Direct Lending Update: Spring 2024

- The weighted average price for first lien loans increased from 98.5% of par in Q3 2023 to 98.7% of par in Q4 2023. Many of our direct lending clients saw deal activity increase in Q4 2023.
- In Q4 2023, the median first lien coupon of SOFR + 600 bps for newly issued loans is unchanged compared to Q3 2023. The median second lien coupon for newly issued loans in Q4 2023 was SOFR + 775 bps, which is 25 bps tighter than in Q3 2023.
- Average first lien yields marginally decreased from 11.86% in Q3 2023 to 11.81% in Q4 2023. Average second lien yields decreased from 14.23% to 14.10% during the same period.
- Refinancing activity is on the rise, with sponsors and portfolio companies capitalizing on a more favorable market and reduced spreads to refinance existing loans with above-market interest rates.
- The average issuer leverage as measured by total debt to EBITDA was 5.08x as of Q4 2023, according to Houlihan Lokey's Private Performing Credit Index (PPCI).(1) For new loans, we saw leverage levels start to increase as lenders competed for these deals and sponsors tried to maximize borrowing capacity for their portfolio companies. Most new loans were being issued at 40% to 50% loan-to-value ratios. For more information regarding the PPCI, please visit the **PPCI** section of HL.com.
- 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 or April. According to the Golub Capital Middle Market Report,(2) middle-market private companies experienced year-over-year revenue growth of 4.6% and earnings growth of 11.0% as of Q1 2024.
- At the end of Q4 2023, the nonaccrual percentage (which is an indicator of distress) for BDC loans was 1.4%, up slightly from 1.3% the prior quarter. Several BDCs categorize their portfolios by risk level. As of Q4 2023, an average of 8.6% of investments in BDC portfolios were deemed riskier than at the time of underwriting, 13.1% were considered less risky, and 78.3% matched the original underwriting risk.
- Each BDC has its own criteria for classifying loans as nonaccrual, which involves some degree of interpretation. An alternative approach is to categorize the loan portfolios based on their pricing tiers. As of the fourth quarter of 2023, 3.9% of loans were priced below 80% of par, 17.3% were in the range of 80% to 97% of par, and 78.8% were priced above 97% of par. The historical pattern is detailed on page 6. Using loans priced below 80% as an indicator of distress, it appears that BDC portfolios are not experiencing an uptick in distressed loans, with levels being at or below historical norms. Although various factors affect loan pricing, this tiered analysis aims to provide a more objective evaluation of portfolio health and serve as an early sign of potential portfolio degradation or distress as the distribution across these pricing tiers evolves over time.
- As of May 1, 2024, the average BDC price as a multiple of NAV was 1.12x for large-cap, 0.97x for mid-cap, and 0.83x for small-cap. There were 28 BDCs trading below NAV and 24 trading at a premium to NAV.

For more related content, please follow the links below:

