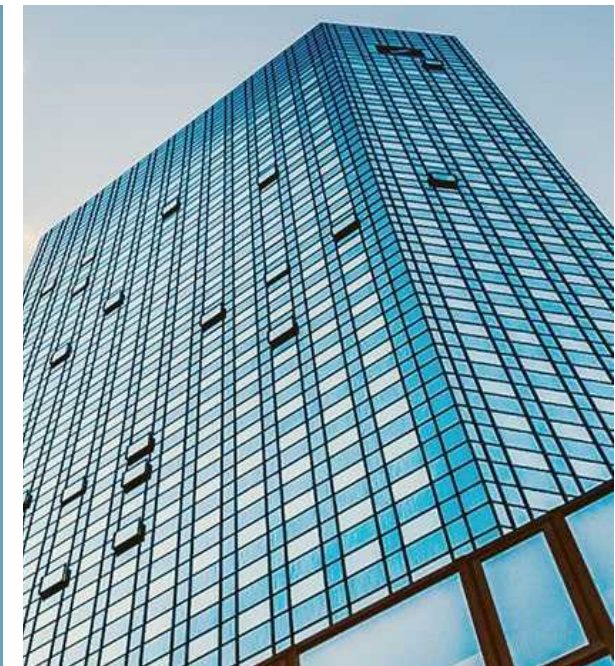


4th October 2022

# Lincoln Webinar: Q3 European Private Market Insights



 **LINCOLN**  
INTERNATIONAL

# Speakers

---



**Aude Doyen**  
Managing Director,  
Capital Advisory  
London, UK



**Richard Olson**  
Managing Director,  
Valuations & Opinions  
London, UK



**Dominik Spanier**  
Managing Director,  
Capital Advisory  
Frankfurt, Germany



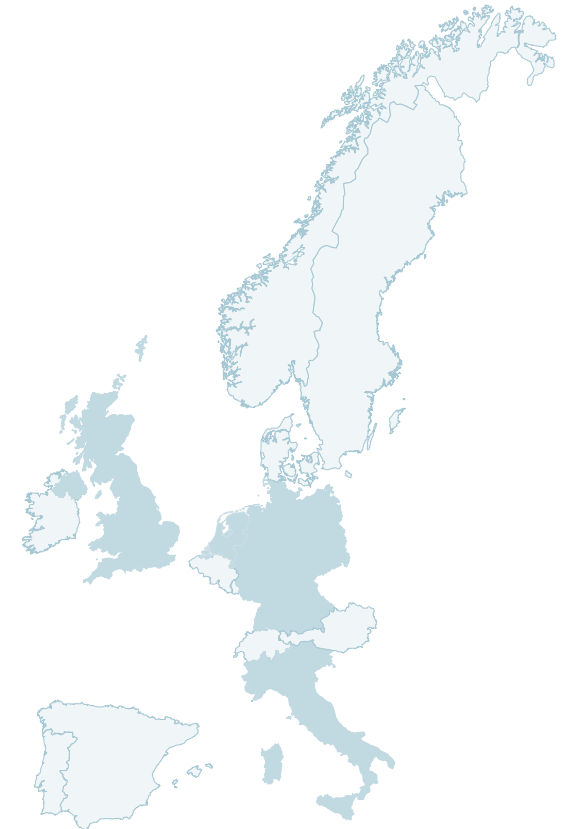
**Daniele Candiani**  
Managing Director,  
Capital Advisory  
Milan, Italy



**Florus Plantenga**  
Managing Director, FSG  
London, UK



**Xenia Sarri**  
Managing Director,  
Capital Advisory  
London, UK





# Agenda

Market snapshot - observations on valuations and equity cushions

Update on current financing environment

- Expectations around interest rates across Europe
- Impact on SFA (Hedging obligations, Covenants)

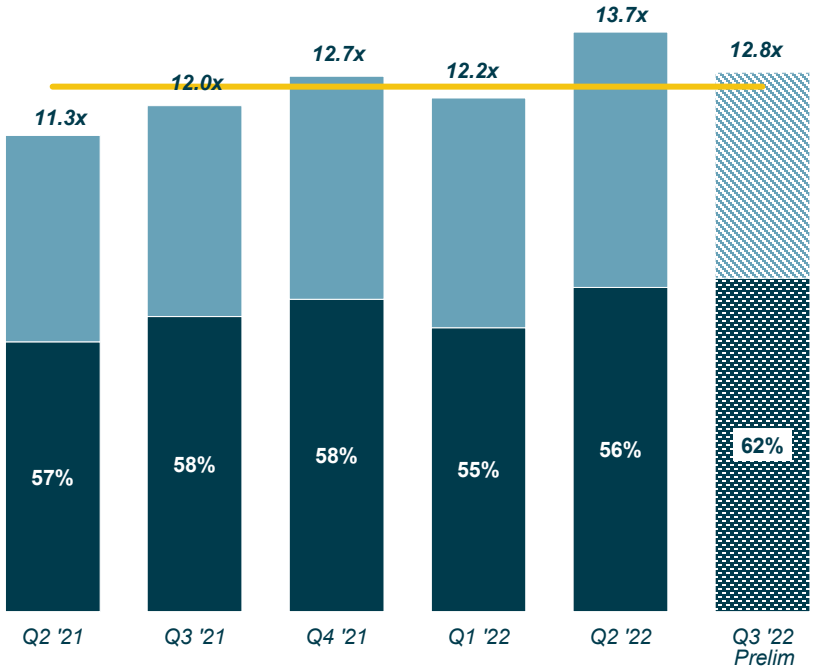
Current lender appetite for deals

- Recent leverage and interest trends
- Sector preferences
  - TMT insights: ARR financings

