



bridgepoint | INVESTMENT
BANKING

LEVERAGED FINANCE GROUP

DEBT MARKET UPDATE

SECOND QUARTER 2019

Debt Market Update: Q2 2019

EXECUTIVE SUMMARY

Leveraged lending in the first half of 2019 witnessed a modest rebound from a choppy end to 2018 as uncertainty about the future of the economy continues to raise concerns

Despite current and potential trade wars on multiple fronts, weakening macroeconomic data and interest rate choppiness, pricing and terms marginally improved in favor of issuers in Q2

The ample capital supply / limited deal flow imbalance continues to cause a unique window where senior and alternative lenders have migrated down to the lower middle market in search of deal flow, providing aggressive and unique financing availability

Bridgepoint expects debt markets to continue to remain flat throughout the rest of 2019, due to the excess supply of private debt capital. We advise company owners to act now to strengthen their balance sheets while the markets remain favorable

NEW DEBT TRENDS / TERMS

Structured Capital

Growth in structured capital investments with both debt and equity features due to 1) PE firms moving to minority + structured capital investments given increased competition and high M&A purchase prices and 2) private lenders moving down the capital stack to get yield where there is less competition

Software Recurring Revenue Lending

Lending to software companies based on recurring revenue (vs. cash flow) has increased with more new debt funds dedicated to technology and existing funds moving rapidly into the space

Healthcare Services & Physician Practice Mgmt. Lending

Increased challenges in HC services / PPM lending (multiple lenders have softness in their portfolios) – key driver is physician leverage both in terms of driving profitability and determining the allocation of equity; reimbursement trends challenges persist

Leveraged Finance Options / Scenarios

Dividend Recapitalization ➤ Liquidity



Sizable cash dividend to the owner(s) while maintaining 100% ownership of their Company

Flexible / Reduce Debt Service ➤ Cashflow



With low amortization (20-100 year) / required debt service, institutional debt enables higher flexibility and cash flow investment into growth

Acquisition / Growth Financing ➤ Growth



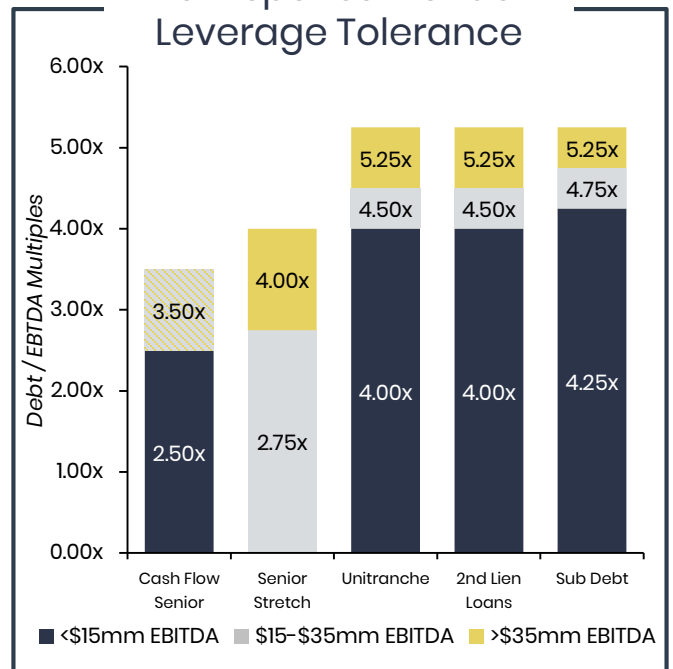
Capital to allow the owner(s) of the company to pursue aggressive growth initiatives and / or buyout of select shareholders

Committed Capital Partner ➤ Firepower



Partner to provide strategic guidance, purchasing power and additional capital for growth, including acquisitions, or liquidity

Non-Sponsor Lender Leverage Tolerance



Source: Bridgepoint Investment Banking, Capital IQ, institutionalinvestor.com, Pitchbook, GF Data, The Lead Left

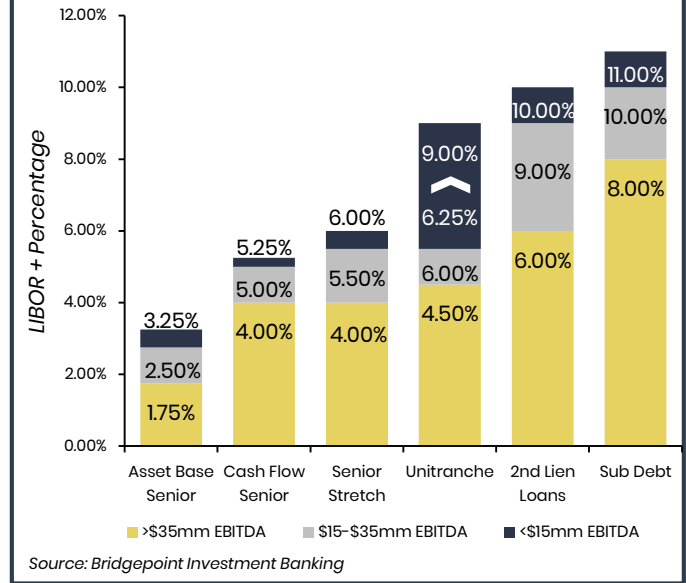
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Lender Trends Heat Map

