



bridgepoint

INVESTMENT
BANKING

LEVERAGED FINANCE GROUP

DEBT MARKET UPDATE

THIRD QUARTER 2020

SPECIAL SITUATIONS AND DISTRESSED DEBT DRIVE VOLUME IN 1H 2020

PRIVATE CREDIT MARKET OVERVIEW

Distressed debt and special situations deal value exceeded senior debt in Q2 2020

Distressed debt funds accounted for 28% of capital raised in private debt, up from 18% in Q1 2020

Covenant violations as a result of government-mandated shutdowns forced lenders to re-evaluate portfolio companies and rewrite covenants

Debt pricing has changed, and deal terms are expected to trend more conservatively as a result

Many borrower-friendly terms and concessions are now harder to come by as a result of this conservative trend – **DDTL and dividend recapitalizations are gone**

Many lenders have added restrictions to the use of proceeds and lessened overall facility sizes due to the vast uncertainty in the credit markets

Bridgepoint expects deal volume to remain stable in sectors that have performed well during the pandemic (i.e. IT Services, Consumer Staples, Healthcare)

With another round of economic relief / PPP funding on the horizon, Bridgepoint expects markets to temporarily stabilize in Q3 2020, but projects increased volatility and contraction in Q4 and Q1 2021 in the private and public capital markets

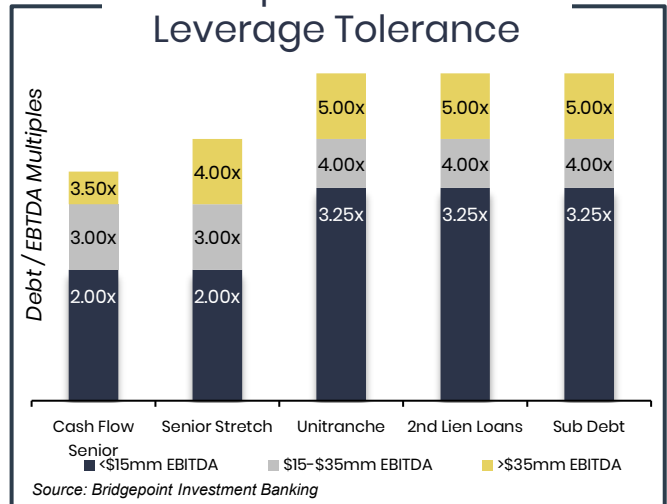
“Junior capital space is slow. We’ve closed one deal since the pandemic started, whereas we are usually doing a deal per month. We are seeing a lot of deals, but they are poor quality. A lot of levered situations where the banks are asking for mezzanine/equity to refinance a portion of their debt and get leverage < 3x. Challenging because it’s hard to know when a lot of these businesses will recover and what they will look like post-COVID.

Leverage has certainly come down. Banks are getting tighter, which isn’t surprising. We don’t do covenant lite deals to begin with, but we are seeing more discipline from the banks and other lenders.

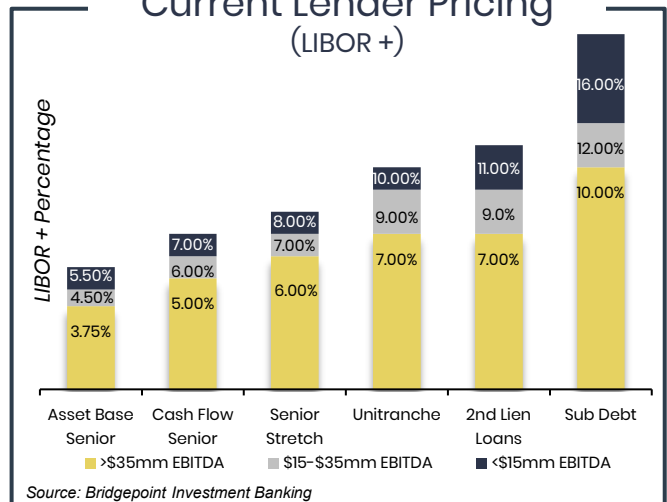
Our expectation is things will continue to worsen into 4Q and that the post 3Q period will be quite interesting as you’ll have 2 consecutive quarters of poor performance and covenant compliance required on 9/30.”