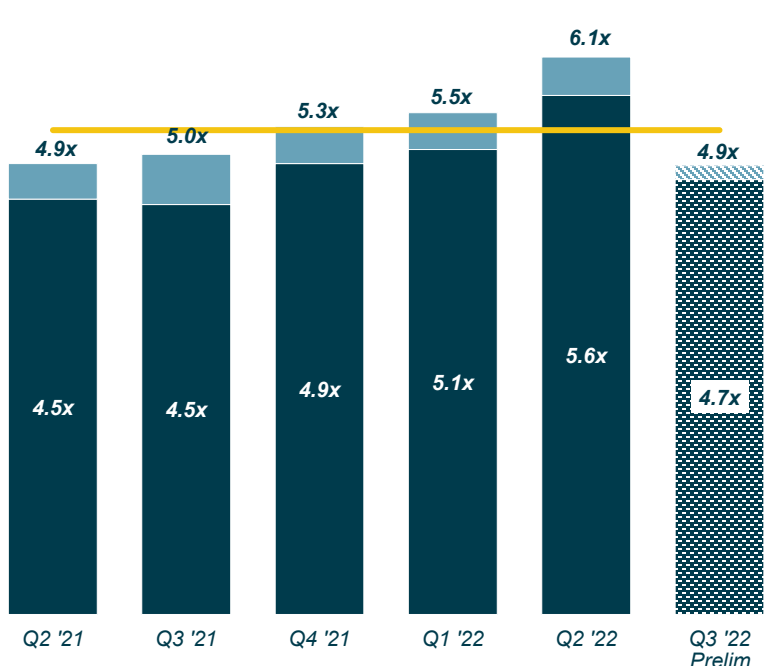


# Observed Third-Party M&A Buyouts (New Deals)

EV Transaction Multiples



Leverage Transaction Multiples

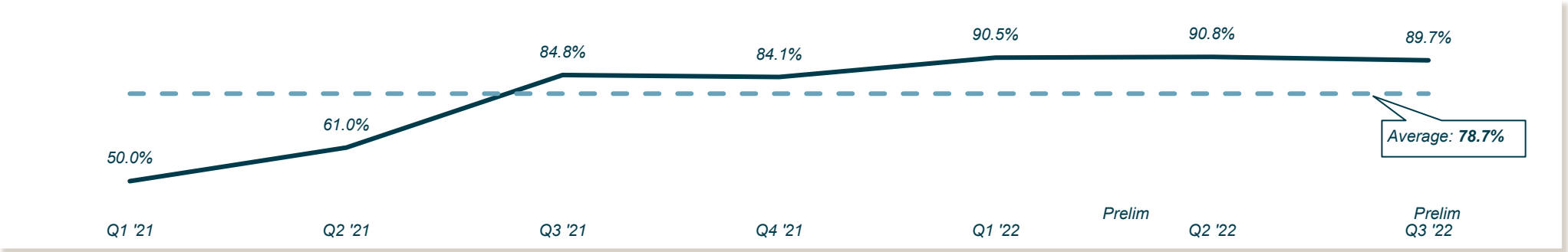


Coming off a record year of closed transactions in 2021, deal activity continued to be slower in Q3 2022, with ~60% of new deals in healthcare, business services, and software.

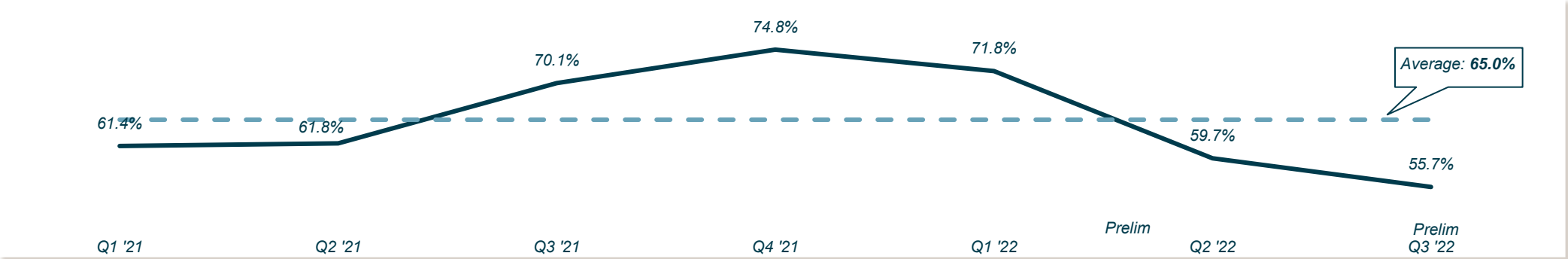
Source: Lincoln Proprietary Database all companies, including Non-European and Non-UK.

