By the Numbers: A Discussion on the Results of SFNet's 2023 ABL Survey and Current ABL Market Trends

APRIL 26, 2024, 12:00 PM TO 1:00 PM

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SFNet's Annual & Q4 ABL Survey Data

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Executive Summary

- The U.S. economy ended 2023 on a strong note due to resilient consumer spending and a solid labor market. As we enter the second quarter of 2024 the labor market is still showing strength, but there are signs that consumers are starting to feel pinched. Meanwhile, inflation is still a risk to watch as it hovers above the Fed's 2% target and service-sector inflation remains particularly sticky. The Fed is still poised to cut interest rates in 2024, but there will probably be fewer cuts than markets anticipated a few months ago and cuts are more likely to happen later in the year.
- Total **commitments** grew by 3.4% for all lenders from 2022 to 2023, but non-banks reported greater growth (+12.7%) than banks (+3.1%). New client commitments decreased for banks (-5.6%) but increased for non-banks (+38.7%). Both banks and non-banks reported fewer new client deals in 2023 than in 2022, but such deals were larger in size. Commitment runoff decreased for banks (-19.2%) but increased for non-banks (65.7%).
- Total **outstandings** decreased by 7.8% for all lenders from 2022 to 2023, with banks reporting a decrease (-8.3%) and non-banks reporting an increase (+6.0%). With growth in total commitments outpacing that for total outstandings, the utilization rate dropped for both banks (-4.5 pp) and non-banks (-3.6 pp). New originated outstandings decreased for banks but increased for non-banks and outstandings runoff decreased for banks but increased for non-banks. The wholesale industry saw its share of client outstandings grow the most, while retail had a slight drop.
- The **geographic location** of both U.S. bank outstandings and clients shifted slightly from 2022 to 2023. The Northeast share of both outstandings and clients increased, while the West had a lower share of outstandings and the Midwest had a lower share of clients.

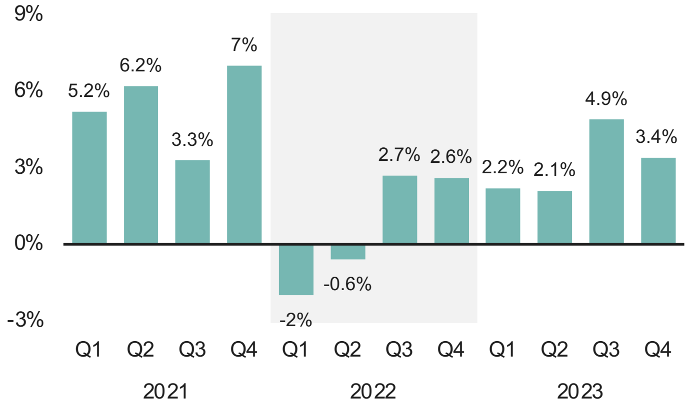
Executive Summary

- Total **revenues** as a share of outstandings increased for both banks (+87 bp) and non-banks (+352 bp), as did total **expenses** (+14 bp for banks, +34 bp for non-banks)**.** With revenues growing faster than expenses, **pre-tax income** increased for both banks (+66 bp) and non-banks (+96 bp). The average **return on assets** decreased for banks (-77 bp) but increased for non-banks (+87 bp), and the **average return on equity** decreased for banks (-299 bp).
- **Portfolio performance** deteriorated in 2023, with non-accruals and write-offs increasing for both banks and non-banks. That said, both non-accruals and write-offs remain well within their historical ranges. Criticized/classified loans also increased for banks.
- The total number of **employees** dipped slightly from 2022 to 2023 for both banks and non-banks. Underwriting increased its share of employees the most, while business development saw the greatest decline.
- The total number of **offices** was essentially flat for both banks and non-banks.
- Entering 2024, the ABL industry is healthy and stable. Demand for new business has been soft for banks, but non-banks are starting to report increased demand. Portfolio performance has declined compared to 2022 but remains within its normal historical range, albeit at the weaker end. Portfolios are not a major cause for concern, but lenders will be watching them closely for signs of stress. Looking ahead, the ABL industry is well-positioned to provide vital working capital when businesses need it most.

Macroeconomic Context

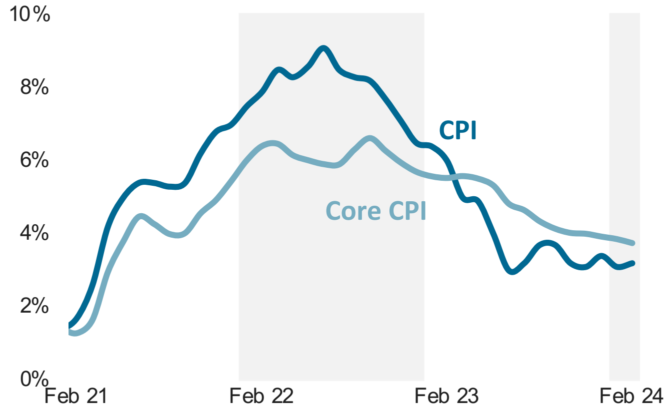
Real GDP (Quarterly)

Bureau of Economic Analysis, % Change QoQ, SAAR



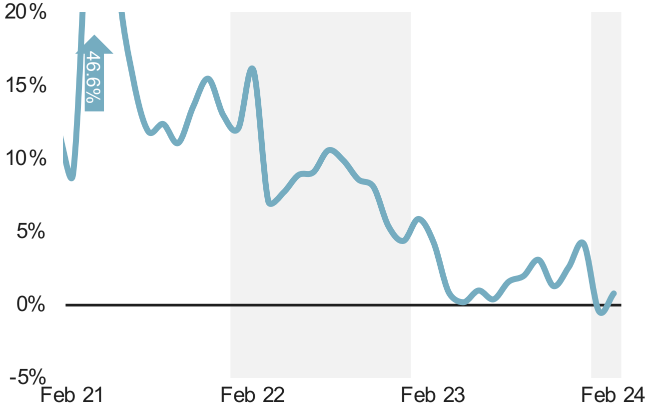
Consumer Price Index

Bureau of Labor Statistics, % Change YoY



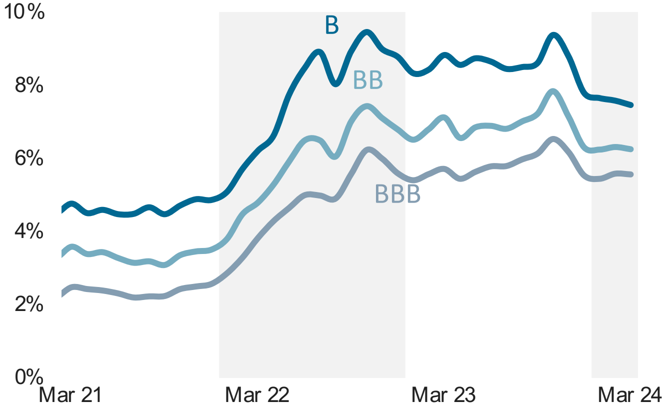
Retail Sales

Census Bureau, % Change YoY, Monthly



Effective Yield (%) on Corporate Bonds

ICE BofA Indices, Monthly Average



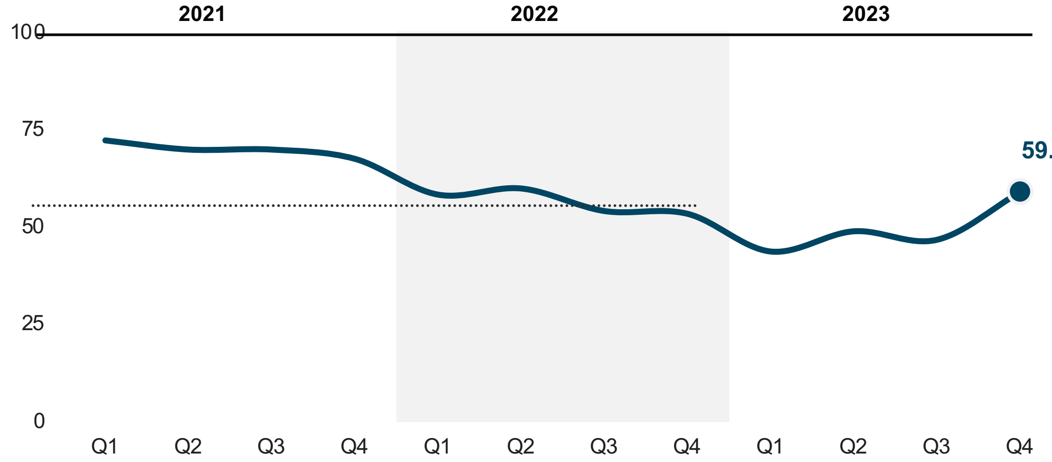
Highlights:

- The U.S. economy ended 2023 on a strong note due to resilient consumer spending and a solid labor market. To start 2024, the labor market is showing continued strength, but there are signs that consumers are starting to feel pinched. Meanwhile, inflation remains a risk to watch as it hovers above the Fed's 2% target.
- The economy posted healthy 3.4% growth in Q4 2023, driven primarily by consumer and government spending and business investment.
- "Headline" CPI increased to 3.2% YoY in February, fueled by rising gasoline and housing costs. "Core" CPI decelerated slightly to 3.8% YoY, but inflation in the services sector remains sticky. With inflation stubbornly above its target, the Fed may need to keep interest rates higher for longer than expected a few months ago.
- After a strong 2023, total retail sales got off a slower start in 2024, increasing by 0.8% YoY In February. Sales fell most notably at furniture & home furnishing, building & garden, and department stores. Meanwhile, food services and non-store retailers posted the strongest growth.
- The labor market remains solid, adding 275,000 jobs in February. Job openings also held steady at 8.9 million in January, far above pre-pandemic levels. There are some signs of softening, however, with the unemployment rate edging up to 3.9% in February and "quits" dropping in January.

ABL Bank Confidence Index

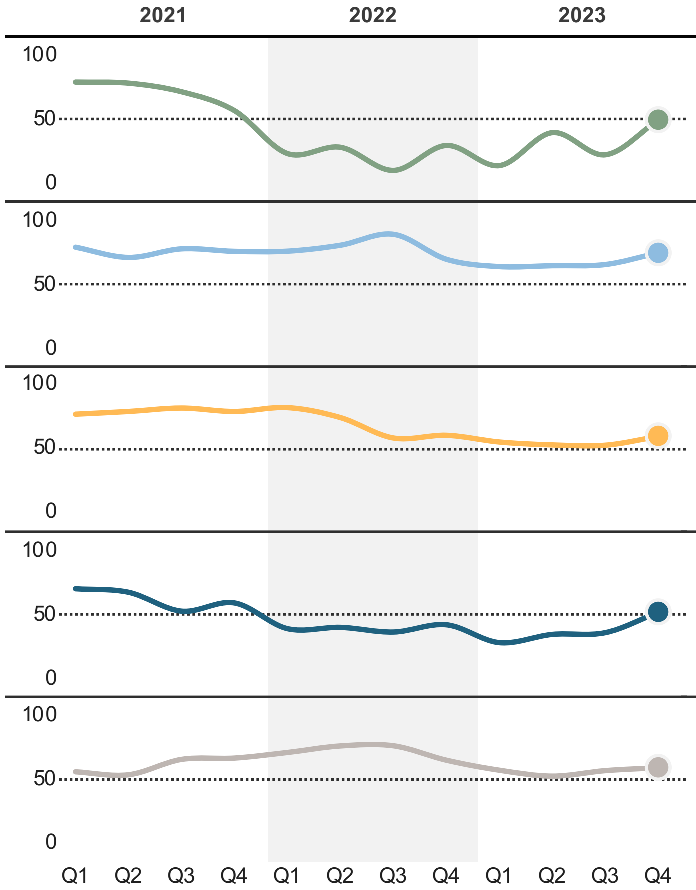
Combined Lender Sentiment Score (0 -100)

Q1 2021 – Q4 2023



Lender Sentiment Indices

Q1 2021 – Q4 2023



Index	Q4 2023 Score (0-100)	Change from Last Quarter
Business Conditions	50.0	+27.3
Demand for New Business	75.0	+9.1
Client Utilization	59.1	+6.8
Portfolio Performance	52.3	+15.9
Hiring Expectations	59.1	+2.3

Highlights:

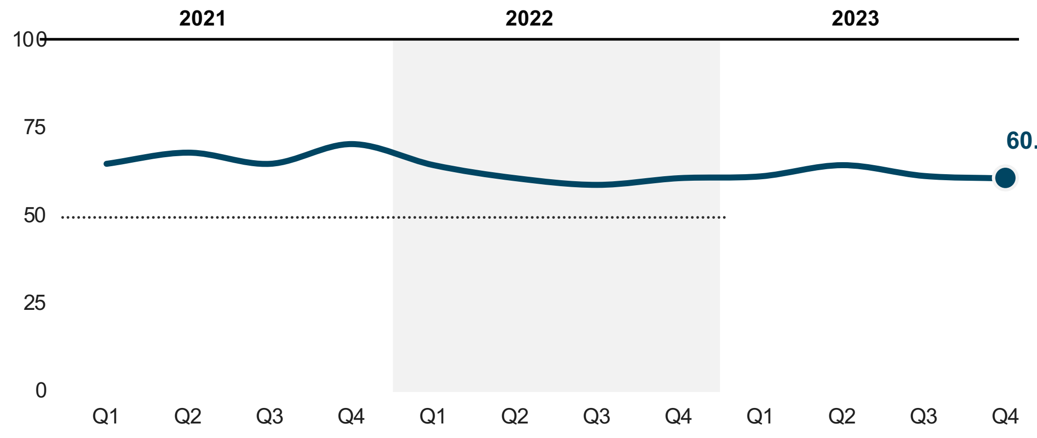
- **Bank lenders** assessed aspects of their business and the broader ABL market over the next quarter. Scores above 50 signal improvements, below 50 indicate declines, and scores at 50 imply a condition will remain the same.
- **Overall bank confidence improved**, with the combined sentiment score increasing by 12.3 points from Q3 to Q4.
- Banks expect **improved demand, hiring, and utilization**, with the index scores for these categories increasing in Q4.
- Banks expect **business conditions and portfolio performance to largely remain the same**, but the index scores for these categories both increased significantly.

Note: The combined lender sentiment score represents an unweighted average across all five individual sentiment indices surveyed in Q4 2023. The above indices contain data from all respondents in any given quarter and are not scoped to a consistent base of lenders that responded in every quarter.

ABL Non-Bank Confidence Index

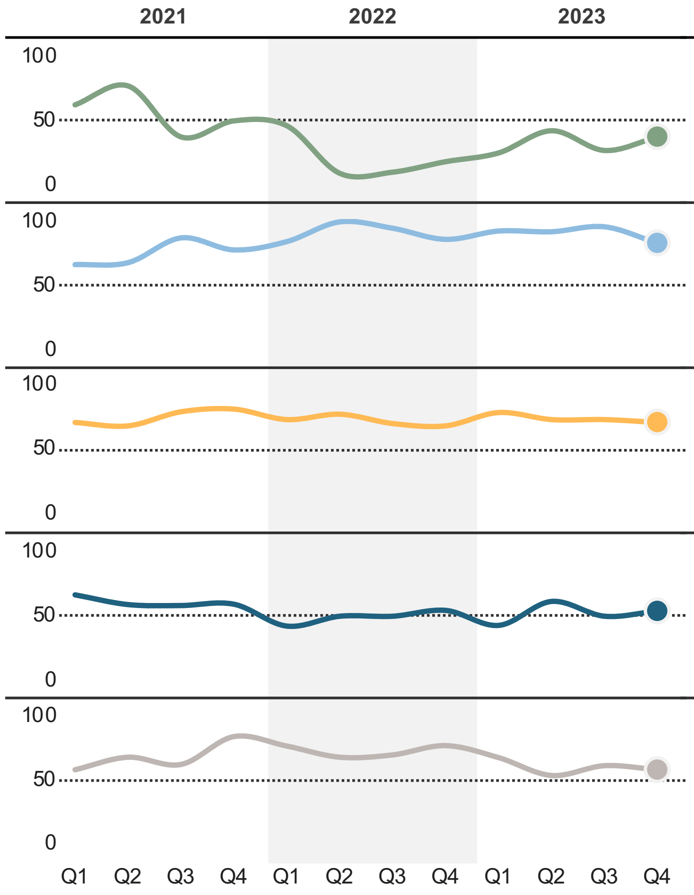
Combined Lender Sentiment Score (0 -100)

Q1 2021 – Q4 2023



Lender Sentiment Indices

Q1 2021 – Q4 2023



Index	Q4 2023 Score (0-100)	Change from Last Quarter
Business Conditions	37.5	+10.6
Demand for New Business	83.3	-12.8
Client Utilization	70.8	-2.2
Portfolio Performance	54.2	+4.2
Hiring Expectations	58.3	-3.2

Highlights:

- **Non-bank lenders** assessed aspects of their business and the broader ABL market over the next quarter. Scores above 50 signal improvements, below 50 indicate declines, and scores at 50 imply a condition will remain the same.
- **Overall non-bank confidence was essentially unchanged,** with the combined sentiment score decreasing by 0.7 point.
- Non-banks still expect **improved demand, utilization, and hiring**, but all three indices decreased from last quarter.
- Non-banks continue to expect a **decline in business conditions**, but the index score rose by 10.6 points from Q3. Expectations for portfolio performance remain in neutral territory after increasing slightly.

