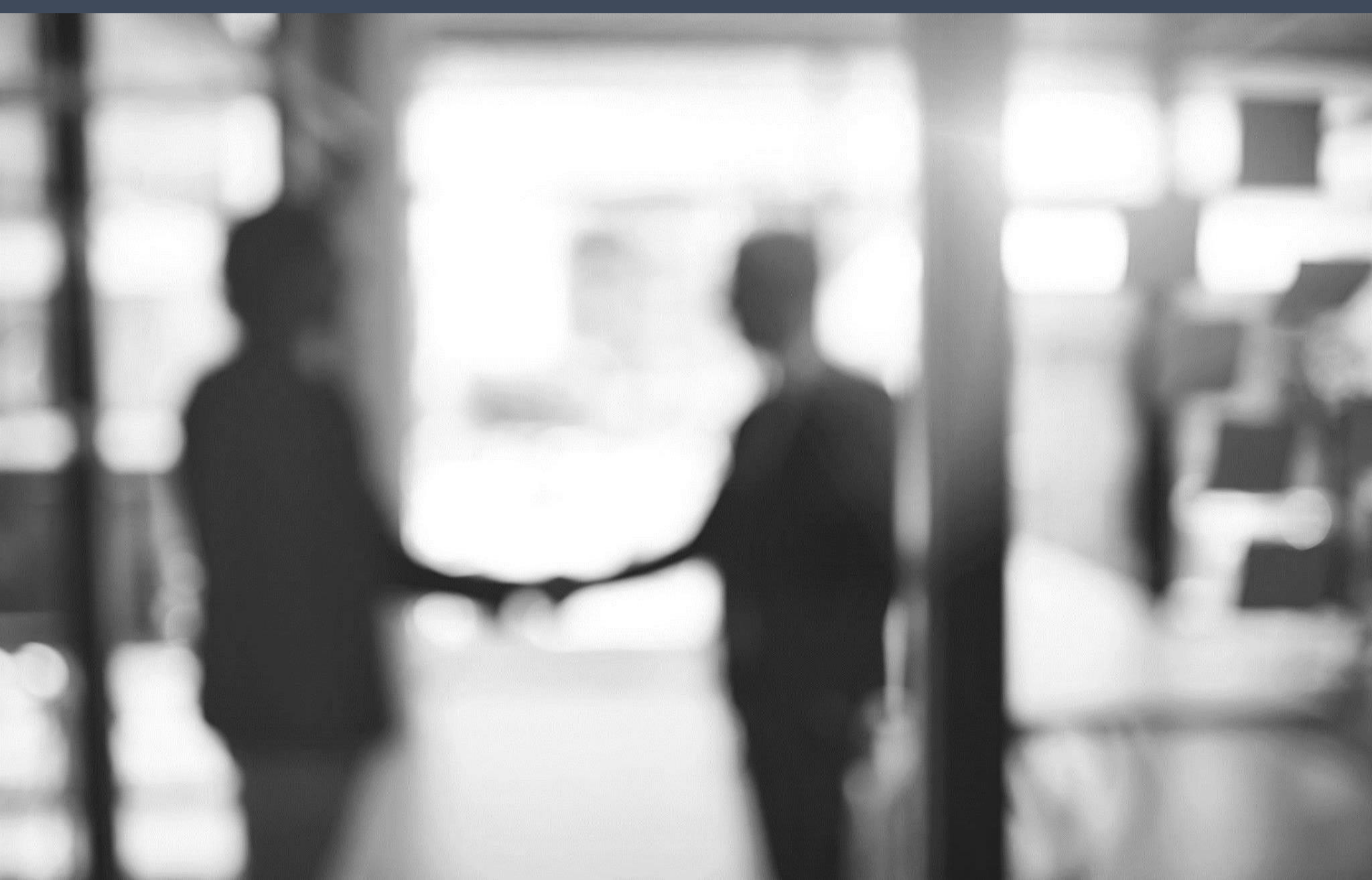
Debt Capital Markets

Gambit Review

Autumn 2024

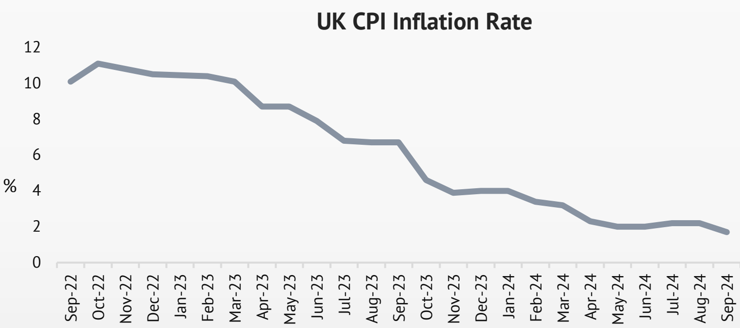


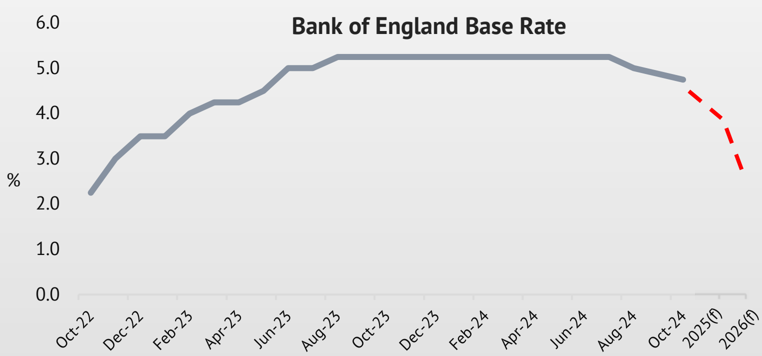
Executive Summary

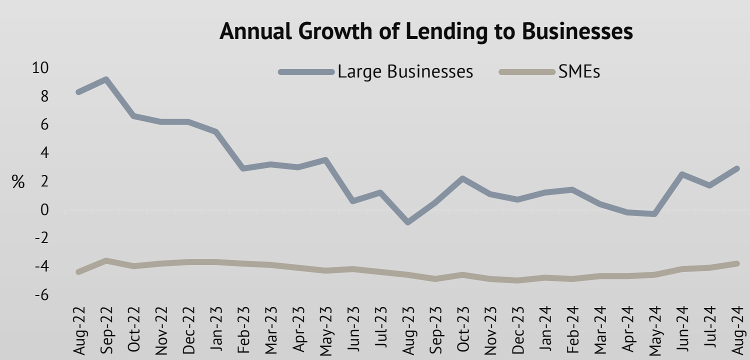
Jason Evans
Partner, Debt Advisory

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 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.







Source: Gambit analysis, Bank of England and ONS

- Inflation has decreased from its peak of 11.1% in October 2022 to 1.7% in September 2024, falling under the Bank of England's mandated target level of 2.0%.
- The Bank of England reduced the base rate by 25 basis points from its ceiling of 5.25% to 5.00% in August 2024. The base rate has also been cut a further 25 basis points to 4.75% in November 2024. Capital Economics forecasts rates will continue to fall to 3.5% by early 2026.
