

PRIVATE CAPITAL MARKETS MARKET UPDATE | DECEMBER 2022



CURRENT STATE OF M&A MARKET

Market Overview

While strong by historical standards, the M&A market has slowed significantly from a record pace last year. Key factors impacting the M&A market include:

Market Anticipation of a Recession

- The tenor of the market has become defensive as the economy slows
- If the economy is, in fact, heading into a recession, the depth and length is an open question

Federal Reserve Raising Interest Rates to Curb Inflation

- The US Federal Reserve continues to aggressively move to curb inflation
- The benchmark fed funds rate sits at 4.25% - 4.50%, a 15 year high, with rates expected to top 5% by mid-2023
- While core inflation has slowed modestly, it has broadened into more persistent areas that will require a further slowdown in economic growth

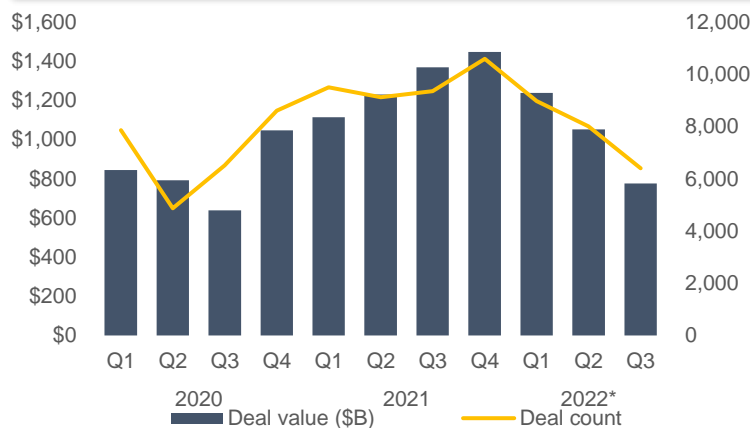
Heightened Investment Scrutiny

- Market conditions are prompting both strategic and private equity buyers to carefully consider which M&A processes they participate in
- Defensibility of market position, recession “resistance” and the impact of a future “normalized” commodity environment are top of mind for buyers
- Close attention paid to quality of adjustments and inflationary impacts to EBITDA

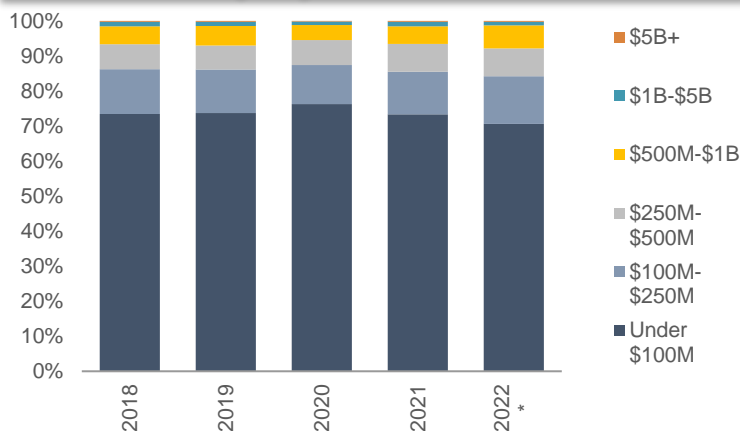
Market Equilibrium - Valuations

- There is approximately \$3.3 trillion of dry powder available to deploy by private equity and credit funds
- The demographics of aging baby boomers and owners deciding to sell in the face of the challenges of operating a business in the current economic and geo-political environment have fueled the supply of companies for sale
- So, while deal volume has slowed, valuations remain robust YTD

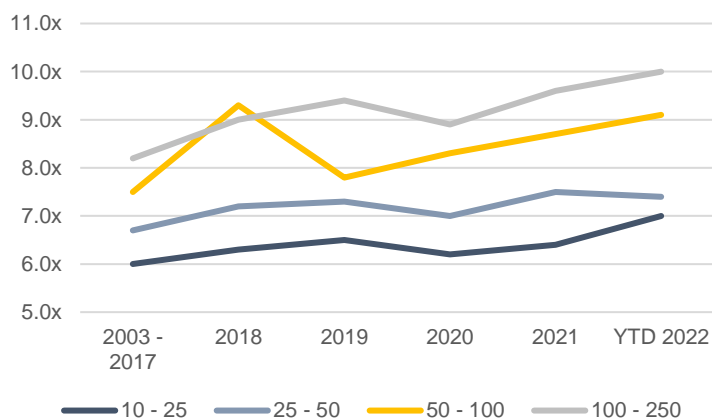
Global Deal Activity has Slowed in 2022



The Vast Majority of M&A is Middle Market



Valuations Remain Robust



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Market Overview

Defensive Market Tenor

- Overall, the credit markets are considering a recession to be highly likely
- Leverage tolerance in the bank market has tightened by 0.5x – 0.75x EBITDA
- “Story” credits are much more scrutinized by lenders