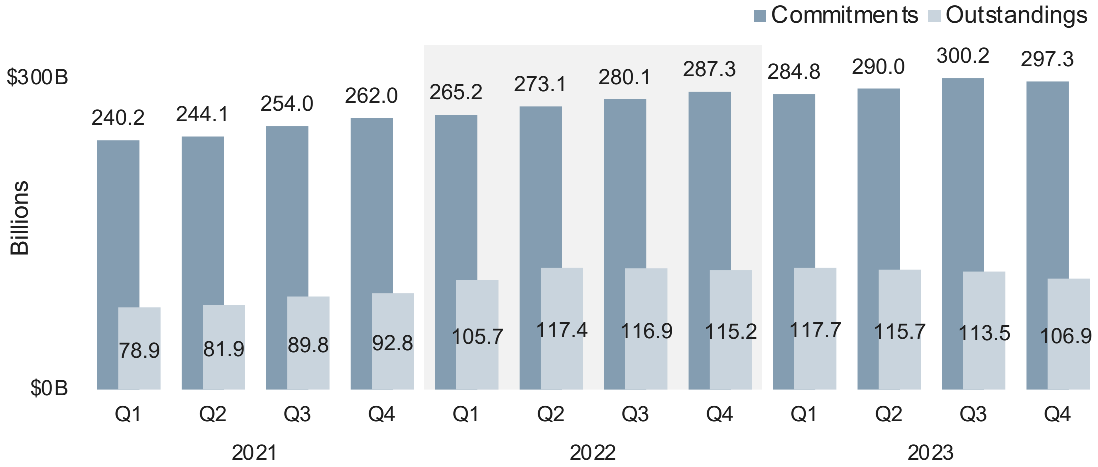
Note: The combined lender sentiment score represents an unweighted average across all five individual sentiment indices surveyed in Q4 2023. The above indices contain data from all respondents in any given quarter and are not scoped to a consistent base of lenders that responded in every quarter.

ABL Commitments and Outstandings

Bank

Total Commitments and Outstandings Among Long-Term Respondents

Q1 2021 – Q4 2023



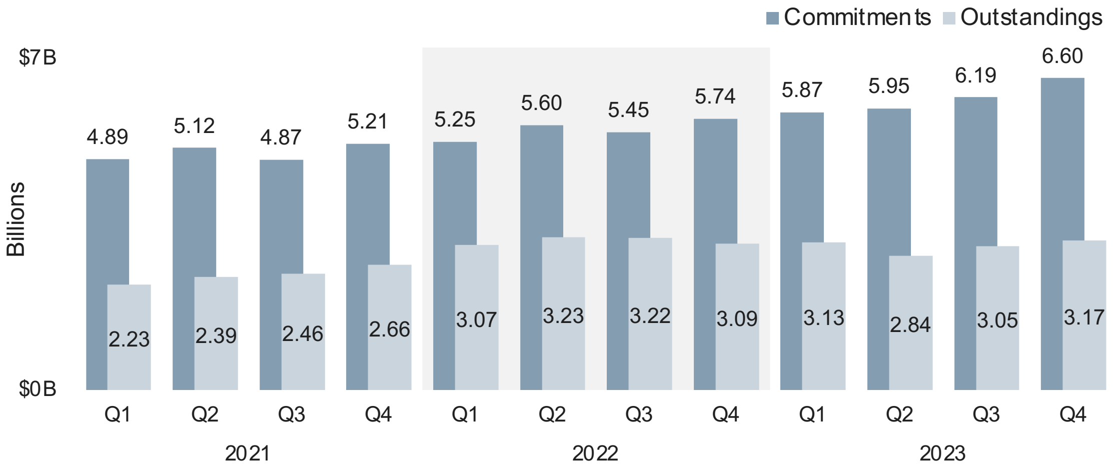
Bank Highlights:

- Across lenders that responded in the last two quarters, **commitments and outstandings both decreased**.
- Across lenders that responded in Q4 2023 and Q4 2022, **commitments increased YoY while outstandings decreased**.
- The gap between the QoQ change in ABL outstandings for long-term respondents and the QoQ change in commercial and industrial (C&I) loans increased for the third consecutive quarter (note: C&I loan data includes PPP loans).

Non-Bank

Total Commitments and Outstandings Among Long-Term Respondents

Q1 2021 – Q4 2023



Non-Bank Highlights:

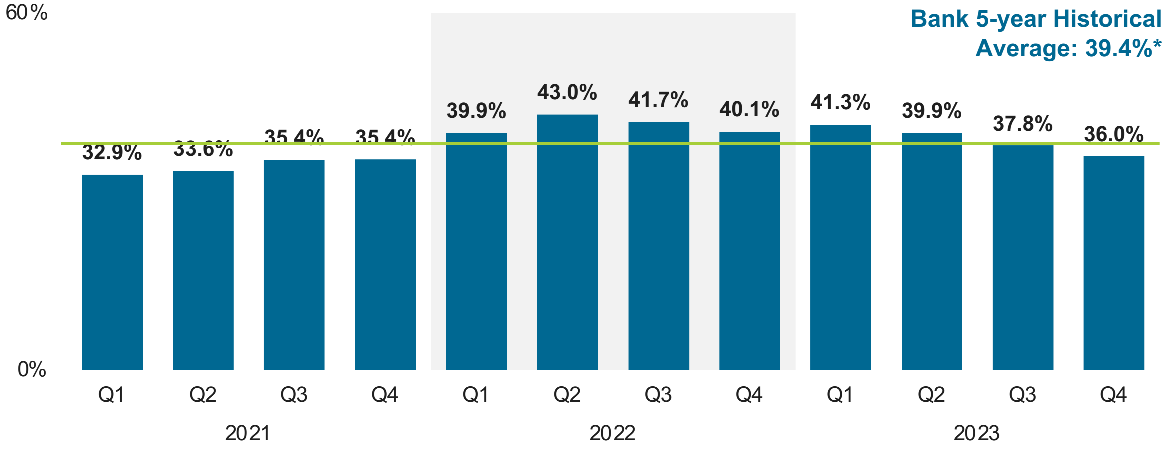
- Across lenders that responded in each of the last two quarters, **both commitments and outstandings rose.**
- Across lenders that responded in the same quarter last year, **commitments and outstandings both increased YoY from Q4 2022.**
- Among long-term non-bank respondents, the growth in ABL outstandings from Q3 to Q4 exceeded the QoQ change in commercial and industrial (C&I) loans over the same period (note: C&I loan data includes PPP loans).

ABL Credit Line Utilization

Bank

Loans Outstanding as % of Total Credit Commitments

Q1 2021 – Q4 2023, 18 respondents across all quarters



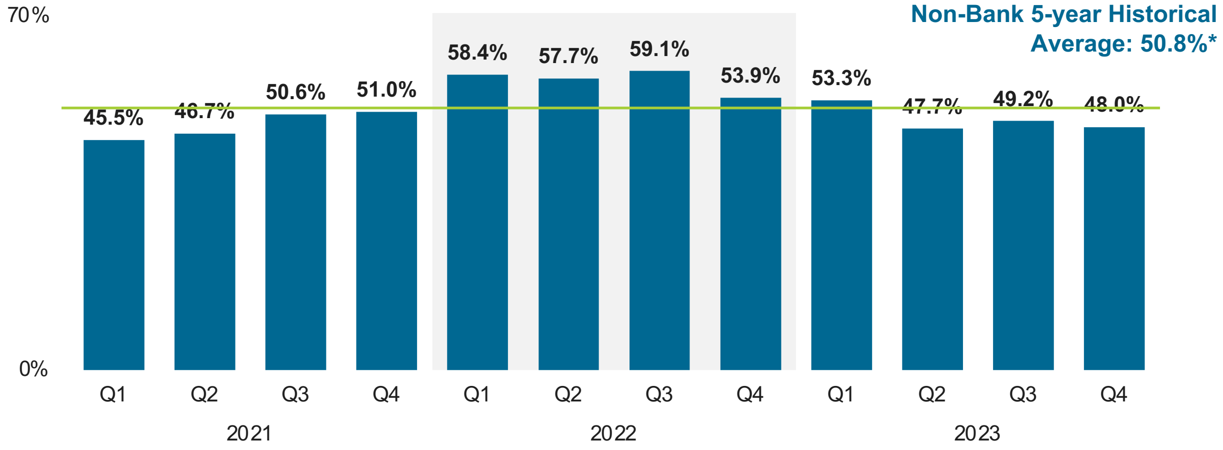
Bank Highlights:

- Credit line utilization among long-term bank respondents **fell to 36.0%** in Q4 2023, **decreasing by 184 basis points** from Q3 2023.
- The current utilization rate is below the approximate five-year historical average (39.4%).*
- Compared to the same quarter last year, credit line utilization decreased by **413 basis points.**
- As in prior quarters, the vast majority, **91.4%**, of the borrowing base in Q4 2023 was composed of advances against receivables and inventory. The remaining categories composed only **8.6%** of the borrowing base.

Non-Bank

Loans Outstanding as Percentage of Total Credit Commitments

Q1 2021 – Q4 2023, 7 respondents across all quarters



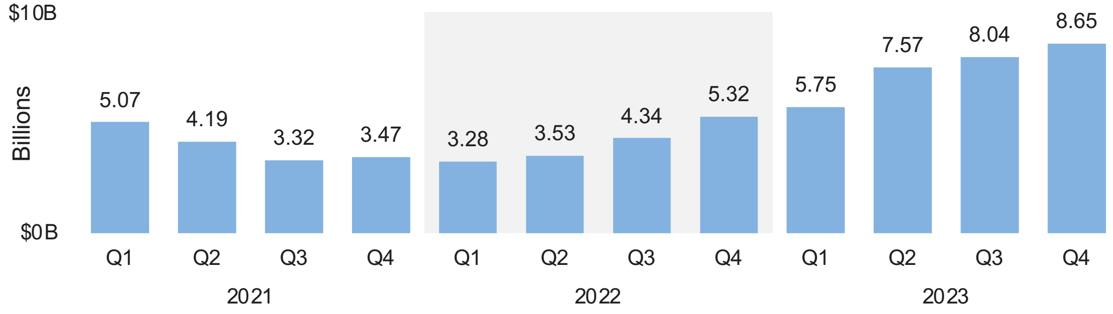
Non-Bank Highlights:

- Credit line utilization among consistent non-bank lender respondents was **down 124 basis points** from Q3 2023.
- The current utilization rate is below the approximate five-year historical average (50.8%).*
- Compared to the same quarter last year, credit line utilization has **decreased 590 basis points**.
- As in prior quarters, the vast majority, **85.3%**, of the non-bank borrowing base in Q4 2023 was composed of advances against receivables and inventory. The remaining categories compose only **14.7%** of the overall borrowing base.

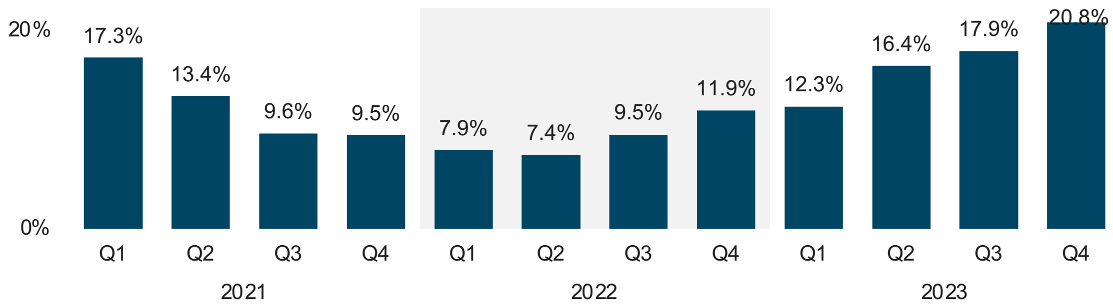
ABL Criticized and Classified Loans

Bank

Total Criticized and Classified Loans

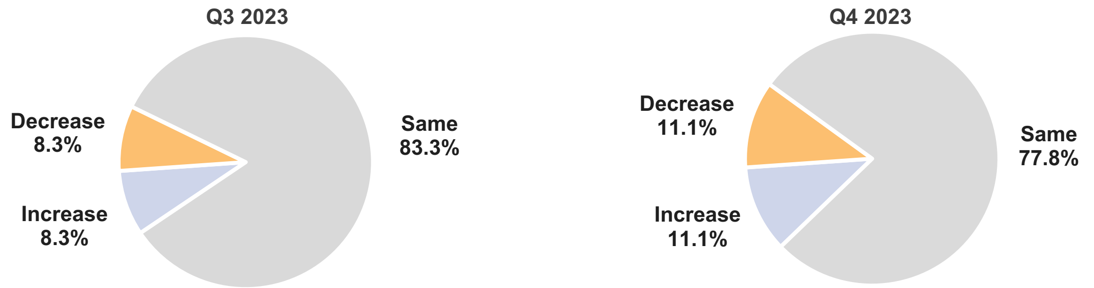


Criticized and Classified Loans as a % of Total Loans Outstanding

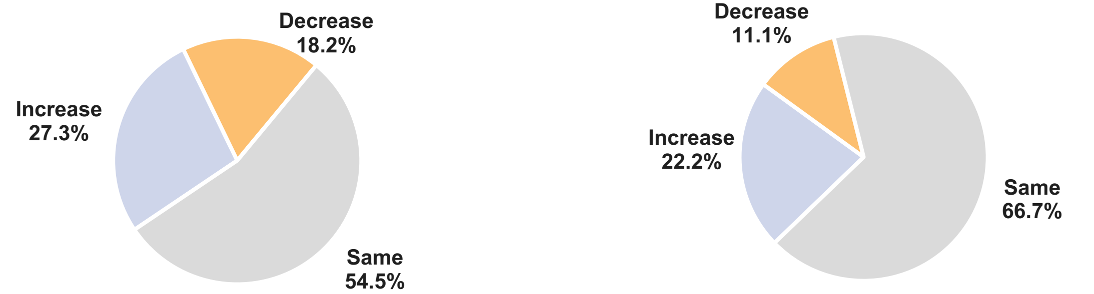


Non-Bank

QoQ Change in Criticized and Classified Loans



QoQ Change in Non-Accruing Loans



Bank Highlights:

- Across bank lenders that responded in each of the last two quarters, total criticized and classified loans **increased by 3.9%.**
- Among bank lenders that responded in the same quarter last year, total criticized and classified loans **jumped by 36.2%** YoY.
- As a percentage of loans outstanding among consistent respondents, criticized and classified loans **rose by 288 and 887 basis points** relative to Q3 2023 and Q4 2022, respectively.

