DEBT MARKET UPDATE
June 2020

According to the National Bureau of Economic Research, the U.S. is officially in a recession, yet it may be brief given recent signs of job growth and a pickup in economic activities from the reopening of various states and municipalities. To ensure there is adequate liquidity to support an economic recovery, the Federal Reserve (Fed) is committed to holding its benchmark interest rate near zero through 2022 as well as to a continued increase in its bond holdings. These actions by the Fed have helped spur the recent run-up in the capital markets, but additional measures will be needed to address the fundamental issues underlying the economy in the form of another economic relief package as well as a potential $1 trillion infrastructure program contemplated by the government.

While debt market conditions and availability are showing signs of improvement, pricing and leverage has significantly tightened compared to pre-COVID days. Most lenders have moved past a survival mindset focused on remediating existing portfolio clients to actively seeking new business. Further, the market is becoming increasingly accustomed to a virtual deal process that involves reviewing, processing, due diligencing, documenting, and closing transactions without in-person meetings.

BDO CAPITAL ADVISORS, LLC PROVIDES INVESTMENT BANKING SERVICES IN THE AREAS OF:

- Capital Raising
- Mergers & Acquisitions
- Board Advisory
- Special Situations

PLEASE DIRECT INQUIRIES TO:

WILLIAM R. SHIRY, JR.
Managing Director, Chicago
312-233-1856 / wshiry@bdocap.com

JOHN Y. KIM
Director, Houston
713-548-0964 / jkim1@bdocap.com

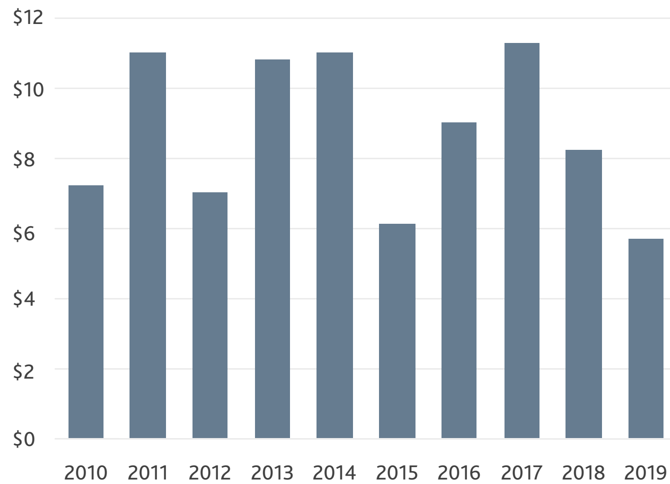
BDO CAPITAL ADVISORS, LLC
"Trusted Investment Bankers for the Middle Market"

The deals getting done will be businesses that resonate with investors in the time of COVID-19 and are "storied" in some way or another with the concept of "Normalized EBITDA" (i.e. pre-COVID-19 annualized EBITDA or other creative approaches). If the "story" is simply the impact of COVID-19, there will be more liquidity for most issuers while those in the truly hard-hit sectors (e.g. hospitality, restaurants, and brick and mortar retail) will likely encounter difficulties.

Syndicated middle market (<$50M EBITDA) loan volume has been declining since 2017, hit a low in 2019 at $5.7B in new-issue loans, and the expectation is for an even lower trough in 2020. While direct lending activity previously helped to offset loan demand, the COVID-19 pandemic has also significantly impacted this market as more direct lenders are likely to be entering the business of owning companies and shepherding borrowers through workouts. Credit providers with cash to put to work had their choice of lender-friendly deals as the COVID-19 pandemic impacted financial markets globally.

U.S. MIDDLE MARKET LOANS ($B)

Middle Market Syndicated Loans (<$50M EBITDA)



Source: S&P LCD

Total Debt/EBITDA	< $5M	> $10M	> $20M
June 2020	2.50X - 3.25X	3.50X - 4.50X	4.00X - 5.00X
May 2020	2.50X - 3.25X	3.50X - 4.50X	4.00X - 5.00X
June 2019	3.00X - 4.00X	4.00X - 5.00X	4.50X - 6.00X

Source: BDO Capital estimates

Sub. Debt Pricing (Total Coupon)	< $5M	> $10M	> $20M
June 2020	13.00% - 15.00%	11.00% - 13.00%	10.00% - 11.75%
May 2020	13.00% - 16.00%	11.00% - 14.00%	10.00% - 12.00%
June 2019	11.00% - 14.00%	10.00% - 12.00%	8.50% - 10.00%

Source: BDO Capital estimates

In the asset-based lending (ABL) segment, banks and independent lenders were enjoying a strong market before the full impact of the COVID-19 pandemic. According to the Secured Financial Network's Q1 2020 ABL data and analysis, total commitments were $240.7B for the quarter, essentially flat compared to the prior quarter. Meanwhile, utilization rose to 51.6% for bank lenders and 56.7% for non-bank lenders in Q1 2020 compared to 41.4% and 43.7%, respectively, in Q4 2019, driven primarily by defensive draws begun in March 2020.

Senior Debt/EBITDA	< $5M	> $10M	> $20M
June 2020	1.50x - 2.00x	2.50x - 3.00x	2.75x - 3.50x
May 2020	1.50x - 2.00x	2.50x – 3.00x	2.75x - 3.50x
June 2019	1.75x - 2.50x	2.50x – 3.75x	3.00x - 5.00x

Source: BDO Capital estimates

Senior Debt Pricing	Bank	< $7.5M*	> $15M*
June 2020	L+3.75% - L+4.75%	L+7.00% - L+8.50%	L+6.00% - L+8.00%
May 2020	L+3.75% - L+5.00%	L+7.00% - L+9.00%	L+6.00% - L+8.50%
June 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

ABOUT BDO CAPITAL ADVISORS

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CONTACTS

ROBERT SNAPE
President
617-239-4177 (Direct)
339-236-1050 (Mobile)
bsnape@bdocap.com

PATRICK BISCEGLIA
Managing Director
617-239-4115 (Direct)
804-513-9724 (Mobile)
pbisceglia@bdocap.com

VALENTINA MIDURA
Senior Managing Director
617-422-7593 (Direct)
978-873-1314 (Mobile)
vmidura@bdocap.com

JOHN Y. KIM
Director
713-548-0964 (Direct)
832-416-0248 (Mobile)
jkim1@bdocap.com

WILLIAM R. SHIRY, JR.
Managing Director
312-233-1856 (Direct)
216-272-3129 (Mobile)
wshiry@bdocap.com