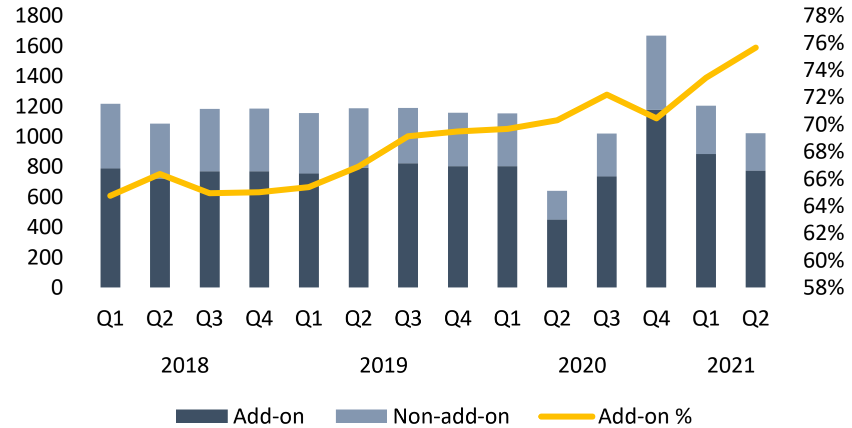
PRIVATE CAPITAL MARKETS
MARKET UPDATE | SEPTEMBER 2021

CURRENT STATE OF PRIVATE CAPITAL MARKETS

Market Overview

- The private capital markets have stabilized after the initial body blow of the pandemic and shut down of the economy
- Overall, capital markets liquidity remains strong, but there has been a shift in the sources of capital for middle market, private businesses
  - New sources of capital such as family offices, control investors opportunistically seeking attractive investment strategies and opportunistic funds have grown in reach
- PE dealmaking continued at a frenetic pace in Q2 2021; through the first half of 2021, PE firms have closed on 3,708 deals, nearly two-thirds of their total deal value in 2020
- Debt levels have been steadily returning to pre-Covid levels since late 2020, and today, total debt utilization is largely unchanged from before the pandemic
  - The handful of deviations remaining point to further normalization
- Recent levels of deal flow have given investors increased capacity to dig into more complex credit structures
  - Borrowers are taking advantage of the opportunity to restructure legacy lending relationships
  - Concurrently, add-on deal structures are increasing

U.S. PE Transactions by Type



Total Debt / EBITDA

	<$5MM EBITDA	>$10MM EBITDA	>$20MM EBITDA
July '21	3.00x – 4.00x	4.00x – 5.25x	4.50x – 5.75x
June '21	3.00x – 4.00x	4.00x – 5.25x	4.50x – 5.75x
July '20	2.50x – 3.25x	3.50x – 4.50x	4.00x – 5.25x

Senior Cash Flow Pricing

	Bank	Non-Bank <$7.5MM EBITDA	Non-Bank >$20MM EBITDA
July '21	L+225 – 400 bps	L+550 – 750 bps	L+450 – 600 bps
June '21	L+225 – 400 bps	L+550 – 750 bps	L+450 – 600 bps
July '20	L+325 – 425 bps	L+650 – 800 bps	L+550 – 750 bps

Unitranche & Second Lien Pricing

	<$5MM EBITDA	>$10MM EBITDA	>$20MM EBITDA
July '21	L+750 – 1050 bps	L+600 – 850 bps	L+550 – 750 bps
June '21	L+750 – 1050 bps	L+600 – 850 bps	L+550 – 750 bps
July '20	L+900 – 1050 bps	L+700 – 850 bps	L+650 – 750 bps

Sub Debt Pricing (Total Coupon: Cash + PIK)

	<$5MM EBITDA	>$10MM EBITDA	>$20MM EBITDA
July '21	12.0 – 14.0%	10.0 – 12.0%	9.0 – 11.0%
June '21	12.0 – 14.0%	10.0 – 12.0%	9.0 – 11.0%
July '20	13.0 – 14.5%	11.0 – 12.5%	10.5 – 11.5%

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Sources: SPP Capital; Pitchbook; GF Data

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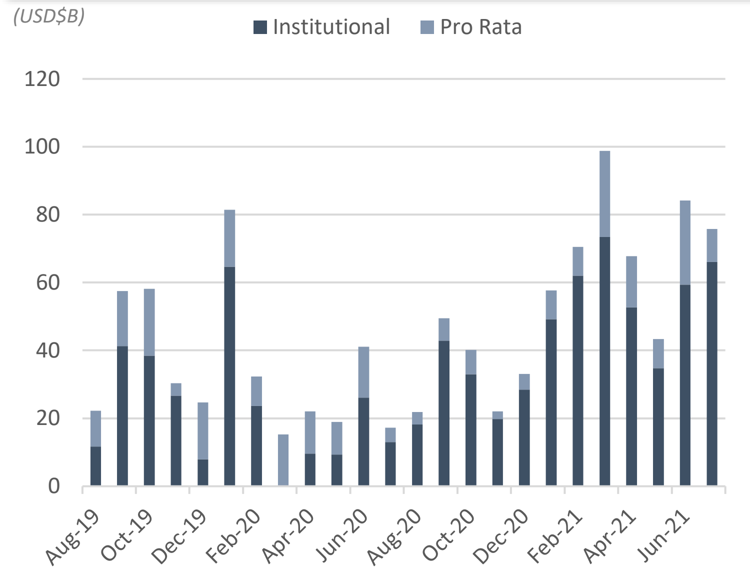
Leveraged Loan Issuance

