




The Leveraged and Asset Based Loan Markets in 1H22



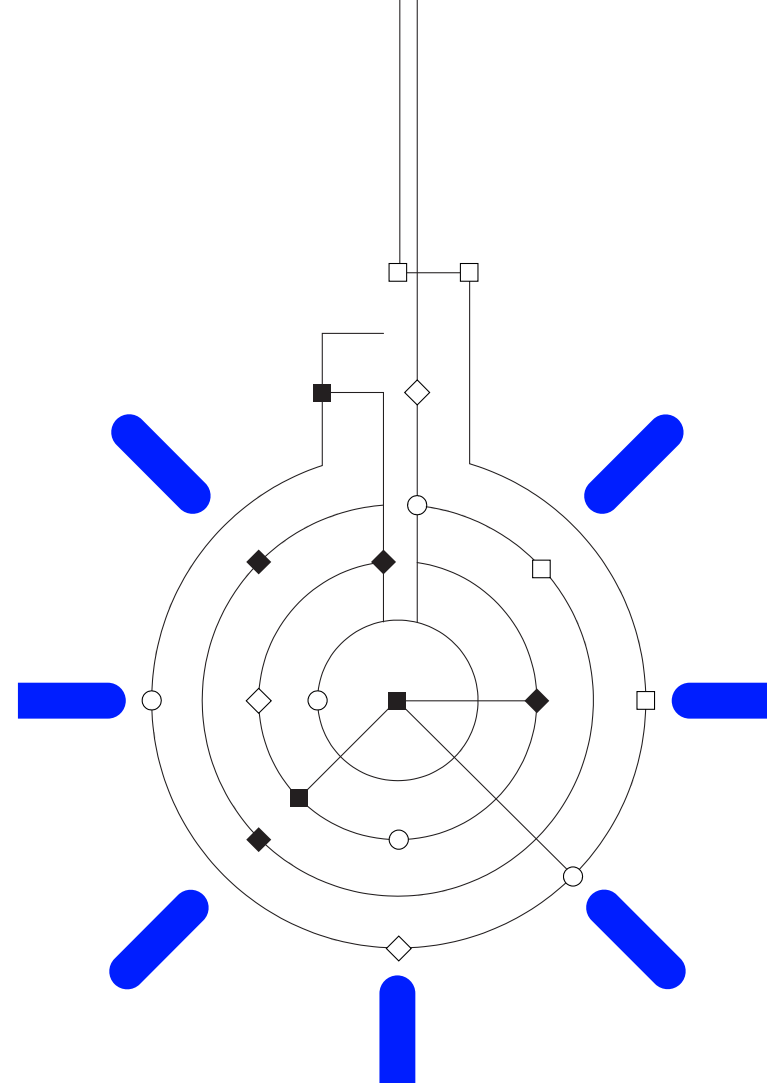
2Q22 Review & 3Q22 Expectations

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1H22 Leveraged Loan Market trends & 3Q22 expectations

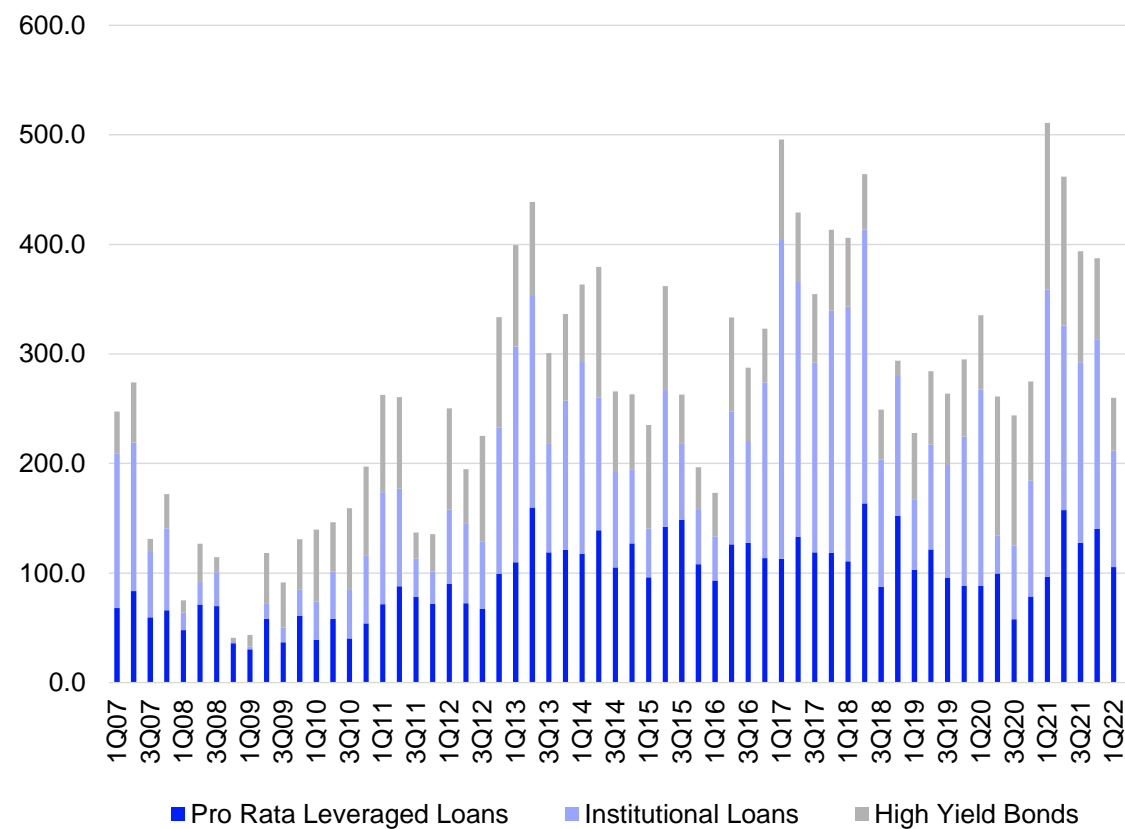


US leveraged loan and bond issuance slowed amid broad macro uncertainty

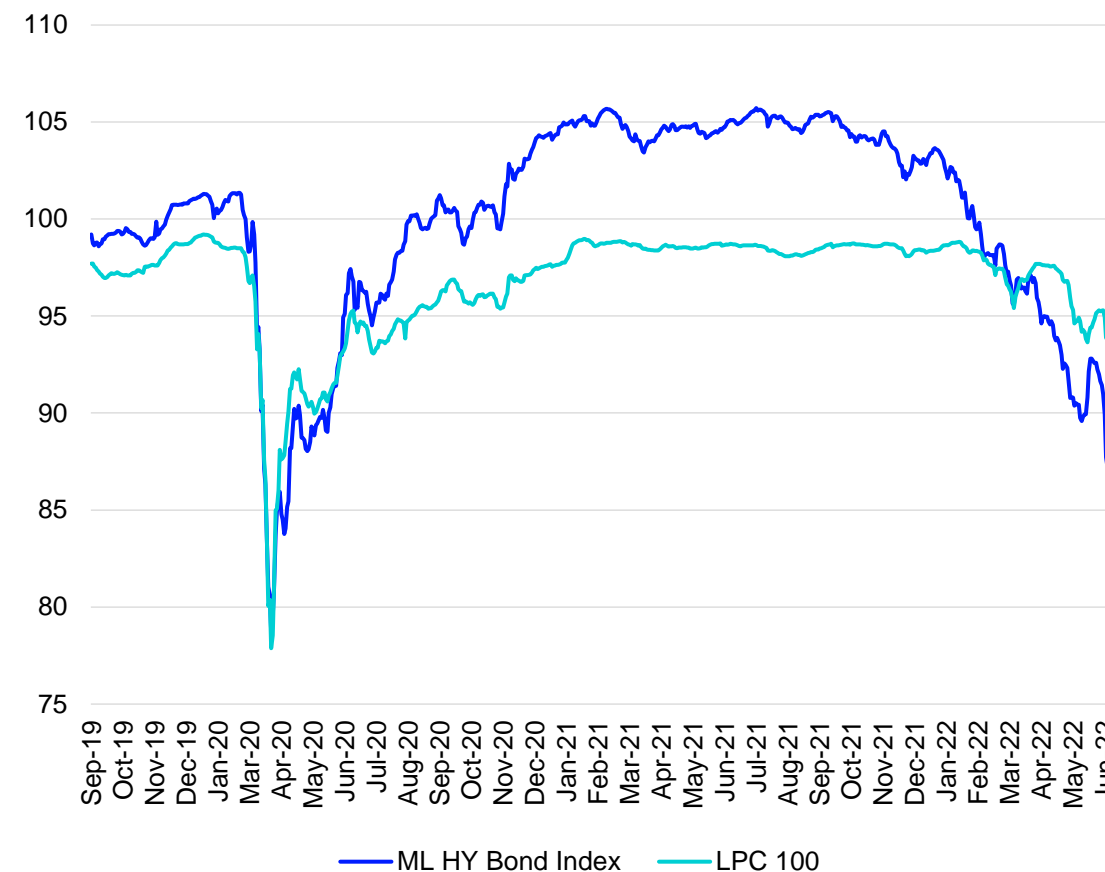
1H22 leveraged loan volume down 31% year over year; HY bond volume off 75% and institutional loans off 61%.....

Average bid on leveraged assets tumble.....

Quarterly leveraged loan and HY bond issuance (US\$bn)



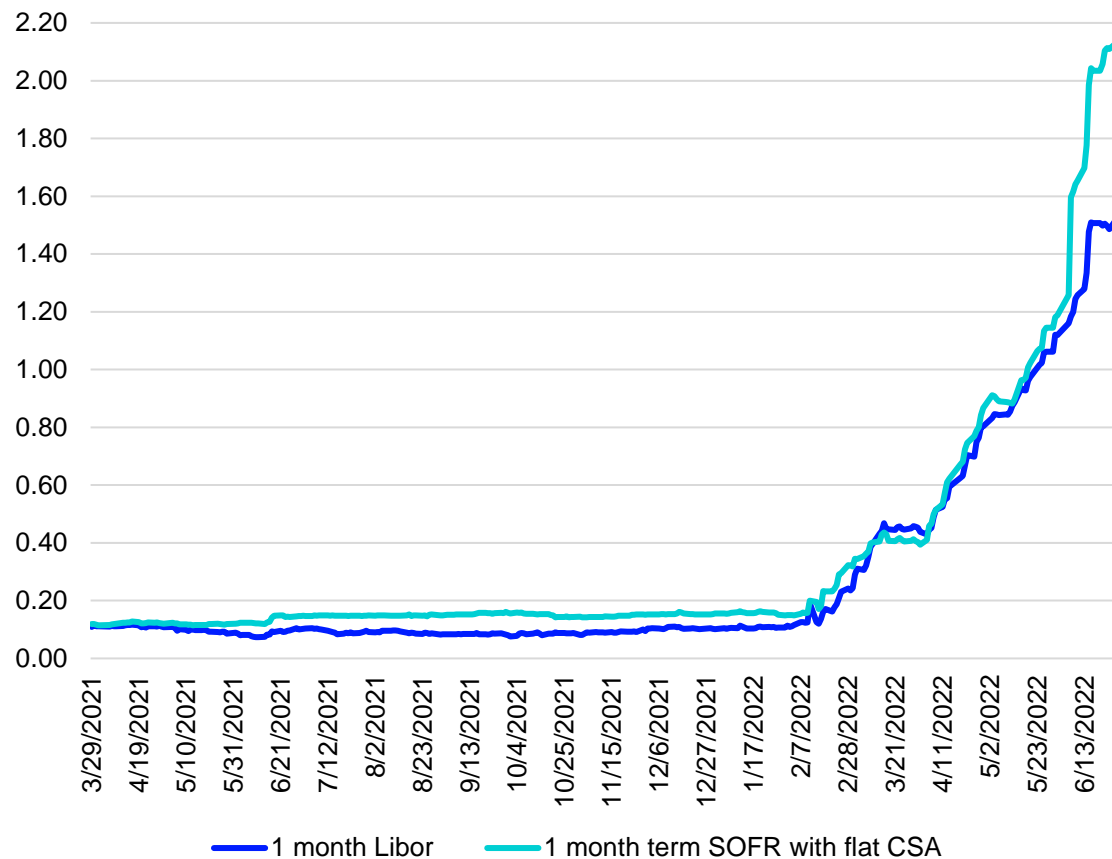
Monthly avg. bid (% of par)



