

The Keystone: Trends in the Architecture & Engineering Industry



Chartwell Financial Advisory

Q4 2021

The Keystone: Trends in the Architecture & Engineering Industry

Chartwell’s architecture and engineering (AE) practice serves more than 150 industry clients throughout the United States. Our team has experience with AE firms of all types and sizes and specializes in providing ownership advisory, corporate finance, transaction opinion, and business valuation services to middle-market companies.

The Keystone focuses on current trends in M&A and public market activity within the AE sector.

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Welcome to the latest edition of The Keystone! The architecture and engineering industry continues to experience tailwinds from high demand... but not without labor challenges. Subsequent to the December 31, 2021 data, many geopolitical, economic, and market conditions have negatively impacted businesses. Stay tuned in a couple short months for the Q2 2022 edition, which we look to publish toward the end of summer.

Our intention with this newsletter is to provide you with information on topics of interest to the AE industry coupled with M&A and public market trends. We publish The Keystone bi-annually in Q2 and Q4.

We hope you enjoy this edition of The Keystone and please let us know if there is any additional information you would like to see included in future issues. For those interested in related market information, we have a separate construction newsletter, The Blueprint, which is published in Q1 and Q3.

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Industry Activity Indicators

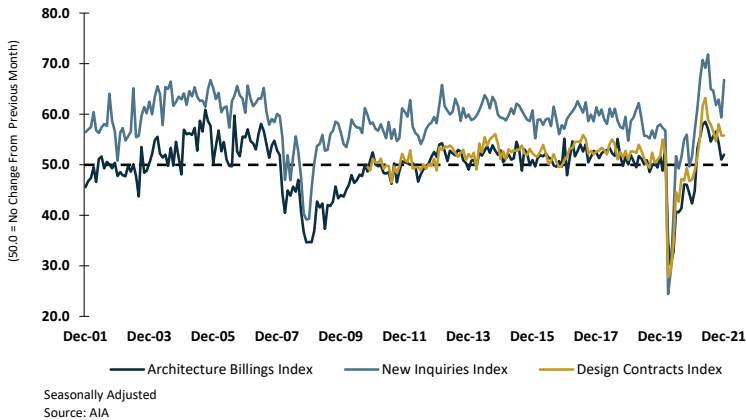
December 2021 Construction Spending			
	\$ Billion	3MMA	12MMA
Private Nonresidential	\$482.6	7.3%	(2.6%)
Power	\$104.9	5.5%	(2.0%)
Commercial	\$91.4	16.0%	4.5%
Manufacturing	\$86.0	27.2%	7.8%
Office	\$72.2	2.5%	(6.5%)
Healthcare	\$38.9	5.1%	0.4%
Lodging	\$17.7	(29.5%)	(31.3%)
Communication	\$21.7	0.1%	(2.9%)
Education	\$16.9	(1.3%)	(14.1%)
Public Nonresidential	\$338.2	(1.1%)	(4.4%)
Highway & Street	\$103.5	2.2%	(0.9%)
Education	\$81.0	(6.2%)	(7.2%)
Transportation	\$40.7	(2.4%)	(5.8%)
Sewage & Waste	\$26.4	4.4%	4.1%
Water Supply	\$18.5	6.9%	1.0%
Power	\$10.2	50.2%	50.2%

Seasonally Adjusted Annual Rate
Source: U.S. Census Bureau

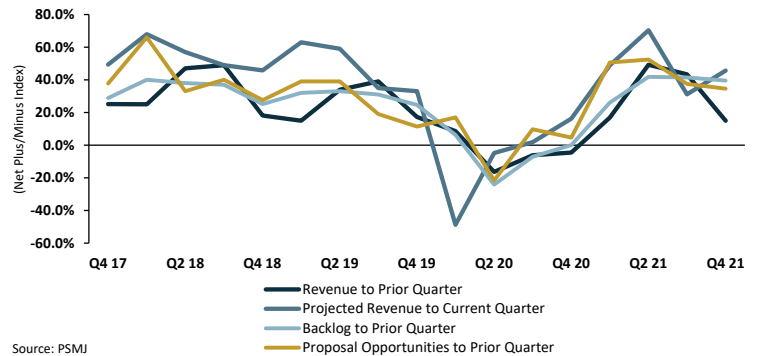
AIA Consensus Construction Forecast		
	2022	2023
Nonresidential Total	5.4%	6.1%
Commercial Total	4.7%	5.3%
Office	0.8%	3.6%
Retail & Other Commercial	7.5%	4.9%
Hotel	(0.4%)	13.5%
Industrial Total	9.4%	8.4%
Institutional Total	4.4%	6.0%
Health	6.2%	6.0%
Education	3.5%	6.1%
Religious	(1.1%)	1.2%
Public Safety	(1.3%)	5.6%
Amusement & Recreation	7.7%	6.0%

