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2023 QUARTERLY

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MARCH 2023

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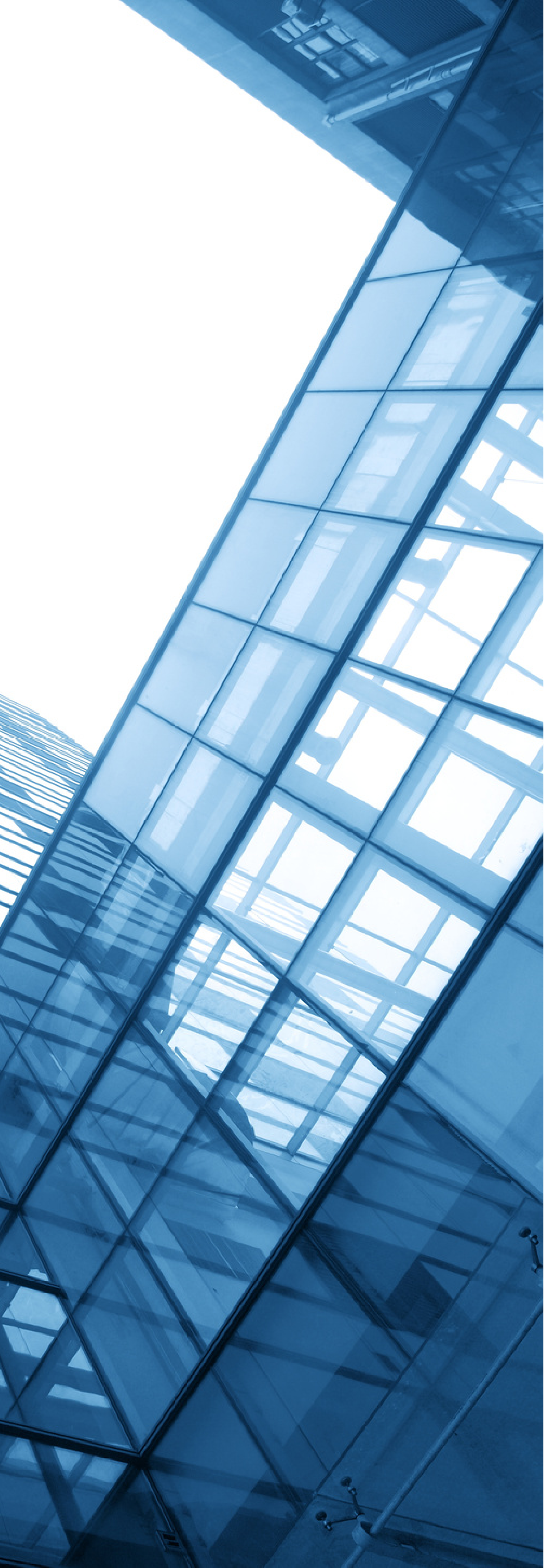


Fostering relationships that go beyond mere transactions

Stephens begins our 90th year of business, and although a lot has changed, much has remained the same. We provide unvarnished advice and precise execution on the full array of investment banking services:

- Mergers & Acquisitions,
- Underwritings of public debt and equity securities,
- Private placements of debt and equity, and
- Restructurings and Recapitalizations.

A MESSAGE FROM J. BRADFORD EICHLER, HEAD OF INVESTMENT BANKING

Thanks to the trust that each of you places in us, our global Investment Banking team finished 2022 with another record year. The results speak to our unique model which focuses on building client relationships and advising our clients across the full spectrum of their needs.

In 2023 Stephens celebrates its 90th Anniversary. Such milestones become brilliant opportunities not only to celebrate our nine decades of success, but to also reflect on what got us here and what will allow us to thrive for another 90 years.

The level of volatility in the current market is something we have not witnessed in some time. The backdrop of the Fed trying to tame inflationary pressures coupled with liquidity concerns in the commercial banking sector have created a challenging environment in which to complete M&A transactions—indeed, for most firms that are focused on broad processes. For firms like Stephens that focus on and excel at highly targeted engagements, however, this may be an opportune time to begin discussions, particularly if any value gaps can be solved through structure.

On a personal note, after 16 years as Head or co-Head of Investment Banking, I want to share with you that as of May 15th, I will succeed Curt Bradbury as Chief Operating Officer of Stephens. Matthew Marks will become Executive Vice President and Head of Investment Banking. Matthew is a long-tenured member of the Stephens team and brings extensive experience working on a variety of transactions for private owners, public boards, and management teams including buy-side and sell-side advisory, strategic alternatives, valuation events, and equity and debt capital offerings. The Investment Banking practice will continue to serve our clients with integrity under Matthew's leadership. I look forward to being in touch in my new role.

