



Houlihan Lokey

Portfolio Valuation and Fund Advisory Services

Direct Lending Update

FALL 2023



Introduction

Dear Clients and Friends,

Houlihan Lokey's Portfolio Valuation and Fund Advisory Services team is pleased to present the fall 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 98.0% of par in Q1 2023 to 98.1% of par in Q2 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 Q2 2023, the median first lien spread of 650 bps for newly issued loans was the same level as in Q1 2023. Second lien spreads for newly issued loans increased at the median to 775 bps from 750 bps during the same time frame.
- In Q2 2023, average first lien and second lien yields rose for the sixth consecutive quarter to 11.86% and 14.36%, respectively. For first lien debt, this represents a 0.25% increase over the prior quarter and a 3.16% increase over Q2 2022. For second lien debt, this represents a 0.33% increase over the prior quarter and a 3.89% increase over Q2 2022. These increases are primarily driven by growth 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 when base rates were lower. The average issuer leverage as measured by debt to EBITDA was 5.25x as of Q2 2023 according to Houlihan Lokey's Private Performing Credit Index (PPCI).⁽¹⁾ For new loans, we are seeing leverage levels typically around 4.5x–5.5x. For more information regarding the PPCI, please visit the [Insights](#) section of HL.com.
- The average EBITDA-to-interest-expense ratio on newly issued loans decreased from 2.5x in Q1 2023 to 2.2x in Q2 2023, according to Refinitiv LPC's Middle Market Sponsored Private Deals Analysis.⁽²⁾ Many of these loans have a fixed-charge coverage ratio (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, June financial statements are typically available in September. According to the Golub Capital Middle Market Report,⁽³⁾ middle-market private companies have experienced year-over-year revenue growth of 4.3% and earnings growth of 4.5% as of the second quarter of 2023. At the end of Q2 2023, the nonaccrual percentage for BDC loans (which is an indicator of distress) was 1.4%, down slightly from 1.5% 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⁾
- Commercial banks are moving away from cash-flow-based lending, leaving middle-market issuers with limited capital sources, and nonbank direct lenders are stepping in—at a higher cost. This may limit the amount of debt lower-middle-market issuers can borrow while still maintaining reasonable fixed charge coverage ratios. As a result, issuers may have to rely on ABL revolving credit facilities paired with nonbank direct lender term loans or mezzanine financing for viable capital alternatives.⁽⁵⁾
- As of September 22, 2023, the average BDC price as a multiple of NAV was 1.04x for large-cap, 0.93x for mid-cap, and 0.83x for small-cap. There were 34 BDCs trading below NAV and 14 trading at a premium to NAV.

For more related content, please follow the links below:

[Private Performing Credit Index](#)

[A Focus on Valuation: Private Credit vs. Public Credit](#)

[Business Development Companies—Q2 2023 Industry Overview](#)

Sources: Advantage Data, PitchBook, Refinitiv.

(1) Houlihan Lokey Private Performing Credit Index Q2 2023.

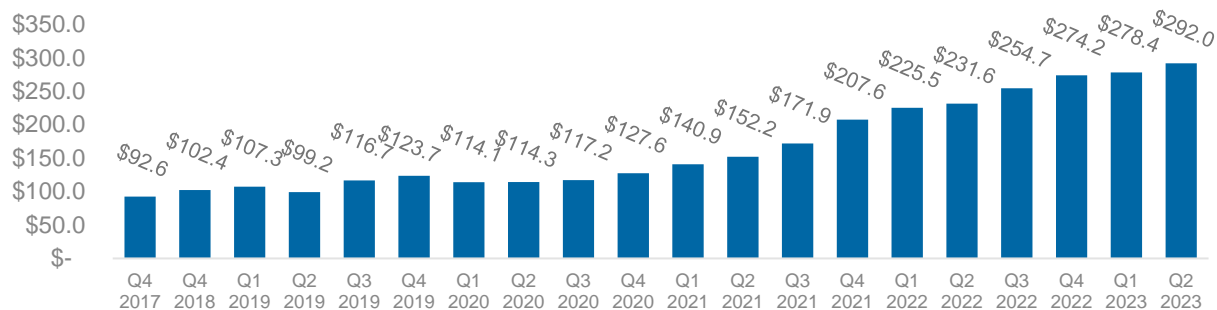
(2) Refinitiv LPC's Middle Market Sponsored Private Deals Analysis Q2 2023.

(3) Golub Capital Middle Market Report Q2 2023.