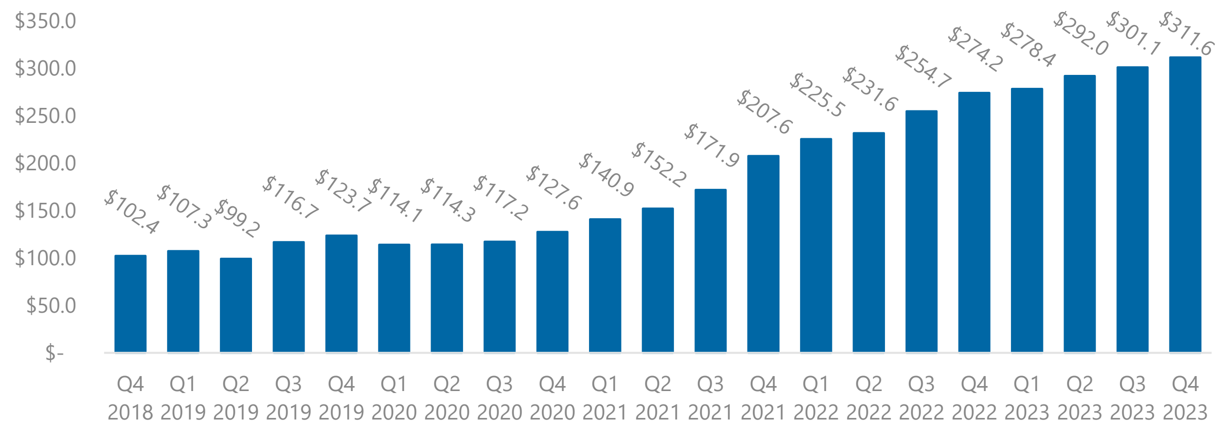
Private Performing Credit Index

A Focus on Valuation: Private Credit vs. Public Credit

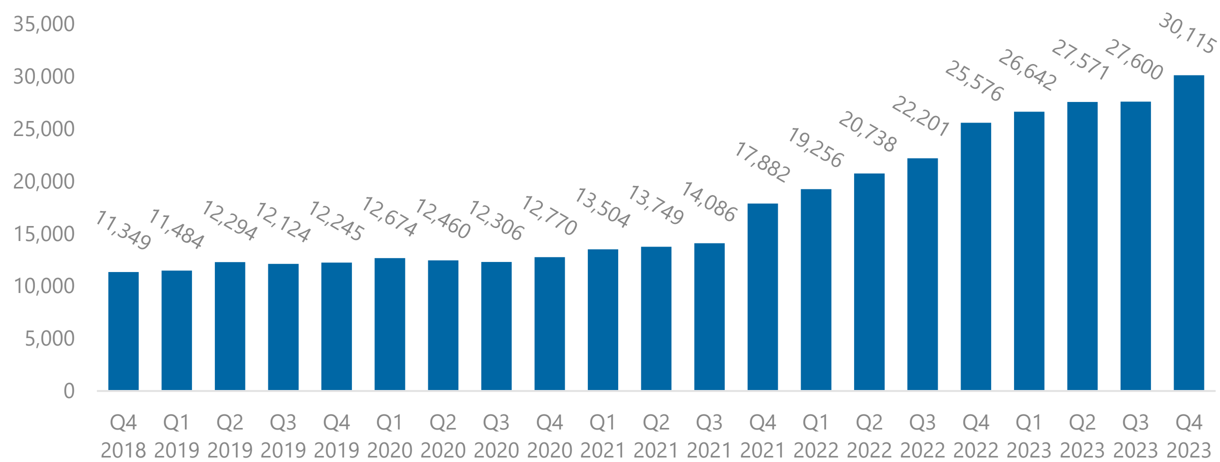
Disclaimer: Historical figures have changed slightly compared to the winter 2023 edition due to an update in our methodology.

Sources: Advantage Data, PitchBook.
(1) Houlihan Lokey Private Performing Credit Index Q4 2023.
(2) Golub Capital Middle Market Report Q1 2024.

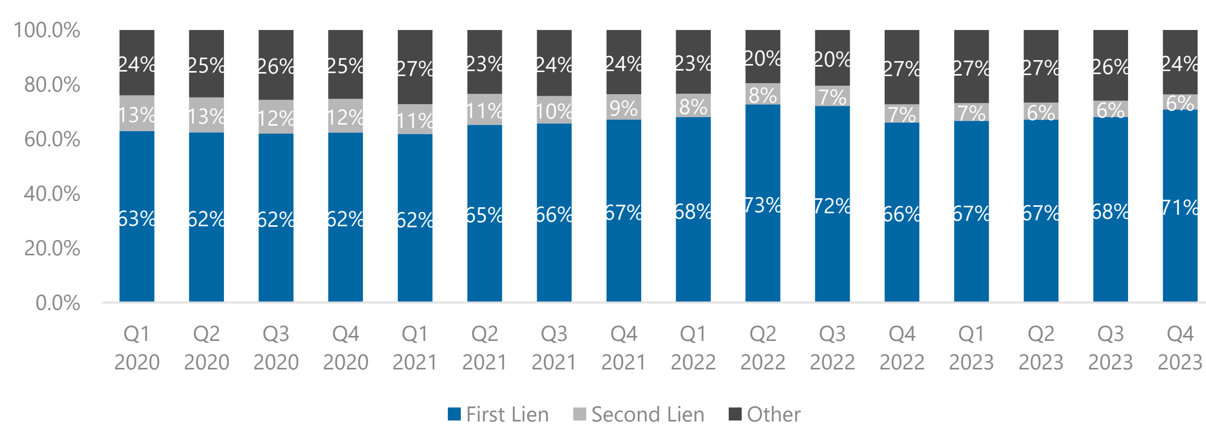
Fair Value of BDC Portfolios(1) ($ in Billions)



Total Number of Investments in BDC Portfolios(2)



BDC Portfolio Composition by Seniority Based on Fair Value(3)



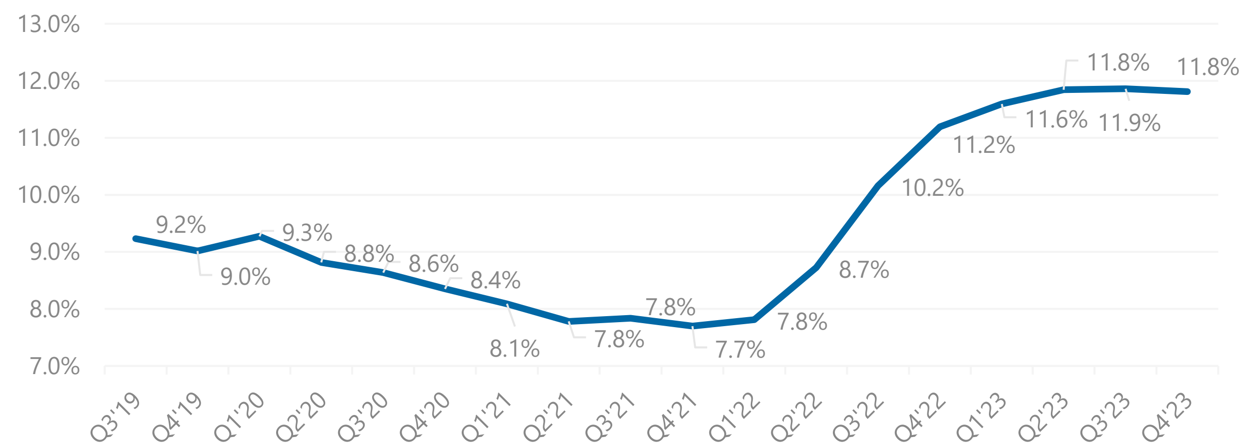
Source: Advantage Data.

