

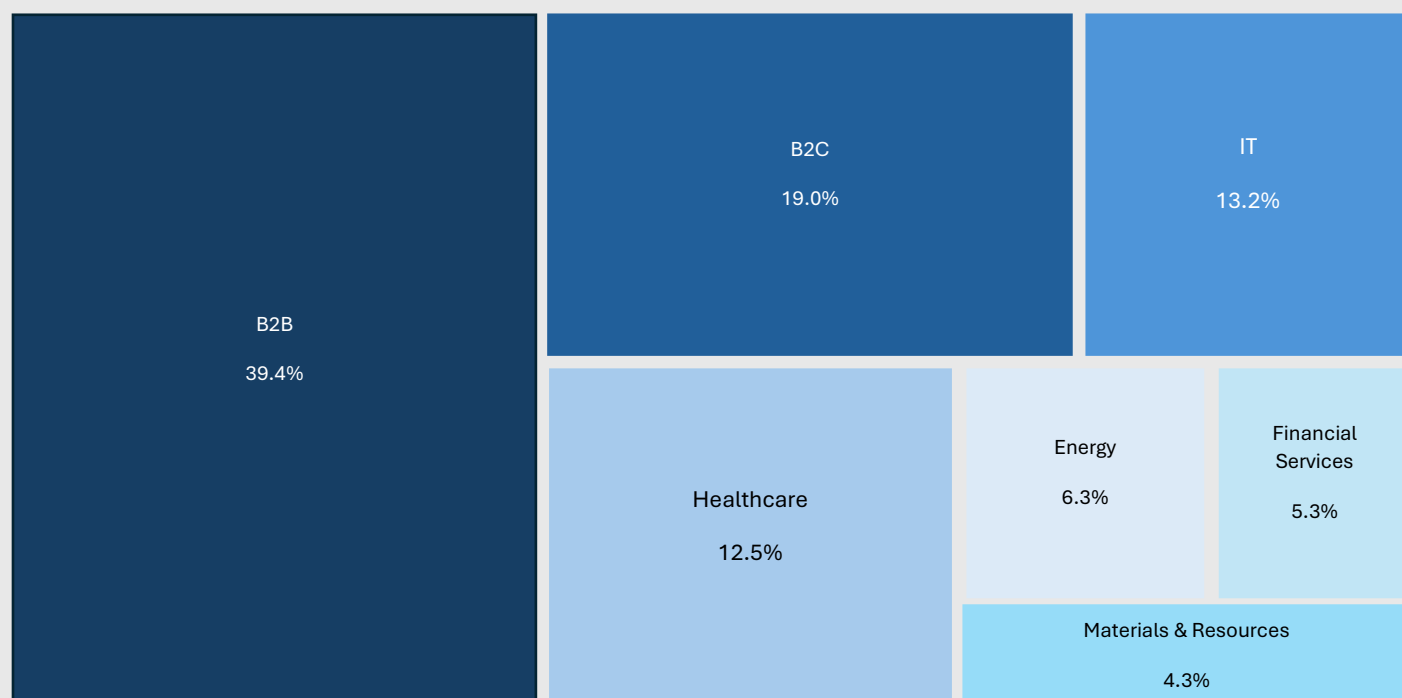
Q1 2025 NAV Lending Overview

The first quarter of 2025 has presented a challenging landscape for private equity-backed companies, particularly those with significant import exposure. Fluctuating tariff policies will likely increase input costs, leading to markdowns and performance headwinds for PE-backed portfolio companies. This environment has and will make it difficult for sponsors to secure additional capital and favorable exits, prompting greater reliance on NAV lending to provide the necessary capital for growth and stabilization amidst an uncertain macroeconomic climate.

Drivers of Demand

- Due to changing tariff policies, private-equity backed companies in multiple industries and sectors with significant import exposure, particularly B2B and B2C companies, are likely to be marked down as they face higher input costs.
- The chart below highlights how B2B and B2C companies are ~58% of private equity-backed companies held for 5-12 years. Given their exposure to tariffs, sponsors may not be able to secure a favorable exit in the next 12 months for companies they hold in these sectors as they face performance headwinds, more stringent borrowing requirements and are marked down.
- **What this means for NAV lending:** Portfolio-wide markdowns, weakened performance and a more difficult capital raising environment due to tariff impact will increase the need for funds to consider using NAV facilities. NAV facilities will provide capital to spur growth and protect the value of sponsors' portfolio companies, particularly for the companies subject to higher exposure, as they weather an unfavorable and uncertain macroeconomic environment.

