Phoenix Management Services
"Lending Climate in America" Survey

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1st Quarter 2022
Summary, Trends, and Implications

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"LENDING CLIMATE IN AMERICA"
1st Quarter 2022

SUMMARY, TRENDS AND IMPLICATIONS

(Survey results were tabulated on March 1st, 2022)

1. **Do you think, in order to help alleviate the supply chain constraints affecting the country, certain industries, like trucking, will have to enact large pay increases to entice workers to rejoin that labor market?**

   All lenders, (100%), believe that companies need to entice workers with higher pay and benefits to compete with remote opportunities.

2. **What is the biggest driver of your customer's compressing margins?**

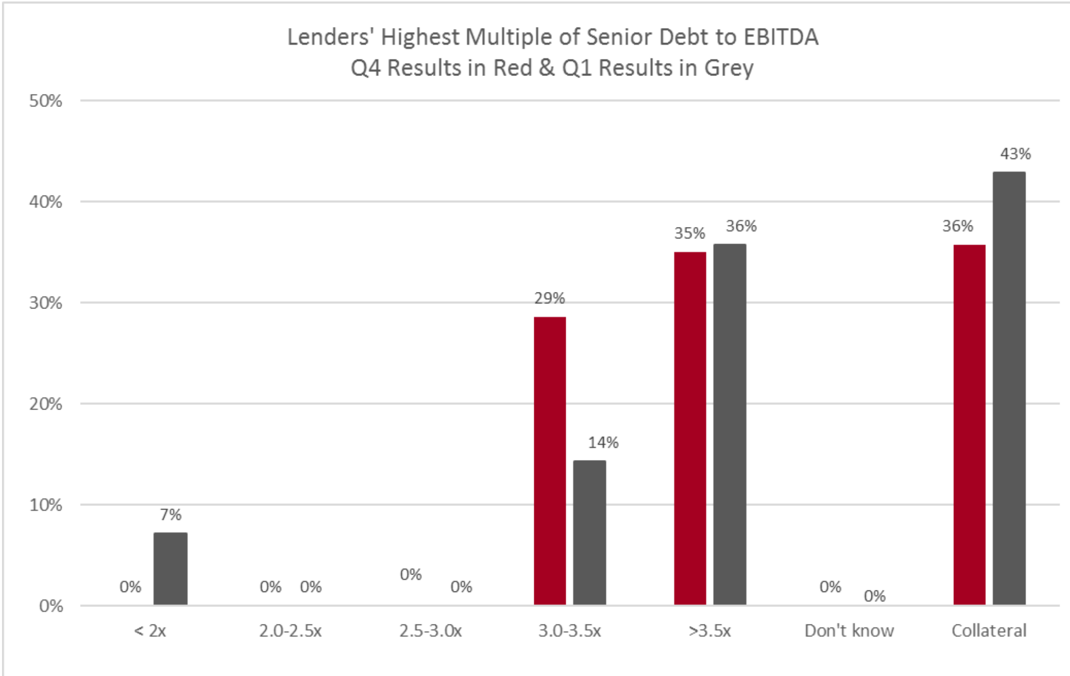
   The majority of lenders (43%) state higher raw material prices as the biggest driver for their customers' compressing margins. Of the lenders surveyed, 29% cited freight challenges, while 28% cited labor shortages as the biggest driver for their customers' compressing margins.

3. **What is the biggest economic headwind for 2022?**

   Fifty percent of the lenders surveyed believe geopolitical tension will be the biggest headwind, while the other 50% of lenders believe higher interest rates will be the biggest headwind for 2022. Zero percent of lenders cited higher corporate taxes or the Omicron COVID-19 variant to be an economic headwind for 2022.

