BRYANT PARK CAPITAL

Middle Market Update

1st Quarter 2017

First Quarter Economic Performance and Future Outlook

Gross Domestic Product

- The real U.S. GDP growth rate increased at an annualized rate of 0.7% in Q1 2017, far slower than the 2.1% annualized growth in Q4 2016, due to[1]:
  - Positive contributions from residential and nonresidential fixed investments, as well as personal consumption expenditures, which were partially offset by
  - Negative contributions from private inventory investments; state, local, and federal government expenditures; and increased imports

Consumer Income and Spending

- Real disposable personal income increased by 1.0% in Q1 2017, a reduced pace from the 2.0% growth seen in Q4 2016[1]
- The personal savings rate, as a percentage of disposable personal income, was 5.7% in Q1 2017, up from 5.5% in Q4 2016[1]

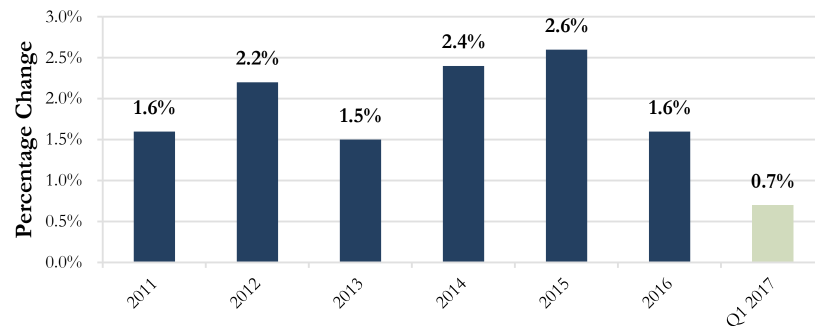
Federal Reserve

- The Federal Open Market Committee (FOMC) views the slowed economic activity as transitory, and expects that the GDP will expand, labor markets will strengthen, and inflation will stabilize at its 2.0% target over the medium term, with support from the Fed's monetary policy[2]
- In a continued effort to boost the labor markets and return inflation to a 2.0% level, the FOMC increased the target range for the Federal Funds Rate by 25 basis points from 0.75% to 1.00% during its March meeting[2]
- The Fed is likely to increase the Federal Funds Rate target range at least twice more this year, as strong employment data continue to increase the likelihood of a tightening monetary policy[2]

Employment

- The unemployment rate declined, ending the quarter at 4.5%, with the number of unemployed persons at 7.2 million[3]
  - The financial services industry added over 9,000 jobs in March and 178,000 during the past 12 months
- Growth in jobs and employment was strong, while wages grew slightly, suggesting there may be some slack in the labor force

Real GDP Growth Since 2011 (annualized)



Source: Bureau of Economic Analysis

U.S. Treasury Securities

- The 10-year Treasury yield decreased from 2.45% at year-end 2016 to 2.40% at the end of Q1 2017[4]

	Q2 2016	Q3 2016	Q4 2016	Q1 2017[5]
5-year Treasury Note	**1.29%**	**1.18%**	**1.69%**	**2.01%**
10-year Treasury Note	**1.82%**	**1.61%**	**2.21%**	**2.52%**
30-year Treasury Note	**2.81%**	**2.49%**	**3.05%**	**3.27%**
10-year Treasury Inflation Protected Security	**0.19%**	**0.08%**	**0.33%**	**0.43%**

Source: U.S. Department of Treasury

Outlook for 2017

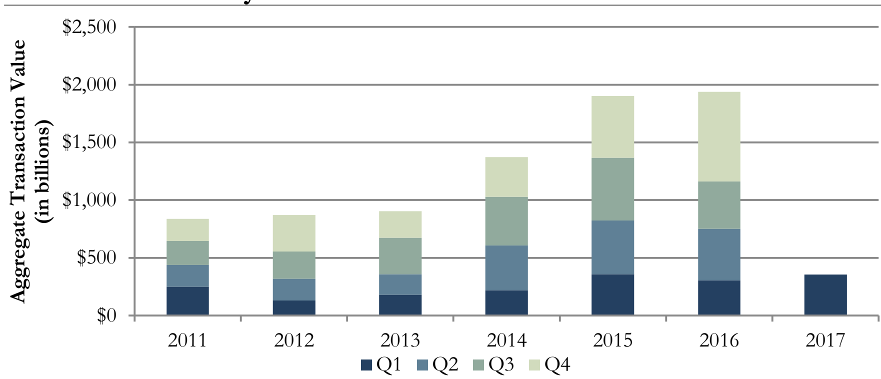
- The Trump administration has outlined policies that could have broad implications for the economy going forward, including tax rate reductions, country-specific tariffs on U.S. imports, health care reforms, reduced business regulations, increased infrastructure spending, and stronger anti-immigration laws[6]
- Results from the Business Roundtable CEO Economic Outlook Survey indicate that CEOs project a 2.2% growth in GDP, with a positive outlook for hiring in 2017[7]

