



Portfolio Valuation and Fund Advisory Services

Direct Lending Update

SUMMER 2023



Introduction

Dear Clients and Friends,

Houlihan Lokey's Portfolio Valuation and Fund Advisory Services team is pleased to present the summer 2023 edition of the Direct Lending Update.

We have included key trends for more than 100 business development companies (BDCs) to help you stay ahead in this constantly evolving industry. We hope you find this update to be informative and that it serves as a valuable resource to you in staying abreast of the market. If there is additional content you would find useful for future updates, please do not hesitate to call or email us with your suggestions. We look forward to staying in touch with you.

Regards,

Portfolio Valuation and Fund Advisory Services Contacts



Dr. Cindy Ma, Ph.D., CFA
Managing Director
Global Head of Portfolio
Valuation and Fund Advisory
Services
212.497.7970
CMa@HL.com



Timothy Kang
Director
212.497.4209
TKang@HL.com



Chris Cessna, CPA, CFA
Director
404.495.7022
CCessna@HL.com

Key Trends

- The weighted average price for first lien loans increased from 97.8% of par in Q4 2022 to 98.0% of par in Q1 2023. There is significant undeployed capital from the high levels of fundraising for direct lending funds over the past several years, which is leading to continued competition among lenders for new deals.
- In Q1 2023, first lien spreads for newly issued loans declined at the median to 600 bps from 625 bps in Q4 2022. Second lien spreads for newly issued loans declined at the median to 750 bps from 775 bps during the same time frame.
- In Q1 2023, average first lien and second lien yields rose for the fifth consecutive quarter to 11.61% and 14.03%, respectively. For first lien debt, this represents a 0.41% increase over the prior quarter and a 3.94% increase over the prior year. For second lien debt, this represents a 0.34% increase over the prior quarter and a 4.88% increase over the prior year. These increases are primarily driven by increases in base rates.
- Leverage levels for new deals are tightening in response to rising interest costs, which results in reducing net cash flows. With SOFR currently above 5.0%, sponsors are now financing leveraged buyouts at lower leverage levels relative to leverage levels from the prior 12–18 months. Average total leverage levels for new loans declined for most sectors by 0.25x to 0.50x year over year. The average issuer leverage was 5.26x as of Q1 2023 according to Houlihan Lokey's Private Performing Credit Index (PPCI).⁽¹⁾ For more information regarding the PPCI, please visit the [Insights](#) section of HL.com.
- Interest coverage for loans increased slightly in Q1 2023 after several quarters of declines, which were largely due to rising base rates. The average EBITDA to interest expense ratio on newly issued loans increased from 2.4x in Q4 2022 to 2.5x in Q1 2023, according to Refinitiv LPC's Middle Market Sponsored Private Deals Analysis.⁽²⁾ We also note that fixed-charge coverage ratios (FCCR) are important indicators of credit risk for directly originated loans, and many of these loans have an FCCR covenant. Given the rising base rates, FCCR for some borrowers is trending toward 1x.
- In general, middle-market private companies have not experienced significant financial underperformance. However, financial reporting for BDC portfolio companies typically lags by one to two quarters. For example, December financial statements are typically available in March. According to the Golub Capital Middle Market Report,⁽³⁾ middle-market private companies have experienced year-over-year revenue growth of 11.1% and earnings growth of 10.9% as of the first quarter of 2023. At the end of Q1 2023, the nonaccrual percentage for BDC loans (which is an indicator of distress) was 1.5%, up slightly from 1.4% in the prior quarter. According to PitchBook, several direct lenders have been preparing for a turn in the credit cycle, building workout teams to help drive positive outcomes for any of their investments that may become distressed.⁽⁴⁾
- As of June 13, 2023, the average BDC price as a multiple of NAV was 1.02x for large-cap, 0.87x for mid-cap, and 0.82x for small-cap. There were 34 BDCs trading below NAV and 14 trading at a premium to NAV. There are four more BDCs trading above NAV relative to our Q4 2022 update.

Sources: Advantage Data, PitchBook, Refinitiv.

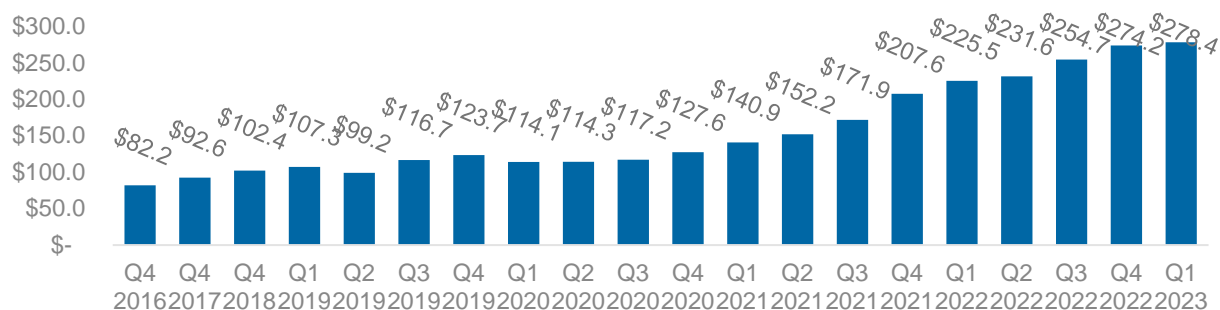
(1) Houlihan Lokey Private Performing Credit Index Q1 2023.

