### Cash Flow Senior Debt/EBITDA

<table>
<thead>
<tr>
<th>EBITDA Range</th>
<th>August 2018</th>
<th>July 2018</th>
<th>August 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $5.0MM EBITDA</td>
<td>1.75x - 3.00x</td>
<td>1.75x - 3.00x</td>
<td>1.75x - 2.75x</td>
</tr>
<tr>
<td>&gt; $10MM EBITDA</td>
<td>2.75x - 4.00x</td>
<td>2.75x - 4.00x</td>
<td>2.75x - 4.00x</td>
</tr>
<tr>
<td>&gt; $20MM EBITDA</td>
<td>3.25x - 4.75x</td>
<td>3.25x - 4.75x</td>
<td>3.25x - 4.50x</td>
</tr>
</tbody>
</table>

### Total Debt/EBITDA

<table>
<thead>
<tr>
<th>EBITDA Range</th>
<th>August 2018</th>
<th>July 2018</th>
<th>August 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $5.0MM EBITDA</td>
<td>3.50x - 4.50x</td>
<td>3.50x - 4.50x</td>
<td>3.25x - 4.75x</td>
</tr>
<tr>
<td>&gt; $10MM EBITDA</td>
<td>4.00x - 5.00x</td>
<td>4.00x - 5.00x</td>
<td>3.50x - 5.00x</td>
</tr>
<tr>
<td>&gt; $20MM EBITDA</td>
<td>4.50x - 6.00x</td>
<td>4.50x - 6.00x</td>
<td>4.50x - 6.00x</td>
</tr>
</tbody>
</table>

### Senior Cash Flow Pricing

<table>
<thead>
<tr>
<th>EBITDA Range</th>
<th>Bank</th>
<th>Non-Bank &lt; $7.5MM EBITDA</th>
<th>Non-Bank &gt; $15MM EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $5.0MM EBITDA</td>
<td>L+ 2.50% - 5.00%</td>
<td>L+ 5.00% - 8.00%</td>
<td>L+ 4.50% - 6.00%</td>
</tr>
<tr>
<td>&gt; $10MM EBITDA</td>
<td>L+ 6.50% - 8.50%</td>
<td>L+ 5.50% - 7.00%</td>
<td>L+ 5.50% - 7.00%</td>
</tr>
<tr>
<td>&gt; $20MM EBITDA</td>
<td>L+ 6.00% - 7.50%</td>
<td>L+ 6.00% - 7.50%</td>
<td>L+ 6.00% - 7.50%</td>
</tr>
</tbody>
</table>

Commentary: Renewed interest among many lenders for non-sponsored deals where they can achieve a small pricing premium to the more competitive, tighter priced sponsored financings. Libor Floors becoming less prevalent in the face of rising rates.

### Second Lien Pricing

<table>
<thead>
<tr>
<th>EBITDA Range</th>
<th>August 2018</th>
<th>July 2018</th>
<th>August 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $5.0MM EBITDA</td>
<td>L+ 7.00% - 10.00%</td>
<td>L+ 7.00% - 10.00%</td>
<td>L+ 7.50% - 12.00%</td>
</tr>
<tr>
<td>&gt; $10MM EBITDA</td>
<td>L+ 6.50% - 8.50%</td>
<td>L+ 6.50% - 8.50%</td>
<td>L+ 6.50% - 8.50%</td>
</tr>
<tr>
<td>&gt; $20MM EBITDA</td>
<td>L+ 5.50% - 7.00%</td>
<td>L+ 6.00% - 7.50%</td>
<td>L+ 6.00% - 7.50%</td>
</tr>
</tbody>
</table>

Commentary: Renewed interest among many lenders for non-sponsored deals where they can achieve a small pricing premium to the more competitive, tighter priced sponsored financings. Libor floors still a part of the non-bank second lien market (1.75%-2.00%); fixed rate options range from a low of 7.00% to 11.00%.

