DEBT MARKET UPDATE

Q1 2022 – NORTH AMERICA

Featuring BDO Capital Advisors and BDO Canada

BDO CAPITAL ADVISORS, LLC

"Trusted Investment Bankers for the Middle Market"

United States

U.S. leveraged lending set new records in 2021 driven by strong investor demand on the back of vaccine rollouts and government fiscal stimulus. According to Debtwire, institutional loan volume exceeded $910 billion for the year while high yield bond volume was more than $430 billion, both record highs. The support from the Federal Reserve drove borrowers' demand in 2021, and the fiscal stimulus supported companies struggling with the ongoing effects of the pandemic.

M&A-related volume, including LBO activity, rebounded strongly in 2021 to over $349 billion, a new record at more than 30 percent higher than the previous record in 2018. While many buyers put plans for acquisitions, takeovers, or divestures on hold during 2020, M&A and buyout activity was strong in 2021 with approximately $2.6 trillion in M&A activity announced during the year, according to Mergermarket. This trend is expected to spill over into 2022 as the M&A market continues to benefit from excess liquidity, attractive valuation multiples and potential tax change concerns by business owners.

While the full year view of the debt market was impressive, issuance dropped off in December as the Omicron variant renewed fears of business and economic disruptions. Loans and high yield bond issuances fell to their lowest level for the year as the Federal Reserve announced plans to accelerate the reduction of its asset purchases and intent to raise key interest rates to combat rising inflation.

BDO CAPITAL ADVISORS, LLC PROVIDES INVESTMENT BANKING SERVICES IN THE AREAS OF:

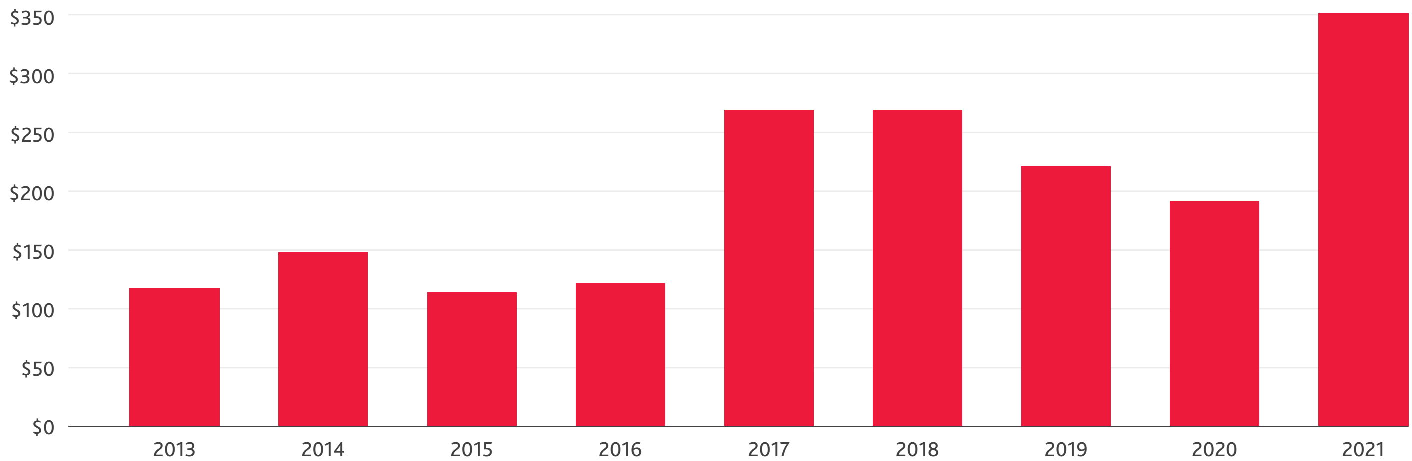
- Capital Raising
- Mergers & Acquisitions
- Board Advisory
- Special Situations

PLEASE DIRECT INQUIRIES TO:

