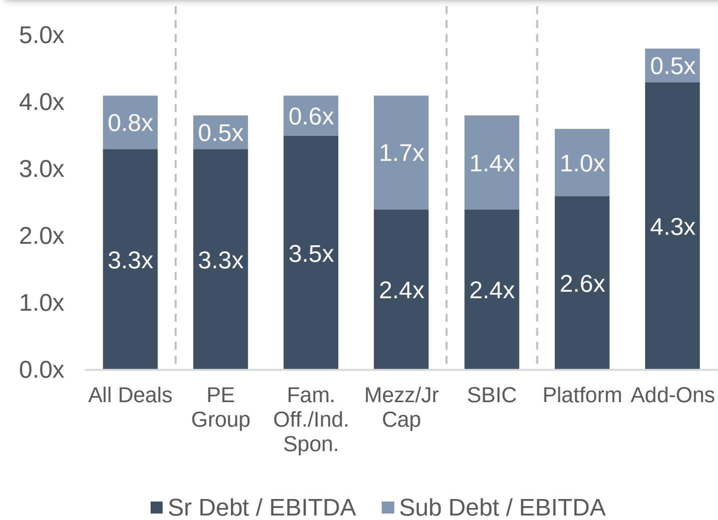
PRIVATE CAPITAL MARKETS
MARKET UPDATE | SEPTEMBER 2022

CURRENT STATE OF PRIVATE CAPITAL MARKETS

Market Overview

- Macroeconomic uncertainties have continued to constrain capital markets and deal activity into Q3 2022
- The debate as to whether or not the United States is heading into or has already entered a recession plagues the market – conflicting economic data has puzzled investors, with GDP contraction for two consecutive quarters contrasted with strong non-farm payroll data and manufacturing stats
- Russia's war with Ukraine continues unabated, with the West's focus shifting to an impending energy crisis in Europe as the region's temperatures drop and Russian supply to Germany have been cut off
- The market expects a third consecutive 0.75-point rate increase at this month's Fed policy meeting; officials have raised rates at the fastest degree since the early 1980s, taking the fed-funds rate to between 2.25% and 2.5% in July from near zero in March
- While overall liquidity persists in the private markets, most companies looking to raise capital are finding higher pricing, lower leverage levels, and more restrictive covenants
- We've seen a shift in capital structure trends for deals between $10-25MM TEV with greater reliance on more expensive sub debt
- As a result of the broader market backdrop, M&A deal activity dropped notably in the first half of the year, with a larger share of deals being done as leveraged recapitalizations vs. wholesale exits
- Until there is further clarity on economic outlook, we expect investors and lenders to remain defensive

1H 2022 Leverage Drilldown



Pricing & Leverage Trends

Total Debt / EBITDA – All Industries by Deal Size

TEV	2003-2017	2018	2019	2020	2021	YTD 2022	Total
10-25	3.3x	3.4x	3.8x	3.6x	4.0x	3.8x	3.5x
25-50	3.5x	3.6x	3.9x	3.4x	3.9x	3.8x	3.6x
50-100	3.9x	4.1x	3.9x	3.6x	3.8x	3.9x	3.9x
100-250	4.4x	4.7x	4.4x	4.7x	4.4x	4.4x	4.4x
Total	**3.6x**	**3.8x**	**3.9x**	**3.7x**	**4.0x**	**3.9x**	**3.7x**

Senior Debt Pricing (%) – Splits by Period

TEV	3Q '20	4Q '20	1Q '21	2Q '21	3Q '21	4Q '21	1Q '22	2Q '22
10-25	5.5	4.3	5.0	4.1	4.1	4.4	4.2	3.8
25-50	4.5	5.3	5.3	4.8	4.8	4.4	4.5	4.2
50-100	6.6	5.2	5.4	4.0	4.0	5.1	4.2	5.3
100-250	8.0	6.8	5.4	5.2	5.2	4.8	4.6	5.7
Total	**5.7**	**5.2**	**5.3**	**4.5**	**4.5**	**4.6**	**4.4**	**4.6**