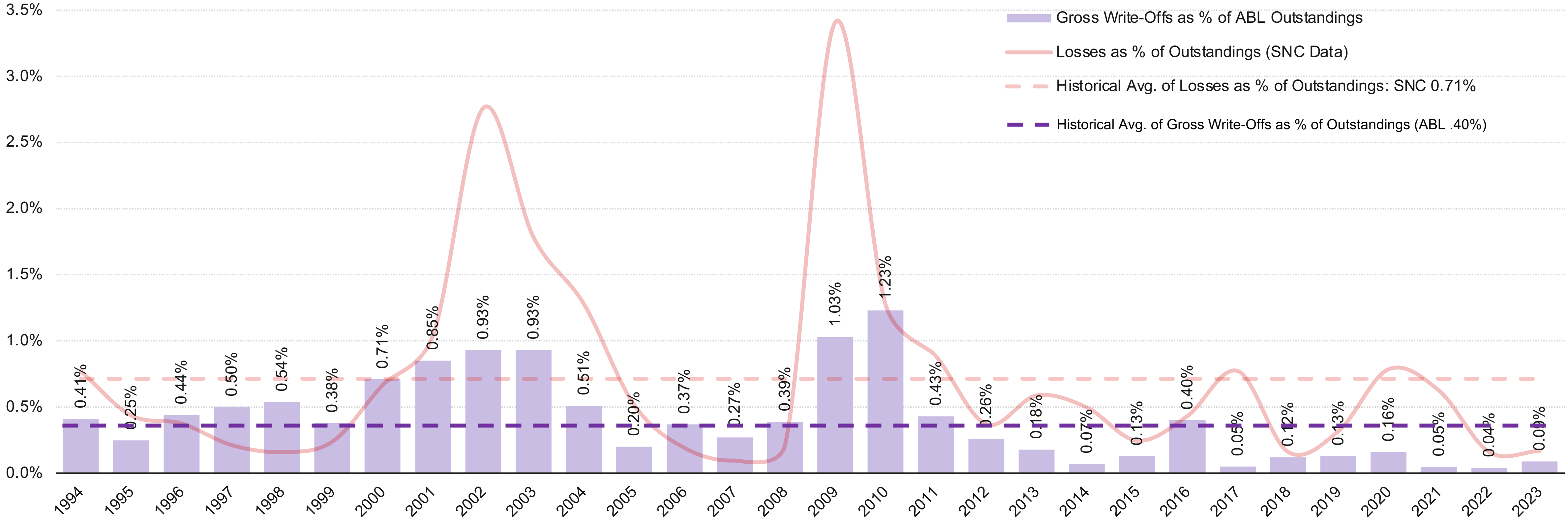
Non-Bank Highlights:

- Most non-bank respondents reported **no changes in criticized and classified loans** from Q3 2023 to Q4 2023.
- Across non-bank lenders that responded in each of the last two quarters, criticized and classified loans **increased overall**.
- Among lenders that responded in the same quarter last year, criticized and classified loans **increased overall.**
- A lower proportion of non-bank respondents reported increased non-accruing loans in Q4 2023 than in the previous quarter.
- Across non-bank lenders that responded in each of the last two quarters, non-accruing loans **increased overall.**

ABL Gross Write-offs

Gross Write-offs as % of ABL Outstandings and Losses as % of Outstandings for Large Syndicated Loans

Losses as % of Outstandings data from the SNC Report 2023

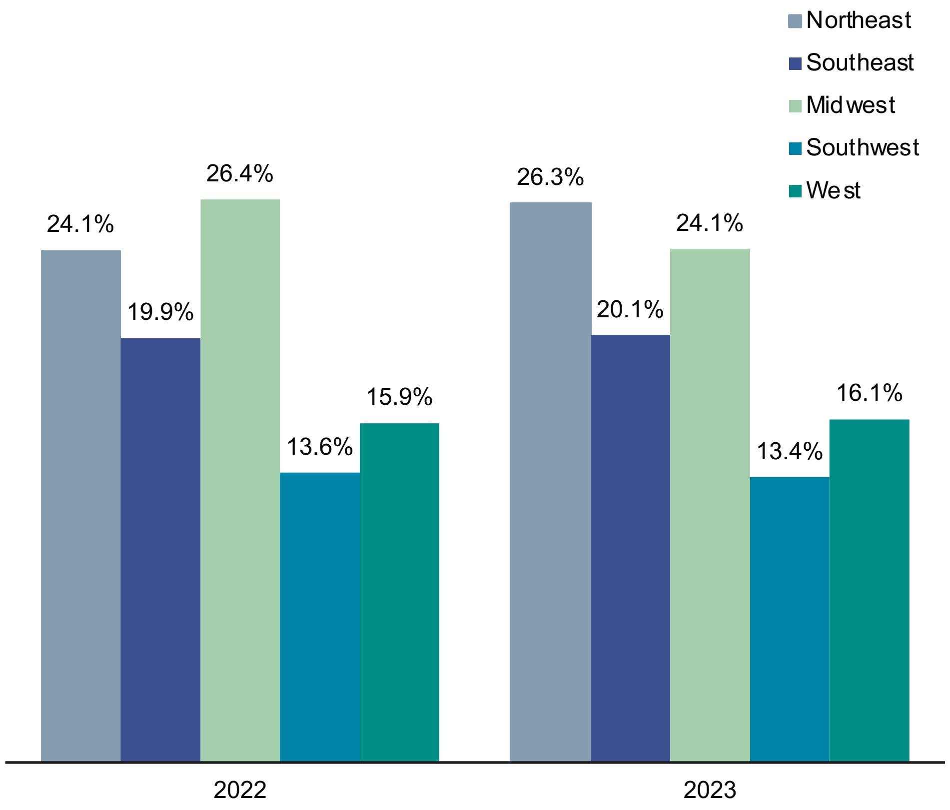


Gross write-offs as a share of ABL outstandings have mostly paralleled losses as a percent of outstandings for large syndicated loans. Significant increases in losses in 2001 and 2009 coincided increases in write-offs. Gross write-offs as a share of ABL outstandings rose after two consecutive annual declines in 2021 and 2022, but the series remains substantially below its historical average (0.40%)

Note: The SNC report defines losses as commitments that "are uncollectible and of so little value that their continuance as bankable commitments is not warranted."

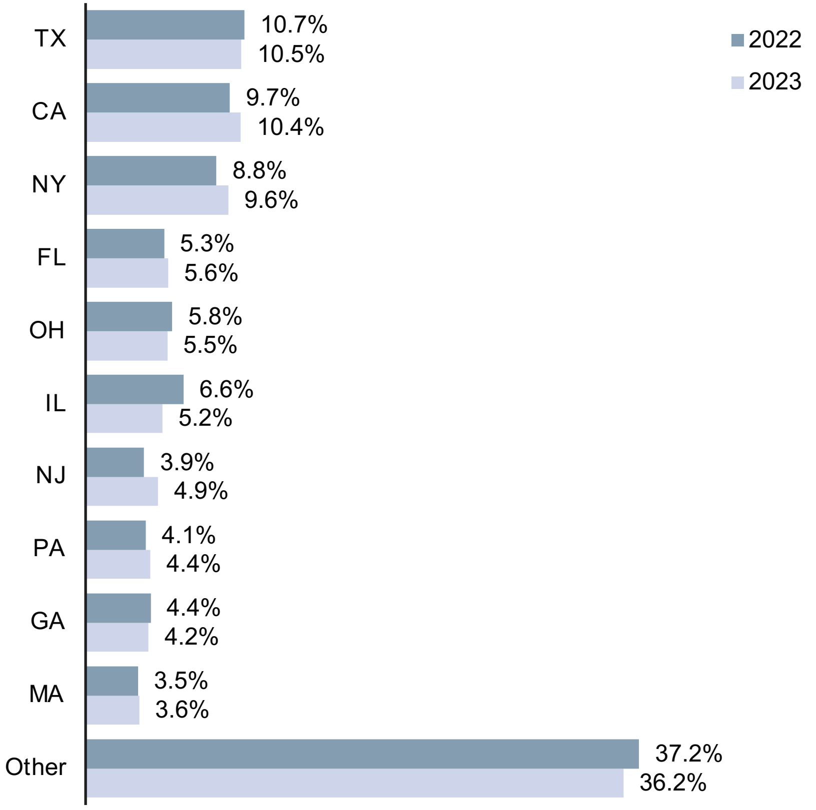
ABL Clients and Industry

% of Clients by Region



Similar to the trend for outstandings, the Northeast gained the most in its share of bank clients, increasing its share by 2.2 percentage points, and the Midwest dropped the most, declining by 2.3 pp.

Top 10 States by % of Total U.S. Clients



The top 10 states by share of U.S. bank clients remained consistent, with Texas retaining the top spot. Among the top 10, Illinois' share declined the most while New Jersey's share increased the most.

LSEG's 1Q24 Leveraged Loan Market Trends & 2Q24 expectations

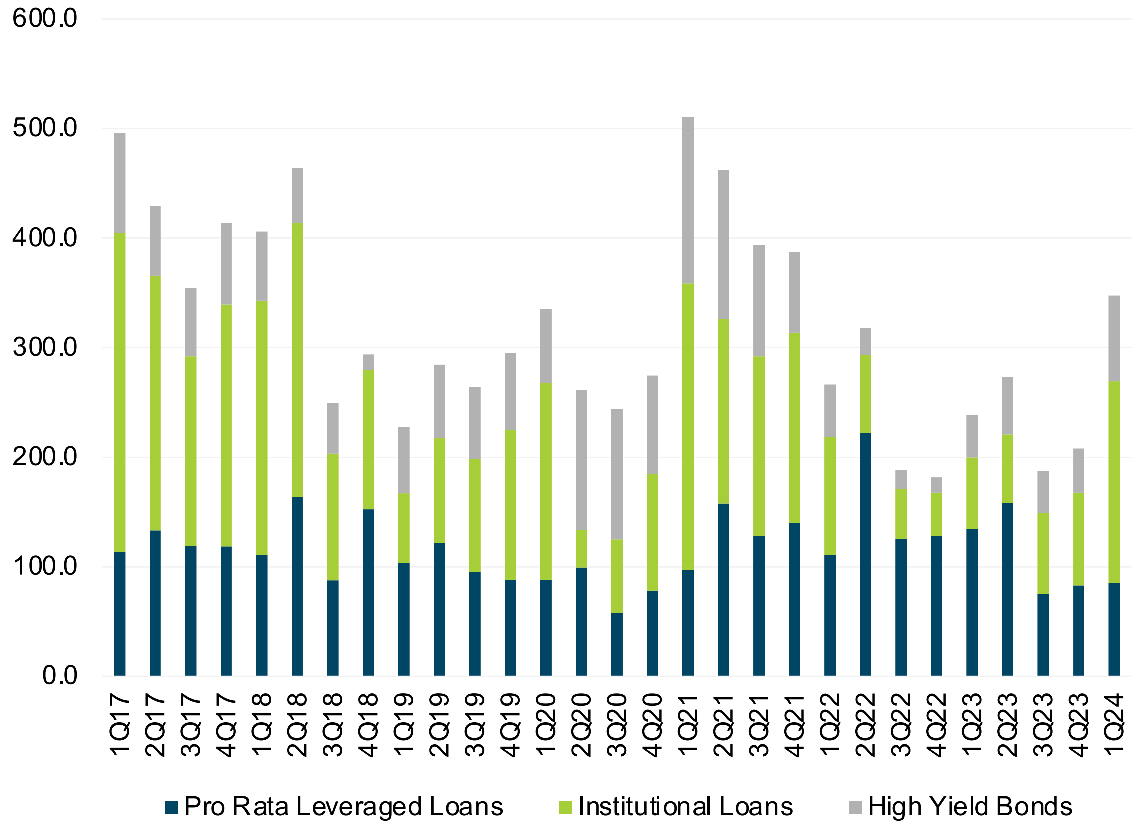
LSEG LPC

US leveraged loan and bond issuance up significantly

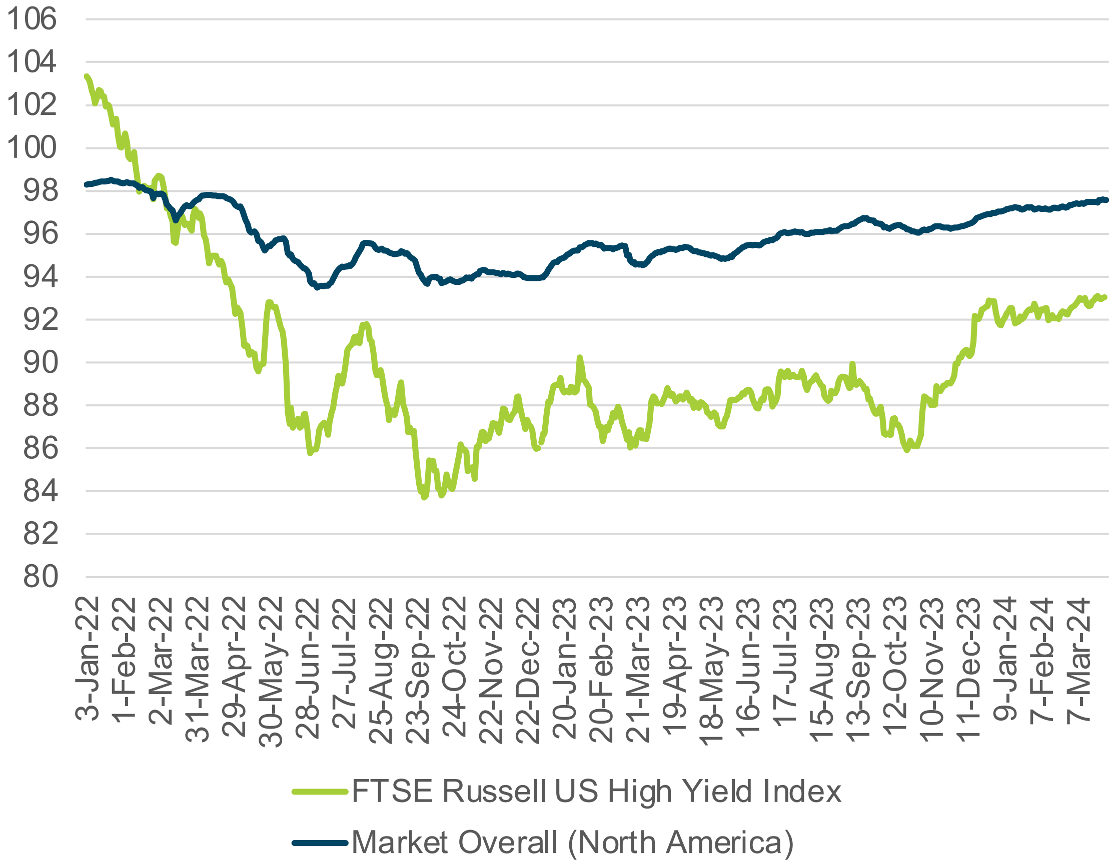
1Q24 U.S. leveraged volume increased 46% y-o-y; Loan volume – at US$270bn - jumped 35%

Following 2023 market unsteadiness, average bids on leveraged assets began slow but steady signs of recovery

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



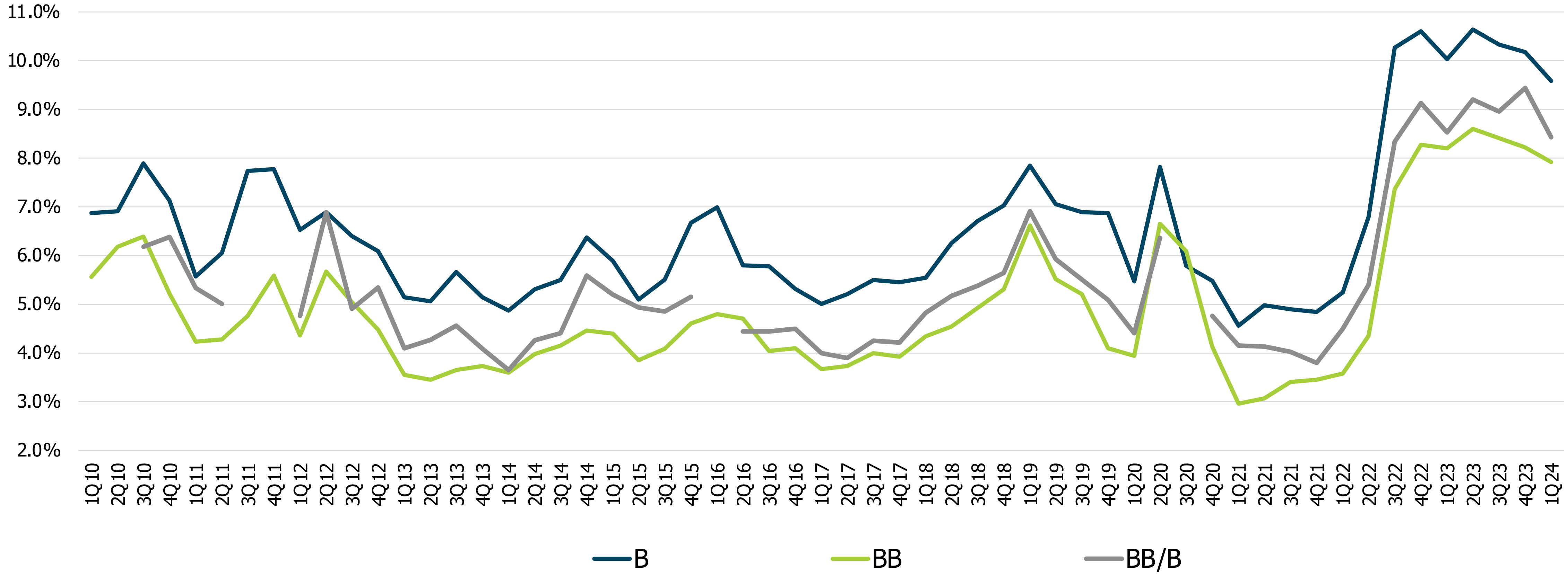
Avg. bid (% of par)