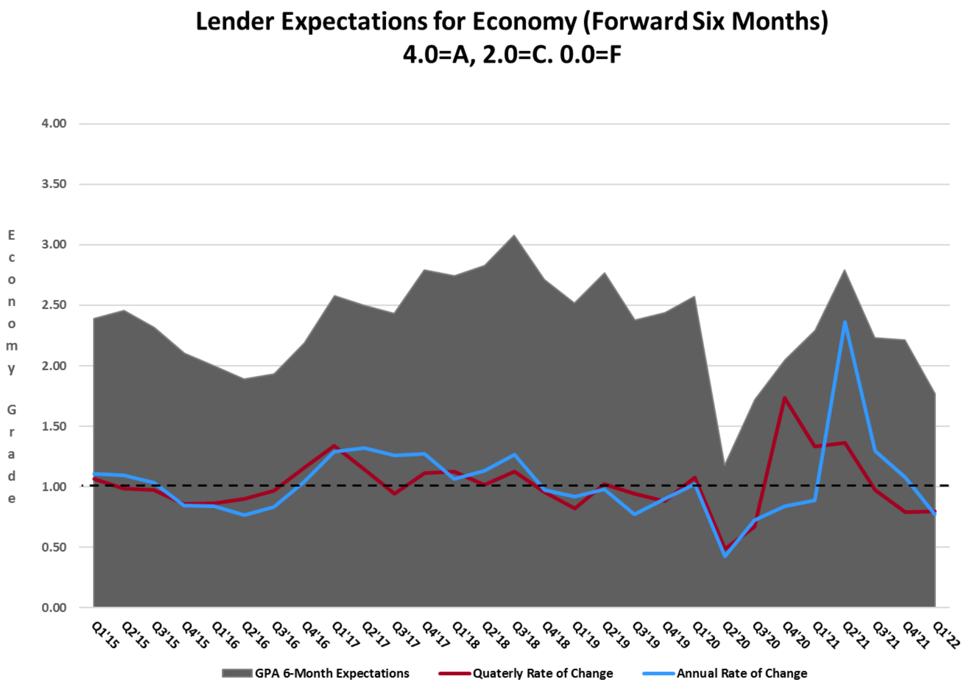
4. **Leverage multiples slightly shifted in Q1 2022.**

   Leverage multiples slightly shifted in Q1 2022 with 14% of lenders indicating that the 3.0-3.5x range would be the highest EBITDA ratio they would consider versus 29% in Q4 2021. The percentage of respondents who would consider a debt to EBITDA ratio of < 2x increased to 7%. Forty-three percent of lenders responded that they were collateral lenders and therefore do not make decisions based on cash flow/leverage multiples.



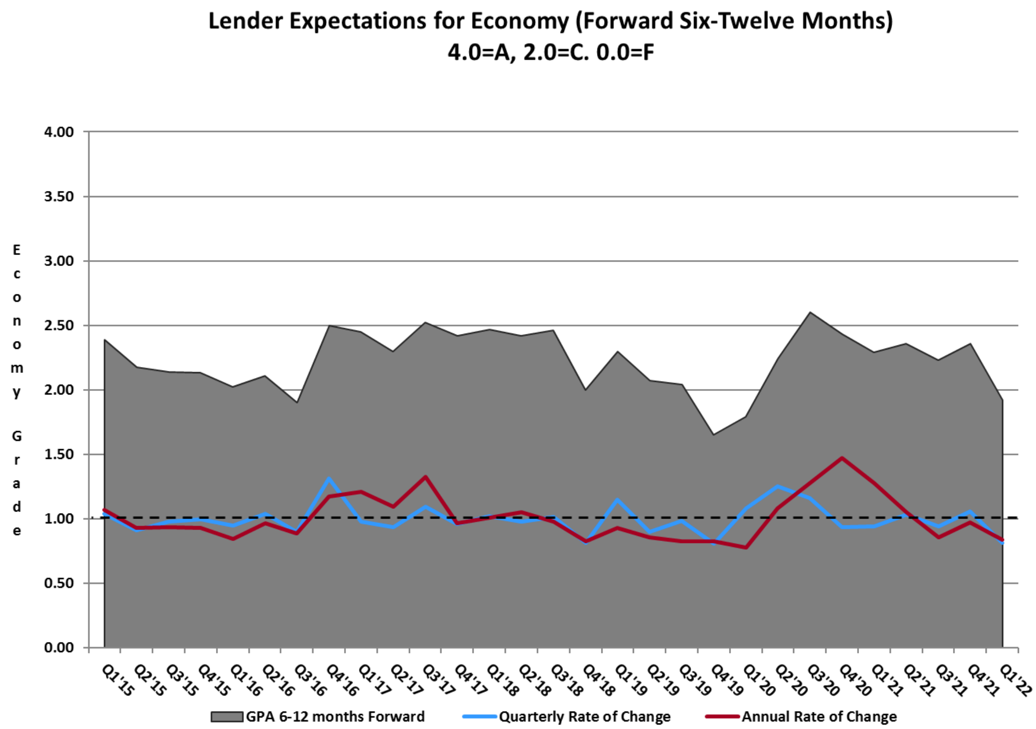
5. **Near-term and long-term economic performance expectations decrease in this quarter's survey.**

Lenders' optimism in the near-term U.S. economy significantly decreased 44-percentage points to a 1.77 GPA from 2.21 in Q4/21. Sixty-nine percent of the lenders believe the economy will perform at a 'C' level over the next six months, and 8% believe the economy will perform at a 'B' level, a 28-point decrease from the previous quarter. Of the lenders surveyed, 8% expect the U.S. economy to perform at a 'F' grade.



