



Houlihan Lokey

Portfolio Valuation and Fund Advisory Services

Direct Lending Update

SPRING 2023



Introduction

Dear Clients and Friends,

Houlihan Lokey's Portfolio Valuation and Fund Advisory Services team is pleased to present the spring 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,

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Key Trends

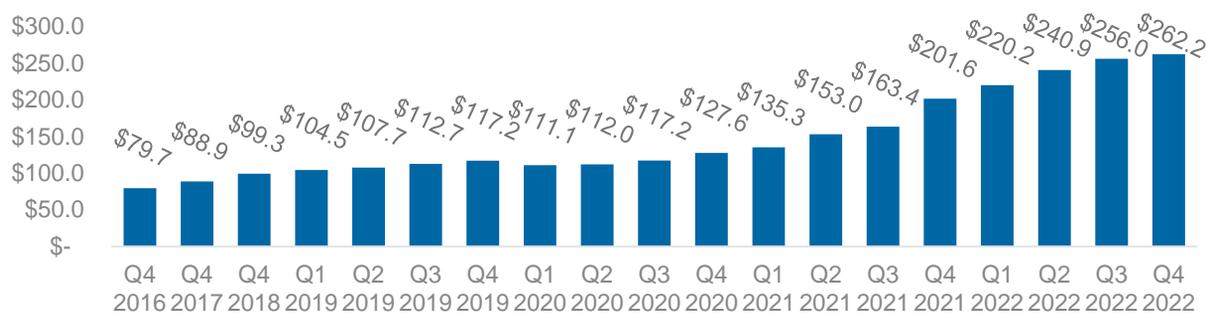
- Many lenders were more selective with new deals in Q4 2022. Aggregate BDC originations fell in Q4 2022 to the lowest level since Q2 2021. Originations were \$27.0 billion in Q4 2022, down from \$34.0 billion in the prior quarter. There were 755 net new investments in Q4 2022 compared to 2,068 in Q3 2022.⁽¹⁾
- The weighted average price for performing first lien loans declined from 97.8% of par in Q3 2022 to 97.7% of par in Q4 2022, as shown on page 5. The high levels of fundraising for direct lending funds over the past several years have left significant undeployed capital competing for new deals. Additionally, the recent banking turmoil has led to a pullback in lending by regional banks. This presents an opportunity for direct lenders to fill this lending void, which further heightens already elevated levels of competition among direct lenders.
- In Q4 2022, average first lien and second lien yields rose for the fourth consecutive quarter to 11.19% and 13.69%, respectively. For first lien debt, this represents a 1.05% increase over the prior quarter and a 3.52% increase over the prior year. For second lien debt, this represents a 1.60% increase over the prior quarter and a 4.62% 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 nearing 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 BDC portfolio issuer leverage was 5.54x as of Q4 2022.⁽¹⁾
- Interest coverage for loans has been declining due to rising base rates. The average EBITDA to interest expense ratio on newly issued loans declined from 2.8x in Q3 2022 to 2.4x in Q4 2022, its lowest level since Q4 2018 according to Refinitiv LPC's Middle Market Sponsored Private Deals Analysis.⁽¹⁾
- 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, September financial statements are typically available in December. According to the Golub Capital Middle Market Report,⁽²⁾ middle-market private companies have experienced year-over-year revenue growth of 11.0% and earnings growth of 10.9% as of the first quarter of 2023. At the end of Q4 2022, the non-accrual percentage for BDC loans, which is an indicator of distress, was 1.4%, representing a slight uptick from 1.2% the prior quarter.
- As of April 21, 2023, the average BDC price as a multiple of NAV was 0.98x for large-cap, 0.79x for mid-cap, and 0.78x for small-cap. There were 38 BDCs trading below NAV and 10 trading at a premium to NAV. These levels are similar to our last update in December 2022.

Sources: Advantage Data, PitchBook, LCD Comps, Refinitiv.

