



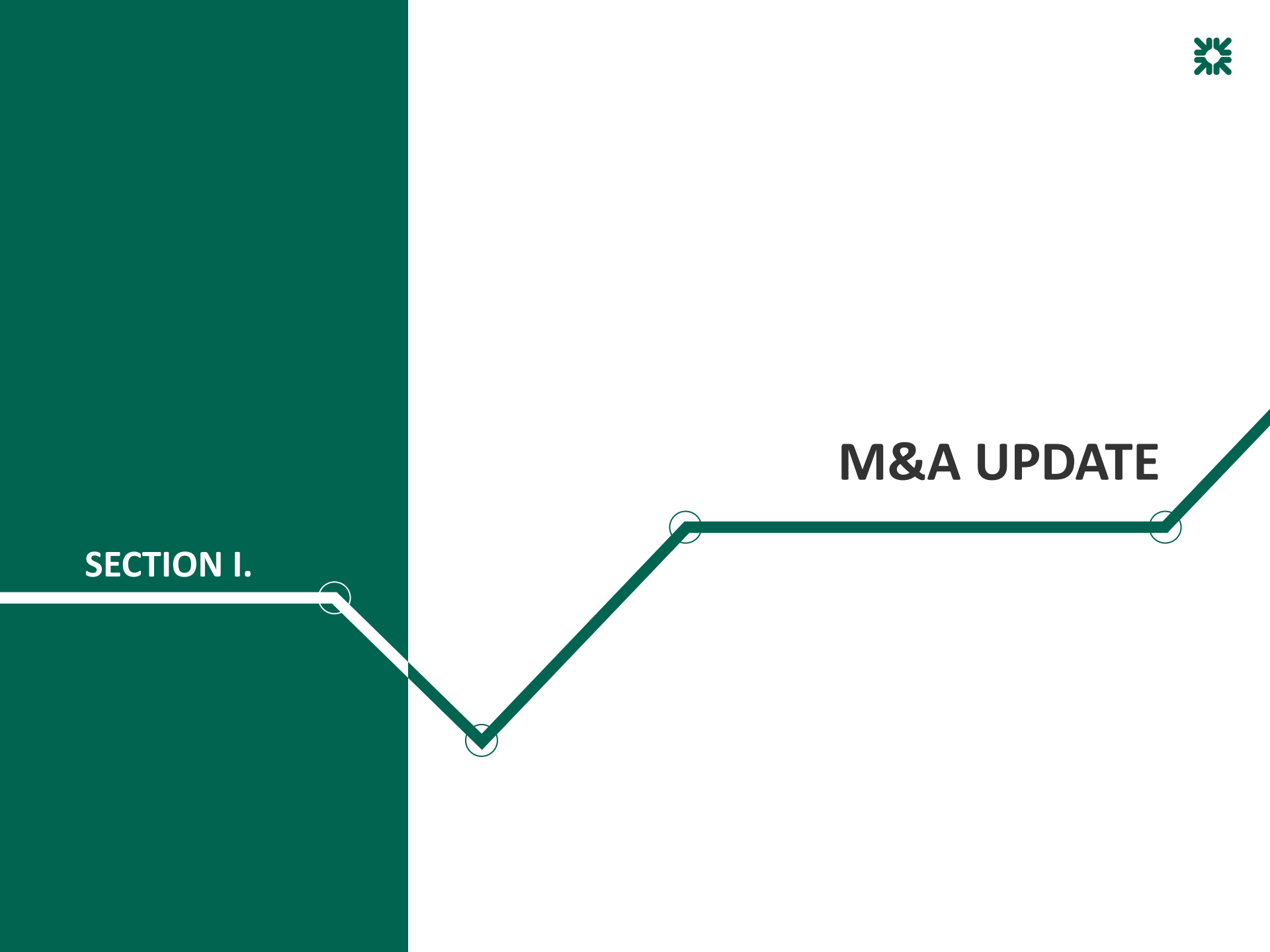
M&A AND DEBT CAPITAL MARKETS UPDATE

FEI Central PA Chapter January 2022 Dinner Meeting
January 18, 2022



SECTION I.

M&A UPDATE



Market Review



The global COVID-19 pandemic has overshadowed public and private markets over the past two years

2020 MARKET REVIEW

- COVID-19 officially arrives in the U.S. (Jan. 2020)
- Public equity markets plunge by 30%+ (Mar. 2020)
- 1st federal stimulus bill becomes law (Mar. 2020)
- M&A activity bottoms out (May 2020)
- Cost of debt drops to historical lows (Aug. 2020)
- Public equity markets recover to pre-pandemic highs (Aug. 2020)
- M&A activity sharply rebounds (Dec. 2020)
- 2nd federal stimulus bill becomes law (Dec. 2020)

2021 MARKET REVIEW

- COVID-19 vaccines rollout to the public (Q1 2021)
- M&A carries 2020 backlog into 2021 (Q1 2021)
- 3rd federal stimulus bill becomes law (Q1 2021)
- Inflation and COGS spike (Q3 2021)
- Global travel re-opens (Q4 2021)
- Public equity markets achieve record highs (Q4 2021)
- COVID-19 variants emerge dampening a return to normal (Q4 2021)
- M&A Market perseveres despite uncertainty in macro economy

So where are we now ...

**HELP
WANTED**

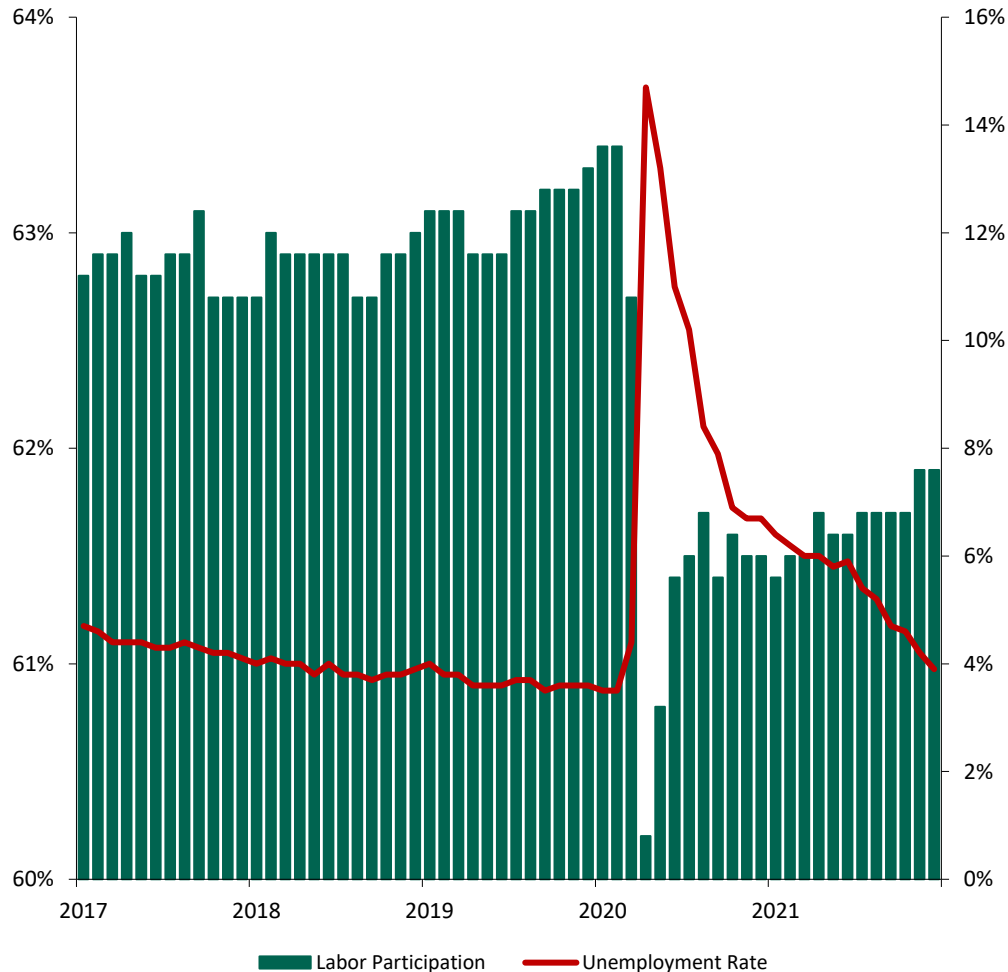
A red and white sign with the words "HELP WANTED" in bold, white, sans-serif capital letters. Below the text is a large, empty white rectangular box. The sign is mounted on a dark post. The background is dark with several out-of-focus, warm-toned lights, suggesting an outdoor night setting.

