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# 2016 Private Capital Markets Report

Craig R. Everett  
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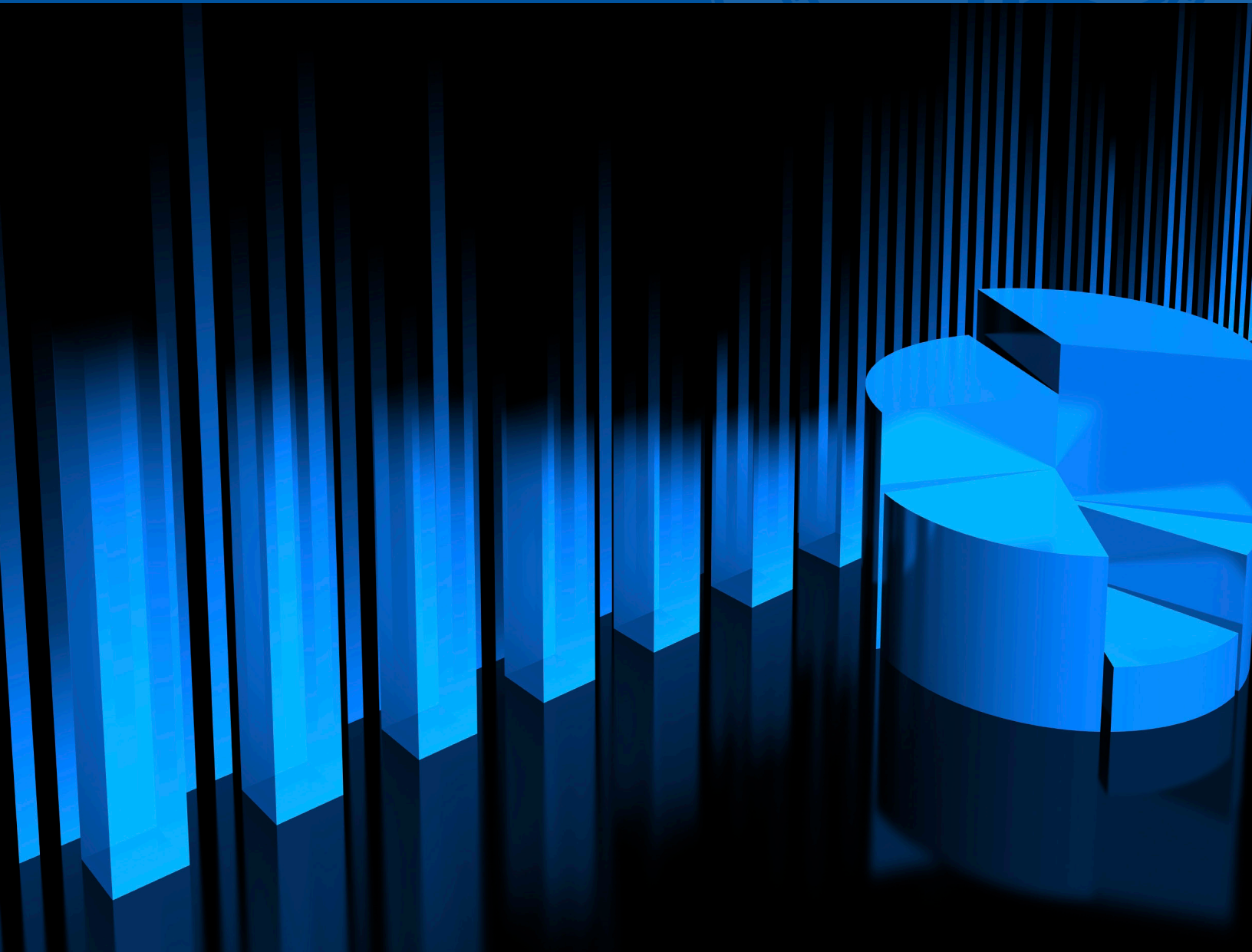
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# 2016 Private Capital Markets Report

**BY DR. CRAIG R. EVERETT**

Assistant Professor of Finance

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# **2016 PRIVATE CAPITAL MARKETS REPORT**

Craig R. Everett, PhD





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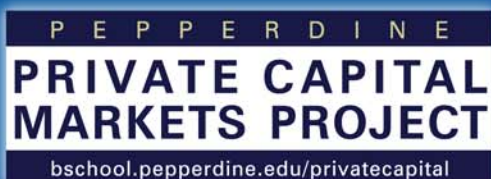
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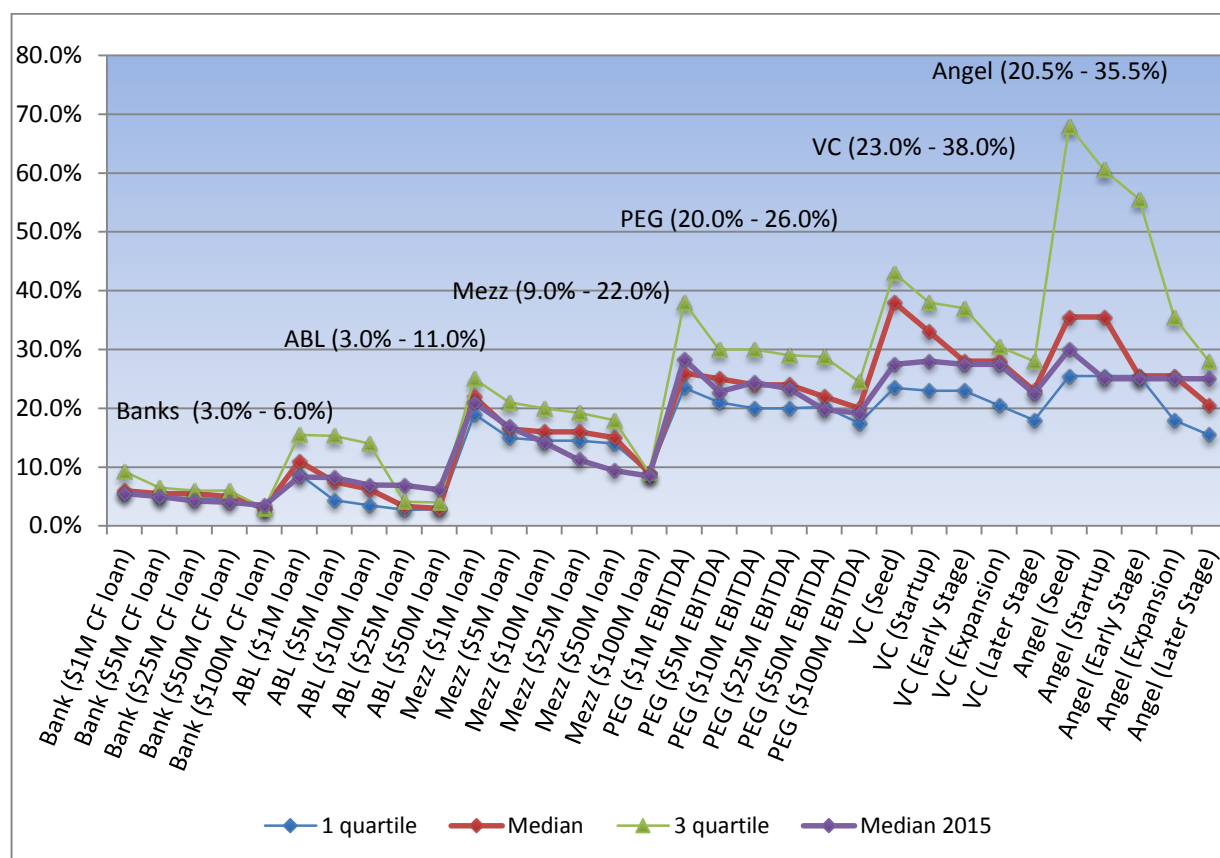
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## PEPPERDINE PRIVATE CAPITAL MARKETS SURVEY

The Pepperdine private cost of capital (PCOC) survey was originally launched in 2007 and is the first comprehensive and simultaneous investigation of the major private capital market segments. This year's survey deployed in January 2016, specifically examined the behavior of senior lenders, asset-based lenders, mezzanine funds, private equity groups, venture capital firms, angel investors, privately-held businesses, investment bankers, business brokers, limited partners, and business appraisers. The Pepperdine PCOC survey investigated, for each private capital market segment, the important benchmarks that must be met in order to qualify for capital, how much capital is typically accessible, what the required returns are for extending capital in today's economic environment, and outlooks on demand for various capital types, interest rates, and the economy in general.

Our findings indicate that the cost of capital for privately-held businesses varies significantly by capital type, size, and risk assumed. This relationship is depicted in the Pepperdine Private Capital Market Line, which appears below.

**Figure 1. Private Capital Market Required Rates of Return**



The cost of capital data presented below identifies medians, 25th percentiles (1st quartile), and 75th percentiles (3rd quartile) of annualized gross financing costs for each major capital type and its segments. The data reveal that loans have the lowest average rates while capital obtained from angels has the highest average rates. As the size of loan or investment increases, the cost of borrowing or financing from any of the following sources decreases.

**Table 1. Private Capital Market Required Rates of Return**

	1st quartile	Median	3rd quartile
Bank (\$1M CF loan)	5.5%	6.0%	9.3%
Bank (\$5M CF loan)	4.8%	5.5%	6.5%
Bank (\$10M CF loan)	4.8%	5.5%	6.0%
Bank (\$25M CF loan)	4.5%	5.0%	6.0%
Bank (\$50M CF loan)	3.0%	3.0%	3.0%
ABL (\$1M loan)	8.8%	11.0%	15.5%
ABL (\$5M loan)	4.4%	7.5%	15.3%
ABL (\$10M loan)	3.5%	6.3%	14.0%
ABL (\$25M loan)	2.8%	3.3%	4.1%
ABL (\$50M loan)	2.8%	3.0%	4.0%
Mezz (\$1M loan)	19.0%	22.0%	25.0%
Mezz (\$5M loan)	15.0%	16.5%	21.0%
Mezz (\$10M loan)	14.5%	16.0%	20.0%
Mezz (\$25M loan)	14.5%	16.0%	19.3%
Mezz (\$50M loan)	14.0%	15.0%	18.0%
Mezz (\$100M loan)	9.0%	9.0%	9.0%
PEG (\$1M EBITDA)	23.5%	26.0%	38.0%
PEG (\$5M EBITDA)	21.0%	25.0%	30.0%
PEG (\$10M EBITDA)	20.0%	24.0%	30.0%
PEG (\$25M EBITDA)	20.0%	24.0%	29.0%
PEG (\$50M EBITDA)	20.3%	22.0%	28.8%
PEG (\$100M EBITDA)	17.5%	20.0%	24.5%
VC (Seed)	23.5%	38.0%	43.0%
VC (Startup)	23.0%	33.0%	38.0%
VC (Early Stage)	23.0%	28.0%	37.0%
VC (Expansion)	20.5%	28.0%	30.5%
VC (Later Stage)	18.0%	23.0%	28.0%
Angel (Seed)	25.5%	35.5%	68.0%
Angel (Startup)	25.5%	35.5%	60.5%
Angel (Early Stage)	25.5%	25.5%	55.5%
Angel (Expansion)	18.0%	25.5%	35.5%
Angel (Later Stage)	15.5%	20.5%	28.0%



## INVESTMENT BANKER SURVEY INFORMATION

The majority of the 120 respondents to the investment banker survey indicated increasing margin pressure on companies over the last twelve months. They also reported increases in deal flow, presence of strategic buyers, leverage and deal multiples, and slightly worsened business conditions. Domestic economic uncertainty was identified as the most important current and emerging issue facing privately-held businesses, following by access to capital, and government regulations and taxes.

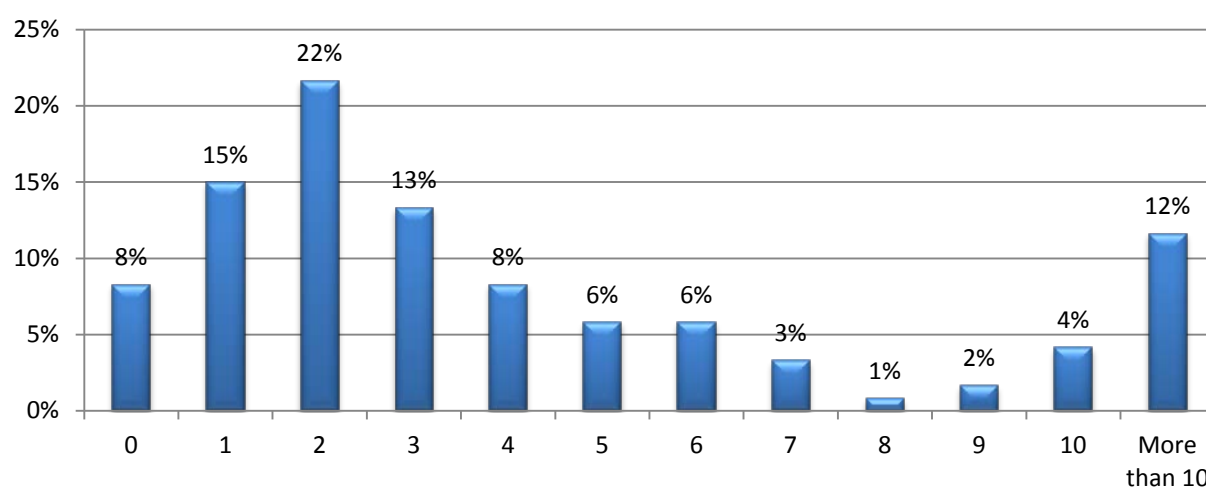
Other key findings include:

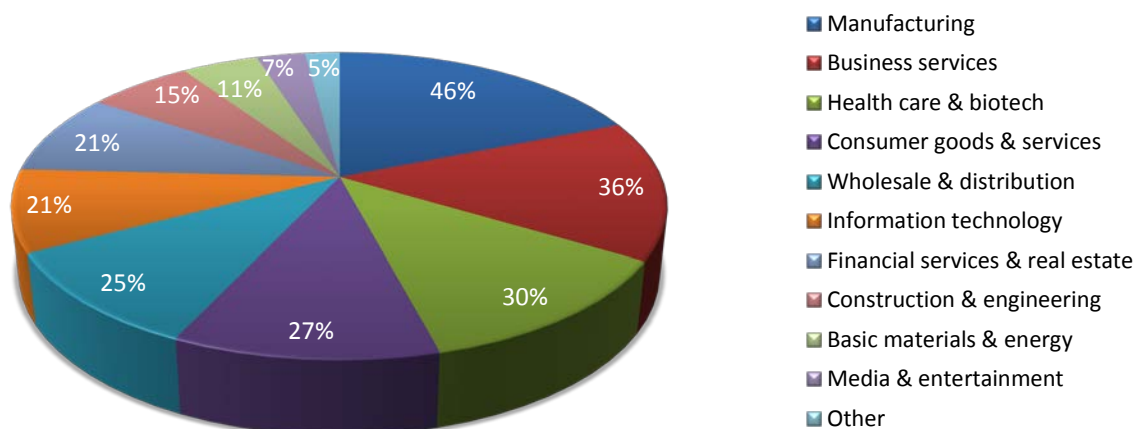
- Approximately 35% of respondents expect to close six or more deals in the next 12 months.
- The top three reasons for deals not closing were valuation gap (40%), unreasonable seller or buyer demand (21%), and lack of capital to finance (9%).
- Respondents indicated a general imbalance between companies worthy of financing and capital available for the same. There is a reported shortage of capital for those companies with less than \$5 million in EBITDA, but a general surplus for companies with \$5 million in EBITDA or more.
- The most popular valuation methods used by respondents when valuing privately-held businesses were discounted future earnings, guideline company transactions, and capitalization of earnings approaches.
- When using multiples to determine the value of a business, the most popular methods used by respondents when valuing privately-held businesses were recast (adjusted) EBITDA multiple (59%), revenue multiple (13%), cash flow multiple (10%) and EBITDA (unadjusted) multiple (10%) approaches.

## Operational and Assessment Characteristics

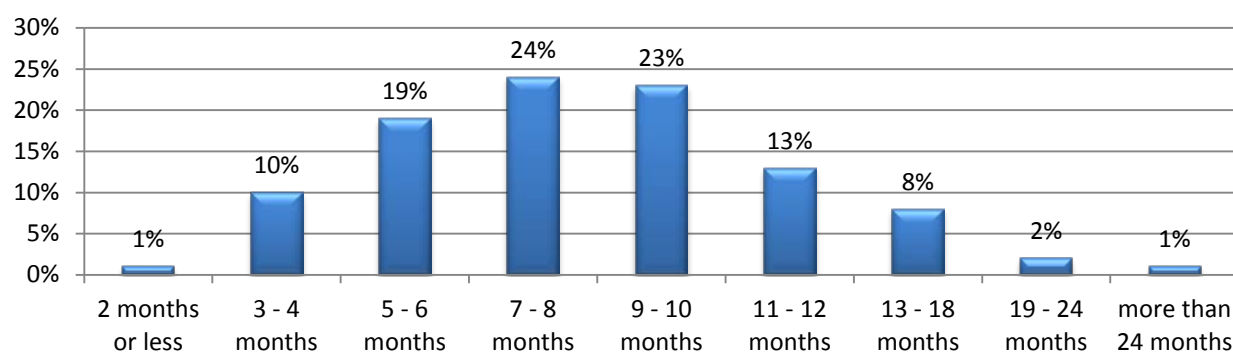
Approximately 8% of the respondents didn't close any deals in the last twelve months; 64% closed between one and five deals, while 28% closed six deals or more.

**Figure 2. Private Business Sales Transactions Closed in the Last 12 Months**

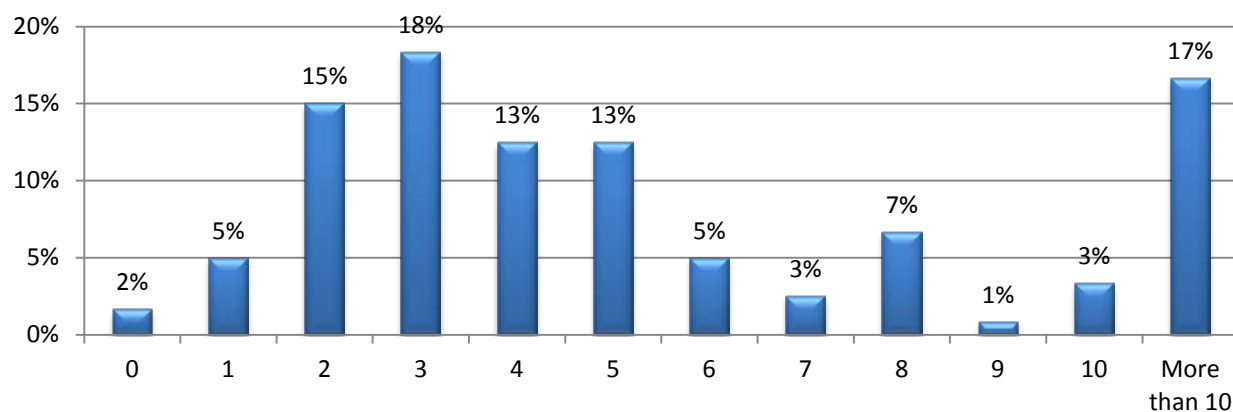


**Figure 3. Business Types That Were Involved in the Transactions Closed in the Last 12 Months**

The majority of deals (60%) took 6 to 12 months to close. 11% of closed deals take more than one year to close.

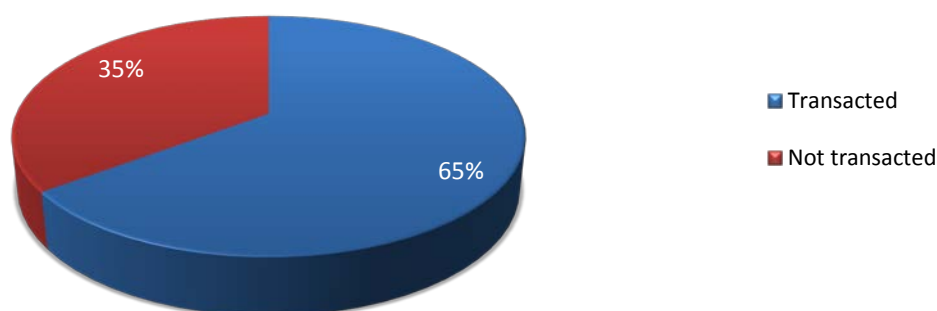
**Figure 4. Average Number of Months to Close One Deal**

Nearly 63% of respondents expect to close between one and five deals, while 35% expect to close 6 deals or more.

**Figure 5. Private Business Transactions Expected to Close in the Next 12 Months**

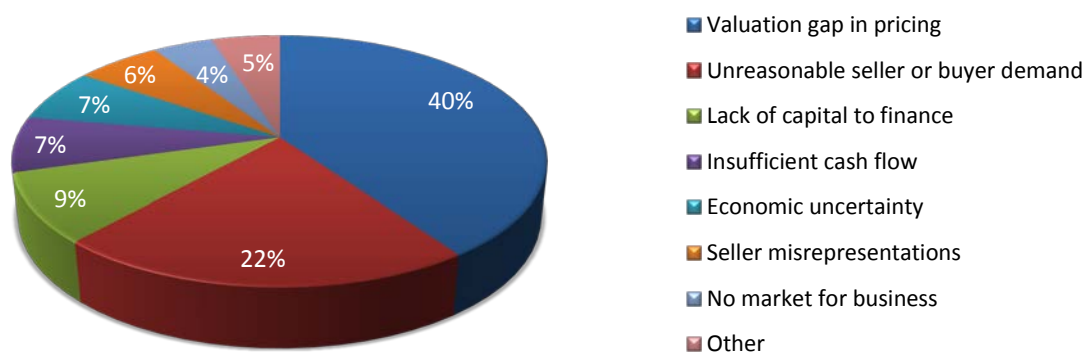
Approximately 35% of deals terminated without transacting over the past year.

**Figure 6. Percentage of Business Sales Engagements Terminated Without Transacting**



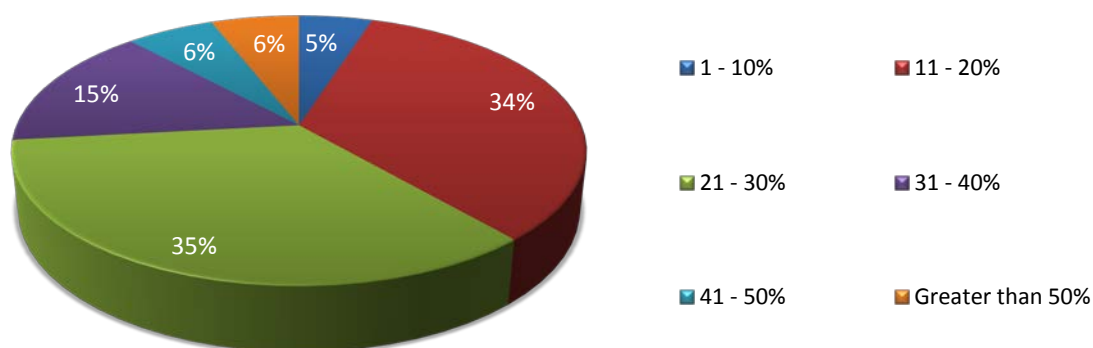
Top three reasons for deals not closing: valuation gap in pricing (40%), unreasonable seller or buyer demand (22%) and lack of capital to finance (9%).

**Figure 7. Reasons for Business Sales Engagements Not Transacting**



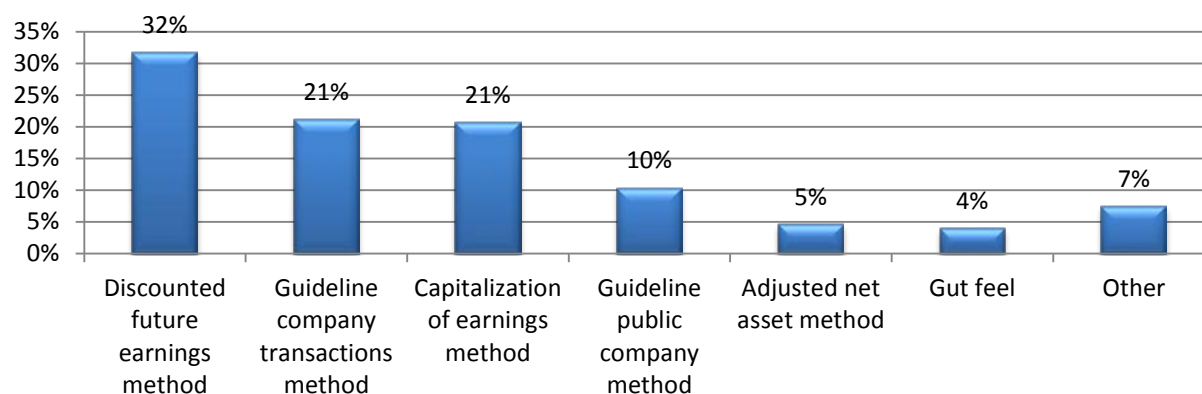
Of those transactions that didn't close due to a valuation gap in pricing, approximately 35% had a valuation gap in pricing between 21% and 30%.

**Figure 8. Valuation Gap in Pricing for Transactions That Didn't Close**



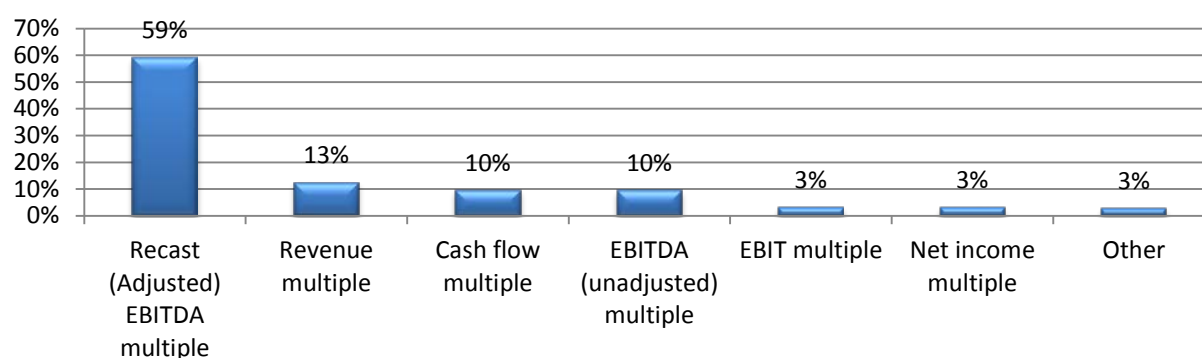
The weights of the various valuation methods used by respondents when valuing privately-held businesses included 32% for discounted future earnings method.

**Figure 9. Usage of Valuation Methods**



The weights of the various multiple methods used by respondents when valuing privately-held businesses included 59% for recast (adjusted) EBITDA multiple.

**Figure 10. Usage of Multiple Methods**



Average deal multiples on transactions from the prior twelve months as observed by respondents varied from 4.6 to 8.0.

**Table 2. Median Deal Multiples by EBITDA Size of Company**

EBITDA	Manufacturing	Construction & engineering	Cons. goods & services	Wholesale & distribution	Business services	Basic materials & energy	Health care & biotech	IT	Financial services	Media & entertain.	Avg.
\$0K - \$999K	4.5	3.0	4.0	5.0	5.0	3.0	3.0	8.0	4.5	5.5	<b>4.6</b>
\$1M - \$4.99M	5.5	4.5	5.5	5.0	5.0	3.0	6.0	8.0	5.0	5.8	<b>5.3</b>
\$5M - \$9.99M	5.8	5.0	7.0	6.0	5.5	4.0	7.0	8.0	5.5	6.8	<b>6.1</b>
\$10M - \$24.99M	6.0	5.3	7.0	7.0	6.5	4.0	7.5	8.8	5.5	7.0	<b>6.5</b>
\$25M - \$49.99M	6.5	5.5	7.5	8.0	7.3	5.3	7.8	9.3	6.0	7.3	<b>7.1</b>
\$50M+	10.0	6.0		10.0	7.3	6.0	8.0	9.5	6.5	8.5	<b>8.0</b>

Average total leverage multiples observed by respondents varied from 2.8 to 5.4.

**Table 3. Median Total Leverage Multiples by Size of Company**

EBITDA	Manufacturing	Construction & engineering	Cons. goods & services	Wholesale & distribution	Business services	Basic materials & energy	Health care & biotech	IT	Financial services	Media & entertain.	Avg.
\$0K - \$999K	3.0	2.0	3.0	2.5	3.0	3.5	2.0		2.0	4.3	<b>2.8</b>
\$1M - \$4.99M	3.0	2.8	3.5	3.5	3.5	3.5	3.0	2.5	2.8	4.5	<b>3.3</b>
\$5M - \$9.99M	3.8	3.0	3.5	4.0	4.0	4.0	3.8	3.3	3.8	5.0	<b>3.8</b>
\$10M - \$24.99M	4.3	3.5	4.5	4.8	4.5	4.5	4.0	4.0	4.8	5.5	<b>4.4</b>
\$25M - \$49.99M	4.5		5.3	4.8	4.5	6.0		4.0		7.0	<b>5.2</b>
\$50M+	5.0	3.5		6.0	5.0	6.0	4.5		6.0	7.0	<b>5.4</b>

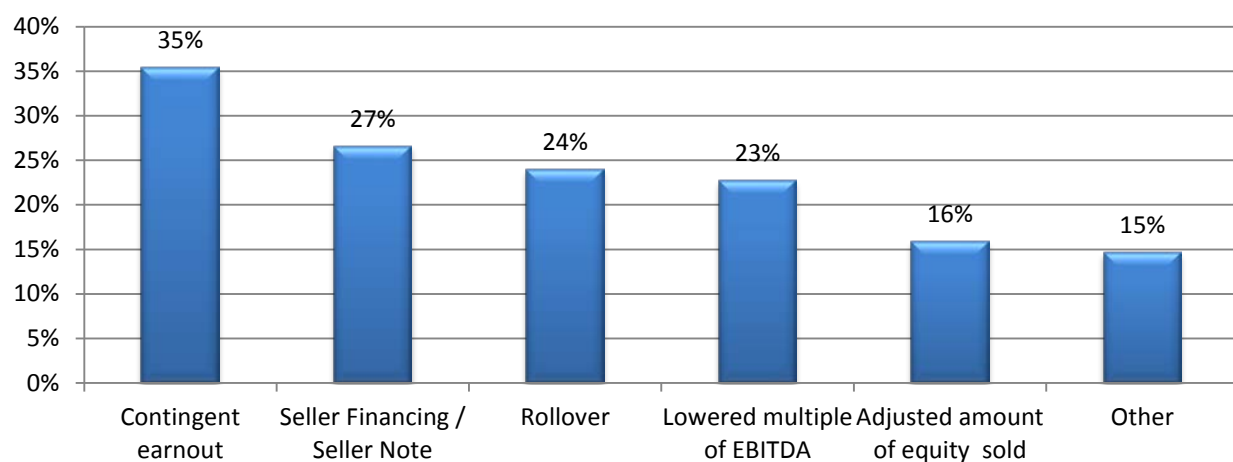
Average senior leverage multiples observed by respondents varied from 2.1 to 5.2.

**Table 4. Median Senior Leverage Multiples by Size of Company**

EBITDA	Manufacturing	Construction & engineering	Cons. goods & services	Wholesale & distribution	Business services	Basic materials & energy	Health care & biotech	IT	Financial services	Media & entertain.	Median, all industries
\$0K - \$999K	2.3	1.0	2.0	2.0	2.0	2.0	2.0		3.0	3.0	<b>2.1</b>
\$1M - \$4.99M	3.0	2.0	3.0	2.5	2.5	2.5	2.8	2.5	3.0	3.3	<b>2.7</b>
\$5M - \$9.99M	3.0	2.0	3.5	3.0	3.0	3.3	3.5	4.0	3.3	3.5	<b>3.2</b>
\$10M - \$24.99M	3.5	2.8	3.5	4.0	3.0	4.0	4.0	4.0	4.3	4.0	<b>3.7</b>
\$25M - \$49.99M	4.5	3.0	4.5	4.0	3.0	4.5		4.0	5.0	5.0	<b>4.2</b>
\$50M+	6.0	3.0		7.3	4.5	5.0	4.5		5.0	6.3	<b>5.2</b>

Approximately 35% of business sales transactions closed in the last 12 months involved contingent earnout.

**Figure 11. Components of Closed Deals**

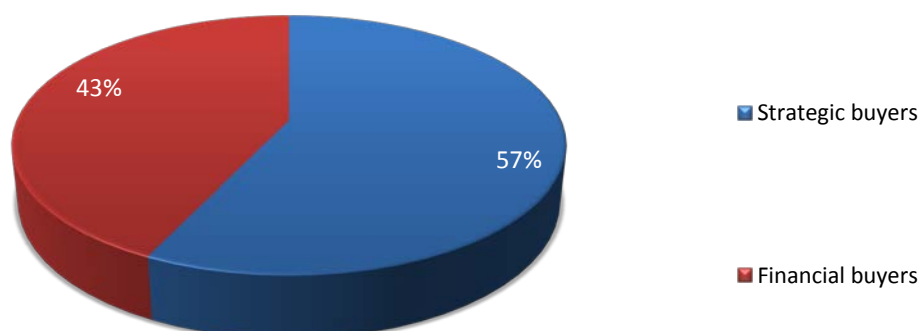




INVESTMENT BANKER cont.

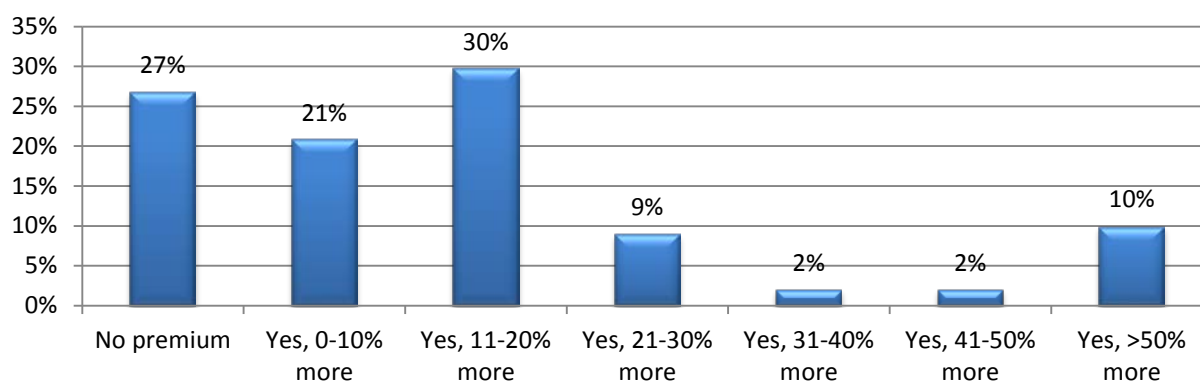
Approximately 57% of closed business sales transactions over the past 12 months involved strategic buyers.

**Figure 12. Percent of Transactions Involved Strategic and Financial Buyers**



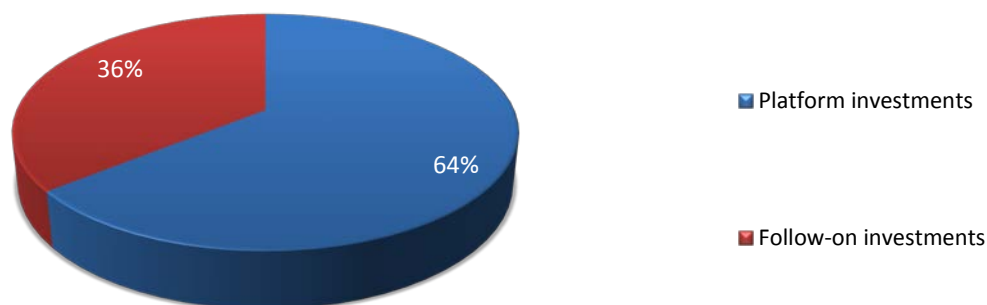
Approximately 27% of respondents didn't witness any premium paid by strategic buyers, while 50% saw premiums between 1% and 20%.

**Figure 13. Premium Paid by Strategic Buyers Relative to Financial Buyers**



Approximately 64% of closed business sales transactions that involved financial buyers over the past 12 months were platform investments.

**Figure 14. Percent of Transactions Involved Strategic and Financial Buyers**



## INVESTMENT BANKER cont.

Respondents indicated a general imbalance between companies worthy of financing and capital available for the same. There is a reported shortage of capital for those companies with less than \$5 million in EBITDA but a general surplus for companies with \$5 million in EBITDA or more.

**Table 5. Balance of Available Capital with Quality Companies**

EBITDA	Companies worthy of financing GREATLY exceed capital available	Companies worthy of financing exceed capital available	General balance	Capital available exceeds companies worthy of financing	Capital available GREATLY exceeds companies worthy of financing	Score (-2 to 2)
\$0K - \$999K	37%	29%	16%	14%	4%	<b>-0.8</b>
\$1M - \$4.99M	11%	29%	31%	20%	10%	<b>-0.1</b>
\$5M - \$9.99M	2%	13%	36%	34%	14%	<b>0.4</b>
\$10M - \$24.99M	0%	7%	28%	28%	38%	<b>1.0</b>
\$25M - \$49.99M	0%	5%	20%	30%	45%	<b>1.2</b>
\$50M - \$99.99M	0%	10%	10%	32%	48%	<b>1.2</b>
\$100M+	2%	7%	11%	23%	58%	<b>1.3</b>

Respondents indicated a general difficulty with arranging senior debt for businesses with less than \$5 million in EBITDA.

**Table 6. How Difficult to Arrange Senior Debt for Transactions over the Past 12 Months**

EBITDA	Extremely difficult	Difficult	Somewhat difficult	Neutral	Somewhat easy	Easy	Extremely easy	Score (-3 to 3)
\$0K - \$999K	28%	30%	11%	17%	6%	6%	2%	<b>-1.3</b>
\$1M - \$4.99M	7%	17%	21%	20%	23%	11%	1%	<b>-0.3</b>
\$5M - \$9.99M	3%	7%	16%	23%	25%	21%	5%	<b>0.4</b>
\$10M - \$24.99M	2%	5%	14%	26%	16%	30%	7%	<b>0.7</b>
\$25M - \$49.99M	6%	3%	6%	25%	22%	28%	9%	<b>0.8</b>
\$50M - \$99.99M	8%	8%	4%	15%	15%	31%	19%	<b>0.9</b>
\$100M+	8%	8%	8%	16%	8%	24%	28%	<b>0.9</b>

Respondents indicated increasing margin pressure on companies over the last twelve months. They also reported increases in deal flow, increased presence of strategic buyers, leverage and deal multiples, and slightly worsened business conditions.

**Table 7. General Business and Industry Assessment: Today versus 12 Months Ago**

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Deal flow	10%	13%	28%	40%	8%	48%	23%	<b>25%</b>
Leverage multiples	1%	20%	50%	26%	3%	29%	21%	<b>8%</b>
Deal multiples	3%	16%	48%	31%	3%	33%	19%	<b>14%</b>
Amount of time to sell business	0%	8%	56%	29%	7%	35%	8%	<b>27%</b>
Difficulty financing/selling business	1%	16%	48%	31%	5%	36%	17%	<b>19%</b>
General business conditions	6%	28%	40%	23%	3%	26%	34%	<b>-8%</b>
Strategic buyers making deals	4%	12%	47%	35%	2%	37%	16%	<b>21%</b>
Margin pressure on companies	1%	6%	44%	38%	12%	50%	7%	<b>43%</b>
Buyer interest in minority transactions	10%	17%	52%	20%	2%	22%	26%	<b>-4%</b>

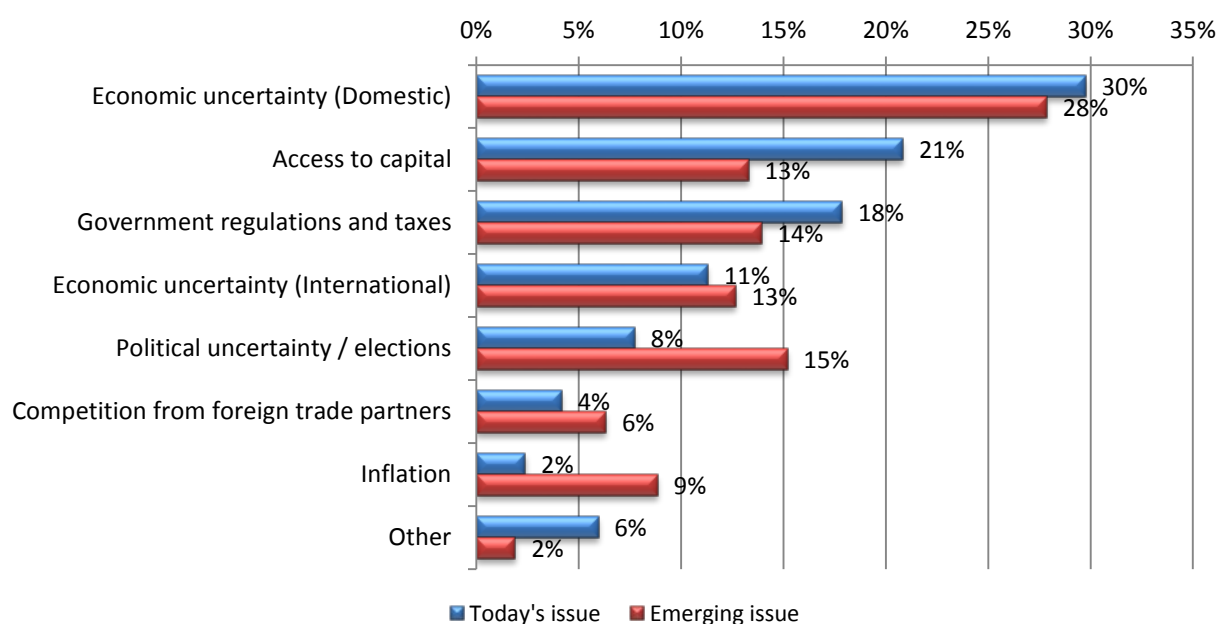
During the next twelve months, respondents expect further increases in deal flow, margin pressure on companies, strategic buyers making deals, decreasing leverage and deal multiples and worsening general business conditions.

**Table 8. General Business and Industry Assessment Expectations over the Next 12 Months**

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	Net increase/decrease
Deal flow	5%	19%	34%	36%	5%	42%	25%	17%
Leverage multiples	3%	29%	55%	10%	2%	12%	33%	-21%
Deal multiples	3%	29%	55%	11%	1%	12%	33%	-21%
Amount of time to sell business	1%	8%	65%	19%	8%	27%	9%	18%
Difficulty financing/selling business	0%	12%	49%	33%	6%	39%	12%	27%
General business conditions	7%	47%	29%	16%	1%	17%	54%	-37%
Strategic buyers making deals	3%	11%	54%	27%	4%	31%	15%	17%
Margin pressure on companies	1%	6%	39%	43%	11%	54%	7%	47%
Buyer interest in minority transactions	10%	15%	63%	11%	2%	13%	25%	-13%

Respondents believe domestic economic uncertainty is the most important current and emerging issue facing privately-held businesses.

**Figure 15. Issues Facing Privately-Held Businesses**



## PRIVATE EQUITY SURVEY INFORMATION

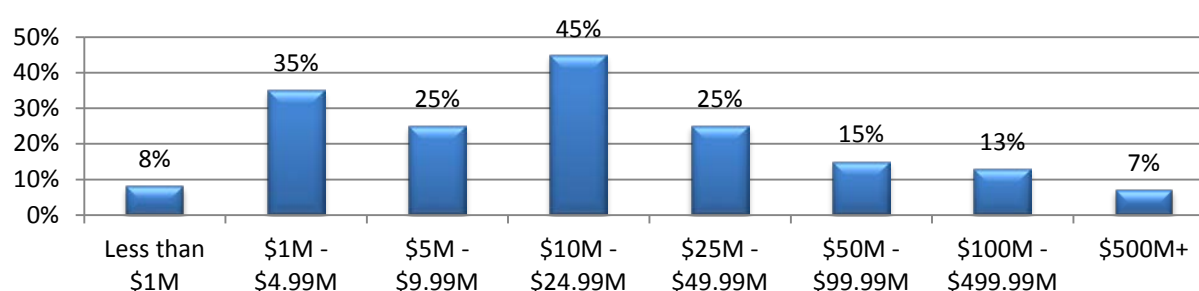
Approximately 45% of the 75 participants who responded to the private equity group survey indicated that they make investments in the \$10 million to \$25 million range. Nearly 42% of respondents said that demand for private equity is up from twelve months ago, this is down from 63% of respondents indicating increased demand in fall 2014. Other key findings include:

- Respondents indicated flat quality of companies seeking investment. They also reported decrease in expected returns on new investments, slightly worsened general business conditions and increase in expected investment holding period.
- Respondents expect further increases in demand for private equity, decreasing deal multiples, flat value of portfolio companies and worsening business conditions.
- The types of businesses respondents plan to invest in over next 12 months are very diverse with over 18% targeting business services and another 17% planning to invest in manufacturing.
- Respondents believe domestic economic uncertainty is the most important current and emerging issue facing privately-held businesses.
- The most popular valuation methods used by respondents when valuing privately-held businesses were discounted future earnings, guideline company transactions, and capitalization of earnings approaches.
- When using multiples to determine the value of a business, the most popular methods used by respondents when valuing privately-held businesses were recast EBITDA multiple (38%) and EBITDA multiple (24%).

### Operational and Assessment Characteristics

The largest concentration of checks written was in the \$10 million - \$25 million range (45%), followed by \$1 - \$5 million (35%), and \$5 million - \$10 million (35%).

**Figure 16. Typical Investment Size**



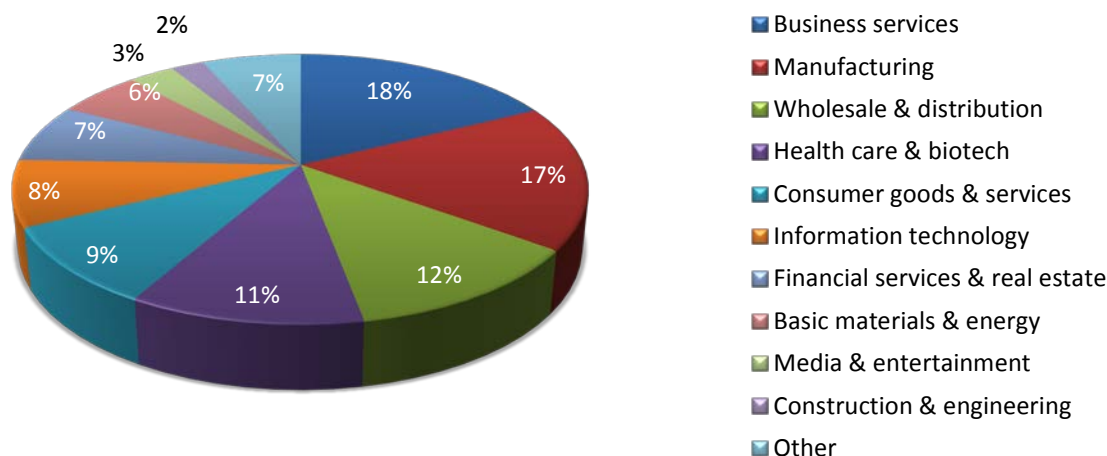
Respondents reported on business practices, and the results are reflected below.

**Table 9. PEG Fund Data**

	1st Quartile	Median	3rd Quartile
Vintage year (year in which first investment made)	2012	2013	2014
Size of fund (\$ millions)	37.5	175	350
Targeted number of total investments	8	8	13
Target fund return (gross pretax cash on cash annual IRR %)	20%	25%	25%
Expected fund return (gross pretax cash on cash annual IRR%)	18%	23%	25%

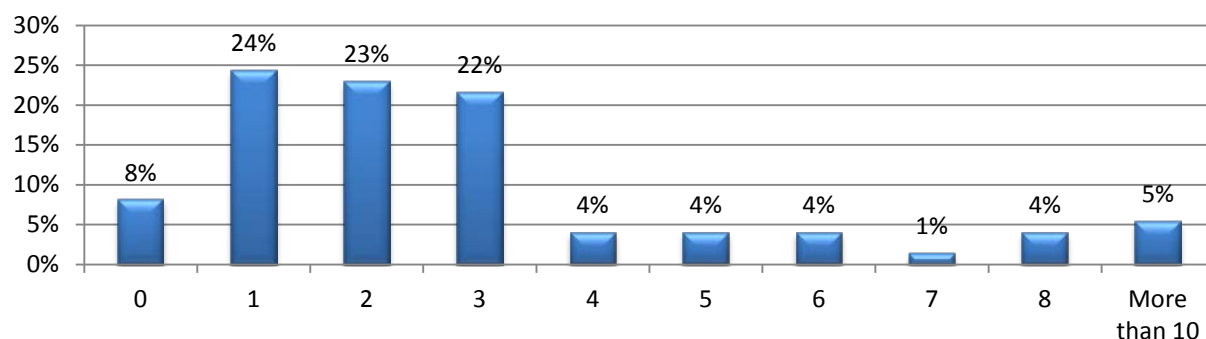
The types of businesses respondents plan to invest in over next 12 months are very diverse with nearly 18% targeting business services and another 17% planning to invest in manufacturing.

**Figure 17. Type of Business for Investments Planned over Next 12 Months**

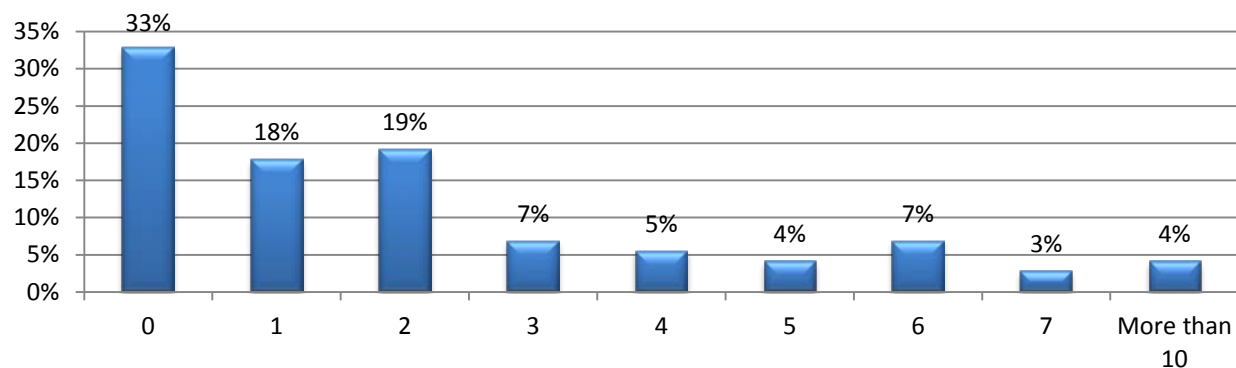


Approximately 69% of respondents made between one and three investments over the last twelve months.