As of January 2022
Source: American Institute of Architects (AIA)

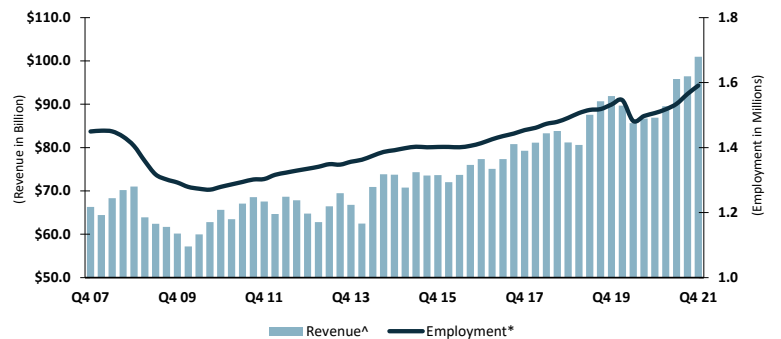
Work-on-the-Boards Survey Data



Revenue, Projected Revenue, Backlogs, and Proposal Opportunities



Engineering, Architectural, and Related Services

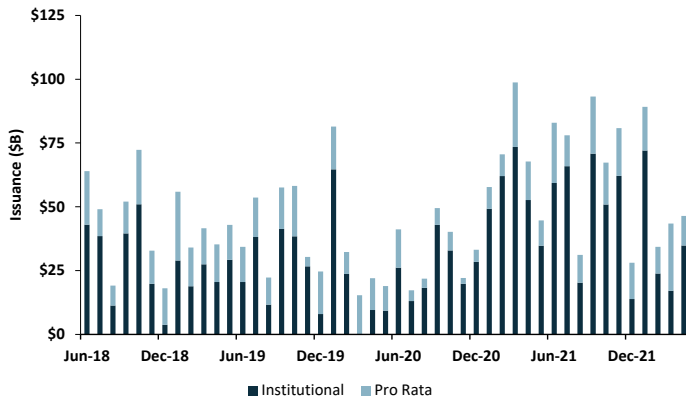


Capital Markets Update

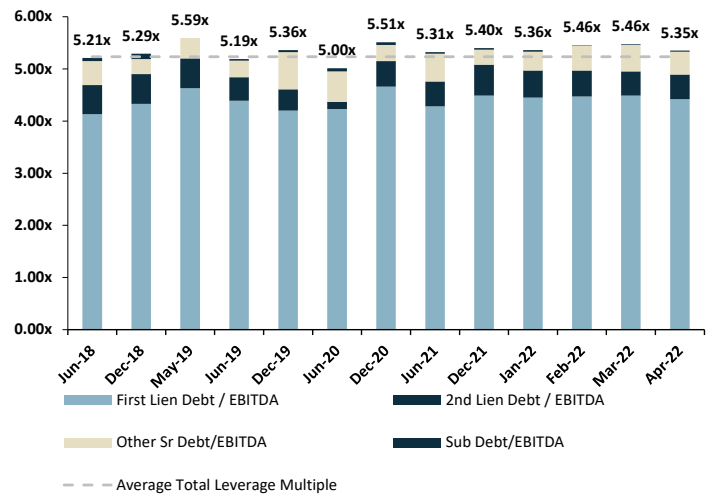
Various factors such as inflation, rising interest rates, and recessionary concerns weigh on equity and debt capital markets.

- Recession concerns, supply chain disruptions, labor shortages, rising interest rates, inflation, and unknowns associated with COVID-19 variants have produced considerable volatility in the capital markets
- Despite the numerous factors yielding uncertainty in the equity and debt capital markets, lenders continue to pursue opportunities at leverage multiples consistent with 2021 levels, albeit a slight pullback from Q4 2021 levels
- Geopolitical uncertainty has further weighed on the capital markets, particularly the high-yield bond market as investors have fled toward leveraged loans and investment grade instruments

