Deal Flow Predictor

Our quarterly prediction of future M&A trends

Forecast of global and regional M&A activity through Q4 2023

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Matt Wells
VP, Product Marketing & Strategy

FROM THE SS&C INTRALINKS GLOBAL M&A DEAL DESK

Pre-Announced Global M&A Forecast for Q4 2023: APAC M&A Stabilizes Global Forecast

Early-stage mergers and acquisitions (M&A) activity peaked in late Q1 2023, followed by a sharp initial decline in the first half of Q2. While early April 2023 M&A deal volume saw a precipitous drop on a month-over-month basis, it remained relatively strong compared to the same period last year. Q1 2023 ended with volume reaching new resistance levels, hitting the highest early-stage volume we've seen on a trailing 24-month basis. This number sets a benchmark that may be hard to surpass this year, but we've seen an impressive resurgence through the back half of last quarter.

Based on Q2 2023 activity, we are forecasting global announced volume to see a moderate upside in Q4 2023, with marginal growth compared to Q3 2023, in low positive territory and a slightly more bullish outlook compared to announced Q4 volume in 2022. This can be attributed to the relatively strong performance during the back half of Q2 2023, with May 2023 seeing the third highest volume since 2021 and June 2023 surpassing May 2023 numbers. While the aggregate volume indicates a broad positive outlook, the geographic dispersion will likely see swings with strong performance coming out of Asia Pacific (APAC) and more muted deal volume in North America.

On a quarter-over-quarter (QoQ) basis, we're anticipating flatter but directionally positive growth coming out of all territories except

for APAC, which should see greater than ten percent growth on a QoQ and QoQ yearly comparison. North America, in particular the U.S., has seemingly absorbed the greatest brunt of numerous headwinds. The U.S. has borne some unique stress points as mentioned last quarter, including a banking crisis, continued devaluation and downgrades in the middle segment of the financial sector. Inflation has been coming down in recent months, but we're still quite off the two percent target. While the leading economic indicators, including consumer debt and unemployment, are moving where the Federal Reserve Board would like, consumer spending through the back half of the year, whether pulled back or debt-financed, will have a meaningful impact on corporate earnings. This will add pressure to valuations and M&A volume.

Our overall M&A outlook for the remainder of the year is cautiously positive from a volume perspective. We see little to no risk of the markets moving toward negative territory in Q4 2023 announced volume, both on a QoQ and QoQY basis, and expect 2023 deal volume to be on the lower end of positive territory compared to 2022.

Next up:
Overview

Overview

IPOs and Restructurings

While there has been much chatter in Q3 2023 about a "resurgence" in initial public offering (IPO) activity, we view the equity markets as stabilizing, as opposed to reaching new highs. This is depicted in our QoQY data which shows material increases in IPO diligence. However, when compared QoQ, the numbers are more muted. This runs counter in APAC which saw a strong rebound against both periods. Either way, this is a welcome sign that issuers are willing to test the public markets and investors are willing to put money to work with new companies.

Bankruptcies and restructurings saw an opposite trend of lower global QoQY activity and higher QoQ numbers. In the largest markets, North America and Europe, the Middle East and Africa (EMEA), first-half numbers in 2023 were at least 50 percent greater than H1 2022.

IPO	QoQY	QoQ
Asia Pacific	24%	29%
Europe, the Middle East and Africa	14%	-47%
Latin America	-61%	-47%
North America	73%	3%
Global	21%	-2%

Bankruptcy/Restructuring	QoQY	QoQ
Asia Pacific	86%	157%
Europe, the Middle East and Africa	-65%	53%
Latin America	0%	0%
North America	6%	31%
Global	-10%	68%

*We are not providing any volume forecasting guidance for IPOs or bankruptcies. Our data is only reflective of pre-announced IPO and bankruptcy/restructuring deals that are in our global pipeline.

Global Forecast

We're forecasting global Q4 2023 M&A to be on the positive side of neutral on a QoQ basis and to market-perform QoQY, with moderate upside in the mid-single digit range. Overall, given large stressors in the global economy, specifically inflation, we see this as indicating strong market sentiment regarding investing and growth through acquisitions. Dealmakers are not shying away from attractive opportunities.