**Figure 18. Total Number of Investments Made in the Last 12 Months**



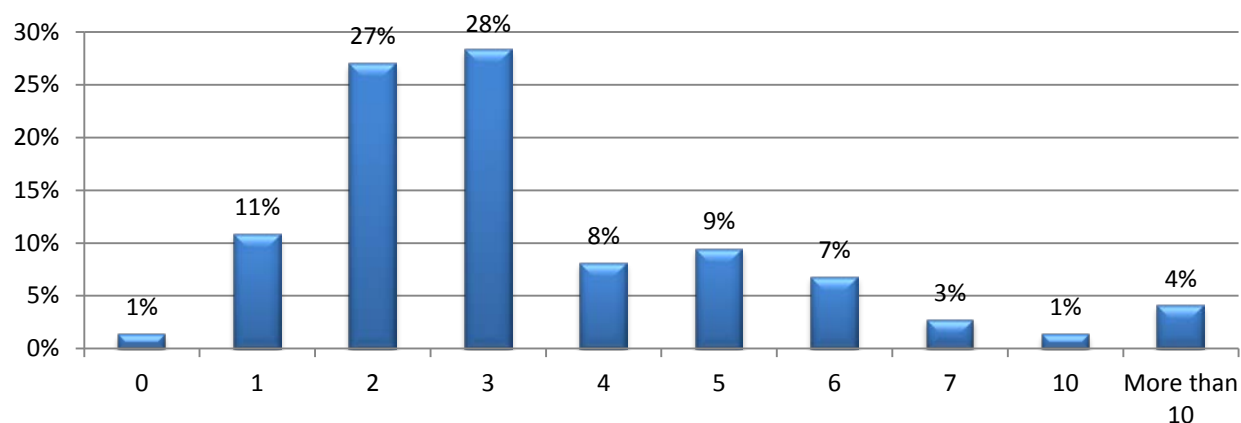
**Figure 19. Number of Follow-on Investments Made in the Last 12 Months**



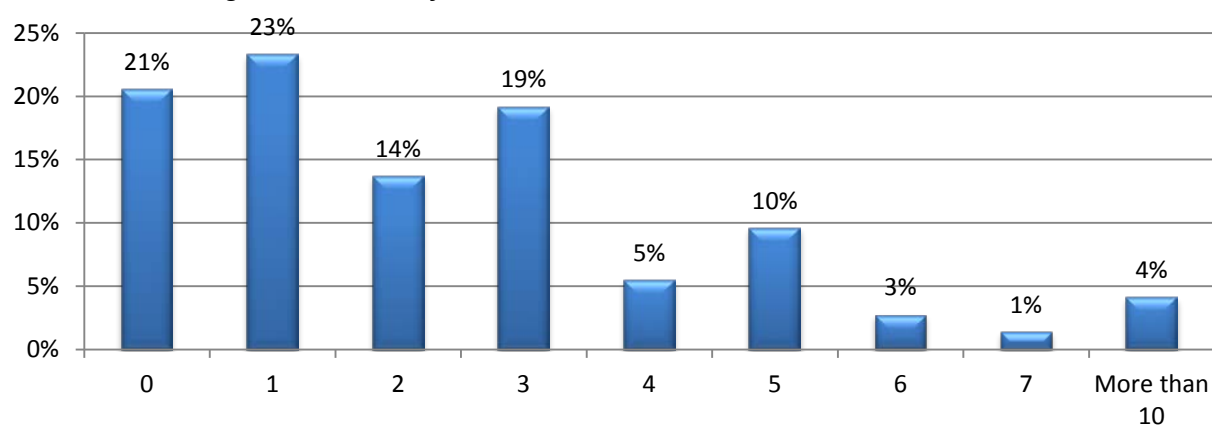


The majority (66%) of respondents plan to make one to three investments over the next 12 months.

**Figure 20. Number of Total Investments Planned over Next 12 Months**

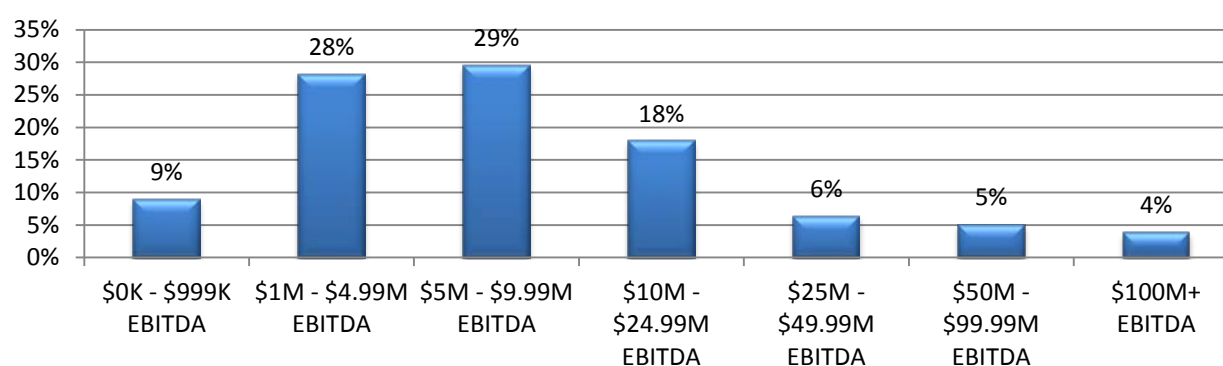


**Figure 21. Number of Follow-on Investments Planned over Next 12 Months**



Approximately 67% of buyout investments were in the range between \$1 million and \$10 million of EBITDA.

**Figure 22. Size of Buyout Investments in the Last 12 Months**



Average deal multiples for buyout deals for the prior twelve months vary from 5.0 to 8.5 times EBITDA depending on the size of the company. Expected returns vary from 20% to 27.5%.

**Table 10. General Characteristics – Buyout Transactions (medians)**

EBITDA size	\$0K - \$999K	\$1M - \$4.99M	\$5M - \$9.99M	\$10M - \$24.99M	\$25M - \$49.99M
Number of investments (total)	18	48	55	27	4
Average size of investment (in million USD)	2	3.5	15	25	70
Expected time to exit (years) (median)	3	5	5	5	5
Equity as % of new capital structure (median)	95%	45%	45%	35%	35%
% of total equity purchased (median)	85%	75%	70%	65%	60%
Average deal multiple (multiple of EBITDA)	5.0	6.5	7.0	7.5	8.5
Median total expected returns (gross cash on cash pre-tax IRR)	27.5%	25%	23%	21%	20%

Approximately 39% of non-buyout investments were in the range between \$0 million and \$1 million of EBITDA.

**Figure 23. Size of Non-Buyout Investments in the Last 12 Months**



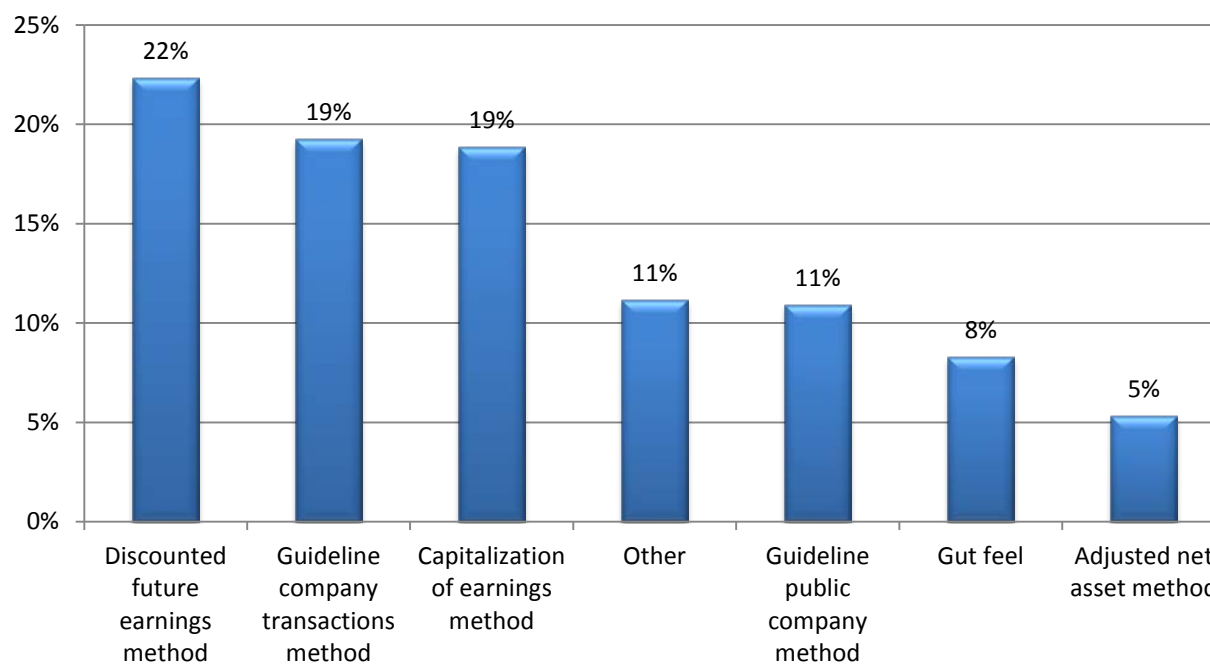
Average expected returns on non-buyout deals vary from 15% to 30%.

**Table 11. General Characteristics – Non-Buyout Transactions (medians)**

	\$0K - \$999K	\$1M - \$4.99M	\$5M - \$9.99M	\$10M - \$24.99M	\$25M - \$49.99M	\$50M - \$99.99M
Number of investments	60	32	9	8	7	14
Average size of investment in million USD	3	7.5	7.5	60	85	85
Expected time to exit (years) (medians)	4	4	3	4	4	4.5
Equity as % of new capital structure	80%	75%	35%	35%	35%	15%
% of total equity purchased	55%	45%	35%	30%	15%	15%
Average deal multiple (multiple of EBITDA)	5.5	6	6.5	7.5	8.5	n/a
Total expected returns (gross cash on cash pre-tax IRR)	30%	25.0%	24%	21%	20%	15%

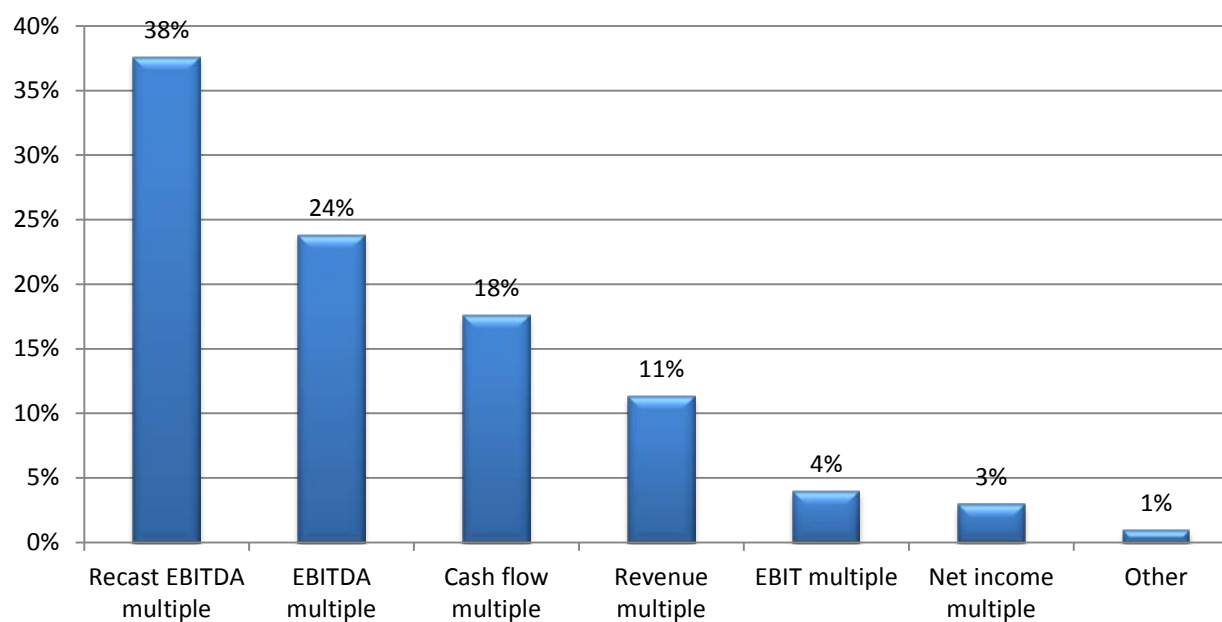
When valuing a business, approximately 22% of the weight is placed on discounted future earnings method.

**Figure 24. Usage of Valuation Approaches**



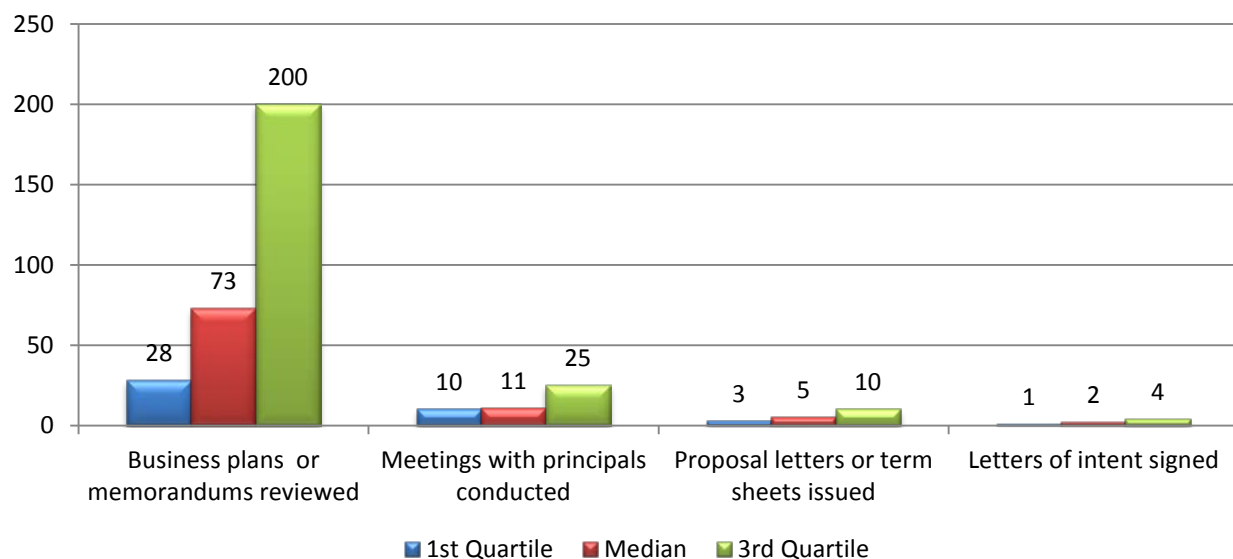
The weights of the various multiple methods used by respondents when valuing privately-held businesses included 30% for recast (adjusted) EBITDA multiple and 30% for EBITDA multiple.

**Figure 25. Usage of Multiple Methods**



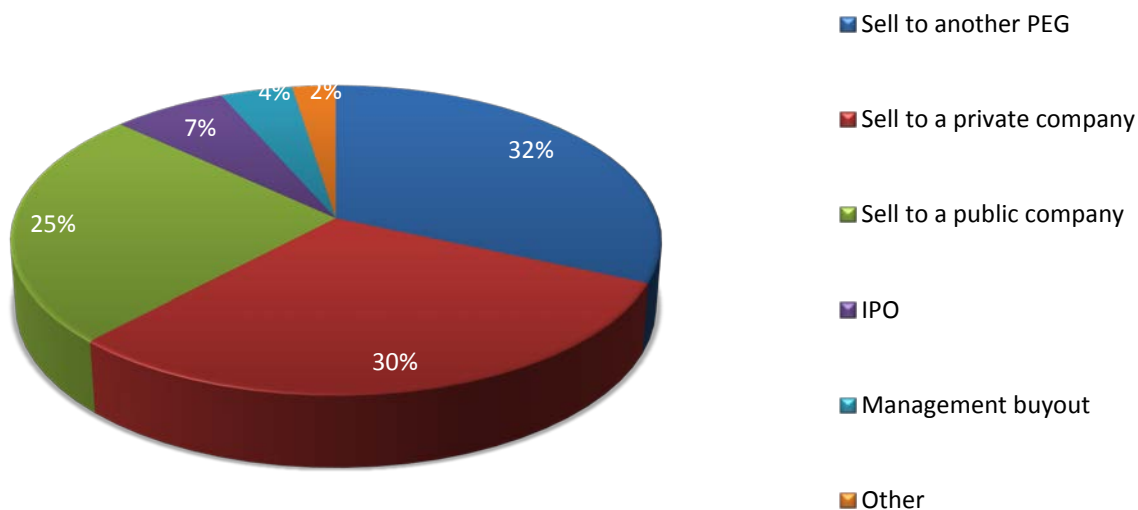
Respondents reported on items required to close one deal.

**Figure 26. Items Required to Close One Deal**



Respondents reported exit strategies that include selling to another private equity group (32%), selling to a private company (30%), and selling to a public company (25%).

**Figure 27. Exit Plans for Portfolio Companies**



Most of the respondents believe the number of companies “worthy of financing” exceeds “capital available” for the companies with less than \$1M in EBITDA. Whereas for the larger companies, “capital available” exceeds the number of companies “worthy of financing.”

**Table 12. The Balance of Available Capital with Quality Companies for the Following EBITDA Size**

	Companies worthy of financing GREATLY exceed capital available	Companies worthy of financing exceed capital available	General balance	Capital available exceeds companies worthy of financing	Capital available GREATLY exceeds companies worthy of financing	Score (-2 to 2)
\$0K - \$999K	13%	30%	37%	12%	8%	-0.3
\$1M - \$4.99M	8%	20%	43%	18%	11%	0.0
\$5M - \$9.99M	5%	12%	27%	37%	20%	0.6
\$10M - \$14.99M	8%	8%	22%	22%	39%	0.7
\$15M - \$24.99M	5%	15%	16%	24%	40%	0.8
\$25M - \$49.99M	6%	9%	20%	20%	44%	0.9
\$50M - \$99.99M	7%	6%	20%	20%	46%	0.9
\$100M+	7%	4%	20%	20%	48%	1.1

Relative to twelve months ago, respondents indicated increases in demand for private equity, quality of companies seeking investment, amount of non-control investments and deal multiples. They also reported a decrease in expected returns on new investments, increase in expected investment holding period and slightly worsened general business conditions.

**Table 13. General Business and Industry Assessment: Today versus 12 Months Ago**

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Demand for private equity	1%	7%	50%	26%	16%	42%	8%	34%
Quality of companies seeking investment	5%	23%	43%	24%	4%	28%	28%	0%
Average investment size	1%	10%	60%	25%	4%	29%	11%	18%
Non-control investments	3%	5%	63%	18%	11%	29%	8%	21%
Expected investment holding period	0%	9%	49%	34%	8%	42%	9%	32%
Deal multiples	0%	16%	31%	36%	16%	53%	16%	36%
Exit opportunities	4%	25%	36%	23%	12%	36%	29%	7%
Expected returns on new investments	4%	41%	38%	14%	4%	18%	45%	-27%
Value of portfolio companies	4%	18%	28%	30%	20%	50%	22%	28%
General business conditions	5%	31%	32%	30%	1%	31%	36%	-5%
Size of private equity industry	0%	8%	32%	54%	6%	60%	8%	51%



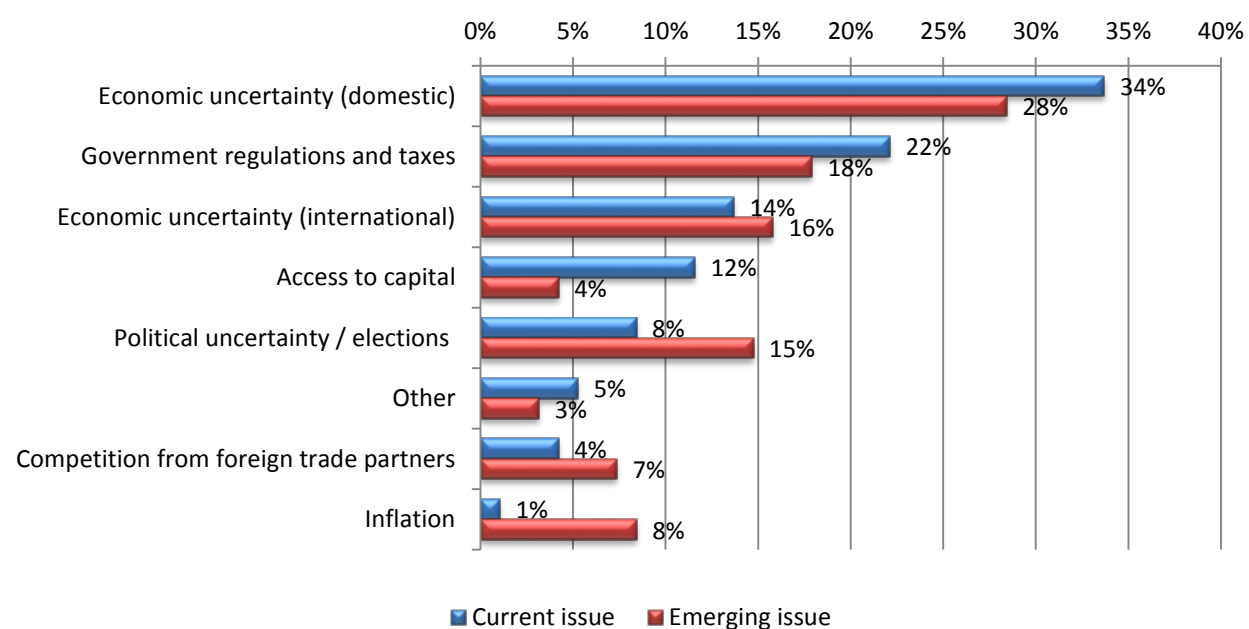
Respondents expect further increases in demand for private equity, decreasing deal multiples, and worsening general business conditions.

**Table 14. General Business and Industry Assessment Expectations over the Next 12 Months**

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	Net increase/decrease
Demand for private equity	0%	11%	42%	33%	14%	47%	11%	<b>36%</b>
Quality of companies seeking investment	1%	22%	50%	15%	11%	26%	24%	<b>3%</b>
Average investment size	0%	11%	60%	26%	3%	29%	11%	<b>18%</b>
Non-control investments	2%	15%	52%	22%	9%	31%	17%	<b>14%</b>
Expected investment holding period	0%	10%	44%	35%	11%	46%	10%	<b>36%</b>
Deal multiples	1%	38%	43%	14%	4%	18%	39%	<b>-21%</b>
Exit opportunities	6%	36%	47%	8%	3%	11%	42%	<b>-31%</b>
Expected returns on new investments	0%	32%	47%	18%	3%	21%	32%	<b>-11%</b>
Value of portfolio companies	0%	31%	36%	28%	6%	33%	31%	<b>3%</b>
General business conditions	7%	43%	33%	14%	3%	17%	50%	<b>-33%</b>
Size of private equity industry	0%	15%	50%	31%	4%	35%	15%	<b>19%</b>

Respondents believe government regulations and taxes is the most important issue facing privately-held businesses today.

**Figure 28. Issues Facing Privately-Held Businesses**



## BANK AND ASSET-BASED LENDING SURVEY INFORMATION

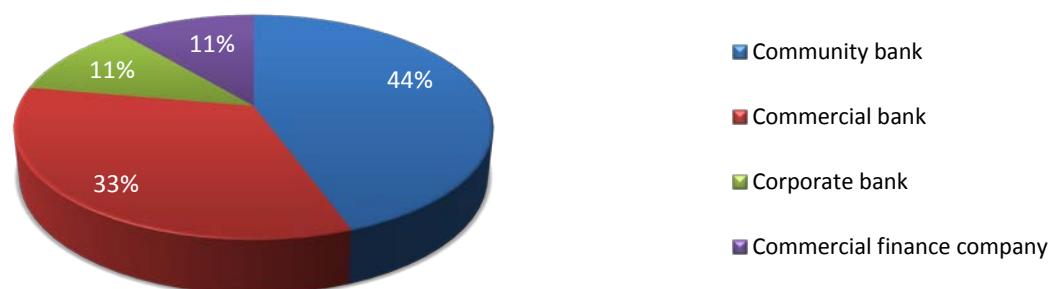
There were 53 responses to the bank and asset-based lending surveys with community banks making up 44% in terms of individual lending function. Over 38% of respondents believe that general business conditions will improve over the next 12 months and over 43% said demand for loans will increase. Other key findings include:

- Over the last twelve months respondents were seeing increased credit quality of borrowers applying for credit, with increase in demand for business loans and improved general business conditions
- Respondents also expect increases in demand for business loans, lending capacity of banks, improving general business conditions, average loan size and loan maturity, and further increase in interest rates.
- Currently, 25% lenders see government regulations and taxes as the top issue facing privately-held businesses, followed by domestic economic uncertainty (25%) and access to capital (16%).

### Operational and Assessment Characteristics

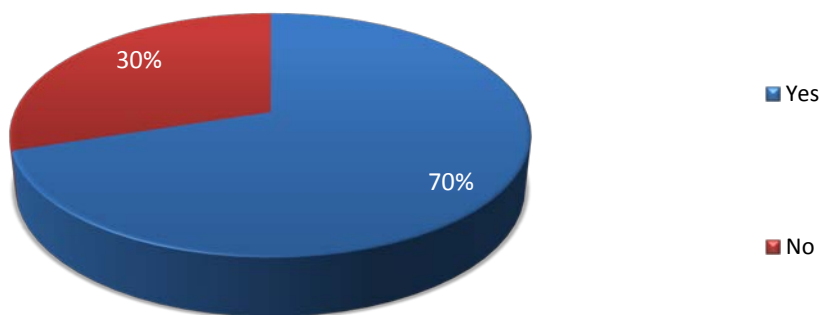
Respondents reported on the type of entity that best describes their lending function.

**Figure 28. Description of Lending Entity**



The majority (70%) report participating in government loan programs.

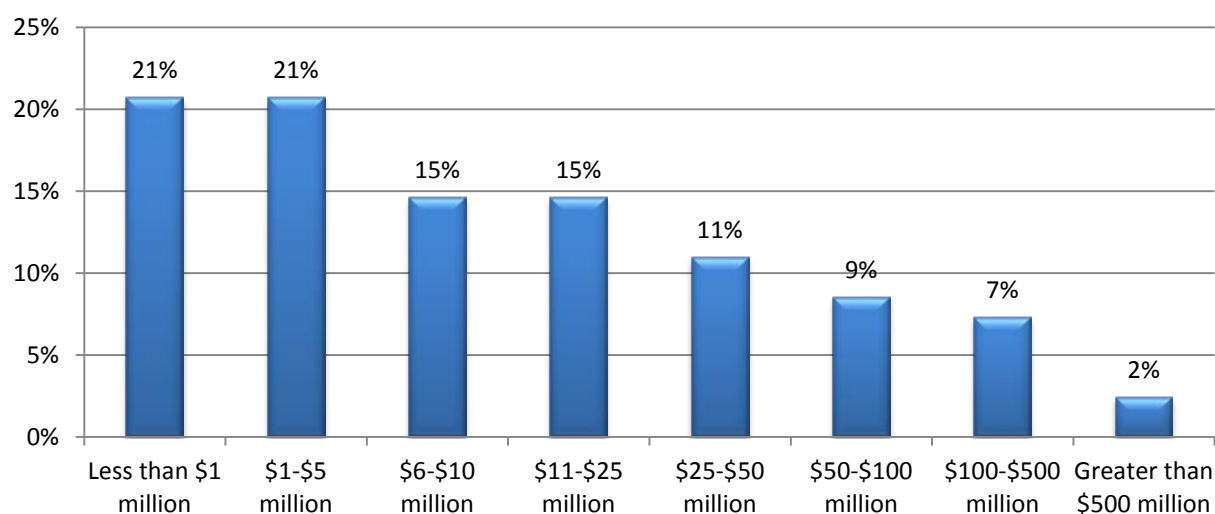
**Figure 30. Participation in Government Loan Programs**



BANKS cont.

The largest concentration of loan sizes was between \$1 million and \$5 million (21%).

**Figure 31. Typical Investment Size**



Respondents reported on all-in rates for various industries and loan types.

**Table 15. All-in Rates by Loan Size and Industry**

Loan size	Less than \$1M	\$1M - \$4.99M	\$5M - \$9.99M	\$10M - \$24.99M	\$25M+
Manufacturing	5.5%	5.5%	5.0%	4.5%	3.0%
Consumer goods and services	6.3%	5.5%	5.0%	5.0%	3.0%
Wholesale & distribution	5.5%	5.5%	4.8%	4.5%	3.0%
Business services	6.0%	5.5%	5.0%	4.8%	3.0%
Basic materials & energy	6.0%	5.5%	5.0%	4.0%	3.0%
Health care & biotech	5.5%	5.3%	5.0%	5.0%	3.0%
Information technology	6.0%	6.0%	5.5%	5.3%	3.0%
Financial services	5.5%	5.5%	5.5%	4.5%	3.0%
Typical Fixed-Rate Loan Term (months)	45	60	48	60	54

**Table 16. All-in Rates by Loan Type**

	Less than \$1M	\$1M - \$4.99M	\$5M - \$9.99M	\$10M - \$24.99M	\$25M+
Cash flow loan	6.0%	5.5%	5.5%	5.0%	3.0%
Working capital loan	6.0%	6.0%	5.0%	4.3%	3.0%
Equipment loan	6.0%	5.5%	5.3%	5.0%	3.0%
Real estate loan	5.3%	5.3%	4.5%	4.3%	3.0%

Senior leverage multiples are reported below for the various industries and EBITDA sizes.

**Table 17. Senior Leverage Multiple by EBITDA Size**

EBITDA size	\$0K - \$999K	\$1M - \$4.99M	\$5M - \$9.99M	\$10M - \$24.99M	\$25M - \$49.99M	\$50M+
Manufacturing	1.1	1.6	1.8	1.8	1.8	1.9
Construction & engineering	1.0	1.3	1.3	1.4	1.5	1.6
Consumer goods & services	1.0	1.5	1.5	1.8	1.8	2.0
Wholesale & distribution	1.1	1.6	1.8	1.8	2.0	2.0
Business services	0.9	1.3	1.3	1.6	1.6	2.0
Basic materials & energy	0.9	1.3	1.3	1.5	1.6	1.8
Healthcare & biotech	0.9	1.3	1.3	1.3	1.6	2.0
Information technology	0.9	1.3	1.4	1.5	1.6	2.0
Financial services	0.9	1.3	1.3	1.4	1.4	1.6
Media & entertainment	1.0	1.4	1.5	1.6	1.6	1.8
<b>Total median</b>	1.0	1.3	1.5	1.5	1.8	2.0

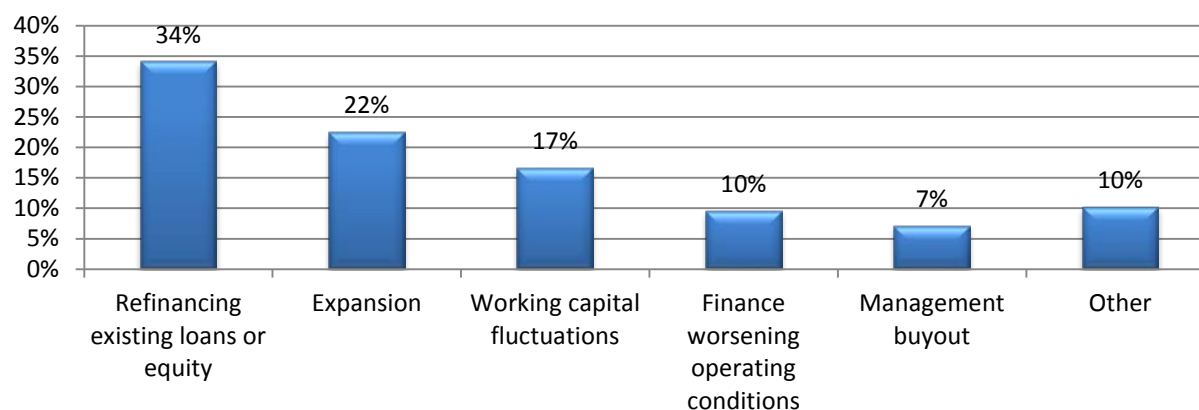
Various fees as reported by lenders are as follows.

**Table 18. Fees Charged**

	1st Quartile	Median	3rd Quartile	% Reporting
Closing fee	0.5%	0.5%	1.0%	16%
Modification fee	0.0%	0.2%	0.5%	11%
Commitment fee	0.0%	0.5%	0.5%	10%
Underwriting fee	0.0%	0.1%	0.5%	11%
Arrangement fee	0.0%	0.0%	0.4%	10%
Prepayment penalty (yr 1)	1.0%	2.0%	3.3%	16%
Prepayment penalty (yr 2)	0.3%	2.0%	3.0%	14%
Unused line fee	0.0%	0.1%	0.4%	12%

Refinancing was the most commonly described financing by buyers at 34%, followed by expansion at 22%.

**Figure 29. Borrower Motivation to Secure Financing (past 12 months)**



Total debt-service coverage ratio was the most important factor when deciding whether to invest or not.

**Table 19. Importance of Financial Evaluation Metrics**

	Unimportant	Of little importance	Moderately important	Important	Very important	Score (1 to 5)
Current ratio	31%	7%	29%	26%	7%	2.7
Senior DSCR or FCC ratio	12%	5%	19%	17%	48%	3.8
Total DSCR or FCC ratio	10%	3%	18%	20%	50%	4.0
Senior debt-to-cash flow	8%	11%	18%	34%	29%	3.7
Total debt-to-cash flow	10%	12%	24%	22%	32%	3.5
Debt-to-net worth	11%	14%	27%	32%	16%	3.3

**Table 20. Financial Evaluation Metrics Average Data**

	Average borrower data	Limit not to be exceeded
Current ratio	1.2	1.1
Senior DSCR or FCC ratio	1.3	1.2
Total DSCR or FCC ratio	1.3	1.1
Senior debt to cash flow	1.5	2.0
Total debt to cash flow	1.5	2.0
Debt to net worth	2.3	3.5

Respondents reported on the percentage of loans (by size) that require personal guarantee and collateral.

**Table 21. Personal Guarantee and Collateral Percentage of Occurrence by Size of Loan (%)**

Loan size	Less than \$1M	\$1M - \$4.99M	\$5M - \$9.99M	\$10M - \$24.99M	\$50M - \$99.99M	\$100M+
Personal guarantee	95%	95%	70%	38%	38%	30%
Collateral	95%	93%	90%	88%	73%	25%

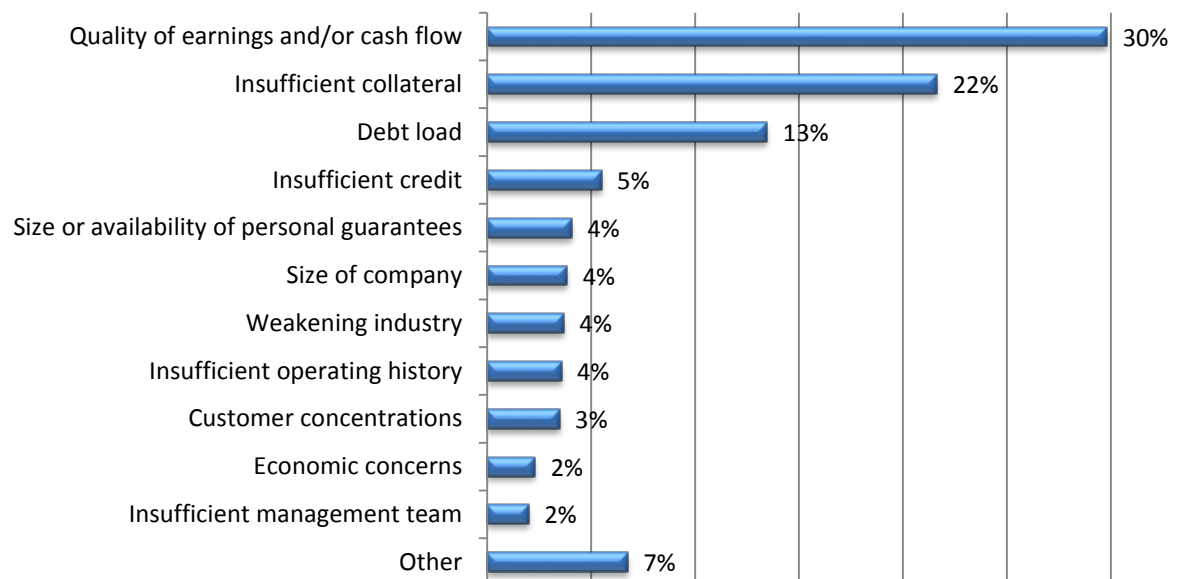
Approximately 59% of cash flow applications were declined.

**Table 22. Applications Data**

	Reviewed	Offered	Booked	Declined
Cash flow based	554	78%	74%	59%
Collateral based	284	98%	50%	47%
Real estate	312	81%	59%	21%

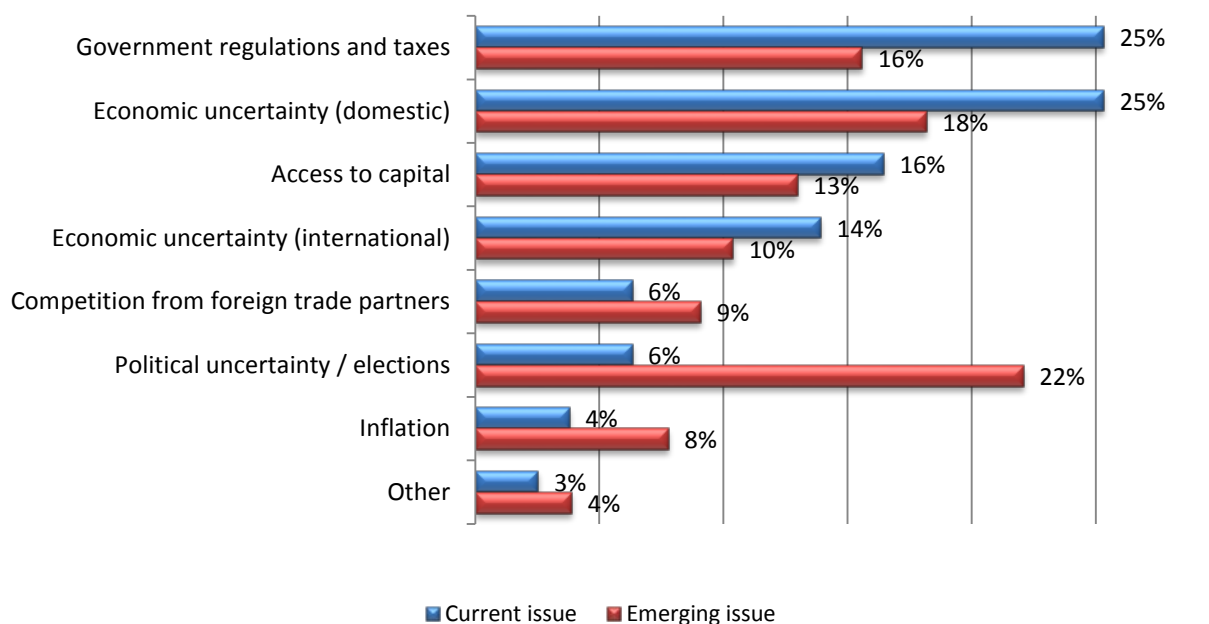
Approximately 30% of applications were declined due to poor quality of earnings and/or cash flow followed by 22% that were declined due to insufficient collateral.

**Figure 33. Reason for Declined Loans**



Respondents believe government regulations and taxes and domestic economic uncertainty are the most important issues facing privately-held businesses today.

**Figure 34. Issues Facing Privately-Held Businesses**



Respondents indicated increases in demand for business loans, percent of loans with personal guarantees, improved general business conditions, credit quality of borrowers applying for credit, decreased loan fees, and number/ tightness of financial covenants.

**Table 23. General Business and Industry Assessment: Today versus 12 Months Ago**

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Demand for business loans (applications)	10%	14%	36%	34%	6%	40%	24%	<b>16%</b>
Credit quality of borrowers applying for credit	0%	22%	46%	24%	8%	32%	22%	<b>10%</b>
Due diligence efforts	4%	29%	39%	25%	2%	27%	33%	<b>-6%</b>
Average loan size	0%	0%	70%	20%	10%	30%	0%	<b>30%</b>
Average loan maturity (months)	0%	12%	45%	33%	10%	43%	12%	<b>31%</b>
Percent of loans with personal guarantees	0%	10%	72%	14%	4%	18%	10%	<b>8%</b>
Percent of loans requiring collateral	0%	13%	77%	9%	2%	11%	13%	<b>-2%</b>
Size of interest rate spreads (pricing)	0%	4%	84%	4%	8%	12%	4%	<b>8%</b>
Loan fees	2%	39%	41%	14%	4%	18%	41%	<b>-24%</b>
Senior leverage multiples	0%	31%	61%	8%	0%	8%	31%	<b>-24%</b>
Total leverage multiples	4%	0%	88%	8%	0%	8%	4%	<b>4%</b>
Focus on collateral as backup means of payment	4%	8%	83%	4%	0%	4%	13%	<b>-8%</b>
SBA lending	0%	6%	69%	25%	0%	25%	6%	<b>19%</b>
Lending capacity of bank	0%	26%	53%	16%	5%	21%	26%	<b>-5%</b>
General business conditions	0%	4%	52%	36%	8%	44%	4%	<b>40%</b>
Appetite for risk	2%	28%	42%	26%	2%	28%	30%	<b>-2%</b>
Loans outstanding	2%	18%	53%	25%	2%	27%	20%	<b>8%</b>
Nonaccrual loans	0%	4%	40%	40%	16%	56%	4%	<b>52%</b>
Number/ tightness of financial covenants	5%	14%	67%	14%	0%	14%	19%	<b>-5%</b>
Standard advance rates	0%	8%	72%	20%	0%	20%	8%	<b>12%</b>

BANKS cont.

Respondents expect further increases in demand for business loans, percent of loans with personal guarantees, lending capacity of bank, improving general business conditions, focus on collateral as backup means of payment and number/ tightness of financial covenants, flat leverage multiples, decreasing due diligence efforts and appetite for risk.

**Table 24. General Business and Industry Assessment Expectations over the Next 12 Months**

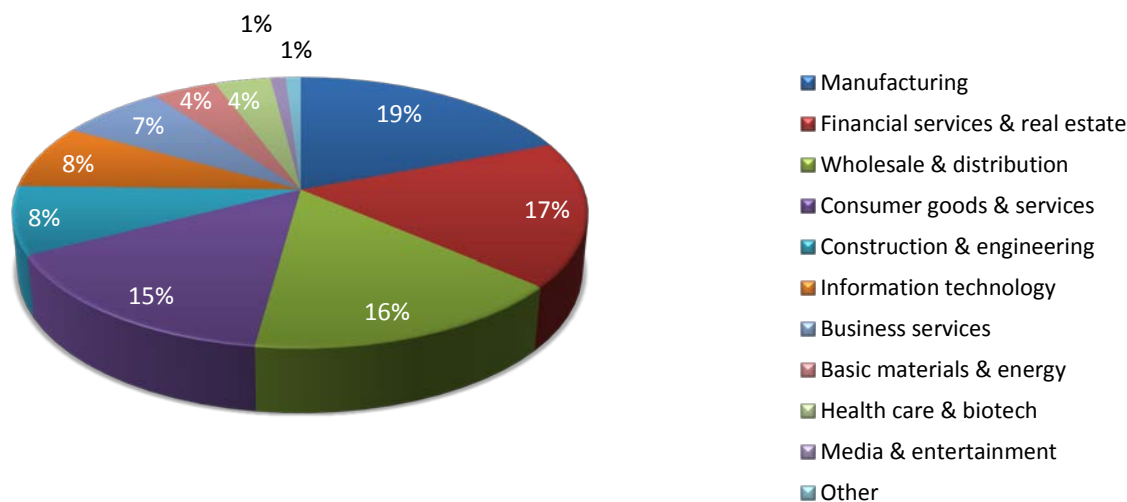
	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	Net increase/decrease
Demand for business loans (applications)	2%	18%	37%	37%	6%	43%	20%	<b>22%</b>
Credit quality of borrowers applying for credit	0%	14%	55%	29%	2%	31%	14%	<b>16%</b>
Due diligence efforts	2%	31%	55%	12%	0%	12%	33%	<b>-20%</b>
Average loan size	0%	2%	67%	29%	2%	31%	2%	<b>29%</b>
Average loan maturity (months)	0%	6%	59%	33%	2%	35%	6%	<b>29%</b>
Percent of loans with personal guarantees	0%	8%	81%	8%	2%	10%	8%	<b>2%</b>
Percent of loans requiring collateral	0%	6%	87%	6%	0%	6%	6%	<b>0%</b>
Size of interest rate spreads (pricing)	0%	4%	87%	4%	4%	9%	4%	<b>4%</b>
Loan fees	0%	14%	55%	31%	0%	31%	14%	<b>16%</b>
Senior leverage multiples	2%	10%	78%	10%	0%	10%	12%	<b>-2%</b>
Total leverage multiples	0%	0%	91%	9%	0%	9%	0%	<b>9%</b>
Focus on collateral as backup means of payment	0%	4%	78%	17%	0%	17%	4%	<b>13%</b>
SBA lending	2%	0%	77%	20%	0%	20%	2%	<b>18%</b>
Lending capacity of bank	0%	11%	67%	17%	6%	22%	11%	<b>11%</b>
General business conditions	0%	0%	63%	38%	0%	38%	0%	<b>38%</b>
Appetite for risk	2%	39%	49%	8%	2%	10%	41%	<b>-31%</b>
Loans outstanding	2%	18%	65%	14%	0%	14%	20%	<b>-6%</b>
Nonaccrual loans	0%	4%	36%	44%	16%	60%	4%	<b>56%</b>
Number/ tightness of financial covenants	0%	9%	64%	27%	0%	27%	9%	<b>18%</b>
Standard advance rates	0%	0%	75%	25%	0%	25%	0%	<b>25%</b>



## Asset-Based Lending Specific Characteristics

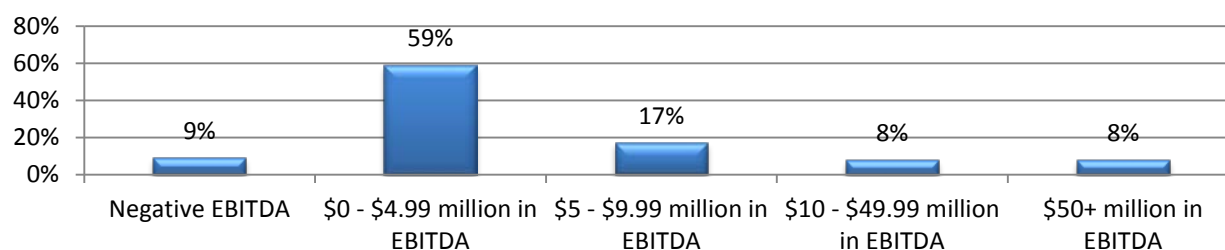
According to respondents approximately 19% of asset-based loans were issued for manufacturing companies.

**Figure 35. Industries Served by Asset-Based Lenders**



Approximately 68% of the companies that booked asset-based loans in the last twelve months had EBITDA size less than \$5 million.

**Figure 30. Typical EBITDA Sizes for Companies Booked**



Respondents reported on all-in rates by type and size of current booked loans and the results are reported below.

**Table 25. All-in Rates on Current Asset-Based Loans (medians)**

	Marketable Securities	Accounts Receivable	Inventory	Equipment	Real estate	Working capital	Typical Fixed-Rate Loan Term (months)
Less than \$1 million	7.0%	11.0%	12.0%	12.0%	12.0%	10.0%	12
\$1-5 million	5.8%	6.5%	11.5%	8.5%	5.5%	5.5%	22
\$5-\$10 million	n/a	6.3%	11.0%	7.5%	5.0%	4.0%	22
\$10-25 million	2.0%	4.0%	4.5%	3.5%	3.5%	2.9%	48
\$25-50 million	n/a	3.5%	3.5%	3.5%	3.3%	2.9%	36
\$50-100 million	n/a	3.0%	3.0%	2.9%	2.9%	2.5%	36

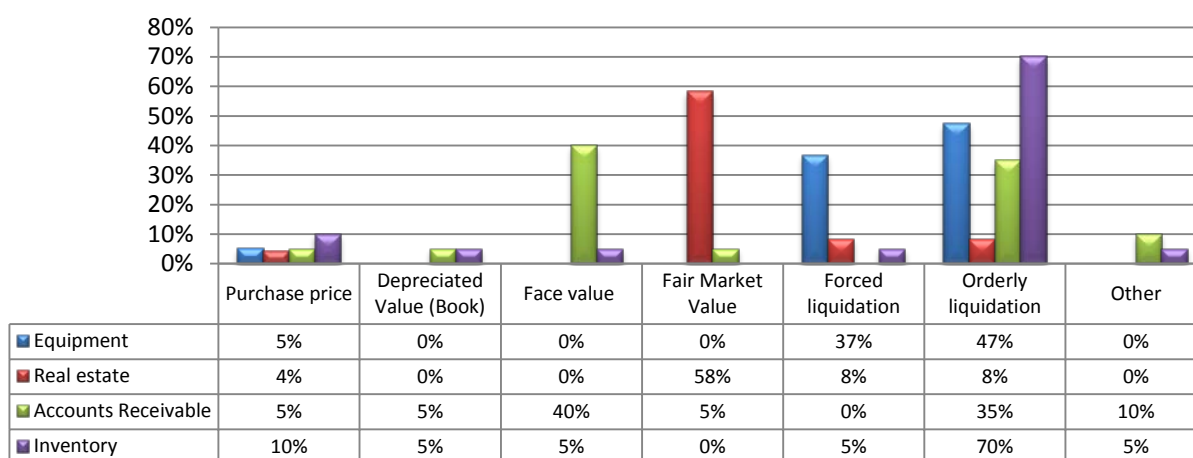
Respondents reported on standard advance rates and the results are reflected below.

**Table 26. Standard Advance Rate (or LTV ratio) for Assets (%)**

	Typical Loan			Upper Limit		
	1st quartile	Median	3rd quartile	1st quartile	Median	3rd quartile
Marketable securities	9%	68%	94%	5%	70%	78%
Accounts receivable	84%	85%	85%	85%	90%	90%
Inventory - low quality	15%	25%	30%	16%	30%	50%
Inventory - intermediate quality	31%	40%	50%	40%	50%	65%
Inventory - high quality	50%	65%	70%	60%	65%	75%
Equipment	55%	70%	80%	58%	75%	80%
Real estate	39%	60%	70%	35%	70%	73%
Land	5%	20%	45%	5%	23%	50%

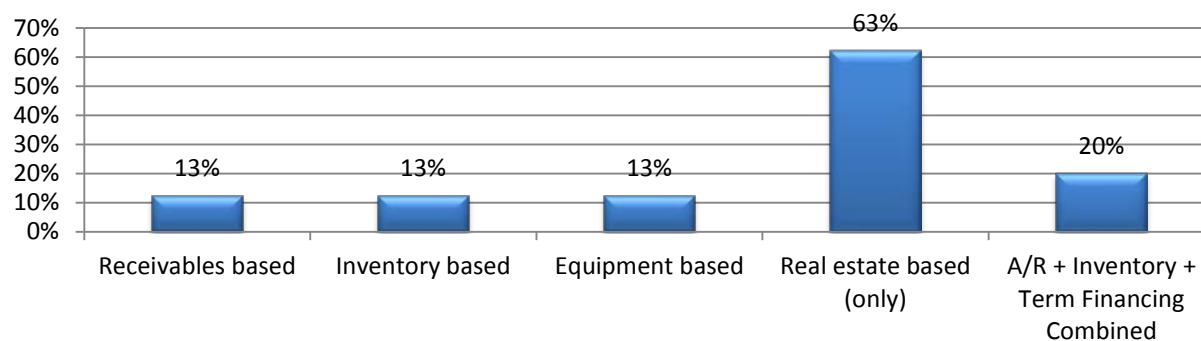
Respondents reported on valuation standards used to estimate LTV ratios.

**Figure 37. Valuation Standards Used to Estimate LTV Ratio**



According to respondents receivables, inventory and equipment based loans had the smallest decline rate (13%) over the last twelve months.

**Figure 31. Asset-Based Loans Decline Rate**



## MEZZANINE SURVEY INFORMATION

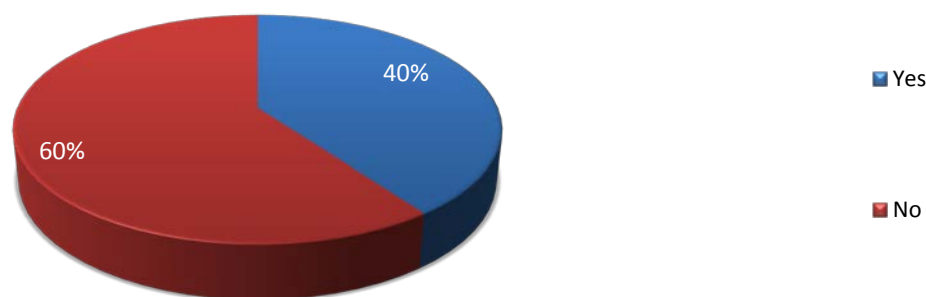
The majority of the 20 participants that responded to the mezzanine survey typically book deals in the \$1 million to \$25 million range. Over 20% plan on investing in business services companies over the next 12 months, followed by 18% in manufacturing. Other key findings include:

- Relative to 12 months ago, respondents indicated increases in demand for mezzanine capital, general underwriting standards, and flat leverage multiple. They also reported decreases in credit quality of borrowers, warrant coverage, general business conditions and appetite for risk.
- Respondents expect further increase in demand for mezzanine capital, general underwriting standards, warrant coverage, PIK features, loan fees and expected returns on new investments; and decrease in credit quality of borrowers, leverage multiples, appetite for risk, and general business conditions.
- Approximately 35% of respondents believe access to capital is the most important issue facing privately-held businesses today.

