Phoenix Management Services
"Lending Climate in America" Survey

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3rd Quarter 2021
Summary, Trends, and Implications

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"LENDING CLIMATE IN AMERICA"
3rd Quarter 2021

SUMMARY, TRENDS AND IMPLICATIONS

(Survey results were tabulated on October 6th, 2021)

1. **August had the fewest number of new workers in the last seven months. The leisure and hospitality industry, which is one of the industries hardest hit by the coronavirus pandemic, saw a net job growth gain of zero. A large reason for the stumble in job growth in August has been the delta variant surge. As we move forward into Q4'21 and 2022, do you expect the job market to slowly bounce back?**

   The majority of lenders, (77%), believe that even with the delta variant, the job market will likely bounce back as the holiday season approaches. Twenty-three percent of the lenders surveyed believe the surge of the delta variant will lead to hiring freezes as a precaution for a potential shutdown.

2. **How are borrowers currently combatting inflationary pressure?**

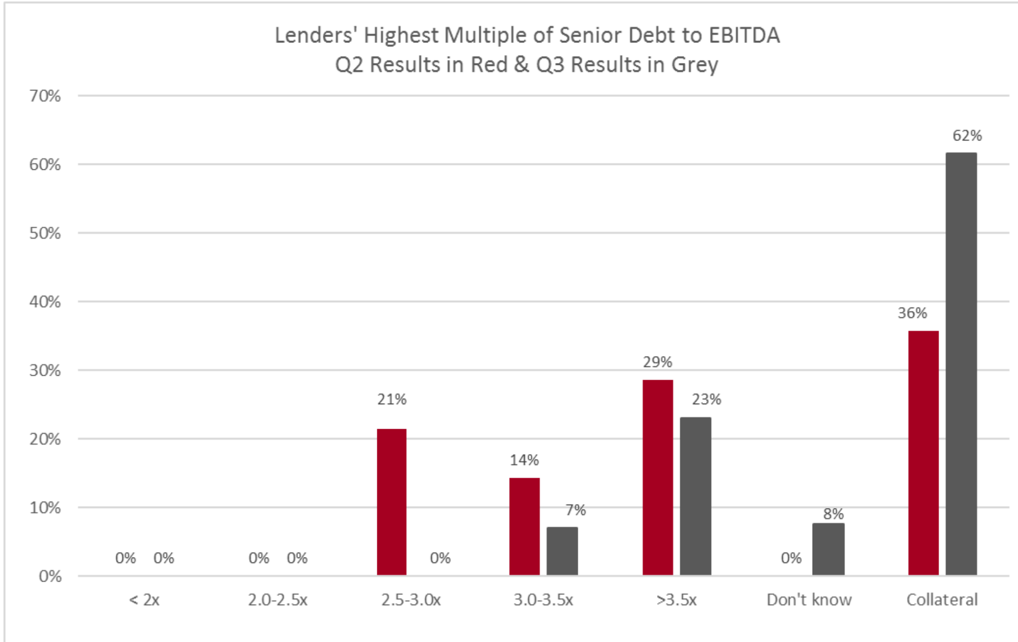
   The answer that received the highest percentage response, 77%, were the lenders that believe borrowers are currently combatting inflationary pressures by raising their prices and limiting discounts offered to customers. Of the lenders surveyed, 15% believe borrowers are absorbing the margin compression on a temporary basis, while 8% believe borrowers are reducing OPEX/eliminating waste to combat inflationary pressure. No lenders surveyed said that they think borrowers are trying to revisit purchasing practices or reduce product quality.

3. **Which of the following do you expect to be most challenging for borrowers through Q1 2022?**

   The majority of lenders (62%) expect supply chain management to be the most challenging factor for borrowers through the first quarter of 2022. Of the lenders surveyed, 38% of lenders expect labor costs to be the most challenging factor for borrowers through Q1/22. None of the lenders surveyed expect a) general economic cool down, or b) pandemic-related uncertainty to be challenging for borrowers through the first quarter of 2022.