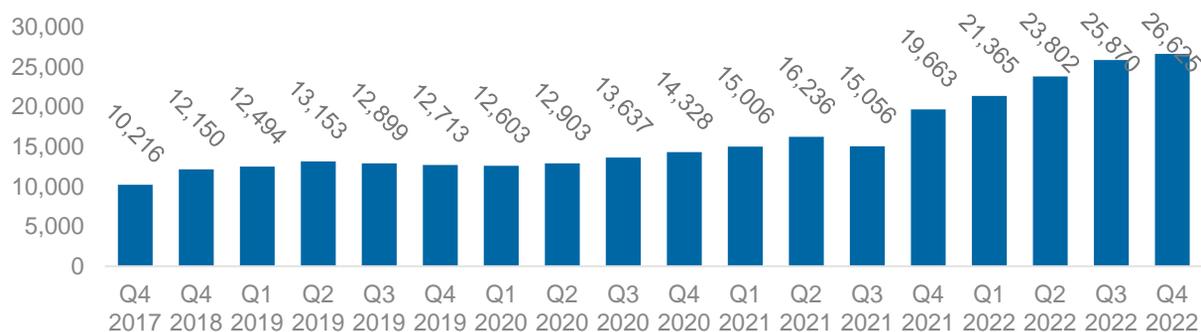
(1) Refinitiv LPC's Middle Market Connect 4Q22 BDC Analysis.

(2) Golub Capital Middle Market Report Q1 2023.

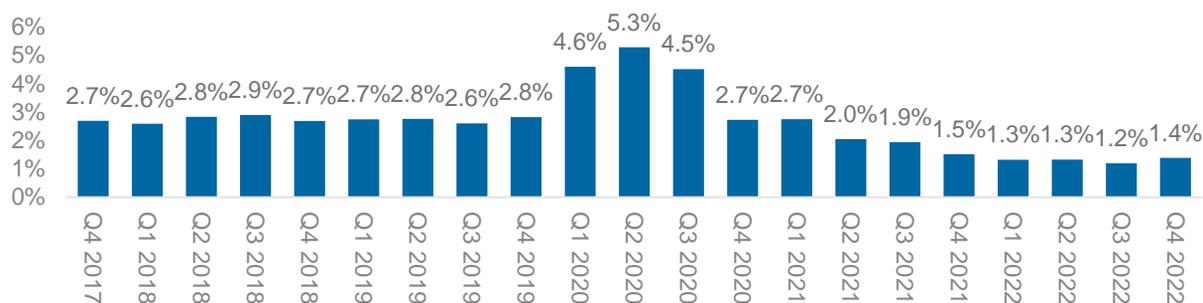
Fair Value of BDC Portfolios⁽¹⁾ (\$ in billions)



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.

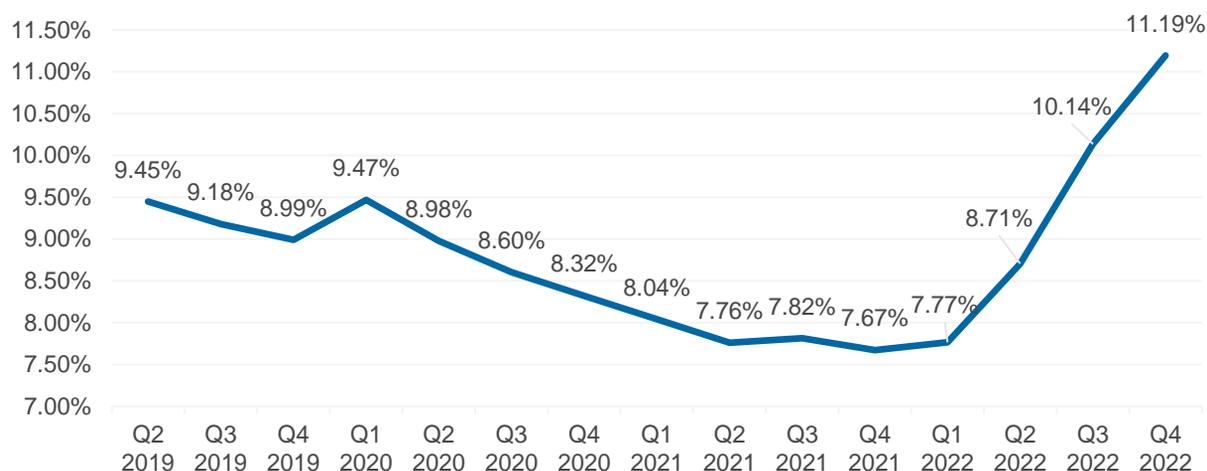
(1) Reflects the fair value for BDC portfolios tracked by Advantage Data.

