PRIVATE CAPITAL MARKETS

MARKET UPDATE | March 2021

VALUE | LIQUIDITY | GROWTH

FOUNDERS ADVISORS

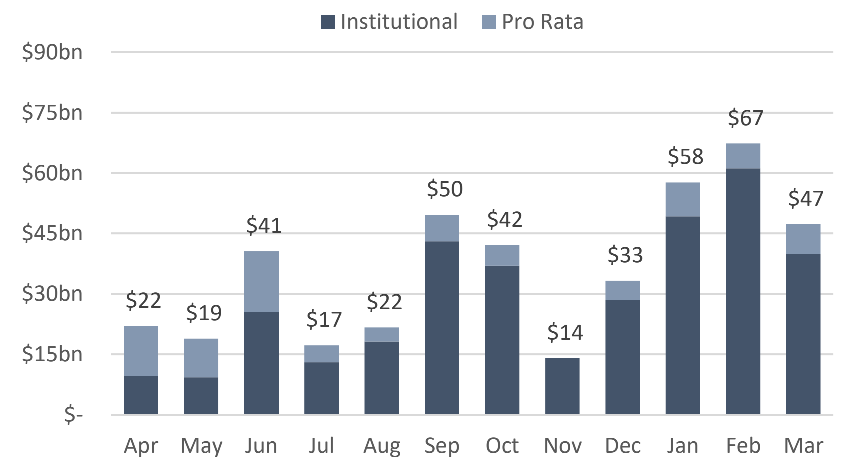
Founders Advisors' Capital Solutions Practice is committed to providing thoughtful advice and keen market insight to business owners, their advisors and other market participants. Having executed over $25 billion in private financing transactions across multiple capital markets and a broad range of industries, our Capital Solutions Practice is recognized for assisting clients in developing optimal capital formation strategies, delivering creative solutions to complex financing situations and providing exceptional execution. Whether it is capital for growth, liquidity for shareholders or refinancing existing debt, we have the resources, market knowledge and access and execution capabilities to drive great outcomes for our clients.

CURRENT STATE OF PRIVATE CAPITAL MARKETS

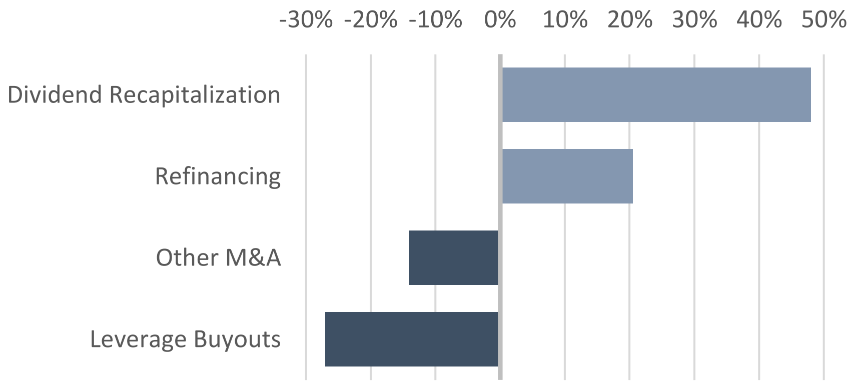
Overview

- Overall, the tenor of the debt market is aggressive with plenty of capital available for transactions
- Barbell market
  - High quality credits see pricing returning to pre-COVID levels
  - Storied credits, with a COVID recovery story, are being well received by the market
- Caution on credit quality
  - Equity contribution will remain in the 40% + range
  - Leverage multiples will remain muted
  - "Second way out" lending through asset-based structures are readily available and embraced by borrowers
  - Lenders continue to avoid industries slower to recover or may not recover
- Dividend recaps continue to gain momentum
- Financing activity has picked up over the last 90 days and is expected to accelerate over the next couple of quarters
- Low cashflow leverage or strong loan to asset values
- Recapitalizations will drive deal volume
  - Owners hedging their bets
  - PE firms returning capital to limited partners
  - Re-leveraging stretched balance sheets

