

Trends in the European Debt Markets & Valuation Implications

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LENDER SENTIMENT

Lenders are honouring existing commitments with negligible retrades; however, debt and equity investors are cautious when reviewing new opportunities.

Lenders remain focused on their existing portfolios and are in regular communication with management teams and sponsors to assess the impact of Covid-19.

Government measures are helpful but unlikely to be sufficient for most companies.

Many portfolio companies are drawing on revolver and delayed draw facilities as they seek liquidity to support operations and bridge the interim volatility.

IMPACT OF THE COVID-19 CRISIS ON VALUATION APPROACH

Given extreme market volatility, Lincoln has opted to more heavily weight the income approach as opposed to a market approach (which is an unreliable indication of intrinsic value at present) when valuing credit positions of debt funds.

VALUATION BEST PRACTICES

Valuations must be considered on a company-by-company basis; Apply consistent treatment across high/medium/low Covid-19 impact names, and take care not apply both EBITDA haircut and lower multiples

Sponsor support can significantly mitigate downside valuation pressure; Government support remains untested; Care must be taken in forecasting liquidity capacity

The vast majority of illiquid positions will not experience the same magnitude of volatility as the public markets; However they will directionally follow trends

The next weeks and months will undoubtedly bring challenges but there are a range of options and potential solutions available. We can offer you a Debt & Valuation presentation to discuss the latest developments, please do not hesitate to get in touch with Lincoln's Capital Advisory Team at www.lincolninternational.com/services/capital-advisory.

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>1,000

portfolio company valuations in the last month

~50-150bps

indicative margin increase in first lien

~2.0% - 6.5%

valuation declines in private credit

~150-200bps

indicative margin increase in subordinated debt

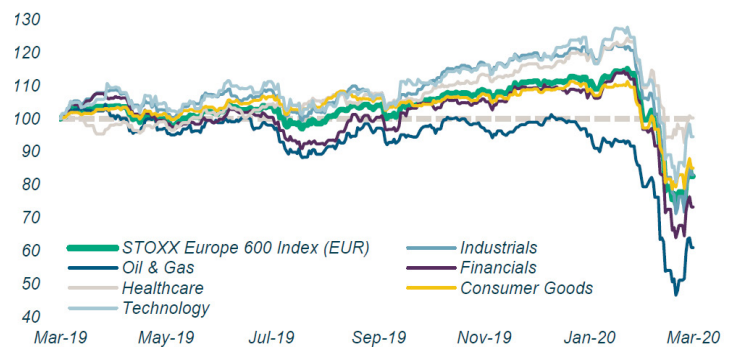
~€34bn

fundraising by European debt funds in 2019

~50%

lenders that would consider committing fresh liquidity

European Equity Markets: Sector Return Indices (EUR)



CONSIDERATIONS FOR BUSINESS

Ensuring sufficient liquidity to operate is critical in current environment. Companies are looking at ways to improve liquidity

- Should we draw down our RCF in full?
- Do I need existing lender support to implement factoring and new financing options? What are these options?
- Which banks are truly open for business?
- What about disposals, equity, quasi-equity?

There is no 'one size fits all' solution. Lincoln can assist in identifying and executing on a strategy