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

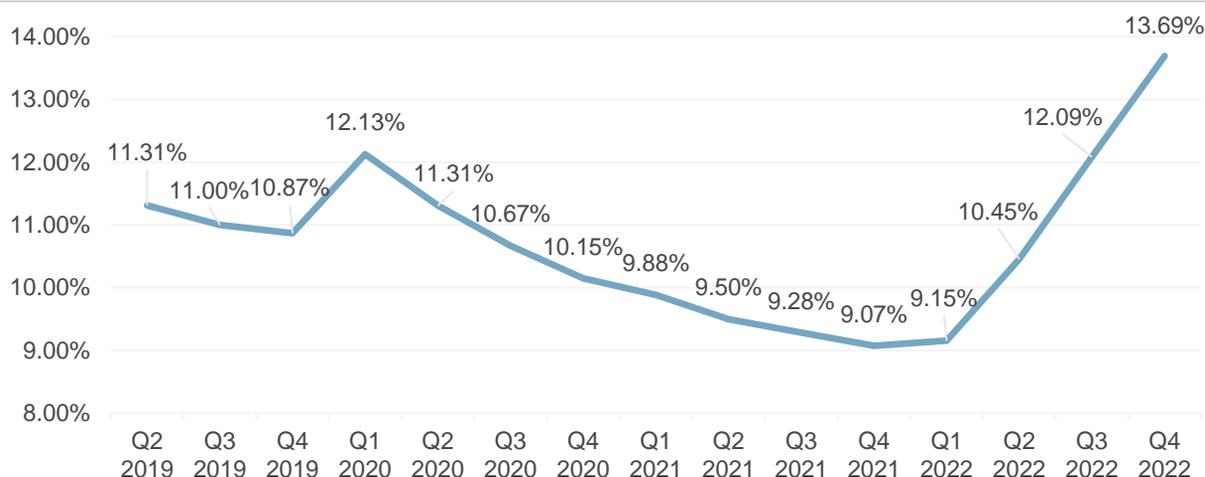
(3) Reflects cost of nonaccrual investments as a percentage of total portfolio cost for BDCs tracked by Advantage Data.

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

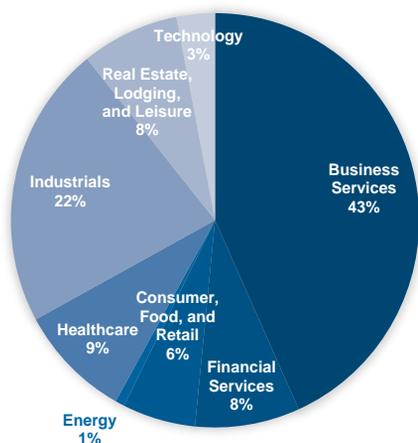
Average First Lien Yield—BDC Investment Portfolios⁽¹⁾



