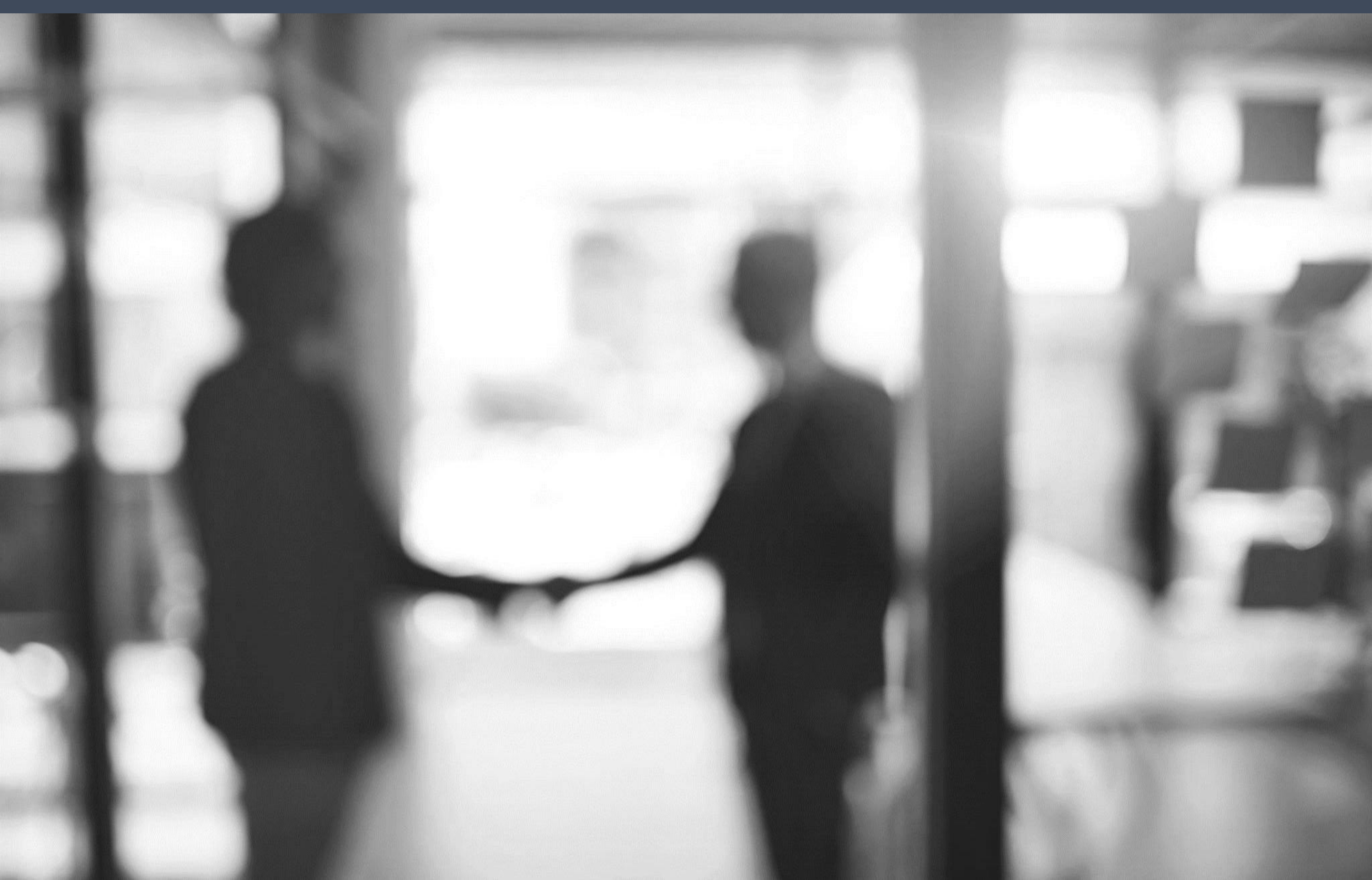
gambit CORPORATE FINANCE

Debt Capital Markets

Gambit Review

February 2025

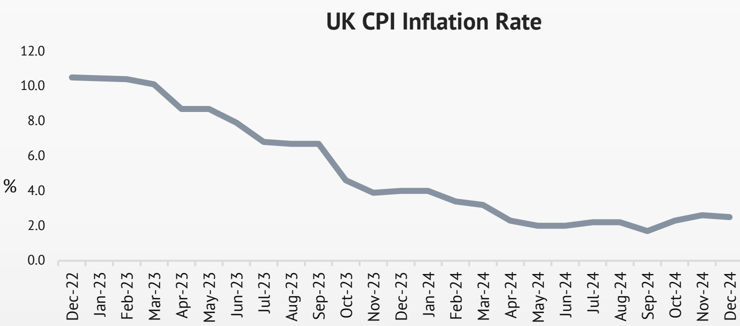


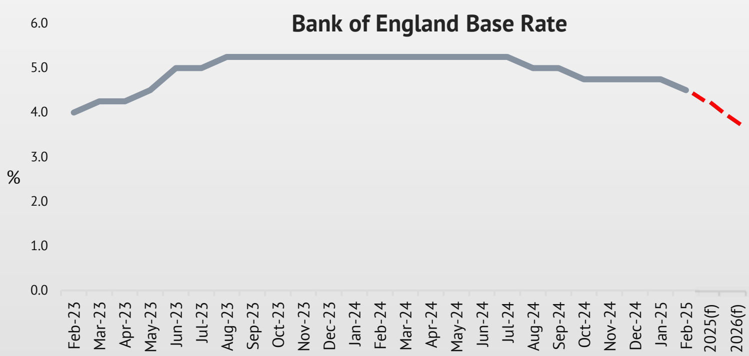
Executive Summary

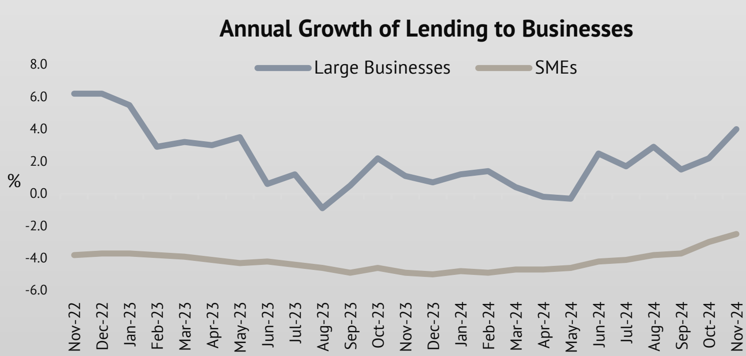
Jason Evans
Partner, Debt Advisory

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.



