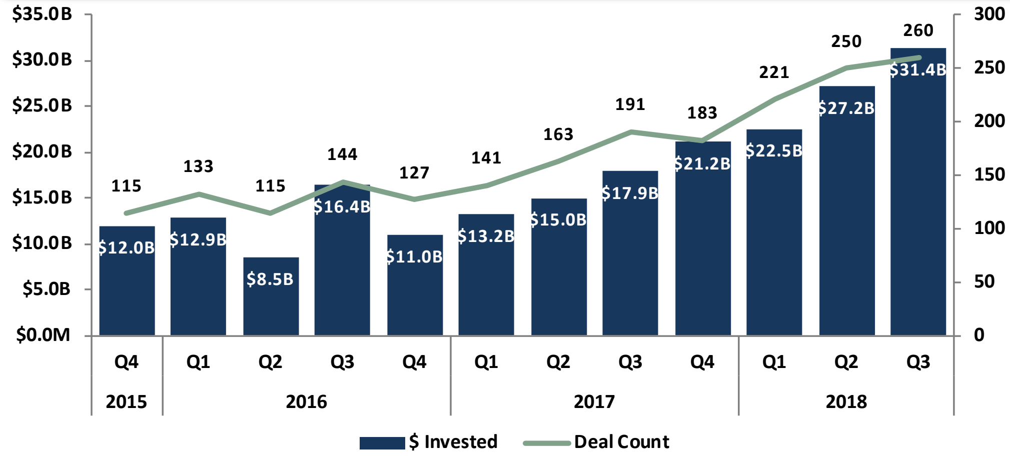
LTM Enterprise Software Index vs. S&P & NASDAQ



Source: PitchBook

(1) *Wall Street research.*
(2) *Defined as '17-19E revenue CAGR of 20% or greater.*

Quarterly Middle-Market[(3)] Enterprise Software M&A Trends



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

Select Deals

($M)

Target	Acquiror	Announced Date	TEV (4)	TEV/LTM Revenue	TEV / NTM Revenue	% Rev Growth ('18E)
Hortonworks (5)	Cloudera	10/3/18	$5,200.0	6.8x	5.7x	25.4%
SICOM	Global Payments	9/27/18	415.0	N/A	N/A	N/A
Marketo	Adobe Systems	9/20/18	4,750.0	12.4x	10.3x	19.6%
Mendix	Siemens	8/1/18	730.0	N/A	N/A	N/A
Duo Security	Cisco	8/2/18	2,350.0	N/A	N/A	N/A
OnCourse Learning	Bertelsmann	9/17/18	500.0	6.5x	N/A	N/A
IntraLinks	SS&C Technologies	9/6/18	1,500.0	4.6	4.2	9.0%
CloudHealth Technologies	Vmware	8/27/18	500.0	N/A	N/A	N/A
TravelClick	Amadeus IT Group	8/10/18	1,520.0	4.1x	N/A	N/A
NAVEX Global	BC Partners	7/17/18	1,200.0	6.5x	6.1	7.0%
Datorama	Salesforce	7/16/18	850.0	N/A	N/A	N/A

(4) *Data per SEC filings and PitchBook.*
(5) *Deal is a merger of equals; TEV, multiples and growth are for the combined entity.*

Brentwood Capital Advisors Overview

Transaction Activity

Since 2002, BCA has:

- 96 closed transactions worth an aggregate value of approximately $6.2 billion;
- 77 M&A and equity raising assignments with an aggregate value of $5.4 billion;
- 19 debt raises representing approximately $800 million in capital; and
- Average enterprise value per M&A transaction of approximately $85 million.

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 and Services
- Medical Devices, Specialty Pharma and Contract Research Organizations

The Best Deal. Done.

Representative Transactions

Recapitalization **Project HardKnox** Recapitalization Led By **Healthcare-Focused PE Firm**	Sell-side Retina Consultants of Nevada Sell-Side Advisory to Comprehensive EyeCare Partners	Unitranche Debt MEDHOST Debt-Private Placement Led By Goldman Sachs Comvest Partners	Recapitalization **Project Hindsight** Recapitalization **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 Food Solutions	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