Coming Into Focus
TSL Inaugural Data Issue

On the following pages we break out key dimensions of growth in our industry within product segments and peer groups by company for the first time. The intrepid participants in this inaugural issue are further profiled by relevant statistics, such as growth trends, industry and product focus and deal characteristics.

It is our expectation that as more member companies join in sharing this beneficial information in the interest of providing a more robust and transparent view of our market environment, the secured finance industry will continue to grow in its impact and influence.

Welcome to *The Secured Lender's* first ever Industry Data Issue. Over the past several years, SFNet has invested heavily in data resources designed to improve planning, provide competitive benchmarking, and attract capital to our industry. Through resources like our groundbreaking Market Sizing and Impact Study, which dimensioned the secured finance ecosystem and will be refreshed this year, to our quarterly and annual data surveys, which continue to grow in participation, to our forward-looking Market Pulse Reports, we have made great strides in capturing, analyzing, and predicting industry trends by the numbers.

This issue of *TSL* brings the evolution of our insights a step further. On these pages we break out key dimensions of growth within product segments and peer groups by company for attribution. The intrepid companies participating in this inaugural issue are further profiled by relevant statistics such as growth trends, industry and product focus and deal characteristics.

It is our expectation, that as more member companies join in sharing this beneficial information in the interest of providing a more robust and transparent view of our market environment, the secured finance industry will continue to grow in its impact and influence.

Together, these data sources paint a picture of a secured finance marketplace that is large, diverse, confident, growing and fulfilling its essential purpose of putting capital to work.

While much of the data in this issue is self-reported, we also draw upon publicly available data compiled by Refinitv, and, in the interest of accuracy, have applied consistent definitions for asset-based loans and factoring to those companies surveyed.

ABL loans include the following attributes:

a) the loan is collateralized by a first priority lien on the borrower's assets;

b) the requirement of a borrowing base, which is reported to the lender monthly or more frequently as needed and is the basis of all advances to borrowers;

c) collateral monitoring through periodic field exams and appraisals; and

d) dominion and control over cash accounts held by the lender.

In addition, ABL includes:

a) loans for which the participating organization was the sole lender;

b) the share of loans for which the participating organization was an originator, but not the sole lender; and

c) loan participations/syndications bought (i.e., the participating organization was not an originator)

d) lender finance transactions

Factoring includes the following attributes:

Cash advances to a client against their accounts receivable. The types of factoring include:

a) recourse and non-recourse

b) notification or non-notification basis.

c) U.S. based and international

Net Funds Employed:

The balance of outstanding advances on a client's accounts at a given time. Equal to the total of the purchase price of purchased accounts less the amount of the reserve account

Factoring Volume:

The total face value of the accounts receivable purchased from clients in a given period of time.

The data provided in this issue is directional, but not comprehensive. In addition to the representative subset of companies providing data for this issue, we have augmented these numbers with our Annual ABL and Factoring participant surveys and provided further context from the SFNet Market Sizing and Impact Study (see figures 1-4 on next pages) and Refinitiv LPC data. These building blocks illustrate the evolving understanding of our marketplace and help to validate our findings. Subsequent Data Issues will serve to further dimension our industry as more organizations join our early adapters in participating in future surveys and the picture becomes more complete.

ASSET-BASED LENDING COMPILATION:
TSL Data Issue + 2021 Annual ABL Survey + Q1 2022 Confidence Index + SFNet Market Sizing Report

The Secured Finance Network's Annual ABL and Factoring Surveys are a key member benefit with a rich set of data and insights available to participating companies beyond the broadly published data and the picture becomes more complete reports. The Surveys have measured year-to-year asset-based lending and factoring activity since 1976. In addition, trends in ABL are demonstrated in SFNet's Quarterly ABL Surveys, which provide new business and portfolio performance indicators for members on a quarterly basis. The Survey are conducted by Keybridge Research LLC in partnership with SFNet's Data Committee.

"The SFNet Data Committee is fortunate to have active and engaged committee members composed of industry leaders who generously devote their time in order to review and discuss the aggregated survey results prepared by Keybridge on a quarterly and annual basis. The Data Committee members attempt to make sense of the numbers and provide valuable insight and analysis to the entire SFNet community," said Lawrence Chua of Ares Management LLC, who is chair of the SFNet Data Committee.

"One of our core objectives as a trade association is to strengthen our relationships with our members by providing important insights that help them run their businesses. SFNet places a high priority on providing our members with important data and insights about the markets we serve. Having Keybridge as our partner has added a whole new dimension to our surveys because of their ability to integrate economic data with the input we get from our members. Keybridge understands our members' needs and puts their unique macroeconomic context to our reports," said Barry L. Bobrow, who is a member of the Data Committee as well as vice president-finance for SFNet.

"I've been a consumer of the data surveys for years. The new surveys are more conclusive and provide comparative information relevant to assessing how we compare to industry peers. I particularly like the confidential ability to get a specific comparison of what the data we provided vs. our peer group," said Jeff Goldrich, SLR Business Credit and past president of SFNet.

2021 was a year of rapid economic growth, with U.S. real GDP increasing by 5.7%. The continued recovery from the pandemic recession in early 2020 featured improving business conditions and increased demand for asset-based lending, but also rising inflation.