Q4 2023 Global M&A Volume Forecast

Global

QoQY Market perform QoQ Neutral

North America

QoQY Neutral QoQ Neutral

Latin America

QoQY Neutral QoQ Neutral

Europe, the Middle East and Africa

QoQY Market perform QoQ Neutral

Asia Pacific

QoQY Overperform QoQ Overperform

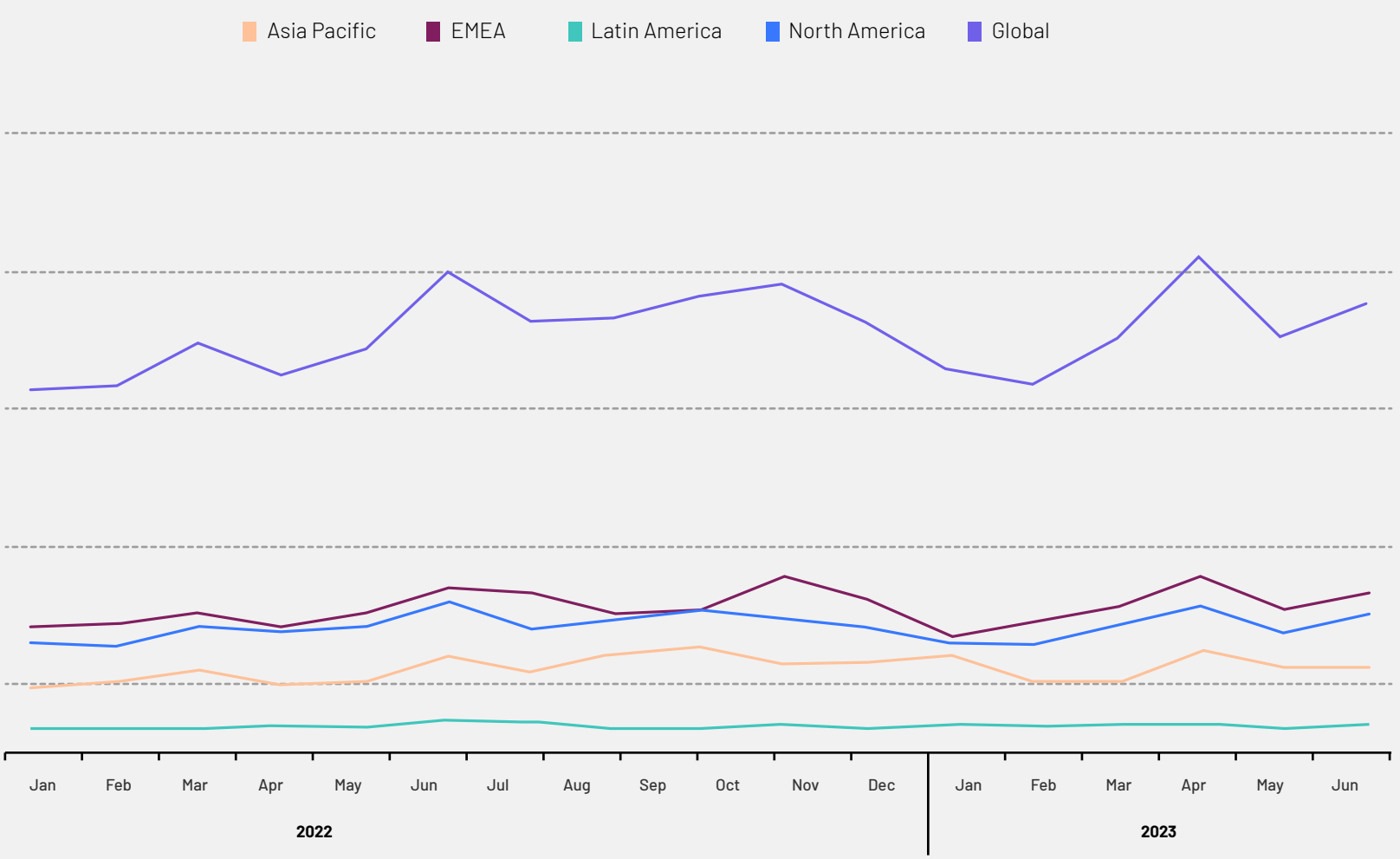
Rating legend

- Overperform: >10%
- Market perform: > 5% to 10%
- Neutral: -5% to 5%
- Underperform: < -5%

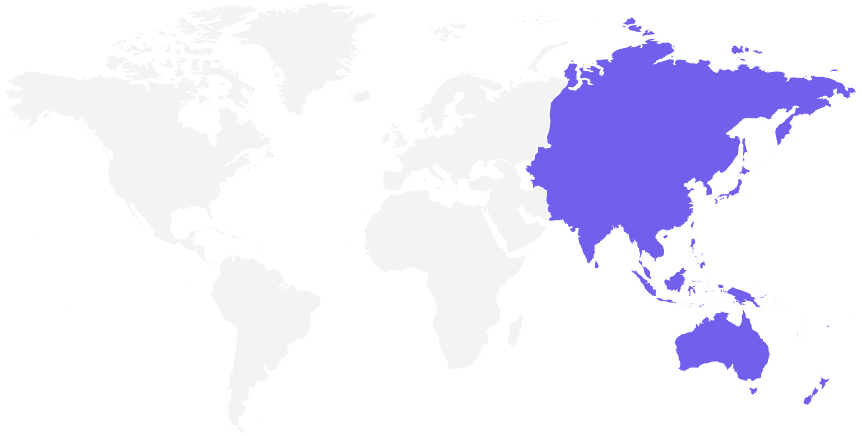
Our ratings indication forecasts the range against the announced Refinitiv M&A volume for the stated period.

* Quarter-over-Quarter Yearly (QoQY) will be our forecast for announced M&A volume in Q4 2023 compared to the same period last year.
* Quarter over Quarter (QoQ) will be our forecast for announced M&A volume in Q4 2023 compared to Q3 2023.
* Our regional highlights do not forecast announced volume but indicate changes in early-stage deal volume as seen by SS&C Intralinks in 2023 for the specific industries and deal types, compared against the stated periods.

Global Pre-announced Deal Flow (number of deals starting six months prior to market announcement)

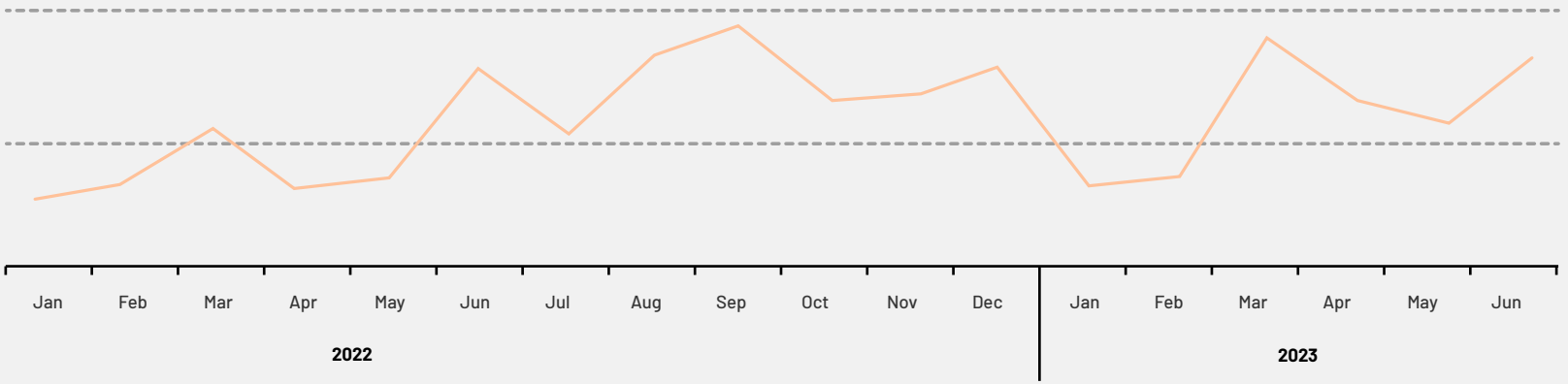


Asia Pacific



APAC outperformed the market in Q2 2023, with a strong rebound in mainland China. We are anticipating double-digit growth, both QoQ and QoQY, and the region's numbers are acting as pillars for global volume in Q2 2023. There are still major headwinds in the region, including the real estate and debt crisis in China which will challenge the region. However, we may see an increase in distressed acquisitions as an aftermath. Major markets also contributed to the resurgence including Japan, Hong Kong and Australia.

