Middle Market M&A Outlook 2017: A Post-election Follow-up View

March 2017
Background and Methodology

**Background**
- The annual Citizens Commercial Banking Middle Market M&A Outlook for 2017 was fielded between September and October of 2016, with the final Outlook released in December.
- Given the survey was administered prior to the 2016 U.S. presidential election, Citizens believed it was valuable to follow up with the mid-market M&A decision makers to see if and how their outlook had changed.
- This follow-up survey was designed to capture any changes in views, expectations, and behaviors as a result of the 2016 election as they relate to the economy overall, business environment and M&A activity specifically.

**Methodology**
- The follow-up survey was administered from February 1st through February 13th 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.
- Results captured expectations for the economy overall, and outlook on mid-market M&A activity.
Post Election Sentiment Fuels Optimism

- **Overall, optimism is growing**
  - Optimism in the economy has increased 18 percentage points since the election
  - Business leaders are expecting tax and regulatory relief

- **More M&A is anticipated as the result of a more favorable deal-making environment**
  - Prior to the election, there was much M&A activity anticipated throughout the market as 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 four in 10 decision-makers 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 decision-makers now anticipate a significant financial crisis in the next three years as did prior to the election
A Significant Bump in Economic Optimism

Since the election in November, economic optimism has spread throughout the mid-market, with more than half of decision-makers 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 have not enjoyed the same confidence lift in economic improvement, comparable to pre-election levels.

Question: Thinking about the U.S. economic outlook over the next 12 months, do you think conditions will…?
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.

Specifically focusing on tax policy changes, 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.

Federal Regulatory Changes

- Lower healthcare costs to the business: 71%
- Fewer federal regulations (excluding healthcare): 68%

Federal Tax Policy Changes

- Lower corporate tax rates: 70%
- Lower individual tax rates: 54%
- Lower capital gains tax rates: 39%

Question: Thinking about potential changes that impact your business, which of the following changes are you anticipating over the next 12 months?
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 remains strong. Mid-market business leaders see fiscal policy changes adding fuel to the system. Nearly four in 10 expect the market to be busier in 2017, and when thinking about their own plans, business leaders aren’t retreating from their pre-election activity levels.

Question: Which best describes your organization’s involvement in the following activity? Thinking about all of the potential changes (tax, regulatory, healthcare) you are anticipating to the U.S. economic environment, do you believe there will be more or less activity overall/is your company more or less likely to conduct M&A in 2017?
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.

Valuations Expectations in 2017

<table>
<thead>
<tr>
<th></th>
<th>Increase</th>
<th>Stay the same</th>
<th>Decrease</th>
<th>Don't know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-election</td>
<td>24%</td>
<td>56%</td>
<td>13%</td>
<td>7%</td>
</tr>
<tr>
<td>Post-election</td>
<td>23%</td>
<td>54%</td>
<td>14%</td>
<td>9%</td>
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Question: In your company’s industry, what is your expectation for asset valuations over the next year?
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, about four in 10 decision makers have indicated they expect a financial crisis in the next three years, a slight uptick from the 2016 Outlook.

Question: Do you believe the U.S. economy will suffer another significant financial crisis in the next three years?

<table>
<thead>
<tr>
<th>Outlook</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>2016</td>
<td>38%</td>
</tr>
<tr>
<td>2017 Pre-election</td>
<td>48%</td>
</tr>
<tr>
<td>2017 Post-election</td>
<td>41%</td>
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