

Financial Services Group

Business Development Companies

Q2 2023 INDUSTRY OVERVIEW AND COMMENTARY



Executive Summary

Key Trends

- The recent volatility faced by regional banks has impacted traditional borrowing channels, especially for venture-backed companies.
- Private lenders are stepping in to fill the significant gaps left by banks.
- Overall M&A transaction activity is down, though lenders are finding Select opportunities to lend to existing borrowers.
- Credit quality for existing investments remains robust, as most portfolio companies have been able to pass along inflation impacts, some expanding margin.
- If markets turn and we head into a recession, negative portfolio impacts may accelerate.



Charles Hibbs, CFA
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Los Angeles

Houlihan Lokey Insight

The private credit market rolls on as lenders bask in rising interest rates, strong portfolio company performance, sufficient interest coverage, and increasing demand for their capital as regional banks pull back in an attempt to survive.

Banking Dislocation and Venture Opportunities

Regional banks remain constrained due to deposit flight risk and deleveraging, attempting to preserve precious capital. Their absence is pushing more borrowers into private loan markets. The venture market has been completely upended following the failures of Silicon Valley Bank and First Republic Bank. The effects are just beginning to play out and will be long-lasting. Many venture-backed firms are facing operating difficulties, a perfect storm combined with scarce investor interest and few exit paths for sponsors. Venture lenders have been able to extract favorable terms, helping companies bridge the abyss. Firms that adapt and survive the next year or two will come out stronger.

M&A Markets at an Inflection Point

Though M&A activity continues to be anemic, transactions are picking up. Increasing opportunities through add-ons, take-private transactions, and divestitures have helped lenders. Sponsors are bringing well-performing companies to market, which they have held back due to uncertainty. The persistent stalemate between buyers and sellers will break as sponsors need to both put capital to work and create realizations. Venture sponsors alone are sitting on an estimated \$300 billion of dry powder, which will help to right that market.

Resilient Portfolio Companies

Most portfolio companies are adapting to the recent inflationary environment, achieving revenue and EBITDA growth, which is helping to support interest coverage ratios in the face of rising rates. Recent supply chain challenges and cost pressures are abating. Struggling firms include those that were significantly overvalued during the last cycle and that cannot pass along or absorb recent price increases. Overall, portfolio nonaccrual rates remain low.

Creating Origination Opportunities and Returns

Lenders are continuing to find opportunities to put out money. Some borrowers are being forced into refinancings or amendments. Most new originations are coming from existing portfolio companies.

While BDCs and lenders have the luxury of being highly selective in deploying capital in this market, there are reasons to be cautious regarding existing investments. Interest coverage ratios continue to drop, most falling to near or below 2.0x. If interest rate hikes by central banks continue, there is no telling how hard borrowers will be hit by a combination of rising debt costs and the struggling economy that is likely to result.

As we head into summer, it's worth remembering that basking in the light too long can feel good in the moment but lead to a severe burn without the proper precautions.

Charles Hibbs, CFA

Charles Hibbs is a leading member of the asset and wealth management investment banking practice within Houlihan Lokey's Financial Services Group. Coverage includes traditional and alternative asset managers, wealth managers, business development companies, real estate investment trusts, and specialty finance companies. He has advised on more than 40 completed transactions representing over \$25 billion in closed M&A, financing, and restructuring deals.

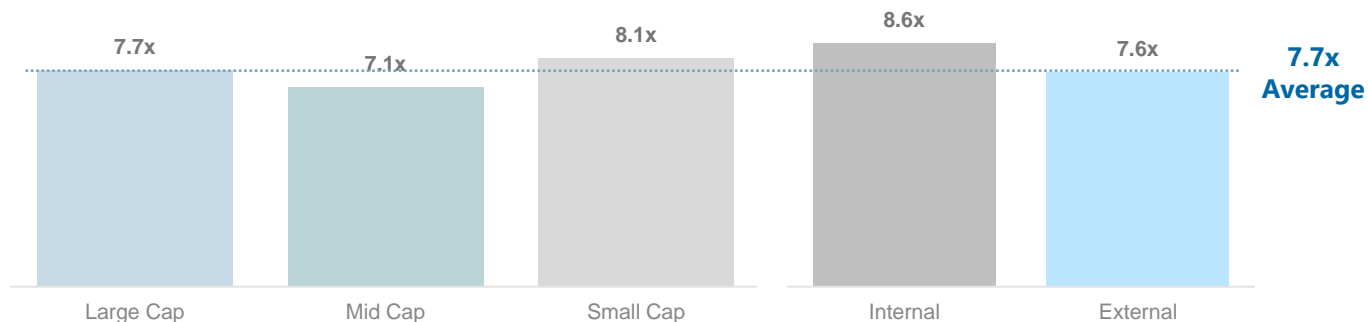
Recent BDC Trends

Market Multiples by Size and Management Type

Larger BDCs and internally managed BDCs continue to trade closer to net asset value per share.

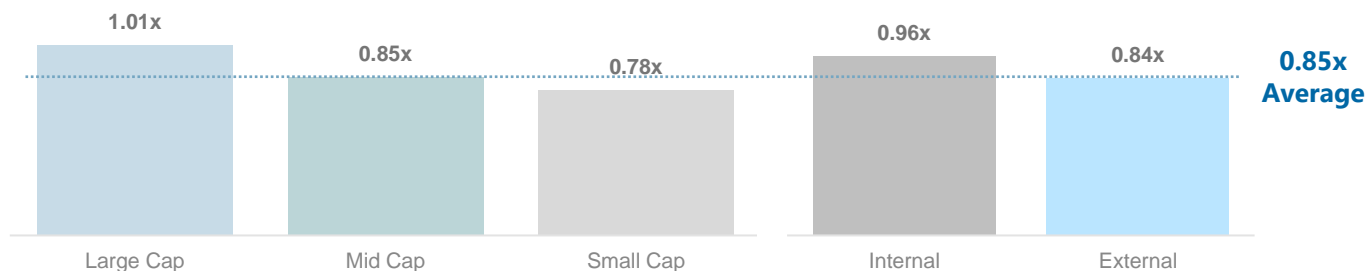
Price/Adjusted Earnings per Share

Multiple of 2023E Adj. EPS



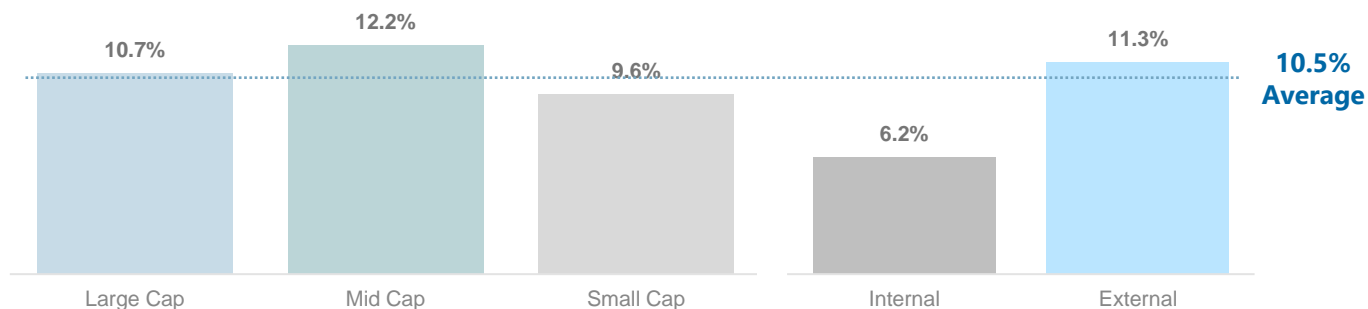
Price/Net Asset Value

Multiple of Most Recently Reported Net Asset Value per Share



Dividend Yield

Last Quarter Annualized Dividend Yield



Sources: Public filings, transcripts, SNL Financial, Wall Street estimates.