# European Revenue & EBITDA Growth (All Deals)

### Percentage of Companies Reporting YoY Revenue Growth



### Percentage of Companies Reporting YoY EBITDA Growth

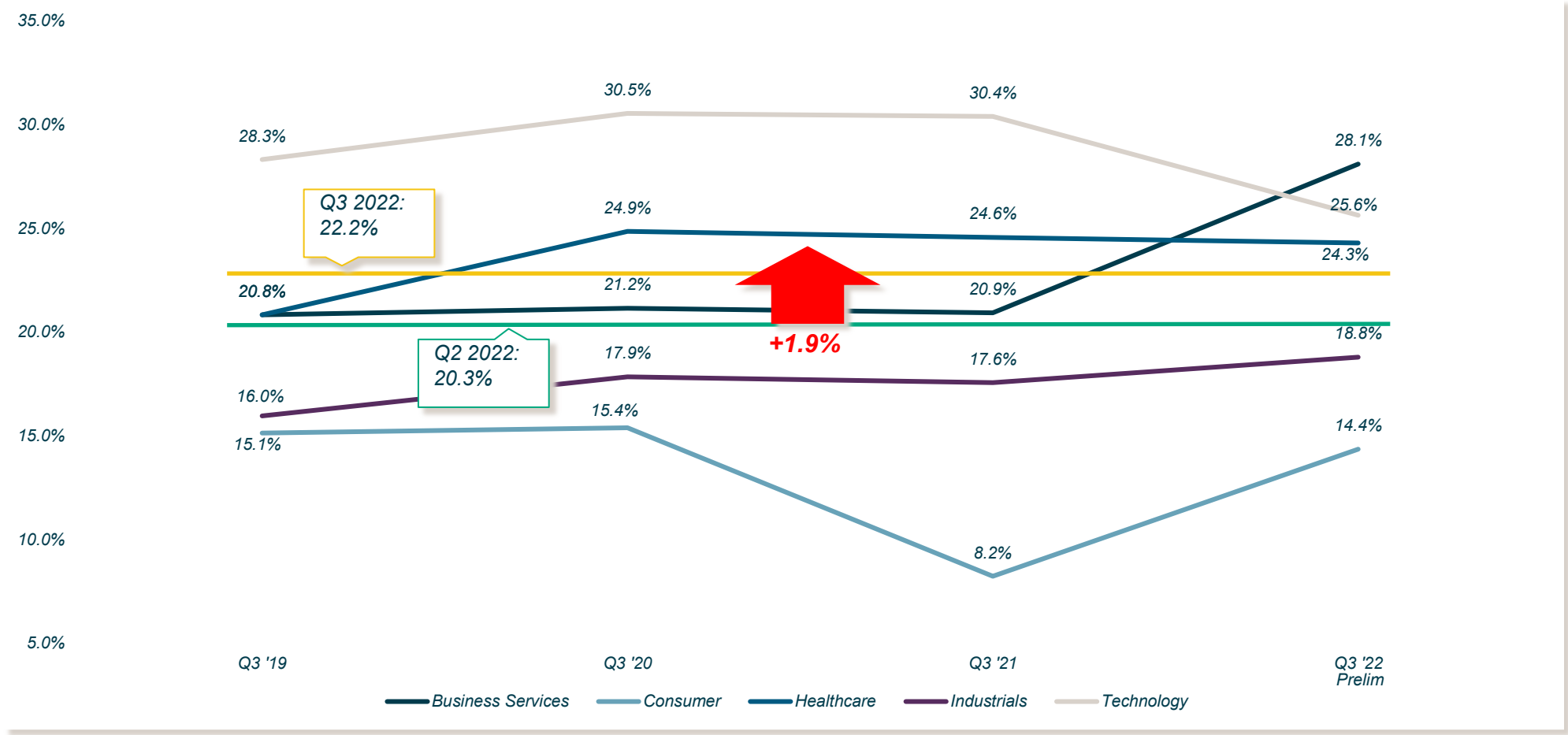


An economic downturn in Europe saw a fall in EBITDA growth but revenue growth remains strong year-over-year, staying above the 2-year average

Source: Lincoln Proprietary Database.

# European Gross Profit Margins

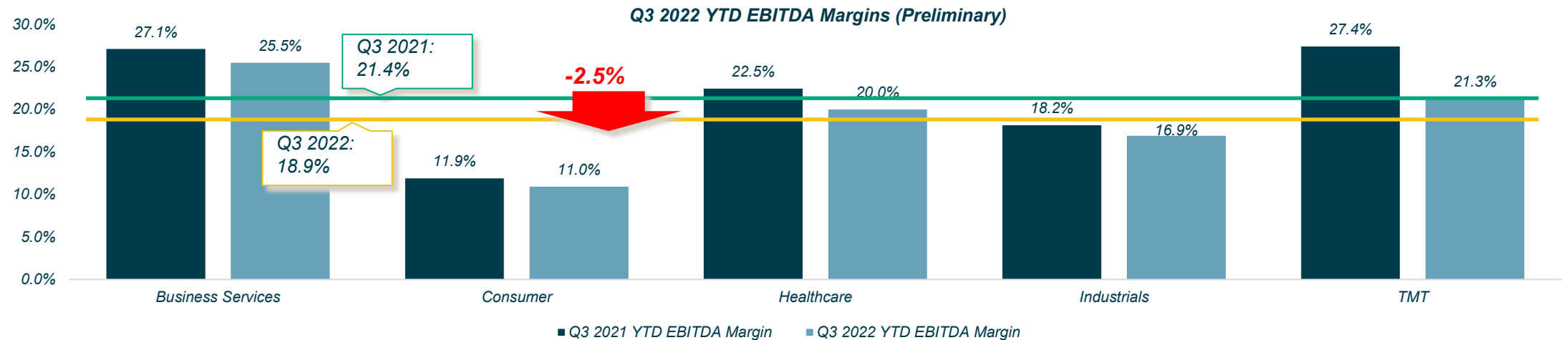
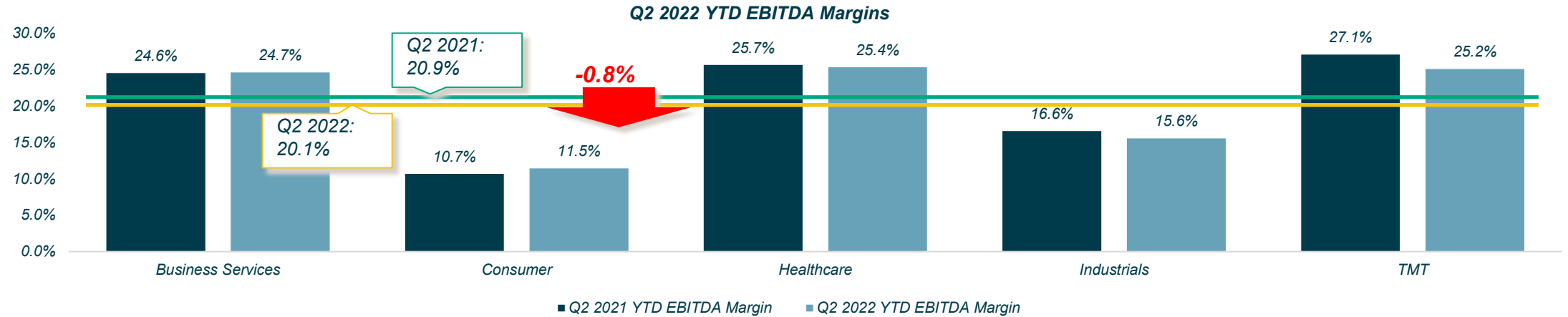
Gross profit margins improved +1.9% (Q2 2022 vs Q3 2022 preliminary) on average, indicating that the more recent gross profit performance is trending positively compared to the prior quarter



