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## 2020 Private Capital Markets Report

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# 2020 PRIVATE CAPITAL MARKETS REPORT

Craig R. Everett, PhD  
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Director, Private Capital Markets Project

# 2020 PRIVATE CAPITAL MARKETS REPORT

Craig R. Everett, PhD

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April 2, 2020

Dear friends and colleagues;

I hope that you enjoy the 2020 Pepperdine Private Capital Markets Report. Unfortunately, it appears that this will be the last one. For several years now, we have been looking for a major sponsor to permanently endow (and name) an Institute of Private Capital Markets at Pepperdine. This would have ensured that our reports and data would have continued.

Since we were unable to find either a permanent or a temporary sponsor, we are shutting down the program. We can still revive it if a major donor comes along, but as of right now there is nothing in the pipeline.

I would like to express my sincere appreciation to Dr. John Paglia and Robert Slee, who pioneered this program, and then published the first Private Capital Markets Report in 2009. The term “private capital markets” was not in common use prior to 2009 – the term did exist prior to that, but mostly in academic papers. Now, the term is everywhere. I’d like to believe that this is at least in part due to the work that we have done here at Pepperdine.

It should be noted that the survey results that are published here were collected just prior to the COVID-19 lockdown, so they represent the private capital markets expectations and sentiments without consideration of the impact of the SARS-Cov-2 virus on the capital markets.

I would also like to thank Irina Shaykhutdinova, who has been with the project from the beginning, first as a research assistant while she was here as an MBA student, and then as a full-time analyst after she graduated. Her excellent work over the years made our research possible.

I would also like to thank all of you that have filled out our surveys and promoted our reports over the years. Without you, none of this would have been possible.

My final pitch. If you know an organization or benefactor who is interested in keeping this research going, please send them my way.

With sincere appreciation,

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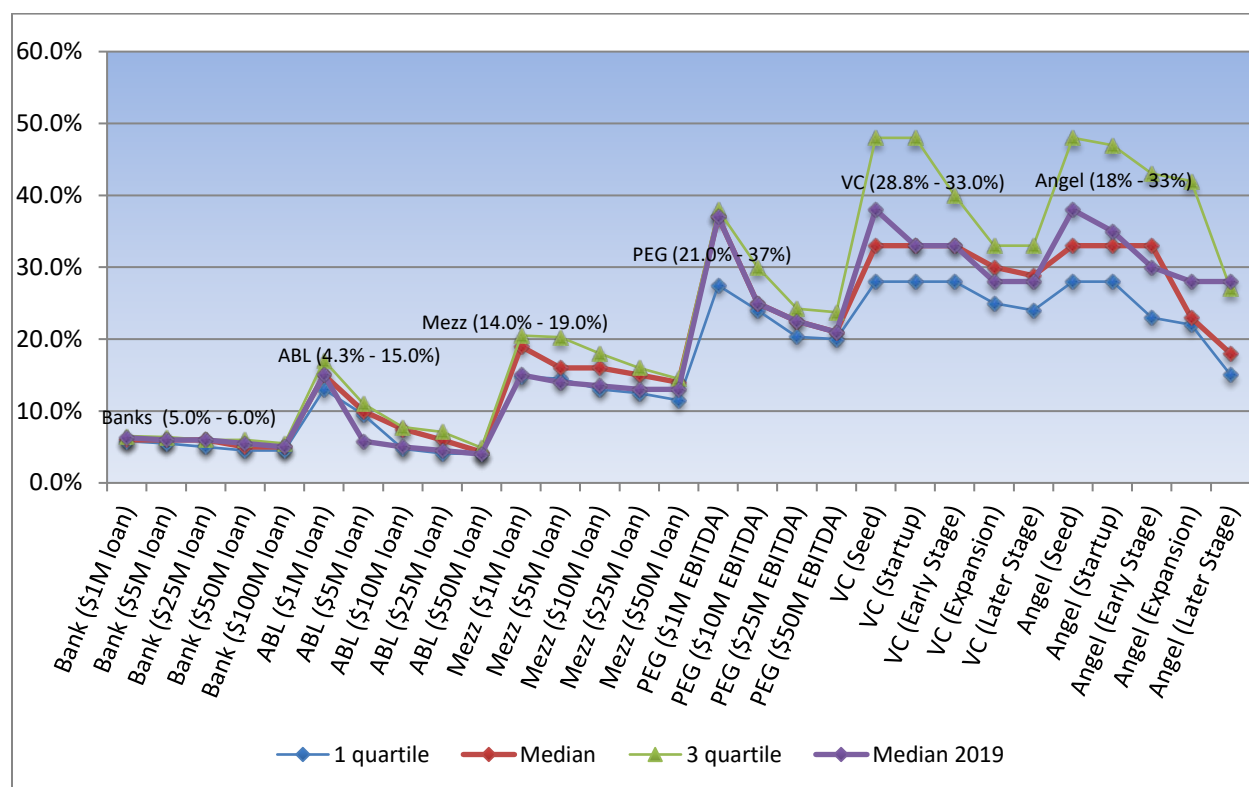
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## PEPPERDINE PRIVATE CAPITAL MARKETS SURVEY

The Pepperdine private cost of capital (PCOC) survey was originally launched in 2007 and was the first comprehensive and simultaneous investigation of the major private capital market segments. This year's survey was deployed in January 2020 and specifically examined the behavior of senior lenders, asset-based lenders, mezzanine funds, private equity groups, venture capital firms, angel investors, privately-held businesses, investment bankers, business brokers, limited partners, and business appraisers. The Pepperdine PCOC survey investigates, for each private capital market segment, the important benchmarks that must be met in order to qualify for each particular capital type, how much capital is typically accessible, what the required returns are for extending capital in today's economic environment, and outlooks on demand for various capital types, interest rates, and the economy in general.

Our findings indicate that the cost of capital for privately-held businesses varies significantly by capital type, size, and risk assumed. This relationship is depicted in the Pepperdine Private Capital Market Line, which appears below.

**Figure 1. Private Capital Market Required Rates of Return**



The cost of capital data presented below identifies medians, 25th percentiles (1st quartile), and 75th percentiles (3rd quartile) of annualized gross financing costs for each major capital type and its segments. The data reveal that loans have the lowest average rates while capital obtained from angels has the highest average rates. As the size of loan or investment increases, the cost of borrowing or financing from any of the following sources decreases.

**Table 1. Private Capital Market Required Rates of Return**

	1 quartile	Median	3 quartile
Bank (\$1M loan)	5.8%	6.0%	6.5%
Bank (\$5M loan)	5.5%	6.0%	6.4%
Bank (\$10M loan)	5.0%	6.0%	6.1%
Bank (\$25M loan)	4.5%	5.0%	6.0%
Bank (\$50M loan)	4.5%	5.0%	5.5%
ABL (\$1M loan)	13.0%	15.0%	17.0%
ABL (\$5M loan)	9.5%	10.0%	11.0%
ABL (\$10M loan)	4.8%	7.5%	7.8%
ABL (\$25M loan)	4.1%	6.0%	7.1%
ABL (\$50M loan)	4.0%	4.3%	4.9%
Mezz (\$1M loan)	14.8%	19.0%	20.5%
Mezz (\$5M loan)	14.5%	16.0%	20.3%
Mezz (\$10M loan)	13.0%	16.0%	18.0%
Mezz (\$25M loan)	12.5%	15.0%	16.0%
Mezz (\$50M loan)	11.5%	14.0%	14.5%
PEG (\$1M EBITDA)	27.5%	37.0%	38.0%
PEG (\$10M EBITDA)	24.0%	25.0%	30.0%
PEG (\$25M EBITDA)	20.3%	22.5%	24.3%
PEG (\$50M EBITDA)	20.0%	21.0%	23.8%
VC (Seed)	28.0%	33.0%	48.0%
VC (Startup)	28.0%	33.0%	48.0%
VC (Early Stage)	28.0%	33.0%	40.0%
VC (Expansion)	25.0%	30.0%	33.0%
VC (Later Stage)	24.0%	28.8%	33.0%
Angel (Seed)	28.0%	33.0%	48.0%
Angel (Startup)	28.0%	33.0%	47.0%
Angel (Early Stage)	23.0%	33.0%	43.0%
Angel (Expansion)	22.0%	23.0%	42.0%
Angel (Later Stage)	15.0%	18.0%	27.0%

## LIMITED PARTNER SURVEY INFORMATION

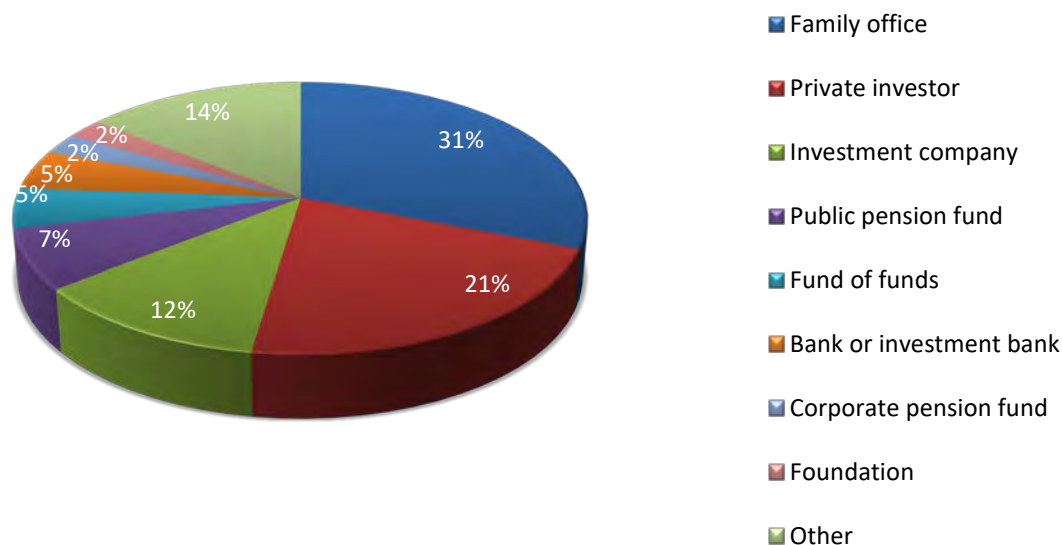
Approximately 35% of the 51 respondents in the limited partner survey reported direct investments as being the best risk/return trade-off investment class and another 25% reported buyout private equity as being the best risk/return trade-off investment class. When asked about which industry currently offers the best risk/return trade-off, 25% of respondents reported healthcare & biotech.

- On average respondents target to allocate 38% of their assets to direct investments, 17% to buyout private equity and 10% to real estate funds. Respondents expect the highest returns of 13% from direct investments, 9% from buyout private equity, 9% from venture capital and 9% from buyout private equity.
- Respondents indicated increased allocation to venture capital, private equity, mezzanine capital, real estate funds and direct investments; and decreased allocation to hedge funds and secondary funds in the last twelve months. They also reported improved business conditions and decreased expected returns on new investments.
- Respondents also expect further increases in allocation to venture capital, private equity, mezzanine capital, real estate funds and direct investments, flat business conditions and decreasing expected returns.

### Operational and Assessment Characteristics

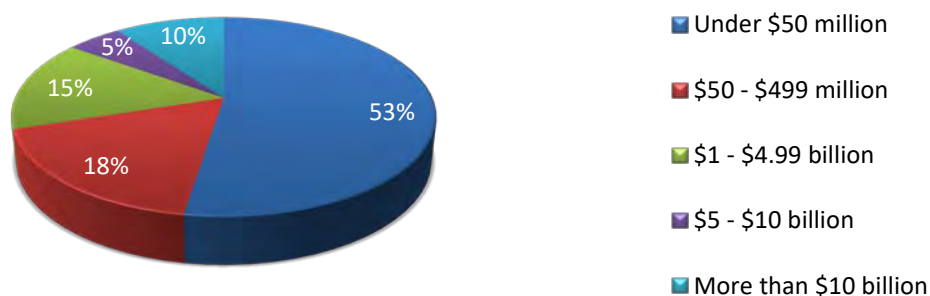
Approximately 31% of respondents indicated being family office followed by private investor (21%).

**Figure 2. Entity Type**



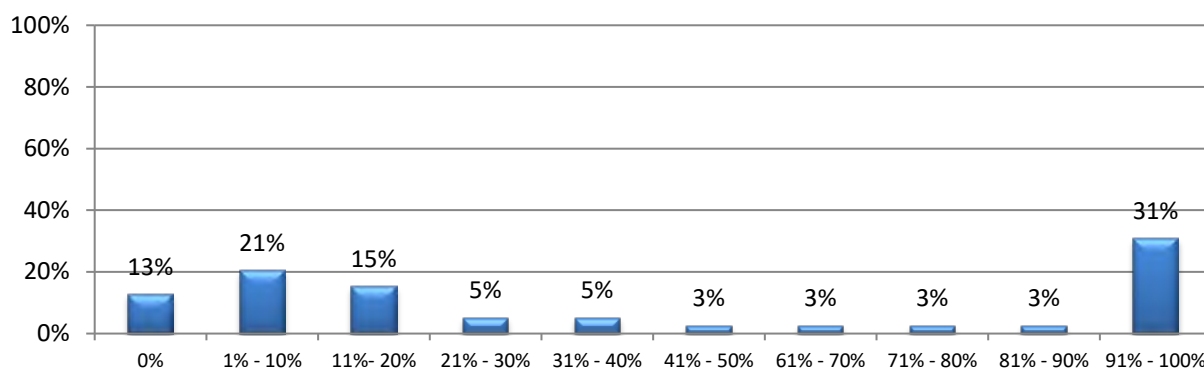
Approximately 53% of respondents reported their asset category being less than \$50 million, while another 18% were between \$50 million and \$500 million.

**Figure 3. Assets under Management or Investable Funds**

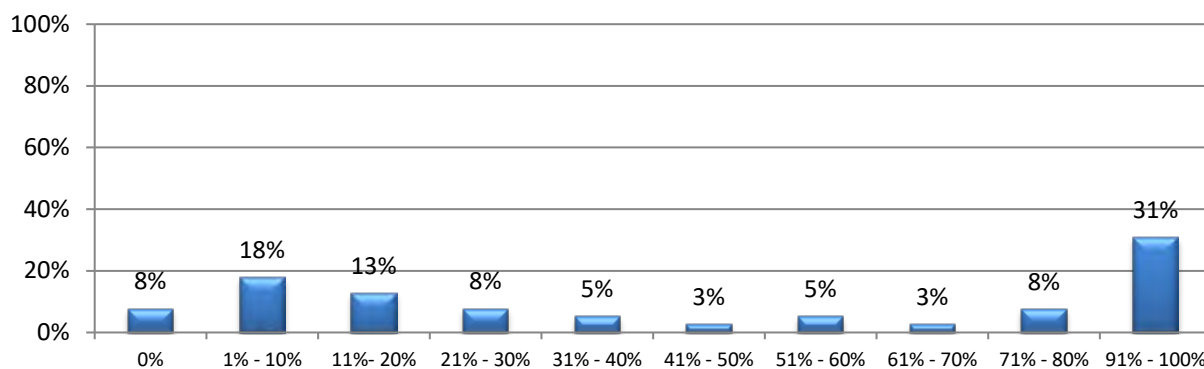


Respondents reported on their % of total asset allocations for "Alternative Assets".

**Figure 4. Current Asset Allocation for "Alternative Assets" (% of total portfolio)**

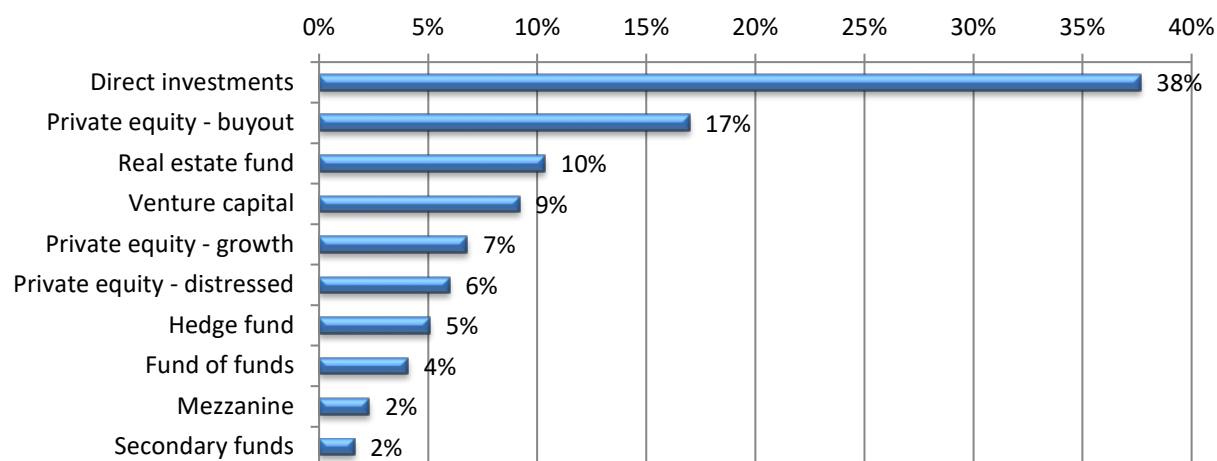


**Figure 5. Target Asset Allocation for "Alternative Assets" (% of total portfolio)**



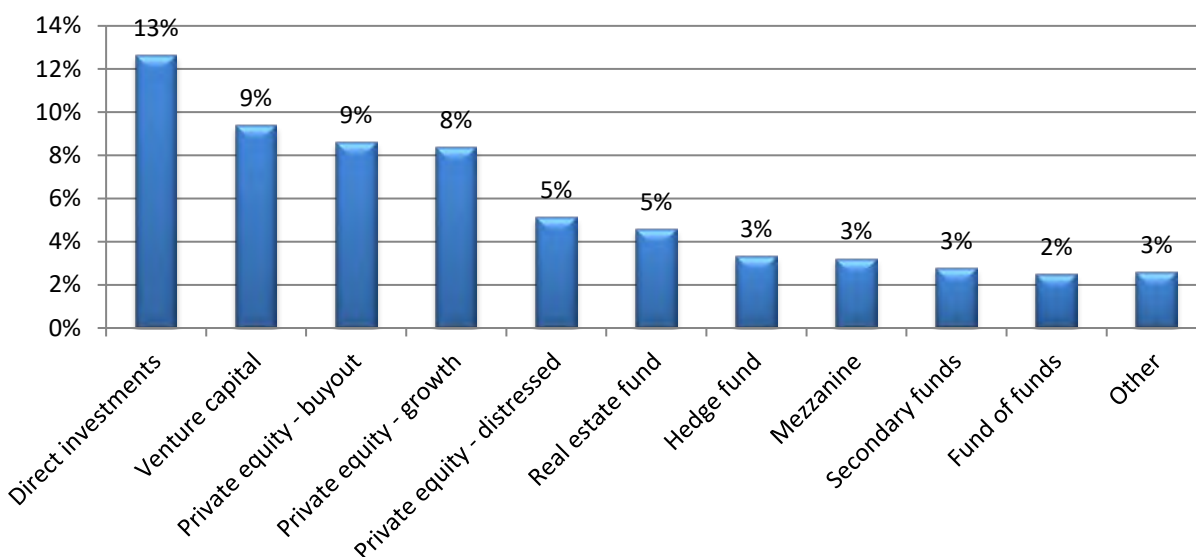
On average, respondents target to allocate 38% of their assets to direct investments, 17% to buyout private equity, and 10% to real estate funds.

**Figure 6. Target Asset Allocation by Assets**



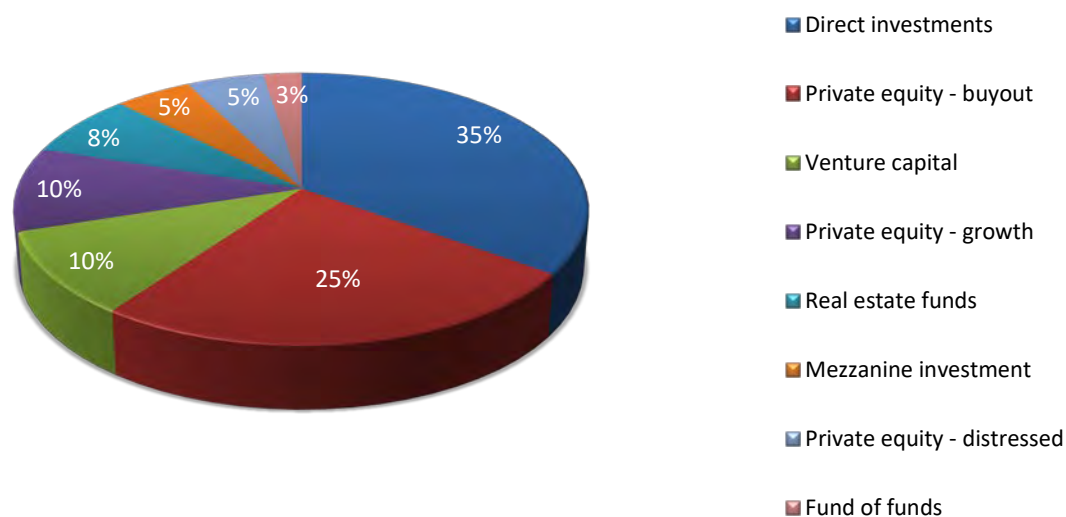
On average, respondents expect the highest returns from investments in direct investments, venture capital and private equity.

**Figure 7. Annual Return Expectations for New Investments**



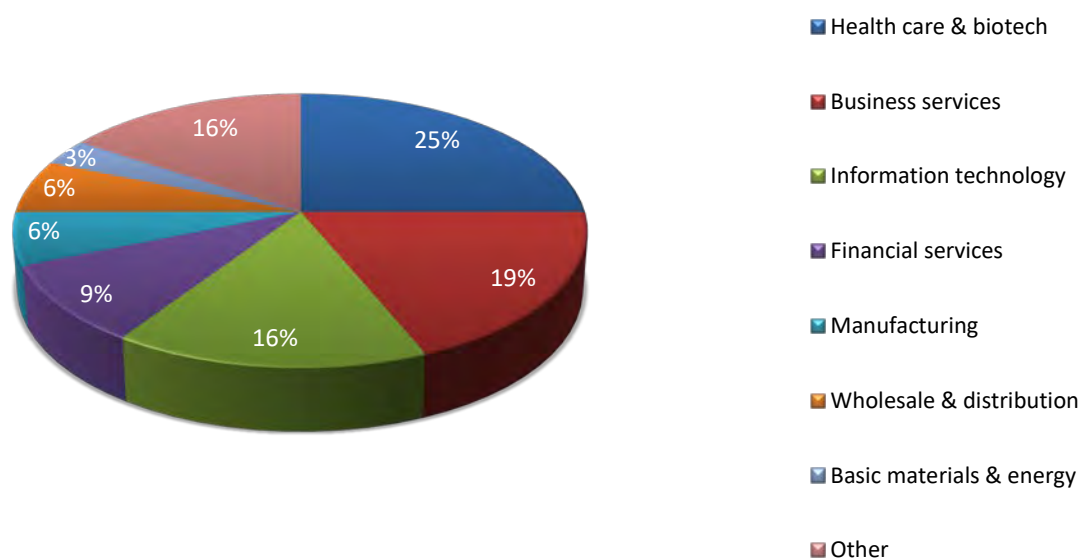
Approximately 35% of the 51 respondents in the limited partner survey reported direct investments as being the best risk/return trade-off investment class and another 25% reported buyout as being the best risk/return trade-off investment class.

**Figure 8. Assets with the Best Risk/Return Trade-off Currently**



When asked about which industry currently offers the best risk/return trade-off, 25% of respondents reported healthcare & biotech.

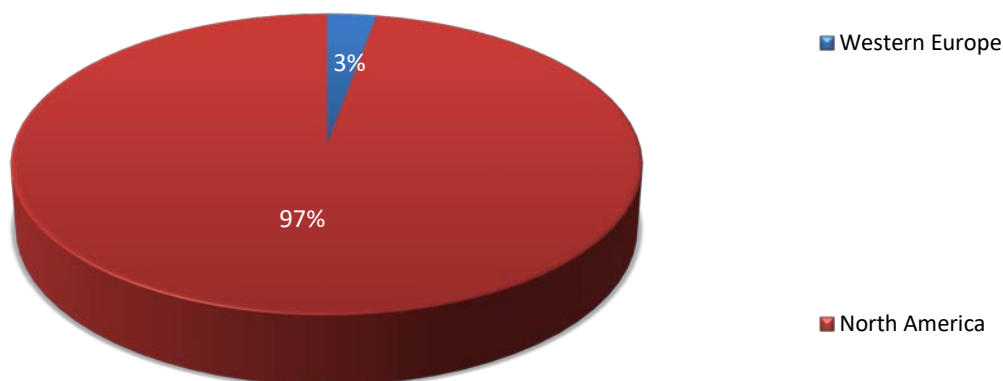
**Figure 9. Industry with the Best Risk/Return**





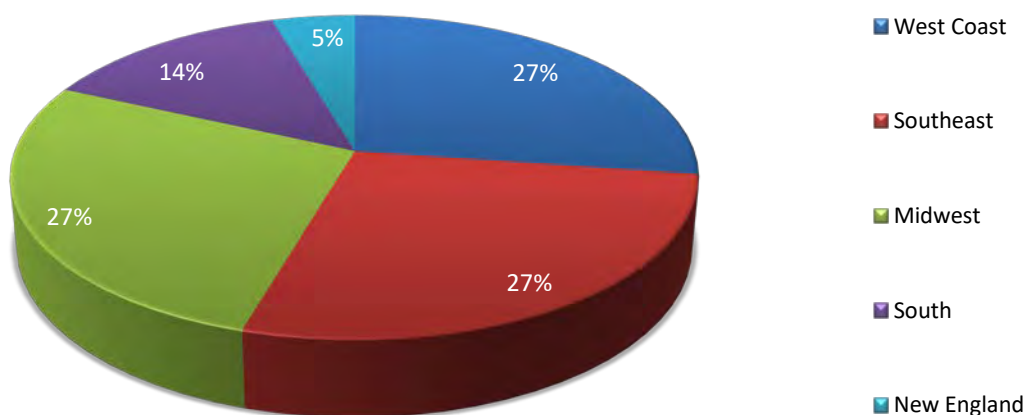
With regard to the geographic regions with the best risk/return trade-offs, 97% of respondents reported North America.

**Figure 10. Geographic Regions of the World Offering the Best Risk/Return Tradeoff Currently**



Regarding the geographic regions with the best risk/return trade-offs in the US, 27% of respondents reported West Coast, 27% reported Southeast, and 27% reported Midwest.

**Figure 60. Geographic Regions in the US Offering the Best Risk/Return Tradeoff Currently**



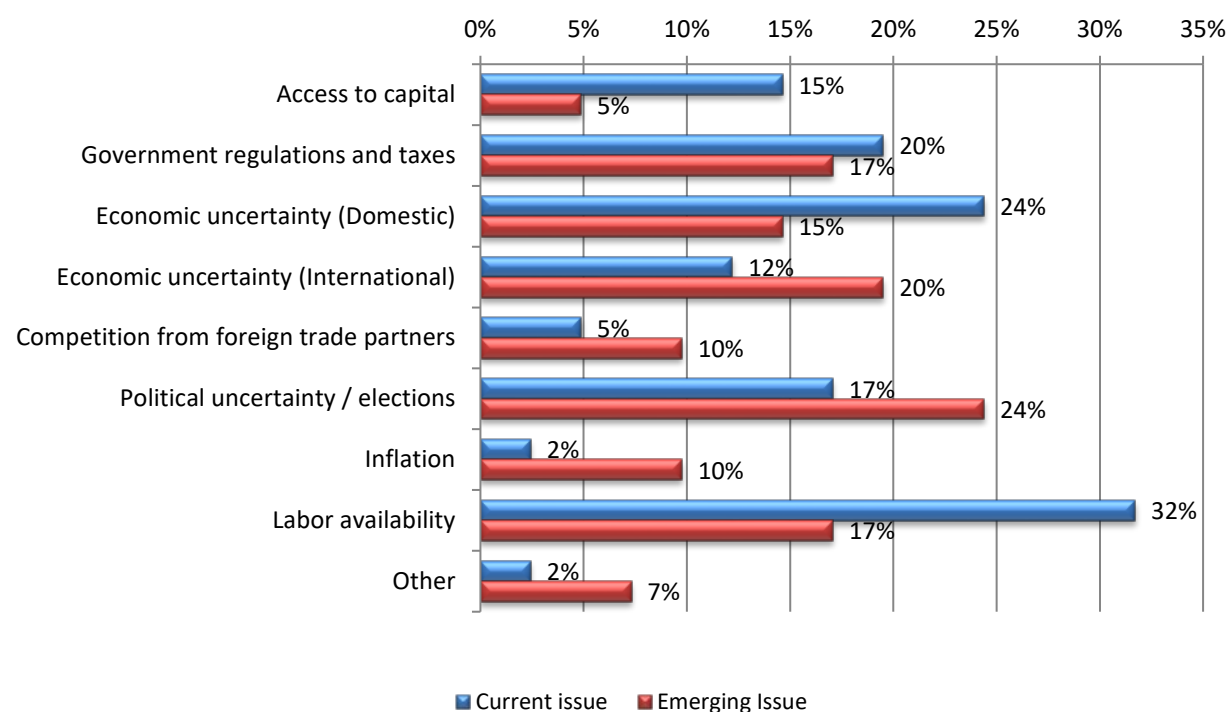
According to respondents, general partner and specific strategy are the most important factors when evaluating investment followed by historical fund performance on all funds.

**Table 2. Importance of Factors When Evaluating**

Characteristics	Unimportant	Of little importance	Moderately Important	Important	Very important	Score (1 to 5)
Historical fund performance on all funds	2%	2%	29%	37%	29%	<b>3.9</b>
Returned capital from most recent fund (Distribution to Paid-in or DPI)	3%	3%	23%	49%	23%	<b>3.9</b>
Residual value of most recent fund (Residual Value to Paid-in or RVPI)	3%	5%	26%	41%	26%	<b>3.8</b>
General partner	0%	0%	5%	26%	69%	<b>4.6</b>
Specific strategy	0%	0%	7%	46%	46%	<b>4.4</b>
Specific location	7%	29%	34%	22%	7%	<b>2.9</b>
Gut feel/instinct	2%	29%	34%	27%	7%	<b>3.1</b>
Other	17%	17%	0%	17%	50%	<b>3.7</b>

Respondents believe labor availability is the most important current issue facing privately-held businesses.

**Figure 11. Issues Facing Privately-Held Businesses**



Respondents indicated increased allocation to venture capital, private equity, mezzanine capital, real estate funds and direct investments; and decreased allocation to hedge funds and secondary funds in the last twelve months. They also reported improved business conditions and decreased expected returns on new investments.

**Table 3. General Business and Industry Assessment: Today versus 12 Months Ago**

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Allocation to venture capital	0%	6%	66%	17%	11%	29%	6%	<b>23%</b>
Allocation to private equity	0%	3%	59%	24%	14%	38%	3%	<b>35%</b>
Allocation to mezzanine	3%	0%	82%	9%	6%	15%	3%	<b>12%</b>
Allocation to hedge funds	6%	12%	76%	3%	3%	6%	18%	<b>-12%</b>
Allocation to secondary funds	3%	9%	82%	0%	6%	6%	12%	<b>-6%</b>
Allocation to real estate funds	6%	6%	53%	25%	11%	36%	11%	<b>25%</b>
Direct investments	0%	0%	43%	31%	26%	57%	0%	<b>57%</b>
General business conditions	0%	11%	37%	47%	5%	53%	11%	<b>42%</b>
Expected returns on new capital deployed	0%	32%	49%	14%	5%	19%	32%	<b>-14%</b>

Respondents also expect further increases in allocation to venture capital, private equity, mezzanine capital, real estate funds and direct investments, flat business conditions and decreasing expected returns.

**Table 4. General Business and Industry Assessment Expectations over the Next 12 Months**

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	Net increase/decrease
Allocation to venture capital	0%	6%	69%	23%	3%	26%	6%	<b>20%</b>
Allocation to private equity	0%	5%	54%	32%	8%	41%	5%	<b>35%</b>
Allocation to mezzanine	6%	3%	73%	12%	6%	18%	9%	<b>9%</b>
Allocation to hedge funds	6%	12%	70%	9%	3%	12%	18%	<b>-6%</b>
Allocation to secondary funds	3%	13%	69%	9%	6%	16%	16%	<b>0%</b>
Allocation to real estate funds	3%	6%	51%	31%	9%	40%	9%	<b>31%</b>
Direct investments	0%	3%	50%	29%	18%	47%	3%	<b>44%</b>
General business conditions	0%	30%	38%	24%	8%	32%	30%	<b>3%</b>
Expected returns on new capital deployed	0%	34%	39%	18%	8%	26%	34%	<b>-8%</b>

## BANK LENDING SURVEY INFORMATION

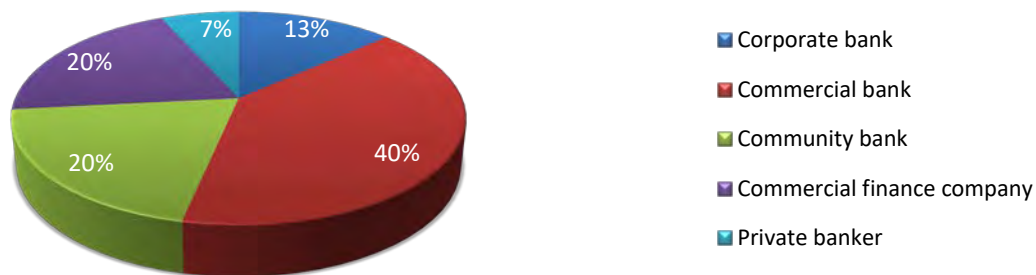
There were 23 responses to the bank lending survey. Over 43% of respondents believe that general business conditions will improve over the next 12 months and over 71% said demand for loans will increase. Other key findings include:

- Over the last twelve months respondents were seeing increased senior and leverage multiples, with decrease in general underwriting standards and percent of loans with personal guarantee.
- Respondents also expect increases in demand for business loans, lending capacity of banks, improving general business conditions, slightly increasing total and leverage multiples, and decrease in interest rates.
- Currently, 33% lenders see domestic labor availability as the top issue facing privately-held businesses today, followed by government regulations and taxes (20%).

### Operational and Assessment Characteristics

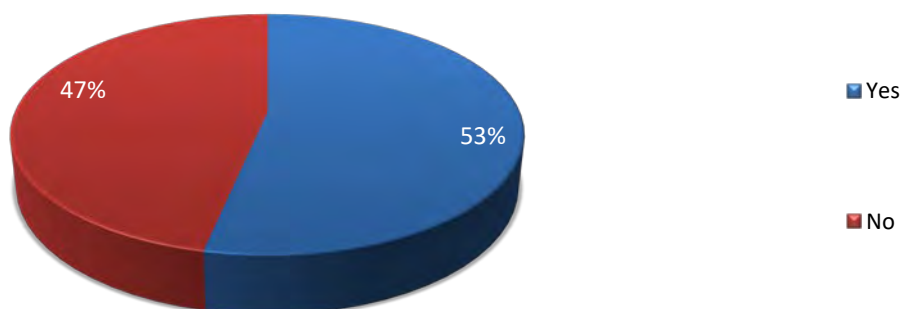
Respondents reported on the type of entity that best describes their lending function.

**Figure 12. Description of Lending Entity**



The majority (53%) report participating in government loan programs.

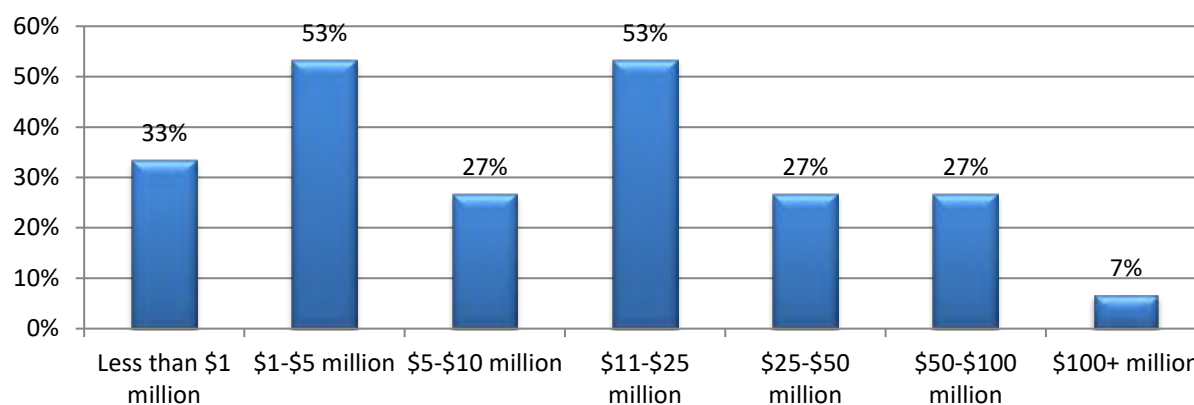
**Figure 13. Participation in Government Loan Programs**



BANKS cont.

The largest concentration of loan sizes was between \$0 million and \$25 million.

**Figure 14. Typical Investment Size**



Respondents reported on average terms for various loan sizes.

**Table 5. General Characteristics – Bank Loans by Size**

	Average interest rate	Average term (years)	Commitment fee (%)	Closing fee (%)
Less than \$1 million	6.0%	7	0.1%	0.1%
\$1-\$5 million	6.0%	6	0.5%	0.1%
\$6-\$10 million	6.0%	5	0.3%	0.1%
\$11-\$25 million	6.0%	5	0.5%	0.6%
\$25-\$50 million	5.0%	5	0.5%	0.9%
\$50-\$100 million	5.0%	5	0.4%	0.5%
\$100+ million	4.8%	5	n/a	0.0%

Senior leverage multiples are reported below for the various industries and EBITDA sizes.

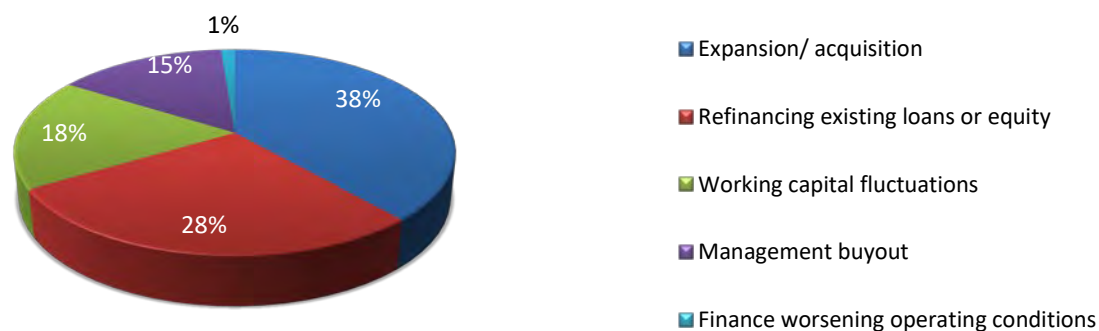
**Table 6. Senior Leverage Multiple by EBITDA Size**

	\$1M EBITDA	\$5M EBITDA	\$10M EBITDA	\$25M EBITDA	\$50M EBITDA	\$50M+ EBITDA
Manufacturing	1.5	2.3	2.8	3.0	3.5	3.5
Construction & engineering	1.4	1.5	2.8	3.1	3.3	3.3
Consumer goods & services	1.5	1.8	2.9	3.0	3.5	3.9
Wholesale & distribution	1.5	1.8	3.0	3.0	3.4	3.5
Business services	1.5	2.3	2.7	3.0	3.3	3.5
Basic materials & energy	1.5	1.8	2.8	2.8	3.3	3.4
Healthcare & biotech	2.0	2.7	3.0	3.0	3.5	4.0
Information technology	2.4	2.7	3.0	3.0	3.5	3.5
Financial services	2.3	2.4	3.0	3.0	3.0	3.3
Media & entertainment	1.5	1.8	2.8	3.0	3.5	3.5
<b>Overall median</b>	<b>1.5</b>	<b>2.0</b>	<b>2.8</b>	<b>3.0</b>	<b>3.5</b>	<b>3.5</b>

BANKS cont.

Expansion/ acquisition was the most commonly described financing motivation at 38%, followed by refinancing at 28%.

**Figure 15. Borrower Motivation to Secure Financing (past 12 months)**



Total debt-service coverage ratio (or fixed charge coverage) was the most important factor when deciding whether to invest or not.

**Table 7. Importance of Financial Evaluation Metrics**

	Unimportant	Of little importance	Moderately important	Important	Very important	Score (1 to 5)
Current ratio	46%	0%	38%	15%	0%	2.2
Senior DSCR or FCC ratio	0%	7%	7%	43%	43%	4.2
Total DSCR or FCC ratio	0%	0%	14%	21%	64%	4.5
Senior debt to cash flow	7%	7%	7%	50%	29%	3.9
Total debt to cash flow	7%	7%	7%	50%	29%	3.9
Debt to net worth	29%	7%	36%	14%	14%	2.8

**Table 8. Financial Evaluation Metrics Average Data**

	Average borrower data	Limit
Current ratio	1.3	1.1
Senior DSCR or FCC ratio	1.3	1.1
Total DSCR or FCC ratio	1.2	1.1
Senior debt to cash flow	1.8	3.3
Total debt to cash flow	2.8	3.8
Debt to net worth	1.9	3.3

Respondents reported on the percentage of loans (by size) that require personal guarantee and collateral.

**Table 9. Personal Guarantee and Collateral Percentage of Occurrence by Size of Loan (%)**

	\$1M loan	\$5M loan	\$10M loan	\$25M loan	\$50M loan	\$500M loan	\$100M loan
Personal guarantee	95%	90%	80%	0%	0%	0%	0%
Collateral	75%	90%	83%	95%	95%	95%	95%

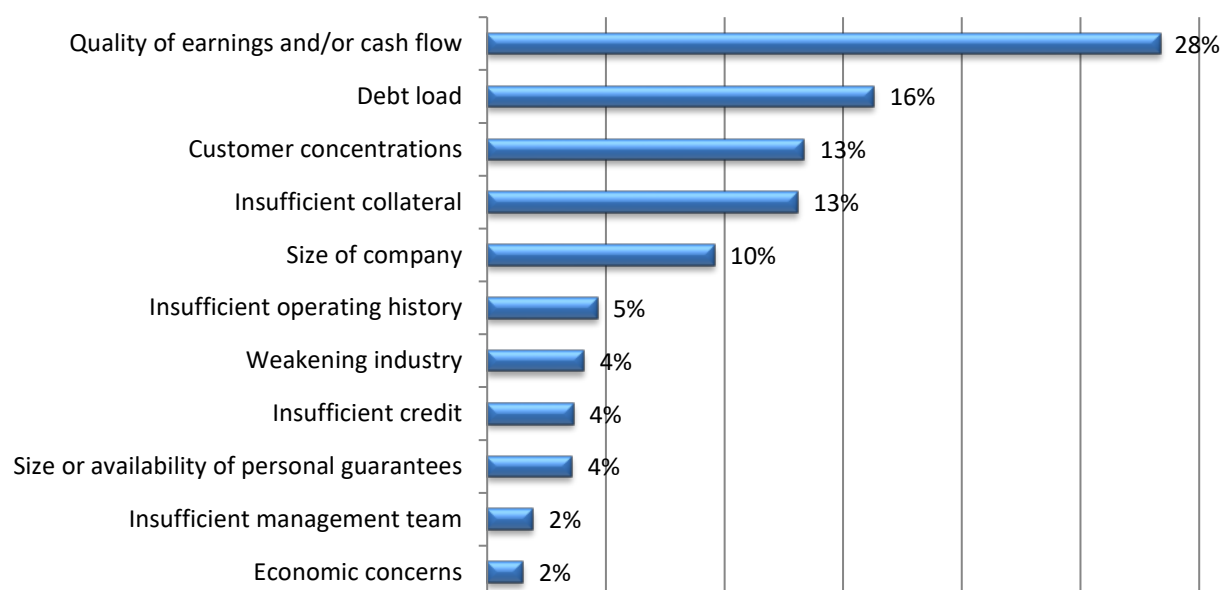
Approximately 37% of cash flow applications were declined.

**Table 10. Applications Data**

	Reviewed	Offered	Booked	Declined
Cash flow based	523	60%	40%	37%
Collateral based	427	64%	42%	23%
Real estate	300	82%	38%	20%

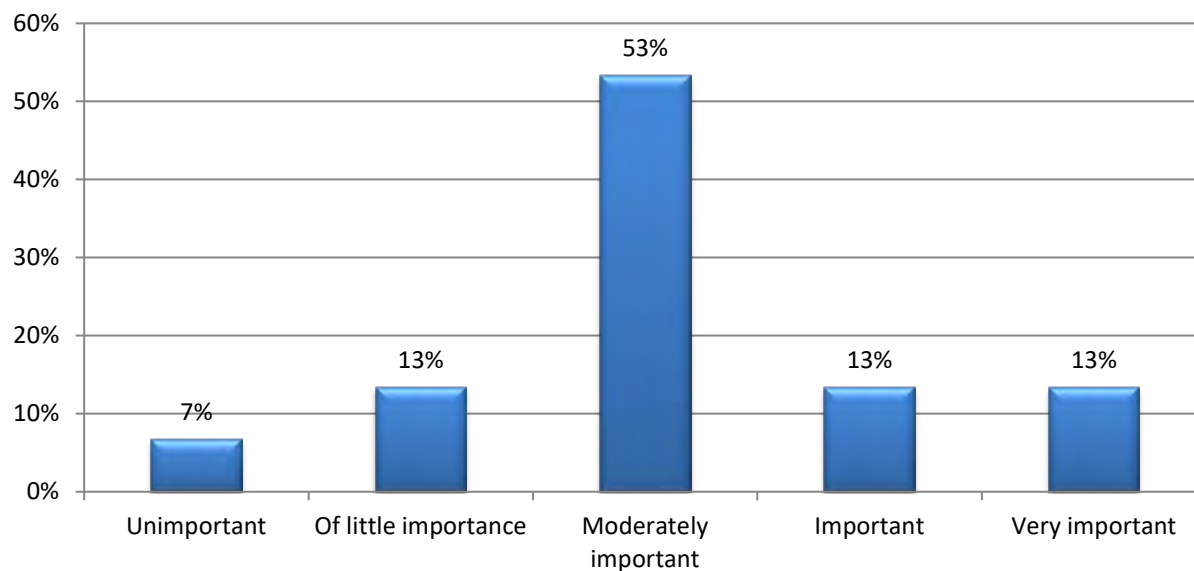
Approximately 28% of applications were declined due to poor quality of earnings and/or cash flow followed by 16% that were declined due to debt load.

**Figure 33. Reason for Declined Loans**



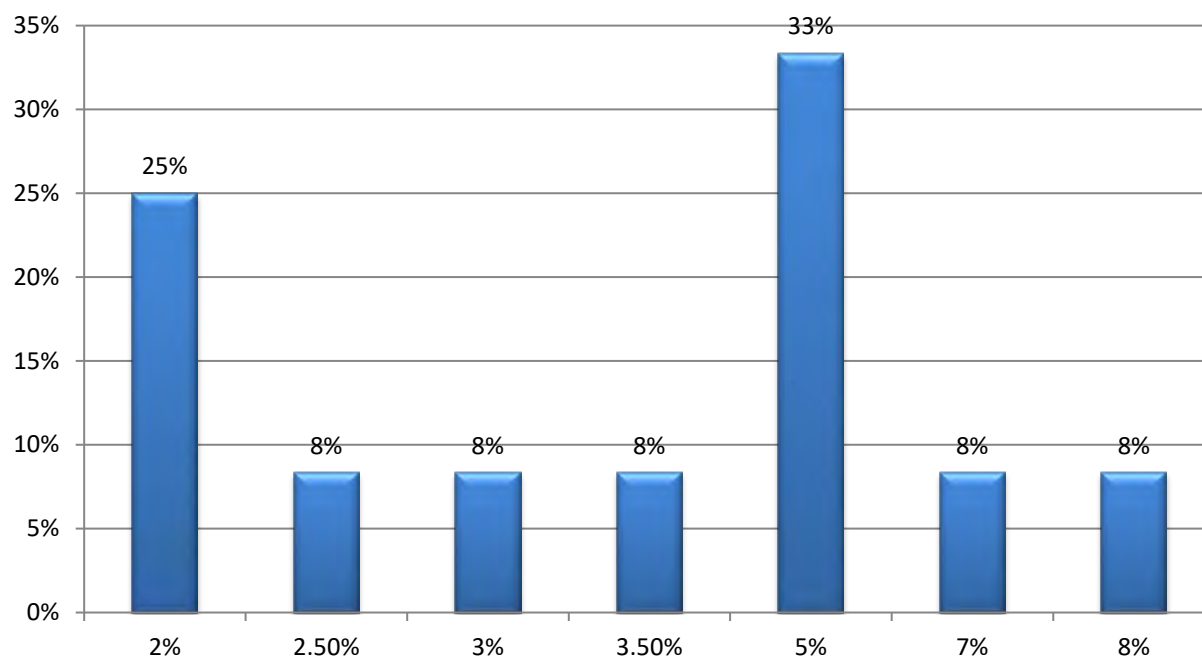
Approximately 26% of respondents identified revenue growth rate as important or very important factor.

**Figure 16. Importance of the Revenue Growth Rate Pertaining to New Cash Flow Based Loans**



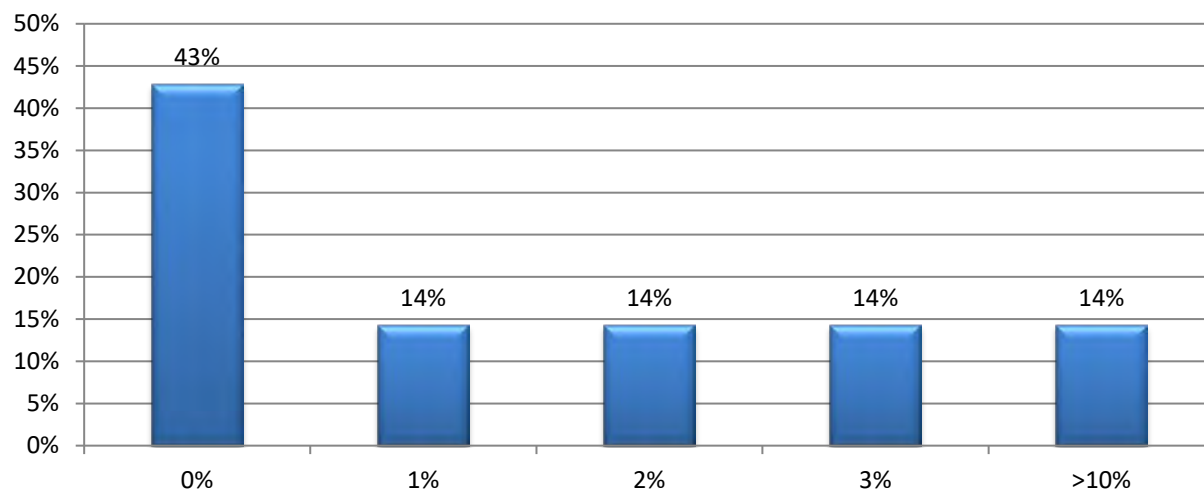
Approximately 50% of applications had a revenue growth rate of 5% or more annually.