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

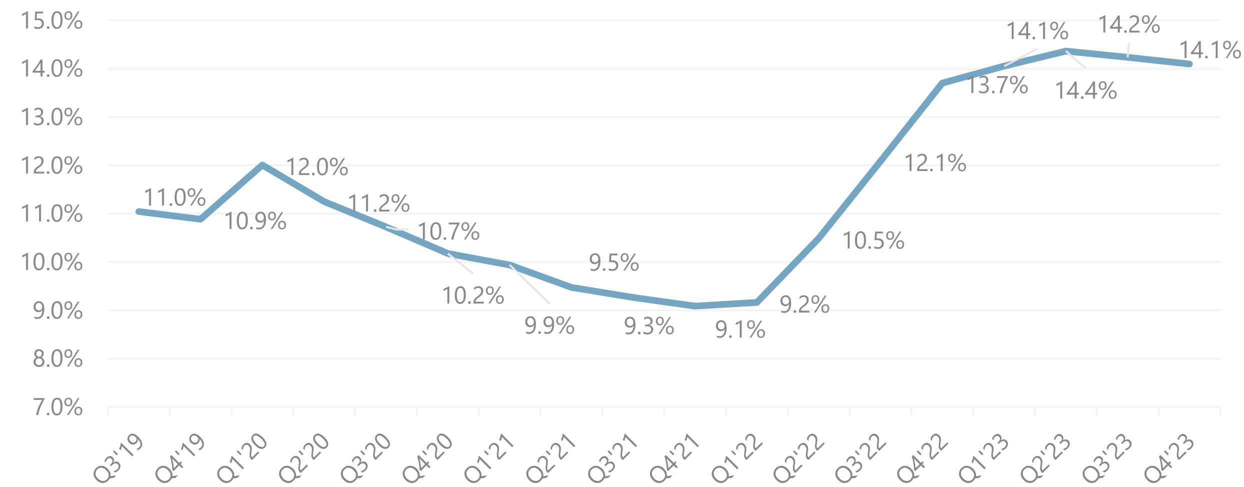
(2) Reflects the total number of investments for all BDCs tracked by Advantage Data.

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

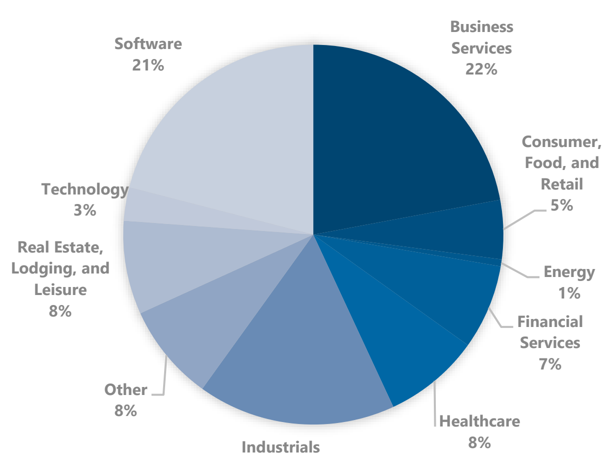
Average First Lien Yield—BDC Investment Portfolios[1]



Average Second Lien Yield—BDC Investment Portfolios[1]



Industry Breakdown by BDC Portfolio Company—Q4 2023[2]



Industry Breakdown by BDC Investment Yields—Q4 2023

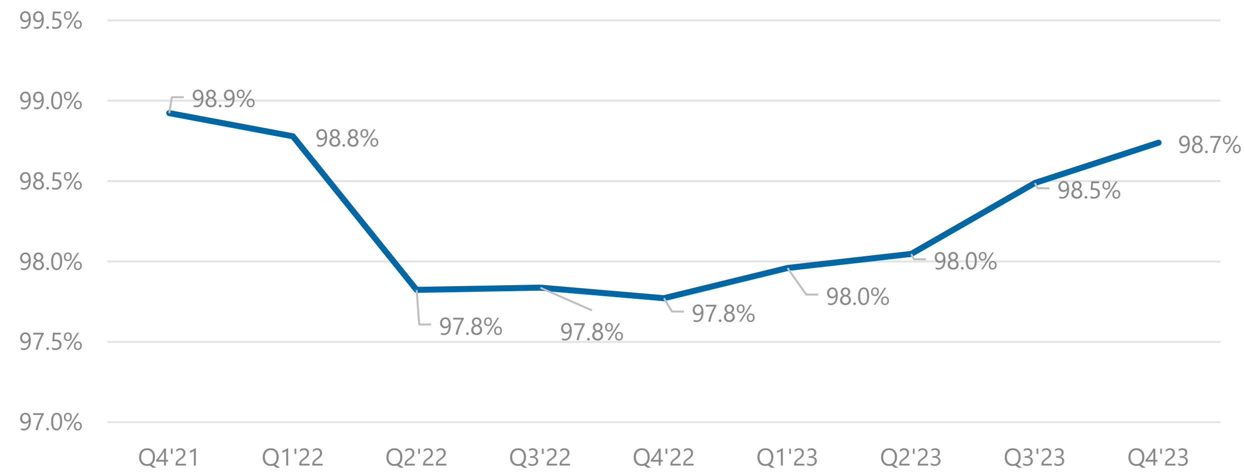
Industry	First Lien	Second Lien
Business Services	11.87%	14.07%
Consumer, Food, and Retail	11.83%	14.14%
Energy	11.35%	12.76%
Financial Services	11.25%	13.57%
Healthcare	12.19%	14.54%
Industrials	11.69%	14.20%
Real Estate, Lodging, and Leisure	11.66%	13.56%
Technology	11.76%	16.17%
Software	11.97%	13.75%
Other	12.11%	12.89%

Source: Advantage Data.