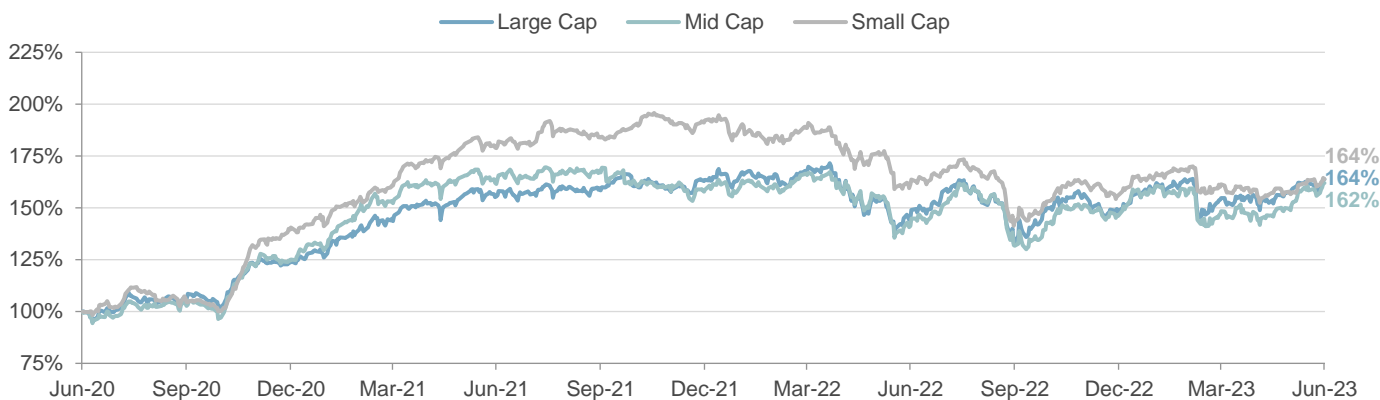
Notes: Financial data as of June 30, 2023. Small-, mid-, and large-cap BDCs are funds with market capitalizations under \$500 million, between \$500 million and \$1,000 million, and above \$1,000 million, respectively. See page 15 for list of companies included in each category. Data represents straight averages for Select BDCs (not market capitalization weighted)

Recent BDC Trends

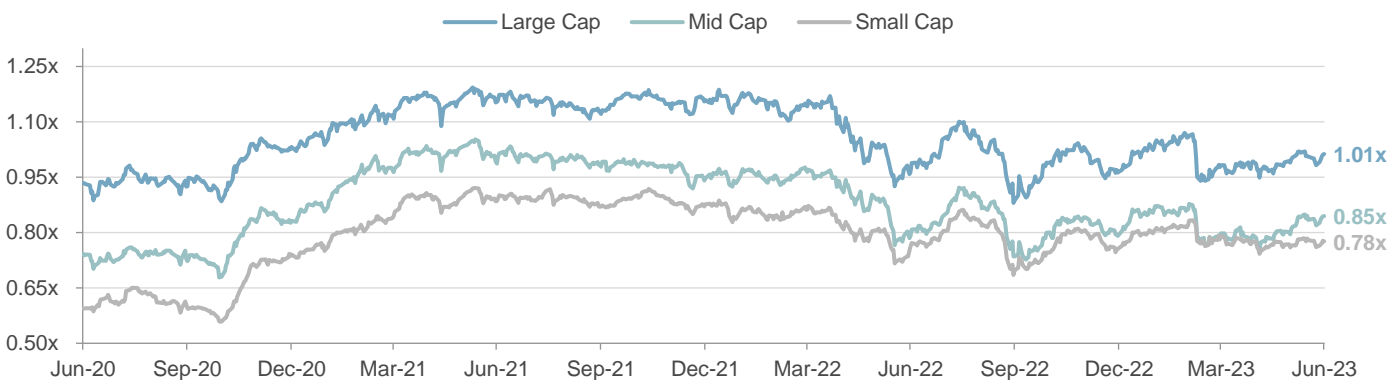
Historical Market Multiples by Size and Management Type

Over the past 18–24 months, price-to-net asset value multiples have come down across the industry and total returns have not changed significantly.

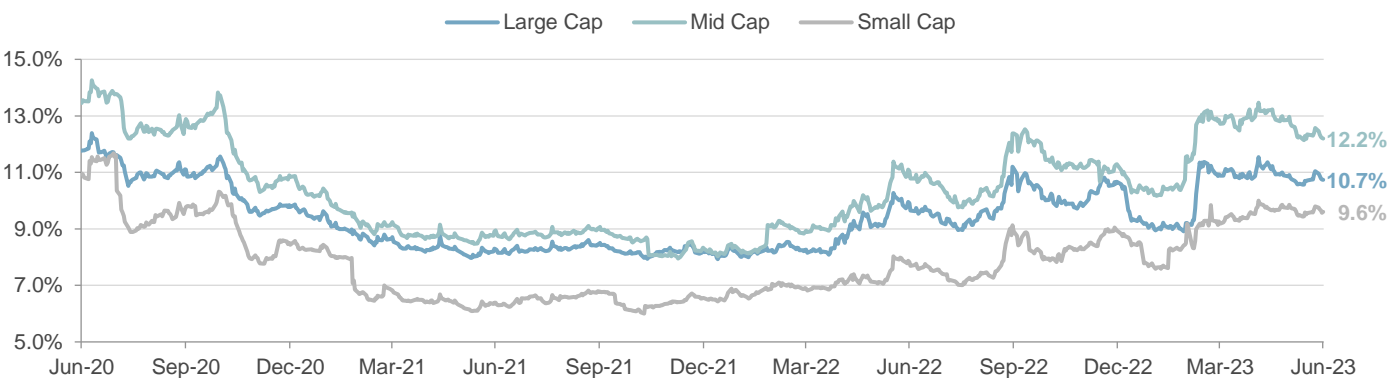
Three-Year Total Return⁽¹⁾



Price/Net Asset Value⁽¹⁾



Dividend Yield⁽¹⁾



Sources: Public filings, transcripts, SNL Financial, Wall Street estimates.

Notes: Financial data as of June 30, 2023. Small-, mid-, and large-cap BDCs are funds with market capitalizations under \$500 million, between \$500 million and \$1,000 million, and above \$1,000 million, respectively. See page 15 for list of companies included in each category.

(1) Total Return includes cumulative change in stock price, plus reinvested dividends; indices are not market capitalization weighted.

Recent BDC Trends

Historical Market Multiples by Size and Management Type (cont.)

Though there is only a handful remaining, internally managed BDCs continue to trade better than externally managed BDCs, but their total returns are relatively the same.

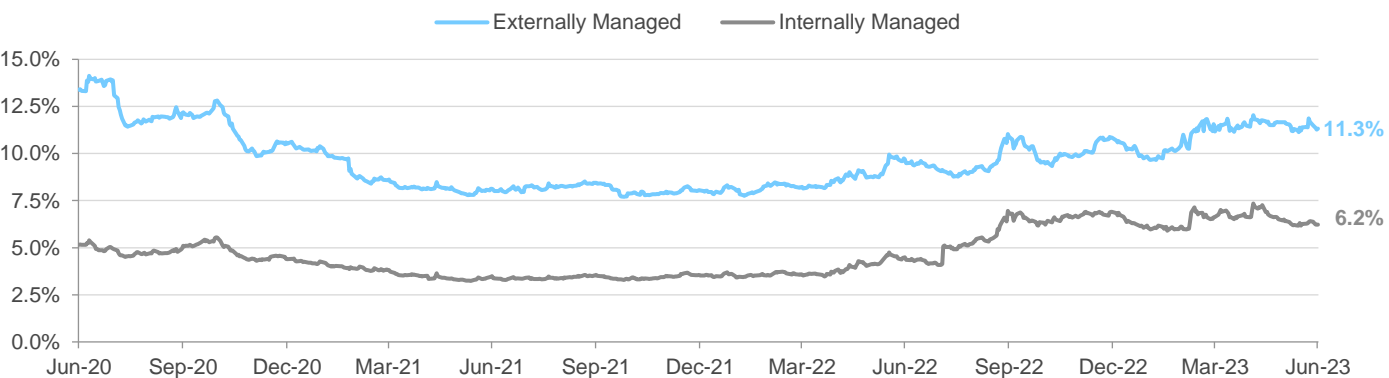
Three-Year Total Return⁽¹⁾



Price/Net Asset Value⁽¹⁾



Dividend Yield⁽¹⁾



Sources: Public filings, transcripts, SNL Financial, Wall Street estimates.