Average Second Lien Yield—BDC Investment Portfolios⁽¹⁾



Industry Breakdown by BDC Portfolio Company—Q4 2022⁽²⁾



Industry Breakdown by BDC Investment Yields—Q4 2022

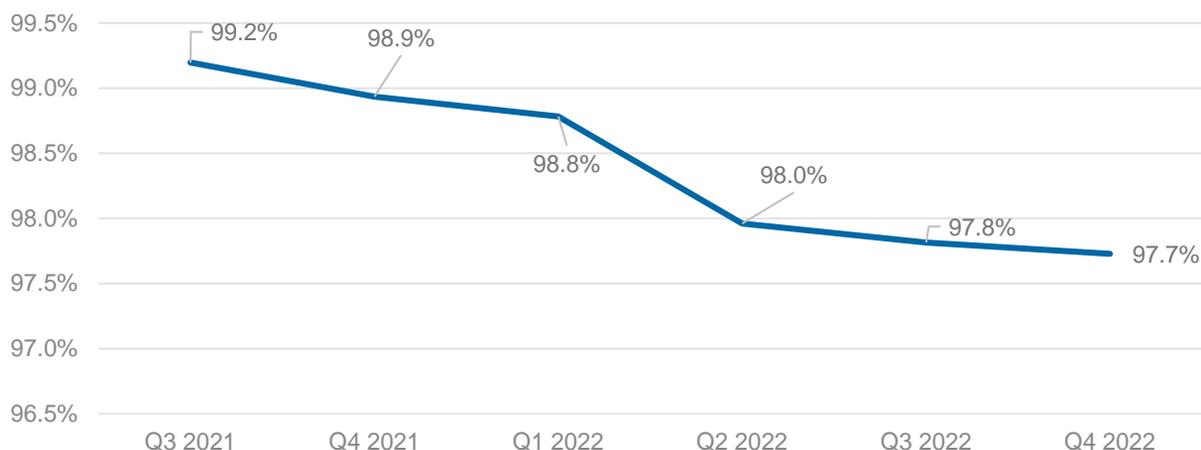
Industry	First Lien	Second Lien
Business Services	11.23%	13.57%
Financial Services	10.71%	13.70%
Consumer, Food, and Retail	11.46%	13.38%
Energy	10.97%	12.71%
Healthcare	11.46%	13.51%
Industrials	11.17%	13.62%
Real Estate, Lodging, and Leisure	11.12%	13.62%
Technology	11.17%	16.03%

Source: Advantage Data.

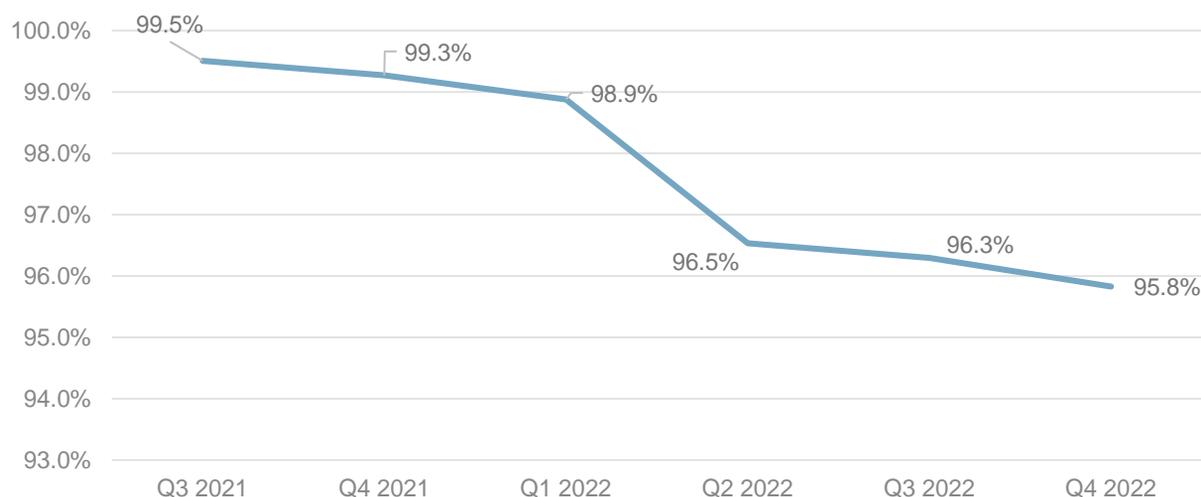
(1) Yield is based off of reported fair value, stated maturity, and stated interest rate. Represents data for all BDCs tracked by Advantage Data. Excludes outliers.

(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⁾
Q4 2022	SOFR/LIBOR +	520 – 600 – 650	700 – 775 – 850
Q3 2022	SOFR/LIBOR +	500 – 575 – 625	675 – 750 – 888
Change	SOFR/LIBOR +	20 – 25 – 25	25 – 25 – (38)

