

MIDDLE MARKET M&A OUTLOOK 2018



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We are pleased to share with you Citizens' Middle Market M&A Outlook for 2018. In concert with our own team of transaction experts and recent deal closings, we surveyed more than 400 C-suite executives at companies between \$25 million and \$3 billion in revenue who are in some manner responsible for their companies' M&A initiatives. These findings offer an insightful glimpse into themes that deal participants can expect heading into 2018. This is just one more way in which Citizens Commercial Banking is committed to providing our customers and other organizations with real time, actionable insights they can use when planning and executing their own strategic transactions.

The general themes of this year's survey bear similarities to the prior few. Widespread and growing optimism regarding the health of the economy, an abundance of acquisition currency in the form of idle cash and lofty stock valuations, and a relative dearth of attractive, and more importantly available, acquisition targets continues to bode well for sellers. Corporate buyers are generally finding it difficult to identify new organic growth opportunities and/or cost efficiencies, and they continue to perceive acquisitions as the most impactful strategy to meet boardroom and shareholder growth expectations.

Following what many perceived to be an election surprise at the end of 2016, we are more than a year into the Trump Administration, and optimism is high among survey respondents who believe prosperous conditions will persist. Buyers continue to look externally, even internationally, for opportunities to generate productive returns on record amounts of liquidity. Sellers, meanwhile, are ever-mindful that these historically high valuations won't last forever. The recently passed and sweeping tax reform legislation should free up even more capital for deal making, further boosting demand. On the supply side, we expect a gradual resumption of seller participation, particularly business owners with an eye on retirement and in need of a succession plan.

Western Reserve Partners joined Citizens in May 2017 because of our shared vision of client service – that is, to support the strategic endeavors of our valued customers with thoughtful, unbiased and customized solutions. As a longtime, leading M&A advisor to the middle market, and having just gone through the process ourselves, we understand uniquely the implications of M&A decisions in the life-cycle of a business and the sensitivities with which they are made.

We would be delighted to discuss our findings with you and your team, at your convenience, as we navigate the evolving M&A landscape of 2018.

Ralph M. Della Ratta
Citizens Capital Markets
Head of M&A Advisory

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EXECUTIVE SUMMARY

In 2017, the M&A market remained strong following the presidential election. Equity markets reached new heights, companies held record levels of cash and corporate valuations ticked even higher. Heading into 2018, fears of a near-term financial crisis have abated, and middle market buyers and sellers expect the overall strength of the M&A market to continue.

For sellers, almost 60% of middle market decision makers indicated that they are either presently involved in or are open to considering a sale or merger in the next twelve months – up considerably from 33% two years ago. In anticipation of potential outreach, 68% of sellers claim to be prepared for a sale and 35% are confident their organization will be acquired. Both are reflective of a generally bullish view of the economy as well as an increased number of touch points from interested buyers.

For buyers, 76% of decision makers indicated that they are either presently involved in or are open to considering an acquisition in the next twelve months. This confidence appears to stem from their self-perceived strengths. In almost every category, from achieving revenue projections to raising capital and maintaining current market share, buyers believe their business is better positioned than in prior years.

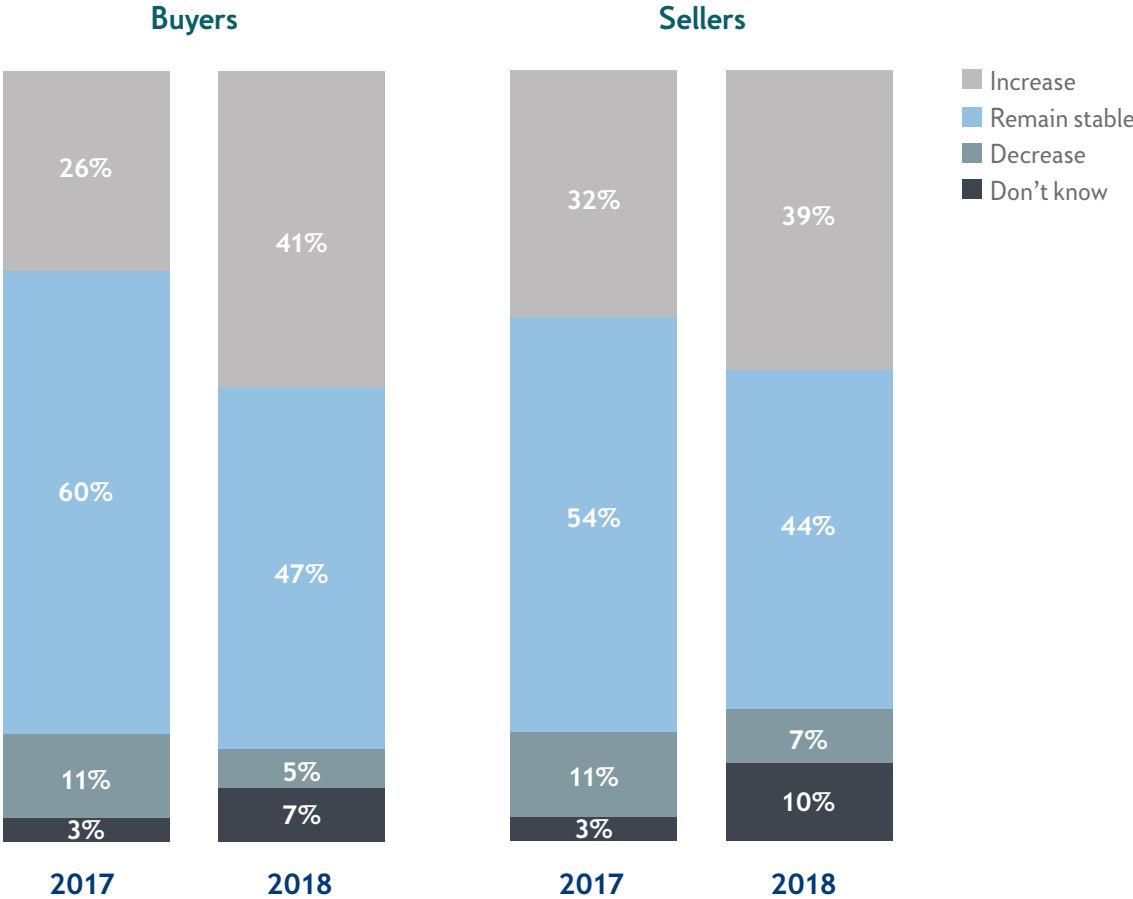
In this complex and competitive environment, both buyers and sellers are increasingly reliant on the services of third-party experts. Among those surveyed, more than 90% will seek third-party advice for their M&A transactions in 2018. The biggest reasons are to seek assistance managing valuations and to ensure successful and timely deal completion.

