Private Market Update – Heard on the Street

In light of recent market volatility, Bridgepoint is providing another real time update of what we are hearing from our close private market relationships

"Closed a deal yesterday – start to finish during COVID. We knew the sponsor, but not the management team." ***– Private Equity Firm***

"Things starting to bubble now on non-affected stakes. $20mm managed software – pre-COVID 6x leverage read, now considering 4.5x leverage. Pricing was 525-550bps, now 675-700bps. With rate floors on everything (1.0). Overall, borrowers should expect 150-200bps increased cost." ***– Private Equity Firm***

"Currently seeing 10 deals a week versus 20 per week pre-COVID, and now only 30-40% of them are deals really worth investigating." ***– Private Equity Firm***

"A lot of stuff got pulled off the market in April. However, we closed a few that were at the one-yard line." ***– Private Equity Firm***

"It's also difficult to value companies in this environment, given the disruption to company cash flows, market volatility and the lack of comparable transactions." ***– Consulting Firm***

"We feel EBITDAs will compress more quickly while valuation multiples will exhibit some resilience." ***– Private Equity Firm***

"Long term restructuring hasn't taken place yet. Probably Q3-Q4 before people take longer term view." ***– Private Equity Firm***

"At the moment, new deal data is skimpy, but I expect spreads to be much wider and leverage well off from where we were in January." ***– Private Equity Firm***

"No sponsor forecasts a no-revenue scenario. With visibility uncertain, you can't safely leverage anything. It's not so much pricing discovery as much as on-going concern discovery." ***– Private Equity Firm***

"No-one can speak on behalf of the market. Everyone is reacting differently, but the covenant cushion has contracted, and sponsors have to accept that. We're out of time, and they're not in a position to negotiate hard on brand new debt." ***– Private Equity Firm***

"So far, there has been limited relief from lenders. Requests by borrowers to eliminate all financial covenants for the rest of the year have been resisted. Lenders are taking a more incremental, wait-and-see approach." ***– Private Equity Firm***

"The distressed opportunities haven't materialized." ***– Private Equity Firm***

> "The market has been resilient, perhaps surprisingly so. We're seeing a wave of M&A deals proceeding towards closing, albeit at a slightly more measured pace. New M&A deal flow is muted – as it's not the best time for private company owners to monetize their life's work – but is coming back sooner than later. Valuations have been remarkably resilient relative to the public markets. Many deals have some earn-out component to bridge any macro performance gap that may come out of COVID, while 100% cash deals are still getting done, despite the nightmarish headlines. Unfortunately, the bankruptcy wave has started, and we believe will only increase, and we're seeing a lot of bridge and rescue finance opportunities where we're focused on helping companies bridge the capital gap to get to the other side of this pandemic with non-bank capital. Leverage levels have come down a touch and pricing has widened but is normalizing in the private credit markets. We're seeing LPs take down debt on buyouts, and private credit funds club up to de-risk while still getting deals done. All-in-all, things are trending positively in the private markets."
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Source: Bridgepoint Investment Banking, Leveraged Commentary & Data (LCD) Reuters