Asia Pacific Pre-announced Deal Flow (number of deals starting six months prior to market announcement)



For detailed information or information on other countries in APAC, please contact your SS&C Intralinks sales rep.

Australia

	QoQY:	QoQ:
M&A	Neutral	Overperform
IPO	Underperform	Underperform
Bankruptcy/Restructuring	Overperform	Overperform

China

	QoQY:	QoQ:
M&A	Overperform	Overperform
IPO	Overperform	Overperform
Bankruptcy/Restructuring	Neutral	Neutral

Hong Kong

	QoQY:	QoQ:
M&A	Market perform	Overperform
IPO	Overperform	Overperform
Bankruptcy/Restructuring	Neutral	Neutral

India

	QoQY:	QoQ:
M&A	Overperform	Underperform
IPO	Underperform	Underperform
Bankruptcy/Restructuring	Overperform	Overperform

Japan

	QoQY:	QoQ:
M&A	Overperform	Overperform
IPO	Underperform	Underperform
Bankruptcy/Restructuring	Neutral	Neutral

New Zealand

	QoQY:	QoQ:
M&A	Overperform	Neutral
IPO	Neutral	Neutral
Bankruptcy/Restructuring	Neutral	Neutral

Singapore

	QoQY:	QoQ:
M&A	Underperform	Underperform
IPO	Underperform	Neutral
Bankruptcy/Restructuring	Underperform	Neutral

South Korea

	QoQY:	QoQ:
M&A	Neutral	Underperform
IPO	Neutral	Neutral
Bankruptcy/Restructuring	Underperform	Neutral

Next up:
APAC Key Sector Data

For detailed information or information on other countries in APAC, please contact your SS&C Intralinks sales rep.

APAC M&A – Key Sector Data

Australia	QoQY	QoQ
Finance	Overperform	Overperform
Manufacturing	Underperform	Underperform
Retail	Overperform	Neutral

China	QoQY	QoQ
Finance	Overperform	Overperform
Healthcare	Underperform	Underperform
Retail	Overperform	Overperform

Hong Kong	QoQY	QoQ
Banking	Underperform	Underperform
Manufacturing	Overperform	Neutral
Retail	Overperform	Underperform

India	QoQY	QoQ
Banking	Overperform	Overperform
Energy	Neutral	Overperform
Retail	Overperform	Neutral

Japan	QoQY	QoQ
Finance	Overperform	Overperform
Manufacturing	Underperform	Overperform
Technology	Neutral	Underperform

New Zealand	QoQY	QoQ
Banking	Neutral	Neutral
Healthcare	Overperform	Overperform
Technology	Neutral	Neutral

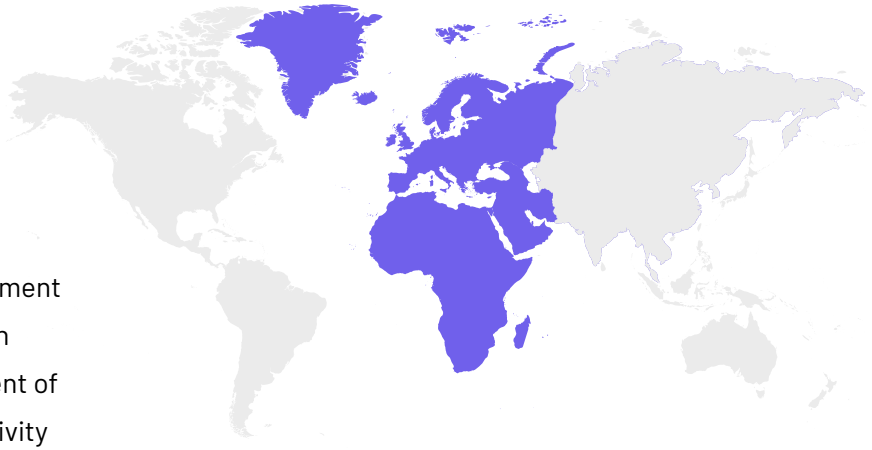
Singapore	QoQY	QoQ
Banking	Overperform	Overperform
Manufacturing	Neutral	Overperform
Retail	Underperform	Neutral

South Korea	QoQY	QoQ
Biotech	Neutral	Neutral
Finance	Neutral	Underperform
Manufacturing	Neutral	Neutral

Next up:
EMEA Market Prediction

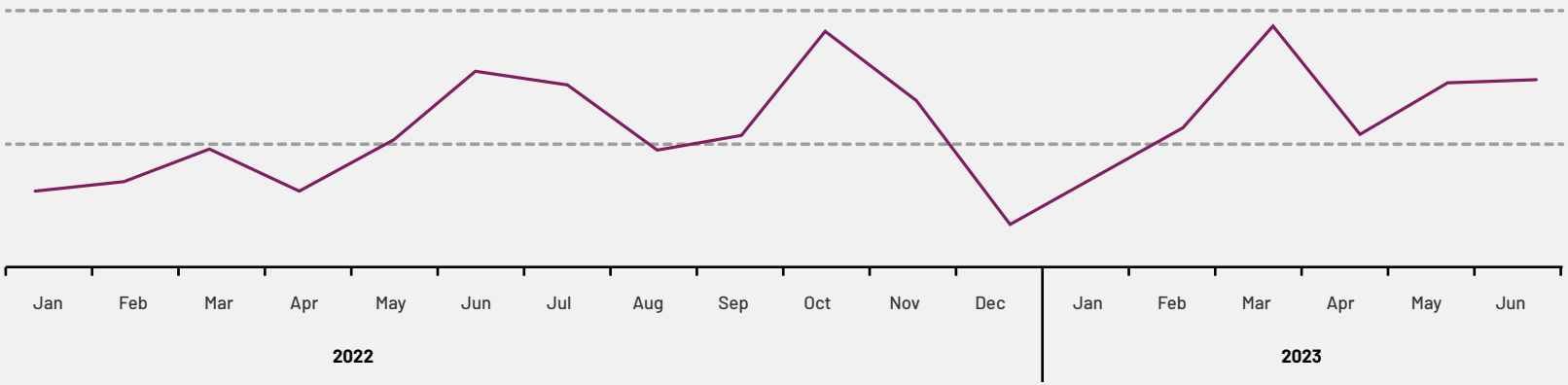
For detailed information or information on other countries in APAC, please contact your SS&C Intralinks sales rep.

