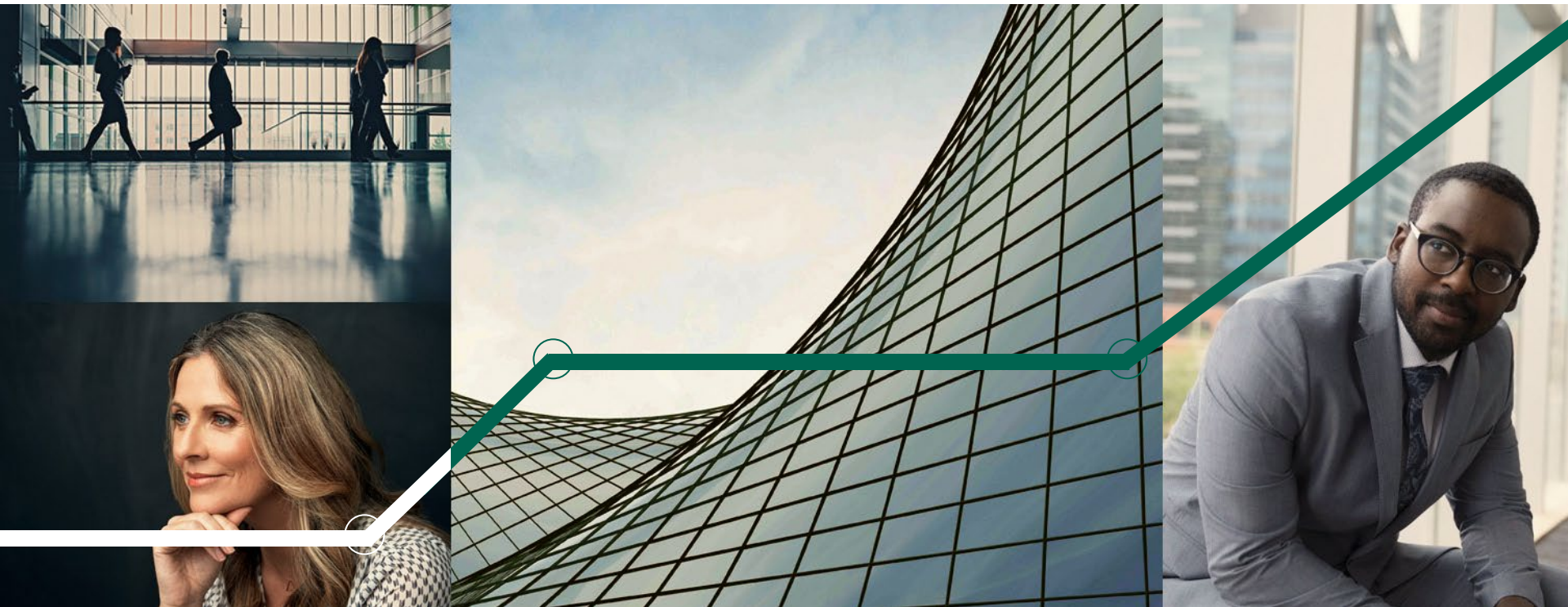


DEBT CAPITAL MARKETS & MERGERS AND ACQUISITIONS UPDATE

Daniel K. Fitzpatrick, CFA
President, Citizens Mid-Atlantic Region

May 2022



PRIVATE & CONFIDENTIAL

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Agenda



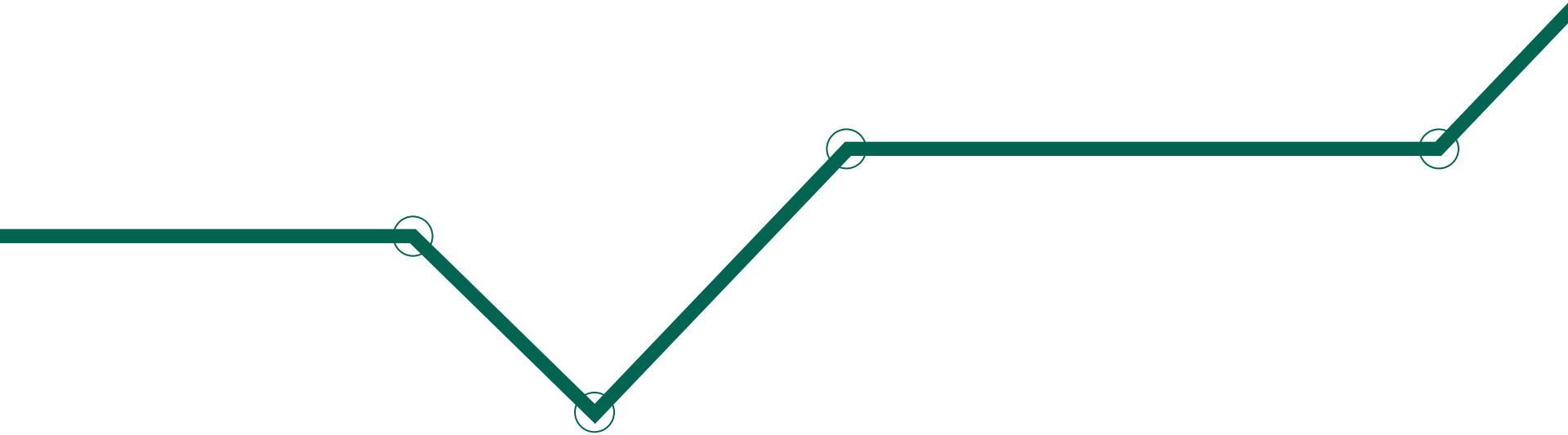
- I. Macro Economy
 - I. Inflation
 - II. Labor Shortages
 - III. Supply Chain Distribution

- II. Market Conditions
 - I. Equity Markets
 - II. Debt Capital Markets
 - III. Interest Rates

- III. Middle Market M&A Market & Outlook

I.