Institutional Debt Lender

Non-Sponsor Lender Leverage Tolerance



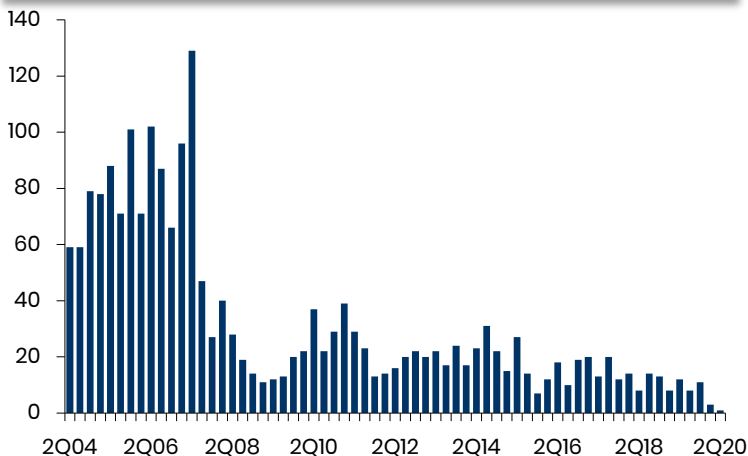
Current Lender Pricing (LIBOR +)



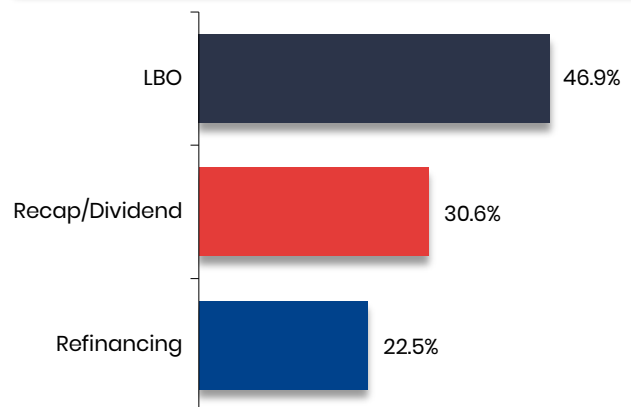
Lender Trends Heat Map

	Cash Flow Senior	Senior Stretch	Unitranche	2nd Lien Loans	Sub Debt
Rates	↑	↑	↑	↑	↑
Amortization	—	—	—	—	—
Debt / EBITDA Multiples	↓	↓	↓	↓	↓
Covenants	↑	↑	↑	—	—

