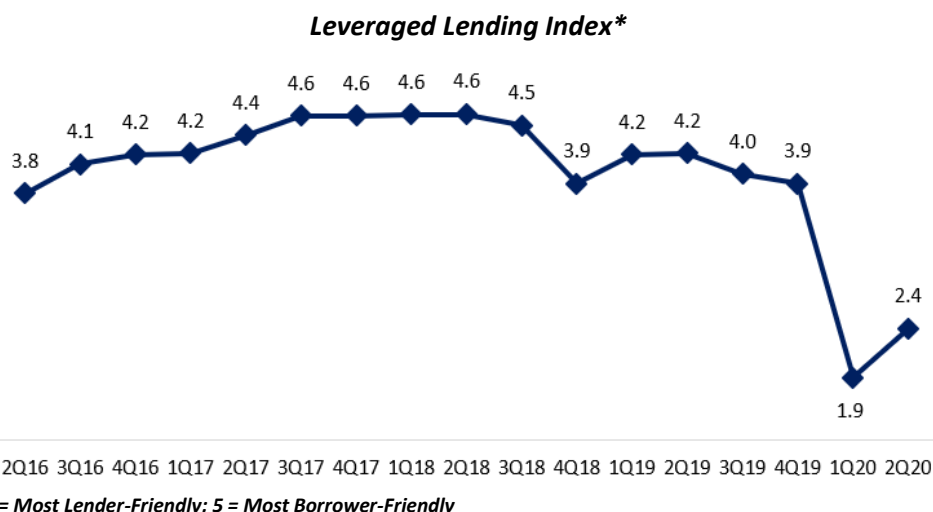


LEVERAGE FINANCE REPORT

SEPTEMBER 2020

After a near-total shutdown in March, the leveraged finance market was able to regain some footing during Q2 2020. Direct lenders, who had spent much of March and April focused on their own portfolio and liquidity needs, were able to turn their attention to new opportunities during Q2. In fact, by June, institutional loan volume had surpassed the combined totals from March, April and May. While pricing remains elevated, and terms tighter than pre-COVID levels, the trend is gradually shifting back in borrowers' favor as market tone improves and activity picks up.



*Leveraged Lending Index is from William Blair's quarterly survey of middle-market leveraged finance professionals representing leading credit funds, BDCs, finance companies, commercial banks, and other credit providers to measure sentiment in the leveraged finance market. The data reflects responses from more than 60 leveraged finance professionals who participated in the survey in Q2 2020.

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CARLETON MCKENNA & CO:

We believe businesses are the economic engine of our society, and that business owners deserve and require a proactive advocate throughout life changing transactions.



FIRM OVERVIEW:

