gambit CORPORATE FINANCE

Debt Capital Markets

Gambit Review

Summer 2024

Executive Summary

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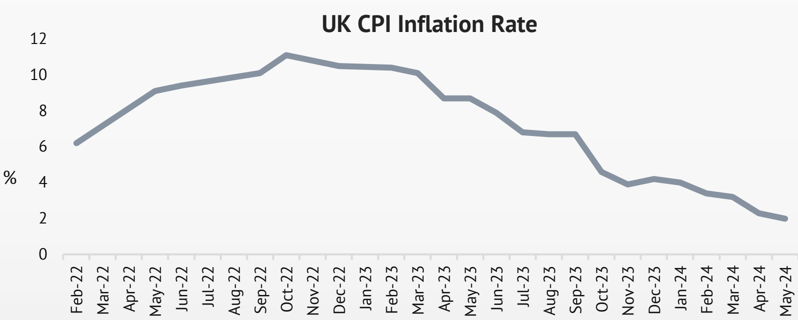
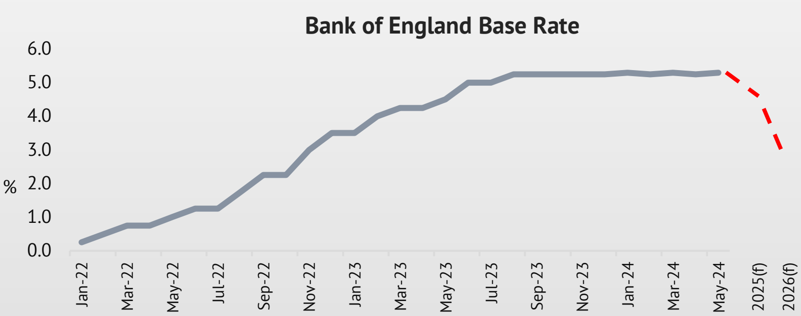
Jason Evans
Partner, Debt Advisory

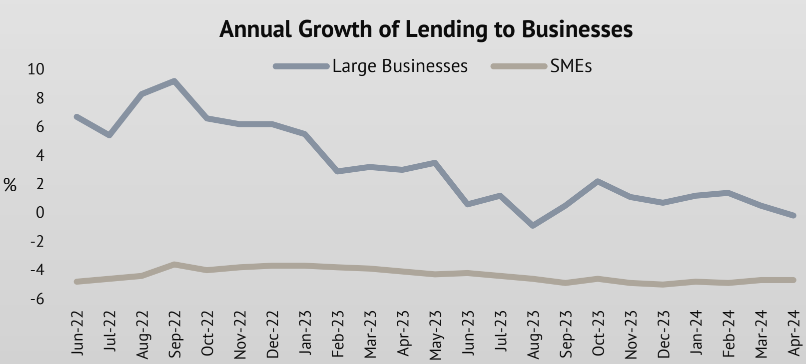
Jason Evans is the Partner who leads Gambit's Debt Advisory team. Prior to joining Gambit, Jason was Regional Director for Lloyds Banking Group, heading up the regional corporate banking team in the mid-market and working with businesses with turnover between £10m and £750m. During his 32-year career, Jason has held various senior roles, including Divisional Head of Leveraged Finance for HSBC.

He is an Associate of the Securities and Investment Institute, holding an advanced corporate finance qualification from the Institute of Chartered Accountants in England and Wales (ICAEW). Jason has also been voted "Corporate Banker of the Year" on a number of occasions at the Insider Dealmaker Awards and more recently has won a number of debt advisory awards.