Thank you for your support and friendship.

J. Bradford Eichler
Head of Investment Banking

UNCERTAINTY IS THE NEW NORMAL FOR M&A

How to Think About Valuation, Financing, and Timing

By Marshall McKissack, Mickey McFarlin, and Palmer Henson

The current environment is a perfect storm of economic uncertainty, inflated prices, and a tight labor market. Choppy financing markets and rising rates have further increased uncertainty and put downward pressure on valuation.

Such uncertainty has become the "new normal" when it comes to Mergers & Acquisitions. Buyers are spending a lot more time considering where to invest both their capital and their human resources. As a result, we are seeing less depth to the buyer market across the board including strategic buyers and financial sponsors. If 18 months ago there were 30 interested buyers for a business, today there might be 15. If 18 months ago you had 15 indications of interest, today you might get six. For buyers that remain, they are extremely diligent, and absent a high level of competitive tension, are keen on controlling the agenda.

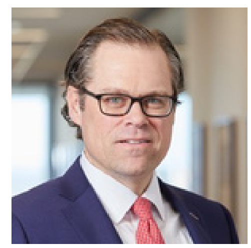
How to approach this uncertain economic backdrop? For starters, we're in an environment where resilience is valued as much as growth. From a private equity perspective, seeking approval for new deals will mean taking only the most resilient business cases in front of an investment committee.

Normalized earnings and related price discovery have also become more critical in the current market. Only the very best of businesses, and those with visible, near-term opportunities as well, are getting support at the moment.

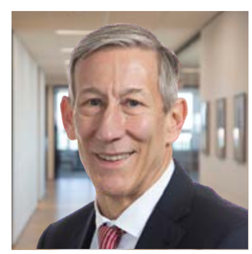
The availability and cost of debt financing is another critical consideration in the M&A marketplace. As we approach the end of the first quarter of 2023, it's natural to see a renewed interest in making new allocations to acquisition finance. The prevailing uncertainty has caused many lenders to remain on the sidelines. Many will pull back on the amount of debt availability, and price new opportunities more expensively, putting downward pressure on valuations.

Many investors are anticipating more stability in the debt market. With the anticipation building for slowing interest rate increases and eventually a peak, the back half of the year could be a very crowded one. Navigating that revised playing field could be challenging to garner the most attention, which calls on the need to begin preparation today.

Marshall McKissack
Managing Director,
Head of M&A Advisory



Mickey McFarlin
Managing Director,
Head of Family Advisory



Palmer Henson
Managing Director,
Financial Sponsors Group

Family Offices

Investing for family offices has an entirely different set of considerations than other types of financial investors. Family offices typically do not incur the fund-related pressures to deploy capital, allowing them to be more aggressive, cautious, or selective as market or situational variables dictate. Additionally, family offices often have a very flexible investment mandate, meaning they can invest up and down the capital structure in debt or equity, and with varying degrees of control. In the current market environment, our family office relationships are focused on optimizing existing portfolio companies through add-on acquisitions and shored-up balance sheets, as well as evaluating unique situations to deploy their flexible capital into highly attractive risk-adjusted return opportunities.

The current uncertainty in the M&A world presents family offices with opportunities that other investors might not consider. They're often finding attractive yields in the credit markets because lenders are pulling back. So they're spending more time investing in higher yield, lower risk opportunities with solid returns instead of taking pure equity risk. This structural flexibility also allows family offices to provide creative alternatives to bridge valuation gaps where sellers think their business's valuation has remained in spite of market conditions. Investors are increasingly proposing structured or minority capital investments as a bridge in lieu of fully functioning credit and M&A markets. Family offices are also filling financing holes in transactions, either with mezzanine or structured capital, or as equity co-investors alongside private equity or strategic buyers with equity funding needs due to reduced availability in the debt markets.

Private Equity

According to many sources, private equity firms have close to $1.2 trillion of capital to deploy.[1] Limited partners typically expect any given fund to be invested over five years, and firms could fall behind that schedule in a slower M&A market. The flip side is that those same limited partners have needs for liquidity. Private equity firms will face pressure this year to sell companies as soon as they feel they can exit with decent outcomes. It comes back to timing. The private equity flagship assets are coming to market now. Other sales are on hold, waiting for improvements in the debt markets, but also recovery from company-specific issues like supply chain and labor challenges, along with a clearer understanding of how their business will be impacted by an economic slowdown.