Europe, the Middle East and Africa



EMEA saw positive, but flatter growth with potential room for negative movement QoQ yet saw a stable increase in volume. QoQY, we saw strong performance in France, Italy and South Africa. The region seems to have baked in containment of the Ukraine conflict and market confidence seems to remain resolute as activity shows extreme stability holistically.

EMEA Pre-announced Deal Flow (number of deals starting six months prior to market announcement)



For detailed information or information on other countries in EMEA, please contact your SS&C Intralinks sales rep.

Austria

	QoQY:	QoQ:
M&A	Underperform	Underperform
IPO	Neutral	Neutral
Bankruptcy/Restructuring	Neutral	Neutral

France

	QoQY:	QoQ:
M&A	Overperform	Overperform
IPO	Neutral	Underperform
Bankruptcy/Restructuring	Neutral	Underperform

Germany

	QoQY:	QoQ:
M&A	Underperform	Market perform
IPO	Underperform	Neutral
Bankruptcy/Restructuring	Underperform	Underperform

Israel

	QoQY:	QoQ:
M&A	Neutral	Overperform
IPO	Underperform	Underperform
Bankruptcy/Restructuring	Neutral	Neutral

Italy

	QoQY:	QoQ:
M&A	Neutral	Overperform
IPO	Underperform	Underperform
Bankruptcy/Restructuring	Underperform	Neutral

Netherlands

	QoQY:	QoQ:
M&A	Market perform	Underperform
IPO	Underperform	Neutral
Bankruptcy/Restructuring	Neutral	Underperform

Saudi Arabia

	QoQY:	QoQ:
M&A	Underperform	Underperform
IPO	Underperform	Underperform
Bankruptcy/Restructuring	Neutral	Neutral

South Africa

	QoQY:	QoQ:
M&A	Overperform	Overperform
IPO	Underperform	Neutral
Bankruptcy/Restructuring	Neutral	Neutral

Spain

	QoQY:	QoQ:
M&A	Neutral	Neutral
IPO	Neutral	Overperform
Bankruptcy/Restructuring	Neutral	Neutral

Sweden

	QoQY:	QoQ:
M&A	Underperform	Underperform
IPO	Neutral	Underperform
Bankruptcy/Restructuring	Neutral	Underperform

Switzerland

	QoQY:	QoQ:
M&A	Overperform	Underperform
IPO	Neutral	Underperform
Bankruptcy/Restructuring	Neutral	Neutral

UAE

	QoQY:	QoQ:
M&A	Overperform	Neutral
IPO	Overperform	Overperform
Bankruptcy/Restructuring	Neutral	Neutral

United Kingdom

	QoQY:	QoQ:
M&A	Overperform	Underperform
IPO	Underperform	Neutral
Bankruptcy/Restructuring	Overperform	Underperform

EMEA M&A – Key Sector Data

Austria	QoQY	QoQ
Banking	Underperform	Neutral
Energy	Underperform	Neutral
Technology	Neutral	Neutral

France	QoQY	QoQ
Finance	Underperform	Overperform
Retail	Overperform	Overperform
Technology	Neutral	Underperform

Germany	QoQY	QoQ
Consumer Retail	Neutral	Overperform
Finance	Underperform	Overperform
Manufacturing	Overperform	Neutral

Israel	QoQY	QoQ
Manufacturing	Overperform	Overperform
Retail	Neutral	Neutral
Technology	Underperform	Neutral

Italy	QoQY	QoQ
Banking	Overperform	Overperform
Manufacturing	Overperform	Overperform
Utilities	Overperform	Overperform

Netherlands	QoQY	QoQ
Banking	Neutral	Overperform
Energy	Underperform	Underperform
Technology	Neutral	Neutral

Saudi Arabia	QoQY	QoQ
Banking	Neutral	Neutral
Energy	Neutral	Neutral
Retail	Neutral	Neutral

South Africa	QoQY	QoQ
Banking	Overperform	Overperform
Energy	Neutral	Underperform
Manufacturing	Underperform	Neutral

Spain	QoQY	QoQ
Banking	Overperform	Overperform
Energy	Underperform	Neutral
Retail	Underperform	Underperform

For detailed information or information on other countries in EMEA, please contact your SS&C Intralinks sales rep.

EMEA M&A – Key Sector Data

Sweden	QoQY	QoQ
Banking	Overperform	Overperform
Manufacturing	Neutral	Overperform
Technology	Neutral	Neutral

Switzerland	QoQY	QoQ
Banking	Overperform	Overperform
Energy	Overperform	Overperform
Retail	Underperform	Underperform

UAE	QoQY	QoQ
Banking	Underperform	Overperform
Energy	Overperform	Overperform
Retail	Underperform	Underperform

United Kingdom	QoQY	QoQ
Banking	Underperform	Overperform
Retail	Underperform	Underperform
Technology	Neutral	Neutral

