

**SOFTWARE
MIDDLE-MARKET UPDATE**

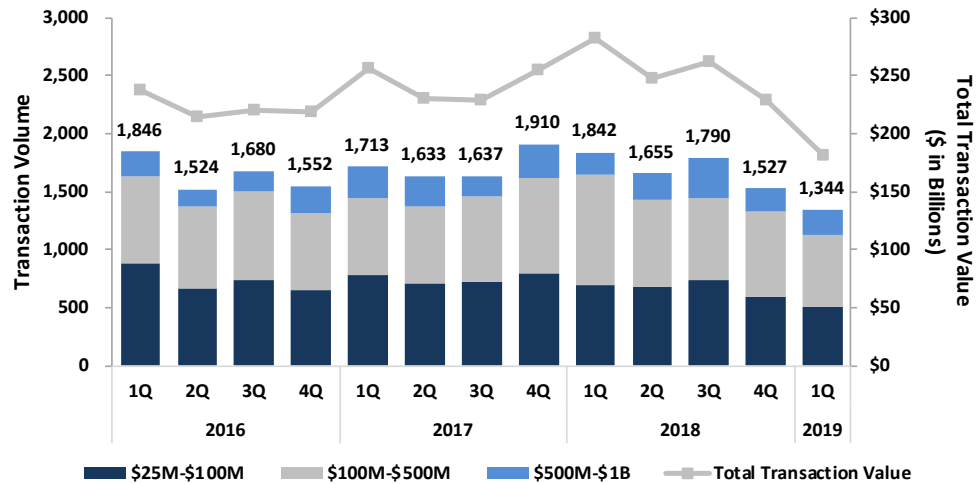
**BRENTWOOD
CAPITAL
ADVISORS**

1Q 2019 OVERALL MARKET UPDATE AND ECONOMIC REVIEW

1Q 2019 M&A UPDATE

Compared to 1Q18, U.S. middle-market M&A transaction volume has decreased ~27%, and its value has declined ~36%. Transaction volume declined ~27% QoQ from 1,842 to 1,344 deals and ~12% from 1,527 deals recorded in 4Q18. Over the same period, transaction value is down ~36% QoQ and ~21% from 4Q18. Middle-market healthcare M&A is experiencing many of the same trends.

Middle-Market Quarterly M&A Activity - All Sectors



Source: Pitchbook.

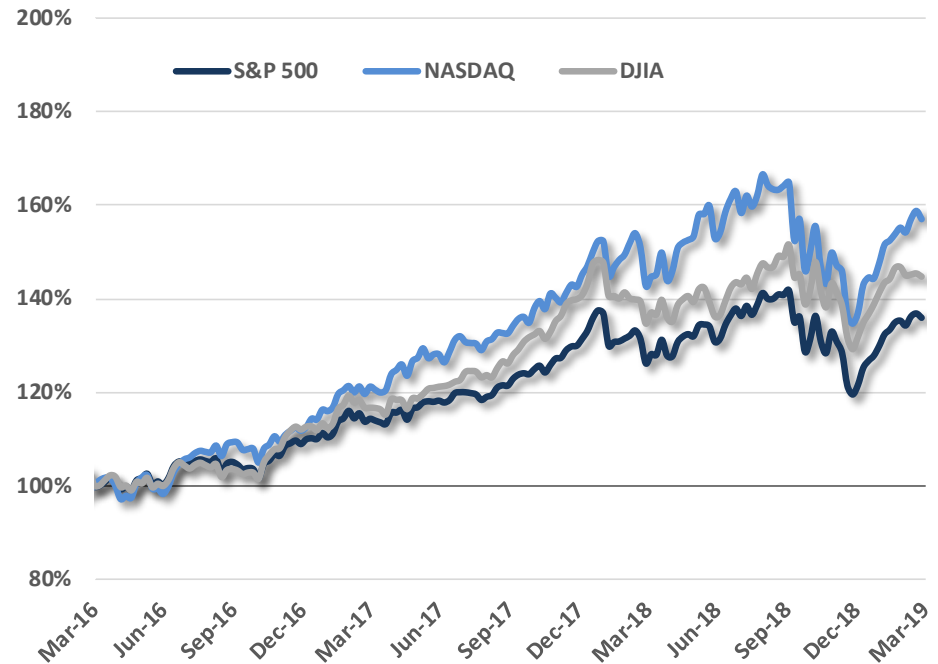
Where have all the transactions gone? It's a bit of a mystery. As we stated in our last update, the economy remains strong despite being in the very late stages of a traditional economic recovery and yellow lights flashing on some performance indicators. The Fed has come to its senses and is willing to be more accommodating if there are any demonstrable signs of an economic slowdown. Private equity has ~\$1.1 trillion in available capital to deploy, corporate balance sheets are awash in another ~\$1.5 trillion in cash and lenders stand ready to aggressively support both constituents' M&A activities.

