



bridgepoint

INVESTMENT
BANKING

LEVERAGED FINANCE GROUP

DEBT MARKET UPDATE

SECOND QUARTER 2020

PRIVATE CREDIT MARKETS CONTRACT: SPREADS EXPAND, TERMS TIGHTEN

PRIVATE CREDIT MARKET OVERVIEW

The volatility brought on by COVID-19 initially shuttered the private debt capital markets, but now the market is stabilizing and today is cautiously optimistic. The new credit environment is going to be more disciplined than the tight spreads and loose covenants prevalent in recent years. New-issue loan volume is down significantly year-over-year; some deals with direct lenders are still getting done, but with wider spreads and tighter structures – prices are at a premium to pre-COVID levels and leverage tolerance is lower. According to a survey of private debt firms by law firm Proskauer, 86% of respondents say they're actively looking for new opportunities. However, those professionals are seeking opportunities in targeted sectors, such as healthcare (94%), business services (93%) and software & technology (92%). Industries impacted by COVID-19, such as consumer goods (30%) and manufacturing (36%) have seen a dramatic drop-off in appetite from 2019.

With liquidity challenges across industries due to virus-related shutdowns, private credit providers have been focused on existing portfolio companies. Lenders have provided revolvers to existing borrowers in some cases, and conversations are ongoing over how borrowers can navigate revenue losses.

Middle market private equity firms are still sitting on a substantial amount of dry powder that needs to be put to work, there may be opportunities to buy companies at purchase price multiples below historic highs of 2019. The combination of dry powder and lower asset prices could generate tailwinds in new deal activity later in 2020.

MIDDLE MARKET CREDIT TRENDS

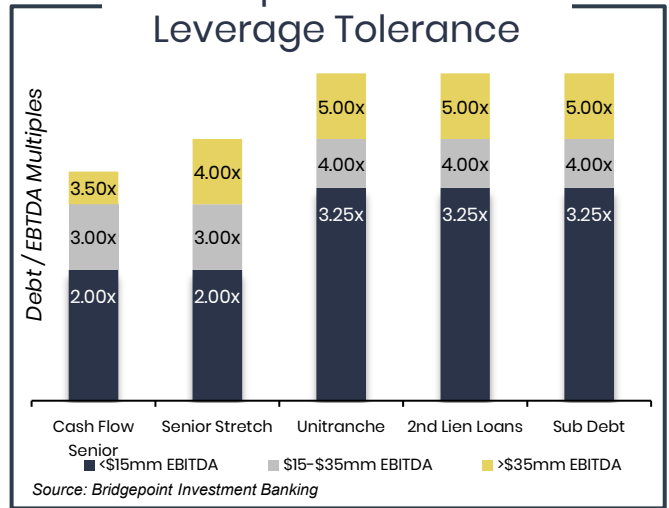
Club & LP Deals

Hold sizes across the private credit markets have decreased. Many lenders are reserving capital for existing portfolio companies, versus deploying capital to new investments. Risk aversion sentiment has increased which is driving firms to share risk with other lenders across an investment / loan, also known as "club deals". Private Equity LPs have also increasingly been directly taking down buyout debt.