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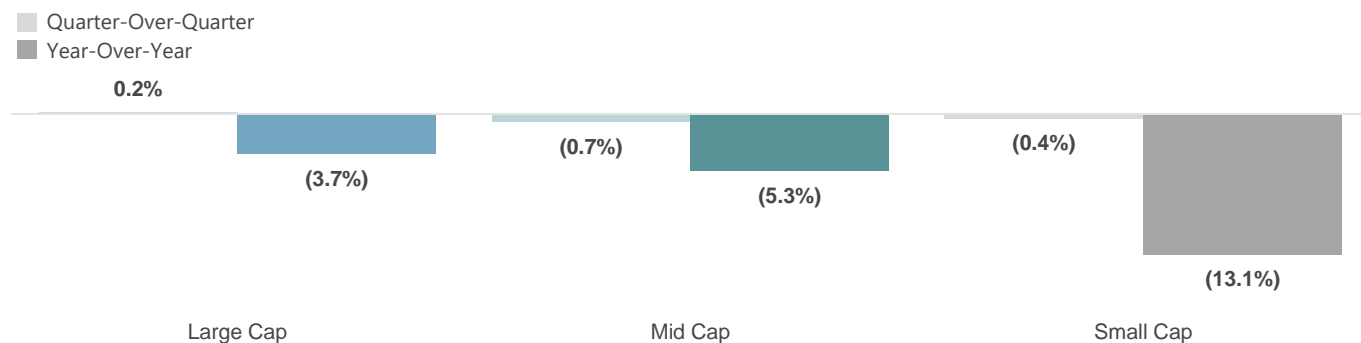
(1) Total Return includes cumulative change in stock price, plus reinvested dividends; indices are not market capitalization weighted.

Recent BDC Trends

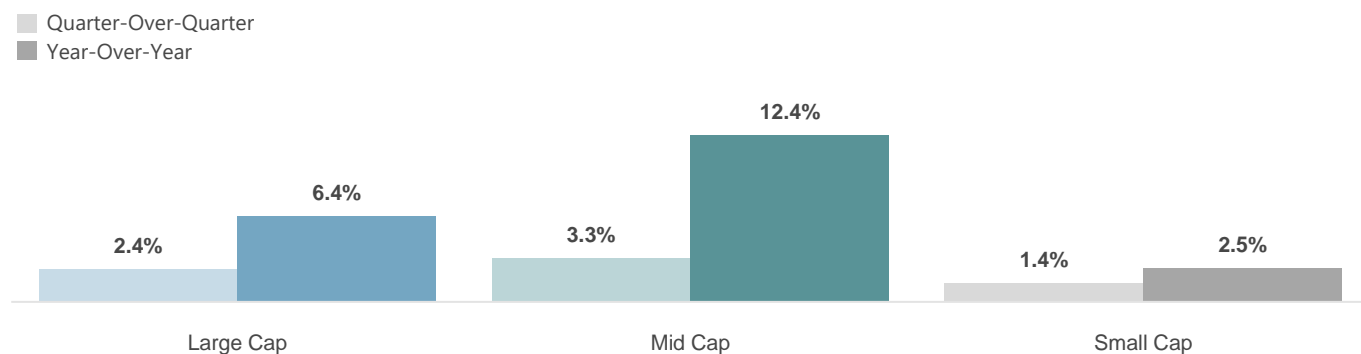
Changes in Net Asset Value per Share

Large-cap BDCs have preserved their portfolio net asset values better than smaller BDCs, on average, which is consistent with their relative premium price to net asset value and may reflect their relative exposure to upper-middle-market credits.

Change in Net Asset Value per Share

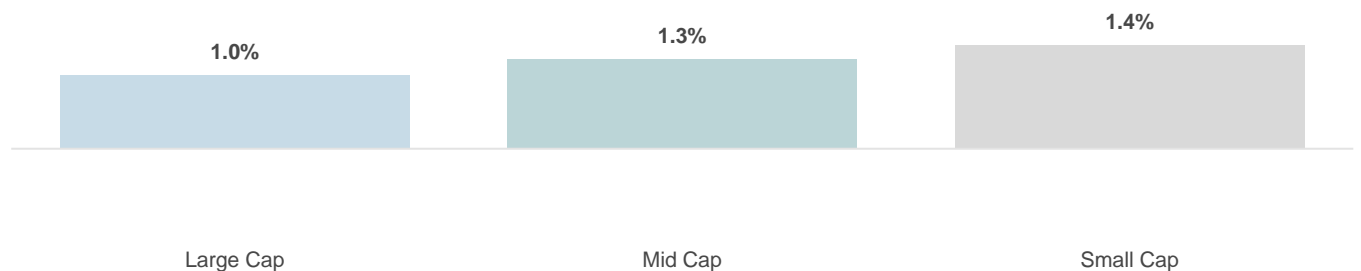


Change in Fair Value of Investment Portfolio



Nonperforming Assets/Fair Value of Investment Portfolio

Based on Most Recently Reported Quarter



Sources: Public filings, transcripts, SNL Financial, Wall Street estimates.

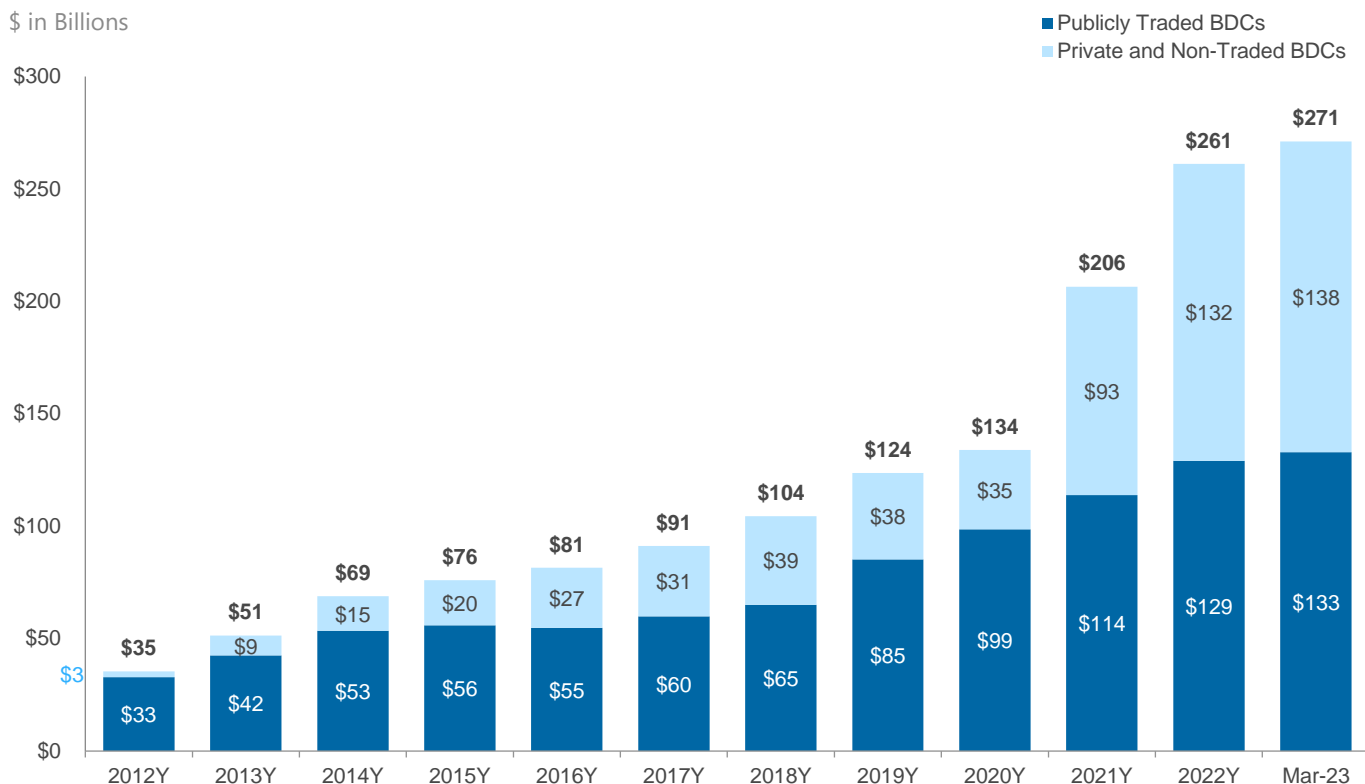
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Recent BDC Trends

