



DEBT MARKET UPDATE

August 2020

The combined July Credit Managers' Index (CMI) from the National Association of Credit Management (NACM) has steadily increased by more than 15 points in the past three months, returning to levels last seen in early 2020 and late 2019. The combined CMI increased by 4.7 points in July to 55.6, which is roughly where it was in November 2019.

For transactions that manage to close, pricing is also back on track, recovering to levels just shy of pre-pandemic conditions. There are transactions underway, particularly in the lower middle market, but large deals remain limited. The volume of non-syndicated loans reached an all-time high in the first quarter of 2020, as the pandemic began, continuing a trend toward more single-lender, and "club deals", which are credit facilities provided by a small group of lenders. Lenders have been clamoring for the more attractive yields that can be attained by directly originating loans to small and midsize companies. Business Development Companies (BDCs) generally have been an increasingly important provider of credit to small and midsize companies. For borrowers, a directly originated loan from either a single lender or a small group eliminates the syndication process, which doesn't typically establish final pricing until close. In addition to higher yields, directly originated loans offer ease in negotiations, such as during amendments, modifications and workouts.

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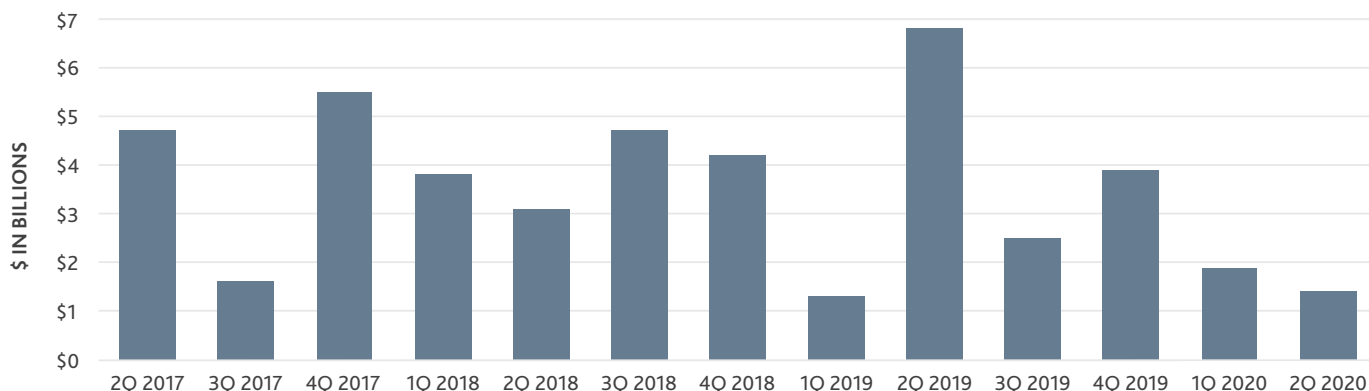


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INFLOWS TO MIDDLE MARKET LOAN (<\$350M) ASSETS



Source: S&P LCD

Given the recent drop in Treasury yields, most lenders are requiring LIBOR floors in the pricing of new deals, as well as concessions for amendments, modifications and credit relief. While LIBOR floors were commonly found in non-bank and institutional financings, they have not historically been a requirement for middle market commercial banks.

	Total Debt/EBITDA		
	< \$5M	> \$10M	> \$20M
Aug. 2020	2.50X - 3.25X	3.50X - 4.50X	4.00X - 5.00X
Jul. 2020	2.50X - 3.25X	3.50X - 4.50X	4.00X - 5.00X
Aug. 2019	3.00X - 4.00X	4.25X - 5.50X	4.50X - 6.00X

Source: BDO Capital estimates

	Sub. Debt Pricing (Total Coupon)		
	< \$5M	> \$10M	> \$20M
Aug. 2020	13.00% - 15.00%	11.00% - 13.00%	10.00% - 11.50%
Jul. 2020	13.00% - 15.00%	11.00% - 13.00%	10.00% - 11.50%
Aug. 2019	11.00% - 14.00%	10.00% - 12.00%	8.00% - 10.00%

Source: BDO Capital estimates

In the asset-based lending (ABL) segment, Senator Mike Crapo (R-ID), Chairman of the U.S. Senate Banking Committee, urged lawmakers in a letter to Treasury Secretary Steven Mnuchin and Federal Reserve Chairman Jerome Powell, to “quickly expand the Main Street Lending Program (MSLP) by setting up an asset-based lending program”, stating that “establishing a facility to accommodate asset-based lending could open access to critical resources for several industries that could not otherwise access the MSLP based on earnings or cash flow metrics.”

As small businesses exhaust their Paycheck Protection Program (PPP) funds, asset-based loan providers should find themselves in less competition with the government to provide liquidity to entrepreneur-owned businesses. Asset-based lenders are charging an additional 100bp-250bp on individual loans today compared to the rates available before the pandemic.

	Senior Debt/EBITDA		
	< \$5M	> \$10M	> \$20M
Aug. 2020	1.50x - 2.00x	2.50x - 3.00x	2.75x - 3.50x
Jul. 2020	1.50x - 2.00x	2.50x - 3.00x	2.75x - 3.50x
Aug. 2019	1.75x - 2.50x	2.50x - 3.75x	3.00x - 5.00x

Source: BDO Capital estimates

	Senior Debt Pricing		
	Bank	< \$7.5M*	> \$15M*
Aug. 2020	L+3.50% - L+4.50%	L+6.50% - L+8.50%	L+5.50% - L+7.50%
Jul. 2020	L+3.50% - L+4.50%	L+7.00% - L+8.50%	L+6.00% - L+8.00%
Aug. 2019	L+2.50% - L+4.00%	L+4.50% - L+6.50%	L+4.00% - L+6.00%

*Non-bank lenders / Source: BDO Capital estimates

SELECT TRANSACTIONS



U.S. Auto Sales
\$60,000,000
Revolving Credit Facility



WT Hardwood Groups
\$60,000,000
Senior Credit Facility & Junior Capital



Jindal Films
\$50,000,000
Senior Credit Facility



TruFoodMfg
\$36,000,000
Senior Credit Facility



MOGAS Industres, Inc.
\$50,000,000
Senior Credit Facility



Leader Distribution Systems, Inc.
\$9,000,000
Senior and Subordinated Notes

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