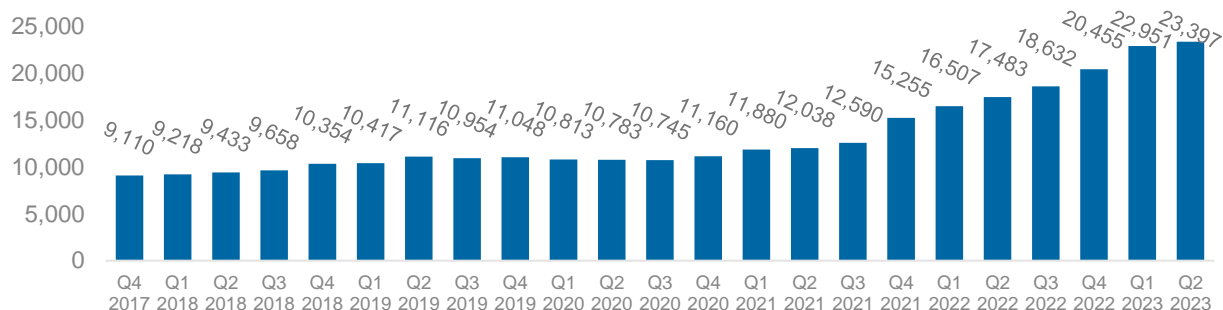
(4) PitchBook article titled "Turning credit cycle poses fresh test for private debt."

(5) SPP Capital Market Update September 2023.

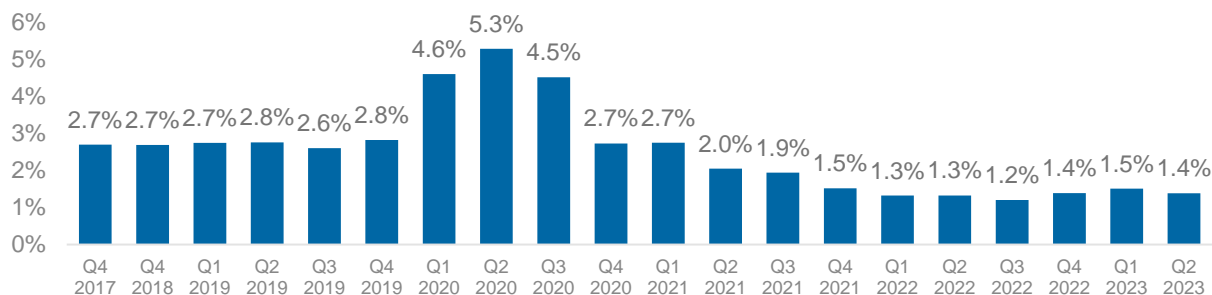
Fair Value of BDC Portfolios⁽¹⁾ (\$ in billions)



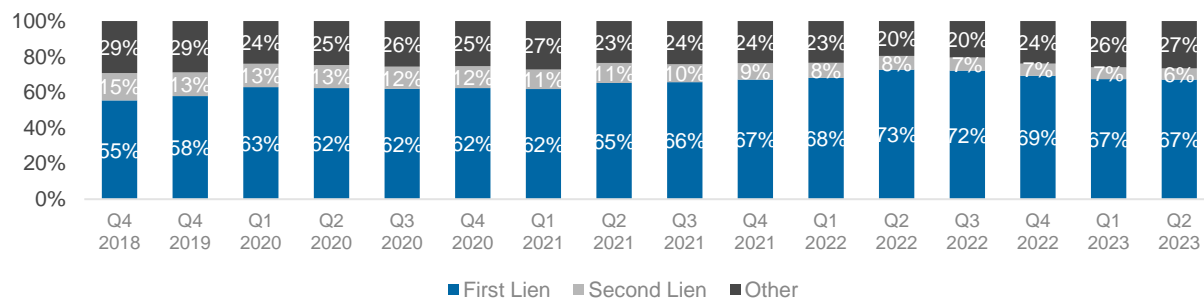
Total Number of Investments in BDC Portfolios⁽²⁾



Nonaccrual Investments as a Percentage of Total Portfolio⁽³⁾



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



Source: Advantage Data.

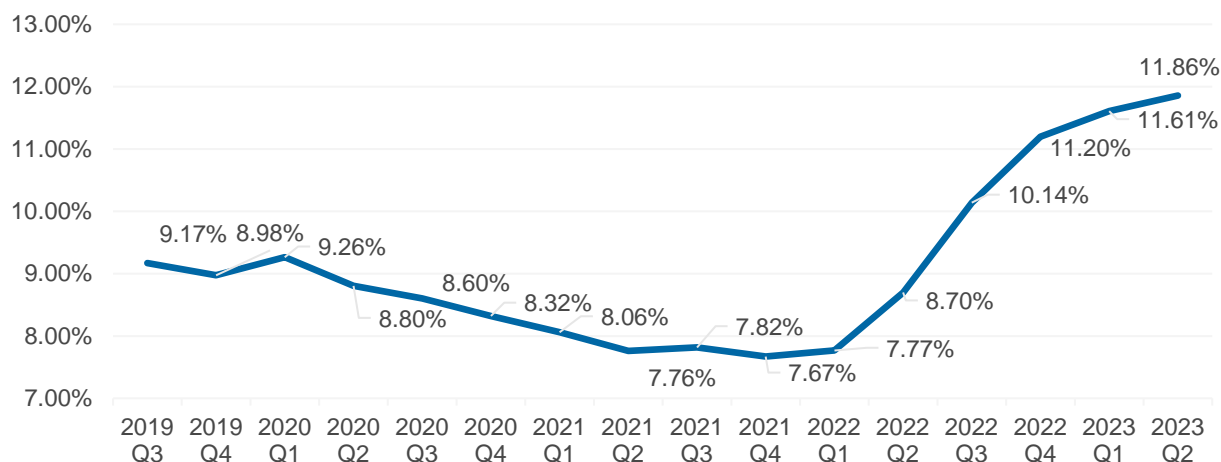
(1) Reflects the fair value for BDC portfolios tracked by Advantage Data.

