

## Definition

Companies with annual revenues between \$10 mm - \$1 bn



Lower middle market  
**\$10MM - \$50MM**



Core Middle Market  
**\$50MM - \$100MM**



Upper Middle Market  
**\$100MM - \$1BN**

Source: National Center for Middle Market

## Growth in Middle Market

### Revenue Growth



S&P 500

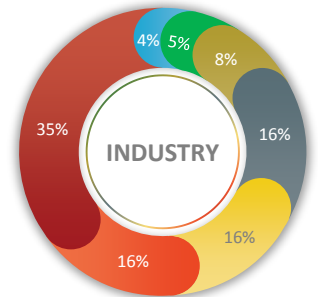


### Employment Growth



Source: National Center for Middle Market; Note: 1) 2Q numbers include only companies who have reported 2Q earnings results

## Middle Market Breakup by Industry - 2016

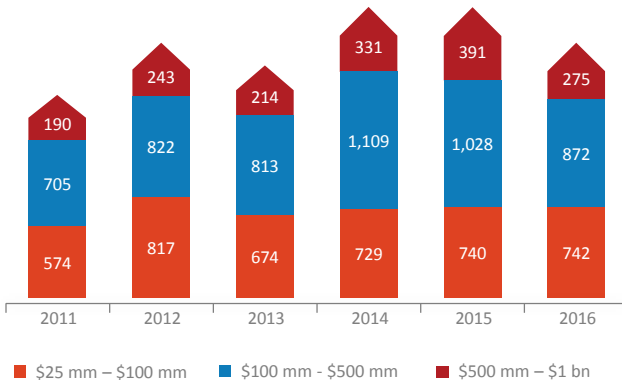


- Business Products and Services (B2B)
- Healthcare
- Financial Services
- Materials & Resources
- Consumer Products and Services (B2C)
- Information Technology
- Energy

Source: Brown Gibbons Lang & Company, PitchBook

## Middle Market Deal Flow

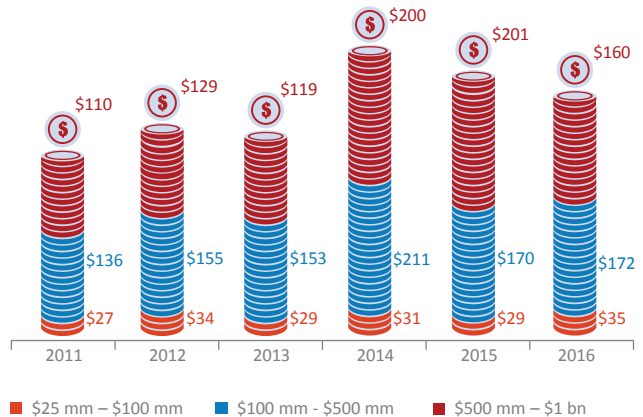
(Number of Transactions)



Source: Brown Gibbons Lang & Company, PitchBook

## Middle Market Capital Investment

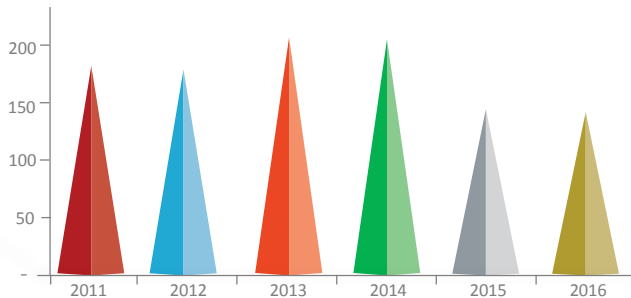
(\$ Billions)



Source: Brown Gibbons Lang & Company, PitchBook

## US Middle Market Loan Volume<sup>2</sup>

(\$ Billions)

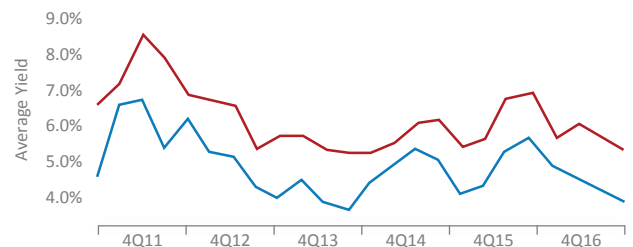


<sup>2</sup> Deal Size <= \$500M

Source: Latham & Watkins, Thomson Reuters LPC

## Institutional Loan Yields

— Large Corporate Market — Middle Market



Source: Latham & Watkins, Thomson Reuters LPC

## Middle Market Loan Characteristics

### Attractive Risk Adjusted Returns

Directly originated middle market senior secured floating rate debt typically offers a higher yield and lower debt / EBITDA profile than large corporate or Broadly Syndicated Loans