1. *U.S. Bureau of Economic Analysis*
2. *U.S. Federal Reserve*
3. *Bureau of Labor Statistics*
4. *Baird*
5. *Quarterly yields are three-month averages*
6. *PricewaterhouseCoopers*
7. *Business Roundtable*

Mergers and Acquisitions and Private Equity

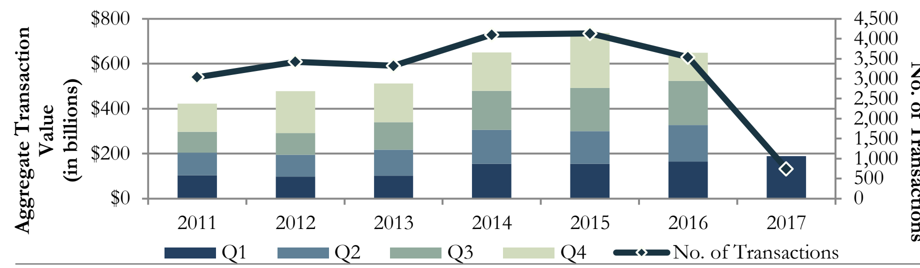
- Global mergers and acquisitions (M&A) activity reached $678.5B in Q1 2017, experiencing an 8.9% increase in value, but a 21.7% decrease in the number of transactions, as compared to Q1 2016[1]
  - The North American market exhibited similar patterns, with a 14.8% drop in the number of transactions, but a 24.5% jump in deal value[1]
  - Energy, mining, and utilities was the most active segment globally, with 293 deals valued at $163.8B[1]
  - The total of 1,226 transactions was the lowest amount since Q3 2013[1]
  - The sharp decrease in transaction volume coupled with a moderate increase in value can be attributed to a rise in megadeals, mitigated by caution among smaller buyers due to pricing expectations and geopolitical uncertainties
  - The proliferation of family offices is helping to support deal volume; there are more than 10,000 globally, about half of which were formed during the past 15 years and holding assets of over $4 trillion, approaching the $5.7 trillion managed by PE firms and hedge funds[2]
  - If the past is any guide, M&A activity will pick up during the balance of the year, as Q1 had the lowest quarterly deal value during four of the past five years[1]
- Cross-border activity continued its rise in Q1 2017; inbound activity soared 47.1% in value to $120.3B, while outbound activity increased 16.6% to $90.8B[1]
  - The U.S. and Canada remain the most attractive markets worldwide despite political uncertainty and slow economic growth

U.S. M&A Activity



Source: FactSet

U.S. Private Equity Deal Flow



Source: PitchBook

- U.S. private equity (PE) investments totaled $118.7B across 745 transactions in Q1 2017, down from $130.0B across 680 deals in Q1 2016[3]
  - The information technology sector comprised one-fifth of all middle-market PE deals and was the second most active industry behind B2B in the middle market
  - The median middle-market PE deal size grew by 85.9% to $238.5M in Q1 2017, compared with Q4 2016, as the average middle-market fund reached $790.2B, the highest in six years, so cash deployment needs are larger
- PE firms' share of total M&A volume fell to 4.2% in deals and 8.0% in dollars, the lowest levels since 2009[4]
  - PE firms continue to be outbid by strategic buyers sitting on cash, looking to acquisitions as a way to boost otherwise stagnant sales growth, and capitalizing on synergies
- U.S. add-on acquisitions continued to break records in 2017, accounting for 66.0% of all PE buyout activity in Q1 2017, up from 64.0% last year[3]
  - Add-on transactions allow funds to purchase companies at more favorable prices (since smaller companies tend to trade at lower multiples) and capitalize on synergies that enable the PE firms to better compete with strategic buyers for deals
- After reaching new highs in 2016, the median EV/EBITDA multiple for PE transactions reached 10.8x in Q1 2017, up from 10.7x year-over-year[3,5]
  - The higher multiples were due to increased competition from strategic acquirers, abundant PE dry powder, and continued favorable economic and debt-market conditions
  - The latest available data for PE-sponsored transactions between $10M and $250M show an average EV/EBITDA multiple of 6.9x[6]
- Since the beginning of 2016, nearly half a trillion dollars have been raised for PE, driving dry powder to record levels of $842B in Q1 2017[7]