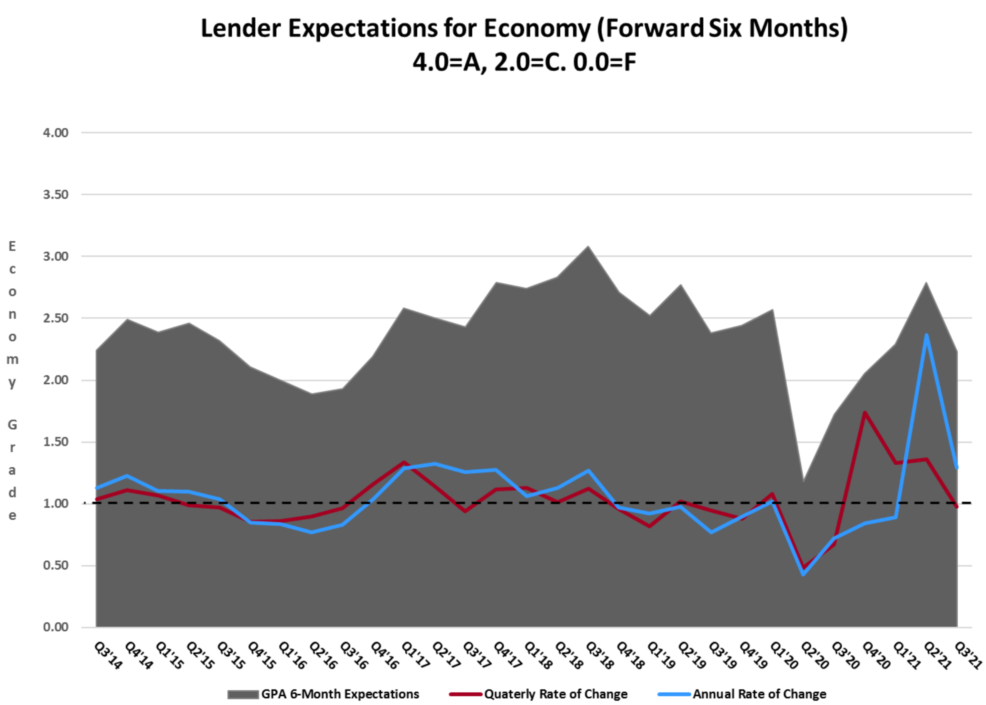
4. **Leverage multiples decreased in Q3 2021.**

   Leverage multiples descreased in Q3 2021 with 23% of lenders indicating that the >3.5x range would be the highest EBITDA ratio they would consider versus 29% in Q2 2021. The percentage of respondents who would consider a debt to EBITDA ratio of 3.0-3.5x decreased to 8% from the previous quarter's results of 14%. Sixty-two percent of lenders responded that they were collateral lenders and therefore do not make decisions based on cash flow/leverage multiples.



