

MIDDLE MARKET JUNIOR CAPITAL OVERVIEW

Second Half 2020

Huntington Capital Markets® conducts a bi-yearly survey of middle market junior debt capital providers to assess market conditions and transaction terms. In this newsletter, we summarize the results and provide other anecdotal observations to bring you our state-of-the-market perspective.

SURVEY PARTICIPANTS

Our typical respondent invests out of a **\$470M** fund and invests between **\$10M and \$44M** per transaction

Average investment size of **\$21M**

PRICING

Cash pay coupons decreased by **50 bps** while upfronts remained the same from 1H 2020. Pricing tightened as PIK interest decreased by **50 bps** from 1H 2020. The equity component has remained minimal within investor return profiles.

LEVERAGE

Total leverage has been widening as **77%** of respondents reported closed deals with more than **3.5x** leverage and **66%** had leverage of greater than **4.0x** (up from 62% and 38% 1H 2020)

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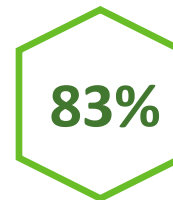
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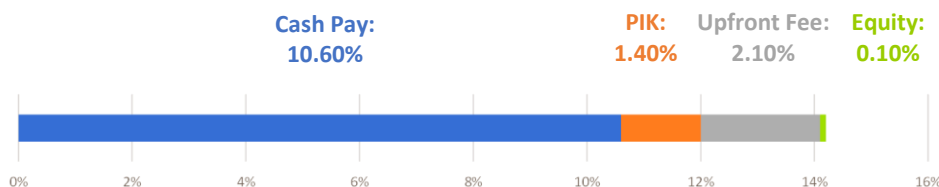
TRANSACTION FLOW

Investor activity increased dramatically in the second half of 2020 as the number of opportunities reviewed, LOIs submitted and transactions closed rose sharply

185 transactions reviewed (up from 76)
19 LOIs submitted (up from 5)
5.6 transactions closed (up from 0.6)



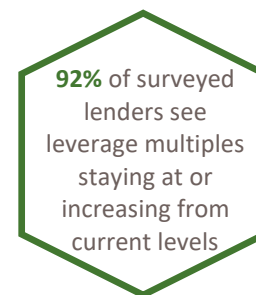
of transactions were sponsor-backed with average equity contribution of 39%



LENDER SENTIMENT

Surveyed investors believe competition from second lien and unitranche providers will **increase or stay the same** in the upcoming quarter

84% of surveyed investors believe that realizations will increase or stay the same in Q1 2021



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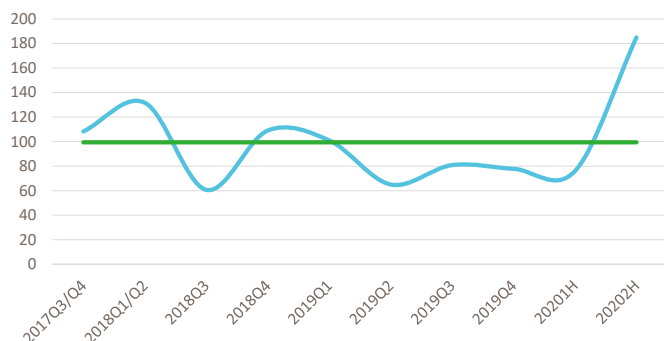
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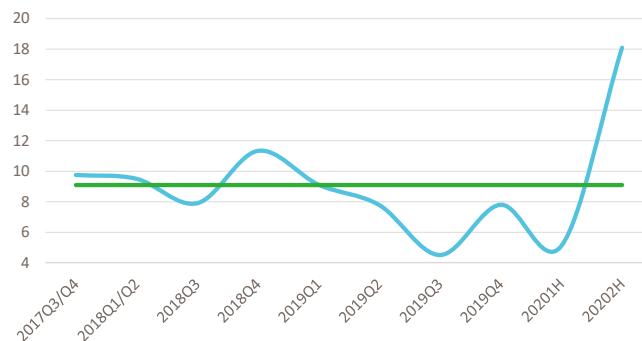
Since Inception

TRANSACTION FLOW

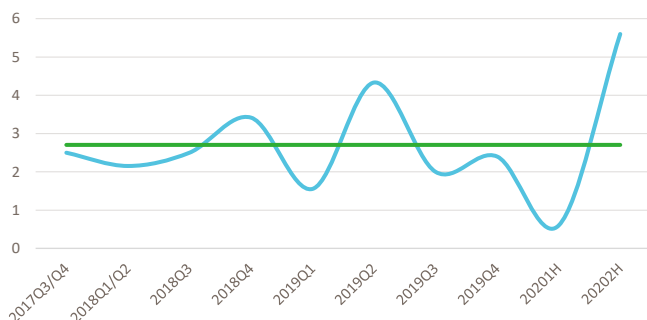
Number of Transactions Reviewed



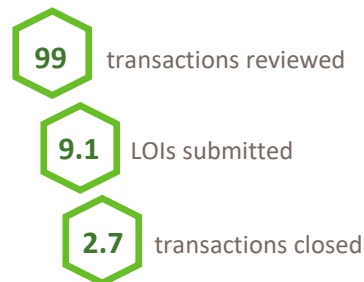
LOIs Submitted



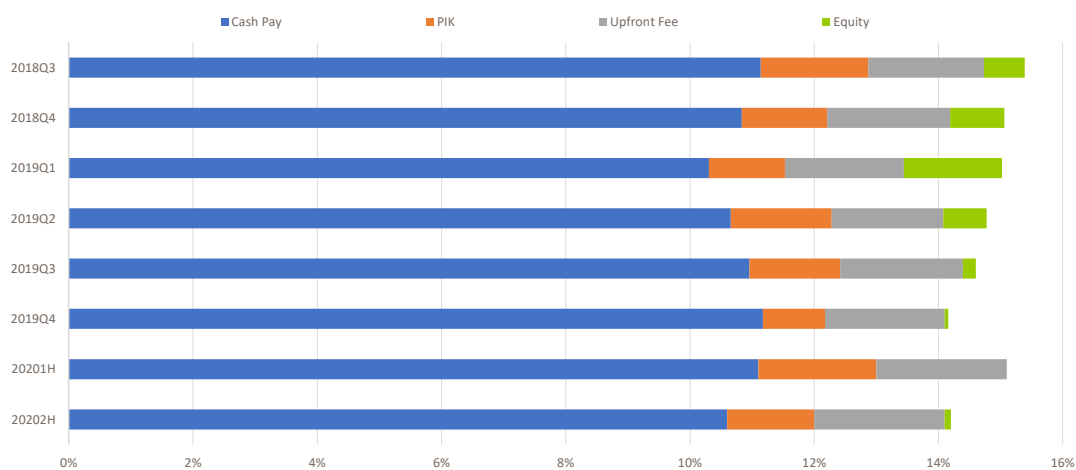
Transactions Closed



Since initiating the survey in **2017** there have been on, a quarterly basis, an average of



PRICING



| | Cash Pay | PIK | Upfront Fee | Equity | Total |
|------|----------|-------|-------------|--------|--------|
| Mean | 10.86% | 1.49% | 1.96% | 0.50% | 14.80% |
| Max | 11.31% | 1.90% | 2.10% | 0.33% | 15.63% |
| Min | 10.31% | 1.00% | 1.79% | 0.90% | 14.00% |

14.80%

Total return expectations (and the primary components that make it up) have remained consistent for the last three years