### Operational and Assessment Characteristics

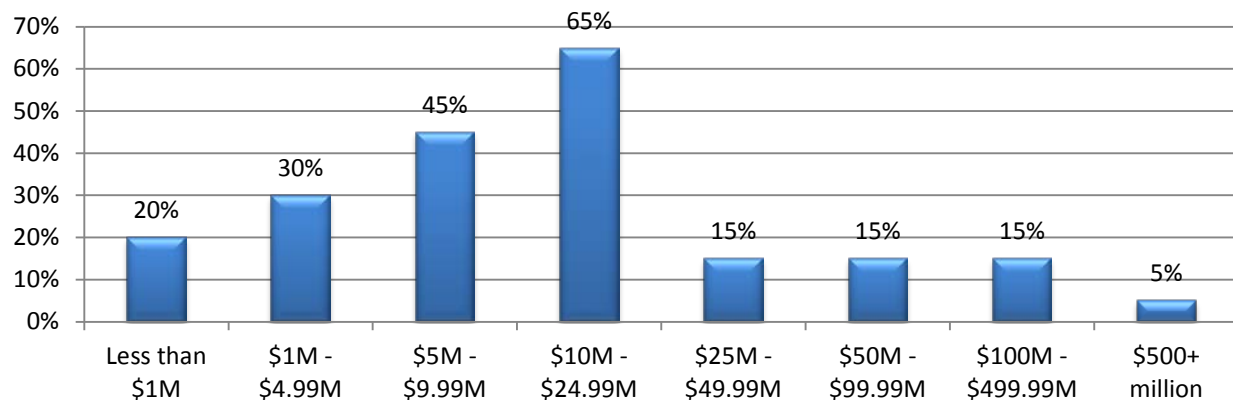
Approximately 40% of respondents are SBIC Firms.

**Figure 32. SBIC (small business investment) Firms**



The largest concentration of typical loan sizes is between \$10 million and \$25 million.

**Figure 40. Typical Investment Size**



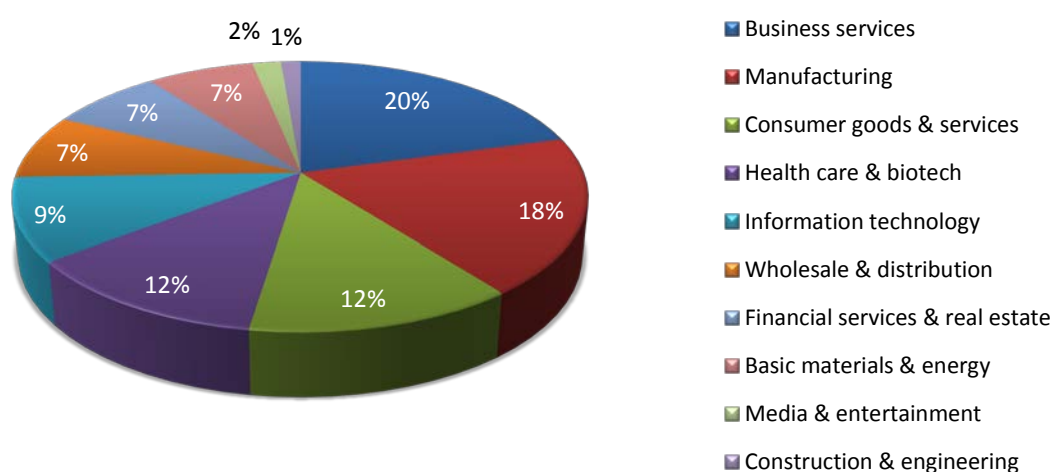
Respondents reported on business practices and the results are reflected below.

**Table 27. Mezzanine Fund Data**

	1st quartile	Median	3rd quartile
Vintage year (year in which first investment made)	2012	2013	2014
Size of fund (\$ millions)	75	250	625
Targeted number of total investments	15	18	28
Target fund return (gross pretax cash on cash annual IRR %)	14.5%	16%	20%
Expected fund return (gross pretax cash on cash annual IRR %)	12%	15%	19%

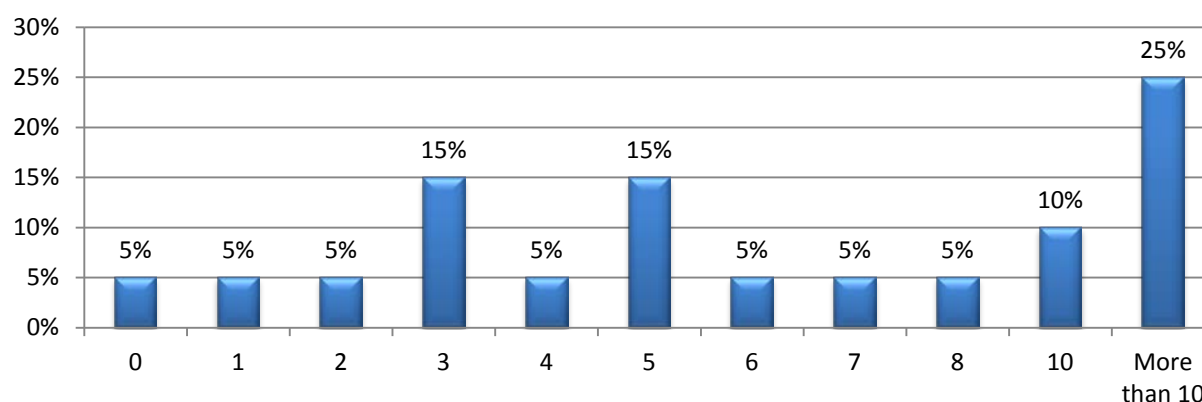
The types of businesses respondents plan to invest in over next 12 months are very diverse with over 20% targeting business services, followed by 18% who plan to invest in manufacturing.

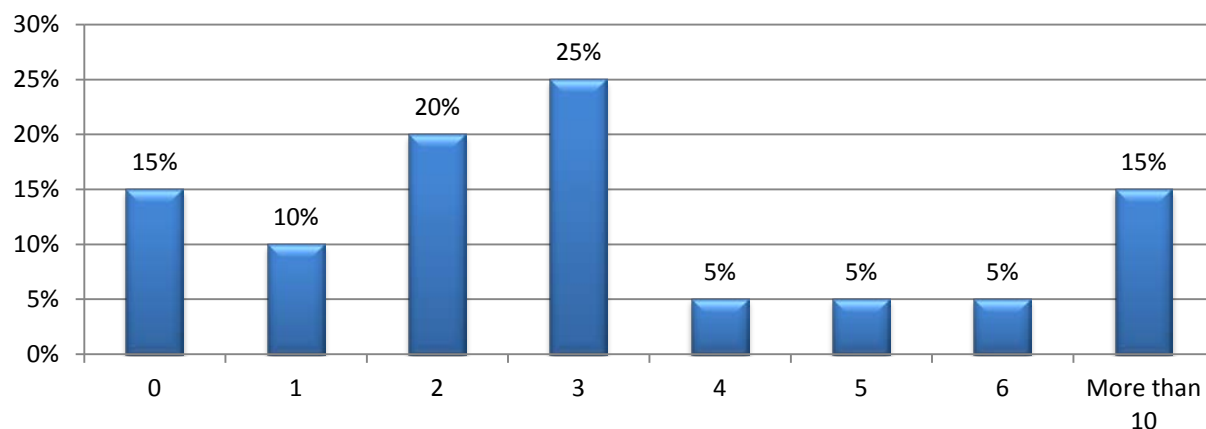
**Figure 33. Type of Business for Investments Planned over Next 12 Months**



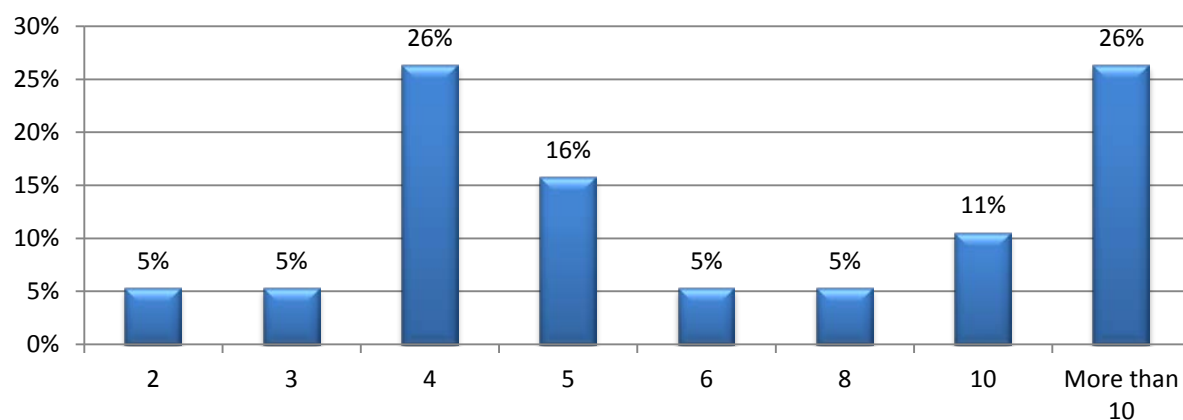
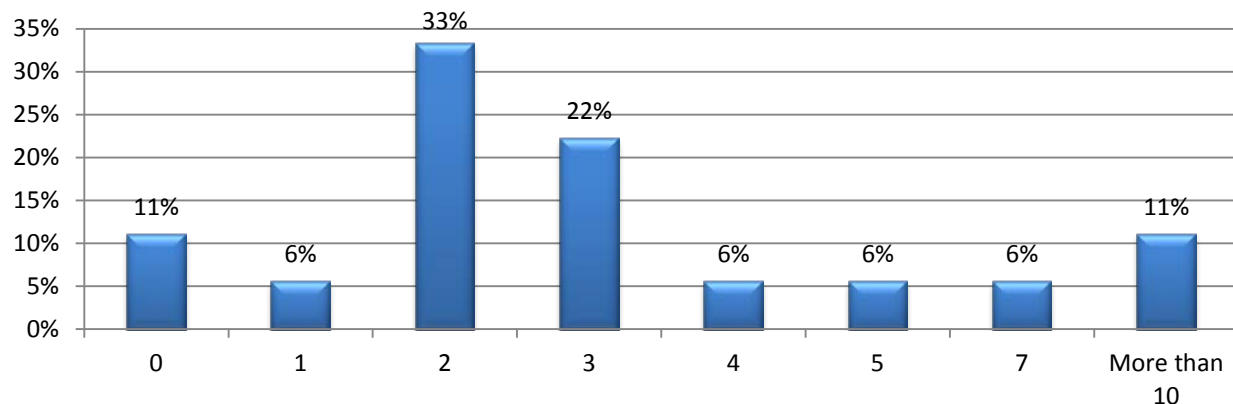
Approximately 50% of respondents made 6 investments or more over the last 12 months.

**Figure 34. Total Number of Investments Made in the Last 12 Months**



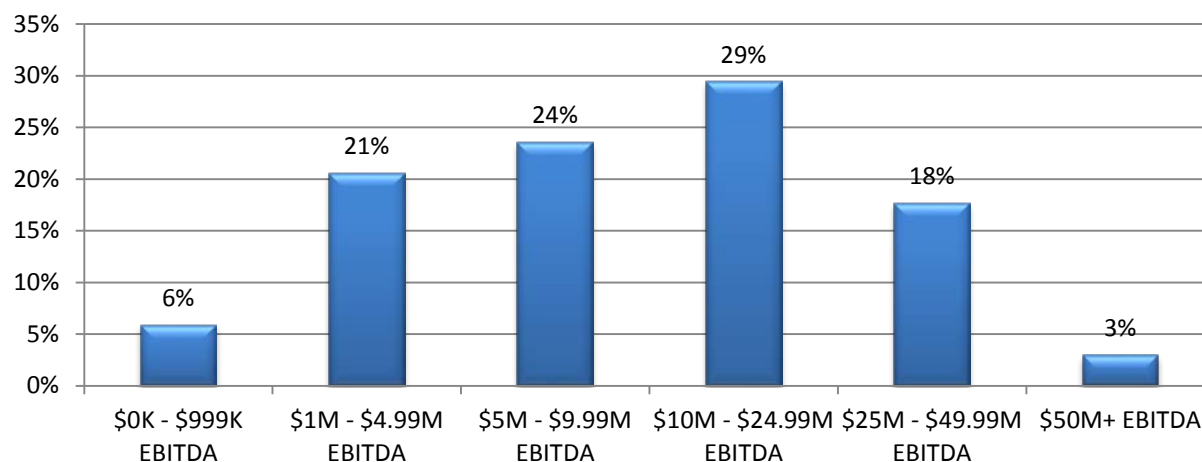
**Figure 35. Number of Follow-on Investments Made in the Last 12 Months**

Approximately 47% of respondents plan to make 6 investments or more over the next 12 months.

**Figure 36. Number of Total Investments Planned over Next 12 Months****Figure 37. Number of Follow-on Investments Planned over Next 12 Months**

Approximately 29% of sponsored deals were in the range between \$10 million and \$25 million of EBITDA.

**Figure 38. Size of Sponsored Deals in the Last 12 Months**



Results of responses to sponsored deals based on size of investee EBITDA are reported below.

**Table 28. Sponsored Deals by EBITDA Size (medians)**

EBITDA size	\$0K - \$999K	\$1M - \$4.99M	\$5M - \$9.99M	\$10M - \$24.99M	\$25M - \$49.99M	\$50M+
% of deals with warrants	67%	38%	8%	32%	48%	0%
Average loan terms (years)	1.5	5.5	5.5	5.8	6	5
Senior leverage ratio (multiple of EBITDA)	3	2.5	3.0	3.5	3.5	4
Total leverage ratio (multiple of EBITDA)	3	3.5	4.0	4.5	4.8	6
Average loan size (\$ millions)	0.5	7.5	15	15	25	95
Cash interest rate	12%	12%	11%	11%	10%	6%
PIK	1%	1%	2%	2%	2.0%	0%
Warrants expected return (IRR contribution)	15%	3.0%	n/a	n/a	n/a	n/a
Total expected returns (gross cash on pre-tax IRR)	17%	16.5%	15%	15%	15%	9%

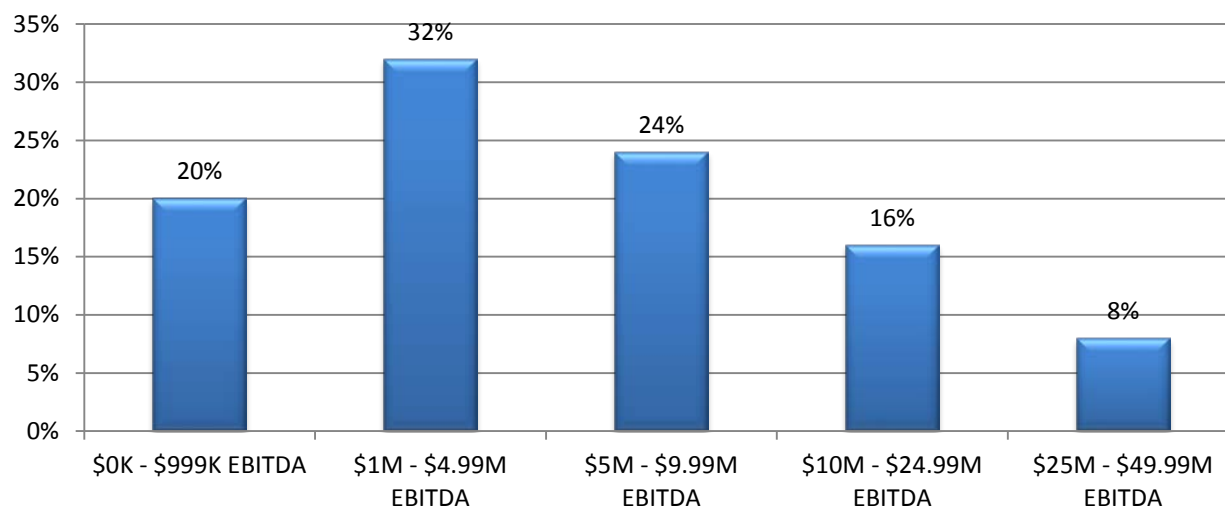
**Table 29. Investment Type by Size of Investee Company, Sponsored Deals**

	Sub debt only	Blended Sr. / Jr.	Other
\$0K - \$999K EBITDA	0%	100%	0%
\$1M - \$4.99M EBITDA	29%	43%	29%
\$5M - \$9.99M EBITDA	29%	29%	43%
\$10M - \$24.99M EBITDA	40%	20%	40%
\$25M - \$49.99M EBITDA	50%	17%	33%

MEZZANINE cont.

Approximately 56% of sponsored deals were in the range between \$1 million and \$10 million of EBITDA.

**Figure 39. Size of Non-Sponsored Deals in the Last 12 Months**



Results of responses to non-sponsored deals based on size of investee EBITDA are reported below.

**Table 30. Non-Sponsored Deals by EBITDA Size (medians)**

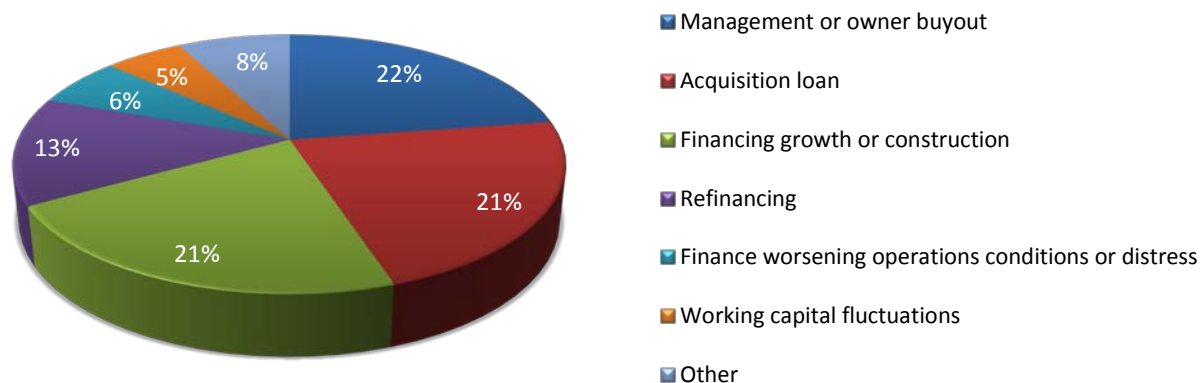
EBITDA size	\$0K - \$999K	\$1M - \$4.99M	\$5M - \$9.99M	\$10M - \$24.99M	\$25M - \$49.99M
% of deals with warrants	7%	9%	14%	12%	92%
Average loan terms (years)	4.0	5	5	6	6.3
Senior leverage ratio (multiple of EBITDA)	2.0	2.3	2.5	2.5	2.5
Total leverage ratio (multiple of EBITDA)	3	3.5	3.5	3.5	3.5
Average loan size (\$ millions)	3	5	7.5	20	60
Cash interest rate	11%	11%	11%	11%	9%
PIK	1%	2%	0%	1.5%	2%
Warrants expected return (IRR contribution)	10%	4%	5.5%	8%	8%
Total expected returns (gross cash on pre-tax IRR)	23%	22%	18%	18.5%	16%

**Table 31. Investment Type by Size of Investee Company, Sponsored Deals**

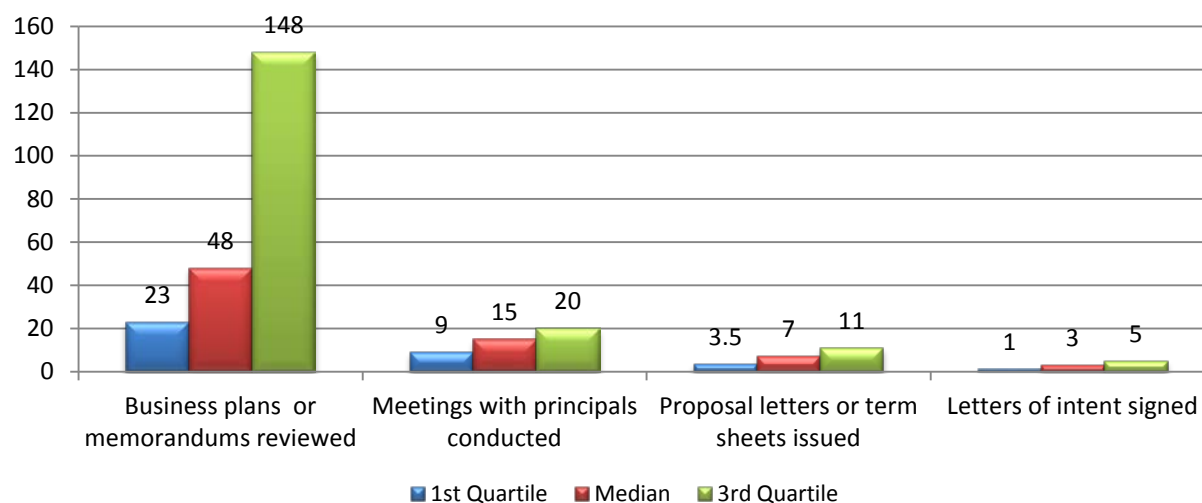
	Senior debt only	Sub debt only	Blended Sr. / Jr.	Other
\$0K - \$999K EBITDA	33%	33%	33%	0%
\$1M - \$4.99M EBITDA	40%	20%	20%	20%
\$5M - \$9.99M EBITDA	20%	20%	40%	20%
\$10M - \$24.99M EBITDA	0%	25%	50%	25%
\$25M - \$49.99M EBITDA	0%	50%	50%	0%

Management or owner buyout was reported by 22% of respondents as a motivation to secure mezzanine funding, followed by acquisition loan at 21%.

**Figure 40. Borrower Motivation to Secure Mezzanine Funding (past 12 months)**



**Figure 41. Items Required to Close One Deal**



Total debt service coverage ratio was the most important factor when deciding whether to invest or not, followed by total debt-to-cash flow ratio.

**Table 32. Importance of Financial Evaluation Metrics**

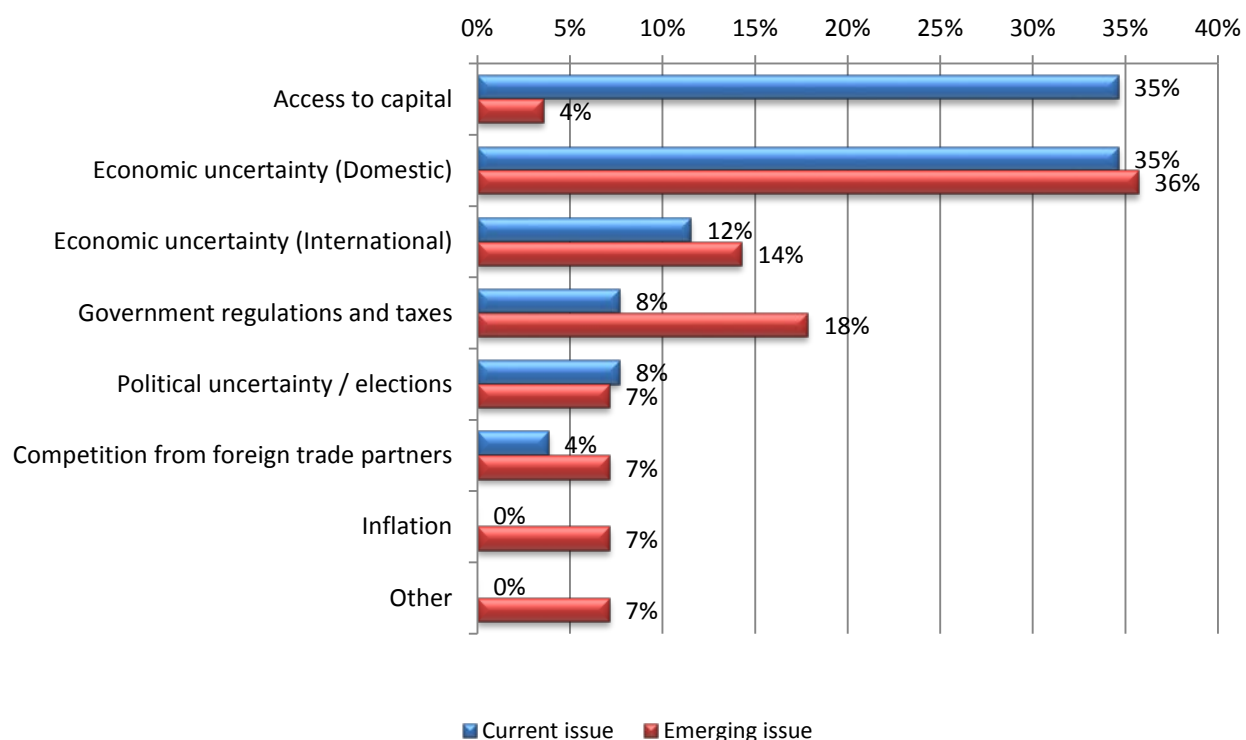
	Unimportant	Of little importance	Moderately important	Important	Very important	Score (1 to 5)
Senior DSCR or FCC ratio	12%	6%	35%	29%	18%	3.35
Total DSCR or FCC ratio	0%	0%	12%	29%	59%	4.47
Senior debt-to-cash flow ratio	0%	6%	39%	39%	17%	3.67
Total debt-to-cash flow ratio	0%	6%	11%	22%	61%	4.39



**Table 33. Financial Evaluation Metrics Average Data**

	Average borrower data	Limit not to be exceeded
Senior DSCR or FCC ratio	1.5	1.2
Total DSCR or FCC ratio	1.4	1.1
Senior debt to cash flow ratio	3	3.6
Total debt to cash flow ratio	4.2	4.9

Respondents believe access to capital is the most important issue facing privately-held businesses today.

**Figure 50. Issues Facing Privately-Held Businesses**

Relative to 12 months ago, respondents indicated increases in demand for mezzanine capital, general underwriting standards and flat expected returns on new investments. They also reported decreases in credit quality of borrowers, warrant coverage, general business conditions, and appetite for risk.

**Table 34. General Business and Industry Assessment: Today versus 12 Months Ago**

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Demand for mezzanine capital	0%	17%	39%	39%	6%	44%	17%	<b>28%</b>
Credit quality of borrowers seeking investment	6%	50%	33%	6%	6%	11%	56%	<b>-44%</b>
Average investment size	0%	11%	56%	28%	6%	33%	11%	<b>22%</b>
Average investment maturity (months)	0%	0%	94%	6%	0%	6%	0%	<b>6%</b>
General underwriting standards	0%	6%	44%	50%	0%	50%	6%	<b>44%</b>
Warrant coverage	0%	7%	93%	0%	0%	0%	7%	<b>-7%</b>
PIK features	0%	0%	94%	6%	0%	6%	0%	<b>6%</b>
Loan fees	0%	0%	100%	0%	0%	0%	0%	<b>0%</b>
Leverage multiples	0%	28%	44%	28%	0%	28%	28%	<b>0%</b>
Expected returns on new investments	0%	17%	61%	22%	0%	22%	17%	<b>6%</b>
General business conditions	6%	56%	28%	11%	0%	11%	61%	<b>-50%</b>
Appetite for risk	0%	44%	39%	17%	0%	17%	44%	<b>-28%</b>

Respondents expect further increases in all business characteristics except general underwriting standards, warrant coverage, loan fees and expected returns on new investments.

**Table 35. General Business and Industry Assessment Expectations over the Next 12 Months**

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	Net increase/decrease
Demand for mezzanine capital	0%	0%	17%	61%	22%	83%	0%	<b>83%</b>
Credit quality of borrowers seeking investment	11%	22%	50%	17%	0%	17%	33%	<b>-17%</b>
Average investment size	0%	0%	67%	33%	0%	33%	0%	<b>33%</b>
Average investment maturity (months)	0%	0%	94%	6%	0%	6%	0%	<b>6%</b>
General underwriting standards	0%	0%	44%	50%	6%	56%	0%	<b>56%</b>
Warrant coverage	0%	0%	85%	15%	0%	15%	0%	<b>15%</b>
PIK features	0%	0%	71%	29%	0%	29%	0%	<b>29%</b>
Loan fees	0%	0%	88%	12%	0%	12%	0%	<b>12%</b>
Leverage multiples	0%	44%	50%	6%	0%	6%	44%	<b>-39%</b>
Expected returns on new investments	0%	6%	50%	39%	6%	44%	6%	<b>39%</b>
General business conditions	0%	59%	24%	18%	0%	18%	59%	<b>-41%</b>
Appetite for risk	6%	18%	29%	41%	6%	47%	24%	<b>24%</b>

## LIMITED PARTNER SURVEY INFORMATION

Approximately 26% of the 39 respondents in the limited partner survey reported direct investments as being the best risk/return trade-off investment class and another 23% reported real estate funds as being the best risk/return trade-off investment class. When asked about which industry currently offers the best risk/return trade-off, 25% of respondents reported information technology, followed by 22% reporting business services, and another 9% reporting basic materials and energy. Other key findings include:

- On average respondents target to allocate 21% of their assets to buyout private equity, 20% to real estate funds and 13% to direct investments. Respondents expect the highest returns of 12% from venture capital, 12% from growth private equity, 11% from investments in buyout private equity, and 9% from direct investments.
- Respondents indicated increased allocation to real estate funds, and direct investments, and decreased allocation to all other alternative assets in the last twelve months. They also reported worsened business conditions and expected returns on new investments.
- Respondents also expect further increases in allocation to direct investments, and real estate funds, slightly improving business conditions and increasing expected returns.

## Operational and Assessment Characteristics

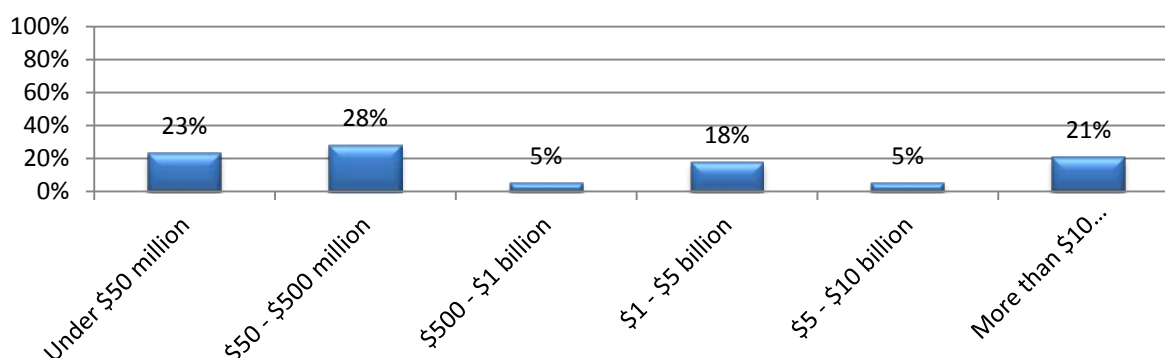
Approximately 26% of respondents indicated being family office followed by fund of funds (26%).

**Figure 42. Entity Type**



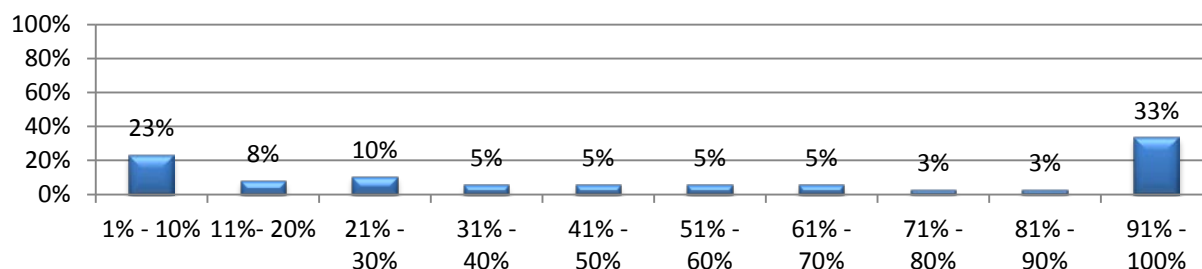
Approximately 23% of respondents reported their asset category being less than \$50 million, while 28% were between \$50 million and \$500 million.

**Figure 43. Assets under Management or Investable Funds**

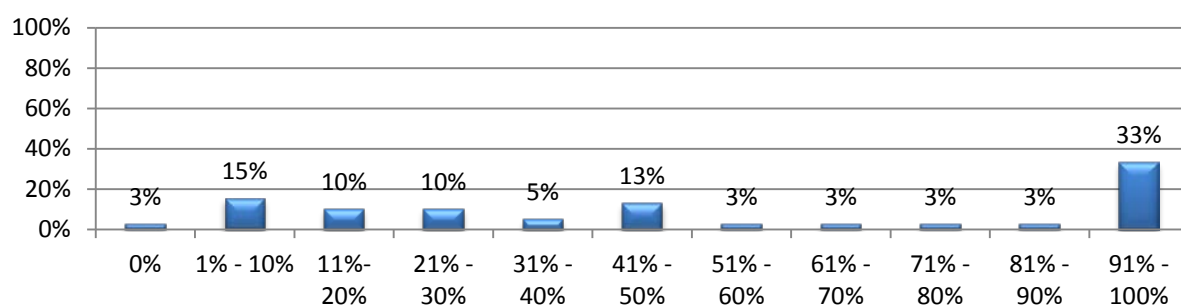


Respondents reported on their % of total asset allocations for “Alternative Assets”.

**Figure 44. Current Asset Allocation for "Alternative Assets" (% of total portfolio)**

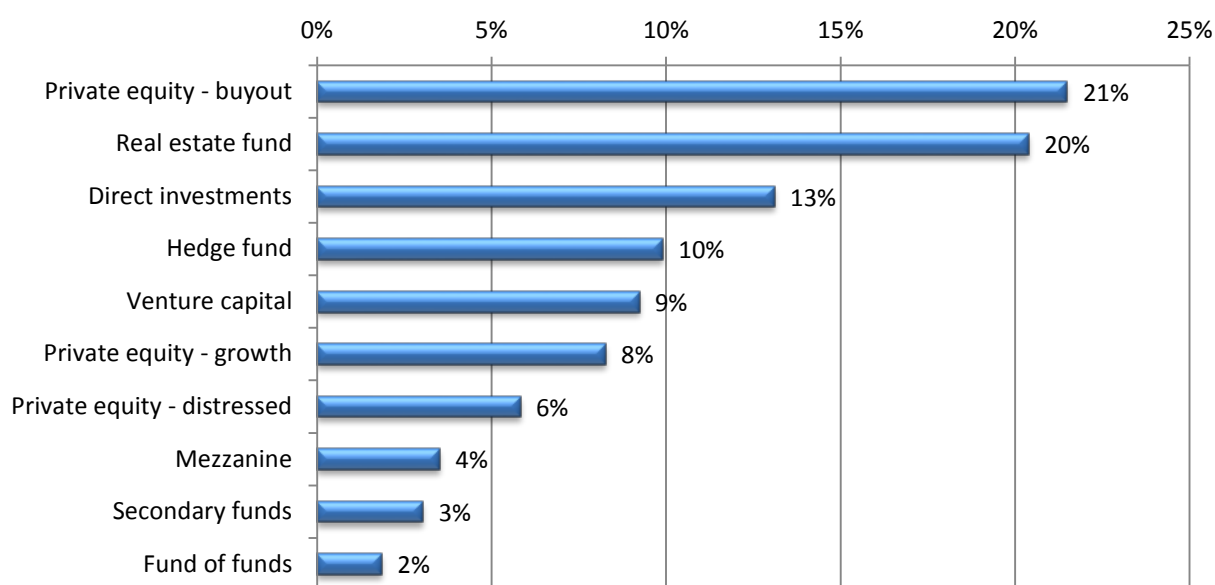


**Figure 45. Target Asset Allocation for "Alternative Assets" (% of total portfolio)**



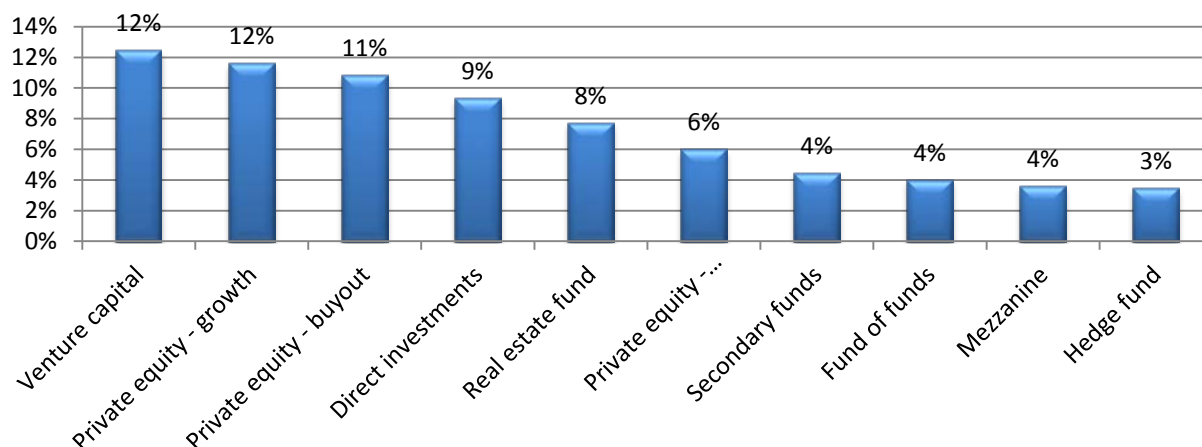
On average, respondents target to allocate 21% of their assets to buyout private equity, 20% to real estate funds, and 13% to direct investments.

**Figure 46. Target Asset Allocation by Assets**



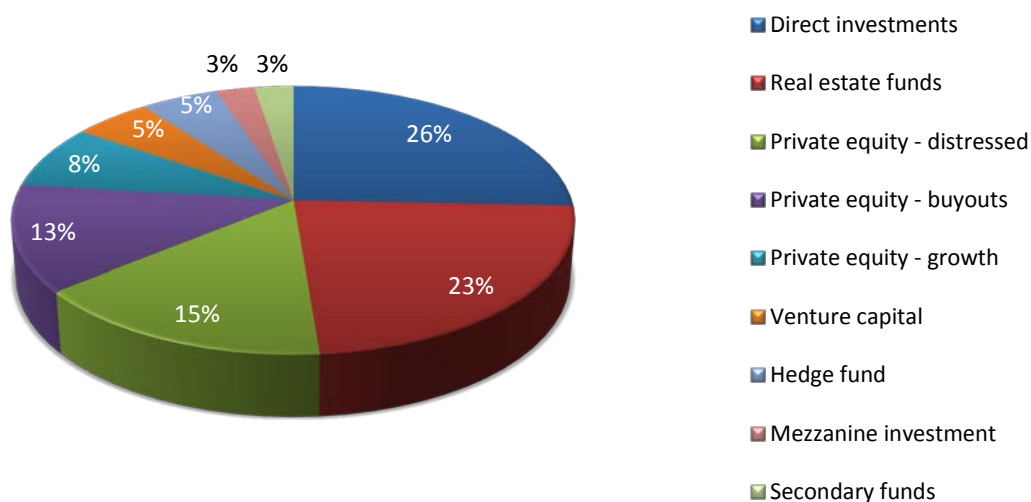
On average, respondents expect the highest returns from investments in venture capital, growth private equity, buyout private equity and direct investments.

**Figure 47. Annual Return Expectations for New Investments**



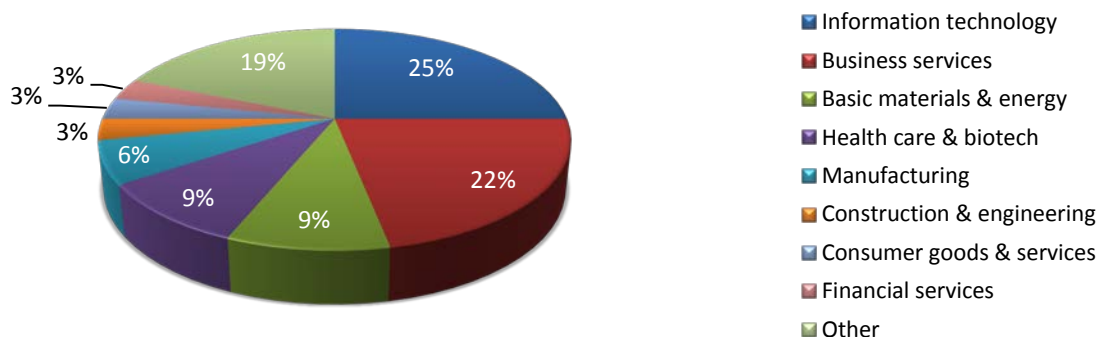
Approximately 26% of the 39 respondents in the limited partner survey reported direct investments as being the best risk/return trade-off investment class and another 23% reported real estate funds as being the best risk/return trade-off investment class.

**Figure 48. Assets with the Best Risk/Return Trade-off Currently**



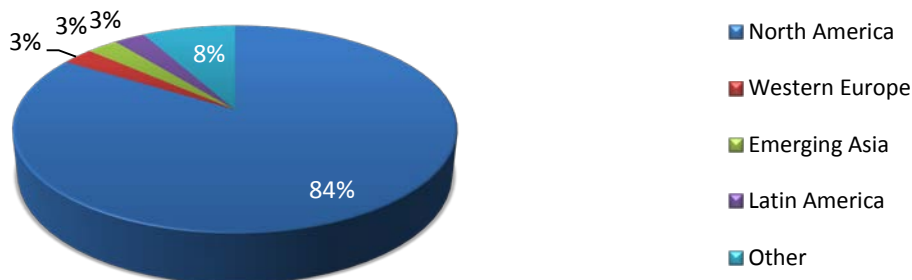
When asked about which industry currently offers the best risk/return trade-off, 25% of respondents reported information technology, followed by 22% reporting business services, and another 9% reporting basic materials and energy.

**Figure 49. Industry with the Best Risk/Return**



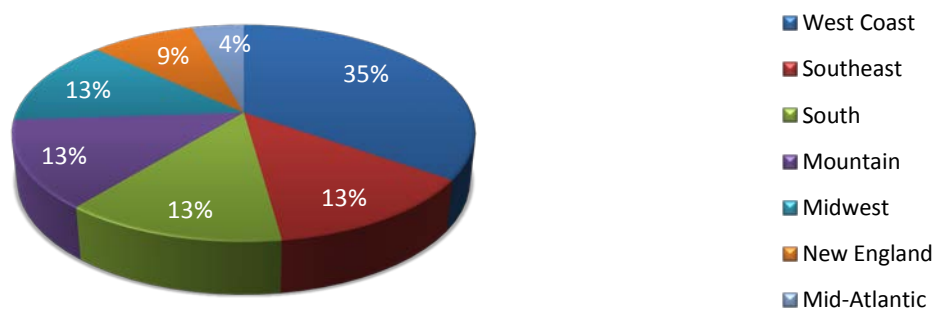
In regard to the geographic regions with the best risk/return trade-offs, 84% of respondents reported North America.

**Figure 50. Geographic Regions of the World Offering the Best Risk/Return Tradeoff Currently**



In regard to the geographic regions with the best risk/return trade-offs in the US, 35% of respondents reported West Coast, and 13% reported Southeast.

**Figure 60. Geographic Regions in the US Offering the Best Risk/Return Tradeoff Currently**



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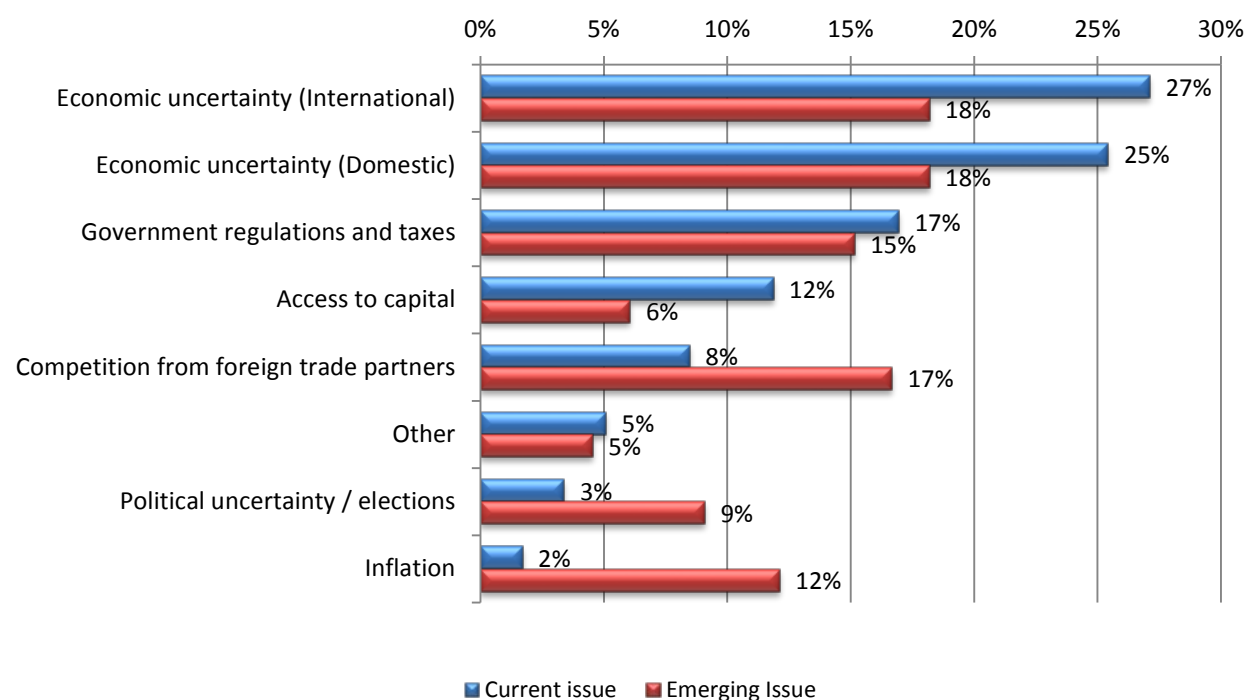
According to respondents, general partner and specific strategy are the most important factors when evaluating investment followed by historical fund performance on all funds.

**Table 36. Importance of Factors When Evaluating**

	Unimportant	Of little importance	Moderately important	Important	Very important	Score (1 to 5)
Historical fund performance on all funds	3%	3%	23%	41%	31%	<b>4.0</b>
Returned capital from most recent fund (Distribution to Paid-in or DPI)	3%	3%	37%	42%	16%	<b>3.7</b>
Residual value of most recent fund (Residual Value to Paid-in or RVPI)	8%	0%	47%	37%	8%	<b>3.4</b>
General partner	0%	3%	11%	11%	76%	<b>4.6</b>
Specific strategy	3%	3%	13%	33%	49%	<b>4.2</b>
Specific location	3%	21%	45%	18%	13%	<b>3.2</b>
Gut feel/instinct	3%	15%	31%	36%	15%	<b>3.5</b>

Respondents believe international economic uncertainty is the most important current and emerging issue facing privately-held businesses.

**Figure 51. Issues Facing Privately-Held Businesses**



Respondents indicated increased allocation to direct investments and real estate funds, and decreased allocation to all other alternative assets in the last twelve months. They also reported decreased general business conditions and expected returns on new investments.

**Table 37. General Business and Industry Assessment: Today versus 12 Months Ago**

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Allocation to venture capital	3%	19%	69%	8%	0%	8%	22%	<b>-14%</b>
Allocation to private equity	0%	11%	78%	11%	0%	11%	11%	<b>0%</b>
Allocation to mezzanine	0%	10%	90%	0%	0%	0%	10%	<b>-10%</b>
Allocation to hedge funds	10%	17%	70%	3%	0%	3%	27%	<b>-23%</b>
Allocation to secondary funds	6%	9%	81%	3%	0%	3%	16%	<b>-13%</b>
Allocation to real estate funds	0%	9%	65%	18%	9%	26%	9%	<b>18%</b>
Direct investments	0%	6%	51%	37%	6%	43%	6%	<b>37%</b>
General business conditions	3%	24%	59%	14%	0%	14%	27%	<b>-14%</b>
Expected returns on new capital deployed	0%	30%	49%	19%	3%	22%	30%	<b>-8%</b>

Respondents also expect further increases in allocation to direct investments, and real estate funds, improving business conditions and increasing expected returns.

**Table 38. General Business and Industry Assessment Expectations over the Next 12 Months**

Characteristics	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	Net increase/decrease
Allocation to venture capital	3%	19%	72%	6%	0%	6%	22%	<b>-17%</b>
Allocation to private equity	0%	21%	64%	10%	5%	15%	21%	<b>-5%</b>
Allocation to mezzanine	0%	16%	77%	6%	0%	6%	16%	<b>-10%</b>
Allocation to hedge funds	9%	22%	63%	6%	0%	6%	31%	<b>-25%</b>
Allocation to secondary funds	6%	15%	76%	3%	0%	3%	21%	<b>-18%</b>
Allocation to real estate funds	0%	9%	62%	21%	9%	29%	9%	<b>21%</b>
Direct investments	0%	0%	69%	23%	9%	31%	0%	<b>31%</b>
General business conditions	3%	19%	47%	31%	0%	31%	22%	<b>8%</b>
Expected returns on new capital deployed	0%	14%	54%	29%	3%	31%	14%	<b>17%</b>



## VENTURE CAPITAL SURVEY INFORMATION

Of the 65 participants who responded to the venture capital survey, approximately 66% of respondents expect an increasing size of the venture capital industry. The majority (69%) of respondents plan to make four investments or more over the next 12 months.

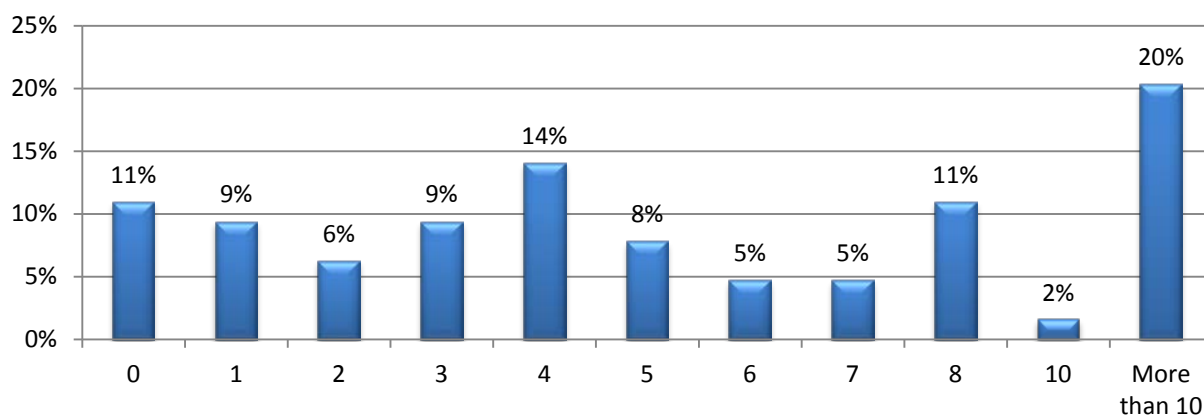
Other key findings include:

- The types of businesses respondents plan to invest in the next 12 months are very diverse with over 38% targeting information technology and another 22% planning to invest in health care and biotech.
- Respondents' exit strategies include selling to a public company (35%) followed by selling to a private company (30%).
- Respondents believe access to capital is the most important issue facing privately-held businesses today.

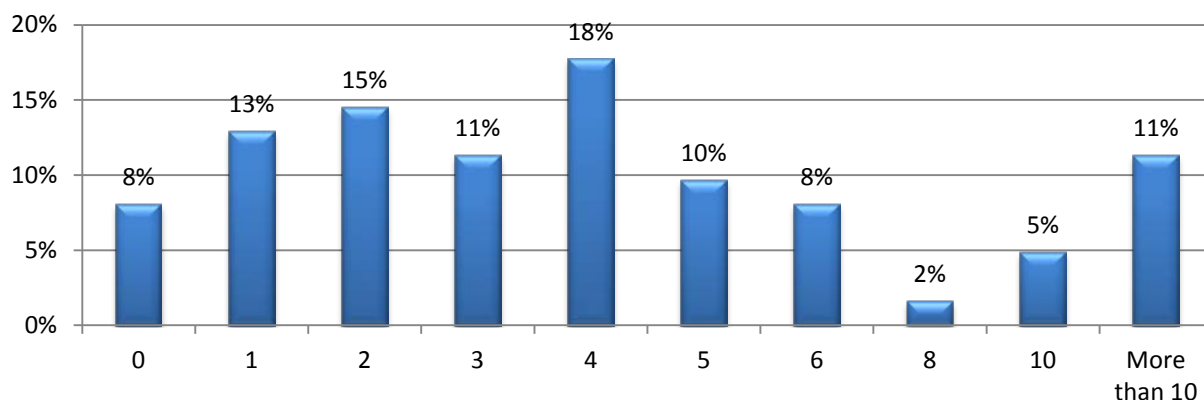
### Operational and Assessment Characteristics

Approximately 50% of respondents made five investments or more over the last twelve months.

