2019 STATE OF THE INDUSTRY

The Current State of the Capital Markets

BOYAR MILLER
ATTORNEYS AT LAW

FRIENDS,

Whether you are thinking of buying or selling a company, or planning to raise money for equity or debt, this year's breakfast forum titled "The Current State of the Capital Markets" offered indispensable insights from our esteemed panel of finance experts.

We are honored they participated in our event, and are confident that the business professionals in the audience benefitted from hearing their viewpoints. We thank Kamden Kanaly of KDK Private Wealth Management for sharing his thoughts about the equity markets that gave us all some pause for consideration. John Sarvadi of Texas Capital Bank provided welcome news that banks are lending and it may be an excellent time to seek funding. And we appreciated Scott Winship of Gulfstar Group telling us how the transaction market is still very active, but there are a few concerns on the horizon.

This eBook is a summation of the perspectives and opinions they shared with us. We hope you enjoy it and will share it with others who may benefit from these insights.

BoyarMiller is a business-centric firm that represents entrepreneurs and business owners. Last year we closed approximately 100 transactions, and we are on pace to exceed that number this year. We describe our corporate practice group as nimble, for enterprise value and middle-market transactions, and sophisticated, to manage large corporate deals by a team with deep experience.

We are proud to be trusted advisors to our clients, and we hope you will contact us for your future business needs.

My Best,

Chris Hanslik

CHRIS HANSLIK
Chairman

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ABOUT THE FORUM

Sound Bites and Snapshots

> We are optimistic about the visible horizon.
>
> **SCOTT WINSHIP**

> It is a competitive market; private capital and credit is abundant.
>
> **JOHN SARVADI**

> For borrowers, it is a good time to be in the markets raising capital.
>
> **JOHN SARVADI**

> We don't want our clients' outcomes dictated by what does or doesn't happen in any one market.
>
> **KAMDEN KANALY**

> M&A volumes this year are down a little, but activity is exceptionally high.
>
> **SCOTT WINSHIP**

> We think equities look fairly valued at this point.
>
> **KAMDEN KANALY**

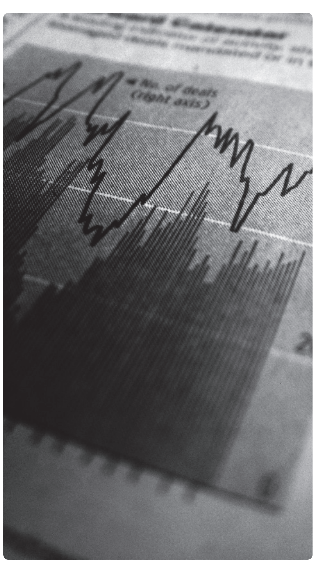
By the Numbers

$800 billion
Amount of uninvested private equity capital

10%
Year-to-date increase for the AG

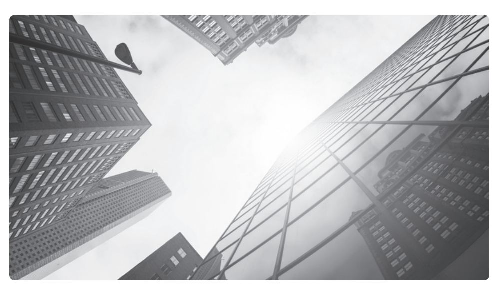
Double Valuations
Purchase price multiples in middle market have increased from about 6x to 12x

15% - 30%
Increase in cost of goods due to tariffs



$3.5 billion
2018 syndicated finance volume among banks

Internal Rate of Return
From mid 20s to high teens



Expert Insights

KAMDEN KANALY: OUTLOOK FOR THE EQUITY MARKETS

- These are challenging times in the equity markets. Technical indicators, fundamental data and earnings all point to the fact that the market is fairly priced. That gives me a lot of anxiety as we look for ways to generate some return.
- We've come out of an environment with low levels of volatility. It looks to us like we are in the second or third inning of a range-bound environment for equities. We believe it's time to be careful and prudent when investing.
- We are already in an earnings recession whether we realize it or not. This looks to be the third quarter in a row where we've seen a year-over-year quarterly decline in earnings, and for the first time in a while, top-line sales are also declining.
- I don't see a deep or prolonged recession coming because we benefit from lower interest rates, the availability of credit, and low unemployment. However, we are in for a slower growth environment as this economic cycle runs its course.
- For money managers, fee compression is here. The cost of execution is decreasing with automation. The ETF market has seen huge growth. So, now is a good time to talk to your advisor about fees, especially since they are no longer deductible.

