



 **LINCOLN**  
INTERNATIONAL

# Proprietary European Insights – Spring

Capital Advisory, M&A, Valuations

28 April 2021

# Agenda

1

Capital Advisory  
Update

M&A Market  
Update

2

3

Valuations Insights

## Presenters



**Dominik Spanier**  
Managing Director,  
Germany



**Daniele Candiani**  
Managing Director,  
Italy



**Eric Wijs**  
Managing Director,  
Head of Benelux



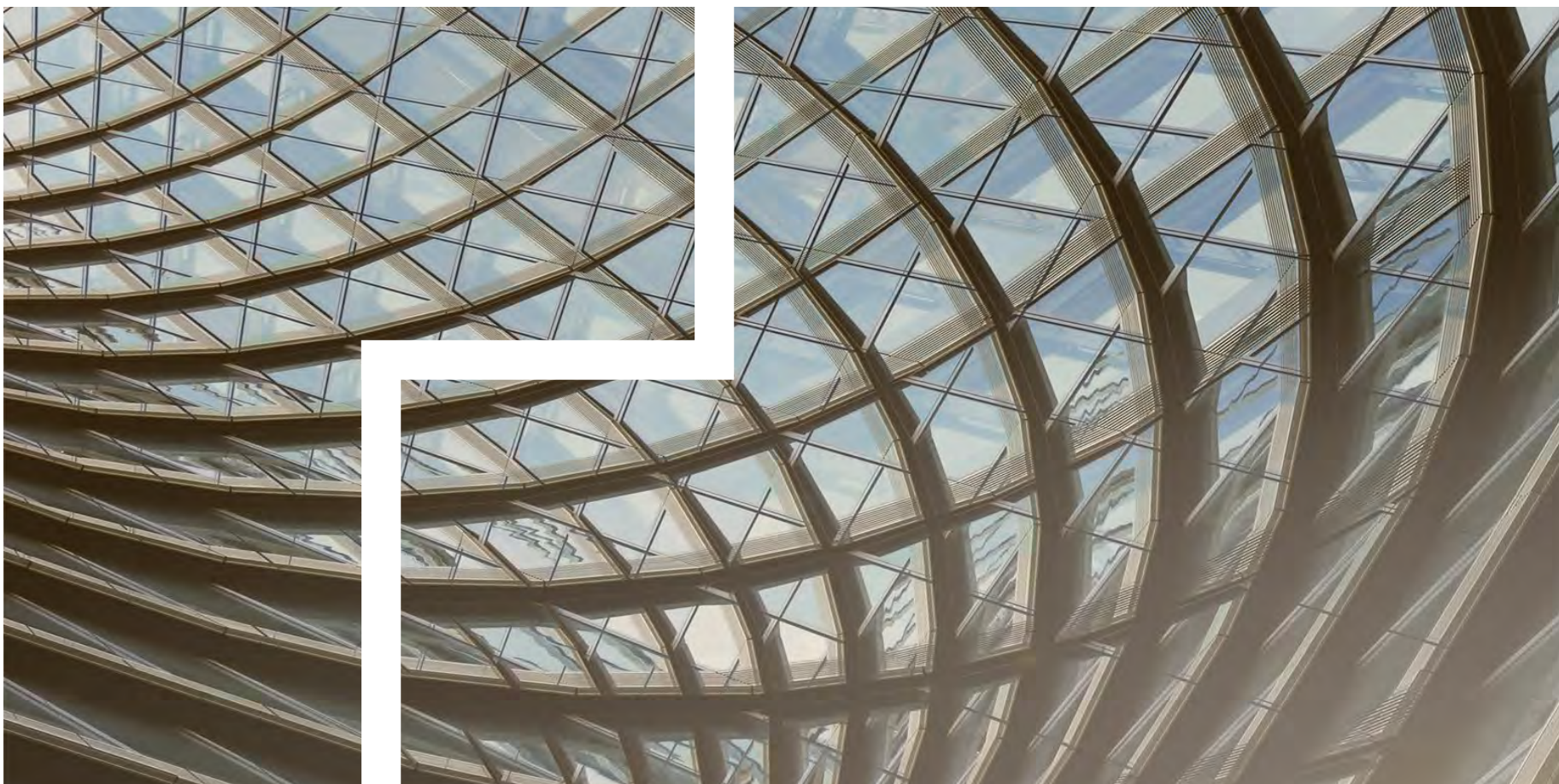
**Nick Baldwin**  
Director,  
London



**Richard Olson**  
Managing Director,  
London

# Capital Advisory Update

Daniele Candiani  
&  
Dominik Spanier

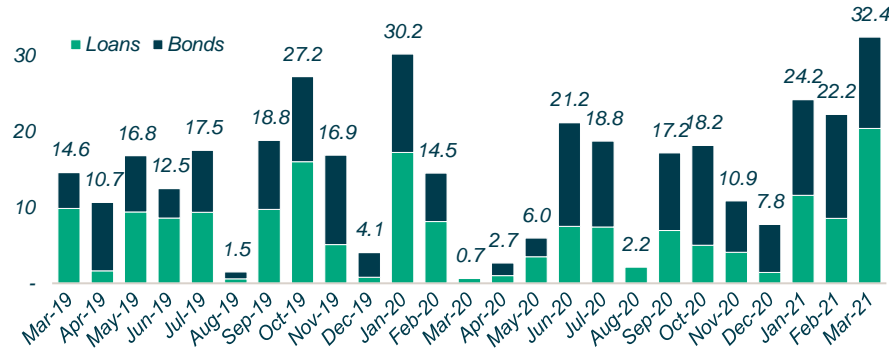


# European leveraged markets

*Markets are recovering with leveraged loan volume exceeding pre-Covid 19 levels*

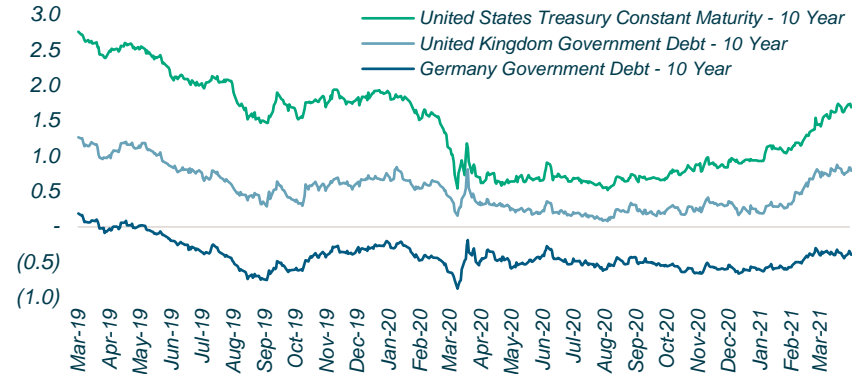
## 1 Leveraged activity levels have recovered from 2020

European leveraged finance volumes (in €bn)



Source: LCD

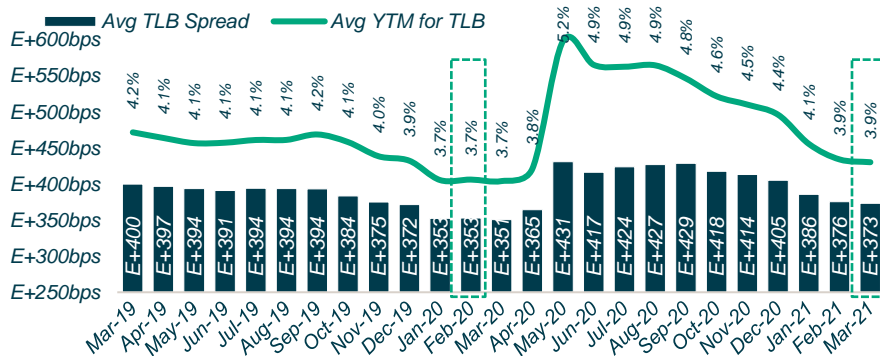
## 2 Rising treasury yields have not impacted loan pricings yet



