



Market Terms and Hot Topics in Independent Sponsor Transactions

September 25, 2017

Survey of Selected 2016 Deals

Category of Lead Capital Source	Total Invested Capital	Independent Sponsor Equity Investment	Promote Interest	Terms of Promote Interest	Closing Fee	Management Fee
Family Office	\$5.0M	None	40% promote on Invested Capital (no catch-up)	20% after 1X MOIC Additional 10% after 2X MOIC Additional 10% after 3X MOIC	None	None
Family Office	\$8.0M	\$75,000 (including rolled closing fee on after-tax basis)	15% promote on Invested Capital (with full catch-up)	10% after 1X MOIC Additional 5% after 3X MOIC	2.25% of Invested Capital	None
Family Office	\$10.5M	None	20% promote on Invested Capital (with full catch-up)	20% after 1X MOIC plus 8% IRR	2.0% of Invested Capital	5.0% of annual EBITDA

Survey of Selected 2016 Deals *(cont.)*

Category of Lead Capital Source	Total Invested Capital	Independent Sponsor Equity Investment	Promote Interest	Terms of Promote Interest	Closing Fee	Management Fee
Mezzanine Lender	\$6.0M	None	20% promote on Invested Capital (with no catch-up)	10% after 1X MOIC plus 10% IRR Additional 10% after 1X MOIC plus 20% IRR	2.0% of Invested Capital	5.0% of annual EBITDA with a cap of \$350,000 per year
Mezzanine Lender	\$17.0M	\$800K (including rolled closing fee on tax-deferred basis)	10% promote on Invested Capital (with full catch-up)	5% after 1X MOIC plus 8% IRR (vests ratably over 4 years) Additional 5% after 2X MOIC	4.7% of Invested Capital	4.5% of annual EBITDA with a cap of \$300K per year
Mezzanine Lender	\$4.5M	\$1.5M (including rolled closing fee on tax-deferred basis)	20% promote on Invested Capital (with catch-up)	10% after 1X MOIC plus 8% IRR Additional 10% after 2X MOIC	2.0% of Invested Capital	\$225k per year (with ratchets for incremental EBITDA growth)

Survey of Selected 2016 Deals *(cont.)*

Category of Lead Capital Source	Total Invested Capital	Independent Sponsor Equity Investment	Promote Interest	Terms of Promote Interest	Closing Fee	Management Fee
Mezzanine Lender	\$15.0M	\$500,000 (including rolled closing fee on tax-deferred basis)	20% promote on Invested Capital (with full catch-up)	10% after 1X MOIC plus 10% IRR Additional 5% after 2.0X MOIC Additional 2.5% after 2.5X MOIC Additional 2.5% after 3.0X MOIC	1.75% of Invested Capital	5.0% of annual EBITDA
Mezzanine Lender	\$10.0M	None	20% promote on Invested Capital (with full catch-up)	20% after 1X MOIC plus 8% IRR	2.0% of Invested Capital	5.0% of annual EBITDA
Private Equity Fund	\$14.0M	\$500K (including 100% of rolled closing fee on after-tax basis)	15% promote on Invested Capital (with full catch-up)	10% after 1X MOIC plus 8% IRR Additional 5% after 1X MOIC plus 25% IRR	2% of Invested Capital Split 50/50 between Equity Sponsor and Independent Sponsor	6.0% of annual EBITDA split 50/50 between Independent Sponsor and Equity Sponsor

Survey of Selected 2016 Deals *(cont.)*

Category of Lead Capital Source	Total Invested Capital	Independent Sponsor Equity Investment	Promote Interest	Terms of Promote Interest	Closing Fee	Management Fee
Private Equity Fund	\$16.0M	\$600K (including 100% of rolled closing fee on after-tax basis)	20% promote on Invested Capital (with full catch-up)	10% after 1X MOIC plus 8% IRR Additional 5% after 2.0X MOIC Additional 2.5% after 2.5X MOIC Additional 2.5% after 3.0X MOIC	1.5% of Invested Capital	5.0% of annual EBITDA
Private Equity Fund	\$135.0M	\$2.0M	15% promote on Invested Capital (with full catch-up)	5% after 1X MOIC plus 8% IRR (vests ratably over 4 years) Additional 5% after 2.0X MOIC. Additional 5% after 3.5X MOIC.	None	None

Trends and Takeaways

- Maturing Space - Capital Sources continue to be attracted to experienced Independent Sponsors with solid track records
 - Majority of independent sponsors are former PE professionals that have been operating as independent sponsors for 5+ years
 - However, many independent sponsors that are active today have yet to realize exits.
- Price and Timing = Everything
 - Successful independent sponsors are finding deals in the range of 4-6x EBITDA
 - Signed Letters of Intent/Exclusivity tend to drive up Independent Sponsor economics
 - Mini-auctions are more prevalent
- Capital Sources Continue to Take Different Approaches.
 - Family Offices and Mezzanine Lenders remain preferred sources of capital for Independent Sponsors
 - Mezzanine Lenders remain committed to the model, while Family Offices remain selective
 - Committed PE Funds continue to offer tougher terms

Hot Topics and Questions for the Future

- Deal Sourcing
 - Bankers
 - Operating Executives
 - Industry Research/Cold Calling
 - Advisors and Vendors
- Long-Term Planning
 - Continue a Deal-by-Deal Existence or Raise a Committed Fund?
- Quick Update on Broker-Dealer Issues

Questions?

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