PRIVATE CAPITAL MARKETS
MARKET UPDATE | MARCH 2023

CURRENT STATE OF M&A MARKET

Market Overview

The global M&A market remained resilient in 2022 despite underlying macroeconomic concerns, with overall value down 13.7% YoY, coming off a record 2021. Key factors impacting the M&A market include:

Banking Strains Across the U.S. and Europe

- Markets have been on high alert since the collapse of Silicon Valley Bank on March 10
- The increase in interest rates to curb inflation has caused pains throughout segments of the banking sector
- Banks' lending capabilities are coming into the spotlight in response to closer scrutiny from regulators, paired with a need to provide higher returns to depositors
- Risk appetite has decreased significantly, and credit conditions are anticipated to continue to tighten

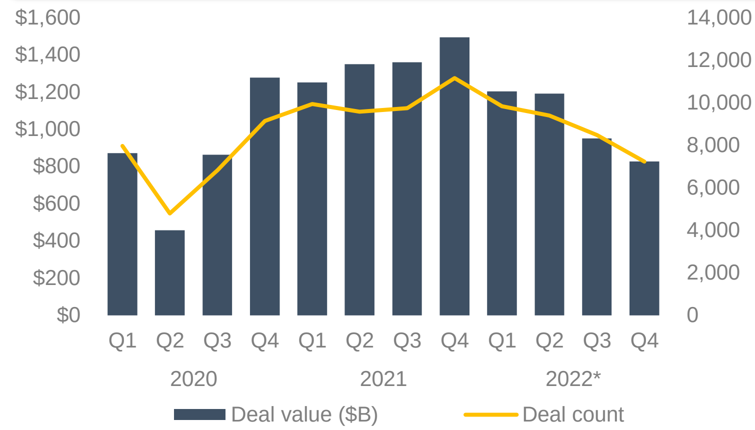
Federal Reserve Raising Interest Rates to Curb Inflation

- The US Federal Reserve continues to aggressively move to curb inflation, but has signaled this campaign could be coming to an end
- The Fed has enacted nine consecutive rate increases, bringing the benchmark Fed-funds rate to 4.75 – 5.00%, the highest level since September 2007
- Rising interest rates have increased the cost of financing acquisitions causing valuations to soften

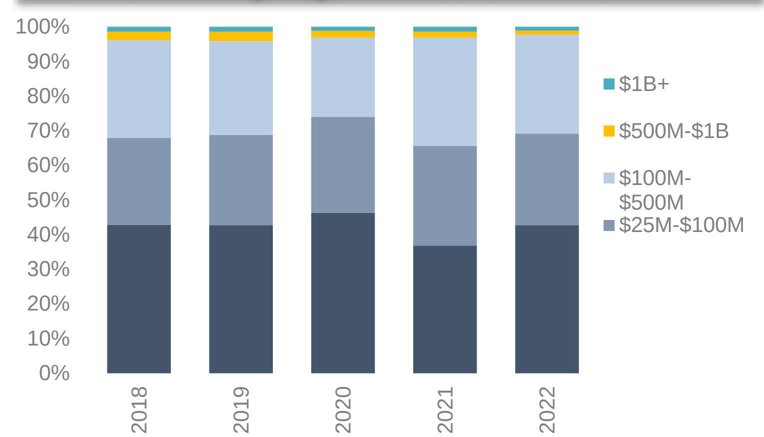
Buyers Looking to Take Advantage of Cheaper Prices

- Median deal multiples in 2022 declined to 8.8x EBITDA, from a 14-year high of 11.1x
- Globally, private equity firms still have $1.3 trillion of dry powder to put to work
- Private equity buyers are turning towards smaller add-on transactions, as lending capabilities have become challenged, accounting for 71.9% of buyout deals in 2022
- Well-capitalized strategics continue to pursue deals aimed at securing long-term growth opportunities

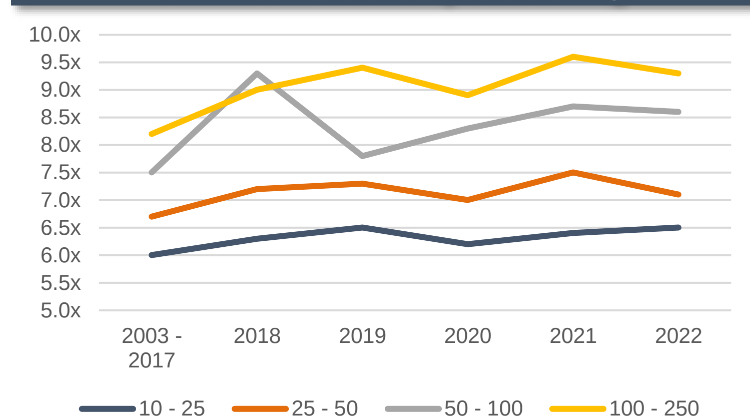
Global Deal Activity Slowed in 2022 ($B)



The Vast Majority of M&A is Middle Market



Valuations Modestly Retreating



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Sources: Pitchbook; GF Data; LCD
** Data through Q4 2022*

