BROOKS, HOUGHTON & COMPANY, INC.
Merchant Banking for the Middle Market

BHC's Debt Capital Markets Update

May 5, 2020

George J. Psomas, CFA
Brooks, Houghton & Company
Managing Director
Cell: (617) 763-4680
gpsomas@brookshoughton.com

Current Perspectives on the Debt Capital Markets

- The COVID-19 Pandemic has absolutely caused disruption in the credit markets. While many banks and non-banks remain "open for business," the reality is a high bar exists for the issuance of capital in this environment
- The major banks are overwhelmed by request for the Paycheck Protection Program (PPP) and are re-orienting resources to accommodate the massive inflow of applications
- Even for stronger credit profiles, the major banks are not looking to bring on new borrowers. They are, however, supporting existing borrowers as lines of credit get fully drawn and cash is hoarded by clients. This has caused bank balance sheets to swell, and they are trying to manage this prudently
- Many second-tier banks and regional banks are stepping in to fill the gap. Most finance companies, BDC's and other private lending companies are also becoming very active. A 'plain vanilla' deal of three months ago that would be executed by a major bank will now find the best execution with a smaller bank or finance company, possibly a name previously unknown to the borrower
- Some BDC's are getting creative by focusing on loan-to-value (LTV) for rescue-finance type of situations. Asset-laden borrowers which may benefit from this approach include real estate holding companies and sports teams
- The second lien market is shrinking as those lenders are opting to either do a complete unitranche or a true mezzanine for additional debt, with the pricing and (potential) equity participation customary for that type of loan
- Lender diligence has become problematic (especially appraisals), but some lenders are finding remote workaround solutions to their diligence requirements
- On balance, across all loan types (ABL, cash flow term, unitranche, etc.), it appears pricing is kicking up 100-200 bps, although it is too early to conclude anything definitive

- With all of these challenges and the fluidity of the market, it will be especially challenging for even an experienced CFO or seasoned PE professional to discern the right credit solution. The best alternative will often be with the name of a previously unfamiliar institution
- There is still a great deal of uncertainty as to long term effects. Each incremental week of shutdown digs us further into the hole from which we will need to inevitably dig out. The ultimate effect on defaults, as well as on vendor payment delinquency, remains to be seen
- **The debt capital markets are evolving and changing week to week, even day to day. BHC has decades of experience and wide-ranging relationships with both traditional bank and non-bank sources of capital. We are ideally suited to help our clients navigate these unchartered waters**

About George Psomas

- A 30-year veteran of the asset-based lending industry
- Primarily responsible for sourcing and closing senior and junior secured loans for BHC clients
- Previously a senior loan originator at Alostar Business Credit, Ares Commercial Finance, RBS Citizens Business Capital and Congress Financial (later Wachovia Capital Finance)
- Previously held senior roles in the Commercial Finance and Turnaround Management Associations

If you wish to discuss any of the topics and themes presented in the newsletter, or are involved in any debt capital markets transactions requiring assistance or introductions, please contact us.

George J. Psomas, CFA
Managing Director - DCM
gpsomas@brookshoughton.com
Cell: (617) 763-4680

Kevin Centofanti, CFA
President
kcentofanti@brookshoughton.com
Cell: (914) 645-4216

Anthony Moretti
Senior Managing Director
amoretti@brookshoughton.com
Cell: (917) 940-4634

__About Brooks, Houghton & Company, Inc.__: Founded in 1989, Brooks, Houghton & Company, Inc. ("BHC") is a leading New York-based merchant bank. BHC provides investment banking services and direct investments to middle market and emerging growth companies. The firm is highly experienced in mergers and acquisitions, debt and equity capital raising, and corporate finance matters, as well as principal investing through various mezzanine debt funds managed by its senior personnel. The firm's broker/dealer, Brooks, Houghton Securities, Inc. ("BHS"), is a member of FINRA and SIPC.