



Market Terms and Hot Topics in Independent Sponsor Transactions

October 11, 2017

Chicago, Illinois

Survey of Selected Deals

Category of Lead Capital Source	Total Invested Capital	Independent Sponsor Equity Investment	Promote Interest	Terms of Promote Interest	Closing Fee	Management Fee
Family Office	\$7.5M	\$250,000	25% promote on Invested Capital (with full catch-up)	20% after 1X MOIC plus 8% IRR Additional 5% after 2.5X MOIC	N/A	5% of annual EBITDA
Family Office	\$8.0M	\$75,000 (including rolled closing fee on after-tax basis)	15% promote on Invested Capital (with full catch-up)	10% after 1X MOIC Additional 5% after 3X MOIC	2.25% of Deal Value	None
Family Office	\$10.5M	None	20% promote on Invested Capital (with full catch-up)	20% after 1X MOIC plus 8% IRR	2.0% of Deal Value	5.0% of annual EBITDA

Survey of Selected Deals *(cont.)*

Category of Lead Capital Source	Total Invested Capital	Independent Sponsor Equity Investment	Promote Interest	Terms of Promote Interest	Closing Fee	Management Fee
Mezzanine Lender	\$6.0M	None	20% promote on Invested Capital (with no catch-up)	10% after 1X MOIC plus 10% IRR Additional 10% after 1X MOIC plus 20% IRR	2.0% of Deal Value	5.0% of annual EBITDA with a cap of \$350,000 per year
Mezzanine Lender	\$17.0M	\$800K (including rolled closing fee on tax-deferred basis)	10% promote on Invested Capital (with full catch-up)	5% after 1X MOIC plus 8% IRR (vests ratably over 4 years) Additional 5% after 2X MOIC	2.1% of Deal Value	4.5% of annual EBITDA with a cap of \$300K per year
Mezzanine Lender	\$4.5M	\$1.5M (including rolled closing fee on tax-deferred basis)	20% promote on Invested Capital (with catch-up)	10% after 1X MOIC plus 8% IRR Additional 10% after 2X MOIC	2.0% of Deal Value	\$225k per year (with ratchets for incremental EBITDA growth)

Survey of Selected Deals *(cont.)*

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

Survey of Selected Deals *(cont.)*

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

Trends and Takeaways

- Modified “2/20” model remains the rule of thumb
 - Some independent sponsors will mix and match economics
- Deal Price and Timing = Everything
 - Successful independent sponsors are finding deals in the range of 4-6x EBITDA in proprietary searches or very limited processes
 - Cheaper deal values can significantly enhance economics
 - Signed Letters of Intent/Exclusivity tend to drive up Independent Sponsor economics
 - Mini-auctions are more prevalent
- Capital Sources Continue to Take Different Approaches.
 - Family Offices and Mezzanine Lenders remain preferred sources of capital for Independent Sponsors
 - Mezzanine Lenders remain committed to the model, while Family Offices remain selective
 - Committed PE Funds continue to offer tougher terms

Hot Topics and Questions for the Future

- Maturing Space - Capital Sources continue to be attracted to experienced Independent Sponsors with solid track records
 - Majority of independent sponsors are former PE professionals that have been operating as independent sponsors for 5+ years and have investment/operating histories
 - However, many independent sponsors that are active today have yet to realize exits. What does the future hold for realizations?

Hot Topics and Questions for the Future

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

Questions?

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