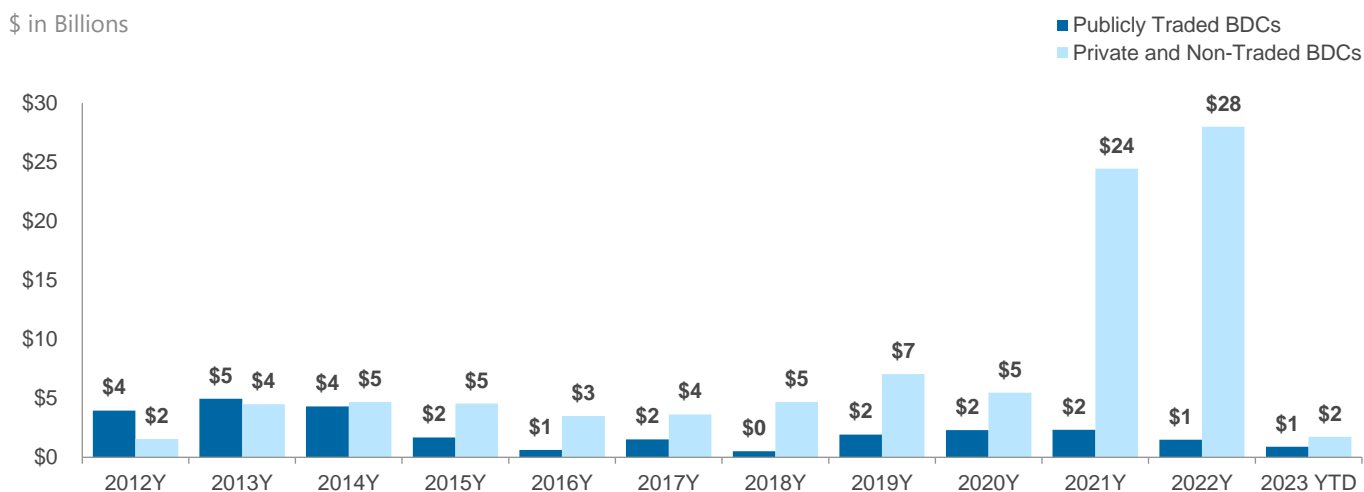
Changes in Assets and Net Assets

The private and non-traded channels are where nearly all the BDC capital has been raised; managers can raise new equity at net asset value and are not subject to the public market volatility and below net asset value trading price the public BDCs may face.

Assets Under Management



Net Equity Capital Raised



Sources: Public filings, transcripts, SNL Financial, Wall Street estimates.

Notes: Financial data as of June 30, 2023. Small-, mid-, and large-cap BDCs are funds with market capitalizations under \$500 million, between \$500 million and \$1,000 million, and above \$1,000 million, respectively. See page 15 for list of companies included in each category.

Recent BDC Trends

What They're Saying (cont.)

Bank Disruption

// Banks remain constrained on new activity due to concerns regarding both capital and liquidity.

Robert Kipp DeVeer

Ares Capital Corp.—CEO & Director

// We're seeing the impact of the regionals being less involved with possible deal flow coming our way. We are seeing the beginnings of what could be portfolios coming for sale out of regionals. We are very cautious on those portfolio transactions.

Armen Panossian

Oaktree Specialty Lending Corp.—CEO & CIO

// I think banks are going to pull back on lending until they understand what their capacity of lending is, given the balance sheet on the right-hand side of it is still very, probably unstable to them.

Joshua Easterly

Sixth Street Specialty Lending, Inc.—CEO

// Local and regional banks are going to respond to the recent events by reducing leverage and by increasing their cautiousness.

David B. Golub

Golub Capital BDC, Inc.—CEO & Director

// Based on conversations with our venture capital partners, portfolio companies, and active prospects that are in the pipeline, now more than ever they recognize the importance of separating the commercial bank and the lending relationship.

James P. Labe

TriplePoint Venture Growth BDC Corp.—Co-Founder, Chairman, & CEO

// The exit of SVB during the end of March will have significant and lasting impacts on the market over the long term and create multiyear opportunities.

James P. Labe

TriplePoint Venture Growth BDC Corp.—Co-Founder, Chairman, & CEO

// In the context of the last 30 years... we've seen a series of moves by regulators and through legislation to get banks to be less involved in lending to private-equity-backed companies.

David B. Golub

Golub Capital BDC, Inc.—CEO & Director

// In the first quarter, we saw a significant reduction in venture capital investment, a closed IPO market and anemic M&A market, a disappearing spec market, the ongoing potential for a recession in 2023. And finally, the banking crisis, which started with the collapse of Silicon Valley Bank, all of this contributed to a greater difficulty for venture-backed companies to raise debt or equity capital.

Gerald A. Michaud

Horizon Technology Finance Corp.—President & Director

Venture Capital

// There's already early signs and a very widespread belief that investment momentum will pick up later this year and into 2024, especially given the \$300 billion of PitchBook NVCA's estimated dry powder, that venture capital funds still have at their disposal.

James P. Labe

TriplePoint Venture Growth BDC Corp.—Co-Founder, Chairman, & CEO

// In the first quarter, we saw a significant reduction in venture capital investment, a closed IPO market and anemic M&A market, a disappearing spec market, the ongoing potential for a recession in 2023. And finally, the banking crisis, which started with the collapse of Silicon Valley Bank, all of this contributed to a greater difficulty for venture-backed companies to raise debt or equity capital.

Gerald A. Michaud

Horizon Technology Finance Corp.—President & Director

// The fundraising environment for the venture-backed technology companies is as challenging as it has been in the past 20 years. Our expectation is that the difficult fundraising environment for VC-backed technology and life science companies will persist for the remainder of 2023.

Gerald A. Michaud

Horizon Technology Finance Corp.—President & Director

// While not typical for venture growth stage companies, more than half of our top 10 obligors are either EBITDA positive or are projected to achieve EBITDA. We continue to see equity fundraising activity in our portfolio despite the challenging environment.

Sajal K. Srivastava

TriplePoint Venture Growth BDC Corp.—Co-Founder, President, CIO, Secretary, Treasurer, & Director

// We are seeing across-the-board lower liquidity levels at all levels of the VC ecosystem, meaning that portfolio companies have less liquidity to work with venture capital firms have either less liquidity in their funds or they're highly restricted to certain investments that they can make. And they're obviously having to support their portfolio companies longer given exit markets are as muted as they've been.

Gerald A. Michaud

Horizon Technology Finance Corp.—President & Director

// The exit of SVB during the end of March will have significant and lasting impacts on the market over the long term and create multiyear opportunities.

James P. Labe

TriplePoint Venture Growth BDC Corp.—Co-Founder, Chairman, & CEO

Recent BDC Trends

What They're Saying (cont.)

Macroenvironment and Industry

// Nearly every financing opportunity is coming to the private credit market due to the flexibility and execution and certainty that direct lenders with capital are able to provide.

Robert Stanley

*Sixth Street Specialty Lending, Inc.—
President*

// We believe the opportunity set for our business is the greatest we've seen in recent history and at least since the global financial crisis. The development in the financial sector has further increased market share for direct lenders as banks are tightening credit and public markets remain unreliable.

Robert Stanley

*Sixth Street Specialty Lending, Inc.—
President*

// Credit conditions remain tough and deal activity remained relatively slow in the lower middle market.

