PRIVATE CAPITAL MARKETS

MARKET UPDATE | December 2020

VALUE | LIQUIDITY | GROWTH

FOUNDERS ADVISORS

CURRENT STATE OF PRIVATE CAPITAL MARKETS

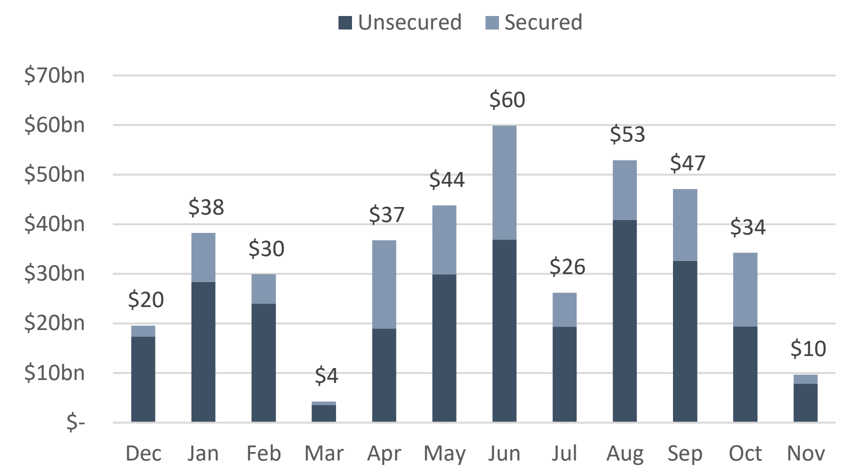
Commentary

- The high yield market is a leading indicator of conditions in the private debt market
- Issuance has stabilized as borrowers looked to improve and position liquidity and capitalize on tightening of spreads
- After a record setting Q2 & Q3 of high yield bond issuances, November issuances subsided

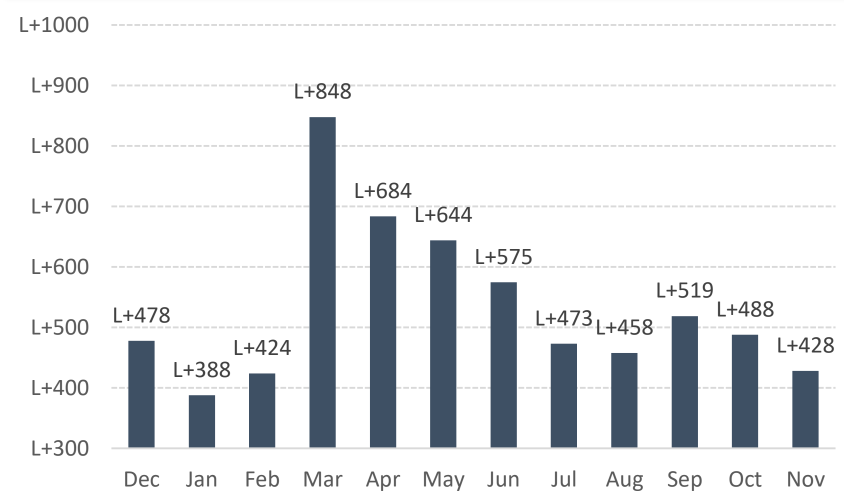
- Spreads have tightened with investors' optimism rising (short u-shaped recovery) and new capital coming into the market
- The Fed has instituted back stop programs to ensure market liquidity and initiated bond purchasing programs

- Banks appear well capitalized, unlike in 2009
- To date they are showing solid support for customers and working with them to service their debt
- Risk management will come front and center heading into 2021
- Flight to quality with tightened credit standards but more aggressive pricing