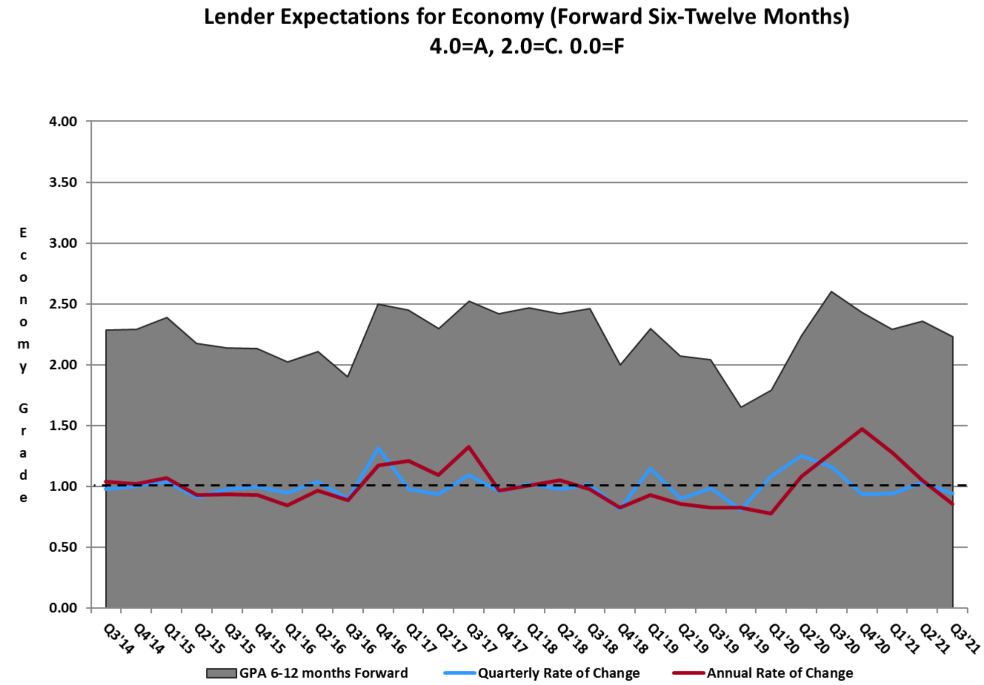
5. **Near-term and long-term economic performance expectations decrease in this quarter's survey.**

Lenders' optimism in the near-term U.S. economy significantly decreased this quarter to a GPA of 2.23 from the Q2 2021 results of 2.79. Sixty-two percent of the lenders believe the economy will perform at a 'C' level over the next six months, and 31% believe the economy will perform at a 'B' level. Of the lenders surveyed, 8% expect the U.S. economy to perform at a 'D' grade.



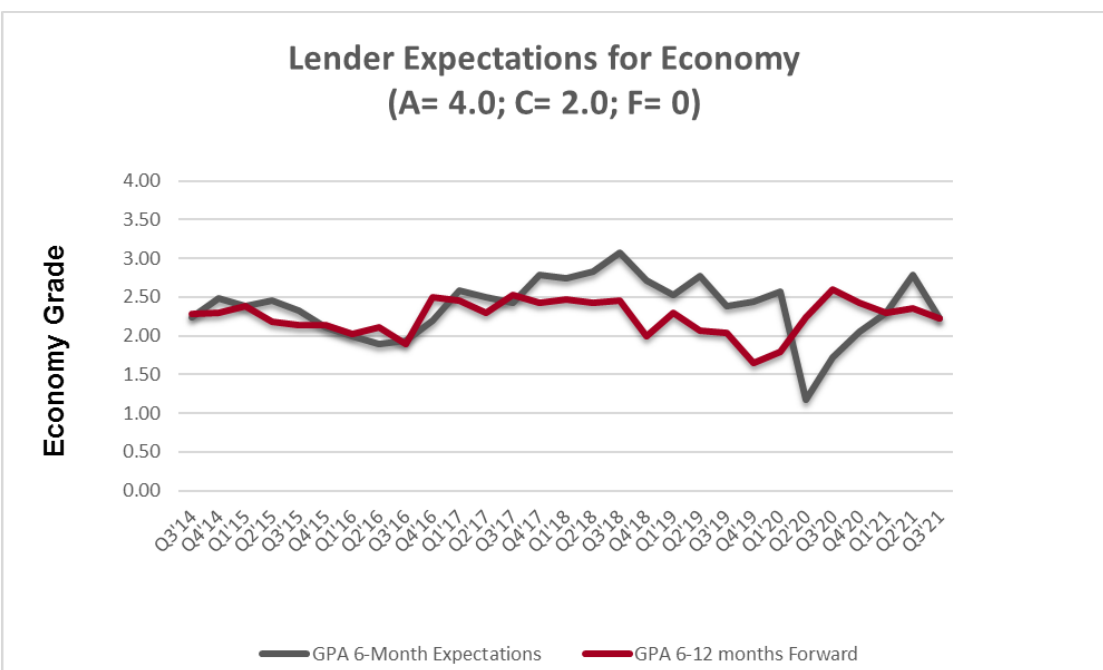
*** Rate of Change of 1.0 is at equilibrium and signifies "no change" from the corresponding prior period of comparison.***

