



# M&A and Capital Markets Update

1Q 2020

THE **FORBES**  
M+AGROUP

## Impact of COVID-19 on the M&A Landscape

“The good news is that there is still significant capital in the debt markets available for the right situation. Borrowers may be forced to look at alternative options that potentially have a higher cost, but these facilities often come with more flexibility built around cash flow. We are actively being contacted by funds looking to put capital to work with flexible structures.”

*Jon Wiley – Head of Forbes M+A Capital Formation*

- ▶ Overall M&A decreased in 1Q and by the end of March deals were at a standstill
- ▶ After reaching an all-time high in fundraising in 4Q 2019, private equity fundraising slowed to \$45.2B in 1Q 2020
- ▶ Cash balances of the S&P 500 increased nearly 50% in 1Q 2020 compared to the previous quarter as companies cut spending, put acquisitions on hold, and braced for potential fallout from COVID and the global economic uncertainty
- ▶ Businesses have drawn on available lines of credit, over concerns of potentially losing access to credit, causing a liquidity crunch for banks
- ▶ Lenders are taking on higher risk levels resulting in increased underwriting standards to balance their portfolios
- ▶ Transactions are moving forward, but borderline deals are being pushed to the next tier of lenders and increasing the cost of capital for these borrowers

*Note: (1) Middle market defined as transactions with values at or below \$250 million. Source: GF Data, Capital IQ*

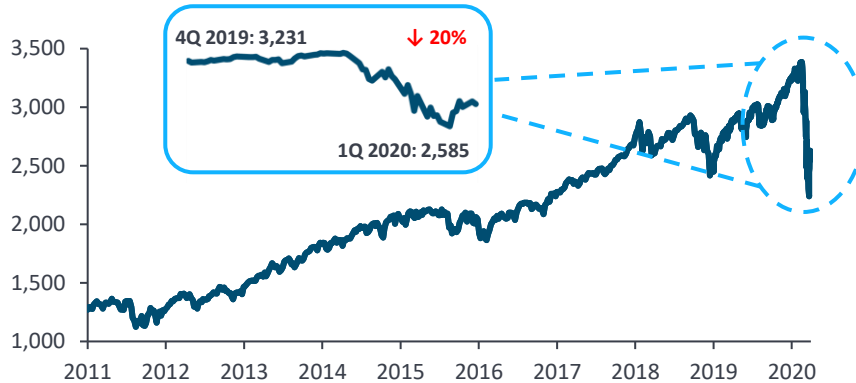
**7.4x**  
Avg. Middle Market  
EV/EBITDA Multiple<sup>(1)</sup>

**89%**  
of Deals Closed Had an EV  
Below \$250 Million

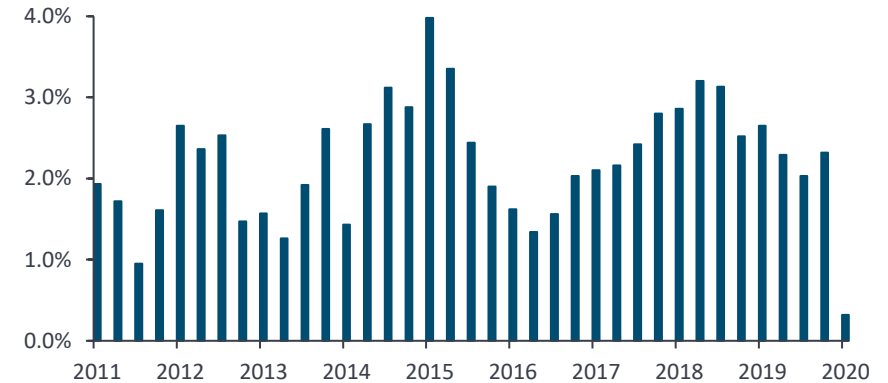
**~\$3 Trillion**  
Current Cash Balance of S&P  
500 Companies

# Macro Economic Factors Impacting the M&A Environment

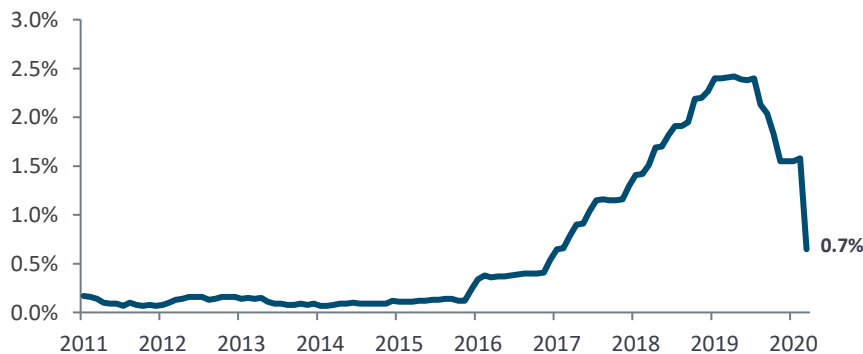
S&P 500 Declined 20% in 1Q 2020 as COVID Swept the Nation...