Looking ahead to early summer, if things begin to improve and deals on hold begin launching, there could be a flood of deals through the summer and fall. But debt markets might not get there, and many sellers may be unwilling to accept lower prices.

In the PE world, very few deals have to happen immediately, but there are always firms that want to have an exit. There are companies that might be a little old in the portfolio as they think about raising a new fund. The founder of a family business, or its current family owners, are frequently in the position of being able to stay the course through a period of uncertainty versus selling.

The percentage of deals done by private equity that are add-ons as opposed to platforms continues to increase. It’s a 20-year trend that’s ticking up every year. Given the uncertainty permeating the M&A world today, platforms have become more expensive and the focus on add-ons continues to intensify.

AN INTERNATIONAL PERSPECTIVE

With the Right Advisor, Investors Can Find Lucrative Deals in the U.K. Market

By Simon Tilley

Simon Tilley
Managing Director,
Financial Sponsors Group

A defining characteristic of our age is connectivity. And nowhere does connectivity have more influence than in the capital markets. Be mindful, therefore, that my update from the United Kingdom (and you can include our Frankfurt office as well) demonstrates just how similar the issues facing financiers in London are to those in America.

So let's think about this transatlantic perspective. We're seeing European portfolio companies that desire the opportunity to grow in the United States. True, the pound is weak at the moment, so that's not a great starting point. But the North American market presents opportunities companies won't find anywhere else.

As for activity here in the United Kingdom, top quartile businesses continue to trade, mostly because they happen to be very good businesses, and buyers are always looking for that kind of quality. Firms need to demonstrate growth and resilience. That makes the nature of a banker's job a bit different when the companies of the highest quality are suddenly few and far between. Up until quite recently one would make the traditional pitch to sell a business.

Today, however, there's a lot more focus on helping clients deploy capital with existing portfolio companies. It's certainly a reason add-ons are popular. All in all, we're being more creative in order to keep supporting our clients—and sometimes utilizing slightly less traditional mandates. But these activities allow one to devise plans and come up with new ways of doing things that typically don't happen in normal markets.

Here's what you need to know about the U.K. and Europe:

- After strong performance in 2020 and 2021, the global M&A market experienced a period of significant market dislocation in 2022.

- What drove M&A market dislocation in the second half of 2022? It was a perfect storm of inflation, Ukraine troubles, supply chain challenges, tightening monetary policy, and credit market tightening. Uncertainty—the theme of this report—has prevailed over the last six months, but we're optimistic that M&A will improve over time. That's because of the sheer weight of money in the market, inflation should come under control, a likely peak in monetary policy tightening is on the horizon, there exists a more rational approach to valuation, and credit markets are opening up again.

With the Right Advisor (cont.)

- So how should protagonists approach M&A in the current environment, both on the buy-side and the sell-side? On the buy-side, build the investment thesis early, understand seller motivations and timetables, invest in lender relationships, and work up multiple funding options. On the sell-side, be sure to think carefully about process design, engage with the best buyers of your business, and work with them to help build conviction around the investment case. Be ambitious but temper it with realism when it comes to valuation expectations. Launch only when the business and buyers are ready, secure credit market support, and do avoid process fatigue and failed process risk.

- The winners in this environment are outstanding businesses and management teams with a proven track record of value creation. The bar for qualifying as outstanding has risen. Large corporates will continue to trim and focus on core activities. Private equity-backed buyers benefitting from strategic rationale and well-resourced owners operating to an investment timetable are in a potentially powerful position to make value accretive add-on acquisitions.

- Take heed our advice about corporate carve-outs and long-tenured assets in PE portfolios. But there are also private company owners looking for some liquidity or even a partial exit, so do look for minority investment opportunities such as partnering with existing owners.

Before we know it, the M&A market will recover its poise and, dare we say, swagger. In the meantime, M&A deals will be carefully curated and will be the results of bespoke processes. There will be plenty of opportunities in 2023 for thoughtful, focused, and realistic buyers and sellers. And many of them are not very far from where I sit in London.

ECONOMIC & BANKING UNCERTAINTY CONTRIBUTING TO A CHALLENGING CREDIT MARKET

The Value of Hiring a Trusted Debt Advisor

By Davidson Hall and Shaun Holmes

The Fed's Inflation Battle: Consequences for Financing Markets

Over the last 12 months, the Fed has moved aggressively to combat persistent and historically high inflation, raising the federal funds rate by 450 basis points since March 2022. In Europe, the Bank of England followed a similar path, raising the bank rate by 390 basis points since December 2021.[2] The European Central Bank has raised benchmark rates by 300 basis points since July 2022.