MACRO ECONOMY

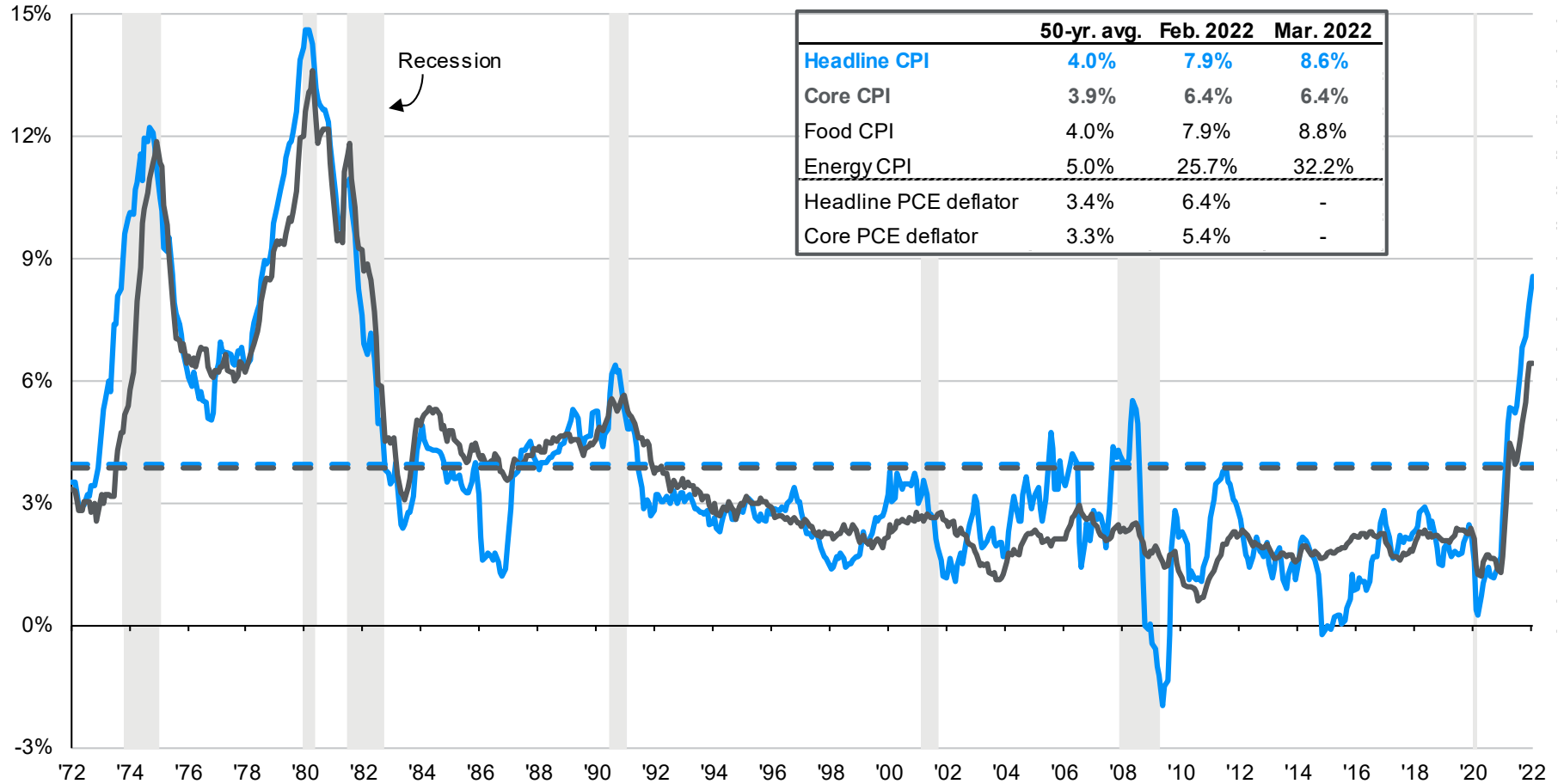


Measured Inflation



CPI and core CPI

% change vs. prior year, seasonally adjusted



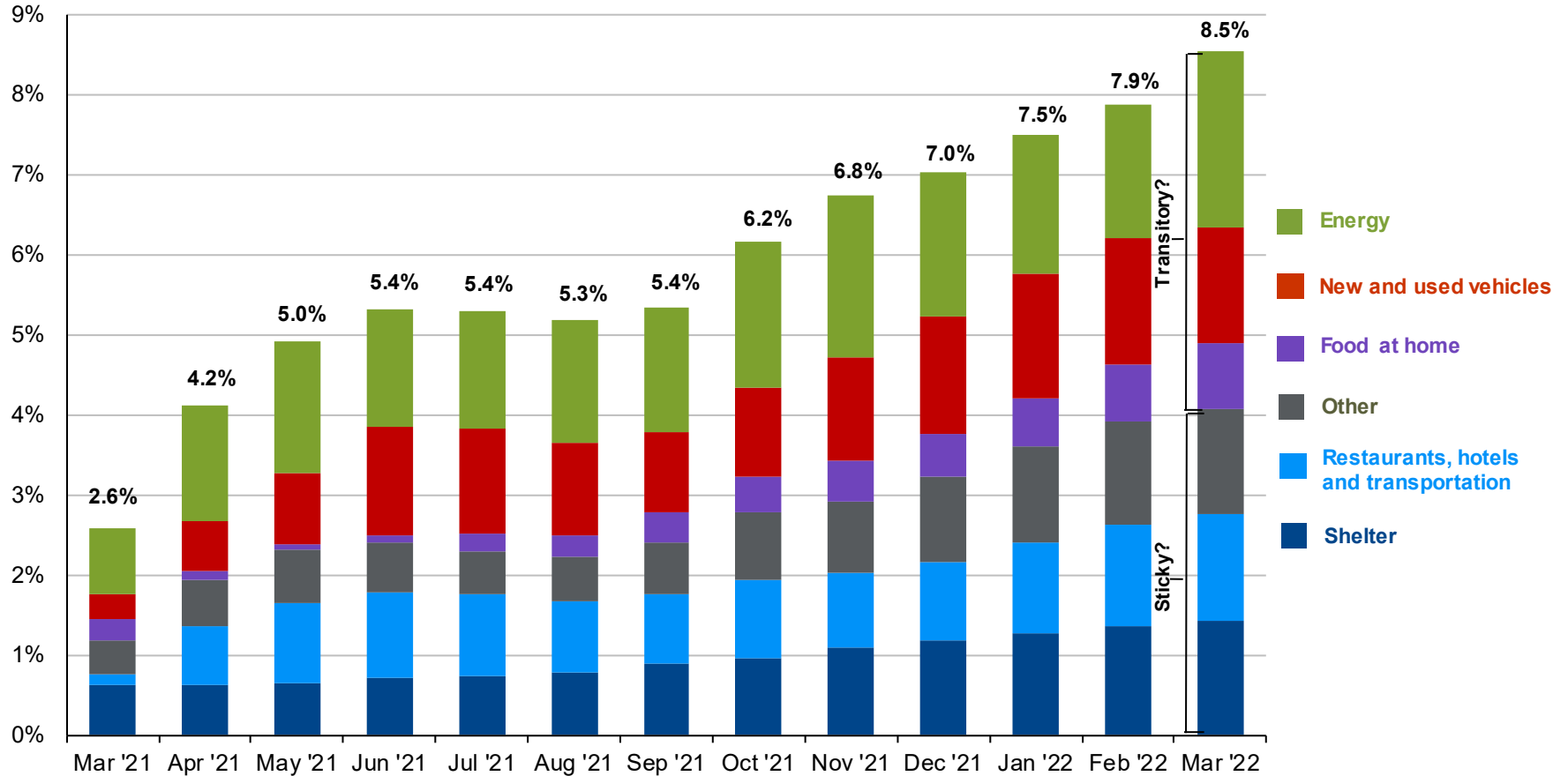
Source: BLS, Fact Set, J.P. Morgan Asset Management.

“Transitory” Inflation? Doubtful



Contributors to headline inflation

Contribution to y/y % change in CPI, non seasonally adjusted



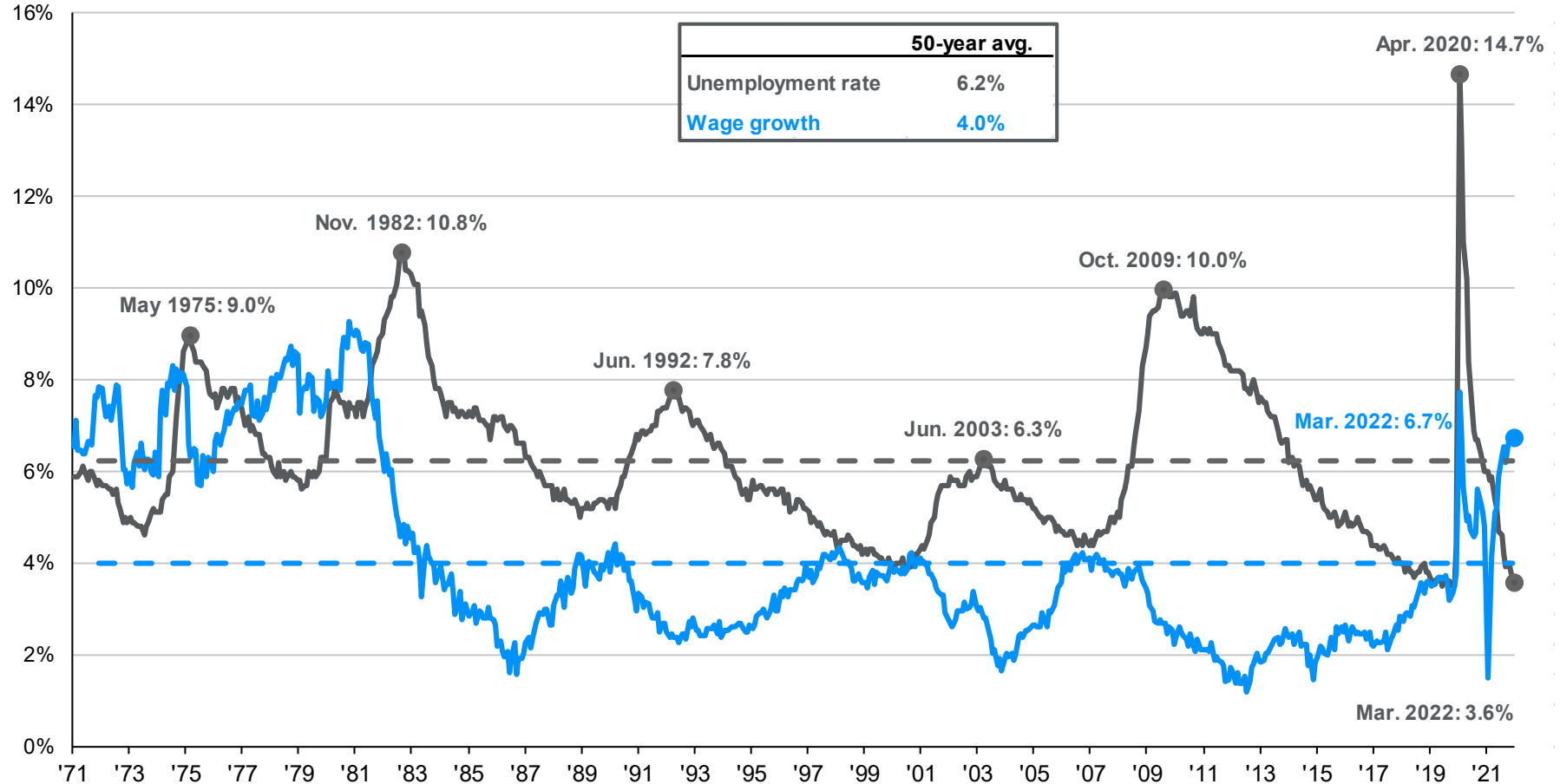
Source: BLS, J.P. Morgan Asset Management

Unemployment and Wages



Civilian unemployment rate and year-over-year wage growth

Private production and non-supervisory workers, seasonally adjusted, percent

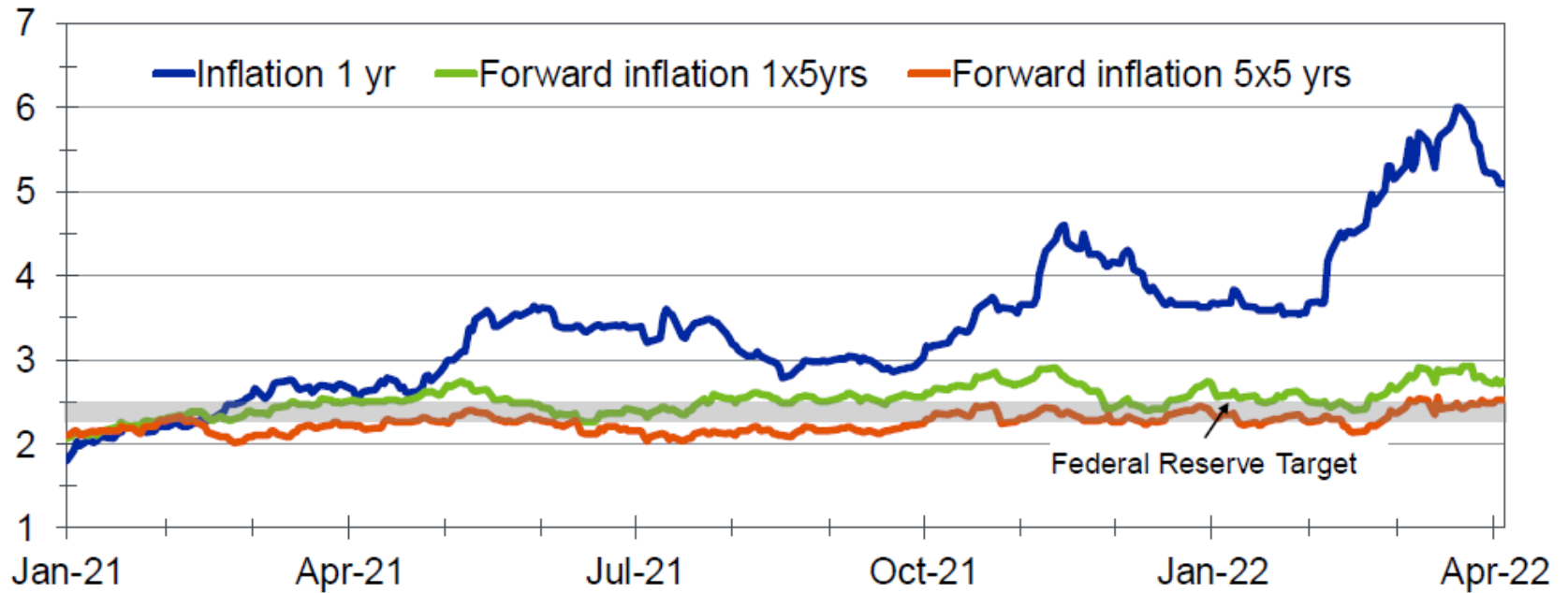


Source: BLS, Fact Set, J.P. Morgan Asset Management.

