WELLVEST CAPITAL
Wellness Investing™

COVID-19 PRIVATE CAPITAL MARKET UPDATE AND INSIGHTS March 20, 2020

The safety of Wellvest's clients, employees and community is paramount; health and wellness has always been at the forefront of everything we do. We have taken the CDC's, federal and local authorities' guidance to heart; working remotely and actively practicing social distancing. Our hope is that this message finds you healthy and out of harm's way in this environment that is so dynamic and changing daily.

The Wellvest team has been directly affected by and survived the key catastrophic health and economic events since the early 1980's. As we reflect on the Health & Wellness industry we serve, and are an active part of, we can take solace in the fact that the products and services our companies provide to improve the health of consumers are so important to reducing the prevalence of the chronic healthcare issues that so many Americans experience. It is through these lenses that we would like to share some of our thoughts on the current state of the financial markets and what this means to companies we serve.

Private Capital Market Conditions

While the public financial markets have experienced historic drawdowns and volatility, the private markets continue to function for the most part, but at a measured pace. Wellvest has been in continual contact with our industry peers, contacts and advisors to gain near real-time feedback and insights on market conditions and future perspectives. Our view, at this time, is that private market capital raising, both equity and debt will slow but by no means cease. Certain areas of the market are being impacted more than others depending on how closely tied they are to public markets; leveraged loan deals for example are feeling the impact of widening spreads in the high-yield debt market.

Private Equity and Debt

Private funds, including Venture Capital and Private Equity have a record level of "dry powder", per *Pitchbook*, roughly $2.4 trillion in global private funds, including $275 billion in private debt funds. At this juncture, market participants believe that LP's will be able to meet capital commitments and avoid the funding challenges of the 2008-2009 period. As this event unfolded in early March, limited partner investors (LP) were generally under allocated to venture capital (VC) and private

PRIVATE CAPITAL REMAINS AVAILABLE

- Investor interest in Health & Wellness will expand post-crisis
- $2.4T "Dry Powder" in private funds*
- $275B in private debt funds available*
- LPs well positioned to meet capital calls

Market Changes

- Deal pace will slow
- Valuations will drop
- Due diligence will increase
- Time to close will expand

Proactively preparing now will ensure future opportunities are maximized.

**Source: Pitchbook*

75 Federal Street Boston MA, 02110

equity (PE) which should somewhat limit the impact of the "denominator effect" *(asset allocation targets becoming misaligned due a steep drop in public market securities prices)*. In addition, the Secondary market for LP interests is much deeper than in the past, thereby providing LPs with an additional source of liquidity. Furthermore, private capital is more concentrated in larger players, VC, PE, Sovereign Wealth Funds and endowments with the financial resources needed to support existing portfolios companies as well as take advantage of investment opportunities for the long term.

Mergers and Acquisitions

From an M&A perspective, history tells us deal velocity will slow. The differences between strategic buyers and PE backed deals will quickly emerge and be predicated on individual circumstances. Due to the extreme level of uncertainty in the economy, many strategic buyers will take a "wait and see" approach to acquisitions. Those players with the strongest balance sheets and more predicable cash flows may have a greater appetite for accretive transactions but again history tells us, at a slower pace. As mentioned above, PE firms have capital available to invest and may deploy it through add-on acquisitions at the portfolio company level. Look for these deals to be very opportunistic characterized by lower valuations, expanded use of earn-outs, less leverage and more robust due diligence.

A Health & Wellness Silver Lining

Coming out of this crisis we believe a silver lining for the health and wellness industry will emerge. It has been widely reported for years the enormous financial, emotional and societal toll of unhealthy lifestyle habits. It is extremely unfortunate, but not unexpected, that the COVID-19 Pandemic has the greatest impact on people with chronic health conditions including hypertension, lung disease, diabetes and heart disease. As governments, healthcare leaders and individuals around the world reassess the need to keep themselves and the global population healthy, we believe public and private investment in Health & Wellness will dramatically increase. This will have a very wide-ranging impact spanning healthcare, food and beverage, supplements, fitness, functional medicine and a host of other Health & Wellness sectors. We believe the macro trends that the health and wellness sector has enjoyed over the last decade will accelerate dramatically.

Coil the Spring – *be prepared*

Being prepared for this influx of interest, capital and opportunity will ensure companies are well positioned to take advantage of this unprecedented dynamic. While we recognize that investor interest will be high, we also acknowledge that valuations, deal terms, capital structure and the time to close will change. Valuation will come down from recent peaks, protective covenants and downside protection will increase in favor of investors, debt levels will be more conservative and time to close will increase. Wellvest has historically guided companies to take a realistic view of their business and future prospects utilizing a facts-based approach. Going forward this will be more important than ever. As this storm abates and for those with the resources and capacity, planning for a capital raise or acquisition now by getting "investor ready" is a proactive step that will ensure future opportunities are maximized.