WILLIAM R. SHIRY, JR.
Managing Director, BDO Capital Advisors, LLC, Chicago
312-233-1856 (Direct)
216-272-3129 (Mobile)
wshiry@bdocap.com

JOHN Y. KIM
Director, BDO Capital Advisors, LLC, Houston
713-548-0964 (Direct)
832-416-0248 (Mobile)
jkim1@bdocap.com

U.S. INSTITUTIONAL LOANS FOR M&A ($ IN BILLIONS)



Source: Debtwire Par

Total Debt/EBITDA			
	< $5M	> $10M	> $20M
Dec 2021	3.00x – 4.00x	4.50x – 5.50x	5.50x – 6.50x
Sep 2021	3.00x – 4.00x	4.50x – 5.50x	5.50x – 6.50x
Dec 2020	2.50x – 3.25x	3.50x – 4.50x	4.00x – 5.00x

Source: BDO Capital estimates

Sub. Debt Pricing (Total Coupon)			
	< $5M	> $10M	> $20M
Dec 2021	12% – 15%	10% – 13%	8% – 11%
Sep 2021	12% – 15%	10% – 13%	8% – 11%
Dec 2020	13% – 15%	11% – 13%	10% – 12%

Source: BDO Capital estimates

In the private debt market, over $188 billion worth of loans were issued for middle market borrowers during 2021, an 85 percent increase from 2020. New money transactions totaled $108 billion, more than double the prior year volume, and refinancings accounted for $80 billion, up more than 50 percent from 2020. Financial sponsor backed volume was $65 billion, a 78 percent increase from the prior year, driven by new money purposes including buyouts, add-on acquisitions and dividends. Private debt investors will continue to monitor Federal Reserve policy, inflation, and the LIBOR transition.

Federal bank regulators have made clear that the banks may not extend new credit based on LIBOR after December 31, 2021. Currently, banks are offering term sheets based on alternative reference rates (principally, SOFR), and any credit facilities up for renewal or amendment are being transitioned to alternative reference rates. Direct lenders, generally, are not subject to bank regulation and as such an immediate transition to SOFR (or any other alternative reference rate) by private credit lenders is not expected. However, many direct lenders may be subject to other regulatory agency requirements, including the SEC who has expressed concerns about LIBOR which may cause direct lenders to offer an increasing number of loans based on SOFR in the coming months.

Senior Debt/EBITDA			
	< $5M	> $10M	> $20M
Dec 2021	1.75x – 2.75x	2.75x – 3.50x	3.50x – 5.50x
Sep 2021	1.75x – 2.75x	2.75x – 3.50x	3.50x – 5.00x
Dec 2020	1.50x – 2.00x	2.50x – 3.00x	2.75x – 3.50x

Source: BDO Capital estimates

Senior Debt Pricing			
	Bank	< $10M*	> $15M*
Dec 2021	L+2.0% – 4.5%	L+5.5% - 8.0%	L+4.0% – 6.5%
Sep 2021	L+2.0% – 4.5%	L+5.5% - 8.0%	L+4.0% – 6.5%
Dec 2020	L+3.5% – 4.5%	L+6.5% - 8.5%	L+5.5% – 7.5%

*Non-bank lenders / Source: BDO Capital estimates

SELECT TRANSACTIONS

U.S. Auto Sales
$60,000,000
Revolving Credit Facility

MOGAS Industres, Inc.
$50,000,000
Senior Credit Facility

TruFoodMfg
$36,000,000
Senior Credit Facility

Jindal Films
$50,000,000
Senior Credit Facility

WT Hardwood Groups
$60,000,000
Senior Credit Facility & Junior Capital

Leader Distribution Systems, Inc.
$9,000,000
Senior and Subordinated Notes

Canada

Despite the challenges of COVID-19, the Canadian debt market remained strong and experienced growth in Q4 2021. December 2021 year-to-date loan issuance was $1.1 trillion, a nine percent increase over the prior year. This was primarily driven by demand for new money. Working capital loans, acquisition financing and fixed asset purchase/maintenance accounted for 80 percent of the new lending. Although Q4 2021 saw a slight reduction in fiscal and monetary stimulus, excess liquidity persisted in the market. This resulted in a low cost of borrowing with lenders competing on pricing, leverage levels and non-economic terms such as compressed timing and looser covenants.