FM. M&A Awards2023 | FM. M&A Awards2022 WINNER | FM. M&A Awards2021 | insider DEALMAKERS AWARDS 2020 | ACQ5 Global Awards 2020 UK – DEBT ADVISER OF THE YEAR GAMBIT CORPORATE FINANCE



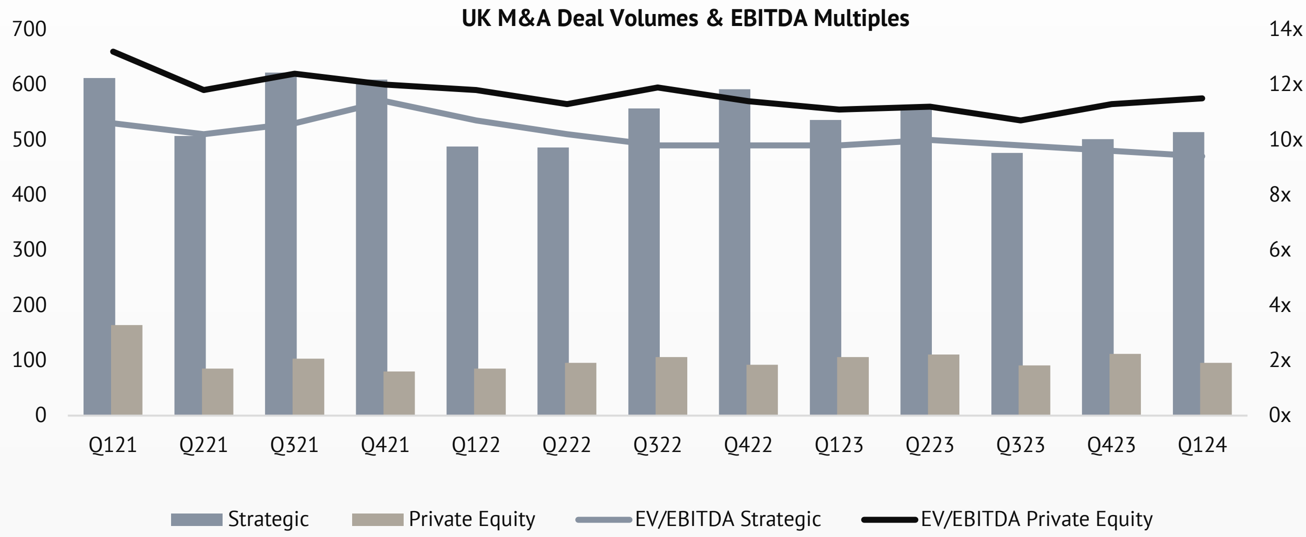




Source: Gambit analysis, Bank of England and ONS

- Cost of capital has trended downwards over the last 18 months, with inflation falling from a peak of 11.1% in October 2022 to the target level of 2% in May 2024.
- The Bank of England has held the base rate at 5.25% since August 2023 and Capital Economics forecasts that rate cuts are anticipated in the second half of 2024, with rates further softening to 3% in 2025.
- With inflationary pressures easing and the economic outlook improving, the average cost of new borrowing has remained relatively stable, increasing by just 2 basis points from 6.95% in March 2024 to 6.97% in April 2024.
- Nevertheless, financial institutions continue to have significant influence over terms, scrutinising covenant headroom, rigorously testing sensitivity scenarios and concentrating on EBITDA 'add-backs'.
- In this current climate as the debt markets continue to re-open for borrowers, it is essential to leverage the expertise of experienced corporate finance advisors to be well-prepared for discussions with financial institutions.

M&A & Credit Markets



Overview & Outlook

- M&A deal volumes have remained relatively stable, with 613 transactions executed in Q4 2023 and 610 transactions executed in Q1 2024.
- The UK M&A mid-market remains healthy, with deal volumes higher than the trailing ten-year average.
- Product diversification, transformative technology and AI driving economic recovery are key to M&A activity as firms seek to spread risks and enhance competitiveness in a dynamic macroeconomic climate.
- As inflationary expectations soften, cost of capital is anticipated to improve and with a General Election set for early July, we expect an uptick in M&A transaction volumes in the second half of 2024.