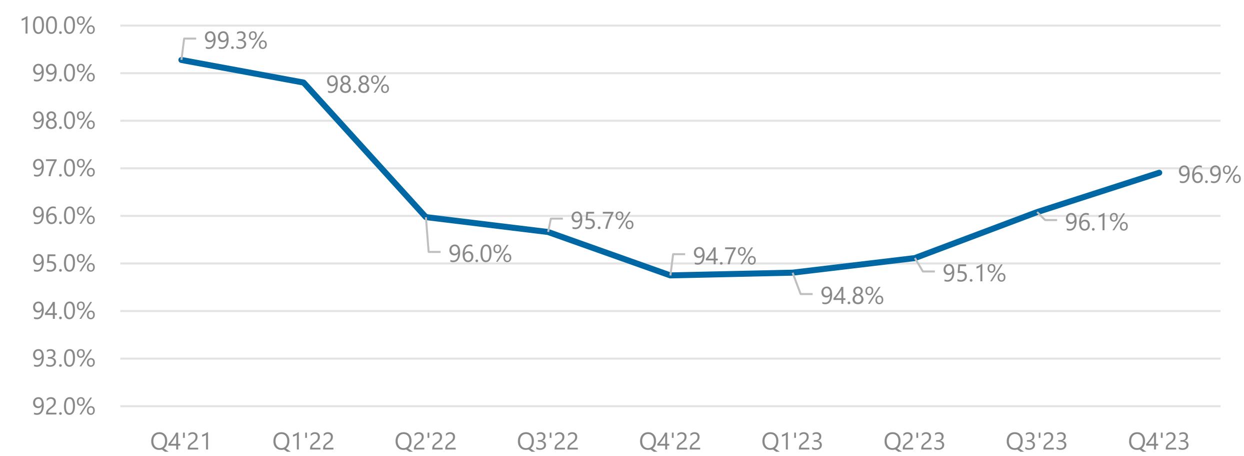
(1) Yield is based on reported fair value, stated maturity, and stated interest rate. Represents data for all BDCs tracked by Advantage Data. Excludes outliers.

(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 Price as % of Par—BDC Investments[(1)]



Weighted Average Second Lien Price as % of Par—BDC Investments[(1)]



New Loan Pricing[(2)]

	New Loan Count	Base Rate	First Lien[(3)]	Second Lien[(3)]	Unitranche[(3)]
Q4 2023	*First Lien: 1,163* *Second Lien: 35* *Unitranche: 252*	SOFR+	550-600-650	750-775-850	550-575-625
Q3 2023	*First Lien: 1,019* *Second Lien: 27* *Unitranche: 181*	SOFR+	525-600-650	725-800-888	550-600-650
Change		SOFR+	25-0-0	25-(25)-(38)	0-(25)-(25)

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

Source: Advantage Data.

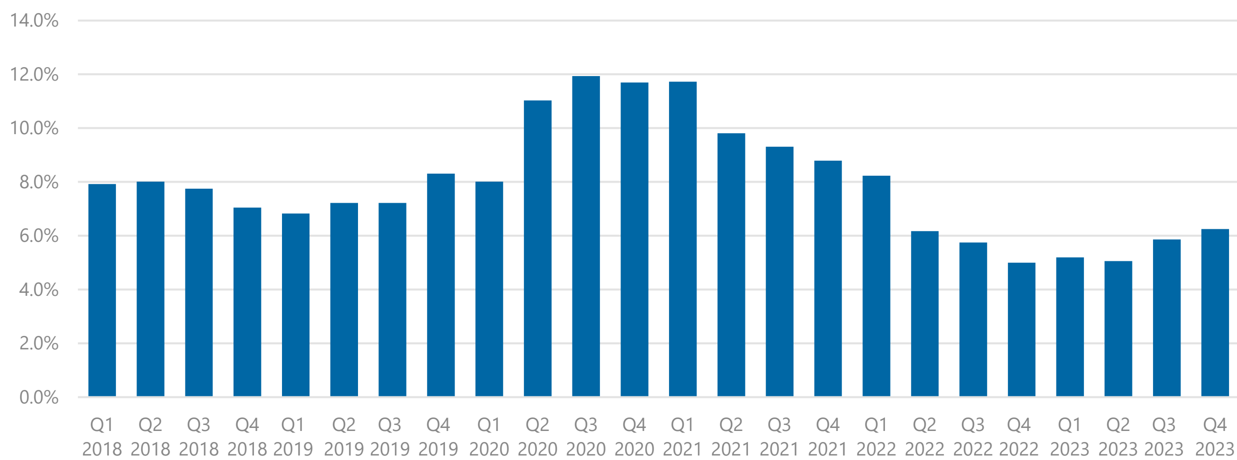
(1) Expressed as a percentage of par. Represents data for all BDCs tracked by Advantage Data that were filed as of the date of this report. Excludes outliers. The data is meant to reflect performing loans only.

(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.

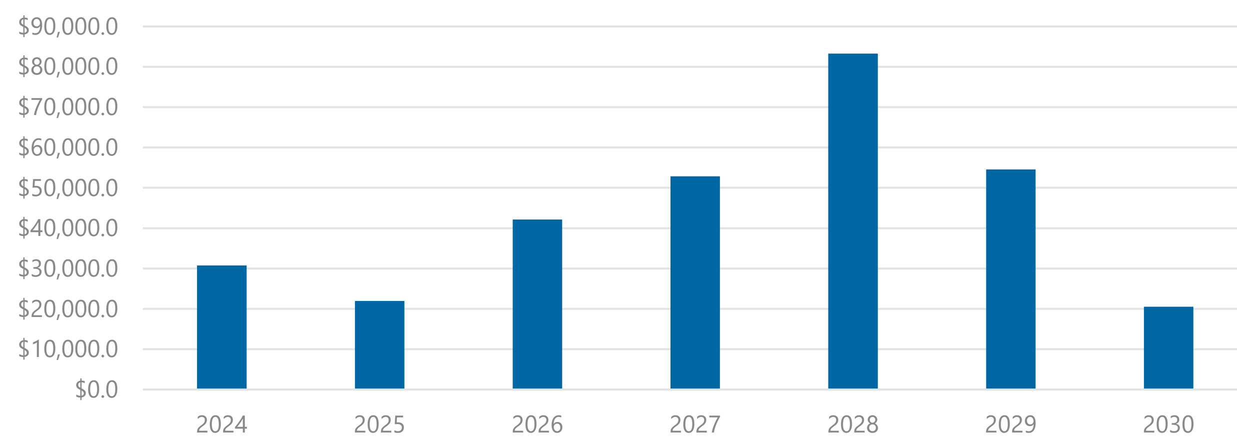
Note: Historical figures may have changed slightly from prior editions due to an update in our methodology.