- Appetite for expansion in the corporate segment has improved as large businesses increased their annual growth rate of borrowing from 1.7% in July 2024 to 2.9% in August 2024.
- The annual growth rate of lending to SMEs is slowly improving from -4.1% in July 2024 to -3.8% in August 2024.
- The above trends serve as evidence that the UK is now transitioning out of a "lenders' market" environment. Nevertheless, financial institutions remain focused on scrutinising covenant headroom, sensitivity scenario testing and continue to pay careful attention to EBITDA 'add-backs'.
- In this current climate, it is essential for borrowers to be well-prepared and approach the most relevant funder pool with a quality proposal.

M&A & Credit Markets

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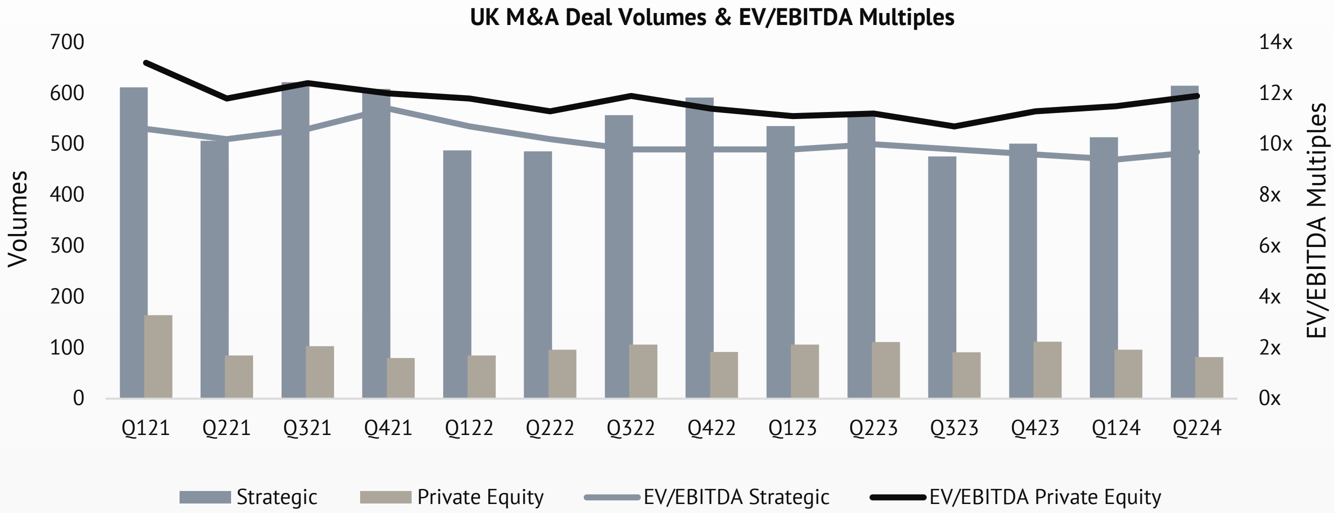