**Figure 17. Revenue Growth Rate – Average Borrower Data**



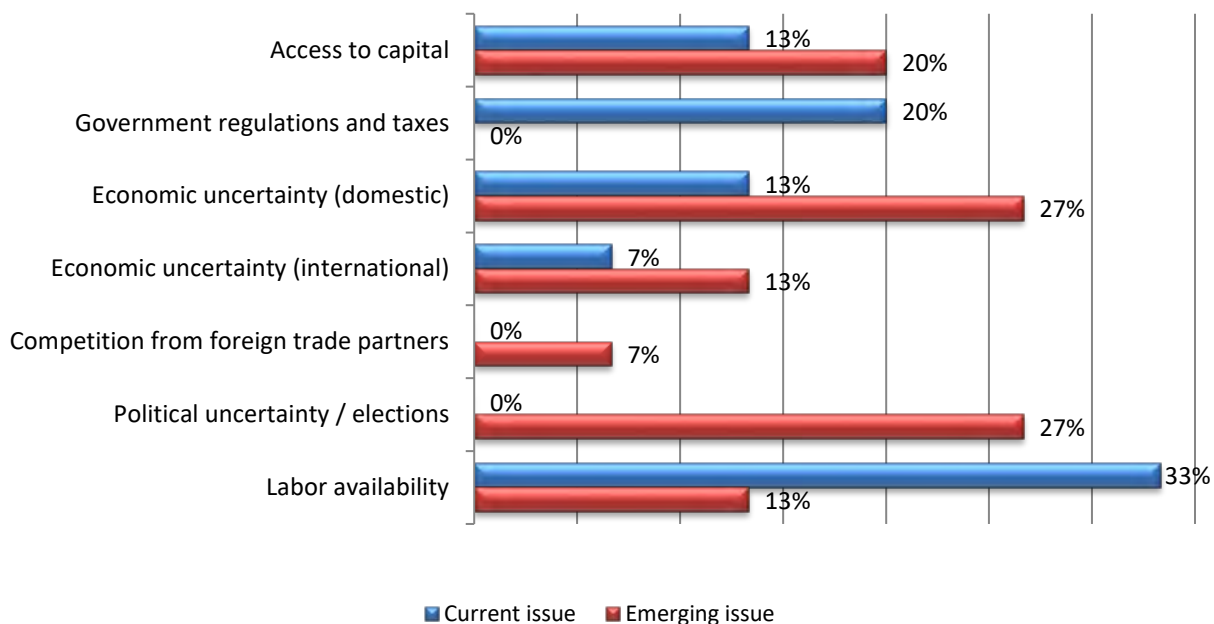


**Figure 18. Revenue Growth Rate - Limit Not to Be Exceeded**



Respondents believe labor availability and government regulations and taxes are the most important issues facing privately-held businesses today.

**Figure 34. Issues Facing Privately-Held Businesses**



Over the last twelve months respondents were seeing increased senior and leverage multiples, with decrease in general underwriting standards and percent of loans with personal guarantee.

**Table 11. General Business and Industry Assessment: Today versus 12 Months Ago**

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Demand for business loans (applications)	0%	7%	21%	57%	14%	71%	7%	<b>64%</b>
General underwriting standards	0%	36%	36%	21%	7%	29%	36%	<b>-7%</b>
Credit quality of borrowers applying for credit	7%	21%	36%	36%	0%	36%	29%	<b>7%</b>
Due diligence efforts	0%	14%	57%	21%	7%	29%	14%	<b>14%</b>
Average loan size	0%	0%	43%	36%	21%	57%	0%	<b>57%</b>
Average loan maturity (months)	0%	0%	79%	21%	0%	21%	0%	<b>21%</b>
Percent of loans with personal guarantees	8%	15%	69%	8%	0%	8%	23%	<b>-15%</b>
Percent of loans requiring collateral	0%	0%	93%	7%	0%	7%	0%	<b>7%</b>
Size of interest rate spreads (pricing)	7%	64%	29%	0%	0%	0%	71%	<b>-71%</b>
Loan fees	0%	43%	50%	7%	0%	7%	43%	<b>-36%</b>
Senior leverage multiples	0%	7%	43%	50%	0%	50%	7%	<b>43%</b>
Total leverage multiples	0%	7%	36%	57%	0%	57%	7%	<b>50%</b>
Focus on collateral as backup means of payment	0%	14%	71%	7%	7%	14%	14%	<b>0%</b>
SBA lending	0%	25%	75%	0%	0%	0%	25%	<b>-25%</b>
Lending capacity of bank	0%	0%	25%	50%	25%	75%	0%	<b>75%</b>
General business conditions	0%	14%	43%	43%	0%	43%	14%	<b>29%</b>
Appetite for risk	0%	21%	64%	14%	0%	14%	21%	<b>-7%</b>

Respondents also expect increases in demand for business loans, lending capacity of banks, improving general business conditions, slightly increasing total and leverage multiples, and decrease in interest rates.

**Table 12. General Business and Industry Assessment Expectations over the Next 12 Months**

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Demand for business loans (applications)	0%	14%	14%	57%	14%	71%	14%	<b>57%</b>
General underwriting standards	0%	7%	50%	36%	7%	43%	7%	<b>36%</b>
Credit quality of borrowers applying for credit	0%	14%	57%	29%	0%	29%	14%	<b>14%</b>
Due diligence efforts	0%	7%	71%	21%	0%	21%	7%	<b>14%</b>
Average loan size	0%	0%	43%	50%	7%	57%	0%	<b>57%</b>
Average loan maturity (months)	0%	7%	86%	7%	0%	7%	7%	<b>0%</b>
Percent of loans with personal guarantees	8%	17%	67%	8%	0%	8%	25%	<b>-17%</b>
Percent of loans requiring collateral	0%	0%	92%	8%	0%	8%	0%	<b>8%</b>
Size of interest rate spreads (pricing)	0%	29%	50%	21%	0%	21%	29%	<b>-7%</b>
Loan fees	0%	21%	79%	0%	0%	0%	21%	<b>-21%</b>
Senior leverage multiples	0%	7%	79%	14%	0%	14%	7%	<b>7%</b>
Total leverage multiples	0%	0%	86%	14%	0%	14%	0%	<b>14%</b>
Focus on collateral as backup means of payment	0%	0%	75%	25%	0%	25%	0%	<b>25%</b>
SBA lending	0%	0%	88%	13%	0%	13%	0%	<b>13%</b>
Lending capacity of bank	0%	8%	31%	54%	8%	62%	8%	<b>54%</b>
General business conditions	0%	14%	50%	36%	0%	36%	14%	<b>21%</b>
Appetite for risk	0%	21%	57%	21%	0%	21%	21%	<b>0%</b>

## ASSET-BASED LENDING SURVEY INFORMATION

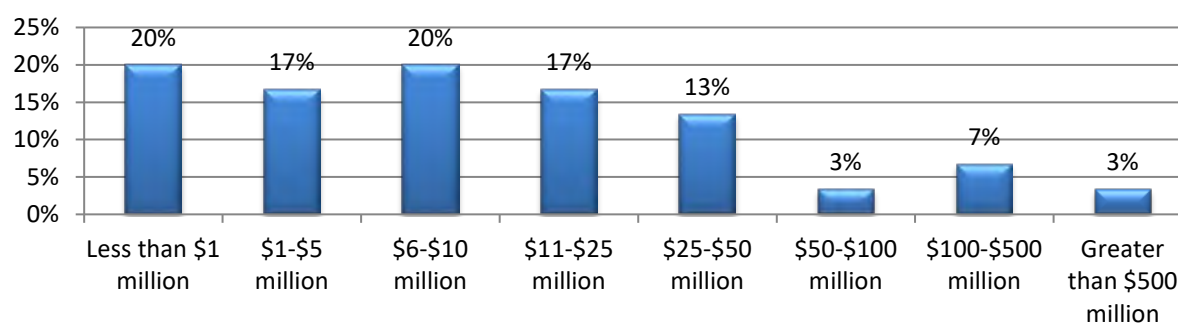
There were 16 responses to the asset-based lending survey. Over 43% of respondents believe that general business conditions will worsen over the next 12 months and over 64% said demand for loans will increase. Other key findings include:

- Over the last twelve months respondents were seeing slightly increased advance rates, with increase in demand for business loans and flat improved general business conditions
- Respondents also expect increases in general underwriting standards, average loan size, worsening general business conditions, decreasing interest rates and i loan fees.
- Currently, 38% lenders see domestic economic uncertainty as a top issue facing privately-held businesses today, international economic uncertainty and political uncertainty are the top emerging issues.

### Operational and Assessment Characteristics

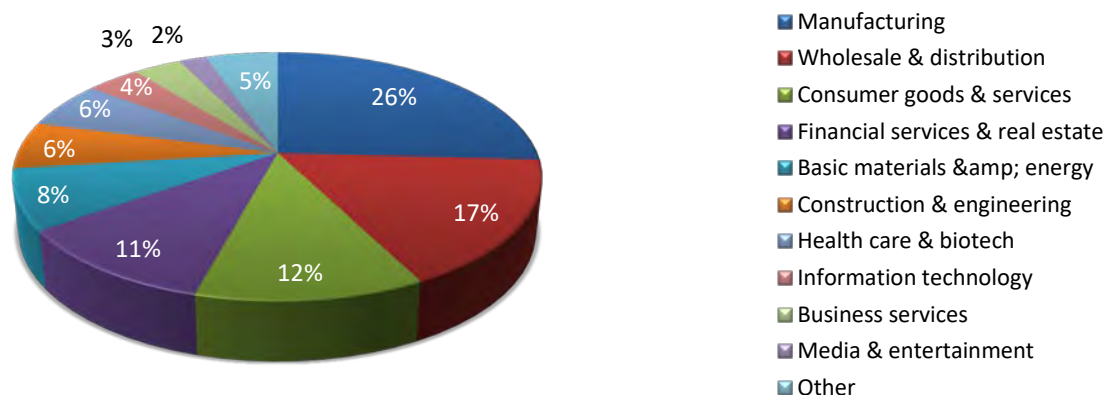
The largest concentration of loan sizes was between \$0 million and \$25 million.

**Figure 19. Typical Investment Size**



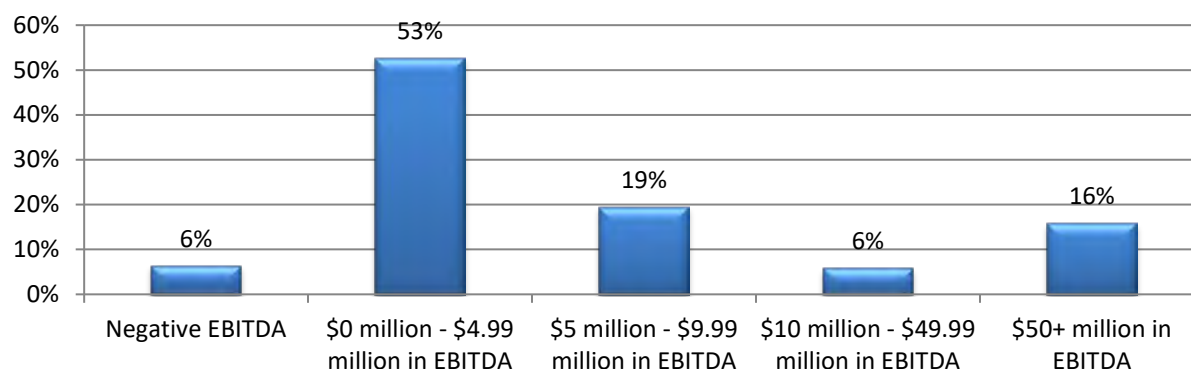
According to respondents approximately 26% of asset-based loans were issued to manufacturing companies.

**Figure 35. Industries Served by Asset-Based Lenders**



Approximately 59% of the companies that booked asset-based loans in the last twelve months had EBITDA size of less than \$5 million.

**Figure 20. Typical EBITDA Sizes for Companies Booked**



Respondents reported on all-in rates by type and size of current booked loans and the results are reported below.

**Table 13. All-in Rates on Current Asset-Based Loans (medians)**

	Marketable Securities	Accounts Receivable	Inventory	Equipment	Real estate	Working capital	Typical Fixed-Rate Loan Term (months)
Less than \$1 million	8.3%	16.0%	18.0%	10.0%	12.5%	15.0%	60
\$1-5 million	6.0%	11.0%	9.5%	9.8%	12.0%	5.8%	60
\$5-\$10 million	4.5%	6.5%	6.8%	7.8%	5.3%	5.5%	60
\$10-25 million		5.8%	6.5%	4.0%	4.0%	5.0%	36
\$25-50 million	2.5%	4.0%	4.0%	4.0%	4.0%	5.0%	36
\$50-100 million		3.3%	3.5%			4.0%	36

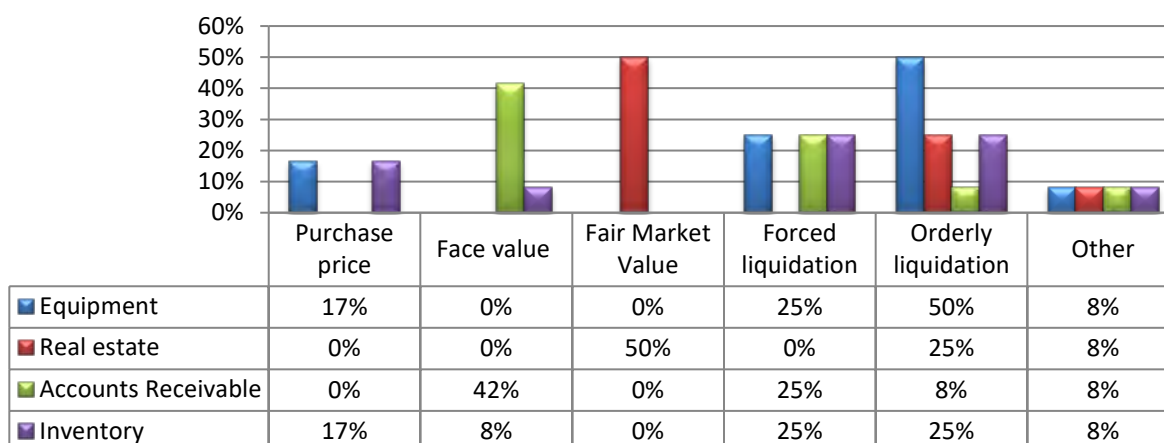
Respondents reported on standard advance rates and the results are reflected below.

**Table 14. Standard Advance Rate (or LTV ratio) for Assets (%)**

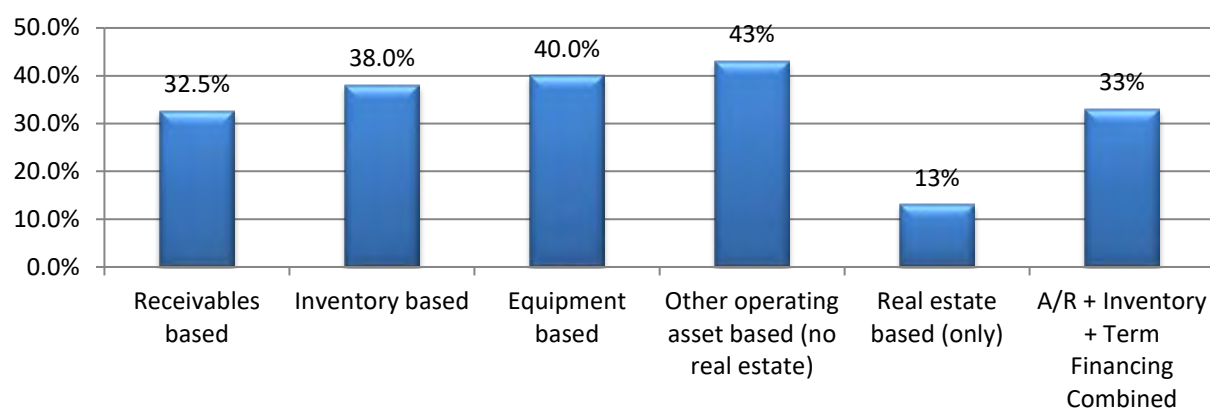
	Typical Loan			Upper Limit		
	1st Quartile	Median	3rd Quartile	1st Quartile	Median	3rd Quartile
Marketable securities	93%	98%	100%	95%	100%	100%
Accounts Receivable	80%	80%	85%	90%	90%	90%
Inventory - Low quality	25%	30%	39%	29%	38%	50%
Inventory - Intermediate quality	36%	45%	58%	39%	58%	60%
Inventory - High quality	55%	60%	68%	60%	68%	76%
Equipment	63%	80%	88%	81%	95%	100%
Real Estate	25%	65%	70%	55%	70%	74%
Land	5%	40%	48%	5%	45%	60%

Respondents reported on valuation standards used to estimate LTV ratios.

**Figure 37. Valuation Standards Used to Estimate LTV Ratio**



**Figure 21. Asset-Based Loans Decline Rate**



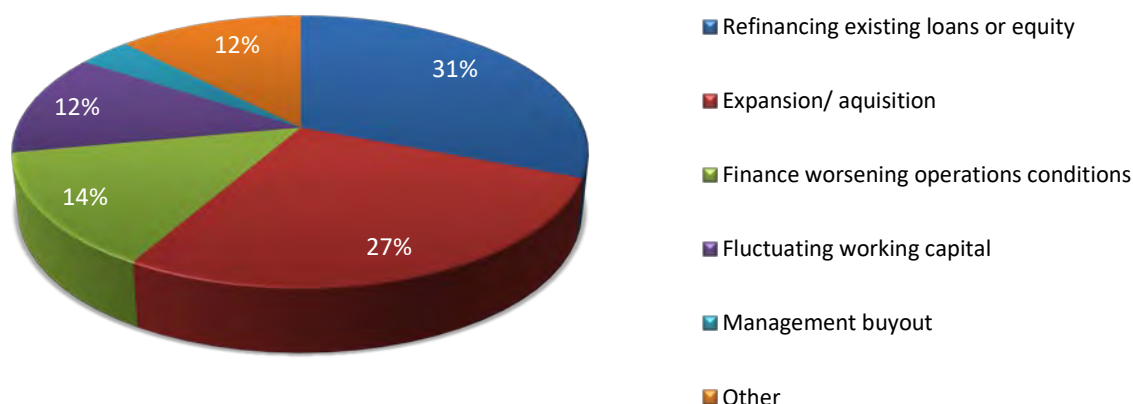
Various fees as reported by lenders are as follows.

**Table 15. Fees Charged**

	1st Quartile	Median	3rd Quartile
Closing fee	0.2%	0.4%	0.5%
Modification fee	0.2%	0.3%	0.9%
Commitment fee	0.3%	1.0%	1.7%
Underwriting fee	0.1%	0.3%	1.0%
Arrangement fee	1.6%	2.0%	3.0%
Prepayment penalty (yr 1)	0.8%	1.0%	1.6%
Prepayment penalty (yr 2)	0.2%	0.3%	0.4%
Unused line fee	0.8%	2.9%	3.0%

Refinancing was the most commonly described financing motivation at 31%, followed by expansion/acquisition at 27%.

**Figure 22. Borrower Motivation to Secure Financing (past 12 months)**



Total debt service coverage ratio was the most important factor when deciding whether to invest or not.

**Table 16. Importance of Financial Evaluation Metrics**

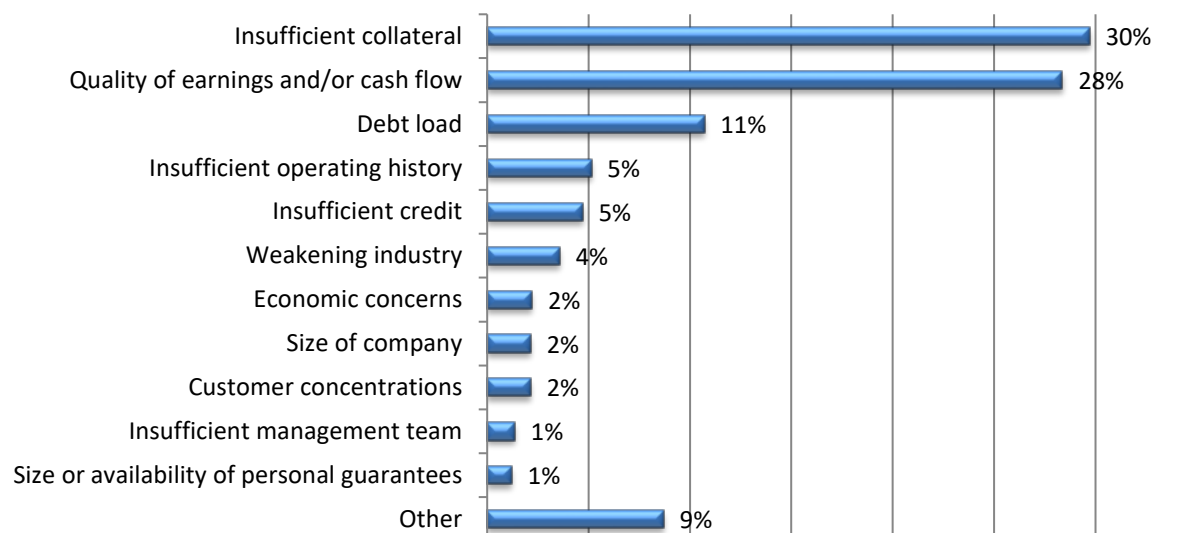
	Unimportant	Of little importance	Moderately important	Important	Very important	Score (1-5)
Current ratio	22%	33%	22%	11%	11%	2.6
Senior DSCR or FCC ratio	0%	13%	25%	25%	38%	3.9
Total DSCR or FCC ratio	0%	0%	20%	60%	20%	4.0
Senior debt to cash flow	29%	14%	14%	0%	43%	3.1
Total debt to cash flow	11%	0%	33%	33%	22%	3.6
Debt to net worth	11%	22%	44%	11%	11%	2.9

**Table 17. Financial Evaluation Metrics Average Data**

	Average borrower data	Limit
Current ratio	1.5	1.1
Senior DSCR or FCC ratio	1.1	1.1
Total DSCR or FCC ratio	1.2	1.1
Senior debt to cash flow	1.3	1.5
Total debt to cash flow	3.0	4.0
Debt to net worth	1.9	4.0

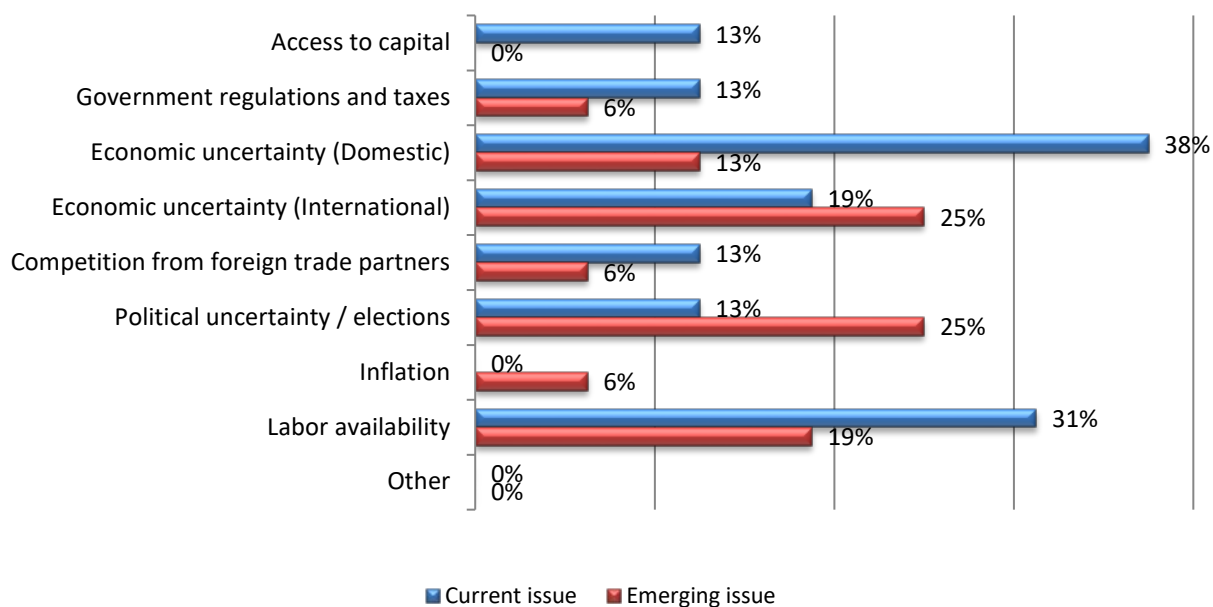
Approximately 30% of applications were declined due to insufficient collateral followed by 28% that were declined due to poor quality of earnings and/or cash flow.

**Figure 23. Reason for Declined Loans**



Currently, 38% lenders see domestic economic uncertainty as a top issue facing privately-held businesses today, international economic uncertainty and political uncertainty are the top emerging issues.

**Figure 24. Issues Facing Privately-Held Businesses**





Over the last twelve months respondents were seeing slightly increased advance rates, with increase in demand for business loans and flat improved general business conditions

**Table 18. General Business and Industry Assessment: Today versus 12 Months Ago**

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Demand for loans	0%	29%	29%	14%	29%	43%	29%	<b>14%</b>
General underwriting standards	14%	14%	21%	29%	21%	50%	29%	<b>21%</b>
Credit quality of borrowers	7%	29%	36%	21%	7%	29%	36%	<b>-7%</b>
Due diligence efforts	0%	0%	50%	21%	29%	50%	0%	<b>50%</b>
Average loan size	7%	7%	36%	36%	14%	50%	14%	<b>36%</b>
Average loan maturity	0%	0%	83%	17%	0%	17%	0%	<b>17%</b>
Interest rate spread (pricing)	8%	31%	38%	23%	0%	23%	38%	<b>-15%</b>
Loan fees	0%	31%	62%	8%	0%	8%	31%	<b>-23%</b>
Loans outstanding	0%	36%	21%	43%	0%	43%	36%	<b>7%</b>
Percent of loans with personal guarantees	0%	8%	69%	8%	15%	23%	8%	<b>15%</b>
Focus on cash flow as backup means of payment	0%	17%	67%	17%	0%	17%	17%	<b>0%</b>
Nonaccrual loans	11%	11%	78%	0%	0%	0%	22%	<b>-22%</b>
Number/ tightness of financial covenants	0%	0%	91%	9%	0%	9%	0%	<b>9%</b>
Standard advance rates	0%	8%	69%	15%	8%	23%	8%	<b>15%</b>
General business conditions	7%	21%	43%	21%	7%	29%	29%	<b>0%</b>
Appetite for risk	0%	14%	50%	29%	7%	36%	14%	<b>21%</b>

Respondents also expect increases in general underwriting standards, average loan size, worsening general business conditions, decreasing interest rates and loan fees.

**Table 19. General Business and Industry Assessment Expectations for the Next 12 Months**

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Demand for loans	0%	7%	29%	50%	14%	64%	7%	<b>57%</b>
General underwriting standards	0%	21%	36%	29%	14%	43%	21%	<b>21%</b>
Credit quality of borrowers	0%	43%	36%	7%	14%	21%	43%	<b>-21%</b>
Due diligence efforts	0%	0%	57%	21%	21%	43%	0%	<b>43%</b>
Average loan size	0%	7%	57%	14%	21%	36%	7%	<b>29%</b>
Average loan maturity	0%	8%	69%	8%	15%	23%	8%	<b>15%</b>
Interest rate spread (pricing)	0%	31%	46%	15%	8%	23%	31%	<b>-8%</b>
Loan fees	0%	29%	57%	7%	7%	14%	29%	<b>-14%</b>
Loans outstanding	0%	0%	43%	43%	14%	57%	0%	<b>57%</b>
Percent of loans with personal guarantees	0%	15%	62%	8%	15%	23%	15%	<b>8%</b>
Focus on cash flow as backup means of payment	0%	0%	69%	23%	8%	31%	0%	<b>31%</b>
Nonaccrual loans	0%	18%	55%	18%	9%	27%	18%	<b>9%</b>
Number/ tightness of financial covenants	0%	8%	69%	15%	8%	23%	8%	<b>15%</b>
Standard advance rates	0%	8%	77%	8%	8%	15%	8%	<b>8%</b>
General business conditions	7%	36%	29%	21%	7%	29%	43%	<b>-14%</b>
Appetite for risk	0%	29%	57%	7%	7%	14%	29%	<b>-14%</b>

## MEZZANINE SURVEY INFORMATION

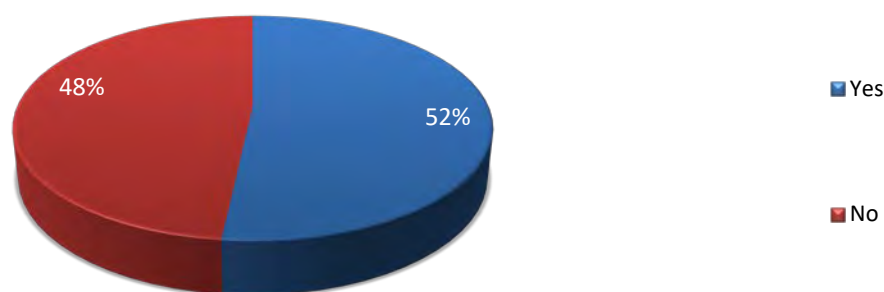
The majority of the 32 participants that responded to the mezzanine survey typically book deals in the \$1 million to \$25 million range. Over 18% plan on investing in consumer goods & services, another 18% to business services and another 18% to information technology over the next 12 months. Other key findings include:

- Relative to 12 months ago, respondents indicated flat demand for mezzanine capital, increased average investment size and leverage multiples, and worsened general business conditions. They also reported decreases in warrant coverage and expected returns on new investments.
- Respondents expect increasing demand for mezzanine capital, increasing leverage multiples, decreasing appetite for risk, and worsening general business conditions; flat warrant coverage and decreasing expected returns on new investments.
- Approximately 45% of respondents believe labor availability is the most important issue facing privately-held businesses today.

### Operational and Assessment Characteristics

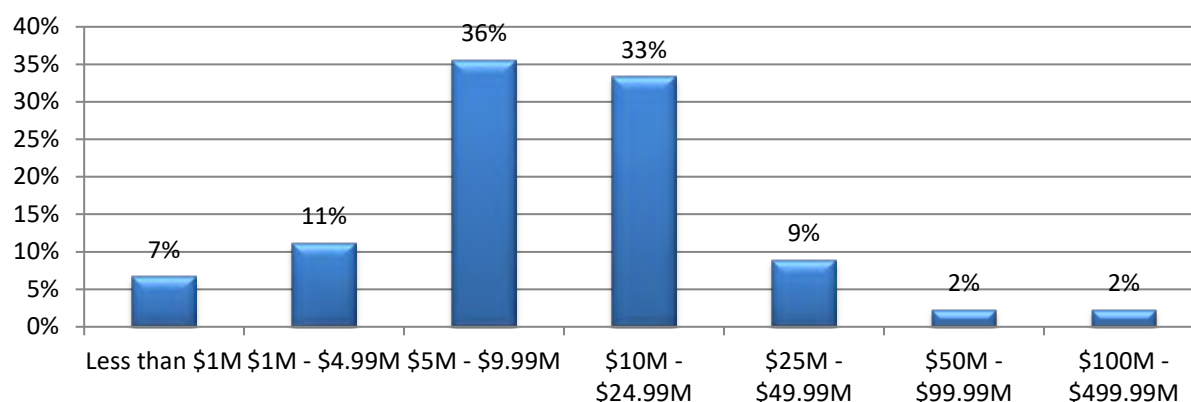
Approximately 52% of respondents are SBIC Firms.

**Figure 25. SBIC (small business investment) Firms**



The largest concentration of typical loan sizes is between \$1 million and \$25 million.

**Figure 40. Typical Investment Size**



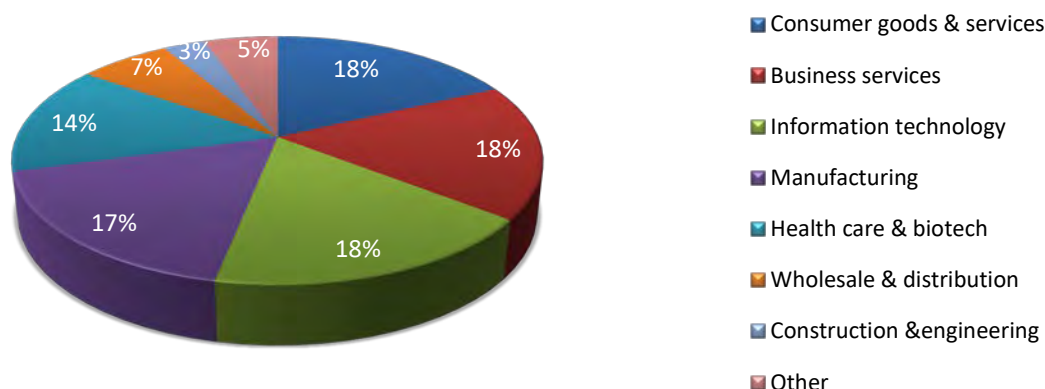
Respondents reported on business practices and the results are reflected below.

**Table 20. Mezzanine Fund Data**

	1st quartile	Median	3rd quartile
Vintage year (year in which first investment made)	2016	2018	2019
Size of fund (\$ millions)	125	250	300
Targeted number of total investments	13	23	28
Target fund return (gross pretax cash on cash annual IRR %)	14%	17%	19%
Expected fund return (gross pretax cash on cash annual IRR %)	14%	15%	16.5%

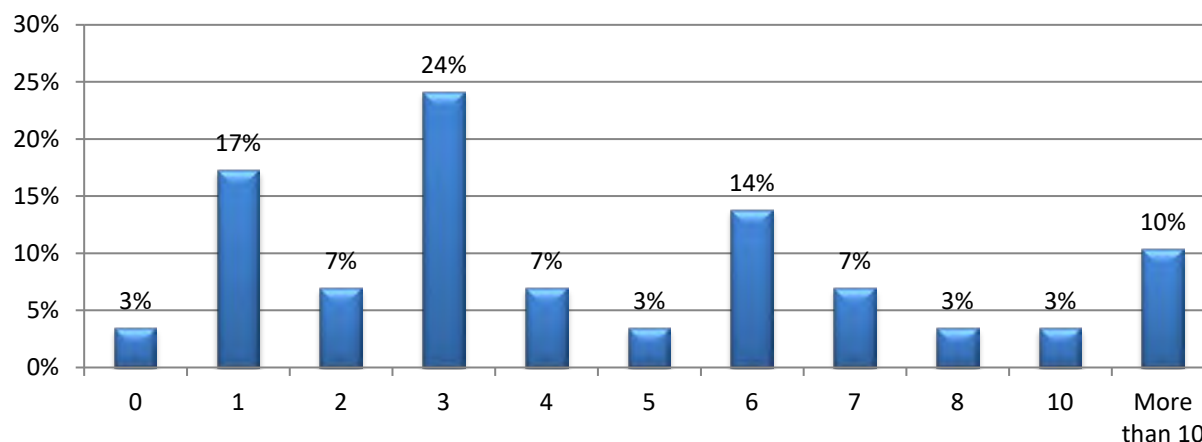
The types of businesses that mezzanine lenders plan to invest in over next 12 months are very diverse with over 18% plan on investing in consumer goods & services, another 18% to business services and another 18% to information technology.

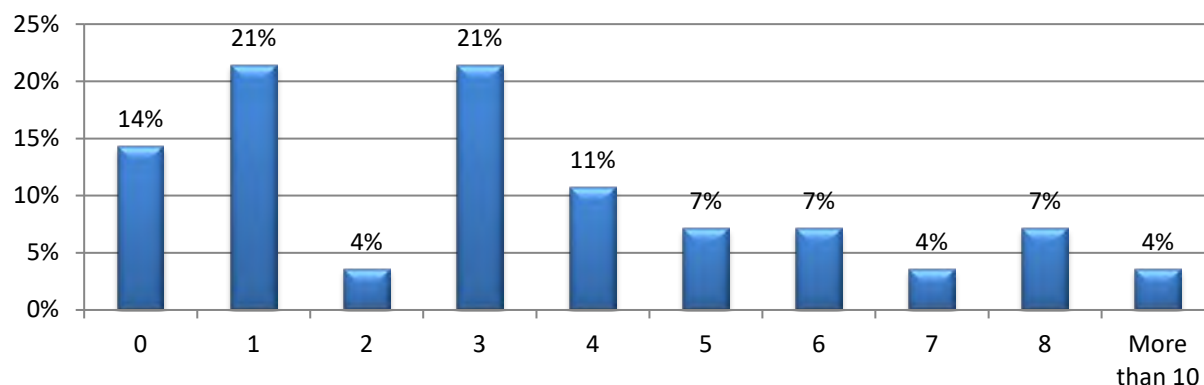
**Figure 26. Type of Business for Investments Planned over Next 12 Months**



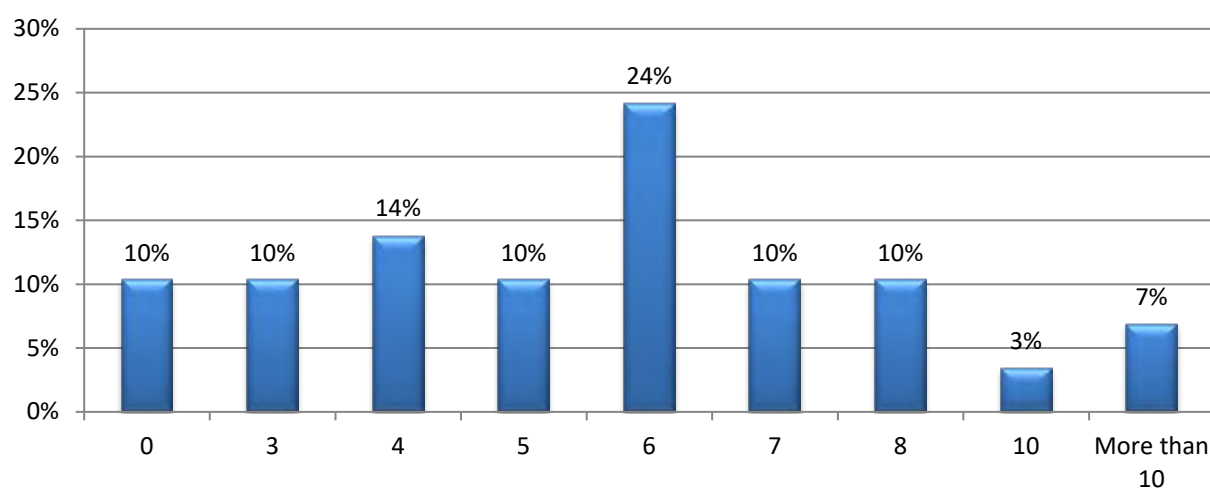
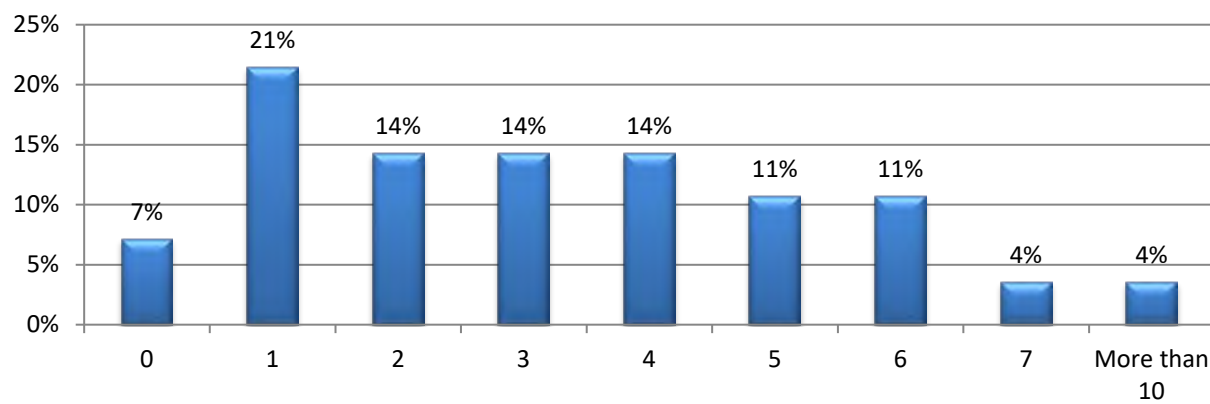
Approximately 72% of respondents made 3 investments or more over the last 12 months.

**Figure 27. Total Number of Investments Made in the Last 12 Months**



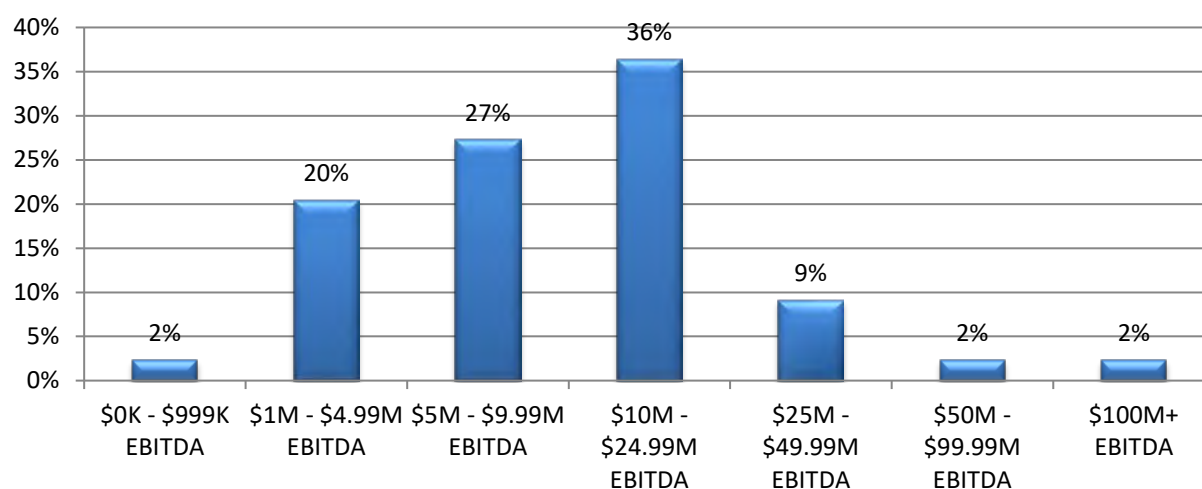
**Figure 28. Number of Follow-on Investments Made in the Last 12 Months**

Approximately 79% of respondents plan to make 4 investments or more over the next 12 months.

**Figure 29. Number of Total Investments Planned over Next 12 Months****Figure 30. Number of Follow-on Investments Planned over Next 12 Months**

Approximately 84% of sponsored deals were in the range between \$1 million and \$25 million of EBITDA.

**Figure 31. Size of Sponsored Deals in the Last 12 Months**



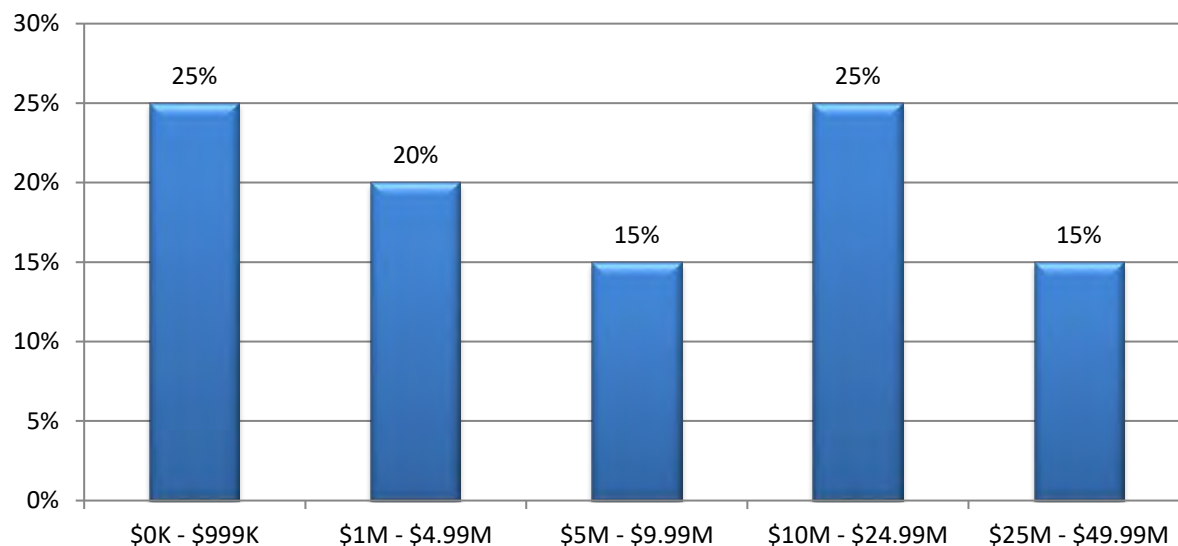
Results of responses to sponsored deals based on size of borrower EBITDA are reported below.

**Table 21. Sponsored Deals by EBITDA Size (medians)**

EBITDA size	\$1M - \$4.99M	\$5M - \$9.99M	\$10M - \$24.99M	\$25M - \$49.99M
Number of deals	9	31	40	11
Average loan terms (years)	5.0	5.5	5.5	5.8
Senior leverage ratio (multiple of EBITDA)	2.0	2.5	2.5	3.5
Total leverage ratio (multiple of EBITDA)	3.5	4.0	4.0	4.3
Commitment fee (%)	1%	0%	0%	0%
Closing fee (%)	1.3%	2%	2.0%	2.0%
Cash interest rate	12%	12%	11.5%	10%
PIK	0.5%	1%	1%	1.5%
Warrants (% of FDC)	2%	0%	0%	0%
Total expected returns (gross cash on pre-tax IRR)	16%	16.0%	15%	14%

Approximately 85% of non-sponsored deals were in the range between \$0 million and \$25 million of EBITDA.

**Figure 32. Size of Non-Sponsored Deals in the Last 12 Months**



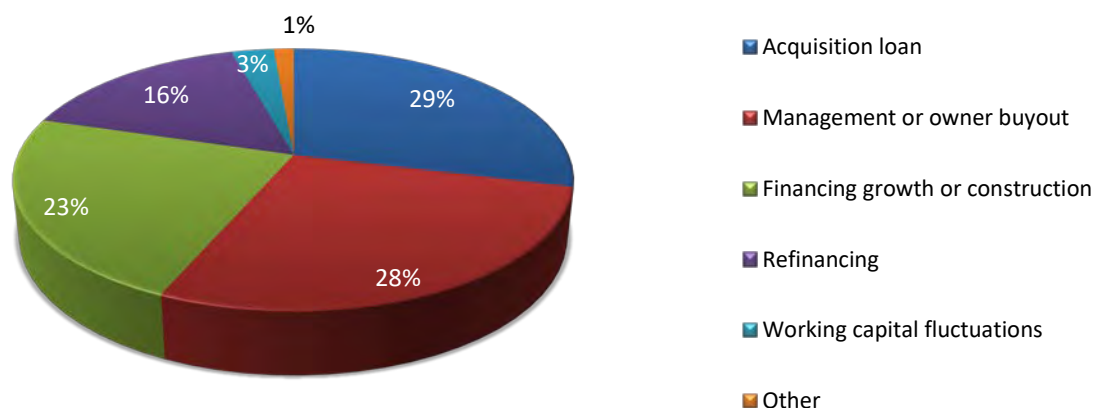
Results of responses to non-sponsored deals based on size of investee EBITDA are reported below.

**Table 22. Non-Sponsored Deals by EBITDA Size (medians)**

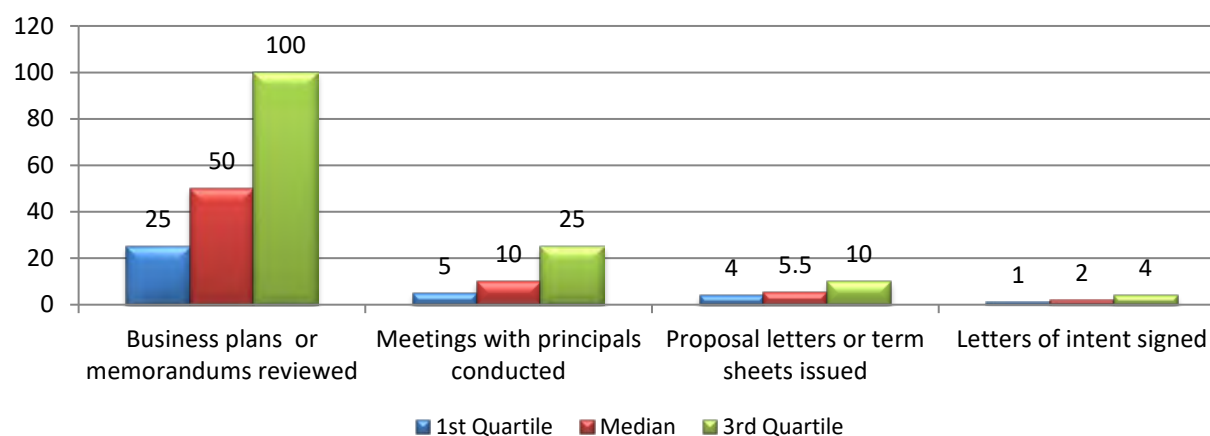
EBITDA size	\$0K - \$999K	\$1M - \$4.99M	\$5M - \$9.99M	\$10M - \$24.99M	\$25M - \$49.99M
Number of deals	8	5	9	8	6
Average loan terms (years)	3.0	5.0	5.0	5.0	5.0
Senior leverage ratio (multiple of EBITDA)	3.8	3.5	3.5	3.0	2.0
Total leverage ratio (multiple of EBITDA)	4.5	3.5	3.5	3.5	3.5
Commitment fee (%)	0.5%	0.0%	0.0%	0.0%	0%
Closing fee (%)	0.6%	1.5%	1.5%	1.5%	1.5%
Cash interest rate	12%	12%	12%	11.0%	9.5%
PIK	0.0%	0.0%	2.0%	2.0%	0.5%
Warrants (% of FDC)	5.0%	5.0%	5.0%	5.0%	7.5%
Total expected returns (gross cash on pre-tax IRR)	30.5%	26.3%	24.5%	17.75%	16%

Acquisition loan was reported by 29% of respondents as a motivation to secure mezzanine funding, followed by management or owner buyout (28%) and financing growth or construction (23%).

**Figure 33. Borrower Motivation to Secure Mezzanine Funding (past 12 months)**



**Figure 34. Items Required to Close One Deal**



Total debt service coverage ratio was the most important factor when deciding whether to invest or not, followed by total debt-to-cash flow ratio.

**Table 23. Importance of Financial Evaluation Metrics**

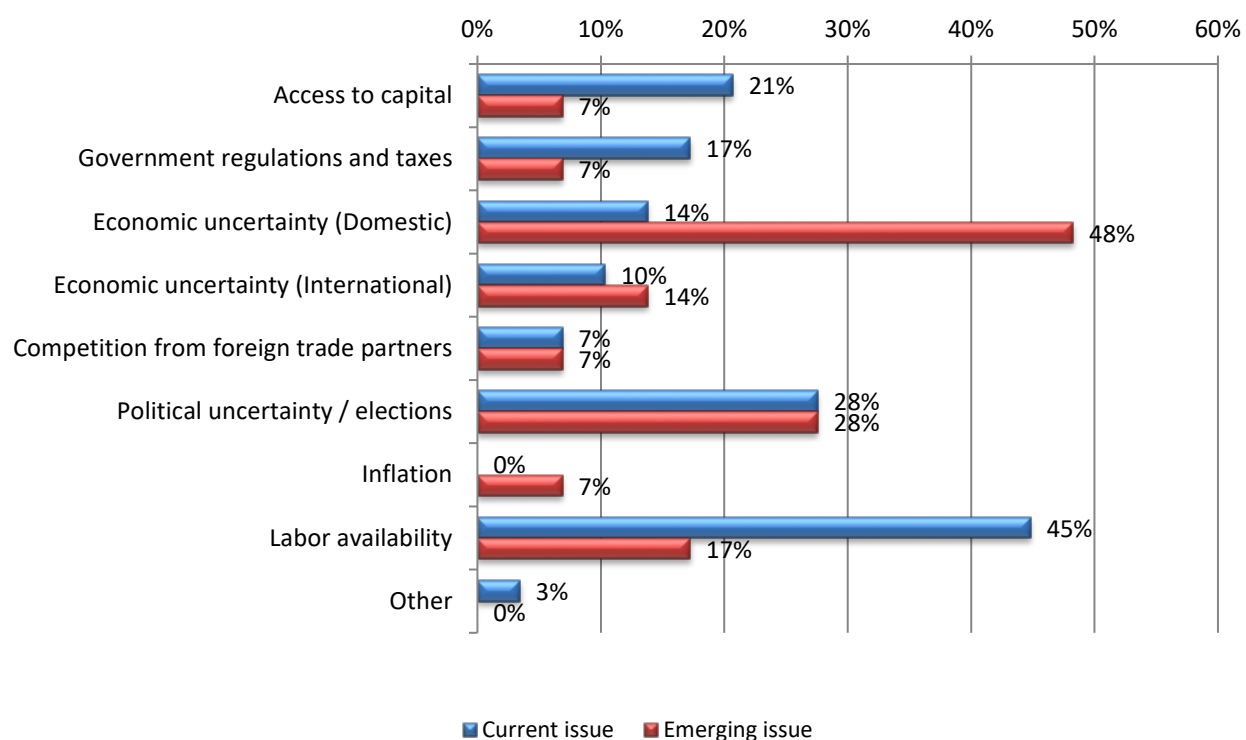
	Unimportant	Of little importance	Moderately important	Important	Very important	Score
Senior DSCR or FCC ratio	12%	19%	19%	31%	19%	3.3
Total DSCR or FCC ratio	4%	8%	12%	38%	38%	4.0
Senior debt to cash flow ratio	4%	15%	35%	31%	15%	3.4
Total debt to cash flow ratio	11%	4%	7%	37%	41%	3.9



**Table 24. Financial Evaluation Metrics Average Data**

	Average borrower data	Limit not to be exceeded
Senior DSCR or FCC ratio	1.8	1.5
Total DSCR or FCC ratio	1.6	1.3
Senior debt to cash flow ratio	2	2.2
Total debt to cash flow ratio	2.5	2.7

Respondents believe domestic economic uncertainty is the most important issue facing privately-held businesses today.