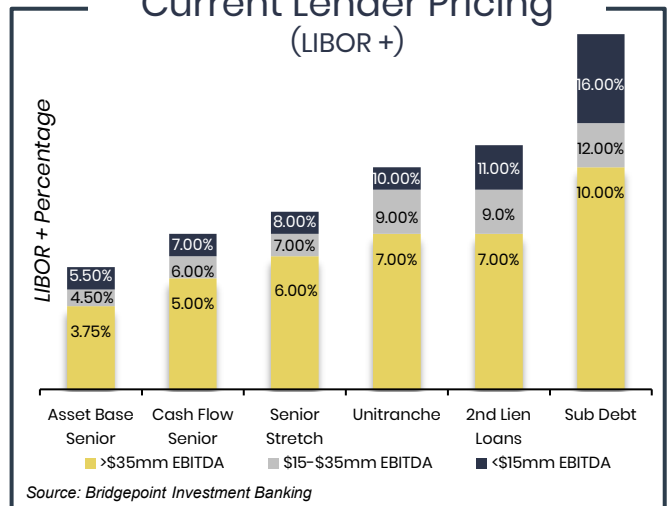
Covenant Holidays

To increase the liquidity of existing portfolio companies, direct lenders have been quick to offer reduced cash interest, allowing borrowers to pay in-kind. Lenders have also agreed to relax / eliminate cash sweeps and waive covenant reporting requirements, such as audits and financial-reporting deadlines, for a negotiated period of time.

Non-Sponsor Lender Leverage Tolerance



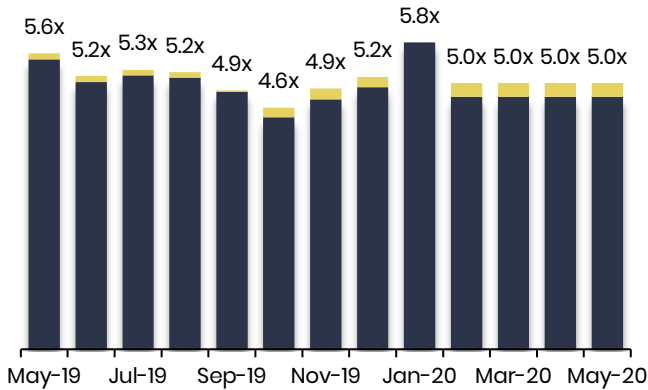
Current Lender Pricing (LIBOR +)



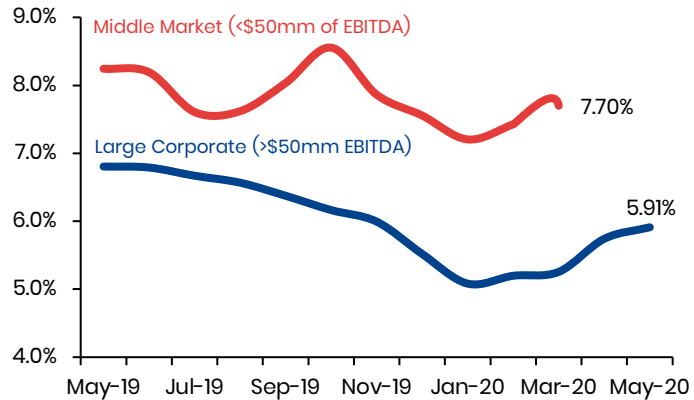
Lender Trends Heat Map

	Cash Flow Senior	Senior Stretch	Unitranche	2nd Lien Loans	Sub Debt
Rates	↑	↑	↑	↑	↑
Amortization	—	—	—	—	—
Debt / EBITDA Multiples	↓	↓	↓	↓	↓
Covenants	↑	↑	—	—	—

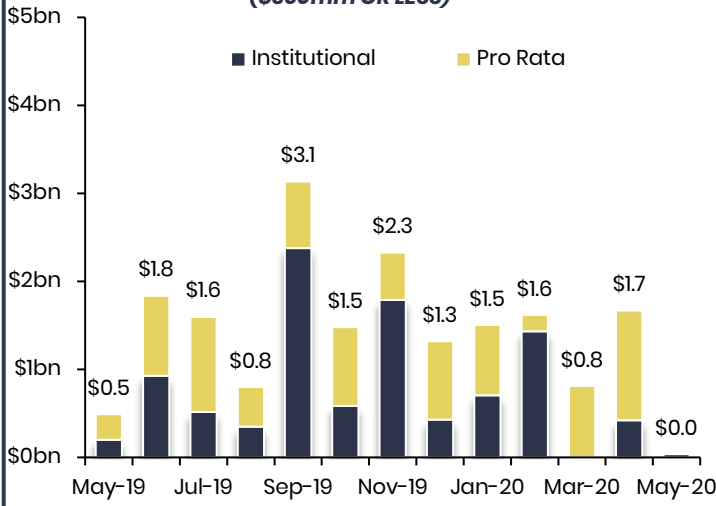
Middle Market Leverage Multiples (Debt / EBITDA)



