MIDDLE MARKET M&A OUTLOOK 2017:
POST-ELECTION FOLLOW-UP

INSIDE: A look at how the 2016 presidential election may impact M&A activity in the coming year
Each year, Citizens Commercial Banking produces an in-depth report on the state of mid-market M&A activity. In October of 2016, we surveyed 600 C-suite executives and released our annual report and its findings in December.

Given the survey was administered prior to the U.S. presidential election, Citizens believed it was valuable to follow up with the survey participants to see if and how their outlook had changed with regards to the economy, business environment and M&A activity.
A POSITIVE OUTLOOK FOR 2017

Overall, optimism is growing
Optimism about the economy has increased 18 percentage points since the election, as business leaders anticipate tax and regulatory relief.

More M&A is anticipated
Prior to the election, nearly three-quarters of business leaders were involved in or open to considering buying activity, and more than half were involved in or open to considering selling activity.

Following the election, nearly 4 in 10 business leaders are predicting that there will be even more M&A activity throughout the middle market.

Company valuations should remain steady
Despite the economic optimism, company valuations are expected to remain steady in 2017 and could help to fuel increased M&A activity.

Longer term optimism is evident as well
Fewer business leaders now anticipate a significant financial crisis in the next three years than did prior to the election.

Methodology: The follow-up survey was administered from February 1 through February 13 in 2017. Interviews for both studies were conducted by a third party and Citizens Bank was not identified as a sponsor. The sample consisted of 209 of the 600 business executives from the original 2017 Outlook Study.
A Significant Bump in Economic Optimism

Since the election in November, economic optimism has spread throughout the mid-market, with more than half of business leaders now indicating that they anticipate economic conditions to improve over the course of the next year.

The post-election focus on manufacturing and infrastructure is driving increased confidence among hard industries and service providers, while those in consumer-facing industries are less confident in economic improvement.

Regulatory and Tax Relief is Anticipated

Business leaders anticipate decreased costs of doing business. Healthcare costs are expected to weigh less heavily on businesses, and fewer federal regulations are expected.

Corporate tax rates are an area of anticipated relief for mid-market companies, and there is a general consensus that individual tax rates will be lowered as well.

Economic Optimism by Industry

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<thead>
<tr>
<th>Industry</th>
<th>Pre-election</th>
<th>Post-election</th>
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<tbody>
<tr>
<td>Business &amp; Professional Services</td>
<td>38%</td>
<td>58%</td>
</tr>
<tr>
<td>Manufacturing, Construction, Energy, Pharma</td>
<td>29%</td>
<td>56%</td>
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<tr>
<td>Retail, Hospitality, Food &amp; Beverage</td>
<td>35%</td>
<td>34%</td>
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52% vs. 34% of respondents now believe economic conditions will improve prior to the election.

71% of respondents expect businesses to experience lower healthcare costs.

70% anticipate lower corporate tax rates.
Optimism Extends to M&A Market Perceptions

The M&A outlook was strong prior to the election. Activity was ramping up across Buyers and Sellers, and the mid-market was poised for a busy 2017.

The post-election outlook is even stronger. Mid-market business leaders see fiscal policy changes adding fuel to the system. Nearly 4 in 10 expect the M&A market to be busier in 2017, and when thinking about their own plans, business leaders aren’t retreating from their pre-election activity levels.

Expectations for Valuations Hold Steady

Despite economic optimism and a business environment comprised of less regulation, lower healthcare costs and lower tax rates, valuations are expected to remain consistent with pre-election levels — leading one to believe that much of the potential positive impacts to valuations might already be priced into the market.
OPTIMISM REIGNS FOR NOW, BUT UNCERTAINTY IS STILL A FACTOR

Election Softens Financial Crisis Outlook

Economic optimism extends to business leaders’ longer term outlook as well. Election results have muted their expectations of a financial crisis in the next three years.

Although expectations of a financial crisis have decreased since the election, about 4 in 10 business leaders have indicated they expect a financial crisis in the next three years, a slight uptick from 2016.

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