

SBIA Webinar

2020 Mezzanine Market Survey Results

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And
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SUMMARY OVERVIEW

- Objective: capture current mezzanine market conditions and key drivers of deal terms
- Solicited 175 mezzanine / SBA / BDC market participants
 - Pool static from 2019
 - Actual respondents reduced by COVID
- 42 total respondents verses 50 last year
 - Reduced response group – COVID
 - No “new” respondents that define themselves as mezzanine
 - Some data flaws because respondents did not answer all questions
- Results limited by survey methodology
- Some analyses limited by sample size

MEZZANINE INVESTMENT ENVIRONMENT

- Market took 6 - 9 months off but activity is improving
- Supply of equity capital remains consistently high and has greater urgency
- Equity overhang and increased deal scarcity driving another increase in purchase multiples for sponsors
- Non-bank lenders dominate cash flow leading market
- Mezzanine market competition is stable
 - Quality transactions with Sponsors continue to experience competition
 - Spreads increased with slightly reduced pricing and lower interest rates
 - Distinctions based on credit quality of target company
 - Risk-adjusted pricing remained consistent as IRRs were stable
 - Leverage levels for sponsor deals were also consistent, or slightly down
 - Bifurcation of pricing/flexibility of approach keeps traditional players in business

RECENT TRANSACTION TIMING

Months Since Last Exit	2018	%	2019	%	2020	%
< 2 mos	18	40.0%	19	41.3%	10	23.8%
2 mos - 4 mos	16	35.6%	14	30.4%	11	26.2%
4 mos - 6 mos	6	13.3%	6	13.0%	3	7.1%
6 mos - 8 mos	2	4.4%	0	0.0%	5	11.9%
8 mos - 10 mos	2	4.4%	2	4.3%	9	21.4%
10 mos - 12 mos	1	2.2%	2	4.3%	2	4.8%
> 12 mos	0	0.0%	3	6.5%	2	4.8%
Total	45	100.0%	46	100.0%	42	100.0%

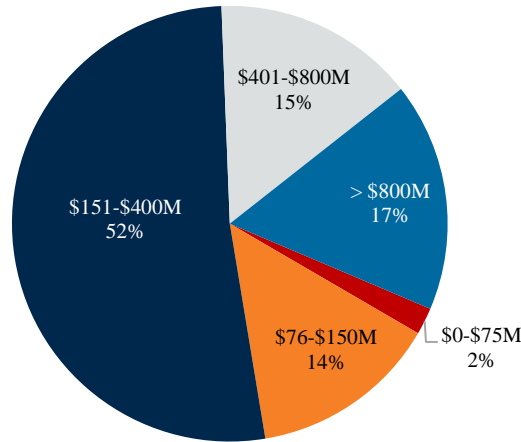
Average Months	3.2	4.5	6.1
Median Months	2.0	2.5	4.5

Months Since Last Platform Investment	2018	%	2019	%	2020	%
< 2 mos	20	44.4%	30	61.2%	17	41.5%
2 mos - 4 mos	18	40.0%	15	30.6%	9	22.0%
4 mos - 6 mos	6	13.3%	1	2.0%	6	14.6%
6 mos - 8 mos	0	0.0%	1	2.0%	0	0.0%
8 mos - 10 mos	0	0.0%	1	2.0%	5	12.2%
10 mos - 12 mos	1	2.2%	0	0.0%	3	7.3%
> 12 mos	0	0.0%	1	2.0%	1	2.4%
Total	45	100.0%	49	100.0%	41	100.0%

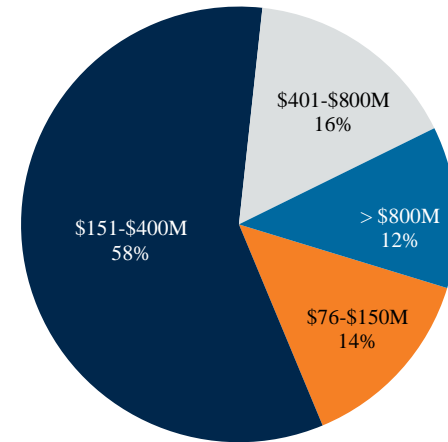
Average Months	2.6	2.1	4.1
Median Months	2.0	1.0	2.0

