

2023 PRIVATE CAPITAL MARKETS REPORT

2023 Private Capital Markets Report

Craig R. Everett, PhD

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April 30, 2023

Dear friends and colleagues;

It has been another fascinating year in the private capital markets. Inflation has emerged as the most significant driver of changes in the markets. Inflation has driven interest rates higher (senior debt interest is up 2% on average).

Higher interest rates for senior debt have reversed a fifteen-year tightening in the mezzanine debt market. Mezzanine providers are now busier than ever. The biggest news in mezzanine is that warrant coverage is coming back! There is a huge increase in reports of mezz deals including warrants, confirming the idea that mezz is in much higher demand now. This is likely due to the increasing interest rates on senior debt.

Across the board, investor (limited partner) expectations of annual returns are down 2-3%. Cost of private equity is higher this year across nearly all categories, by about 5%. This translates to an average of 25% this year up from 20% last year.

In the venture capital world, revenue multiples for growth stage companies have increased to 7x this year (up from 5x). An encouraging note is that as a VC valuation method, “gut feel” has dropped in usage from 14% to 8% in the past year.

This year’s report is available in digital (pdf) format on our <http://privatecap.org/reports/> website. We would like to thank Confluence Capital Group for their continued financial support as a sponsor.

I am also pleased to announce that due to funding improvements, we will NOT be charging a fee for this 2023 report. We have a new major sponsor that will be announced later this year.

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

With sincere appreciation,

Craig R. Everett, PhD
Pepperdine Graziadio Business School
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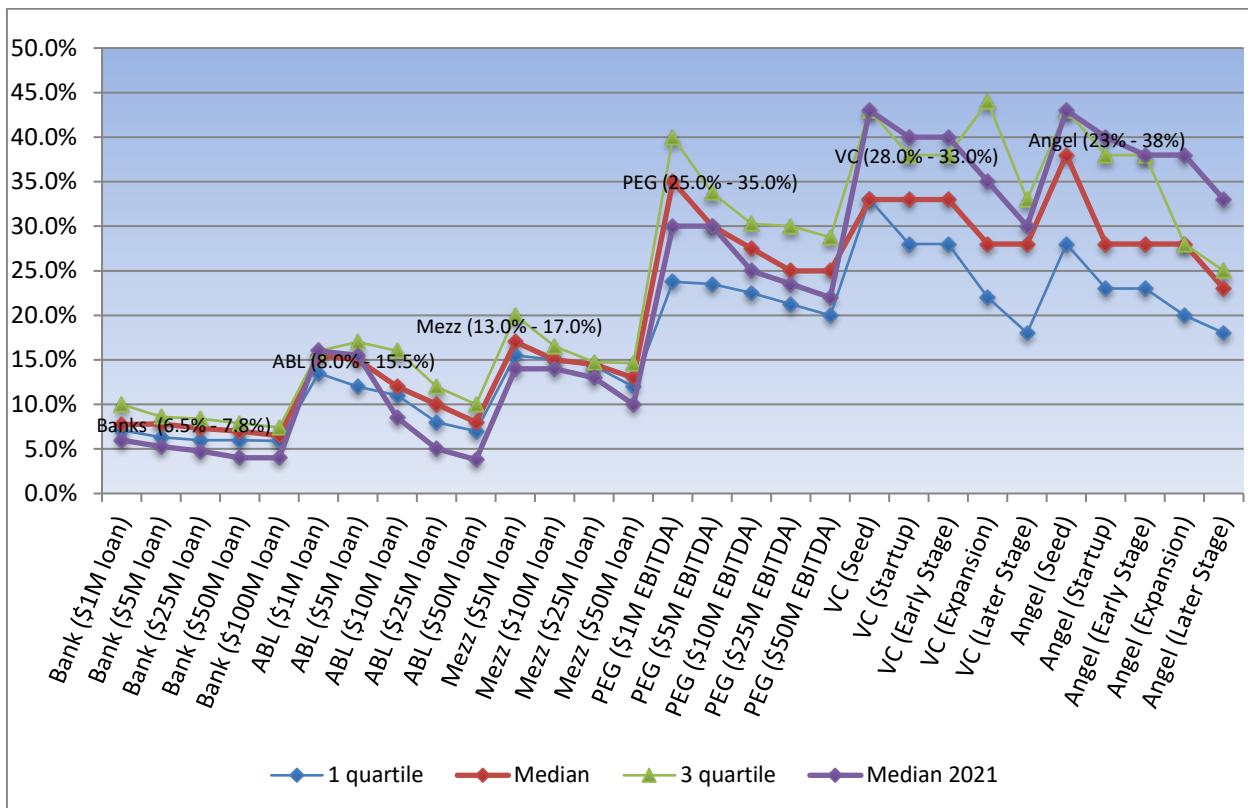
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PEPPERDINE PRIVATE CAPITAL MARKETS SURVEY

The Pepperdine private cost of capital (PCOC) survey was originally launched in 2007 and was the first comprehensive and simultaneous investigation of the major private capital market segments. This year's survey was deployed in January 2023 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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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 cost while capital obtained from angels has the highest average cost of capital. 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 for a meaningful result.*

Table 1. Private Capital Market Required Rates of Return

	1 st quartile	Median	3 rd quartile
Bank (\$1M loan)	7.1%	7.8%	10.0%
Bank (\$5M loan)	6.3%	7.8%	8.6%
Bank (\$10M loan)	6.0%	7.3%	8.4%
Bank (\$25M loan)	6.0%	7.0%	7.9%
Bank (\$50M loan)	5.9%	6.5%	7.4%
ABL (\$1M loan)	13.5%	15.5%	16.0%
ABL (\$5M loan)	12.0%	15.0%	17.0%
ABL (\$10M loan)	11.0%	12.0%	16.0%
ABL (\$25M loan)	8.0%	10.0%	12.0%
ABL (\$50M loan)	7.0%	8.0%	10.0%
Mezz (\$5M loan)	15.5%	17.0%	20.0%
Mezz (\$10M loan)	-	-	-
Mezz (\$25M loan)	14.3%	14.5%	14.8%
Mezz (\$50M loan)	12.0%	13.0%	14.6%
PEG (\$1M EBITDA)	23.8%	35.0%	40.0%
PEG (\$5M EBITDA)	23.5%	30.0%	33.8%
PEG (\$10M EBITDA)	22.5%	27.5%	30.3%
PEG (\$25M EBITDA)	21.3%	25.0%	30.0%
PEG (\$50M EBITDA)	20.0%	25.0%	28.8%
VC (Seed)	33.0%	33.0%	43.0%
VC (Startup)	28.0%	33.0%	38.0%
VC (Early Stage)	28.0%	33.0%	38.0%
VC (Expansion)	22.0%	28.0%	44.0%
VC (Later Stage)	18.0%	28.0%	33.0%
Angel (Seed)	28.0%	38.0%	43.0%
Angel (Startup)	23.0%	28.0%	38.0%
Angel (Early Stage)	23.0%	28.0%	38.0%
Angel (Expansion)	20.0%	28.0%	28.0%
Angel (Later Stage)	18.0%	23.0%	25.0%

LIMITED PARTNER SURVEY INFORMATION

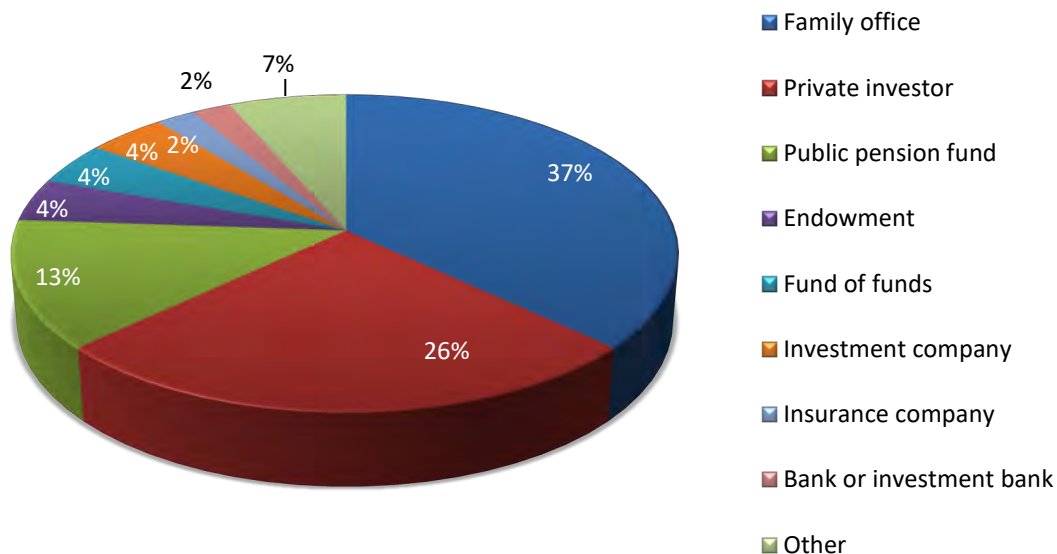
Approximately 38% of the 58 respondents in the limited partner survey reported direct investments as being the best risk/return trade-off investment class and another 20% reported real estate funds as being the best risk/return trade-off investment class. When asked about which industry currently offers the best risk/return trade-off 18% of respondents reported financial services.

- On average respondents target to allocate 32% of their assets to direct investments, 16% to buyout private equity and 14% to real estate fund. Respondents expect the highest returns of 15% from direct investments, 11% from venture capital, 9% from buyout private equity and 8% from real estate fund.
- Respondents indicated increased allocation to private equity, real estate funds and direct investments; and decreased allocation to venture capital and hedge funds in the last twelve months. They also reported worsened business conditions and increased expected returns on new investments.
- Respondents also expect further increases in allocation to direct investments and decreases in allocation to hedge funds, worsening business conditions and increasing expected returns.

Operational and Assessment Characteristics

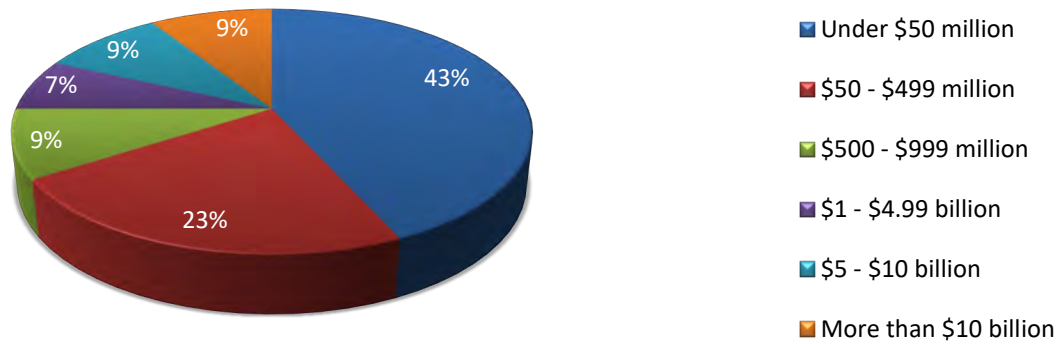
Approximately 37% of respondents indicated being family office followed by private investor (26%).

Figure 2. Entity Type



Approximately 43% of respondents reported their AUM category being less than \$50 million, while another 23% were between \$50 million and \$500 million.

Figure 3. Assets under Management or Investable Funds



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

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

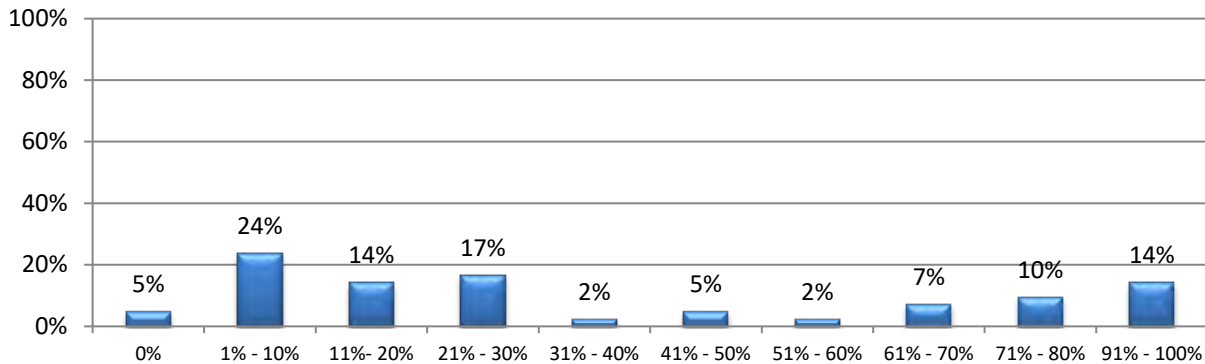
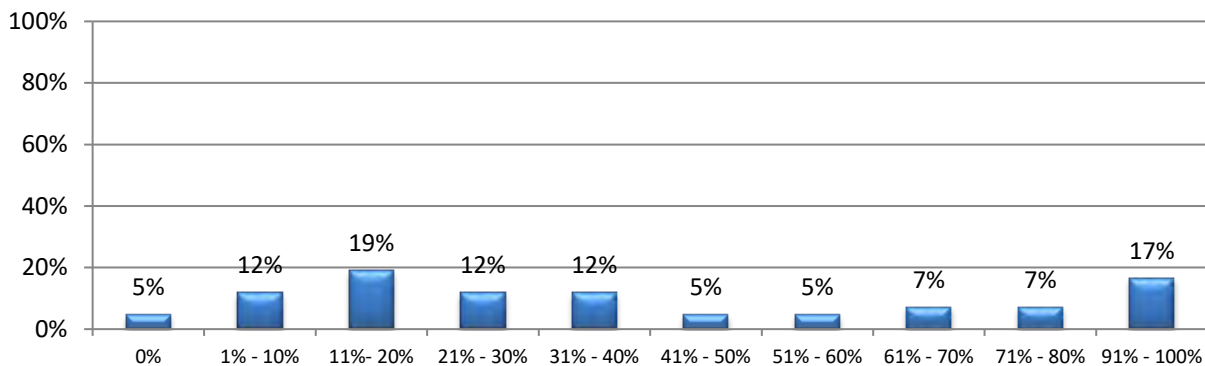
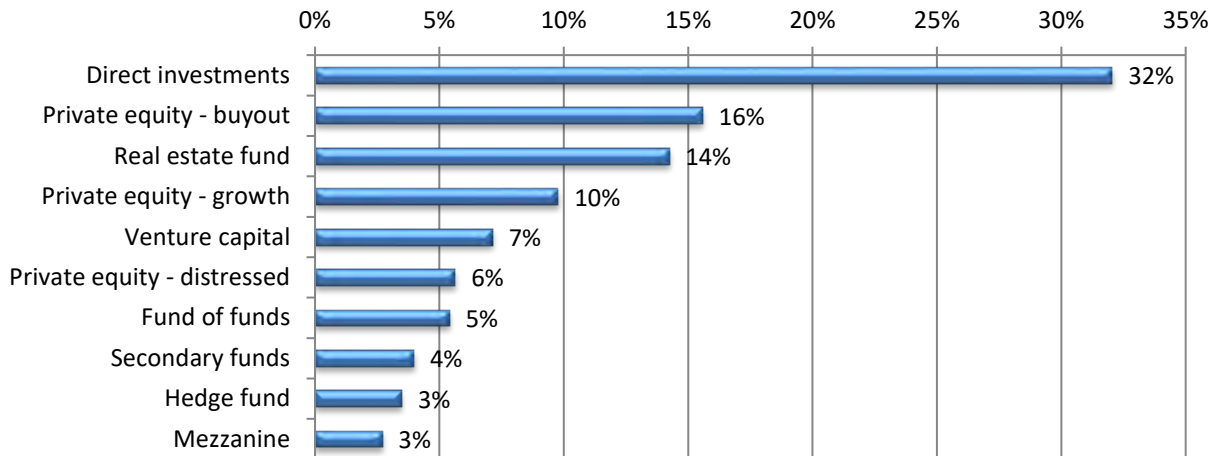


Figure 5. Target Asset Allocation for "Alternative Assets" (% of total portfolio)



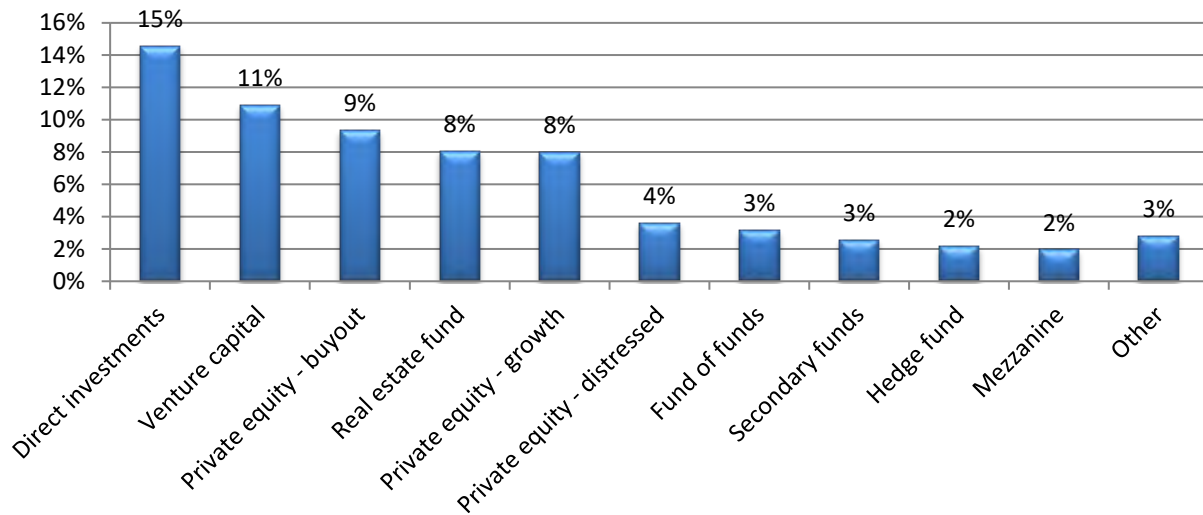
On average, respondents target to allocate 32% of their assets to direct investments, 16% to buyout private equity, and 14% to real estate funds.

Figure 6. Target Asset Allocation by Assets



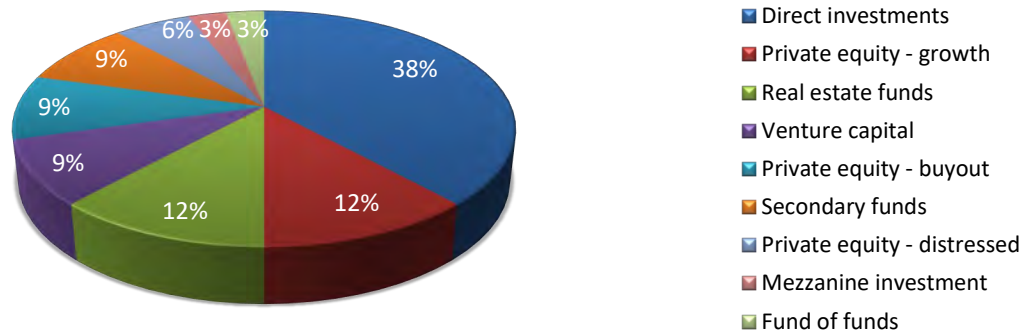
On average, respondents expect the highest returns from investments in direct investments, venture capital and buyout private equity.

Figure 7. Annual Return Expectations for New Investments



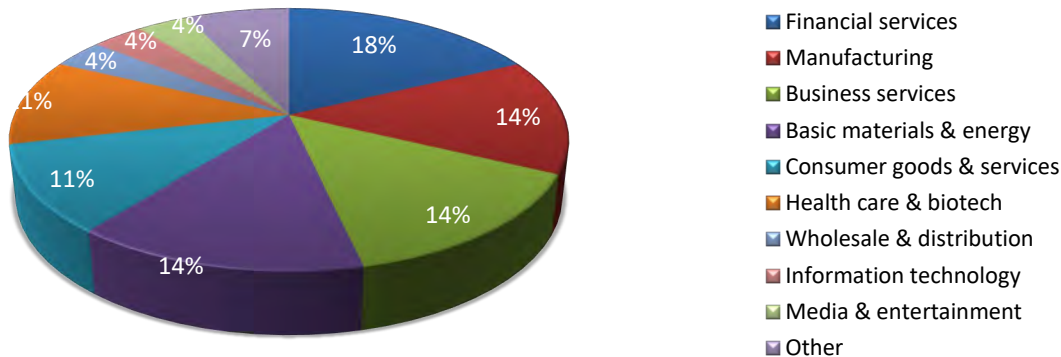
Approximately 38% of the 58 respondents in the limited partner survey reported direct investments as being the best risk/return trade-off investment class (up from 30% last year) and another 12% reported growth private equity as being the best risk/return trade-off investment class.

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



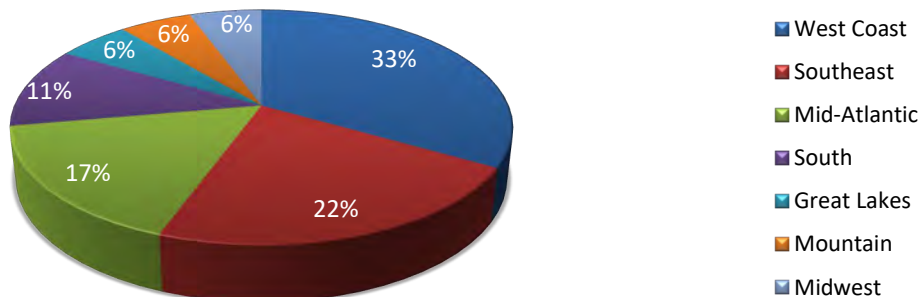
When asked about which industry currently offers the best risk/return trade-off, 18% of respondents reported financial services and another 14% reported manufacturing.

Figure 9. Industry with the Best Risk/Return



Regarding the geographic regions with the best risk/return trade-offs in the US, 33% of respondents reported West Coast, 22% reported Southeast, and 17% reported Mid-Atlantic.

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



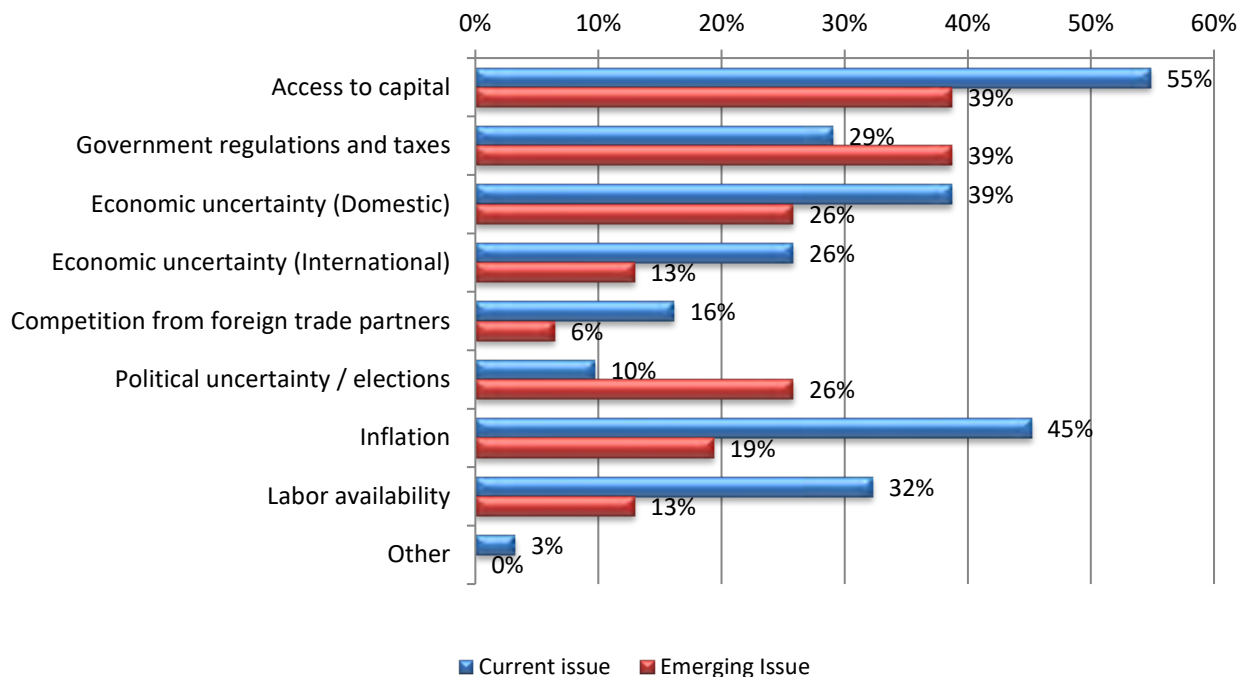
According to respondents, general partner and specific strategy are the most important factors when evaluating investment.

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	3%	6%	25%	47%	19%	3.7
Returned capital from most recent fund (Distribution to Paid-in or DPI)	0%	3%	34%	41%	21%	3.8
Residual value of most recent fund (Residual Value to Paid-in or RVPI)	0%	6%	39%	45%	10%	3.6
General partner	0%	3%	0%	25%	72%	4.7
Specific strategy	0%	3%	0%	50%	47%	4.4
Specific location	3%	25%	31%	28%	13%	3.2
Gut feel/instinct	0%	22%	34%	25%	19%	3.4
Other	0%	0%	0%	25%	75%	4.8

Respondents believe access to capital and inflation are the most important current issues facing privately-held businesses. Access to capital, inflation and labor availability are the most important emerging issues.

Figure 10. Issues Facing Privately-Held Businesses



Respondents indicated increased allocation to private equity, real estate funds and direct investments; and decreased allocation to venture capital and hedge funds in the last twelve months. They also reported worsened 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	13%	10%	63%	7%	7%	13%	23%	-10%
Allocation to private equity	0%	0%	73%	27%	0%	27%	0%	27%
Allocation to mezzanine	4%	0%	89%	7%	0%	7%	4%	4%
Allocation to hedge funds	17%	0%	76%	7%	0%	7%	17%	-10%
Allocation to secondary funds	4%	7%	75%	4%	11%	14%	11%	4%
Allocation to real estate funds	0%	13%	58%	26%	3%	29%	13%	16%
Direct investments	0%	6%	23%	58%	13%	71%	6%	65%
General business conditions	14%	45%	28%	14%	0%	14%	59%	-45%
Expected returns on new capital deployed	0%	27%	27%	40%	7%	47%	27%	20%

Respondents also expect further increases in direct investments, worsening 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	4%	18%	68%	11%	0%	11%	21%	-11%
Allocation to private equity	3%	10%	67%	20%	0%	20%	13%	7%
Allocation to mezzanine	4%	8%	77%	12%	0%	12%	12%	0%
Allocation to hedge funds	11%	11%	75%	4%	0%	4%	21%	-18%
Allocation to secondary funds	7%	7%	63%	15%	7%	22%	15%	7%
Allocation to real estate funds	10%	17%	53%	17%	3%	20%	27%	-7%
Direct investments	0%	13%	35%	39%	13%	52%	13%	39%
General business conditions	14%	28%	34%	24%	0%	24%	41%	-17%
Expected returns on new capital deployed	0%	20%	43%	30%	7%	37%	20%	17%

BANK LENDING SURVEY INFORMATION

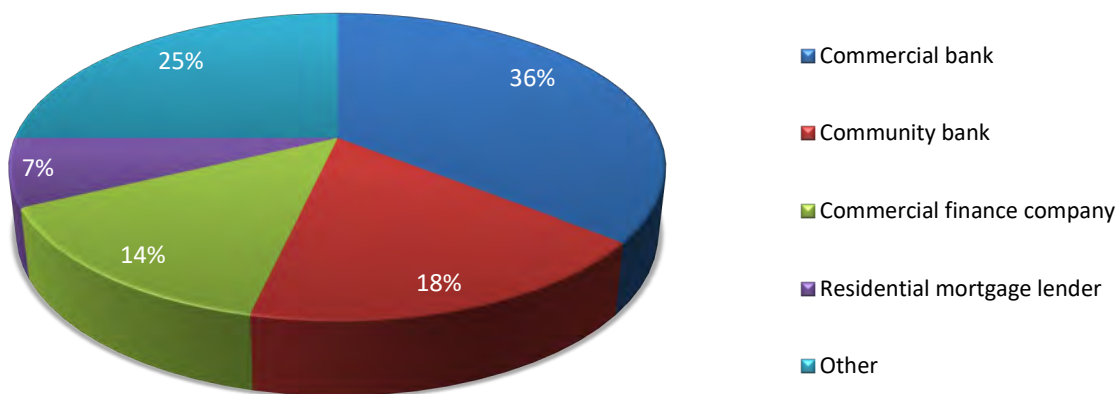
There were 31 responses to the bank lending survey. Over 60% of respondents believe that general business conditions will worsen over the next 12 months and over 60% said demand for loans will decrease. Other key findings include:

- Over the last twelve months respondents were seeing decreased senior and flat total leverage multiples, with big increase in general underwriting standards and flat percent of loans with personal guarantee.
- Respondents also expect decreases in demand for business loans, credit quality of borrowers applying for credit, worsening general business conditions, increasing total multiples, leverage multiples, and interest rates.
- Currently, 60% of lenders see labor availability as the top issue facing privately-held businesses today.

Operational and Assessment Characteristics

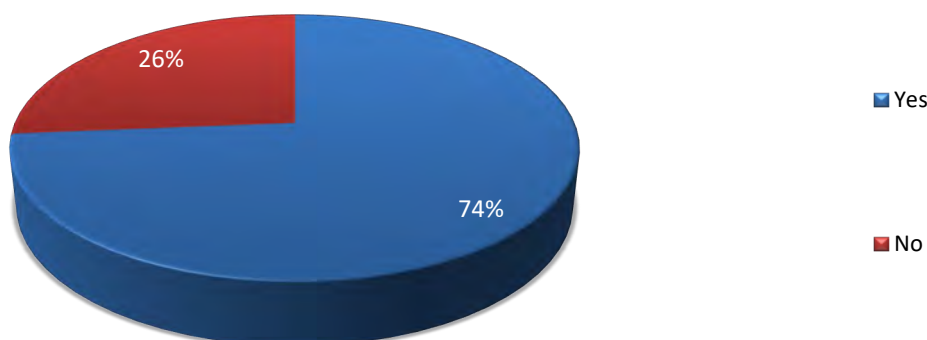
Respondents reported on the type of entity that best describes their lending function.

Figure 11. Description of Lending Entity



The majority (74%) report participating in government loan programs.

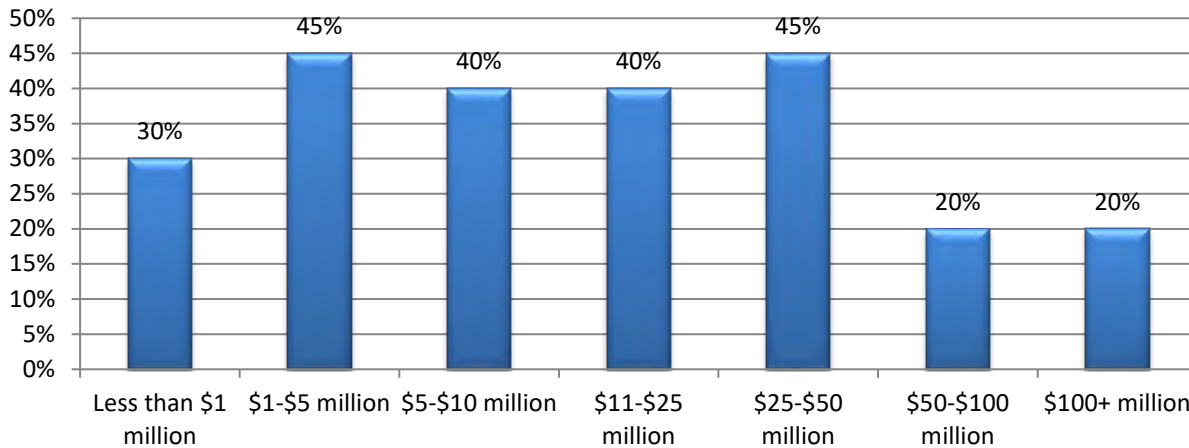
Figure 12. Participation in Government Loan Programs



BANKS cont.

The largest concentration of loan sizes was between \$1 million and \$50 million.

Figure 13. 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	7.8%	5	1.0%	0.0%
\$1-\$5 million	7.8%	5	0.8%	0.0%
\$6-\$10 million	7.3%	5	0.5%	0.0%
\$11-\$25 million	7.3%	5	0.5%	0.0%
\$25-\$50 million	7.0%	5	0.5%	1.0%
\$50-\$100 million	6.5%	5	0.5%	1.0%
\$100+ million	6.0%	5	0.5%	1.0%

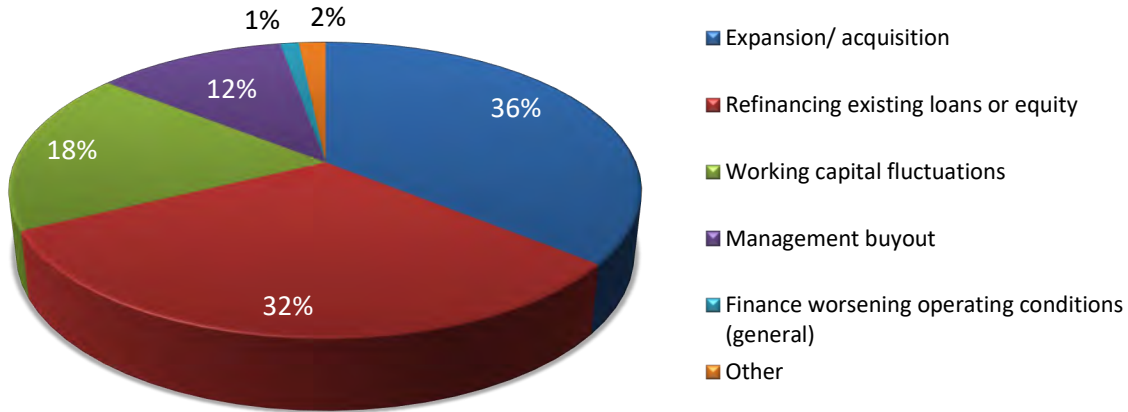
Senior leverage multiples are reported below for the various industries and EBITDA sizes.

Table 6. Senior Leverage Multiple by EBITDA Size

	\$1M EBITDA	\$5M EBITDA	\$10M EBITDA	\$25M EBITDA	\$50M EBITDA	\$50M+ EBITDA
Manufacturing	1.3	1.6	2.5	3.0	3.4	3.4
Construction & engineering	1.5	1.8	2.3	2.5	2.8	3.0
Consumer goods & services	1.3	1.5	1.8	3.0	3.0	3.3
Wholesale & distribution	1.3	2.0	2.3	2.8	3.0	3.8
Business services	1.3	1.3	3.0	3.0	3.5	3.5
Basic materials & energy	2.0	2.1	2.0	2.0	2.0	2.0
Healthcare & biotech	2.0	3.0	3.3	3.5	3.5	3.6
Information technology	2.0	2.3	3.3	3.5	3.5	3.9
Financial services	2.5	-	3.0	3.5	3.8	4.0
Media & entertainment	-	-	3.0	3.3	3.3	3.3
Overall median	1.5	1.9	2.8	3.0	3.3	3.5

Expansion/ acquisition was the most commonly described financing motivation at 36%, followed by refinancing existing loans or equity at 32%.

Figure 14. Borrower Motivation to Secure Financing (past 12 months)



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

Table 7. Importance of Financial Evaluation Metrics

	Unimportant	Of little importance	Moderately important	Important	Very important	Score (1 to 5)
Current ratio	9%	45%	27%	18%	0%	2.5
Senior DSCR or FCC ratio	0%	7%	21%	29%	43%	4.1
Total DSCR or FCC ratio	0%	0%	0%	36%	64%	4.6
Senior debt to cash flow	0%	15%	8%	46%	31%	3.9
Total debt to cash flow	0%	0%	8%	38%	54%	4.5
Debt to net worth	8%	25%	17%	42%	8%	3.2

Table 8. Financial Evaluation Metrics Average Data

	Average borrower data	Limit not to be exceeded
Current ratio	1.3	1.1
Senior DSCR or FCC ratio	1.3	1.1
Total DSCR or FCC ratio	1.3	1.1
Senior debt to cash flow	1.8	2.3
Total debt to cash flow	2.8	3.9
Debt to net worth	1.4	1.5

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	\$100M loan	\$100M+ loan
Personal guarantee	95%	93%	87%	17%	0%	0%	0%
Collateral	73%	93%	95%	95%	95%	95%	95%

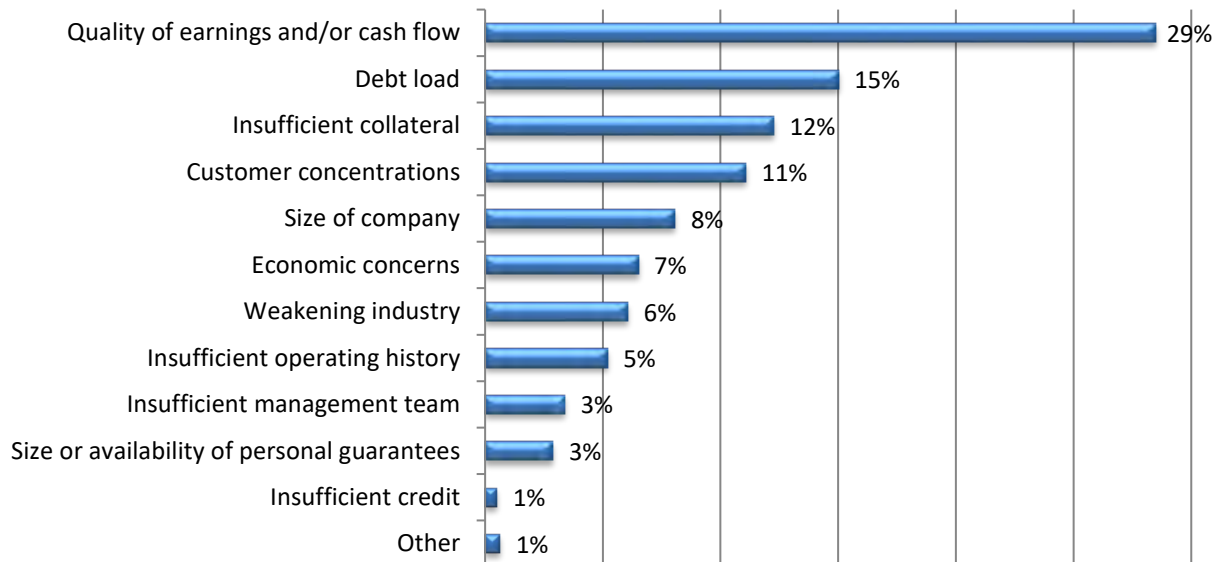
Approximately 40% of cash flow applications were declined.

Table 10. Applications Data

	Reviewed	Offered	Booked	Declined
Cash flow based	641	29%	19%	40%
Collateral based	130	77%	11%	21%
Real estate	248	57%	18%	49%

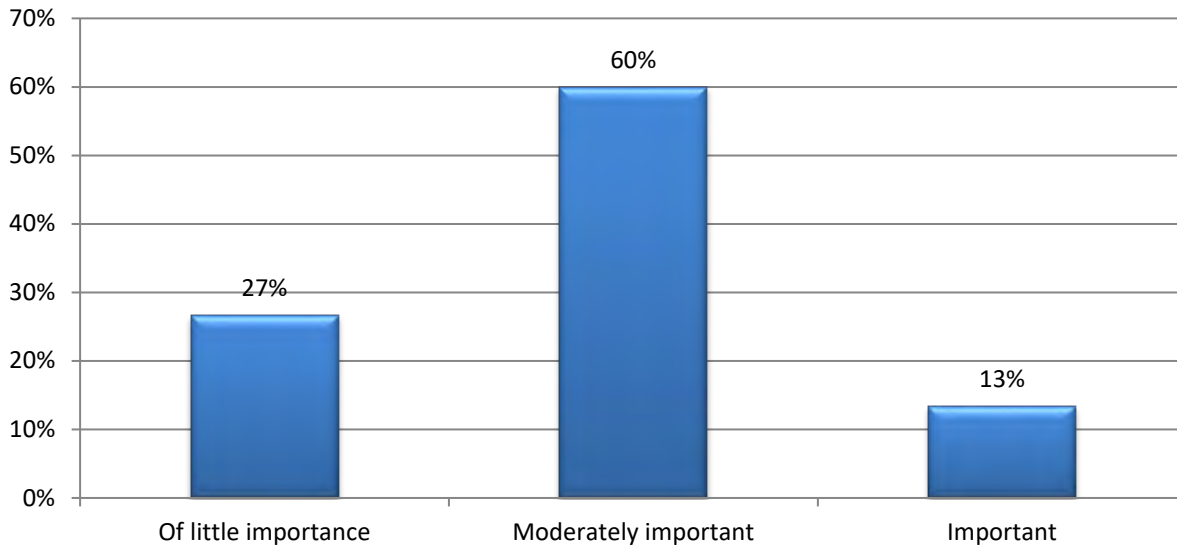
Approximately 29% of applications were declined due to poor quality of earnings and/or cash flow followed by 15% that were declined due to debt load.

Figure 33. Reason for Declined Loans



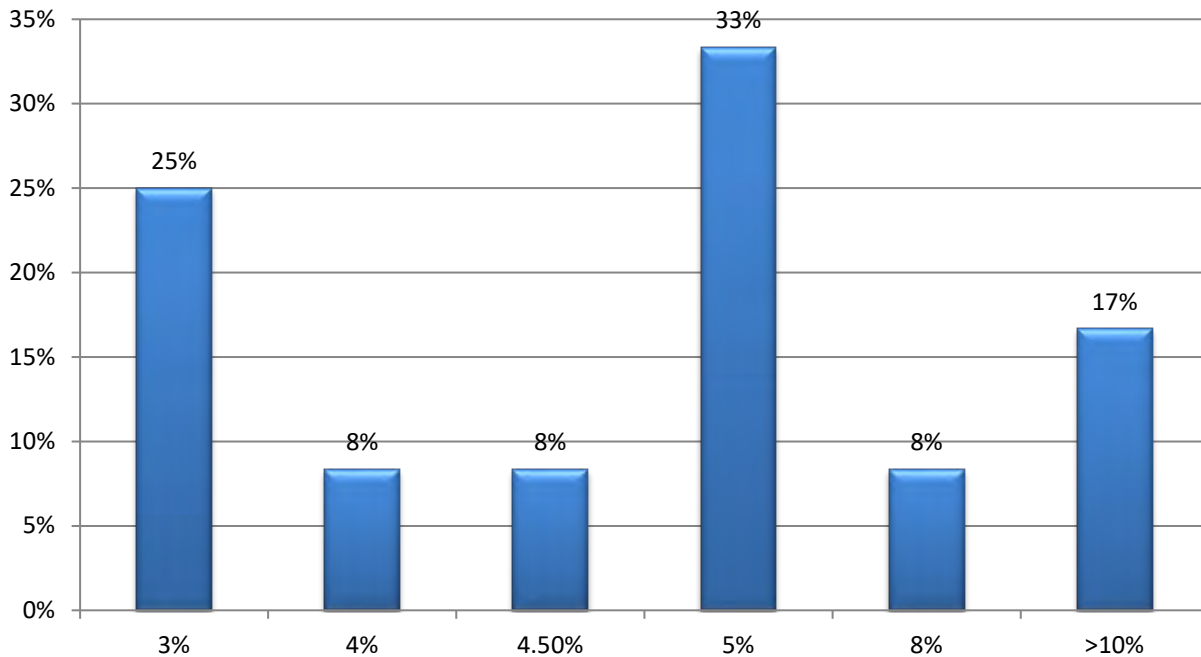
Approximately 13% of respondents identified revenue growth rate as important or very important factor.

Figure 15. Importance of the Revenue Growth Rate Pertaining to New Cash Flow Based Loans



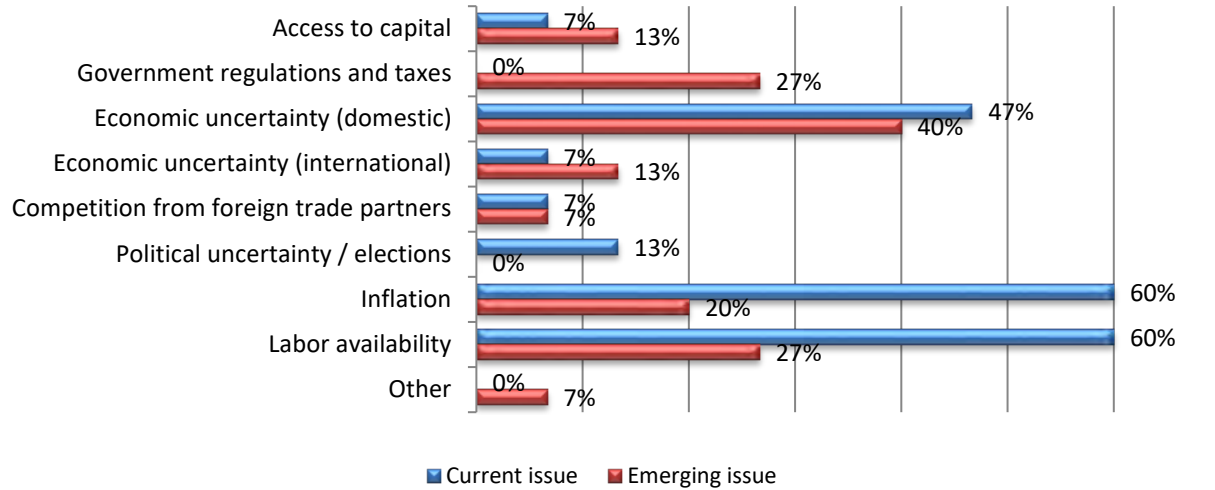
Approximately 58% of applications had a revenue growth rate of 5% or more annually.

Figure 16. Revenue Growth Rate – Average Borrower Data



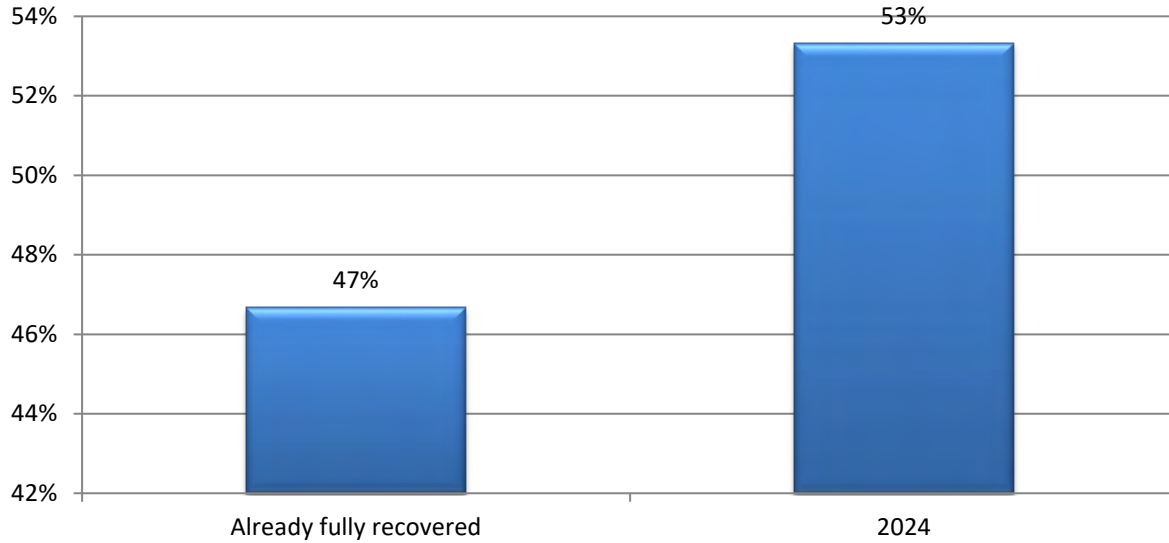
Respondents believe labor availability and inflation are the most important issues facing privately-held businesses today.

Figure 34. Issues Facing Privately-Held Businesses



Approximately 47% of respondents believe bank financing already returned to pre-March 2020 level.

Figure 17. When Bank Financing Returns to Pre-March 2020 Level



Over the last twelve months respondents were seeing decreased senior and flat total leverage multiples, with worsened 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)	20%	33%	40%	0%	7%	7%	53%	-47%
General underwriting standards	0%	0%	20%	53%	27%	80%	0%	80%
Credit quality of borrowers applying for credit	7%	20%	53%	13%	7%	20%	27%	-7%
Due diligence efforts	0%	0%	20%	73%	7%	80%	0%	80%
Average loan size	0%	13%	60%	20%	7%	27%	13%	13%
Average loan maturity (months)	0%	27%	73%	0%	0%	0%	27%	-27%
Percent of loans with personal guarantees	0%	10%	80%	0%	10%	10%	10%	0%
Percent of loans requiring collateral	0%	0%	83%	8%	8%	17%	0%	17%
Size of interest rate spreads (pricing)	0%	0%	7%	60%	33%	93%	0%	93%
Loan fees	0%	0%	47%	33%	20%	53%	0%	53%
Senior leverage multiples	7%	33%	33%	20%	7%	27%	40%	-13%
Total leverage multiples	7%	29%	29%	29%	7%	36%	36%	0%
Focus on collateral as backup means of payment	0%	0%	58%	33%	8%	42%	0%	42%
SBA lending	0%	56%	44%	0%	0%	0%	56%	-56%
Lending capacity of bank	7%	21%	29%	29%	14%	43%	29%	14%
General business conditions	0%	60%	33%	7%	0%	7%	60%	-53%
Appetite for risk	27%	67%	7%	0%	0%	0%	93%	-93%

Respondents also expect decreases in demand for business loans, increases in lending capacity of banks, worsening general business conditions, slightly increasing total leverage multiples, senior leverage multiples, and 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)	20%	40%	13%	20%	7%	27%	60%	-33%
General underwriting standards	0%	0%	40%	47%	13%	60%	0%	60%
Credit quality of borrowers applying for credit	0%	40%	53%	7%	0%	7%	40%	-33%
Due diligence efforts	0%	0%	33%	60%	7%	67%	0%	67%
Average loan size	0%	7%	60%	27%	7%	33%	7%	27%
Average loan maturity (months)	0%	13%	80%	0%	7%	7%	13%	-7%
Percent of loans with personal guarantees	0%	0%	73%	18%	9%	27%	0%	27%
Percent of loans requiring collateral	0%	0%	64%	27%	9%	36%	0%	36%
Size of interest rate spreads (pricing)	0%	7%	27%	53%	13%	67%	7%	60%
Loan fees	0%	0%	47%	47%	7%	53%	0%	53%
Senior leverage multiples	0%	7%	67%	20%	7%	27%	7%	20%
Total leverage multiples	0%	7%	60%	27%	7%	33%	7%	27%
Focus on collateral as backup means of payment	0%	0%	42%	50%	8%	58%	0%	58%
SBA lending	0%	44%	44%	11%	0%	11%	44%	-33%
Lending capacity of bank	0%	14%	43%	36%	7%	43%	14%	29%
General business conditions	0%	60%	20%	13%	7%	20%	60%	-40%
Appetite for risk	0%	53%	33%	7%	7%	13%	53%	-40%

ASSET-BASED LENDING SURVEY INFORMATION

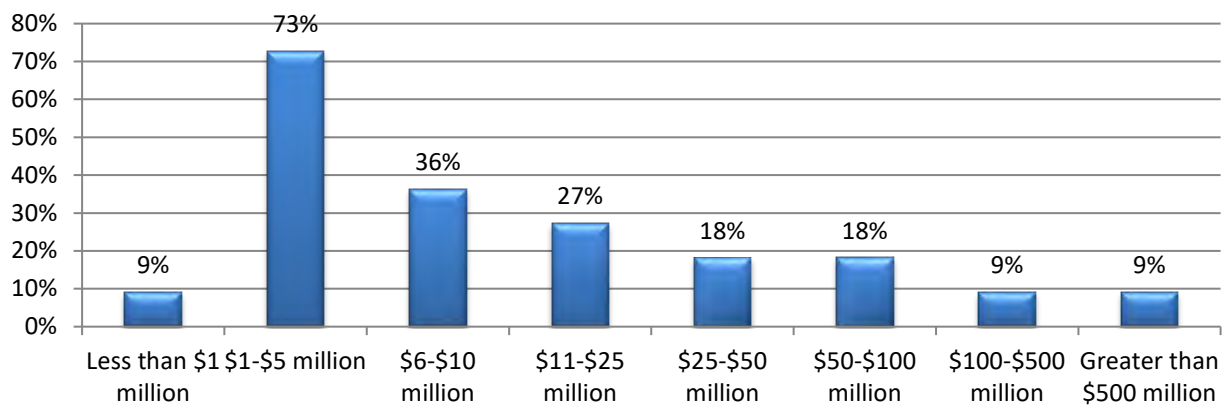
There were 11 responses to the asset-based lending survey. Over 67% of respondents believe that general business conditions will worsen over the next 12 months and over 83% said demand for loans will increase. Other key findings include:

- Over the last twelve months respondents were seeing decreased advance rates and increased demand for business loans.
- Respondents also expect increases in general underwriting standards, average loan size, increasing interest rates and loan fees.
- Currently, 80% lenders see domestic economic uncertainty as a top emerging issue and political uncertainty as a top issue facing privately-held businesses today.

Operational and Assessment Characteristics

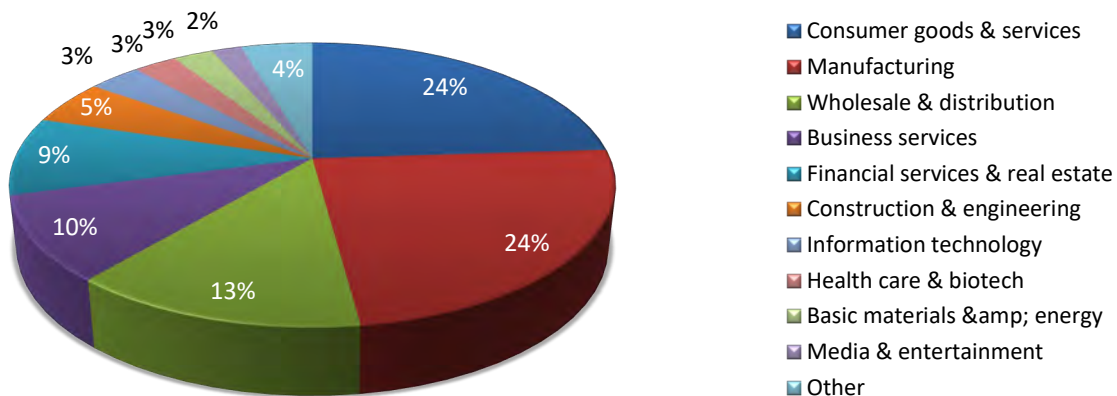
The largest concentration of loan sizes was between \$1 million and \$5 million.

