



Cascadia Capital **Capital Markets Overview**

Capital Markets Overview



Overview

- Cascadia's Capital Markets practice focuses on serving our private equity sponsored and non-sponsored relationships with full-service advisory and execution of financing transactions to facilitate acquisitions, growth capital, structured capital, and internal recapitalizations.
- Our practice provides complete customized capital structure advising from debt-to-equity financing.

Investors

- We have long-standing relationships and active dialogue with premier investors (banks, direct lenders, private credit funds, BDCs, equity funds, and family offices) with the ability to invest across the capital structure.

Process / Execution

- Our approach is differentiated given our professionals' deep principal investment execution expertise, allowing us to take ownership and drive an efficient and cost-effective engagement from early reads, marketing, and term sheet all the way through document and terms negotiation and closing.
- We also integrate our industry bankers' sub-vertical expertise to provide another layer of value add in effectively positioning our client's business to optimize market interest and terms.

Process Overview

- Process includes: investor presentation and model, populating data room, investor outreach and diligence, review and negotiation of term sheets, confirmatory diligence, and closing and funding.
- Our team manages all aspects of the capital raise to minimize management and sponsor time commitment.
- Approach agreed upon number of commercial banks and private credit funds out of Cascadia's network of capital providers.
- Include existing relationships in the process to create a competitive process resulting in the best economical terms and structure.
- Leverage Cascadia's industry and company knowledge / materials to drive an efficient and expeditious process to meet desired timelines.

Engagements Include

- Acquisition Financing for Private Equity and Private Companies
- Structured Capital
- Recapitalizations
- Growth Equity
- Unitranche
- Mezzanine / Subordinated Debt
- Preferred and Common Equity

Capital Markets Leadership Team



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Capital Markets
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Capital Markets Overview



*Representative Transactions:

Sponsor Financing	Sponsor	on its acquisition of	RCM Healthcare	Senior Credit Facility & Minority Equity	\$34.0mm
	Sponsor's Portfolio Co.	on its acquisition of	Multi-Unit Restaurant Group	Senior Credit Facility to support recapitalization and new store development	\$70.0mm
	Sponsor	on its acquisition of	Consumer Distributor & Manufacturer	Senior Credit Facility	\$140.0mm
	Sponsor's Portfolio Co.	on its acquisition of	ERP Software	Multi-Currency Senior Credit Facility	\$120.0mm
	Sponsor	on its acquisition of	DTC E-Commerce	Multi-Currency Senior Credit Facility	\$50.0mm
	Sponsor	on its acquisition of	Marketing and Sales Software	Senior Credit Facility	\$60.0mm
	Sponsor	on its acquisition of	Luxury Auto Dealership Group	Senior Credit Facility	\$50.0mm
Non-Sponsor / Other Financing	Marine Dealership	Subordinated Credit Facility & Preferred Equity to support shareholder recapitalization and finance acquisitions			\$90.0mm
	Public CDMO Platform in U.S. / Mexico	Split-Lien Credit Facility to refinancing existing indebtedness and support growth capital needs			\$170.0mm
	Franchisee Fitness Platform	Senior Credit Facility & Minority Equity to finance acquisition and subsequent rollout of fitness centers			\$100.0mm
	Public Multi-Unit Restaurant Group	Senior Credit Facility to support share buybacks and finance acquisitions			\$50.0mm
	Programmatic Ad-Tech Platform	ABL Revolver Facility to support restructuring			\$175.0mm
	Distressed Vineyard	Senior Credit Facility to support capital needs			\$45.0mm
	Fitness / Tennis Platform	Senior Credit Facility & Preferred Equity to support recapitalization and finance construction of new facilities			\$60.0mm
	Owner / Developer of Mobile Telecom Infrastructure	First-Out Last-Out Credit Facility to support growth capital needs and finance acquisitions			\$100.0mm

*transactions completed at prior firm



Cascadia Capital **Capital Markets Market Update**

As of December 2023

Debt Market Update - General

- Terms continue to shift in the borrower's favor as direct lenders manage competition from two angles: themselves and the liquid credit markets.
- The direct lending market continues to grow. Direct lending fundraising and dry powder is at record high driving lenders to be competitive, leading to more borrower friendly structures. We expect lenders to be aggressive and eager to deploy capital in 2024, following the slow down of 2023.
- Looking ahead, deal flow, interest rates, inflationary pressures, and the economy are top concerns in 2024. We are cautiously optimistic for a solid M&A run in the first quarter, based on auction activity in recent weeks for LBOs, including sponsor-to-sponsor flips. Meanwhile, portfolio company data on TTM performance will begin surfacing in the first quarter, giving lenders a truer picture as to how borrowers have been coping with higher borrowing costs for the past year. We continue to focus on structures and solutions to maximize leverage and reduce the interest cost burden.
- Average EBITDA: As activity slowed across the market, average EBITDA for 4Q23 dropped to \$55mm from \$63mm in 3Q23.
- Spread: Spreads dropped in the second half 2023.
 - For 4Q23 average LMM spread decreased 7 bps to S+618 compared to S+626 in 3Q23, following a gradual decline since Jun-23. Spreads were noticeably higher in the first half of the year, peaking at S+654 at the end of Jun-23.
 - For 4Q23 average non-uni spread decreased to 31 bps to S+594 compared to S+625 in 3Q23. The average has shed 39 bps since Jan-23 and 64 bps since Jul-23's peak.
 - For 4Q23 average unitranche spread decreased 31 bps to S+597 compared to S+628 in 3Q23.
- Discount: Average issue prices increased to 98.02 in 4Q23, which is the first time the average has been above 98 since 3Q22, when the average was 98.21.