...While U.S. Real GDP Saw Lowest Growth in More Than a Decade



Fed Funds Rate Plummeted Nearly 100 Basis Points...



...As Treasury Yields Continued to Decline

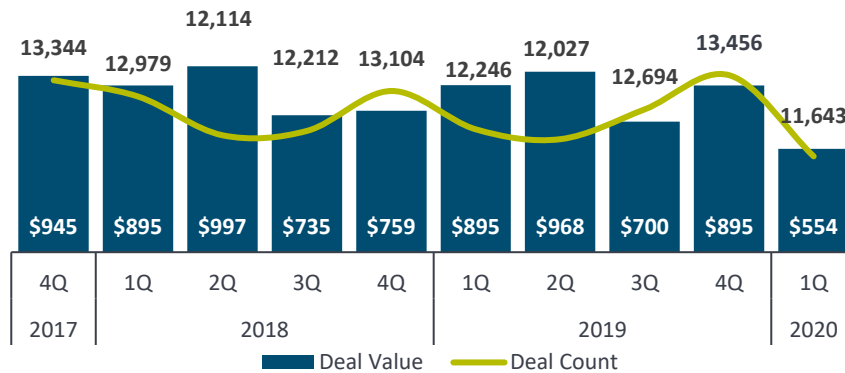


Source: Pitchbook, GF Data, Capital IQ, St. Louis Fed, European Central Bank, U.S. Department of the Treasury as of 12/31/19

# M&A Deal Volume and Value

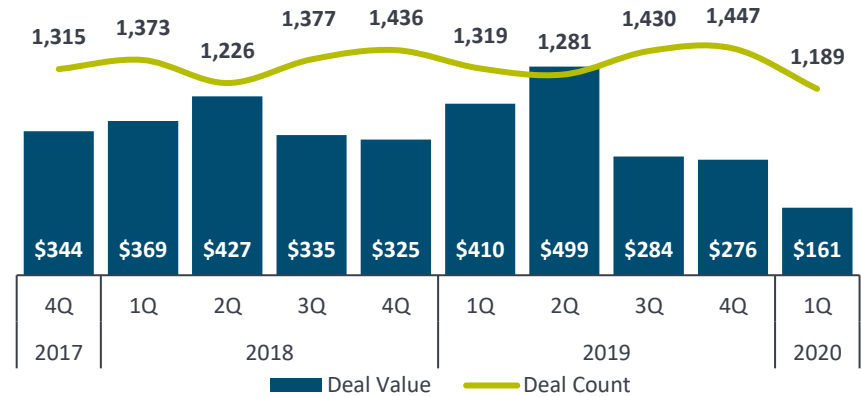
## Global M&A Activity Dropped to its Lowest Level in Years...

(\$ in billions)

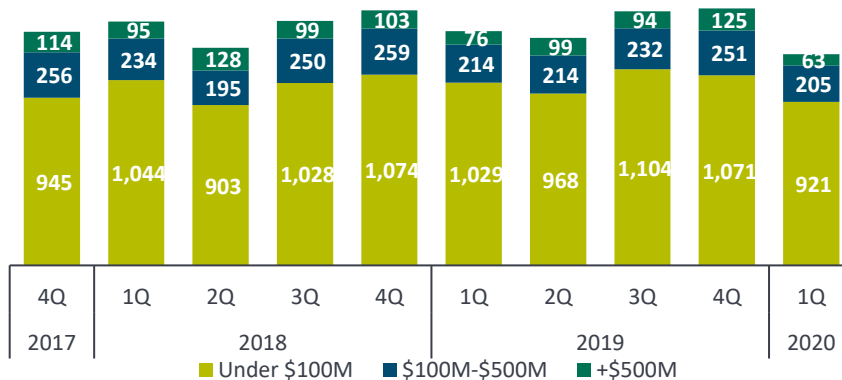


## ...With the U.S. M&A Market Mirrored the Global Decline

(\$ in billions)