Figure 18. Typical Investment Size



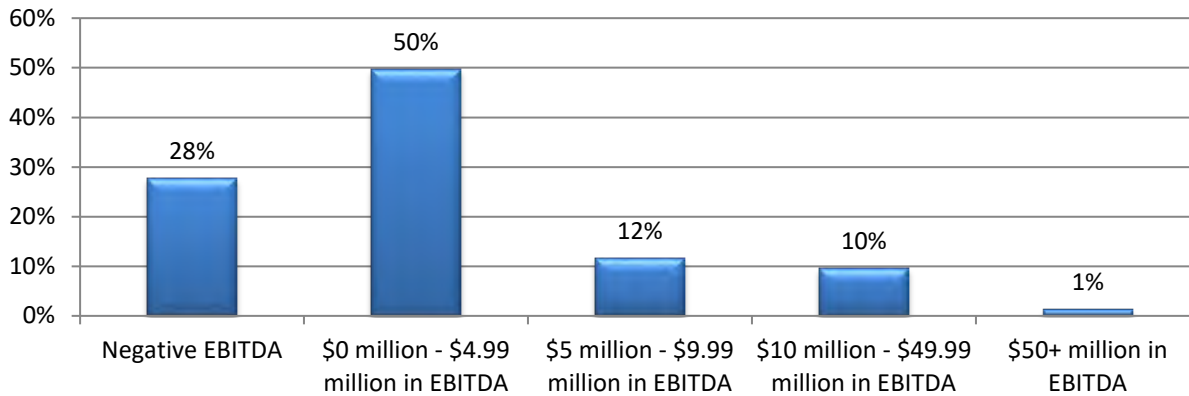
According to respondents approximately 24% of asset-based loans were issued to manufacturing companies and other 24% were issued to consumer goods and services.

Figure 35. Industries Served by Asset-Based Lenders



Approximately 50% of the companies that booked asset-based loans in the last twelve months had EBITDA size between \$0 and \$5 million.

Figure 19. 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	-	-	-	-	12.0%	-	-
\$1-5 million	-	16.0%	15.0%	15.0%	12.0%	17.0%	18
\$5-\$10 million	-	12.0%	12.0%	14.5%	10.0%	13.5%	26
\$10-25 million	-	8.0%	8.0%	12.0%	10.0%	10.0%	60
\$25-50 million	-	8.0%	8.0%	12.0%	10.0%	10.0%	60
\$50-100 million	-	7.0%	7.0%	10.0%	8.5%	8.0%	60
\$500+ million	-	7.0%	7.0%	10.0%	8.0%	8.0%	60

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	95%	95%	95%	100%	100%	100%
Accounts Receivable	85%	85%	85%	86%	90%	90%
Inventory - Low quality	15%	30%	30%	41%	48%	65%
Inventory - Intermediate quality	45%	50%	50%	51%	58%	68%
Inventory - High quality	60%	65%	70%	66%	70%	74%
Equipment	70%	75%	81%	80%	80%	85%
Real Estate	68%	70%	73%	38%	70%	73%

Respondents reported on valuation standards used to estimate LTV ratios.

Figure 37. Valuation Standards Used to Estimate LTV Ratio

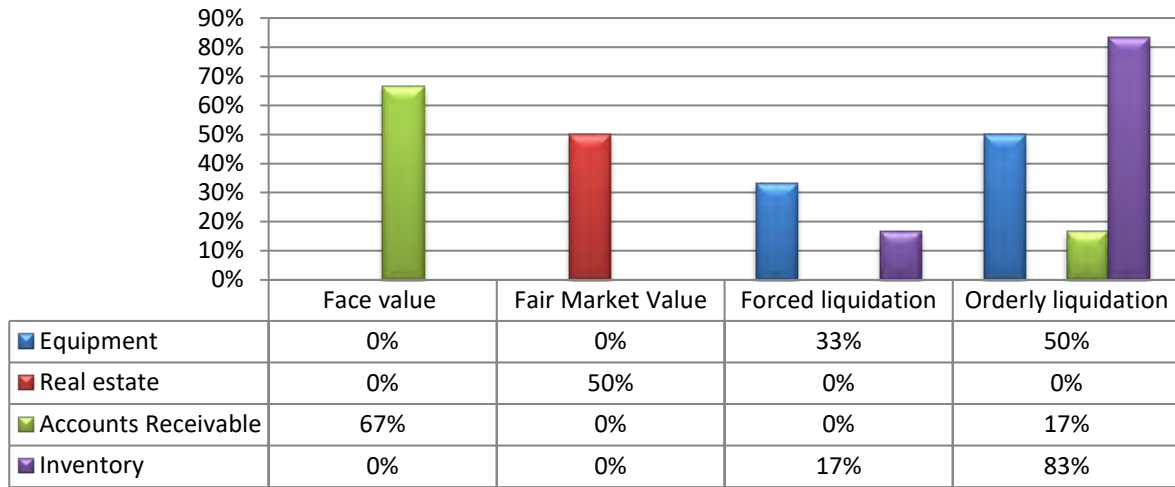
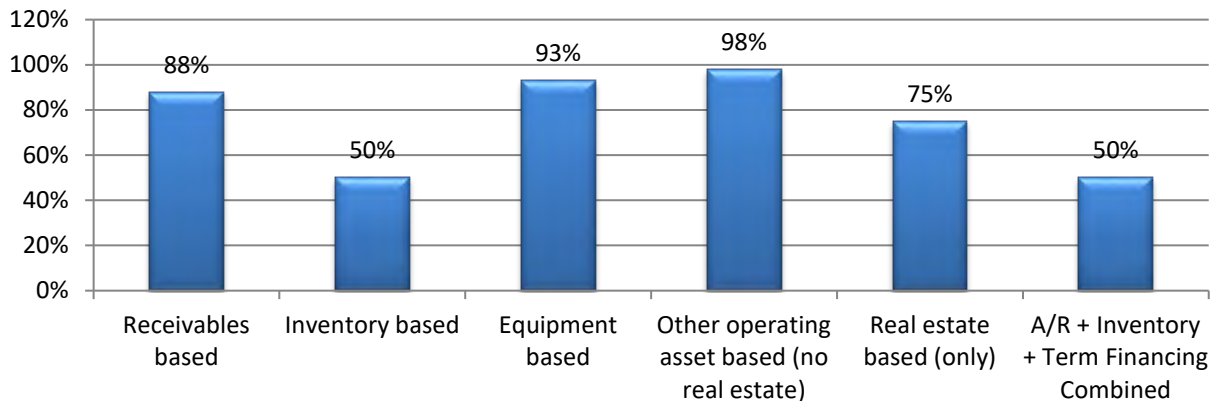


Figure 20. Asset-Based Loans Decline Rate



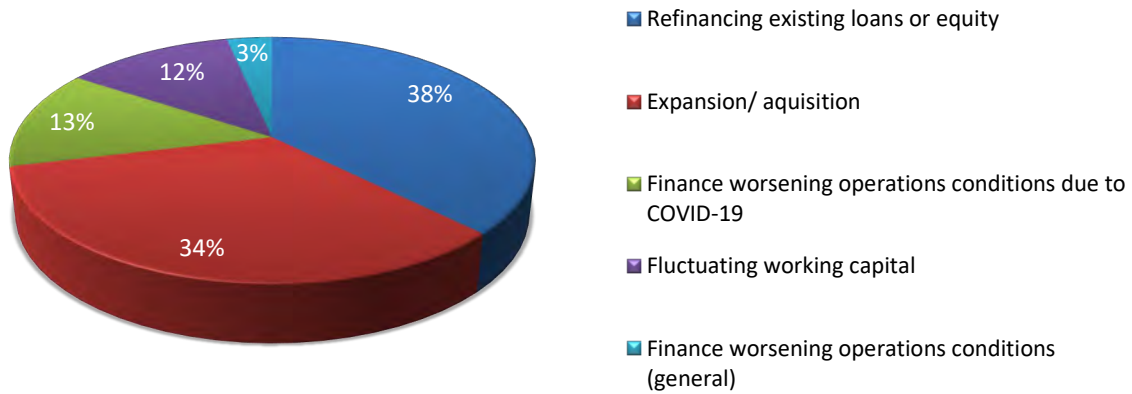
Various fees as reported by lenders are as follows.

Table 15. Fees Charged

	1st Quartile	Median	3rd Quartile
Closing fee	1.0%	1.0%	1.0%
Modification fee	0.4%	0.5%	0.6%
Commitment fee	0.8%	1.0%	1.0%
Underwriting fee	0.1%	0.1%	0.1%
Arrangement fee	1.0%	1.0%	1.0%
Prepayment penalty (yr 1)	2.0%	2.5%	3.0%
Prepayment penalty (yr 2)	1.0%	1.5%	2.0%
Unused line fee	0.2%	0.3%	0.4%

Refinancing existing loans or equity was the most commonly described financing motivation at 38%, followed by expansion/ acquisition at 34%.

Figure 21. Borrower Motivation to Secure Financing (past 12 months)



Current ratio, senior debt to cash flow and total debt to cash flow were the most important factor when deciding whether to invest or not.

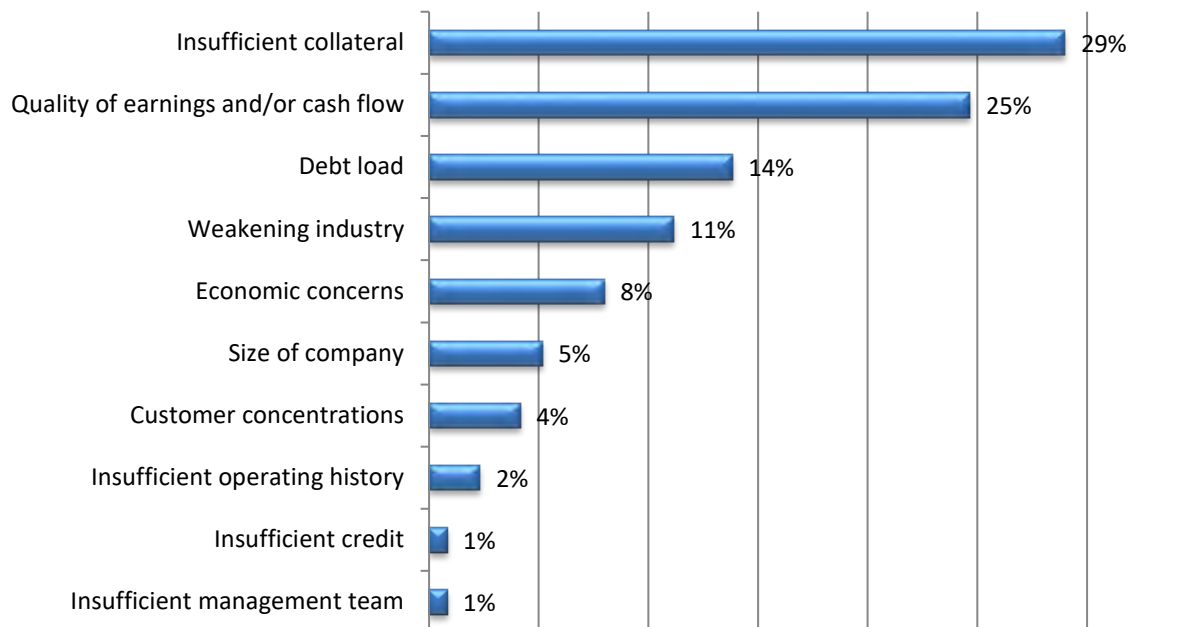
Table 16. Importance of Financial Evaluation Metrics

	Unimportant	Of little importance	Moderately important	Important	Very important	Score (1-5)
Current ratio	33%	0%	50%	17%	0%	2.5
Senior DSCR or FCC ratio	40%	0%	20%	20%	20%	2.8
Total DSCR or FCC ratio	50%	0%	0%	25%	25%	2.8
Senior debt to cash flow	0%	17%	50%	17%	17%	3.3
Total debt to cash flow	17%	17%	17%	50%	0%	3.0
Debt to net worth	17%	33%	17%	33%	0%	2.7

Table 17. Financial Evaluation Metrics Average Data

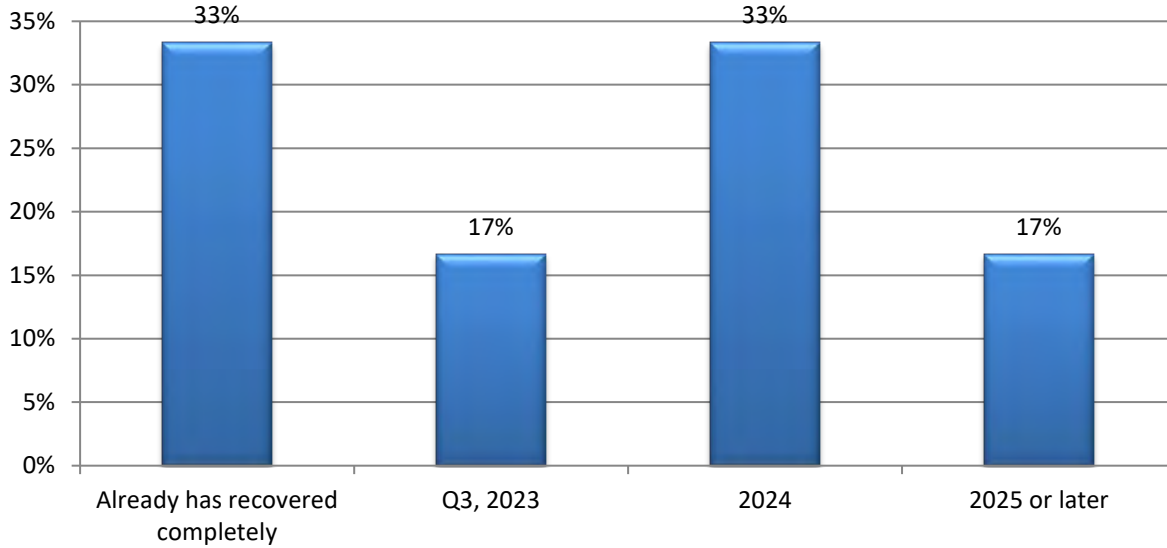
	Average borrower data	Limit not to be exceeded
Current ratio	1.5	1.1
Senior DSCR or FCC ratio	1.1	1.1
Total DSCR or FCC ratio	1.3	1.0
Senior debt to cash flow	<1	<1
Total debt to cash flow	<1	<1
Debt to net worth	1.2	1.2

Approximately 29% of applications were declined due to insufficient collateral followed by 25% that were declined due to poor quality of earnings.

Figure 22. Reason for Declined Loans

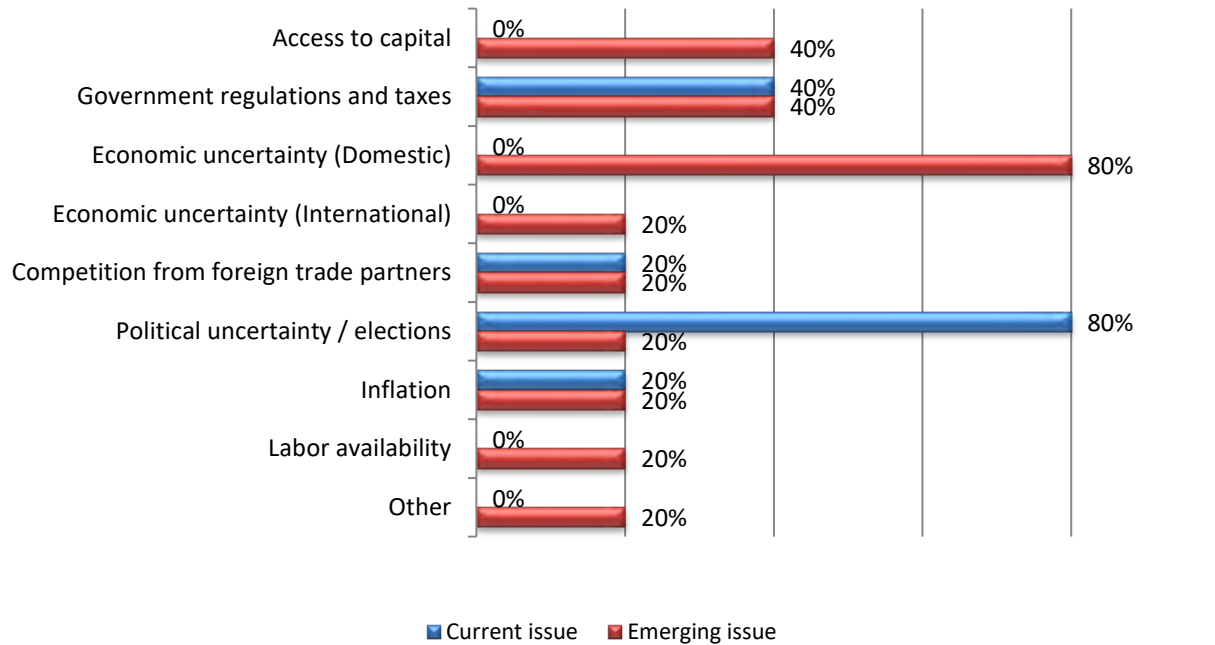
Approximately 33% of respondents believe Asset-Based Lending already has recovered completely.

Figure 23. When Asset-Based Lending Returns to Pre-March 2020 Level



Currently, majority of lenders see domestic economic uncertainty as a top emerging issue and political uncertainty as current issue facing privately-held businesses.

Figure 24. Issues Facing Privately-Held Businesses



Over the last twelve months respondents were seeing decreased advance rates and increased 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	0%	0%	17%	17%	67%	83%	0%	83%
General underwriting standards	0%	0%	0%	50%	50%	100%	0%	100%
Credit quality of borrowers	0%	50%	0%	50%	0%	50%	50%	0%
Due diligence efforts	0%	0%	33%	17%	50%	67%	0%	67%
Average loan size	0%	0%	33%	50%	17%	67%	0%	67%
Average loan maturity	0%	33%	33%	33%	0%	33%	33%	0%
Interest rate spread (pricing)	0%	0%	17%	50%	33%	83%	0%	83%
Loan fees	0%	17%	17%	67%	0%	67%	17%	50%
Loans outstanding	0%	0%	17%	50%	33%	83%	0%	83%
Percent of loans with personal guarantees	0%	0%	80%	0%	20%	20%	0%	20%
Focus on cash flow as backup means of payment	0%	0%	33%	67%	0%	67%	0%	67%
Nonaccrual loans	0%	33%	50%	17%	0%	17%	33%	-17%
Number/ tightness of financial covenants	0%	17%	50%	33%	0%	33%	17%	17%
Standard advance rates	17%	17%	67%	0%	0%	0%	33%	-33%
General business conditions	0%	67%	17%	17%	0%	17%	67%	-50%
Appetite for risk	17%	67%	17%	0%	0%	0%	83%	-83%

ABL cont.

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

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

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Demand for loans	0%	0%	17%	0%	83%	83%	0%	83%
General underwriting standards	0%	0%	0%	67%	33%	100%	0%	100%
Credit quality of borrowers	17%	50%	0%	33%	0%	33%	67%	-33%
Due diligence efforts	0%	0%	17%	50%	33%	83%	0%	83%
Average loan size	0%	0%	50%	33%	17%	50%	0%	50%
Average loan maturity	0%	0%	67%	33%	0%	33%	0%	33%
Interest rate spread (pricing)	0%	0%	0%	67%	33%	100%	0%	100%
Loan fees	0%	0%	17%	83%	0%	83%	0%	83%
Loans outstanding	0%	0%	17%	67%	17%	83%	0%	83%
Percent of loans with personal guarantees	0%	0%	100%	0%	0%	0%	0%	0%
Focus on cash flow as backup means of payment	0%	0%	50%	33%	17%	50%	0%	50%
Nonaccrual loans	0%	17%	67%	17%	0%	17%	17%	0%
Number/ tightness of financial covenants	0%	0%	83%	17%	0%	17%	0%	17%
Standard advance rates	0%	17%	83%	0%	0%	0%	17%	-17%
General business conditions	0%	67%	17%	17%	0%	17%	67%	-50%
Appetite for risk	17%	33%	50%	0%	0%	0%	50%	-50%

MEZZANINE SURVEY INFORMATION

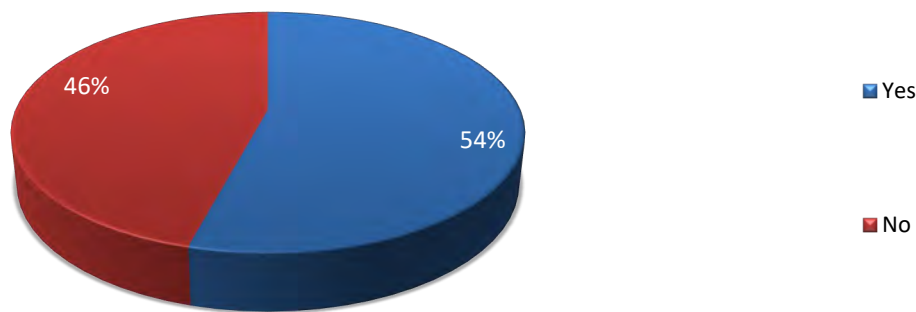
The majority of the 27 participants that responded to the mezzanine survey typically book deals in the \$1 million to \$50 million range. Over 25% plan on investing in business services, another 21% to manufacturing and another 15% to health care & biotech over the next 12 months. Other key findings include:

- Relative to 12 months ago, respondents indicated increased demand for mezzanine capital and increased average investment size, decreased leverage multiples and worsened general business conditions. They also reported increases in warrant coverage and expected returns on new investments.
- Respondents expect increasing demand for mezzanine capital, warrant coverage and expected returns on new investments, decreasing leverage multiples and appetite for risk, and worsening general business conditions.
- Approximately 59% of respondents domestic economic uncertainty is the most important issue facing privately-held businesses today.

Operational and Assessment Characteristics

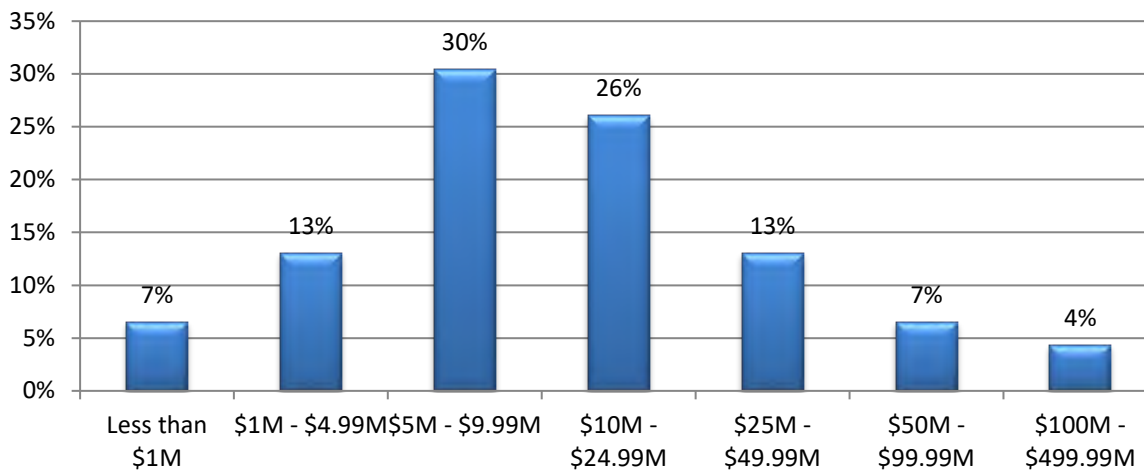
Approximately 54% of respondents are SBIC Firms.

Figure 25. SBIC (small business investment) Firms



The largest concentration of typical loan sizes is between \$1 million and \$50 million.

Figure 40. Typical Investment Size



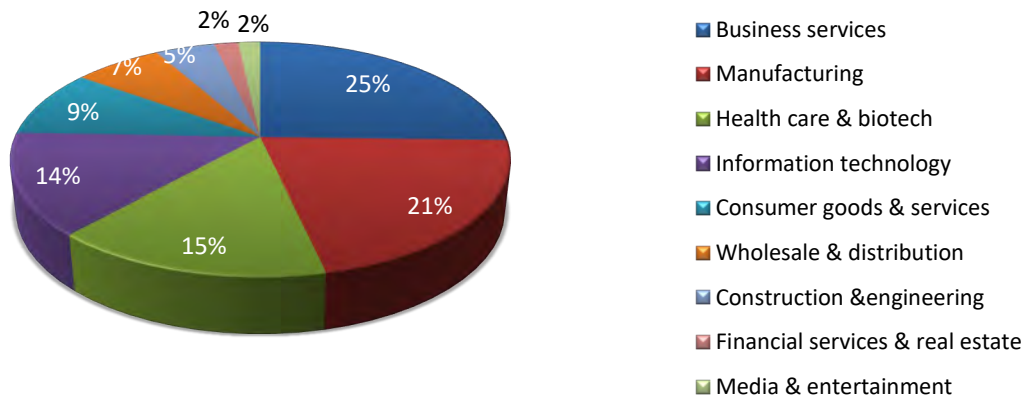
Respondents reported on business practices and the results are reflected below.

Table 20. Mezzanine Fund Data

	1st quartile	Median	3rd quartile
Vintage year (year in which first investment made)	2018	2020	2021
Size of fund (\$ millions)	125	250	400
Targeted number of total investments	18	25	28
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%	20%

The types of businesses that mezzanine lenders plan to invest in over next 12 months are very diverse with over 25% plan on investing in business services, another 21% to manufacturing and another 15% to health care & biotech.

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



Approximately 40% of respondents made 5 investments or more over the last 12 months.

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

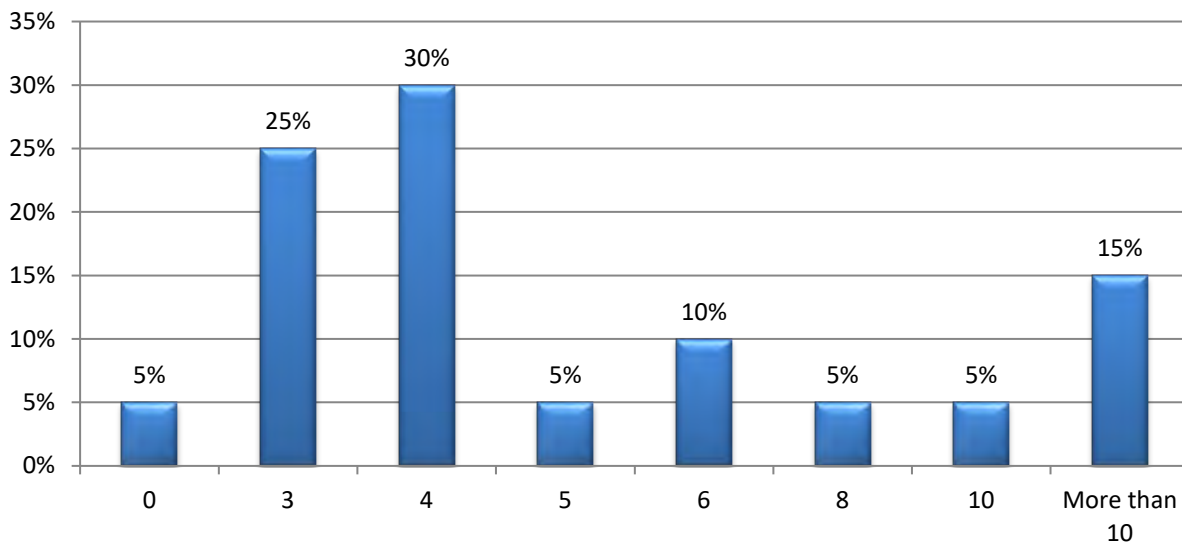
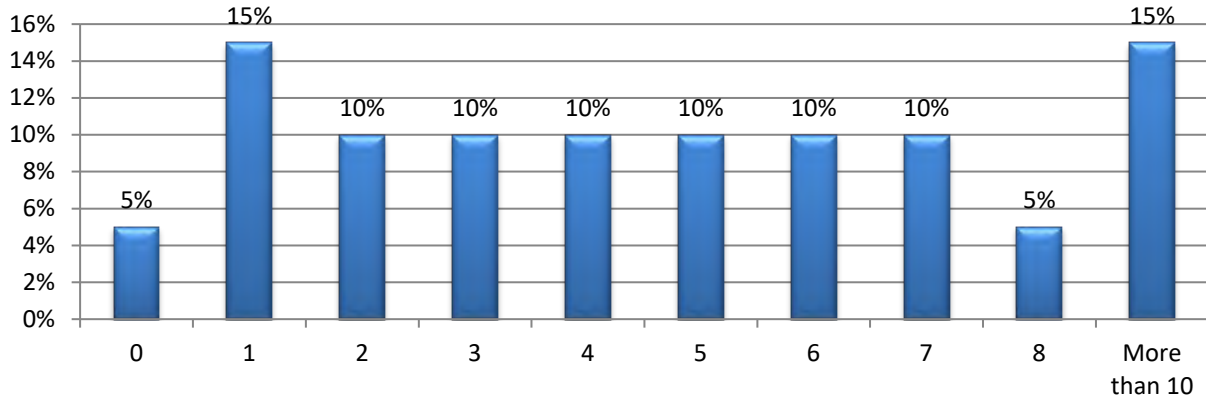


Figure 28. Number of Follow-on Investments Made in the Last 12 Months



Approximately 15% of respondents plan to make 10 investments or more over the next 12 months.

Figure 29. Number of Total Investments Planned over the Next 12 Months

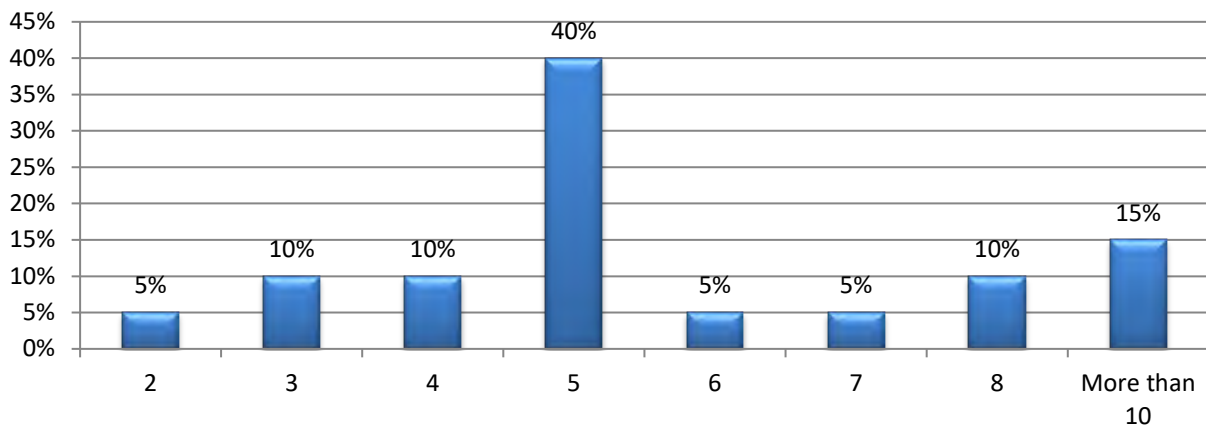
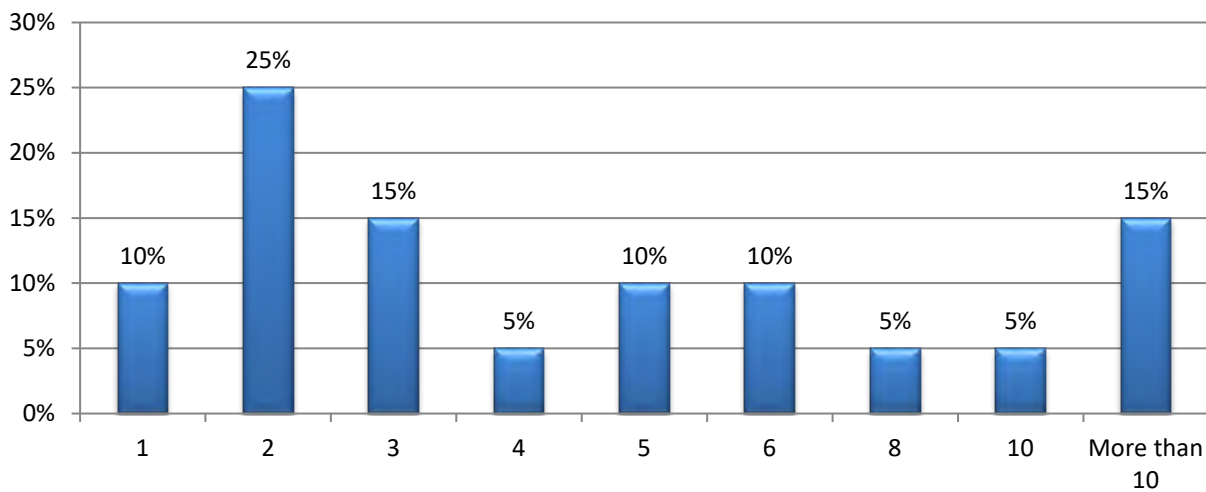
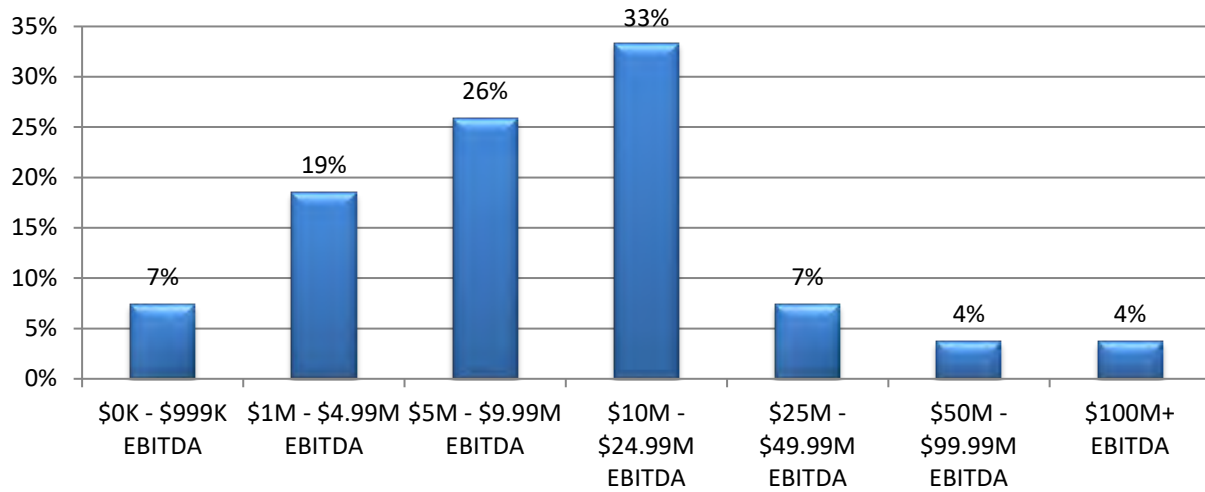


Figure 30. Number of Follow-on Investments Planned over the Next 12 Months



Approximately 78% of sponsored deals were in the range between \$1 million and \$25 million of EBITDA.

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



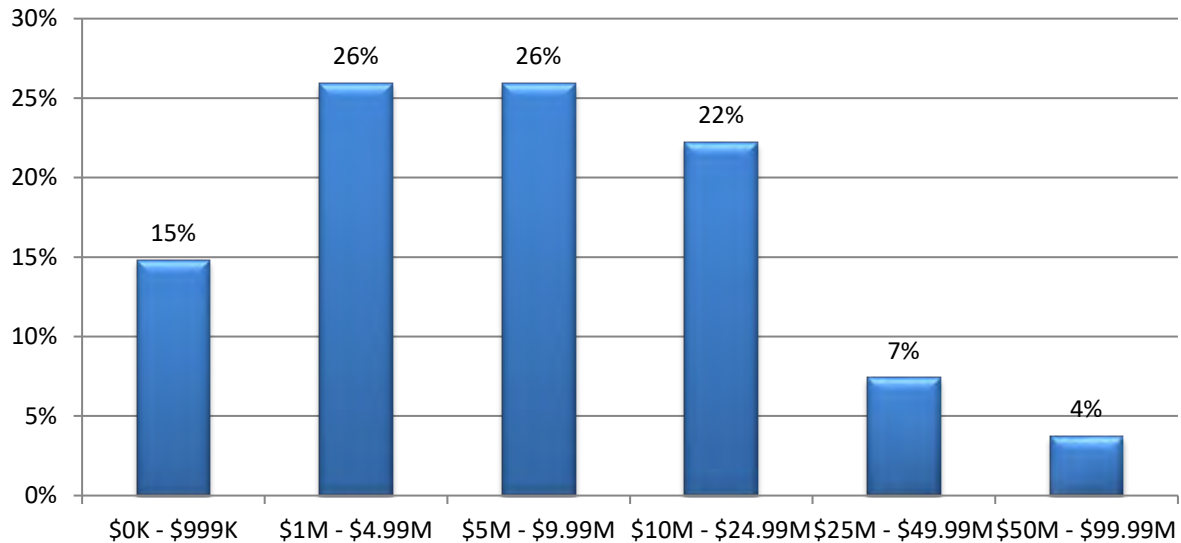
Results of responses to sponsored deals based on size of borrower EBITDA are reported below.

Table 21. Sponsored Deals by EBITDA Size (medians)

EBITDA size	\$0 - 0.99M	\$1M - \$4.99M	\$5M - \$9.99M	\$10M - \$24.99M	\$25M - \$49.99
Number of deals	2	18	25	14	4
Average loan terms (years)	5.8	5.5	5.0	5.0	1.5
Senior leverage ratio (multiple of EBITDA)	4.0	3.3	3.0	2.5	2.0
Total leverage ratio (multiple of EBITDA)	4.8	4.0	4.0	3.5	3.5
Closing fee (%)	2%	2.0%	2%	2%	2%
Cash interest rate	12%	12%	12%	11.5%	10%
PIK	2.5%	2%	1%	0%	0%
Warrants (% of FDC)	1%	0.5%	0%	0%	0%
Total expected returns (gross cash on pre-tax IRR)	30%	17%	15%	14.5%	13%

Approximately 74% of non-sponsored deals were in the range between \$1 million and \$25 million of EBITDA.

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



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

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

EBITDA size	\$0K - \$999K	\$1M - \$4.99M	\$5M - \$9.99M	\$10M - \$24.99M	\$25M - \$49.99M	\$50M - \$99.99M
Number of deals	12	24	19	10	3	1
Average loan terms (years)	5	5	5	5	4.5	3
Senior leverage ratio (multiple of EBITDA)	3.8	2.5	2.0	2.0	1.8	1.5
Total leverage ratio (multiple of EBITDA)	4.5	4.0	3.8	3.5	3.5	3.5
Commitment fee (%)	0%	0%	0%	1%	0%	0%
Closing fee (%)	4%	4%	4%	4%	4%	2.8%
Cash interest rate	12.0%	12%	12%	12%	12%	11%
PIK	2.0%	1.5%	1%	1%	1%	0%
Warrants (% of FDC)	8%	6%	5%	4%	2%	1%
Total expected returns (gross cash on pre-tax IRR)	25%	18.5%	17.5%	17%	16%	15%

Acquisition loan was reported by 30% of respondents as a motivation to secure mezzanine funding, followed by working capital fluctuations (30%) and financial growth (21%).

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

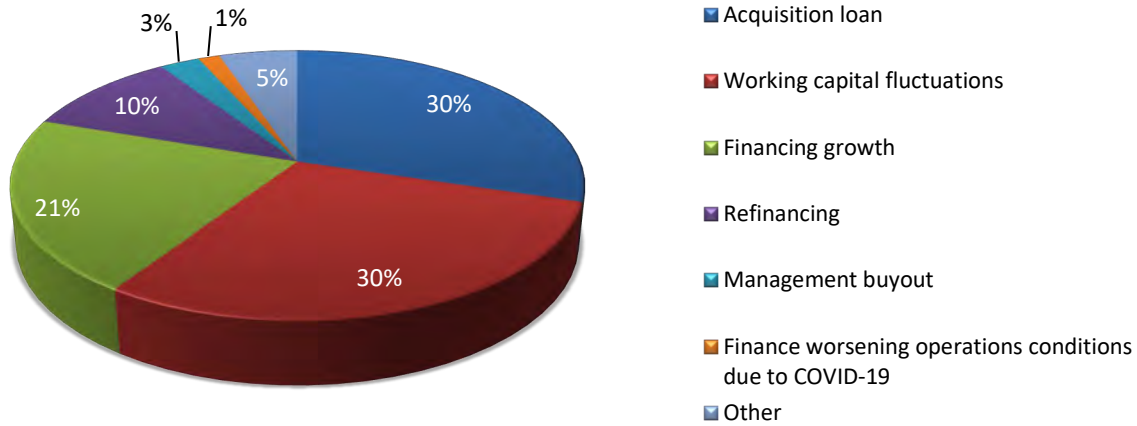
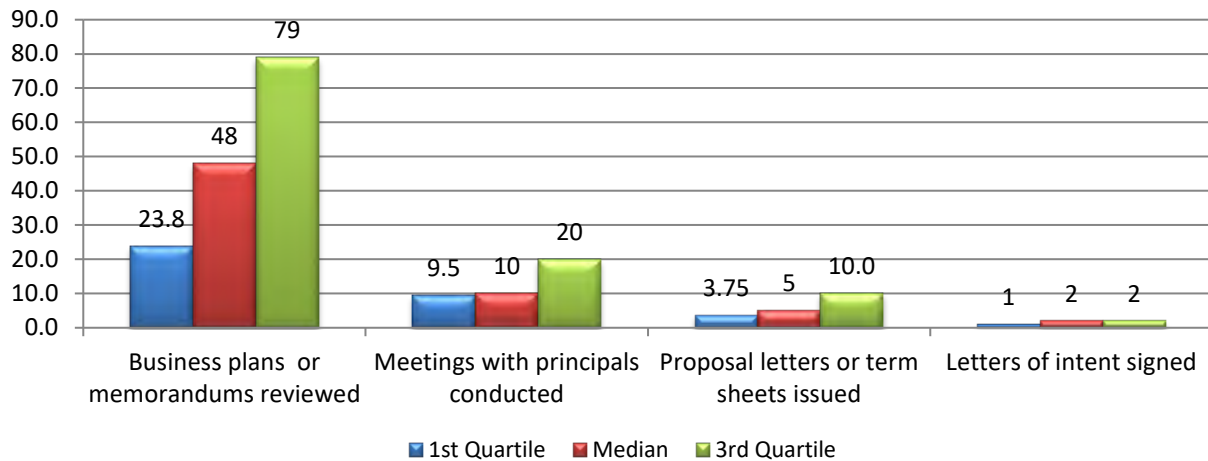


Figure 34. Items Required to Close One Deal



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

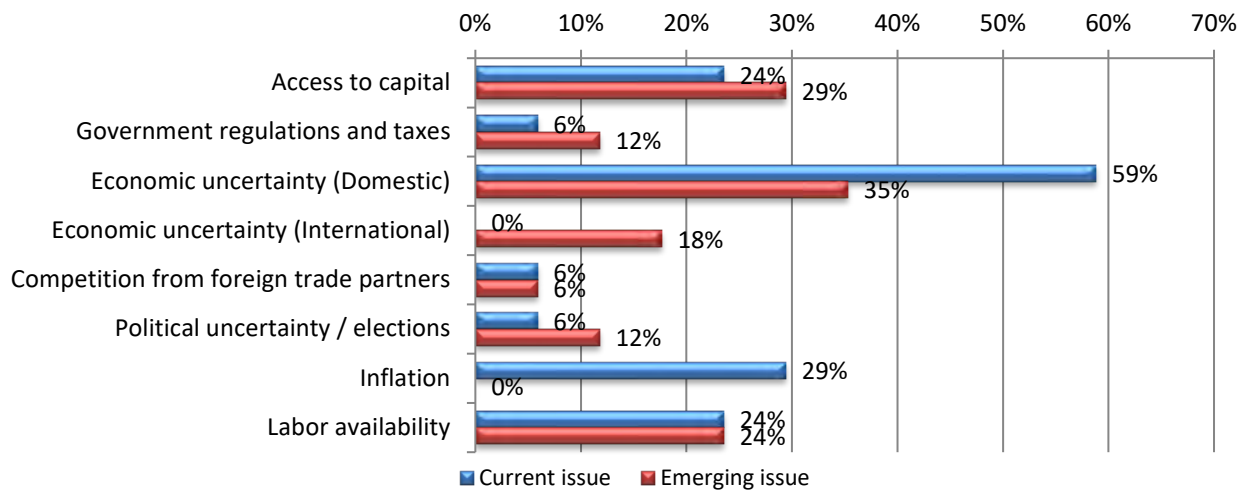
Table 23. Importance of Financial Evaluation Metrics

	Unimportant	Of little importance	Moderately important	Important	Very important	Score
Senior DSCR or FCC ratio	13%	19%	13%	38%	19%	3.3
Total DSCR or FCC ratio	6%	6%	0%	41%	47%	4.2
Senior debt to cash flow ratio	6%	31%	6%	44%	13%	3.3
Total debt to cash flow ratio	0%	0%	18%	18%	65%	4.5

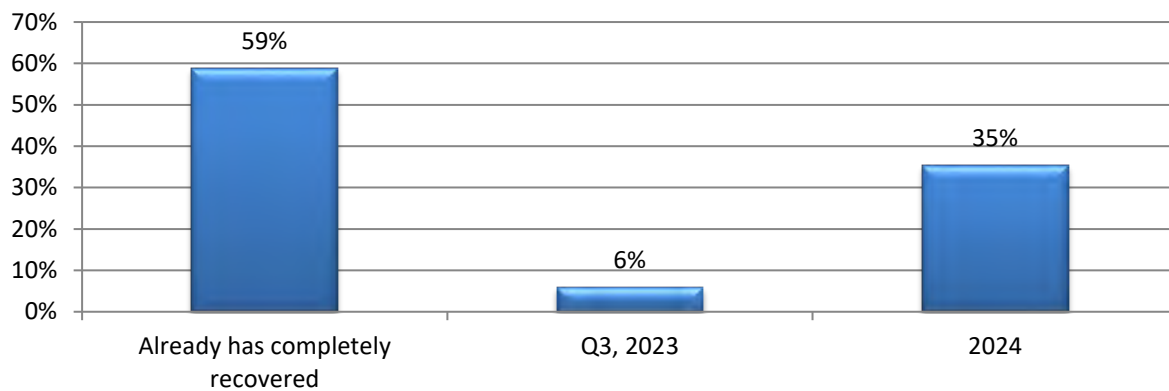
Table 24. Financial Evaluation Metrics Average Data

	Average borrower data	Limit not to be exceeded
Senior DSCR or FCC ratio	1.6	1.3
Total DSCR or FCC ratio	1.5	1.2
Senior debt to cash flow ratio	1.8	2.0
Total debt to cash flow ratio	2.4	2.6

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

Figure 50. Issues Facing Privately-Held Businesses


Approximately 59% of respondents believe mezzanine financing has already returned to pre-March 2020 level.

Figure 35. When Mezzanine Financing Returns to Pre-March 2020 Level


MEZZANINE cont.

Relative to 12 months ago, respondents indicated increased demand for mezzanine capital and average investment size. 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	0%	6%	18%	18%	59%	76%	6%	71%
Credit quality of borrowers seeking investment	0%	29%	41%	29%	0%	29%	29%	0%
Average investment size	0%	6%	41%	53%	0%	53%	6%	47%
Average investment maturity (months)	0%	6%	82%	12%	0%	12%	6%	6%
General underwriting standards	0%	0%	29%	53%	18%	71%	0%	71%
Warrant coverage	0%	0%	10%	80%	10%	90%	0%	90%
PIK features	0%	0%	41%	47%	12%	59%	0%	59%
Loan fees	0%	0%	76%	24%	0%	24%	0%	24%
Leverage multiples	0%	59%	24%	18%	0%	18%	59%	-41%
Expected returns on new investments	0%	0%	35%	47%	18%	65%	0%	65%
General business conditions	12%	59%	18%	12%	0%	12%	71%	-59%
Appetite for risk	12%	59%	12%	18%	0%	18%	71%	-53%

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

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%	6%	6%	29%	59%	88%	6%	82%
Credit quality of borrowers seeking investment	12%	41%	29%	12%	6%	18%	53%	-35%
Average investment size	0%	24%	29%	47%	0%	47%	24%	24%
Average investment maturity (months)	0%	6%	82%	12%	0%	12%	6%	6%
General underwriting standards	0%	0%	18%	59%	24%	82%	0%	82%
Warrant coverage	0%	0%	17%	67%	17%	83%	0%	83%
PIK features	0%	0%	24%	53%	24%	76%	0%	76%
Loan fees	0%	0%	76%	24%	0%	24%	0%	24%
Leverage multiples	0%	50%	38%	13%	0%	13%	50%	-38%
Expected returns on new investments	0%	0%	35%	47%	18%	65%	0%	65%
General business conditions	24%	59%	18%	0%	0%	0%	82%	-82%
Size of mezzanine industry	0%	6%	53%	41%	0%	41%	6%	35%
Appetite for risk	12%	59%	24%	6%	0%	6%	71%	-65%

MOST FUNDABLE COMPANIES LIST

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INVESTMENT BANKER SURVEY INFORMATION

Approximately 34% of the 138 respondents to the investment banker survey indicated decreasing presence of strategic buyers making deals over the last twelve months. They also reported decreases in deal flow, leverage and deal multiples, and worsened general business conditions. Domestic economic uncertainty and labor availability were identified as the most important current issues facing privately-held businesses, following by inflation. Domestic economic uncertainty was also identified as the most important emerging issue.

Other key findings include:

- Approximately 30% of respondents expect to close ten or more deals in the next 12 months.
- The top three reasons for deals not closing were valuation gap in pricing (29%), no market for business (20%), and COVID-19 pandemic (13%).
- Respondents indicated a general balance between companies worthy of financing and capital available for the same. There is a reported shortage of capital for those companies with less than \$5 million in EBITDA, but a general surplus for companies with \$5 million in EBITDA or more.
- The most popular valuation methods used by respondents when valuing privately-held businesses were discounted future earnings, guideline company transactions and capitalization earnings methods.
- 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 (73%), revenue multiple (10%) and EBITDA (unadjusted) multiple (8%) approaches.

Operational and Assessment Characteristics

Approximately 8% of the respondents didn't close any deals in the last twelve months; 58% closed between one and five deals, while 34% closed six deals or more.

Figure 36. Private Business Sales Transactions Closed in the Last 12 Months

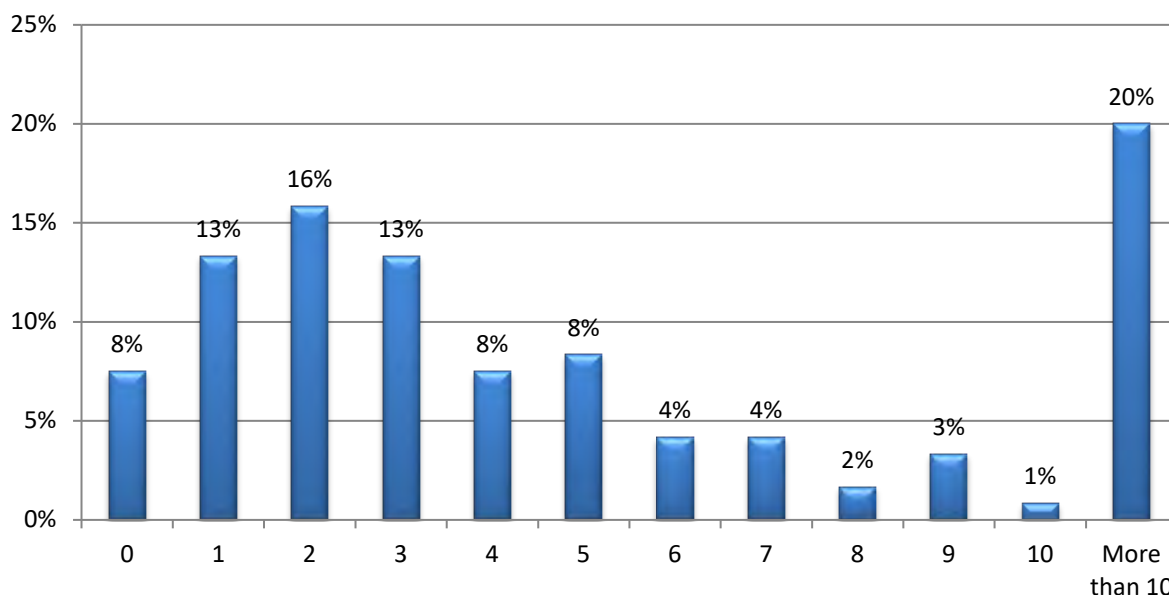
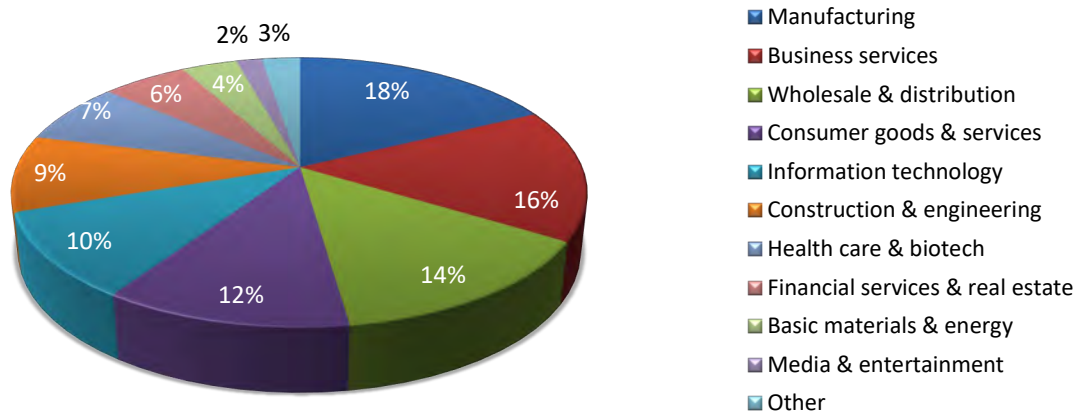
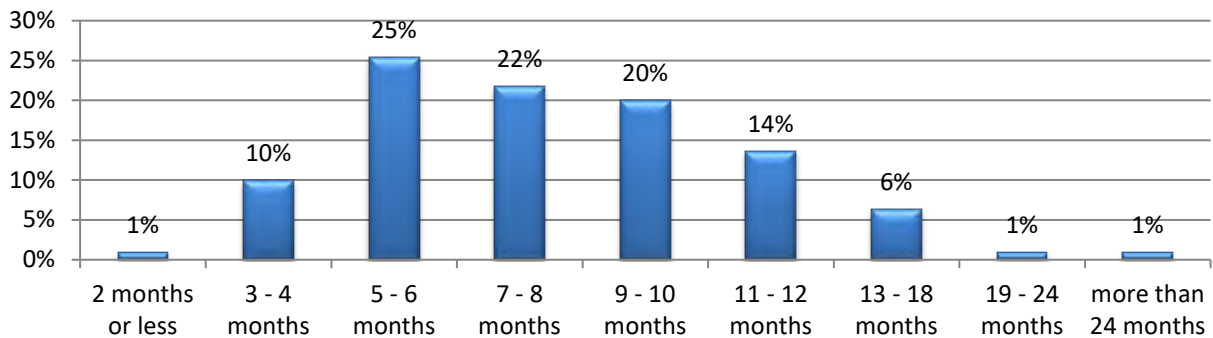


Figure 37. Business Types That Were Involved in the Transactions Closed in the Last 12 Months



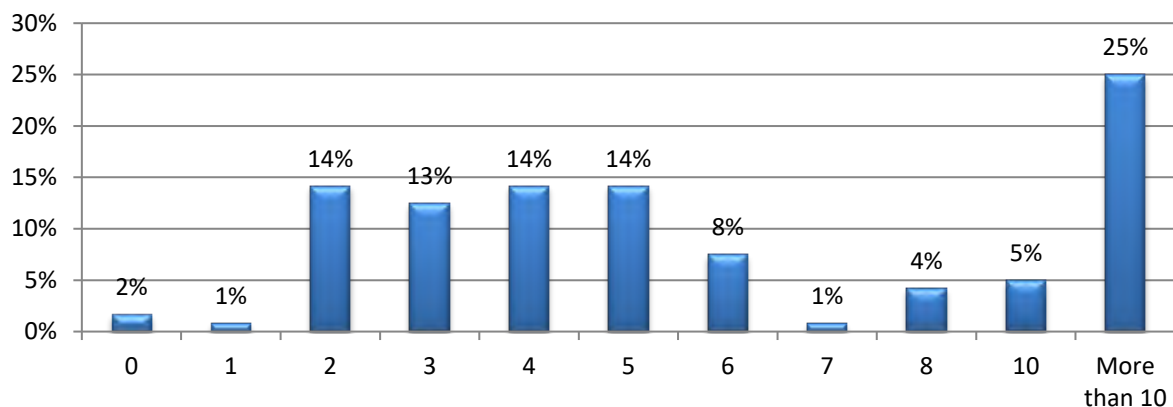
The majority of deals (81%) took 5 to 12 months to close. 8% of closed deals took more than one year to close.