M&A ENVIRONMENT

Buyers and Sellers Agree on Rising Valuations

Buyers and sellers entered 2017 with expectations of generally stable to increasing valuations. According to our survey, both groups appear to be even more aligned heading into 2018. Approximately 39% of sellers are bullish on rising valuations, while 41% of buyers expect to pay more for acquisitions that fit their target criteria.

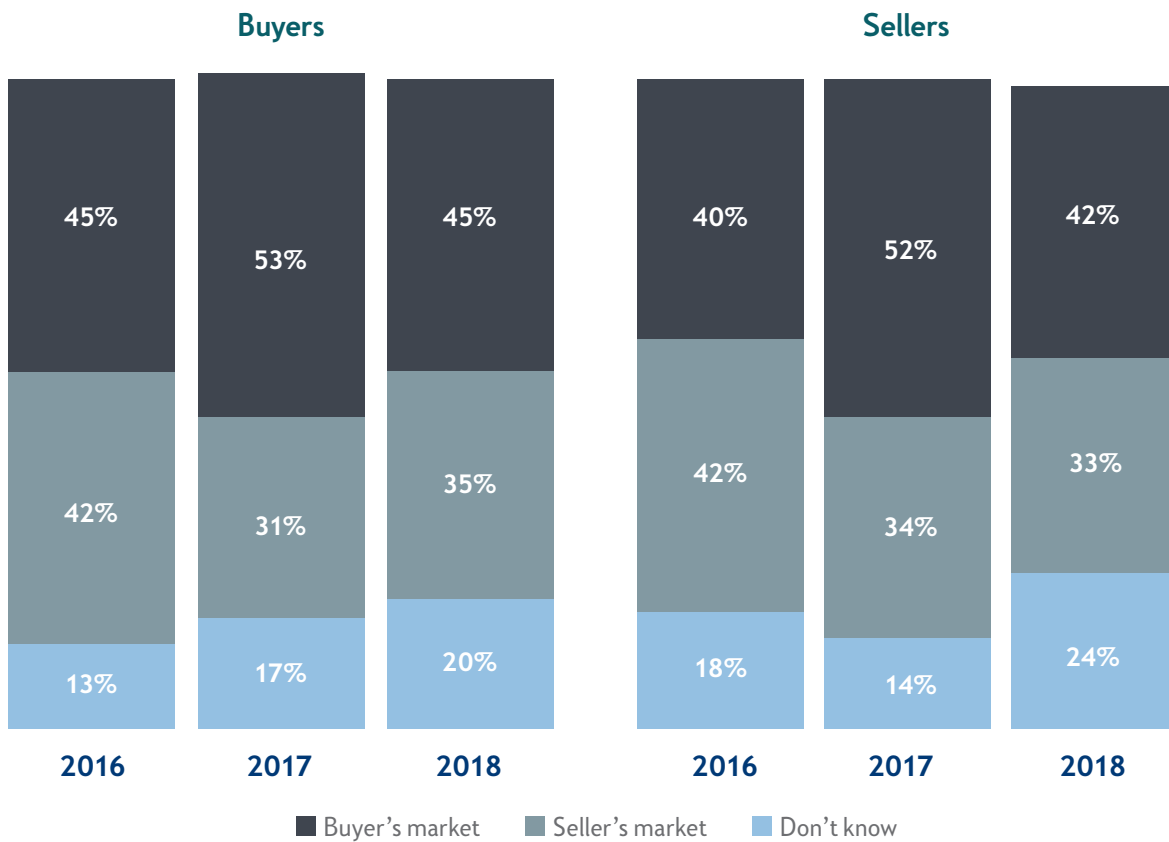
M&A Valuation Expectations Preceding Each Year



The Sellers' Market Marches On

An abundance of acquisition capital (high demand) and a dearth of quality targets (low supply) has made for a very favorable seller's market over the past four years. Heading into 2017, buyers and sellers assumed that this imbalance would begin to even out. And while it was widely assumed that millions of Baby Boomers would seek retirement through the sale of their business, once they recovered from the Great Recession, both buyers and sellers appear less confident of this heading into 2018.

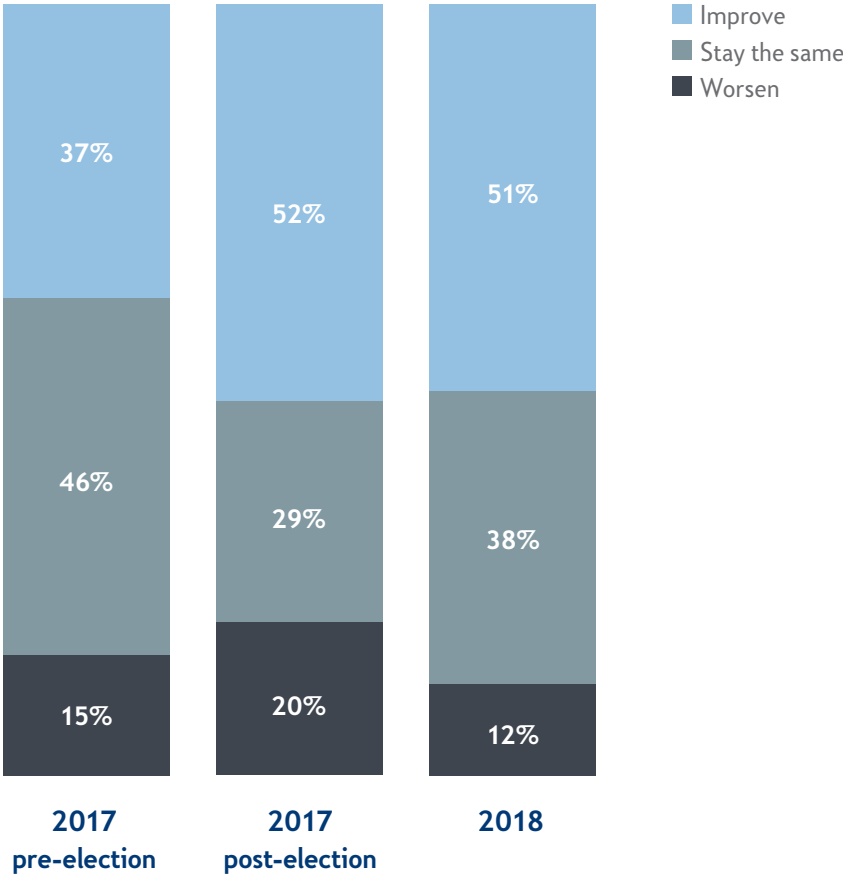
Market Expectations Preceding Each Year



Economic Optimism is Growing

Once the results of the 2016 Presidential Election were known, a decided uptick in economic optimism among middle market executives occurred. Almost a year into the Trump Presidency, respondents appear to be even more bullish on economic conditions for 2018.