Next up:
LATAM Market Prediction

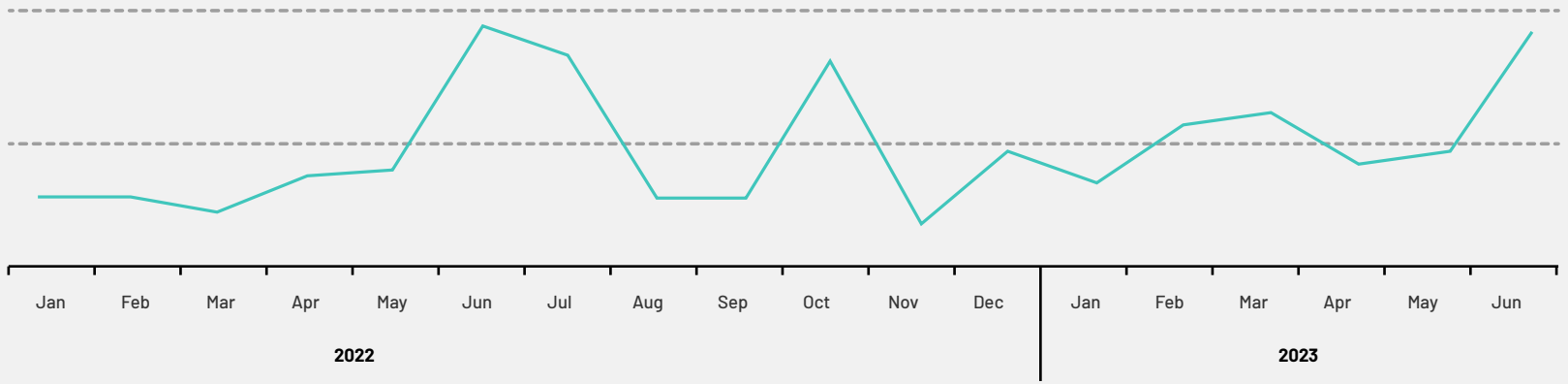
For detailed information or information on other countries in EMEA, please contact your SS&C Intralinks sales rep.

Latin America



LATAM also showed resilience and stability in Q2 2023. Interestingly, June 2023 saw the second-highest volume in early-stage activity going back to January 2022. We anticipate a double-digit uplift in Brazil in Q4 2023 against Q3 2023, but the dark horse in the region is Argentina. Despite suffering crushing inflationary pressures, early-stage volume indicates double-digit growth in the region, QoQ and QoQY.

Latin America Pre-announced Deal Flow (number of deals starting six months prior to market announcement)



For detailed information or information on other countries in Latin America, please contact your SS&C Intralinks sales rep.

Argentina

	QoQY:	QoQ:
M&A	Overperform	Overperform
IPO	Neutral	Neutral
Bankruptcy/Restructuring	Neutral	Neutral

Brazil

	QoQY:	QoQ:
M&A	Neutral	Overperform
IPO	Underperform	Underperform
Bankruptcy/Restructuring	Overperform	Overperform

Chile

	QoQY:	QoQ:
M&A	Market perform	Neutral
IPO	Neutral	Neutral
Bankruptcy/Restructuring	Neutral	Neutral

Colombia

	QoQY:	QoQ:
M&A	Underperform	Underperform
IPO	Neutral	Neutral
Bankruptcy/Restructuring	Neutral	Neutral

Mexico

	QoQY:	QoQ:
M&A	Overperform	Neutral
IPO	Neutral	Neutral
Bankruptcy/Restructuring	Neutral	Neutral

Next up:
LATAM Key Sector Data

For detailed information or information on other countries in Latin America, please contact your SS&C Intralinks sales rep.

LATAM M&A – Key Sector Data

Argentina	QoQY	QoQ
Finance	Underperform	Underperform
Energy	Overperform	Neutral
Technology	Neutral	Neutral

Brazil	QoQY	QoQ
Banking	Overperform	Overperform
Energy	Neutral	Neutral
Technology	Neutral	Overperform

Chile	QoQY	QoQ
Finance	Underperform	Neutral
Manufacturing	Neutral	Underperform
Utilities	Overperform	Underperform

Colombia	QoQY	QoQ
Banking	Underperform	Neutral
Energy	Underperform	Neutral
Utilities	Neutral	Neutral

Mexico	QoQY	QoQ
Banking	Overperform	Overperform
Energy	Neutral	Neutral
Manufacturing	Overperform	Overperform

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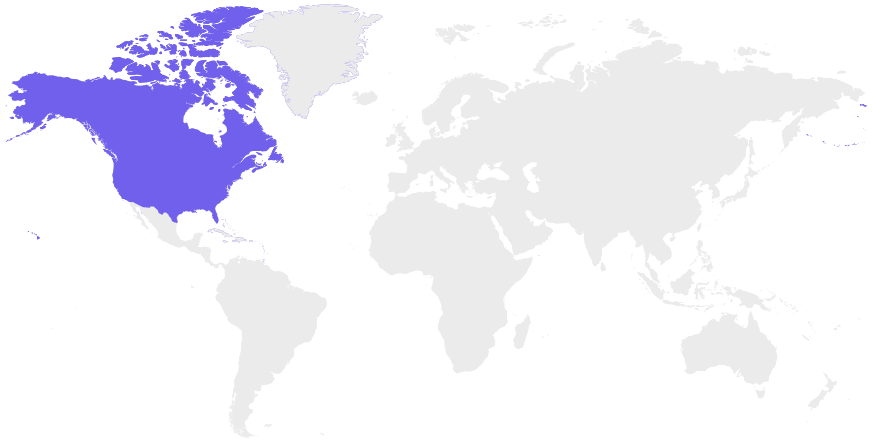
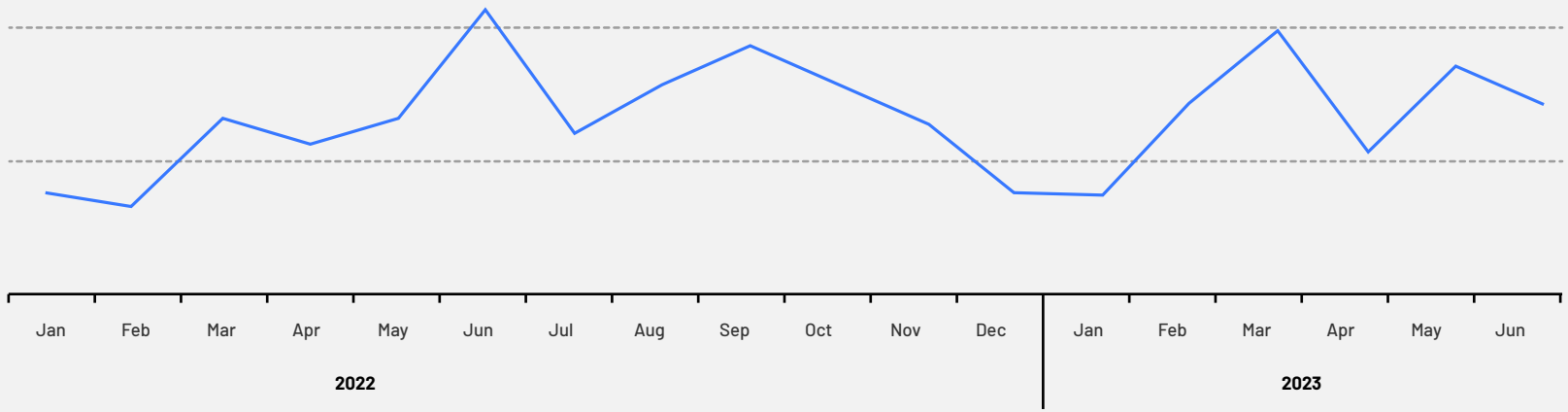
Next up:
North America Market Prediction