Lenders' growth expectations for the U.S. economy beyond six months also decreased this quarter to a 2.23 GPA from 2.36 the previous quarter. 46% of lenders believe the economy will perform at a 'B' level in the next six to twelve months which represents a decrease of 9-percentage points from the Q2 2021 results of 57%. The percent of lenders (31%) that believe the economy will perform at a 'C' level increased 2-percentage points from Q2 2021. Twenty-three percent of lenders believe the economy will perform at a 'D' over the next twelve months.



** Rate of Change of 1.0 is at equilibrium and signifies "no change" from the corresponding prior period of comparison.*

As we enter Q4/21 and approach the end of the year, it seems lenders are becoming more pessimistic about the U.S. economy in both the near and long term.



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Survey Results

(Survey results were tabulated on October 6th, 2021)

1. The majority of lenders expect a return of normalcy as we move towards the holiday season which should lead to jobs being added across many industries.

Lenders were asked: August had the fewest number of new workers in the last seven months. The leisure and hospitality industry, which is one of the industries hardest hit by the coronavirus pandemic, saw a net job growth gain of zero. A large reason for the stumble in job growth in August has been the delta variant surge. As we move forward into Q4'21 and 2022, do you expect the job market to slowly bounce back?

Yes: Even with the delta variant, as we move towards the holiday season, we should see normalcy returning which should lead to jobs being added across many industries.	77%
No: With the surge of delta variant, the concern of shutting down again will lead to many industries, like leisure and hospitality, to freeze hiring as a precaution.	23%

2. The majority of lenders believe borrowers are currently combatting inflationary pressures by raising their prices and limiting discounts offered to customers.

Lenders were asked: How are borrowers currently combatting inflationary pressure?

Raising their prices / limiting discounts offered to customers	77%
Absorbing the margin compression on a temporary basis	15%
Reducing OPEX / Eliminate waste	8%
Optimizing vendor relationships / revisiting purchasing practices	0%
Reducing their product quality / limiting additional value-add offerings	0%

3. The majority of lenders expect supply chain management to be the most challenging factor for borrowers through Q1 2022.

Lenders were asked: Which of the following do you expect to be most challenging for borrowers through Q1 2022?

Supply chain management	62%
Labor costs	38%

General economic cooldown	0%
Pandemic related uncertainty	0%

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	2Q 2021	3Q 2021
Greater than 3.5x	29%	23%
Between 3.01x and 3.50x	14%	7%
Between 2.51x and 3.00x	21%	0%
Between 2.01x and 2.50x	0%	0%
Less than 2.0x	0%	0%
Collateral lenders	36%	62%
N/A	0%	8%

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	2Q 2021	3Q 2021
Increase greater than 0.5x	7%	8%
Increase less than 0.5x	14%	0%
Decrease less than 0.5x	7%	0%
Decrease greater than 0.5x	0%	8%
No change	36%	34%
Collateral lenders	36%	50%
N/A	0%	0%

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

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

Factors Affecting Near-Term Economy	2Q 2021	3Q 2021
U.S. Budget Deficit	57%	54%
Unstable Energy Prices	14%	46%
Stability of Stock Market	50%	38%
Other	43%	38%
Constrained Liquidity in Capital Markets	14%	15%
Sluggish Housing Market	0%	8%

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 three industries.