SURVEY RESPONDENTS

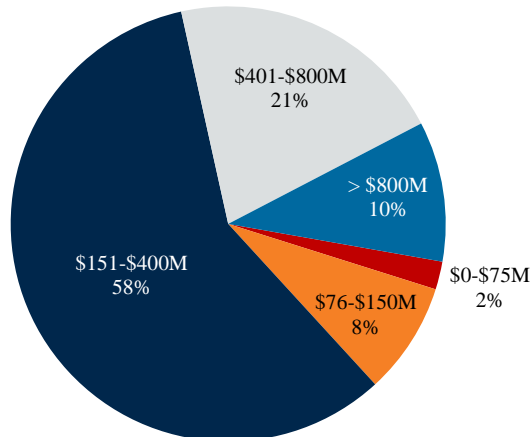
2017 Current Fund Size



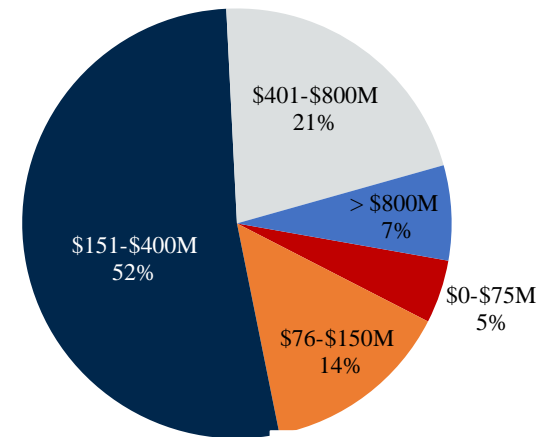
2018 Current Fund Size



2019 Current Fund Size

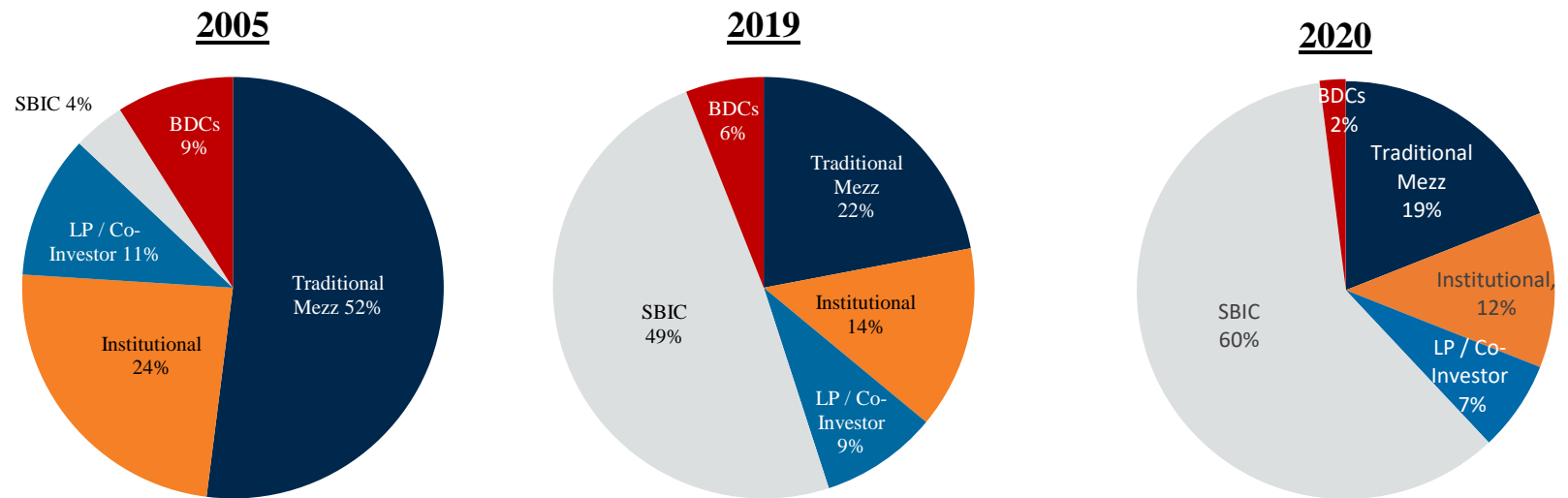


2020 Current Fund Size



Note: 2017 represents \$43.6 billion in total mezzanine funds under management. Average current fund size: \$502.0 million. Median current fund size: \$275.5 million.
 Note: 2018 represents \$33.2 billion in total mezzanine funds under management. Average current fund size: \$391.9 million. Median current fund size: \$275.0 million.
 Note: 2019 represents \$33.8 billion in total mezzanine funds under management. Average current fund size: \$405.5 million. Median current fund size: \$300.0 million
 Note: 2020 represents \$23.9 billion in total mezzanine funds under management.. Average current fund size:\$385.1 million. Median current fund size: \$296.6 million

RESPONDENTS: CHANGING MIX



Note: Institutional includes all respondents that derive over 50% of capital from parent company.

DATA COLLECTED

Mezzanine Firm Information

- Dedicated mezzanine fund?
- Size of most recent find
- Capital under management
- Recent EBITDA exit multiple
- Type of exit

Market Trends Comparison

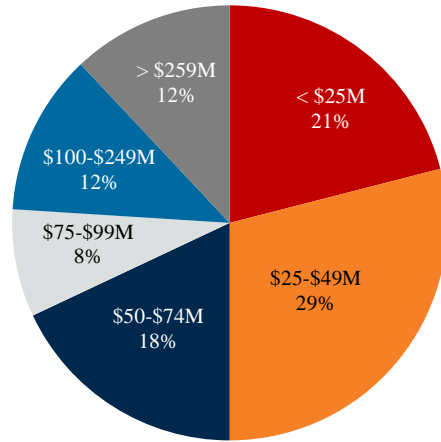
- Competition comparison
- Target returns
- Target coupon
- Leverage levels
- Volume of deal flow
- Months since last exit

Recent Transaction Information

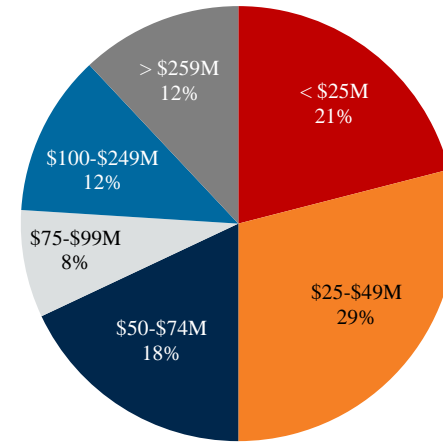
- Months since last platform investment
- Company revenues
- Form of investment
- Industry segment
- Use of proceeds
- Mezzanine amount
- Aggregate transaction value
- Total leverage multiple
- Total investment multiple
- Coupon (current and PIK)
- Fee / Warrant
- Years to maturity
- Target Returns

THE COMPANIES

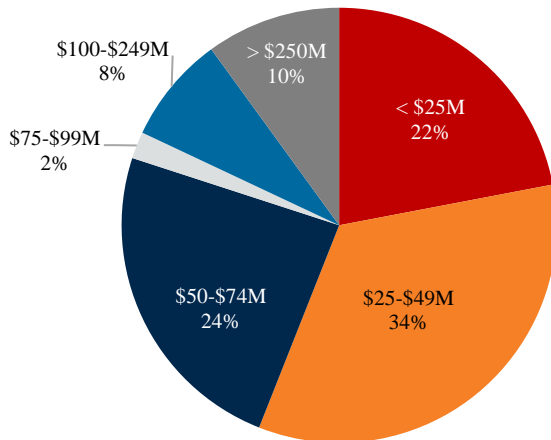
2017 Company Revenues



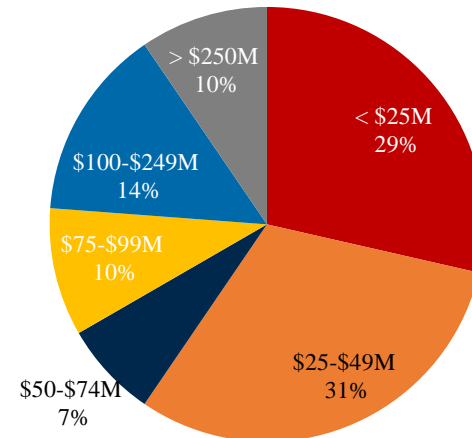
2018 Company Revenues



2019 Company Revenues



2020 Company Revenues



Note: 2017 average revenue: \$108.5 million. Median revenue: \$50.0 million.

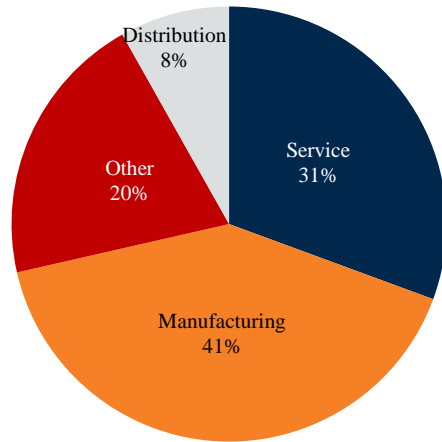
Note: 2018 average revenue: \$93.2 million. Median revenue: \$35.0 million.

Note: 2019 average revenue: \$94.4 million. Median revenue: \$43.0 million.

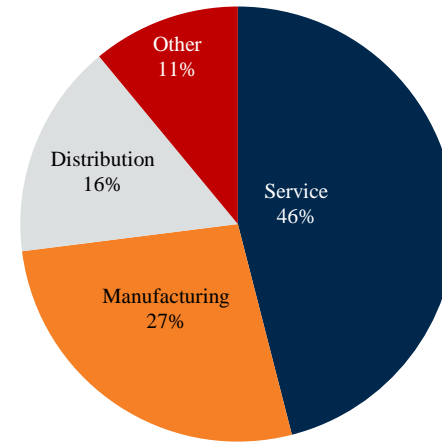
Note: 2020 average revenue: \$81.9 million. Median revenue: \$36.6 million.