- M&A financing in the leveraged loan market has had a hot summer
  - Issuance of loans to finance LBOs and other M&A set another record in July at $38.8 billion, just edging the prior peak of $37.5 billion in June
- LBO loan issuance during the second quarter saw its fastest pace since 2007
  - Heavy deal flow has put 2021 M&A issuance through July 31 at $196.7 billion, ahead of any other year since the global financial crisis
  - The volume in the first half of 2021 exceeded the full-year total for 2020

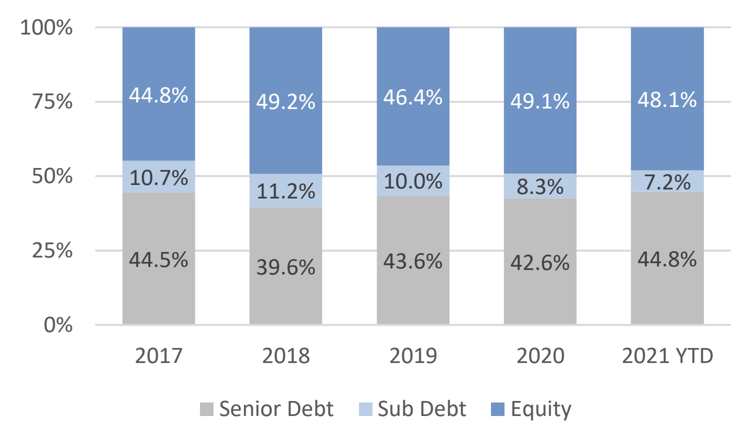
Leveraged Loan Volume



Capital Stack Allocation

- Yield driven investors have allocated significant capital to credit and subordinated debt funds
- 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

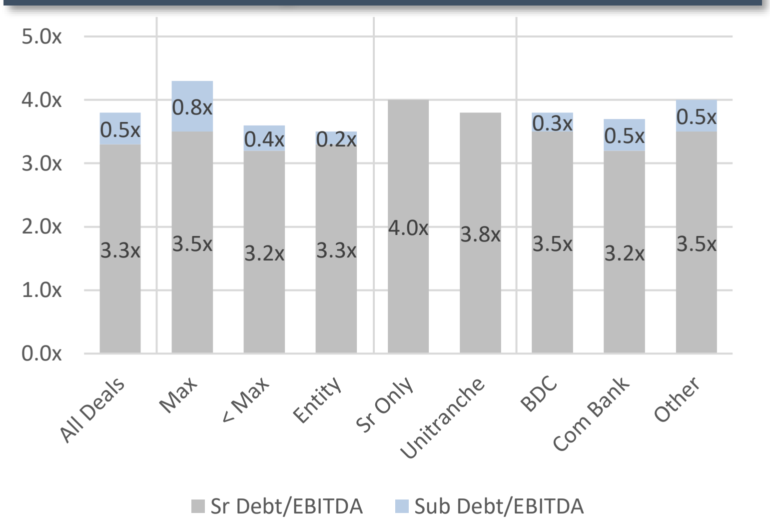
Equity and Debt Contribution by Year



Leverage Levels

- Leverage remained at pre-COVID levels in Q2, continuing a progression from Q1 and the latter half of last year
  - Overall, total debt averaged 3.8x for the quarter, with senior debt accounting for 3.3x
- Total leverage increased YoY from 3.3x to 3.6x on transactions with debt at less than the maximum
  - Borrowers believing their capital structure is being constrained by their judgment rather than market tolerance are increasingly aggressive in capitalization decisions