Source: Capital IQ

## 3 Loan pricing is almost back to pre-COVID level

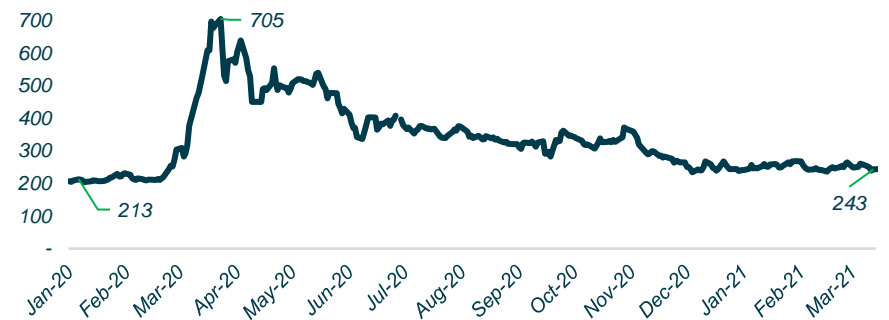
European average new-issue yields (EUR loans)



Source: LCD

## 4 The second and third wave have caused less of a shock






Perceived risk of defaults by European companies with low credit ratings (iTraxx Europe crossover)



Source: Capital IQ

# Mid-market: Terms largely back to pre-COVID levels

*Illustrative terms below represent our summary of senior/unitranche market terms available to a reasonably strong mid-market European leveraged credit (not directly impacted by COVID) in recent months*

	Bank <sup>1</sup> Spring 2021 UK	Fund Spring 2021 UK	Bank <sup>1</sup> Spring 2021 Germany	Fund Spring 2021 Germany	Bank <sup>1</sup> Spring 2021 Italy	Fund Spring 2021 Italy
 Leverage	4.0x-5.0x	5.0x-6.0x	3.5x-4.5x	5.0x-6.0x	3.25x-4.25x	4.0x-5.5x
 Margin	3.50% to 4.50%	5.75% to 6.75%	3.50% to 4.00% (TLB)	6.00% to 6.50%	3.50% to 4.25%	5.50% to 7.50%
 Arrangement fees	2.50% to 3.25%	2.75% to 3.75%	2.50% to 2.75%	2.75% to 3.00%	2.50% to 3.00%	2.75% to 3.50%
 Equity cushion	40% to 50%	35% to 40%	40% to 50%	35% to 40%	40% to 50%	35% to 40%
 Prepayment penalties	None	NC1, 102 (6m)	None	NC1, 101 or 102	None	NC1, 101 or 102

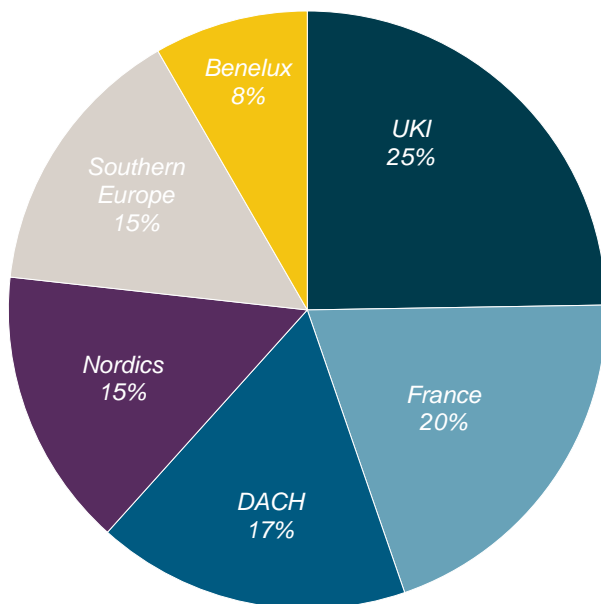
<sup>1</sup> Based on a limited sample as banks' appetite for new deals is more limited than funds' appetite

# Mid-market: European financing activity

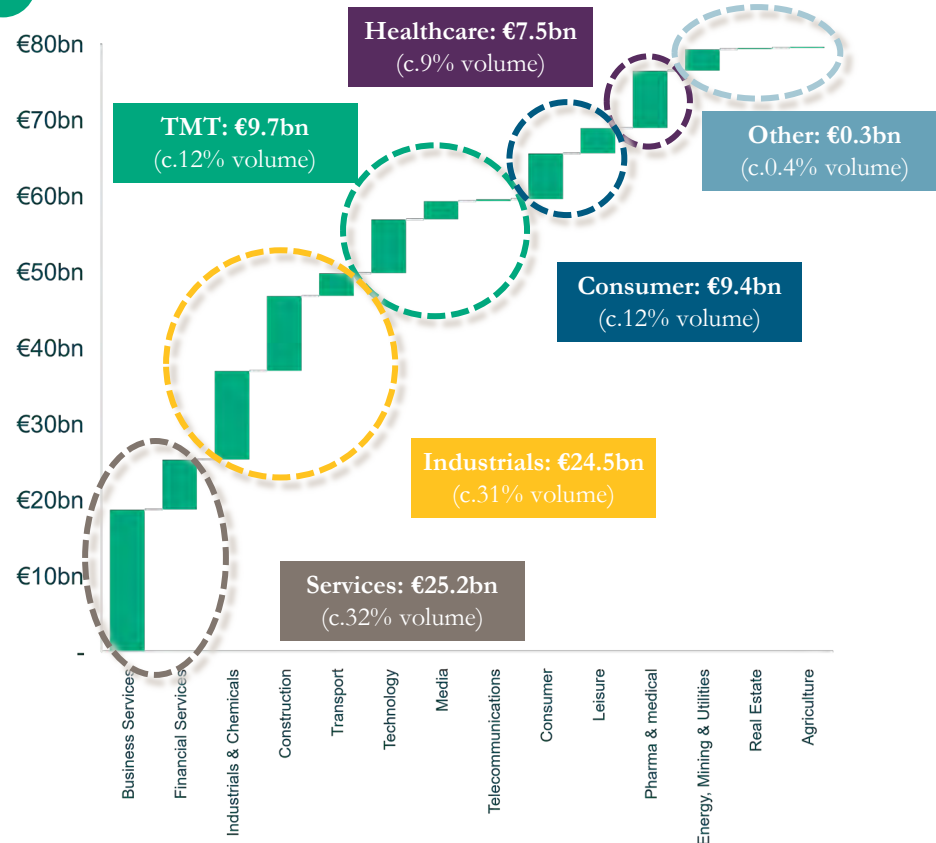
*Analysis of the European Leveraged loans issuances as of March 2021 (Q1 data)*