**Figure 52. Total Number of Investments Made in the Last 12 Months**

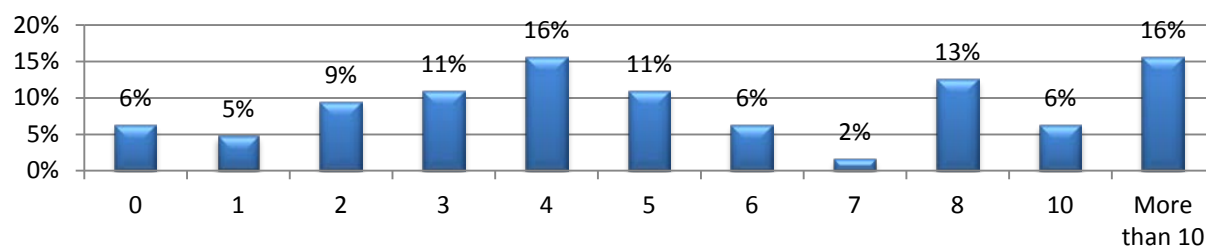


**Figure 53. Number of Follow-on Investments Made in the Last 12 Months**

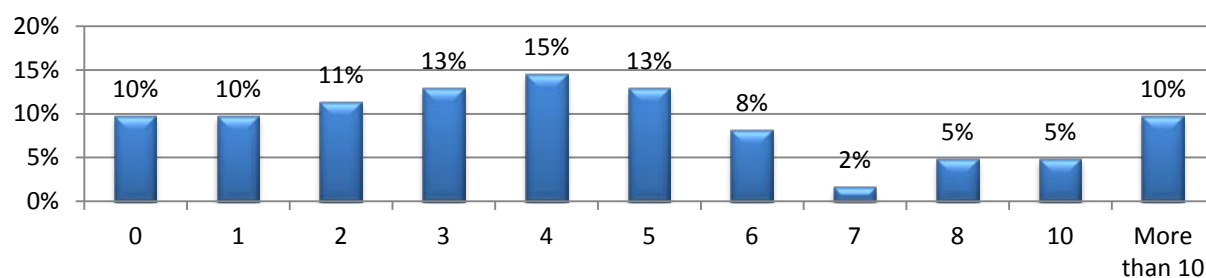


The majority (69%) of respondents plan to make four investments or more over the next 12 months.

**Figure 54. Number of Total Investments Planned over Next 12 Months**



**Figure 55. Number of Follow-on Investments Planned over Next 12 Months**



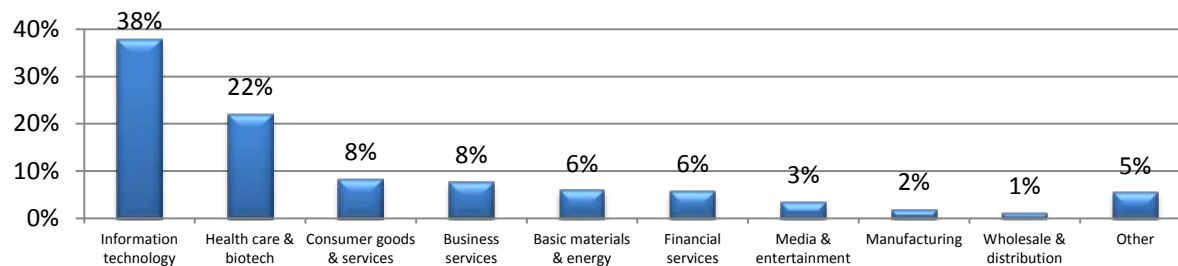
Respondents reported on business practices and the results are reflected below.

**Table 39. VC Fund Data**

	1st quartile	Median	3rd quartile
Vintage year (year in which first investment made)	2008	2013	2014
Size of fund (\$ millions)	\$10	\$38	\$125
Targeted number of total investments	13	18	28
Target fund return (gross pretax cash on cash annual IRR %)	25%	25%	35%
Expected fund return (gross pretax cash on cash annual IRR %)	15%	25%	35%

The types of businesses respondents plan to invest in over next 12 months are very diverse with over 39% targeting Information technology, and another 22% planning to invest in health care and biotech.

**Figure 56. Type of Business for Investments Planned over Next 12 Months**



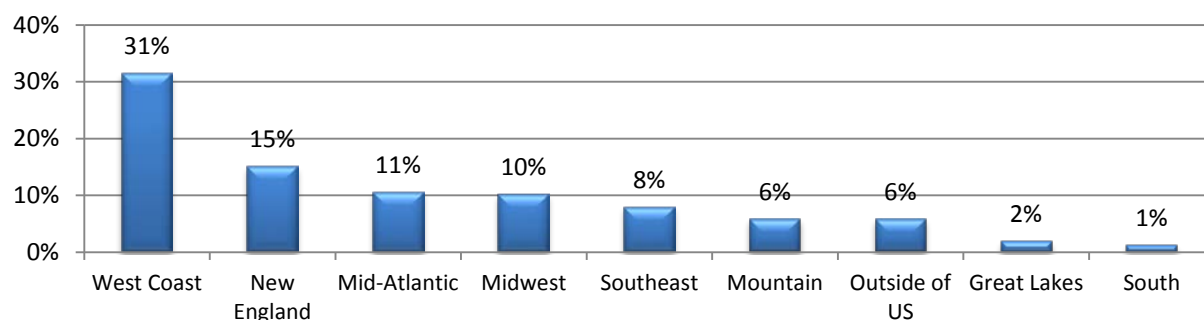
Respondents reported on a variety of stats pertaining to their investments.

**Table 40. General Information on Investments by Company Stages**

	Seed	Startup	Early Stage	Expansion	Later Stage
<b>Number of Investments Made in Last twelve months</b>					
	146	102	154	64	29
<b>Average Size of Investment (\$ million)</b>					
1st Quartile	0.5	0.5	0.5	0.5	1.75
<b>Median</b>	0.5	0.5	1.5	1.5	2.5
3rd Quartile	0.5	1.5	1.5	3.25	8.5
<b>Average % of Total Equity Purchased (fully diluted basis)</b>					
1st Quartile	5%	5%	5%	5%	5%
<b>Median</b>	<b>5%</b>	<b>10%</b>	<b>15%</b>	<b>5%</b>	<b>5%</b>
3rd Quartile	15%	15%	15%	15%	5%
<b>Total expected Returns (gross cash on cash pretax IRR) on new investments</b>					
1st Quartile	23%	24%	23%	18%	18%
<b>Median</b>	<b>38%</b>	<b>33%</b>	<b>28%</b>	<b>28%</b>	<b>23%</b>
3rd Quartile	43%	36%	38%	30%	28%
<b>Expected Time to Exit (years)</b>					
1st Quartile	4.3	4	3	3	3
<b>Median</b>	5	5	4	4	3
3rd Quartile	5	6	6	5	3
<b>Average company 'pre-money' value (\$ million)</b>					
1st Quartile	1.8	3.3	7.5	15.0	52.5
<b>Median</b>	<b>4</b>	<b>5</b>	<b>7.5</b>	<b>25</b>	<b>100</b>
3rd Quartile	7.5	15	25	55	100
<b>Average Company Value at Time of Investment (post-money \$ millions)</b>					
1st Quartile	1.0	1.3	7.0	20.0	25.0
<b>Median</b>	<b>3.0</b>	<b>8.0</b>	<b>15.0</b>	<b>40.0</b>	<b>70.0</b>
3rd Quartile	8.0	10.0	15.0	72.5	100.0

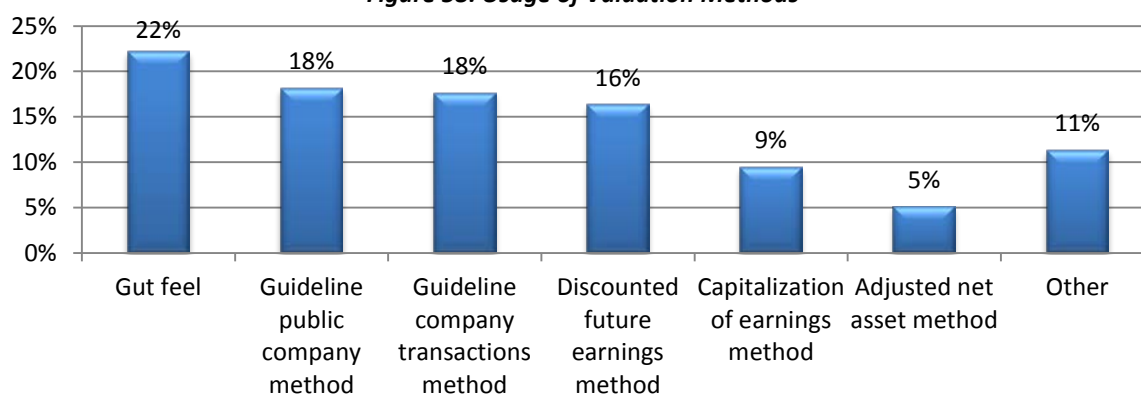
Respondents reported on where they plan to invest over the next 12 months. The results reflect investment throughout the U.S.

**Figure 57. Geographic Location of Planned Investment over Next 12 Months**



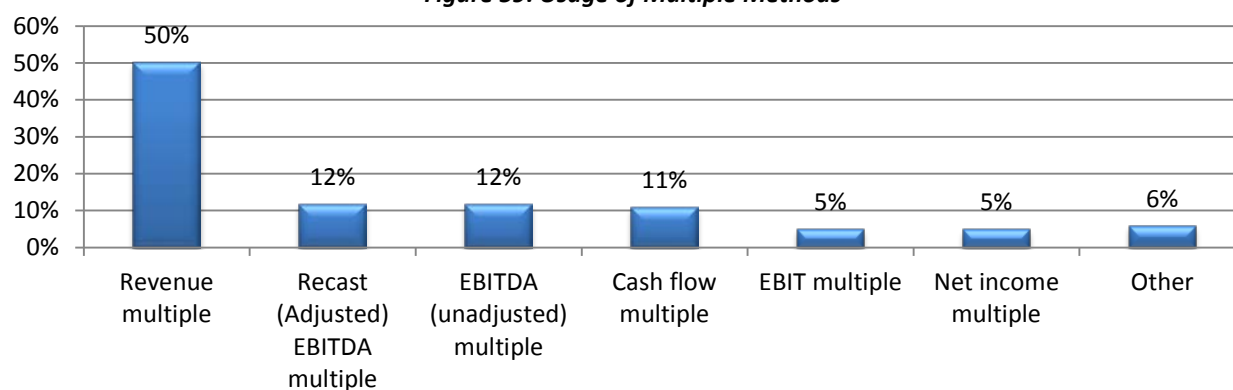
When valuing the company, approximately 22% of respondents use gut feel when valuing privately-held businesses.

**Figure 58. Usage of Valuation Methods**



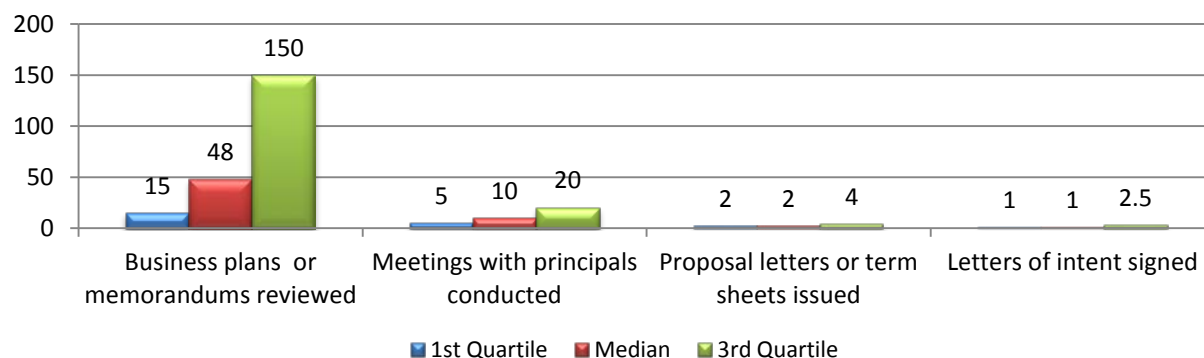
The weights of the various multiple methods used by respondents when valuing privately-held businesses included 50% for revenue multiple and 12% for recast (adjusted) EBITDA multiple methods.

**Figure 59. Usage of Multiple Methods**



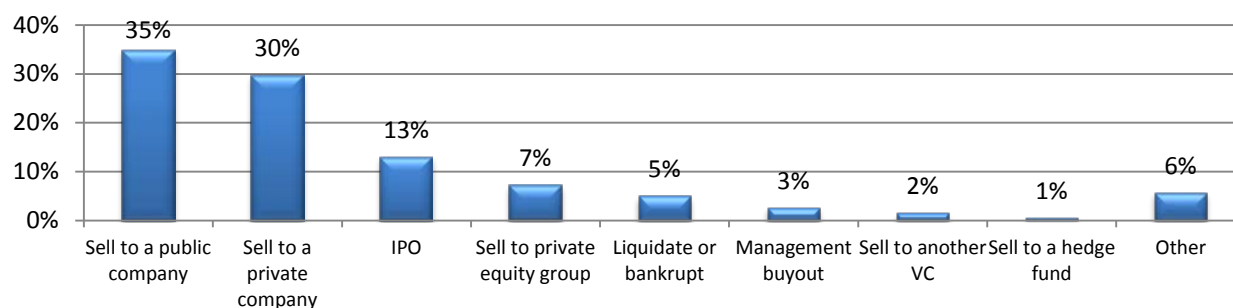
Respondents reported on items required to close one deal.

**Figure 70. Items Required to Close One Deal**



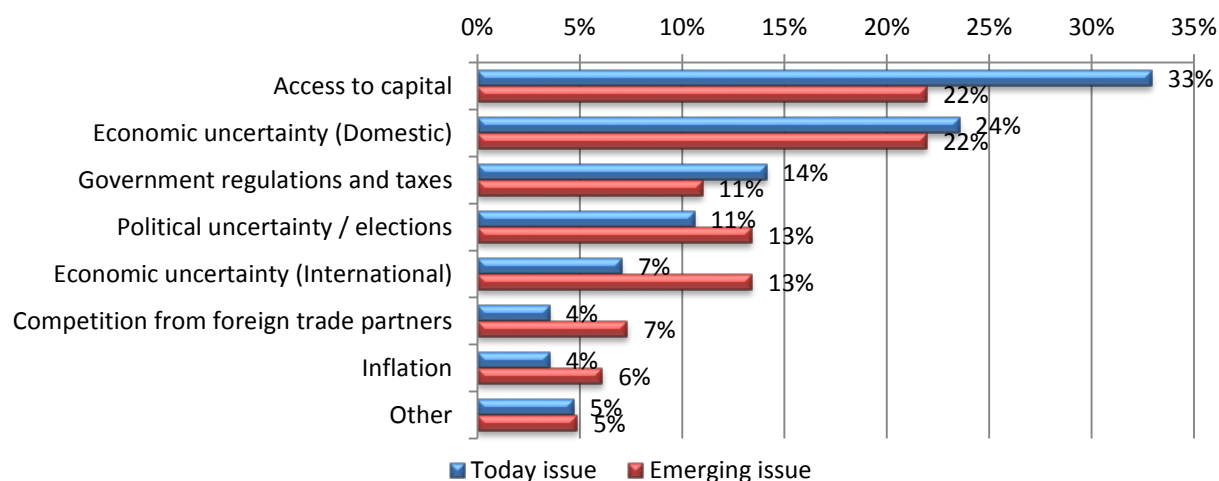
Respondents' exit strategies include selling to a public company (35%) followed by selling to a private company (30%).

**Figure 60. Exit Plans for Portfolio Companies**



Respondents believe access to capital is the most important issue facing privately-held businesses today.

**Figure 61. Current Issues Facing Privately-Held Businesses**



Respondents indicated increases in demand for venture capital, follow-on investments, value of portfolio companies, presence of super angels in space formerly occupied by VCs, and worsened general business conditions.

**Table 41. General Business and Industry Assessment: Today versus 12 Months Ago**

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Demand for venture capital	0%	8%	37%	29%	27%	56%	8%	<b>48%</b>
Quality of companies seeking investment	3%	10%	49%	24%	14%	38%	13%	<b>25%</b>
Follow-on investments	0%	9%	36%	41%	14%	55%	9%	<b>45%</b>
Average investment size	2%	11%	55%	19%	14%	33%	13%	<b>20%</b>
Exit opportunities	6%	33%	34%	20%	6%	27%	39%	<b>-13%</b>
Time to exit deals	2%	11%	39%	36%	13%	48%	13%	<b>36%</b>
Expected returns on new investments	2%	15%	50%	26%	8%	34%	16%	<b>18%</b>
Value of portfolio companies	0%	17%	24%	38%	21%	59%	17%	<b>41%</b>
General business conditions	6%	36%	34%	19%	5%	23%	42%	<b>-19%</b>
Presence of super angels in space formerly occupied by VCs	5%	19%	29%	34%	13%	47%	24%	<b>23%</b>
Size of venture capital industry	3%	16%	38%	33%	10%	43%	19%	<b>24%</b>
Appetite for risk	13%	32%	35%	11%	8%	19%	45%	<b>-26%</b>

Respondents expect further worsening general business conditions.

**Table 42. General Business and Industry Assessment Expectations over the Next 12 Months**

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	Net increase/decrease
Demand for venture capital	0%	2%	33%	48%	18%	66%	2%	<b>64%</b>
Quality of companies seeking investment	3%	7%	61%	23%	7%	30%	10%	<b>20%</b>
Follow-on investments	0%	11%	38%	41%	10%	51%	11%	<b>39%</b>
Average investment size	2%	23%	49%	25%	2%	26%	25%	<b>2%</b>
Exit opportunities	2%	39%	39%	20%	0%	20%	41%	<b>-21%</b>
Time to exit deals	3%	2%	45%	40%	10%	50%	5%	<b>45%</b>
Expected returns on new investments	0%	13%	56%	20%	11%	31%	13%	<b>18%</b>
Value of portfolio companies	0%	30%	30%	31%	10%	41%	30%	<b>11%</b>
General business conditions	5%	39%	36%	18%	2%	20%	44%	<b>-25%</b>
Presence of super angels in space formerly occupied by VCs	13%	27%	35%	18%	7%	25%	40%	<b>-15%</b>
Size of venture capital industry	3%	48%	34%	10%	5%	15%	51%	<b>-36%</b>
Appetite for risk	22%	38%	27%	13%	0%	13%	60%	<b>-47%</b>

## ANGEL INVESTOR SURVEY INFORMATION

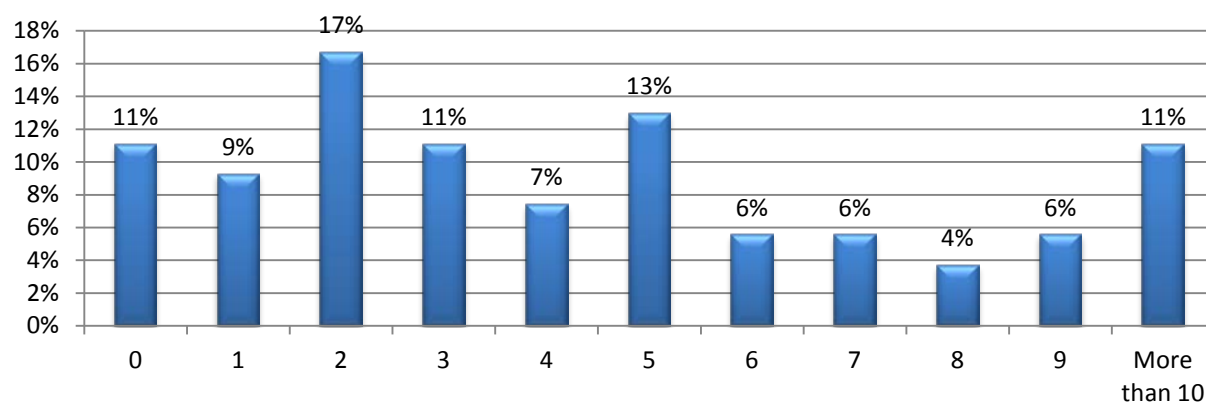
Of the 54 participants who responded to the angel investor survey, the majority (56%) of respondents plan to make between one and four investments. Other key findings include:

- Approximately 30% of respondents base valuations on gut feel when valuing privately-held businesses.
- When using multiples to determine the value of a business, the most popular methods used by respondents were revenue multiple (37%), EBITDA multiple (20%) and net income multiple (12%).
- The types of businesses respondents plan to invest in over next 12 months are very diverse with 36% targeting information technology and another 20% planning to invest in health care or biotech.
- Respondents indicated a sharp increase in demand for angel capital, increases in size of angel industry, follow-on investments, and quality of companies seeking investment. They also reported worsened and decreased expected returns on new investments.
- Respondents' exit strategies include selling to a public company (38%) and selling to a private company (30%).

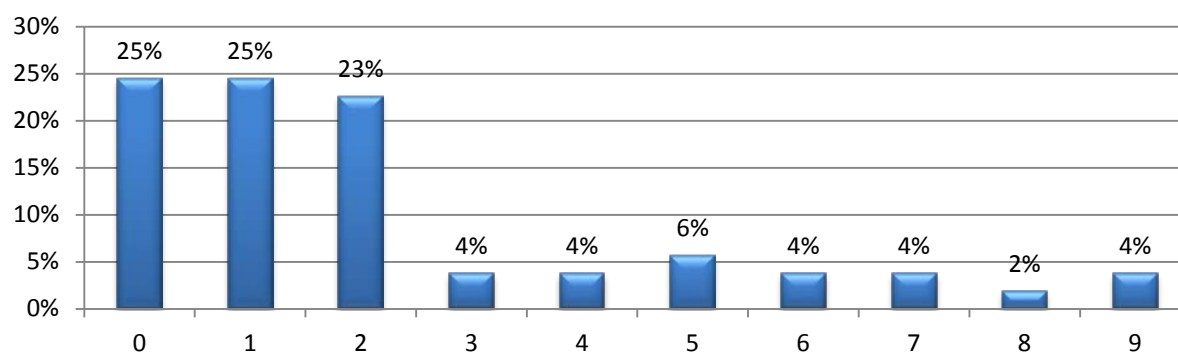
### Operational and Assessment Characteristics

Approximately 44% of respondents made either five investments or more over the last twelve months.

**Figure 62. Total Number of Investments Made in the Last 12 Months**



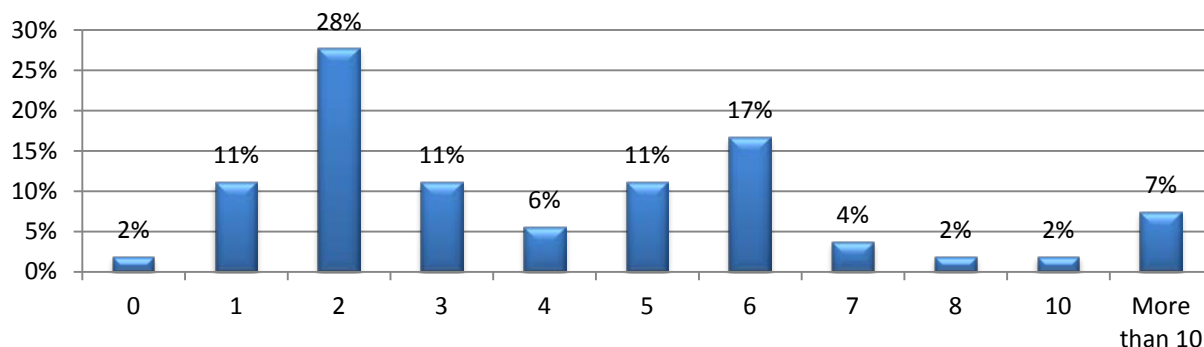
**Figure 63. Number of Follow-on Investments Made in the Last 12 Months**



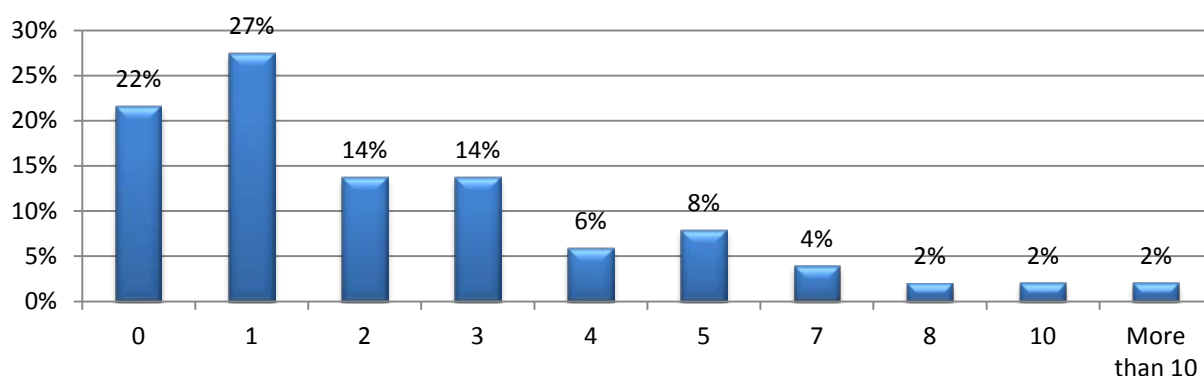
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The majority (44%) of respondents plan to make between two and four investments over the next 12 months.

**Figure 64. Number of Total Investments Planned over Next 12 Months**

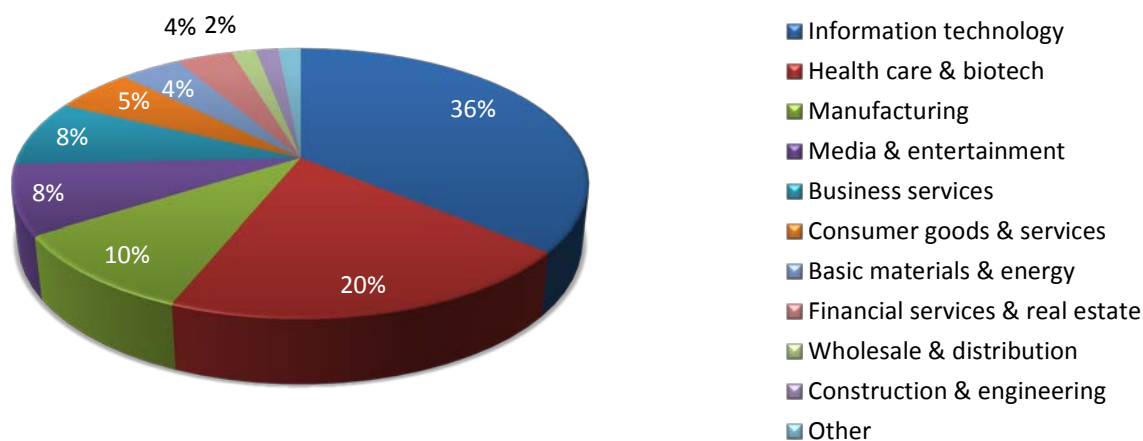


**Figure 65. Number of Follow-on Investments Planned over Next 12 Months**



The types of businesses respondents plan to invest in over next 12 months are very diverse with over 36% targeting information technology and another 20% planning to invest in health care & biotech.

**Figure 66. Type of Business for Investments Planned over Next 12 Months**





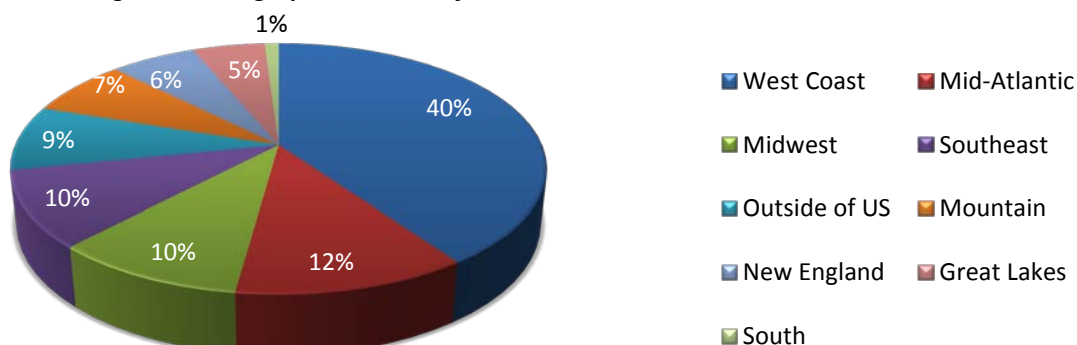
Respondents reported on a variety of stats pertaining to their investments.

**Table 43. General Information on Investments by Company Stages**

	Seed	Startup	Early Stage	Expansion	Later Stage
<b>Number of Investments Made in Last twelve months</b>					
1st Quartile	144	77	40	12	3
<b>Average Size of Investment (in thousands)</b>					
1st Quartile	\$25	\$25	\$25	\$25	\$62.5
Median	\$25	\$75	\$75	\$150	\$250
3rd Quartile	\$150	\$250	\$250	\$275	\$500
<b>Average % of Total Equity Purchased (fully diluted basis)</b>					
1st Quartile	3%	2%	2%	1.8%	1.5%
Median	5%	5%	2.5%	3.5%	2%
3rd Quartile	11%	11%	8.5%	5.5%	3.5%
<b>Total EXPECTED Returns (gross cash on cash pretax IRR) on New Investments (%)</b>					
1st Quartile	25%	25%	25%	17.5%	15%
Median	35%	35%	25%	25%	20%
3rd Quartile	67.5%	60%	55%	35%	27.5%
<b>Expected Time to Exit (years)</b>					
1st Quartile	4,5	4	3	4	5
Median	5	5	4	5	5
3rd Quartile	6	5	5	6.5	5
<b>Average company 'pre-money' value (in thousands)</b>					
1st Quartile	\$750	\$750	\$1,000	\$1,500	\$4,500
Median	\$750	\$1,500	\$2,500	\$7,500	\$10,000
3rd Quartile	\$750	\$2,750	\$3,500	\$7,500	\$10,000
<b>Average Company Value at Time of Investment (post-money \$ thousands)</b>					
1st Quartile	\$1,000	\$1,500	\$4,000	\$7,500	\$7,500
Median	\$2,000	\$3,000	\$6,000	\$20,000	\$20,000
3rd Quartile	\$4,000	\$4,250	\$8,000	\$20,000	\$20,000

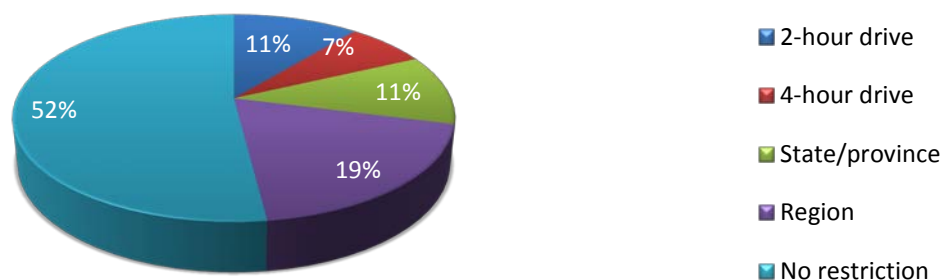
Respondents reported on where they plan to invest over the next 12 months. The results reflect investment throughout the U.S.

**Figure 67. Geographic Location of Planned Investment over Next 12 Months**



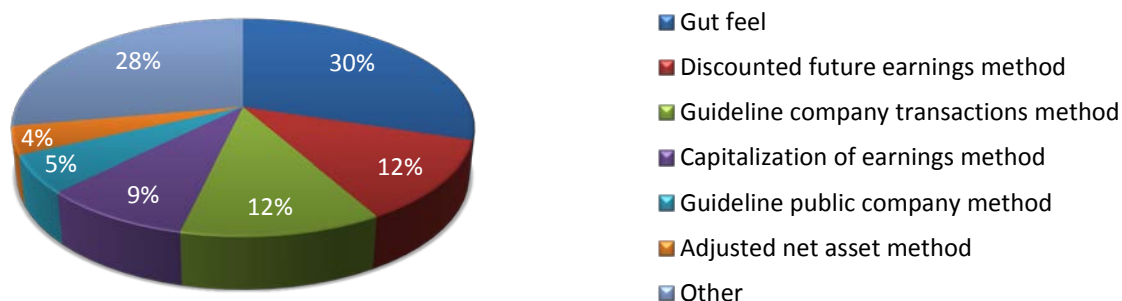
Respondents reported on their geographical limits for investments.

**Figure 68. Geographical Limit for Investment**



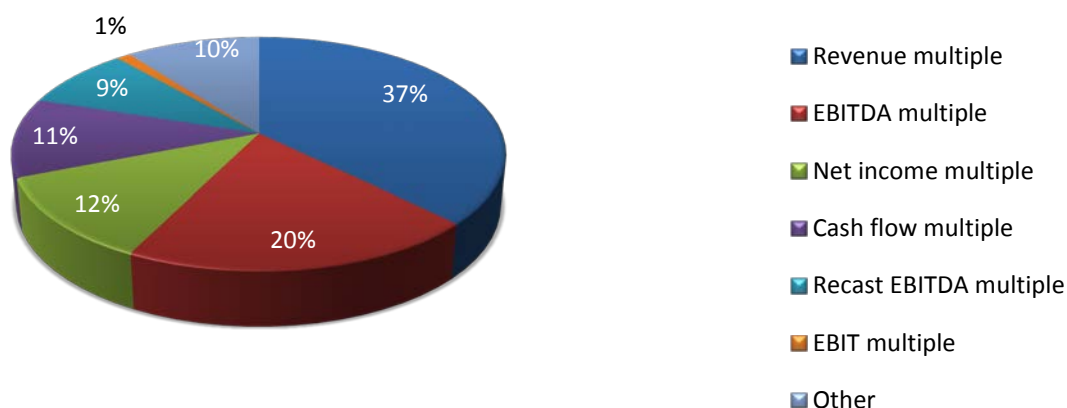
Approximately 30% of respondents base valuations on gut feel when valuing privately-held businesses followed by discounted future earnings method (12%).

**Figure 80. Usage of Valuation Methods**



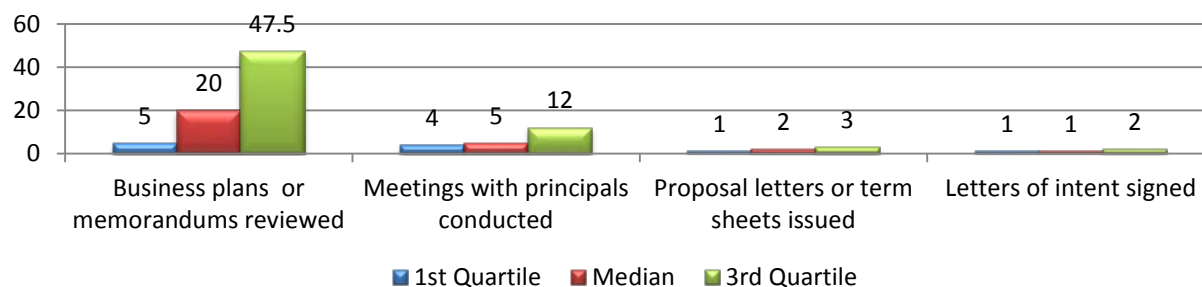
The weights of the various multiple methods used by respondents when valuing privately-held businesses included 37% for revenue multiple and 20% for EBITDA multiple methods.

**Figure 69. Usage of Multiple Methods**



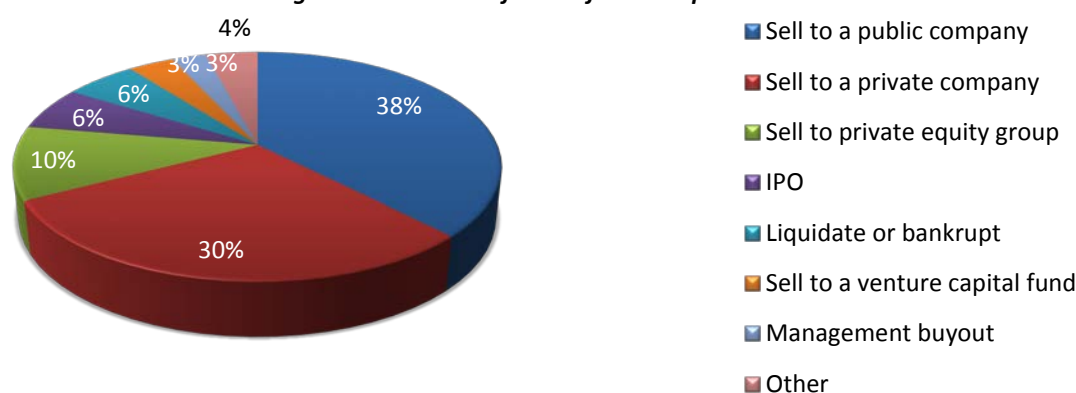
Respondents reported on items required to close one deal.

**Figure 70. Items Required to Close One Deal**



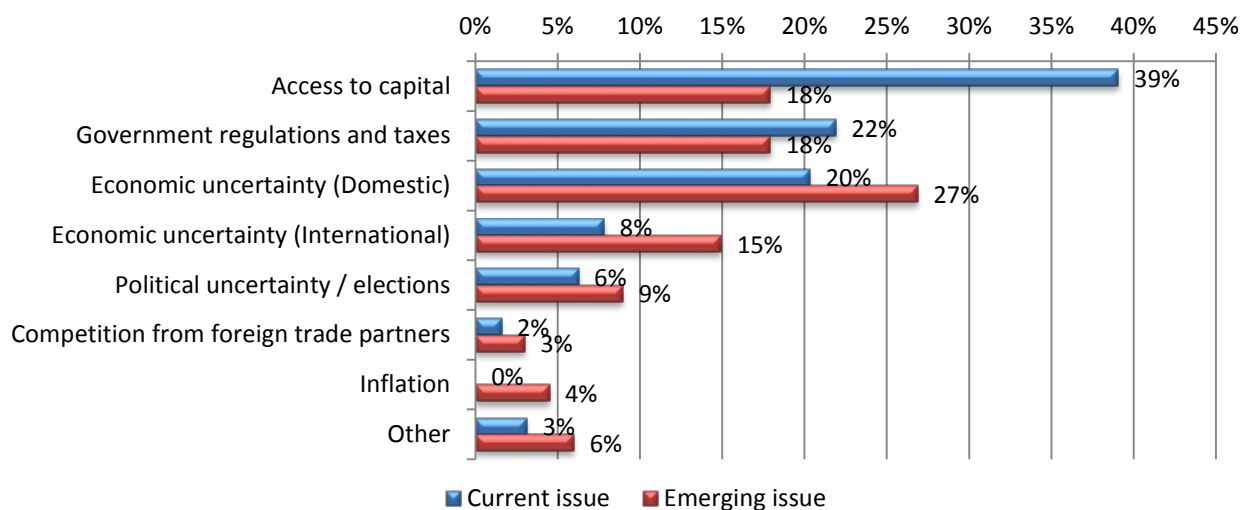
Respondents' exit strategies include selling to a public company (38%) and selling to a private company (30%).

**Figure 71. Exit Plans for Portfolio Companies**



Respondents believe access to capital is the most important current issue facing privately-held businesses.

**Figure 84. Issues Facing Privately-Held Businesses**



Respondents indicated a sharp increase in demand for angel capital, increases in size of angel industry, follow-on investments and time to exit deals. They also reported decreased expected returns on new investments and worsened general business conditions.

**Table 44. General Business and Industry Assessment: Today versus 12 Months Ago**

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Demand for angel capital	4%	4%	28%	30%	34%	64%	8%	<b>57%</b>
Size of angel finance industry	4%	10%	31%	39%	16%	55%	14%	<b>41%</b>
Quality of companies seeking investment	6%	17%	42%	29%	6%	35%	23%	<b>12%</b>
Follow-on investments	2%	12%	50%	35%	2%	37%	13%	<b>23%</b>
Average investment size	4%	4%	60%	25%	8%	33%	8%	<b>25%</b>
Exit opportunities	9%	32%	45%	8%	6%	13%	42%	<b>-28%</b>
Time to exit deals	8%	8%	42%	31%	12%	42%	15%	<b>27%</b>
Expected returns on new investments	2%	20%	67%	10%	2%	12%	22%	<b>-10%</b>
Value of portfolio companies	2%	21%	42%	19%	17%	36%	23%	<b>13%</b>
General business conditions	6%	35%	31%	29%	0%	29%	40%	<b>-12%</b>
Appetite for risk	4%	40%	40%	13%	2%	15%	44%	<b>-29%</b>

Respondents expect further increases in business characteristics except exit opportunities, general business conditions and appetite for risk.

**Table 45. General Business and Industry Assessment Expectations over the Next 12 Months**

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	Net increase/decrease
Demand for angel capital	2%	8%	39%	31%	20%	51%	10%	<b>41%</b>
Size of angel finance industry	2%	20%	36%	32%	10%	42%	22%	<b>20%</b>
Quality of companies seeking investment	2%	20%	53%	24%	2%	25%	22%	<b>4%</b>
Follow-on investments	0%	14%	51%	29%	6%	35%	14%	<b>22%</b>
Average investment size	2%	12%	55%	31%	0%	31%	14%	<b>18%</b>
Exit opportunities	4%	37%	33%	25%	0%	25%	41%	<b>-16%</b>
Time to exit deals	0%	6%	51%	29%	14%	43%	6%	<b>37%</b>
Expected returns on new investments	0%	18%	57%	22%	4%	25%	18%	<b>8%</b>
Value of portfolio companies	0%	18%	45%	31%	6%	37%	18%	<b>20%</b>
General business conditions	12%	27%	31%	29%	0%	29%	39%	<b>-10%</b>
Appetite for risk	8%	33%	51%	8%	0%	8%	41%	<b>-33%</b>

## BUSINESS APPRAISER SURVEY INFORMATION

According to the 168 business appraiser survey respondents domestic economic uncertainty is the most important issue facing privately-held business today. Respondents indicated increases in number of engagements, fees for services, competition, and improved general business conditions over the last twelve months. They also expect decreases in all general business characteristics over the next year except cost of capital and discounts for lack of marketability.

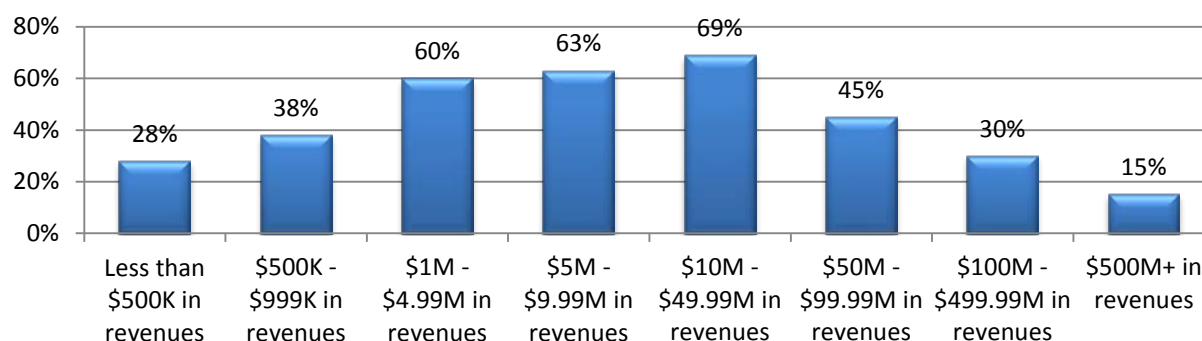
Other key findings include:

- When using valuation methods to determine the value of a business, the most popular methods used by respondents were discounted future earnings method (33%), capitalization of earnings method (27%) and guideline company transactions method (16%).
- Recast (adjusted) EBITDA multiple is the most popular when using multiple valuation method
- Respondents use an average risk-free rate of 2.99% and a market (equity) risk premium of 6.35%
- Average long-term terminal growth is estimated at 3.11%

### Operational and Assessment Characteristics

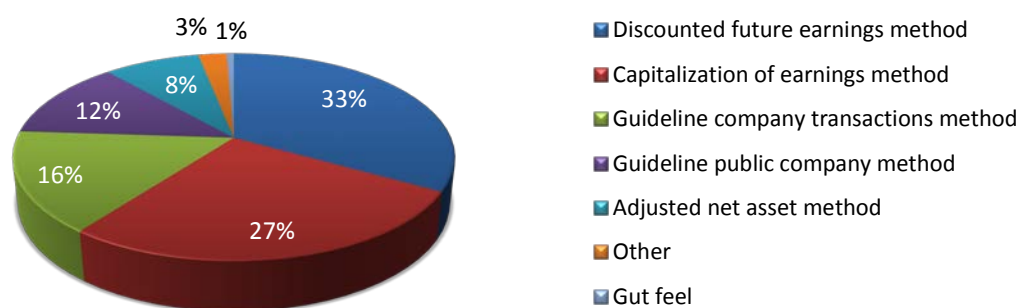
Most of the companies valued by respondents have annual revenues from \$1 million to \$50 million.

**Figure 72. Annual Revenues of Companies Valued**



Appraisers, on average, apply a 33% weight to discounted future earnings method when valuing a privately-held business.

**Figure 73. Usage of Valuation Methods**



Respondents using multiples-based approaches indicate a preference for using recast (adjusted) EBITDA multiples (40%), followed by revenue multiples (22%).

**Figure 74. Usage of Multiple Methods**



Respondents indicated using an average risk-free rate of 2.99%, average market (equity) risk premium of 6.35% and average long-term growth rate of 3.11%.

**Figure 75. Average Risk-Free Rate and Market (equity) Risk Premium and Long-Term Growth Rate**

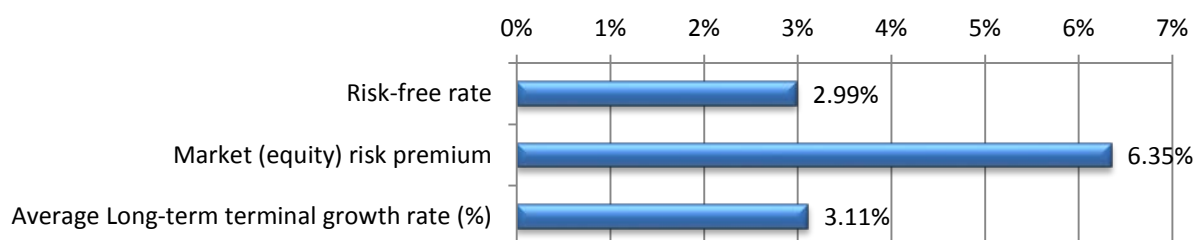
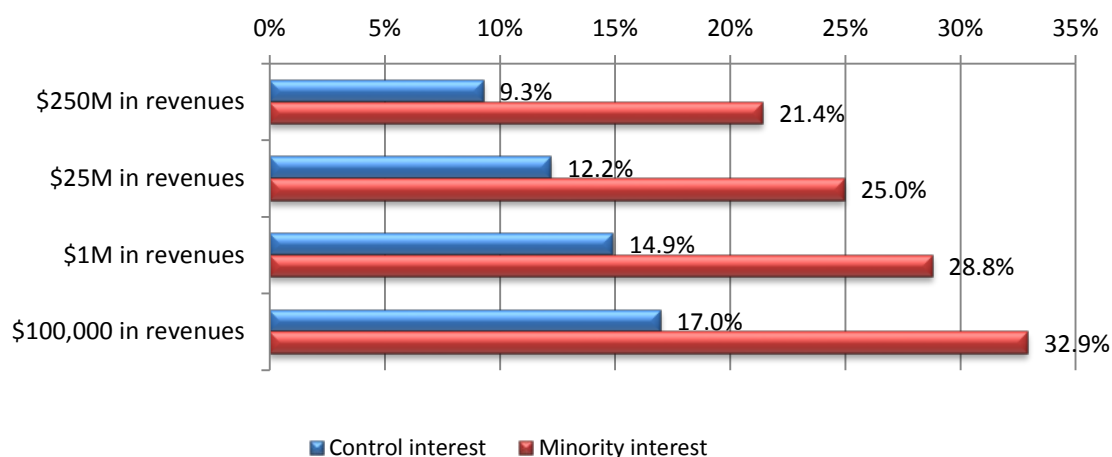


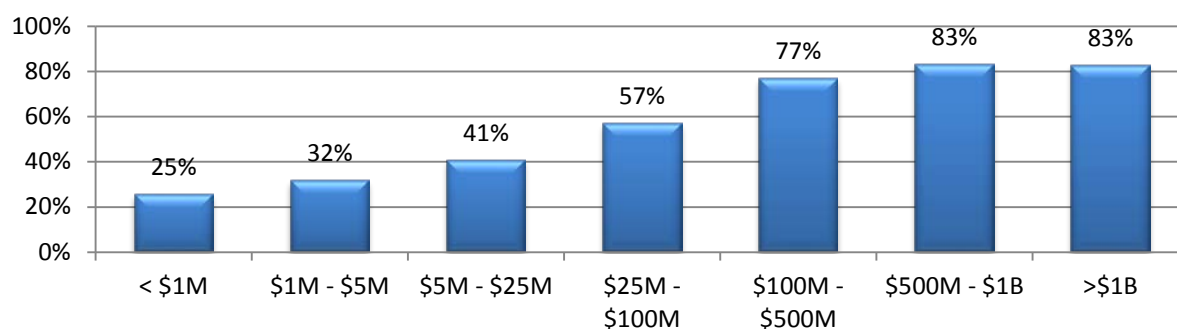
Figure below indicates considerable differences in DLOMs across sizes of companies and subject interests.

**Figure 76. Discount for Lack of Marketability (DLOM) by Revenue Sizes**



Only 25% of respondents are comfort applying public cost of capital to privately-held companies with annual revenues less than \$1 million.

**Figure 77. Overall Comfort Level with Applying Public Cost of Capital to Privately-held Companies of Various Sizes**



**Figure 78. Explicit Forecast Period for High-Growth Companies by Revenue Sizes (years)**



Respondents indicated increases in number of engagements, fees for services, competition, and improved general business conditions over the last twelve months.

**Table 46. General Business and Industry Assessment: Today versus 12 Months Ago**

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Number of engagements	2%	13%	32%	35%	18%	52%	16%	36%
Time to complete a typical appraisal	0%	10%	72%	12%	6%	18%	10%	8%
Fees for services	1%	8%	52%	35%	5%	40%	9%	31%
Competition	0%	4%	61%	28%	7%	35%	4%	31%
Cost of capital	0%	14%	65%	20%	1%	22%	14%	8%
Market (equity) risk premiums	0%	9%	73%	16%	2%	18%	9%	9%
Discounts for lack of marketability (DLOM)	0%	10%	81%	7%	2%	9%	10%	-1%
Company specific risk premiums	1%	8%	70%	18%	3%	21%	9%	12%
General business conditions	2%	11%	49%	33%	6%	38%	13%	26%
Appetite for risk	1%	17%	52%	27%	3%	30%	18%	13%

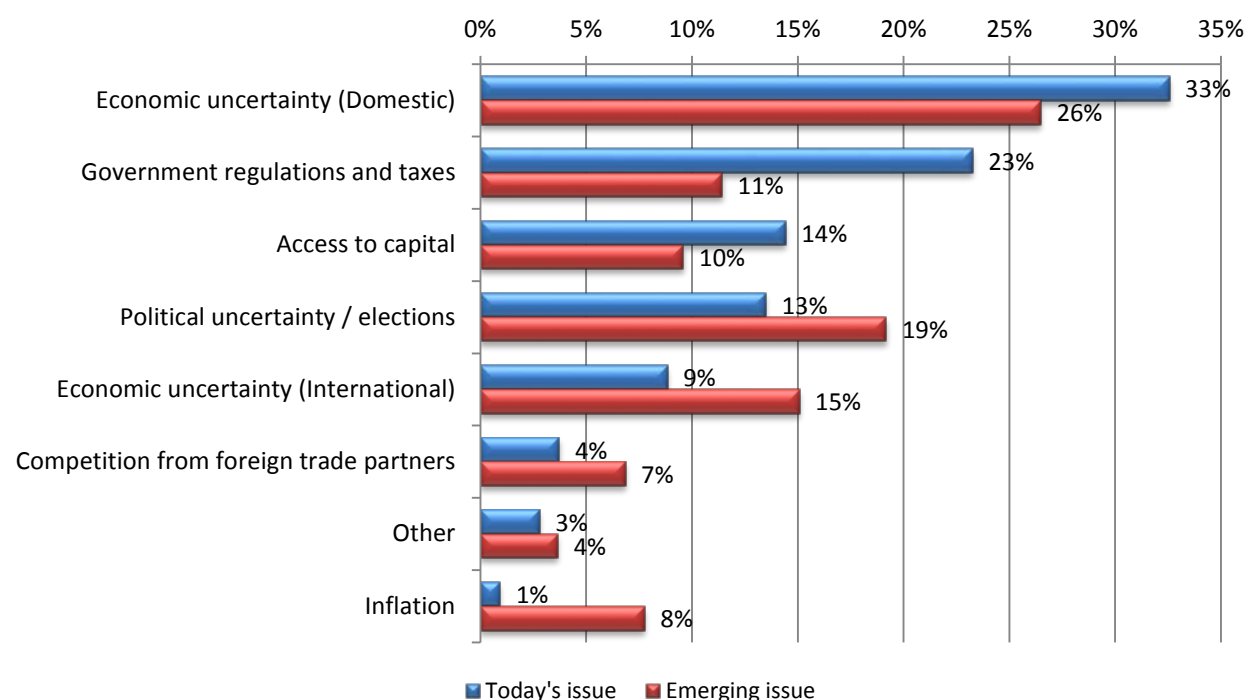
Respondents expect decreases in all general business characteristics over the next year except DLOMs and cost of capital.

