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2018 Asset Manager Transaction Review & 2019 Forecast

Asset Management Investment Banking Group

Aaron H. Dorr
Principal, AM IB Group Head
(212) 466-7734
adorr@sandleroneill.com

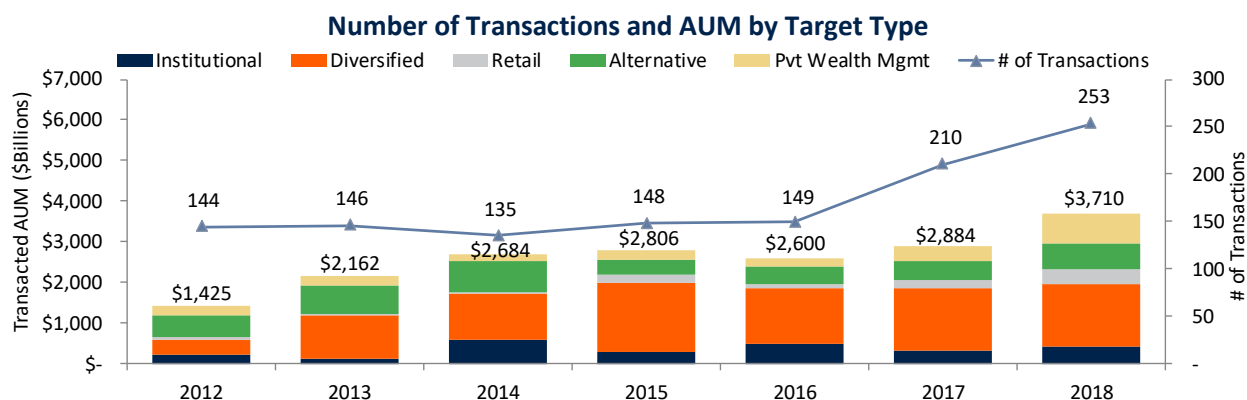
Christopher J. Browne
Managing Director
(212) 466-7735
cbrowne@sandleroneill.com

Jason D. Greco
Director
(212) 466-7967
jgreco@sandleroneill.com

OVERVIEW

Asset management transaction activity surged in 2018 with 253 announced transactions, setting a new record by surpassing the previous high of 243 in 2007 and 210 in 2017. A positive U.S. economic backdrop and strong equity market performance prior to the fourth quarter helped fuel M&A activity in the U.S. Growth in M&A activity outside of the U.S. was also robust. Despite recent market volatility, the broader trends in the asset management industry remain unchanged and continue to create opportunities and challenges for both buyers and sellers of asset managers.

Overall, 2018 M&A activity represented \$3.7 trillion in transacted assets under management (“AUM”), up 29% and 43% from 2017 and 2016, respectively. Disclosed deal value globally increased 29% from 2017, reaching \$27.1 billion – second only to the all-time high of \$51.6 billion set in 2007.

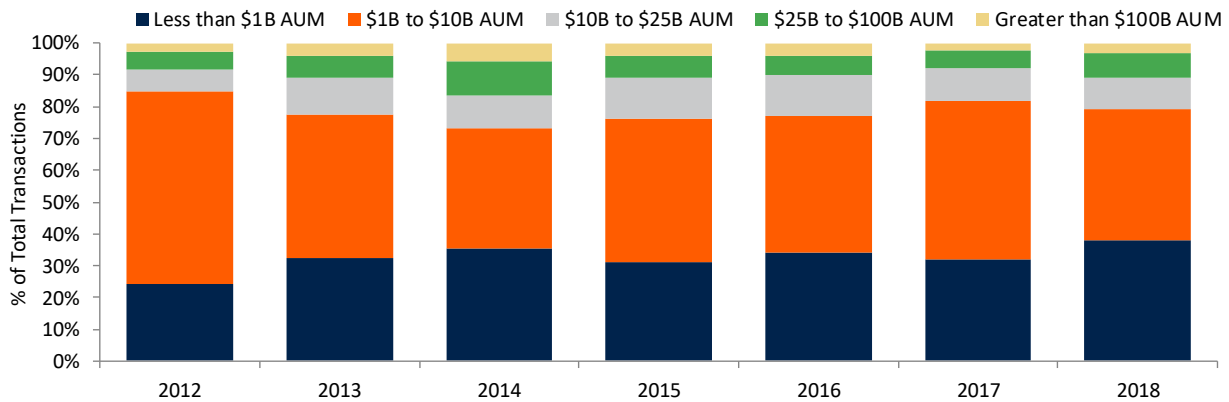


The 5 largest announced M&A transactions, as measured by disclosed deal value, highlighted a particularly active year:

- Invesco’s acquisition of OppenheimerFunds from MassMutual (\$5.7 billion)
- Hellman & Friedman’s acquisition of Financial Engines (\$3.0 billion)
- Mitsubishi UFJ Financial Group’s acquisition of Colonial First State Global Asset Management from Commonwealth Bank of Australia (\$2.9 billion)
- Scotiabank’s acquisition of MD Financial Management from the Canadian Medical Association (\$2.0 billion)
- Victory Capital’s acquisition of USAA Asset Management Company (Up to \$1.0 billion)