## 1 Leveraged issuances – by country of syndication

UKI has been most active region, followed by France and DACH



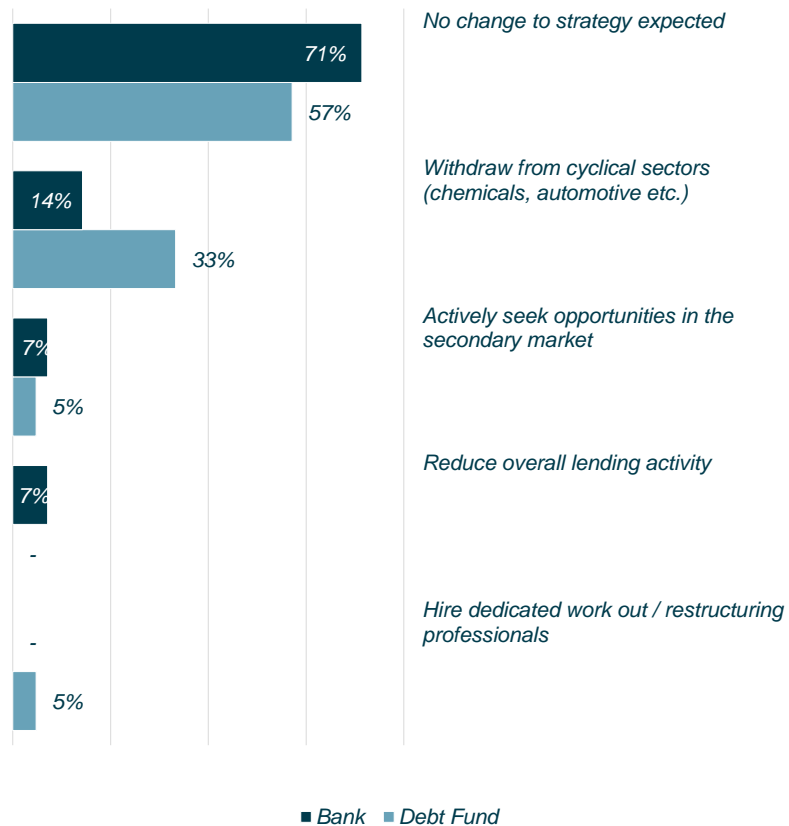
## 2 Leveraged loans issuances – by sector



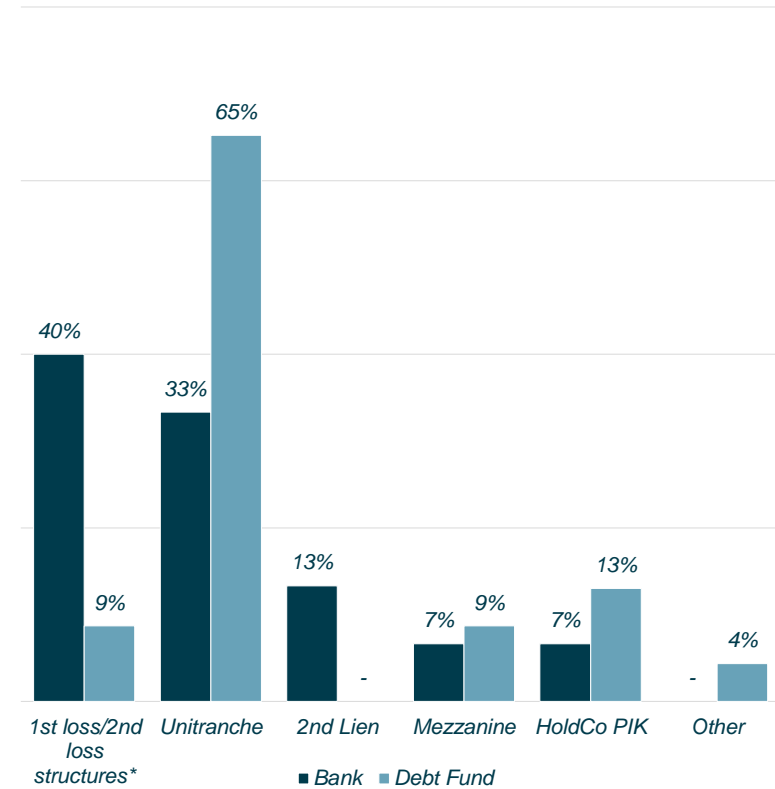
▪ Borrower friendly market conditions for both loans and bonds in Q1 2021 have driven the intense activity of the European leveraged markets, with loan issuances reaching €9.6 bn (vs. €7.7bn in Q1 2020)

# Lender strategy for 2021

In response to the Covid-19 crisis, lenders will readjust their lending strategy as follow:



Debt products expected to play a more important role in 2021:



\* (e.g. Bank/Private Debt Fund partnerships)

- Majority of lenders do not currently consider changing their lending strategy to address Covid-19 crisis, indicating their confidence in the strong debt markets

# 2021 financing outlook

*We see 2021 as that rare year, where a strong M&A financing market and increased restructuring activity occurs simultaneously.*

Selected key financing trends we are observing for 2021 include:

- 1 Benign debt markets support M&A activity
- 2 Added complexity in transactions due to COVID-19 impact
- 3 Inflation risks and increase of lending costs remain remote
- 4 Private debt to gain further market share
- 5 ESG considerations gaining momentum
- 6 Increased restructuring activity expected by end of year



# M&A Market Update

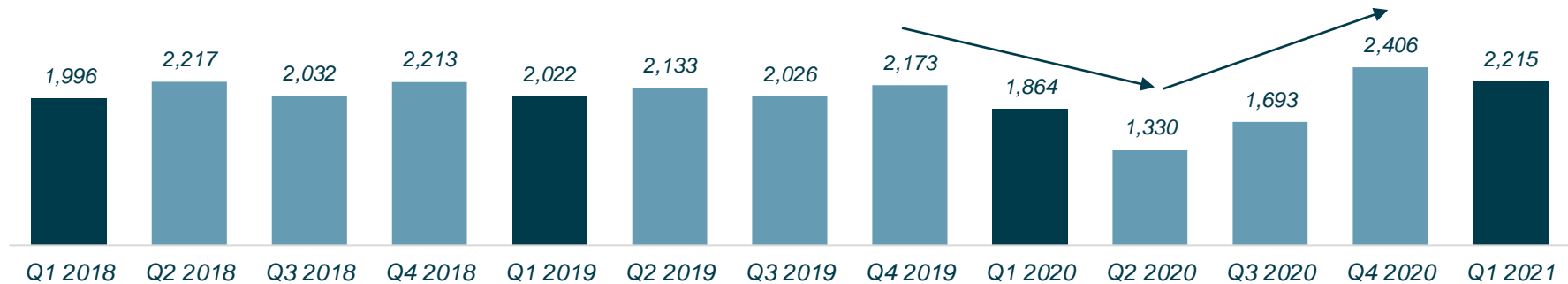
Eric Wijs



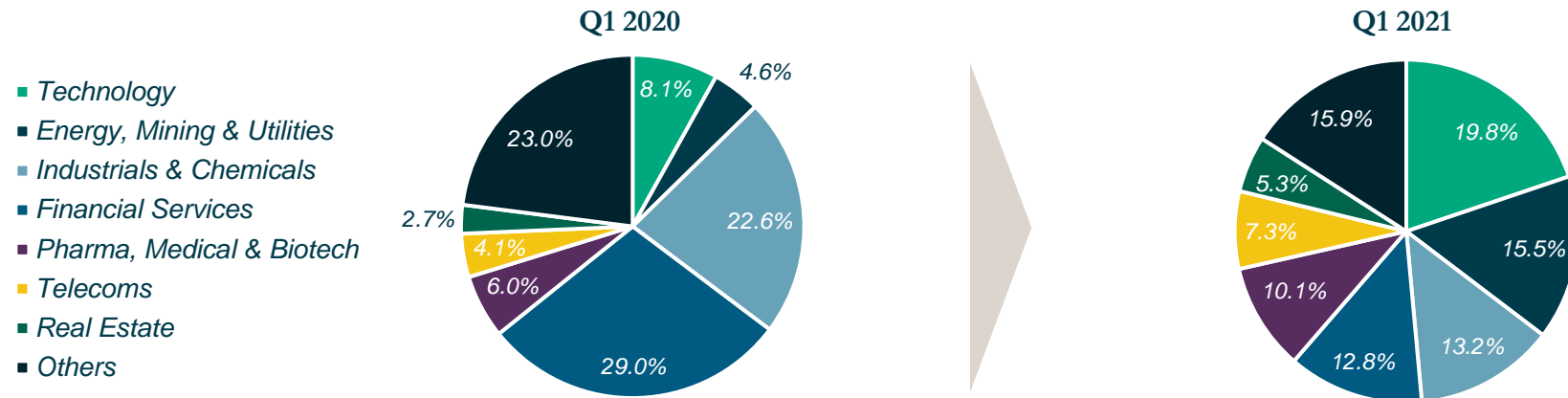
# Very strong M&A volumes in Q1 – clear rebound