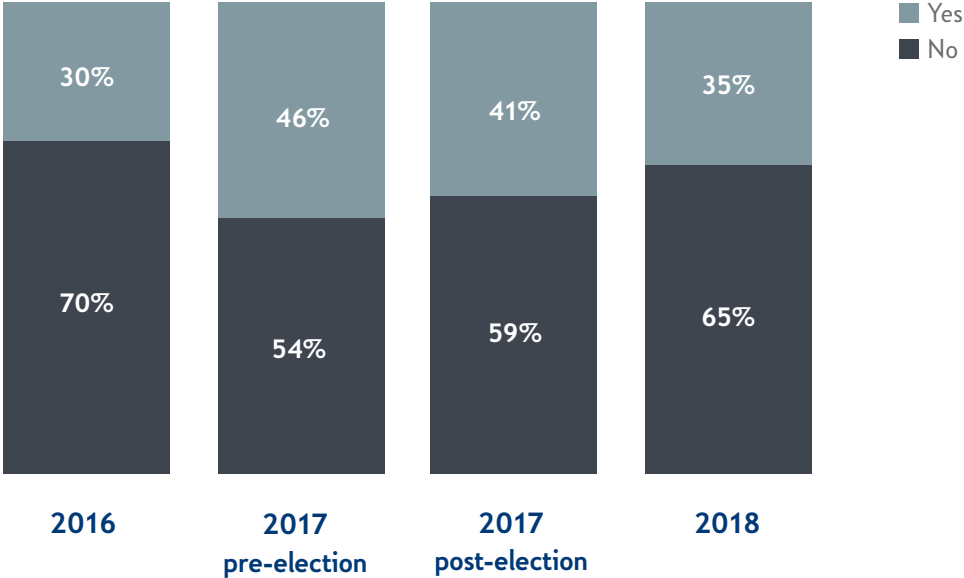
U.S. Economic Outlook for Upcoming Year



Cyclical Fears are Abating

Similar to the uptick in economic optimism, it appears middle market executives are less wary of a near-term financial crisis. Pre-election, almost half of the respondents believed we were in line for a financial recession sometime in the next three years. Now heading into 2018, just 35% hold a similar view, signaling that perhaps M&A market conditions should remain favorable for the foreseeable future.

Likelihood of Financial Crisis in the Next Three Years



Persistence is Paying Off

The incidence of unsolicited contact between motivated buyers and prospective sellers has risen considerably over the past three years, as parties are pursuing any means possible to avoid a competitive situation. This persistent outreach is inducing middle market executives to more seriously consider their M&A options.

Solicitation	
Have been solicited	95%
Have not been solicited	5%
Average: 4.9 times per month	

