

Tax Receivable Agreements Market Update

Q1 2023



Houlihan Lokey is pleased to present its inaugural Tax Receivable Agreements Update for Q1 2023, which overviews the market for both current and potential tax receivable agreement (TRA) holders, investors, and industry stakeholders.

In this issue, we highlight recent public TRA issuances, buybacks, M&A transactions, and bankruptcies (if any) in Q1 2023. We also present an overview of the TRA market for the reader.

We hope you find this quarterly update to be informative and that it serves as a valuable resource to you for staying up to date on the TRA market. If there is additional content you would find useful for future updates, please email us with your suggestions. We look forward to staying in touch with you.

RECENT TRANSACTIONS IN Q1 2023

In total, there were six M&A transactions where the target was the obligor to a TRA. Two transactions resulted in a full payout per the early termination clause stipulated within the TRA, while three transactions resulted in a discounted amount or a full waiver. The value paid to TRA holders in the remaining transaction was not disclosed, but it may be a result of negotiation or the full early termination payment.

| TRA Company | Acquirer (if any) | Deal Date | Approximate Transaction Value (\$M) | Stated TRA Liability at Last Filing Date (\$M) | Settled TRA Value (\$M) | Full Payment or Negotiated Value | Notes |
|--------------------------|--|---------------------|-------------------------------------|--|-------------------------|----------------------------------|---|
| signifyhealth | CVS Health | 3/29/23 | 8,000 | 59.1 | 5.1 (Est.) | Negotiated Value | <ul style="list-style-type: none"> TRA amendment stipulates that only payments due and payable pursuant to the terms of the TRA prior to the effective time as defined in the merger agreement. Current portion of TRA liability at the last filing date was \$5M. |
| EVO | globalpayments | 3/24/23 | 4,000 | 182.7 | 225 | Negotiated Value | <ul style="list-style-type: none"> In connection with the execution of the merger agreement, the parties amended the TRA to terminate immediately after the merger and EVO agreed to pay an aggregate payment equal to \$225M. Payment amount was a ~30% discount to the amount otherwise payable under the terms of the TRA. |
| Diversey | SOLENIS | 3/8/23 (Ann. Date) | 4,600 | 204.5 | 0 | Payment Waived in Full | <ul style="list-style-type: none"> TRA was based on the utilization of Dutch income tax attributes, NOLs, foreign tax credits, and amortization deductions. TRA held by affiliate of largest equity holder. |
| FOCUS FINANCIAL PARTNERS | CLAYTON DUBILIER & RICE STONE POINT CAPITAL | 2/27/23 (Ann. Date) | 7,000 | 224.6 | TBA | Full Amount to Be Paid | <ul style="list-style-type: none"> Per the TRA waiver and exchange agreement, early termination amount is to be satisfied with a note. |
| paya | nuvei | 2/22/23 | 1,300 | 18.5 | 19.5 | Full Amount Paid | <ul style="list-style-type: none"> Lump sum payment to GTCR. |
| weber | BDT CAPITAL PARTNERS, LLC | 2/21/23 | 3,700 | 0 | 0 | Payment Waived in Full | <ul style="list-style-type: none"> During FY22, the company established a valuation allowance on its deferred tax assets and TRA liability was remeasured to 0. TRA amended to automatically terminate in full without payment on the merger effective date. Acquirer BDT Capital was also the primary TRA holder. |

There were four IPOs with embedded TRAs and effective dates in Q1 2023. All TRAs derive value from basis step-ups as part of the LLC unit conversions in an Up-C structure.