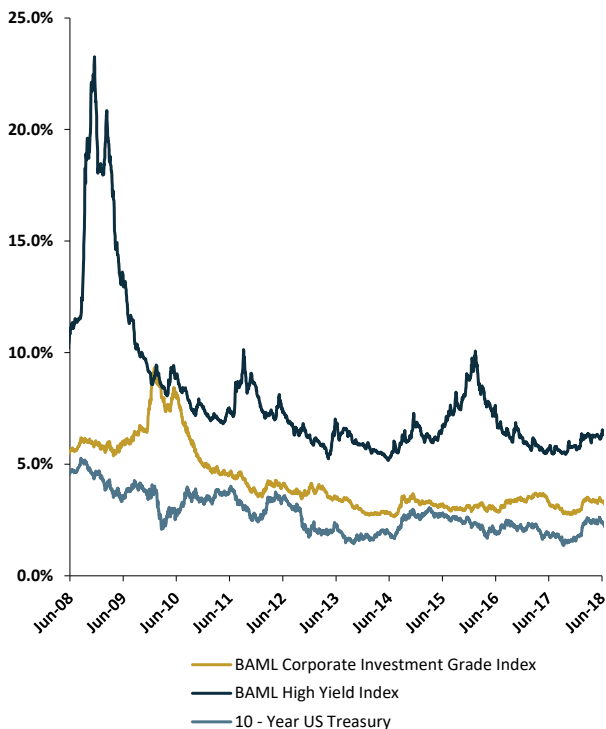
U.S. Leveraged Loan Issuance



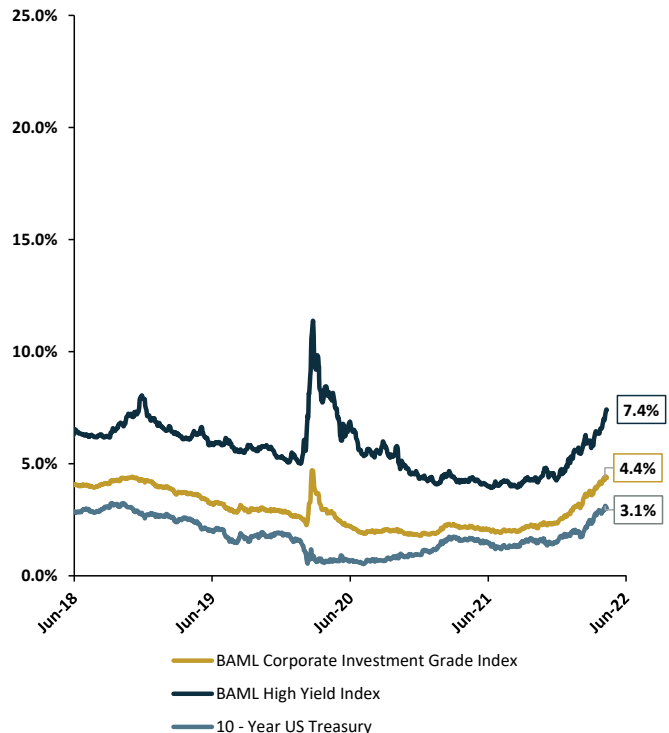
Historical Debt Multiples of Highly Leveraged Loans



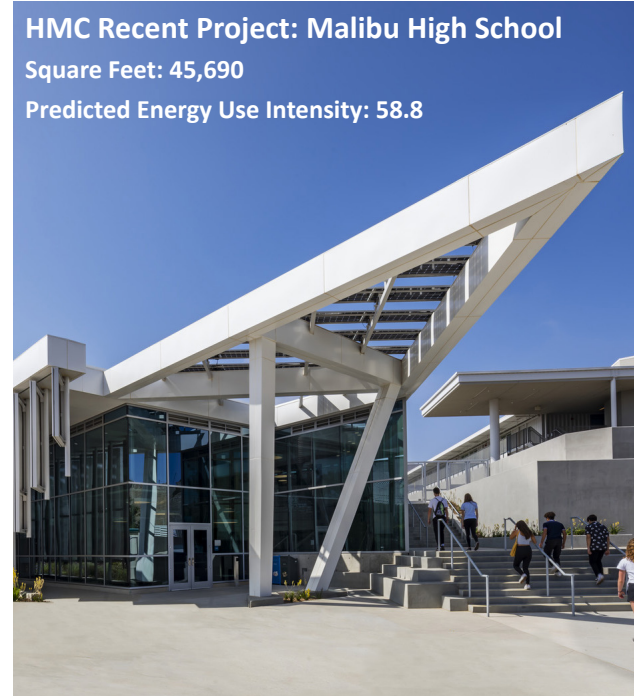
Historical Interest Rates



Current Interest Rates



Chartwell Advises HMC Architects on Acquisition of RGA



Company Background

- Founded in 1940, HMC Architects (the “Company”) provides architectural design and planning services to the healthcare, education, and civic institution sectors
- The Company is headquartered in Ontario, California, and operates from offices located throughout the Western U.S. to serve clients in California, Nevada, Arizona, and countries of the Asia Pacific region
- HMC became a 100% ESOP-owned S corporation in 2011
- HMC desired to diversify the Company’s service offerings while leveraging its core competencies, and initiated a strategic review of alternatives including organic growth, strategic partnerships, and acquisition options
- Upon completion of its analysis and review of various considerations, HMC embarked upon an acquisition strategy to target companies offering complementary and synergistic services

