

ABCC 2025 Capital Markets Extravaganza

February 12, 2025

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TO WORK



**Secured Finance
Network**

Agenda

- Economic Outlook – Lots to Digest
- High Yield Bonds and TLB: A Strong 2024 – Starting to Get Wild
- Direct Lending Continues to Thrive and Evolve
- Asset Based Market – Strong Demand And Limited New Opportunities Leave the Market Wanting More

Economic Outlook: Lots to Digest



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US Economics in One Chart

Economic Data	12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024
GDP Growth *	4.0%	7.0%	2.9%	3.3%	3.1%
Inflation (CPI)	1.4%	7.0%	6.5%	3.4%	2.9%
Fed Funds Rate	0.1%	0.1%	4.3%	5.3%	4.3%
SOFR	0.1%	0.1%	4.3%	5.4%	4.5%
10-Year Treasury	0.9%	1.5%	3.9%	3.9%	4.6%
Unemployment Rate	6.7%	3.9%	3.5%	3.7%	4.1%
High Yield Bond **	4.3%	4.4%	8.9%	7.4%	7.3%
Case Shiller Index ***	234.4	278.6	299.0	312.1	324.2
Consumer Sentiment Index	80.7	70.6	59.8	69.7	74.0
S&P 500	3,756	4,766	3,840	4,770	5,882

Source: Federal Reserve Bank of NY, Bureau of Labor, S&P, FRED, and University of Michigan

* Most recent GDP as of Sep-24.

** ICE BofA US High Yield Index Effective Yield

*** Most recent Case Shiller Index as of Oct-24.

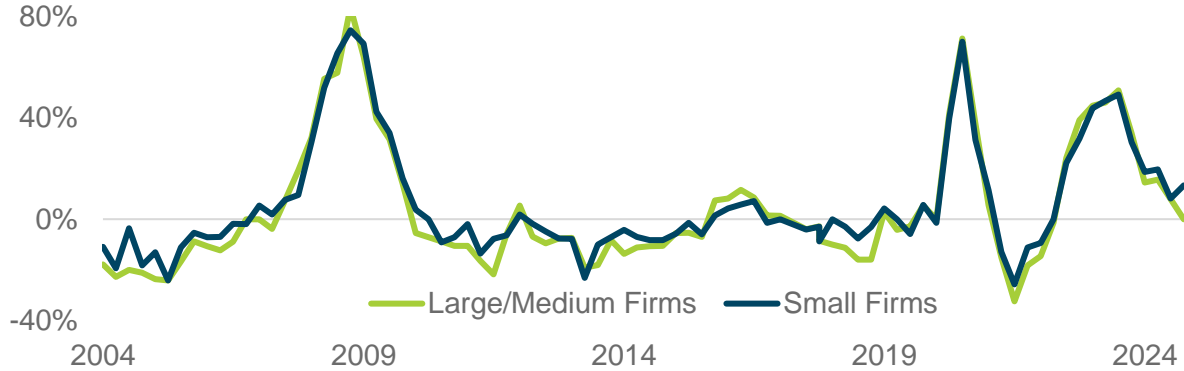
Senior Loan Officer Survey: Banks Finding Stable Footing

84% of Senior Loan Officers Surveyed by the Fed Reported Unchanged Credit Standards in November 2024

Large and MM Firms	All Respondents		Large Banks	
	Banks	Percent	Banks	Percent
Tightened Considerably	1	1.6%	0	0.0%
Tightened Somewhat	4	6.5%	1	4.2%
Remained basically unchanged	52	83.9%	22	91.7%
Eased somewhat	5	8.1%	1	4.2%
Eased considerably	0	0.0%	0	0.0%
Total	62	100.0%	24	100.0%

C&I Lending Standards Over Time

Net % of banks reporting tighter standards by size of firm seeking loans, higher percentage = tighter standards



C&I Lending Standard as of November 2024

L = Large Banks (>\$50 bn in assets), S = Small Banks (<\$50 bn in assets)

Standards for **large and middle-market firms**:



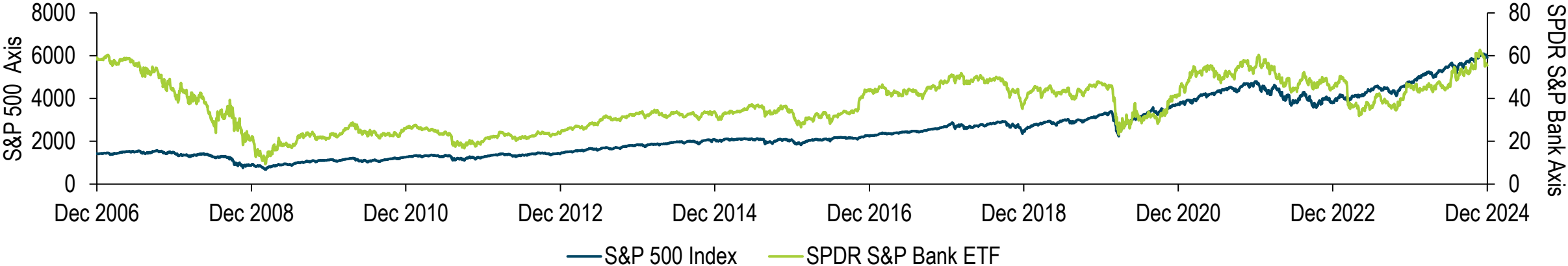
Standards for **small firms**:



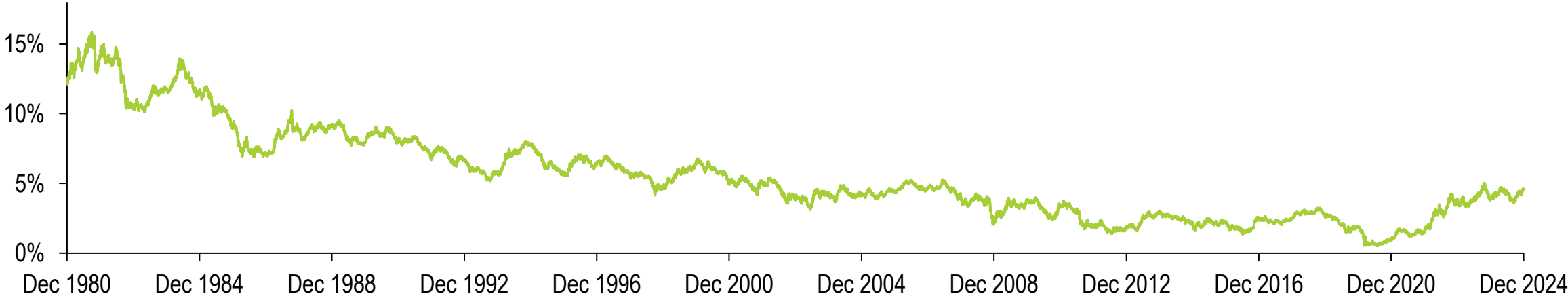
Source: Federal Reserve

Recent Bank ETF / Broader US Economy Performance

SPDR S&P Bank ETF / S&P 500 Index Historical Prices



10Y US Treasury Yield



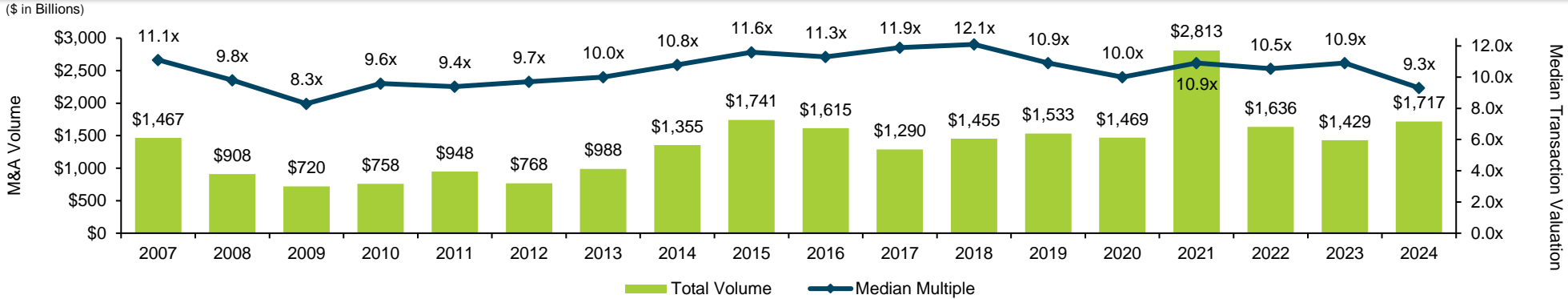
Source: Bloomberg

North American M&A Market Overview

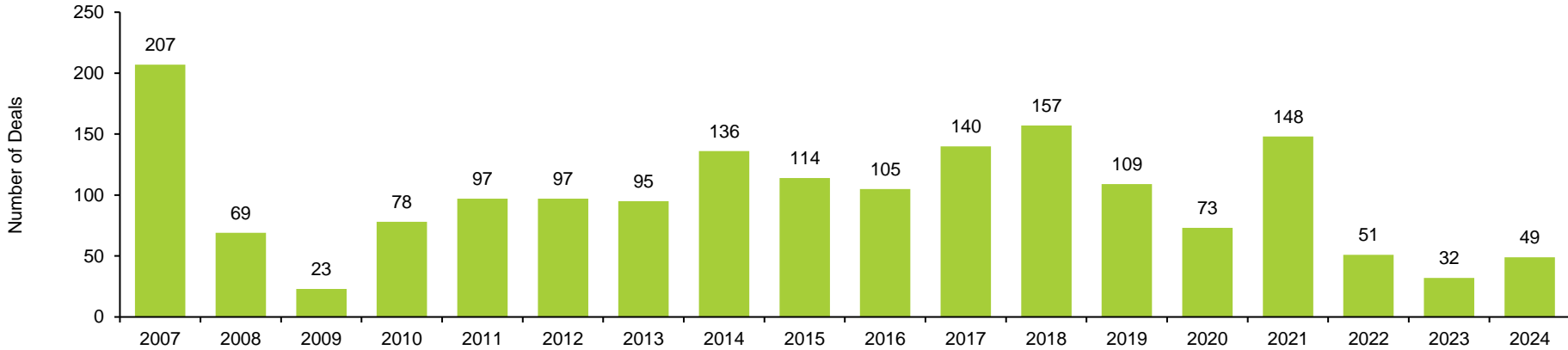
2024 U.S. M&A deal volume increased 20.1% compared to 2023

2024 U.S. LBO deal count increased 53.1% compared to 2023

Announced U.S. M&A Volume



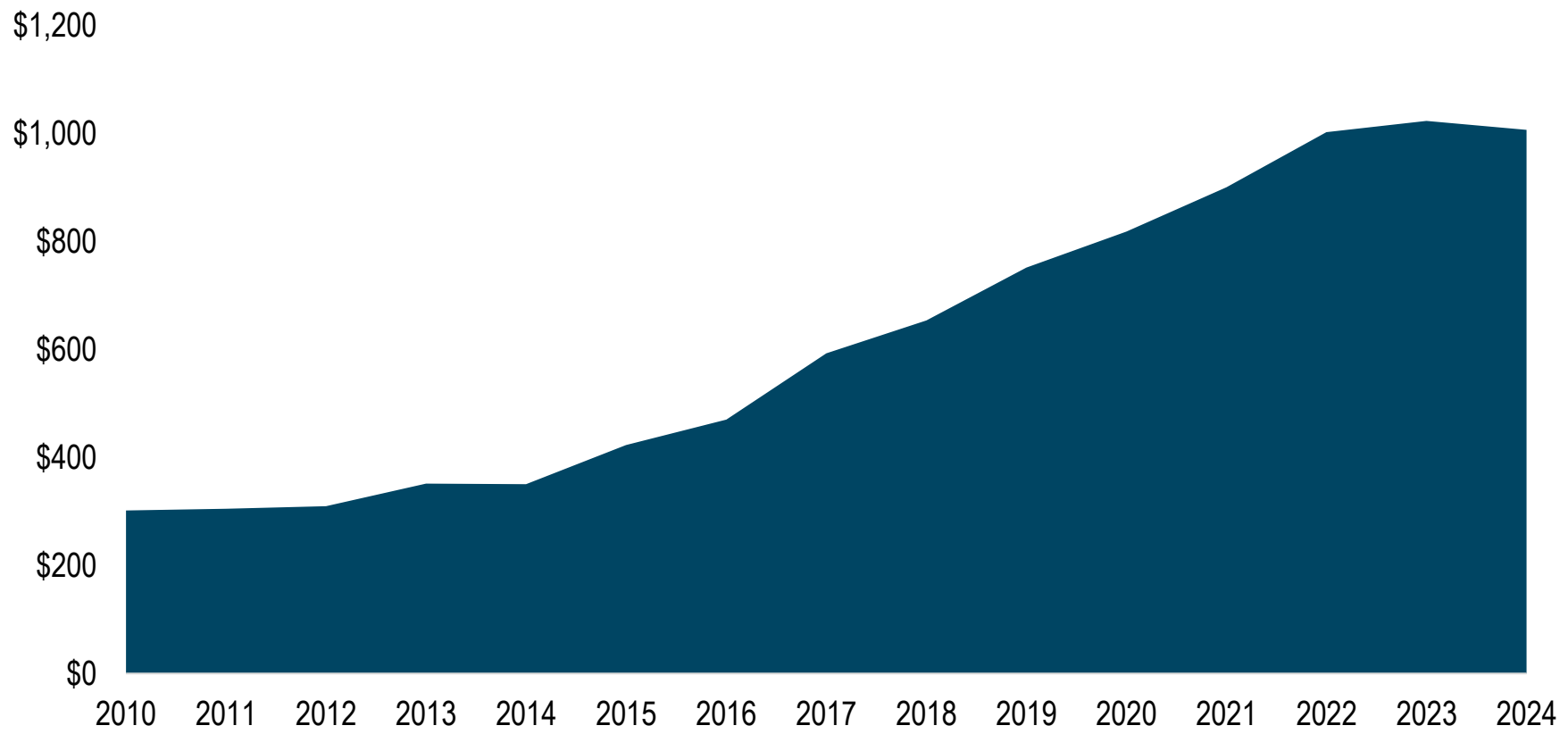
Announced U.S. LBO Activity⁽¹⁾



(1) Deal count excludes transactions with no size disclosed
Sources: Thompson, Bloomberg, Pitchbook | LCD

When Does This Get Put to Work?