On the negative side of the ledger, the biggest threats creating economic uncertainty are the perceived damage related to a trade war with China and the inability of Congress to legislate anything. Washington is, for all practical purposes, gridlocked. Based upon the high activity level in BCA's investment banking practice, we believe the M&A environment will improve in the second half of the year.

STOCK MARKET

The stock market rebounded in the first quarter after taking a drubbing in 4Q18. The S&P 500, NASDAQ and DJIA increased 12.9%, 15.9% and 11.1% in 1Q19, respectively, primarily due to the Fed signaling a more accommodating stance on interest rates and the perceived, albeit short-term, lessening of trade tensions with China. Despite these increases, the market is trading water in progressively more turbulent seas. Volatility has increased significantly as investors grapple with these issues, potential tariffs on Mexico and growing political instability in the Middle East.

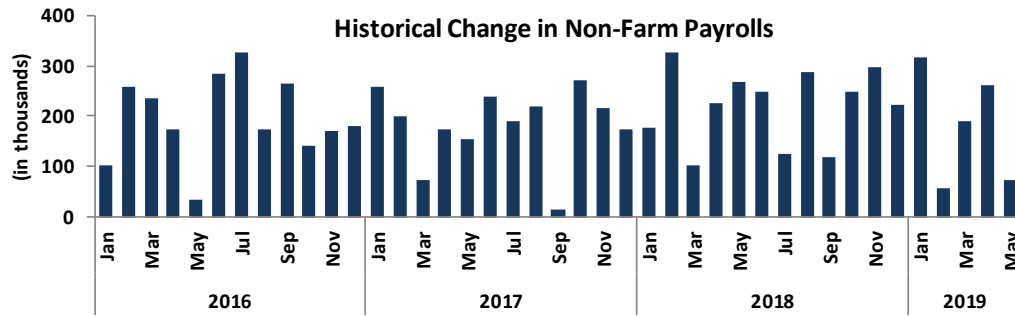
In addition, 1Q19 corporate financial results were up against tough YoY comparisons. Although many companies comprising the S&P 500 have produced positive revenue and earnings surprises, the overall trend is slightly negative with a blended earnings decline of 2.3%. If this trend continues, it will be the first YoY earnings decline in the index since 2Q16.



1Q 2019 OVERALL MARKET UPDATE AND ECONOMIC REVIEW

NON-FARM PAYROLL

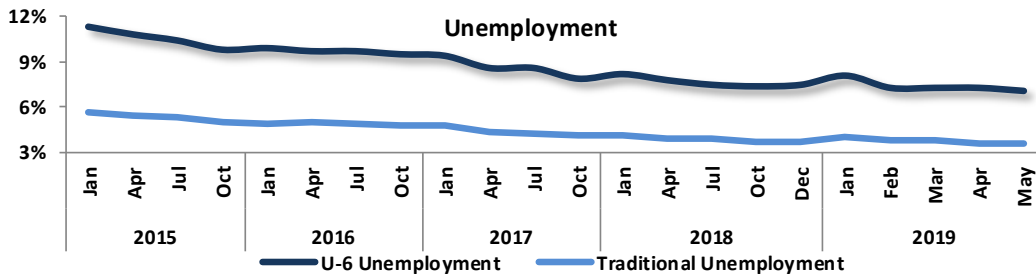
Job growth remained strong if a bit sporadic in the first quarter, adding 520K new jobs for an average of 173k per month. This represents approximately 25% slower growth than was experienced in 4Q18, when the economy created 696k jobs for an average of 232k per month, and right on top of materially similar non-farm payroll additions in 3Q18. However you slice it, this level of job growth is impressive this late in an economic recovery and with the current low levels of unemployment. Another 263k jobs were added in April and a disappointing 75k in May. The May job growth number looks like another anomaly, and we expect that this economy will resume its impressive job creation in June.