Key Debt Market Stats

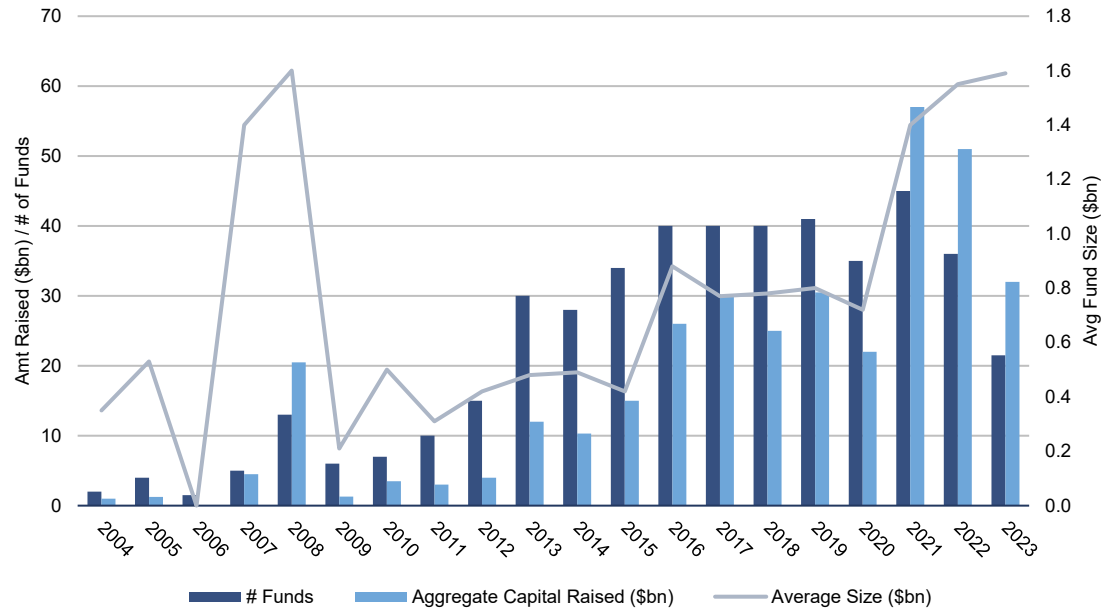
	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
Total Volume (\$bn)	\$19.7	\$57.8	\$39.4	\$27.9	\$19.3	\$17.2	\$44.4	\$67.9
# Borrowers	137	237	142	132	119	156	149	245
EBITDA (\$mm)	\$36	\$47	\$44	\$52	\$51	\$55	\$63	\$55
Jumbo Vol (\$bn)	\$8.6	\$24.0	\$12.8	\$9.8	\$5.4	\$1.9	\$26.0	\$21.6
Avg. Jumbo Size (\$bn)	\$1.4	\$2.4	\$2.1	\$1.6	\$1.1	\$0.4*	\$2.2	\$1.2
LBO Vol (\$bn)	\$6.8	\$25.3	\$21.6	\$18.1	\$10.1	\$7.2	\$9.4	\$27.7
LBO Lev Non-Uni Senior	4.2x	4.0x	4.2x	3.9x	3.9x	3.7x	3.9x	4.0x
LBO Lev Non-Uni Total	4.8x	4.4x	4.8x	4.1x	4.1x	3.8x	3.9x	4.3x
LBO Lev Unitranche	5.9x	6.0x	5.6x	5.4x	5.3x	5.9x	6.2x	5.5x
Interest Coverage	3.1x	3.0x	2.2x	1.9x	2.0x	2.1x	2.0x	2.0x
Unitranche Vol (\$bn)	\$11.2	\$37.0	\$25.4	\$16.9	\$8.1	\$7.7	\$31.7	\$35.3
Uni Spread (bps)	586	589	595	642	654	624	620	588
LMM Vol (\$bn)	\$1.9	\$3.5	\$4.2	\$0.9	\$1.5	\$2.0	\$1.6	\$1.6
LMM # Borrowers	41	73	56	27	32	33	55	41
LMM Spread (bps)	559	600	617	617	638	654	615	619
LMM Lev Non-Uni Senior	4.0x	3.8x	3.7x	3.7x	3.8x	3.9x	4.1x	3.9x
LMM Lev Non-Uni Total	4.2x	3.8x	3.8x	3.8x	4.0x	4.1x	4.3x	4.3x
LMM Lev Unitranche	5.6x	5.5x	5.5x	5.4x	5.3x	NA	NA	NA
Average Discount	98.76	98.34	98.21	97.88	97.41	97.49	97.81	98.02

- Interest Coverage: The average interest coverage remained flat between 3Q23 and 4Q23 at 2.0x. Since 3Q22, the average interest coverage has been at the lower end of the 2x-3x comfort zone, ranging between 1.9x-2.2x. Borrowers are coping with higher interest costs in several ways including passing the cost to customers, cutting costs and headcounts, pausing M&A activity, and lowering leverage. Borrowers are also turning to preferred equity or holdco PIK financing, which allows the business to get 1x-1.5x turns of leverage on top of their existing OpCo debt to alleviate any cash flow constraints and improve liquidity profile.