Transaction Overview

- HMC engaged Chartwell to lead and execute a broad buy-side transaction process with the goal of identifying acquisition targets offering services complementary to the Company
- Recognizing RGA’s architecture and design expertise in the education market in Northern California, HMC positioned the combined Company for its next stage of growth
- Chartwell conducted in-depth analyses to advise HMC on investment merits, valuation, transaction structuring, and financing needs throughout the process
- Chartwell facilitated negotiations on behalf of the Company to ensure HMC’s acquisition was a success
- The addition of RGA provides a complementary expansion of HMC’s service offerings, brings new breadth of expertise, and enhances the Company’s geographical scope

Merger & Acquisition Activity - Q3 & Q4 2021

Western Region				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Description
8/6/2021	GM2 Associates, Inc.	Gordon R. Archibald, Inc. Civil and Environmental Engineers	Monrovia, CA	Civil and environmental engineering consulting services
8/31/2021	Long Point Capital, Inc.	MNS Engineers, Inc.	Antioch, CA	Service infrastructure consulting services
9/1/2021	Galloway & Company, Inc.	JRCA Architects, Inc.	Salt Lake City, UT	Architectural services
9/2/2021	Project Control Of Texas, Inc.	Rice & Gardner Consultants, Inc.	Perris, CA	Engineering, commissioning, management, and construction support consulting services
9/13/2021	Haley Ward, Inc	Whitman & Bingham Associates, LLC	Pleasant Grove, UT	Civil and environmental engineering services
10/1/2021	WestLand Engineering & Environmental Services, Inc.	EM Strategies, Inc.	Reno, NV	Environmental engineering services
10/7/2021	WSP Global Inc.	Englekirk Structural Engineers, Inc.	Los Angeles, CA	Structural engineering services
10/12/2021	Rocket Lab USA, Inc.	Advanced Solutions, Inc.	Littleton, CO	Aerospace engineering services
10/14/2021	Basler Electric Company Inc.	SEGRITY, LLC	Denver, CO	Engineering consultant services
10/21/2021	Stantec Inc.	Americas Consulting Division of Cardno Limited	NA, NA	Engineering consultant services
11/1/2021	Montrose Environmental Group, Inc.	Horizon Water and Environment, LLC	Oakland, CA	Environmental engineering services
11/1/2021	RESPEC Company LLC	Haight & Associates, Inc.	Juneau, AK	Electrical engineering services
12/1/2021	IBI Group Inc.	Teranis Consulting Ltd.	Vancouver, BC	Environmental engineering services
12/2/2021	EN Engineering, LLC	ESC Engineering, Inc.	Fort Collins, CO	Electrical engineering services
12/3/2021	DCCM, LLC	Coastland Civil Engineering, Inc.	Santa Rosa, CA	Civil engineering services
12/14/2021	Ardurra Group, Inc.	Giuliani & Kull, Inc.	Oakdale, CA	Surveying and civil engineering services



Merger & Acquisition Activity - Q3 & Q4 2021

Southwestern Region				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Description
7/12/2021	Reedy Industries, Inc.	Capstone Mechanical, LP	Houston, TX	Engineering and contracting services
8/1/2021	Mead & Hunt, Inc.	Perkins Engineering Consultants, Inc.	Arlington, TX	Water and wastewater engineering consulting services
8/30/2021	Artesian Wastewater Management, Inc	Tidewater Environmental Services Inc.	Richardson, TX	Environmental consulting and engineering services
10/7/2021	Pape-Dawson Engineers, Inc.	Dowdey, Anderson & Associates, Inc.	Plano, TX	Engineering services
11/8/2021	Ardurra Group, Inc.	Ritoch-Powell & Associates, Inc.	Phoenix, AZ	Civil engineering services
11/9/2021	Universal Engineering Sciences, LLC	Alpha Testing, Inc.	Dallas, TX	Civil engineering services
11/23/2021	TruHorizon Environmental Solutions	Assets of Phase Engineering, Inc.	Houston, TX	Environmental engineering services
11/30/2021	KCI Technologies Inc.	Don Durden, Inc.	San Antonio, TX	Civil engineering services
11/30/2021	Koch Engineered Solutions, LLC	DEPCOM Power, Inc.	Scottsdale, AZ	Engineering services
12/23/2021	Bowman Consulting Group Ltd.	1519 Surveying, LLC	Waco, TX	Surveying and civil engineering services
12/27/2021	Bowman Consulting Group Ltd.	Terra Associates, Inc.	Houston, TX	Surveying and civil engineering services