**Table 47. General Business and Industry Assessment Expectations over the Next 12 Months**

Characteristics	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	Net increase/decrease
Number of engagements	2%	8%	37%	42%	8%	2%	10%	-8%
Time to complete a typical appraisal	1%	12%	73%	10%	3%	1%	13%	-13%
Fees for services	1%	5%	50%	41%	1%	2%	6%	-4%
Competition	1%	4%	66%	25%	2%	2%	4%	-2%
Cost of capital	1%	4%	54%	35%	2%	5%	4%	1%
Market (equity) risk premiums	1%	5%	60%	29%	2%	4%	5%	-2%
Discounts for lack of marketability (DLOM)	1%	2%	79%	12%	1%	5%	3%	2%
Company specific risk premiums	1%	5%	62%	24%	3%	4%	6%	-2%
General business conditions	2%	21%	42%	29%	2%	4%	23%	-18%
Appetite for risk	4%	20%	51%	18%	3%	4%	24%	-20%

Respondents believe domestic economic uncertainty is the most important issue facing privately-held businesses today.

**Figure 79. Issues Facing Privately-Held Businesses**





## BROKER SURVEY INFORMATION

Approximately 36% of the 378 participants for the broker survey said they expect to close six deals or more in the next 12 months.

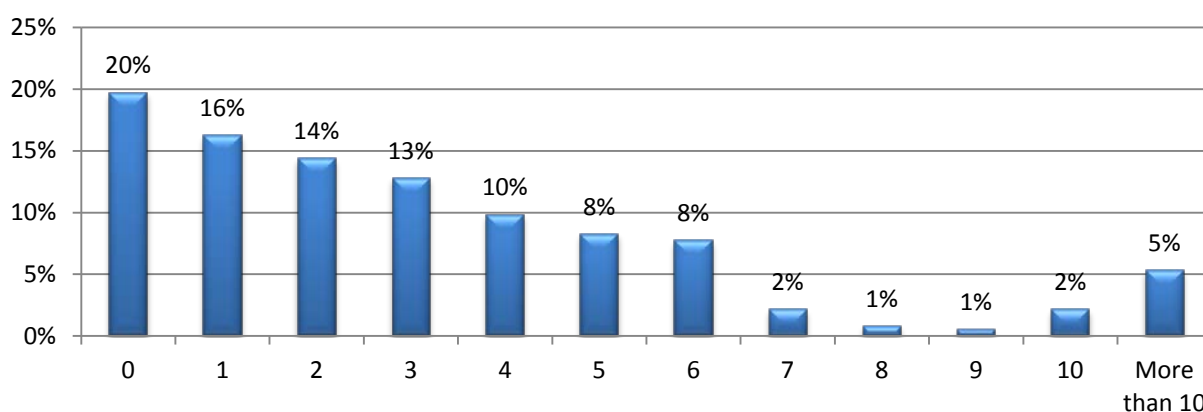
Other key findings include:

- Approximately 16% of business listings/ engagements terminated without closing in the last 12 months.
- Respondents indicated increases in deal flow, ratio of businesses sold to total listings, business exit opportunities and difficulty selling business.
- Top three reasons for sellers to go to market: retirement, burn out, and new opportunity.

### Operational and Assessment Characteristics

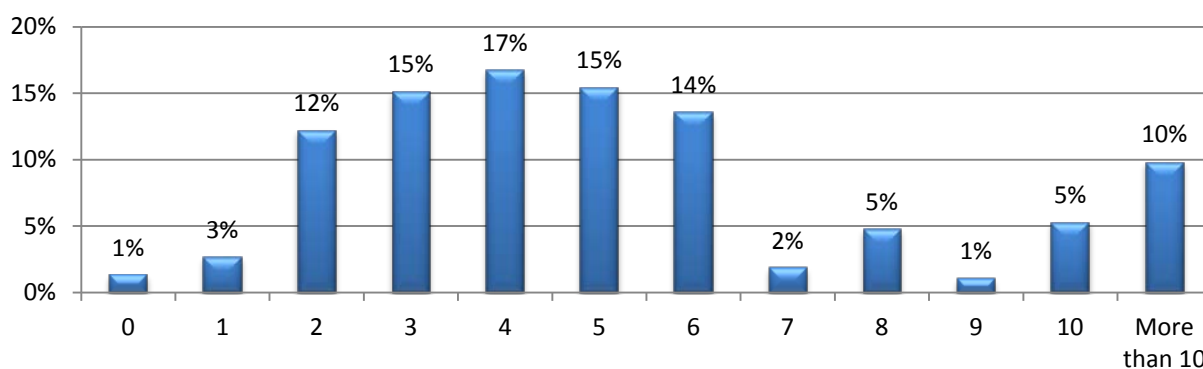
Approximately 20% of the respondents didn't close any deal in the last twelve months; 62% closed between one to five deals, while 19% closed six or more transactions.

**Figure 80. Private Business Sales Transactions Closed in the Last Twelve Months**



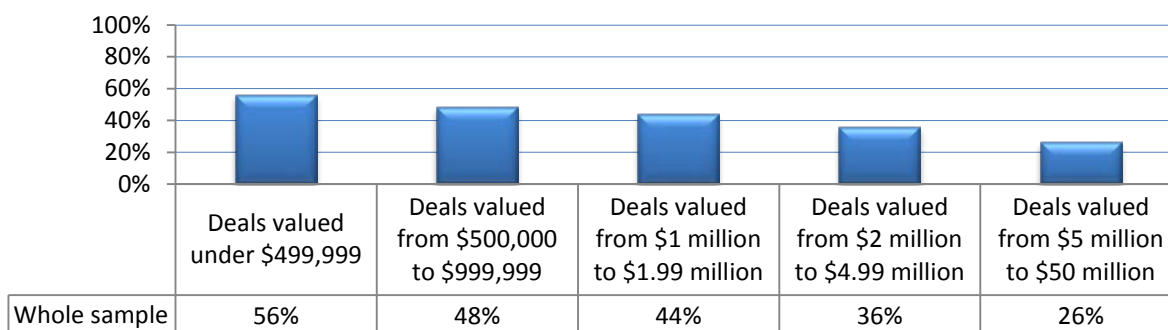
Approximately 62% of respondents are planning to close between one and five business sales transactions in the next 12 months.

**Figure 81. Private Business Sales Transactions Expected to Close in the Next Twelve Months**



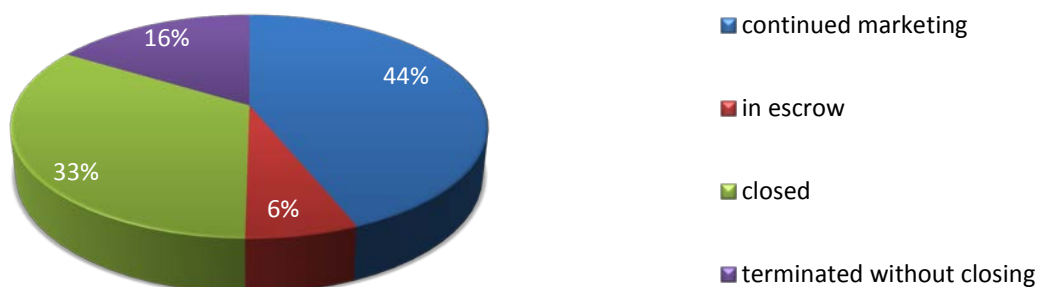
Respondents indicated typical sizes of transactions they are currently working on.

**Figure 82. Typical Size of Business Transactions**



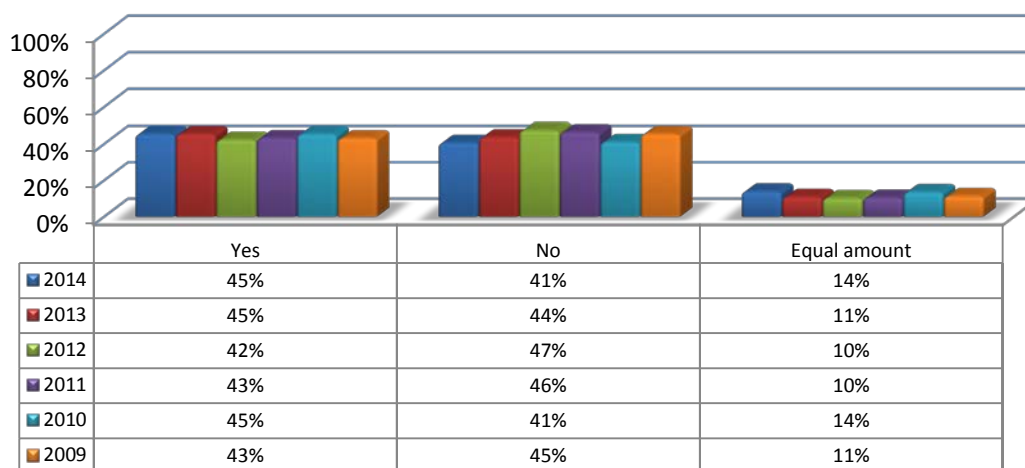
Respondents indicate out of all business transactions they worked on in the last 12 months 33% were closed, 44% are continued marketing, 6% are in escrow and 16% were terminated without closing.

**Figure 83. Business Transactions in the Last 12 Months**



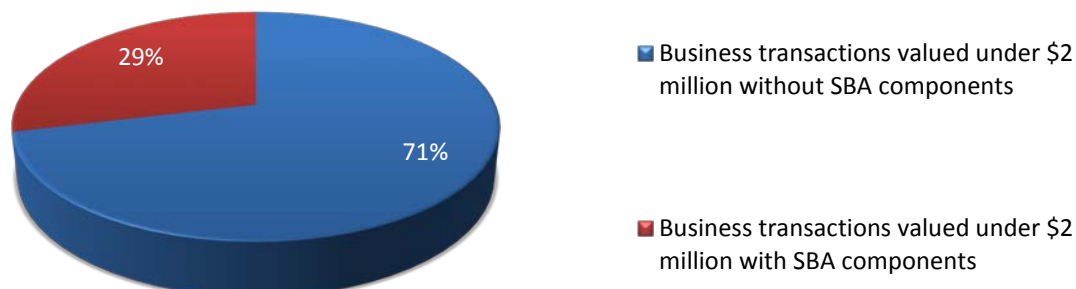
Nearly 45% of respondents closed more transactions in 2015 than in 2014, 14% of respondents closed equal amount.

**Figure 84. Did Respondents Close More Transactions in 2015 than in Previous Years**



Approximately 29% of business transactions valued under \$2 million contain SBA components.

**Figure 85. Percentage of Closed Business Transactions Valued under \$2 million Utilized SBA Components**



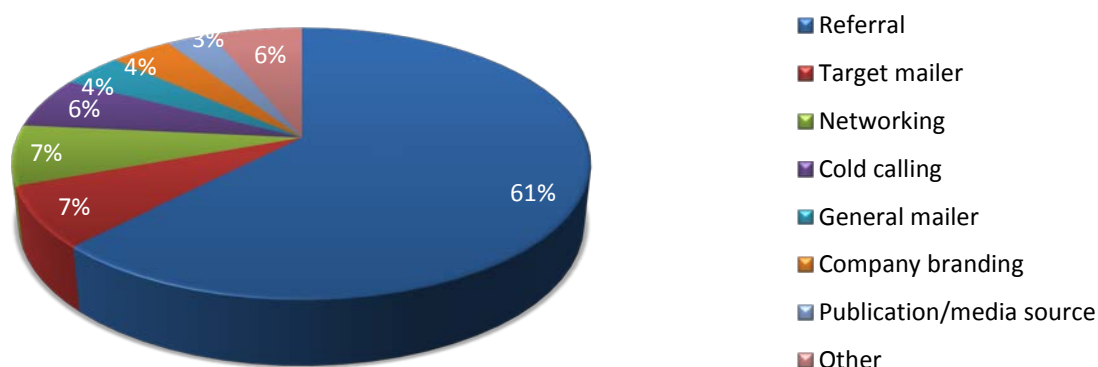
Respondents indicate difficulty to arrange senior debt for transactions with annual revenues under \$100 thousands.

**Table 48. How Difficult to Arrange Senior Debt for Transactions over the Past 12 Months**

Revenue size	Extremely difficult	Difficult	Somewhat difficult	Neutral	Somewhat easy	Easy	Extremely easy	Score (-2 to 2)
\$100K	32%	19%	11%	12%	11%	7%	8%	-1.0
\$500K	8%	14%	17%	18%	17%	15%	10%	0.1
\$1M	3%	11%	21%	17%	24%	12%	12%	0.3
\$5M	2%	7%	20%	16%	24%	18%	13%	0.6
\$10M	4%	4%	11%	27%	31%	14%	8%	0.5
\$15M	4%	4%	17%	23%	21%	21%	11%	0.6
\$25M+	9%	11%	9%	22%	17%	17%	15%	0.4

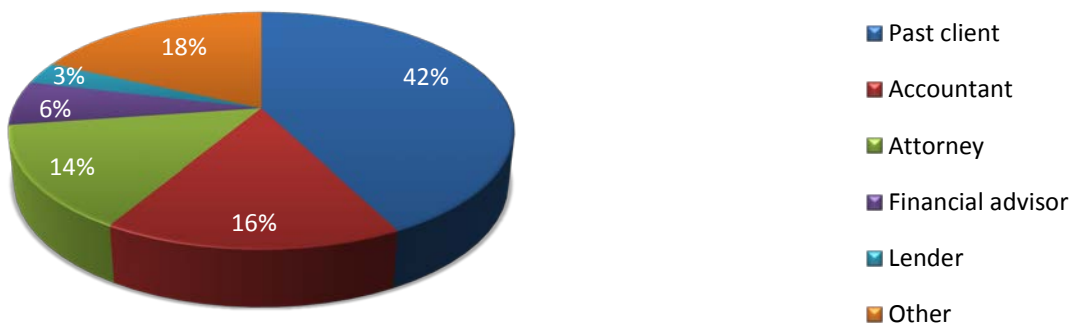
Approximately 61% of respondents indicate best clients arrived by referrals.

**Figure 86. In 2015, Best Client Arrived By:**

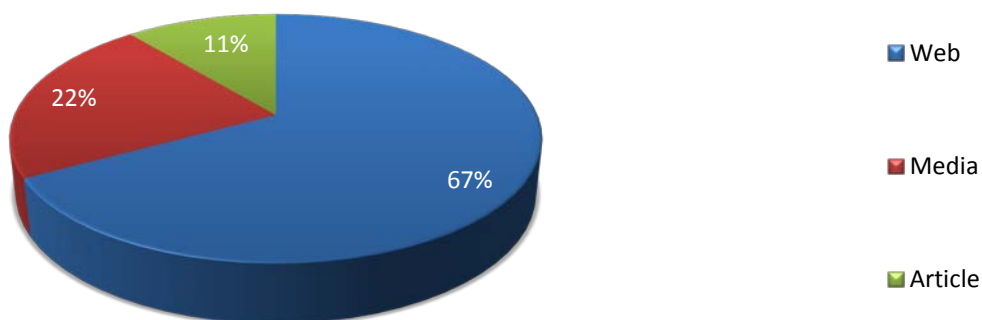


Nearly 43% of referrals were past clients.

**Figure 87. Types of Referrals**

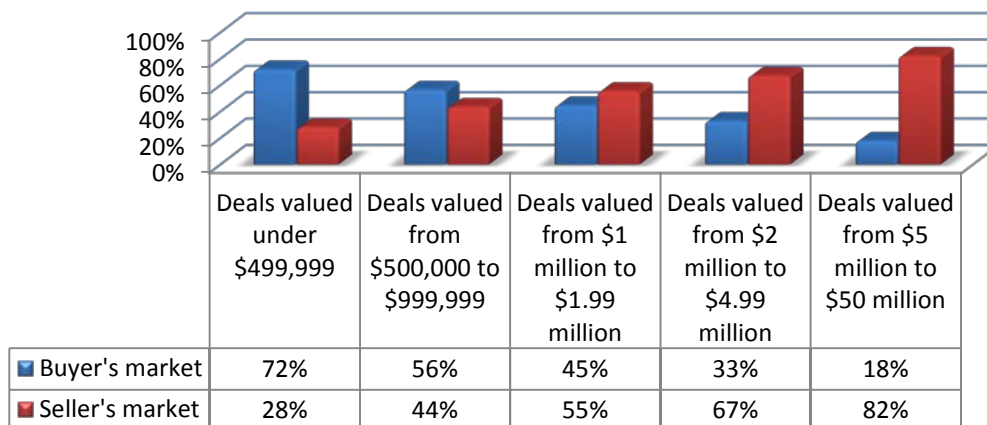


**Figure 88. Types of Publication/ Media Source**



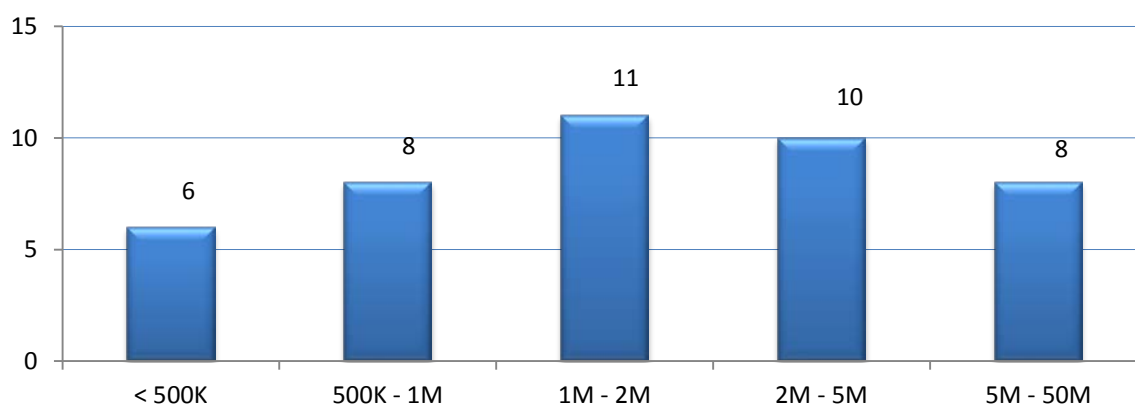
Approximately 72% of respondents indicated it was 'buyer's market' for deals valued under \$500 thousands, whereas only 18% of respondents indicated it was 'buyer's market' for deals valued between \$5 million and \$50 million.

**Figure 89. Was It Buyer's or Seller's Market in the Last 3 Months**



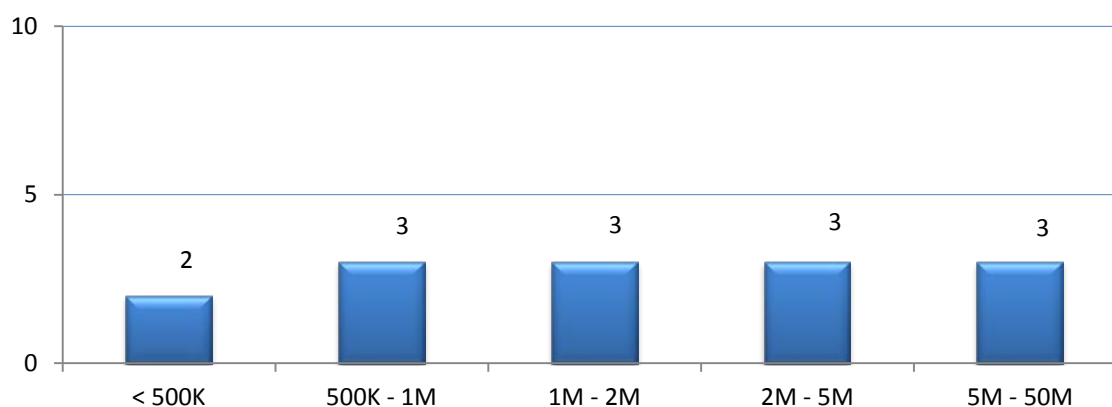
Median number of months from listing/ engagement to close varies from 6 to 11 months.

**Figure 90. Median Number of Months from Listing/ Engagement to Close by Deal Size**



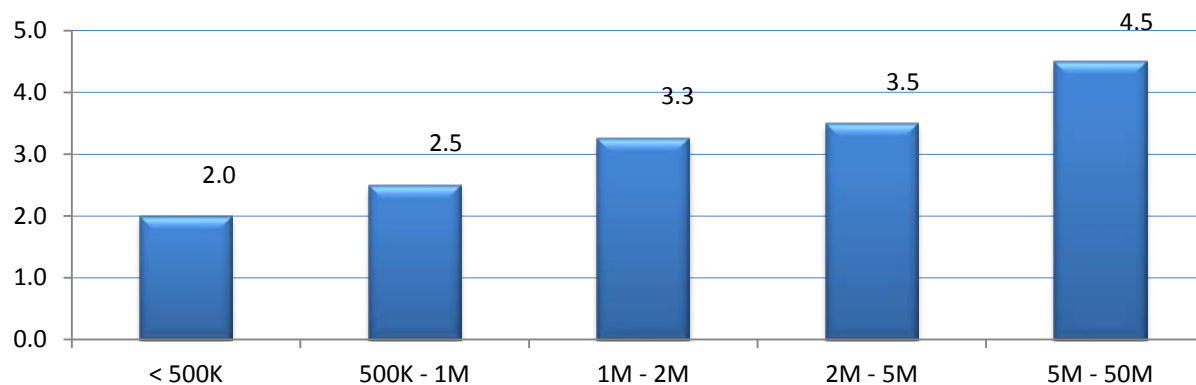
Median number of months from LOI/ Offer to close varies from 2 to 3 months.

**Figure 91. Median Number of Months from LOI/ Offer to Close by Deal Size**



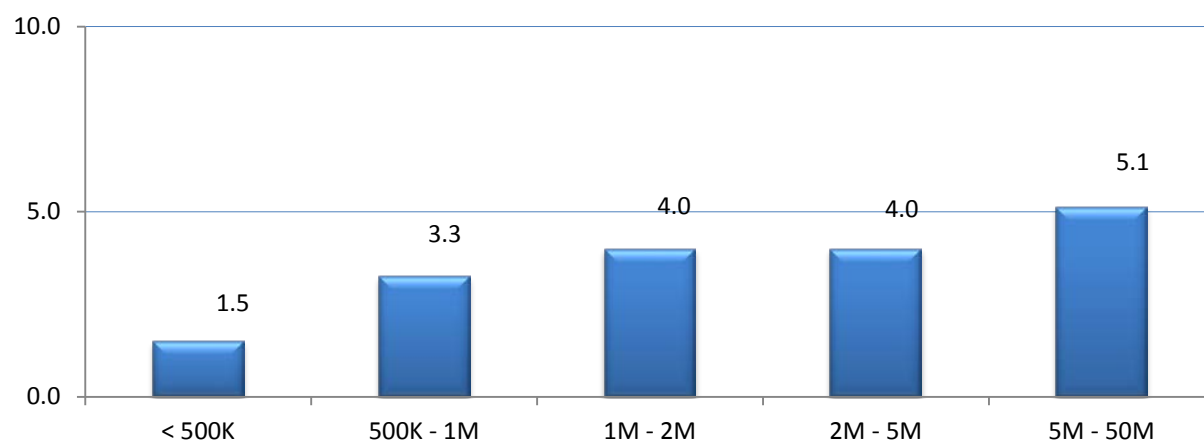
Median SDE multiple paid varies between 2 and 4.5.

**Figure 92. Median SDE Multiple Paid by Deal Size**



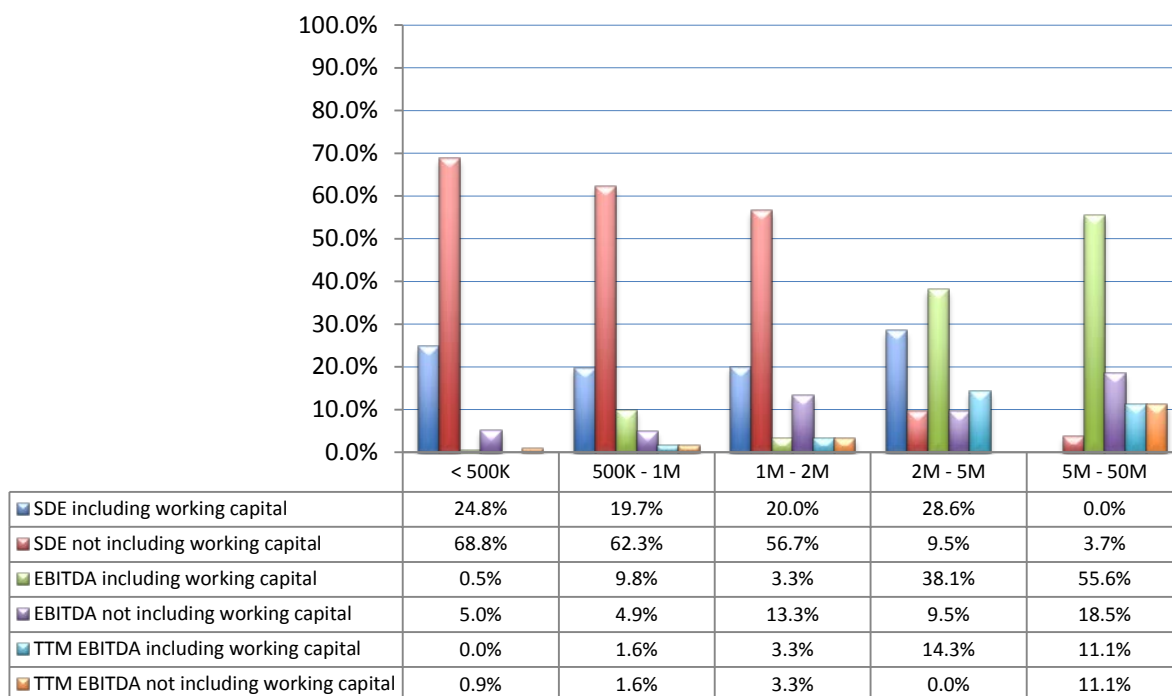
Median EBITDA multiple paid varies between 1.5 and 5.1.

**Figure 93. Median EBITDA Multiple Paid by Deal Size**



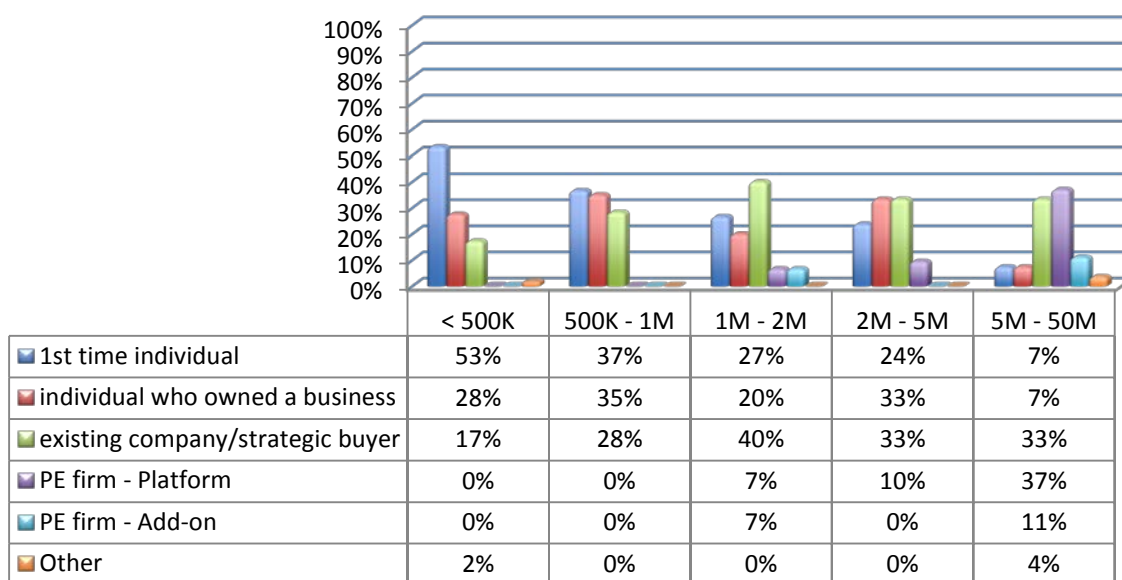
SDE not including working capital was the most popular multiple type used for deals valued under \$2 million, while EBITDA including working capital was the most popular type for deals valued between \$2 million and \$50 million.

**Figure 94. Multiple Types by Deal Size**



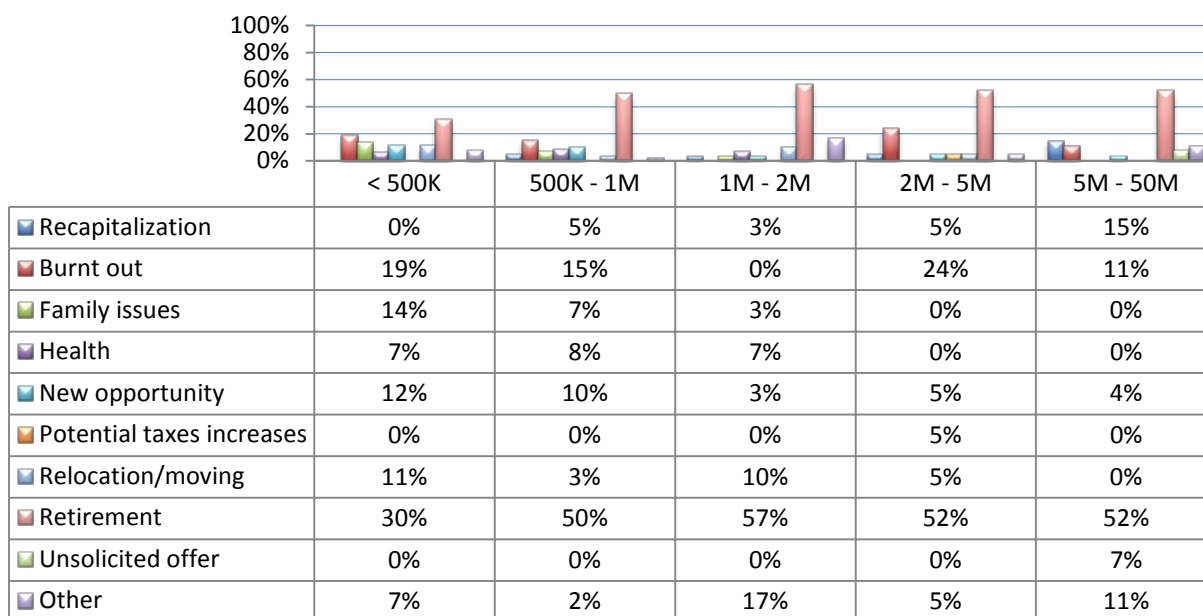
For deals valued under \$1 million first time individual was the most popular buyer type, existing company/ strategic buyer was the most popular buyer type for deals valued between \$1 million and \$5 million, while PE firm – platform was the most popular buyer type for deals valued between \$5 million and \$50 million.

**Figure 95. Buyer Type by Deal Size**



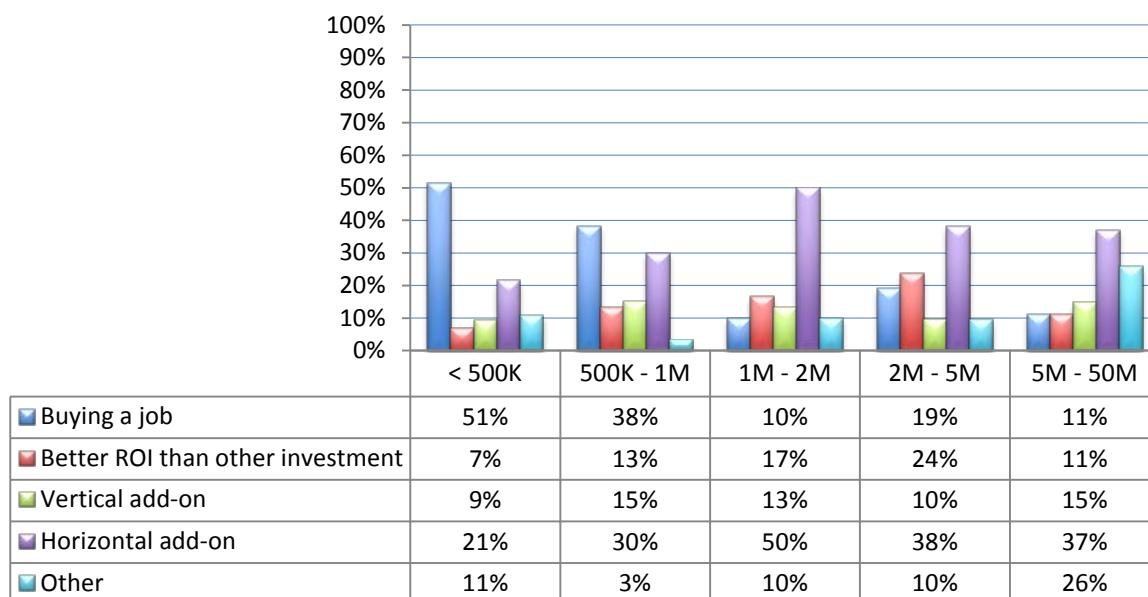
Reason number one for sellers to go to market was retirement.

**Figure 96. Reason for Seller to Go to Market by deal Size**



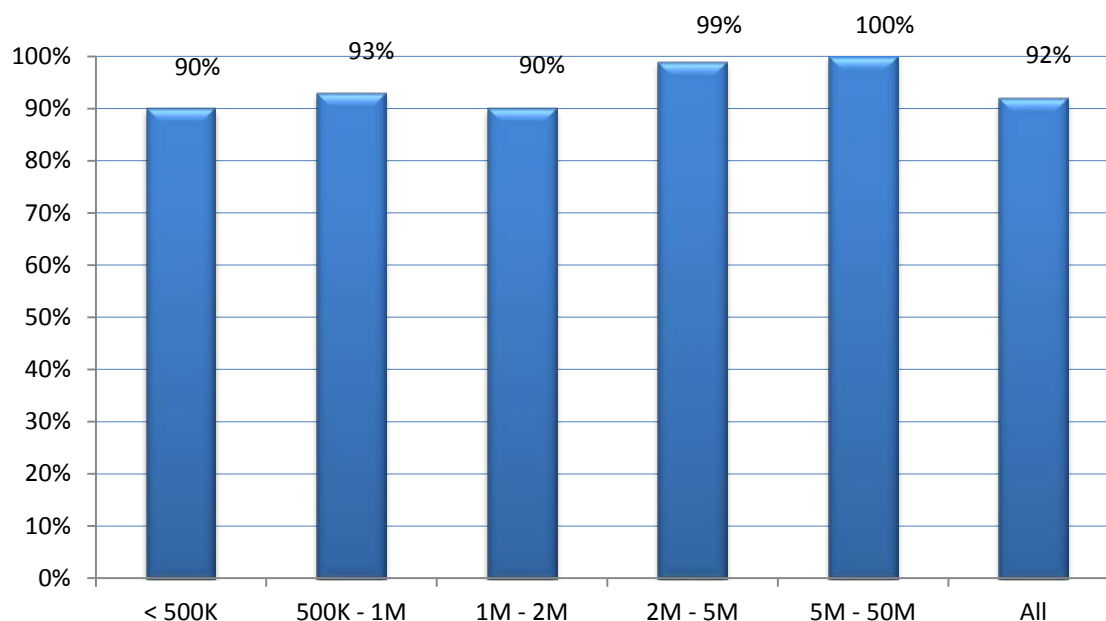
Buying a job was the number one motivation for buyer for deals valued under \$1 million, while horizontal add-on was the number one motivation for buyer for deals valued between \$1 million and \$50 million.

**Figure 97. Number One Motivation for Buyer by Deal Size**



Average percentage of final/ selling price realized to asking/ benchmark price was 92%.

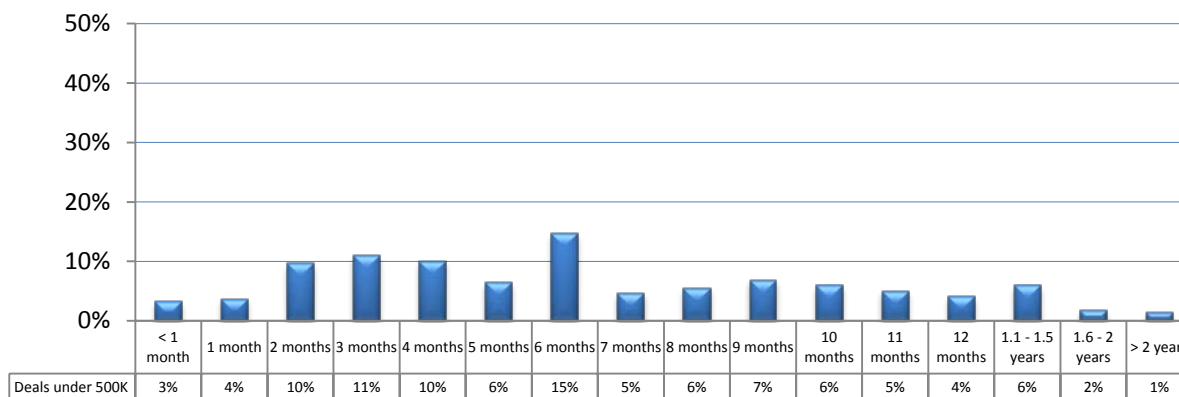
**Figure 98. Median Percentage of Final/ Selling Price Realized to Asking/ Benchmark Price by Deal Size**



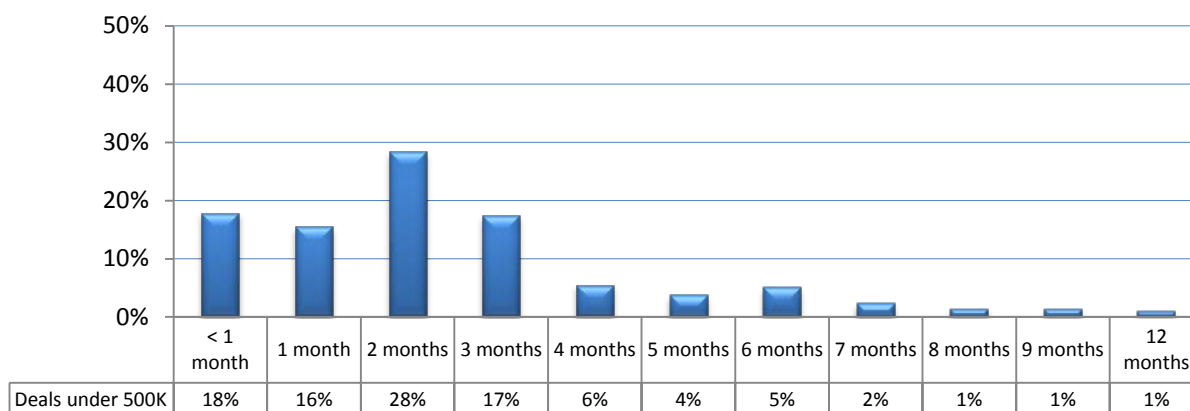


## Business Transactions Valued Under \$499 Thousand

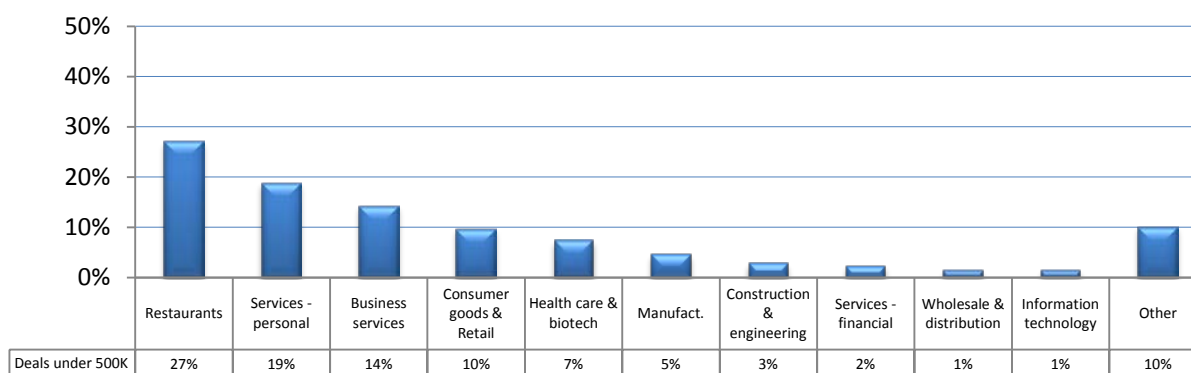
**Figure 99. Number of Months from Engagement/ Listing to Close**



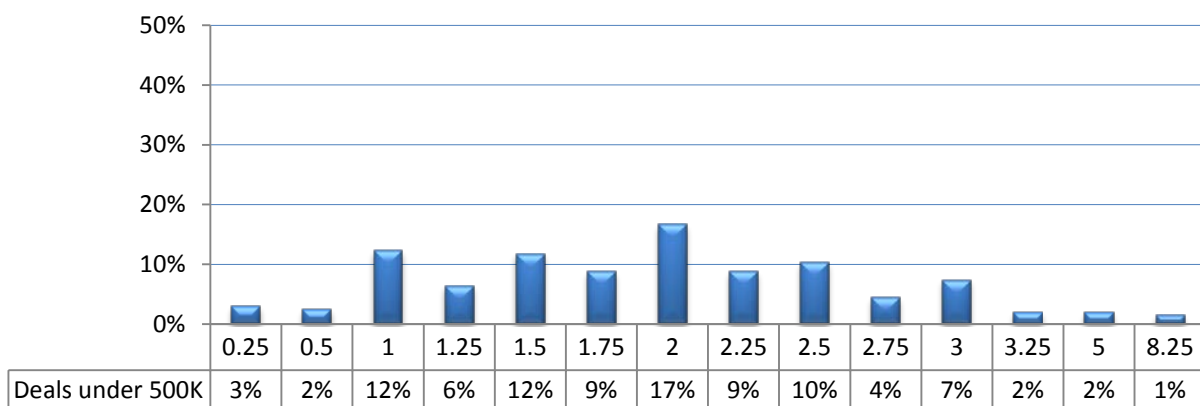
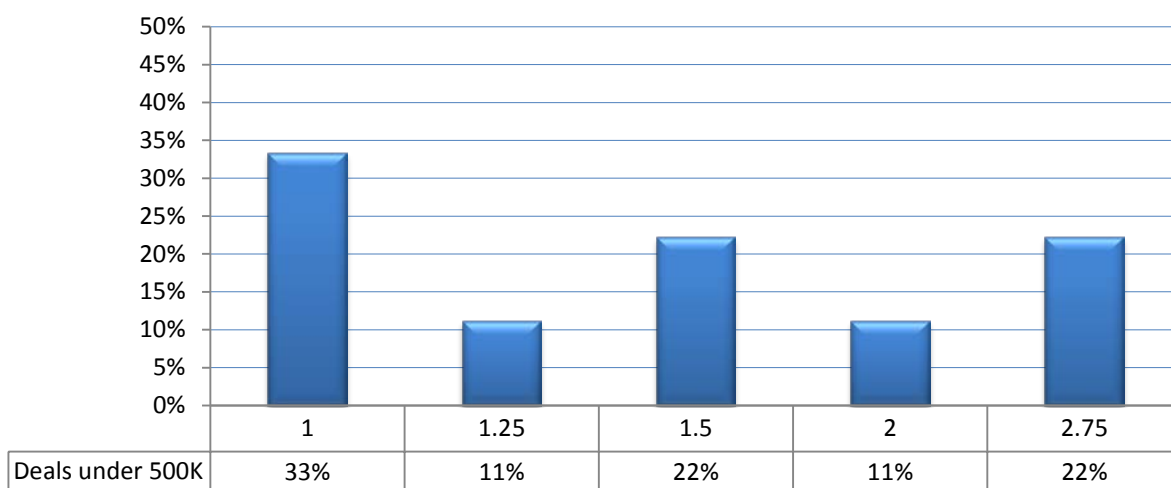
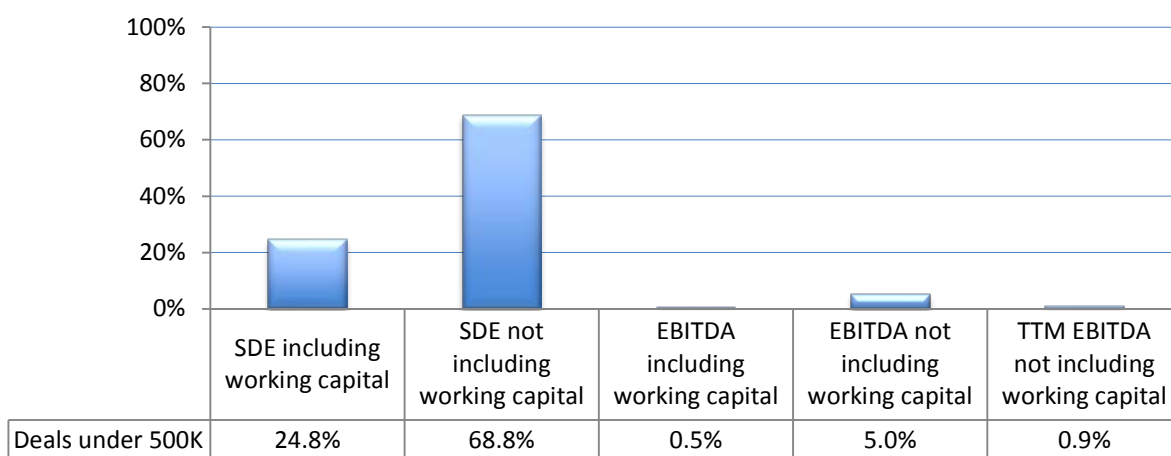
**Figure 100. Number of Months from LOI/ Offer to Close**



**Figure 101. Industry Type**

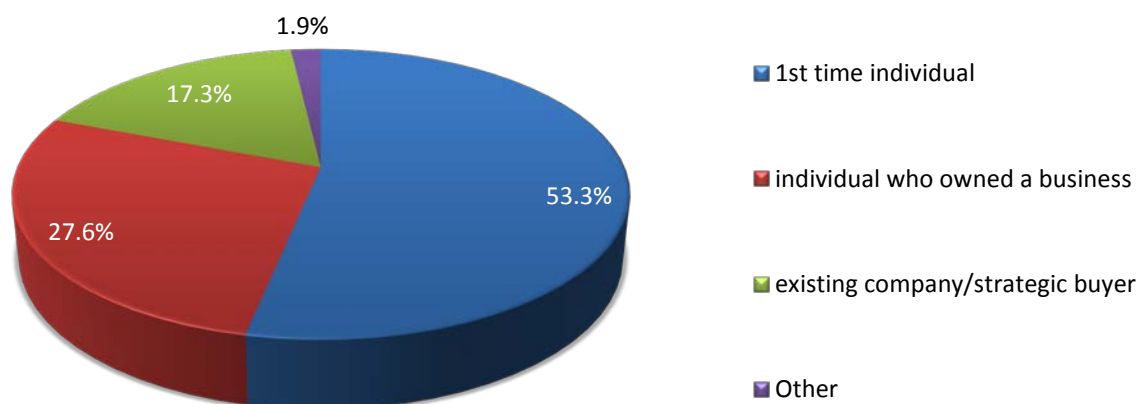


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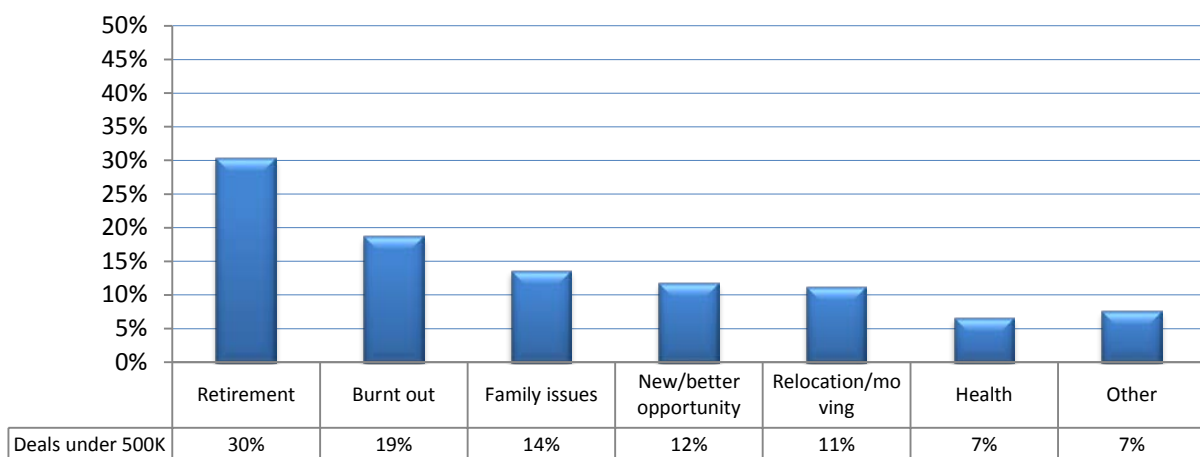
**Figure 102. SDE Multiple Paid****Figure 103. EBITDA Multiple Paid****Figure 104. Multiple Paid**

BROKER cont.

