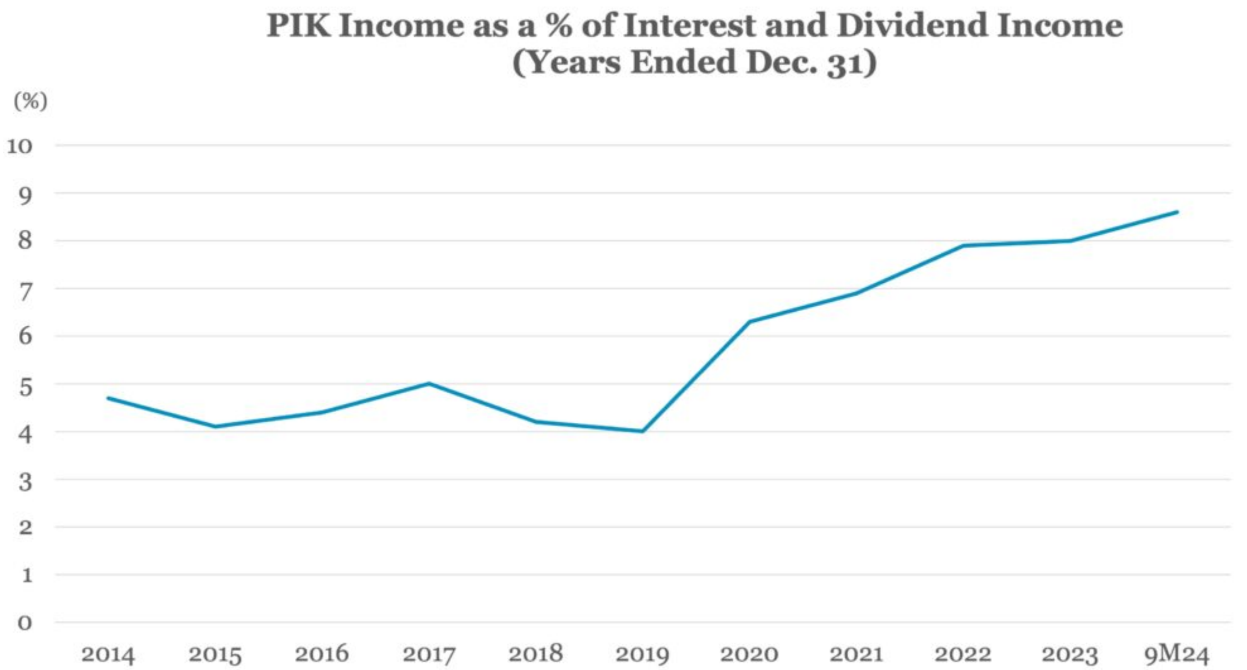
Business Development Companies Outlook 2025

Fitch Ratings | December 4, 2024



Notes: 9M24 - Nine months ended Sept. 30, 2024. Represents the average for 29 Fitch-rated BDCs. Interest income adjusted for merger accounting impacts.
Source: Fitch Ratings.

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What to Watch

- The impact of heightened competition on middle-market deal terms and structures.
- Potential for outsized realized losses for BDCs with elevated non-accrual levels.
- Dividend coverage metrics as NII is pressured by lower investment yields and cash NII is further weakened by elevated payment-in-kind (PIK) income.
- Ability to maintain economic access to the unsecured debt markets as near-term maturities rise.
- Management of leverage and asset coverage cushion if origination activity increases.

Additional Key Sector Issues

- Spread compression could lead to an expansion in BDCs' risk appetite.

- BDCs’ ability to collect accrued PIK income in cash will be tested as 2021 vintage investments approach maturities.
- Potential risk of redemptions for perpetual non-traded BDCs, which could negatively affect leverage, liquidity and future fundraising.