North America



We saw material stress in early-stage Canadian activity, and we're anticipating a material drop in Q4 2023 volume against Q3 2023. We also believe that Q4 2023 will be down slightly against the same period last year. The U.S. should also remain nominally flat against both periods, with marginal risk for minimal downside QoQY and potentially immaterial growth on a QoQ basis.

North America Pre-announced Deal Flow (number of deals starting six months prior to market announcement)



For detailed information or information on other countries in North America, please contact your SS&C Intralinks sales rep.

Canada

M&A

QoQY:	QoQ:
Neutral	Underperform

IPO

QoQY:	QoQ:
Underperform	Neutral

Bankruptcy/Restructuring

QoQY:	QoQ:
Neutral	Neutral

United States

M&A

QoQY:	QoQ:
Neutral	Neutral

IPO

QoQY:	QoQ:
Overperform	Overperform

Bankruptcy/Restructuring

QoQY:	QoQ:
Overperform	Market perform

North America M&A – Key Sector Data

Canada	QoQY	QoQ
Banking	Neutral	Overperform
Energy	Underperform	Neutral
Technology	Underperform	Neutral

United States	QoQY	QoQ
Banking	Neutral	Overperform
Energy	Underperform	Underperform
Technology	Neutral	Overperform

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Next up:
ESG Is Now a Staple of Due Diligence

CONGRATULATIONS

SS&C Intralinks Professional Services

and all winners at the 2023 Banking Tech Awards USA

SS&C Intralinks is a leading technology provider for global M&A, alternative investments and capital markets. Our Professional Services team provides expertise in engineering, integration, automation, configuration and deployment to achieve secure, efficient, highly successful platform implementations and ensure our customers achieve the maximum value from the Intralinks platform.

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Improving Market Conditions and Strategy Shifts Reveal Growing Opportunities in Retail Dealmaking

Digitalization and scale via inorganic growth: the key to revolutionizing Retail and finding new opportunities for dealmakers and investors.

Tom Tibbs
Director of Marketing,
Banks & Corporates



The retail industry relies heavily on the health of consumer spending. Consumers' budgets and sentiments play a direct role in corporate profitability, subsequently impacting mergers and acquisitions (M&A) and private equity (PE) deal activity. But ongoing economic uncertainty, inflation and inventory stockpiling by retailers trying to avoid the supply-chain woes of 2020 — resulting in surplus and steep discounts — have raised concerns about the outlook of the consumer market.

Data from SS&C Intralinks' *Retail Industry Dealmaking: Investors Shop for New Opportunities,* produced with data from PitchBook, however, indicates not all headlines are bad news, with the retail industry showing cautiously optimistic signs of recovery.

Defying expectations

As inflation eases in many regions, and central banks' policies to tame the pace of interest rate hikes are taking hold in some countries,

industry players are starting to apply strategy shifts to adjust to the evolving retail landscape, thus defying market pessimism with a handful of recent strong initial public offerings (IPOs).

Ares-owned Savers Value Village, for example, displayed strong performance at its market debut, generating USD 2.6 billion through its IPO. Similarly, two large exits from China's new IPO system — Ziel Home Furnishing Technology and CECport — drove total exit value year-to-date (YTD) by each generating nearly USD one billion through their listings.

Furthermore, M&A deal activity experienced a slight decline in quarterly deal value and count in the first half of 2023, but deal-type trends have held consistent since 2021, with strategic deals driving the majority of total value. Recent notable acquisitions include the Overstock.com purchase of Bed Bath & Beyond following bankruptcy proceedings, and food retailer Kroger's USD 25 billion acquisition of Albertsons, a deal that — if approved by regulators — will bring 5,000 stores under one roof in 2024, creating the fifth biggest retailer in the U.S.

The rise (and rise) of e-commerce and mobile technology in Retail

An important part of the retail equation is the growing popularity of the mobile retail market — a factor that's taking the industry by storm. E-commerce is evolving at light speed. As traditional retail growth continues to slow, and consumers increasingly leverage the convenience of online shopping, businesses are refocusing, restrategizing and aggressively upping their digital game to scale offerings and keep up with higher expectations. Data shows mobile e-commerce sales reached USD 2.2 trillion in 2023 and currently make up 60 percent of all e-commerce sales around the world.

This rapid retail revolution is impacting M&A and PE dealmaking. The changing landscape is bringing with it a plethora of opportunities to capitalize on favorable consumer preferences and cost efficiencies while expanding investors' reach in high-growth areas. Since size can be everything in Retail, larger players are consolidating smaller players to build brands and resilience. An example of a retailer acquiring to scale is German grocer Aldi's announcement in August to acquire 400 Winn-Dixie and Harveys Supermarkets to help the company compete against big-box stores.

Mastering the art of strategy in Retail

Adapting to changing consumer behavior will require omnichannel strategies on the part of industry players. PE operational proficiency will play a pivotal role in private market dealmaking as the retail industry grapples with recession concerns and economic recoveries.