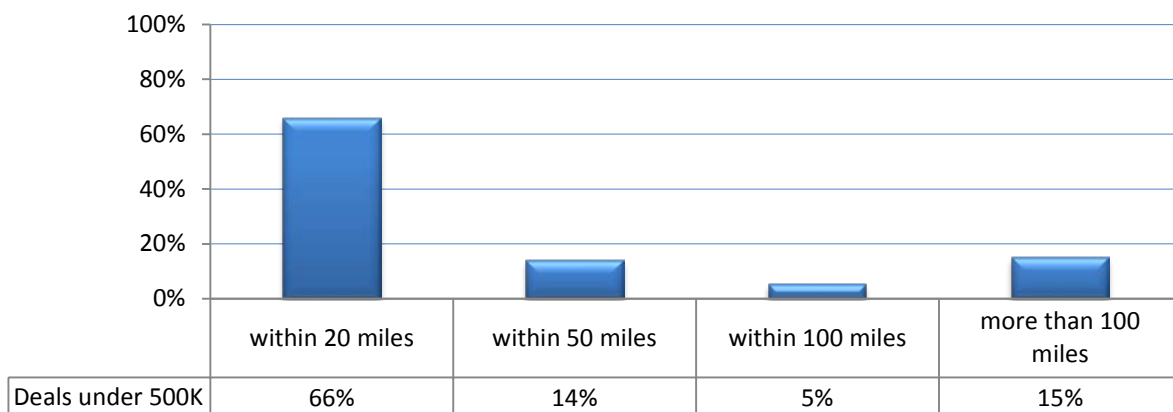
**Figure 105. Buyer Type**



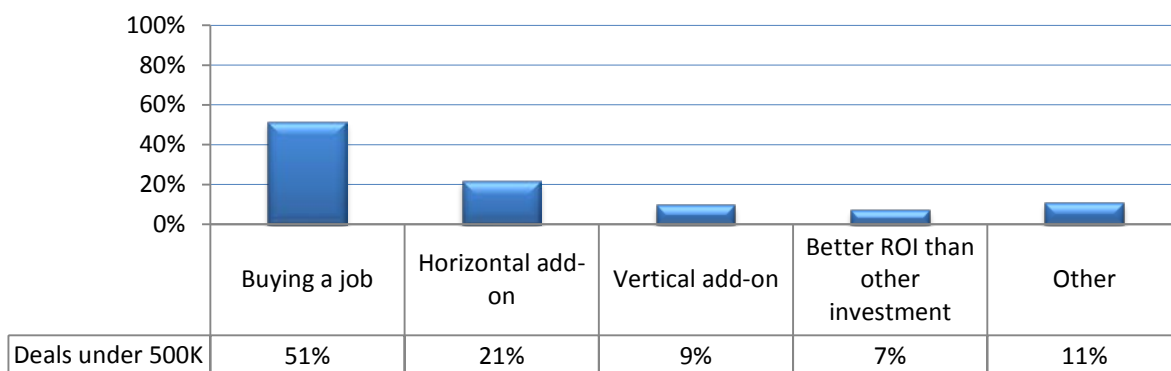
**Figure 106. Reason for Seller to Go to Market**



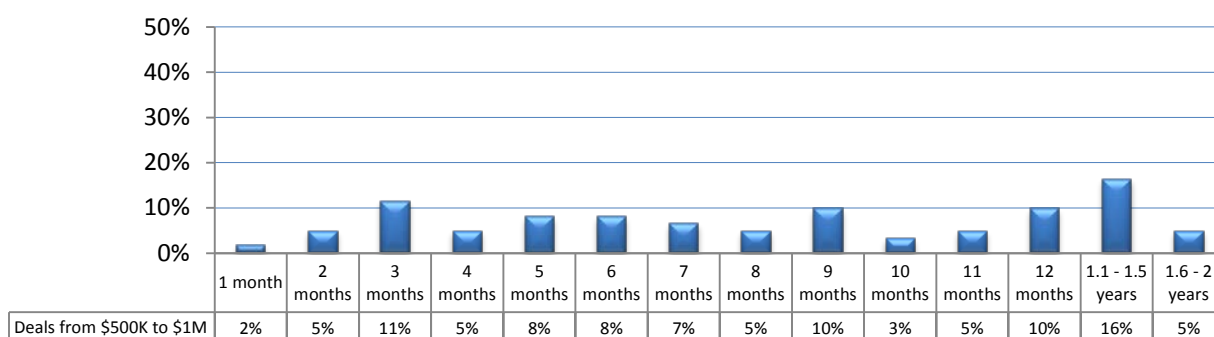
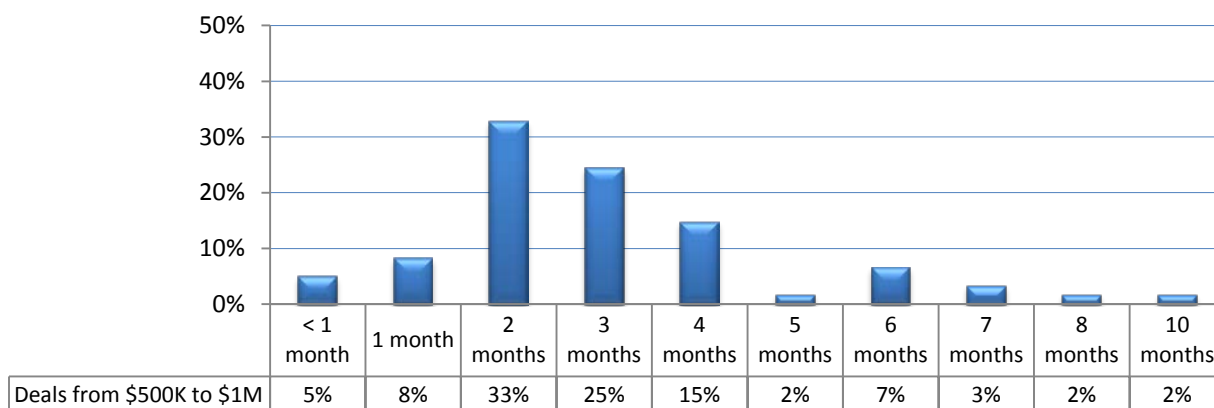
**Figure 107. Buyer Location**



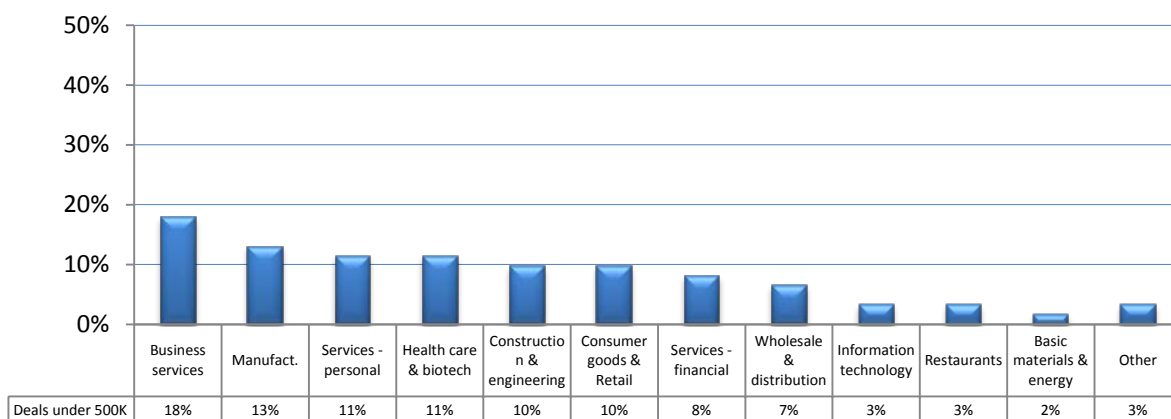
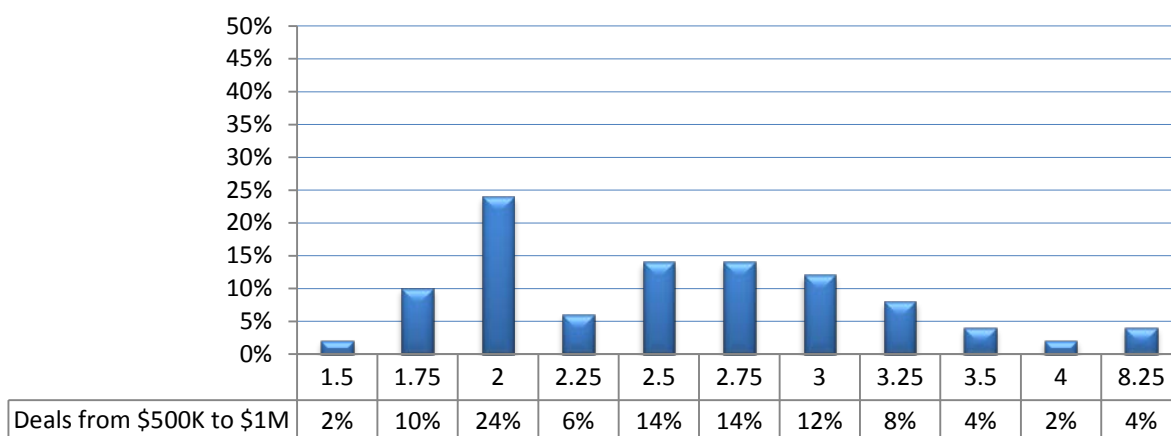
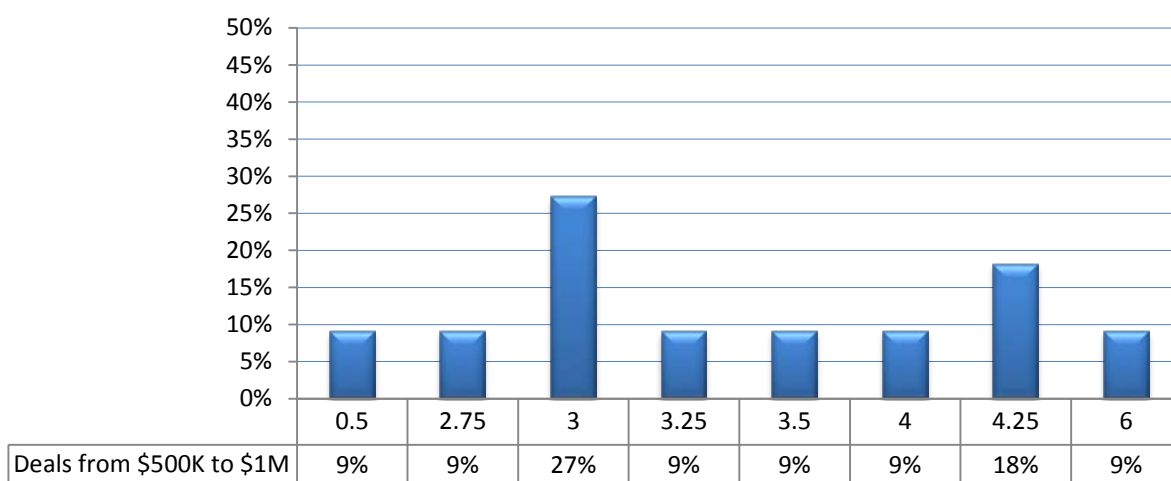
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**Figure 108. Number One Motivation for Buyer**

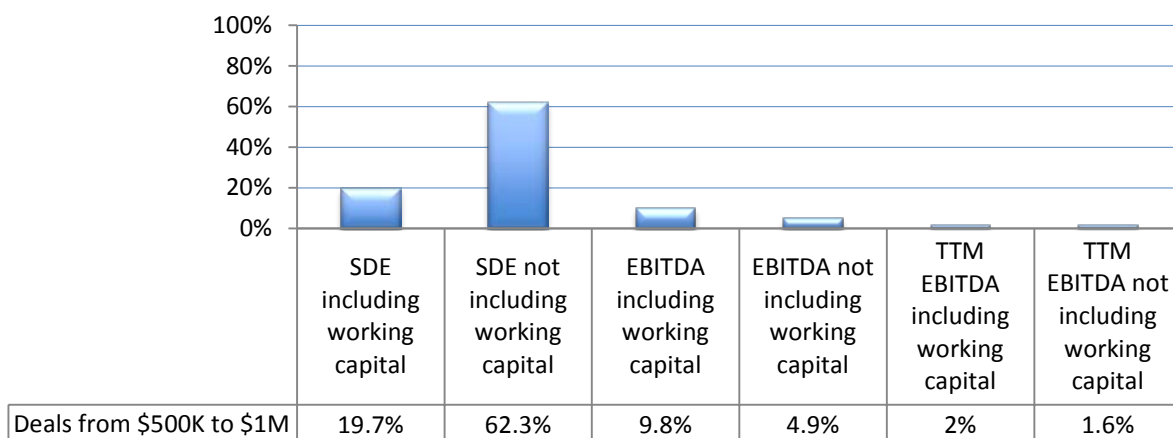
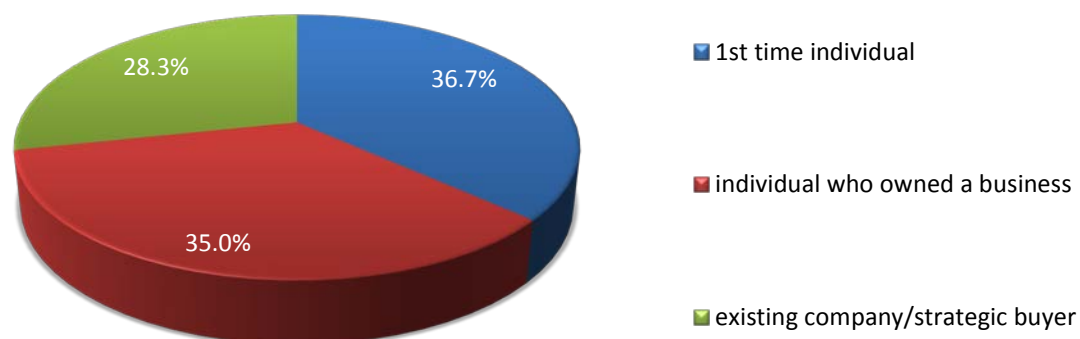
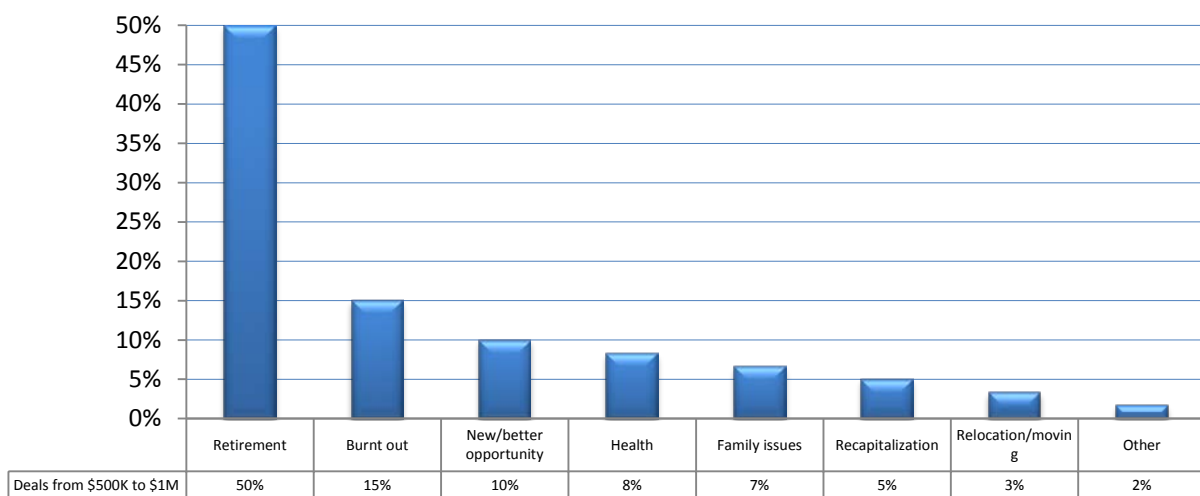
### Business Transactions Valued from \$500 to \$999 Thousand

**Figure 109. Number of Months from Engagement/ Listing to Close****Figure 110. Number of Months from LOI/ Offer to Close**

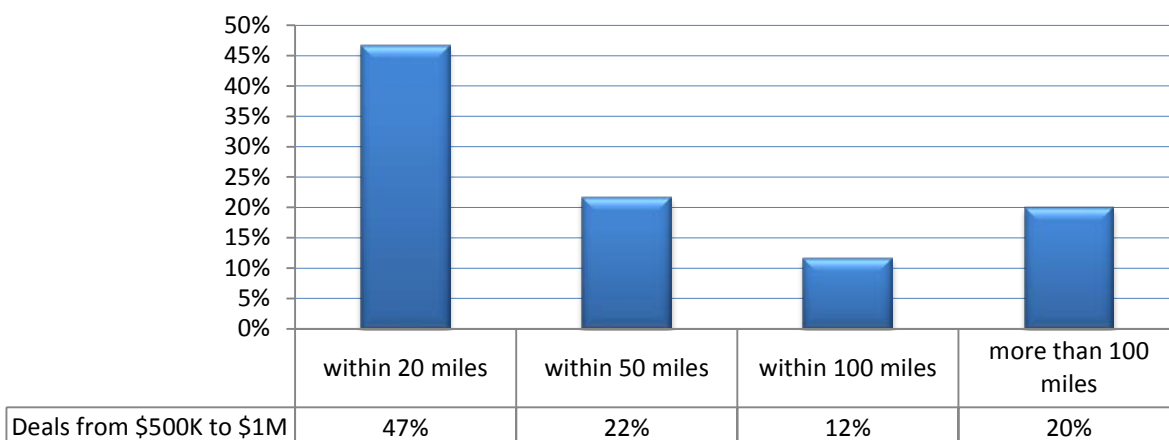
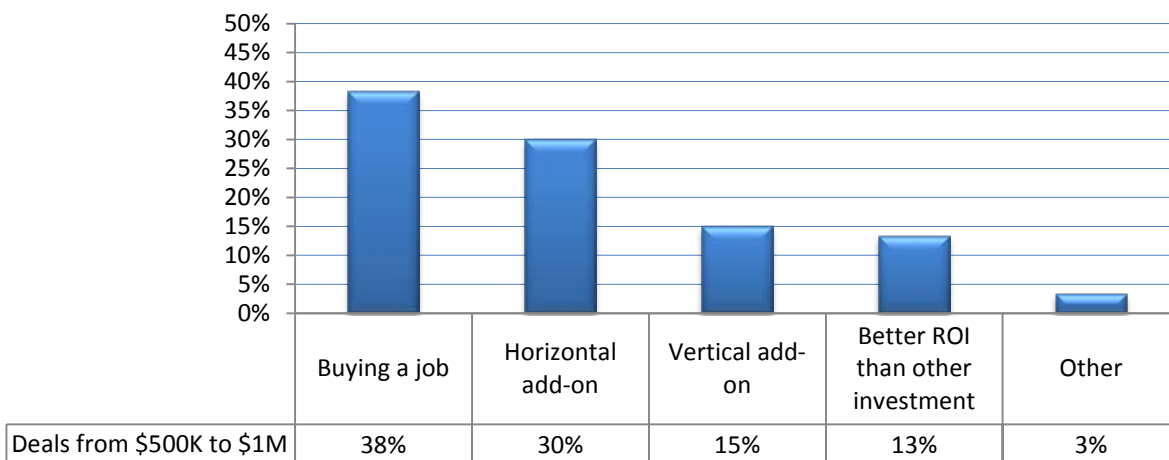
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**Figure 111. Industry Type****Figure 112. SDE Multiple Paid****Figure 113. EBITDA Multiple Paid**

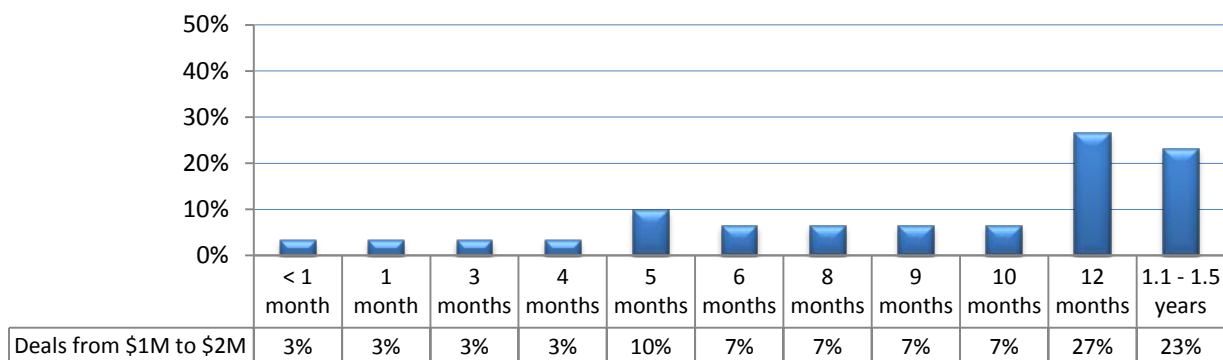
BROKER cont.

**Figure 114. Multiple Paid**

**Figure 115. Buyer Type**

**Figure 116. Reason for Seller to Go to Market**


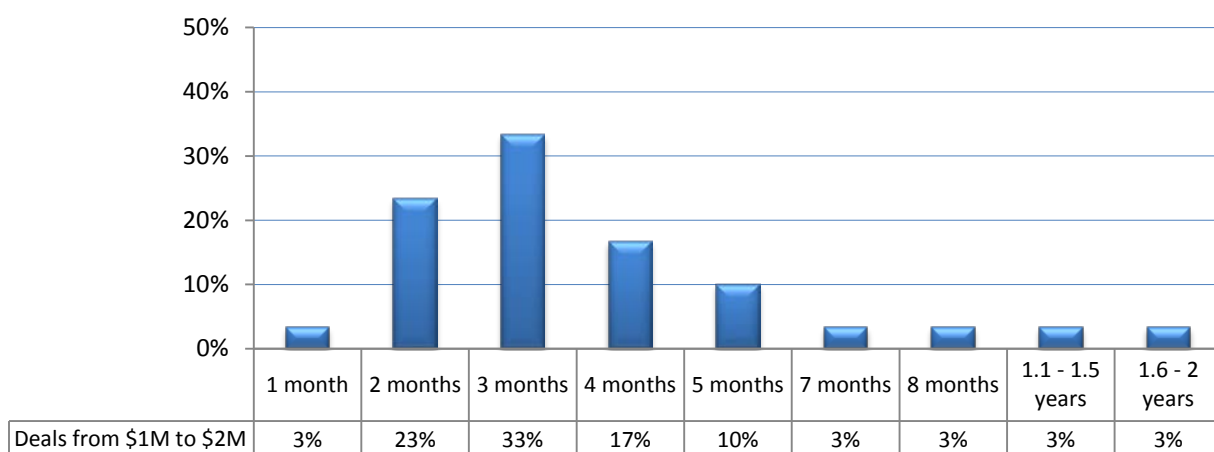
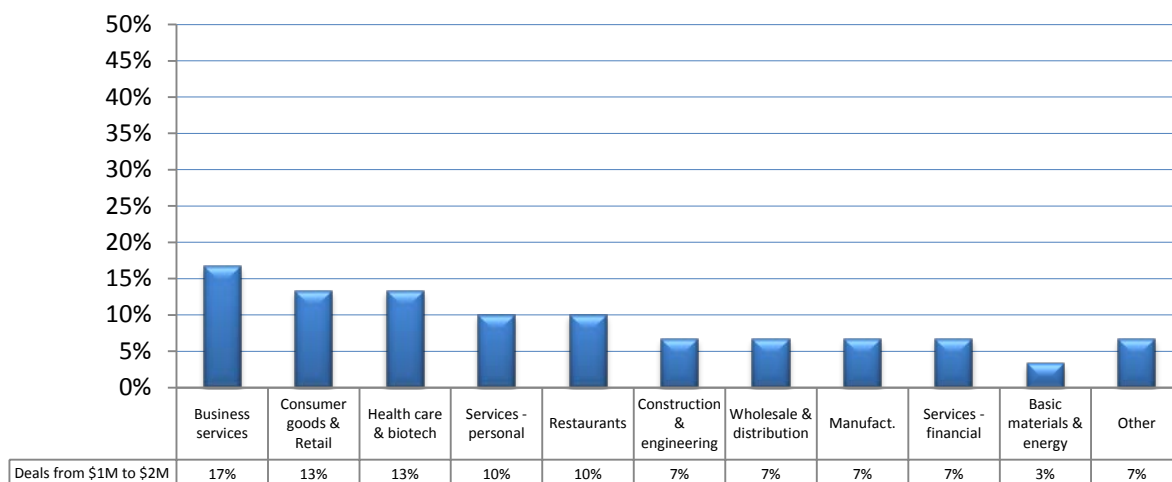
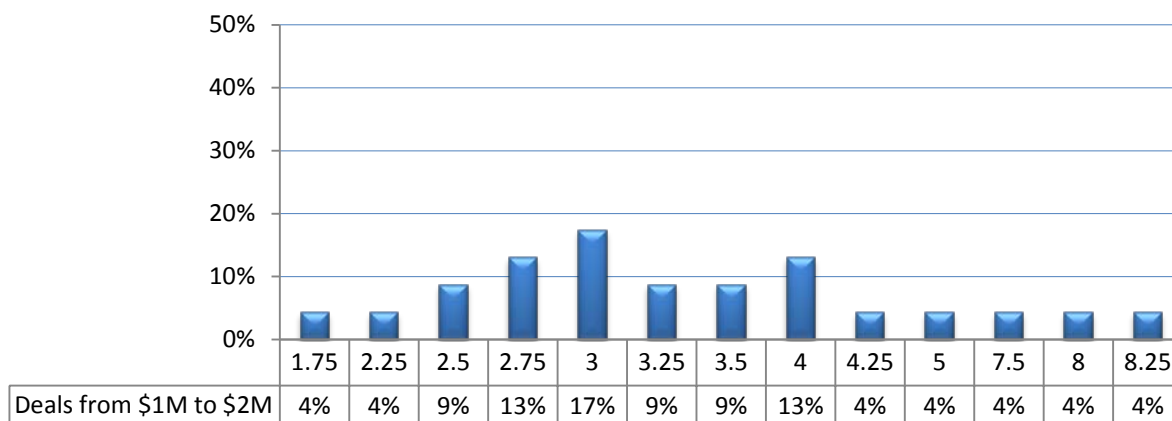
BROKER cont.

**Figure 117. Buyer Location****Figure 118. Number One Motivation for Buyer**

### Business Transactions Valued from \$1 to \$1.99 Million

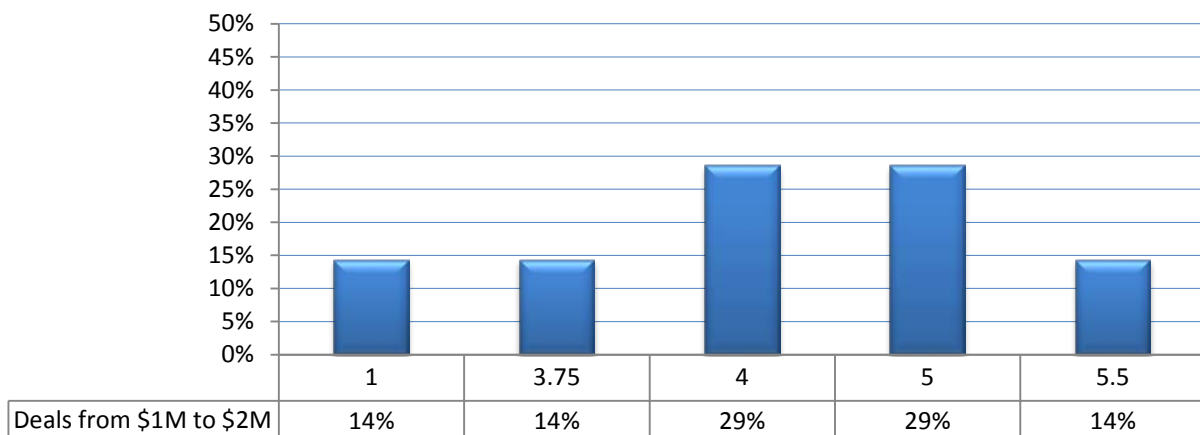
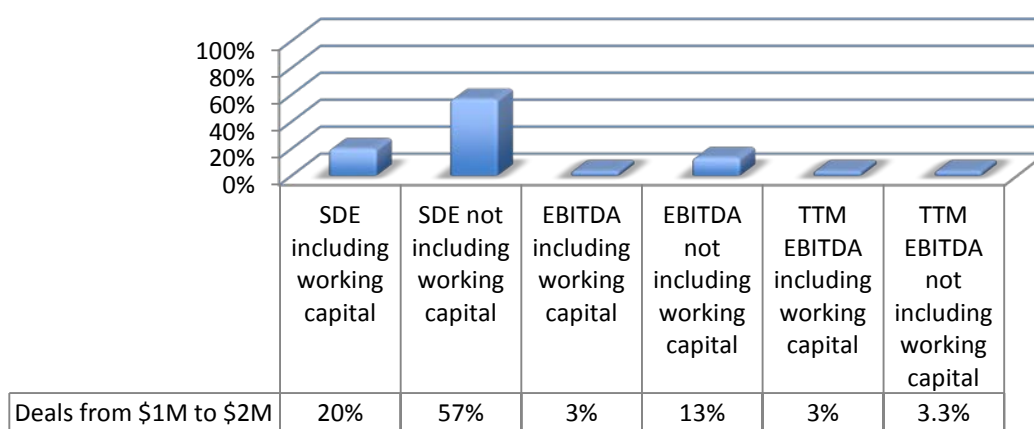
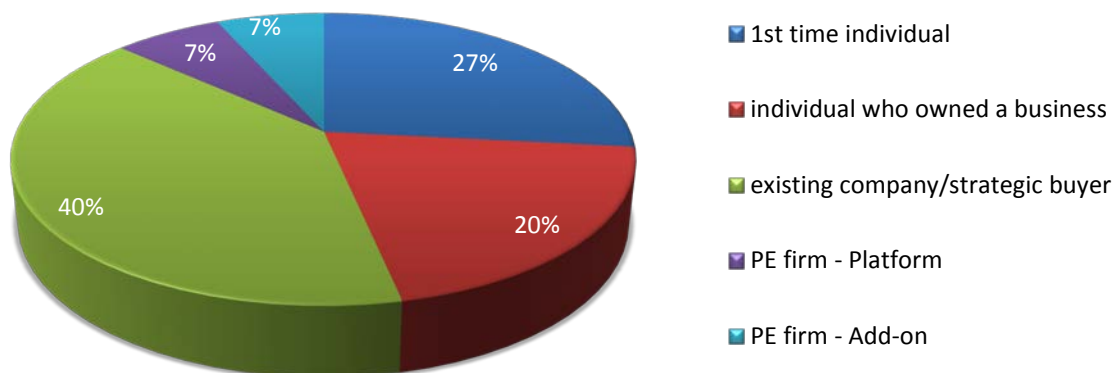
**Figure 119. Number of Months from Engagement/ Listing to Close**

BROKER cont.

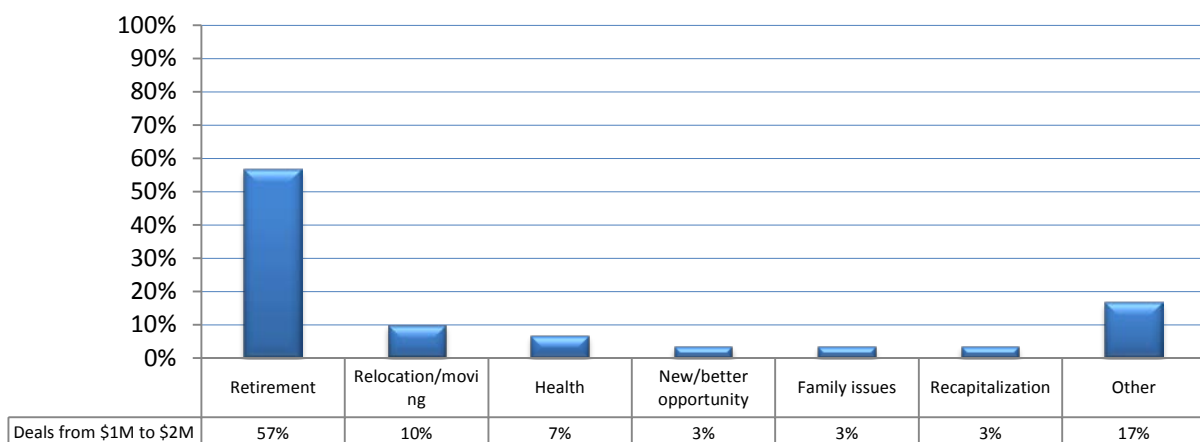
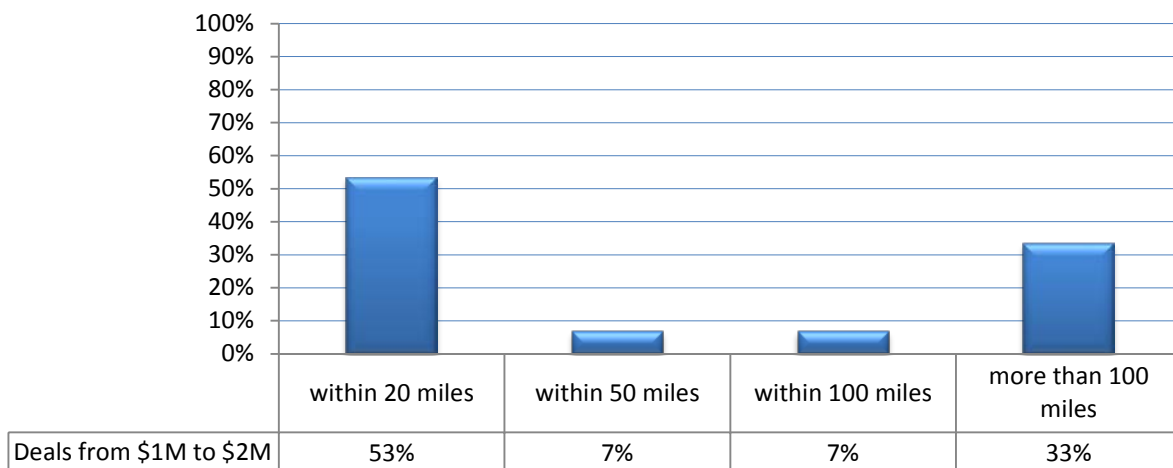
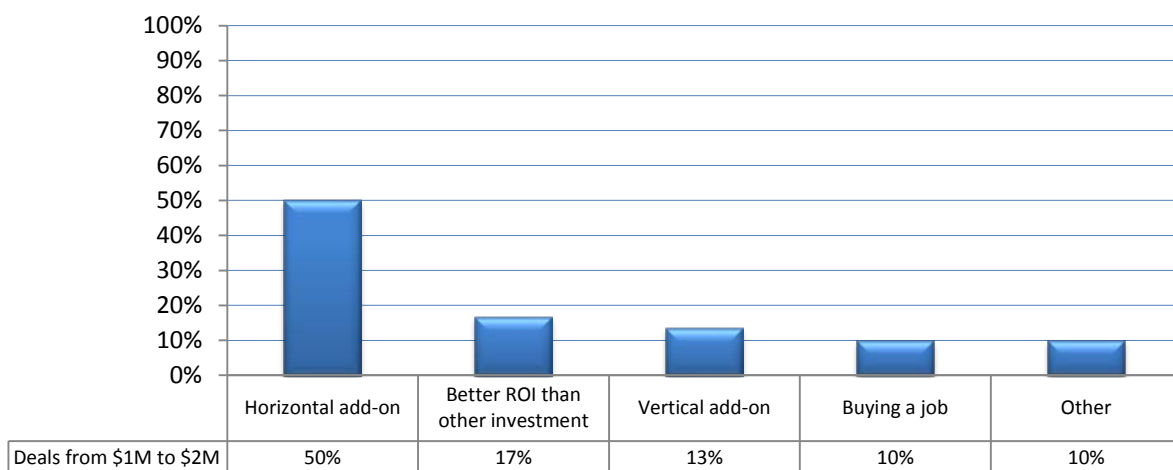
**Figure 120. Number of Months from LOI/ Offer to Close****Figure 121. Industry Type****Figure 122. SDE Multiple Paid**



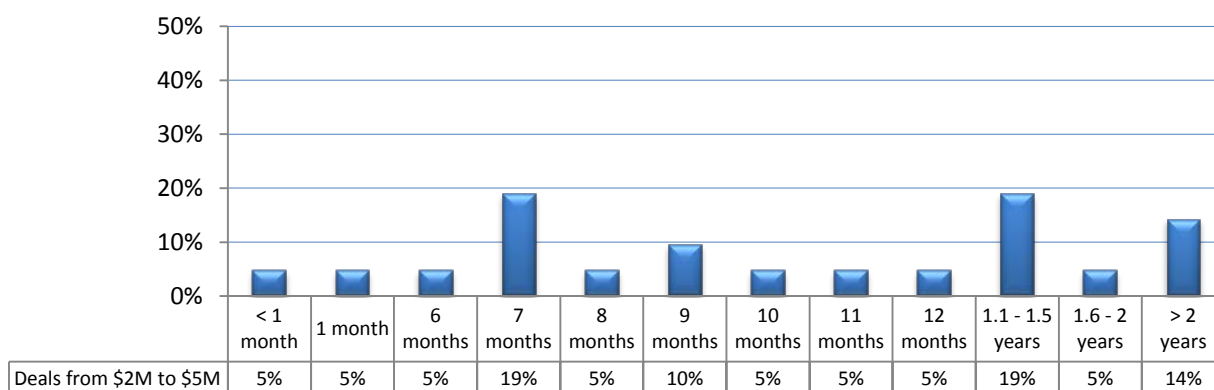
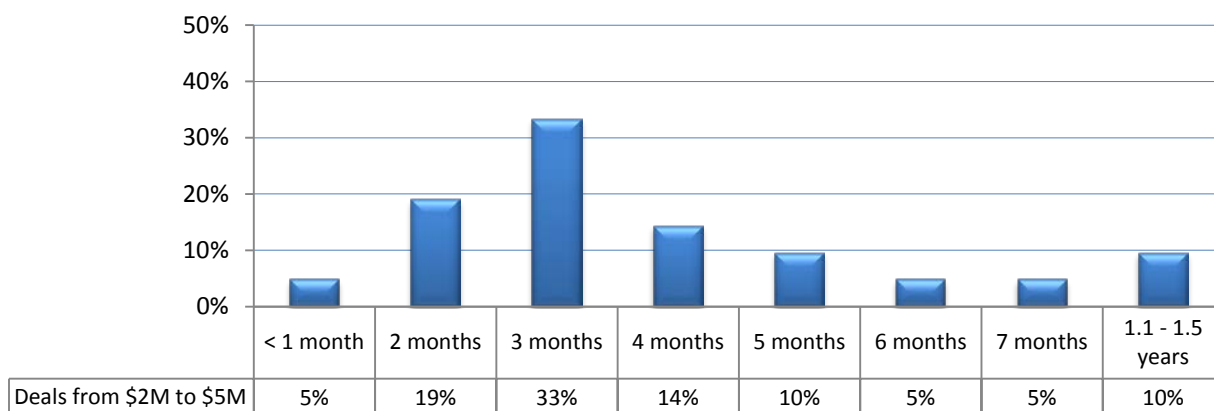
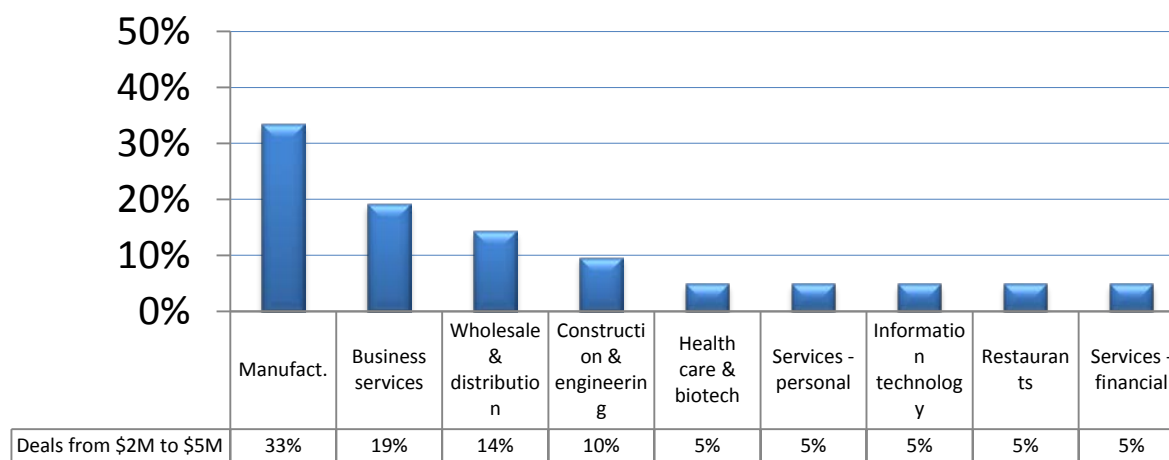
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**Figure 123. EBITDA Multiple Paid**

**Figure 124. Multiple Paid**

**Figure 125. Buyer Type**


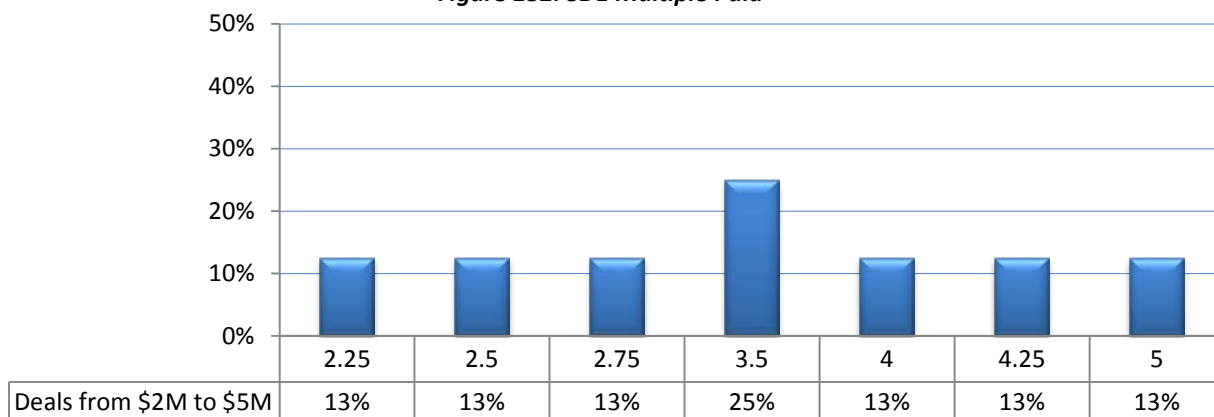
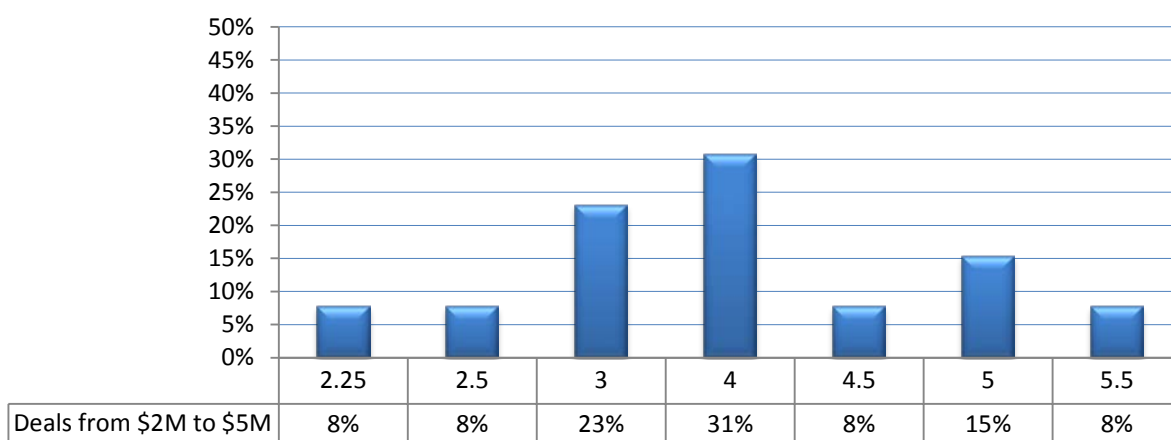
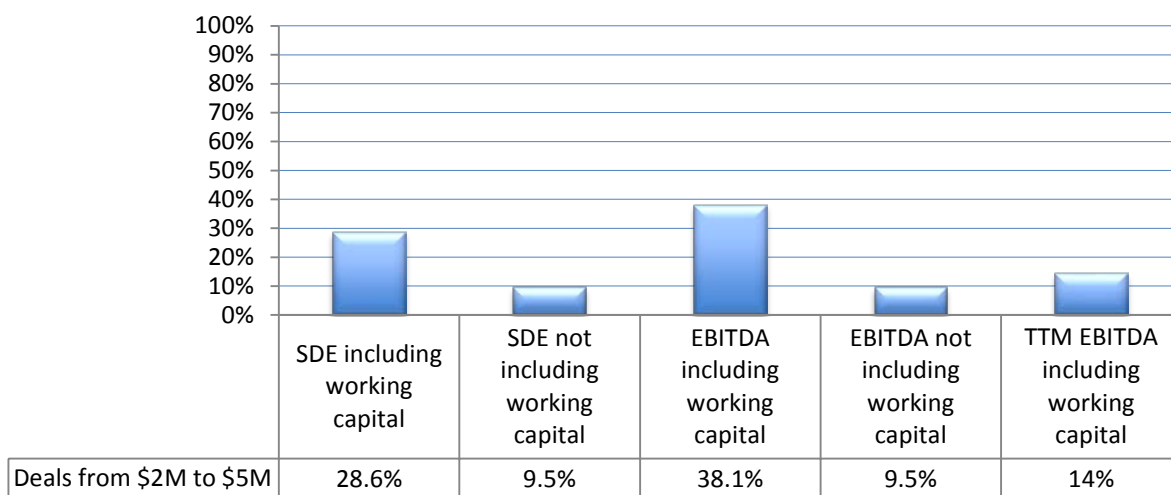
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**Figure 126. Reason for Seller to Go to Market****Figure 127. Buyer Location****Figure 128. Number One Motivation for Buyer**

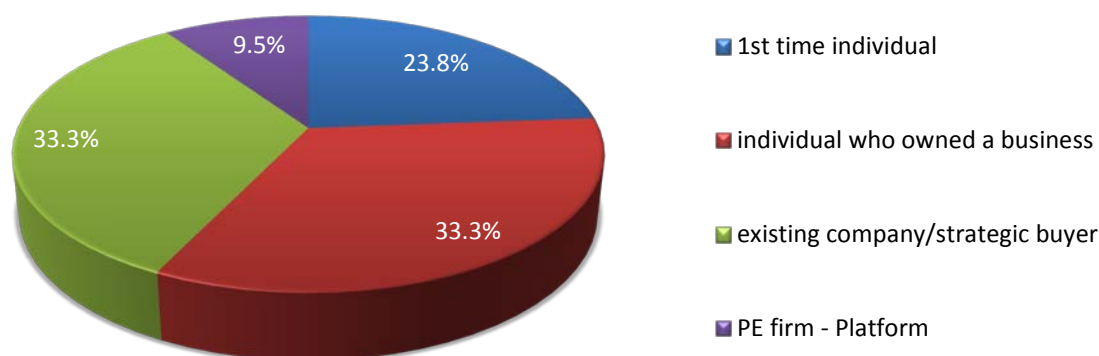
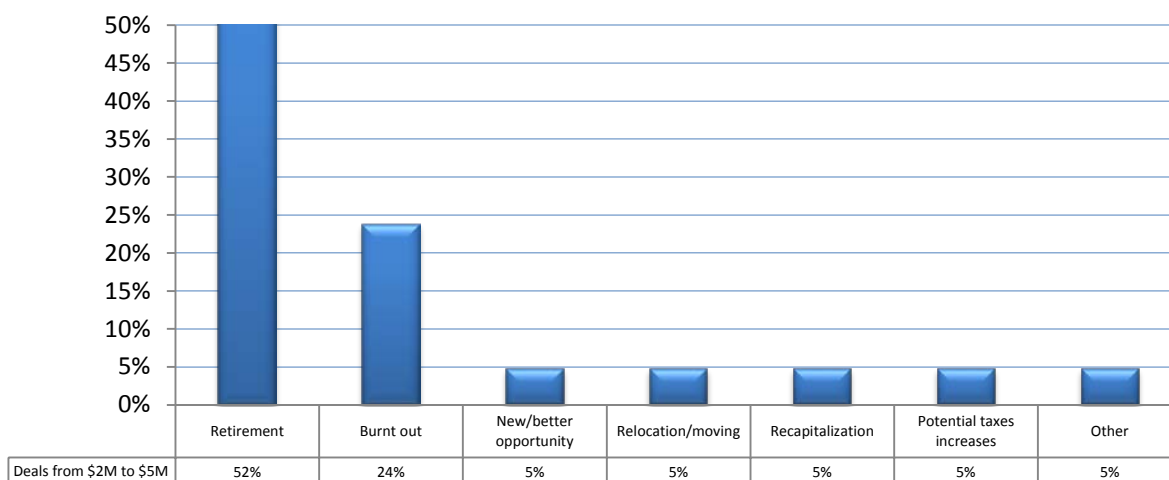
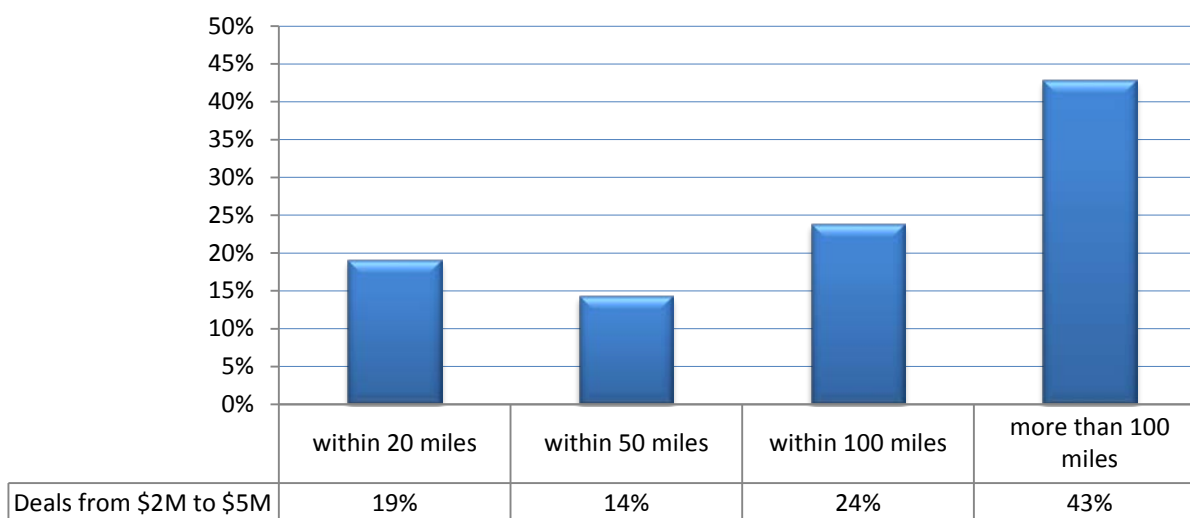
BROKER cont.

**Business Transactions Valued from \$2 to \$4.99 Million****Figure 129. Number of Months from Engagement/ Listing to Close****Figure 130. Number of Months from LOI/ Offer to Close****Figure 131. Industry Type**

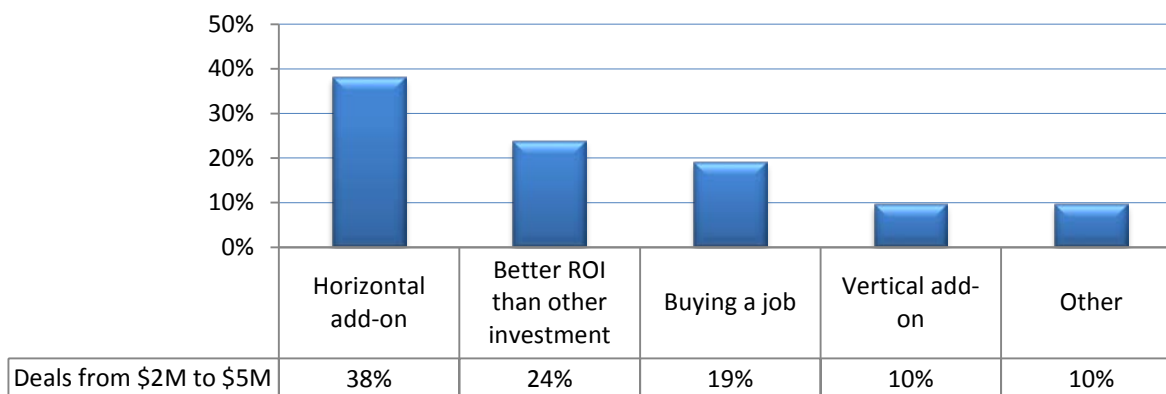
BROKER cont.

**Figure 132. SDE Multiple Paid**

**Figure 133. EBITDA Multiple Paid**

**Figure 134. Multiple Paid**


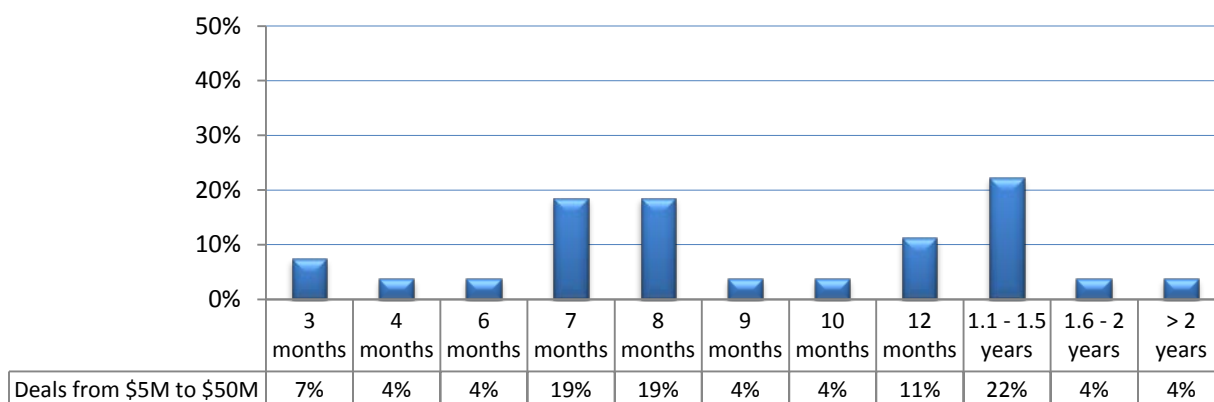
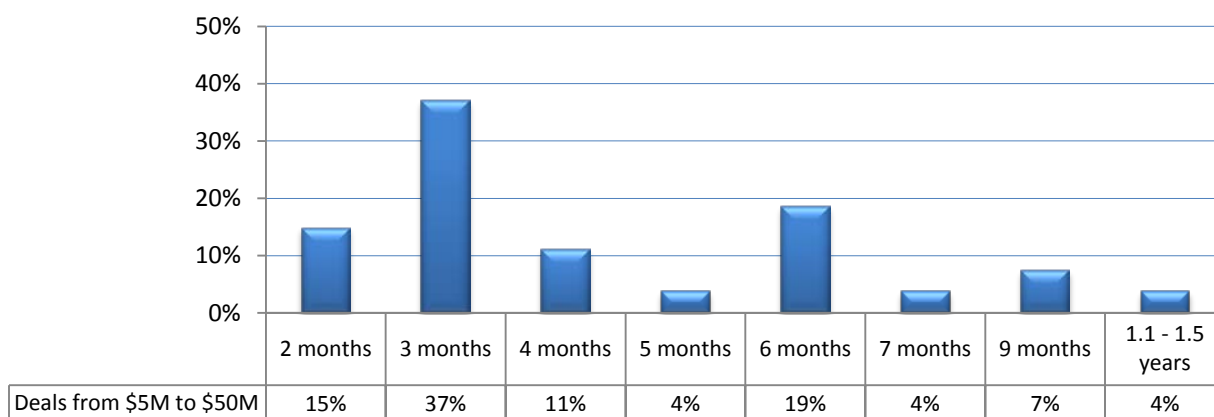
BROKER cont.

