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

JUNE 2020

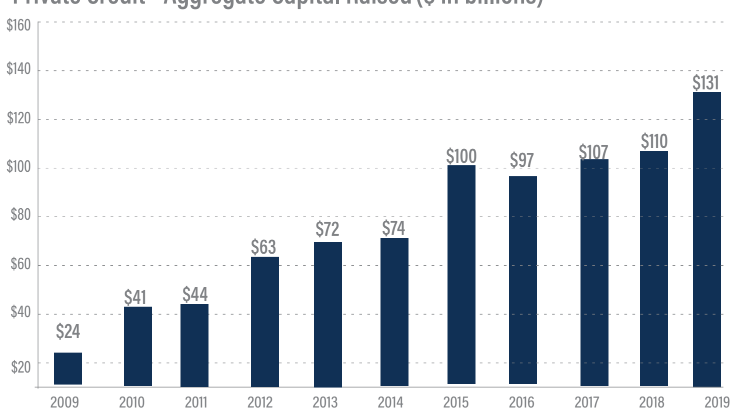
CONSIDERATIONS FOR ACCESSING CAPITAL IN A PANDEMIC

As businesses face their fourth month operating in a post COVID-19 environment, companies are beginning to move past the initial operational and financial crisis triage and consider the extended implications of COVID. Access to longer term sources of liquidity has become a strategic imperative; although raising capital in an environment where company-specific and industry risks change daily is no easy task. As borrowers embark on this challenge, it is important to develop a financing strategy that addresses three factors: (i) matching liquidity needs with the appropriate type of capital; (ii) accounting for recent operating history and future projections based on a developing operating environment and (iii) assessing the benefits, opportunities and risks of raising capital today rather than tomorrow.

LIQUIDITY NEEDS AND TYPE OF CAPITAL PROVIDER

Over the last 11 years, there has been over $860 billion of private credit raised. Private credit funds, some with multiple risk / return strategies, remain actively looking to deploy capital. The flexibility in the private credit market enables borrowers to structure situationally specific facilities with a unitranche senior secured solution or a combination of senior and junior secured loans and mezzanine capital. Additionally, there are many private equity funds and family offices that seek to provide flexible structured solutions through both credit and preferred equity structures.

Private Credit - Aggregate Capital Raised ($ in billions)



Private Credit - Assets Under Management ($ in billions)

Source: Prequin

CONSIDERATIONS FOR ACCESSING CAPITAL IN A PANDEMIC

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RECENT OPERATIONAL HISTORY AND FUTURE PROJECTIONS

Run-rate profitability as well as how well a company operationally responded to the COVID pandemic will be the largest barometers to risk tolerance in our new environment. Some of the key financial metrics that will be scrutinized include recent changes in revenue, overall liquidity, supply chain and operating expense flexibility. Additionally, critical nonfinancial criteria including technology investment and implementation as well as workforce and productivity metrics will be important considerations. Capital providers are largely underwriting to the future and not to past results due to the severity of the impacts of the COVID pandemic and limited history of operating results in this new environment. Lenders will increasingly focus on run-rate EBITDA performance as well as potential future performance. Companies that are successful in raising new capital will have visibility on a full compilation of potential financial and operational scenarios based on sound assumptions. A borrower's ability to identify and manage the relevant business variables will be a key part of an investment and risk assessment.

COSTS AND BENEFITS OF RAISING CAPITAL NOW VERSUS LATER

Four months into this new, next normal, companies are operating with limited operating history and the capital markets are reassessing risk. In light of this environment, a borrower should expect the cost of capital and accompanying terms to be less borrower friendly than through the first few of months of 2020. Pricing on directly originated loans has increased significantly within the middle market. Issuers can expect that pricing has increased 50 – 150 basis points or more for unitranche or senior cash flow financing today relative to last year, depending on issuer size and relative COVID impact. In addition to higher pricing, borrowers should expect that maximum leverage is 0.5x to 2.0x lower than pre-COVID, with greater call protections. There is limited comparable credit deal data available due to the lack of transactions over the last few months, however, even though the cost may be higher and the terms more onerous to borrowers, there is capital available from a multitude of sources to fund liquidity constraints or opportunistic growth.

