DEBT MARKET UPDATE

Q1 2021

Corporate America levered up in 2020 as the COVID-19 pandemic threatened businesses, but companies seem to be in no hurry to reduce the buildup of debt even as cash builds. While borrowing was necessary in the early days of the pandemic to cover operating expenses, experts say paying down debt will likely be a lower priority to mergers and acquisitions, capital expenditures and shareholder returns as borrowing costs remain low with support from the Federal Reserve.

A hot start to 2021 in the U.S. leveraged loan market has borrowers trying to take advantage of the supply demand imbalance. A lack of new money loan supply relative to demand has led to a surge in repricing and refinancing activities, allowing borrowers to reduce the cost of their existing loans. This has also led to a surge in loans backing dividend recapitalizations, which is leading to one of the strongest starts in years. According to Debtwire, the U.S. loan volume for dividend recapitalizations year-to-date through February 2021 was $6.9 billion with new-issue volume for companies backed by private equity firms accounting for the bulk of this volume, which is more than during any comparable period since 2017. The recent repricing trend is expected to continue as it remains a borrower-friendly market environment given current interest rates.

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

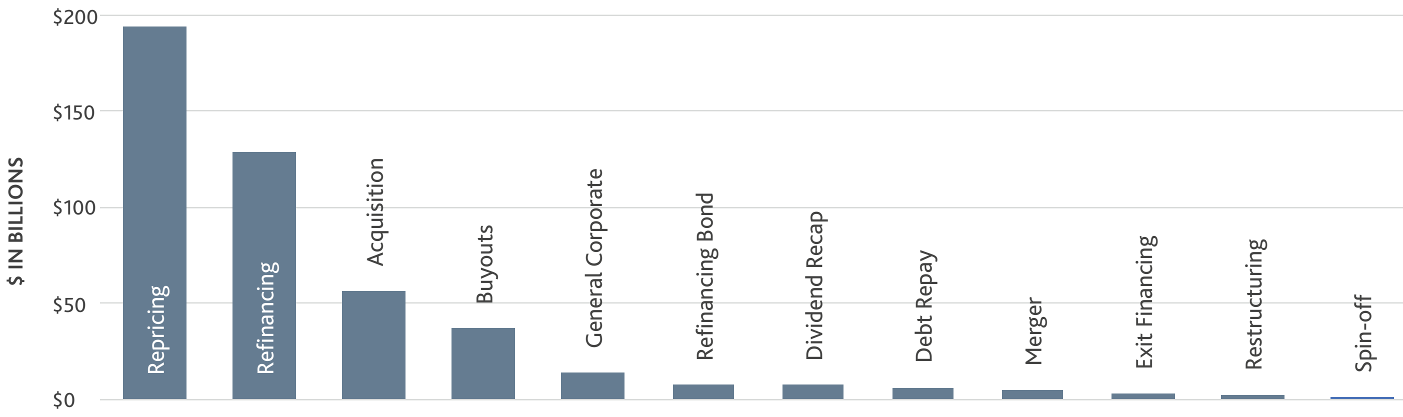
- Capital Raising
- Mergers & Acquisitions
- Board Advisory
- Special Situations

PLEASE DIRECT INQUIRIES TO:

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

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

U.S. LOANS (LEVERAGED & INSTITUTIONAL) USE OF PROCEEDS YTD 2021 ($BN)



Source: Debtwire Par YTD through February 2021

As the share of syndicated deals to middle market borrowers declines, they have been turning more to the private credit market for their financing needs. The combined benefits of record fundraising in the direct lending market, improving economic trends and a new $1.9 trillion economic stimulus plan have helped return market conditions to near pre-pandemic levels. To attract borrowers, commercial banks are waiving LIBOR floors as well as upfront fees, and non-bank direct lenders are selectively removing prepayment premiums and offering favorable pricing to lower middle market borrowers (less than $10 million of EBITDA). Overall, borrowers are benefiting from a more "risk-off" lending environment.

Total Debt/EBITDA			
	< $5MM	> $10MM	> $20MM
Mar. 2021	2.75X - 3.75X	4.00X - 5.50X	4.50X - 5.75X
Feb. 2021	2.75X - 3.75X	4.00X - 5.25X	4.50X - 5.50X
Mar. 2020	3.00X - 3.75X	4.00X - 5.25X	4.50X - 6.00X

Source: BDO Capital estimates

Sub. Debt Pricing (Total Coupon)			
	< $5MM	> $10MM	> $20MM
Mar. 2021	12.00% - 15.00%	10.00% - 13.00%	9.00% - 11.00%
Feb. 2021	12.00% - 15.00%	10.50% - 13.00%	9.50% - 11.00%
Mar. 2020	11.00% - 14.00%	10.00% - 12.00%	8.50% - 11.00%

Source: BDO Capital estimates

Given the vaccine distributions and expectations of a return to pre-pandemic operations in the second half of 2021, borrowers whose business recovery is more directly tied to post-pandemic recovery should face a more friendly reception. While pricing and leverage for these borrowers will be more conservative, access to capital should improve. An expansion of the Paycheck Protection Program (PPP) funding and the CARES Act in the new stimulus package should also support borrowers still adversely impacted by the pandemic and provide relief from the more restrictive terms of the "distressed" lending community.

Senior Debt/EBITDA			
	< $5MM	> $10MM	> $20MM
Mar. 2021	1.50x - 2.75x	2.75x - 3.50x	3.25x - 4.50x
Feb. 2021	1.50x - 2.75x	2.75x – 3.50x	3.25x - 4.25x
Mar. 2020	1.50x - 2.75x	2.75x – 3.50x	3.00x - 4.50x

Source: BDO Capital estimates

Senior Debt Pricing			
	Bank	< $7.5MM*	> $15MM*
Mar. 2021	L+3.50% - L+4.50%	L+6.00% - L+8.00%	L+5.50% - L+7.00%
Feb. 2021	L+3.50% - L+4.50%	L+6.00% - L+8.00%	L+5.50% - L+7.50%
Mar. 2020	L+3.00% - L+4.50%	L+5.50% - L+7.00%	L+5.00% - L+6.50%

*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

BDO Capital Advisors, LLC, a wholly-owned affiliate of BDO USA, LLP, is a leading middle market investment bank that focuses on sell-side advisory, special situations, acquisition advisory, capital raising and board advisory services with offices located throughout the United States. The firm has deep industry knowledge, extensive cross-border transaction experience and superior execution capabilities. The firm has broad industry expertise and contacts having closed transactions within the Manufacturing & Distribution, Consumer, Food & Retail, Healthcare & Life Sciences, Business Services, Energy & Natural Resources and Technology, Media & Telecom sectors. Our seasoned investment bankers have collectively advised on hundreds of transactions for a variety of clients including family-owned businesses, entrepreneur-led companies, public corporations and leading private equity firms. Our professionals also draw upon the full depth and breadth of BDO USA's national resources which include 65+ offices and over 6,000 professionals located throughout the United States.

The firm has worldwide access to buyers, sellers and offshore investors via the Corporate Finance practices of BDO International's network of independent member firms. BDO International Corporate Finance firms operate in 100 countries with approximately 2,500 professionals who are able to meet the investment banking needs of clients across the globe.

ADDITIONAL BDO CAPITAL ADVISORS M&A CONTACTS:

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

PATRICK BISCEGLIA
Managing Director
804-401-4311 (Direct) / 804-513-9724 (Mobile)
pbisceglia@bdocap.com

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

ERIC HIGGINS
Director
617-422-0904 (Direct) / 978-761-8111 (Mobile)
ehiggins@bdocap.com