Current Challenge – Labor Shortage



U.S. firms must now aggressively compete to hire and maintain a skilled workforce

U.S. LABOR PARTICIPATION & UNEMPLOYMENT RATE



COMMENTARY - 2020

- Non-essential workers furloughed
- Work from home becomes the “norm”
- 1.5 million retirements above expectation
- Congress enhances unemployment benefits
- Number of immigration visas granted falls

COMMENTARY - 2021

- Fear of the pandemic persists
- Child-care issues constrain families
- 0.8 million become self-employed
- 4.3 million fewer workers (Feb-20 vs. Oct-21)
- Remaining labor force is mostly employed
- Unemployment is 3.9% at end of year

Sources: FRED; Cembalest, M. (2021, October 20). Help Wanted. *J.P. Morgan.*; Mitchell, J. (2021, October 14). 4.3 Million Workers Are Missing. Where Did They Go? *Wall Street Journal.*

Regular

Cash/Credit

4.87 $\frac{9}{10}$

All Taxes
Included

Extra

5.07 $\frac{9}{10}$

All Taxes
Included

Supreme+

5.17 $\frac{9}{10}$

All Taxes
Included

Energy™

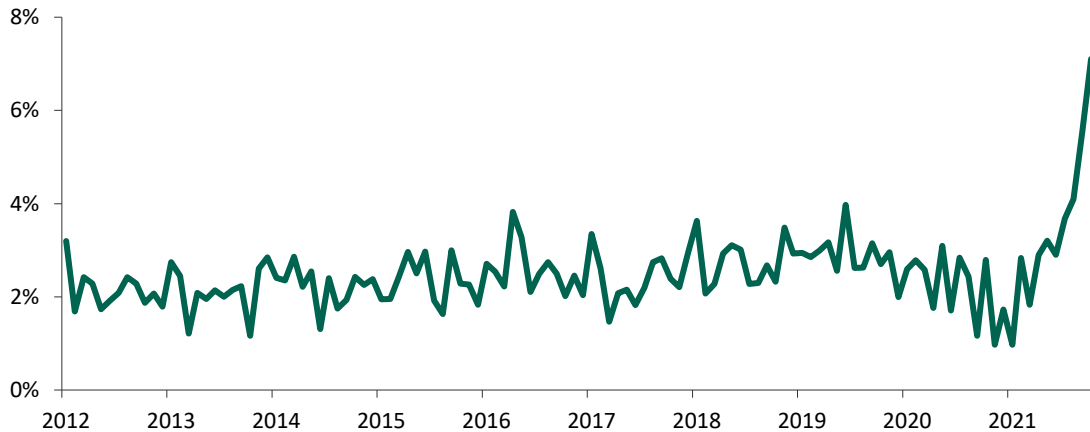


Current Challenge – Inflation



The cost of goods and inputs have spiked for consumers and producers

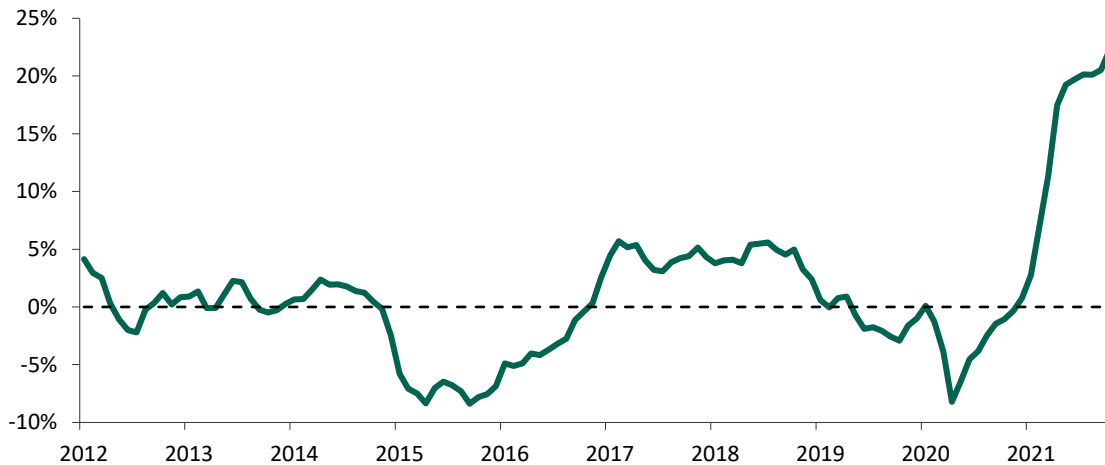
U.S. CONSUMER PRICE INDEX



COMMENTARY

- Relatively stable from 2012-2019
- Noticeable decline in 2020
- Significant spike in 2021
- Peaks at 7.1% on Oct. 1st, 2021
- Decreasing at end of year

U.S. PRODUCER PRICE INDEX (YOY)



COMMENTARY

- Sustained periods of both positive and negative rates from 2012-2019
- Sharp decline then recovery in 2020
- Significant spike in 2021
- 22% (YoY) on Oct. 1st, 2021
- Increasing at end of year

A photograph of a supermarket aisle. The shelves are mostly empty, with some products visible in the background. A white sign is attached to a shelf in the foreground, reading "ONE PER CUSTOMER PLEASE". The sign is slightly tilted and has some wear. The background shows more shelves and products, including a blue box and some cans. The lighting is bright, typical of a supermarket.

**ONE PER
CUSTOMER
PLEASE**

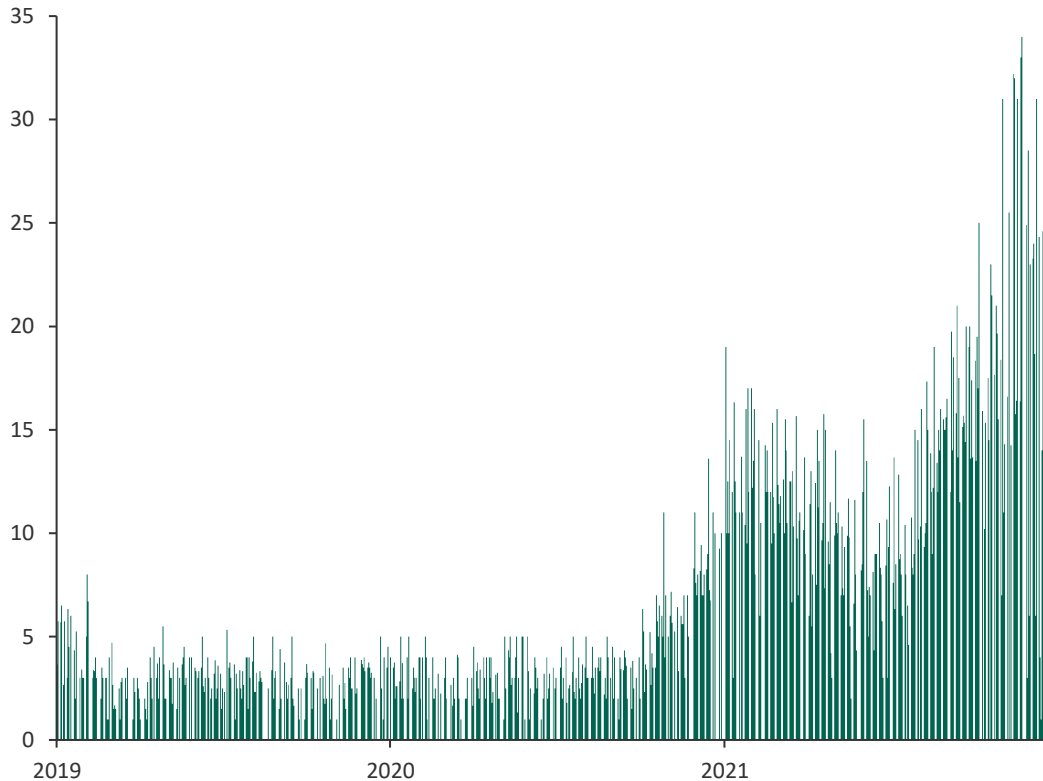
Current Challenge – Supply Chain



U.S. ports are clogged as economic demand recovers faster than supply chains can accommodate

PORT OF LOS ANGELES - AVERAGE DAYS AT ANCHOR & BERTH

of Days



COMMENTARY - 2020

- Steady and efficient in previous years
- Less than 5 days on average in previous years
- Stable during initial shutdown
- Noticeable increase around holiday season

COMMENTARY - 2021

- Initial jump in early 2021
- Declines during vaccine rollout
- Spikes again in Q3
- Still present at end of year
- Expectation this challenge extends into 2022

How has this impacted M&A ...