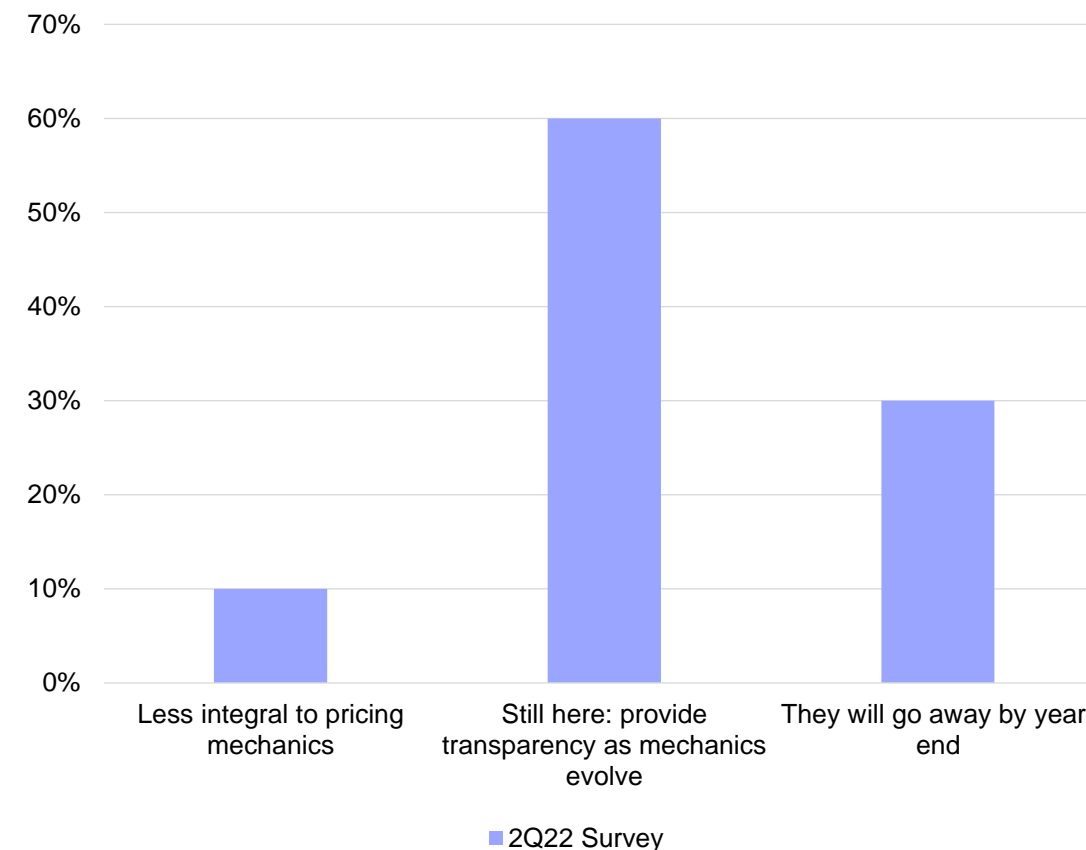
Rising interest rates spur increase in SOFR base rate

Is the flat 10 basis point CSA rate now the market norm?

SOFR base rate value (%)

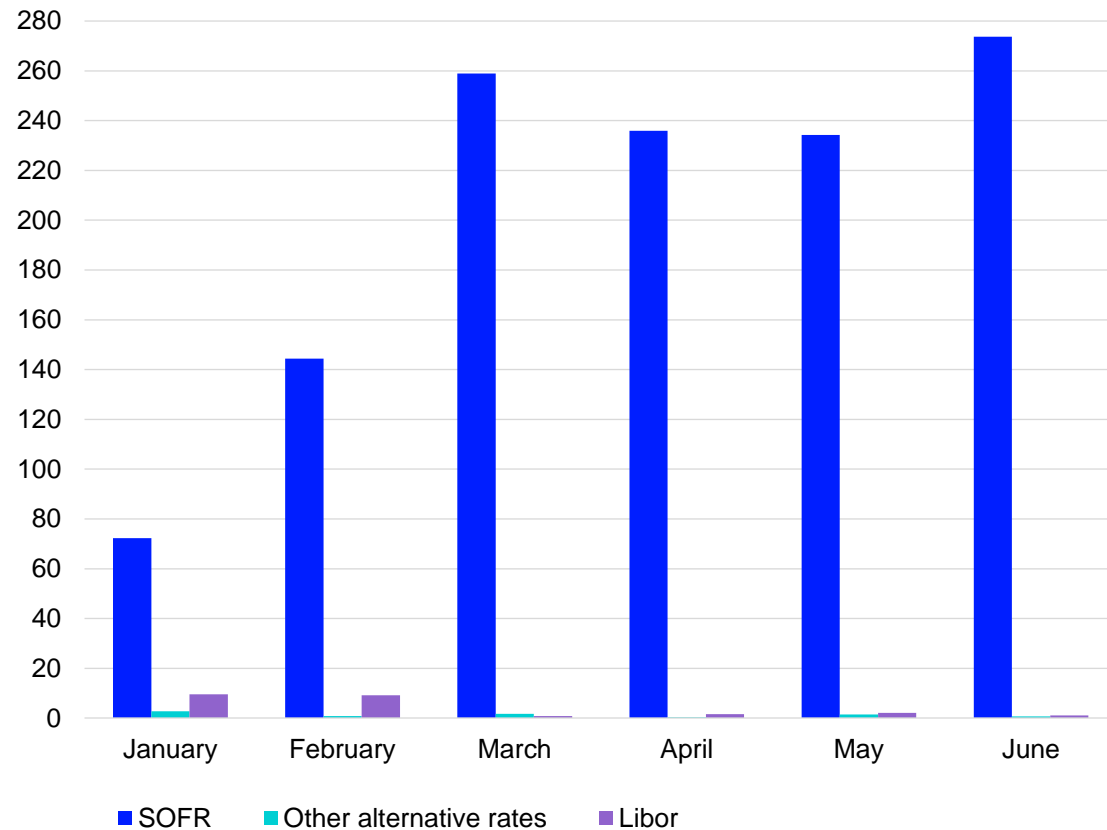


What do you expect for the application of credit spread adjustments in 2H22? (% of respondents)

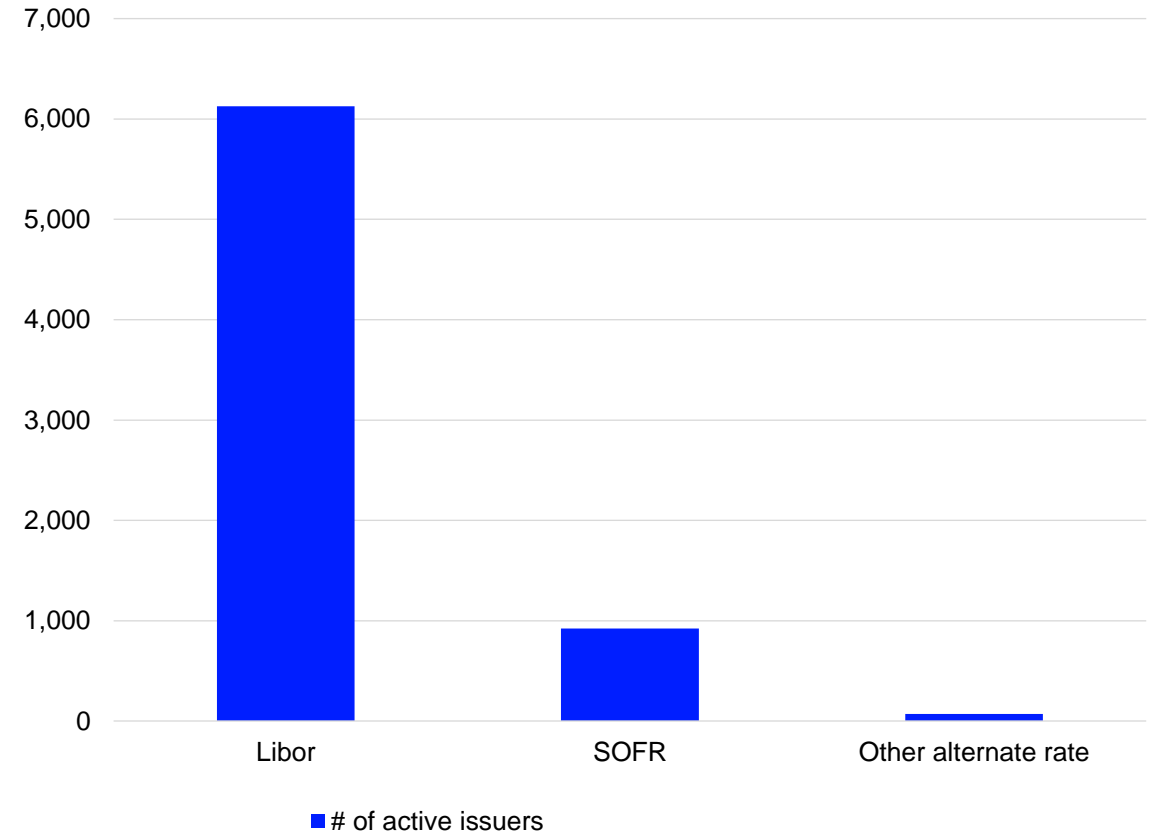


The transition across asset classes from the Libor base rate has resulted in over US\$1.2trn in US syndicated loans adopting a new base rate while an estimated 6,000+ US borrowers still have deals linked to Libor

2022 monthly US syndicated loan volume (US\$bn)
by base rate

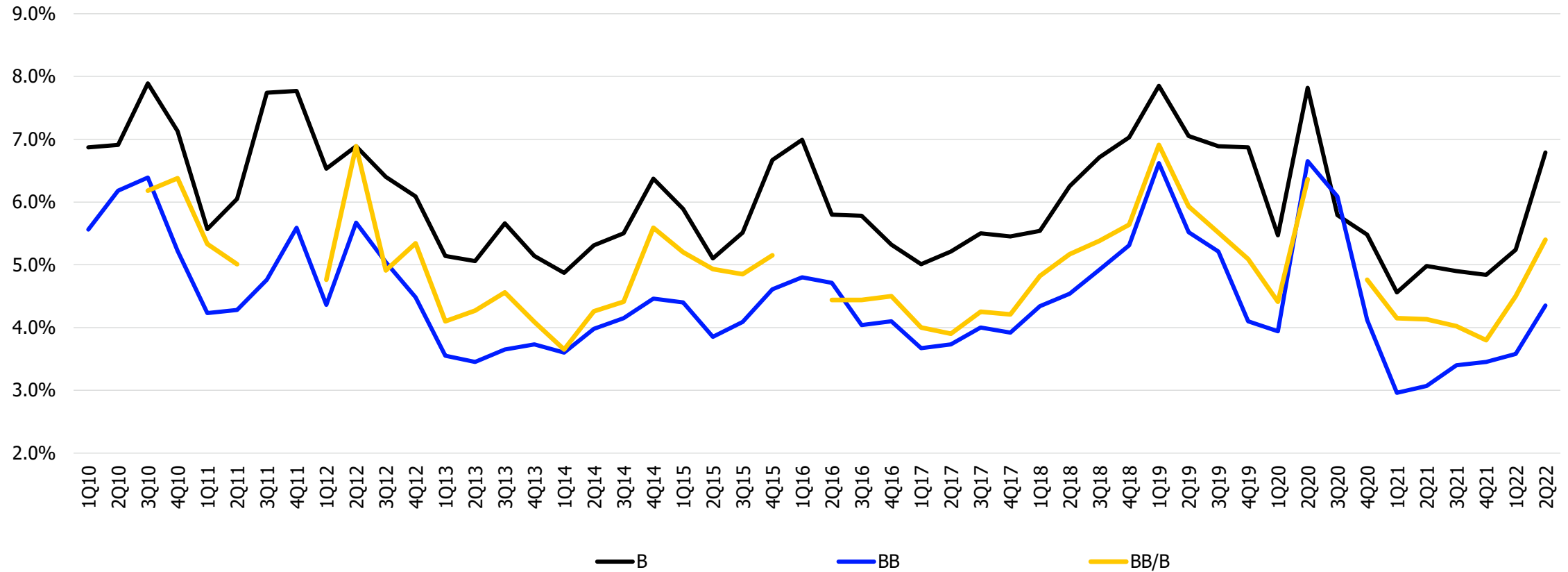


Estimated # of US borrowers with an active loan
by base rate



Yields on BB and single B credits edge up amid widening spreads and deeper OIDs

First-lien TL primary yield (3-year)



Refinitiv LPC's Quarterly Buyside & Sellside Survey Results

In 2Q, what were the biggest impacts/surprises to your business?