Kamden D. Kanaly, CFP®

CHAIRMAN,
KDK PRIVATE WEALTH MANAGEMENT

Kamden D. Kanaly is the Chairman of KDK Private Wealth Management, a registered investment adviser located in Houston, Texas that provides independent and highly tailored wealth planning and investment advice. Kamden has dedicated his professional career to providing wealthy families with objective investment and financial advice. KDK PWM represents a commitment to carrying on the values that his family passed on to him: client-centric thinking, innovative advances, and a deep respect for personal service and transparency.

In 1975, his grandfather founded Kanaly Trust Company. Shortly thereafter his father and uncles joined the company. The family business grew over its 40-year run into a multi-billion dollar AUM wealth management firm. Following in their footsteps, Kamden spent five years with Kanaly Trust in his role as Vice President – Relationship Manager and served as a member of Kanaly's Investment Committee.

Prior to joining Kanaly in 2012, he held analyst and client advisor roles at Amegy Bank and Morgan Stanley. After the merger between Kanaly Holdings (Trust) and Mercer Advisors in 2016, and then Kanaly Trust's subsequent sale to National Advisors Trust Company in 2017, he spent one year with Mercer Advisors in a similar role.

Expert Insights

JOHN SARVADI: BANKING & DEBT CAPITAL MARKETS

- It is a matter of supply and demand in the middle market debt capital markets. It's frothy but not yet overheated. There is a tremendous amount of capital that is still available to be deployed.
- Banks are healthy and well capitalized. It is a good time to reach out to your banker because they have capital available to lend.
- The real story is not the banking segment. It is the private credit or non-bank market that has literally exploded in the last eight to 10 years. The banking market has been displaced by private credit; that is, single-credit providers who are lending across the debt capital stack.
- It is a competitive market; private capital and credit is abundant. There is a lot of transaction-chasing going on in the market.
- We see fairly loose covenants, a lot of EBITDA adjustments, and flexible repayment terms. But we are starting to see some small signs of stress and late-cycle credit indication.
- Capitalism requires a level of confidence. With the upcoming election year, it is difficult to plan with confidence.

John Sarvadi

**EXECUTIVE MANAGING DIRECTOR,
CORPORATE BANKING,
TEXAS CAPITAL BANK**

John Sarvadi serves as Executive Managing Director overseeing Texas Capital Bank's Corporate Banking practice, including Corporate Banking Solutions. He joined Texas Capital Bank in June 2013 as President of the bank's Houston region and was promoted to Executive Managing Director in 2016.

Before joining Texas Capital Bank, John worked with JPMorgan Chase & Co. and its predecessor firms for 24 years. He led teams in the firm's commercial banking and corporate and investment bank lines of business. His responsibilities included managing director of Corporate Client Banking, SVP/division manager Houston Middle Market Banking Group, group head of Chase Franchise and Beverage Finance and managing director of J.P. Morgan's Franchise Systems Finance.

John's background includes extensive experience with corporate/leveraged finance, capital markets and client/sales management responsibilities, working with companies ranging from privately held, entrepreneurially run businesses to large and mid-size public companies.

Expert Insights

SCOTT D. WINSHIP: M&A MARKET ACTIVITY

- It has been a decade-long upswing and the mergers and acquisitions market continues to be very active. Overall closed transaction volume in 2019 is down a little, but market activity is exceptionally high.
- There is close to $800 billion of uninvested private equity capital waiting to go to work. We get many daily emails from private equity firms announcing that they have raised their next fund at the hard cap in 45 days. This continues to increase the technical overhang of capital that needs to get to work because it is definitely building.
- All that capital on the sidelines has a lot of momentum behind it. So we are still seeing very competitive transaction processes, higher than average valuations and more seller-friendly terms as a result of capital deployment pressure and a burgeoning scarcity of high-quality transaction opportunities of scale.
- Private equity buyers are in a position to acquire solid assets where previously they may have been at a disadvantage to a strategic buyer because of synergy plays. They are being more aggressive in the valuations they are willing to pay, and knocking strategics out of processes at increasing velocity.
- In the consumer sector, the tariff issue is problematic and has created some material unintended consequences. Trying to get ahead of the tariffs, companies that source products from China have purchased an extensive amount of inventory ahead of implementation dates, which can put unnatural pressure on their balance sheets. The ultimate question is: who is going to absorb the increased price of goods due to the tariffs, which can range from 15 to 30 percent higher? So far, retail customers have pushed back on taxing the consumer, so the wholesalers in the middle are feeling the pain.
- The capital markets are healthy and clearly inspiring transaction activity. My biggest concern regarding downturn catalysts centers on political instability – because we're witnessing more aggressive domestic political instability than, perhaps, we've seen, and high velocity global geopolitical battles that seem to rock the headlines on a daily basis. Instability has forever and always been bad for the capital markets, and the fierceness that seems so pervasive at current is a frightening portend that all deal makers are paying attention to.

