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2021 Private Capital Markets Report

Craig R. Everett
Pepperdine University

2021 PRIVATE CAPITAL MARKETS REPORT

Craig R. Everett, PhD
Pepperdine Graziadio Business School
Director, Private Capital Markets Project

The ESOP Association

PEPPERDINE | GRAZIADIO BUSINESS SCHOOL

2021 Private Capital Markets Report

Craig R. Everett, PhD

Revision Date: 8/12/2021

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July 1, 2021

Dear friends and colleagues;

Last year in this letter I announced that 2020 would be the last year of the Pepperdine Private Capital Markets Report, due to a loss of funding. I am pleased to announce that I was wrong. Due to the generosity of The ESOP Association, Employee Ownership Foundation, and the continuing support of Confluence Capital Group, we have been able to continue.

I am pleased to report some of the major findings this year. The most dramatic result is that the most pressing problems facing private businesses currently are labor availability and the impact of COVID-19. The most troubling emerging issues are inflation and government regulation. Cost of equity is higher this year across nearly all categories. For example, cost of equity for a company with $25MM EBITDA has increased from 22.5% to 25%.

For years, people have commented to me about our practice of giving away our research for free when it is so widely utilized - and highly valued by industry professionals. That was easy to do while we had generous internal funding. Times are different now, so we have made a change this year in order to ensure the continuation of this research project into the future. In the past, this report had been available free of charge to everyone. We will continue to offer the digital version of the report for free to everyone who completes the survey. The price will be $100 US for everyone else. An email with a download link will be sent to all survey respondents who provided their email address during the survey.

The report is available in digital (pdf) and print format on our http://privatecap.org website.

If you were forwarded a pdf copy of this report and find it useful, please consider visiting http://privatecap.org and buying your own copy to help fund our research.

As always, thank you so much for your continued support.

With sincere appreciation,

Craig R. Everett, PhD
Pepperdine Graziadio Business School
craig.everett@pepperdine.edu

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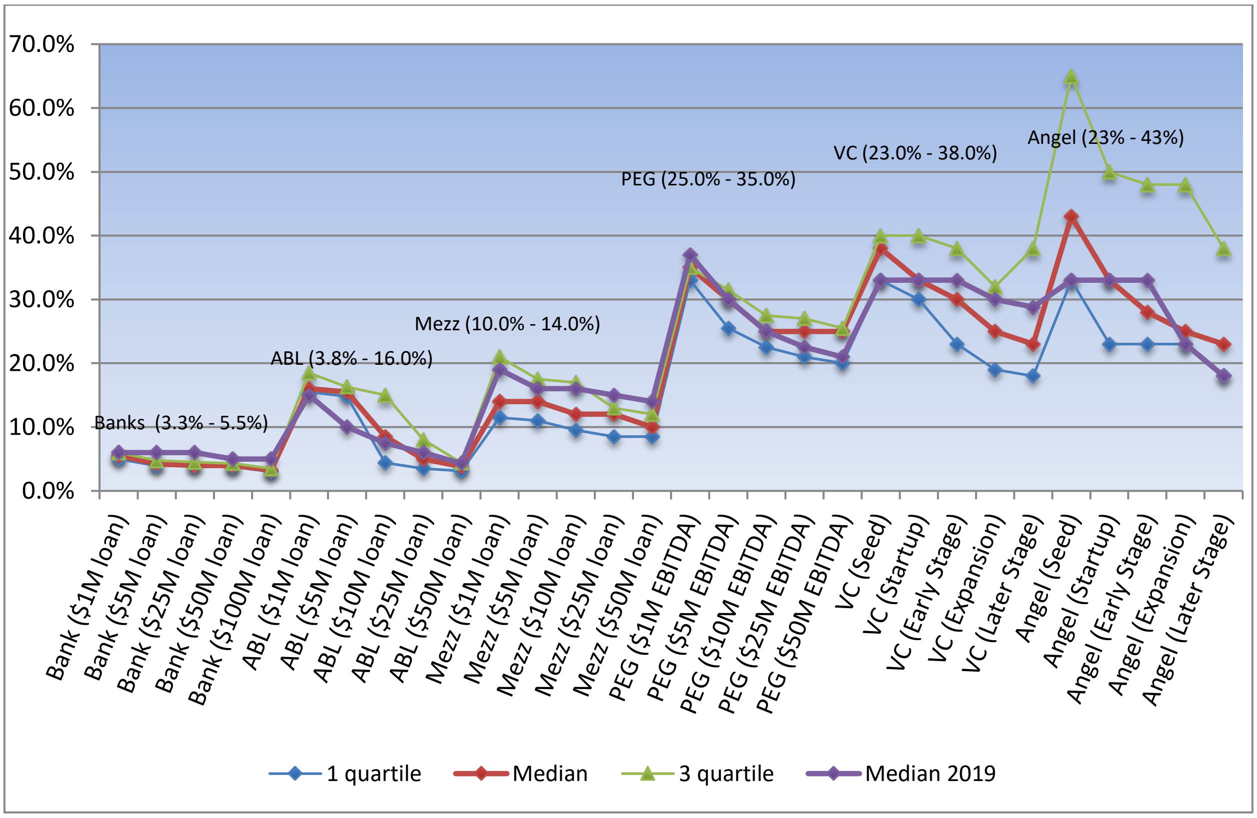
You Know Your Business
We Know Private Capital
From Initial Idea to Close, CCG Expertly Pilots Your Business Through the Entire Transaction

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 March 2021 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



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HELPING YOU NAVIGATE YOUR SUCCESSION

The Employee Ownership Foundation is here to help you navigate whether employee ownership is the right succession option for your business.

For 30 years, the Employee Ownership Foundation has been working to help more businesses realize the opportunity and advantages of employee ownership and helped more individuals become employee owners in the process.

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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. *Note: in this report, cells with only a "-" indicate categories where there were not enough survey observations.*

Table 1. Private Capital Market Required Rates of Return

	1st quartile	Median	3rd quartile
Bank ($1M loan)	5.0%	5.5%	6.0%
Bank ($5M loan)	3.9%	4.3%	4.8%
Bank ($10M loan)	3.9%	4.0%	4.5%
Bank ($25M loan)	3.8%	4.0%	4.3%
Bank ($50M loan)	3.0%	3.3%	3.5%
ABL ($1M loan)	15.5%	16.0%	18.5%
ABL ($5M loan)	14.8%	15.5%	16.3%
ABL ($10M loan)	4.4%	8.5%	15.0%
ABL ($25M loan)	3.5%	5.0%	8.0%
ABL ($50M loan)	3.1%	3.8%	4.4%
Mezz ($1M loan)	11.5%	14.0%	21.0%
Mezz ($5M loan)	11.0%	14.0%	17.5%
Mezz ($10M loan)	9.5%	12.0%	17.0%
Mezz ($25M loan)	8.5%	12.0%	13.0%
Mezz ($50M loan)	8.5%	10.0%	12.0%
PEG ($1M EBITDA)	-	-	-
PEG ($5M EBITDA)	25.5%	30.0%	31.5%
PEG ($10M EBITDA)	22.5%	25.0%	27.5%
PEG ($25M EBITDA)	21.0%	25.0%	27.0%
PEG ($50M EBITDA)	20.0%	25.0%	25.5%
VC (Seed)	33.0%	38.0%	40.0%
VC (Startup)	30.0%	33.0%	40.0%
VC (Early Stage)	23.0%	30.0%	38.0%
VC (Expansion)	19.0%	25.0%	32.0%
VC (Later Stage)	18.0%	23.0%	38.0%
Angel (Seed)	33.0%	43.0%	65.0%
Angel (Startup)	23.0%	33.0%	50.0%
Angel (Early Stage)	23.0%	28.0%	48.0%
Angel (Expansion)	23.0%	25.0%	48.0%
Angel (Later Stage)	18.0%	23.0%	38.0%

LIMITED PARTNER SURVEY INFORMATION

Approximately 36% of the 37 respondents in the limited partner survey reported direct investments as being the best risk/return trade-off investment class and another 21% reported growth 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, 19% of respondents reported information technology.

- On average respondents target to allocate 23% of their assets to direct investments, 16% to buyout venture capital and 15% to real estate funds. Respondents expect the highest returns of 11% from venture capital, 10% from direct investments, 10% from growth private equity and 9% from buyout private equity.

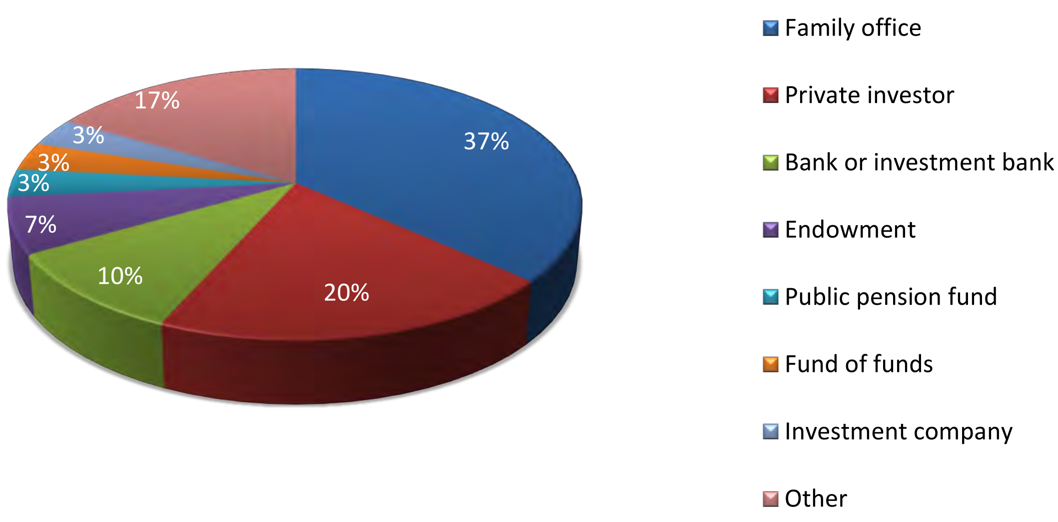
- Respondents indicated increased allocation to venture capital, private equity, mezzanine capital, secondary funds, real estate funds and direct investments; and decreased allocation to hedge funds in the last twelve months. They also reported improved business conditions and increased expected returns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

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

Operational and Assessment Characteristics

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

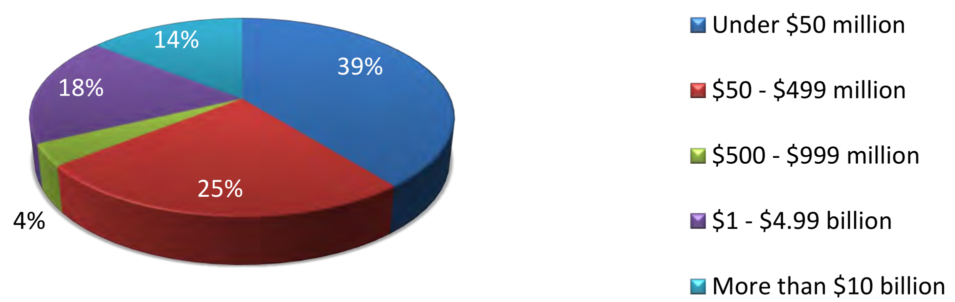
Figure 2. Entity Type



LP cont.

Approximately 39% of respondents reported their asset category being less than $50 million, while another 25% 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)

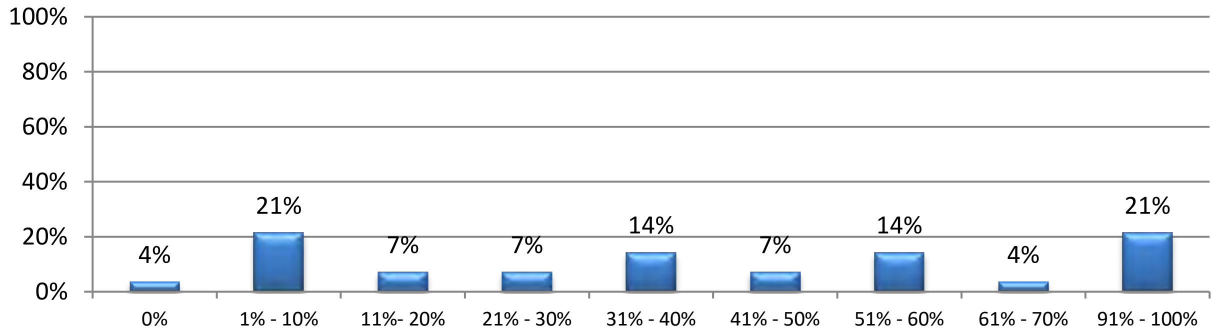
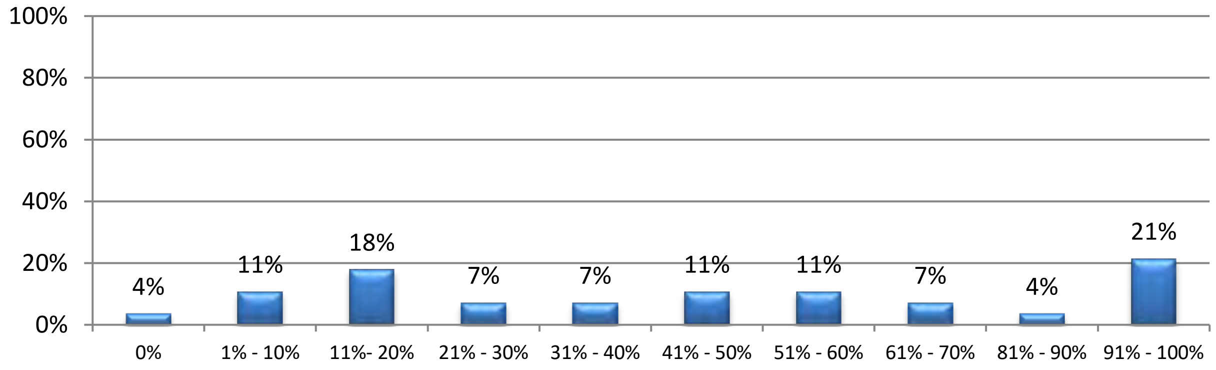


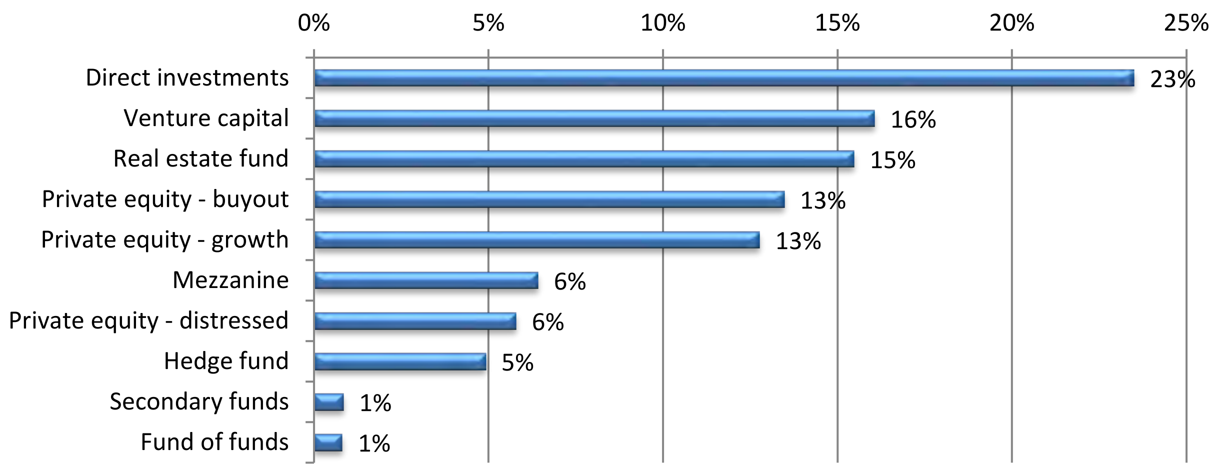
Figure 5. Target Asset Allocation for "Alternative Assets" (% of total portfolio)



LP cont.

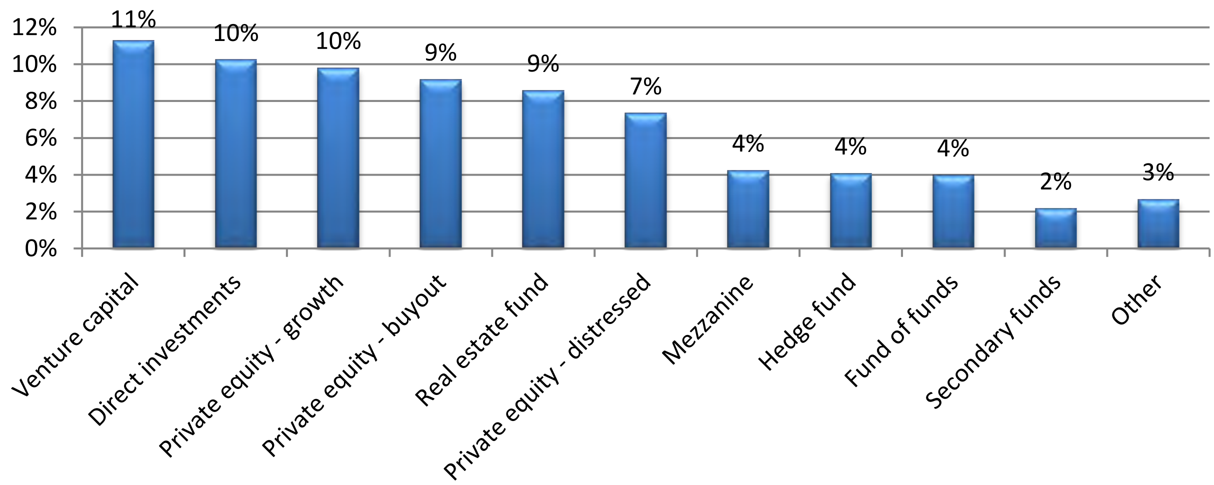
On average, respondents target to allocate 23% of their assets to direct investments, 16% to venture capital, and 15% to real estate funds.

Figure 6. Target Asset Allocation by Assets



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

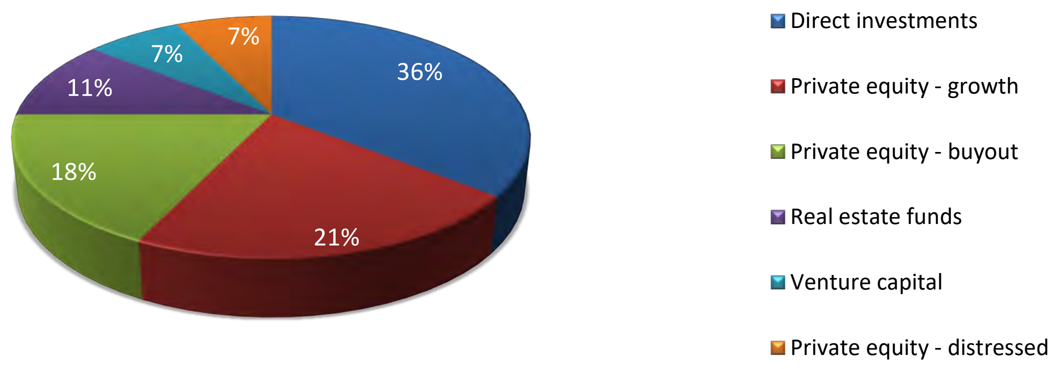
Figure 7. Annual Return Expectations for New Investments



LP cont.

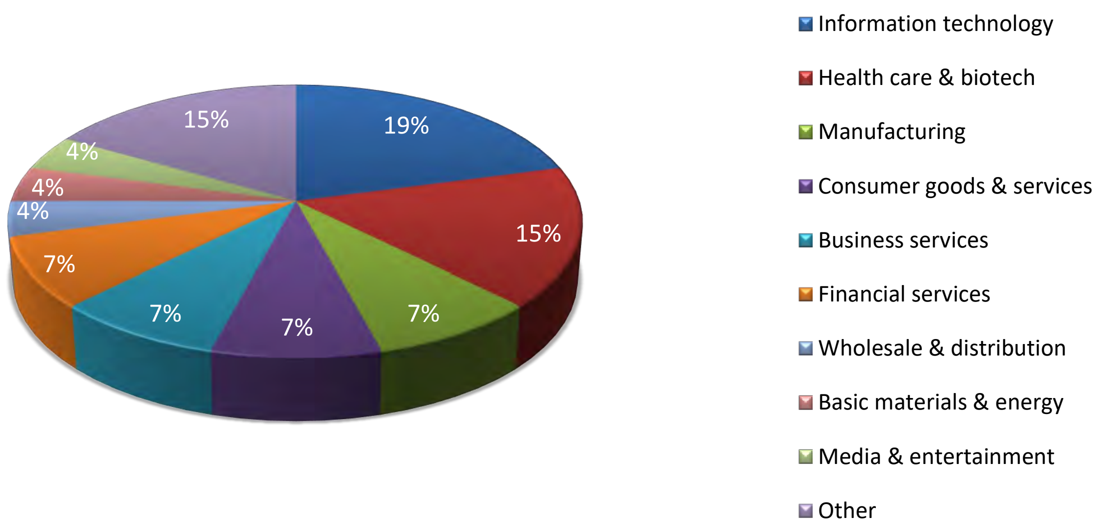
Approximately 36% of the 37 respondents in the limited partner survey reported direct investments as being the best risk/return trade-off investment class and another 21% reported growth private equity as being the best risk/return trade-off investment class.

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



When asked about which industry currently offers the best risk/return trade-off, 19% of respondents reported information technology.

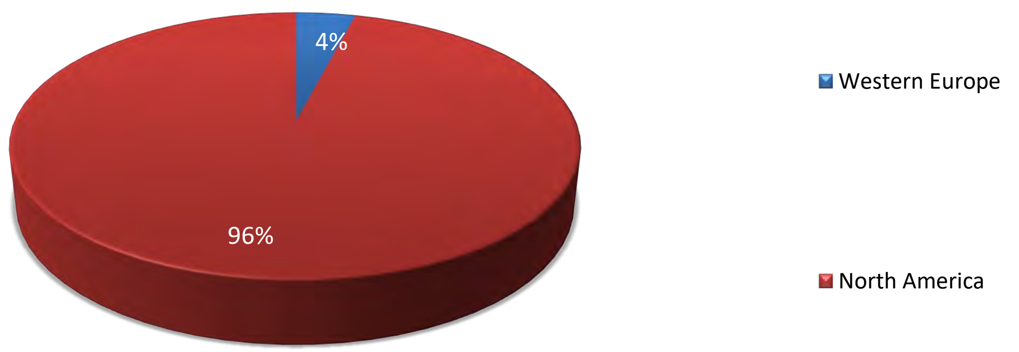
Figure 9. Industry with the Best Risk/Return



LP cont.

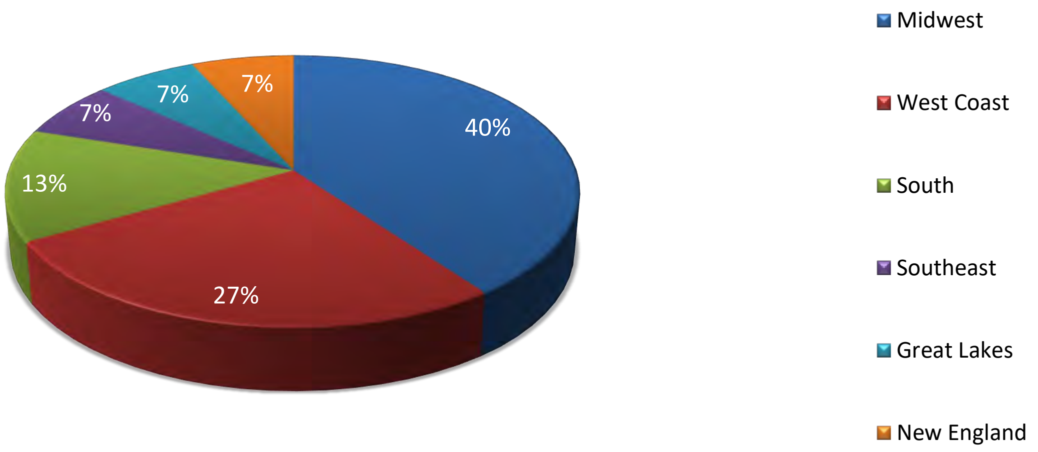
With regard to the geographic regions with the best risk/return trade-offs, 96% of respondents reported North America. It should be noted that most survey respondents are in North America.

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, 40% of respondents reported Midwest, 27% reported West Coast, and 13% reported South.

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



LP cont.

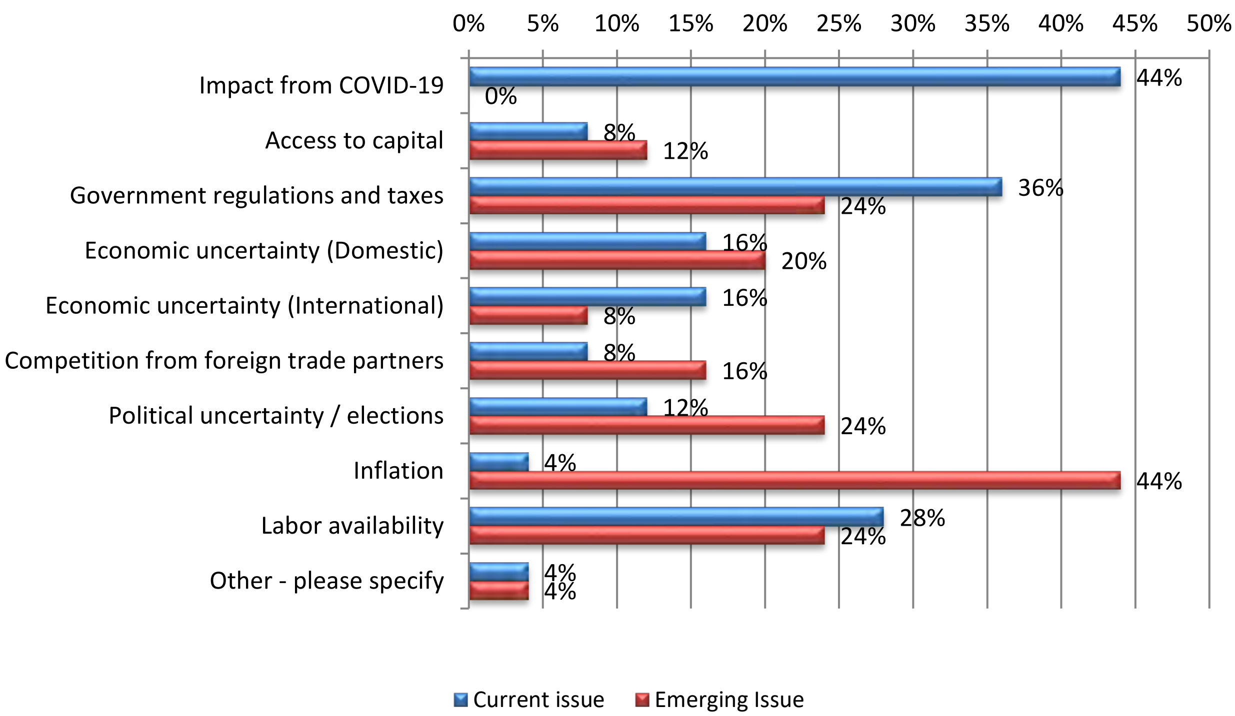
According to respondents, general partner, specific strategy and historical fund performance on all funds are the most important factors when evaluating investment.

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	4%	0%	21%	42%	33%	**4.0**
Returned capital from most recent fund (Distribution to Paid-in or DPI)	4%	8%	33%	25%	29%	**3.7**
Residual value of most recent fund (Residual Value to Paid-in or RVPI)	8%	17%	25%	25%	25%	**3.4**
General partner	0%	0%	0%	25%	75%	**4.8**
Specific strategy	4%	4%	12%	44%	36%	**4.0**
Specific location	13%	30%	22%	30%	4%	**2.8**
Gut feel/instinct	4%	39%	35%	9%	13%	**2.9**
Other	0%	17%	0%	0%	83%	**4.5**

Respondents believe impact from COVID-19 is the most important current issue facing privately-held businesses, and inflation is the most important emerging issue.

Figure 11. Issues Facing Privately-Held Businesses



LP cont.

Respondents indicated increased allocation to venture capital, private equity, mezzanine capital, secondary funds, real estate funds and direct investments; and decreased allocation to hedge funds in the last twelve months. They also reported improved business conditions and increased 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	4%	4%	65%	15%	12%	27%	8%	**19%**
Allocation to private equity	0%	0%	44%	48%	8%	56%	0%	**56%**
Allocation to mezzanine	5%	10%	55%	25%	5%	30%	15%	**15%**
Allocation to hedge funds	13%	9%	61%	13%	4%	17%	22%	**-4%**
Allocation to secondary funds	5%	5%	71%	10%	10%	19%	10%	**10%**
Allocation to real estate funds	0%	4%	50%	21%	25%	46%	4%	**42%**
Direct investments	9%	9%	30%	35%	17%	52%	17%	**35%**
General business conditions	4%	0%	28%	36%	32%	68%	4%	**64%**
Expected returns on new capital deployed	8%	4%	52%	28%	8%	36%	12%	**24%**

Respondents also expect further increases in allocation to venture capital, private equity, mezzanine capital, secondary funds, real estate funds and direct investments, improving business conditions and increasing 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%	**20%**
Allocation to private equity	0%	5%	54%	32%	8%	41%	5%	**35%**
Allocation to mezzanine	6%	3%	73%	12%	6%	18%	9%	**9%**
Allocation to hedge funds	6%	12%	70%	9%	3%	12%	18%	**-6%**
Allocation to secondary funds	3%	13%	69%	9%	6%	16%	16%	**0%**
Allocation to real estate funds	3%	6%	51%	31%	9%	40%	9%	**31%**
Direct investments	0%	3%	50%	29%	18%	47%	3%	**44%**
General business conditions	0%	30%	38%	24%	8%	32%	30%	**3%**
Expected returns on new capital deployed	0%	34%	39%	18%	8%	26%	34%	**-8%**

BANK LENDING SURVEY INFORMATION

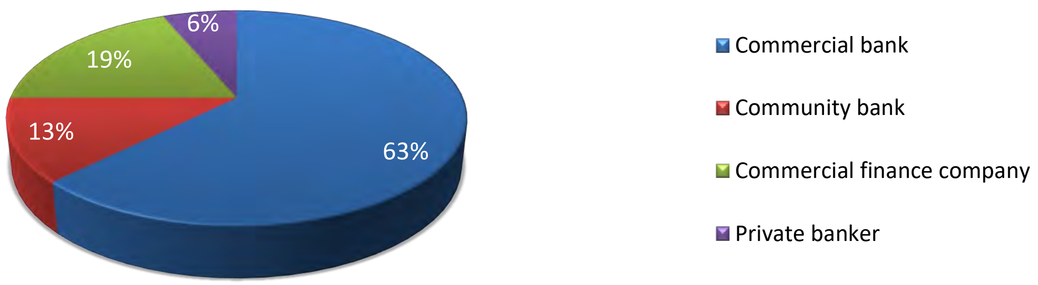
There were 20 responses to the bank lending survey. Over 82% of respondents believe that general business conditions will improve over the next 12 months and over 91% said demand for loans will increase. Other key findings include:

- Over the last twelve months respondents were seeing flat senior and leverage multiples, with increase in general underwriting standards and flat 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 a decrease in interest rates.
- Currently, 64% lenders see domestic impact from COVID-19 as the top issue facing privately-held businesses today.

Operational and Assessment Characteristics

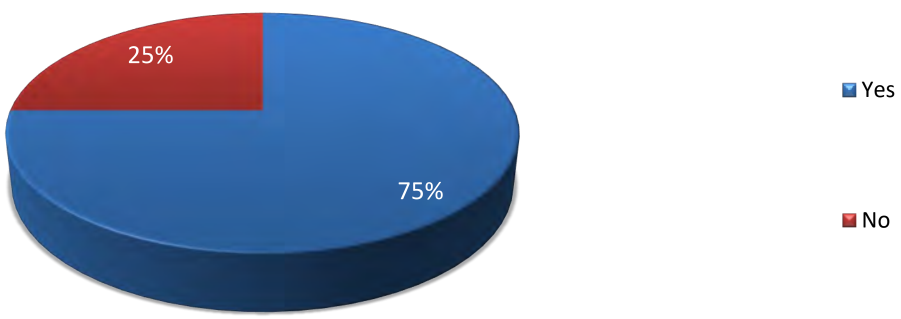
Respondents reported on the type of entity that best describes their lending function.

Figure 12. Description of Lending Entity



The majority (75%) report participating in government loan programs.

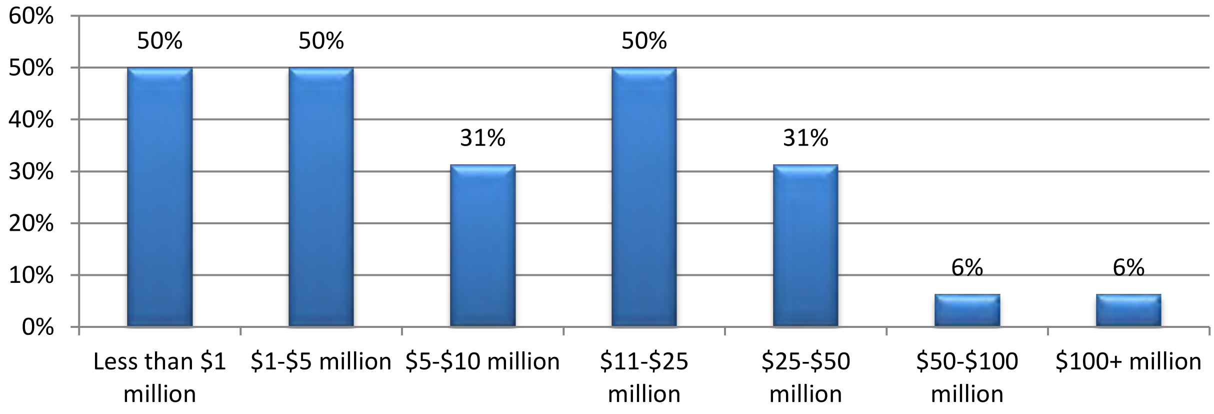
Figure 13. Participation in Government Loan Programs



BANKS cont.

The largest concentration of loan sizes was between $0 million and $50 million.

Figure 14. Typical Investment Size



Respondents reported on average terms for various loan sizes.

Table 5. General Characteristics – Bank Loans by Size

	Median interest rate	Median term (years)	Commitment fee (%)	Closing fee (%)
Less than $1 million	5.5%	6.5	0.5%	0.2%
$1-$5 million	4.3%	6	0.2%	0.1%
$6-$10 million	4.0%	5	0.6%	0.1%
$11-$25 million	4.0%	5	0.5%	0.5%
$25-$50 million	3.3%	5	0.5%	0.0%

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

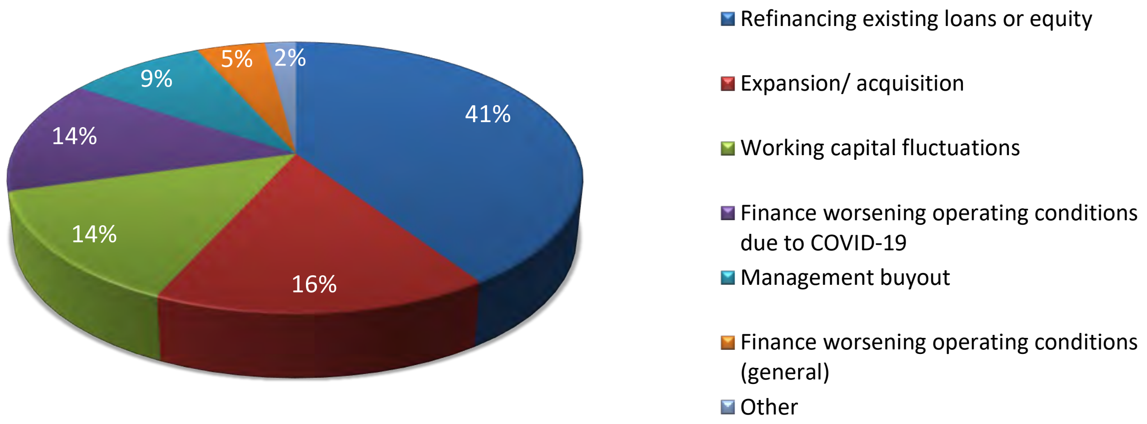
Table 6. Senior Leverage Multiple by EBITDA Size

	$1M EBITDA	$5M EBITDA	$10M EBITDA	$25M EBITDA	$50M EBITDA	$50M+ EBITDA
Manufacturing	3.0	3.0	3.0	3.0	3.5	3.5
Construction & engineering	2.5	2.7	3.0	3.1	3.5	>4
Consumer goods & services	2.9	3.0	3.0	3.0	3.0	n/a
Wholesale & distribution	2.5	2.9	3.0	3.0	3.8	4.0
Business services	2.8	2.9	3.0	3.0	>4	>4
Basic materials & energy	2.3	2.5	2.5	4.0	n/a	n/a
Healthcare & biotech	3.0	3.5	3.5	3.7	3.7	4.0
Information technology	4.0	>4	>4	>4	>4	>4
Financial services	3.0	3.0	3.5	n/a	n/a	n/a
Media & entertainment	2.0	2.3	2.3	4.0	n/a	n/a
Overall median	**2.8**	**2.9**	**3.0**	**3.1**	**3.5**	**4.0**

BANKS cont.

Refinancing existing loans or equity was the most commonly described financing motivation at 41%, followed by expansion/ acquisition at 16%.

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



Senior 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	44%	0%	22%	33%	0%	2.4
Senior DSCR or FCC ratio	0%	0%	0%	30%	70%	4.7
Total DSCR or FCC ratio	0%	0%	8%	25%	67%	4.6
Senior debt to cash flow	0%	0%	18%	45%	36%	4.2
Total debt to cash flow	0%	9%	9%	45%	36%	4.1
Debt to net worth	18%	0%	27%	45%	9%	3.3

Table 8. Financial Evaluation Metrics Average Data

	Average borrower data	Limit not to be exceeded
Current ratio	1.2	1.0
Senior DSCR or FCC ratio	1.3	1.2
Total DSCR or FCC ratio	1.3	1.2
Senior debt to cash flow	2.5	3.3
Total debt to cash flow	3.3	4.0
Debt to net worth	1.4	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
Personal guarantee	95%	95%	95%	48%	65%
Collateral	95%	93%	95%	95%	95%

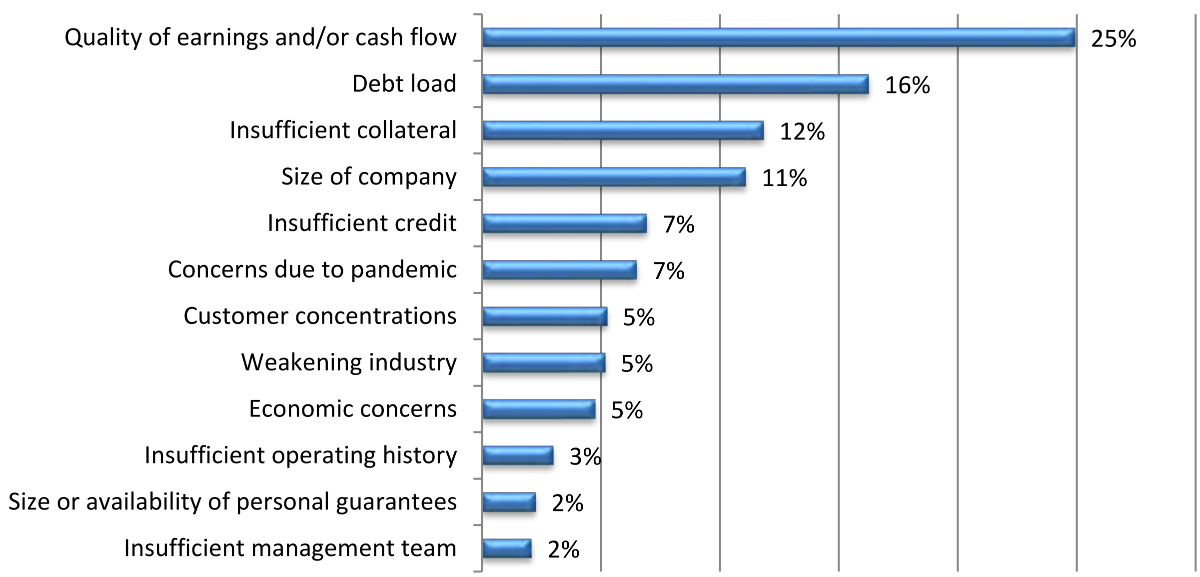
Approximately 41% of cash flow applications were declined.

Table 10. Applications Data

	Reviewed	Offered	Booked	Declined
Cash flow based	435	55%	35%	41%
Collateral based	156	79%	24%	82%
Real estate	195	73%	22%	22%

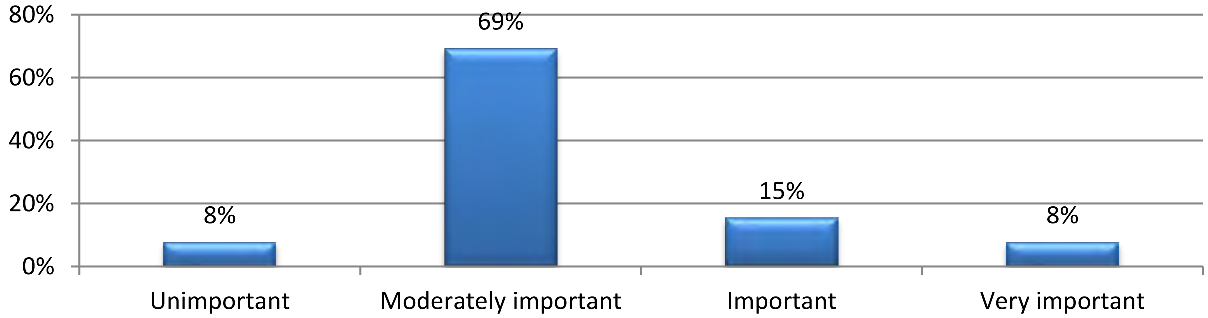
Approximately 25% of applications were declined due to poor quality of earnings and/or cash flow followed by 16% that were declined due to debt load.

Figure 33. Reason for Declined Loans



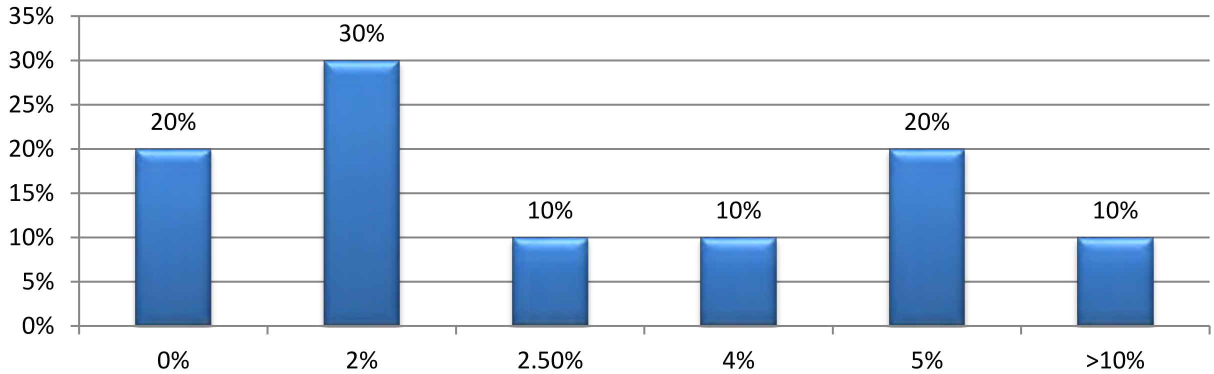
Approximately 23% of respondents identified revenue growth rate as important or very important factor.

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



Approximately 30% of applications had a revenue growth rate of 5% or more annually.

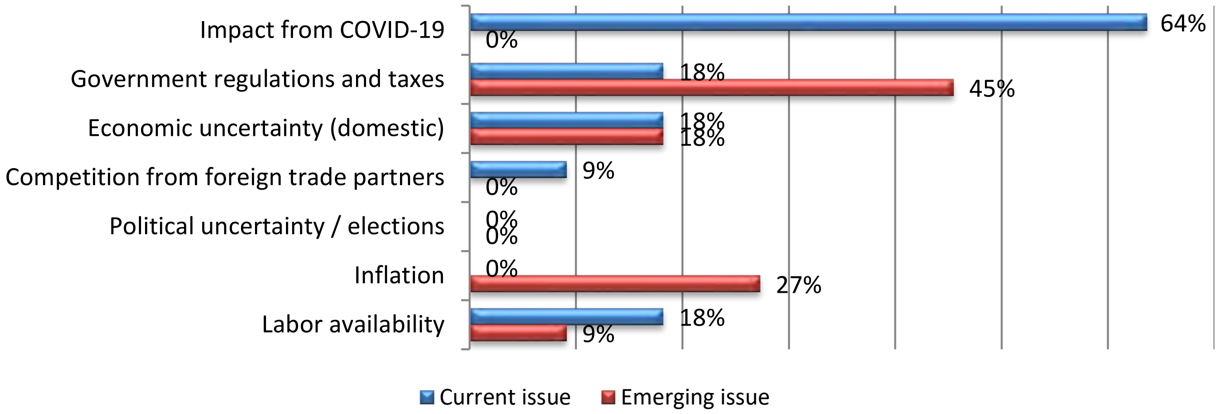
Figure 17. Revenue Growth Rate – Average Borrower Data



BANKS cont.

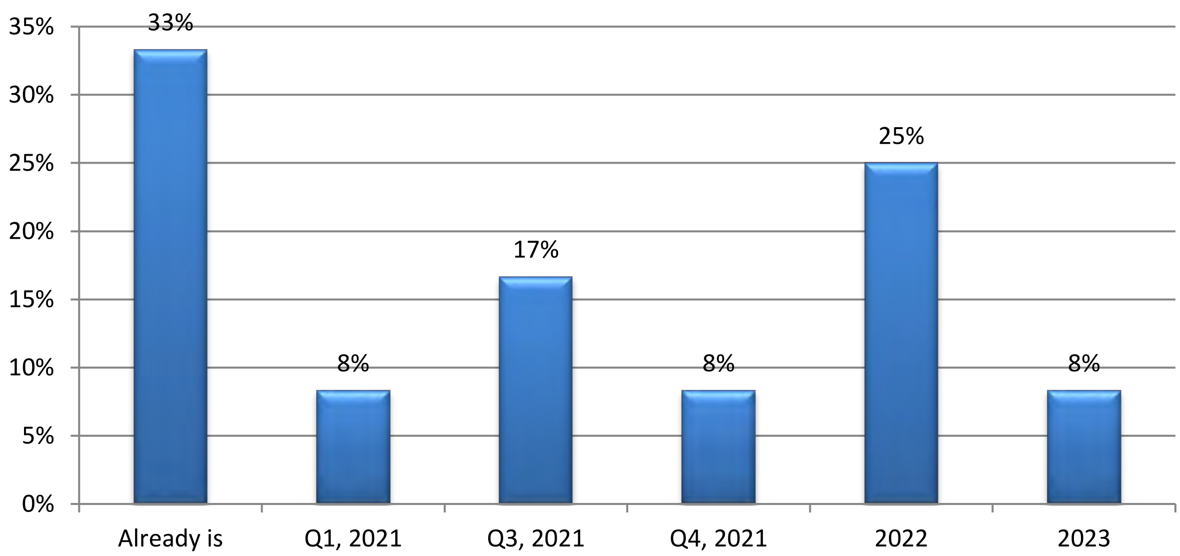
Respondents believe impact from COVID-19 is the most important issue facing privately-held businesses today.

Figure 34. Issues Facing Privately-Held Businesses



Approximately 33% of respondents believe bank financing already returned to pre-March 2020 level.

Figure 18. When Bank Financing Returns to Pre-March 2020 Level



Over the last twelve months respondents were seeing flat senior and leverage multiples, with decrease in general business conditions and decreased appetite for risk.

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)	27%	9%	9%	36%	18%	55%	36%	**18%**
General underwriting standards	0%	17%	8%	42%	33%	75%	17%	**58%**
Credit quality of borrowers applying for credit	0%	36%	36%	27%	0%	27%	36%	**-9%**
Due diligence efforts	0%	0%	33%	42%	25%	67%	0%	**67%**
Average loan size	9%	0%	82%	0%	9%	9%	9%	**0%**
Average loan maturity (months)	0%	8%	83%	8%	0%	8%	8%	**0%**
Percent of loans with personal guarantees	0%	0%	100%	0%	0%	0%	0%	**0%**
Percent of loans requiring collateral	0%	0%	90%	10%	0%	10%	0%	**10%**
Size of interest rate spreads (pricing)	0%	55%	9%	36%	0%	36%	55%	**-18%**
Loan fees	0%	25%	75%	0%	0%	0%	25%	**-25%**
Senior leverage multiples	0%	17%	58%	17%	8%	25%	17%	**8%**
Total leverage multiples	0%	17%	58%	25%	0%	25%	17%	**8%**
Focus on collateral as backup means of payment	0%	9%	64%	27%	0%	27%	9%	**18%**
SBA lending	0%	14%	29%	0%	57%	57%	14%	**43%**
Lending capacity of bank	0%	18%	45%	18%	18%	36%	18%	**18%**
General business conditions	9%	36%	36%	9%	9%	18%	45%	**-27%**
Appetite for risk	0%	67%	8%	17%	8%	25%	67%	**-42%**

BANKS cont.