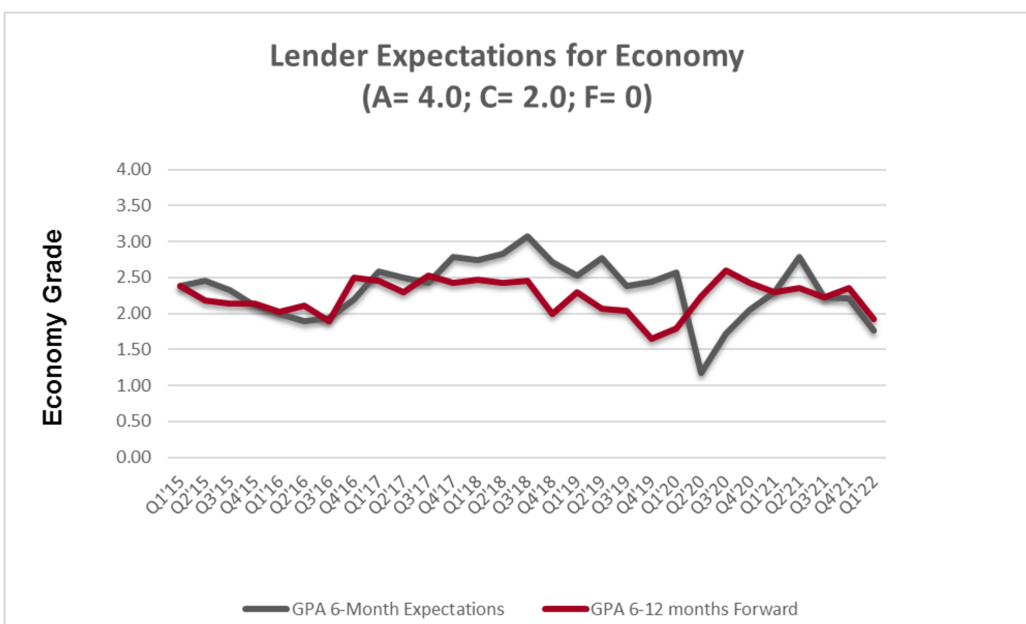
** Rate of Change of 1.0 is at equilibrium and signifies "no change" from the corresponding prior period of comparison.*

Lenders' growth expectations for the U.S. economy beyond six months also significantly decreased this quarter to a 1.92 GPA from 2.36 the previous quarter. 54% of lenders believe the economy will perform at a 'C' level in the next six to twelve months. The percent of lenders (23%) that believe the economy will perform at a 'B' level decreased 13-percentage points from Q4 2021. Eight percent of lenders believe the economy will perform at a 'F' 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 gradually enter Q1/22, it seems lenders are pessimistic about both the U.S. economy in the near and long term.



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1st Quarter 2022
Survey Results

(Survey results were tabulated on March 1st, 2022)

1. Due to the current labor shortage, the majority of lenders believe companies need to entice workers with higher pay and benefits.

Lenders were asked: Do you think, in order to help alleviate the supply chain constraints affecting the country, certain industries, like trucking, will have to enact large pay increases to entice workers to rejoin that labor market?

Yes - Certain industries have been greatly affected by labor shortages due to the new "remote opportunities" at competitive pay. In order to bring back workers to jobs like trucking, companies will need to entice them through higher pay and benefits.	100%
No - The labor shortage will rebound once the country returns to its pre-pandemic climate.	0%

2. The majority of lenders state higher raw material prices as the biggest driver for their customer's compressing margins.

Lenders were asked: What is the biggest driver of your customer's compressing margins?

Higher raw material prices	43%
Freight challenges	29%
Labor shortages	28%
Using higher-priced substitute or alternative raw materials (due to sourcing challenges)	0%

3. The majority of lenders expect geopolitical tensions & higher interest rates to be the biggest economic headwind for 2022.

Lenders were asked: What is the biggest economic headwind for 2022?