Substantial increases in acquisitions on both ends of the AUM spectrum elevated 2018 transaction activity. On the lower end, significant private wealth management M&A activity, particularly by serial roll-up acquirers, drove acquisition volume among managers with less than \$1 billion in AUM from 67 deals in 2017 to 96 in 2018. On the larger end, acquisitions of managers with greater than \$25 billion in AUM grew from 17 deals to 28 year-over-year. This reflects a number of significant consolidating transactions as well as an increase in minority stake sales in larger managers. In between, acquisitions of managers with \$1 billion to \$25 billion remained relatively stable at 129 in 2018 compared to 126 transactions in 2017.

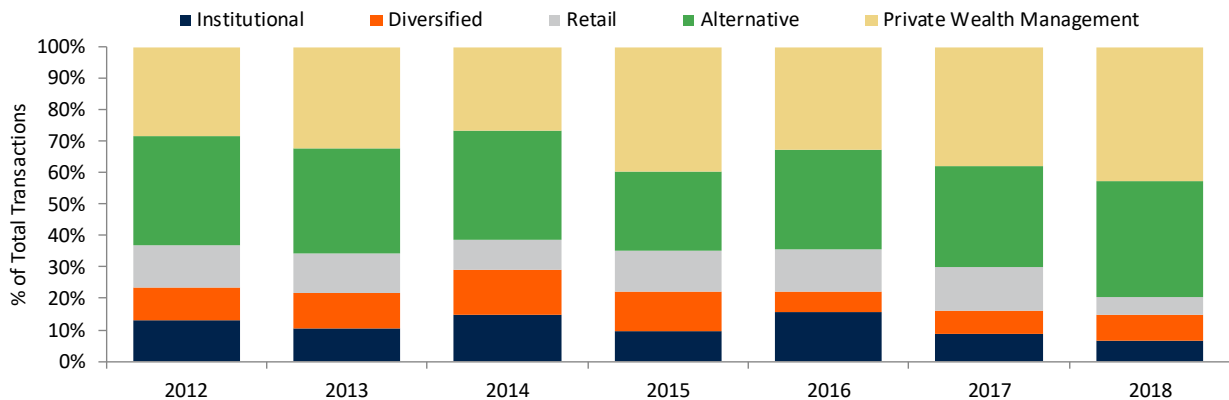
Transactions by Target's AUM



TRADITIONAL ASSET MANAGERS

Acquisitions of traditional asset managers returned to historical norms with 52 transactions in 2018 after an uptick to 63 in 2017. Amid ongoing flow challenges among active managers, buyers remain very selective.

Transactions by Target Type



RETAIL

Acquisitions of retail managers decreased by nearly 50% from 29 transactions in 2017 to 15 in 2018. As flows for active managers have dried up in the U.S. and Europe, buyer interest generally focused on consolidating deals to add scale to their platforms and extract costs, a trend highlighted by the largest deal of the year – **Invesco's** acquisition of **OppenheimerFunds**, a \$246 billion asset manager, for \$5.7 billion. **MassMutual**, OppenheimerFunds' previous owner, will own a ~15.5% stake in Invesco as part of the transaction. The combined organization will benefit from OppenheimerFunds' strong international / emerging markets investment capabilities and U.S. third-party distribution platform in addition to Invesco's diversified product line-up and global presence. The combined \$1.2 trillion AUM organization will be the 6th largest retail manager in the U.S. and 13th largest globally. In a significant deal that bucked the consolidation trend, South Korea-based **Mirae Asset** acquired **Global X**, a \$10 billion U.S.-based ETF manager. Global X will provide a U.S. anchor presence for Mirae's global ETF business and allow Global X to tap Mirae's distribution strength in Asia. ETF capabilities remain in-demand, though acquisitions of ETF managers decreased to 4 in 2018 after a flurry of 10 deals in 2017.

INSTITUTIONAL

Sales of institutional managers in 2018 remained in-line with 2017 at 16 transactions. As the industry has matured, many buyers have built out their institutional product suite and thus seek tactical acquisitions, rather than transformative deals, to fill in select product gaps. In the past, sellers could attract buyer interest with respectable investment performance and a disciplined investment process. Today, active buyers' threshold for acquisition targets is much higher and focused on in-demand capabilities, a strong investment track record, and a well-defined investment process driven by multi-generational teams. Checking all these boxes, **Virtus Investment Partners** acquired a majority stake in **Sustainable Growth Advisers**, a \$12 billion manager specializing in high-conviction global and U.S. growth equity strategies. The acquisition enhances Virtus' institutional presence and allows Sustainable Growth Advisers to leverage Virtus' distribution resources in the retail channel. Similarly, **Natixis Investment Managers** acquired a 24.9% stake in **WCM Investment Management**, a \$29 billion manager focused on global growth strategies, and became WCM's exclusive third-party distributor.