Respondents also expect increases in demand for business loans, lending capacity of banks, improving general business conditions, slightly increasing total and leverage multiples, and flat 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%	0%	9%	64%	27%	91%	0%	**91%**
General underwriting standards	0%	0%	82%	18%	0%	18%	0%	**18%**
Credit quality of borrowers applying for credit	0%	27%	55%	18%	0%	18%	27%	**-9%**
Due diligence efforts	0%	0%	64%	36%	0%	36%	0%	**36%**
Average loan size	0%	0%	55%	36%	9%	45%	0%	**45%**
Average loan maturity (months)	0%	0%	100%	0%	0%	0%	0%	**0%**
Percent of loans with personal guarantees	0%	0%	100%	0%	0%	0%	0%	**0%**
Percent of loans requiring collateral	0%	0%	100%	0%	0%	0%	0%	**0%**
Size of interest rate spreads (pricing)	0%	27%	45%	27%	0%	27%	27%	**0%**
Loan fees	0%	27%	73%	0%	0%	0%	27%	**-27%**
Senior leverage multiples	0%	9%	73%	18%	0%	18%	9%	**9%**
Total leverage multiples	0%	9%	73%	18%	0%	18%	9%	**9%**
Focus on collateral as backup means of payment	0%	0%	82%	18%	0%	18%	0%	**18%**
SBA lending	0%	43%	29%	14%	14%	29%	43%	**-14%**
Lending capacity of bank	0%	9%	45%	45%	0%	45%	9%	**36%**
General business conditions	0%	0%	18%	64%	18%	82%	0%	**82%**
Appetite for risk	0%	9%	36%	45%	9%	55%	9%	**45%**

ASSET-BASED LENDING SURVEY INFORMATION

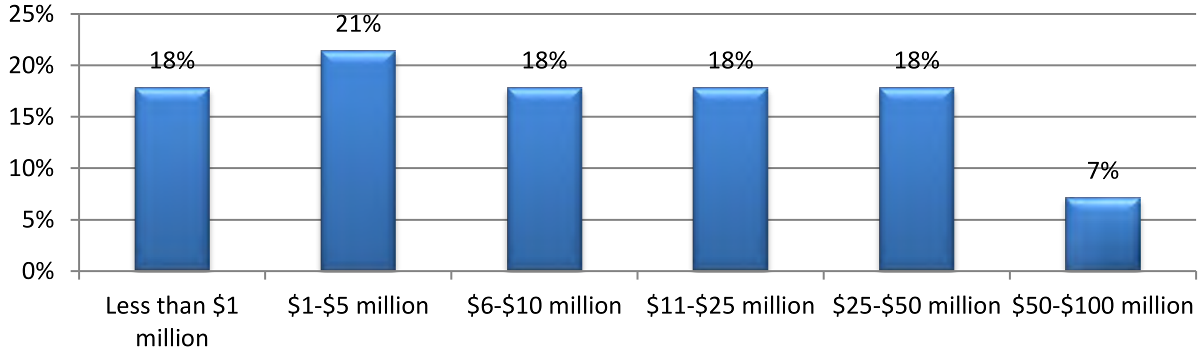
There were 14 responses to the asset-based lending survey. Over 25% of respondents believe that general business conditions will worsen over the next 12 months and over 88% said demand for loans will increase. Other key findings include:

- Over the last twelve months respondents were seeing flat advance rates with slight increase in demand for business loans.
- Respondents also expect increases in general underwriting standards, average loan size, slightly increasing general business conditions, decreasing interest rates and flat loan fees.
- Currently, 50% lenders see domestic economic uncertainty and labor availability as a top issue facing privately-held businesses today, government regulations and taxes and inflation are the top emerging issues.

Operational and Assessment Characteristics

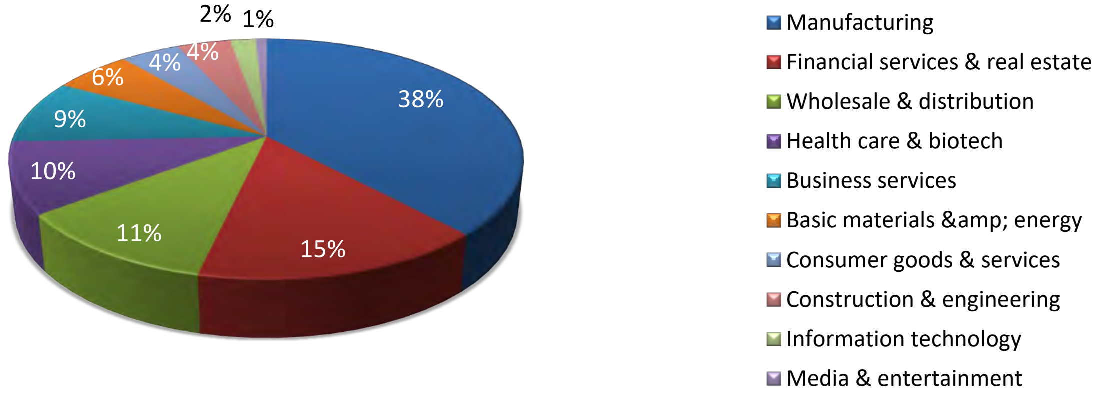
The largest concentration of loan sizes was between $0 million and $50 million.

Figure 19. Typical Investment Size



According to respondents approximately 38% of asset-based loans were issued to manufacturing companies.

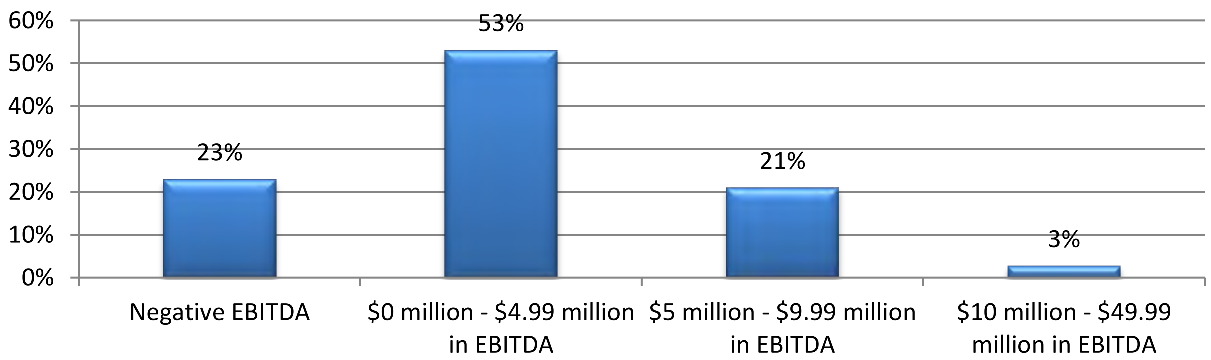
Figure 35. Industries Served by Asset-Based Lenders



ABL cont.

Approximately 53% of the companies that booked asset-based loans in the last twelve months had EBITDA size between $0 and $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	16.0%	13.0%	16.0%	19.0%	11.5%	16.0%	17
$1-5 million	14.0%	13.0%	15.0%	13.5%	9.5%	15.5%	19
$5-$10 million	12.0%	11.0%	8.5%	4.8%	7.5%	8.5%	23
$10-25 million	9.0%	6.0%	5.3%	4.5%	5.3%	5.0%	36
$25-50 million	3.0%	2.9%	3.5%	4.0%	3.3%	3.8%	59
$50-100 million	3.0%	2.5%	3.0%	3.5%	2.8%	3.3%	65

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

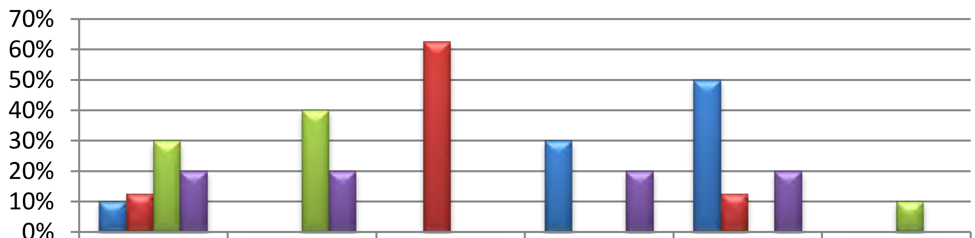
Table 14. Standard Advance Rate (or LTV ratio) for Assets (%)

	Typical Loan			Upper Limit		
	1st Quartile	Median	3rd Quartile	1st Quartile	Median	3rd Quartile
Marketable securities	80%	85%	85%	95%	100%	100%
Accounts Receivable	16%	28%	39%	90%	90%	90%
Inventory - Low quality	38%	50%	53%	38%	50%	53%
Inventory - Intermediate quality	55%	65%	70%	55%	65%	70%
Inventory - High quality	66%	75%	81%	66%	75%	81%
Equipment	51%	63%	68%	81%	95%	100%
Real Estate	5%	5%	40%	55%	70%	74%
Land	n/a	n/a	n/a	5%	45%	60%

ABL cont.

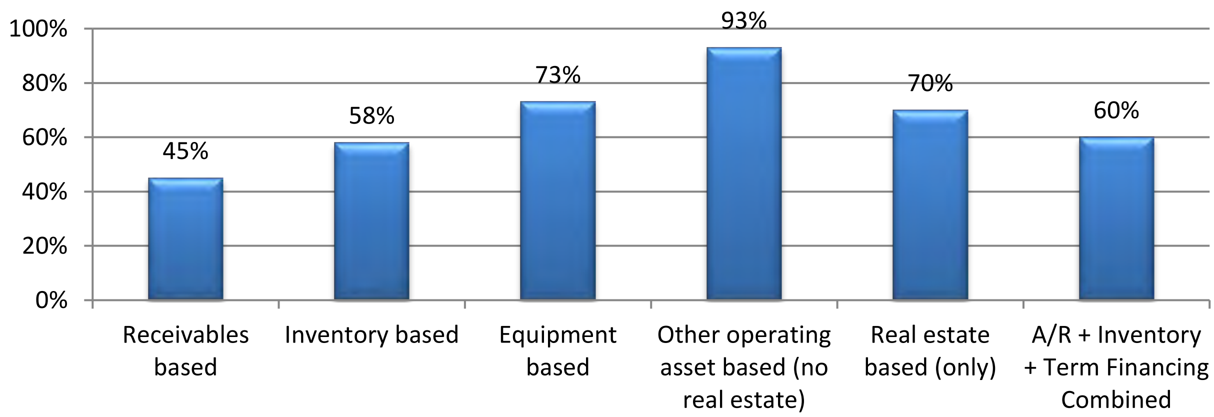
Respondents reported on valuation standards used to estimate LTV ratios.

Figure 37. Valuation Standards Used to Estimate LTV Ratio



	Purchase price	Face value	Fair Market Value	Forced liquidation	Orderly liquidation	Other
Equipment	10%	0%	0%	30%	50%	0%
Real estate	13%	0%	63%	0%	13%	0%
Accounts Receivable	30%	40%	0%	0%	0%	10%
Inventory	20%	20%	0%	20%	20%	0%

Figure 21. Asset-Based Loans Decline Rate



Various fees as reported by lenders are as follows.

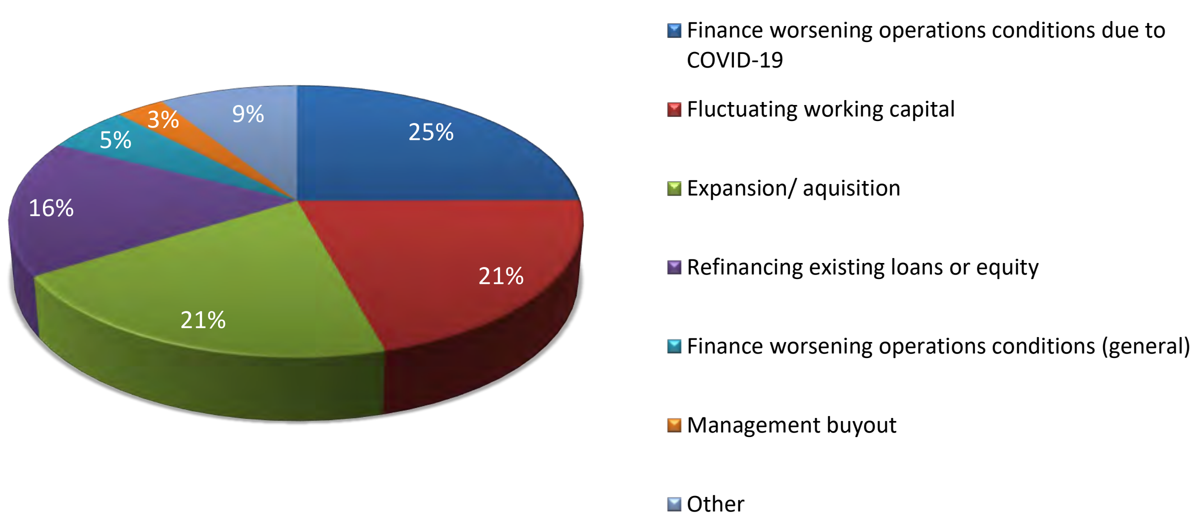
Table 15. Fees Charged

	1st Quartile	Median	3rd Quartile
Closing fee	0.9%	1.0%	1.6%
Modification fee	0.2%	0.2%	0.2%
Commitment fee	0.3%	0.3%	0.3%
Underwriting fee	0.4%	0.6%	0.8%
Arrangement fee	0.1%	0.1%	0.1%
Prepayment penalty (yr 1)	0.9%	1.0%	1.6%
Prepayment penalty (yr 2)	0.5%	0.5%	0.5%
Unused line fee	0.3%	0.4%	0.5%

ABL cont.

Financing worsening operations conditions due to COVID-19 was the most commonly described financing motivation at 25%, followed by fluctuating working capital at 21%.

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	29%	14%	29%	29%	0%	2.6
Senior DSCR or FCC ratio	14%	14%	14%	29%	29%	3.4
Total DSCR or FCC ratio	13%	0%	25%	38%	25%	3.6
Senior debt to cash flow	29%	0%	29%	43%	0%	2.9
Total debt to cash flow	25%	0%	13%	50%	13%	3.3
Debt to net worth	29%	0%	29%	43%	0%	2.9

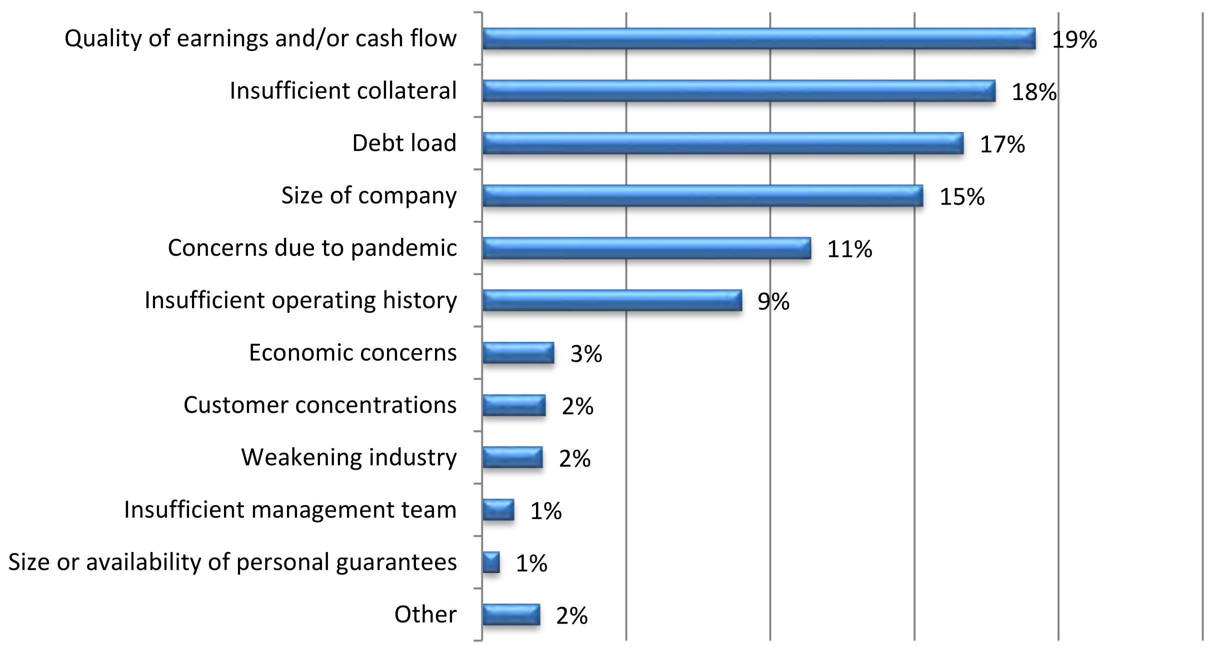
ABL cont.

Table 17. Financial Evaluation Metrics Average Data

	Average borrower data	Limit not to be exceeded
Current ratio	1.5	1.1
Senior DSCR or FCC ratio	1.1	<1
Total DSCR or FCC ratio	1.1	<1
Senior debt to cash flow	1.4	1.9
Total debt to cash flow	1.1	2.5
Debt to net worth	3.0	2.7

Approximately 19% of applications were declined due to poor quality of earnings and/or cash flow followed by 18% that were declined due to insufficient collateral.

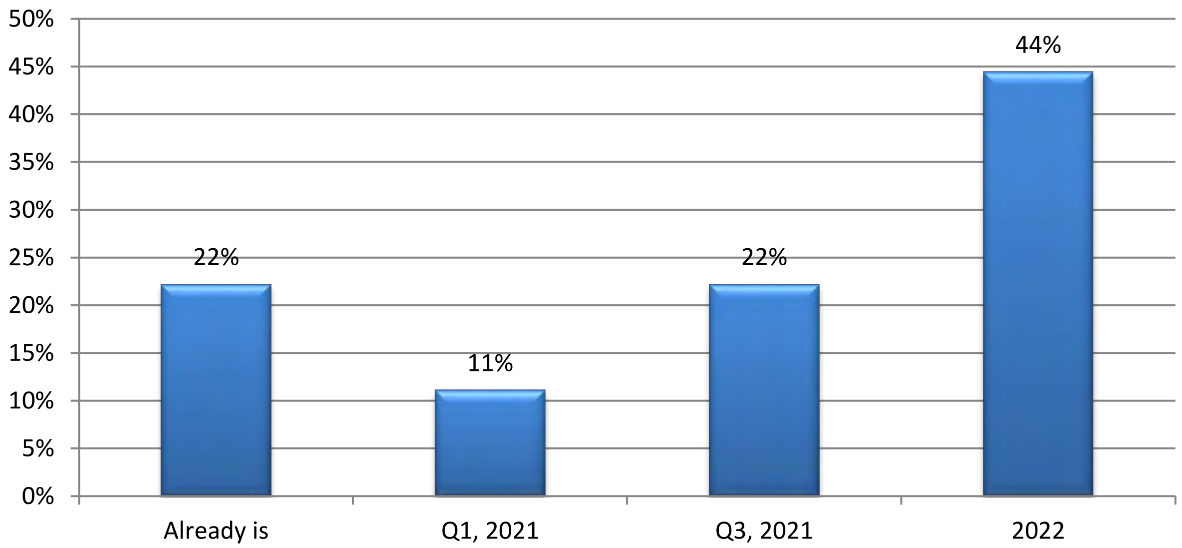
Figure 23. Reason for Declined Loans



ABL cont.

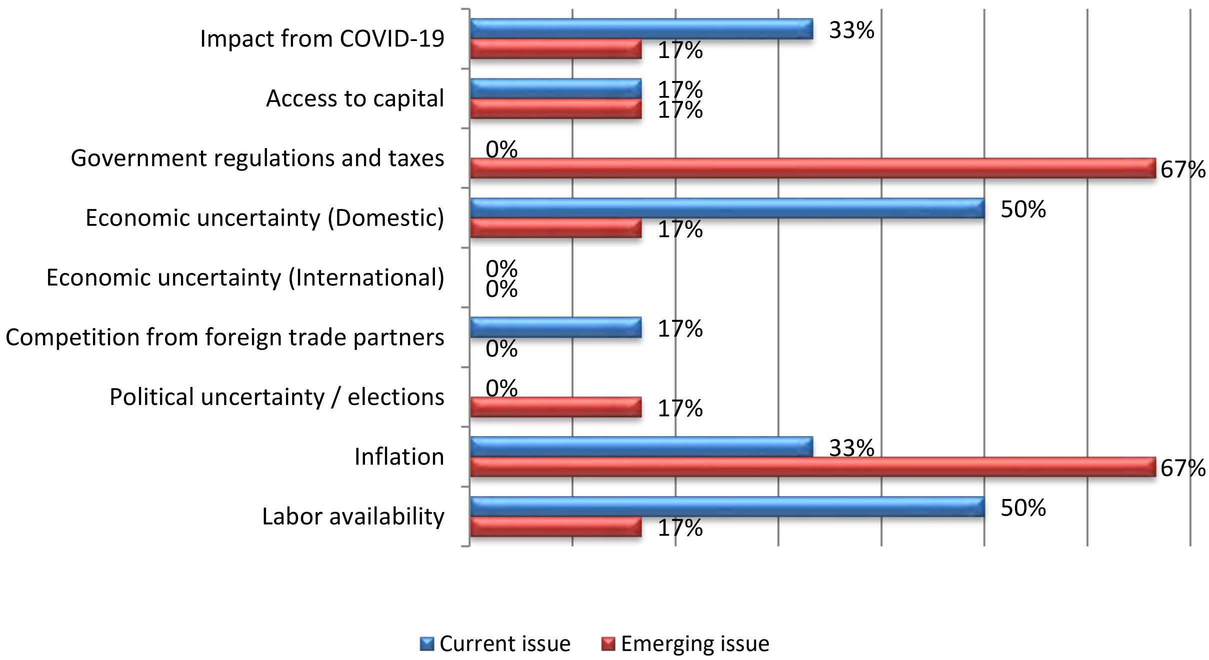
Approximately 44% of respondents believe Asset-Based Lending will return to pre-March 2020 level in 2022.

Figure 24. When Asset-Based Lending Returns to Pre-March 2020 Level



Currently, 67% lenders see government regulations and taxes are top issues facing privately-held businesses today, domestic economic uncertainty and labor availability are the top emerging issues.

Figure 25. Issues Facing Privately-Held Businesses



ABL cont.

Over the last twelve months respondents were seeing flat advance rates with increase in demand for business loans.

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	33%	0%	11%	22%	33%	56%	33%	**22%**
General underwriting standards	0%	11%	33%	33%	22%	56%	11%	**44%**
Credit quality of borrowers	0%	38%	25%	38%	0%	38%	38%	**0%**
Due diligence efforts	0%	0%	44%	33%	22%	56%	0%	**56%**
Average loan size	0%	0%	33%	22%	44%	67%	0%	**67%**
Average loan maturity	0%	0%	89%	0%	11%	11%	0%	**11%**
Interest rate spread (pricing)	11%	22%	33%	11%	22%	33%	33%	**0%**
Loan fees	11%	33%	22%	11%	22%	33%	44%	**-11%**
Loans outstanding	0%	44%	11%	11%	33%	44%	44%	**0%**
Percent of loans with personal guarantees	0%	13%	38%	25%	25%	50%	13%	**38%**
Focus on cash flow as backup means of payment	0%	0%	43%	43%	14%	57%	0%	**57%**
Nonaccrual loans	0%	17%	67%	17%	0%	17%	17%	**0%**
Number/ tightness of financial covenants	0%	13%	75%	13%	0%	13%	13%	**0%**
Standard advance rates	0%	13%	75%	13%	0%	13%	13%	**0%**
General business conditions	11%	11%	44%	22%	11%	33%	22%	**11%**
Appetite for risk	11%	22%	33%	33%	0%	33%	33%	**0%**

ABL cont.

Respondents also expect increases in general underwriting standards, average loan size, slightly improving general business conditions, decreasing interest rates and flat 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%	0%	13%	50%	38%	88%	0%	**88%**
General underwriting standards	0%	13%	25%	50%	13%	63%	13%	**50%**
Credit quality of borrowers	0%	25%	50%	25%	0%	25%	25%	**0%**
Due diligence efforts	0%	0%	38%	38%	25%	63%	0%	**63%**
Average loan size	0%	0%	25%	63%	13%	75%	0%	**75%**
Average loan maturity	0%	0%	75%	25%	0%	25%	0%	**25%**
Interest rate spread (pricing)	0%	50%	25%	25%	0%	25%	50%	**-25%**
Loan fees	0%	25%	50%	25%	0%	25%	25%	**0%**
Loans outstanding	0%	0%	13%	63%	25%	88%	0%	**88%**
Percent of loans with personal guarantees	0%	17%	50%	17%	17%	33%	17%	**17%**
Focus on cash flow as backup means of payment	0%	0%	57%	43%	0%	43%	0%	**43%**
Nonaccrual loans	0%	20%	80%	0%	0%	0%	20%	**-20%**
Number/ tightness of financial covenants	0%	13%	50%	38%	0%	38%	13%	**25%**
Standard advance rates	0%	13%	75%	13%	0%	13%	13%	**0%**
General business conditions	0%	25%	38%	38%	0%	38%	25%	**13%**
Appetite for risk	0%	38%	25%	25%	13%	38%	38%	**0%**

MEZZANINE SURVEY INFORMATION

The majority of the 28 participants that responded to the mezzanine survey typically book deals in the $5 million to $25 million range. Over 20% plan on investing in business services, another 18% to manufacturing and another 16% to health care & biotech over the next 12 months. Other key findings include:

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

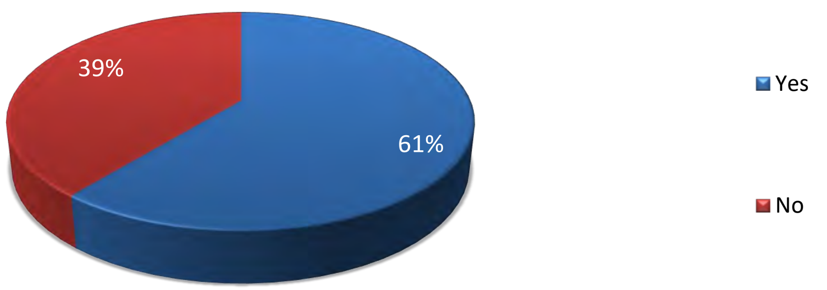
- Respondents expect increasing demand for mezzanine capital, leverage multiples, appetite for risk, and improving general business conditions; slightly decreasing warrant coverage and flat expected returns on new investments.

- Approximately 40% of respondents believe impact from COVID-19 and access to capital are the most important issues facing privately-held businesses today.

Operational and Assessment Characteristics

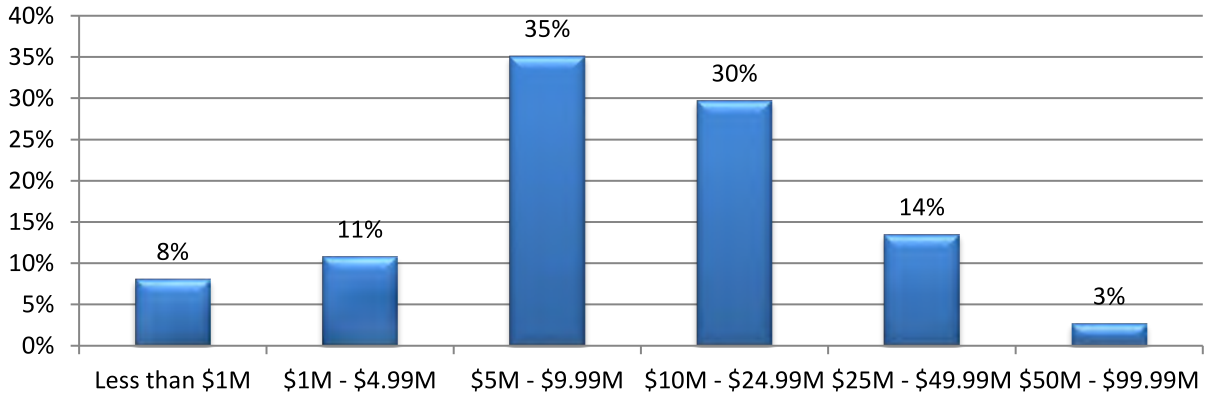
Approximately 61% of respondents are SBIC Firms.

Figure 26. SBIC (small business investment) Firms



The largest concentration of typical loan sizes is between $5 million and $25 million.

Figure 40. Typical Investment Size



MEZZANINE cont.

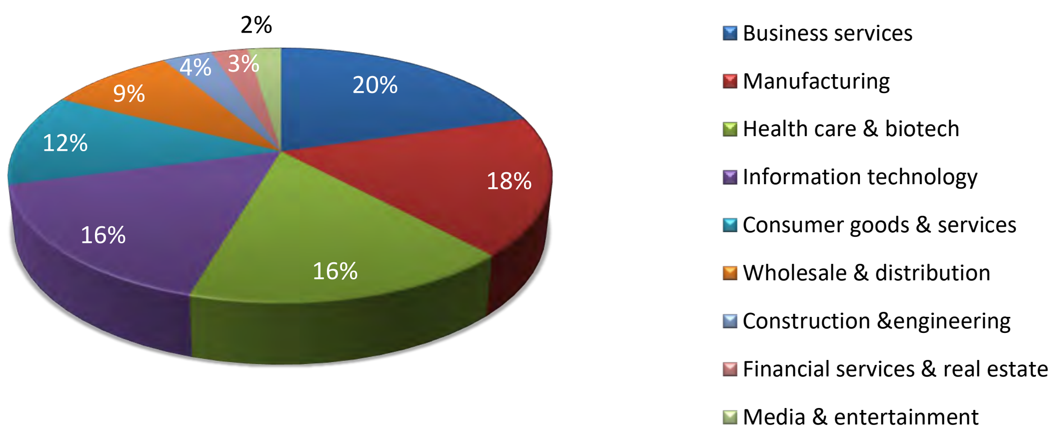
Respondents reported on business practices and the results are reflected below.

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)	75	250	250
Targeted number of total investments	13	23	38
Target fund return (gross pretax cash on cash annual IRR %)	15%	16%	18%
Expected fund return (gross pretax cash on cash annual IRR %)	15%	16.5%	18%

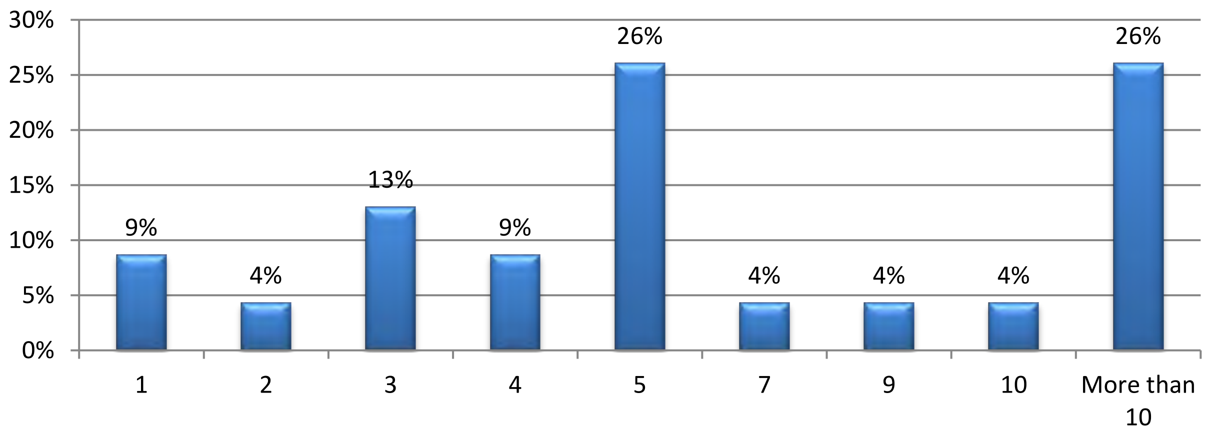
The types of businesses that mezzanine lenders plan to invest in over next 12 months are very diverse with over 20% plan on investing in business services, another 18% to manufacturing and another 16% to health care & biotech.

Figure 27. Type of Business for Investments Planned over Next 12 Months



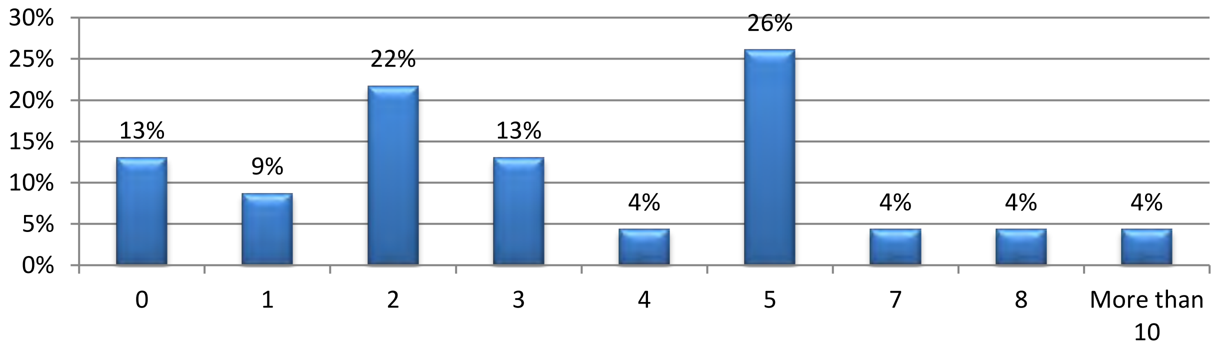
Approximately 65% of respondents made 5 investments or more over the last 12 months.

Figure 28. Total Number of Investments Made in the Last 12 Months



MEZZANINE cont.

Figure 29. Number of Follow-on Investments Made in the Last 12 Months



Approximately 26% of respondents plan to make 10 investments or more over the next 12 months.

Figure 30. Number of Total Investments Planned over Next 12 Months

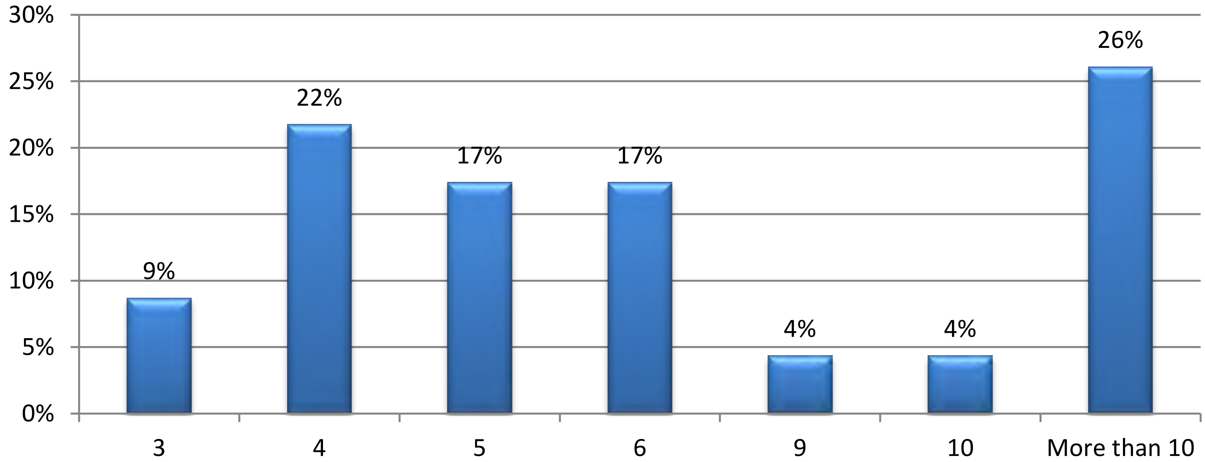
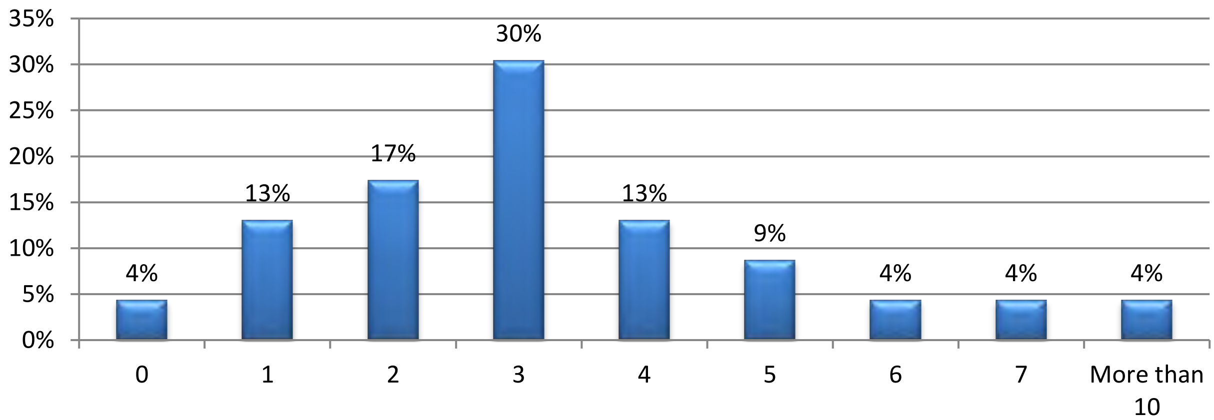


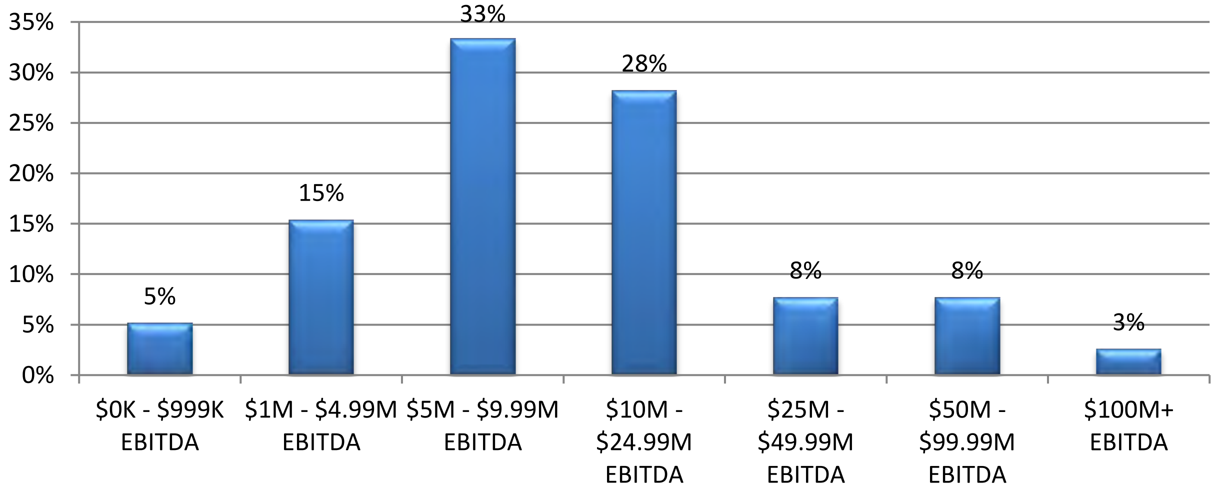
Figure 31. Number of Follow-on Investments Planned over Next 12 Months



MEZZANINE cont.

Approximately 62% of sponsored deals were in the range between $5 million and $25 million of EBITDA.

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



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

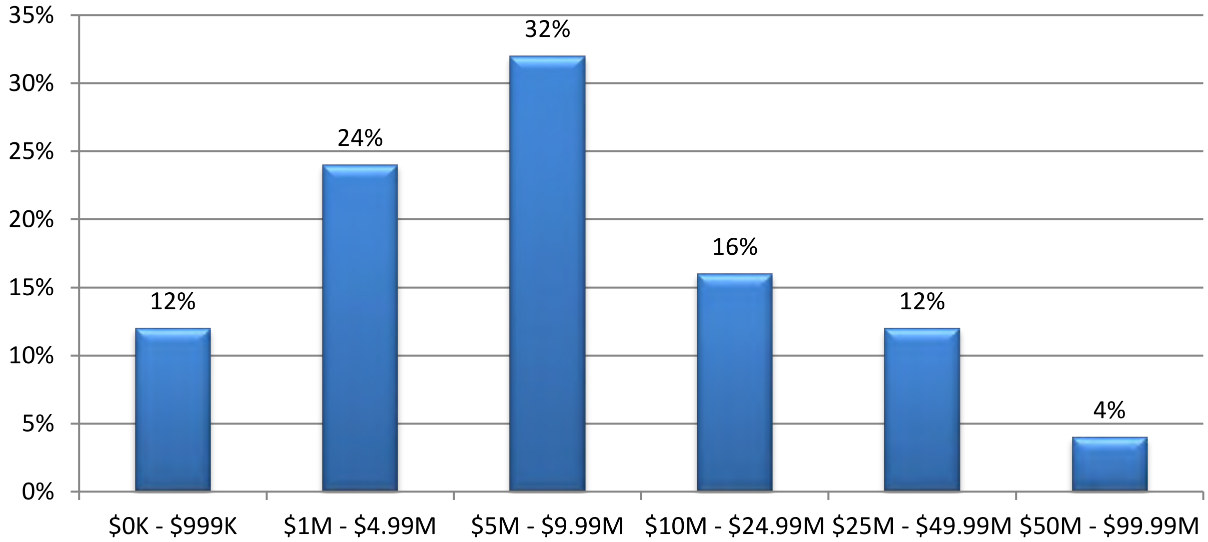
Table 21. Sponsored Deals by EBITDA Size (medians)

EBITDA size	$0 - 0.99M	$1M - $4.99M	$5M - $9.99M	$10M - $24.99M	$25M - $49.99	$50M - $99.99M
Number of deals	6	12	25	32	26	15
Average loan terms (years)	3.0	5.0	5.0	5.0	5.0	5.0
Senior leverage ratio (multiple of EBITDA)	n/a	2.3	3.0	3.8	4.0	4.5
Total leverage ratio (multiple of EBITDA)	n/a	3.5	3.5	3.5	4.0	4.5
Commitment fee (%)	0%	1%	0%	0%	0.6%	0.6%
Closing fee (%)	0.1%	1%	2%	2%	2%	2%
Cash interest rate	12%	11%	10.5%	10.0%	9.5%	8%
PIK	0.5%	0%	1%	1%	0.5%	1%
Warrants (% of FDC)	10%	0%	0%	0%	8%	0%
Total expected returns (gross cash on pre-tax IRR)	14%	14%	12%	12%	10%	9%

MEZZANINE cont.

Approximately 72% of non-sponsored deals were in the range between $1 million and $25 million of EBITDA.

Figure 33. 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	$50M - $99.99M
Number of deals	6	12	25	32	26	15
Average loan terms (years)	5.0	5.0	5.0	5.0	5.0	5.0
Senior leverage ratio (multiple of EBITDA)	6.3	2.0	2.3	3.0	2.0	2.5
Total leverage ratio (multiple of EBITDA)	6.3	3.3	3.5	4.0	3.5	4.5
Commitment fee (%)	0.0%	0.0%	0.0%	1.3%	0%	1.5%
Closing fee (%)	1.0%	1.3%	1.5%	1.5%	1.5%	1.5%
Cash interest rate	21%	12%	12%	12.0%	10.0%	10.0%
PIK	0.0%	1.5%	2.0%	0.0%	1.0%	3.0%
Warrants (% of FDC)	5.0%	6.5%	3.5%	10.0%	15.0%	5.0%
Total expected returns (gross cash on pre-tax IRR)	25%	18%	17%	16%	16%	16%

MEZZANINE cont.

Acquisition loan was reported by 32% of respondents as a motivation to secure mezzanine funding, followed by working capital fluctuations (25%) and financing growth or construction (22%).

Figure 34. Borrower Motivation to Secure Mezzanine Funding (past 12 months)

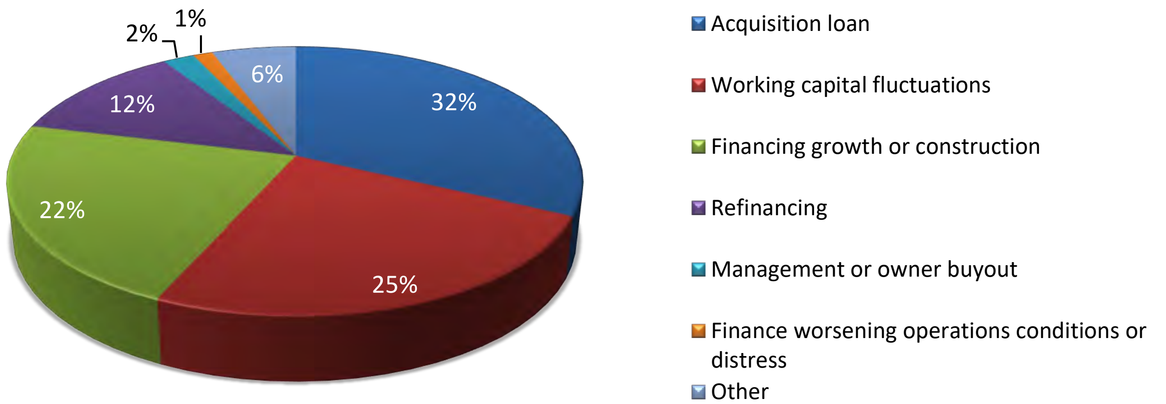
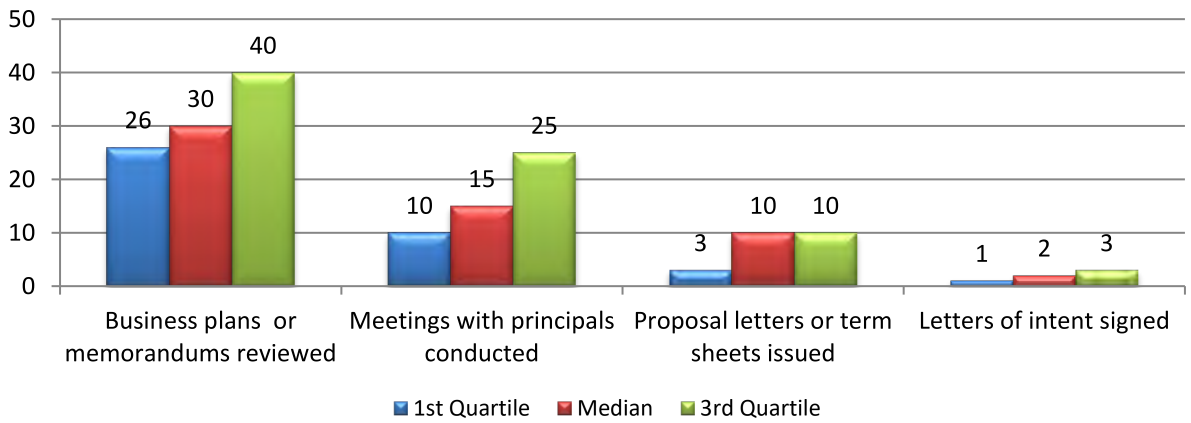


Figure 35. Items Required to Close One Deal



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

Table 23. Importance of Financial Evaluation Metrics

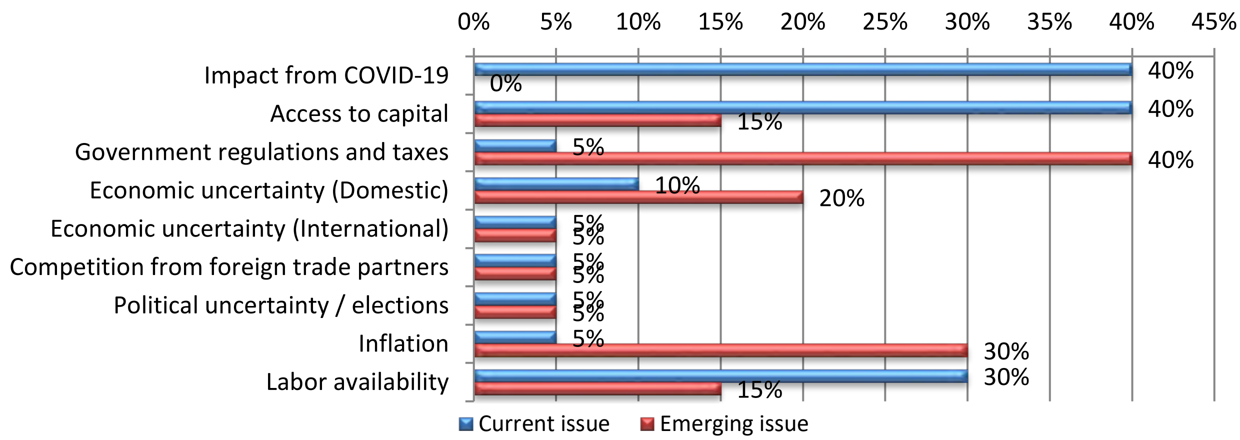
	Unimportant	Of little importance	Moderately important	Important	Very important	Score
Senior DSCR or FCC ratio	6%	12%	35%	6%	41%	3.6
Total DSCR or FCC ratio	0%	12%	24%	6%	59%	4.1
Senior debt to cash flow ratio	6%	13%	38%	38%	6%	3.3
Total debt to cash flow ratio	0%	6%	12%	24%	59%	4.4

Table 24. Financial Evaluation Metrics Average Data

	Average borrower data	Limit not to be exceeded
Senior DSCR or FCC ratio	1.2	1.7
Total DSCR or FCC ratio	1.4	1.6
Senior debt to cash flow ratio	1.2	1.9
Total debt to cash flow ratio	1.4	2.5

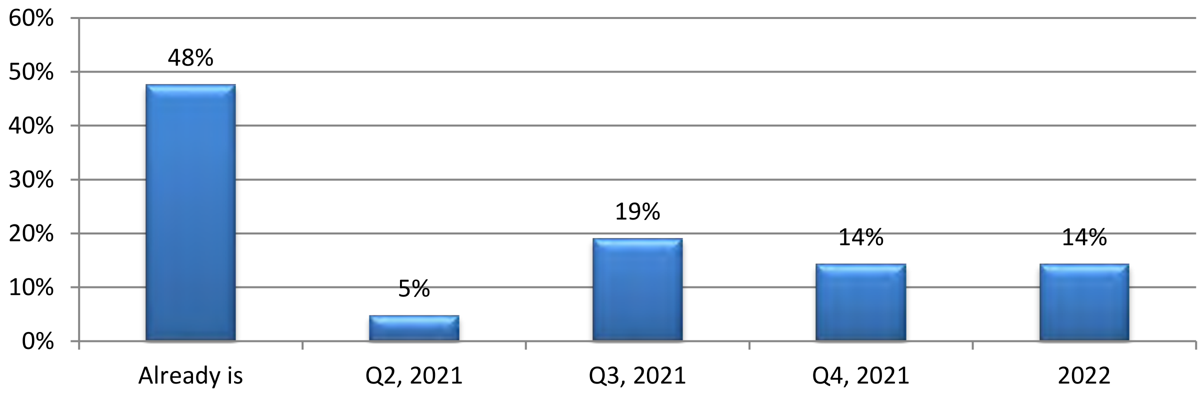
Respondents believe impact from COVID-19 and access to capital are the most important issues facing privately-held businesses today.