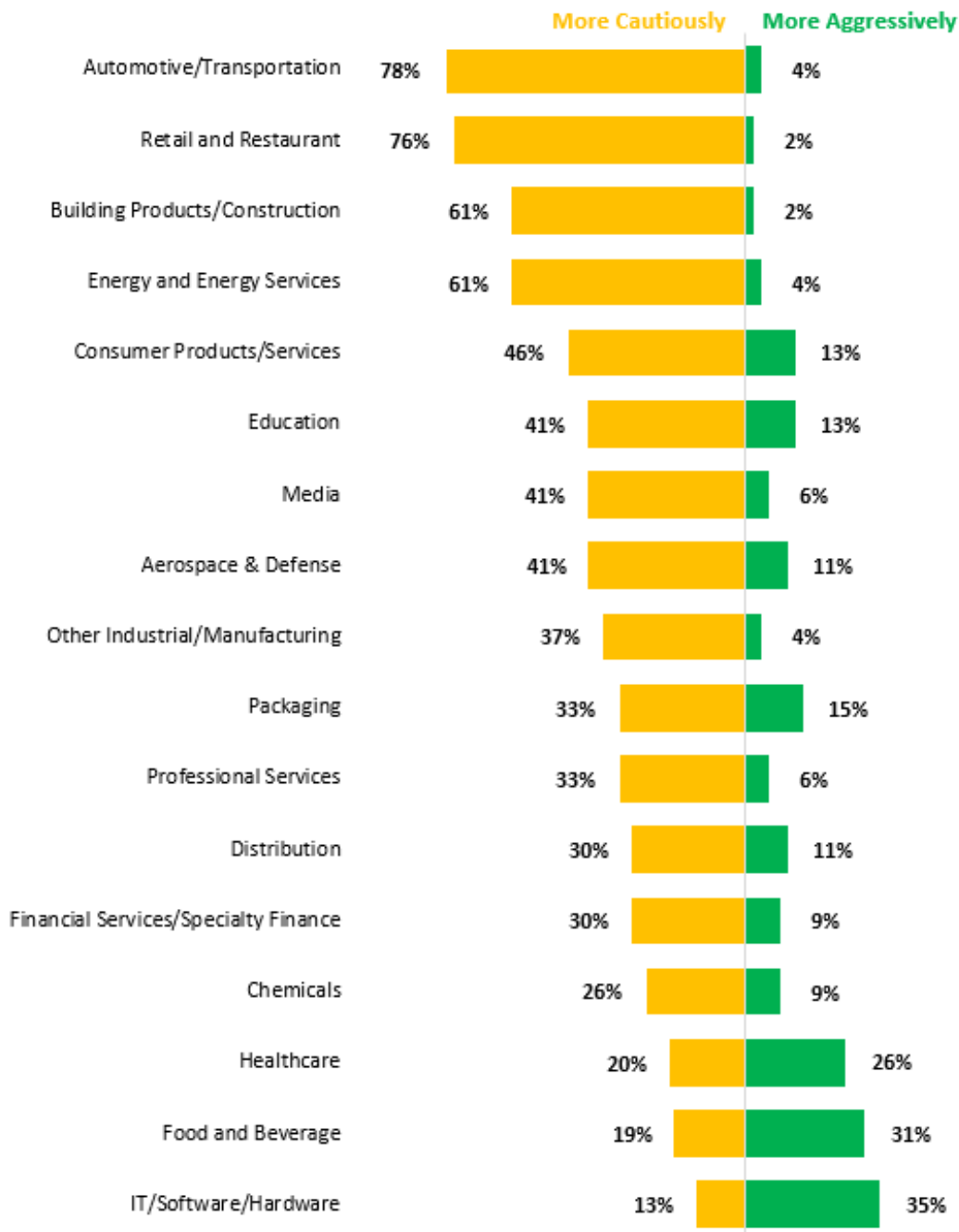
Carleton McKenna & Co. is an independent investment banking firm providing M&A Advisory, Capital Raising, and Pre-Transition Advisory services. We deliver hands-on transaction execution, with clear, insightful strategy to drive extraordinary success.

We work with middle market closely-held businesses, multi-generational family businesses, portfolio companies of financial sponsor firms and divisions or subsidiaries of public companies focusing in Manufacturing & Specialty Chemicals, Consumer Products, SaaS, Healthcare and B2B Services.

Our Team is made up of finance and accounting experts, operators, C-Suite and Board professionals, lawyers, consultants, and marketing professionals. These diverse experiences and skills drive extraordinary results for our clients.