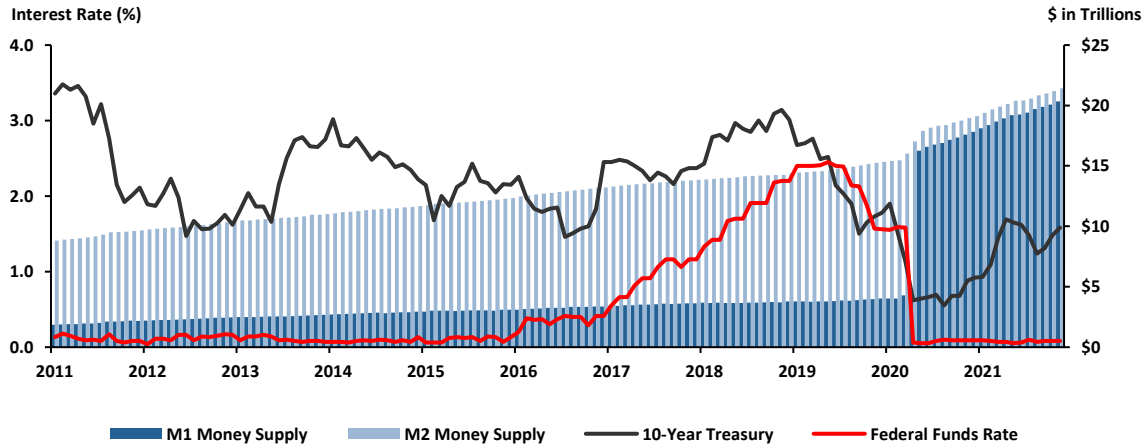


Overall Market Strong in 2021

Late 2020 market momentum carried into 2021



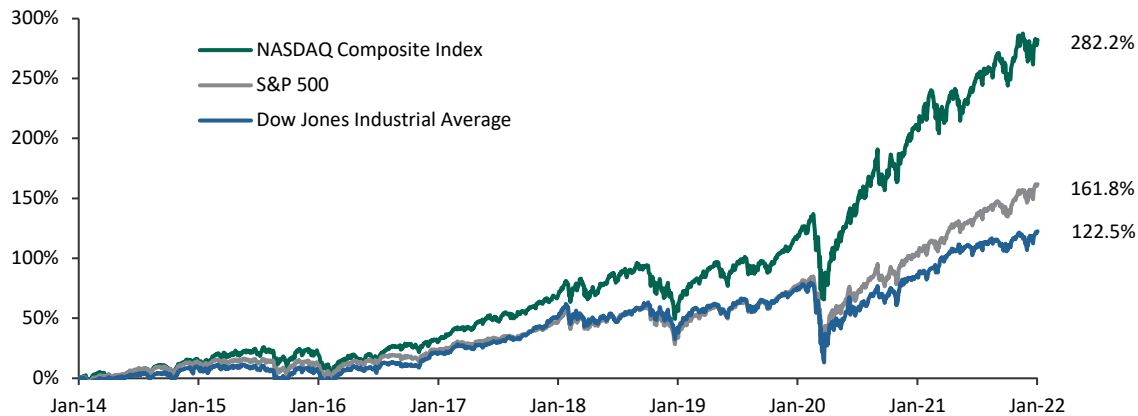
U.S. MONEY SUPPLY



COMMENTARY

- Strong Fed response to pandemic in 2020
- Money supply at record highs
- Interest rates at historic lows

U.S. PUBLIC EQUITY MARKETS



COMMENTARY

- Public equity markets at record highs at end of 2021
- Quick recovery from 2020 pandemic lows
- Valuations at record highs



Record Levels of Capital to Deploy

Strategic firms and Private Equity groups have never possessed larger cash reserves

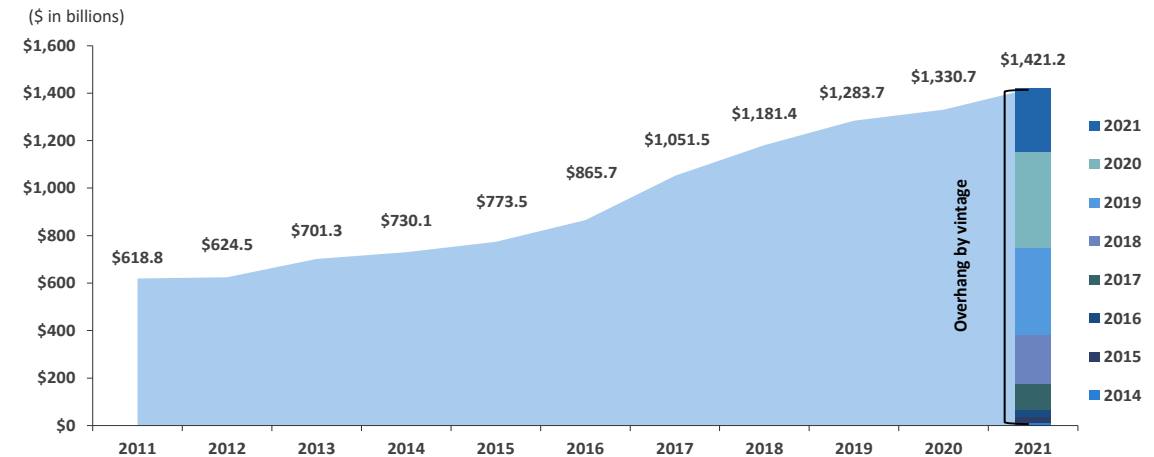
S&P500 CASH BALANCE



COMMENTARY

- S&P Cash balances exceeding \$3.8T
- Sizeable increase during pandemic years of 2020 and 2021
- Nearly tripled since 2016

PRIVATE EQUITY OVERHANG



COMMENTARY

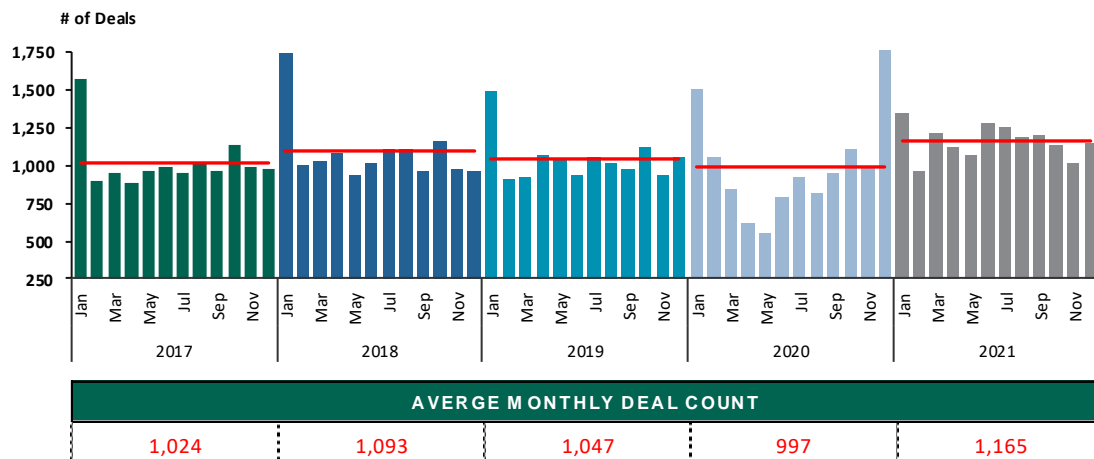
- Private equity 'dry powder' exceeding \$1.4T
- Pressure to deploy capital in vintage funds
- \$1.4T represents nearly \$5.0T of purchasing power on a leveraged basis

Monthly M&A Activity 2017-2021



2020 trends differently than other years

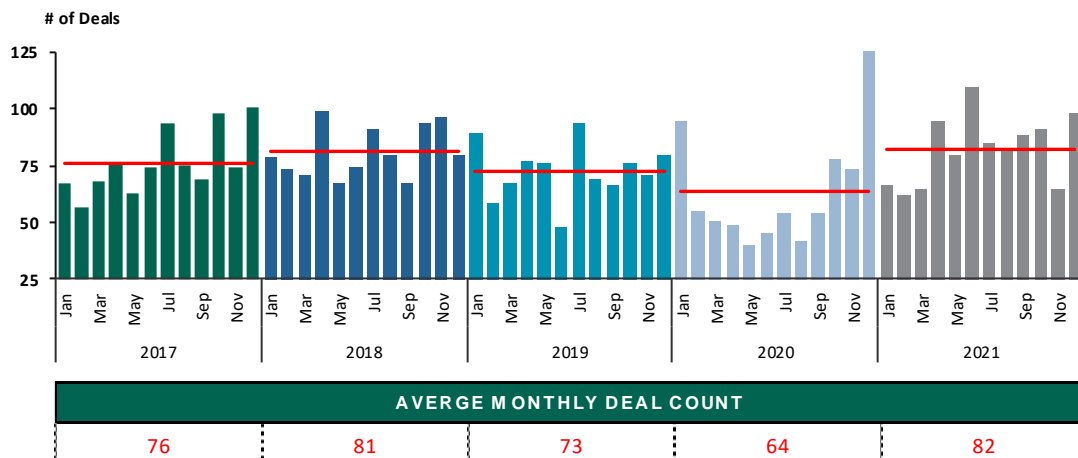
U.S. TOTAL M&A ACTIVITY



COMMENTARY

- Snap back from below average 2020 deal count
- Pull forward of 2021 activity due to potential tax changes
- Incredibly aggressive buyer activity from both strategic and financial players

U.S. MIDDLE MARKET¹ M&A ACTIVITY



COMMENTARY

- Middle market trends similar to overall market
- Relatively stable average monthly deal count
- Noticeable trough and recovery in 2020

Source: Pitchbook

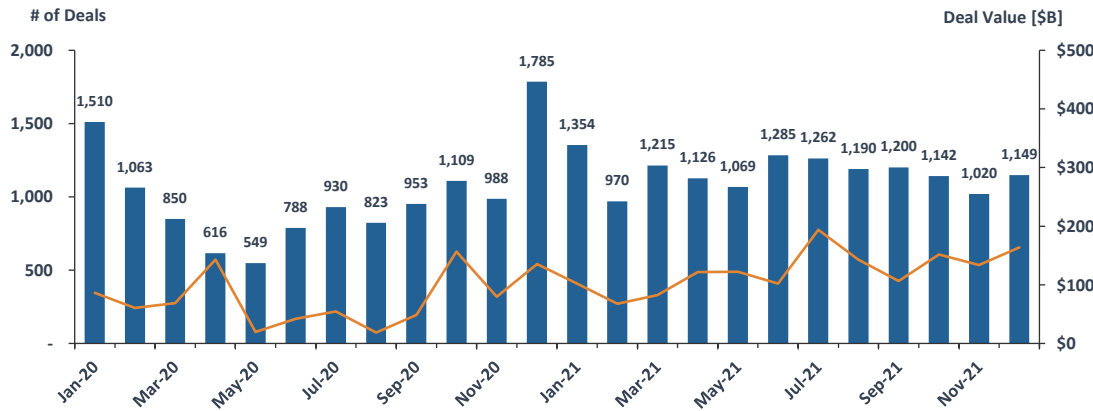
1) Middle market defined as deal size between \$50 - \$500 million