The quantity and pace of rate hikes created significant volatility for liquid credit markets in 2022, perhaps most pronounced in fixed-rate asset classes within investment grade and high-yield bonds. The increase in financing costs dramatically reduced new issue volume in both the leveraged loan and high-yield market in the second half of 2022, with full-year volumes declining 45 percent and 78 percent, respectively in the United States and 55 percent and 82 percent, respectively in Europe.[3]

To a lesser extent, new issuance volume in private credit was also impacted in the second half of 2022; however, direct loan issuance grew 31 percent in the United States and 33 percent in Europe, with direct lenders gaining market share and taking advantage of a volatile liquid credit market.[4] In addition to increased base rates, credit spreads on new issuances have also increased. Private credit spreads widened 100 basis points or more over the last 12 months. Meanwhile, average new issue yields for single B leveraged loan issuers increased about 400 basis points in the U.S. and 530 basis points in Europe since April 2022.

The resulting increase in financing costs has contributed to a reduction in free cash flow, downward pressure on leverage multiples as well as valuations. Reduced M&A activity has followed suit. Year-to-date, the liquid credit markets are showing signs of improvement from a very challenging fourth quarter of 2022, but the markets remain challenged.

In recent days, the challenges facing the credit markets have multiplied. The recent failure of certain banks in the United States has changed the face of the credit markets certainly for the near term. Banks are now curtailing lending more now than in recent weeks and months. Deposits are leaving banks in favor of money market funds with higher yields and more liquidity. This demand has put downward pressure on yields, having seen the two-year U.S. Treasury yield fluctuate nearly 40 basis points in a single day. In a matter of days, banks have materially less capital to lend. It's certain the reduction in capital will slow the economic growth in the United States. What's not certain is how the Fed will weigh the slowing economic growth against rising inflation and how those issues translate to monetary policy.

A. Davidson Hall
Managing Director,
Co-Head of Debt Capital Markets

Shaun Holmes
Managing Director, Head of UK
Debt Capital Markets

Rising Rates and Credit Spreads: Impacting Existing Borrowers

In the two years following the onset of the pandemic, many middle market companies took full advantage of near-zero percent base rates and historically attractive credit spreads to borrow significant amounts of primarily floating rate debt. For many of those businesses, the swift increase in rates has more than doubled the cost of their bank financing and nearly doubled the cost of their private credit institutional financing. The rapid increase in cash interest burden is putting pressure on cash flows. This is especially true for businesses with elevated leverage levels. This is overlaid by a slowing economy, rising input costs, and a consumer with declining savings and increased reliance on credit card debt.

For now, default rates remain near historic lows, despite current challenges and mounting recession concerns for the next 12 to 24 months. However, signs of stress are increasing. According to the Morningstar LSTA Leveraged Loan Index, the default rate for all leveraged loans has increased from 0.19 percent in March 2022 to 1.02 percent in February 2023, compared to a decrease from 0.81 percent to 0.23 percent in Europe. Similarly, Proskaur's Private Credit Default Index measured a 2.06 percent default rate in the fourth quarter of 2022, up from 1.12 percent in the first quarter of 2022, which is a U.S. measurement only. Lenders remain keenly focused on monitoring fixed charge coverage ratios across their portfolios, examining the metric based on expectations for the next 12 months of earnings and interest expense rather than the typical trailing metric. Some companies are beginning to use structured capital options such as preferred equity and holdco PIK notes to manage cash flow, bolster liquidity, and reposition their balance sheets. This is a trend that could accelerate through the rest of 2023.

Declining Capital Availability and the Market for New Transactions

In today's credit market, debt has become meaningfully more expensive and sourcing capital has become significantly more difficult. As outlined earlier, the failure of certain banks in the United States will cause a material reduction in lending from most banks at least for the near term. Rising rates and increasing spreads have driven a reduction in refinancing volumes, and thus a reduction in capital available for re-deployment into new transactions. Within the private institutional credit sector, significant dry powder remains. Those lenders and nearly all lenders alike, however, are reserving more liquidity for existing investments in their portfolios that may require additional capital. Compounding this issue, lenders are being much more selective with respect to new transactions. For larger financings, this has translated to a significant reduction in hold sizes for private credit lenders that may have held $500 million or more in a single deal 12 to 18 months ago now holding $100 million to $200 million. As a result, transactions are generally requiring more lenders and longer execution timelines.