Domestic banks continued to be the largest business credit provider. However, alternative lenders provided substantial credit to businesses looking for capital outside traditional lenders. In Q4, of the $1.1 trillion loaned, 60 percent ($0.66 trillion) was from domestic banks while 40 percent ($0.44 trillion) was from alternative lenders. Alternative lending options continued to increase exponentially. U.S. alternative debt providers, including private equity firms, continued to be active in Canada putting competitive pressure on rates and terms.

Real estate (26 percent) and financial services (15 percent) made up the bulk of total lending in Canada, followed by public services (10 percent), and agriculture (6 percent). Construction and infrastructure projects continued to enter the markets consistent with government stimulus and investment programs. In addition to the Canadian banks, private investors and foreign banks provided competitive lending for these projects.

BDO CANADA M&A AND CAPITAL MARKETS PROVIDES ADVISORY SERVICES IN THE AREAS OF:

- Capital Raising
- Mergers & Acquisitions
- Due Diligence
- Deal Analytics
- IPO Preparedness

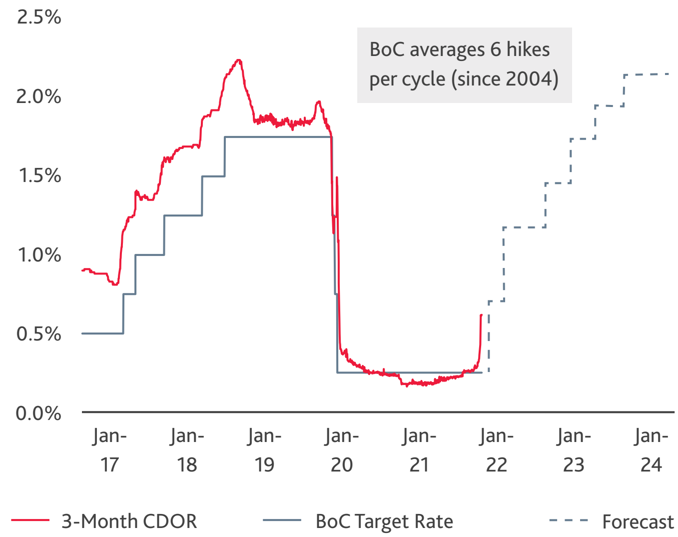
PLEASE DIRECT INQUIRIES TO:

MICHAEL MORROW
Managing Director,
Toronto
416-865-0200 (Office)
416-890-6185 (Mobile)
mmorrow@bdo.ca

SHILPA MISHRA
Managing Director,
Toronto
416-865-0200 (Office)
smishra@bdo.ca

10Y GOC YIELD VS 5Y GOC YIELD

3-MONTH CDOR VS BOC TARGET RATE



Alternative Lenders - Total Debt/EBITDA			
	< \$5M	> \$10M	> \$20M
Dec 2021	3.00x – 4.00x	4.00x – 4.75x	4.25x – 5.00x
Dec 2020	3.00x – 4.00x	4.00x – 4.75x	4.25x – 4.75x
Dec 2019	2.50x – 3.25x	3.50x – 4.00x	3.50x – 4.50x

Source: BDO, M&A and Capital Market estimates

Alternative Lenders - Pricing (Coupon)			
	< \$5M	> \$10M	> \$20M
Dec 2021	10% – 15%	8% – 12%	8% – 12%
Dec 2020	10% – 14%	8% – 12%	8% – 12%
Dec 2019	13% – 15%	11% – 13%	10% – 12%

Source: BDO, M&A and Capital Market estimates

From a deal activity perspective, M&A and private equity (PE) investment continued to eclipse all previous years, mostly anchored in the midmarket segment. In 2021, over \$442 billion CAD worth of M&A deals were announced, making it the busiest year on record. This represents a 136 percent increase in deal value since 2020.