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

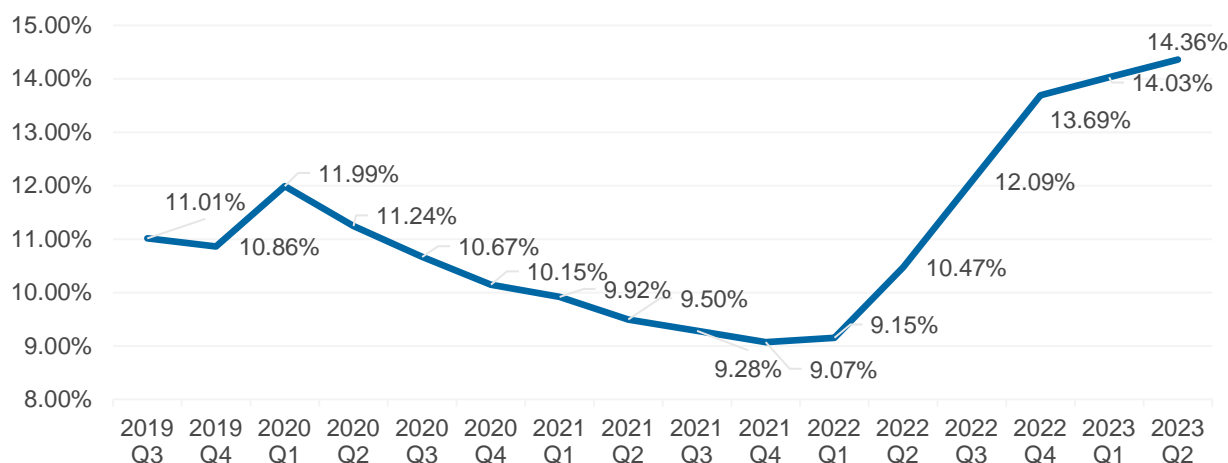
(3) Reflects the cost of nonaccrual investments as a percentage of total portfolio cost for BDCs tracked by Advantage Data.

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

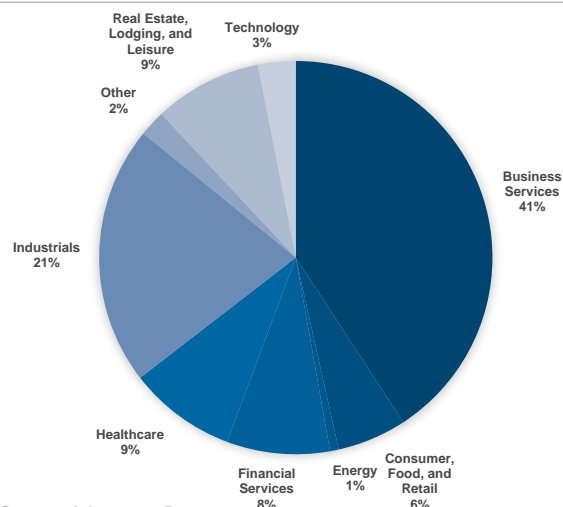
Average First Lien Yield—BDC Investment Portfolios⁽¹⁾