## Analysis of the European quarterly trend

Deal count



## Europe sector value breakdown trend

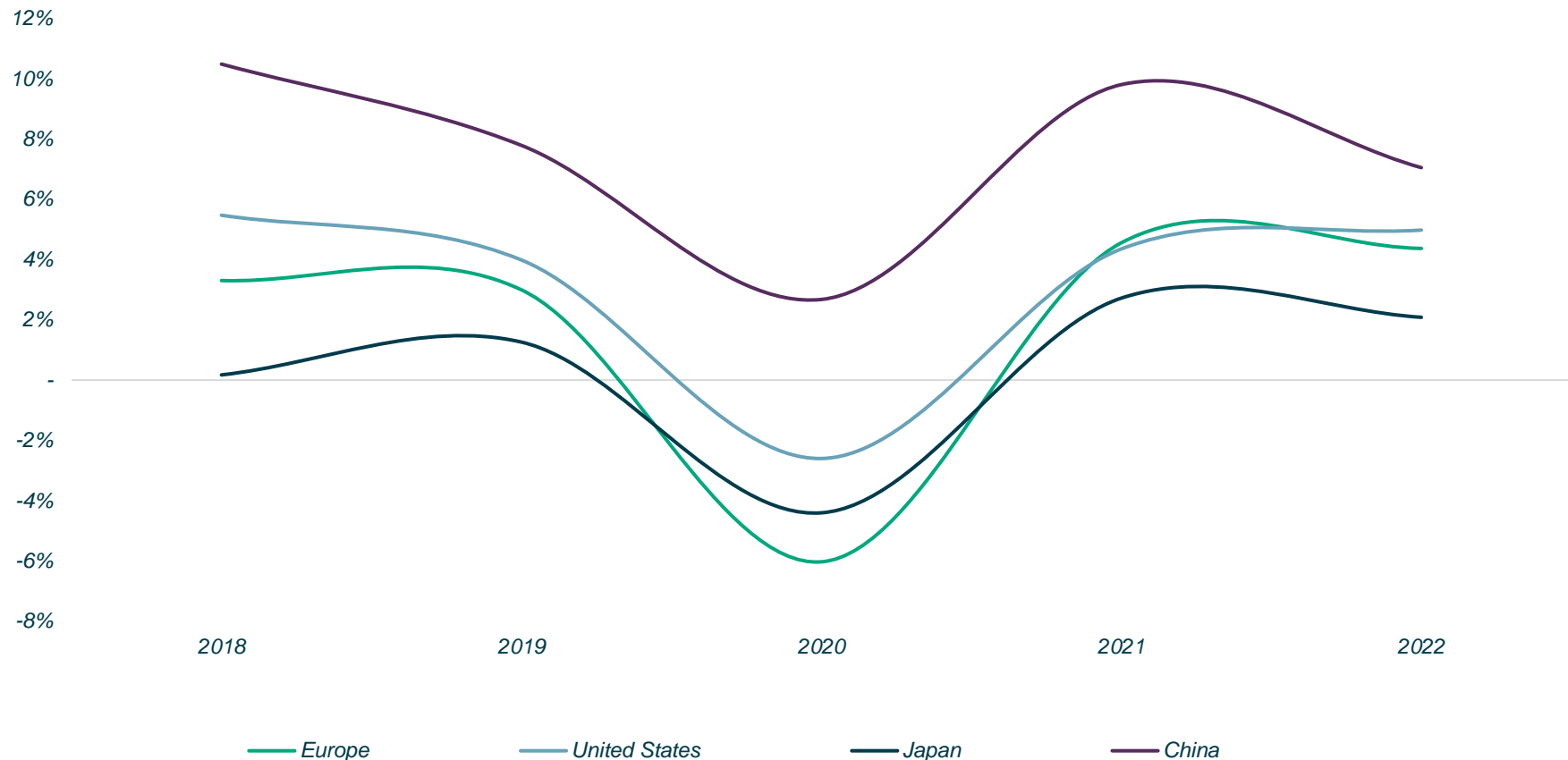


Source: Global & Regional M&A Report 1Q21 - Mergermarket

# Economic rebound – strong forecast for 2021 and beyond driven by the vaccine roll out and public stimulus

## *Analysis of the OECD economic growth*

Nominal GDP year-on-year annual growth rate %

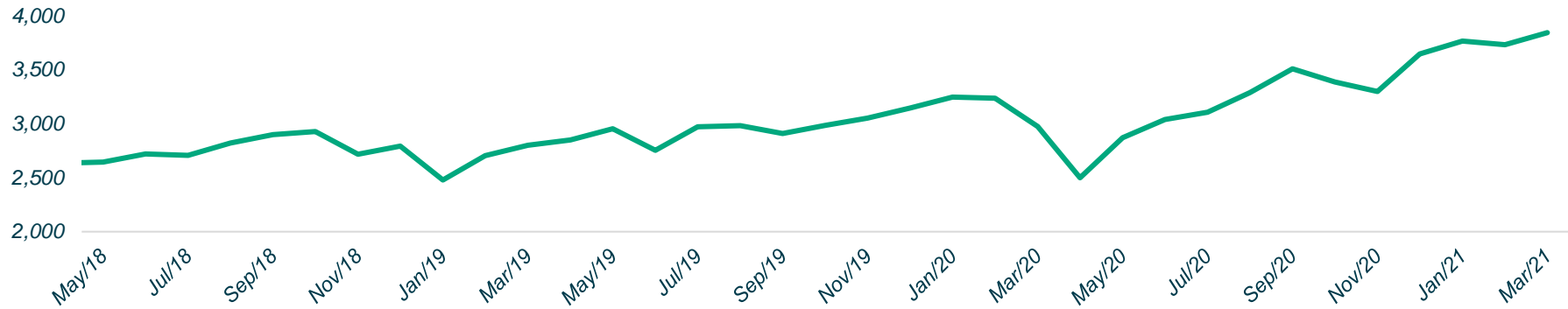


Source: OECD

# Record levels in public markets

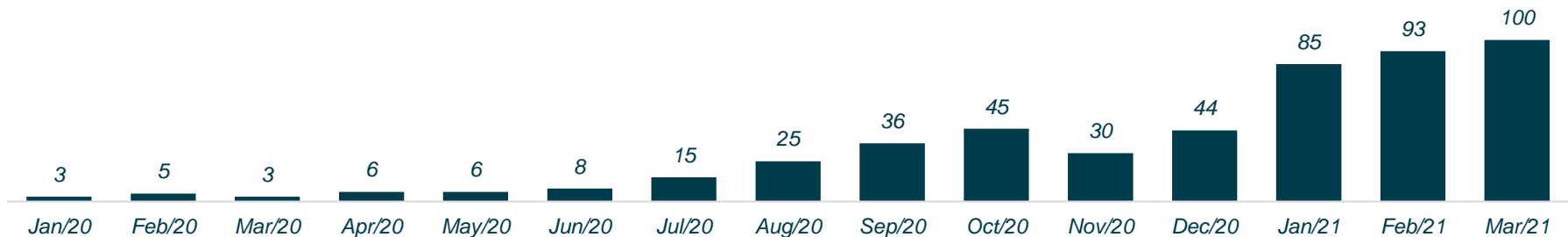
## Record levels in public markets stock performance