Geopolitical tensions	50%
Higher interest rates	50%
Higher corporate taxes	0%
Omicron	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	4Q 2021	1Q 2022
Greater than 3.5x	35%	36%
0Between 3.01x and 3.50x	29%	14%
Between 2.51x and 3.00x	0%	0%
Between 2.01x and 2.50x	0%	0%
Less than 2.0x	0%	7%
Collateral lenders	36%	43%
N/A	0%	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	4Q 2021	1Q 2022
Increase greater than 0.5x	0%	0%
Increase less than 0.5x	7%	7%
Decrease less than 0.5x	7%	0%
Decrease greater than 0.5x	0%	14%
No change	50%	36%
Collateral lenders	36%	43%
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	4Q 2021	1Q 2022
Unstable Energy Prices	71%	71%
Stability of Stock Market	7%	64%
Other	36%	50%
Sluggish Housing Market	43%	7%
Constrained Liquidity in Capital Markets	7%	7%
U.S. Budget Deficit	36%	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 three industries.

Industries Experiencing Most Volatility	4Q 2021	1Q 2022
Manufacturing	36%	57%
Retail Trade	64%	50%
Construction	14%	29%
Mining	14%	29%
Transportation & Warehousing	14%	29%
Real Estate & Rental/Leasing	14%	29%

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.

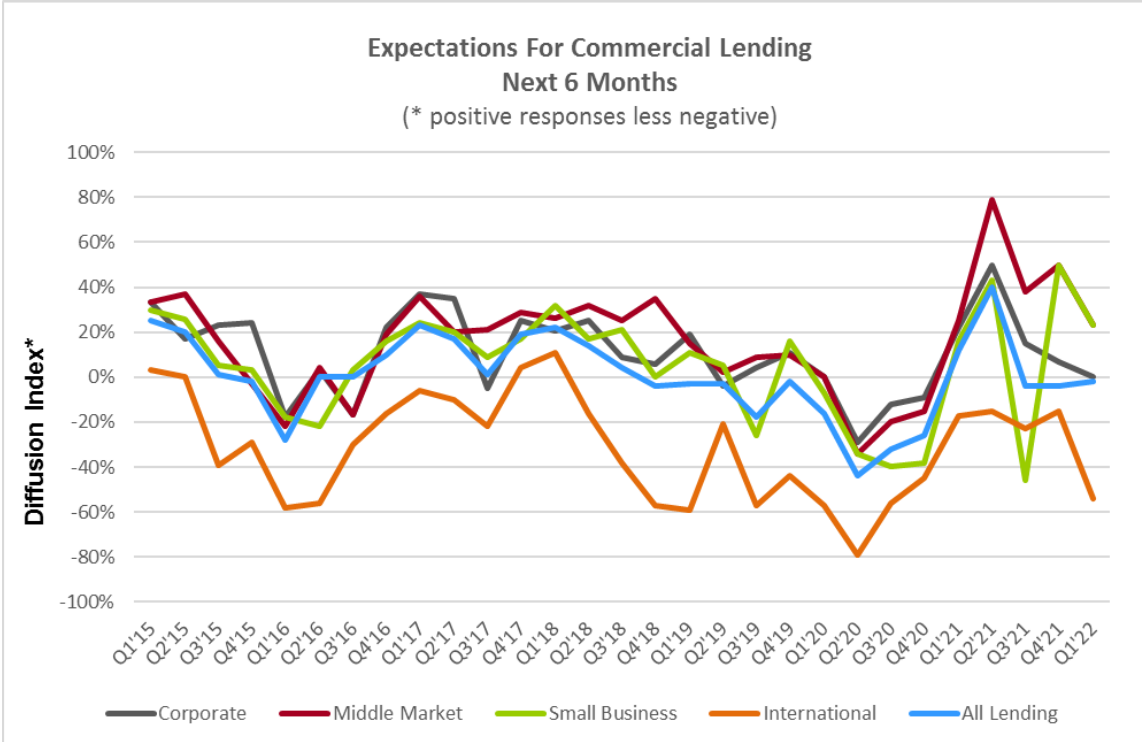
Customers' Plans	4Q 2021	1Q 2022
Hiring New Employees	79%	79%
Raising Additional Capital	29%	71%
Capital Improvements	50%	57%
Making an Acquisition	71%	36%
Introducing New Products or Services	29%	21%
Entering New Markets	14%	21%
"Other" Initiatives	0%	0%

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 Q1 2022, lenders optimism decreased in large corporate (0%), middle market (23%), small business lending (23%), and international lending (-54%).