Average Second Lien Yield—BDC Investment Portfolios⁽¹⁾



Industry Breakdown by BDC Portfolio Company—Q2 2023⁽²⁾



Industry Breakdown by BDC Investment Yields—Q2 2023

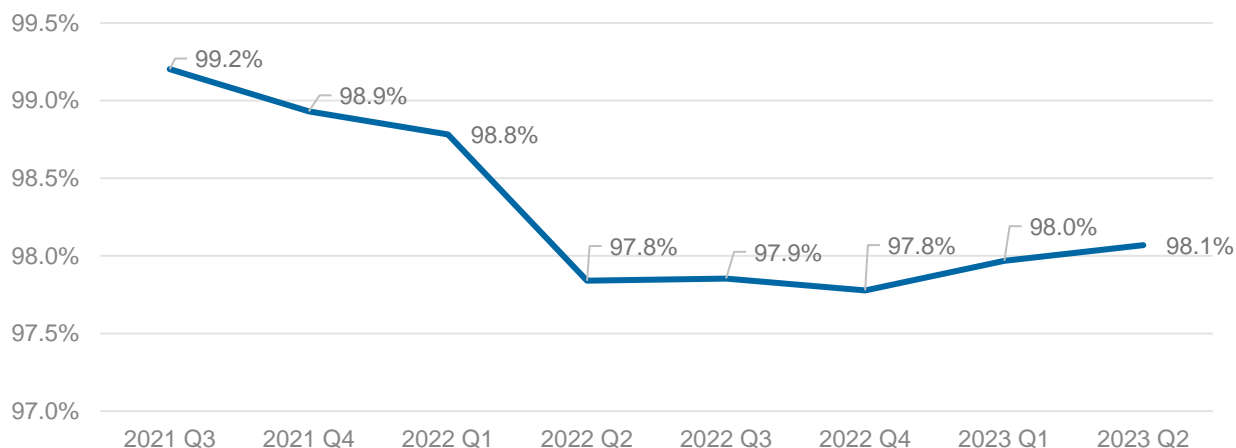
Industry	First Lien	Second Lien
Business Services	11.90%	14.36%
Consumer, Food, and Retail	12.12%	14.30%
Energy	11.78%	13.28%
Financial Services	11.39%	13.54%
Healthcare	12.07%	14.37%
Industrials	11.74%	14.30%
Real Estate, Lodging, and Leisure	11.78%	13.86%
Technology	12.00%	16.82%
Other	12.28%	15.21%

Source: Advantage Data.

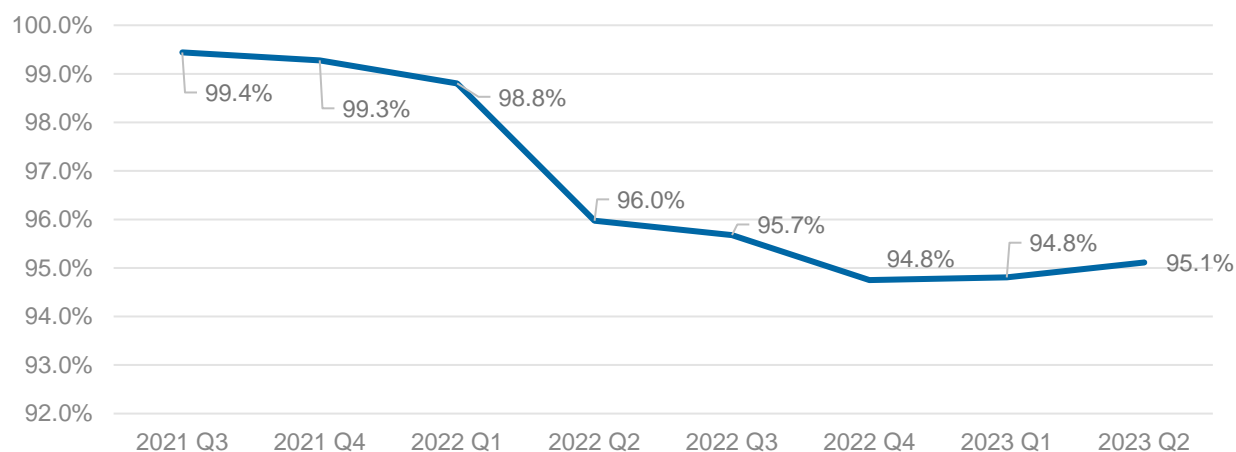
(1) Yield is based on reported fair value, stated maturity, and stated interest rate. Represents data for all BDCs tracked by Advantage Data. Excludes outliers.

(2) Industry Breakdown is based on 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⁾

	New Loan Count	Base Rate	First Lien ⁽³⁾	Second Lien ⁽³⁾	Unitranche ⁽³⁾
Q2 2023	First Lien: 446 Second Lien: 16 Unitranche: 14	SOFR+	575-650-700	700-775-825	625-650-650
Q1 2023	First Lien: 429 Second Lien: 9 Unitranche: 42	SOFR+	600-650-725	670-750-775	606-688-750
Change		SOFR+	(25)-0-(25)	30-25-50	19-(38)-(100)

Note: The above data represents new private directly originated loans held by BDCs.

Source: Advantage Data.