THE COMPANIES (*CONTINUED*)

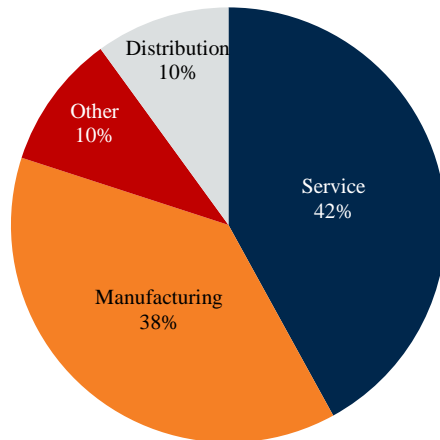
2017 Industry



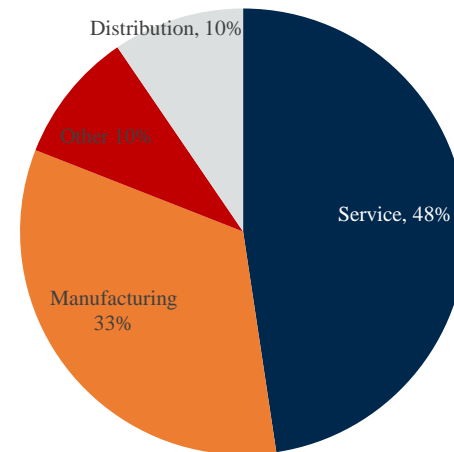
2018 Industry



2019 Industry

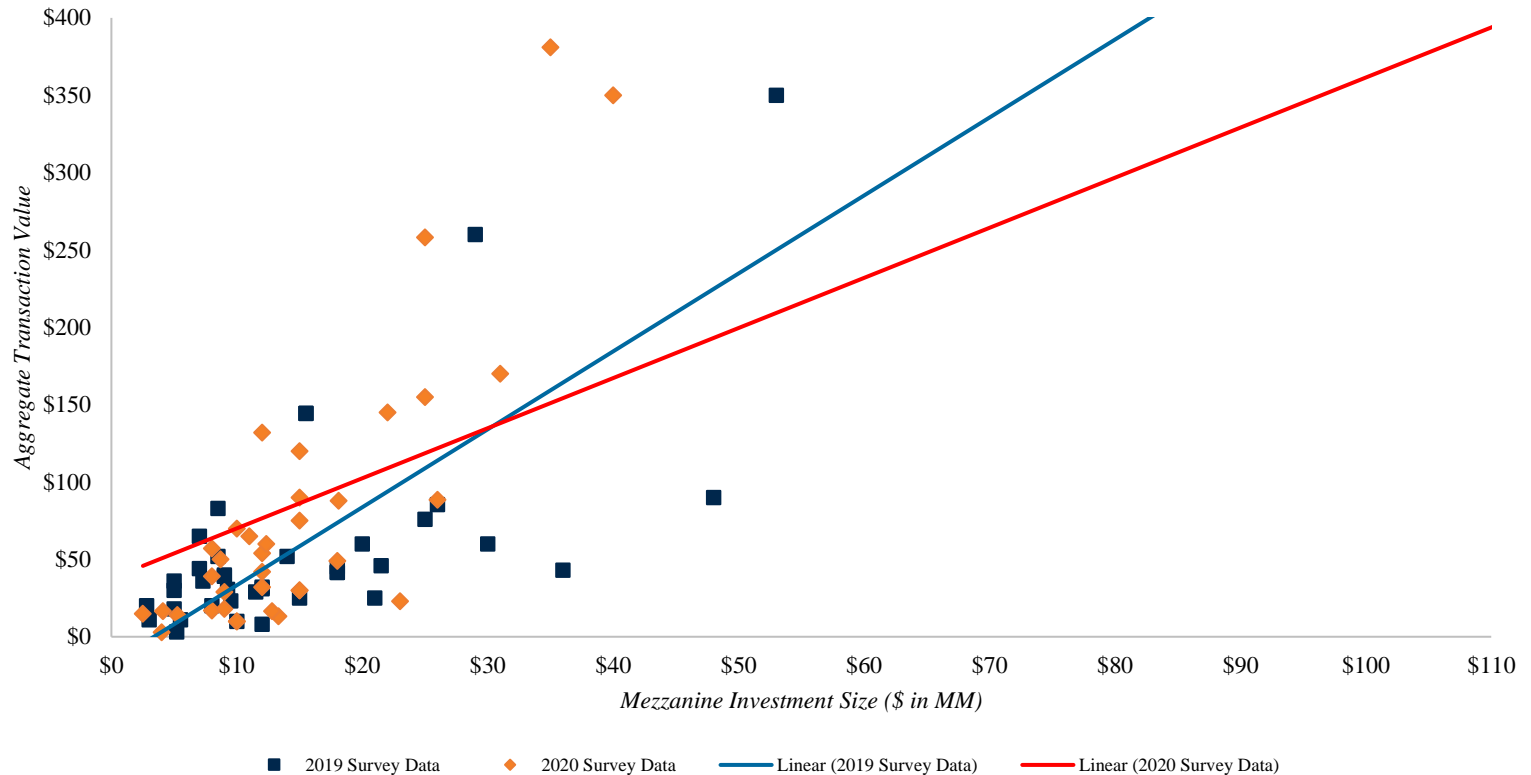


2020 Industry



THE COMPANIES (CONTINUED)

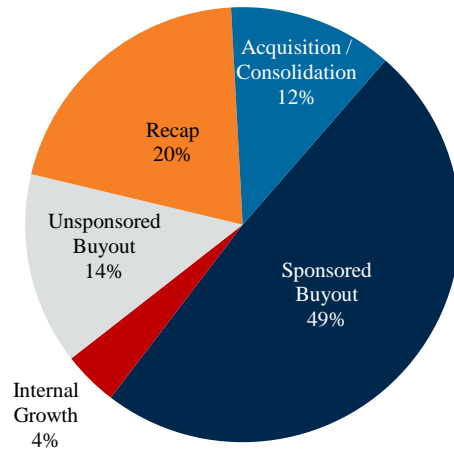
Transaction Value and Mezzanine Investment Size Comparison