DIVERSIFIED

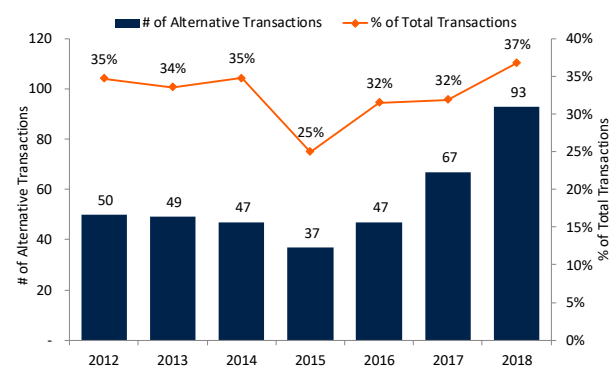
Acquisitions of diversified managers increased by over 30% in 2018 to 21 transactions, including 2 of the year's largest transactions. Transactions involving diversified managers often are larger transactions that offer buyers consolidation opportunities and access to complementary product capabilities and additive distribution channels. To expand into Australia and become the largest asset manager in the Asia / Oceania region, **Mitsubishi UFJ Financial Group** acquired **Colonial First State Global Asset Management**, an Australia-based diversified asset manager with \$150 billion in AUM, from **Commonwealth Bank of Australia** for \$2.9 billion. Also motivated by international expansion, **Federated Investors** acquired a 60% stake in **Hermes Fund Managers**, a U.K.-based \$45 billion ESG-

focused investment manager with U.K. and European distribution capabilities, from the **BT Pension Scheme** for \$350 million.

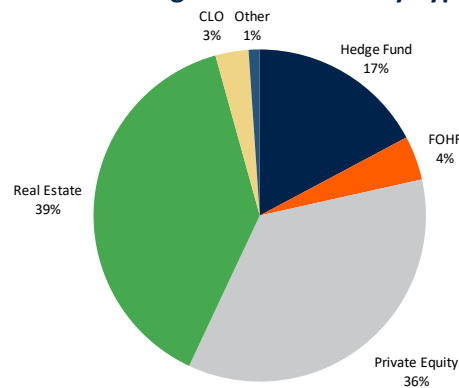
ALTERNATIVE ASSET MANAGERS

Alternative asset management deal activity increased by 39% from 67 transactions in 2017 to 93 in 2018, representing a third consecutive year of strong growth. Since 2015, annual acquisitions of alternative asset managers have increased 2.5 times. Investor demand remains strong for alternative strategies, with a recent surge of interest in real estate and credit strategies. After modest M&A activity for the years following the Financial Crisis, acquisitions of real estate investment managers nearly doubled between 2017 and 2018 from 19 to 36. Buyer interest has been spurred by strong investor demand for the asset class, which aims to generate steady yield and is less correlated to traditional equity markets. Buyers also benefit from the long-duration and steady recurring revenue streams of real asset strategies. Interestingly, the increased deal activity in 2018 included a number of minority stake acquisitions by large financial services firms, who can provide capital to seed strategies and market the seller's investment strategies to their broader client base. **Candriam Investors Group**, a European asset management subsidiary of **New York Life**, entered the European real estate market by acquiring a 40% stake in **Tristan Capital Partners**, an \$11 billion European real estate manager. Among the larger deals in the real estate investment management space in 2018, **Colliers International Group**, a global commercial real estate services firm, acquired a 75% stake in **Harrison Street Real Estate Capital**, a \$15 billion real estate investment manager, to expand its presence in the U.S., particularly in the education, healthcare, and storage sectors.

Number of Alternative Manager Transactions



Alternative Manager Transactions by Type, 2018



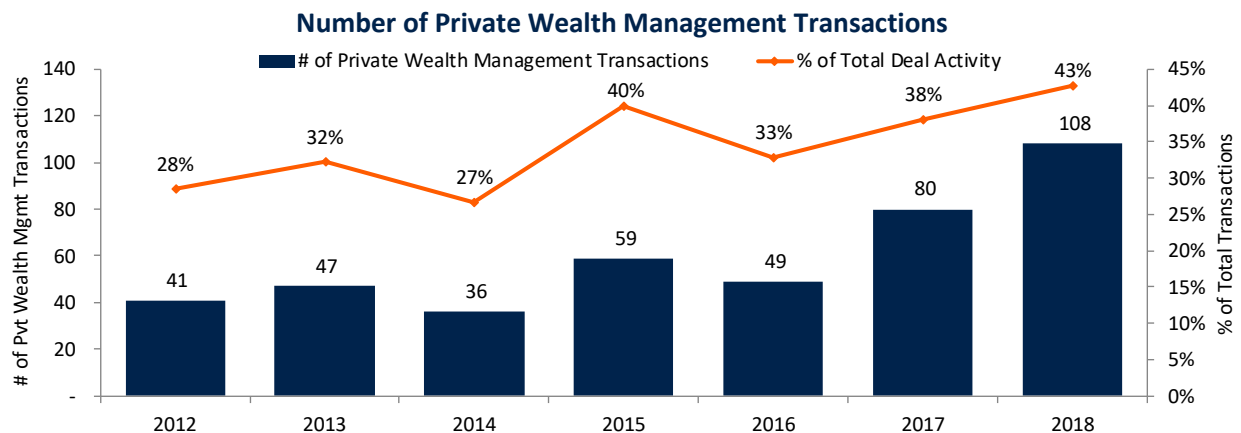
Similar to real estate investment managers, credit managers saw a significant increase of 42% in deal activity from 19 deals in 2017 to 27 in 2018. One of the largest was **Franklin Templeton Investments'** acquisition of **Benefit Street Partners**, a \$26 billion alternative credit manager, from **Providence Equity Partners**. With this transaction, Franklin expands its alternatives capabilities and provides Benefit Street with access to its global distribution platform. Similarly, **BlackRock** acquired **Tennenbaum Capital**