LSEG LPC

Yields on BB and single B credits remain at highest levels since 2008 credit crisis

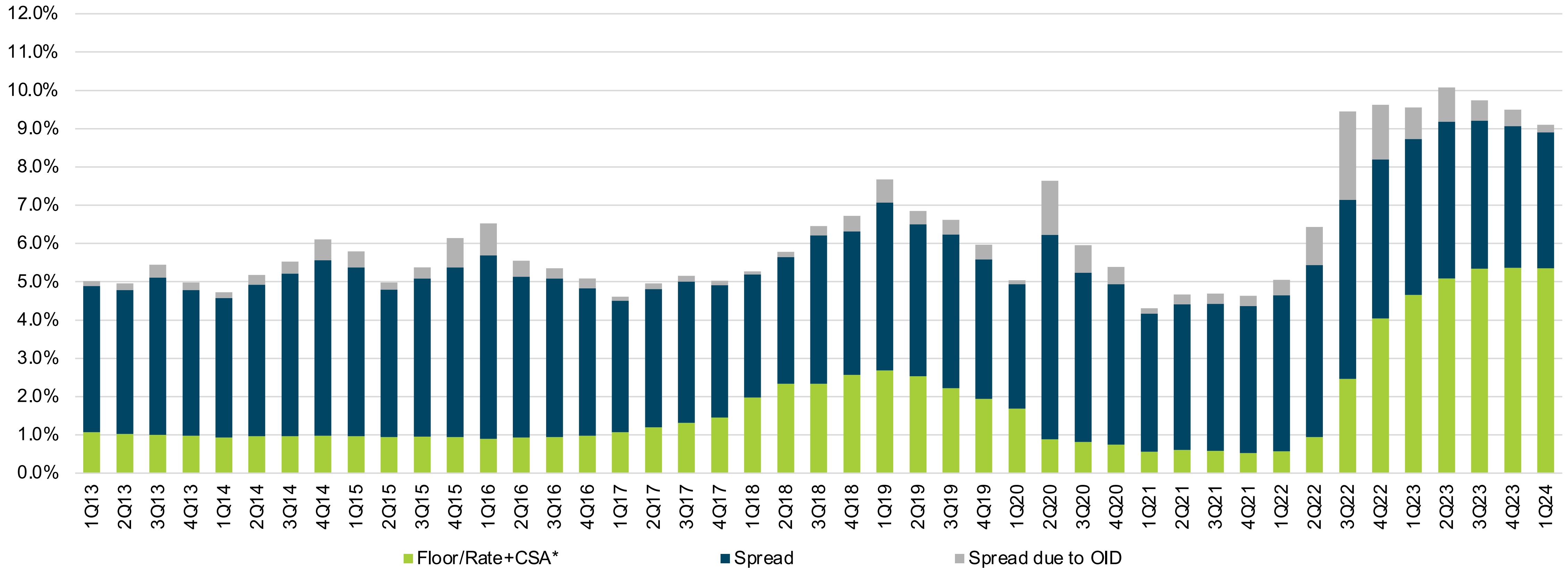
First-lien TL primary yield (3-year)



LSEG LPC

The avg. yield come in 1Q24 due to marginally lower base rates and OIDs; Increasing Term SOFR provides yield boost

Avg. Institutional TL yield % (3-year term)



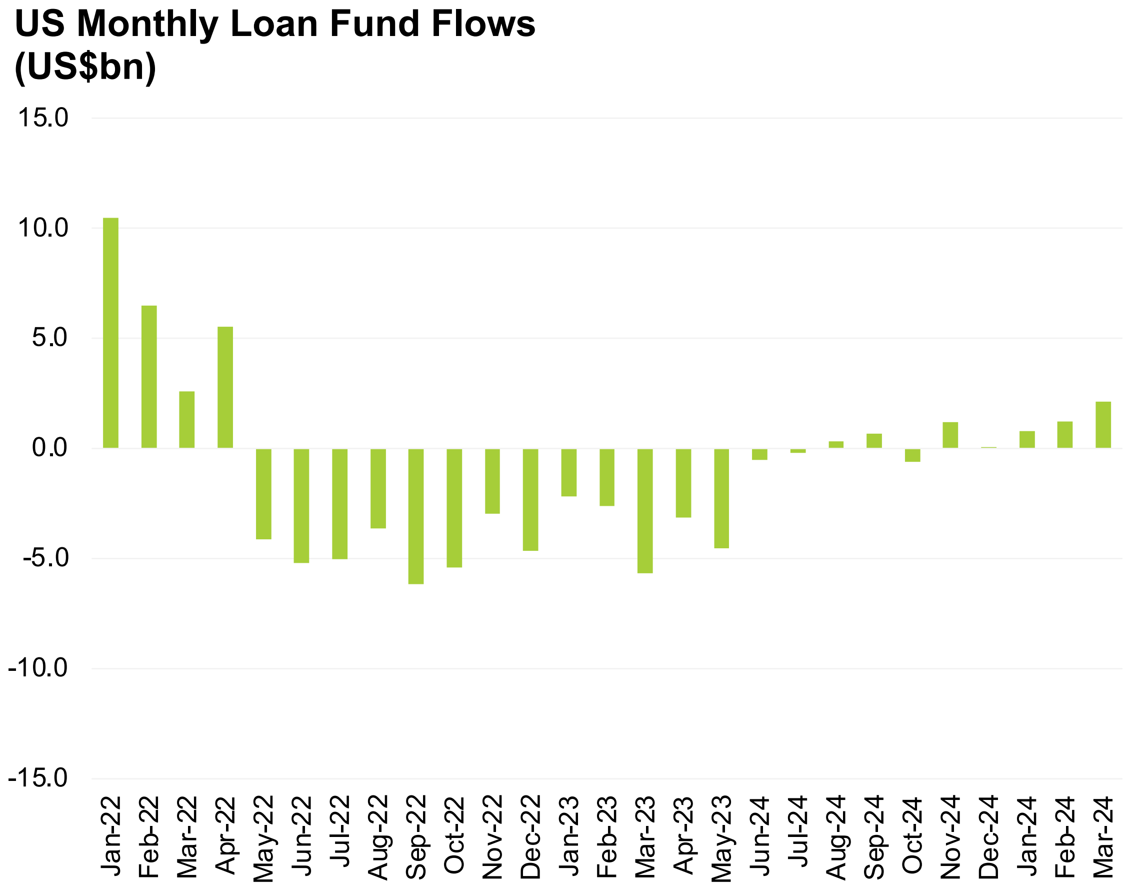
Beginning 1Q22, data includes LIBOR and SOFR based deals
**Libor loans = 3-month Libor rate. Term SOFR loans = 1-month TSOFR+CSA if available*

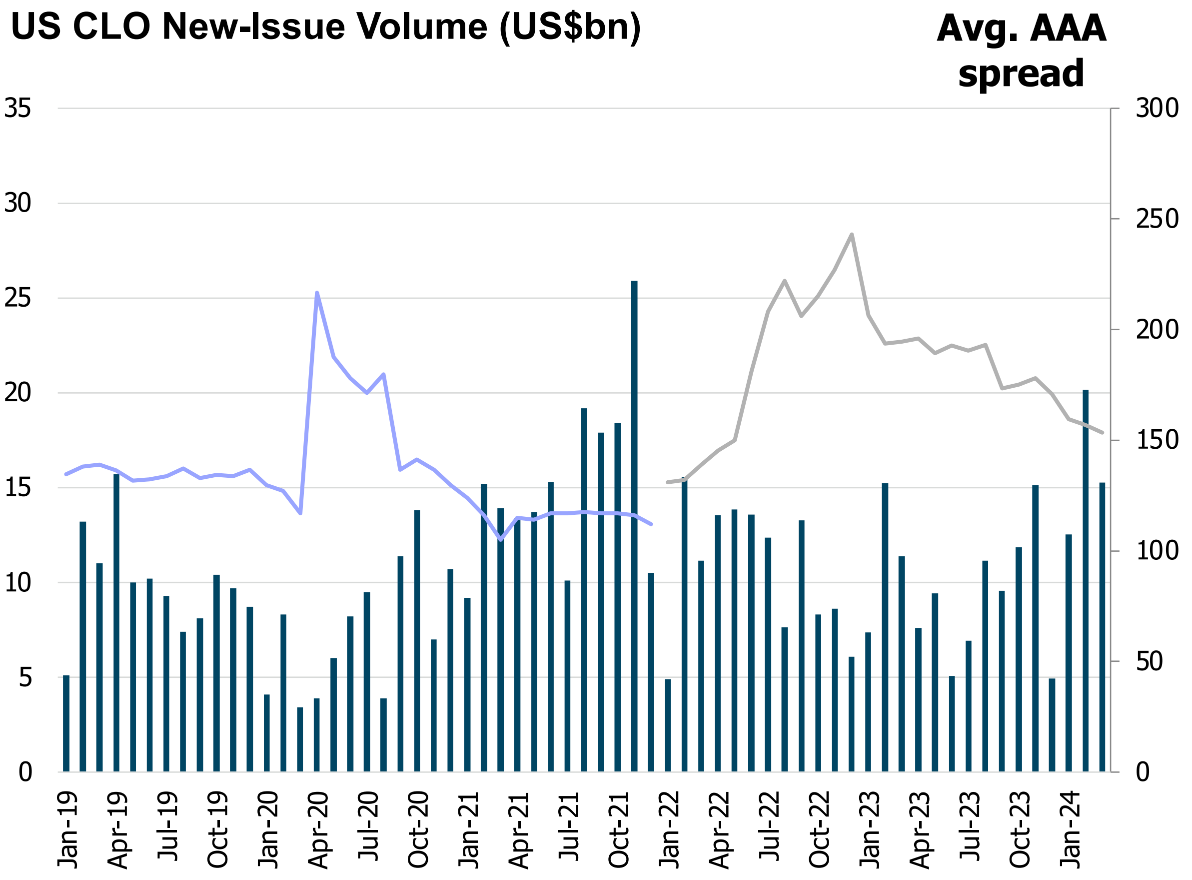
LSEG LPC

Financing markets are excellent as both loan fund inflows and CLO issuance ensure liquidity

1Q24 US inflows through the end of March totaled US$1.4bn; March represented the fifth straight month of inflows for the loan market

US new CLO issuance totaled US$48bn through the end of March, up 41% year over year; AAA spreads continue to tighten

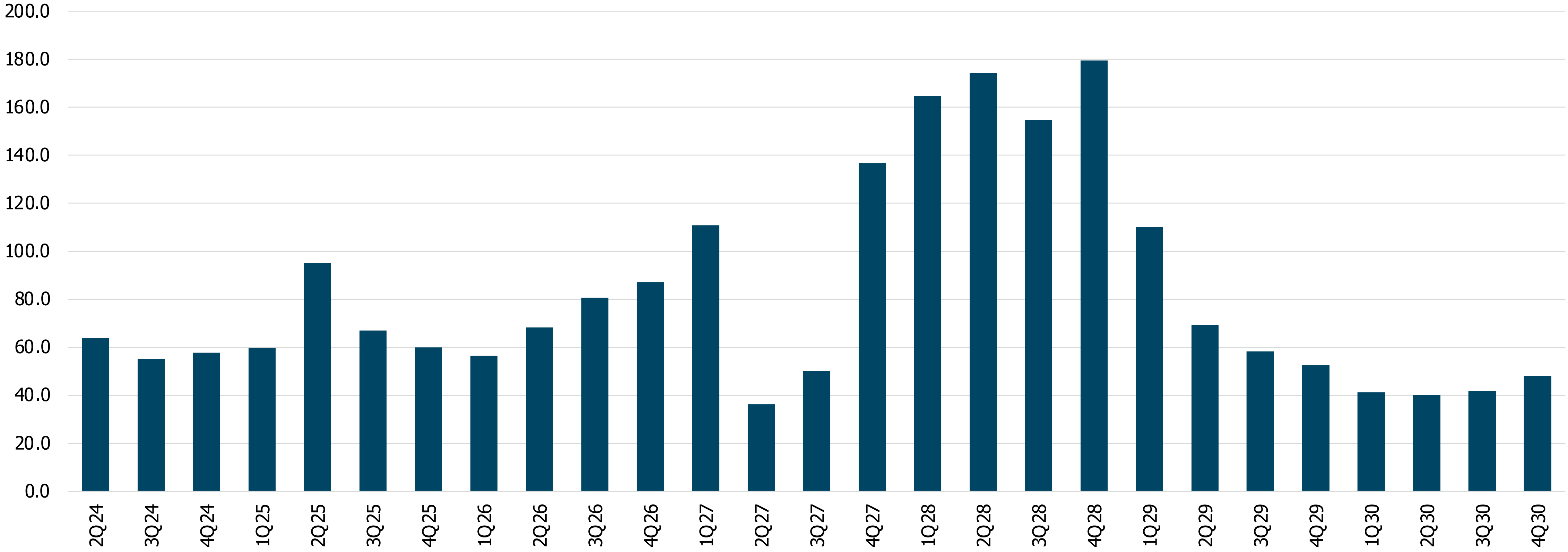




Maturity wall for institutional loan volume has been pushed out; Refinancings dominate calendar

Over US$462bn of institutional loan volume is expected to mature in 2029 or beyond; Over US$1.8tr expected to mature between 2Q24 and 4Q28

Maturing Institutional loan volume (US$bn)



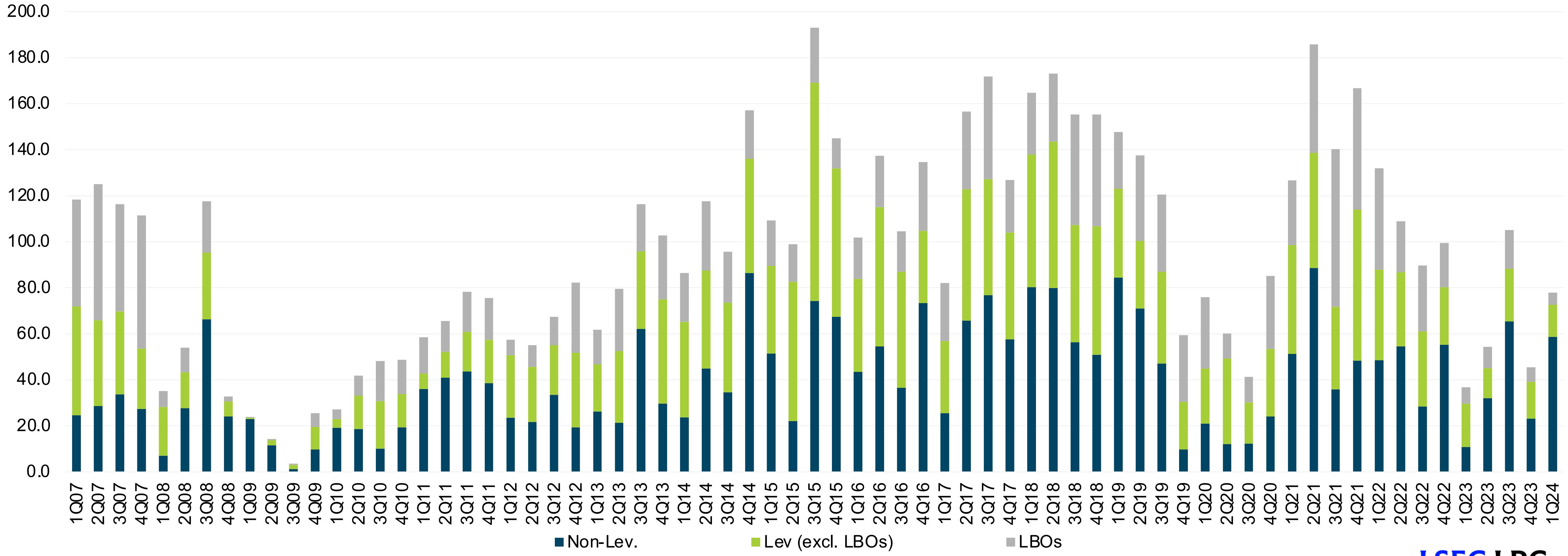
LSEG LPC

1Q24 US M&A loan volume 2 times year ago totals; Leveraged activity slowly ramps up