(2) Refinitiv LPC's Middle Market Sponsored Private Deals Analysis Q1 2023.

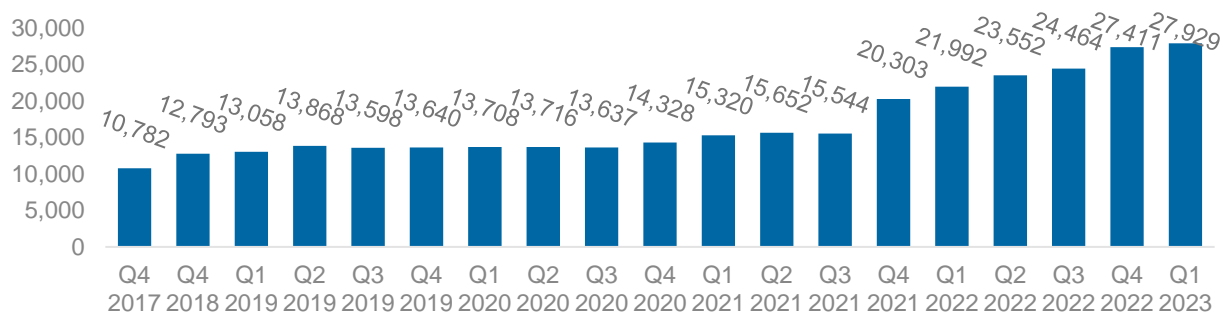
(3) Golub Capital Middle Market Report Q1 2023.

(4) PitchBook article titled "Turning credit cycle poses fresh test for private debt."

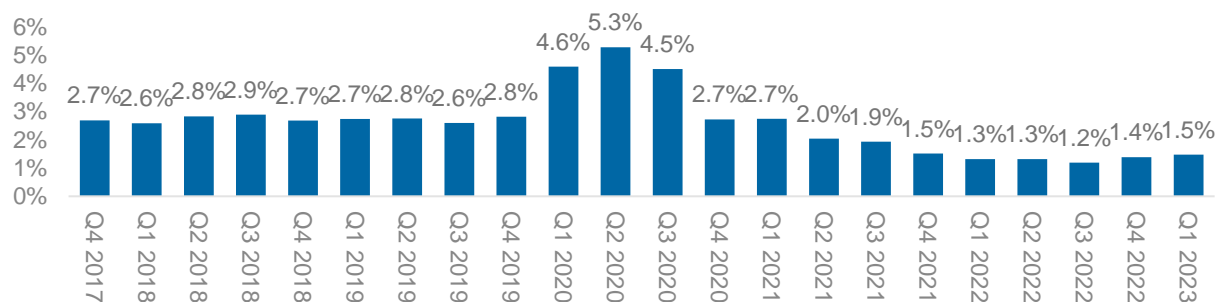
Fair Value of BDC Portfolios⁽¹⁾ (\$ in billions)



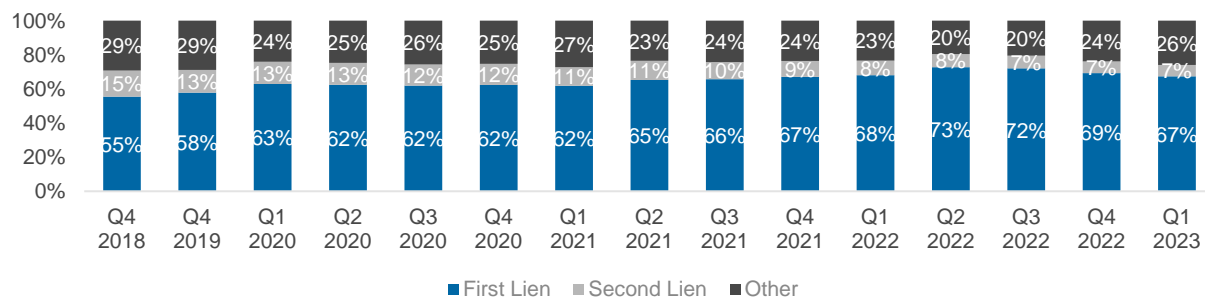
Total Number of Investments in BDC Portfolios⁽²⁾



Nonaccrual Investments as a Percentage of Total Portfolio⁽³⁾



BDC Portfolio Composition by Seniority Based on Fair Value⁽⁴⁾



Source: Advantage Data.