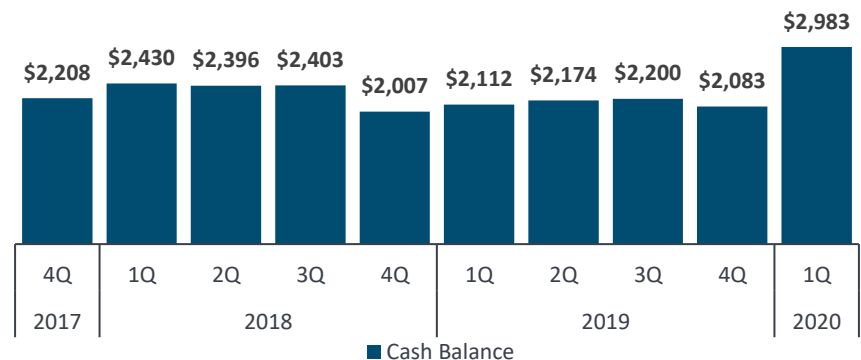


## U.S. Middle Market Deals Dropped off in 1Q<sup>(1)</sup>...



## ...As S&P 500 Cash Reserves Increased Due to COVID-19 Concerns

(\$ in billions)

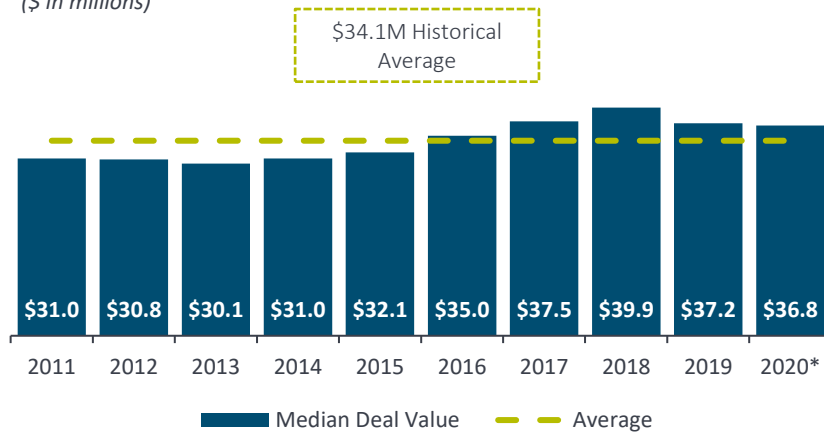


Note: (1) Middle market defined as transactions with values at or below \$250 million. Source: GF Data, Capital IQ