Edward H. Ross

*Fidus Investment Corp.—Chairman &
CEO*

// Despite everything you read about in the newspaper, there are companies that are doing well in the economy, and we're seeing opportunities to invest with those teams and with those private equity sponsors and those opportunities.

Dwayne Louis Hyzac

*Main Street Capital Corp.—CEO &
Director*

// Given that unsteady equilibrium that appears to be the case in the broadly syndicated loan market, we're finding the best opportunities in supporting large sponsors in doing new deals. That's probably the best risk-adjusted return that we're seeing in the private credit market currently.

Armen Panossian

*Oaktree Specialty Lending Corp.—CEO
& CIO*

// The current environment is similar to a number of prior periods of market dislocation that have improved the opportunity set for direct lenders... 95% of the first quarter LBO financing new issuance was completed by private capital providers, a market traditionally weighted towards the broadly syndicated channel.

Robert Kipp DeVeer

Ares Capital Corp.—CEO & Director

// Even prior to recent issues, we were seeing a more favorable environment for direct lenders with new transactions, pricing with wider spreads, lower leverage, and better terms, although M&A activity in the middle market has declined as the landscape evolves.

Tanner Powell

*MidCap Financial Investment Corp.—
CEO*

// I would expect that some number of smaller managers, smaller BDCs, probably will have challenges in accessing either the public markets or the lending markets.

Armen Panossian

*Oaktree Specialty Lending Corp.—CEO
& CIO*

// We see indicators that are winning to a rough patch ahead. GDP growth has slowed. It's barely above 1% for calendar Q1 on an annualized basis. There are lots of layoffs in the news. A recent report by Challenger, an outplacement firm, said that employers have announced more than 330,000 layoffs year-to-date. We've seen high-profile companies announce weak Q1 results, including the likes of Eli Lilly and Paramount, and the chorus of economists and commentators predicting recession has grown louder.

David B. Golub

*Golub Capital BDC, Inc.—CEO &
Director*

// There just isn't very much new issuance in broadly syndicated loans. But my expectation would be that if there was a sudden need or desire or shocks to the market that caused more syndication to be necessary that the broadly syndicated loan market is suffering from a lack of liquidity and could materially trade down.

Armen Panossian

*Oaktree Specialty Lending Corp.—CEO
& CIO*

// Inflation remains elevated and higher rates are putting downward pressure on loan demand, causing businesses to start to scale back on expansion plans in ways that could slow the economy enough to lead to a recession this year.

Armen Panossian

*Oaktree Specialty Lending Corp.—CEO
& CIO*

// The lower middle market as opposed to larger transactions, the same types of transactions like succession planning, partner separations, estate planning take place year after year, and people look to transact. And so that market is one that certainly has ups and downs like every market, but we still see the same reasons to transact. So, it should be a good environment for us.

David L. Magdol

*Main Street Capital Corp.—President,
CIO, & Senior MD*

// In an event where we have a tightening spread environment, we have much more activity-based fees that provide a significant amount of near-term range to the book. And in an event where spreads are stable or wider, obviously, that is good for yields and good for total investment income line.

Joshua Easterly

*Sixth Street Specialty Lending, Inc.—
CEO*

Recent BDC Trends

What They're Saying (cont.)

BDC Investments and Operations

// Over the coming quarters, there will be more discussion both on the topic of amendments and waivers as well as solutions to bloated capital structures.

Armen Panossian

Oaktree Specialty Lending Corp.—CEO & CIO

// Over the last 18 months, we've seen stability in the credit quality of our book. The majority of our companies have been able to appropriately adapt to the current inflationary environment, and we pay close attention to any companies that we think may have a difficult time passing through cost inflation to customers in the long run.

Aren C. LeeKong

Carlyle Secured Lending, Inc.—CEO, President, & Director

// We've seen our pipeline of investment opportunities in both our lower middle market and private loan investment strategies continue to grow over the last few months, returning to levels more consistent with our expected base investment activity levels.

Dwayne Louis Hyzac

Main Street Capital Corp.—CEO & Director

// Our nonaccrual rate is meaningfully below our 15-year historical average... The overall growth and profitability of our borrowers continue to be healthy with a year-over-year weighted average EBITDA growth rate of 8%.

Robert Kipp DeVeer

Ares Capital Corp.—CEO & Director

// The current lender funding environment also provides us opportunities from time to time to reprice existing loans at higher spreads. For example, when borrowers want additional financing or flexibility.

Matthew W. Benton

Golub Capital BDC, Inc.—COO

// One should expect that some of the most aggressive capital structures put in place over the last few years will be upside down and will need some incremental capital either in the form of PIK preferred capital or additional equity capital or some of the lenders in the existing capital structure converting part of their position to PIK.

Armen Panossian

Oaktree Specialty Lending Corp.—CEO & CIO

// Our new first lien loan investments in the quarter had a weighted average yield in excess of 11%, and we're levered less than 4x debt to EBITDA... Over 80% of our transactions were to existing borrowers.

Mitchell S. Goldstein

Ares Capital Management LLC—Senior Partner, Partner, Co-President, & Co-Head of Ares Credit Group

// I would say that the quality of the deals that we're seeing that we're executing on, they're very good deals, good sponsors on the private loan side, private credit side, and they're really good, attractive lower middle market deals on the lower middle market side.

Dwayne Louis Hyzac

Main Street Capital Corp.—CEO & Director

// We haven't seen material movement in nonaccruals or significant migration in performance ratings... Most of our borrowers are adapting well, despite a challenging environment. We're generally seeing borrowers take steps to raise prices, to cut costs, and to shore up liquidity.

David B. Golub

Golub Capital BDC, Inc.—CEO & Director

// We still see some potential for modest upside in NII compared to Q1 levels based on the combination of higher benchmark rates and attractive economics on new investments.

Thomas M. Hennigan

Carlyle Secured Lending, Inc.—CFO & Chief Risk Officer

// We've already seen a 14% quarter-over-quarter increase in the number of deals we evaluated during Q1, and this deal flow represents a broad set of industries... Our selectivity rate on new transactions in the first quarter is one of the lowest in 5 years.

Robert Kipp DeVeer

Ares Capital Corp.—CEO & Director

// Our backlog continues to grow as sellers likely come to terms with valuations and begin to harvest some of their stronger-performing assets... We're not chasing new platforms in the market. We continue to rely on our portfolio, which really is generating at this point, probably over 70% of our origination.

Ian Fowler

Barings BDC, Inc.—President

// The weighted average interest coverage of the companies in our investment portfolio at quarter end was 1.6x, which was flat relative to our prior quarter... Were we to use an LTM calculation, then our coverage ratio of the companies in our investment portfolio would be 2.3x.

David Nathan Miller

Goldman Sachs BDC, Inc.—Co-President & Co-CEO

// Higher interest rates and the lack of more traditional capital market financing alternatives have led to a slowdown in refinancing activity, resulting in less portfolio turnover over the last couple of quarters.

Robert Stanley

Sixth Street Specialty Lending, Inc.—President

// Out of our 79 lower middle market portfolio companies, over half have been in our portfolio for greater than five years and 1/4 have been in our portfolio for greater than a decade.

David L. Magdol

Main Street Capital Corp.—President, CIO, & Senior MD

Recent BDC Trends

What They're Saying (cont.)

Portfolio Companies

// Companies in our portfolio with EBITDA in excess of \$50 million are growing faster than companies with less than \$50 million of EBITDA.

Mitchell S. Goldstein

Ares Capital Management LLC—Senior Partner, Partner, Co-President, & Co-Head of Ares Credit Group

// We're likely to see continued reasonably strong results in the business-to-business software space. It's interesting because that's not what we're seeing in consumer-facing software... Companies that are very heavily reliant on Medicare, Medicaid payments, and, to some degree, those that are focused on payments from insurance companies, they're seeing a challenge managing prices as quickly as their costs are changing.

David B. Golub

Golub Capital BDC, Inc.—CEO & Director

// We continue to see positive operating trends among the vast majority of our corporate lending portfolios, which have largely been able to pass along cost increases, thereby limiting the impact on margins... Portfolio company revenue and EBITDA continue to trend positively.