S&P 500 in USD – 3 year history



## Booming SPAC market

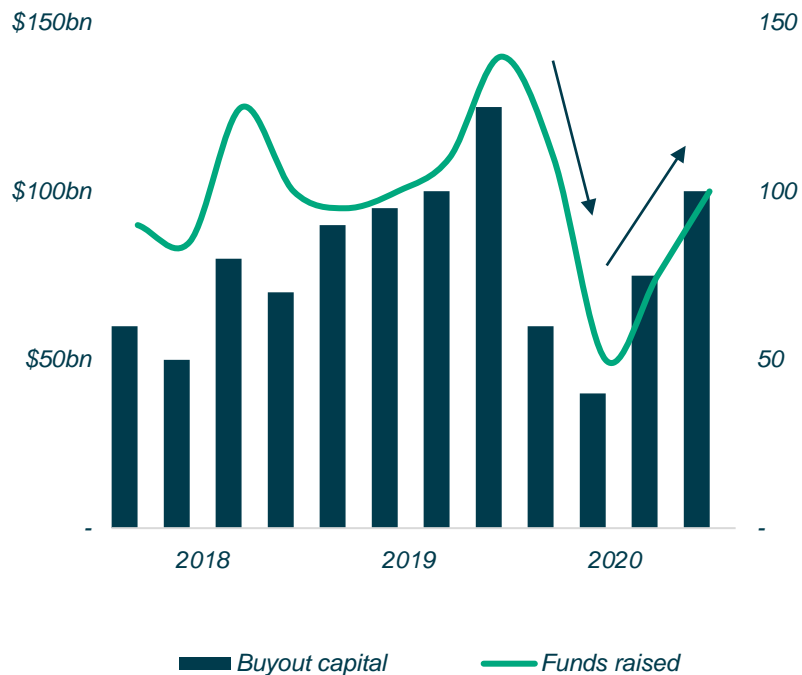
# global SPACs issued



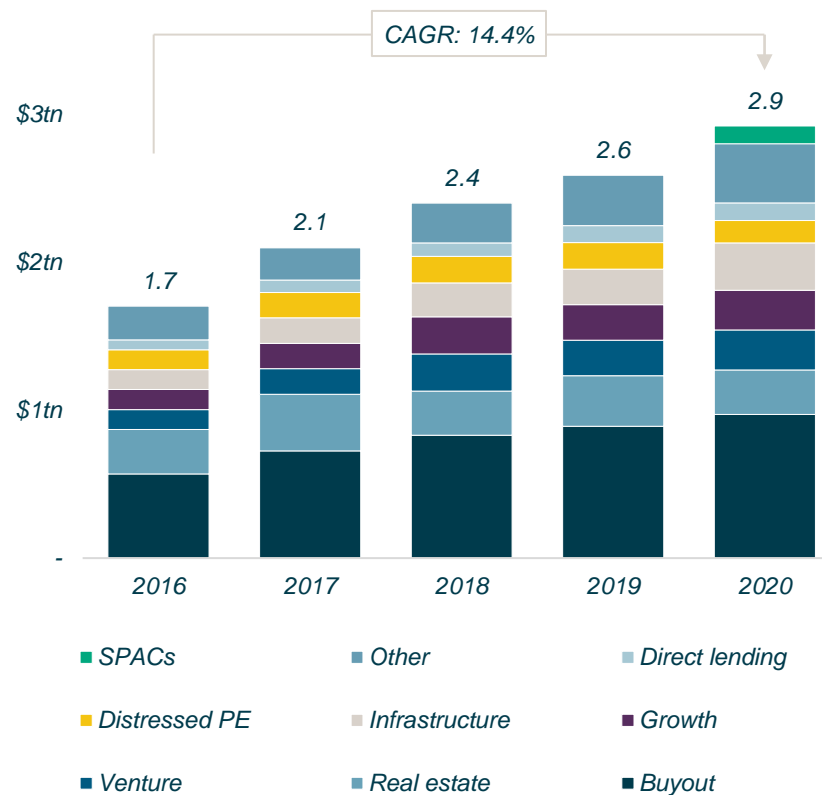
Source: S&P Global Market Intelligence

# Record level of dry powder in private equity

Global buyout capital raised



Global private uncalled capital, by fund type



Source: Bain Consulting

# Lincoln's perspective

*Record performance across Lincoln's core end markets*



**Record backlog –  
across all industries**



**Continued growth in  
healthcare and  
technology following a  
strong 2020**



**Very clear rebound in  
industrials following a  
slump in 2020**



**Recovery & acceleration in  
performance of companies  
we are selling**

# What do we expect for the remainder of 2021?

## Strong fundamentals



Strong economic rebound continues driven by vaccination and fiscal stimuli



Large amount of debt available at attractive margins



Increasing dry powder with private equity investors



Increasing supply of entrepreneur/founder-owned businesses that look for a new owner



Public corporates continue to streamline portfolio and need to augment organic growth with M&A