**Figure 50. Issues Facing Privately-Held Businesses**

## MEZZANINE cont.

Relative to 12 months ago, respondents indicated flat demand for mezzanine capital, increased average investment size and leverage multiples, and worsened general business conditions. They also reported decreases in warrant coverage and expected returns on new investments.

**Table 25. General Business and Industry Assessment: Today versus 12 Months Ago**

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Demand for mezzanine capital	0%	28%	41%	28%	3%	31%	28%	<b>3%</b>
Credit quality of borrowers seeking investment	3%	34%	52%	10%	0%	10%	38%	<b>-28%</b>
Average investment size	0%	0%	76%	21%	3%	24%	0%	<b>24%</b>
Average investment maturity (months)	0%	3%	97%	0%	0%	0%	3%	<b>-3%</b>
General underwriting standards	4%	11%	64%	18%	4%	21%	14%	<b>7%</b>
Warrant coverage	7%	37%	48%	7%	0%	7%	44%	<b>-37%</b>
PIK features	0%	19%	73%	8%	0%	8%	19%	<b>-12%</b>
Loan fees	0%	11%	85%	4%	0%	4%	11%	<b>-7%</b>
Leverage multiples	0%	4%	41%	52%	4%	56%	4%	<b>52%</b>
Expected returns on new investments	4%	36%	50%	11%	0%	11%	39%	<b>-29%</b>
General business conditions	0%	21%	71%	7%	0%	7%	21%	<b>-14%</b>
Appetite for risk	4%	18%	54%	14%	11%	25%	21%	<b>4%</b>

Respondents expect increasing demand for mezzanine capital, increasing leverage multiples, decreasing appetite for risk, and worsening general business conditions; flat warrant coverage and decreasing expected returns on new investments.

**Table 26. General Business and Industry Assessment Expectations over the Next 12 Months**

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	Net increase
Demand for mezzanine capital	0%	11%	39%	46%	4%	50%	11%	<b>39%</b>
Credit quality of borrowers seeking investment	4%	46%	36%	14%	0%	14%	50%	<b>-36%</b>
Average investment size	0%	4%	82%	14%	0%	14%	4%	<b>11%</b>
Average investment maturity (months)	0%	7%	89%	4%	0%	4%	7%	<b>-4%</b>
General underwriting standards	0%	4%	71%	25%	0%	25%	4%	<b>21%</b>
Warrant coverage	4%	15%	67%	11%	4%	15%	19%	<b>-4%</b>
PIK features	0%	8%	81%	8%	4%	12%	8%	<b>4%</b>
Loan fees	0%	8%	85%	8%	0%	8%	8%	<b>0%</b>
Leverage multiples	0%	7%	67%	26%	0%	26%	7%	<b>19%</b>
Expected returns on new investments	0%	18%	71%	11%	0%	11%	18%	<b>-7%</b>
General business conditions	0%	46%	39%	11%	4%	14%	46%	<b>-32%</b>
Size of mezzanine industry	0%	18%	50%	32%	0%	32%	18%	<b>14%</b>
Appetite for risk	0%	36%	46%	18%	0%	18%	36%	<b>-18%</b>

## INVESTMENT BANKER SURVEY INFORMATION

Approximately 37% of the 117 respondents to the investment banker survey indicated increasing presence of strategic buyers making deals over the last twelve months. They also reported increases in deal flow, leverage and deal multiples, margin pressure on companies and improved general business conditions. Labor availability was identified as the most important current issue facing privately-held businesses, following by domestic economic uncertainty and access to capital. Domestic economic uncertainty was identified as the most important emerging issue.

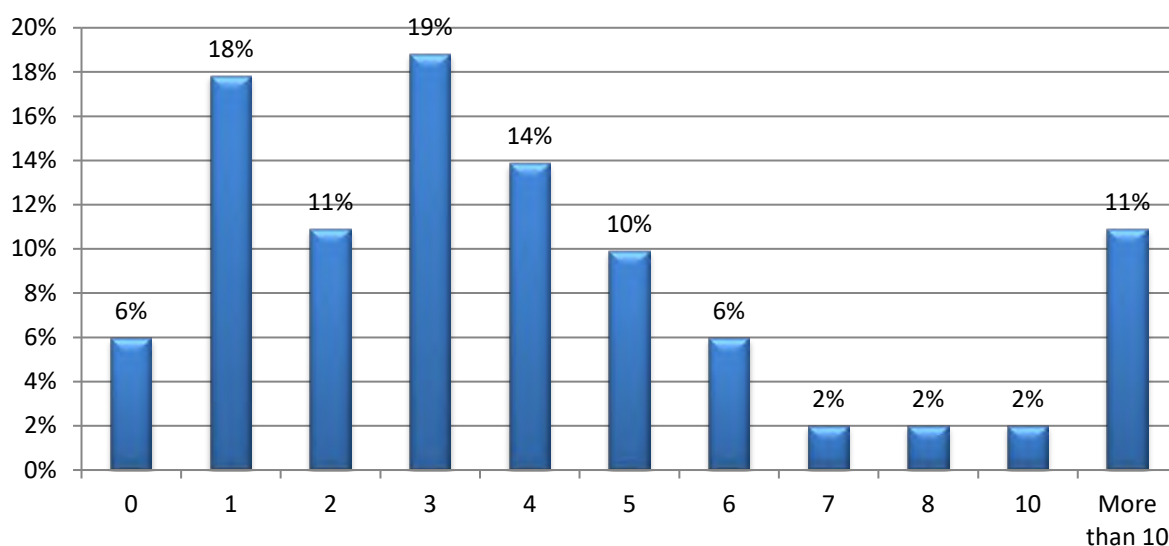
Other key findings include:

- Approximately 69% of respondents expect to close from two to seven deals in the next 12 months.
- The top three reasons for deals not closing were valuation gap (31%), unreasonable seller/buyer demand (19%), and lack of capital to finance (13%).
- Respondents indicated a general balance between companies worthy of financing and capital available for the same. There is a reported shortage of capital for those companies with less than \$1 million in EBITDA, but a general surplus for companies with \$1 million in EBITDA or more.
- The most popular valuation methods used by respondents when valuing privately-held businesses were capitalization of earnings method, discounted future earnings method and guideline company transactions method.
- When using multiples to determine the value of a business, the most popular methods used by respondents when valuing privately-held businesses were recast (adjusted) EBITDA multiple (69%), revenue multiple (11%) and EBITDA (unadjusted) multiple (9%) approaches.

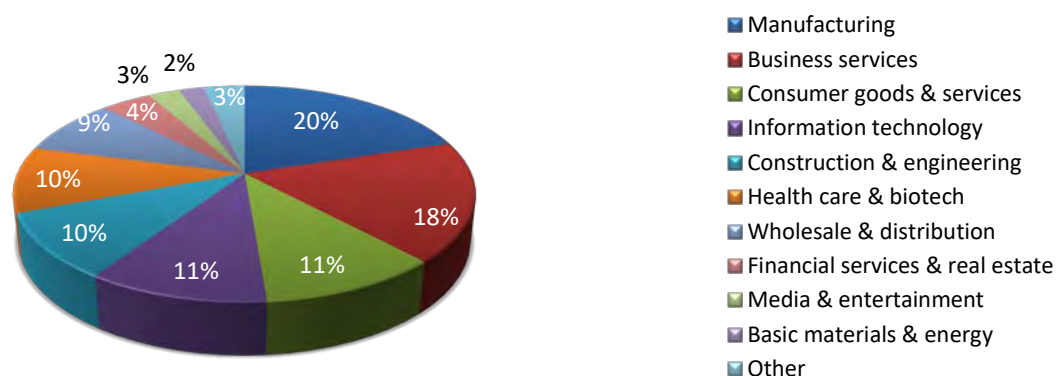
### Operational and Assessment Characteristics

Approximately 6% of the respondents didn't close any deals in the last twelve months; 71% closed between one and five deals, while 23% closed six deals or more.

**Figure 35. Private Business Sales Transactions Closed in the Last 12 Months**

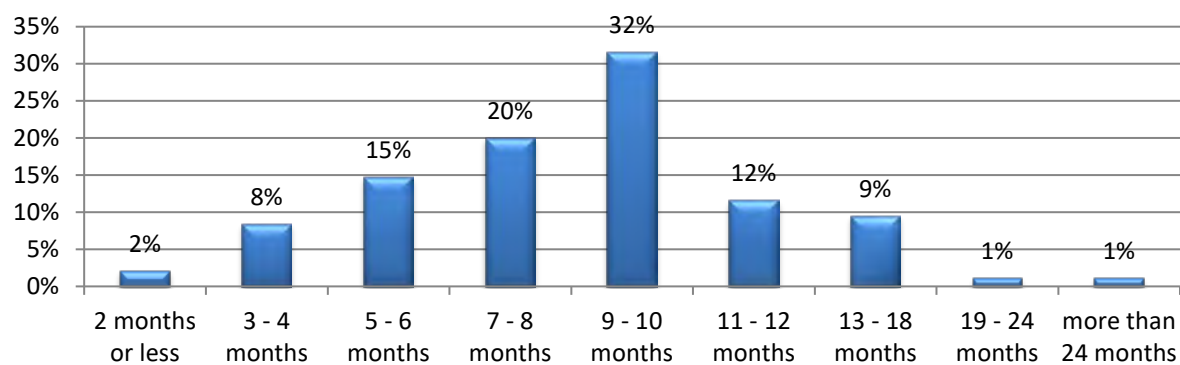


**Figure 36. Business Types That Were Involved in the Transactions Closed in the Last 12 Months**



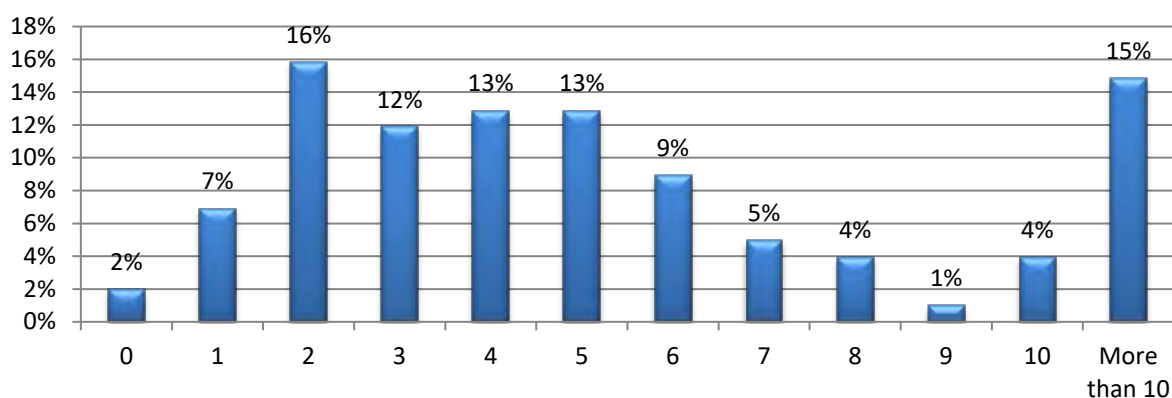
The majority of deals (78%) took 5 to 12 months to close. 12% of closed deals took more than one year to close.

**Figure 37. Average Number of Months to Close One Deal**



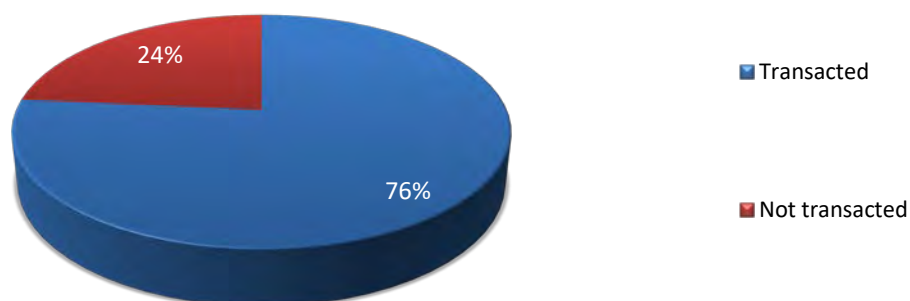
Nearly 48% of respondents expect to close between two and five deals, while 50% expect to close 6 deals or more.

**Figure 38. Private Business Transactions Expected to Close in the Next 12 Months**



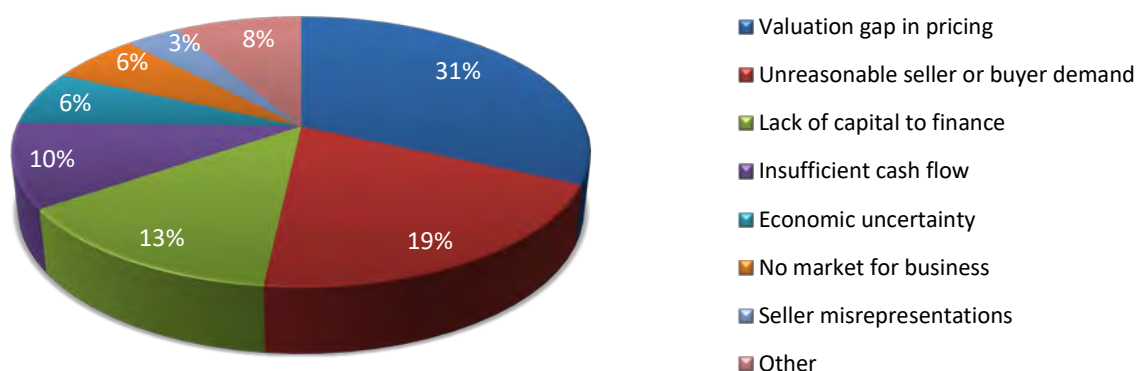
Approximately 24% of deals terminated without transacting over the past year.

**Figure 39. Percentage of Business Sales Engagements Terminated Without Transacting**



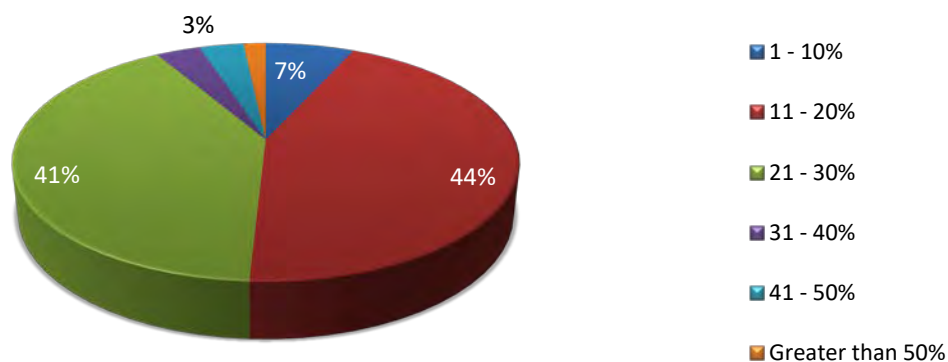
The top three reasons for deals not closing were: valuation gap in pricing (31%), unreasonable seller or buyer demand (19%) and lack of capital to finance (13%).

**Figure 40. Reasons for Business Sales Engagements Not Transacting**



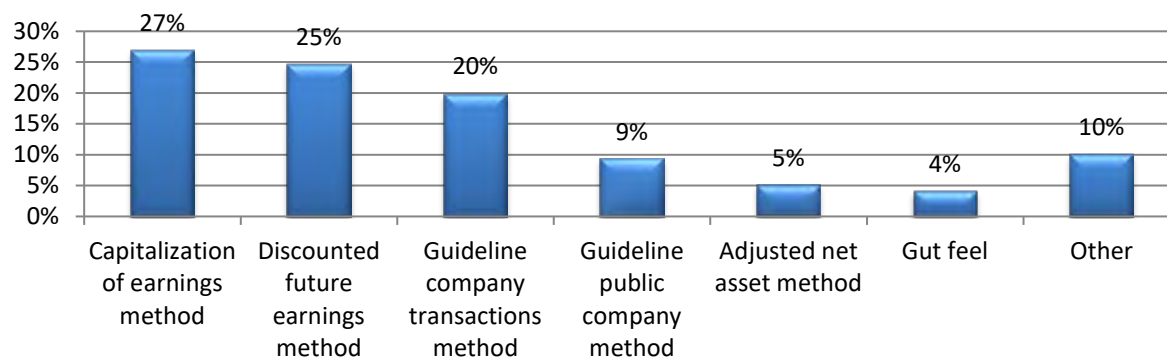
Of those transactions that didn't close due to a valuation gap in pricing, approximately 85% had a valuation gap in pricing between 11% and 30%.

**Figure 41. Valuation Gap in Pricing for Transactions That Didn't Close**



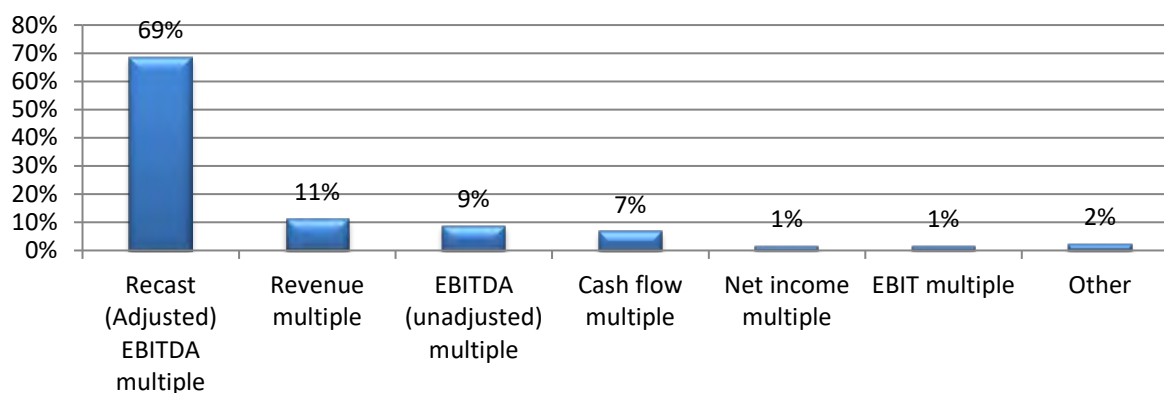
The weights of the various valuation methods used by respondents when valuing privately-held businesses included 27% for capitalization of earnings method.

**Figure 42. Usage of Valuation Methods**



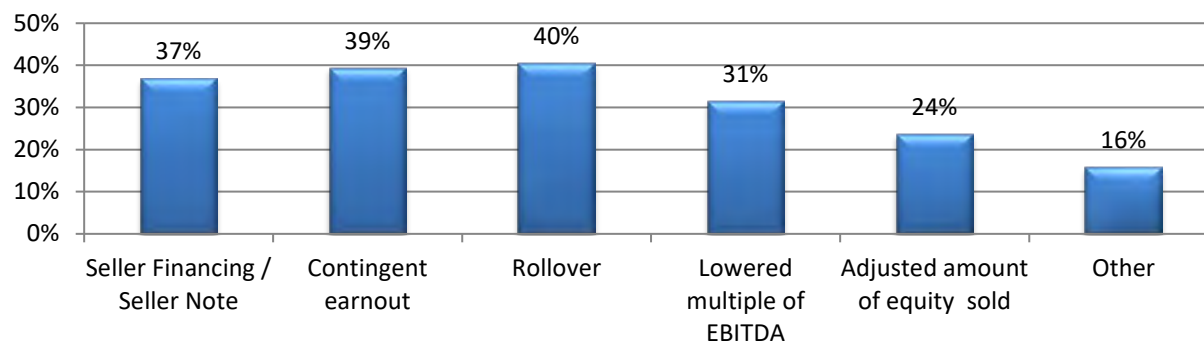
The most popular multiple method used by respondents when valuing privately-held businesses is the recast (adjusted) EBITDA multiple method, utilized by 69% of respondents.

**Figure 43. Usage of Multiple Methods**



Approximately 40% of business sales transactions closed in the last 12 months involved rollover.

**Figure 44. Components of Closed Deals**



Average deal multiples on transactions from the prior twelve months as observed by respondents varied from 3.9 to 9.2.

**Table 27. Median Deal Multiples by EBITDA Size of Company**

EBITDA	Manufacturing	Construction & engineering	Consumer goods & services	Wholesale & distribution	Business services	Basic materials & energy	Healthcare & biotech	Information technology	Financial services	Media & entertainment	Average
\$0K - \$999K EBITDA	4.0	3.5	4.3	4.0	4.0	3.0	2.5	4.5	4.5	5.0	3.9
\$1M - \$4.99M EBITDA	6.0	4.5	6.0	5.3	6.0	4.0	6.3	5.5	5.0	6.0	5.5
\$5M - \$9.99M EBITDA	6.3	5.5	6.5	5.5	6.3	6.5	4.8	6.8	6.3	7.0	6.1
\$10M - \$24.99M EBITDA	7.0	6.3	7.0	5.5	7.0	6.5	6.5	7.0	8.5	8.5	7.0
\$25M - \$49.99M EBITDA	7.3	8.0	7.5	7.0	8.0		8.5	9.0	8.5	9.0	8.1
\$50M+ EBITDA	10.0	9.0	8.0	7.3	8.5		10.0	10.0	10.0	10.0	9.2

Average total leverage multiples observed by respondents varied from 2.6 to 6.1.

**Table 28. Median Total Leverage Multiples by Size of Company**

EBITDA	Manufacturing	Construction & engineering	Consumer goods & services	Wholesale & distribution	Business services	Basic materials & energy	Healthcare & biotech	Information technology	Financial services	Media & entertainment	Average
\$0K - \$999K EBITDA	3.0	2.5	2.5	2.5	2.0	2.3	3.0	1.0	3.0	4.0	2.6
\$1M - \$4.99M EBITDA	3.0	3.3	3.0	3.0	3.0	2.5	3.0	3.0	3.3	5.0	3.2
\$5M - \$9.99M EBITDA	4.0	3.5	4.3	3.8	3.5	3.0	3.5	3.3	4.3	5.0	3.8
\$10M - \$24.99M EBITDA	4.0	3.5	5.0	4.0	4.0	3.0	4.0	3.8	5.0	5.5	4.2
\$25M - \$49.99M EBITDA	5.0	3.5	5.0	5.0	5.0		4.5	5.0	5.3	5.5	4.9
\$50M+ EBITDA	6.0	4.0	8.5	5.3	5.0		4.5	10.0	6.0	5.8	6.1

Average senior leverage multiples observed by respondents varied from 2.0 to 5.8.

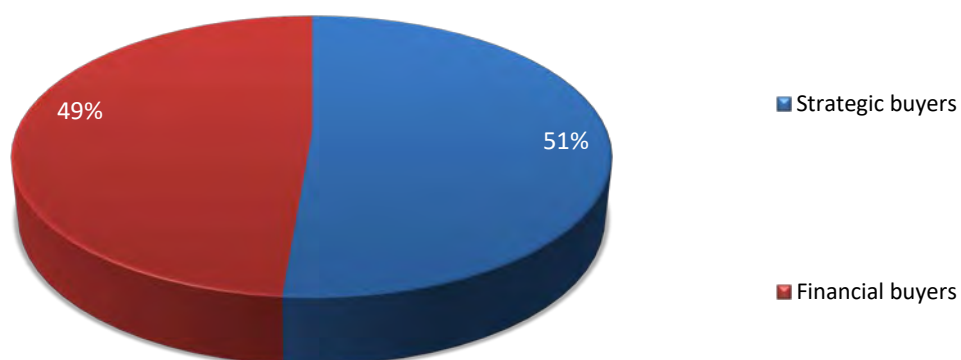
**Table 29. Median Senior Leverage Multiples by Size of Company**

EBITDA	Manufacturing	Construction & engineering	Consumer goods & services	Wholesale & distribution	Business services	Basic materials & energy	Healthcare & biotech	Information technology	Financial services	Media & entertainment	Average
\$0K - \$999K EBITDA	2.0	1.5	2.0	2.0	1.0	1.5	2.5	2.0	2.0	3.8	2.0
\$1M - \$4.99M EBITDA	3.0	2.5	2.5	2.5	2.3	2.0	3.3	3.0	2.5	4.0	2.8
\$5M - \$9.99M EBITDA	3.0	2.8	3.0	2.8	3.5	3.0	3.8	4.5	3.5	4.0	3.4
\$10M - \$24.99M EBITDA	4.0	3.0	3.0	3.0	3.5	3.0	4.5	4.5	4.8	4.5	3.8
\$25M - \$49.99M EBITDA	5.5	3.0	3.5	3.5	4.3		4.5	5.0	5.5	5.5	4.5
\$50M+ EBITDA	5.8	5.0	5.0	4.3	4.5		4.8	10.0	6.0	7.0	5.8



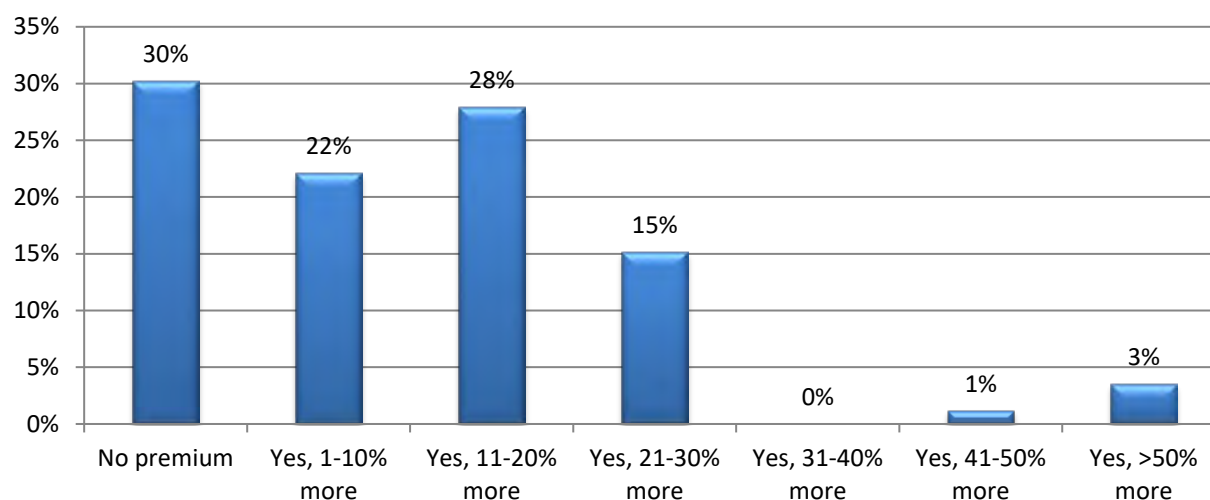
Approximately 51% of closed business sales transactions over the past 12 months involved strategic buyers.

**Figure 45. Percent of Transactions Involved Strategic and Financial Buyers**



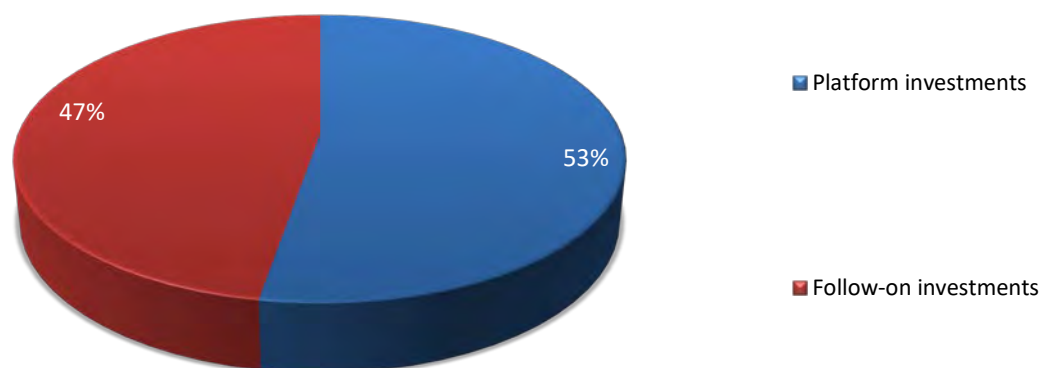
Approximately 30% of respondents did not witness any premium paid by strategic buyers, while 65% saw premiums between 1% and 20%.

**Figure 46. Premium Paid by Strategic Buyers Relative to Financial Buyers**



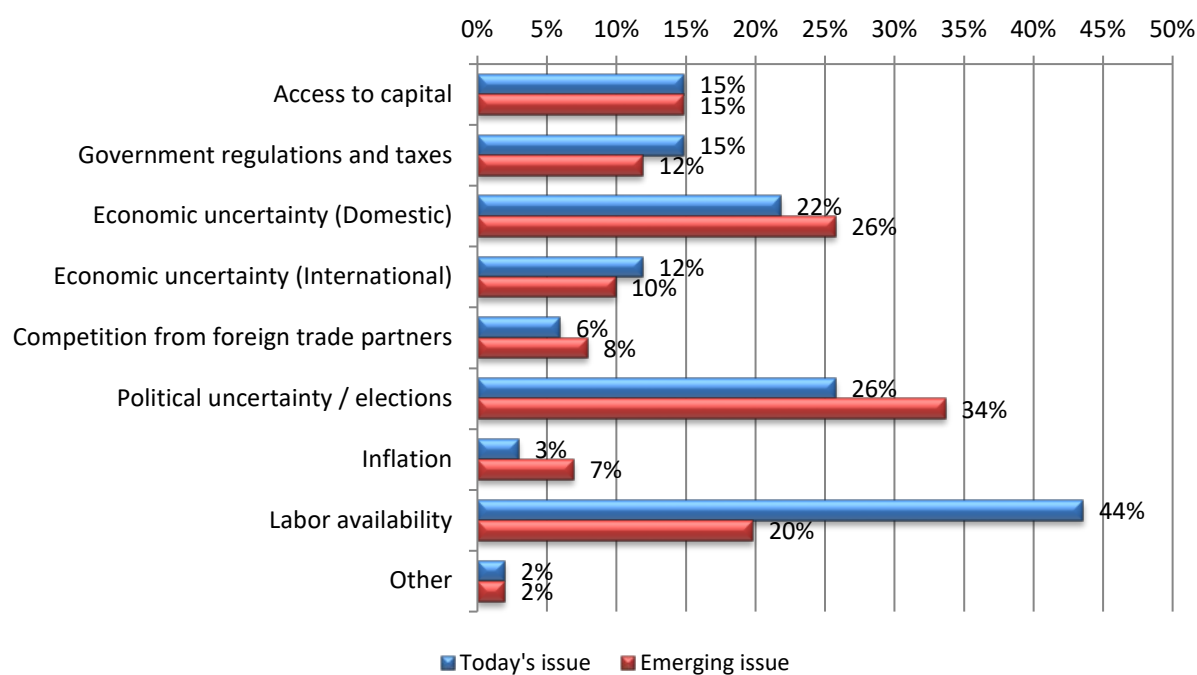
Approximately 53% of closed business sales transactions that involved financial buyers over the past 12 months were platform investments.

**Figure 47. Percent of Transactions Involved Strategic and Financial Buyers**



Respondents believe labor availability is the most important current issue facing privately-held businesses.

**Figure 48. Issues Facing Privately-Held Businesses**



Respondents indicated a general balance between companies worthy of financing and capital available for the same. There is a reported shortage of capital for those companies with less than \$1 million in EBITDA but a general surplus for companies with \$1 million in EBITDA or more.

**Table 30. Balance of Available Capital with Quality Companies**

EBITDA	Companies worthy of financing GREATLY exceed capital available	Companies worthy of financing exceed capital available	General balance	Capital available exceeds companies worthy of financing	Capital available GREATLY exceeds companies worthy of financing	Score
\$0K - \$999K EBITDA	20%	29%	20%	20%	13%	-0.2
\$1M - \$4.99M EBITDA	8%	17%	28%	35%	13%	0.3
\$5M - \$9.99M EBITDA	2%	21%	28%	31%	19%	0.4
\$10M - \$24.99M EBITDA	0%	7%	28%	33%	31%	0.9
\$25M - \$49.99M EBITDA	3%	3%	29%	26%	39%	1.0
\$50M - \$99.99M EBITDA	3%	3%	11%	40%	43%	1.2
\$100M+ EBITDA	6%	0%	14%	23%	57%	1.3

Respondents indicated a general difficulty with arranging senior debt for businesses with less than \$1 million in EBITDA.

**Table 31. How Difficult to Arrange Senior Debt for Transactions over the Past 12 Months**

EBITDA	Extremely difficult	Difficult	Somewhat difficult	Neutral	Somewhat easy	Easy	Extremely easy	Score
\$1M EBITDA	19%	22%	6%	25%	8%	3%	17%	-0.4
\$5M EBITDA	4%	14%	18%	20%	18%	20%	7%	0.2
\$10M EBITDA	0%	5%	10%	21%	33%	13%	18%	0.9
\$15M EBITDA	0%	3%	10%	19%	23%	32%	13%	1.1
\$25M EBITDA	0%	0%	23%	18%	9%	32%	18%	1.0
\$50M EBITDA	0%	0%	24%	0%	18%	29%	29%	1.4
\$100M+ EBITDA	0%	0%	25%	0%	6%	31%	38%	1.6

Approximately 37% of the 117 respondents to the investment banker survey indicated increasing presence of strategic buyers making deals over the last twelve months. They also reported increases in deal flow, leverage and deal multiples, margin pressure on companies and improved general business conditions.

**Table 32. General Business and Industry Assessment: Today versus 12 Months Ago**

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Deal flow	3%	12%	45%	25%	14%	39%	15%	<b>24%</b>
Leverage multiples	1%	10%	69%	19%	1%	20%	11%	<b>9%</b>
Deal multiples	1%	7%	57%	33%	1%	34%	9%	<b>26%</b>
Amount of time to sell business	0%	8%	53%	31%	8%	39%	8%	<b>31%</b>
Difficulty financing/selling business	1%	7%	64%	21%	6%	27%	8%	<b>19%</b>
General business conditions	1%	14%	49%	30%	6%	36%	15%	<b>22%</b>
Strategic buyers making deals	0%	8%	55%	34%	3%	37%	8%	<b>28%</b>
Margin pressure on companies	0%	6%	53%	35%	5%	41%	6%	<b>34%</b>
Buyer interest in minority transactions	3%	20%	51%	24%	1%	25%	24%	<b>1%</b>

During the next twelve months, respondents expect further increases in deal flow, flat leverage and deals multiples, increasing percentage of strategic buyers making deals, margin pressure on companies and worsening general business conditions.

**Table 33. General Business and Industry Assessment Expectations over the Next 12 Months**

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	Net increase/decrease
Deal flow	2%	10%	44%	33%	10%	44%	13%	<b>31%</b>
Leverage multiples	1%	16%	68%	13%	2%	15%	17%	<b>-2%</b>
Deal multiples	1%	15%	66%	17%	1%	18%	16%	<b>2%</b>
Amount of time to sell business	0%	5%	63%	29%	3%	32%	5%	<b>27%</b>
Difficulty financing/selling business	1%	7%	61%	27%	3%	31%	8%	<b>22%</b>
General business conditions	2%	32%	44%	19%	3%	22%	34%	<b>-12%</b>
Strategic buyers making deals	0%	10%	64%	24%	2%	27%	10%	<b>17%</b>
Margin pressure on companies	1%	4%	48%	42%	4%	46%	5%	<b>41%</b>
Buyer interest in minority transactions	6%	19%	49%	26%	0%	26%	25%	<b>1%</b>

## PRIVATE EQUITY SURVEY INFORMATION

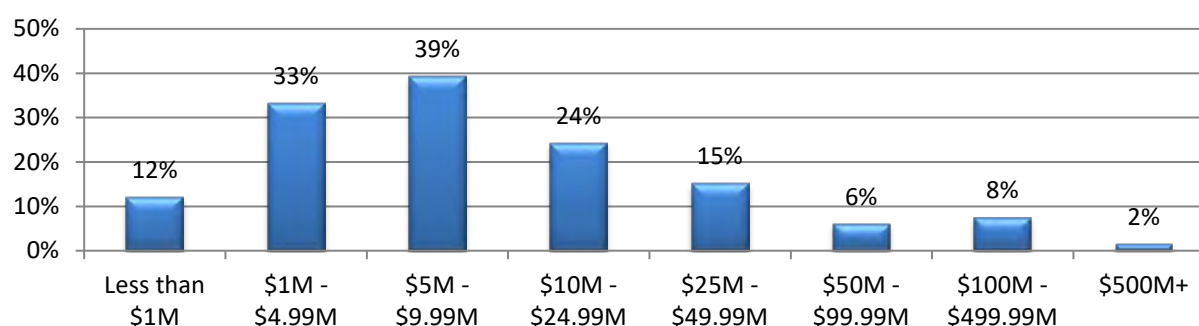
Approximately 73% of the 66 participants who responded to the private equity group survey indicated that they make investments in the \$1 million to \$5 million range. Nearly 42% of respondents said that demand for private equity is up from twelve months ago, this is down from 53% of respondents indicating increased demand in January 2019. Other key findings include:

- Respondents indicated decreased quality of companies seeking investment. They also reported decreased in expected returns on new investments, improved general business conditions and increased deal multiples.
- Respondents expect further increases in demand for private equity, increasing deal multiples and value of portfolio companies and worsening general business conditions.
- The types of businesses respondents plan to invest in over next 12 months are very diverse with over 33% targeting manufacturing and another 19% planning to invest in business services.
- Respondents believe labor availability is the most important current issue facing privately-held businesses, while domestic economic uncertainty is the most important emerging issue.
- The most popular valuation methods used by respondents when valuing privately-held businesses were capitalization of earnings and discounted future earnings approaches.
- When using multiples to determine the value of a business, the most popular methods used by respondents when valuing privately-held businesses were recast EBITDA multiple (45%) and cash flow multiple (21%).

### Operational and Assessment Characteristics

The largest concentration of checks written was in the \$1 million - \$5 million range (33%), followed by \$5 - \$10 million (39%), and \$10 million - \$25 million (24%).

**Figure 49. Typical Investment Size**



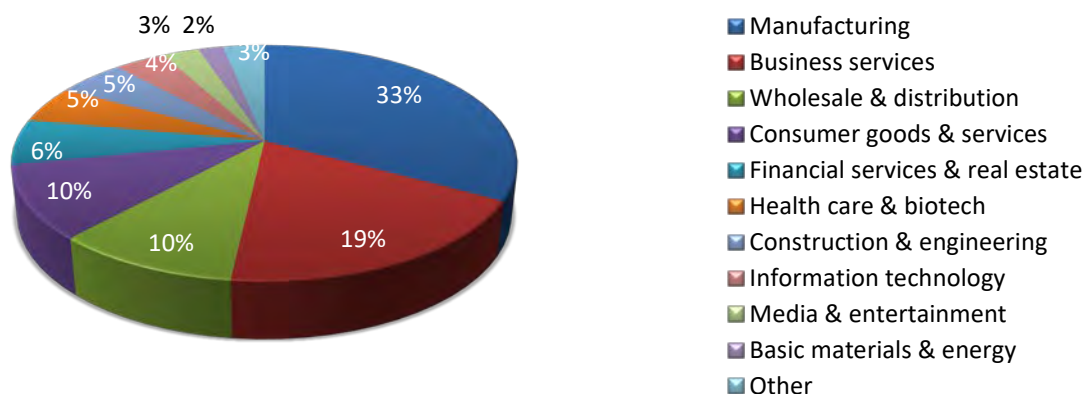
Respondents reported on business practices, and the results are reflected below.

**Table 34. PEG Fund Data**

	1st Quartile	Median	3rd Quartile
Vintage year (year in which first investment made)	2015	2017	2018
Size of fund (\$ millions)	7.5	75	175
Targeted number of total investments	3	8	13
Target fund return (gross pretax cash on cash annual IRR %)	20%	23.5%	26%
Expected fund return (gross pretax cash on cash annual IRR%)	19%	25%	30%

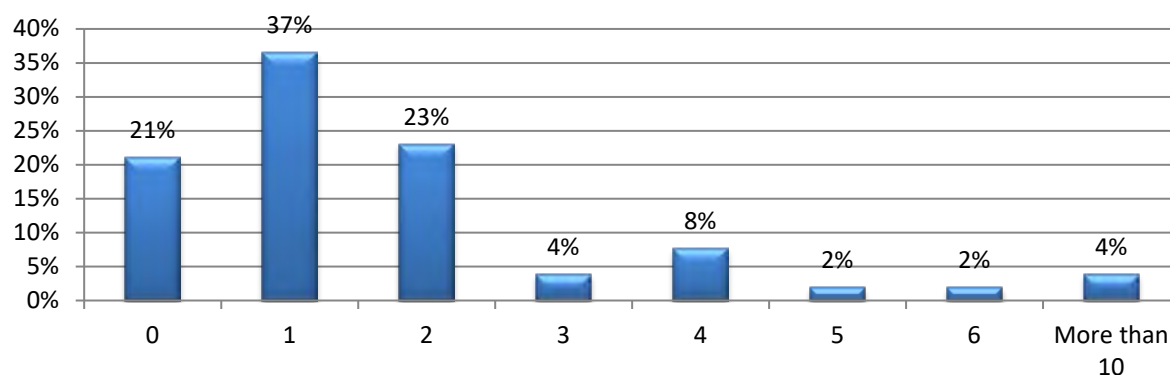
The types of businesses respondents plan to invest in over next 12 months are very diverse with nearly 33% targeting manufacturing and another 19% planning to invest in business services.

**Figure 50. Type of Business for Investments Planned over Next 12 Months**

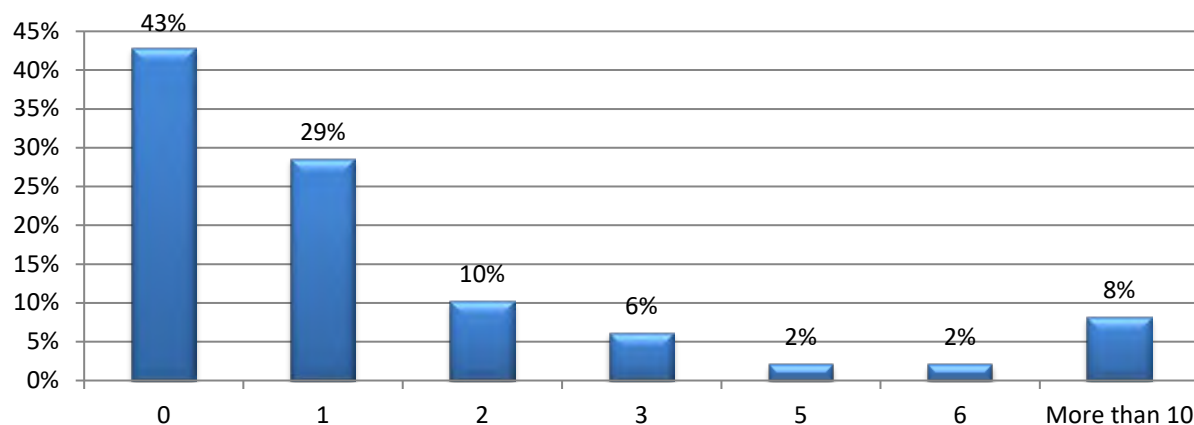


Approximately 60% of respondents made between one and two investments over the last twelve months.

**Figure 51. Total Number of Investments Made in the Last 12 Months**

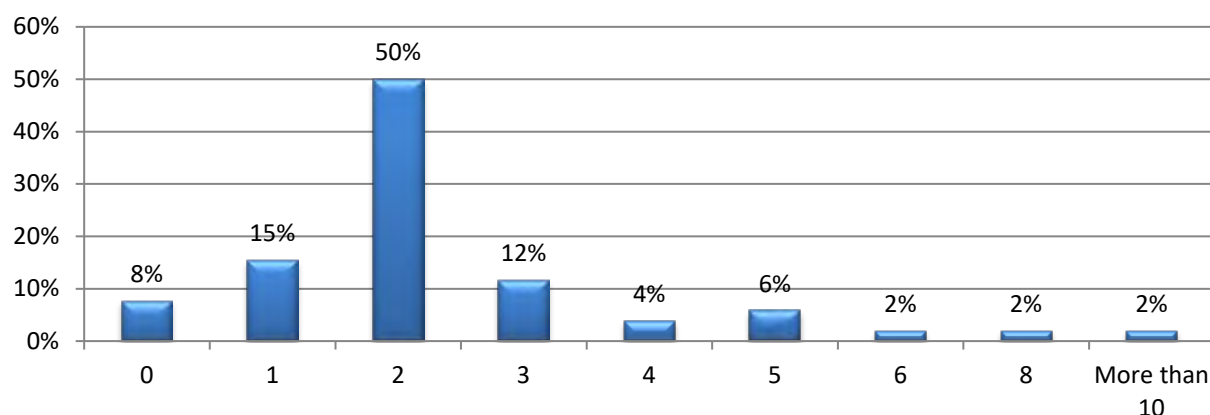


**Figure 52. Number of Follow-on Investments Made in the Last 12 Months**

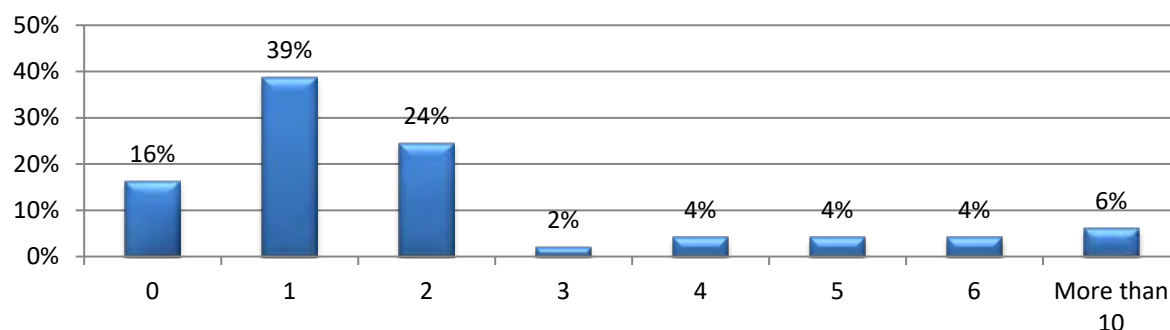


The majority (77%) of respondents plan to make one to three investments over the next 12 months.

**Figure 53. Number of Total Investments Planned over Next 12 Months**

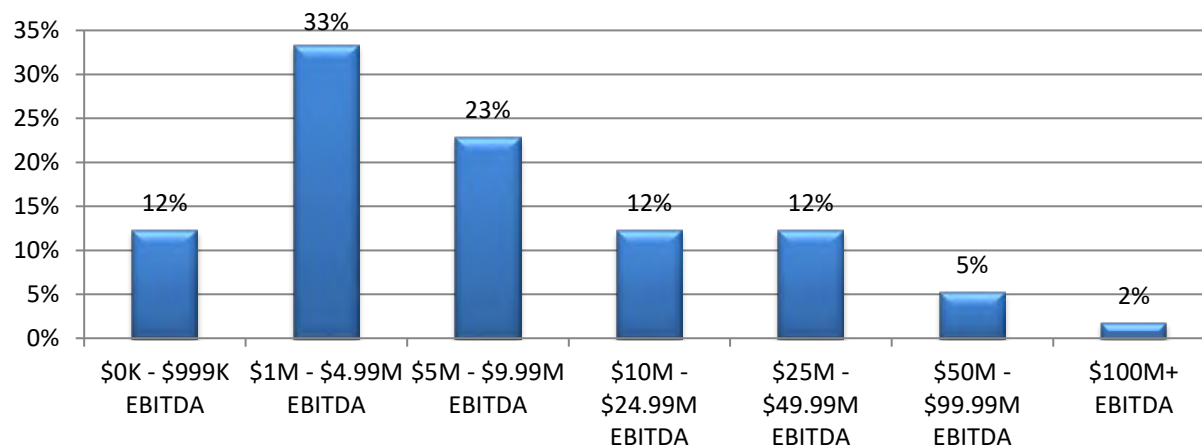


**Figure 54. Number of Follow-on Investments Planned over Next 12 Months**



Approximately 68% of buyout investments were in the range between \$0 million and \$10 million of EBITDA.

**Figure 55. Size of Buyout Investments in the Last 12 Months**



## PRIVATE EQUITY cont.

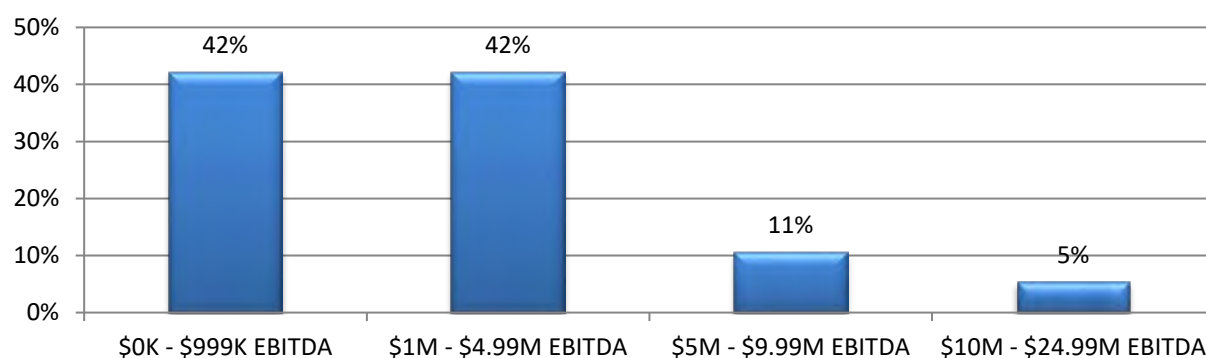
Average deal multiples for buyout deals for the prior twelve months vary from 5.0 to 9.8 times EBITDA depending on the size of the company. Expected returns vary from 23% to 30%.

**Table 35. General Characteristics – Buyout Transactions (medians)**

	\$0K - \$999K EBITDA	\$1M - \$4.99M EBITDA	\$5M - \$9.99M EBITDA	\$10M - \$24.99M EBITDA	\$25M - \$49.99M EBITDA	\$50M - \$99.99M EBITDA
Number of investments (total)	8	23	19	14	14	3
Average size of investment (in million USD)	1.5	4	15	45	85	100+
Expected time to exit (years) (median)	7	6	5	5	5	5
Equity as % of new capital structure (median)	45%	50%	45%	55%	45%	35%
% of total equity purchased (median)	95%	75%	65%	65%	85%	65%
Average EBITDA multiple	5.0	5.0	7.5	8.0	8.5	9.8
Average revenue multiple	1.5	1.5	2.0	2.0	3.0	5.0
Median total expected returns (gross cash on cash pre-tax IRR)	30%	28.8%	25%	25%	25%	23%

Approximately 84% of non-buyout investments were in the range between \$0 million and \$5 million of EBITDA.

**Figure 56. Size of Non-Buyout Investments in the Last 12 Months**



Average expected returns on non-buyout deals vary from 15% to 24%.