Russian Invasion Fans Inflation Expectations



% change year ago

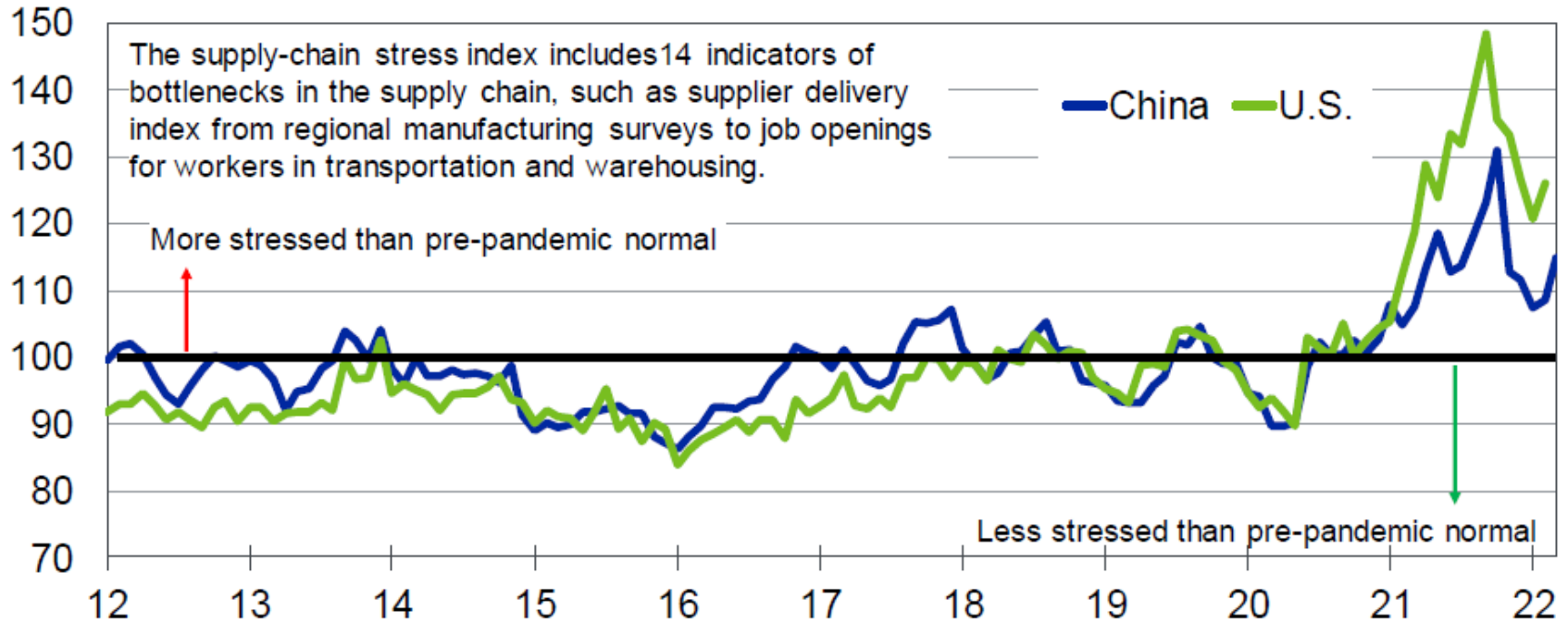


Source: ICE, Moody's Analytics

Supply Chain Stresses

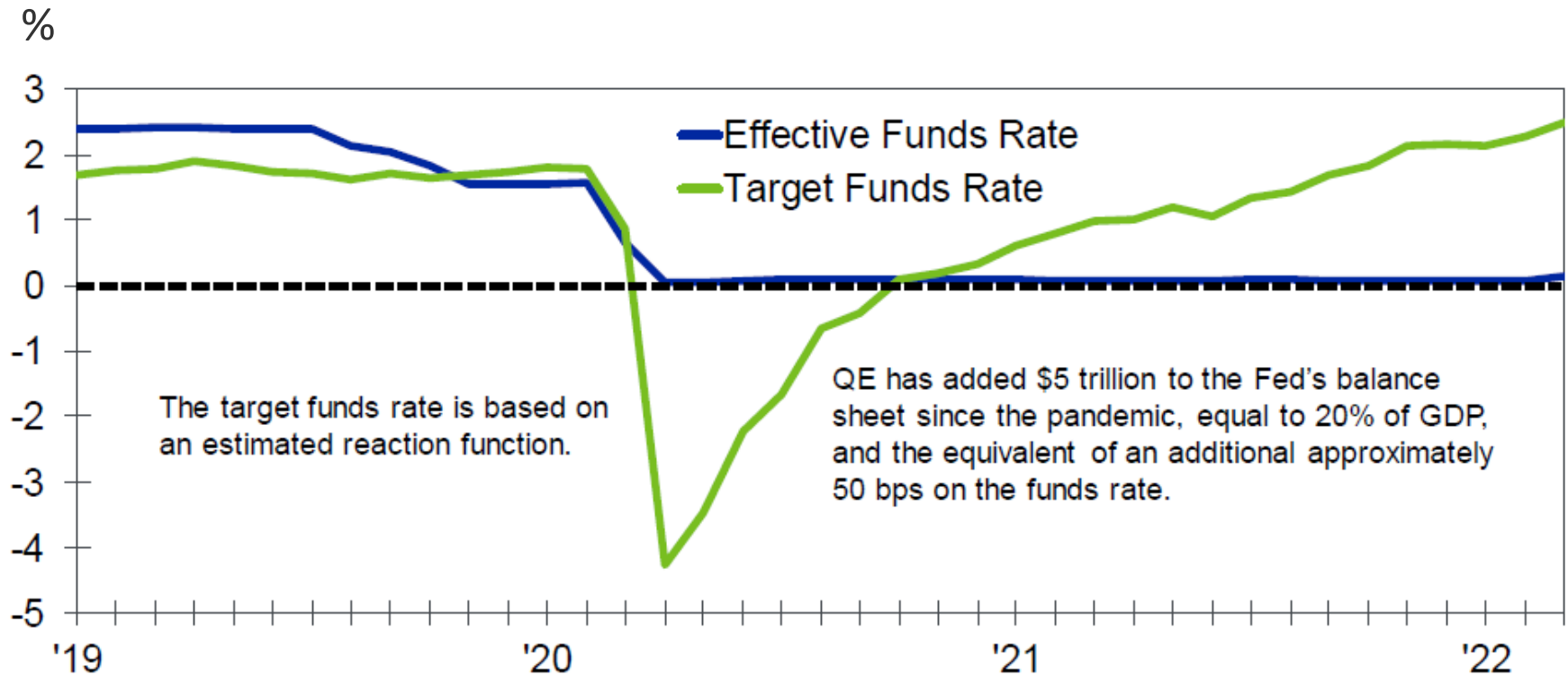


Supply-Chain Stress Index, Oct 2019=100



Source: Multiple statistical sources, Moody's Analytics

Federal Reserve Has Lots of Catching Up To Do

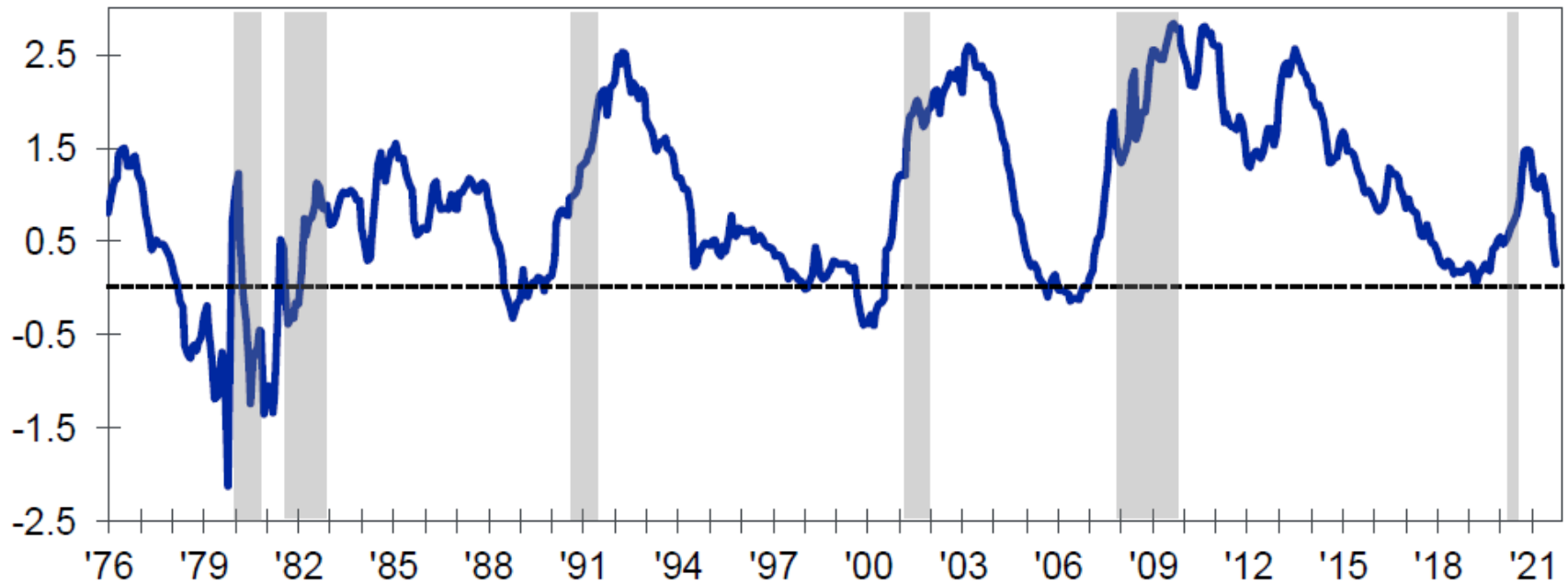


Source: Federal Reserve, Moody's Analytics

Gracefully Normalizing Rates Will Be Difficult



Difference between 10-year Treasury and 2-year Treasury yield, ppt



Source: Federal Reserve Board, Moody's Analytics



Self-Sustaining Economic Expansion (50% probability)

- Economy returns to full-employment by summer 2022, and inflation to near the Fed’s target by year-end 2023. Assumes that the pandemic continues to fade, the disruption to Russian oil (35% export reduction) and other commodity exports is modest, and the Federal Reserve successfully calibrates monetary policy.

Recession (35% probability)

- Economy suffers a typical recession in the next 12-18 months, characterized by higher unemployment (>6%) and quickly moderating inflation. Potential catalysts are an intensifying pandemic, greater disruptions to Russian oil (60% export reduction) and/or tightening monetary policy and financial conditions.

Stagflation (10% probability)

- Economy suffers persistently high unemployment (>5%) and inflation (>5%) into mid-decade. The Federal Reserve is slow to respond to untethered inflation expectations, igniting a wage-price spiral.

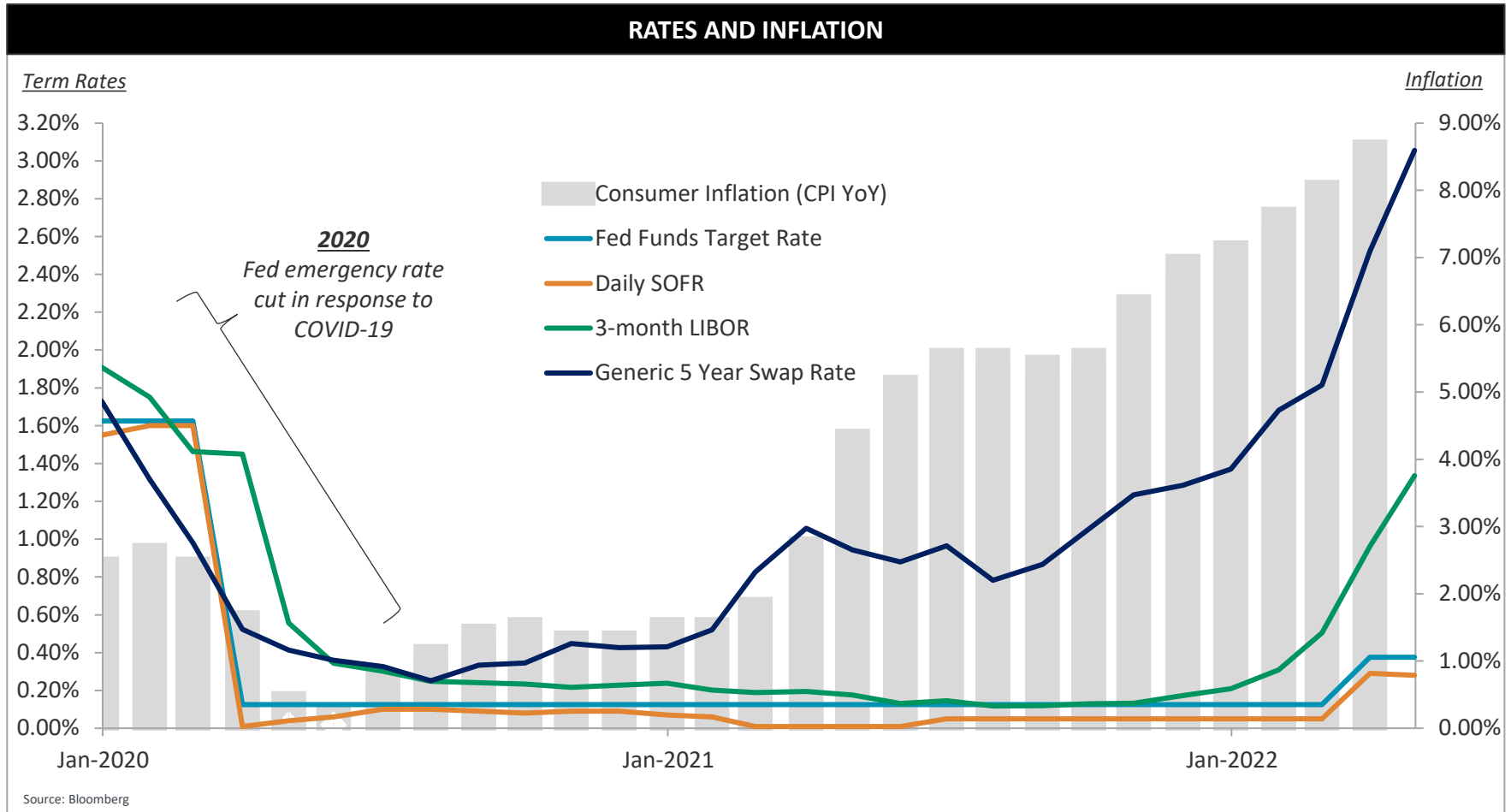
Supply-Side Surprise (5% probability)

