Phoenix Management Services
"Lending Climate in America" Survey

PHOENIX

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3rd Quarter 2022
Summary, Trends, and Implications

PHOENIX
"LENDING CLIMATE IN AMERICA"
3rd Quarter 2022

SUMMARY, TRENDS AND IMPLICATIONS

(Survey results were tabulated on September 29th, 2022)

1. **Regarding inventory, what do you expect will challenge borrowers most in the next 6 months?**

   Half of the lenders (50%) expect too much inventory on hand will result in disposing inventory at reduced margins, creating challenges for borrowers in the next six months. However, the other half of lenders believe there will not be enough inventory due to global supply chain issues (42%), or there will be an adequate supply (8%).

2. **Which single factor is most driving the softening global economic conditions?**

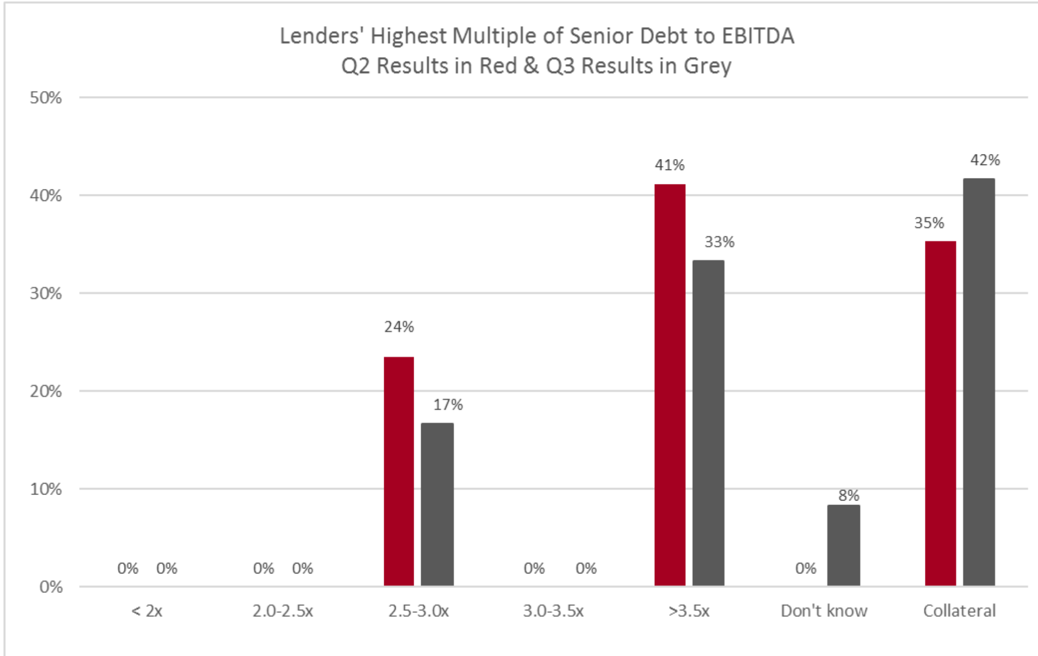
   When asked what single factor is most driving the softening global economic conditions, the majority of lenders, 75%, believe inflation is the greatest factor. Garnering the second highest number of responses, 17%, were the lenders that believe that global supply chain issues is the greatest factor, while 8% believe the war in Ukraine is the greatest factor driving the softening global economic conditions.

3. **Inflation remains high causing great stress to households. Due to inflation, consumers have increased their shopping at dollar stores and "value stores", spending their money on necessities rather than discretionary items, including apparel and electronics. As it does not appear there will be any "cooling" to the current inflation environment, how do you think consumer spending will trend as we enter the holiday shopping season this year?**

   Eighty-three percent of lenders 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. 17% of lenders think consumer spending on discretionary items will be strong.