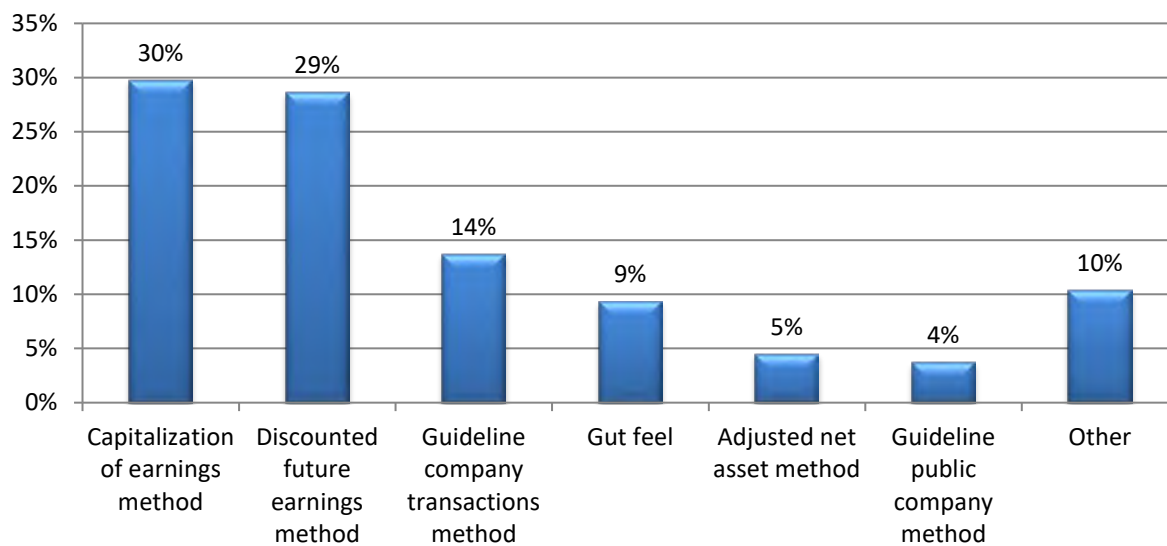
**Table 36. General Characteristics – Non-Buyout Transactions (medians)**

	\$0K - \$999K EBITDA	\$1M - \$4.99M EBITDA	\$5M - \$9.99M EBITDA	\$10M - \$24.99M EBITDA
Number of investments (total)	4	5	3	5
Average size of investment (in million USD)	2.5	7.5	35	100
Expected time to exit (years) (median)	5	5	4.5	n/a
Equity as % of new capital structure (median)	30%	55%	45%	n/a
% of total equity purchased (median)	2%	3%	3%	5.5
Average EBITDA multiple	3.0	4.0	6.0	6.8
Average revenue multiple	1.0	1.5	2.3	4.3
Median total expected returns (gross cash on cash pre-tax IRR)	24%	22%	18%	15%



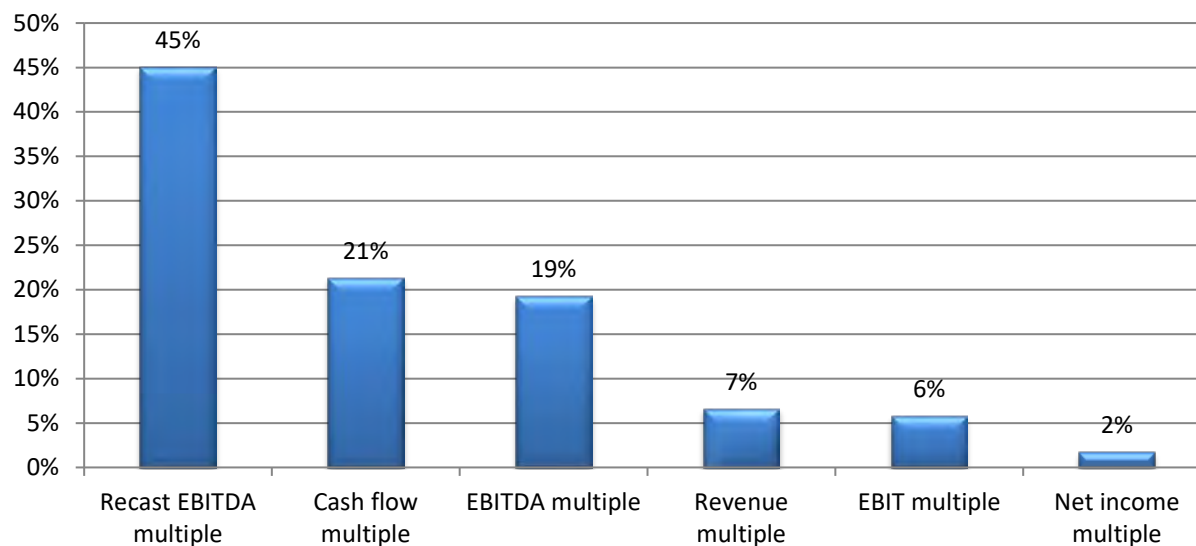
When valuing a business, approximately 30% of the weight is placed on capitalization of earnings method.

**Figure 57. Usage of Valuation Approaches**



The weights of the various multiple methods used by respondents when valuing privately-held businesses included 45% for recast (adjusted) EBITDA multiple and 21% for cash flow multiple.

**Figure 58. Usage of Multiple Methods**



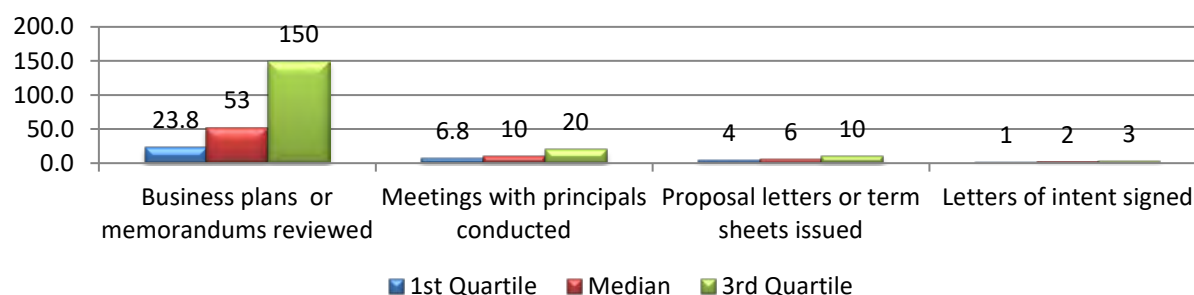
Average deal multiples on transactions from the prior twelve months as observed by respondents varied from 3.3 to 7.7.

**Table 37. Median Deal Multiples by EBITDA Size of Company**

	\$1M EBITDA	\$5M EBITDA	\$10M EBITDA	\$15M EBITDA	\$25M EBITDA	\$50M EBITDA	\$100M EBITDA	Average
Manufacturing	4.3	5.3	7.0	7.0	7.3	8.0	8.0	6.7
Construction & engineering	1.0	4.0	4.0	5.5	6.0	n/a	n/a	4.1
Consumer goods & services	3.0	5.0	7.0	7.8	8.5	9.3	9.3	7.1
Wholesale & distribution	4.3	5.3	6.0	8.5	10.0	n/a	n/a	6.8
Business services	3.5	5.8	7.5	8.5	8.5	8.5	8.8	7.3
Basic materials & energy	3.0	3.0	3.0	3.0	3.0	n/a	3.5	3.1
Health care & biotech	5.0	6.0	n/a	8.8	9.0	n/a	n/a	7.2
Information technology	5.0	n/a	n/a	7.5	10.0	n/a	n/a	7.5
Financial services & real estate	n/a	4.0	8.0	n/a	n/a	n/a	n/a	6.0
Media & entertainment	1.0	n/a	n/a	n/a	8.0	9.0	9.0	6.8
<b>Average</b>	<b>3.3</b>	<b>4.8</b>	<b>6.1</b>	<b>7.1</b>	<b>7.8</b>	<b>8.7</b>	<b>7.7</b>	<b>6.5</b>

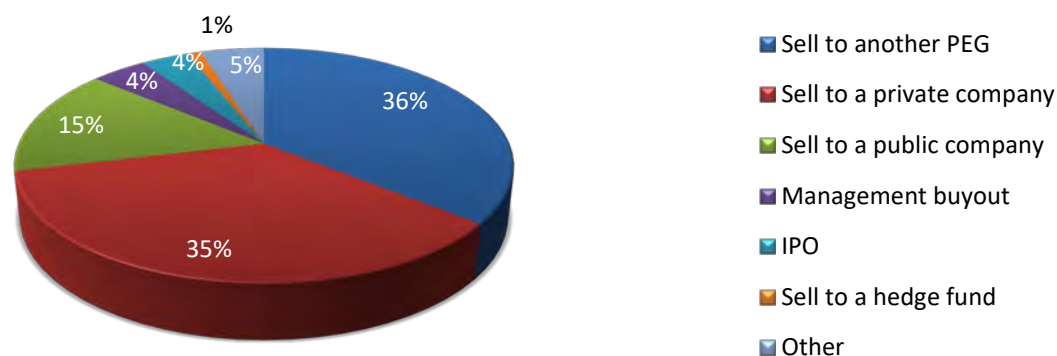
Respondents reported on items required to close one deal.

**Figure 59. Items Required to Close One Deal**



Respondents reported exit strategies that include selling to another private equity group (36%), selling to private company (35%), and selling to a public company (15%).

**Figure 60. Exit Plans for Portfolio Companies**



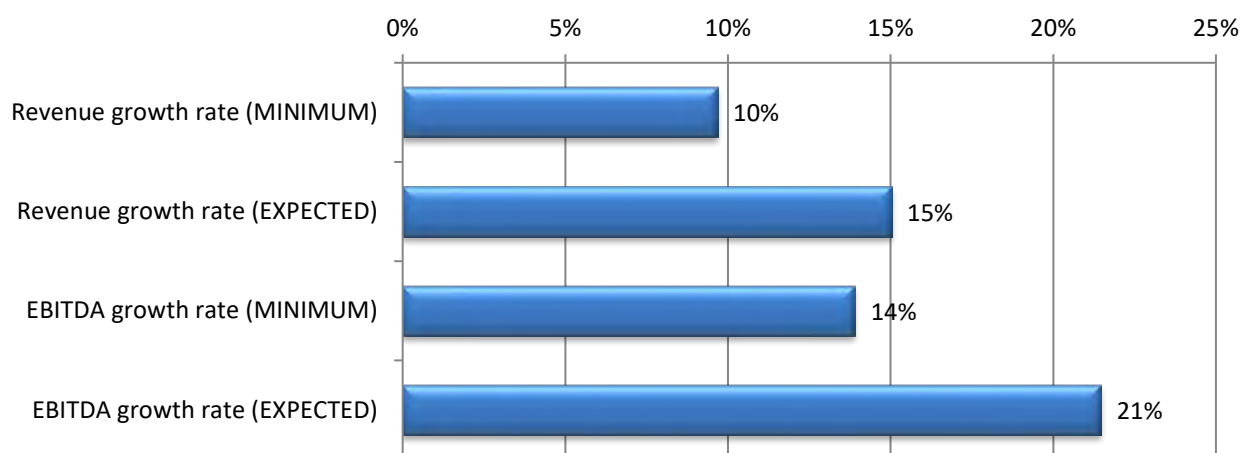
Most of the respondents believe the number of companies “worthy of financing” exceeds “capital available” for the companies with less than \$1M in EBITDA. Whereas for the larger companies, “capital available” exceeds the number of companies “worthy of financing.”

**Table 38. The Balance of Available Capital with Quality Companies for the Following EBITDA Size**

	Companies worthy of financing GREATLY exceed capital available (capital shortage)	Companies worthy of financing exceed capital available	General balance between companies worthy of financing and capital available	Capital available exceeds companies worthy of financing	Capital available GREATLY exceeds companies worthy of financing (capital surplus)	Score
\$0K - \$999K EBITDA	19%	31%	24%	10%	17%	-0.3
\$1M - \$4.99M EBITDA	5%	16%	30%	30%	20%	0.5
\$5M - \$9.99M EBITDA	0%	8%	24%	32%	37%	1.0
\$10M - \$14.99M EBITDA	0%	0%	15%	29%	56%	1.4
\$15M - \$24.99M EBITDA	0%	0%	9%	21%	71%	1.6
\$25M - \$49.99M EBITDA	0%	0%	9%	6%	85%	1.8
\$50M - \$99.99M EBITDA	0%	0%	9%	0%	91%	1.8
\$100M+ EBITDA	0%	0%	15%	3%	82%	1.1

Respondents reported average minimum revenue growth rate, when investing in a company today, is 10%

**Figure 61. Minimum and Expected Annual Growth Rates for Investee**



Respondents identified importance of the following items regarding business risk.

**Table 39. Importance of Items Regarding Business Risk**

Characteristics	Unimportant	Of little importance	Moderately important	Important	Very important	Score (1 to 5)
Firm size	0%	10%	37%	41%	12%	2.5
Customer concentrations	0%	0%	16%	38%	46%	3.3
Market leadership	4%	10%	35%	41%	10%	2.4
Historical operating performance	0%	0%	14%	47%	39%	3.3
Industry sector	4%	2%	20%	47%	27%	2.9
Future prospects of company	0%	0%	4%	37%	59%	3.5
Management team	0%	4%	18%	29%	49%	3.2
Other	0%	0%	17%	0%	83%	3.7

Relative to twelve months ago, respondents indicated increases in demand for private equity, amount of non-control investments and deal multiples. They also reported a decrease in expected returns on new investments and quality of companies seeking investment, increase in expected investment holding period and improved general business conditions.

**Table 40. General Business and Industry Assessment: Today versus 12 Months Ago**

	Decrease significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Demand for private equity	0%	5%	53%	23%	19%	42%	5%	<b>37%</b>
Quality of companies seeking investment	2%	41%	43%	11%	2%	13%	43%	<b>-30%</b>
Average investment size	0%	2%	54%	39%	4%	43%	2%	<b>41%</b>
Non-control investments (< 50% equity ownership)	0%	0%	65%	32%	3%	35%	0%	<b>35%</b>
Expected investment holding period	0%	9%	52%	32%	7%	39%	9%	<b>30%</b>
Deal multiples	0%	13%	33%	39%	15%	54%	13%	<b>41%</b>
Exit opportunities	0%	12%	51%	24%	12%	37%	12%	<b>24%</b>
Expected returns on new investments	0%	42%	47%	9%	2%	11%	42%	<b>-31%</b>
Value of portfolio companies	0%	0%	20%	59%	20%	80%	0%	<b>80%</b>
General business conditions	0%	13%	50%	24%	13%	37%	13%	<b>24%</b>
Size of private equity industry	0%	0%	23%	50%	27%	77%	0%	<b>77%</b>
Appetite for risk	0%	17%	30%	33%	20%	52%	17%	<b>35%</b>

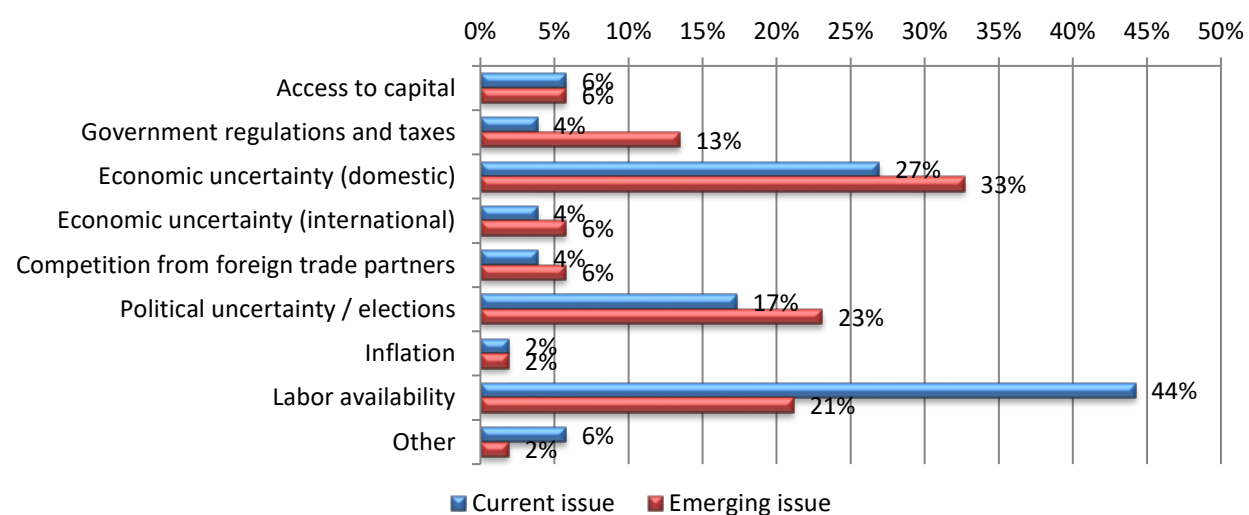
Respondents expect further increases in demand for private equity, decreasing expected returns on new investments, and worsening general business conditions.

**Table 41. General Business and Industry Assessment Expectations over the Next 12 Months**

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Demand for private equity	0%	4%	50%	43%	2%	46%	4%	<b>41%</b>
Quality of companies seeking investment	0%	36%	38%	21%	4%	26%	36%	<b>-11%</b>
Average investment size	0%	4%	53%	43%	0%	43%	4%	<b>38%</b>
Non-control investments (< 50% equity ownership)	0%	3%	78%	19%	0%	19%	3%	<b>16%</b>
Expected investment holding period	0%	4%	57%	30%	9%	39%	4%	<b>35%</b>
Deal multiples	0%	11%	53%	32%	4%	36%	11%	<b>26%</b>
Exit opportunities	2%	18%	58%	22%	0%	22%	20%	<b>2%</b>
Expected returns on new investments	0%	33%	54%	11%	2%	13%	33%	<b>-20%</b>
Value of portfolio companies	0%	7%	41%	46%	7%	52%	7%	<b>46%</b>
General business conditions	2%	30%	41%	22%	4%	26%	33%	<b>-7%</b>
Size of private equity industry	0%	0%	47%	44%	9%	53%	0%	<b>53%</b>
Appetite for risk	0%	28%	36%	32%	4%	36%	28%	<b>9%</b>

Respondents believe labor availability is the most important current issue facing privately-held businesses, while domestic economic uncertainty is the most important emerging issue.

**Figure 62. Issues Facing Privately-Held Businesses**



## VENTURE CAPITAL SURVEY INFORMATION

Of the 33 participants who responded to the venture capital survey, approximately 62% of respondents expect an increasing size of the venture capital industry. The majority (62%) of respondents plan to make between two and seven investments over the next 12 months.

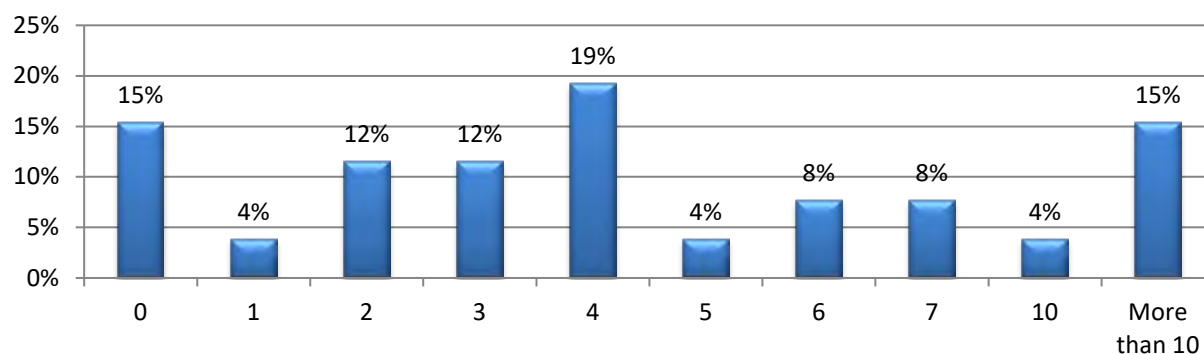
Other key findings include:

- The types of businesses respondents plan to invest in the next 12 months are very diverse with over 33% targeting information technology and another 15% planning to invest in health care & biotech.
- Respondents' exit strategies include selling to a public company (35%) followed by selling to a private company (25%).
- Respondents believe access to capital is the most important issue facing privately-held businesses today, while government regulations and taxes are the most important emerging issue.

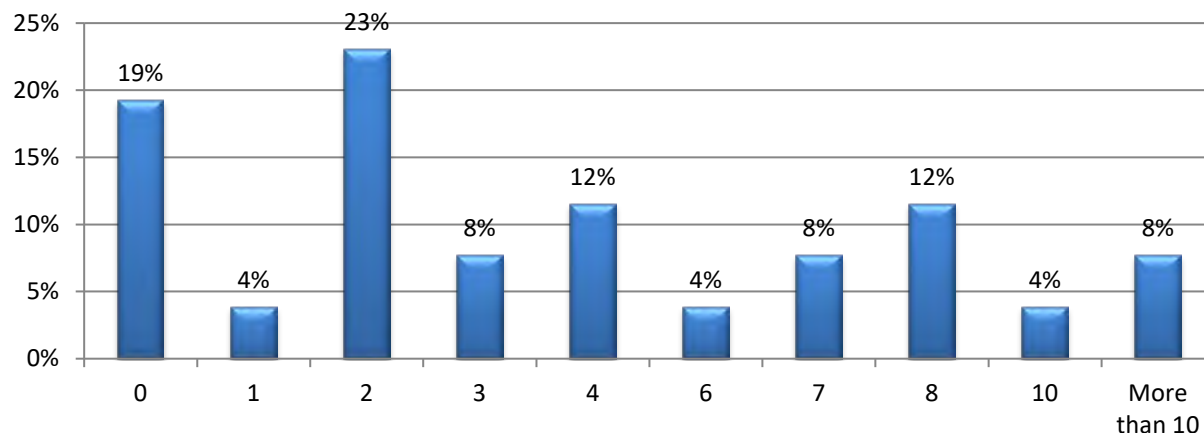
### Operational and Assessment Characteristics

Approximately 38% of respondents made five investments or more over the last twelve months.

**Figure 63. Total Number of Investments Made in the Last 12 Months**

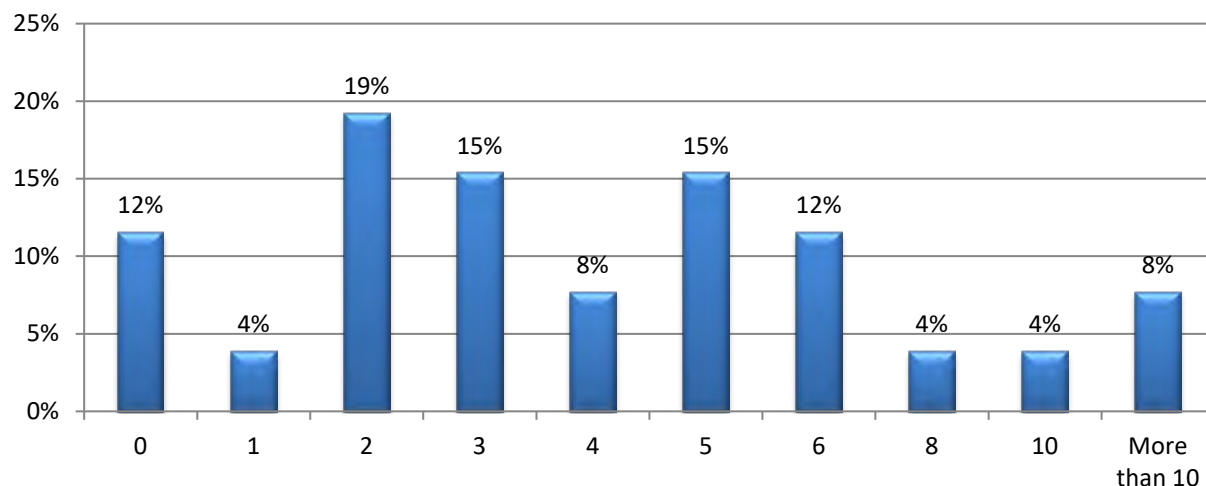


**Figure 64. Number of Follow-on Investments Made in the Last 12 Months**

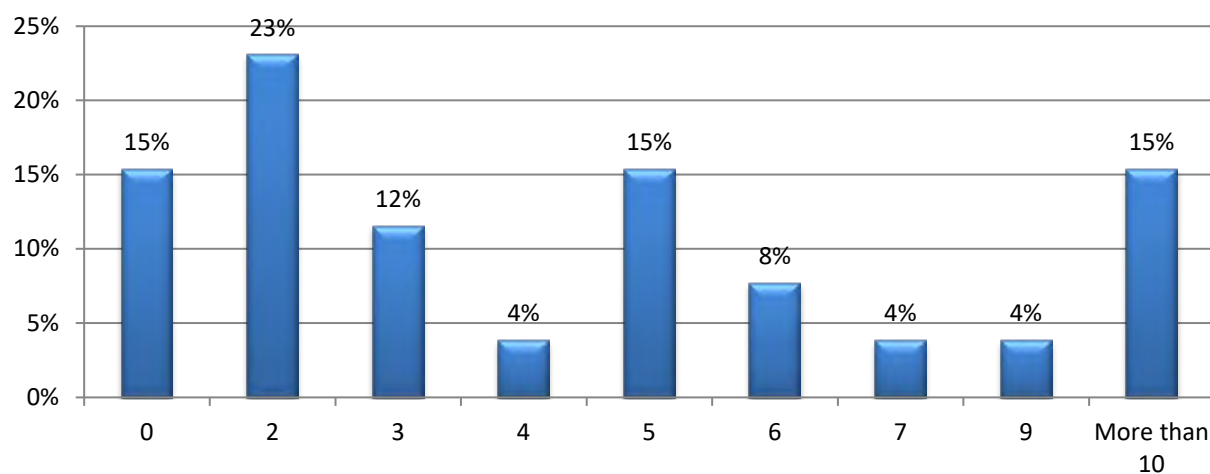


The majority (65%) of respondents plan to make three investments or more over the next 12 months.

**Figure 65. Number of Total Investments Planned over Next 12 Months**



**Figure 66. Number of Follow-on Investments Planned over Next 12 Months**



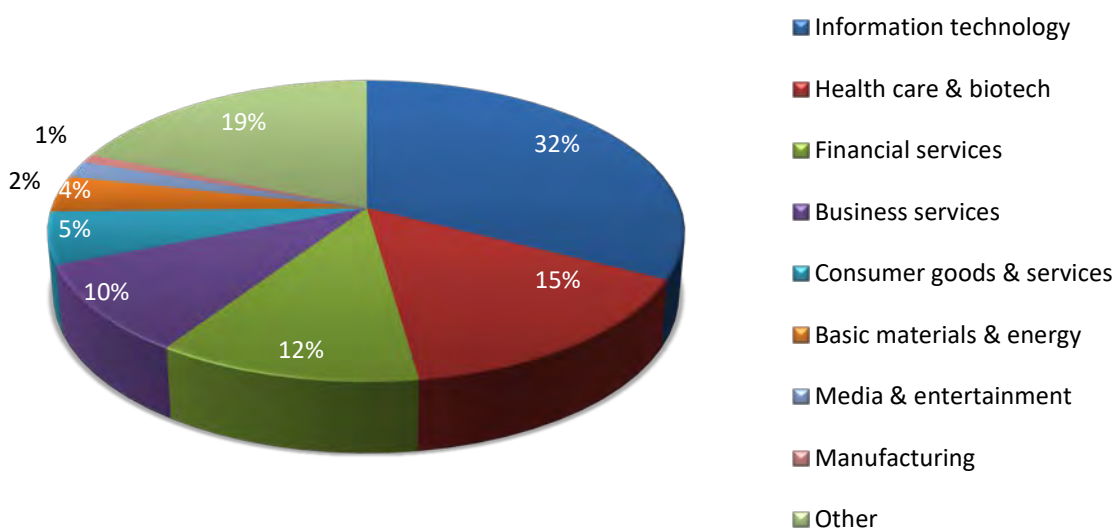
Respondents reported on business practices and the results are reflected below.

**Table 42. VC Fund Data**

	1st quartile	Median	3rd quartile
Vintage year (year in which first investment made)	2011	2016	2018
Size of fund (\$ millions)	\$15	\$38	\$88
Targeted number of total investments	13	13	23
Target fund return (gross pretax cash on cash annual IRR %)	15%	25%	35%
Expected fund return (gross pretax cash on cash annual IRR %)	15%	25%	35%

The types of businesses respondents plan to invest in over next 12 months are very diverse with over 32% targeting Information technology, and another 15% planning to invest in health care & biotech.

**Figure 67. Type of Business for Investments Planned over Next 12 Months**





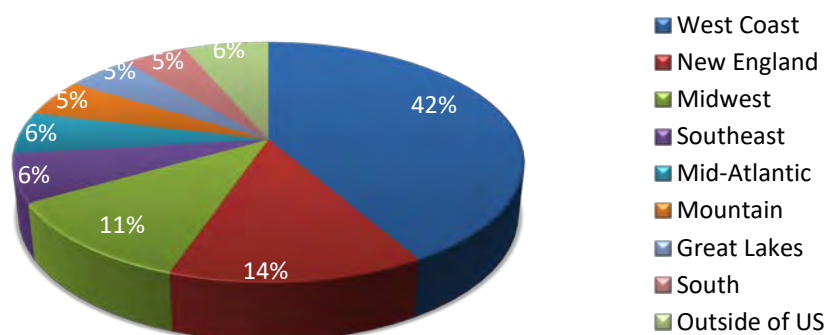
Respondents reported on a variety of statistics pertaining to their investments.

**Table 43. General Information on Investments by Company Stages**

	Seed	Startup	Early Stage	Expansion	Later Stage
<b>Number of Investments Made in Last twelve months</b>					
	58	34	66	229	8
<b>Average Size of Investment (\$ million)</b>					
1st Quartile	0.5	0.5	0.5	0.5	0.5
<b>Median</b>	0.5	0.5	1.5	1.5	7.0
3rd Quartile	0.8	1.5	3.8	3.3	10+
<b>Average Revenue Multiple</b>					
1st Quartile	<1	<1	<1	<1	1.75
<b>Median</b>	1	1	2.25	3	3.5
3rd Quartile	2.75	4.1	4.1	5	6
<b>Average User Multiple</b>					
1st Quartile	1	2	3	3.8	3
<b>Median</b>	<b>2.3</b>	<b>4.5</b>	<b>4.8</b>	<b>4</b>	<b>5</b>
3rd Quartile	5.6	5.5	6	6	6
<b>Average % of Total Equity Purchased (fully diluted basis)</b>					
1st Quartile	5.0%	5.0%	5.0%	5.0%	5.0%
<b>Median</b>	<b>5.0%</b>	<b>5.0%</b>	<b>15.0%</b>	<b>5.0%</b>	<b>10.0%</b>
3rd Quartile	15.0%	15.0%	15.0%	20.0%	52.5%
<b>Total expected Returns (gross cash on cash pretax IRR) on new investments</b>					
1st Quartile	28.0%	28.0%	28.0%	25.0%	24.0%
<b>Median</b>	<b>33.0%</b>	<b>33.0%</b>	<b>33.0%</b>	<b>30.0%</b>	<b>28.8%</b>
3rd Quartile	48.0%	48.0%	40.0%	33.0%	33.0%
<b>Expected Time to Exit (years)</b>					
1st Quartile	6.0	5.3	4.8	3.0	3.0
<b>Median</b>	6.0	6.0	5.0	3.5	3.0
3rd Quartile	7.8	7.0	6.0	4.0	3.0
<b>Average Company Value at Time of Investment (post-money \$ millions)</b>					
1st Quartile	1.8	7.5	7.5	15.0	30.0
<b>Median</b>	<b>5.0</b>	<b>7.5</b>	<b>15.0</b>	<b>55.0</b>	<b>&gt;100</b>
3rd Quartile	7.5	7.5	25.0	55.0	>100

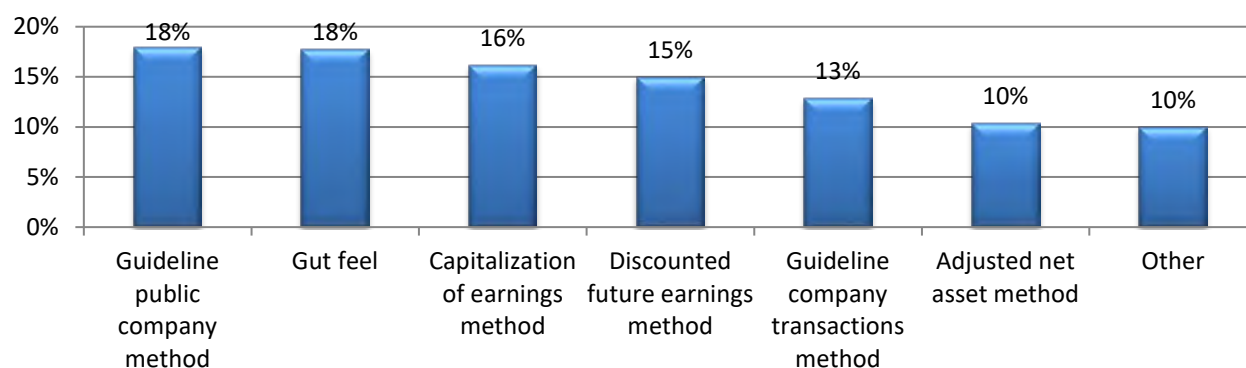
Respondents reported on where they plan to invest over the next 12 months. The results reflect investment throughout the U.S.

**Figure 68. Geographic Location of Planned Investment over Next 12 Months**



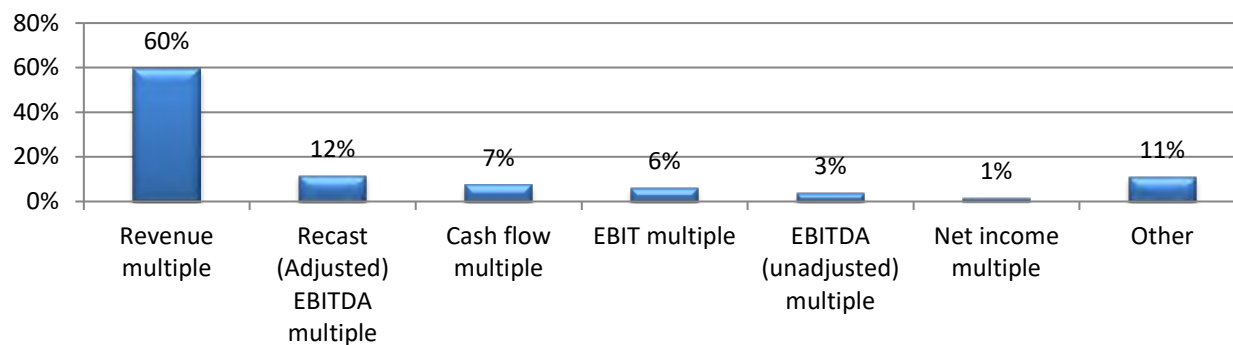
When valuing the company, approximately 18% of respondents use gut feel, another 18% use guideline public company method and 16% use capitalization of earnings method valuing privately-held businesses.

**Figure 69. Usage of Valuation Methods**



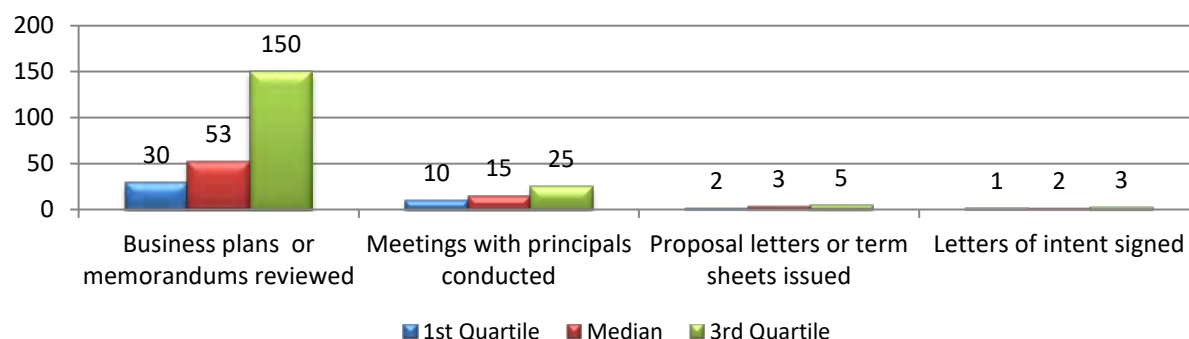
The weights of the various multiple methods used by respondents when valuing privately-held businesses included 60% for revenue multiple and 12% for recast (adjusted) EBITDA multiple methods.

**Figure 70. Usage of Multiple Methods**



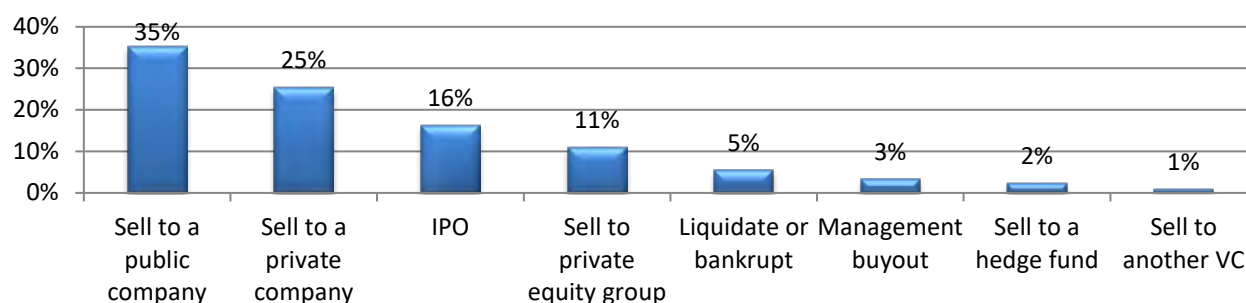
Respondents reported on items required to close one deal.

**Figure 70. Items Required to Close One Deal**



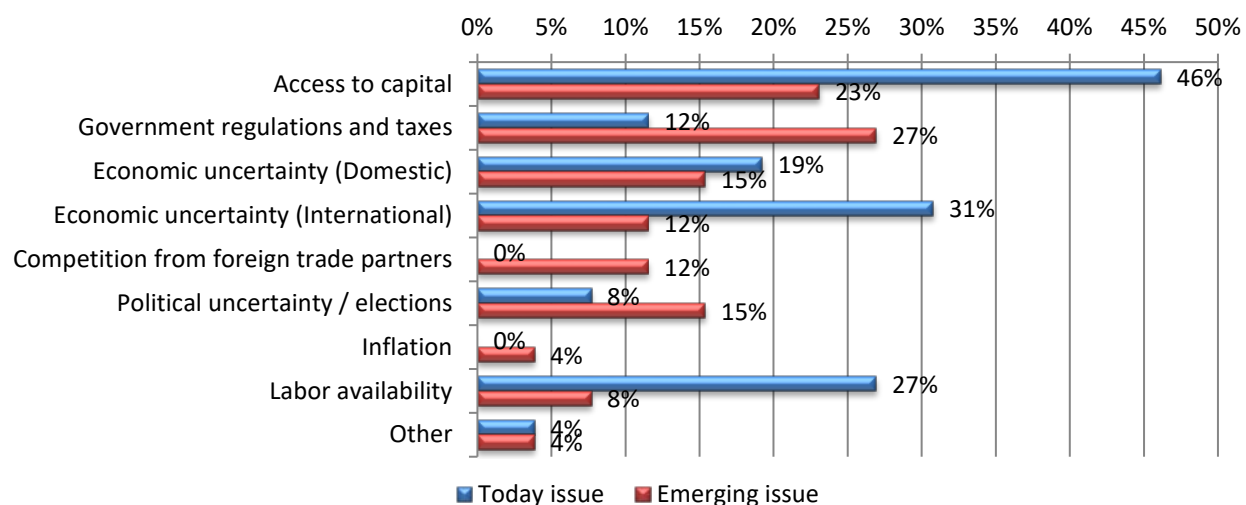
Respondents' exit strategies include selling to a public company (35%) followed by selling to a private company (25%).

**Figure 71. Exit Plans for Portfolio Companies**



Respondents believe access to capital is the most important issue facing privately-held businesses today.

**Figure 72. Current Issues Facing Privately-Held Businesses**



## VENTURE CAPITAL cont.

Respondents indicated increases in demand for venture capital, follow-on investments, value of portfolio companies, presence of super angels in space formerly occupied by VCs, and improved general business conditions.

**Table 44. General Business and Industry Assessment: Today versus 12 Months Ago**

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Demand for venture capital	4%	0%	23%	42%	31%	73%	4%	69%
Quality of companies seeking investment	8%	19%	38%	15%	19%	35%	27%	8%
Follow-on investments	4%	12%	24%	36%	24%	60%	16%	44%
Average investment size	8%	4%	38%	27%	23%	50%	12%	38%
Exit opportunities	4%	8%	40%	32%	16%	48%	12%	36%
Time to exit deals	0%	12%	31%	38%	19%	58%	12%	46%
Expected returns on new investments	0%	16%	60%	16%	8%	24%	16%	8%
Value of portfolio companies	0%	4%	4%	58%	35%	92%	4%	88%
General business conditions	4%	0%	24%	48%	24%	72%	4%	68%
Presence of super angels in space formerly occupied by VCs	0%	17%	26%	39%	17%	57%	17%	39%
Size of venture capital industry	0%	12%	20%	32%	36%	68%	12%	56%
Appetite for risk	4%	21%	33%	25%	17%	42%	25%	17%

Respondents expect further improving general business conditions.

**Table 45. General Business and Industry Assessment Expectations over the Next 12 Months**

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Demand for venture capital	0%	8%	31%	35%	27%	62%	8%	54%
Quality of companies seeking investment	4%	19%	35%	31%	12%	42%	23%	19%
Follow-on investments	0%	12%	40%	24%	24%	48%	12%	36%
Average investment size	4%	23%	38%	19%	15%	35%	27%	8%
Exit opportunities	4%	23%	23%	35%	15%	50%	27%	23%
Time to exit deals	0%	12%	28%	40%	20%	60%	12%	48%
Expected returns on new investments	8%	16%	40%	32%	4%	36%	24%	12%
Value of portfolio companies	8%	8%	8%	56%	20%	76%	16%	60%
General business conditions	4%	20%	24%	28%	24%	52%	24%	28%
Presence of super angels in space formerly occupied by VCs	13%	21%	33%	25%	8%	33%	33%	0%
Size of venture capital industry	0%	8%	40%	28%	24%	52%	8%	44%
Appetite for risk	12%	12%	52%	20%	4%	24%	24%	0%

## ANGEL INVESTOR SURVEY INFORMATION

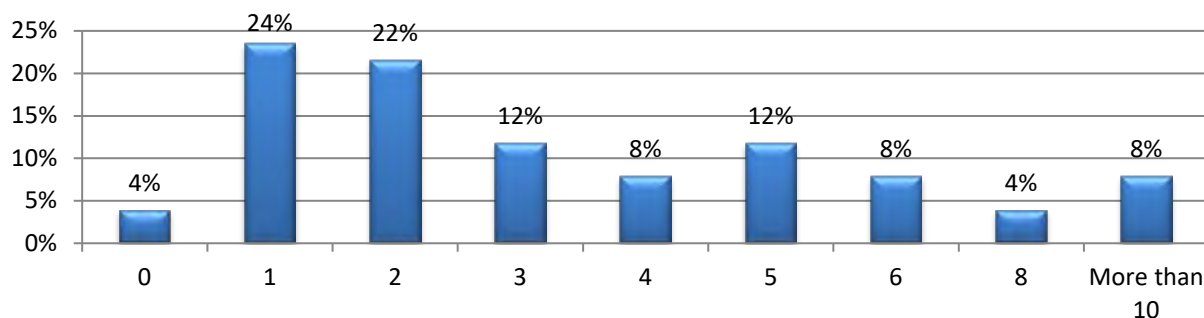
Of the 56 participants who responded to the angel investor survey, the majority (80%) of respondents plan to make between one and five investments in the next twelve months. Other key findings include:

- Approximately 27% of respondents base valuations on gut feel when valuing privately-held businesses, another 21% base valuations on capitalization of earnings method.
- When using multiples to determine the value of a business, the most popular methods used by respondents were revenue multiple (37%), and EBITDA multiple (20%).
- The types of businesses respondents plan to invest in over next 12 months are very diverse with 32% targeting information technology and another 17% planning to invest in health care & biotech.
- Respondents indicated increased demand for angel capital, size of angel industry, expected returns on new investments and improved general business conditions.
- Respondents' exit strategies include selling to a private company (36%) and selling to a public company (32%).

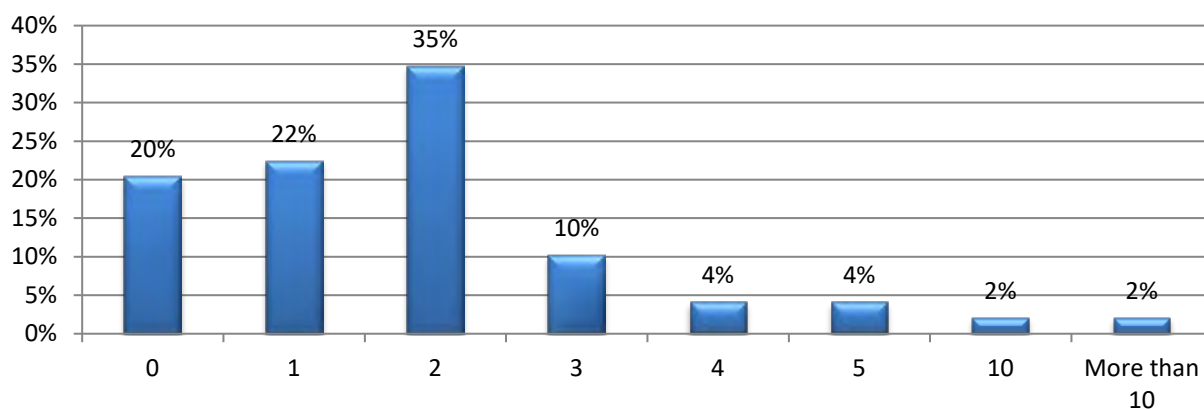
### Operational and Assessment Characteristics

Approximately 76% of respondents made between one and five investments over the last twelve months.

**Figure 73. Total Number of Investments Made in the Last 12 Months**



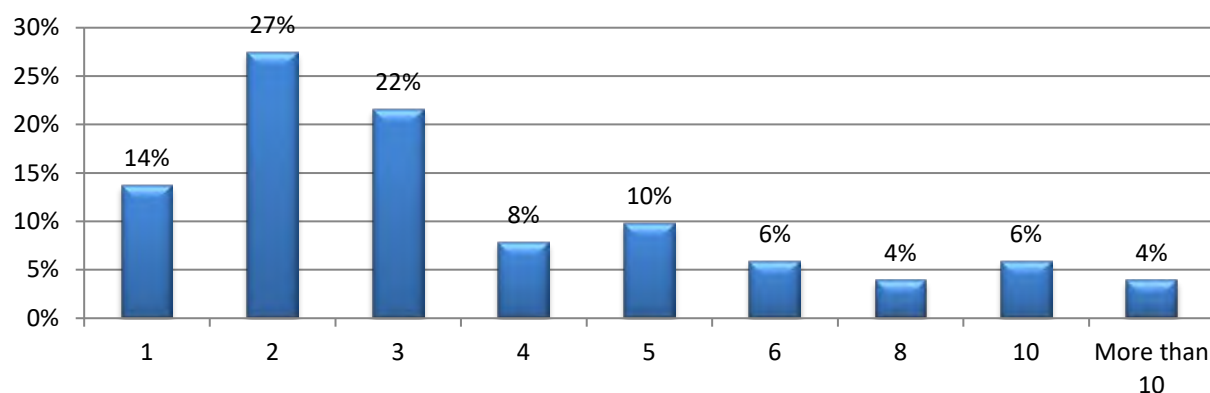
**Figure 74. Number of Follow-on Investments Made in the Last 12 Months**



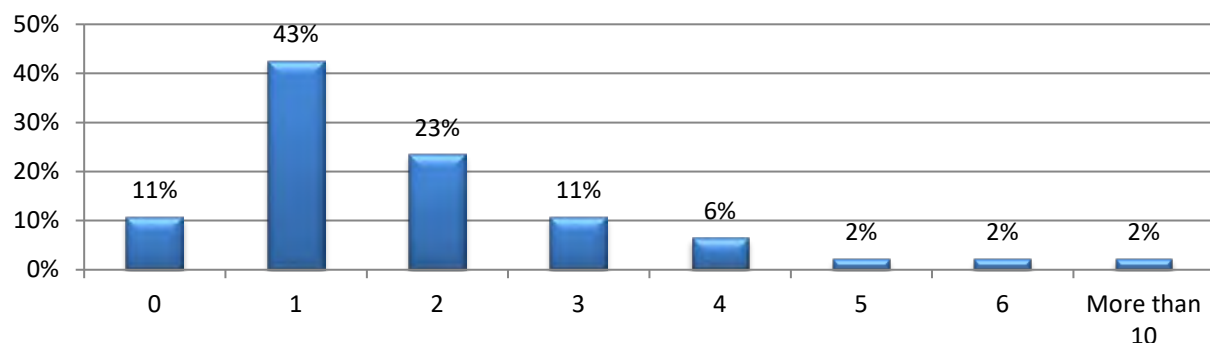
ANGEL cont.

The majority (80%) of respondents plan to make between one and five investments over the next 12 months.

**Figure 75. Number of Total Investments Planned over Next 12 Months**

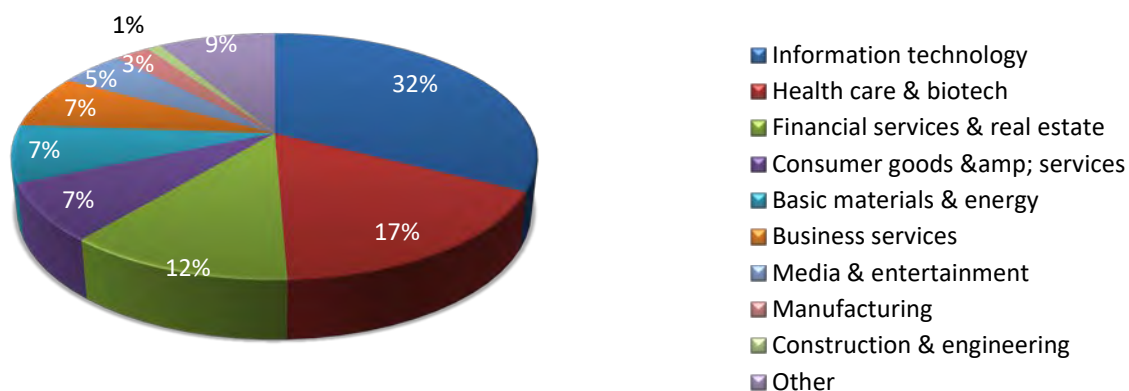


**Figure 76. Number of Follow-on Investments Planned over Next 12 Months**



The types of businesses respondents plan to invest in over next 12 months are very diverse with over 32% targeting Information technology and another 17% planning to invest in healthcare & biotech.

**Figure 77. Type of Business for Investments Planned over Next 12 Months**



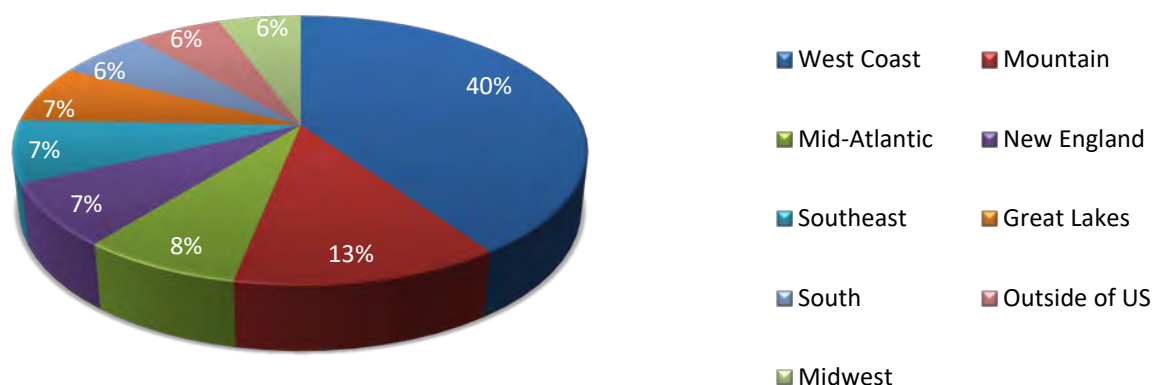
Respondents reported on a variety of stats pertaining to their investments.