Ted McNulty

MidCap Financial Investment Corp.—President & CIO for Apollo Investment Management

// Companies...valued on robust multiples that may not come back or on growth rates that are not capable in this environment, they have to make the hard decision of, do you do the down round? Do you do other forms of financing flat rounds with [prefs]. And so, I think that it's a valuation issue for a number of companies.

Sajal K. Srivastava

TriplePoint Venture Growth BDC Corp.—Co-Founder, President, CIO, Secretary, Treasurer, & Director

// Most of our portfolio companies have reacted well to the inflationary environment. The exception has been a couple of our healthcare services books... Where labor shortages and wage inflation have persisted. And the structural nature of the businesses makes it difficult for those management teams to pass along these cost increases.

Thomas M. Hennigan

Carlyle Secured Lending, Inc.—CFO & Chief Risk Officer

// Although revenues and EBITDA are still growing quarter-over-quarter year-over-year, I think EBITDA is not growing as quickly as top line as companies continue to face some margin pressure. And so, we're seeing just a slight bit of margin compression across the portfolio.

Alex Chi

Goldman Sachs BDC, Inc.—Co-President & Co-CEO

// If you talk to a lot of the CEOs in our portfolio, they would say COVID-19 forced them to run a much tighter ship, a much better business.

Robert Kipp DeVeer

Ares Capital Corp.—CEO & Director

// You're going to have continued pressure on consumers, small businesses, and their ability to obtain credit and continue to spend. And then on the other side of the coin, you have private lenders like ourselves who will be able to take advantage of opportunities that pop up and continue to drive good pricing and importantly, good terms in terms of covenants and low advance rates in terms of leverage.

Tanner Powell

MidCap Financial Investment Corp.—CEO

// Cost pressures and supply chain challenges are showing signs of easing. By and large, our portfolio companies are performing reasonably well... Especially those with pricing power.

Edward H. Ross

Fidus Investment Corp.—Chairman & CEO

// Our portfolio companies have gotten quite religious about their cash burn, about operating significantly more efficiently as well as being more creative actually in ways to raise liquidity to continue to support their operations and try to continue to create value in a very... Volatile market.

Gerald A. Michaud

Horizon Technology Finance Corp.—President & Director

// Revenue growth was in the double digits, although just barely, and EBITDA growth was in the single digits, high single digits. What we do continue to see is that there are—margins are not growing as fast as revenue.

Tanner Powell

MidCap Financial Investment Corp.—CEO

// We continue to have numerous companies that are growing and expanding and executing according to, in many cases, ahead of plan as well as achieving EBITDA, particularly those companies in the fintech, software, enterprise, and travel segments.

Sajal K. Srivastava

TriplePoint Venture Growth BDC Corp.—Co-Founder, President, CIO, Secretary, Treasurer, & Director

Recent BDC Trends

What They're Saying (cont.)

M&A Market

// In October, November, and December M&A, at least new deal volumes slowed down quite a bit. It was pretty anemic at the end of the day. And that started—the quarter—first quarter started out that way. But it has changed since then... Deal flow has actually picked up quite a bit. Quality is a little hit or miss, but deal flow has picked up quite a bit.

Edward H. Ross

Fidus Investment Corp.—Chairman & CEO

// Valuations have just actually just cracked a bit... We were at the peak, it was in the 13x; it's dropped to 12x ... On one side, you've got sponsors who have to put money to work. On the other side, you've got sponsors that have to get realization.

Ian Fowler

Barings BDC, Inc.—President

// The increase in interest rates has had a very real impact on the amount of debt private equity buyers can undertake to support new investments. And as a result, many sellers have remained on the sidelines anchored to 2021 valuations.

Ian Fowler

Barings BDC, Inc.—President

// M&A volumes have been very slow, not a little low, not a small decrease from 2021 or the early part of 2022, but a very dramatic decline. And it's small deals. It's large deals. It runs across the board.

David B. Golub

Golub Capital BDC, Inc.—CEO & Director

// Now that there's been more stability in the market, I think that's going to unleash more M&A activity as there's more confidence that's out there.

Alex Chi

Goldman Sachs BDC, Inc.—Co-President & Co-CEO

// We do anticipate when M&A picks up and you talk to our investment bankers, they've got a decent pipeline of M&A opportunities as we go into the year that hopefully spreads, stay where they are in OID and we can take good advantage of very attractive markets for private credit.

David Nathan Miller

Goldman Sachs BDC, Inc.—Co-President & Co-CEO

// As we move forward over the last couple of months, I would say the view we have is that the market as a whole, private equity investors, as well as sellers, have gotten comfortable with the new dynamics of the marketplace, which the biggest change, as you know, would be the cost of capital on the debt capital side.

Dwayne Louis Hyzac

Main Street Capital Corp.—CEO & Director

// Some private equity firms are now testing the market by bringing out for sale, companies that are strong performers. So, I think it's going to start improving over the course of calendar Q2 and more particularly, over the second half of the year.

David B. Golub

Golub Capital BDC, Inc.—CEO & Director

// The coming quarters may likely witness increased deal volumes through more strategic corporate actions such as take-private transactions or divestitures as well as secondary LBOs. This view is further informed by increasing pipeline activity as well as the close dialogue we have with our Goldman Sachs investment banking colleagues.

Alex Chi

Goldman Sachs BDC, Inc.—Co-President & Co-CEO

// We are beginning to see strategics starting to engage more consistently in starting to look at some of these opportunities, certainly on the life science side and the public biotech sector, where valuations have gotten so low.

Gerald A. Michaud

Horizon Technology Finance Corp.—President & Director

// While undertaking a new LBO is difficult, you are seeing a lot of activity or sponsor focused on add-ons.