Industries Experiencing Most Volatility	2Q 2021	3Q 2021
Accommodation and Food Services	64%	69%
Retail Trade	50%	46%
Real Estate	43%	38%
Arts, Entertainment, and Recreation	50%	31%
Transportation & Warehousing	14%	31%

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

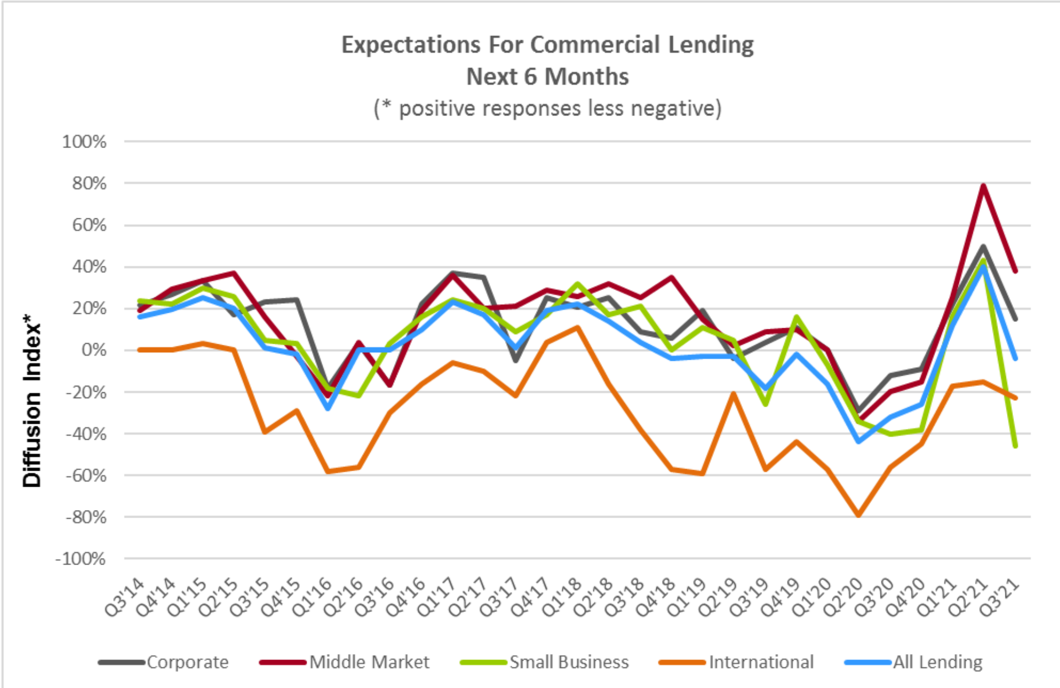
Respondents were asked which of the following actions their customers planned in the next six to twelve months. Lenders were asked to designate all potential customer actions that applied.

Customers' Plans	2Q 2021	3Q 2021
Hiring New Employees	43%	85%
Raising Additional Capital	29%	54%
Making an Acquisition	50%	38%
Introducing New Products or Services	43%	23%
Entering New Markets	29%	23%
Capital Improvements	50%	15%
"Other" Initiatives	7%	8%

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 Q3 2021, lenders optimism significantly decreased in large corporate (15%), middle market (38%), small business lending (-46%), and international lending (-23%). The diffusion index for the average for all lending decreased to -4% from 40% in Q2 2021.



	2Q/2021 Up	Down	Same	Diffusion Index		3Q/2021 Up	Down	Same	Diffusion Index
Corporate Lending	50%	0%	50%	50%	Corporate Lending	23%	8%	69%	15%
Middle Market Lending	79%	0%	21%	79%	Middle Market Lending	46%	8%	46%	38%
Small Business Lending	50%	7%	43%	43%	Small Business Lending	8%	54%	38%	-46%
International Lending	8%	23%	69%	-15%	International Lending	8%	31%	61%	-23%

- In Q3 2021, there was a decrease in the bankruptcies diffusion index from 36% in Q2 2021 to 17%. The unemployment diffusion index decreased to -16% in Q3 2021 compared to -71% in Q2 2021. In addition, the loan losses diffusion index increased to 25% in Q2 2021, and the bank failures diffusion index increased from -29% in Q2 2021 to 15%.

	2Q/2021 Up	Down	Same	Diffusion Index		3Q/2021 Up	Down	Same	Diffusion Index
Loan Losses	29%	29%	42%	0%	Loan Losses	42%	17%	41%	25%
Bankruptcies	50%	14%	36%	36%	Bankruptcies	42%	25%	33%	17%
Interest Rates	71%	0%	29%	71%	Interest Rates	75%	0%	25%	75%
Unemployment	0%	71%	29%	-71%	Unemployment	15%	31%	54%	-16%
Bank Failures	0%	29%	71%	-29%	Bank Failures	23%	8%	69%	15%

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.

