



TM Capital Debt Capital Markets Update Report *COVID-19 Financing Considerations*

MARCH 2020

HOW TO BE PROACTIVE WITH YOUR LENDERS IN TODAY'S CREDIT ENVIRONMENT

The COVID-19 virus and resulting pandemic has profoundly disrupted economic activity in the U.S. and globally. As of late March, approximately one in three Americans is "sheltering in place" – severely constraining demand across industries. The duration and magnitude of the dislocation, in both the U.S. and abroad, remains uncertain. Circumstances change daily, but the ongoing crisis will undoubtedly continue to disrupt many businesses.

We are recommending that all borrowers proactively initiate dialogues with lenders on the potential impact of COVID-19. We also recommend modeling your responses to base case and downside scenarios for the duration of the crisis. Borrowers that transparently and promptly engage with lenders are more likely to succeed in garnering relief; parties that delay and obfuscate their challenges risk falling victim to lender fatigue and facing greater difficulty completing constructive amendments.

Borrowers should proactively identify the pertinent issues to address with their lenders, including, but not limited to:

Liquidity:

- Managing revolver draws
- Modeling incremental operational cash needs and shortfalls
- Negotiating borrower relief packages, including in exchange for cash infusion from owners
- Negotiating principal and interest holidays
- Maturity extensions

Covenants:

- Proactive financial covenant resets or holidays based on expected Q1, Q2 or subsequent financial performance

Relationships:

- Proactive lender group management
- Accessing supplemental capital providers

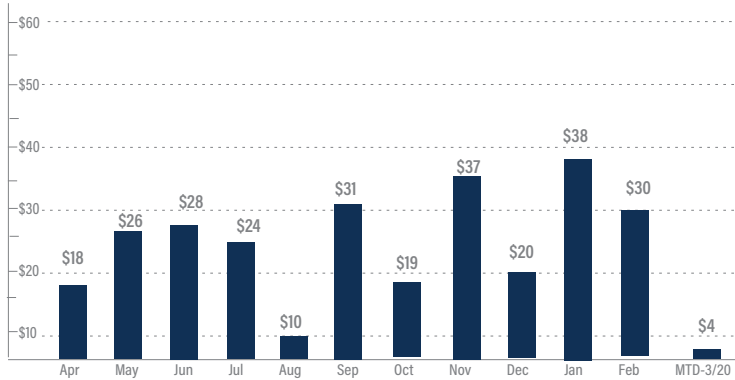
Be Informed About the Environment:

- Unprecedented, broad based steep economic decline
- Talk to all of your financial, legal and accounting advisors - they correspond with many companies and can help inform your decisions

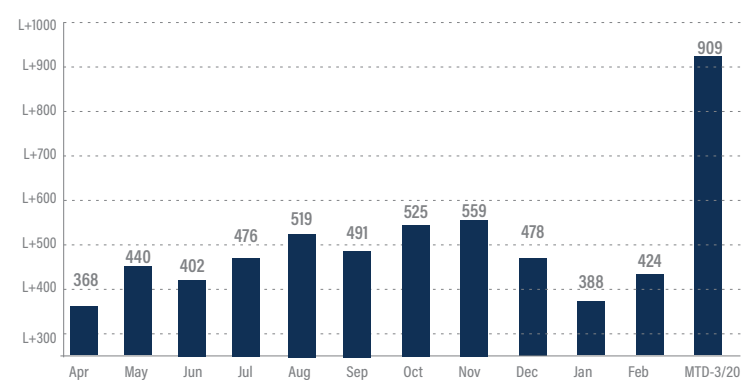
OVERVIEW OF MARKET DYNAMICS

The U.S. High Yield and Leveraged Loan markets are effectively closed, with names trading down dramatically in the secondary High Yield market and minimal new issuances in March.

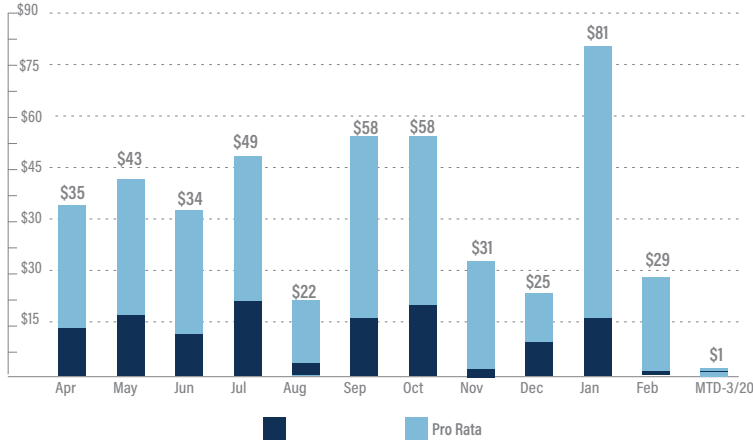
High Yield - New Issuances (\$ in billions)