Source: Lincoln Proprietary Database.

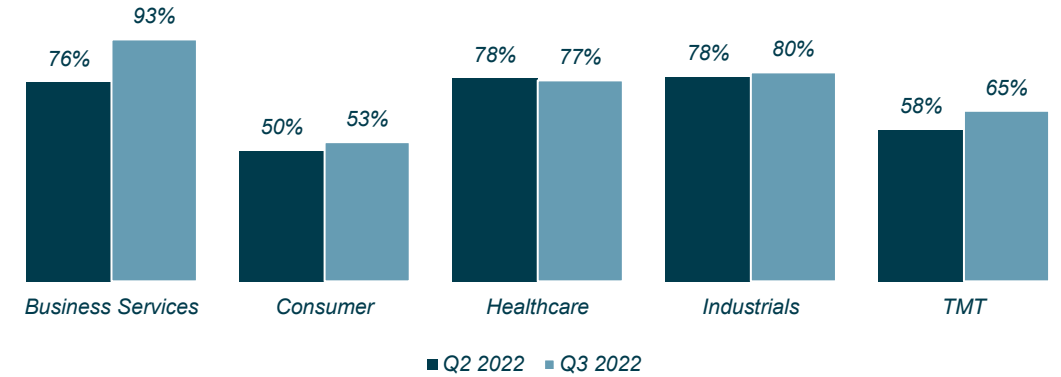
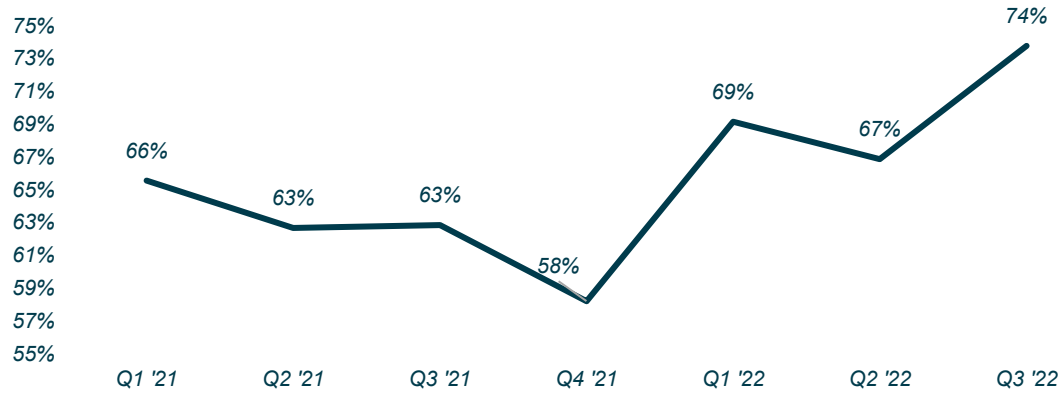
# European EBITDA Margins

EBITDA margins contracted -0.8% (YoY Q2 2022) and -2.5% (YoY Q3 2022 preliminary) on average, indicating that more recent company fundamental performance is trending negatively at an accelerating rate compared to the prior year