Figure 50. Issues Facing Privately-Held Businesses



Approximately 48% of respondents believe Mezzanine financing has already returned to pre-March 2020 level.

Figure 36. When Mezzanine Financing Returns to Pre-March 2020 Level



Relative to 12 months ago, respondents indicated flat demand for mezzanine capital, increased average investment size and slightly decreased leverage multiples. They also reported increases 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	5%	5%	25%	40%	25%	65%	10%	**55%**
Credit quality of borrowers seeking investment	0%	20%	30%	35%	15%	50%	20%	**30%**
Average investment size	0%	0%	55%	30%	15%	45%	0%	**45%**
Average investment maturity (months)	0%	5%	84%	5%	5%	11%	5%	**5%**
General underwriting standards	0%	5%	35%	40%	20%	60%	5%	**55%**
Warrant coverage	0%	18%	47%	35%	0%	35%	18%	**18%**
PIK features	0%	7%	80%	13%	0%	13%	7%	**7%**
Loan fees	0%	5%	89%	5%	0%	5%	5%	**0%**
Leverage multiples	0%	28%	50%	22%	0%	22%	28%	**-6%**
Expected returns on new investments	0%	5%	50%	45%	0%	45%	5%	**40%**
General business conditions	5%	25%	15%	30%	25%	55%	30%	**25%**
Appetite for risk	0%	20%	45%	30%	5%	35%	20%	**15%**

Respondents expect increasing demand for mezzanine capital, leverage multiples, appetite for risk, and improving general business conditions; decreasing warrant coverage and flat 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%	10%	40%	30%	20%	50%	10%	**40%**
Credit quality of borrowers seeking investment	0%	15%	40%	35%	10%	45%	15%	**30%**
Average investment size	0%	10%	55%	30%	5%	35%	10%	**25%**
Average investment maturity (months)	0%	0%	90%	10%	0%	10%	0%	**10%**
General underwriting standards	0%	10%	85%	5%	0%	5%	10%	**-5%**
Warrant coverage	6%	18%	65%	12%	0%	12%	24%	**-12%**
PIK features	0%	7%	87%	7%	0%	7%	7%	**0%**
Loan fees	0%	0%	100%	0%	0%	0%	0%	**0%**
Leverage multiples	0%	0%	50%	50%	0%	50%	0%	**50%**
Expected returns on new investments	0%	20%	55%	25%	0%	25%	20%	**5%**
General business conditions	0%	10%	20%	40%	30%	70%	10%	**60%**
Size of mezzanine industry	0%	0%	45%	40%	15%	55%	0%	**55%**
Appetite for risk	0%	5%	40%	45%	10%	55%	5%	**50%**

INVESTMENT BANKER SURVEY INFORMATION

Approximately 44% of the 64 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 flat general business conditions. Impact from COVID-19 was identified as the most important current issue facing privately-held businesses, following by domestic economic uncertainty and labor availability. Government regulations and taxes were identified as the most important emerging issue.

Other key findings include:

- Approximately 15% of respondents expect to close ten or more deals in the next 12 months.
- The top three reasons for deals not closing were COVID-19 pandemic (29%), valuation gap in pricing (25%), and economic uncertainty (11%).
- 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, company transactions method and discounted future earnings 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 (16%) and EBITDA (unadjusted) multiple (10%) approaches.

Operational and Assessment Characteristics

Approximately 8% of the respondents didn't close any deals in the last twelve months; 70% closed between one and five deals, while 21% closed six deals or more.

Figure 37. Private Business Sales Transactions Closed in the Last 12 Months

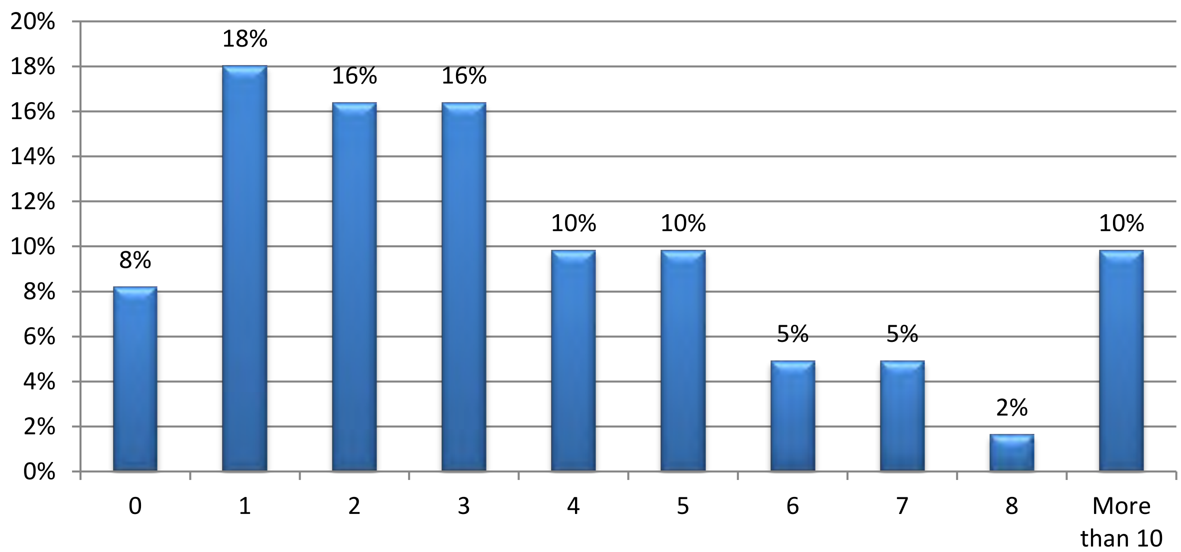
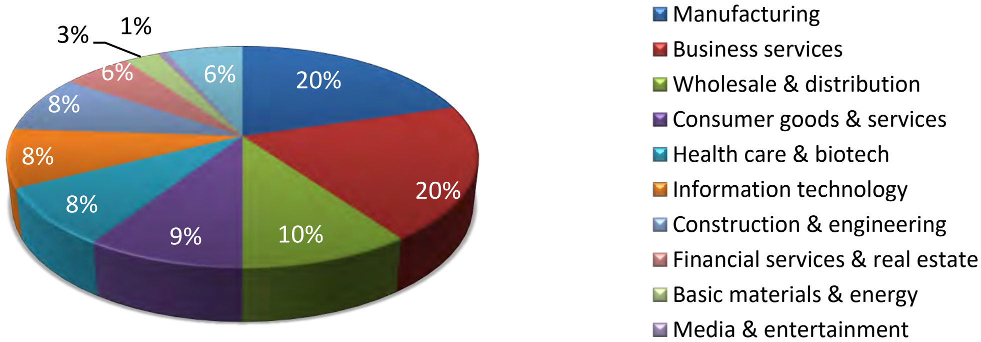
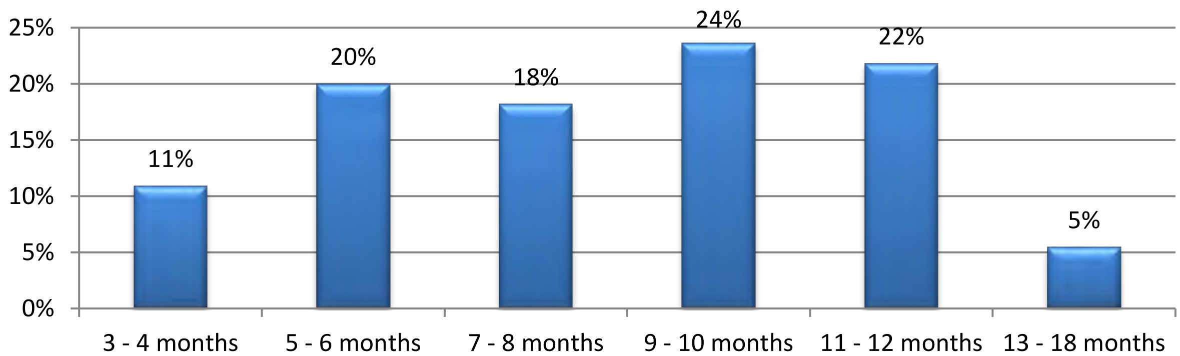


Figure 38. Business Types That Were Involved in the Transactions Closed in the Last 12 Months



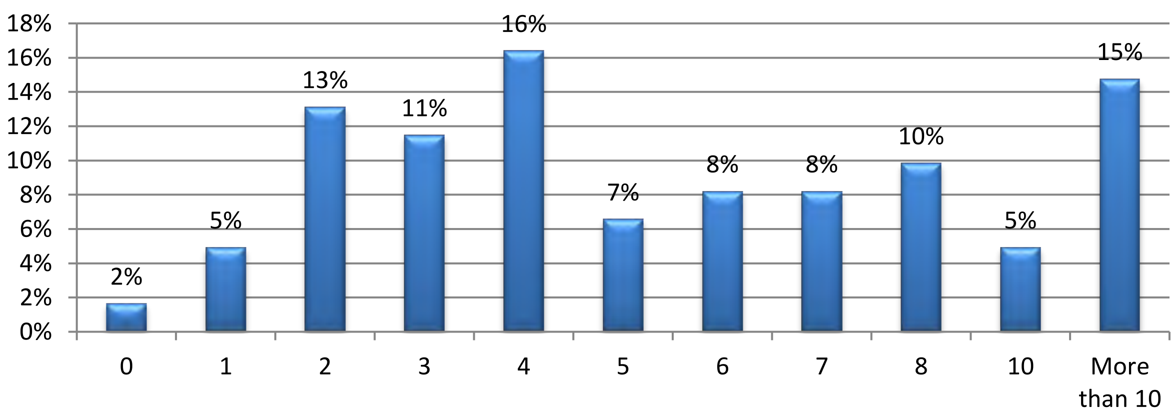
The majority of deals (84%) took 5 to 12 months to close. 5% of closed deals took more than one year to close.

Figure 39. Average Number of Months to Close One Deal



Nearly 41% of respondents expect to close between two and four deals, while 51% expect to close 5 deals or more.

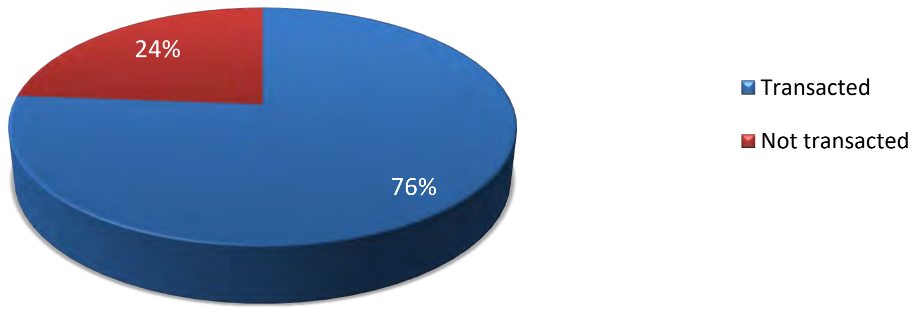
Figure 40. Private Business Transactions Expected to Close in the Next 12 Months



INVESTMENT BANKER cont.

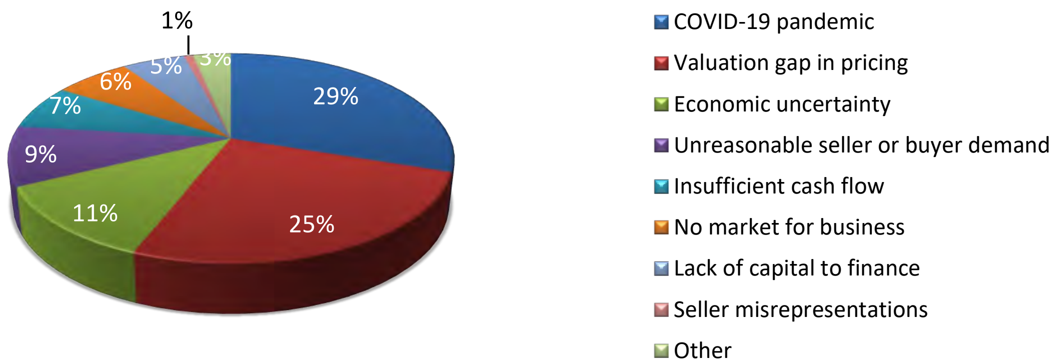
Approximately 24% of deals terminated without transacting over the past year.

Figure 41. Percentage of Business Sales Engagements Terminated Without Transacting



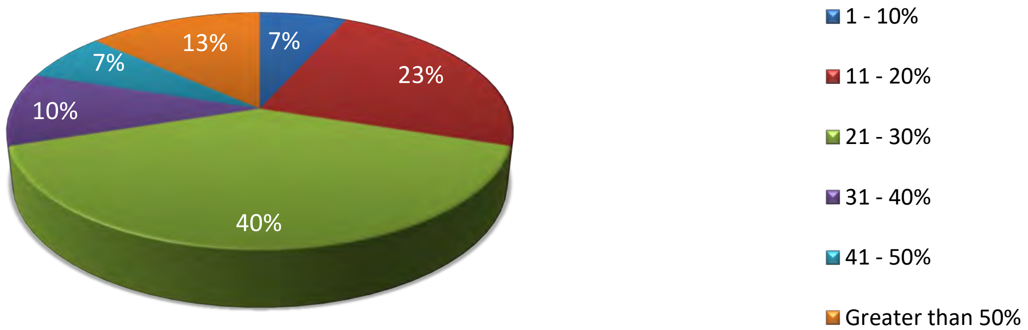
The top three reasons for deals not closing were: COVID-19 pandemic (29%), valuation gap in pricing (25%) and economic uncertainty (11%).

Figure 42. Reasons for Business Sales Engagements Not Transacting



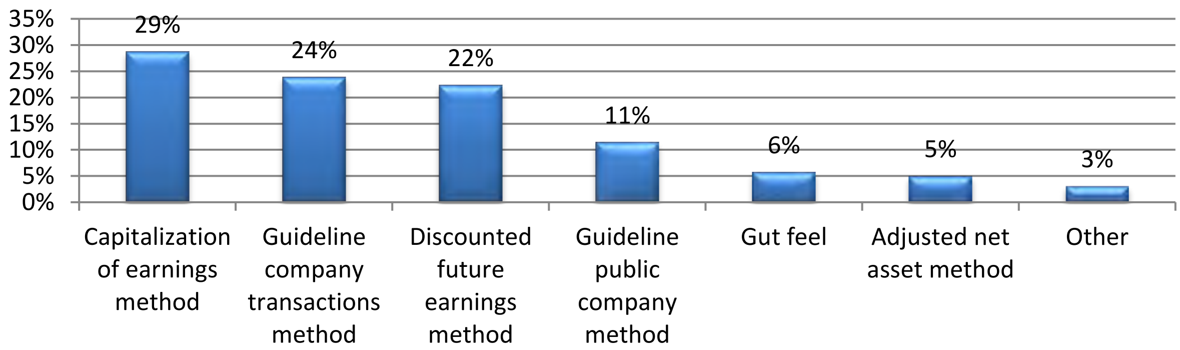
Of those transactions that didn't close due to a valuation gap in pricing, approximately 63% had a valuation gap in pricing between 11% and 30%.

Figure 43. Valuation Gap in Pricing for Transactions That Didn't Close



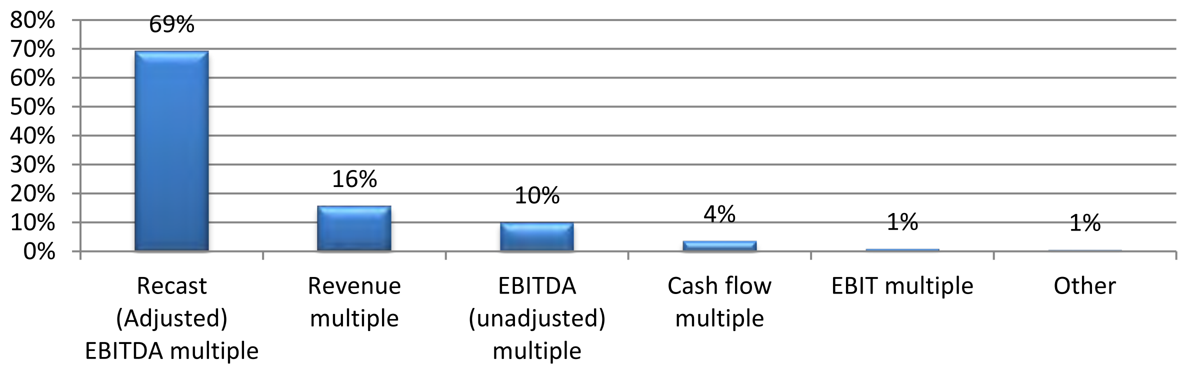
The weights of the various valuation methods used by respondents when valuing privately-held businesses included 29% for capitalization of earnings method.

Figure 44. Usage of Valuation Methods



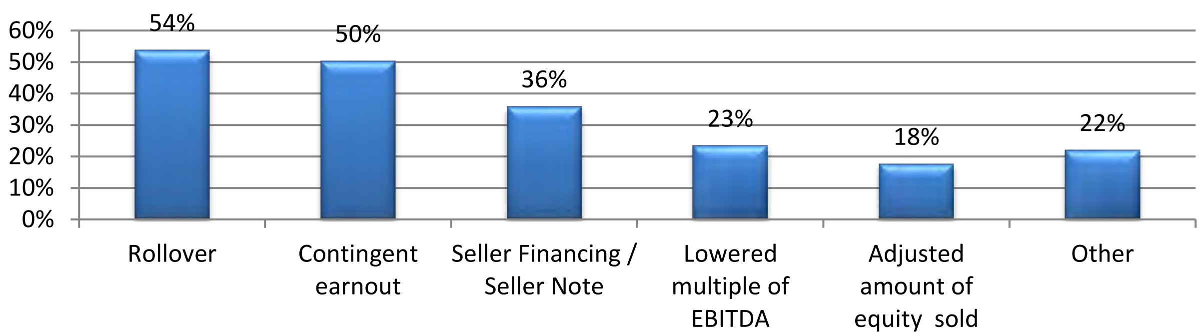
The most popular multiple method used by respondents when valuing privately-held businesses is the recast (adjusted) EBITDA multiple method, utilized by 69% of respondents.

Figure 45. Usage of Multiple Methods



Approximately 54% of business sales transactions closed in the last 12 months involved rollover.

Figure 46. Components of Closed Deals



Average deal multiples on transactions from the prior twelve months as observed by respondents varied from 4.6 to 9.3.

Table 27. Median Deal Multiples by EBITDA Size of Company

EBITDA	Manufacturing	Construction & engineering	Consumer goods & services	Wholesale & distribution	Biz. services	Healthcare & biotech	Information technology	Financial services	**Average**
$0K - $999K EBITDA	4.8	2.5	3.8	4.0	3.5	8.3	5.5	4.8	**4.6**
$1M - $4.99M EBITDA	6.0	3.0	5.8	6.0	6.8	8.3	8.0	8.0	**6.8**
$5M - $9.99M EBITDA	6.8	5.3	9.0	6.5	6.5	8.8	9.0	10.0	**7.7**
$10M - $24.99M EBITDA	8.5	5.5	9.5	7.5	7.0	10.0	10.0		**8.3**
$25M - $49.99M EBITDA	10.0	5.5	10.0	9.0	7.5		10.0		**8.7**
$50M+ EBITDA	10.0	6.0	10.0	10.0	10.5				**9.3**

Average total leverage multiples observed by respondents varied from 3.0 to 3.9.

Table 28. Median Total Leverage Multiples by Size of Company

EBITDA	Manufacturing	Construction & engineering	Consumer goods & services	Wholesale & distribution	Business services	Healthcare & biotech	Information technology	Financial services	**Average**
$0K - $999K EBITDA	4.5	2.5			4.0	4.0	2.5	2.0	**3.3**
$1M - $4.99M EBITDA	3.0	2.5	2.5	2.5	4.0	3.8	4.0	2.8	**3.0**
$5M - $9.99M EBITDA	4.0	4.0	4.0	3.0	3.3	3.3	7.3	4.0	**3.8**
$10M - $24.99M EBITDA	4.5	2.0	5.5	n/a	3.5				**3.9**

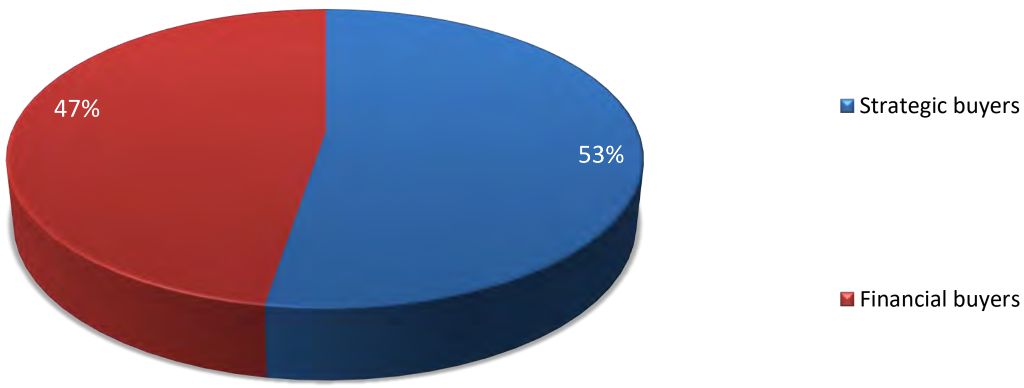
Average senior leverage multiples observed by respondents varied from 2.3 to 3.9.

Table 29. Median Senior Leverage Multiples by Size of Company

EBITDA	Manufacturing	Construction & engineering	Consumer goods & services	Wholesale & distribution	Business services	Healthcare & biotech	Information technology	Financial services	**Average**
$0K - $999K EBITDA	3.0	2.0	3.0	2.0	2.0	2.0	2.0	2.0	**2.3**
$1M - $4.99M EBITDA	2.8	2.3	2.0	2.5	2.8	3.0	3.8	5.0	**3.0**
$5M - $9.99M EBITDA	3.0	2.5	3.3	2.8	3.0	3.8	7.8	5.0	**3.9**
$10M - $24.99M EBITDA	3.0	2.0	3.0	3.0	2.3				**2.7**
$25M - $49.99M EBITDA	3.0	2.0	3.0	3.0	3.0		2.5		**2.8**
$50M+ EBITDA	3.5	2.5	3.0	3.0	2.8				**3.0**

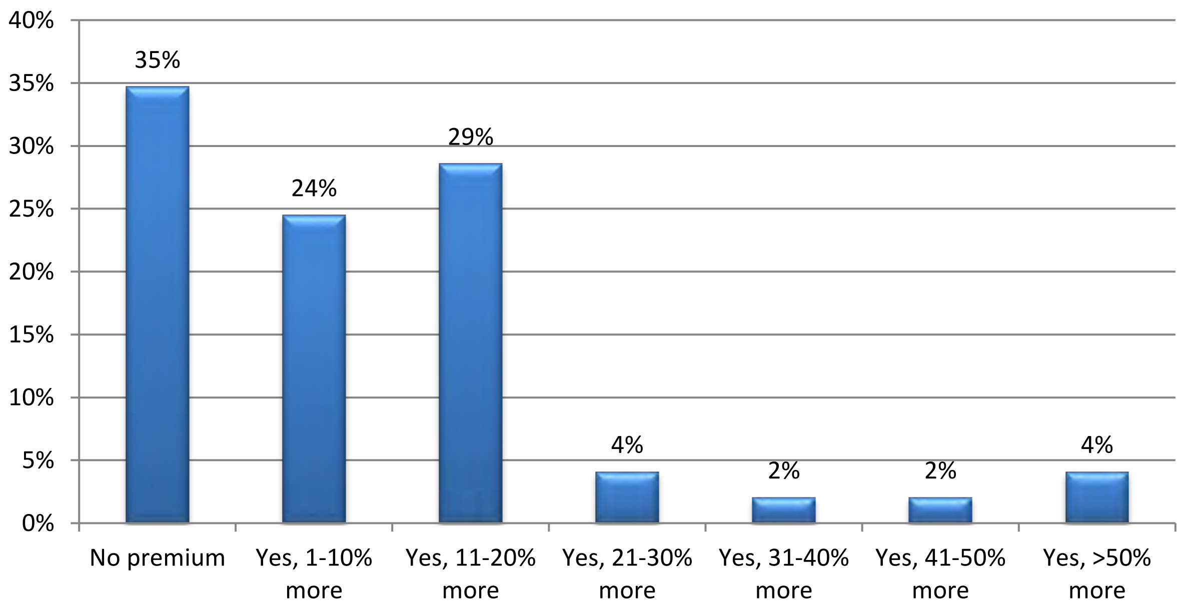
Approximately 51% of closed business sales transactions over the past 12 months involved strategic buyers.

Figure 47. Percent of Transactions Involved Strategic and Financial Buyers



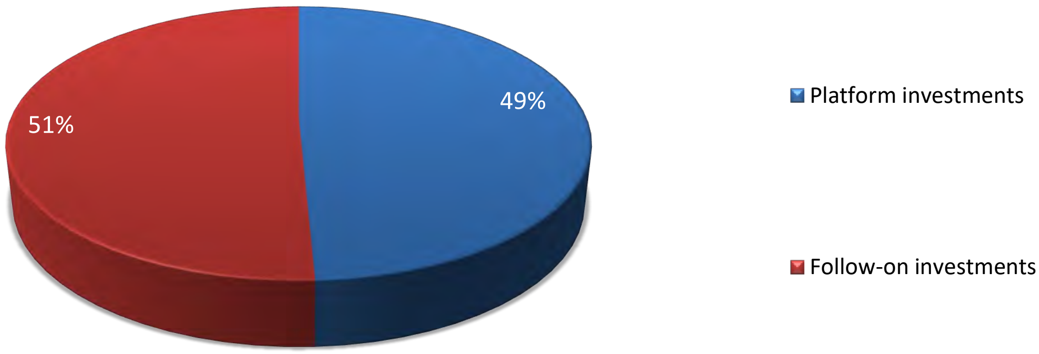
Approximately 35% of respondents did not witness any premium paid by strategic buyers, while 53% saw premiums between 1% and 20%.

Figure 48. Premium Paid by Strategic Buyers Relative to Financial Buyers



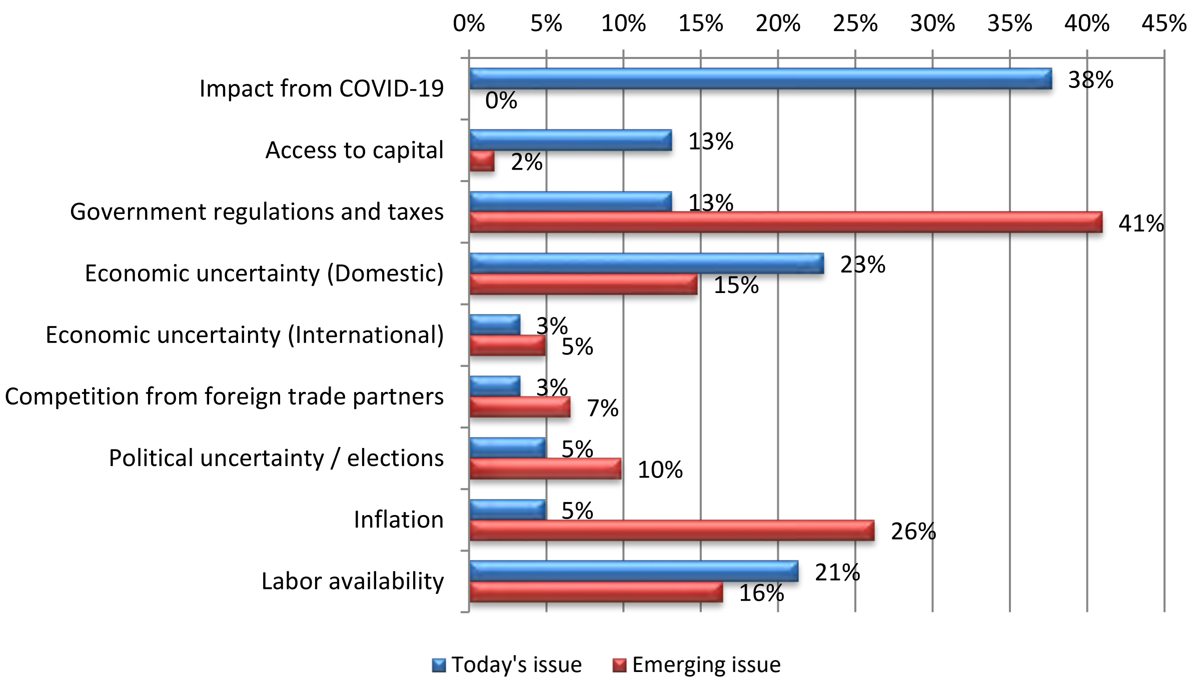
Approximately 53% of closed business sales transactions that involved financial buyers over the past 12 months were platform investments.

Figure 49. Percent of Transactions Involved Strategic and Financial Buyers



Respondents believe impact from impact from COVID-19 is the most important current issue facing privately-held businesses.

Figure 50. 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	22%	31%	25%	8%	14%	**-0.4**
$1M - $4.99M EBITDA	8%	22%	30%	30%	11%	**0.1**
$5M - $9.99M EBITDA	0%	16%	34%	31%	19%	**0.5**
$10M - $24.99M EBITDA	4%	0%	29%	43%	25%	**0.9**
$25M - $49.99M EBITDA	0%	5%	23%	36%	36%	**1.0**
$50M - $99.99M EBITDA	0%	5%	24%	24%	48%	**1.1**
$100M+ EBITDA	0%	5%	24%	24%	48%	**1.1**

Respondents indicated a general difficulty with arranging senior debt for businesses with less than $5 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	18%	41%	9%	14%	9%	9%	0%	**-1.2**
$5M EBITDA	13%	17%	4%	30%	13%	13%	9%	**-0.1**
$10M EBITDA	4%	0%	9%	35%	26%	13%	13%	**0.7**
$15M EBITDA	0%	0%	18%	0%	18%	45%	18%	**1.5**
$25M EBITDA	0%	11%	22%	0%	11%	33%	22%	**1.0**
$50M EBITDA	0%	14%	0%	14%	0%	29%	43%	**1.6**
$100M+ EBITDA	0%	0%	0%	0%	17%	33%	50%	**2.3**

Approximately 44% of 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 flat 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	4%	17%	21%	25%	33%	58%	21%	**37%**
Leverage multiples	0%	14%	55%	24%	6%	31%	14%	**16%**
Deal multiples	0%	12%	38%	42%	8%	50%	12%	**38%**
Amount of time to sell business	0%	13%	38%	38%	10%	48%	13%	**35%**
Difficulty financing/selling business	2%	24%	43%	25%	6%	31%	25%	**6%**
General business conditions	6%	33%	19%	25%	17%	42%	38%	**4%**
Strategic buyers making deals	2%	12%	42%	33%	12%	44%	13%	**31%**
Margin pressure on companies	2%	18%	25%	47%	8%	55%	20%	**35%**
Buyer interest in minority transactions	4%	12%	61%	18%	4%	22%	16%	**6%**

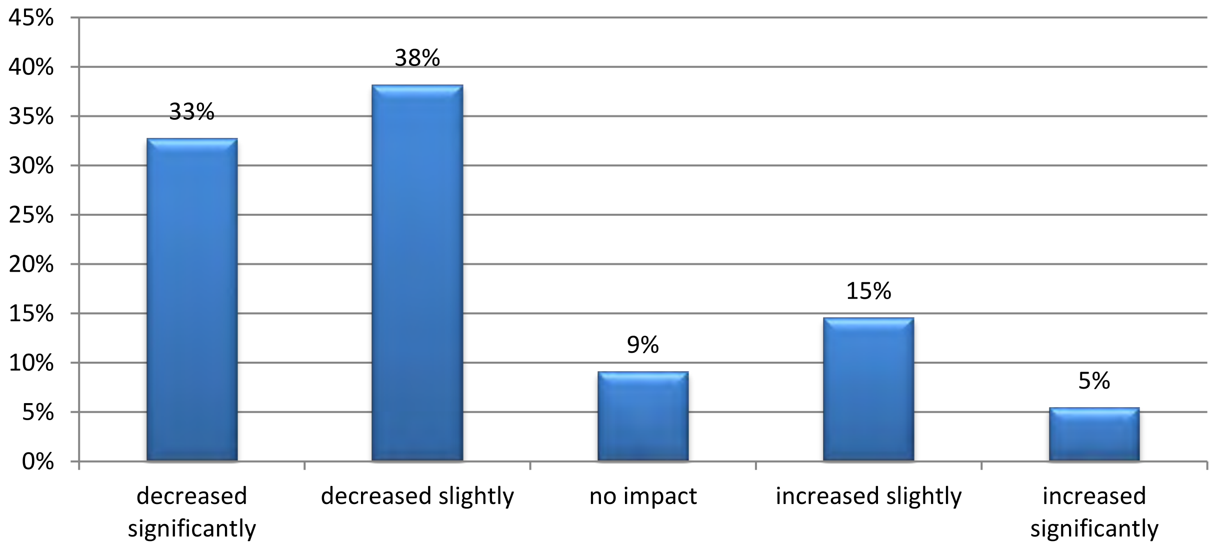
During the next twelve months, respondents expect further increases in deal flow, increasing leverage and deals multiples, increasing percentage of strategic buyers making deals, margin pressure on companies and improving general business conditions.

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	0%	0%	12%	46%	42%	88%	0%	**88%**
Leverage multiples	2%	2%	49%	47%	0%	47%	4%	**43%**
Deal multiples	0%	0%	37%	54%	10%	63%	0%	**63%**
Amount of time to sell business	2%	29%	62%	8%	0%	8%	31%	**-23%**
Difficulty financing/selling business	6%	37%	51%	6%	0%	6%	43%	**-37%**
General business conditions	0%	15%	23%	52%	10%	62%	15%	**46%**
Strategic buyers making deals	0%	0%	40%	48%	12%	60%	0%	**60%**
Margin pressure on companies	0%	16%	36%	38%	10%	48%	16%	**32%**
Buyer interest in minority transactions	4%	4%	69%	24%	0%	24%	8%	**16%**

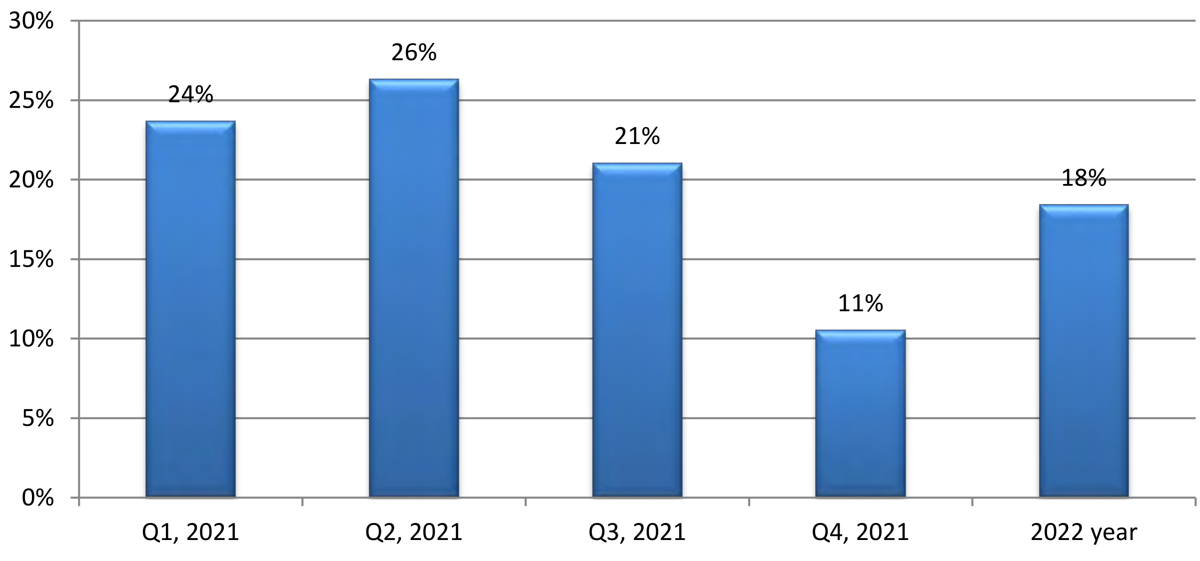
Approximately 71% of respondents indicated their deal flow decreased due to COVID-19 pandemic.

Figure 51. Level of Impact COVID-19 Pandemic Had on Respondents Deal Flow in 2020



Approximately 82% of respondents believe their deal flow will return to pre-March 2020 level in the year 2021.

Figure 52. When Investment Banking Deal Flow Returns to Pre-March 2020 Level



PRIVATE EQUITY SURVEY INFORMATION

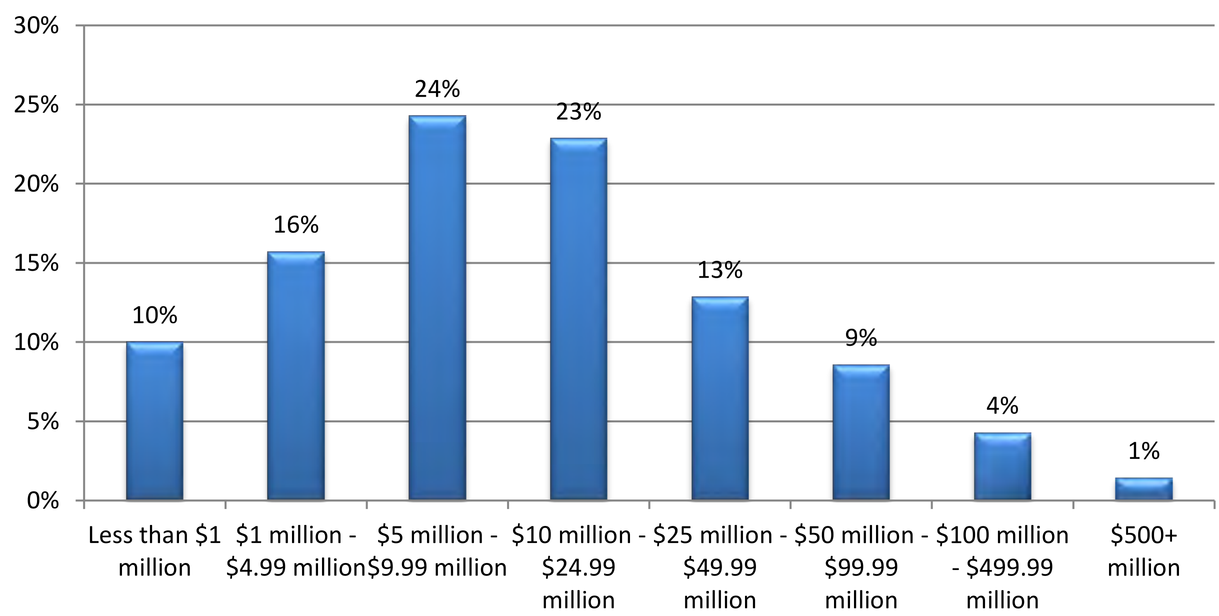
Approximately 51% of the 46 participants who responded to the private equity group survey indicated that they make investments in the $1 million to $25 million range. Nearly 66% of respondents said that demand for private equity is up from twelve months ago, this is up from 44% of respondents indicating increased demand in January 2020. Other key findings include:

- Respondents indicated decreased quality of companies seeking investment. They also reported decreased in expected returns on new investments, flat 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 improving general business conditions.
- The types of businesses respondents plan to invest in over next 12 months are very diverse with over 25% targeting consumer goods and services and another 24% planning to invest in manufacturing.
- Respondents believe impact from COVID-19 is the most important current issue facing privately-held businesses, while government regulations and taxes 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 (40%) and cash flow multiple (23%).

Operational and Assessment Characteristics

The largest concentration of checks written by investors was in the $5 - $10 million range (24%), followed by $10 - $20 million (23%), and $1 - $5 million (16%).

Figure 53. Typical Investment Size



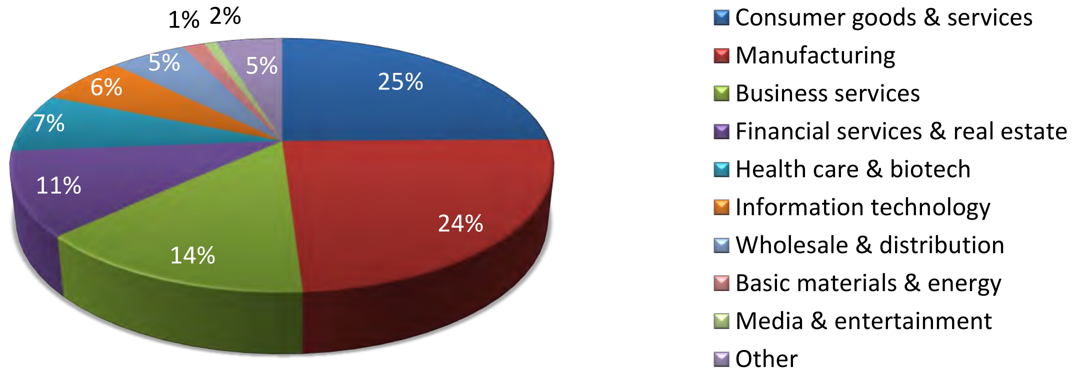
Respondents reported on business practices, and the results are reflected below.

Table 34. PEG Fund Data

	1st Quartile	Median	3rd Quartile
Vintage year (year in which first investment made)	2017	2018	2019
Size of fund ($ millions)	75	125	425
Targeted number of total investments	7	8	13
Target fund return (gross pretax cash on cash annual IRR %)	20%	25%	28%
Expected fund return (gross pretax cash on cash annual IRR%)	20%	25%	30%

The types of businesses respondents plan to invest in over next 12 months are very diverse with nearly 25% targeting consumer goods & services and another 24% planning to invest in manufacturing.

Figure 54. Type of Business for Investments Planned over Next 12 Months



Approximately 21% of respondents didn't make any investments over the last twelve months.

Figure 55. Total Number of Investments Made in the Last 12 Months

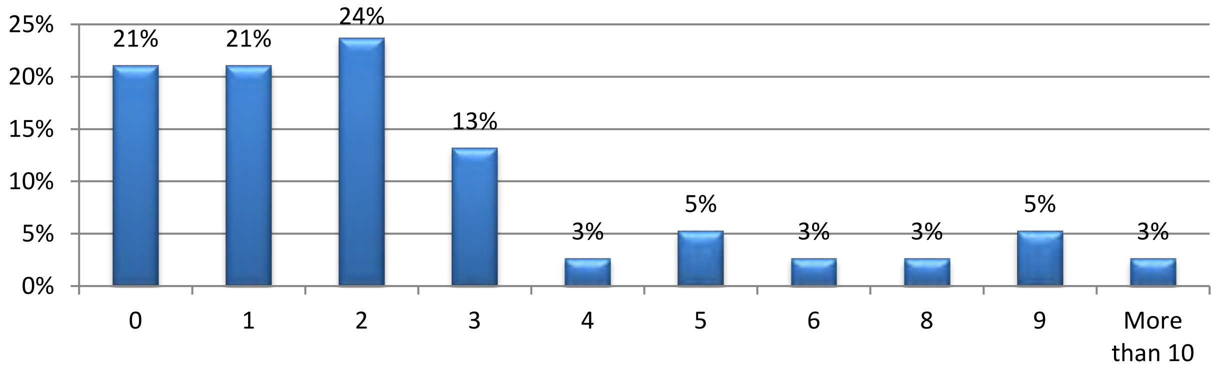
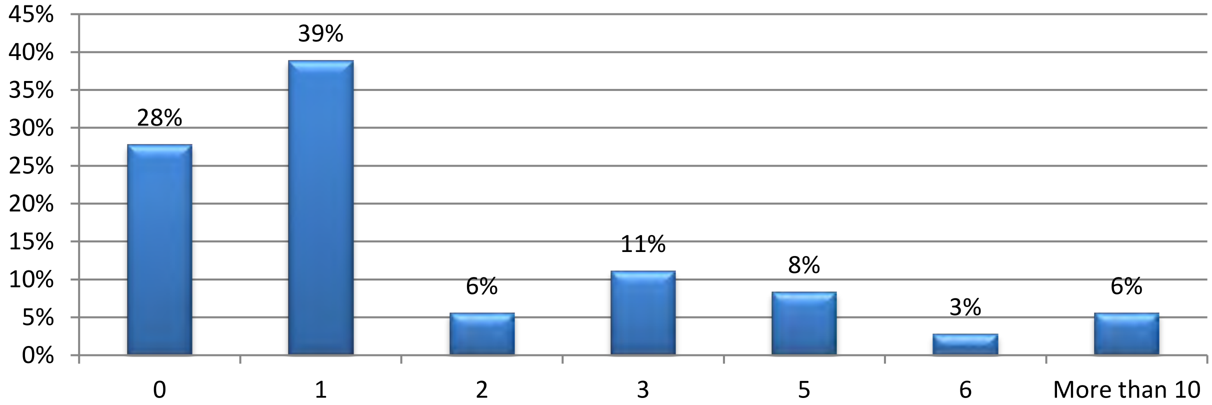


Figure 56. Number of Follow-on Investments Made in the Last 12 Months



The majority (63%) of respondents plan to make two to four investments over the next 12 months.