- Productivity and labor force growth are surprisingly strong, quelling inflationary pressures. This is consistent with currently strong business investment and formations, remote work, and stronger foreign immigration.



Post-Pandemic Term Rates as Inflation Rises

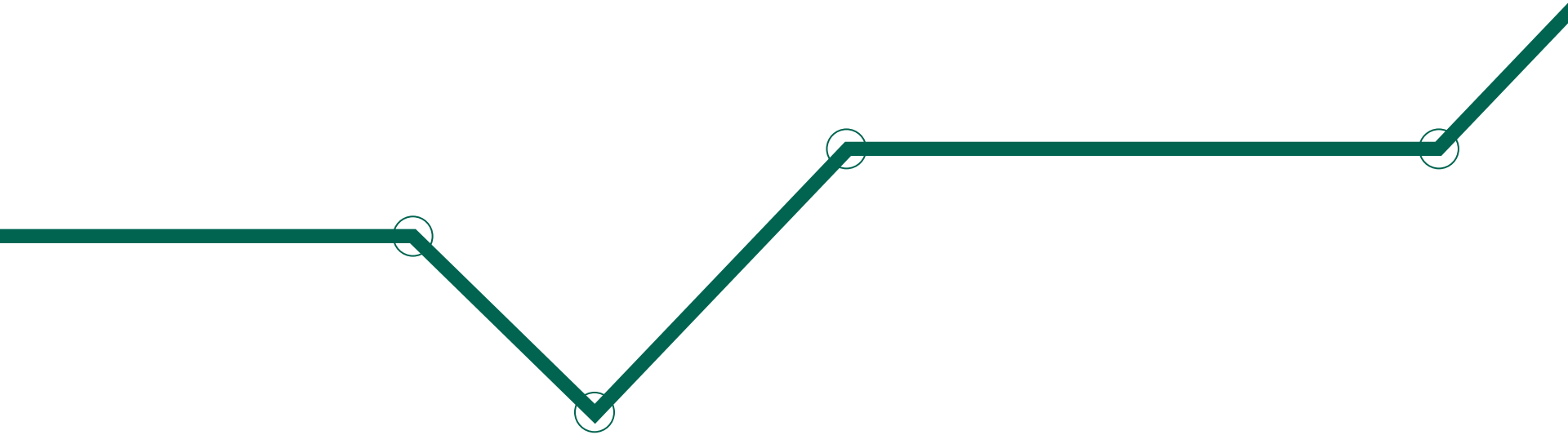
Market pricing for Fed rate hikes as inflation accelerates. At its May meeting, the FOMC raised its short-term policy range by 50 bps (0.75-1.00%), the steepest increase in 22 years, and pledged to shrink its \$9 trillion balance sheet.



- With price pressures eating into American paychecks, the Federal Reserve is setting the stage for a sustained tightening cycle
- Term rates have accelerated higher in anticipation of a Fed hiking cycle

II.

MARKET CONDITIONS



Equity Markets Turn South



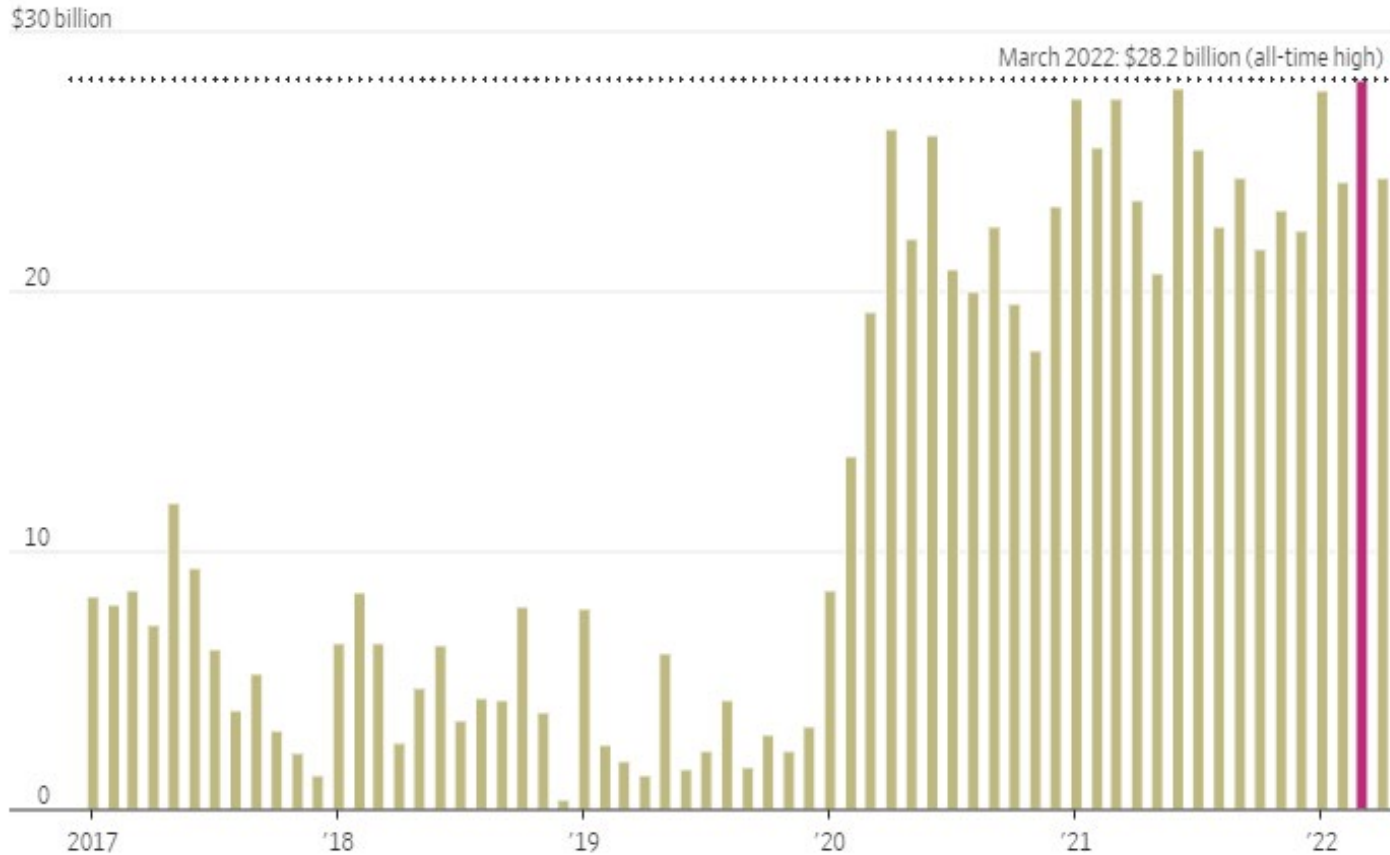
S&P 500 Index vs NASDAQ



— S&P
— NASDAQ

Source: [wsj.com/market-data](https://www.wsj.com/market-data), May 2022

Individual investors, net flows into U.S. stocks and ETFs, monthly



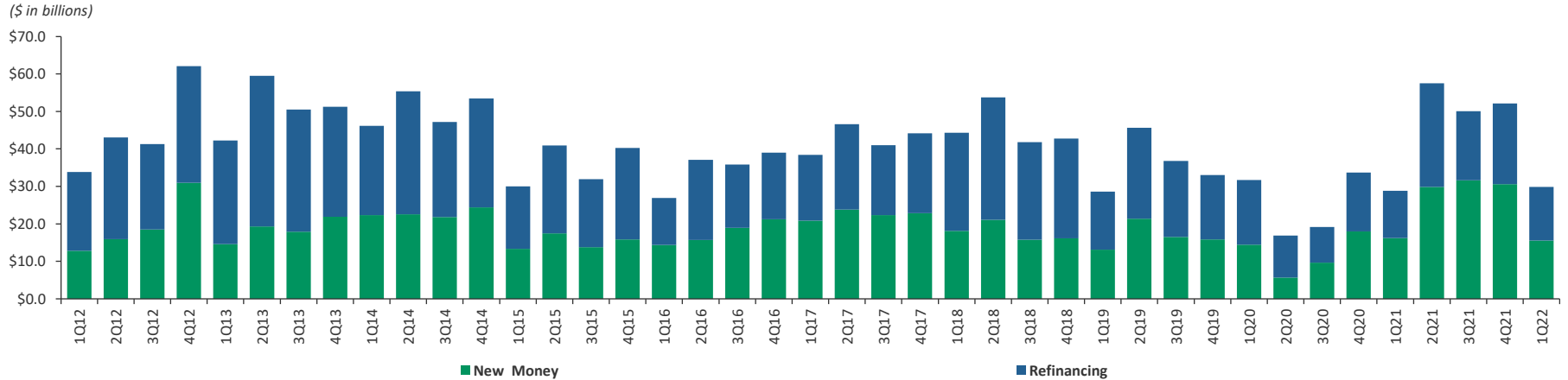
Source: wsj.com, May 2022

Syndicated Middle Market Pro Rata Bank Market



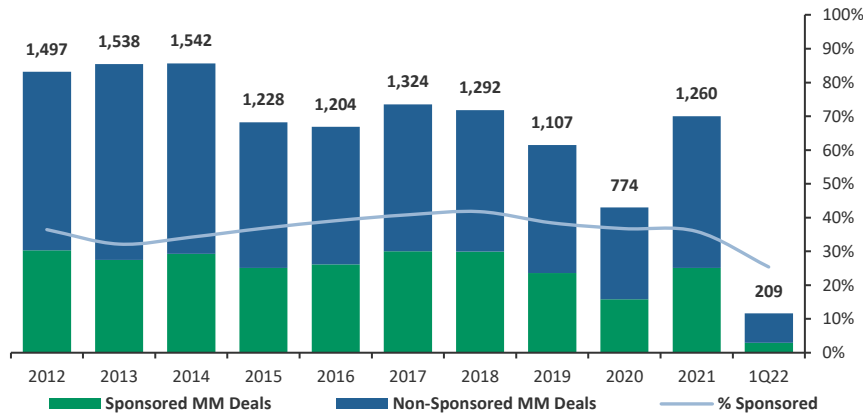
OVERALL MIDDLE MARKET LOAN VOLUME

Syndicated market activity fell to the lowest in a year as volatility drove pricing higher, making direct market a more attractive option