	4Q/2021					1Q/2022			
	Up	Down	Same	Diffusion Index		Up	Down	Same	Diffusion Index
Corporate Lending	14%	7%	79%	7%	Corporate Lending	31%	31%	38%	0%
Middle Market Lending	50%	0%	50%	50%	Middle Market Lending	46%	23%	31%	23%
Small Business Lending	57%	7%	36%	50%	Small Business Lending	54%	31%	15%	23%
International Lending	14%	29%	57%	-15%	International Lending	8%	62%	30%	-54%



- In Q1 2022, there was an increase in the bankruptcies diffusion index from 22% in Q4 2021 to 69%. The unemployment diffusion index increased to 0% in Q1 2022 compared to -36% in Q4 2021. In addition, the loan losses diffusion index increased to 62% in Q1 2022, and the bank failures diffusion index increased from -29% in Q1 2022 to 0%.

	4Q/2021					1Q/2022			
	Up	Down	Same	Diffusion Index		Up	Down	Same	Diffusion Index
Loan Losses	29%	21%	50%	8%	Loan Losses	62%	0%	38%	62%
Bankruptcies	36%	14%	50%	22%	Bankruptcies	69%	0%	31%	69%
Interest Rates	64%	7%	29%	57%	Interest Rates	100%	0%	0%	100%
Unemployment	7%	43%	50%	-36%	Unemployment	15%	15%	70%	0%
Bank Failures	0%	29%	71%	-29%	Bank Failures	8%	8%	84%	0%

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 decreased 44 points this quarter from 2.21 in Q4 2021 to 1.77 in Q1 2022. In this current quarter, the majority of lenders (69%) believe the economy will perform at a "C" level during the next six months. This represents an increase of 19 points from the previous quarter. Of the lenders surveyed, 15% believe the economy will perform at a "D" level, while 8% believe the economy will perform at "B" level.

Grade	4Q/2021	1Q/2022
A	0%	0%
B	36%	8%
C	50%	69%
D	14%	15%
F	0%	8%
Weighted Average Grade	2.21	1.77

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 from the prior quarter. The weighted average GPA decreased 44 points from a 2.36 in Q4 2021 to 1.92 in Q1 2022. Of the lenders surveyed, 54% feel as though the U.S. economy will perform at a "C" level beyond the next six months, while 23% expect the economy to perform at a "B" level, a decrease of 13 percentage points from Q4 2021. In addition, the lenders (8%) who believe the economy will perform at a "F" over the next twelve months increased.

Grade	4Q/2021	1Q/2022
A	7%	0%
B	36%	23%
C	43%	54%
D	14%	15%
F	0%	8%
Weighted Average Grade	2.36	1.92

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 remained unchanged at 79%. In Q1 2022, there was a decrease in the percentage of lenders that ascribed to strong growth (7%) and no growth (14%).

Indication	4Q/2021	1Q/2022
Very Strong	0%	0%
Strong	21%	7%
Moderate	79%	79%
No Growth	0%	14%

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 (61%) plan to maintain their current loan structure. In Q1 2022, 34% of lenders plan to tighten their loan structure and 5% plan to relax their loan structure.

	4Q/2021			1Q/2022		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $25 million	8%	75%	17%	36%	55%	9%
$15 – 25 million	0%	100%	0%	27%	73%	0%
$5-15 million	0%	100%	0%	36%	64%	0%
Under $5 million	8%	92%	0%	36%	55%	9%
Overall Average	4%	92%	4%	34%	61%	5%

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 (80%) plan to maintain their interest rate spreads and fee structures. In Q1 2022, the percentage of lenders that plan to increase their interest rate spreads decreased to 9%, and 11% plan to reduce their interest rate spreads.

	4Q/2021			1Q/2022		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans > $25 million	17%	83%	0%	18%	82%	0%
$15 – 25	8%	75%	17%	18%	82%	0%
$5-15 million	0%	75%	25%	9%	73%	18%
Under $5 million	7%	71%	21%	0%	83%	17%
Overall Average	8%	76%	16%	11%	80%	9%

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.

93% of respondents in Q1 2022 believe the Fed will increase interest rates by + 1/2 point or more. Of the lenders surveyed, 7% of respondents favor an increase of -1/2 points or more.

Bps Change	4Q/2021	1Q/2022
+ 1/2 point or more	36%	93%
+ 1/4 point	28%	0%
Unchanged	36%	0%
- 1/4 point	0%	0%
- 1/2 point or more	0%	7%
Weighted Average	0.27 bps	0.64bps

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. place at the top of the survey, garnering 69% of responses. Local Community/Commercial Bank saw a decrease with 15% of respondents, and Money Center Banks saw a decrease of respondents with 8% in Q1 2022.

	4Q/2021	1Q/2022
Regional Bank	42%	38%
Commercial Finance Co.	17%	31%
Local Community/Commercial Bank	25%	15%
Money Center Banks	17%	8%
Other	0%	8%
Factors	0%	0%