Overall Market Strong in 2021



Late 2020 market momentum carried into 2021

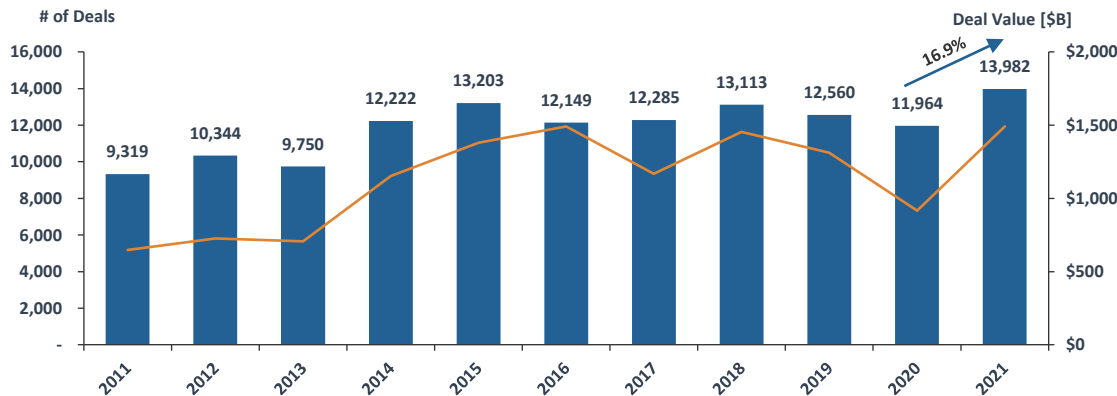
2020-2021 U.S. TOTAL M&A ACTIVITY



COMMENTARY

- Noticeable 2020 trough in deal volume
- Depressed deal value in middle 2020
- Significant rebound in deal volume in Dec. 2020
- Deal volume stabilizes in 2021
- Deal value increasing throughout 2021

2011-2021 U.S. TOTAL M&A ACTIVITY



COMMENTARY

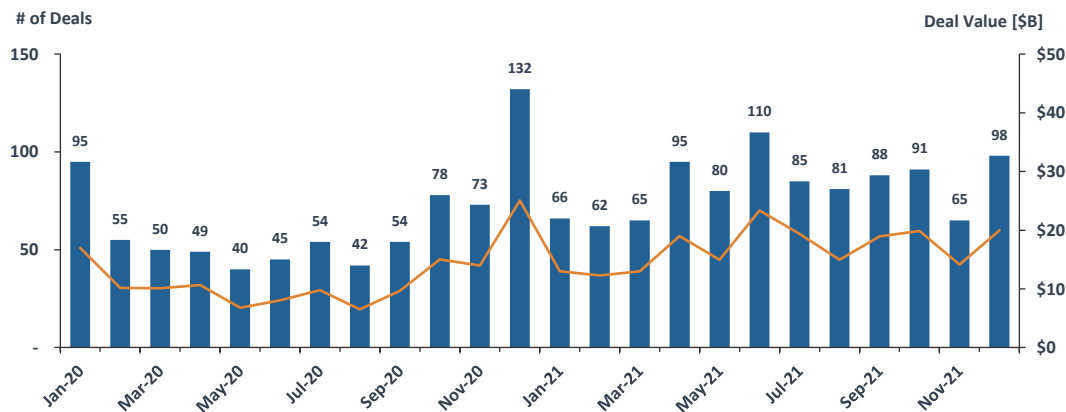
- Overall U.S. M&A rebounding from 2020 dip
- YTD 2021 Deal Count above YTD 2020
- YTD 2021 Deal Value above YTD 2020

Middle Market Strong in 2021



U.S. middle market continues to recover

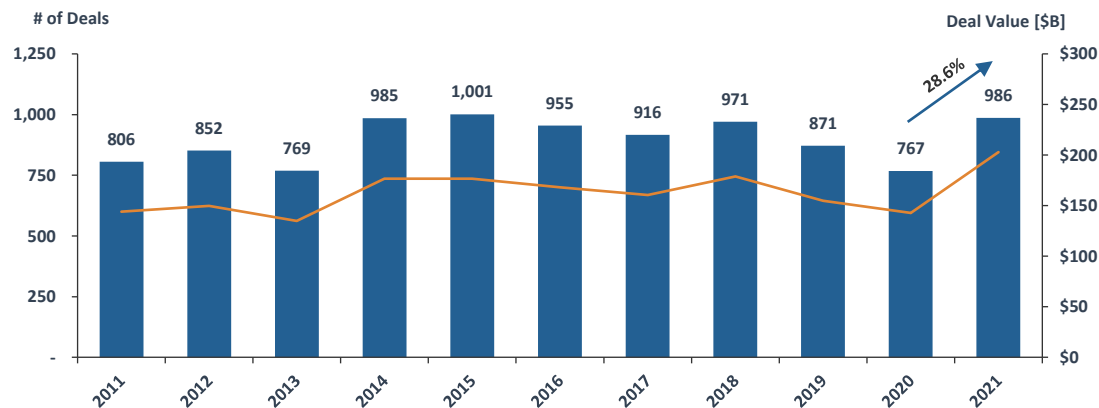
2020-2021 U.S. MIDDLE MARKET¹ M&A ACTIVITY



COMMENTARY

- Same trends as U.S. Total M&A
- Deviations from these trends include
 - 2020 deal value not as depressed
 - Sharper peak in deal volume in Dec. 2020
 - 2021 deal volume more concave

2011-2021 U.S. MIDDLE MARKET¹ M&A ACTIVITY



COMMENTARY

- Same trends as U.S. Total M&A
- Deviations from these trends include
 - Larger deal count growth from '20 to '21
 - Deal value relatively stable throughout

Source: Pitchbook

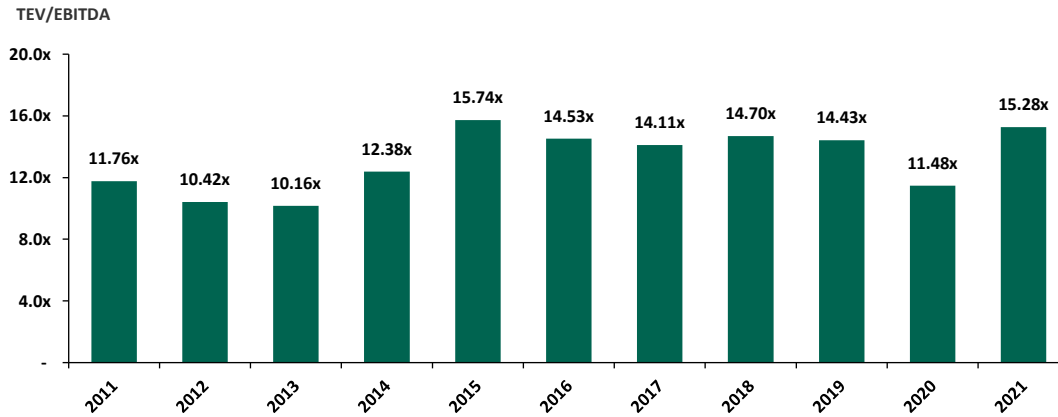
1) Middle market defined as deal size between \$50 - \$500 million



M&A Multiples Strong in 2021

U.S. market continues to recover from 2020

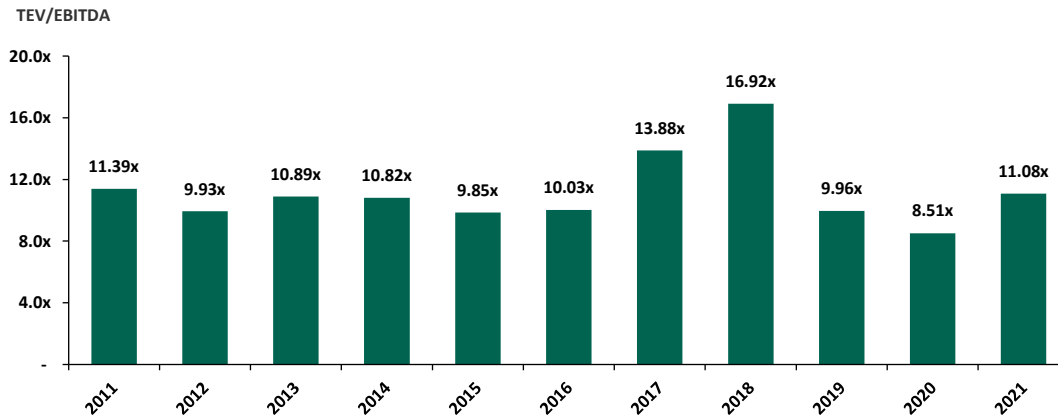
U.S. TOTAL M&A MULTIPLES



COMMENTARY

- Overall M&A multiples rebounding from 2020 dip

U.S. MIDDLE MARKET¹ M&A MULTIPLES



COMMENTARY

- Middle market M&A multiples also rebounding from 2020 dip

Source: Pitchbook

1) Middle market defined as deal size between \$50 - \$500 million

Key Takeaways

Summary of 2021 markets



- Global and U.S. markets were strong in 2021 with momentum carrying into 2022
- Strategic firms and Private Equity groups have record-levels of cash to deploy
- Increasing labor and input costs are challenging business operations and profitability
- Global supply chains have not recovered to pre-pandemic efficiency
- Managing risk becoming more important in the “new normal” environment
- Increasing focus around technology and automation with respect to M&A process
- Decreasing risk of capital gains tax changes
- Capacity constraints for M&A service providers
- Buyers’ willingness to “underwrite” pro-forma adjustments is driving valuation multiples