*Add-ons to jumbo issuers. Total Volume = new money raised; Borrowers = companies; Jumbo defined as >=\$1bn loan size; LMM = Lower Middle Market defined as <\$20mm EBITDA; Spread = 90-day rolling average; Leverage = 90-day rolling average; Unitranche: >=5x, all-senior capital structure, Unitranche volume = all deals including jumbos; LMM leverage senior/total = all types of proceeds included

Debt Market Update – Dry Powder & Market Size

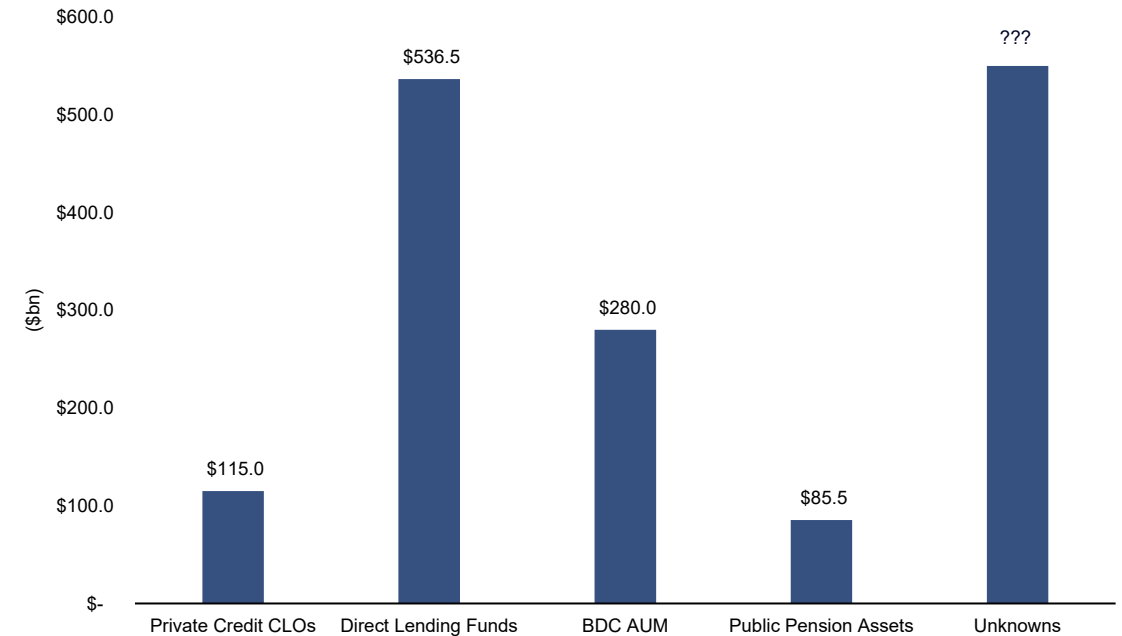
Direct Lending Fundraising: Size, Dry Powder at Record Levels



Sources: Preqin; Chart reflects North American fundraising for senior and unitranche strategies in direct lending; junior, subordinated, blended, opportunistic funds are excluded

- Overall volume may be down, but funds are larger than ever as investors look to capture double-digit senior secured returns on fatter base rates that are expected to hang around for some time. The average fund size has climbed to a record \$1.85bn for North American direct lending funds targeting senior and unitranche strategies. Preqin estimates as of Jun-23, dry powder totaled \$72.7bn, while unrealized value totaled \$230.4bn, for a total of \$303.1bn.
- The number of funds closed in 2023 totaled 21, down from 37 in 2022, however the average fund size set a new annual record for the second consecutive year, at \$1.56bn, up about 3% from the previous record of \$1.52bn in 2022.

