

TM Capital Debt Capital Markets Update Report

COVID-19 Financing Considerations

AUGUST 2020

With five months behind us since the onset of the COVID-19 pandemic, U.S. debt markets have continued to rebound from their March freeze. Spreads have tightened in each month since the onset of the COVID-19 crisis and High Yield new issuance volume set a record for the month of July, in large part due to the Fed's continued injection of additional liquidity. Although the economic disruption has been widespread, lenders remain flexible, demonstrating a continued desire to help companies bridge through a challenging period that is seen as temporary. While middle market debt pricing remains meaningfully higher relative to 2019, debt pricing continues to stabilize and move lower in consecutive months since the May highs.

COVENANT RELIEF TRANSACTIONS REACH RECORD LEVELS

Covenant relief activity has remained at the forefront of the U.S. leveraged loan market, with companies benefitting from record levels of covenant relief. According to data compiled by LCD, there have been nearly 150 covenant relief amendments in the year-to-date period, the most for any comparable period since data tracking began in 2009. Although default rates have risen slightly, and midsize company leverage covenant breaches have doubled in Q2 2020 – the number of covenant relief transactions indicates that lenders are willing to work with companies and continue to view COVID-19 related disruptions as a temporary challenge, rather than a longer-term problem. Public equity markets seem to be telling a similar story. In contrast to other recessions, liquidations have remained low relative to covenant breaches.