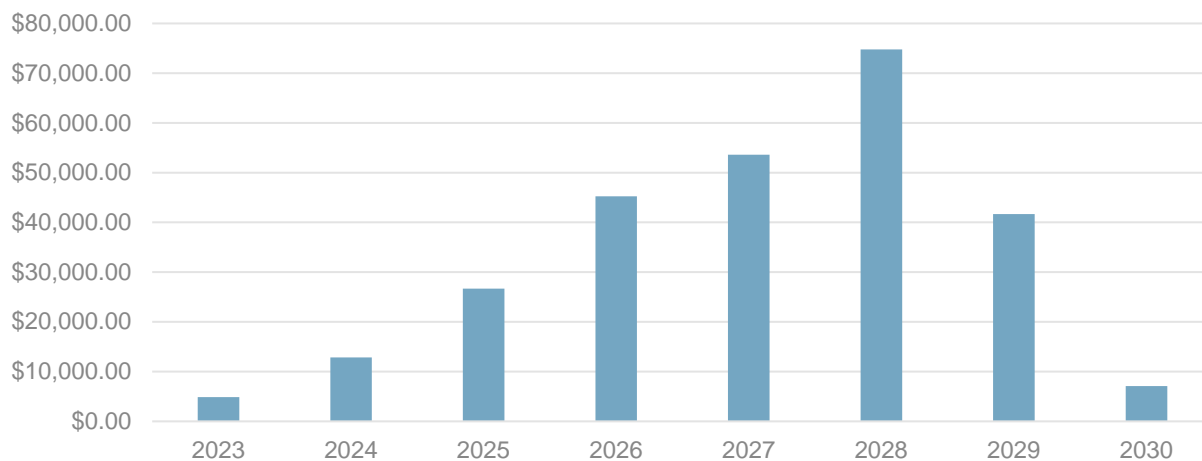
(1) Expressed as a percentage of par. Represents data for all BDCs tracked by Advantage Data that were filed as of the date of this report. Excludes outliers. The data is meant to reflect performing loans only.

(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.

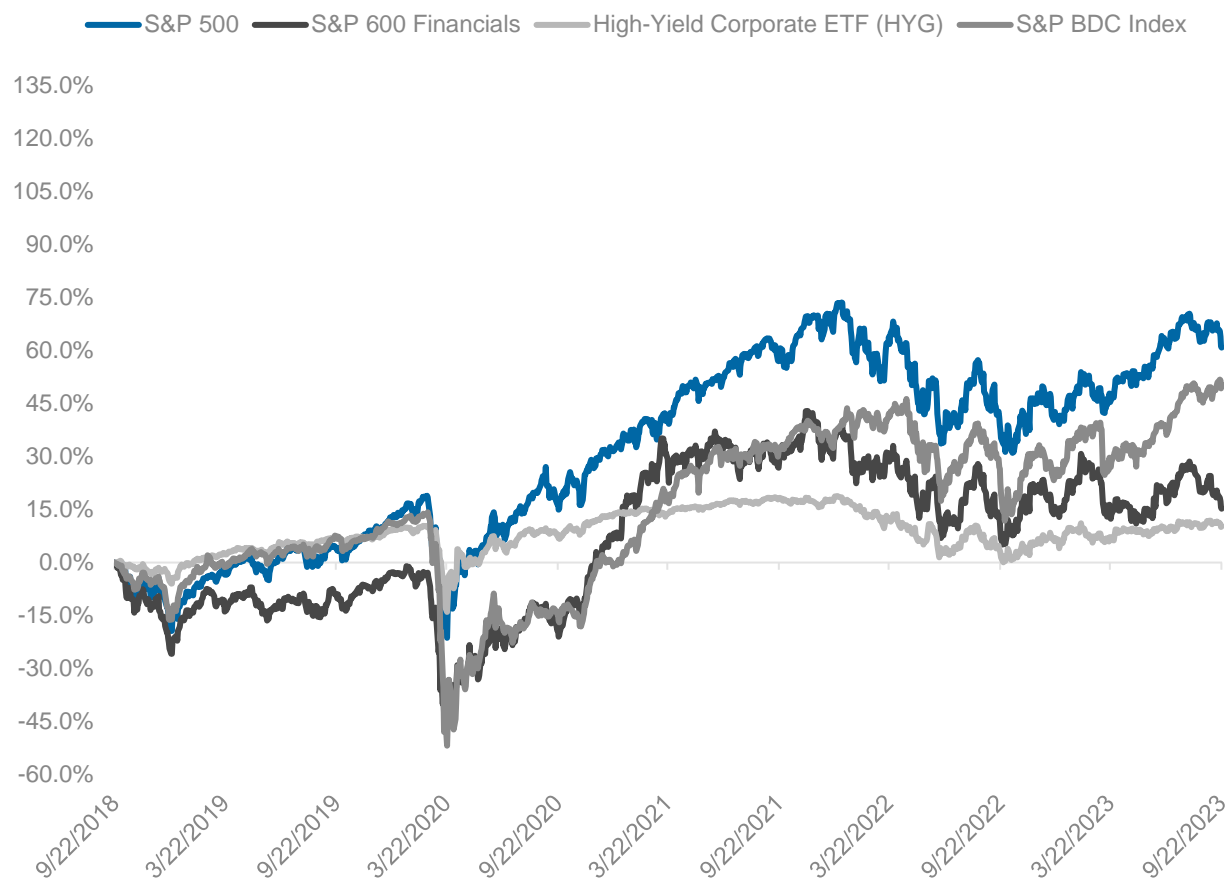
Maturity of Debt Securities for BDC Portfolio Companies by Year

(Principal in \$ Millions)



Cumulative Total Return (%) as of September 22, 2023

	1 Year	5 Years
S&P 500	16.9%	61.1%
S&P 600 Financials	5.6%	15.6%
High-Yield Corporate ETF (HYG)	7.3%	10.0%
S&P BDC Index	22.7%	49.2%



Sources: Advantage Data, Bloomberg.