Figure 57. Number of Total Investments Planned over Next 12 Months

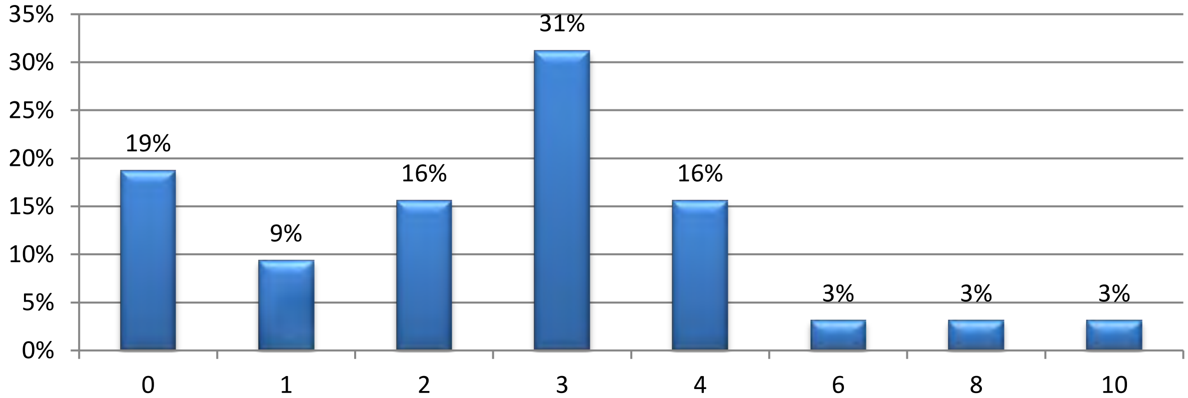
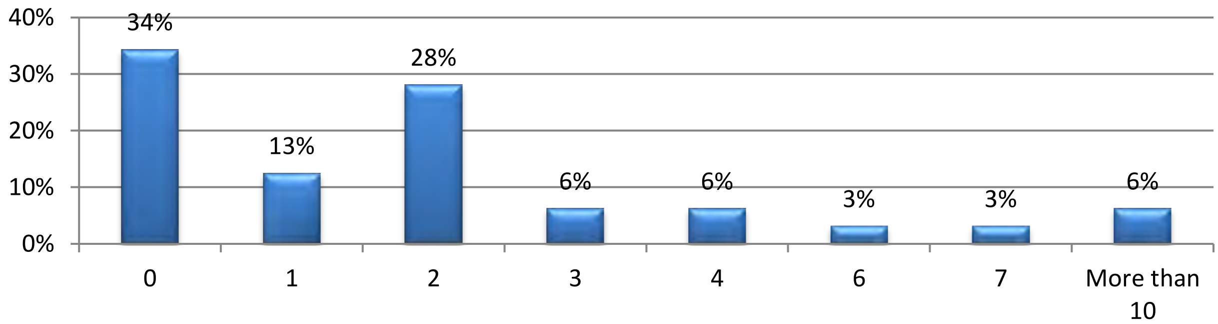
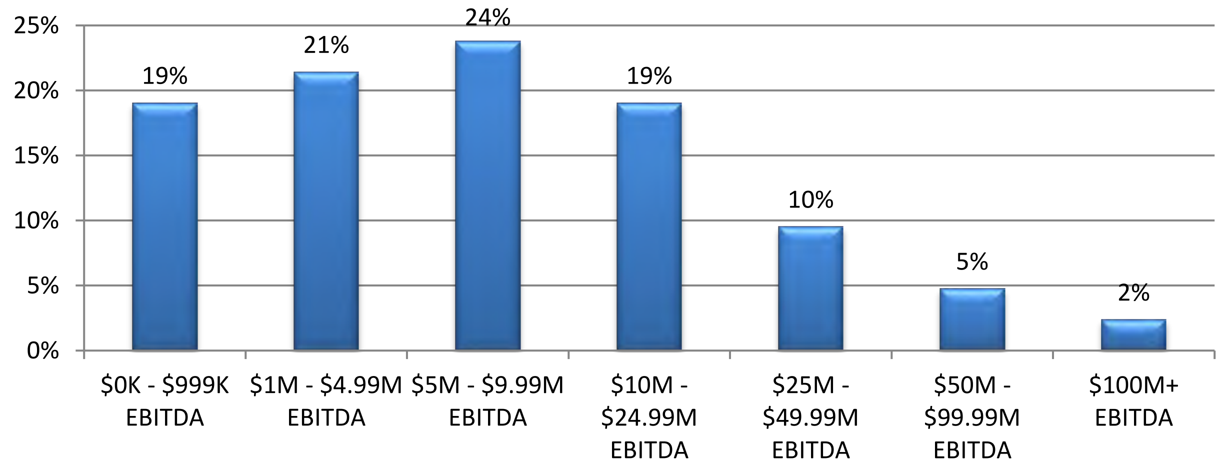


Figure 58. Number of Follow-on Investments Planned over Next 12 Months



Approximately 83% of buyout investments were in the range between $0 million and $25 million of EBITDA.

Figure 59. Size of Buyout Investments in the Last 12 Months



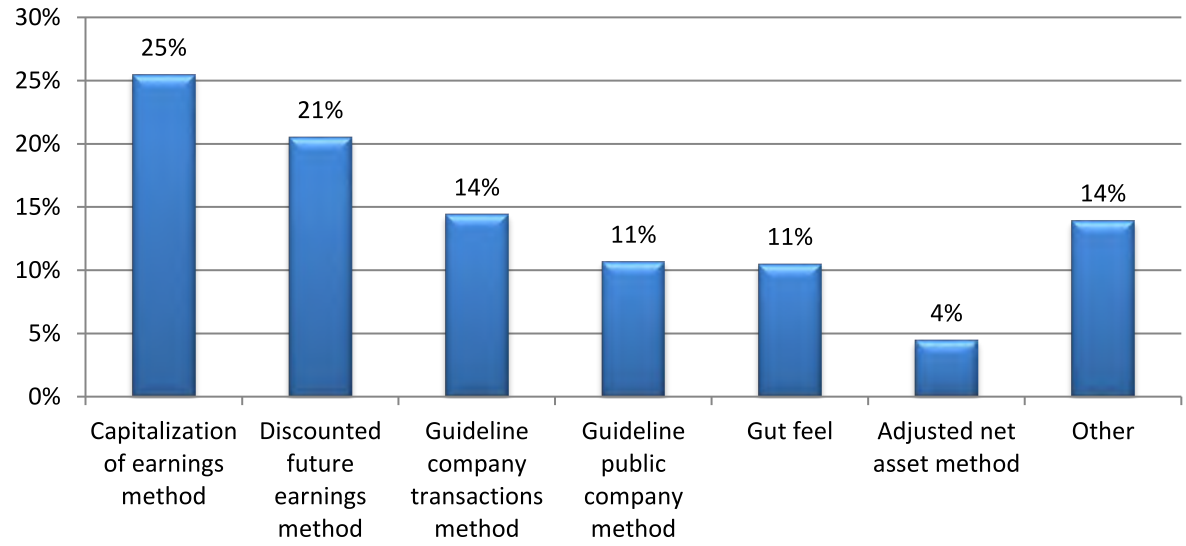
Average deal multiples for buyout deals for the prior twelve months vary from 3 to 10 times EBITDA depending on the size of the company. Expected returns vary from 25% to 35%.

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
Number of investments (total)	6	16	11	10	5
Average size of investment (in million USD)	1.5	15	15	45	100+
Expected time to exit (years) (median)	5	5	5	4.5	4
Equity as % of new capital structure (median)	95%	65%	60%	45%	40%
% of total equity purchased (median)	95%	85%	75%	75%	55%
Average EBITDA multiple	3.0	5.0	6.5	7.5	10.0
Average revenue multiple	1.3	1.5	1.5	1.5	3.0
Median total expected returns (gross cash on cash pre-tax IRR)	35%	30%	25%	25%	25%

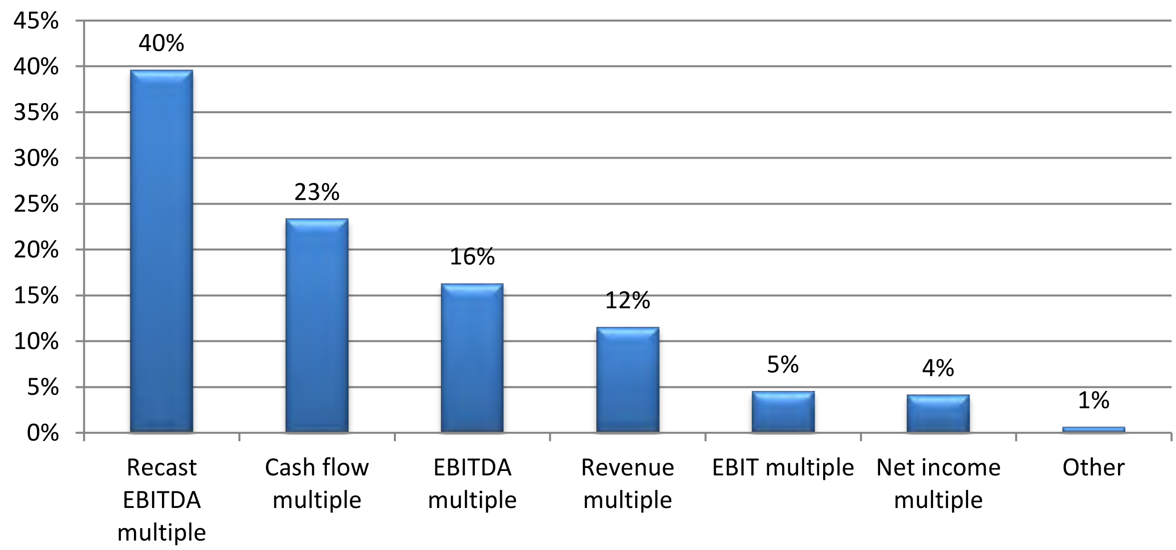
When valuing a business, approximately 25% of the weight is placed on capitalization of earnings method.

Figure 60. Usage of Valuation Approaches



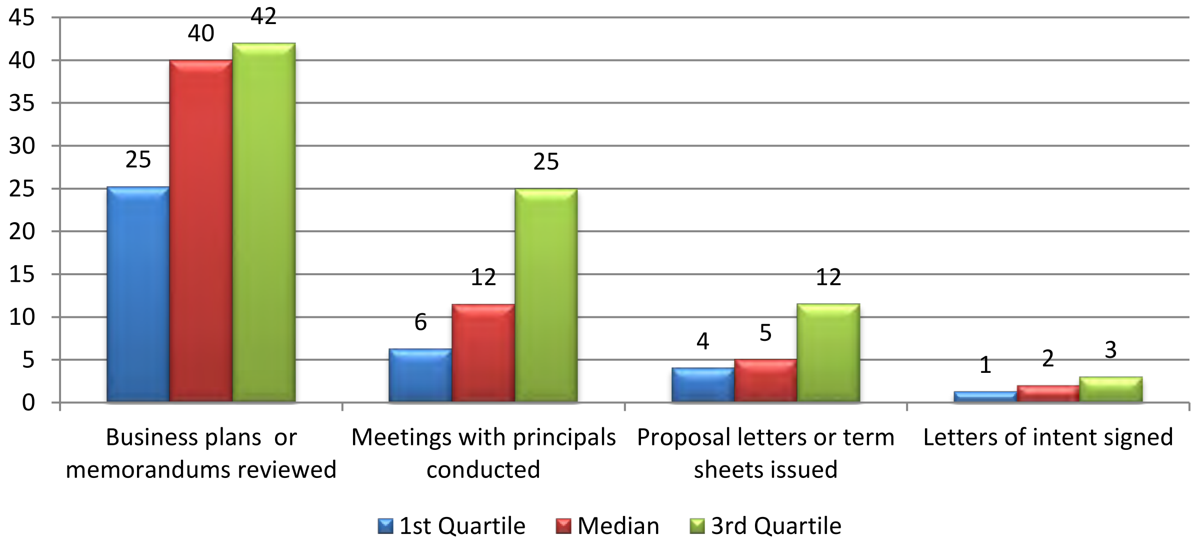
The weights of the various multiple methods used by respondents when valuing privately-held businesses included 40% for recast (adjusted) EBITDA multiple and 23% for cash flow multiple.

Figure 61. Usage of Multiple Methods



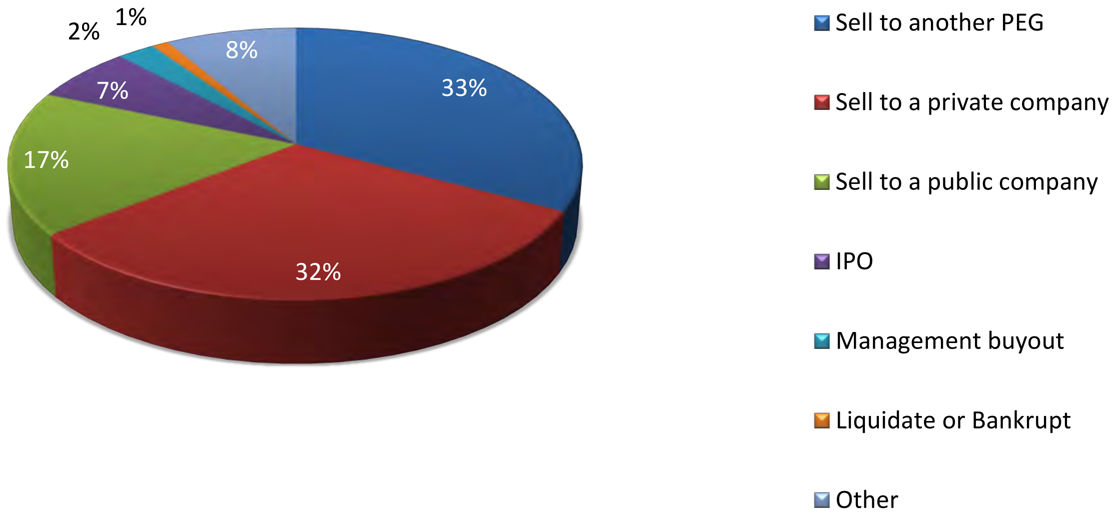
Respondents reported on items required to close one deal.

Figure 62. Items Required to Close One Deal



Respondents reported exit strategies that include selling to another private equity group (33%), selling to private company (32%), and selling to a public company (17%).

Figure 63. Exit Plans for Portfolio Companies



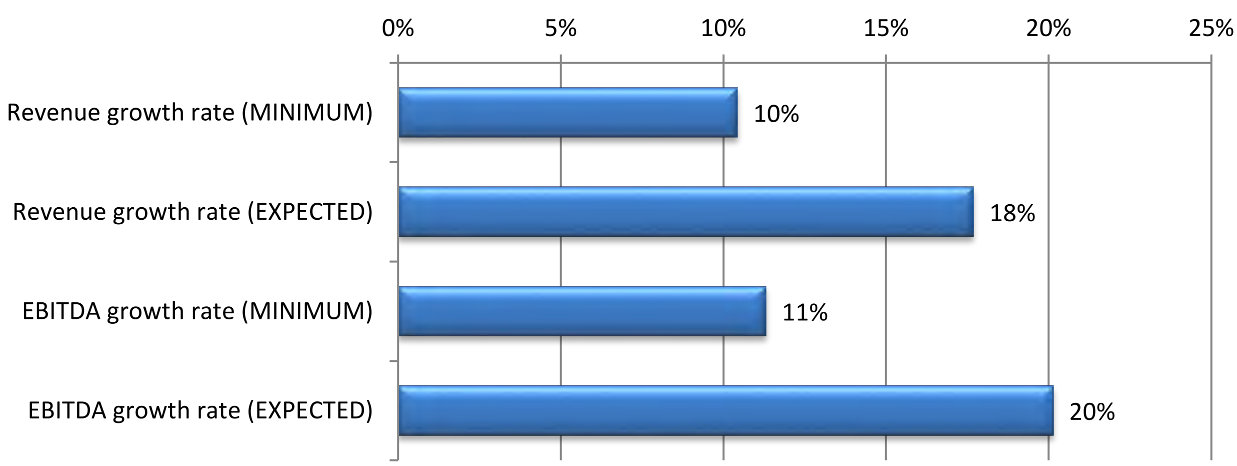
Most of the respondents believe the number of companies "worthy of financing" exceeds "capital available" for the companies with less than $1M in EBITDA. Whereas for the larger companies, "capital available" exceeds the number of companies "worthy of financing."

Table 36. 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	14%	36%	18%	18%	14%	**-0.2**
$1M - $4.99M EBITDA	4%	30%	30%	17%	17%	**0.1**
$5M - $9.99M EBITDA	0%	0%	33%	24%	43%	**1.1**
$10M - $14.99M EBITDA	0%	0%	9%	50%	41%	**1.3**
$15M - $24.99M EBITDA	0%	0%	9%	41%	50%	**1.4**
$25M - $49.99M EBITDA	0%	0%	10%	29%	62%	**1.5**
$50M - $99.99M EBITDA	0%	0%	5%	27%	68%	**1.6**
$100M+ EBITDA	14%	36%	18%	18%	14%	**-0.2**

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

Figure 64. Minimum and Expected Annual Growth Rates for Investee



Respondents identified importance of the following items regarding business risk.

Table 37. Importance of Items Regarding Business Risk

Characteristics	Unimportant	Of little importance	Moderately important	Important	Very important	Score (1 to 5)
Firm size	0%	12%	42%	36%	9%	2.4
Customer concentrations	0%	3%	24%	36%	36%	3.1
Market leadership	0%	12%	33%	42%	12%	2.5
Historical operating performance	0%	6%	24%	53%	18%	2.8
Industry sector	0%	3%	15%	48%	33%	3.1
Future prospects of company	0%	3%	6%	21%	70%	3.6
Management team	0%	3%	18%	30%	48%	3.2
Other	0%	0%	25%	25%	50%	3.3

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.

Table 38. 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%	10%	24%	28%	38%	66%	10%	**55%**
Quality of companies seeking investment	14%	31%	17%	28%	10%	38%	45%	**-7%**
Average investment size	0%	7%	57%	18%	18%	36%	7%	**29%**
Non-control investments (< 50% equity ownership)	0%	0%	55%	41%	5%	45%	0%	**45%**
Expected investment holding period	0%	15%	58%	23%	4%	27%	15%	**12%**
Deal multiples	0%	7%	7%	59%	26%	85%	7%	**78%**
Exit opportunities	4%	22%	19%	37%	19%	56%	26%	**30%**
Expected returns on new investments	4%	32%	43%	18%	4%	21%	36%	**-14%**
Value of portfolio companies	4%	18%	7%	39%	32%	71%	21%	**50%**
General business conditions	7%	29%	11%	39%	14%	54%	36%	**18%**
Size of private equity industry	0%	7%	26%	44%	22%	67%	7%	**59%**
Appetite for risk	4%	14%	25%	32%	25%	57%	18%	**39%**

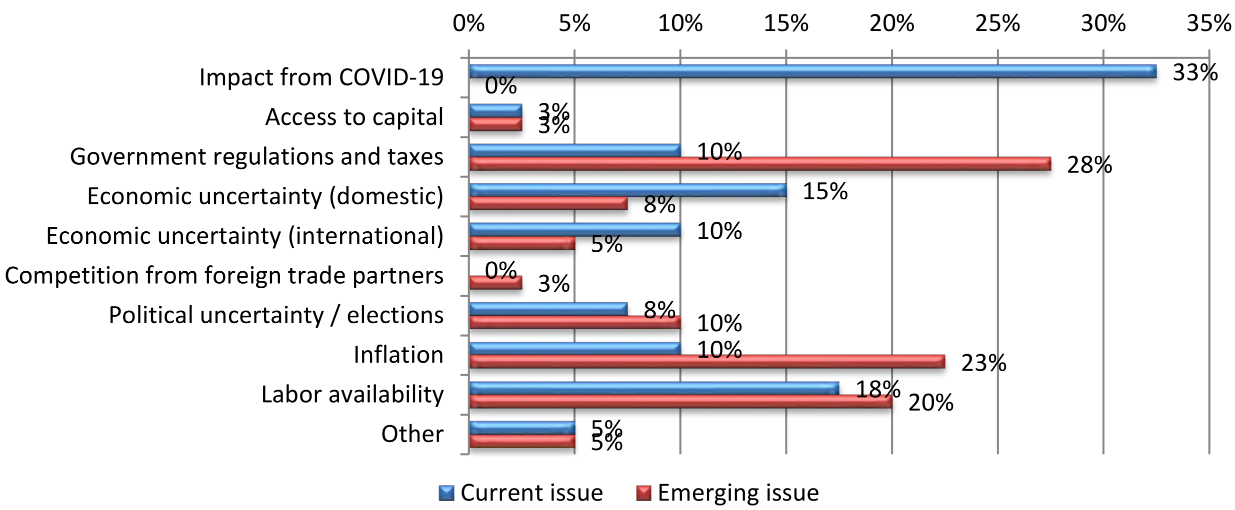
Respondents expect further increases in demand for private equity, decreasing expected returns on new investments, and improving general business conditions.

Table 39. 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%	0%	21%	32%	46%	79%	0%	**79%**
Quality of companies seeking investment	7%	14%	32%	36%	11%	46%	21%	**25%**
Average investment size	0%	11%	43%	29%	18%	46%	11%	**36%**
Non-control investments (< 50% equity ownership)	0%	0%	70%	17%	13%	30%	0%	**30%**
Expected investment holding period	0%	7%	70%	22%	0%	22%	7%	**15%**
Deal multiples	0%	14%	32%	43%	11%	54%	14%	**39%**
Exit opportunities	0%	0%	30%	56%	15%	70%	0%	**70%**
Expected returns on new investments	4%	32%	50%	4%	11%	14%	36%	**-21%**
Value of portfolio companies	0%	4%	25%	61%	11%	71%	4%	**68%**
General business conditions	0%	11%	21%	43%	25%	68%	11%	**57%**
Size of private equity industry	0%	0%	39%	43%	18%	61%	0%	**61%**
Appetite for risk	4%	11%	36%	36%	14%	50%	14%	**36%**

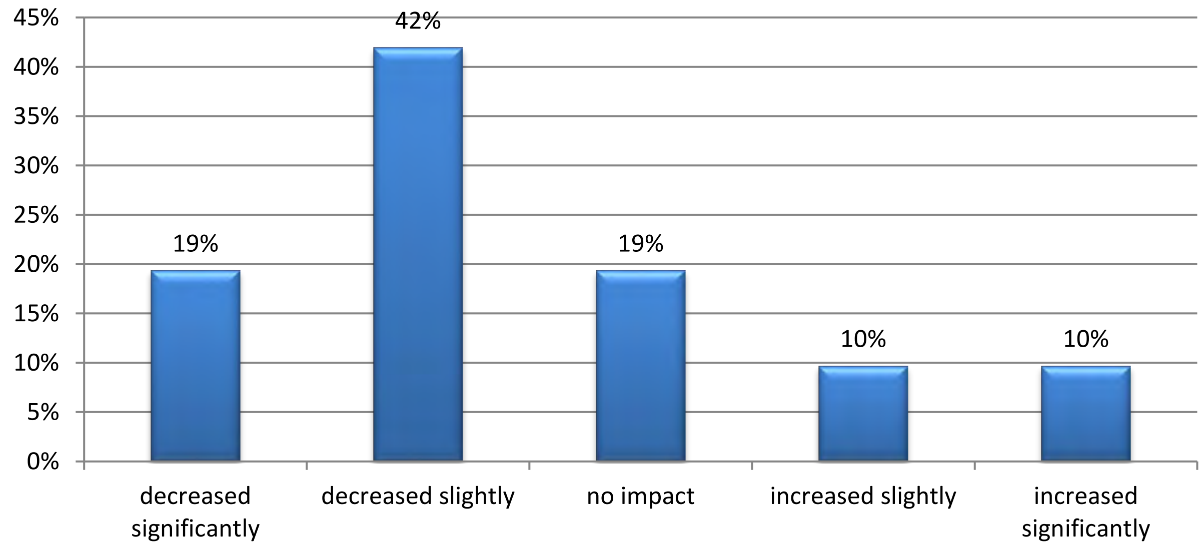
Respondents believe impact from COVID-19 is the most important current issue facing privately-held businesses, while government regulations and taxes is the most important emerging issue.

Figure 65. Issues Facing Privately-Held Businesses



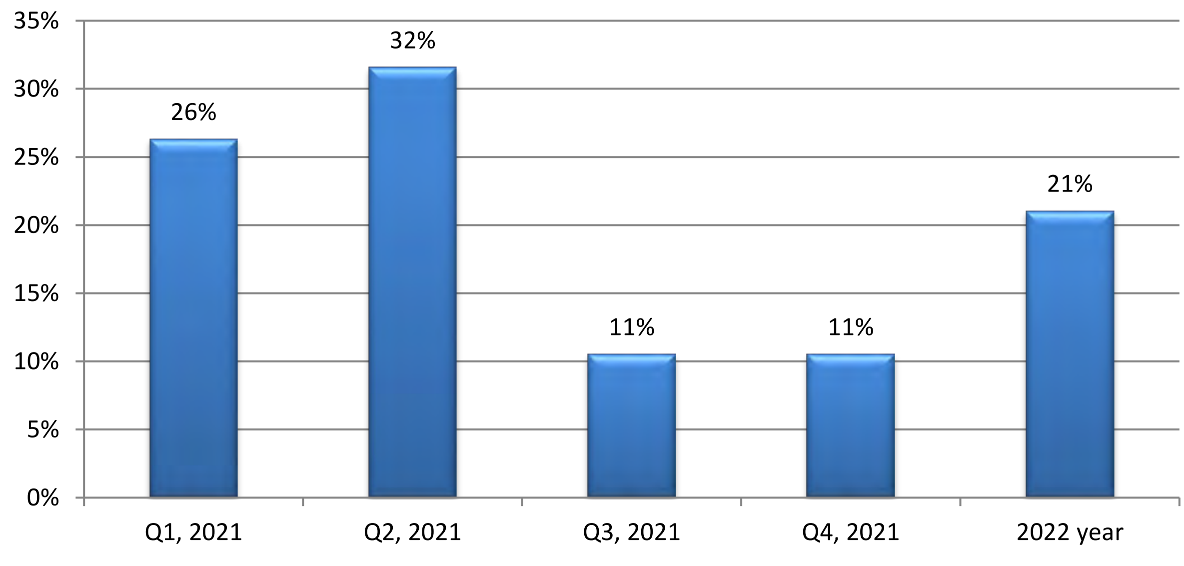
Approximately 42% of respondents indicated their deal flow decreased slightly due to COVID-19 pandemic.

Figure 66. Level of Impact COVID-19 Pandemic Had on Respondents Deal Flow in 2020



Approximately 79% of respondents believe their deal flow will return to pre-March 2020 level in the year 2021.

Figure 67. When Private Equity Deal Flow Returns to Pre-March 2020 Level



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VENTURE CAPITAL SURVEY INFORMATION

Of the 30 participants who responded to the venture capital survey, approximately 70% of respondents expect an increasing size of the venture capital industry. The majority (85%) of respondents plan to make three or more 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 40% targeting healthcare & biotech and another 26% planning to invest in information technology.

- Respondents' exit strategies include selling to a public company (35%) followed by selling to a private company (22%).

- Respondents believe impact from COVID-19 is the most important issue facing privately-held businesses today, while domestic economic uncertainty and inflation are the most important emerging issue.

Operational and Assessment Characteristics

Approximately 31% of respondents made six investments or more over the last twelve months.

Figure 68. Total Number of Investments Made in the Last 12 Months

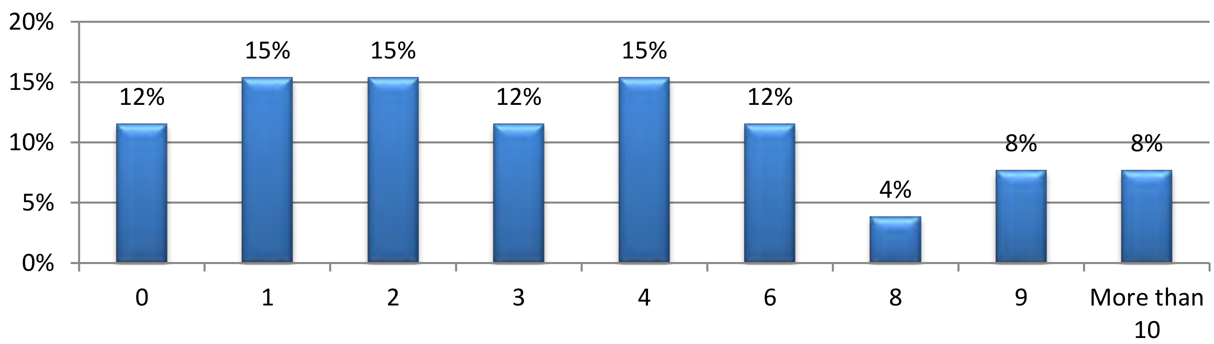
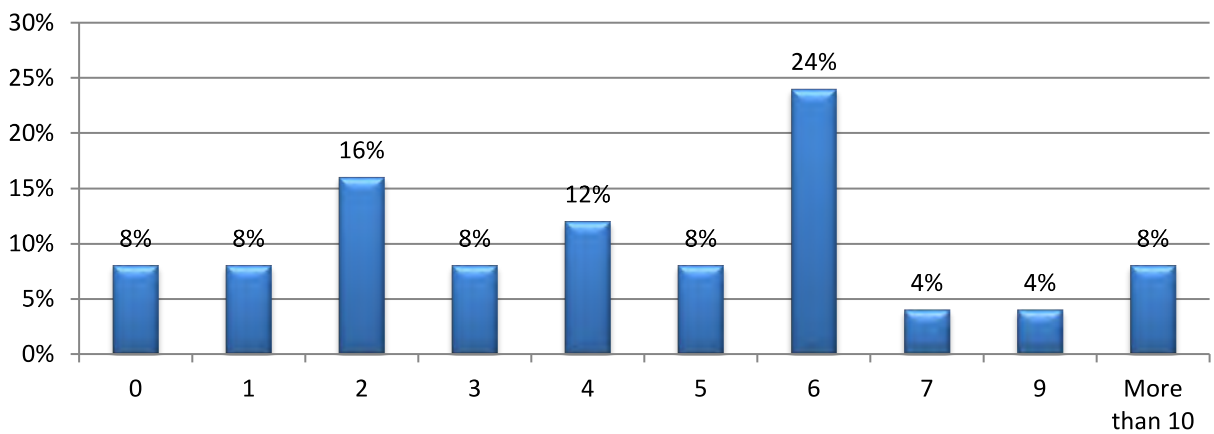


Figure 69. Number of Follow-on Investments Made in the Last 12 Months



The majority (85%) of respondents plan to make three investments or more over the next 12 months.

Figure 70. Number of Total Investments Planned over Next 12 Months

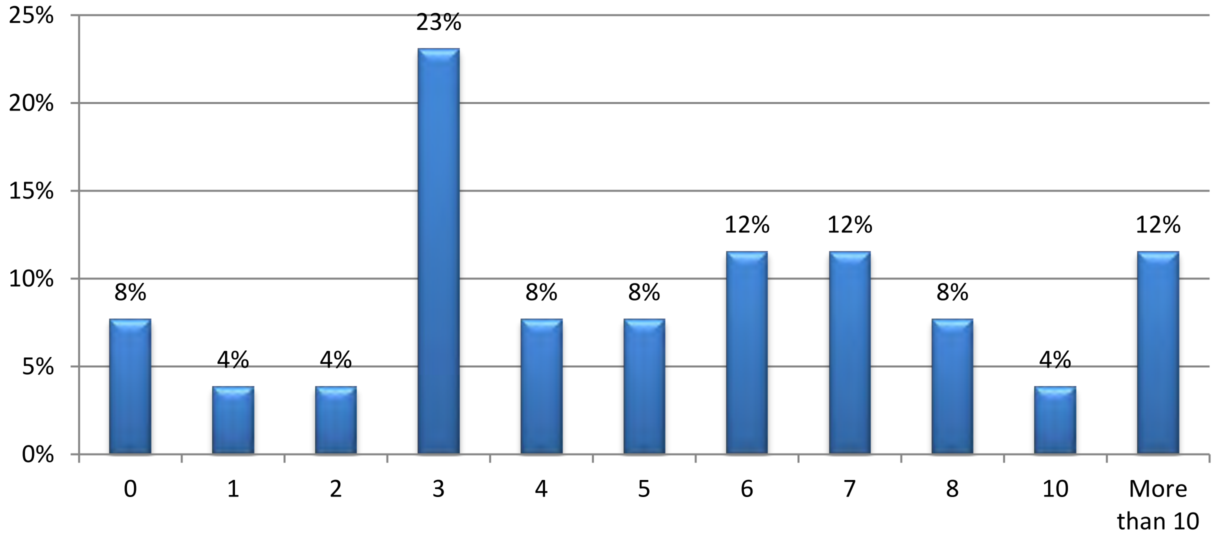
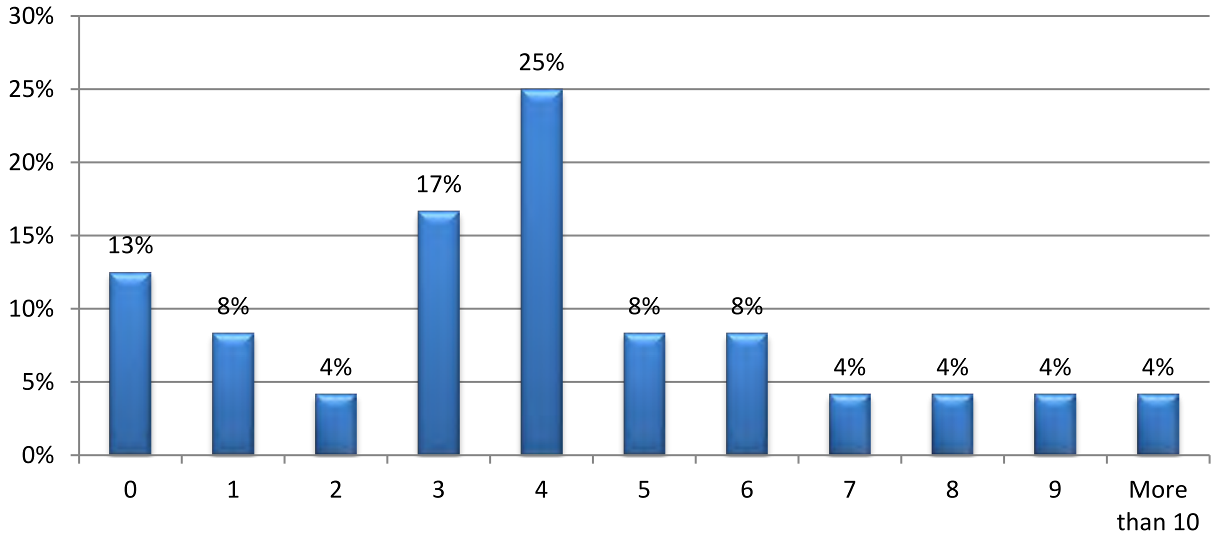


Figure 71. Number of Follow-on Investments Planned over Next 12 Months



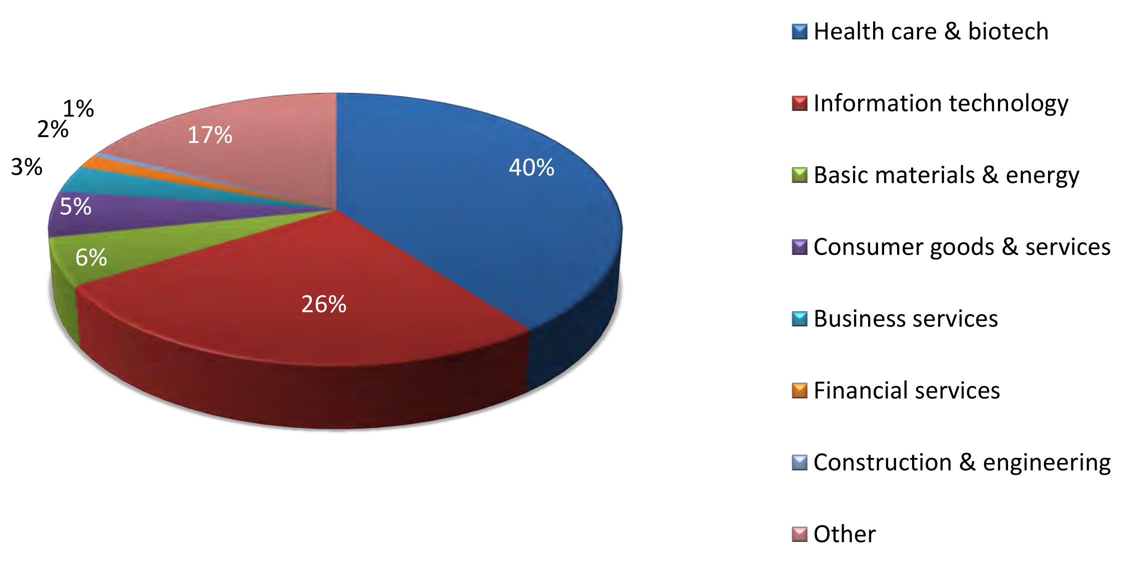
Respondents reported on business practices and the results are reflected below.

Table 40. VC Fund Data

	1st quartile	Median	3rd quartile
Vintage year (year in which first investment made)	2015	2019	2020
Size of fund ($ millions)	$38	$38	$88
Targeted number of total investments	8	13	18
Target fund return (gross pretax cash on cash annual IRR %)	22%	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 healthcare & biotech, and another 26% planning to invest in information technology.

Figure 72. Type of Business for Investments Planned over Next 12 Months



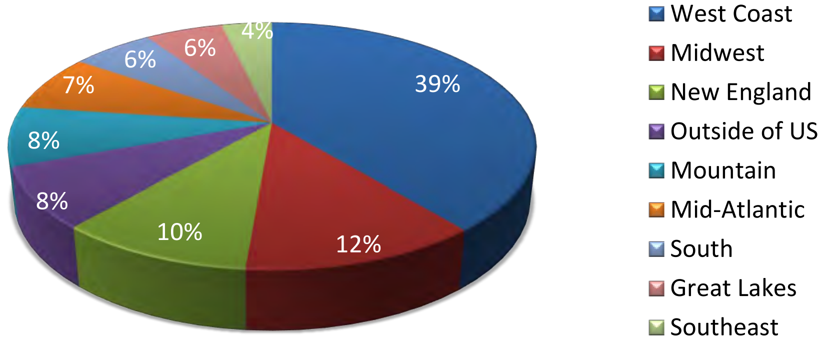
Respondents reported on a variety of statistics pertaining to their investments.

Table 41. General Information on Investments by Company Stages

	Seed	Startup	Early Stage	Expansion	Later Stage
Number of Investments Made in Last twelve months					
	14	12	163	37	17
Average Size of Investment ($ million)					
1st Quartile	0.5	0.5	0.5	1.0	1.5
Median	1.0	1.0	1.5	3.5	10+
3rd Quartile	1.5	3.0	3.5	10+	10+
Average Revenue Multiple					
1st Quartile	3	3.5	4.25	4.5	6
Median	5	7	8	10	10.5
3rd Quartile	10.25	11	13	16	16
Average % of Total Equity Purchased (fully diluted basis)					
1st Quartile	5.0%	5.0%	5.0%	5.0%	5.0%
Median	**15.0%**	**15.0%**	**15.0%**	**5.0%**	**5.0%**
3rd Quartile	28.0%	25.0%	25.0%	10.0%	5.0%
Total expected Returns (gross cash on cash pretax IRR) on new investments					
1st Quartile	33.0%	30.0%	23.0%	19.0%	18.0%
Median	**38.0%**	**33.0%**	**30.0%**	**25.0%**	**23.0%**
3rd Quartile	40.0%	40.0%	38.0%	32.0%	38.0%
Expected Time to Exit (years)					
1st Quartile	5.0	4.5	3.8	4.3	2.0
Median	>7	6.0	5.0	5.0	2.5
3rd Quartile	>7	6.5	6.0	5.0	3.0
Average Company Value at Time of Investment (post-money $ millions)					
1st Quartile	2.8	15.0	15.0	15.0	>100
Median	**5.0**	**15.0**	**25.0**	**85.0**	**>100**
3rd Quartile	8.8	23.0	35.0	>100	>100

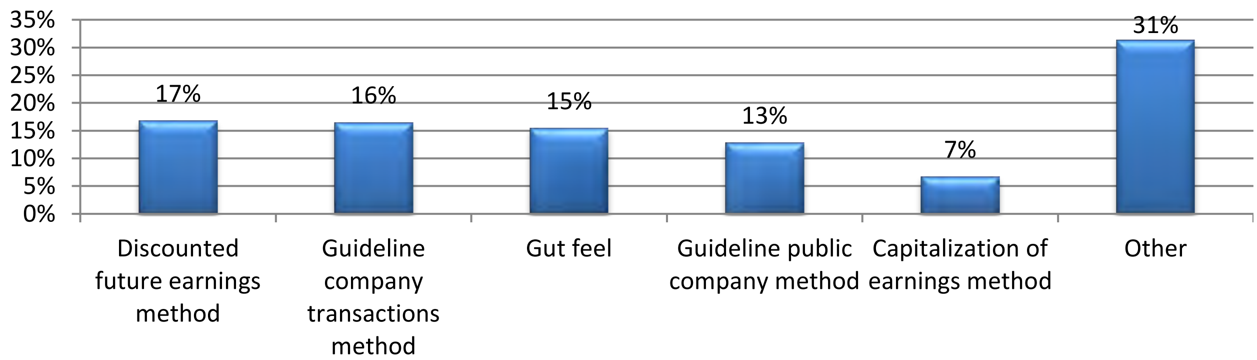
Respondents reported on where they plan to invest over the next 12 months. The results reflect investment throughout the U.S.

Figure 73. Geographic Location of Planned Investment over Next 12 Months



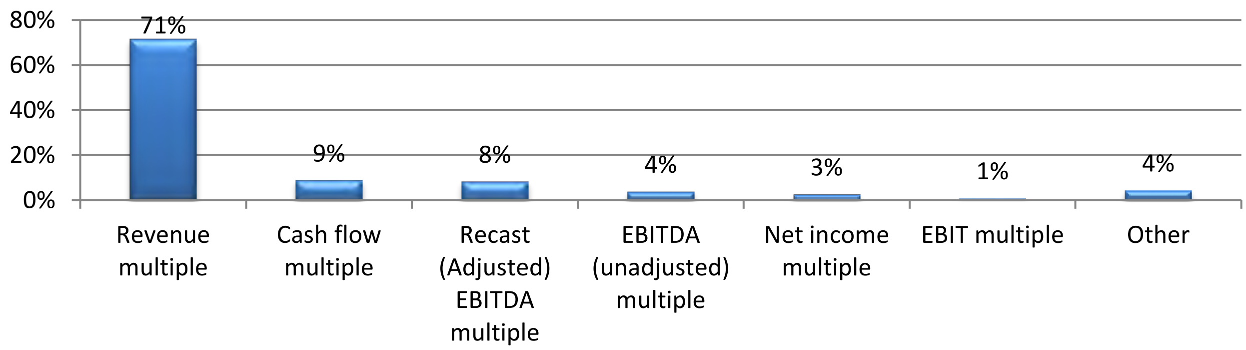
When valuing the company, approximately 15% of respondents use gut feel, another 17% use discounted future earnings method and 16% use guideline company transactions method valuing privately-held businesses.

Figure 74. Usage of Valuation Methods



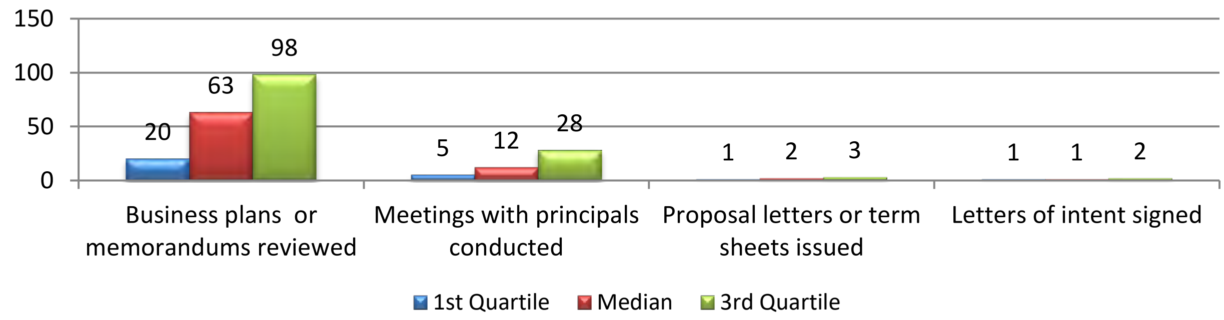
The weights of the various multiple methods used by respondents when valuing privately-held businesses included 71% for revenue multiple and 9% for cash flow multiple methods.

Figure 75. Usage of Multiple Methods



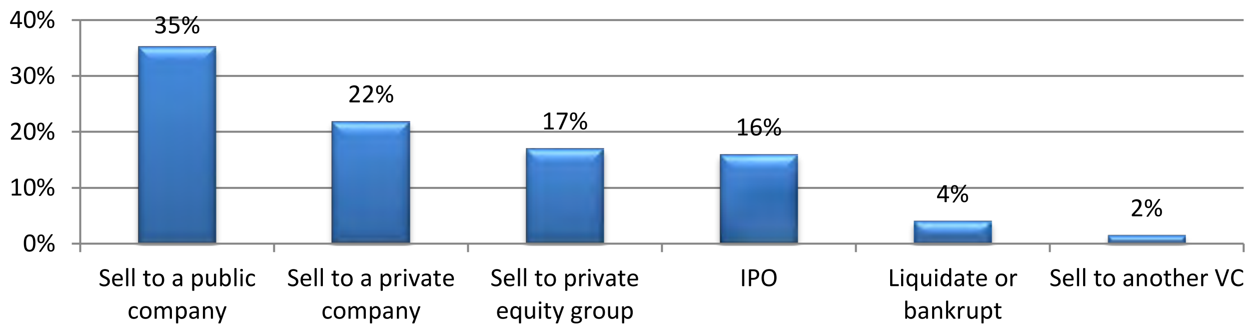
Respondents reported on items required to close one deal.

Figure 70. Items Required to Close One Deal



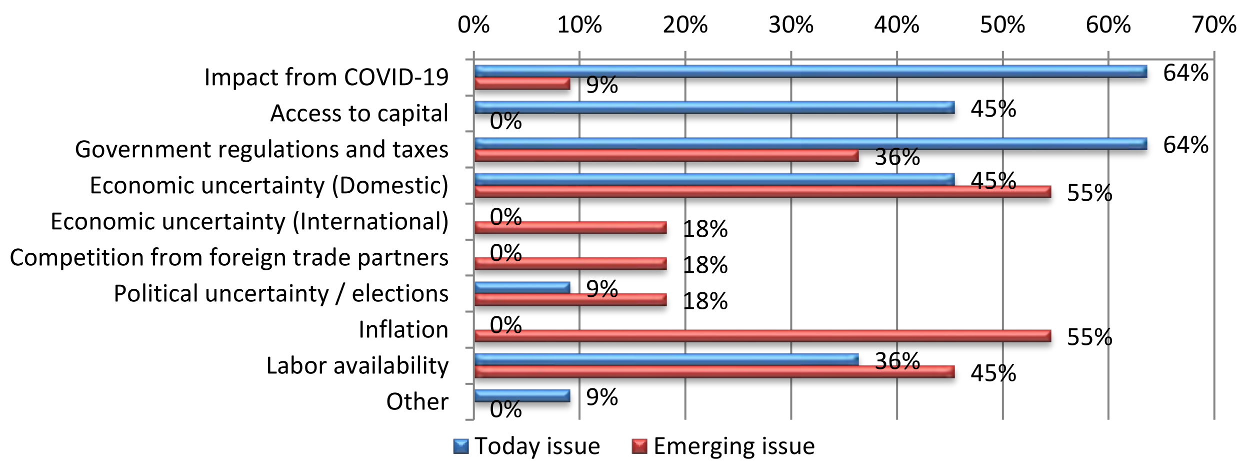
Respondents' exit strategies include selling to a public company (35%) followed by selling to a private company (22%).

Figure 76. Exit Plans for Portfolio Companies



Respondents impact from COVID-19 and government regulations and taxes are the most important issue facing privately-held businesses today.