### Higher Recovery Rates

Middle market loans have experienced higher recovery rates and lower loss-given-default rates than large corporate loan market due to enhanced structural protections

### Lower Volatility

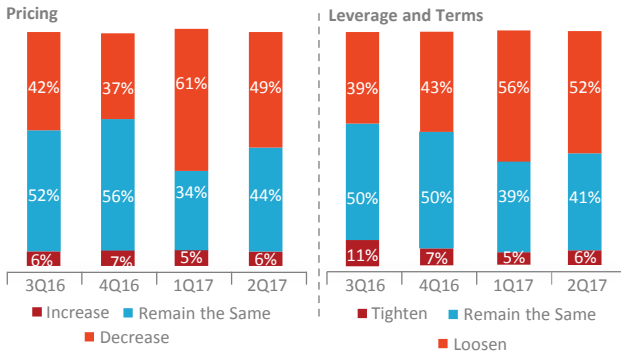
Middle market loans have exhibited less correlation to, and lower volatility than broader capital markets due to lack of active trading<sup>3</sup>. Middle market direct lenders invest based on borrower and industry fundamentals, not based upon short-term technical or fund flows

### Protection Against Rising Interest Rates

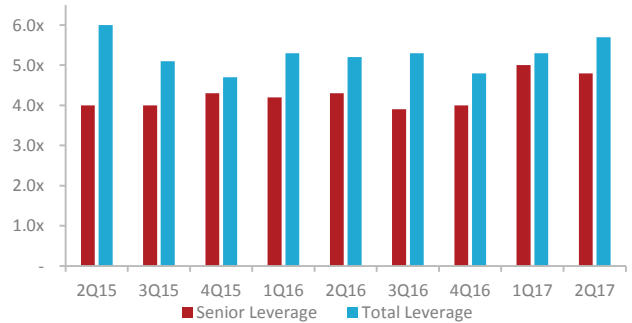
First lien senior secured loans are floating-rate instruments with coupons structured based on a spread over LIBOR. Floating rate debt can provide a hedge against rising interest rates and inflation

Source: TwinBrook Capital Partners, ; 3) P&I Senior Secured Loans Supplement

## Middle Market Leveraged Lending Survey Output



## Middle Market LBO Leverage Multiples



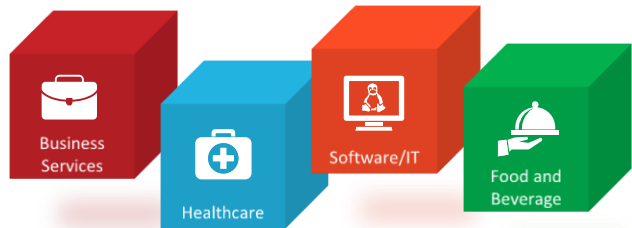
## Trends in Middle Market Lending

### Favorable Market Dynamics:

- Rise in Covenant-Lite Structure**  
 Increased competition in the lending environment has driven aggressive transactions
- High-Yield Market Continues to Grow**  
 Driven by the ability to capture yield premiums relative to larger deals with similar risk profiles
- Emergence of Split-Lien Term Loans**  
 As a cost-efficient capital structure to support growth and LBOs for working-capital intensive businesses

Source: William Blair

## Preferred Sectors



## Regulatory Environment

<b>Basel III</b> Updated risk-based capital weightings may require large banks to reserve more equity capital against leveraged loans	<b>Volcker Rule</b> May impact large banks' ability to make markets in CLO paper and provide warehouse facilities to CLOs
<b>Dodd-Frank and CLO Risk Retention</b> Increased capital requirements, risk retention (Dodd-Frank) through regulatory burdens would lead to improved competitive dynamics for non-traditional lenders	<b>New FDIC, OCC and Fed Guidelines (Bank Leveraged Lending)</b> Revised definition of "leveraged" loans could lead to higher loan servicing costs and interest costs for borrowers, making banks less competitive

Source: TIAA-CREF, Wells Fargo

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