At less than US$20bn, leveraged M&A loan activity was down year over year in 1Q24

1Q24 LBO volume remains limited at just under US$9bn; An additional US$20bn in progress or closing shortly

US M&A loan issuance (US$bn)

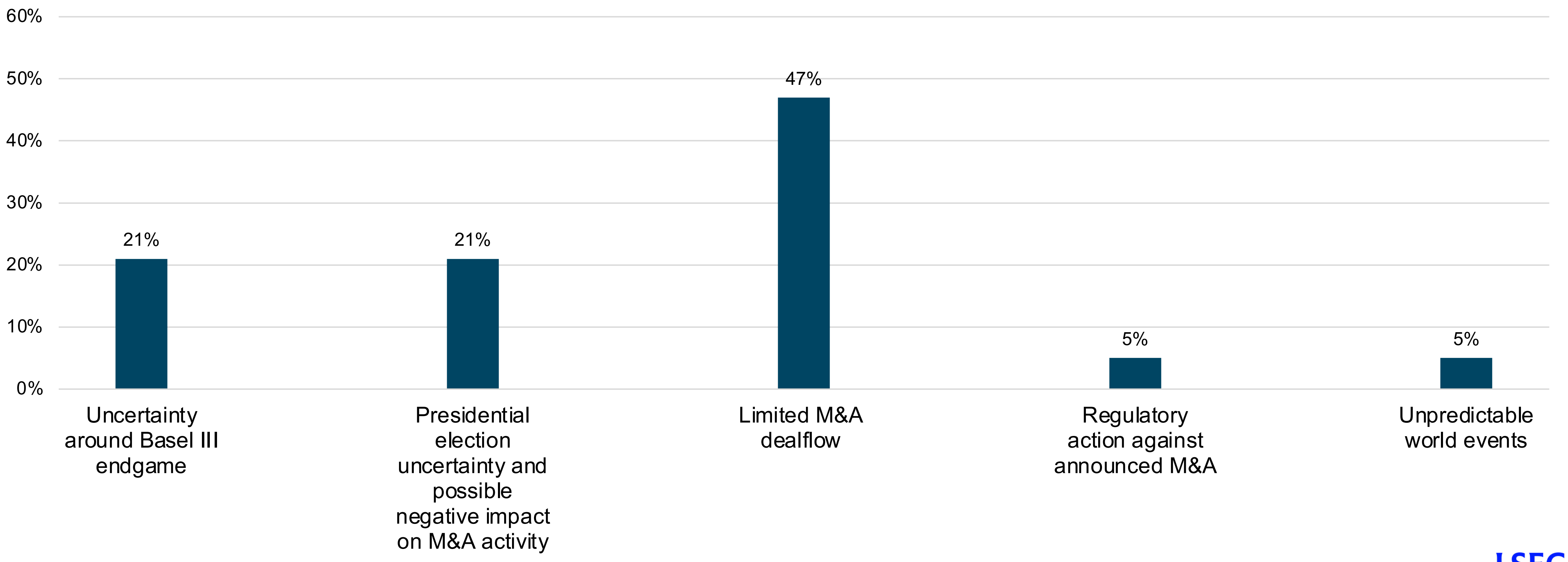


LSEG LPC

What are the biggest headwinds to loan deal flow heading into 2Q24?

Lenders across the credit spectrum believe that the market in general is feeling better and that financing is available. They are nonetheless mindful of potential headwinds. A majority of respondents (47%) to our LSEG LPC quarterly survey indicated that limited M&A deal flow in in particular was a concern heading into 2Q24.

What are the biggest headwinds to loan deal flow heading into 2Q24? (% of respondents)



Source: LSEG LPC Quarterly Survey

LSEG LPC

Role of Direct Lenders

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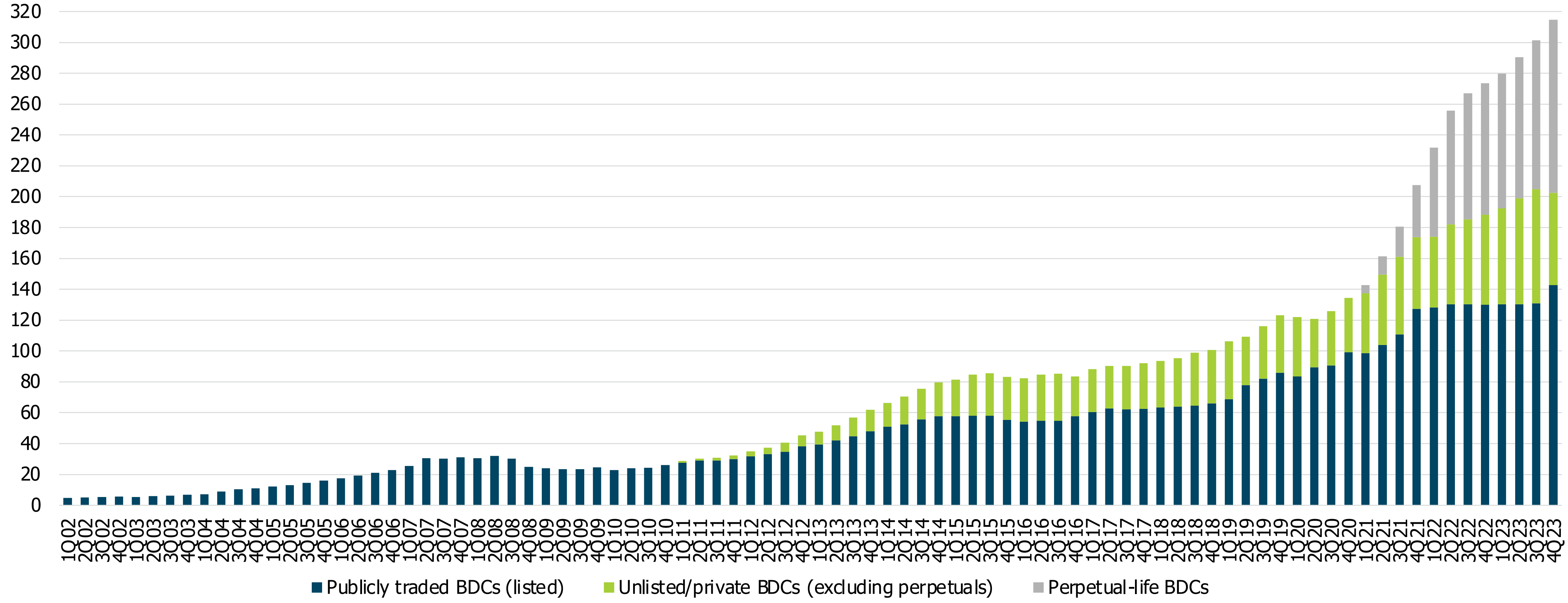
BDC AUM reached a new high of US$315bn at the end of 2023

The new record represented a 4% increase during 4Q23 and a 15% gain over the course of the year;

Breaking it down by category, public BDCs have assets of US$143bn, with perpetual-life BDCs at US$112bn and private BDCs (excluding perpetuals) at US$60bn.

Total Assets: Public vs. Private BDCs (US$bn - based on fair value)

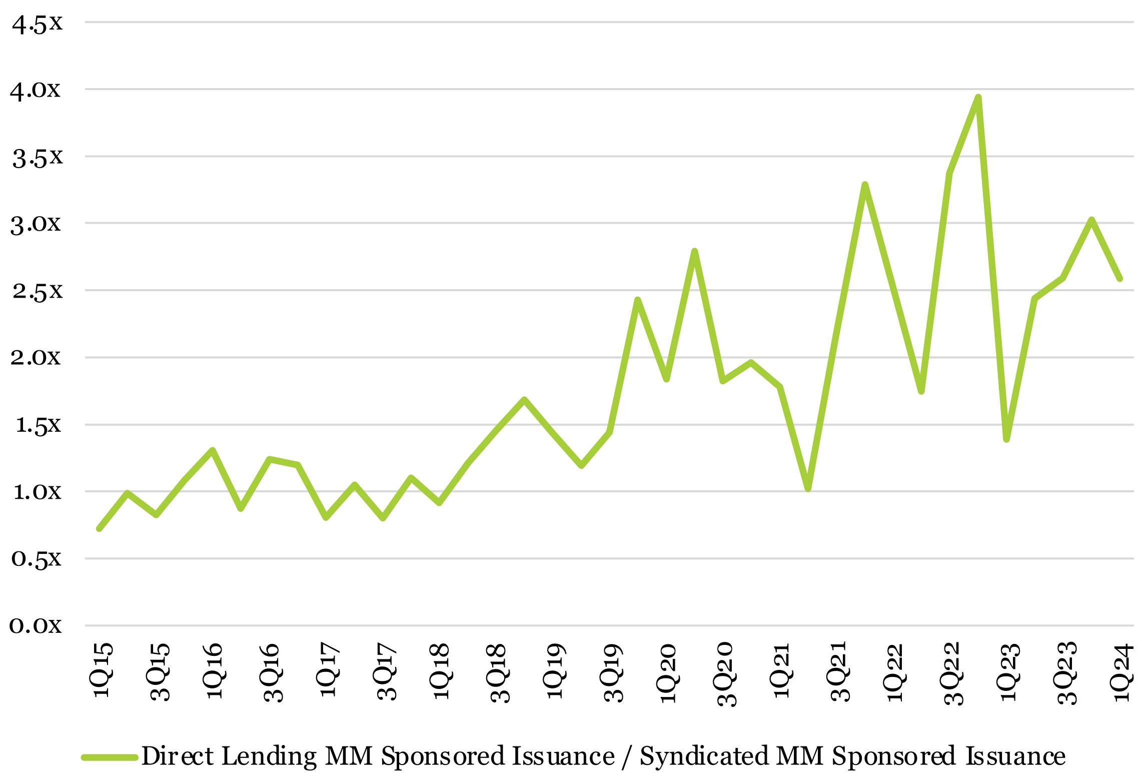


LSEG LPC

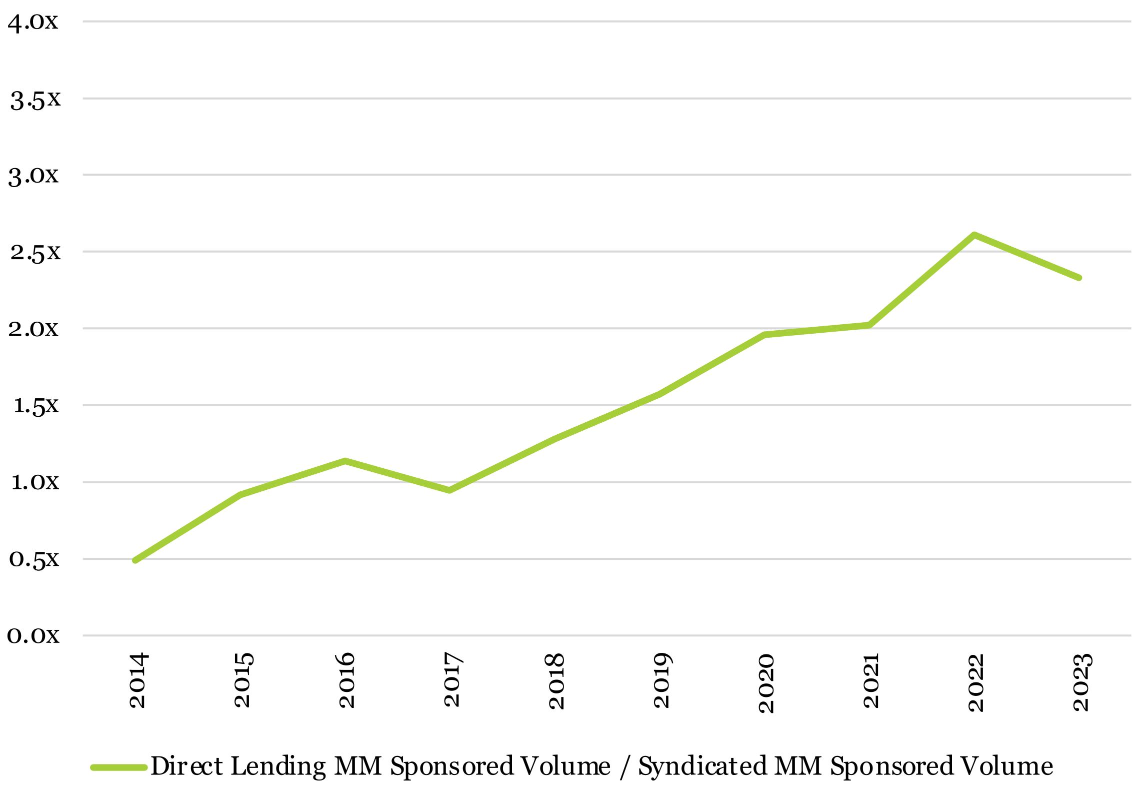
Source: LSEG's BDC Collateral & Wells Fargo Securities

Direct lending middle market volume was 2.6x greater than syndicated volume in 1Q24, a decline from the 3.0x posted in 4Q23