CURRENT STATE OF PRIVATE CAPITAL MARKETS

Market Overview

Defensive Market Tenor

- While macroeconomic indicators have begun to thaw, institutional investors are expecting a credit down-cycle through the first half of the year
- Recessionary concerns are less severe than at the end of 2022, but investors continue to monitor the Fed's actions and state of banks

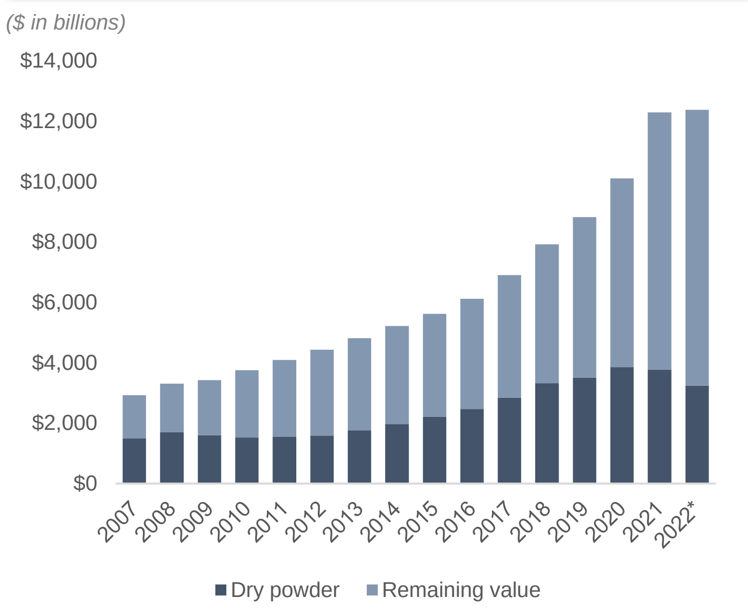
Increased Cost of Capital

- Elevated interest rates continue to drive pricing at elevated levels vs. last year
- The increase in base SOFR rates by over 4.00% over the last year, paired with increased spreads, has compounded financing costs for borrowers
- The 10-year Treasury is currently yielding 3.6% compared to 1.9% in early April 2022

Continued Importance of Private Capital

- There is approximately $3.3 trillion of dry powder available to deploy by credit funds and private equity
- Private debt fundraising surpassed the $200 billion mark for the third consecutive year
- Managers such as Blackstone and Owl Rock have seen their private credit funds / BDCs surpass their institutional vehicles in terms of AUM; other managers have recently launched their own private debt funds or are in the works

High Levels of Liquidity in Private Markets



Total Debt / EBITDA

	<$5MM EBITDA	>$10MM EBITDA	>$20MM EBITDA
Feb. '23	3.00x – 4.00x	3.50x – 5.00x	4.00x – 5.50x
Jan. '23	3.00x – 4.00x	3.50x – 5.00x	4.00x – 5.50x
Feb. '22	3.00x – 4.50x	4.00x – 5.50x	4.50x – 6.00x
Apr. '20	2.50x – 3.25x	3.50x – 4.50x	4.00x – 5.00x

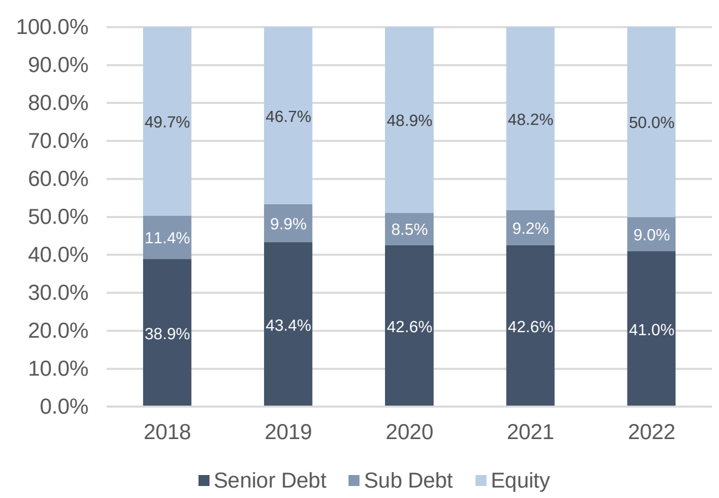
Senior Cash Flow Pricing

	Bank	Non-Bank <$7.5MM EBITDA	Non-Bank >$20MM EBITDA
Feb. '23	S+375 – 500 bps	S+650 – 800 bps	S+600 – 750 bps
Jan. '23	S+375 – 500 bps	S+650 – 800 bps	S+600 – 750 bps
Feb. '22	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
Feb. '23	S+850 – 1100 bps	S+650 – 850 bps	S+600 – 800 bps
Jan. '23	S+850 – 1100 bps	S+650 – 850 bps	S+600 – 800 bps
Feb. '22	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



Sources: Pitchbook; GF Data; LCD
* Data through Q4 2022

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