Overview & Outlook

- M&A deal volumes increased by 14.3% from 610 deals completed in Q1 2024 to 697 deals completed in Q2 2024, underpinned by greater macroeconomic confidence in an improving interest rate environment.
- The UK remains particularly attractive to corporate consolidators, with the number of transactions executed by strategic acquirers increasing from 514 in Q1 2024 to 615 in Q2 2024.
- The volume of deals executed by financial buyers declined by 14.6% from 96 in Q1 2024 to 82 in Q2 2024.
- With a growing focus on automation, digitalisation and AI, M&A activity is expected to accelerate as companies pursue enhanced technological capabilities and competitive edge.
- In Q4 2024, M&A activity is expected to gain momentum driven by the confirmation of election results in both the UK and US and accelerated exit timetables due to the tax regime changes in the UK Autumn statement.

Valuation Multiples

- After four consecutive quarters of decline, strategic EV/EBITDA valuation multiples increased by 3.2% from 9.4x in Q1 2024 to 9.7x in Q2 2024.
- Private equity EV/EBITDA valuation multiples experienced an uplift of 3.5% from 11.5x in Q1 2024 to 11.9x in Q2 2024.
- Financial buyers are willing to pay increased premiums for the third consecutive quarter, underpinned by significant 'dry-powder' to deploy for quality assets.
- The divergence of financial and strategic multiples has widened to the largest disparity since Q1 2021.
- Aside from any external 'shocks' as the cost of capital continues to subside, we anticipate a further 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 2017 in Q3 2024, reaching a total transaction value of €157 billion, underpinned by €59.1 billion of repricing issuance.
- M&A loan volumes reached €13.3 billion in Q2 2024, up from €6.5 billion in Q1 2024 and the highest level since Q4 2021. In Q3 2024, the proportion of new European leveraged loans attributed to M&A increased from 21% in Q1 2024 to 40% in Q3 2024, in view of increased optimism over the macroeconomic outlook and central bank rate cuts.
- LBO volumes were at their highest quarterly level since Q1 2022, with €6.9 billion in new institutional funding being driven by several 'jumbo' European deals from May to September.
- With high demand for assets and falling interest rates, lenders appear ready to embrace new deals for well-prepared borrowers, especially those with strong operational performance and resilient cash flows.
- Indeed, there has been a return of dividend recapitalisations to shareholders, something that was very rare some 18 months ago.
- Looking ahead, we anticipate leverage loan activity to increase, driven by an improved macroeconomic landscape, a rebound in M&A activity and private credit funds facilitating refinancings and extensions for borrowers addressing upcoming maturities.

Typical Pricing Spreads

	Senior Cash Flow	Unitranche	Subordinated
Sep-24	4.25% - 6.00%	6.25% - 8.50%	10.25% - 13.50%
Aug-24	4.25% - 6.25%	6.25% - 8.50%	10.25% - 13.50%
Sep-23	4.75% - 6.75%	6.75% - 9.00%	10.50% - 13.50%

- Average pricing spreads have compressed from September 2023 to September 2024.
- With inflation now falling below target levels and the Bank of England ending its interest rate hiking cycle, conditions in the debt markets are becoming increasingly balanced.
- Leveraging knowledgeable corporate finance advisors to navigate the array of funding options available is critical for achieving optimal financing terms.

Source: Bank of England, Weil and Gambit analysis

Private Credit

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- 252 European private debt transactions were completed in Q2 2024, the second-highest quarter by volume since Q4 2021.