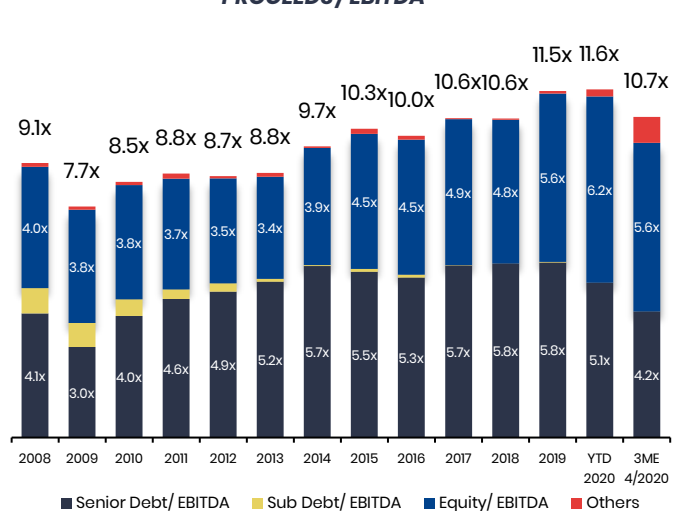
3-Month Average New-Issue Yields



MIDDLE MARKET VOLUME (\$350mm OR LESS)



M&A SOURCES OF PROCEEDS PROCEEDS/EBITDA



Selected Q2 Middle Market Leveraged Finance Transactions

Month	Borrower	Lender	Facility (\$mm)	Pricing	Purpose
5/20	Electrical Source Holdings	Golub Capital & Morgan Stanley Private Credit	\$50.0	N/A	First-lien term Loan to support an acquisition
5/20	TurnPoint Services	Adams Street Partners	N/A	N/A	Add-on acquisitions
5/20	Authority Brands	Goldman Sachs Private Middle Market Credit	\$20.0	L+ 575	Senior term loan
5/20	Routeware	Fidus Investment Corp.	\$15.0	L+700	First-lien term loan
5/20	Western's Smokehouse	Fidus Investment Corp.	\$10.0	L+650	Senior term debt
5/20	Eventbrite	Francisco Partners	\$225.0	4% Cash or 8.5% PIK	Term loans and delayed-draw term loan
4/20	Pearl Meyer	Main Street Capital Corp.	\$49.0	N/A	Future growth and working capital needs
4/20	Merchants Fleet	Bain Capital Credit	\$50.0	N/A	Structured credit / minority investment
4/20	GoHealth	Owl Rock	\$117.0	N/A	Unitranche financing for growth

REASONS TO PURSUE DEBT CAPITAL SOLUTIONS

Turnaround Financing ➤ *Stabilize*



Financing secured by company assets or other collateral that supports a strategic or restructuring plan intended to help the company return to profitability

Reduce Debt Service / Stress Finance ➤ *Cash Flow*

With low amortization (20-100 year) / required debt service, institutional debt enables higher flexibility and investment into growth



Acquisition / Growth Financing ➤ *Growth*



Non-dilutive capital to allow the owner(s) of the company to pursue opportunistic M&A acquisitions and / or buyout of select shareholders

Committed Capital Partner ➤ *Firepower*



Partner to provide strategic guidance, purchasing power and additional capital for growth, including acquisitions or liquidity

LEVERAGED FINANCE TERMS

Bridge Loan

Short-term loan until the Company secures permanent financing or removes an existing obligation – allows the Company to meet current obligations by providing immediate cash flow. Relatively high interest rates and are usually backed by some form of collateral

Asset-Based Loan

Loan or line of credit may be secured by inventory, accounts receivable, equipment, or other property owned by the borrower