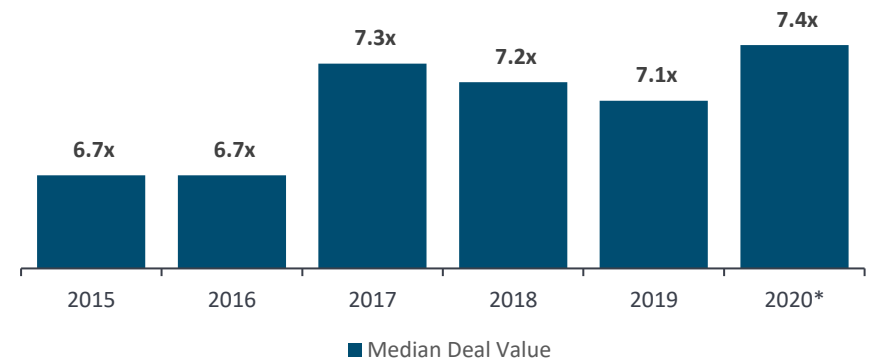
# M&A Valuation Trends

## Median Middle Market M&A Deal Values Retreated<sup>(1)</sup>...

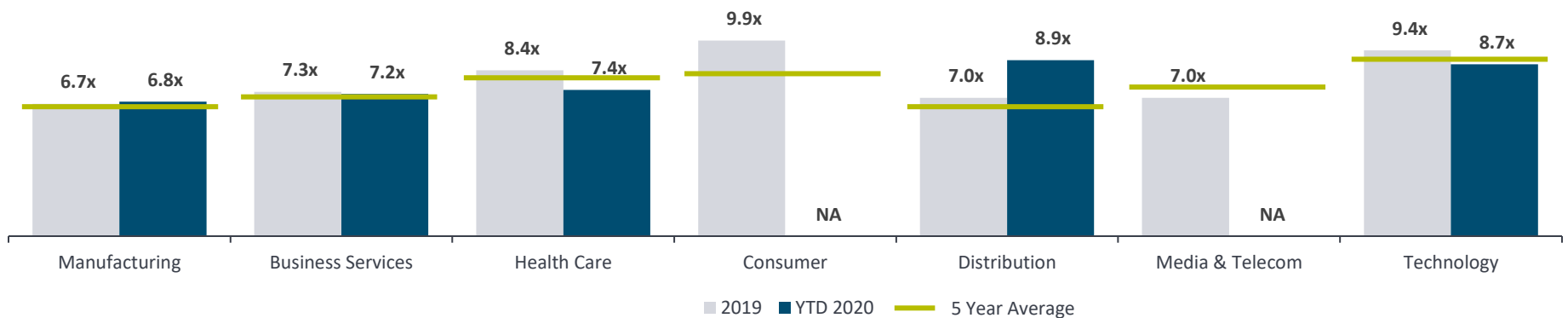
(\$ in millions)



## ...But U.S. Middle Market EV / EBITDA Multiples Remained Steady



## Middle Market EV / EBITDA Multiples Stayed Strong with Distribution Deals Experiencing the Largest Increase

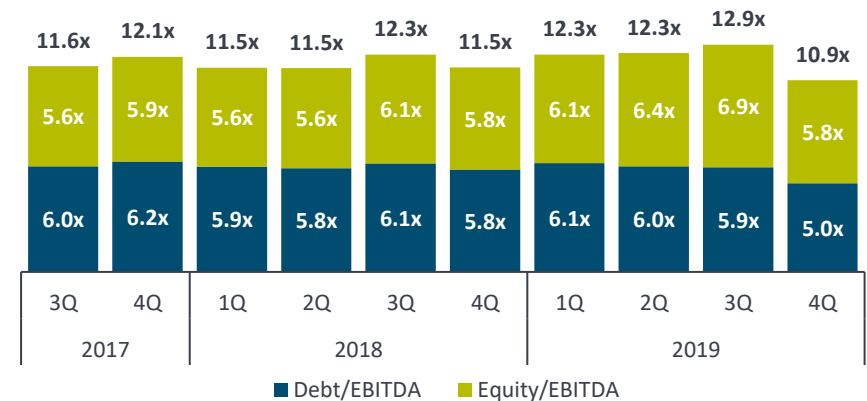


Note: (\*) 2020 annual run rate as of 3/31/2020 (1) Middle market defined as transactions with values at or below \$250 million. Source: Pitchbook, GF Data, Capital IQ

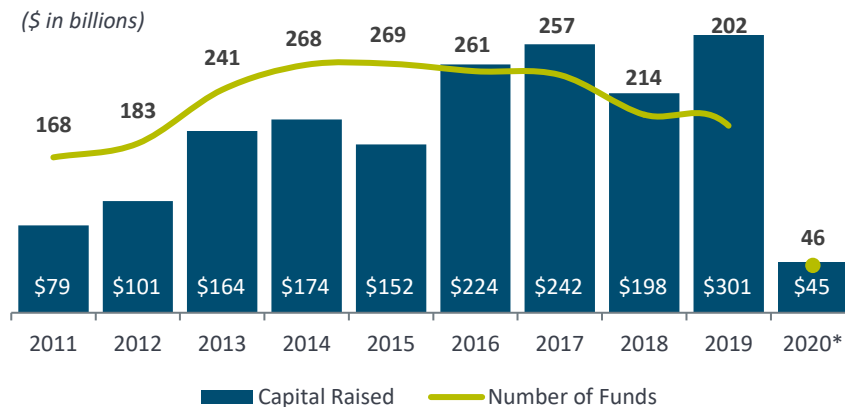
# U.S. Private Equity M&A Environment

- ▶ Add-on deals continued to grow as a percentage of overall private equity deals, surpassing 70% of total deals
- ▶ A recession may hurt portfolios of PE firms, but with record amounts of dry powder, this will create significant buying opportunities