As companies consider inorganic growth opportunities, assessing new capabilities and technologies will be crucial in scoping deals. Applying emerging strategies like social selling — which generates leads through social media channels, experiential retail — which transforms brick-and-mortar locations into immersive and interactive experiences, and monitoring return on investment (ROI) on new technology integration will be critical to success.

Finding the right opportunities will depend largely on enhanced value assessment — including strategic alignment, a strong capability road map, execution and talent evaluation, as well as an emphasis on prioritizing artificial intelligence (AI).

Continued diligence and smart investing: a firm foundation for the road ahead

M&A has played a key role in shaping the growth of the retail industry for decades. It's an essential source of progress for consumer goods companies and a proven path to creating value. The trend is only expected to increase.

Finding the right opportunities will depend largely on enhanced value assessment — including strategic alignment, a strong capability road map, execution and talent evaluation, as well as an emphasis on prioritizing artificial intelligence (AI).

But to thrive in today's retail landscape, both dealmakers and retailers will be compelled to apply continued diligence and smart strategies to align with current consumer trends and, with each other. From touch-free shopping to checkout-free transactions, retailers will have to invest in tech infrastructure and continuous improvements for integrating online and offline retail formats.

On the bright side, surveys indicate consumer sentiment is showing positive cues of increasing stability, with half of surveyed consumers planning to increase their online shopping activity through the remainder of the year across all Retail and in sectors including Travel, Luxury Products, and Entertainment and Leisure.

As technology drives the industry further and digitalization opens the door to newer trends, opportunities remain in Retail. Savvy dealmakers will just have to adapt to find them.

To gain additional insights into the state of the retail industry, read our report here.

Private Credit's Growing Role in M&A

For M&A transactions, private credit has become an increasingly attractive financing option, offering unique advantages while reshaping the traditional funding landscape.

Paul Johnson
Deputy Head of
Bridgepoint Credit



In recent years, there has been a substantial increase in the appetite for private credit, which encompasses lending to businesses by entities other than traditional banks. To gain more perspective about the evolving landscape, we spoke with Paul Johnson, Deputy Head of Bridgepoint Credit, a prominent player in the global private asset growth investment sphere. Bridgepoint manages a substantial EUR 39.5 billion in assets, with a distinctive focus on middle-market companies in Europe.

Paul, an industry veteran with over a decade of experience, sheds light on how private equity firms are grappling with current interest rate challenges and the importance of cash flow over EBITDA (earnings before interest, taxes, depreciation and amortization). He also discusses the advantages of utilizing private credit for M&A, highlighting factors such as flexibility and speed. Paul also provides valuable insights into risk assessment strategies and shares examples of successful deals where private credit played a pivotal role.

As we explore the competitive environment and challenges in private credit participation, Paul's expertise provides a comprehensive view of this dynamic sector. Lastly, we gain Paul's perspective on the future of private equity in 2024, identifying trends and themes to watch in the coming year. Join us as we navigate the intricate world of private credit's role in shaping M&A transactions.

SS&C Intralinks: How have the private equity markets been dealing with the current interest rate challenges and how has market competition evolved in recent years?



Paul Johnson: Some of the more foresighted private equity firms were ahead of it and hedged the interest rate exposure in their portfolio companies: Around 43 percent of our borrower portfolio was hedged. Of those, the average term of the hedge was three years, and the most common instrument was a cap, across the portfolio at an average 0.95 percent. But even then, some of those hedges will run off soon if they haven't already, and the borrowers will be paying the prevailing base rates, between 3.5 and four percent today.

So, there is a natural focus on Interest Cover — that's probably between 1.75x and 2x on new buyouts today, but that's following the conventional interpretation of EBITDA/interest. What is important is cash flow, not EBITDA. When we look across our direct lending portfolios, 91 percent of EBITDA turns to cash flow for debt service, so we are still seeing healthy cover, while fully benefiting from this higher cost of borrowing as a lender.

What you will no doubt see is an increase in private equity borrowers seeking to pay the majority of the interest margin in cash, but a small element in PIK (payment-in-kind) form.

> The asset class is growing rapidly as our investors value the cash yield, particularly in this interest rate environment.

Private credit is a term we've been hearing a lot recently. Can you elaborate on the key advantages of utilizing private credit as a financing option for M&A transactions compared to traditional sources of funding like equity or public debt?



Paul Johnson: Yes, the asset class is growing rapidly as our investors value the cash yield, particularly in this interest rate environment, and being senior secured lenders, these higher returns provide the investors with attractive risk adjusted returns.

For the borrower, the advantages are certainty, flexibility and speed — and borrowers are often willing to pay a premium for that. Most private credit is raised in a fund format similar to that of private equity, so it's long-term capital. It's more "matched" funding when considering making a loan of maybe seven-year legal maturity than say a bank which borrows short term. We are then able to customize the financing package

to the investment thesis. For example, in the current market we are seeing a lot of platform acquisitions by private equity, which the investment thesis is predicated on further M&A or "buy and build" that will often need a debt financing package tailored to accommodate that.

We are seeing less traditional auction M&A processes today — more bilateral off-market M&A. That lends itself to private credit in more limited processes, not going wide. We also see more M&A processes designed to encourage a bidder to pre-empt the timeline. Again, that speed favors private credit versus traditional sources.

> **In the context of M&A, how do you assess the risk associated with private credit investments, and what strategies do you employ to mitigate these risks effectively?**

 **Paul Johnson:** The first thing is to identify the risks! Bridgepoint has amassed a wealth of institutional knowledge over many years, often from owning and developing similar businesses: maybe customers, suppliers or competitors of the business we may be diligencing with a view to debt financing. As credit managers, we are privileged to be able to access that knowledge.

If the risks are business model or market facing, it's important to understand how the business addresses these risks operationally and critically appraise if we consider [that] they sufficiently mitigate the risks. We can do that with the valued input of industrial advisors within our network — current or previous CEOs or COOs who have lived and breathed [the business and] know the questions to ask — and to interpret the responses. We will then develop our own operating and financial models and scenarios of the impact and severity of those risks playing out as part of our assessment.