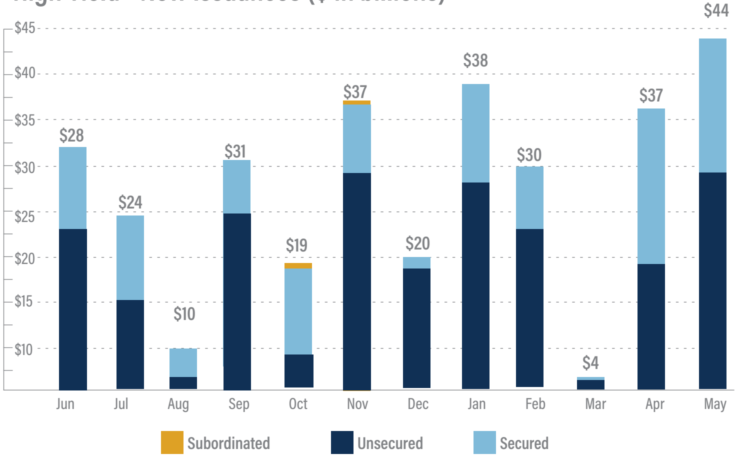
CHANGE IN MIDDLE MARKET PRIVATE CREDIT PRICING AND LEVERAGE

	Unitranche Pricing		
	< $5m EBITDA	< $10m EBITDA	< $20m EBITDA
May 2020	L + 9.00% - 11.00%	L + 8.00% - 10.00%	L + 7.00% - 8.50%
April 2020	L + 9.00% - 11.00%	L + 8.00% - 10.00%	L + 6.00% - 8.00%
May 2019	L + 7.00% - 10.00%	L + 6.00% - 8.50%	L + 5.00% - 7.00%
	Senior Cash Flow Pricing		
	Bank	Non-Bank < $7.5m EBITDA	Non-Bank > $15m EBITDA
May 2020	L + 3.75% - 5.00%	L + 7.00% - 9.00%	L + 6.50% - 8.50%
April 2020	L + 3.50% - 5.00%	L + 6.50% - 9.00%	L + 5.50% - 8.00%
May 2019	L + 2.50% - 4.50%	L + 5.00% - 6.50%	L + 4.00% - 6.00%
	Total Debt / EBITDA		
	< $5m EBITDA	< $10m EBITDA	< $20m EBITDA
May 2020	2.50x - 3.25x	3.50x - 4.50x	4.00x - 5.00x
April 2020	2.50x - 3.25x	3.50x - 4.50x	4.00x - 5.00x
May 2019	3.00x - 4.00x	4.00x - 5.00x	4.50x - 5.50x