Source: Bureau of Labor Statistics

UNEMPLOYMENT

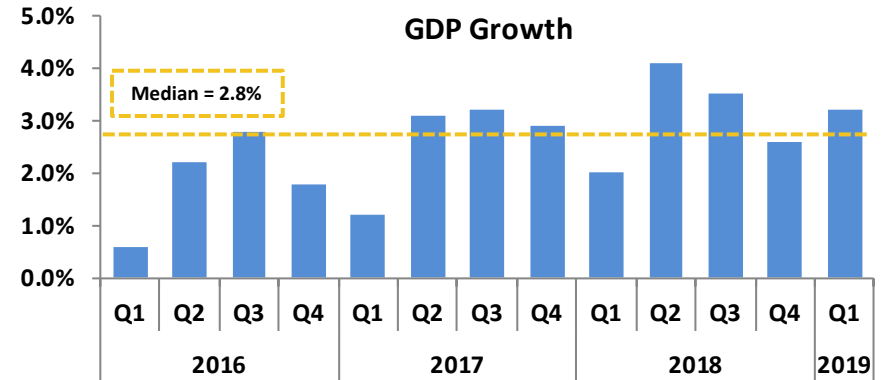
U-3 was 3.8% and U-6 was 7.3% at the end of the first quarter, largely in line with the previous quarter's unemployment rates. U-3 fell to 3.6% in April while U-6 was unchanged. As more workers return to the workforce, the current level of new job creation should keep U-3 unemployment levels fairly stable; however, we believe U-6 can decline further from its 7.3% level before the economy reaches full employment.



Source: Bureau of Labor Statistics

GROSS DOMESTIC PRODUCT

The U.S. economy continues to fire on all cylinders. 1Q19 GDP rebounded strongly, achieving 3.2% growth versus 2.6% in 4Q18. This strong growth was achieved without any monetary stimulus from the Fed, which, until recently, was not willing to entertain any interest rate cuts. Consumer confidence remains at an all-time high, and our expectation is for the economy to continue to grow at a 3% pace.



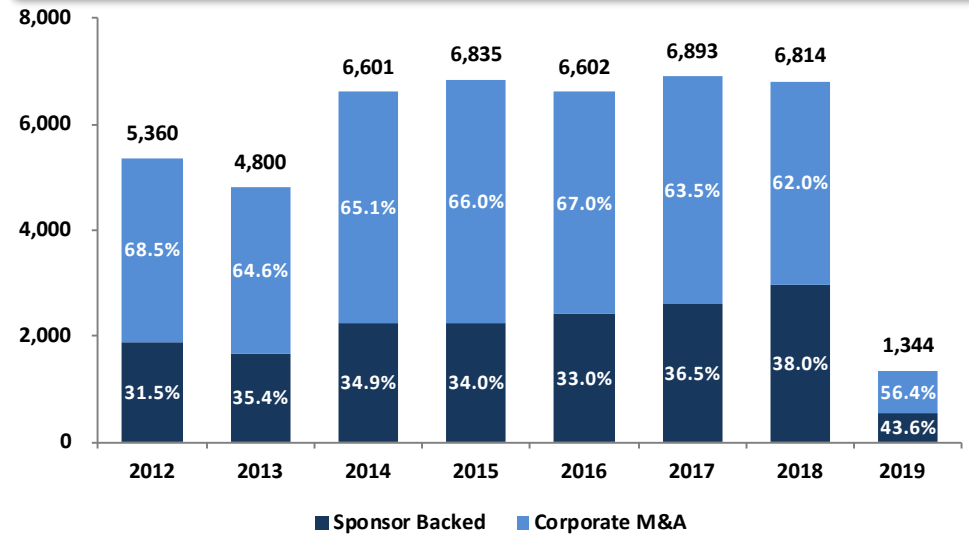
The largest cloud on the horizon is the prospect of a trade war with China and its perceived deleterious effects on the U.S. economy. These concerns are reminiscent of the 1980s when everyone feared that Japan's rapidly growing economy would supplant the U.S. as the world's leader. I think we all know how that one ended. Japan's over-hyped economy imploded and didn't recover for almost 20 years.

China is an important trading partner but does not have the financial wherewithal to bring the U.S. to its knees economically. Approximately 80% of U.S. GDP is the result of domestic commerce and the remainder is exports. China, our third largest export market, accounted for ~\$180.0 billion in exports in 2018. By contrast, the Chinese economy is export reliant, 40% government controlled, rife with corruption and has few natural resources. It is a little more than half the size of the U.S. economy but has a work force two-thirds larger than ours. It also has 300 million people living like their ancestors did 1,000 years ago. China is our largest but still a relatively small debt holder, owning ~\$1.1 of our ~\$22.0 trillion of total debt. For these reasons, we do not believe a trade war is as likely or harmful as portrayed in the media. In the end, we believe China will be forced to make a deal or suffer a fate similar to Japan's.