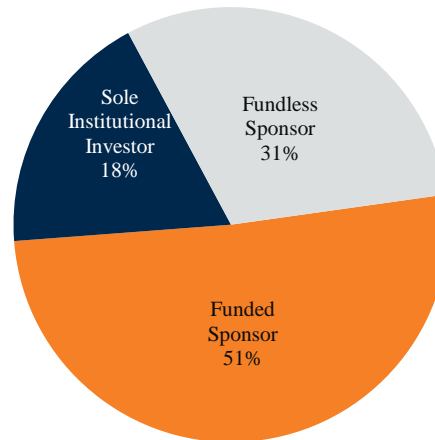
MEZZANINE PARTICIPATION

2019

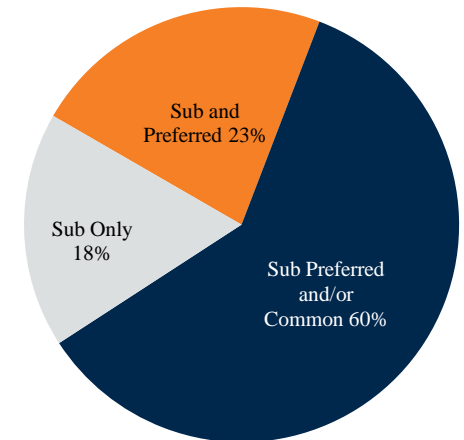
Use of Proceeds



Mezzanine Role

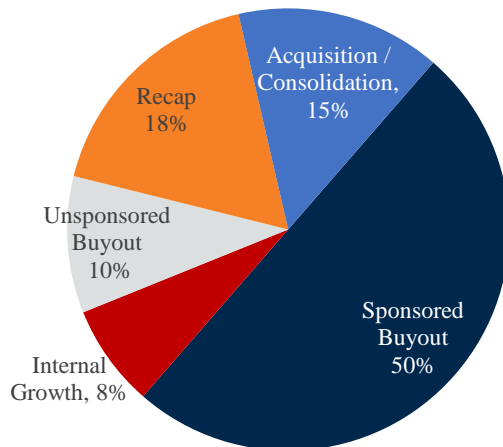


Form of Investment

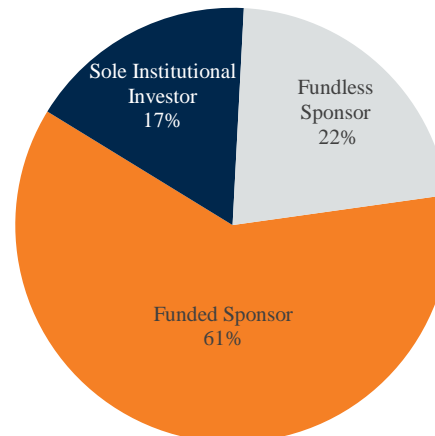


2020

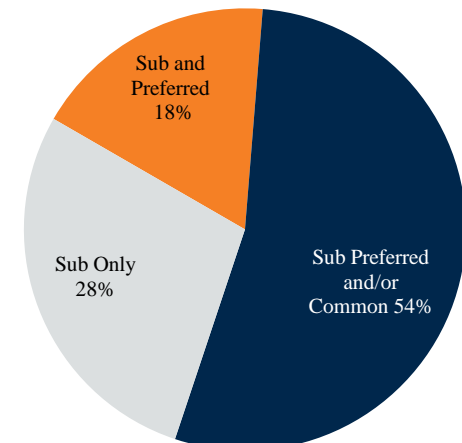
Use of Proceeds



Mezzanine Role



Form of Investment



COUPON & PIK

Number of Transactions						
Current Rate	2018	%	2019	%	2020	%
< 11.0%	16	36.4%	17	34.7%	14	33.3%
11.0% - 11.9%	12	27.3%	11	22.4%	10	23.8%
12.0% - 12.9%	15	34.1%	14	28.6%	15	35.7%
13.0% - 13.9%	1	2.3%	7	14.3%	2	4.8%
14.0% - 14.9%	0	0.0%	0	0.0%	1	2.4%
> 15.0%	0	0.0%	0	0.0%	0	0.0%
Total	44	100.0%	49	100.0%	42	100.0%

Average Coupon	10.7%	11.2%	11.2%
Median Coupon	11.0%	11.0%	11.3%

Average PIK	1.7%	1.2%	1.6%
Median PIK	1.5%	1.0%	1.0%

Average Total	12.4%	12.4%	12.9%
Median Total	12.5%	12.0%	12.3%

FEE

Number of Transactions

Fee	2018	%	2019	%	2020	%
None	4	8.7%	3	6.0%	1	2.4%
< 1.00%	0	0.0%	0	0.0%	0	0.0%
1.00% to 1.25%	2	4.3%	2	4.0%	2	4.8%
1.26% to 1.50%	3	6.5%	2	4.0%	2	4.8%
1.51% to 2.00%	32	69.6%	38	76.0%	34	81.0%
2.01% to 2.25%	0	0.0%	0	0.0%	1	2.4%
2.26% to 2.50%	2	4.3%	2	4.0%	2	4.8%
> 2.50%	3	6.5%	3	6.0%	0	0.0%
Total	46	100.0%	50	100.0%	42	100.0%

Average Fee	1.9%	2.0%	1.9%
Median Fee	2.0%	2.0%	2.0%

MATURITY

Number of Transactions

Maturity	2018	%	2019	%	2020	%
< 2 Years	0	0.0%	0	0.0%	0	0.0%
3 Years	0	0.0%	1	2.0%	1	2.4%
4 Years	1	2.2%	2	4.1%	0	0.0%
5 Years	27	60.0%	22	44.9%	25	59.5%
6 Years	8	17.8%	15	30.6%	10	23.8%
7 Years	8	17.8%	8	16.3%	4	9.5%
8 Years	1	2.2%	1	2.0%	2	4.8%
9 Years	0	0.0%	0	0.0%	0	0.0%
> 10 Years	0	0.0%	0	0.0%	0	0.0%
Total	45	100.0%	49	100.0%	42	100.0%

Average Maturity	5.6	5.7	5.6
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LEVERAGE

	Number of Transactions								
	2018	%	Cum. %	2019	%	Cum. %	2020	%	Cum. %
Total Leverage Multiple									
< 3.0x	5	11.1%	11.1%	10	21.3%	21.3%	5	12.2%	12.2%
3.00x - 3.49x	8	17.8%	28.9%	5	10.6%	31.9%	9	22.0%	34.1%
3.50x - 3.99x	12	26.7%	55.6%	5	10.6%	42.6%	3	7.3%	41.5%
4.00x - 4.49x	8	17.8%	73.3%	8	17.0%	59.6%	8	19.5%	61.0%
4.50x - 4.99x	3	6.7%	80.0%	7	14.9%	74.5%	4	9.8%	70.7%
5.00x - 5.50x	5	11.1%	91.1%	8	17.0%	91.5%	7	17.1%	87.8%
> 5.50x	4	8.9%	100.0%	4	8.5%	100.0%	5	12.2%	100.0%
Total	45	100.0%	100.0%	47	100.0%	100.0%	41	100.0%	100.0%
Average Leverage Multiple	4.0x			4.0x			4.1x		
Median Leverage Multiple	3.8x			4.0x			4.1x		
Sponsored Deals - Average Leverage Multiple	4.1x			4.3x			4.2x		
Sponsored Deals - Median Leverage Multiple	3.8x			4.5x			4.1x		
Non-Sponsored Deals - Average Leverage Multiple	4.0x			4.0x			4.1x		
Non-Sponsored Deals - Median Leverage Multiple	3.8x			3.8x			4.1x		

Note: Deals closed within the last 5 months had an average leverage multiple of 4.1x

Note: Deals closed prior to the last 5 months had an average leverage multiple of 4.4x

EQUITY OWNERSHIP

Equity Ownership	Number of Transactions					
	2018	%	2019	%	2020	%
None	10	32.3%	6	14.3%	8	22.9%
<1.00%	0	0.0%	0	0.0%	2	5.7%
1.0% - 1.9%	2	6.5%	2	4.8%	1	2.9%
2.0% - 3.9%	4	12.9%	9	21.4%	3	8.6%
4.0% - 5.9%	1	3.2%	3	7.1%	3	8.6%
6.0% - 7.9%	0	0.0%	1	2.4%	3	8.6%
8.0% - 10%	2	6.5%	2	4.8%	3	8.6%
> 10%	12	38.7%	19	45.2%	12	34.3%
Total	31	100.0%	42	100.0%	35	100.0%

Average Equity Ownership ⁽¹⁾	11.6%	14.6%	11.2%
Median Equity Ownership ⁽¹⁾	3.0%	9.0%	4.9%

Average Equity Ownership ^{(1) (2)}	17.2%	17.0%	15.7%
Median Equity Ownership ^{(1) (2)}	13.8%	11.6%	9.0%

% of Deals with Warrants	9.1%	28.0%	19.0%
% of Deals with Equity Buy-In	58.3%	85.0%	66.7%
% of Deals with Warrants and/or Equity Buy-In	71.7%	91.1%	73.8%

(1) Excludes transactions with no response.

(2) Excludes all transactions with no equity ownership.