Midwestern Region				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Description
7/8/2021	Universal Engineering Sciences, LLC	Geotechnology, Inc.	Roseville, MN	Engineering and environmental services
7/16/2021	Therma Corporation	CMTA, Inc.	Kansas City, MO	Mechanical, electrical, and plumbing engineering consulting services
7/20/2021	S&B Engineers and Constructors, Ltd.	Bibb Engineers Architects & Constructors	Rapid City, SD	Construction and engineering consulting services
8/3/2021	Comfort Systems USA, Inc.	Amteck LLC	Rockford, IL	Electrical engineering and contracting services
8/31/2021	Qualus Power Services Corporation	Patterson Power Engineers, LLC	Ashland, OH	Power system protection engineering services
9/27/2021	SPL, Inc.	Assured Flow Solutions, LLC	Saint Louis, MO	Upstream and midstream oil and gas engineering consulting services

Merger & Acquisition Activity - Q3 & Q4 2021

Midwestern Region (continued)				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Description
10/1/2021	IMEG Corp.	PEDCO E & A Services, Inc	Cincinnati, OH	Engineering and architectural services
10/27/2021	TREKK Design Group, LLC	Access Engineering, LLC	Saint Louis, MO	Civil engineering services
11/1/2021	Fehr Graham & Associates, LLC	Deuchler Engineering Corporation	Aurora, IL	Environmental engineering services
12/1/2021	Eppstein Uhen Architects, Inc.	Performa, Inc.	De Pere, WI	Engineering and architectural services
12/7/2021	Ameresco, Inc.	Plug Smart	Columbus, OH	Electrical engineering services
12/7/2021	Geotechnology, Inc.	GSI Engineering LLC	Wichita, KS	Civil engineering services

Northeastern Region				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Description
8/3/2021	Apex Companies, LLC	Environmental Partners Group, LLC	Quincy, MA	Civil engineering and construction management services
8/5/2021	Leonardo DRS, Inc.	Ascendant Engineering Solutions, LLC	Nashua, NH	Engineering services
8/11/2021	The Wooten Company	Crescent Engineering, LLC	Greenbelt, MD	Civil engineering services
9/30/2021	Volkert, Inc.	Kennedy Engineering & Associates Group, LLC	New York, NY	Transport engineering services
10/7/2021	Exponential Power, Inc.	Static Power Conversion Services, Inc.	Columbia, MD	Critical power systems engineering services
10/14/2021	Warburg Pincus LLC	TRC Companies, Inc.	Lowell, MA	Engineering services
11/15/2021	The Kleinfelder Group, Inc.	Century Engineering, Inc.	Hunt Valley, MD	Engineering services

International				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Description
10/21/2021	Stantec Inc.; Stantec Australia Pty Ltd	Asia Pacific Consulting Division of Cardno Limited	Fortitude Valley, QLD	Engineering consulting services

Merger & Acquisition Activity - Q3 & Q4 2021

Southeastern Region				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Description
7/26/2021	Tetra Tech, Inc.	Hoare Lea LLP	Bonita Springs, FL	Engineering consulting services
8/6/2021	DCCM, LLC	Binkley & Barfield, Inc.	Atlanta, GA	Civil and utility engineering consulting services
8/18/2021	DLR Group KKE	Bowie Gridley Architects, P.L.L.C.	Washington, DC	Designing, crafting, and architectural services
9/30/2021	Braun Intertec Corporation	Edwards-Pitman Environmental, Inc	Atlanta, GA	Environmental engineering services
10/7/2021	Halff Associates, Inc.	Morrison-Shiple Engineers, Inc	Fort Smith, AR	Civil engineering services
10/11/2021	Ardurra Group, Inc.	Fulghum Macindoe & Associates, Inc.	Knoxville, TN	Engineering services
10/13/2021	Chen Moore And Associates, Inc.	Fred Wilson & Associates, Inc.	Jacksonville, FL	Engineering services
10/14/2021	RockBridge Growth Equity, LLC	Protect Environmental, LLC	Louisville, KY	Environmental engineering services
10/15/2021	Bowman Consulting Group Ltd.	Assets of BTM Engineering, Inc.	Louisville, KY	Civil and structural engineering services
10/31/2021	McMillan Pazdan Smith, LLC	Watson Tate Savory, Inc.	Columbia, SC	Architectural services
11/1/2021	Spiezle Architectural Group, Inc.	Donadio and Associates, Architects, P.A.	Vero Beach, FL	Architectural services
11/2/2021	Bennett & Pless, Inc.	Zabik Turner Engineering, LLC	Winter Garden, FL	Engineering services
11/9/2021	The HFW Companies	Miller Legg International LLC	Fort Lauderdale, FL	Environmental engineering services
11/16/2021	Synergen Met Pty Ltd	Phoenix Solutions, Inc.	Loganville, GA	Surveying and engineering services
11/22/2021	Prime ABA, LP	Ascent Engineering Group, Inc.	Roanoke, VA	Engineering services
11/30/2021	Koontz Bryant Johnson Williams, Inc.	Blakeway Corporation	Virginia Beach, VA	Engineering and architectural services
12/1/2021	Shepley Bulfinch, Inc.	PARC design lab, PLLC	Durham, NC	Architectural services