Supply chain bottlenecks, labour shortages and capacity constraints were precursors to broad wage and price inflation. Q4 2021 inflation was reported at 4.8 percent vs. the Bank of Canada (BoC) mandate of 2 percent. Given this inflationary pressure, the BoC is expected to increase its benchmark overnight rate from 0.25 percent (as of Q4 2021) to 1.25 percent in 2022 and 2.25 percent in 2023. GDP growth is expected to slow from 4.5 percent in 2021 to 4.2 percent in 2022 and 3.5 percent in 2023.

Looking forward, due to market uncertainty, lenders are expected to be more disciplined in underwriting and structuring transactions. This will likely impact lending volumes, but competition for strong credit (fueled by market demand) should continue. M&A activity will likely remain steady in 2022; however, increased inflation and interest rates may negatively impact M&A dealmaking.

Canadian Banks – Senior Debt/EBITDA			
	< \$5M	> \$10M	> \$20M
Dec 2021	1.75x – 2.75x	3.00x – 4.00x	3.50x – 4.00x
Dec 2020	1.75x – 2.50x	2.75x – 3.50x	3.50x – 3.75x
Dec 2019	1.50x – 2.00x	2.50x – 3.00x	2.75x - 3.50x

Canadian Banks – Senior Debt Pricing			
	< \$5M	> \$10M	> \$15M
Dec 2021	C+3.0% – 5.0%	C+3.0% – 5.0%	C+3.0% – 5.0%
Dec 2020	C+3.0% – 4.5%	C+2.0% – 4.5%	C+2.0% – 4.5%
Dec 2019	C+4.0% – 6.5%	C+4.0% –6.5%	C+4.0% – 6.5%

Sources: BDO, M&A and Capital Market estimates; Bank of Canada; StatsCanada; Canadian Bankers Association; Reuters

SELECT TRANSACTIONS

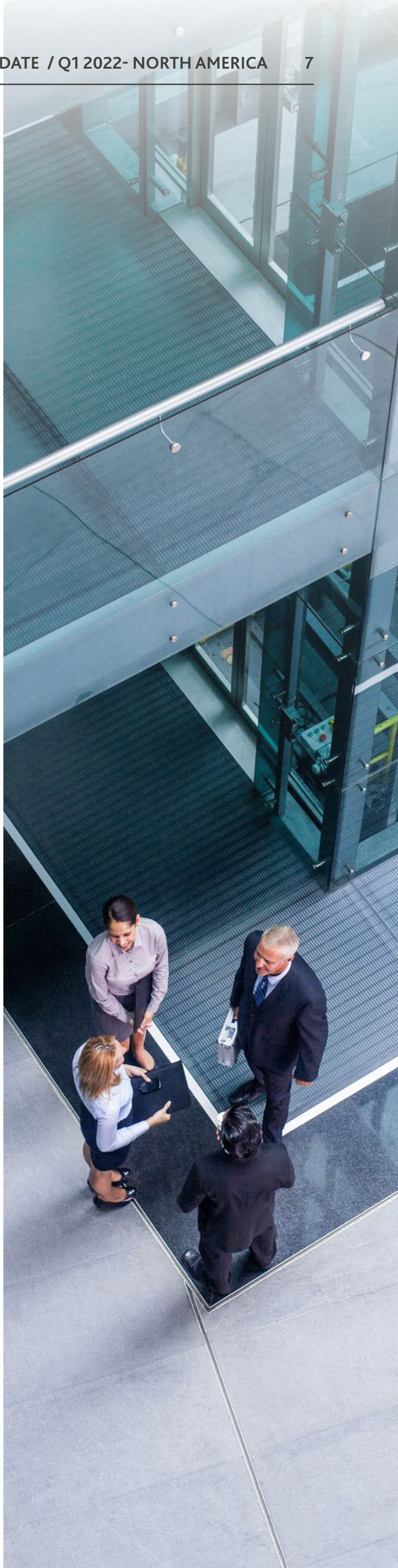
Winch Group
$10,500,000
Capital Advisory