US PE cumulative dry powder (\$B)

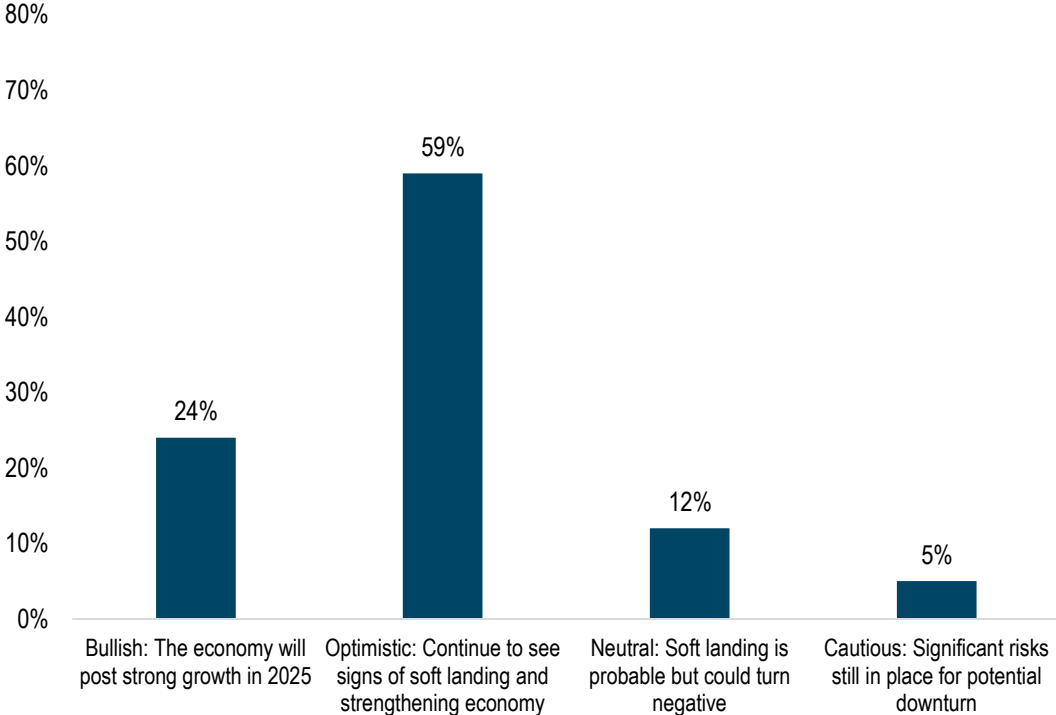


Source: Pitchbook | LCD

2025 U.S. Loan Calendar and Economic Outlook Surveys

Lenders across the credit spectrum are feeling good about the U.S. economy heading into 1Q25, with a combined 83% of survey respondents feeling either bullish or generally optimistic about economic prospects. A smaller 17% are more cautiously measured

U.S. Economy Outlook Survey Results



Source: LSEG LPC

M&A prospects were identified as the single most significant factor which may impact the 2025 US loans calendar by over 76% of survey respondents; Regulatory and economic policies, geopolitical concerns and risk of trade wars were also cited as critical factors by several survey respondents

What are the biggest factors that will impact the U.S. loans calendar in 2025?

- Return of large scale, leveraged M&A finance
- General optimistic tone in credit markets
- Interest rates
- Continued positive momentum for bank regulatory environment; Greater regulatory relief and/or clarity; Basel III E
- Anti-trust review
- Trump policy decisions
 - Economic policies that don't cause trade friction
 - Trade wars
- Steady refinancing volume
- Relative cost difference between the loan and bond markets (or other capital markets)
- Robust equity markets
- Geopolitics: Political unrest in Syria, Russia, Israel; Potential cybersecurity issues
- US economic growth
- Loan specific market conditions (lender appetite and return situation)

Poll the Audience

What will the 10 Year Treasury yield be on 12/31/2025:

- a) Less than 3%
- b) Less than 4%
- c) Same as now – 4-5%
- d) Greater than 5%

Panel Discussion

- What is your elevator speech explanation of the economy right now?
 - How has the elevated level of treasuries impacted the lending markets?
- What will be the key drivers for increased M&A activity?
 - How might the change in Administration impact M&A?

***High Yield Bonds and TLB:
A Strong 2024 – Starting to Get Wild***

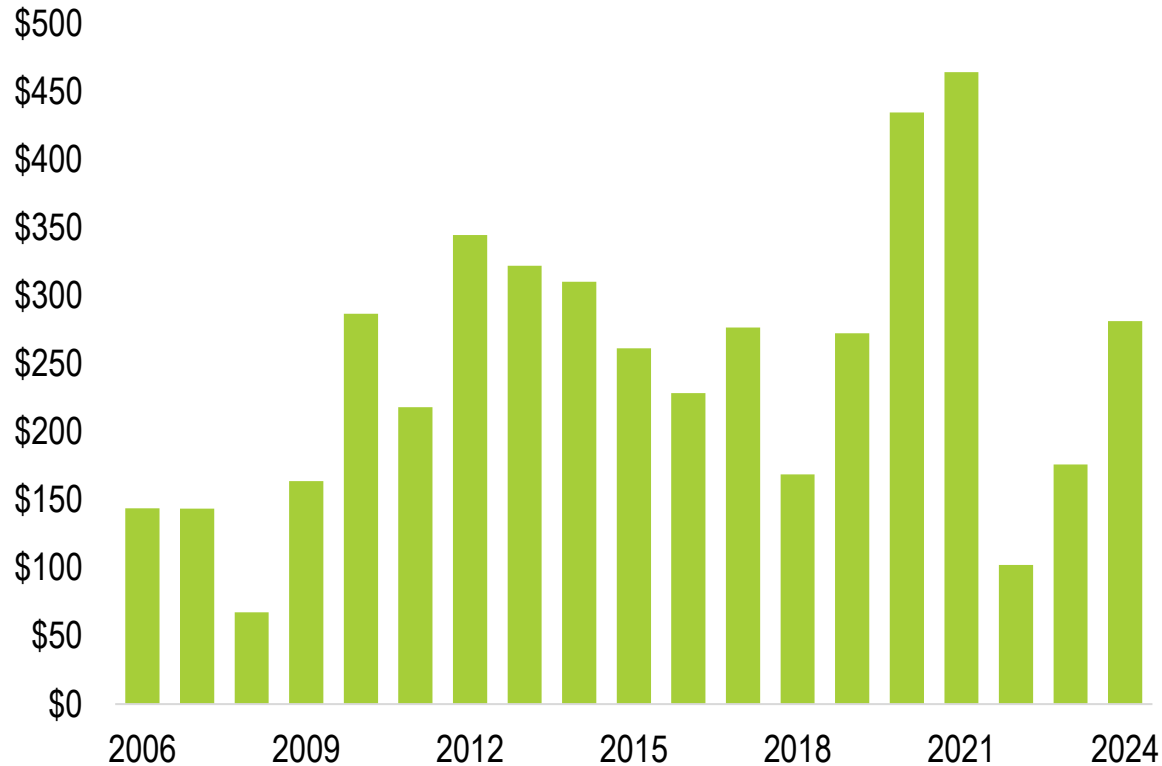


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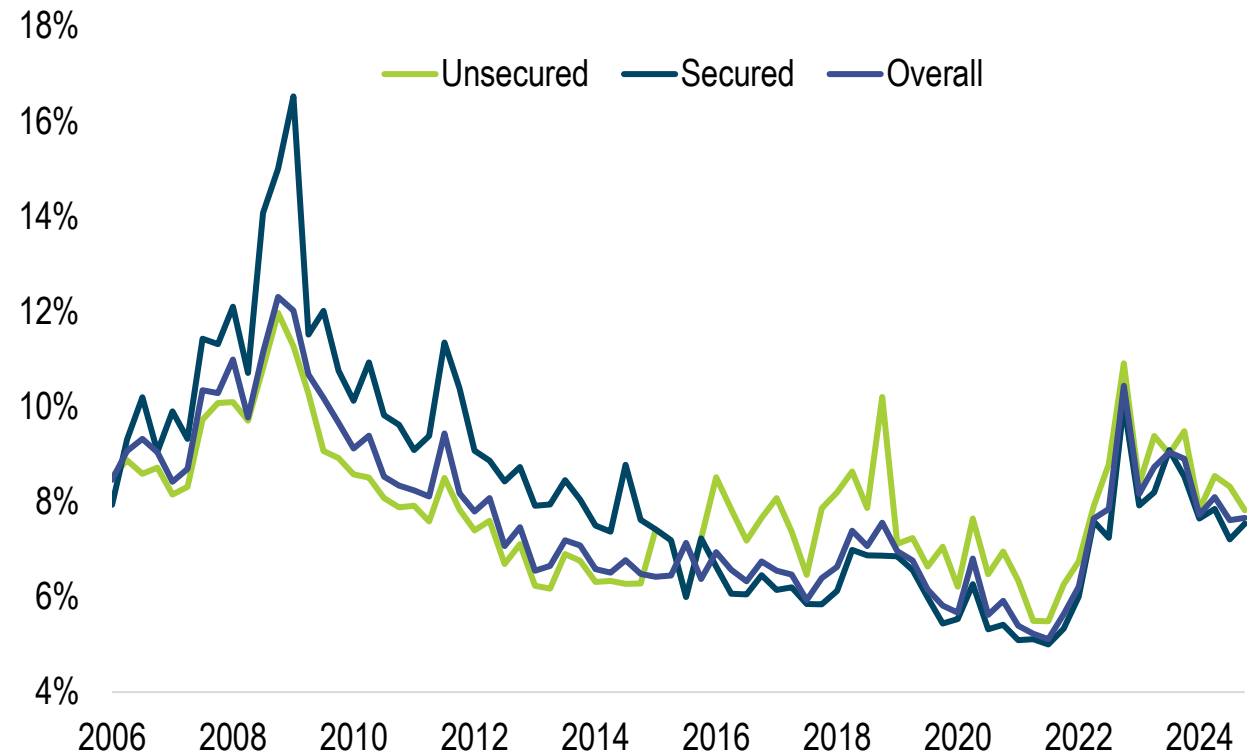
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High Yield Bond Issuance Rebounded in 2024, Yields Near All-Time Tight Levels Amid Strong Demand

US high-yield issuance, annual (\$B)



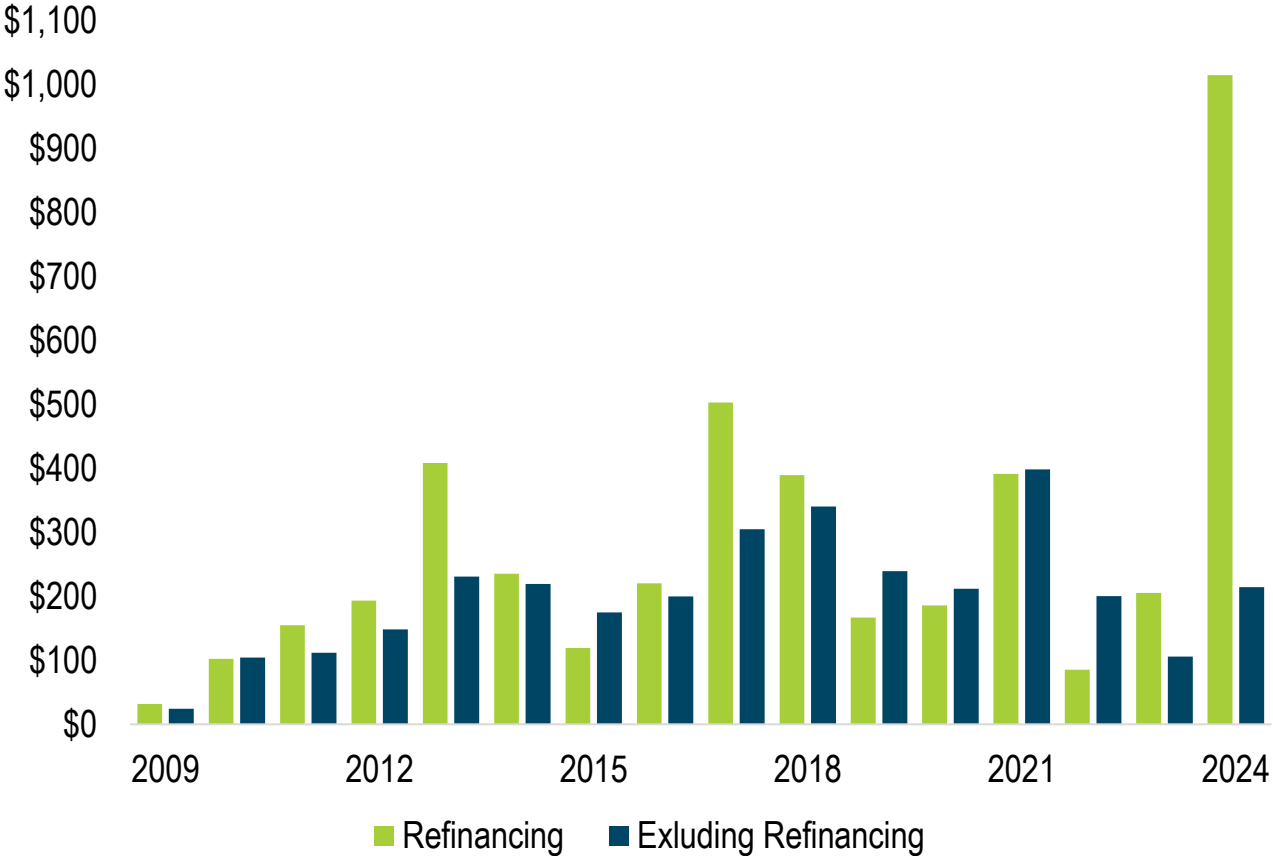
New-issue yields for US high-yield bonds



Source: Pitchbook | LCD

Institutional Loan Market Volume Exploded in 2024 Led by Historic Refinancings

Institutional loan volume (\$B)

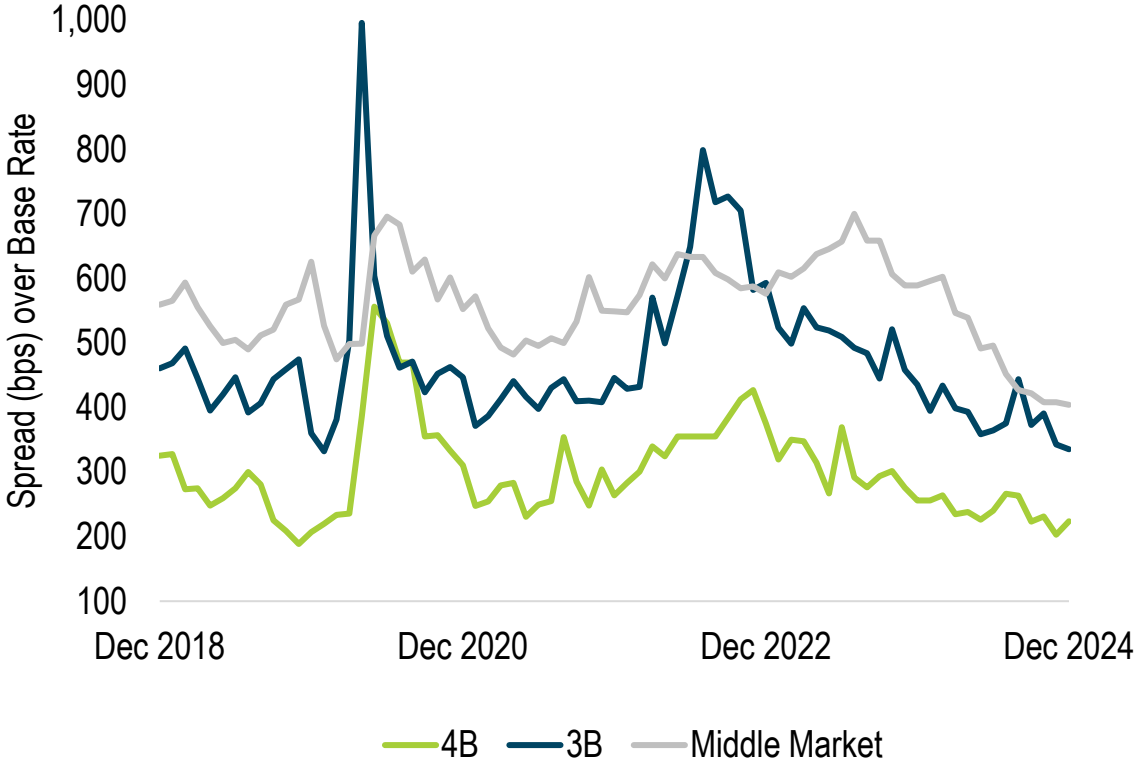


- Yearly volume up 295% from 2023 and 331% from 2022
- Lending activity in the last two years has begun to rebound with a wave of opportunistic refinancings in 2024
- New money institutional lending is up 103% from 2023