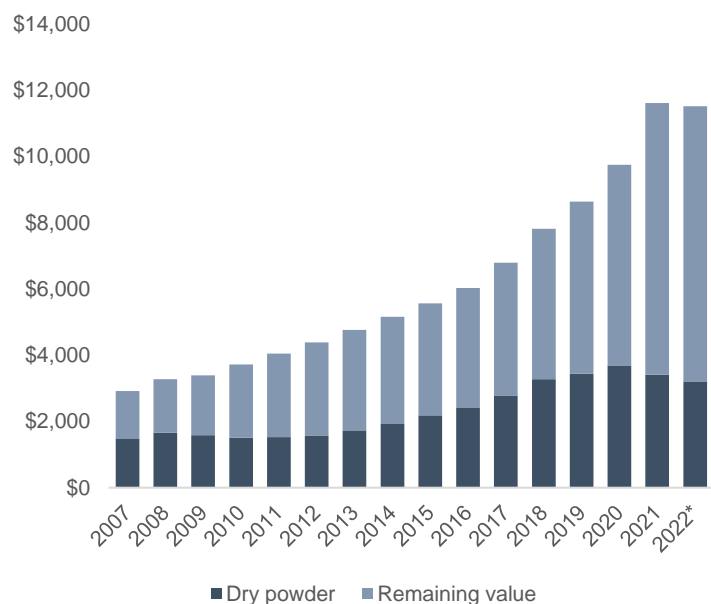
Increased Cost of Capital

- Elevated interest rates and credit spreads persist as capital providers are largely in “risk-off” mode
- In the private market, pricing across senior cash flow, unitranche / second lien, and subordinated debt credit spreads have generally widened by 0.50% – 1.50%
- The 10-year Treasury is currently yielding 3.7% compared to 1.9% in early April

Increasing Influence of Private Capital

- There is approximately \$3.3 trillion of dry powder available to deploy by credit funds and private equity
- We are seeing a disconnect between the publicly traded and private capital markets, whereas private capital has been slower to react to macro pressures
- With extreme volatility in the public markets, private financing sources provide a more stable alternative for capital raising

High Levels of Liquidity in Private Markets



Total Debt / EBITDA

	<\$5MM EBITDA	>\$10MM EBITDA	>\$20MM EBITDA
Nov. '22	3.00x – 3.75x	3.50x – 4.50x	4.00x – 5.00x
Oct. '22	3.00x – 3.75x	3.50x – 4.50x	4.00x – 5.00x
Nov. '21	3.00x – 4.25x	4.00x – 5.25x	4.50x – 5.75x
Apr. '20	2.50x – 3.25x	3.50x – 4.50x	4.00x – 5.00x

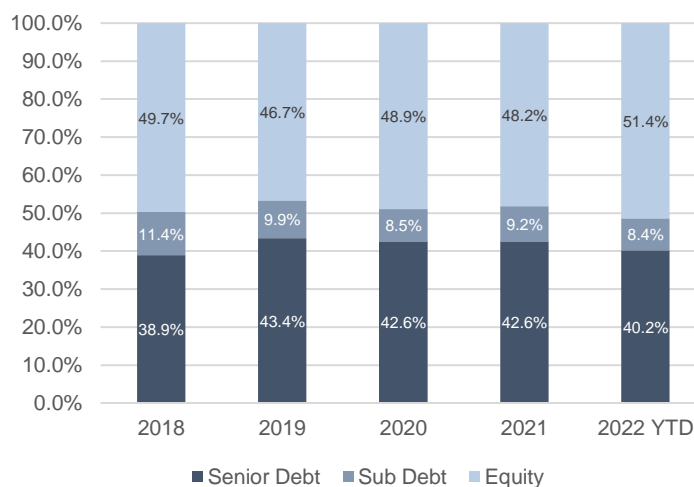
Senior Cash Flow Pricing

	Bank	Non-Bank <\$7.5MM EBITDA	Non-Bank >\$20MM EBITDA
Nov. '22	S+400 – 500 bps	S+750 – 900 bps	S+650 – 750 bps
Oct. '22	S+350 – 450 bps	S+750 – 900 bps	S+650 – 750 bps
Nov. '21	L+225 – 400 bps	L+500 – 750 bps	L+450 – 600 bps
Apr. '20	L+350 – 400 bps	L+650 – 900 bps	L + 550 – 800 bps

Unitranche & Second Lien Pricing

	<\$5MM EBITDA	>\$10MM EBITDA	>\$20MM EBITDA
Nov. '22	S+950 – 1150 bps	S+850 – 1050 bps	S+650 – 850 bps
Oct. '22	S+950 – 1150 bps	S+850 – 1050 bps	S+650 – 850 bps
Nov. '21	L+700 – 1050 bps	L+600 – 800 bps	L+500 – 750 bps
Apr. '20	L+700 – 1000 bps	L+550 – 750 bps	L+500 – 650 bps

Equity & Debt Contribution by Year



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