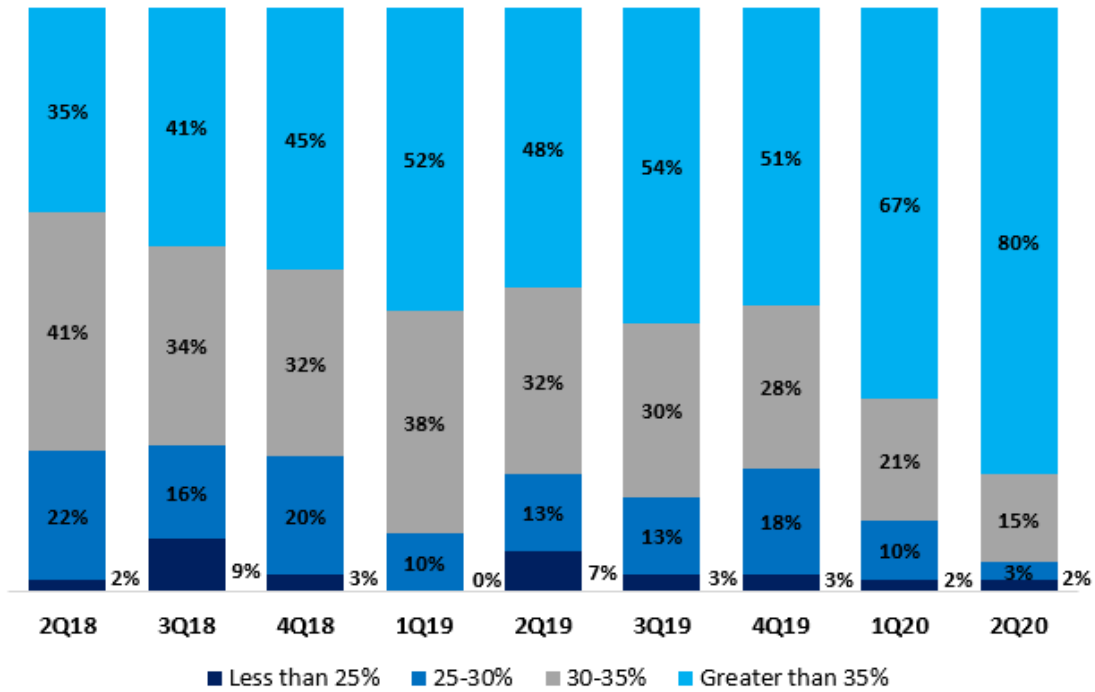
Middle-market leverage finance professionals representing leading credit funds, BDCs, finance companies, commercial banks and other credit providers were surveyed on their attitudes toward the leveraged finance market. The data on the following pages reflects responses from the more than 60 leveraged finance professionals who participated in the survey from Q2 2020 (William Blair).

Are there any specific sectors or industries for which your firm is proceeding more aggressively or cautiously today compared with 6 months ago?

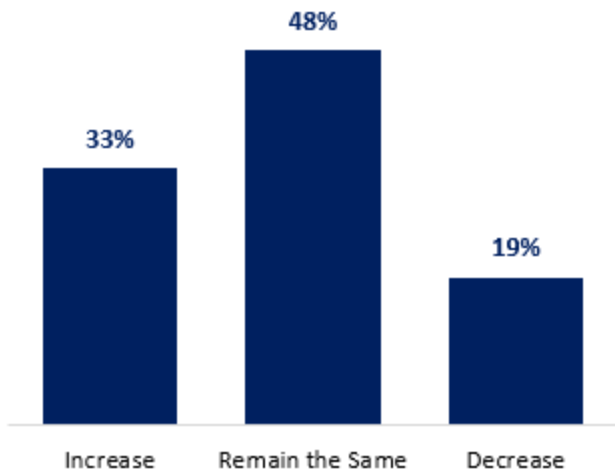


Source: William Blair

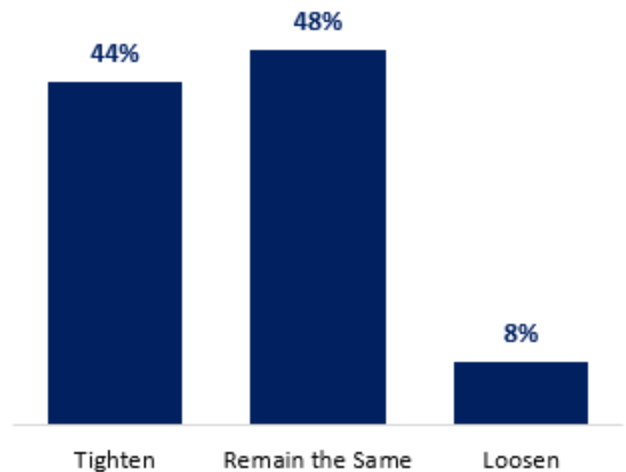
For transactions involving a private equity sponsor, what is the minimum equity contribution you require?



For the remainder of 2020, what are your expectations regarding pricing for your primary debt offering?