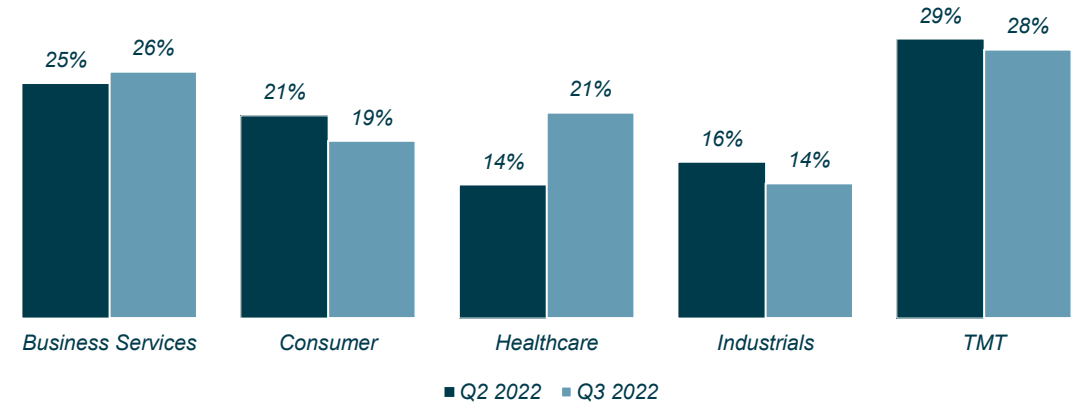
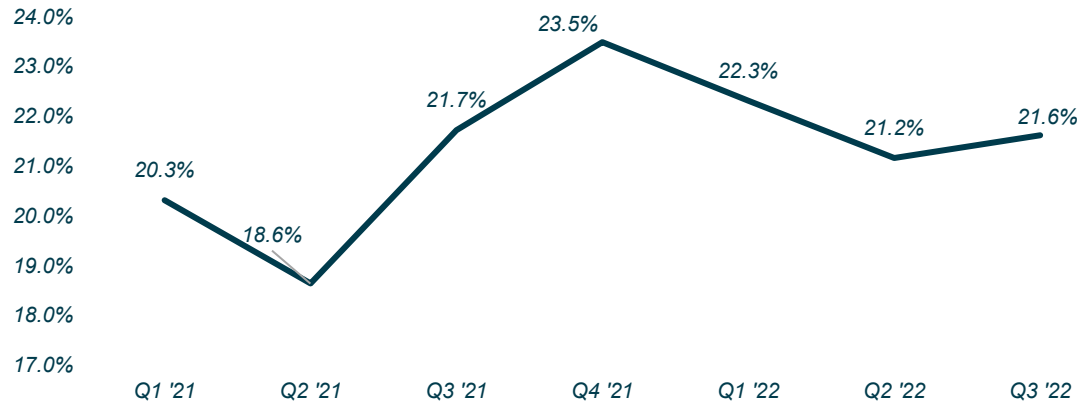


# European EBITDA Adjustments

## Percentage of Companies Reporting EBITDA Adjustments



## Magnitude of EBITDA Adjustments



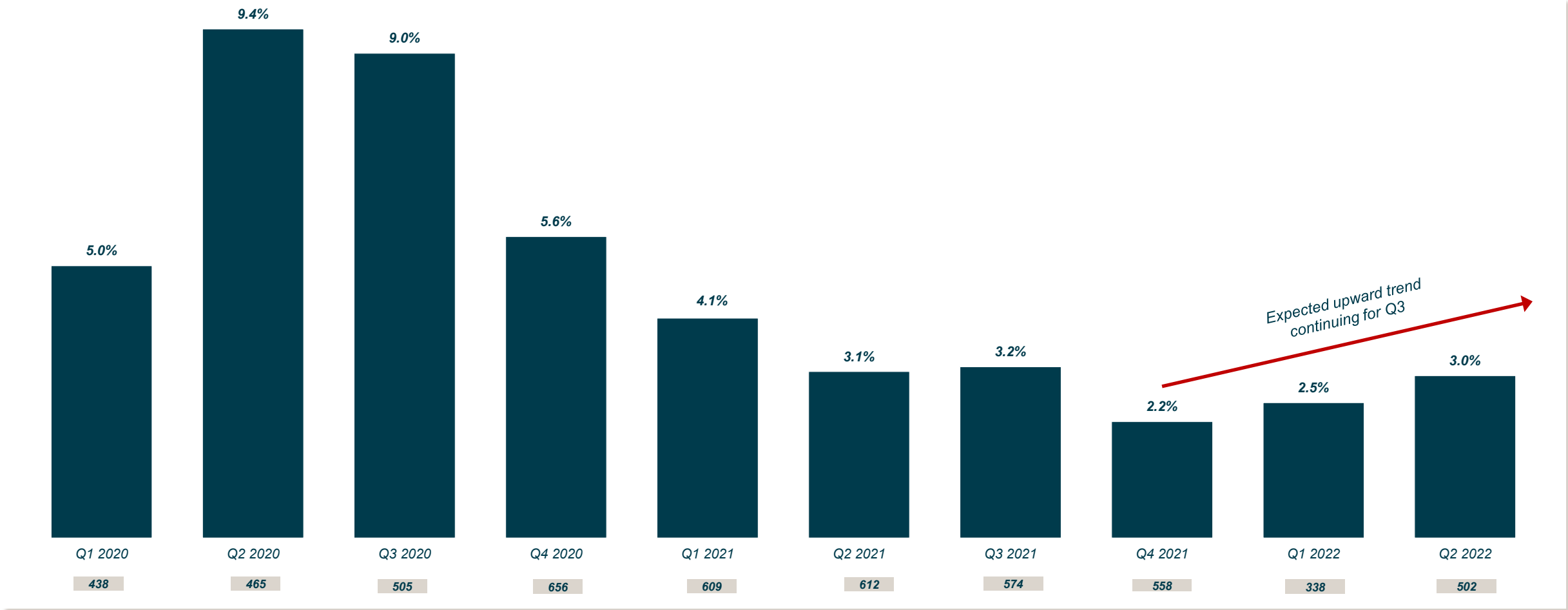
Source: Lincoln Proprietary Database EU only  
 Note: Adjustments to EBITDA as a percentage of Adj. EBITDA were calculated by dividing EBITDA adjustments by the concluded Adj. EBITDA as used for valuation purposes. EBITDA adjustments were available for approximately 75% of companies in the database. Adjusted EBITDA was defined as EBITDA accepted via a compliance document.  
 Note: TMT represents technology, media, and telecommunications.