1. *Mergermarket*
2. *EY, Campden Wealth Ltd., and Preqin*
3. *PitchBook*
4. *Bain & Company*
5. *These multiples reflect prices paid for mainly public companies and do not account for smaller private company transactions (for which there typically are no publicly available data) that tend to change hands at much lower multiples*
6. *GF Data*
7. *Preqin*

Venture Capital, PIPEs, and Corporate Earnings

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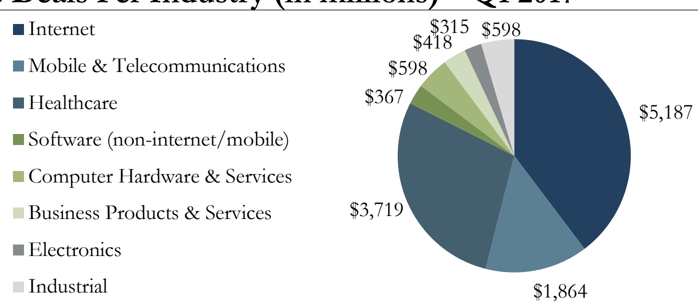
Venture Capital Investing

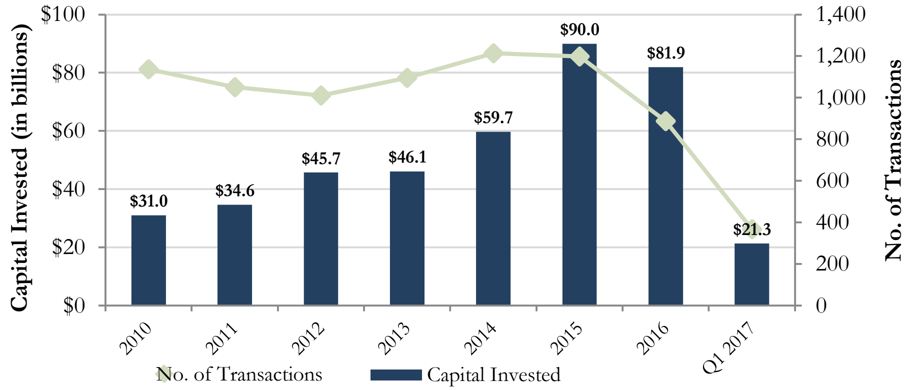
- In Q1 2017, transactions for venture capital (VC)-backed companies in the U.S. totaled 1,104 deals valued at $13.9B, a 17.8% decrease in volume and 12.9% decrease in value from Q1 2016[1]
  - Although still below 2015/2016 investment levels, VC investments are above the trough of $12.0B reached in Q4 2016, with later-series deals supporting a broad anticipation of increased exit activity
  - The recent quarter marked the 13th consecutive quarter with $10.0B or more invested in U.S. VC transactions
- Early-stage activity has slowed down, evidenced by seed activity dropping to a two-year low (as a proportion of all VC deals), continuing a series of declines since Q3 2015, while later-stage deals climbed to a two-year high[1]
  - The growth of new forms of investors, namely accelerators, pre-seed funds, and crowdfunding sites, has given entrepreneurs several different routes to launching a business than raising seed capital[2]
- With $5.2B invested over 485 deals in Q1 2017, the internet sector received the largest amount of funding for the 30th straight quarter, despite two consecutive quarters of decline[1]
- Healthcare deals have spiked to a two-year high, representing 17.0% of all deals in Q1 2017, just edging out mobile and telecom
- The median age of businesses at the time they seek seed investments increased to two years in 2016, reflecting a trend that businesses are entering the VC arena at more developed stages[2]