**Table 46. General Information on Investments by Company Stages**

	Seed	Startup	Early Stage	Expansion	Later Stage
<b>Number of investments made in last twelve months</b>					
1st Quartile	128	49	33	16	14
<b>Average revenue multiple</b>					
1st Quartile	<1	1.0	1.1	2.0	2.3
<b>Median</b>	2.5	2.5	2.5	2.8	3.0
3rd Quartile	3.5	5.8	5.8	6.0	10.0
<b>Total EXPECTED Returns (gross cash on cash pretax IRR) on New Investments (%)</b>					
1st Quartile	28%	28%	23%	22%	15%
<b>Median</b>	<b>33%</b>	<b>33%</b>	<b>33%</b>	<b>23%</b>	<b>18%</b>
3rd Quartile	48%	47%	43%	42%	27%
<b>Expected Time to Exit (years)</b>					
1st Quartile	4.3	3.0	2.0	1.5	1.5
<b>Median</b>	<b>5.0</b>	<b>5.0</b>	<b>4.0</b>	<b>3.0</b>	<b>2.0</b>
3rd Quartile	7.0	6.0	5.0	3.8	3.0
<b>Average Company Value at Time of Investment (post-money value)</b>					
1st Quartile	\$1,500,000	\$2,500,000	\$5,000,000	\$17,500,000	\$15,000,000
<b>Median</b>	<b>\$2,500,000</b>	<b>\$3,500,000</b>	<b>\$7,500,000</b>	<b>\$25,000,000</b>	<b>\$15,000,000</b>
3rd Quartile	\$7,500,000	\$7,500,000	\$10,000,000	\$47,500,000	\$60,000,000

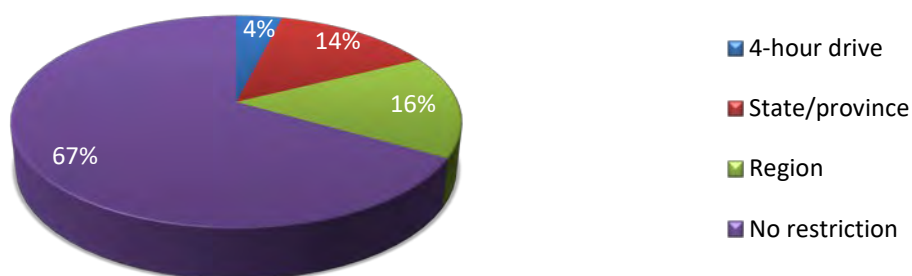
Respondents reported on where they plan to invest over the next 12 months. The results reflect investment throughout the U.S.

**Figure 78. Geographic Location of Planned Investment over Next 12 Months**



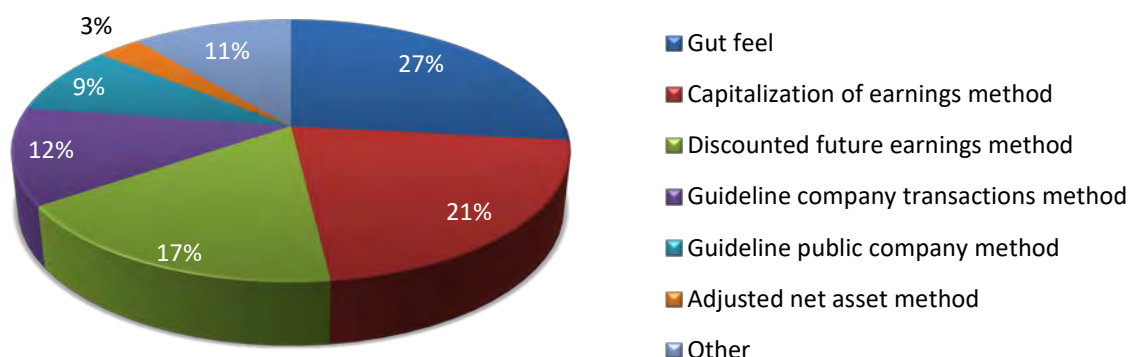
Respondents reported on their geographical limits for investments.

**Figure 79. Geographical Limit for Investment**



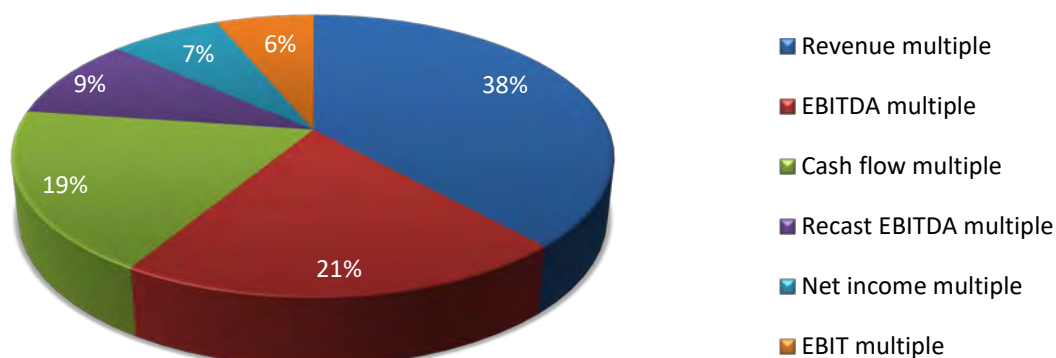
Approximately 27% of respondents base valuations on gut feel when valuing privately-held businesses, another 21% base valuations on capitalization of earnings method.

**Figure 80. Usage of Valuation Methods**



The weights of the various multiple methods used by respondents when valuing privately-held businesses included 38% for revenue multiple, 21% for EBITDA multiple method and 19% for cash flow multiple.

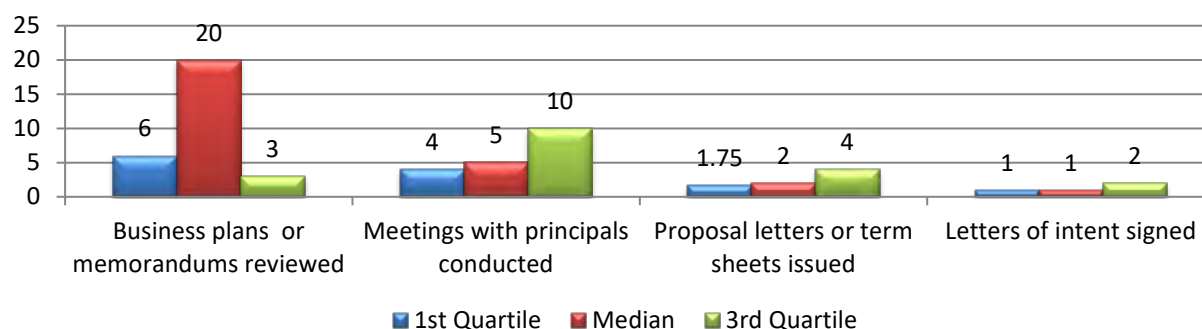
**Figure 80. Usage of Multiple Methods**





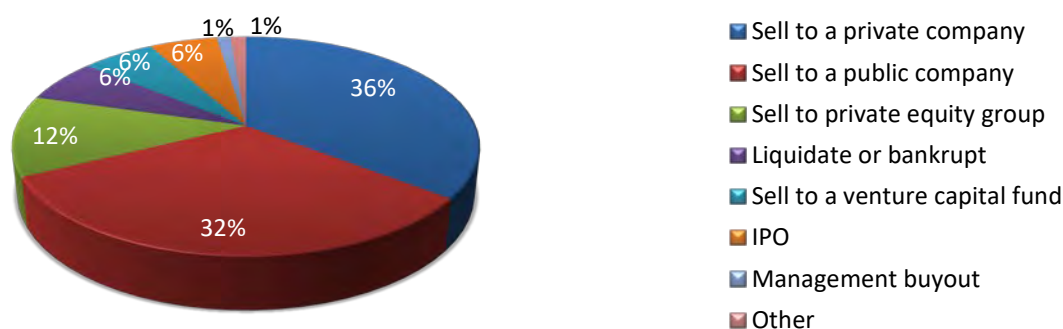
Respondents reported on items required to close one deal.

**Figure 81. Items Required to Close One Deal**



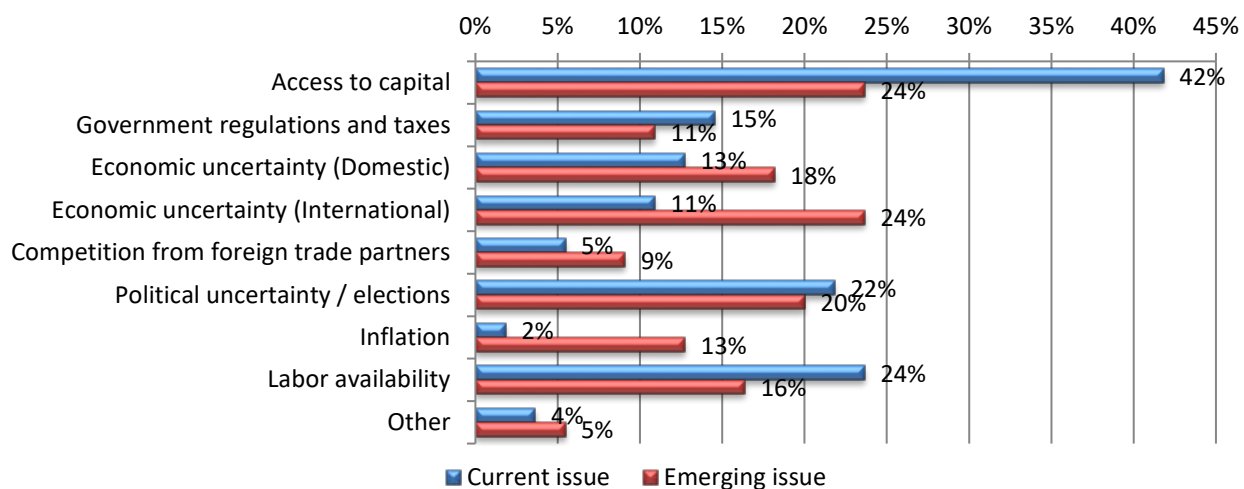
Respondents' exit strategies include selling to a private company (36%) and selling to a public company (32%).

**Figure 82. Exit Plans for Portfolio Companies**



Respondents believe access to capital is the most important current issue facing privately-held businesses.

**Figure 84. Issues Facing Privately-Held Businesses**



Respondents indicated increase in demand for angel capital, size of angel industry, expected returns on new investments and improved general business conditions.

**Table 47. General Business and Industry Assessment: Today versus 12 Months Ago**

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Demand for angel capital	0%	2%	31%	29%	39%	67%	2%	<b>65%</b>
Size of angel finance industry	2%	4%	22%	48%	24%	72%	6%	<b>66%</b>
Quality of companies seeking investment	2%	18%	56%	20%	4%	24%	20%	<b>4%</b>
Follow-on investments	2%	6%	32%	45%	15%	60%	9%	<b>51%</b>
Average investment size	0%	0%	52%	32%	16%	48%	0%	<b>48%</b>
Exit opportunities	4%	20%	44%	22%	10%	32%	24%	<b>8%</b>
Time to exit deals	0%	8%	53%	24%	14%	39%	8%	<b>31%</b>
Expected returns on new investments	0%	16%	44%	28%	12%	40%	16%	<b>24%</b>
Value of portfolio companies	2%	2%	36%	48%	12%	60%	4%	<b>56%</b>
General business conditions	2%	10%	34%	36%	18%	54%	12%	<b>42%</b>
Appetite for risk	6%	27%	41%	22%	4%	25%	33%	<b>-8%</b>

Respondents expect improving general business conditions and slightly decreasing appetite for risk.

**Table 48. General Business and Industry Assessment Expectations over the Next 12 Months**

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Demand for angel capital	2%	6%	28%	40%	24%	64%	8%	<b>56%</b>
Size of angel finance industry	0%	8%	28%	50%	14%	64%	8%	<b>56%</b>
Quality of companies seeking investment	0%	20%	44%	30%	6%	36%	20%	<b>16%</b>
Follow-on investments	0%	4%	37%	47%	12%	59%	4%	<b>55%</b>
Average Investment Size	4%	6%	40%	42%	8%	50%	10%	<b>40%</b>
Exit opportunities	2%	22%	42%	28%	6%	34%	24%	<b>10%</b>
Time to exit deals	4%	8%	38%	40%	10%	50%	12%	<b>38%</b>
Expected returns on new investments	2%	16%	50%	28%	4%	32%	18%	<b>14%</b>
Value of portfolio companies	0%	8%	38%	48%	6%	54%	8%	<b>46%</b>
General business conditions	4%	16%	40%	34%	6%	40%	20%	<b>20%</b>
Appetite for risk	6%	22%	50%	14%	8%	22%	28%	<b>-6%</b>

## BUSINESS APPRAISER SURVEY INFORMATION

According to the 248 business appraiser survey respondents, labor availability is the most important issue facing privately-held business today. Respondents indicated increases in number of engagements, fees for services, competition, and improved general business conditions over the last twelve months. They also expect worsening business conditions in the next twelve months.

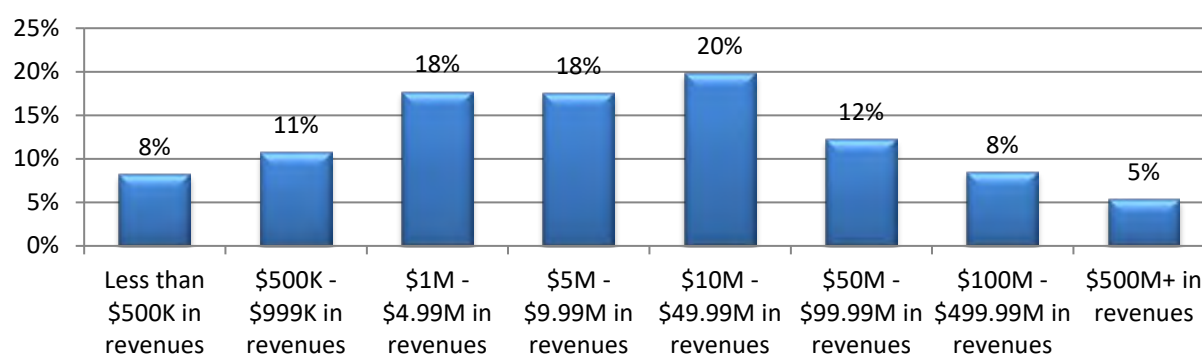
Other key findings include:

- When using valuation methods to determine the value of a business, the most popular methods used by respondents were discounted future earnings method (38%), capitalization of earnings method (25%) and guideline company transactions method (16%).
- Recast (adjusted) EBITDA multiple is the most popular when using multiple valuation method
- Respondents use an average risk-free rate of 2.7% and a market (equity) risk premium of 5.9%
- Average long-term terminal growth is estimated at 3.1%

### Operational and Assessment Characteristics

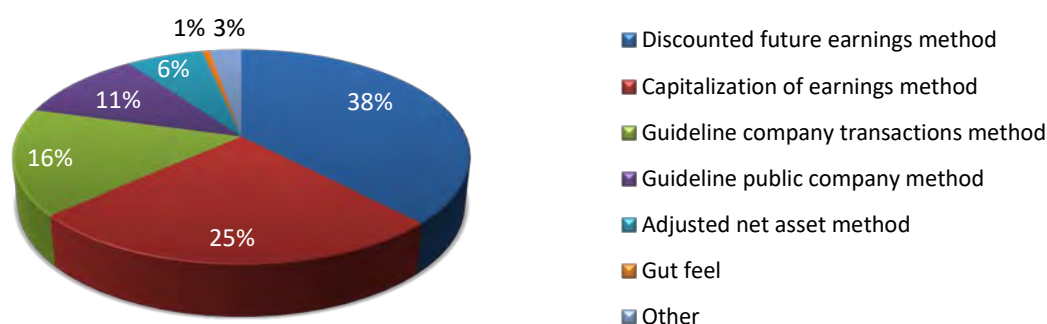
Most of the companies valued by respondents have annual revenues from \$1 million to \$50 million.

**Figure 83. Annual Revenues of Companies Valued**



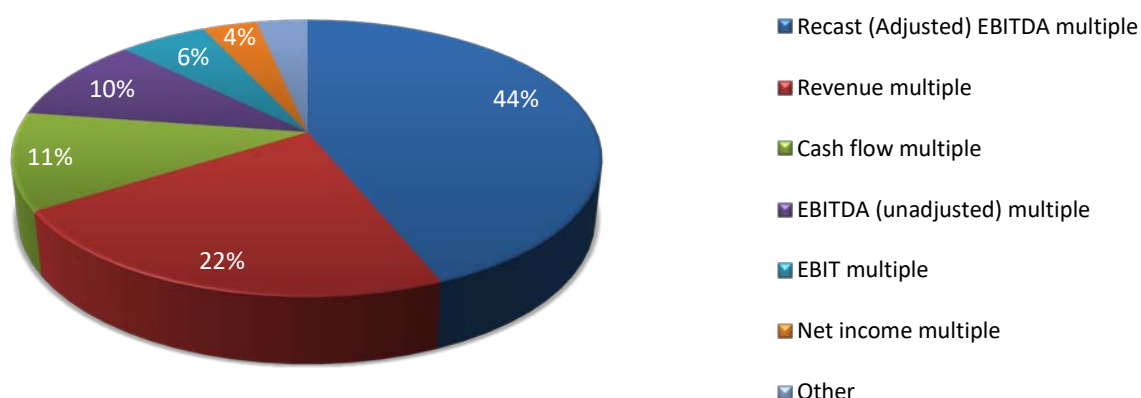
Appraisers, on average, apply a 38% weight to discounted future earnings method when valuing a privately-held business.

**Figure 84. Usage of Valuation Methods**



Respondents using multiples-based approaches indicate a preference for using recast (adjusted) EBITDA multiples (44%), followed by revenue multiples (22%).

**Figure 85. Usage of Multiple Methods**



Respondents indicated using an average risk-free rate of 2.7%, average market (equity) risk premium of 5.9% and average long-term growth rate of 3.1%.

**Figure 86. Average Risk-Free Rate, Market (equity) Risk Premium, Industry Risk Premiums and Long-Term Growth Rate**

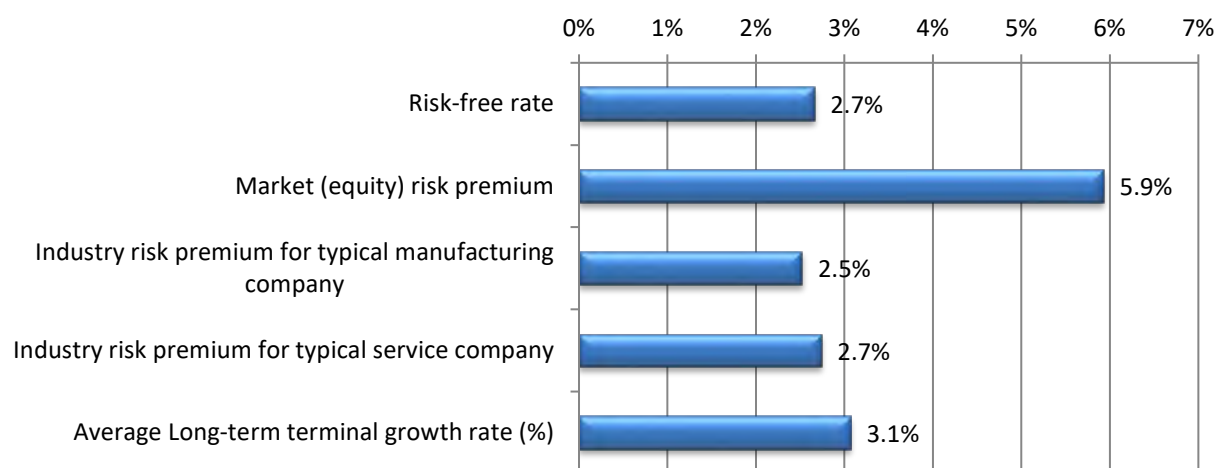
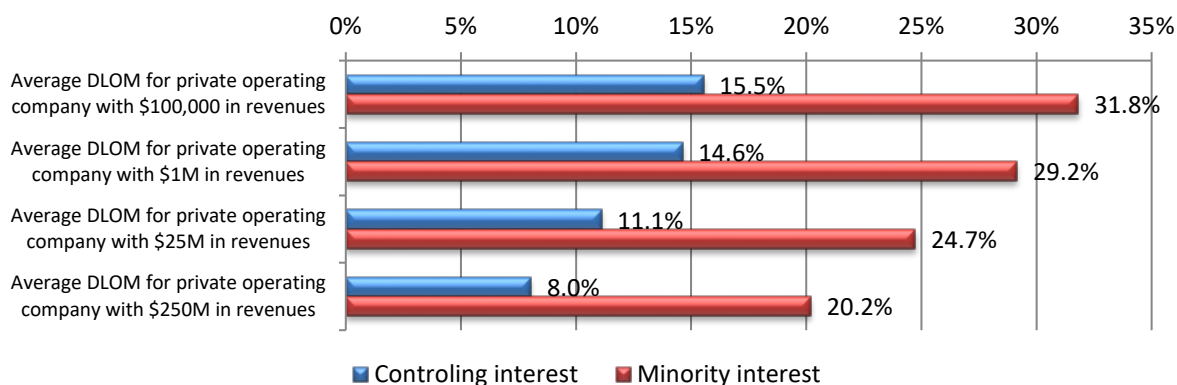


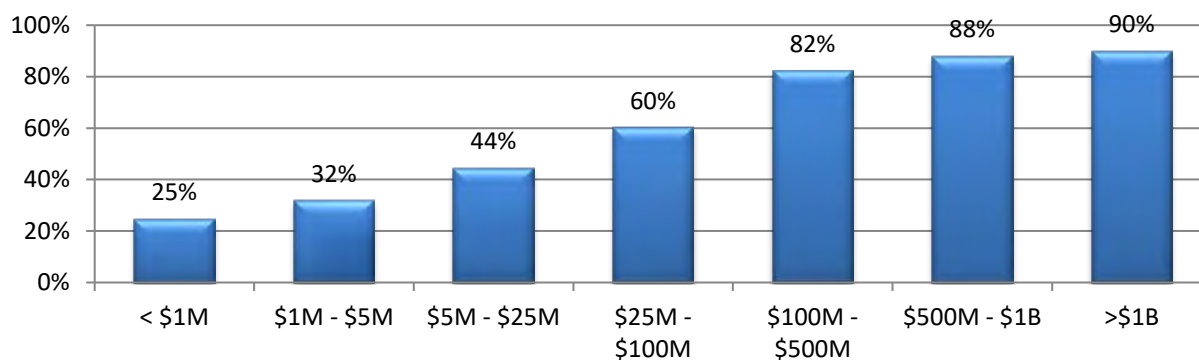
Figure below indicates considerable differences in DLOMs across sizes of companies and subject interests.

**Figure 87. Discount for Lack of Marketability (DLOM) by Revenue Sizes**

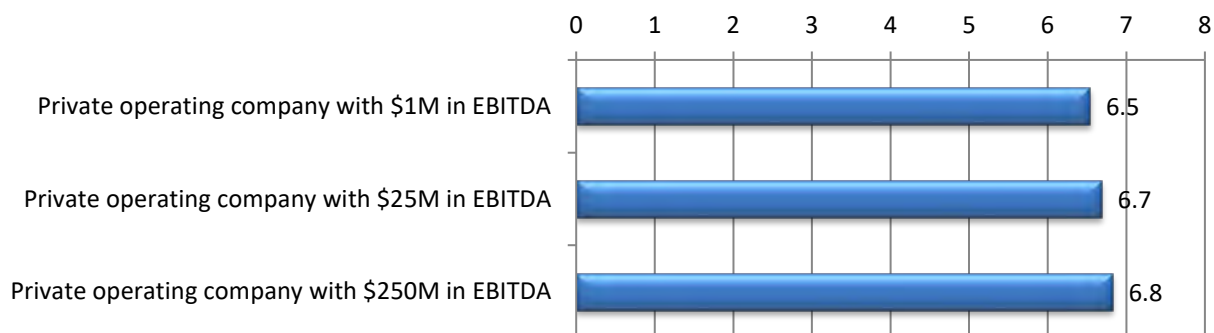


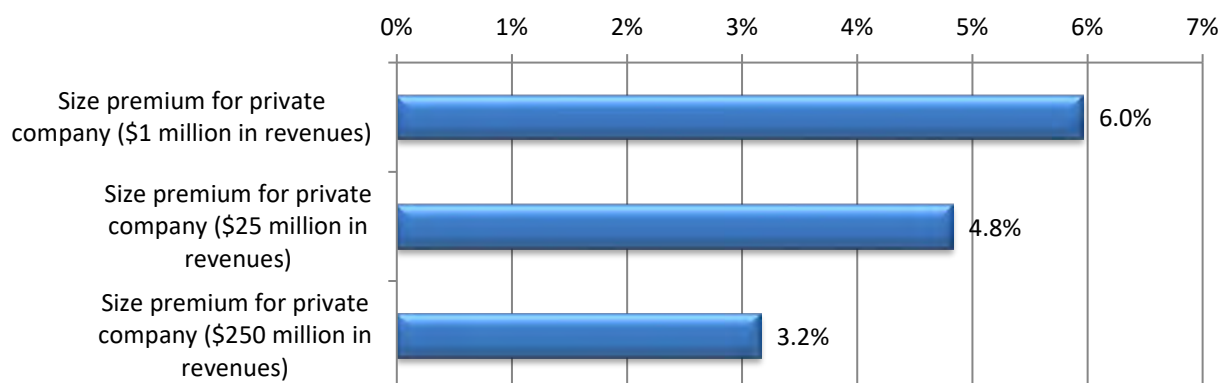
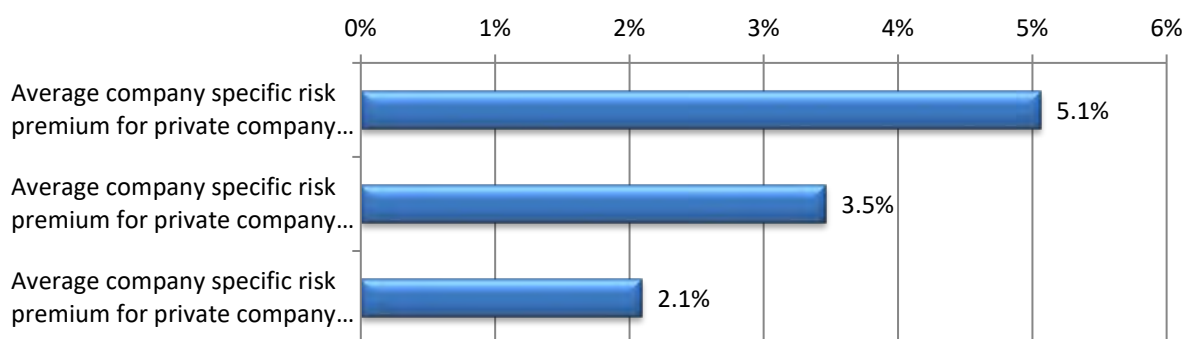
Only 25% of respondents are comfort applying public cost of capital to privately-held companies with annual revenues less than \$1 million.

**Figure 88. Overall Comfort Level with Applying Public Cost of Capital to Privately-held Companies of Various Sizes**

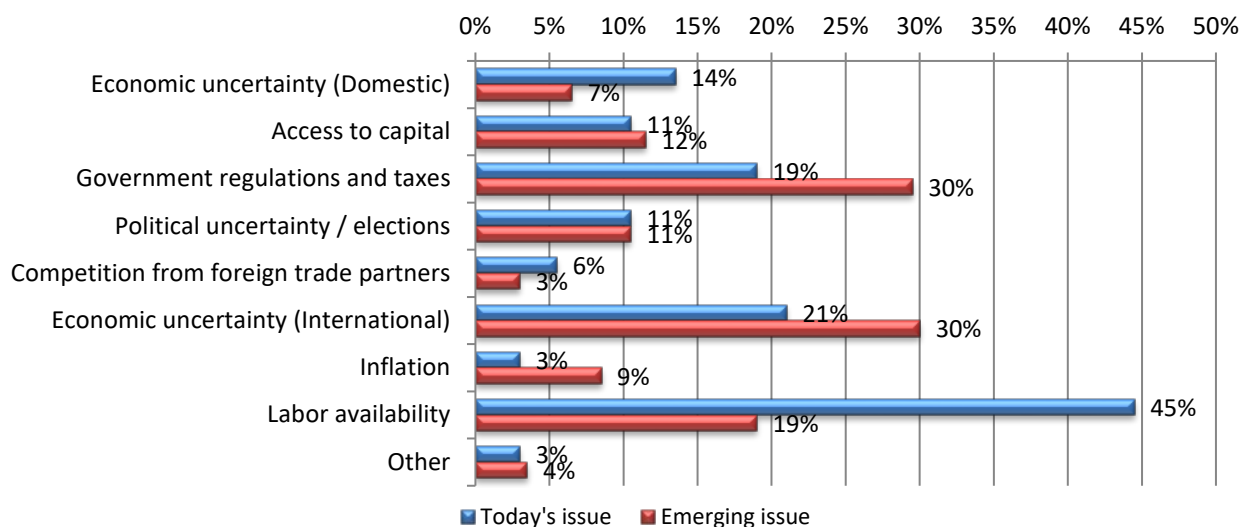


**Figure 89. Explicit Forecast Period for High-Growth Companies by Revenue Sizes (years)**



**Figure 90. Size Premiums for Private Companies by Revenue Size****Figure 91. Company Specific Risk Premiums by Revenue Size**

Respondents believe labor availability is the most important issue facing privately-held businesses today.

**Figure 92. Issues Facing Privately-Held Businesses**

Respondents indicated increases in number of engagements, fees for services, competition, and improved general business conditions over the last twelve months.

**Table 49. General Business and Industry Assessment: Today versus 12 Months Ago**

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Number of engagements	4%	14%	29%	37%	17%	53%	17%	<b>36%</b>
Time to complete a typical appraisal	1%	10%	65%	19%	5%	24%	11%	<b>13%</b>
Fees for services	0%	7%	47%	41%	5%	46%	7%	<b>40%</b>
Competition	0%	7%	64%	22%	8%	30%	7%	<b>23%</b>
Cost of capital	1%	26%	62%	11%	1%	12%	27%	<b>-15%</b>
Market (equity) risk premiums	0%	17%	70%	11%	2%	13%	17%	<b>-4%</b>
Discounts for lack of marketability (DLOM)	0%	7%	88%	4%	1%	5%	7%	<b>-1%</b>
Company specific risk premiums	0%	7%	79%	12%	2%	14%	7%	<b>6%</b>
General business conditions	0%	15%	48%	32%	5%	37%	15%	<b>22%</b>
Appetite for risk	1%	13%	55%	26%	4%	30%	15%	<b>16%</b>

Respondents expect worsening business conditions in the next twelve months.

**Table 50. General Business and Industry Assessment Expectations over the Next 12 Months**

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Number of engagements	1%	6%	44%	41%	7%	2%	7%	<b>-5%</b>
Time to complete a typical appraisal	1%	12%	74%	8%	3%	2%	13%	<b>-11%</b>
Fees for services	0%	3%	52%	40%	3%	3%	3%	<b>1%</b>
Competition	0%	3%	67%	23%	5%	3%	3%	<b>-1%</b>
Cost of capital	0%	2%	65%	31%	1%	1%	2%	<b>-1%</b>
Market (equity) risk premiums	0%	5%	68%	25%	1%	2%	5%	<b>-3%</b>
Discounts for lack of marketability (DLOM)	0%	2%	82%	8%	1%	8%	2%	<b>6%</b>
Company specific risk premiums	0%	3%	71%	21%	2%	4%	3%	<b>2%</b>
General business conditions	1%	29%	50%	17%	2%	1%	30%	<b>-29%</b>
Appetite for risk	1%	31%	51%	13%	2%	4%	31%	<b>-28%</b>

## BROKER SURVEY INFORMATION

Approximately 69% of the 300 participants for the broker survey said they expect to close between two and six deals in the next 12 months.

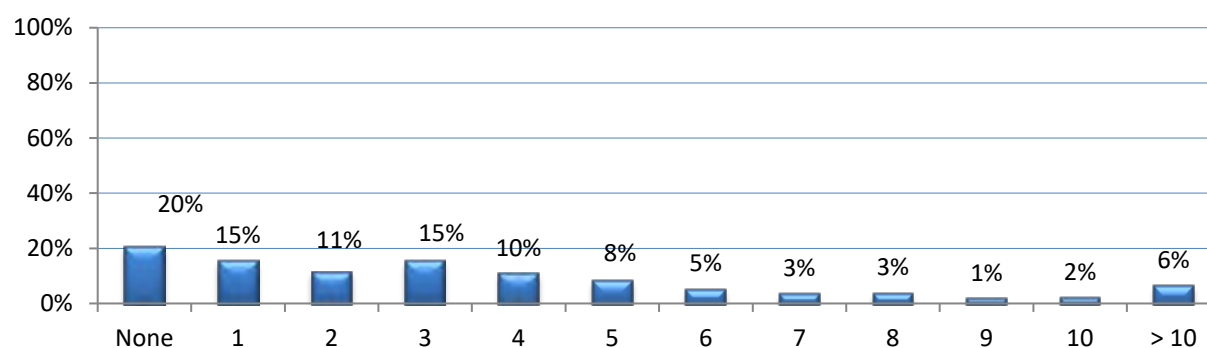
Other key findings include:

- Approximately 17% of business listings/ engagements terminated without closing in the last 12 months.
- Respondents indicated increases in deal flow, ratio of businesses sold to total listings, business exit opportunities, difficulty selling business and improved general business conditions.
- 42% of respondents closed more deals in 2019 than in 2018.

### Operational and Assessment Characteristics

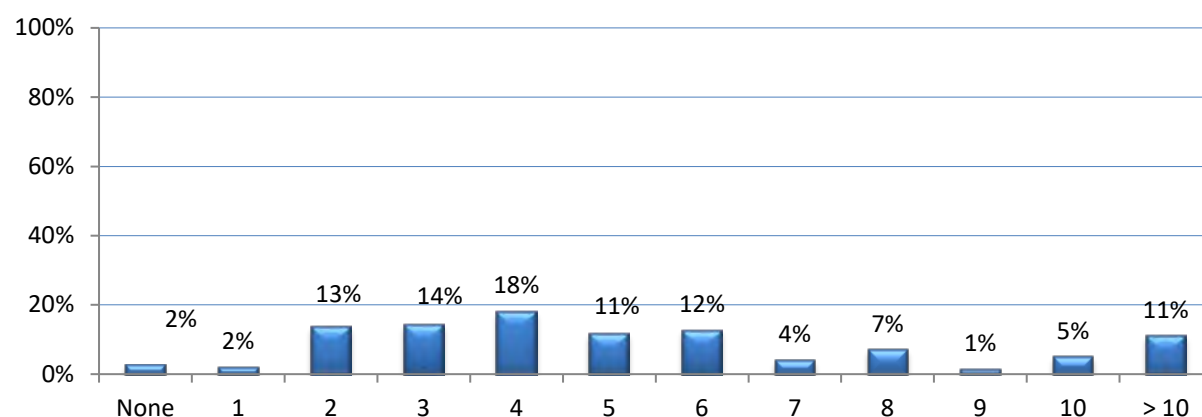
Approximately 20% of the respondents didn't close any deal in the last twelve months; 41% closed between one to three deals, while 38% closed four or more transactions.

**Figure 93. Private Business Sales Transactions Closed in the Last Twelve Months**



Approximately 69% of respondents are planning to close between two and six business sales transactions in the next 12 months.

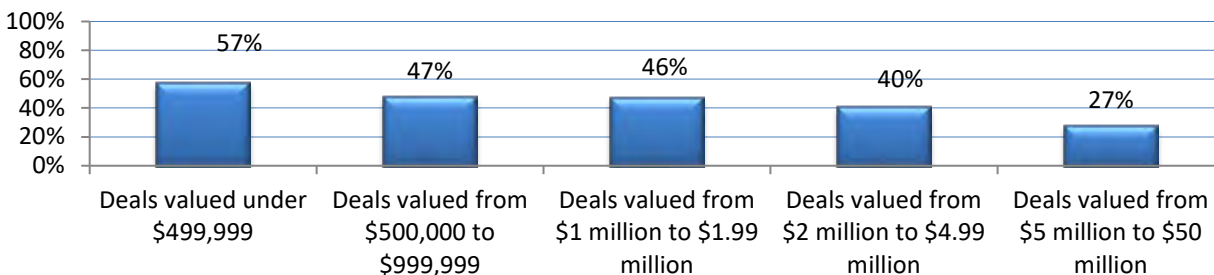
**Figure 94. Private Business Sales Transactions Expected to Close in the Next Twelve Months**





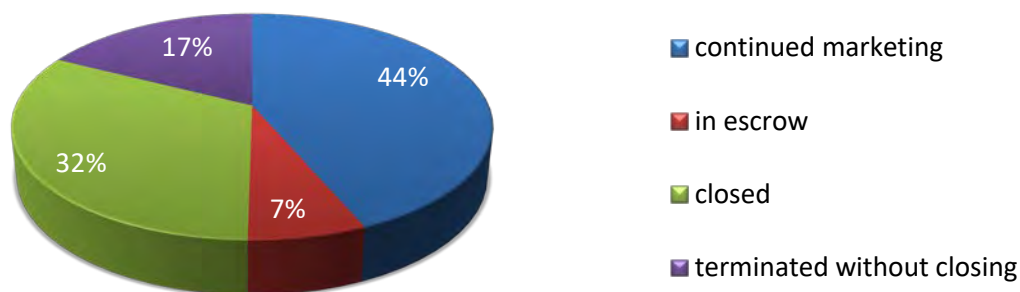
Respondents indicated typical sizes of transactions they are currently working on.

**Figure 95. Typical Size of Business Transactions**



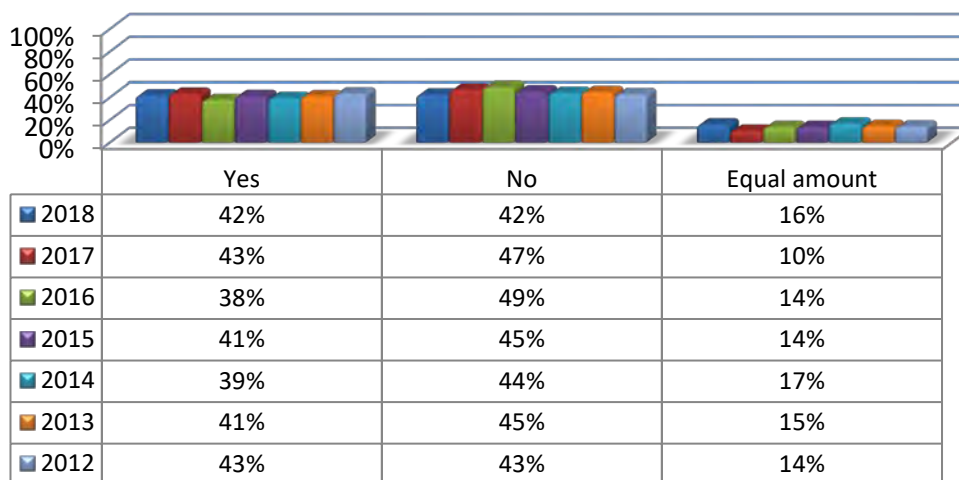
Respondents indicate out of all business transactions they worked on in the last 12 months 32% were closed, 44% are continued marketing, 7% are in escrow and 17% were terminated without closing.

**Figure 96. Business Transactions in the Last 12 Months**



Nearly 42% of respondents closed more transactions in 2019 than in 2018, 16% of respondents closed equal amount.

**Figure 97. Did Respondents Close More Transactions in 2018 than in Previous Years**



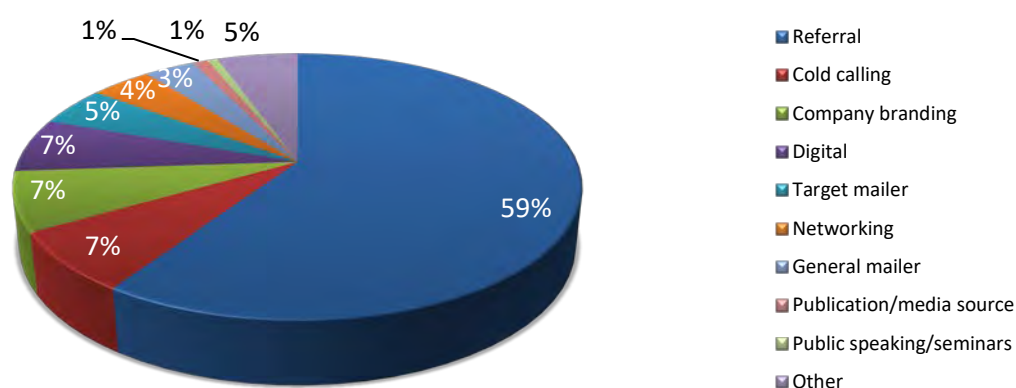
Respondents indicate difficulty to arrange senior debt for transactions with annual revenues under \$100 thousands.

**Table 51. How Difficult to Arrange Senior Debt for Transactions over the Past 12 Months**

Revenue size	Extremely difficult	Difficult	Somewhat difficult	Neutral	Somewhat easy	Easy	Extremely easy	Score (-3 to 3)
\$100K	30%	18%	9%	17%	10%	10%	8%	-0.8
\$500K	5%	14%	18%	21%	23%	14%	7%	0.1
\$1M	2%	5%	10%	24%	25%	27%	7%	0.7
\$5M	1%	1%	14%	21%	28%	27%	8%	0.9
\$10M	5%	1%	10%	25%	22%	25%	12%	0.8
\$15M	8%	5%	13%	33%	13%	18%	13%	0.4
\$25M+	6%	6%	12%	36%	9%	12%	18%	0.5

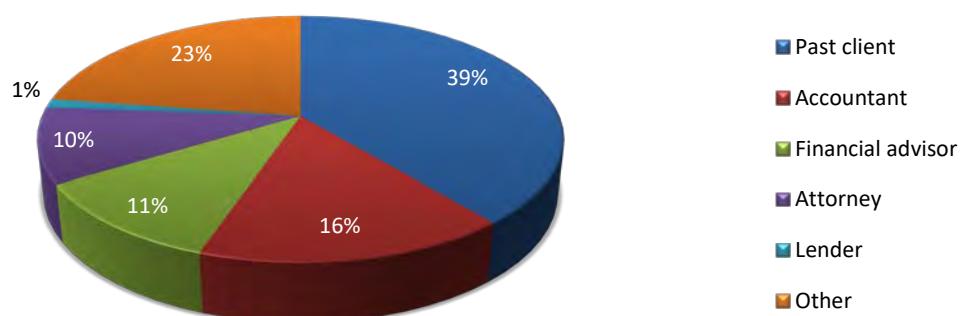
Approximately 59% of respondents indicate best clients arrived by referrals.

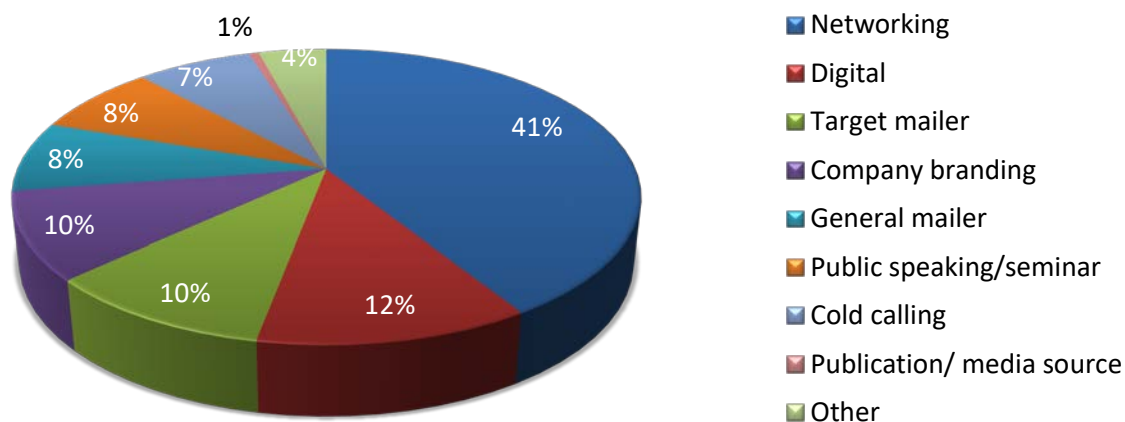
**Figure 98. Best Client Arrived By:**



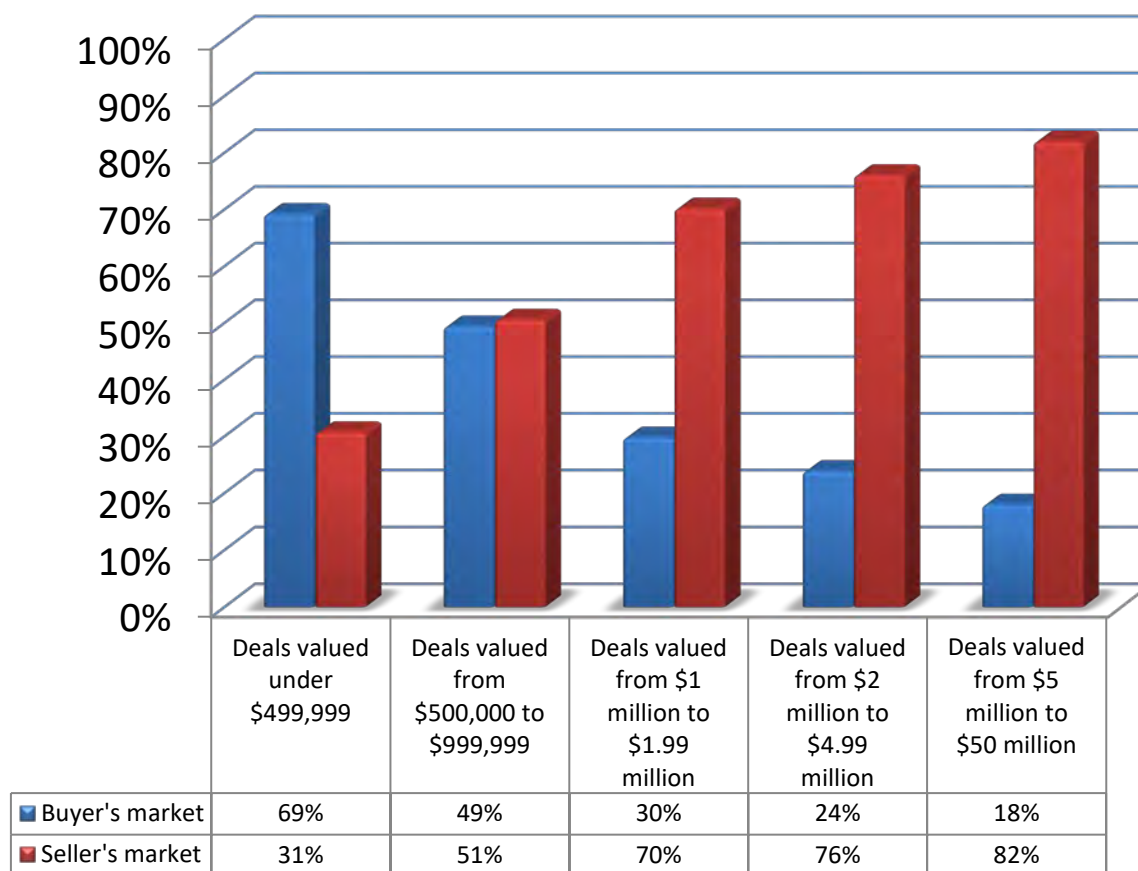
Nearly 39% of referrals were past clients.

**Figure 99. Types of Referrals**



**Figure 100. Best Marketing Tactic Use in Finding Client Besides Referral**

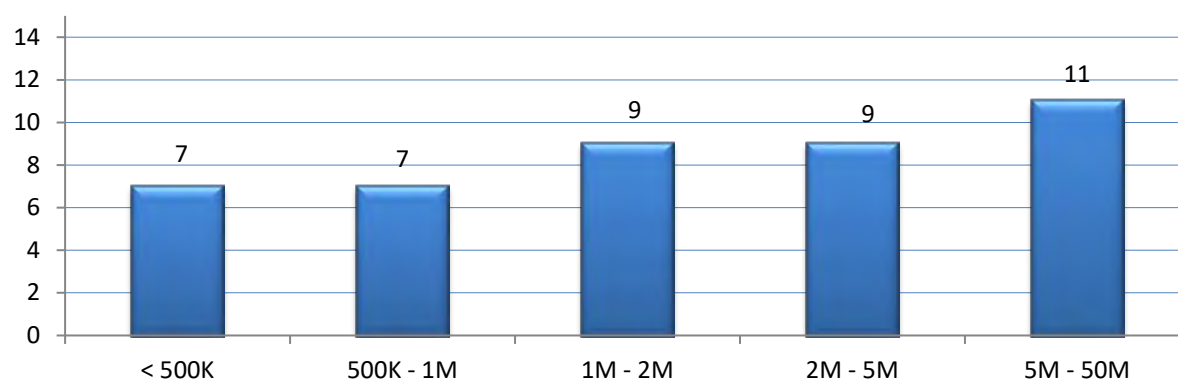
Approximately 69% of respondents indicated it was 'buyer's market' for deals valued under \$500 thousands, whereas only 18% of respondents indicated it was 'buyer's market' for deals valued between \$5 million and \$50 million.

**Figure 101. Was It Buyer's or Seller's Market in the Last 3 Months**

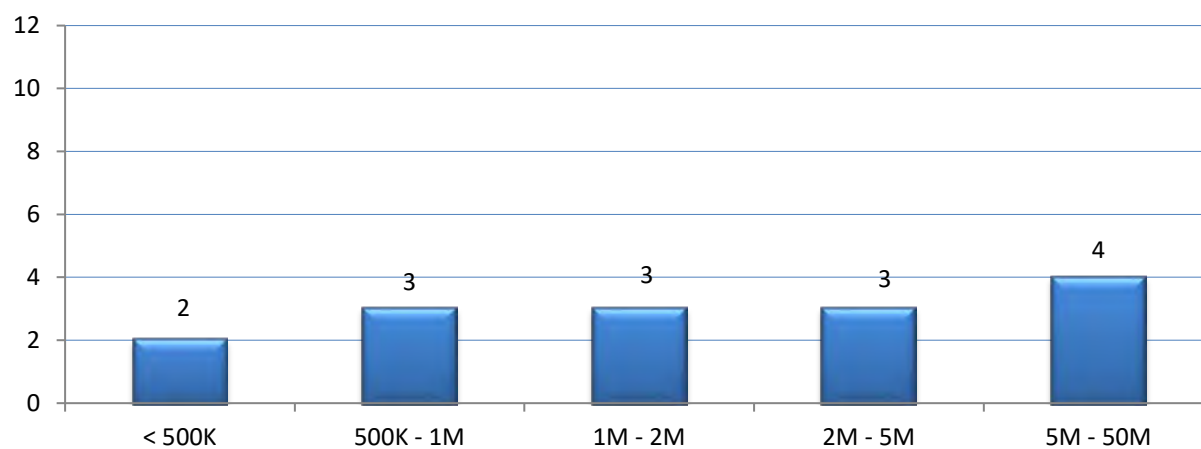
**Table 52. Number of New Clients in the Last 3 Months**

Deal size	Greatly decreased	Decreased	Stayed the same	Increased	Greatly increased	Score (1 to 5)
Deals valued under \$499,999	2%	15%	52%	30%	2%	3.1
Deals valued from \$500,000 to \$999,999	3%	9%	54%	31%	3%	3.2
Deals valued from \$1 million to \$1.99 million	6%	12%	52%	24%	5%	3.1
Deals valued from \$2 million to \$4.99 million	3%	9%	53%	28%	7%	3.3
Deals valued from \$5 million to \$50 million	7%	11%	51%	27%	4%	3.1

Median number of months from listing / engagement to close varies from 7 to 11 months.

