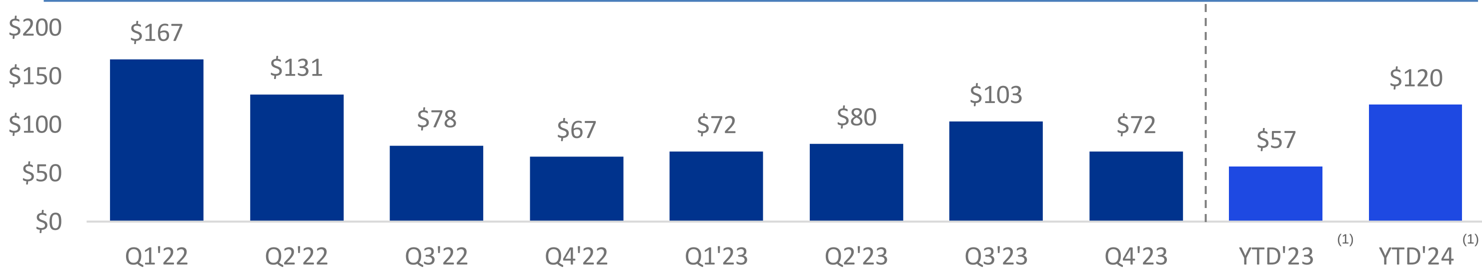
Credit Markets Update (February 2024)

While monetary policy and geopolitical conditions created uncertainty for capital markets in 2023, the recent interest rate plateau, expectations for future interest rate reductions, and record levels of dry powder has created increased market optimism for 2024

- As we head into 2024, recessionary fears have begun to dissipate, and macroeconomics conditions have undoubtedly improved over the last few months. Investors who largely remained on the sidelines in 2023 to monitor credit conditions and their portfolio are now flush with dry powder and eager to put their capital to work in 2024.
- Despite volatile pricing in 2023, pricing stability was restored following indications from the Federal Reserve that it likely reached the peak of its tightening cycle. While it is expected that interest rates will remain static in the near-term, there is anticipation that rates may improve in 2024.
- January and February 2024 have seen an uptick in deal flow and activity as the sentiment in the market amongst lenders is that 2024 will be a stronger year for the M&A and credit markets.

New-Issued Leveraged Loan Volume ($bn)

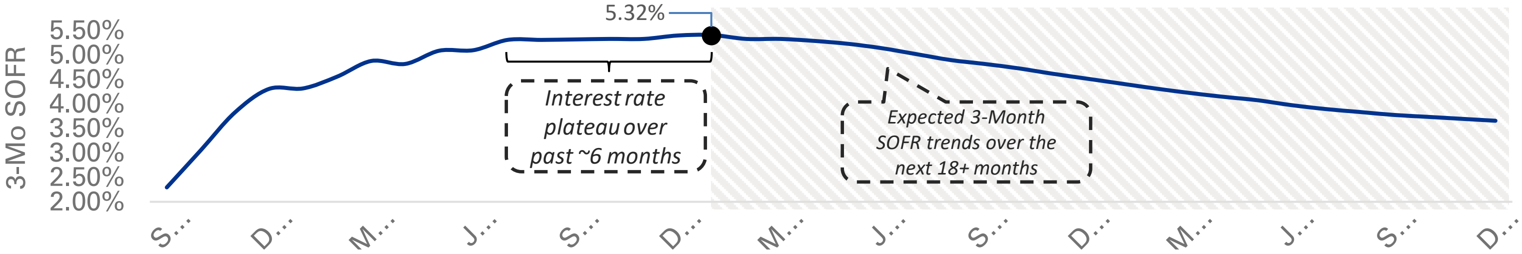
A tightening of borrowing spreads, coupled with increased investor appetite for risk, created an opening for borrowers to reduce interest costs via refinancing in the broadly syndicated loan market, which contributed to the 112% YoY increase in new-issue leveraged loan volume for Feb-24 YTD



Source: Pitchbook LCD. (1) YTD as of February 2024.

Historical and Forward 3-Month Term SOFR

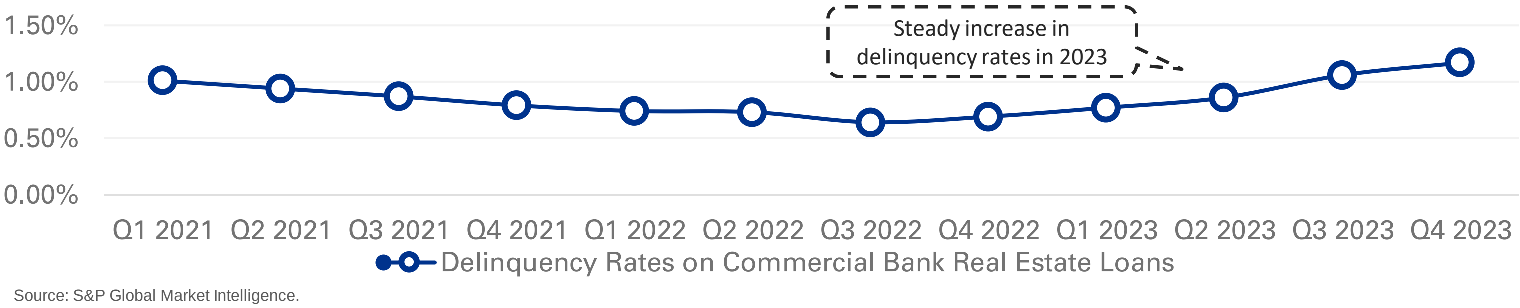
As base rates have plateaued in recent months, bank deposit flows have stabilized along with the broadly syndicated market (i.e. larger deals)



Source: Chatham Financial. The Treasury forward curves represent market-implied future yields of on-the-run U.S. Treasury notes of different tenors. Each curve is derived from observable market data, including futures contracts, market swap rates, and current outstanding Treasury instruments.