## Some question marks



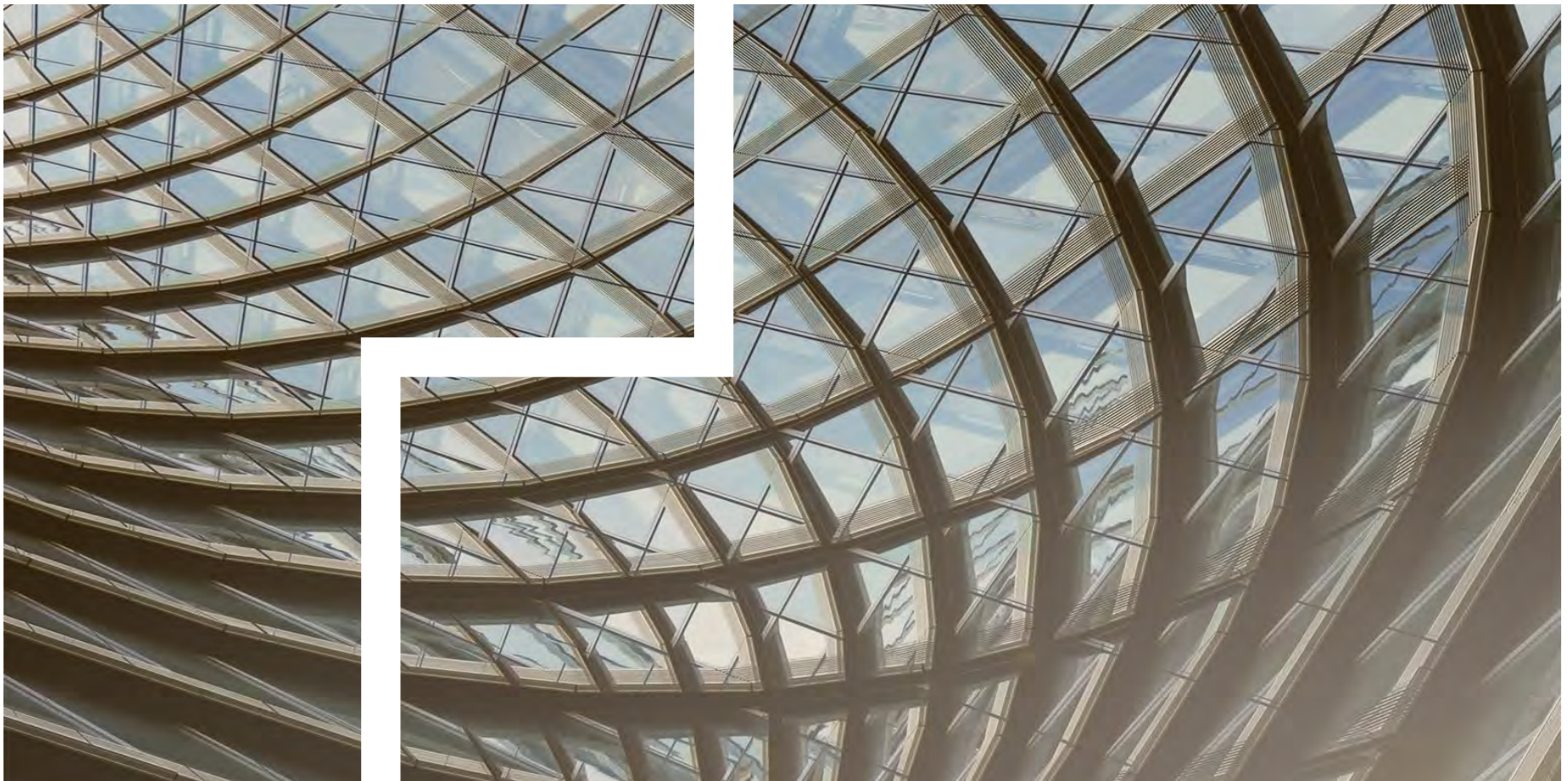
Rising inflation will impact borrowing cost and valuations



What will happen when fiscal stimuli come to an end and when?

# Valuations Update

Richard Olson  
&  
Nick Baldwin



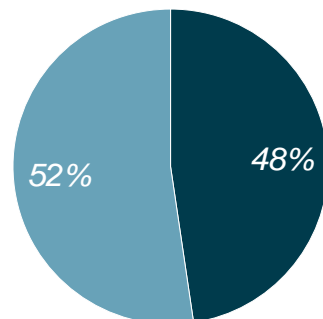


# Overview of Lincoln's proprietary private company data

## Proprietary Sources

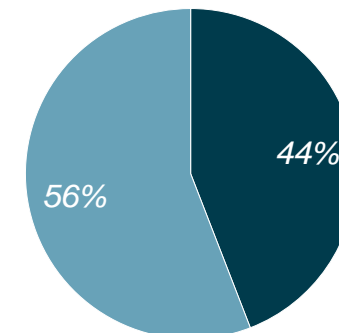
- Median LTM Adj. EBITDA:  
~ €26 million
- EV / LTM Adj. EBITDA  
Average Q4 2020: 12.0x →  
Average Q1 2021: 11.9x
- Debt / LTM Adj. EBITDA  
Average Q4 2020: 5.3x →  
Average Q1 2021: 5.5x

## Adjusted EBITDA



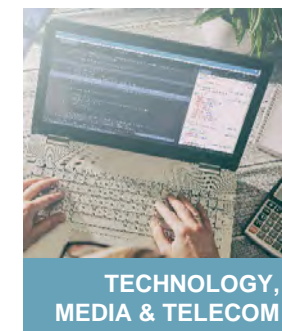
■ €0 - €25 ■ €25m+

## Geography



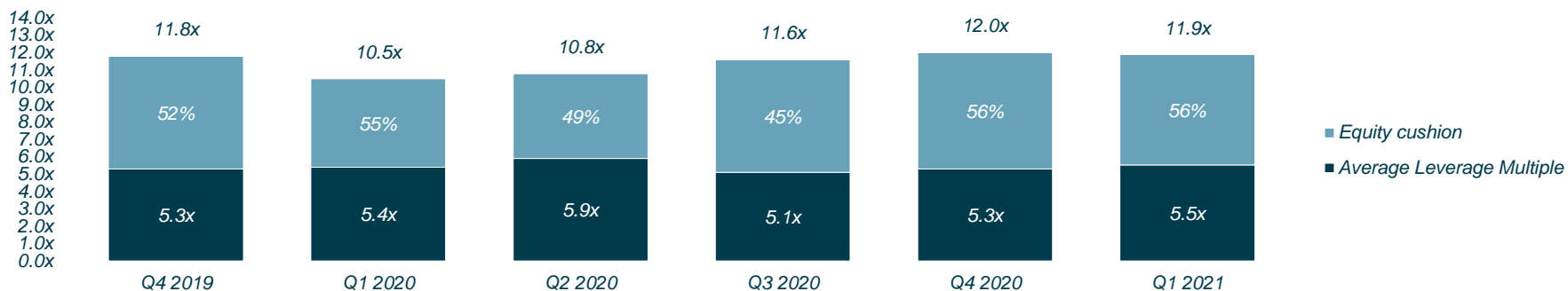
■ UK ■ EUR

## Industries encompassed

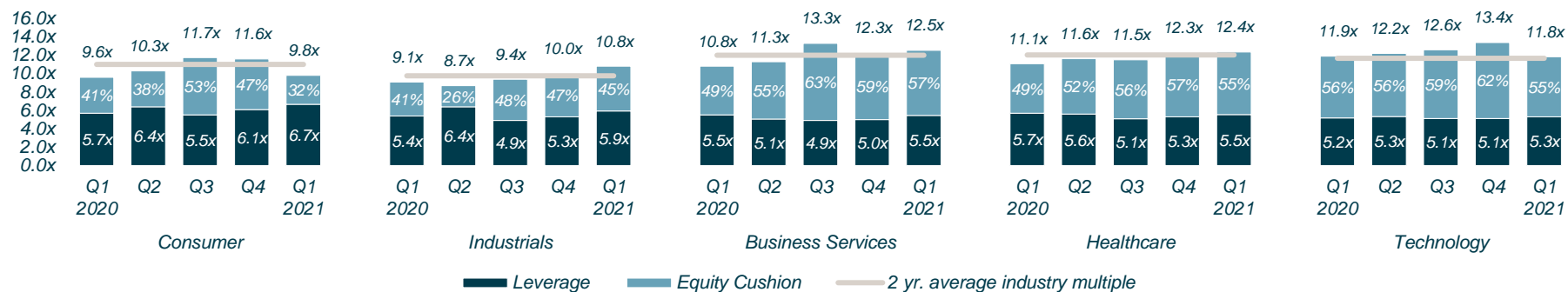


# European private equity: Enterprise value & leverage multiples

Enterprise value adjusted EBITDA multiples – Q1 2021 versus prior periods (2-year average EV multiple: 11.4x)



Enterprise value adjusted EBITDA multiples – Q4 2019 through Q4 2020 by industry sector

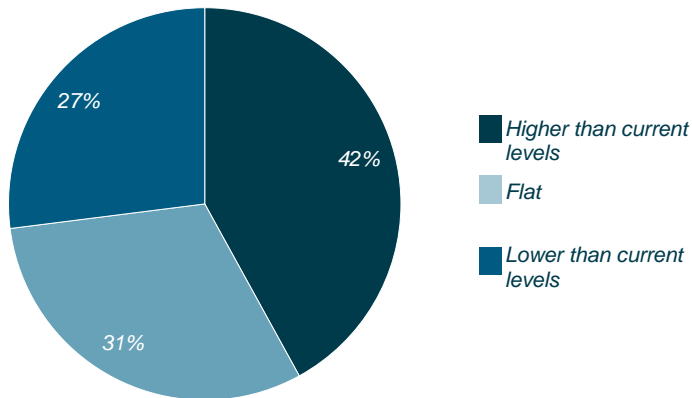


NOTE 1: Enterprise values as estimated by Lincoln from its proprietary private company sources.