VC Deals Per Industry (in millions) – Q1 2017



Source: MoneyTree Report

U.S. PIPE Activity



Source: DealFlow Report

PIPE Investing

- 367 private-investment-in-public-equity (PIPE) deals totaling $21.3B closed in Q1 2017, representing a 70.0% increase in closings and a 75.0% increase in value as compared with Q1 2016[3]
- As the year continues, activity is expected to remain strong, especially among small-cap energy companies[3]

Corporate Earnings

- Corporate earnings for Q1 2017 are on pace to increase 13.5% from the same period last year, making this the third consecutive quarter of year-over-year growth, with the highest rate of increase since Q3 2011[4]
- Companies with global exposure are expected to report earnings growth of 14.9%, as compared with 6.8% growth for domestically-focused firms[5]

1. *PricewaterhouseCoopers LLC and the NVCA*
2. *PitchBook*
3. *The Deal*
4. *FactSet*
5. *RBC Capital Markets*

Debt Capital and IPO Markets

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Debt Capital

- The Barclays U.S. Aggregate Bond index recorded a 1.2% total return during Q1 2017, significantly below the 3.0% return recorded in Q1 2016[1]
- Total U.S. bond issuances reached $1,810.6B in Q1 2017, a 10.4% increase from the Q1 2016 issuances of $1,639.9B and a 16.3% increase from the Q4 2016 volume of $1,557.2B[2]
  - The largest contributing factor to this growth in Q1 2017 is the significant increase in U.S. Treasury bond issuances, which reached $654.1B, 44.8% (or $202.4B) more than the $451.6B during Q4 2016
- The Barclays Investment Grade U.S. Corporate Bond index also generated a positive return of 1.2% in Q1 2017, but below the Q4 2016 return of 2.8% and the Q1 2016 return of 4.0%[1,3]
  - U.S. investment grade corporate bond issuances reached $382.7B in Q1 2017, 79.7% above the Q4 2016 $213.0B volume and 5.9% above the Q1 2016 $361.5B activity[2]
  - High-yield issuances in the U.S. corporate bond market hit $88.7B in Q1 2017, significantly greater than Q4 and Q1 2016 volumes of $48.9B and $35.9B, respectively[2]

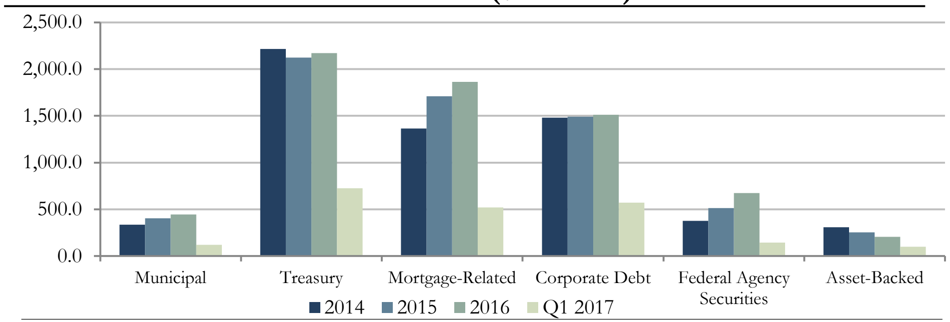
Middle-Market and Household Loan Lending

- Middle-market lending activity totaled $30.4B in Q1 2017, down from $39.0B in the previous quarter[4]
  - Issuances amounted to $23.0B in the larger segment of the middle market ($100M to $500M) and $7.4B in the traditional middle market (<$100M)
  - Yields on newly issued loans continued their tightening pattern, with yields on new middle-market loans falling to 6.1%
- Average debt-to-EBITDA levels for broadly syndicated LBO transactions were marginally lower, declining to 6.0x in Q1 2017 from 6.1x in Q1 2016[4];
  - The debt-to-EBITDA was higher for institutional middle-market LBOs, reaching 5.6x in Q1 2017, up from 5.3x in Q1 2016
  - The technology, media, and telecom sector continued to have the most leveraged loan issuances since 2016, representing 29.7% of total in Q1 2017
- U.S. household debt hit a record $12.7T at the end of Q1 2017, catapulting over its previous peak reached in 2008[5] due to a relatively strong economy, higher consumer confidence, and loosening lending restrictions