Scott D. Winship

MANAGING DIRECTOR
GULFSTAR GROUP INVESTMENT BANKERS

Scott Winship is the Managing Director of GulfStar Investment Bankers and has more 23 years of experience advising clients in the consumer products and information technology industries. He has successfully closed more than 75 transactions with an aggregate value in excess of $20 billion across a broad range of public and private market equity and debt financings, mergers and acquisitions and strategic advisory assignments.

Previously, Scott was a managing director at 6Pacific Partners in Los Angeles where he advised clients in the food, beverage and branded consumer products industries. Prior to that, Scott led the packaged food and beverage group at BMO Capital Markets in Chicago and held senior positions in the technology industry groups at JPMorgan Chase & Co. and at Cowen & Company in San Francisco. He joined GulfStar in 2010.

Advice to Business Owners

John Sarvadi offers three key points to business owners interested in raising capital.

1

Raise capital when you can get it at attractive terms, not just when you need it. To achieve that goal, become a student of what is happening in the debt markets. Be open to calls and discussion from professionals in the capital markets. Do not get your financing and then forget about it until a few months before maturity to start exploring what is happening in the market. That practice could lead to an unpleasant outcome.

2

Be opportunistic in your financing needs. Push out maturities and refinance when terms are favorable. On the conservative side, be wary of the overuse of leverage. Have capitalization that can withstand some downside, whether it is from a revenue perspective or margin compression.

3

Don't skimp on advice and counsel. Surround yourself with knowledgeable and experienced attorneys, accountants, bankers, investment bankers, and investment advisors. Have a team of people that provide you with sound counsel.

Attorney Insight

THE IMPACT OF TARIFFS AND THEIR CHILLING EFFECT ON U.S. BUSINESSES

STEVE KESTEN
Shareholder, Business Group Chair

LYNDSAY FINCHER
Senior Associate, Business Group

The story on tariffs is a story of unintended consequences – tariffs have created additional costs for U.S. companies and some job losses to mitigate these extra costs. The current administration has imposed numerous tariffs with several of them, specifically, on consumer products and supplies that will be implemented by the end of 2019. The imposed tariffs are intended to rebalance some of the trade inequities in the market and, in general, act as a tool to incentivize businesses to buy goods and supplies from companies in their home country. For instance, tariffs directed by the U.S. at China for their alleged unfair trade practices were intended to set right inequities that put U.S. companies at a disadvantage. The current administration has implemented a 25 percent tariff on steel and a 10 percent tariff on aluminum imports on a number of countries. Due to excess supply of global steel, these tariffs were largely aimed at China for their long-term practice of exporting excess steel at low prices that have been undercutting the U.S. steel and aluminum sector, resulting in factory closures and job losses.

THE CHILLING EFFECT ON BUSINESSES

In reality, the U.S. has seen an unintended chilling effect on businesses, particularly small and middle-market businesses.

The effect is felt by both businesses and their supply chains that use imported materials and by businesses that export products to other markets. This effect has been a financial hit on U.S. small businesses as a result of unraveling supply chains.

TARIFF'S IMPACT ON THE OIL AND GAS MARKET

In an already volatile oil and gas market, the tariffs on steel and aluminum have added another layer of distress to the already struggling sector.

25% The 25 percent tariff on steel has had a detrimental impact on oilfield service providers that require imported specially designed pipes.

This hefty cost increase, without any options in the U.S., has left some oilfield services providers without any viable alternatives. Businesses are working with suppliers to help share the costs, but that can only go so far. As U.S. companies are trying to relocate their supply sources to other counties, such as Vietnam, many are finding that the other countries do not have the economic management systems in place or the levels of productivity American companies are accustomed to from China.

Attorney Insight, cont.

BUSINESSES STAND UP TO TARIFFS

In response to the tariffs, businesses are trying to determine how to offset increased costs.

Importers often pass the costs of tariffs on to customers – manufacturers and consumers in the U.S. – by raising prices. Thus, it ends up being the final consumer that is footing the bill. Some intermediary companies are also being put in the tough financial position where the products they are importing are costing more, but their customers are refusing to accept a higher price.

$3B U.S. companies and consumers paid $3 billion a month in additional taxes because of tariffs on Chinese goods and on global metal imports, according to a study by the Federal Reserve Bank of New York, Princeton University and Columbia University.

