Phoenix Management Services
"Lending Climate in America" Survey

PHOENIX
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2nd Quarter 2022
Summary, Trends, and Implications

PHOENIX
"LENDING CLIMATE IN AMERICA"
2nd Quarter 2022

SUMMARY, TRENDS AND IMPLICATIONS

(Survey results were tabulated on May 6th, 2022)

1. **What is the greatest risk to the U.S. economy??**

   When asked, what risks have the greatest potential to impact the U.S. economy, the majority of lenders (56%) believe supply chain disruptions is the greatest risk to the U.S. economy. Of the lenders surveyed 22% believe federal reserve policy is the greatest risk, while 17% believe rising interest rates is the greatest risk the to the U.S. economy.

2. **How are your customers responding to supply chain challenges?**

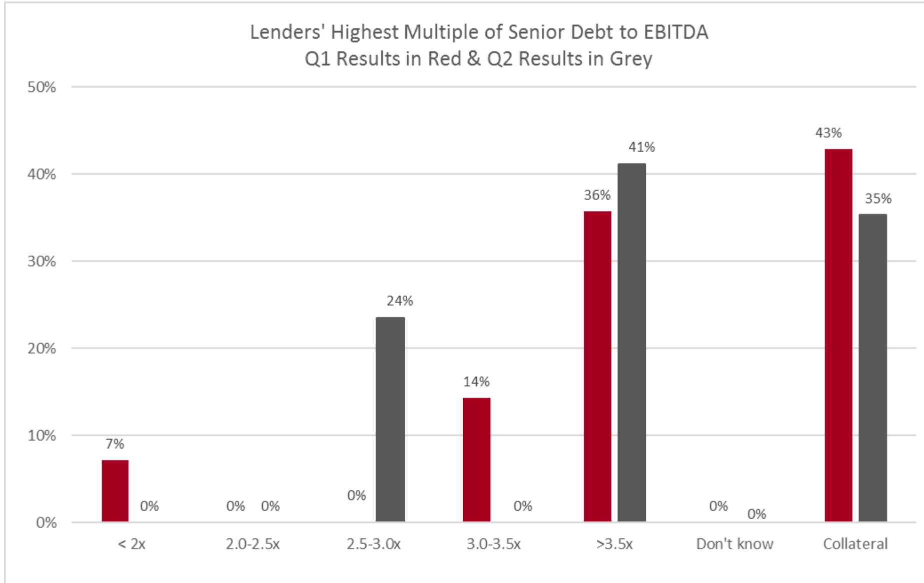
   Most lenders (44%) say their customers are responding to supply chain challenges through strategic stockpiling. Garnering the second highest number of responses are the lenders that state customers are responding to supply chain challenges by a) adding suppliers from new geographies (28%), and b) paying more to ensure timely delivery (28%).

3. **The impact of skyrocketing inflation on business is causing businesses to pass on the rising costs to the consumers. The consumer price index climbed 7.9% on an annual basis, according to data released March 31st by the Bureau of Labor Statistics. As farmers are experiencing huge cost hikes in everything from fertilizer to labor, consumers are experiencing these increased costs at the supermarket, where grocery prices leapt 8.6% in the last twelve months. Do we think we will start to see inflation level-off in the next few months?**

   Seventy-two percent of the lenders surveyed expect inflation to continue rising, which will cause further economic stress in the U.S. by forcing consumers to decide which goods and services are no longer worth buying. Twenty-eight percent of lenders think we will start to see inflation level off in the next few months