### Sub Debt Pricing

<table>
<thead>
<tr>
<th>EBITDA Range</th>
<th>August 2018</th>
<th>July 2018</th>
<th>August 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $5.0MM EBITDA</td>
<td>12.00% - 14.00%</td>
<td>12.00% - 14.00%</td>
<td>12.00% - 14.00%</td>
</tr>
<tr>
<td>&gt; $10MM EBITDA</td>
<td>10.00% - 12.00%</td>
<td>10.00% - 12.00%</td>
<td>10.00% - 12.00%</td>
</tr>
<tr>
<td>&gt; $20MM EBITDA</td>
<td>9.00% - 11.00%</td>
<td>9.00% - 11.00%</td>
<td>10.00% - 12.00%</td>
</tr>
</tbody>
</table>

Commentary: Pricing seems to have largely stratified at the current low levels. Warrants limited to distressed and special situations; second lien may buy down rate to ~9.00%.

### Unitranche Pricing

<table>
<thead>
<tr>
<th>EBITDA Range</th>
<th>August 2018</th>
<th>July 2018</th>
<th>August 2017</th>
</tr>
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<tbody>
<tr>
<td>&lt; $5MM EBITDA</td>
<td>L+ 7.00% - 10.00%</td>
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<td>L+ 7.50% - 12.00%</td>
</tr>
<tr>
<td>&gt; $10MM EBITDA</td>
<td>L+ 6.50% - 8.50%</td>
<td>L+ 6.50% - 8.50%</td>
<td>L+ 6.50% - 8.50%</td>
</tr>
<tr>
<td>&gt; $20MM EBITDA</td>
<td>L+ 5.50% - 7.00%</td>
<td>L+ 6.00% - 7.50%</td>
<td>L+ 6.00% - 7.50%</td>
</tr>
</tbody>
</table>

Commentary: Renewed interest among many lenders for non-sponsored deals where they can achieve a small pricing premium to the more competitive, tighter priced sponsored financings. Libor floors of 1.75%-2.00% are still routinely requested. Fixed rate options range from a low of 7.00% to 11.00%; ABL revolver can be arranged outside the unitranche to arbitrage all-in pricing.
Libor Floors

Libor floors remain in second lien, subordinated, and unitranche deals, but are becoming less and less of an issue for senior loans considering rising rates. Approximately 72% of loans in Q1 2018 had no Libor Floor. When a floor is required however, lenders are looking for a minimum 1.75%.

Minimum Equity Contribution

Lenders continue to insist on minimum cash equity contributions and steer away from thinly capitalized deals. As a general proposition, a minimum of 40.0%-50.0% base level of equity (inclusive of any rollover) is required. As leverage levels creep up, however (in excess of 5.0x), 40.0%-50.0% equity (exclusive of rollover) is becoming the “new normal.” Most lenders discount rollover equity in excess of 20.0%.

Equity Co-Investment

Liquidity for equity co-investments remains robust among insurance companies, family offices, and credit opportunity funds. Promotes and carry will vary depending on the role the sponsor plays post-closing and how much, if any, of their own equity is deployed. Most, though not all, carry and promote provisions will be performance contingent. Mezz lenders generally will not exceed 20.0% of their debt investment. While many investors will look for a preferred position and sacrifice some yield for the liquidity preference, most investors are comfortable with a heads-up common position. The universe of committed funds backing independent sponsors continues to grow.

Recap Liquidity

Recap liquidity is as strong as it has been all year, with lenders making little distinction, if any, between accretive versus non-accretive use of proceeds; however, sponsored transactions will achieve higher leverage and better pricing for leveraged recapitalizations.

Story Receptivity

While story receptivity remains high, it is increasingly becoming more “sector selective”. Challenged issuers in the restaurants and retail sectors are deemed most vulnerable to a downturn and are more likely to have higher pricing, less leverage (i.e. one turn less of EBITDA) and potentially, some equity upside.

Tone of Market

While the traditional summer slow-down is in full force and effect, there does seem to be something of a mild “sponsor revolt” going on for many middle market lenders. Many lenders seem to be increasingly focused on non-sponsored deals in which they can attain pricing and rights more in-line with what they believe to be the “correct” or “efficient” risk/return spectrum. With so much capital available, sponsors dictate terms that can drive lenders (particularly those lenders whose internal funding is priced above the larger players) to uncomfortable pricing levels. Smaller, higher priced lenders are increasingly turning their focus to non-sponsored borrowers and independent sponsors and are willing to spend more time on more marginalized issuers.