The executives of large retail giants such as Target and Walmart have recently stated they will not accept the trickle down costs to their customers. This has forced companies to find ways to manage the cost increases through various strategies including accepting lower profit margins, cutting costs – including reducing wages and jobs for U.S. workers–and deferring capital expenditures. In anticipation of the tariffs, some companies imported large amounts of supplies prior to the implementation of the tariffs, which are now unused and sitting on their balance sheets.

SHOULD THE CONSUMER PRODUCTS SECTOR BE WORRIED?

Even more new tariffs are expected to hit before the end of 2019, and largely on consumer products.

Investors are right to be concerned that retail prices will hit consumer spending, especially after the upcoming tariffs are implemented, and cause trade uncertainty that may result in making businesses hold back on capital spending. The full impact of the tariffs has yet to be realized and small and middle-market companies are going to need to get even more creative to try to mitigate the increased costs.

Comprehensive Capital Markets Experience

Our team approach draws on the expertise of senior attorneys while technical details are managed efficiently

We provide counsel to clients throughout their business lifecycles – from entrepreneurs to global corporations

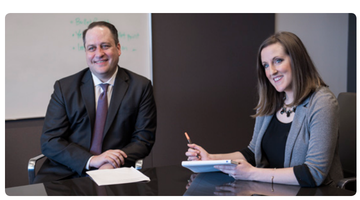
funding the future

Represented an oil and gas company in connection with its capital raise through a private placement

stock sale

Represented a private oilfield equipment rental company in an $85 million stock sale

Our team has vast business and corporate law experience



We operate as strategic partners to our clients and work together to develop: capital plans, corporate financing and transition structuring for business growth

business sale

Represented a Texas-based tubular threading company in its $125M sale

Capital Markets Practice Leaders

BILL BOYAR

Founding Shareholder, Business Group

Represents the various parties involved in the acquisition, disposition, capitalization and financing of national and international businesses. Served as lead counsel for numerous complex, multi-party acquisitions and project financings with significant experience in corporate finance, mergers and acquisitions, private equity and structure finance.

GARY MILLER

Founding Shareholder, Business Group

Represents numerous domestic and offshore-based companies in connection with acquisitions and divestitures, financings, joint ventures and general corporate matters in the United States.

STEVE KESTEN

Chair, Business Group

Represents multiple international energy and energy services clients with outbound expansion (i.e., U.S. companies expanding internationally) and inbound expansion (international companies expanding to the U.S.), including start-up expansion or expansion by acquisition, as well as in connection with financing and merger and divestiture transactions.

Capital Markets Practice Leaders, cont.

GUS BOURGEOIS
Shareholder, Business Group

Represents clients doing business domestically and internationally in connection with mergers and acquisitions, finance and multi-jurisdictional transactions, including negotiation of contracts for sales of goods and services (including master service agreements), technology licensing, joint-venture agreements, and employment agreements, with significant experience in assisting foreign businesses in establishing and growing their U.S. operations.

PHILIP A. DUNLAP
Shareholder, Business Group

Represents clients for corporate and private securities transactions as well as serving as outside general counsel in a variety of matters, including mergers and acquisitions, financing, employment agreements and raising capital through private offerings.

SHAY JOHANSON
Of Counsel, Business Group

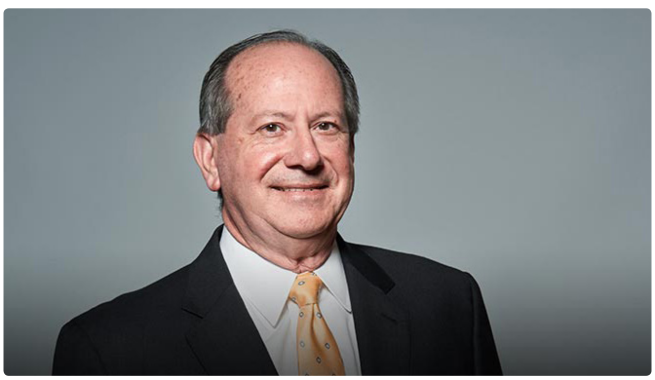
Represents clients in various industries in connection with mergers and acquisitions, dispositions, joint ventures, private securities offerings, corporate restructuring, venture capital, private equity financings, corporate governance matters, cross-border transactions, and general contracts.

Capital Markets Practice Leaders, cont.

BLAKE D. ROYAL

Shareholder, Business Group

Represents corporations and businesses in corporate transactions, contracts, private equity investments, mergers and acquisitions, corporate restructuring and capital formation strategy and structure.



LAWRENCE E. WILSON

Shareholder, Business Group

Represents public and private businesses in acquisitions, divestitures, corporate finance and general corporate matters and provides corporate and commercial counseling – acting as an outside general counsel to various businesses – regarding complex mergers and acquisitions, initial capitalization and growth financing and restructuring transactions.