Source: Pitchbook | LCD

Q4 Showed Signs of Strengthening

All-in new-issue spreads for 4B/2B/Middle Market Issuers

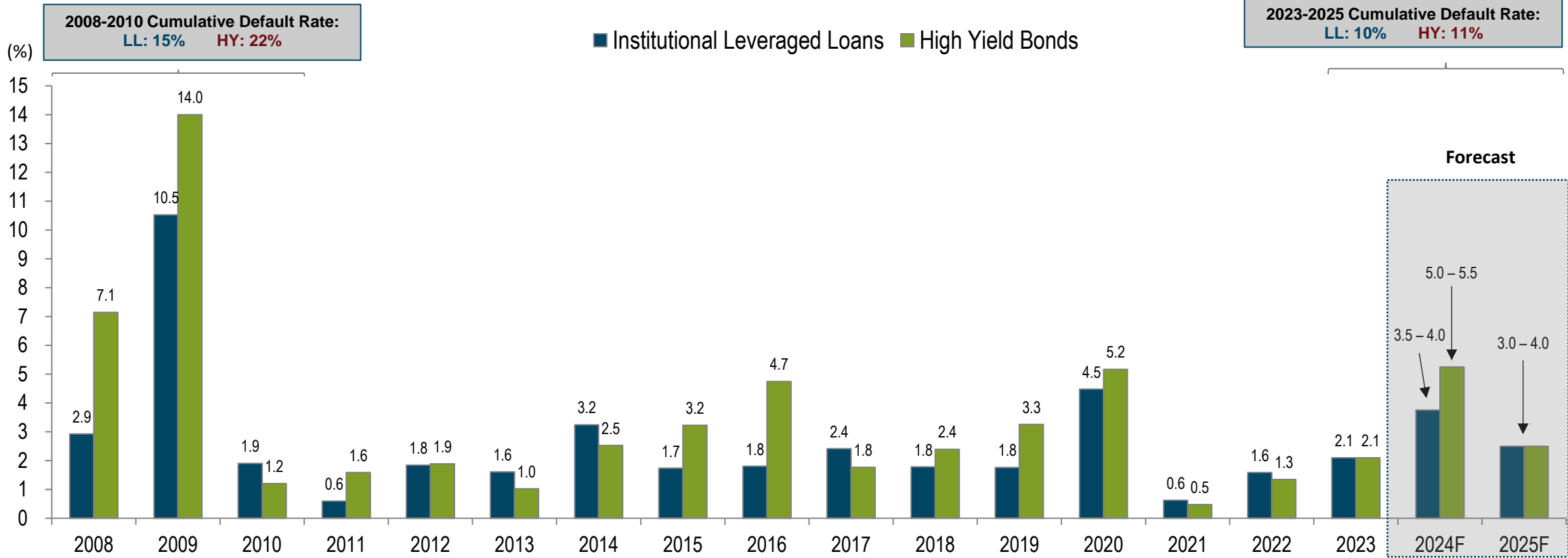


Weighted average bid price of US leveraged loans



Sources: Pitchbook | LCD, CreditSights

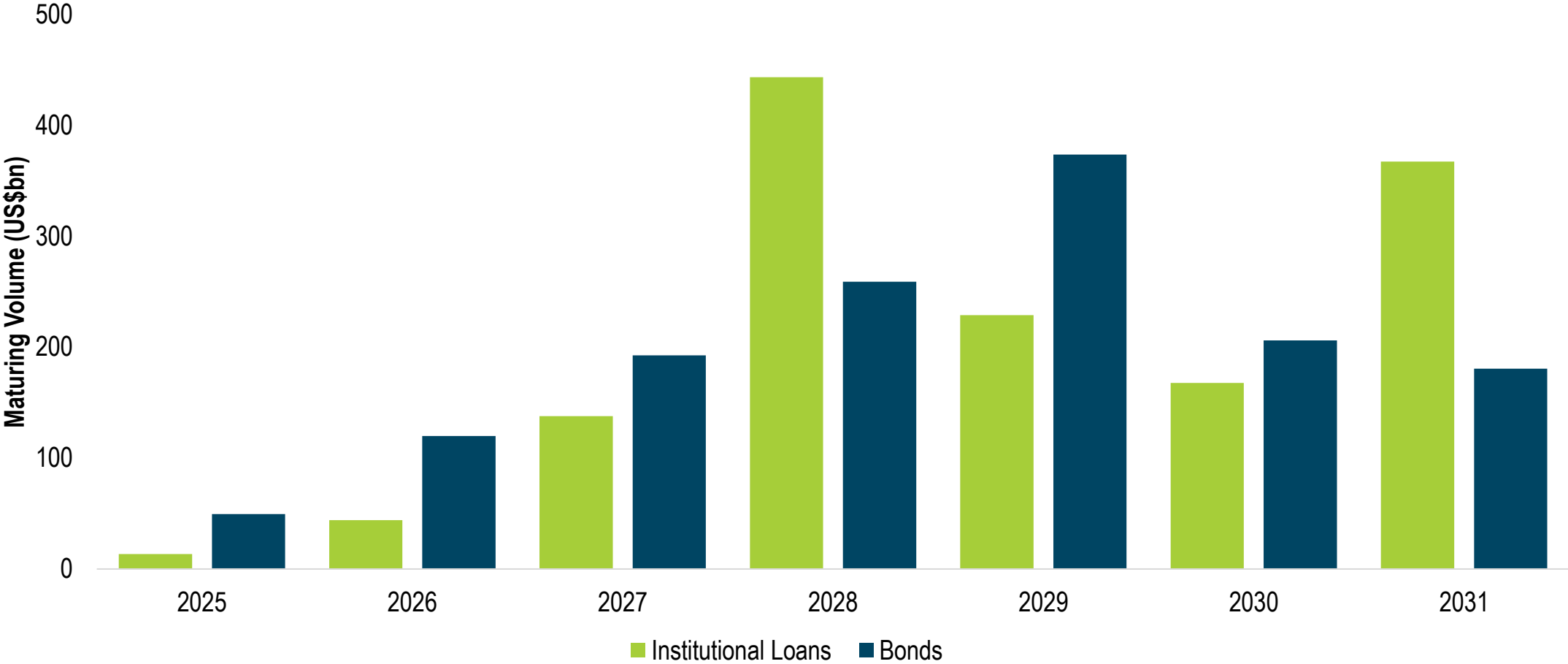
Bond and Loan Defaults Still Low But Increasing



Sources: Fitch, JP Morgan

Loan/Bond Maturity Wall Moves Sharply Outward

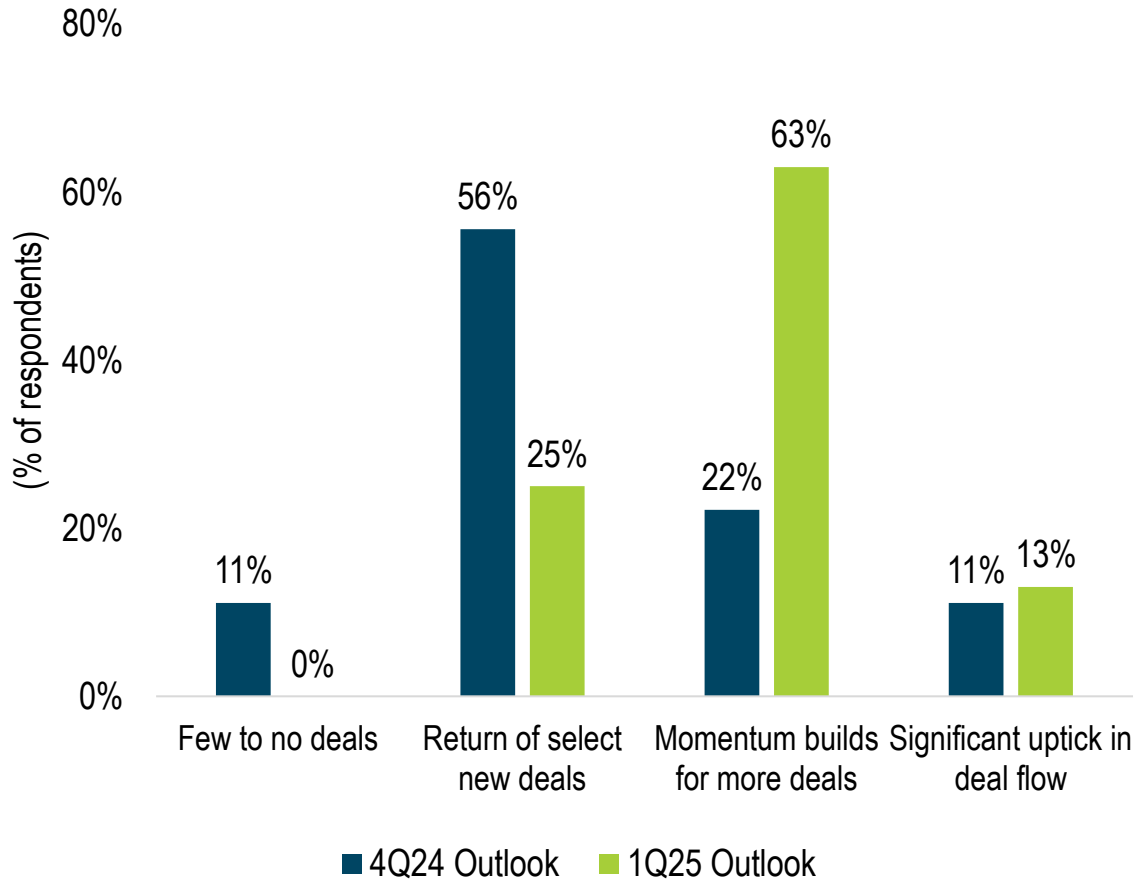
US leveraged loan maturity wall, 2025-2027 (\$B)



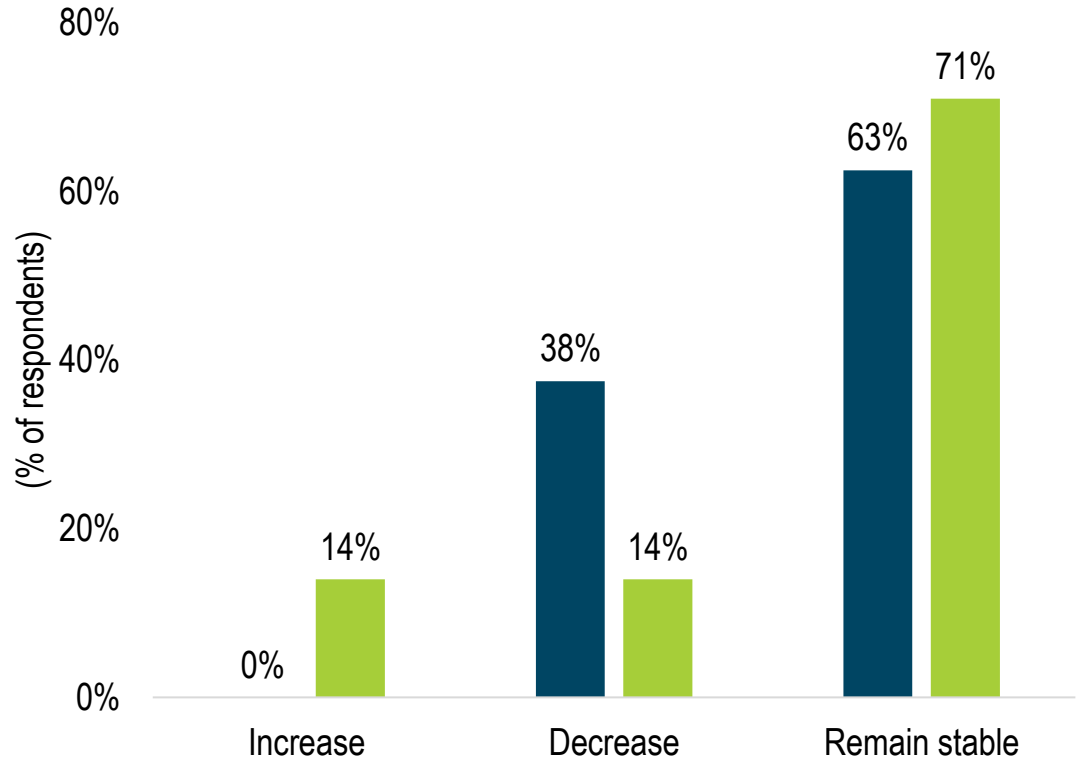
Source: Pitchbook | LCD

2025 M&A/LBO Deal Flow and BSL Leveraged Loan Spreads Outlook

Predictions on M&A/LBO deal flow in 2025?



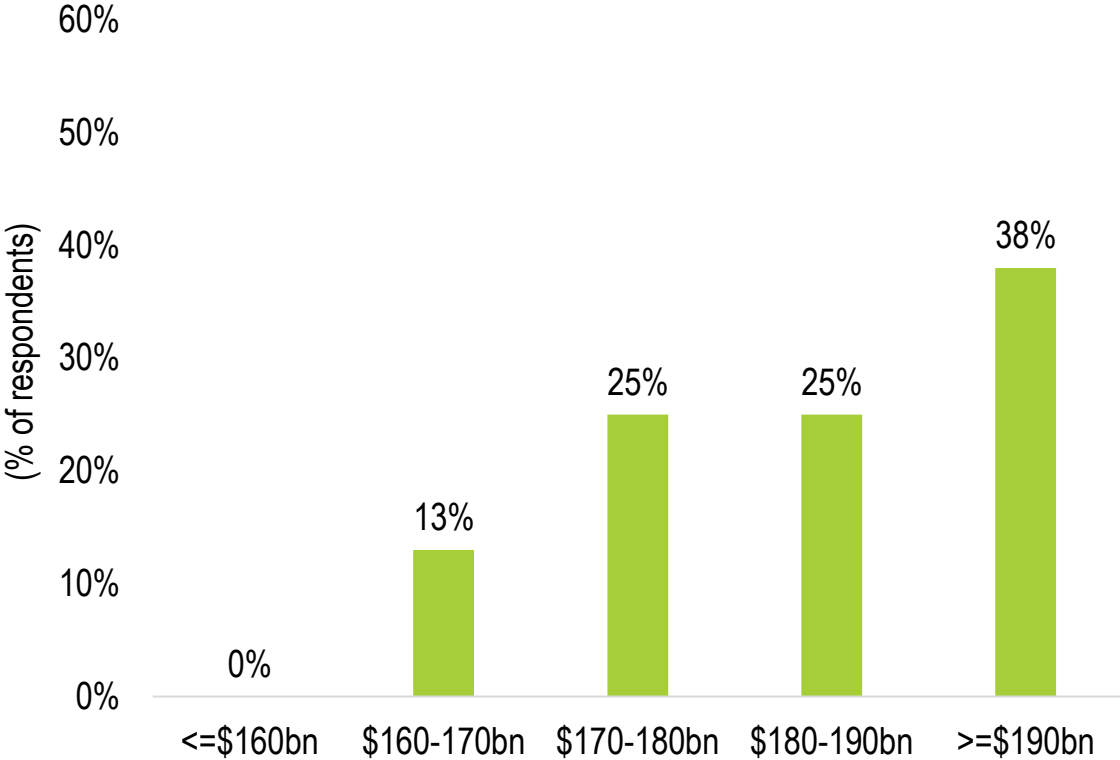
What will happen to BSL leveraged loan spreads?