**Figure 135. Buyer Type**

**Figure 136. Reason for Seller to Go to Market**

**Figure 137. Buyer Location**


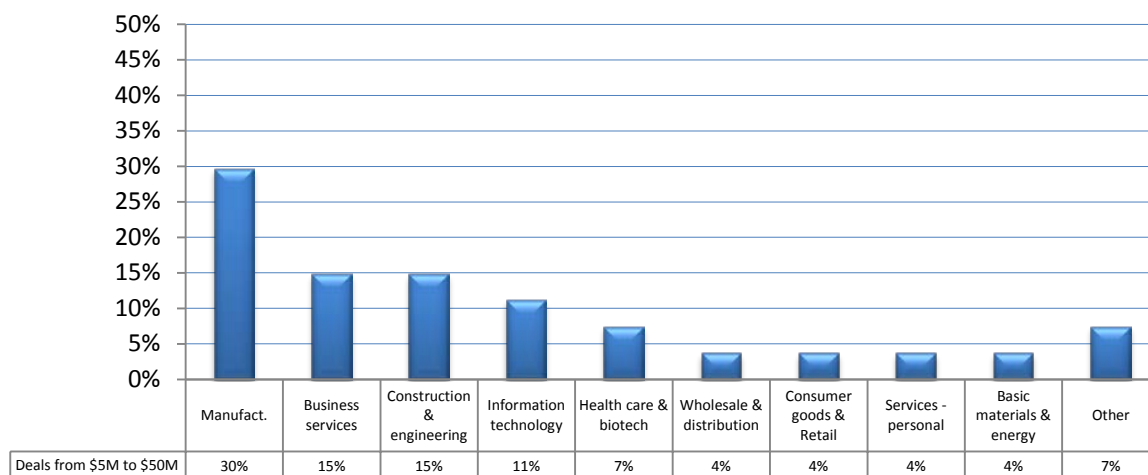
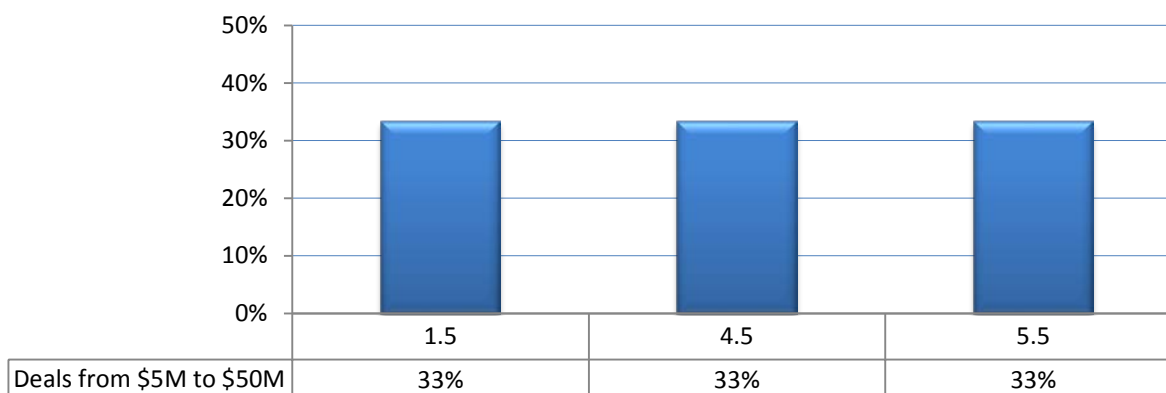
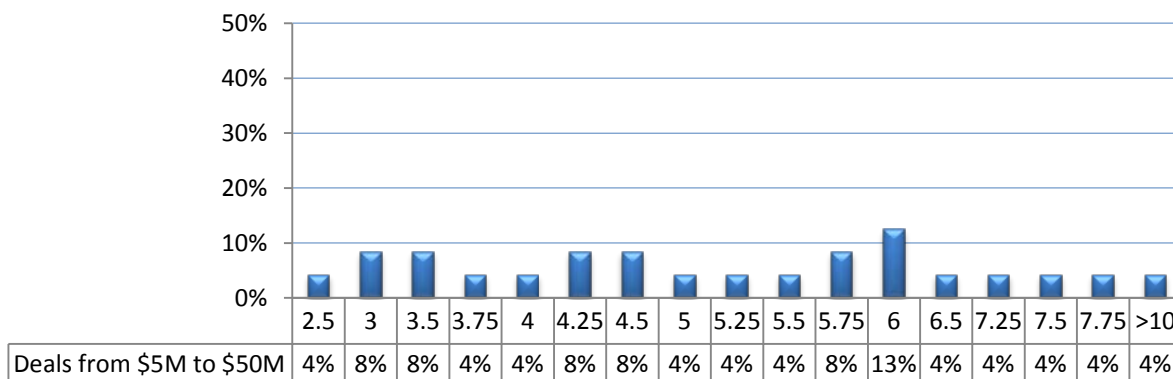
BROKER cont.

**Figure 138. Number One Motivation for Buyer**

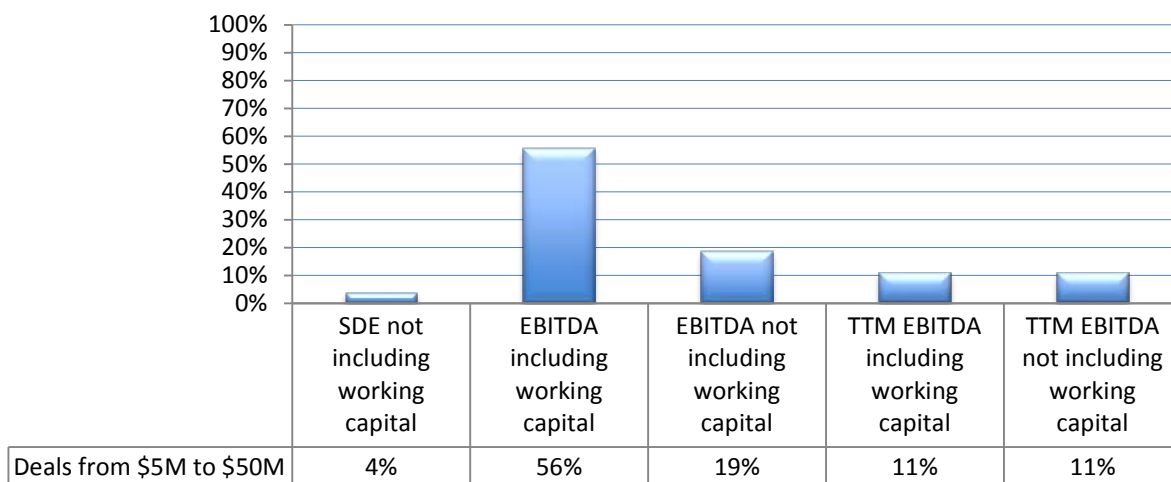
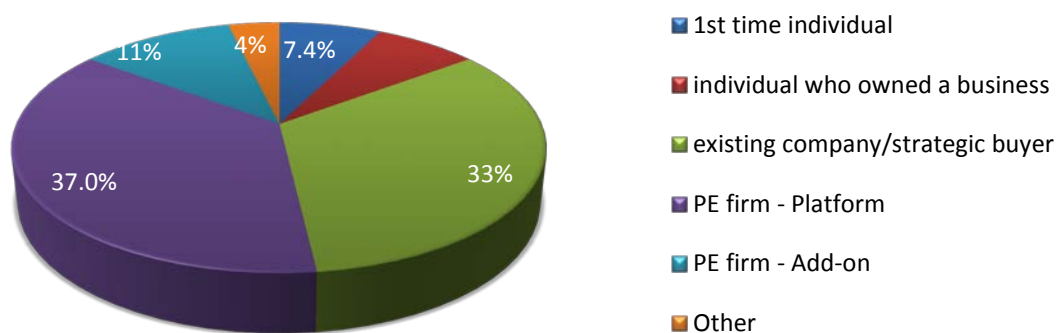
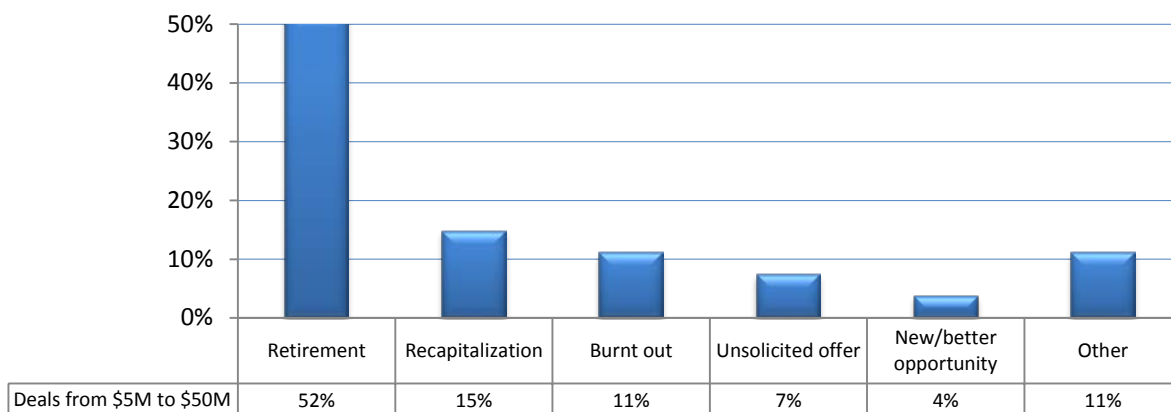
## Business Transactions Valued from \$5 to \$50 Million

**Figure 139. Number of Months from Engagement/ Listing to Close****Figure 140. Number of Months from LOI/ Offer to Close**

BROKER cont.

**Figure 141. Industry Type**

**Figure 142. SDE Multiple Paid**

**Figure 143. EBITDA Multiple Paid**


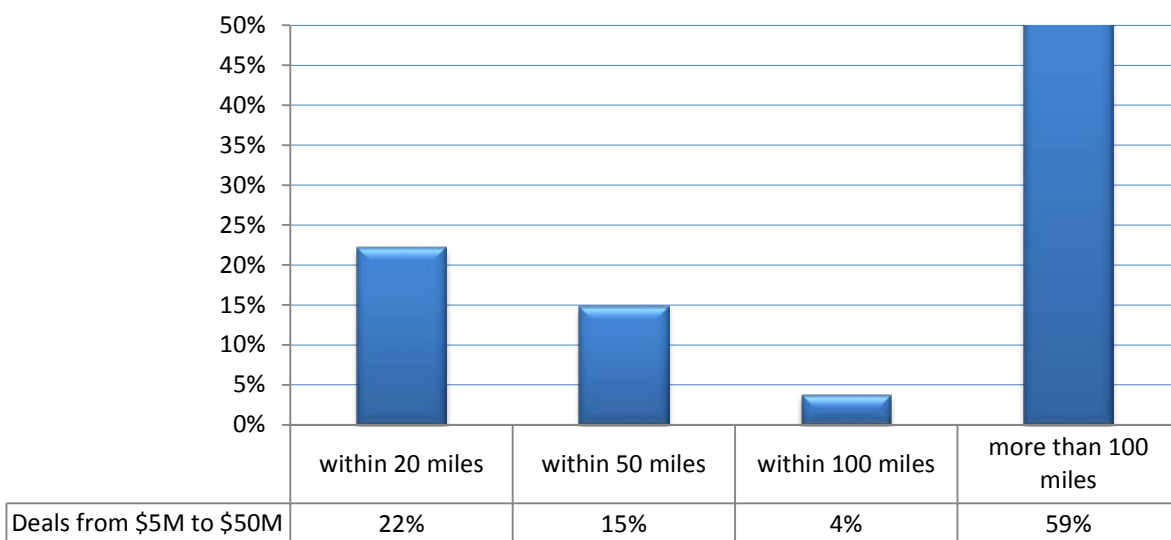
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**Figure 144. Multiple Paid**

**Figure 145. Buyer Type**

**Figure 146. Reason for Seller to Go to Market**


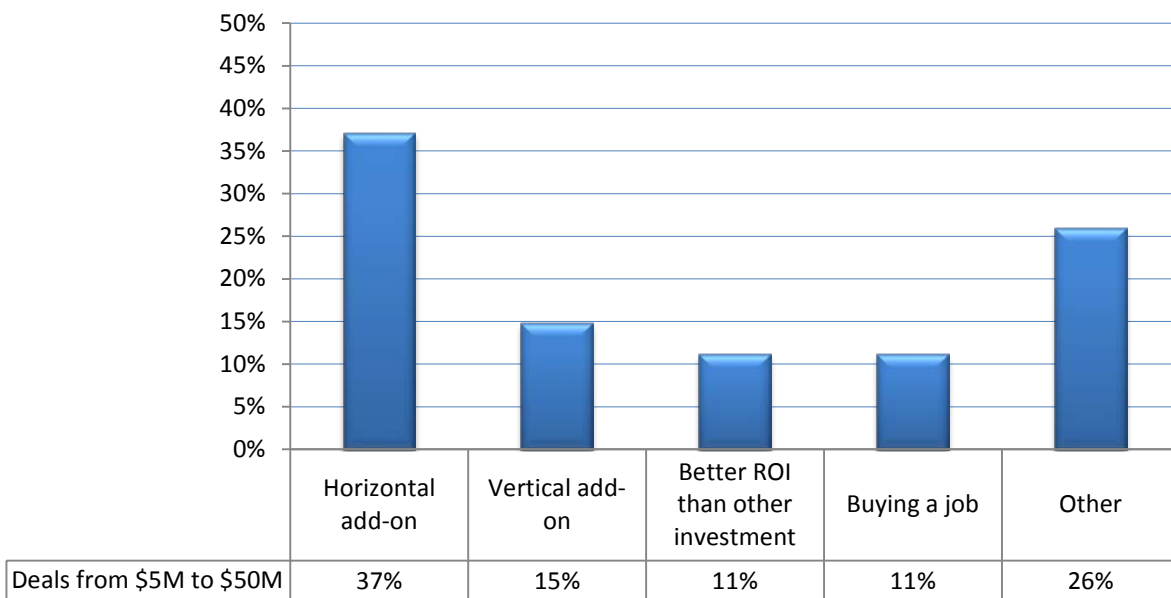
BROKER cont.



**Figure 147. Buyer Location**



**Figure 148. Number One Motivation for Buyer**



**Table 49. Expectations of Business Listings/ Engagements from New Clients in the Next 3 Months**

Deal size	Greatly decrease	Decrease	Stay the same	Increase	Greatly increase	Score (1 to 5)
Deals valued under \$499,999	1.8%	6.7%	38.1%	45.7%	7.6%	3.5
Deals valued from \$500,000 to \$999,999	1.0%	6.4%	34.0%	53.2%	5.4%	3.6
Deals valued from \$1 million to \$1.99 million	0.6%	2.2%	34.8%	58.6%	3.9%	3.6
Deals valued from \$2 million to \$4.99 million	0.0%	7.2%	34.6%	54.2%	3.9%	3.6
Deals over \$5 million	0.8%	7.3%	46.3%	43.1%	2.4%	3.4

**Table 50. Expectations for Business Valuation Multiples in the Next 3 Months**

Deal size	Greatly decrease	Decrease	Stay the same	Increase	Greatly increase	Score (1 to 5)
Deals valued under \$499,999	1.8%	6.7%	38.1%	45.7%	7.6%	3.5
Deals valued from \$500,000 to \$999,999	1.0%	6.4%	34.0%	53.2%	5.4%	3.6
Deals valued from \$1 million to \$1.99 million	0.6%	2.2%	34.8%	58.6%	3.9%	3.6
Deals valued from \$2 million to \$4.99 million	0.0%	7.2%	34.6%	54.2%	3.9%	3.6
Deals over \$5 million	0.8%	7.3%	46.3%	43.1%	2.4%	3.4

Compared to twelve months ago, respondents indicated increases in deal flow, ratio of businesses sold to total listings, business exit opportunities and improved general business conditions. During the next twelve months, respondents expect further increases in deal flow, margin pressure on companies, and improving general business conditions.

**Table 51. General Business and Industry Assessment: Today versus 12 Months Ago**

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Deal flow	6%	14%	35%	32%	14%	46%	20%	<b>26%</b>
Ratio of businesses sold / total listings	6%	15%	42%	28%	9%	37%	21%	<b>16%</b>
Deal multiples	1%	9%	64%	23%	3%	25%	10%	<b>15%</b>
Business exit opportunities	1%	8%	56%	30%	5%	35%	9%	<b>26%</b>
Amount of time to sell business	2%	11%	48%	30%	9%	39%	13%	<b>26%</b>
Difficulty selling business	2%	12%	51%	27%	8%	35%	14%	<b>21%</b>
Business opportunities for growth	1%	8%	51%	37%	3%	40%	9%	<b>31%</b>
General business conditions	3%	13%	44%	38%	2%	40%	16%	<b>24%</b>
Margin pressure on companies	1%	6%	61%	28%	3%	31%	8%	<b>23%</b>

**Table 52. General Business and Industry Assessment: Expectations over the Next 12 Months**

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	Net increase
Deal flow	1%	5%	30%	48%	17%	65%	6%	<b>59%</b>
Ratio of businesses sold / total listings	1%	4%	42%	42%	12%	53%	5%	<b>49%</b>
Deal multiples	0%	10%	68%	21%	1%	22%	10%	<b>12%</b>
Business exit opportunities	0%	3%	57%	34%	5%	39%	4%	<b>36%</b>
Amount of time to sell business	1%	12%	63%	21%	4%	25%	13%	<b>12%</b>
Difficulty selling business	0%	13%	64%	20%	2%	22%	13%	<b>9%</b>
Business opportunities for growth	1%	8%	57%	31%	3%	35%	9%	<b>26%</b>
General business conditions	2%	18%	46%	31%	2%	34%	20%	<b>13%</b>
Margin pressure on companies	0%	6%	64%	26%	3%	29%	7%	<b>22%</b>

## FACTOR SURVEY INFORMATION

Approximately 58% of 18 respondents to the factor survey said the primary uses of factoring facilities are financing working capital fluctuations, followed by expansion (23%), and finance worsening operations conditions (11%). Factoring facilities are relatively short-term compared to other investments with respondents reporting approximately 50% of factoring facilities have less than or equal to 12 months term.

Other key findings include:

- Respondents reported approximately 23% of their company's gross invoices over the last twelve months were originated from business services. Wholesale and distribution were responsible for 17% of invoices followed by manufacturing at 15%.
- When asked about conditions compared to twelve months ago nearly 50% of respondents said they saw an increased demand for business factoring lines in the last 12 months. Approximately 53% of lenders indicated worsened general business conditions in the last twelve months.
- Nearly 37% of respondents believe economic uncertainty is the most important issue facing privately-held businesses today, followed by access to capital (26%) and government regulations and taxes (11%).

### Operational and Assessment Characteristics

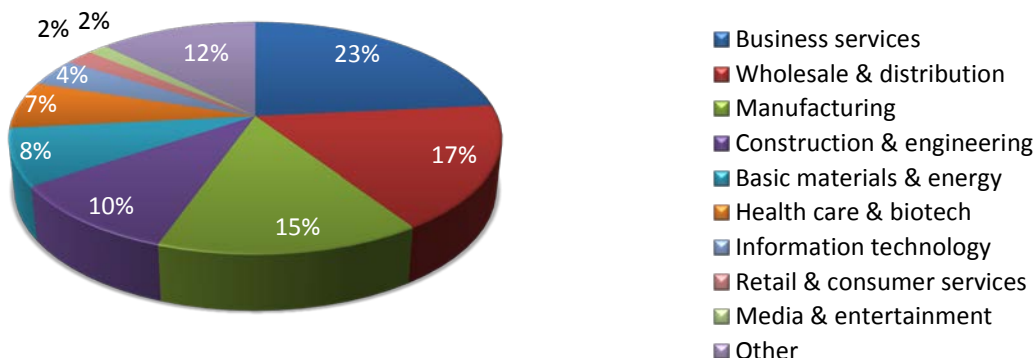
Approximately 58% of respondents indicated working capital fluctuations as the primary uses of factoring facilities.

**Figure 149. Primary Use of the Factoring Facilities Over the Last 12 Months**



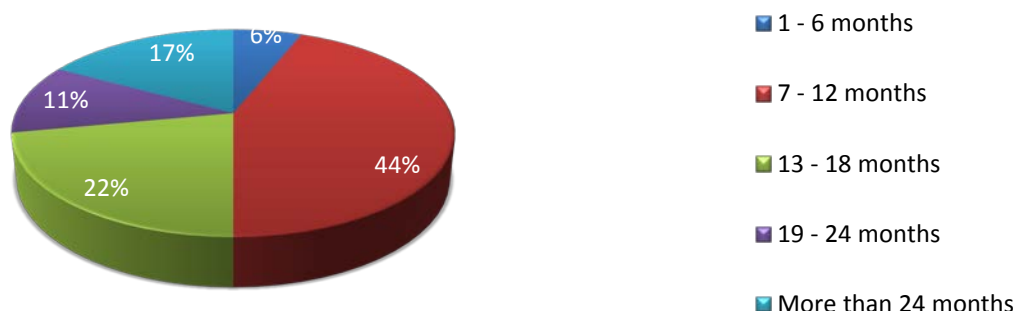
Respondents reported approximately 23% of their company's gross invoices over the last twelve months were originated from business services.

**Figure 150. Industries for Gross Invoices for the Last 12 Months**



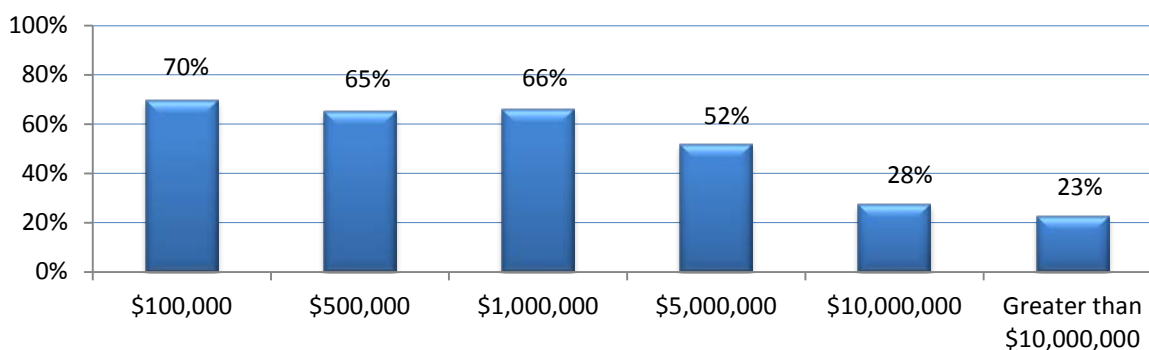
Factoring facilities are relatively short-term compared to other investments with respondents reporting approximately 50% of factoring facilities have less than or equal to 12 months term.

**Figure 151. Term of Current Typical Factoring Facility**



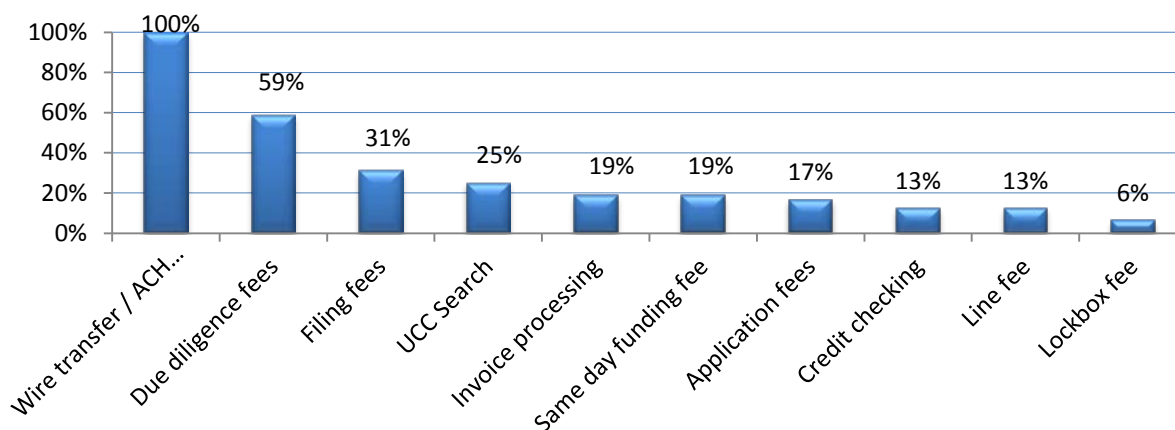
Respondents reported average advance rates charged for various-sized facilities range from 23% to 70% on a monthly basis.

**Figure 152. Current Average Advance Rates for Various-Sized Facilities**



Nearly 100% of respondents charge wire transfer / ACH fee, while 59% of respondents charge due diligence fee.

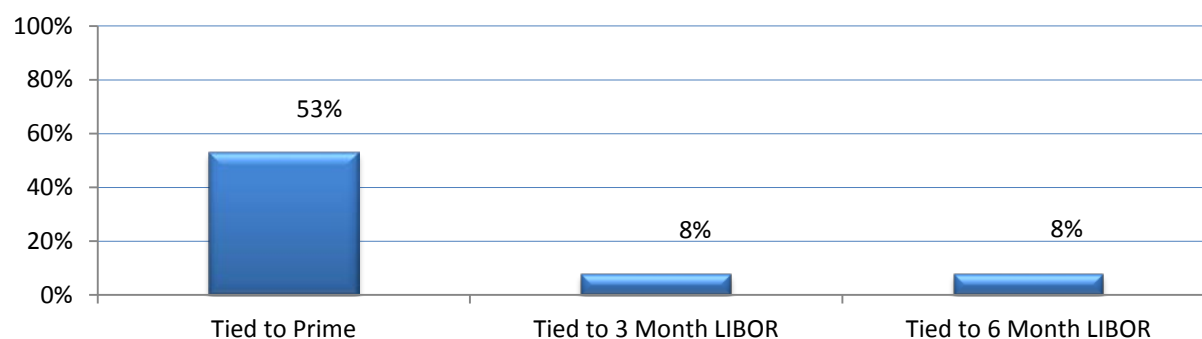
**Table 53. Fees Charged**



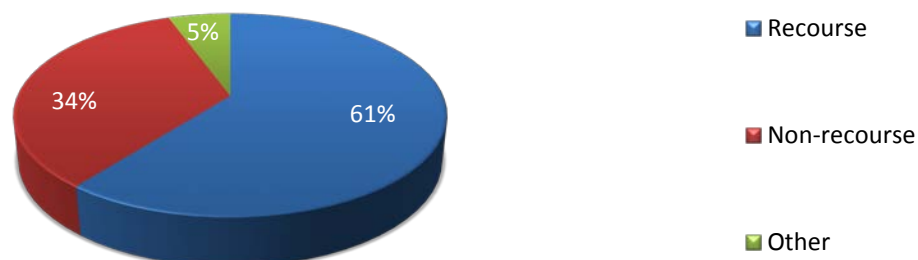
**Table 54. Median Percentage or Amount Charged**

	Percentage	or Amount
Application fees	n/a	\$1,500
Due diligence fees	1%	\$500
Invoice processing	1.5%	n/a
Wire transfer / ACH fees	1%	\$50
Filing fees	n/a	\$10
UCC Search	n/a	\$25
Line fee	1%	n/a
Same day funding fee	1%	\$100

Approximately 53% of respondents are using prime rate to price items.

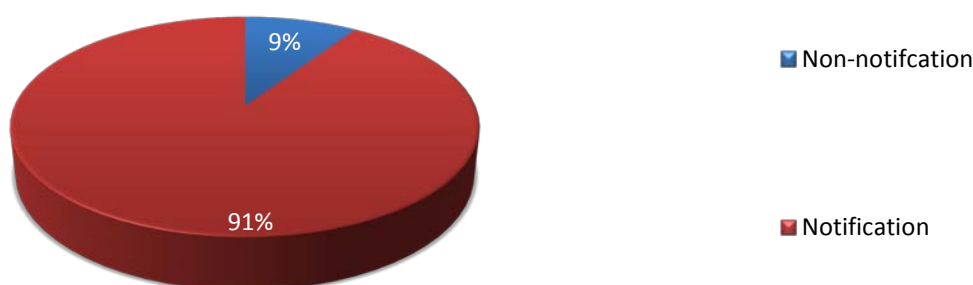
**Figure 153. Usage of Reference Rates****Table 55. Spread (%)**

	1st quartile	Median	3rd quartile
Tied to prime	2	1.25	1.25
Tied to three-month LIBOR	2.5	2.5	2.5
Tied to six-month LIBOR	3.25	3.75	3.75

**Figure 154. Percentage of Factoring Business - Recourse vs Non-recourse**

Respondents reported 91% of their current purchases were on a notification basis.

**Figure 155. Percentage of Purchases on a Non-notification Basis**



Nearly 100% of respondents require a lien on A/R assets and 94.4% require a background check.

**Table 56. Typical Current Requirements**

Requirement	%
Lien on A/R assets	100.0%
Background check	94.4%
Personal guarantee	88.9%
Financial statements	77.8%
Lien on all assets	55.6%
Performance guarantee	37.5%
Audit	31.3%

**Table 57. Discount fee (%) on Outstanding Invoices for Notification Basis**

	First 30 days invoice outstanding			31 - 45 days invoice outstanding			46 - 60 days invoice outstanding		
	1st quartile	Median	3rd quartile	1st quartile	Median	3rd quartile	1st quartile	Median	3rd quartile
\$0K - \$24.99K	2.3%	2.8%	3.0%	1.0%	1.3%	1.8%	1.0%	1.3%	1.8%
\$25K - \$49.99K	2.2%	2.8%	3.0%	1.0%	1.4%	1.8%	1.0%	1.4%	1.8%
\$50K - \$99.99K	2.0%	2.6%	3.0%	0.8%	1.4%	1.8%	0.8%	1.4%	1.8%
\$100K - \$249.99K	1.9%	2.1%	2.6%	0.8%	1.1%	1.9%	0.8%	1.1%	1.9%
\$250K - \$999.99K	1.8%	2.0%	2.5%	0.8%	1.3%	1.8%	0.8%	1.3%	1.8%
\$1M - \$4.99M	1.3%	1.5%	2.0%	0.5%	0.9%	1.4%	0.5%	0.9%	1.4%
\$5M - \$9.99M	1.3%	1.3%	1.5%	0.7%	1.0%	1.4%	0.6%	1.0%	1.5%
\$10M - \$24.99M	0.9%	1.0%	1.9%	1.9%	1.3%	1.3%	0.9%	1.3%	1.5%
\$25M - \$49.99M	1.1%	1.6%	2.2%	0.5%	0.8%	1.0%	0.5%	0.8%	1.0%
\$50M - \$99.99M	0.6%	0.8%	1.6%	0.5%	0.8%	1.0%	0.5%	0.8%	1.0%
\$100M+	0.6%	1.0%	1.8%	0.3%	0.3%	0.8%	0.3%	0.3%	0.8%

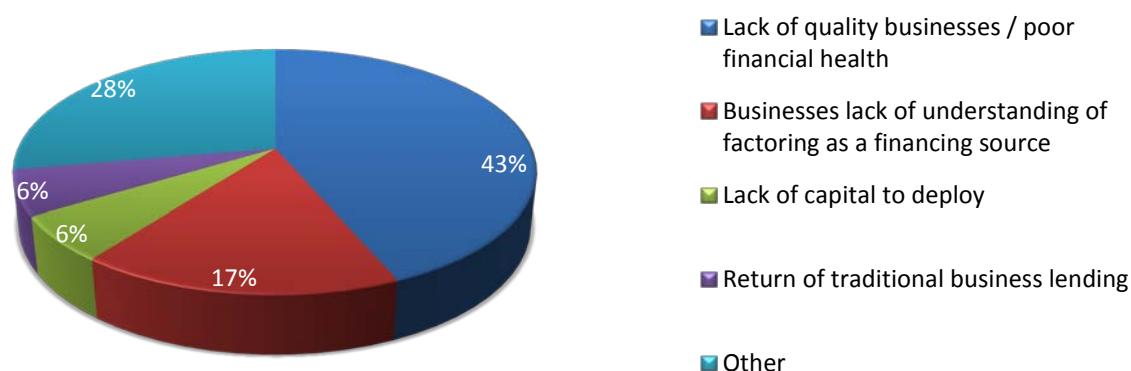
**Table 58. Expected Total Write-off – Percentage of Receivables Purchased on New Arrangements (%)**

	1st quartile	Median	3rd quartile
Expected total write-off	1%	1%	2%

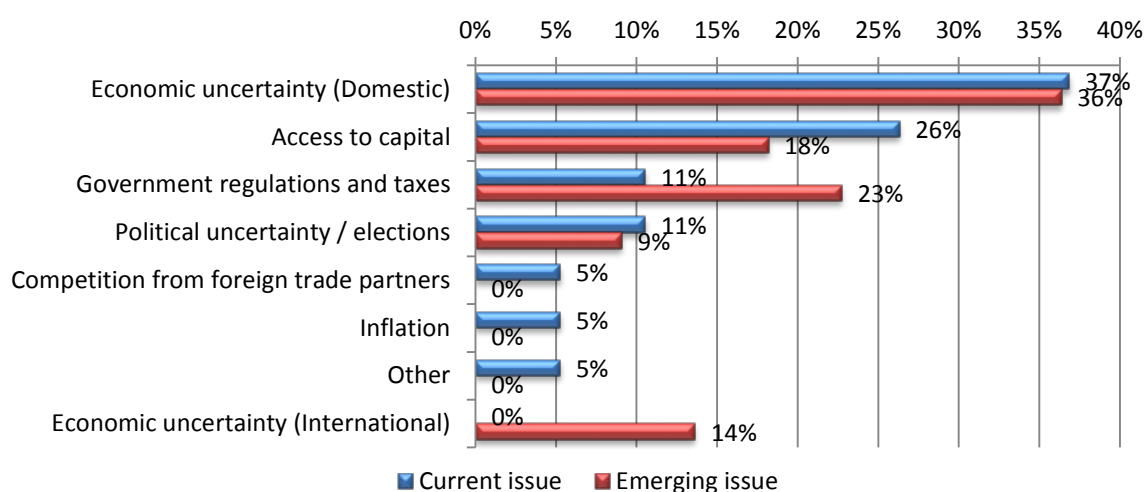
**Table 59. Average Number of Days Outstanding Receivables**

	1st quartile	Median	3rd quartile
During Last 12 Months	40	45	54
Expected for Next 12 Months	40	45	54

According to the 43% of respondents, the most significant concern to factoring business is lack of quality businesses or poor financial health.

**Figure 156. Most Significant Concern to Factoring Business**

Respondents believe domestic economic uncertainty is the most important current and emerging issue facing privately-held businesses.

**Figure 157. Current Issues Facing Privately-Held Businesses**



Respondents indicated increases in demand for business factoring lines and standard advance rates on receivables, decreases in credit quality of borrowers, interest rate spreads, fees and worsened general business conditions.

**Table 60. General Business and Industry Assessment: Today versus 12 Months Ago**

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Demand for business factoring lines (applications)	17%	11%	22%	44%	6%	50%	28%	<b>22%</b>
Credit quality of borrowers applying for credit	6%	33%	44%	11%	6%	17%	39%	<b>-22%</b>
Time to process Facility	0%	17%	56%	17%	11%	28%	17%	<b>11%</b>
Average facility size	6%	0%	44%	39%	11%	50%	6%	<b>44%</b>
Average facility term (months)	0%	12%	71%	12%	6%	18%	12%	<b>6%</b>
Size of interest rate spreads (pricing)	6%	56%	31%	6%	0%	6%	63%	<b>-56%</b>
Fees	17%	33%	50%	0%	0%	0%	50%	<b>-50%</b>
Standard advance rates on receivables	0%	0%	76%	24%	0%	24%	0%	<b>24%</b>
General business conditions	18%	35%	29%	12%	6%	18%	53%	<b>-35%</b>

Respondents expect further decreases in interest rate spreads, fees and worsening general business conditions.

**Table 61. General Business and Industry Assessment Expectations over the Next 12 Months**

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	Net increase/decrease
Demand for business factoring lines (applications)	6%	6%	28%	44%	17%	61%	11%	<b>50%</b>
Credit quality of borrowers applying for credit	0%	33%	33%	22%	11%	33%	33%	<b>0%</b>
Time to process Facility	0%	22%	50%	22%	6%	28%	22%	<b>6%</b>
Average facility size	0%	0%	50%	44%	6%	50%	0%	<b>50%</b>
Average facility term (months)	0%	0%	76%	24%	0%	24%	0%	<b>24%</b>
Size of interest rate spreads (pricing)	0%	38%	38%	25%	0%	25%	38%	<b>-13%</b>
Fees	0%	22%	67%	11%	0%	11%	22%	<b>-11%</b>
Standard advance rates on receivables	0%	0%	94%	6%	0%	6%	0%	<b>6%</b>
General business conditions	11%	22%	44%	17%	6%	22%	33%	<b>-11%</b>

## BUSINESS OWNER SURVEY INFORMATION

Of the 1,372 privately-held businesses that responded to the survey, 12% had businesses that involved manufacturing, 11% were in professional, scientific or technical services, another 9% were in business service, followed by construction and engineering (9%). Approximately 52% of businesses have annual revenues less than \$1 million. Nearly 88% of business owners report having the enthusiasm to execute growth strategies, yet just 50% report having the necessary financial resources to successfully execute growth strategies.

Of the respondents who were seeking financing in the last 12 months, approximately 51% anticipated to raise less than \$100,000 in capital. Approximately 45% of respondents reported that they were seeking bank business loans or business credit card financing as a source of funding, followed by friends and family (13%). Of all financing options, bank loans emerged as the financing source with the highest “willingness” for small business to use, followed by grants and lease. Results also showed that 74% of privately-held businesses that sought bank loans over the past 12 months were successful. Survey results indicated that business owners who raised capital on average contacted 2.08 banks.

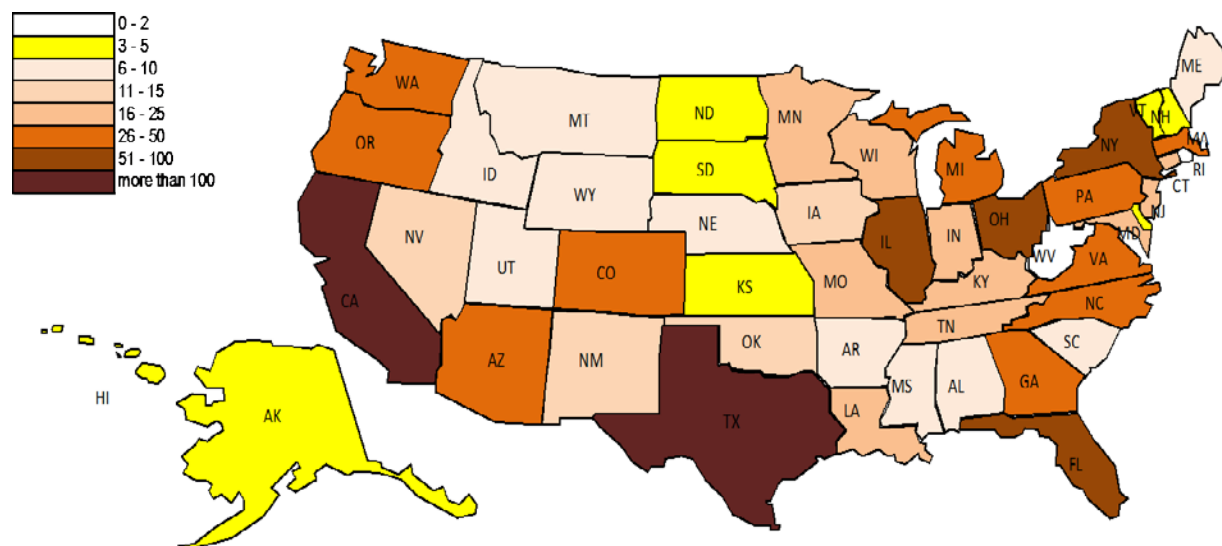
Nearly three quarters of businesses (72%) are planning to hire additional workers. Approximately 25% of respondents believe government regulations and taxes are the number one issue small businesses face today, another 18% believe domestic economic uncertainty is the most important current issue, followed by access to capital (17%). According to small businesses, of those policies most likely to lead to job creation in 2016, increased access to capital emerged as number one (23%) followed by regulatory reform (21%), and tax incentives (18%). The study showed that of those that do plan to hire, sales and marketing skills are in greatest demand (51%) followed by skilled labor (45%) and service/customer service (37%). Also, 83% of companies planning to hire indicate they’d need to train those they hire.

49% of respondents believe that general business conditions improved in the twelve months compared to 37% surveyed year ago.

### Operational and Assessment Characteristics

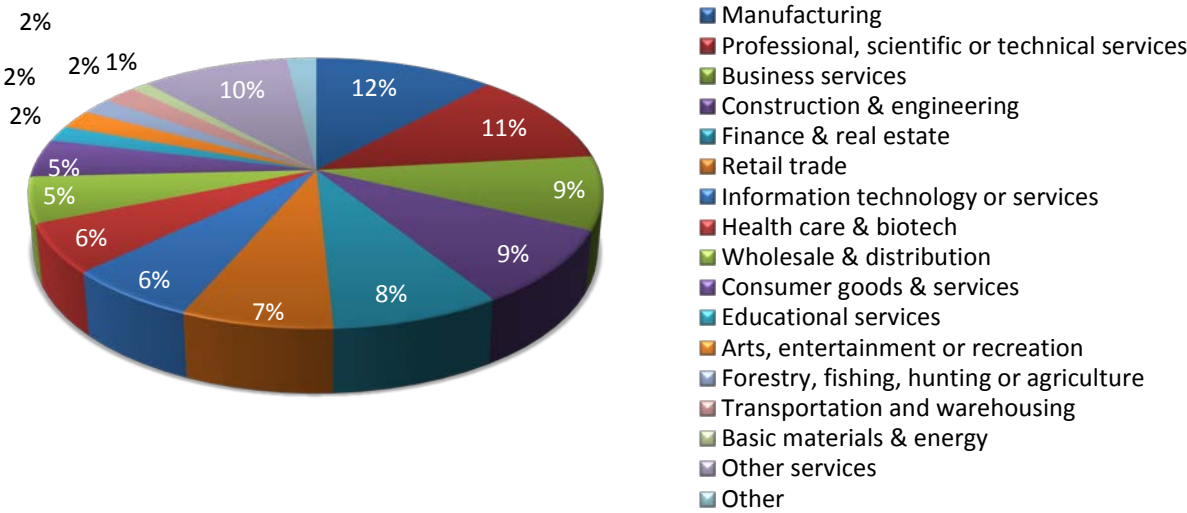
The privately-held business survey results were generated from 1,372 participants. The locations of businesses are distributed over all regions of the United States.

**Figure 158. Respondents Distribution by State**



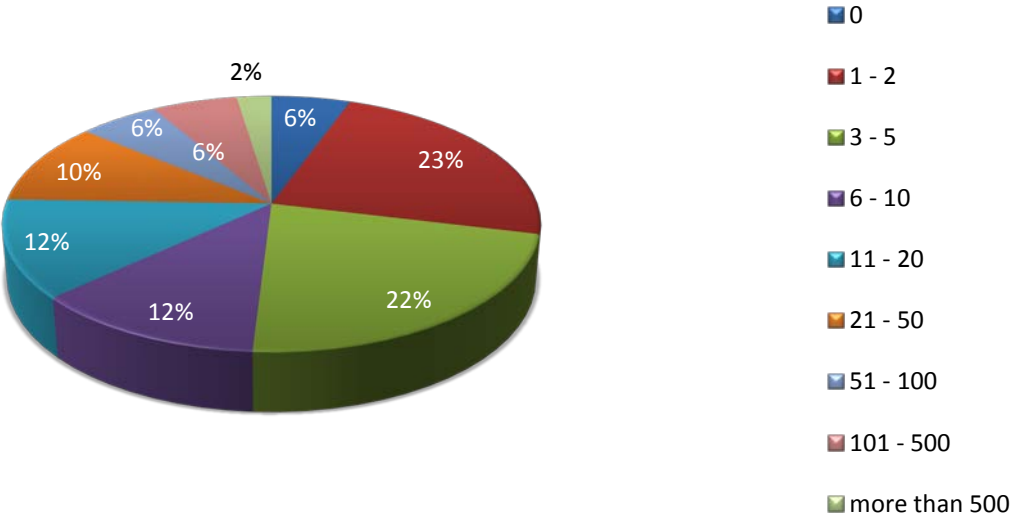
Businesses involved in manufacturing accounted for 12% of respondents followed by professional, scientific or technical services (11%) and business services (9%).

Figure 159. Description of Entity



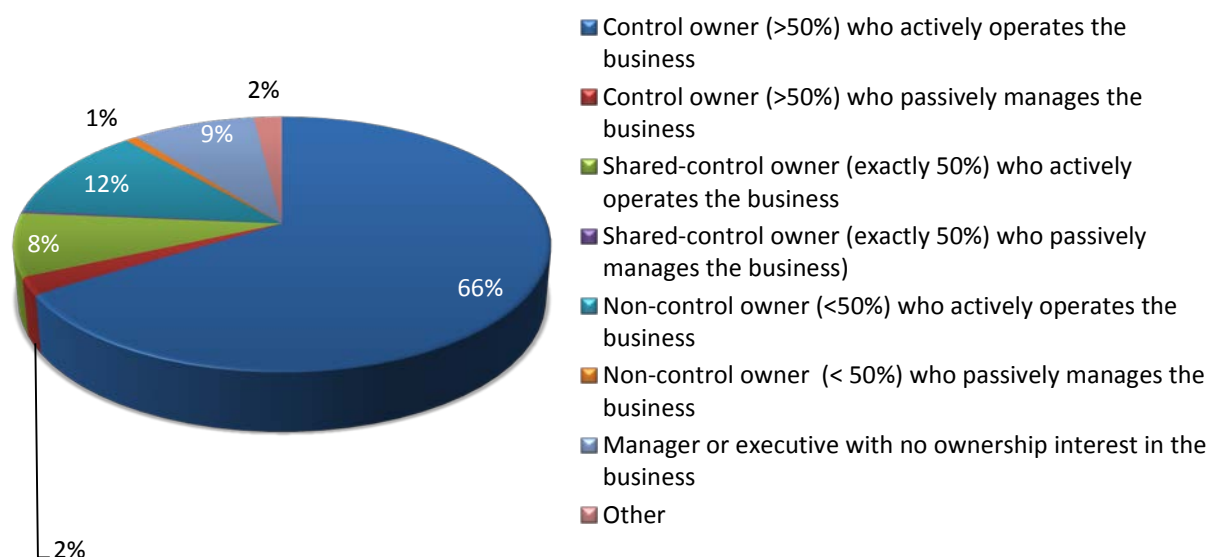
Approximately 49% of businesses have less than or equal to five employees.

Figure 160. Number of Employees



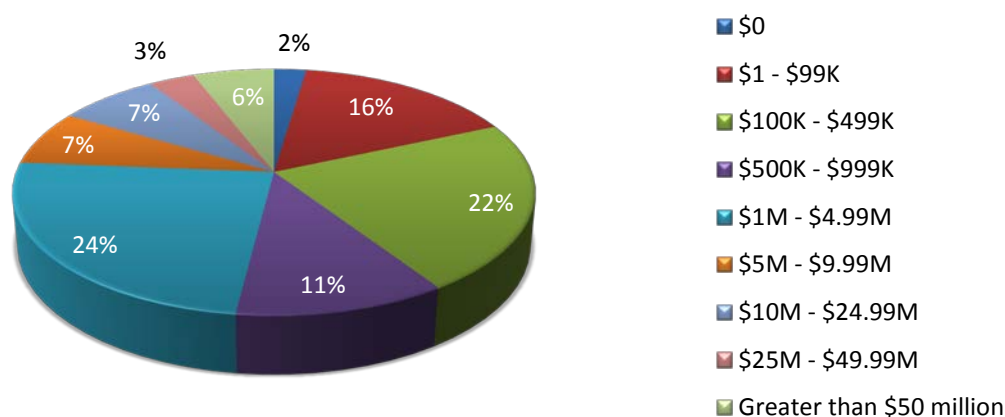
Approximately 64% of the respondents are active control owners of their businesses.

**Figure 161. Ownership Role**



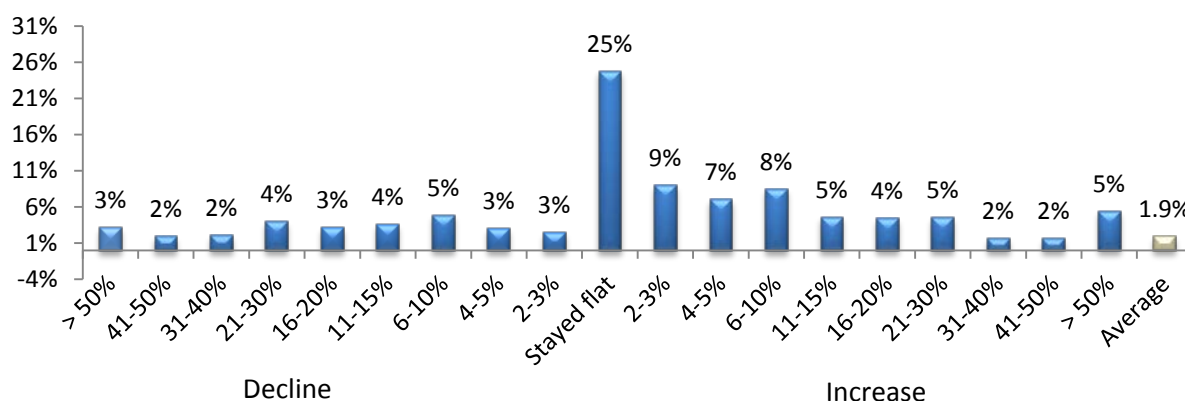
Approximately 50% of respondents have less than or equal to \$1M in annual revenues, followed by 24% reporting between \$1M and \$5M.

**Figure 162. Annual Revenues**



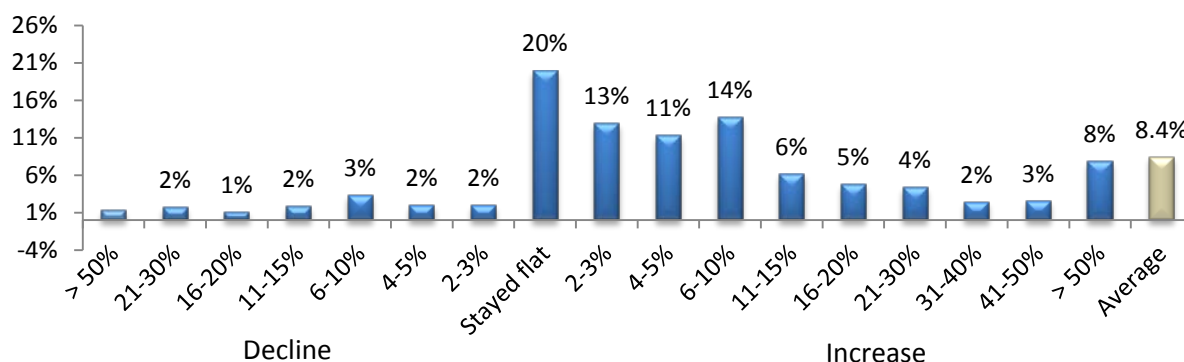
Average change in annual revenues in the last 12 months was 1.9%.