4. **Leverage multiples slightly shifted in Q2 2022.**

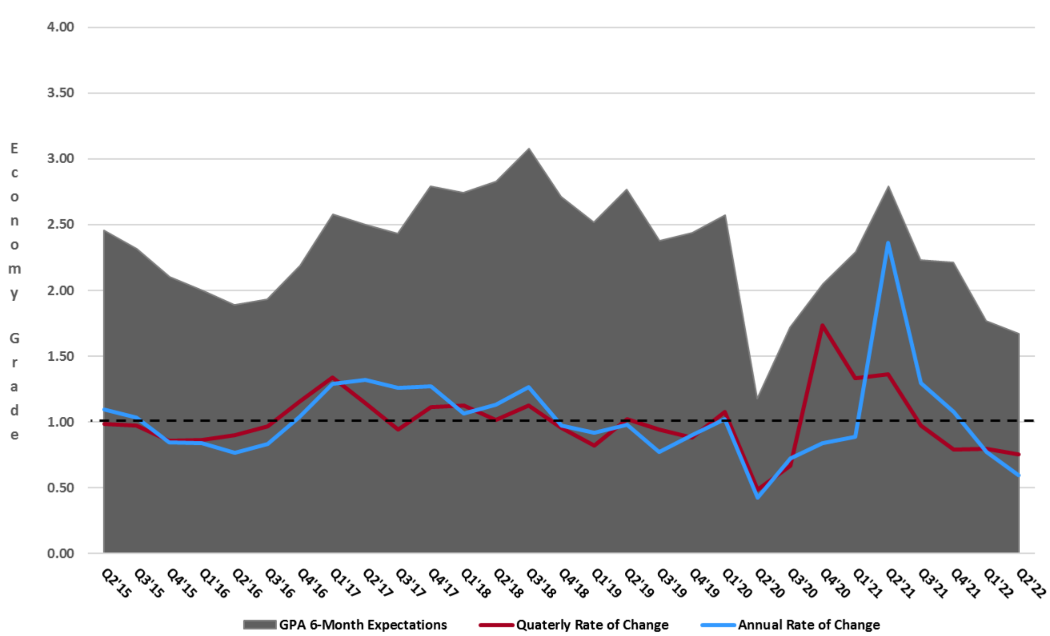
   Leverage multiples slightly shifted in Q2 2022 with 41% of lenders indicating that the >3.5x range would be the highest EBITDA ratio they would consider versus 36% in Q1 2022. The percentage of respondents who would consider a debt to EBITDA ratio of 2.5-3.0x increased to 24%. Thirty-five percent of 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.**

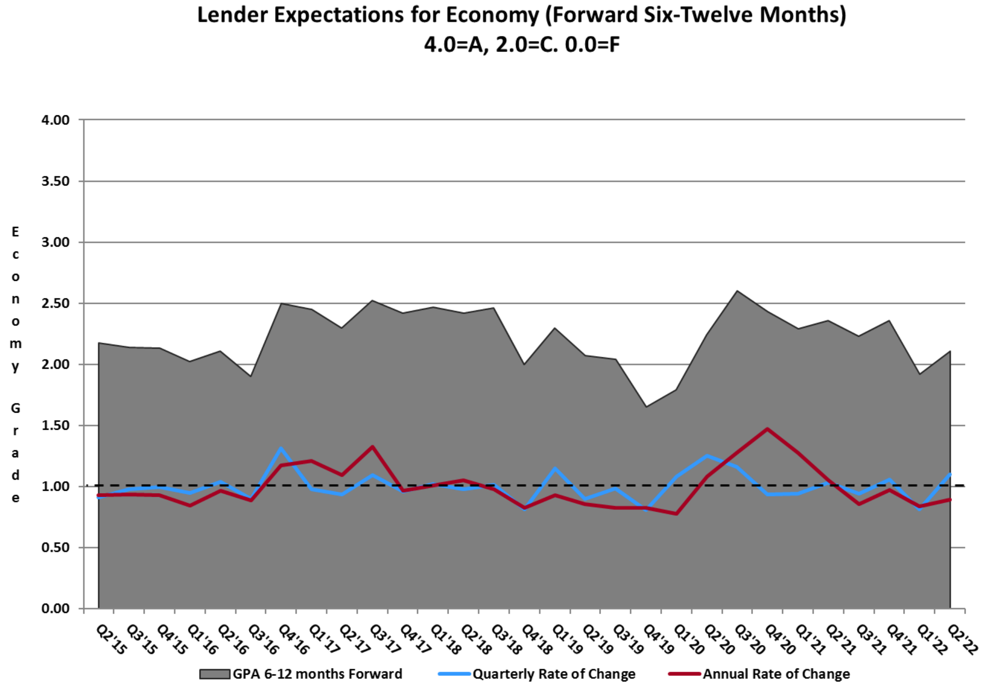
Lenders' optimism in the near-term U.S. economy slightly decreased 10-percentage points to a 1.67 GPA from 1.77 in Q1/22. In this current quarter, the majority of lenders (39%) believe the economy will perform at a "C" and "D" level during the next six months. Of the lenders surveyed, 17% believe the economy will perform at a "B" level, while 6% believe the economy will perform at "F" level