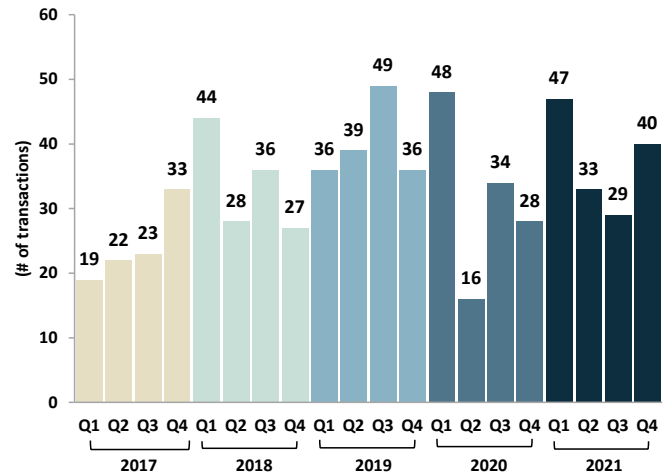
Source: Capital IQ, Data as of 12/31/2021

Chartwell Commentary

Merger & Acquisition Observations

By nearly all quantitative and qualitative data, M&A volume in the AE space is above average and yet again approaching record run rates. Demand for companies remains strong from both strategic and financial buyers. Private equity and family offices are pushing lower into the market than we have seen before. Sellers are plentiful based on U.S. demographics and the challenges of transitioning ownership internally. External factors such as low interest rates, aggressive debt leverage, and the recently passed federal infrastructure package (providing line of sight for many investors concerned with the project-based nature of the industry) are positive.

M&A Activity: AE Industry

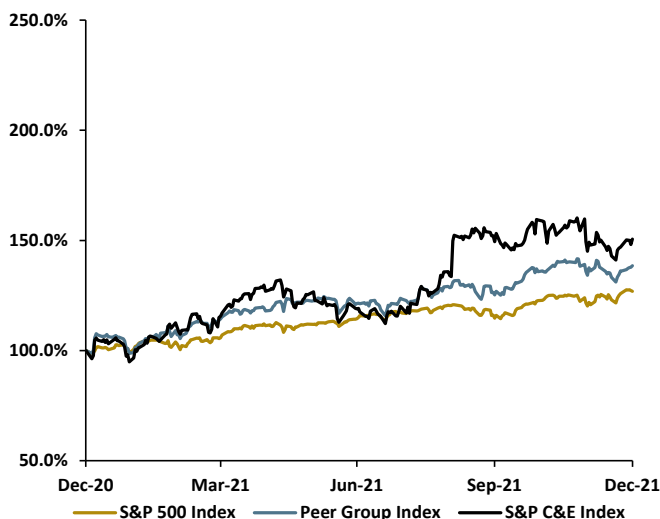


Guideline Public Company Observations

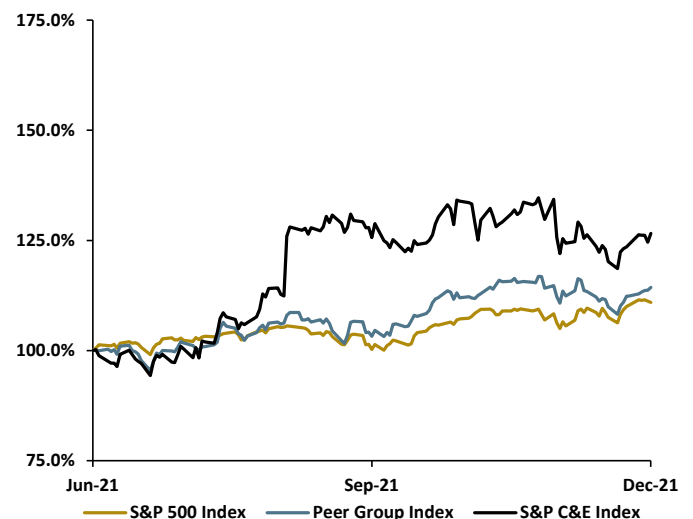
Predictably, both the peer group index and construction and engineering ("C&E") index outperformed the S&P 500 index in the second half of 2021 as well as over the entire 2021 calendar year. Investors have generally rewarded the financial resiliency of these firms throughout the pandemic, and maintain continued optimism that the best is yet to come for the AE sector.