- This increase in private debt transactions has been supported by restrained appetite of traditional bank lenders for leveraged loan issuance, and increased demand for 'non-vanilla' financing structures.

- Private credit activity has been dominated by the Business Professional Services (BPS) and Financial Services (FS) sectors, which totalled 48% of all deal activity in Q2 2024. The Technology, Media and Telecommunications (TMT) sector accounted for 26% and the Consumer sector was attributable to 8% of all transaction activity in Q2 2024.

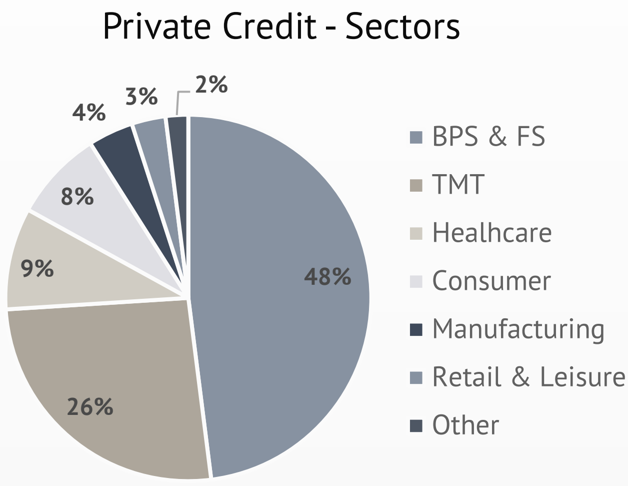
- Unitranche was the leading private credit structure, accounting for 65% of UK transactions in Q2 2024. The need for greater leverage, flexible covenants, faster funding and a streamlined solution compared to traditional funding options was responsible for robust demand.

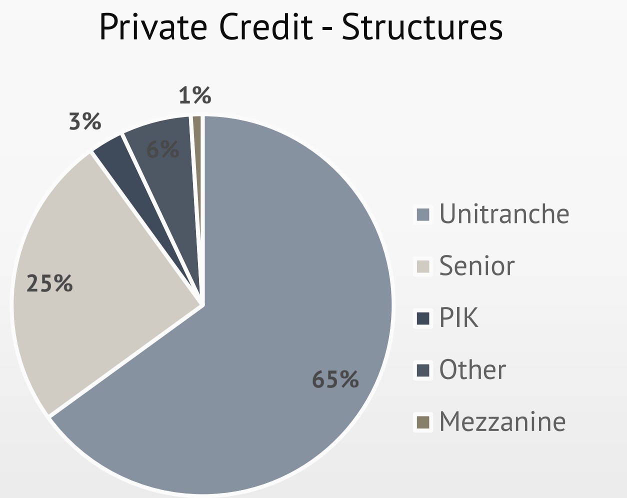
- Private debt used for refinancings surged as borrowers seized favourable market conditions to extend loan maturities and capitalise on tightening margins.

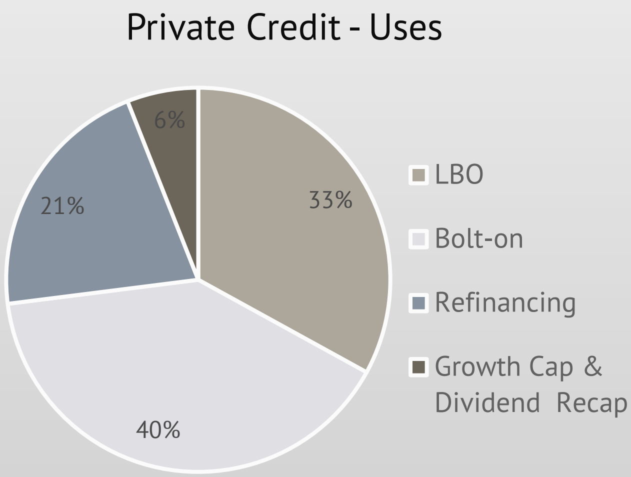
- Private credit funds still have significant 'dry powder' to deploy, with institutional assets under management exceeding $1.6 trillion of which $520 billion remains available for use.

- The UK remains the leading source of mid-market private debt activity in Europe, as businesses increasingly turn to alternative lenders for flexible capital solutions.

- Expert debt advisors are essential for navigating private credit lenders, complex loan structures and ensuring the best fit for business needs.







Source: Gambit analysis, Weil, Pitchbook, Real Deals

Gambit Corporate Finance

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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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