Leverage Drilldown YTD 2021



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

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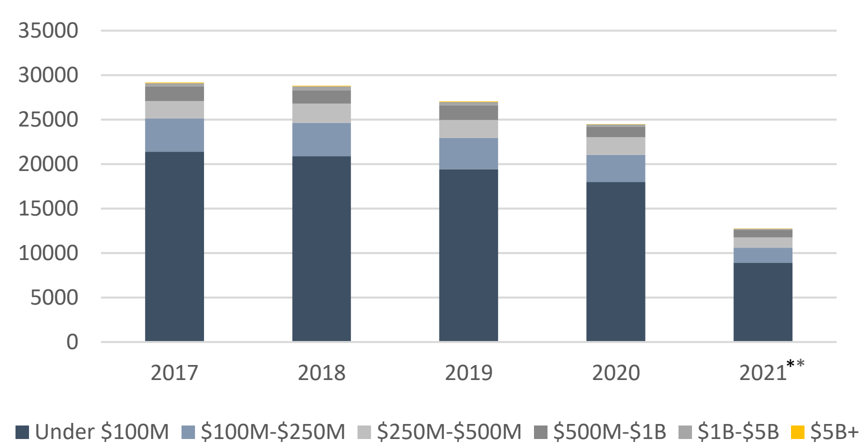
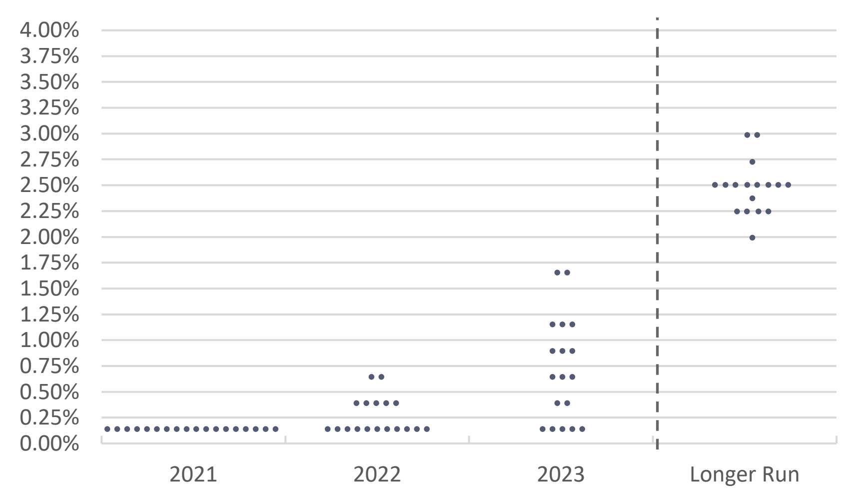
Transaction Size Distribution



Deals Under $500M Dominate Deal Volumes

- Transaction volumes rebounded through Q2 from the Covid-related slump
  - Valuation levels remain high as quality businesses continue to transact at a premium
- While large transactions grab the headlines, deals under $500M represented 99% of transaction volume in the first two quarters of 2021

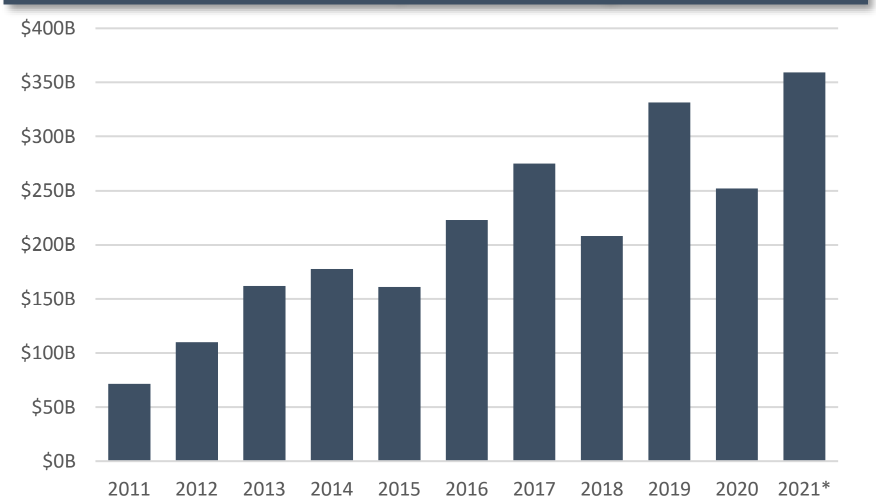
Fed Funds Rate Targets



Macroeconomic Factors Affecting Valuation

- The Federal Reserve now sees at least two interest rate hikes in 2023
  - Seven of the eighteen members are seeing the Fed increasing rates as early as 2022
- Booming demand for consumer durables from Asia and supply-side bottlenecks created by sanitary restrictions in ports and terminals have resulted in rising container shipping costs
- Overall, optimism surrounding post-Covid economic growth prospects serves as a valuation tailwind

Private Capital Fundraising



Accelerating Levels of Dry Powder

- Private equity dry powder is increasing at a double-digit CAGR, leading to unparalleled levels of capital liquidity
- Private equity firms are turning more frequently to private credit to finance buyouts, particularly for smaller buyouts
  - Financing in the private credit market may offer more certainty on pricing of a deal and eliminate syndication risk; it also means fewer lenders to negotiate with in case of a workout of the debt

Sources: Pitchbook; Federal Reserve
**Annualized as of June 30, 2021; ** Through June 30, 2021*

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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.

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