PIK as Percentage of Total Interest Income[1]



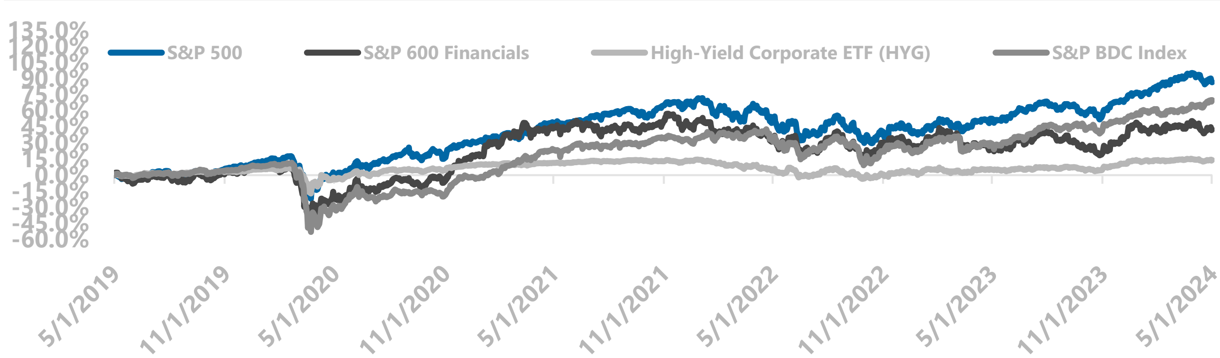
Maturity of Debt Securities for BDC Portfolio Companies by Year

(Principal in $ Millions)



Cumulative Total Return (%) as of May 1, 2024

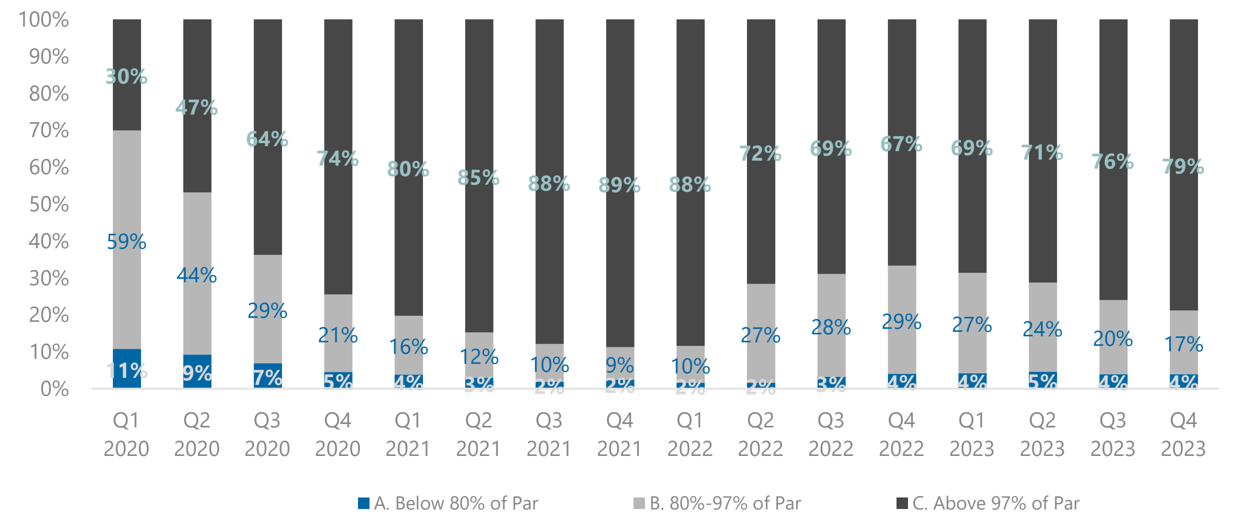
	1 Year	5 Years
S&P 500	22.7%	87.2%
S&P 600 Financials	12.6%	42.0%
High-Yield Corporate ETF (HYG)	7.9%	13.5%
S&P BDC Index	30.4%	68.5%