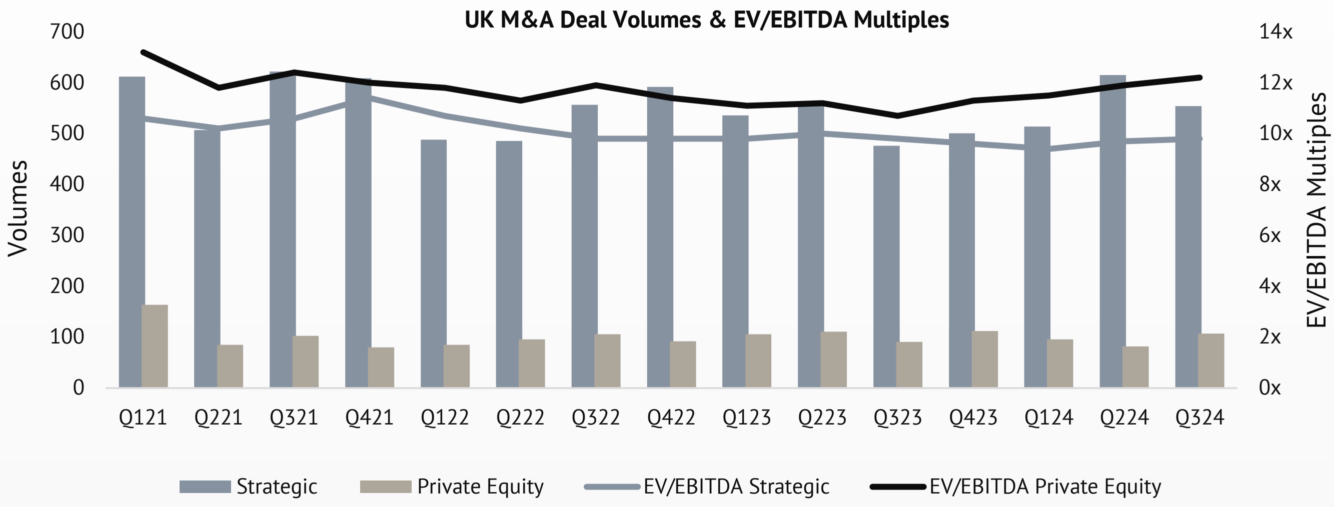




Source: Gambit analysis, Bank of England and ONS

- Inflation has fallen significantly from its peak of 11.1% in October 2022 to 2.5% in December 2024.
- As a result, the Bank of England reduced its base rate from 5.25% in July 2024 to 4.5% in February 2025.
- At the time of writing, the inflation rate ticked up to 3.0% in January 2025, but Capital Economics still forecasts further base rate reductions to 3.75% by the end of 2025.
- With the interest rate and inflationary environment stabilising, borrowing appetite among both SMEs and large businesses is improving.
- For large businesses, the annual growth rate of borrowing rose sharply from 1.5% in September 2024 to 4.0% in November 2024.
- Lending to SMEs continues to improve. The annual growth rate improved from -3.7% in September 2024 to -2.5% in November 2024.
- UK debt capital markets are transitioning from a "lender-friendly" environment and funding options are improving for well prepared borrowers.
- In the current climate, it is essential for borrowers to leverage the expertise of experienced corporate finance advisors to be well-prepared for discussions with financial institutions.

M&A & Credit Markets



Overview & Outlook

- The UK remains an attractive market for acquirers, with deal activity increasing by 4.7% from 1,879 transactions completed in the first nine months of 2023 to 1,968 deals completed in the first nine months of 2024.
- The volume of deals executed by financial acquirers increased by 30.5% from 82 transactions completed in Q2 2024 to 107 completed in Q3 2024, underpinned by improving macroeconomic conditions and increased deal activity, ahead of tax changes in the UK.
- The volume of transactions executed by strategic buyers fell by 9.9%, from 615 completions in Q2 2024 to 554 completions in Q3 2024.
- The UK M&A market has been impacted by the change in government. The uncertainty surrounding potential changes to capital gains tax prompted many shareholders to bring forward exit plans, creating greater market opportunities.
- The outlook for M&A activity remains robust. Underlying drivers such as sponsor activity, corporate ambition and cross-border activity are expected to be strong, however, the geopolitical environment remains fragile with potential further downside risk.

Valuation Multiples

- M&A valuation multiples have remained resilient, underpinned by stabilising economic conditions and easing inflationary pressures and interest rates.