Looking Ahead to 2022

Strong 2021 momentum carrying into 2022



2022 OUTLOOK

- Increasing M&A competition from strategic and private equity war chests
- Strong key performance indicators and outcomes will command premium valuations
- Operational and economic risk management will play a greater strategic role
- Rising regulatory scrutiny over antitrust and merger control issues
- ESG diligence becoming more important

M&A Sector Coverage



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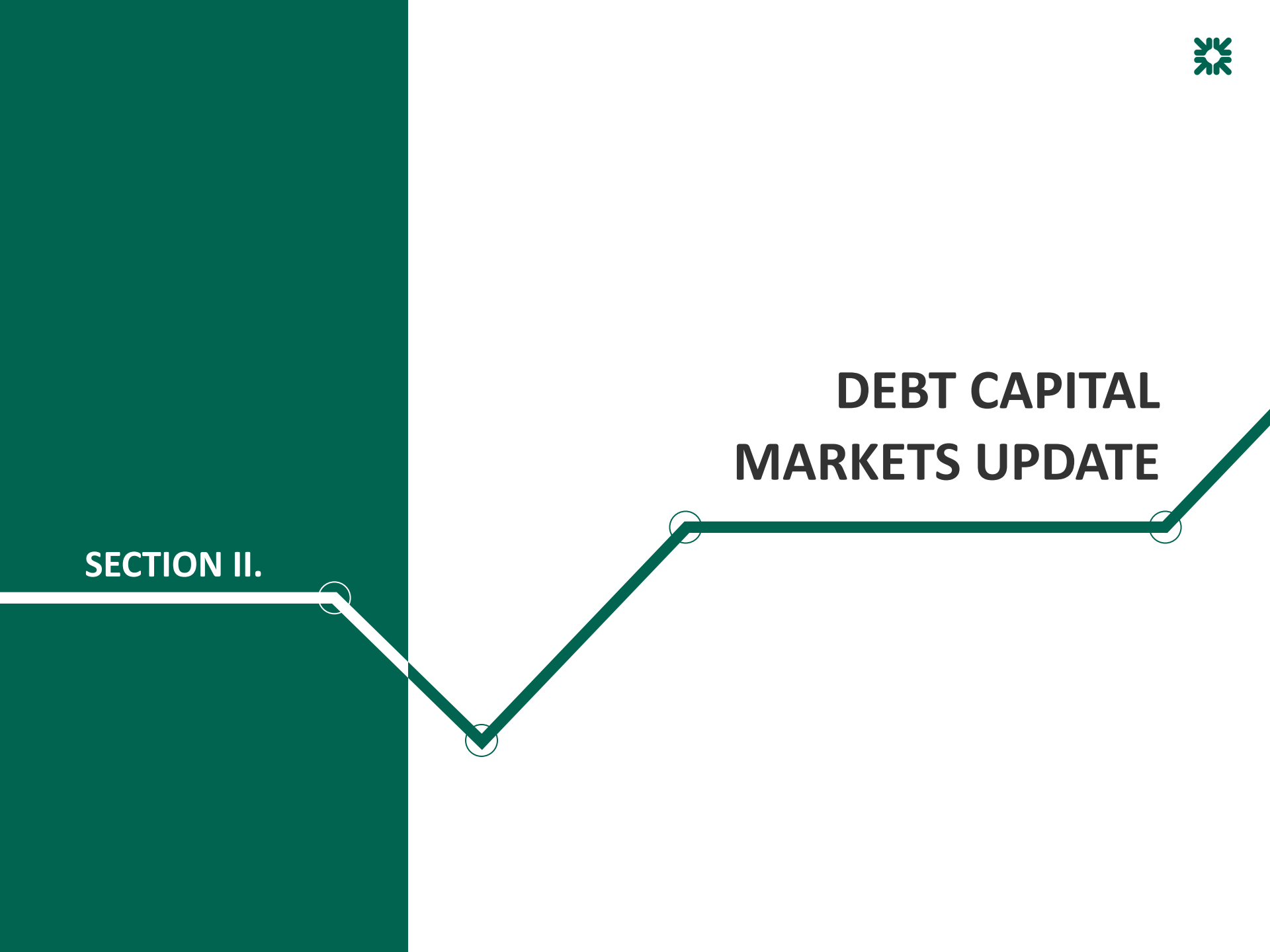
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SECTION II.

DEBT CAPITAL MARKETS UPDATE



2021 – A Banner Year Across the Debt Capital Markets



Pro Rata “Bank” Market

Shift in focus from significant amendment activity in 2020 to generate loan growth in 2021

Overall loan volume up nearly 60% compared to 2020, driven by strong M&A activity (M&A volume up 98% year over year) and high refinancing volume (up 219%)

Institutional Market

Record year driven by M&A financing and sponsor activity

\$615 billion in new loan volume set a new watermark, shattering the prior high of \$503 billion in 2017 due to record years in M&A and sponsor-related financings

High Yield Market

Another banner year with issuers proactively getting ahead of expected rate hikes

\$464 billion in 2021, breaking the prior year record (\$445 billion) for highest annual issuance in history, with a healthy mix of refinancing and M&A activity

The US Leveraged Finance Market had its busiest year ever, characterized by record-breaking volume in both the loan and bond markets with many factors playing into the unprecedented year

The Global Hunt for Yield Continued to Provide Strong Liquidity

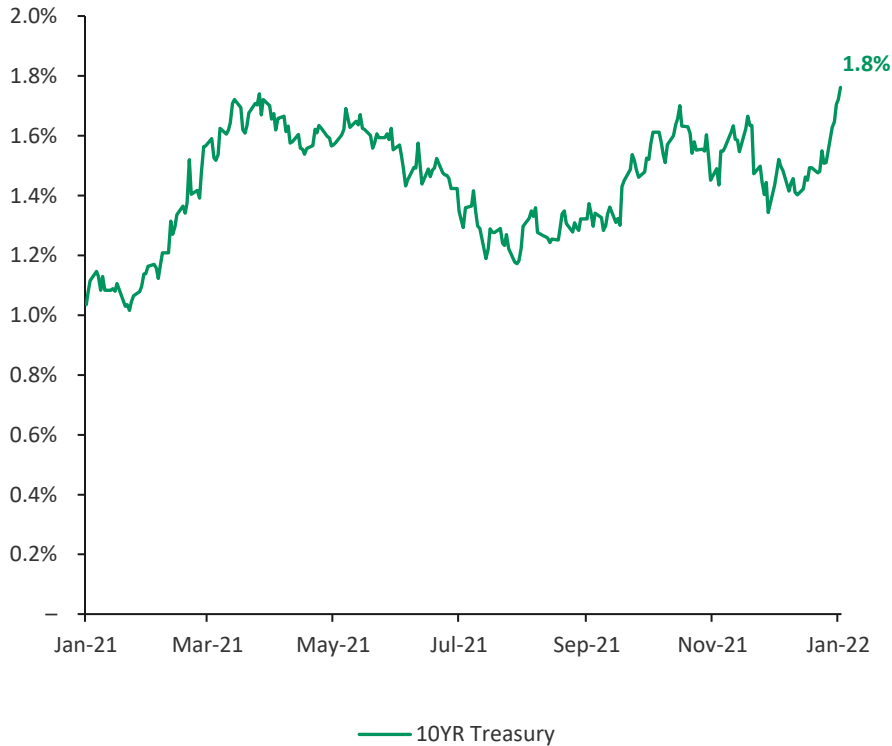


A confluence of factors continue to drive markets forward:

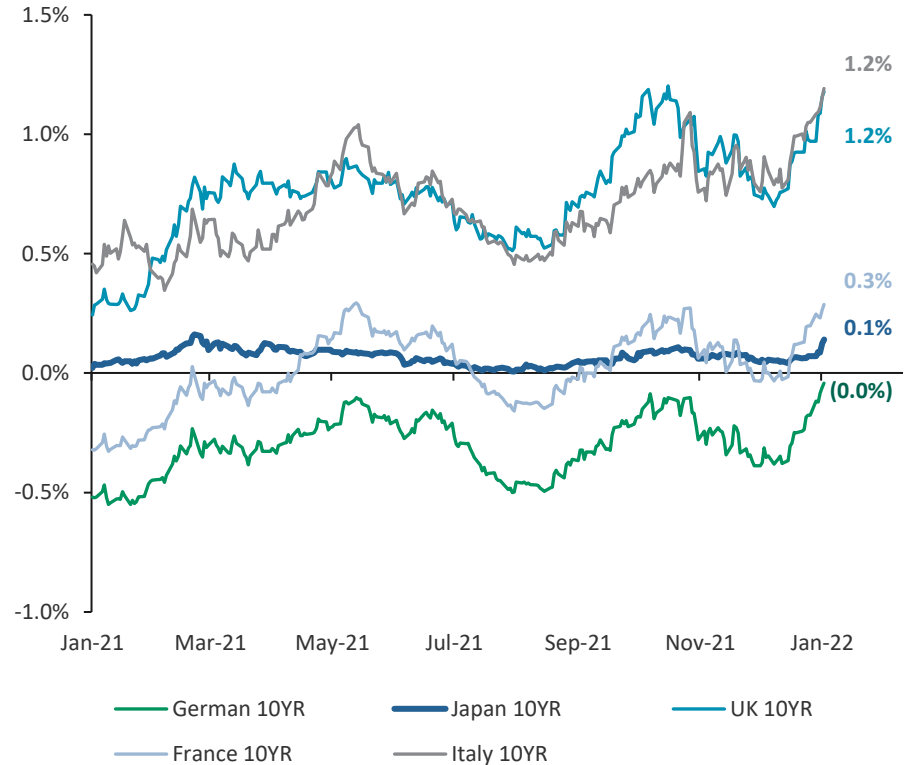
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Low-Rate Environment

10YR TREASURY YIELDS REMAINED RELATIVELY LOW AND...



