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Capital Advisory Group – Financing Market Update

April 10, 2020

Private Credit Market Issues Amidst COVID-19

The current COVID-19 crisis is presenting numerous challenges for traditional middle market lenders

Current Issues	Additional Perspective
Aggressive Revolver Draws	▪ During the two weeks leading up to 3/31, many borrowers drew down on their revolvers; the unprecedented level of revolver draws caused a significant drain on lenders' capital ▪ Many middle market lenders indicate that their aggregate revolving facilities are ***70%+ drawn***, compared to a normal-course average of ~20% and prior peaks of ~40% during the Financial Crisis of 2008
Portfolio Underperformance	▪ Due to expected portfolio underperformance and forthcoming company liquidity concerns, lenders are preserving capital in anticipation of requests to support challenged borrowers ▪ Many more defaults are expected at 6/30, compared to 3/31, since the crisis began so close to the end of Q1
Potential for Deferral of Interest and/or Principal Payments	▪ While 3/31 passed with fewer than expected interest and principal payment deferrals, the underlying issues did not disappear and will have to be addressed at 6/30 (or sooner) ▪ Lenders could face significantly higher interest and/or principal deferrals at 6/30, causing them to conserve liquidity
Reduced Availability for Credit Funds	▪ As portfolio company underperformance weighs on the valuation of middle market loans when "marked-to-market," lenders are expecting covenant defaults and/or reduced availability on fund-level credit lines due to shrinking borrowing bases, negatively impacting the funds' liquidity ▪ Some lenders have already begun to pursue strategies to shore up liquidity (e.g. rights offerings)

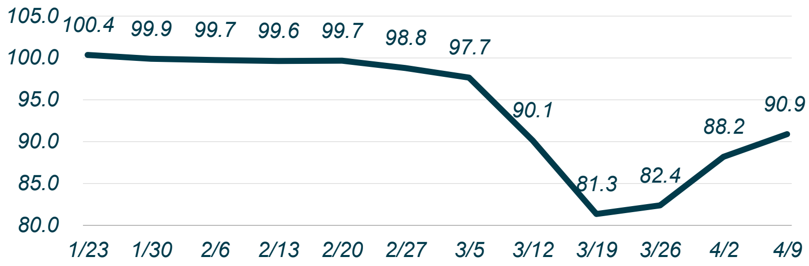
These concurrent and systemic issues are leading to tightening liquidity across the private credit markets

Private Credit Market Issues Amidst COVID-19 (cont'd)

Although some traditional lenders are well-capitalized and will be able to deploy capital for new transactions, the market continues to struggle in a number of areas

1 Price Dislocation…could be Improving

Leveraged Loans – Average Bid

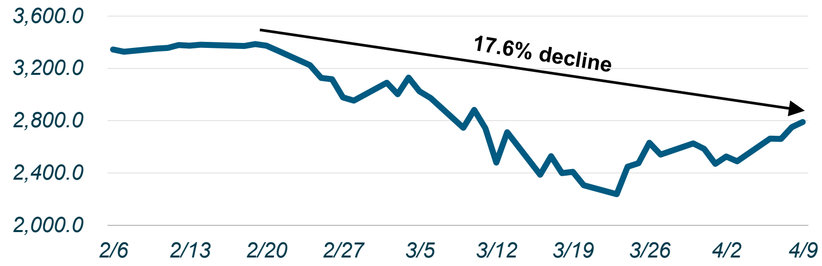


Source: S&P Leveraged Commentary & Data

After a dramatic decline in price and corresponding boost to yields, the secondary market for liquid loans has been improving; this should bring down the pricing benchmark for certain mid-market lenders who have been looking to the relative value/yields available in the secondary market

2 Valuation Uncertainty

S&P 500 Index Performance



Source: Yahoo Finance

Despite improvement in public equity markets, private market company valuations remain in question, complicating lender efforts to leverage on a Loan-to-Value basis and likely requiring over-equitization from private equity sponsors or the use of more creative structures

3 EBITDA Uncertainty

As companies continue to suffer performance declines of varying magnitude, both lenders and sponsors are struggling to determine the right EBITDA for calculating leverage

4 Deal Terms in "Discovery Phase"

Given the rapidly evolving public health and economic crisis, and very few recent data points, lenders are in "discovery" with respect to establishing deal terms, will err on side of tighter documentation

5 Logistical Challenges with Due Diligence

As social distancing mandates continue to restrict travel and in-person meetings, lender due diligence efforts will be significantly impeded until these restrictions are relaxed

6 Crisis Duration Uncertainty Restricting Hold Sizes

To insulate themselves against the yet-unknown duration of the crisis, lenders are taking more conservative positions on hold sizes to preserve liquidity for the long haul; meaning more lenders will be needed to complete a deal compared to pre-crisis

Resulting Credit Market Activity

With a wide range of challenges facing traditional lenders, unconventional capital providers will drive a wave of private credit activity for the remainder of 2020

Shorter-Term Remedies

- **Amendments and forbearances,** either on a standalone basis or in conjunction with:
  - **Capital infusions***
  - **Bridges***
  - **Rescue financings***
  - **Fairness opinions**