“I have climbed the highest mountains
I have run through the fields
Only to be with you
Only to be with you
I have run I have crawled
I have scaled these city walls
These city walls
Only to be with you
But I still haven’t found
What I’m looking for
But I still haven’t found
What I’m looking for…

“I Still Haven’t Found What I’m Looking For” – U2
There seems to be an increasing chorus of discontent in the private debt markets this August, as lenders struggle to find assets priced at a level commensurate with their perceived risk. In short, lenders still haven’t found what they are looking for.

While economists tout the length and sustainability of the current recovery (currently in its 110th month and the most recent measure of GDP over 4%), middle market lenders have had to contend with an almost identical period of compressing spreads and higher leverage multiples, often combined with weaker covenant protections. Importantly, many of these competitive influences have extended to smaller middle market issuers (i.e. less than $7.5 million in EBITDA), increasing the risk profile even higher.

This risk/reward disconnect is leading more lenders in the middle market to independent sponsors, non-sponsored transactions or “storied” credits where yields still reflect, to some extent, the underlying risk. While this trend is still in large part anecdotal, there is some empirical data that supports the proposition. As reported by Loan Pricing Corp (“LPC”), middle market non-sponsored issuance jumped to $27.3 billion in the second quarter of 2018. This was up 29% from first quarter of the year. Refinancings totaling approximately $21.3 billion accounted for most of the increase in volume (its highest level in three and a half years).

On a more general level, SPP is not making any changes to its spread indications or leverage tolerances for August as pricing and leverage tolerances appear to have stratified over the course of the summer. What we are seeing however is sustained continuity of many of the themes we witnessed throughout 2018; specifically, a marked increase in unitranche activity ($8.7 billion in Q2, up from $3.1 billion in Q1) and a precipitous gain in business loan growth (C&I Loans) in the commercial banking sector (~6.8% into Q2, up from ~2% at the beginning of the year). Finally, given the proliferation of unitranche lenders in the middle market, spreads for unitranche loans continue to deteriorate (now just over L+6%, down about 40bps since the beginning of the year).

**The Macroeconomic Picture**

In its August 1st FOMC statement, the Federal Reserve labeled the U.S. economic outlook as “strong” for the first time since May 2006 and commented optimistically on the low unemployment, rising household spending, and inflation close to the 2% target. The U.S. continues growth in August for the 110th month of expansion with few signs of slowing down. The long duration of the recovery and limited slack might suggest a looming recession, but almost all other indicators—including wage growth, unit labor cost growth, housing starts, capital spend, bond default rates, loan delinquencies, and bank lending standards—point to an early or middle period. This is the second longest cycle in recorded history, only surpassed by the 120-month expansion of the 1990’s tech boom. U.S. government spending and tax cuts will continue to spur growth through the year, but a deficit approaching $1 trillion and two more planned rate hikes in 2018 point to a flattening yield curve and thus recession.

Unemployment in July edged lower to 3.9%, and employers slowed hiring, adding 157,000 jobs. This slowdown is not surprising as hiring will ease in the later stages of an expansion. Underemployment is down however, and workers are leaving their jobs at the fastest rate in 17 years, resulting in higher pay and more satisfying work. Low skilled labor has been in high demand, but wages have not been rising commensurate with the tightening labor supply. Wages rose 2.7% in July year-over-year compared to a 4% annual pace for wage growth in 2000, the last time the jobless rate was at a similar level. Entry level jobs requiring more than three years of experience have also decreased 6% since 2012, demonstrating a loosening of employer standards and an immediate need for workers. Overall, there is continued downward pressure on labor force participation due to changes in demographics, the rising cost of childcare, and the opioid crisis, but the employee...
is gaining more bargaining power for higher wages, healthcare benefits, and paid time off.

Tariff concerns are being mentioned more in earnings guidance as multi-national corporations brace for retaliation from China, Europe, and Canada. As the trade disputes escalate, economists say a stronger dollar may be helping to offset some of the loss. The dollar rallied 7% between February and May against a basket of currencies, raising U.S. purchasing power and causing import prices to fall 0.3% in July and June (reversing a five-month trend of increases in price). Detroit’s big three automakers lowered their profit outlooks for 2018 with U.S. Tariffs on steel and aluminum weighing on their bottom line demonstrative of the transition and uncertainty U.S. manufacturers face. There is also heightened concern about the current U.S. economic condition reflected by a drop in the University of Michigan Consumer Sentiment by 0.3% to 97.9 in July. Tariff regulations are hurting U.S. manufacturers in all industries except steel and aluminum causing price increases, worker layoffs, and constrained output.