Unitranche

Flexible credit facility with one lender that blends the terms and pricing of senior and mezzanine debt tranches – typically structured with limited amortization and an intermediate interest rate

Delayed Draw Term Loans (DDTL)

Committed, undrawn term loan for growth / dividend / acquisition that is usually agreed upon in tandem with an unitranche loan facility – most interest paid only when drawn and minimal unused facility fee

Structured Capital

Investment with both debt and equity features – generally have a higher cost of capital than traditional bank debt, but with significantly lower dilution (costs) than a pure equity investment; examples include term loans with warrants, convertible debt and preferred stock with dividends

BRIDGEPOINT ADVICE

Maximize liquidity / cash-on-hand:

- Perpetually prepare and analyze a 13-week cash forecast to fully understand company's cash burn
- Analyze the current COVID-19 financial impact on your business and prepare revised budget / forecast for 2020 & 2021
- Frequent communication with existing lenders on credit terms, such as covenants, amortization, pricing, etc.
- Engage and communicate with trusted advisors to help navigate the debt markets to properly capitalize your balance sheet to mitigate cash volatility / shortfalls
- Consider non-bank, private debt capital options to maximize cash flexibility
- Scan the market for opportunistic acquisitions or strategies to act upon to capture market share when the economy re-opens / stabilizes

LEVERAGED FINANCE KEY CONSIDERATIONS

There are several key considerations that will impact the debt term / options for a company:

- ✓ EBITDA Scale
- ✓ Industry
- ✓ Collateral profile
- ✓ Cyclicity
- ✓ Sponsor / non-sponsor backed
- ✓ Historical & projected financial performance
- ✓ Capital expenditures
- ✓ Use of proceeds
- ✓ Customer concentration

Please contact us for our perspective on likely terms and options on prospective capital options you may be considering

Pockets of Capital

Senior

Second Lien

Subordinated

Mezzanine

Structured

Least Leverage
Lowest Pricing
Least Flexible

Most Leverage
Highest Pricing
Most Flexible

Unitranche

Hybrid loan structure that combines senior debt and subordinated debt into one loan

THE MIDDLE MARKET SOURCE FOR SOLUTIONS

Executive Summary

Bridgepoint is uniquely focused on first time issuer / non-sponsor middle market leveraged finance / debt advisory

Provide alternative and traditional debt placement services utilizing senior, mezzanine, subordinated, unitranche and structured debt products for a broad range of situations / scenarios

Leveraged Finance Scenarios: recapitalization, growth capital, refinancing, acquisition financing, covenant modification, amortization modification, personal guarantee elimination, rescue finance and personal liquidity

RECENT BRIDGEPOINT CAPITAL RAISE TRANSACTIONS

90 completed corporate finance transactions, raising more than \$74 billion in capital

PrairieCare

Senior & Mezzanine debt financings for debt recapitalization

BMO Harris Bank

LAKE COUNTRY CAPITAL

Sole Financial Advisor

DMR

Senior & unitranche debt financings for debt recapitalization

JPMORGAN CHASE & CO.

GRAYCLIFF PARTNERS

Sole Financial Advisor

BADLANDS

TANK LINES

USD30 million

Acquisition & growth financing

Sole Financing Arranger

TransWood

USD 60 million

Global financing

Sole Financing Arranger

RURAL MEDIA

USD45 million

Unitranche financing for recapitalization

Sole Financing Arranger

229

YEARS OF EXPERIENCE

\$108B

IN TRANSACTIONS

163

TOTAL TRANSACTIONS

SENIOR LEADERSHIP



Matt Plooster
Managing Director



Wm. Lee Merritt
Managing Director



Gary Grote
Managing Director



Mike Anderson
Managing Director



Chad Gardiner
Director



Adam Claypool
Managing Director



Joe Liss
Managing Director



Natasha Plooster
COO



Subhash Marineni
Vice President



Alex Spanel
Associate

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