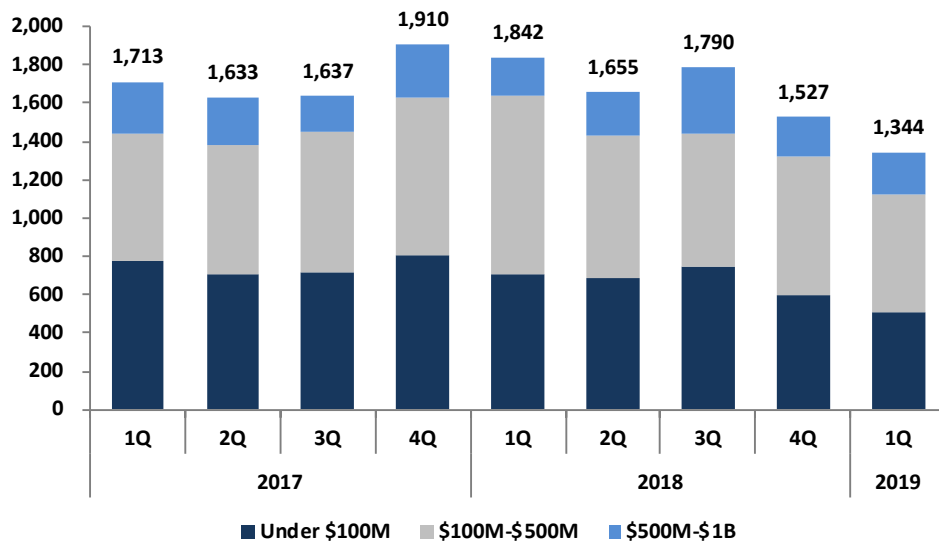
QUARTERLY MIDDLE-MARKET M&A ACTIVITY

- 1Q19 middle-market M&A volume slowed and value declined compared to 1Q18.
 - 1Q19 volume of 1,344 deals was 27% lower than the 1,842 transactions in 1Q18 and 12% lower than the 1,527 transactions in 4Q18.
 - 1Q19 transaction value of \$180.9 billion was 36% lower than the \$282.6 billion value of 1Q18 and 21% lower than the \$229.6 billion in value in 4Q18.
 - Note: 1Q19 transaction volume and value are slightly artificially low due to the lag in gathering data on middle-market transactions.
- Higher financing costs due to volatility in the high-yield market coupled with private equity sponsors prioritizing smaller, add-on transactions drove the declines, especially as sponsor-backed transactions continue to represent a growing percentage of middle market M&A transactions.
- Middle-market M&A activity in 2019 is expected to continue to lag behind 2018, with an aging economic cycle potentially weighing further on transaction volume as the year progresses.