Below is a recap of this month’s key economic releases:

- **Employment Report Strong with Declining Unemployment and Consistent Job Openings** – Non-farm payrolls in the United States increased by a respectable 157,000 in July, yet below market expectations of ~190,000. Unemployment edged down to 3.9% in July due to job gains in professional and business services, in manufacturing, and in health care and social assistance. The jobless rate for workers 25 years and older with less than a high-school degree fell by 0.4% showing the increased demand for low skilled labor. June U.S. job openings of 6.662 million were relatively unchanged from May with a .045% increase.

- **Tariff Tensions Drag Down Consumer Sentiment** – Continued concern about the impact of tariffs on the domestic economy pulled July consumer sentiment down 0.3 points to 97.9. However, positive job and income prospects have kept consumers sentiment relatively high despite rising inflation and interest rates. The current economic condition component of the index fell 1.8% since June showing consumer concern with retaliatory tariffs from China, Canada, and Europe. 35% of respondents mentioned that tariffs would have a negative economic impact in July, up from 21% in June and 15% in May.

- **Real GDP Passes 4.0%** – Q2 GDP came in at robust 4.1% up from a revised 2.2% in Q1. Consumer spending increased at a strong 4.0% rate in the quarter to contribute 2.7 points of the total rate, while spending on services contributed 1.5 points and spending on goods contributed 0.6 points. The expansion of U.S. soybean exports to $4.1 Billion in May ahead of 25% Chinese tariffs inflated Q2 advance estimates. The GDP price index is now at 3.0%. The Federal Reserve Bank of Atlanta has projected a Q3 GDP of 4.7% in their July 31st report.

- **PCE and Core PCE Remain Unchanged** – Overall PCE and Core PCE are unchanged from May and are respectively up 2.2% and 1.9% year-over-year. The movement in inflation is coming back toward the Fed’s 2% target line, and consumer vital signs remain healthy. The United States will spend less on economic stimulus having surpassed the 2% target and there is a 60.6% chance of two more rate hikes in 2018 to curb inflation.

- **ISM Indices Fall with Increased Tariff Concerns** – Heightened concern with tariffs has led to a decline in headline ISM Manufacturing index of 2.1% to 58.1, the weakest expansion in the manufacturing sector in three months. A high labor participation rate and strong demand have been good for business, but a slowdown in new orders, export orders, and production shows cautious expansion in the wake of uncertain reciprocal tariffs on
manufacturing inputs. The ISM Non-manufacturing index fell 3.4% to 55.7, missing expectations of 58.6. The business activity and production component fell 7.4% from a seasonally adjusted 63.9 the previous month. Both the manufacturing sector and non-manufacturing sector are seeing contraction in margins and volume in anticipation of trade volatility.

- **Housing Starts Plunge Nationwide** – U.S. Housing starts fell 12.3% month-over-month to a nine-month low of 1.173 million annualized rate in June. This decline was due to the volatile multi-family segment which fell 20.2% to 0.304 million annualized rate and single-family starts which fell 9.1% to 0.858 million. All main regions saw a decline in housing starts (South -9.1%, West -3%, Midwest -35.8%, Northeast -6.8%). Confidence among single-family homebuilders was unchanged in July despite the continued burden of rising construction and material costs.

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Managing Partner
212.455.4502

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Supporting Data

**Historical Senior Debt Cash Flow Limit (x EBITDA)**

Source: SPP’s “MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE”

**Historical Total Debt Limit (x EBITDA)**

Source: SPP’s “MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE”

**Historical Senior Cash Flow Pricing (Bank)**

Source: SPP’s “MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE”

**Historical Senior Cash Flow Pricing (Non-Bank)**

Source: SPP’s “MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE”

**Historical Second Lien Pricing**

Source: SPP’s “MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE”

**Historical Subordinated Debt Pricing**

Source: SPP’s “MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE”

**Historical Unitranche Pricing**

Source: SPP’s “MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE”

**Historical Minimum Equity Contribution**

Source: SPP’s “MIDDLE MARKET LEVERAGE CASH FLOW MARKET AT A GLANCE”