Figure 38. Average Number of Months to Close One Deal



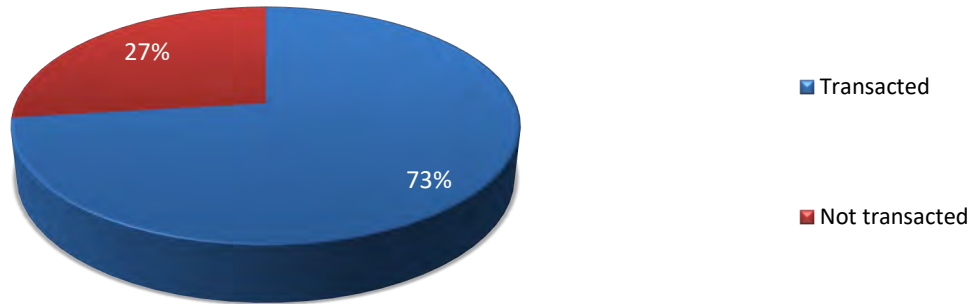
Nearly 57% of respondents expect to close between two and four deals, while 48% expect to close 5 deals or more.

Figure 39. Private Business Transactions Expected to Close in the Next 12 Months



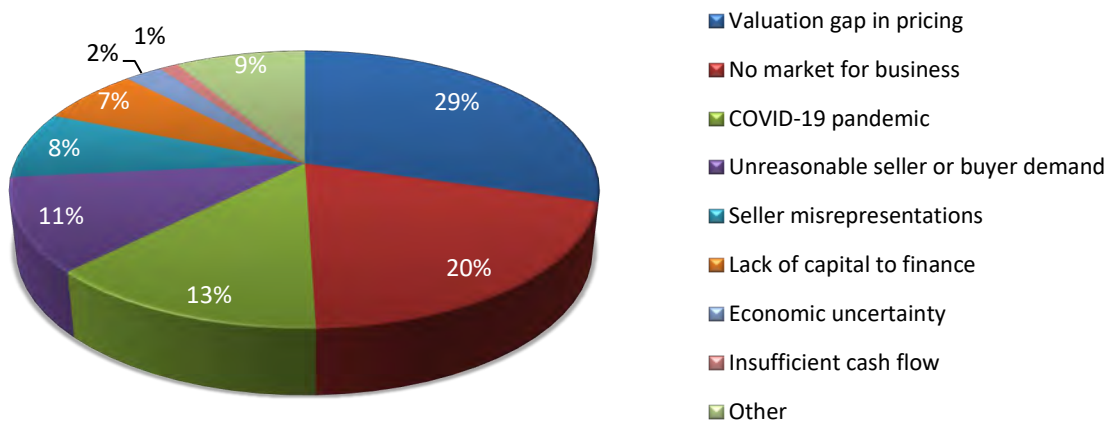
Approximately 27% of deals terminated without transacting over the past year.

Figure 40. Percentage of Business Sales Engagements Terminated Without Transacting



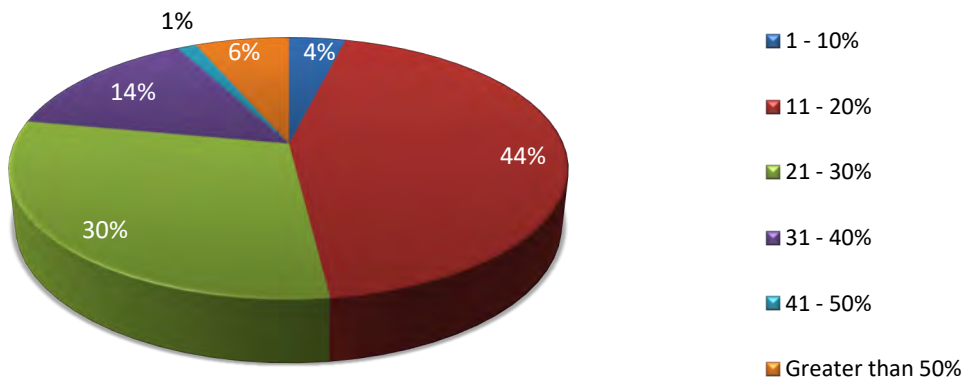
The top three reasons for deals not closing were valuation gap in pricing (29%), no market for business (20%), and COVID-19 pandemic (13%).

Figure 41. Reasons for Business Sales Engagements Not Transacting



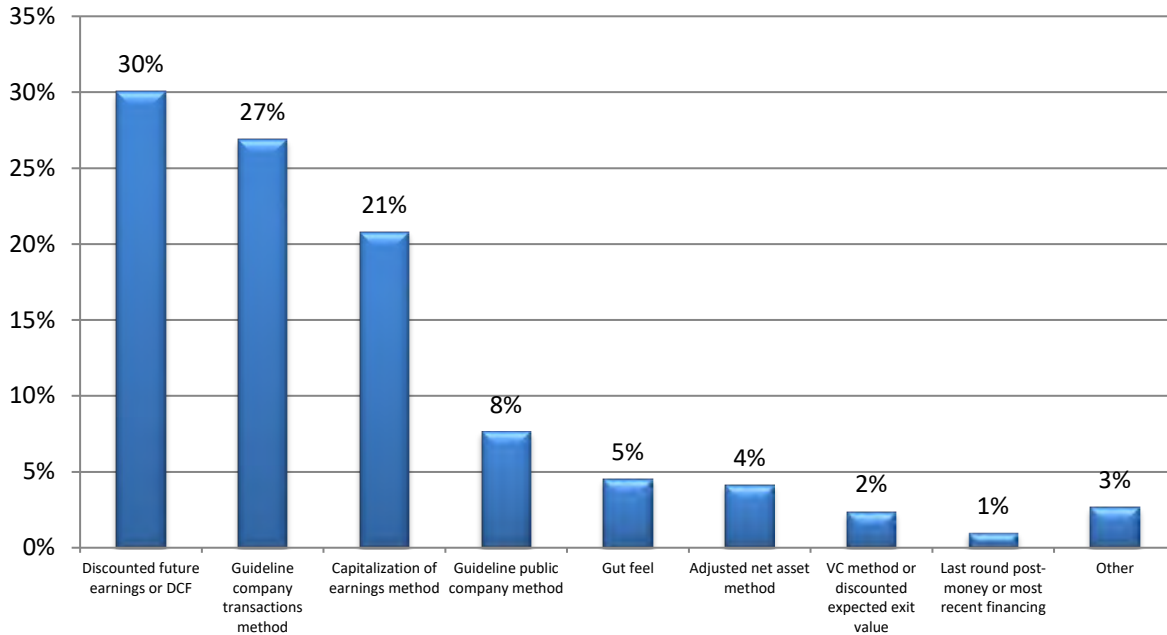
Of those transactions that didn't close due to a valuation gap in pricing, approximately 74% had a valuation gap in pricing between 11% and 30%.

Figure 42. Valuation Gap in Pricing for Transactions That Didn't Close



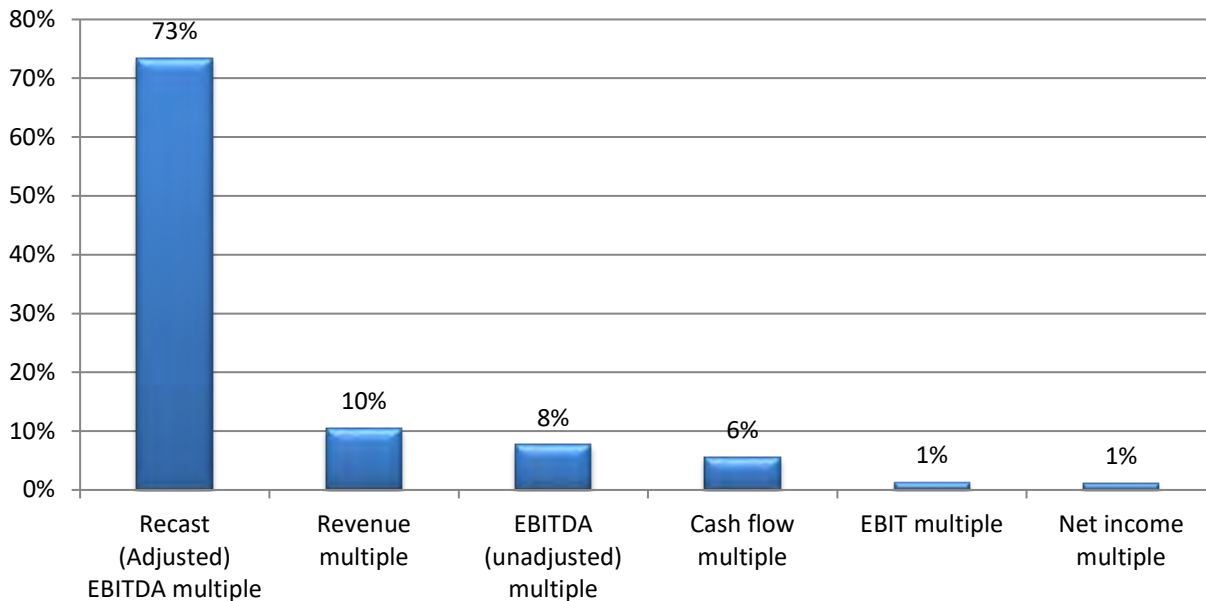
The weights of the various valuation methods used by respondents when valuing privately-held businesses included 30% for discounted future earnings method.

Figure 43. Usage of Valuation Methods



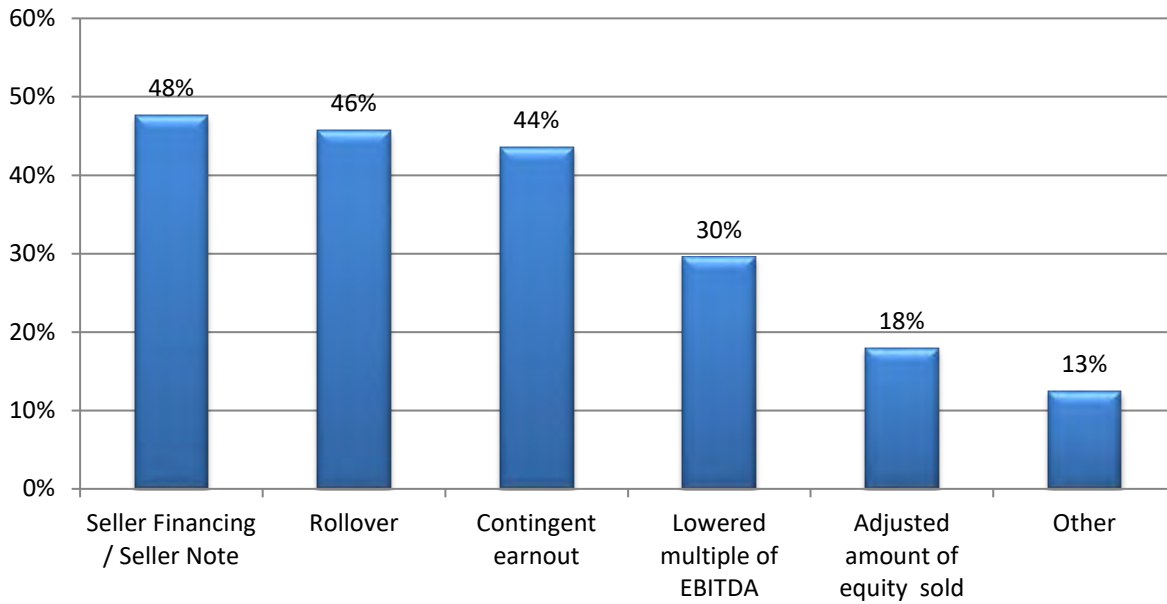
The most popular multiple method used by respondents when valuing privately-held businesses is the recast (adjusted) EBITDA multiple method, utilized by 73% of respondents.

Figure 44. Usage of Multiple Methods



Approximately 48% of business sales transactions closed in the last 12 months involved seller financing/ seller note.

Figure 45. Components of Closed Deals



Average deal multiples on transactions from the prior twelve months as observed by respondents varied from 4.3 to more than 10.0.

Table 27. Median Deal Multiples by EBITDA Size of Company

EBITDA	Manufact.	Construction & engineering	Consumer goods & services	Wholesale & distrib.	Biz. services	Basic materials	Healthcare & biotech	Inform. technology	Fin. services	Media & entert.	Avg.
\$0K - \$999K EBITDA	4.3	4.0	4.0	4.0	5.0	4.0	4.8	6.0	5.0	4.5	4.6
\$1M - \$4.99M EBITDA	5.0	4.8	5.5	5.0	6.0	5.3	7.0	6.0	7.0	6.8	5.8
\$5M - \$9.99M EBITDA	6.0	6.0	6.0	6.0	6.8	6.0	7.3	6.0	7.0	6.5	6.4
\$10M - \$24.99M EBITDA	7.5	6.0	6.0	6.0	8.5	6.0	8.0	7.5	8.0	7.0	7.1
\$25M - \$49.99M EBITDA	9.5	7.0	6.8	8.3	9.3	n/a	8.3	8.0	8.5	8.0	8.2
\$50M+ EBITDA	10.0	8.0	8.0	>10	>10	8.5	9.0	9.5	8.8	8.0	8.7

Average total leverage multiples observed by respondents varied from 1.0 to 10.0.

Table 28. Median Total Leverage Multiples by Size of Company

EBITDA	Manufact.	Construction & engineering	Consumer goods & services	Wholesale & distrib.	Biz. services	Basic materials	Healthcare & biotech	Inform. technology	Fin. services	Media & entert.	Avg.
\$0K - \$999K EBITDA	3.3	2.8	3.0	2.5	3.3	2.0	3.5	3.0	1.0	3.0	2.7
\$1M - \$4.99M EBITDA	4.0	4.0	3.0	3.5	4.0	3.0	4.0	4.0	1.0	-	3.4
\$5M - \$9.99M EBITDA	4.5	4.5	4.0	4.0	4.0	4.8	5.0	4.5	1.0	-	4.0
\$10M - \$24.99M EBITDA	4.8	5.0	5.0	4.5	4.8	-	5.3	5.3	1.0	-	4.4
\$25M - \$49.99M EBITDA	7.0	6.0	5.0	5.3	6.3	n/a	6.5	-	2.5	3.5	5.3
\$50M+ EBITDA	10.0	-	5.0	5.0	-	9.5	8.3	5.0	3.5	-	6.6

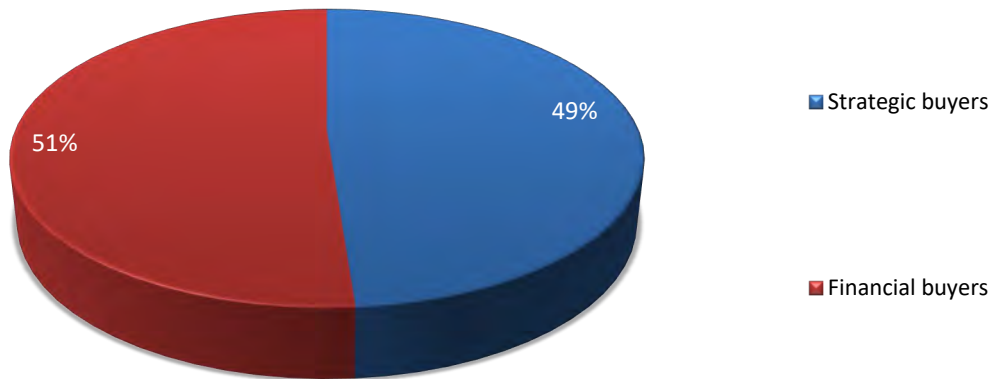
Average senior leverage multiples observed by respondents varied from 2.2 to 5.9.

Table 29. Median Senior Leverage Multiples by Size of Company

EBITDA	Manufact.	Construction & engineering	Consumer goods & services	Wholesale & distrib.	Biz. services	Basic materials	Healthcare & biotech	Inform. technology	Fin. services	Media & entert.	Avg.
\$0K - \$999K EBITDA	2.0	2.0	2.5	2.5	2.5	-	2.5	2.8	1.0	-	2.2
\$1M - \$4.99M EBITDA	3.0	2.3	2.5	2.5	2.5	1.5	3.0	3.0	1.0	2.0	2.3
\$5M - \$9.99M EBITDA	3.0	2.5	3.0	3.3	3.0	4.5	3.5	4.0	1.0	2.5	3.0
\$10M - \$24.99M EBITDA	3.0	2.8	3.5	3.5	3.5	-	3.5	4.0	2.0	-	3.2
\$25M - \$49.99M EBITDA	5.0	3.0	4.0	5.0	4.0	-	6.5	-	3.0	6.5	4.6
\$50M+ EBITDA	5.5	-	5.0	5.0	-	7.5	8.0	6.0	4.5	-	5.9

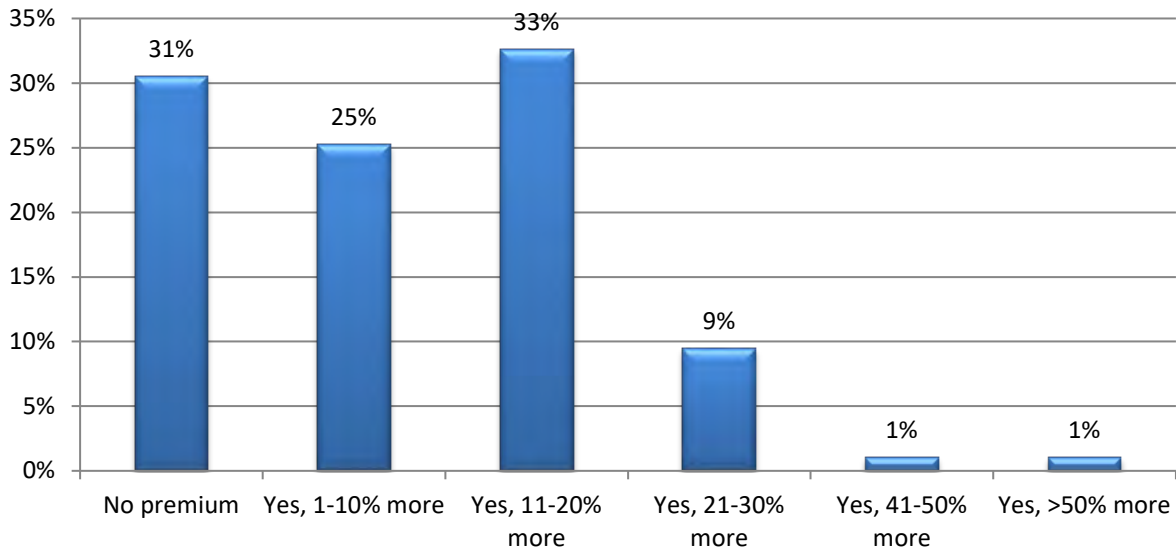
Approximately 49% of closed business sales transactions over the past 12 months involved strategic buyers.

Figure 46. Percent of Transactions Involved Strategic and Financial Buyers



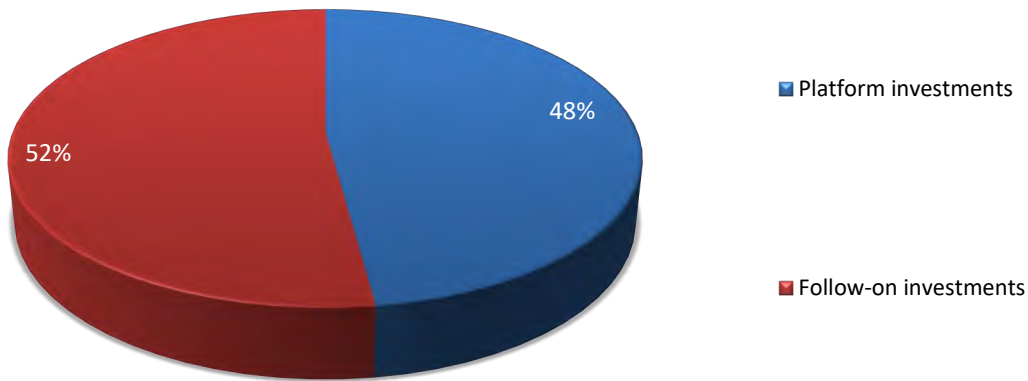
Approximately 31% of respondents did not witness any premium paid by strategic buyers, while 58% saw premiums between 1% and 20%.

Figure 47. Premium Paid by Strategic Buyers Relative to Financial Buyers



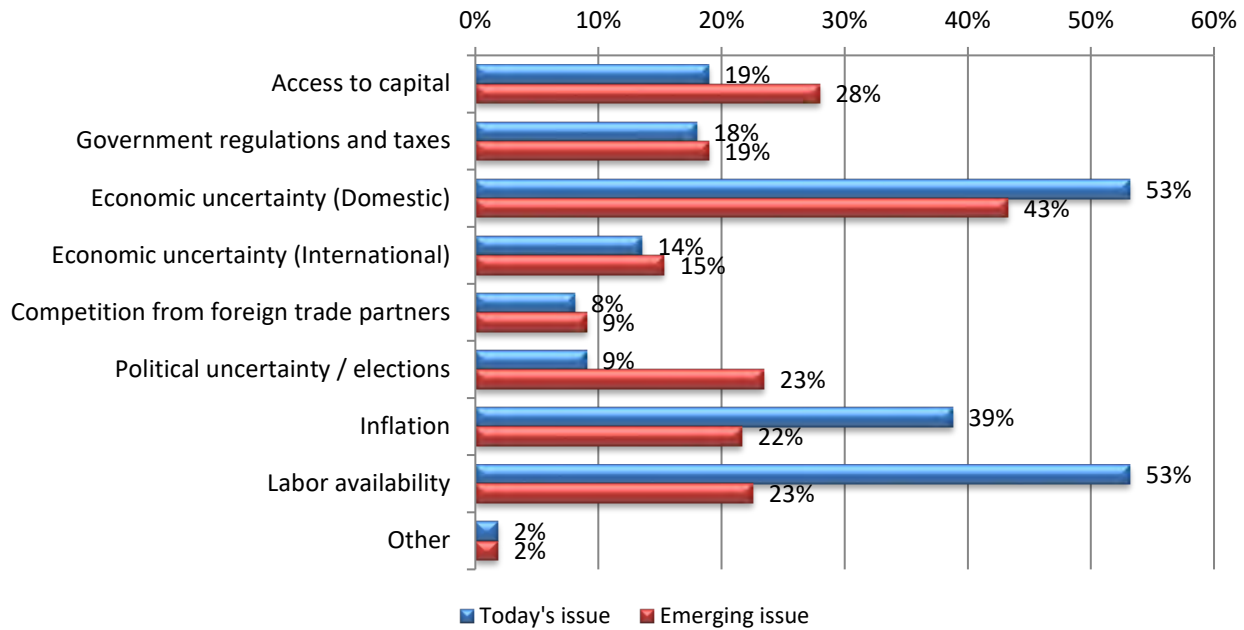
Approximately 48% of closed business sales transactions were platform investments.

Figure 48. Percent of Transactions Involved Platform Investments



Respondents believe domestic economic uncertainty and labor availability are the most important current issues facing privately-held businesses.

Figure 49. Issues Facing Privately-Held Businesses



INVESTMENT BANKER cont.

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 \$5 million in EBITDA but a general surplus for companies with \$5 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	23%	26%	31%	16%	4%	-0.5
\$1M - \$4.99M EBITDA	8%	21%	46%	22%	4%	-0.1
\$5M - \$9.99M EBITDA	4%	20%	42%	25%	9%	0.2
\$10M - \$24.99M EBITDA	1%	13%	41%	31%	13%	0.4
\$25M - \$49.99M EBITDA	4%	10%	29%	35%	21%	0.6
\$50M - \$99.99M EBITDA	2%	10%	31%	29%	29%	0.7
\$100M+ EBITDA	2%	7%	32%	24%	34%	0.8

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

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

EBITDA	Extremely difficult	Difficult	Somewhat difficult	Neutral	Somewhat easy	Easy	Extremely easy	Score
\$1M EBITDA	20%	18%	13%	20%	13%	11%	4%	-0.6
\$5M EBITDA	2%	18%	15%	21%	29%	14%	2%	0.0
\$10M EBITDA	2%	6%	11%	26%	32%	17%	6%	0.5
\$15M EBITDA	3%	8%	18%	13%	23%	20%	18%	0.8
\$25M EBITDA	12%	12%	6%	12%	12%	24%	24%	0.6
\$50M EBITDA	14%	0%	7%	29%	0%	29%	21%	0.7
\$100M+ EBITDA	0%	0%	10%	10%	10%	10%	60%	2.0

Approximately 34% of respondents to the investment banker survey indicated decreasing presence of strategic buyers making deals over the last twelve months. They also reported decreases in deal flow, leverage and deal multiples, and worsened 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	6%	31%	38%	20%	4%	25%	37%	-12%
Leverage multiples	9%	50%	33%	8%	0%	8%	59%	-51%
Deal multiples	8%	51%	32%	7%	1%	8%	59%	-51%
Amount of time to sell business	1%	5%	38%	42%	13%	55%	6%	49%
Difficulty financing/selling business	1%	4%	32%	54%	10%	64%	5%	59%
General business conditions	11%	48%	28%	12%	1%	13%	58%	-45%
Strategic buyers making deals	5%	29%	50%	16%	1%	17%	34%	-17%
Margin pressure on companies	1%	9%	24%	53%	13%	66%	10%	56%
Buyer interest in minority transactions	14%	14%	63%	10%	0%	10%	27%	-17%

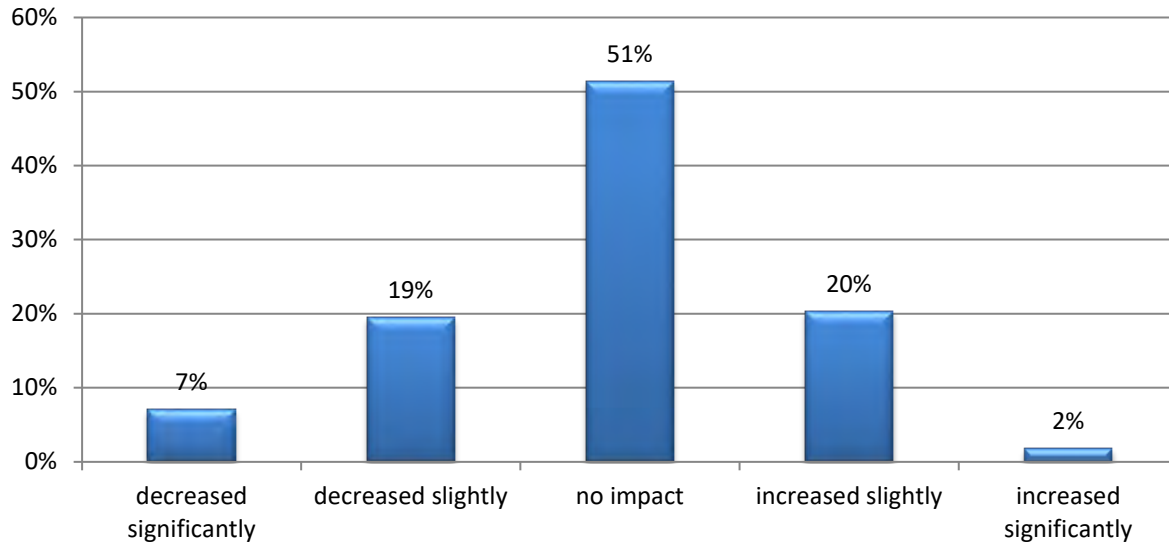
During the next twelve months, respondents expect further decreases in leverage multiples, percentage of strategic buyers making deals, and worsening general business conditions.

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

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	Net increase/decrease
Deal flow	2%	27%	37%	25%	9%	34%	29%	5%
Leverage multiples	8%	46%	36%	9%	0%	9%	55%	-45%
Deal multiples	5%	51%	39%	5%	0%	5%	56%	-51%
Amount of time to sell business	0%	5%	37%	51%	7%	59%	5%	54%
Difficulty financing/selling business	0%	10%	28%	50%	11%	61%	10%	51%
General business conditions	5%	50%	28%	15%	2%	17%	55%	-38%
Strategic buyers making deals	1%	24%	53%	18%	4%	21%	25%	-4%
Margin pressure on companies	2%	6%	38%	49%	5%	54%	8%	45%
Buyer interest in minority transactions	6%	19%	69%	7%	0%	7%	25%	-18%

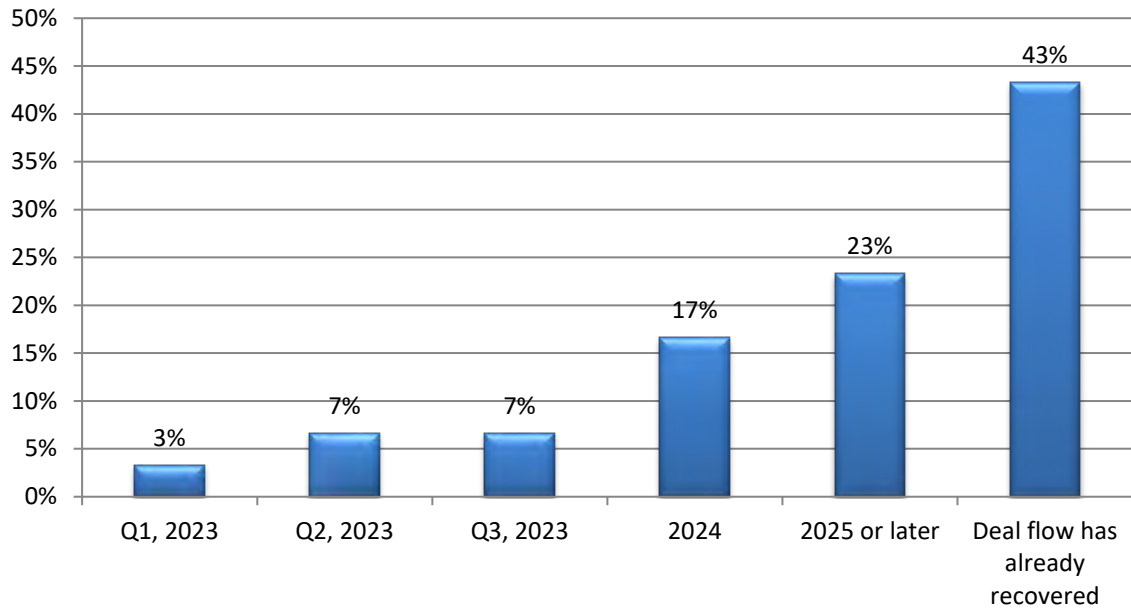
Approximately 27% of respondents indicated their deal flow decreased due to COVID-19 pandemic in 2022.

Figure 50. Level of Impact COVID-19 Pandemic Had on Respondents Deal Flow in 2022



Approximately 40% of respondents believe their deal flow will return to pre-March 2020 level in the year 2024 or later.

Figure 51. When Investment Banking Deal Flow Returns to Pre-March 2020 Level



PRIVATE EQUITY SURVEY INFORMATION

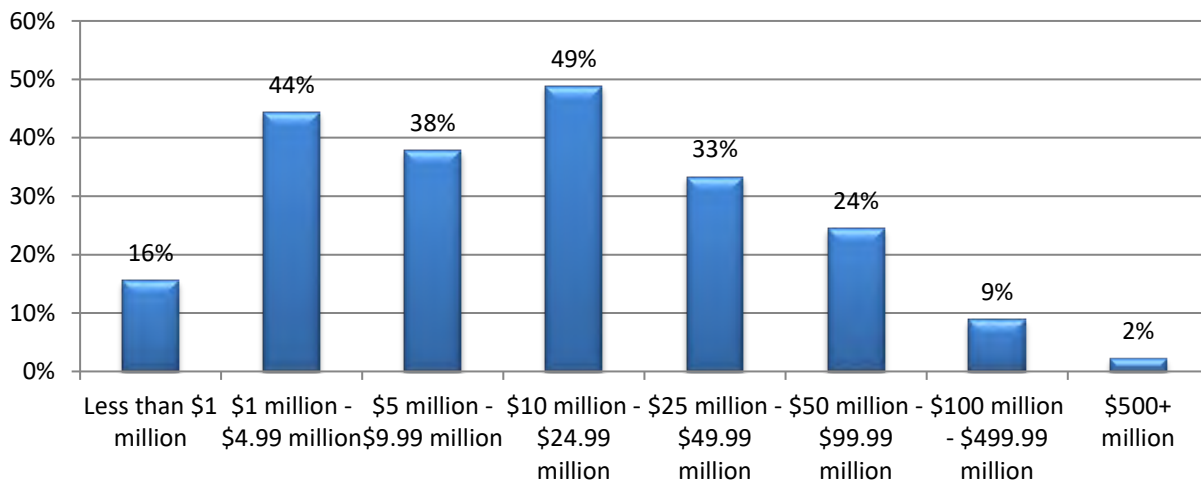
Approximately 76% of the 58 participants who responded to the private equity group survey indicated that they make investments in the \$1 million to \$25 million range. 29% of respondents said that demand for private equity is up from twelve months ago, this is down from 61% of respondents indicating increased demand in 2021. Other key findings include:

- Respondents indicated decreased quality of companies seeking investment. They also reported decrease in expected returns on new investments, worsened general business conditions and decreased deal multiples.
- Respondents expect further increases in demand for private equity, decreasing deal multiples and value of portfolio companies, and worsening general business conditions.
- The types of businesses respondents plan to invest in over next 12 months are very diverse with over 27% targeting manufacturing and another 19% planning to invest in business services.
- Respondents believe domestic economic uncertainty is the most important current and emerging issue facing privately-held businesses.
- The most popular valuation methods used by respondents when valuing privately-held businesses were discounted future earnings (29%) and capitalization of earnings (27%) 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 (39%) and EBITDA multiple (25%).

Operational and Assessment Characteristics

The largest concentration of checks written by investors was in the \$1 - \$50 million range.

Figure 52. Typical Investment Size



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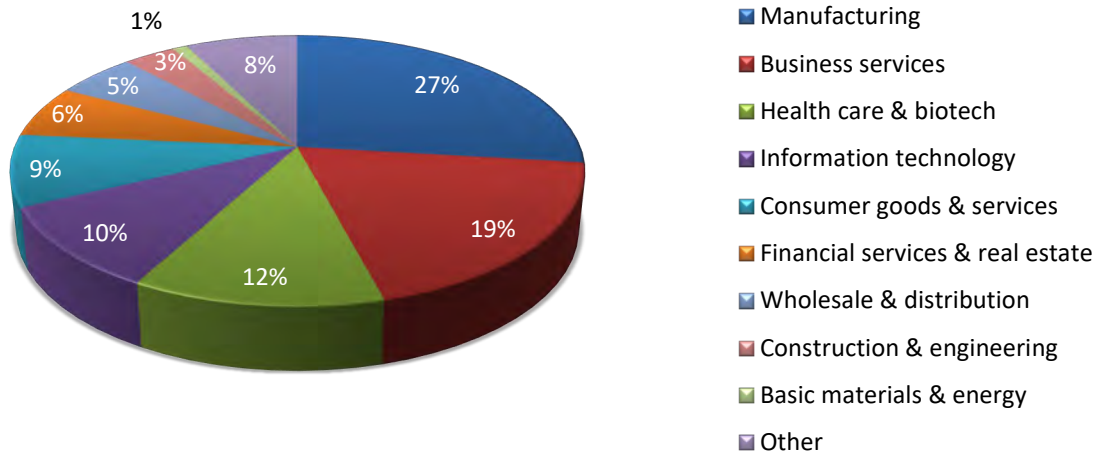
Respondents reported on business practices, and the results are reflected below.

Table 34. PEG Fund Data

	1st Quartile	Median	3rd Quartile
Vintage year (year in which first investment made)	2018	2020	2021
Size of fund (\$ millions)	21.25	75	250
Targeted number of total investments	3	8	8
Target fund return (gross pretax cash on cash annual IRR %)	20%	21%	25%
Expected fund return (gross pretax cash on cash annual IRR%)	20%	20.5%	30%

The types of businesses respondents plan to invest in over next 12 months are very diverse with nearly 27% manufacturing and another 19% planning to invest in business services.

Figure 53. Type of Business for Investments Planned over Next 12 Months



Approximately 23% of respondents didn't make any investments over the last twelve months.

Figure 54. Total Number of Investments Made in the Last 12 Months

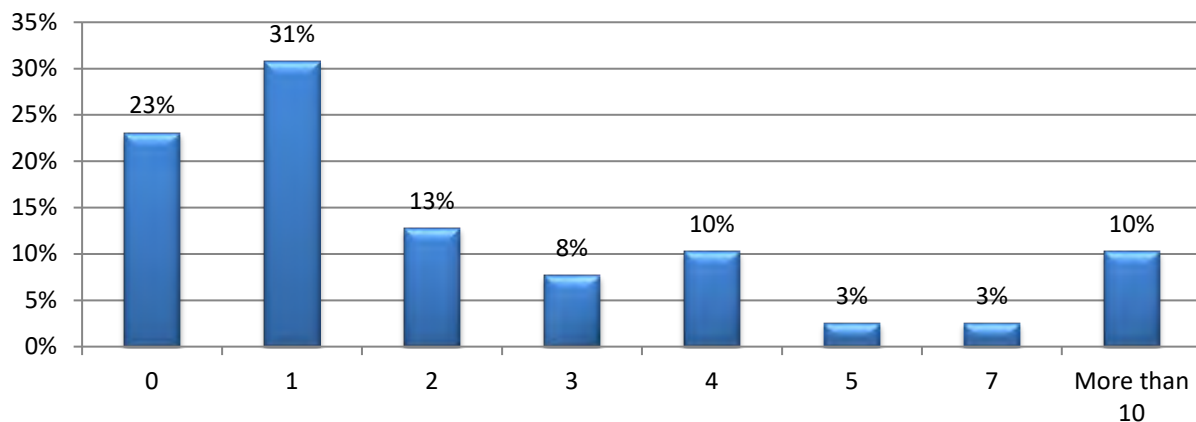
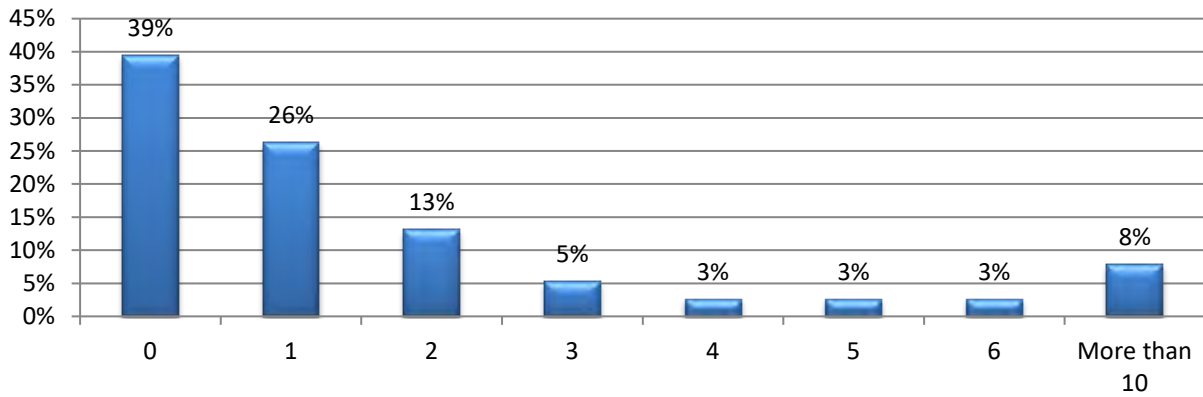


Figure 55. Number of Follow-on Investments Made in the Last 12 Months



The majority (72%) of respondents plan to make one to three investments over the next 12 months.

Figure 56. Number of Total Investments Planned over the Next 12 Months

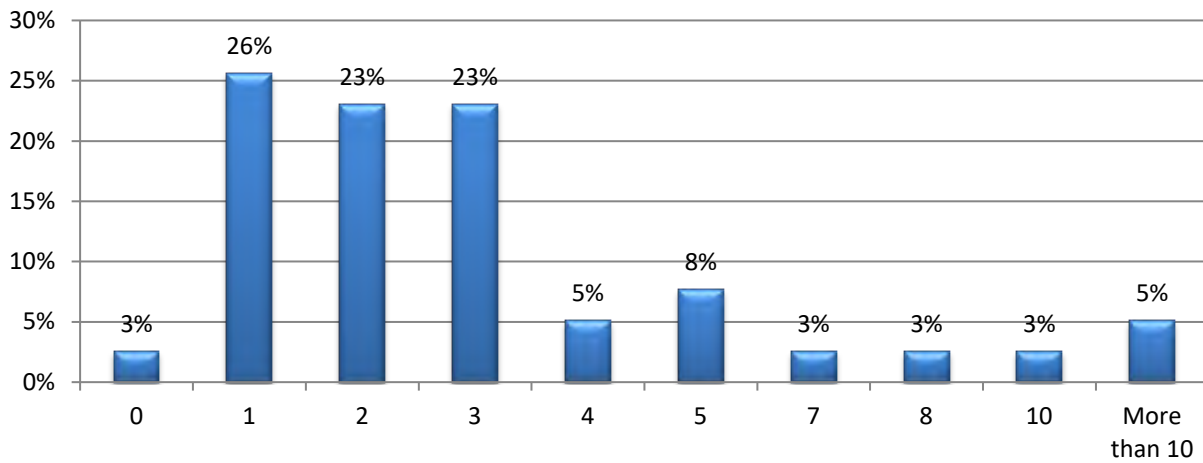
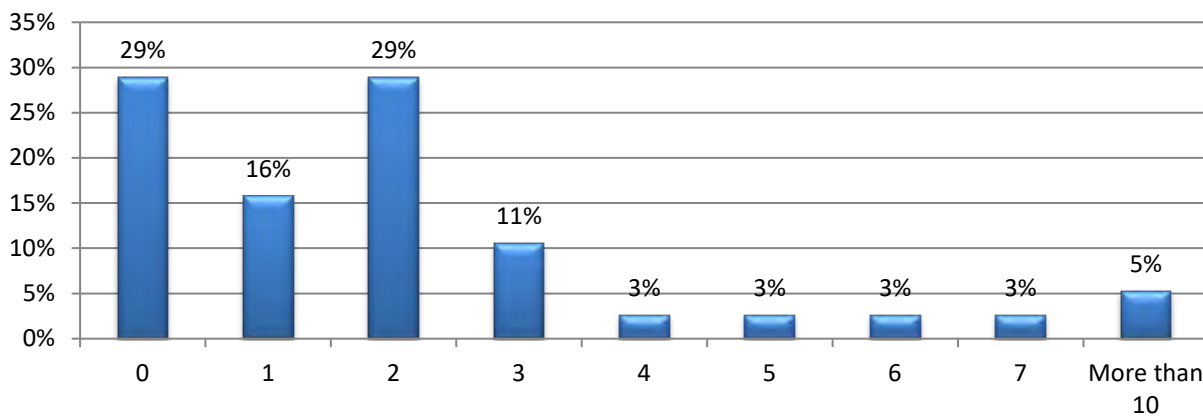
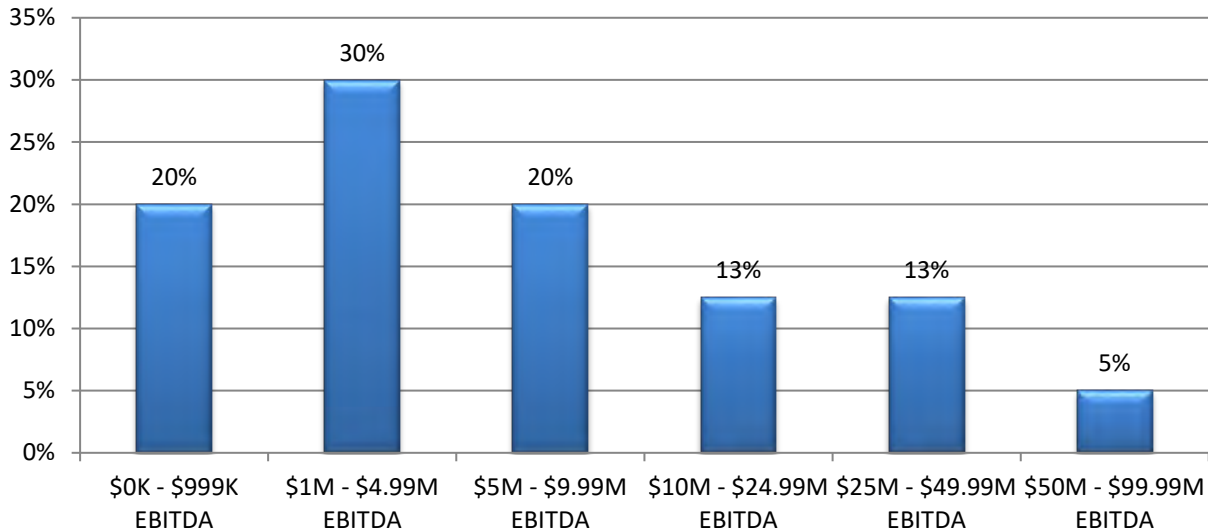


Figure 57. Number of Follow-on Investments Planned over the Next 12 Months



Approximately 30% of buyout investments were in the range between \$1 million and \$5 million of EBITDA.

Figure 58. Size of Buyout Investments in the Last 12 Months



Average deal multiples for buyout deals for the prior twelve months vary from 3.5 to 6.0 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)	17	20	16	15	15
Average size of investment (in million USD)	0.5	7.5	15	40	45
Expected time to exit (years) (median)	5	5	5	5	4.5
Equity as % of new capital structure (median)	45%	45%	45%	40%	35%
% of total equity purchased (median)	85%	75%	75%	75%	55%
Average EBITDA multiple	3.5	5.0	5.5	6.0	6.0
Average revenue multiple	1.5	1.5	2.0	2.5	2.5
Median total expected returns (gross cash on cash pre-tax IRR)	35%	30%	28%	25%	25%



2023 PRIVATE CAPITAL MARKETS REPORT

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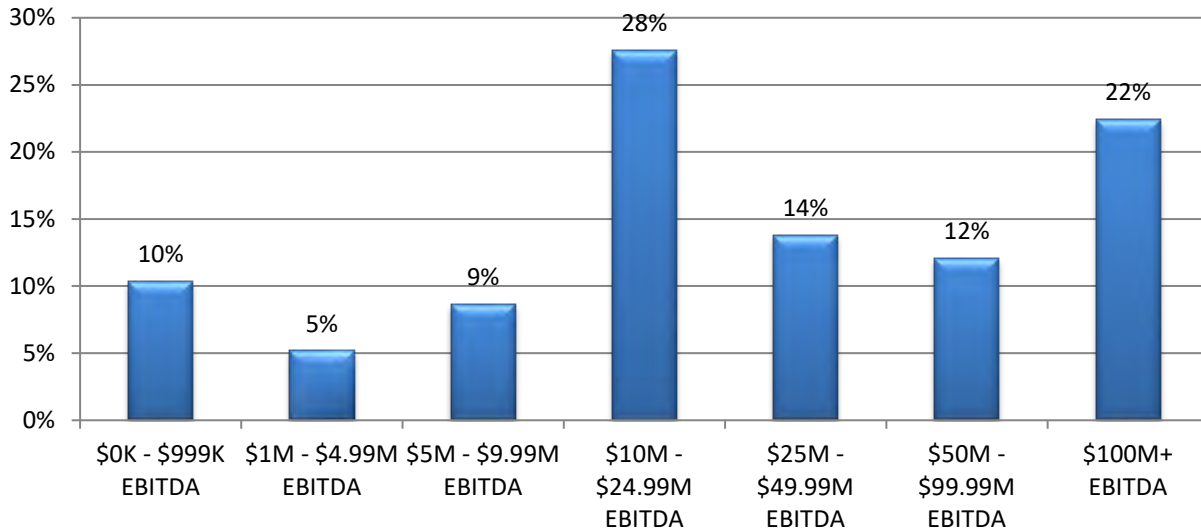
Contact: craig.everett@pepperdine.edu



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Approximately 76% of buyout investments were in the range between \$10 million and \$100+ million of EBITDA.

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



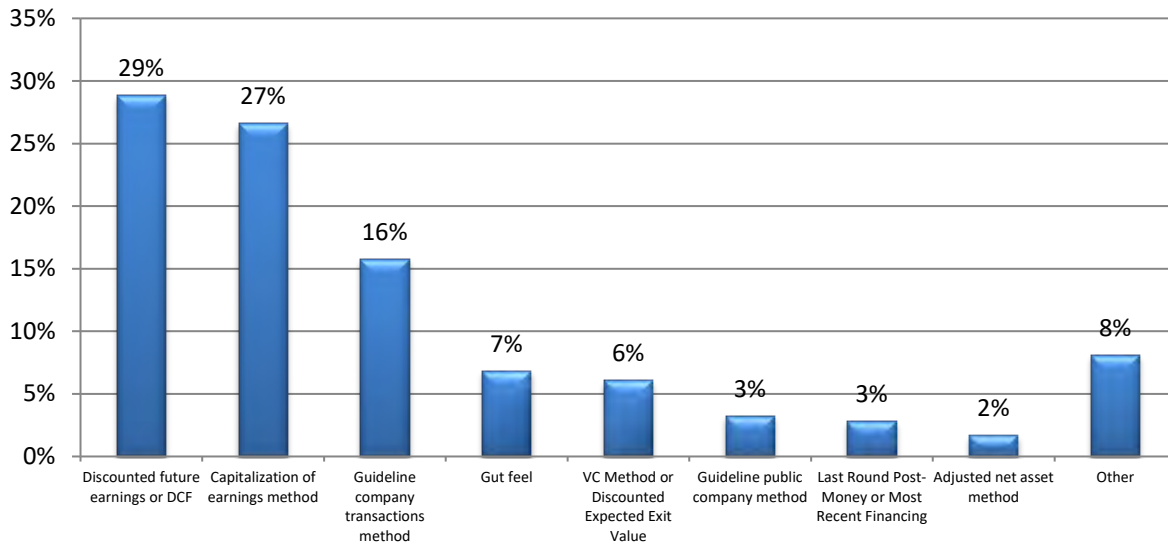
Average deal multiples for buyout deals for the prior twelve months vary from 3.0 to 5.5 times EBITDA depending on the size of the company. Expected returns vary from 17% to 33%.

Table 36. General Characteristics – Non-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	3	5	16	8
Average size of investment (in million USD)	0.5	1.5	15	15	20
Expected time to exit (years) (median)	6	5.5	4	4	2.5
Equity as % of new capital structure (median)	45%	35%	35%	25%	15%
% of total equity purchased (median)	35%	25%	25%	15%	15%
Average EBITDA multiple	3.0	3.0	3.5	4.0	5.5
Average revenue multiple	2.5	2.5	3.0	4.5	5.5
Median total expected returns (gross cash on cash pre-tax IRR)	33%	21%	21%	19%	17%

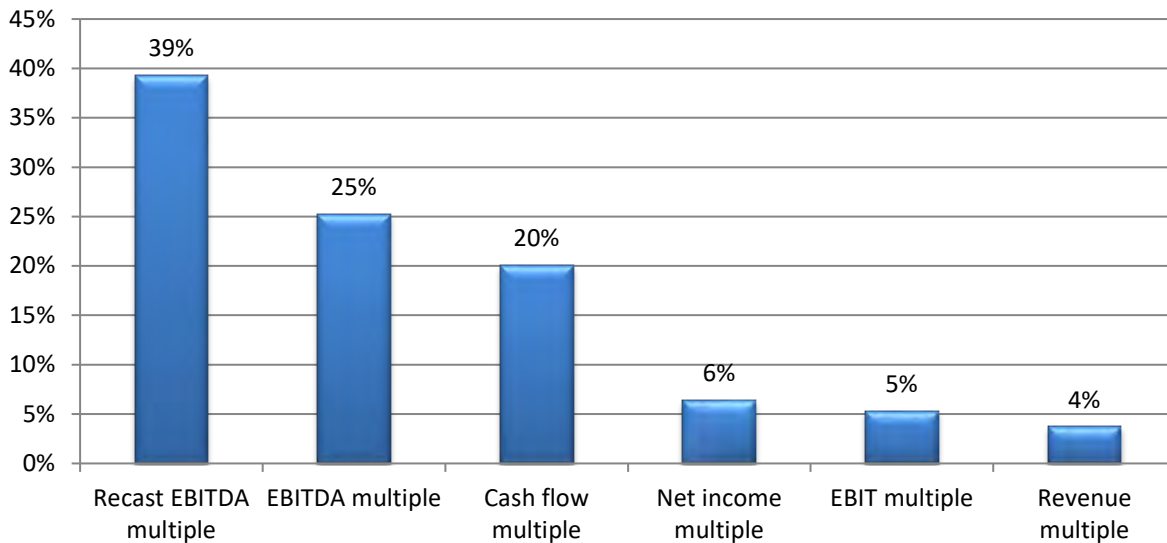
When valuing a business, approximately 29% of the weight is placed on discounted future earnings method.