**Figure 163. Annual Revenues Change in the Last 12 Months**



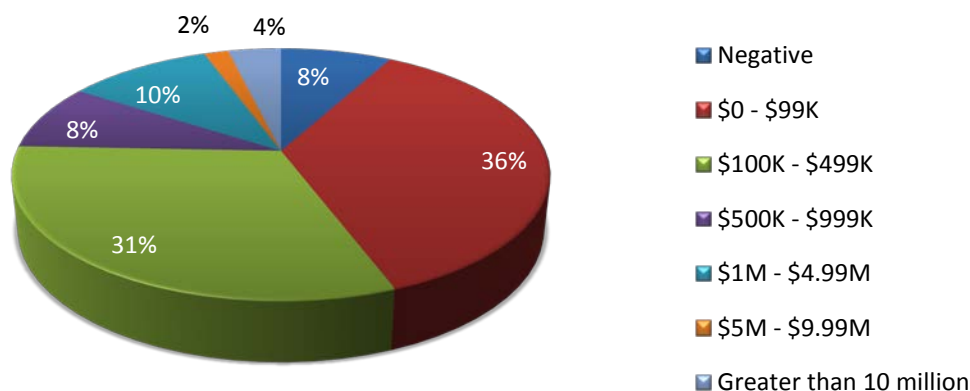
On average respondents expect their annual revenues to grow by 8.4% in the next 12 months.

**Figure 164. Annual Revenues Change Expectations in the Next 12 Months**



Approximately 76% of businesses have net income less than or equal to \$500,000, 8% of those have negative net income.

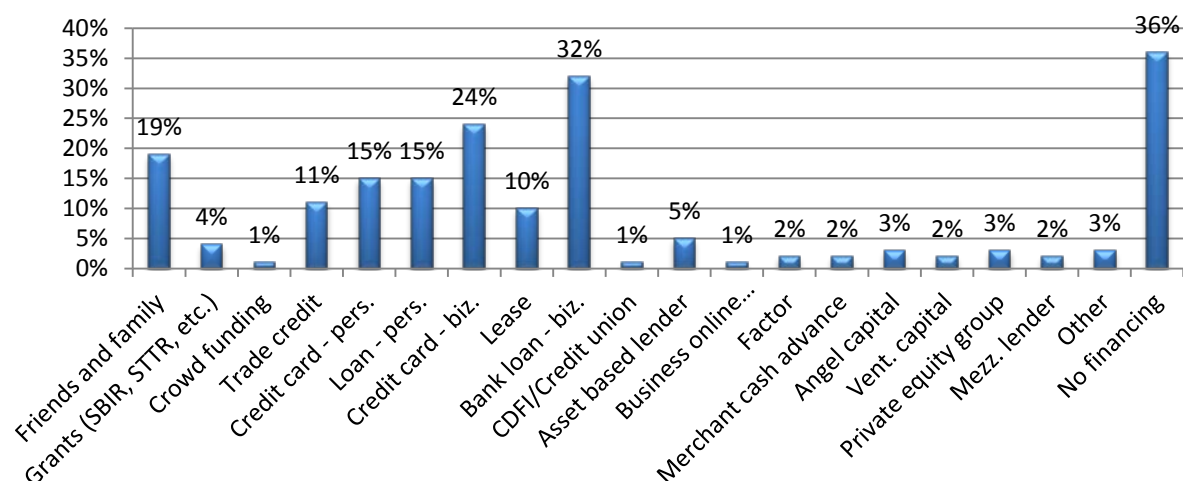
**Figure 165. Net Income**



## BUSINESS OWNER cont.

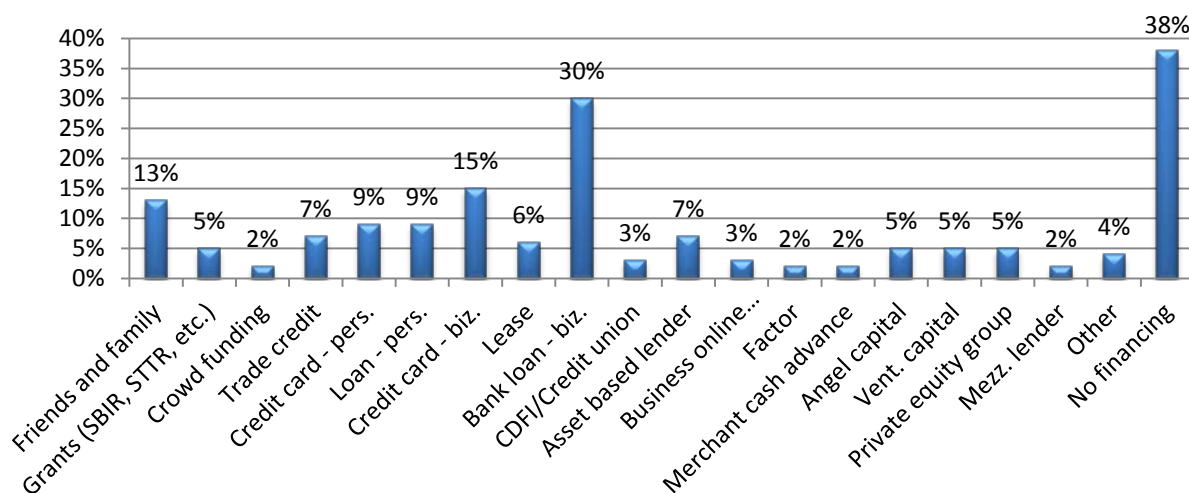
Approximately 36% of respondents are currently not financed by any external capital sources. Nearly 32% and 24% of respondents' businesses are financed by bank business loans and business credit card financing, respectively.

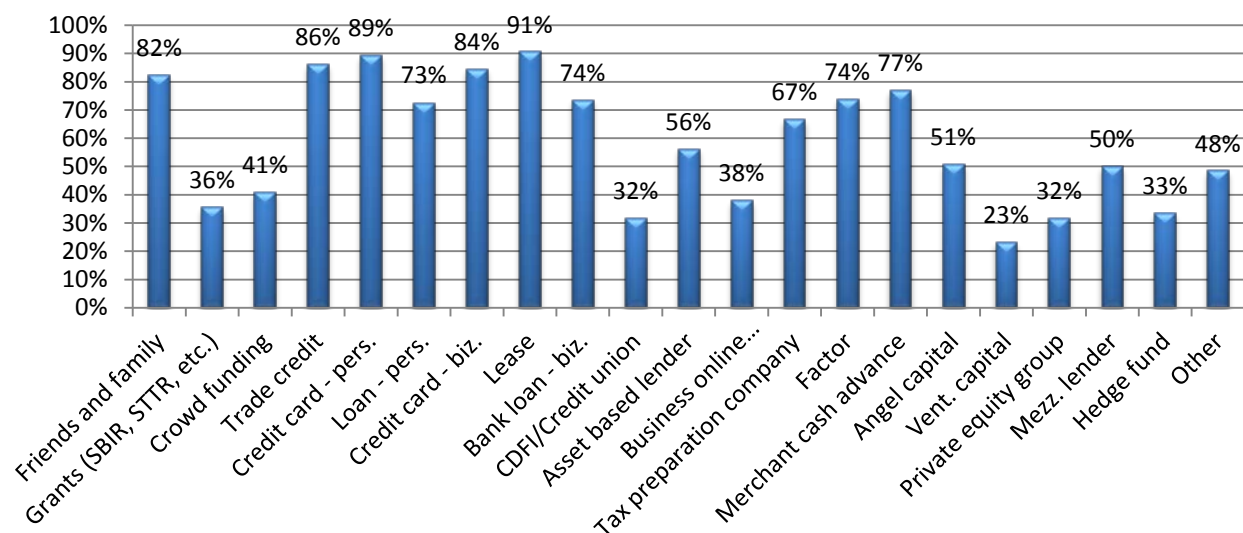
**Figure 166. Current Sources of Financing**



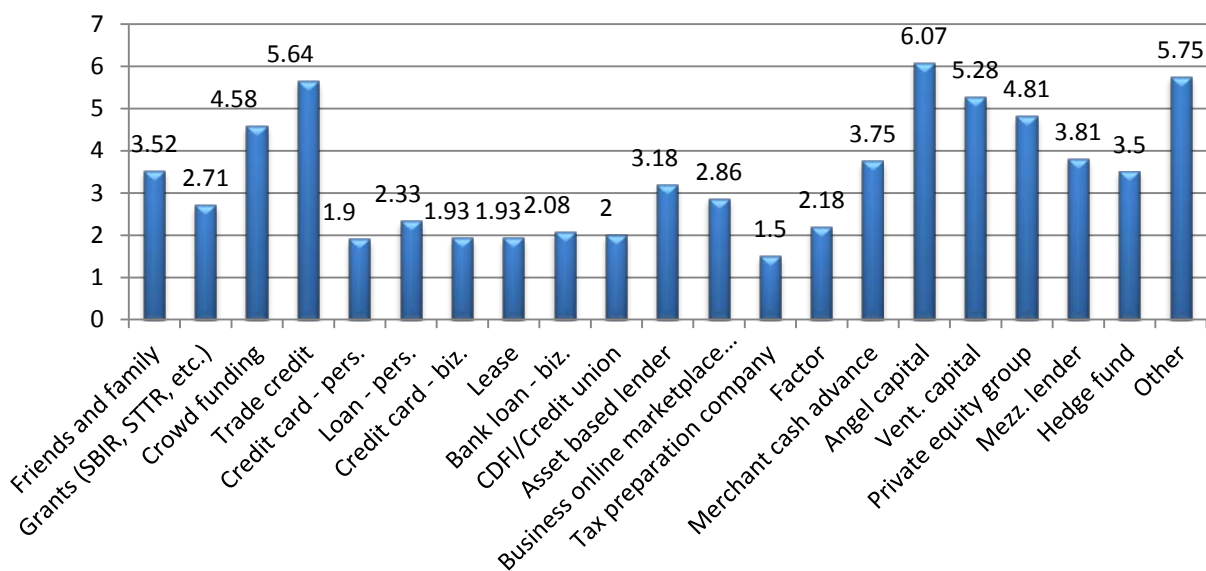
Among the businesses that tried to raise capital in the last 12 months 30% applied for bank business loan and 74% were successful, whereas 38% of respondents didn't try to raise capital from any source.

**Figure 167. Capital Sources Contacted To Raise Capital in the Last 12 Months**



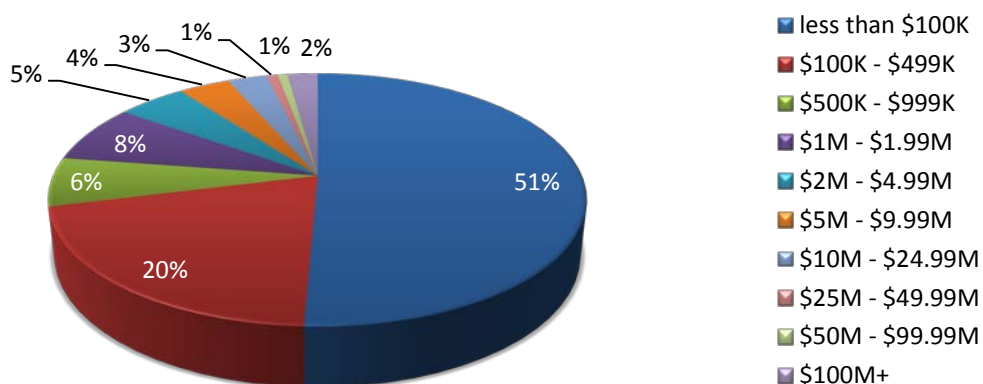
**Figure 168. Success Rates**

Among respondents who successfully raised capital the average number of capital providers contacted was 2.02.

**Figure 169. Average Number of Capital Providers Contacted**

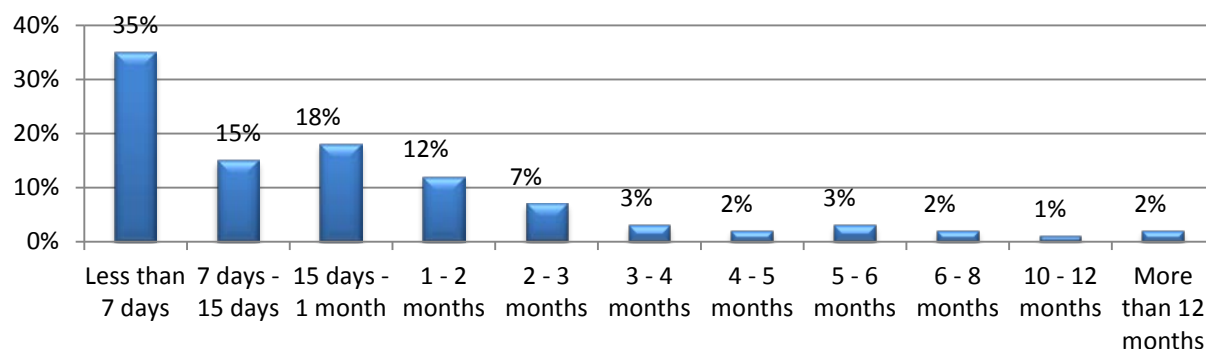
Approximately 77% of respondents attempted to raise less than \$1 million in the last 12 months.

**Figure 170. Amount of Capital Attempted to Raise in the last 12 Months**



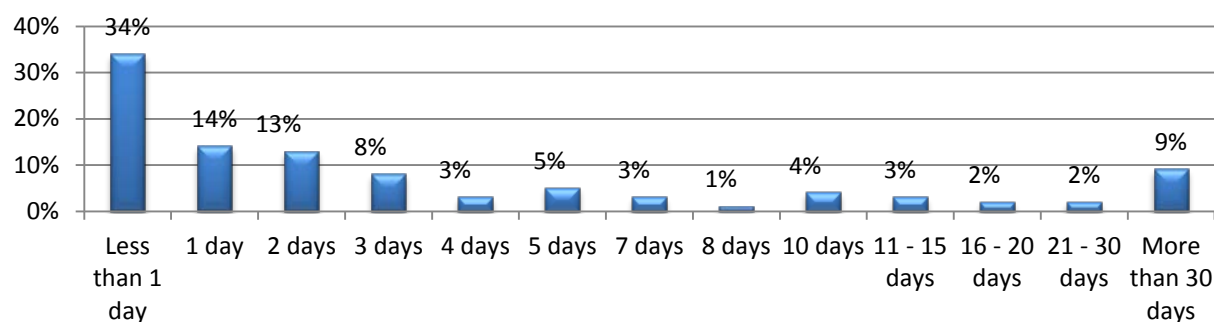
Approximately 35% of respondents took less than 7 days to complete financing process.

**Figure 171. Average Time to Complete Financing Process in Days**



34% of respondents spent less than one day during the process to successfully obtain financing (time spent by all employees and hired outsiders making inquiries, submitting proposals, meeting with capital providers, furnishing documents).

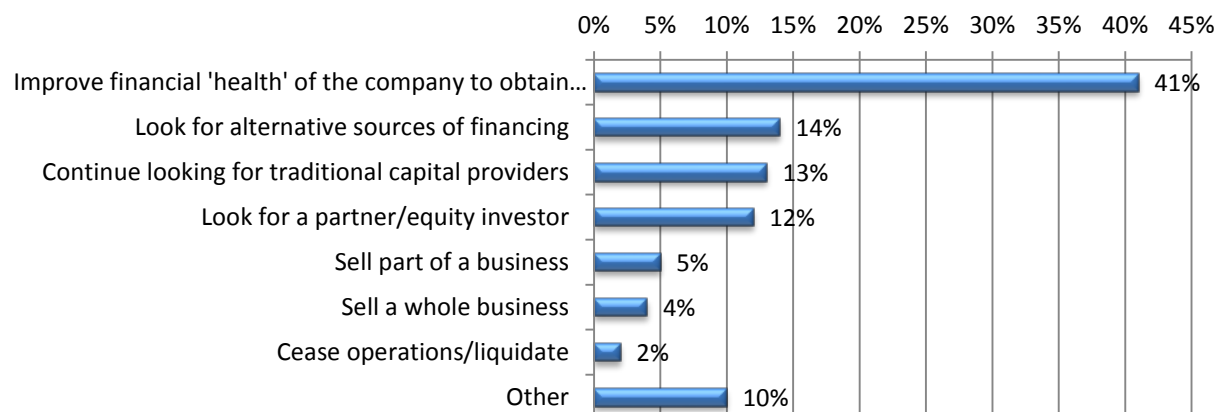
**Figure 172. Days Spent During the Process to Successfully Obtain Financing**





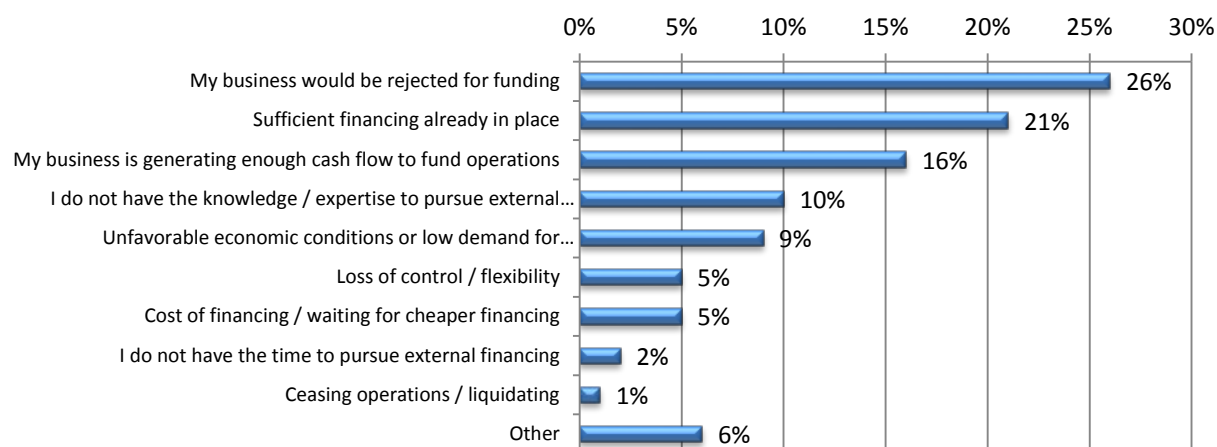
Among those respondents who were not able to obtain external financing in the last 12 months 41% are planning to improve the financial health of their businesses before attempting to raise capital in the future.

**Figure 173. Next Steps to Satisfy Financial Needs**



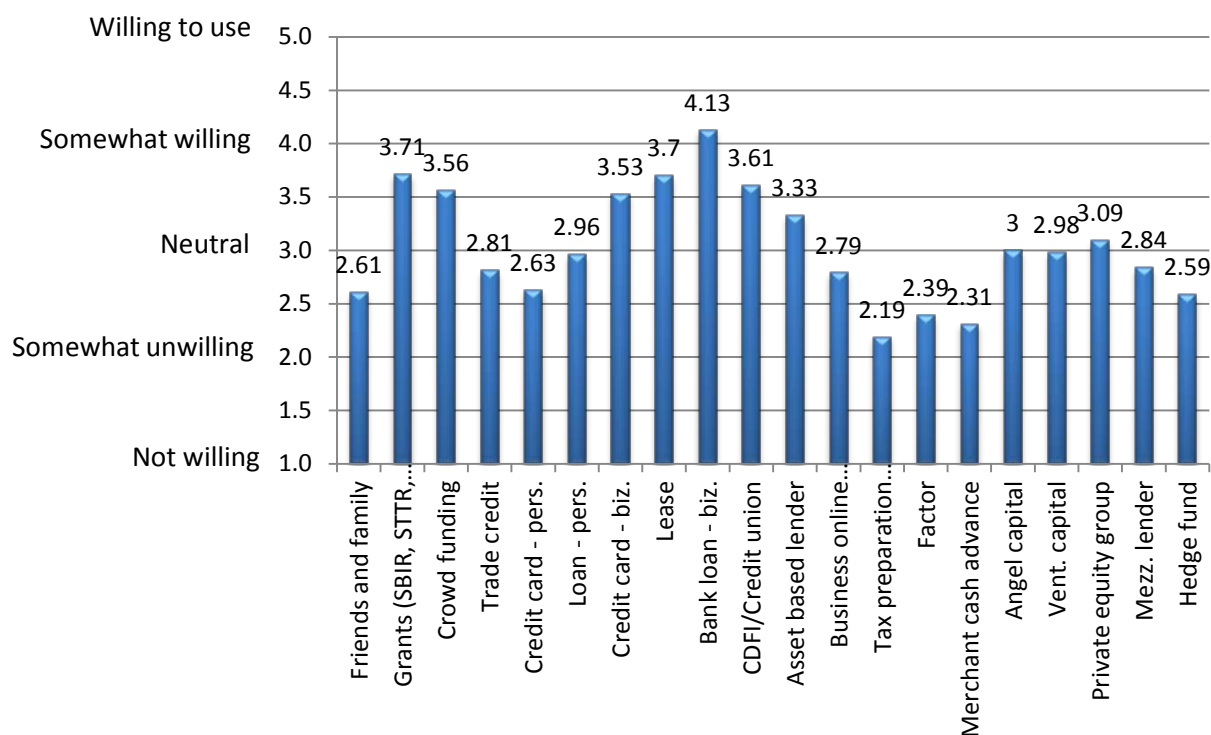
Among those respondents who didn't attempt to obtain any external financing in the last 12 months, 26% said their businesses would be rejected for funding, followed by 21% of respondents who have sufficient financing already in place, and 16% of respondents whose businesses are generating enough cash flows to fund operations (including growth and expansion).

**Figure 174. Reasons for Not Trying to Obtain Capital in the Last 12 Months**



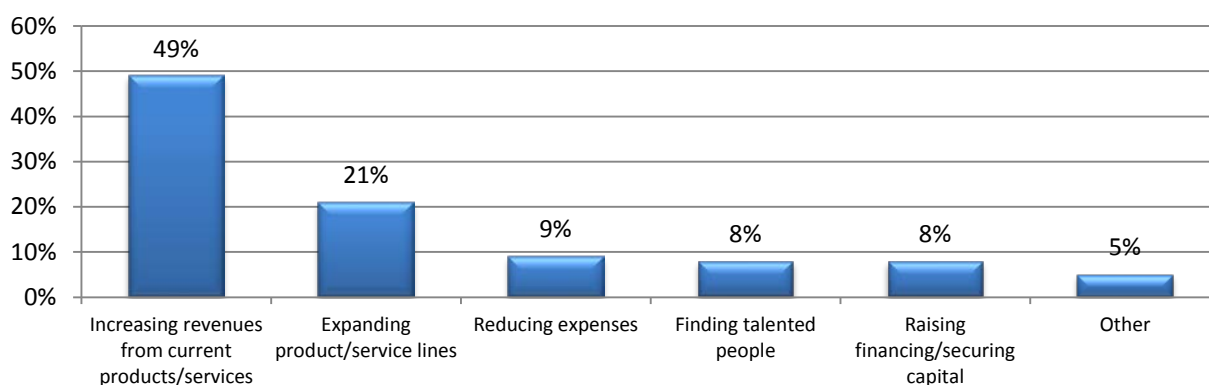
According to the respondents, “bank loans” as a category is the most appealing option to obtain financing.

**Figure 175. Willingness to Obtain Financing**



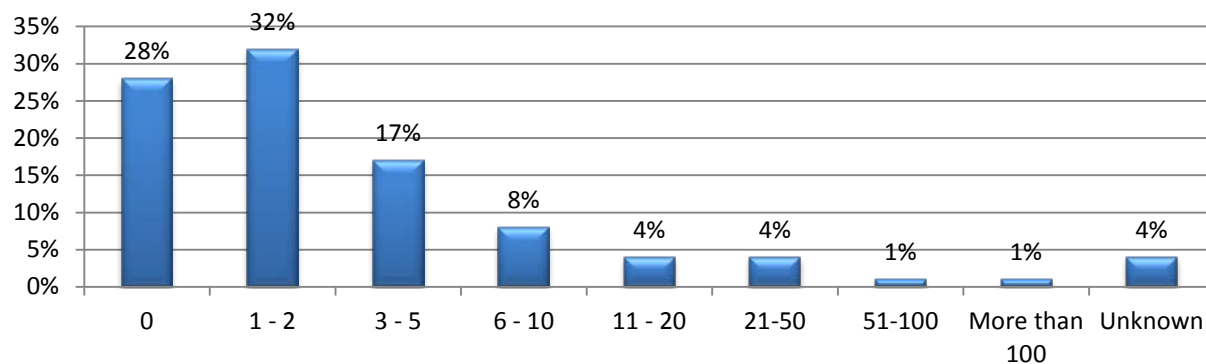
Approximately 49% of respondents indicated increasing revenues from current products or services as the area their businesses are most focused on today.

**Figure 176. The Most Important Area to Focus On**



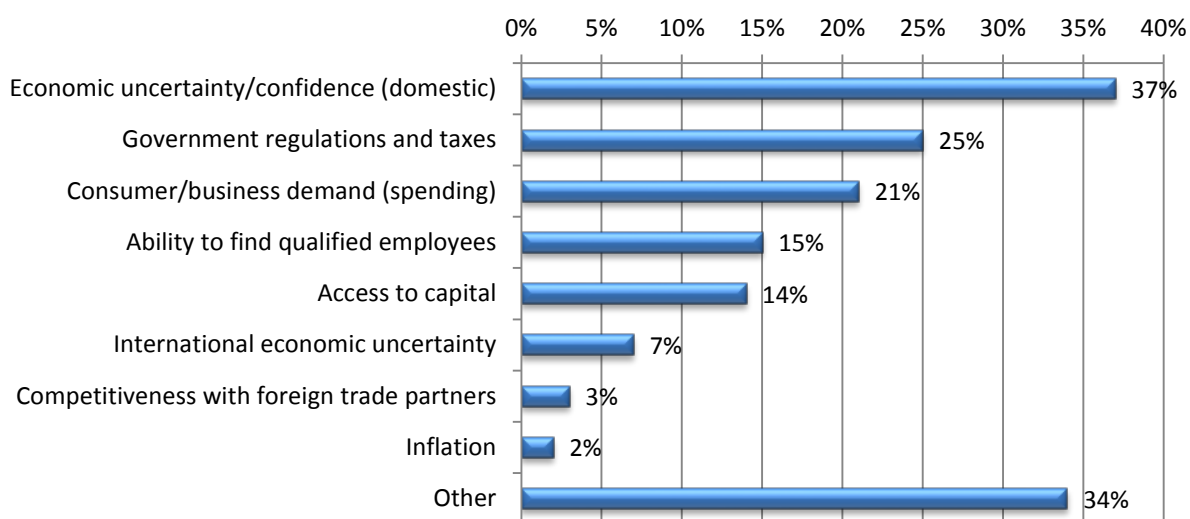
Approximately 28% of respondents are not planning to hire additional employees in the next 12 months, while 32% of respondents are planning to hire one or two additional employees in the next twelve months.

**Figure 177. Amount of Employees Planned to be Hired**



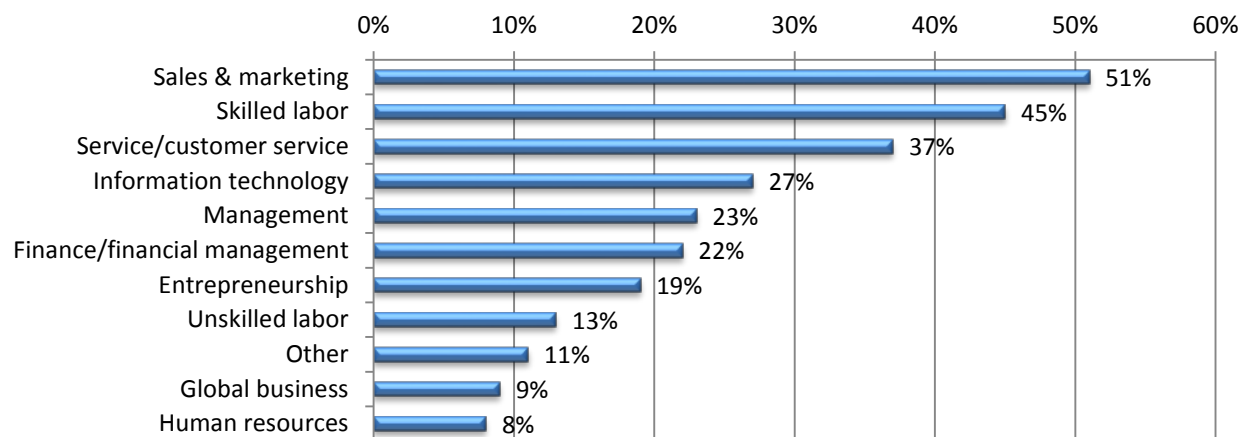
Approximately 37% of respondents believe economic uncertainty in the U.S. market is the number one reason preventing them from hiring, followed by government regulations and taxes (25%).

**Figure 178. Reasons Preventing Privately-Held Businesses from Hiring**



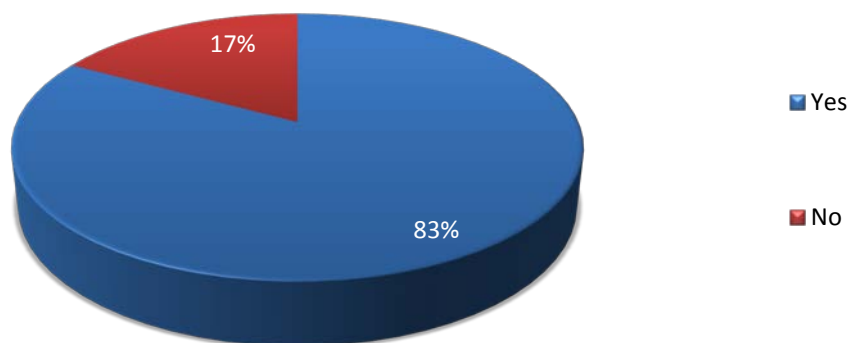
For those businesses which do plan to hire, sales and marketing skills are in greatest demand (51%) followed by skilled labor (45%) and service/customer service (37%).

**Figure 179. The Skills in Demand for New Hires**



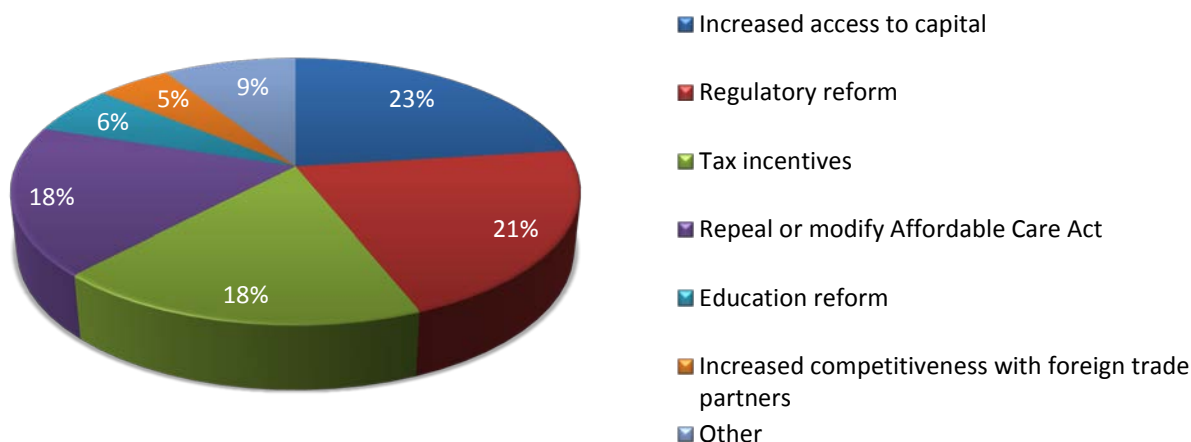
83% of businesses planning to hire indicate need to train those they hire.

**Figure 180. Need for Training of New Hires**



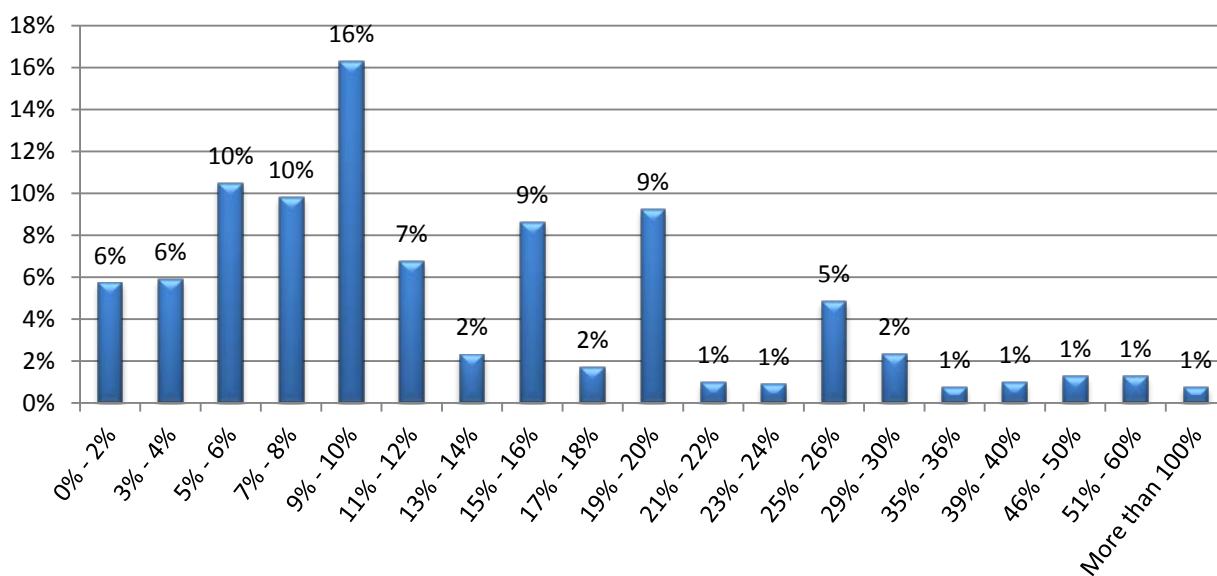
According to respondents, of those policies most likely to lead to job creation in 2016, increased access to capital emerged as number one (23%) followed by regulatory reform (21%).

**Figure 181. Government Policies to Lead to Job Creation**



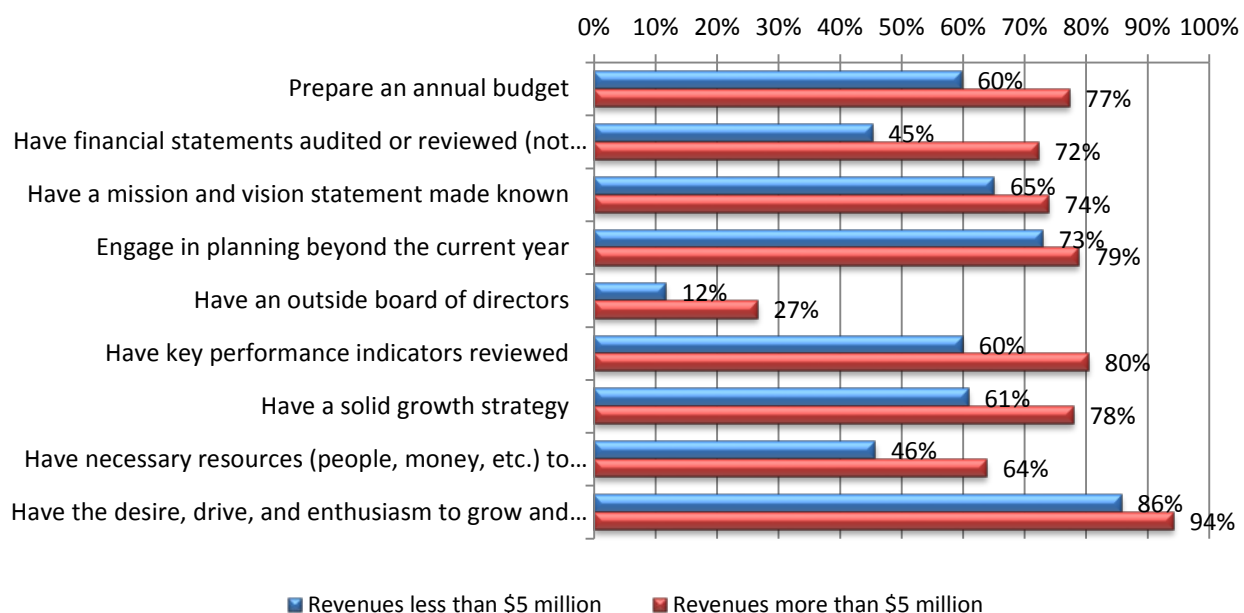
Approximately 16% of respondents indicated their business cost of equity capital is in the range of 9% - 10%.

**Figure 182. Cost of Equity Capital**



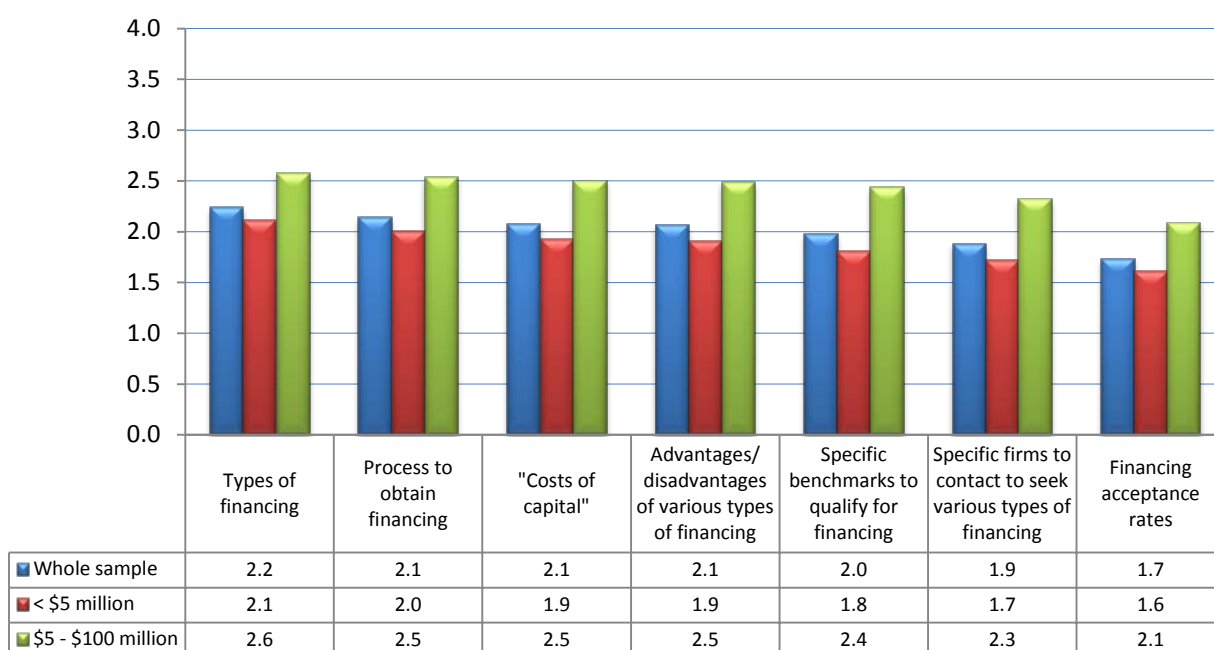
Privately-held businesses with revenues less than \$5 million on average have almost the same desire to execute growth strategies (86%) as privately-held businesses with revenues greater than \$5 million (94%). However, privately-held businesses with smaller revenues report lower levels of necessary resources (people, money, etc.) to grow (46%) as compared to privately-held businesses with higher revenues (64%).

**Figure 183. Usage of Financial Analysis by Revenue Sizes**



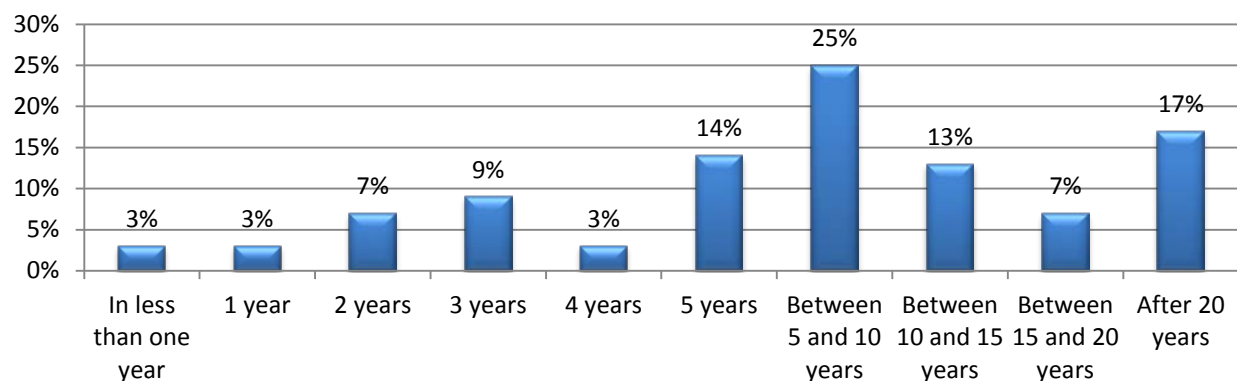
Respondents reported on their level of knowledge financing components (scale 0-4: none, some, moderate, very, completely).

**Figure 184. Level of Knowledge of Financing Components**



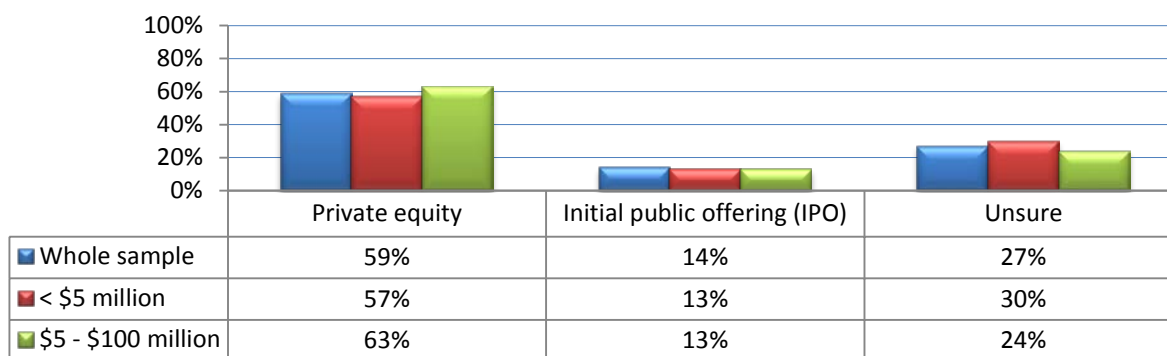
Most of the respondents are planning to transfer their ownership interest in more than five years from now while only 3% plan to transfer their ownership at the first available opportunity.

**Figure 185. Anticipation of the Ownership Transfer**



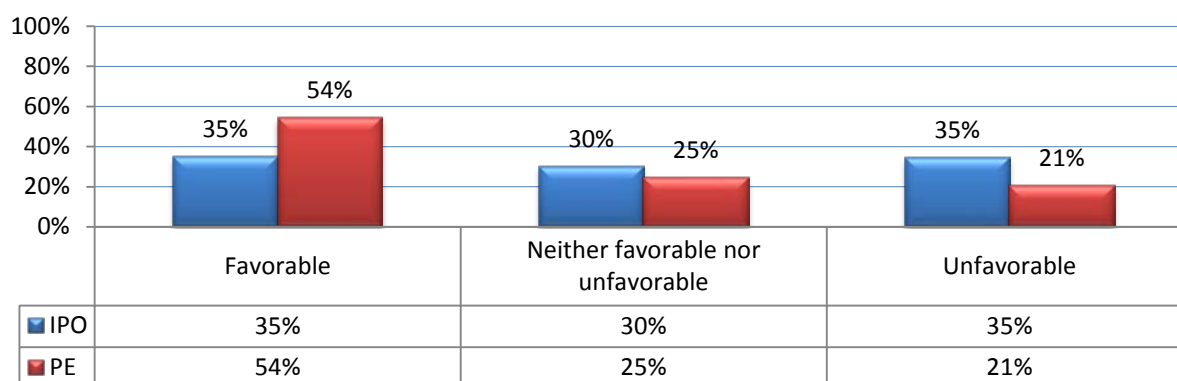
Assuming respondents businesses were eligible to raise financing from both private equity and a public stock offering (IPO), 59% of them would choose private equity.

**Figure 186. Private Equity vs Initial Public Offering**



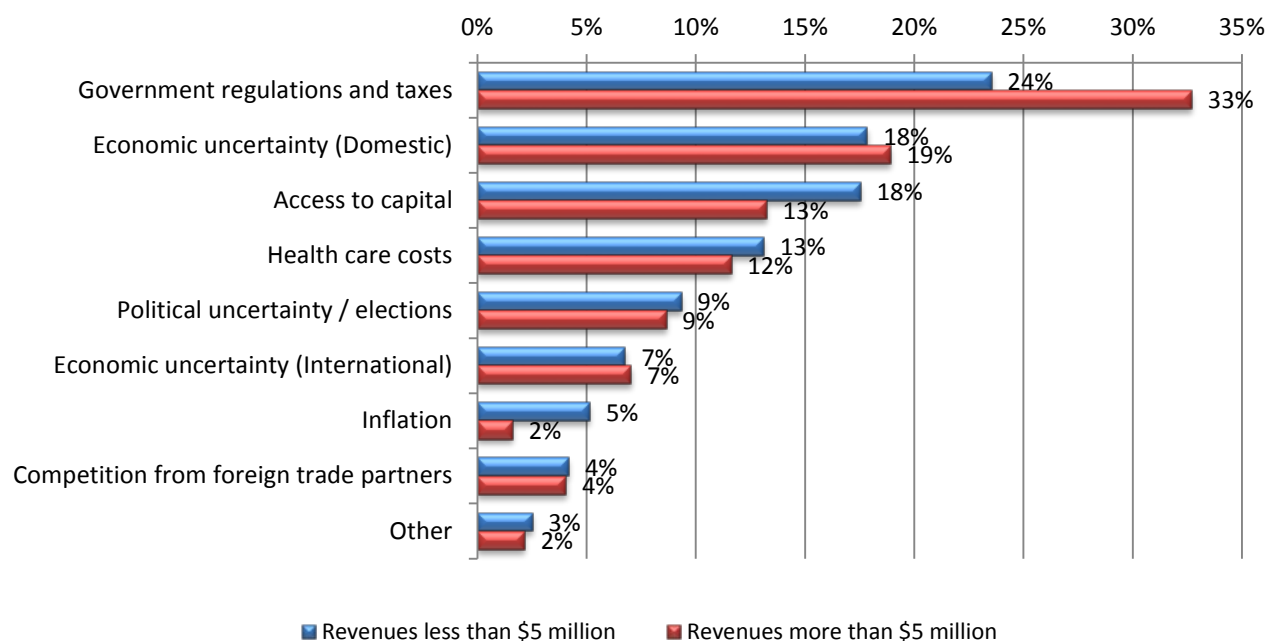
When asked about general view, 54% of respondents indicated private equity as favorable financing source.

**Figure 187. General Views on Initial Public Offering and Private Equity**

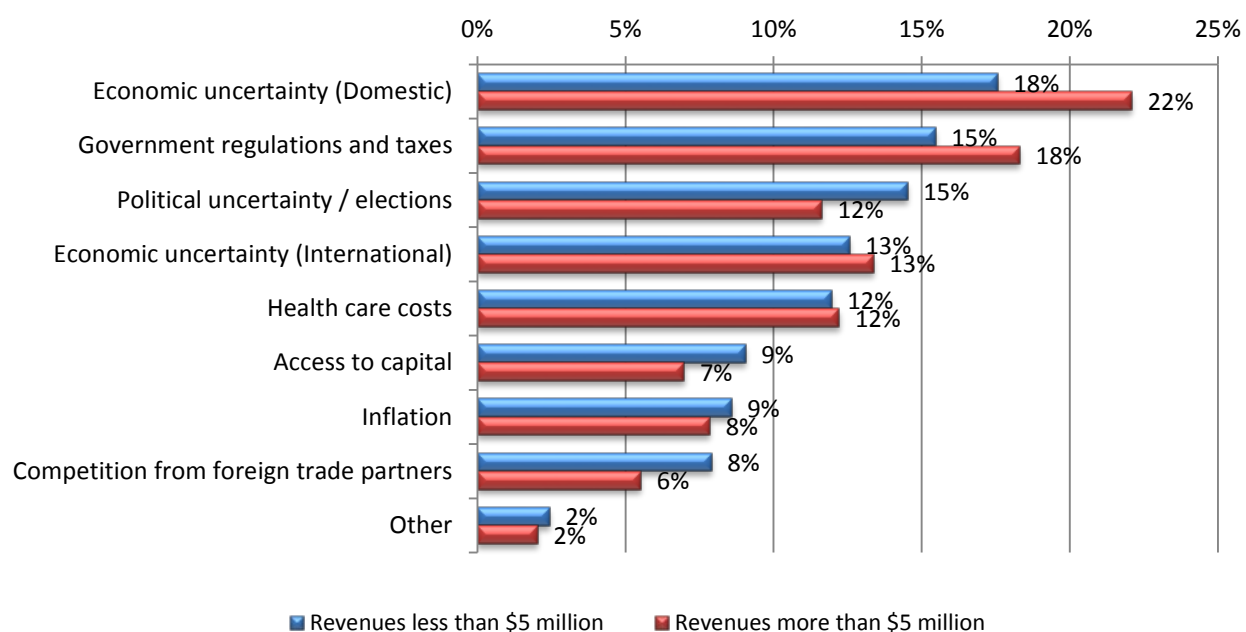


Privately-held businesses with annual revenues less than \$5 million are more concerned about access to capital than those with revenues greater than \$5 million. Larger privately-held businesses are more concerned about government regulations and taxes.

**Figure 188. The Number One Issue Facing Privately-Held Businesses Today by Revenue Sizes**



**Figure 189. The Number One Emerging Issue Facing Privately-Held Businesses by Revenue Sizes**





Most of respondents indicated increased unit sales and prices of labor and materials, flat access to capital, and slightly improved general business conditions.

**Table 62. General Business and Industry Assessment: Today Versus Twelve Months Ago**

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Unit sales	9%	15%	26%	29%	20%	49%	24%	<b>25%</b>
Prices of labor and materials	1%	6%	37%	46%	10%	56%	7%	<b>49%</b>
Net income	10%	18%	24%	32%	16%	48%	28%	<b>21%</b>
Inventory levels	4%	18%	49%	22%	7%	29%	22%	<b>7%</b>
Capital expenditures	6%	11%	46%	25%	11%	37%	17%	<b>19%</b>
Opportunities for growth	5%	10%	28%	35%	23%	57%	15%	<b>43%</b>
Access to bank loans	9%	10%	57%	16%	8%	24%	19%	<b>6%</b>
Access to equity capital	10%	11%	59%	13%	7%	20%	21%	<b>-1%</b>
Prices of your products or services	2%	8%	46%	39%	6%	45%	10%	<b>35%</b>
Time to collect receivables	2%	8%	63%	20%	7%	27%	10%	<b>18%</b>
Number of employees	2%	9%	60%	24%	4%	28%	12%	<b>16%</b>
Competition	2%	9%	55%	25%	9%	34%	11%	<b>24%</b>
General business conditions	8%	20%	40%	27%	6%	33%	28%	<b>5%</b>
Appetite for risk	5%	15%	52%	23%	5%	29%	20%	<b>9%</b>
Probability of business closure	19%	17%	48%	12%	4%	16%	36%	<b>-20%</b>
Time worrying about economy	6%	11%	44%	23%	17%	39%	17%	<b>22%</b>

Participants of the survey believe almost all general business characteristics will increase in the next 12 months.

**Table 63. General Business and Industry Assessment Expectations Over the Next 12 Months**

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Unit sales	2%	6%	22%	46%	24%	69%	8%	61%
Prices of labor and materials	1%	4%	41%	49%	6%	54%	5%	50%
Net income	2%	9%	22%	45%	22%	68%	11%	57%
Inventory levels	3%	8%	55%	26%	8%	34%	11%	23%
Capital expenditures	4%	8%	50%	29%	10%	39%	11%	27%
Opportunities for growth	2%	6%	26%	41%	25%	66%	8%	58%
Access to bank loans	4%	6%	62%	20%	7%	28%	10%	17%
Access to equity capital	5%	7%	59%	19%	11%	30%	11%	19%
Prices of your products or services	1%	5%	43%	46%	4%	51%	6%	44%
Time to collect receivables	1%	6%	73%	16%	4%	20%	7%	14%
Number of employees	1%	3%	45%	44%	7%	51%	4%	48%
Competition	1%	7%	59%	26%	7%	33%	8%	25%
General business conditions	4%	17%	45%	28%	6%	34%	21%	14%
Appetite for risk	5%	12%	54%	24%	6%	30%	16%	14%
Probability of business closure	19%	19%	50%	8%	4%	12%	38%	-26%
Time worrying about economy	7%	11%	51%	18%	13%	31%	18%	14%

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