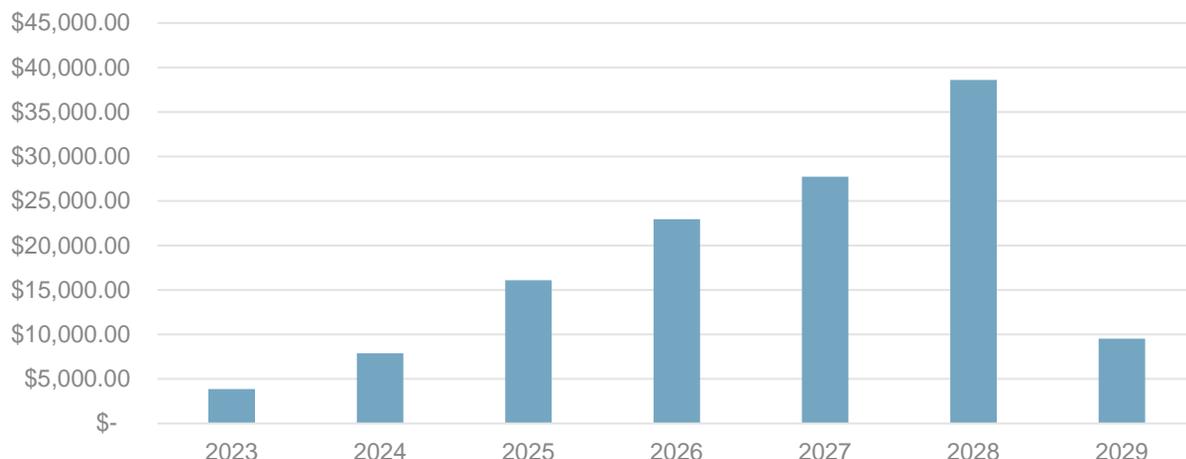
Source: Advantage Data.

(1) Expressed as a percentage of par. Represents data for all BDCs tracked by Advantage Data that 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.

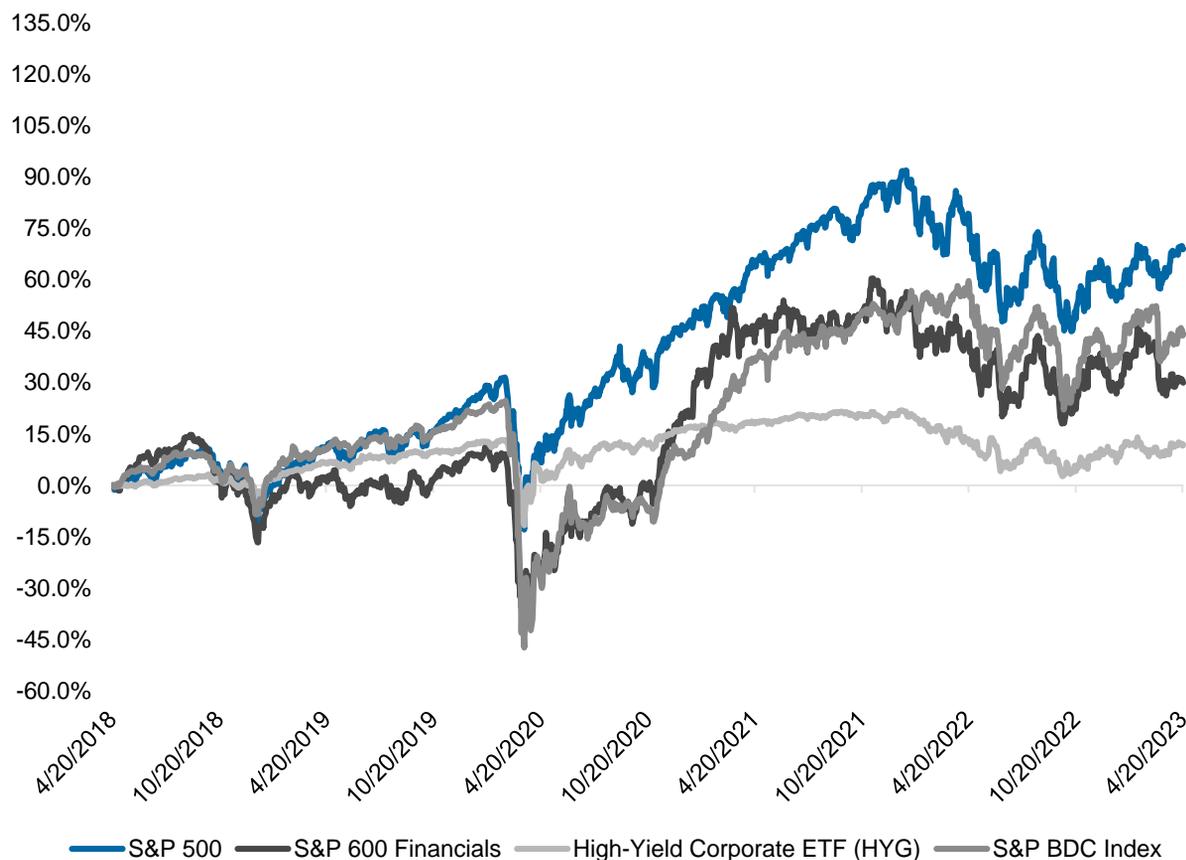
(3) Ranges represent the 25th, 50th, and 75th percentile of new loans for each respective quarter. Excludes outliers.