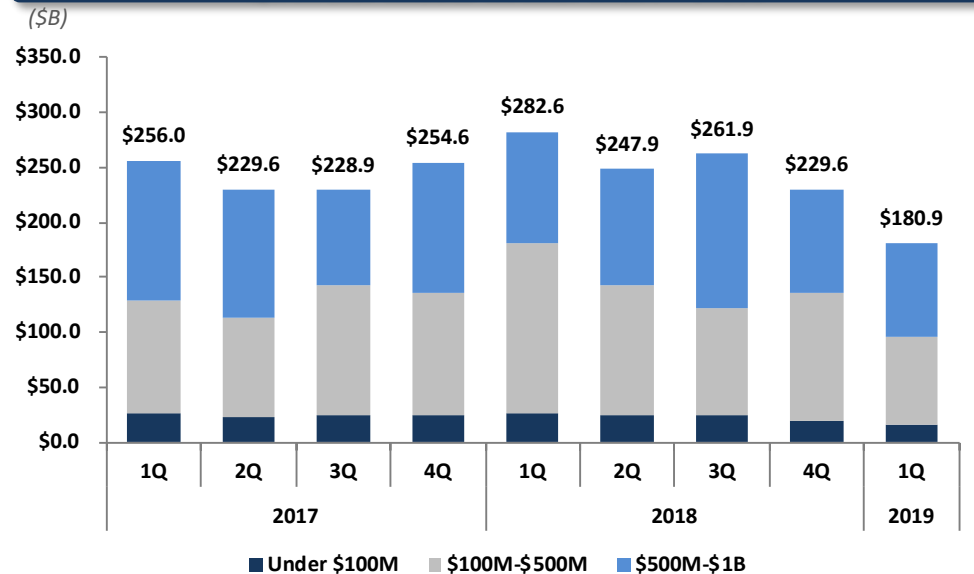
ANNUAL M&A ACQUIRER – TYPE



QUARTERLY MIDDLE-MARKET M&A – VOLUME



QUARTERLY MIDDLE-MARKET M&A – VALUE

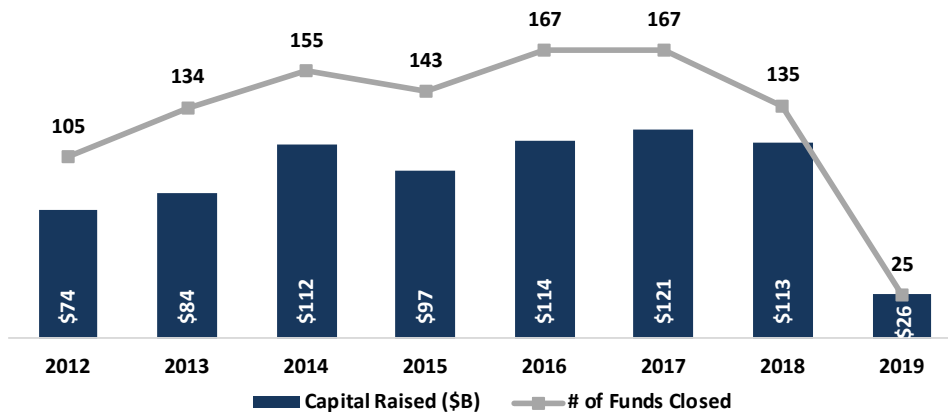


Source: PitchBook. Includes all U.S.-based disclosed, closed deals \$25 million to \$1 billion through March 31, 2019.

PRIVATE EQUITY ACTIVITY

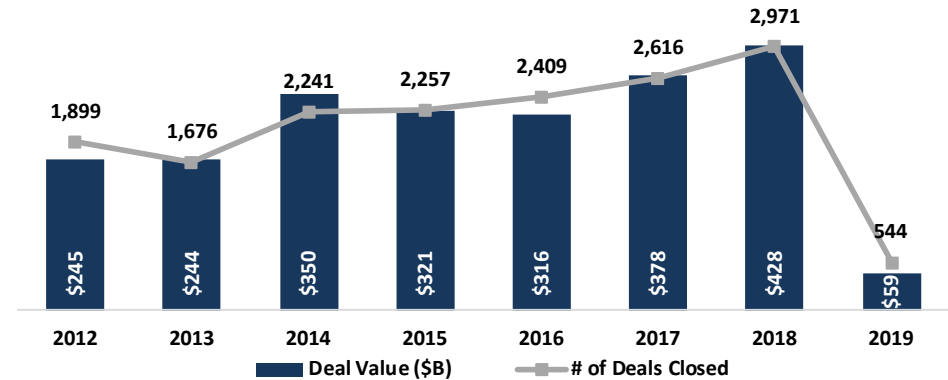
- Private equity (“PE”) funds invested \$59 billion in 544 transactions in 1Q19, representing only ~13% of the transaction value and ~14% of the volume completed in 2018.
 - Middle-market valuation multiples remain elevated due to competition for high-quality transactions and technology-based opportunities representing a growing percentage of deal activity.
 - PE buyers are implementing more intensive due diligence processes as they focus on downside risk in the higher price environment.
 - Add-on acquisitions continue to comprise a growing percentage of middle-market transactions due to persistently high valuation expectations.
 - Some investors are implementing dividend recaps to boost returns in the current environment.
- US PE middle-market exit activity dropped to \$27 billion across 137 transactions in 1Q19, representing YoY declines of ~42% and ~46%, respectively. Exit volume activity is expected to increase throughout the year, assuming it remains a seller’s market.
- PE firms only raised \$26 billion across 25 new middle-market funds in 1Q19. Mega-funds and growth equity funds account for an increasing percentage of new capital.