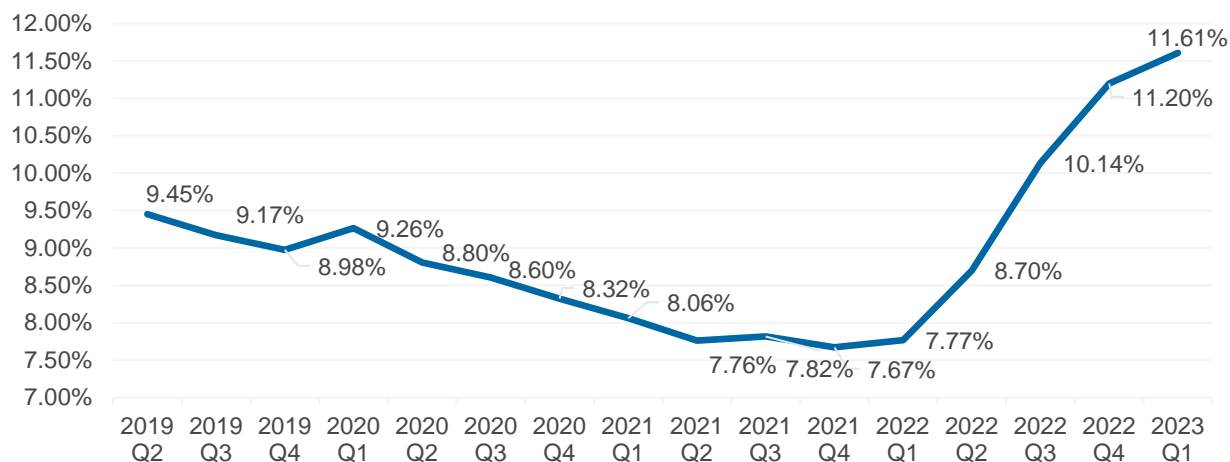
(1) Reflects the fair value for BDC portfolios tracked by Advantage Data.

(2) Reflects the total number of investments for all BDCs tracked by Advantage Data.

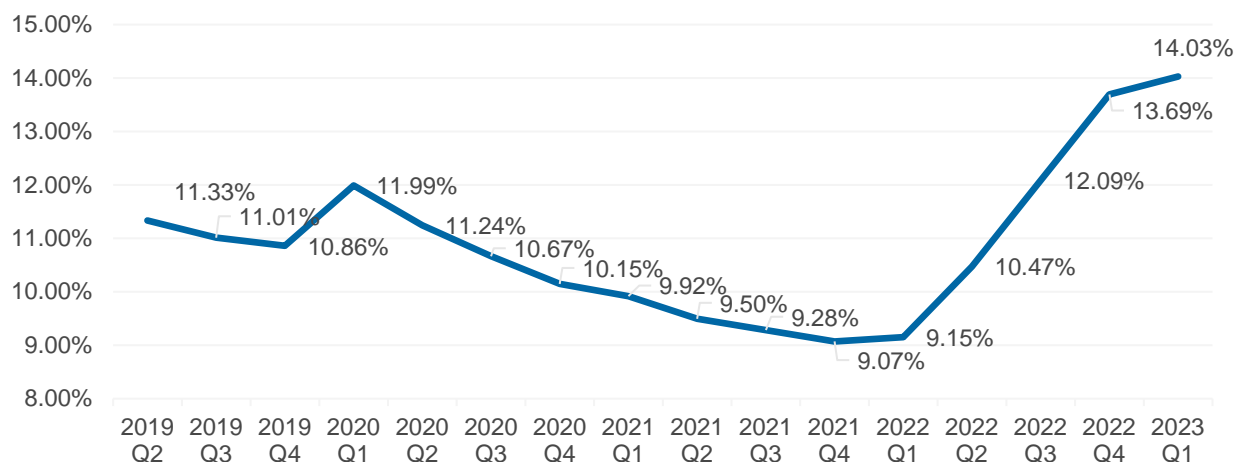
(3) Reflects the cost of nonaccrual investments as a percentage of total portfolio cost for BDCs tracked by Advantage Data.

(4) Represents the aggregate composition of all BDC portfolios tracked by Advantage Data.

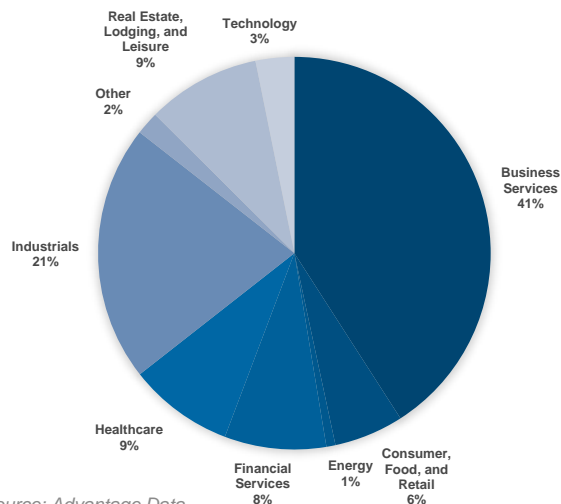
Average First Lien Yield—BDC Investment Portfolios⁽¹⁾