Figure 77. Current Issues Facing Privately-Held Businesses



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 42. 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	0%	4%	21%	38%	38%	75%	4%	**71%**
Quality of companies seeking investment	0%	12%	32%	48%	8%	56%	12%	**44%**
Follow-on investments	0%	0%	38%	33%	29%	63%	0%	**63%**
Average investment size	0%	4%	39%	39%	17%	57%	4%	**52%**
Exit opportunities	0%	4%	17%	38%	42%	79%	4%	**75%**
Time to exit deals	4%	25%	38%	29%	4%	33%	29%	**4%**
Expected returns on new investments	0%	8%	63%	25%	4%	29%	8%	**21%**
Value of portfolio companies	0%	0%	17%	50%	33%	83%	0%	**83%**
General business conditions	0%	8%	25%	50%	17%	67%	8%	**58%**
Presence of super angels in space formerly occupied by VCs	4%	8%	33%	42%	13%	54%	13%	**42%**
Size of venture capital industry	0%	0%	13%	57%	30%	87%	0%	**87%**
Appetite for risk	0%	8%	25%	42%	25%	67%	8%	**58%**

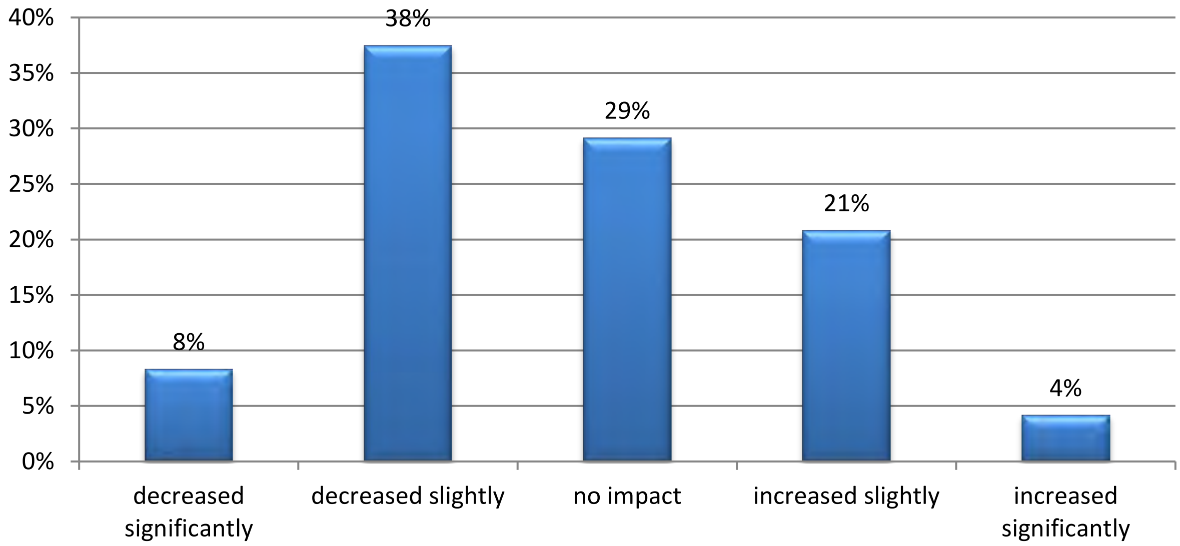
Respondents expect further improving general business conditions.

Table 43. 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%	0%	30%	52%	17%	70%	0%	**70%**
Quality of companies seeking investment	0%	9%	35%	48%	9%	57%	9%	**48%**
Follow-on investments	4%	0%	35%	30%	30%	61%	4%	**57%**
Average investment size	0%	0%	39%	48%	13%	61%	0%	**61%**
Exit opportunities	0%	9%	43%	35%	13%	48%	9%	**39%**
Time to exit deals	0%	13%	43%	35%	9%	43%	13%	**30%**
Expected returns on new investments	0%	9%	57%	35%	0%	35%	9%	**26%**
Value of portfolio companies	0%	5%	36%	32%	27%	59%	5%	**55%**
General business conditions	4%	9%	43%	30%	13%	43%	13%	**30%**
Presence of super angels in space formerly occupied by VCs	0%	4%	57%	35%	4%	39%	4%	**35%**
Size of venture capital industry	0%	0%	39%	52%	9%	61%	0%	**61%**
Appetite for risk	0%	4%	39%	39%	17%	57%	4%	**52%**

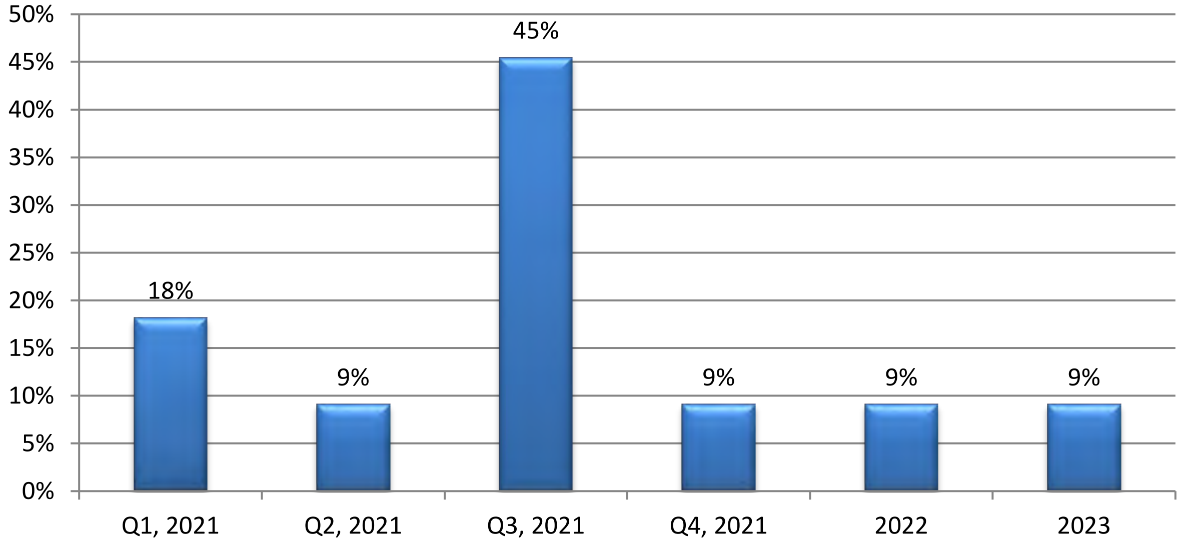
Approximately 38% of respondents indicated their deal flow decreased slightly due to COVID-19 pandemic.

Figure 78. Level of Impact COVID-19 Pandemic Had on Respondents Deal Flow in 2020



Approximately 82% of respondents believe their deal flow will return to pre-March 2020 level in the year 2021.

Figure 79. When Venture Capital Deal Flow Returns to Pre-March 2020 Level



ANGEL INVESTOR SURVEY INFORMATION

Of the 35 participants who responded to the angel investor survey, the majority (55%) of respondents plan to make between three and five investments in the next twelve months. Other key findings include:

- Approximately 29% of respondents' base valuations on gut feel when valuing privately-held businesses, another 25% base valuations on discounted future earnings method.
- When using multiples to determine the value of a business, the most popular methods used by respondents were revenue multiple (45%), followed by EBITDA multiple (19%) and cash flow multiple (19%).
- The types of businesses respondents plan to invest in over next 12 months are very diverse with 24% targeting information technology and another 23% 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 (33%) 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 80. Total Number of Investments Made in the Last 12 Months

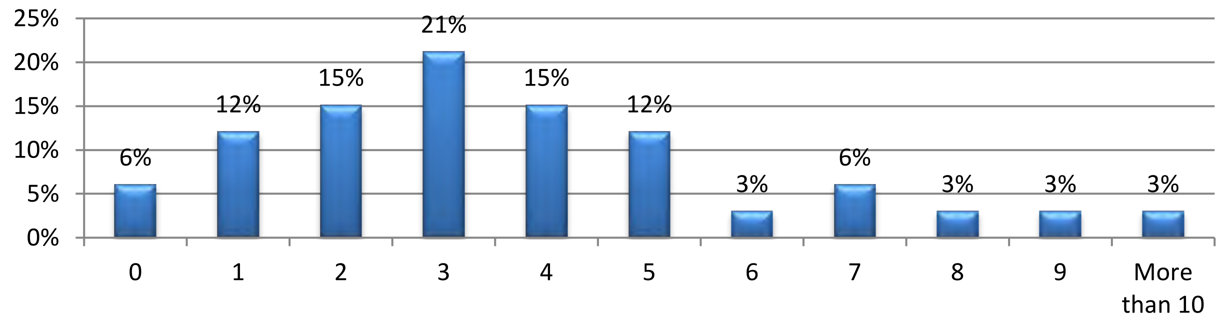
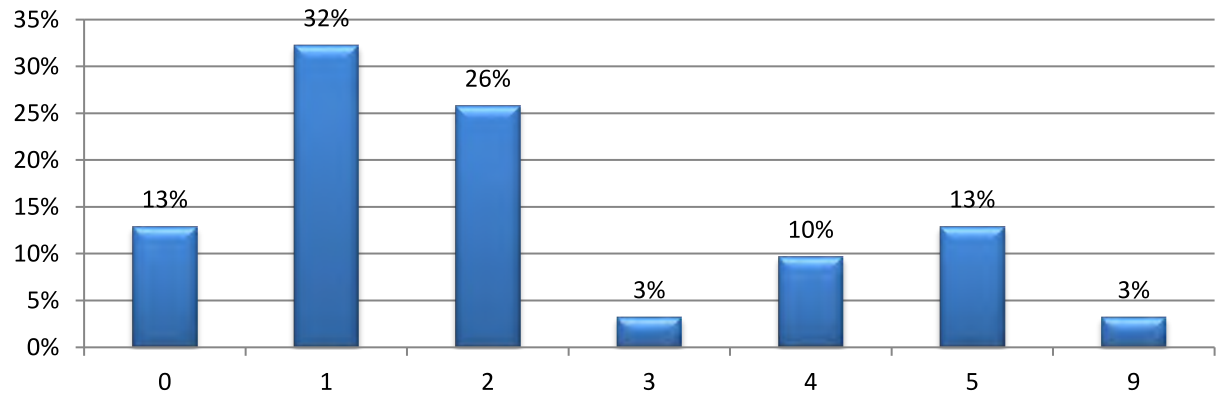


Figure 81. Number of Follow-on Investments Made in the Last 12 Months



The majority (73%) of respondents plan to make between one and five investments over the next 12 months.

Figure 82. Number of Total Investments Planned over Next 12 Months

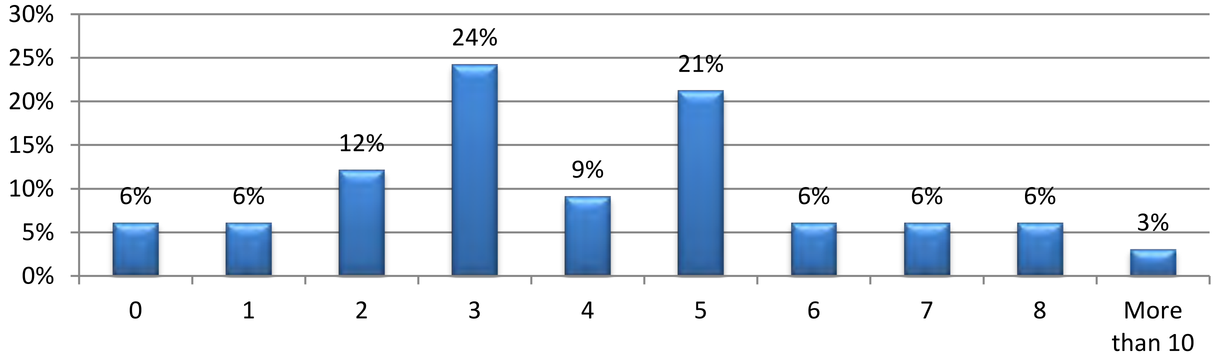
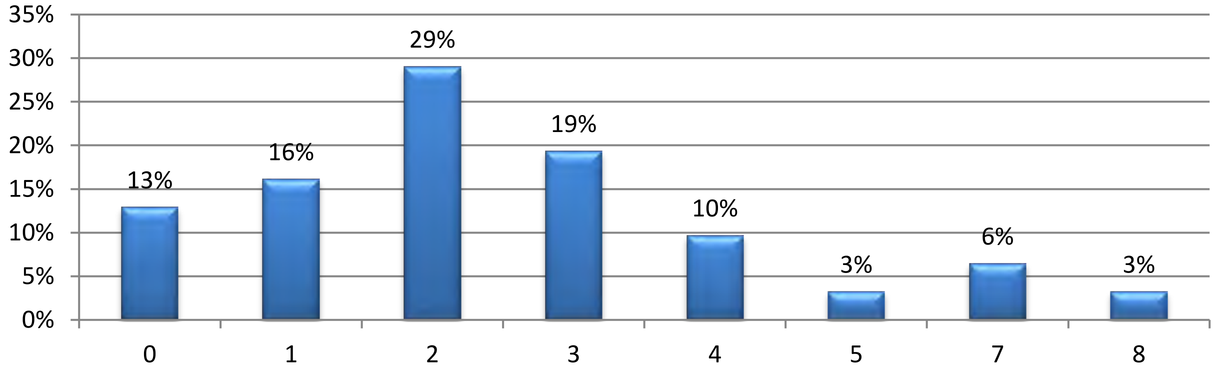
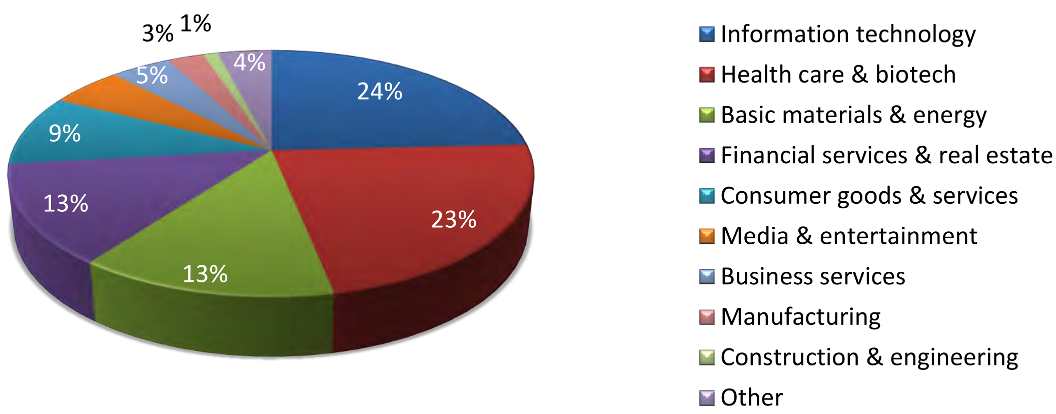


Figure 83. Number of Follow-on Investments Planned over Next 12 Months



The types of businesses respondents plan to invest in over next 12 months are very diverse with over 24% targeting Information technology and another 23% planning to invest in healthcare & biotech.

Figure 84. Type of Business for Investments Planned over Next 12 Months



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

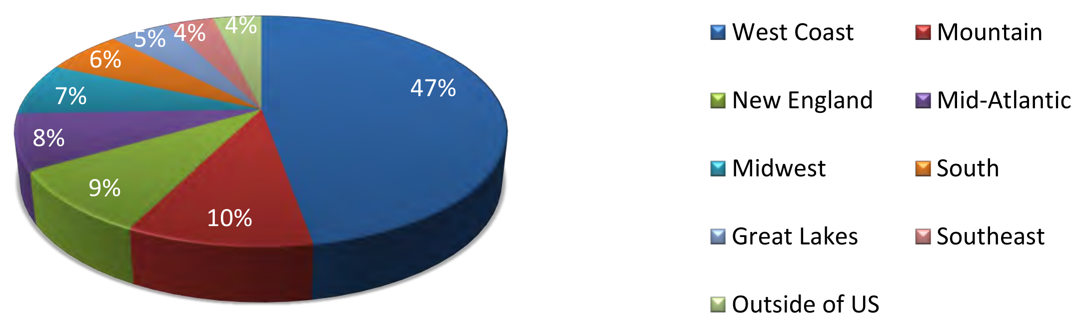
Table 44. General Information on Investments by Company Stages

	Seed	Startup	Early Stage	Expansion	Later Stage
Number of investments made in last twelve months					
	59	42	29	18	11
Average size of investments					
1st Quartile	$25,000	$25,000	$25,000	$37,500	$50,000
Median	**$25,000**	**$50,000**	**$75,000**	**$75,000**	**$200,000**
3rd Quartile	$150,000	$150,000	$175,000	$200,000	$250,000
Average revenue multiple					
1st Quartile	<1	1.0	1.8	2.5	2.5
Median	**1.5**	**2.5**	**3.0**	**3.0**	**6.0**
3rd Quartile	2.1	5.1	6.0	8.8	9.5
Average % of total equity purchased					
1st Quartile	2%	2%	1%	1%	1%
Median	**10%**	**3%**	**3%**	**2%**	**1%**
3rd Quartile	20%	9.5%	9.5%	3%	1%
Total EXPECTED Returns (gross cash on cash pretax IRR) on New Investments (%)					
1st Quartile	33%	23%	23%	23%	18%
Median	**43%**	**33%**	**28%**	**25%**	**23%**
3rd Quartile	65%	50%	48%	48%	38%
Expected Time to Exit (years)					
1st Quartile	5.0	5.0	4.0	2.0	1.0
Median	**6.0**	**5.0**	**5.0**	**3.0**	**2.0**
3rd Quartile	7.0	6.0	5.0	3.0	3.0
Average Company Value at Time of Investment (post-money value)					
1st Quartile	$1,500,000	$2,500,000	$2,500,000	$7,500,000	$65,000,000
Median	**$2,500,000**	**$4,000,000**	**$7,500,000**	**$15,000,000**	**$75,000,000**
3rd Quartile	$4,000,000	$7,500,000	$7,500,000	$25,000,000	$100,000,000

ANGEL cont.

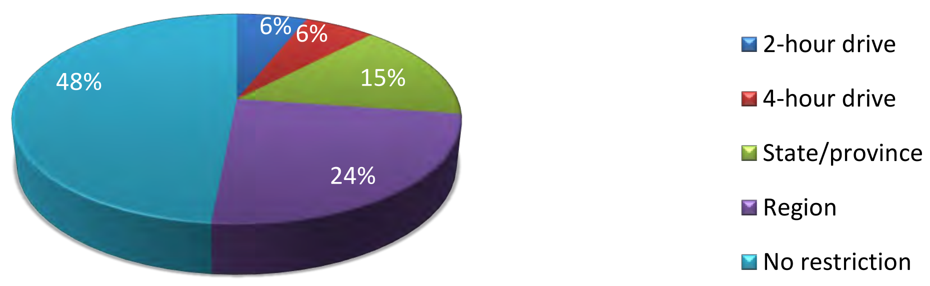
Respondents reported on where they plan to invest over the next 12 months. The results reflect investment throughout the U.S.

Figure 85. Geographic Location of Planned Investment over Next 12 Months



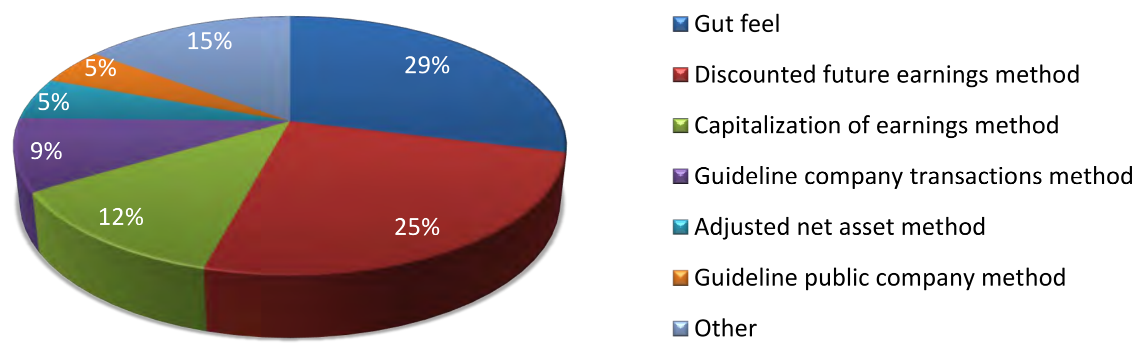
Respondents reported on their geographical limits for investments.

Figure 86. Geographical Limit for Investment



Approximately 29% of respondents' base valuations on gut feel when valuing privately-held businesses, another 25% base valuations on discounted future earnings method.

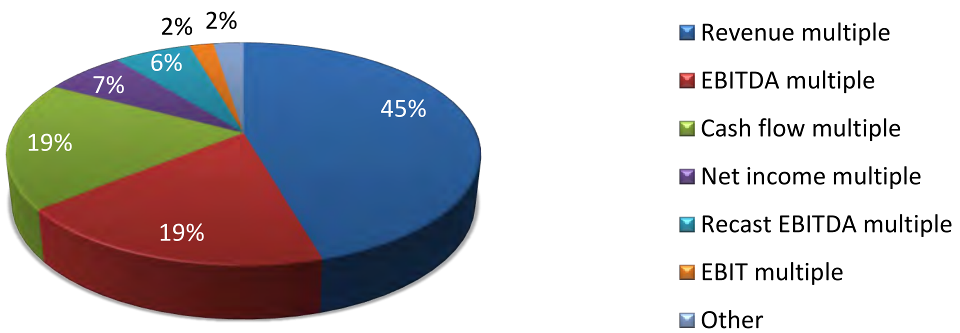
Figure 80. Usage of Valuation Methods



ANGEL cont.

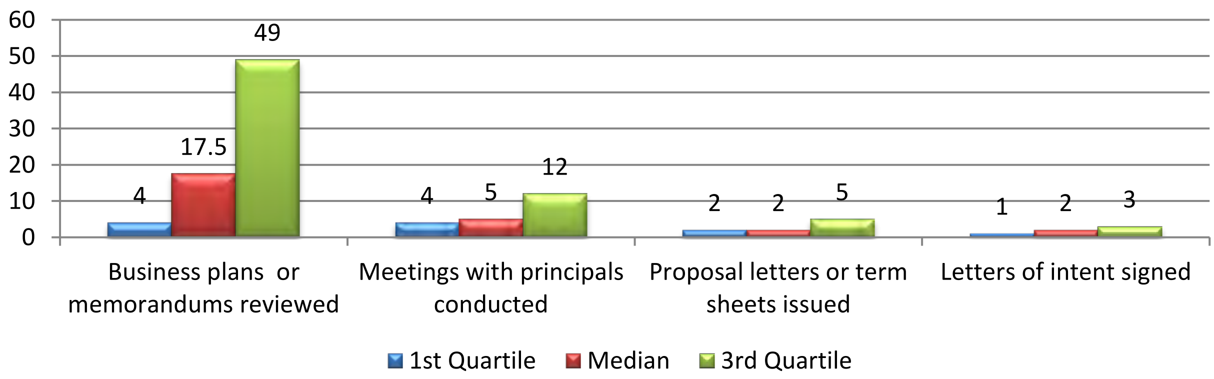
The weights of the various multiple methods used by respondents when valuing privately-held businesses included 45% for revenue multiple, 19% for EBITDA multiple method and 19% for cash flow multiple.

Figure 87. Usage of Multiple Methods



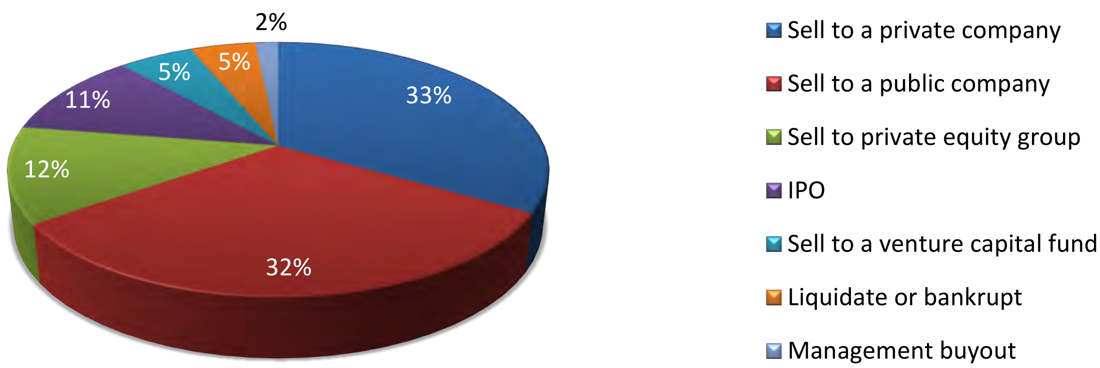
Respondents reported on items required to close one deal.

Figure 88. Items Required to Close One Deal



Respondents' exit strategies include selling to a private company (33%) and selling to a public company (32%).

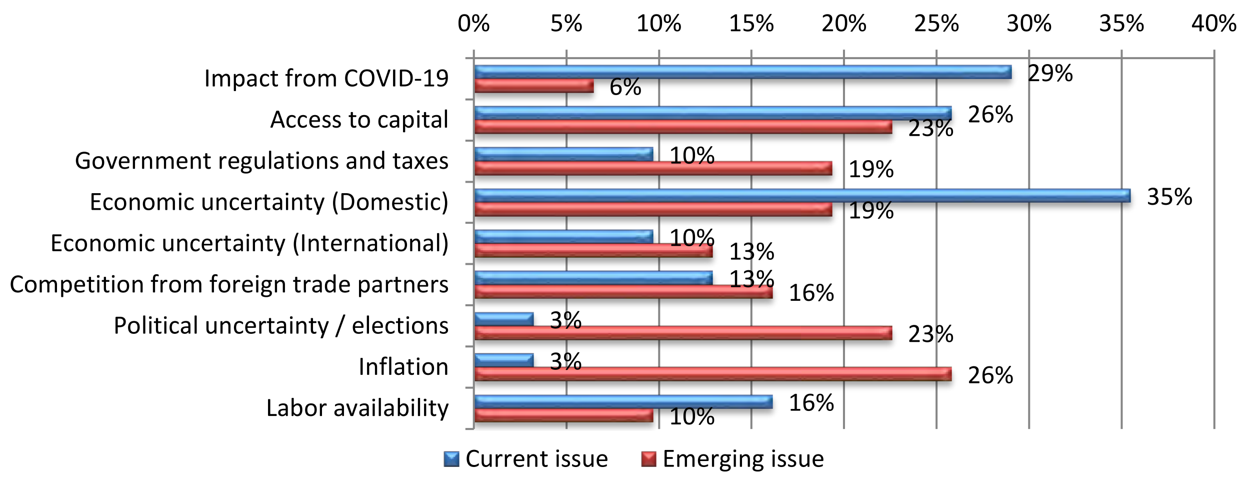
Figure 89. Exit Plans for Portfolio Companies



ANGEL cont.

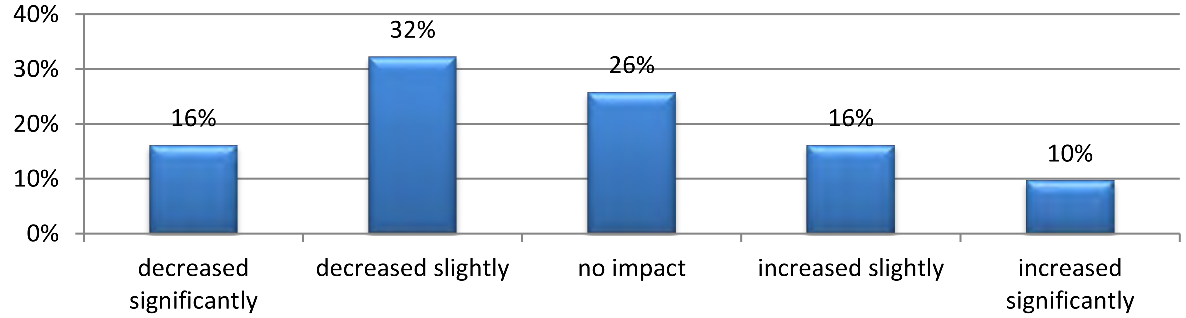
Respondents believe domestic economic uncertainty is the most important current issue facing privately-held businesses.

Figure 84. Issues Facing Privately-Held Businesses



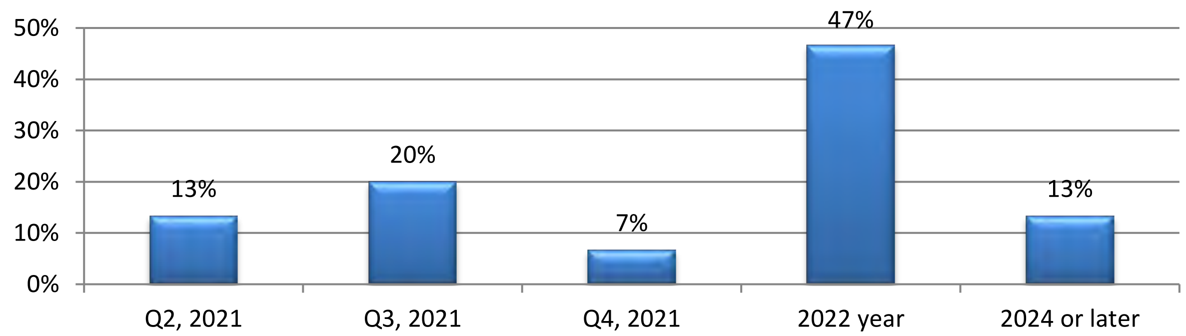
Approximately 32% of respondents indicated their deal flow decreased slightly due to COVID-19 pandemic.

Figure 90. Level of Impact COVID-19 Pandemic Had on Respondents Deal Flow in 2020



Approximately 47% of respondents believe their deal flow will return to pre-March 2020 level in the year 2022.

Figure 91. When Angel Capital Deal Flow Returns to Pre-March 2020 Level



ANGEL cont.

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

Table 45. 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%	9%	41%	16%	34%	50%	9%	**41%**
Size of angel finance industry	0%	6%	38%	34%	22%	56%	6%	**50%**
Quality of companies seeking investment	3%	19%	50%	19%	9%	28%	22%	**6%**
Follow-on investments	3%	13%	34%	38%	13%	50%	16%	**34%**
Average investment size	0%	13%	44%	28%	16%	44%	13%	**31%**
Exit opportunities	10%	16%	32%	13%	29%	42%	26%	**16%**
Time to exit deals	0%	22%	34%	25%	19%	44%	22%	**22%**
Expected returns on new investments	3%	13%	53%	16%	16%	31%	16%	**16%**
Value of portfolio companies	0%	13%	31%	44%	13%	56%	13%	**44%**
General business conditions	6%	25%	16%	31%	22%	53%	31%	**22%**
Appetite for risk	6%	19%	31%	25%	19%	44%	25%	**19%**

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

Table 46. 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	0%	6%	23%	32%	39%	71%	6%	**65%**
Size of angel finance industry	6%	0%	26%	48%	19%	68%	6%	**61%**
Quality of companies seeking investment	3%	26%	48%	19%	3%	23%	29%	**-6%**
Follow-on investments	0%	6%	58%	26%	10%	35%	6%	**29%**
Average Investment Size	0%	10%	48%	32%	10%	42%	10%	**32%**
Exit opportunities	3%	10%	33%	37%	17%	53%	13%	**40%**
Time to exit deals	3%	23%	42%	26%	6%	32%	26%	**6%**
Expected returns on new investments	3%	13%	58%	19%	6%	26%	16%	**10%**
Value of portfolio companies	0%	13%	39%	39%	10%	48%	13%	**35%**
General business conditions	10%	10%	35%	35%	10%	45%	19%	**26%**
Appetite for risk	10%	16%	35%	26%	13%	39%	26%	**13%**

ESOP Advantages

COMMON SENSE SUCCESSION PLANNING

Sell your business to the people who care most about your legacy, the employees.

SELL ON YOUR TIMELINE

Unlike a sale or merger, the ESOP enables you to sell any portion of your business you choose. A sale or merger usually requires the seller to sell 100% control.

LIQUIDITY

An ESOP is a ready buyer of company shares.

1042 ROLLOVER

If the ESOP acquires 30% or more of the outstanding stock of a privately-held company, any capital gains tax on the transaction can be deferred indefinitely.

TAX DEDUCTIBLE

Repay debt with tax deductible or tax-free dollars.

PRODUCTIVITY

Because employee owners have a stake in the business, they work harder, and smarter.

PROFITABILITY

ESOP companies are often more profitable than their peers and more likely to withstand financial hardships, like a pandemic.

Sell Your Business to Your Employees. Maintain Your Legacy. Secure the Future of Your Business.

An Employee Stock Ownership Plan (ESOP) is a tax-qualified retirement plan authorized and encouraged by federal tax and pension laws.

Is an ESOP right for your business?

Visit our website or reach out. We can connect you with the right advisor to answer your questions.

esopassociation.org

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BUSINESS APPRAISER SURVEY INFORMATION

According to the 190 business appraiser survey respondents, impact from COVID-19 is the most important issue facing privately-held business today. Respondents indicated increases in number of engagements, fees for services, slightly increased competition, and improved general business conditions over the last twelve months. They also expect worsening business conditions in the next twelve months.

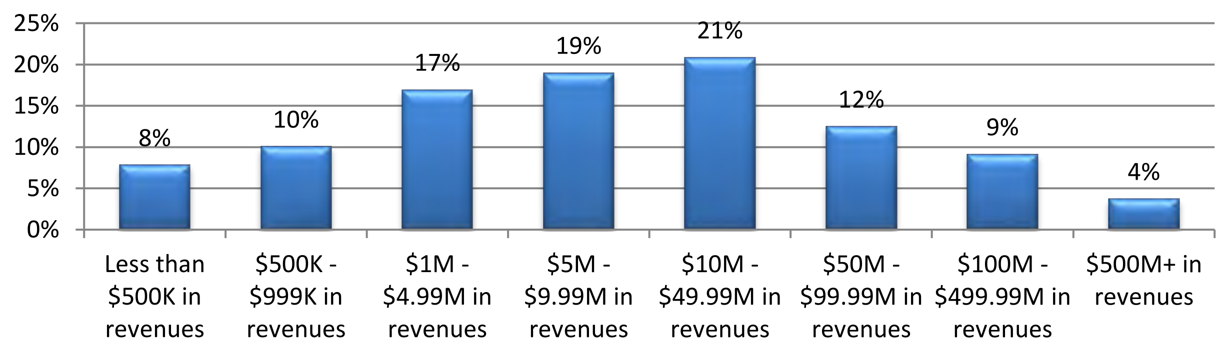
Other key findings include:

- 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 (27%) and guideline company transactions method (15%).
- Recast (adjusted) EBITDA multiple is the most popular when using multiple valuation method
- Respondents use an average risk-free rate of 2.4% and a market (equity) risk premium of 5.9%
- Average long-term terminal growth is estimated at 2.9%

Operational and Assessment Characteristics

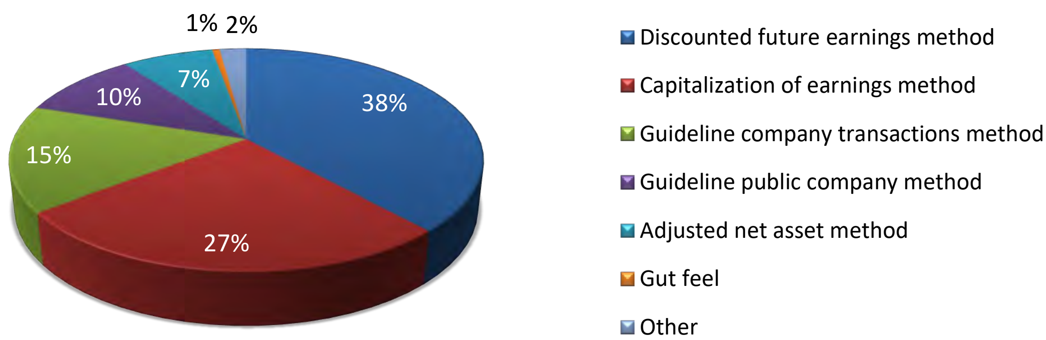
Most of the companies valued by respondents have annual revenues from $1 million to $50 million.

Figure 92. Annual Revenues of Companies Valued



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

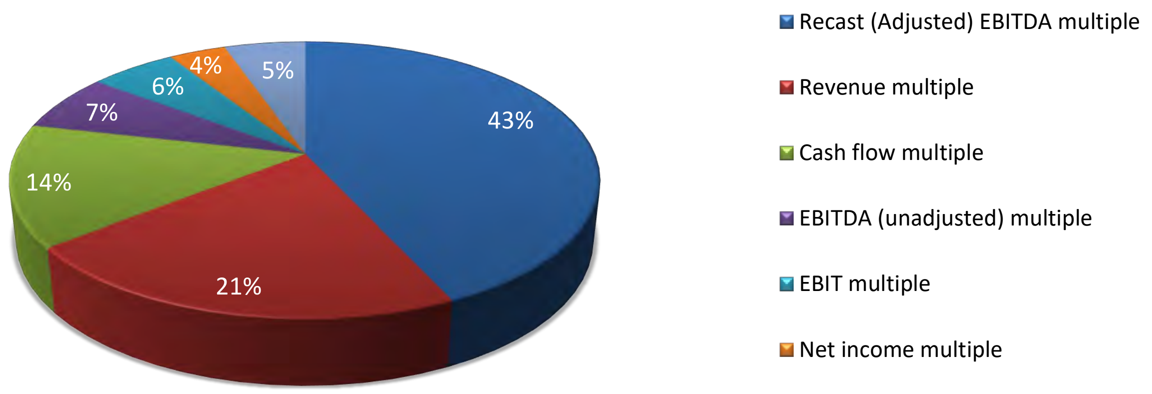
Figure 93. Usage of Valuation Methods



APPRAISERS cont.

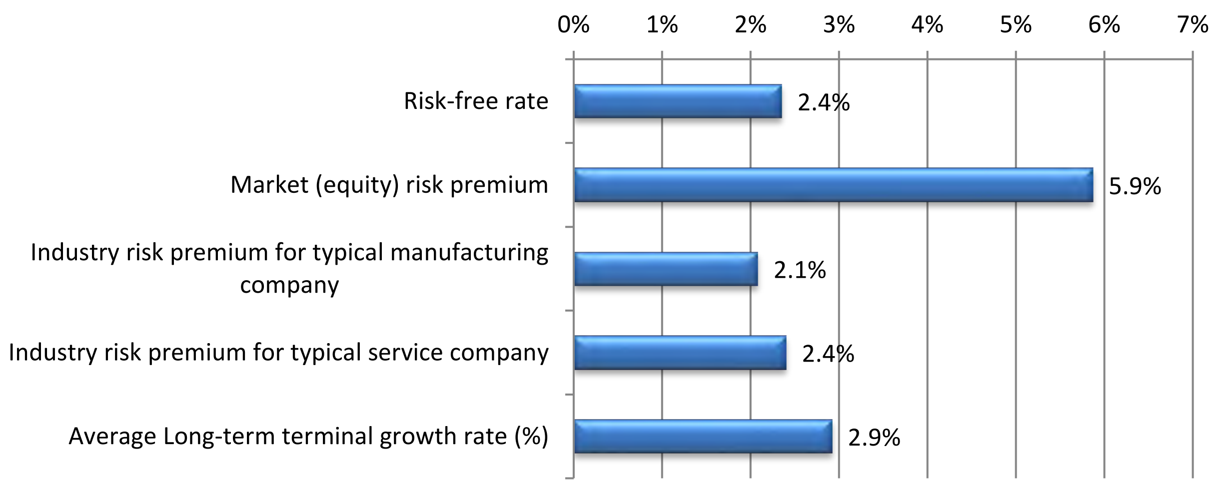
Respondents using multiples-based approaches indicate a preference for using recast (adjusted) EBITDA multiples (43%), followed by revenue multiples (21%).

Figure 94. Usage of Multiple Methods



Respondents indicated using an average risk-free rate of 2.4%, average market (equity) risk premium of 5.9% and average long-term growth rate of 2.9%.

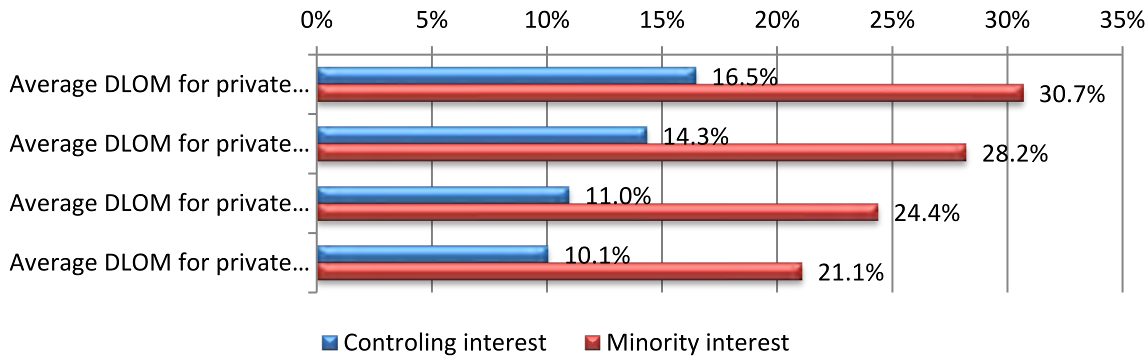
Figure 95. Average Risk-Free Rate, Market (equity) Risk Premium, Industry Risk Premiums and Long-Term Growth Rate



APPRAISERS cont.

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

Figure 96. Discount for Lack of Marketability (DLOM) by Revenue Sizes



Only 24% of respondents are comfort applying public cost of capital to privately-held companies with annual revenues less than $1 million.

Figure 97. Overall Comfort Level with Applying Public Cost of Capital to Privately-held Companies of Various Sizes

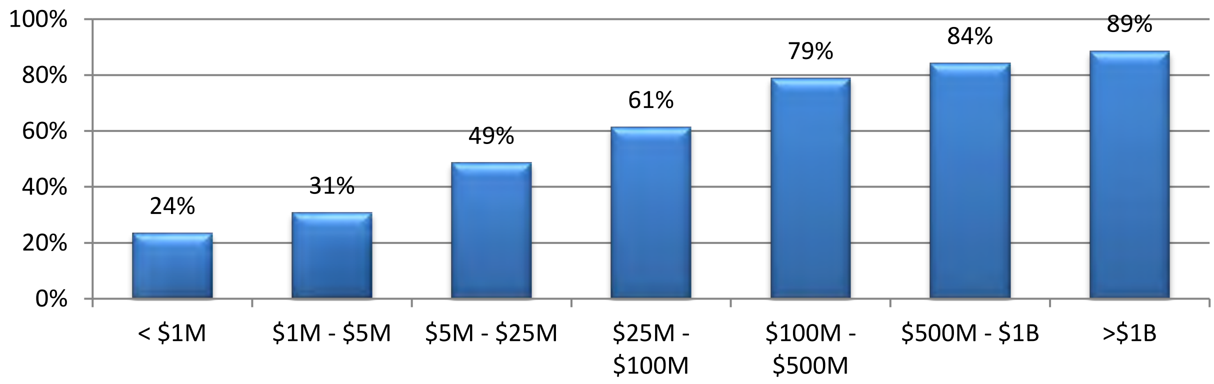
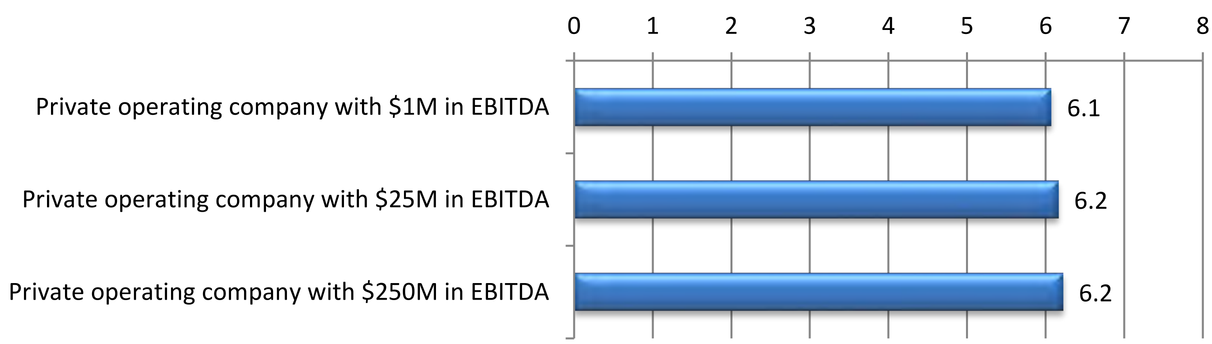


Figure 98. Explicit Forecast Period for High-Growth Companies by Revenue Sizes (years)



APPRAISERS cont.

Figure 99. Size Premiums for Private Companies by Revenue Size

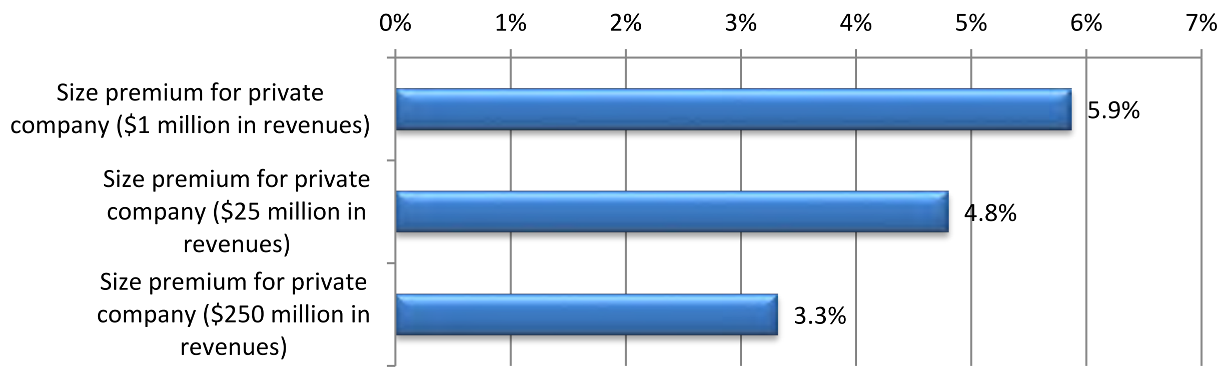
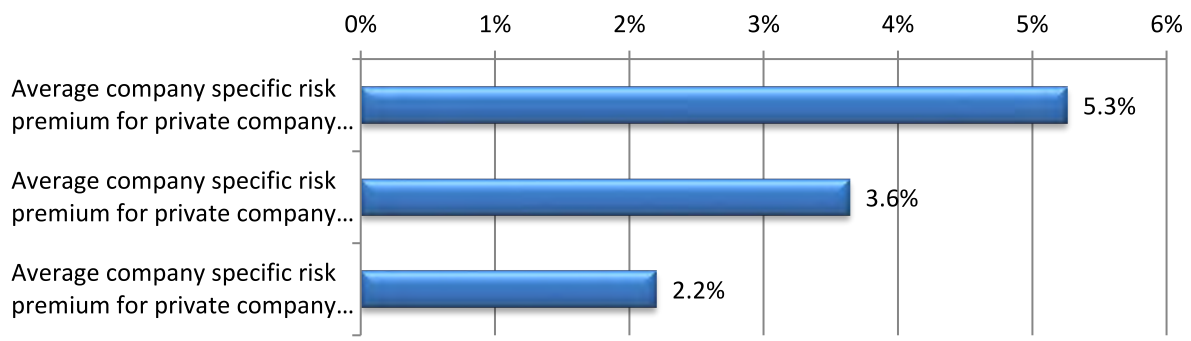
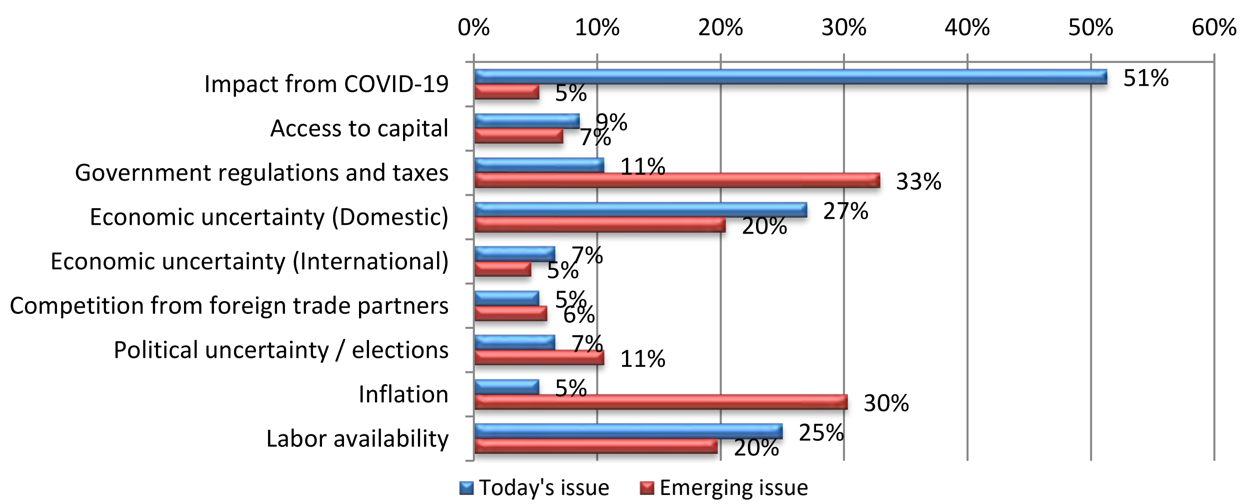


Figure 100. Company Specific Risk Premiums by Revenue Size



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

Figure 101. Issues Facing Privately-Held Businesses



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

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/ decrease**
Number of engagements	4%	10%	28%	30%	28%	58%	14%	**44%**
Time to complete a typical appraisal	2%	7%	55%	27%	8%	35%	9%	**26%**
Fees for services	1%	3%	45%	47%	4%	51%	3%	**48%**
Competition	0%	5%	81%	10%	4%	14%	5%	**9%**
Cost of capital	3%	28%	35%	32%	1%	34%	31%	**3%**
Market (equity) risk premiums	0%	14%	54%	31%	1%	32%	14%	**18%**
Discounts for lack of marketability (DLOM)	0%	6%	71%	22%	1%	23%	6%	**17%**
Company specific risk premiums	0%	4%	43%	48%	6%	53%	4%	**49%**
General business conditions	7%	22%	25%	33%	12%	46%	29%	**16%**
Appetite for risk	3%	24%	37%	31%	5%	36%	27%	**9%**

Respondents expect worsening business conditions in the next twelve months.