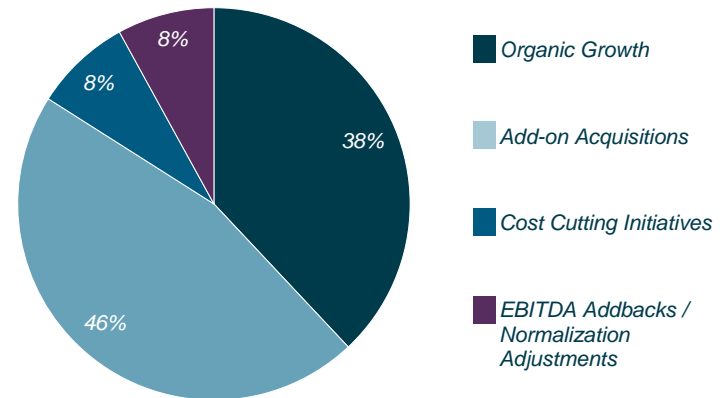
NOTE 2: Enterprise value multiples for Consumer in Q1 2021 are based off the applicable valuation drivers (e.g. NCY EBITDA), given trough LTM December 2020 EBITDA values for the industry's companies.

# Proprietary private equity polling results

1 Where do you expect enterprise value multiples to be at the end of 2021?

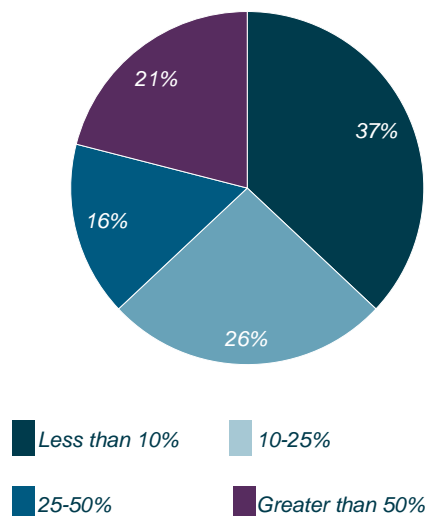


2 Within your portfolio what is expected to drive Adjusted EBITDA growth in 2021?

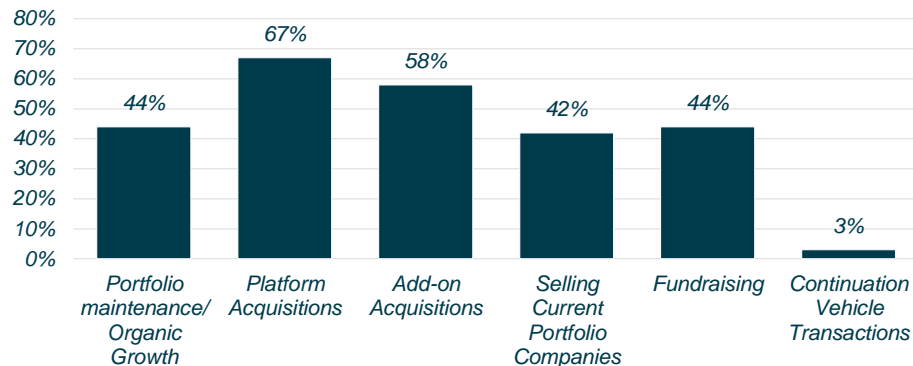


# Proprietary private equity polling results (continued)

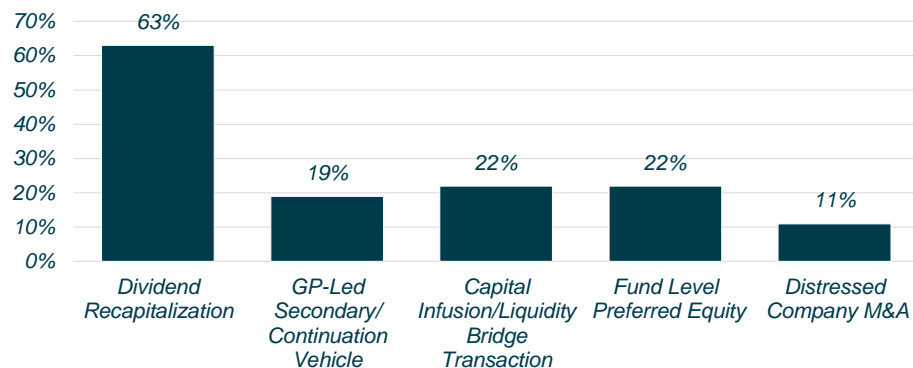
1 What percentage of companies in your portfolio or that you are considering for investment opportunities are tracking performance using EBITDA with COVID addbacks?



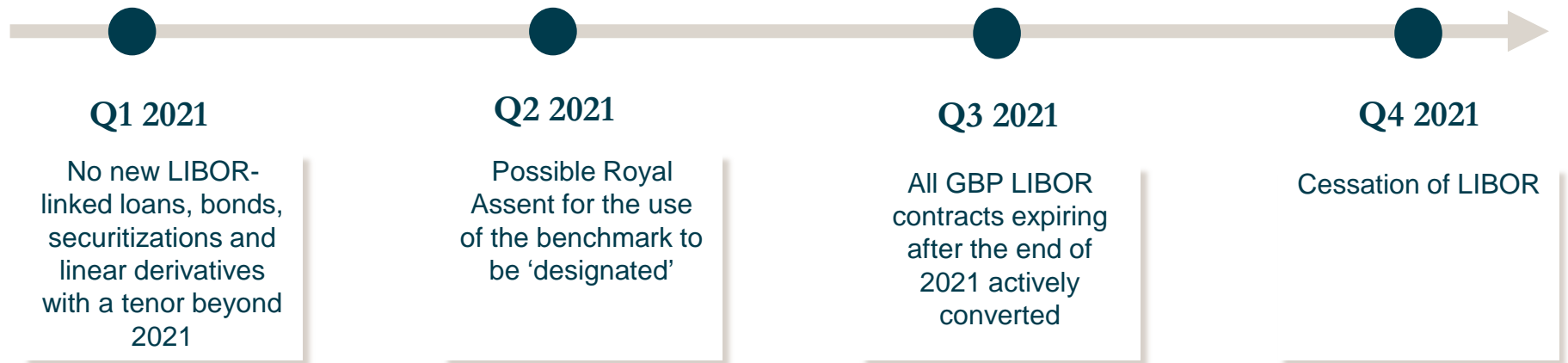
2 What are your key focus areas in 2021?