Average Second Lien Yield—BDC Investment Portfolios⁽¹⁾



Industry Breakdown by BDC Portfolio Company—Q1 2023⁽²⁾



Industry Breakdown by BDC Investment Yields—Q1 2023

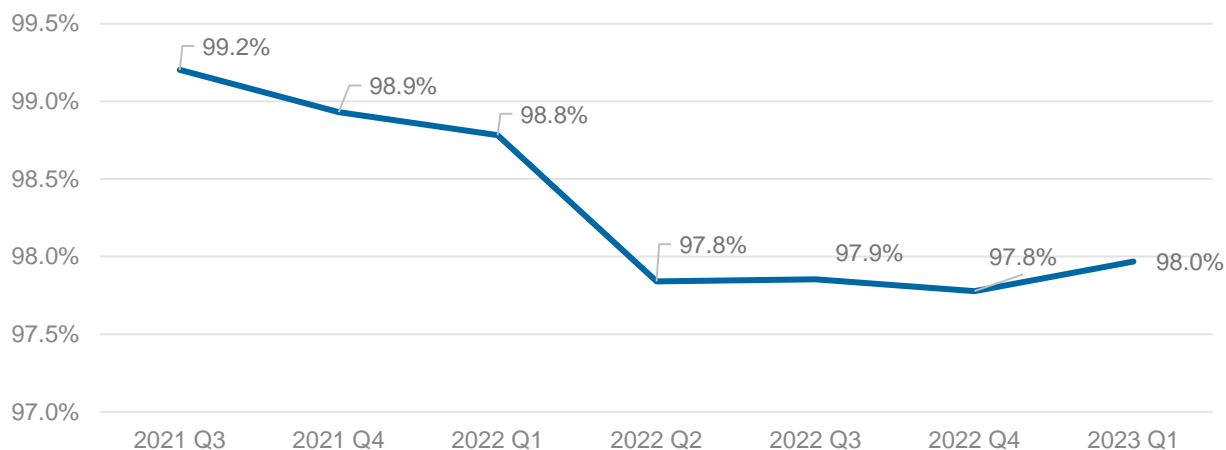
Industry	First Lien	Second Lien
Business Services	11.69%	13.93%
Consumer, Food, and Retail	11.89%	13.95%
Energy	11.65%	13.25%
Financial Services	11.10%	13.96%
Healthcare	11.69%	13.89%
Industrials	11.52%	14.00%
Real Estate, Lodging, and Leisure	11.58%	13.73%
Technology	11.52%	15.99%
Other	11.89%	15.25%

Source: Advantage Data.

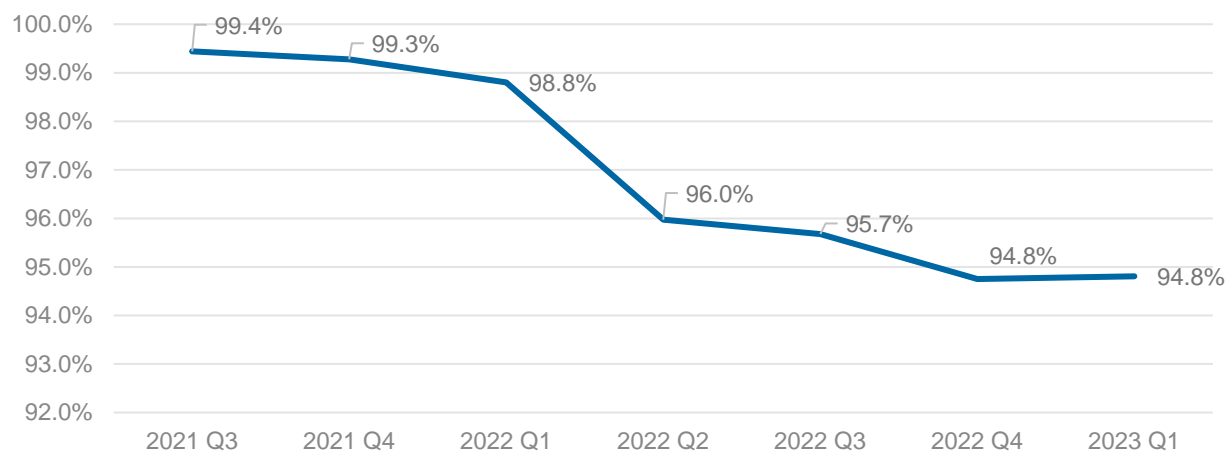
(1) Yield is based on reported fair value, stated maturity, and stated interest rate. Represents data for all BDCs tracked by Advantage Data. Excludes outliers.

(2) Industry Breakdown is based upon the industry of each BDC portfolio company and is broken down by aggregate principal for each BDC investment.