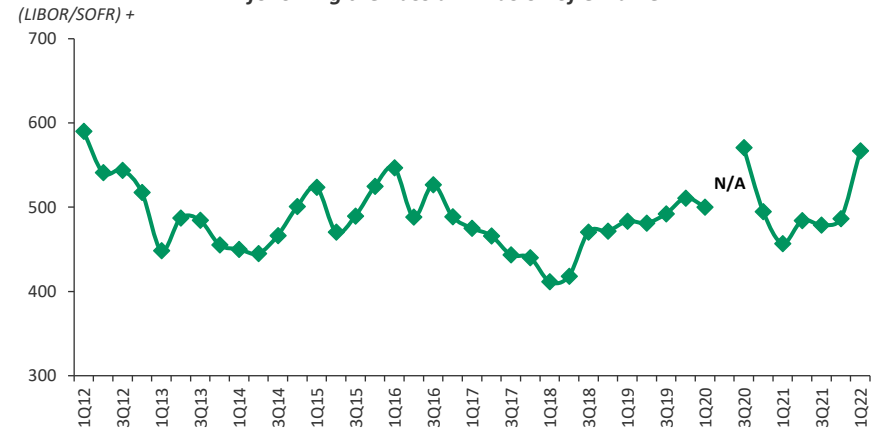
SPONSORED MIDDLE MARKET DEALS

Sponsored deals account for a significant portion of middle market deal volume, with 36% of 2021 MM deals being sponsor-backed in 2021



AVERAGE FIRST LIEN SPREAD

While total volume has fallen, spreads have risen to near-record levels following the Russian invasion of Ukraine

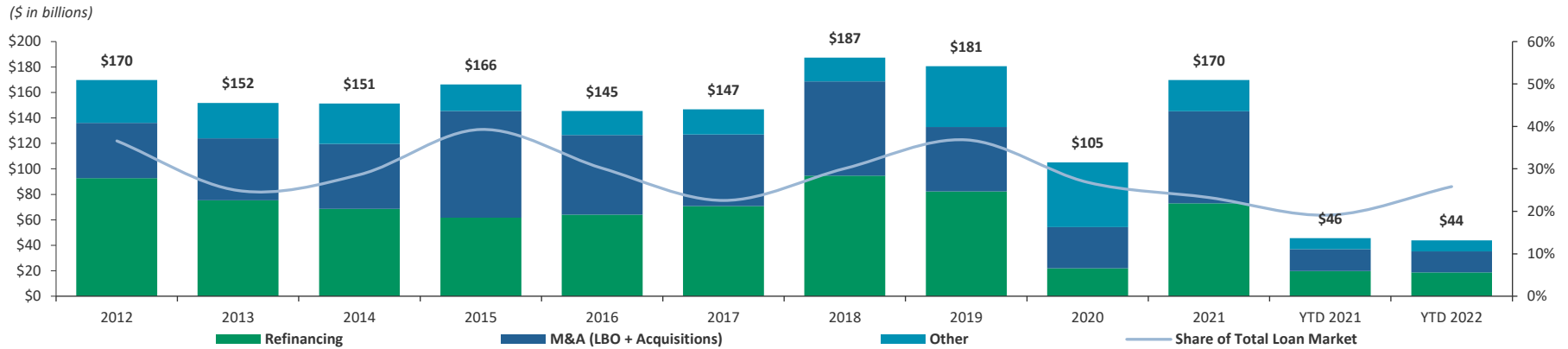


Sources: Refinitiv LPC and Citizens Capital Markets



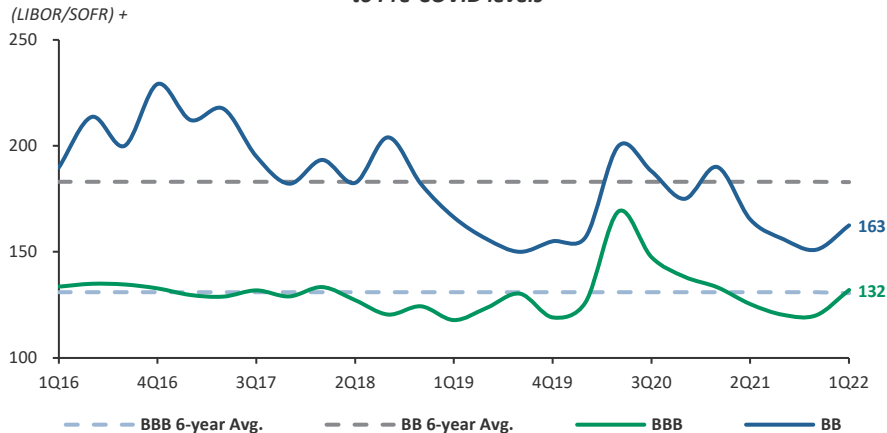
PRO RATA VOLUME AND SHARE OF TOTAL LEVERAGE LOAN MARKET ISSUANCE

The Pro Rata market was buoyant in 2021, with overall volume up ~60% from 2020 as the result of a tremendous growth in M&A activity and issuers taking advantage of opportunistic refinancing



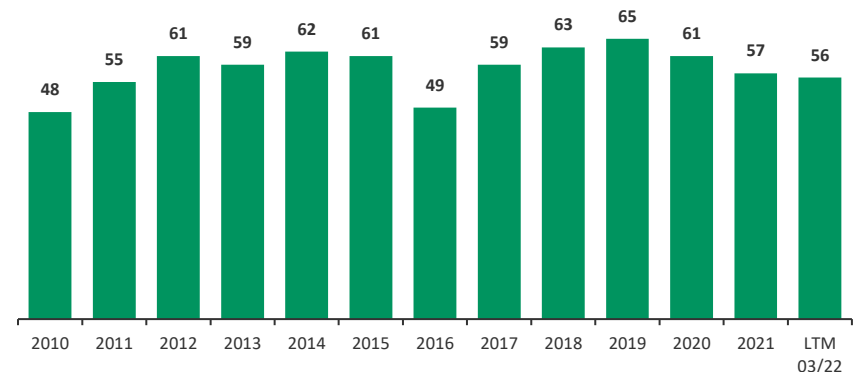
PRO RATA PRICING BY RATING

Spreads are continuing to tighten as liquidity and risk premiums have returned to Pre-COVID levels



MOST ACTIVE PRO RATA LENDERS

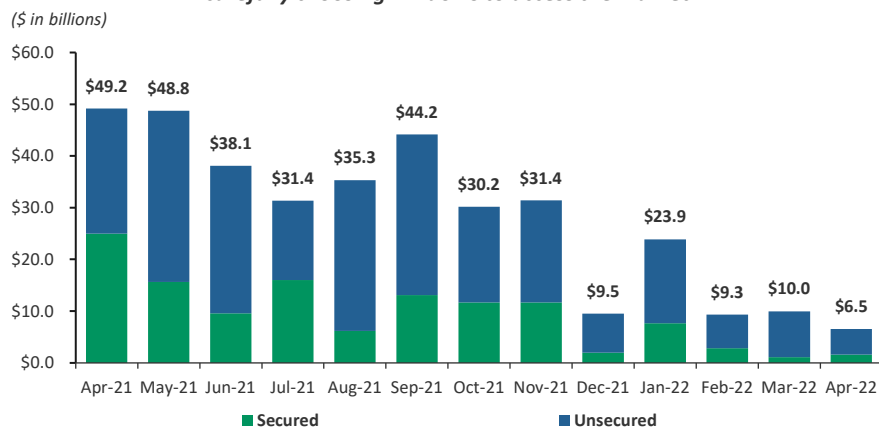
The number of active lenders has fallen off in recent years due to a significant amount of bank consolidation, which is expected to continue





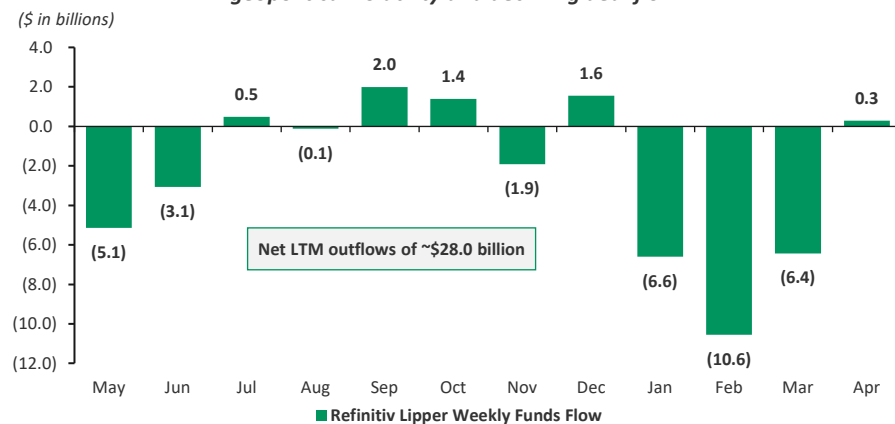
NEW ISSUE HIGH YIELD VOLUME

The primary market remains slow, but not completely inactive, as issuers are carefully choosing windows to access the market



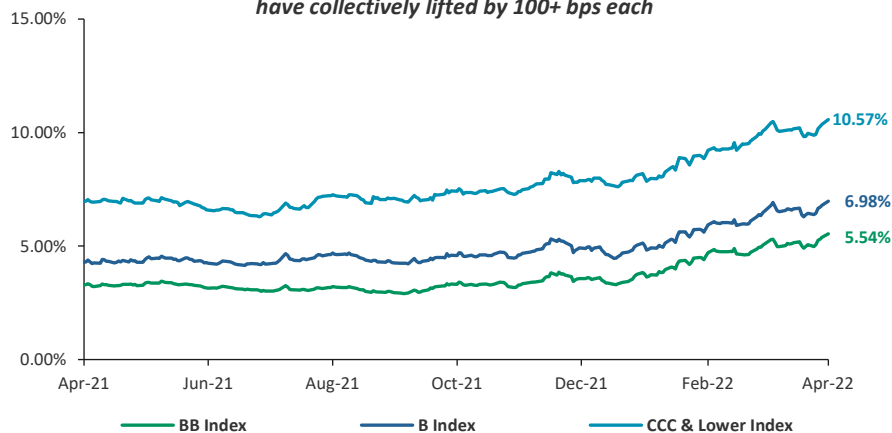
HIGH YIELD FUNDS FLOWS

Net LTM outflows of ~\$28.0 billion are largely the result of continuing geopolitical volatility and declining deal flow



HIGH YIELD INDEX PERFORMANCE BY RATING

Ongoing volatility has put pressure on yields across the rating spectrum, which have collectively lifted by 100+ bps each