- Lenders optimism on the U.S. economy significantly decreased in points this quarter from 2.79 in Q2 2021 to 2.23 in Q3 2021. In this current quarter, the majority of lenders (62%) believe the economy will perform at a "C" level during the next six months. This represents an increase of 26 points from the previous quarter. Of the lenders surveyed, 31% believe the economy will perform at a "B" level which represents a decrease of 19 points from the previous quarter.

Grade	2Q/2021	3Q/2021
A	14%	0%
B	50%	31%
C	36%	62%
D	0%	8%
F	0%	0%
Weighted Average Grade	2.79	2.23

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 slightly decreased from the prior quarter. The weighted average GPA decreased 13 points from a 2.36 in Q2 2021 to 2.23 in Q3 2021. Of the lenders surveyed, 46% feel as though the U.S. economy will perform at a "B" level beyond the next six months, while 31% expect the economy to perform at a "C" level, an increase of 2 percentage points from Q2 2021. In addition, the lenders (23%) who believe the economy will perform at a "D" over the next twelve months increased.

Grade	2Q/2021	3Q/2021
A	0%	0%
B	57%	46%
C	29%	31%
D	7%	23%
F	7%	0%
Weighted Average Grade	2.36	2.23

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 5 percentage points to 69%. In Q3 2021, there was a decrease in the percentage of lenders that ascribed to no growth (8%).

Indication	**2Q/2021**	**3Q/2021**
Very Strong	7%	8%
Strong	14%	15%
Moderate	64%	69%
No Growth	15%	8%

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.

Many lenders (76%) plan to maintain their current loan structure. In Q3 2021, 12% of lenders plan to tighten their loan structure, while 12% of the lenders surveyed plan to relax their current loan structure.

	2Q/2021			**3Q/2021**		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $25 million	0%	75%	25%	0%	70%	30%
$15 – 25 million	0%	75%	25%	0%	91%	9%
$5-15 million	0%	91%	8%	17%	83%	0%
Under $5 million	22%	71%	7%	31%	62%	8%
Overall Average	5%	78%	16%	12%	76%	12%

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 (76%) plan to maintain their interest rate spreads and fee structures. In Q3 2021, the percentage of lenders that plan to tighten their interest rate spreads decreased to 12%, and 12% plan to reduce their interest rate spreads.

	2Q/2021			**3Q/2021**		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans > $25 million	33%	59%	8%	9%	82%	9%
$15 – 25	25%	67%	8%	9%	82%	9%

$5-15 million	0%	85%	15%	0%	100%	0%
Under $5 million	0%	71%	29%	0%	62%	38%
Overall Average	15%	70%	15%	12%	76%	12%

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.

25% of respondents in Q3 2021 believe the Fed will leave interest rates unchanged in the next six months. Of the lenders surveyed, 50% of respondents favor an increase of +1/4 points, while 25% favor an increase of +1/2 points or more.

Bps Change	2Q/2021	3Q/2021
+ 1/2 point or more	0%	25%
+ 1/4 point	14%	50%
Unchanged	79%	25%
- 1/4 point	7%	0%
- 1/2 point or more	0%	0%
Weighted Average	0.02 bps	0.27 bps

16. Current Competition

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

- Regional Banks and Commercial Finance Co. continue to place at the top of the survey, garnering 72% of responses. Local Community/Commercial Bank saw a increase with 19% of respondents, and Money Center Banks saw a decrease of respondents with 9% in Q3 2021.

	2Q/2021	3Q/2021
Regional Bank	43%	36%
Commercial Finance Co.	29%	36%
Local Community/Commercial Bank	0%	19%
Money Center Banks	14%	9%
Other	14%	0%
Factors	0%	0%