Figure 60. Usage of Valuation Approaches



The weights of the various multiple methods used by respondents when valuing privately-held businesses included 39% for recast (adjusted) EBITDA multiple and 25% for EBITDA multiple.

Figure 61. Usage of Multiple Methods



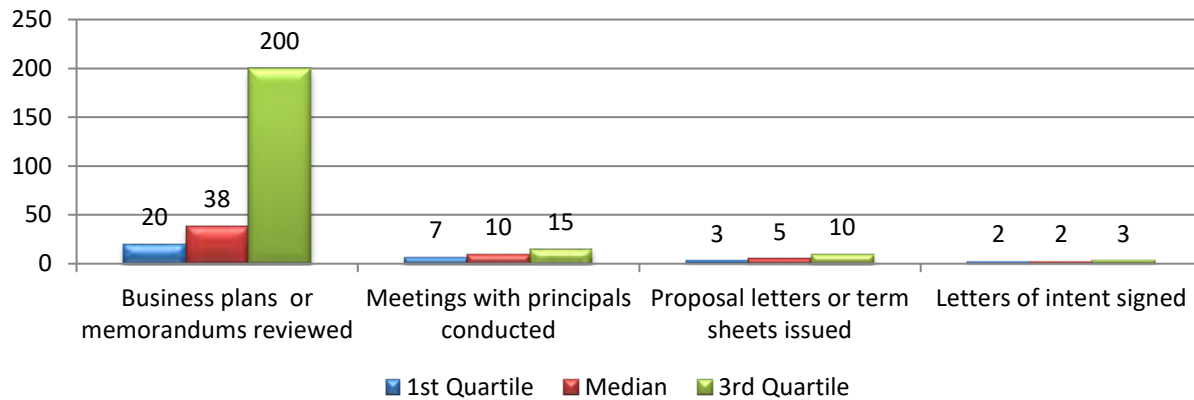
Average deal multiples on transactions from the prior twelve months as observed by respondents varied from 3.0 to 10+.

Table 37. Median Deal Multiples by EBITDA Size of Company

	\$1M EBITDA	\$5M EBITDA	\$10M EBITDA	\$15M EBITDA	\$25M EBITDA	\$50M EBITDA	Average
Manufacturing	3	4	4	4.5	5	6.5	4.5
Construction & engineering	3	4	4	4	5.25	6.5	4.5
Consumer goods & services	1	4	4	4	4.5	5.25	3.8
Wholesale & distribution	3.5	4	4	4	-	6.5	4.4
Business services	-	4	4	4.5	-	5	4.4
Health care & biotech	3.75	4.5	4.5	6.5	-	6.5	5.2
Information technology	4	4.5	4.5	4.5	5.5	>10	4.6
Average	3.0	4.1	4.1	4.6	5.1	6.0	4.5

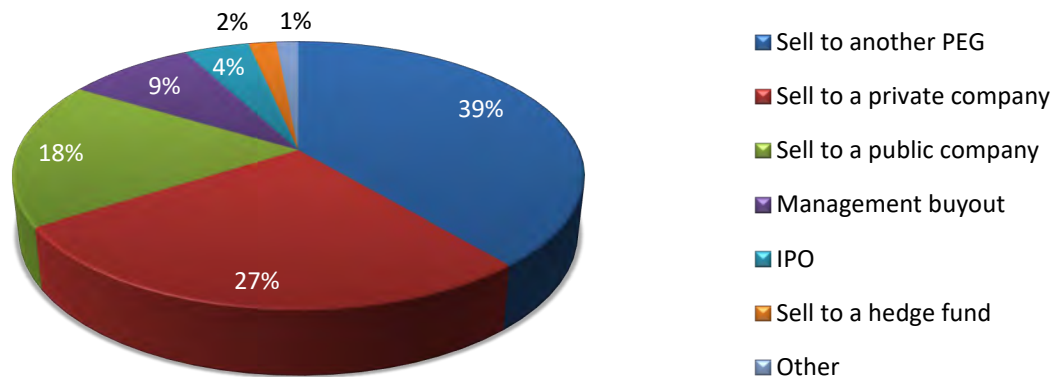
Respondents reported on items required to close one deal.

Figure 62. Items Required to Close One Deal



Respondents reported exit strategies that include selling to another private equity group (39%), selling to private company (27%), and selling to a public company (18%).

Figure 63. Exit Plans for Portfolio Companies



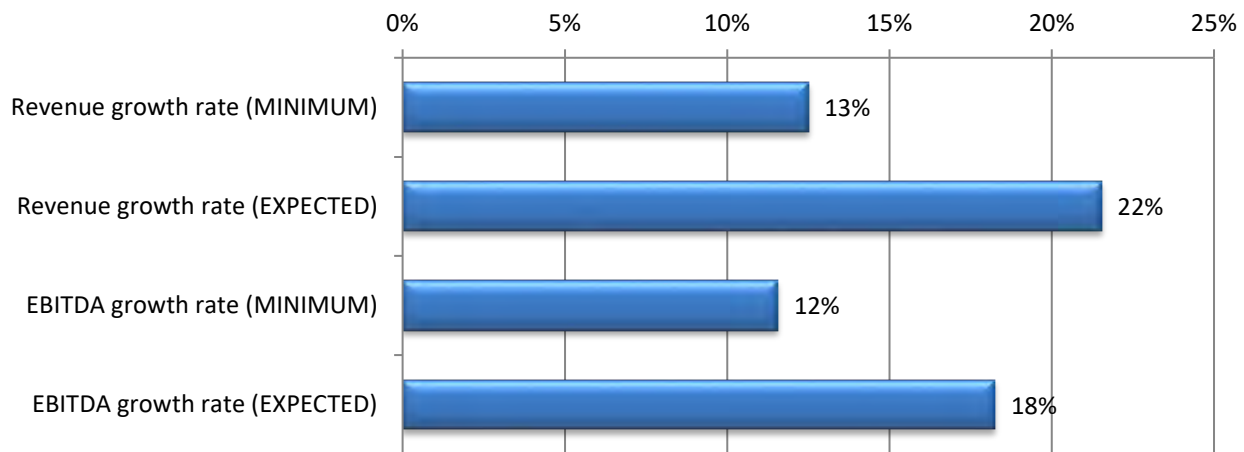
Most of the respondents believe the number of companies “worthy of financing” exceeds “capital available” for the companies with less than \$1M in EBITDA. Whereas for the larger companies, “capital available” exceeds the number of companies “worthy of financing.”

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

	Companies worthy of financing GREATLY exceed capital available (capital shortage)	Companies worthy of financing exceed capital available	General balance between companies worthy of financing and capital available	Capital available exceeds companies worthy of financing	Capital available GREATLY exceeds companies worthy of financing (capital surplus)	Score
\$0K - \$999K EBITDA	8%	46%	29%	4%	13%	-0.3
\$1M - \$4.99M EBITDA	4%	20%	36%	28%	12%	0.2
\$5M - \$9.99M EBITDA	0%	4%	43%	22%	30%	0.8
\$10M - \$14.99M EBITDA	5%	0%	30%	30%	35%	0.9
\$15M - \$24.99M EBITDA	5%	0%	10%	40%	45%	1.2
\$25M - \$49.99M EBITDA	0%	0%	14%	33%	52%	1.4
\$50M - \$99.99M EBITDA	5%	0%	14%	29%	52%	1.2
\$100M+ EBITDA	5%	0%	15%	25%	55%	1.1

Respondents reported average minimum revenue growth rate, when investing in a company today, is 13%

Figure 64. Minimum and Expected Annual Growth Rates for Investee



Respondents identified importance of the following items regarding business risk.

Table 39. Importance of Items Regarding Business Risk

Characteristics	Unimportant	Of little importance	Moderately important	Important	Very important	Score (1 to 5)
Firm size	3%	6%	47%	32%	12%	2.4
Customer concentrations	3%	3%	18%	21%	56%	3.2
Market leadership	3%	12%	21%	45%	18%	2.6
Historical operating performance	0%	3%	12%	50%	35%	3.2
Industry sector	0%	6%	21%	24%	50%	3.2
Future prospects of company	0%	0%	12%	24%	65%	3.5
Management team	0%	6%	15%	26%	53%	3.3
Other	0%	0%	0%	20%	80%	3.8

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

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

	Decrease significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Demand for private equity	7%	11%	54%	29%	0%	29%	18%	11%
Quality of companies seeking investment	3%	41%	34%	21%	0%	21%	45%	-24%
Average investment size	3%	28%	48%	17%	3%	21%	31%	-10%
Non-control investments (< 50% equity ownership)	5%	10%	62%	14%	10%	24%	14%	10%
Expected investment holding period	0%	0%	29%	54%	18%	71%	0%	71%
Deal multiples	3%	62%	21%	14%	0%	14%	66%	-52%
Exit opportunities	28%	45%	10%	7%	10%	17%	72%	-55%
Expected returns on new investments	3%	48%	21%	24%	3%	28%	52%	-24%
Value of portfolio companies	0%	55%	24%	17%	3%	21%	55%	-34%
General business conditions	10%	62%	14%	14%	0%	14%	72%	-59%
Size of private equity industry	4%	14%	32%	46%	4%	50%	18%	32%
Appetite for risk	29%	54%	4%	14%	0%	14%	82%	-68%

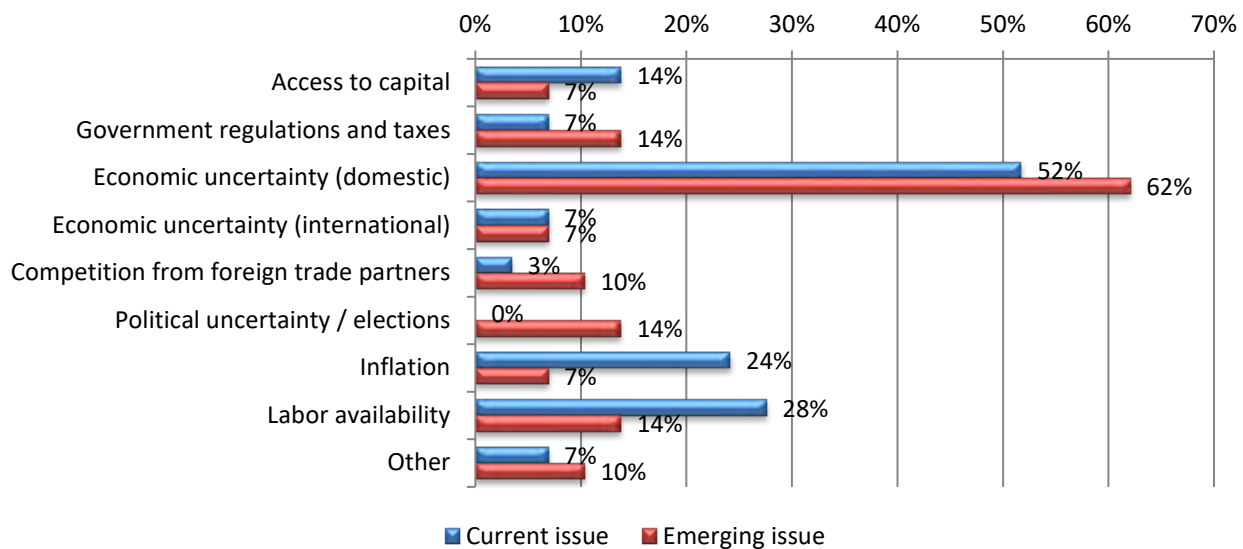
Respondents expect further increases in demand for private equity, further decreasing expected returns on new investments, and worsening general business conditions.

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

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Demand for private equity	0%	24%	41%	28%	7%	34%	24%	10%
Quality of companies seeking investment	3%	28%	48%	21%	0%	21%	31%	-10%
Average investment size	0%	28%	48%	21%	3%	24%	28%	-3%
Non-control investments (< 50% equity ownership)	0%	4%	61%	26%	9%	35%	4%	30%
Expected investment holding period	0%	7%	39%	39%	14%	54%	7%	46%
Deal multiples	7%	68%	21%	0%	4%	4%	75%	-71%
Exit opportunities	3%	48%	31%	17%	0%	17%	52%	-34%
Expected returns on new investments	3%	38%	31%	28%	0%	28%	41%	-14%
Value of portfolio companies	3%	38%	31%	24%	3%	28%	41%	-14%
General business conditions	10%	55%	14%	21%	0%	21%	66%	-45%
Size of private equity industry	4%	18%	61%	18%	0%	18%	21%	-4%
Appetite for risk	7%	48%	30%	15%	0%	15%	56%	-41%

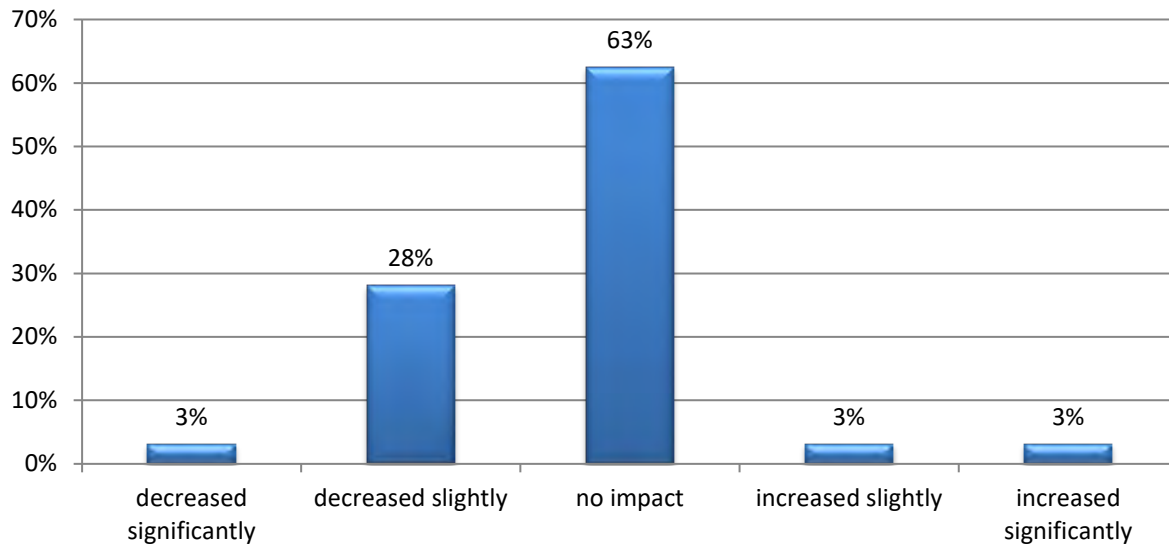
Respondents believe domestic economic uncertainty is the most important current and emerging issue facing privately-held businesses.

Figure 65. Issues Facing Privately-Held Businesses



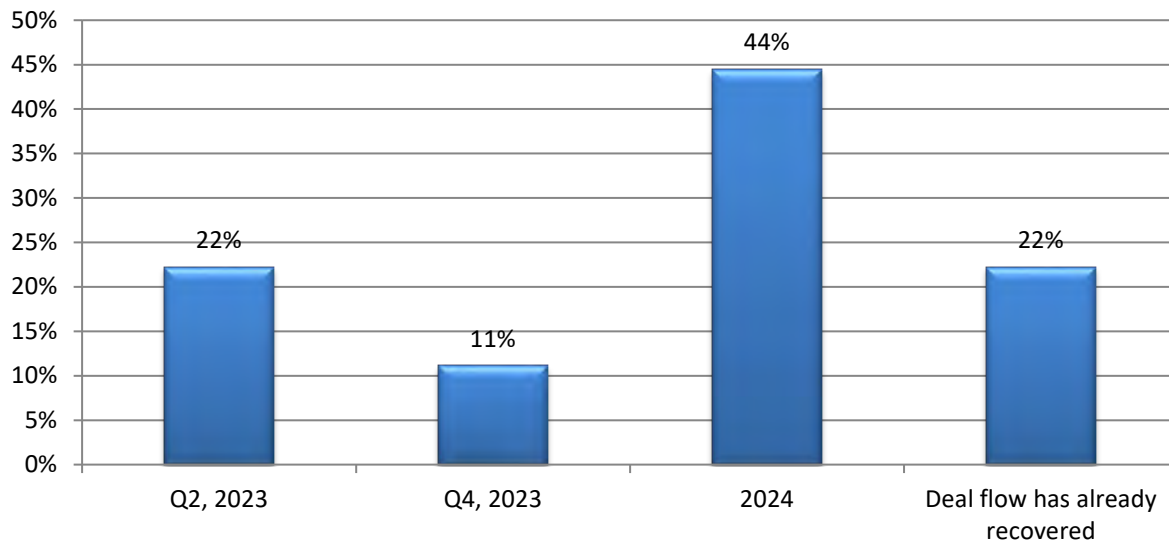
Approximately 31% of respondents indicated their deal flow decreased due to COVID-19 pandemic in 2022.

Figure 66. Level of Impact COVID-19 Pandemic Had on Respondents Deal Flow in 2022



Approximately 22% of respondents indicate their deal flow has already recovered.

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



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VENTURE CAPITAL SURVEY INFORMATION

Of the 44 participants who responded to the venture capital survey, approximately 58% of respondents expect an increasing size of the venture capital industry. The majority (74%) of respondents plan to make five 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 24% targeting healthcare & biotech and another 23% planning to invest in information technology.
- Respondents' exit strategies include selling to a public company (34%) followed by selling to a private company (29%).
- Respondents believe access to capital is the most important current and emerging issue facing privately-held businesses today.

Operational and Assessment Characteristics

Approximately 57% of respondents made five investments or more over the last twelve months.

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

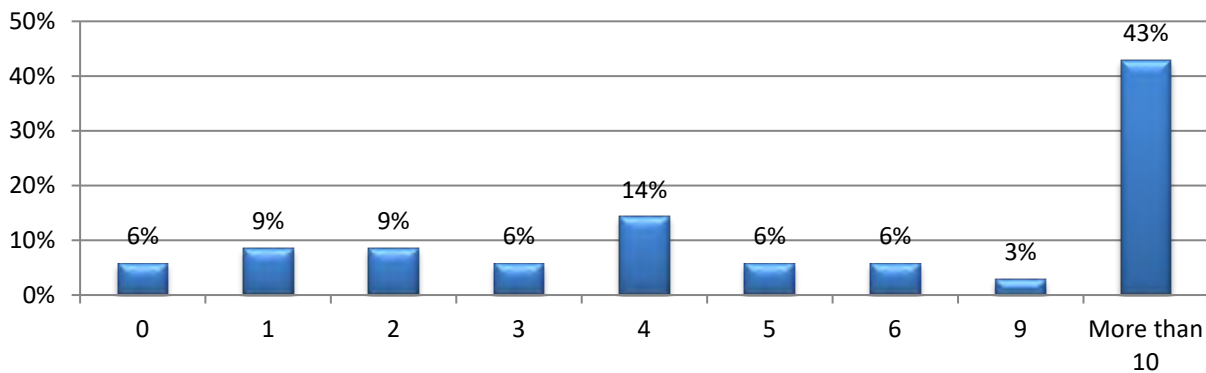
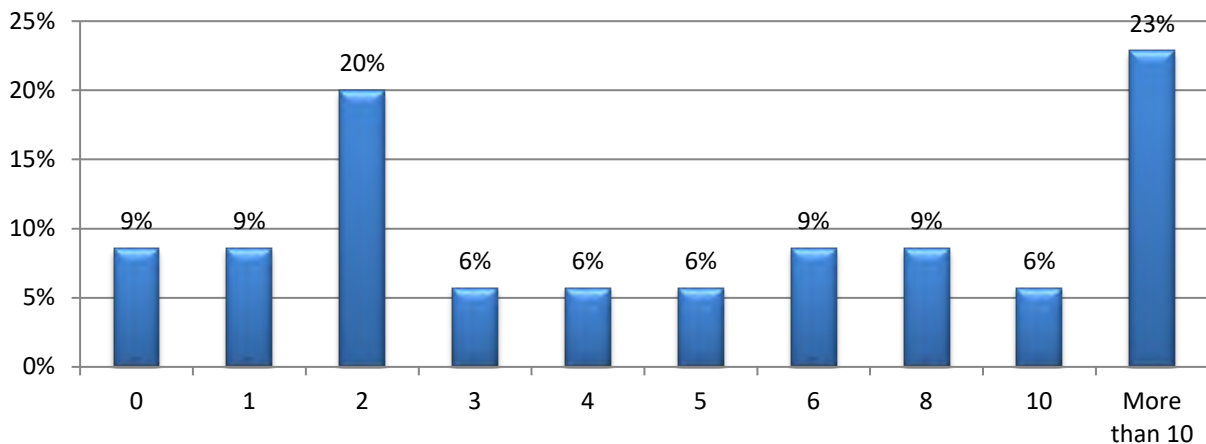


Figure 69. Number of Follow-on Investments Made in the Last 12 Months



The majority (74%) of respondents plan to make five investments or more over the next 12 months.

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

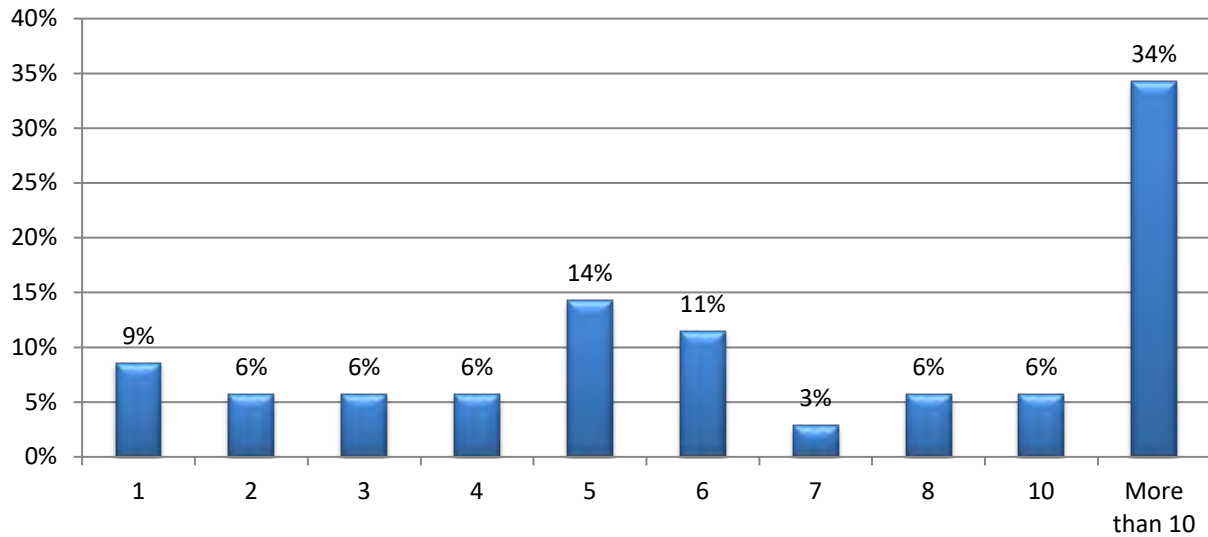
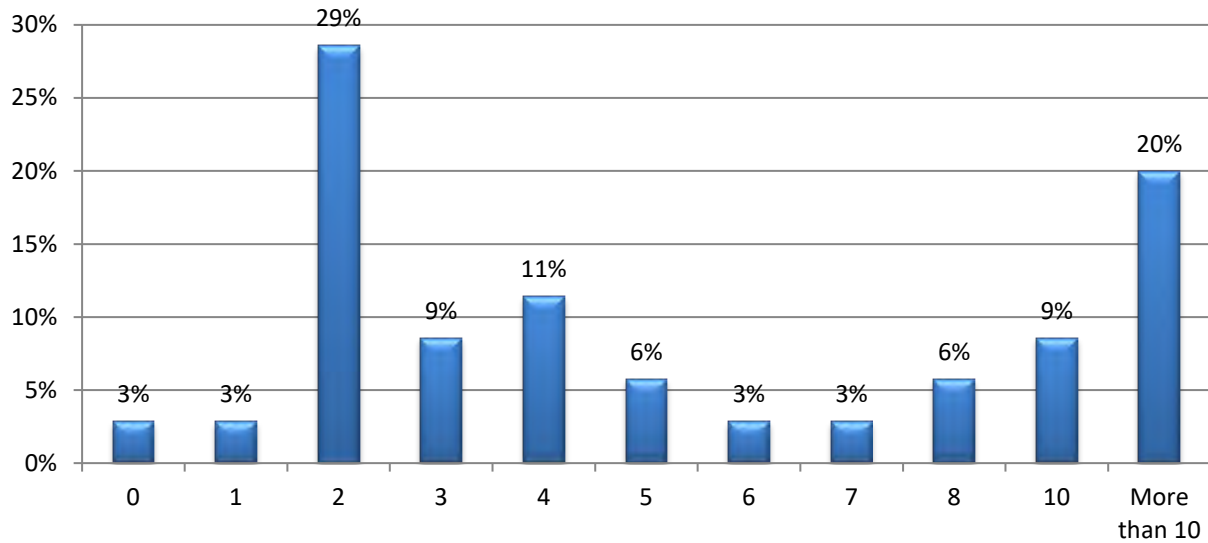


Figure 71. Number of Follow-on Investments Planned over the Next 12 Months



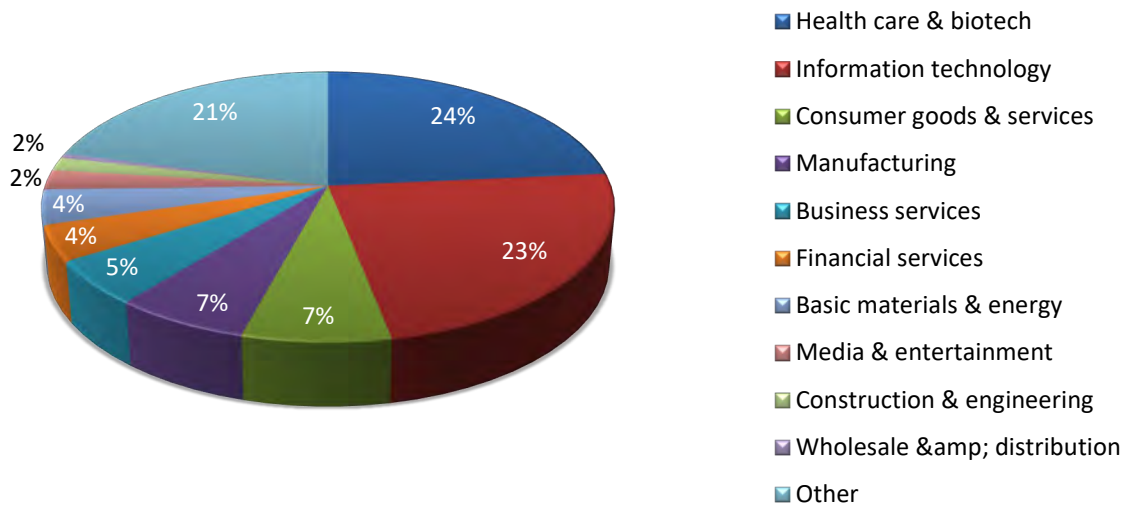
Respondents reported on business practices and the results are reflected below.

Table 42. VC Fund Data

	1st quartile	Median	3rd quartile
Vintage year (year in which first investment made)	2017	2019	2021
Size of fund (\$ millions)	\$25	\$75	\$175
Targeted number of total investments	13	18	33
Target fund return (gross pretax cash on cash annual IRR %)	25%	35%	35%
Expected fund return (gross pretax cash on cash annual IRR %)	25%	30%	40%

Over the next 12 months, Venture Capital investors are mainly targeting healthcare & biotech (24%) and information technology (23%).

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



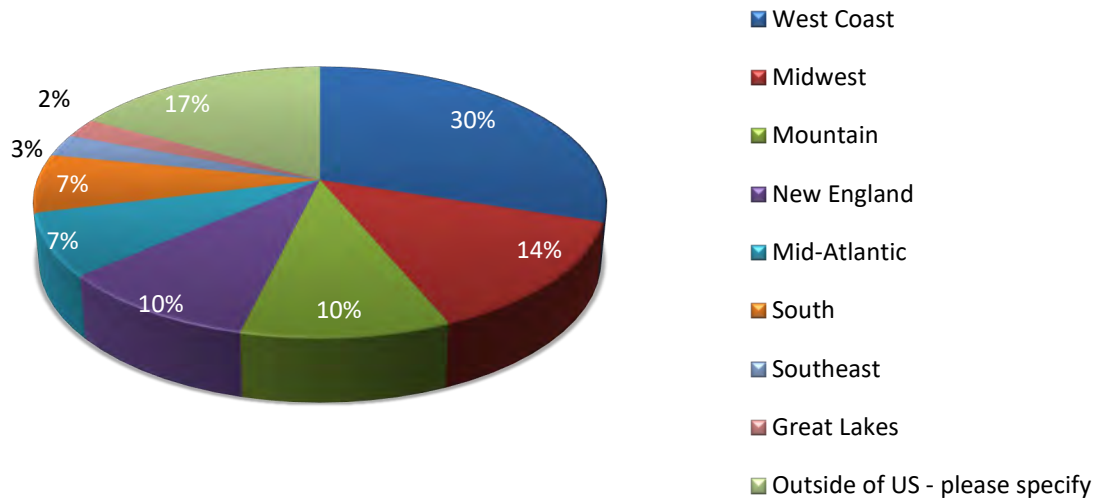
Respondents reported on a variety of statistics pertaining to their investments.

Table 43. General Information on Investments by Company Stages

	Seed	Startup	Early Stage	Expansion	Later Stage
Number of Investments Made in Last twelve months					
	54	106	125	65	18
Average Size of Investment (\$ million)					
1st Quartile	<1.0	<1.0	<1.0	1.0	1.5
Median	1.0	1.5	2.5	3.5	4.0
3rd Quartile	2.5	2.5	3.3	6.0	6.8
Average Revenue Multiple					
1st Quartile	1.25	1.75	2	2	3
Median	3	5	5	7	9
3rd Quartile	8	8.4	8.5	10	>10
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	25.0%	18.0%	15.0%	15.0%	7.5%
Total Expected Returns (gross cash on cash pretax IRR) on new investments					
1st Quartile	33.0%	28.0%	28.0%	22.0%	18.0%
Median	33.0%	33.0%	33.0%	28.0%	28.0%
3rd Quartile	43.0%	38.0%	38.0%	44.0%	33.0%
Expected Time to Exit (years)					
1st Quartile	6.5	5.0	5.0	3.8	3.0
Median	8.0	8.0	6.0	5.0	5.0
3rd Quartile	8.0	8.0	7.0	5.0	5.0
Average Company Value at Time of Investment (post-money \$ millions)					
1st Quartile	4.5	7.5	15.0	30.0	35.0
Median	7.5	7.5	15.0	90.0	100+
3rd Quartile	7.5	15.0	35.0	100+	100+

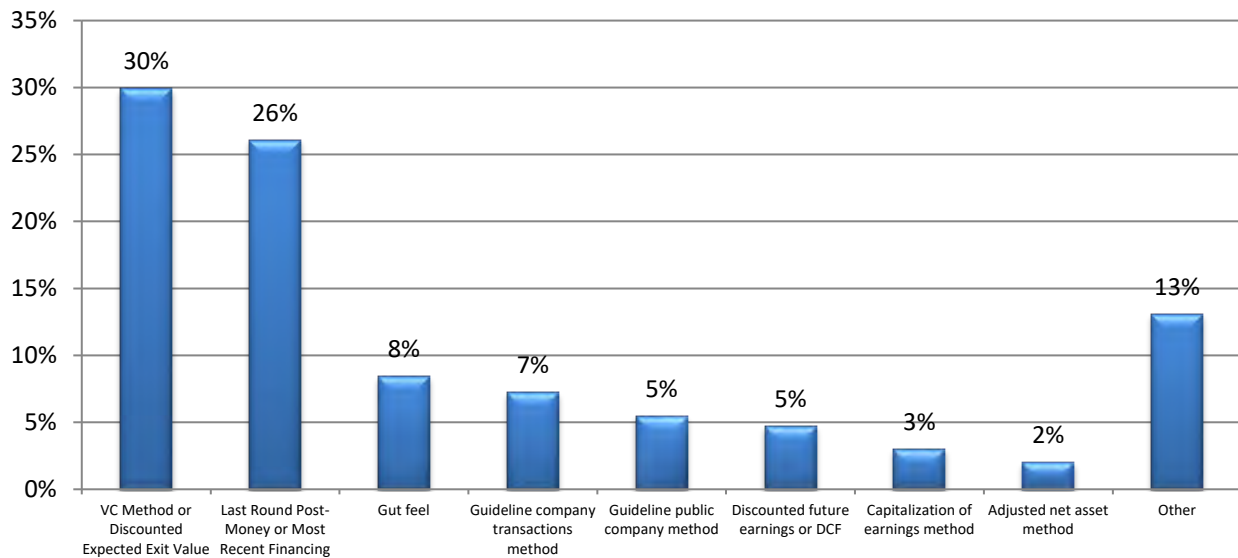
Respondents reported on where they plan to invest over the next 12 months. The results reflect investment throughout the U.S.

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



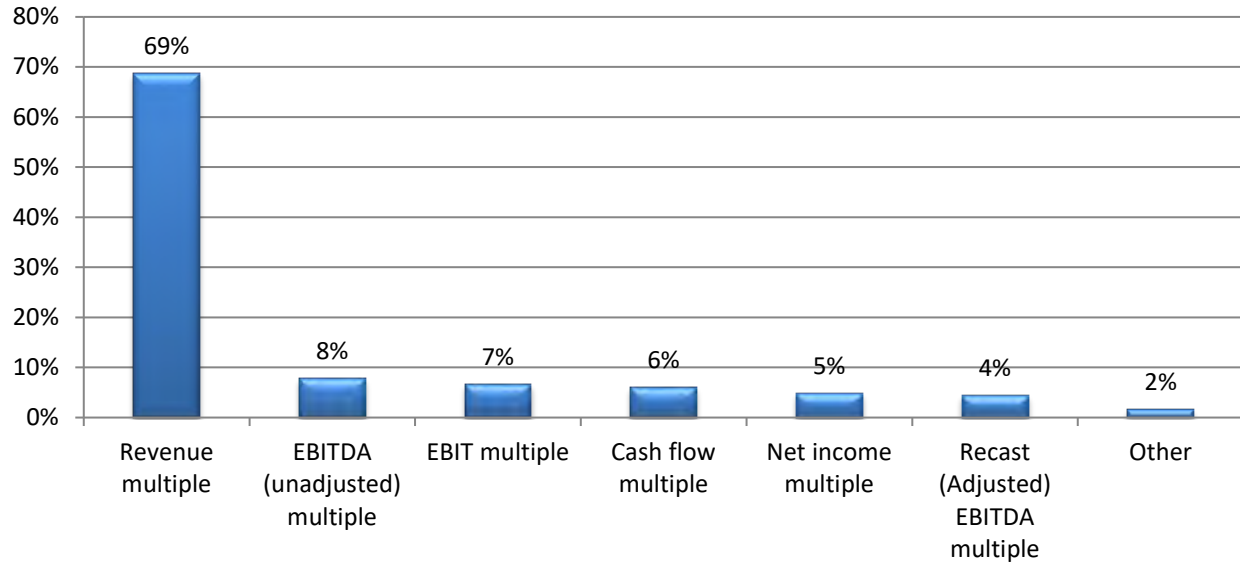
When valuing the company, approximately 30% of respondents use VC method or discounted expected exit value, another 26% use last round post-money or most recent financing and 8% use gut feel valuing privately-held businesses.

Figure 74. Usage of Valuation Methods



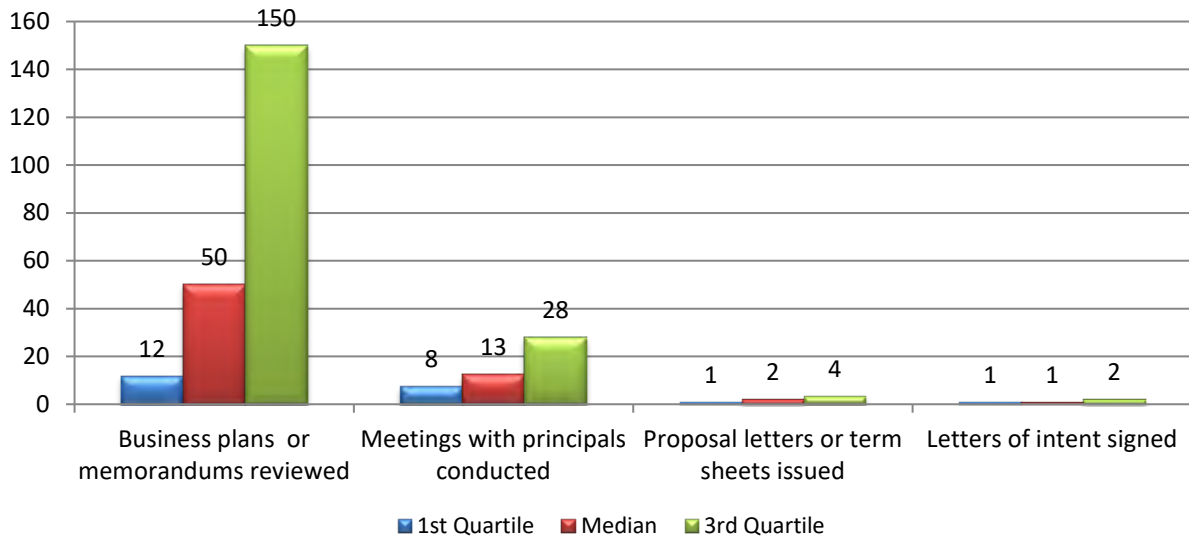
The weights of the various multiple methods used by respondents when valuing privately-held businesses included 69% for revenue multiple and 8% for EBITDA (unadjusted) multiple methods.

Figure 75. Usage of Multiple Methods



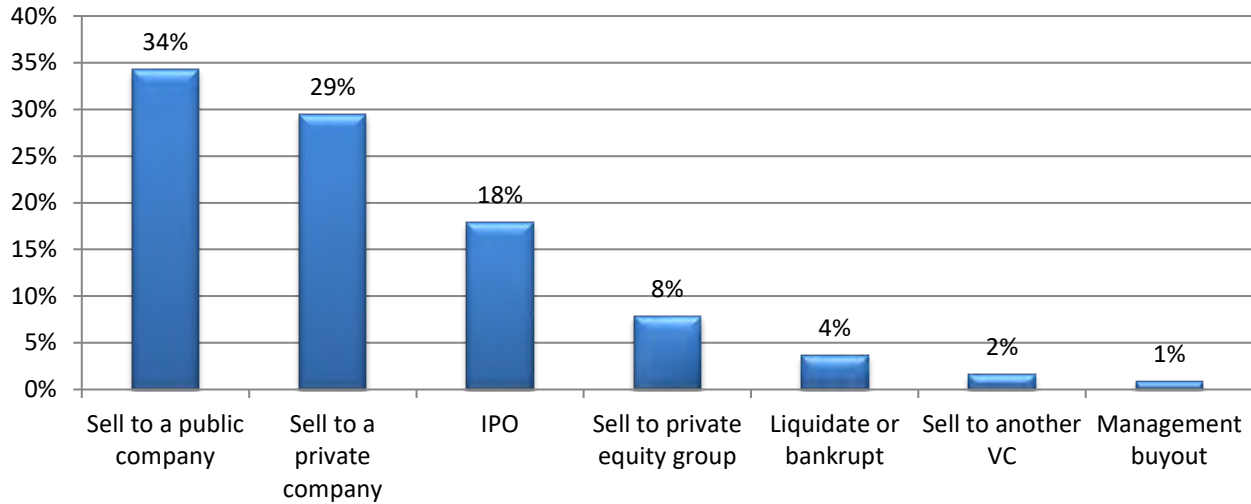
Respondents reported on items required to close one deal.

Figure 70. Items Required to Close One Deal



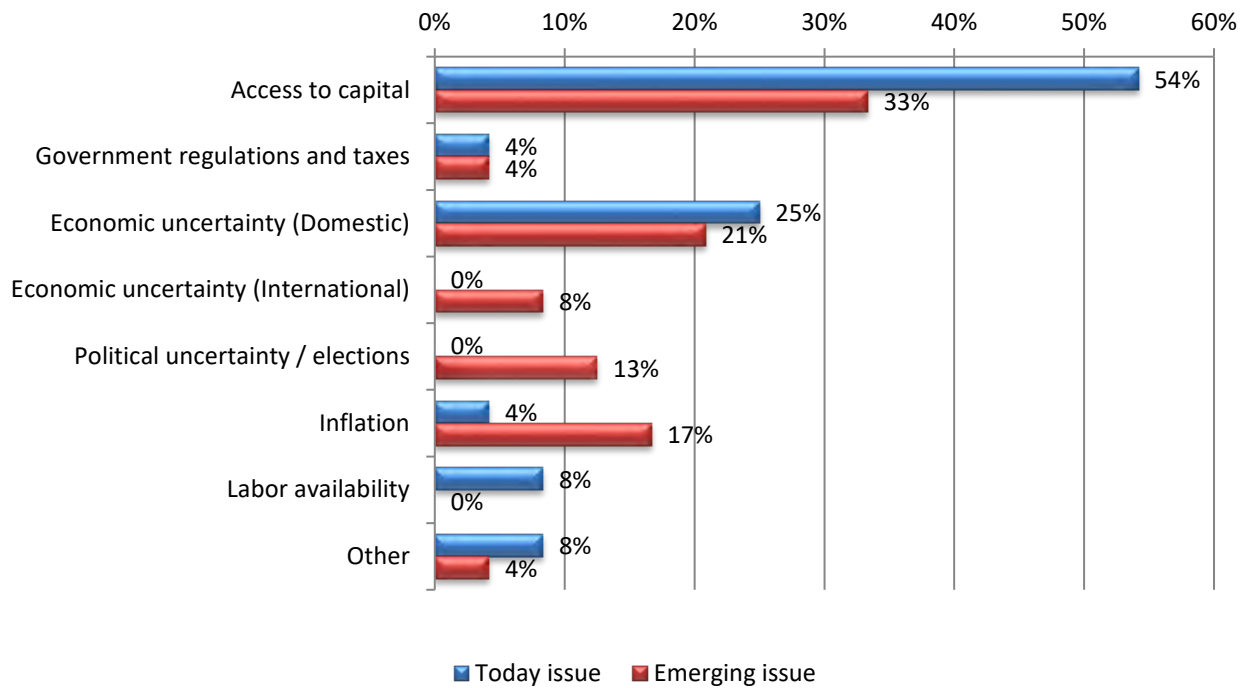
Respondents' exit strategies include selling to a public company (34%) followed by selling to a private company (29%).

Figure 76. Exit Plans for Portfolio Companies



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

Figure 77. Current Issues Facing Privately-Held Businesses



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

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

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Demand for venture capital	0%	8%	29%	50%	13%	63%	8%	54%
Quality of companies seeking investment	0%	21%	29%	38%	13%	50%	21%	29%
Follow-on investments	0%	13%	17%	35%	35%	70%	13%	57%
Average investment size	8%	21%	42%	25%	4%	29%	29%	0%
Exit opportunities	38%	42%	17%	4%	0%	4%	79%	-75%
Time to exit deals	4%	8%	13%	42%	33%	75%	13%	63%
Expected returns on new investments	0%	13%	63%	17%	8%	25%	13%	13%
Value of portfolio companies	8%	63%	4%	21%	4%	25%	71%	-46%
General business conditions	25%	63%	8%	4%	0%	4%	88%	-83%
Presence of super angels in space formerly occupied by VCs	9%	22%	57%	13%	0%	13%	30%	-17%
Size of venture capital industry	4%	30%	52%	13%	0%	13%	35%	-22%
Appetite for risk	29%	50%	8%	8%	4%	13%	79%	-67%

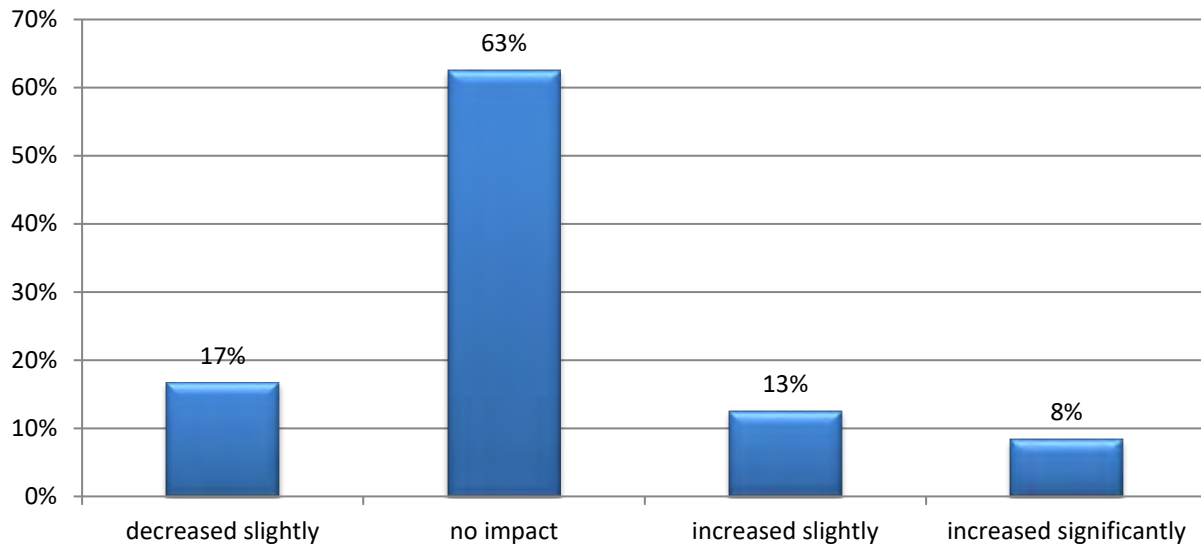
Respondents expect worsening general business conditions over the next twelve months.

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

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Demand for venture capital	0%	8%	25%	50%	17%	67%	8%	58%
Quality of companies seeking investment	4%	9%	26%	57%	4%	61%	13%	48%
Follow-on investments	0%	4%	21%	38%	38%	75%	4%	71%
Average investment size	13%	21%	33%	29%	4%	33%	33%	0%
Exit opportunities	17%	42%	17%	25%	0%	25%	58%	-33%
Time to exit deals	0%	4%	17%	54%	25%	79%	4%	75%
Expected returns on new investments	4%	17%	35%	30%	13%	43%	22%	22%
Value of portfolio companies	8%	29%	21%	38%	4%	42%	38%	4%
General business conditions	17%	38%	21%	25%	0%	25%	54%	-29%
Presence of super angels in space formerly occupied by VCs	13%	21%	63%	4%	0%	4%	33%	-29%
Size of venture capital industry	4%	38%	46%	13%	0%	13%	42%	-29%
Appetite for risk	21%	42%	21%	17%	0%	17%	63%	-46%

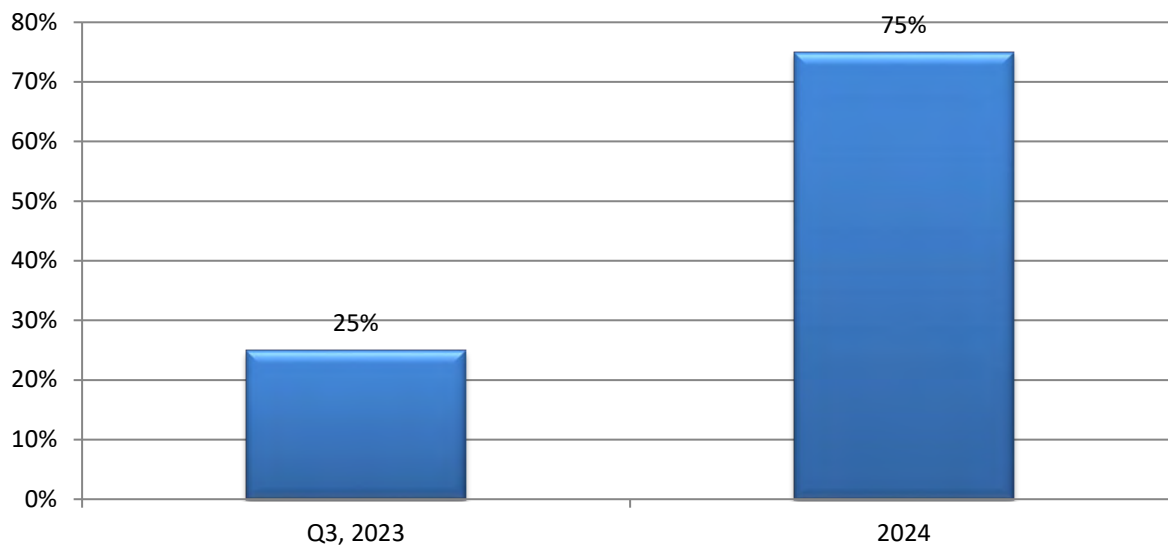
Approximately 17% of respondents indicated their deal flow slightly decreased in 2022 due to COVID-19 pandemic.

Figure 78. Level of Impact COVID-19 Pandemic Had on Respondents Deal Flow in 2022



Approximately 75% of respondents believe their deal flow will return to pre-March 2020 level in the year 2024.

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



ANGEL INVESTOR SURVEY INFORMATION

Of the 108 participants who responded to the angel investor survey, the majority (71%) of respondents plan to make between one and five investments in the next twelve months. Other key findings include:

- Approximately 36% of respondents base valuations on gut feel when valuing privately-held businesses, another 15% 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 (38%), followed by cash flow multiple (19%) and EBITDA multiple (12%).
- The types of businesses respondents plan to invest in over next 12 months are very diverse with 27% targeting information technology and another 17% planning to invest in health care & biotech.
- Respondents indicated increased demand for angel capital, size of angel industry, decreased expected returns on new investments and worsened general business conditions.
- Respondents' exit strategies include selling to a public company (39%) and selling to a private company (19%).

Operational and Assessment Characteristics

Approximately 59% 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

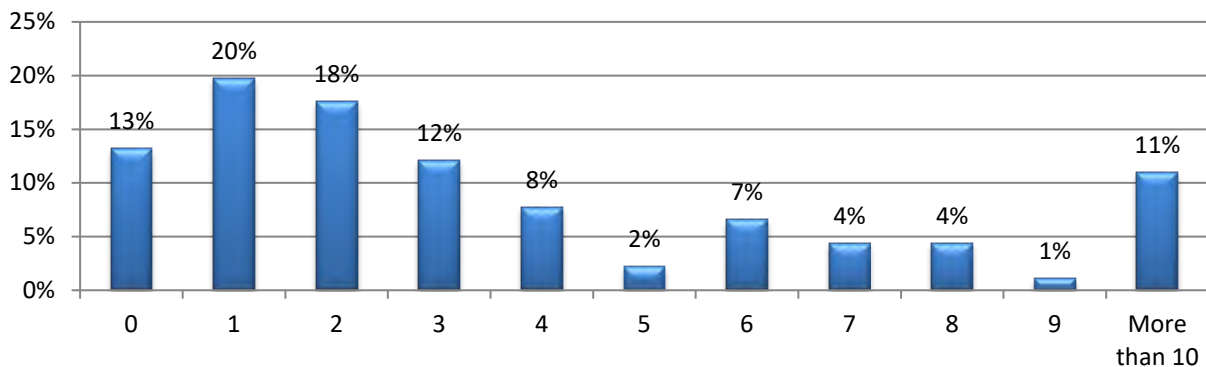
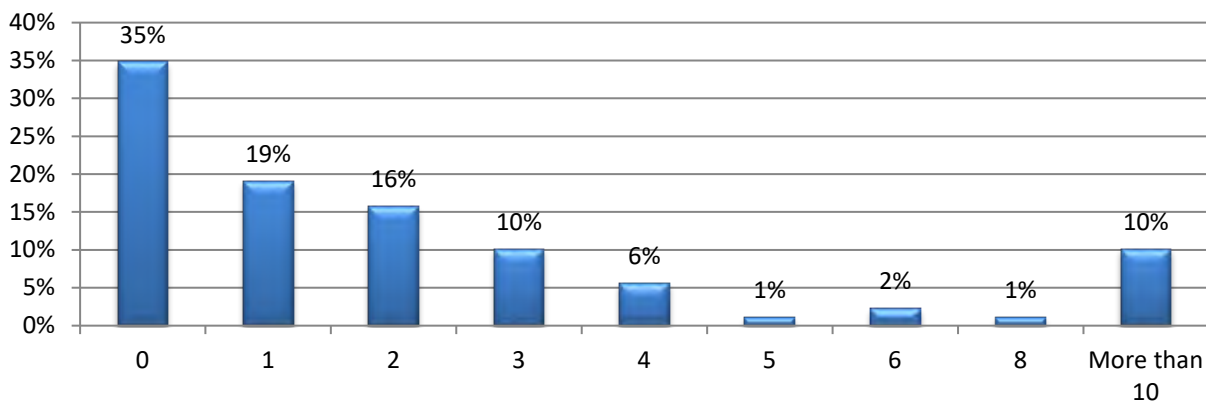


Figure 81. Number of Follow-on Investments Made in the Last 12 Months



ANGEL cont.