IRR

Target IRR	Number of Transactions					
	2018	%	2019	%	2020	%
< 16.0%	25	56.8%	22	45.8%	21	53.8%
16.0% - 16.9%	2	4.5%	7	14.6%	5	12.8%
17.0% - 17.9%	4	9.1%	4	8.3%	2	5.1%
18.0% - 18.9%	7	15.9%	3	6.3%	4	10.3%
19.0% - 19.9%	1	2.3%	2	4.2%	1	2.6%
< 20.0% (Sub-Total)	39	88.6%	38	79.2%	33	84.6%
20.0% - 21.9%	4	9.1%	7	14.6%	3	7.7%
22.0% - 22.9%	0	0.0%	0	0.0%	3	7.7%
23.0% - 25.0%	1	2.3%	3	6.3%	0	0.0%
> 25.0%	0	0.0%	0	0.0%	0	0.0%
Total	44	100.0%	48	100.0%	39	100.0%

Average IRR	15.4%	16.6%	15.9%
Median IRR	15.0%	16.0%	15.0%

5 - Year Treasury	2.8%	1.6%	0.4%
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Average Spread	12.6%	15.0%	15.6%
Median Spread	12.2%	14.4%	14.6%

IRR PART II

Target IRR	Number of Transactions					
	2018	%	2019	%	2020	%
< 13.0%	12	27.3%	5	10.4%	5	12.8%
13.0% - 14.9%	9	20.5%	10	20.8%	11	28.2%
15.0% - 16.9%	6	13.6%	14	29.2%	10	25.6%
17.0% - 18.9%	11	25.0%	7	14.6%	6	15.4%
19.0% - 20.0%	4	9.1%	5	10.4%	2	5.1%
≤ 20.0% (Sub-Total)	42	95.5%	41	85.4%	34	87.2%
> 20.0%	2	4.5%	7	14.6%	5	12.8%
Total	44	100.0%	48	100.0%	39	100.0%

Average IRR	15.4%	16.6%	15.9%
Median IRR	15.0%	16.0%	15.0%

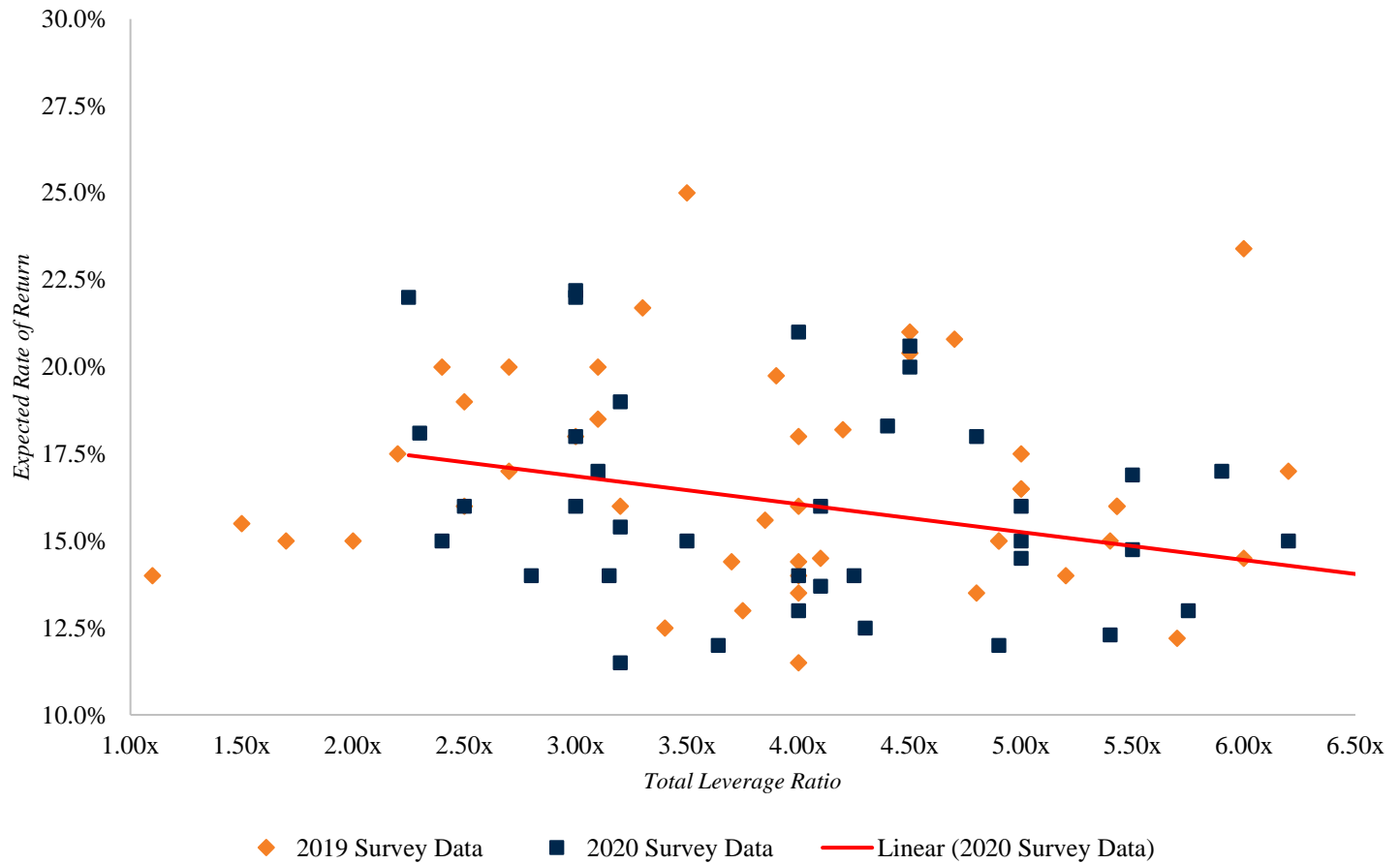
5 - Year Treasury	2.8%	1.6%	0.4%
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Average Spread	12.6%	15.0%	15.6%
Median Spread	12.2%	14.4%	14.6%