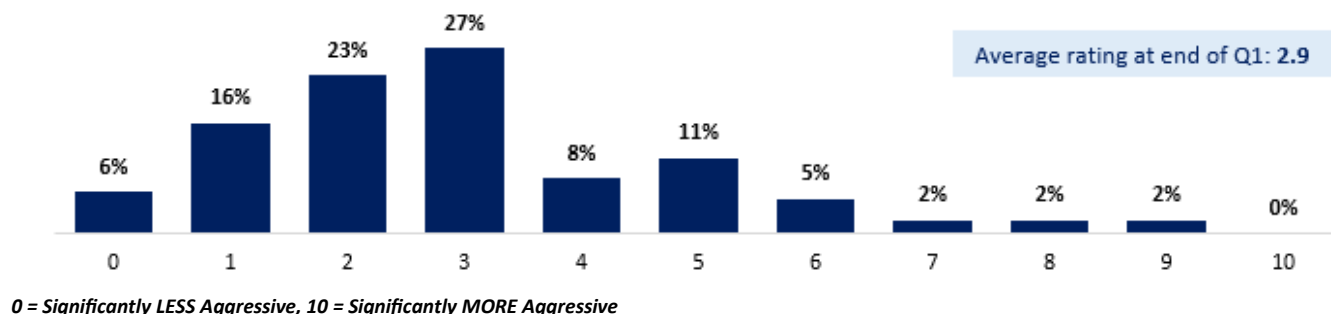


For the remainder of 2020, what are your expectations regarding transaction terms and leverage?

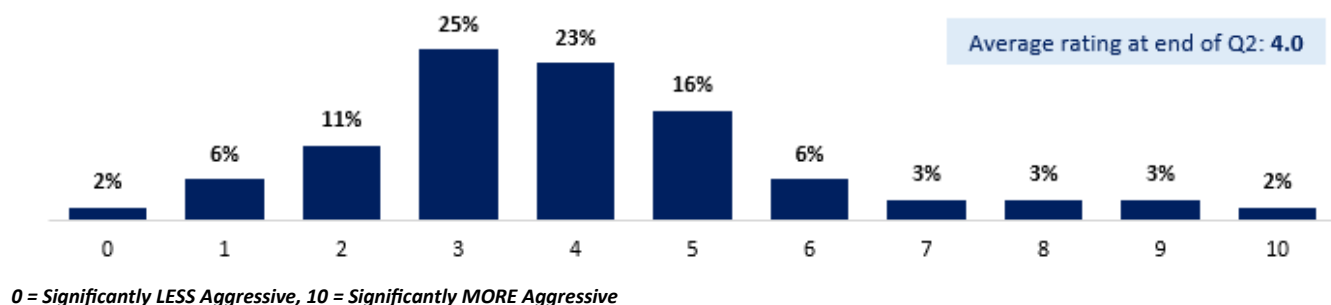


Source: William Blair

Assuming your firm’s pre-COVID rating was a 5, how would you rate the aggressiveness of your firm’s approach to new debt opportunities at the end of Q1?



On the same scale, again assuming the pre-COVID rating was a 5, where would you rate the aggressiveness of your firm’s approach to new debt opportunities today?



May and June saw a slight return to normalcy, albeit only for businesses not significantly affected by COVID-19. Lenders hope to see stability, if not improvement, in monthly performance before investing in companies that have been more negatively impacted. Lenders expect many factors to make a major impact on the leverage loan market for the remainder of 2020, including:

- ◆ More lenders/credit providers are expected to return to the market, making processes more competitive;
- ◆ Defensive businesses experiencing solid performance during COVID-19 will see multiples recover to be closer to pre-COVID-19 levels (although structure likely to include more seller risk-share);
- ◆ Q2 earnings reports will likely reveal more loan defaults and corresponding tightening of debt markets, forcing sponsors to seek opportunistic acquisitions with higher equity usage;
- ◆ Forecasting will be difficult as fears persist around further COVID-19-related shocks and uneven progress of macro fundamentals, as initial shutdown effects play out;
- ◆ Short-term pricing is expected to stay tight, while long-term pricing will increase and structures tighten as the year progresses if corporate earnings underperform more than anticipated;
- ◆ Significant levels of equity capital will remain available, however, the pace of a economic recovery and the looming potential for a second COVID-19 wave will likely have the most material impact on the aggressiveness of lenders.

Source: William Blair