Leveraged Loan Volume



2020 Private Equity Loan Volume Δ from 2019



FOUNDERS ADVISORS

Sources: S&P Global Market Intelligence's LCD

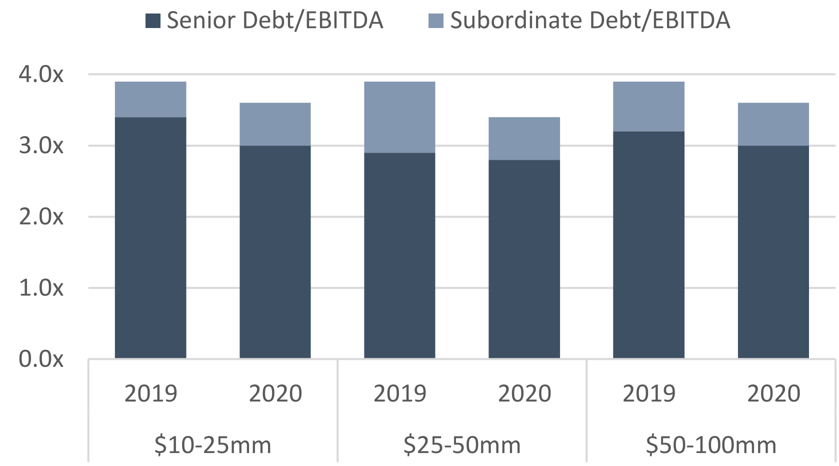
CURRENT STATE OF PRIVATE CAPITAL MARKETS

Commentary

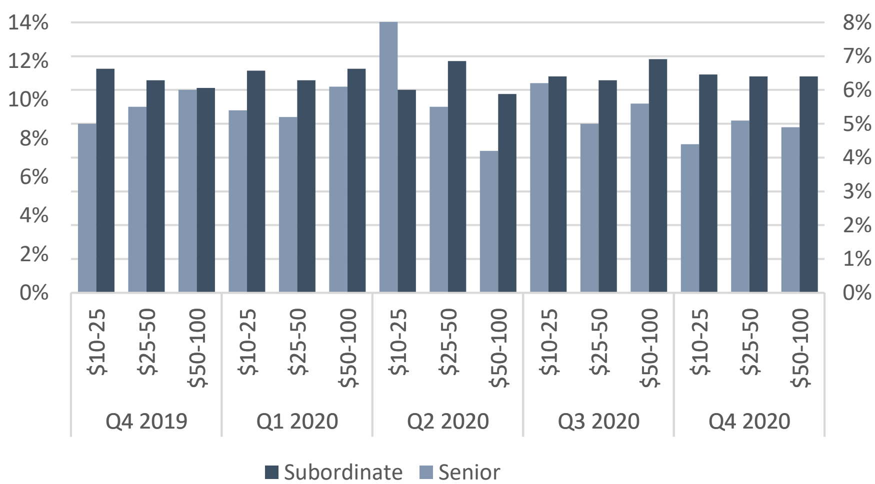
- Leverage multiples began to decline in late-2019 as lenders began to become more defensive over economic concerns heading into 2020
- Overall, the trend of larger deals afforded more leverage continued through 2020
- Anecdotally, Founders believes that leverage multiples may increase by a quarter of a turn in 2021

- The cost of debt capital is approaching pre-COVID levels
- 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

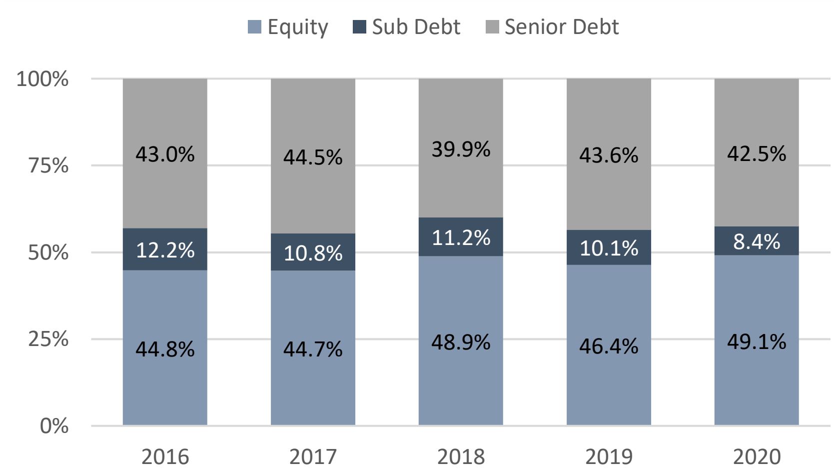
Debt to EBITDA by EV



Debt Pricing by Enterprise Value ($ in Millions)



Equity and Debt Contribution by Year



Source: GF Data Quarterly Report

FOUNDERS
ADVISORS

BIRMINGHAM
2400 5th Avenue South, Suite 100
Birmingham, AL 35233
Phone: 205.949.2043

DALLAS
180 State Street, Suite 225
Southlake, TX 76092
Phone: 214.295.1055

HOUSTON
3615 Wellborn Drive
Fulshear, TX 77441
Phone: 346.326.1782