There will of course be many transactions where we do not get sufficiently comfortable with the risks in the business and choose not to lend.

> Private credit is a popular option for anyone in any industry, and that's even truer when the public markets are closed as they have been in recent times.

> **In what sectors/industries is private credit a popular option for financing/facilitating M&A?**

 **Paul Johnson:** Private credit is a popular option for anyone in any industry, and that's even truer when the public markets are closed as they have been in recent times. Often it may be the only market open, and we

definitely see sponsors using it as the first call if not the only call they make.

What may be a more relevant take on the question is what sectors private credit should be looking for. Often by nature, there is little or no liquidity in private credit — we could question if the liquidity is really there when you need it in public markets. Although we think you are well-rewarded for that illiquidity premium, it means on the way into a transaction you have to have the mindset that you will hold the loan for three, or more likely four years — and acknowledge a lot can change in that time. Think back to the world in 2019 versus today. For that reason, our take is that you have to stay consistently defensive, so for example, tech-enabled services, Healthcare and enterprise software where you can find high recurring contracted revenue, providing critical solutions with high switching costs. That's fashionable today, but it's where we've been since day one. If you are trying to pivot your investment sectors you are always two years too late.

Could you share some examples of successful M&A deals where private credit played a pivotal role in facilitating the transaction and achieving favorable outcomes for all parties involved?



Paul Johnson: A good example would be a public-to-private transaction, where the sponsor needed a debt structure lending to their bidding vehicle with [the] flexibility to push debt down or remain at the bidco. The structure had to be able to work under a scenario with a small holdout, and to then have the ability to make sizeable acquisitions and fund with more debt alongside an underwritten rights issue. We were able to devise a structure that provided for the sponsor and management to execute on the investment thesis while at all times ensuring we have good protections and risk-reward profile for our investors.

It's a great example of the sort of flexibility that private credit can provide for borrowers that we were talking about earlier.

What are the typical terms and structures for private credit deals in M&A, and how do they vary depending on the nature and size of the transaction?



Paul Johnson: We have typically been lending around 30 to 40 percent of the purchase price in the form of senior secured loans. Valuations are a focus, particularly in the private equity world, but we continue to see high-quality assets that have been able to prove their resilience to the macro challenges and more importantly, continue to grow earnings [and] remain in high demand from private equity — and the purchase multiples reflect that.

Our direct lending strategy is focused on mid-market borrowers, where we find better terms and protection, including maintenance covenants. Margins today are typically in the 600 to 650 bp [basis point] range which together with base rates generates double-digit percent cash yields, and nearer [to an]

11 percent return, including OID [original issue discount] or fees. It's a competitive market, so if you are getting more than that it is because you are taking more risk.

> **What are the biggest market risks right now — in particular, the geopolitical market risks as well as the ongoing issues coming out of China?**



Paul Johnson: The average EBITDA margin in our portfolio is 30 percent of sales. I mention that it hints at the businesses being market leaders in what they do, often sole, contracted suppliers of an essential product or service. That has played out well in recent macro volatility. Those businesses have largely been able to pass through inflationary pressures with only one or two percent impact on margins, but few businesses are immune. One of the things we are seeing is wage inflation come through at a time when growth may be slowing, and seeing management teams reacting to that.

> **How fierce is the competition for deals at the moment? Is it more of a challenge to get favorable lending terms or to compete with strategics?**



Paul Johnson: It's competitive, but it has been for many years. We haven't seen many new players in recent years. Most participants are onto at least second, third, fourth vintage of funds, so that part of the equation is relatively stable. While M&A activity is quiet you may find one competitor "needing" to do a deal. And one of the advantages to sponsors is that one private credit provider can often provide the full solution, so if you only need one and there are lots of providers you have a competitive market.

You have to develop sponsor relationships where they want to work with you, which takes years. For example, on one of our recent deals we knew there was an alternate lender willing to transact cheaper, but the sponsor wanted to work with us so didn't take that offer. As a lender, you are an important stakeholder and many sponsors and management teams value that.

> **What are the most challenging parts of the process for private credit participants as they engage in financing/M&A?**



Paul Johnson: Diligence and discipline. You can't afford mistakes in the portfolio in private credit as you don't have the 2x, 3x+ in private equity portfolios to compensate. We are fortunate to be part of the Bridgepoint organization which has a tremendous bank of knowledge from our colleagues in private equity [and] from portfolio companies (past and present) — from senior executives in the industry who we access on each and every potential deal for their input. Where it's invaluable is when that thoroughness identifies a risk you may not otherwise have seen and if you aren't

comfortable deciding not to lend, [you can] avoid a future mistake.

And as to discipline, M&A activity has been relatively subdued since late 2022, avoiding the trap of lowering your lending standards [while] building a long-term business.

> **Before we let you go, we'd be remiss if we didn't ask about your thoughts on where private equity will go in 2024. Do you have a view on trends and themes to watch in the coming 12 months?**



Paul Johnson: Our credit team is speaking to dozens of private equity firms on a daily basis, and the last 12 months have been tough with the rising interest rates adding to the wider macro uncertainty. Then there was the valuation mismatch — public markets sold off [in] late 2022. Although they have recovered in 2023, sellers still wanted yesterday's valuation. Add that to a harder fundraising environment and it's no surprise that we've seen lower new investment, and of course exits, since late 2022.

We've seen these periods in the past, and history tells us they usually don't last for much more than a year. And there are signs of improvement already — or at least stability from which activity can build again. We are already seeing that in our weekly pipeline sessions. Inflation seems to be moderating, rates may be near the peak, fundraises are getting completed — and will only be helped by more exits.

When we looked at our direct lending portfolios, we asked each deal team for expected exits and we suggest a material pick up in exits in 2024 — importantly, that's based on the current private equity owners' expectations. We used to assume [a] three-year average hold for a loan, but even with a pick-up in activity next year that will have elongated by about a year. Those longer holds and investors' expectations for distributions will see more PE activity in 2024.

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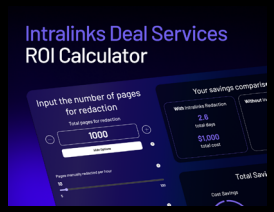

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