... MORE ATTRACTIVE TO INVESTORS THAN OTHER BENCHMARKS

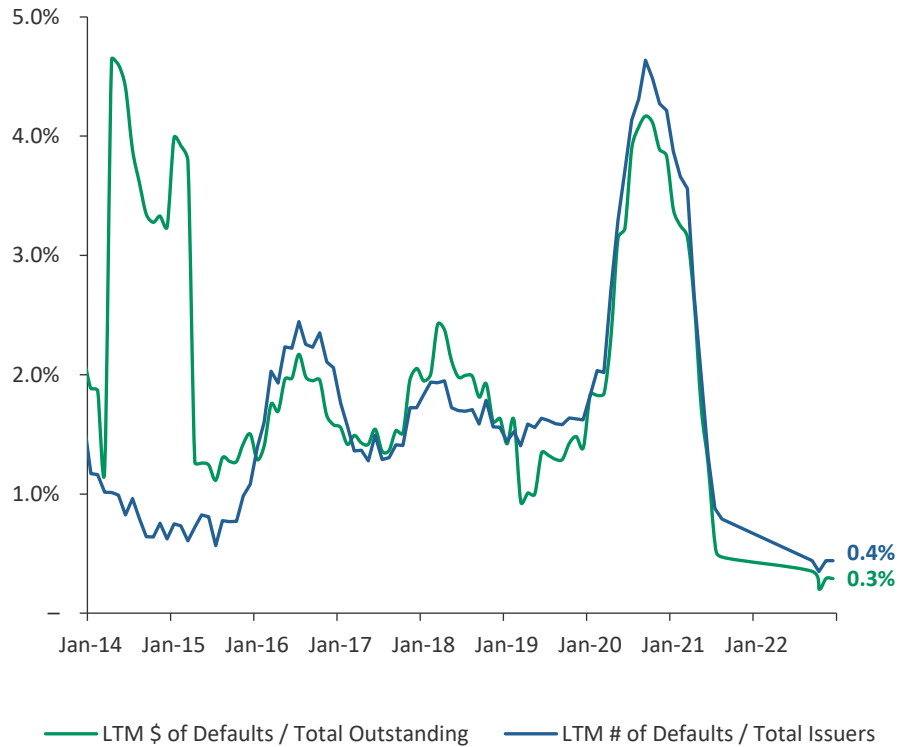


Companies Credit Profiles Have Recovered to Very Healthy Levels Post-Pandemic as Growth has Accelerated

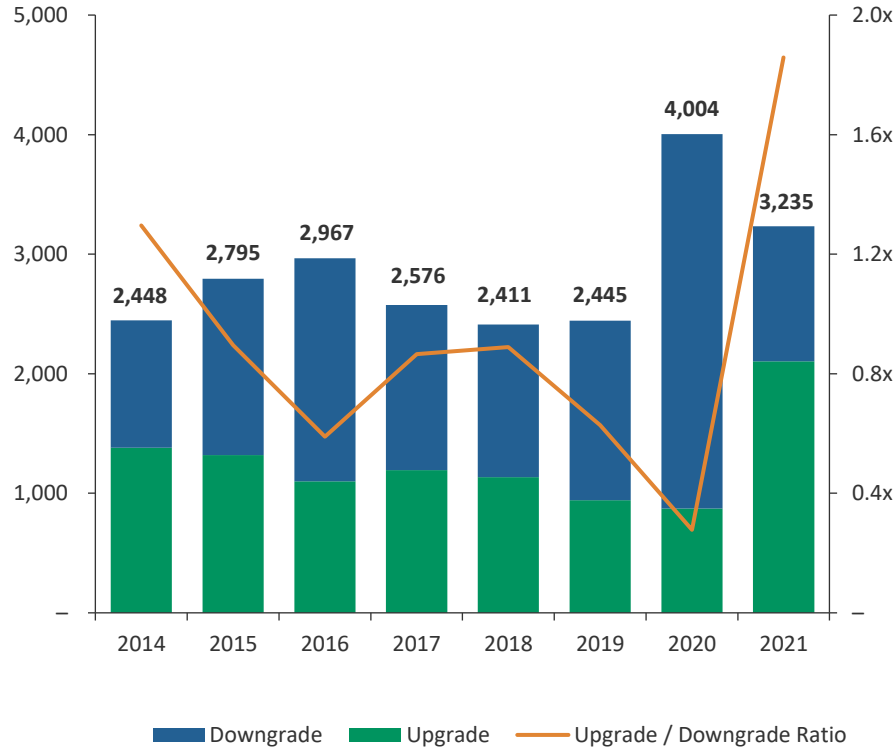


2 Debt Default Rates at Lowest Levels Since 2014

LOAN DEFAULT RATES RETURN TO HISTORIC LOWS...



... RESULTING IN A WAVE OF CREDIT UPGRADES IN 2021



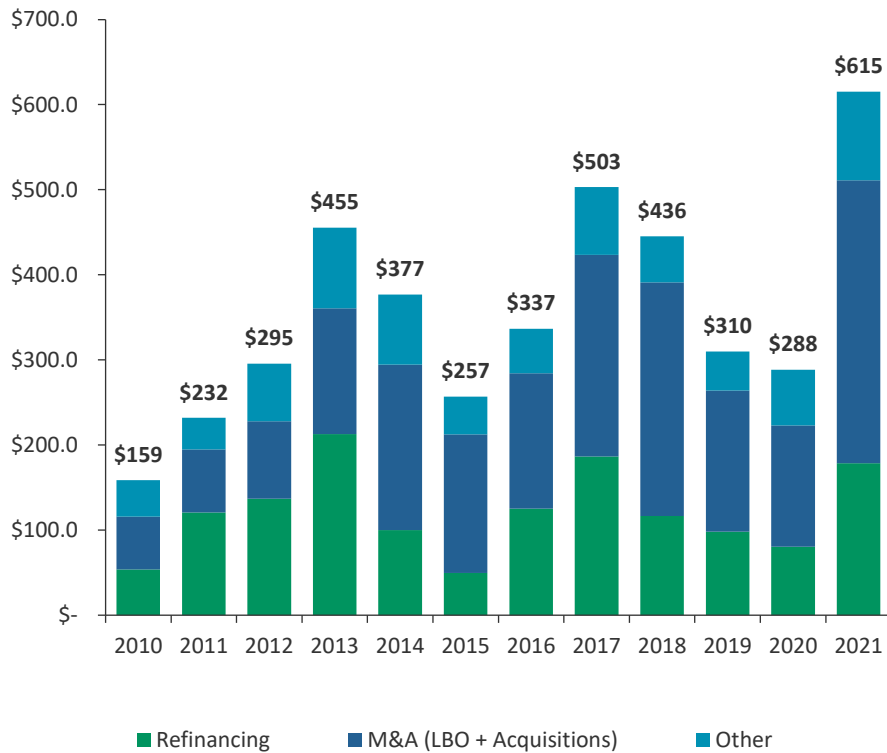
Sources: Citizens Capital Markets; LCD

New Money Trades Buoy New Issue Volume to All-Time Records

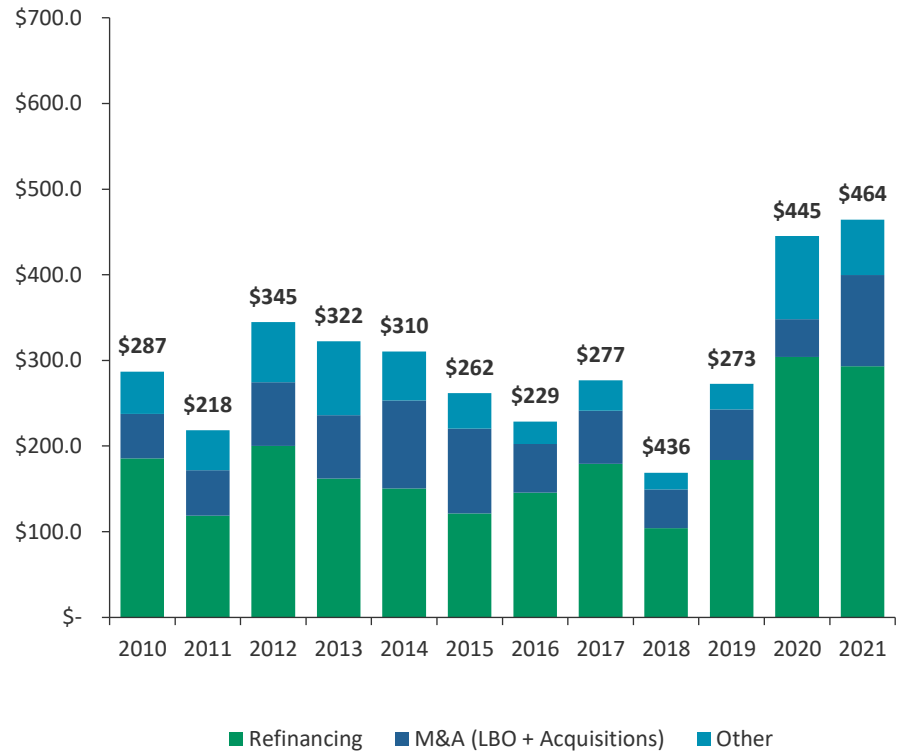


3 M&A Activity Fueled 2021 Loan Volume While HY Issuers Largely Opted to Refinance Existing Debt

INSTITUTIONAL LOAN VOLUME DOMINATED BY M&A...