Direct Lending Market Size (\$1.4tn)



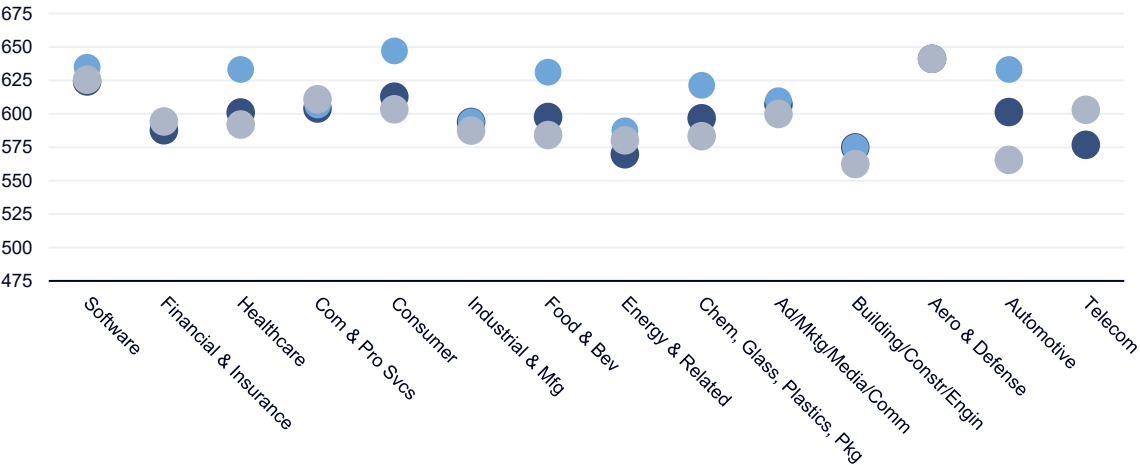
Sources: Private Credit CLO Outstandings: Morgan Stanley; BDCs: Solve; Public Pension Plan Estimate: PublicPlansData.org; DL Funds: Preqin (North American funds targeting senior & unitranche debt, other strategies excluded)

- While it's challenging to give the exact size of the direct lending market, it is estimated to be a \$1.4tn market size, which is just inside the syndicated loan market (\$1.5tn). Unlike liquid credit or high yield, tracking capital is harder in direct lending because of its private nature. Distribution and ratings are absent. Portions of allocations are squirreled away in separately managed accounts and other opaque funds and their feeder funds.
- Preqin estimates the global private credit market will reach \$2.3tn by 2027.

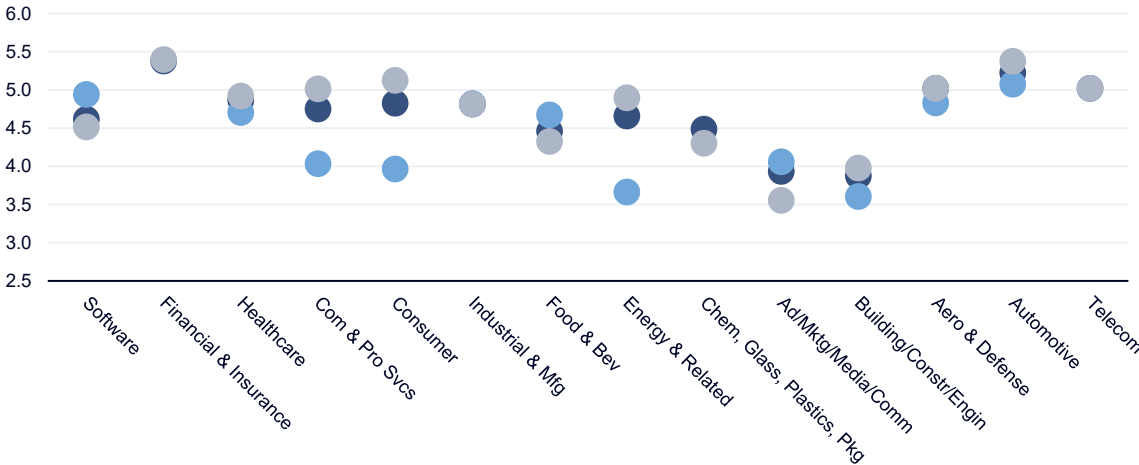
Debt Market Update by Industry (2H2023)