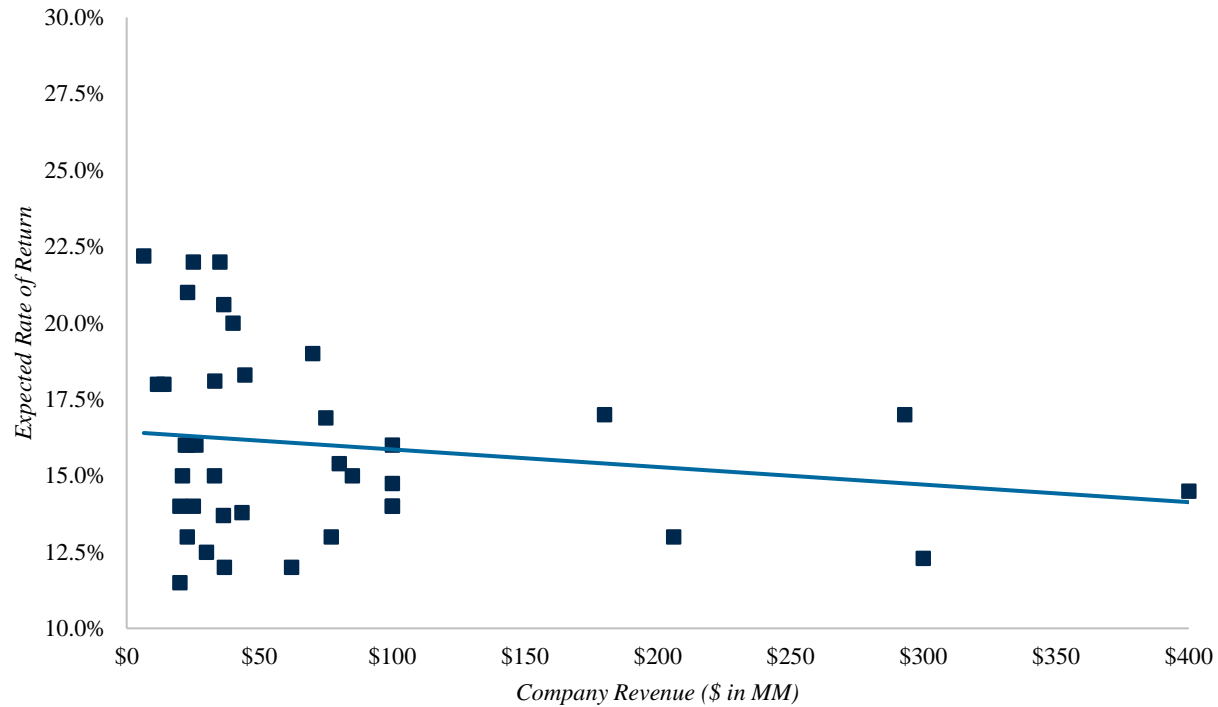
SUMMARY OF KEY PRICING TERMS

Terms	2018	2019	2020
Average Coupon	10.7%	11.2%	11.2%
Median Coupon	11.0%	11.0%	11.3%
Average PIK	1.7%	1.2%	1.6%
Median PIK	1.5%	1.0%	1.0%
Average Fee	1.9%	2.0%	1.9%
Median Fee	2.0%	2.0%	2.0%
Average Equity Ownership	11.6%	14.6%	11.2%
Median Equity Ownership	3.0%	9.0%	4.9%
% of Deals with Warrants	9.1%	28.0%	19.0%
% of Deals with Warrants and/or Equity Buy-In	71.7%	91.1%	73.8%
Average Target IRR	15.4%	16.6%	15.9%
Median Target IRR	15.0%	16.0%	15.0%