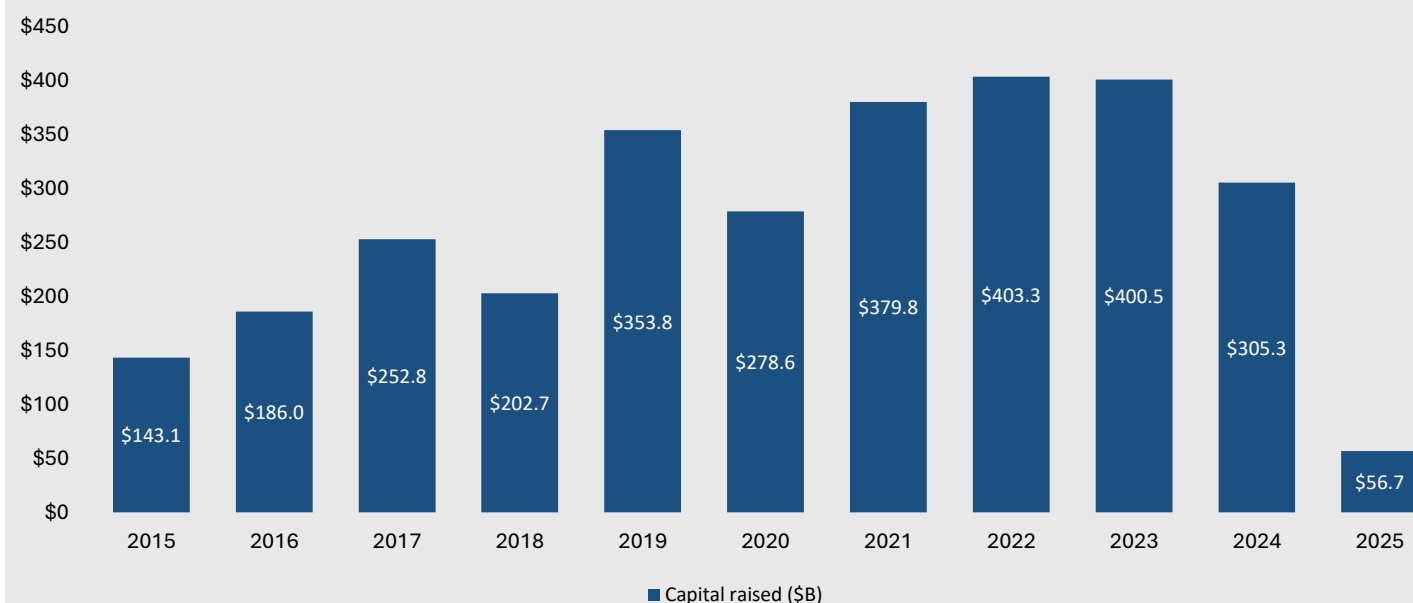
Share of PE-backed companies held for 5 – 12 years



Source: PitchBook Q1 2025 US PE Breakdown

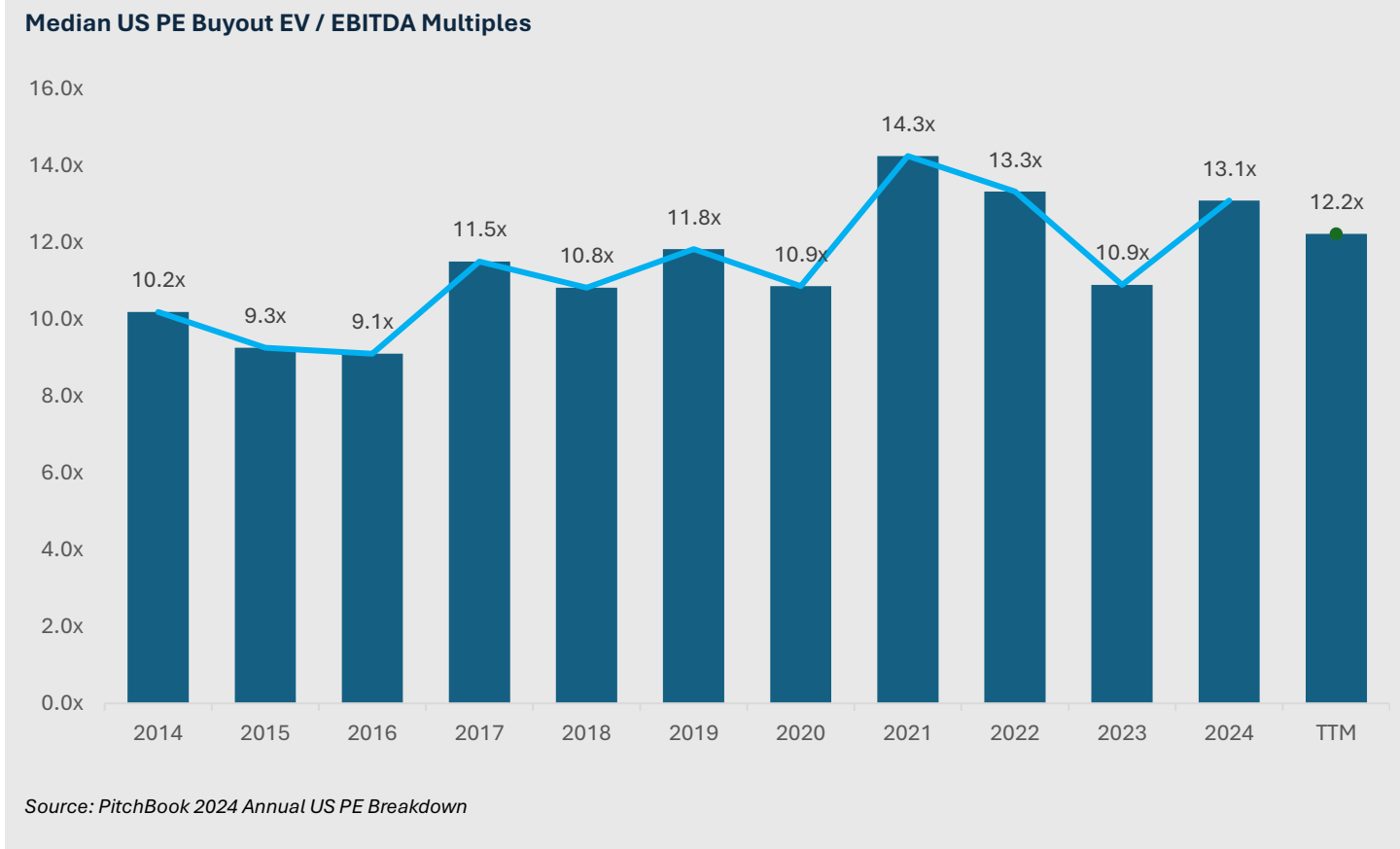
- Fundraising in 2025 has had a slow start, mirroring the slowdown in 2024, as the total capital raised was \$56.7bn across 79 funds that held a final close. Compared to Q1 2024 where \$76.8bn was raised, this represents a ~36% decline year over year. Additionally, according to Preqin data, 25% of funds raised between 2010 and 2012 have pursued at least one extension past their original term, indicating further distribution delays for LPs in addition to the decline in annual distributions from 15-20% of NAV from 2010-2015 to 8-12% in 2022-2024. Given macroeconomic volatility due to tariffs along with fund extensions, LPs are likely to delay allocating capital to new private equity funds in 2025 as dealmaking activity slows and distributions are further delayed.
- **What this means for NAV lending:** As private equity funds struggle to efficiently raise capital due to a slowdown in fundraising, sponsors will use NAV loans as bridge capital to their next funds to be able to remain in their respective dealmaking markets.