Maturity of LIBOR-Based Debt Securities for BDC Portfolio Companies by Year⁽¹⁾ (principal in \$ millions)



Cumulative Total Return (%) as of April 21, 2023

	1 Year	5 Years
S&P 500	-4.3%	69.0%
S&P 600 Financials	-8.7%	30.0%
High-Yield Corporate ETF (HYG)	-0.7%	11.9%
S&P BDC Index	-8.9%	44.2%



Sources: Advantage Data, Bloomberg.

(1) Represents the principal balance of maturities for debt securities with a LIBOR component for all BDCs tracked by Advantage Data.

Publicly Traded BDC Market Snapshot

(Dollars in millions, except per share data)

Company Name	Ticker	Market Cap.	Price at 4/21/2023	Price/52 wk High	1 Year Price Change	Price / NAV	LTM ROA	LTM ROE	Div. Yield	Debt/Equity
Large Cap										
Ares Capital Corporation	ARCC	\$ 9,911.38	\$ 18.20	82%	-10.2%	0.99x	4.8%	6.5%	10.5%	1.3x
FS KKR Capital Corp.	FSK	\$ 5,257.97	\$ 18.70	83%	-10.7%	0.75x	2.7%	1.2%	13.9%	1.2x
Owl Rock Capital Corporation	ORCC	\$ 5,011.61	\$ 12.82	86%	-10.4%	0.86x	5.8%	7.9%	10.3%	1.2x
Blackstone Secured Lending Fund	BXSL	\$ 4,316.95	\$ 25.44	90%	-7.7%	NM	NM	NM	11.1%	NM
Main Street Capital Corporation	MAIN	\$ 3,185.98	\$ 40.05	88%	-0.5%	1.49x	8.1%	12.4%	7.4%	1.0x
Prospect Capital Corporation	PSEC	\$ 2,749.04	\$ 6.87	81%	-10.8%	0.69x	3.0%	2.0%	10.5%	0.5x
Golub Capital BDC, Inc.	GBDC	\$ 2,254.11	\$ 13.19	86%	-11.6%	0.90x	3.9%	4.5%	10.0%	1.2x
Hercules Capital, Inc.	HTGC	\$ 1,760.42	\$ 12.99	70%	-22.7%	1.22x	5.8%	7.5%	16.1%	1.1x
Goldman Sachs BDC, Inc.	GSBD	\$ 1,511.69	\$ 13.81	68%	-26.4%	0.95x	3.7%	3.5%	13.0%	1.3x
Sixth Street Specialty Lending, Inc.	TSLX	\$ 1,474.77	\$ 18.12	77%	-18.9%	1.10x	6.5%	8.3%	9.5%	1.1x
Oaktree Specialty Lending Corporation	OCSL	\$ 1,445.25	\$ 18.75	83%	-12.7%	0.95x	2.2%	0.2%	11.7%	1.3x
New Mountain Finance Corporation	NMFC	\$ 1,187.02	\$ 11.76	86%	-11.6%	0.90x	5.0%	5.6%	10.9%	1.5x
Mean				82%	-12.9%	0.98x	4.7%	5.4%	11.3%	1.2x
Mid Cap										
Barings BDC, Inc.	BBDC	\$ 813.69	\$ 7.54	70%	-25.9%	0.68x	2.5%	0.5%	13.3%	1.2x
SLR Investment Corp.	SLRC	\$ 790.50	\$ 14.49	82%	-11.9%	0.79x	2.8%	2.0%	11.3%	1.1x
Bain Capital Specialty Finance, Inc.	BCSF	\$ 754.73	\$ 11.69	73%	-24.0%	0.68x	6.1%	9.5%	13.0%	1.2x
MidCap Financial Investment Corporation	MFIC	\$ 742.87	\$ 11.35	83%	-10.6%	0.75x	4.2%	3.0%	13.8%	1.5x