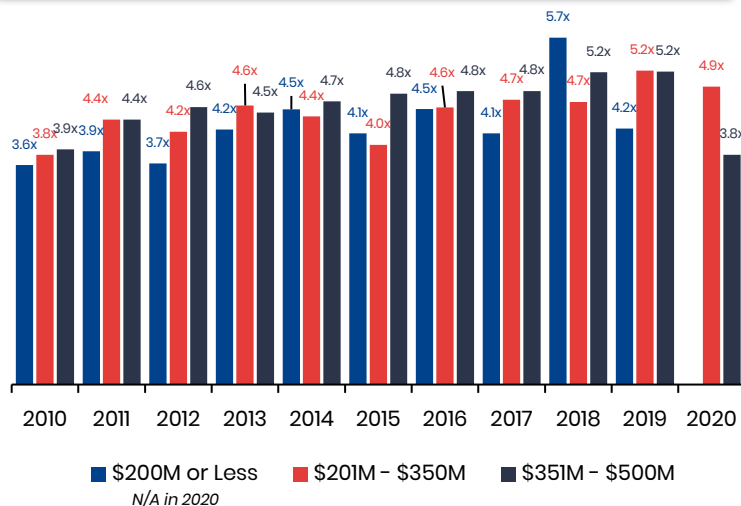
Middle Market Debt Deal Count



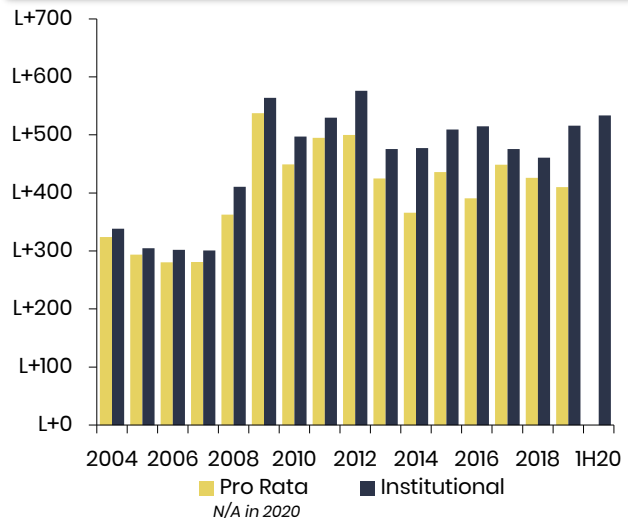
Middle Market Debt Volume by Purpose



Leverage Multiples



Middle Market Spreads



Selected Q3 Middle Market Leveraged Finance Transactions

Month	Borrower	Lender	Facility (\$mm)	Pricing	Purpose
7/20	AgroFresh Solutions	Paine Schwartz Partners, LLC	\$275.0	L+625	Increase of original term loan due to convertible pref. equity offering
7/20	Alion Science & Technology	UBS; KKR	\$360.0	L+375	Refinance existing first-lien term loan
7/20	Metal Era	Antares Capital	\$65.0	N/A	Secured credit facilities for acquisition
7/20	Altruista Health	Comvest Credit Partners	\$41.6	N/A	Support future growth and operations
7/20	Afiniti	Vista Credit Partners	\$150.0	N/A	Financing to accelerate growth
7/20	AdaptHealth	Regions Bank; Citizens; Deutsche Bank; RBC	\$216.3	L+350	Term loan to fund acquisition of Solara
7/20	Prism Vision Group	Antares Capital	\$330.0	N/A	Senior secured credit facilities
7/20	Olde Thompson	BNP Paribas	\$210.0	L+625	First-lien term loan for acquisition
6/20	Neenah	J.P. Morgan	\$200.0	L+400	Refinance senior secured notes
6/20	CAI Software	Main Street Capital	\$19.5	N/A	First-lien term loan backing acquisition

REASONS TO PURSUE DEBT CAPITAL SOLUTIONS

Stress Financing ➤ **Stabilize**



Financing secured by company assets or other collateral that supports a strategic or restructuring plan intended to help the company return to profitability



Acquisition / Growth Financing ➤ **Growth**

Non-dilutive capital to allow the owner(s) of the company to pursue opportunistic M&A acquisitions and / or buyout of select shareholders

Reduce Debt Service / Stress Finance ➤ **Cash Flow**



With low amortization (20-100 year) / required debt service, institutional debt enables higher flexibility and investment into growth



Committed Capital Partner ➤ **Firepower**

Partner to provide strategic guidance, purchasing power and additional capital for growth, including acquisitions or liquidity

LEVERAGED FINANCE TERMS

Bridge Loan

Short-term loan to bridge until the Company secures permanent financing or performance improves – allows the Company to meet current obligations by providing immediate cash flow. Higher interest rates and are usually backed by some form of collateral

Asset-Based Loan

Loan or line of credit may be secured by inventory, accounts receivable, equipment, or other property owned by the borrower