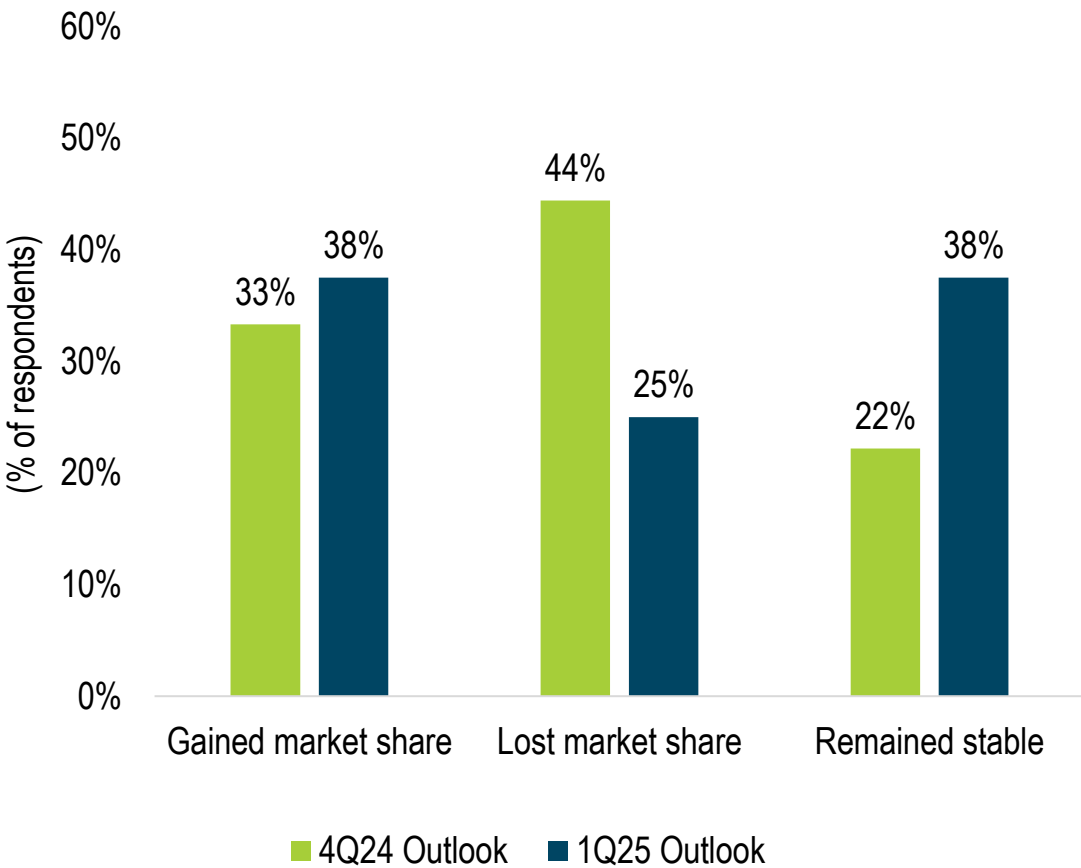
Source: LSEG LPC

2025 New CLO Issuance Outlook and Direct Lender Surveys

Predictions on total CLO issuance for 2025?



How has the role of direct lenders changed this year?



Source: LSEG LPC

Panel Discussion

- Supply and Demand are out of balance in both bonds and loans and its leading to a very aggressive market – How aggressive it in historical terms?
 - What are the implications in terms of pricing and structure looking forward
 - Will we see Delayed Draw term loans, PiK Toggles, CCC's?
 - What is happening to terms overall?
 - Are Banks also getting more aggressive? How so?
- How aggressively are banks providing bridges for upcoming M&A?
- Talk about the back and forth financings between BSL and direct lending – which is more prevalent?

Direct Lending Continues to Thrive and Evolve



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Direct Lending: Pros vs. Cons - modify

Pros
No execution risk
No flex; No ratings
Creative structures Higher leverage?
Tight lending relationships
Quick close

Sponsor Perspective

Cons
Higher interest rates
More Structured
Few comps
More Structure

Pros
Higher yields
More Structured - No flex
Quick close
Tighter club to work with

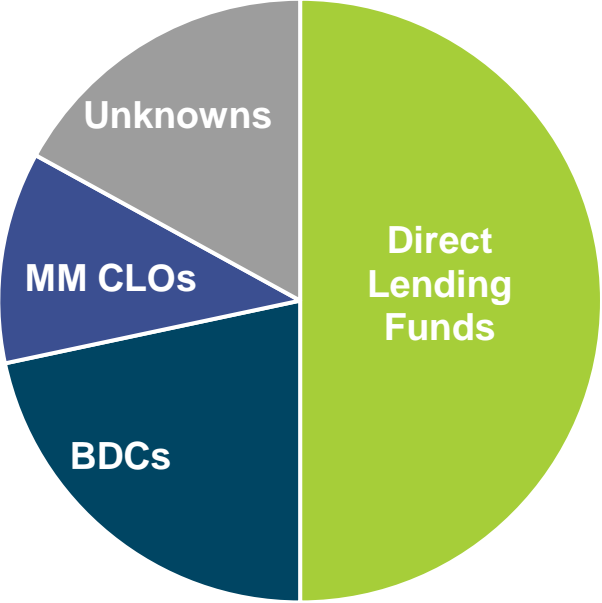
Investor Perspective

Cons
Illiquid
Opaque marketplace
Few comps

KBRA DLD Estimates Direct Lending Market at \$1.4 Trillion

Roughly the same size of the US syndicated leveraged loan market. Unlike liquid credit or high yield, tracking capital is harder. Direct lending loans are closely held, not widely distributed, and ratings are absent, so there are no public ratings or research to view.

US Direct Lending Universe



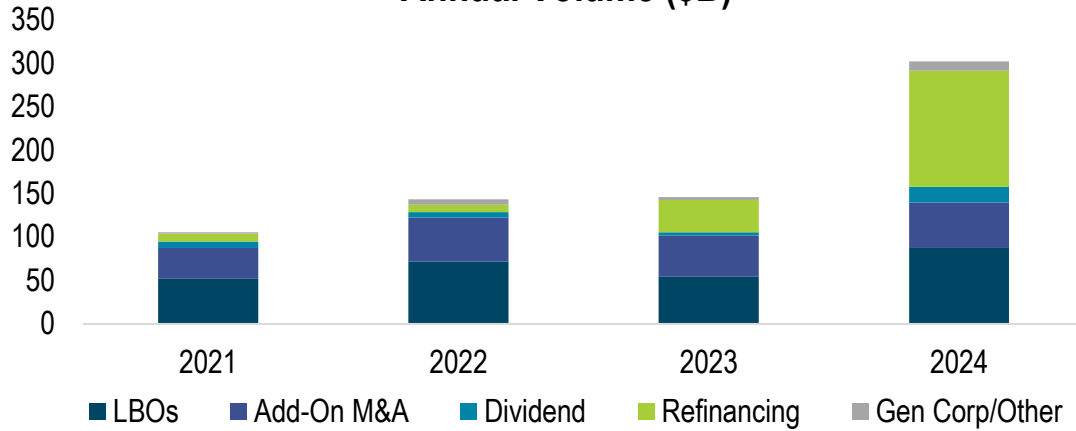
Excluded Asset Classes

- Junior/Sub/Blended strategies
- Asset-based
- Distressed/Special Sits
- Mezzanine
- Venture debt
- Infrastructure
- Real Estate

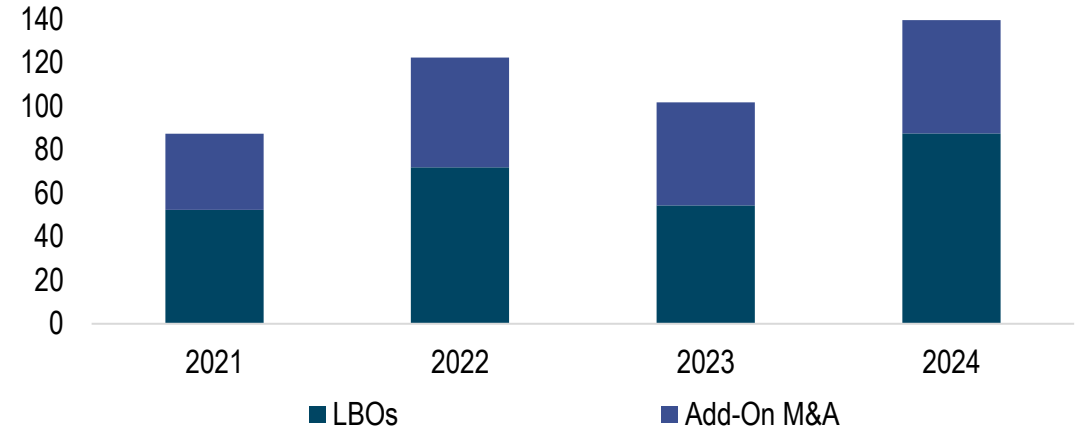
Sources: KBRA DLD; BDCs: Solve; DL Funds: Pegin

2024 Direct Lending Issuance Doubled to \$302B Including \$140B in M&A Financings

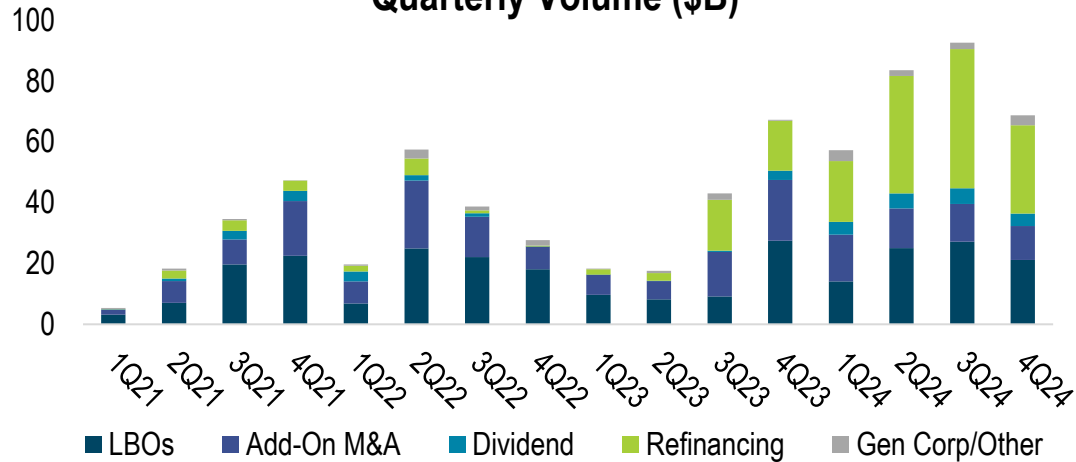
Annual Volume (\$B)



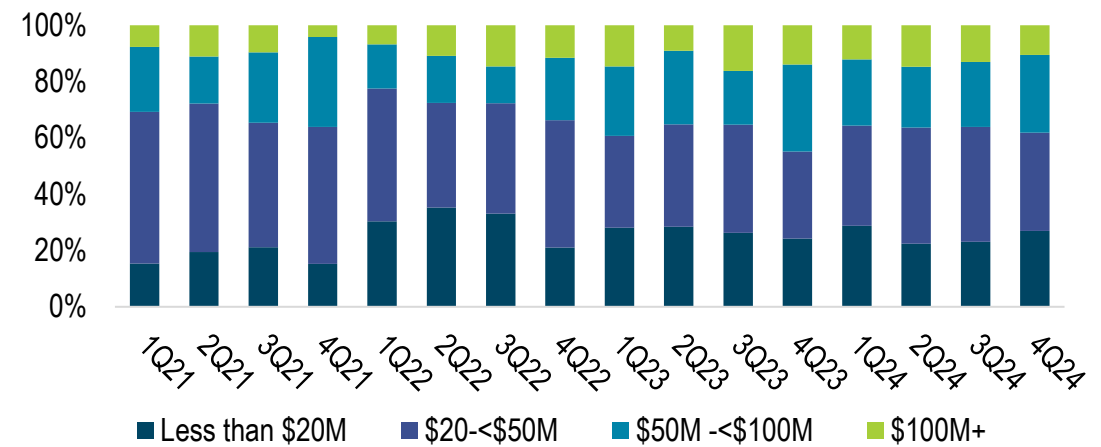
M&A Volume (\$B)



Quarterly Volume (\$B)