Partners, a \$9 billion manager focused on middle market and special situation credit opportunities, in order to fill out its alternative credit product suite.

Muted deal activity among hedge fund and hedge fund of fund firms continued in 2018 with 20 acquisitions after years of being the most active among alternative asset classes. The hedge fund sector continues to face a challenging environment in terms of both investment performance and net flows. However, buyers remain interested in those managers with specialized strategies. Highlighting this focus, **Markel** acquired **Nephila**, a \$12 billion manager, and **Neuberger Berman** acquired **Cartesian Re**, a \$1 billion manager. Both Nephila and Cartesian Re specialize in insurance-linked securities, which are experiencing robust investor demand.

PRIVATE WEALTH MANAGERS

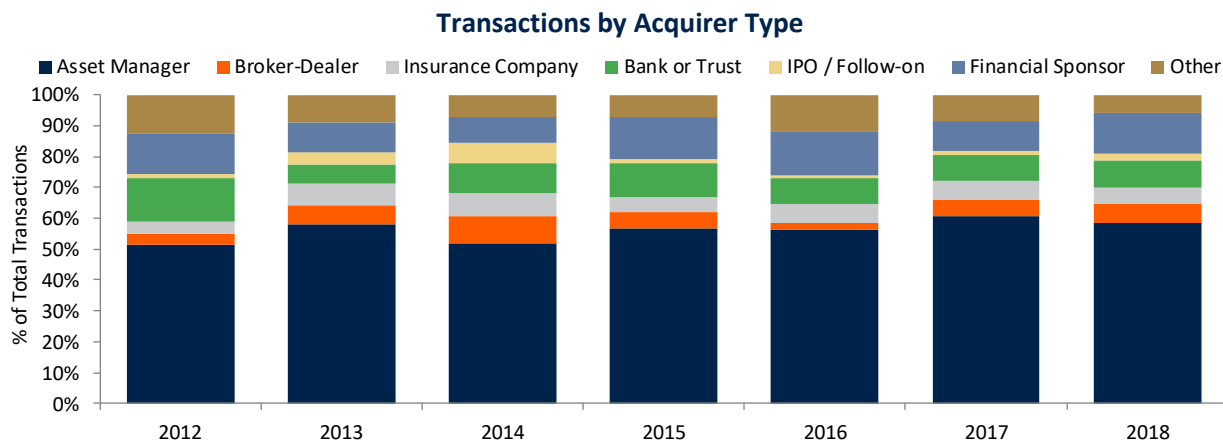
After an over 60% rise in 2017 deal activity above the prior year, acquisitions of private wealth managers surged yet again in 2018, increasing by 35% to a record 108 transactions. Despite the significant M&A activity in recent years, the private wealth management space remains highly fragmented. Owners continue to seek the benefits of a larger organization or liquidity as they move towards retirement. Private equity remains extremely active in the space, both through larger acquisitions and roll-up opportunities. Each of these roll-up acquirers offers sellers a different approach in the level of integration, degree of services provided by the holding company, autonomy, and economic model. Among private wealth management roll-ups, **Mercer Advisors**, backed by **Genstar Capital**, made 8 acquisitions of wealth managers in 2018. **Wealth Enhancement Group**, backed by **Lightyear Capital**, made 4 acquisitions. Outside of roll-up acquirers, **Hellman & Friedman** acquired **Financial Engines**, the largest independent investment advisor in the U.S. with \$169 billion in AUM, in a take-private transaction for \$3 billion to combine with Hellman & Friedman's portfolio company **Edelman Financial Services**. The transaction brings together Financial Engines' dominant presence in the retirement market with Edelman's direct client advisor business to take advantage of the asset management and financial planning needs of the aging and retiring baby boomer generation.



The most active acquirer in the private wealth management space in 2018 was **Focus Financial Partners**. After selling a majority stake to **Stone Point Capital** and **KKR** in 2017, Focus held an initial public offering (“IPO”) for ~30% of its common shares. Focus primarily used the \$615 million in gross proceeds to pay down existing debt. With this enhanced capital position and public listing, Focus and its subsidiaries acquired 18 wealth managers in 2018.