Responses aggregated across themes

- Markets caught unaware re: inflation, geopolitics & interest rates
- Rate hikes; Inflation; Loan spread widening
- Significant widening of AAA CLO spreads
- Sell off of loan market steadier than volatility in other markets
- Conservative credit environment
- Even more intense competition for quality names
- Continued low default rates
- How quickly deal volume fell off; low volume of acquisition activity
- Accelerating margin weakness of borrowers
- Evolving funded asset landscape: increasing demand for term loans to replace bonds
- Consensus on spread adjustment to transition to SOFR
- Resurgence of energy markets

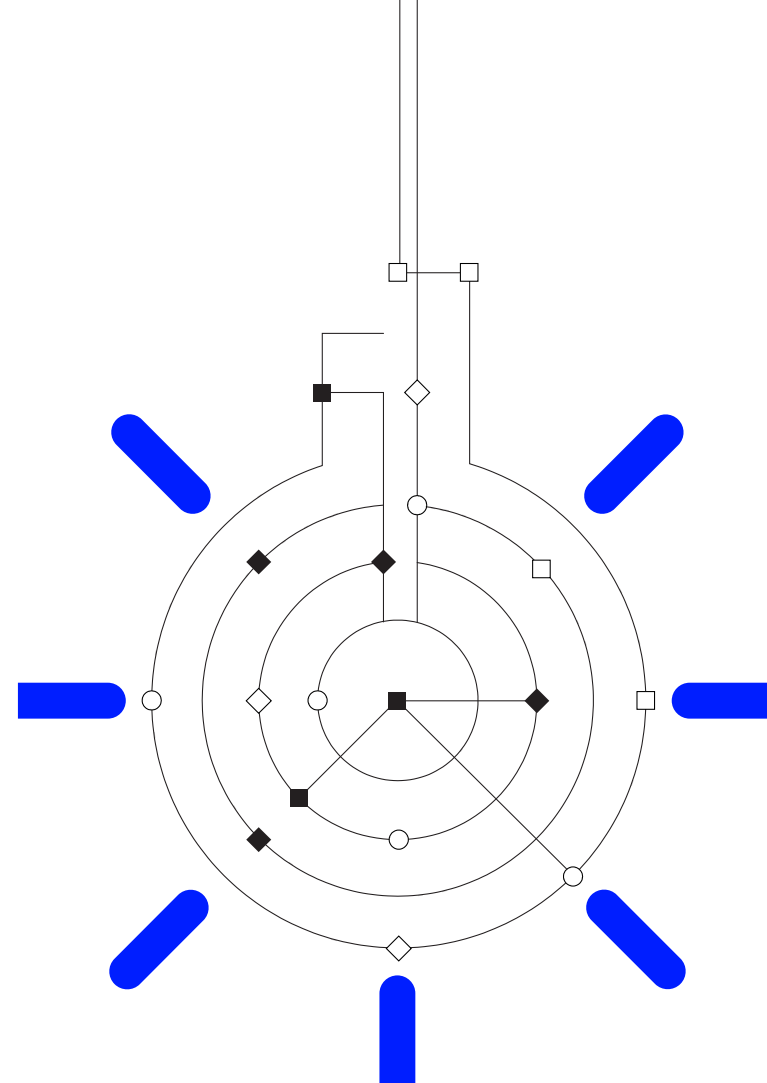
From a credit perspective, do you expect deterioration as a result of the current macro environment?

- Even for firms distant from stress: higher costs, margin pressure and increased cost of debt will reduce debt service coverage multiples meaningfully
- Not seeing it impact credit quality yet. Will depend on how hard the landing is
- Of course... all input costs and borrowing costs can only have a negative impact

Do you expect to see increasing risk aversion among lenders?

- Hearing credit concerns are getting more weight in most deal discussions with lenders
- Committees seem to be getting more conservative by the week and are focusing their investments on existing portfolio companies or situations where they are able to lead a tranche
- Risk management is in focus; concerns around recession and price erosion in the loan market
- Some concern, sector specific. Concern of increasing defaults, negative credit migration

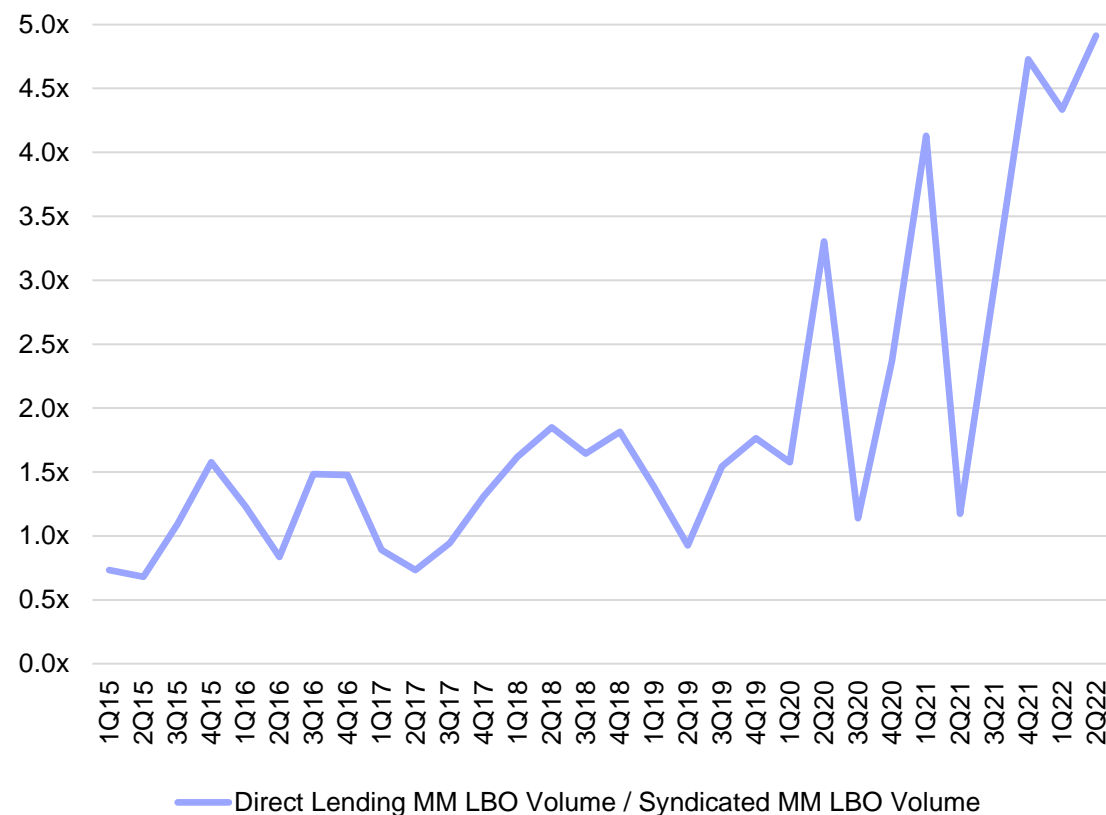
Growing role of Direct Lenders



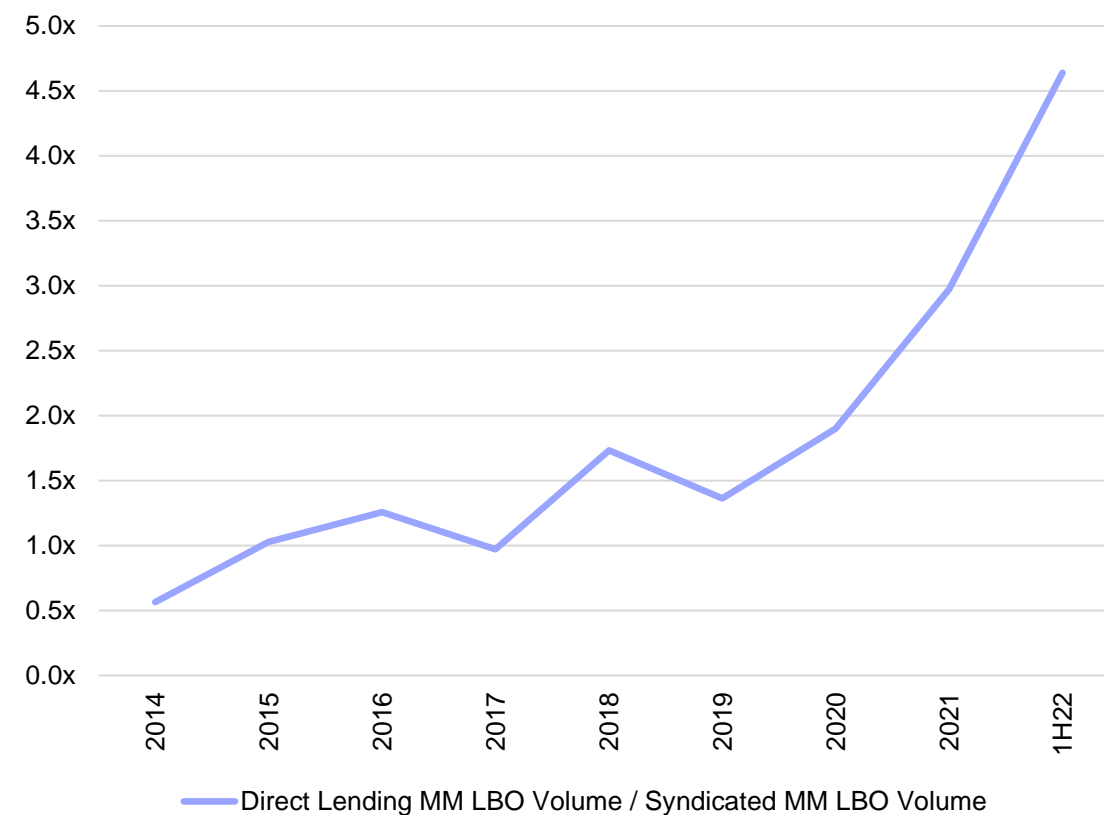
Direct lending gains greater traction in providing LBO financing

Year to date, direct lenders have provided 4.6 times more LBO financing to Middle Market borrowers than the broadly syndicated loan market

Quarterly MM Direct Lending LBO Volume relative to Syndicated MM LBO volume



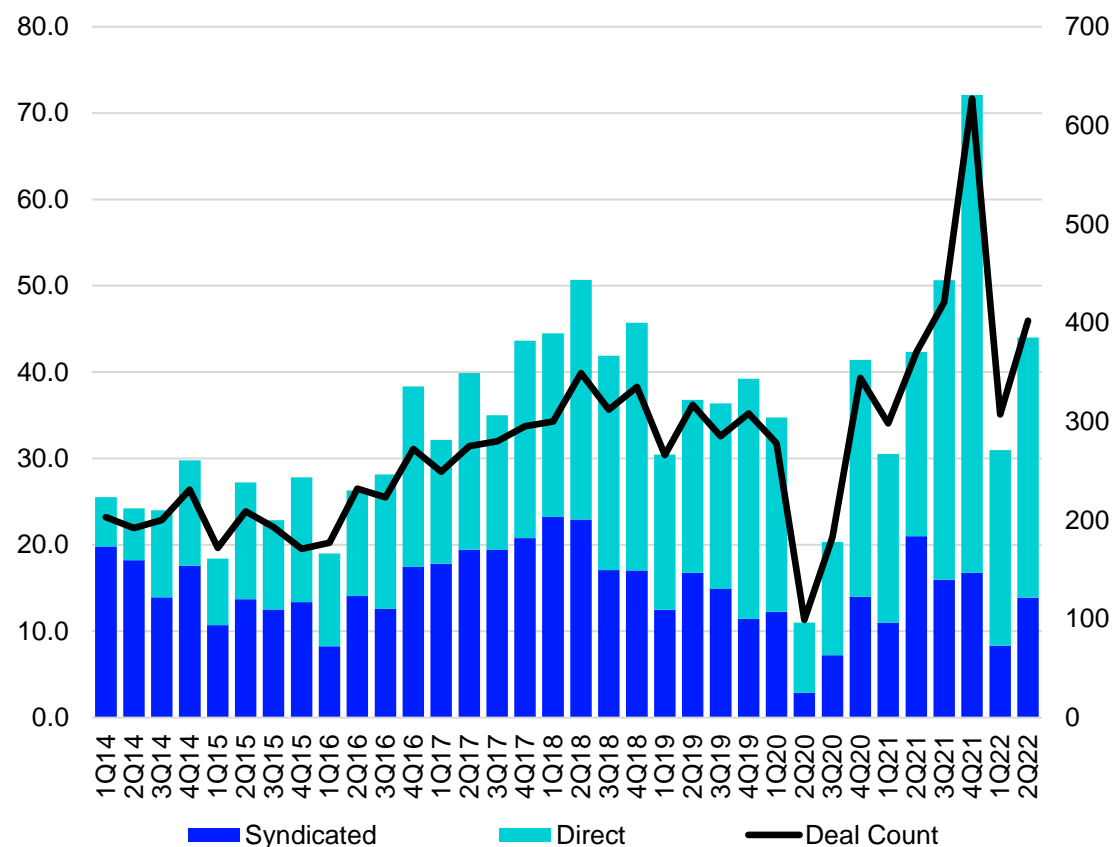
Annual MM Direct Lending LBO Volume relative to Syndicated MM LBO volume