Lender Expectations for Economy (Forward Six Months)
4.0=A, 2.0=C. 0.0=F



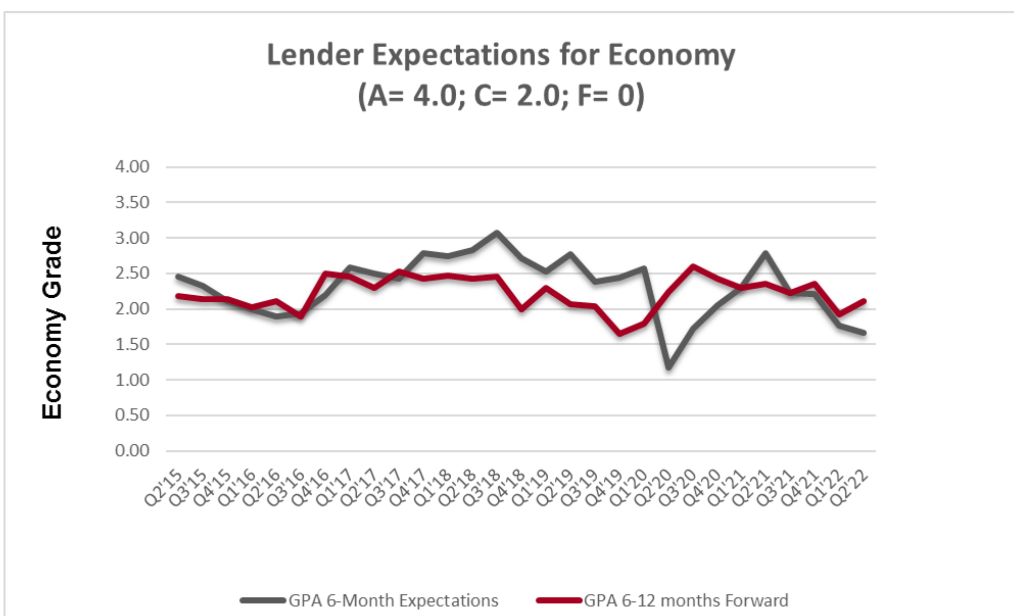
Rate of Change of 1.0 is at equilibrium and signifies "no change" from the corresponding prior period of comparison.

Lenders' growth expectations for the U.S. economy beyond six months increased this quarter to a 2.11 GPA from 1.92 the previous quarter. Of the lenders surveyed, 39% feel as though the U.S. economy will perform at a "B" level beyond the next six months, while 33% expect the economy to perform at a "C" level, a decrease of 21 percentage points from Q1 2022. In addition, the lenders (28%) who believe the economy will perform at a "D" over the next twelve months increased.



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

In Q2/22, it seems lenders are increasingly pessimistic about the U.S. economy in the near-term, however, are optimistic about the U.S. economy in the longer term.



Phoenix Management Services
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2nd Quarter 2022
Survey Results

(Survey results were tabulated on May 6th, 2022)

1. The majority of lenders believe supply chain disruption is the greatest risk to the U.S. economy.

Lenders were asked: What is the greatest risk to the U.S. economy??

Supply Chain Disruption	56%
Federal Reserve Policy	22%
Rising Interest Rates	17%
Tight Labor Markets	5%
Russia/Ukraine War	0%

2. The majority of lenders state their customers are responding to supply chain challenges through strategic stockpiling.

Lenders were asked: How are your customers responding to supply chain challenges?

Strategic Stockpiling	44%
Added suppliers from new geographies	28%
Paying more to ensure timely delivery	28%

3. The majority of lenders expect inflation to continue to rise which will cause further economic stress in the U.S.

Lenders were asked: The impact of skyrocketing inflation on business is causing businesses to pass on the rising costs to the consumers. The consumer price index climbed 7.9% on an annual basis, according to data released March 31st by the Bureau of Labor Statistics. As farmers are experiencing huge cost hikes in everything from fertilizer to labor, consumers are experiencing these increased costs at the supermarket, where grocery prices leapt 8.6% in the last twelve months. Do we think we will start to see inflation level-off in the next few months?