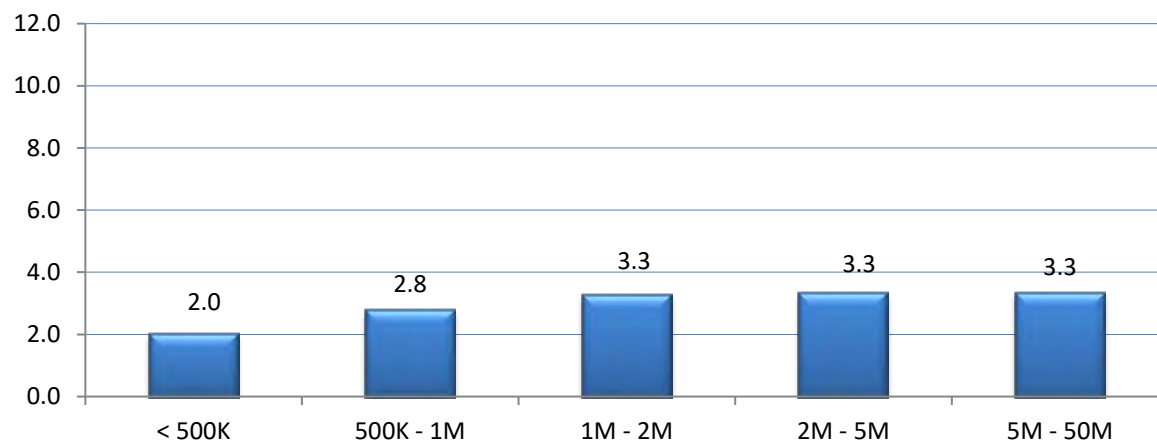
**Figure 102. Median Number of Months from Listing / Engagement to Close by Deal Size**

Median number of months from LOI / Offer to close varies from 2 to 4 months.

**Figure 103. Median Number of Months from LOI / Offer to Close by Deal Size**

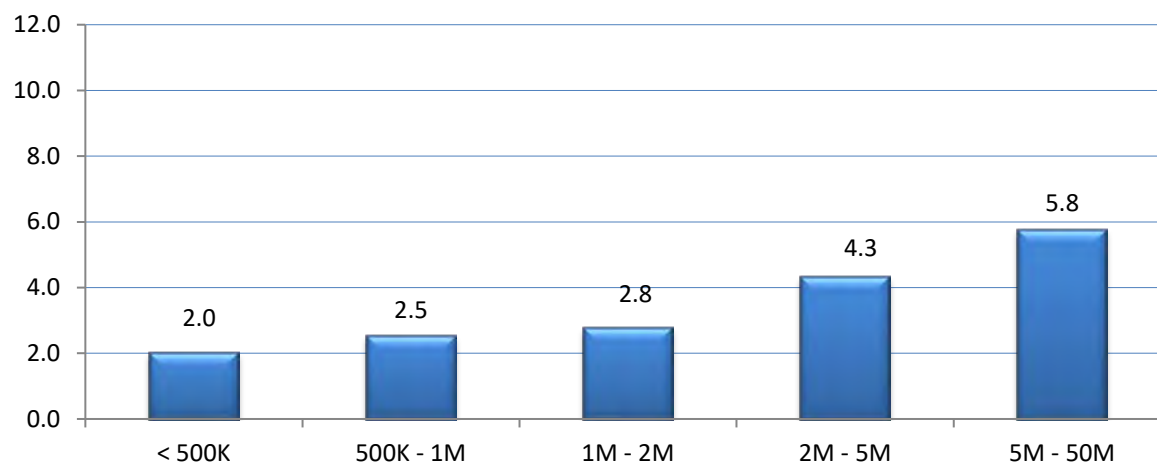
Median SDE multiple paid varies between 2 and 3.3.

**Figure 104. Median SDE Multiple Paid by Deal Size**



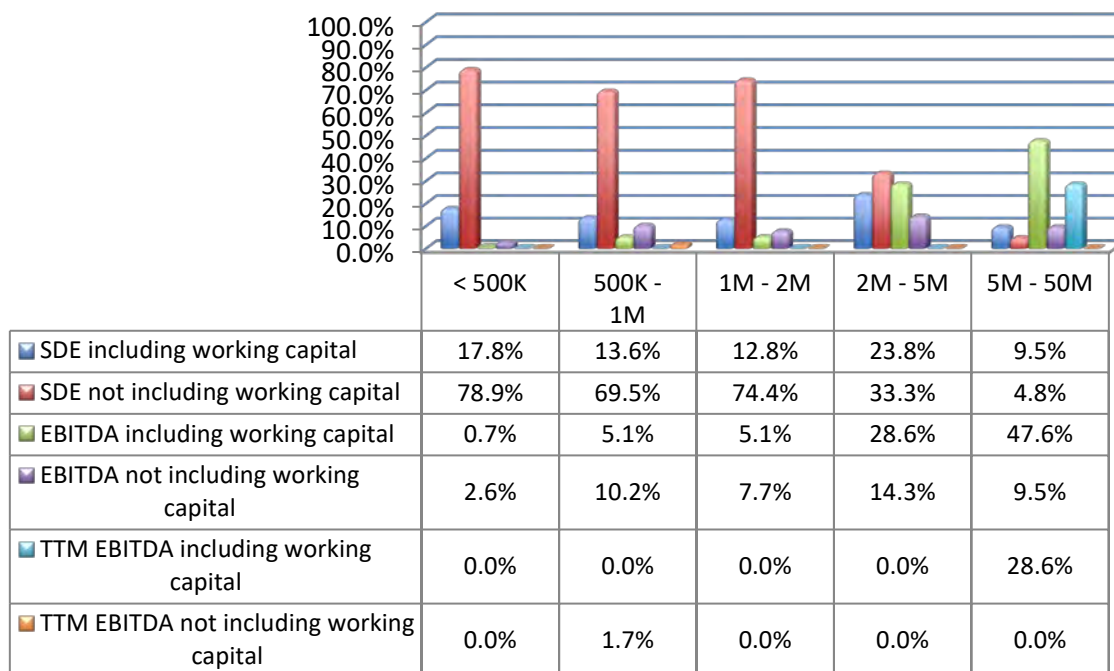
Median EBITDA multiple paid varies between 2.0 and 5.8.

**Figure 105. Median EBITDA Multiple Paid by Deal Size**

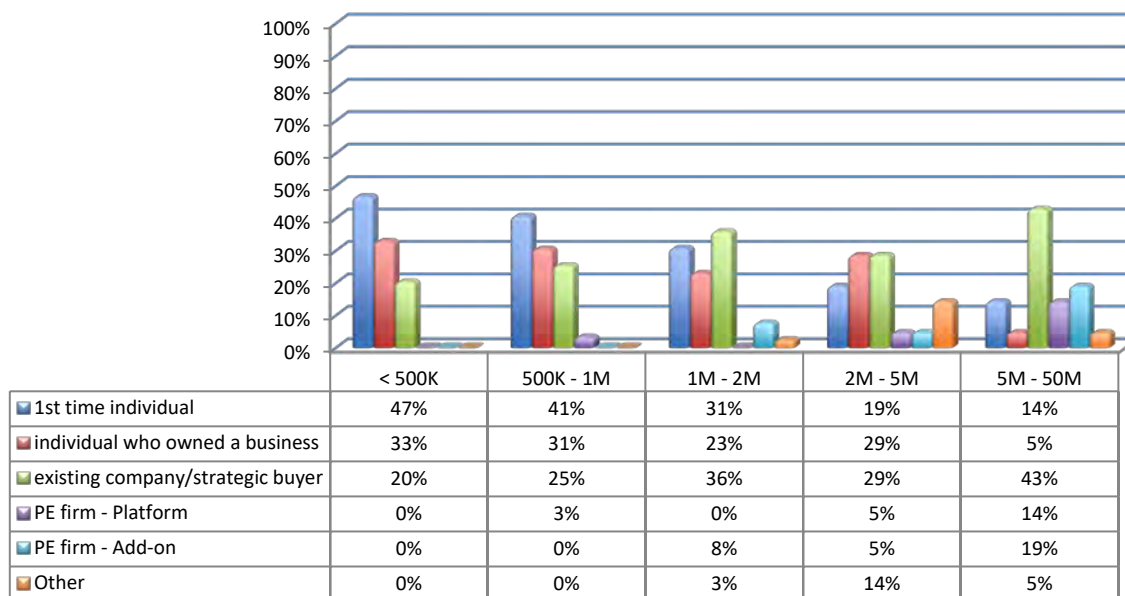


SDE not including working capital was the most popular multiple type used for deals valued under \$5 million, while EBITDA including working capital was the most popular type for deals valued between \$5 million and \$50 million.

**Figure 106. Multiple Types by Deal Size**

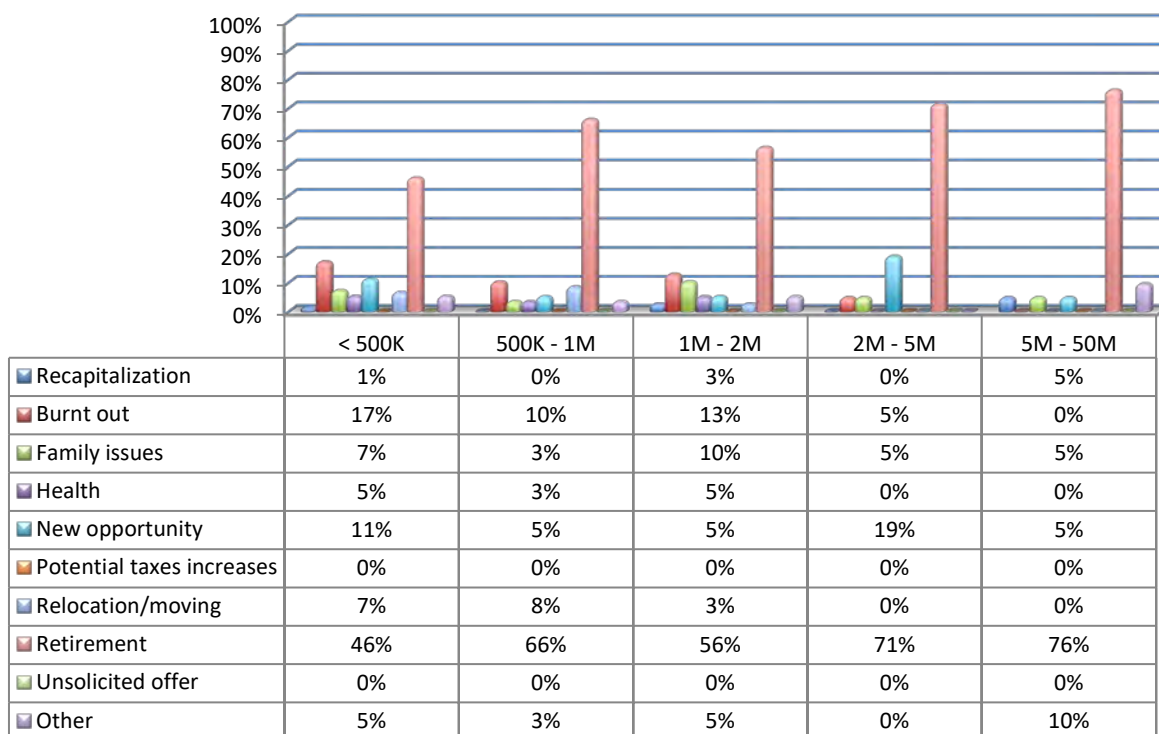


**Figure 107. Buyer Type by Deal Size**

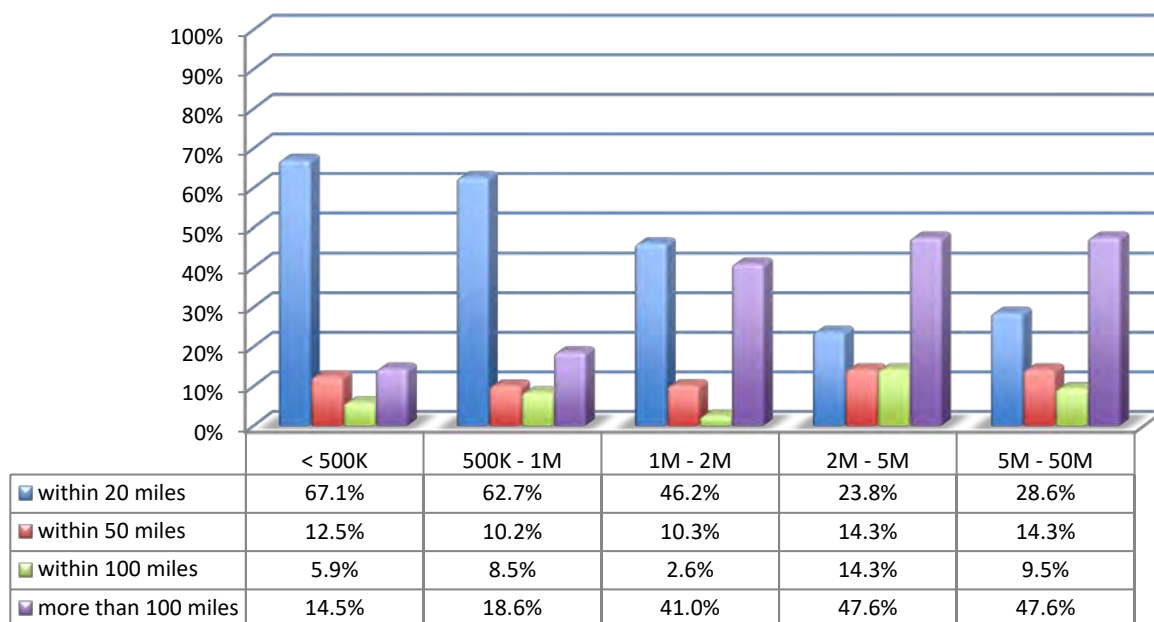


Reason number one for sellers to go to market was retirement.

**Figure 108. Reason for Seller to Go to Market by deal Size**

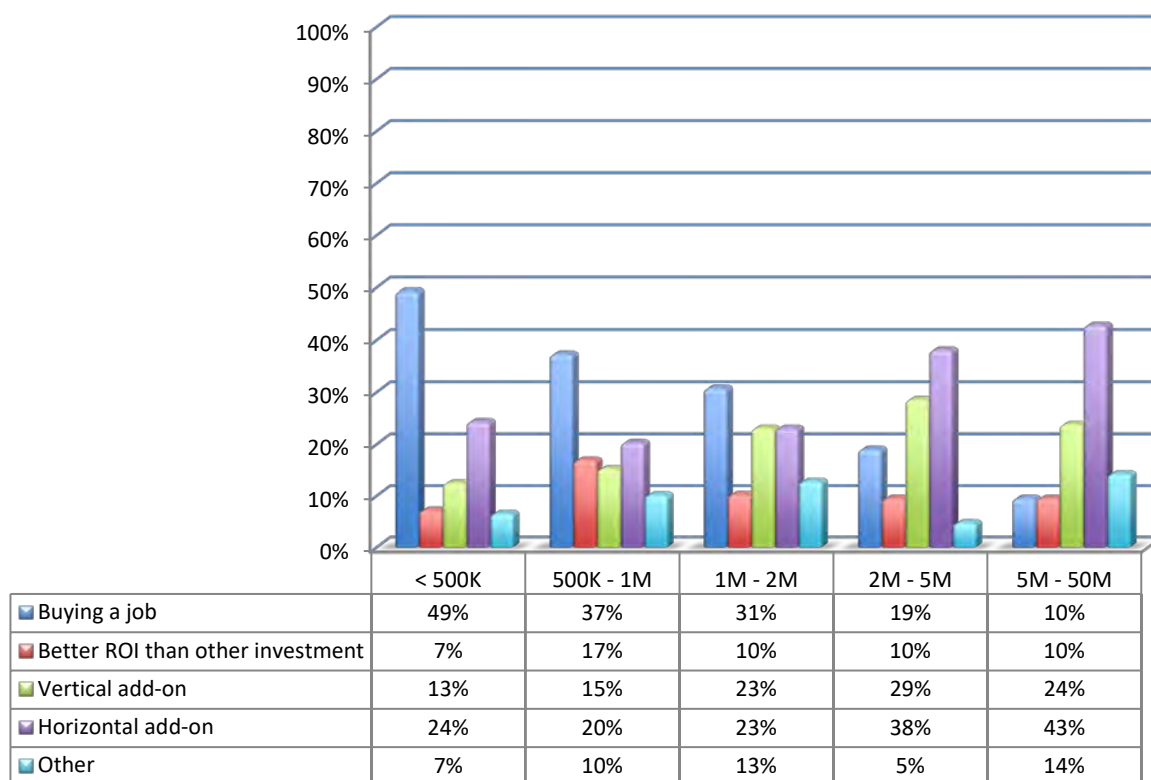


**Figure 109. Buyer Location by Deal Size**



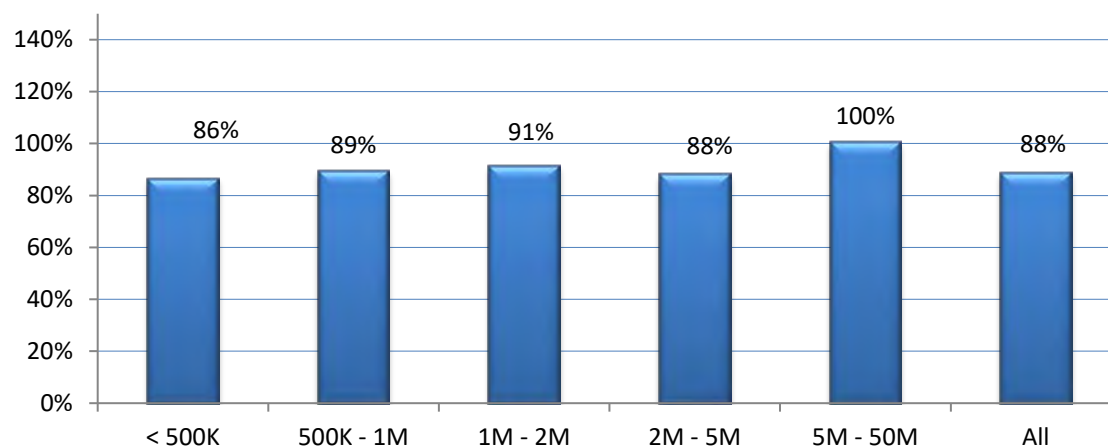
Buying a job was the number one motivation for buyer for deals valued under \$1 million.

**Figure 110. Number One Motivation for Buyer by Deal Size**

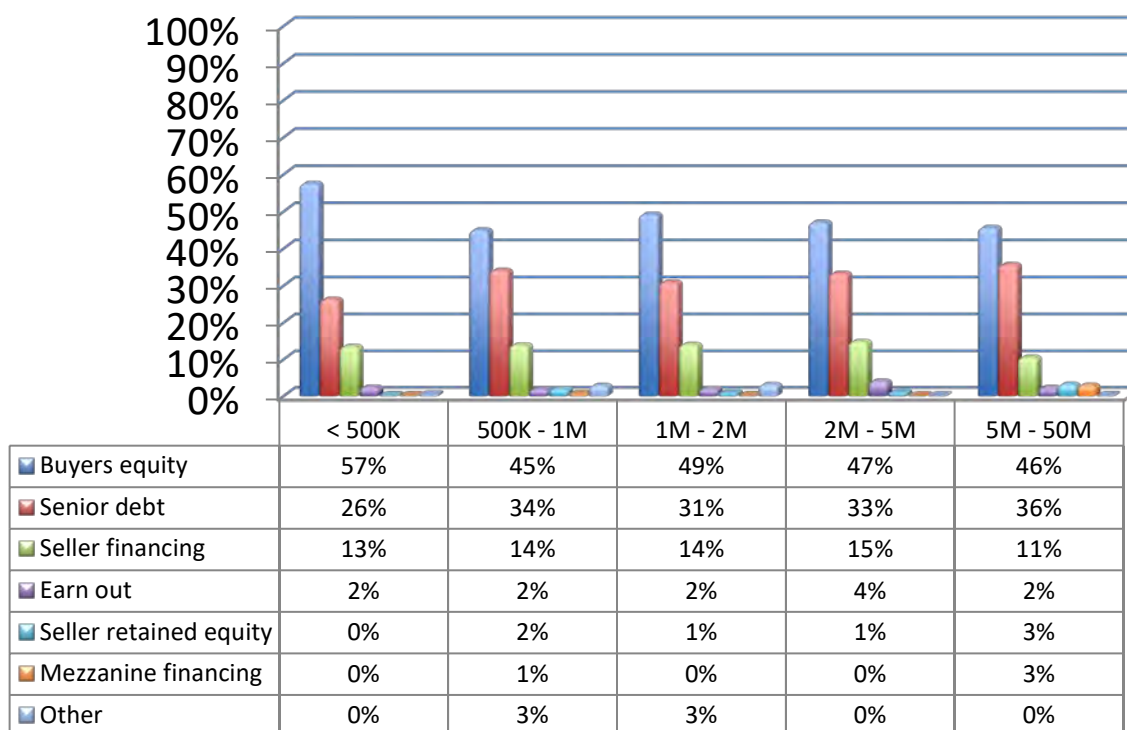
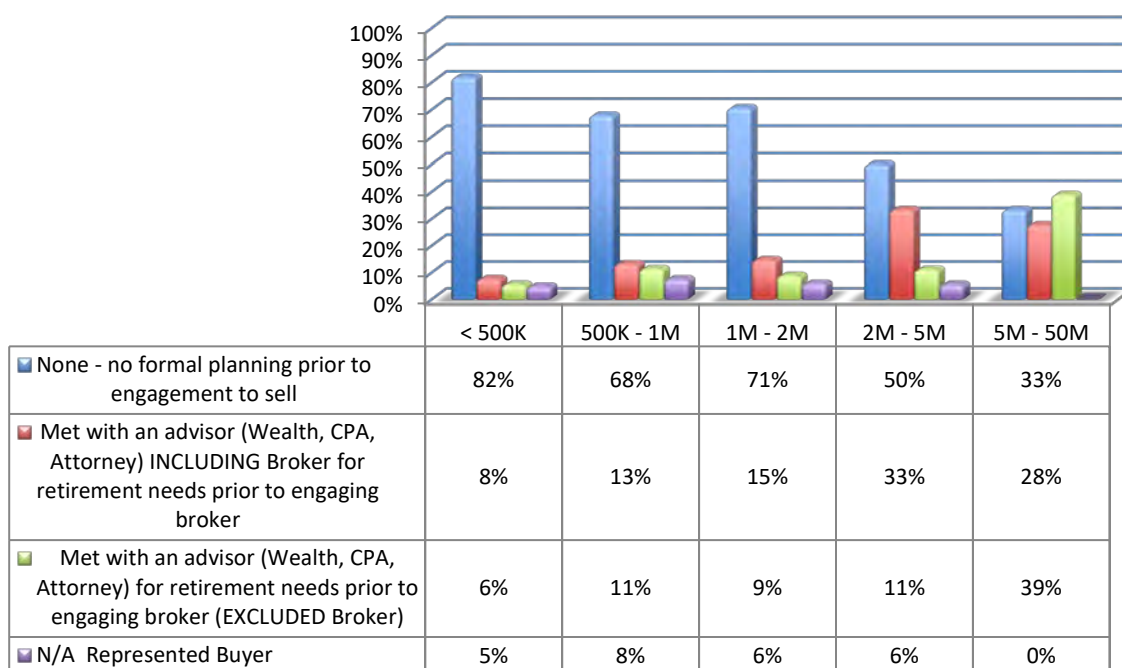


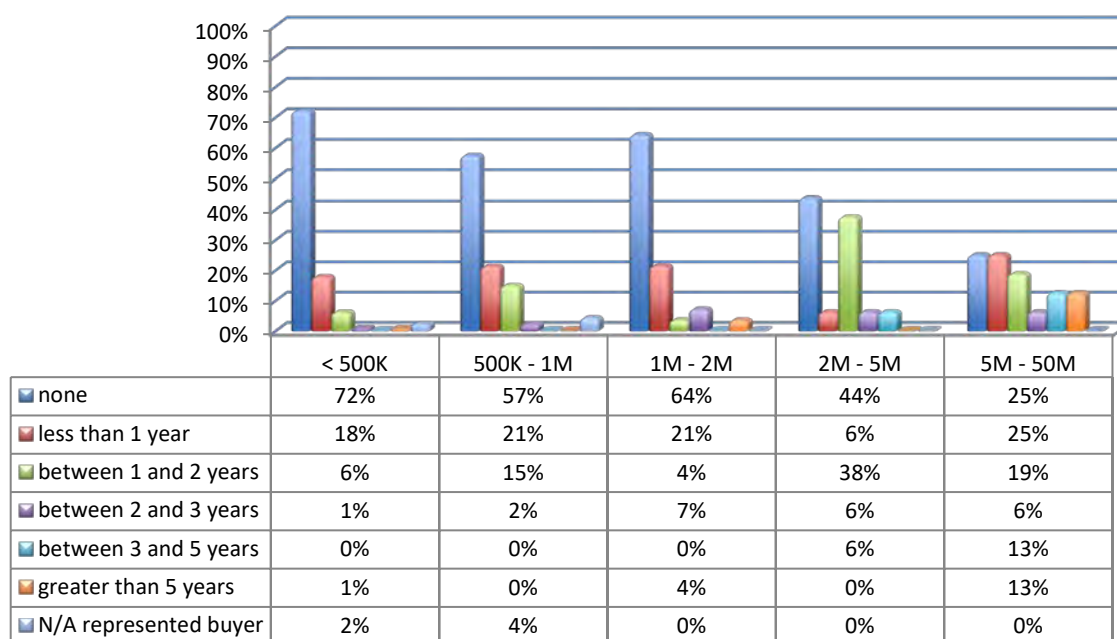
Average percentage of final/ selling price realized to asking/ benchmark price was 88%.

**Figure 111. Median Percentage of Final/ Selling Price Realized to Asking/ Benchmark Price by Deal Size**





**Figure 112. Financing Structure by Deal Size****Figure 113. Exit Planning**

**Figure 114. Amount of Exit Planning Prior to Marketing Business****Table 53. Expectations of Business Listings/ Engagements from New Clients in the Next 3 Months**

Deal size	Greatly decrease	Decrease	Stay the same	Increase	Greatly increase	Score (1 to 5)
Deals valued under \$499,999	1.5%	6.5%	32.0%	54.5%	5.5%	3.6
Deals valued from \$500,000 to \$999,999	0.0%	4.1%	31.4%	59.9%	4.7%	3.7
Deals valued from \$1 million to \$1.99 million	0.0%	5.8%	31.4%	59.3%	3.5%	3.6
Deals valued from \$2 million to \$4.99 million	0.0%	4.7%	38.9%	49.7%	6.7%	3.6
Deals over \$5 million	1.9%	6.5%	52.8%	35.2%	3.7%	3.3

**Table 54. Expectations for Business Valuation Multiples in the Next 3 Months**

Deal size	Greatly decrease	Decrease	Stay the same	Increase	Greatly increase	Score (1 to 5)
Deals valued under \$499,999	1.5%	10.8%	78.3%	8.4%	1.0%	3.0
Deals valued from \$500,000 to \$999,999	0.0%	10.8%	77.8%	10.2%	1.1%	3.0
Deals valued from \$1 million to \$1.99 million	0.6%	5.8%	80.9%	12.1%	0.6%	3.1
Deals valued from \$2 million to \$4.99 million	0.0%	6.5%	74.5%	17.6%	1.3%	3.1
Deals over \$5 million	0.0%	4.3%	75.7%	19.1%	0.9%	3.2

Compared to twelve months ago, respondents indicated increases in deal flow, ratio of businesses sold to total listings, business exit opportunities and improved general business conditions. During the next twelve months, respondents expect further increases in deal flow, margin pressure on companies, and worsening general business conditions.

**Table 55. General Business and Industry Assessment: Today versus 12 Months Ago**

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Deal flow	6%	14%	37%	32%	11%	43%	20%	<b>23%</b>
Ratio of businesses sold / total listings	5%	17%	46%	24%	8%	32%	22%	<b>10%</b>
Deal multiples	1%	9%	69%	20%	1%	21%	10%	<b>11%</b>
Business exit opportunities	2%	11%	58%	24%	4%	28%	13%	<b>15%</b>
Amount of time to sell business	0%	9%	54%	30%	7%	37%	9%	<b>28%</b>
Difficulty selling business	0%	10%	52%	33%	4%	37%	10%	<b>27%</b>
Business opportunities for growth	1%	7%	54%	34%	4%	38%	8%	<b>30%</b>
General business conditions	2%	8%	49%	34%	6%	40%	10%	<b>30%</b>
Margin pressure on companies	0%	7%	65%	24%	4%	28%	7%	<b>21%</b>

**Table 56. General Business and Industry Assessment: Expectations over the Next 12 Months**

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Deal flow	0%	8%	29%	48%	14%	63%	8%	<b>55%</b>
Ratio of businesses sold / total listings	0%	9%	39%	40%	11%	52%	9%	<b>42%</b>
Deal multiples	0%	11%	70%	15%	4%	19%	12%	<b>7%</b>
Business exit opportunities	0%	6%	54%	33%	6%	39%	7%	<b>32%</b>
Amount of time to sell business	1%	13%	63%	23%	1%	24%	13%	<b>10%</b>
Difficulty selling business	0%	15%	59%	25%	2%	26%	15%	<b>11%</b>
Business opportunities for growth	0%	8%	56%	33%	3%	36%	8%	<b>27%</b>
General business conditions	1%	15%	54%	26%	5%	31%	15%	<b>15%</b>
Margin pressure on companies	0%	4%	64%	29%	2%	31%	5%	<b>27%</b>

## FACTOR SURVEY INFORMATION

Approximately 56% of 14 respondents to the factor survey said the primary uses of factoring facilities are financing working capital fluctuations, followed by expansion (18%), and finance worsening operations conditions (16%). Factoring facilities are relatively short-term compared to other investments with respondents reporting approximately 75% of factoring facilities have less than or equal to 12 months term.

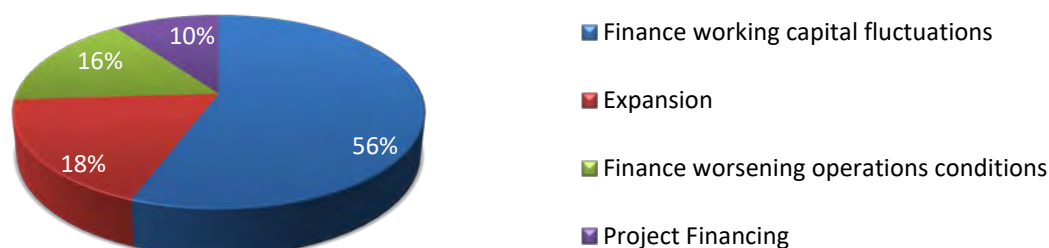
Other key findings include:

- Respondents reported approximately 25% of their company's gross invoices over the last twelve months were originated from manufacturing, another 14% of respondents originated gross invoices from business services.
- When asked about conditions compared to twelve months ago respondents said they saw slightly increased demand for business factoring lines in the last 12 months, slightly worsened general business conditions and decreased interest rates.
- Respondents believe access to capital and labor availability are the most important issues facing privately-held businesses today. 56% of respondents believe domestic economic uncertainty is the most important emerging issue.

### Operational and Assessment Characteristics

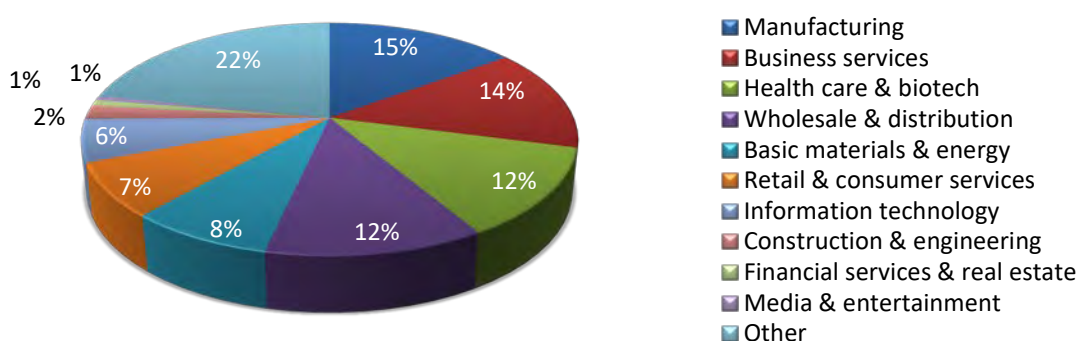
Approximately 56% of respondents indicated working capital fluctuations as the primary uses of factoring facilities.

**Figure 115. Primary Use of the Factoring Facilities Over the Last 12 Months**



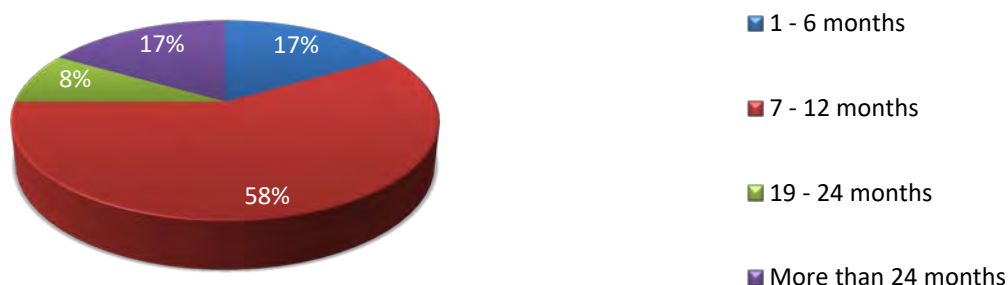
Respondents reported approximately 15% of their company's gross invoices over the last twelve months were originated from manufacturing, another 14% of respondents originated gross invoices from business services.

**Figure 116. Industries for Gross Invoices for the Last 12 Months**



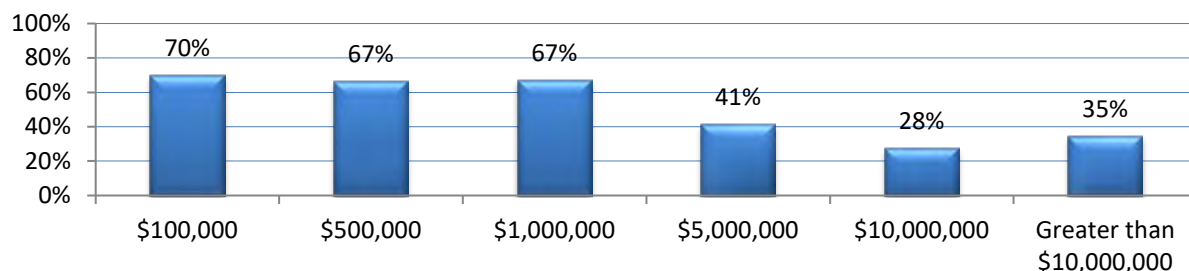
Factoring facilities are relatively short-term compared to other investments with respondents reporting approximately 75% of factoring facilities have less than or equal to 12 months term.

**Figure 117. Term of Current Typical Factoring Facility**



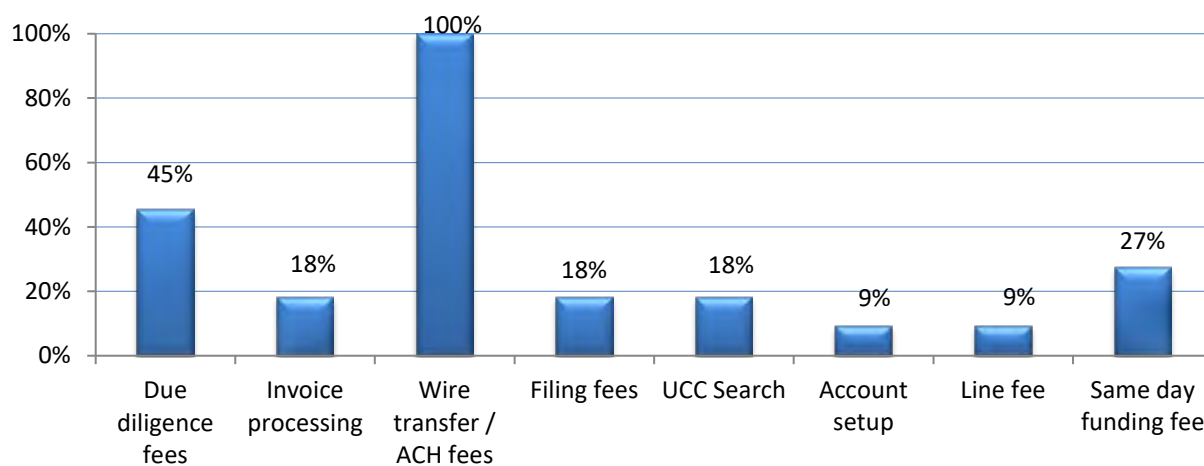
Respondents reported average advance rates charged for various-sized facilities range from 28% to 70% on a monthly basis.

**Figure 118. Current Average Advance Rates for Various-Sized Facilities**



Nearly 100% of respondents charge wire transfer / ACH fee, while 45% of respondents charge due diligence fee.

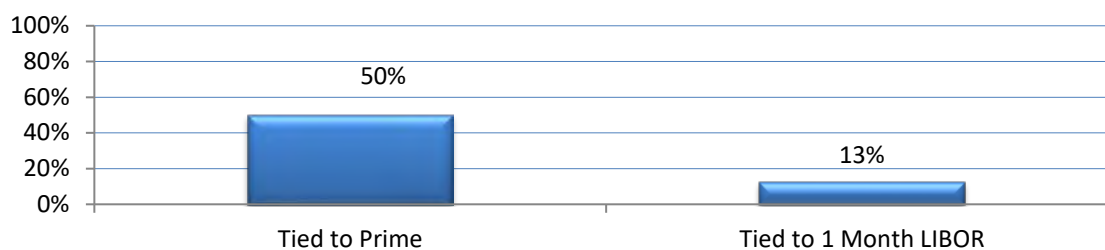
**Table 57. Fees Charged**



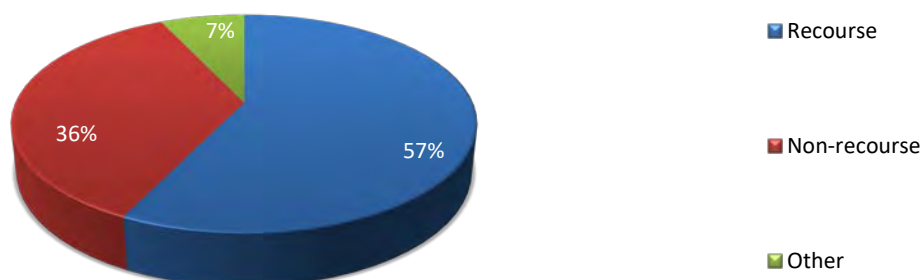
**Table 58. Median Percentage or Amount Charged**

	Percentage	or Amount
Due diligence fees		\$500
Invoice processing	0.2%	
Wire transfer / ACH fees		\$28
Filing fees		\$70
UCC Search		\$200
Account setup		\$325
Line fee	1.0%	
Same day funding fee		\$138

Approximately 50% of respondents are using prime rate to price items.

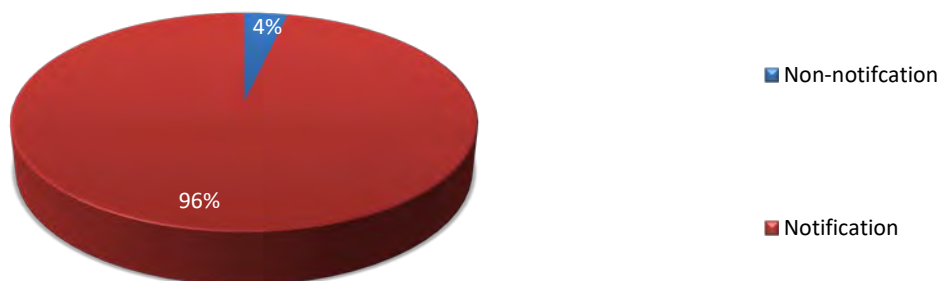
**Figure 119. Usage of Reference Rates****Table 59. Spread (%)**

	1st quartile	Median	3rd quartile
Tied to prime	0.0%	0.1%	0.3%

**Figure 120. Percentage of Factoring Business - Recourse vs Non-recourse**

Respondents reported 96% of their current purchases were on a notification basis.

**Figure 121. Percentage of Purchases on a Non-notification Basis**



Nearly 100% of respondents require background check and 92% require a personal guarantee.

**Table 60. Typical Current Requirements**

Requirement	%
Lien on A/R assets	67%
Background check	100%
Personal guarantee	92%
Financial statements	92%
Lien on all assets	45%
Performance guarantee	58%
Audit	27%

**Table 61. Discount fee (%) on Outstanding Invoices for Notification Basis**

	\$0 - \$25K	\$25K - \$50K	\$50K - \$100K	\$100K - \$250K	\$250K - \$1M	\$1M - \$5M	\$5M - \$10M	\$10M - \$25M
<b>First 30 days</b>								
1st quartile	2.0%	2.0%	1.8%	1.3%	1.1%	0.9%	0.6%	0.8%
Median	3.0%	2.8%	2.5%	1.9%	1.5%	1.0%	0.8%	0.9%
3rd quartile	3.0%	3.0%	2.8%	2.2%	1.8%	1.0%	0.8%	1.0%
<b>Next 15 days (31-45)</b>								
1st quartile	0.8%	0.8%	0.8%	0.7%	0.6%	0.5%	0.3%	0.3%
Median	1.5%	1.5%	1.3%	1.0%	0.8%	0.5%	0.4%	0.4%
3rd quartile	1.5%	1.5%	1.5%	1.4%	0.9%	0.5%	0.4%	0.4%
<b>Next 15 days (46-60)</b>								
1st quartile	0.8%	0.8%	0.8%	0.7%	0.8%	0.4%	0.3%	0.3%
Median	1.5%	1.5%	1.3%	1.0%	0.8%	0.5%	0.4%	0.4%
3rd quartile	1.5%	1.5%	1.5%	1.4%	1.0%	0.5%	0.4%	0.4%

On average respondents expect 0.5% of total write-off.

**Table 62. Expected Total Write-off – Percentage of Receivables Purchased on New Arrangements (%)**

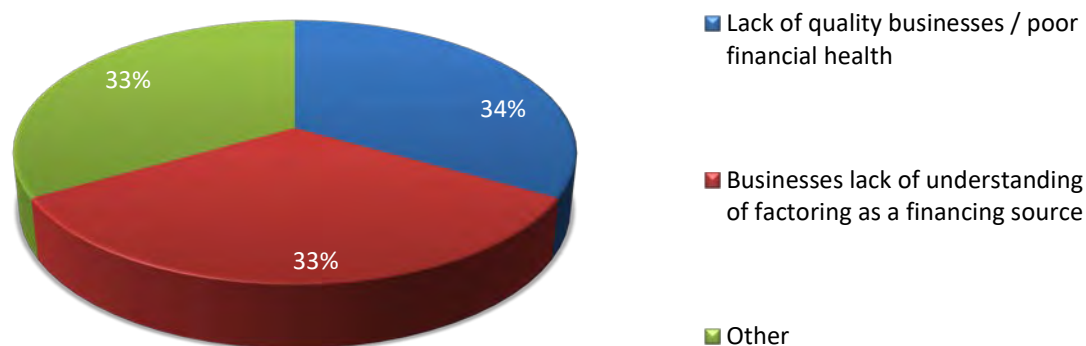
	1st quartile	Median	3rd quartile
Expected total write-off	0.5%	0.5%	1.4%

**Table 63. Average Number of Days Outstanding Receivables**

	1st quartile	Median	3rd quartile
During Last 12 Months	35	40	49
Expected for Next 12 Months	35	40	50

According to the 34% of respondents, the most significant concern to factoring business is lack of quality businesses/ poor financial health.

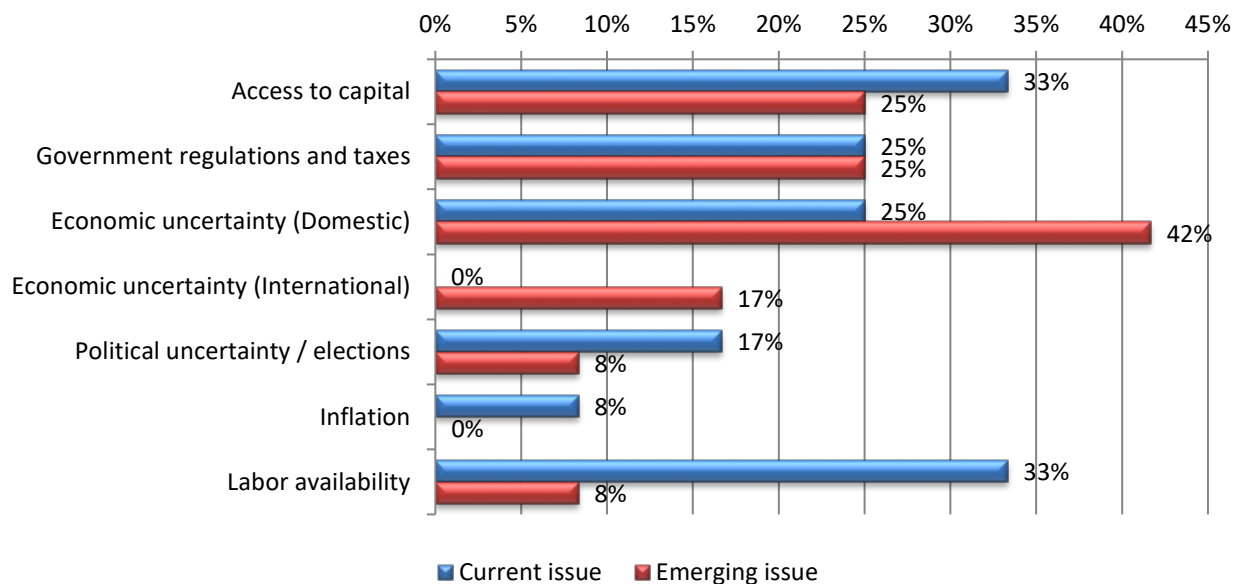
**Figure 122. Most Significant Concern to Factoring Business**





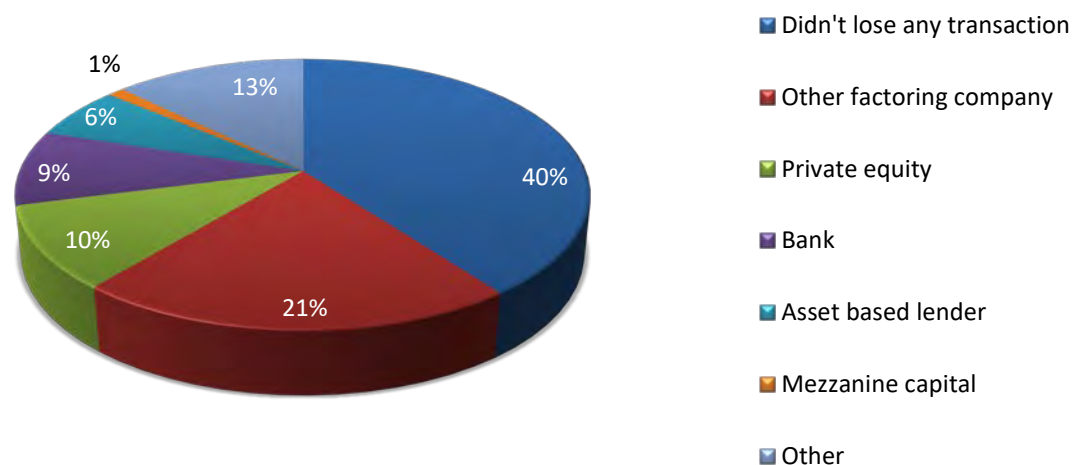
Respondents believe access to capital and labor availability are the most important issues facing privately-held businesses today. 42% of respondents believe domestic economic uncertainty is the most important emerging issue.

**Figure 123. Issues Facing Privately-Held Businesses**



40% of respondents didn't lose any transactions in the last twelve months.

**Figure 124. Types of Financing Sources Respondents Lost Transactions to in the Last 12 Months**



Respondents indicated increases in demand for business factoring lines, decreased credit quality of borrowers, interest rate spreads, fees and slightly decreased general business conditions.

**Table 64. General Business and Industry Assessment: Today versus 12 Months Ago**

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Demand for business factoring lines (applications)	0%	25%	42%	17%	17%	33%	25%	<b>8%</b>
Credit Quality of Borrowers Applying for Credit	0%	33%	67%	0%	0%	0%	33%	<b>-33%</b>
Time to Process Facility	0%	25%	50%	25%	0%	25%	25%	<b>0%</b>
Average Facility Size	8%	8%	42%	33%	8%	42%	17%	<b>25%</b>
Average Facility Term (Months)	0%	8%	75%	8%	8%	17%	8%	<b>8%</b>
Size of Interest Rate Spreads (pricing)	9%	27%	64%	0%	0%	0%	36%	<b>-36%</b>
Fees	0%	33%	58%	8%	0%	8%	33%	<b>-25%</b>
Standard advance rates on receivables	0%	0%	75%	8%	17%	25%	0%	<b>25%</b>
General business conditions	8%	25%	42%	0%	25%	25%	33%	<b>-8%</b>

Respondents expect further increases in demand for business factoring lines, decreasing credit quality of borrowers and increasing interest rates.

**Table 65. General Business and Industry Assessment Expectations over the Next 12 Months**

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Demand for business factoring lines (applications)	0%	8%	50%	25%	17%	42%	8%	<b>33%</b>
Credit Quality of Borrowers Applying for Credit	0%	33%	58%	0%	8%	8%	33%	<b>-25%</b>
Time to Process Facility	0%	17%	75%	8%	0%	8%	17%	<b>-8%</b>
Average Facility Size	0%	0%	58%	33%	8%	42%	0%	<b>42%</b>
Average Facility Term (Months)	0%	0%	67%	25%	8%	33%	0%	<b>33%</b>
Size of Interest Rate Spreads (pricing)	0%	9%	64%	18%	9%	27%	9%	<b>18%</b>
Fees	0%	17%	67%	17%	0%	17%	17%	<b>0%</b>
Standard advance rates on receivables	0%	8%	83%	8%	0%	8%	8%	<b>0%</b>
General business conditions	0%	33%	42%	17%	8%	25%	33%	<b>-8%</b>

## EQUIPMENT LEASING SURVEY INFORMATION

Approximately 24% of 19 respondents to the equipment leasing survey expect to have lease agreements executed to manufacturing industry, another 24% to construction & engineering, followed by wholesale & distribution (14%). Nearly 74% of respondents booked more than 10 leases in the last 12 months. 89% of respondents plan to book 10 leases or more in the next 12 months.

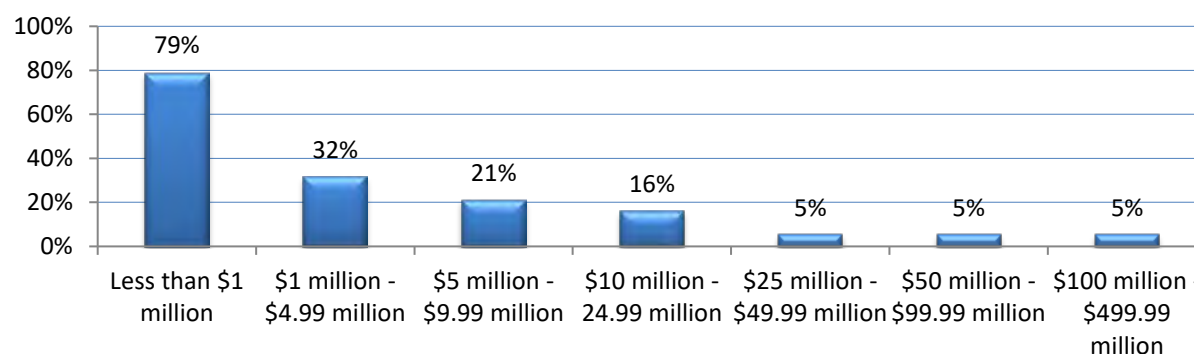
Other key findings include:

- Respondents indicated range of annualized expected returns from leases booked during the past 12 months between 5% and 14% depending on lease size and equipment type.
- When asked about conditions compared to twelve months ago nearly 42% of respondents said they saw increased demand for business leases in the last 12 months. Approximately 58% of equipment leasing companies indicated improved general business conditions in the last twelve months.
- Nearly 37% of respondents believe domestic economic uncertainty is the most important issue facing privately-held businesses today, followed by labor availability (21%) and political uncertainty/ elections (21%).