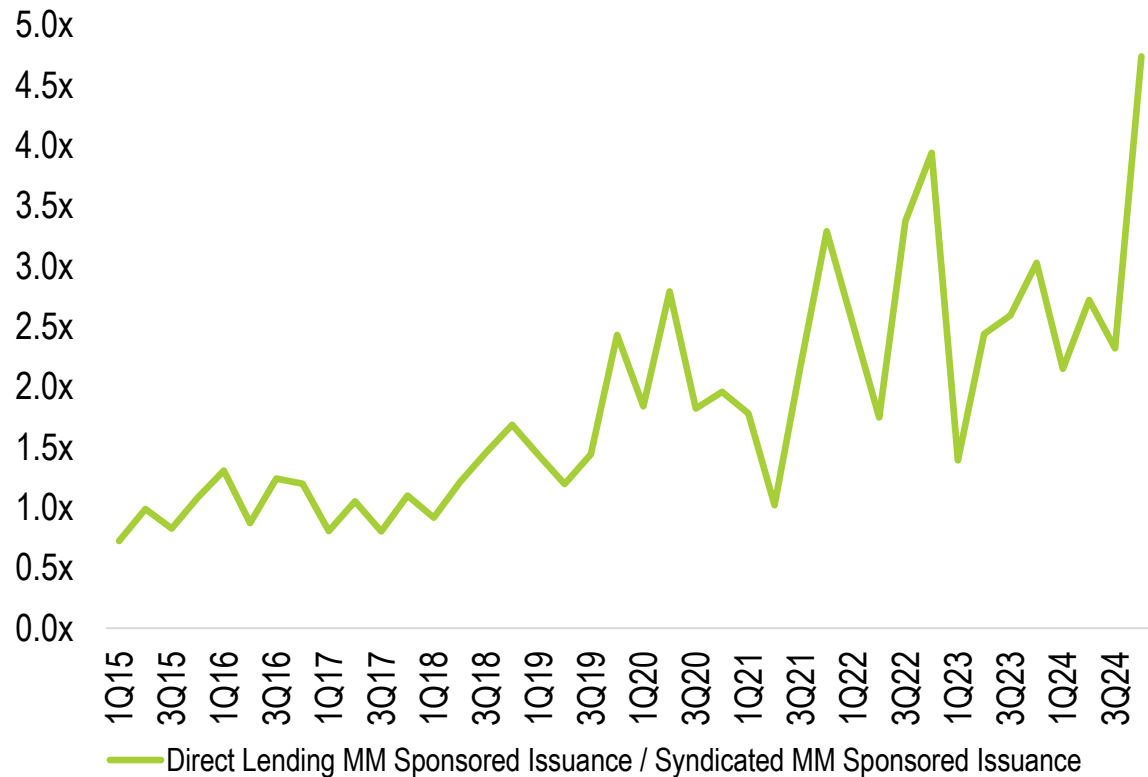
M&A Deal Counts by EBITDA



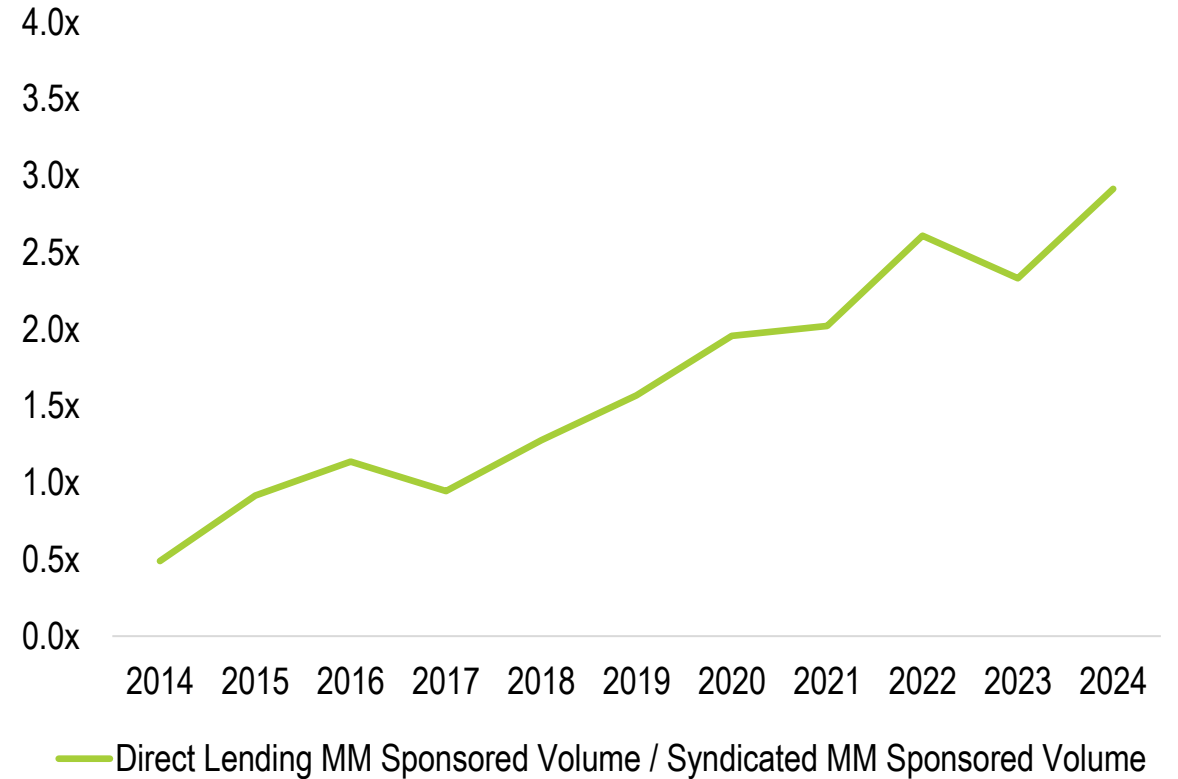
Source: KBRA DLD Private Data

On a Full Year Basis, Direct Lending Issuance Was 2.9x Greater than Syndicated Lending in 2024

Sponsored MM direct lending volume relative to spons. syndicated MM volume (x:1)



Sponsored MM direct lending volume relative to spons. syndicated MM volume (x:1): annual



Sources: LSEG LPC

The \$400MM Club

Holds have risen since 2022 and 2023 due to dearth of deals, low defaults and a steady stream of fundraising

The managers below have the capacity to hold at least \$400MM per borrower

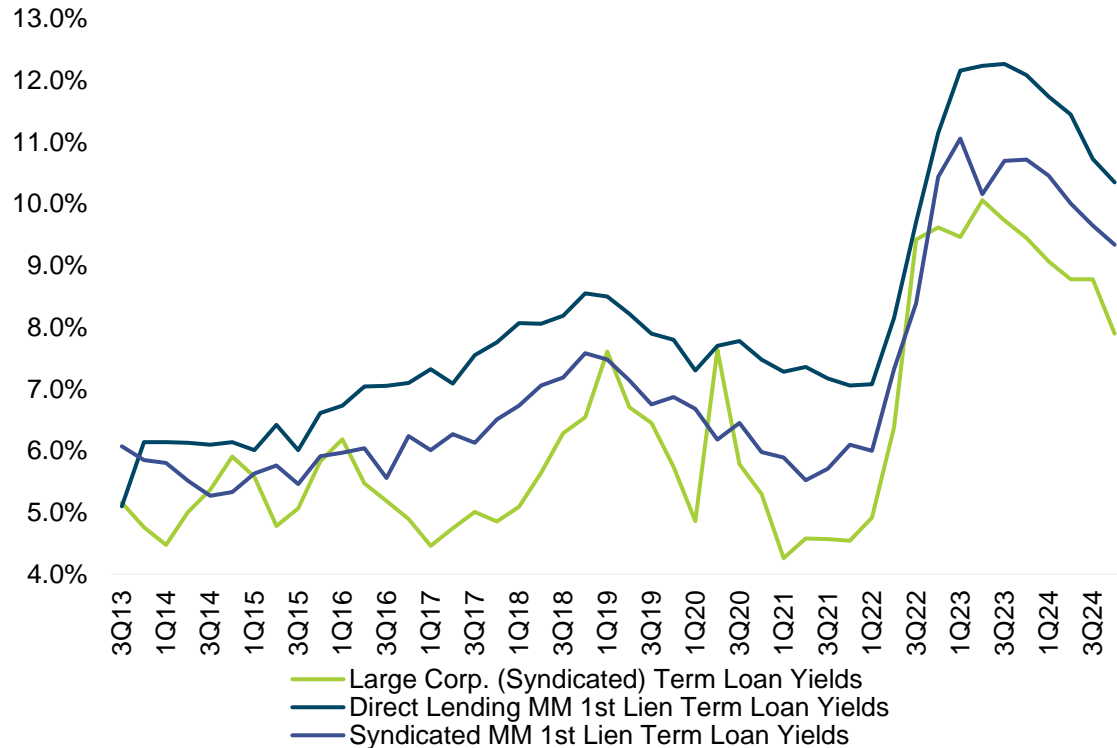
Antares Capital	Apollo	Ares Capital
Blackstone Credit	Cerberus	Crescent Capital
GIC (Singapore Sovereign)	Goldman Private Credit	Golub Capital
HPS Investments	Intermediate Capital Group (ICG)	KKR Capital
MidCap Capital	Owl Rock Capital	Oak Hill Advisors
Partners Group	PSP Investments	

Sources: KBRA DLD Private Data

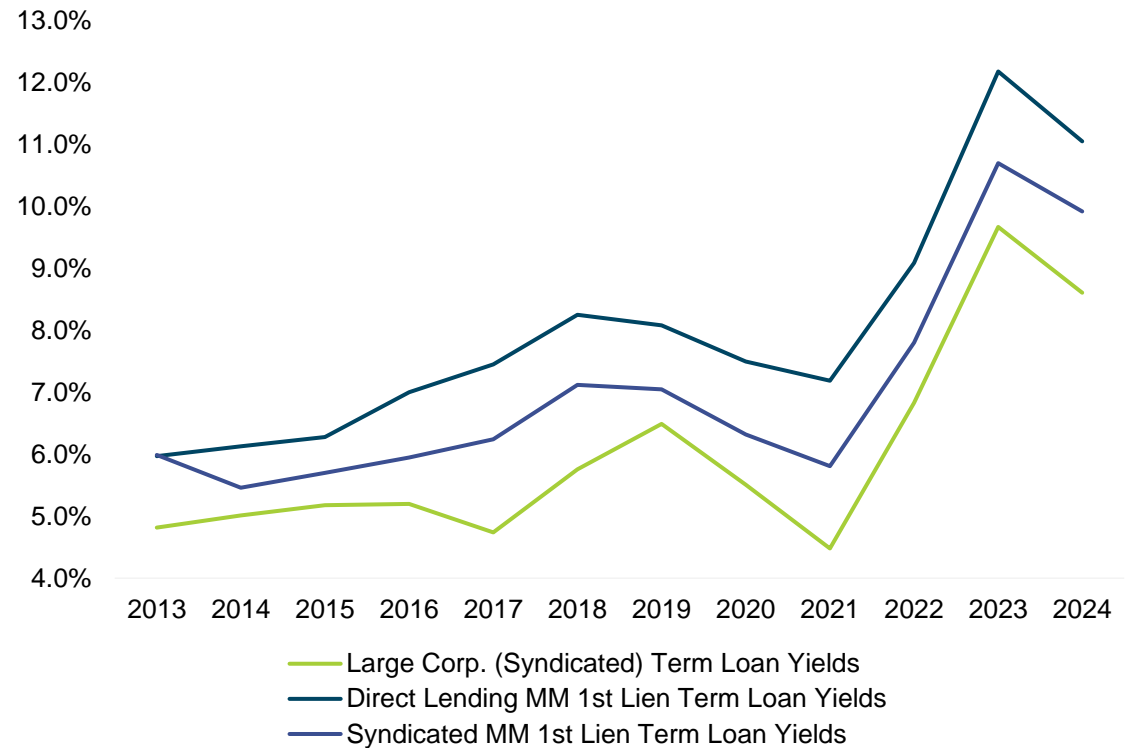
The Yield premium for Direct Lender-led Sponsored Transactions Widened in Q4 As BSL Strengthened

The avg. all-in-yield on all first-lien MM term loans (including unitranches) for direct lender-led deals tightened by 38bp to 10.35% in 4Q24, with syndicated MM terms loans tightening by 31bp to 9.34% and large corporate yields declining by 88bp to 7.90%

First-lien term loan yields (3-year) - quarterly



First-lien term loan yields (3year) - annual

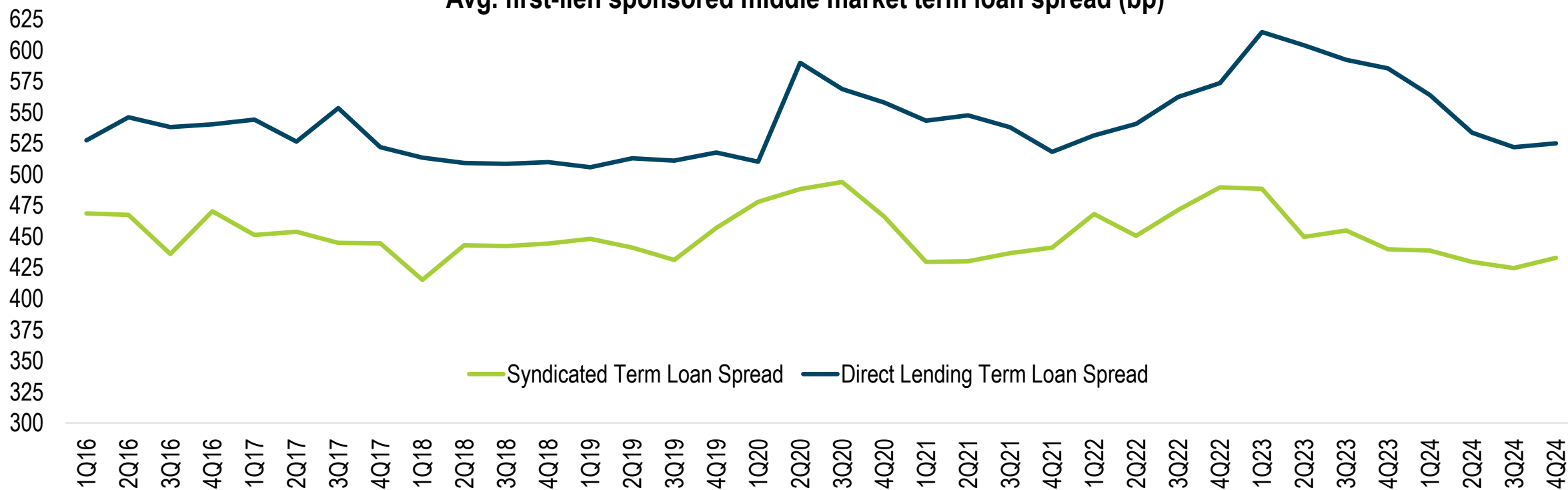


Note: analysis includes unitranches; beginning 1Q22, data includes LIBOR and SOFR based deals
Sources: LSEG LPC; KBRA DLD

Spreads on Both Direct Lending and Syndicated Term Loans Widened Modestly in 4Q24 Amid a Flurry of New Loan Assets, but Tightened YoY

Average spreads on middle market direct lending deals edged up modestly in 4Q24 increasing just over 3bp to 525bp; In the syndicated middle market, spreads also moved up, increasing over 8bp to 433bp

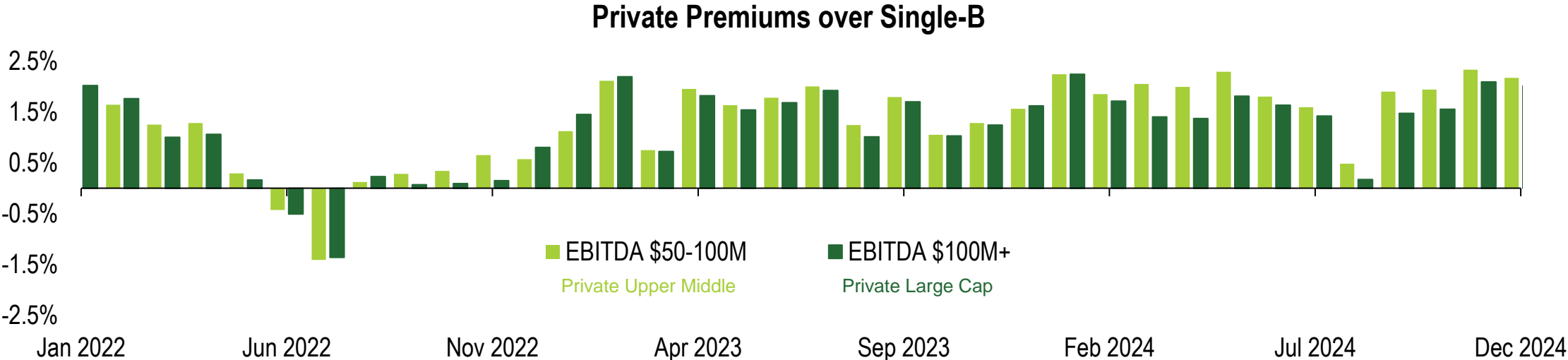
Avg. first-lien sponsored middle market term loan spread (bp)



Note: excludes unitranche and second-liens; beginning 1Q22, data includes LIBOR and SOFR based deals; spreads do not include CSAs unless it was embedded in the spread
Sources: LSEG LPC; KBRA DLD

Private Yield Premiums

Private debt premiums gapped out in late 2024 as BSL spreads tightened



Sources: KBRA DLD Private Data: 3-months rolling averages for 1L term loans, 37Y YTM; BSL & HY: Pitchbook LCD YTM

Panel Discussion

- How do you think about the competitive landscape between BSL and Direct Lending? Is there trend favoring one market over the other?
- With so much fund raising activity in direct lending, what is the difference between haves and have nots?
- On larger exposures how are large funds achieving diversification?
- How will this landscape look in 5-10 years?
- There have been numerous announcements of joint initiatives by banks and private credit funds - How have these done so far?