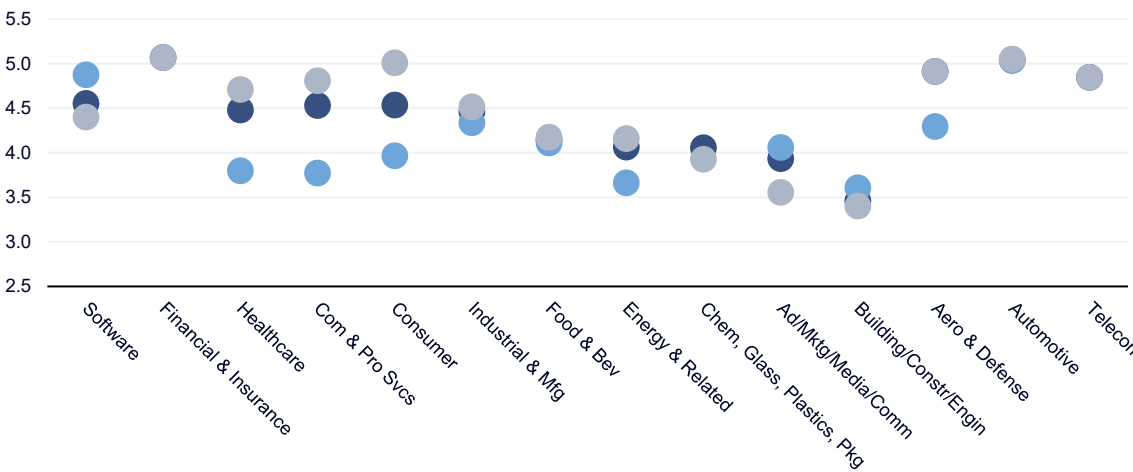
Average Spread



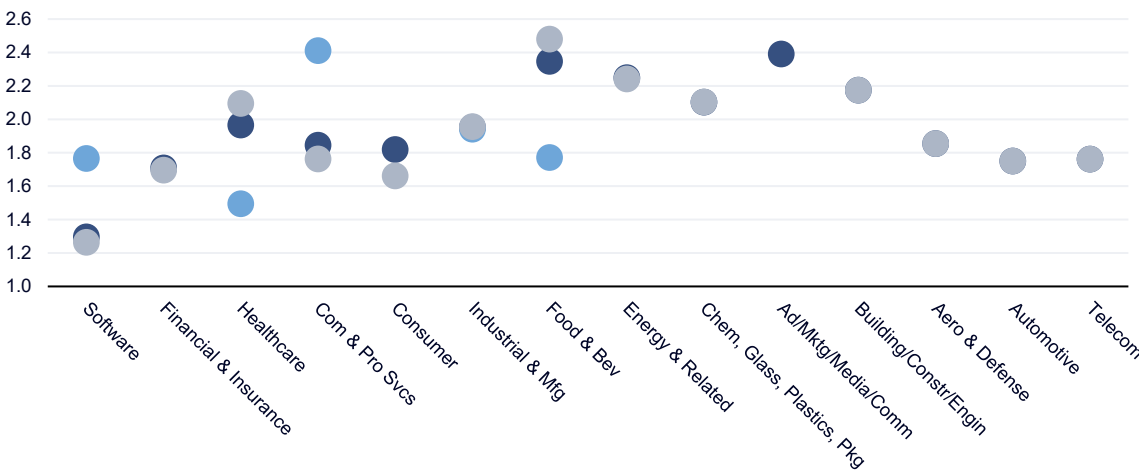
Average Total Leverage



Average Senior Leverage



Average EBITDA to Interest Ratio



● Average ● <\$20mm EBITDA ● >=\$20mm EBITDA

Source: KBRA DLD Private Data Set

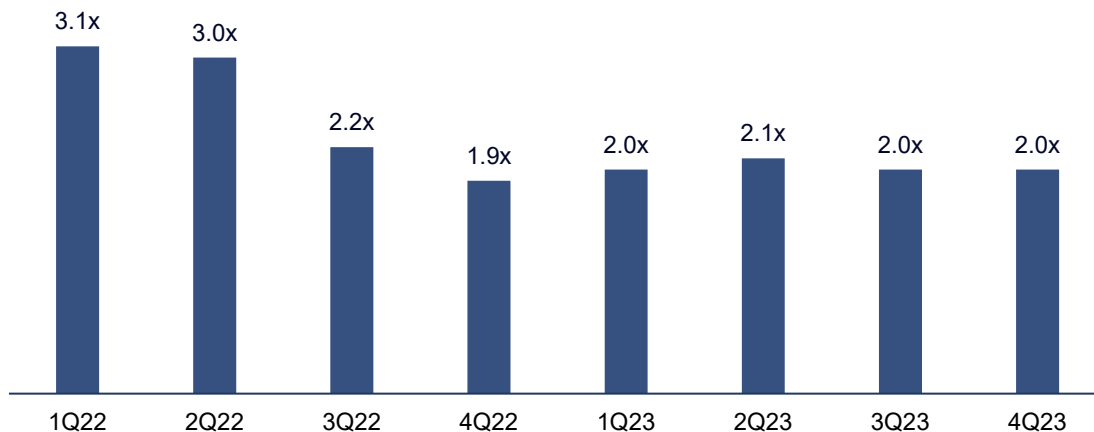
Debt Market Update – Key Stats



Commentary

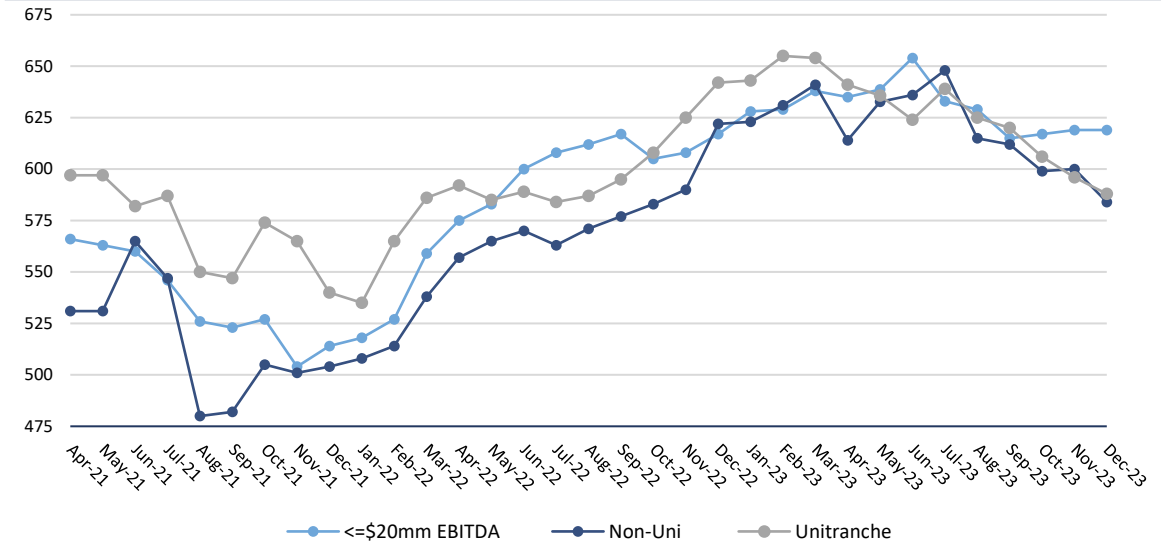