Unitranche

Flexible credit facility with one lender that blends the terms and pricing of senior and mezzanine debt tranches – typically structured with limited amortization and an intermediate interest rate, no personal guarantee

Delayed Draw Term Loans (DDTL)

Committed, undrawn term loan for growth / dividend / acquisition that is usually agreed upon in tandem with a unitranche loan facility – most interest paid only when drawn and minimal unused facility fee

Structured Capital

Investment with both debt and equity features – generally has a higher cost of capital than traditional bank debt, but with significantly lower dilution (costs) than a pure equity investment; examples include term loans with warrants, convertible debt and preferred stock with dividends

BRIDGEPOINT ADVICE

Maximize liquidity / cash-on-hand:

- Perpetually prepare and analyze a 13-week cash forecast to fully understand company's cash burn
- Analyze the current COVID-19 financial impact on your business and prepare revised budget / forecast for 2020 & 2021
- Frequent communication with existing lenders on credit terms, such as covenants, amortization, pricing, etc.
- Engage and communicate with trusted advisors to help navigate the debt markets to properly capitalize your balance sheet to mitigate cash volatility / shortfalls
- Consider non-bank, private debt capital options to maximize cash flexibility / liquidity
- Scan the market for opportunistic acquisitions or strategies to act upon to capture market share when the economy re-opens / stabilizes

LEVERAGED FINANCE KEY CONSIDERATIONS

There are several key considerations that will impact the debt term / options for a company:

- ✓ EBITDA Scale
- ✓ Industry
- ✓ Collateral profile
- ✓ Cyclicity
- ✓ Sponsor / non-sponsor backed
- ✓ Historical & projected financial performance
- ✓ Capital expenditures
- ✓ Use of proceeds
- ✓ Customer concentration

Please contact us for our perspective on likely terms and options on prospective capital options you may be considering: (402) 817-7900

Pockets of Capital

Senior

Second Lien

Subordinated

Mezzanine

Structured

Least Leverage
Lowest Pricing
Least Flexible

Most Leverage
Highest Pricing
Most Flexible

Unitranche

Hybrid loan structure that combines senior debt and subordinated debt into one loan

THE MIDDLE MARKET SOURCE FOR SOLUTIONS

Executive Summary



Bridgepoint is uniquely focused on first time issuer / non-sponsor middle market leveraged finance / debt advisory

Provide alternative and traditional debt placement services utilizing senior, mezzanine, subordinated, unitranche and structured debt products for a broad range of situations / scenarios

Leveraged Finance Scenarios: recapitalization, growth capital, refinancing, acquisition financing, covenant modification, amortization modification, personal guarantee elimination, rescue finance and personal liquidity

RECENT BRIDGEPOINT CAPITAL RAISE TRANSACTIONS


90 completed corporate finance transactions, raising more than \$74 billion in capital

PrairieCare

Senior & Mezzanine debt financings for debt recapitalization

BMO Harris Bank



LAKE COUNTRY CAPITAL

Sole Financial Advisor




DMR



Senior & unitranche debt financings for debt recapitalization

JPMORGAN CHASE & CO.



GRAYCLIFF PARTNERS

Sole Financial Advisor

USD30 million

Acquisition & growth financing

Sole Financing Arranger




USD 60 million

Global financing

Sole Financing Arranger




USD45 million

Unitranche financing for recapitalization

Sole Financing Arranger

229

YEARS OF EXPERIENCE

MORE THAN

\$108B

IN TRANSACTIONS

163

TOTAL TRANSACTIONS

SENIOR LEADERSHIP



Matt Plooster
Managing Director



Wm. Lee Merritt
Managing Director



Gary Grote
Managing Director



Mike Anderson
Managing Director



Chad Gardiner
Director



Adam Claypool
Managing Director



Joe Liss
Managing Director



Natasha Plooster
COO



Subhash Marineni
Vice President



Alex Spanel
Associate

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