***Asset Based Market – Strong Demand
And Limited New Opportunities Leave
the Market Wanting More***



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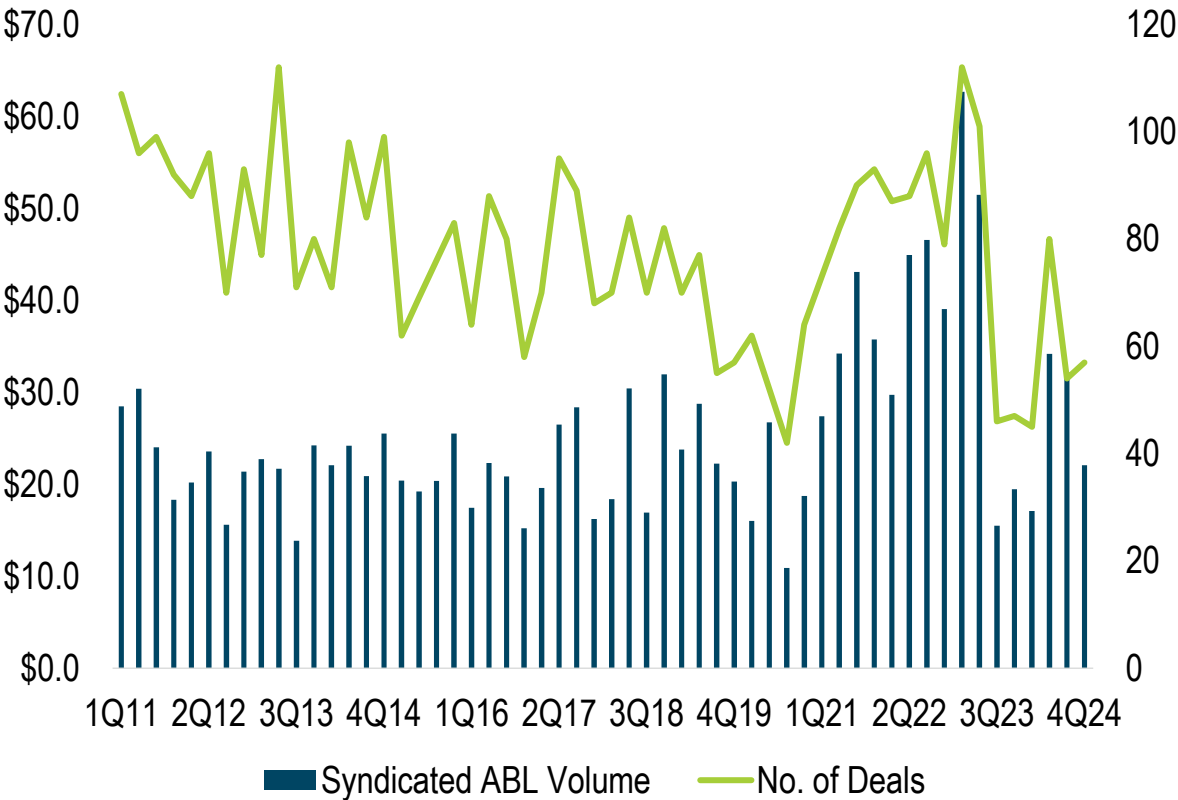
Overall Market Comments

- Banks have pivoted from concerns over liquidity and credit to a focus on growth
- Many stronger issuers began coming back to market in late 2024 to address upcoming maturities – expect much more in 2025
- M&A has been muted but expectations are growing with the change in administration
- With strong demand and limited new money supply, market has largely returned to the borrower friendly terms of 2021 and first half of 2022

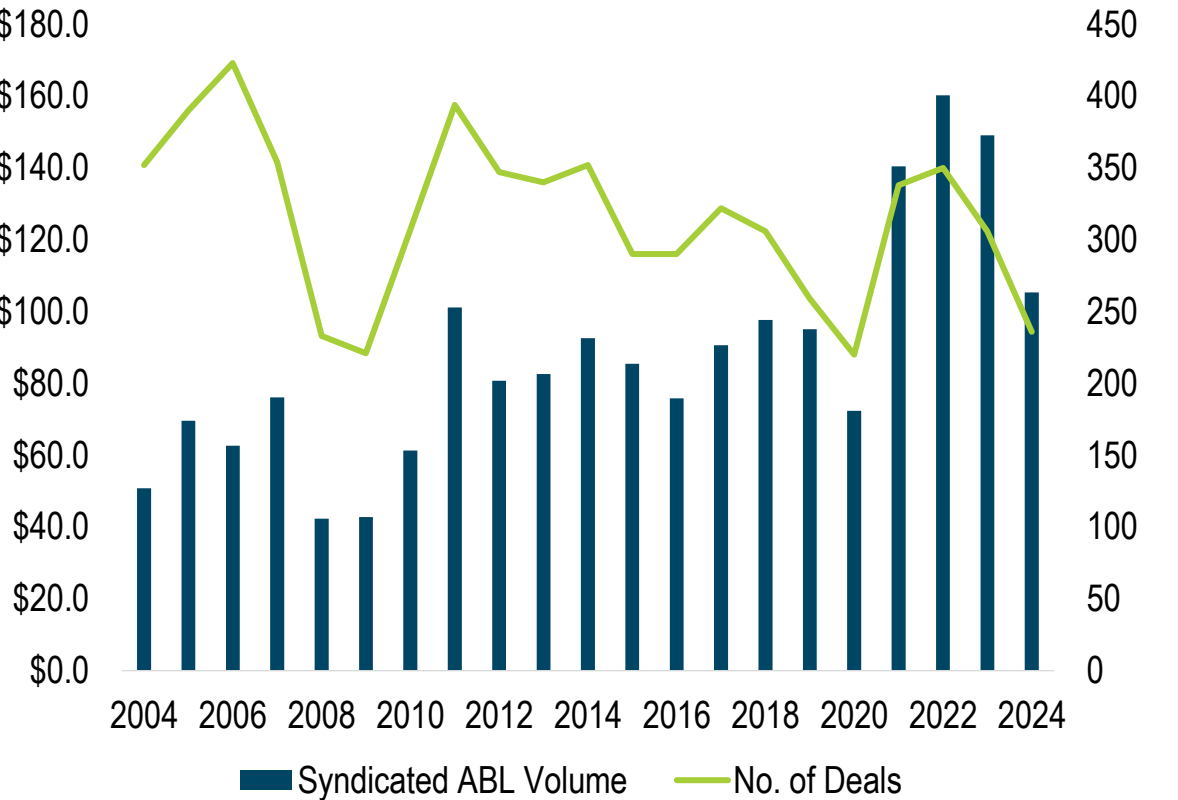
Syndicated ABL Volume Returns to Normal Levels

2024 ABL volume and deal count was reminiscent of a more normalized calendar year, unencumbered by the flush of Libor replacements which had skewed the pipeline since 2021. At over US\$105bn, total issuance for the year marked the fourth highest total on record

Quarterly Syndicated Loan Volume (US\$bn)



Annual Syndicated Loan Volume (US\$bn)

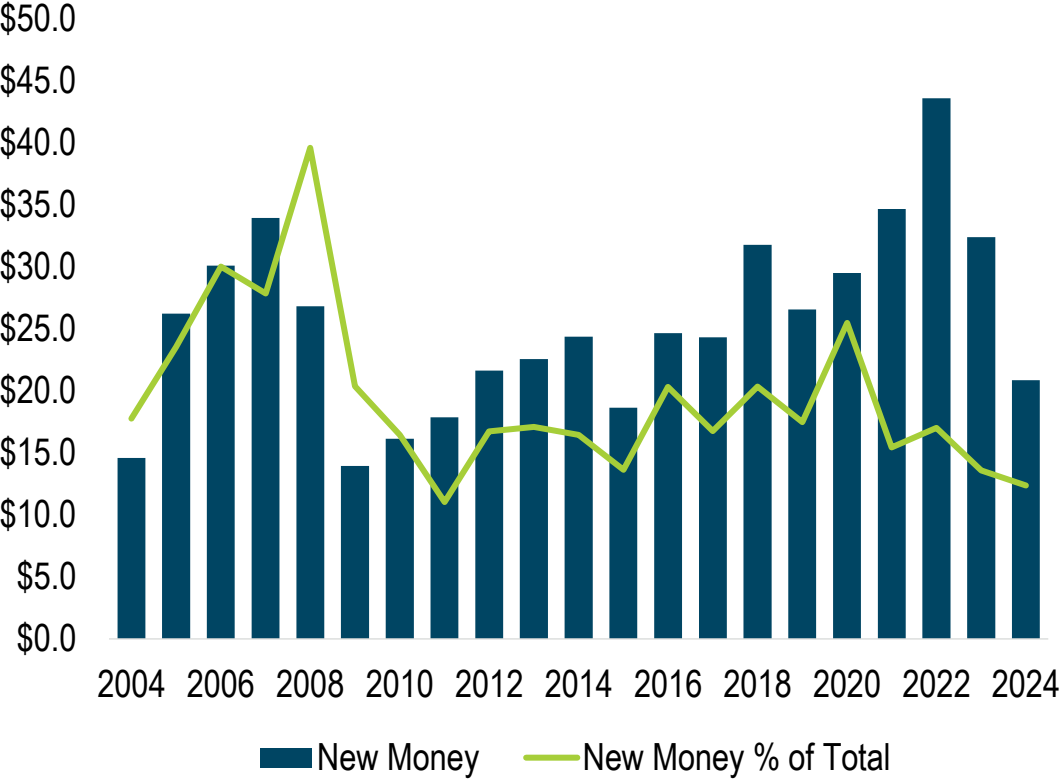


Source: LSEG LPC

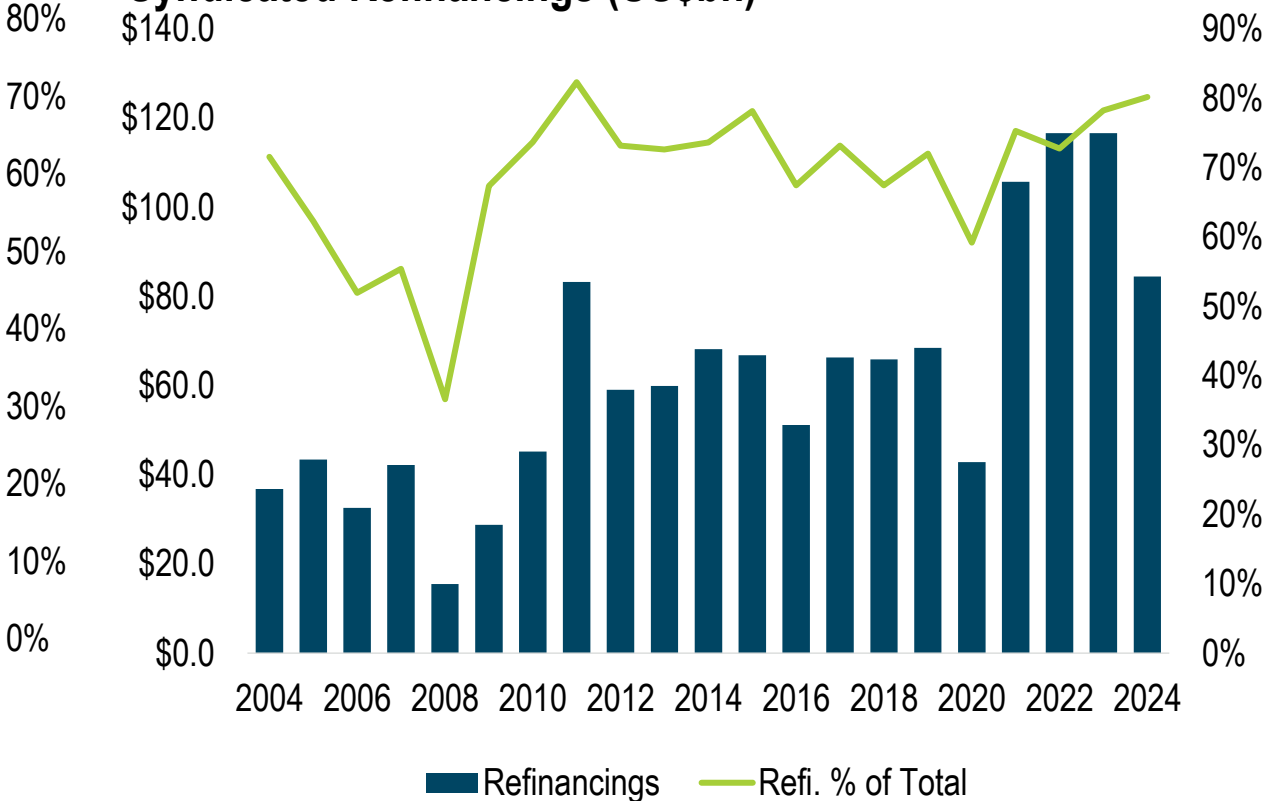
2024 New ABL Down nearly 26% YoY

New money represented less than 20% of total issuance for the year, the smallest pro rata share of the market in 13 years. At US\$84.5bn, refinancing volume was down over 27.5% year over year to mark the lowest total since 2020, but the second highest pro rata share of total issuance in history

Syndicated New Money (US\$bn)



Syndicated Refinancings (US\$bn)

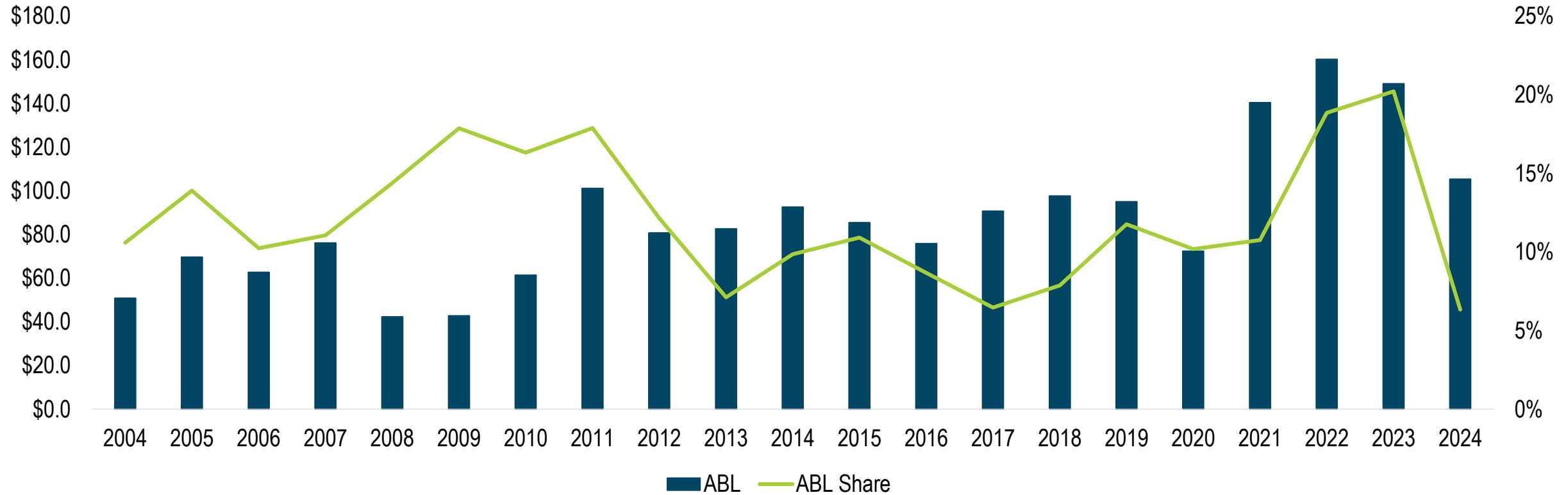


Source: LSEG LPC

ABL < 7% of Total Leveraged Loan Volume in 2024

2024 US leveraged loan volume, fueled by repricing's and refinancings, reached a record high totaling US\$1,663B. Syndicated ABL volume represented 6.3% of leveraged issuance, the lowest annual share over the past 20 years