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

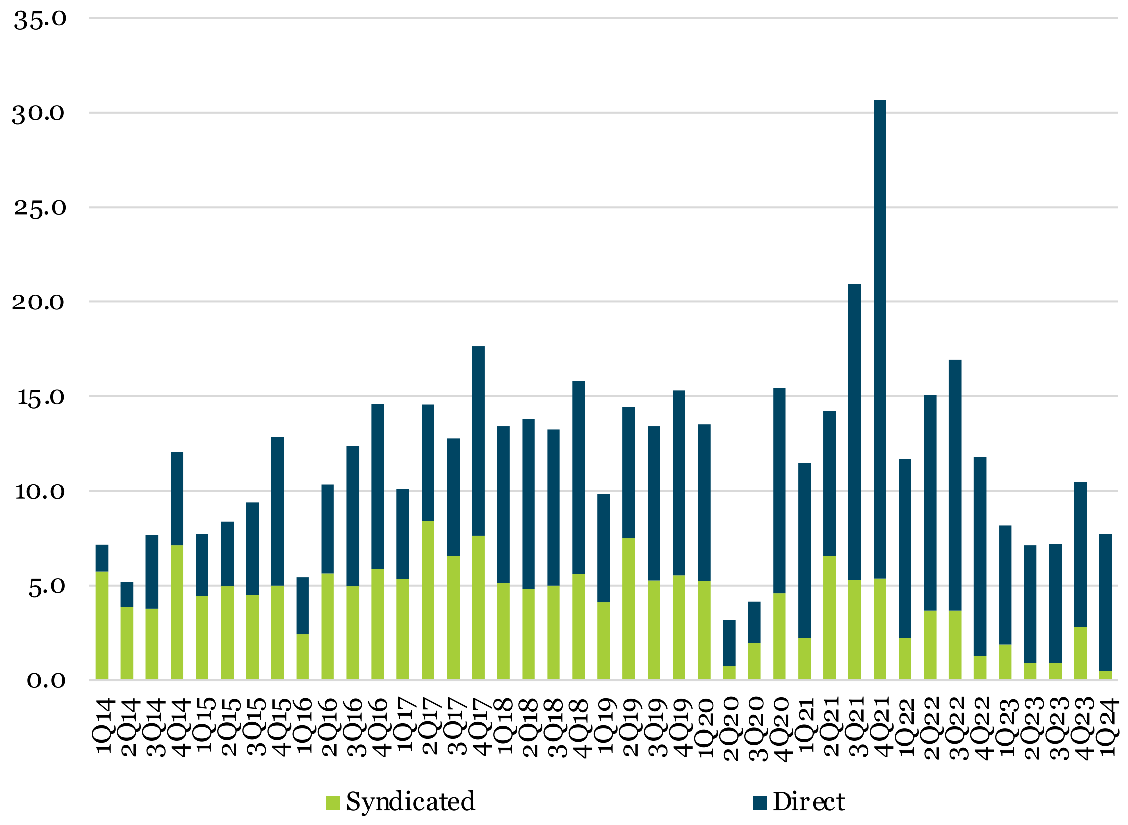


LSEG LPC

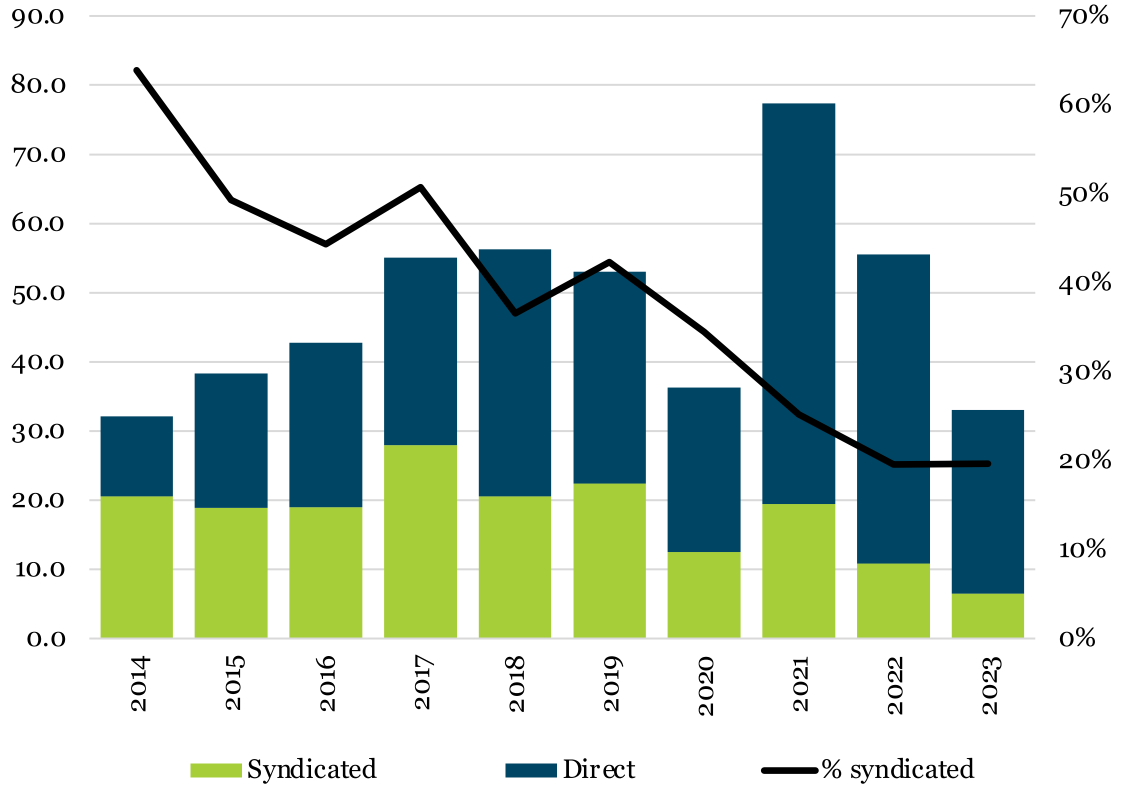
Middle market LBO volume amounted to US$7.73bn in 1Q24, down over 26% compared to 4Q23 results

Direct lending LBO volume of US$7.2bn in 1Q24 was down 6% QoQ but was up 15% YoY

Middle market LBO Volume (US$bn)



Middle market LBO volume (US$bn) and % syndicated



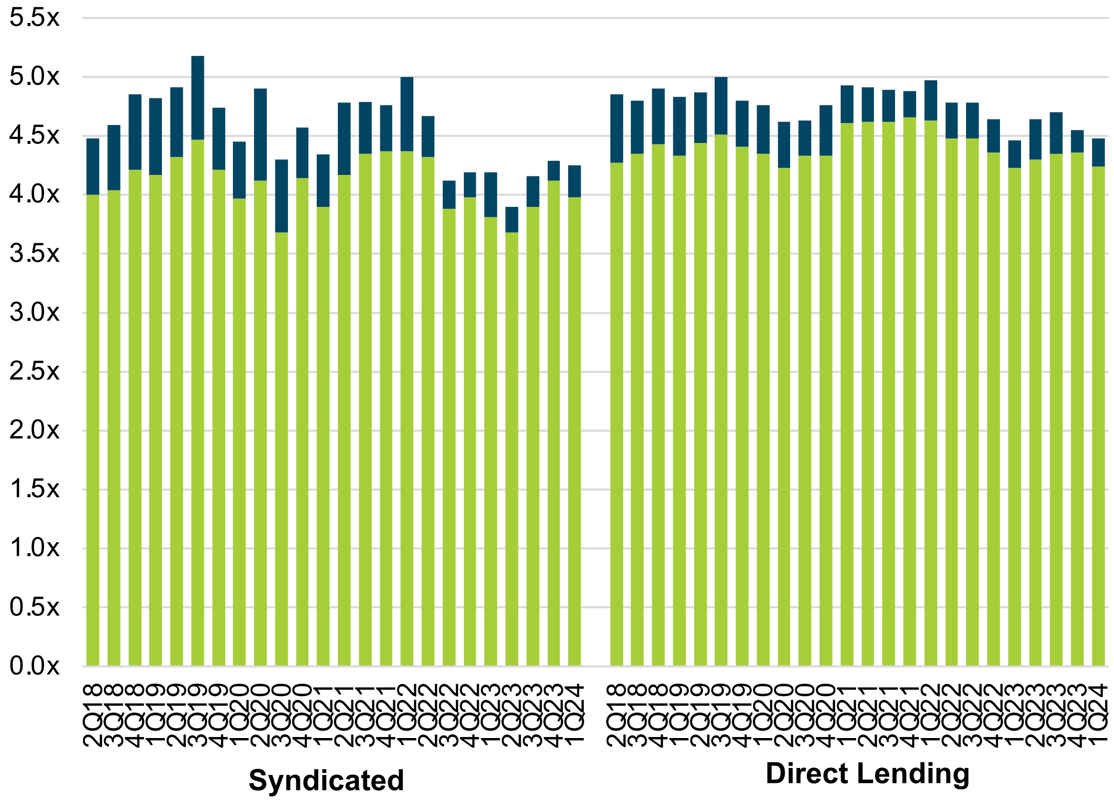
LSEG LPC

Leverage declined slightly for both direct lending and syndicated deals in 1Q24

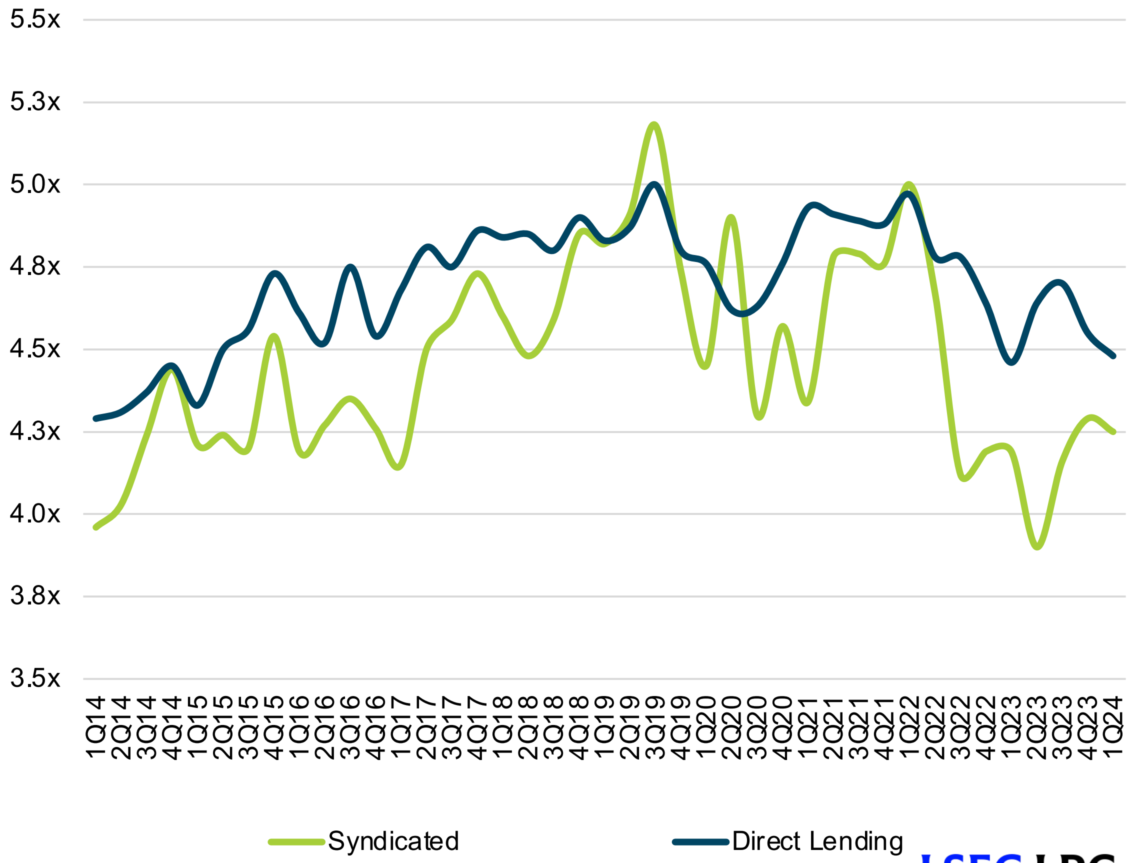
For direct lending transactions, leverage averaged 4.48x in 1Q24, down from 4.55x in 4Q23;

Leverage for syndicated deals decreased to 4.25x in 1Q24 from 4.29x in 4Q23

Sponsored MM: avg. debt to Ebitda by distribution



Spons. MM: avg. total debt to Ebitda by distribution



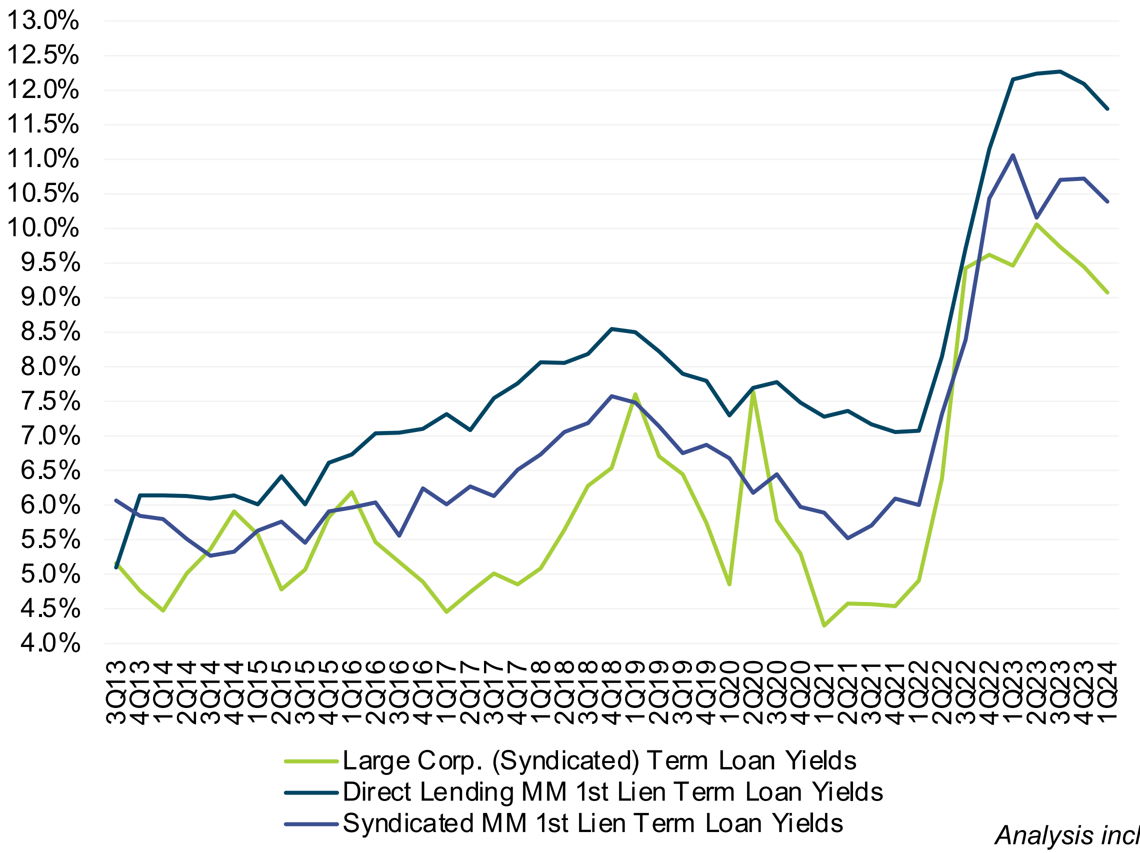
Note: analysis excludes annual recurring revenue (ARR) deals

LSEG LPC

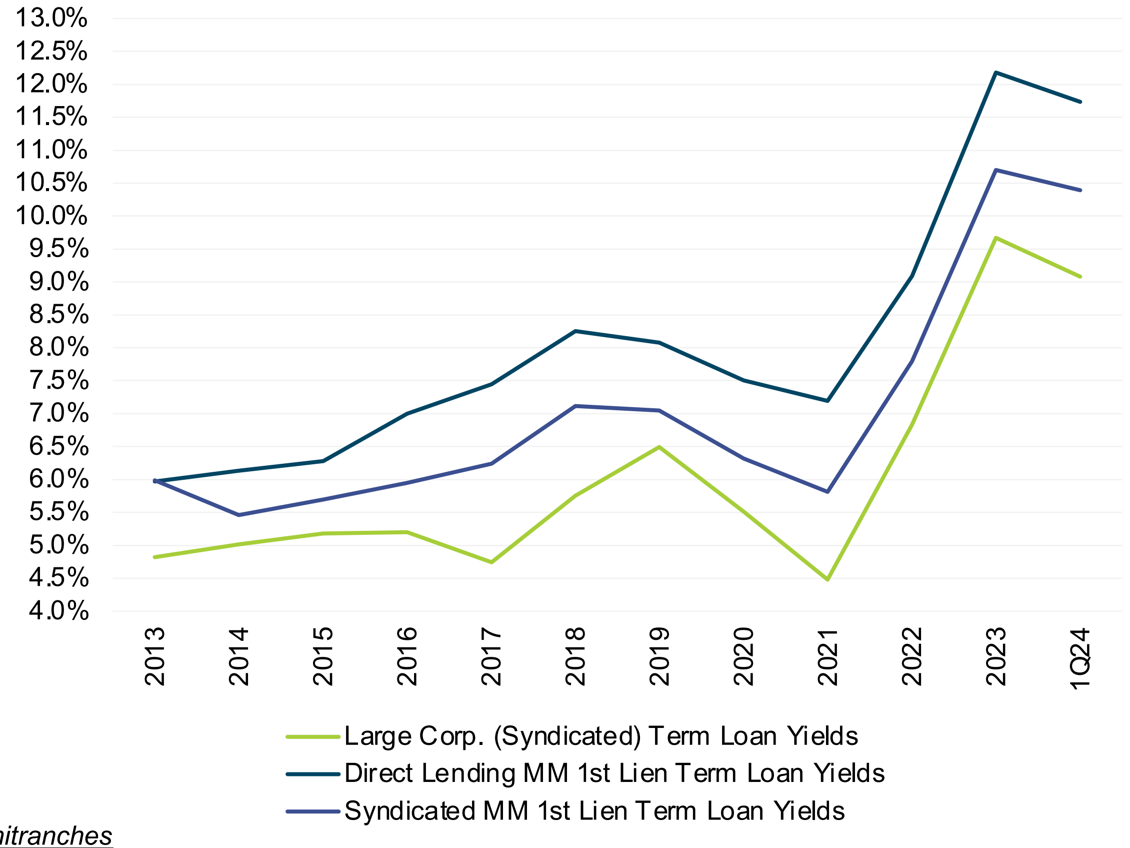
The yield premium for direct lender-led sponsored middle market deals compared to large corporate deals was flat at 265bp in 1Q24

The avg. all-in-yield on all first-lien MM term loans (including unitranches) for direct lender-led deals tightened by 36bp to 11.73% in 1Q24; average large corporate yields also tightened by 37bp to 9.08%