IPO Market

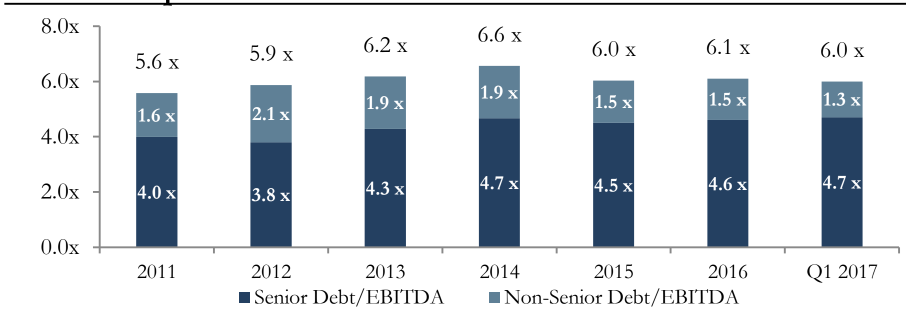
- The U.S. IPO market is off to a relatively strong start in Q1 2017[6]
  - 29 companies went public on U.S. exchanges and raised $13.4B in Q1 2017, a 10x increase in value from the $1.3B in Q1 2016, driven by high-profile social media and other VC-backed relative upstarts
  - IPO volume is 2.0x greater at $36.0B, compared with $13.9B in Q1 2016
- Snap and Invitation Homes had the largest IPOs in the U.S. since Q4 2015, raising $3.4B and $1.5B, respectively[7]
- IPO follow-on volume reached 219 deals valued at $45.5B in Q1 2017, a 6.1% increase from Q1 2016 volume[5]

Issuances in the U.S. Bond Market ($ billions)



Source: SIFMA

Debt Multiples of Middle-Market LBO Loans



Source: Thomson Reuters LPC

1. *Prudential*
2. *SIFMA*
3. *Charles Schwab*
4. *Thomson Reuters LPC*
5. *Federal Reserve Bank of New York*
6. *Dealogic*
7. *Thomson Reuters*

Five Reasons Why High-Growth Companies Stumble with Sales Tax

Nearly every industry, from software to tech to manufacturing to pharma, must deal with sales and use taxes in some way, but high-growth companies face bigger challenges — and for good reason. Growth equals change. And with change comes new or different rules and regulations — many of which may be unfamiliar territory to you (or to the companies in your portfolio) and even to the taxing authorities that enforce them.

Until recently, sales tax didn't make the headlines or get a lot of attention from company executives or their investors. But the tax landscape has shifted dramatically in the past few years, incenting lawmakers to reinterpret the rules and forcing companies to comply.

Blame it on state deficits

It's impossible to tackle sales tax compliance without first understanding nexus — a company's economic "connection" to a state based on qualifying sales activities. The growth of ecommerce created a situation states couldn't have predicted 20 years ago: a $24 billion loss of tax revenue from buyers purchasing from sellers that have no obligation to collect and remit sales tax. That loss forced states to recognize a much wider range of activities by companies as a means to shore up growing deficits.

Arguably, high-growth companies are hit the hardest with respect to sales tax complexity.

Here are five reasons why:

1. Domestic and global expansion

Physical expansion is still a key factor in business growth for many companies. But operating in more locations can create new tax obligations, often faster than high-growth companies can adapt. Adding staff who work remotely (or at a home office) in a new state can add obligations to register, file, and remit taxes in that state and all its local jurisdictions. Opening new warehouses or distribution centers — including drop-shipping warehouses — can similarly create new nexus connections. Having nexus in one or two states might be manageable, but once you have nexus in five or more states, sales tax gets exponentially more complicated as rates, rules, and filing requirements can vary greatly from state to state.

Global expansion has its own unique tax challenges. Conducting business overseas is vastly different from the U.S. Many foreign markets operate under the value-added tax (VAT) system, which does not follow the same assessment, collection, and payment structure as U.S. sales tax. International transactions also typically involve customs, duties, tariffs, and landed cost, each of which has its own set of rules and complexities.

2. Marketing or selling online or through affiliates

Reaching new markets is a key strategy for any growing business. And the internet is a great revenue source, for businesses and for states. Half of all U.S. states now require remote sellers to collect sales tax on ecommerce transactions. And 17 states have affiliate or "click-through" nexus laws, which don't even require a physical presence to create tax liability — participating in affiliate programs or online advertising is enough to create that connection.