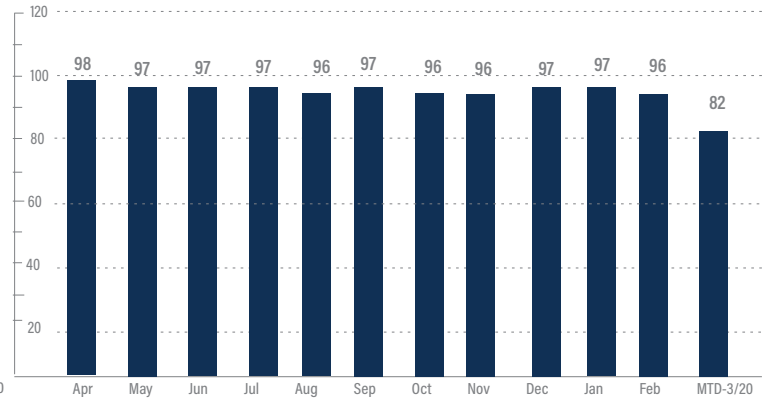
High Yield - Average Spread (\$ in billions)



Leveraged Loans - New Issuances (\$ in billions)



Leveraged Loans - Average Bid (\$ in billions)



Sources: S&P LCD, Capital IQ, Prequin

- Private credit typically lags the High Yield and Broadly Syndicated Leverage Loan markets. Direct lenders are generally honoring lending commitments made prior to the crisis
- Direct lenders still maintain significant dry powder, with over \$250 billion in committed capital, and remain open to selective new deals, albeit at higher spreads and all-in pricing and more lender-friendly terms (e.g. lower leverage, tighter covenants and more lender protections)
- Direct lenders are experiencing higher revolver draw downs and many use leverage to finance their own portfolios, which may inject more volatility into the middle market lending market going forward

OVERVIEW OF MARKET DYNAMICS

(CONTINUED...)

	3/19/2020	FEBRUARY '20	JANUARY '20	DECEMBER '19	NOVEMBER '19	FEBRUARY '19
Indices						
10-Year Treasury	1.12%	1.13%	1.51%	1.92%	1.78%	2.73%
10-Year vs. 2-Year Spread (basis points)	0.68	0.27	0.18	0.34	0.21	0.21
3-Month LIBOR	1.20%	1.46%	1.75%	1.91%	1.91%	2.62%
DJIA	20,087	25,409	28,256	28,538	28,051	25,916
S&P 500	2,409	2,954	3,226	3,231	3,141	2,784
NASDAQ	7,151	8,567	9,151	8,973	8,665	7,533
iShares HY Corporate Bond Fund	70.62	85.65	87.54	87.77	86.76	85.79
iShares Barclays Aggregate	110.65	116.03	114.62	112.29	112.90	107.15
Commodities						
Crude Oil	\$25.91	\$44.76	\$51.56	\$61.06	\$55.17	\$57.22
Natural Gas	\$1.73	\$1.68	\$1.84	\$2.19	\$2.28	\$2.81
Gold	\$1,479	\$1,567	\$1,588	\$1,523	\$1,473	\$1,335
Currencies						
GBP in USD	\$1.17	\$1.28	\$1.32	\$1.32	\$1.29	\$1.31
EUR in USD	\$1.07	\$1.10	\$1.11	\$1.12	\$1.10	\$1.15
USD in JPY	¥110.15	¥108.34	¥108.37	¥108.68	¥109.51	¥108.85
USD in CNY	¥7.11	¥6.99	\$6.94	¥6.96	¥7.03	¥6.70
Average New-Issue Loan Pricing - B+/B						
Total Spread	452.0	391.0	342.0	378.0	460.0	579.0
YTM	6.24%	5.74%	5.34%	5.76%	6.55%	8.44%

Sources: S&P LCD, Capital IQ, Prequin

The scale of borrowers who will have liquidity, covenant and other problems will reach unprecedented levels, and we are only at the beginning. Lenders have limited bandwidth given the large volume of situations that will need to be addressed. A proactive approach with lenders will help mitigate the resources the lenders need to spend on managing an individual situation and buy the borrowers time to focus on operations and potential strategic acquisition opportunities.

TM Capital's Leveraged Finance Contacts



Robert Grien,
Managing Director
rgrien@tmcapital.com
212.809.1434



Jerome Romano,
Managing Director
jromano@tmcapital.com
617.259.2206