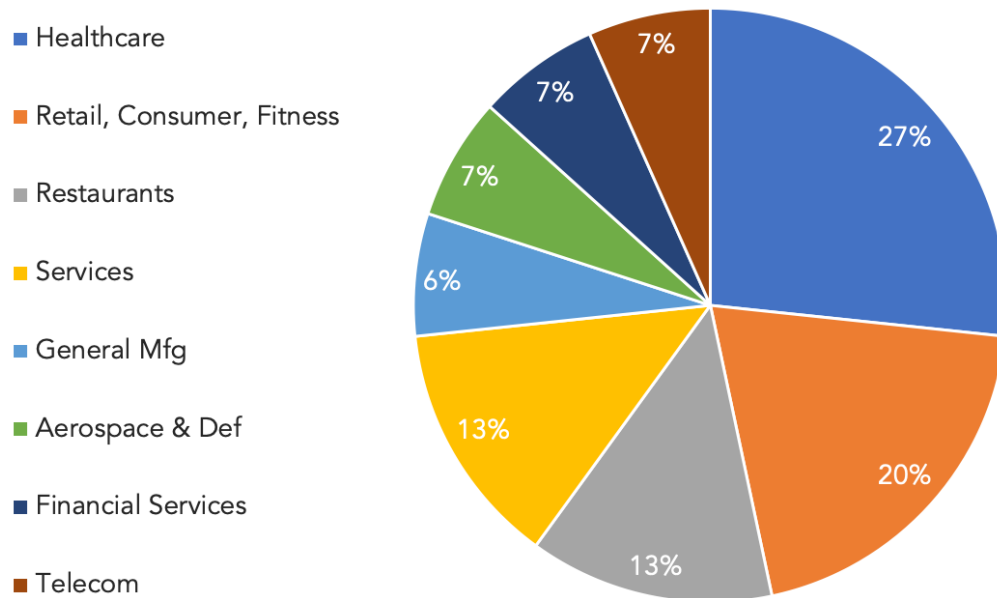


Non-Accruals across lower middle market portfolios rise to 7.5%

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Lower Middle Market: New Non-Accruals in 1Q20



Sources: Direct Lending Deals, Refinitiv

Effects of the coronavirus lifted the average non-accrual rate across lower middle market BDC portfolios by 1.7%, to 7.5% in the first quarter.

Out of \$5.8 billion of outstanding first- and second-lien term loans, \$436 million was on non-accrual across 42 borrowers, up from \$331 million in the fourth quarter across 31 borrowers.

(Our lower middle market analysis is based on a group of BDCs hand picked by DLD that cater to this segment and manage an aggregate of \$6.7 billion of investments. DLD collaborated with Refinitiv using Refinitiv's BDC Collateral database.)

Fourteen companies were new to non-accrual status in the first quarter, with healthcare adding four, retail/consumer/fitness three and restaurants two.

It's still too early to tell how damaging the pandemic has been across small business. Some believe the market is at least two to three months away from the start of real restructuring activity.

Moreover, PE support decisions on additional equity may not fully materialize until Sept. 30 or Dec. 31, when a clearer picture has developed on a company's trajectory.

This snapshot by DLD is meant to provide a general direction on non-accruals at the lower end of the middle market spectrum.

We've done our best to weed out larger companies, but digging through BDC portfolios is never simple. Lenders have different definitions of middle market and are not equally transparent about their investments. Most BDCs in this sample use the <\$25M EBITDA benchmark to categorize 'lower middle market' companies.