Rodan Energy Solutions
$25,000,000
Capital Advisory

Insig/TIA Health
$6,000,000
Capital Advisory

Large HVAC Company
$48,000,000
Capital Advisory

Large Chemical Dist.
$6,500,000
Capital Advisory



ADDITIONAL BDO CAPITAL ADVISORS CONTACTS

ROBERT SNAPE
President
617-239-4177 (Direct) / 339-236-1050 (Mobile)
bsnape@bdocap.com

VALENTINA MIDURA
Senior Managing Director
617-422-7593 (Direct) / 978-873-1314 (Mobile)
vmidura@bdocap.com

PATRICK BISCEGLIA
Managing Director
804-401-4311 (Direct) / 804-513-9724 (Mobile)
pbisceglia@bdocap.com

ERIC HIGGINS
Director
617-422-0904 (Direct) / 978-761-8111 (Mobile)
ehiggins@bdocap.com

ADDITIONAL BDO CANADA M&A AND CAPITAL MARKETS CONTACTS

ADAM MALLON
Managing Director
780-643-6192 (Direct)
amallon@bdo.ca

RYAN FARKAS
Managing Director
416-775-7804 (Mobile)
rfarkas@bdo.ca

JAMIE WINDLE
Managing Director
416-865-0200 (Office)
jwindle@bdo.ca

DEREK VAN DER PLAAT
Managing Director
416-865-0200 (Office)
dvanderplaat@bdo.ca

BDO CAPITAL ADVISORS

BDO Capital Advisors, LLC, a wholly-owned affiliate of BDO USA, LLP, is a leading middle market investment bank that focuses on sell-side advisory, acquisition advisory, capital raising and board advisory services with offices located throughout the United States. The firm has deep industry knowledge, extensive cross-border transaction experience and superior execution capabilities. The firm has broad industry expertise and contacts having closed transactions within the Manufacturing & Distribution, Consumer, Food & Retail, Healthcare & Life Sciences, Business Services, Energy & Natural Resources and Technology, Media & Telecom sectors. Our seasoned investment bankers have collectively advised on hundreds of transactions for a variety of clients including family-owned businesses, entrepreneur-led companies, public corporations and leading private equity firms. Our professionals also draw upon the full depth and breadth of BDO USA's national resources which include 70+ offices and more than 8,200 professionals located throughout the United States. BDO Capital Advisors, LLC, a FINRA/SIPC Member Firm, is a separate legal entity and is an affiliated company of BDO USA, LLP, a Delaware limited liability partnership and national professional services firm.

The firm has worldwide access to buyers, sellers and offshore investors via the Corporate Finance practices of BDO International's network of independent member firms. BDO International Corporate Finance firms operate in approximately 120 countries with approximately 2,500 professionals who are able to meet the investment banking needs of clients across the globe.

This publication has been carefully prepared, but should be seen as general guidance only. You should not act upon the information contained in this publication without obtaining specific professional advice. Please contact BDO Capital Advisors, LLC to discuss these matters in the context of your particular circumstances. BDO accepts no responsibility for any loss incurred as a result of acting on information in this publication.

BDO CANADA M&A AND CAPITAL MARKETS

BDO's M&A and Capital Markets advisory professionals have the knowledge, network, and experience to help mid-market companies navigate these issues and other factors affecting their business. Through a holistic approach that never loses sight of the big picture, we offer many service lines for our clients, including merger and acquisition services, capital advisory services, due diligence services, deal analytics services and IPO preparedness services. Learn more

The information in this publication is current as of January 25, 2022.

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact BDO Canada LLP to discuss these matters in the context of your particular circumstances. BDO Canada LLP, its partners, employees and agents do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

BDO USA

BDO USA, LLP is a professional services firm providing assurance, tax, and advisory services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through more than 70 offices and over 750 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of more than 97,000 people working out of more than 1,700 offices across 167 countries and territories.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. www.bdo.com

Material discussed in this publication is meant to provide general information and should not be acted on without professional advice tailored to your needs.