### Operational and Assessment Characteristics

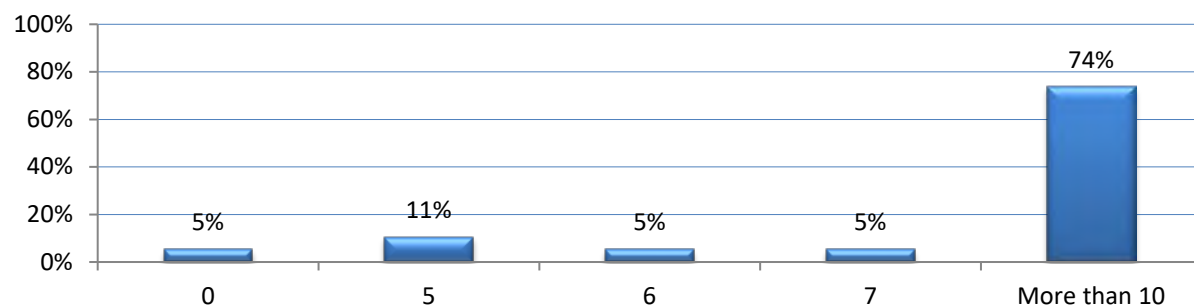
Approximately 79% of respondents book lease agreements less than \$1 million.

**Figure 125. Typical Size of Business Leases**



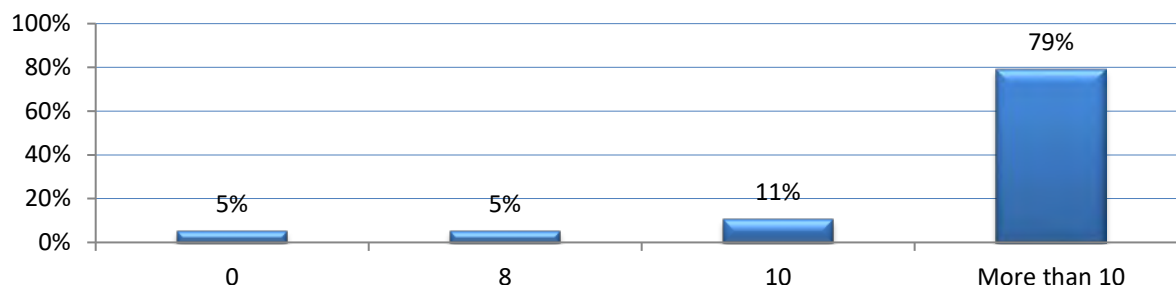
Nearly 74% of respondents booked more than 10 leases in the last 12 months.

**Figure 126. Business Leases Booked in the Last Twelve Months**



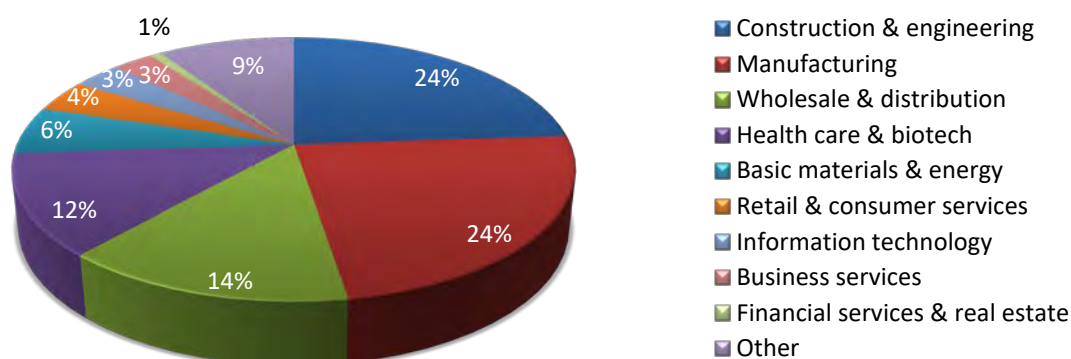
Approximately 89% of respondents plan to book more than 10 leases in the next 12 months.

**Figure 127. Business Leases Expected to Book in the Next Twelve Months**



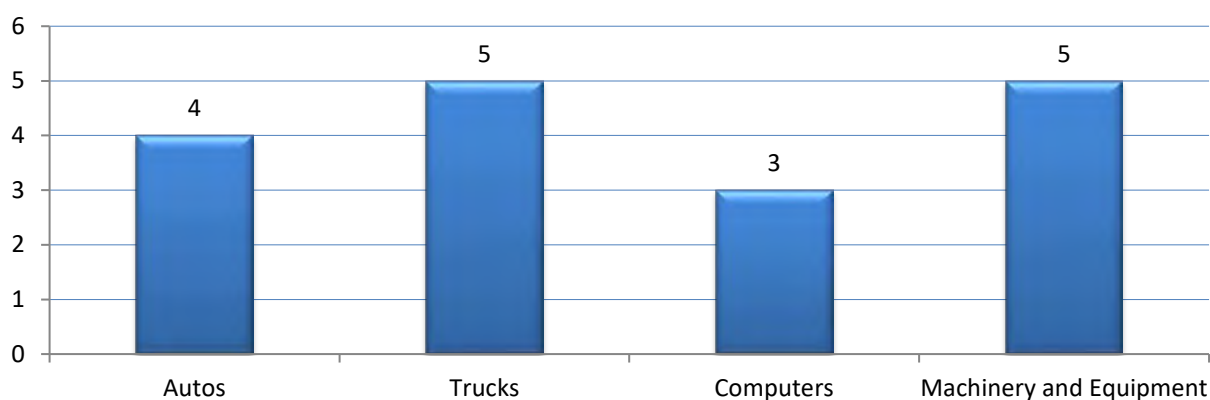
Approximately 24% of 19 respondents to the equipment leasing survey expect to have lease agreements executed to manufacturing industry, another 24% to construction & engineering, followed by wholesale & distribution (14%).

**Figure 128. Industries to Have Lease Agreements Executed in the Next Twelve Months**



Average lease terms from leases booked during the past 12 months vary from 3 to 5 years.

**Figure 129. Lease Terms from Leases Booked during the Past Twelve Months (Years)**



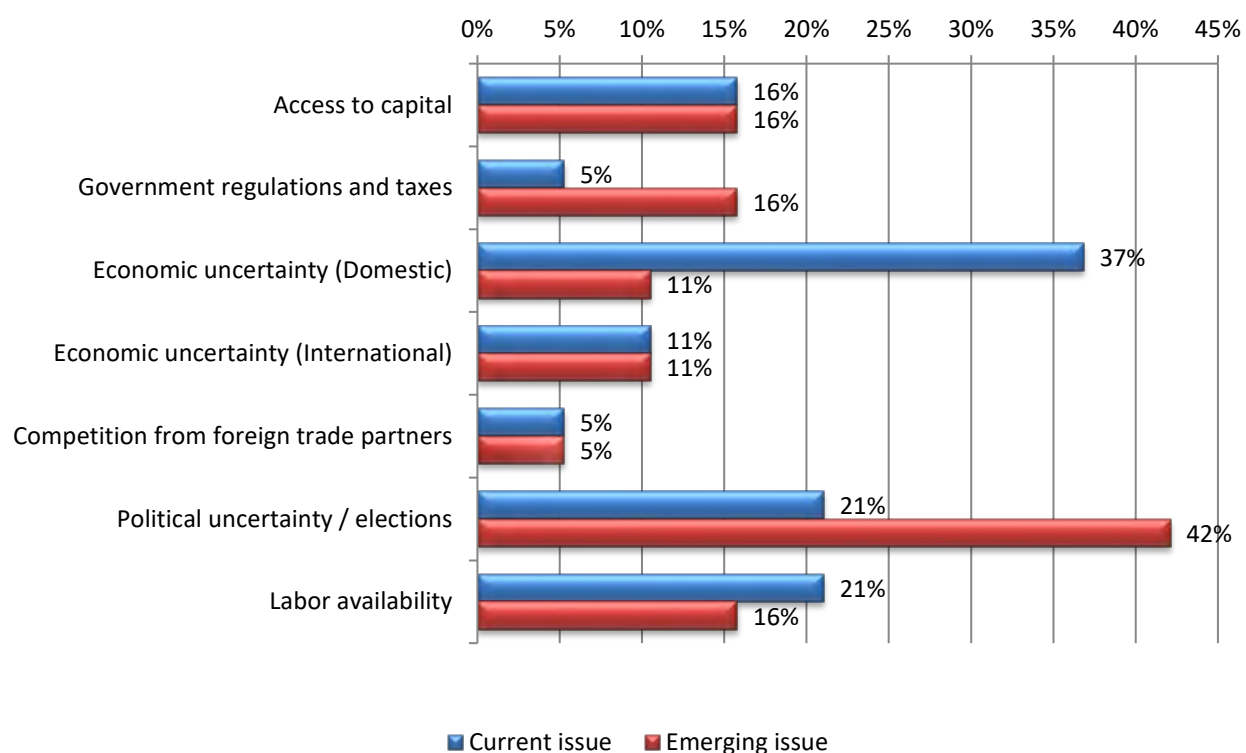
Respondents indicated range of annualized expected returns from leases booked during the past 12 months between 5% and 14% depending on lease size and equipment type.

**Table 66. Annualized Expected Returns from Leases Booked during the Past 12 Months**

Lease size	Autos	Trucks	Computers	Machinery and equipment
less than \$100K	14.0%	13.0%	11.0%	14.0%
\$100K - \$499K	12.5%	12.5%	10.0%	10.5%
\$500K - \$999K	10.0%	10.0%	9.0%	9.0%
\$1M - \$4.99M	n/a	5.0%	9.0%	6.0%
\$5M - \$9.99M	n/a	5.0%	7.0%	6.0%
\$10M - \$24.99M	n/a	5.0%	6.5%	5.0%

Nearly 37% of respondents believe domestic economic uncertainty is the most important issue facing privately-held businesses today, followed by labor availability (21%) and political uncertainty / elections (21%).

**Figure 130. Issues Facing Privately-Held Businesses**



## EQUIPMENT LEASING cont.

When asked about conditions compared to twelve months ago nearly 42% of respondents said they saw increased demand for business leases in the last 12 months. Approximately 58% of equipment leasing companies indicated improved general business conditions in the last twelve months.

**Table 67. General Business and Industry Assessment: Today versus 12 Months Ago**

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Demand for business leases	0%	16%	42%	37%	5%	42%	16%	<b>26%</b>
General lease qualification standards	0%	21%	53%	26%	0%	26%	21%	<b>5%</b>
Quality of Companies Seeking Leases	0%	16%	53%	32%	0%	32%	16%	<b>16%</b>
Average Lease Size	0%	16%	42%	37%	5%	42%	16%	<b>26%</b>
Expected Investment Holding Period	0%	0%	72%	22%	6%	28%	0%	<b>28%</b>
Expected returns on new investments	0%	26%	47%	21%	5%	26%	26%	<b>0%</b>
Size of equipment leasing industry	0%	5%	32%	53%	11%	63%	5%	<b>58%</b>
General business conditions	0%	21%	21%	37%	21%	58%	21%	<b>37%</b>
Appetite for Risk	5%	26%	37%	16%	16%	32%	32%	<b>0%</b>

**Table 68. General Business and Industry Assessment Expectations over the Next 12 Months**

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Demand for business leases	0%	11%	21%	68%	0%	68%	11%	<b>58%</b>
General lease qualification standards	0%	16%	63%	21%	0%	21%	16%	<b>5%</b>
Quality of Companies Seeking Leases	0%	11%	74%	16%	0%	16%	11%	<b>5%</b>
Average Lease Size	0%	11%	58%	32%	0%	32%	11%	<b>21%</b>
Expected Investment Holding Period	0%	12%	76%	12%	0%	12%	12%	<b>0%</b>
Expected returns on new investments	0%	21%	37%	42%	0%	42%	21%	<b>21%</b>
Size of equipment leasing industry	0%	21%	42%	37%	0%	37%	21%	<b>16%</b>
General business conditions	5%	32%	26%	37%	0%	37%	37%	<b>0%</b>
Appetite for Risk	16%	16%	26%	37%	5%	42%	32%	<b>11%</b>

## BUSINESS OWNER SURVEY INFORMATION

Of the 500 privately-held businesses that responded to the survey, 14% had businesses that involved professional, scientific or technical services, 13% were in manufacturing, and 10% were in manufacturing. Approximately 65% of businesses have annual revenues less than \$5 million. Nearly 87% of business owners report having the enthusiasm to execute growth strategies, yet just 55% report having the necessary financial resources to successfully execute growth strategies.

Of the respondents who were seeking financing in the last 12 months, approximately 46% anticipated to raise less than \$100,000 in capital. Approximately 64% of respondents reported that they were seeking bank business loans or business credit card financing as a source of funding, followed by friends and family (21%). Of all financing options, bank loans emerged as the financing source with the highest “willingness” for small business to use, followed by business credit cards, equipment leasing and grants. Results also showed that 82% of privately-held businesses that sought bank loans over the past 12 months were successful. Survey results indicated that business owners who raised capital on average contacted 1.7 banks.

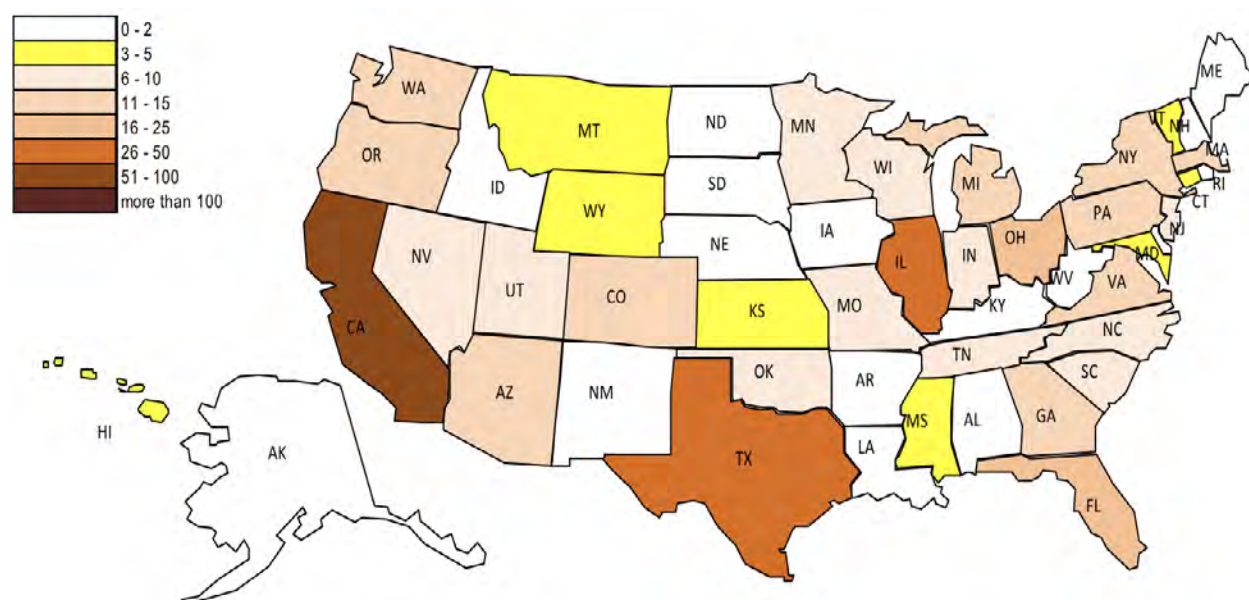
Nearly three quarters of businesses (71%) are planning to hire additional workers. Approximately 29% of respondents believe government regulations and taxes are the number one issue small businesses face today, followed by labor availability (26%), domestic economic uncertainty (22%) and access to capital (22%). According to small businesses, of those policies most likely to lead to job creation in 2020, increased access to capital emerged as number one (21%) followed by regulatory reform (20%), and tax incentives (19%). The study showed that of those that do plan to hire, sales and marketing skills (34%) and skilled labor (32%) are in greatest demand followed by service/customer service (27%). Also, 84% of companies planning to hire indicate they’d need to train those they hire.

41% of respondents believe that general business conditions improved in the twelve months compared to 45% surveyed year ago.

### Operational and Assessment Characteristics

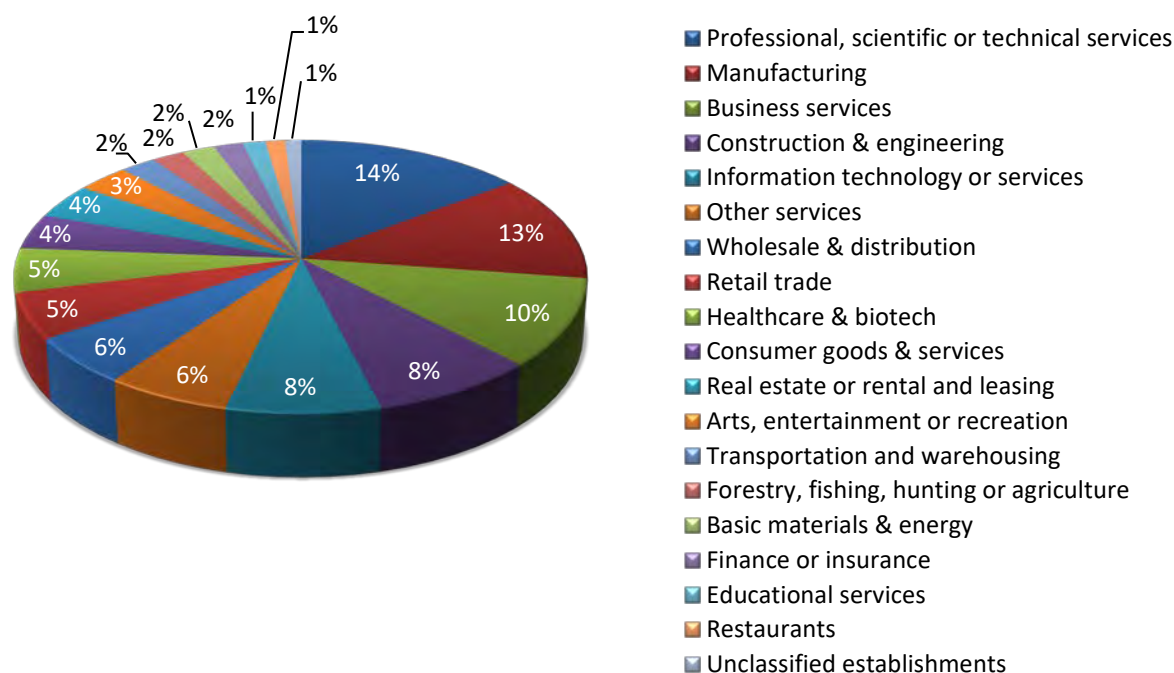
The privately-held business survey results were generated from 560 participants. The locations of businesses are distributed over all regions of the United States.

**Figure 131. Respondents Distribution by State**



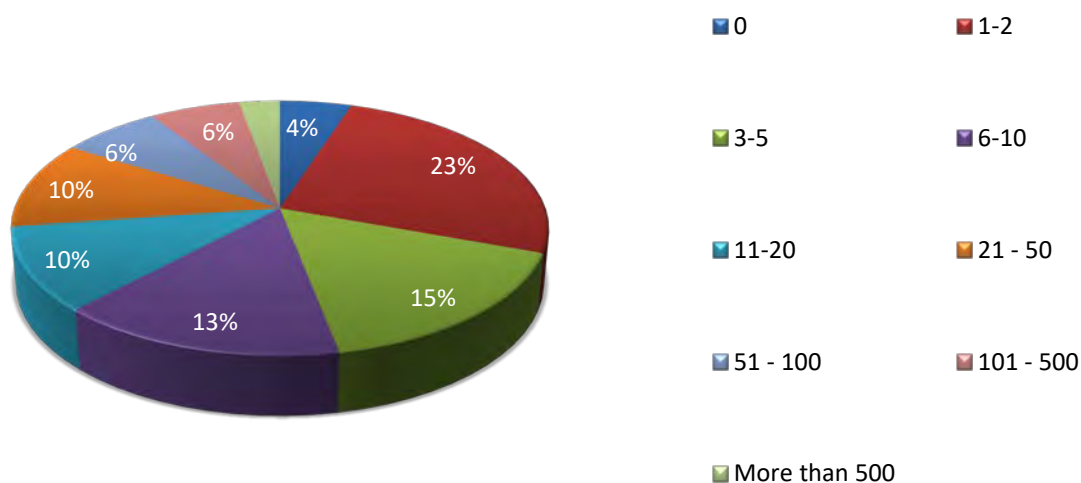
Businesses involved in professional, scientific or technical services accounted for 14% of respondents followed by manufacturing (13%), and business services (10%).

**Figure 132. Description of Entity**



Approximately 38% of businesses have between one and five employees.

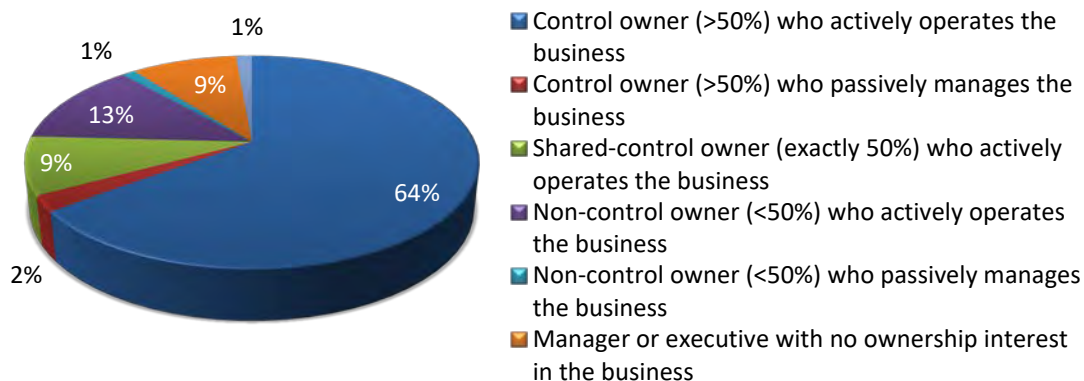
**Figure 133. Number of Employees**





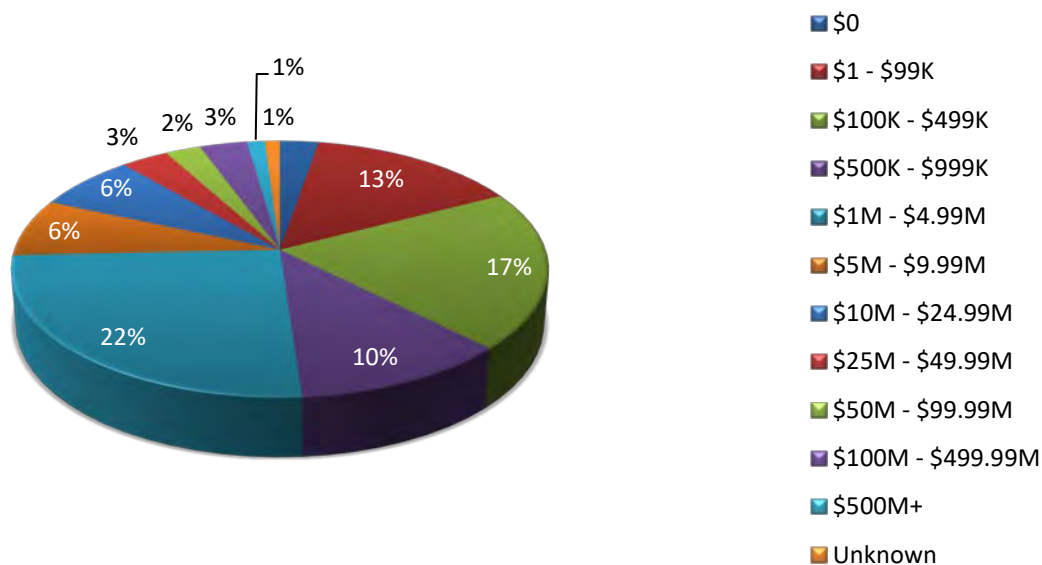
Approximately 65% of the respondents are active control owners of their businesses.

**Figure 134. Ownership Role**



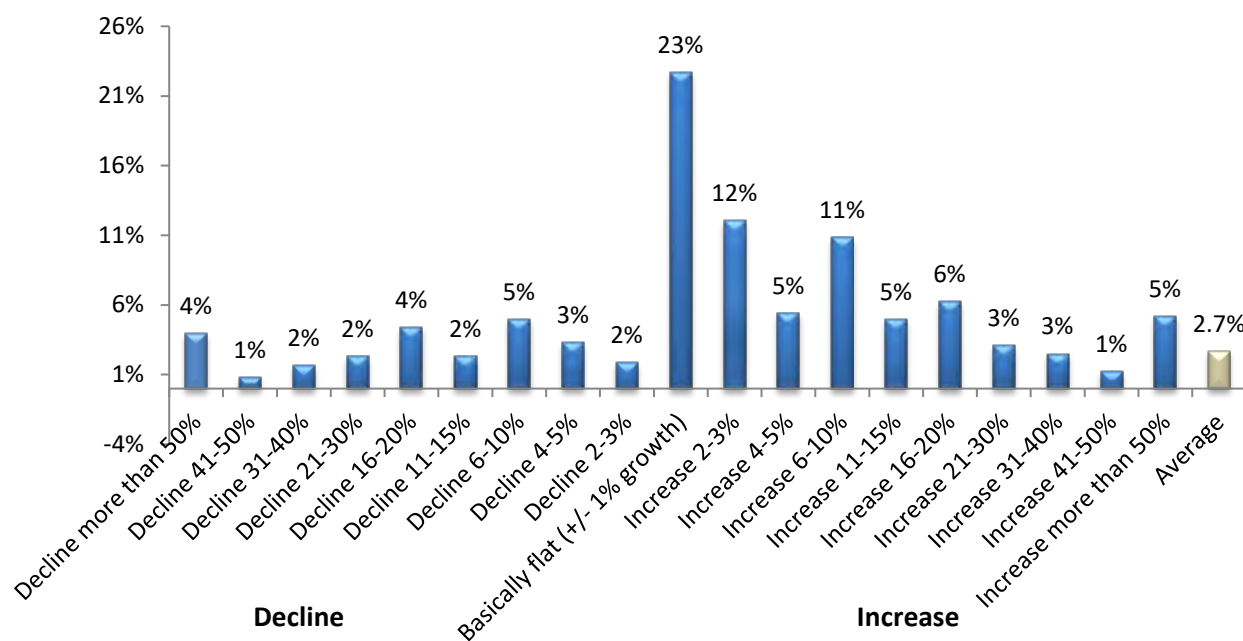
Approximately 65% of respondents have less than or equal to \$5M in annual revenues.

**Figure 135. Annual Revenues**



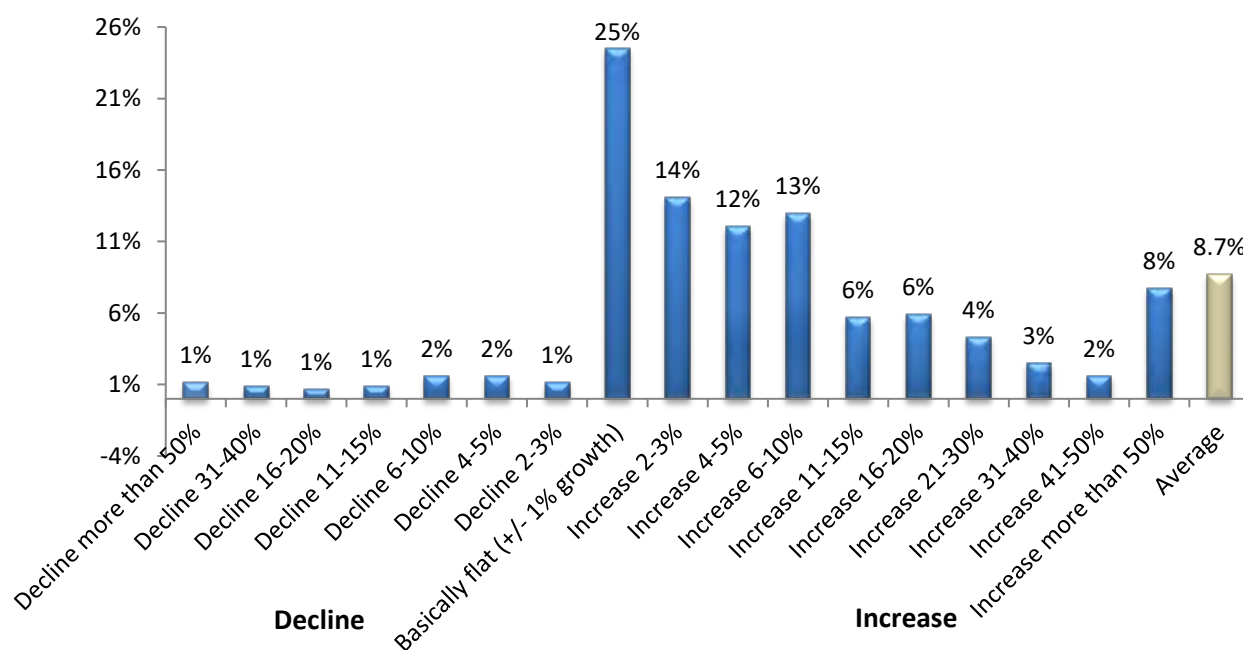
Average change in annual revenues in the last 12 months was 2.7%.

**Figure 136. Annual Revenues Change in the Last 12 Months**



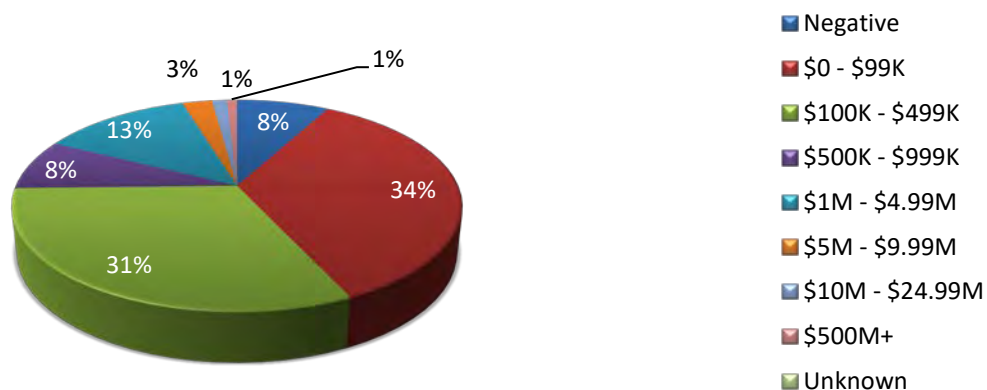
On average respondents expect their annual revenues to grow by 8.7% in the next 12 months.

**Figure 137. Annual Revenues Change Expectations in the Next 12 Months**



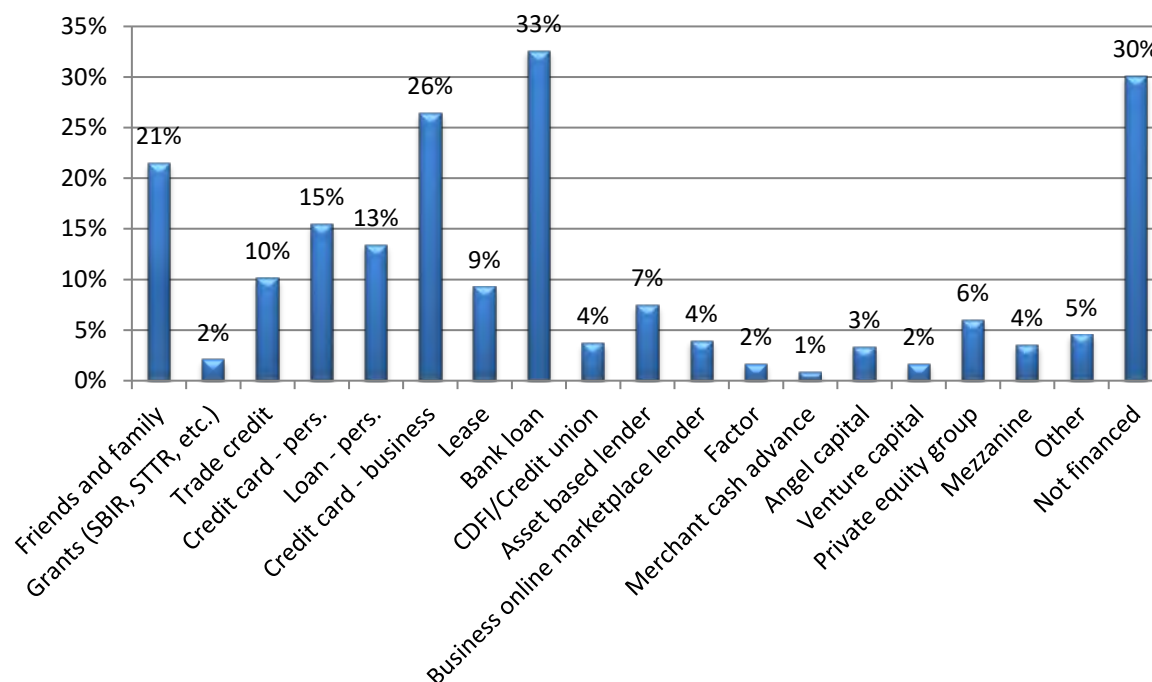
Approximately 94% of businesses have net income less than or equal to \$5 million, 8% of those have negative net income.

**Figure 138. Net Income**



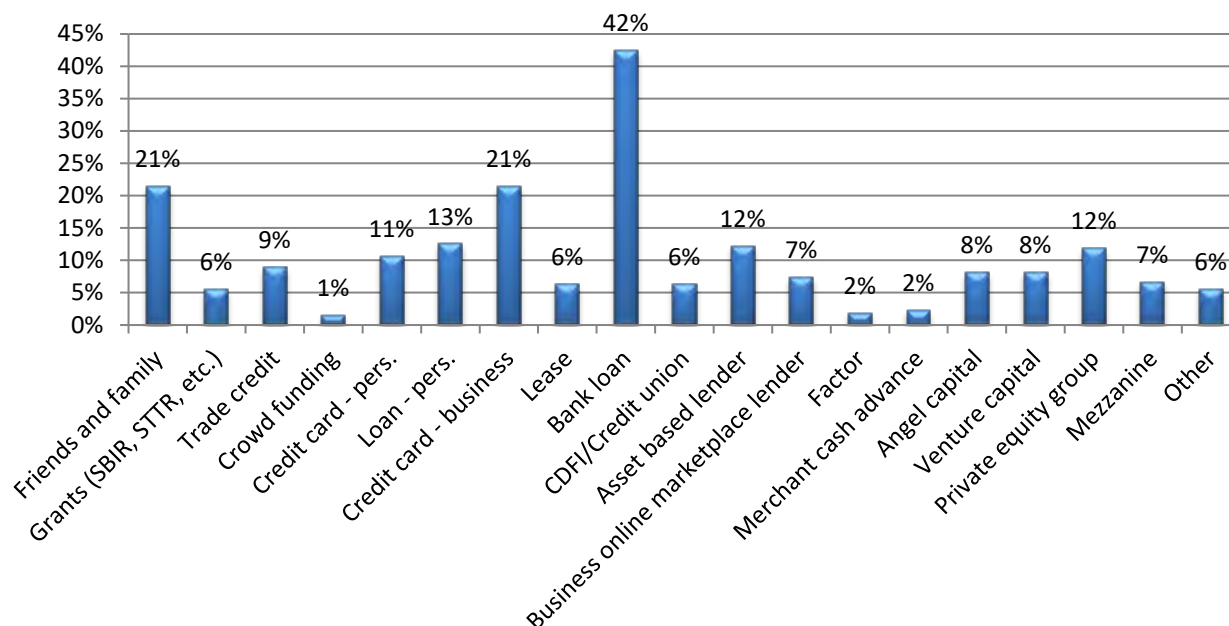
Approximately 30% of respondents are currently not financed by any external capital sources. Nearly 33% and 26% of respondents' businesses are financed by bank business loans and business credit card financing, respectively.

**Figure 139. Current Sources of Financing**

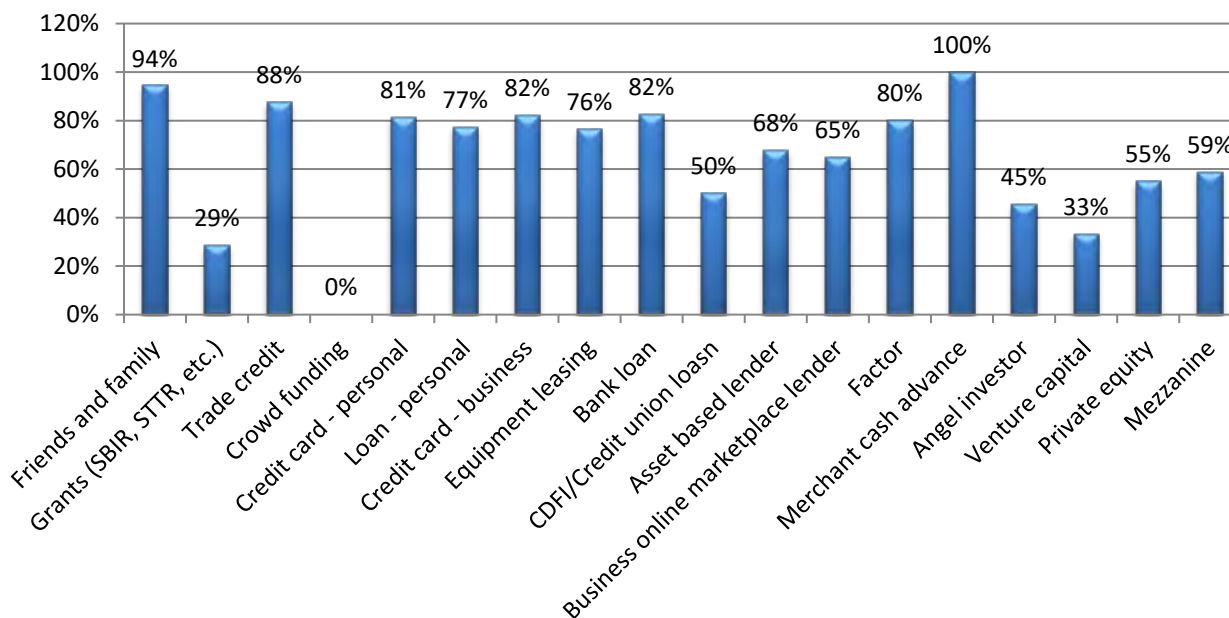


Among the businesses that tried to raise capital in the last 12 months 42% applied for bank business loan and 82% were successful, whereas 29% of respondents didn't try to raise capital from any source.

**Figure 140. Capital Sources Contacted to Raise Capital in the Last 12 Months**

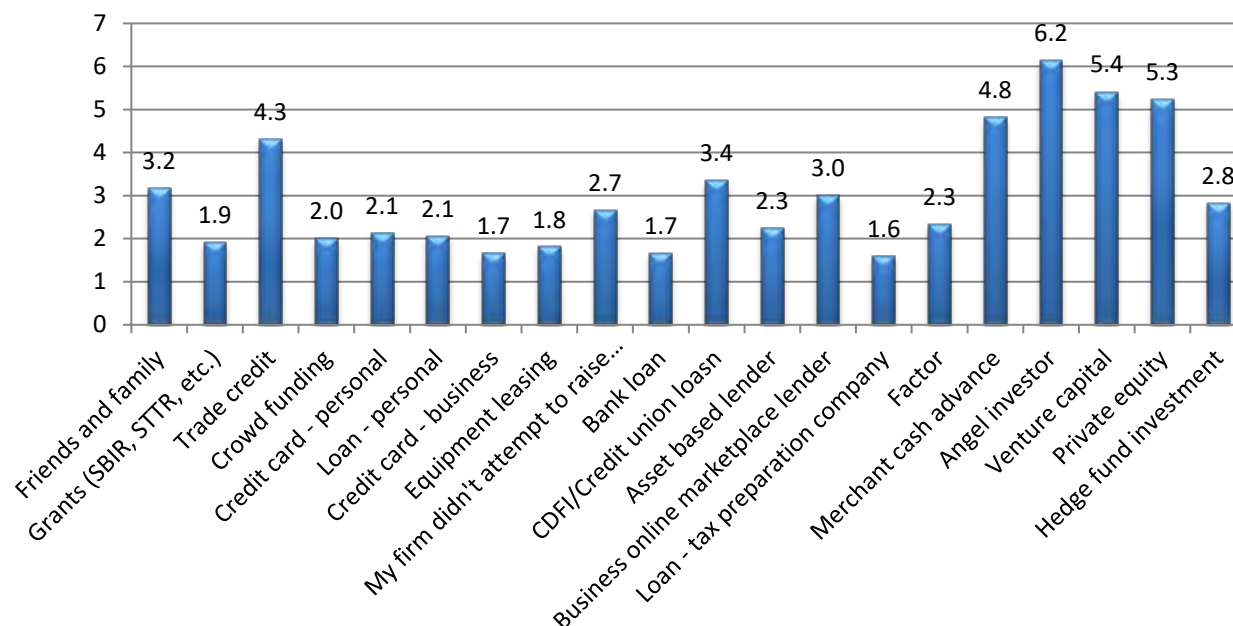


**Figure 141. Success Rates**



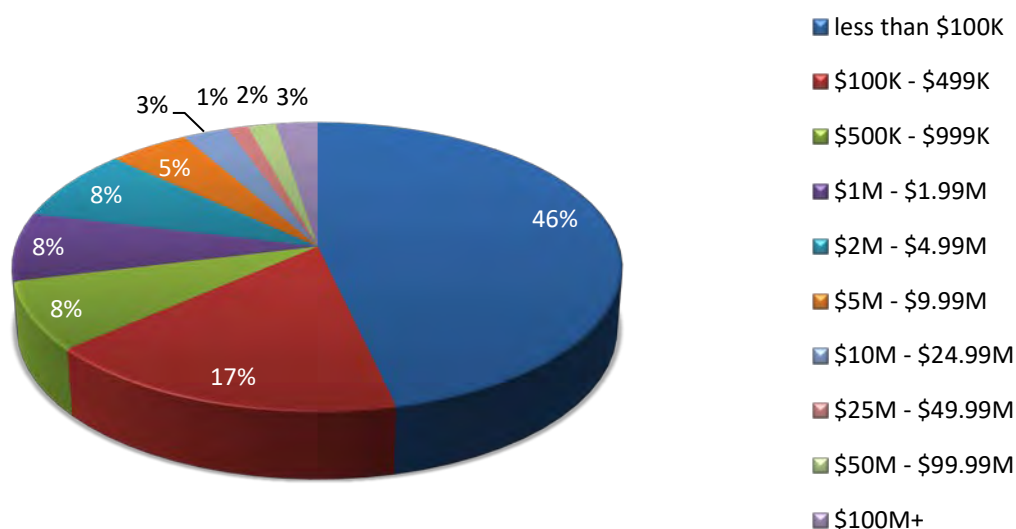
On average respondents who successfully raised capital contacted 3 capital providers.

**Figure 142. Average Number of Capital Providers Contacted**



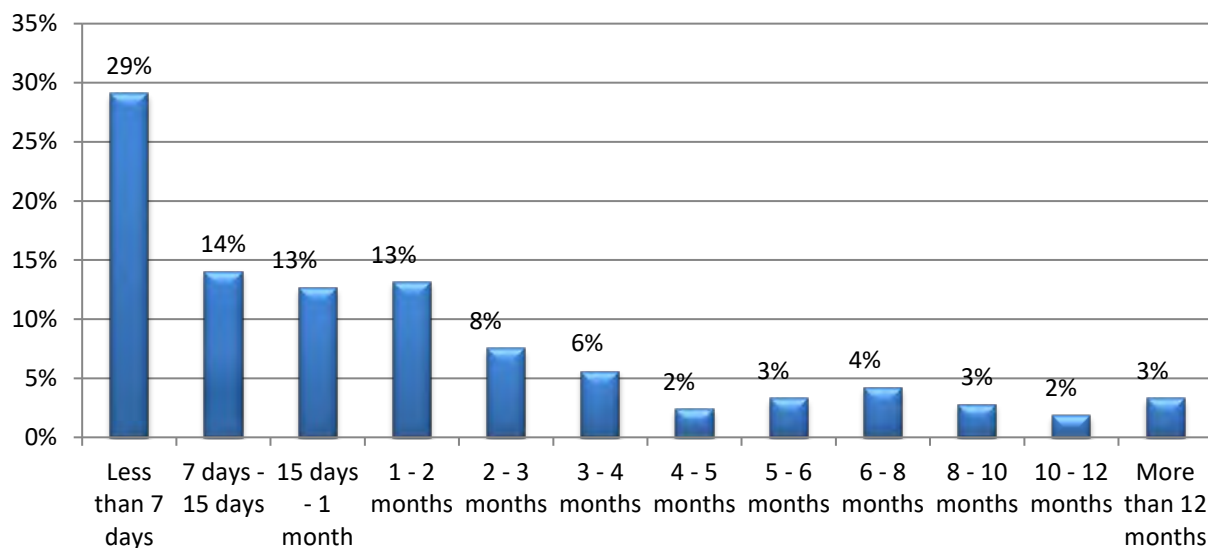
Approximately 64% of respondents attempted to raise less than \$500K in the last 12 months.

**Figure 143. Amount of Capital Attempted to Raise in the last 12 Months**



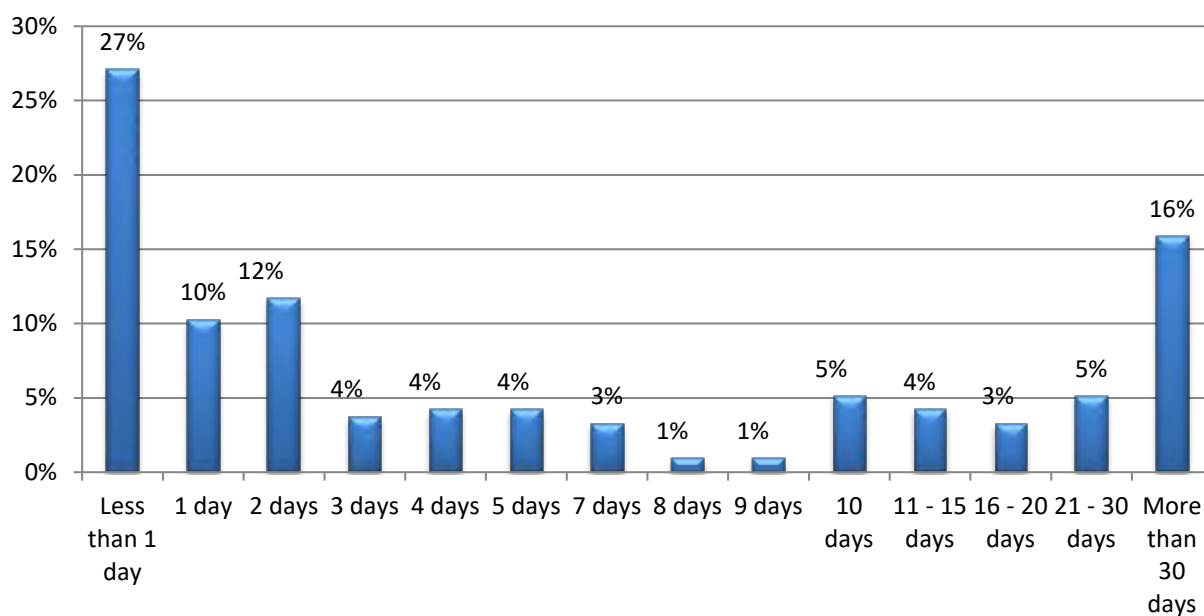
Approximately 29% of respondents took less than 7 days to complete financing process.

**Figure 144. Average Time to Complete Financing Process in Days**



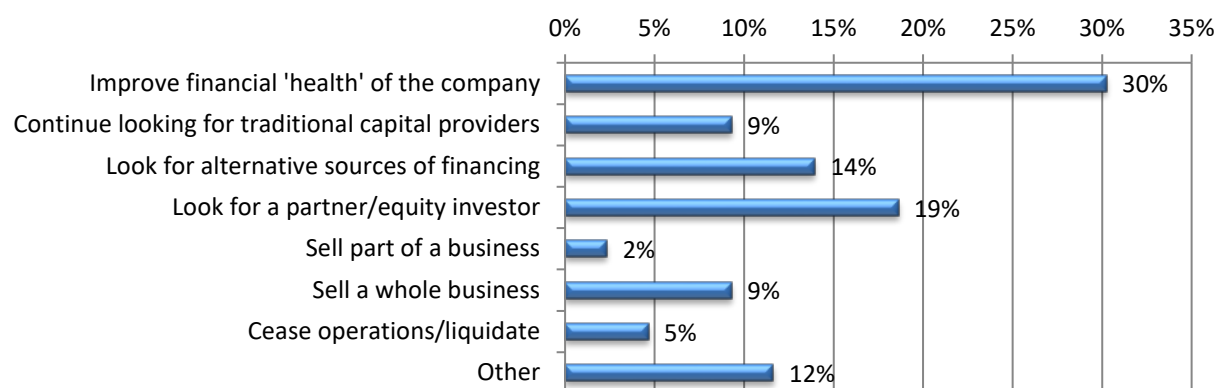
27% of respondents spent less than one day during the process to successfully obtain financing (time spent by all employees and hired outsiders making inquiries, submitting proposals, meeting with capital providers, furnishing documents).

**Figure 145. Days Spent During the Process to Successfully Obtain Financing**



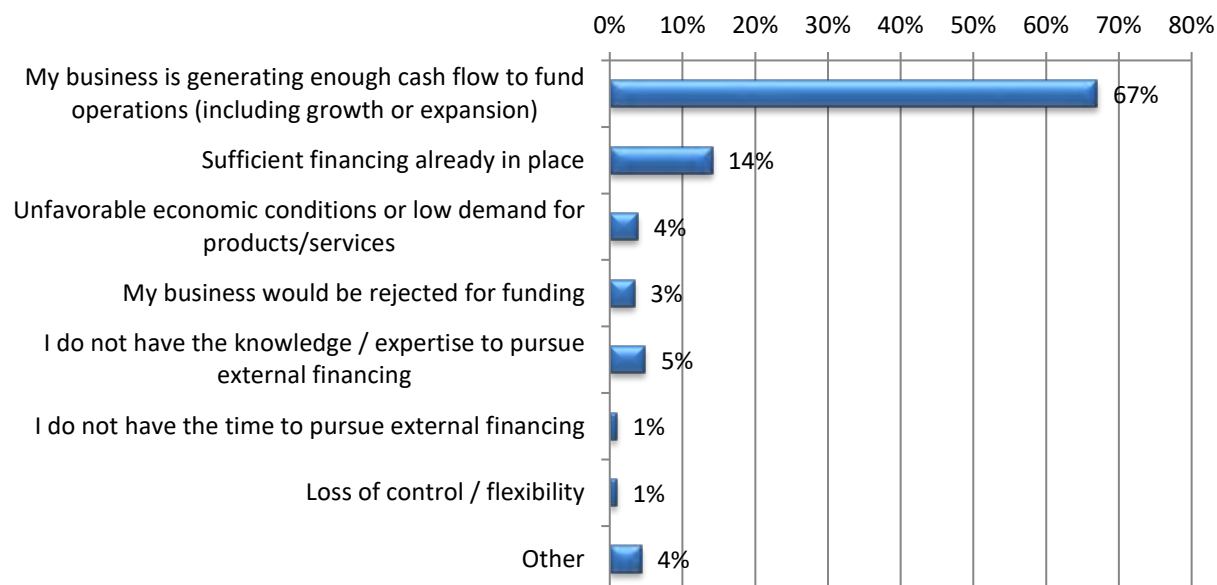
Among those respondents who were not able to obtain external financing in the last 12 months 30% are planning to improve financial health of their businesses before attempting to raise capital in the future.