Frequency of solicitations



Solicitation impact on M&A consideration

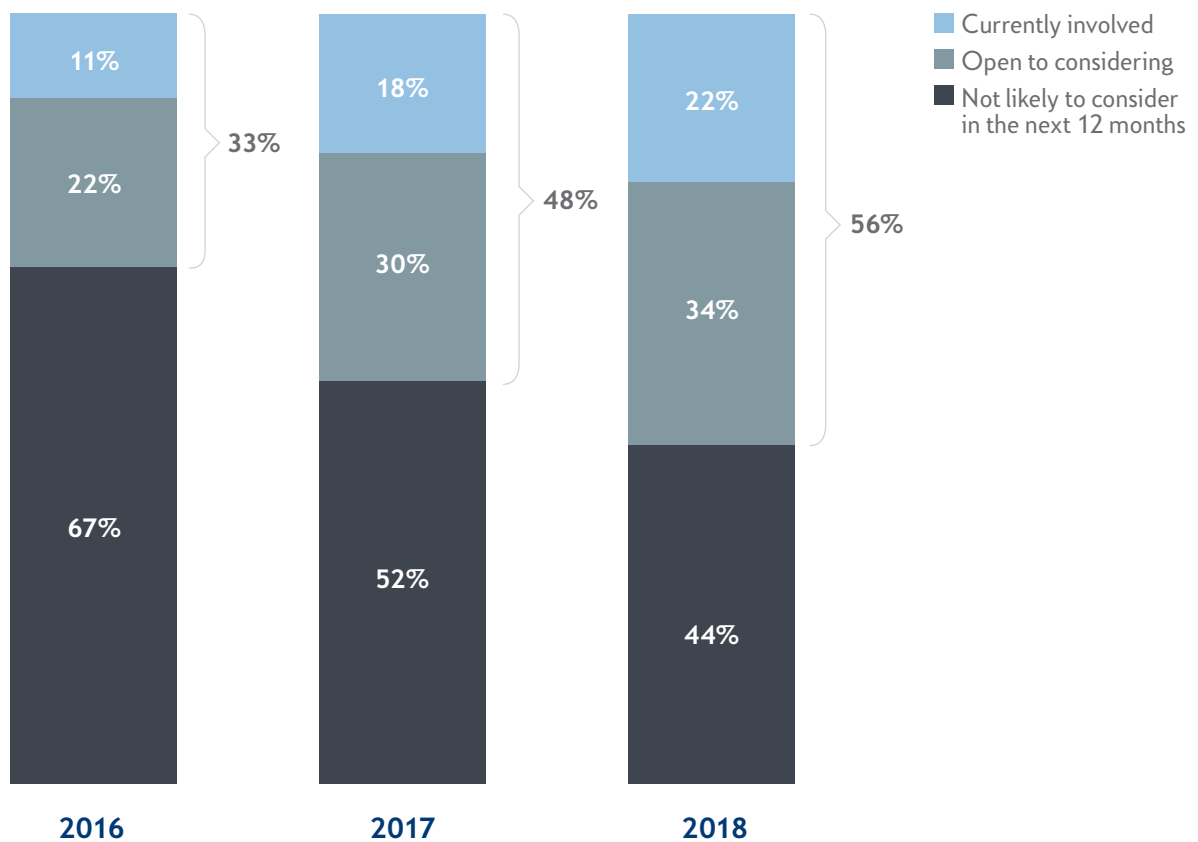


THE STATE OF SELLERS IN 2018

Sellers Anticipate Increased Activity

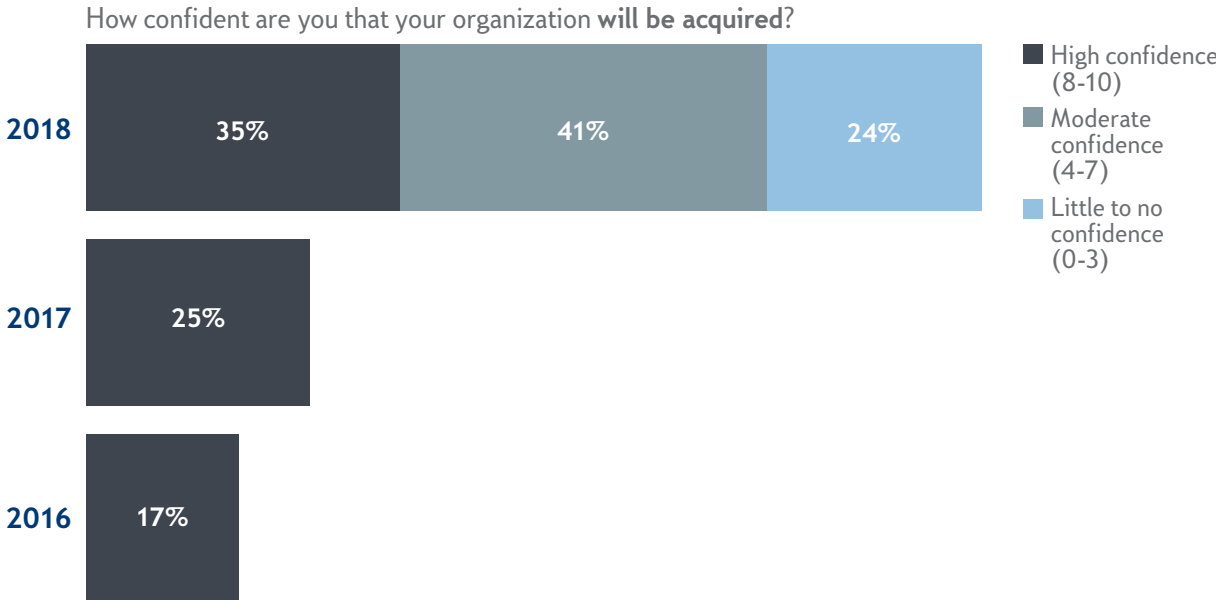
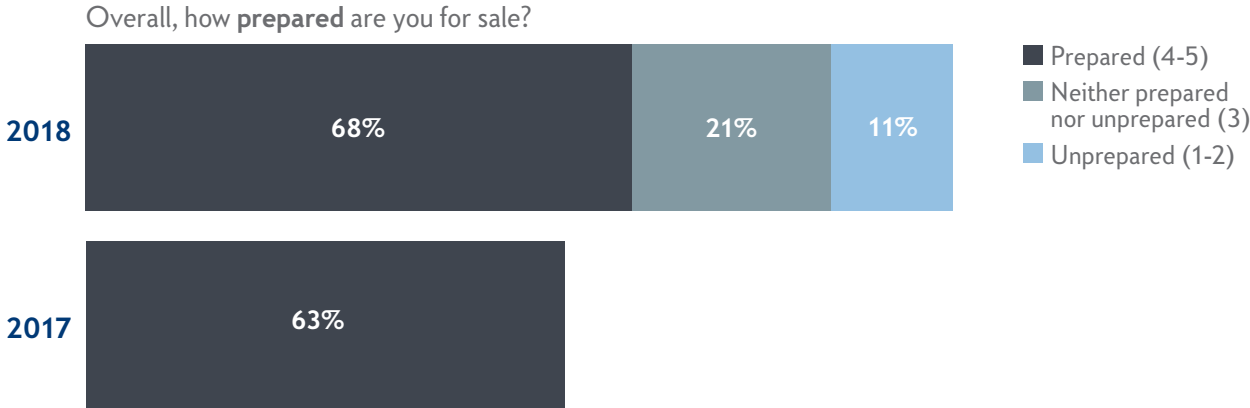
Anticipation for M&A activity was high in 2017, and it appears to be even more so heading into 2018. Almost 60% of middle market decision makers indicated that they are either presently involved in or are considering a sale or merger in the next twelve months. This is up considerably from just 33% two years ago.

Expectations of Selling or Merging in the Next Twelve Months



Preparing for Success

For sellers, confidence in deal success means being prepared for the process when the time comes. While sellers were both prepared and confident heading into 2017, those indicators are up 5% and 10%, respectively, heading into 2018. This is reflective of a generally bullish view of the economy, anticipation of higher deal activity levels and the increased number of touch points sellers are receiving from interested buyers.

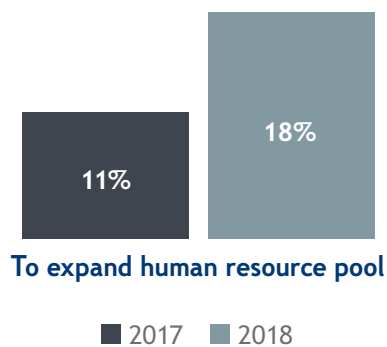


Taking Advantage of Rare Market Conditions

Regardless of size, sellers are pursuing opportunities in this market for common reasons, namely for liquidity and to take advantage of historically high valuations. Other motivating factors include growing their company's revenue, increasing capacity and expanding their employee base.

Top 3 Reasons for Selling	
To provide liquidity to owners	39%
To take advantage of overall market valuations	37%
To maximize the value of the organization	28%