For example, if an in-state online business leads a customer via links ("clicking through") to buy something from an out-of-state online business, the out-of-state business is considered to have a presence in that state and must collect sales taxes from customers there.

These nexus triggers, sometimes referred to as "Amazon laws," can affect companies of all sizes, but high-growth and ecommerce companies are primary targets because they are heavy users of online marketplaces, digital advertising, and internet referral programs. If a business uses click-through marketing or affiliate programs to drive sales, it needs to understand how the program impacts nexus and tax compliance.

3. Adding products or services

Growth-driven companies are always innovating, looking for ways to break into new markets or reach more customers. However, adding new products or services can make compliance tricky, especially in emerging industries like software and digital goods and services where tax laws are still catching up with technology.

Product and service taxability can be difficult to determine. And there is little consistency from state to state. Some products or services are taxable in some states, but exempt in others. Other products and services are "sometimes taxable," adding another layer of confusion. For instance, in Colorado, straws and cup lids for takeout food are considered taxable, but the cups themselves are exempt. Software is now taxed 450 different ways based on 45 different categories, nuanced down to such criteria as physical or digital, custom or canned, software as a service (SaaS), or some combination thereof.

To make matters worse, every year thousands of rate changes, product taxability rule changes, and Department of Revenue rulings are made that affect sales tax on products and services.

4. Filing in multiple states

To stay on the good side of auditors, a business needs to register for sales tax in every jurisdiction where it has nexus. Then, it must contend with a morass of filing deadlines and requirements that differ in each state. The frequency with which it is required to file, as well as whether it is required to prepay part or all of its expected sales tax obligations, can change as total sales made to customers in a state grow. Each state in which the company files makes its compliance picture exponentially more complex, requiring adoption of new sales tax rules and regulations that can get confusing fast.

5. Gaining a high public profile

Congratulations, the company is making the news! The journey from start-up to industry giant can happen quickly, but rarely quietly. Idea to IPO success stories are frequent headliners and investors, analysts, and consumers are swift to home in on the hottest companies to hit the market. This high visibility is great for growth, but it can be a magnet for states — and state auditors — looking to draw in more tax revenue from profitable ventures. Companies with a higher profile and higher revenues tend to be chosen for audits more often. And if the business has multi-state nexus, it could be looking at multiple audits.

Why are states so aggressive with sales tax compliance?

Sales taxes and transaction taxes account for a whopping 47 percent of state revenue, according to the U.S. Census Bureau. Politicians would rather enforce existing tax collection laws than face scrutiny for raising taxes, so the increasing trend of state tax audits to help with revenue shortfalls is likely to continue.

Get automated

High-growth companies can't afford to let sales tax to slow them down, especially those that do business overseas. State sales tax authorities traditionally watch companies closely in industries where compliance has historically been lax. One costly sales and use tax audit could spell major problems, especially if you are anticipating a liquidity event. Compliance problems multiply during high-growth periods. When manual compliance starts to create problems, it's time to automate. Dozens of business processes are now handled through software and SaaS solutions. Sales tax is no exception. Tax automation software integrated into existing ERP, ecommerce, or billing systems is an efficient and accurate way to stay on top of tax compliance as the business grows. Global expansion is also handled efficiently, as the VAT system can be tricky and prone to error.

About Pat Falle

Pat Falle, Avalara's Global Chief Evangelist, is a 20-year veteran in the software and technology industry. As a founding employee of Avalara, he oversees many of the company's strategic global initiatives and partnerships in tax compliance.

About Avalara:

Avalara helps businesses of all sizes achieve compliance with transactional taxes, including sales and use, VAT, excise, communications, and other tax types. The company delivers comprehensive, automated, cloud-based solutions that are designed to be fast, accurate, and easy to use. Avalara's Compliance Cloud™ platform helps customers manage complicated and burdensome tax compliance obligations imposed by state, local, and other taxing authorities throughout the world.

***Disclaimer**: This article is not a substitute for professional tax advice. For advice specific to your circumstances, please consult a tax professional*

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Selected Transactions

EXECUTIVES & PRINCIPALS

Joel Magerman
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Managing Director

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Managing Director

Matt Pennino
Managing Director

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www.finra.org
www.sipc.org
www.bryantparkcapital.com

$200,000,000
DIVIDEND SOLAR, INC.
has agreed to merge with
FIGTREE FINANCING
and secured financing commitment of up to $200,000,000 from affiliates of ***LL Funds***
Bryant Park Capital, LLC initiated and acted as exclusive financial advisor to Dividend Solar, Inc. in connection with this transaction.