4. **Leverage multiples slightly shifted in Q3 2022.**

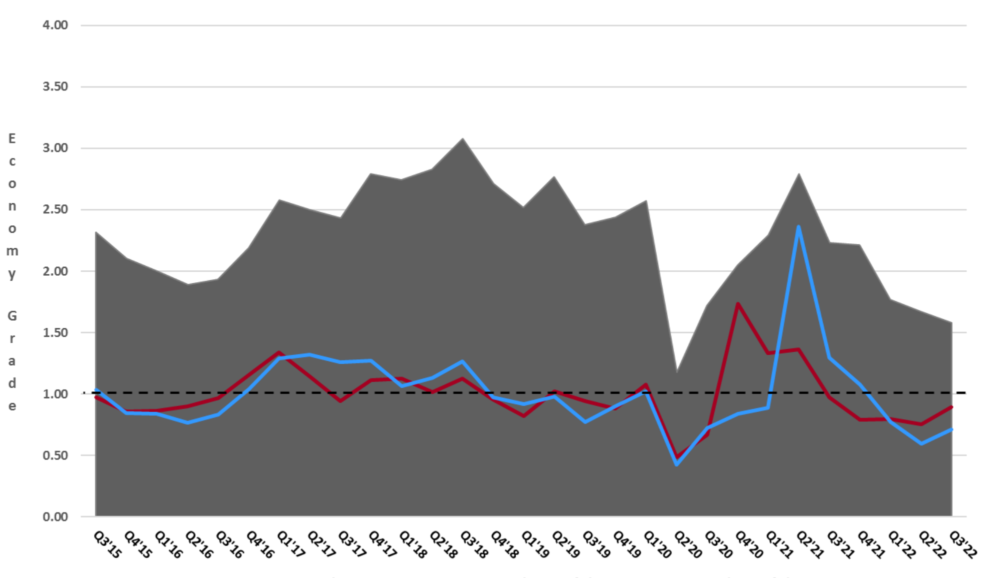
   Leverage multiples slightly shifted in Q3 2022 with 33% of lenders indicating that the >3.5x range would be the highest EBITDA ratio they would consider versus 41% in Q2 2022. The percentage of respondents who would consider a debt to EBITDA ratio of 2.5-3.0x decreased to 17%. Forty-two percent of lenders 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.

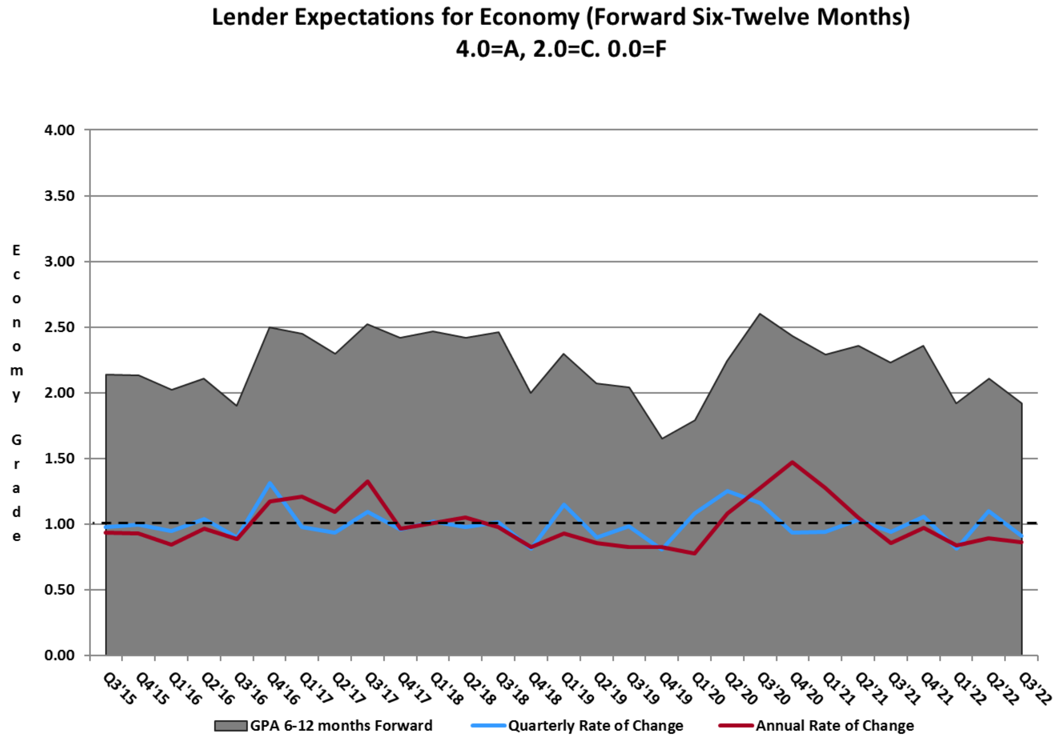
Lenders' optimism in the near-term U.S. economy slightly decreased by 9 points this quarter from 1.67 in Q2 2022 to 1.58 in Q3 2022. In this current quarter, the majority of lenders (42%) believe the economy will perform at a "D" level during the next six months. Of the lenders surveyed, 33% believe the economy will perform at a "C" level, while 17% believe the economy will perform at "B" level.

