Phoenix Management, a part of J.S. Held

"Lending Climate in America"

4th Quarter 2023

Survey Results

(Survey results were tabulated on December 29, 2023)

1. How have the credit ratings in your portfolio changed between Q3 and Q4?

No material changes	17%
Credit ratings have improved	0%
Credit ratings have declined slightly	67%
Credit ratings have declined more than slightly	17%

2. When will the Fed begin cutting interest rates??

H1 2024	42%
H2 2024	58%
2025 or beyond	0%

3. Which macroeconomic headwind is most concerning heading into 2024?

Policy risk (interest rates)	17%
U.S. Recession	25%
Looming debt crisis	33%
2024 Election/Political uncertainty	17%
Geopolitical Risk/War	8%

4. Highest Senior Debt to EBITDA Leverage Institutions Would Consider

Respondents were asked the highest multiple of Senior Debt to EBITDA their financial institution would consider with regard to a loan request.

EBITDA Level	3Q 2023	4Q 2023
Greater than 3.5x	25.0%	16.7%
Between 3.01x and 3.50x	12.5%	33.3%
Between 2.51x and 3.00x	12.5%	8.3%
Between 2.01x and 2.50x	0%	0%
Less than 2.0x	0%	0%
Collateral lenders	37.5%	41.7%
N/A	12.5%	0%

5. Anticipated Change in Senior Debt to EBITDA Multiple

Respondents were asked, over the next six months, how the Senior Debt to EBITDA multiple would change at their financial institution.

Change in Senior Debt to EBITDA Level	3Q 2023	4Q 2023
Increase greater than 0.5x	12.5%	0%
Increase less than 0.5x	0%	8.3%
Decrease less than 0.5x	12.5%	16.7%
Decrease greater than 0.5x	0%	0%
No change	37.5%	16.7%
Collateral lenders	37.5%	41.7%
N/A	0%	16.7%

6. Factors with Strongest Potential to Affect Near-Term Economy

Respondents were asked, over the next six months, which <u>two</u> factors had the strongest potential to affect the economy.

Factors Affecting Near-Term Economy	3Q 2023	4Q 2023
Unstable Energy Prices	50.0%	8.3%
Other	12.5%	33.3%
Stability of Stock Market	50.0%	25.0%
Constrained Liquidity in Capital Markets	62.5%	83.3%
U.S. Budget Deficit	12.5%	50.0%
Sluggish Housing Market	12.5%	0%

7. Industries Expected to Experience Greatest Volatility

Respondents were asked, over the next six months, which industries will experience the most volatility (i.e. Chapter 11 filings, mergers and acquisitions, declining profits, etc.). Respondents were asked to select the top <u>three</u> industries.

Industries Experiencing Most Volatility	3Q 2023	4Q 2023
Retail Trade	62.5%	33.3%
Finance and Insurance	12.5%	50.0%
Construction	37.5%	58.3%
Educational Services	12.5%	0%
Transportation & Warehousing	0%	16.7%
Real Estate & Rental/Leasing	50.0%	83.3%
Healthcare and Social Assistance	25.0%	8.3%
Accommodation & Food Service	12.5%	0%
Arts, Entertainment, and Recreation	12.5%	0%
Information	12.5%	8.3%
Mining	25.0%	8.3%
Manufacturing	25.0%	8.3%
Other Services	12.5%	0%
Wholesale Trade	0%	16.7%

8. Customers' Plans in the Next Six to Twelve Months

Respondents were asked which of the following actions their customers planned in the next six to twelve months. Lenders were asked to designate all potential customer actions that applied.

Customers' Plans	3Q 2023	4Q 2023
Hiring New Employees	25%	50%
Introducing New Products or Services	37.5%	33%
Raising Additional Capital	50%	83%
Capital Improvements	37.5%	50%
Making an Acquisition	25%	58%
Entering New Markets	25%	17%
"Other" Initiatives	0%	0%

9. Economic Indicators

Respondents were asked whether they expected the following economic indicators to be up, down, or remain the same over the next six months.