The majority (71%) 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

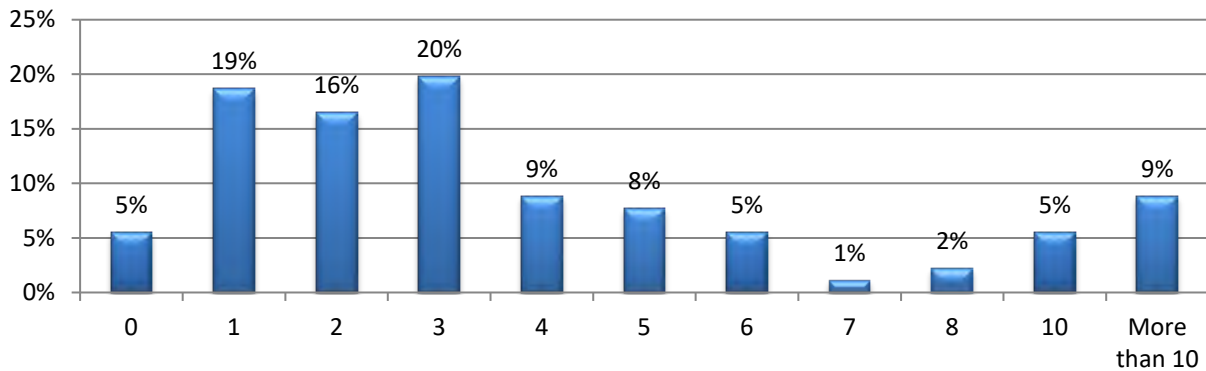
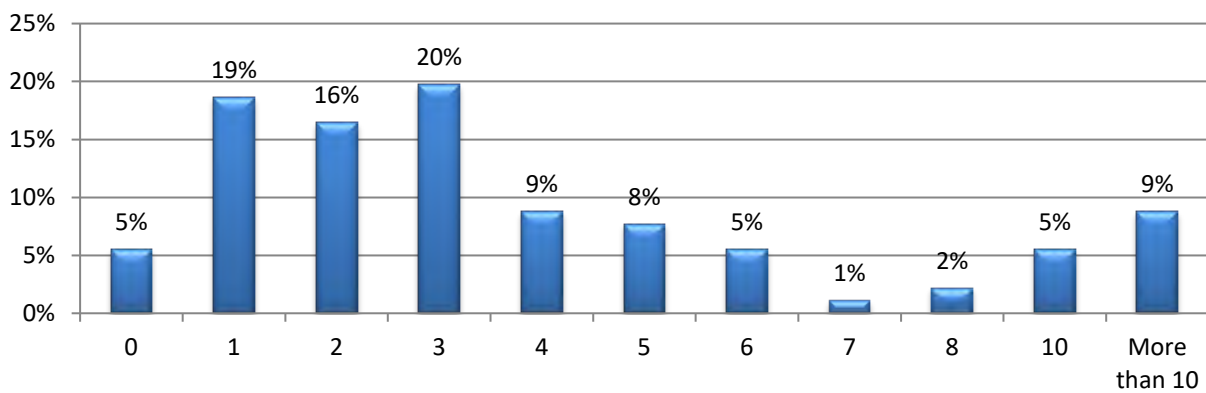
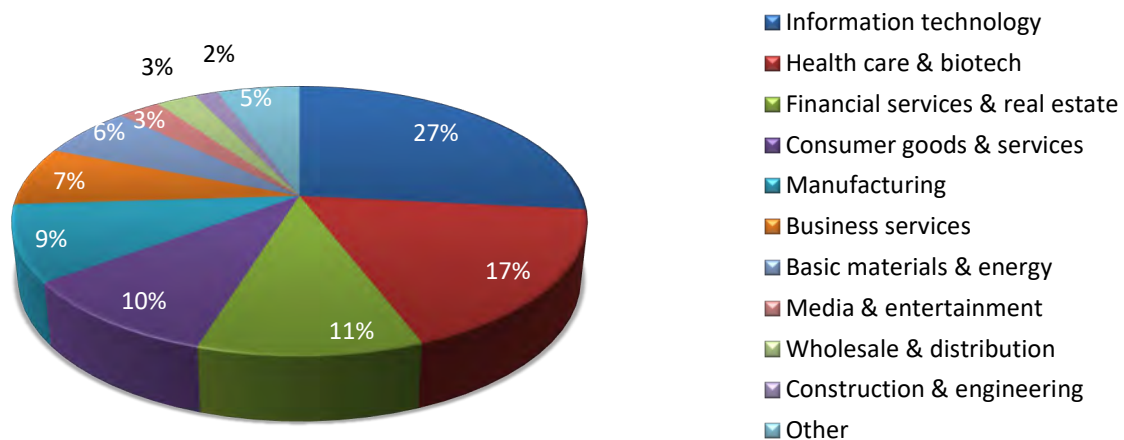


Figure 83. Number of Follow-on Investments Planned Over Next 12 Months



The types of businesses respondents plan to invest in over next 12 months are very diverse with over 27% targeting Information technology and another 17% planning to invest in healthcare & biotech.

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



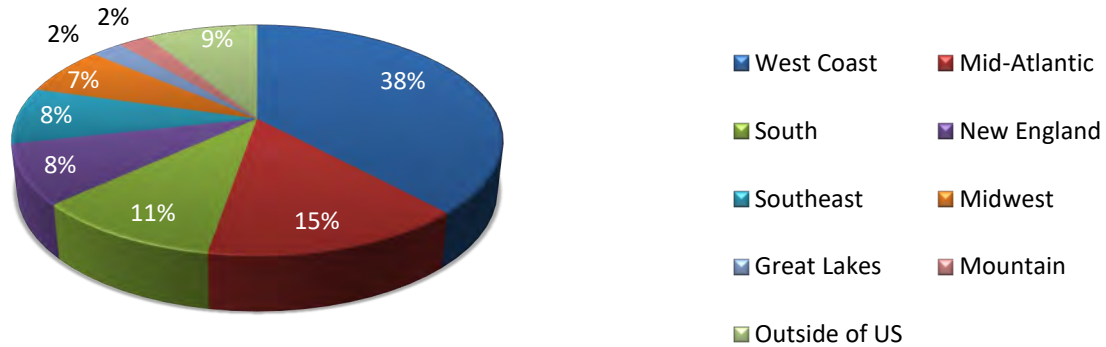
Respondents reported on a variety of stats pertaining to their investments.

Table 46. General Information on Investments by Company Stages

	Seed	Startup	Early Stage	Expansion	Later Stage
Number of investments made in last twelve months					
	96	127	73	36	16
Average size of investments					
1st Quartile	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000
Median	\$25,000	\$75,000	\$75,000	\$75,000	\$150,000
3rd Quartile	\$100,000	\$175,000	\$250,000	\$250,000	\$250,000
Average revenue multiple					
1st Quartile	<1	<1	1.0	1.0	1.5
Median	1.0	1.5	1.8	2.0	2.5
3rd Quartile	3.0	4.0	4.3	4.8	6.0
Average % of total equity purchased					
1st Quartile	2%	2%	1%	1%	1%
Median	5%	5%	5%	5%	2.5%
3rd Quartile	15%	10%	8%	6%	5%
Total EXPECTED Returns (gross cash on cash pretax IRR) on New Investments (%)					
1st Quartile	28%	23%	23%	20%	18%
Median	38%	28%	28%	28%	23%
3rd Quartile	43%	38%	38%	28%	25%
Expected Time to Exit (years)					
1st Quartile	2.0	2.8	3.0	3.3	4.0
Median	3.0	3.0	4.0	5.0	7.0
3rd Quartile	5.5	5.5	6.0	8.0	8.0
Average Company Value at Time of Investment (post-money value)					
1st Quartile	\$500,000	\$1,500,000	\$2,500,000	\$2,750,000	\$4,000,000
Median	\$2,500,000	\$2,500,000	\$5,000,000	\$7,500,000	\$7,500,000
3rd Quartile	\$7,500,000	\$7,500,000	\$7,500,000	\$15,000,000	\$15,000,000

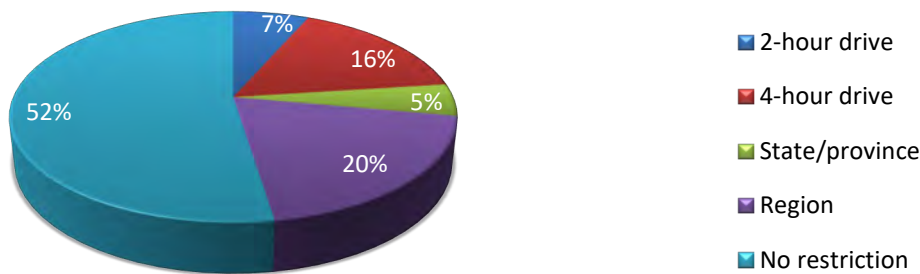
Respondents reported on where they plan to invest over the next 12 months. The results reflect investment throughout the U.S.

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



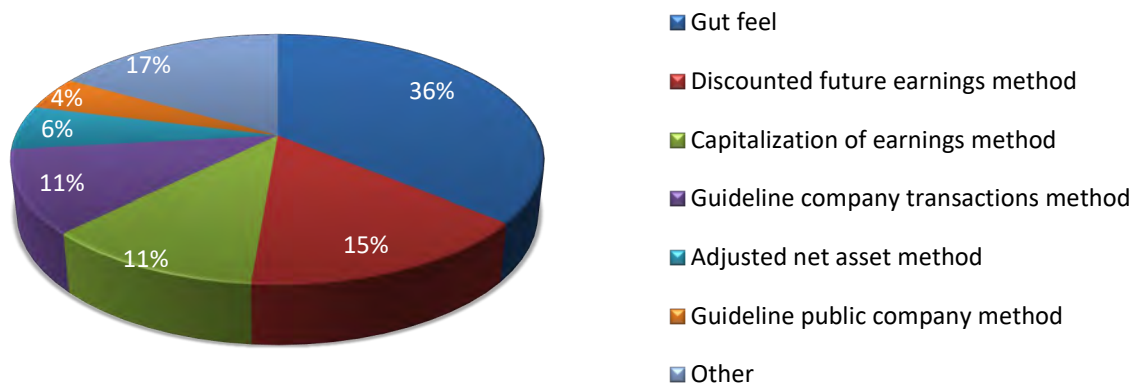
Respondents reported on their geographical limits for investments.

Figure 86. Geographical Limit for Investment



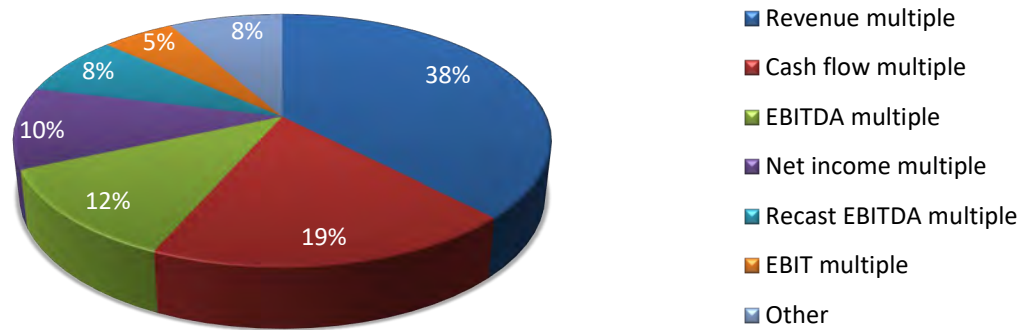
Approximately 36% of respondents' base valuations on gut feel when valuing privately-held businesses, another 15% base valuations on discounted future earnings method.

Figure 80. Usage of Valuation Methods



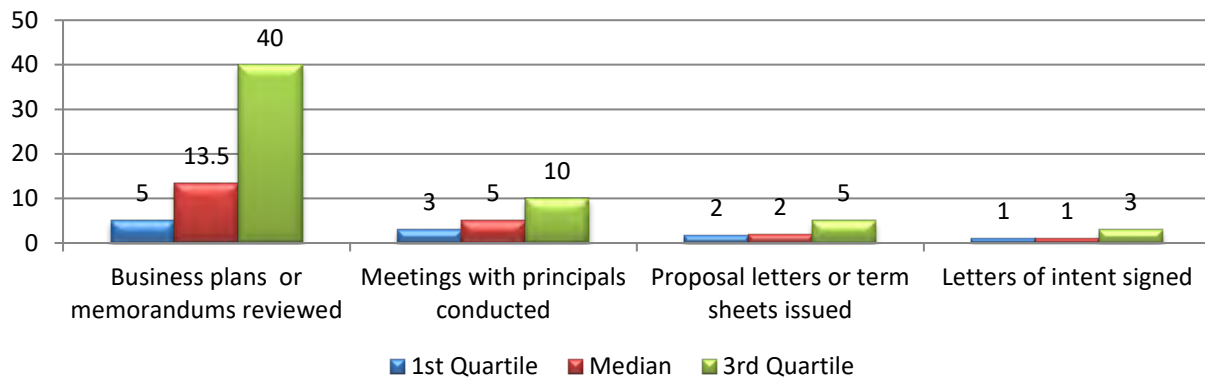
The weights of the various multiple methods used by respondents when valuing privately-held businesses included 38% for revenue multiple, 19% for cash flow multiple method and 12% for EBITDA multiple.

Figure 87. Usage of Multiple Methods



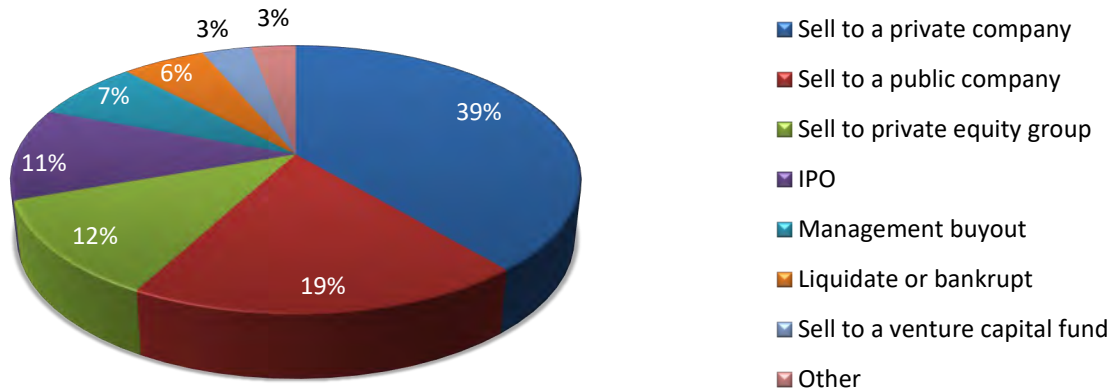
Respondents reported on items required to close one deal.

Figure 88. Items Required to Close One Deal



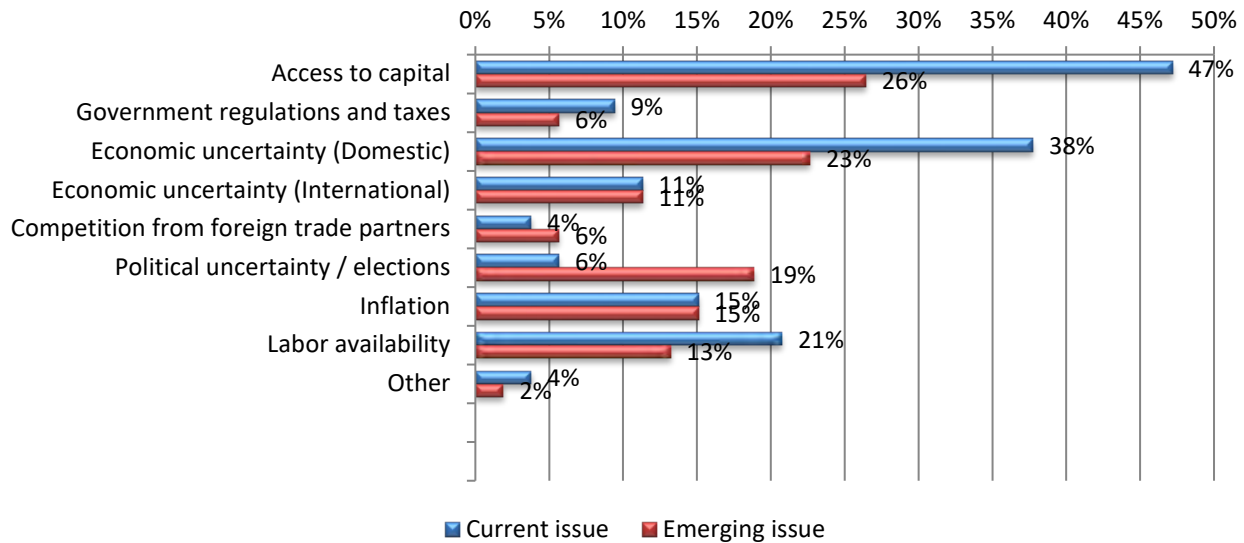
Respondents' exit strategies include selling to a private company (39%) and selling to a public company (19%).

Figure 89. Exit Plans for Portfolio Companies



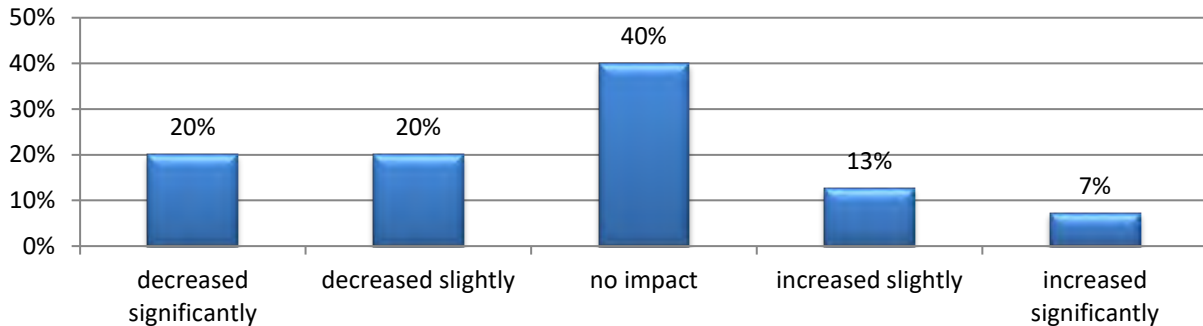
Respondents believe access to capital is the most important current issue facing privately-held businesses.

Figure 84. Issues Facing Privately-Held Businesses



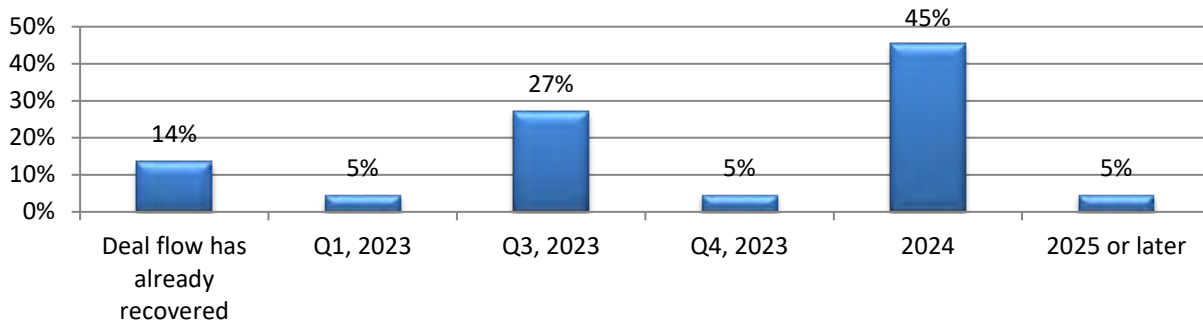
Approximately 40% of respondents indicated their deal flow decreased due to COVID-19 pandemic in 2022.

Figure 90. Level of Impact COVID-19 Pandemic Had on Respondents Deal Flow in 2022



Approximately 36% of respondents believe their deal flow will return to pre-March 2020 level in the year 2023.

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



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

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

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Demand for angel capital	7%	4%	33%	30%	26%	56%	11%	44%
Size of angel finance industry	11%	23%	40%	19%	8%	26%	34%	-8%
Quality of companies seeking investment	2%	26%	45%	21%	6%	26%	28%	-2%
Follow-on investments	8%	22%	37%	16%	18%	33%	29%	4%
Average investment size	8%	17%	46%	27%	2%	29%	25%	4%
Exit opportunities	21%	42%	21%	12%	4%	15%	63%	-48%
Time to exit deals	4%	12%	22%	37%	25%	63%	16%	47%
Expected returns on new investments	10%	31%	31%	22%	6%	27%	41%	-14%
Value of portfolio companies	10%	29%	37%	20%	4%	24%	39%	-16%
General business conditions	15%	38%	25%	21%	0%	21%	54%	-33%
Appetite for risk	15%	31%	35%	17%	2%	19%	46%	-27%

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

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

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Demand for angel capital	0%	6%	30%	36%	28%	64%	6%	58%
Size of angel finance industry	6%	21%	33%	29%	12%	40%	27%	13%
Quality of companies seeking investment	4%	19%	38%	30%	9%	40%	23%	17%
Follow-on investments	4%	15%	38%	31%	12%	42%	19%	23%
Average Investment Size	10%	17%	35%	35%	4%	38%	27%	12%
Exit opportunities	17%	31%	35%	13%	4%	17%	48%	-31%
Time to exit deals	0%	13%	31%	31%	25%	56%	13%	42%
Expected returns on new investments	6%	25%	44%	19%	6%	25%	31%	-6%
Value of portfolio companies	8%	31%	29%	31%	2%	33%	38%	-6%
General business conditions	17%	25%	21%	35%	2%	37%	42%	-6%
Appetite for risk	15%	30%	34%	17%	4%	21%	45%	-25%

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BUSINESS APPRAISER SURVEY INFORMATION

According to the 327 business appraiser survey respondents, inflation is the most important issue facing privately-held business today. Respondents indicated increases in number of engagements, fees for services, slightly increased competition, and worsened general business conditions over the last twelve months. They also expect worsening business conditions in the next twelve months.

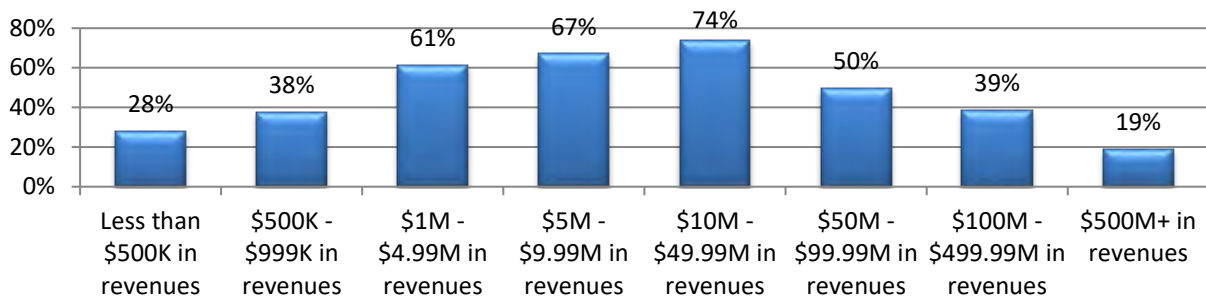
Other key findings include:

- When using valuation methods to determine the value of a business, the most popular methods used by respondents were discounted future earnings method (36%), capitalization of earnings method (24%) and guideline company transactions method (16%).
- Recast (adjusted) EBITDA multiple is the most popular when using multiple valuation method
- Respondents use an average risk-free rate of 3.6% and a market (equity) risk premium of 6.3%
- Average long-term terminal growth is estimated at 3.2%

Operational and Assessment Characteristics

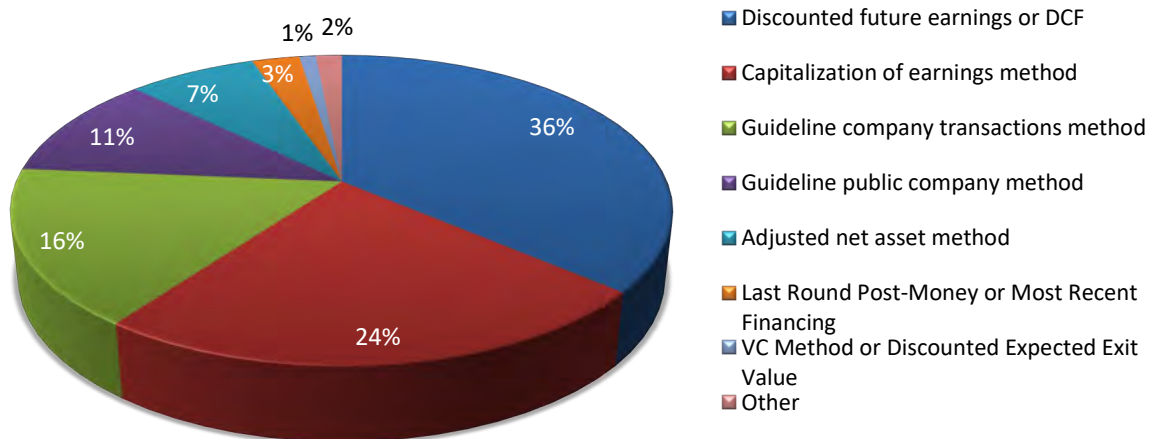
Most of the companies valued by respondents have annual revenues from \$1 million to \$100 million.

Figure 92. Annual Revenues of Companies Valued



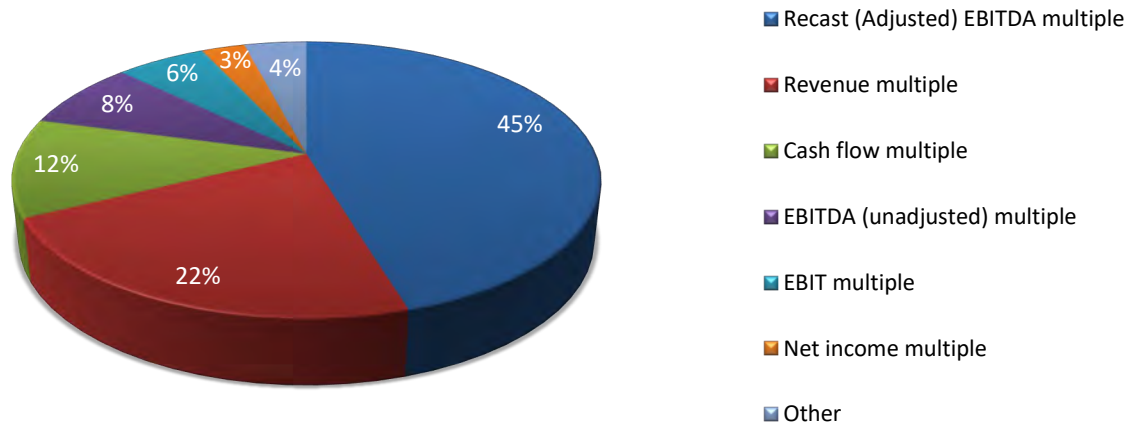
Appraisers, on average, apply a 36% weight to discounted future earnings method when valuing a privately-held business.

Figure 93. Usage of Valuation Methods



Respondents using multiples-based approaches indicate a preference for using recast (adjusted) EBITDA multiples (45%), followed by revenue multiples (22%).

Figure 94. Usage of Multiple Methods



Respondents indicated using an average risk-free rate of 3.6%, average market (equity) risk premium of 6.3% and average long-term growth rate of 3.2%.

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

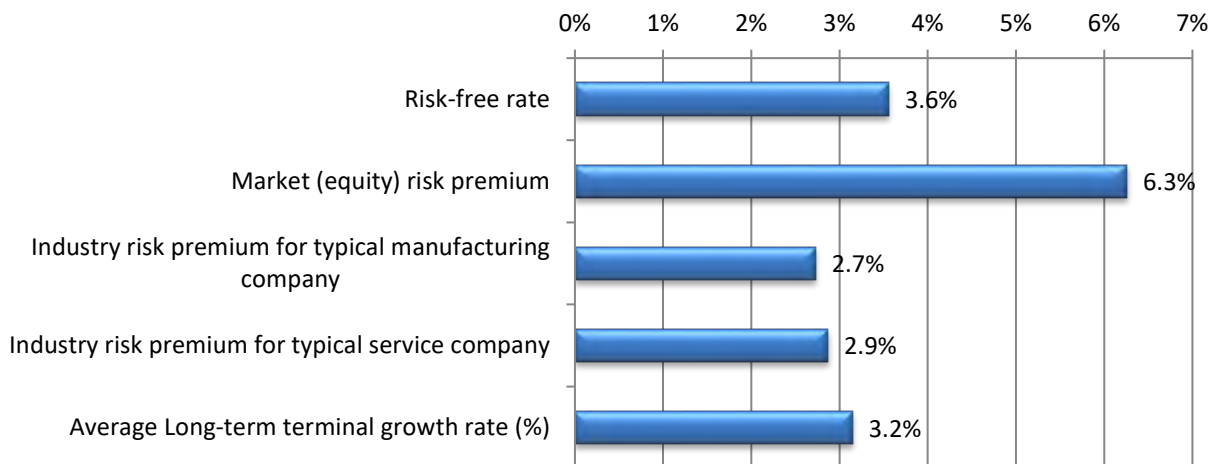
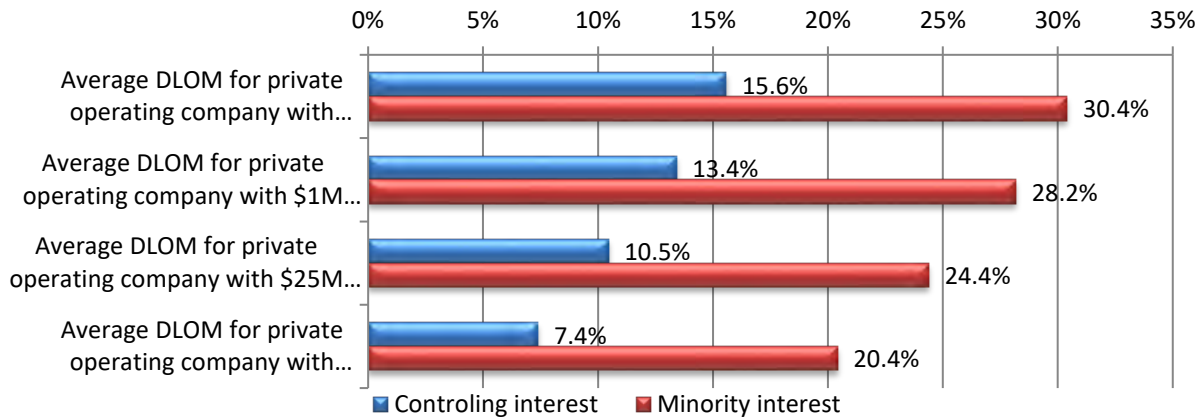


Figure below indicates considerable differences in DLOMs across sizes of companies and subject interests.

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



Only 28% 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

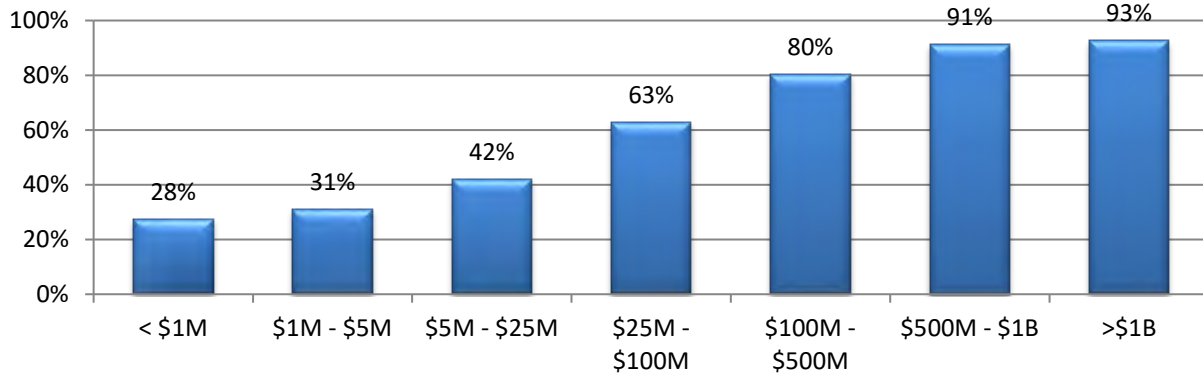


Figure 98. Explicit Forecast Period for High-Growth Companies by Revenue Sizes (years)

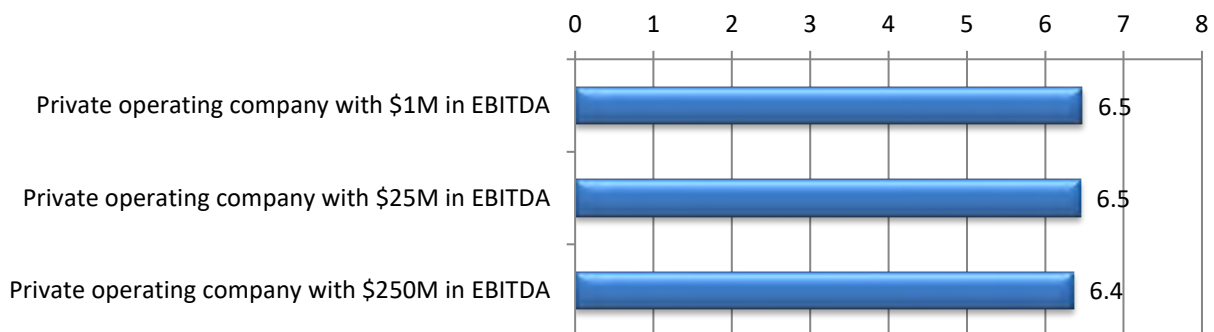


Figure 99. Size Premiums for Private Companies by Revenue Size

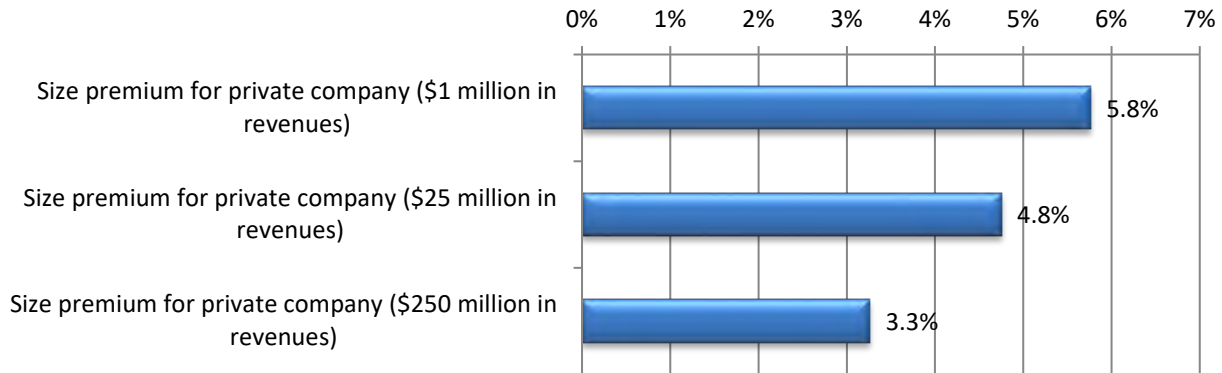
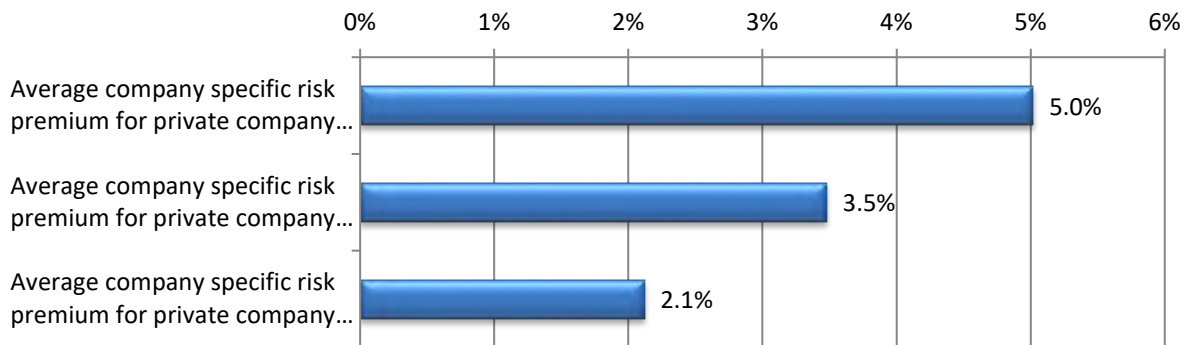
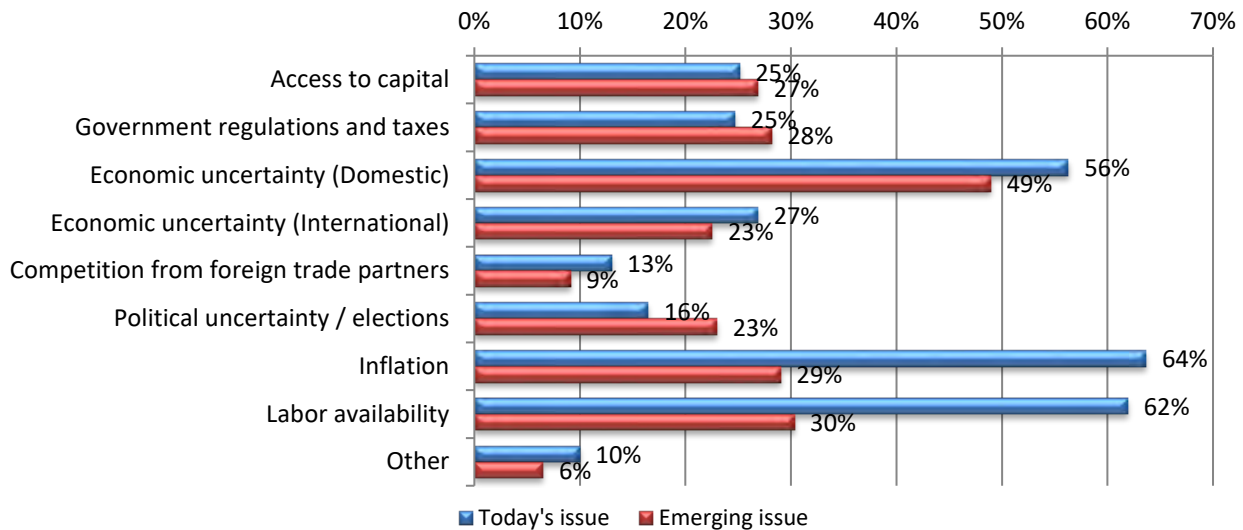


Figure 100. Company Specific Risk Premiums by Revenue Size



Respondents believe labor inflation and labor availability are the most important issues 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 worsened general business conditions over the last twelve months.

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

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Number of engagements	5%	18%	32%	29%	17%	45%	23%	23%
Time to complete a typical appraisal	1%	6%	67%	21%	5%	26%	7%	19%
Fees for services	0%	3%	28%	63%	7%	70%	3%	67%
Competition	0%	8%	72%	13%	7%	20%	8%	12%
Cost of capital	0%	2%	15%	60%	23%	82%	2%	80%
Market (equity) risk premiums	0%	4%	35%	54%	7%	61%	4%	58%
Discounts for lack of marketability (DLOM)	0%	5%	79%	14%	2%	16%	5%	11%
Company specific risk premiums	0%	4%	57%	35%	3%	38%	4%	34%
General business conditions	2%	42%	29%	21%	5%	27%	44%	-17%
Appetite for risk	4%	41%	41%	10%	4%	14%	45%	-31%

Respondents expect worsening business conditions in the next twelve months.

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

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/decrease
Number of engagements	1%	13%	40%	39%	7%	0%	14%	-13%
Time to complete a typical appraisal	0%	10%	72%	17%	1%	0%	10%	-10%
Fees for services	0%	2%	34%	60%	3%	1%	2%	-1%
Competition	0%	4%	71%	20%	3%	1%	4%	-3%
Cost of capital	0%	7%	39%	46%	7%	1%	7%	-6%
Market (equity) risk premiums	0%	3%	53%	38%	3%	3%	3%	-1%
Discounts for lack of marketability (DLOM)	0%	4%	77%	11%	2%	6%	4%	2%
Company specific risk premiums	0%	4%	61%	28%	3%	3%	4%	-1%
General business conditions	3%	30%	37%	25%	4%	1%	33%	-32%
Appetite for risk	2%	30%	49%	14%	3%	1%	32%	-31%

BROKER SURVEY INFORMATION

Approximately 61% of the 64 participants for the broker survey said they expect to close between two and five deals in the next 12 months.

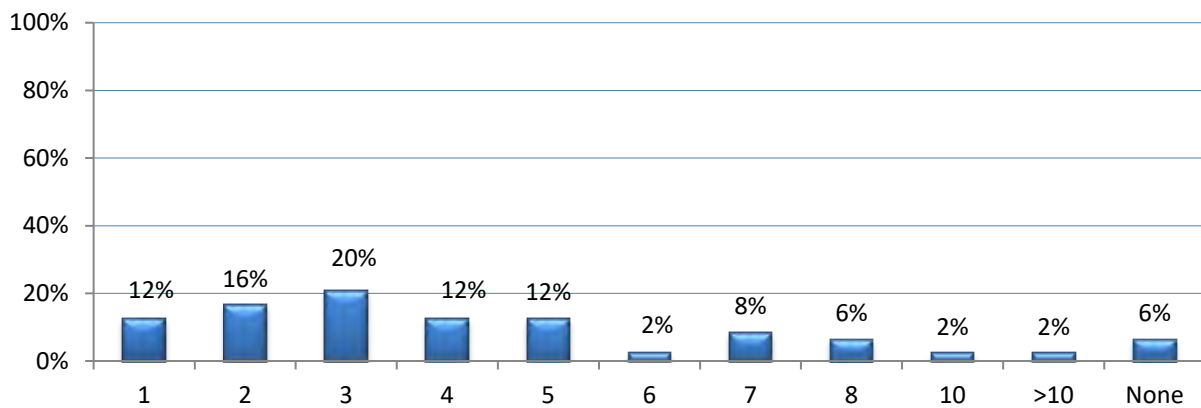
Other key findings include:

- Approximately 40% of business listings/ engagements terminated without closing in the last 12 months.
- Respondents indicated slight increases in deal flow, ratio of businesses sold to total listings, business exit opportunities, and worsened general business conditions.
- 43% of respondents closed more deals in 2022 than in 2021.

Operational and Assessment Characteristics

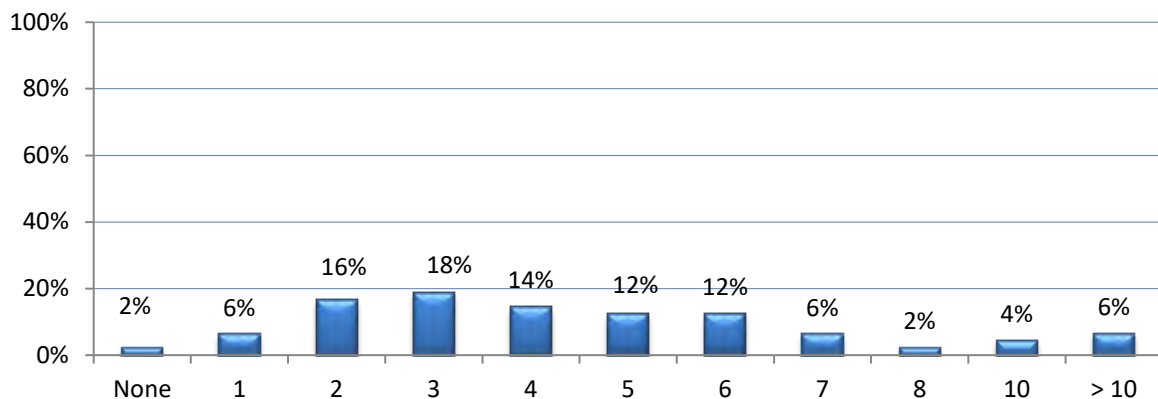
Approximately 6% of the respondents didn't close any deal in the last twelve months; 49% closed between one to three deals, while 45% closed four or more transactions.

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



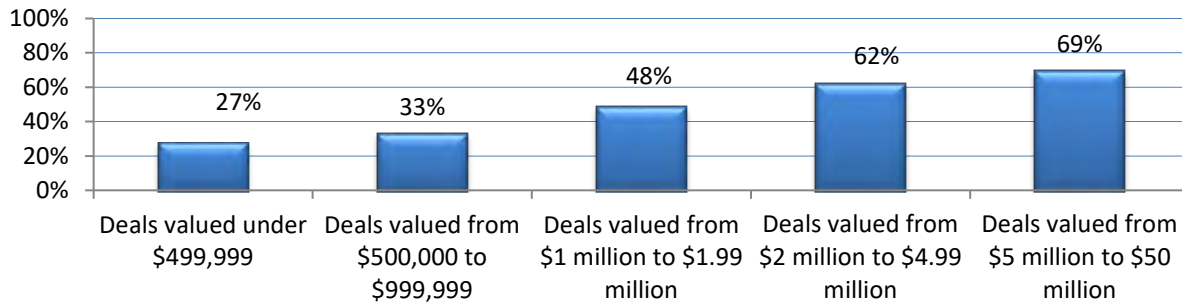
Approximately 73% of respondents are planning to close between two and six business sales transactions in the next 12 months.

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



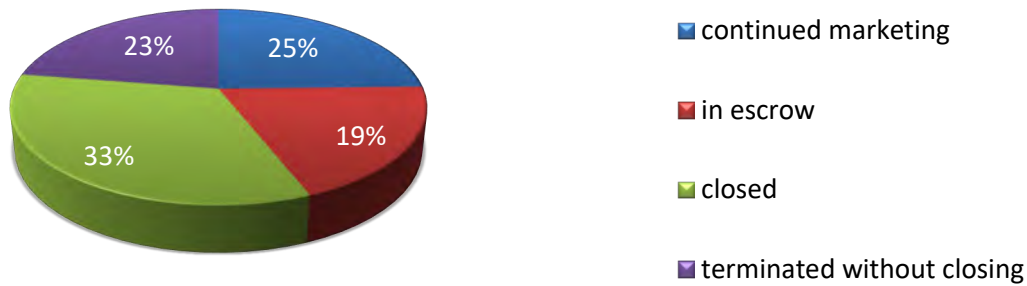
Respondents indicated typical sizes of transactions they are currently working on.

Figure 104. Typical Size of Business Transactions



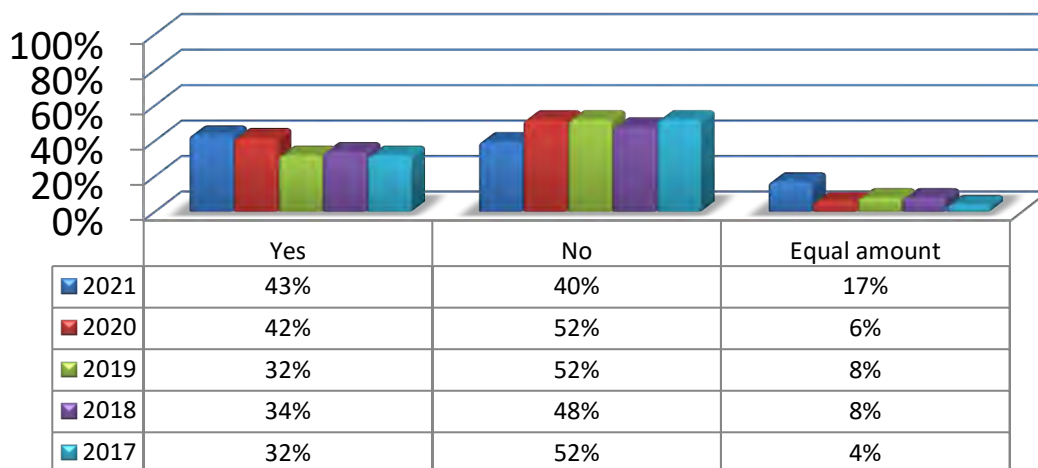
Respondents indicate out of all business transactions they worked on in the last 12 months 33% were closed, 25% are continued marketing, 19% are in escrow and 23% were terminated without closing.

Figure 105. Business Transactions in the Last 12 Months



Nearly 43% of respondents closed more transactions in 2022 than in 2021, 17% of respondents closed equal amount.

Figure 106. Did Respondents Close More Transactions in 2022 than in Previous Years



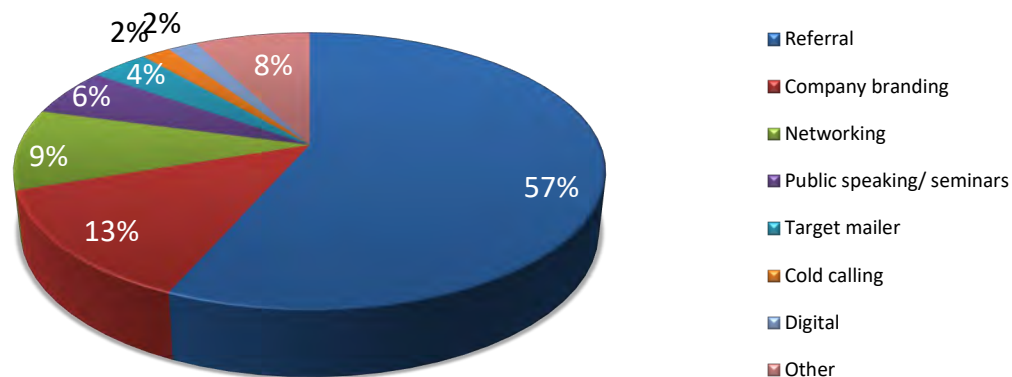
Respondents indicate difficulty to arrange senior debt for transactions with annual revenues under \$5 million.

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

Revenue size	Extremely difficult	Difficult	Somewhat difficult	Neutral	Somewhat easy	Easy	Extremely easy	Score (-3 to 3)
\$100K	21%	21%	11%	32%	11%	5%	0%	-0.9
\$500K	5%	14%	27%	41%	14%	0%	0%	-0.5
\$1M	4%	11%	25%	39%	18%	4%	0%	-0.3
\$5M	0%	8%	28%	43%	18%	5%	0%	-0.2
\$10M	3%	6%	9%	48%	21%	9%	3%	0.2
\$15M	4%	9%	13%	35%	30%	0%	9%	0.1
\$25M+	5%	10%	10%	30%	40%	0%	5%	0.1

Approximately 57% of respondents indicate best clients arrived by referrals.

Figure 107. Best Client Arrived By:



Nearly 27% of referrals were lenders.

Figure 108. Types of Referrals

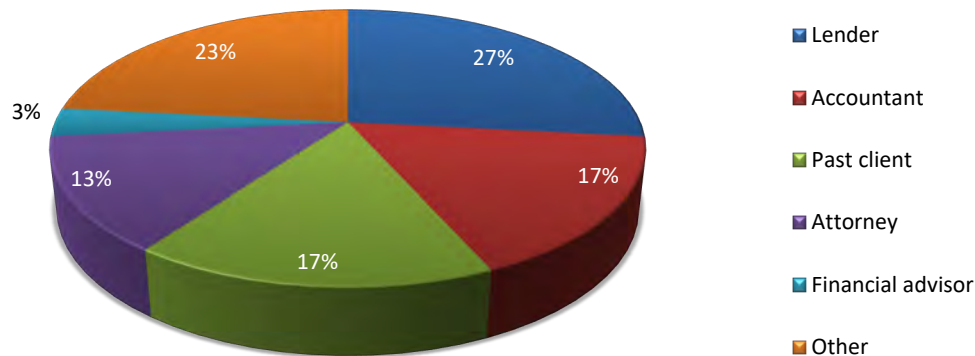
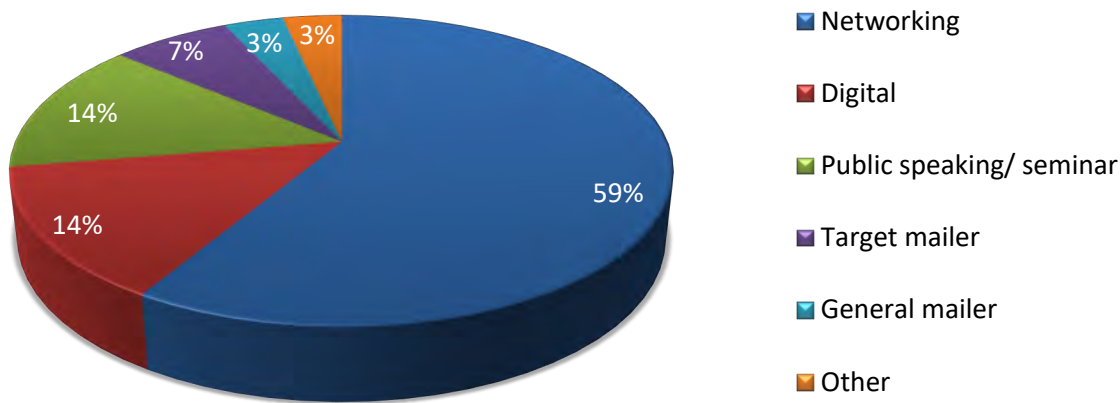


Figure 109. Best Marketing Tactic Use in Finding Client Besides Referral



Approximately 44% of respondents indicated it was 'buyer's market' for deals valued under \$500 thousands, whereas only 36% 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

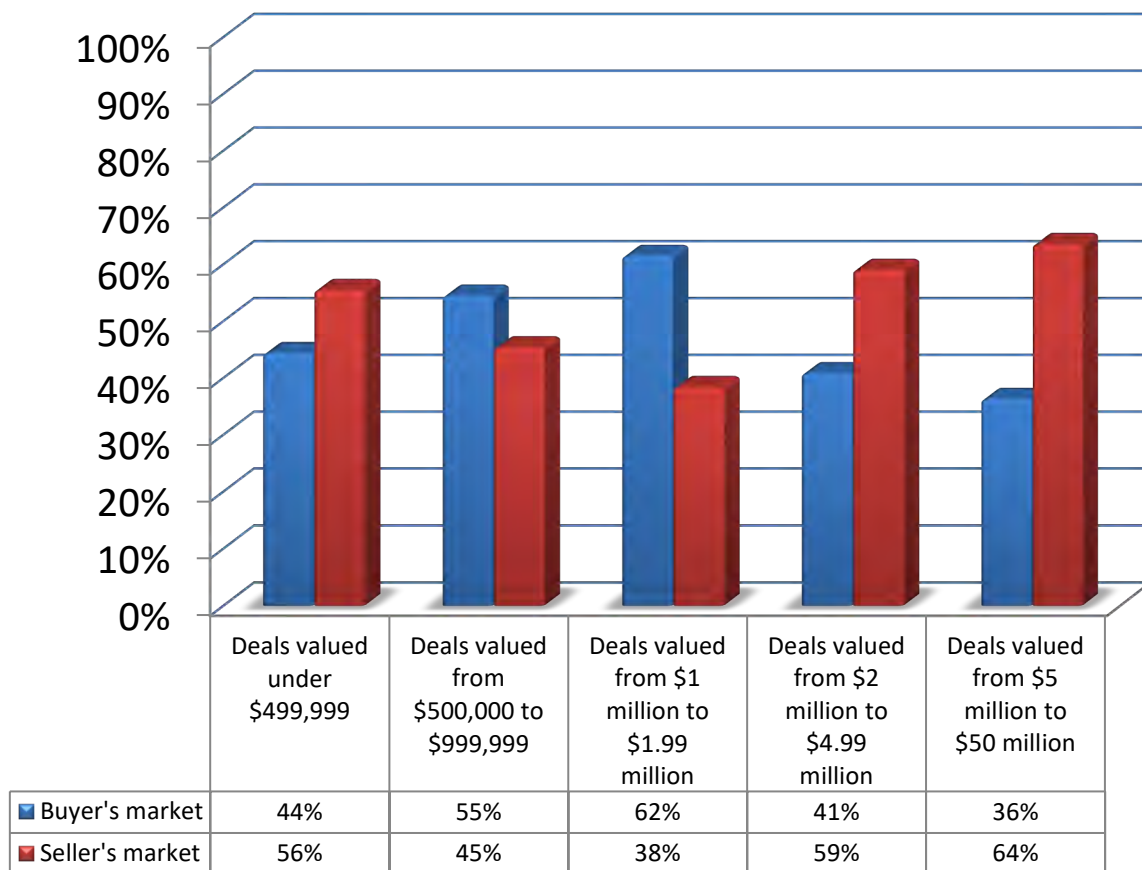
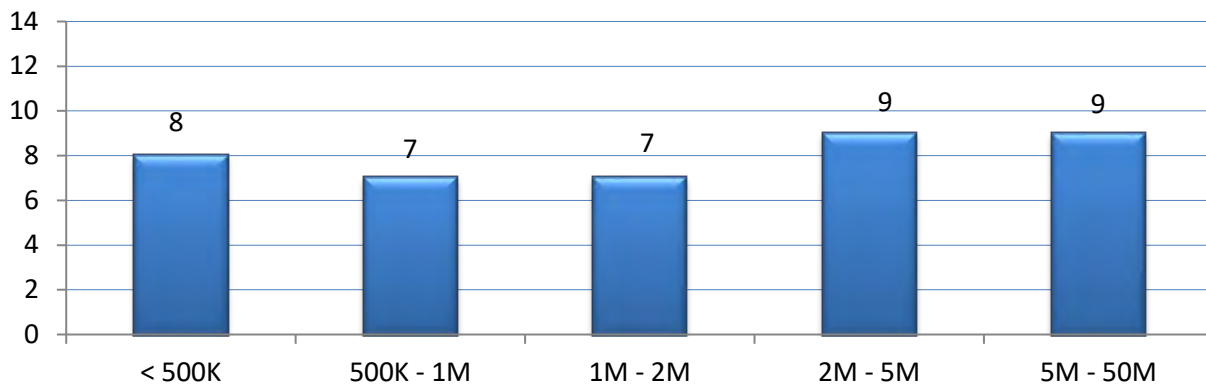


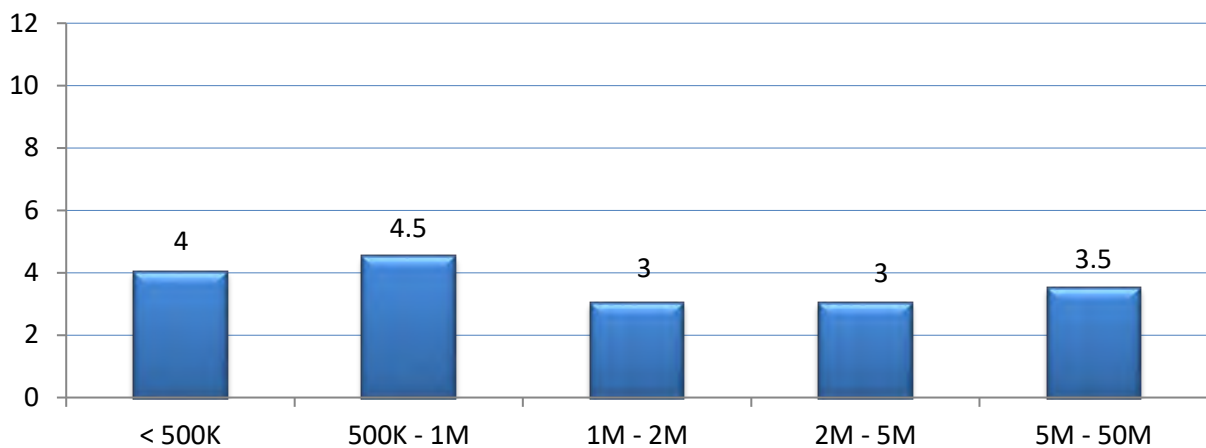
Table 52. Number of New Clients in the Last 3 Months

Deal size	Greatly decreased	Decreased	Stayed the same	Increased	Greatly increased	Score (1 to 5)
Deals valued under \$499,999	0%	43%	14%	0%	43%	3.4
Deals valued from \$500,000 to \$999,999	0%	30%	10%	0%	60%	3.9
Deals valued from \$1 million to \$1.99 million	0%	42%	0%	25%	33%	3.5
Deals valued from \$2 million to \$4.99 million	10%	43%	0%	0%	48%	3.3
Deals valued from \$5 million to \$50 million	5%	45%	9%	9%	32%	3.2

Median number of months from listing / engagement to close varies from 7 to 9 months.