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



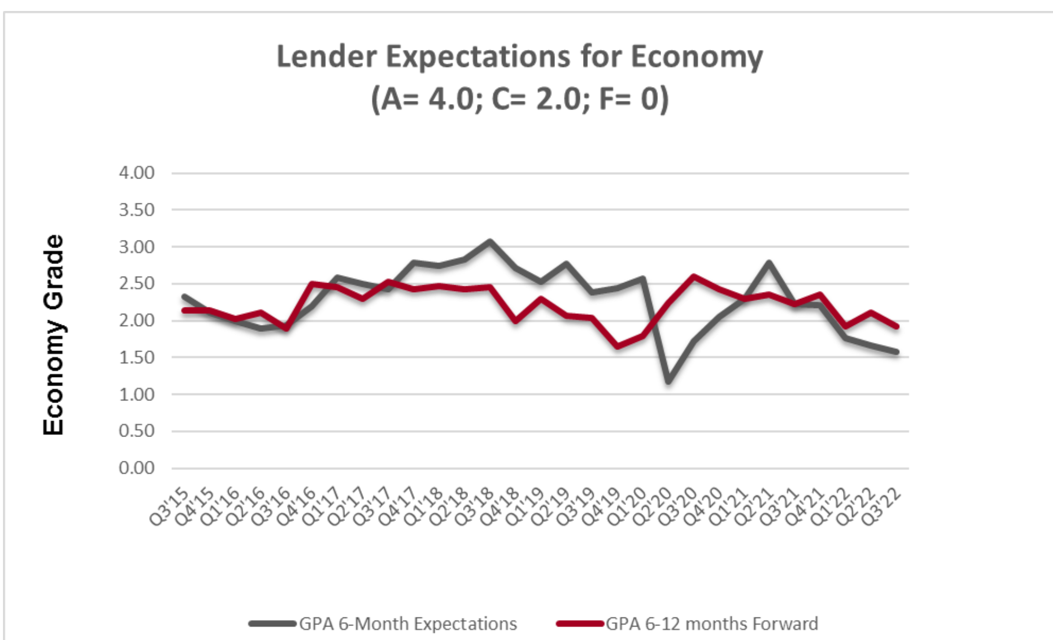
***** *Rate of Change of 1.0 is at equilibrium and signifies "no change" from the corresponding prior period of comparison.*

Lenders' growth expectations for the U.S. economy beyond six months also decreased from the prior quarter. The weighted average GPA decreased 19 points from a 2.11 in Q2 2022 to 1.92 in Q3 2022. Of the lenders surveyed, 58% feel as though the U.S. economy will perform at a "C" level beyond the next six months, while 17% expect the economy to perform at a "B" level, a decrease of 22 percentage points from Q2 2022. In addition, the lenders (25%) who believe the economy will perform at a "D" over the next twelve months decreased.



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

In Q3/22, it seems lenders are becoming increasingly pessimistic about the U.S. economy in both the near and longer-term.



Phoenix Management Services
“Lending Climate in America”
3rd Quarter 2022
Survey Results

(Survey results were tabulated on September 29th, 2022)

1. The majority of lenders expect too much inventory on hand will result in disposing inventory at reduced margins.

Lenders were asked: Regarding inventory, what do you expect will challenge borrowers most in the next 6 months?

Too much inventory on hand will result in disposing inventory at reduced margins	50%
Not enough inventory on hand due to supply chain challenges	42%
Adequate inventory on hand	8%

2. The majority of lenders believe inflation is the factor driving the softening global economic conditions.

Lenders were asked: Which single factor is most driving the softening global economic conditions?

Inflation	75%
Global supply chain issues	17%
War in Ukraine	8%
Central bank tightening	0%

3. The majority of lenders think consumer spending on discretionary items may be depressed.

Lenders were asked: Inflation remains high causing great stress to households. Due to the inflation, consumers have increased their shopping at dollar stores and “value stores”, spending their money on necessities rather than discretionary items, including apparel and electronics. As it does not appear there will be any “cooling” to the current inflation environment, how do you think consumer spending will trend as we enter the holiday shopping season this year?