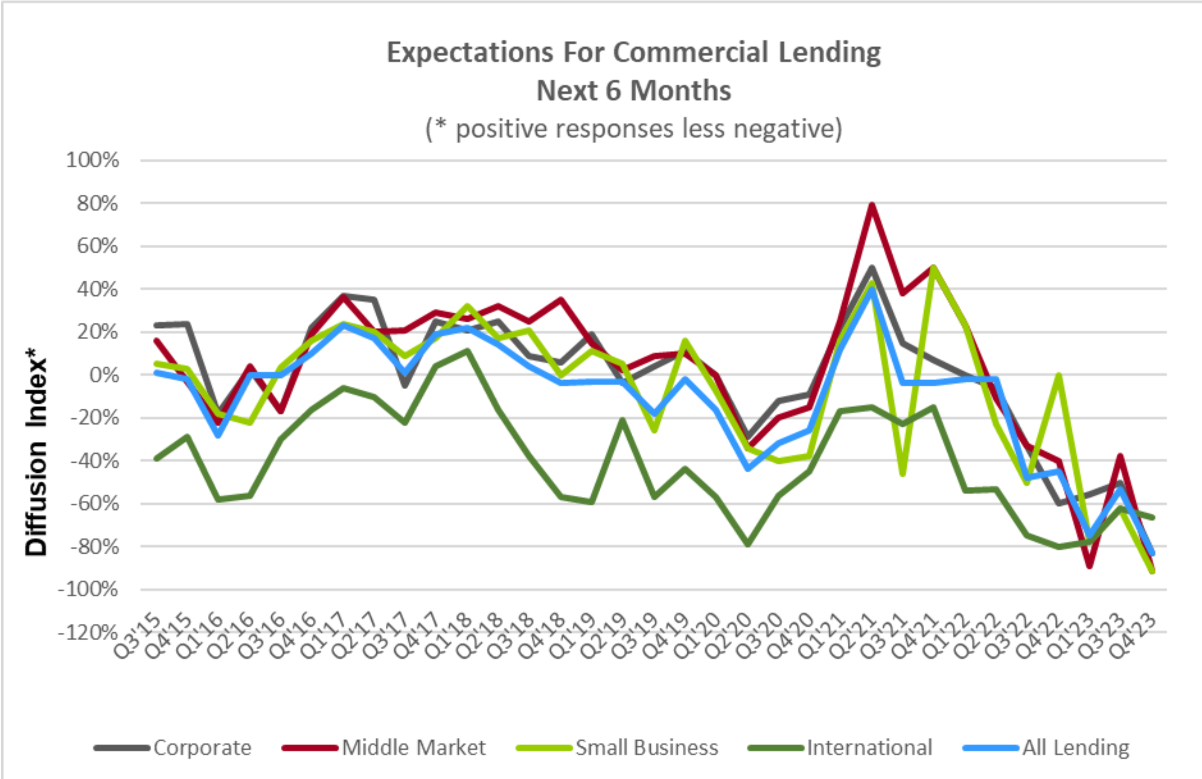
- In Q4 2023, lenders optimism decreased in all lending markets.

3Q/2023

	Up	Down	Same	Diffusion Index
Corporate Lending	0%	50%	50%	-50%
Middle Market Lending	13%	50%	38%	-38%
Small Business Lending	0%	63%	38%	-63%
International Lending	0%	63%	38%	-63%

4Q/2023

	Up	Down	Same	Diffusion Index
Corporate Lending	0%	83%	17%	-83%
Middle Market Lending	0%	92%	8%	-92%
Small Business Lending	0%	92%	8%	-92%
International Lending	0%	67%	33%	-67%



- In Q4 2023, there was a decrease in the all non-lending diffusion indices from Q3 2023 by varying degrees. All lending diffusion indices (Corporate, Middle Market, Small Lending, International) decreased in Q4 2023 by 29-54% except international lending, which decreased by 4%.

	3Q/2022					4Q/2023			
	Up	Down	Same	Diffusion Index		Up	Down	Same	Diffusion Index
Loan Losses	75%	0%	25%	75%	Loan Losses	92%	0%	8%	92%
Bankruptcies	63%	0%	38%	63%	Bankruptcies	100%	0%	0%	100%
Interest Rates	38%	50%	13%	-13%	Interest Rates	0%	25%	75%	-25%
Unemployment	38%	50%	13%	-13%	Unemployment	42%	0%	58%	42%
Bank Failures	0%	100%	0%	0%	Bank Failures	42%	0%	58%	42%

10. U.S. Economy Grade – Next Six Months

Respondents were asked how they expected the U.S. economy to perform during the next six months on a grading scale of A through F.