Publicly Traded BDC Market Snapshot

(Dollars in Millions, Except per Share Data)

Company Name	Ticker	Market Cap.	Price at 9/22/2023	Price/52 wk High	1 Year Price Change	Price/NAV	LTM ROA	LTM ROE	Div. Yield	Debt/Equity
Large Cap										
Ares Capital Corp.	ARCC	\$ 10,712.82	\$ 19.22	95%	13.9%	1.03x	6.4%	9.0%	10.0%	1.1x
FS KKR Capital Corp.	FSK	\$ 5,553.72	\$ 19.83	95%	17.0%	0.80x	4.4%	3.9%	14.8%	1.2x
Blue Owl Capital Corp.	OBDC	\$ 5,378.31	\$ 13.80	96%	33.1%	0.90x	9.4%	14.7%	9.6%	1.2x
Blackstone Secured Lending Fund	BXSL	\$ 4,819.47	\$ 28.00	96%	23.1%	NM	NM	NM	9.3%	NM
Main Street Capital Corp.	MAIN	\$ 3,334.21	\$ 40.45	94%	20.2%	1.46x	10.8%	16.9%	7.0%	0.9x
Prospect Capital Corp.	PSEC	\$ 2,493.69	\$ 6.11	78%	-1.5%	0.66x	0.6%	-2.0%	11.8%	0.5x
Hercules Capital, Inc.	HTGC	\$ 2,452.30	\$ 16.43	91%	41.9%	1.48x	12.4%	20.9%	11.7%	1.0x
Golub Capital BDC, Inc.	GBDC	\$ 2,428.60	\$ 14.32	95%	15.6%	0.97x	5.2%	6.5%	10.3%	1.3x
Sixth Street Specialty Lending, Inc.	TSLS	\$ 1,769.25	\$ 20.28	97%	24.1%	1.21x	10.1%	13.8%	8.5%	1.1x
Goldman Sachs BDC, Inc.	GSBD	\$ 1,641.26	\$ 14.98	91%	3.7%	1.03x	4.5%	5.6%	12.0%	1.2x
Oaktree Specialty Lending Corp.	OCSL	\$ 1,546.22	\$ 20.06	92%	11.4%	1.02x	6.0%	6.1%	11.0%	1.2x
New Mountain Finance Corp.	NMFC	\$ 1,297.04	\$ 12.85	97%	11.4%	0.98x	6.4%	7.5%	10.0%	1.4x
Bain Capital Specialty Finance, Inc.	BCSF	\$ 1,050.43	\$ 16.27	97%	35.6%	0.93x	7.2%	10.1%	10.3%	1.3x
Mean				93%	19.2%	1.04x	7.0%	9.4%	10.5%	1.1x
Mid Cap										
Barings BDC, Inc.	BBDC	\$ 937.34	\$ 8.80	94%	6.4%	0.78x	5.8%	7.2%	11.8%	1.2x
Capital Southwest Corp.	CSWC	\$ 896.90	\$ 22.45	98%	32.5%	1.37x	7.3%	10.0%	10.9%	1.1x
MidCap Financial Investment Corp.	MFIC	\$ 886.79	\$ 13.59	97%	33.0%	0.89x	6.8%	7.7%	11.6%	1.5x
SLR Investment Corp.	SLRC	\$ 840.69	\$ 15.41	96%	25.1%	0.86x	4.8%	5.8%	10.6%	1.2x
Carlyle Secured Lending, Inc.	CGBD	\$ 750.75	\$ 14.78	93%	29.2%	0.88x	7.2%	9.1%	12.0%	1.2x
BlackRock TCP Capital Corp.	TCPC	\$ 691.47	\$ 11.97	88%	9.5%	0.92x	3.3%	2.2%	11.4%	1.4x
Crescent Capital BDC, Inc.	CCAP	\$ 635.61	\$ 17.15	99%	14.2%	0.88x	5.2%	4.5%	9.6%	1.2x
PennantPark Floating Rate Capital Ltd.	PFPL	\$ 622.59	\$ 10.60	86%	10.4%	0.97x	3.0%	-0.3%	11.6%	0.9x
Trinity Capital Inc.	TRIN	\$ 608.32	\$ 14.50	94%	15.7%	1.10x	6.3%	6.1%	13.2%	1.4x
CION Investment Corp.	CION	\$ 580.13	\$ 10.63	90%	25.1%	0.69x	6.0%	4.6%	13.7%	1.2x
Runway Growth Finance Corp.	RWAY	\$ 521.35	\$ 12.87	92%	13.2%	NM	NM	NM	13.3%	NM
Mean				93%	19.5%	0.93x	5.6%	5.7%	11.8%	1.2x
Small Cap										