Sources: Pitchbook; GF Data; WSJ

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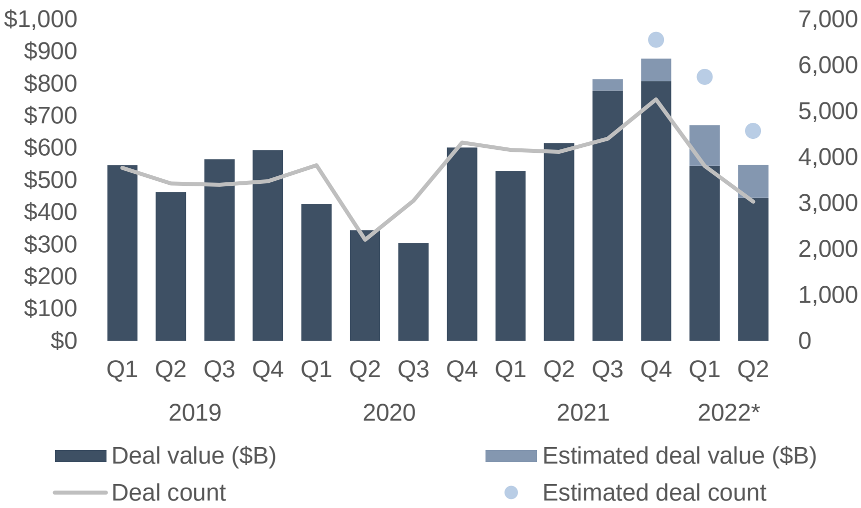
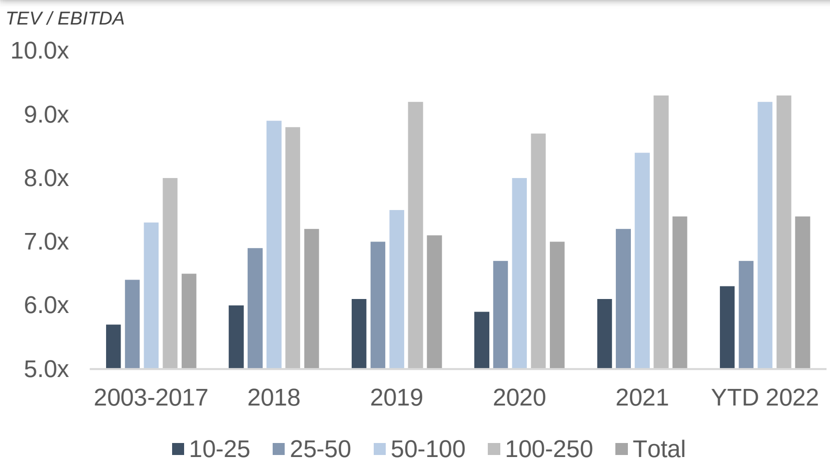
North America M&A Deal Volume



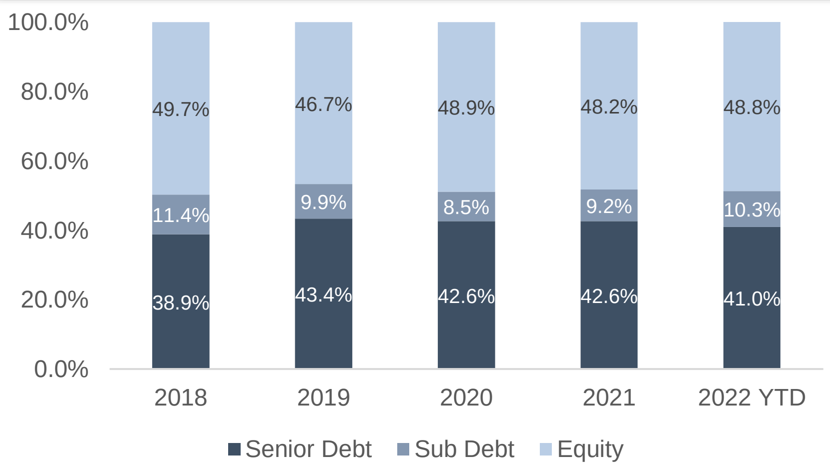
- Macroeconomic headwinds in the first and second quarters of 2022 have caused M&A activity to decline following heightened activity in the back half of 2021
- 1H 2022 saw a 20.8% and 15.0% decline in deal count and value, respectively, relative to 1H 2021
- Despite the market backdrop, deals are still getting done as both strategics and financial buyers look to deploy capital