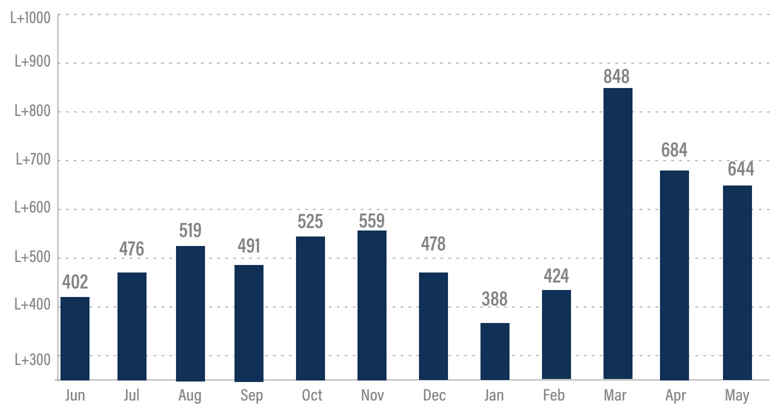
Source: S&P LCD

OVERVIEW OF MARKET DYNAMICS

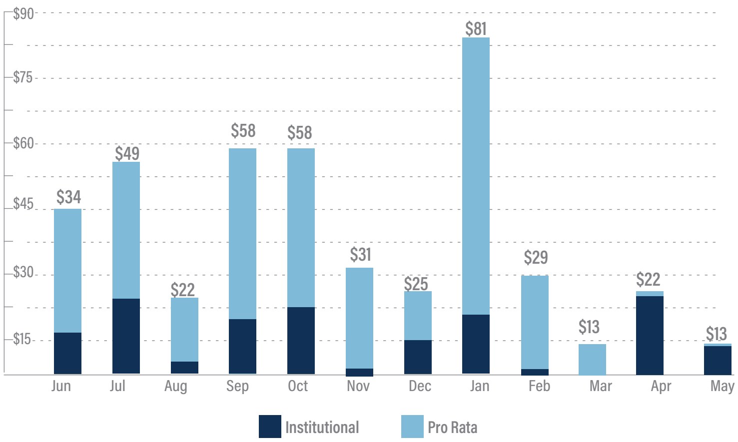
High Yield - New Issuances ($ in billions)



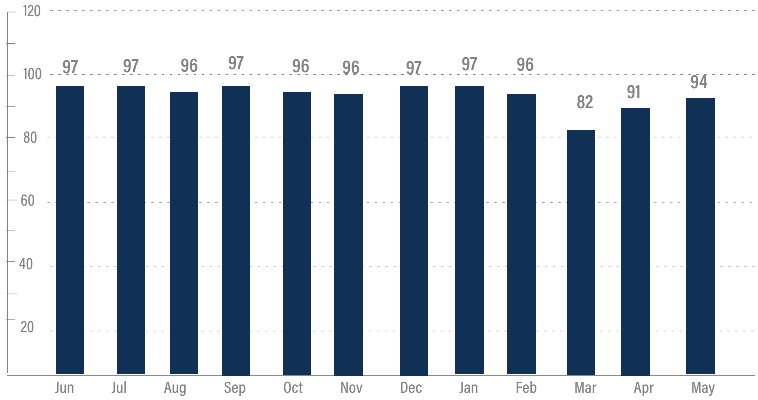
High Yield - Average Spread ($ in billions)



Leveraged Loans - New Issuances ($ in billions)



Leveraged Loans - Average Bid ($ in billions)



Sources: S&P LCD, Capital IQ, Prequin

- High yield new issuances have recovered from March lows as spreads begin to normalize
- Leveraged loan issuances have been slower to recover, evidencing the more onerous requirements on issuers to complete a transaction

OVERVIEW OF MARKET DYNAMICS

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	MAY'20	APRIL '20	MARCH '20	FEBRUARY '20	JANUARY '20	MAY '19
Indices						
10-Year Treasury	0.65%	0.64%	0.70%	1.13%	1.51%	2.14%
10-Year vs. 2-Year Spread	0.49	0.44	0.47	0.27	0.18	0.16
3-Month LIBOR	0.34%	0.56%	1.45%	1.46%	1.75%	2.50%
DJIA	25,383	24,346	21,917	25,409	28,256	24,815
S&P 500	3,044	2,912	2,585	2,954	3,226	2,752
NASDAQ	9,490	8,890	7,700	8,567	9,151	7,453
iShares HY Corporate Bond Fund	81.84	78.99	76.83	85.65	87.54	85.12
iShares Barclays Aggregate	117.46	117.09	115.57	116.03	114.62	110.33
Commodities						
Crude Oil	$36.20	$21.85	$20.48	$44.76	$51.56	$53.50
Natural Gas	$1.85	$1.95	$1.64	$1.68	$1.84	$2.45
Gold	$1,752	$1,694	$1,597	$1,567	$1,588	$1,317
Currencies						
GBP in USD	$1.23	$1.26	$1.25	$1.28	$1.32	$1.26
EUR in USD	$1.11	$1.09	$1.10	$1.10	$1.11	$1.11
USD in JYP	¥107.70	¥107.01	¥107.60	¥108.34	¥108.37	¥108.69
USD in CNY	¥7.14	¥7.06	¥7.08	¥6.99	¥6.94	¥6.90
Average New-Issue Loan Pricing - B+/B						
Total Spread	627.0	N/A	452.0	391.0	342.0	422.0
YTM	6.13%	N/A	6.24%	5.74%	5.76%	6.84%

Sources: S&P LCD, Capital IQ, Prequin

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