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| Target/Issuer | Transaction Type | IPO/Completion Date | Implied Market Cap (\$M) at 3/31/23 | Details |
|-------------------------|------------------|---------------------|-------------------------------------|---|
| nexttracker. | UP-C IPO | 2/8/2023 | 4,500 | <ul style="list-style-type: none"> TPG acquired \$500M interest (16.67%) in the prior year. Pursuant to the IPO, NextTracker was spun out from its parent Flex Ltd. |
| VERDE CLEAN FUELS | UP-C De-SPAC | 2/15/2023 | 200 | <ul style="list-style-type: none"> Bluescape Clean Fuels, a company focused on becoming a leading supplier of gasoline and other fuels derived from renewable feedstocks or natural gas, combined with CENAQ Energy Corp., a special purpose acquisition company traded on Nasdaq. The combined company was renamed "Verde Clean Fuels, Inc." |
| INTUITIVE MACHINES | UP-C De-SPAC | 2/13/2023 | 917 | <ul style="list-style-type: none"> Intuitive Machines, LLC, a leading space exploration, infrastructure, and services company, combined with Inflection Point Acquisition Corp., a special purpose acquisition company traded on Nasdaq. |
| ALVARIUM TIEDEMANN AITI | UP-C De-SPAC | 1/3/2023 | 1,421 | <ul style="list-style-type: none"> Tiedemann Group and Alvarium Investments Ltd., independent wealth advisors, combined with Cartesian Growth Corporation, a special purpose acquisition company traded on Nasdaq. The combined company was renamed "Alvarium Tiedemann Holdings, Inc." |

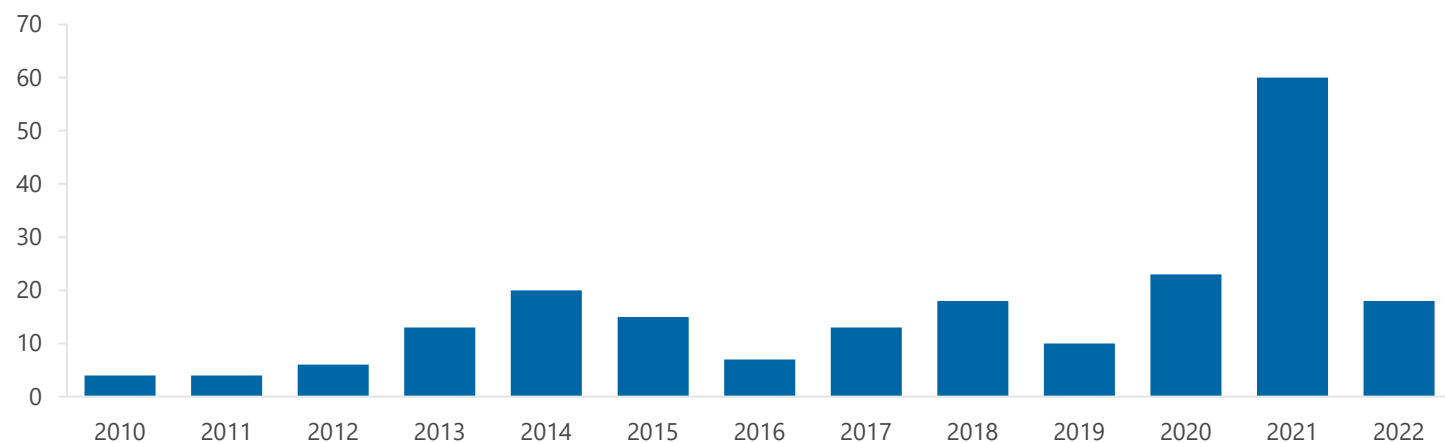
There were no corporate TRA buybacks in Q1 2023.

TRA MARKET OVERVIEW

While the market for TRAs in public companies is fairly opaque, we present the following aggregated information from filings in the public domain to provide a brief overview of the TRA market.

Figure 1 below depicts the number of TRAs issued in each year since 2010. After considering TRAs that have been terminated via M&A activity, bankruptcy, and corporate buybacks, there are more than 160 TRAs outstanding as of Q1 2023 with over 80% of TRAs having been issued in the past decade.