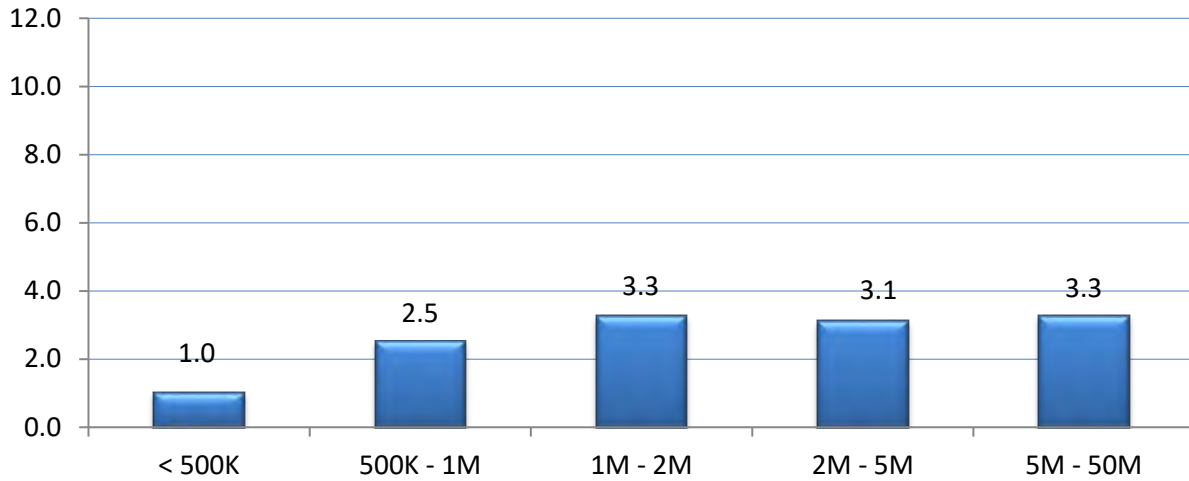
Figure 111. Median Number of Months from Listing / Engagement to Close by Deal Size

Median number of months from LOI / Offer to close varies from 3 to 4.5 months.

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

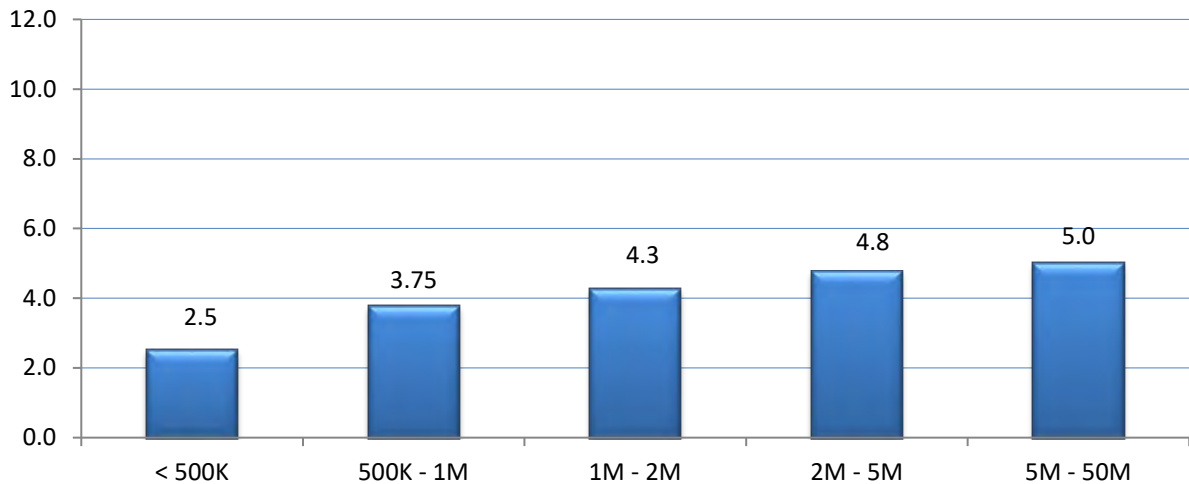
Median SDE multiple paid varies between 1.0 and 3.3.

Figure 113. Median SDE Multiple Paid by Deal Size



Median EBITDA multiple paid varies between 2.5 and 5.0.

Figure 114. Median EBITDA Multiple Paid by Deal Size



SDE including working capital was the most popular multiple type used for deals valued under \$500K, while EBITDA including working capital was the most popular type for deals valued between \$2 million and \$50 million.

Figure 115. Multiple Types by Deal Size

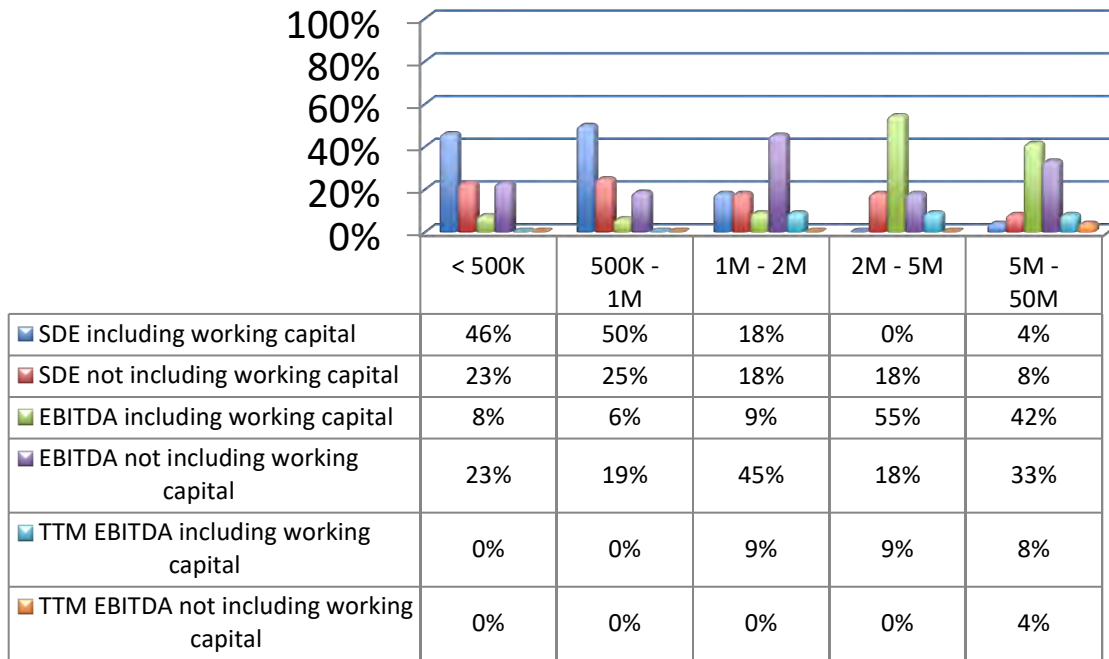
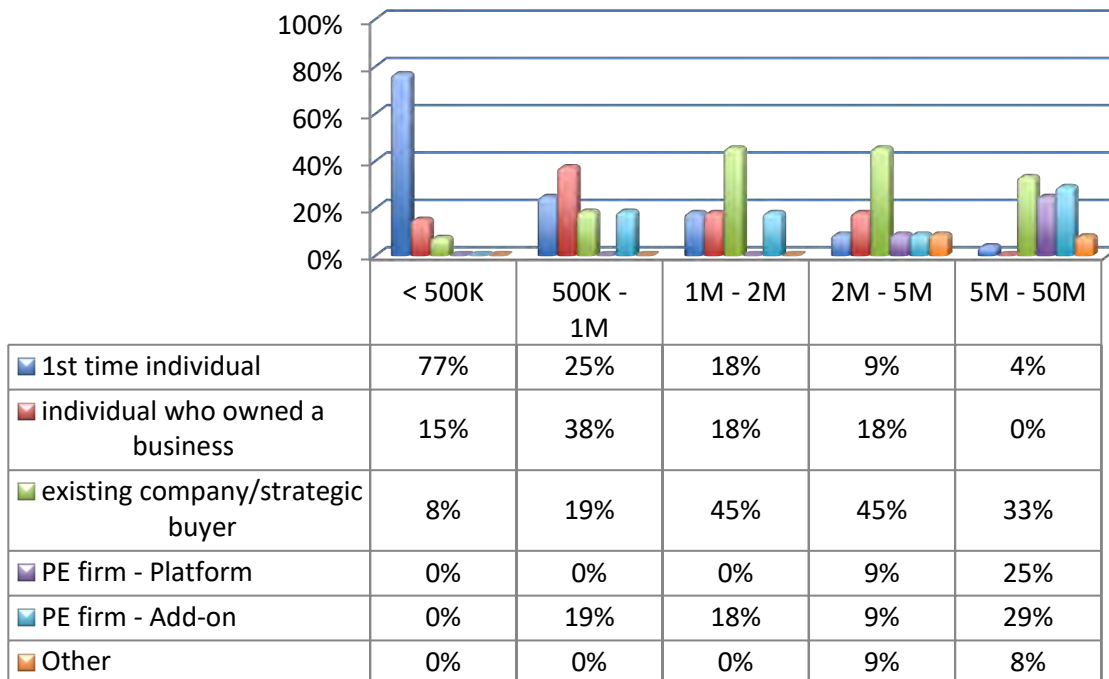


Figure 116. Buyer Type by Deal Size



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

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

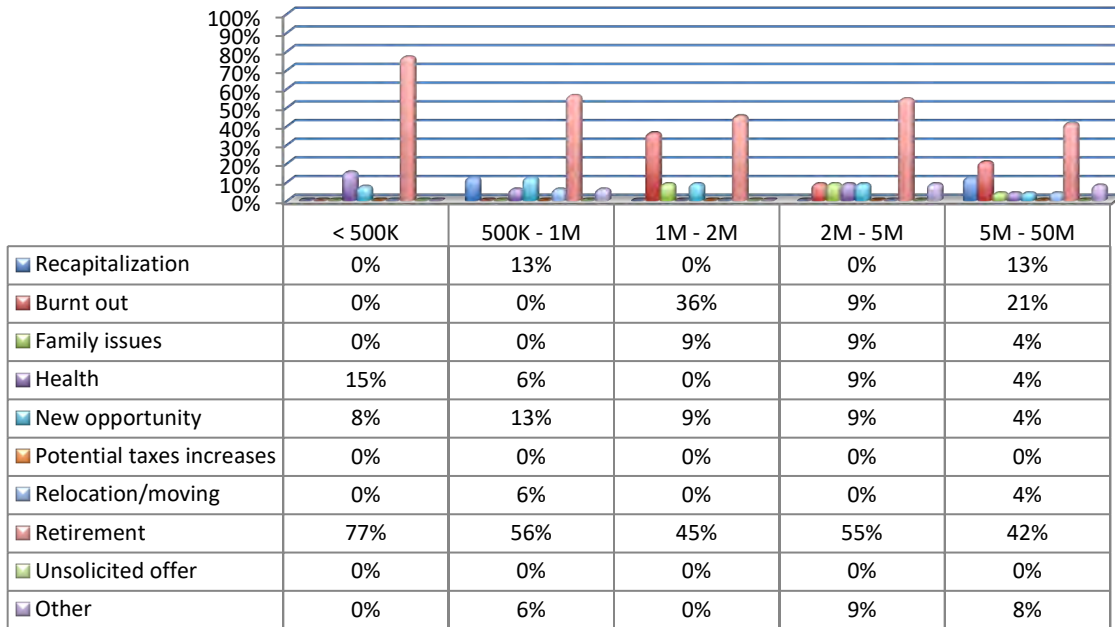
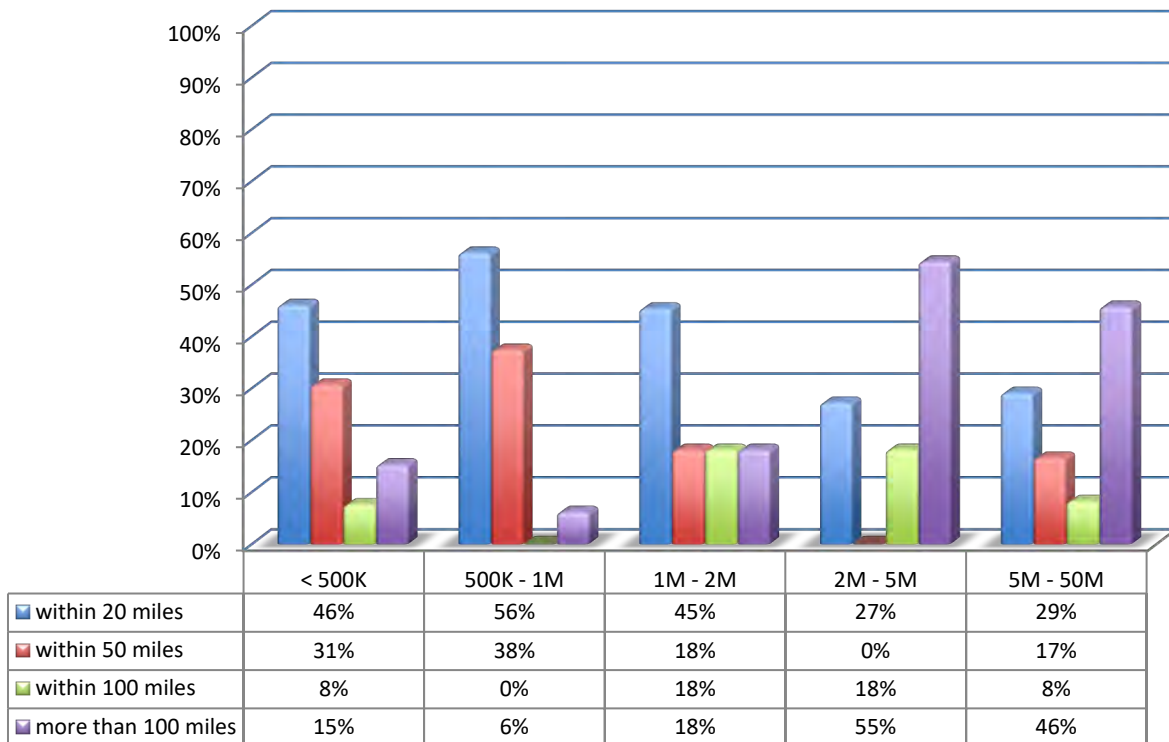
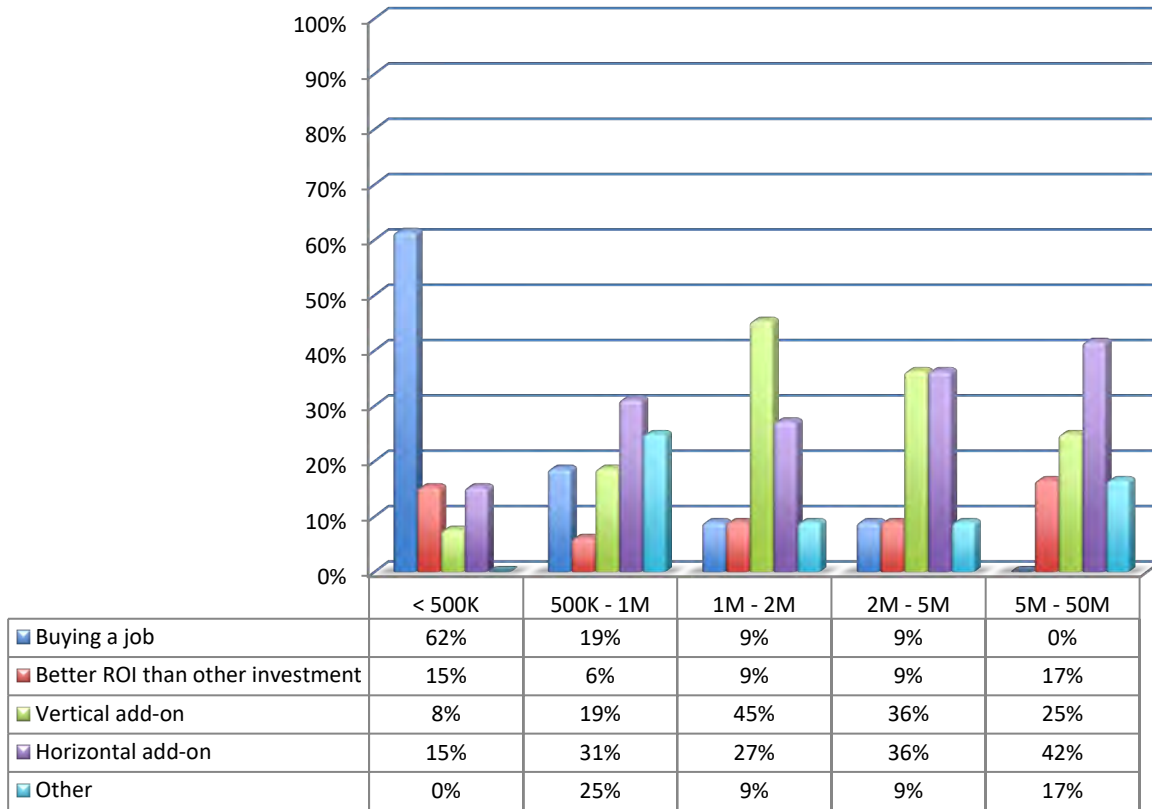


Figure 118. Buyer Location by Deal Size



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



Average percentage of final/ selling price realized to asking/ benchmark price was 96%.

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

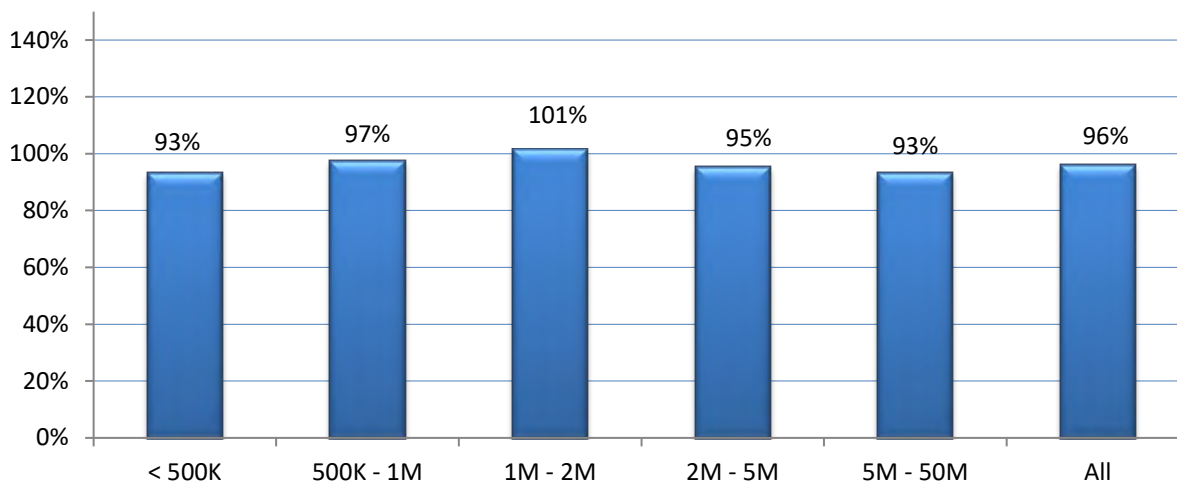


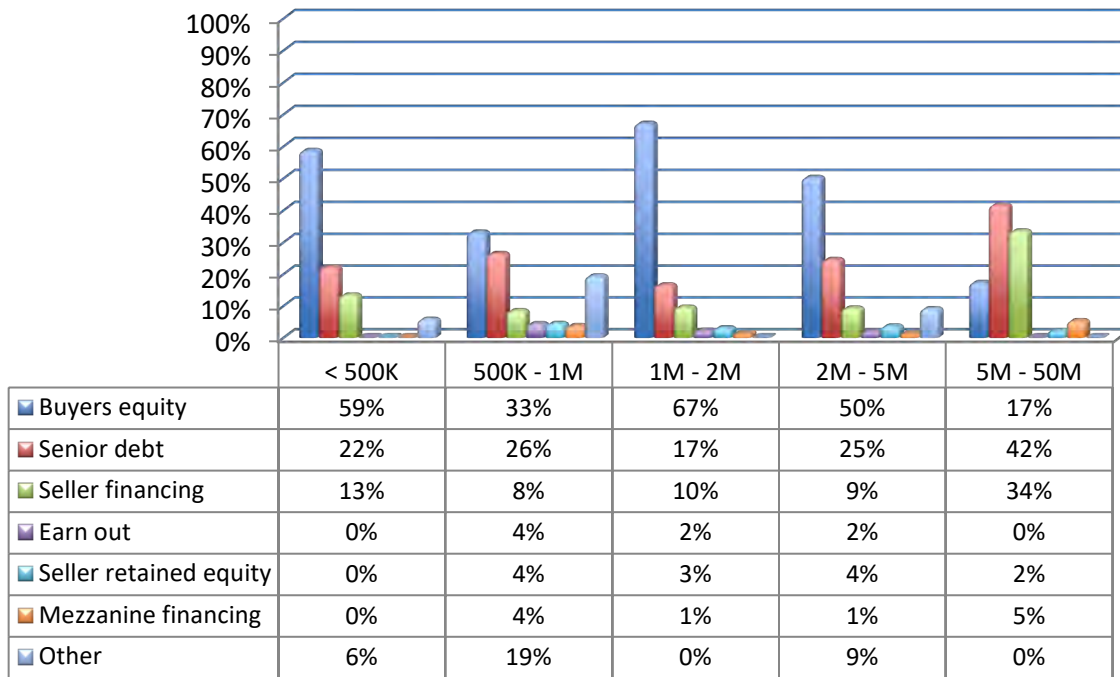
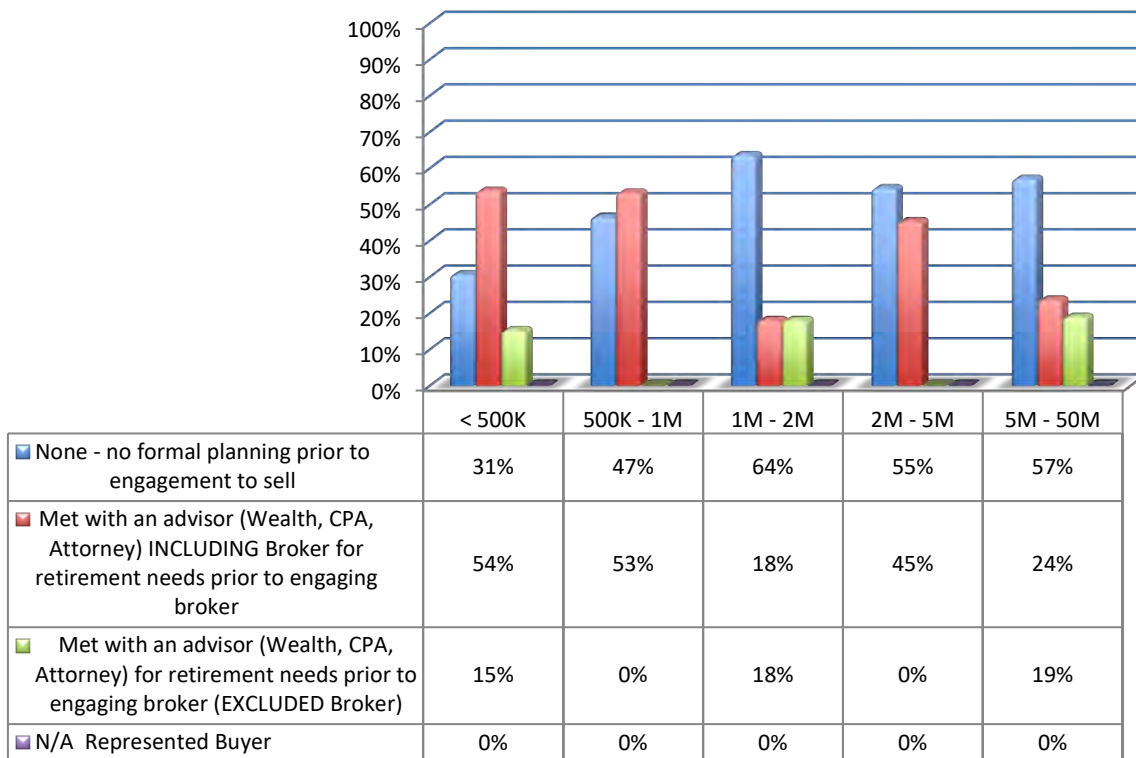
Figure 121. Financing Structure by Deal Size

Figure 122. Exit Planning


Figure 123. Amount of Exit Planning Prior to Marketing Business

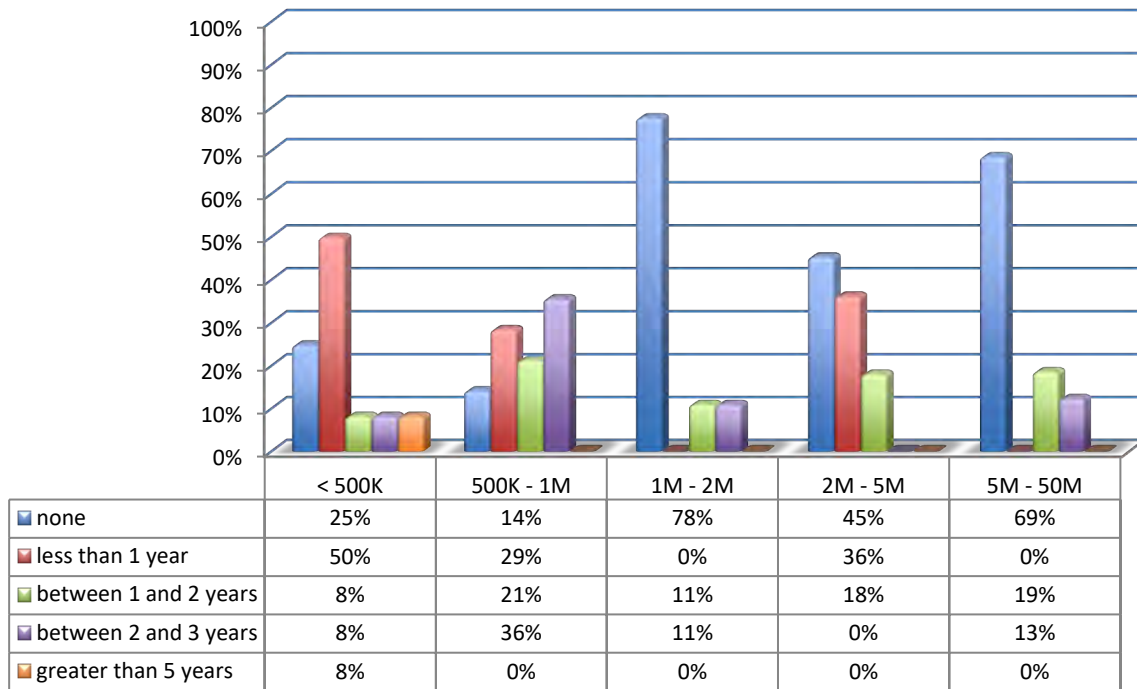


Table 53. Expectations of Business Listings/ Engagements from New Clients in the Next 3 Months

Deal size	Greatly decrease	Decrease	Stay the same	Increase	Greatly increase	Score (1 to 5)
Deals valued under \$499,999	0.0%	0.0%	62.5%	25.0%	12.5%	3.5
Deals valued from \$500,000 to \$999,999	0.0%	20.0%	40.0%	30.0%	10.0%	3.3
Deals valued from \$1 million to \$1.99 million	0.0%	7.7%	30.8%	53.8%	7.7%	3.6
Deals valued from \$2 million to \$4.99 million	4.5%	9.1%	36.4%	40.9%	9.1%	3.4
Deals over \$5 million	0.0%	4.5%	40.9%	45.5%	9.1%	3.6

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

Deal size	Greatly decrease	Decrease	Stay the same	Increase	Greatly increase	Score (1 to 5)
Deals valued under \$499,999	0.0%	44.4%	55.6%	0.0%	0.0%	2.6
Deals valued from \$500,000 to \$999,999	0.0%	45.5%	54.5%	0.0%	0.0%	2.5
Deals valued from \$1 million to \$1.99 million	0.0%	57.1%	35.7%	7.1%	0.0%	2.5
Deals valued from \$2 million to \$4.99 million	0.0%	47.8%	43.5%	8.7%	0.0%	2.6
Deals over \$5 million	0.0%	33.3%	45.8%	20.8%	0.0%	2.9

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

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

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Deal flow	2%	21%	45%	28%	4%	32%	23%	9%
Ratio of businesses sold / total listings	4%	15%	58%	19%	4%	23%	19%	4%
Deal multiples	4%	45%	47%	4%	0%	4%	49%	-45%
Business exit opportunities	0%	21%	55%	25%	0%	25%	21%	4%
Amount of time to sell business	0%	9%	45%	42%	4%	45%	9%	36%
Difficulty selling business	0%	9%	38%	51%	2%	53%	9%	43%
Business opportunities for growth	0%	15%	57%	26%	2%	28%	15%	13%
General business conditions	0%	45%	47%	8%	0%	8%	45%	-38%
Margin pressure on companies	0%	21%	37%	37%	6%	42%	21%	21%

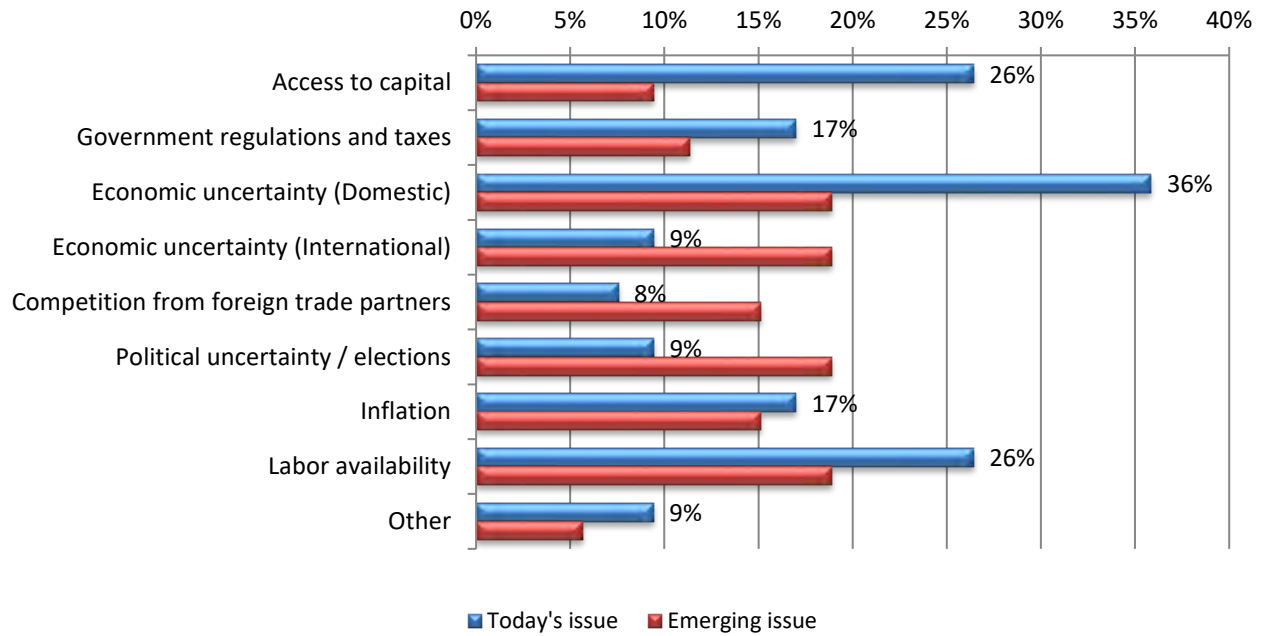
Table 56. General Business and Industry Assessment: Expectations over the Next 12 Months

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Deal flow	0%	19%	47%	23%	11%	34%	19%	15%
Ratio of businesses sold / total listings	2%	21%	51%	25%	2%	26%	23%	4%
Deal multiples	0%	57%	42%	2%	0%	2%	57%	-55%
Business exit opportunities	0%	21%	53%	25%	2%	26%	21%	6%
Amount of time to sell business	2%	9%	40%	45%	4%	49%	11%	38%
Difficulty selling business	2%	6%	33%	58%	2%	60%	8%	52%
Business opportunities for growth	0%	19%	42%	36%	4%	40%	19%	21%
General business conditions	2%	47%	36%	15%	0%	15%	49%	-34%
Margin pressure on companies	0%	26%	26%	42%	6%	47%	26%	21%

BROKER cont.

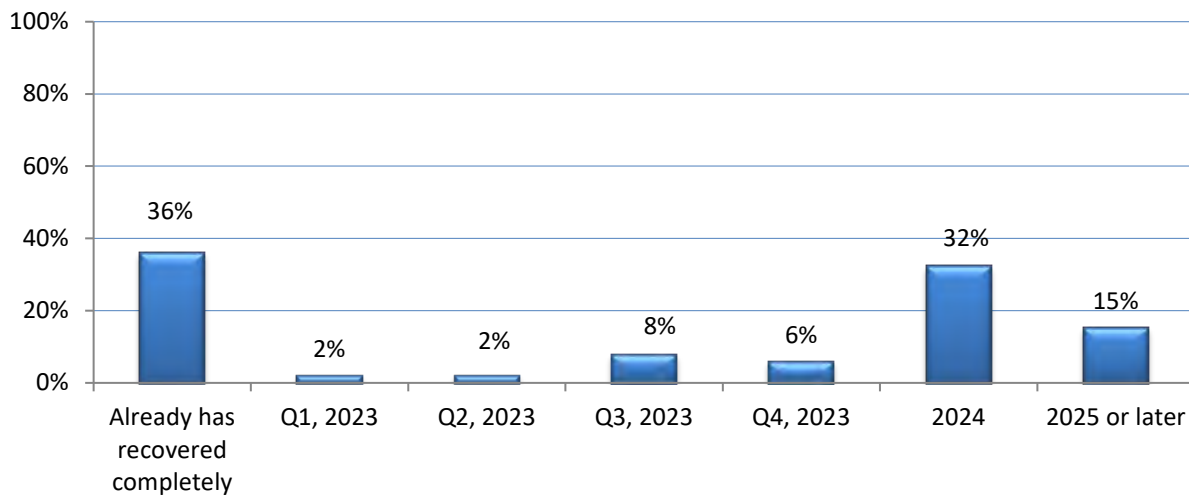
Respondents believe domestic economic uncertainty is the most important current issue facing privately-held businesses.

Figure 124. Issues Facing Privately-Held Businesses



Approximately 36% of respondents believe M&A activity already returned to pre-March 2020 level.

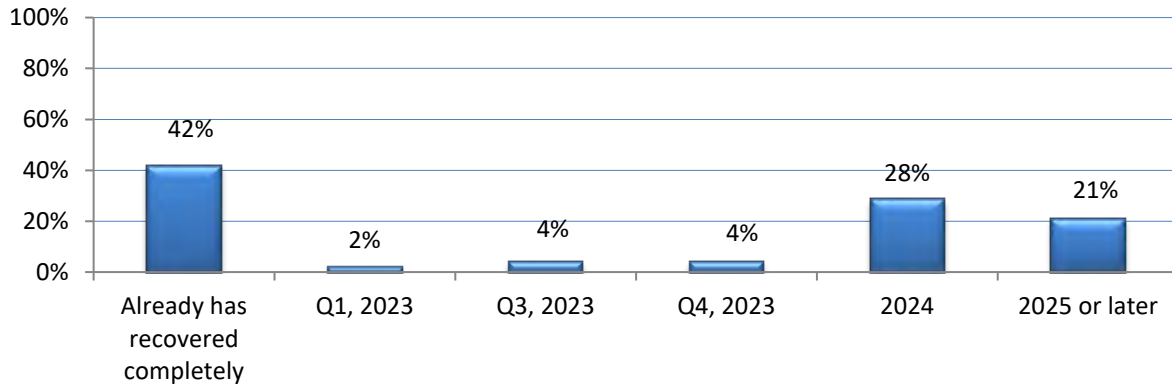
Figure 125. When M&A Activity Returns to Pre-March 2020 Level



BROKER cont.

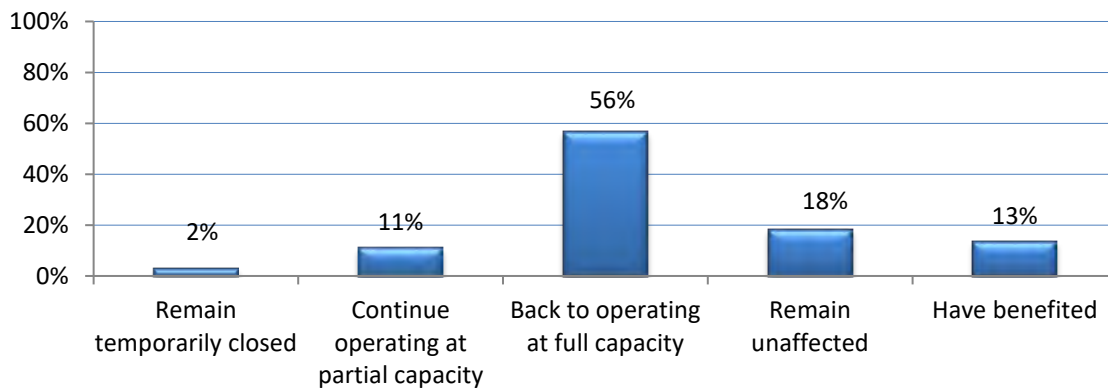
Approximately 42% of respondents believe M&A activity already returned to pre-March 2020 level.

Figure 126. When Main Street Activity Returns to Pre-March 2020 Level



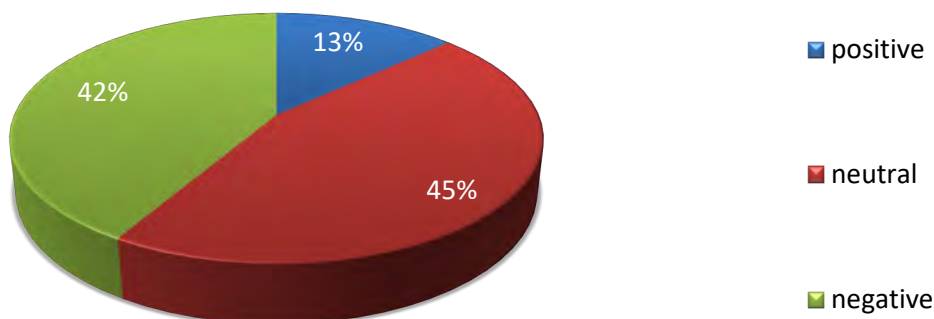
Respondents believe 56% of businesses they are working with return back to operating at full capacity.

Figure 127. Percentage of Businesses Respondents Working with Have:



Approximately 42% of respondents believe the pandemic will have negative effect on business values.

Figure 128. Which Effect Will the Pandemic Have on Business Values



FACTOR SURVEY INFORMATION

Approximately 38% of 11 respondents to the factor survey said the primary uses of factoring facilities are financing working capital fluctuations, followed by expansion (28%), and finance project financing (12%). Factoring facilities are relatively short-term compared to other investments with respondents reporting approximately 56% of factoring facilities have less than or equal to 12 months term.

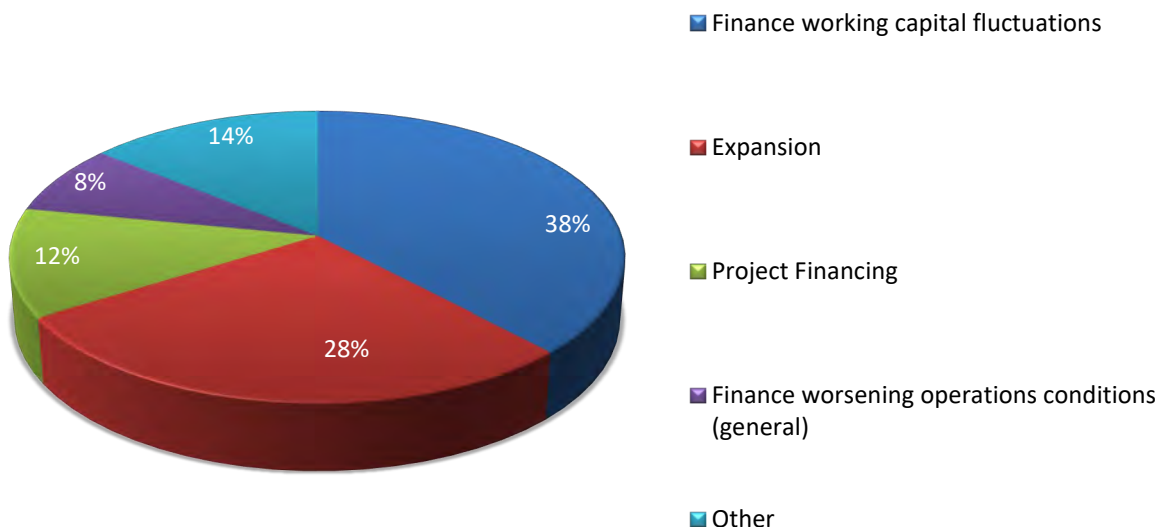
Other key findings include:

- Respondents reported approximately 28% of their company's gross invoices over the last twelve months were originated from wholesale and distribution, another 18% of respondents originated gross invoices from business services.
- When asked about conditions compared to twelve months ago respondents said they saw decreased demand for business factoring lines in the last 12 months, worsened general business conditions and increased interest rates.
- Respondents believe domestic economic uncertainty is the most important issues facing privately-held businesses today. 40% of respondents believe inflation is the most important emerging issue.

Operational and Assessment Characteristics

Approximately 38% of respondents indicated working capital fluctuations as the primary uses of factoring facilities.

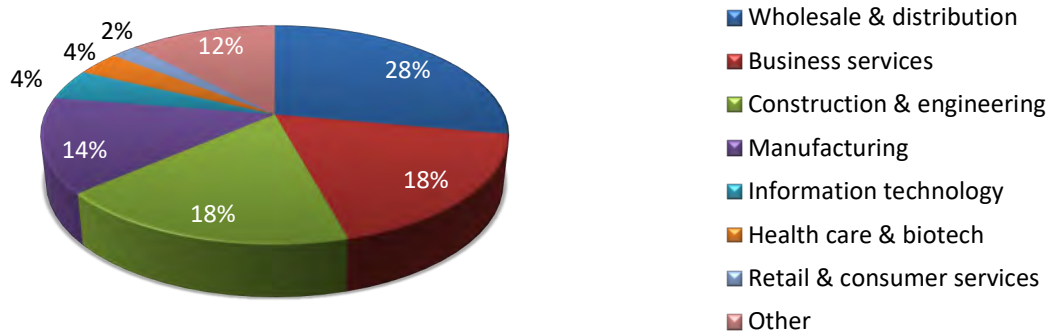
Figure 129. Primary Use of the Factoring Facilities Over the Last 12 Months



FACTOR cont.

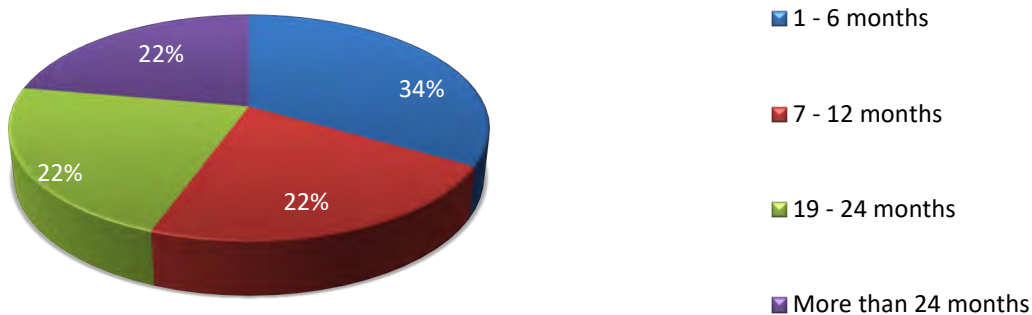
Respondents reported approximately 28% of their company's gross invoices over the last twelve months were originated from wholesale & distribution, another 18% of respondents originated gross invoices from business services.

Figure 130. Industries for Gross Invoices for the Last 12 Months



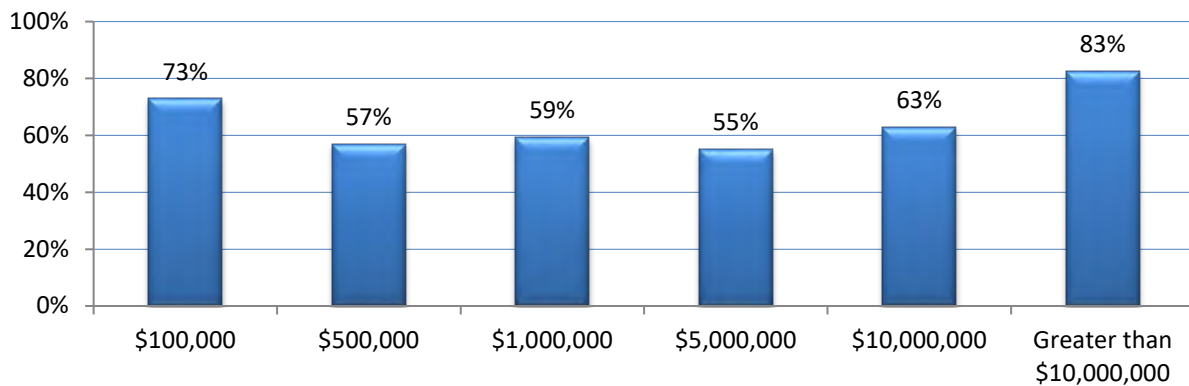
Factoring facilities are relatively short-term compared to other investments with respondents reporting approximately 56% of factoring facilities have less than or equal to 12 months term.

Figure 131. Term of Current Typical Factoring Facility



Respondents reported average advance rates charged for various-sized facilities range from 55% to 83% on a monthly basis.

Figure 132. Current Average Advance Rates for Various-Sized Facilities



Nearly 67% of respondents charge wire transfer / ACH fee, while 33% of respondents charge due diligence fee.

Table 57. Fees Charged

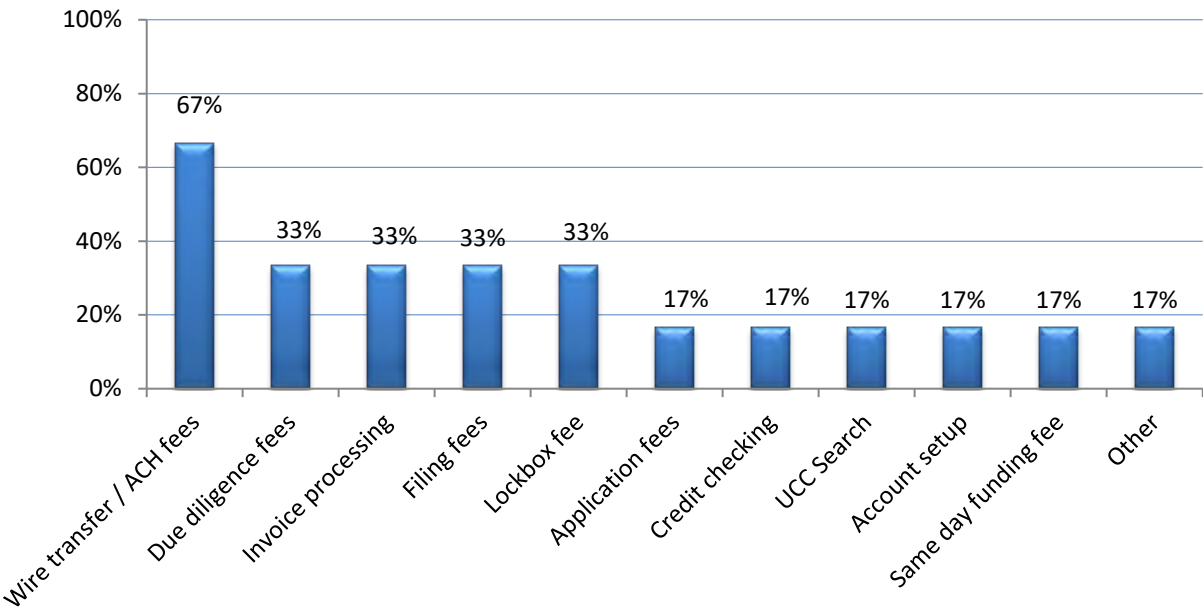
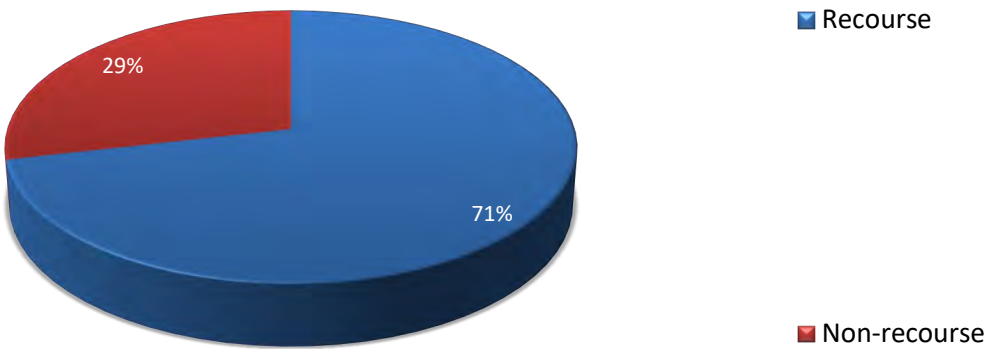
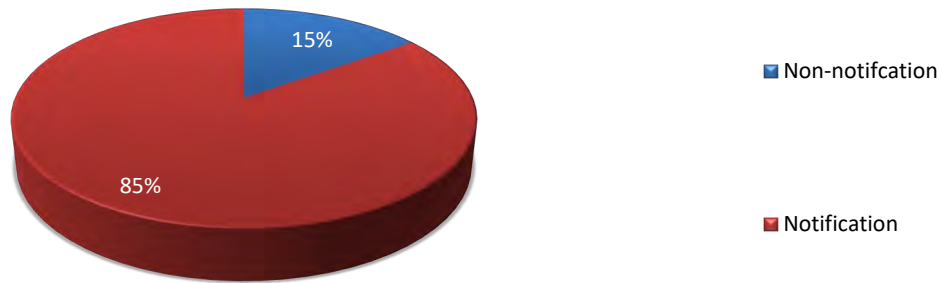


Figure 133. Percentage of Factoring Business - Recourse vs Non-recourse



Respondents reported 85% of their current purchases were on a notification basis

Figure 134. Percentage of Purchases on a Non-notification Basis



Nearly 100% of respondents require background check.

Table 58. Typical Current Requirements

Requirement	%
Lien on A/R assets	67%
Background check	100%
Personal guarantee	86%
Financial statements	86%
Lien on all assets	80%
Performance guarantee	71%
Audit	33%

Table 59. Discount fee (%) on Outstanding Invoices for Notification Basis

	\$0 - \$25K	\$25K - \$50K	\$50K - \$100K	\$100K - \$250K	\$250K - \$1M	\$1M - \$5M	\$5M - \$10M	\$10M +
First 30 days								
1st quartile	1.8%	1.8%	1.8%	1.4%	1.3%	1.3%	1.3%	1.3%
Median	1.9%	1.8%	1.8%	1.5%	1.5%	1.3%	1.3%	1.3%
3rd quartile	3.8%	3.8%	3.5%	1.9%	1.5%	1.3%	1.3%	1.3%
Next 15 days (31-45)								
1st quartile	1.3%	0.8%	0.5%	0.8%	0.6%	0.5%	0.5%	0.5%
Median	1.5%	1.1%	1.1%	1.1%	0.8%	0.5%	0.5%	0.5%
3rd quartile	1.6%	1.6%	1.6%	1.5%	1.1%	0.5%	0.5%	0.5%
Next 15 days (46-60)								
1st quartile	1.3%	0.8%	0.8%	0.8%	0.6%	0.5%	0.5%	0.5%
Median	1.5%	1.1%	1.1%	1.1%	0.8%	0.5%	0.5%	0.5%
3rd quartile	1.6%	1.6%	1.6%	1.5%	1.1%	0.5%	0.5%	5.0%

On average respondents expect 6% of total write-off.