No: inflation will continue to rise. Surging gas, food, and housing prices will continue to force consumers to decide which goods/service are no longer worth buying...which will cause further economic stress in the U.S.	72%
Yes: the government will need to undertake policy actions to curb rising inflation, including additional interest rate hikes.	28%

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	1Q 2022	2Q 2022
Greater than 3.5x	36%	41%
0Between 3.01x and 3.50x	14%	0%
Between 2.51x and 3.00x	0%	24%
Between 2.01x and 2.50x	0%	0%
Less than 2.0x	7%	0%
Collateral lenders	43%	35%
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	1Q 2021	2Q 2022
Increase greater than 0.5x	0%	6%
Increase less than 0.5x	7%	6%
Decrease less than 0.5x	7%	11%
Decrease greater than 0.5x	0%	0%
No change	50%	44%
Collateral lenders	36%	22%
N/A	0%	11%

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	1Q 2022	2Q 2022
Unstable Energy Prices	71%	65%
Constrained Liquidity in Capital Markets	7%	41%
Stability of Stock Market	64%	35%
Other	50%	29%
U.S. Budget Deficit	0%	24%
Sluggish Housing Market	7%	7%

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	1Q 2022	2Q 2022
Manufacturing	57%	61%
Real Estate & Rental/Leasing	14%	44%
Accommodation & Food Service	21%	39%
Retail Trade	50%	39%
Mining	29%	39%
Transportation & Warehousing	29%	22%
Construction	29%	17%

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	1Q 2022	2Q 2022
Hiring New Employees	79%	72%
Raising Additional Capital	71%	67%
Capital Improvements	57%	44%
Introducing New Products or Services	21%	44%
Making an Acquisition	36%	39%
Entering New Markets	21%	28%
"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.

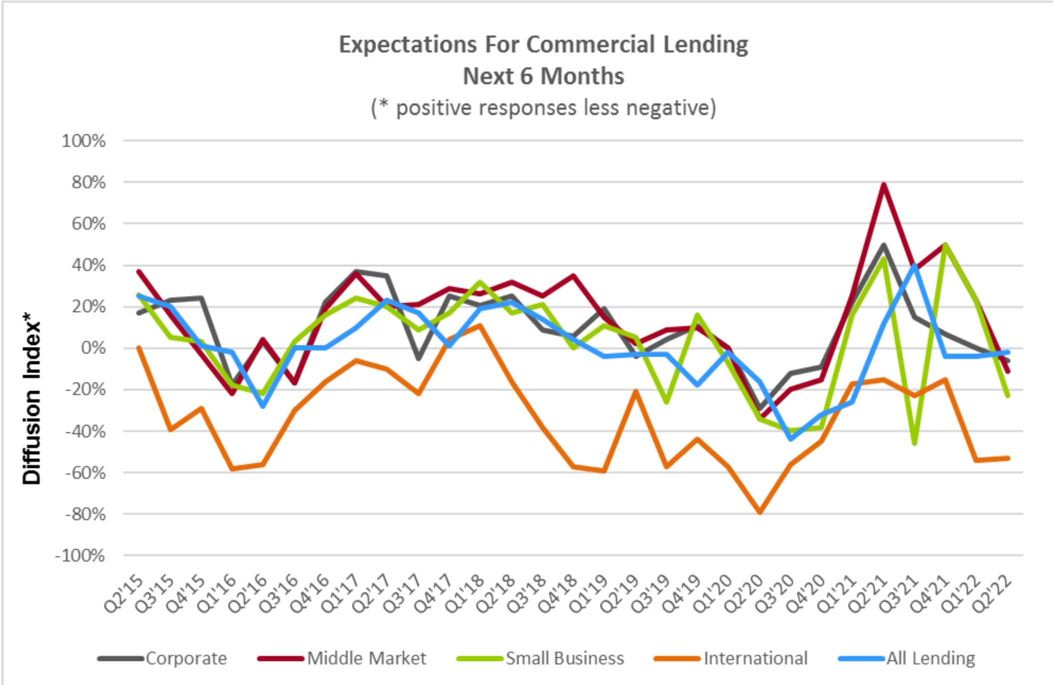
- In Q2 2022, lenders optimism continued to decrease in large corporate (-6%), middle market (-11%), and small business lending (-23%).