ALL-IN 10-YEAR U.S. TREASURY YIELD

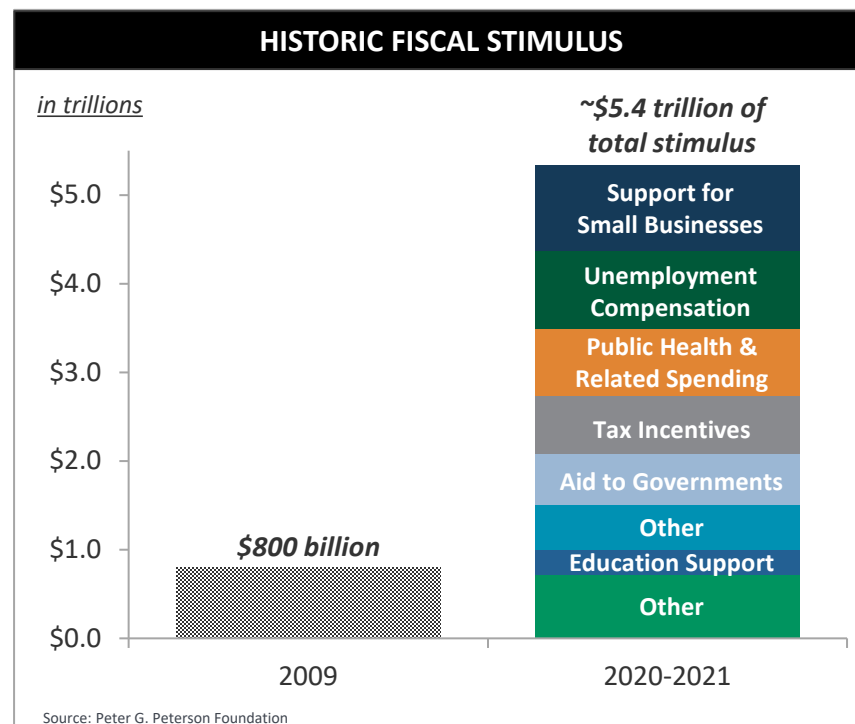
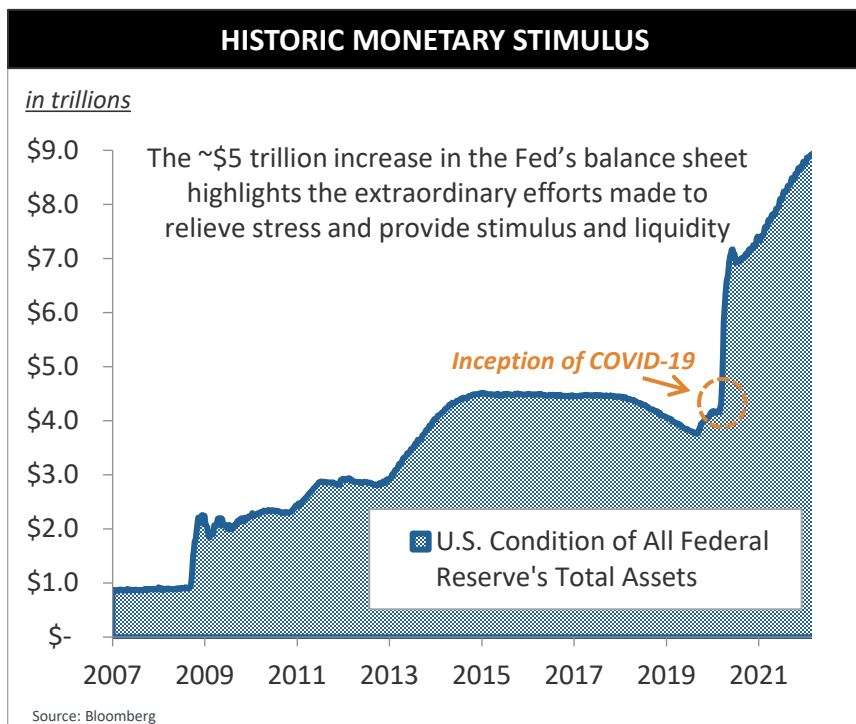
Volatility in the Treasury market has been rampant as the 10-year Treasury has risen to 3.02% as of 5/11/22



Fed Action & Fiscal Stimulus



Federal Reserve balance sheet & congressional accommodation



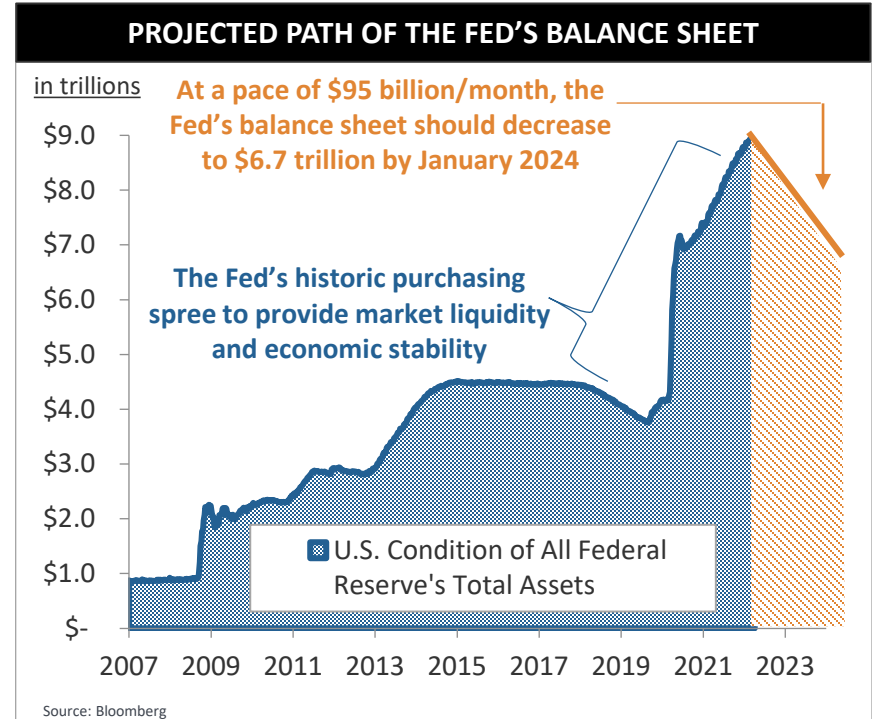
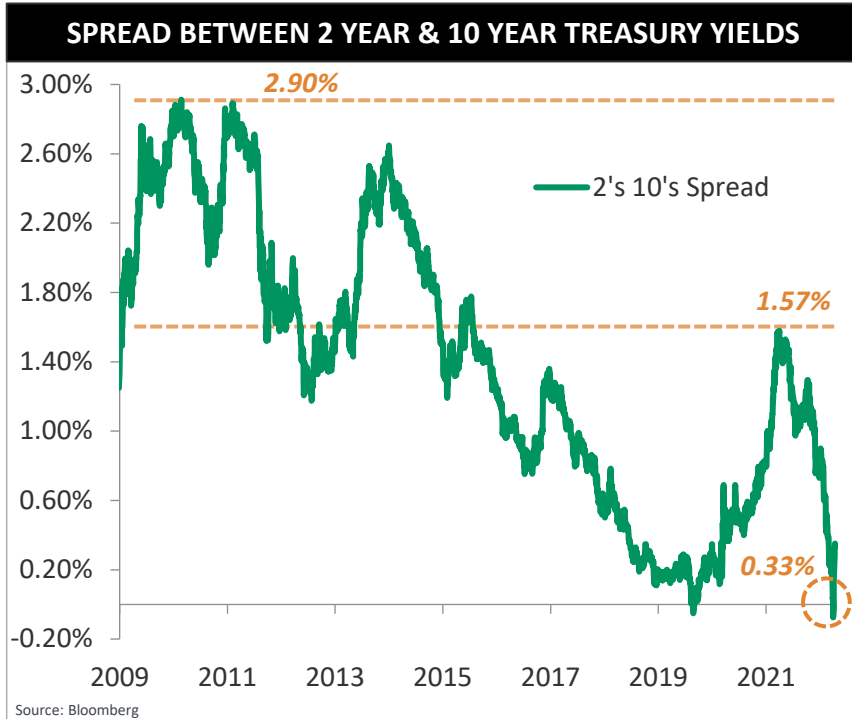
- By increasing the supply of money, the Federal Reserve has effectively provided downward pressure to interest rates
- Just as asset purchases lowered interest rates, the reversal of asset holdings could provide upward pressure to term rates even in the absence of Fed hikes

- Significant cash savings and pent-up demand during the pandemic bolstered the economy once mass vaccination was reached

Yield Curve Inverts as Fed Prepares to Unwind Balance Sheet



Reducing balance sheet should bring pressure to longer-term rates



- Though curve inversion risks are sparking recession concerns, Fed Chair Powell has attempted to dispel worries by downplaying the significance of the 2's 10's spread
- Kansas Fed President George stated that the narrowing spread/inversion should factor into balance sheet decisions
- Fed Governor Brainard said the U.S. central bank will shrink its balance sheet at a rapid pace as early as May, providing upward pressure to long-term rates

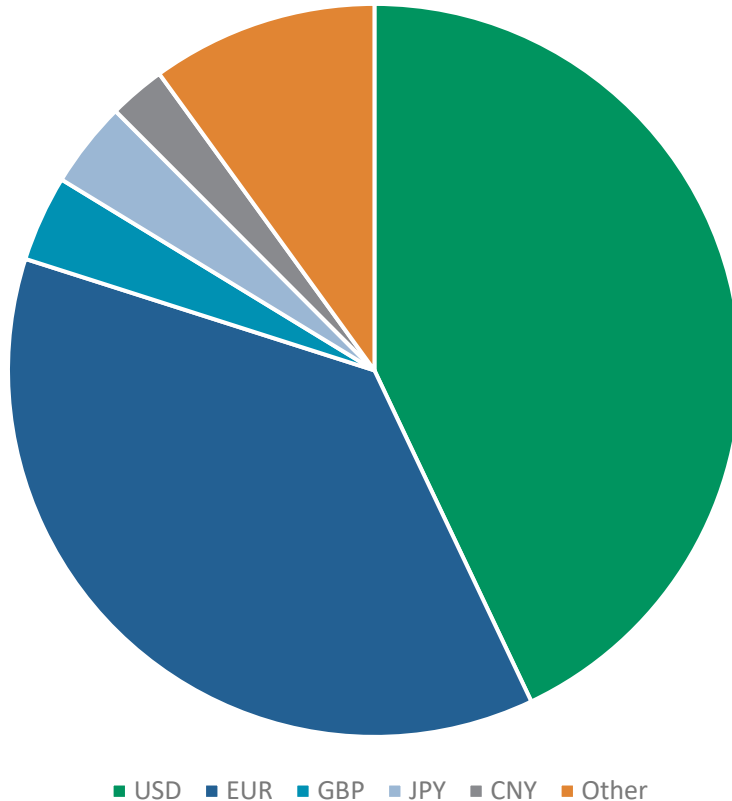
- Over the past two years, the Federal Reserve's momentous ~\$5 trillion purchasing spree of government and mortgage-backed securities has artificially suppressed long-term interest rates
- The impending reversal of asset purchases ("balance sheet normalization") is likely to alleviate the downward pressure on long-term rates and steepen the yield curve

Reports of US Dollar Demise: (Still) Greatly Exaggerated



The debate about the role of the dollar in the global economy is an old one

Currency Denomination of International Payments
via SWIFT (%)