Table 60. Expected Total Write-off – Percentage of Receivables Purchased on New Arrangements (%)

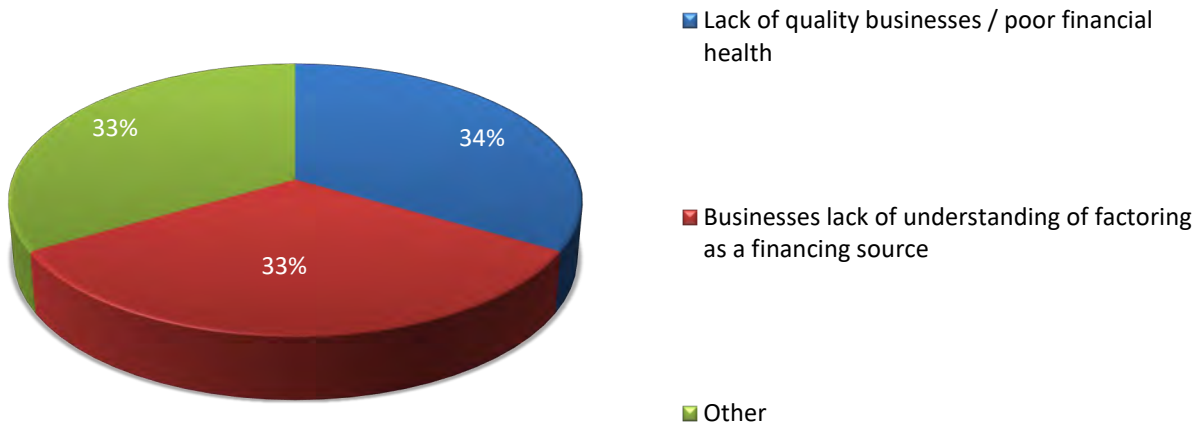
	1st quartile	Median	3rd quartile
Expected total write-off	3.3%	6.0%	6.3%

Table 61. Average Number of Days Outstanding Receivables

	1st quartile	Median	3rd quartile
During Last 12 Months	40	45	60
Expected for Next 12 Months	38	45	60

According to the 34% of respondents, the most significant concern to factoring business is lack of quality businesses and another 22% of respondents sight lack of understanding of factoring as a financing source.

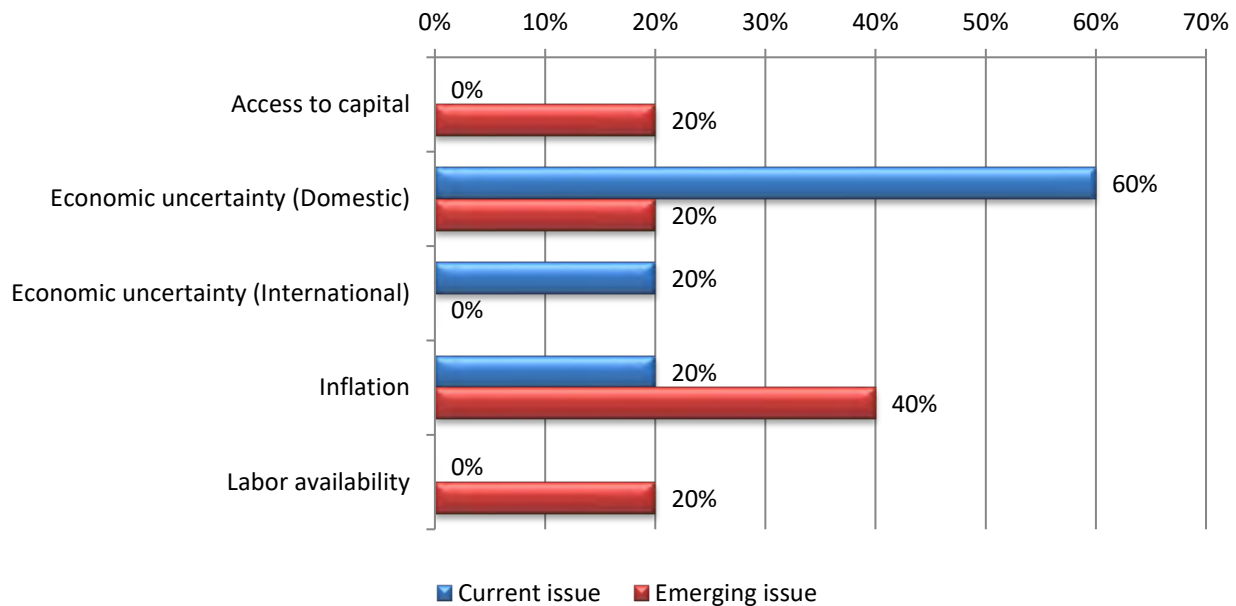
Figure 135. Most Significant Concern to Factoring Business



FACTOR cont.

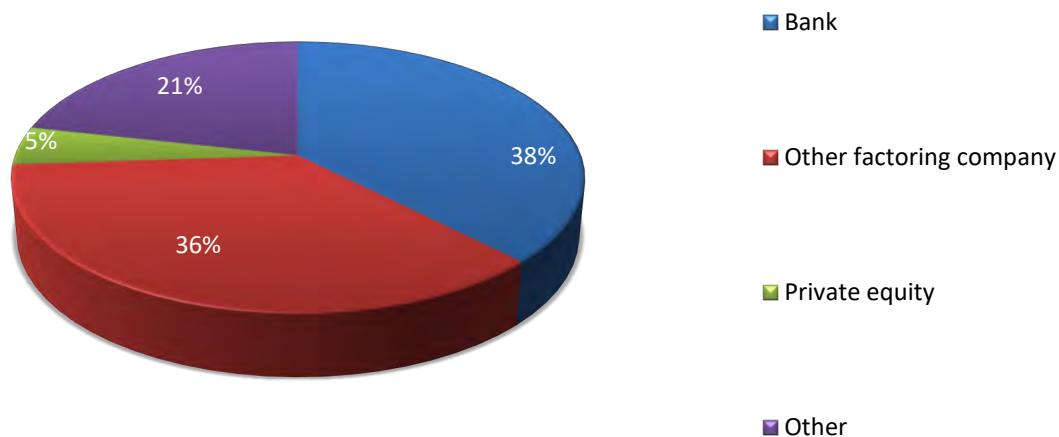
Respondents believe domestic economic uncertainty is the most important issue facing privately-held businesses today. 40% of respondents believe inflation is the most important emerging issue.

Figure 136. Issues Facing Privately-Held Businesses



38% of respondents lost transactions to banks in the last twelve months.

Figure 137. Types of Financing Sources Respondents Lost Transactions to in the Last 12 Months



FACTOR cont.

Respondents indicated decreases in demand for business factoring lines and fees, credit quality of borrowers, increased interest rate spreads, and worsened general business conditions.

Table 62. General Business and Industry Assessment: Today versus 12 Months Ago

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Demand for business factoring lines (applications)	40%	0%	40%	20%	0%	20%	40%	-20%
Credit Quality of Borrowers Applying for Credit	20%	20%	60%	0%	0%	0%	40%	-40%
Time to Process Facility	0%	20%	40%	20%	20%	40%	20%	20%
Average Facility Size	0%	20%	80%	0%	0%	0%	20%	-20%
Average Facility Term (Months)	0%	20%	60%	20%	0%	20%	20%	0%
Size of Interest Rate Spreads (pricing)	0%	25%	25%	25%	25%	50%	25%	25%
Fees	0%	20%	40%	20%	20%	40%	20%	20%
Standard advance rates on receivables	0%	0%	80%	20%	0%	20%	0%	20%
General business conditions	20%	60%	20%	0%	0%	0%	80%	-80%

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

Table 63. General Business and Industry Assessment Expectations over the Next 12 Months

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase
Demand for business factoring lines (applications)	25%	0%	25%	50%	0%	50%	25%	25%
Credit Quality of Borrowers Applying for Credit	25%	25%	25%	25%	0%	25%	50%	-25%
Time to Process Facility	0%	0%	75%	25%	0%	25%	0%	25%
Average Facility Size	0%	0%	100%	0%	0%	0%	0%	0%
Average Facility Term (Months)	0%	0%	100%	0%	0%	0%	0%	0%
Size of Interest Rate Spreads (pricing)	0%	0%	75%	25%	0%	25%	0%	25%
Fees	0%	0%	50%	50%	0%	50%	0%	50%
Standard advance rates on receivables	0%	0%	100%	0%	0%	0%	0%	0%
General business conditions	25%	25%	50%	0%	0%	0%	50%	-50%

EQUIPMENT LEASING SURVEY INFORMATION

Approximately 23% of 20 respondents to the equipment leasing survey expect to have lease agreements executed to manufacturing industry, another 18% to construction & engineering, followed by retail and consumer services (15%). Nearly 63% of respondents booked more than 10 leases in the last 12 months. 69% of respondents plan to book 10 leases or more in the next 12 months.

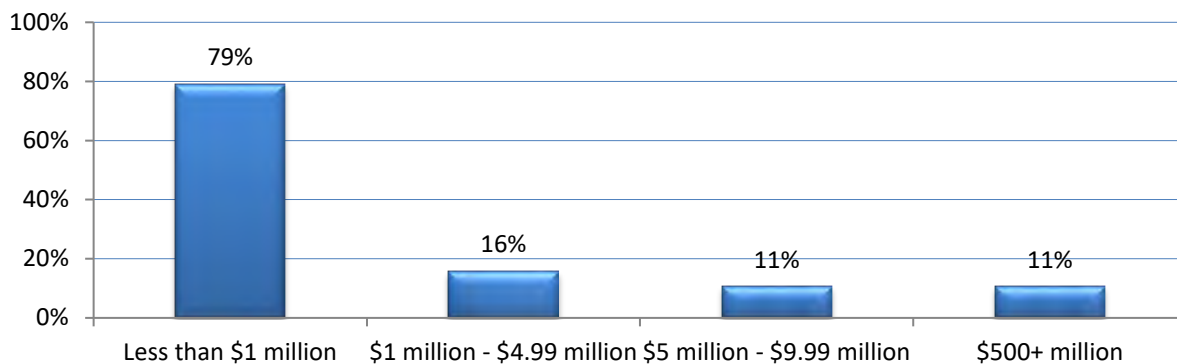
Other key findings include:

- Respondents indicated range of annualized expected returns from leases booked during the past 12 months between 5% and 19.5% depending on lease size and equipment type.
- When asked about conditions compared to twelve months ago nearly 42% of respondents said they saw decreased demand for business leases in the last 12 months. Approximately 50% of equipment leasing companies indicated worsened general business conditions in the last twelve months.
- Nearly 75% of respondents believe domestic economic uncertainty is the most important issue facing privately-held businesses today, followed by access to capital and inflation.

Operational and Assessment Characteristics

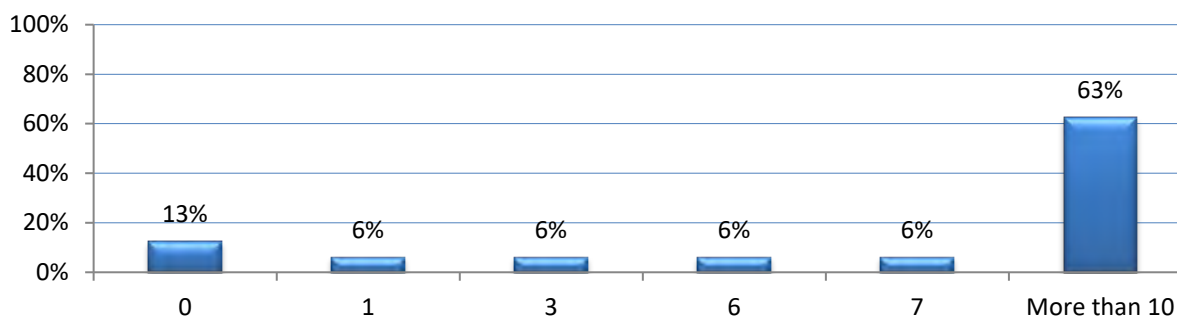
Approximately 79% of respondents book lease agreements less than \$1 million.

Figure 138. Typical Size of Business Leases



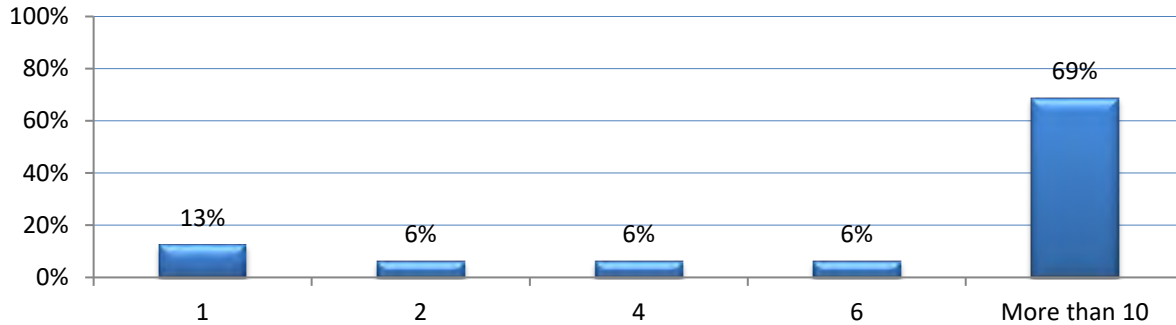
Nearly 63% of respondents booked more than 10 leases in the last 12 months.

Figure 139. Business Leases Booked in the Last Twelve Months



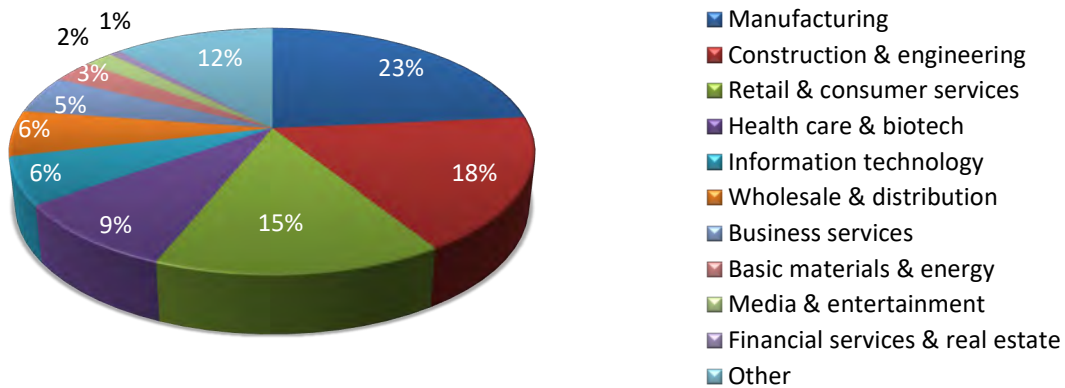
Approximately 69% of respondents plan to book more than 10 leases in the next 12 months.

Figure 140. Business Leases Expected to Book in the Next Twelve Months



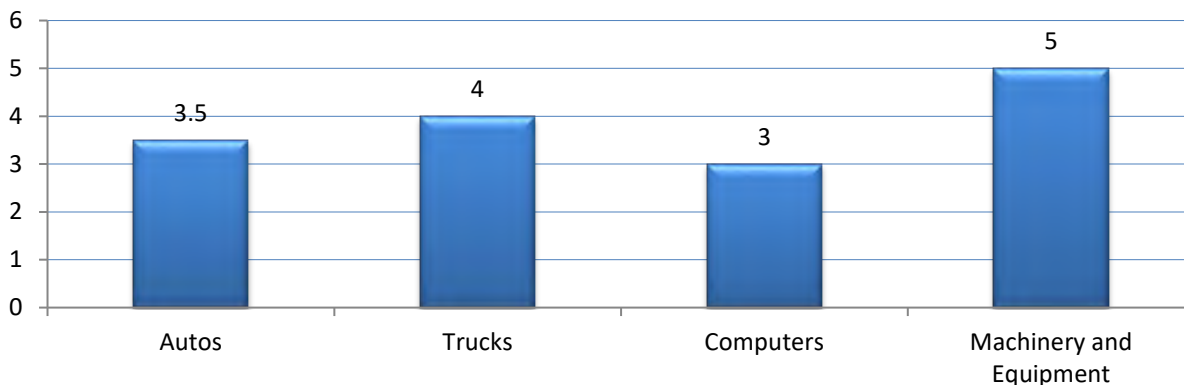
Approximately 23% of 20 respondents to the equipment leasing survey expect to have lease agreements executed to manufacturing industry, another 18% to construction & engineering, followed by retail and consumer services (15%).

Figure 141. 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 142. Lease Terms from Leases Booked during the Past Twelve Months (Years)



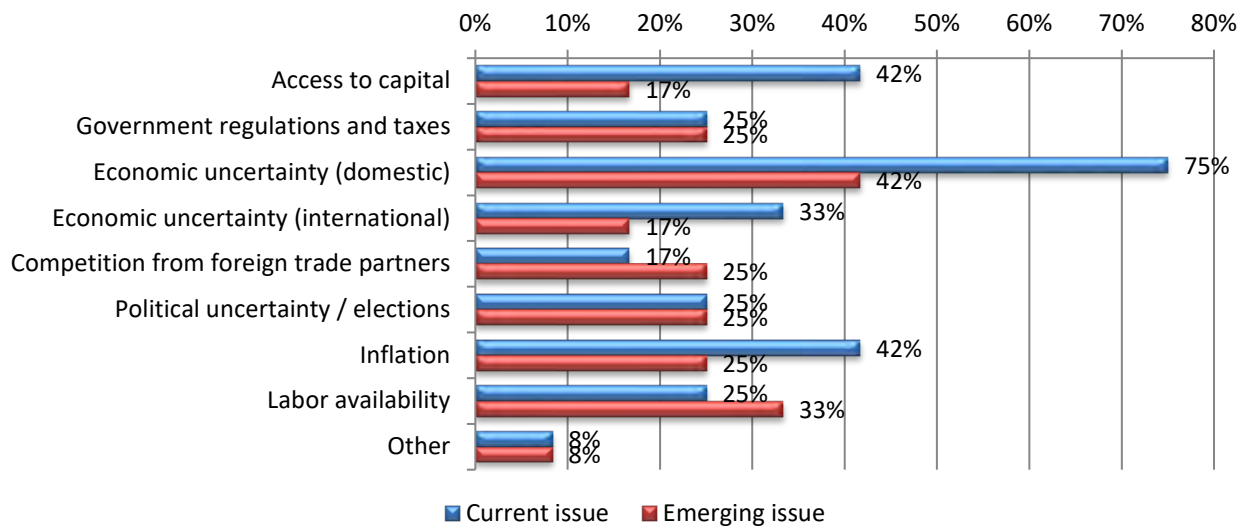
Respondents indicated range of annualized expected returns from leases booked during the past 12 months between 5% and 19.5% depending on lease size and equipment type.

Table 64. Annualized Expected Returns from Leases Booked during the Past 12 Months

Lease size	Autos	Trucks	Computers	Machinery and equipment
less than \$100K	14.5%	12.0%	19.5%	10.0%
\$100K - \$499K	5.0%	10.0%	6.0%	10.0%
\$500K - \$999K	n/a	8.0%	6.0%	10.0%
\$1M - \$4.99M	n/a	7.0%	6.0%	9.5%
\$5M - \$9.99M	n/a	7.0%	6.0%	7.5%
\$10M - \$24.99M	n/a	7.0%	6.0%	7.0%

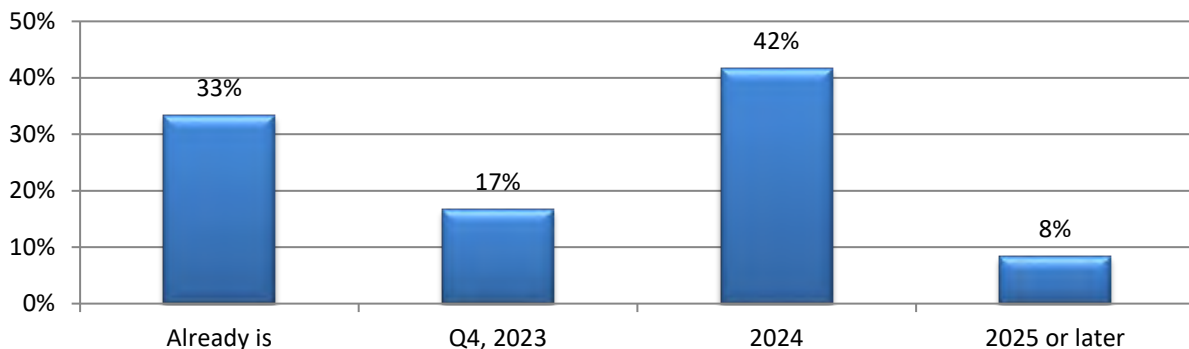
Nearly 75% of respondents believe domestic economic uncertainty is the most important issue facing privately-held businesses today, followed by access to capital and inflation.

Figure 143. Issues Facing Privately-Held Businesses



Approximately 33% of respondents believe leasing activity has already return to pre-March 2020 level.

Figure 144. When Leasing Activity Returns to Pre-March 2020 Level



EQUIPMENT LEASING cont.

When asked about conditions compared to twelve months ago nearly 42% of respondents said they saw decreased demand for business leases in the last 12 months. Approximately 50% of equipment leasing companies indicated worsened general business conditions in the last twelve months.

Table 65. 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	8%	33%	25%	25%	8%	33%	42%	-8%
General lease qualification standards	8%	17%	33%	33%	8%	42%	25%	17%
Quality of Companies Seeking Leases	8%	33%	33%	17%	8%	25%	42%	-17%
Average Lease Size	17%	8%	58%	8%	8%	17%	25%	-8%
Expected Investment Holding Period	8%	17%	58%	8%	8%	17%	25%	-8%
Expected returns on new investments	17%	8%	8%	67%	0%	67%	25%	42%
Size of equipment leasing industry	8%	0%	50%	42%	0%	42%	8%	33%
General business conditions	25%	25%	25%	17%	8%	25%	50%	-25%
Appetite for Risk	17%	42%	33%	8%	0%	8%	58%	-50%

Table 66. 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	17%	42%	17%	17%	8%	25%	58%	-33%
General lease qualification standards	8%	17%	33%	25%	17%	42%	25%	17%
Quality of Companies Seeking Leases	8%	17%	50%	17%	8%	25%	25%	0%
Average Lease Size	8%	17%	50%	17%	8%	25%	25%	0%
Expected Investment Holding Period	8%	0%	67%	25%	0%	25%	8%	17%
Expected returns on new investments	8%	0%	42%	50%	0%	50%	8%	42%
Size of equipment leasing industry	8%	8%	50%	33%	0%	33%	17%	17%
General business conditions	17%	58%	8%	17%	0%	17%	75%	-58%
Appetite for Risk	25%	42%	25%	8%	0%	8%	67%	-58%

BUSINESS OWNER SURVEY INFORMATION

Of the 700 privately-held businesses that responded to the survey, 12% had businesses that involved in professional, scientific or technical services, 11% were in manufacturing, and 10% were in information technology or services. Approximately 77% of businesses have annual revenues less than \$5 million. Nearly 90% of business owners report having the enthusiasm to execute growth strategies, yet just 55% report having the necessary financial resources to successfully execute growth strategies.

Of the respondents who were seeking financing in the last 12 months, approximately 39% anticipated to raise less than \$100,000 in capital. Approximately 34% 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 (17%). 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 credit unions. Results also showed that 82% of privately-held businesses that sought bank loans over the past 12 months were successful. Survey results indicated that business owners who raised capital on average contacted 1.8 banks.

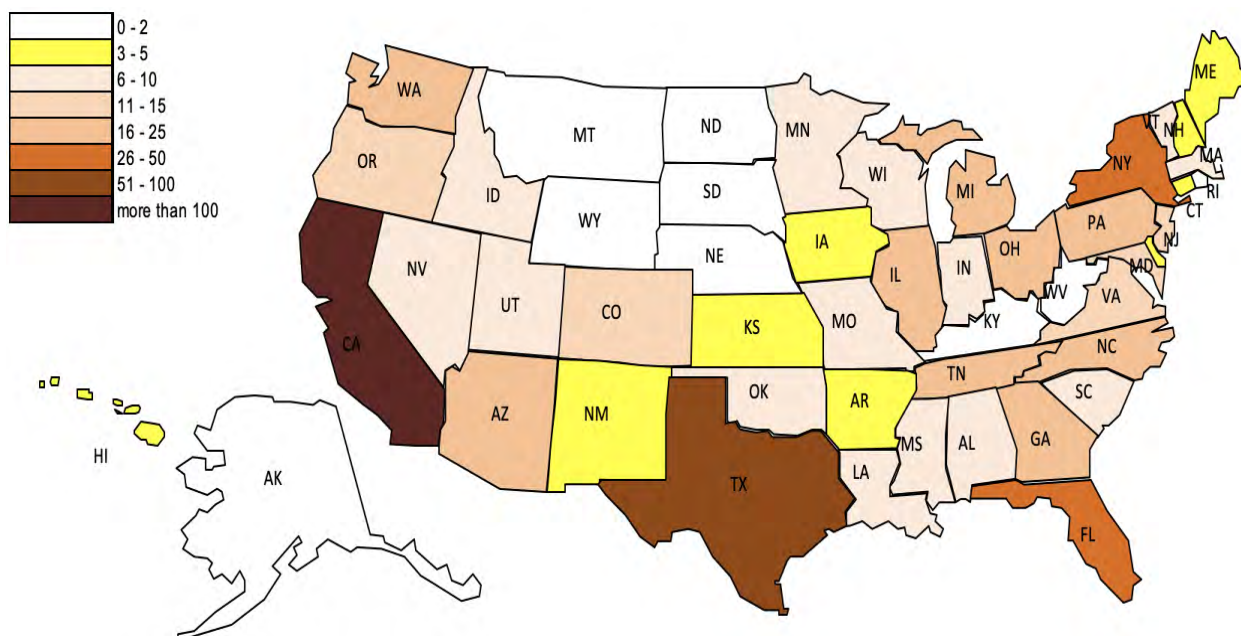
Nearly three quarters of businesses (78%) are planning to hire additional workers. Approximately 36% of respondents believe access to capital and inflation are the most important issues small businesses face today, followed by domestic economic uncertainty (35%), labor availability (32%) and government regulations and taxes (30%). According to small businesses, of those policies most likely to lead to job creation in 2023, increased access to capital emerged as number one (33%) followed by regulatory reform (20%), and tax incentives (20%). The study showed that of those that do plan to hire, sales and marketing skills (48%) and skilled labor (44%) are in greatest demand followed by service/customer service (33%). Also, 79% of companies planning to hire indicate they’d need to train those they hire.

37% of respondents believe that general business conditions improved in the twelve months compared to 39% surveyed year ago.

Operational and Assessment Characteristics

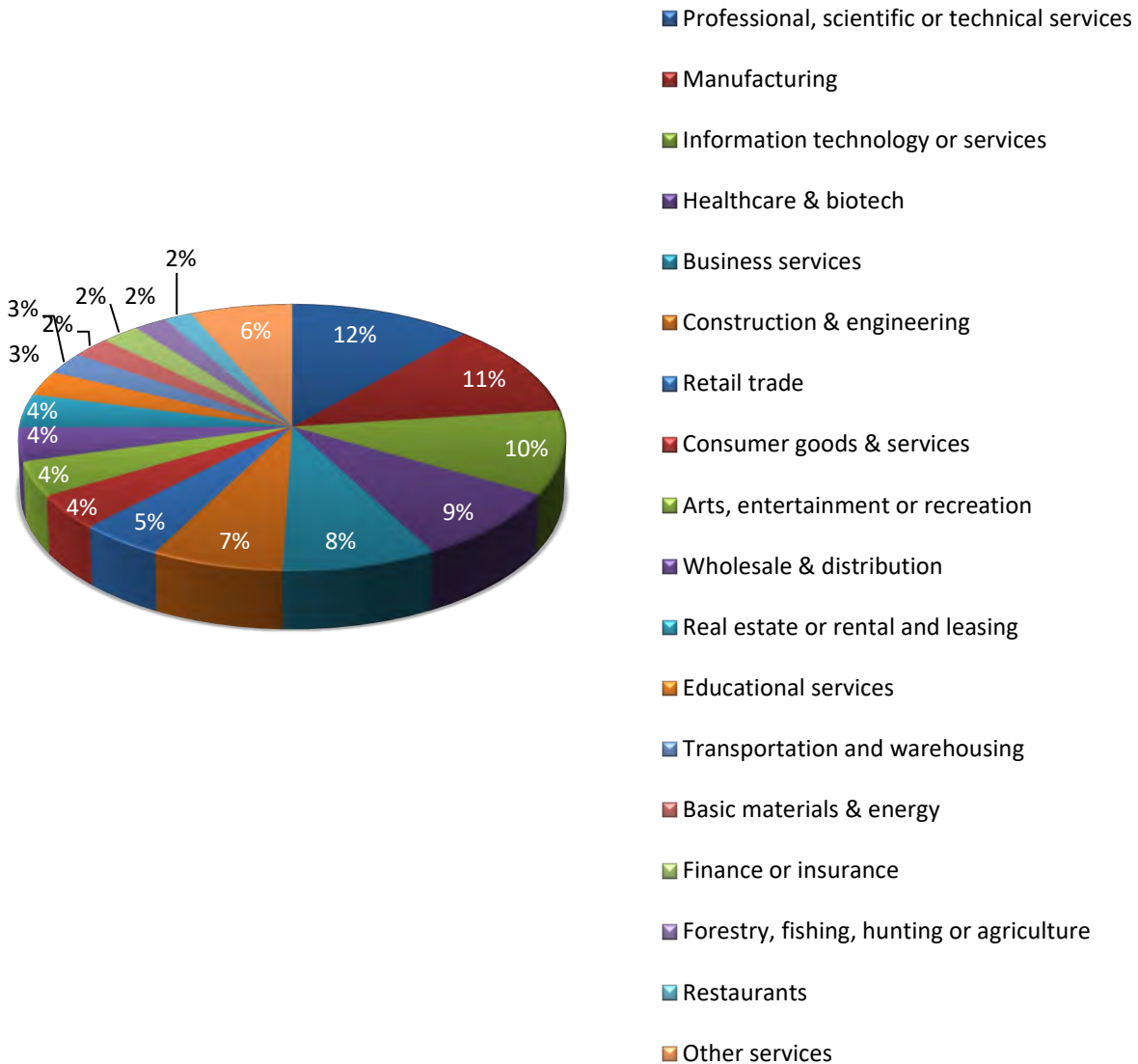
The privately-held business survey results were generated from 700 participants. The locations of businesses are distributed over all regions of the United States.

Figure 145. Respondents Distribution by State



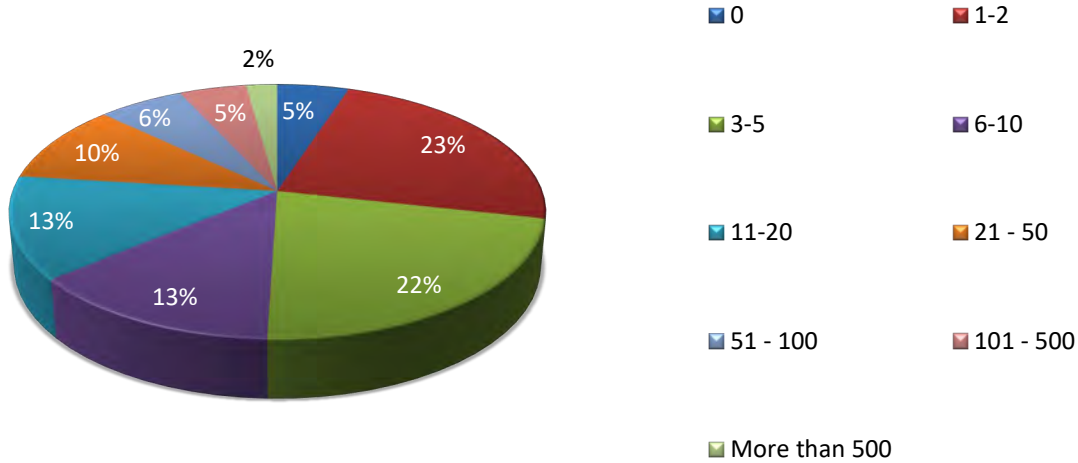
Approximately 12% of businesses involved in professional, scientific or technical services, 11% were in manufacturing, and 10% were in information technology or services.

Figure 146. Description of Entity



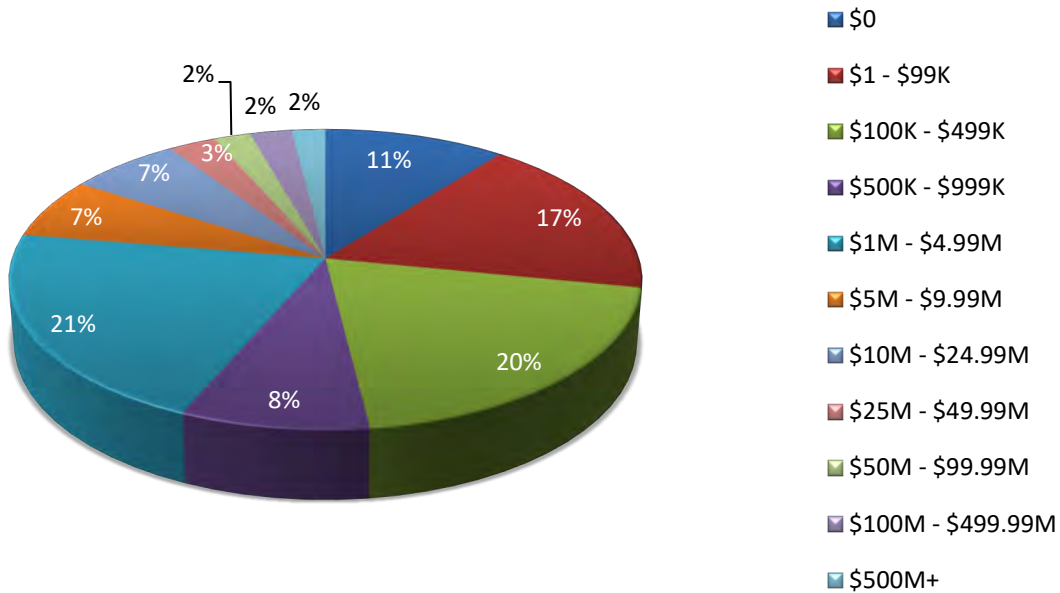
Approximately 45% of businesses have between one and five employees.

Figure 147. Number of Employees



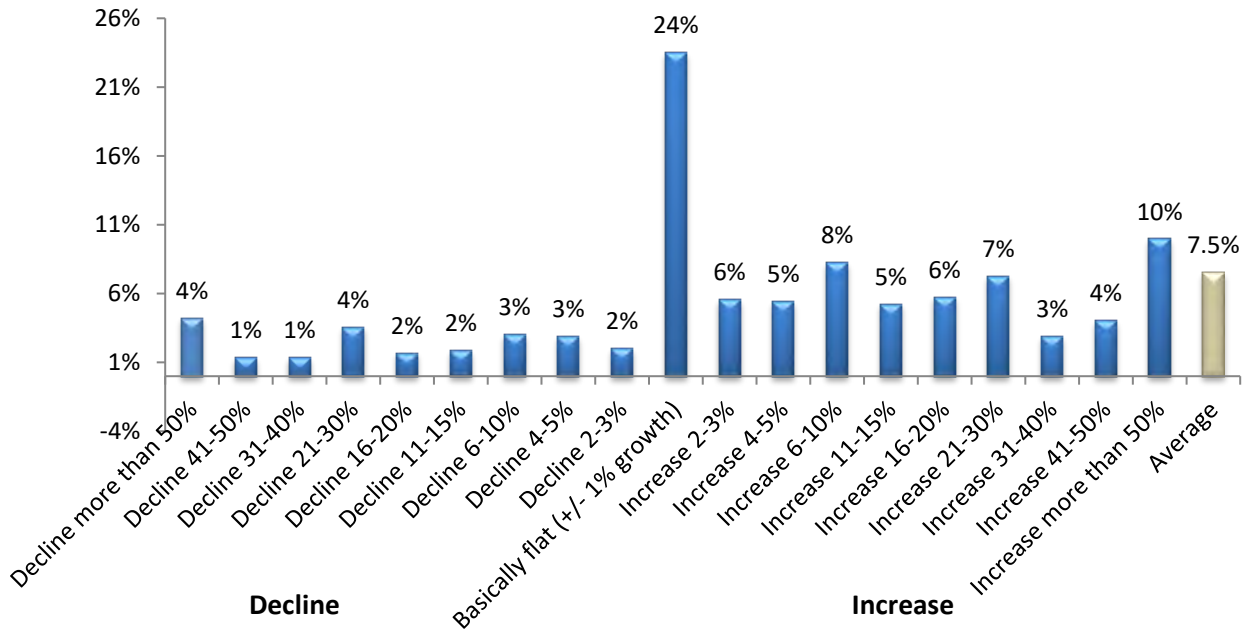
Approximately 77% of respondents have less than or equal to \$5M in annual revenues.

Figure 148. Annual Revenues



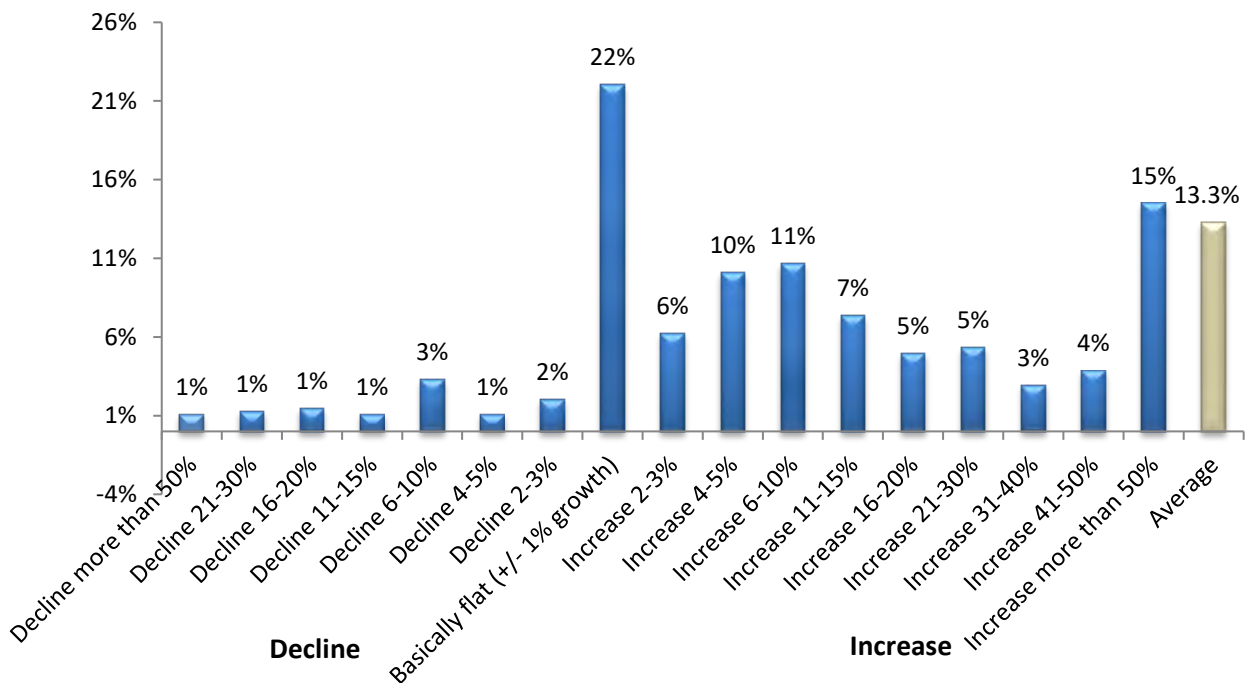
Average change in annual revenues in the last 12 months was 7.5%.

Figure 149. Annual Revenues Change in the Last 12 Months



On average respondents expect their annual revenues to grow by 13.3% in the next 12 months.

Figure 150. Annual Revenues Change Expectations in the Next 12 Months



Approximately 91% of businesses have net income less than or equal to \$5 million.

Figure 151. Net Income

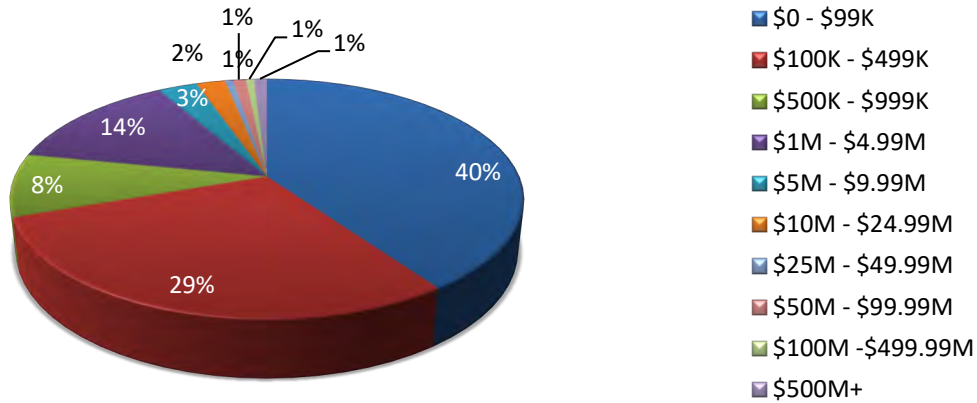


Figure 152. Total Assets

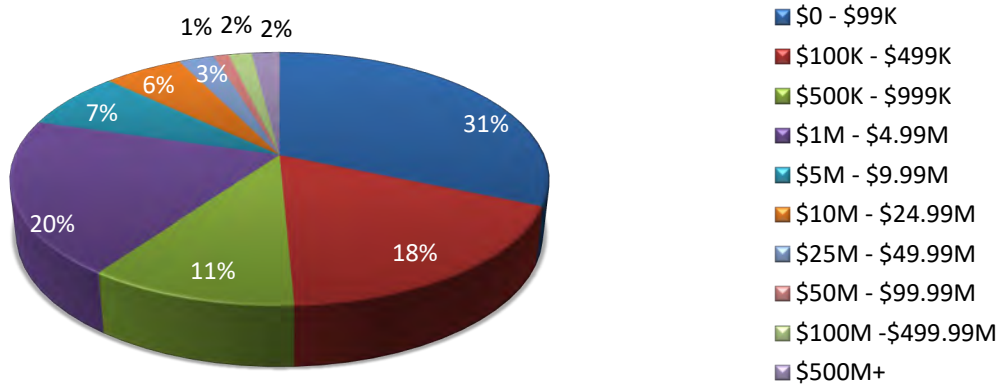
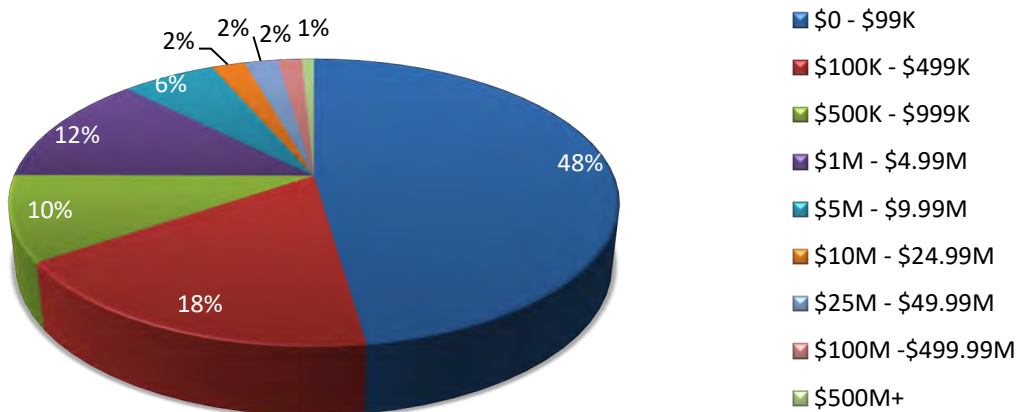
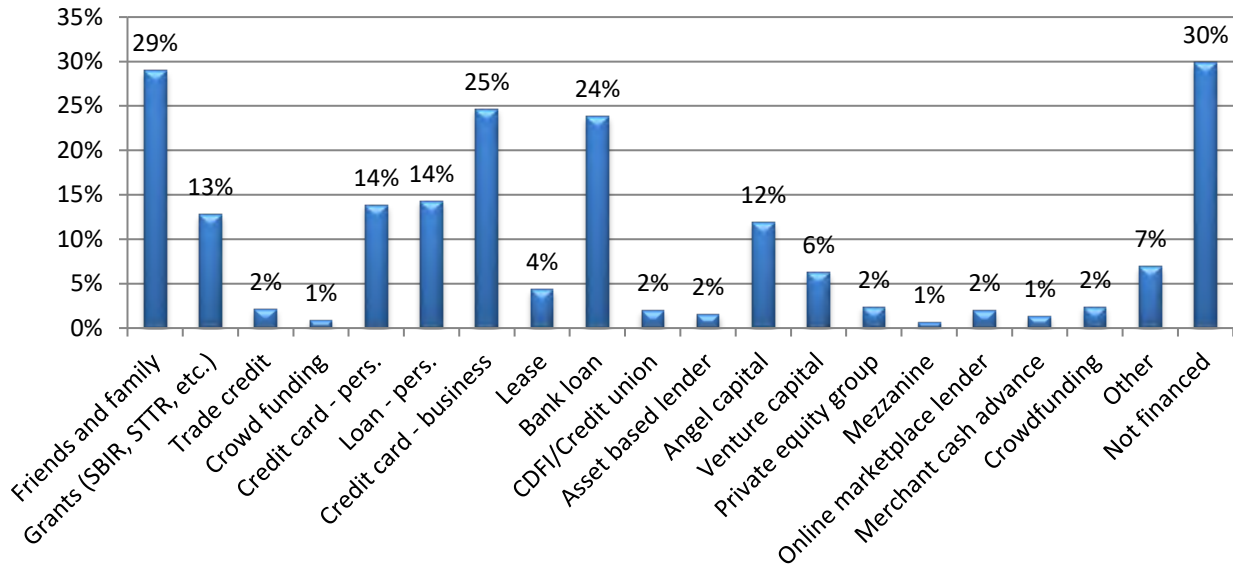


Figure 153. Net Property, Plant & Equipment



Approximately 30% of respondents are currently not financed by any external capital sources. Nearly 24% and 25% of respondents' businesses are financed by bank business loans and business credit card financing respectively.

Figure 154. Current Sources of Financing



Among the businesses that tried to raise capital in the last 12 months 22% applied for bank business loan and 79% were successful, whereas 39% of respondents didn't try to raise capital from any source.

Figure 155. Capital Sources Contacted to Raise Capital in the Last 12 Months

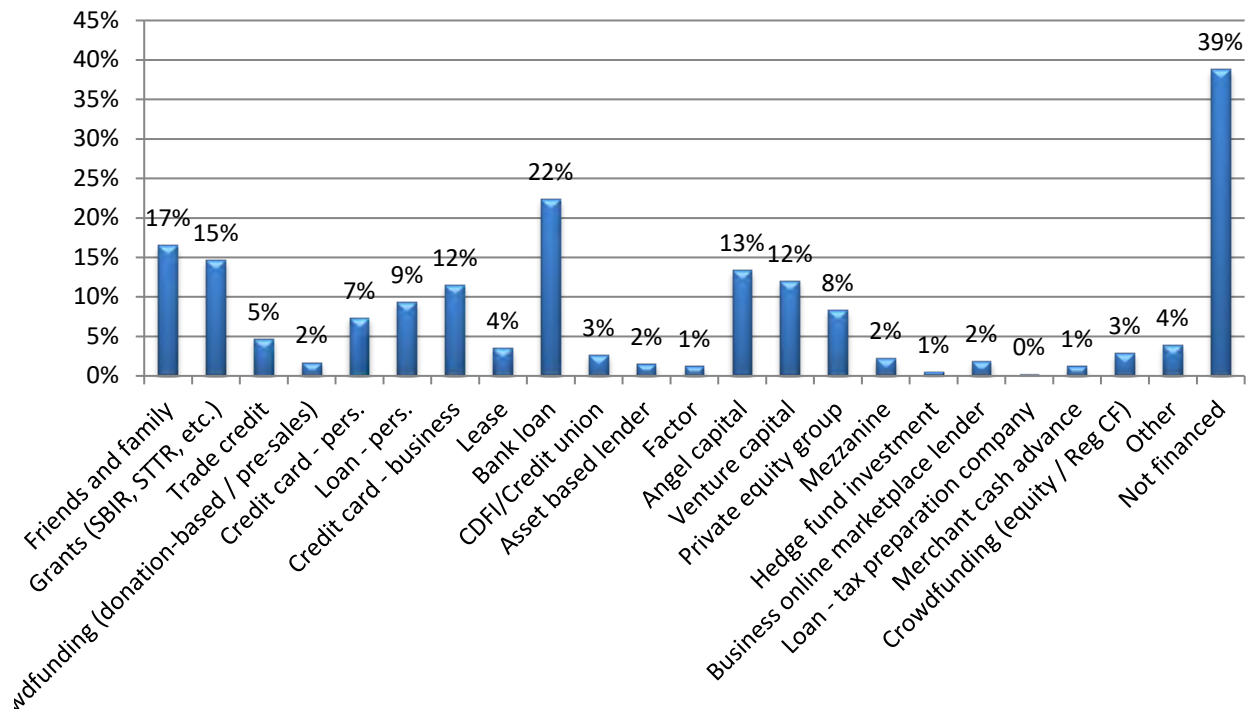
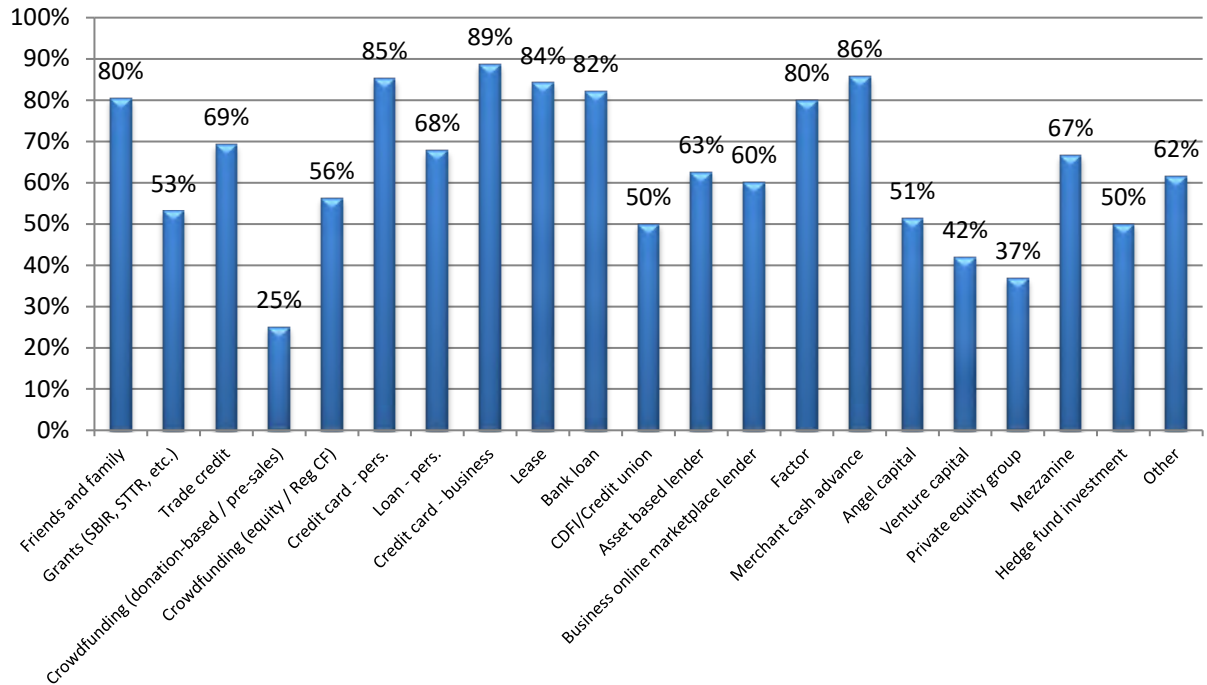
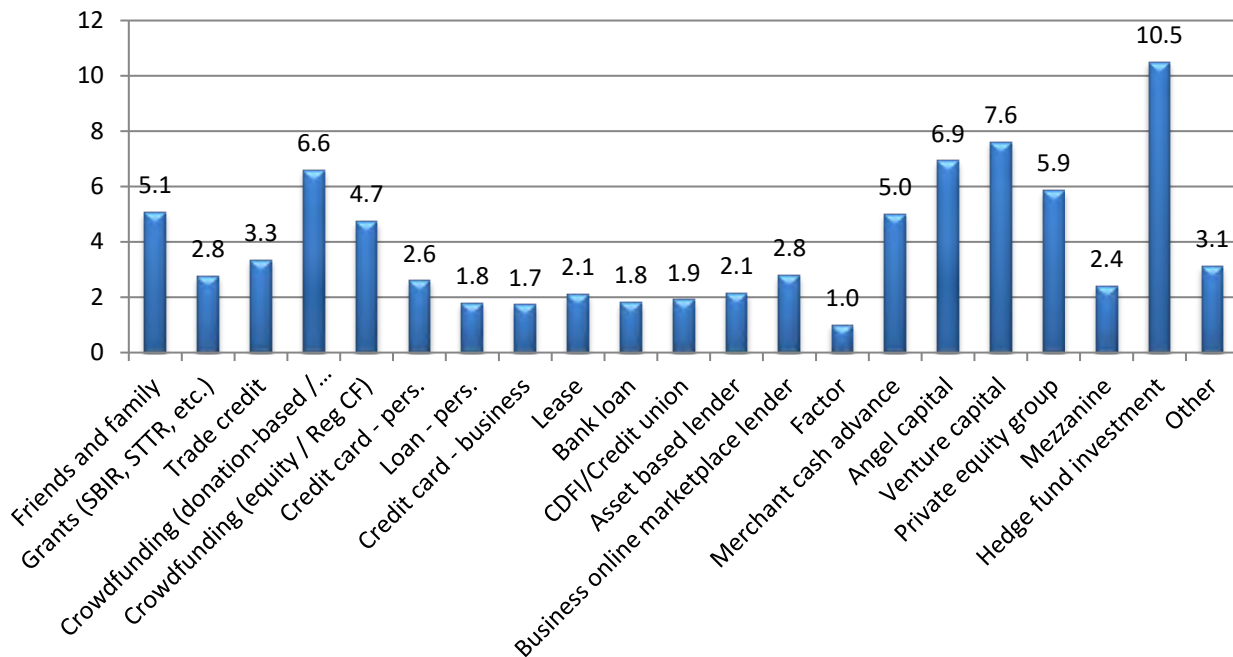


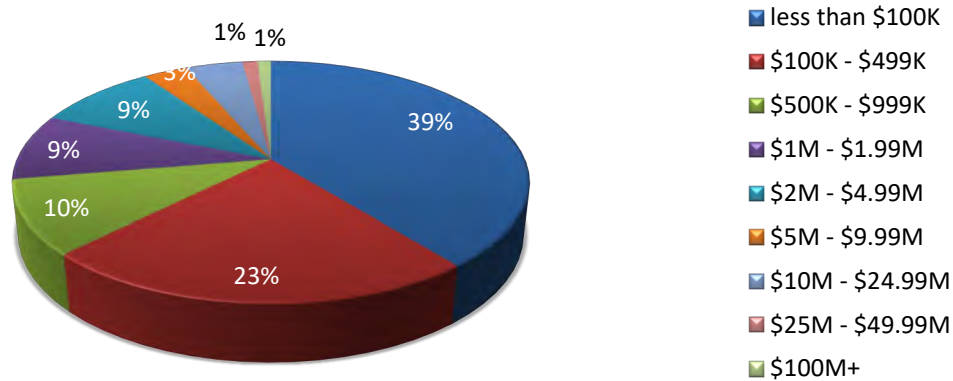
Figure 156. Success Rates


On average respondents who successfully raised capital contacted 3.8 capital providers.