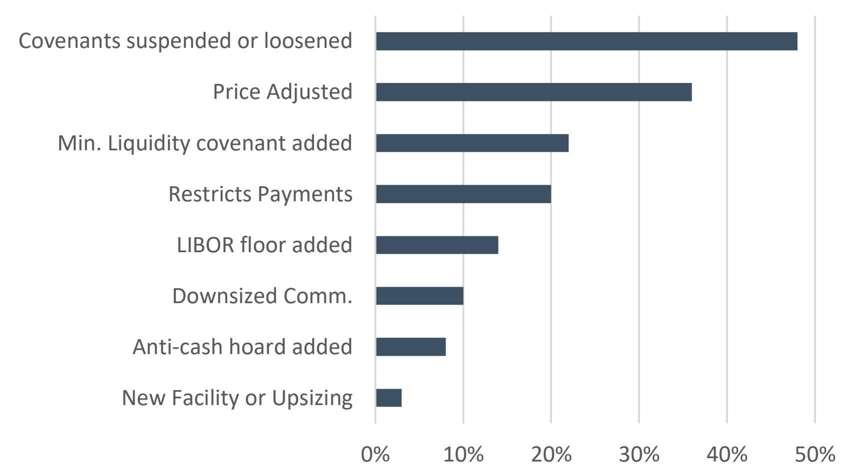
High Yield – New Issuances



High Yield - Average Spread (bps)



U.S. Middle Market Loan Amendments Q2 2020



Source: S&P Global; @theleadleft; @LPCLoans

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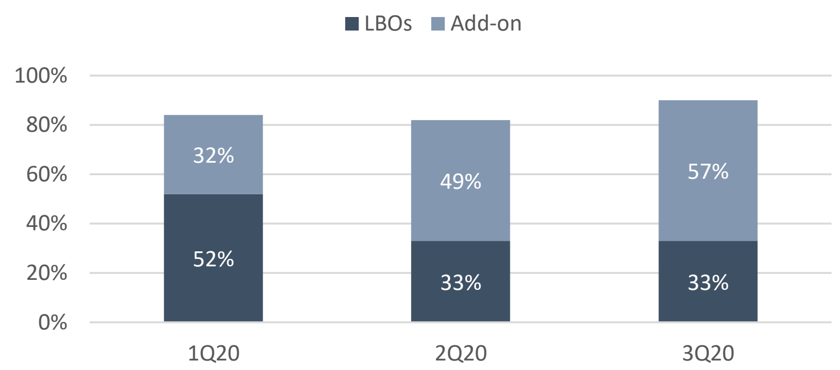
Commentary

- Most of the financing deals that have be executed in the crisis are related to M&A transactions and were generally committed prior to the crisis
- Founders is now seeing a flood of activity as borrowers try to close deals by year end

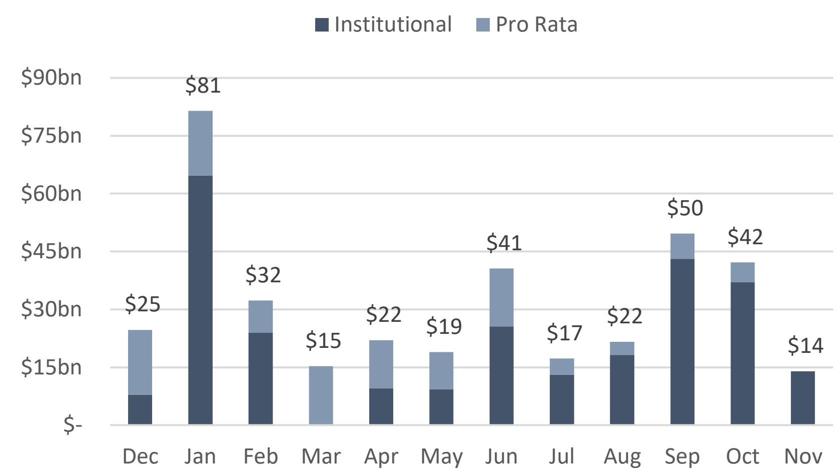
- New credits are being extended to industries that have COVID-19 tailwinds or are at least insulated from the impact of COVID-19 shutdowns
- Low cashflow leverage or strong loan to asset values
- Leveraged loan issuances have been slower to recover than the high yield market, evidencing the more onerous requirements on issuers to complete a transaction

- Leverage multiples began to decline in late-2019 as lenders began to become more defensive over economic concerns heading into 2020
- September year-to-date leverage multiples began to reflect the effect of the COVID-19 shut down and its economic impact
- Overall, the trend of larger deals afforded more leverage continued through 2020
- Anecdotally, Founders believes that leverage multiples may decline by a quarter of a turn going into the fourth quarter