- Private equity EV/EBITDA valuation multiples increased by 2.5% from 11.9x in Q2 2024 to 12.2x in Q3 2024. With an abundance of 'dry powder' still to be deployed, financial acquirors are expected to continue paying a premium for high quality assets.
- Strategic EV/EBITDA valuation multiples improved from 9.7x in Q2 2024 to 9.8x in Q3 2024, further reflecting the increasingly positive market sentiment.
- Gains in both financial and strategic multiples in Q3 2024 highlights improving deal-making conditions and sets a positive tone for M&A activity in 2025.

Source: Gambit analysis, ONS and S&P

Debt Market Trends

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Leveraged Finance

- European leveraged loan volumes reached a record high in 2024, with gross activity exceeding €200 billion. The institutional loan market issued €128 billion in new deals, outpacing the previous record set in 2021. This growth was driven by an influx of refinancing and repricing activity, supported by robust demand from investors.

- European M&A loan volumes increased from €16 billion in 2023 to €38 billion in 2024, reflecting heightened optimism across markets and a notable recovery in auction activity and sponsor-led acquisitions.

- Lender risk appetite is showing signs of increasing, with structures including higher leverage multiples and transactions such as dividend recapitalisations being more commonly seen in 2024 than in 2023.

- Looking ahead, the European leveraged loan market in 2025 is expected to improve in line with M&A market growth. Reducing inflationary pressure, declining interest rates and strong levels of 'dry powder' are anticipated to create strong conditions for increased deal flow.

Typical Pricing Spreads

	Senior Cash Flow	Unitranche	Subordinated
Jan-25	4.00% – 6.00%	6.00% - 8.25%	10.00% - 13.50%
Dec-24	4.00% – 6.00%	6.00% - 8.25%	10.00% - 13.50%
Jan-24	4.50% - 6.50%	6.50% - 8.75%	10.25% - 13.50%

- Average pricing spreads have broadly tightened from January 2024 to January 2025.

- With inflationary pressure falling from its peak in October 2022 and further base rate reductions expected in 2025, debt capital markets are now more balanced.

- Drawing on the expertise of a knowledgeable debt advisor to support a quality proposal to present to the most relevant funder audience, is key to achieving a successful fundraise in this dynamic market.

Source: Bank of England, Weil and Gambit analysis

Private Credit

- Global private credit is nearing $2 trillion in total market size. This significant growth has been supported by the expansion of direct lending and asset-based financing, advancements in technology and the reduced risk appetite of mainstream lenders.

