

Links Capital

Links' List of Multiples and Buyers

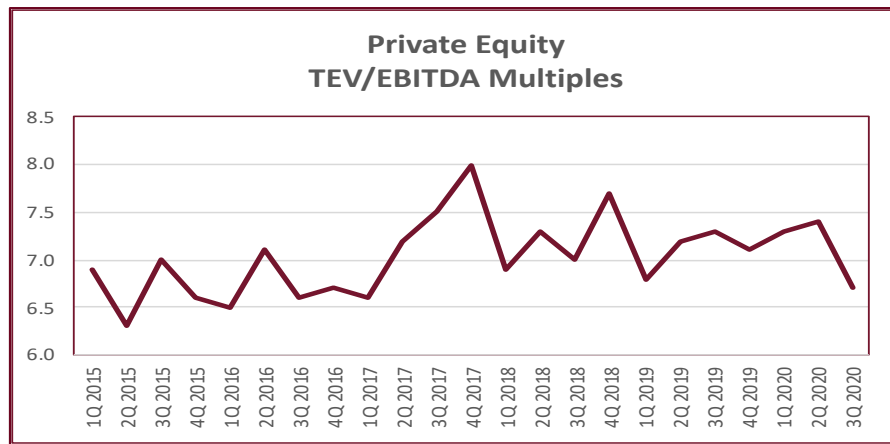
December 2020



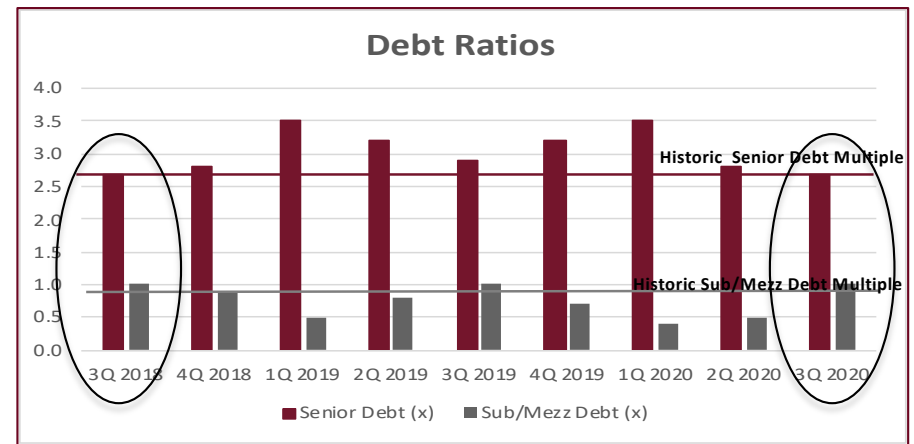
Links Capital

Divestitures • Acquisitions • Financings

Q3 Private Equity Valuation & Debt Multiples



Data Source: GF Data®



Data Source: GF Data®

In private equity transactions under \$250 million, EBITDA enterprise valuation multiples fell to 6.7x from 7.4x EBITDA (-9.5%) last quarter. Total Debt to EBITDA multiples moved up to 3.7x (12%) compared to the previous quarter at 3.3x EBITDA, why and how this happened is worth discussing. Even though debt multiples increased quarter over quarter, senior debt multiples decreased slightly in the quarter by 0.1x while subordinated and mezzanine debt doubled from 0.5x to 1.0x EBITDA (GF Data).

When uncertainty hits the markets, debt multiples pullback but there is a distinct difference this time on how banks are dealing with the current environment. Senior lenders are supporting larger portions of their portfolios with deferrals and concessions on these non-performing assets. Many of the banks are not forcing these companies into insolvency, instead they are carrying these loans, resulting in more hands-on management of their portfolios reducing their time available for gathering new performing assets. Banks are also being more particular on funding deals, resulting in additional capital being required from other lenders or equity investors to get transactions completed. If subordinated or mezzanine debt is difficult to find in the market as was the case in Q2 (6.8% of deals vs historic of 13.8%), more equity is required to close transactions. In Q2, equity represented more than 55% of the transaction value compared to historic levels around 44%. Thanks to the increased investment of subordinated and mezzanine debt in Q3, total debt multiples increased, reducing equity investment back to 44.8% of the transaction value.

With the banks lack of aggressiveness on new loan generation it creates an opportunity for other capital providers to take advantage of placing capital at EBITDA multiples that senior loans would typically lend at. Mezzanine and subordinated debt lenders filled this void by increasing their lending from 0.5x EBITDA in Q2 to 1.0x EBITDA in Q3. Not only are these subordinated lenders lending at lower less risky EBITDA turns, the average spread on the subordinated debt lending increased by 0.8% over Q2 and 1.4% over Q1, which is still less expensive than equity.

Despite the expected pullback in valuation multiples, multiples are normalizing as the current debt multiples are the same as they were in Q3 2018 and near the historic total debt multiples of the GF Data dataset from 2009 to current. (Data sourced from GF Data)



Links Capital

Divestitures • Acquisitions • Financings

Private Equity Platform Investments and Buyouts

**Investors Seeking Strong Stable Cash Flows with
Growth Oriented Niche Industries
(>\$3 million EBITDA)**

**Management Buyouts
(>\$ 2 million EBITDA)**

**Distressed Balance Sheets
(\$2-\$10 million Historical EBITDA)**

**Financial Services
(> \$5 million EBITDA)**

**Distribution Businesses
(\$2-\$10 million EBITDA)**

**Chemicals & Adhesive Manufacturers
(\$2-20 million EBITDA)**

**Healthcare Services & HCIT
(\$2-\$20 million EBITDA)**

Current Add-on Investments Strategic and Private Equity Investors

Value Added Agriculture

Consumer Packaged Goods

Industrial Distribution Services

Medical Device Manufacturing

Food/Beverage Manufacturing and Services

High Tech Contract Manufacturing (EMS)

Co-Packaging & Co-Manufacturing

Nutritional Supplements

Chemical and Adhesives Manufacturers

Healthcare Services

Pet Care Products & Services

Environmental (Waste Management/ Recycling)





DIVESTITURES



FINANCINGS



ACQUISITIONS

Ron Chicoyne, CFA, CA, ICD.D
Managing Director
rchicoyne@linkscap.com
403.809.7985

Links Capital Partners Ltd.
Suite 240, 30 Springborough Blvd SW
Calgary, Alberta, T3H 0N9
www.linkscap.com



Links Capital
Divestitures • Acquisitions • Financings