NORTHERN LEASING SYSTEMS, INC.
Excelling at service. Exceeding expectations.
Senior Secured Credit Facility
Bryant Park Capital LLC acted as financial advisor to and as placement agent for Northern Leasing Systems, Inc. in connection with this transaction.

REMED RECOVERY CARE CENTERS, LLC
has been acquired by
US COMMUNITY BEHAVIORAL, LLC
a portfolio company of
BREGAL PARTNERS
Bryant Park Capital Securities, Inc. acted as exclusive financial advisor to ReMed in connection with this transaction.

$95,600,000
U.S. HOME SYSTEMS, INC.
(NASDAQ: USHS)
has been acquired by
THE HOME DEPOT, INC.
(NYSE: HD)
Bryant Park Capital Securities, Inc. acted as exclusive financial advisor to U.S. Home Systems, Inc. and provided a Fairness Opinion in connection with this transaction.

MD ALIGNE, LLC
has merged into
HEALTHRIGHT, LLC
Bryant Park Capital LLC acted as exclusive financial advisor to MD Aligne, LLC in connection with this transaction.

$150,000,000
MoneyLion, Inc.
Senior Secured Credit Facility
Bryant Park Capital LLC acted as exclusive financial advisor to MoneyLion, Inc. in connection with this transaction.

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123 LUMP SUM HOLDINGS, LLC
Private Placement of Preferred Stock
with
GCP Capital Partners
Bryant Park Capital Securities, Inc. acted as exclusive financial advisor and sole private placement agent to 123 Lump Sum Holdings, LLC in connection with this transaction.

$150,000,000
GOLDEN PEAR FUNDING, LLC
$100,000,000 Senior Secured Credit Facility
$50,000,000 Additional Commitment
Bryant Park Capital LLC acted as exclusive financial advisor to Golden Pear Funding, LLC in connection with this transaction.

$240,000,000
J.G. WENTWORTH MANAGEMENT COMPANY, INC.
has sold a majority stake in the company through a leveraged buyout transaction to
JLL PARTNERS
Bryant Park Capital initiated the transaction and acted as financial advisor to J.G. Wentworth Management Company, Inc.

FRANKFORD CANDY & CHOCOLATE CO., INC.
has sold its business operations and real estate to
FRANKFORD CANDY LLC
a company formed by
Management and a Strategic Partner
Bryant Park Capital, Inc. acted as exclusive financial advisor to Frankford Candy & Chocolate Co., Inc. in connection with these transactions.

$200,000,000
ENTERRA ENERGY TRUST
(NYSE: ENT and TSX: ENT.UN)
Senior and Junior Secured Credit Facilities
Bridge Credit Facility
Bryant Park Capital acted as Enterra's exclusive financial advisor for this debt financing.

$185,000,000
GLORI ENERGY INC.
has merged with
INFINITY CROSS BORDER ACQUISITION CO.
(NASDAQ: INXB)
Bryant Park Capital LLC initiated the introduction of Infinity Cross Border Acquisition Corporation to Glori Energy Inc.

APPLIED NATURAL GAS FUELS, INC.
(OTC BB:AGAS)
Senior Secured Revolving Credit Facility
Bryant Park Capital, Inc. acted as exclusive financial advisor to Applied Natural Gas Fuels, Inc. in connection with this transaction.

$140,000,000
ENERGYSOUTH MIDSTREAM, INC.
a wholly-owned subsidiary of
ENERGYSOUTH, INC.
(NASDAQ NMS: ENSI)
&
funds managed by affiliates of
FORTRESS INVESTMENT GROUP LLC
(NYSE: FIG)
have acquired
MISSISSIPPI HUB LLC
Bryant Park Capital, Inc. introduced Fortress Investment Group LLC and acted as EnergySouth Midstream Inc.'s financial advisor in connection with this transaction.

$278,000,000
Health Management Solutions
I-TRAX, INC.
(Amex: DMX)
has been acquired by
Walgreen Co.
Bryant Park Capital acted as exclusive financial advisor to I-trax, Inc. and rendered a fairness opinion in connection with this transaction.