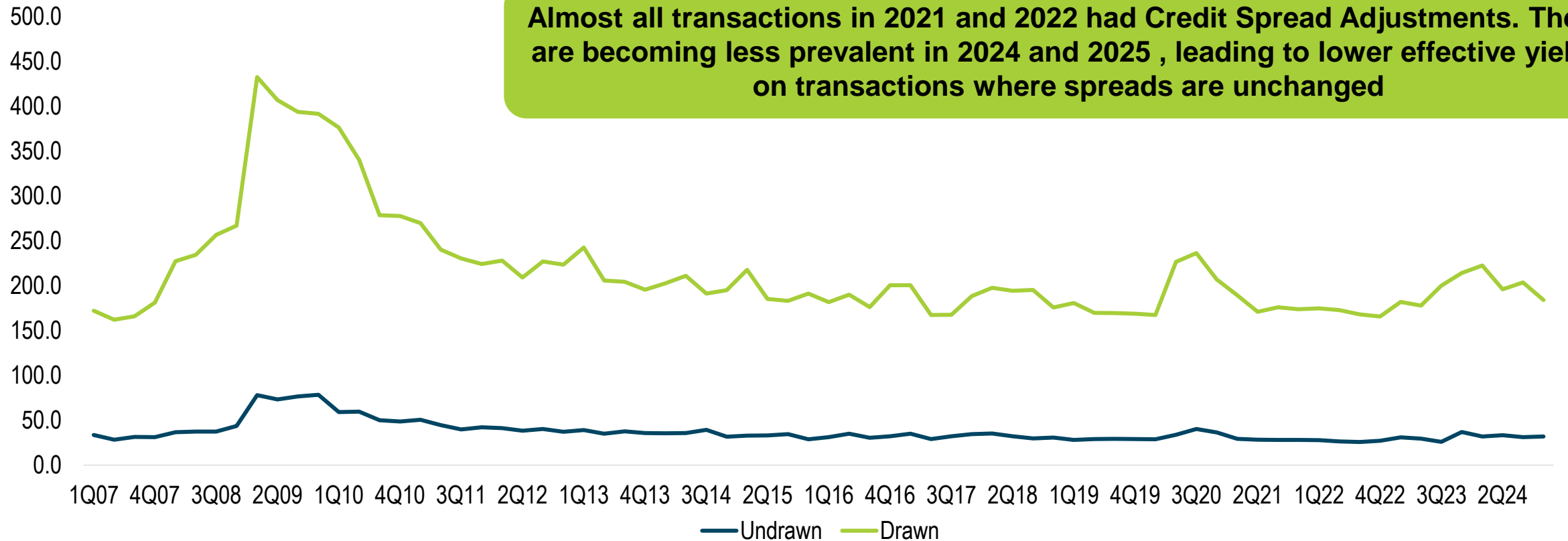
ABL as % of Leveraged Volume



Source: LSEG LPC

ABL Pricing Decreases to TSOFR+184bp in 4Q24

Average Pro Rata Pricing (bp)

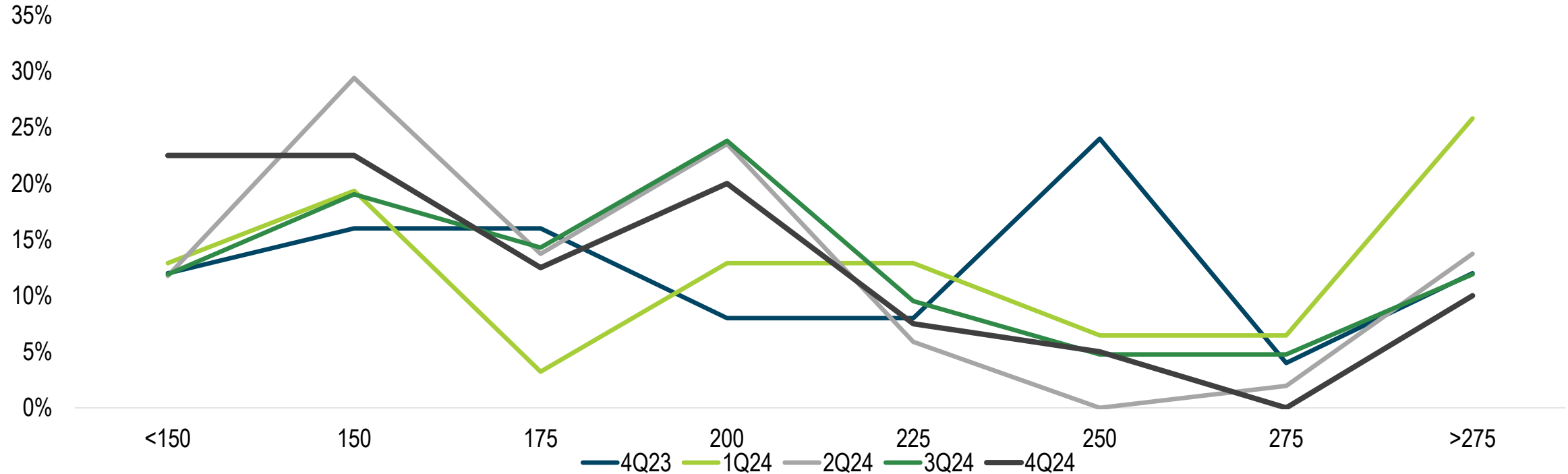


Note: beginning in 1Q22, drawn averages apply to term SOFR and do not include credit spread adjustments unless embedded; includes deals with an ABL component of at least \$75MM
Source: LSEG LPC

ABL Spreads Tighten in Q4

Transactions priced at SOFR + 175 or below represented 57.5% of all dollars raised in 4Q'24, while those priced at SOFR + 250 or above only represented 15.0%. Transactions priced at SOFR + 125 or below represented 22.5% of the total dollars raised

All-in Drawn Spread Buckets (% by deal count)*

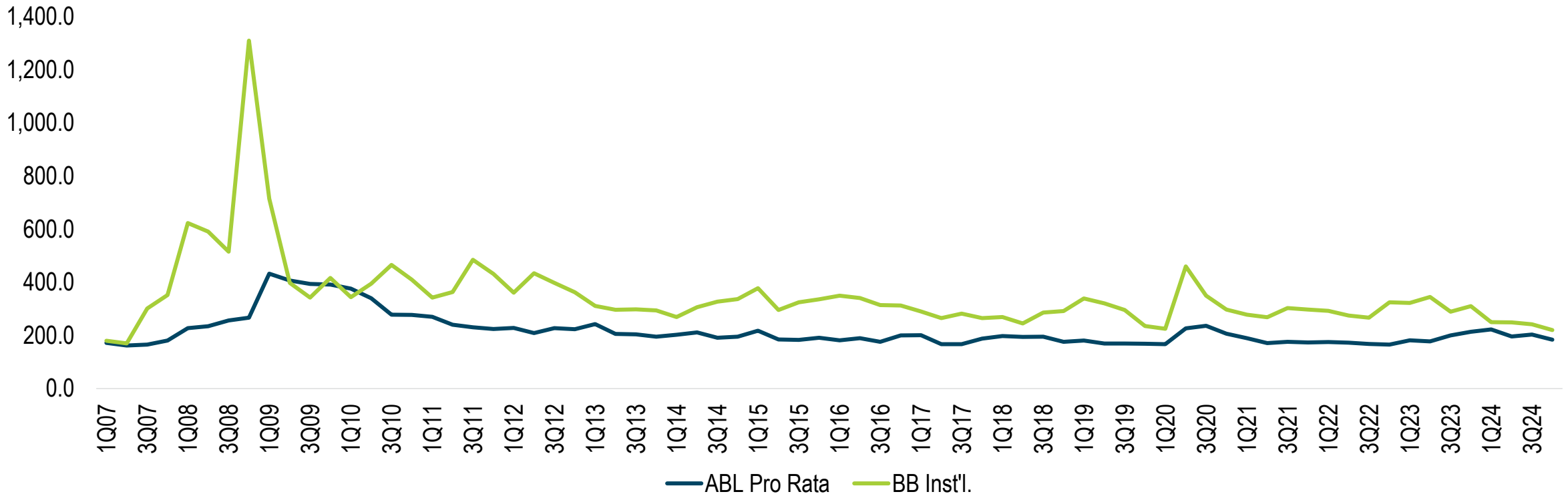


Note: beginning in 1Q22, drawn averages apply to term SOFR and do not include credit spread adjustments unless embedded
Source: LSEG LPC

ABL Still Represents Attractive Relative Value

Institutional spreads for BB-rated issuers tightened to TSOFR + 220 bps in 4Q24 compared to TSOFR + 250 bps in 1H24

Average ABL Pro Rata vs BB Institutional Pricing (bp)*

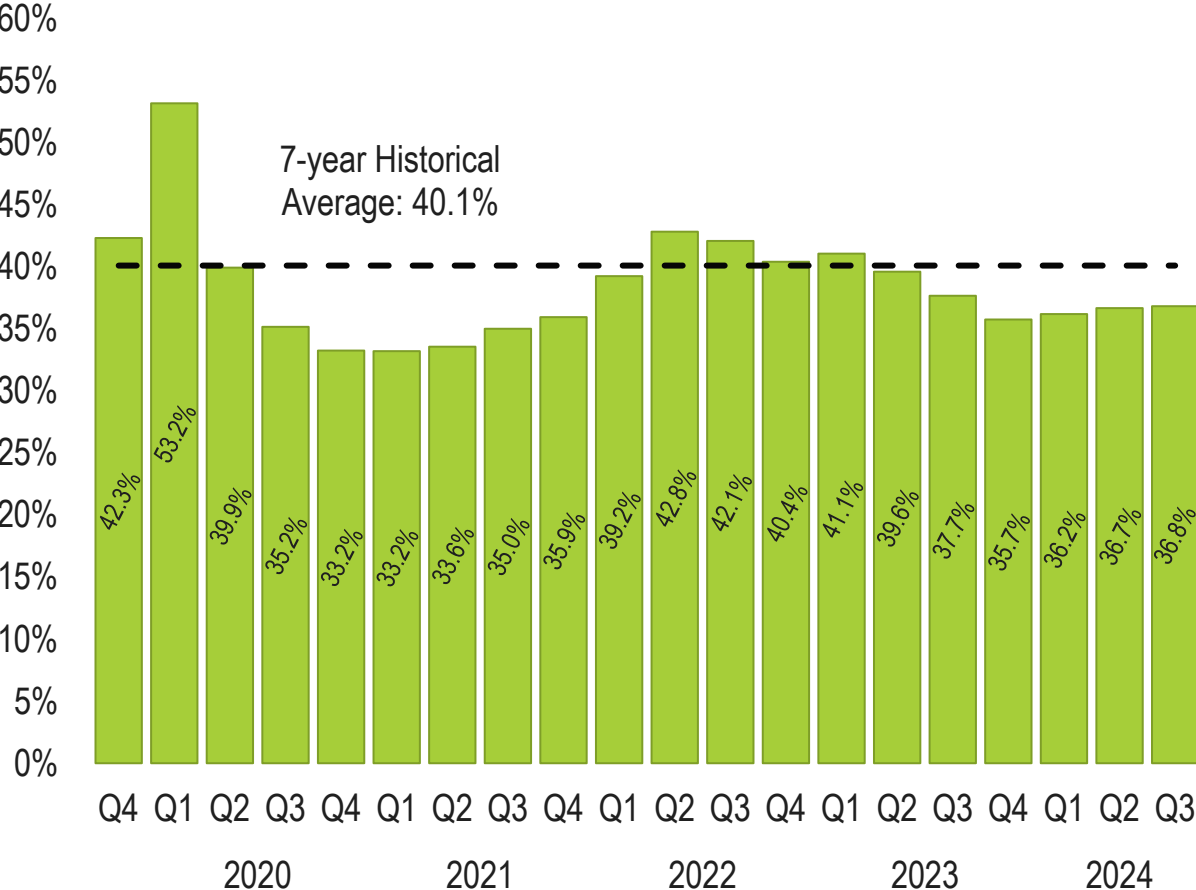


Note: beginning in 1Q22, drawn averages apply to term SOFR and do not include credit spread adjustments unless embedded