Figure 1: Number of TRAs Entered Into per Year



While at first glance it might appear that 2021 was a banner year, a proportion of the increase in TRA activity that year is likely attributed to greater amounts of go-public activity in the IPO and SPAC markets overall.

Figures 2 and 3 below depict the distribution of outstanding TRAs by sector and market capitalization. While TRAs are issued across myriad sectors and market capitalizations, there is a higher concentration of TRAs clustered within growth industries, asset-light industries, and middle-market companies.

Figure 2: TRAs by Industry Sector

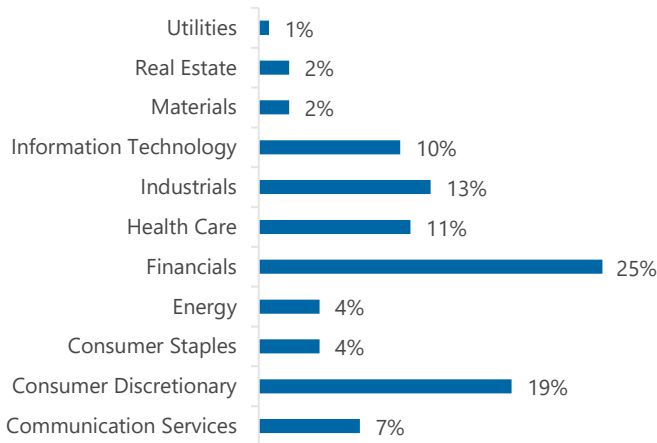
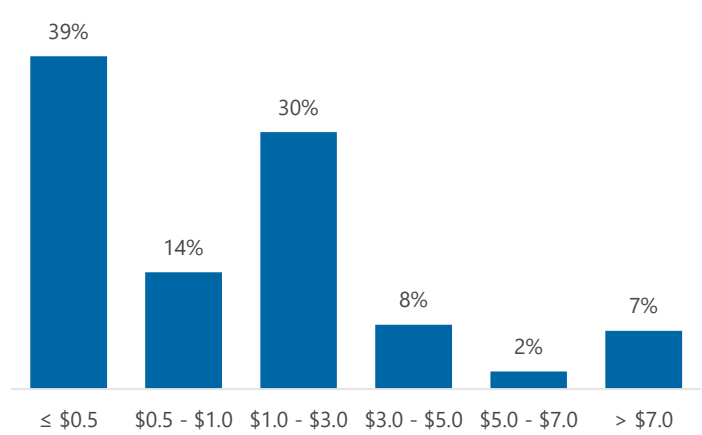


Figure 3: Company-Implied Market Cap (\$ in Billions)



Sources: SEC filings and S&P Capital IQ.

With respect to market size, based on public disclosures, we estimate that projected future payments on outstanding U.S. public company TRAs have the potential to exceed \$80 billion. The corresponding valuation of each underlying TRA requires numerous inputs, which are usually not publicly disclosed, and professional judgment. However, based on discussions with investors and TRA holders, discount rates are generally expected to be in the mid-teens when utilizing a standard amortization schedule to project future cash flows.

HOW HOULIHAN LOKEY CAN HELP

TRAs represent a unique and growing asset class that provides a bridge in negotiations between buyers and sellers when tax assets are present. Houlihan Lokey's cross-functional team, with expertise spanning tax, board advisory, and complex illiquid financial instruments, can advise on a wide breadth of subject matters that arise in connection with originating, holding, transacting, or terminating a TRA. We provide independent advice and opinions of value to special committees, sponsors considering continuation vehicle transactions, and lenders or holders with respect to collateral value assessments. Houlihan Lokey can also provide compliance-driven valuations for financial and tax reporting purposes grounded in real market dynamics for TRAs.

In addition, Houlihan Lokey is actively conversing with investors, TRA holders, and industry stakeholders to develop a secondary market for these unique assets.

CONTACTS

Please reach out to the contacts listed below with any feedback or questions, or if you have a TRA-related topic you'd like to see in future editions of this newsletter.



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