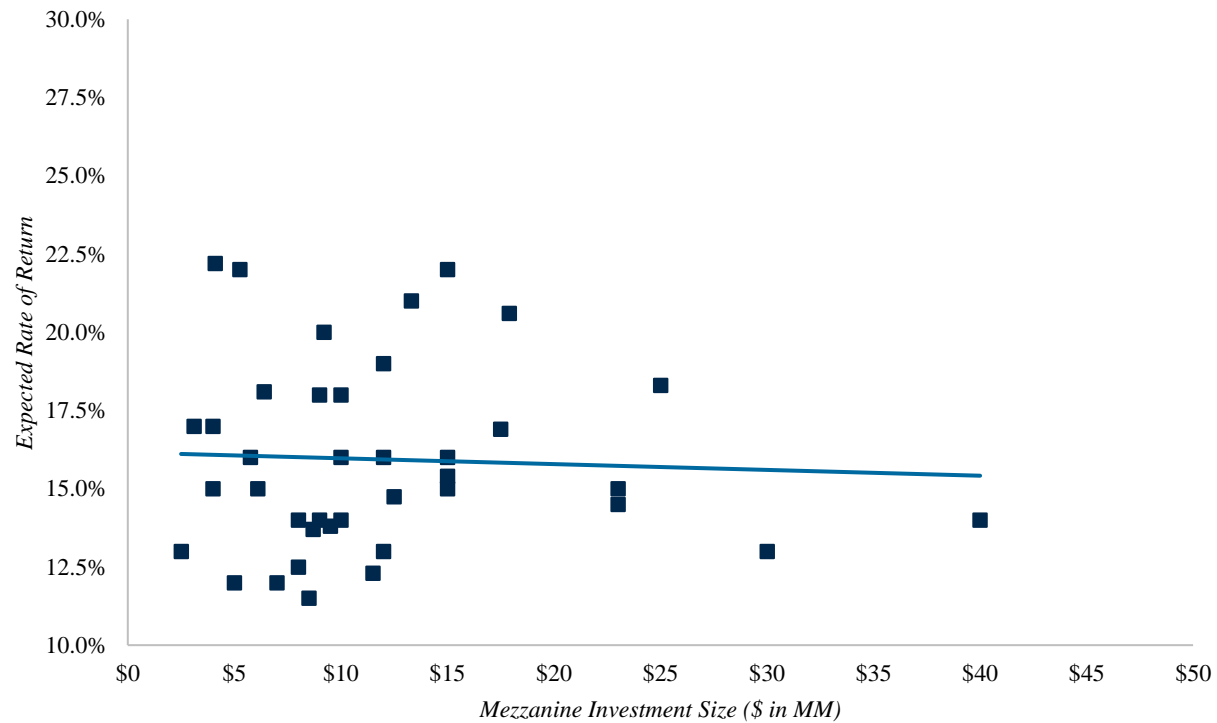
IRR BY TOTAL LEVERAGE



IRR BY COMPANY REVENUE



IRR BY MEZZANINE INVESTMENT SIZE



IRR BY INVESTMENT SIZE

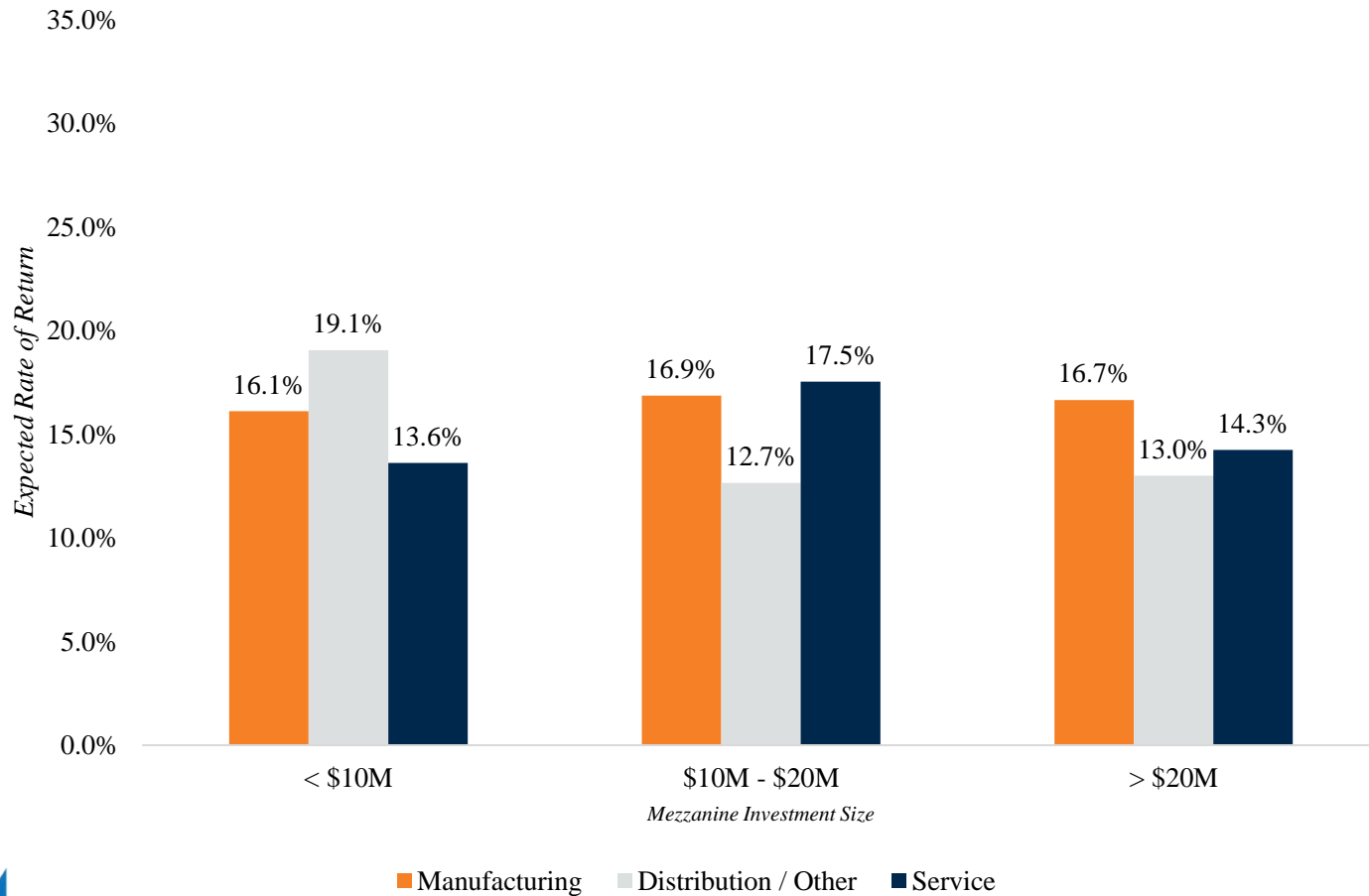
2019 IRR Summary

Investment Size	Number	Current Coupon	PIK	Fee	% With Equity⁽¹⁾	Average Equity⁽¹⁾	Years to Maturity	Expected IRR
< \$5.0 million	6	11.4%	0.4%	1.6%	100%	25.0%	5.8	19.6%
\$5.0 - \$9.9 million	22	11.4%	1.2%	2.0%	95%	15.5%	5.4	16.0%
\$10.0 - \$20.0 million	11	10.4%	1.5%	2.0%	55%	9.8%	5.5	16.0%
> \$20.0 million	10	11.4%	1.2%	2.2%	70%	12.9%	6.5	16.9%

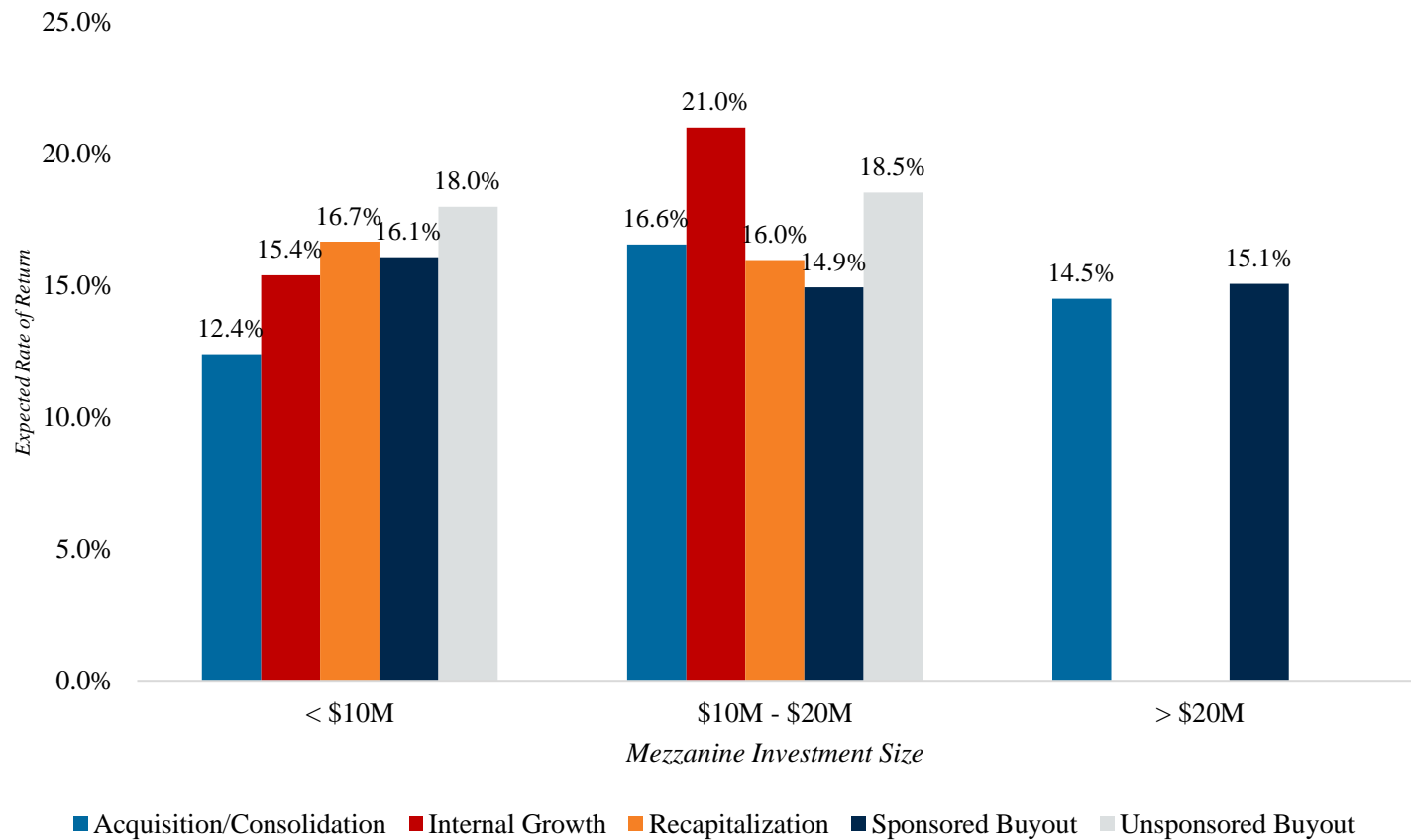
2020 IRR Summary

Investment Size	Number	Current Coupon	PIK	Fee	% With Equity⁽¹⁾	Average Equity⁽¹⁾	Years to Maturity	Expected IRR
< \$5.0 million	6	11.5%	1.2%	2.0%	100%	10.5%	4.9	16.8%
\$5.0 - \$9.9 million	15	11.2%	0.6%	1.8%	73%	13.6%	5.3	15.2%
\$10.0 - \$20.0 million	15	11.3%	1.5%	2.0%	73%	10.1%	5.8	16.7%
> \$20.0 million	6	10.9%	1.2%	2.1%	100%	4.3%	6.6	15.0%