- **Spread:** Spreads dropped in the second half 2023.
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- **Discount:** Average issue prices increased to 98.02 in 4Q23, which is the first time the average has been above 98 since 3Q22, when the average was 98.21.

Interest Coverage Ratio

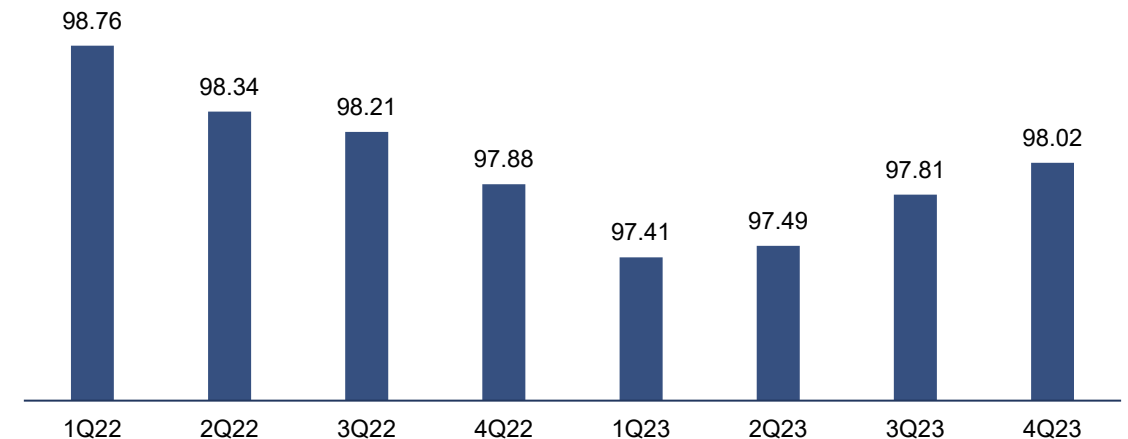


Source: KBRA DLD Private Data Set

Spread (bps)



