PRIVATE CAPITAL MARKETS
MARKET UPDATE | June 2021

CURRENT STATE OF PRIVATE CAPITAL MARKETS

Market Overview

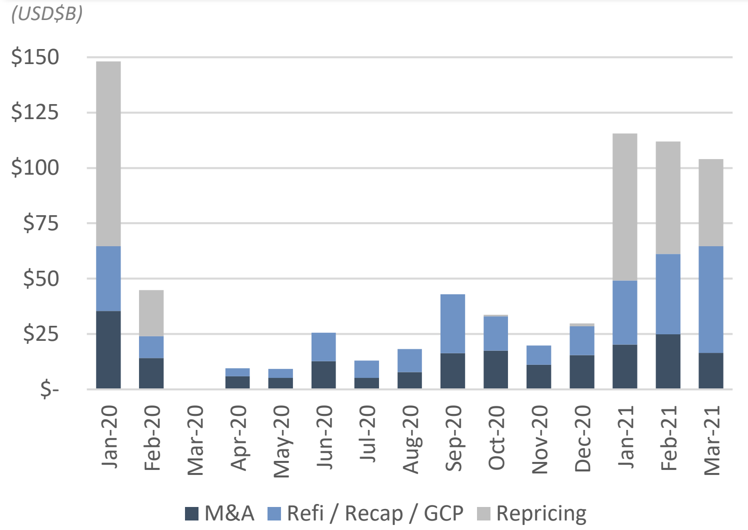
- Conditions in the private capital markets remain incredibly robust, building on the favorable tailwinds seen so far in 2021
  - Investors are flush with liquidity, driven by the increasing magnitude of the non-bank direct lending community ($900+ billion), a healthy commercial banking system, increasingly stronger macroeconomic trends, and continued decreases in leveraged loan default rates
  - Eager to put cash to work, the market is seeing increased receptivity to tighter pricing, higher leverage multiples, credit given to more generous adjustments to EBITDA, and looser covenant packages
  - The search for yield continues to provide a tailwind for the asset class
- Barbell market
  - High quality credit pricing returning to pre-COVID levels
  - Storied credits, with a COVID recovery story, will be 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
  - Lenders will continue to avoid industries slower to recover or may not recover
- Credit funds, such as BDC’s, have become an important source of financing for middle market companies and PEGs
  - Of the 44 publicly traded BDCs, 43% are trading at or at a premium to their NAV, and 88.6% are trading at least 75% of their NAV
  - Higher share prices translates to greater access to capital and liquidity, and ultimately to a more competitive constituency hunting for deals
- Dividend recaps will continue to gain momentum driven by an attractive financing market and concern over increased taxes next year

CURRENT STATE OF PRIVATE CAPITAL MARKETS

Recapitalization and M&A Activity

- Debt recapitalization activity soared in 2020, as many M&A processes were put on pause during the pandemic
  - Owners sought partial liquidity events where available
- While recap liquidity remains healthy YTD, the market has also seen a return of M&A loan volume in 2021
  - Through April 30, LBO-related volume of $56.7 billion is running at the highest pace since the recession and 2nd -highest pace on record
  - Total M&A loan volume is also at a record pace, with $103.8bn through April 30

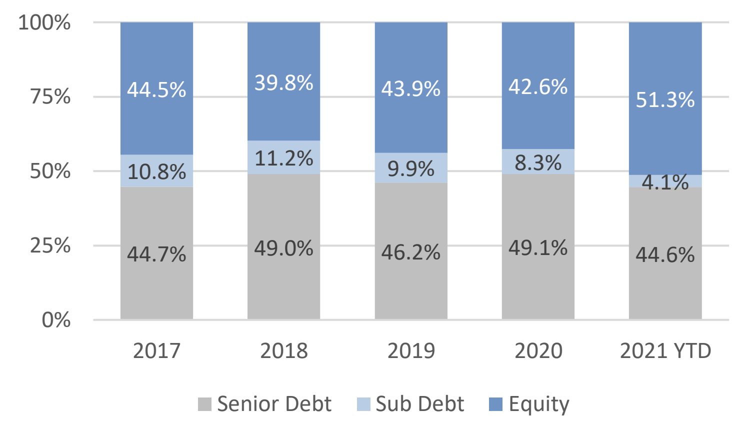
New Issue Volume*



Minimum Equity Contribution

- Overall, lenders remain cautious of thinly capitalized transactions
  - Minimum 50% equity (including rollover) is likely required for most deals in the middle market
  - 30 – 35% new cash equity
- More "structured-equity" solutions below the debt stack proving tolerable
  - Cash-pay or cash / PIK preferred between debt and common shares

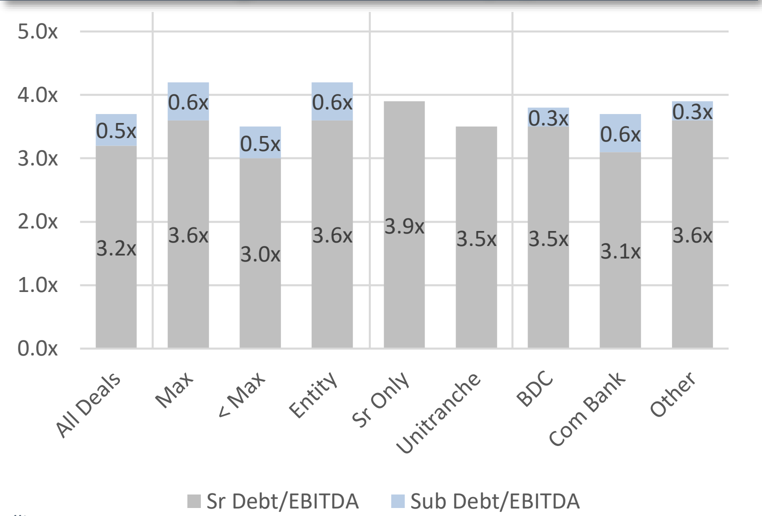
Equity and Debt Contribution by Year



Leverage Levels

- Debt utilization returned to pre-COVID levels in Q1, continuing a progression from the third and fourth quarters of last year
  - Overall, total debt averaged 4.0x for the quarter, with senior debt accounting for 3.7x
- The resulting narrow swath of subordinated debt—.3x—is a result of the increased percentage of add-ons as opposed to platform deals
  - The share of add-ons in rose from 21% in 2018 to about 30% in 2020 and 1Q 2021

Leverage Drilldown 2020 / Q1 2021



Sources: GF Data; LCD, an offering of S&P Global Market Intelligence
**Data through March 14*

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.

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