**Provided by sponsors, lenders, or third parties*

Medium-Term Fixes

- **Restructurings**
- **Lender-driven M&A**
- **Structured capital solutions**

Longer-Term Solutions

- **Refinancings**
- **Dividend recapitalizations**
- **Acquisition financings**
- **Company sales**

This surge of activity will bring a complex set of challenges that are the focus of Lincoln's Capital Advisory Group

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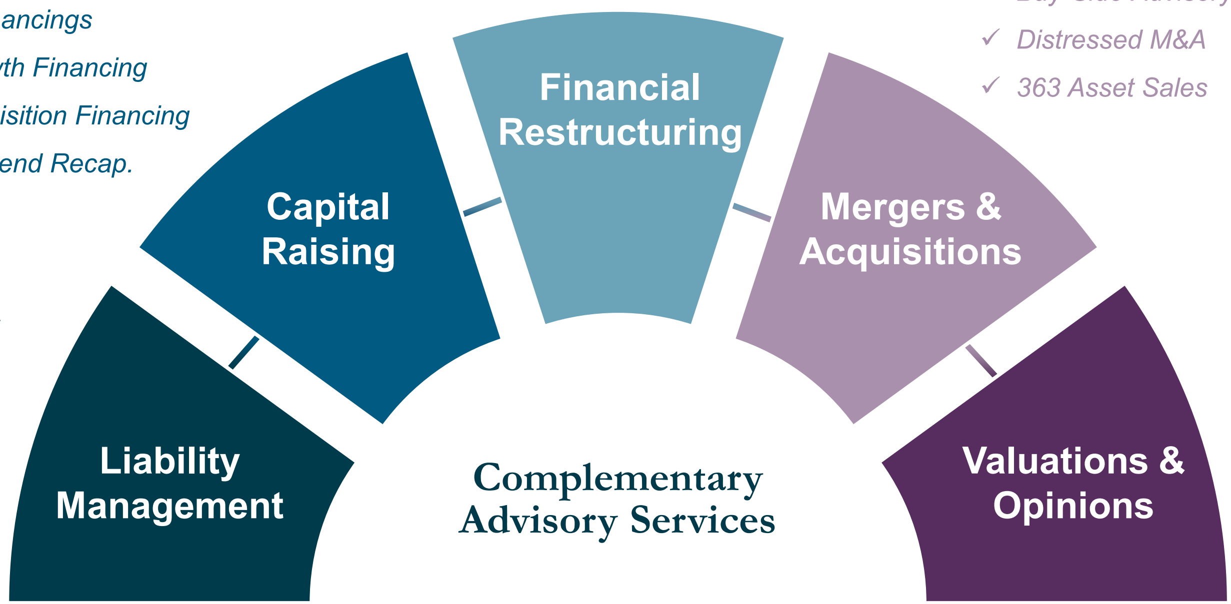
Lincoln Has Expertise Across the Entire Capital Spectrum

Through its full-service platform, Lincoln maintains the capability to assist companies across the entire spectrum of capital needs



Liability Management

- ✓ *Forbearance*
- ✓ *Amendments / Waivers*
- ✓ *Maturity / Reporting Extensions*
- ✓ *Consent Solicitations*
- ✓ *Negotiating Capital Injections from Existing Stakeholders*

Capital Raising

- ✓ *Bridge / Rescue Financing*
- ✓ *Structured Capital Solutions*
- ✓ *Private Debt Alternatives*
- ✓ *Refinancings*
- ✓ *Growth Financing*
- ✓ *Acquisition Financing*
- ✓ *Dividend Recap.*

Financial Restructuring

- ✓ *Debt for Equity Exchange*
- ✓ *Chapter 11 Restructuring*
- ✓ *Out-of-Court Restructurings*
- ✓ *Strategic Alternatives Review*
- ✓ *Distressed Debt Buy-Back*

Mergers & Acquisitions

- ✓ *Sell-Side Advisory*
- ✓ *Buy-Side Advisory*
- ✓ *Distressed M&A*
- ✓ *363 Asset Sales*

Valuations & Opinions

- ✓ *Portfolio Valuation*
- ✓ *Fairness Opinions*
- ✓ *Solvency Opinions*

Lincoln can help sponsors and borrowers weather the storm while positioning them for long term success

Why Lincoln?

Lincoln's Capital Advisory Group is uniquely qualified to guide clients through uncertain times and towards optimal outcomes

Full Suite of Capabilities to Address All Borrower Needs

- ✓ Capital Raising
- ✓ Liability Management
- ✓ Restructurings
- ✓ M&A Advisory
- ✓ Valuations & Opinions

Superior Track Record of Success

53
Deals Closed in the Past Three Years

Zero
Hung Deals in the Past Three Years

Lockstep Collaboration Across the Lincoln Platform

- ✓ Seamless Cross-Functionality Across Teams
- ✓ Senior-Level Attention with Every Engagement
- ✓ Significant Industry Knowledge and Expertise

Engaging Lincoln allows sponsors and companies to successfully navigate challenging market conditions and ensure the best possible outcome

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Connect With Our U.S. Capital Advisory Group

Fully integrated team of Restructuring, Debt Advisory and Valuation and Opinion Experts

- **Debt Advisory**
- **Special Situations & Restructuring**
- **Valuations & Opinions**

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