In general, firms are continuing to perform well, with revenue growth averaging 8.6% during 2021 and expected to increase 11.3% in 2022. Notably, a portion of this growth is via acquisition. Nonetheless, the lowest revenue growth rate forecast for 2022 is AECOM at 6.4%. Once again, EBITDA margins are anticipated to expand from ~8.5% to 10.5% as companies leverage their growth opportunities. We note this is a consistent phenomenon and many firms fall short of these expectations. But it does beg the question... maybe these are the good ol' days?

One-Year Index Performance



Second Half 2021 Index Performance



AE Index Market Performance – Q4 2021

		Enterprise Value			Equity Value		
Company	Ticker	12/31/ 2021	Q4 Δ	LTM Δ	12/31/ 2021	Q4 Δ	LTM Δ
Jacobs Engineering Group Inc.	NYSE:J	20,606	2.3%	40.2%	18,024	3.7%	27.3%
WSP Global Inc.	TSX:WSP	18,857	29.8%	60.6%	17,077	24.6%	58.9%
AECOM	NYSE:ACM	12,099	14.8%	51.6%	10,999	18.7%	46.6%
Tetra Tech, Inc.	NasdaqGS:TTEK	9,205	38.1%	44.4%	9,150	38.4%	47.0%
Stantec Inc.	NYSE:STN	7,073	21.4%	58.5%	6,244	25.2%	71.9%
SNC-Lavalin Group Inc.	TSX:SNC	5,759	0.9%	33.8%	4,288	(6.2%)	43.2%
Worley Limited	ASX:WOR	5,200	(11.9%)	(14.6%)	4,055	(13.5%)	(12.5%)
Arcadis NV	ENXTAM:ARCAD	4,666	15.8%	25.7%	4,248	16.7%	42.8%
Parsons Corporation	NYSE:PSN	3,790	(12.3%)	2.8%	3,441	(14.6%)	(6.2%)
John Wood Group PLC	LSE:WG.	3,497	(4.2%)	(26.8%)	1,752	(14.3%)	(38.7%)
Montrose Environmental Group, Inc.	NYSE:MEG	2,433	568.7%	128.9%	2,079	48.7%	169.1%
NVS Global, Inc.	NasdaqCM:NVEE	2,173	43.6%	66.1%	2,127	48.3%	103.8%
Willdan Group, Inc.	NasdaqGM:WLDN	549	(1.4%)	(9.9%)	450	(4.4%)	(10.6%)
RPS Group plc	LSE:RPS	538	13.9%	32.9%	441	13.0%	72.3%
IBI Group Inc.	TSX:IBG	427	15.5%	34.0%	335	29.7%	66.7%
Average		6,458	49.0%	35.2%	5,647	14.3%	45.4%
Median		4,666	14.8%	34.0%	4,055	16.7%	46.6%