# Global Covenant Breaches

Covenant breaches are expected to continue to increase for Q3 and are likely to persist

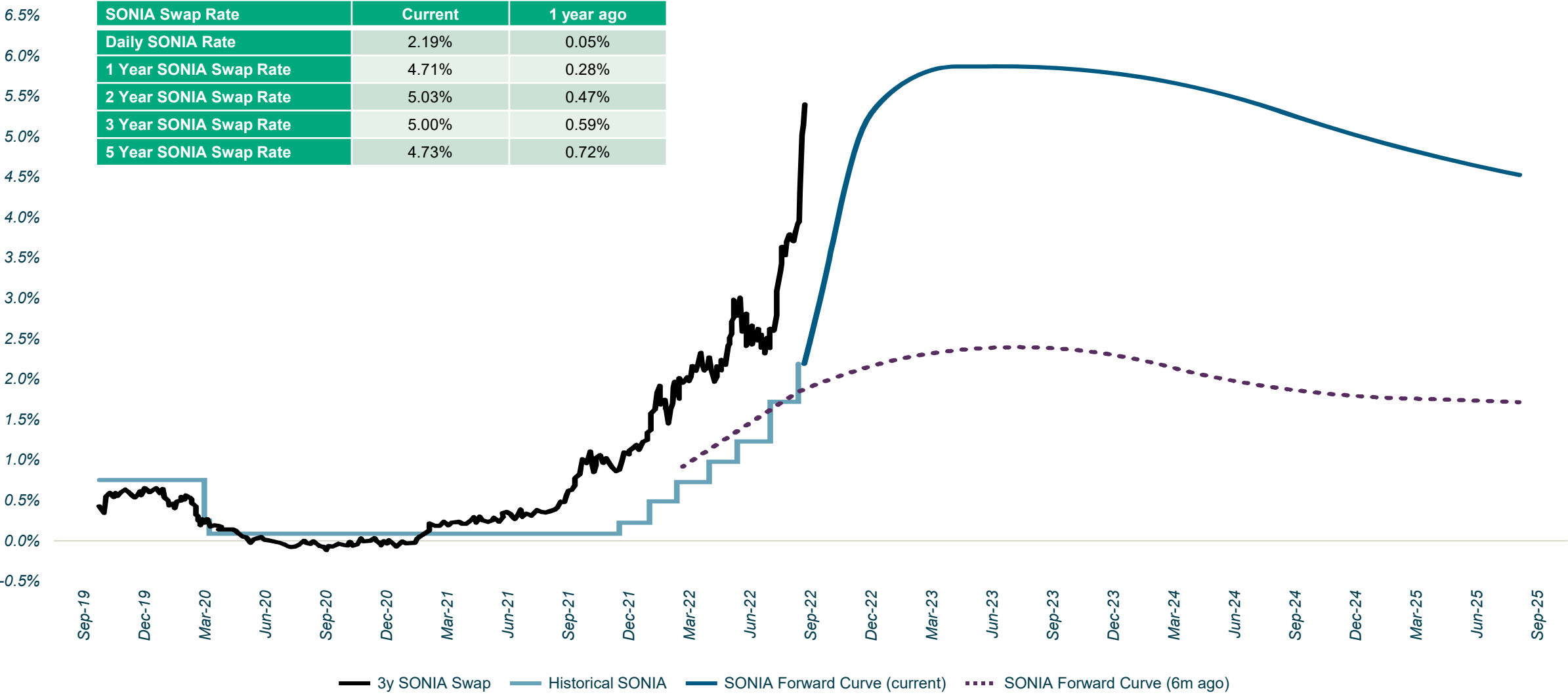
## Size-Weighted Covenant Breach Tracking



Source: Lincoln Proprietary Database including non-European and non-UK data.  
Note: A covenant breach is not necessarily a default under each facility's respective credit agreement. The analysis was performed based on a size-weighted approach, which considered the total net debt balance for each of the portfolio companies that had a security with a covenant breach in the respective quarter.













# GBP SONIA

SONIA Swap Rate	Current	1 year ago
Daily SONIA Rate	2.19%	0.05%
1 Year SONIA Swap Rate	4.71%	0.28%
2 Year SONIA Swap Rate	5.03%	0.47%
3 Year SONIA Swap Rate	5.00%	0.59%
5 Year SONIA Swap Rate	4.73%	0.72%



# Current mid-market financing terms from banks













Banks becoming more selective with reduction in leverage levels by approx. 0.25x-0.50x EBITDA and margin increase by 25bps to 50bps compared to Q1 /2022

							
 <b>Leverage</b>	3.00x to 4.00x	3.00x to 4.00x	3.00x to 4.25x	3.00x to 4.00x	3.25x to 4.00x	3.00x to 4.00x	3.00x to 4.00x
 <b>Margin</b>	5.00% to 6.00%	4.50% to 5.50%	3.50% to 4.75%	3.75% to 4.25%	3.75% to 4.25%	3.50% to 4.25%	4.00% to 5.00%
 <b>Arrangement fees</b>	2.00% to 2.50%	3.00% to 3.25%	2.25% to 2.75%	2.75% to 3.00%	2.75% to 3.00%	2.50% to 3.00%	2.50% to 3.25%
 <b>Equity cushion</b>	50%+	45% to 50%	50%	40% to 50%	Min 50%	40% to 50%	40% to 50%
 <b>Prepayment penalties</b>	None / 101 or 102	None	None	None	None	None	None