MIDDLE-MARKET PE FUNDRAISING ACTIVITY

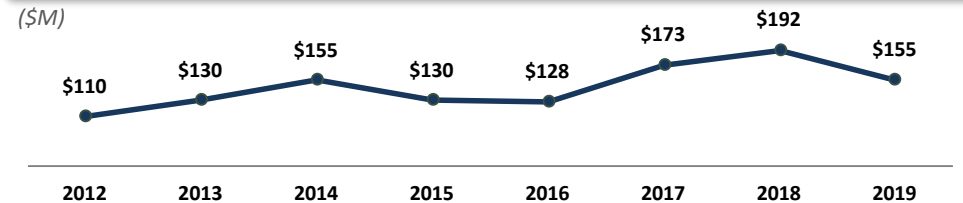


Source: PitchBook

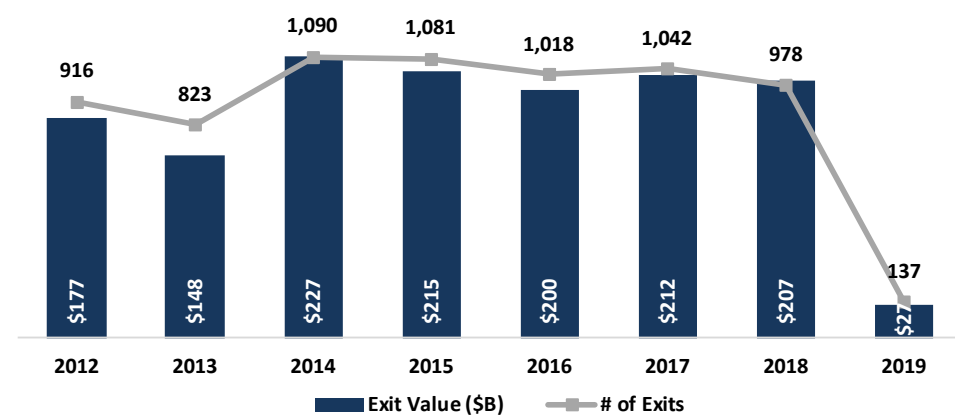
MIDDLE-MARKET PE ACQUISITION ACTIVITY



MIDDLE-MARKET PE MEDIAN DEAL SIZE



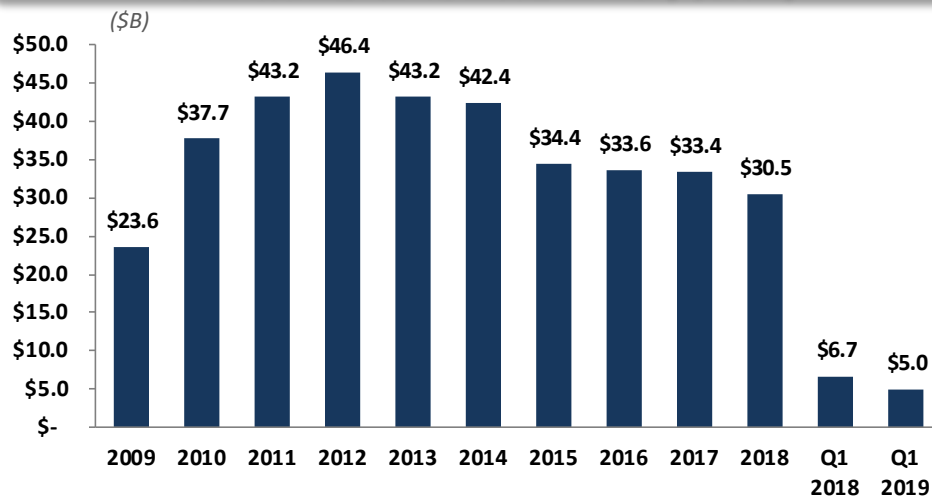
MIDDLE-MARKET PE EXIT ACTIVITY



LEVERAGED LOAN MARKET

- Middle-market credit conditions remain favorable for high-quality borrowers in 1Q19, despite softness in 4Q18 and the beginning of pressure on the broader credit market from reaching the end of an expanded economic cycle.
- After growing steadily for the last several years, the percentage of leveraged loans with covenant-lite structures peaked at 79.2% in December and has trended slightly lower in 2019, ending April at 78.3%.
- Lenders are becoming more wary of high leverage, especially for lower-quality borrowers; however, high-quality companies continue to have ample access to debt capital to support the persistently elevated valuation multiples.
- Lower loan volume in 2019 has kept pricing and rates borrower friendly, as lenders compete for high-quality opportunities.
- As expected, in May the FOMC elected to leave the current overnight funds rate unchanged at 2.25% - 2.50% after signaling in March that they do not plan to raise rates for the remainder of 2019.
- Despite demand from both traditional and non-traditional lenders, middle-market loan issuance in 2019 is expected to trail 2018 levels.

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



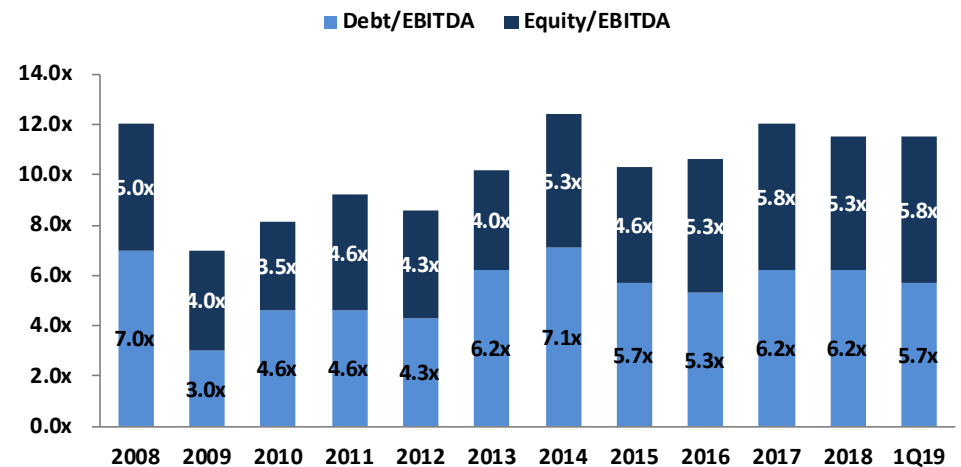
RECENT LEVERAGED LOAN STATISTICS

	Leverage Pricing and Fees	
	Bank	Non-Bank
Libor (3-month)	2.63%	2.63%
Pricing	L + (4.0 - 4.5%)	L + (5.0 - 5.5%)
Floor	-	-
Upfront Fees	50 bps	50 bps
Unused	25 bps	50 bps

	Debt as 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.