Emerging Seller Objectives

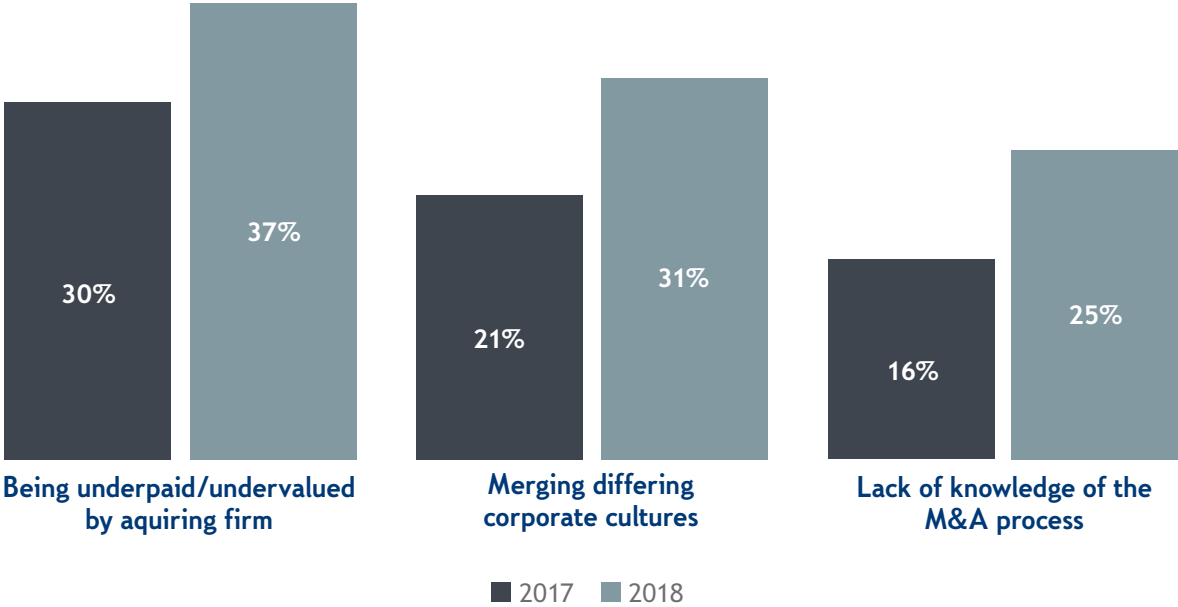


Meeting the Challenge of High Expectations

Heading into 2018, sellers are concerned about meeting their own valuation expectations as well as the post-transaction performance and integration expectations of the buyer. For companies projecting above-average growth in the years immediately following a deal, transaction structures typically incorporate some portion of deferred, performance-based consideration. This helps mitigate buyer concerns over integration risks while rewarding sellers for the value they create going forward.

Top 3 Concerns for Selling	
Losing key employees during/after sale	39%
Being underpaid/undervalued by acquiring firm	37%
Meeting stated target revenue or growth goals after acquisition	36%

Emerging Seller Concerns

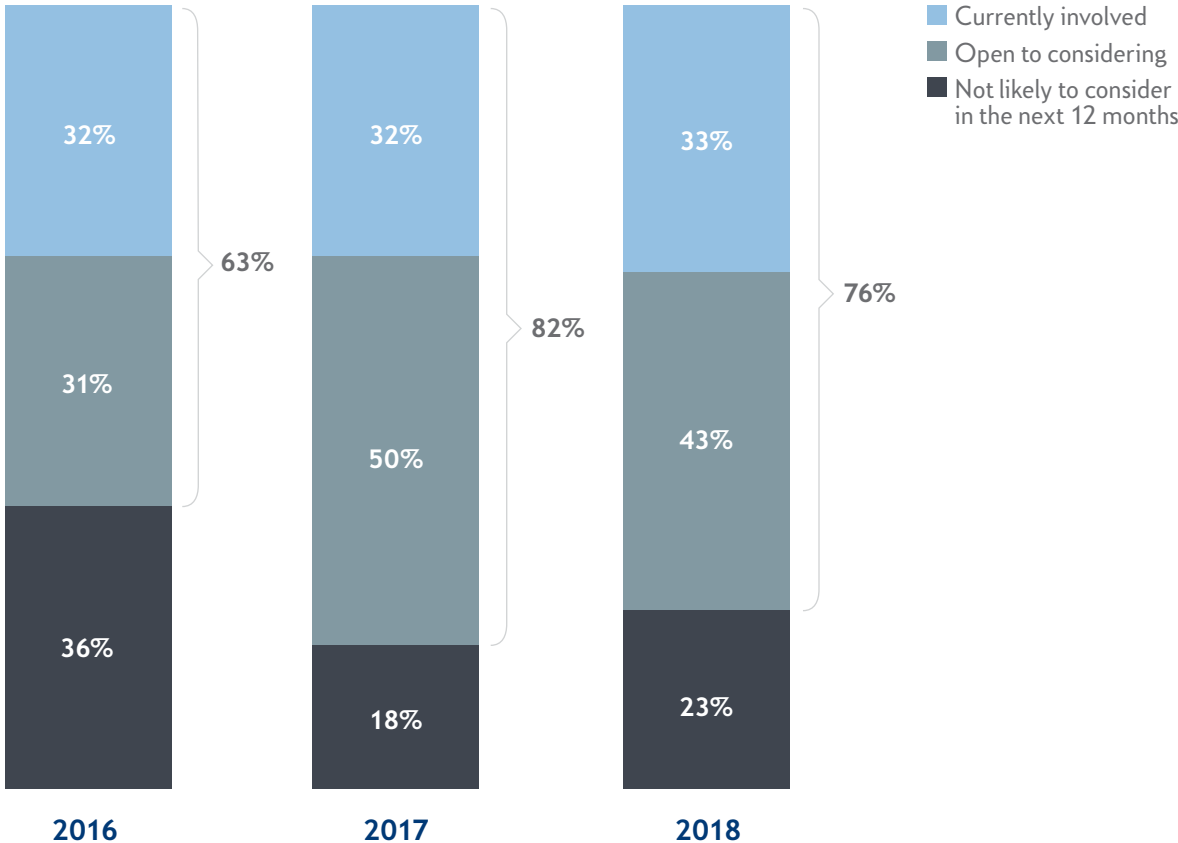


THE STATE OF BUYERS IN 2018

Acquisition Interest Remains Strong

Similar to 2017, more than three quarters of all buyers surveyed believe 2018 will be an active year regarding their acquisition initiatives. As the amount of acquisition capital continues to build and challenges to organic growth persist, acquisitions remain an integral component of many companies' growth strategies.