Fidus Investment Corp.	FDUS	\$ 478.73	\$ 18.91	89%	10.1%	0.99x	6.7%	8.8%	14.5%	NM
Gladstone Investment Corp.	GAIN	\$ 431.83	\$ 12.74	87%	5.3%	0.98x	6.4%	7.3%	12.2%	0.9x
PennantPark Investment Corp.	PNNT	\$ 420.70	\$ 6.45	91%	18.1%	0.84x	-3.2%	-14.3%	13.0%	1.2x
Gladstone Capital Corp.	GLAD	\$ 389.87	\$ 10.10	90%	19.0%	1.09x	8.3%	10.3%	9.8%	1.0x
Horizon Technology Finance Corp.	HRZN	\$ 374.65	\$ 11.67	87%	16.6%	1.05x	5.7%	4.8%	11.7%	1.2x
TriplePoint Venture Growth BDC Corp.	TPVG	\$ 369.36	\$ 10.42	77%	-4.1%	0.97x	1.0%	-6.3%	15.4%	1.7x
NewtekOne, Inc.	NEWT	\$ 365.13	\$ 14.80	71%	-9.3%	1.81x	6.0%	9.0%	4.9%	NM
Saratoga Investment Corp.	SAR	\$ 321.60	\$ 25.77	89%	24.1%	0.90x	6.0%	7.6%	11.0%	2.3x
Stellus Capital Investment Corp.	SCM	\$ 316.94	\$ 14.05	87%	17.8%	1.03x	5.2%	5.6%	11.8%	1.9x
WhiteHorse Finance, Inc.	WHF	\$ 289.84	\$ 12.47	90%	12.3%	0.89x	5.2%	4.2%	12.4%	1.3x
BlackRock Capital Investment Corp.	BKCC	\$ 275.77	\$ 3.80	96%	12.1%	0.88x	4.9%	3.2%	10.5%	0.9x
Portman Ridge Finance Corp.	PTMN	\$ 182.18	\$ 19.16	81%	-8.8%	0.85x	0.6%	-8.3%	14.4%	1.5x
Medallion Financial Corp.	MFIN	\$ 166.99	\$ 7.44	71%	6.0%	0.52x	4.2%	13.4%	4.3%	5.3x
Oxford Square Capital Corp.	OXSQ	\$ 164.72	\$ 2.92	79%	-3.0%	1.01x	-1.0%	-9.3%	14.4%	1.2x
Monroe Capital Corp.	MRCC	\$ 156.43	\$ 7.22	78%	-0.3%	0.73x	4.3%	1.2%	13.9%	1.5x
OFS Capital Corp.	OFS	\$ 148.99	\$ 11.12	89%	35.3%	0.86x	2.6%	-2.9%	12.2%	1.9x
SuRo Capital Corp.	SSSS	\$ 90.93	\$ 3.58	74%	-7.5%	0.49x	-20.8%	-29.7%	0.0%	0.4x
PhenixFIN Corp.	PFX	\$ 80.47	\$ 38.53	96%	10.5%	0.58x	9.7%	11.1%	0.0%	0.6x
Great Elm Capital Corp.	GECC	\$ 71.31	\$ 9.38	89%	0.9%	0.77x	5.5%	7.8%	14.9%	1.6x
Silver Spike Investment Corp.	SSIC	\$ 59.10	\$ 9.51	89%	-4.9%	0.66x	6.9%	7.0%	9.7%	NM
Logan Ridge Finance Corp.	LRFC	\$ 56.67	\$ 21.06	84%	17.2%	0.59x	1.9%	-3.6%	4.9%	NM
Investcorp Credit Management BDC, Inc.	ICMB	\$ 55.12	\$ 3.83	85%	6.9%	0.63x	5.2%	3.6%	13.3%	1.5x
Princeton Capital Corp.	PIAC	\$ 35.90	\$ 0.30	66%	10.4%	1.07x	27.4%	28.1%	25.2%	NM
Rand Capital Corp.	RAND	\$ 34.79	\$ 13.48	80%	-8.0%	0.57x	9.9%	10.5%	7.4%	NM
Equus Total Return, Inc.	EQS	\$ 20.41	\$ 1.51	77%	-7.9%	0.51x	6.1%	7.5%	0.0%	NM
Firsthand Technology Value Fund, Inc.	SVVC	\$ 2.94	\$ 0.43	30%	-68.1%	0.26x	-97.0%	-127.1%	0.0%	NM
Mean				82%	3.9%	0.83x	0.7%	-1.9%	10.1%	1.6x
High				99%	41.9%	1.81x	27.4%	28.1%	25.2%	5.3x
Mean				87%	11.3%	0.90x	3.3%	2.5%	10.6%	1.3x
Median				95%	12.2%	0.90x	5.7%	6.3%	11.5%	1.2x
Low				30%	-68.1%	0.26x	-97.0%	-127.1%	0.0%	0.4x

Source: S&P Capital IQ.