COVENANT RELIEF AMENDMENTS: 2009 - YTD



LOAN DEFAULTS BY PRINCIPAL AMOUNT: 2009 - Q2 2020

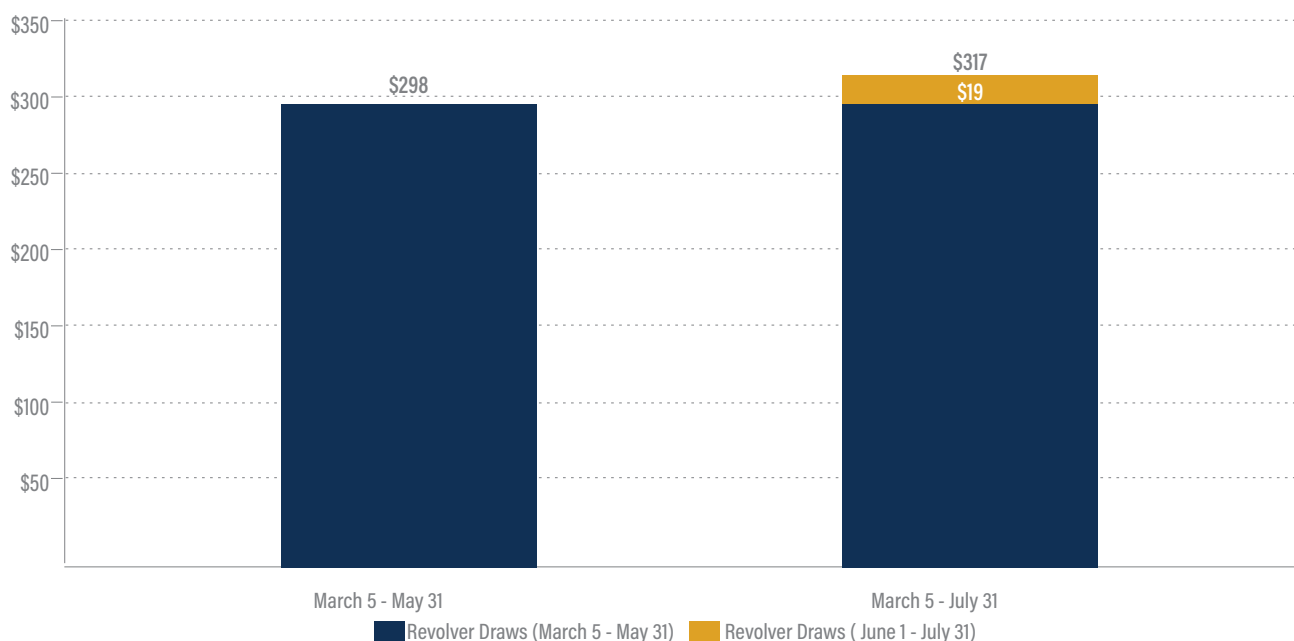


NORMALIZED LEVELS OF REVOLVER BORROWING

Revolver draws, which increased significantly during the early months of the pandemic, have continued to ease off. New revolver borrowings totaled nearly \$300 billion from March through the end of May. Since then, companies have drawn an additional \$19 billion, with under \$1 billion added in the second half of July. Modest revolver draws suggest that firm's liquidity positions are stabilizing; companies are not looking to upsize their credit facilities further or take other measures to enhance liquidity.

CHANGE IN REVOLVER DRAWDOWNS SINCE MARCH 5, 2020

Total New Revolver Borrowings Since May 31: \$19 Billion



CHANGE IN MIDDLE MARKET PRIVATE CREDIT PRICING AND LEVERAGE

Unitranche Pricing

	< \$5m EBITDA	< \$10m EBITDA	< \$20m EBITDA
July 2020	L + 9.00% - 10.50%	L + 7.00% - 8.50%	L + 6.50% - 7.50%
June 2020	L + 9.00% - 10.50%	L + 8.00% - 9.50%	L + 7.00% - 8.00%
July 2019	L + 7.00% - 10.00%	L + 6.00% - 8.00%	L + 5.00% - 6.50%

Senior Cash Flow Pricing

	Bank	Non-Bank < \$75m EBITDA	Non-Bank > \$15m EBITDA
July 2020	L + 3.25% - 4.25%	L + 6.50% - 8.00%	L + 5.50% - 7.50%
June 2020	L + 3.75% - 4.50%	L + 7.00% - 8.50%	L + 6.50% - 8.00%
July 2019	L + 2.50% - 4.50%	L + 6.00% - 8.00%	L + 5.00% - 6.50%

Total Debt / EBITDA

	< \$5m EBITDA	< \$10m EBITDA	< \$20m EBITDA
July 2020	2.50x - 3.25x	3.50x - 4.50x	4.00x - 5.25x
June 2020	2.50x - 3.25x	3.50x - 4.50x	4.00x - 5.00x
July 2019	3.00x - 4.00x	4.00x - 5.50x	4.50x - 6.00x

OVERVIEW OF MARKET DYNAMICS

	JULY '20	JUNE '20	MAY '20	APRIL '20	JULY '19
Indices					
10-Year Treasury	0.55%	0.66%	0.65%	0.64%	2.02%
10-Year vs. 2-Year Spread (basis points)	0.44	0.50	0.49	0.44	0.13
3-Month LIBOR	0.25%	0.30%	0.34%	0.56%	2.27%
DJIA	26,428	25,813	25,383	24,346	26,864
S&P 500	3,271	3,100	3,044	2,912	2,980
NASDAQ	10,745	10,059	9,490	8,890	8,175
iShares HY Corporate Bond Fund	84.85	81.33	81.84	78.99	86.94
iShares Barclays Aggregate	119.57	118.00	117.46	117.09	111.49
Commodities					
Crude Oil	\$40.27	\$39.34	\$36.20	\$26.37	\$57.15
Natural Gas	\$1.80	\$1.75	\$1.85	\$1.95	\$2.23
Gold	\$1,974	\$1,801	\$1,752	\$1,694	\$1,432
Currencies					
GBP in USD	\$1.31	\$1.24	\$1.23	\$1.26	\$1.22
EUR in USD	\$1.18	\$1.13	\$1.11	\$1.09	\$1.11
USD in JPY	¥105.68	¥107.80	¥107.70	¥107.01	¥108.60
USD in CNY	¥6.98	¥7.06	¥7.14	¥7.06	¥6.88
Average New-Issue Loan Pricing - B+/B					
Total Spread (basis points)	6270	599.0	6270	N/A	421.0
YTM	6.13%	5.89%	6.13%	N/A	6.59%

Sources: S&P LCD

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