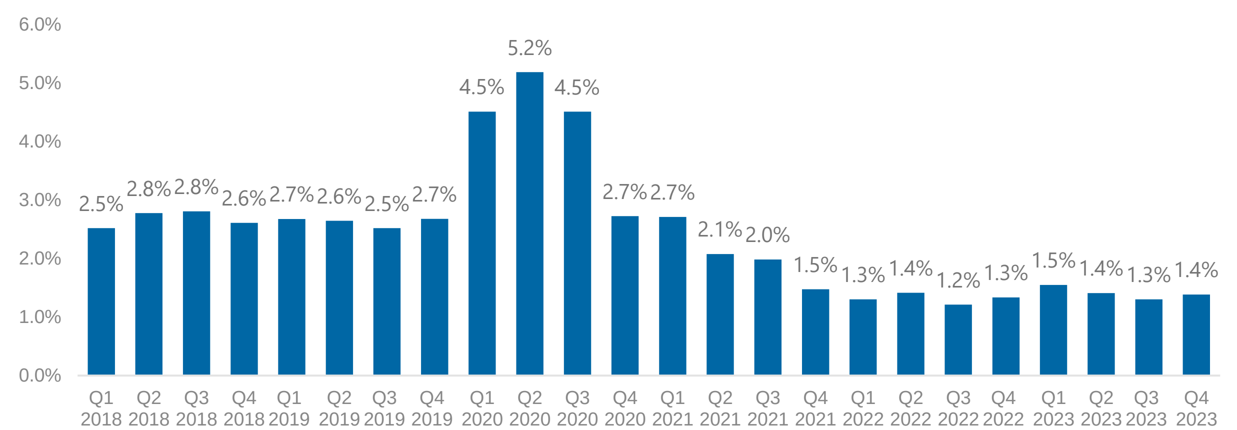
Sources: Advantage Data, LSEG (formerly Refinitiv).

(1) Reflects PIK income as a percentage of total interest income for BDCs tracked by Advantage Data. For this edition, we updated our methodology so our results are different than what was published in the winter 2023 edition.

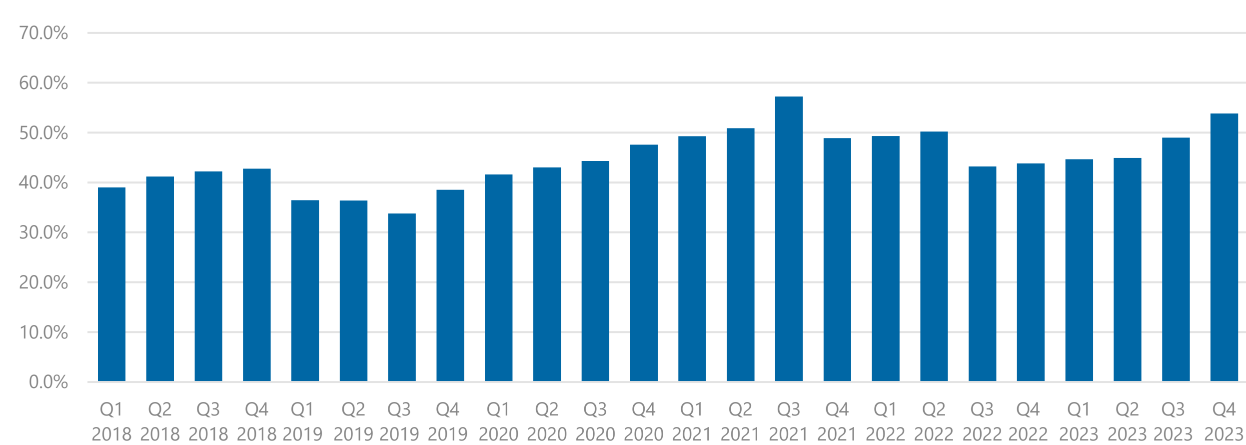
Bucketing of Loans by Fair Value(1)



Nonaccrual Investments as a Percentage of Total Portfolio(2)



Nonaccrual Investments Implied Recovery Rate(3)



Source: Advantage Data.
(1) Reflects the allocation of loans into buckets based upon their fair value percentage of par. The relative allocation is based on cost.
(2) Reflects the cost of nonaccrual investments as a percentage of total portfolio cost for BDCs tracked by Advantage Data.
(3) Reflects the fair value of nonaccrual investments as a percentage of cost of nonaccrual investments for BDCs tracked by Advantage Data.

Publicly Traded BDC Market Snapshot

(Dollars in millions, except per share data)