Discount Rate

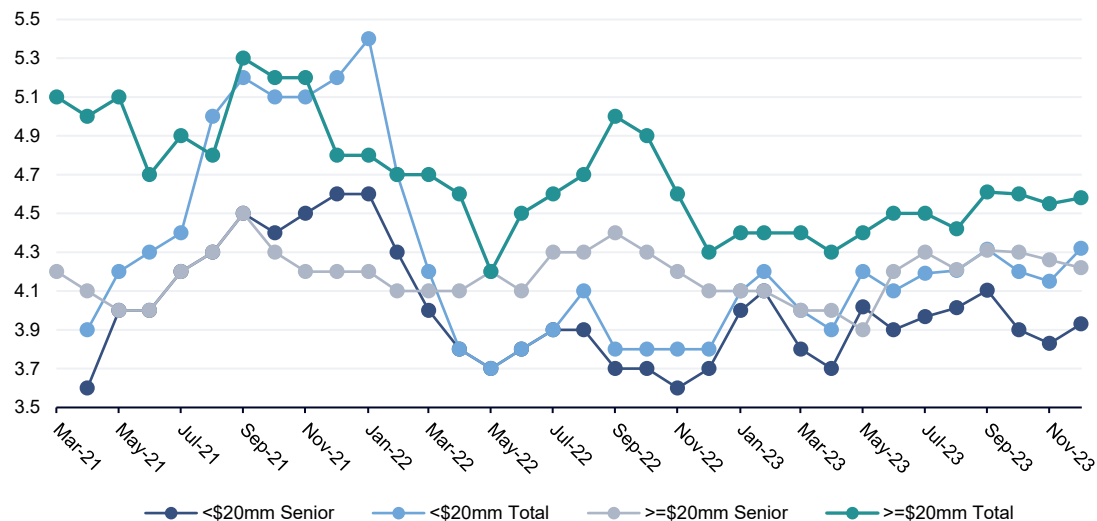


Debt Market Update – Leverage Trends

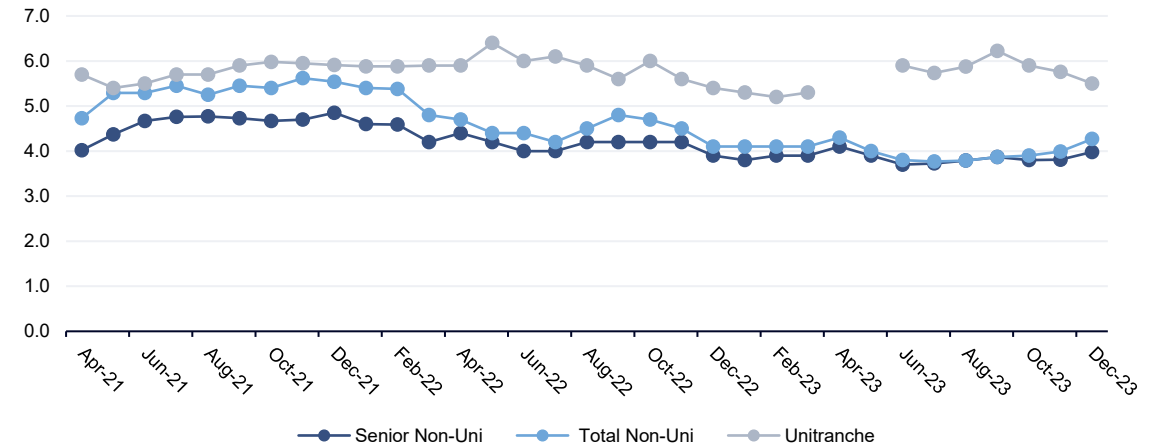
Commentary

- In Dec-23 senior leverage multiples increased by 0.2x to 4.0x for the first time since Apr-22. Total leverage moved up by 0.3x in Dec-23 to 4.3x after reaching 4.0x in Nov-23 for the first time since May-23.
- Non-Unitranche: <\$20mm EBITDA multiples increased by 0.1x to 3.9x in Dec-23 from 3.8x at the end of Nov-23 on a senior basis. Multiples also increased by 0.1x on a total basis to 4.3x. >=\$20mm EBITDA multiple decreased by 0.1x on a senior basis to 4.2x in Dec-23 and held steady on larger deals at 4.6x as more refinancings entered the deal mix.
- Unitranche: Since Apr-23, <\$20mm EBITDA multiples remain nowhere near 5.0x. A year ago, the average was 5.4x. >=\$20mm EBITDA multiples dipped slightly to 5.7x by the end of Dec-23, after holding steady at 5.8x in Jul-23 to Nov-23. A year ago, the average was also 5.7x, on par with Nov-22, after having tightened from Oct-22's 6.1x level.