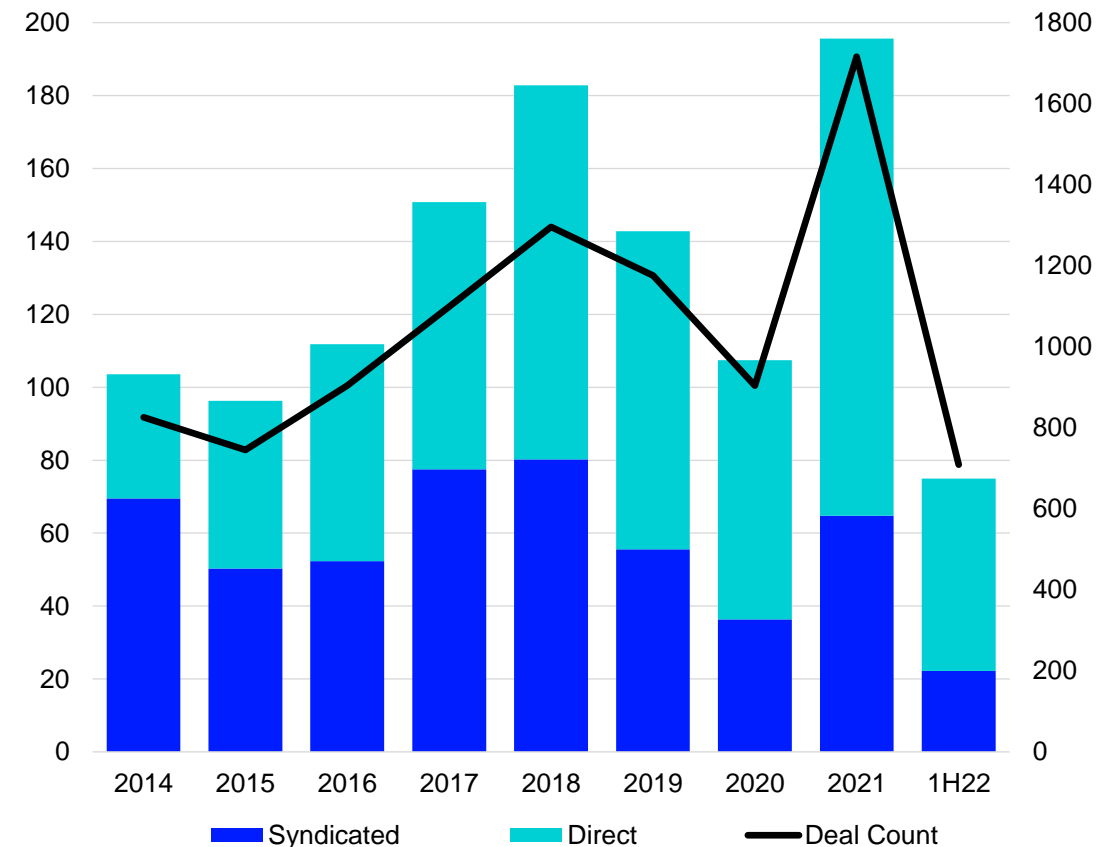
In 2Q22, sponsored middle market direct lending volume totaled US\$30bn, 33% higher than 1Q21 and 41% higher year-over-year

The direct market appears to have been more immune to the broader market volatility, as 2Q22 syndicated sponsored middle market volume of US\$13.9bn was 34% lower year-over-year, but did increase relative to 1Q22

Quarterly MM Sponsored Loan Volume (US\$bn) & Deal Count (right axis)



Annual MM Sponsored Loan Volume (US\$bn) & Deal Count (right axis)

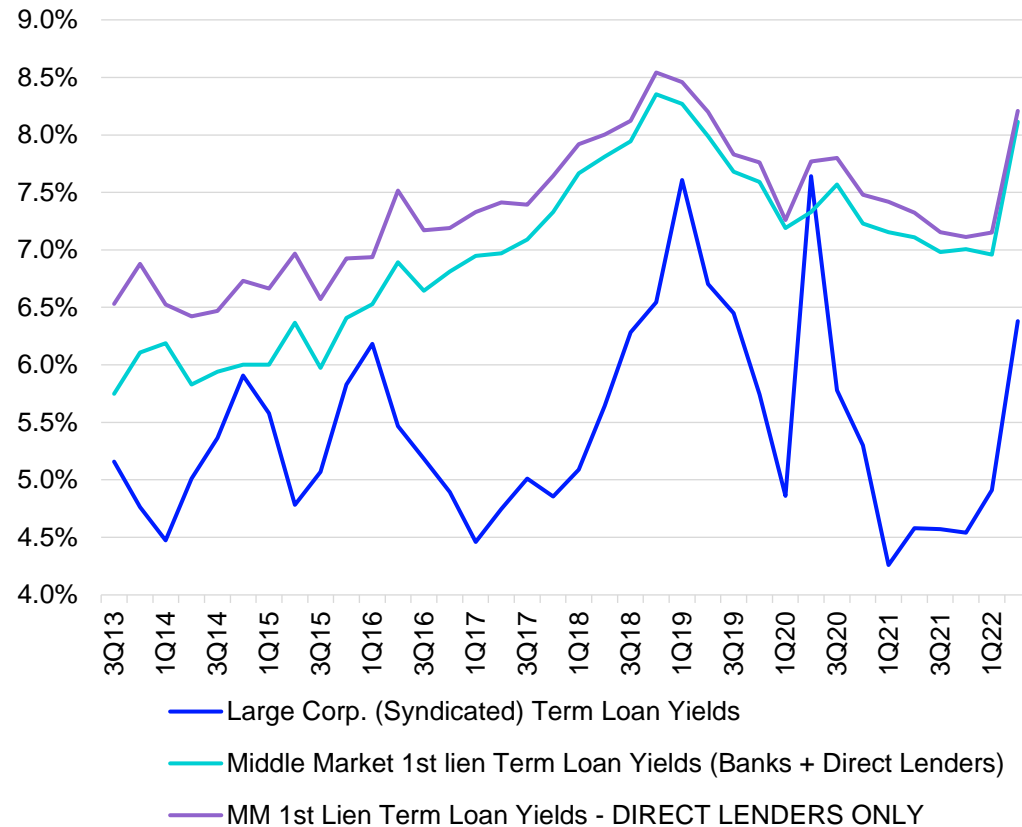


Yields among sponsored Middle Market credits jump in 2Q22

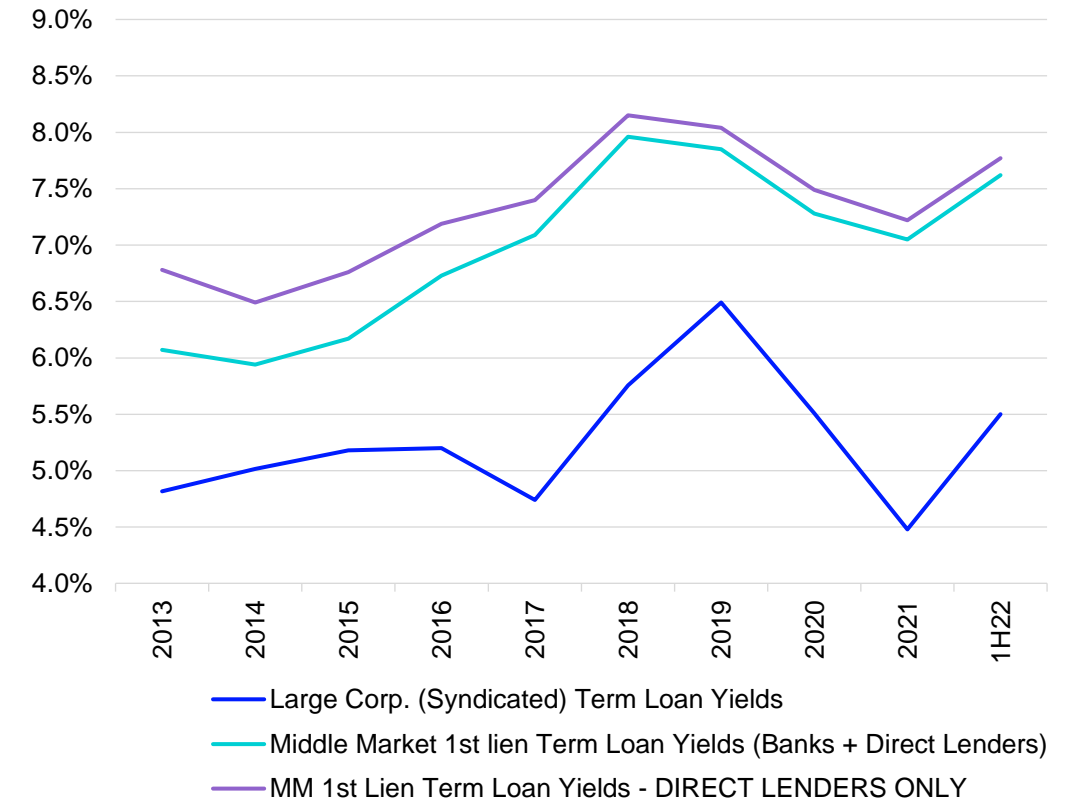
Average all-in-yields for all first lien MM term loans (including unitranches) widened 115bp to 8.11% in 2Q22

Direct lender first lien term loans observed a 106bp jump in yields to 8.12% and large corporate credits saw a 147bp jump to 6.38%

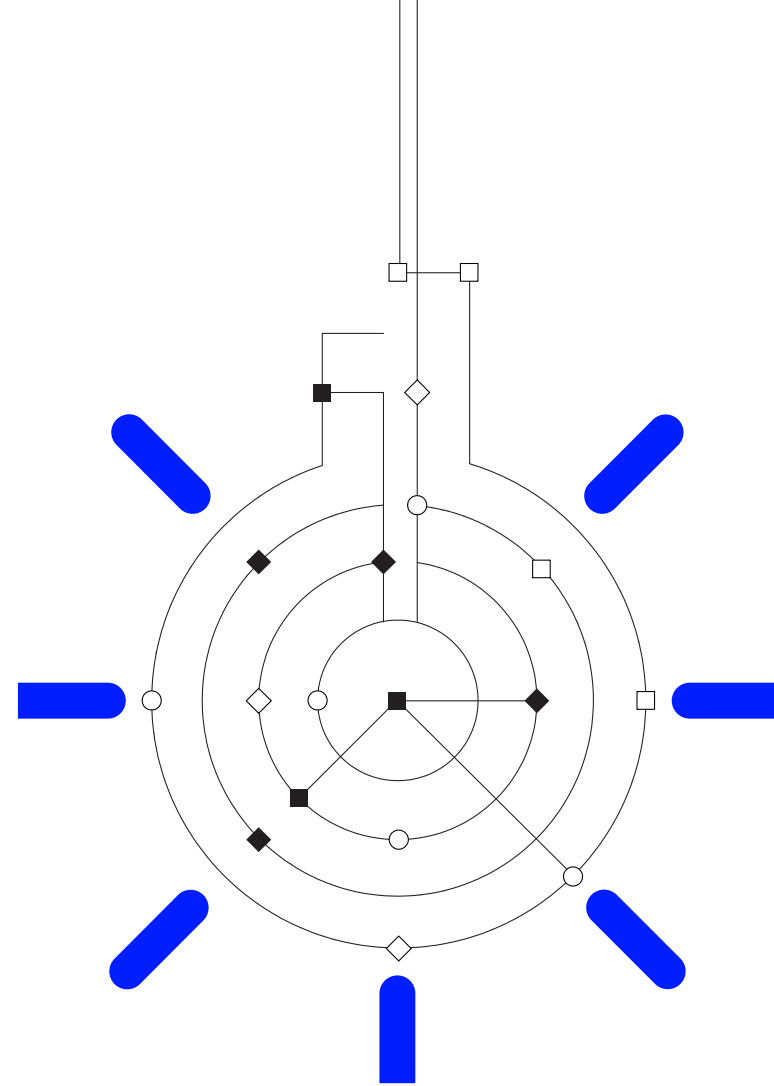
First-lien term loan yields (quarterly)