Given the uncertainties in today's market, it is imperative to begin financing discussions as early as possible. Soliciting financing proposals from a large number of lenders maximizes the competitive tension ensuring the best possible terms. Reducing reliance on just a few lenders helps ensure ultimate success within a lending environment fraught with potentially more unknowns since the 2008 global financial crisis. It's imperative that management teams investigate numerous available financing structures in order to maximize the probability of success and certainty of close. Stephens' Debt Capital Markets team in the United States and Europe is particularly adept at achieving these goals.

Market Uncertainties: Capital Planning is Imperative

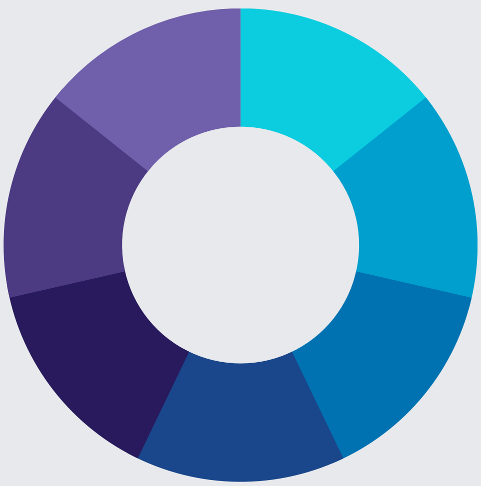
In 2023, we expect the macroeconomic backdrop to remain challenged with ongoing uncertainty around Fed action and the path of interest rates. Although further interest rate hikes may or may not materialize, we believe the Fed will remain steadfast in its goal to reduce inflation and any potential rate cuts are likely several quarters away. The recent bank failures make a rate pause more plausible. As such, we believe sponsors, companies, and their management teams should prepare for an extended period of higher interest rates and focus on understanding their capital needs over the next 12 to 24 months under multiple forecasted scenarios.

The Importance of Having a Trusted Advisor: Stephens' Value Proposition

In today's market, a trusted debt advisor can add significant value to a financing process. Raising capital in today's environment is as challenging as it has been virtually any time since the Great Recession. Capital is becoming increasingly scarce, meaningfully more expensive, and more time-consuming to source. In many instances, financing process timelines are getting extended and more lenders must be contacted in order to successfully close transactions. Hiring an advisor to access capital needs, monitor various credit markets, evaluate potential financing structures, and dedicate the time and focus required to run a comprehensive and competitive financing process allows owners and management teams to execute their business plans and ensure success on both fronts.

Because we are not lenders, our debt advisory team is able to maintain a truly unbiased perspective when advising our clients on financing solutions. We pride ourselves on understanding the entire marketplace for credit solutions and creating value for clients in the following ways.

1. **Understanding the full breadth of financing alternatives available to our clients**
2. **Maintaining close relationships with a wide range of banks, institutional lenders, asset managers, and insurance companies**
3. **Understanding lender investment criteria and which lenders are actively deploying capital**
4. **Analyzing company forecasts and assessing capital requirements under multiple scenarios**
5. **Building marketing materials including the financial projection model and lender presentation**
6. **Running a comprehensive, highly competitive financing process**
7. **Negotiating term sheets and the final credit agreement**



A NEW RECKONING AWAITS

The IPO Markets Have Shifted Focus to Profitability from Growth

By Steve Dearing

Steve Dearing
Managing Director,
Co-Head of Equity Capital Markets

The IPO market through the pandemic years of 2020 and 2021 was notable for the extraordinary number of deals: 480 initial public offerings in that two-year period.[5] That's roughly three times the historical number for a 24-month window. Many of these IPOs initially traded well above their respective IPO prices, then relatively quickly fell below the IPO prices and in many cases are currently trading well below those prices.

The pandemic era certainly had an influence on the number of IPOs. And the culprit for poor performance is the lack of strong fundamental profit metrics. Many of the class of '20 and '21 came public on revenue multiples or EBITDA multiples several years forward. Many of those business plans were unproven, topical yet not self-sustaining, and the management teams running those firms didn't have adequate experience navigating in the public domain.

Investor Sentiment Still Lacking

Most problematic for these businesses was that their financial models were predicated on raising additional capital to continue to fund their growth. As a result, as share prices fell, the notion of raising more equity capital became too dilutive and investors were not willing to continue funding these now broken business plans.