Consumer spending on discretionary items may be depressed	83%
Consumer spending on discretionary items will be strong	17%

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 2022	3Q 2022
Greater than 3.5x	41%	33%
Between 3.01x and 3.50x	0%	0%
Between 2.51x and 3.00x	24%	17%
Between 2.01x and 2.50x	0%	0%
Less than 2.0x	0%	0%
Collateral lenders	35%	42%
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 2022	3Q 2022
Increase greater than 0.5x	6%	0%
Increase less than 0.5x	6%	0%
Decrease less than 0.5x	11%	17%
Decrease greater than 0.5x	0%	0%
No change	44%	33%
Collateral lenders	22%	8%
N/A	11%	42%

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	2Q 2022	3Q 2022
Unstable Energy Prices	65%	58%
Other	29%	42%
Stability of Stock Market	35%	33%
Constrained Liquidity in Capital Markets	41%	25%
U.S. Budget Deficit	24%	25%
Sluggish Housing Market	7%	17%

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	2Q 2022	3Q 2022
Retail Trade	39%	75%
Construction	17%	42%

Transportation & Warehousing	22%	33%
Real Estate & Rental/Leasing	44%	33%
Accommodation & Food Service	39%	33%
Mining	39%	25%
Manufacturing	61%	25%

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.

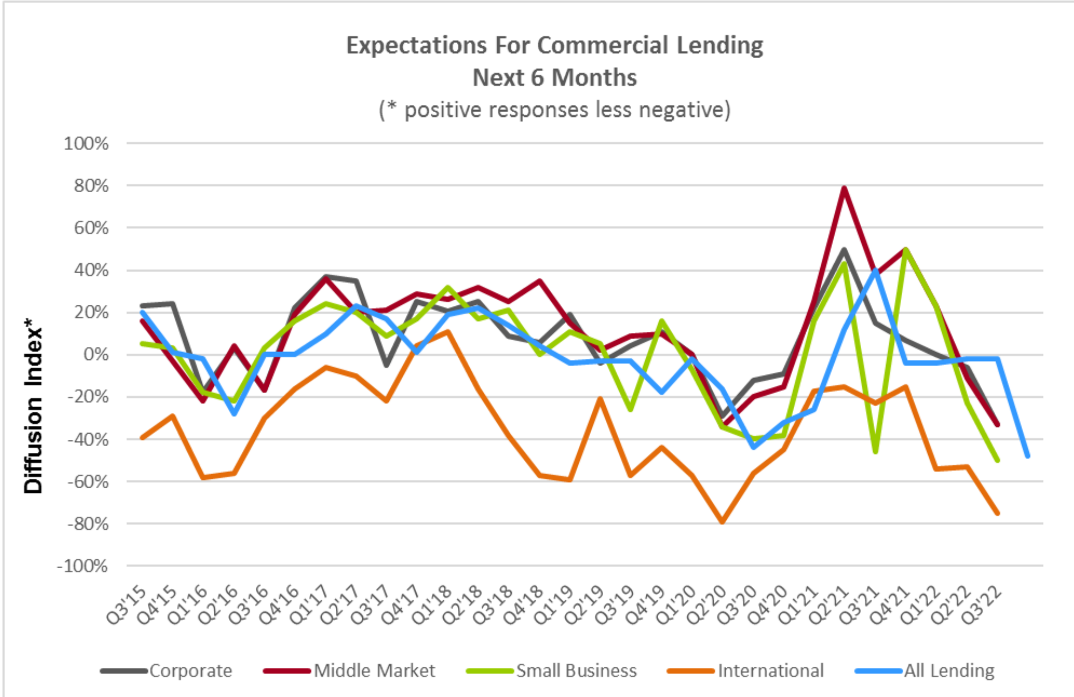
Customers' Plans	2Q 2022	3Q 2022
Hiring New Employees	72%	55%
Introducing New Products or Services	44%	45%
Raising Additional Capital	67%	36%
Capital Improvements	44%	36%
Making an Acquisition	39%	36%
Entering New Markets	28%	18%
"Other" Initiatives	0%	18%

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 2022, lenders optimism continued to decrease in large corporate (-33%), middle market (-33%), and small business lending (-50%).