Company Name	Ticker	Market Cap.	Price at 5/1/2024	Price/ 52 wk High	1 Year Price Change	Price / NAV	LTM ROA	LTM ROE	Div. Yield	Debt/ Equity
Large Cap										
Ares Capital Corporation	ARCC	$ 12,671.87	$ 20.85	99%	11.3%	1.07x	9.9%	15.4%	9.2%	1.0x
Blue Owl Capital Corporation	OBDC	$ 6,251.32	$ 16.04	100%	19.4%	1.04x	9.1%	13.3%	11.0%	1.2x
Blackstone Secured Lending Fund	BXSL	$ 6,159.97	$ 32.15	99%	25.4%	NM	NM	NM	9.4%	NM
FS KKR Capital Corp.	FSK	$ 5,380.08	$ 19.21	92%	-0.7%	0.79x	7.4%	10.0%	15.4%	1.2x
Main Street Capital Corporation	MAIN	$ 4,261.87	$ 50.15	99%	26.4%	1.72x	12.2%	18.7%	7.9%	0.7x
Hercules Capital, Inc.	HTGC	$ 3,093.74	$ 19.30	99%	33.5%	1.67x	12.9%	21.1%	9.9%	0.9x
Golub Capital BDC, Inc.	GBDC	$ 2,912.36	$ 16.98	96%	28.1%	1.13x	8.2%	12.2%	9.6%	1.2x
Prospect Capital Corporation	PSEC	$ 2,179.84	$ 5.25	78%	-14.8%	0.59x	2.0%	0.1%	13.7%	0.5x
Sixth Street Specialty Lending, Inc.	TSLX	$ 2,000.05	$ 21.78	97%	19.7%	1.28x	11.2%	14.7%	9.6%	1.1x
Morgan Stanley Direct Lending Fund	MSDL	$ 1,909.47	$ 21.63	94%	NM	NM	NM	NM	0.0%	NM
Blue Owl Capital Corporation III	OBDE	$ 1,799.76	$ 14.99	89%	NM	NM	NM	NM	0.0%	NM
Goldman Sachs BDC, Inc.	GSBD	$ 1,753.30	$ 15.64	99%	18.8%	1.07x	8.6%	12.6%	11.5%	1.1x
Oaktree Specialty Lending Corporation	OCSL	$ 1,587.22	$ 19.50	90%	4.2%	1.04x	6.9%	6.7%	11.6%	1.1x
New Mountain Finance Corporation	NMFC	$ 1,347.75	$ 12.68	96%	5.9%	0.99x	7.3%	8.7%	11.2%	1.3x
Capital Southwest Corporation	CSWC	$ 1,125.25	$ 26.18	99%	43.1%	1.56x	9.8%	13.7%	9.6%	0.9x
Bain Capital Specialty Finance, Inc.	BCSF	$ 1,088.52	$ 16.86	100%	37.2%	0.96x	8.0%	11.0%	10.0%	1.1x
Barings BDC, Inc.	BBDC	$ 1,007.64	$ 9.50	96%	19.6%	0.84x	7.9%	10.7%	10.9%	1.2x
Mean				96%	18.5%	1.12x	8.7%	12.1%	9.4%	1.0x
Mid Cap										
MidCap Financial Investment Corporation	MFIC	$ 997.72	$ 15.29	99%	31.4%	0.99x	8.9%	11.9%	9.9%	1.5x
Nuveen Churchill Direct Lending Corp.	NCDL	$ 958.73	$ 17.49	97%	NM	NM	NM	NM	0.0%	NM
BlackRock TCP Capital Corp.	TCPC	$ 891.86	$ 10.42	80%	0.6%	0.94x	3.4%	2.4%	16.4%	1.4x
Carlyle Secured Lending, Inc.	CGBD	$ 880.28	$ 17.33	99%	26.4%	1.02x	4.7%	10.1%	10.9%	1.1x
SLR Investment Corp.	SLRC	$ 845.60	$ 15.50	98%	11.4%	0.86x	5.9%	7.7%	10.6%	1.2x
Trinity Capital Inc.	TRIN	$ 727.83	$ 14.71	95%	16.4%	1.14x	9.0%	12.6%	13.9%	1.2x
PennantPark Floating Rate Capital Ltd.	PFLT	$ 702.56	$ 11.40	90%	9.0%	1.02x	7.8%	10.8%	10.8%	1.0x
Crescent Capital BDC, Inc.	CCAP	$ 643.39	$ 17.36	96%	28.8%	0.87x	9.6%	12.4%	9.4%	1.1x
Fidus Investment Corporation	FDUS	$ 627.33	$ 20.47	96%	8.8%	1.06x	9.9%	14.4%	14.2%	NM
CION Investment Corporation	CION	$ 613.28	$ 11.39	95%	20.4%	0.70x	9.3%	10.8%	14.1%	1.2x
Runway Growth Finance Corp.	RWAY	$ 521.76	$ 12.88	94%	12.2%	0.95x	7.9%	7.9%	12.4%	0.9x
Gladstone Investment Corporation	GAIN	$ 511.08	$ 14.24	95%	11.1%	1.09x	10.8%	14.8%	15.4%	0.9x
Mean				95%	16.0%	0.97x	7.9%	10.5%	11.5%	1.1x
Small Cap										
Gladstone Capital Corporation	GLAD	$ 473.59	$ 21.77	96%	15.6%	2.20x	12.2%	17.7%	9.1%	0.9x
PennantPark Investment Corporation	PNNT	$ 459.83	$ 7.05	97%	27.7%	0.92x	7.0%	9.7%	11.9%	1.4x
Horizon Technology Finance Corporation	HRZN	$ 412.89	$ 11.79	86%	1.1%	1.22x	2.0%	-4.2%	11.6%	1.4x
TriplePoint Venture Growth BDC Corp.	TPVG	$ 355.51	$ 9.45	74%	-10.4%	1.03x	-0.3%	-10.4%	16.9%	1.8x
Stellus Capital Investment Corporation	SCM	$ 342.58	$ 14.20	92%	3.6%	1.07x	5.5%	5.9%	11.3%	1.8x
Saratoga Investment Corp.	SAR	$ 323.59	$ 23.70	82%	-15.7%	0.86x	6.3%	6.6%	12.3%	2.2x
WhiteHorse Finance, Inc.	WHF	$ 299.14	$ 12.87	94%	11.3%	0.94x	6.6%	6.3%	12.0%	1.2x
NewtekOne, Inc.	NEWT	$ 275.61	$ 10.75	56%	-12.7%	1.16x	9.5%	15.2%	6.7%	NM
Oxford Square Capital Corp.	OXSQ	$ 196.32	$ 3.29	100%	16.7%	1.29x	9.3%	11.9%	12.8%	0.8x
Portman Ridge Finance Corporation	PTMN	$ 177.67	$ 19.08	90%	-0.6%	0.84x	6.3%	5.1%	14.5%	1.5x
Medallion Financial Corp.	MFIN	$ 174.51	$ 7.76	74%	22.4%	0.51x	4.9%	14.1%	5.2%	5.1x
Monroe Capital Corporation	MRCC	$ 158.16	$ 7.30	82%	-0.1%	0.78x	4.3%	0.2%	13.7%	1.5x
OFS Capital Corporation	OFS	$ 130.36	$ 9.73	78%	5.2%	0.80x	3.8%	-0.3%	14.0%	1.9x
Great Elm Capital Corp.	GECC	$ 97.95	$ 10.36	88%	30.3%	0.80x	13.3%	27.6%	13.5%	1.4x
PhenixFIN Corporation	PFX	$ 93.34	$ 45.30	100%	29.7%	0.62x	15.0%	20.0%	0.0%	0.6x
SuRo Capital Corp.	SSSS	$ 87.81	$ 3.76	80%	12.9%	0.47x	3.5%	2.5%	0.0%	0.4x
Silver Spike Investment Corp.	SSIC	$ 69.23	$ 11.14	99%	32.8%	0.81x	8.4%	8.5%	9.0%	NM
Logan Ridge Finance Corporation	LRFC	$ 59.72	$ 22.30	94%	10.1%	0.67x	2.8%	-2.7%	5.7%	NM
Investcorp Credit Management BDC, Inc.	ICMB	$ 47.26	$ 3.28	73%	-13.4%	0.60x	2.6%	-4.2%	16.5%	1.7x
Rand Capital Corporation	RAND	$ 36.25	$ 14.04	97%	7.2%	0.60x	10.5%	11.0%	7.1%	NM
Princeton Capital Corporation	PIAC	$ 24.10	$ 0.20	65%	-20.0%	0.76x	-0.6%	-0.6%	0.0%	NM
Equus Total Return, Inc.	EQS	$ 20.24	$ 1.49	76%	-8.6%	0.42x	19.2%	31.0%	0.0%	NM
Mean				85%	6.6%	0.88x	6.9%	7.8%	9.3%	1.6x
High				100%	43.1%	2.20x	19.2%	31.0%	16.9%	5.1x
Mean				91%	12.5%	0.97x	7.7%	9.7%	9.9%	1.3x
Median				95%	11.8%	0.95x	7.9%	10.8%	10.9%	1.2x
Low				56%	-20.0%	0.42x	-0.6%	-10.4%	0.0%	0.4x