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/ decrease**
Number of engagements	1%	5%	30%	47%	16%	1%	6%	**-5%**
Time to complete a typical appraisal	1%	10%	72%	15%	2%	1%	11%	**-11%**
Fees for services	1%	1%	51%	43%	1%	3%	2%	**1%**
Competition	1%	1%	75%	18%	3%	3%	2%	**1%**
Cost of capital	0%	7%	49%	38%	3%	2%	7%	**-5%**
Market (equity) risk premiums	0%	7%	54%	33%	3%	3%	7%	**-4%**
Discounts for lack of marketability (DLOM)	0%	5%	80%	10%	2%	4%	5%	**-1%**
Company specific risk premiums	0%	15%	61%	16%	3%	5%	15%	**-11%**
General business conditions	1%	7%	28%	49%	14%	1%	9%	**-7%**
Appetite for risk	2%	7%	43%	39%	6%	3%	9%	**-6%**

BROKER SURVEY INFORMATION

Approximately 72% of the 427 participants for the broker survey said they expect to close between two and six deals in the next 12 months.

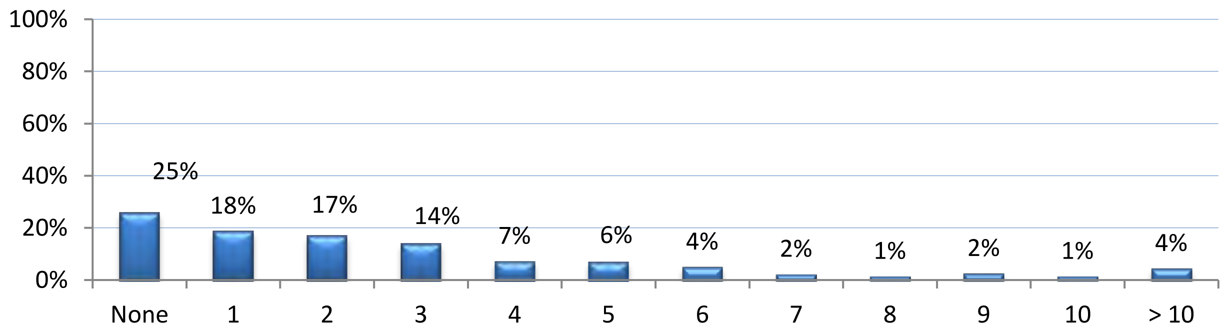
Other key findings include:

- Approximately 18% 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, and improved general business conditions.
- 21% of respondents closed more deals in 2020 than in 2019.

Operational and Assessment Characteristics

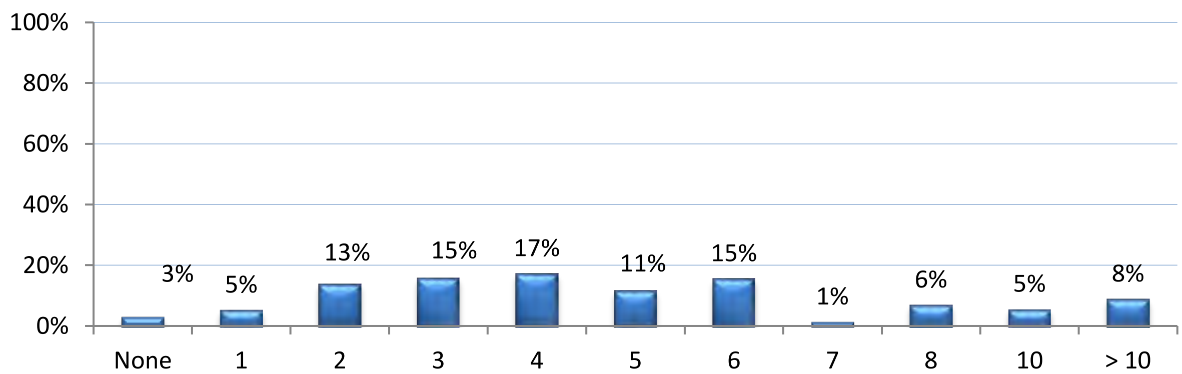
Approximately 25% of the respondents didn't close any deal in the last twelve months; 48% closed between one to three deals, while 26% closed four or more transactions.

Figure 102. Private Business Sales Transactions Closed in the Last Twelve Months



Approximately 72% of respondents are planning to close between two and six business sales transactions in the next 12 months.

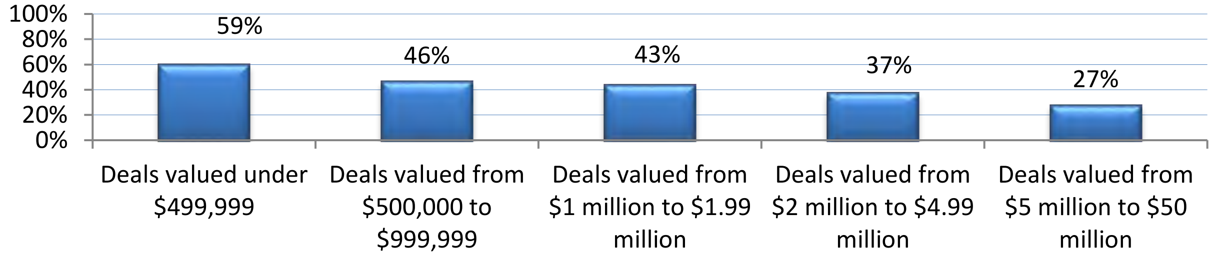
Figure 103. Private Business Sales Transactions Expected to Close in the Next Twelve Months



BROKER cont.

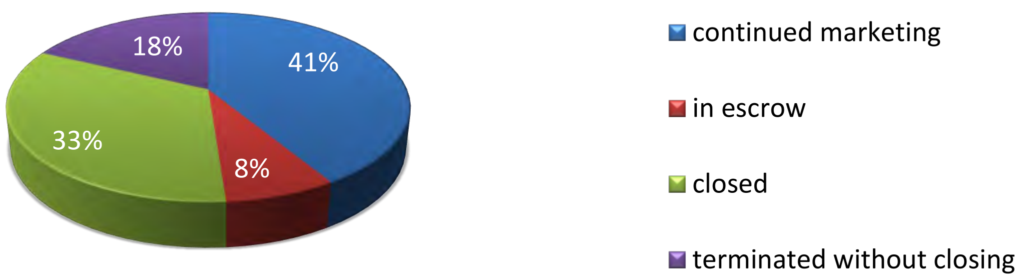
Respondents indicated typical sizes of transactions they are currently working on.

Figure 104. Typical Size of Business Transactions



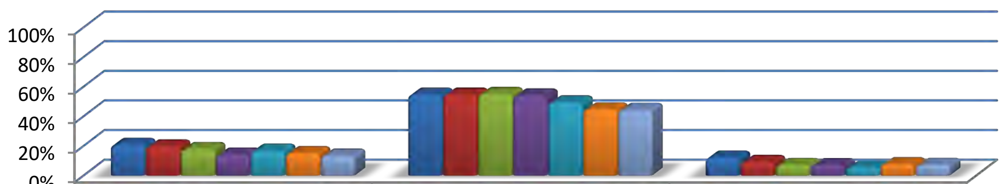
Respondents indicate out of all business transactions they worked on in the last 12 months 33% were closed, 41% are continued marketing, 8% are in escrow and 18% were terminated without closing.

Figure 105. Business Transactions in the Last 12 Months



Nearly 21% of respondents closed more transactions in 2020 than in 2019, 12% of respondents closed equal amount.

Figure 106. Did Respondents Close More Transactions in 2020 than in Previous Years



	Yes	No	Equal amount
2019	21%	55%	12%
2018	20%	55%	9%
2017	18%	55%	7%
2016	14%	54%	7%
2015	17%	50%	5%
2014	15%	45%	8%
2013	14%	45%	7%

BROKER cont.

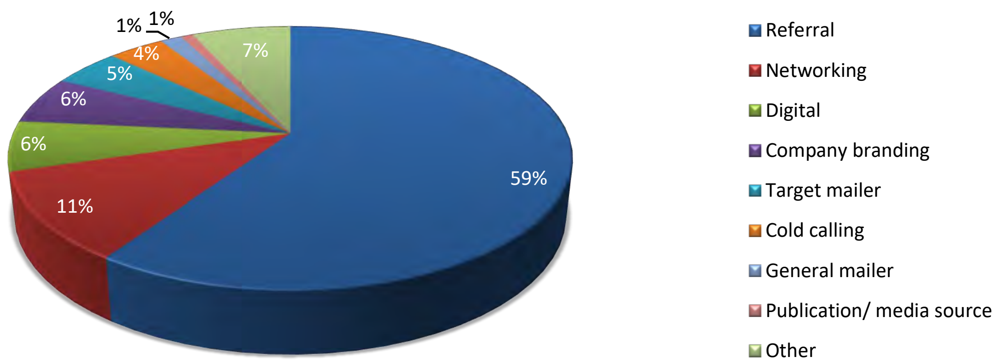
Respondents indicate difficulty to arrange senior debt for transactions with annual revenues under $100 thousands.

Table 49. 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	0%	75%	0%	0%	0%	0%	25%	**-0.8**
$500K	0%	33%	0%	33%	33%	0%	0%	**-0.3**
$1M	0%	14%	0%	43%	14%	29%	0%	**0.4**
$5M	0%	0%	18%	9%	45%	18%	9%	**0.9**
$10M	0%	0%	10%	40%	10%	30%	10%	**0.9**
$15M	0%	10%	0%	30%	10%	30%	20%	**1.1**
$25M+	11%	0%	0%	22%	0%	44%	22%	**1.2**

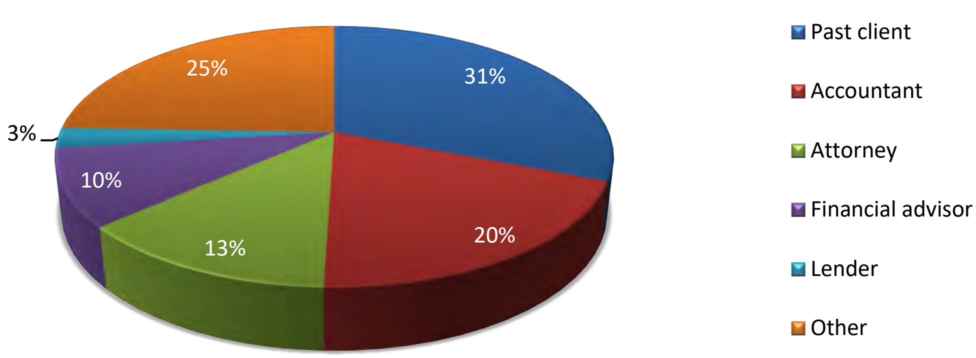
Approximately 59% of respondents indicate best clients arrived by referrals.

Figure 107. Best Client Arrived By:



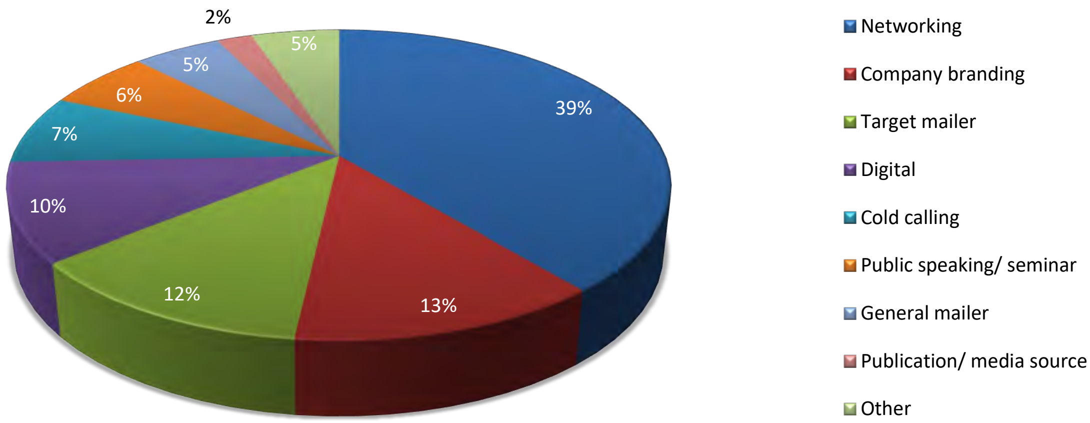
Nearly 31% of referrals were past clients.

Figure 108. Types of Referrals



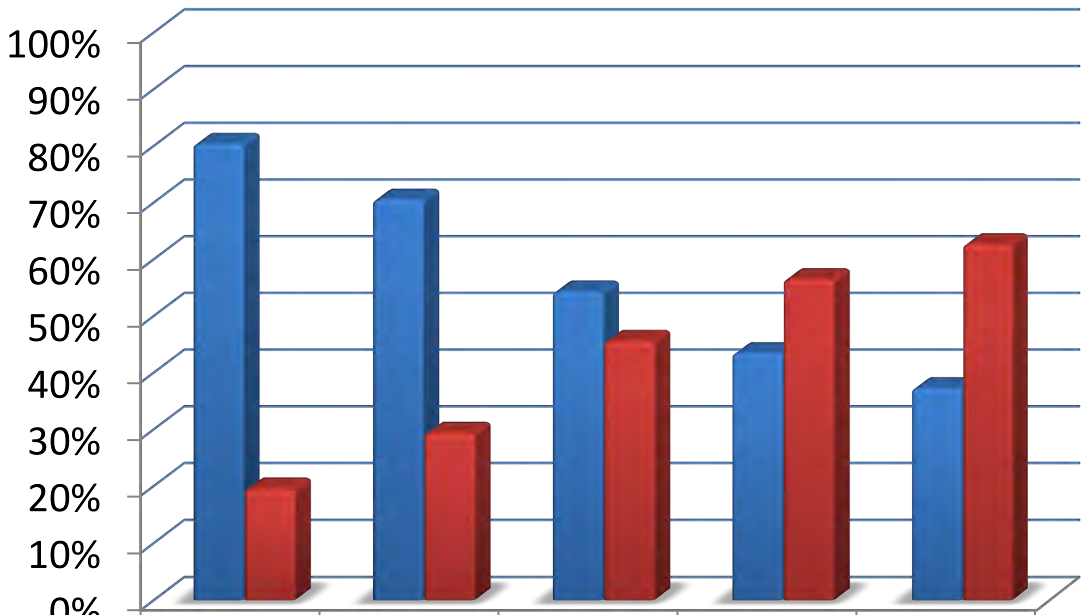
BROKER cont.

Figure 109. Best Marketing Tactic Use in Finding Client Besides Referral



Approximately 80% of respondents indicated it was ‘buyer’s market’ for deals valued under $500 thousands, whereas only 37% of respondents indicated it was ‘buyer’s market’ for deals valued between $5 million and $50 million.

Figure 110. Was It Buyer's or Seller’s Market in the Last 3 Months



	Deals valued under $499,999	Deals valued from $500,000 to $999,999	Deals valued from $1 million to $1.99 million	Deals valued from $2 million to $4.99 million	Deals valued from $5 million to $50 million
Buyer's market	80%	71%	54%	43%	37%
Seller's market	20%	29%	46%	57%	63%

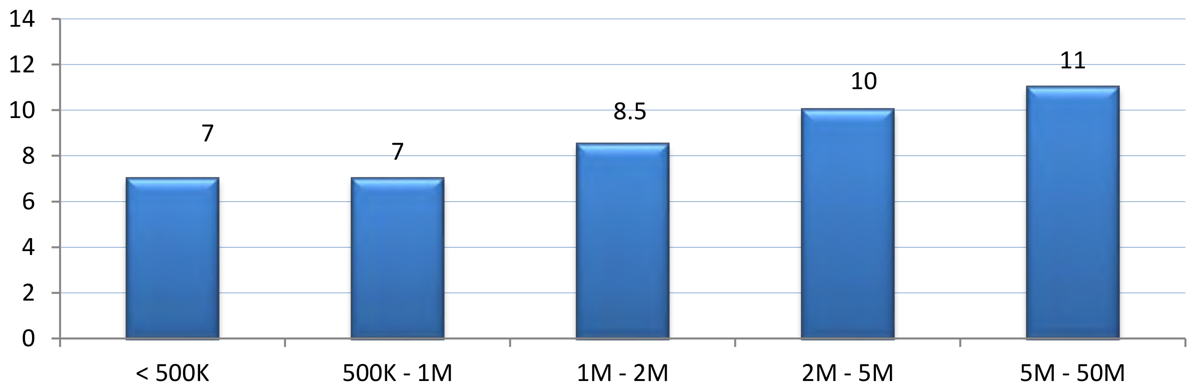
BROKER cont.

Table 50. 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	14%	20%	1%	22%	43%	3.6
Deals valued from $500,000 to $999,999	13%	19%	1%	25%	41%	3.6
Deals valued from $1 million to $1.99 million	13%	22%	1%	18%	46%	3.6
Deals valued from $2 million to $4.99 million	14%	19%	1%	14%	53%	3.7
Deals valued from $5 million to $50 million	12%	26%	2%	10%	50%	3.6

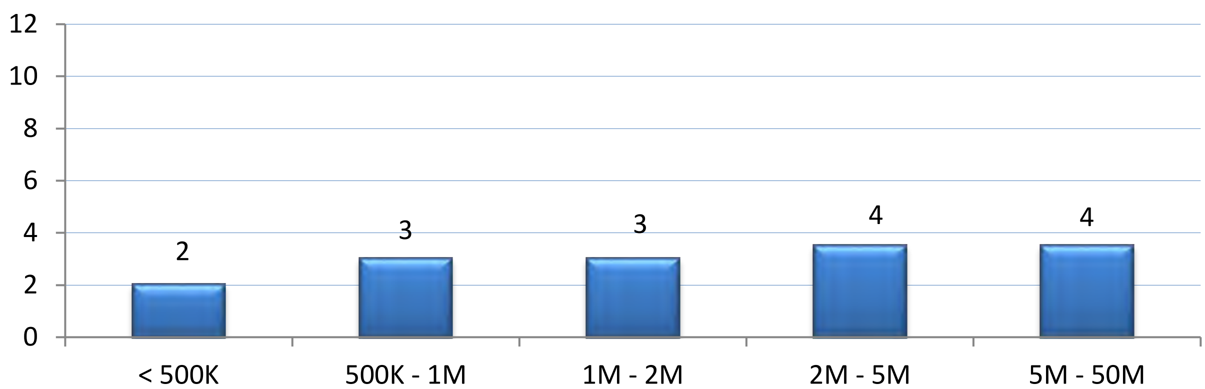
Median number of months from listing / engagement to close varies from 7 to 11 months.

Figure 111. 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.

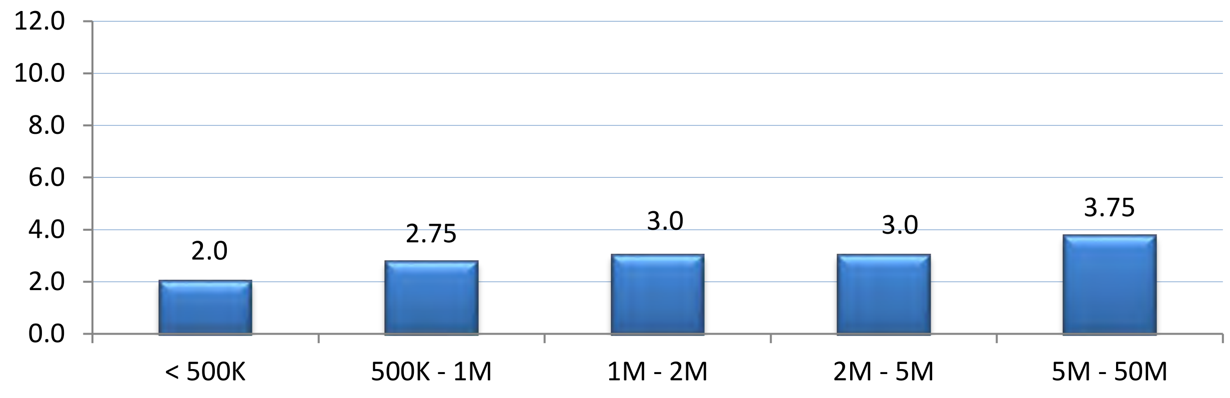
Figure 112. Median Number of Months from LOI / Offer to Close by Deal Size



BROKER cont.

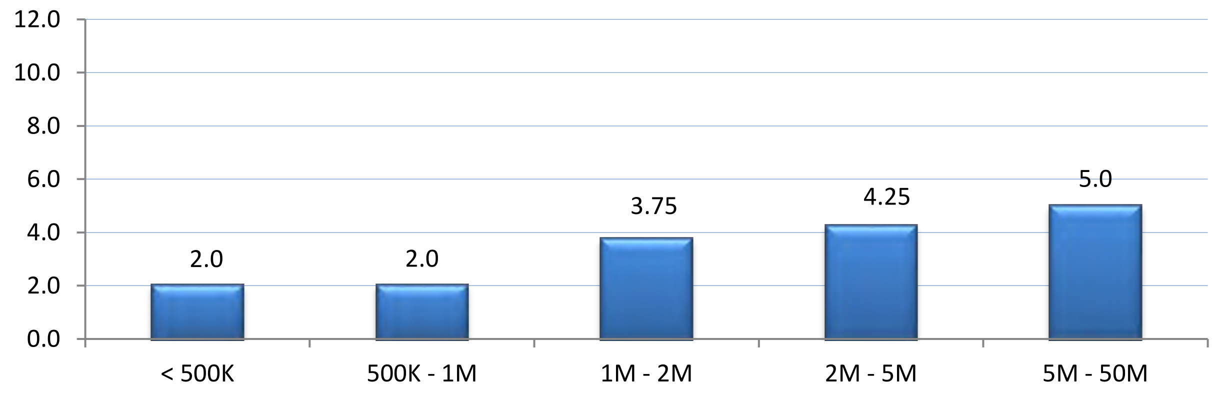
Median SDE multiple paid varies between 2 and 3.75.

Figure 113. Median SDE Multiple Paid by Deal Size



Median EBITDA multiple paid varies between 2.0 and 5.0.

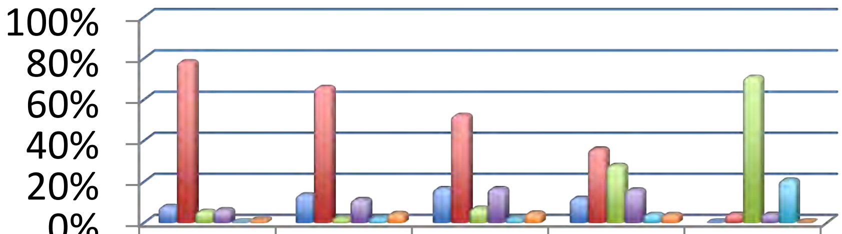
Figure 114. Median EBITDA Multiple Paid by Deal Size



BROKER cont.

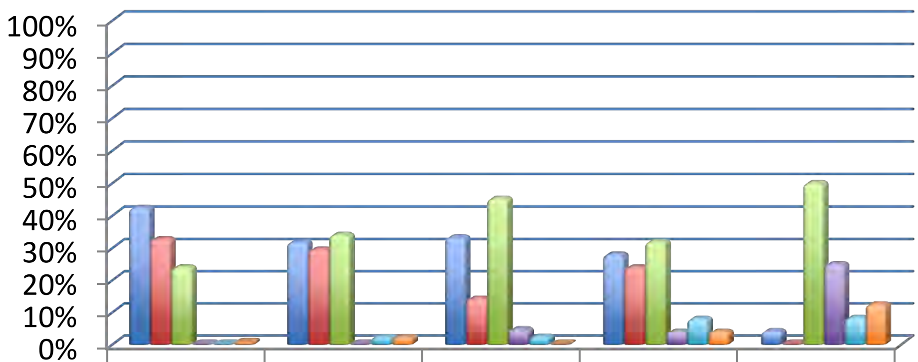
SDE not including working capital was the most popular multiple type used for deals valued under $5 million, while EBITDA including working capital was the most popular type for deals valued between $5 million and $50 million.

Figure 115. Multiple Types by Deal Size



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
SDE including working capital	8%	14%	17%	12%	0%
SDE not including working capital	78%	66%	52%	36%	4%
EBITDA including working capital	6%	2%	7%	28%	71%
EBITDA not including working capital	6%	11%	17%	16%	4%
TTM EBITDA including working capital	0%	2%	2%	4%	21%
TTM EBITDA not including working capital	2%	5%	5%	4%	0%

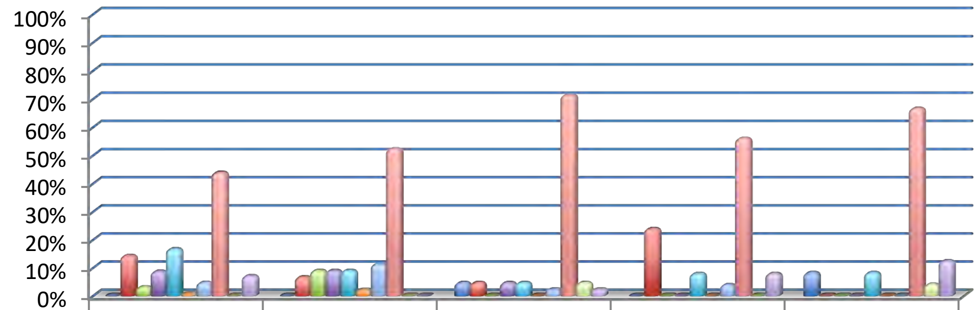
Figure 116. Buyer Type by Deal Size



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
1st time individual	42%	32%	33%	28%	4%
individual who owned a business	33%	30%	14%	24%	0%
existing company/strategic buyer	24%	34%	45%	32%	50%
PE firm - Platform	0%	0%	5%	4%	25%
PE firm - Add-on	0%	2%	2%	8%	8%
Other	1%	2%	0%	4%	13%

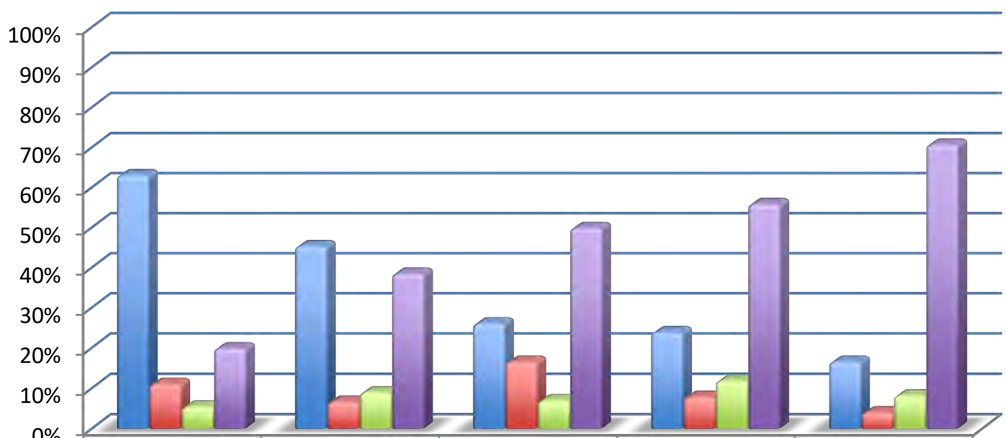
Reason number one for sellers to go to market was retirement.

Figure 117. Reason for Seller to Go to Market by deal Size



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
Recapitalization	0%	0%	5%	0%	8%
Burnt out	14%	7%	5%	24%	0%
Family issues	3%	9%	0%	0%	0%
Health	9%	9%	5%	0%	0%
New opportunity	17%	9%	5%	8%	8%
Potential taxes increases	1%	2%	0%	0%	0%
Relocation/moving	5%	11%	2%	4%	0%
Retirement	44%	52%	71%	56%	67%
Unsolicited offer	0%	0%	5%	0%	4%
Other	7%	0%	2%	8%	13%

Figure 118. Buyer Location by Deal Size

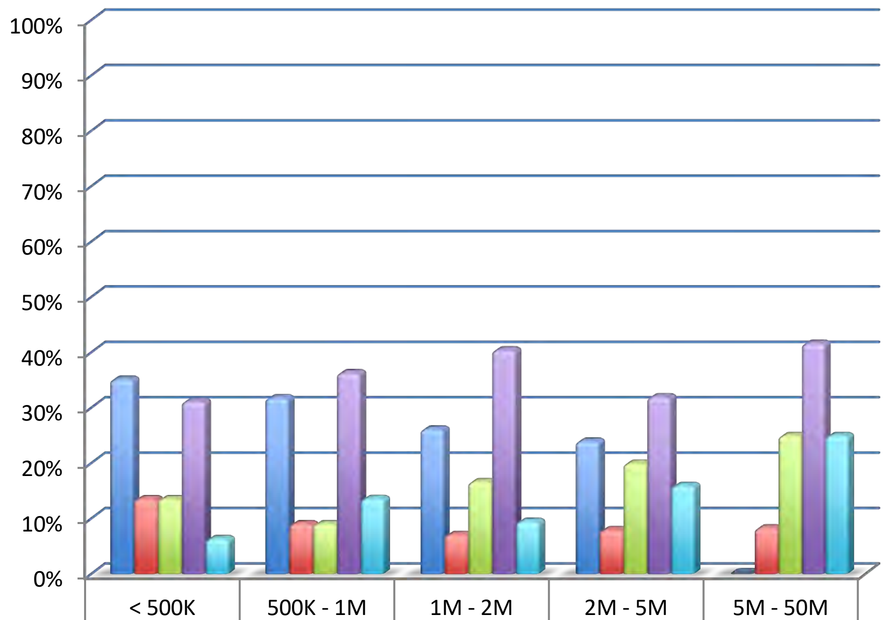


	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
within 20 miles	63%	45%	26%	24%	17%
within 50 miles	11%	7%	17%	8%	4%
within 100 miles	6%	9%	7%	12%	8%
more than 100 miles	20%	39%	50%	56%	71%

BROKER cont.

Buying a job was the number one motivation for buyer for deals valued under $500 thousand.

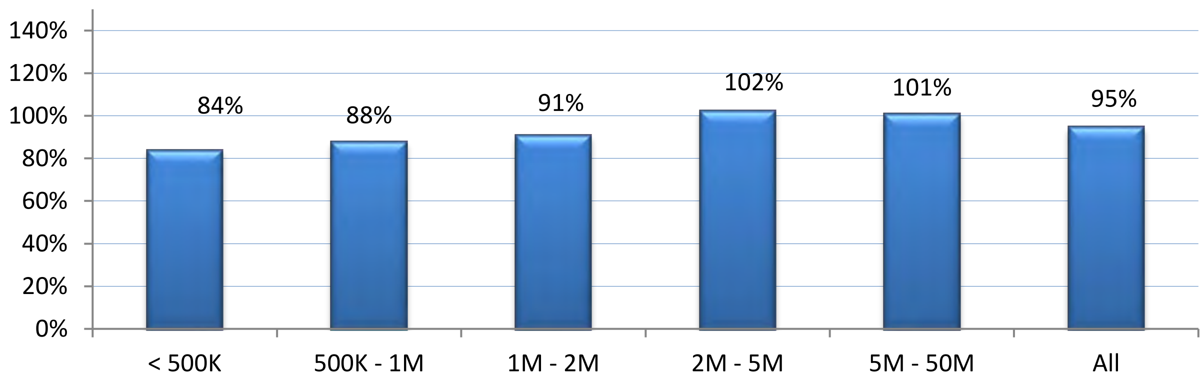
Figure 119. Number One Motivation for Buyer by Deal Size



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
Buying a job	35%	32%	26%	24%	0%
Better ROI than other investment	14%	9%	7%	8%	8%
Vertical add-on	14%	9%	17%	20%	25%
Horizontal add-on	31%	36%	40%	32%	42%
Other	6%	14%	10%	16%	25%

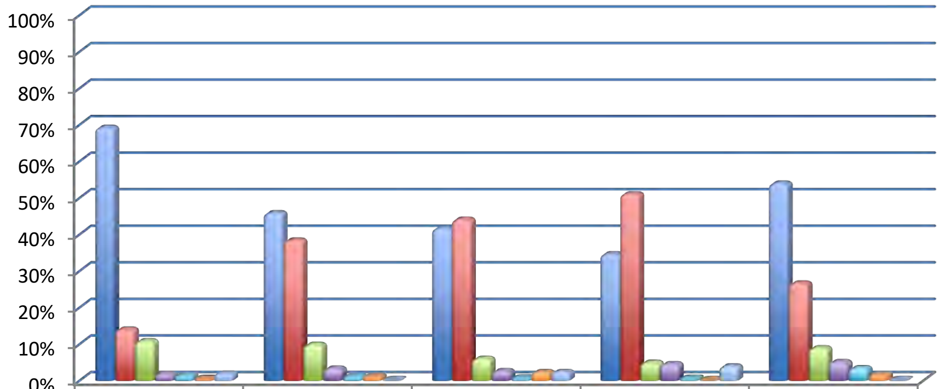
Average percentage of final/ selling price realized to asking/ benchmark price was 95%.

Figure 120. Median Percentage of Final/ Selling Price Realized to Asking/ Benchmark Price by Deal Size



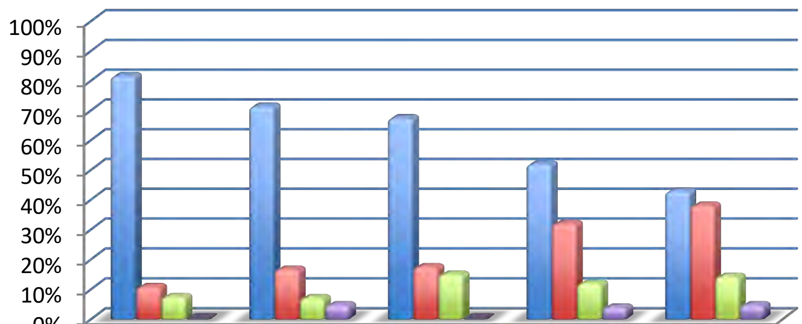
BROKER cont.

Figure 121. Financing Structure by Deal Size



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
Buyers equity	69%	46%	42%	35%	54%
Senior debt	14%	38%	44%	51%	27%
Seller financing	11%	10%	6%	5%	9%
Earn out	2%	3%	3%	5%	5%
Seller retained equity	1%	1%	1%	1%	4%
Mezzanine financing	1%	1%	2%	0%	2%
Other	2%	0%	2%	4%	0%

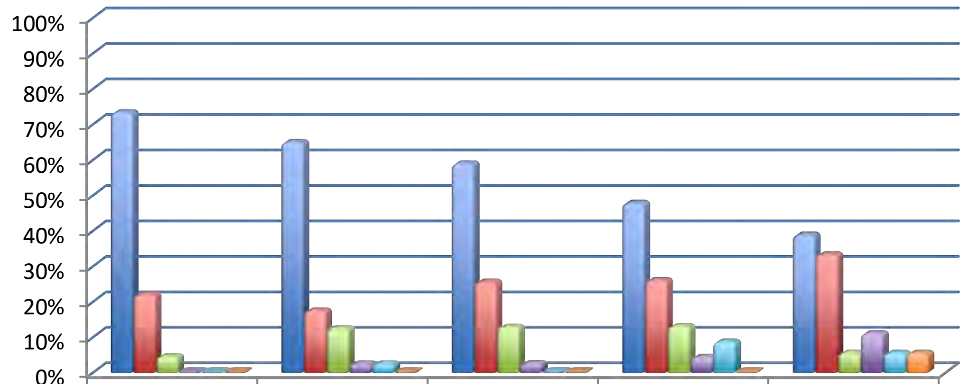
Figure 122. Exit Planning



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
None - no formal planning prior to engagement to sell	82%	71%	68%	52%	43%
Met with an advisor (Wealth, CPA, Attorney) INCLUDING Broker for retirement needs prior to engaging broker	11%	17%	18%	32%	38%
Met with an advisor (Wealth, CPA, Attorney) for retirement needs prior to engaging broker (EXCLUDED Broker)	8%	7%	15%	12%	14%
N/A Represented Buyer	0%	5%	0%	4%	5%

BROKER cont.

Figure 123. Amount of Exit Planning Prior to Marketing Business



	< 500K	500K - 1M	1M - 2M	2M - 5M	5M - 50M
none	73%	65%	59%	48%	39%
less than 1 year	22%	18%	26%	26%	33%
between 1 and 2 years	5%	13%	13%	13%	6%
between 2 and 3 years	0%	3%	3%	4%	11%
between 3 and 5 years	0%	3%	0%	9%	6%
greater than 5 years	0%	0%	0%	0%	6%

Table 51. 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	1.6%	7.3%	28.6%	58.9%	3.6%	3.6
Deals valued from $500,000 to $999,999	2.0%	3.4%	32.5%	58.1%	3.9%	3.6
Deals valued from $1 million to $1.99 million	1.6%	1.6%	36.6%	54.5%	5.8%	3.6
Deals valued from $2 million to $4.99 million	1.2%	2.4%	36.9%	55.4%	4.2%	3.6
Deals over $5 million	1.5%	1.5%	45.4%	49.2%	2.3%	3.5

Table 52. 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	3.6%	28.3%	59.8%	8.4%	0.0%	2.7
Deals valued from $500,000 to $999,999	2.0%	23.8%	62.4%	11.9%	0.0%	2.8
Deals valued from $1 million to $1.99 million	1.6%	13.0%	63.5%	21.4%	0.5%	3.1
Deals valued from $2 million to $4.99 million	0.6%	14.3%	64.3%	20.8%	0.0%	3.1
Deals over $5 million	0.0%	11.5%	67.9%	19.1%	1.5%	3.1

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 53. 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%	6%	19%	25%	44%	69%	13%	**56%**
Ratio of businesses sold / total listings	0%	19%	25%	31%	25%	56%	19%	**38%**
Deal multiples	0%	25%	38%	25%	13%	38%	25%	**13%**
Business exit opportunities	6%	6%	38%	25%	25%	50%	13%	**38%**
Amount of time to sell business	13%	44%	38%	6%	0%	6%	56%	**-50%**
Difficulty selling business	13%	50%	25%	13%	0%	13%	63%	**-50%**
Business opportunities for growth	0%	19%	31%	50%	0%	50%	19%	**31%**
General business conditions	6%	6%	19%	63%	6%	69%	13%	**56%**
Margin pressure on companies	0%	25%	38%	31%	6%	38%	25%	**13%**

Table 54. 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	13%	6%	0%	38%	44%	81%	19%	**63%**
Ratio of businesses sold / total listings	13%	6%	25%	38%	19%	56%	19%	**38%**
Deal multiples	6%	13%	31%	38%	13%	50%	19%	**31%**
Business exit opportunities	6%	0%	13%	44%	38%	81%	6%	**75%**
Amount of time to sell business	6%	25%	44%	13%	13%	25%	31%	**-6%**
Difficulty selling business	6%	38%	38%	13%	6%	19%	44%	**-25%**
Business opportunities for growth	6%	0%	38%	44%	13%	56%	6%	**50%**
General business conditions	6%	0%	19%	63%	13%	75%	6%	**69%**
Margin pressure on companies	0%	13%	31%	38%	19%	56%	13%	**44%**

EQUIPMENT LEASING SURVEY INFORMATION

Approximately 18% of 12 respondents to the equipment leasing survey expect to have lease agreements executed to manufacturing industry, another 15% to construction & engineering, followed by wholesale & distribution (14%). Nearly 67% of respondents booked more than 10 leases in the last 12 months. 75% of respondents plan to book 10 leases or more in the next 12 months.

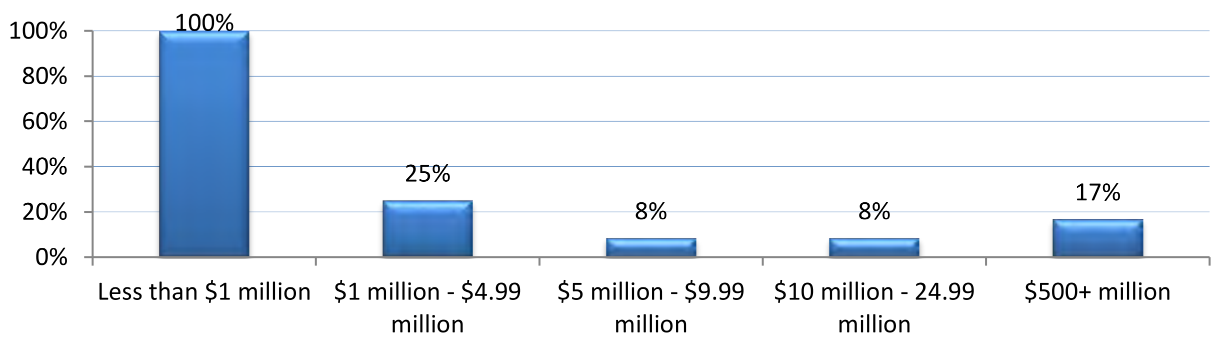
Other key findings include:

- 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 36% of respondents said they saw increased demand for business leases in the last 12 months. Approximately 55% of equipment leasing companies indicated worsened general business conditions in the last twelve months.
- Nearly 80% of respondents believe impact from COVID-19 is the most important issue facing privately-held businesses today, followed by labor availability and domestic economic uncertainty.

Operational and Assessment Characteristics

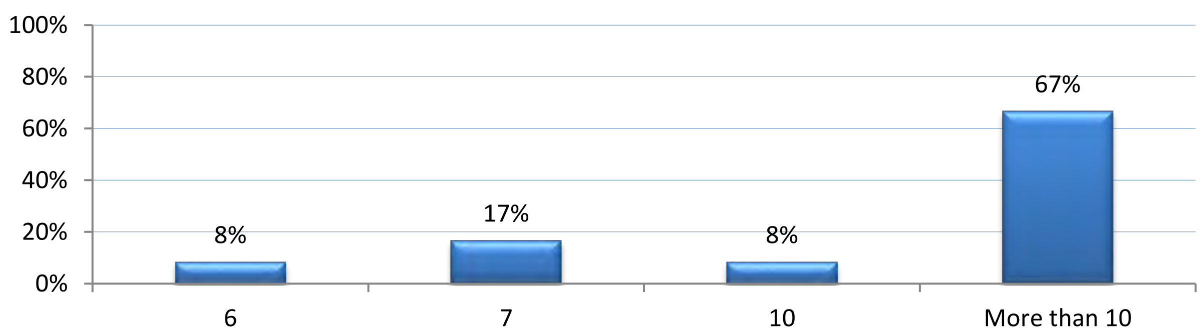
All respondents book lease agreements less than $1 million.

Figure 124. Typical Size of Business Leases



Nearly 67% of respondents booked more than 10 leases in the last 12 months.

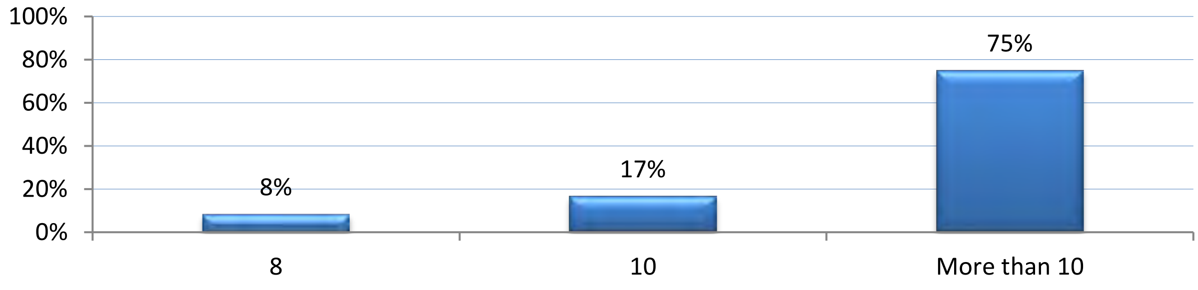
Figure 125. Business Leases Booked in the Last Twelve Months



EQUIPMENT LEASING cont.

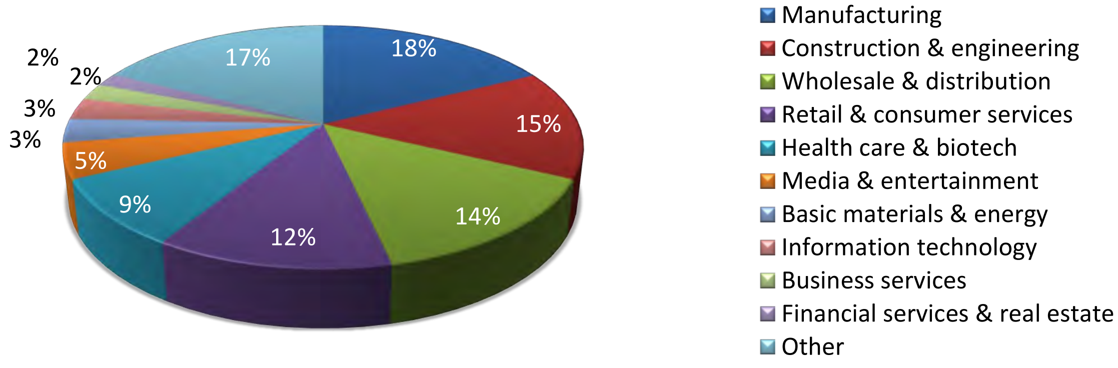
Approximately 75% of respondents plan to book more than 10 leases in the next 12 months.

Figure 126. Business Leases Expected to Book in the Next Twelve Months



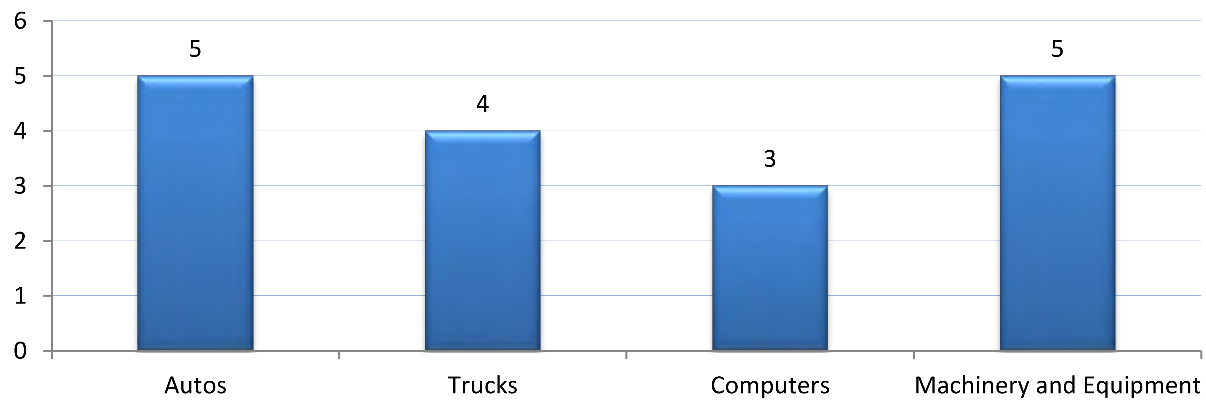
Approximately 18% of 19 respondents to the equipment leasing survey expect to have lease agreements executed to manufacturing industry, another 15% to construction & engineering, followed by wholesale & distribution (14%).

Figure 127. 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 128. Lease Terms from Leases Booked during the Past Twelve Months (Years)



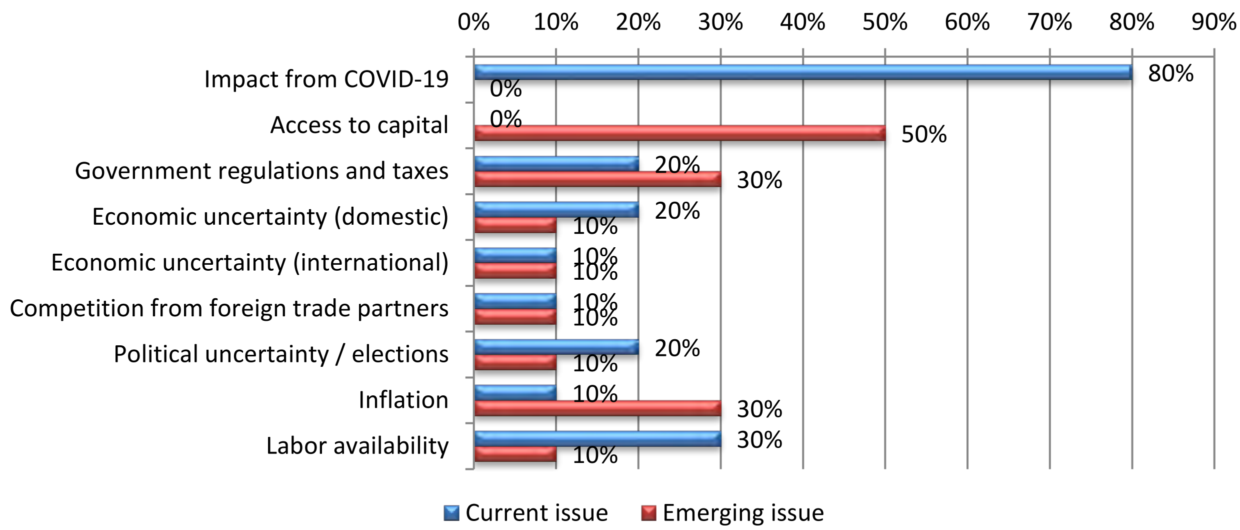
Respondents indicated range of annualized expected returns from leases booked during the past 12 months between 5% and 14% depending on lease size and equipment type.