Note: As of September 22, 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

Our Office Locations

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



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

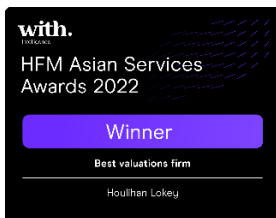
1998 to 2022 Global M&A Fairness Advisory Rankings		
Advisor	Deals	
1 Houlihan Lokey	1,232	
2 JP Morgan	1,030	
3 Duff & Phelps, A Kroll Business	938	
4 Morgan Stanley	725	
5 BofA Securities Inc	710	

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



Disclaimer

© 2023 Houlihan Lokey. All rights reserved. This material may not be reproduced in any format by any means or redistributed without the prior written consent of Houlihan Lokey.

Houlihan Lokey is a trade name for Houlihan Lokey, Inc., and its subsidiaries and affiliates, which include the following licensed (or, in the case of Singapore, exempt) entities: in (i) the United States: Houlihan Lokey Capital, Inc., and Houlihan Lokey Advisors, LLC, each an SEC-registered broker-dealer and member of FINRA (www.finra.org) and SIPC (www.sipc.org) (investment banking services); (ii) Europe: Houlihan Lokey Advisory Limited, Houlihan Lokey EMEA, LLP, Houlihan Lokey (Corporate Finance) Limited, and Houlihan Lokey UK Limited, authorized and regulated by the U.K. Financial Conduct Authority; Houlihan Lokey (Europe) GmbH, authorized and regulated by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht); (iii) the United Arab Emirates, Dubai International Financial Centre (Dubai): Houlihan Lokey (MEA Financial Advisory) Limited, regulated by the Dubai Financial Services Authority for the provision of advising on financial products, arranging deals in investments, and arranging credit and advising on credit to professional clients only; (iv) Singapore: Houlihan Lokey (Singapore) Private Limited and Houlihan Lokey Advisers Singapore Private Limited, each an “exempt corporate finance adviser” able to provide exempt corporate finance advisory services to accredited investors only; (v) Hong Kong SAR: Houlihan Lokey (China) Limited, licensed in Hong Kong by the Securities and Futures Commission to conduct Type 1, 4, and 6 regulated activities to professional investors only; (vi) India: Houlihan Lokey Advisory (India) Private Limited, registered as an investment adviser with the Securities and Exchange Board of India (registration number INA000001217); and (vii) Australia: Houlihan Lokey (Australia) Pty Limited (ABN 74 601 825 227), a company incorporated in Australia and licensed by the [Australian Securities and Investments Commission](http://www.afsl.gov.au) (AFSL number 474953) in respect of financial services provided to wholesale clients only. In the United Kingdom, European Economic Area (EEA), Dubai, Singapore, Hong Kong, India, and Australia, this communication is directed to intended recipients, including actual or potential professional clients (UK, EEA, and Dubai), accredited investors (Singapore), professional investors (Hong Kong), and wholesale clients (Australia), respectively. No entity affiliated with Houlihan Lokey, Inc., provides banking or securities brokerage services and is not subject to FINMA supervision in Switzerland or similar regulatory authorities in other jurisdictions. Other persons, such as retail clients, are NOT the intended recipients of our communications or services and should not act upon this communication.

Houlihan Lokey gathers its data from sources it considers reliable; however, it does not guarantee the accuracy or completeness of the information provided within this presentation. The material presented reflects information known to the authors at the time this presentation was written, and this information is subject to change. Any forward-looking information and statements contained herein are subject to various risks and uncertainties, many of which are difficult to predict, that could cause actual results and developments to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements. In addition, past performance should not be taken as an indication or guarantee of future performance, and information contained herein may be subject to variation as a result of currency fluctuations. Houlihan Lokey makes no representations or warranties, expressed or implied, regarding the accuracy of this material. The views expressed in this material accurately reflect the personal views of the authors regarding the subject securities and issuers and do not necessarily coincide with those of Houlihan Lokey. Officers, directors, and partners in the Houlihan Lokey group of companies may have positions in the securities of the companies discussed. This presentation does not constitute advice or a recommendation, offer, or solicitation with respect to the securities of any company discussed herein, is not intended to provide information upon which to base an investment decision, and should not be construed as such. Houlihan Lokey or its affiliates may from time to time provide financial or related services to these companies. Like all Houlihan Lokey employees, the authors of this presentation receive compensation that is affected by overall firm profitability.



Houlihan Lokey

Corporate Finance
Financial Restructuring
Financial and Valuation Advisory

HL.com