	2Q/2022					3Q/2022			
	Up	Down	Same	Diffusion Index		Up	Down	Same	Diffusion Index
Corporate Lending	22%	28%	50%	-6%	Corporate Lending	17%	50%	33%	-33%
Middle Market Lending	18%	29%	53%	-11%	Middle Market Lending	17%	50%	33%	-33%
Small Business Lending	12%	35%	53%	-23%	Small Business Lending	0%	50%	50%	-50%
International Lending	0%	53%	47%	-53%	International Lending	0%	75%	25%	-75%



- In Q3 2022, there was an increase in the bankruptcies diffusion index from 71% in Q2 2022 to 83%. The unemployment diffusion index increased to 58% in Q3 2022 compared to 18% in Q2 2022. In addition, the loan losses diffusion index increased to 92% in Q3 2022, and the bank failures diffusion index increased to 17% in Q3 2022.

2Q/2022

	Up	Down	Same	Diffusion Index
Loan Losses	71%	0%	29%	71%
Bankruptcies	71%	0%	29%	71%
Interest Rates	100%	0%	0%	100%
Unemployment	24%	6%	70%	18%
Bank Failures	6%	0%	94%	6%

3Q/2022

	Up	Down	Same	Diffusion Index
Loan Losses	92%	0%	8%	92%
Bankruptcies	83%	0%	17%	83%
Interest Rates	83%	8%	8%	75%
Unemployment	58%	0%	42%	58%
Bank Failures	17%	0%	83%	17%

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 9 points this quarter from 1.67 in Q2 2022 to 1.58 in Q3 2022. In this current quarter, the majority of lenders (42%) believe the economy will perform at a "D" level during the next six months. Of the lenders surveyed, 33% believe the economy will perform at a "C" level, while 17% believe the economy will perform at "B" level.

Grade	2Q/2022	3Q/2022
A	0%	0%
B	17%	17%
C	39%	33%
D	39%	42%
F	6%	8%
Weighted Average Grade	1.67	1.58

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 19 points from a 2.11 in Q2 2022 to 1.92 in Q3 2022. Of the lenders surveyed, 58% feel as though the U.S. economy will perform at a "C" level beyond the next six months, while 17% expect the economy to perform at a "B" level, a decrease of 22 percentage points from Q2 2022. In addition, the lenders (25%) who believe the economy will perform at a "D" over the next twelve months decreased.

Grade	2Q/2022	3Q/2022
A	0%	0%
B	39%	17%
C	33%	58%
D	28%	25%
F	0%	0%
Weighted Average Grade	2.11	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 decreased 11 percentage points to 50%. In Q3 2022, there was a decrease in the percentage of lenders that ascribed to strong growth (8%). Thirty-three percent of lenders ascribed to no growth.

Indication	2Q/2022	3Q/2022
Very Strong	0%	8%
Strong	22%	8%
Moderate	61%	50%
No Growth	17%	33%

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 (49%) plan to maintain their current loan structure. In Q3 2022, 46% of lenders plan to tighten their loan structure and 5% plan to relax their loan structure.

	2Q/2022			3Q/2022		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $25 million	29%	71%	0%	36%	64%	0%
$15 – 25 million	44%	56%	0%	45%	55%	0%
$5-15 million	38%	63%	0%	40%	50%	10%
Under $5 million	27%	73%	0%	64%	27%	9%
Overall Average	34%	66%	0%	46%	49%	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 (78%) plan to maintain their interest rate spreads and fee structures. In Q3 2022, the percentage of lenders that plan to increase their interest rate spreads remained unchanged and 0% plan to reduce their interest rate spreads.

	2Q/2022			3Q/2022		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans > $25 million	12%	82%	6%	0%	82%	18%
$15 – 25	6%	69%	25%	0%	80%	20%
$5-15 million	0%	69%	31%	0%	70%	30%
Under $5 million	0%	73%	27%	0%	82%	18%
Overall Average	5%	73%	22%	0%	78%	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.

84% of respondents in Q3 2022 believe the Fed will increase interest rates by + 1/2 point or more.

Bps Change	2Q/2022	3Q/2022
+ 1/2 point or more	100%	84%
+ 1/4 point	0%	0%
Unchanged	0%	8%
- 1/4 point	0%	0%
- 1/2 point or more	0%	8%
Weighted Average	0.90bps	0.85bps

16. Current Competition

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

- Regional Banks place at the top of the survey, garnering 33% of responses. Commercial Finance Co. and Local Community/Commercial Bank garner the 2nd highest amount of responses with 25% of respondents, and Money Center Banks saw a decrease of respondents with 8% in Q3 2022.

	2Q/2022	3Q/2022
Regional Bank	44%	33%
Commercial Finance Co.	31%	25%
Local Community/Commercial Bank	6%	25%
Money Center Banks	19%	8%
Other	0%	8%
Factors	0%	0%