Table 55. Annualized Expected Returns from Leases Booked during the Past 12 Months

Lease size	Autos	Trucks	Computers	Machinery and equipment
less than \$100K	13.0%	14.0%	12.5%	13.5%
\$100K - \$499K	5.0%	13.0%	10.0%	10.0%
\$500K - \$999K	n/a	13.0%	6.0%	8.5%
\$1M - \$4.99M	n/a	10.0%	5.0%	8.0%
\$5M - \$9.99M	n/a	n/a	n/a	7.0%
\$10M - \$24.99M	n/a	n/a	n/a	5.0%

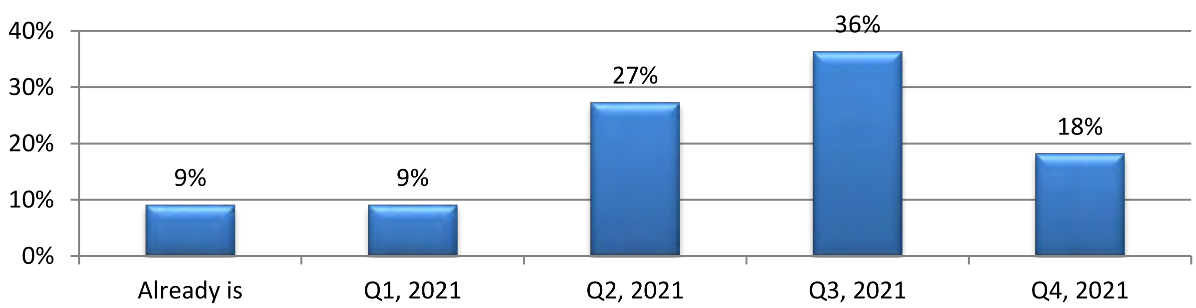
Nearly 80% of respondents believe impact from COVID-19 is the most important issue facing privately-held businesses today, followed by labor availability and domestic economic uncertainty.

Figure 129. Issues Facing Privately-Held Businesses



All respondents believe leasing activity will return to pre-March 2020 level in 2021.

Figure 130. When Leasing Activity Returns to Pre-March 2020 Level



When asked about conditions compared to twelve months ago nearly 42% of respondents said they saw flat demand for business leases in the last 12 months. Approximately 55% of equipment leasing companies indicated worsened general business conditions in the last twelve months.

Table 56. 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	27%	9%	27%	27%	9%	36%	36%	**0%**
General lease qualification standards	0%	18%	55%	27%	0%	27%	18%	**9%**
Quality of Companies Seeking Leases	9%	27%	27%	27%	9%	36%	36%	**0%**
Average Lease Size	0%	36%	36%	9%	18%	27%	36%	**-9%**
Expected Investment Holding Period	0%	11%	78%	11%	0%	11%	11%	**0%**
Expected returns on new investments	0%	18%	64%	18%	0%	18%	18%	**0%**
Size of equipment leasing industry	0%	27%	55%	9%	9%	18%	27%	**-9%**
General business conditions	36%	18%	27%	0%	18%	18%	55%	**-36%**
Appetite for Risk	36%	9%	36%	9%	9%	18%	45%	**-27%**

Table 57. 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%	0%	9%	82%	9%	91%	0%	**91%**
General lease qualification standards	0%	9%	36%	55%	0%	55%	9%	**45%**
Quality of Companies Seeking Leases	0%	18%	36%	36%	9%	45%	18%	**27%**
Average Lease Size	0%	18%	45%	36%	0%	36%	18%	**18%**
Expected Investment Holding Period	0%	0%	78%	22%	0%	22%	0%	**22%**
Expected returns on new investments	0%	45%	18%	36%	0%	36%	45%	**-9%**
Size of equipment leasing industry	0%	10%	30%	60%	0%	60%	10%	**50%**
General business conditions	0%	9%	18%	64%	9%	73%	9%	**64%**
Appetite for Risk	0%	27%	27%	45%	0%	45%	27%	**18%**

BUSINESS OWNER SURVEY INFORMATION

Of the 387 privately-held businesses that responded to the survey, 14% had businesses that involved in manufacturing, 13% were in professional, scientific or technical services, and 11% were in information technology or services. Approximately 73% of businesses have annual revenues less than $5 million. Nearly 90% of business owners report having the enthusiasm to execute growth strategies, yet just 56% report having the necessary financial resources to successfully execute growth strategies.

Of the respondents who were seeking financing in the last 12 months, approximately 37% anticipated to raise less than $100,000 in capital. Approximately 44% 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 (13%). Of all financing options, bank loans and grants emerged as the financing sources with the highest "willingness" for small business to use, followed by business credit cards and equipment leasing. Results also showed that 88% 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.

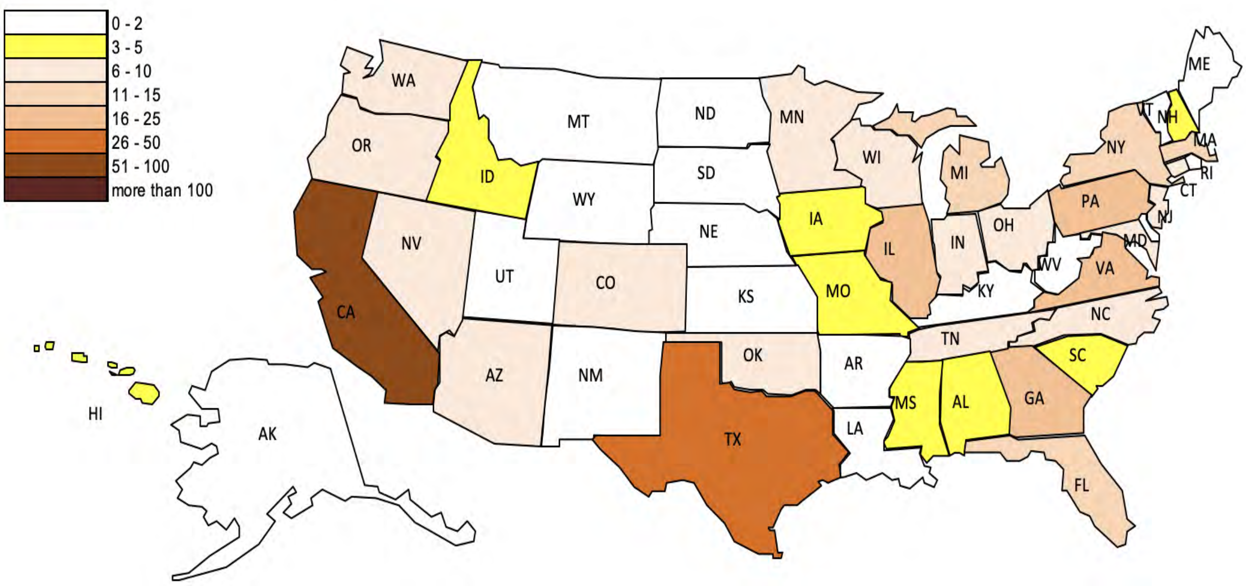
Nearly three quarters of businesses (69%) are planning to hire additional workers. Approximately 41% of respondents believe impact from COVID-19 are the number one issue small businesses face today, followed by labor availability (30%), domestic economic uncertainty (26%) and government regulations and taxes (26%). According to small businesses, of those policies most likely to lead to job creation in 2021, increased access to capital emerged as number one (86%) followed by tax incentives (65%), and regulatory reform (39%). The study showed that of those that do plan to hire, sales and marketing skills (40%) and skilled labor (35%) are in greatest demand followed by service/customer service (31%). Also, 81% of companies planning to hire indicate they'd need to train those they hire.

32% of respondents believe that general business conditions improved in the twelve months compared to 41% surveyed year ago.

Operational and Assessment Characteristics

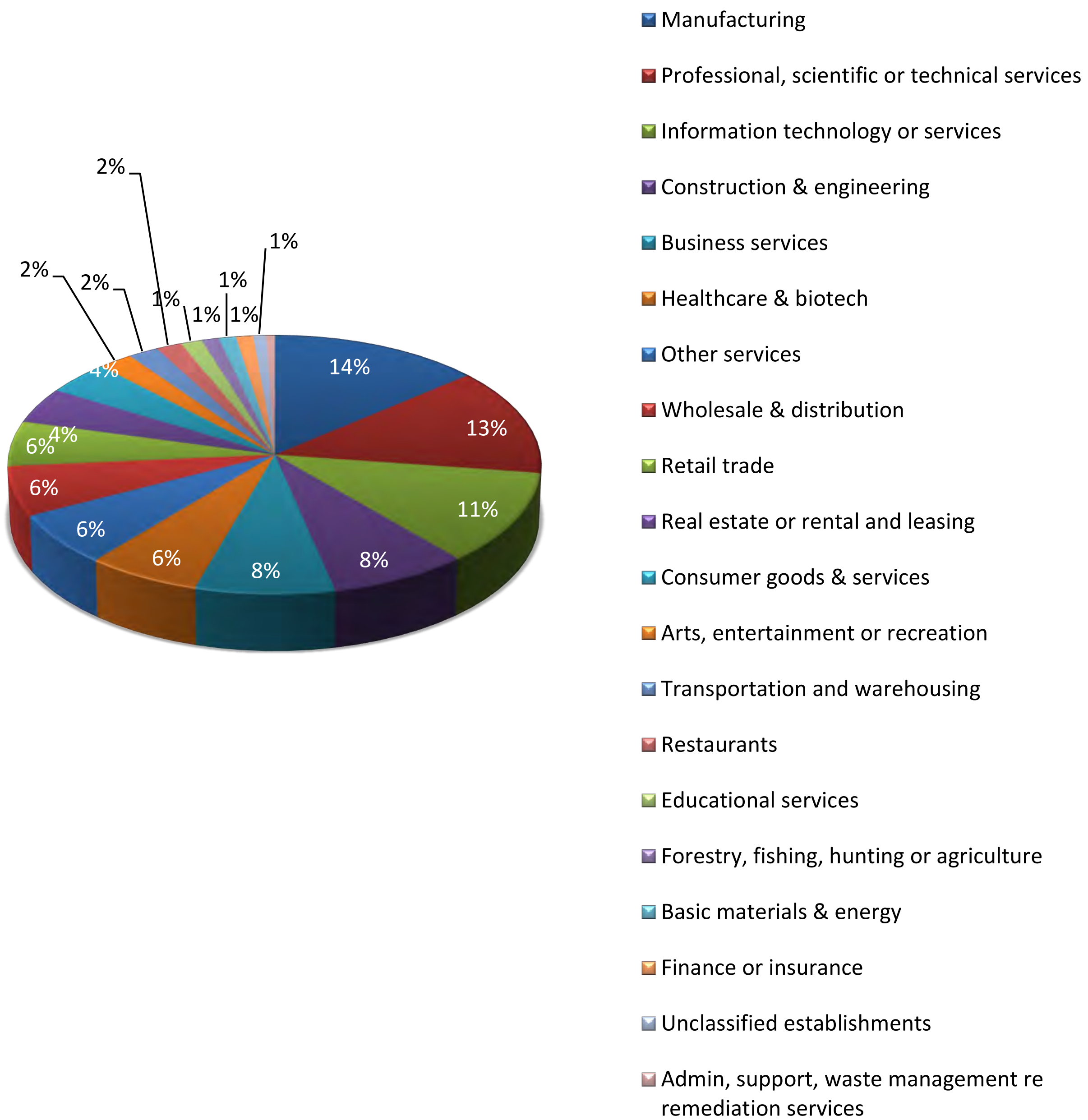
The privately-held business survey results were generated from 387 participants. The locations of businesses are distributed over all regions of the United States.

Figure 131. Respondents Distribution by State



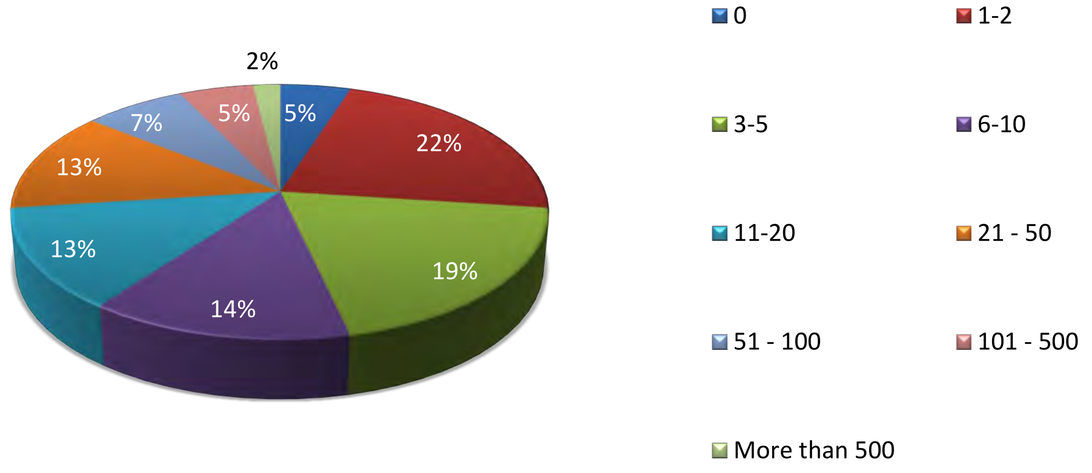
Approximately 14% of businesses involved in in manufacturing, 13% were in professional, scientific or technical services, and 11% were in information technology or services.

Figure 132. Description of Entity



Approximately 42% of businesses have between one and five employees.

Figure 133. Number of Employees



Approximately 73% of respondents have less than or equal to $5M in annual revenues.

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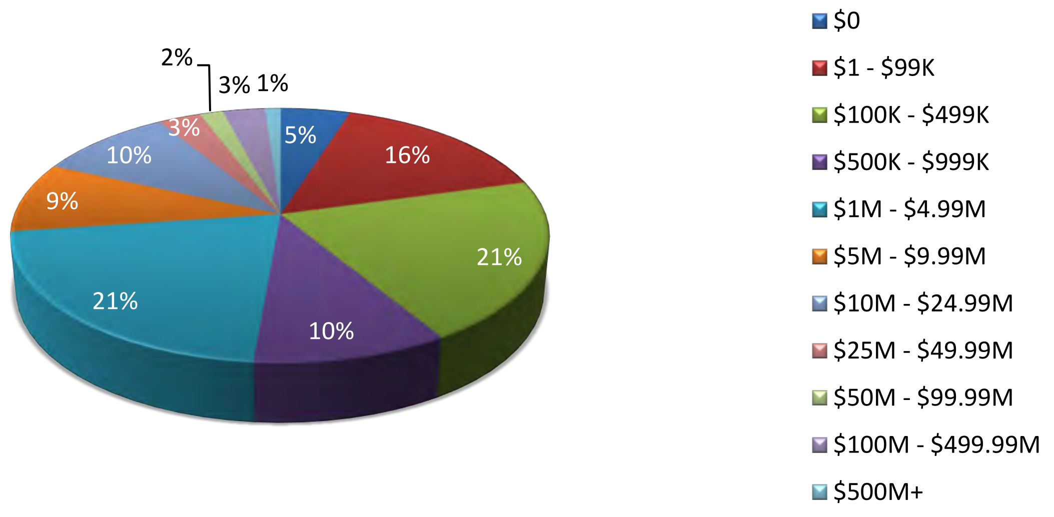
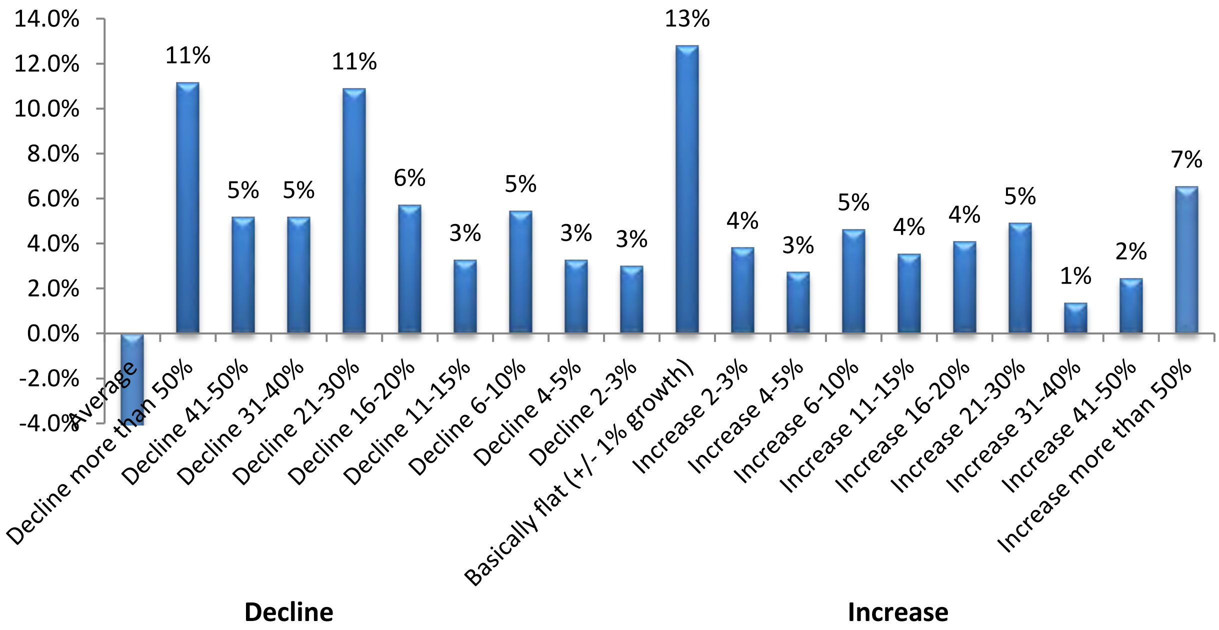
Figure 134. Annual Revenues



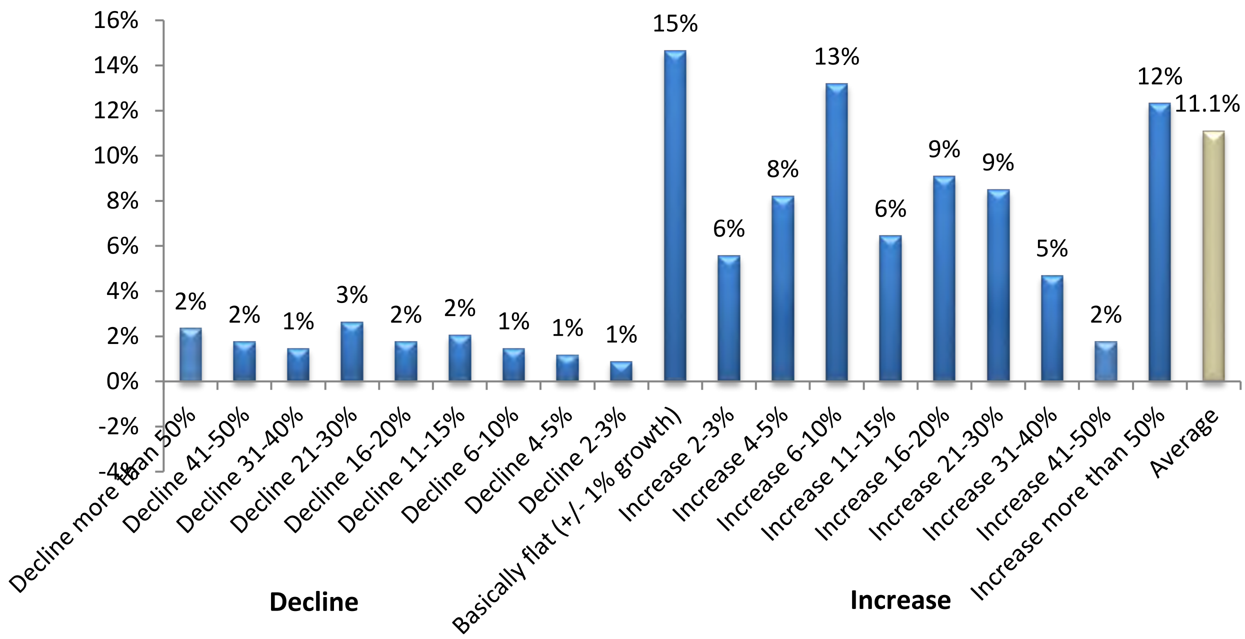
Average change in annual revenues in the last 12 months was -6.9%.

Figure 135. Annual Revenues Change in the Last 12 Months



On average respondents expect their annual revenues to grow by 11.1% in the next 12 months.

Figure 136. Annual Revenues Change Expectations in the Next 12 Months



Approximately 93% of businesses have net income less than or equal to $5 million, 8% of those have negative net income.

Figure 137. Net Income

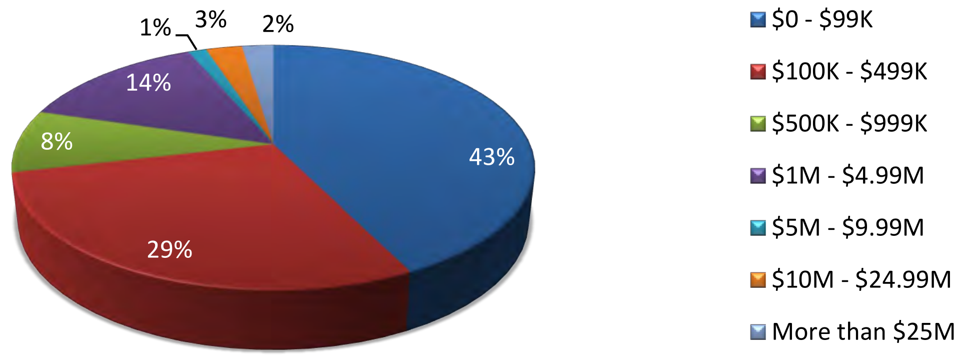


Figure 138. Total Assets

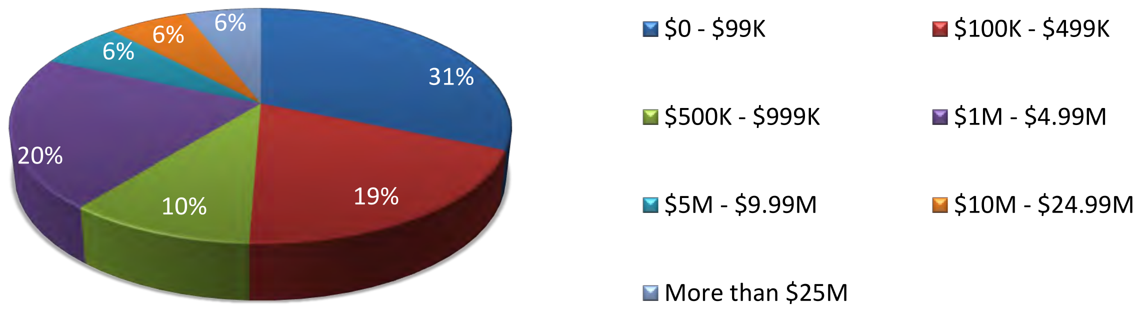
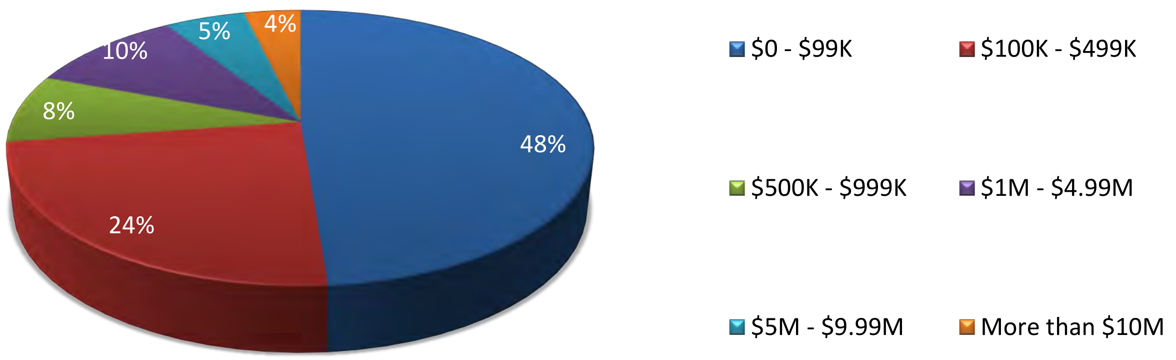
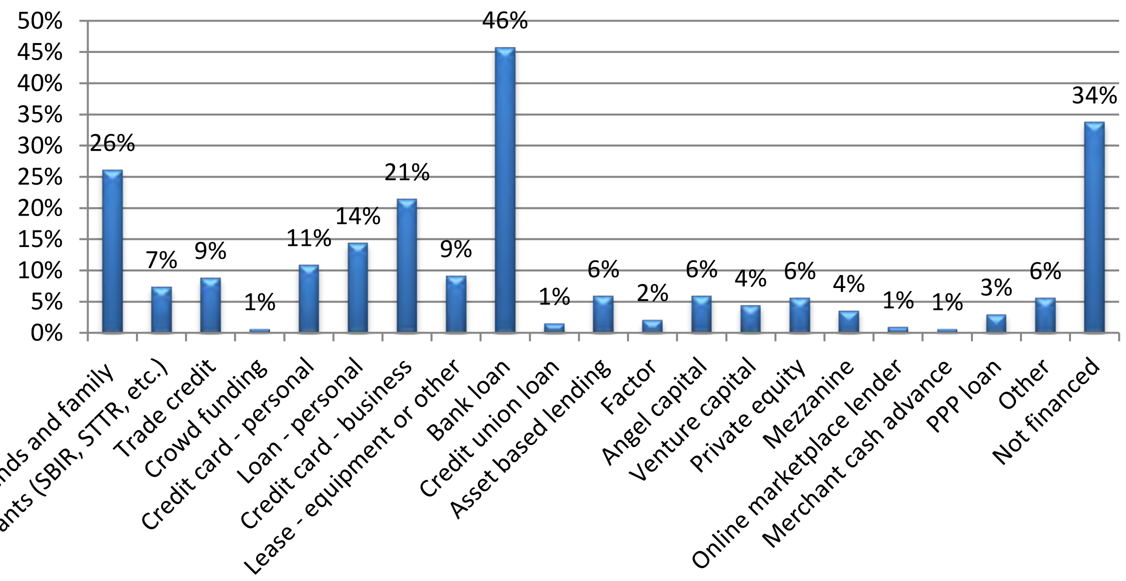


Figure 139. Net Property, Plant & Equipment



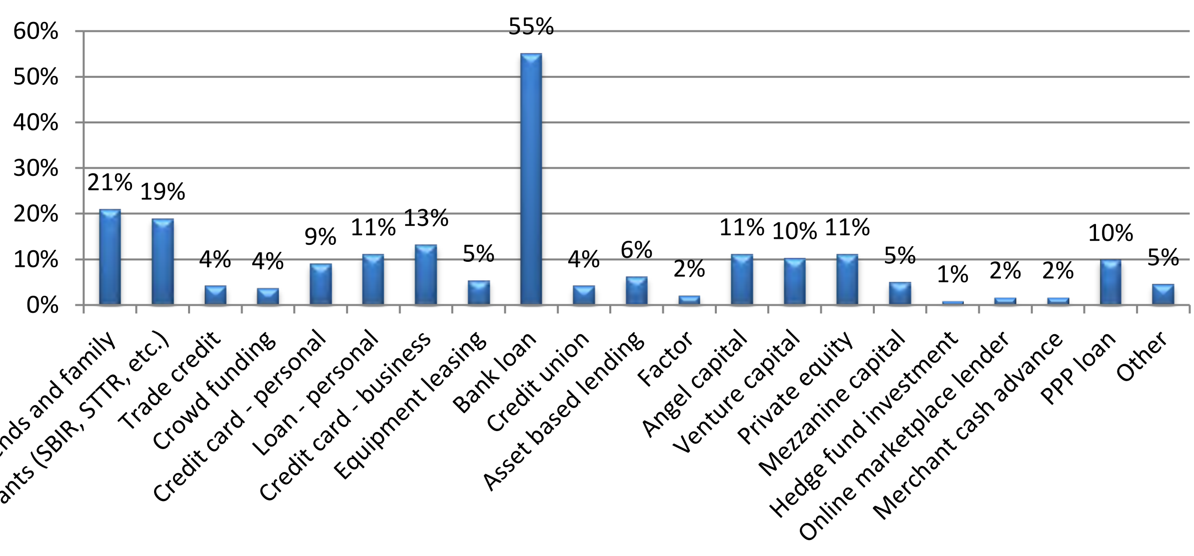
Approximately 34% of respondents are currently not financed by any external capital sources. Nearly 46% and 21% of respondents' businesses are financed by bank business loans and business credit card financing respectively.

Figure 140. Current Sources of Financing



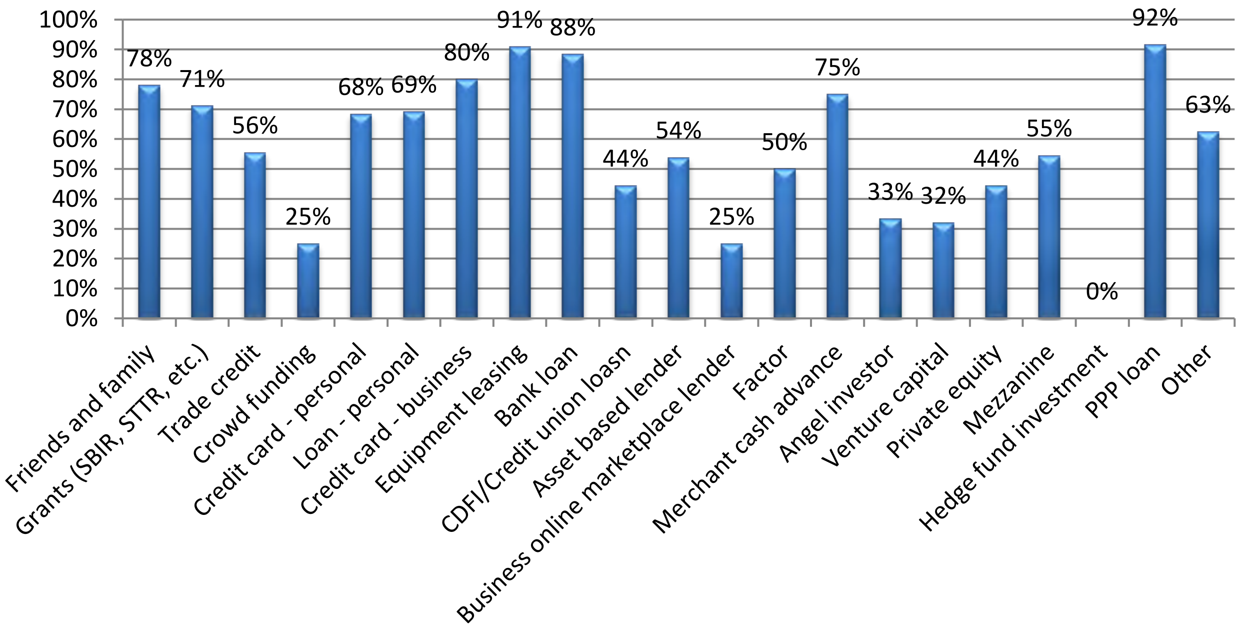
Among the businesses that tried to raise capital in the last 12 months 42% applied for bank business loan and 82% were successful, whereas 29% of respondents didn't try to raise capital from any source.

Figure 141. Capital Sources Contacted to Raise Capital in the Last 12 Months



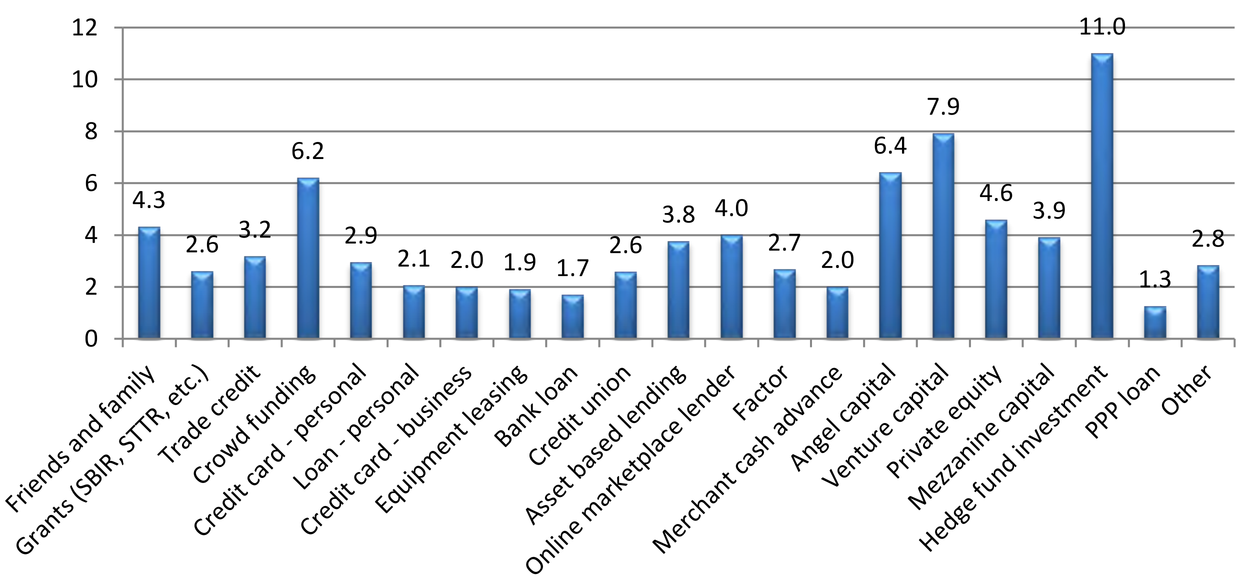
BUSINESS OWNER cont.

Figure 142. Success Rates



On average respondents who successfully raised capital contacted 3.14 capital providers.

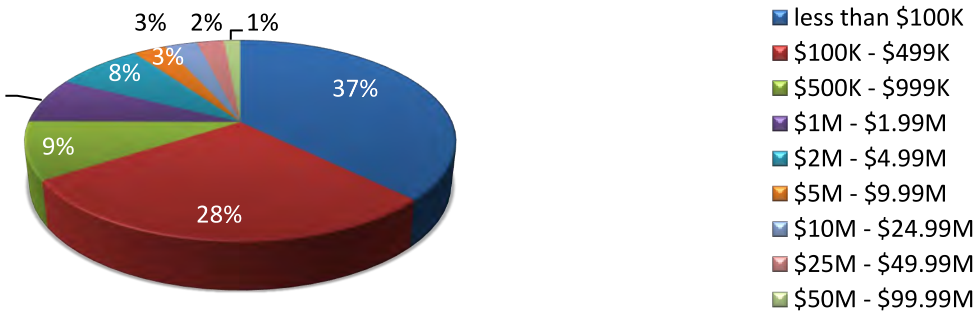
Figure 143. Average Number of Capital Providers Contacted



BUSINESS OWNER cont.

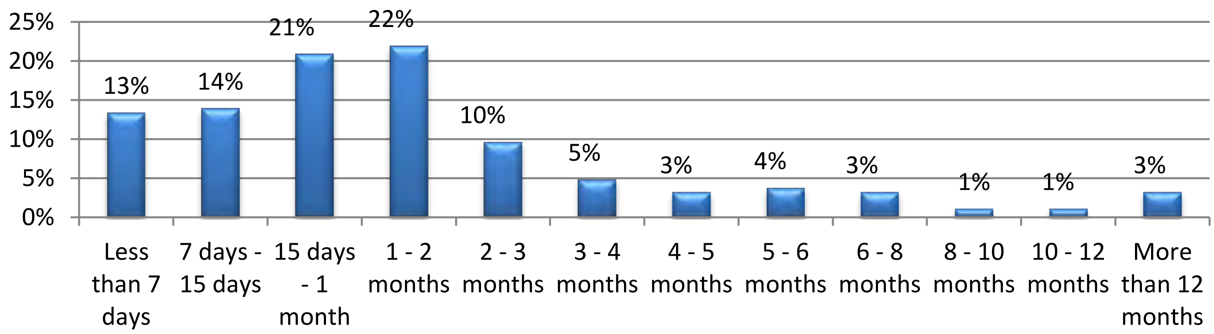
Approximately 64% of respondents attempted to raise less than $500K in the last 12 months.

Figure 144. Amount of Capital Attempted to Raise in the last 12 Months



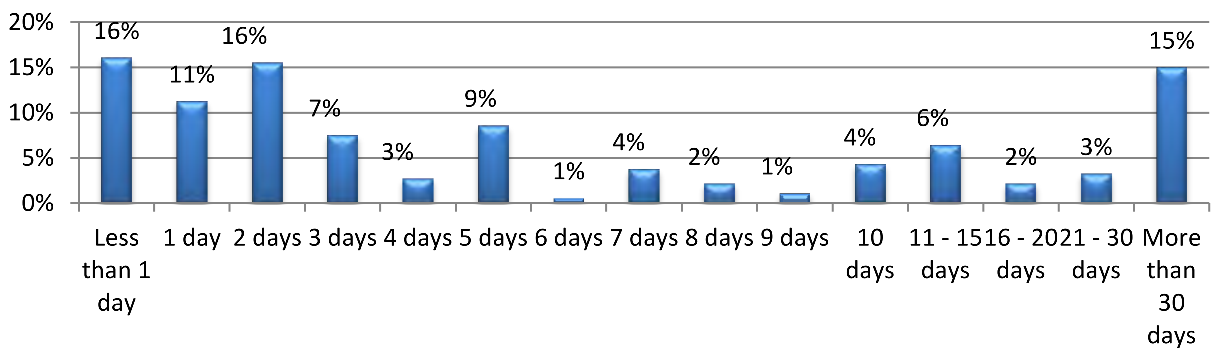
Approximately 27% of respondents took less than 7 days to complete financing process.

Figure 145. Average Time to Complete Financing Process in Days



16% 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).

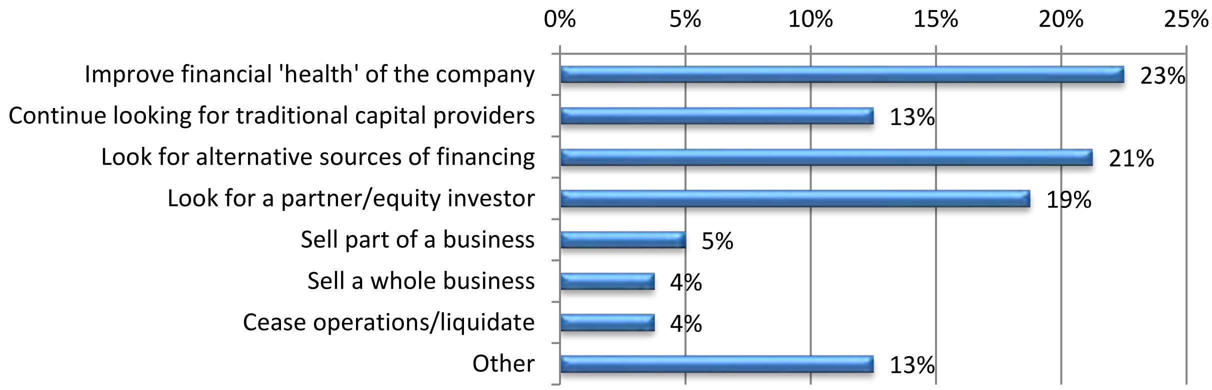
Figure 146. Days Spent During the Process to Successfully Obtain Financing



BUSINESS OWNER cont.

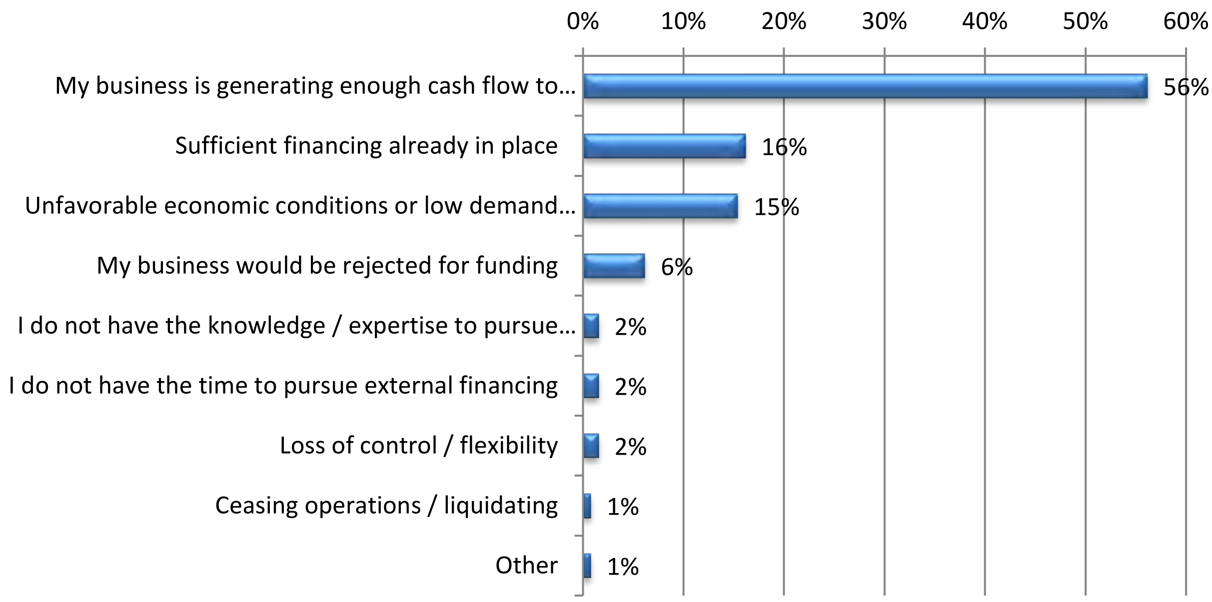
Among those respondents who were not able to obtain external financing in the last 12 months 23% are planning to improve financial health of their businesses before attempting to raise capital in the future.

Figure 147. Next Steps to Satisfy Financial Needs



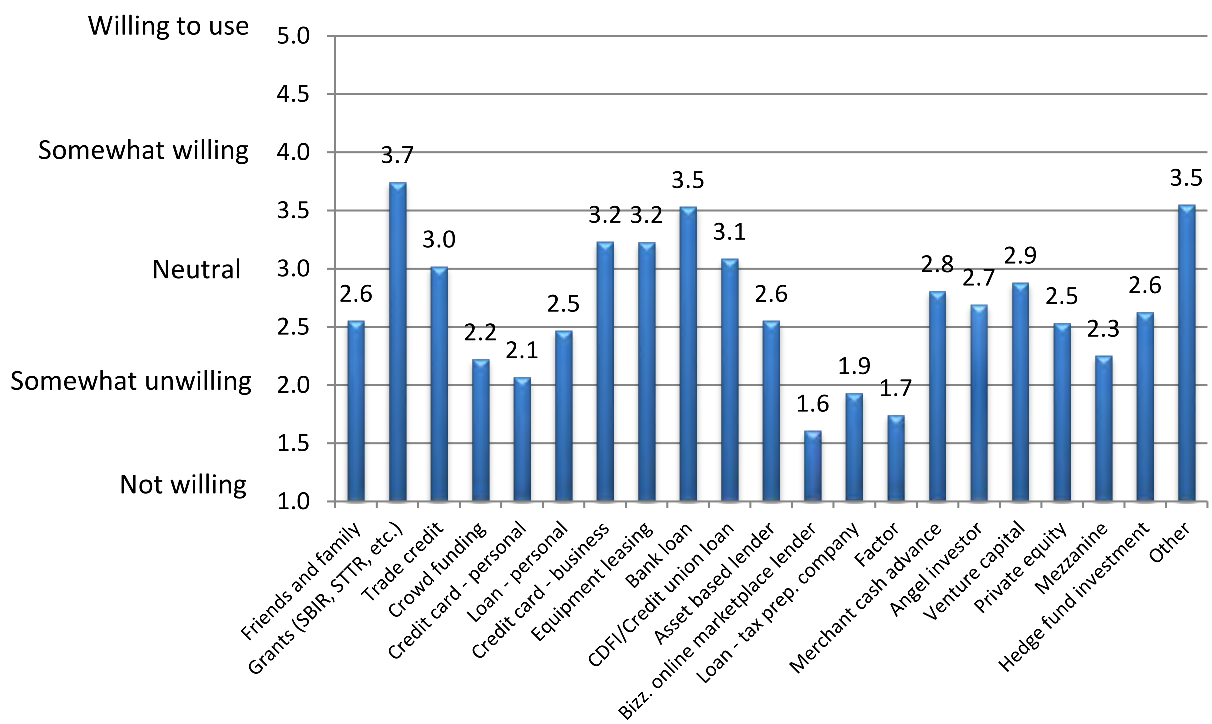
Among those respondents who didn't attempt to obtain any external financing in the last 12 months, 56% said their businesses are generating enough cash flow fund operations (including growth expansion), followed by 16% of respondents who has sufficient financing already in place.

Figure 148. Reasons for Not Trying to Obtain Capital in the Last 12 Months



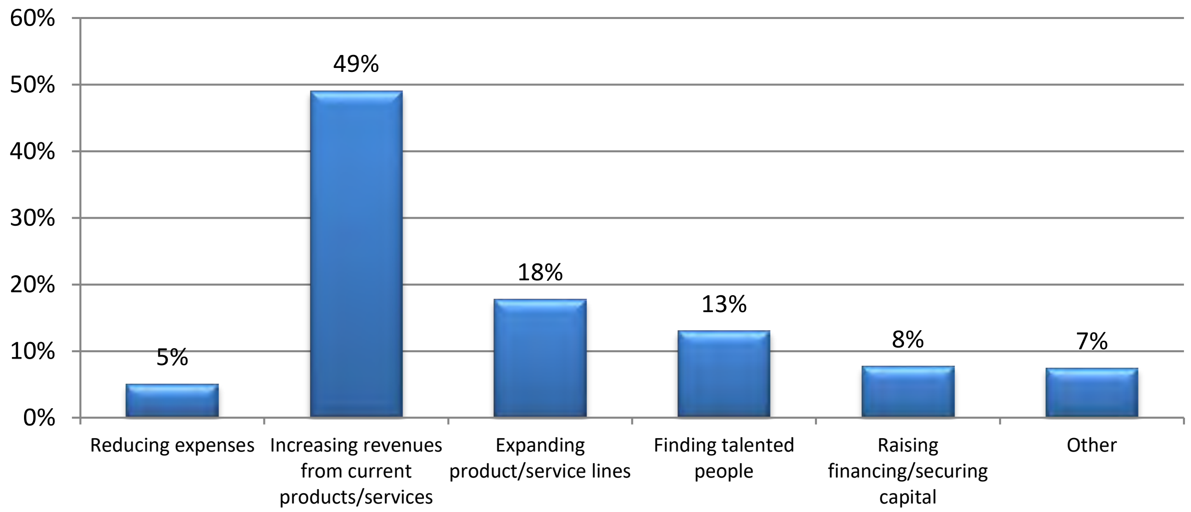
According to the respondents, “bank loans” and “grants” as categories are the most appealing option to obtain financing.

Figure 149. Willingness to Obtain Financing



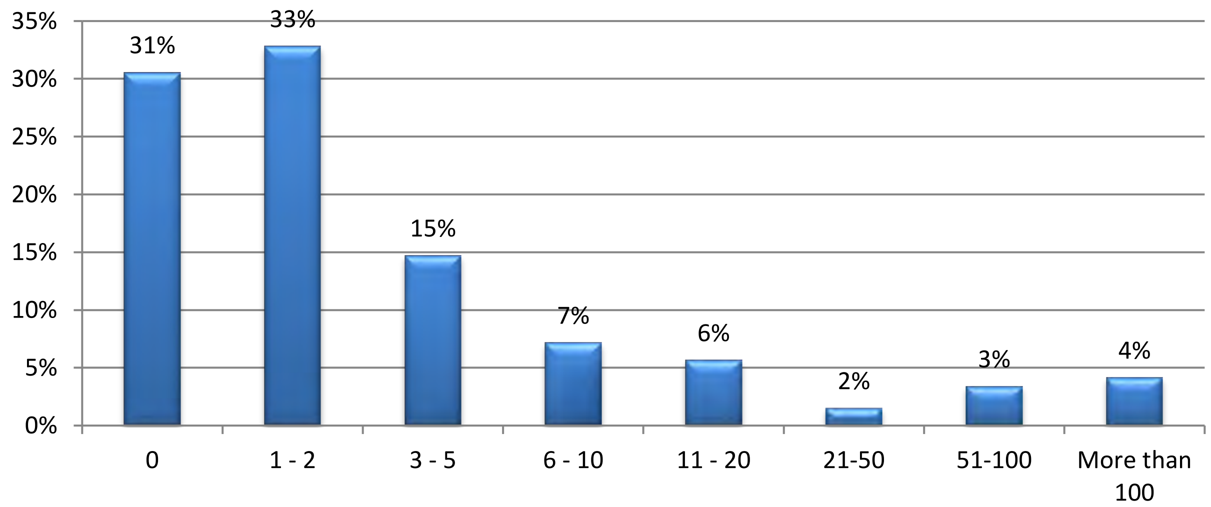
Approximately 49% of respondents indicated increasing revenues from current products or services as the area their businesses are most focused on today.