U.S. PE BUYOUT MULTIPLES

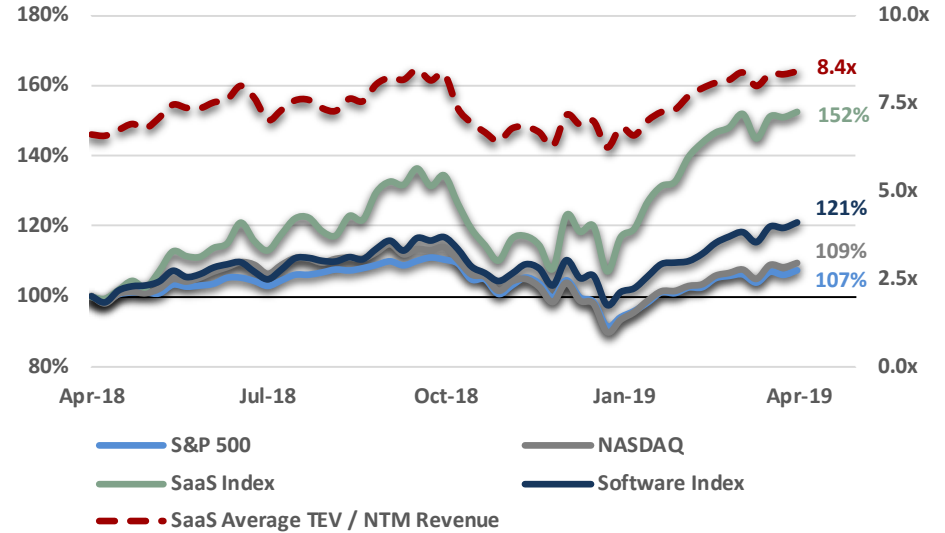


ENTERPRISE SOFTWARE: OVERVIEW OF M&A AND VALUATION TRENDS

- Software stocks continued their late 2018 expansion during Q1, with the average software name up 19.6% YTD and 21.1% over the last year⁽¹⁾.
- SaaS companies had a strong first quarter and trade on average at 86.4% of 52-week highs.
- Public software valuations currently reside at levels not seen since 2014, with the total software, SaaS and high growth (>20% YOY) groups trading at 42.8%, 56.7% and 60.1% premiums to their 5-year average NTM revenue multiples, respectively.
- On a growth-adjusted basis, the median SaaS stock currently trades at 0.36x 2019E revenue, a 50% premium from this time last year.
- Share gains were primarily driven by multiple expansion during Q1 as NTM revenue estimates increased 3.2% during Q1 while NTM revenue multiples expanded by 27.2%.
- Strong software company performance (the average software stock beat revenue and earnings guidance by 2.0% and 114.9% in Q1), investor appetite for durable subscription models, large TAMs and long-term, secular growth drivers continue to drive stock appreciation.

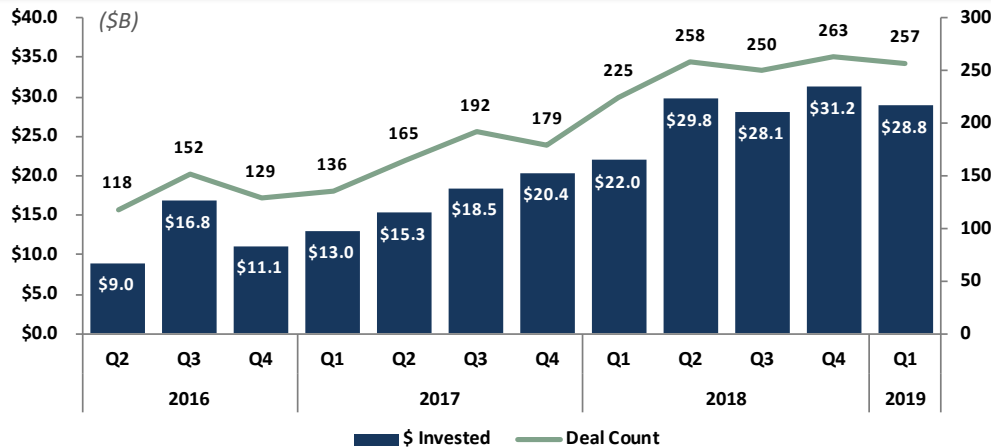
(1) All trading statistics are as of March 31, 2019.