Carlyle Secured Lending, Inc.	CGBD	\$ 693.70	\$ 13.65	86%	-2.6%	0.80x	6.3%	9.2%	13.0%	1.2x
Capital Southwest Corporation	CSWC	\$ 629.67	\$ 18.22	76%	-21.5%	1.12x	5.6%	7.3%	13.0%	1.1x
BlackRock TCP Capital Corp.	TCPK	\$ 578.25	\$ 10.01	70%	-26.9%	0.77x	1.6%	-1.2%	12.8%	1.3x
PennantPark Floating Rate Capital Ltd.	PFLT	\$ 534.08	\$ 10.75	77%	-19.2%	0.95x	1.6%	-2.5%	11.2%	1.3x
Crescent Capital BDC, Inc.	CCAP	\$ 531.84	\$ 14.35	79%	-19.0%	0.72x	3.5%	2.5%	11.4%	1.1x
CION Investment Corporation	CION	\$ 523.77	\$ 9.52	82%	-15.0%	0.60x	5.5%	5.5%	17.1%	1.1x
Mean				78%	-17.7%	0.79x	4.0%	3.6%	13.0%	1.2x
Small Cap										
Runway Growth Finance Corp.	RWAY	\$ 475.88	\$ 11.50	78%	-20.0%	NM	NM	NM	12.5%	NM
Fidus Investment Corporation	FDUS	\$ 466.05	\$ 18.76	88%	-6.0%	0.97x	5.9%	7.4%	12.2%	NM
Gladstone Investment Corporation	GAIN	\$ 446.97	\$ 13.36	81%	-14.0%	0.99x	8.6%	10.7%	10.8%	0.6x
TriplePoint Venture Growth BDC Corp.	TPVG	\$ 430.19	\$ 12.17	70%	-22.7%	1.02x	0.7%	-4.7%	13.1%	1.4x
Trinity Capital Inc.	TRIN	\$ 423.25	\$ 12.12	66%	-27.9%	0.92x	0.4%	-6.7%	15.2%	1.3x
Gladstone Capital Corporation	GLAD	\$ 345.42	\$ 9.46	76%	-18.8%	1.04x	4.8%	4.2%	10.1%	0.9x
Horizon Technology Finance Corporation	HRZN	\$ 333.33	\$ 11.77	84%	-7.5%	1.03x	6.3%	7.5%	11.6%	1.4x
PennantPark Investment Corporation	PNNT	\$ 332.64	\$ 5.10	65%	-31.1%	0.66x	-6.6%	-20.7%	14.5%	1.4x
NewtekOne, Inc.	NEWT	\$ 296.64	\$ 12.05	45%	-51.9%	0.79x	5.7%	8.3%	6.0%	NM
Saratoga Investment Corp.	SAR	\$ 287.63	\$ 24.19	86%	-5.4%	0.86x	4.6%	4.1%	11.4%	2.0x
WhiteHorse Finance, Inc.	WHF	\$ 286.82	\$ 12.34	80%	-16.5%	0.86x	4.6%	4.6%	12.1%	1.3x
Stellus Capital Investment Corporation	SCM	\$ 283.49	\$ 14.39	89%	5.3%	1.03x	4.5%	5.2%	12.4%	2.2x
BlackRock Capital Investment Corporation	BKCC	\$ 244.57	\$ 3.37	79%	-17.6%	0.77x	3.0%	1.0%	11.9%	0.8x
Portman Ridge Finance Corporation	PTMN	\$ 195.52	\$ 20.47	84%	-14.0%	0.84x	-0.5%	-8.2%	13.3%	1.6x
Monroe Capital Corporation	MRCC	\$ 165.75	\$ 7.65	71%	-24.5%	0.74x	2.5%	-1.2%	13.1%	1.5x
Oxford Square Capital Corp.	OXSQ	\$ 152.11	\$ 3.05	71%	-22.4%	1.10x	-19.2%	-44.6%	13.8%	1.3x
Medallion Financial Corp.	MFIN	\$ 144.21	\$ 6.42	64%	-18.0%	0.47x	3.9%	12.1%	5.0%	5.0x
OFS Capital Corporation	OFS	\$ 133.50	\$ 9.96	77%	-17.6%	0.74x	1.7%	-3.9%	13.2%	1.8x