Weighted Average First Lien % of Par—BDC Investment Portfolios⁽¹⁾



Weighted Average Second Lien % of Par—BDC Investment Portfolios⁽¹⁾



New Loan Pricing⁽²⁾

	Base Rate	First Lien ⁽³⁾	Second Lien ⁽³⁾	Unitranche ⁽³⁾
Q1 2023	SOFR/LIBOR +	475-600-675	675-750-775	650-700-725
Q4 2022	SOFR/LIBOR +	550-625-700	725-775-850	550-600-675
Change	SOFR/LIBOR +	(75)-(25)-(25)	(50)-(25)-(75)	100-100-50

Note: The above data represents new loans held by BDCs. The low end of the First Lien range is low relative to our expectations for directly originated loans. We note that this data may include some higher-rated broadly syndicated loans held by BDCs, which tend to have lower coupons than directly originated loans.

Source: Advantage Data.

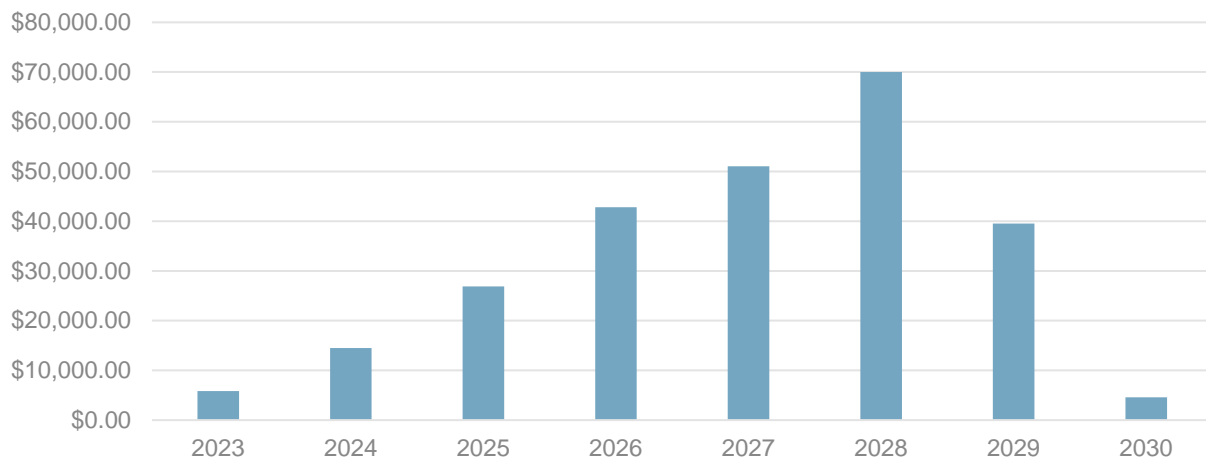
(1) Expressed as a percentage of par. Represents data for all BDCs tracked by Advantage Data that were filed as of the date of this report. Excludes outliers. The data is meant to reflect performing loans only.

(2) Represents new loans in each respective quarter from the universe of BDCs tracked by Advantage Data.

(3) Ranges represent the 25th, 50th, and 75th percentile of new loans for each respective quarter. Excludes outliers.

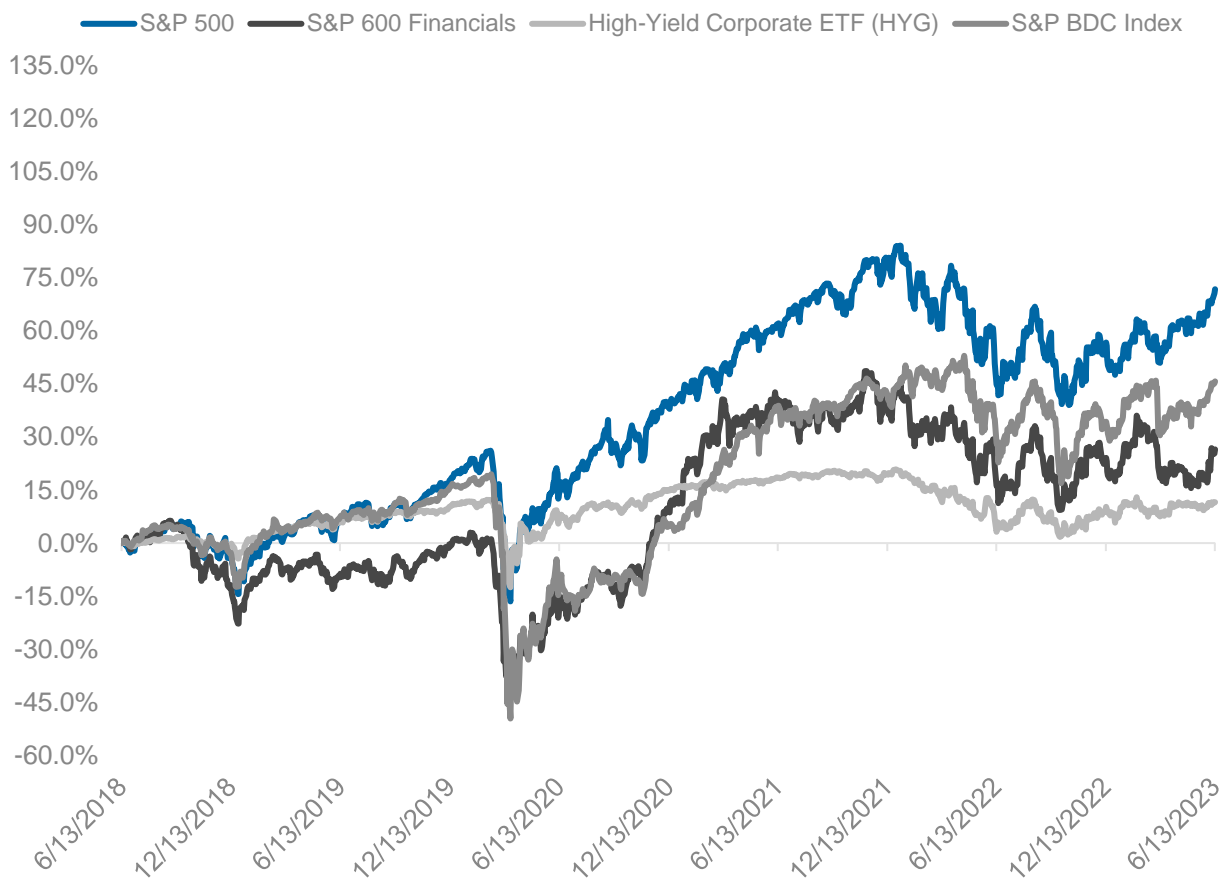
Maturity of Debt Securities for BDC Portfolio Companies by Year