	Cash Flow Senior	Senior Stretch	Unitranche	2nd Lien Loans	Sub Debt
Rates	↓	—	↓	↓	↓
Amortization	—	—	—	—	—
Debt/EBITDA Multiples	↑	↑	↑	↑	↑
Covenants	—	—	↓	—	—

Source: Bridgepoint Investment Banking

Current Lender Pricing (LIBOR +)



Source: Bridgepoint Investment Banking

MIDDLE MARKET TRENDS

Total leverage multiples for the middle market experienced a modest rebound to start the year and are expected to remain stable throughout Q3 and Q4 2019

Unique / never before seen access to structures for sub-\$10mm EBITDA companies in the current market

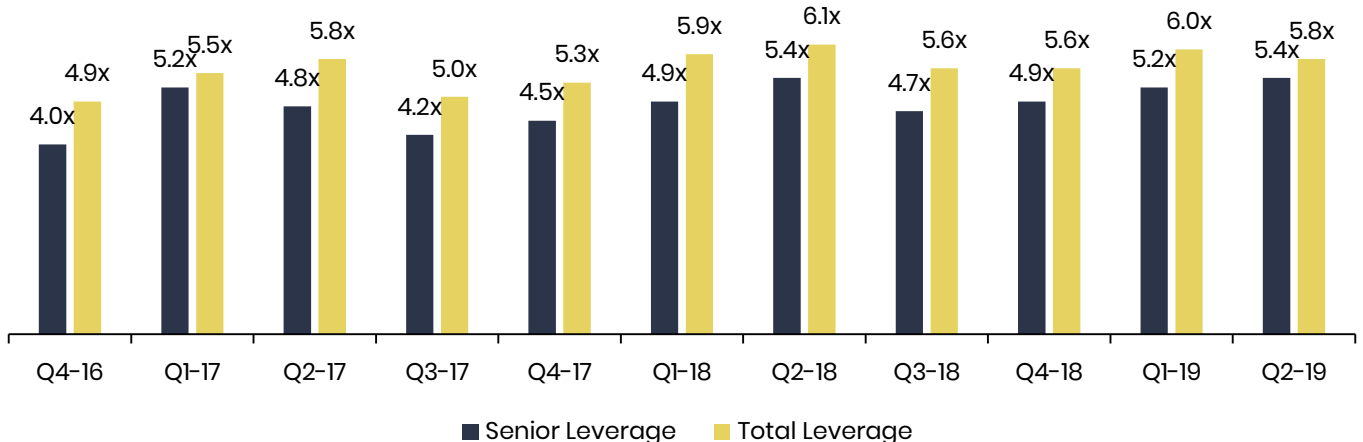
Bridgepoint expects volatility in the middle market to remain moderate compared to large-cap debt markets – driven by conservative structures, flexible covenants and growth in direct-lending funds

There are several key considerations that will impact the debt term / options for a company:

- ✓ EBITDA Scale
- ✓ Industry
- ✓ Collateral profile
- ✓ Cyclicity
- ✓ Sponsor / non-sponsor backed
- ✓ Historical & projected financial performance
- ✓ Capital expenditures
- ✓ Use of proceeds

Please contact us for our perspective on likely terms and options on prospective capital options you may be considering

Middle Market Leverage Multiples



Bridgepoint Background

Unique focus on first time issuer / non-sponsor middle market leveraged finance / debt advisory

197+ years cumulative investment banking experience

\$102+ billion of M&A, capital raising, corporate finance and transaction advisory service experience

44 completed M&A assignments spanning more than \$30 billion

78 completed corporate finance transactions, raising more than \$73 billion in capital

SELECTED RECENT BRIDGEPOINT TRANSACTIONS

TransWood

USD 60 million
Global financing

Sole Financing Arranger

RURAL MEDIA

USD 45 million
Unitranche financing for recapitalization

Sole Financing Arranger

McCarthy Capital

Equity & debt capital raise to support management acquisition

Sole Financial Advisor

SECTORS OF FOCUS



197

YEARS OF EXPERIENCE

\$102B

IN TRANSACTIONS

122

TOTAL TRANSACTIONS

SENIOR LEADERSHIP



Matt Plooster
Managing Director



Gary Grote
Managing Director



Wm. Lee Merritt
Managing Director



Mike Anderson
Managing Director



Adam Claypool
Managing Director



Joe Liss
Managing Director



Natasha Plooster
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