BUYERS

Asset managers continue to be the most active acquirers in the space, representing 58% of transactions in 2018, in-line with 2017. Asset managers are often the most culturally compatible with other asset managers and are effectively able to leverage their existing platform to realize both revenue and cost synergies in transactions. In light of industry headwinds, buyers are looking for both inorganic revenue growth and earnings accretion through consolidation. Two 2018 acquisitions by **Victory Capital** highlighted this trend. On the revenue side, Victory acquired **Harvest Volatility Management**, a \$12 billion derivative asset manager specializing in yield enhancement, overlay, risk reduction, alternative beta, and absolute return investment strategies, for up to \$600 million. The transaction allows Victory to expand its Solutions Platform and provides Harvest the opportunity to leverage Victory’s distribution resources. On the expense side, Victory acquired **USAA Asset Management Company**, a \$69 billion mutual fund manager focused on serving the military community, for up to \$1 billion. Victory expects to realize \$100 million in expense synergies net of investments in the transaction, representing nearly one-third of the USAA expense base being acquired.



Acquisitions by financial sponsors jumped a remarkable 65% between 2017 and 2018 from 20 transactions to 33, making sponsors the second largest buyer group for the fourth consecutive year. Acquisitions by sector-specific funds that take minority stakes in alternative asset managers drove the increased activity. LPs in these funds are attracted to the enhanced return they receive versus investing in the underlying managers directly. For sellers, these funds address liquidity and/or GP capital needs in

exchange for limited governance rights. **Dyal Capital Partners** made 8 investments in 2018, **Goldman Sachs Petershill** made 5 investments, and **Blackstone Strategic Capital Holdings** made 4 investments.

Broker-dealer acquisitions of asset managers increased from 11 deals in 2017 to 15 in 2018. These firms largely focus on acquiring private wealth managers to build scale, add geographic diversity, and increase recurring fee revenue in their existing businesses. Among U.S. broker-dealers, **Baird** acquired **Hilliard Lyons**, a wealth management and trust firm with over \$50 billion in client assets. Outside of the U.S., **Nomura** acquired a 40% stake in **Julius Baer's** Japanese wealth management subsidiary. The partnership gives Nomura access to Julius Baer's investment management expertise and provides Julius Baer access to Nomura's high net worth client base in Japan.

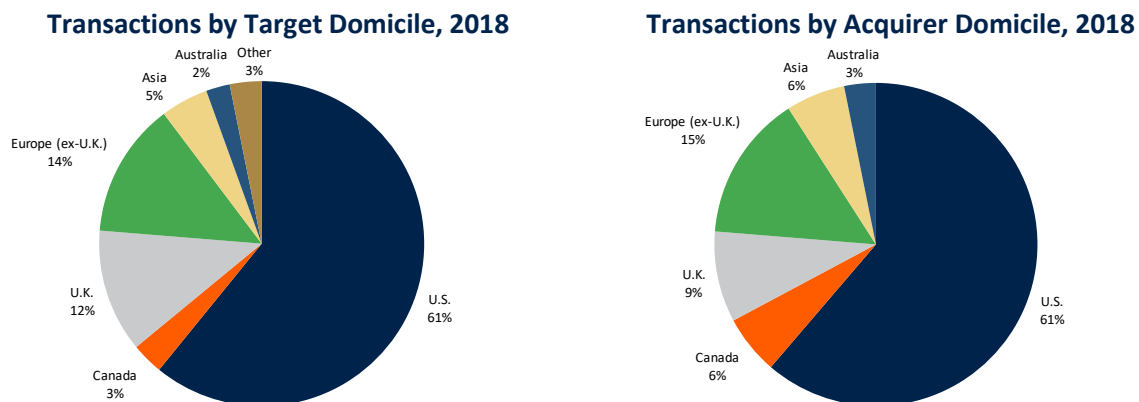
Banks remained active acquirers of asset managers in 2018 with 22 acquisitions, a 22% increase over the 18 acquisitions in 2017. Similar to broker-dealers, banks remain keenly interested in expanding their capabilities in private wealth management, though they are often more cautious given the punitive impact of goodwill and identifiable intangibles to the banks' balance sheets. Approximately two-thirds of their acquisitions were of private wealth managers. In the U.S., all 9 bank acquisitions were of private wealth managers. Two of the largest such acquisitions were **Citizens Financial Group's** acquisition of the \$7 billion asset **Clarfeld Financial Advisors** and **Fifth Third Bancorp's** acquisition of the \$2 billion asset **Franklin Street Partners**, reflecting the smaller size of private wealth manager acquisitions relative to other sectors.