Illustrative terms below represent our summary of senior market terms available to a strong mid-market European leveraged credit as of October 2022

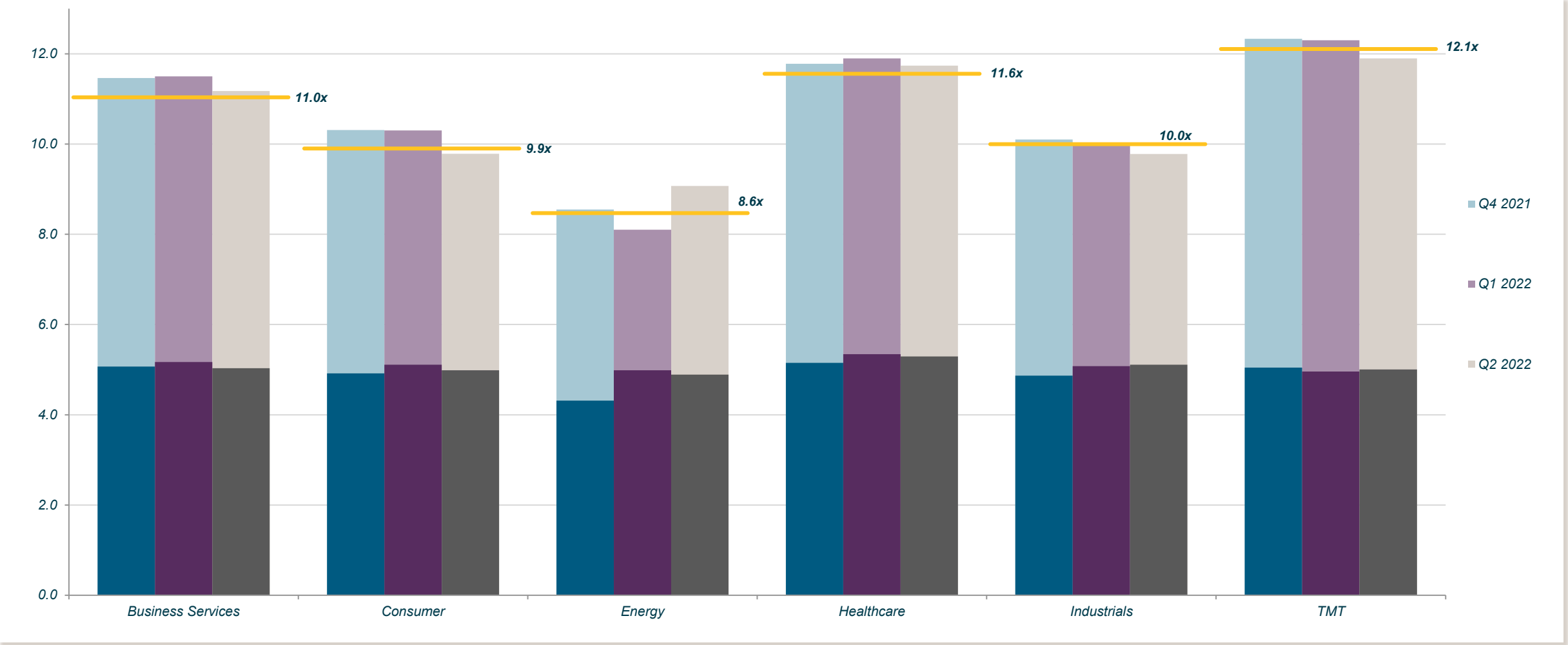
# Current mid-market financing terms from funds

Reduced debt service capability of borrowers as main driver for reduction in leverage by approx.0.5x to 1.0x EBITDA with margin increases of 50bps to 75bps

							
 <b>Leverage</b>	4.50x to 5.50x	4.00x to 5.50x	4.00x to 5.50x	4.50x to 5.75x	4.50x to 5.25x	3.75x to 5.50x	4.00x to 5.50x
 <b>Margin</b>	6.00% to 7.00%	6.50% to 8.00%	6.00% to 8.00%	6.5% to 7.50%	6.5% to 7.50%	6.25% to 7.25%	6.50% to 8.00%
 <b>Arrangement fees</b>	2.00-3.00%	3.00% to 3.50%	2.50% to 3.00%	3.00% to 3.50%	3.00% to 3.50%	2.75% to 3.00%	2.50% to 3.25%
 <b>Equity cushion</b>	45%	40% to 50%	40% to 50%	40% to 50%	Min 45%	40% to 50%	40% to 50%
 <b>Prepayment penalties</b>	102 / 101 to 103 / 102 / 101	NC1, 101 or 102	NC1, 101 or 102	NC1, 101 or 102	NC1, 101 or 102	NC1, 101 or 102	NC1, 101 or 102

Illustrative terms below represent our summary of unitranche market terms available to a strong mid-market European leveraged credit as of October 2022