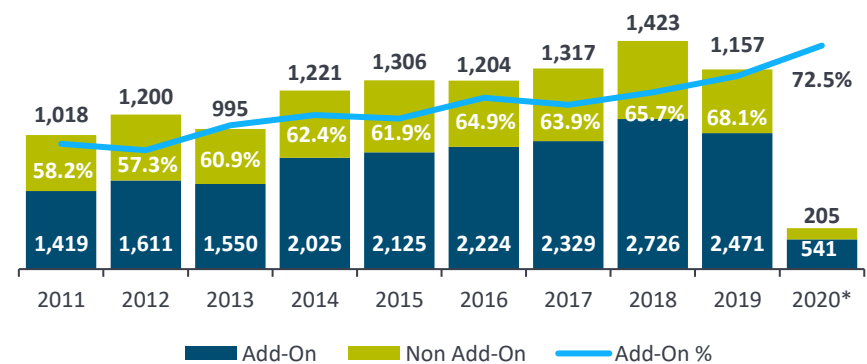
## PE Buyout Multiples Declined in 4Q<sup>(1)</sup>



## PE Fundraising Slows After a Record-Breaking Year in 2019



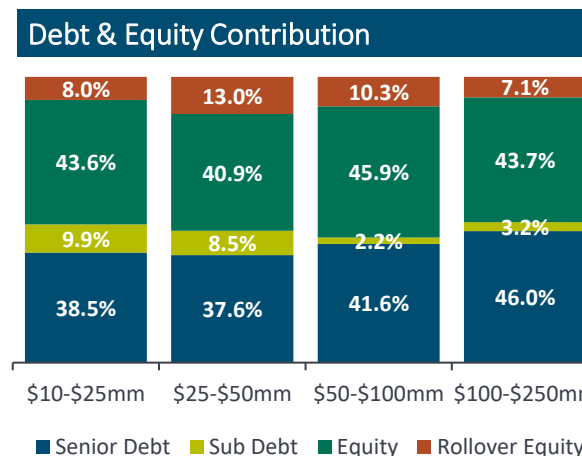
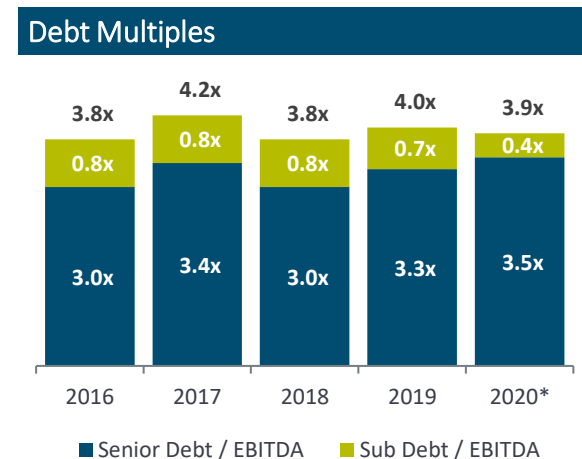
## PE Add-On Deal Continued to Increase as a % of Total Deals



Note: (\*) 2020 annual run rate as of 3/31/2020 (1) Waiting on updated data. Source: Pitchbook, GF Data, Capital IQ

# Leverage Multiples & Pricing

Debt Pricing <sup>(1)</sup>			
Debt Type	Company Size / Lender Type	4Q 2019	1Q 2020
Senior Cash Flow Debt	Bank	L+ 3.0% - 4.5%	L+ 3.0% - 4.5%
	Non-Bank <\$7.5 Million EBITDA	L+ 6.0% - 7.0%	<b>L+ 5.5% - 7.5%</b>
	Non-Bank >\$15.0 Million EBITDA	L+ 4.0% - 5.5%	L+ 4.0% - 5.5%
Unitranche Debt	<\$5.0 Million EBITDA	L+ 7.5% - 10.0%	L+ 7.5% - 10.0%
	>\$10.0 Million EBITDA	L+ 6.5% - 8.0%	<b>L+ 5.5% - 7.5%</b>
	>\$20.0 Million EBITDA	L+ 5.0% - 6.5%	L+ 5.0% - 6.5%
Subordinated / Mezzanine Debt	<\$5.0 Million EBITDA	12.0% - 14.0%	<b>11.5% - 14.5%</b>
	>\$10.0 Million EBITDA	10.0% - 12.0%	10.0% - 12.0%
	>\$20.0 Million EBITDA	8.5% - 11.0%	8.5% - 11.0%



Note: (\*) 2020 annual run rate as of 3/31/2020 (1) Source: GF Data, Capital IQ LCD, SPP Capital