Tanner Powell

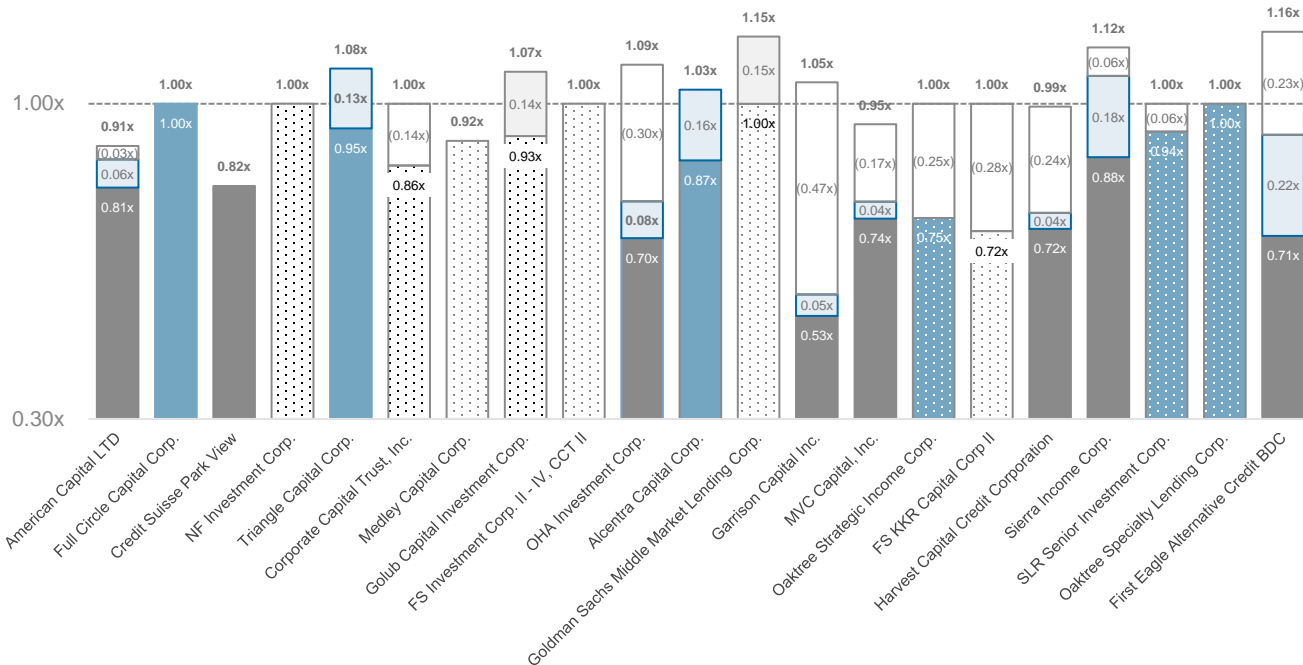
MidCap Financial Investment Corp.—CEO

Recent BDC Trends

Select M&A Transactions and Implied Multiples

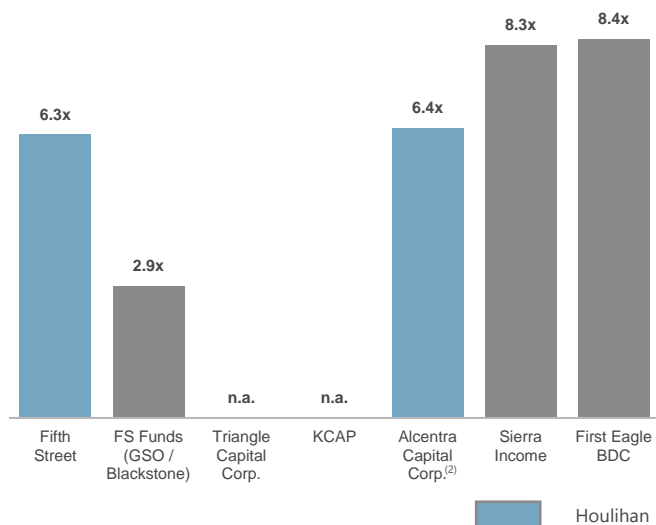
Select BDC M&A Precedent Transactions

Multiple of Most Recent Tangible Book Value at the Time of Announcement (Target Value)

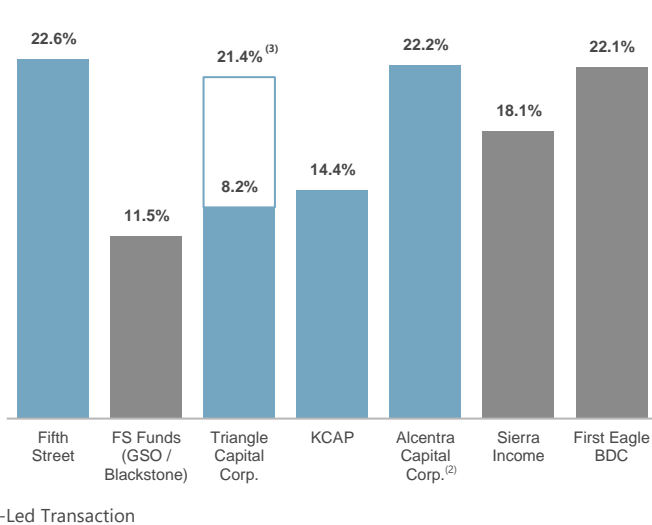


Select BDC IMA Precedent Transactions

Multiple of Last Quarter Annualized Revenue⁽¹⁾



Percentage of Net Assets



Sources: Public filings, transcripts, SNL Financial, Wall Street estimates.

(1) Does not give effect to the newly Proposed IMA fee structure.

(2) Revenue multiples adjusted for approx. \$97.4 million of net assets acquired after transaction adjustments and Crescent BDC cash consideration.

(3) Premiums agreed to be paid without the sale of the investment portfolio, as disclosed in the proxy statement.

Recent BDC Trends

Select Public Trading Comparables

As of June 30, 2023

(Dollars in Millions, Except per Share Data)