Insurance companies made 14 asset management acquisitions in 2018, in-line with 2017. 57% of insurance company acquisitions were of alternative asset managers in 2018 compared to 31% in 2017. Alternative strategies are increasingly in-demand for insurers with third-party asset management businesses. **AXA Investment Managers** expanded its real estate debt capabilities into the U.S. with the acquisition of the real estate debt team and \$9 billion U.S. commercial mortgage loan portfolio of **Quadrant Real Estate Advisors**. The longer-locked nature of many alternative assets is also complementary to the longer-term time horizon of insurers' general account liabilities. In a smaller but notable deal, **AIG** returned to the CLO space with its acquisition of **Covenant Credit Partners**. AIG previously managed the Galaxy family of CLOs before selling its asset management business to Pacific Century Group in the midst of the Financial Crisis.

Five asset management firms launched IPOs in 2018 versus only 3 IPOs between 2015 and 2017. Strong public markets incentivized owners of these organizations to seek liquidity and a public acquisition currency for future transactions. Notable traditional asset manager IPOs were **Victory Capital**, which primarily used the \$175 million in gross proceeds from the ~20% offering to pay down debt, and **DWS Group**, the \$850+ billion asset management arm of **Deutsche Bank**. The DWS offering was an important part of the German bank's turnaround strategy to bolster its capital base with the \$1.8 billion in gross proceeds from the ~20% offering.

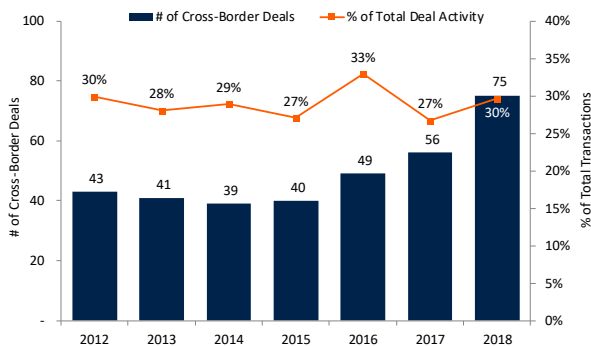
M&A ACTIVITY BY GEOGRAPHY

U.S. targets represented 61% of 2018 deal activity, consistent with recent years. Both domestic and international buyers continue to seek growth opportunities in the world's largest market for asset management. Notably outside of the U.S., acquisitions of Asian-domiciled managers nearly doubled from 7 in 2017 to 12 in 2018. This included both larger intra-Asia transactions as well as North American acquirers making smaller acquisitions in Asia. In Japan, **Daiwa Securities Group** and **Sumitomo Mitsui Financial Group** merged their asset management units with a combined \$180 billion in AUM. In Hong Kong, **PAG**, a \$20 billion Asia-focused alternative asset manager, sold a minority stake to **Blackstone Strategic Capital Holdings**, the first investment that the specialist fund has made in Asia.

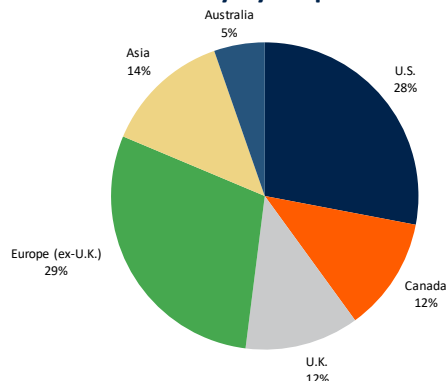


Acquisitions by U.S. buyers increased by 26% between 2017 and 2018 from 123 transactions to 155. This represented 61% of overall deal activity, in-line with historical trends. Acquisitions by buyers in other domiciles remained generally consistent or marginally higher than 2017. Canadian buyers were responsible for some of the largest deals of the year, many of which were acquisitions of fellow Canadian firms. **Scotiabank** acquired **MD Financial Management**, a Canadian provider of financial services to physicians and their families with \$38 billion in assets, from the Canadian Medical Association for \$2 billion. Scotiabank also acquired **Jarislowsky Fraser**, a \$32 billion Canadian investment manager, for up to \$800 million to create Canada's third-largest active asset manager. In another large deal, **TD Bank** acquired **Greystone Capital Management**, a \$28 billion Canadian diversified investment manager offering traditional and alternative investments, for ~\$600 million. The transaction will make TD Asset Management the largest investment manager in Canada.

Cross-Border Transaction Activity



Cross-Border Activity by Acquirer Domicile, 2018



Cross-border transactions represented 30% of 2018 deal activity, consistent with historical levels. European acquisitions of U.S. managers jumped from 5 to 8 between 2017 and 2018. France-based **im Global Partner** acquired minority stakes in **Dynamic Beta Investments**, a \$700 million liquid alternatives manager, and **Sirios Capital Management**, a \$2 billion long / short equity manager. Also of note, North American and European buyers expanded in South America with 4 acquisitions in 2018 compared to only 1 acquisition among all buyers in 2017. In a significant tie-up between 2 large organizations, **Caisse de Dépôt et Placement du Québec (“CDPQ”)**, a Canadian pension fund manager, announced a partnership with **SURA Asset Management**, a Colombia-based asset manager with \$135 billion in AUM across Central and South America. CDPQ paid \$247 million for a 7% stake in the business.