Source: S&P Capital IQ.
Note: As of May 1, 2024. 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	**Pre-Acquisition and Divestiture Services**	**Securitization and Regulatory Compliance**
Structured Products Valuation Advisory	**Sustainability Advisory Services**	**Valuation Governance and Best Practices**

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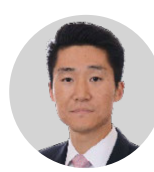

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CORPORATE FINANCE

2023 M&A Advisory Rankings
All Global Transactions

	Advisor	Deals
1	**Houlihan Lokey**	**352**
2	Rothschild & Co	349
3	Goldman Sachs & Co	300
3	JP Morgan	300
5	Morgan Stanley	253

Source: LSEG (formerly Refinitiv).
Excludes accounting firms and brokers.

No. 1 Global M&A Advisor

Leading Capital Markets Advisor

FINANCIAL RESTRUCTURING

2023 Global Distressed Debt &
Bankruptcy Restructuring Rankings

	Advisor	Deals
1	**Houlihan Lokey**	**73**
2	PJT Partners Inc	64
3	Rothschild & Co	51
4	Lazard	37
5	Evercore Partners	27

Source: LSEG (formerly Refinitiv).

No. 1 Global Restructuring Advisor

1,700+ Transactions Completed Valued at More Than $3.5 Trillion Collectively

FINANCIAL AND VALUATION ADVISORY

1999–2023 Global M&A
Fairness Advisory Rankings

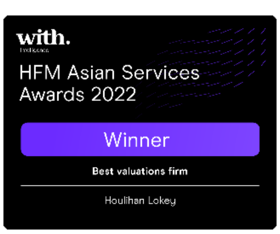
	Advisor	Deals
1	**Houlihan Lokey**	**1,247**
2	JP Morgan	1,035
3	Duff & Phelps, A Kroll Business	977
4	UBS	884
5	Morgan Stanley	716

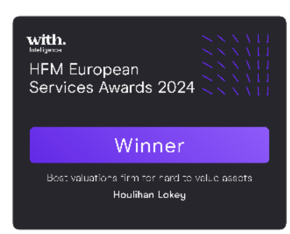
Source: LSEG (formerly Refinitiv).
Announced or completed transactions.

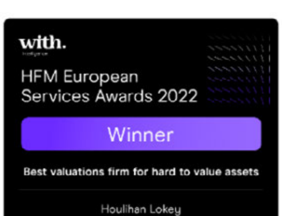
No. 1 Global M&A Fairness Opinion Advisor Over the Past 25 Years

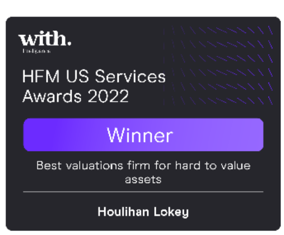
2,000+ Annual Valuation Engagements

Awards









Houlihan Lokey

Americas

- Atlanta
- Baltimore
- Boston
- Charlotte
- Chicago
- Dallas
- Houston
- Los Angeles
- Miami
- Minneapolis
- New York
- San Francisco
- São Paulo
- Washington, D.C.

Europe and Middle East

- Amsterdam
- Antwerp
- Dubai
- Frankfurt
- London
- Madrid
- Manchester
- Milan
- Munich
- Paris
- Stockholm
- Tel Aviv
- Zurich

Asia-Pacific

- Beijing
- Fukuoka
- Gurugram
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- Mumbai
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