Figure 157. Average Number of Capital Providers Contacted


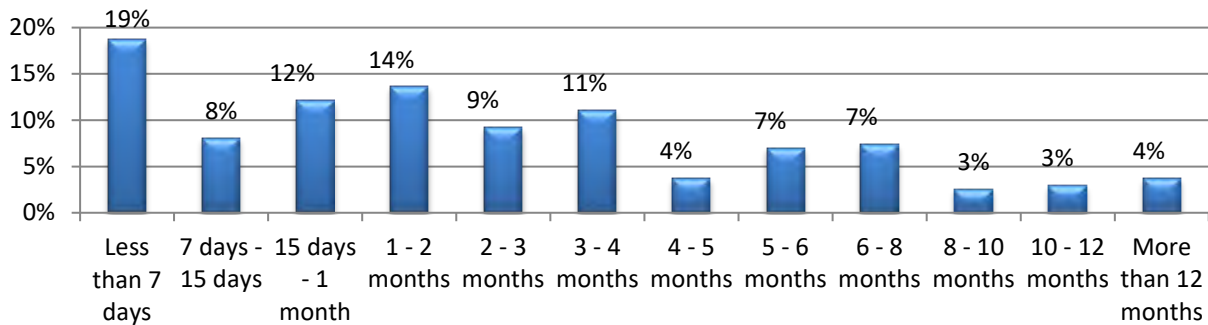
Approximately 62% of respondents attempted to raise less than \$500K in the last 12 months.

Figure 158. Amount of Capital Attempted to Raise in the last 12 Months



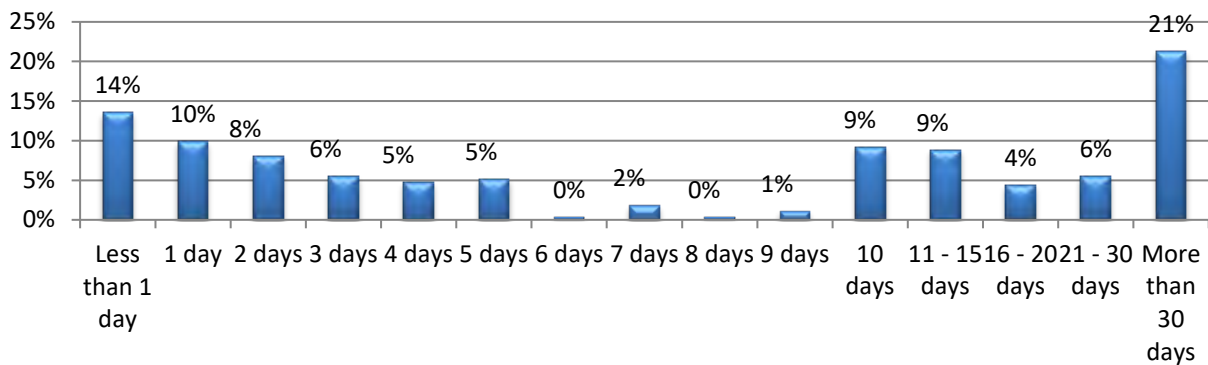
Approximately 19% of respondents took less than 7 days to complete financing process.

Figure 159. Average Time to Complete Financing Process in Days



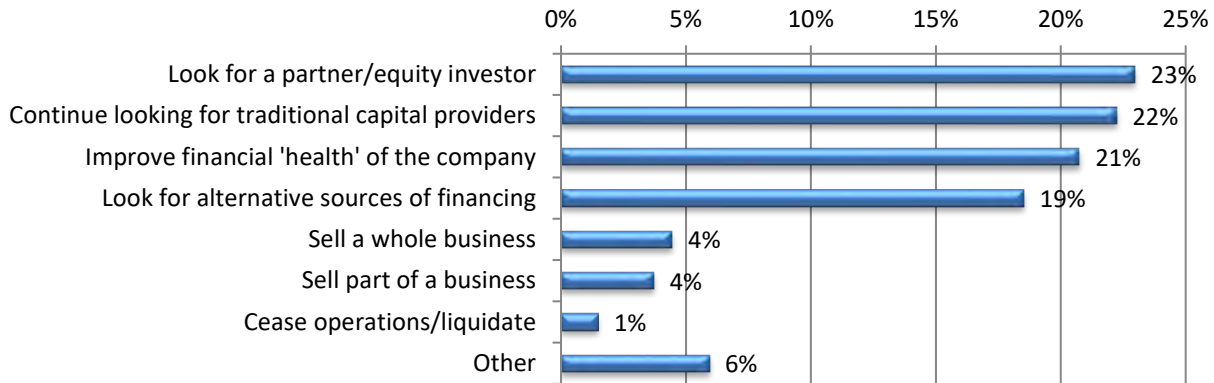
14% of respondents spent less than one day during the process to successfully obtain financing (time spent by all employees and hired outsiders making inquiries, submitting proposals, meeting with capital providers, furnishing documents).

Figure 160. Days Spent During the Process to Successfully Obtain Financing



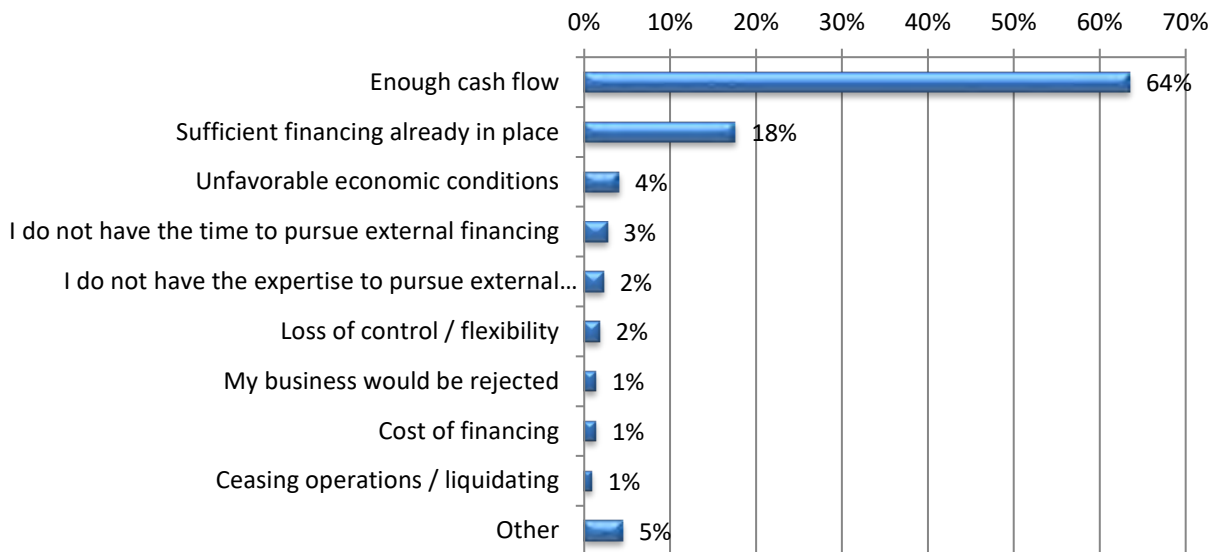
Among those respondents who were not able to obtain external financing in the last 12 months 23% are planning to look for a partner/ equity investor before attempting to raise capital in the future.

Figure 161. Next Steps to Satisfy Financial Needs



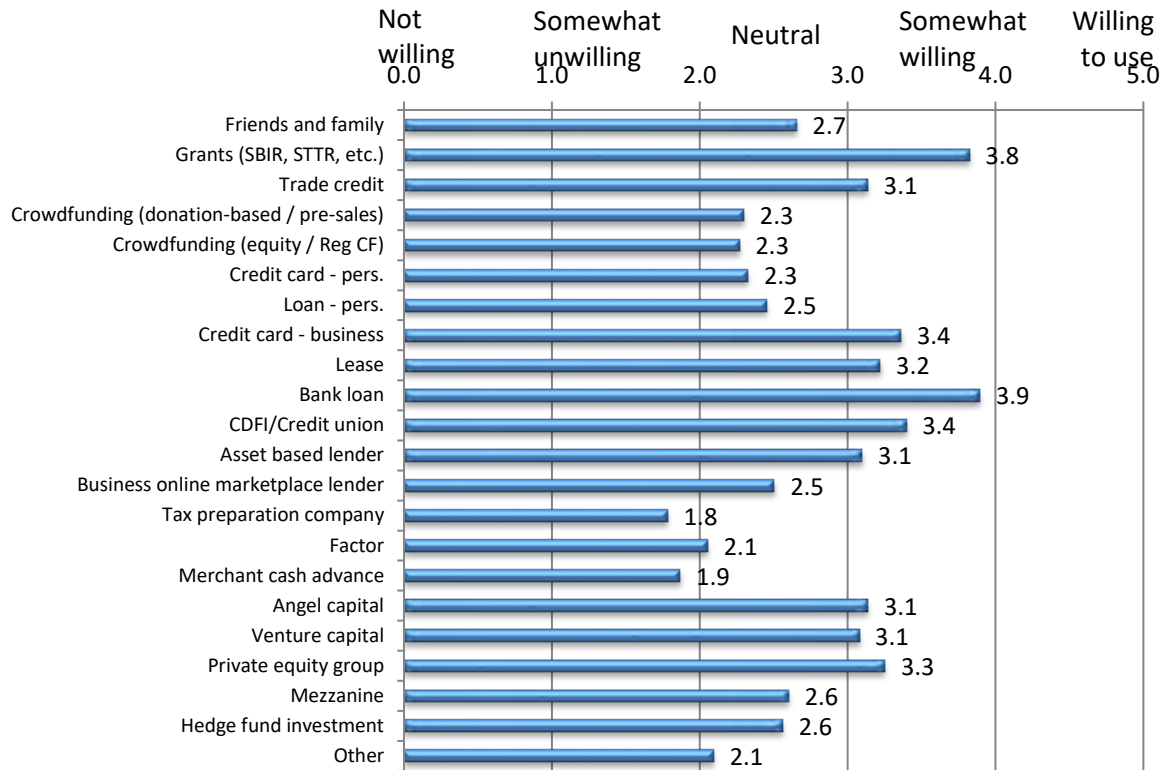
Among those respondents who didn't attempt to obtain any external financing in the last 12 months, 64% said their businesses are generating enough cash flow fund operations (including growth expansion), followed by 18% of respondents who has sufficient financing already in place.

Figure 162. Reasons for Not Trying to Obtain Capital in the Last 12 Months



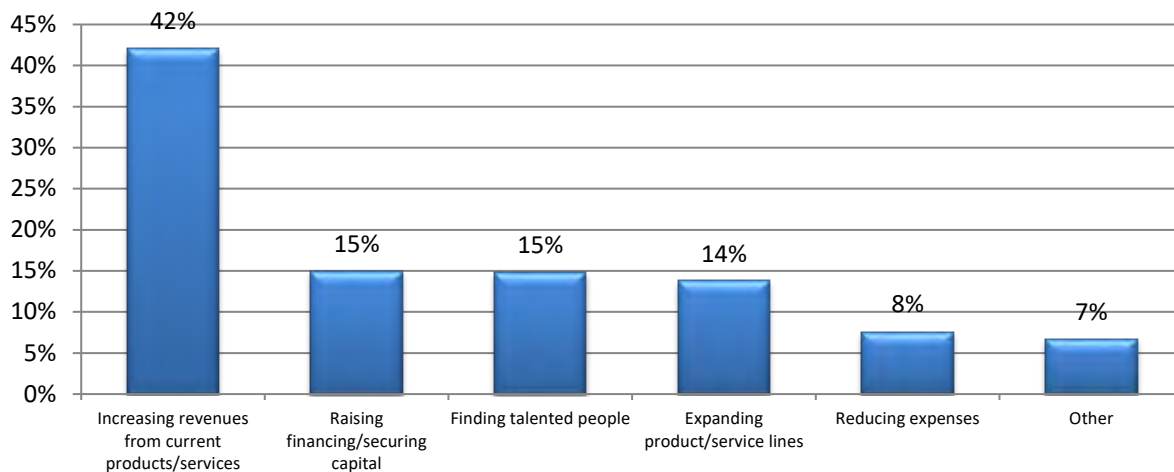
According to the respondents, “bank loans” and “grants” as categories are the most appealing option to obtain financing.

Figure 163. Willingness to Obtain Financing



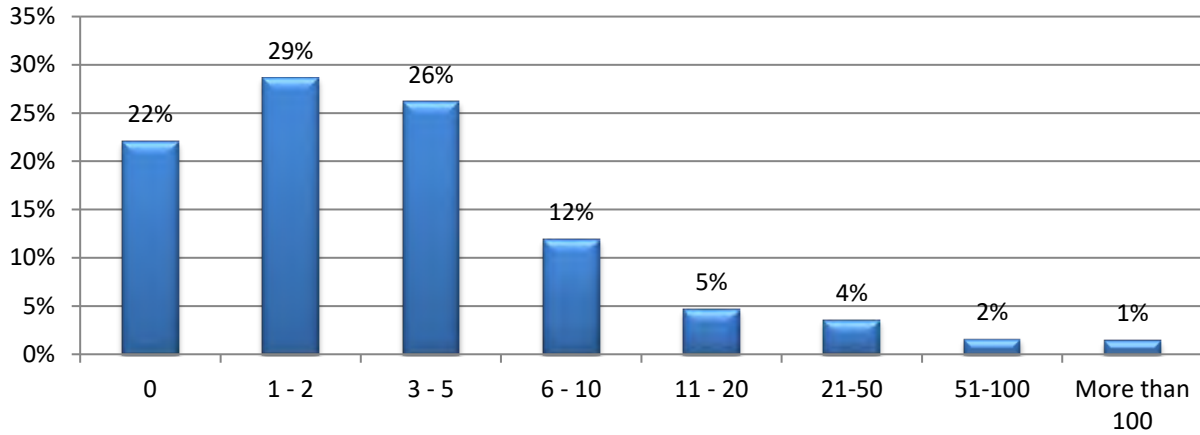
Approximately 42% of respondents indicated increasing revenues from current products or services as the area their businesses are most focused on today.

Figure 164. The Most Important Area to Focus On



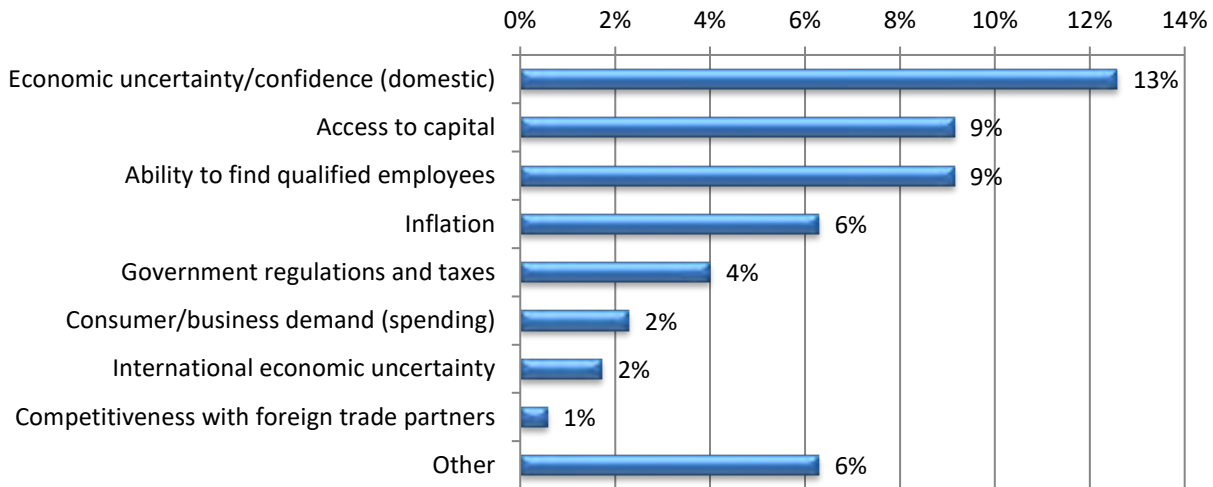
Approximately 22% of respondents are not planning to hire additional employees in the next 12 months, while 29% of respondents are planning to hire one or two additional employees in the next twelve months.

Figure 165. Number of Employees Planned to be Hired



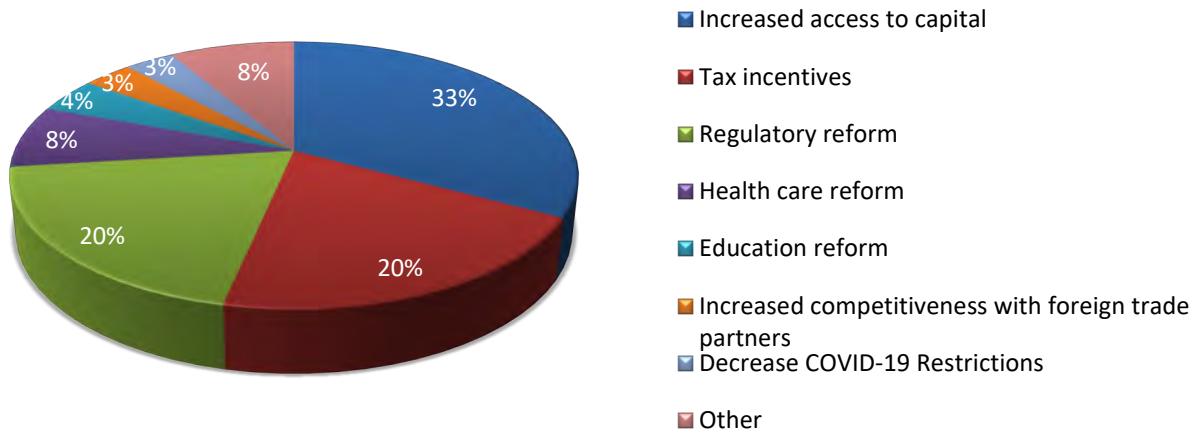
Approximately 13% of respondents believe domestic economic uncertainty is the number one reason preventing them from hiring, followed by inability to find qualified employees (9%) and access to capital (9%).

Figure 166. Reasons Preventing Privately-Held Businesses from Hiring



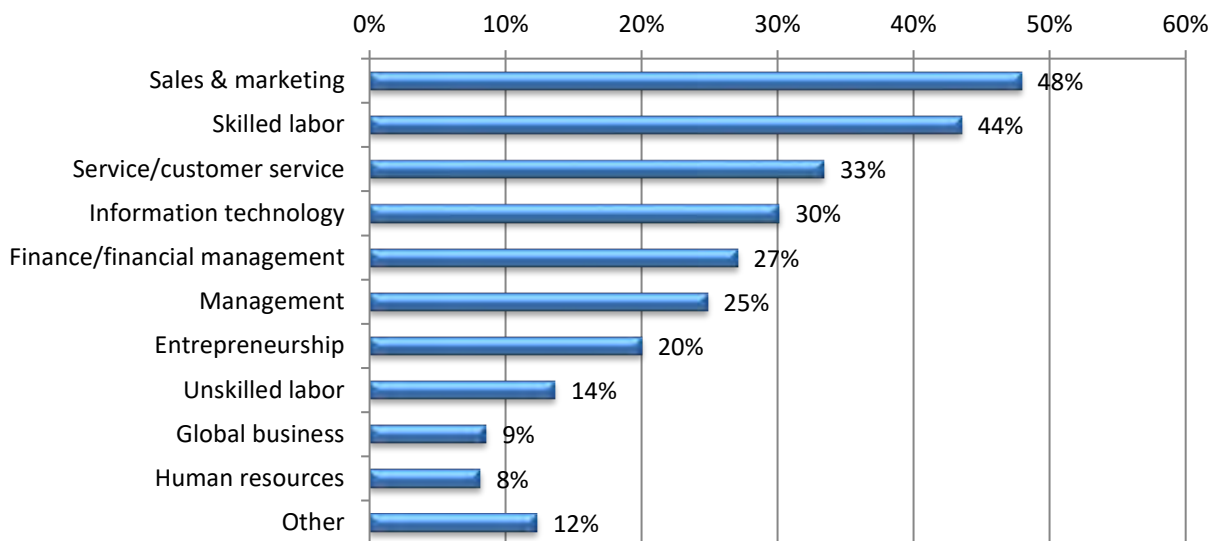
According to respondents, of those policies most likely to lead to job creation in 2023 increased access to capital emerged as number one (33%), followed by tax incentives (20%) and regulatory reform (20%).

Figure 167. Government Policies to Lead to Job Creation



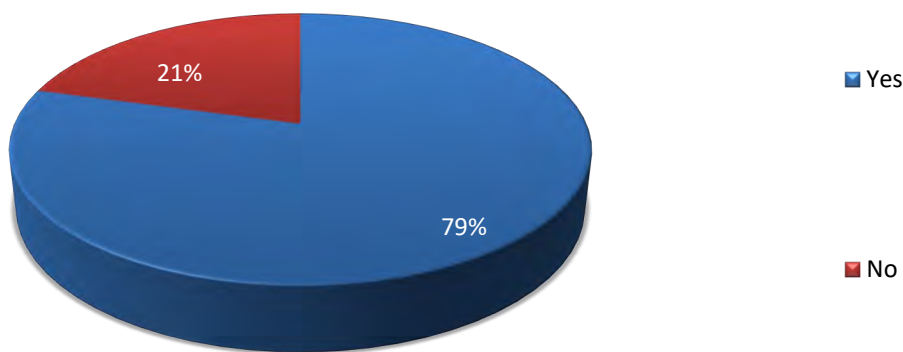
For those businesses which do plan to hire, sales and marketing skills (48%) and skilled labor (44%) are in greatest demand followed by service/customer service (33%).

Figure 168. The Skills in Demand for New Hires



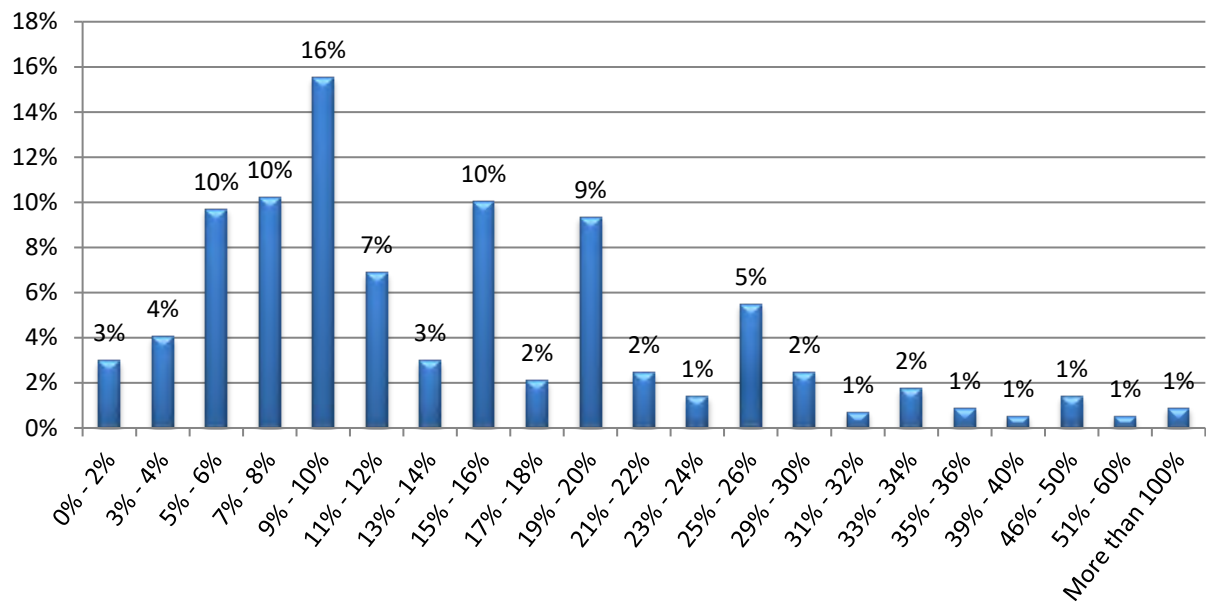
79% of businesses planning to hire indicate need to train those they hire.

Figure 169. Need for Training of New Hires



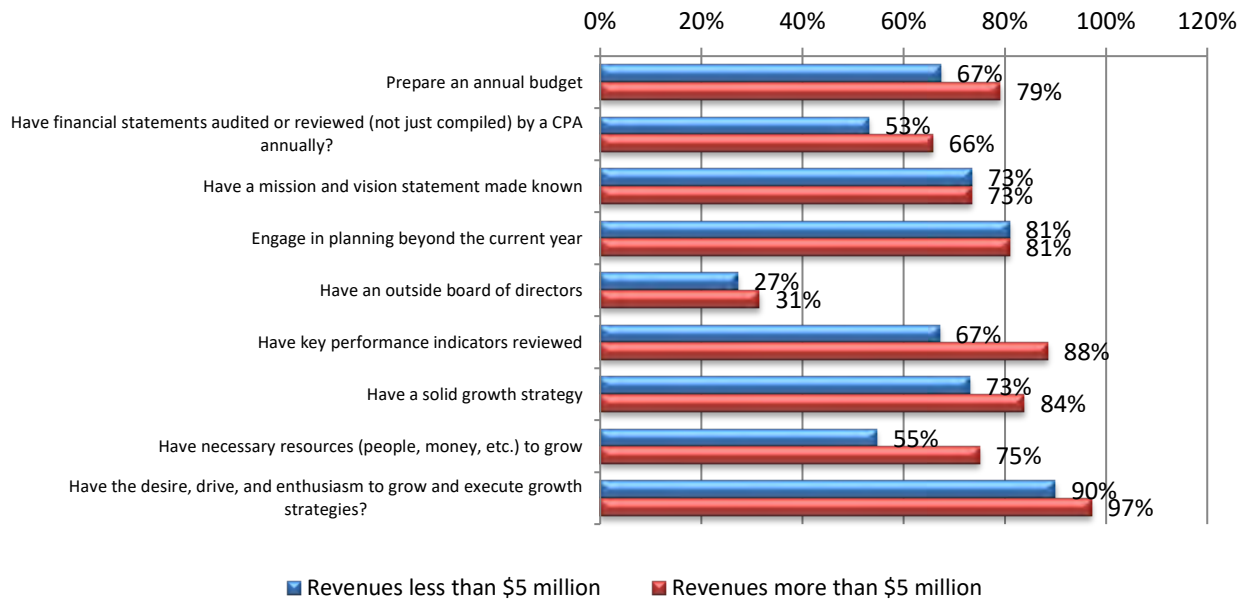
Approximately 16% of respondents indicated their business cost of equity capital is in the range of 9% - 10%.

Figure 170. Cost of Equity Capital



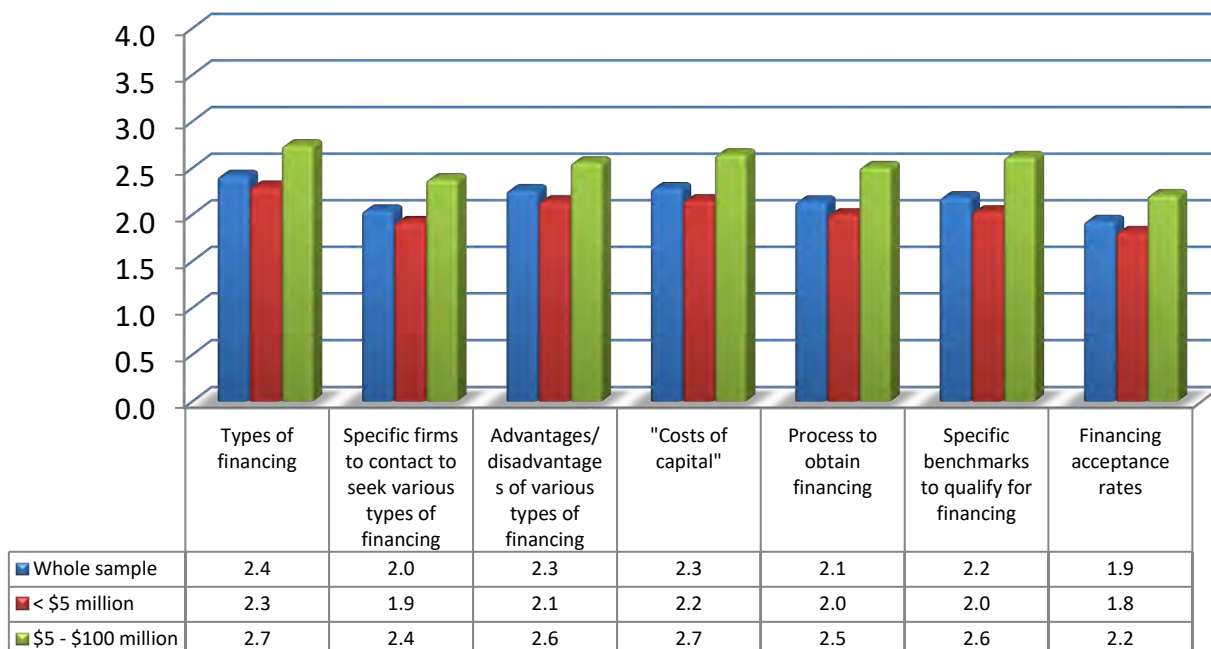
Privately-held businesses with revenues less than \$5 million on average have almost the same desire to execute growth strategies (90%) as privately-held businesses with revenues greater than \$5 million (97%). However, privately-held businesses with smaller revenues report lower levels of necessary resources (people, money, etc.) to grow (55%) as compared to privately-held businesses with higher revenues (75%).

Figure 171. Usage of Financial Analysis by Revenue Sizes



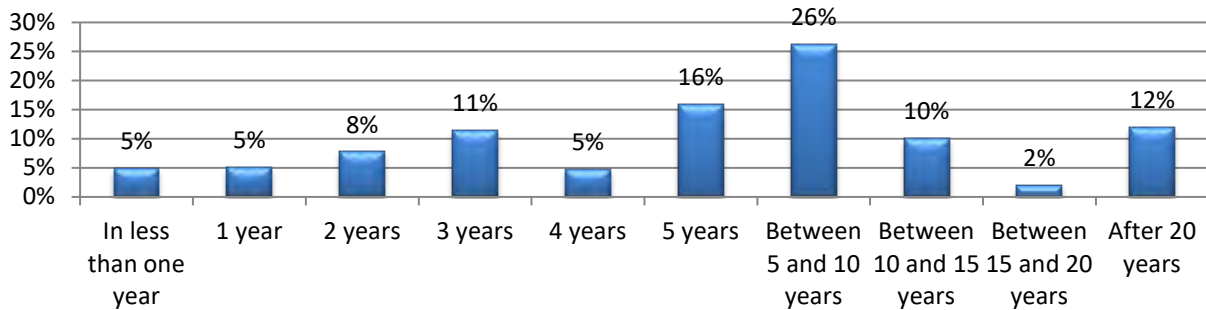
Respondents reported on their level of knowledge financing components (scale 0-4: none, some, moderate, very, completely).

Figure 172. Level of Knowledge of Financing Components



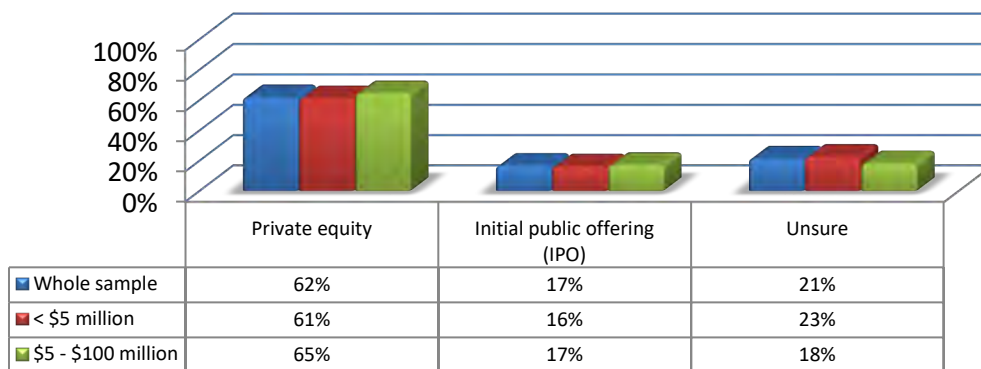
Nearly 50% of the respondents are planning to transfer their ownership interest in more than five years from now while only 5% plan to transfer their ownership at the first available opportunity.

Figure 173. Anticipation of the Ownership Transfer



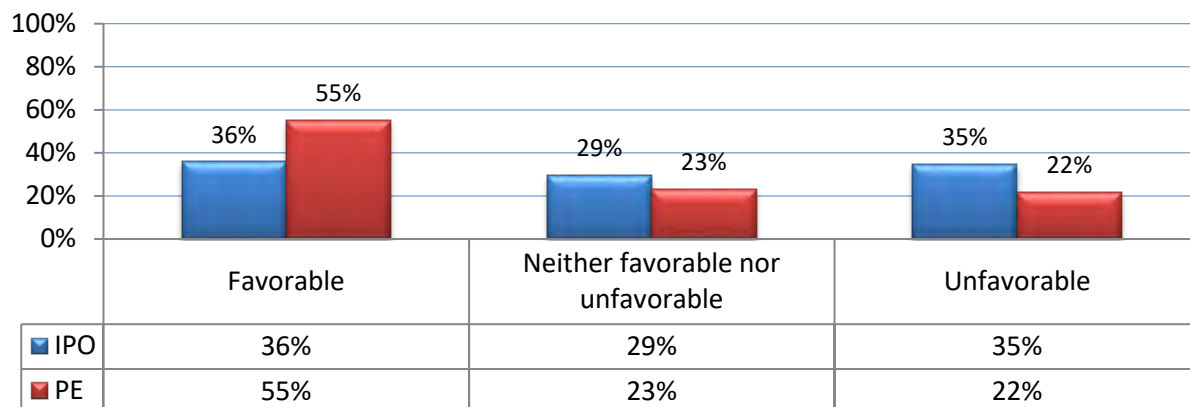
Assuming respondents' businesses were eligible to raise financing from both private equity and a public stock offering (IPO), 62% of them would choose private equity.

Figure 174. Private Equity vs Initial Public Offering



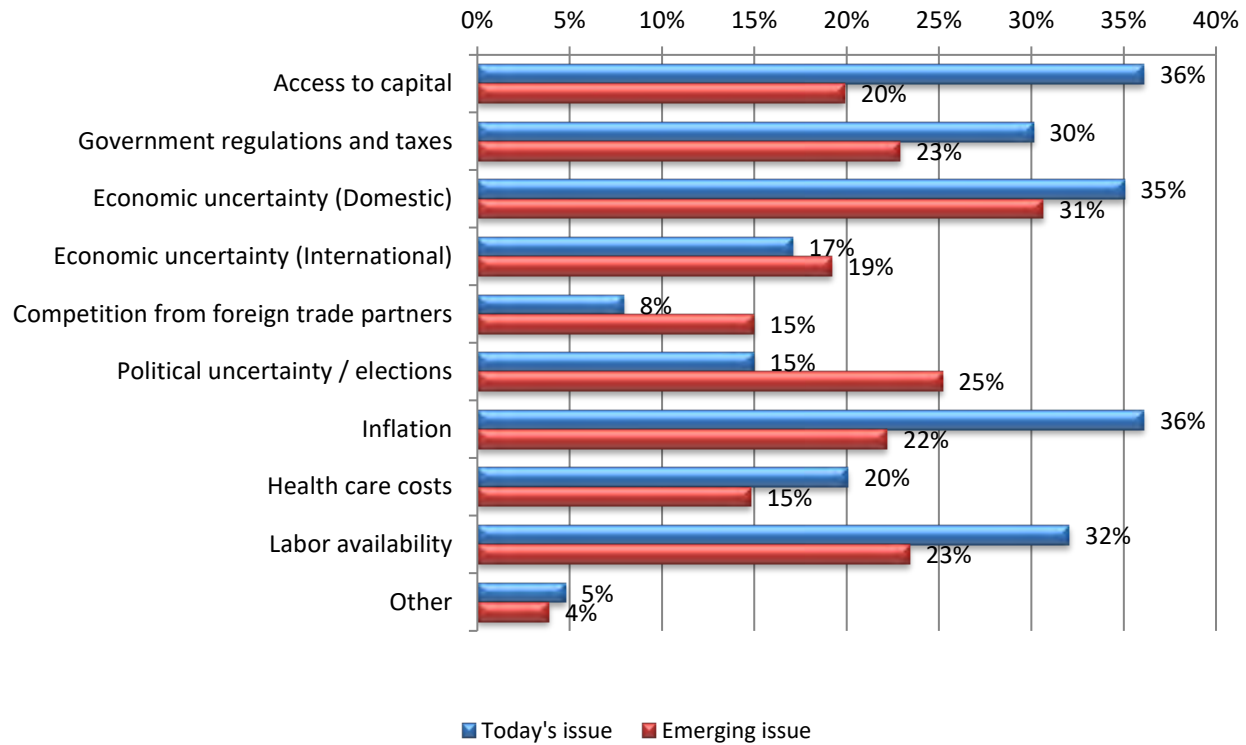
When asked about general view, 55% of respondents indicated private equity as favorable financing source.

Figure 175. General Views on Initial Public Offering and Private Equity



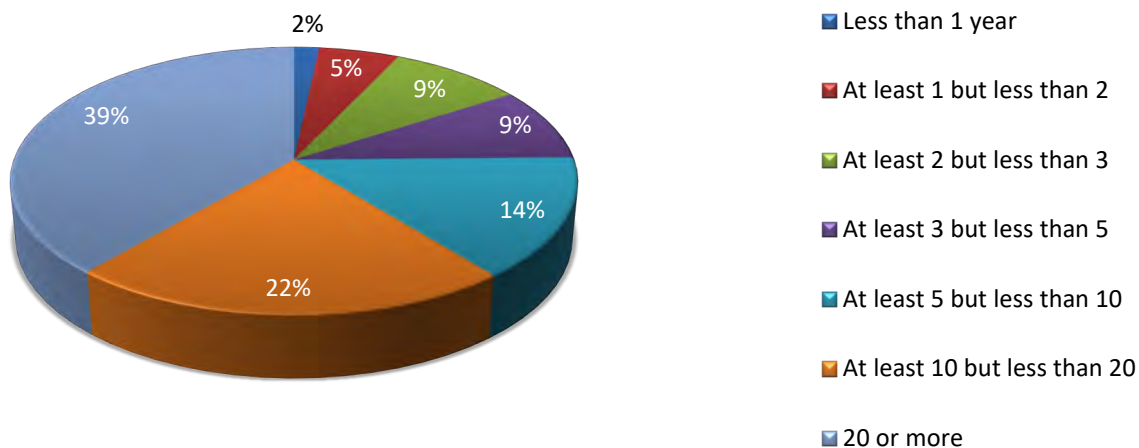
Approximately 36% of respondents indicated access to capital and inflation as the most important current issues facing privately-held businesses today, while 31% of respondents indicated domestic economic uncertainty as the most important emerging issue.

Figure 176. Issues Facing Privately-Held Businesses



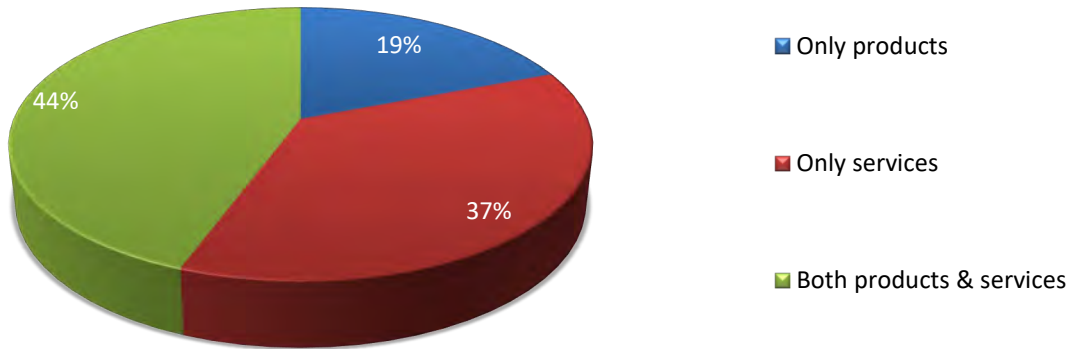
Approximately 39% of respondents have firms 20 or more years old.

Figure 177. Firm Age



Approximately 44% of respondents sell both products and services to their clients.

Figure 178. Types of Companies



Nearly 39% of respondents have protected trade secrets.

Figure 179. Protected Intellectual Property

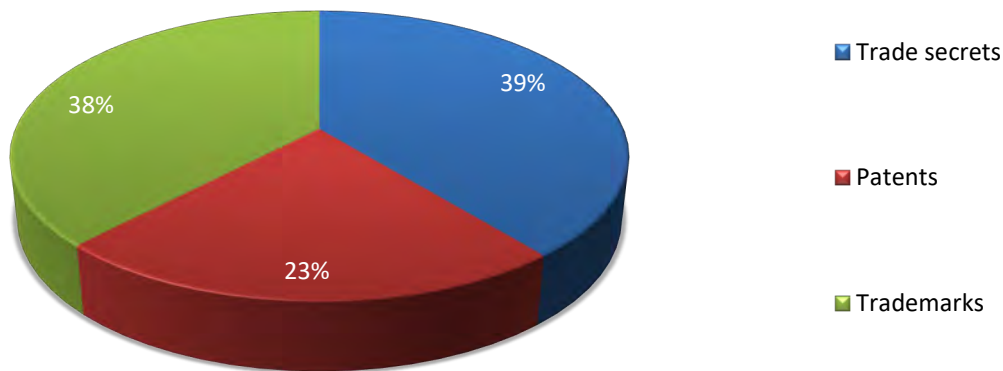
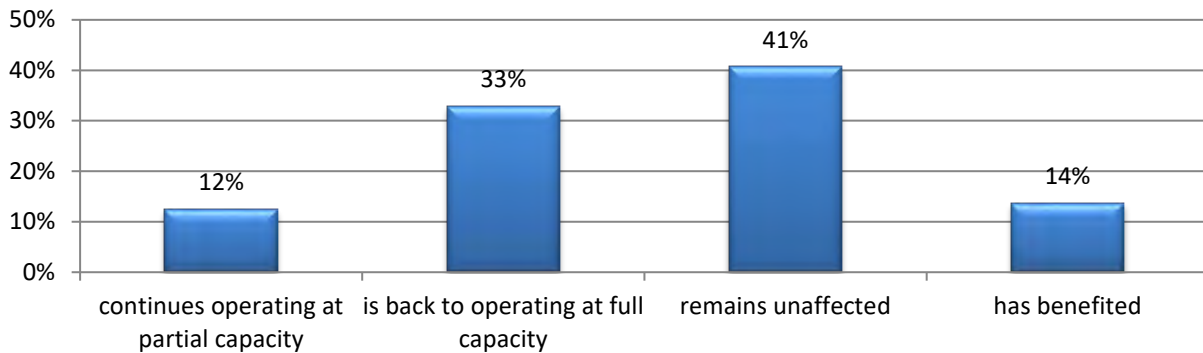


Figure 180. Are respondents Businesses Still Working



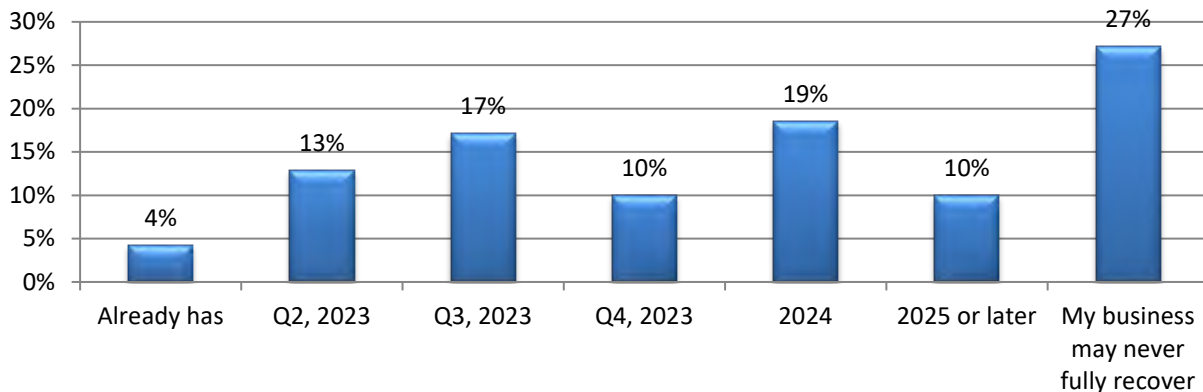
Approximately 41% of respondents indicated their businesses were not affected by COVID-19 pandemic, and 14% of respondents believe their businesses have benefited.

Figure 181. Due to COVID-19 Pandemic Respondents Businesses...



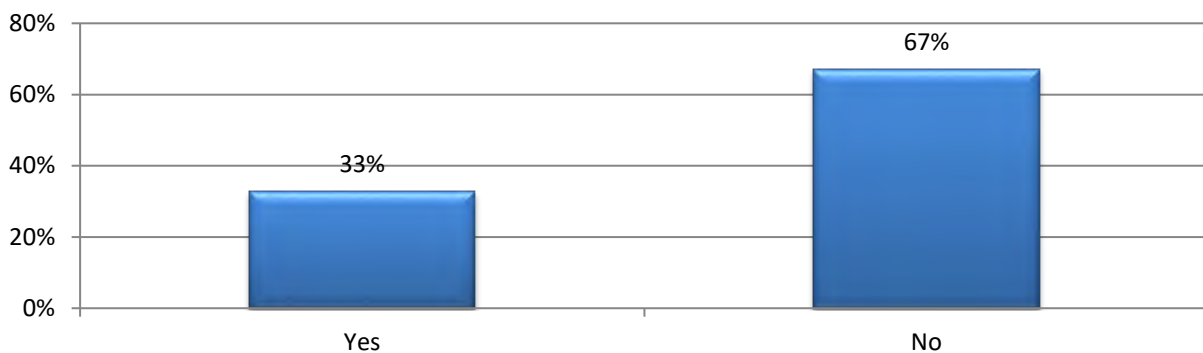
Nearly 27% of respondents indicated their businesses may never fully recover from the pandemic.

Figure 182. When Respondents Business Returns to Pre-March 2020 Level



Majority of respondents (67%) believe COVID-19 pandemic didn't impact their businesses access to capital.

Figure 183. Has COVID-19 Pandemic Impacted Respondents Business Access to Capital



On average 27% of respondents companies are owned by their employees.

Figure 184. What Percentage of Respondents Companies are Owned by Their Employees

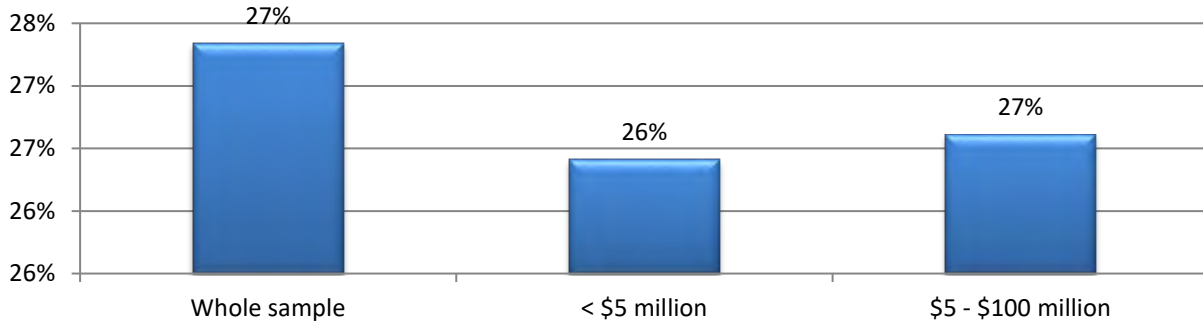
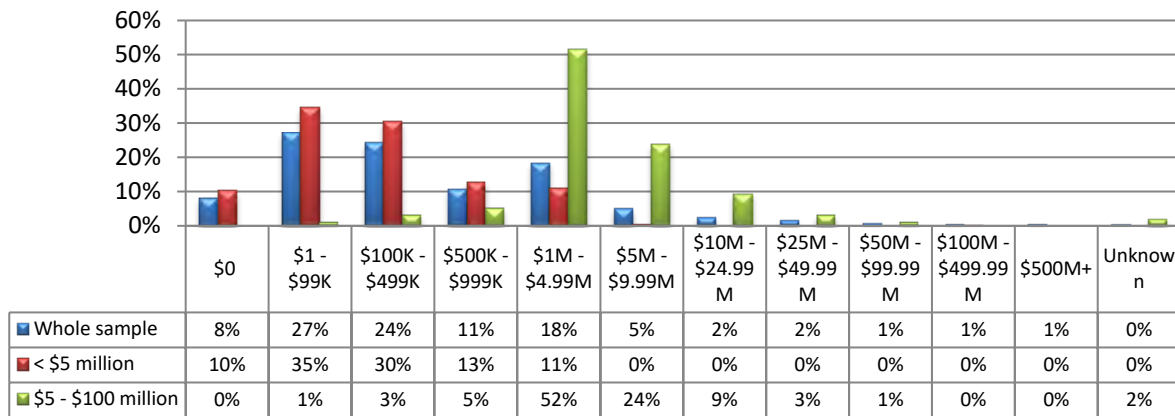
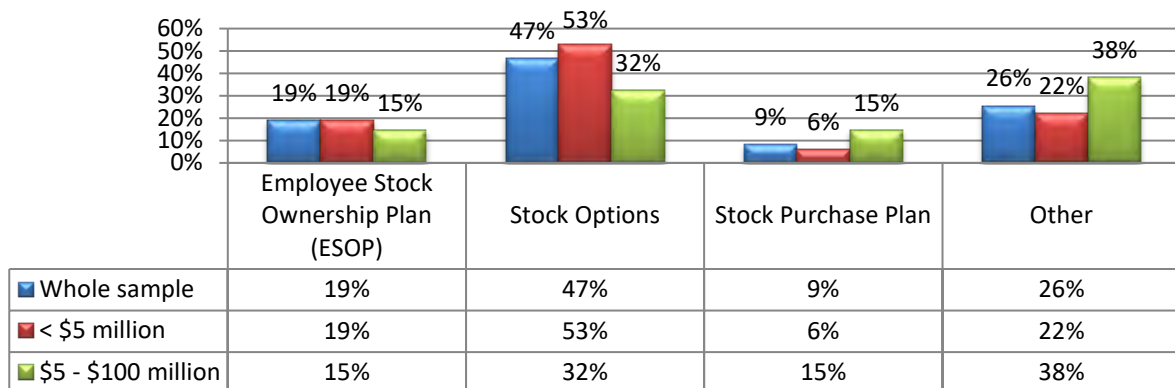


Figure 185. What Were Respondents' Total Labor Expenses in 2022 (Including Wages, Benefits and Payroll Taxes)



Approximately 19% of respondents use Employee Stock Ownership Plan (ESOP).

Figure 186. How Do Respondents' Employees Own Equity in Their Companies



BUSINESS OWNER cont.

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

Table 67. 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	8%	11%	25%	29%	26%	55%	19%	36%
Prices of labor and materials	0%	2%	17%	34%	47%	82%	2%	80%
Net income	10%	14%	27%	31%	18%	49%	24%	25%
Inventory levels	4%	12%	56%	18%	10%	28%	16%	11%
Capital expenditures	5%	9%	43%	27%	16%	43%	14%	28%
Opportunities for growth	4%	8%	24%	32%	32%	64%	12%	52%
Access to bank loans	7%	14%	58%	15%	6%	22%	20%	1%
Access to equity capital	8%	12%	54%	17%	9%	26%	20%	5%
Prices of your products or services	1%	2%	28%	52%	18%	70%	2%	68%
Time to collect receivables	0%	4%	64%	22%	9%	31%	5%	26%
Number of employees	2%	9%	54%	29%	5%	35%	11%	24%
Competition	2%	10%	56%	25%	8%	33%	11%	21%
General business conditions	7%	20%	38%	27%	8%	35%	27%	8%
Appetite for risk	5%	15%	46%	24%	10%	34%	20%	14%
Probability of business closure	23%	19%	43%	12%	3%	16%	41%	-26%
Time worrying about economy	8%	13%	36%	26%	17%	43%	21%	22%

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

Table 68. 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	2%	7%	20%	40%	31%	71%	9%	62%
Prices of labor and materials	0%	3%	23%	55%	20%	74%	3%	71%
Net income	2%	10%	20%	43%	25%	68%	12%	56%
Inventory levels	1%	11%	48%	33%	8%	41%	12%	29%
Capital expenditures	4%	9%	43%	30%	15%	44%	13%	32%
Opportunities for growth	1%	6%	25%	35%	33%	68%	7%	61%
Access to bank loans	3%	11%	53%	26%	8%	34%	13%	20%
Access to equity capital	3%	10%	47%	23%	17%	40%	13%	27%
Prices of your products or services	0%	3%	30%	58%	9%	67%	3%	63%
Time to collect receivables	0%	7%	65%	23%	5%	28%	7%	20%
Number of employees	1%	4%	37%	49%	10%	58%	4%	54%
Competition	1%	9%	57%	26%	7%	33%	10%	24%
General business conditions	4%	18%	41%	27%	10%	37%	22%	14%
Appetite for risk	4%	13%	48%	25%	10%	35%	17%	18%
Probability of business closure	25%	20%	44%	8%	3%	11%	45%	-34%
Time worrying about economy	10%	14%	44%	20%	11%	31%	24%	7%

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