IRR BY SIZE AND INDUSTRY

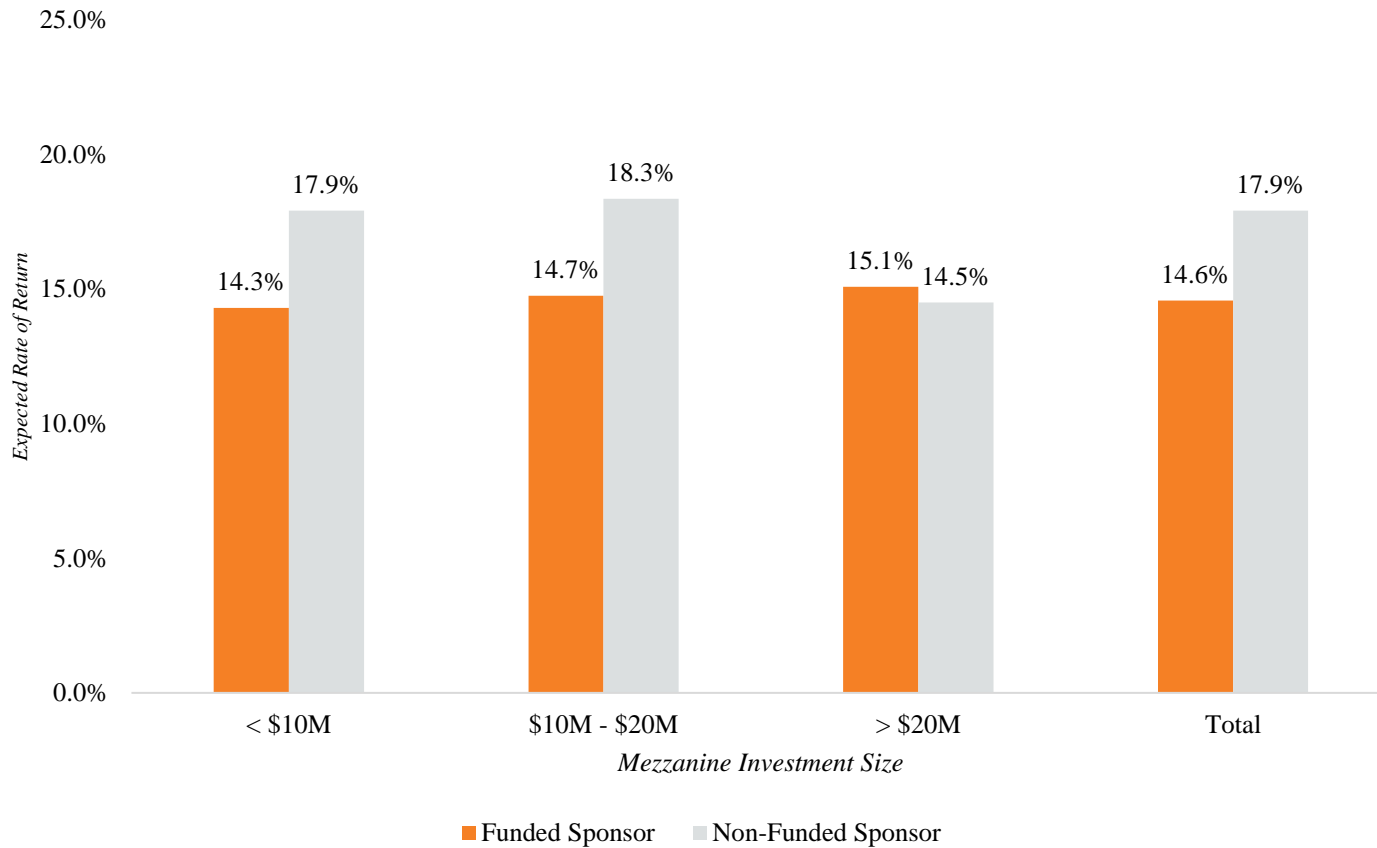


IRR BY SIZE AND USE OF PROCEEDS



Note: Based on the data collected, there were no Unsponsored Buyout, Recapitalization or Internal Growth Transactions which fit the > \$20 million investment size criteria.

IRR BY SIZE AND MEZZANINE ROLE



MARKET TREND DATA

Competition	2018	2019	2020	Coupon	2018	2019	2020
More Competitive	40.0%	38.8%	11.9%	Lower	42.2%	30.6%	11.9%
Unchanged	60.0%	55.1%	64.3%	Unchanged	53.3%	65.3%	61.9%
Less Competitive	0.0%	6.1%	23.8%	Higher	4.4%	4.1%	26.2%

Leverage Levels	2018	2019	2020	Returns	2018	2019	2020
Lower	0.0%	2.0%	54.8%	Lower	44.4%	32.7%	11.9%
Unchanged	46.7%	51.0%	31.0%	Unchanged	51.1%	63.3%	64.3%
Higher	53.3%	46.9%	14.3%	Higher	4.4%	4.1%	23.8%

Transaction Volume	2018	2019	2020
Lower	15.6%	32.7%	59.5%
Unchanged	51.1%	38.8%	33.3%
Higher	33.3%	28.6%	7.1%

EXIT MULTIPLES

Multiple of EBITDA	2018 Exits	% of Exits	2019 Exits	% of Exits	2020 Exits	% of Exits
< 5.0x	1	2.3%	2	4.3%	1	2.8%
5.0x - 5.9x	1	2.3%	0	0.0%	1	2.8%
6.0x - 6.9x	2	4.5%	5	10.9%	4	11.1%
7.0x - 7.9x	6	13.6%	7	15.2%	5	13.9%
8.0x - 10.0x	20	45.5%	15	32.6%	11	30.6%
> 10.0x	14	31.8%	17	37.0%	14	38.9%
Total	44	100.0%	46	100.0%	36	100.0%

Exit Type	2018 Avg. Multiple	% of Exits	2019 Avg. Multiple	% of Exits	2020 Avg. Multiple	% of Exits
IPO	NA	0.0%	NA	0.0%	NA	0.0%
Sale to Strategic	9.1x	44.2%	11.0x	37.8%	9.9x	27.8%
Sale to Financial	10.5x	48.8%	9.4x	51.1%	9.9x	50.0%
Recap	9.0x	7.0%	7.6x	11.1%	9.3x	22.2%

MARKET RETURNS AND SPREADS

	1995	2000	2017	2018	2019	2020
Five-Year Treasuries	7.8%	5.0%	1.8%	2.8%	2.8%	0.4%
Average Mezzanine Targeted IRR	22.7%	19.1%	16.0%	15.4%	16.6%	15.9%
Spread Over Treasuries	14.9%	14.1%	14.2%	12.6%	15.0%	15.6%
High Yield ^{(1) (2)}	9.8%	14.6%	4.2%	5.7%	4.4%	5.6%
Spread Over Treasuries	2.0%	9.5%	2.4%	2.9%	1.6%	5.2%
Average Buyout Equity Targeted IRR ⁽³⁾	30.0%	27.5%	17.5%	17.0%	17.0%	16.0%
Spread Over Treasuries	22.2%	22.5%	15.7%	14.2%	14.2%	15.6%
Buyout Equity Targeted IRR Less Mezzanine Targeted IRR	7.3%	8.4%	1.5%	1.6%	0.4%	0.1%

(1) 1995 and 2000 are end-of-year yields sourced from Citigroup's High Yield Composite Index.

(2) Data per S&P B' Rated High Yield Index.

(3) Approximations based on market data (for illustration purposes).

CONCLUSIONS

- Supply of equity capital remains high and has greater urgency
- Competition has stabilized in mezzanine market
 - Pricing slightly lower with stable or slightly lower leverage
 - Bifurcation between sponsored and non-sponsored deals has increased
 - Slight decrease in reported IRRs driven by lower interest rates
 - Risk adjusted returns have remained consistent
- Stabilization of market or momentary pause?
 - Risk of downturn – already happened?
 - Survey data indicates leverage decreased post-COVID
 - Trading coupon for equity
 - Traditional mezz **➡** structured equity
- 2021 Outlook for similar competitive dynamics – concern about unemployment
 - Default rates increased
 - Economy is uncertain
 - Politics create uncertainty
 - Market pace – picking up
 - Risk-adjusted returns – consistent, but with what risk?
 - Recovery or recession?