(principal in \$ millions)



Cumulative Total Return (%) as of June 13, 2023

	1 Year	5 Years
S&P 500	18.5%	71.8%
S&P 600 Financials	8.8%	26.5%
High-Yield Corporate ETF (HYG)	8.1%	11.5%
S&P BDC Index	13.6%	45.7%



Sources: Advantage Data, Bloomberg.

Publicly Traded BDC Market Snapshot

(Dollars in millions, except per share data)

Company Name	Ticker	Market Cap.	Price at 6/13/2023	Price/52-wk High	1 Year Price Change	Price / NAV	LTM ROA	LTM ROE	Div. Yield	Debt/Equity
Large-Cap										
Ares Capital Corp.	ARCC	\$ 10,374.27	\$ 19.05	92%	6.2%	1.03x	5.4%	6.9%	10.1%	1.1x
FS KKR Capital Corp.	FSK	\$ 5,338.07	\$ 19.06	84%	-1.9%	0.76x	2.7%	0.9%	14.5%	1.2x
Owl Rock Capital Corp.	ORCC	\$ 5,266.17	\$ 13.51	97%	9.6%	0.89x	7.2%	10.6%	9.8%	1.2x
Blackstone Secured Lending Fund	BXSL	\$ 4,247.93	\$ 26.42	100%	11.8%	NM	NM	NM	10.1%	NM
Main Street Capital Corp.	MAIN	\$ 3,182.46	\$ 39.55	87%	2.6%	1.45x	8.5%	12.7%	8.3%	0.9x
Prospect Capital Corp.	PSEC	\$ 2,529.65	\$ 6.29	77%	-10.0%	0.66x	-0.3%	-3.2%	11.4%	0.5x
Golub Capital BDC, Inc.	GBDC	\$ 2,303.01	\$ 13.55	94%	4.6%	0.92x	4.0%	4.2%	9.7%	1.2x
Hercules Capital, Inc.	HTGC	\$ 2,110.24	\$ 15.02	92%	11.3%	1.37x	9.0%	14.1%	12.5%	1.1x
Sixth Street Specialty Lending, Inc.	TSLX	\$ 1,566.37	\$ 19.16	97%	3.6%	1.16x	7.4%	9.1%	9.0%	1.2x
Goldman Sachs BDC, Inc.	GSBD	\$ 1,542.34	\$ 14.09	78%	-16.1%	0.98x	3.7%	2.7%	12.8%	1.2x
Oaktree Specialty Lending Corp.	OCSL	\$ 1,540.83	\$ 19.99	92%	1.7%	1.02x	2.8%	0.7%	11.0%	1.2x
New Mountain Finance Corp.	NMFC	\$ 1,280.89	\$ 12.69	93%	6.5%	0.97x	5.5%	6.1%	10.1%	1.5x
Mean				90%	2.5%	1.02x	5.1%	5.9%	10.8%	1.1x
Mid-Cap										
Bain Capital Specialty Finance, Inc.	BCSF	\$ 866.43	\$ 13.42	89%	-1.4%	0.77x	6.6%	9.1%	11.3%	1.3x
Barings BDC, Inc.	BBDC	\$ 852.54	\$ 7.90	75%	-15.1%	0.71x	3.1%	1.8%	12.7%	1.2x
MidCap Financial Investment Corp.	MFIC	\$ 809.63	\$ 12.37	90%	14.9%	0.82x	5.7%	5.7%	12.7%	1.5x
SLR Investment Corp.	SLRC	\$ 794.86	\$ 14.57	91%	-0.4%	0.81x	3.2%	2.6%	11.3%	1.1x
Carlyle Secured Lending, Inc.	CGBD	\$ 750.75	\$ 14.78	93%	16.4%	0.86x	6.7%	8.9%	11.9%	1.2x
Capital Southwest Corp.	CSWC	\$ 734.09	\$ 19.99	94%	8.5%	1.22x	5.6%	6.5%	11.9%	1.1x
BlackRock TCP Capital Corp.	TCPG	\$ 659.70	\$ 11.42	80%	-8.9%	0.88x	2.3%	0.1%	11.9%	1.4x
CION Investment Corp.	CION	\$ 584.70	\$ 10.68	94%	22.8%	0.71x	3.9%	1.3%	15.3%	1.2x
PennantPark Floating Rate Capital Ltd.	PFLT	\$ 539.59	\$ 10.85	82%	-5.5%	0.97x	1.9%	-2.3%	11.3%	1.1x
Crescent Capital BDC, Inc.	CCAP	\$ 531.09	\$ 14.33	79%	-7.5%	0.74x	3.0%	1.0%	11.4%	1.2x
Fidus Investment Corp.	FDUS	\$ 501.27	\$ 20.06	94%	15.0%	1.03x	6.4%	8.2%	11.6%	NM
Mean				87%	3.5%	0.87x	4.4%	3.9%	12.1%	1.2x