The technology sector has historically utilized revenue multiples for valuation purposes—software specifically—because achieving scaled revenue is widely accepted to be an accurate barometer to measure early-stage progress for software businesses. For many companies, the jury is still out on the use of revenue multiples and aggressive EBITDA multiples for valuation purposes.

Given the number of deals in 2020 and 2021 and their poor performance during the ensuing bear market of 2022, the realities of the marketplace were simply too much for these new issues to rebound. Currently 80 percent of the IPOs from 2020 and 2021 are trading below their IPO prices and 2022 saw the lowest number of IPOs since 1990.[6]

Discipline is Key

As of late February 2023, investor sentiment is finally improving. Today an IPO requires positive EBITDA with visibility to scale. It should have a top-tier C-suite and a finely-tuned valuation. To be sure, Fed policy and the market's acceptance of that policy remain an overhang. But we nevertheless see light at the end of this tunnel.

Relationships Build Value

$324 Million
Atlas Energy Solutions
Initial Public Offering
Co-Manager

$475 MILLION
Performance Proppants — Setting the Standard
Has Been Acquired By
ProFrac
Financial Advisor

Not Disclosed
Gulf Winds
Has been Acquired by
The Sterling Group
Financial Advisor

Not Disclosed
The Industrial Service Group
A Portfolio Company Of
KLC Capital, MC Mezzanine Capital, Five Points Capital
Has Been Acquired By
TJC
Sell-side Advisor

Not Disclosed
ENPC
Business Combination With
Greyrock Investment Partners
To Form
Granite Ridge
Fairness Opinion
Financial Advisor

$50 Million
Business First Bancshares
Follow-On Offering
Sole Book Running Manager

$581 Million
Spirit of Texas Bancshares
Has Merged With
Simmons First National Corporation
Financial Advisor

€227 Million
weclapp
Has Been Acquired By
exact
A Portfolio Company Of
KKR, SilverLake
Financial Advisor

$125.5 Million
EnSight IV Energy Management, LLC
Has Sold Certain Assets To
Tellurian
Financial Advisor

Not Disclosed
Ken Garff — We Hear You
Has Sold Its Michigan Platform To
Fox Motors
Financial Advisor

$425 Million
Heights Finance
A Subsidiary Of
CURO Group Holdings Corp
Senior Secured Revolving Credit Facility
Financial Advisor

$225 Million
Murchison Oil & Gas, LLC
Senior Secured Term Loan
Financial Advisor

Not Disclosed
Hinkle Contracting Company, LLC
A Subsidiary Of
Summit Materials
Has Been Acquired By
CRH
Financial Advisor

Not Disclosed
Triartisan Capital Advisors
Raised Equity Capital To Support The Acquisition Of
EnergySolutions
Financial Advisor

$240 Million
Safran
Has Sold
Safran Aerosystems Arresting Company (SAA)
Financial Advisor

Not Disclosed
Novum Capital
MMC Group Cologne
Transfer To A Continuation Fund With Backing From Institutional Investors
Financial Advisor

$1.086 Billion
Riverview
Has Merged With
Westrock Coffee
Financial Advisor

$919 Million
Happy Bancshares, Inc.
Has Merged With And Into
Home BancShares
Financial Advisor

$1.5 Billion
CBTX, Inc.
Has Merged With
Allegiance Bancshares, Inc.
Financial Advisor

$1.1 Billion
TriState Capital Holdings
Has Been Acquired By
Raymond James
Financial Advisor

For more transactions, visit stephensinvestmentbanking.com.

WHO WE ARE

Stephens offers investment banking and advisory services, research, sales and trading, asset management, public finance, insurance, wealth management, private capital, and family office services. Our business is rooted in a deep client focus, sector knowledge, and a commitment to research.

Our clients include corporations, state and local governments, institutional and individual investors, with many relationships lasting for generations. We're headquartered in Little Rock, with strategic locations in the United States and Europe, working wherever our clients need us.

Since our founding in 1933, we've been able to identify and seize opportunities during all economic cycles. Whether executing single transactions or developing holistic solutions, we create lasting value.

WHO WE SERVE

Private Companies

Public Companies

Family Offices

Financial Sponsors

ADVISORY SERVICES WE OFFER

M&A Advisory

Equity Capital Markets

Debt Capital Markets

Capital Solutions

"We've always focused on relationships built on mutual respect, a commitment to integrity, and a culture that values transparency and trust. It's why so many of our relationships span decades and even generations."

Warren A. Stephens,
Chairman, President & CEO

Sources:
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