Figure 150. The Most Important Area to Focus On



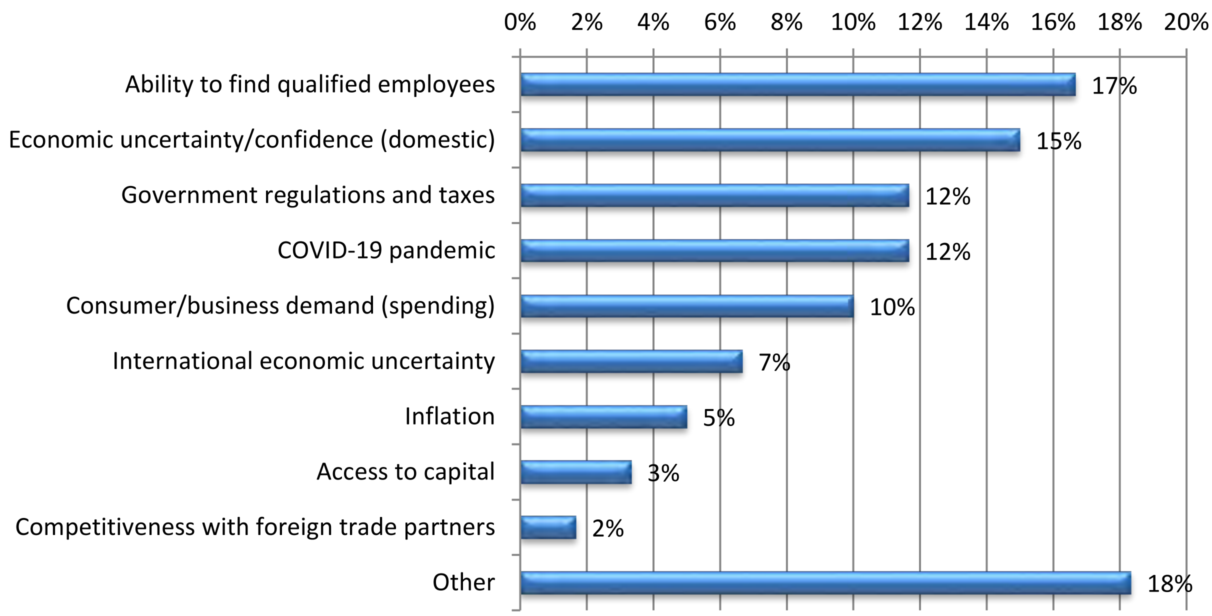
Approximately 31% of respondents are not planning to hire additional employees in the next 12 months, while 33% of respondents are planning to hire one or two additional employees in the next twelve months.

Figure 151. Number of Employees Planned to be Hired



Approximately 17% of respondents inability to find qualified employees is the number one reason preventing them from hiring, followed by domestic economic uncertainty (15%).

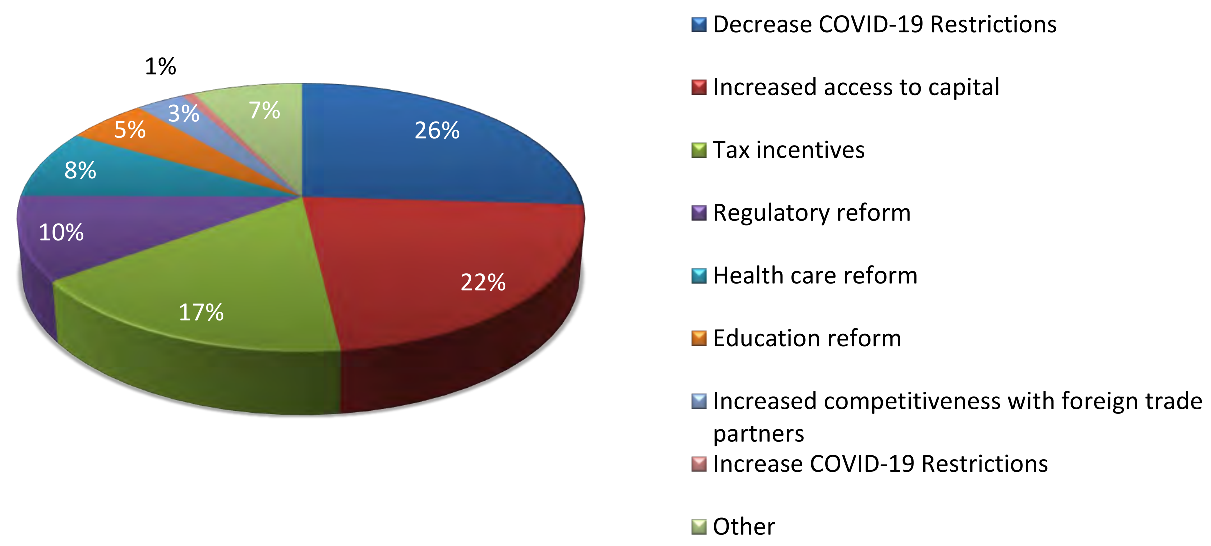
Figure 152. Reasons Preventing Privately-Held Businesses from Hiring



BUSINESS OWNER cont.

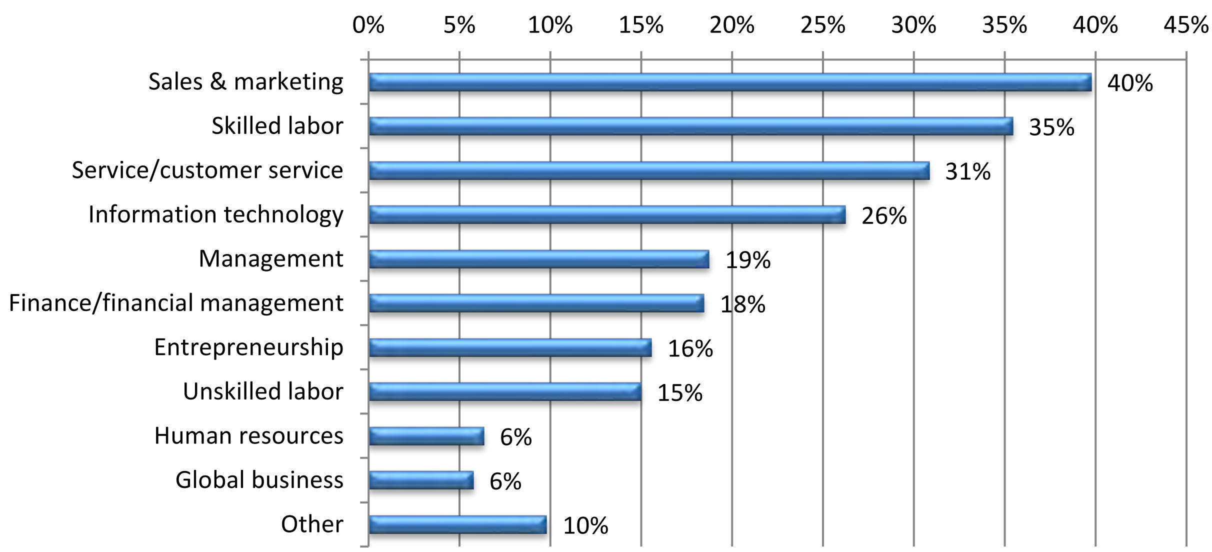
According to respondents, of those policies most likely to lead to job creation in 2021 decreasing COVID-19 restrictions emerged as number one (26%) followed by increased access to capital (22%).

Figure 153. Government Policies to Lead to Job Creation



For those businesses which do plan to hire, sales and marketing skills (40%) and skilled labor (35%) are in greatest demand followed by service/customer service (31%).

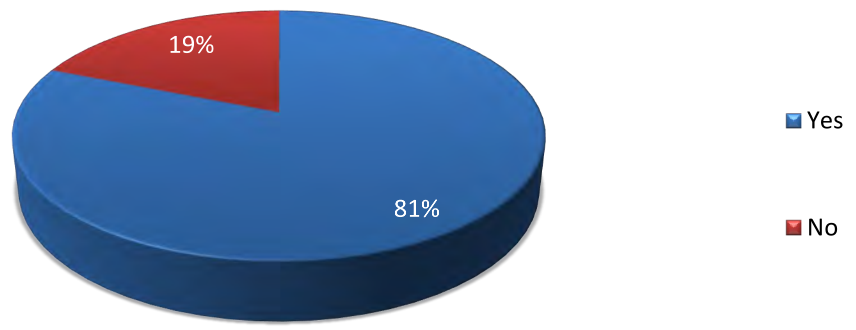
Figure 154. The Skills in Demand for New Hires



BUSINESS OWNER cont.

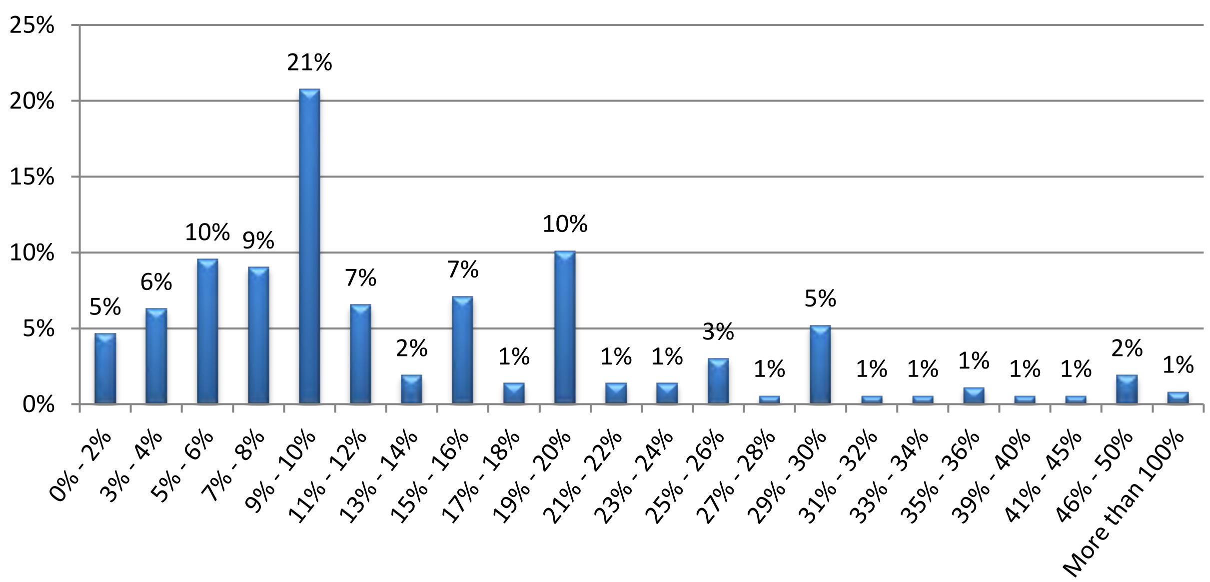
81% of businesses planning to hire indicate need to train those they hire.

Figure 155. Need for Training of New Hires



Approximately 21% of respondents indicated their business cost of equity capital is in the range of 9% - 10%.

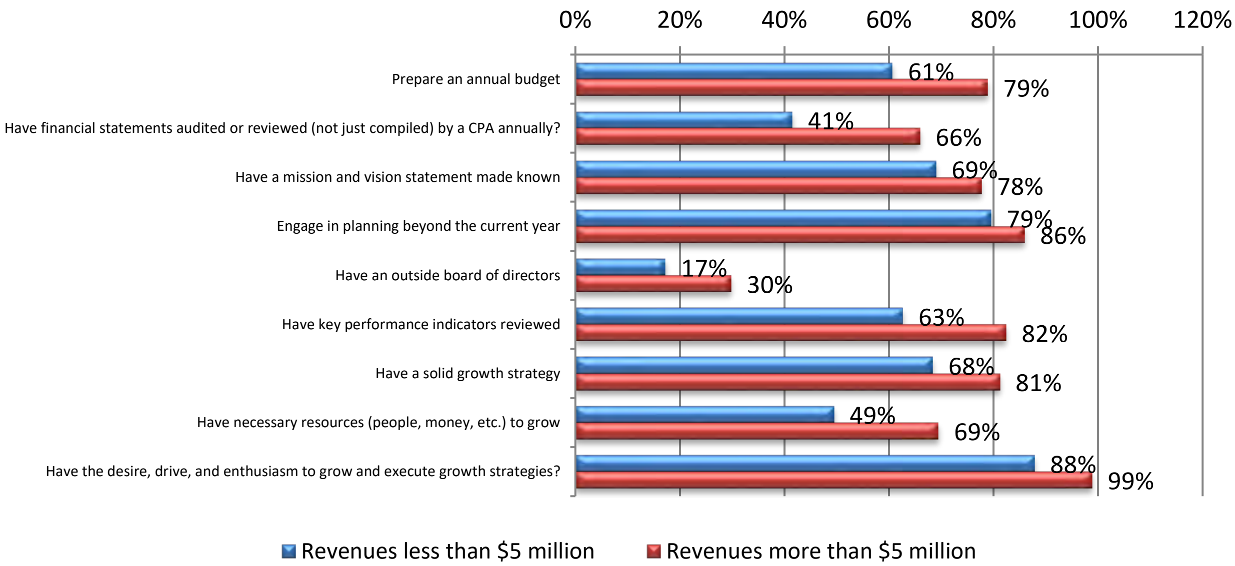
Figure 156. Cost of Equity Capital



BUSINESS OWNER cont.

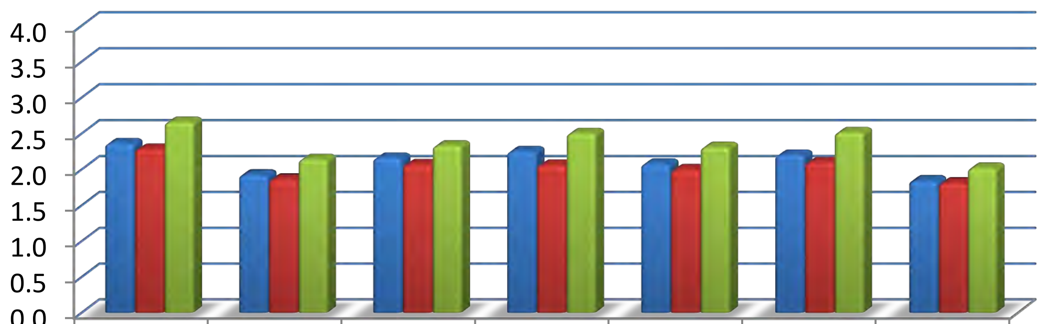
Privately-held businesses with revenues less than $5 million on average have almost the same desire to execute growth strategies (88%) as privately-held businesses with revenues greater than $5 million (99%). However, privately-held businesses with smaller revenues report lower levels of necessary resources (people, money, etc.) to grow (49%) as compared to privately-held businesses with higher revenues (69%).

Figure 157. 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 158. Level of Knowledge of Financing Components

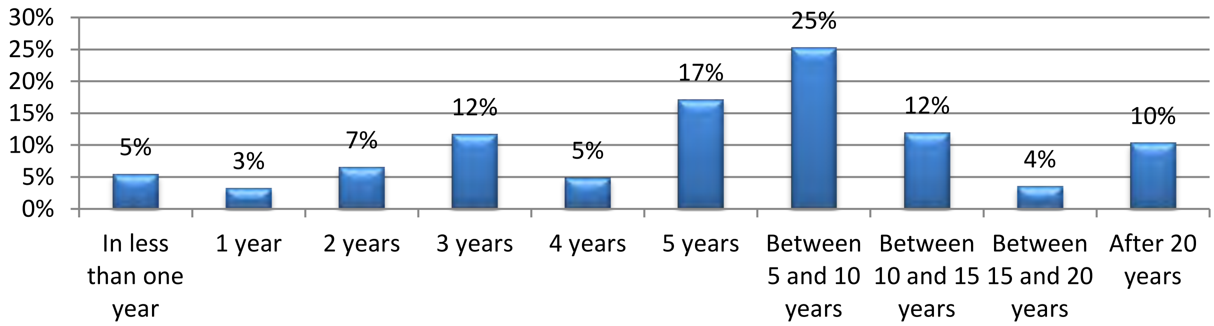


	Types of financing	Specific firms to contact to seek various types of financing	Advantages/ disadvantages of various types of financing	"Costs of capital"	Process to obtain financing	Specific benchmarks to qualify for financing	Financing acceptance rates
Whole sample	2.4	1.9	2.2	2.3	2.1	2.2	1.8
< $5 million	2.3	1.9	2.1	2.1	2.0	2.1	1.8
$5 - $100 million	2.7	2.1	2.3	2.5	2.3	2.5	2.0

BUSINESS OWNER cont.

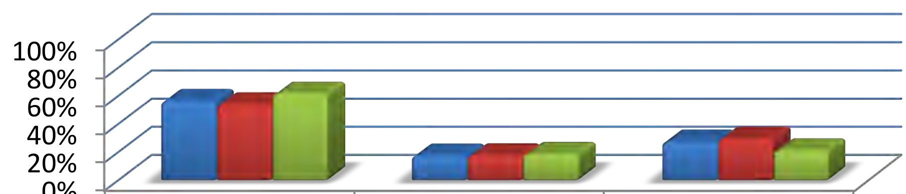
Most of the respondents are planning to transfer their ownership interest in more than five years from now while only 5% plan to transfer their ownership at the first available opportunity.

Figure 159. Anticipation of the Ownership Transfer



Assuming respondents' businesses were eligible to raise financing from both private equity and a public stock offering (IPO), 56% of them would choose private equity.

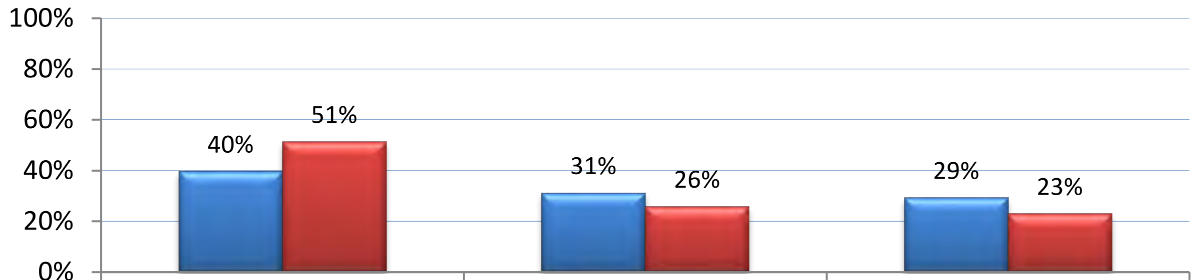
Figure 160. Private Equity vs Initial Public Offering



	Private equity	Initial public offering (IPO)	Unsure
Whole sample	56%	17%	27%
< $5 million	54%	17%	29%
$5 - $100 million	61%	18%	21%

When asked about general view, 51% of respondents indicated private equity as favorable financing source.

Figure 161. General Views on Initial Public Offering and Private Equity



	Favorable	Neither favorable nor unfavorable	Unfavorable
IPO	40%	31%	29%
PE	51%	26%	23%

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 162. The Number One Issue Facing Privately-Held Businesses Today by Revenue Sizes

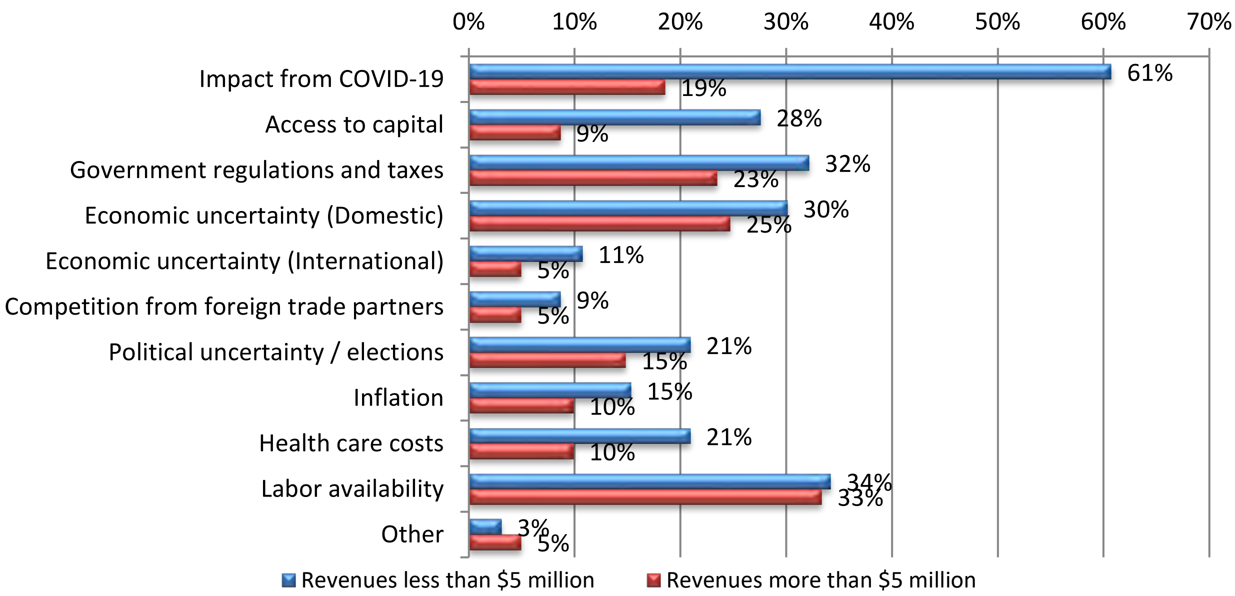
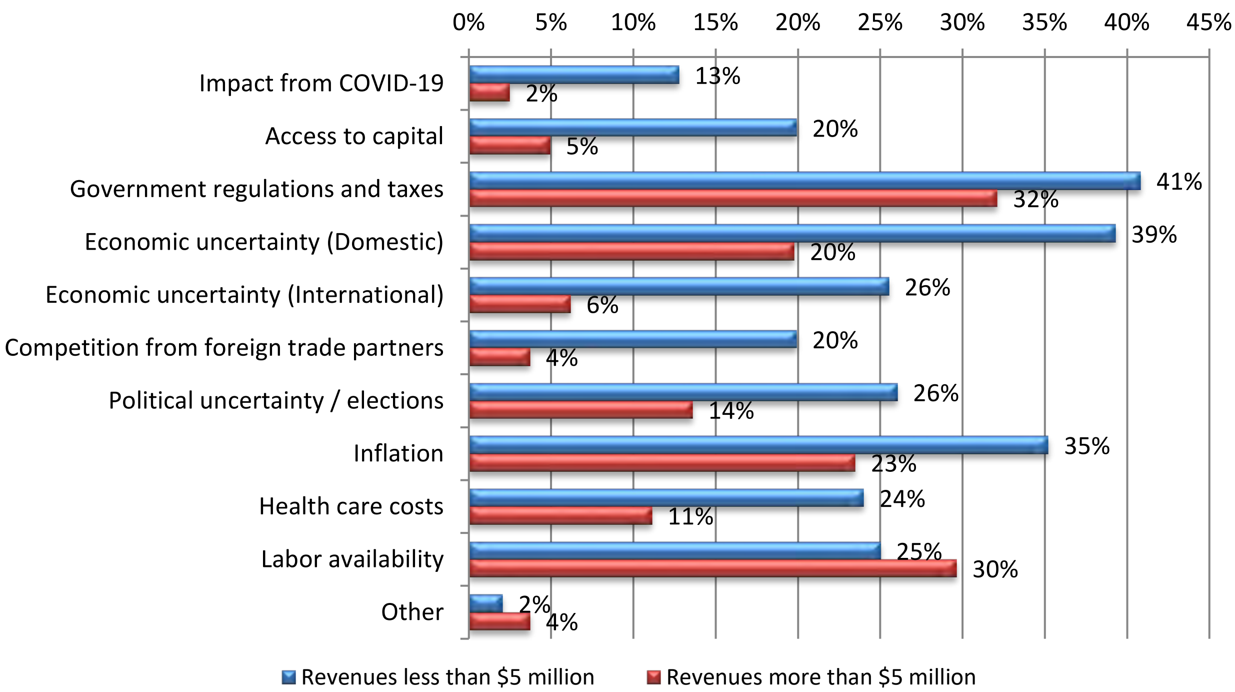
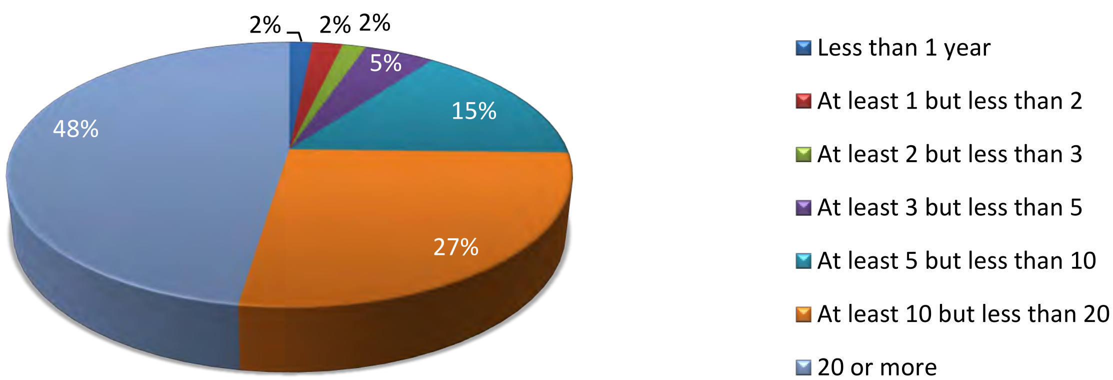


Figure 163. The Number One Emerging Issue Facing Privately-Held Businesses by Revenue Sizes



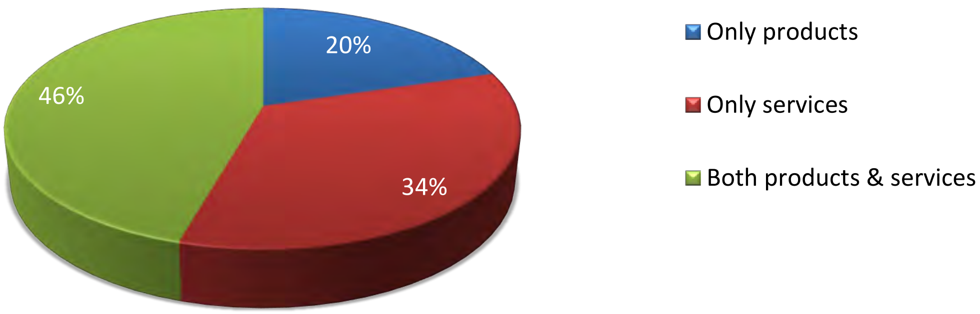
Approximately 48% of respondents have firms 20 or more years old.

Figure 164. Firm Age



Approximately 46% of respondents sell both products and services to their clients.

Figure 165. Types of Companies



Nearly 44% of respondents have protected trade secrets.

Figure 166. Protected Intellectual Property

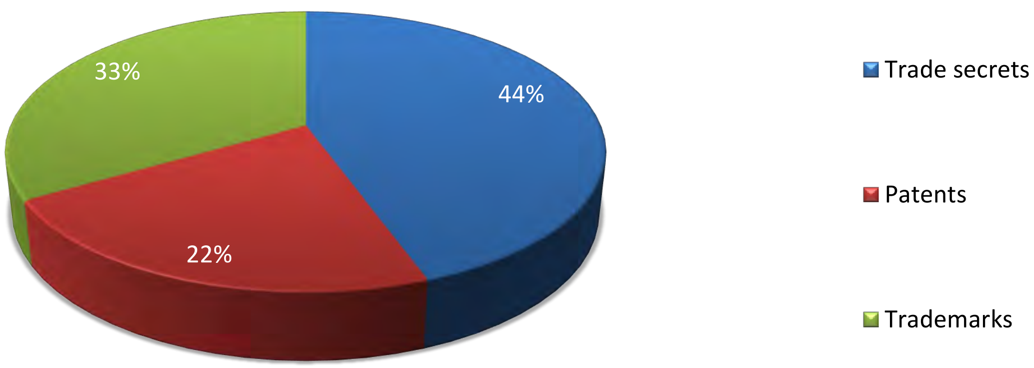
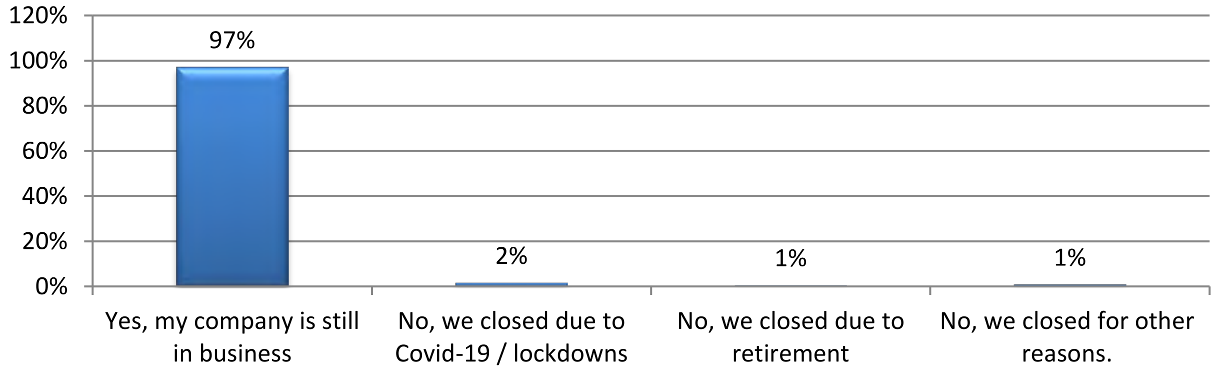
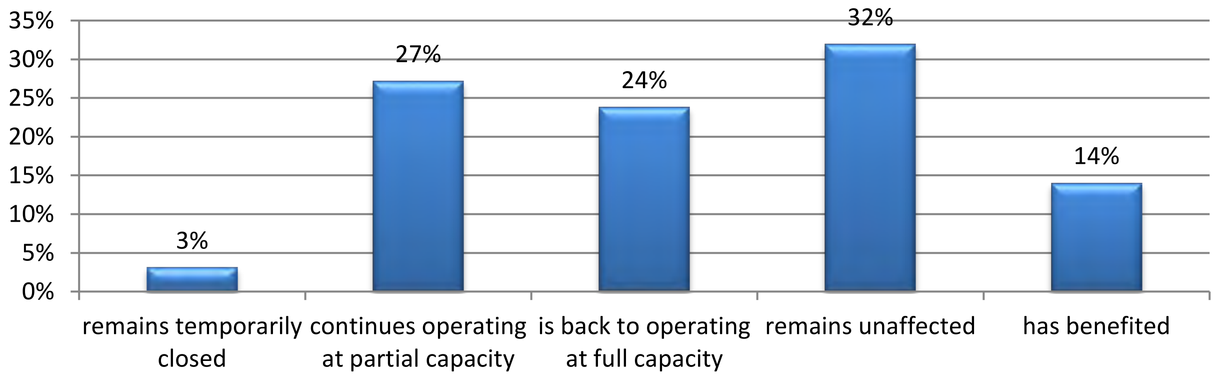


Figure 167. Are respondents Businesses Still Working



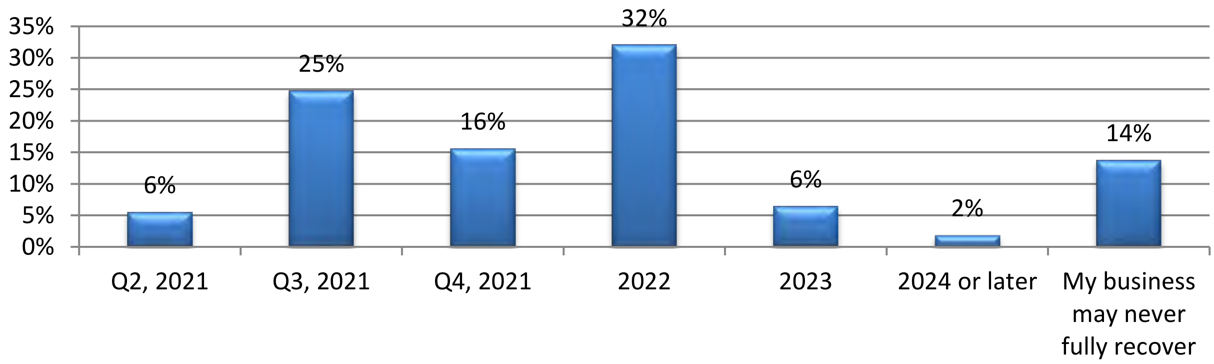
Approximately 38% of respondents indicated their businesses were not affected by COVID-19 pandemic, and 14% of respondents believe their businesses have benefited.

Figure 168. Due to COVID-19 Pandemic Respondents Businesses…



Nearly 14% of respondents indicated their businesses may never fully recover from the pandemic.

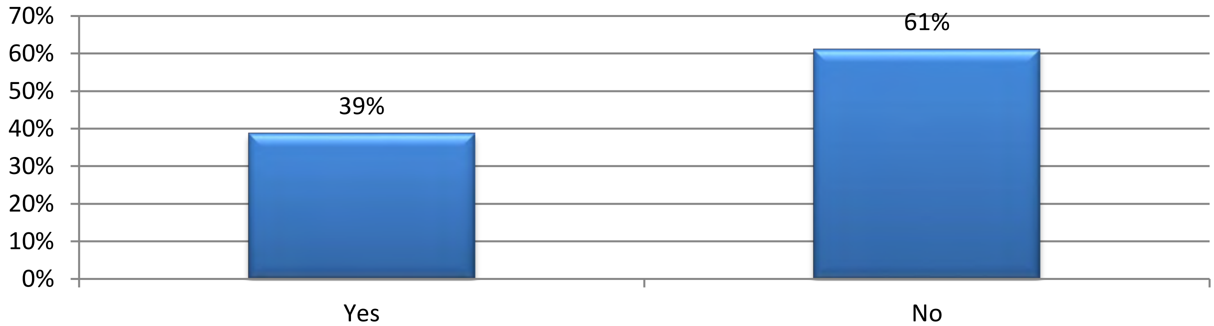
Figure 169. When Respondents Business Returns to Pre-March 2020 Level



BUSINESS OWNER cont.

Majority of respondents (61%) believe COVID-19 pandemic didn't impact their businesses access to capital.

Figure 170. Has COVID-19 Pandemic Impacted Respondents Business Access to Capital



On average 28% of respondents companies are owned by their employees.

Figure 171. What Percentage of Respondents Companies are Owned by Their Employees

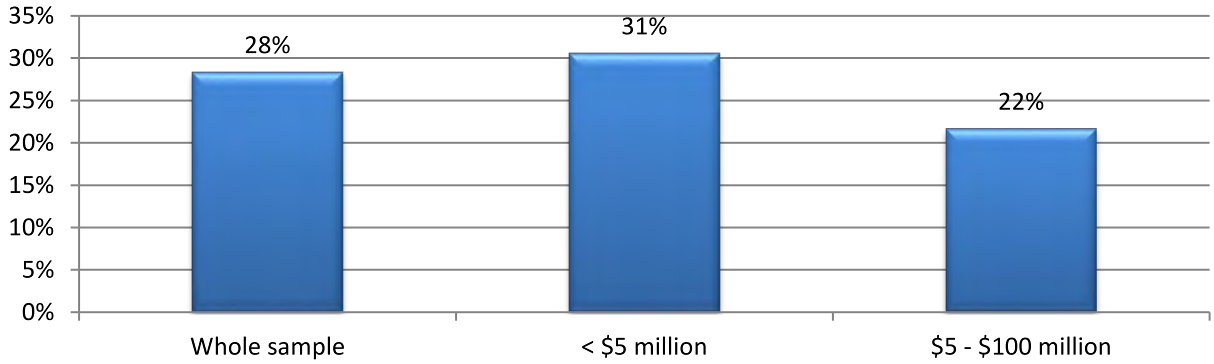
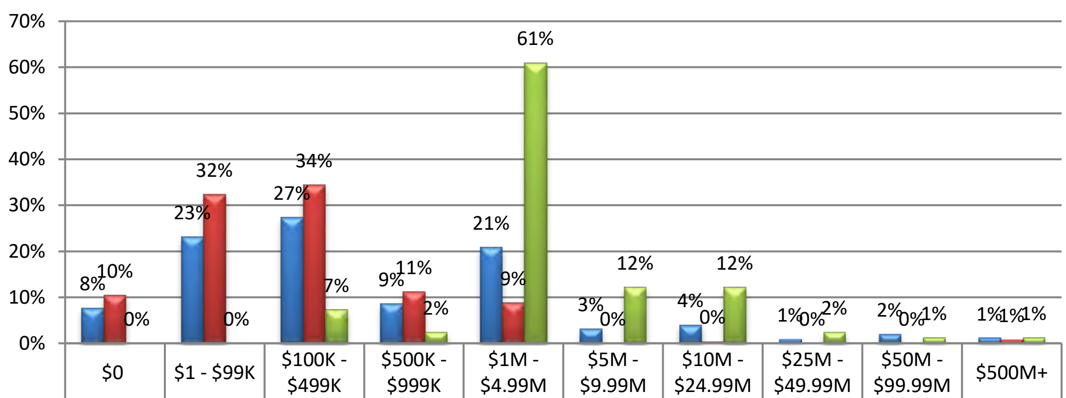


Figure 172. What Were Respondents' Total Labor Expenses in 2020 (Including Wages, Benefits and Payroll Taxes)

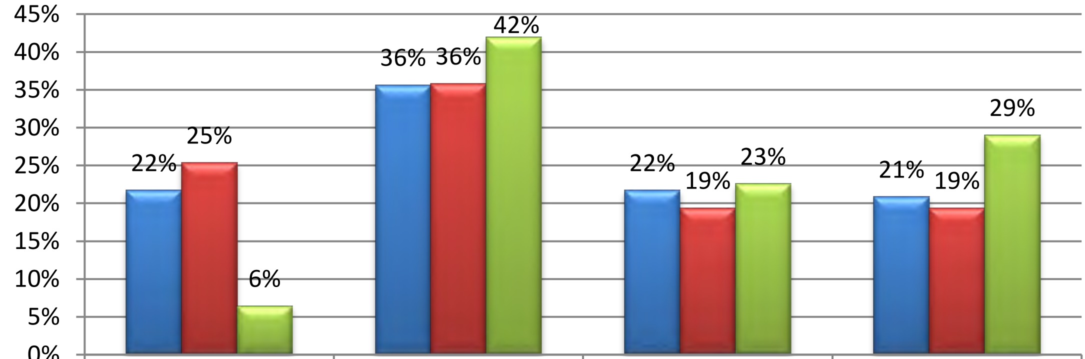


	$0	$1 - $99K	$100K - $499K	$500K - $999K	$1M - $4.99M	$5M - $9.99M	$10M - $24.99M	$25M - $49.99M	$50M - $99.99M	$500M+
Whole sample	8%	23%	27%	9%	21%	3%	4%	1%	2%	1%
< $5 million	10%	32%	34%	11%	9%	0%	0%	0%	0%	1%
$5 - $100 million	0%	0%	7%	2%	61%	12%	12%	2%	1%	1%

BUSINESS OWNER cont.

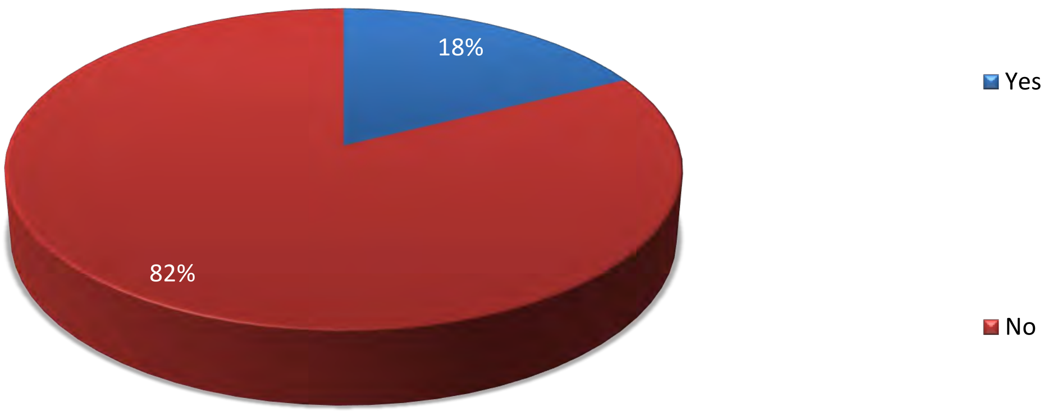
Approximately 22% of respondents use Employee Stock Ownership Plan (ESOP).

Figure 173. How Do Respondents' Employees Own Equity in Their Companies



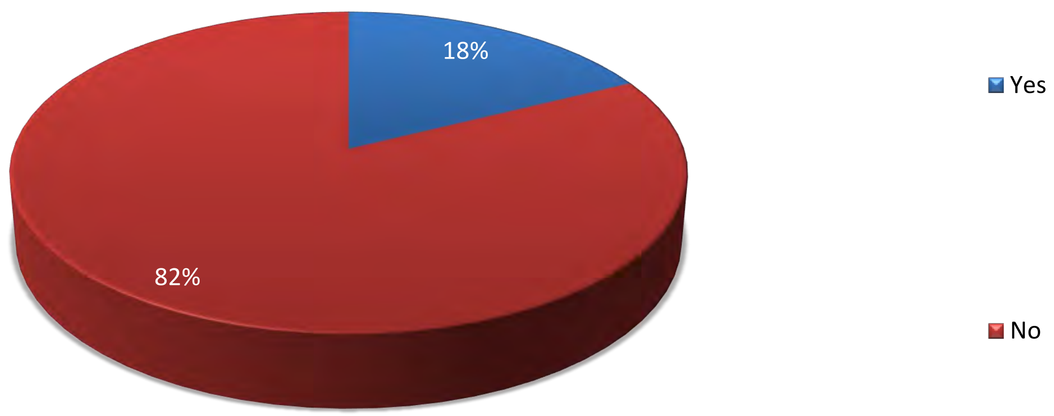
	Employee Stock Ownership Plan (ESOP)	Stock Options	Stock Purchase Plan	Other
Whole sample	22%	36%	22%	21%
< $5 million	25%	36%	19%	19%
$5 - $100 million	6%	42%	23%	29%

Figure 174. Was Respondents' ESOP Established or Expanded in Exchange for Employee Wage or Benefit Concessions



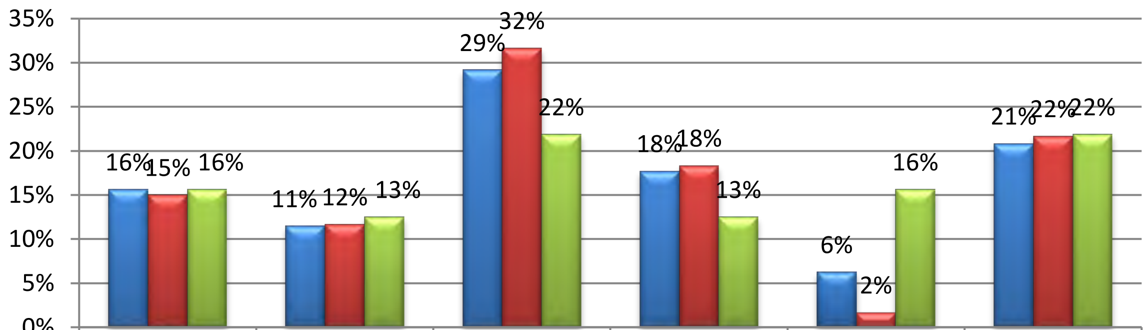
BUSINESS OWNER cont.

Figure 175. Was Respondents' ESOP Established in the Context of Acquisition / Buyout Discussions



Cost to set up and administer was the most popular reason for not establishing ESOP among respondents.

Figure 176. Reasons for Respondents to Choose Not to Establish an Employee Stock Ownership Plan (ESOP)



	Primary advisors suggest it is too complicated/ administratively burdensome	Fear of Department of Labor as the primary regulator/ downstream financial & reputational exposure	Cost to set up and administer	Loss of control	Sales price of shares will be discounted/seller won't realize same value	Other
Whole sample	16%	11%	29%	18%	6%	21%
< $5 million	15%	12%	32%	18%	2%	22%
$5 - $100 million	16%	13%	22%	13%	16%	22%

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

Table 58. General Business and Industry Assessment: Today vs. Twelve Months Ago

Characteristics	**Decreased significantly**	**Decreased slightly**	**Stayed about the same**	**Increased slightly**	**Increased significantly**	**% increase**	**% decrease**	**Net increase/ decrease**
Unit sales	22%	17%	17%	21%	22%	43%	40%	**3%**
Prices of labor and materials	1%	4%	29%	42%	24%	66%	5%	**61%**
Net income	20%	18%	19%	25%	18%	42%	38%	**4%**
Inventory levels	10%	18%	47%	16%	9%	25%	28%	**-4%**
Capital expenditures	11%	10%	49%	21%	9%	30%	20%	**10%**
Opportunities for growth	12%	11%	18%	31%	28%	59%	23%	**36%**
Access to bank loans	9%	9%	46%	24%	12%	36%	18%	**18%**
Access to equity capital	10%	12%	51%	19%	9%	27%	22%	**6%**
Prices of your products or services	1%	4%	45%	41%	8%	49%	5%	**44%**
Time to collect receivables	2%	8%	60%	25%	6%	30%	10%	**21%**
Number of employees	4%	11%	53%	28%	4%	32%	15%	**17%**
Competition	3%	14%	55%	22%	7%	29%	16%	**13%**
General business conditions	14%	26%	28%	24%	8%	32%	40%	**-8%**
Appetite for risk	6%	15%	41%	29%	10%	39%	21%	**18%**
Probability of business closure	23%	16%	44%	12%	6%	17%	39%	**-21%**
Time worrying about economy	7%	15%	31%	26%	21%	47%	22%	**25%**

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

Table 59. 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	3%	4%	17%	39%	37%	76%	7%	**68%**
Prices of labor and materials	1%	1%	26%	47%	26%	73%	2%	**71%**
Net income	4%	5%	19%	43%	28%	72%	10%	**62%**
Inventory levels	3%	7%	48%	31%	11%	42%	10%	**32%**
Capital expenditures	6%	4%	46%	30%	13%	43%	10%	**33%**
Opportunities for growth	2%	4%	21%	38%	35%	73%	6%	**67%**
Access to bank loans	3%	6%	51%	29%	11%	41%	8%	**32%**
Access to equity capital	3%	5%	49%	27%	15%	42%	9%	**33%**
Prices of your products or services	1%	2%	35%	50%	12%	62%	3%	**59%**
Time to collect receivables	2%	5%	71%	17%	5%	22%	8%	**14%**
Number of employees	2%	1%	34%	54%	10%	63%	3%	**61%**
Competition	1%	6%	54%	30%	9%	39%	7%	**32%**
General business conditions	4%	13%	29%	38%	17%	55%	16%	**39%**
Appetite for risk	4%	11%	43%	33%	10%	43%	14%	**28%**
Probability of business closure	26%	26%	38%	7%	3%	10%	52%	**-42%**
Time worrying about economy	11%	22%	39%	14%	15%	28%	32%	**-4%**

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Craig R. Everett is a finance professor at the 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.

He holds a PhD in finance from Purdue University, an MBA from George Mason University, and a BA in quantitative economics from Tufts University. Dr. Everett is the author of the best-selling children's fantasy novel, Toby Gold and the Secret Fortune, which incorporates such financial literacy topics as saving, investing, banking, entrepreneurship, interest rates, return on investment, and net worth.

His research has appeared in the *Wall Street Journal*, CNBC, *USA Today*, and the *New York Times*, been published in a number of journals and been presented at domestic and international conferences. Craig Everett is member of the Beta Gamma Sigma Honor Society, Financial Executives International, and the Los Angeles World Affairs Council. Dr. Everett is a certified mergers & acquisitions advisor (CM&AA), and a registered investment advisor (RIA) with the state of California.

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