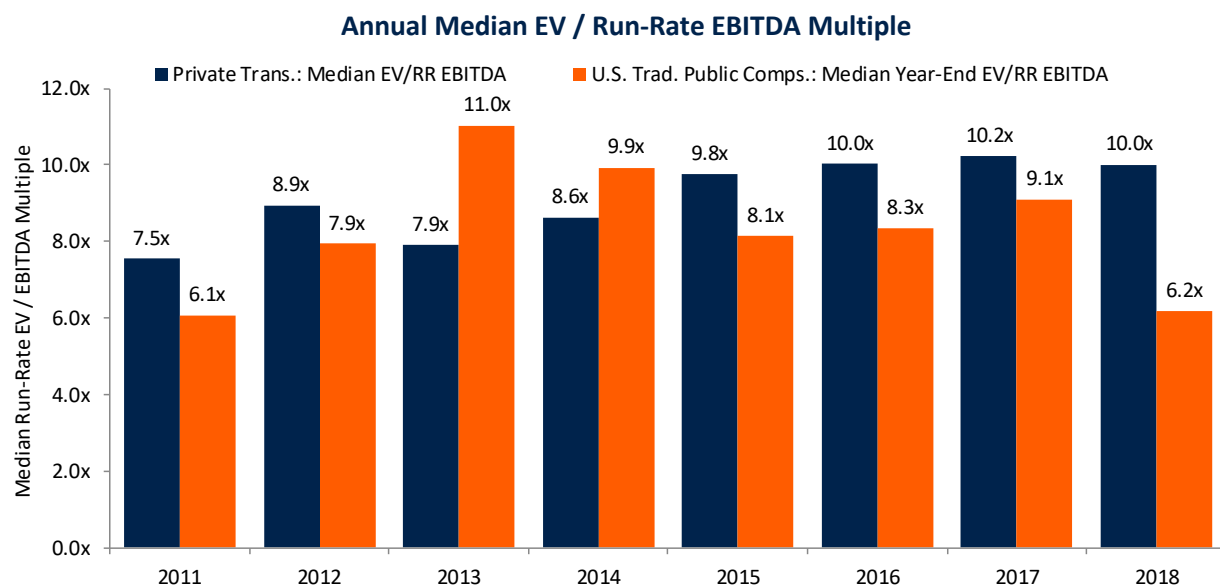
PRICING

M&A valuations for asset managers in 2018 remained in-line with recent years at a median run-rate EV / EBITDA multiple of 10.0x. Divergence continued between managers with in-demand capabilities and managers with less attractive product sets or those easily replicated by passive strategies, as shown by 2018 run-rate EV / EBITDA multiples ranging from the high teens to the mid-single-digits. Competing buyers remained willing to pay higher valuations for specialist firms with a demonstrated growth history, strong investment performance, and well-developed infrastructure.

Publicly-traded asset managers faced a challenging market environment in 2018, particularly in the fourth quarter with the broad equity market downturn. Among traditional managers, the median dividend-adjusted stock price return was (30%) in the U.S. and (35%) in Europe. Prior to 2018, growing equity markets had largely helped offset net outflows and declining fee rates. However, operating margins, particularly in the U.S., have remained generally flat since the Financial Crisis as fee rates have declined while distribution and infrastructure costs continue to climb. With a more cautious view of the equity markets, investors and analysts have taken an increasingly pessimistic view of traditional active asset management.

Publicly-traded alternative asset managers fared better than traditional managers in 2018, though still had a median return of (6%) in the U.S. and (11%) in Europe. Whereas nearly all publicly-traded traditional managers are facing net outflows, most alternative managers are experiencing double-digit organic growth rates. Separately, **KKR**, **Ares**, and **Oz Management** announced that they would convert from a partnership to a corporation, a move made easier by the recent U.S. tax reform. These firms believe the switch to a simplified structure will unlock incremental value for current shareholders and expand their investor base.

Facing these challenges, public market valuations, which had traded at a premium over private transactions in prior years, lagged private market transactions for the fourth year in a row. At the end of 2018, the median run-rate EV / EBITDA multiple for U.S. traditional managers was 6.2x, 32% lower than 2017 and 38% lower than the median multiple for private transactions.



THE YEAR AHEAD

Market volatility at the end of 2018 led many investors to worry that the historically long bull market may be coming to an end. If this persists, we expect to see a heightened selectivity among buyers moving forward. Buyers will be forced to balance the desire to grow now against concerns about the market conditions ahead. Our key themes and expectations for 2019 are as follows:

- *Specialization Versus Scaled Diversification:* The industry will continue to barbell between i) specialist providers and ii) multi-asset / strategy and multi-distribution platforms. The latter will look to leverage their substantial embedded costs by acquiring specialist providers that broaden their product set and/or enter new distribution channels. The specialists will seek to partner

with platforms to leverage their distribution and other support resources as the costs of entry become prohibitive to smaller managers and barriers to success climb.