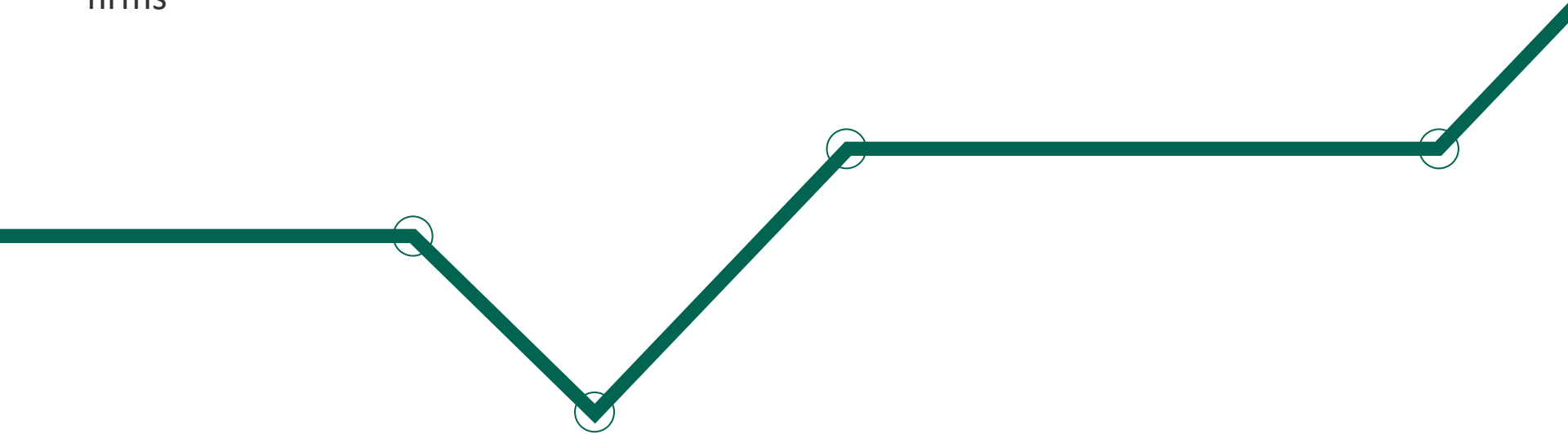
- Debate about fall of US dollar: gains fresh life by events such as creation of the euro, China's rise, the Global Financial Crisis, or advent of cryptocurrencies
- Despite drop in last few decades, US dollar still world's dominant **reserve currency** (60%+ of total currency reserves)
- However, it is the US dollar's role as dominant currency for **settling cross-border transactions** – and, by extension, the US financial system's role as plumbing of world economy – that is more important from a geo-political influence perspective
- Attempting to disentangle from US financial system would not get contenders very far: an international currency must fulfil three functions: it must act as a **unit of account, a medium of exchange, and a store of value**

1) Source: Capital Economics, SWIFT; excluding intra-euro-zone transactions

III.

MIDDLE MARKET M&A MARKET OUTLOOK

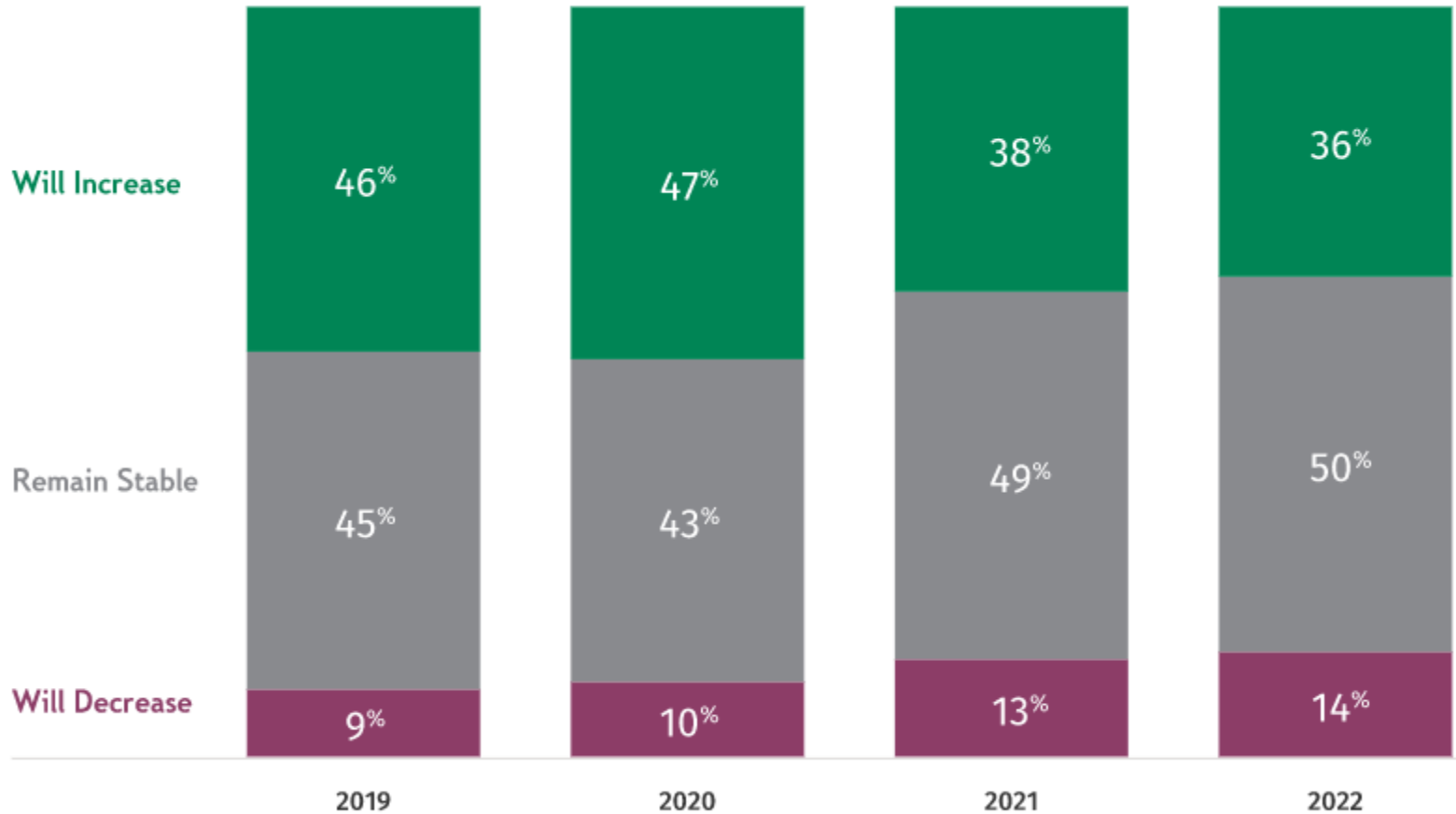
Survey of 400 Company CEOs and CFOs as well as principals of numerous private equity firms