Valuation Multiples

- Strategic and private equity EV/EBITDA valuations proved resilient throughout 2023, maintaining averages of 10.4x from Q1 2023 to Q1 2024 despite historically high levels of cost of capital.
- Strategic multiples in recent quarters have softened slightly, leading to a modest divergence from the multiple paid by private equity firms.
- Nevertheless, strategic consolidators with significant ‘war chests’ in the mid-market continue to pay premiums for high-quality assets characterised by fast growth, disruptive potential and sector resilience.
- Given the improving economic outlook for business owners and the pressure on private equity consolidators to deploy $2.5 billion of accumulated 'dry powder’, we anticipate a rise in EV/EBITDA valuations paid by both trade and financial buyers over the next 12 months.

Source: Gambit analysis, ONS and S&P

Debt Market Trends

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Leveraged Finance

- European leveraged loan volumes reached their highest level since 2021 in Q1 2024, reaching a total transaction value of €29bn.
- Strong activity in the leveraged loan market in Q1 2024 has been largely attributed to opportunistic refinancings. Several significant direct lending agreements made in 2022 and early 2023 provided a pathway for underwriting banks to offer more affordable, syndicated refinancing options once non-call periods expired.
- 65% of leveraged loans have been in the form of senior structures, reflecting lender preferences for more secure loan structures to mitigate risk from higher interest rates.
- Looking ahead, we anticipate continued growth in leveraged loan issuance, driven by an improved macroeconomic landscape and private credit firms facilitating refinancings and extensions for borrowers addressing upcoming maturities.

Typical Pricing Spreads

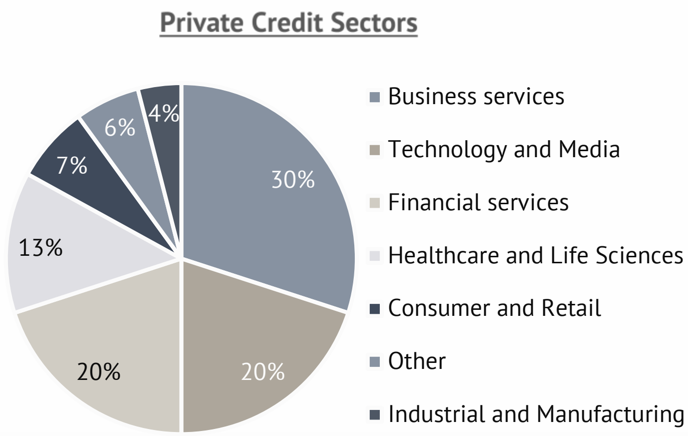
	Senior Cash Flow	Unitranche	Subordinated
May-24	4.25% - 6.25%	6.25% - 8.50%	10.25% - 13.50%
Apr-23	4.50% - 6.50%	6.50% - 8.75%	10.25% - 13.50%
Jan-23	4.75% - 7.00%	7.00% - 9.25%	10.50% - 13.50%

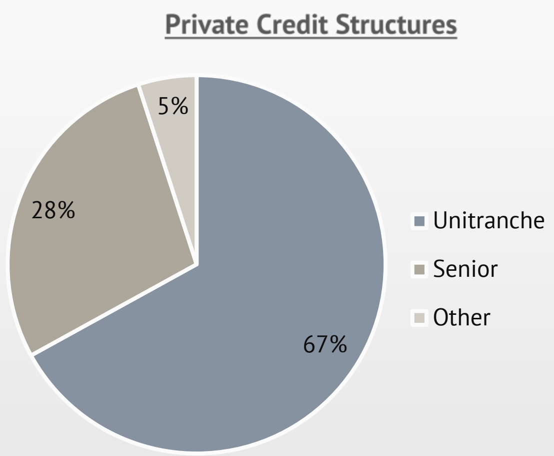
- The firmer credit environment induced by the Bank of England's 'hiking cycle' has meant pricing spreads have remained at historically inflated levels since H2 2022.
- Credit spreads have eased slightly since Q1 2024 with non-bank lenders becoming increasingly competitive. That said, the UK remains firmly a 'lenders' market', with commercial banks dictating terms, scrutinising covenant headroom, modelling sensitivity analysis and focusing on EBITDA 'add-backs'.
- However, inflation is trending downward and has reached target levels and there is a widespread consensus that the Bank of England base rate peaked in August 2023 and rate cuts are expected to start in the second half of 2024.
- In this more dynamic fundraising environment, leveraging the expertise of a knowledgeable debt advisor to support a quality proposal to the most relevant funder audience will be key in achieving an optimal outcome.