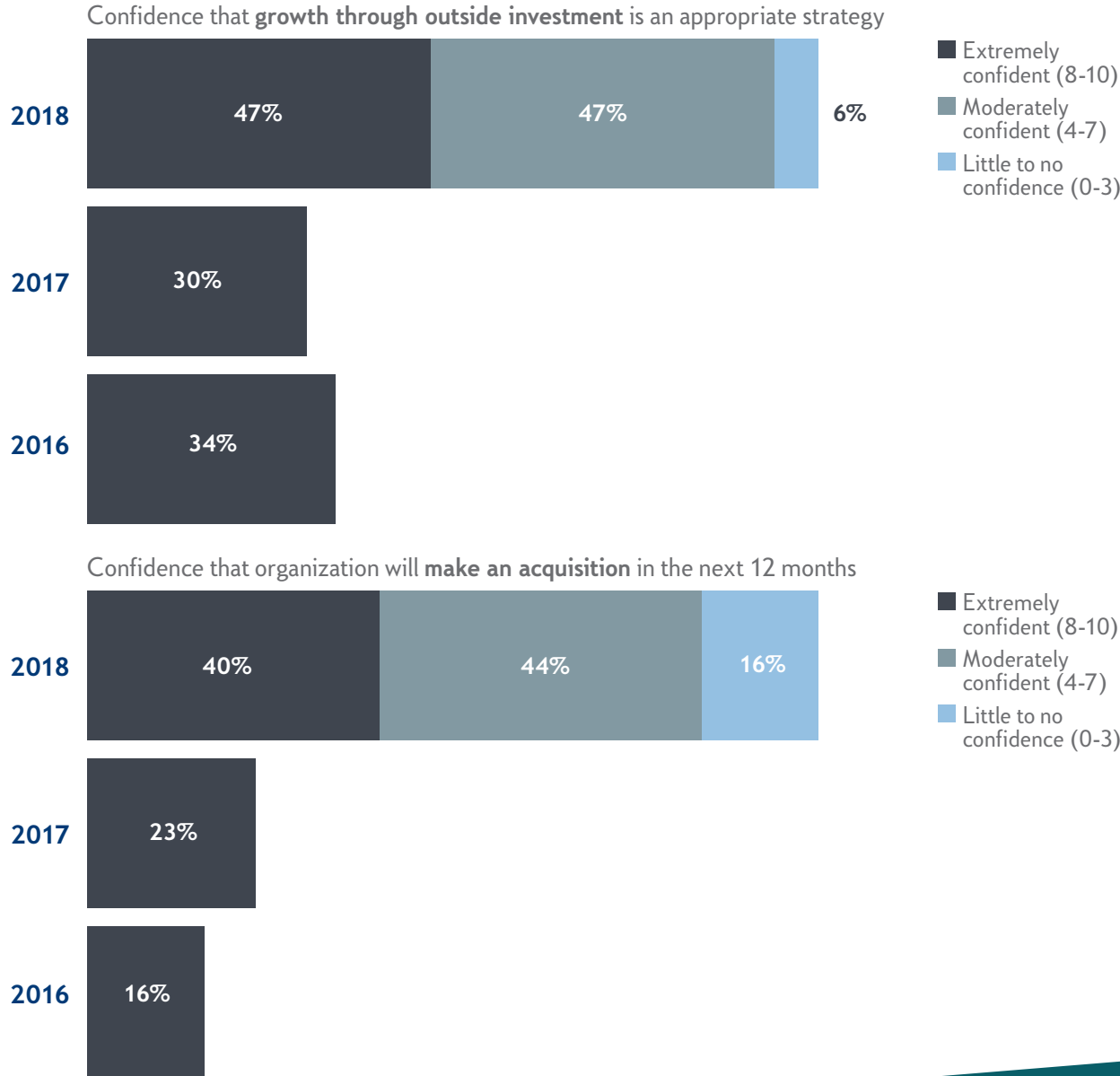
Expectations Regarding Acquisition Activities



Buyers More Confident Than Ever

Buyers are increasingly confident in the importance of, and in their ability to successfully consummate acquisitions, potentially foreshadowing an even more active environment in 2018 than years past. Almost half of the middle market buyers surveyed believe that outside investment is an appropriate growth strategy, and 40% are extremely confident they will complete at least one acquisition this year, a significant jump in both categories from 2017.

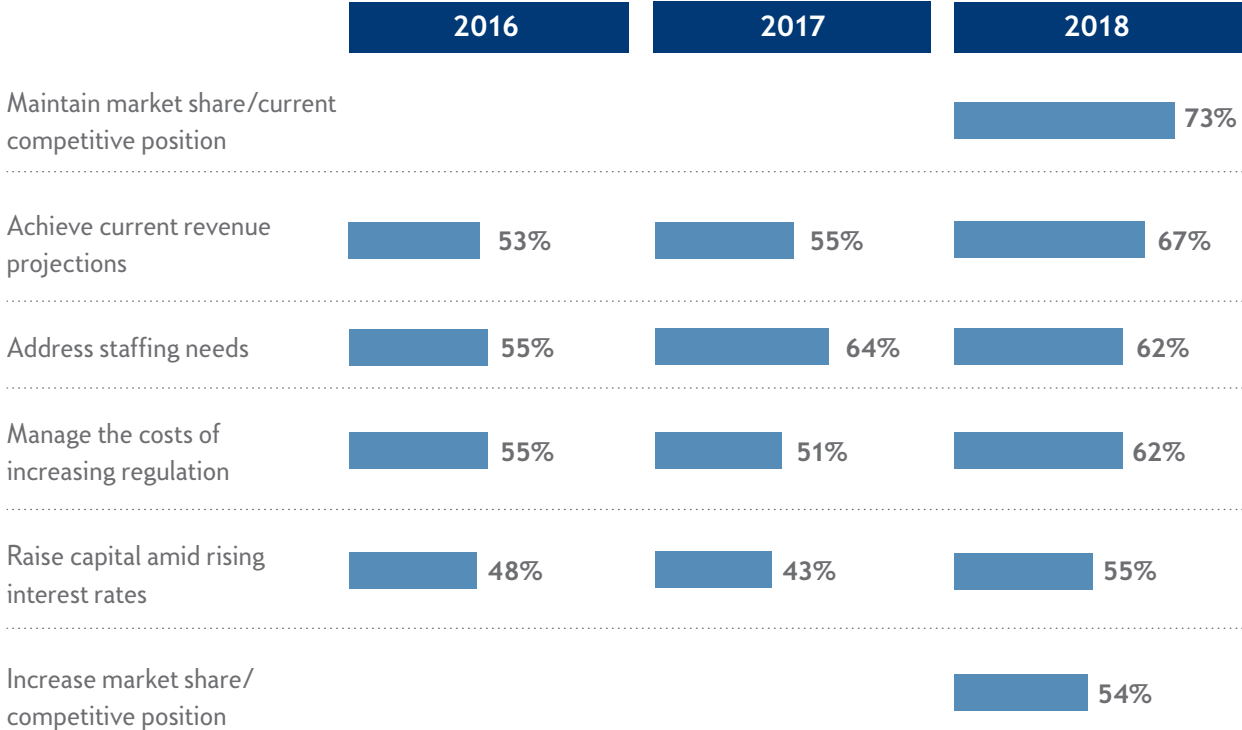
Buyer Confidence Levels



Confidence Stems from Capability

In almost every category surveyed, buyers believe they are better positioned in their base business heading into 2018 than they were in the previous two years. Reasons include their perceived ability to maintain market share (73%), achieve revenue projections (67%) and access the markets for growth capital (55%). This confidence is a driving factor in their pursuit of acquisitions.