First-lien term loan yields (annual)



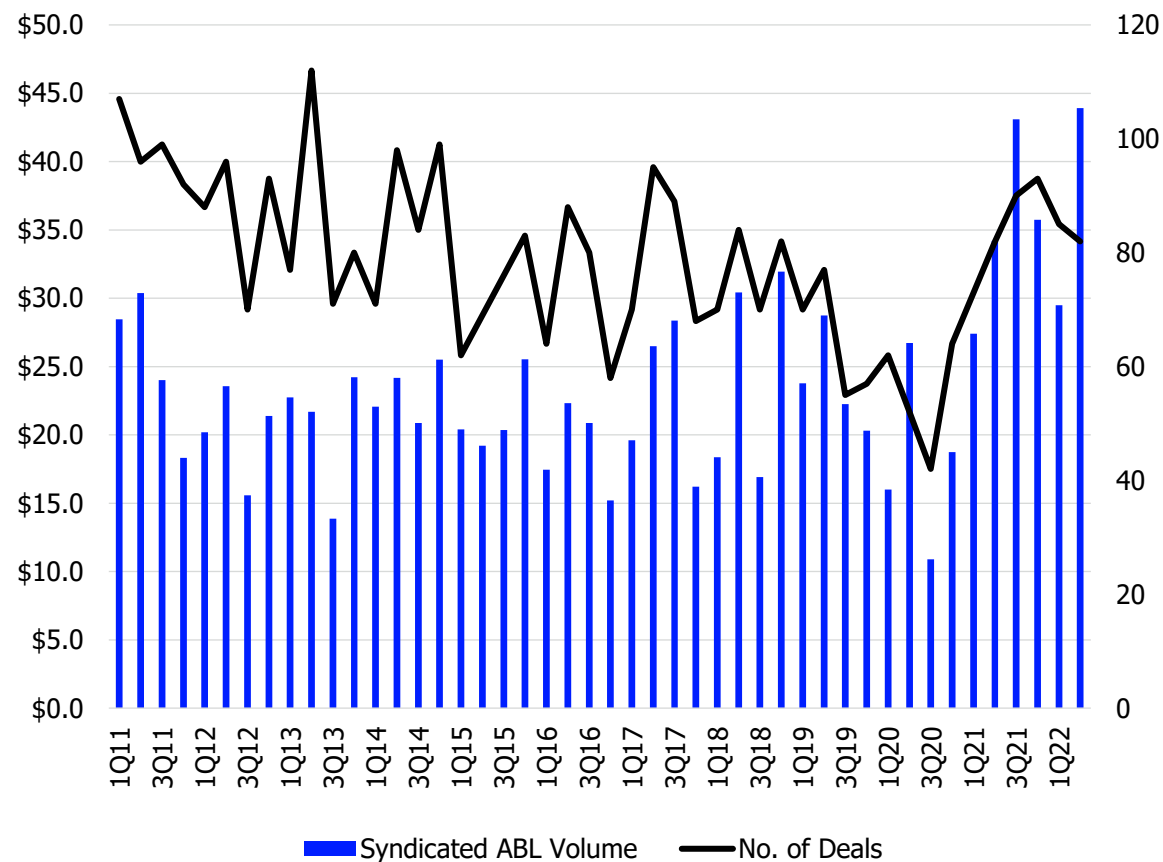
ABL Overview



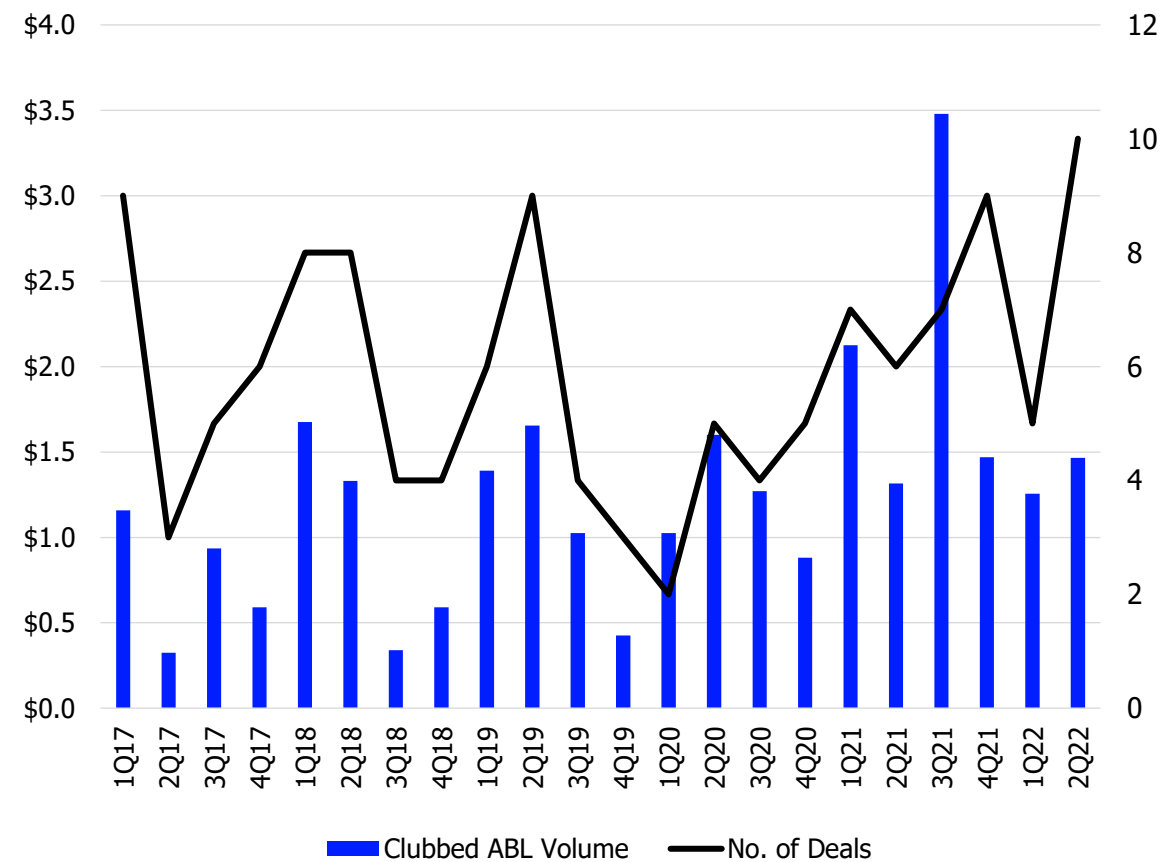
2Q22 Syndicated ABL volume sets record; 1H22 totals at US\$73.4bn

Quarter over quarter, 2Q22 ABL volume increased 49% to US\$43.9bn, a new quarterly record. 1H22 ABL issuance is up 19% year over year, marking the second highest half year period on record.

Quarterly syndicated loan volume (US\$bn)



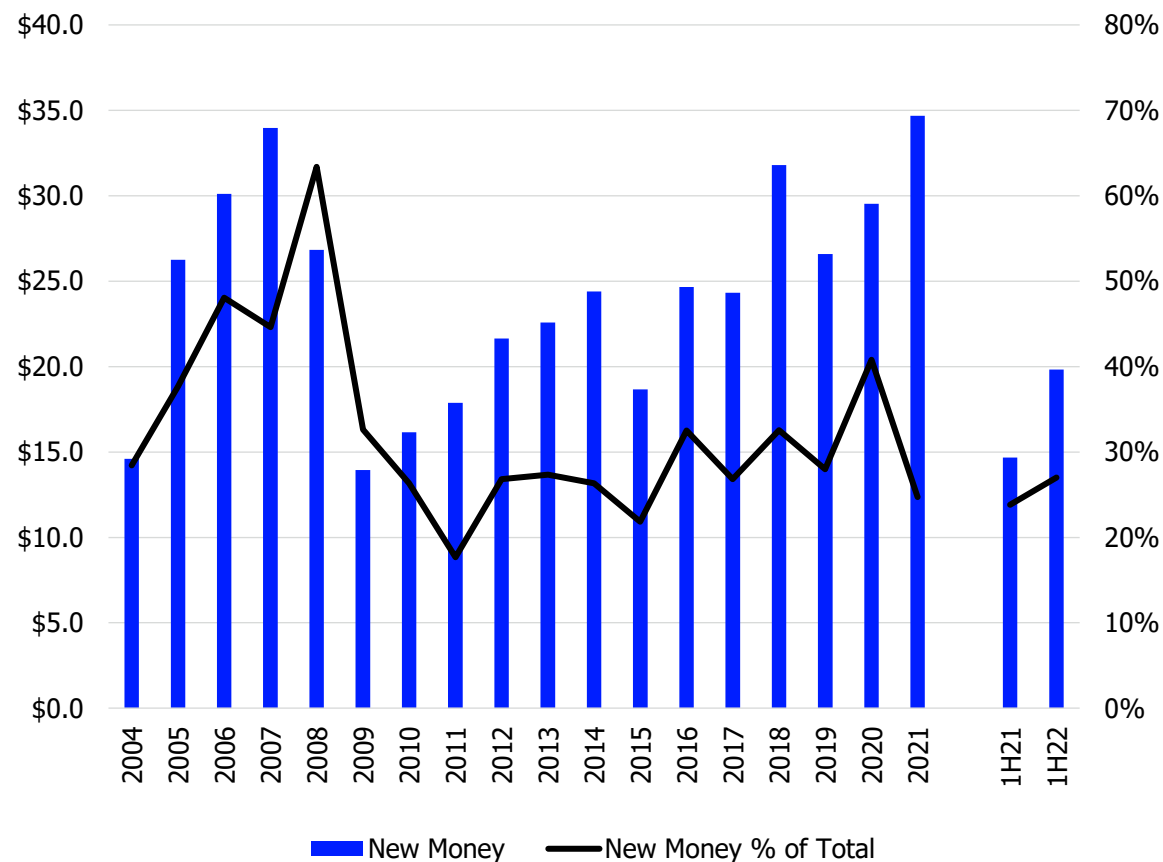
Clubbed ABL volume (US\$bn)



