BDO CAPITAL ADVISORS, LLC

"Trusted Investment Bankers for the Middle Market"

Debt Market Update

Q1 2023

U.S. leveraged lending sentiment moderated significantly in 2022 with net withdrawals of $9B from the asset class according to Yahoo Finance, following a banner year in 2021 during which investors increased their leveraged lending allocation by $35B.[1] In 2022 the Federal Reserve reversed its stimulatory policy stance and oversaw a series of interest rate hikes, which combined with heightened geopolitical risks has hampered institutional risk appetite.

Against this landscape, U.S. M&A activity declined from 2021 levels. Per PitchBook's Global M&A Report, total M&A deal value in 2022 was $2.2T, down from $2.9T in 2021. The decline in transactions was especially felt in the second half of 2022, continuing a downward trend from Q4 of 2021, the highest quarter on record, during which $800B in M&A transaction value was closed. Hesitancy from sellers as valuations waned partly drove a slowdown in the latter half of 2022. However, changing attitudes from buyers also contributed to shrinking deal volume as increased borrowing and leverage costs weighed on traditional LBO models and a dry leveraged loan market added a hurdle to closing buyout deals.

As the leveraged loan market retracted in the second half of 2022, much of the lending gap was filled by private credit lenders. Low pandemic-era interest rates drove a wave of increased private credit fundraising in 2020 and 2021 as a means of obtaining more attractive yields. In 2022, as leveraged loans dried up private lender GPs saw an opportunity to deploy capital. In 2021, LBO financings were done in roughly equal numbers by private credit and by syndication according to PitchBook's Q4 U.S. Leveraged Loan Wrap data. In 2022, LBOs with private credit financings outnumbered LBOs with syndicated loans by more than 5x[2].

1. Yahoo Finance
2. PitchBook

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- Mergers & Acquisitions
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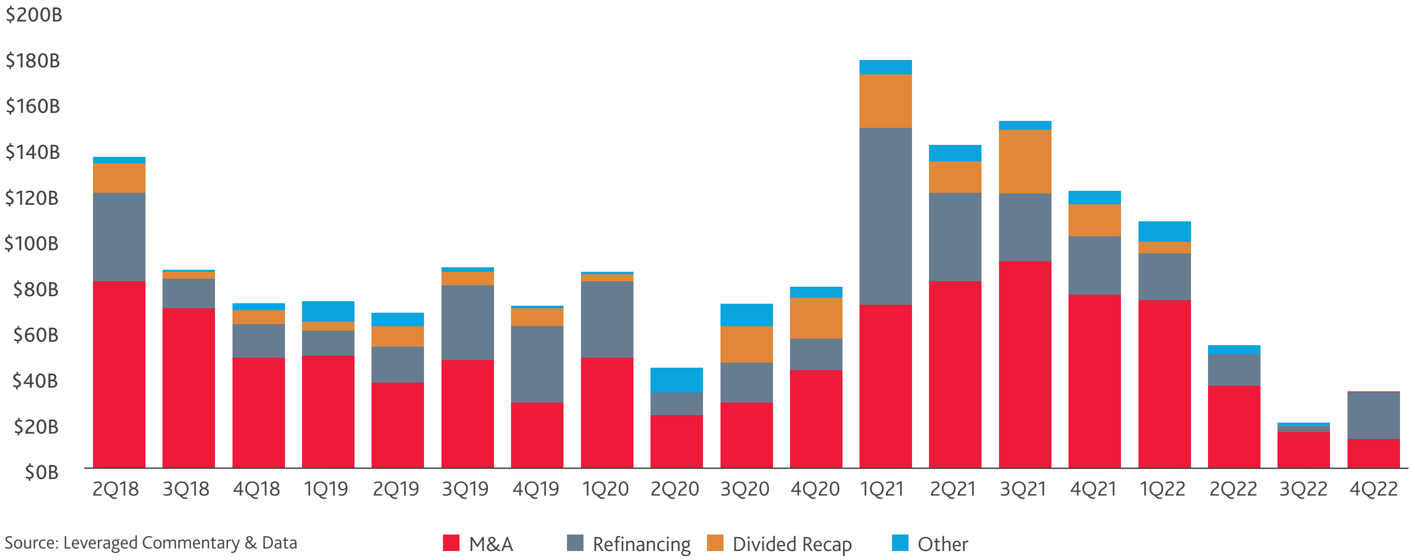
US INSTITUTIONAL LEVERAGED LOAN QUARTERLY ISSUANCE



Source: Leveraged Commentary & Data

Total Debt/EBITDA			
	< $5M	> $10M	> $20M
Jan 2023	3.00x – 4.00x	3.50x – 5.00x	4.00x – 5.50x
Nov 2022	3.00x – 3.75x	3.50x – 4.50x	4.00x – 5.00x
Jan 2022	3.00x – 4.50x	4.00x – 5.50x	4.50x – 6.00x

Source: BDO Capital estimates

Senior Debt/EBITDA			
	< $5M	> $10M	> $20M
Jan 2023	1.50x – 2.50x	2.50x – 3.00x	3.00x – 4.00x
Nov 2022	1.50x – 2.00x	2.25x – 2.75x	2.75x – 3.50x
Jan 2022	1.75x – 2.75x	2.75x – 3.50x	3.25x – 5.00x

Source: BDO Capital estimates

Coming off four quarters of consecutive atrophy, U.S. institutional leveraged loans saw a meaningful increase in Q4 2022 with $35B in issuances – a 60 percent increase over Q3 which totaled $22B[2]. The increase was driven by $21B of refinancings, over five times the refinancing volume of Q3 2022, though lower than any quarter in 2021[2]. Corporate refinancings were particularly clustered in term loan B issuances as borrowers looked to extend maturities for loans that were coming due within 24 months[2]. Leveraged loan issuances for LBO M&A declined in the 4th quarter, reflecting M&A market sentiment and increasingly expensive debt packages.

Q4 M&A related issuances totaled $12.8B, the lowest quarter in the past 10 years, as many deal closings were postponed until 2023 amid debt financing impediments[2].

Institutional leveraged loans due to mature within the next 36 months are at a year-end record high of $298B, with the bulk of those coming due in 2025[3]. This steep increase from $177B at year-end 2021 highlights the increased difficulties borrowers have had refinancing their leveraged debt in 2022 with an especially slow market in the 3rd quarter of 2022[2].

3. Leveraged Commentary & Data

Senior Debt Pricing			
	Bank	< $7.5M*	> $20M*
Jan 2023	S+3.75% – 5.0%	S+6.5% – 8.0%	S+6.0% – 7.5%
Nov 2022	S+4.0% – 5.0%	S+7.5% – 9.0%	S+6.5% – 7.5%
Jan 2022	L+2.25% – 4.0%	L+5.0% – 7.5%	L+4.5% – 6.0%

*Non-bank lenders / Source: BDO Capital estimates

Sub. Debt Pricing (Total Coupon)			
	< $5M	> $10M	> $20M
Jan 2023	13% – 15%	12% – 14%	11% – 13%
Nov 2022	13% – 15%	12.5% – 14%	11.5% – 13%
Jan 2022	11% – 14%	9.5% – 12%	9% – 11%

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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