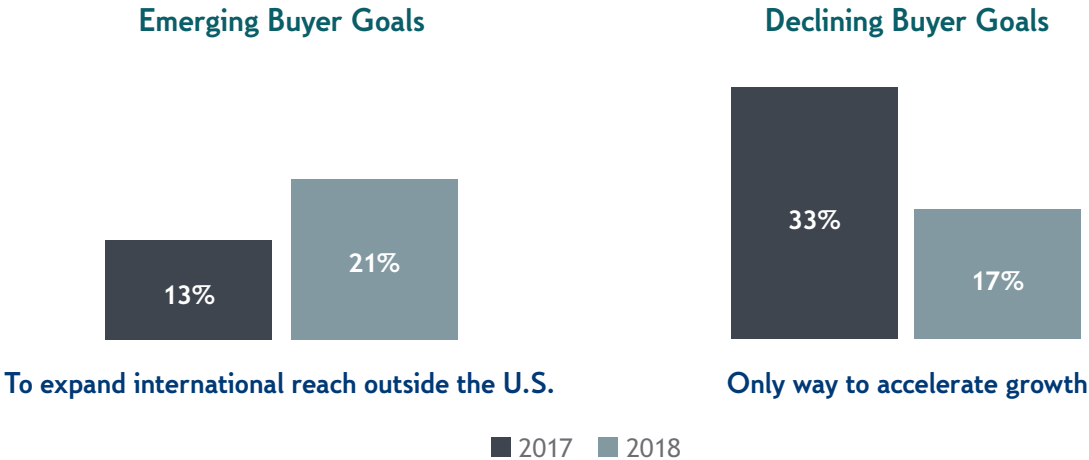
Extremely Confident in Ability to ...



A New M&A Objective is Emerging

The top reasons why buyers are considering M&A initiatives remain consistent. Increasing revenues continues to be top of mind, followed by putting excess cash to work in order to meet external growth expectations. However, a new objective is emerging. In 2018, there is expected to be a sharp increase in the percentage of buyers who pursue acquisitions as a means to expand internationally.

Top 3 Reasons for Buying	
To increase revenues	60%
To put our cash to work	45%
To better meet market expectations	41%

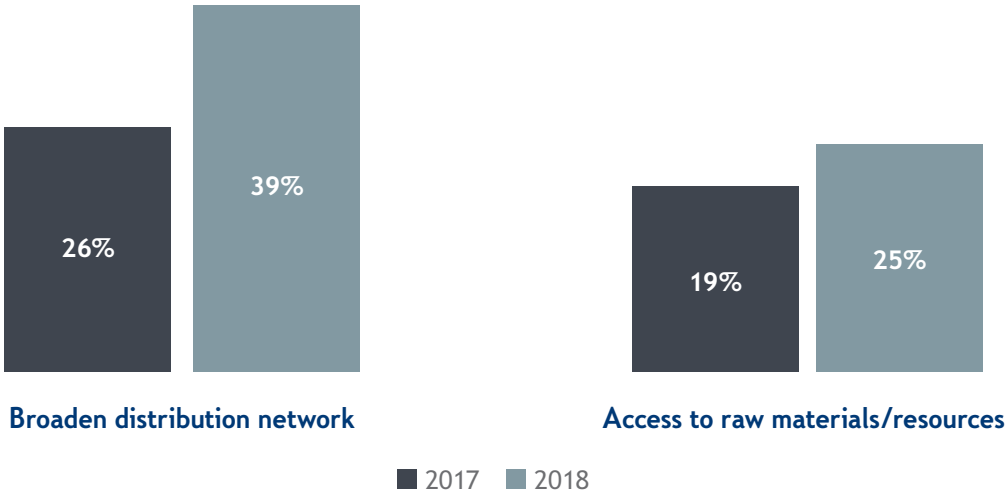


Thinking Globally

International acquisitions are an emerging priority for middle market buyers heading into 2018. Beyond accessing new revenue markets, buyers are pursuing these opportunities to broaden their distribution network, expand their supply chain and lower their operating costs.

Top 3 Reasons for International Buying	
Access to new markets	49%
Broaden distribution network	39%
Lower operating costs	35%

Emerging Buyer Objectives - International

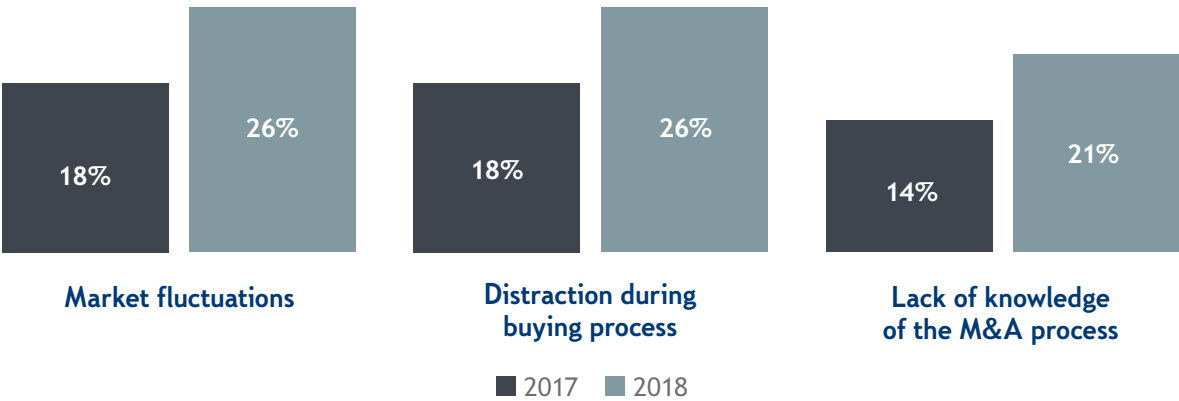


Being Mindful of the Myriad Challenges

Consistent with years past, overpaying for acquisitions and costly post-closing surprises remain the primary concerns of most buyers. Heading into 2018, the challenge of merging corporate cultures (27%) and overcoming distractions during the buying process (26%) are also top of mind. Having a regimented acquisition process and receiving assistance from third-party advisors can have a mitigating impact on these concerns.