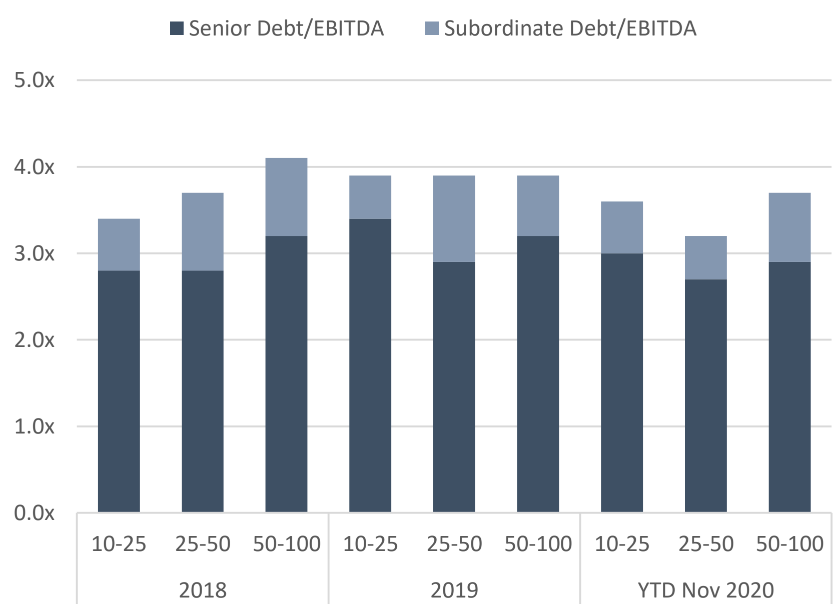
U.S. Direct Lending: LBOs vs Add-ons



Leveraged Loan Volume



Debt to EBITDA by Enterprise Value ($ in Millions)



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Commentary

- Lenders appear to be willing to compete on price as credit spreads have tightened across the company size spectrum
- Larger companies continue to be at an advantage in leverage tolerance and pricing

Senior Debt Pricing by Enterprise Value

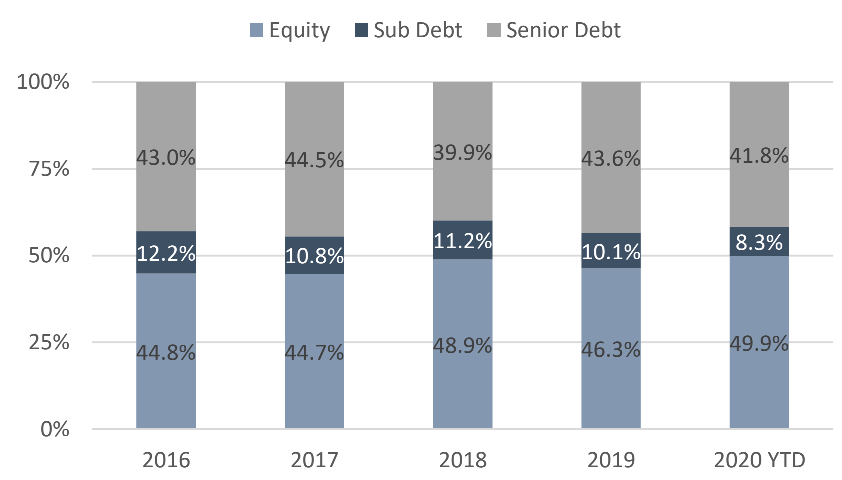
Enterprise Value	Q3 2019	Q2 2020	Q3 2020
$10 - 25mm	L+ 4.1%	L+ 8.0%	L+ 5.4%
$25 - 50mm	L+ 3.1%	L+ 5.2%	L+ 4.1%
$50 - 100mm	L+ 3.5%	L+ 3.9%	L+ 5.8%

Subordinated Debt Pricing by Enterprise Value

Enterprise Value	Q3 2019	Q2 2020	Q3 2020
$10 - 25mm	L + 10.0%	L + 10.2%	L + 11.0%
$25 - 50mm	L + 9.4%	L + 11.7%	L + 10.8%
$50 - 100mm	L + 8.9%	L + 10.0%	L + 11.9%

- Traditional mezzanine as a percentage of the capital stack has continued to decline
- More aggressive senior lending prior to 2020
- Higher equity contribution in 2020 to fortify deals
- Founders expects that the cost of subordinated debt will remain steady as the supply of capital in the market is offset by demand as senior lenders pull back on leverage

Equity and Debt Contribution by Year



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Source: GF Data

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