LTM ENTERPRISE SOFTWARE INDEX VS. S&P & NASDAQ



Source: PitchBook

QUARTERLY MIDDLE-MARKET⁽²⁾ ENTERPRISE SOFTWARE M&A TRENDS



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

SELECT DEALS

Target	Acquiror	Ann. Date	TEV ⁽³⁾	TEV/LTM Revenue	TEV/NTM Revenue	% Rev Growth ('19E)
eFront	Blackrock	3/22/19	\$1,300.0	9.3x	N/A	N/A
Turnitin	Advance Publications	3/6/19	1,750.0	11.7x	N/A	N/A
Chrome River	Certify, K1	3/5/19	Confidential - BCA Market Knowledge			
ConnectWise	Thoma Bravo	2/25/19	1,500.0	6.2x	N/A	25.0%
Ellie Mae	Thoma Bravo	2/12/19	3,381.0	7.0x	5.7x	24.0%
OneStream Software	KKR	2/7/19	1,000.0	N/A	N/A	137.0%
Ultimate Software	Hellman & Friedman, Blackstone	2/4/19	10,308.6	8.6x	7.2x	19.4%
TomTom Telematics Division	Bridgestone	1/22/19	1,034.0	6.5x	N/A	N/A
Quickbase	Vista Equity Partners	1/13/19	1,100.0	8.8x	7.9x	11.4%

(3) Data per SEC filings and PitchBook.

BRENTWOOD CAPITAL ADVISORS OVERVIEW

TRANSACTION ACTIVITY

Since 2002, BCA has completed:

- 100 transactions with aggregate value of approximately \$6.4 billion.
- 81 M&A and equity raising assignments with aggregate volume of \$5.6 billion.
- 19 debt raises representing approximately \$800 million in capital.
- 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
- Specialty Pharma and Contract Research Organizations

THE BEST DEAL. DONE.

REPRESENTATIVE TRANSACTIONS

<p>Sell-Side</p> <p>Dental Practice Mgmt. Software</p> <p>Sell-Side Advisory to Middle-Market Software PE Firm</p>	<p>Recapitalization</p> <p>harmony HEALTHCARE IT</p> <p>Recapitalization Led by PRIMUS</p>	<p>Sell-Side</p> <p>CONNECTURE</p> <p>Sell-Side Advisory to BENEFITFOCUS®</p>	<p>Sell-Side</p> <p>CUSTOM PACKAGING Bringing Packaging to Life™</p> <p>Sell-Side Advisory to HOOD CONTAINER CORPORATION</p>
<p>Recapitalization</p> <p>PMC Psychiatric Medical Care</p> <p>Recapitalization Led By CONSONANCE CAPITAL</p>	<p>Sell-side</p> <p>RO RETIREMENT CONSULTANTS OF MICHIGAN</p> <p>Sell-Side Advisory to COMPREHENSIVE EYECARE PARTNERS</p>	<p>Unitranche Debt</p> <p>MEDHOST®</p> <p>Debt-Private Placement Led By Goldman Sachs COMVEST PARTNERS</p>	<p>Recapitalization</p> <p>OSM OPHTHALMIC SPECIALISTS OF MICHIGAN</p> <p>Recapitalization Led by Ridgemont EQUITY PARTNERS™</p>
<p>Growth Equity</p> <p>inmotionnow</p> <p>Equity Investment Led by LEVEL EQUITY</p>	<p>Sell-Side</p> <p>Camellia HEALTHCARE</p> <p>Sell-Side Advisory to Encompass Health</p>	<p>Recapitalization</p> <p>COMPREHENSIVE EYECARE PARTNERS</p> <p>Recapitalization Led by GAUGE CAPITAL</p>	<p>Sell-Side</p> <p>HealthStream®</p> <p>Sell-Side Advisory to PRESS GANEY®</p>
<p>Sell-Side</p> <p>Standard Functional Foods Group</p> <p>Sell-Side Advisory to HEARTSIDE FOOD TECHNOLOGY</p>	<p>Sell-Side</p> <p>IDS</p> <p>Sell-Side Advisory to GTL</p>	<p>Sell-Side</p> <p>IMAGING ADVANTAGE</p> <p>Sell-Side Advisory to Envision HEALTHCARE</p>	<p>Sell-Side</p> <p>Arbor HEALTH</p> <p>Sell-Side Advisory to EQUIAN</p>
<p>Recapitalization</p> <p>ENABLECOMP</p> <p>Recapitalization Led by PRIMUS</p>	<p>Sell-Side</p> <p>WhiteCloud ANALYTICS</p> <p>Sell-Side Advisory to RELIAS LEARNING</p>	<p>Debt Raise</p> <p>Camellia HOME HEALTH & HOSPICE™</p> <p>Senior Debt Placement Led by CADENCE BANK</p>	<p>Recapitalization</p> <p>American PHYSICIAN PARTNERS</p> <p>Recapitalization Led by BROWN BROTHERS HARRIMAN</p>