- *Rightsizing Overcapacity:* An overcapacity of asset managers will lead to the reshaping of the industry in the coming years. Firms will be compelled to re-evaluate their core competencies and clearly define their value proposition if they are to succeed in a crowded market. As part of this re-evaluation, there will be more cost cutting as firms look to preserve margins. Ultimately, many firms will be forced to find a buyer or close their doors.
- *Continuing Traditional Manager Consolidation:* Large consolidating transactions will sprinkle the M&A landscape but will not dominate it. With public companies trading at historic lows, some may become takeover targets or merger candidates. Smaller managers with lower demand strategies will need to offer significant consolidation savings in a transaction to attract buyer interest. Bid / ask spreads between buyers and sellers may create deal-making challenges in 2019 but will not slow the longer-term consolidation trend.
- *Ongoing Interest in Alternative Strategies:* Buyers of all stripes will seek to build out their alternative asset management capabilities. Given the duration required to build saleable track records in the alternative space, this interest will drive strong M&A volumes into 2019. Potential buyers will conclude that buying is better than building. In particular, real asset and credit managers will remain on the top of buyers' wish lists.
- *Active Private Wealth Management M&A Environment:* With ample funding from private equity sponsors in a sector which remains highly fragmented, roll-up acquirers will keep private wealth management M&A activity at historic highs. Larger standalone wealth managers or firms with existing wealth management operations will use M&A to leverage their existing platforms and expand into new geographies.
- *Public Company Performance Impacting Private Transactions:* Pricing of private transactions is likely to be negatively impacted in light of where public company acquirers are trading. If public companies continue to trade at historic lows, the perception of valuation across the broader asset management industry may change and moderate closer to public company levels.
- *Top-Tier Managers Attracting Top-Tier Pricing:* Specialist managers with strong historical and prospective organic growth will find buyers. Given the scarcity of these opportunities, buyers must be prepared to pay a premium price with attractive deal terms if they want to prevail.

2018 by the Numbers	2018	vs. 2017
Asset Management Transactions	253	↑
Aggregate Disclosed Deal Value	\$27.1 billion	↑
Aggregate AUM Transacted	\$3.7 trillion	↑
Traditional Asset Manager Sales	52	↓
Alternative Asset Manager Sales	93	↑
Private Wealth Manager Sales	108	↑
Minority Stake Transactions	59	↑
Financial Sponsor Acquisitions	33	↑
Initial Public Offerings	5	↑
Cross-Border Transactions	75	↑
Median Forward P/E Multiple - Publicly Traded Managers (U.S.)	9.8x	↓
Median Run-Rate EBITDA Multiple - Private Transactions (Globally)	10.0x	↔

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Sandler O'Neill also is a market maker in hundreds of financial stocks and publishes equity research focused on selected banks, thrifts and insurance companies, investment banks, asset managers, specialty finance companies, e-finance companies, real estate investment trusts, and financial technology companies.

In 2018, Sandler O'Neill was the top financial services M&A advisor by number of deals, advising on 82 transactions with an aggregate disclosed deal value of \$34 billion.¹




¹ Source: S&P Global Market Intelligence, includes all U.S. financial services transactions announced in 2018. Rankings exclude terminated transactions and self-advisory roles.

Sandler O'Neill is proud to have advised on and raised capital for the following asset management companies and businesses serving the asset management industry in 2018:

M&A Advisory

<p>November 2018</p>  <p>has been acquired by</p>  <p>Financial Advisor to Cartesian Capital Group</p>	<p>November 2018</p>  <p>has agreed to acquire</p>  <p>\$1,000,000,000</p> <p>Financial Advisor to Virtu Financial</p>	<p>October 2018</p>  <p>has received a permanent capital investment from</p>  <p>Financial Advisor to TIG Advisors</p>	<p>October 2018</p>  <p>has agreed to be acquired by</p>  <p>Financial Advisor to WiseBanyan</p>	<p>October 2018</p>  <p>has agreed to acquire</p>  <p>Financial Advisor to Estancia</p>
<p>August 2018</p>  <p>has agreed to merge with</p>  <p>Financial advisor to the Special Committee of the Board of Directors of Medley Capital Corporation</p>	<p>April 2018</p>  <p>has been acquired by</p>  <p>\$3,018,000,000</p> <p>Financial Advisor to Financial Engines</p>	<p>April 2018</p>  <p>has acquired</p>  <p>Financial Advisor to CNO Financial Group, which held a non-controlling minority stake in TCP</p>	<p>February 2018</p>  <p>has acquired a majority stake in</p>  <p>\$129,500,000</p> <p>Financial Advisor to Virtus Investment Partners</p>	<p>February 2018</p>  <p>has been acquired by</p>  <p>Financial Advisor to Alliance Partners</p>

Capital Raising

<p>December 2018</p>  <p>Senior Unsecured Note Offering</p> <p>\$50,000,000</p> <p>Lead Placement Agent</p>	<p>December 2018</p>  <p>Senior Unsecured Note Offering</p> <p>\$25,000,000</p> <p>Sole Placement Agent</p>	<p>February 2018</p>  <p>Initial Public Offering</p> <p>\$152,100,000</p> <p>Co-Manager</p>
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