# EV/LTM EBITDA Multiple Evolution by Industry

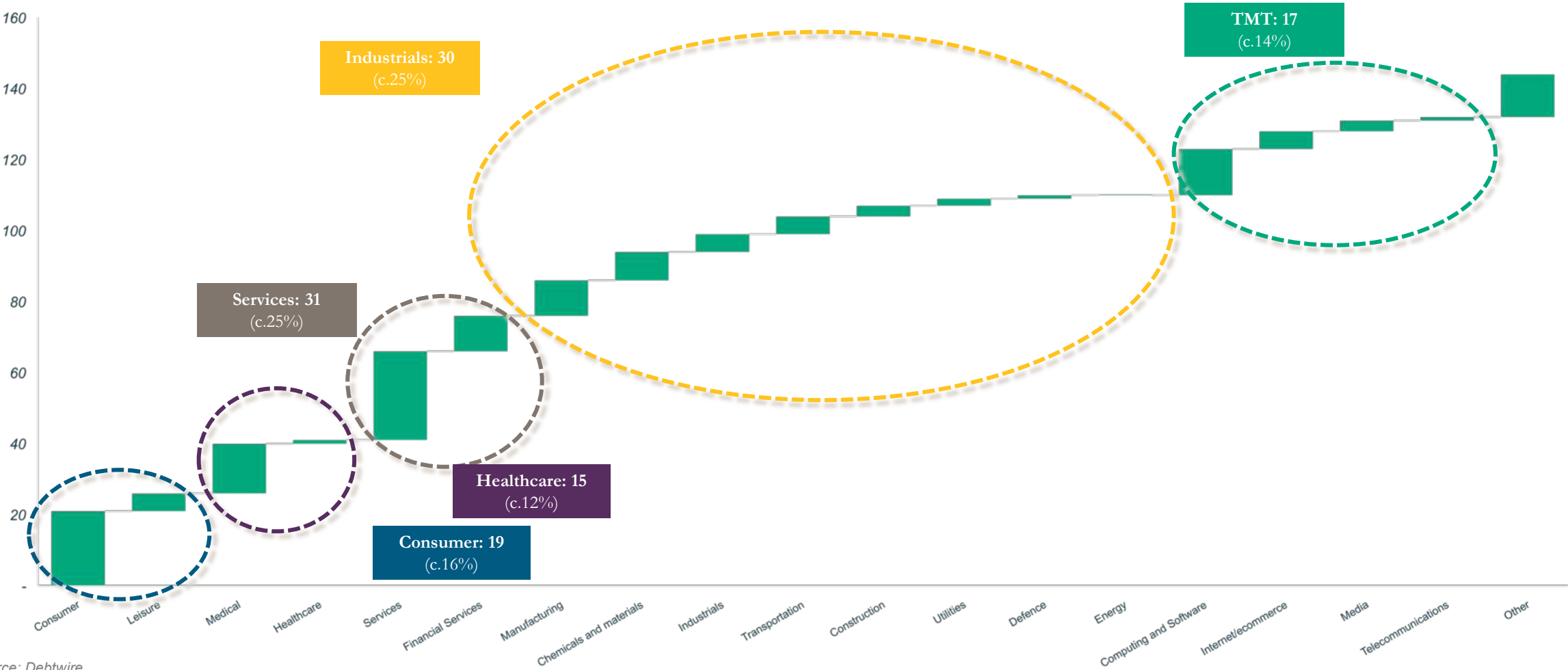


Source: Lincoln Proprietary Database Global Data.  
 Note: Enterprise value as estimated by Lincoln; darker colors represent average leverage multiple, while lighter colors represent average enterprise value multiple.  
 Note: EV/LTM EBITDA multiples exclude revenue multiples.  
 Note: TMT represents technology, media, and telecommunications.  
 Represents 2-year historical average.



# Industrials and Services have been the main sector contributors through H1 2022

Mid-Market Direct Loan Issuance By Sector, H1 2022



Source: Debtwire

# Q & A

## Recent European Capital Advisory Transactions

**VR Equitypartner**  
and co-investors

have acquired a majority stake in

**HeizungsDiscount24.de**  
Der Fachhändler mit Discountpreisen

Acquisition Financing



**verdane**



has acquired

**papirfly.**

from

**Standout Capital**

Acquisition Financing




**WestBridge**

has acquired

**techex.**

Buy-Side Acquisition Financing



**capiton**

has acquired a majority stake in

**BETONBAU**

from

**SCHWENK**

Acquisition Financing



**DIGITALBRIDGE**

has refinanced

**DIGITA**

Capital Raise



**G SQUARE**  
HEALTHCARE PRIVATE EQUITY

has merged and refinanced

**accomplish.**  
make every day something

**keys group**

into a continuation vehicle

Refinancing



**CHILTERN CAPITAL**

has recapitalized

**Steer**  
AUTOMOTIVE GROUP

Refinancing



**AURELIUS**



has agreed to acquire

**FOOTASYJUM**

from

**UNDISPUTED KING OF TRAINERS**

Buy-Side Acquisition Financing



**ARCUS**  
INFRASTRUCTURE PARTNERS

has agreed to acquire

**WORKDRY INTERNATIONAL**

Buy-Side Acquisition Financing



**ORIENTA**  
CAPITAL PARTNERS

has acquired

**TRENDCOLOR**  
MAKE-UP CONTRACT MANUFACTURER

with financing provided by

**FININT SGR**  
GRUPPO BANCA FININT

Acquisition Financing



**TRILANTIC EUROPE**

has acquired a majority stake in

**PÀSSIONE UNGHIE**

with financing provided by

**EURAZEO** **H.L.G.** **WHITEHORSE**

Acquisition Financing



**TRILL IMPACT**

has acquired a majority stake in

**karriere tutor**  
Gemeinsam. Digital. Erfolgreich.

Acquisition Financing