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



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



Analysis includes unitranches
Beginning 1Q22, data includes LIBOR and SOFR based deals

LSEG LPC

ABL Overview

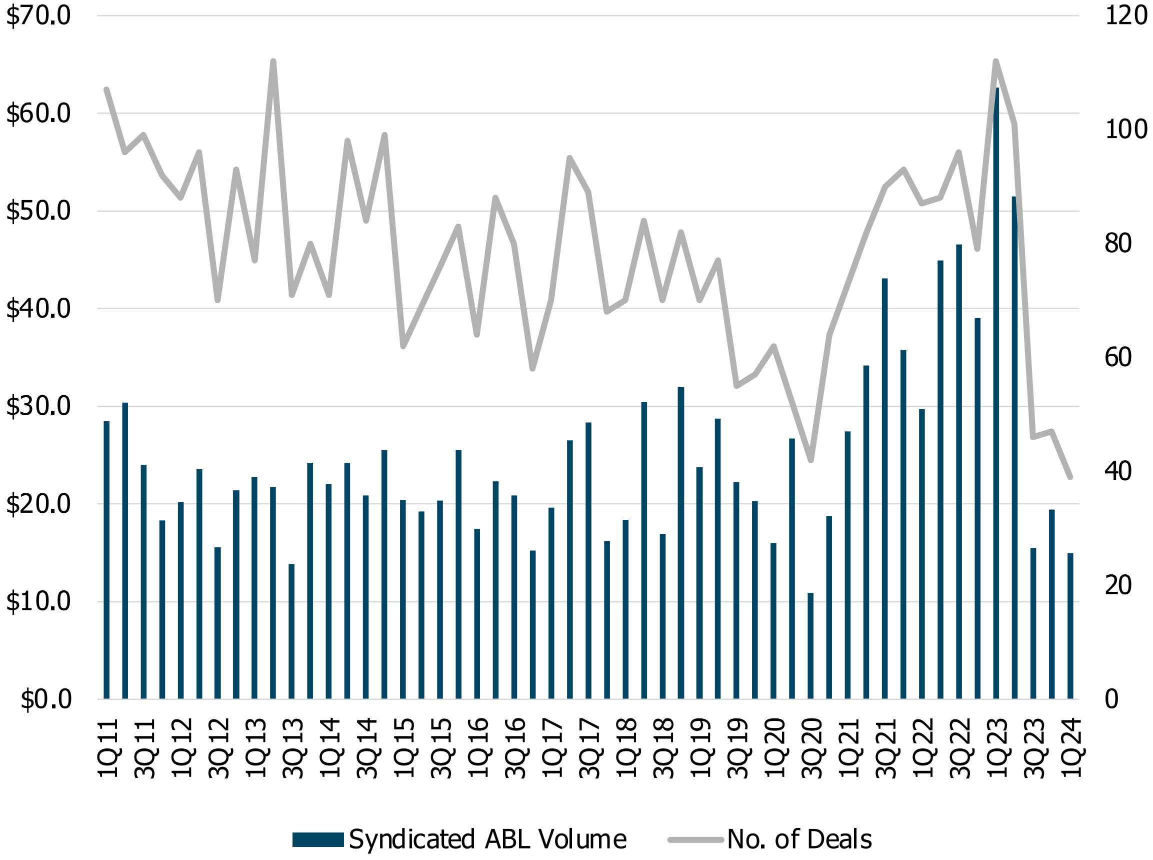
Secured Finance Network

1Q24 Syndicated ABL volume at less than US$15bn, consistent with last 3 quarters

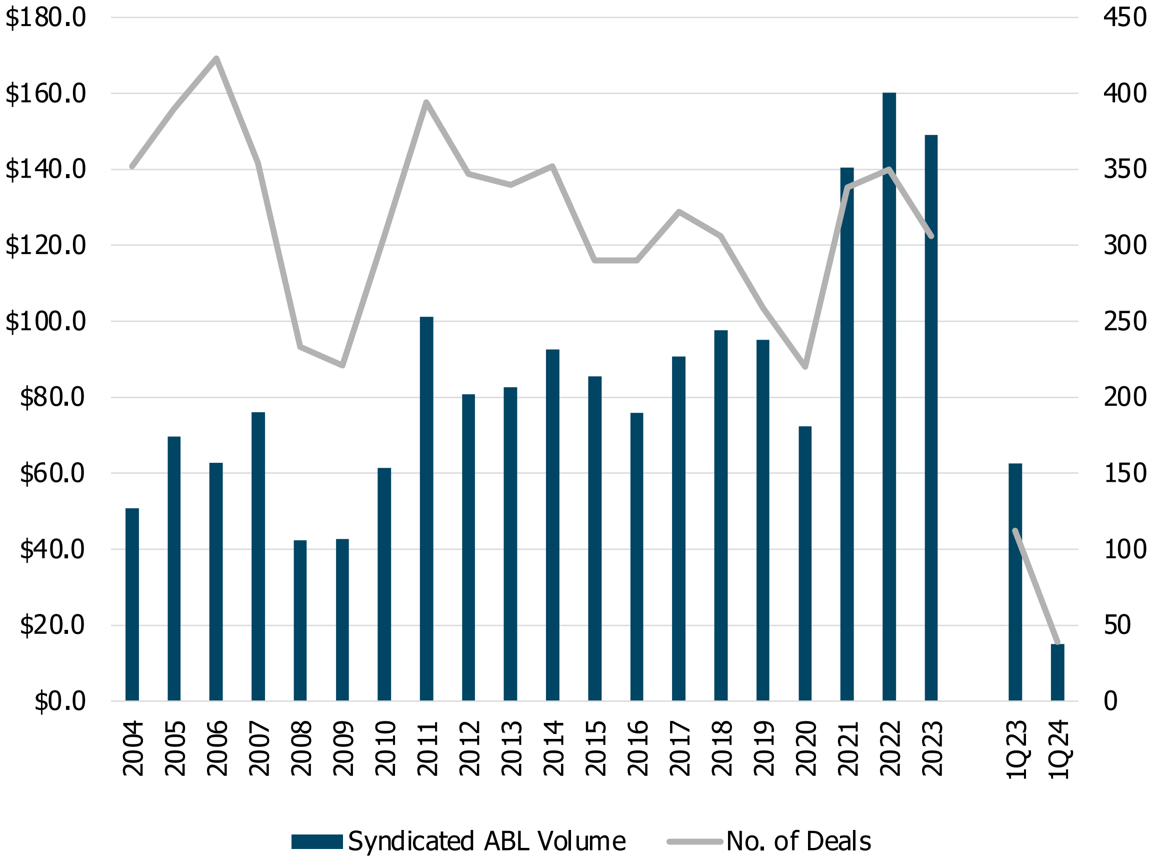
Drop off can be traced back to significant refinancing ABL refinancing activity took place in 1H23 as borrowers moved away from Libor based constructs.

In line with historical norms, even if off year over year

Quarterly syndicated loan volume (US$bn)



Annual syndicated loan volume (US$bn)



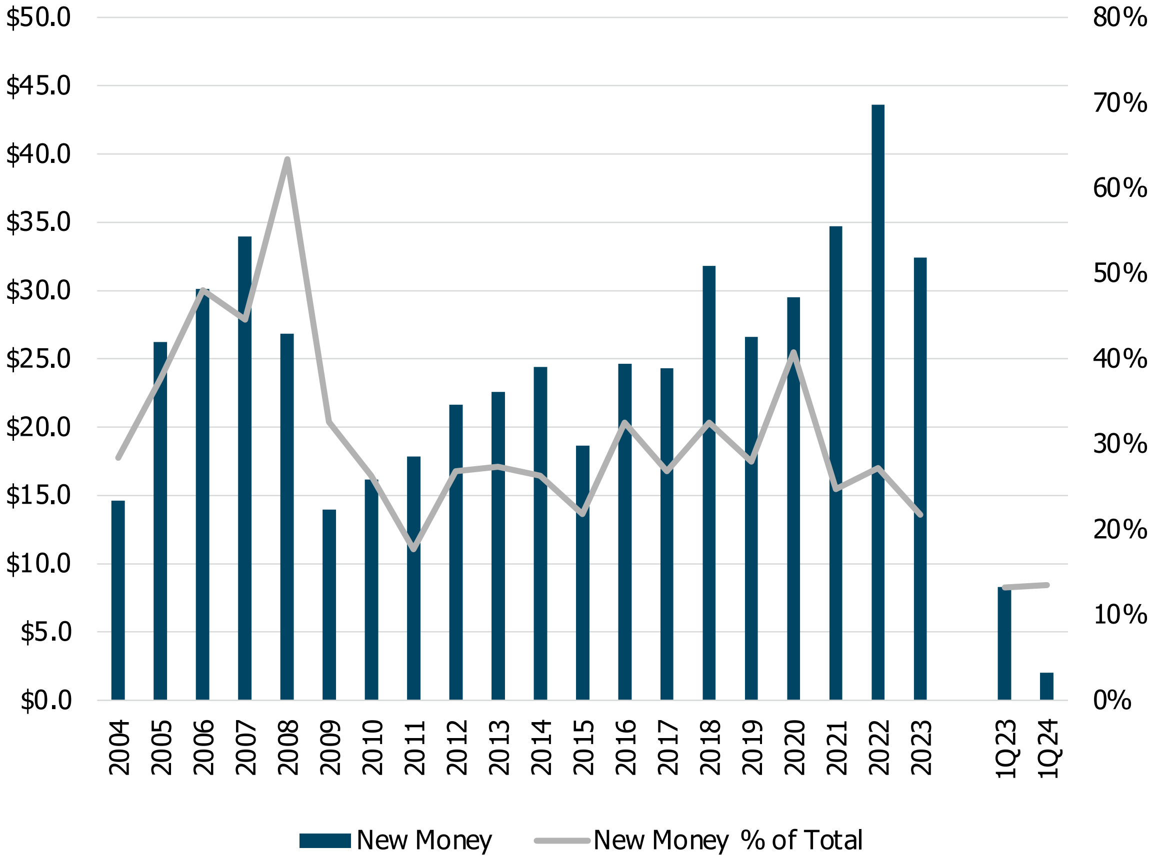
LSEG LPC

1Q24 New ABL assets totaled US$2.02bn, down 76% year-over-year

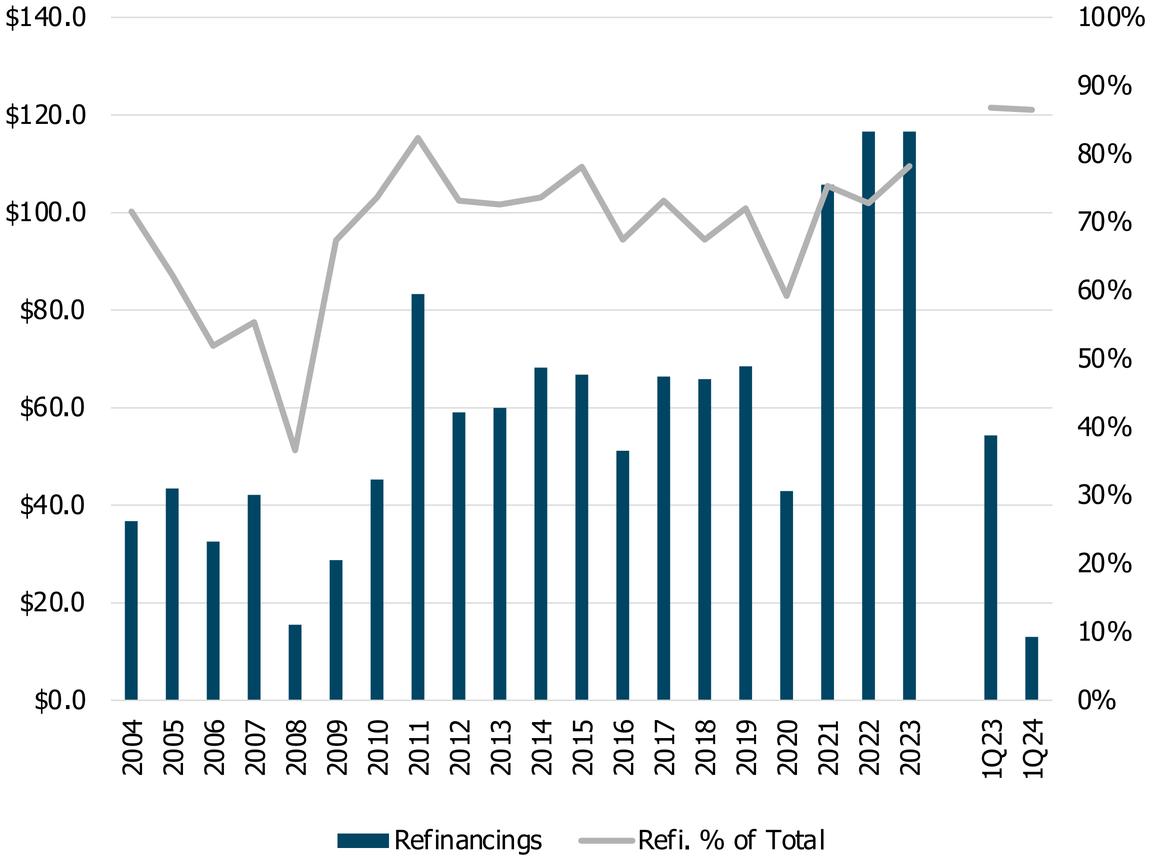
New money represented 13.5% of total quarterly issuance and on a dollar basis, the lowest quarterly total on record. Less than 30% of the total represented sponsored activity.

Refinancing volume totaled almost US$13bn, a similar 76% decline year-over-year.

Syndicated new money (US$bn)



Syndicated refinancings (US$bn)



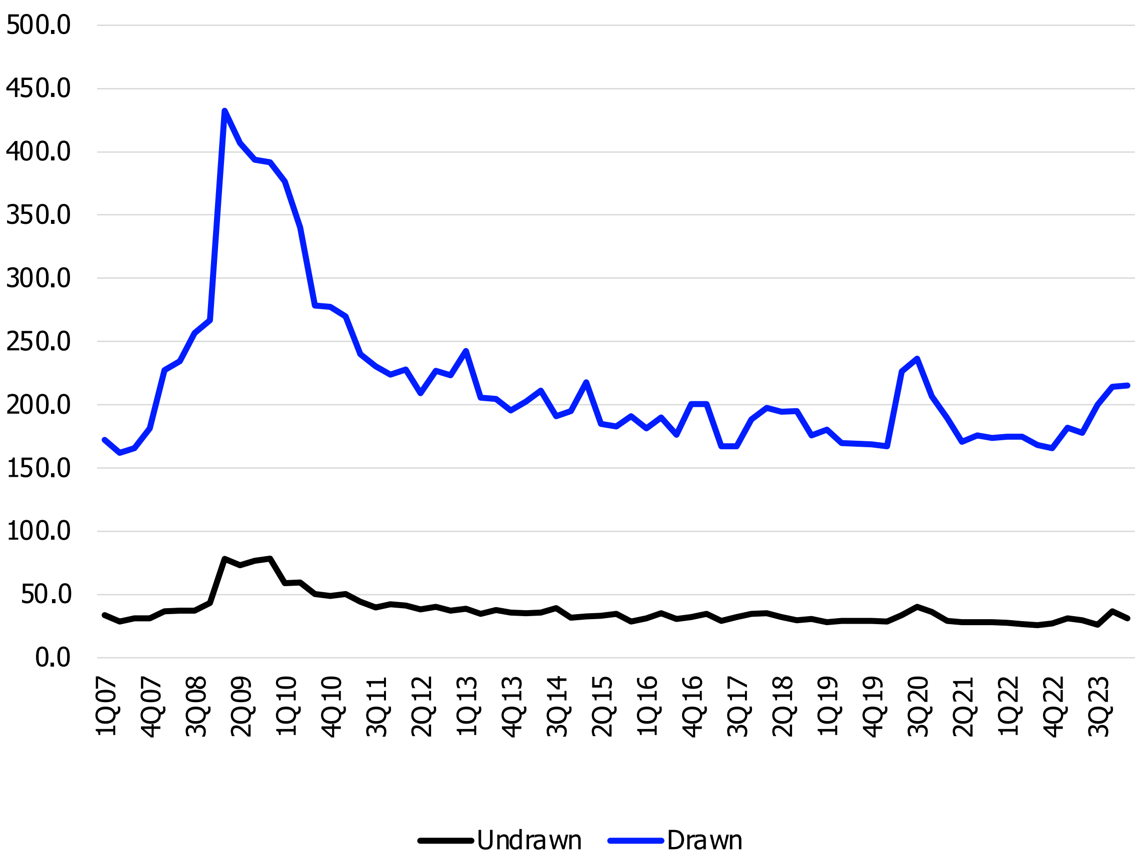
LSEG LPC

Average ABL undrawn pricing edged down in 1Q24; Sweet spot for drawn spreads at 200bps