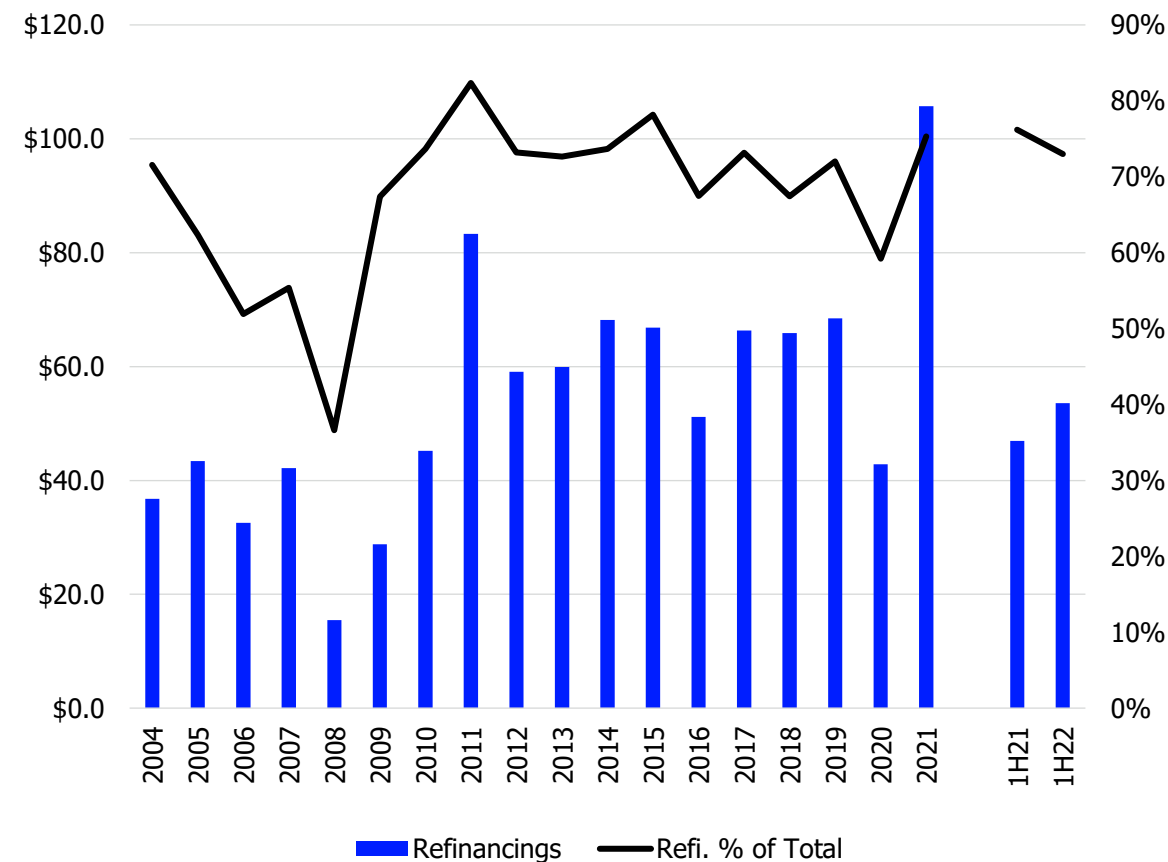
1H22 New ABL assets totaled US\$19.8bn, up 35% year over year

New money comprises 27% of total ABL issuance. Refinancing volume reached US\$53.6bn in the first half and is up 14.2% compared to 1H21.

Syndicated new money (US\$bn)



Syndicated refinancings (US\$bn)



ABL calendar dominated by upsizings and a flurry of new ABL issuers

Event driven credits recede as borrower's and lenders hold off on opportunistic transactions amid market volatility

10 Largest ABL financings 2022 to date

1. PBF Energy Co (5/2022): US\$4.3bn Refinancing
2. United Rentals Inc (6/2022): US\$4.25bn Refinancing and upsizing
3. Macy's Inc (3/2022): US\$3.0bn Refinancing
4. United Natural Foods (6/2022): US\$2.6bn Refinancing and upsizing
5. World Wide Technology Inc (6/2022): US\$2.4bn Refinancing and upsizing
6. Kodak Gas Services LLC (5/2022): US\$2.05bn Refinancing and upsizing
7. Pro Corp (5/2022): US\$1.75bn Refinancing and upsizing
8. United States Steel (5/2022): US\$1.75bn Refinancing and upsizing
9. SRS Distribution Inc (6/2022): US\$1.5bn Refinancing and upsizing
10. Tenet Healthcare Co (3/2022): US\$1.5bn Refinancing

10 Largest New money ABL financings to 2022 date

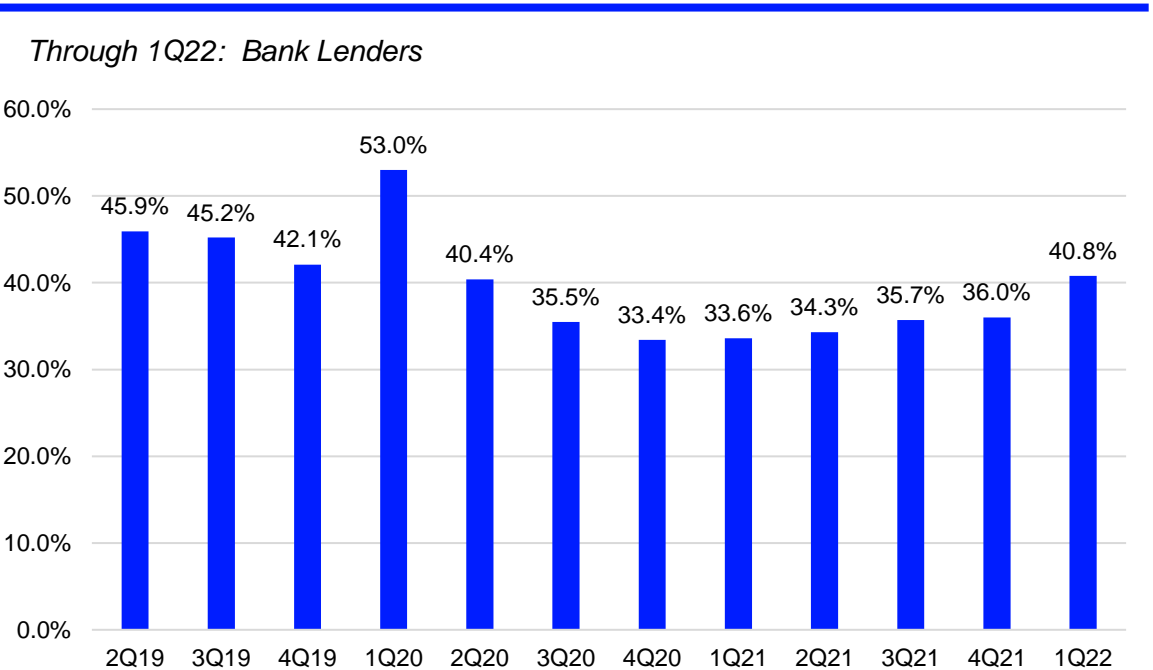
1. Lucid Group Inc (6/2022): US\$1.0bn Working capital; **Incremental dollars raised: US\$1.0bn**
2. PBF Energy Co (6/2022): US\$900m Upsizing and refinancing; **Incremental dollars raised: US\$900m**
3. Ryan Transportation Service Inc (2/2022): US\$705m Working cap.; **Incremental dollars raised: US\$705m**
4. US LBM Holdings LLC (5/2022): US\$650m General corp. purposes; **Incremental dollars raised: US\$650m**
5. Pro Corp (5/2022): US\$585m Upsizing and refinancing; **Incremental dollars raised: US\$585m**
6. Carter Lumber Co (6/2022): US\$550m General corp. purposes; **Incremental dollars raised: US\$550m**
7. United Rentals Inc (6/2022): US\$4.25bn Refi. and upsizing; **Incremental dollars raised: US\$500m**
8. City Electric Supply Company (3/2022): US\$500m Working cap; **Incremental dollars raised: US\$500m**
9. SRS Distribution Inc (6/2022): US\$500m Refi and upsizing; **Incremental dollars raised: US\$500m**
10. United Natural Foods (6/2022): US\$500m Refi and upsizing; **Incremental dollars raised: US\$500m**

10 Largest 2022 New ABL issuers 2022 to date

1. Lucid Group Inc (6/2022): US\$1.0bn Working capital
2. SnapMedTech Inc (2/2022): US\$400m General corp. purposes
3. Amneal Pharmaceuticals LLC: US\$350m General corp. purposes
4. C&J Clark Ltd (6/2022): US\$200m General corp. purposes
5. ECMD Inc (6/2022): US\$220m General corp. purposes
6. Triage LLC (2/2022): US\$155m General corp. purposes
7. Energy Tubulars Inc (5/2022): US\$150m General corp. purposes
8. Kent Outdoors (5/2022): US\$150m General corp. purposes
9. New Era Cap LLC (1/2022): US\$150m General corp. purposes
10. ProFrac Holdings II LLC (4/2022): US\$200m General corp. purposes

ABL Credit line utilization increases

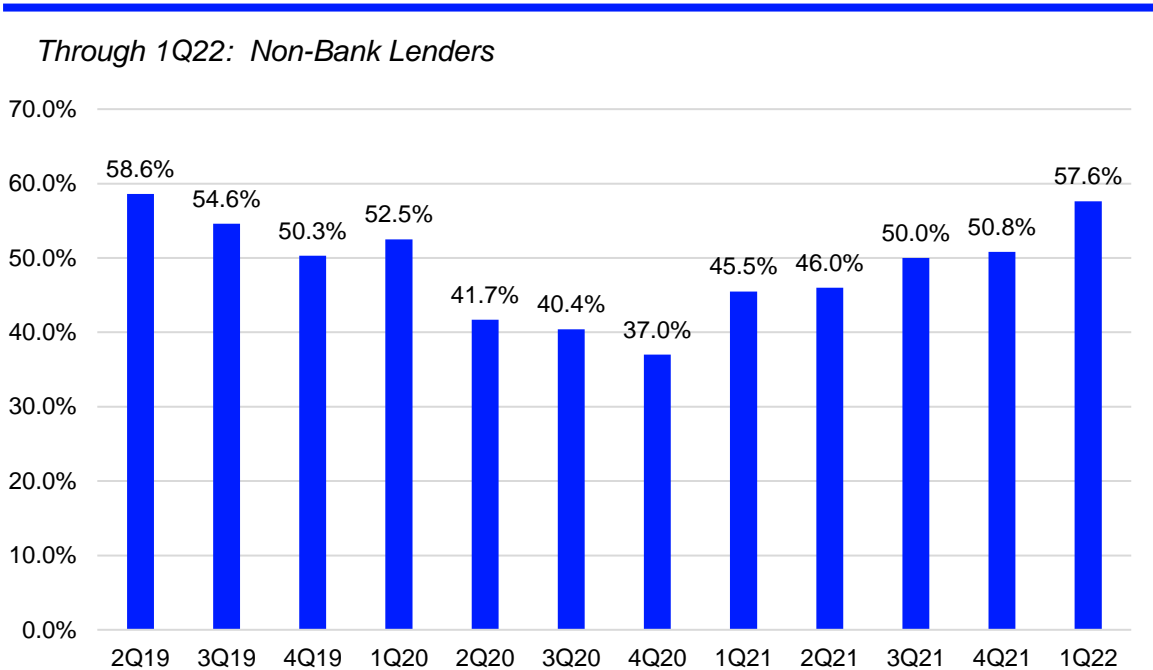
Loans outstanding as percentage of total credit commitments



Highlights:

- Credit line utilization among consistent bank respondents rose to **40.8%** in Q1 2022, **increasing by 471 basis points** from utilization in Q4 2021.
- Compared to the same quarter last year, credit line utilization increased by **718 basis points**.
- As in prior quarters, the vast majority, **90.6%**, of the bank borrowing base in Q1 2022 was composed of advances against receivables and inventory. The remaining categories composed only **9.4%** of the overall borrowing base.

Source: Secured Finance Network



Highlights:

- Credit line utilization among consistent non-bank lender respondents was **up 673 basis points** from Q4 2021.
- Compared to the same quarter last year, credit line utilization has **increased 12.1 percentage points** as it now exceeds pre-pandemic levels.
- As in prior quarters, the vast majority, **88.3%**, of the non-bank borrowing base in Q1 2022 was composed of advances against receivables and inventory. The remaining categories compose only **11.7%** of the overall borrowing base.

ABL Credit quality remains resilient

Criticized and Classified Loans

Total Criticized and Classified Loans

Q2 2019 – Q1 2022, 9 respondents across all quarters

\$7B



Highlights:

- Across bank lenders that responded in each of the last two quarters, total criticized and classified loans **increased by 5.2%**.
- Among bank lenders that responded in the same quarter last year, total criticized and classified loans **decreased by 35.1% YoY**.
- As a percentage of loans outstanding among consistent respondents, criticized and classified loans **fell by 71 and 534 basis points** relative to Q4 2021 and Q1 2021, respectively.