- The number of direct lending deals increased by 56.7% from 90 deals financed in 2023 to 141 deals financed in 2024, surpassing the peak of 138 deals in 2021.

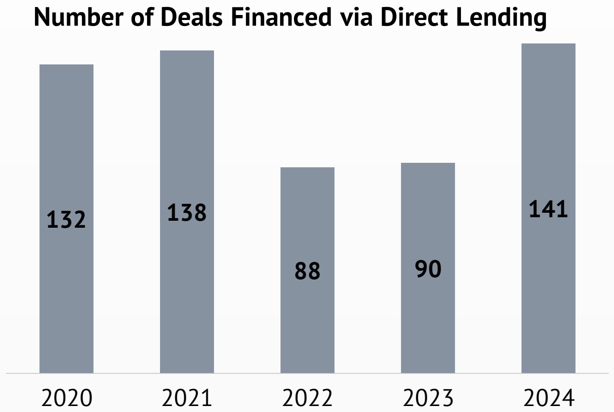
- The proportion of private credit transitions attributed to the Business and Professional Services (BPS) sector has increased from 13.6% in 2020 to 29.8% in 2024. Alongside this, the Technology sector remains a key target, while Healthcare, Manufacturing and Real Estate continue to maintain their positions in the top five.

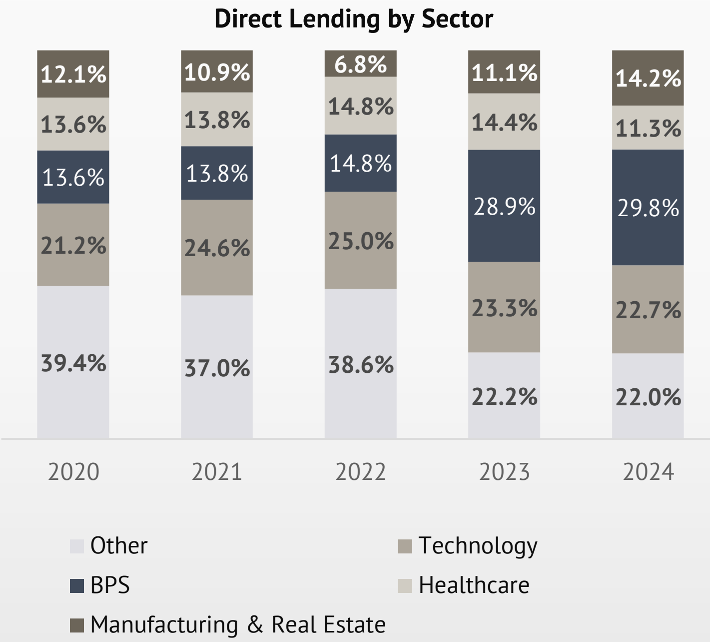
- Major institutional developments such as Goldman Sachs' new private debt division and Ares Management's €30 billion European fund signal further confidence and expansion within the market. Trends at the top end of the market often trickle down to the mid-market, with increased liquidity and more favourable lending terms anticipated, given the availability of capital.

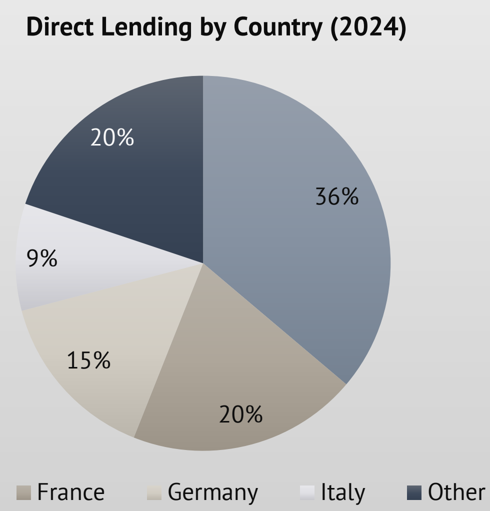
- The UK has led European direct lending activity since 2020, with a robust private equity ecosystem. Germany and France have experienced slower growth compared to the UK but remain key players.

- The private credit market is forecast to continue to grow over the next 12 months, underpinned by declining interest rates, improving M&A activity and increased private credit diversification across deal sectors, sizes and geographies.

- In the current 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: 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 Journey Hospitality on its fundraising from Growth Lending

Gambit Corporate Finance acted as lead advisor to Hybrid. on its fundraising from HSBC

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 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 300 professionals located in 29 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 19 globally by Thomson Reuters for transactions valued up to €200m.

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