Increase in Refinancings as Banks Purge Smaller Credits

Regional banks have been under liquidity pressure given delinquencies in their commercial real estate portfolios, which has caused them to refinance other credits in their portfolio



Source: S&P Global Market Intelligence.

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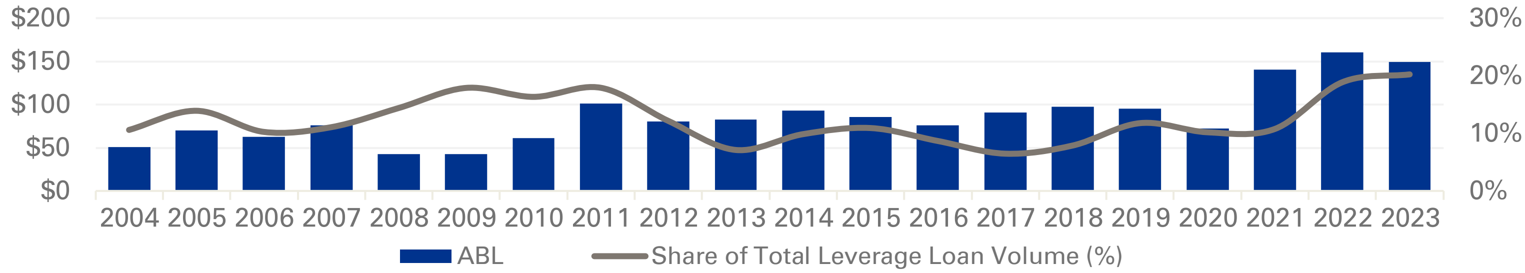
Annual U.S. ABL Loan Volume & Percent of Total Leveraged Loan Volume (US$bn)

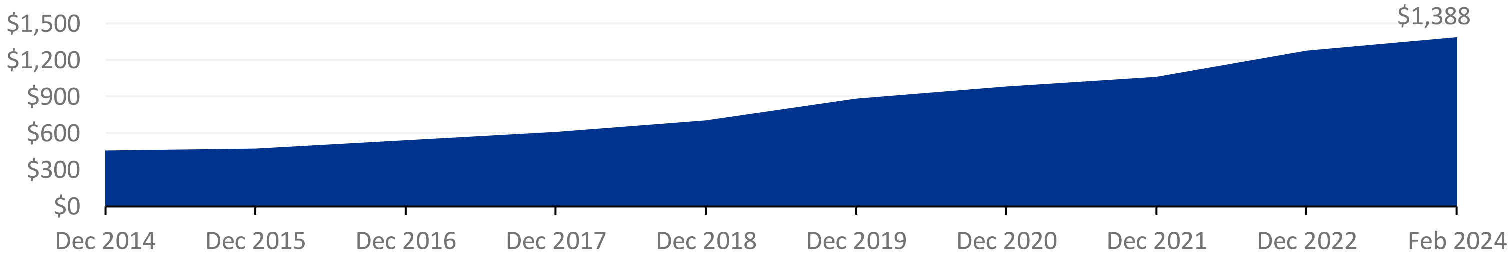
Underperforming credits impacted by higher interest rates are seeing an underwriting product shift from cash-flow to asset-based loans



Source: LSEG LPC's Asset Based Lending Stats.

Private Capital Dry Powder

Private capital markets are sitting on record levels of dry powder. Fund managers are facing increased pressure to deploy capital in 2024 as competition for high-quality assets rises and LPs demand attractive returns



Source: Preqin Aggregated dry powder, S&P Global Market Intelligence.

Monthly Leverage and Pricing Update: EBITDA ~$5.0 - $25.0 million

Total Debt / EBITDA	Senior Cash Flow Pricing (Bank)	Unitranche Pricing (One-Stop)	Mezz Debt Pricing	ABL Pricing[(1)] (Non-Bank)
2.50x – 4.50x	SOFR + 3.75% - 5.00%	SOFR + 5.75% - 7.50%	12.50% - 14.50%	SOFR + 4.00% - 5.25%+

(1) EBITDA range criteria does not apply. Capital provider is focused on collateral coverage.

KPMG Debt Advisory Overview

Borrower's Profile

- ✓ Privately held or Sponsor-backed business
- ✓ Cash flow positive or leverageable assets
- ✓ EBITDA of $5MM+
- ✓ Typical capital raises range from $15 million to $250 million
- ✓ Average length of process approximately three months

Debt Products

- ✓ Cash flow revolver facility
- ✓ Asset-based loans
- ✓ Senior term loans
- ✓ Unitranche (one-stop)
- ✓ Junior capital
- ✓ Structured equity

Investor Network

- ✓ Credit Funds
- ✓ Private Equity Funds
- ✓ Independent Sponsors
- ✓ Family Offices
- ✓ Business Development Companies
- ✓ Commercial Banks

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