Strong M&A Market Continues, With No Signs Of Letting Up



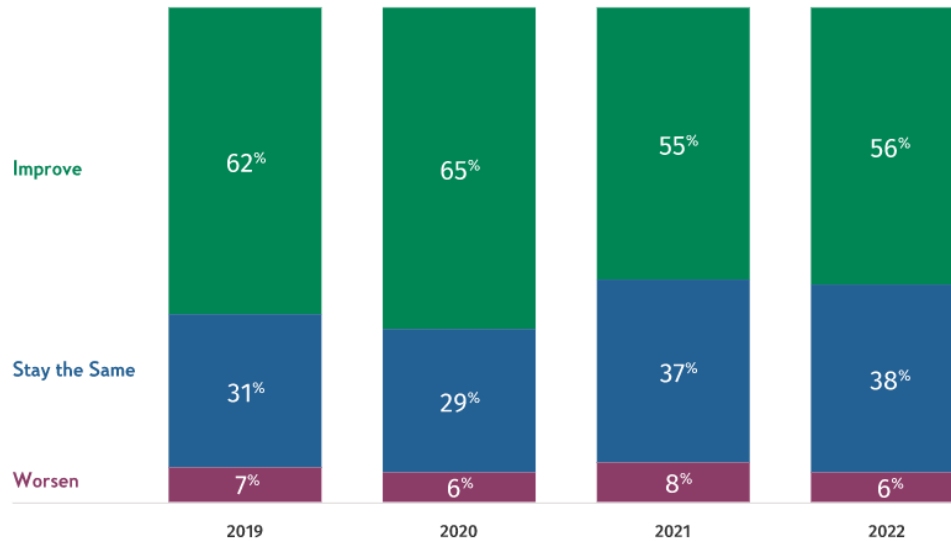
EXPECTED CHANGE IN COMPANY VALUATIONS



New Normal: Steady Growth Despite Headwinds



EXPECTED CHANGE IN COMPANY PERFORMANCE



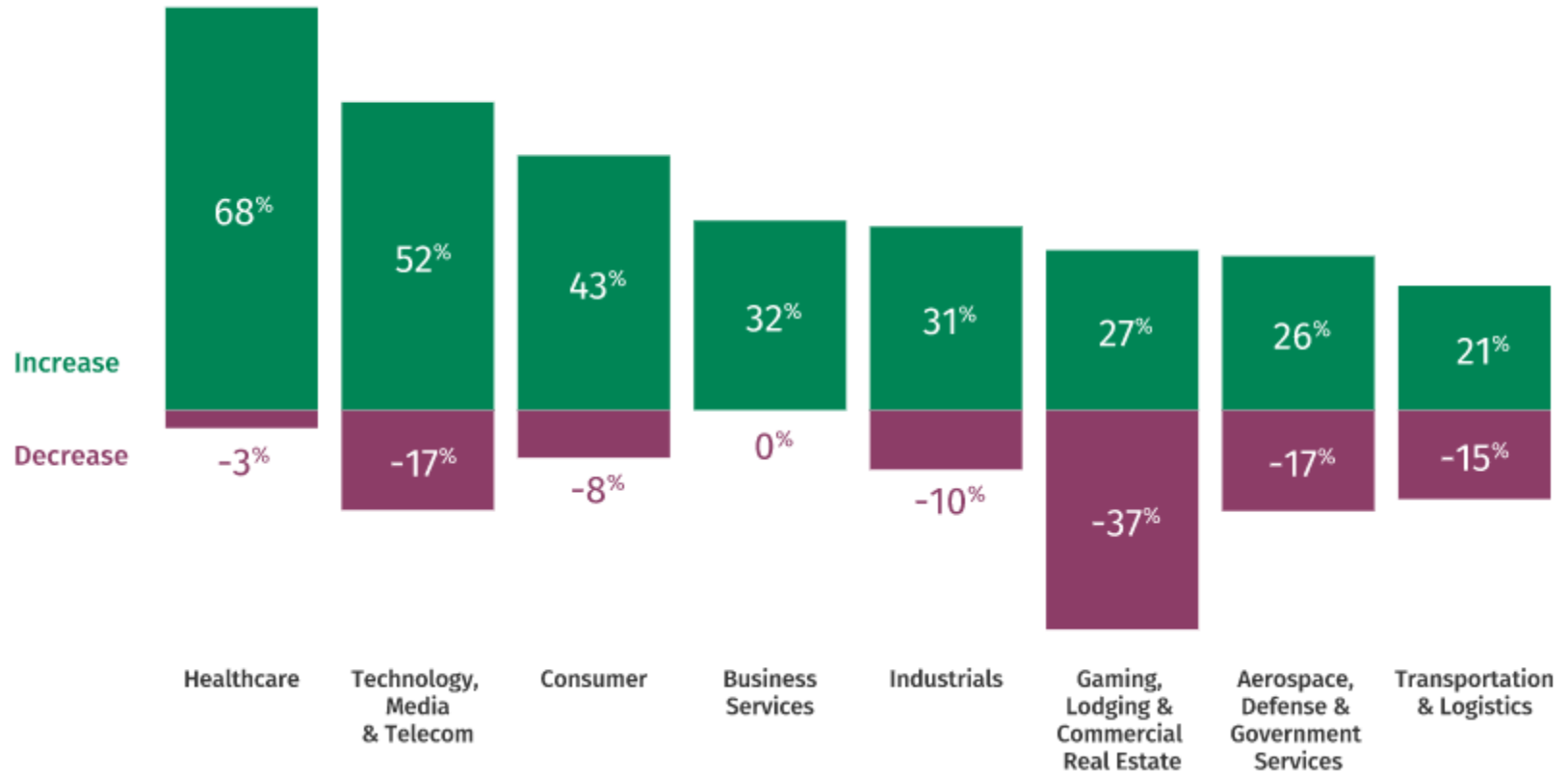
FACTORS MAKING OPERATIONS MORE DIFFICULT IN 2022



Sectors With Brightest Outlooks See Higher Valuations



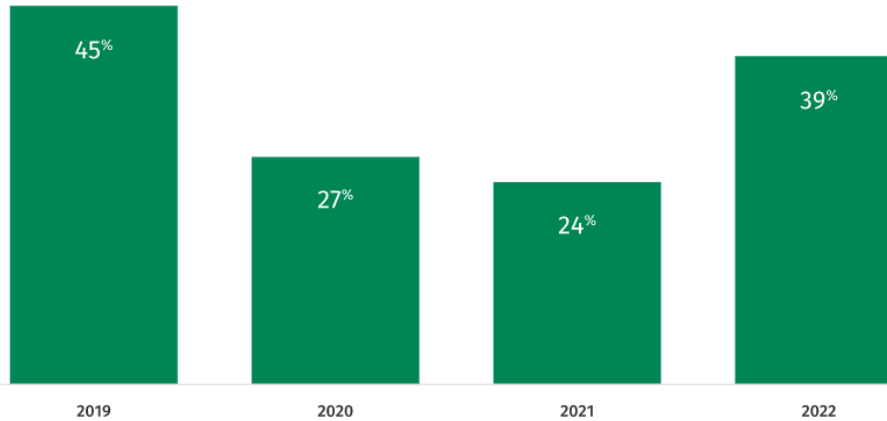
EXPECTED CHANGE IN COMPANY VALUATIONS BY SECTOR



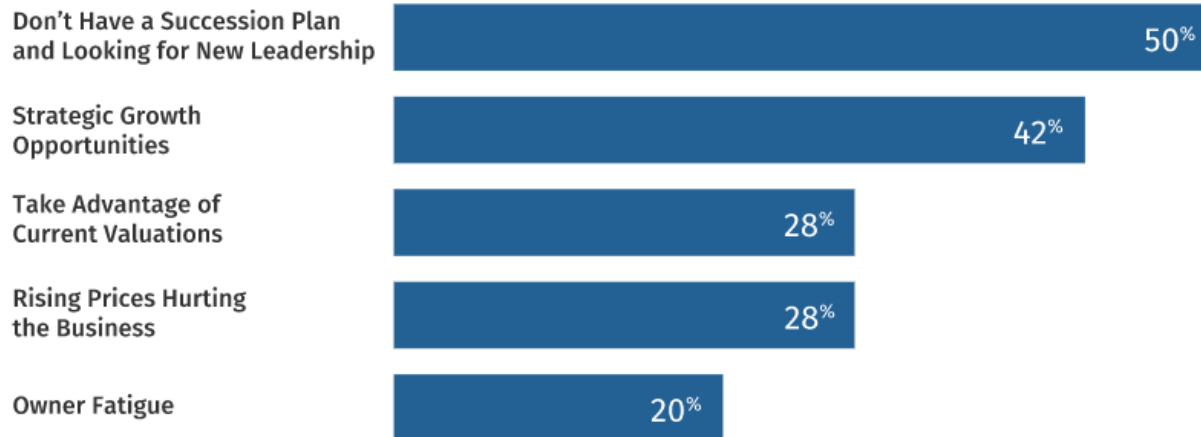
Seller Motivations Include Lack Of Succession Plan And Fatigue



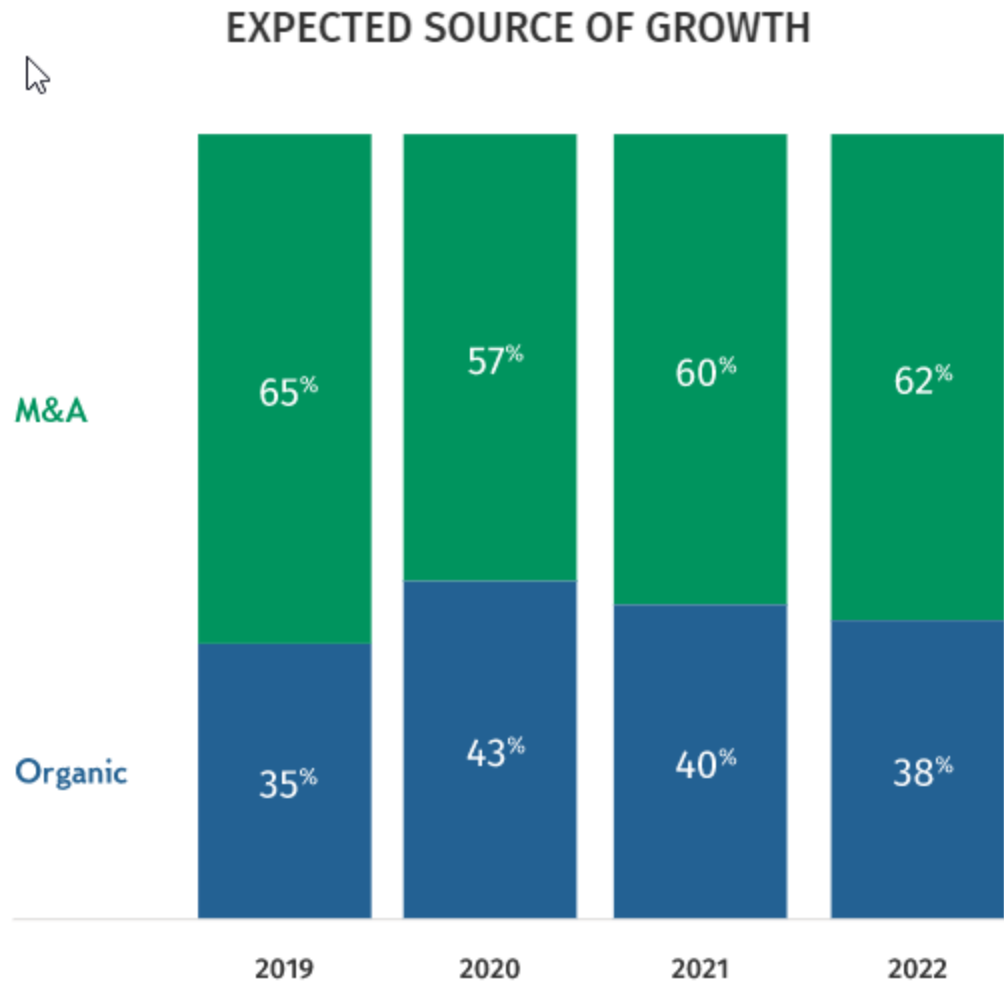
PERCENTAGE OF SELLERS CONSIDERING SELLING ENTIRE BUSINESS



TOP REASONS FOR SELLING ENTIRE BUSINESS



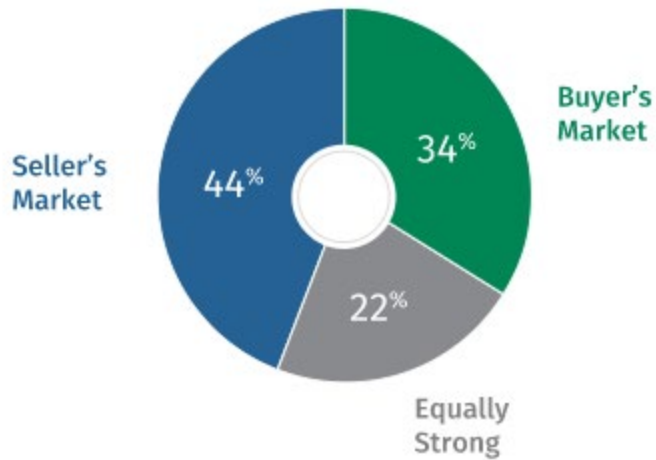
M&A Remains Primary Growth Driver, International Interest Declines



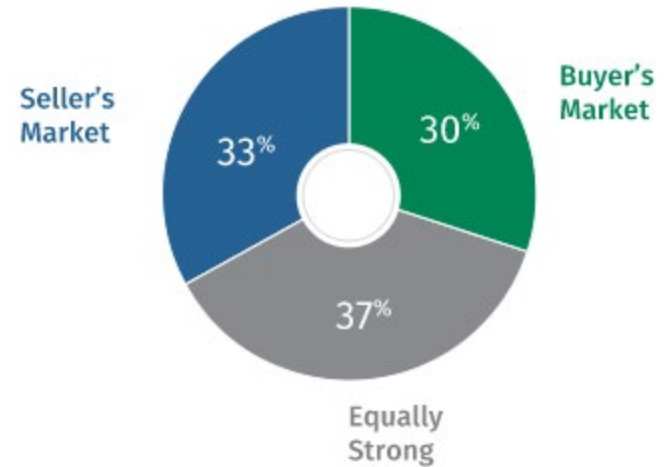
Companies See Seller's Market; PE Firms Say Balanced



COMPANY VIEW OF THE M&A MARKET



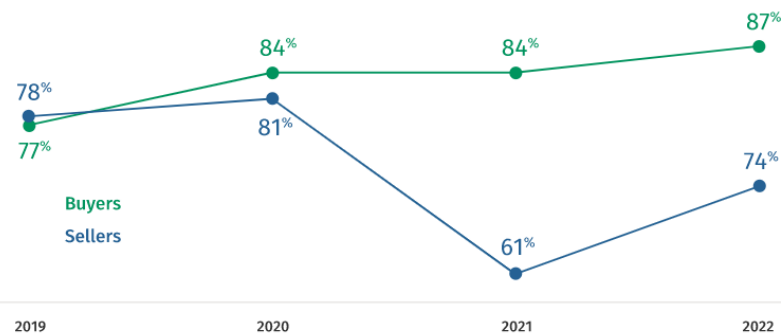
PRIVATE EQUITY FIRM VIEW OF THE M&A MARKET



Deal Confidence Rebounds, Supported By Advisor Value



PERCENT OF BUYERS AND SELLERS WITH CONFIDENCE IN COMPLETING A DEAL



WHY SELLERS ENGAGE AN M&A ADVISOR



WHY BUYERS ENGAGE AN M&A ADVISOR



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