SuRo Capital Corp.	SSSS	\$ 104.85	\$ 3.70	42%	-54.8%	0.50x	-34.1%	-46.0%	0.0%	0.4x
PhenixFIN Corporation	PFX	\$ 76.96	\$ 36.75	91%	-6.0%	0.62x	-1.0%	-5.1%	0.0%	0.6x
Great Elm Capital Corp.	GECC	\$ 62.56	\$ 8.23	55%	-42.9%	0.74x	-1.3%	-19.6%	17.0%	1.8x
Logan Ridge Finance Corporation	LRFC	\$ 58.08	\$ 21.42	86%	5.3%	0.61x	-2.0%	-11.9%	3.4%	NM
Investcorp Credit Management BDC, Inc.	ICMB	\$ 51.23	\$ 3.56	68%	-28.1%	0.56x	2.2%	-1.9%	14.6%	1.5x
Silver Spike Investment Corp.	SSIC	\$ 49.72	\$ 8.00	62%	-24.3%	0.57x	5.9%	5.9%	0.0%	NM
Princeton Capital Corporation	PIAC	\$ 36.15	\$ 0.30	67%	14.9%	1.13x	19.6%	20.0%	25.0%	NM
Rand Capital Corporation	RAND	\$ 32.86	\$ 12.73	68%	-15.7%	0.57x	-1.3%	-1.5%	6.3%	NM
Equus Total Return, Inc.	EQS	\$ 21.22	\$ 1.57	58%	-38.4%	0.60x	-2.8%	-3.2%	0.0%	NM
Firsthand Technology Value Fund, Inc.	SVVC	\$ 6.41	\$ 0.93	28%	-70.6%	0.21x	-89.8%	-102.3%	0.0%	NM
Mean				71%	-21.1%	0.78x	-2.7%	-7.1%	9.9%	1.5x
High				91%	14.9%	1.49x	19.6%	20.0%	25.0%	5.0x
Mean				75%	-18.4%	0.83x	0.4%	-2.0%	10.9%	1.3x
Median				78%	-17.6%	0.80x	3.6%	2.7%	11.8%	1.3x
Low				28%	-70.6%	0.21x	-89.8%	-102.3%	0.0%	0.4x

Source: S&P Capital IQ.

Note: As of April 21, 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



Our Office Locations





Houlihan Lokey is the trusted advisor to more top decision-makers than any other independent global investment bank.

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.

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

Leading Capital Markets Advisor

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.

No. 1 Global Restructuring Advisor

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

Financial and Valuation Advisory

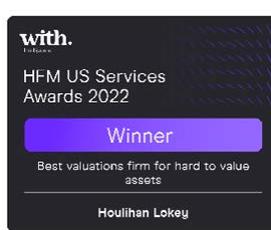
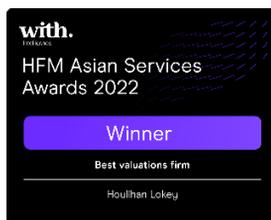
1998 to 2022 Global M&A Fairness Advisory Rankings		
Advisor	Deals	
1 Houlihan Lokey	1,232	
2 JP Morgan	1,030	
3 Duff & Phelps, A Kroll Business	938	
4 Morgan Stanley	725	
5 BofA Securities Inc	710	

Source: Refinitiv. Announced or completed transactions.

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

1,000+ Annual Valuation Engagements

Awards



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Financial Restructuring
Financial and Valuation Advisory

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