PE Fundraising Activity



Source: PitchBook Q1 2025 US PE Breakdown

- Add-on acquisitions continue to dominate private equity transactions as add-on acquisitions were 74.9% of all buyout activity in Q1 2025, a 150-bps point increase from the 2024 average. Sponsors that face an uncertain dealmaking environment will continue to focus on deploying capital in smaller deals that can leverage larger platform investments. This will continue to drive growth in NAV loans as add-on acquisitions are a common use of NAV loan proceeds.
- Exit activity started off strong in 2025 as exit value increased ~45% compared to Q4 2024. Median EV / EBITDA exit valuation multiples also had a strong start in 2025 as the TTM median of 12.2x represents only a modest decline from the uptick seen in 2024. However, similar to last quarter, exit value growth outpaces exit count growth as a small number of high-quality assets get strong valuations while the large number of lower performing portfolio companies struggle to secure exits. With private equity company inventory in the U.S over 12,300 through Q1 2025, there is a large backlog of portfolio companies waiting to secure a favorable exit.
- **What this means for NAV lending:** The increased backlog of private equity portfolio companies waiting to secure an exit will drive demand for NAV loans as sponsors will seek external capital to grow and stabilize underperforming assets in their portfolio to secure a strong exit.



Although early 2025 market activity suggests a return to a more normalized deal climate as seen in the exit market rebound activity and strong start in valuation multiples, we might see a bumpier road ahead for private equity for the following reasons:

- **Tariffs** will likely cause B2B and B2C companies, almost 60% of portfolio companies held for 5+ years, to be marked down which will make it more difficult for sponsors to raise capital to **stabilize their portfolio** for an exit.
- **Fundraising has slowed** down in 2025 so far relative to the same period in 2024 as LPs are likely delaying allocating capital given general economic uncertainty, causing sponsors to need to take on **NAV loan capital as a bridge to newer funds**.
- The increase in valuations, similar to 2024, is primarily driven by sponsors selling their strongest assets. With a growing inventory of portfolio companies, sponsors will need to obtain **capital** to spur portfolio company growth in order to **secure a favorable exit**.

NAV lending will continue to be a relevant solution going into the second half of 2025 as sponsors will seek to grow and stabilize their portfolios amidst a backdrop of slow fundraising and macroeconomic uncertainty.

Recent Hark Capital Deals Closed

\$85 million Holdco Loan to IT Services Company

- Hark funded \$85 million to a portfolio company of a mezzanine credit fund.
- Proceeds were used to refinance existing debt and fund liquidity to assist an operational turnaround at the portfolio company level.

\$50 million Management Company Loan

- Hark funded \$50 million to a management company of a private equity sponsor in the industrials space.

€25 million Fund Loan to Irish-based investment manager

- Proceeds were used to finance a platform investment and multiple add-on acquisitions.