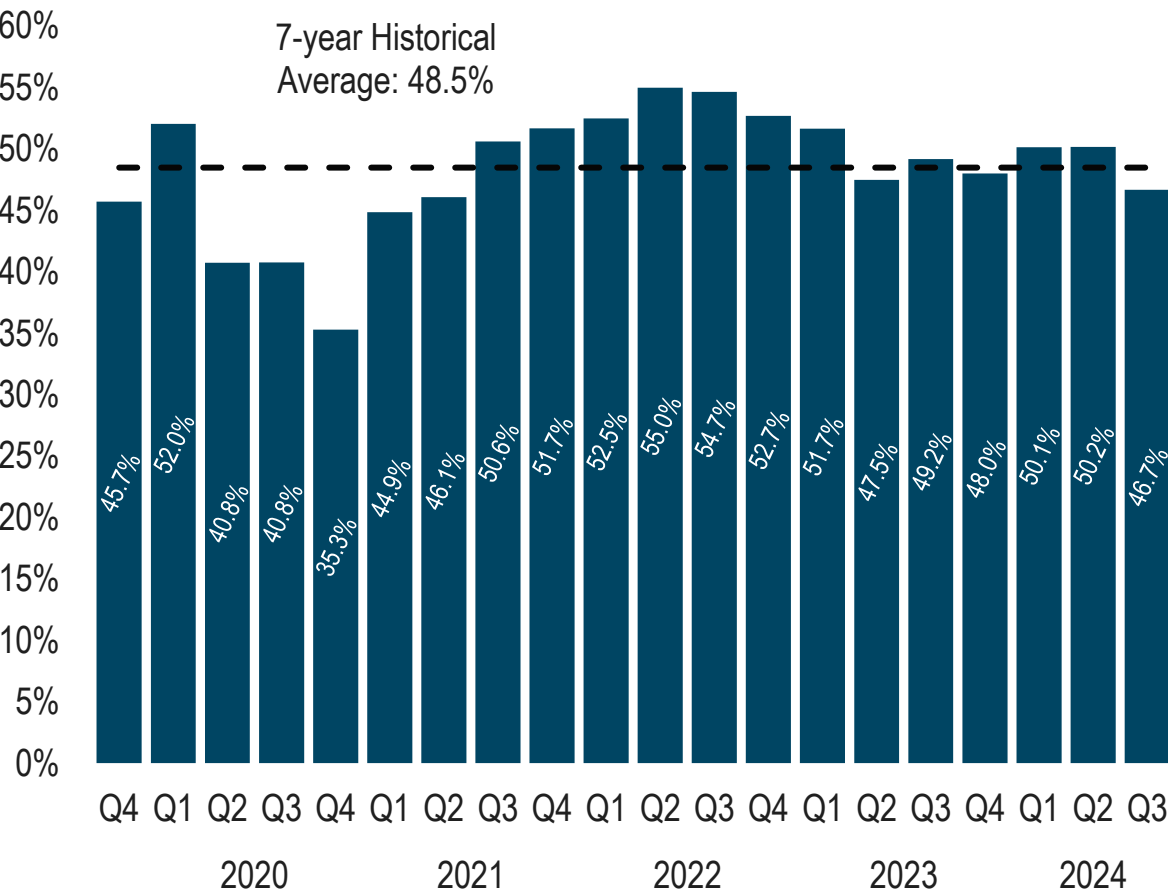
Source: LSEG LPC

Credit Line Utilization Stabilizes in 2024 for Banks

Credit Loans Outstanding as % of Total Credit Commitments – Bank Lenders



Credit Loans Outstanding as % of Total Credit Commitments – Non Bank Lenders

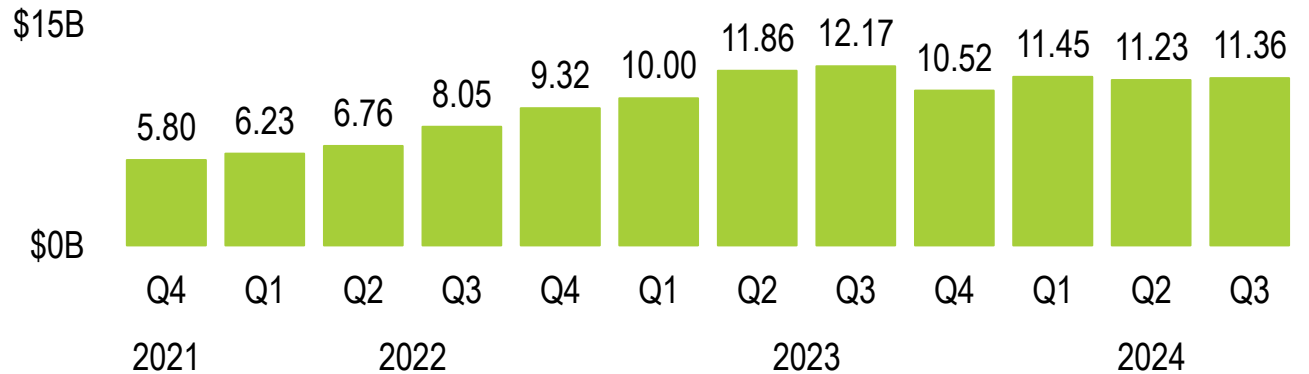


Source: SFNet

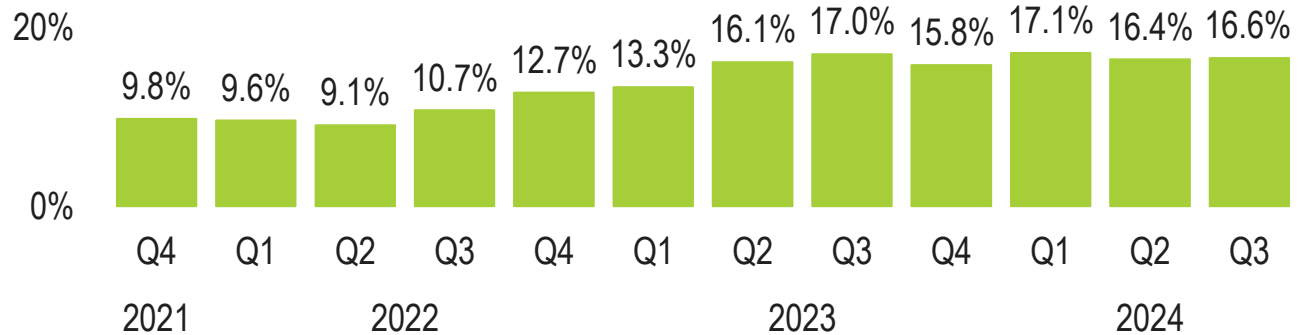
ABL Criticized and Classified Loans decreasing YoY

- 38.1% of SFNet Survey respondents reported total criticized and classified loans **increased in Q2 and Q3 2024**
- Among bank lenders that responded in the same quarter last year, total criticized and classified loans **declined by 6.6% YoY** through Q3 2024
- As a percentage of loans outstanding among consistent respondents, criticized and classified loans **rose by 14 and fell by 45 basis points** relative to Q2 2024 and Q3 2023, respectively.

Total Criticized and Classified Loans (US\$bn)



Total Criticized and Classified as a % of Total Outstanding

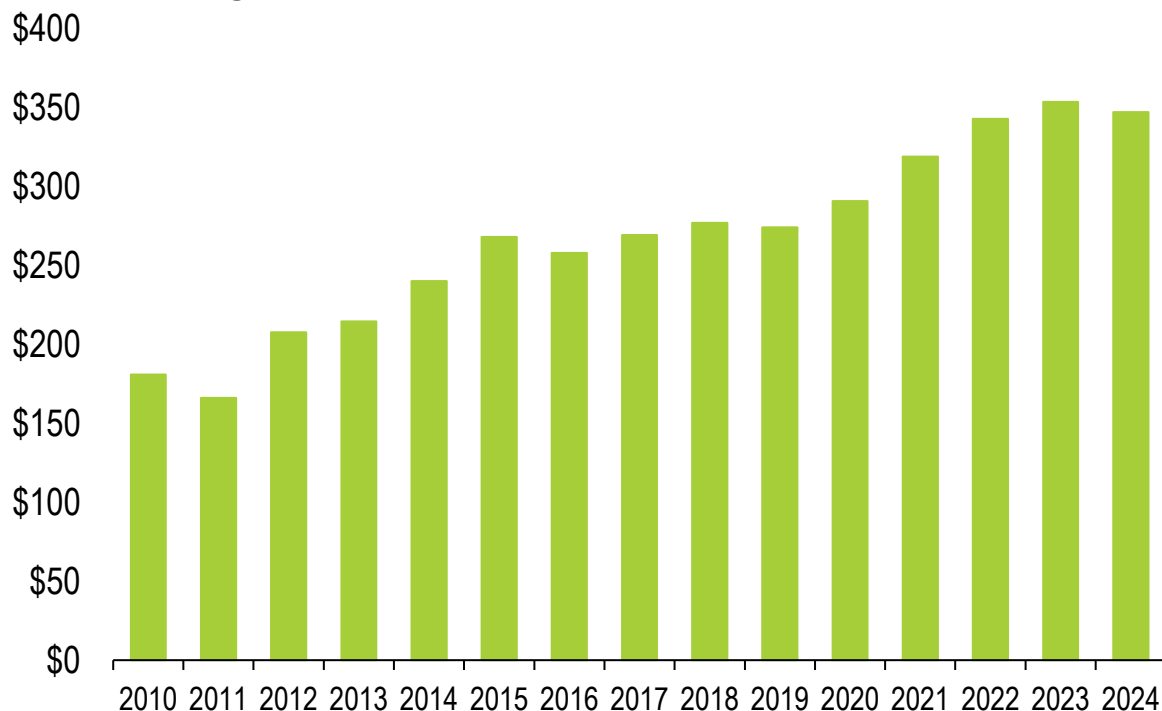


Note: QoQ changes in the 'Highlights' and pie chart cover 21 lenders that reported in each of the last two quarters. YoY changes cover 19 lenders that reported this quarter and in the same quarter last year
Source: SFNet

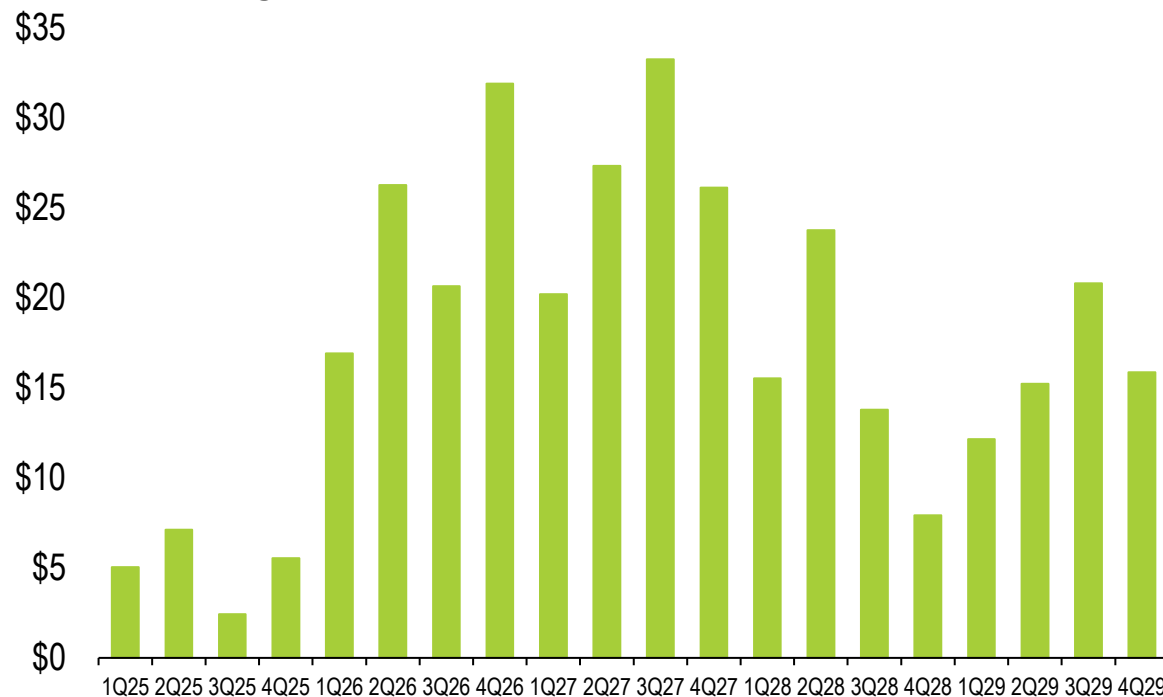
ABL Maturity Wall Heavily Weighted to 2026 & 2027

- Outstanding ABL commitments reached a record high of **\$354.2 billion** as of the end of Q32024, and declined slightly at year end to \$347.8 billion at year end as several large issuers refinanced their debt into the bond and TLB markets
- Over \$222.8 billion of ABL commitments, or 64.1% of outstanding commitments as of the end of 4Q2024, are scheduled to **mature by the end of 2027**. Much of this volume will **come to market in 2025** as borrowers look to take advantage of aggressive debt markets and lengthen maturities across their capital structures

Outstanding ABL Loan Commitments (US\$bn)



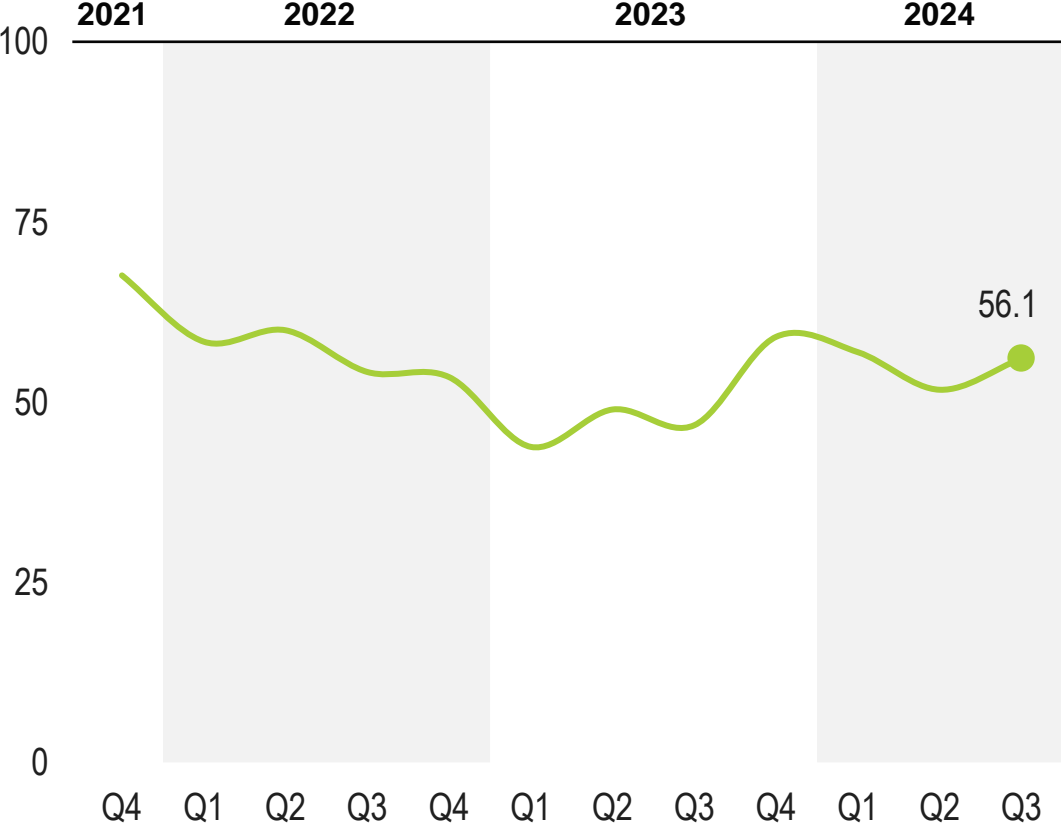
ABL Maturing Volume (US\$bn)



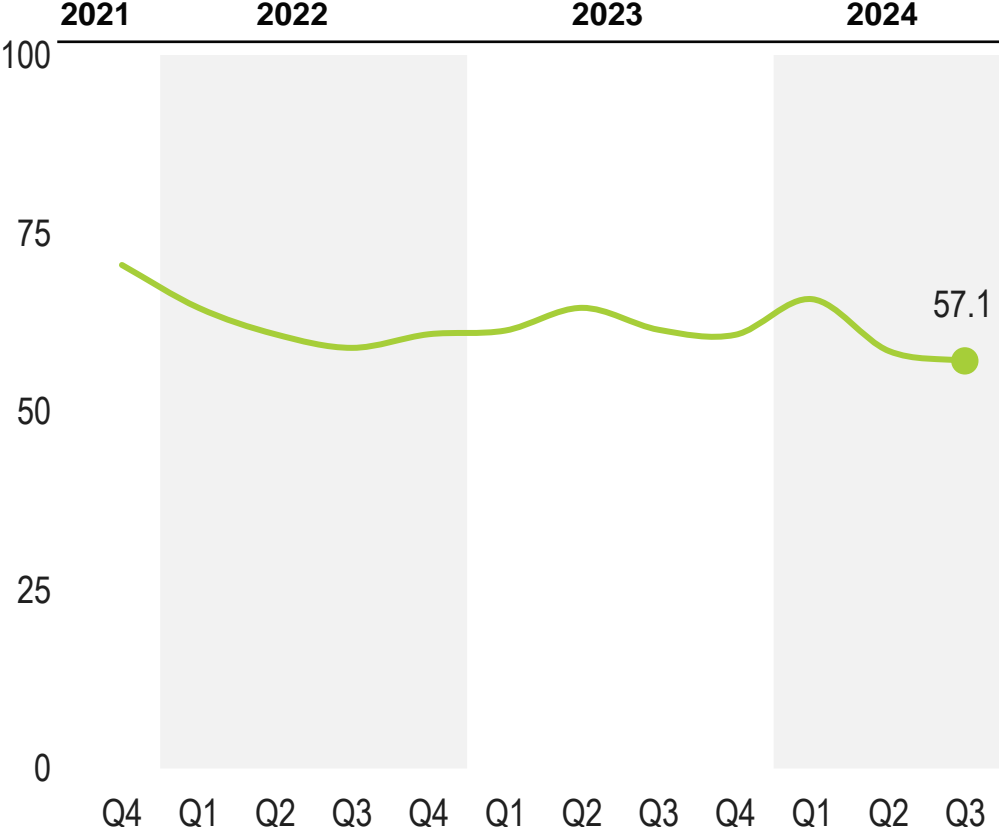
Source: LSEG LPC

Lender Confidence Index Survey

Bank Lender Confidence Index (0 - 100) Q4 2021 – Q3 2024



Combined Lender Sentiment Score (0 - 100) Q4 2021 – Q3 2024



Source: SFNet

Poll the Audience

Annual syndicated ABL volume in 2024 will be:

- a) A new record – greater than \$160 billion
- b) \$130-160 billion
- c) \$100-130 billion
- d) Below \$100 billion

Poll the Audience

Annual opening average credit spread for broadly syndicated ABL transactions for 2023 will be:

- a) 125-150 bps
- b) 150-175 bps
- c) 175 – 200 bps
- d) Greater than 200 bps

Panel Discussion

- What defines the haves and have-nots in today's market?
 - What is more important to banks – returns, terms, or ancillary?
- What happens to a borrower when there's no usage and no more ancillary income?
- What role does private credit play in the asset based market?
 - What are the new non-bank ABL funds all about?

Q&A



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