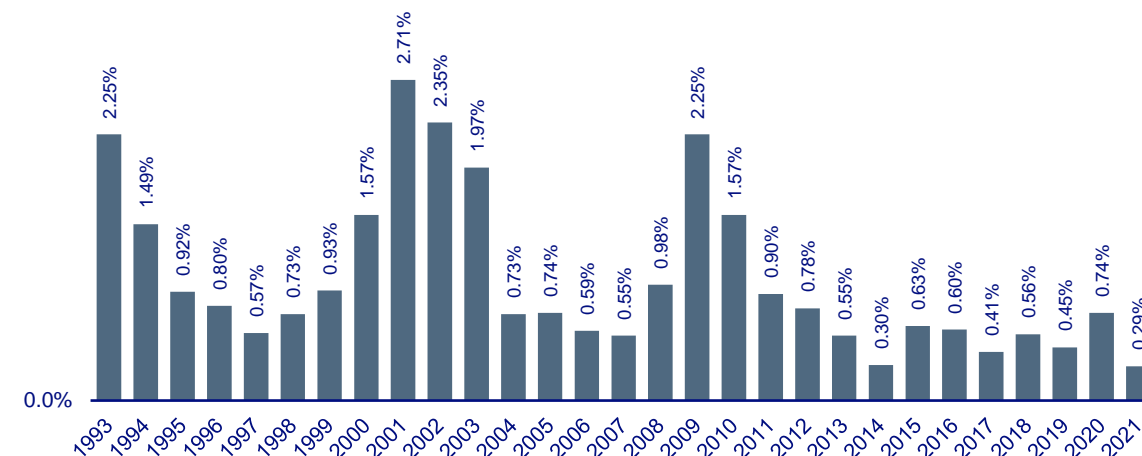
Source: Secured Finance Network

Non-Accruing Loans

Non-Accruing Loans as a Percentage of Total Loans Outstanding - Annual

1993 – 2021, 16 respondents for 2020, 19 for 2021

4.0%



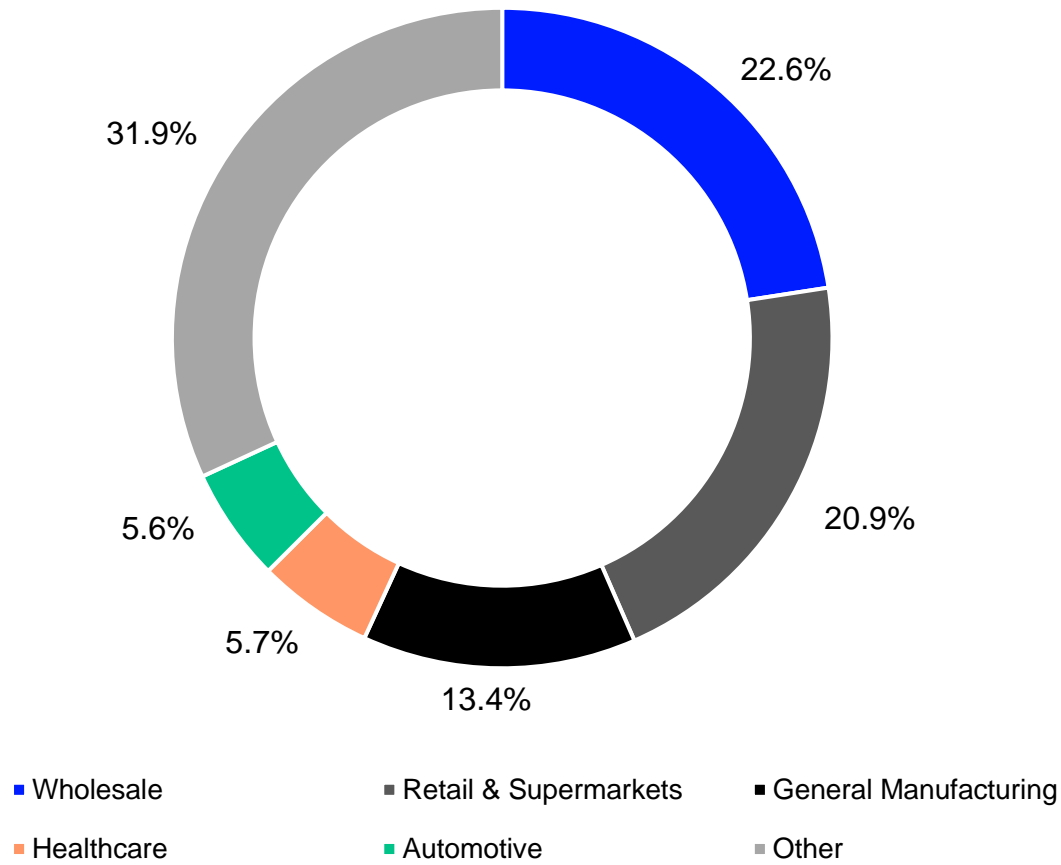
Highlights:

- On an annual basis, non-accruing loans as a percentage of total loans outstanding **declined by 45 basis points** between 2020 and 2021.
- As a percentage of loans outstanding among consistent respondents, non-accruing loans **fell by 2 basis points** from Q4 2021.
- Compared to the same quarter last year, the percentage of non-accruing loans among these respondents **decreased by 41 basis points**.
- Non-accruing loans as a percentage of total loans outstanding have **steadily decreased over the past four quarters**.

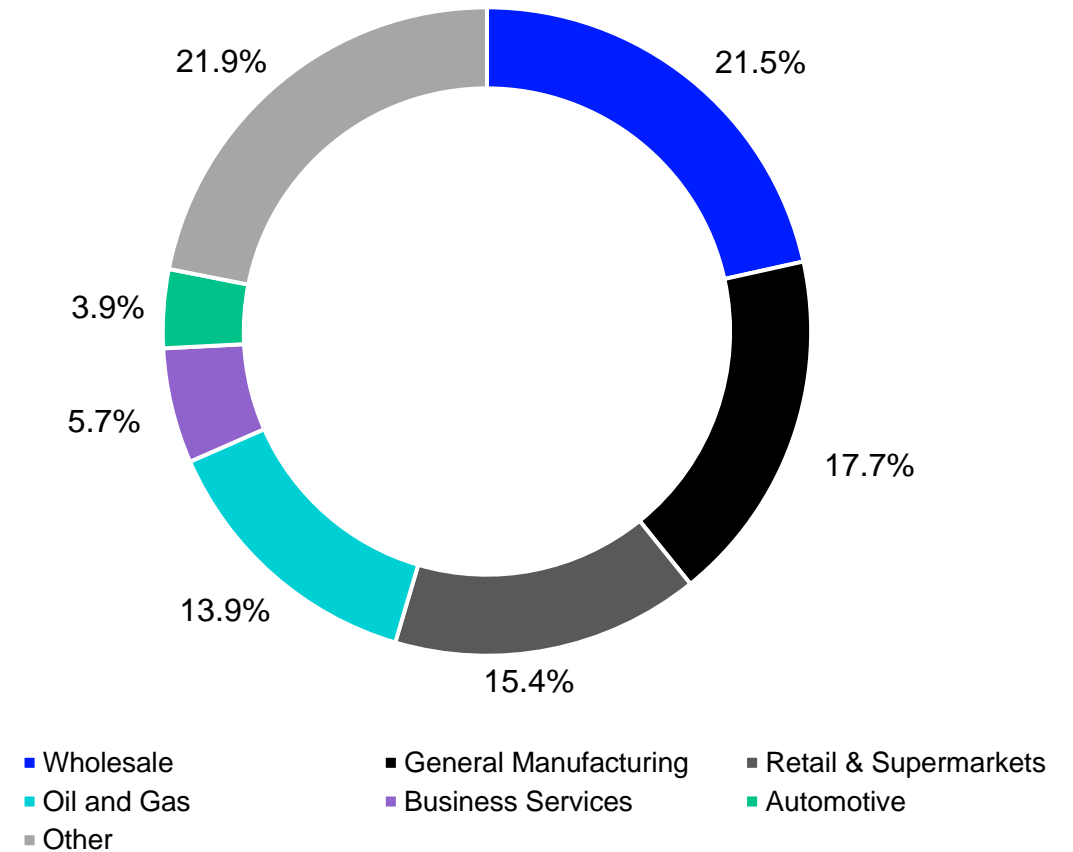
Asset Based Lending – Industry view

Wholesale issuers comprised the largest proportion of ABL volume in 1H22 with US\$16.4bn. General Manufacturing and Retail followed with US\$13.4bn and US\$11.7bn, respectively.