... WITH HY ISSUERS CONTINUING TO LOCK-IN ATTRACTIVE RATES



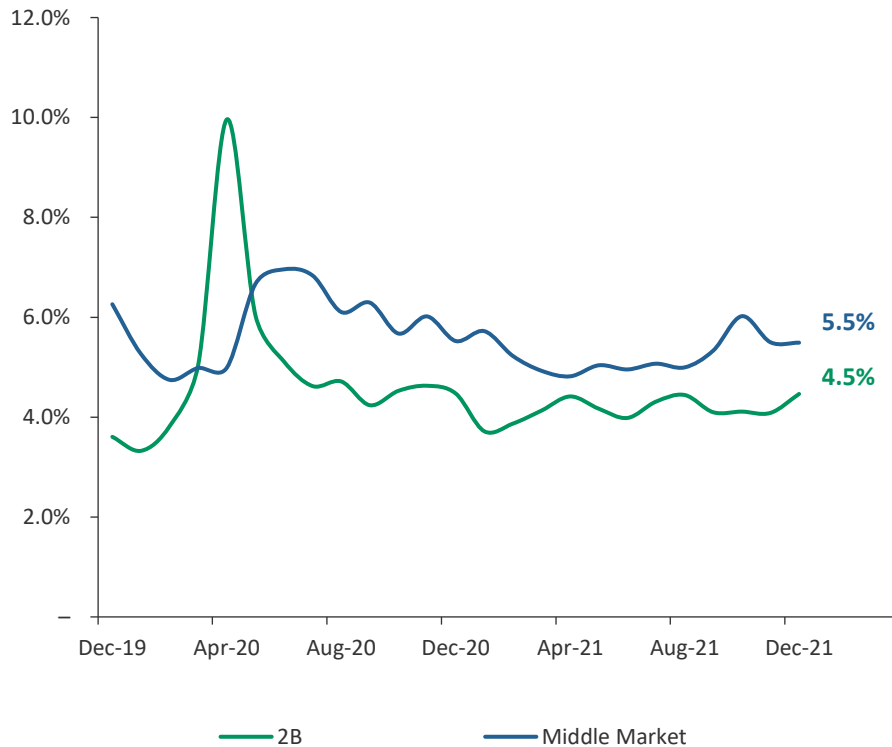
Sources: Citizens Capital Markets; LCD; LevFin Insights
 Note: \$ in billions

Interest Rates in Loans and Bonds Remain Attractive for Issuers, Borrowers, and Investors Alike

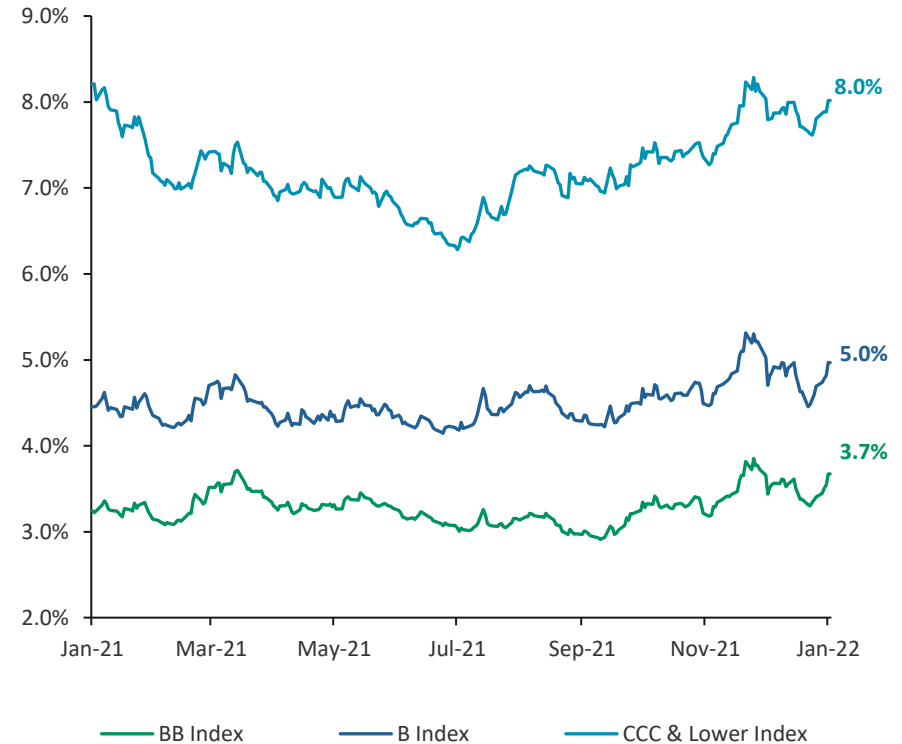


4 Today's Highly-Liquid Investor Base Looks to the US HY & Institutional Loan Markets to Generate Returns

ALL-IN-YIELDS FOR NEW LOANS HAVE SIMMERED SINCE 2020...



... WHILE THE BOND MARKET REMAINS RANGE BOUND



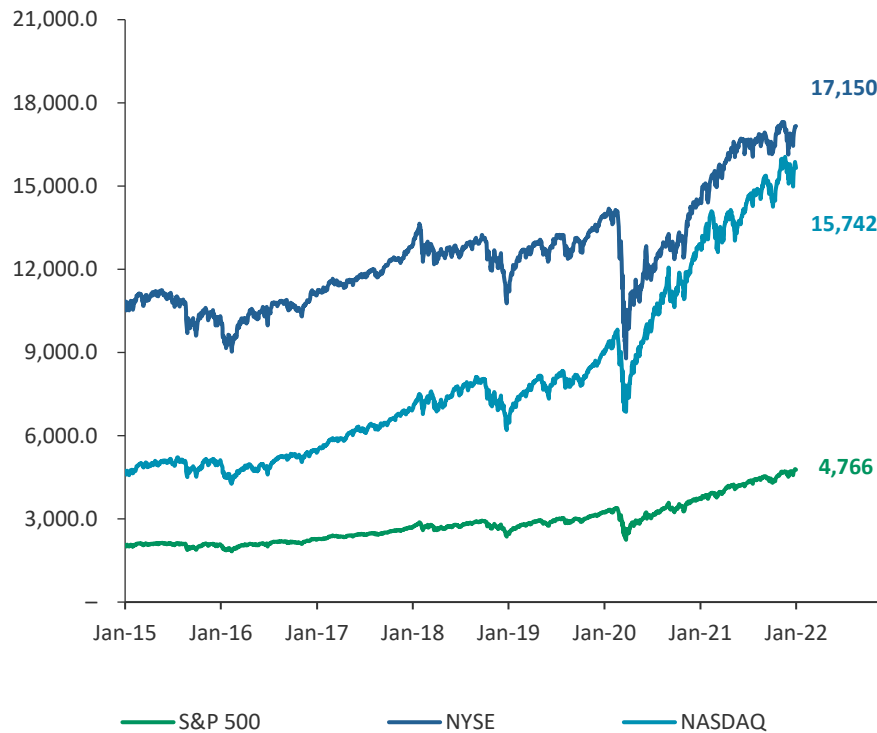
Equity Performance Continues to Trend Upward



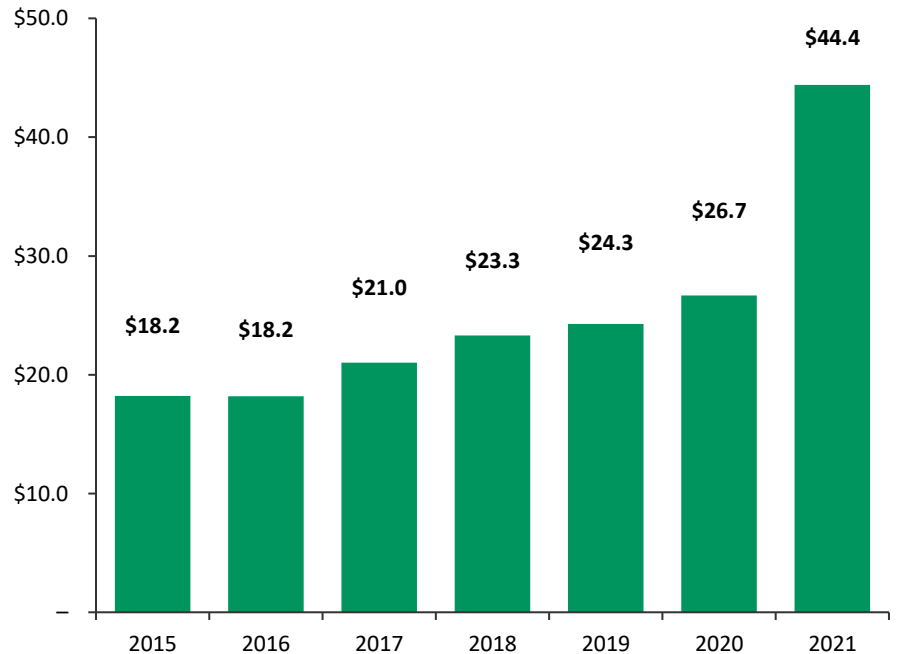
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Rising Equity Valuations

STRONG MOMENTUM ACROSS THE PRIMARY EQUITY INDICES...