\$ in millions

Source: Capital IQ, Data as of 12/31/2021

LTM = Last Twelve Months

AE Index Financial Performance – Q4 2021

Company	Revenue			EBITDA			EBITDA Margin		
	LTM \$	LTM Δ	NTM Δ	LTM \$	LTM Δ	NTM Δ	5-Year Avg.	LTM	NTM
Jacobs Engineering Group Inc.	14,093	9.5%	9.4%	1,345	27.9%	9.5%	8.0%	9.5%	9.4%
AECOM	13,341	6.1%	6.4%	814	13.5%	13.8%	5.1%	6.1%	6.4%
Worley Limited	7,138	5.4%	8.3%	388	(31.9%)	49.8%	5.7%	5.4%	8.3%
John Wood Group PLC	6,630	5.0%	8.7%	333	(38.2%)	76.0%	5.7%	5.0%	8.7%
WSP Global Inc.	7,591	9.1%	NA	689	24.6%	NA	8.2%	9.1%	NA
SNC-Lavalin Group Inc.	5,635	1.1%	10.1%	64	(88.2%)	NA	6.4%	1.1%	10.1%
Arcadis NV	3,866	7.3%	11.3%	282	8.7%	61.6%	6.6%	7.3%	11.3%
Parsons Corporation	3,674	8.5%	8.7%	314	(0.9%)	6.8%	NA	8.5%	8.7%
Stantec Inc.	2,833	12.5%	16.0%	355	6.4%	53.7%	11.5%	12.5%	16.0%
Tetra Tech, Inc.	2,552	11.8%	12.5%	301	11.6%	13.7%	11.0%	11.8%	12.5%
RPS Group plc	750	5.6%	10.6%	42	(12.4%)	69.3%	8.6%	5.6%	10.6%
NV5 Global, Inc.	679	15.0%	17.2%	102	21.3%	25.4%	13.1%	15.0%	17.2%
IBI Group Inc.	432	10.5%	16.0%	45	30.6%	26.5%	9.7%	10.5%	16.0%
Willdan Group, Inc.	358	5.4%	7.4%	19	(35.8%)	80.9%	7.5%	5.4%	7.4%
Montrose Environmental Group, Inc.	511	16.0%	15.8%	79	NA	(12.9%)	NA	16.0%	15.8%
Average	4,672	8.6%	11.3%	345	(4.5%)	36.5%	8.2%	8.6%	11.3%
Median	3,674	8.5%	10.4%	301	7.6%	26.5%	8.0%	8.5%	10.4%

\$ in millions

Source: Capital IQ, Data as of 12/31/2021

LTM = Last Twelve Months | NTM = Next Twelve Months

AE Index Implied Market Multiples - Q4 2021

Company	Enterprise Value / EBITDA				Q2 Δ	LTM Δ
	5-Year Avg.	Q4 2020	Q4 2021	Q4 2022E		
Jacobs Engineering Group Inc.	14.7x	23.4x	15.3x	14.0x	-0.3x	+0.1x
WSP Global Inc.	18.2x	24.3x	27.4x	NA	+0.1x	+0.3x
AECOM	12.4x	16.8x	14.9x	13.1x	-0.1x	+0.3x
Tetra Tech, Inc.	20.0x	25.3x	30.6x	26.9x	+0.2x	+0.3x
Stantec Inc.	14.2x	12.4x	19.9x	12.9x	+0.6x	+0.5x
SNC-Lavalin Group Inc.	NA	16.8x	NA	10.0x	NA	NA
Worley Limited	17.4x	18.2x	13.4x	9.0x	-0.3x	+0.3x
Arcadis NV	12.1x	12.9x	16.5x	10.2x	+0.3x	+0.2x
Parsons Corporation	NA	9.1x	12.1x	11.3x	+0.3x	+0.0x
John Wood Group PLC	13.6x	13.7x	10.5x	6.0x	-0.2x	+0.2x
Montrose Environmental Group, Inc.	NA	13.5x	29.8x	34.2x	+1.2x	NA
NVS Global, Inc.	16.1x	9.1x	21.4x	17.0x	+1.3x	+0.4x
Willdan Group, Inc.	17.9x	12.4x	28.6x	15.8x	+1.3x	+0.4x
RPS Group plc	9.4x	28.5x	12.9x	7.6x	-0.5x	+0.5x
IBI Group Inc.	8.3x	6.5x	9.5x	7.5x	+0.5x	+0.0x
Average	14.5x	16.2x	18.8x	14.0x	+0.3x	+0.3x
Median	14.5x	13.7x	15.9x	12.1x	+0.2x	+0.3x

Source Data Provided by Capital IQ as of 12/31/2021
LTM = Last Twelve Months

Chartwell's AE Leadership:

Joe Skorczewski

Managing Director, AE Vertical Lead
Minneapolis, MN | 612.230.3103
joe.skorczewski@chartwellfa.com

Chris Staloch

Managing Director, Consulting Practice
Minneapolis, MN | 612.230.3111
chris.staloch@chartwellfa.com

Wil Becker

Managing Director, Corporate Finance Practice
Minneapolis, MN | 612.230.3130
wil.becker@chartwellfa.com

Tim Cleary

Managing Director, Ownership Advisory
Minneapolis, MN | 612.351.5926
tim.cleary@chartwellfa.com

Matt Keene

Managing Director, Compensation Consulting
Raleigh, NC | 919.615.0402
matt.keene@chartwellfa.com

Our Services



Consulting

- ESOP Ownership
- Individual Ownership
- Executive Compensation
- Capital Structure



Corporate Finance

- Mergers & Acquisitions
- Capital Markets
- ESOP Transaction Advisory
- Strategic Alternatives



Transaction Opinions

- Fairness Opinions
- Solvency Opinions
- Board Representation
- Trustee Representation



Valuation

- ESOP & ERISA
- Financial Reporting
- Tax, Compliance & Planning
- Alternative Investments & Asstes

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