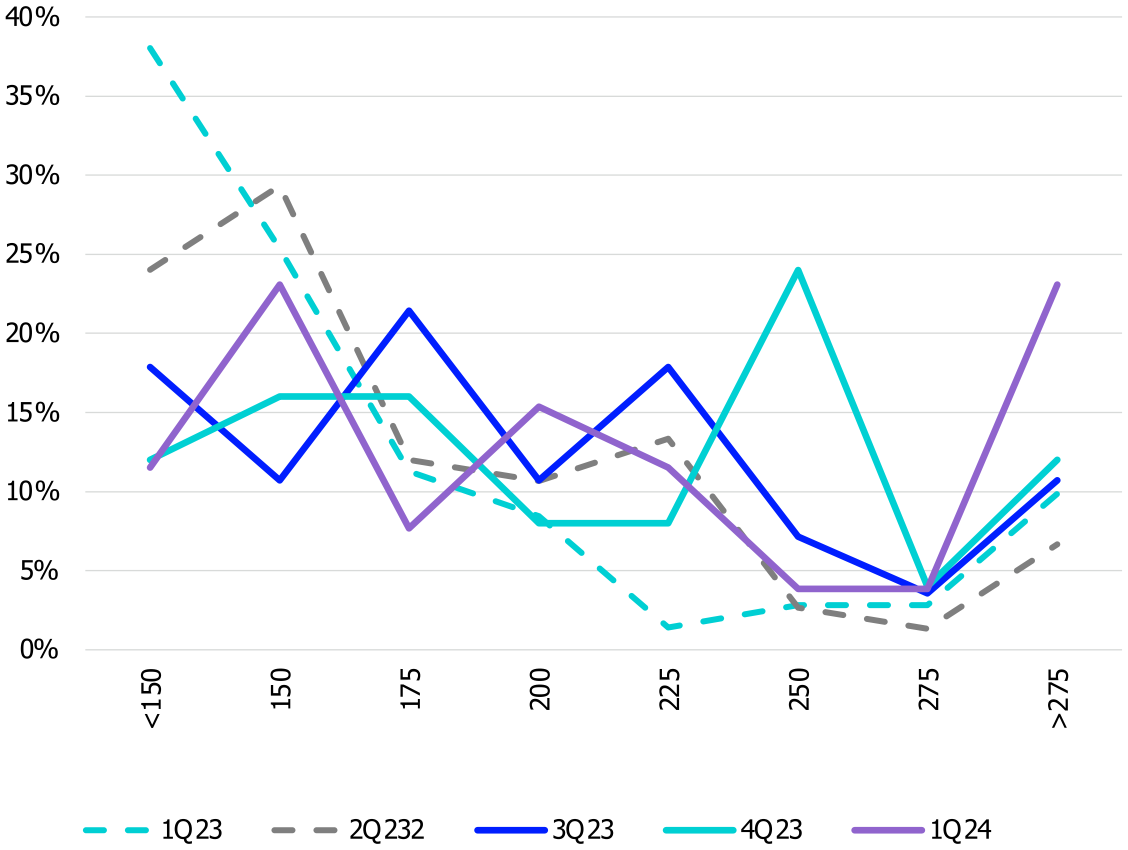
While average pricing was TSOFR + 215.4bps, 23% of all 1Q24 ABL loans priced north of 275bps over TSOFR, up from 10% in 1Q23 and 12% in 4Q23

42% of 1Q24 deals priced at 175bps over TSOFR or below, down from roughly 75% in 1Q23

Average pro rata pricing (bps)*



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

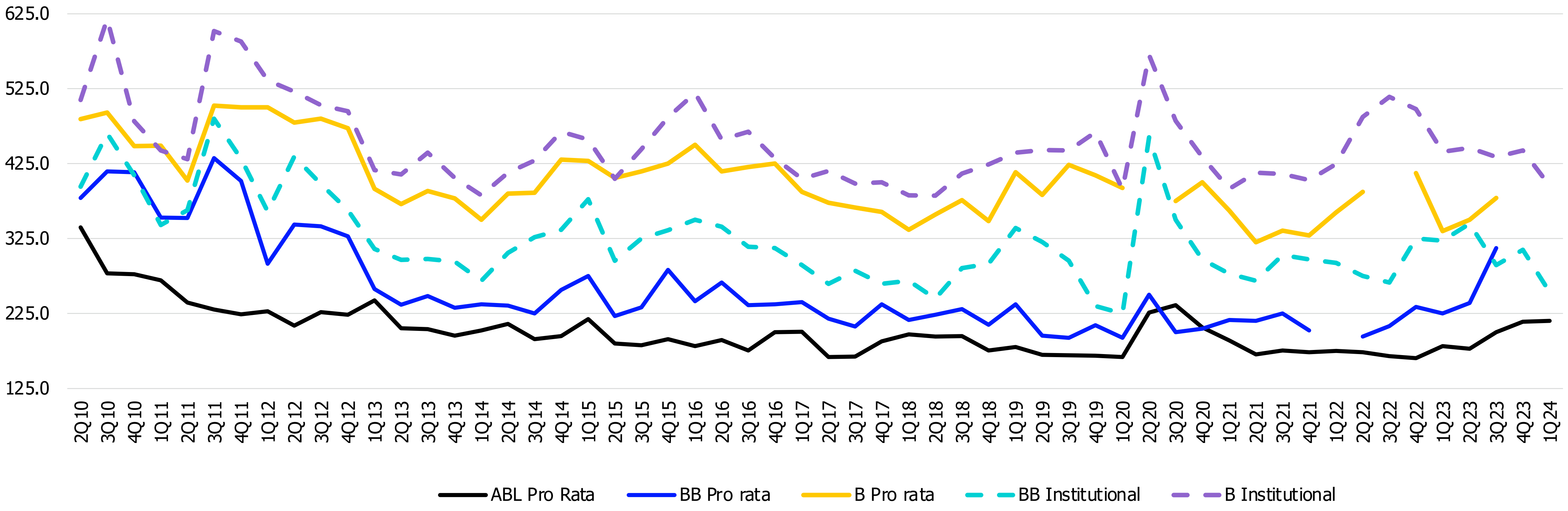


LSEG LPC

Cash flow deal spreads remain stable if higher; Institutional pricing edges amid supply/demand imbalance

Demand for new loan assets fuels competition

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

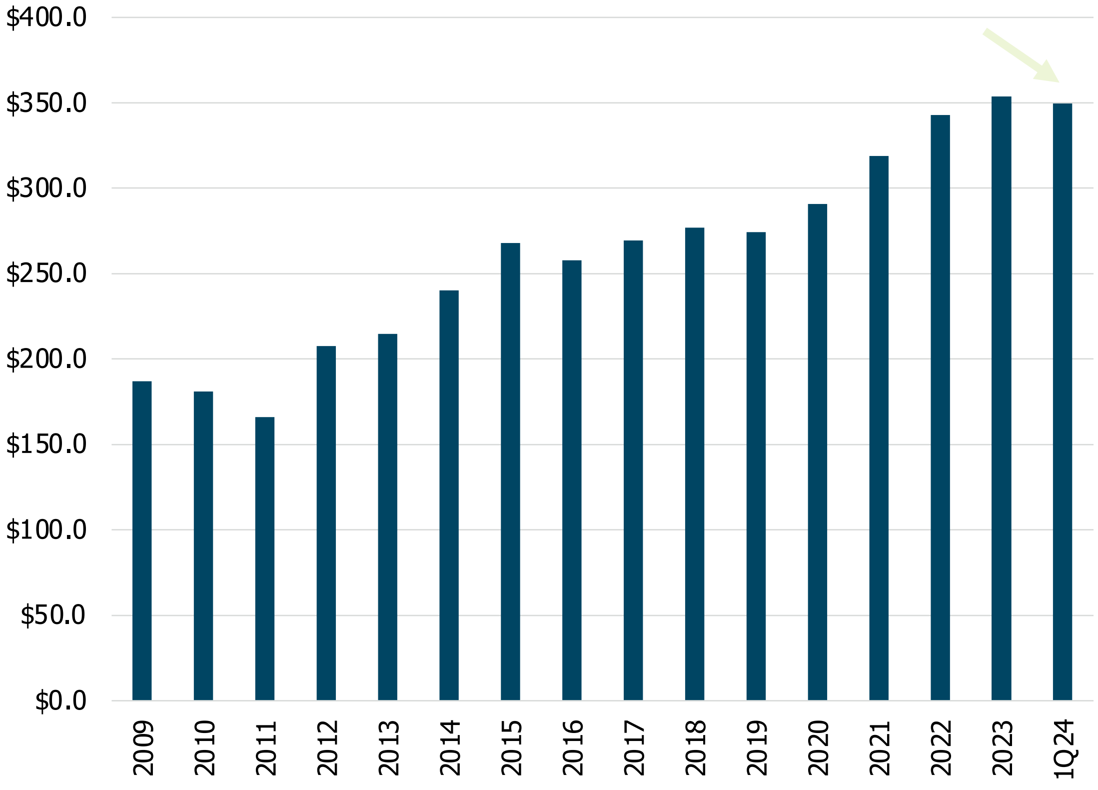


LSEG LPC

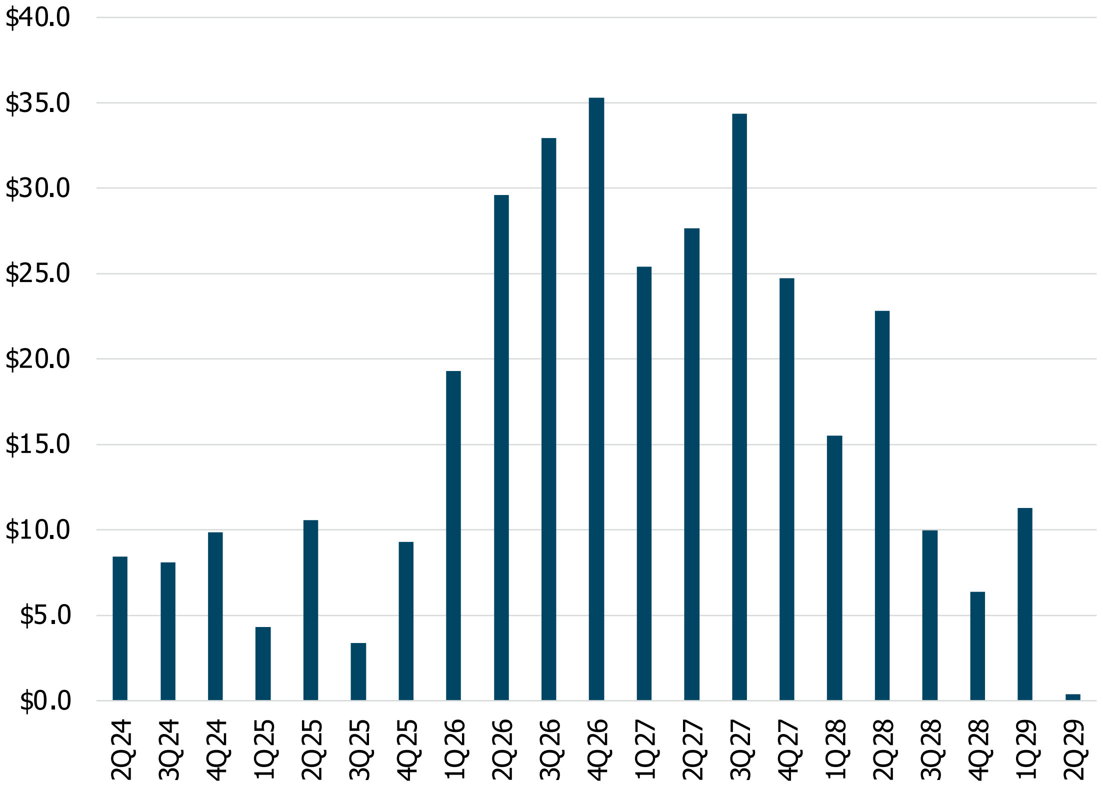
Committed ABL holdings come off 2023 record high

- Outstanding ABL commitments reached a record high of US$353.7bn at the end of 2023, only to edge down to US$349.5bn by end of 1Q24
- Over US$283bn of ABL commitments or 81% of current outstanding commitments are set to mature by end of 2027

Outstanding ABL loan commitments (US$bn)



ABL Maturing Volume (US$bn)



LSEG LPC

Appendix: SFNet Data; Total List of State Shares of Total Outstanding

State	2023	2022	2023 Rank
AL	1.2%	1.1%	24
AK	0.0%	0.0%	51
AZ	1.6%	1.4%	19
AR	0.3%	0.3%	37
CA	8.2%	9.4%	3
CO	0.5%	0.6%	32
CT	2.9%	2.9%	13
DE	0.2%	0.3%	39
DC	0.0%	0.0%	49
FL	6.4%	6.3%	4
GA	4.6%	4.9%	7
HI	0.1%	0.0%	45
ID	0.4%	0.9%	34
IL	5.8%	6.3%	6
IN	1.9%	1.9%	18
IA	0.2%	0.3%	38
KS	1.3%	0.9%	21

State	2023	2022	2023 Rank
KY	1.2%	1.1%	23
LA	0.5%	0.5%	33
ME	0.1%	0.1%	41
MD	0.9%	0.5%	28
MA	3.9%	3.0%	9
MI	2.5%	2.5%	15
MN	1.6%	2.1%	20
MS	0.1%	0.1%	46
MO	2.8%	3.3%	14
MT	0.0%	0.0%	47
NE	0.3%	0.2%	36
NV	0.1%	0.2%	40
NH	0.5%	0.5%	31
NJ	3.7%	3.8%	10
NM	0.1%	0.1%	44
NY	9.3%	8.0%	1
NC	3.5%	3.5%	11

State	2023	2022	2023 Rank
ND	0.8%	0.5%	29
OH	4.3%	5.7%	8
OK	0.3%	0.3%	35
OR	1.0%	0.9%	27
PA	6.0%	4.6%	5
RI	1.0%	0.8%	25
SC	1.3%	1.4%	22
SD	0.1%	0.1%	42
TN	2.0%	2.6%	17
TX	9.2%	9.0%	2
UT	0.6%	0.7%	30
VT	0.0%	0.0%	50
VA	2.1%	2.4%	16
WA	1.0%	1.5%	26
WV	0.1%	0.0%	43
WI	3.3%	2.5%	12
WY	0.0%	0.0%	48

Appendix: SFNet Data; Total List of State Shares of Total Clients

State	2023	2022	2023 Rank
AL	1.6%	1.5%	19
AK	0.0%	0.0%	48
AZ	1.5%	1.4%	20
AR	0.6%	0.7%	31
CA	10.4%	9.7%	2
CO	1.0%	1.0%	23
CT	2.3%	2.2%	14
DE	0.2%	0.3%	40
DC	0.0%	0.0%	48
FL	5.6%	5.3%	4
GA	4.2%	4.4%	9
HI	0.1%	0.1%	44
ID	0.5%	0.6%	34
IL	5.2%	6.6%	6
IN	2.0%	2.2%	16
IA	0.3%	0.4%	38
KS	1.0%	1.0%	23

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MN	1.8%	2.0%	18
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MT	0.1%	0.1%	44
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NH	0.7%	0.6%	30
NJ	4.9%	3.9%	7
NM	0.1%	0.1%	47
NY	9.6%	8.8%	3
NC	2.6%	2.4%	12

State	2023	2022	2023 Rank
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OK	0.6%	0.5%	33
OR	1.0%	1.0%	23
PA	4.4%	4.1%	8
RI	0.4%	0.4%	35
SC	0.8%	0.8%	29
SD	0.2%	0.2%	43
TN	1.9%	2.2%	17
TX	10.5%	10.7%	1
UT	0.9%	1.0%	26
VT	0.0%	0.0%	48
VA	1.5%	1.6%	20
WA	1.3%	1.6%	22
WV	0.0%	0.1%	48
WI	2.1%	2.3%	15
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