**Figure 146. Next Steps to Satisfy Financial Needs**



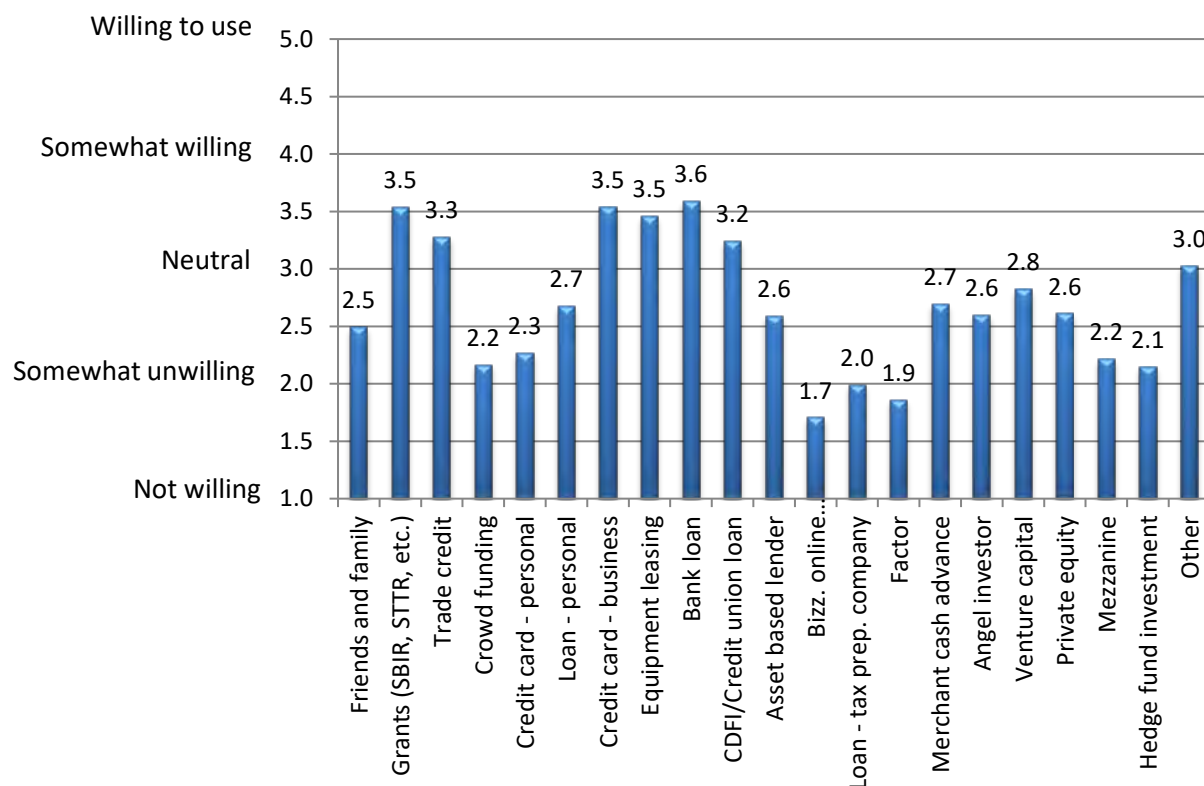
Among those respondents who didn't attempt to obtain any external financing in the last 12 months, 67% said their businesses are generating enough cash flow fund operations (including growth expansion), followed by 14% of respondents who has sufficient financing already in place.

**Figure 147. Reasons for Not Trying to Obtain Capital in the Last 12 Months**



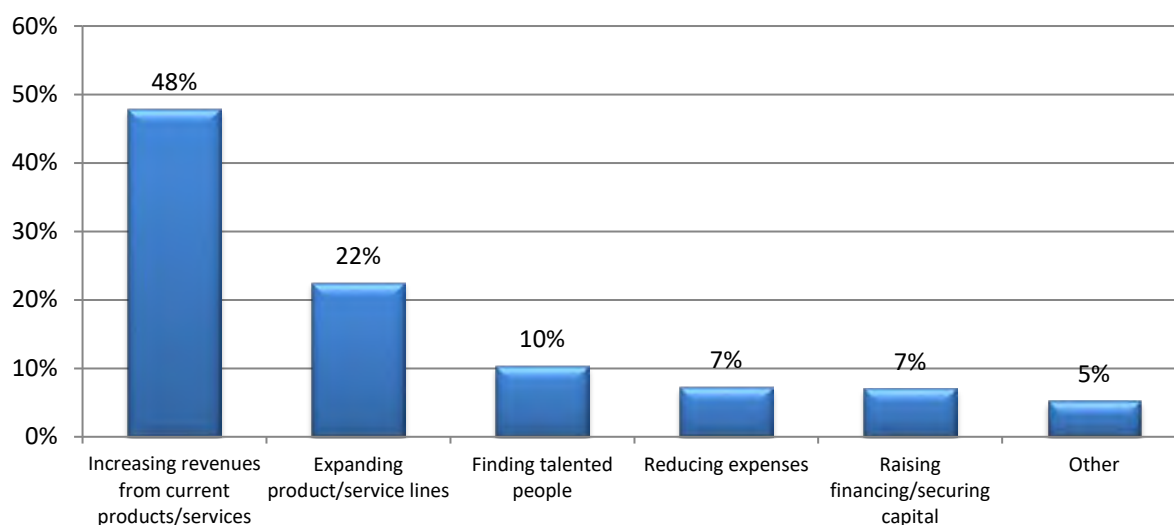
According to the respondents, “bank loans” as a category is the most appealing option to obtain financing.

**Figure 148. Willingness to Obtain Financing**



Approximately 48% of respondents indicated increasing revenues from current products or services as the area their businesses are most focused on today.

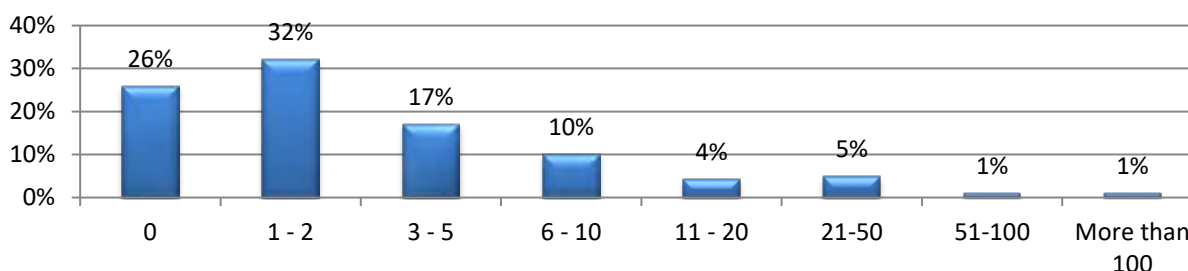
**Figure 149. The Most Important Area to Focus On**





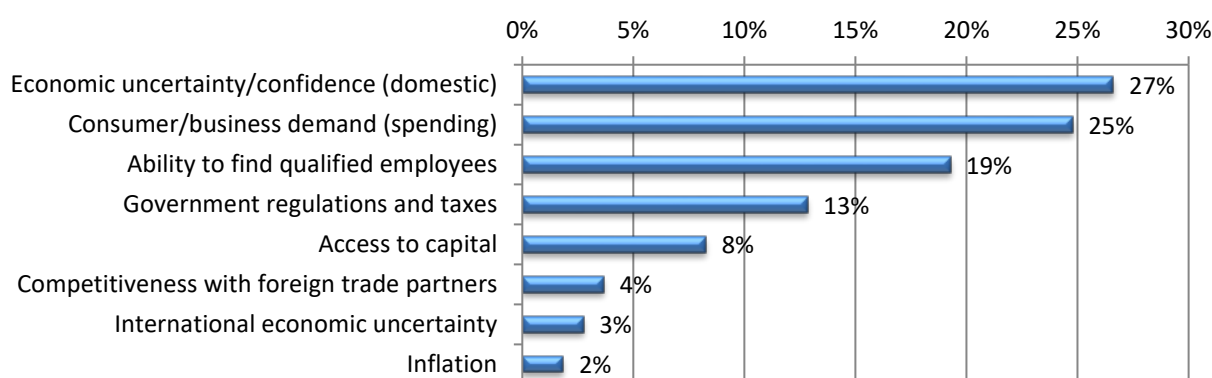
Approximately 26% of respondents are not planning to hire additional employees in the next 12 months, while 32% of respondents are planning to hire one or two additional employees in the next twelve months.

**Figure 150. Number of Employees Planned to be Hired**



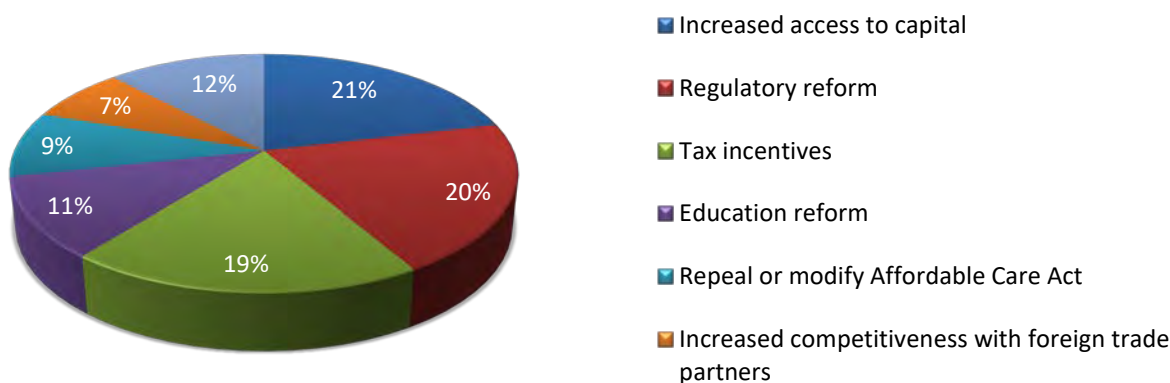
Approximately 27% of respondents believe domestic economic uncertainty is the number one reason preventing them from hiring, followed by consumer/business demand (spending) (25%).

**Figure 151. Reasons Preventing Privately-Held Businesses from Hiring**



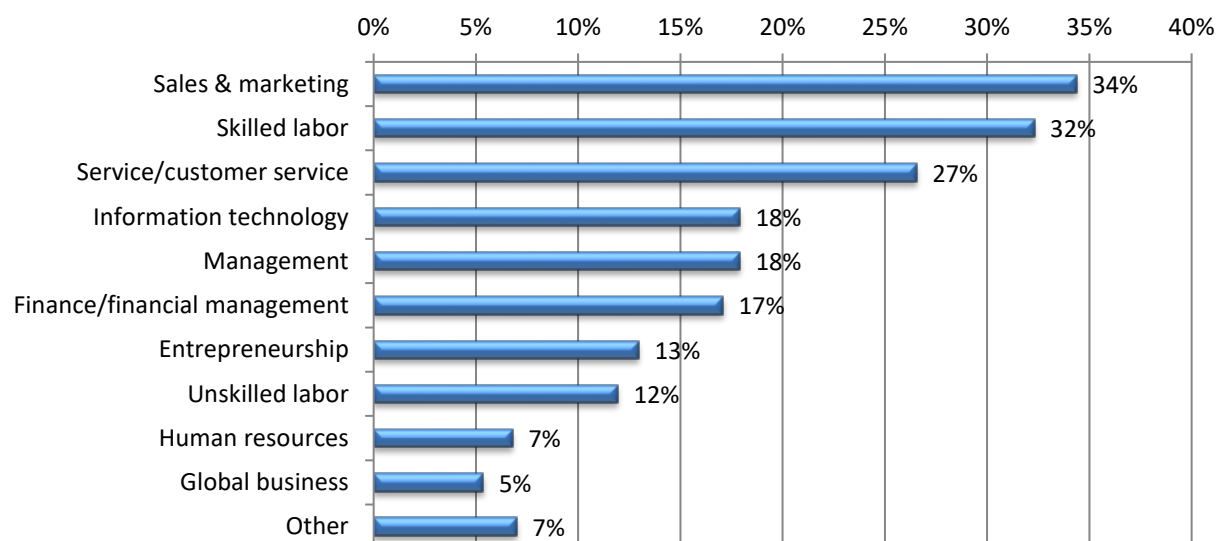
According to respondents, of those policies most likely to lead to job creation in 2020 increased access to capital emerged as number one (21%) followed by regulatory reform (20%).

**Figure 152. Government Policies to Lead to Job Creation**



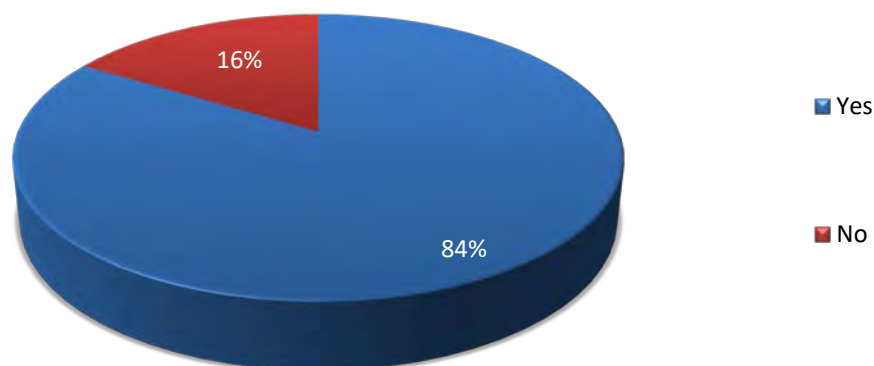
For those businesses which do plan to hire, sales and marketing skills (34%) and skilled labor (32%) are in greatest demand followed by service/customer service (27%).

**Figure 153. The Skills in Demand for New Hires**



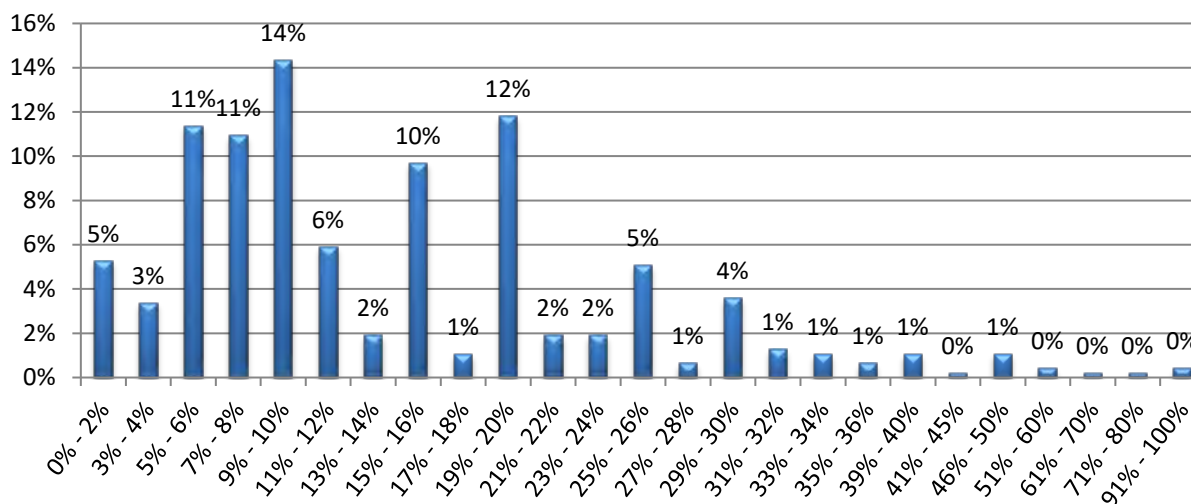
84% of businesses planning to hire indicate need to train those they hire.

**Figure 154. Need for Training of New Hires**



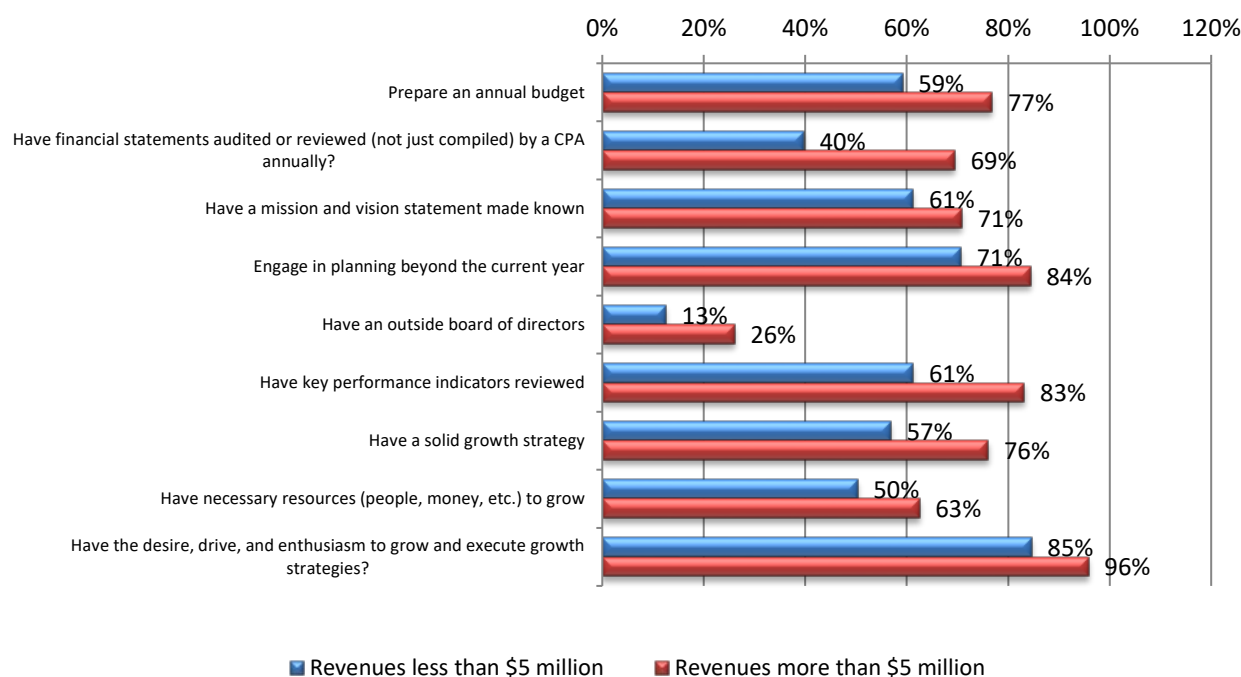
Approximately 14% of respondents indicated their business cost of equity capital is in the range of 9% - 10%.

**Figure 155. Cost of Equity Capital**



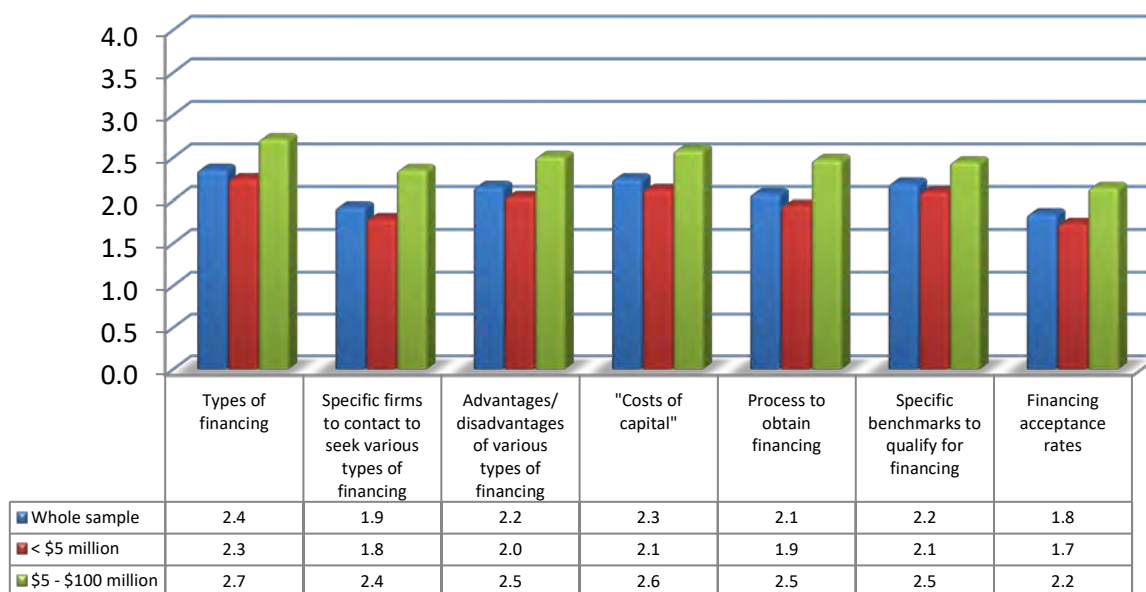
Privately-held businesses with revenues less than \$5 million on average have almost the same desire to execute growth strategies (85%) as privately-held businesses with revenues greater than \$5 million (96%). However, privately-held businesses with smaller revenues report lower levels of necessary resources (people, money, etc.) to grow (50%) as compared to privately-held businesses with higher revenues (63%).

**Figure 156. Usage of Financial Analysis by Revenue Sizes**



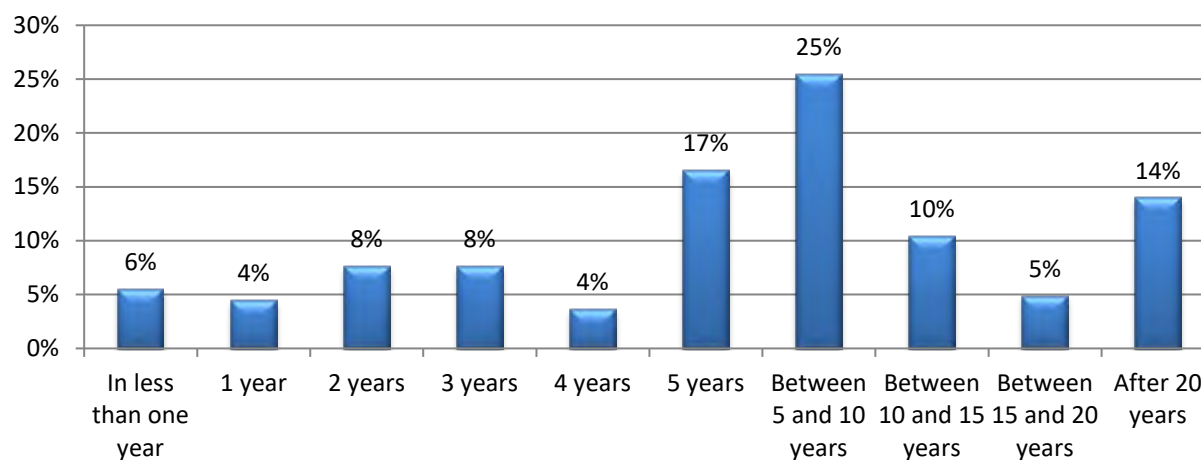
Respondents reported on their level of knowledge financing components (scale 0-4: none, some, moderate, very, completely).

**Figure 157. Level of Knowledge of Financing Components**



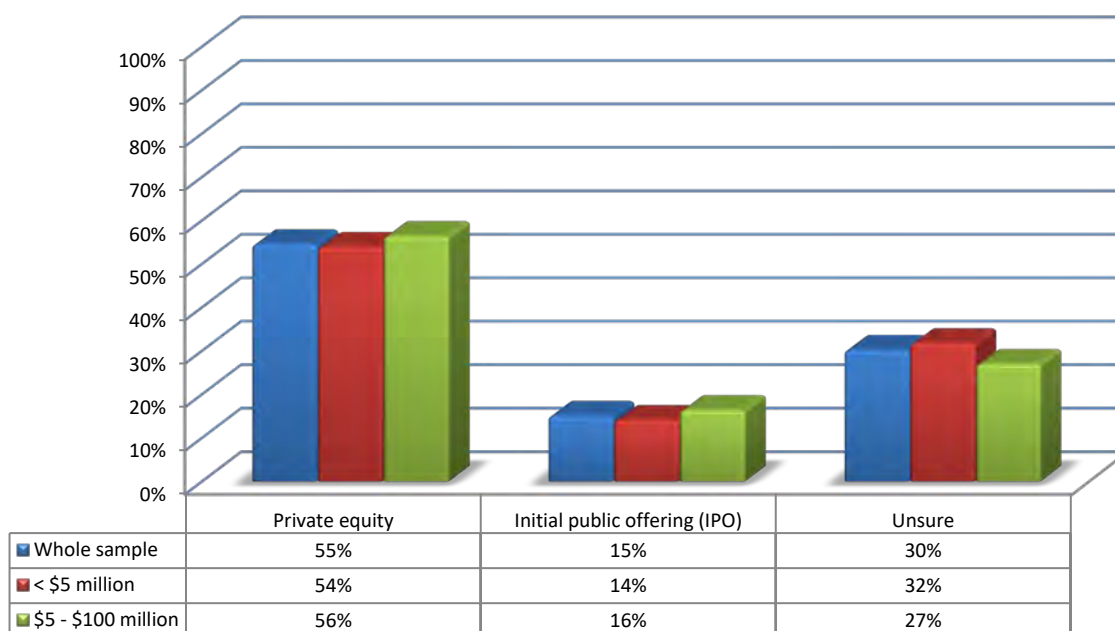
Most of the respondents are planning to transfer their ownership interest in more than five years from now while only 6% plan to transfer their ownership at the first available opportunity.

**Figure 158. Anticipation of the Ownership Transfer**



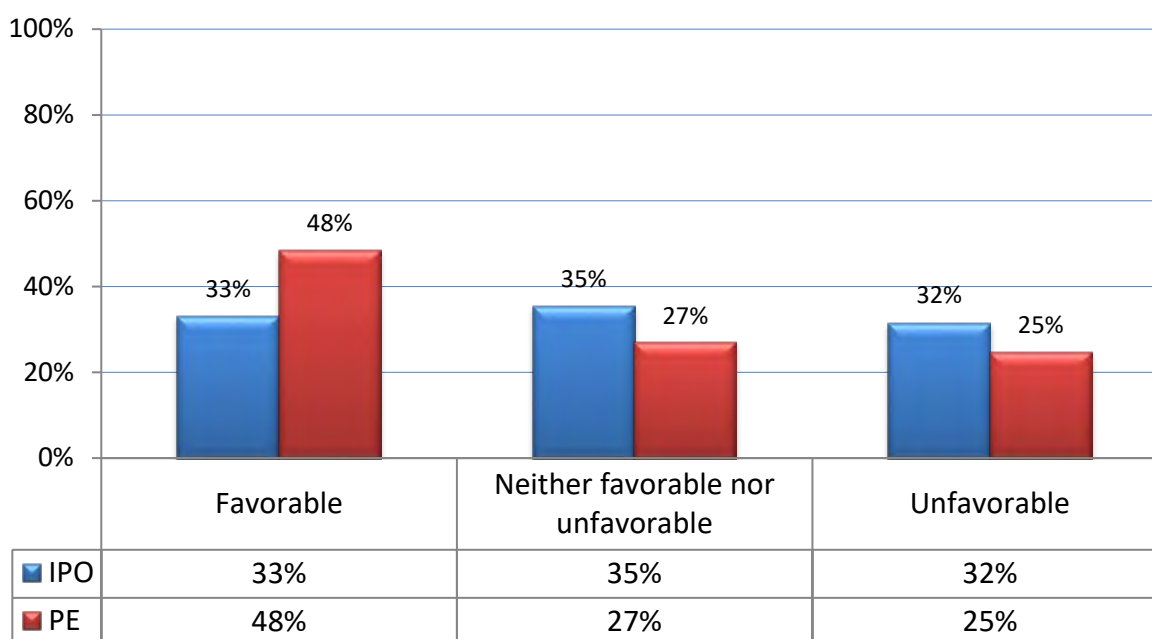
Assuming respondents' businesses were eligible to raise financing from both private equity and a public stock offering (IPO), 55% of them would choose private equity.

**Figure 159. Private Equity vs Initial Public Offering**



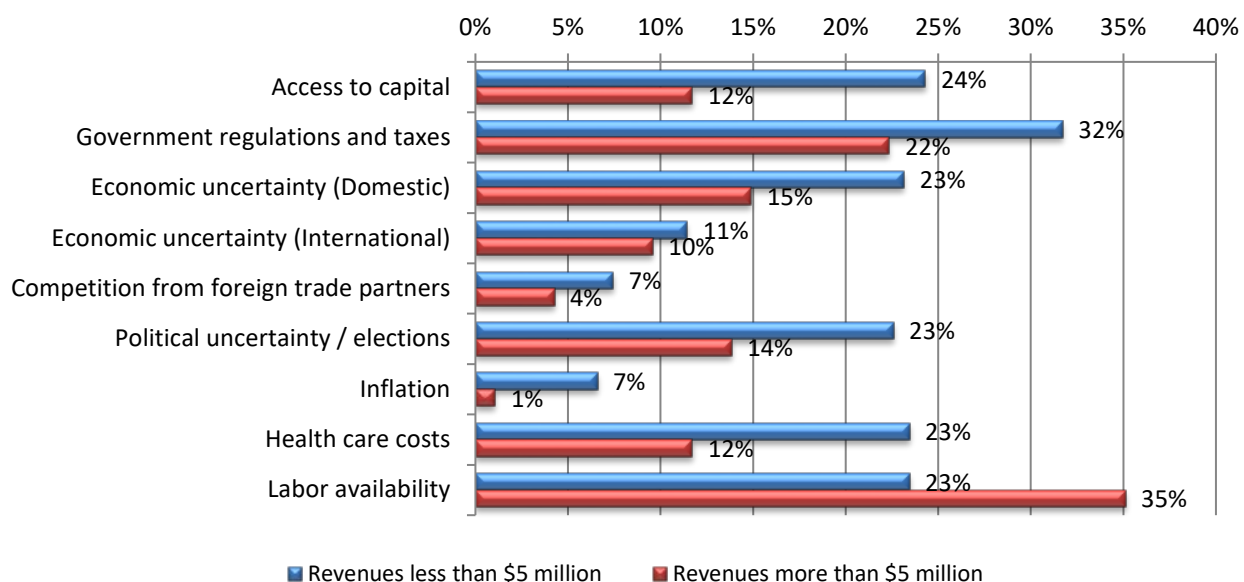
When asked about general view, 48% of respondents indicated private equity as favorable financing source.

**Figure 160. General Views on Initial Public Offering and Private Equity**

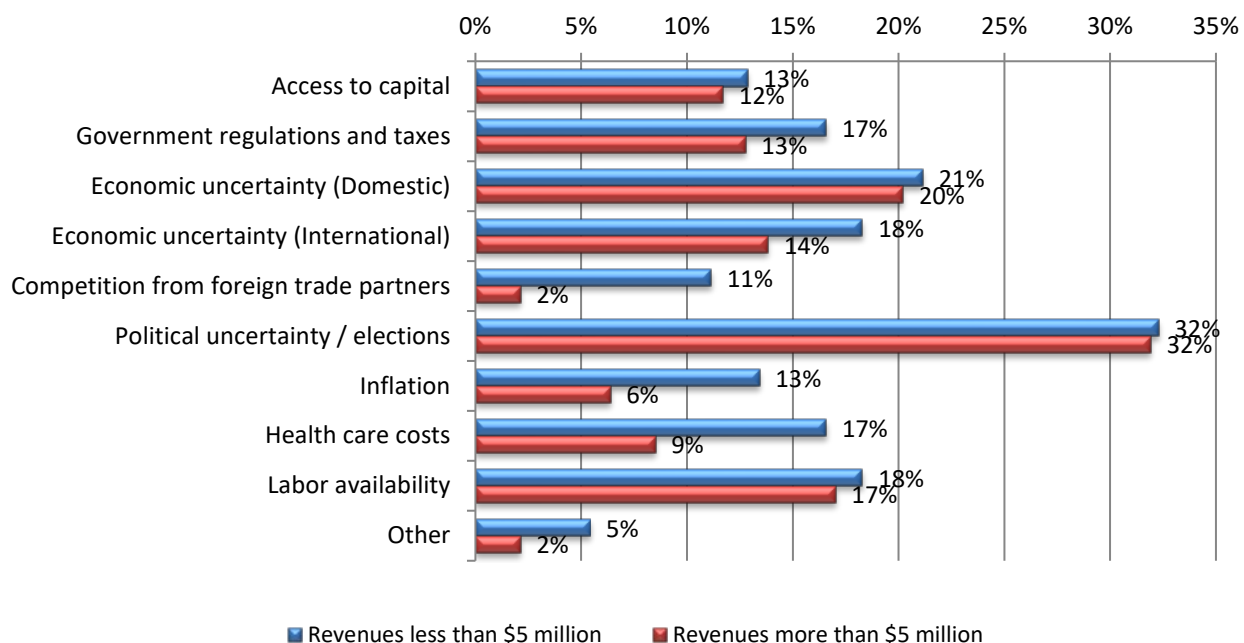


Privately-held businesses with annual revenues less than \$5 million are more concerned about access to capital than those with revenues greater than \$5 million. Larger privately-held businesses are more concerned about labor availability

**Figure 161. The Number One Issue Facing Privately-Held Businesses Today by Revenue Sizes**

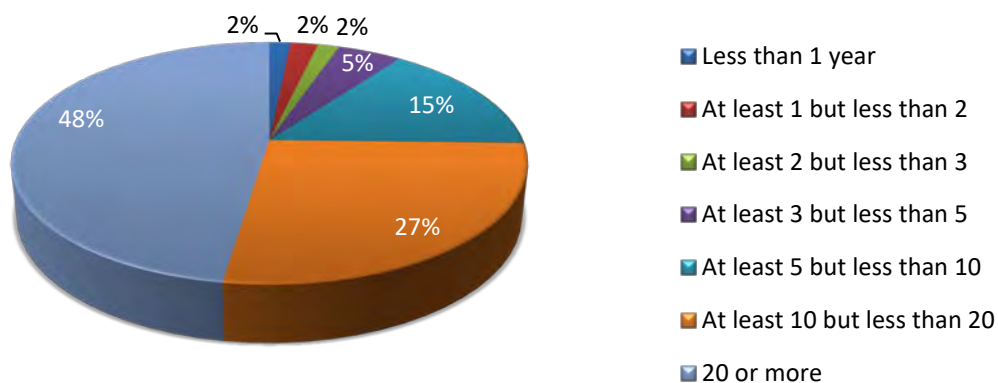


**Figure 162. The Number One Emerging Issue Facing Privately-Held Businesses by Revenue Sizes**



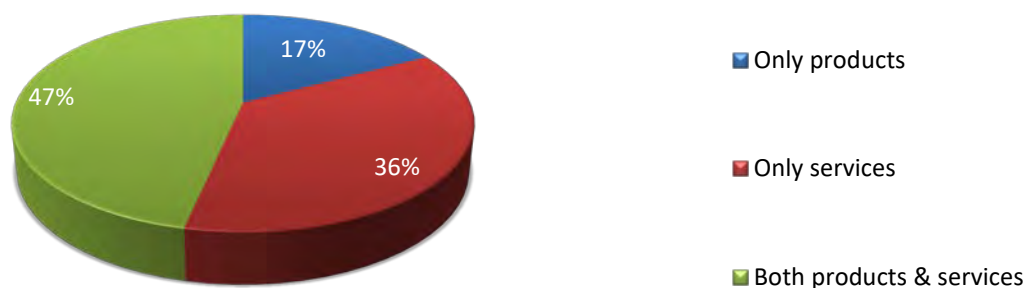
Approximately 48% of respondents have firms 20 or more years old.

**Figure 163. Firm Age**



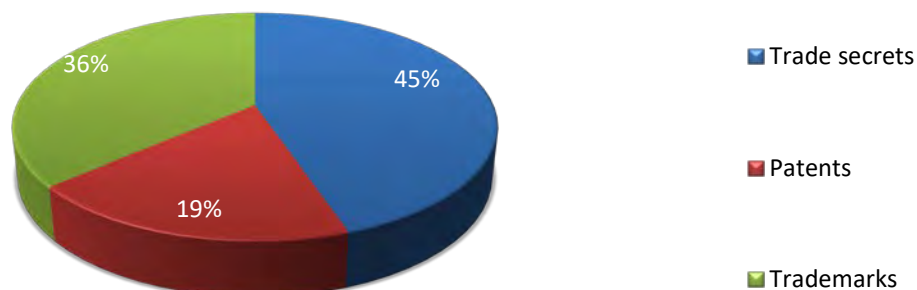
Approximately 47% of respondents sell both products and services to their clients.

**Figure 164. Types of Companies**



Nearly 45% of respondents have protected trade secrets.

**Figure 165. Protected Intellectual Property**



Most of respondents indicated increased unit sales and prices of labor and materials, increased access to capital, and improved general business conditions.

**Table 69. General Business and Industry Assessment: Today Versus Twelve Months Ago**

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Unit sales	6%	16%	23%	30%	24%	54%	23%	<b>31%</b>
Prices of labor and materials	1%	3%	31%	50%	15%	65%	4%	<b>62%</b>
Net income	9%	17%	23%	34%	17%	51%	26%	<b>25%</b>
Inventory levels	4%	13%	60%	17%	6%	23%	17%	<b>6%</b>
Capital expenditures	5%	11%	46%	29%	9%	38%	16%	<b>22%</b>
Opportunities for growth	3%	6%	31%	36%	25%	60%	9%	<b>52%</b>
Access to bank loans	6%	7%	60%	18%	8%	26%	13%	<b>13%</b>
Access to equity capital	6%	6%	63%	17%	7%	24%	13%	<b>11%</b>
Prices of your products or services	1%	3%	43%	48%	5%	53%	4%	<b>49%</b>
Time to collect receivables	1%	7%	67%	20%	6%	26%	8%	<b>18%</b>
Number of employees	1%	4%	62%	28%	5%	33%	5%	<b>28%</b>
Competition	2%	7%	58%	26%	8%	34%	8%	<b>26%</b>
General business conditions	3%	16%	41%	30%	10%	41%	19%	<b>22%</b>
Appetite for risk	3%	14%	53%	24%	7%	30%	17%	<b>13%</b>
Probability of business closure	23%	18%	43%	12%	5%	16%	41%	<b>-24%</b>
Time worrying about economy	11%	18%	40%	19%	12%	31%	29%	<b>2%</b>



Participants of the survey believe almost all general business characteristics will increase in the next 12 months.

**Table 70. General Business and Industry Assessment Expectations Over the Next 12 Months**

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Unit sales	1%	5%	21%	46%	26%	73%	6%	<b>66%</b>
Prices of labor and materials	1%	1%	30%	60%	8%	68%	2%	<b>66%</b>
Net income	2%	7%	20%	48%	23%	71%	8%	<b>63%</b>
Inventory levels	2%	8%	61%	22%	6%	28%	11%	<b>17%</b>
Capital expenditures	4%	7%	51%	25%	12%	37%	12%	<b>26%</b>
Opportunities for growth	1%	4%	25%	43%	27%	70%	5%	<b>65%</b>
Access to bank loans	4%	4%	60%	23%	9%	32%	7%	<b>25%</b>
Access to equity capital	3%	4%	61%	20%	12%	32%	7%	<b>25%</b>
Prices of your products or services	1%	2%	40%	52%	5%	58%	3%	<b>55%</b>
Time to collect receivables	1%	7%	76%	12%	4%	16%	8%	<b>8%</b>
Number of employees	1%	1%	46%	46%	6%	52%	2%	<b>50%</b>
Competition	1%	5%	58%	32%	5%	36%	6%	<b>30%</b>
General business conditions	3%	12%	47%	28%	10%	38%	15%	<b>23%</b>
Appetite for risk	4%	11%	56%	22%	7%	30%	14%	<b>16%</b>
Probability of business closure	21%	22%	50%	4%	4%	7%	43%	<b>-36%</b>
Time worrying about economy	10%	13%	48%	17%	11%	29%	24%	<b>5%</b>

## MERCHANT CASH ADVANCE SURVEY INFORMATION

Merchant cash advances (MCA) are typically used by retail or service businesses with significant credit card sales. Cash advances are made against future credit card sales. According the median rate factor (payback amount divided by advance amount) was 1.66.

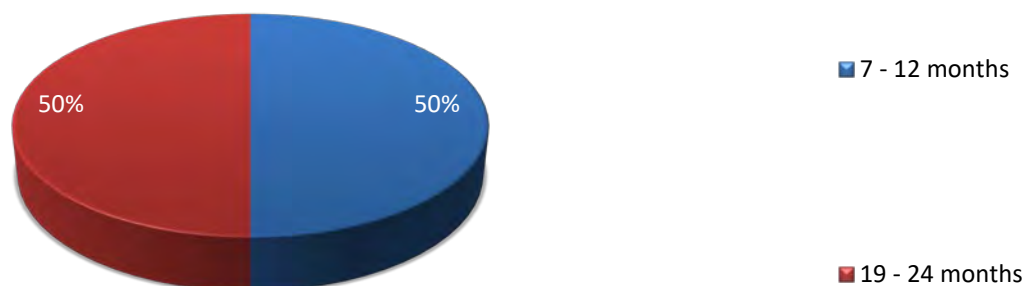
Other key findings include:

- Half of respondents indicate daily repayment frequency.
- Respondents indicate lack of quality businesses/ poor financial health and businesses lack of understanding of merchant cash advance as a financing source as the most significant concerns to cash advance business at the moment.

### Operational and Assessment Characteristics

Typical terms for cash advance agreements are between seven and twenty four months.

**Figure 166. Typical Terms of Cash Advance Agreements**



Approximately 90% use cash advances to finance working capital fluctuations.

**Figure 167. Primary Uses of The Cash Advances**

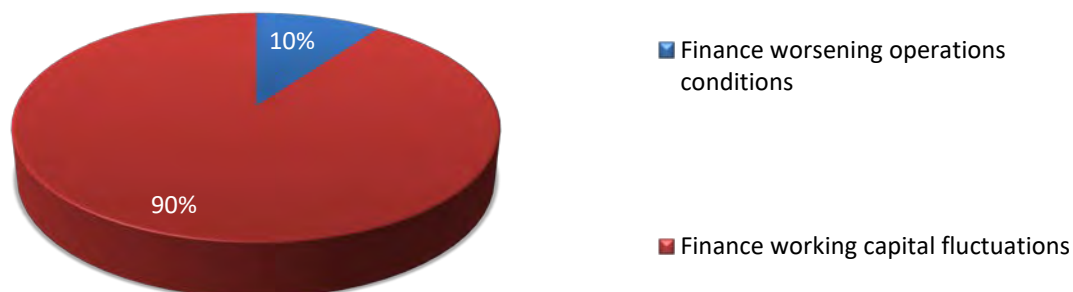
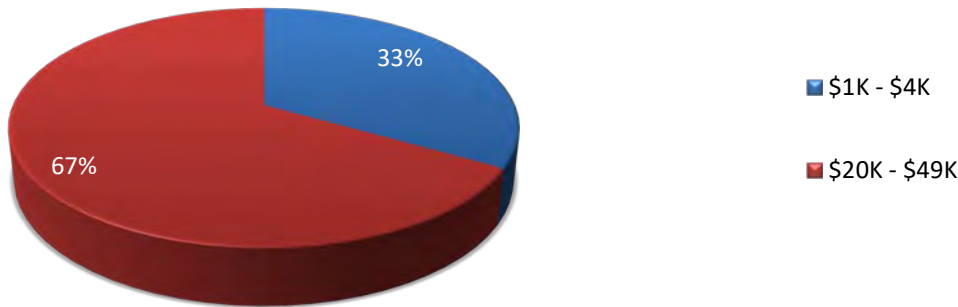
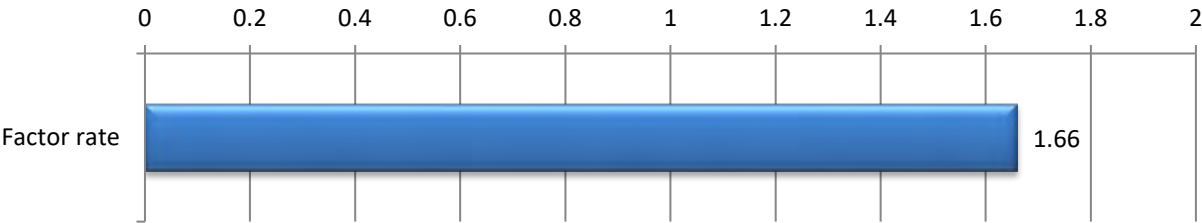


Figure 168. Size of Average Advance



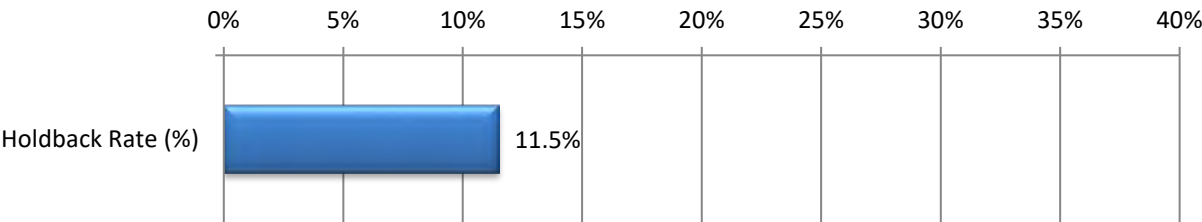
Typical factor rate for cash advances (calculated as payback amount/ advance amount) was 1.66.

Figure 169. Typical Factor Rate



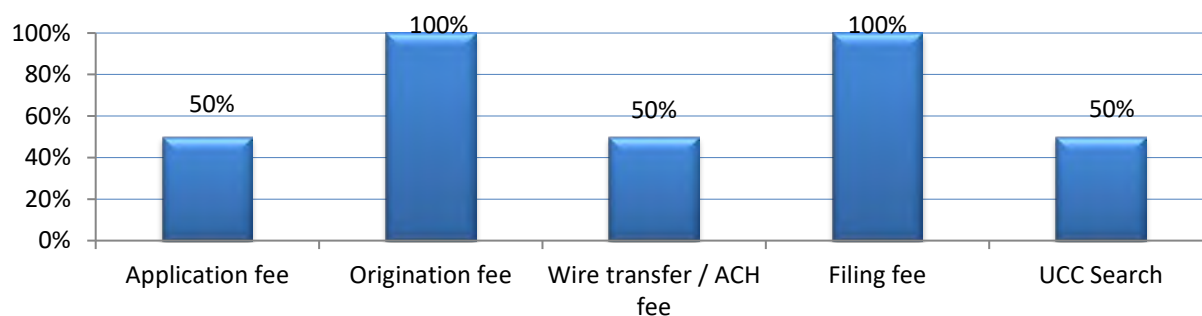
Typical holdback (retrieval) rate was 11.5%.

Figure 170. Typical Holdback Rate



The majority of respondents charge origination fee and filing fee.

**Figure 171. Fees Charged**



**Table 71. Median Percentage or Amount Charged**

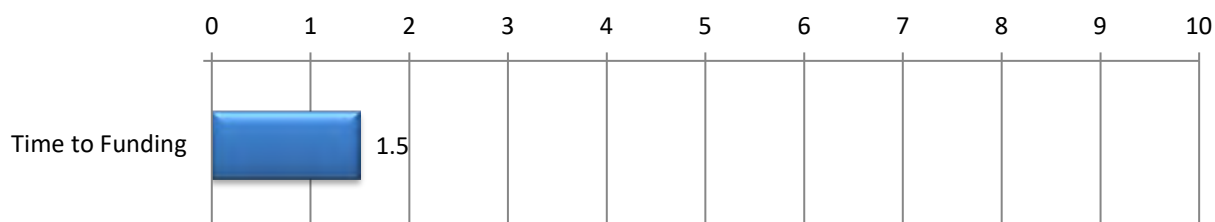
	Percentage	or Amount
Application fee		\$395
Origination fee	6.0%	\$50
Wire transfer / ACH fee		\$40
Filing fee	1.0%	\$30
UCC Search		\$30

On average respondents expect 10% of total write-off.

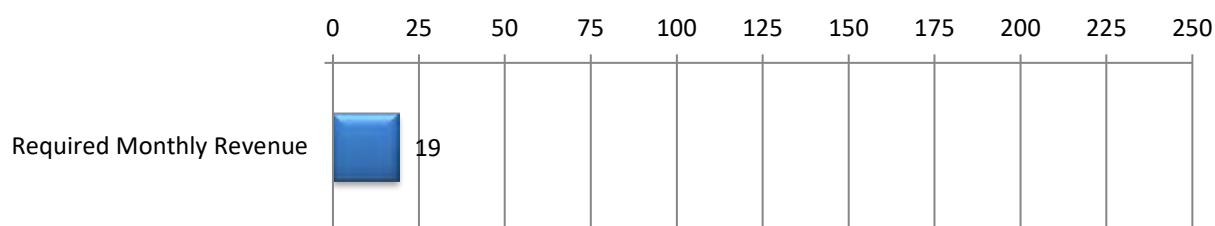
**Table 72. Expected Total Write-off – Percentage of Receivables Purchased on New Arrangements (%)**

	1st quartile	Median	3rd quartile
Expected total write-off	7.8%	10.0%	13.0%

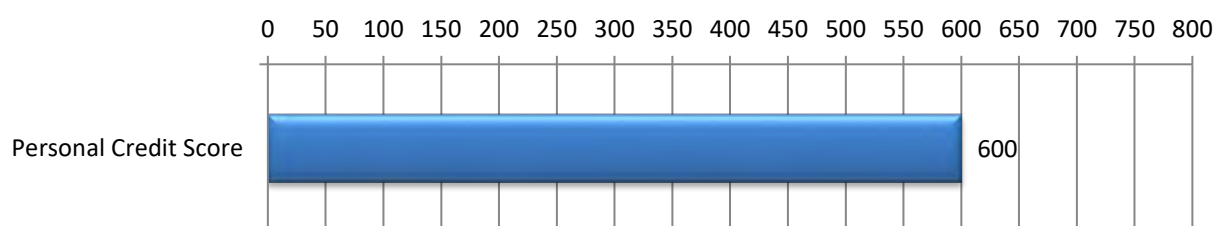
**Figure 172. Typical Time of Funding (days)**



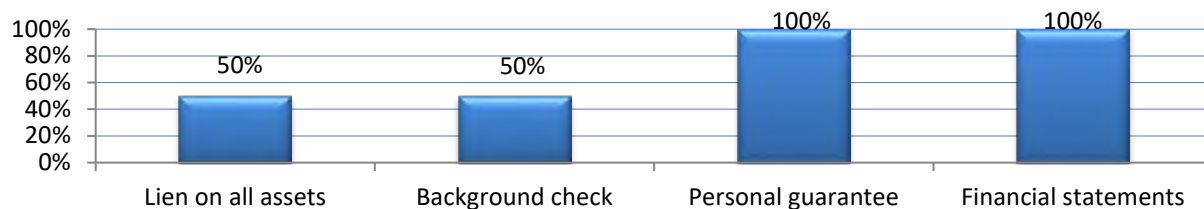
**Figure 173. Minimum Required Sales Revenue (Thousands)**



**Figure 174. Minimum Required Personal Credit Score**

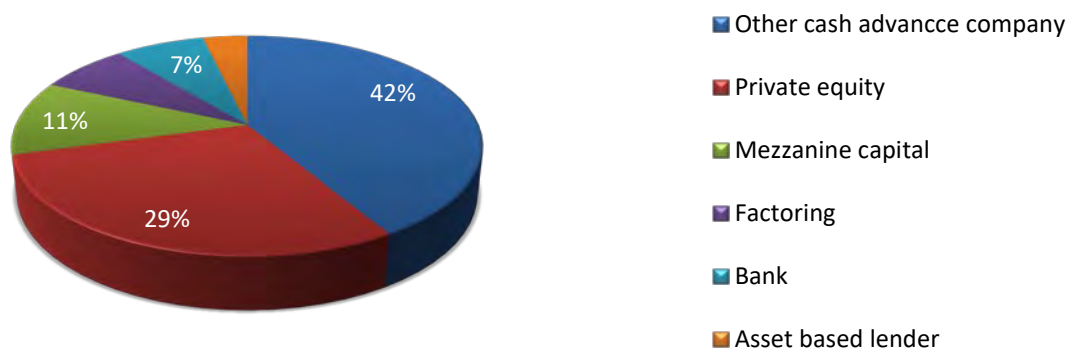


**Figure 175. Typical Requirements**



42% of respondents lost transactions to other cash advance company in the last twelve months.

**Figure 176. Types of Financing Sources Respondents Lost Transactions to in the Last 12 Months**



## ABOUT THE AUTHOR

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Craig R. Everett is a finance professor at Pepperdine Graziadio Business School and Director of the Pepperdine Private Capital Markets Project. His teaching and research interests include entrepreneurial finance, private capital markets, business valuation and behavioral corporate finance.

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## ABOUT THE PEPPERDINE UNIVERSITY GRAZADIO BUSINESS SCHOOL

Anchored in the core values of integrity and innovation, the [Pepperdine Graziadio Business School](#) challenges individuals to think boldly and drive meaningful change that positively impacts their organizations and communities. With an entrepreneurial spirit, the Graziadio School advances experiential learning in small classes that deepen connections and stimulate critical thinking. Through our wide continuum of MBA, MS and Executive degree programs offered across six California campuses, Graziadio faculty inspire full time students and working professionals to realize their greatest potential as values-centered, Best for the World Leaders. Follow Pepperdine Graziadio on [Facebook](#), [Twitter](#) at [@GraziadioSchool](#), [Instagram](#) and [LinkedIn](#).

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