Top 3 Concerns for Buying	
Overpaying/overvaluing the target firm	30%
Unexpected liabilities	28%
Merging differing corporate cultures	27%

Emerging Buyer Concerns

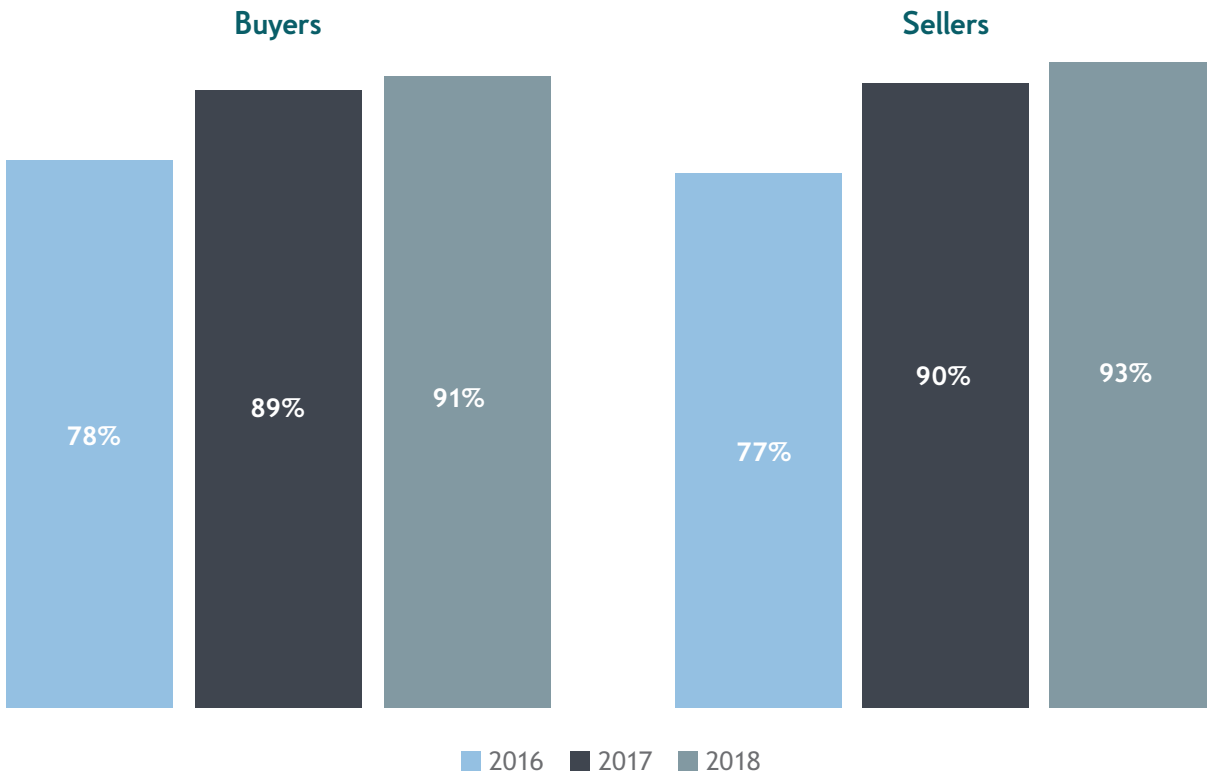


THIRD PARTIES

Third-Party Support Remains Essential

In this complex and competitive market, both buyers and sellers are increasingly reliant on the services of third-party experts. An M&A-focused team of attorneys, accountants and investment bankers can provide assistance in all aspects of the process. Among the participants surveyed, more than 90% of buyers and sellers will seek third-party advice for their M&A initiatives in 2018.

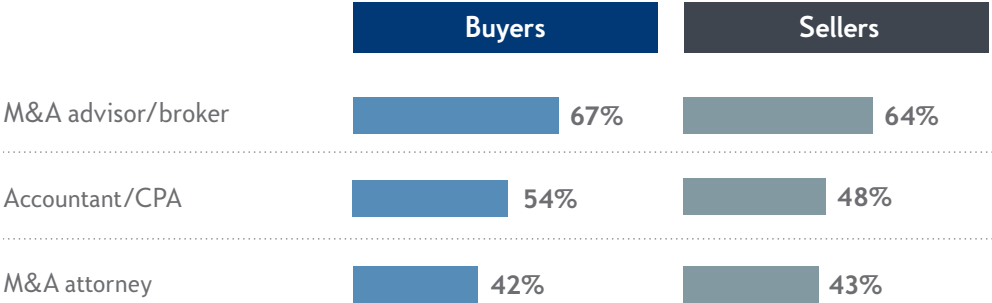
Perceived Need for Third-Party Services



Assembling the Best Team of Advisors

Of the participants surveyed, approximately two-thirds of all buyers and sellers believe there is significant value in enlisting the services of an M&A advisor in their process. Accounting services are essential for buyers to better understand the financial condition of the target pre-closing, to obtain the most relevant tax advice and to present a consolidated view of the platform post-closing. Participants also recognize the value of strong M&A expertise in their attorneys and consultants, particularly during the due diligence and negotiation phases.

Extremely Valuable Third-Party Services



Ensuring the Best Deal

Ideally, a coordinated team of M&A advisors will complement and enhance the in-house capabilities of buyers and sellers. Because an M&A process can be a lengthy, resource-intensive endeavor, this third-party support can be essential in achieving a compelling valuation in a timely manner. Consistent with years past, buyers are seeking advice to avoid overpaying for acquisitions, while sellers are seeking to maximize price through a competitive auction process.

Third-Party Services Needed

	Buyers	Sellers
Valuation	63%	57%
Opportunity assessment	56%	47%
Financing	50%	37%
Due diligence	47%	45%
Bidding strategy/bid negotiation	45%	46%
Fairness opinion(s)	38%	N/A
Building a target list	32%	38%
Integration	30%	27%
Creating an offering book/memorandum development	21%	24%

M&A CAPABILITIES

Western Reserve Partners, a division of Citizens Capital Markets, provides highly customized financial advisory solutions to leading middle market companies across a focused set of industries. Clients within our industrial, business services, consumer, healthcare, technology and real estate verticals benefit from our tailored approach related to mergers and acquisitions, capital raising, financial restructuring, financial opinions and other valuation services. Our Managing Directors average nearly 30 years of experience and have collectively executed more than 600 transactions during their careers.

As a part of Citizens Financial Group, Western Reserve is able to leverage the strength of one of the oldest and largest financial institutions in the U.S. Through Citizens, our team is able to accelerate the delivery of valuable ideas and execution capabilities beyond what a traditional M&A advisory firm can do.

For more information on our expertise and how we can put it to work for you, please visit: wesrespartners.com

METHODOLOGY

Survey Population	U.S.-based middle market businesses (\$25MM to <\$3B in revenue) that are currently engaged in or open to some form of corporate development activity, including mergers and acquisitions
Profile of Survey Respondents	Business executives directly involved in decision-making related to mergers and acquisitions and corporate development <ul style="list-style-type: none">• Core titles: Owners/Partners (79), CEOs/Presidents (233), Other Development Decision-makers (98)• Core industries: Manufacturing (57), Professional Services (35), Business Services (26), Construction (23), Financial Services and Insurance (14), Retail and Consumer Products (40), Technology/Technical Services (43), Healthcare and Life Sciences (30), Other Industries (142)
Total Completes	n=410
Weighting and Representativeness	Data were weighted by revenue group and region to be representative of the total population of middle market companies in the United States.
Data Collection	October 17, 2017 - November 10, 2017
Survey Method	Phone and Web-based survey; ~12 minutes in length

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