... WITH THE MARKET CAPITALIZATION OF THE S&P SKYROCKETING



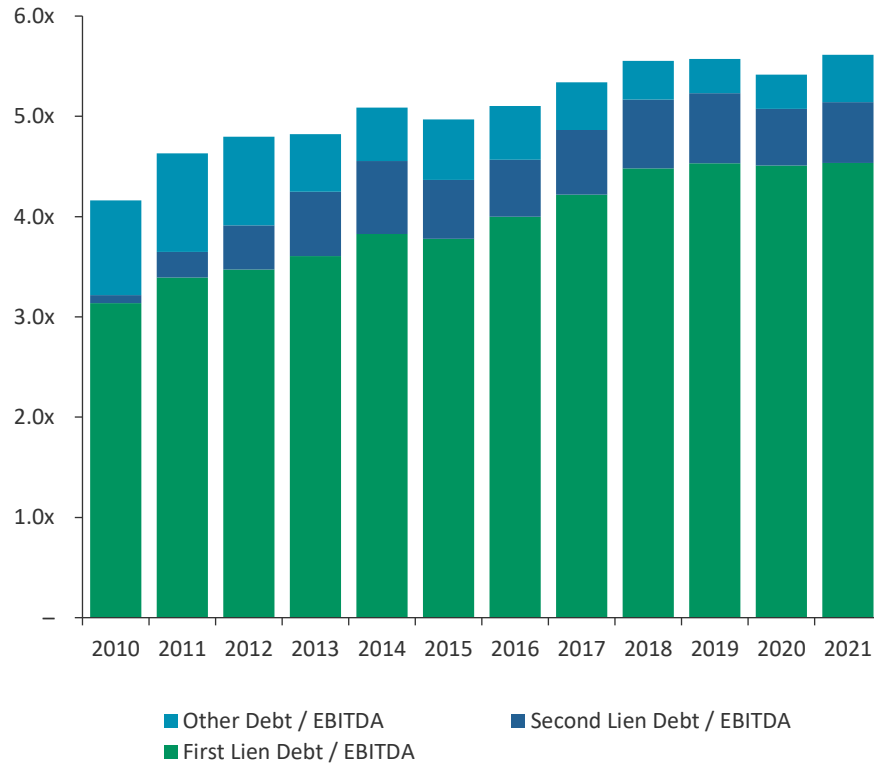
M&A Leverage Multiples Continue to Rise Amidst High Valuations



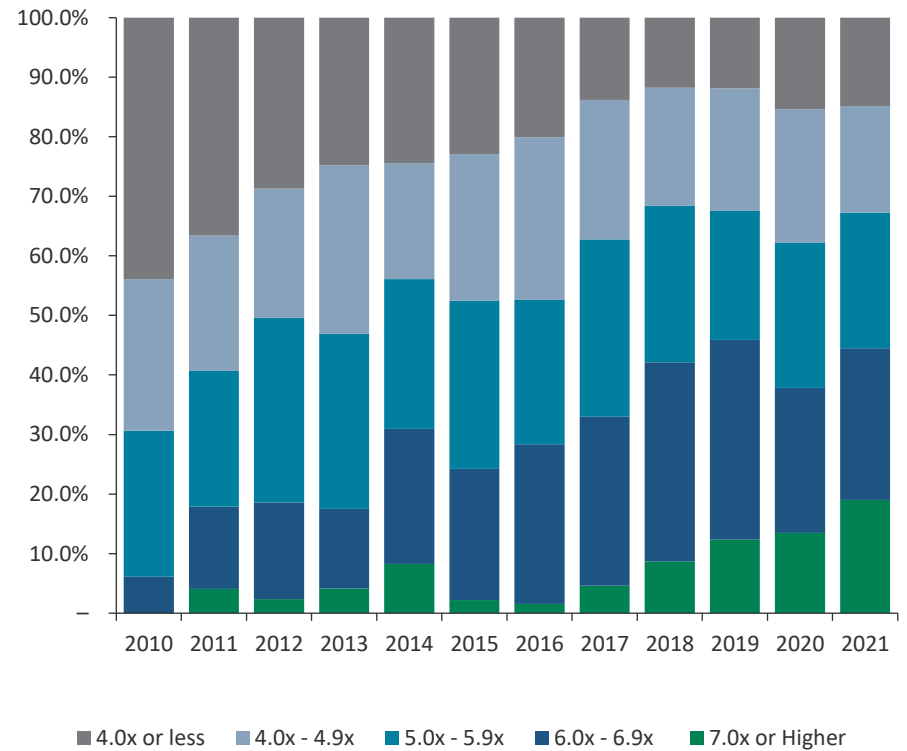
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Leverage Multiples Continue to Move Up

AVERAGE M&A LEVERAGE LEVELS CONTINUE TO INCREASE...



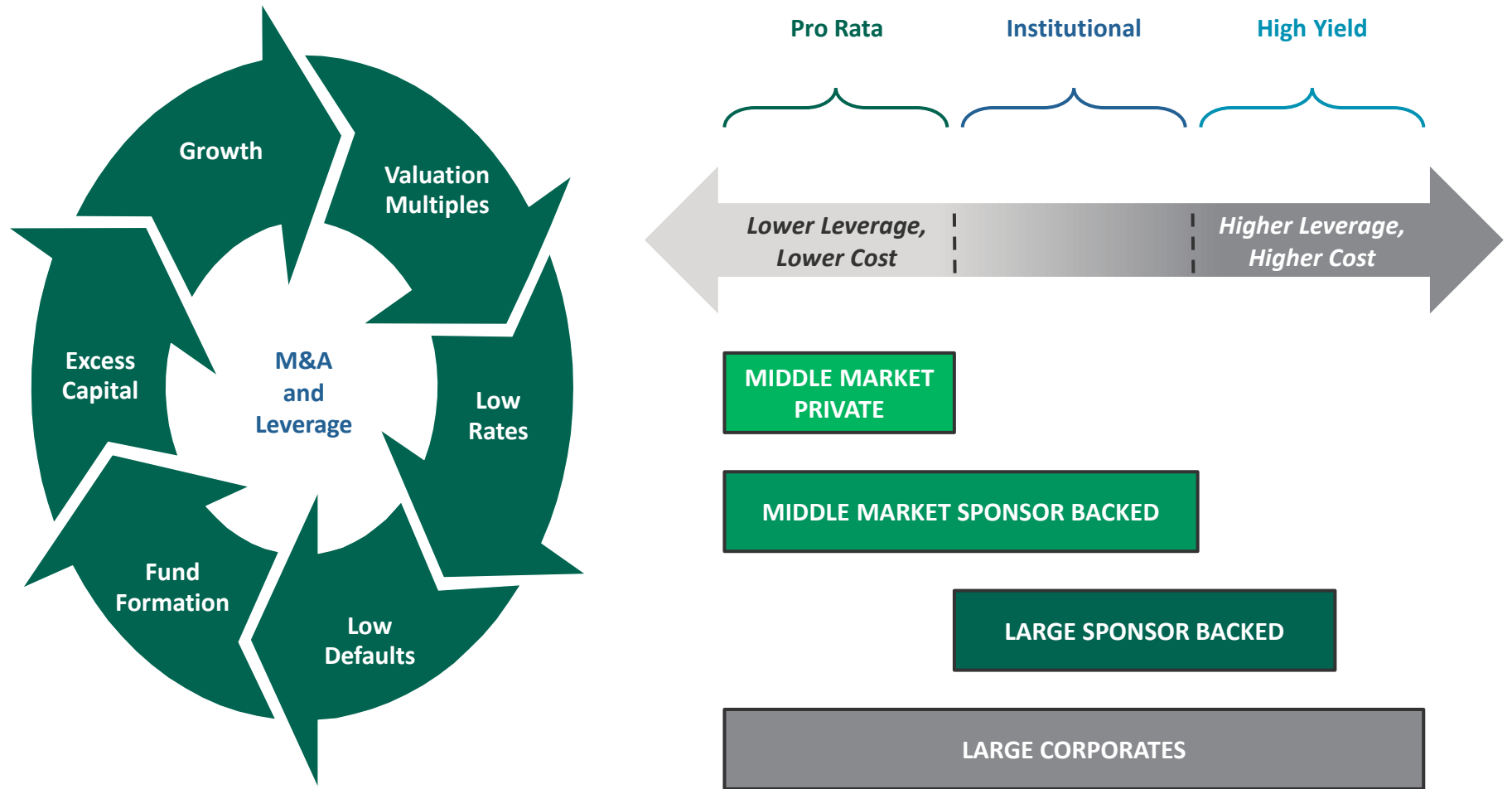
... WITH THE SHARE OF HIGHLY LEVERED FINANCINGS RISING



Key M&A and Leverage Drivers and Usual Financing Routes



M&A and Leverage Drivers **Usual Debt Financing Preferences**



Debt Market Expectations are Equally as Robust for 2022



Macro Factors to Watch

Micro Factors to Watch

Economics

*Hawkish Fed, Treasuries and Impact of a Rising Curve
Growth Concerns and Supply Chain Disruption
Effects of COVID-19 Variants*

Heightened Market Volatility

*Quickly Shifting Issuance Windows
Execution Favorability for Investors*

Government

*Biden Policy Agenda
Rising Geopolitical Tensions*

Primary and Secondary Market

*Spread Activity
Frontloaded 1H-22 Primary Issuance
Loan vs. Bond Relative Value Opportunities*

GOALS FOR BORROWERS AND ISSUERS IN THE COMING YEAR

- ✓ Push Button and Be Ready to Launch
 - Companies should be prepared to hit the right market windows
- ✓ Launch Coming Off a Good Earnings Print, Ideally in 1H-22
 - Expectations are primarily built off of a strong expected start to the year

- ✓ Make Hay While The Sun Shines
 - The current market backdrop and strong technicals will not last forever
- ✓ Be Opportunistic For The Long Term
 - Not all trades will be short-term NPV positive, but may be long-term winners

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