Small-Cap										
Runway Growth Finance Corp.	RWAY	\$ 488.14	\$ 12.05	86%	6.5%	NM	NM	NM	12.9%	NM
Trinity Capital Inc.	TRIN	\$ 480.91	\$ 13.37	81%	-7.6%	1.02x	3.8%	0.3%	14.1%	1.3x
Gladstone Investment Corp.	GAIN	\$ 446.10	\$ 13.28	84%	-5.7%	1.01x	7.1%	8.0%	10.8%	0.7x
TriplePoint Venture Growth BDC Corp.	TPVG	\$ 432.20	\$ 12.21	82%	-4.2%	1.04x	1.3%	-4.3%	13.1%	1.5x
NewtekOne, Inc.	NEWT	\$ 394.25	\$ 15.99	69%	-15.5%	1.98x	6.2%	11.2%	4.5%	NM
PennantPark Investment Corp.	PNNT	\$ 390.04	\$ 5.98	88%	-3.2%	0.79x	-6.9%	-20.8%	13.4%	1.4x
Gladstone Capital Corp.	GLAD	\$ 369.21	\$ 9.86	88%	-2.3%	1.07x	5.6%	5.2%	9.7%	1.0x
Horizon Technology Finance Corp.	HRZN	\$ 347.32	\$ 12.12	87%	5.0%	1.07x	6.9%	7.6%	11.3%	1.4x
Saratoga Investment Corp.	SAR	\$ 319.53	\$ 26.97	93%	12.5%	0.92x	6.0%	7.0%	10.4%	2.0x
WhiteHorse Finance, Inc.	WHF	\$ 298.44	\$ 12.84	85%	-2.3%	0.90x	5.2%	5.2%	12.1%	1.3x
Stellus Capital Investment Corp.	SCM	\$ 289.62	\$ 13.90	86%	24.9%	1.00x	4.7%	5.0%	12.8%	2.1x
BlackRock Capital Investment Corp.	BKCC	\$ 244.57	\$ 3.37	84%	-8.2%	0.76x	3.9%	1.9%	11.9%	0.8x
Portman Ridge Finance Corp.	PTMN	\$ 187.37	\$ 19.64	80%	-16.2%	0.81x	-0.5%	-8.2%	14.1%	1.6x
Oxford Square Capital Corp.	OXSQ	\$ 180.31	\$ 2.71	67%	-25.5%	0.97x	-15.4%	-38.3%	15.5%	1.3x
Medallion Financial Corp.	MFIN	\$ 177.31	\$ 7.91	85%	23.6%	0.58x	4.2%	13.4%	4.0%	5.1x
Monroe Capital Corp.	MRCC	\$ 177.23	\$ 8.18	82%	-9.4%	0.79x	3.3%	-0.1%	12.2%	1.5x
OFS Capital Corp.	OFS	\$ 133.58	\$ 9.97	82%	0.5%	0.74x	1.1%	-6.3%	13.2%	1.8x
SuRo Capital Corp.	SSSS	\$ 84.38	\$ 3.33	48%	-48.0%	0.44x	-38.1%	-49.7%	0.0%	0.3x
PhenixFIN Corp.	PFX	\$ 72.14	\$ 34.50	86%	-5.4%	0.55x	0.8%	-2.4%	0.0%	0.6x
Great Elm Capital Corp.	GECC	\$ 60.82	\$ 8.00	55%	-36.0%	0.67x	2.7%	-2.9%	17.5%	1.6x
Investcorp Credit Management BDC, Inc.	ICMB	\$ 56.27	\$ 3.91	75%	-7.8%	0.64x	2.2%	-3.1%	13.3%	1.6x
Logan Ridge Finance Corp.	LRFC	\$ 52.78	\$ 19.51	78%	23.6%	0.56x	-1.9%	-11.8%	4.5%	NM
Silver Spike Investment Corp.	SSIC	\$ 50.90	\$ 8.19	73%	-16.3%	0.57x	5.9%	5.9%	0.0%	NM
Rand Capital Corp.	RAND	\$ 34.25	\$ 13.27	71%	-9.1%	0.58x	2.9%	2.8%	7.5%	NM
Princeton Capital Corp.	PIAC	\$ 30.12	\$ 0.25	56%	-5.7%	0.97x	20.3%	20.9%	30.0%	NM
Equus Total Return, Inc.	EQS	\$ 20.28	\$ 1.50	56%	-42.5%	0.59x	-7.8%	-9.3%	0.0%	NM
Firsthand Technology Value Fund, Inc.	SVVC	\$ 5.47	\$ 0.79	33%	-56.7%	0.21x	-93.5%	-108.7%	0.0%	NM
Mean				75%	-8.5%	0.82x	-2.7%	-6.6%	10.0%	1.5x
High				100%	24.9%	1.98x	20.3%	20.9%	30.0%	5.1x
Mean				82%	-3.2%	0.87x	0.7%	-1.3%	10.6%	1.3x
Median				84%	-2.3%	0.87x	3.8%	2.7%	11.4%	1.2x
Low				33%	-56.7%	0.21x	-93.5%	-108.7%	0.0%	0.3x