- Lender optimism on the U.S. economy remained constant at 1.75 in Q3 and Q4 2023. In this current quarter, a larger portion of lenders (75%) believe the economy will perform at a "C" level during the next six months. The other 25% of lenders surveyed believe the economy will perform at a "D" level, while none of the surveyed believe the economy will perform at a "B" or "A" level.

Grade	3Q/2023	4Q/2023
A	0%	0%
B	13%	0%
C	50%	75%
D	38%	25%
F	0%	0%
Weighted Average Grade	1.75	1.75

11. U.S. Economy Grade – Beyond the Next Six Months

Respondents were asked how they expected the U.S. economy to perform beyond the next six months on a grading scale of A through F.

- Lenders' expectations for the U.S. economy's performance in the longer term decreased significantly from the prior quarter. The weighted average GPA decreased 42 points from a 2.50 in Q3 2023 to 2.08 in Q4 2023. Of the lenders surveyed, 58% feel as though the U.S. economy will perform at a "C" level beyond the next six months, while 25% expect the economy to perform at a "B" level, half the expectation of Q3.

Grade	3Q/2023	4Q/2023
A	0%	0%
B	50%	25%
C	50%	58%
D	0%	17%
F	0%	0%
Weighted Average Grade	2.50	2.08

12. Customers' Future Growth Expectations

Lenders assessed their customers' growth expectations for the next six months to a year.

- The percentage of respondents indicating their customers have "moderate" growth expectations for the next six months to one year increased 20 percentage points to 83%. In Q4 2023, there was no change in the percentage of lenders that ascribed to (very) strong growth (0%). Seventeen percent of lenders ascribed to no growth.

Indication	3Q/2023	4Q/2023
Very Strong	0%	0%
Strong	0%	0%
Moderate	63%	83%
No Growth	37%	17%

13. Loan Structure

Respondents were asked whether their financial institutions planned to tighten, relax, or maintain their loan structures (collateral requirements, guarantees, advance rates, loan covenants, etc.) in each of four different-sized loan categories.

A majority of the surveyed lenders (56%) plan to tighten their current loan structure. In Q4 2023, the minority (44%) of lenders plan to maintain their loan structure and 0% plan to relax their loan structure.

	3Q/2023			4Q/2023		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $25 million	17%	83%	0%	50%	50%	0%
$15 – 25 million	33%	67%	0%	50%	50%	0%
$5-15 million	43%	57%	0%	67%	33%	0%
Under $5 million	38%	63%	0%	58%	42%	0%
Overall Average	33%	67%	0%	56%	44%	0%

14. Interest Rate Spread

Lenders were asked whether their financial institutions planned to reduce, maintain, or increase their interest rate spreads and fee structures on similar credit quality loans.

A majority of lenders (56%) plan to maintain their interest rate spreads and fee structures. In Q4 2023, the percentage of lenders that plan to increase their interest rate spreads increased to 44%, and 0% plan to reduce their interest rate spreads.

	3Q/2023			4Q/2023		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans > $25 million	17%	83%	0%	0%	67%	33%
$15 – 25	0%	83%	17%	0%	67%	33%
$5-15 million	14%	57%	29%	0%	50%	50%
Under $5 million	0%	63%	38%	0%	42%	58%
Overall Average	8%	72%	21%	0%	56%	44%

15. The Fed and Interest Rates

Respondents were asked in what direction they thought the Fed would move interest rates and by how much in the coming six months.

0% of respondents in Q4 2023 believe the Fed will increase interest rates in the upcoming six months. 25% and 17% of lenders believe the Fed will decrease interest rates by – 1/4 points and – 1/2 points respectively. The remaining 58% believe there will be no short-term change.

Bps Change	3Q/2023	4Q/2023
+ 1/2 point or more	13%	0%
+ 1/4 point	63%	0%
Unchanged	0%	58%
- 1/4 point	25%	25%
- 1/2 point or more	0%	17%
Weighted Average	0.16bps	-0.27bps

16. Current Competition

Respondents were asked to identify the segment of the industry from which they were experiencing the most competition.

- Commercial Finance Companies place at the top of the survey, garnering 50% of responses. Regional Banks garnered the next highest amount of responses with 33%.

	3Q/2023	**3Q/2023**
Regional Bank	25%	33%
Commercial Finance Co.	63%	50%
Local Community/Commercial Bank	13%	0%
Money Center Banks	0%	8%
Other	0%	0%
Factors	0%	8%