1Q/2022

	Up	Down	Same	Diffusion Index
Corporate Lending	31%	31%	38%	0%
Middle Market Lending	46%	23%	31%	23%
Small Business Lending	54%	31%	15%	23%
International Lending	8%	62%	30%	-54%

2Q/2022

	Up	Down	Same	Diffusion Index
Corporate Lending	22%	28%	50%	-6%
Middle Market Lending	18%	29%	53%	-11%
Small Business Lending	12%	35%	53%	-23%
International Lending	0%	53%	47%	-53%



- In Q2 2022, there was an increase in the bankruptcies diffusion index from 69% in Q1 2022 to 71%. The unemployment diffusion index increased to 18% in Q21 2022 compared to 0% in Q1 2022. In addition, the loan losses diffusion index increased to 71% in Q2 2022, and the bank failures diffusion index increased from 6% in Q2 2022.

	1Q/2022					2Q/2022			
	Up	Down	Same	Diffusion Index		Up	Down	Same	Diffusion Index
Loan Losses	62%	0%	38%	62%	Loan Losses	71%	0%	29%	71%
Bankruptcies	69%	0%	31%	69%	Bankruptcies	71%	0%	29%	71%
Interest Rates	100%	0%	0%	100%	Interest Rates	100%	0%	0%	100%
Unemployment	15%	15%	70%	0%	Unemployment	24%	6%	70%	18%
Bank Failures	8%	8%	84%	0%	Bank Failures	6%	0%	94%	6%

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 10 points this quarter from 1.77 in Q1 2022 to 1.67 in Q2 2022. In this current quarter, the majority of lenders (39%) believe the economy will perform at a “C” or “D” level during the next six months. Of the lenders surveyed, 17% believe the economy will perform at a “B” level, while 6% believe the economy will perform at “F” level.

Grade	1Q/2022	2Q/2022
A	0%	0%
B	8%	17%
C	69%	39%
D	15%	39%
F	8%	6%
Weighted Average Grade	1.77	1.67

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 increased from the prior quarter. The weighted average GPA increased 19 points from a 1.92 in Q1 2022 to 2.11 in Q2 2022. Of the lenders surveyed, 39% feel as though the U.S. economy will perform at a "B" level beyond the next six months, while 33% expect the economy to perform at a "C" level, a decrease of 21 percentage points from Q1 2022. In addition, the lenders (28%) who believe the economy will perform at a "D" over the next twelve months increased.

Grade	1Q/2022	2Q/2022
A	0%	0%
B	23%	39%
C	54%	33%
D	15%	28%
F	8%	0%
Weighted Average Grade	1.92	2.11

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 decreased 18 percentage points to 61%. In Q2 2022, there was an increase in the percentage of lenders that ascribed to strong growth (22%) and no growth (17%).

Indication	1Q/2022	2Q/2022
Very Strong	0%	0%
Strong	7%	22%
Moderate	79%	61%
No Growth	14%	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.

Many lenders (66%) plan to maintain their current loan structure. In Q2 2022, 34% of lenders plan to tighten their loan structure and 0% plan to relax their loan structure.

	1Q/2022			2Q/2022		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $25 million	36%	55%	9%	29%	71%	0%
$15 – 25 million	27%	73%	0%	44%	56%	0%
$5-15 million	36%	64%	0%	38%	63%	0%
Under $5 million	36%	55%	9%	27%	73%	0%
Overall Average	34%	61%	5%	34%	66%	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 (73%) plan to maintain their interest rate spreads and fee structures. In Q2 2022, the percentage of lenders that plan to increase their interest rate spreads increased to 22%, and 5% plan to reduce their interest rate spreads.

	1Q/2022			2Q/2022		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans > $25 million	18%	82%	0%	12%	82%	6%
$15 – 25	18%	82%	0%	6%	69%	25%
$5-15 million	9%	73%	18%	0%	69%	31%
Under $5 million	0%	83%	17%	0%	73%	27%
Overall Average	11%	80%	9%	5%	73%	22%

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.

100% of respondents in Q2 2022 believe the Fed will increase interest rates by + 1/2 point or more.

Bps Change	1Q/2022	2Q/2022
+ 1/2 point or more	93%	100%
+ 1/4 point	0%	0%
Unchanged	0%	0%
- 1/4 point	0%	0%
- 1/2 point or more	7%	0%
Weighted Average	0.64bps	0.90bps

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 75% of responses. Local Community/Commercial Bank saw a decrease with 6% of respondents, and Money Center Banks saw an increase of respondents with 19% in Q2 2022.

	1Q/2022	2Q/2022
Regional Bank	38%	44%
Commercial Finance Co.	31%	31%
Money Center Banks	8%	19%
Local Community/Commercial Bank	15%	6%
Other	8%	0%
Factors	0%	0%