Source: S&P Capital IQ.

Note: As of June 13, 2023. NM refers to not meaningful.

ROA = (Net Change in Net Assets + Interest Expense) / Average Net Assets.

ROE = Net Change in Net Assets / Average Equity.

About Portfolio Valuation and Fund Advisory Services

Houlihan Lokey's Portfolio Valuation and Fund Advisory Services practice is a leading advisor to many of the world's largest asset managers, who rely on our strong reputation with regulators, auditors, and investors; private company, structured product, and derivative valuation experience; and independent voice. We value illiquid assets on behalf of hundreds of hedge funds, private equity firms, financial institutions, corporations, and investors. We rapidly mobilize the right team for the job, drawing on our expertise in a wide variety of asset classes and industries along with our real-world transaction experience and market knowledge from our dedicated global Financial and Valuation Advisory business.

Our Service Areas

Derivatives Valuation and Risk Management	Fair Valuation for Financial Reporting
Fund Manager Valuation	Fund Opinions
Valuation Governance and Best Practices	Portfolio Acquisition and Divestiture Services
Securitization and Regulatory Compliance	Structured Products Valuation Advisory

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São Paulo	Tel Aviv	
Washington, D.C.	Zurich	



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Corporate Finance

2022 M&A Advisory Rankings Global Transactions Under \$1 Billion

Advisor	Deals
1 Houlihan Lokey	381
2 Rothschild & Co	369
3 JP Morgan	217
4 Lazard	206
5 Goldman Sachs & Co	203

Source: Refinitiv. Excludes accounting firms and brokers.

Financial Restructuring

2022 Global Distressed Debt & Bankruptcy Restructuring Rankings

Advisor	Deals
1 Houlihan Lokey	58
2 PJT Partners Inc	30
3 Lazard	29
4 Rothschild & Co	25
5 Moelis & Co	21

Source: Refinitiv.

Financial and Valuation Advisory

1998 to 2022 Global M&A Fairness Advisory Rankings

Advisor	Deals
1 Houlihan Lokey	1,232
2 JP Morgan	1,030
3 Duff & Phelps, A Kroll Business	938
4 Morgan Stanley	725
5 BofA Securities Inc	710

Source: Refinitiv. Announced or completed transactions.

No. 1 Investment Bank for Global M&A Transactions Under \$1 Billion

Leading Capital Markets Advisor

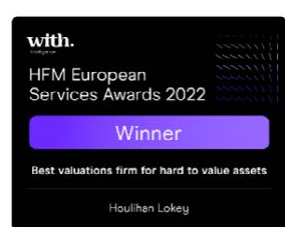
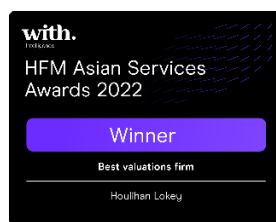
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1,500+ Transactions Completed Valued at More Than \$3.0 Trillion Collectively

No. 1 Global M&A Fairness Opinion Advisor Over the Past 25 Years

1,000+ Annual Valuation Engagements

Awards



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