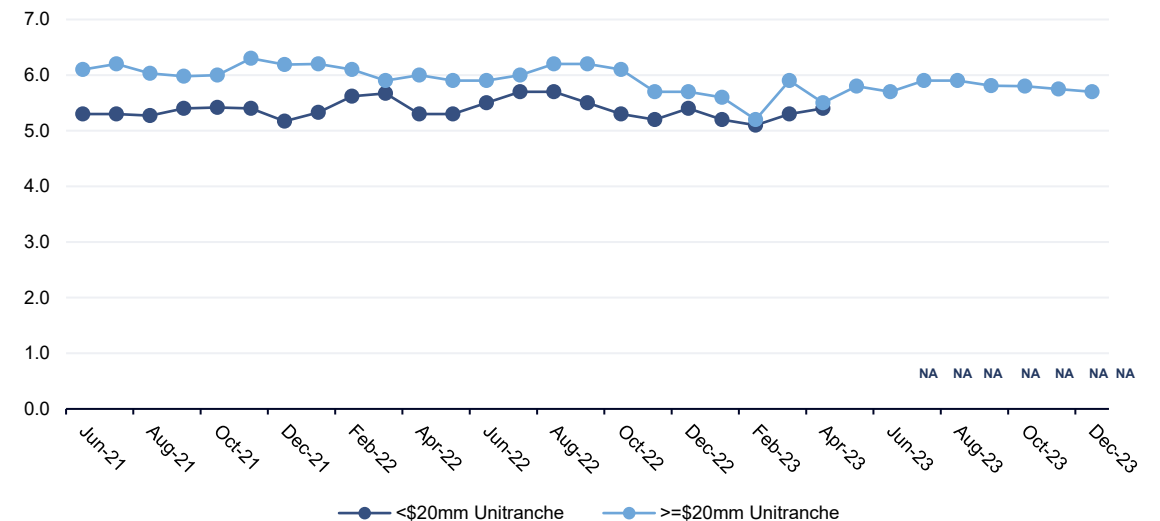
Non-Unitranche Leverage



Private Deals: LBO Leverage



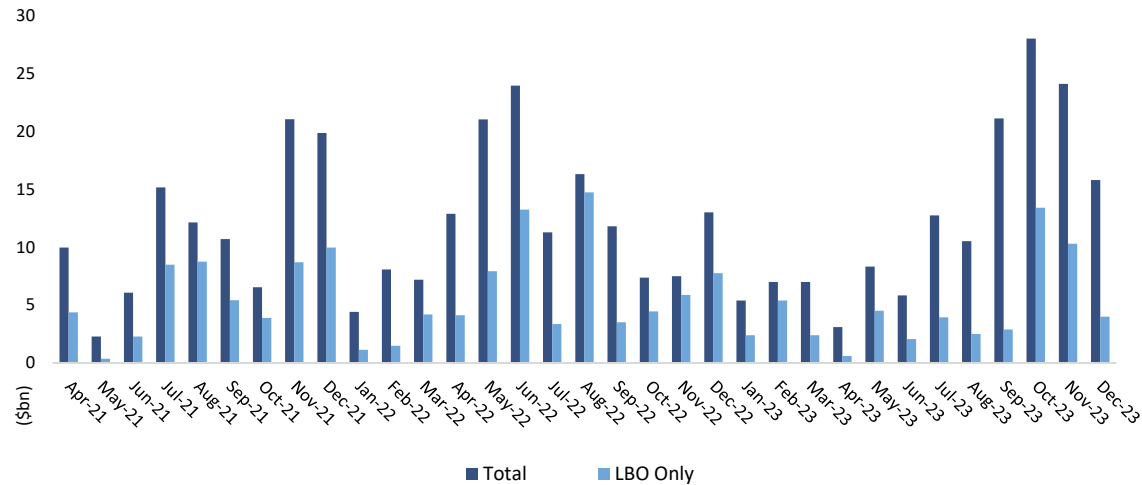
Unitranche Leverage (>=5.0x)



Debt Market Update – Volume Trends



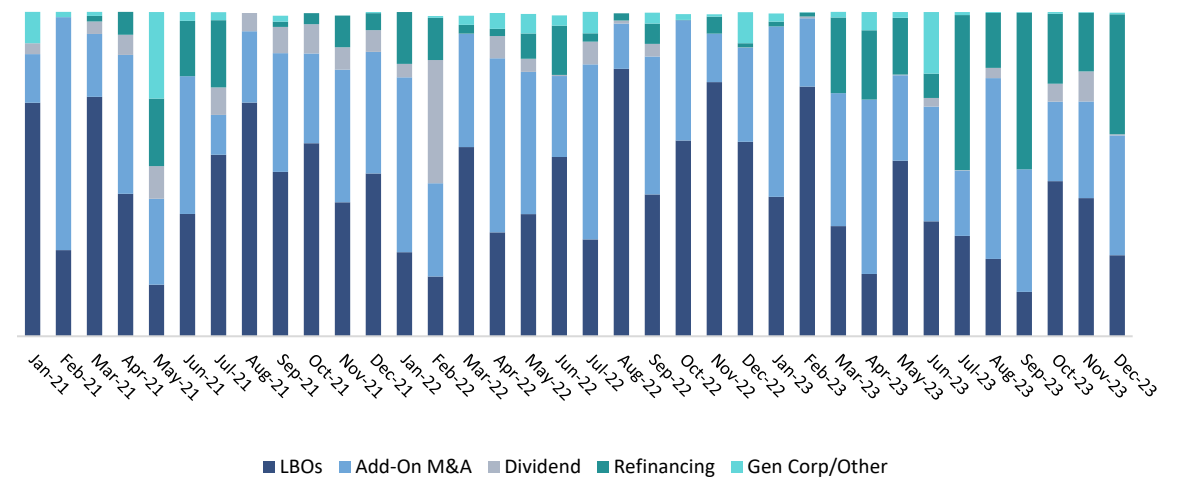
Monthly Originations



Commentary

- Originations volume was \$148.9bn for 2023, inching past 2022's \$144.8bn, driven by a second half rally and boost in jumbo financings. The post-Labor Day calendar delivered \$20.0+ bn in loans. Lenders booked \$15.8bn in new issues in Dec-23 resulting in \$67.9bn for 4Q23.
- 4Q23 volume increased 144% compared to 4Q22 and increased 53% compared to 3Q23. Add-ons were strong as LBO activity dipped, and jumbo refinancings lifted volumes.

Volume by Proceeds



Commentary

- Direct lenders saw a bump in LBO activity in the 4Q23, which recorded \$27.7bn. There is a solid pipeline for the 1Q24, as sponsors step up from the sidelines to put capital to work.
- For 2023, LBO volume was weaker overall. Total volume for 2023 ended at \$54.3bn, down 25% over 2022's \$72.2bn, but only slightly behind 2021's \$56.6bn. Even against lower volume, buyouts still only captured a 36% of overall 2023 volume, down from 50% in 2022 and from 51% in 2021.
- Add-on M&A volume was steady year-over-year, finishing 2023 with a 33% share (\$49.3bn) of total volume, in line with 35% (\$50.4bn) in 2022 and 32% (\$35.6bn) in 2021.
- Refinancings surged to 26% of 2023 volume, up from 7% in 2022 and 8% in 2021.