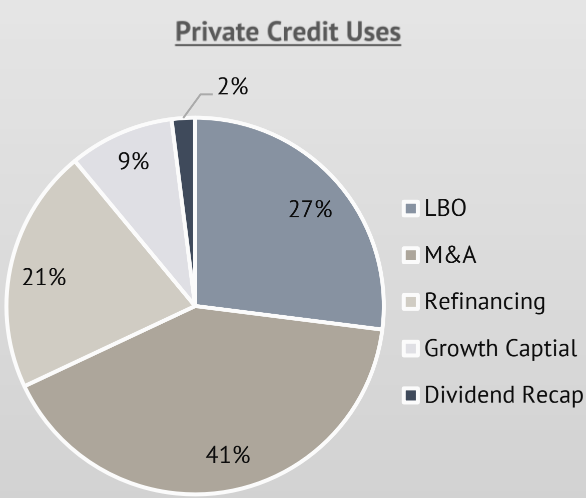
Source: Bank of England, Weil and Gambit analysis

Private Credit

- The higher cost of capital environment ensured that the private credit market stagnated in early 2023. However, improving economic conditions led to a rebound in private financing activity in Q4 2023, albeit with an increased emphasis on quality of earnings and due diligence.
- 189 European private credit transactions were completed in Q4 2023, the second-highest quarter by volume on record since the peak of H2 2021.
- There is a genuine appetite for 'quality' assets as private credit funds have significant 'dry powder' to deploy - $191bn was raised by private credit funds in 2023.
- Private credit thrived in the financial services, business services, technology and media sectors over the last twelve months, fuelled by anticipated interest rate improvements and a shift in demand from non-cyclical industries.
- The private credit market is generally competitive, with unitranche financing offering higher leverage and flexible covenants, providing a streamlined and faster funding solution compared to traditional options.
- The private credit market in 2024 is being driven by a significant volume of refinancing transactions, with $1.4 trillion in maturing mandates. While this has provided strong momentum over the past year, M&A activity, particularly through bolt-on acquisitions, has also remained a significant driver of private fund placement.
- The UK remains a key focus for mid-market private credit activity in Europe. As mainstream banks re-emerge cautiously, private credit lenders are determined to maintain their market share and diversify geographically.
- Expert debt advisors are crucial for navigating complex and bespoke debt structures and assessing the broadest appetites.







Source: Gambit analysis, Weil, Pitchbook, Real Deals

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Gambit Corporate Finance acted as lead advisor to The London Mint Office on raising debt facilities from Omni Capital

Gambit Corporate Finance acted as lead advisor to veezu. on its refinancing from Santander Tresmares Capital

Gambit Corporate Finance provided strategic advice to the **British and Irish Lions**

Gambit Corporate Finance acted as lead advisor to Spectra Group on its fundraising from NatWest

Gambit Corporate Finance acted as lead advisor to The Rider Firm.cc on its fundraising from Santander

Gambit Corporate Finance acted as lead advisor to Creo Medical on raising debt facilities from Barclays

Gambit Corporate Finance

Established in 1992, Gambit Corporate Finance is an independent corporate finance boutique specialising in advising private and public organisations on mid-market transactions in the UK and overseas. With offices in London and Cardiff, Gambit is widely recognised as a market leader in corporate finance advice having built up detailed industry knowledge and an enviable track record in deal origination and execution.

www.gambitcf.com

Corporate Finance International

Gambit is the exclusive UK shareholder of CFI, a global partnership of mid-market investment banks and corporate finance advisory firms. With over 250 professionals located in 30 offices throughout the world, CFI members specialise in cross-border acquisitions, disposals, capital raising, and related services. CFI is Ranked number 16 in Europe and number 25 globally by Thomson Reuters for transactions valued up to €200m.

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