3 Which of the following transactions are your funds or portfolio companies currently contemplating?



# LIBOR transition

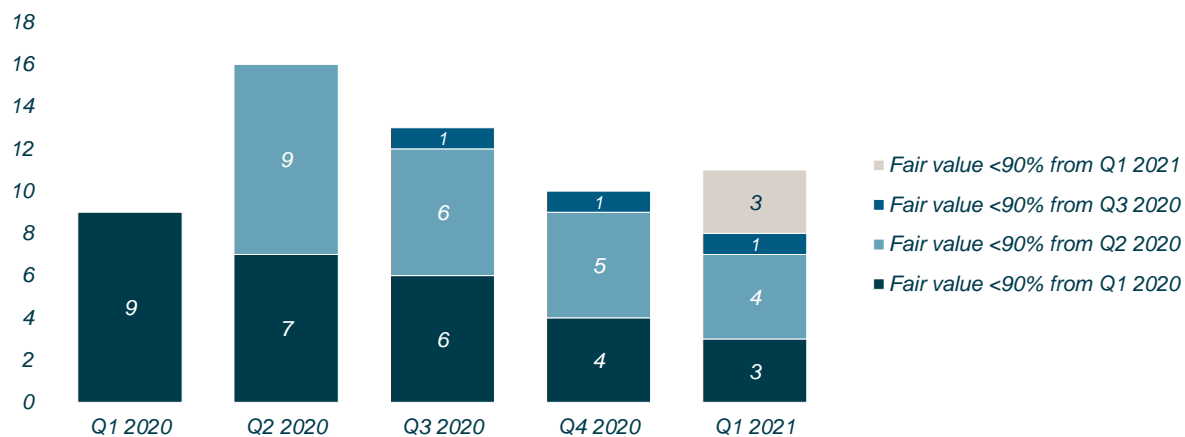


# European private credit: Fair value overview

Q1 2021 average valuation: 97.4%

Q4 2020 average valuation: 97.7%

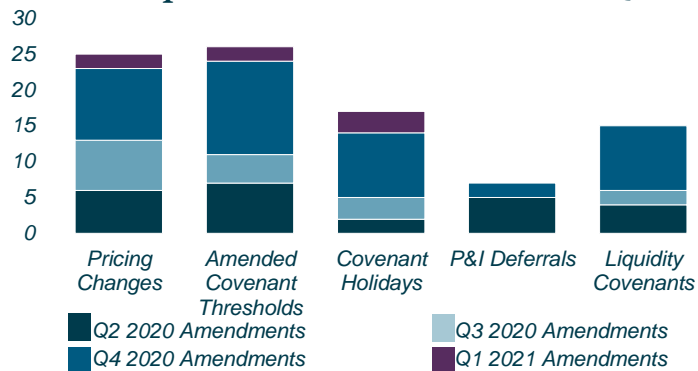
For private credit securities valued below 90%:



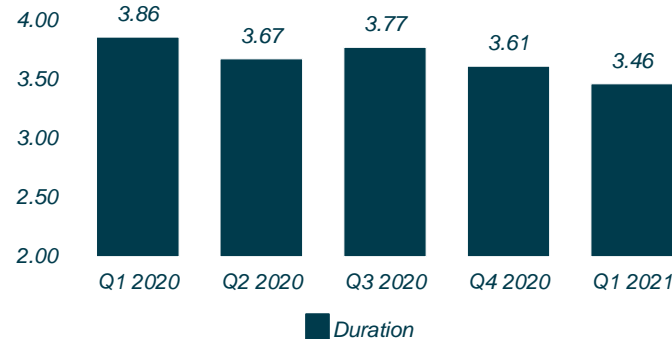
NOTE 1: Graph only includes securities which were valued for multiple quarters in order to perform analysis on common reasons for leaving the cohort  
NOTE 2: No new securities entered the cohort in Q4 2020 that Lincoln continued to value in Q1 2021

# European private credit: Covenants and amendments

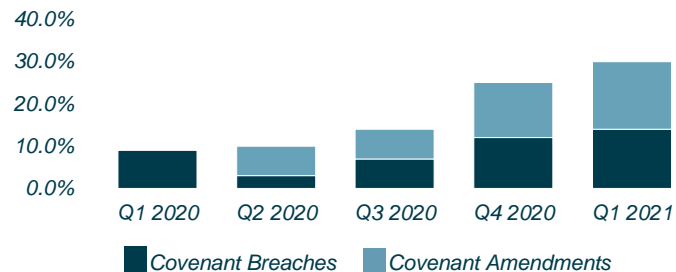
## 1 Count of post COVID amendments – Q2 & Q3



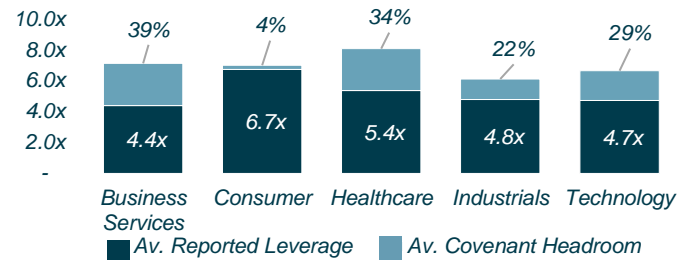
## 2 Average Loan Duration by Quarter



## 3 Cumulative Leverage Covenant Breaches

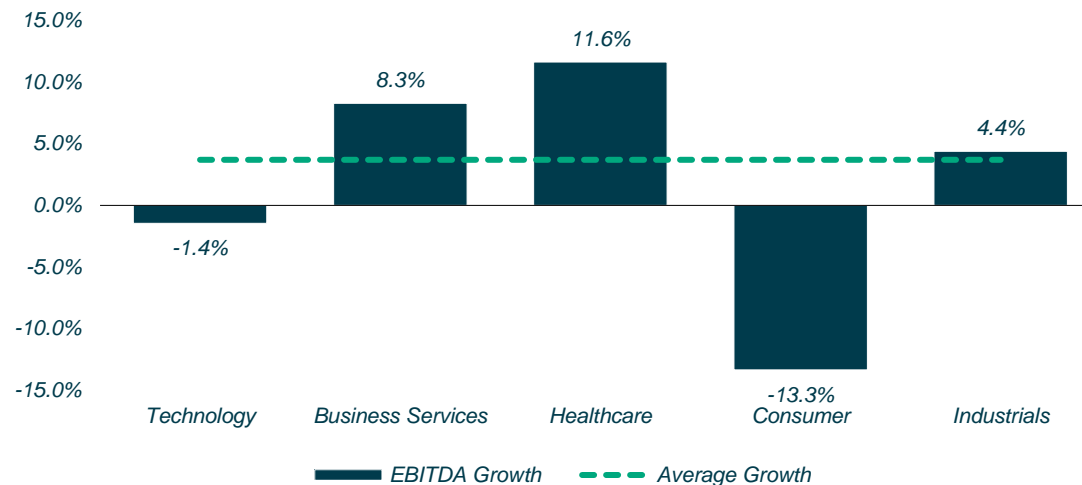


## 4 Covenant Headroom by Industry



# EBITDA growth and Q1 2021 deals

## EBITDA Growth by Industry:



## New European deals that Lincoln valued during Q1 2021

	Industry	Multiple	Leverage	Security	Pricing
Company A	Chemicals	11.75x	5.4x	First Lien	6.50%
Company B	Technology	12.0x	3.0x	First Lien	4.75%
Company C	Software (SaaS)	22.6x	5.5x	Unitranche	6.25%
Company D	Professional & Human Capital	0.9x (RR)	0.1x (RR)	First Lien	8.75%

NOTE 1: EBITDA growth calculated as FY2021 forecast EBITDA vs LTM EBITDA  
 NOTE 2: Company C purchase multiple and leverage is based off RR revenue



# Closing Remarks, Q&A



## FINALISTS

- **European Corporate Finance House of the Year**
- **UK Corporate Finance House of the Year**

THE  
PRIVATE  
EQUITY  
AWARDS  
2021