Ticker	Mgt. Type	Closing Stock Price	Market Cap. (\$M)	1-Year Stock Price Return	% of 52-Week High	Price/Adj. Earnings		Price/Book	Div. Yield (%)	Portfolio			
						2023E	2024E			Total Assets	% Debt (FV)	NPA/Cost	
Select Large-Cap BDCs													
Ares Capital Corporation	ARCC	External	\$18.79	\$10,232.7	12.7%	90.6%	8.2x	8.4x	1.02x	9.6%	\$21,812	72.3%	1.3%
FS KKR Capital Corporation	FSK	External	19.18	5,371.7	12.8	85.0	6.3	6.5	0.77	13.3	16,058	80.5	2.6
Owl Rock Capital Corporation	OBDC	External	13.42	5,231.1	19.8	96.7	7.4	7.8	0.89	9.8	13,679	86.6	0.3
Blackstone Secured Lending Fund	BXSL	External	27.36	4,642.8	26.0	98.5	7.4	8.3	1.05	11.3	9,848	98.4	0.1
Main Street Capital Corporation	MAIN	Internal	40.03	3,221.1	12.0	87.7	10.0	10.4	1.47	6.9	4,293	70.2	0.7
Prospect Capital Corporation	PSEC	External	6.20	2,493.5	(1.0)	75.7	6.5	n.a.	0.65	11.6	7,702	72.1	0.2
Golub Capital BDC, Inc.	GBDC	External	13.50	2,294.5	13.9	93.6	8.2	8.7	0.92	9.8	5,672	95.1	1.6
Hercules Capital, Inc.	HTGC	Internal	14.80	2,079.3	24.2	90.9	7.7	7.9	1.37	10.5	3,252	94.8	0.0
Sixth Street Specialty Lending, Inc.	TS LX	External	18.69	1,624.2	11.1	94.3	8.5	8.7	1.13	9.8	2,973	92.8	0.7
Goldman Sachs BDC, Inc.	GSBD	External	13.86	1,517.2	(6.8)	76.6	6.5	6.6	0.96	13.0	3,606	97.7	0.5
Oaktree Specialty Lending Corporation	OCSL	External	19.43	1,497.7	9.5	89.4	7.7	8.0	0.99	11.3	3,916	95.0	2.2
New Mountain Finance Corporation	NMFC	External	12.44	1,255.7	14.9	91.5	8.2	8.6	0.95	11.3	3,379	74.7	1.8
High					26.0%	98.5%	10.0x	10.4x	1.47x	13.3%	\$21,812	98.4%	2.6%
Mean					12.4	89.2	7.7	8.2	1.01	10.7	8,016	85.8	1.0
Median					12.8	90.7	7.7	8.3	0.97	10.9	4,983	89.7	0.7
Low					(6.8)	75.7	6.3	6.5	0.65	6.9	2,973	70.2	0.0
Select Mid-Cap BDCs													
Bain Capital Specialty Finance, Inc.	BCSF	External	\$13.51	\$872.2	9.7%	89.8%	6.9x	7.5x	0.78x	11.3%	\$2,606	84.1%	0.6%
Barings BDC, Inc.	BBDC	External	7.84	846.1	(5.4)	74.9	6.9	6.7	0.70	12.8	2,727	82.1	1.1
MidCap Financial Investment Corporation	MFIC	External	12.56	822.1	29.9	91.7	7.1	7.7	0.83	12.1	2,489	91.6	0.3
SLR Investment Corporation	SLRC	External	14.27	778.5	8.7	88.7	8.6	8.5	0.79	11.5	2,556	72.5	1.0
Carlyle Secured Lending, Inc.	CGBD	External	14.56	739.6	27.9	91.6	7.3	7.6	0.85	12.1	2,055	94.8	3.4
Capital Southwest Corporation	CSWC	Internal	19.72	724.2	19.4	92.9	7.6	7.7	1.20	12.0	1,258	86.0	0.3
BlackRock TCP Capital Corporation	TCPC	External	10.91	630.2	(2.6)	76.1	6.4	6.7	0.84	12.5	1,793	88.3	0.3
CION Investment Corporation	CION	External	10.38	568.3	33.4	91.4	5.3	5.8	0.69	13.1	1,854	92.2	3.3
Crescent Capital BDC, Inc.	CCAP	External	15.14	561.1	8.3	83.2	7.0	7.7	0.78	10.8	1,631	93.3	1.8
PennantPark Floating Rate Capital Ltd.	PFLT	External	10.65	529.6	1.9	80.6	7.8	8.3	0.95	11.5	1,224	86.5	0.4
Runway Growth Finance Corporation	RWAY	External	12.35	511.1	21.9	88.2	6.8	7.0	0.88	14.6	1,173	95.6	1.0
High					33.4%	92.9%	8.6x	8.5x	1.20x	14.6%	\$2,727	95.6%	3.4%
Mean					13.2	86.3	7.1	7.4	0.85	12.2	1,943	87.9	1.2
Median					12.4	88.7	7.0	7.6	0.83	12.1	1,854	88.3	1.0
Low					(6.8)	74.9	5.3	5.8	0.69	10.8	1,173	72.5	0.3
Select Small-Cap BDCs													
Fidus Investment Corporation	FDUS	External	\$19.60	\$489.8	24.5%	92.2%	8.4x	9.4x	1.01x	14.3%	\$949	86.1%	2.4%
Trinity Capital Inc.	TRIN	Internal	13.26	477.0	7.2	80.7	6.2	6.4	1.01	14.2	1,123	95.9	2.1
Gladstone Investment Corporation	GAIN	External	13.04	438.0	2.1	82.2	11.4	12.4	1.00	7.4	766	68.1	4.4
TriplePoint Venture Growth BDC Corporation	TPVG	External	11.78	417.0	4.9	79.1	6.1	6.6	1.01	13.6	1,046	90.6	2.5
Horizon Technology Finance Corporation	HRZN	External	12.08	385.6	16.0	86.5	7.2	7.3	1.07	10.9	778	92.6	0.5
Gladstone Capital Corporation	GLAD	External	9.76	365.5	4.3	87.2	9.1	8.8	1.06	9.8	700	91.2	0.4
Saratoga Investment Corporation	SAR	External	26.99	319.8	22.8	93.5	6.9	8.1	0.92	10.4	1,078	90.0	1.0
WhiteHorse Finance, Inc.	WHF	External	12.83	298.2	9.4	84.5	7.0	7.6	0.90	11.5	781	94.6	0.3
Stellus Capital Investment Corporation	SCM	External	14.07	293.2	36.8	87.5	7.6	8.1	1.01	11.4	901	93.1	2.2
BlackRock Capital Investment Corporation	BKCC	External	3.28	238.0	0.3	81.4	7.1	7.8	0.74	12.2	602	98.6	2.3
Portman Ridge Finance Corporation	PTMN	External	19.99	190.7	(3.5)	81.6	6.3	6.7	0.85	13.8	594	82.1	0.4
Monroe Capital Corporation	MRCC	External	8.18	177.2	1.7	81.9	7.2	7.6	0.79	12.2	559	87.8	0.4
OFS Capital Corporation	OFS	External	9.89	132.5	11.9	86.0	7.0	8.0	0.74	13.3	515	79.4	2.4
Oxford Square Capital Corporation	OXSQ	External	2.65	132.2	(15.7)	65.4	5.0	5.5	0.95	15.8	335	68.4	1.0
SuRo Capital Corporation	SSSS	Internal	3.20	81.0	(50.1)	46.4	n.a.	(5.5)	0.42	0.0	291	33.2	0.7
PhenixFIN Corporation	PFX	Internal	38.00	79.5	4.5	96.5	11.7	n.a.	0.61	0.0	214	49.9	2.2
Great Elm Capital Corporation	GECC	External	7.76	59.0	(24.3)	53.5	5.2	5.2	0.65	18.0	314	86.1	0.0
Loqan Ridge Finance Corporation	LRFC	External	20.71	56.0	32.4	82.8	18.8	20.7	0.60	4.2	216	85.2	4.5
Investcorp Credit Management BDC, Inc.	ICMB	External	3.62	52.1	(4.0)	72.4	5.1	n.a.	0.59	19.9	239	90.6	1.2
Silver Spike Investment Corporation	SSIC	External	8.18	50.8	(16.4)	72.7	10.1	8.4	0.57	0.0	90	100.0	0.0
Rand Capital Corporation	RAND	External	13.01	33.6	(4.9)	69.2	n.a.	n.a.	0.57	7.7	71	57.7	0.0
Equus Total Return, Inc.	EQS	Internal	1.52	20.5	(41.8)	56.3	n.a.	n.a.	0.60	0.0	44	0.0	0.0
Firsthand Technology Value Fund, Inc.	SVVC	External	0.63	4.3	(65.6)	33.2	n.a.	n.a.	0.17	0.0	36	69.2	0.0
High					36.8%	96.5%	18.8x	20.7x	1.07x	19.9%	\$1,123	100.0%	4.5%
Mean					(2.1)	76.2	8.1	7.7	0.78	9.6	532	77.8	1.3
Median					2.1	81.6	7.1	7.7	0.79	11.4	559	86.1	1.0
Low					(65.6)	33.2	5.0	(5.5)	0.17	0.0	36	0.0	0.0

Sources: Public filings, transcripts, SNL Financial, Wall Street estimates.

Notes: Financial data as of most recent available; market data as of June 30, 2023.

Houlihan Lokey Asset Management

Extensive Transaction Experience

We have a leading franchise serving the BDC sector, leading a number of marquee transactions and creating bespoke solutions for clients over the years, for both BDC asset companies as well as the transfer of management contracts.

Since 2015, We Have Closed Asset Management Transactions Covering:

\$198 Billion

Assets Under Management

20+

Public Company Closed Transactions

\$12 Billion

Closed M&A Transaction Value Across 25 Deals

- Sellside Engagements
- Buyside Engagements
- Minority Stakes
- Asset Sales
- Asset-Level Financings
- Debt Capital Raises
- Equity Capital Raises
- Related-Party Deals
- Fairness Opinions

	Asset Sale			Investment Management Agreement		
Featured Completed Business Development Company Transactions	 has sold its interests in the MCC Senior Loan Strategy JV Portfolio to a private fund managed by Sellside Advisor	 sold its entire Investment Portfolio for \$793 million to funds advised by Sellside Advisor	 externalized management to an affiliate of Buyside Advisor	 has externalized management of the Company for \$235 million in total financial commitments from Sellside Advisor	 has closed the effective transfer of certain external investment management agreements to Special Committee Advisor	 has been appointed as the external advisor of Strategic Advisor
	Related-Party			Third-Party		
	 has merged with Special Committee Advisor	 has merged with Sellside Advisor	 has merged with Special Committee Advisor	 has merged with Exclusive Sellside Advisor	 sold its entire Investment Portfolio for \$793 million to funds advised by and simultaneously externalized management of the Company for \$235 million in total financial commitments from Sellside Advisor	 has merged with Financial Advisor
	 has been acquired through an internalization by Sellside Advisor	 has merged with Buyside Advisor	 Series B Cumulative Redeemable Preferred Stock with Warrants Recapitalization \$325,000,000 Exclusive Placement Agent	 has been acquired by and has sold a \$2.4 billion middle-market loan and credit investment portfolio to a fund sponsored by Financial Advisor	 has been appointed as the external advisor of Strategic Advisor	 has acquired Buyside Advisor
Other Permanent Capital Vehicle Transactions	 has been acquired by Sellside Advisor	An affiliate of has acquired Buyside Advisor	 has acquired Buyside Advisor	 has sold a minority equity GP stake to Sellside Advisor	 has acquired The General Partner of Buyside Advisor	 Completed a series of strategic actions including equity realignment, a C-Corp conversion, a change in corporate governance, and a preferred restructuring Special Committee Advisor
Featured Credit-Focused Platform Transactions						

Tombstones included herein represent transactions closed from 2016 forward.

Houlihan Lokey Asset Management

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Director

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Locations



Americas		Europe and Middle East		Asia-Pacific	
Atlanta	Miami	Amsterdam	Milan	Beijing	Nagoya
Baltimore	Minneapolis	Antwerp	Munich	Fukuoka	Shanghai
Boston	New York	Dubai	Paris	Gurugram	Singapore
Chicago	San Francisco	Frankfurt	Stockholm	Hong Kong SAR	Sydney
Dallas	São Paulo	London	Tel Aviv	Mumbai	Tokyo
Houston	Washington, D.C.	Madrid	Zurich		
Los Angeles		Manchester			



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Product Expertise

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