Valuation Trends



- Despite deal volume being down substantially in the first half of 2022, overall valuations have held strong at an average of 7.4x
- However, there is a bifurcation in the market between well-established companies serving niche markets and lesser established businesses – the former are still commanding strong multiples, whereas the latter are commanding lower valuations or not transacting at all
- As interest rates continue to increase and debt contributions diminish, we expect pressure on valuation levels to emerge

Equity and Debt Contribution by Year



- Minimum equity contribution levels have remained relatively consistent since 2017, with base levels inclusive of rollover at ~50%
- New cash equity contributions remain in the 30 – 35% range
- YTD 2022 average equity contributions for platform deals dropped slightly to 54% vs. 54.5% for full year 2021
- Overall leverage has come down modestly, with total debt averaging 3.9x for 1H 2022 vs. 4.0x for full year 2021

Sources: GF Data; Pitchbook
**Data through June 30, 2022.*

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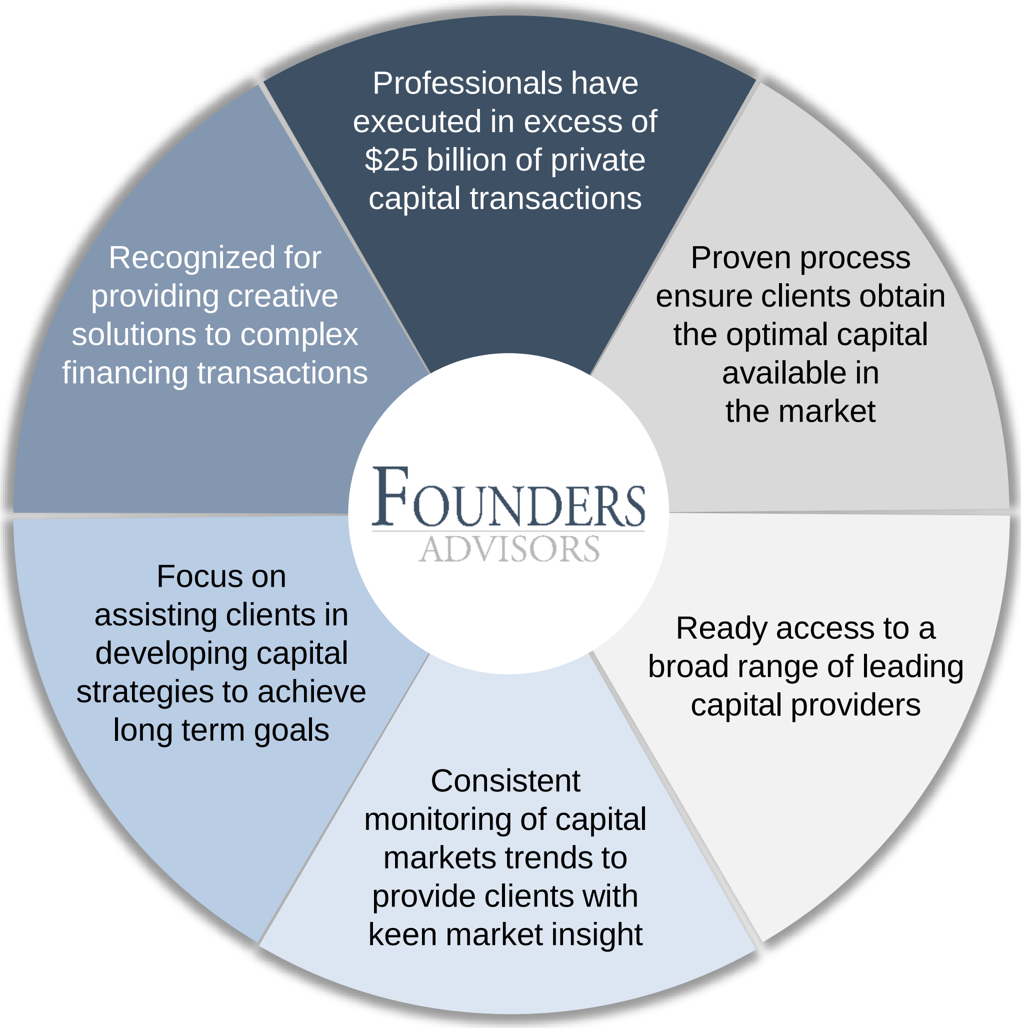

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