2021 volume by industry



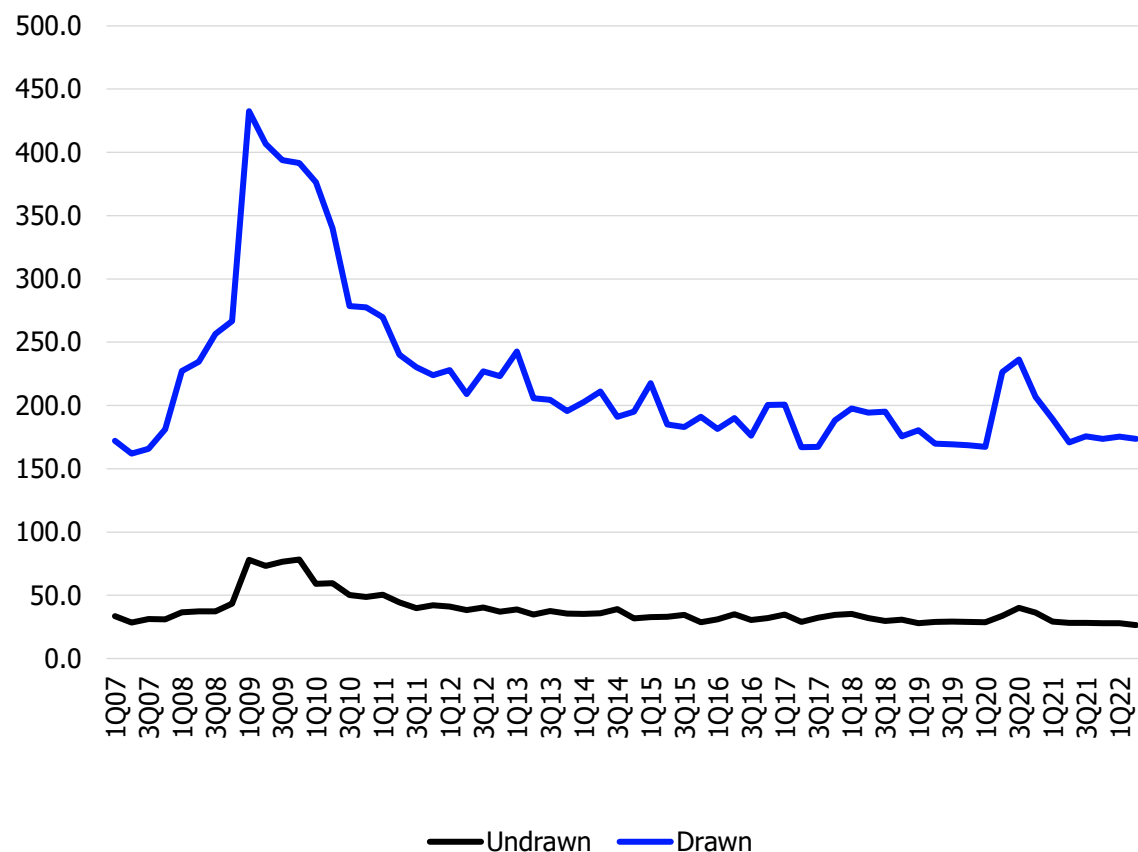
1H22 volume by industry



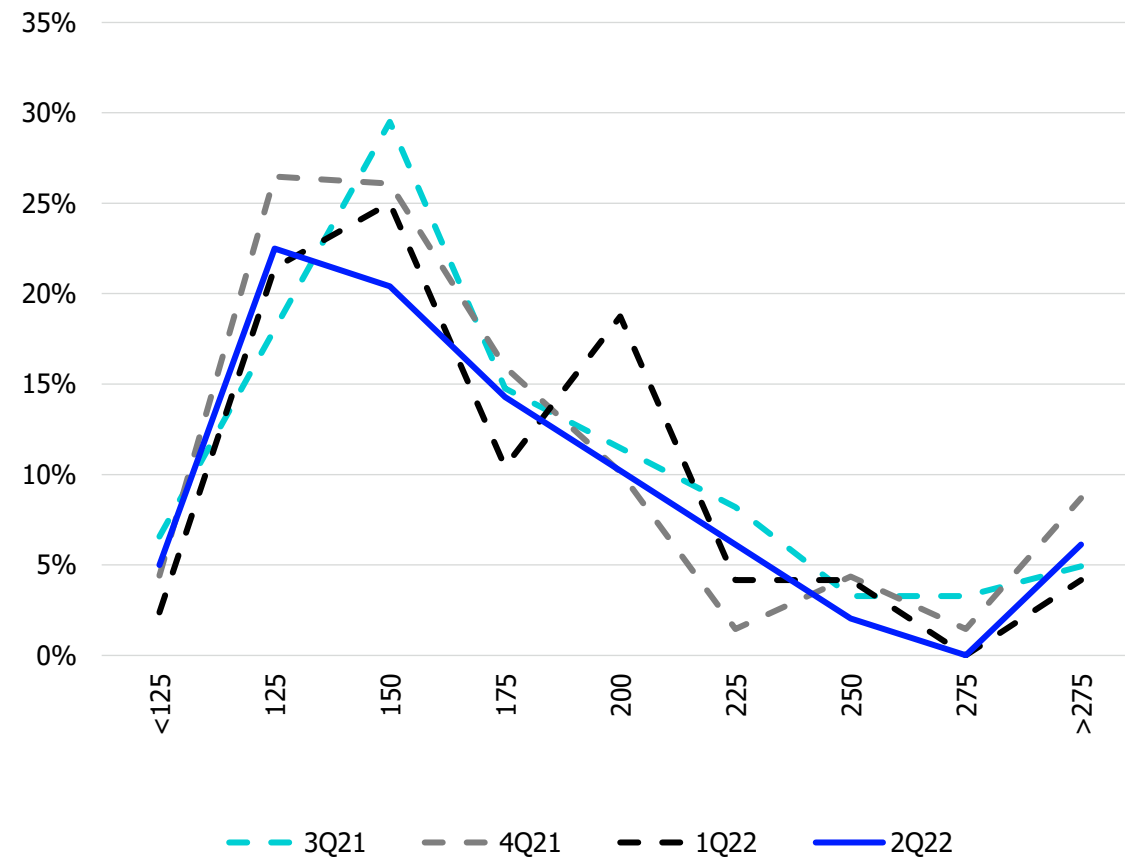
ABL pricing remains stable (at TSOFR + 174bp) despite broader market volatility

While average pricing was TSOFR + 174 bps 42.9% of all 2Q22 ABL loans priced at either 125 or 150bps over TSOFR
Only 5% of 2Q22 ABL deal flow priced below 125bps

Average pro rata pricing (bps)*



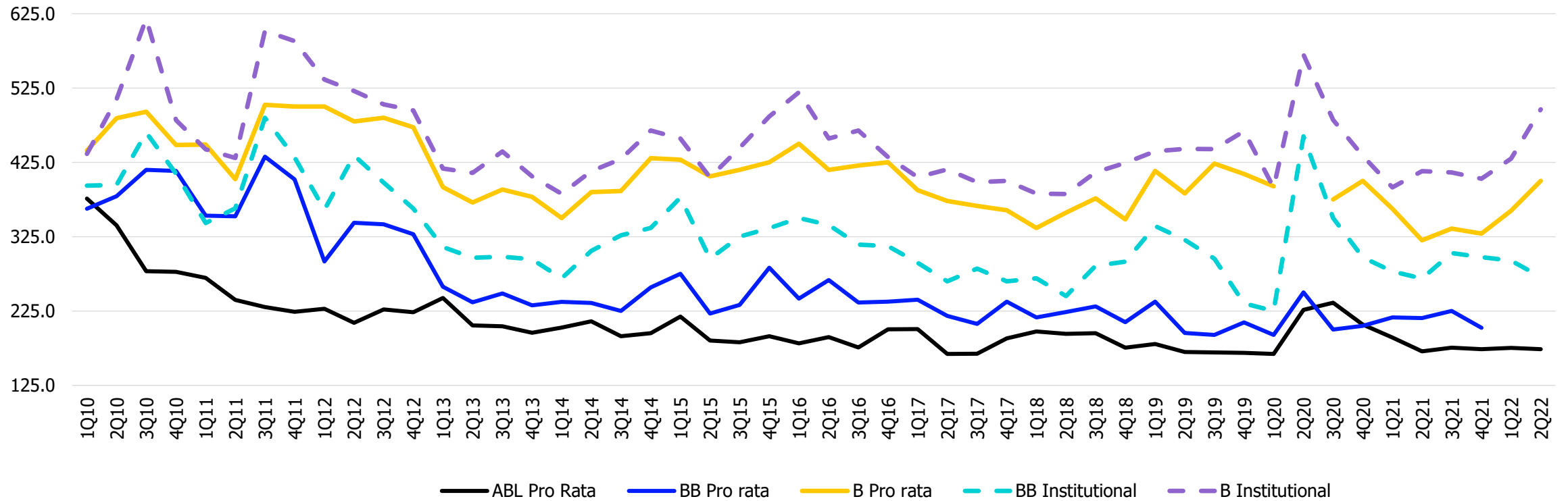
All-in drawn spread buckets (% by deal count)*



Credit spreads have increased in 2Q22

ABL pricing has remained stable and very attractive to issuers while other markets have gapped out

Average ABL pro rata vs BB/B pro rata cash flow spreads vs BB/B institutional spreads



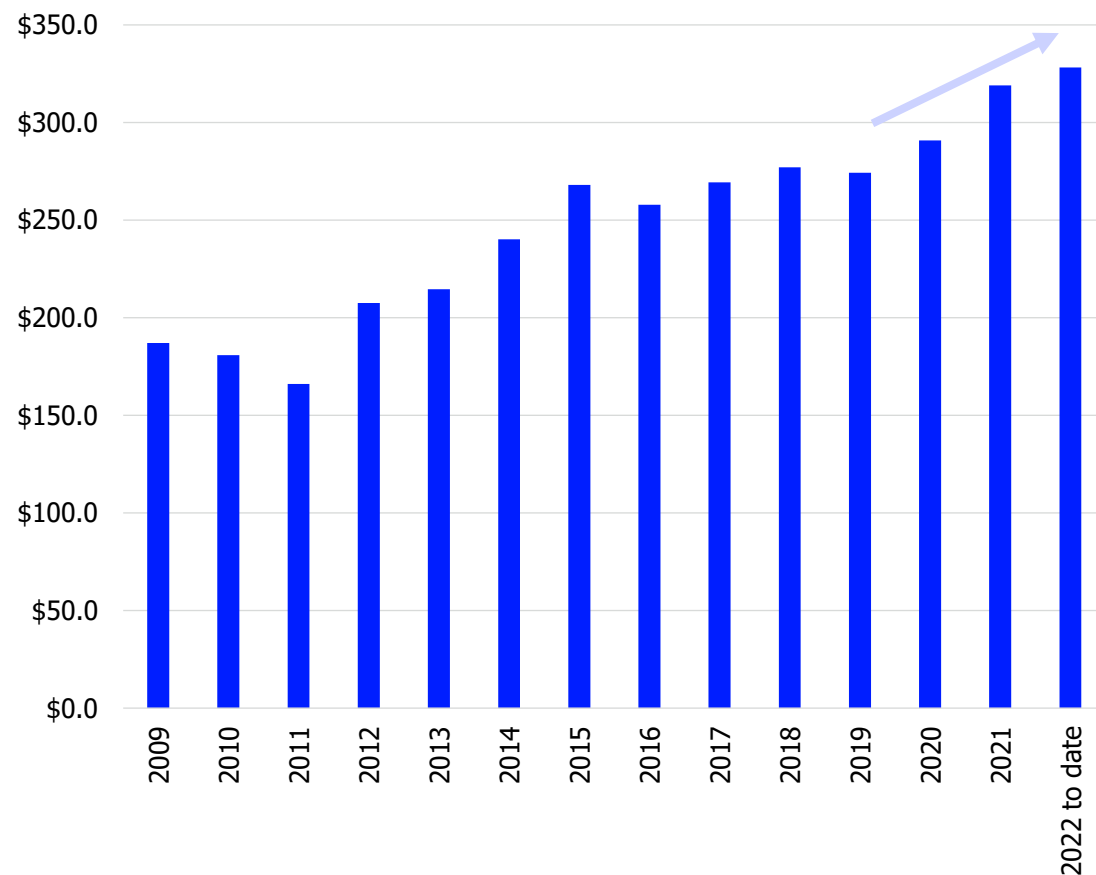
Committed ABL holdings remain near record highs

Outstanding ABL commitments reached a record high of US\$319bn at the end of 2021, only to mark a new record of US\$328bn at the end of 1H22

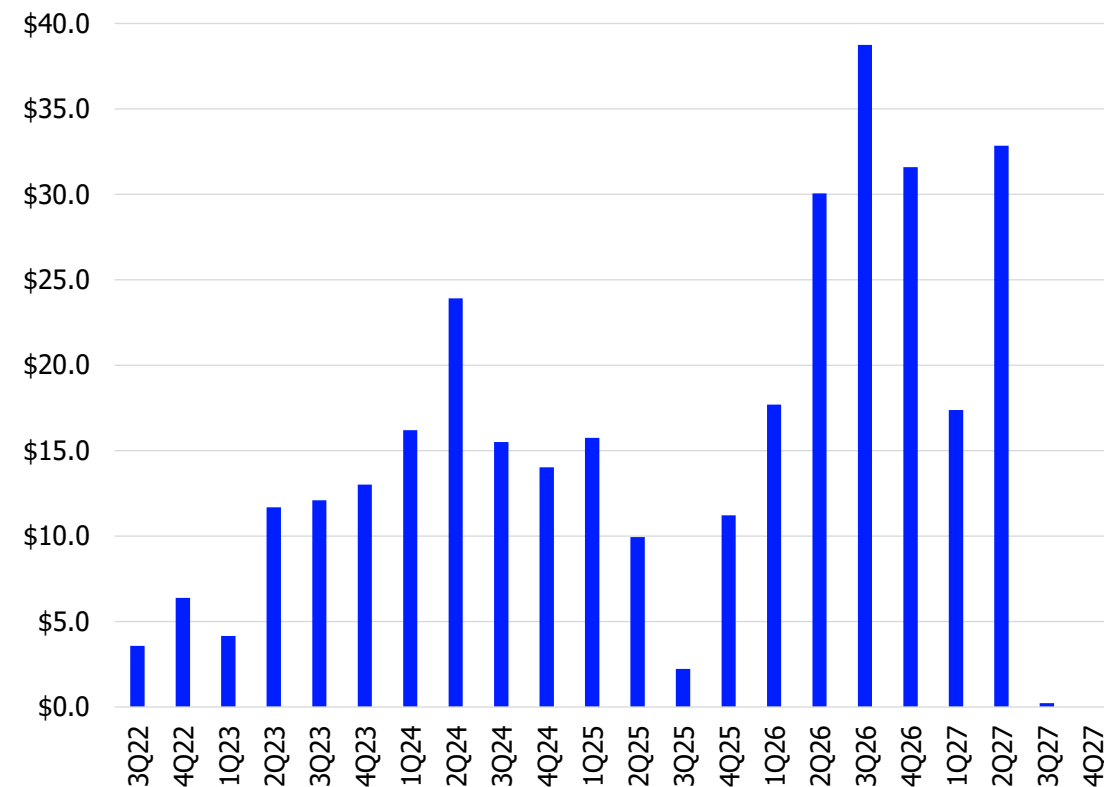
Over US\$222.25bn of ABL commitments or 68% of current outstanding commitments were issued in the last 18 months

Deals of US\$1bn or greater represent 39% of total outstanding commitments or US\$129bn via 67 financings. Among these, 51 represent issuers who have tapped the loan market in the last 18 months for commitments totaling US\$98bn or 30% of total ABL outstanding commitments

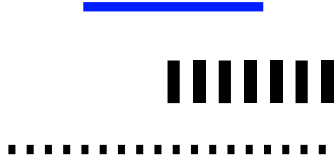
Outstanding ABL loan commitments (US\$bn)



ABL Maturing Volume (US\$bn)



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