Total ABL commitments in our Annual Survey grew by 8.3% for all lenders reporting (43 companies) from 2020 to 2021 while the total ABL commitments for participating firms (13 companies) in this issue grew by 13.59% (see figure 1), with bank and non-bank commitments increasing at similar rates. The two lender groups had contrasting results for new client commitments (increasing for banks, decreasing for non-banks) and commitment runoff (decreasing for banks, increasing for non-banks). For all lenders, deals with existing clients increased, with average expansions/extensions up by 82.9% for banks and 63.9% for non-banks.

Overall, commitment trends reflect a competitive lending environment, with lenders trying to retain and, as possible, expand existing clients.

Increases in total outstandings for both banks (18.8%) and non-banks (33.6%) outpaced their growth in commitments, leading to higher credit line utilization for all lenders (see figures 2&3). Growth in purchased participations reflected existing deals getting bigger for banks, and increased outstanding runoff mirrored increased commitment runoff for non-banks. In terms of industry concentration, wholesale outstandings grew the most, potentially reflecting inventory accumulation in response to supply chain challenges and surging consumer demand. The location of U.S. bank outstandings shifted away from the Northeast to the Midwest and West.

Total revenues decreased relative to outstandings, a trend that suggests pricing compression. Total expenses also declined relative to outstandings, with personnel expenses down the most.

Strong portfolio performance characterized 2021, with non-accruals, gross write-offs, and loan loss provisions plummeting for banks and non-banks (criticized and classified loans also fell for banks). Non-accruals and gross write-offs approached some of their lowest levels in years.

Profits declined relative to outstandings, with pre-tax income dipping slightly for banks and non-banks. The average return on assets, however, increased for both groups and the average return on equity increased for banks.

The total number of employees decreased in 2021 for banks, but increased for non-banks.

The location of bank offices shifted away from the Northeast in 2021, mirroring bank outstanding trends, and a general shift in economic activity toward the Sun Belt. However, the location of bank clients was relatively consistent across both years.

"Looking ahead, 2022 and 2023 could present challenges for lenders, who, along with clients, will need to navigate rising inflation, supply chain disruptions, and workforce shortages," said Richard Gumbrecht, the SFNet's CEO. "These factors, in addition to geopolitical

Figure 1.

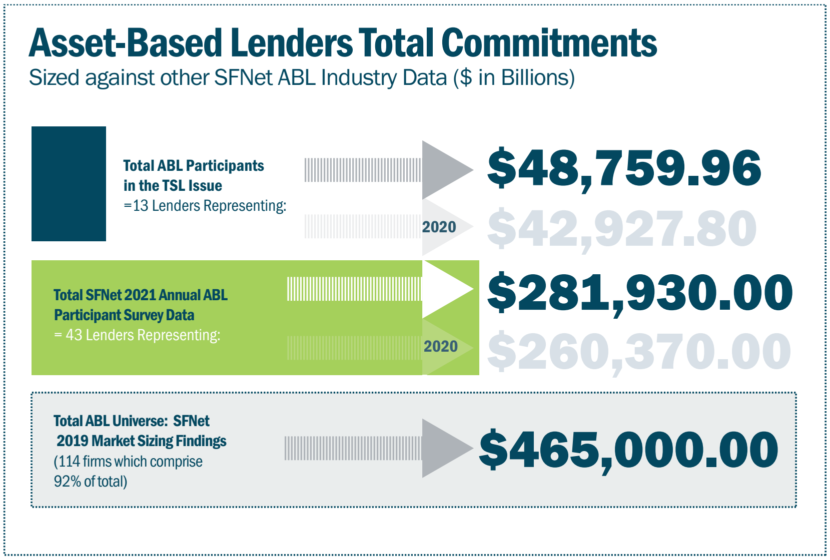


Figure 2.

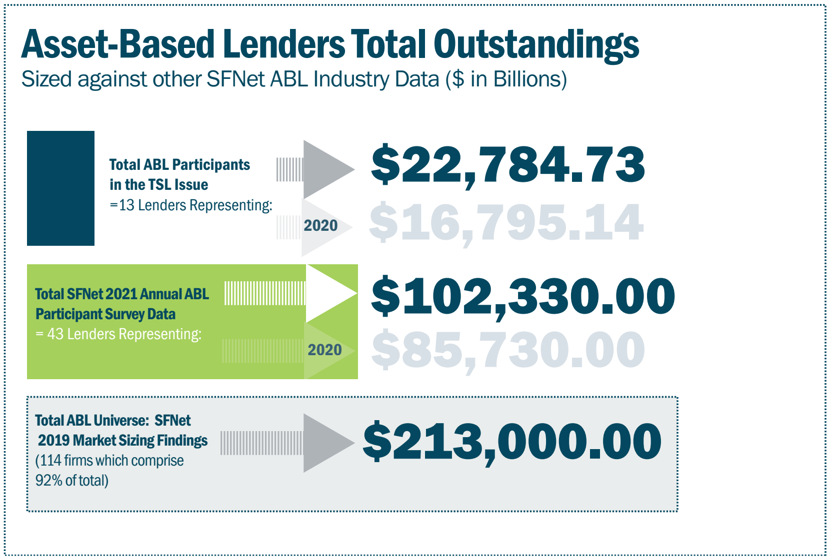


Figure 3.

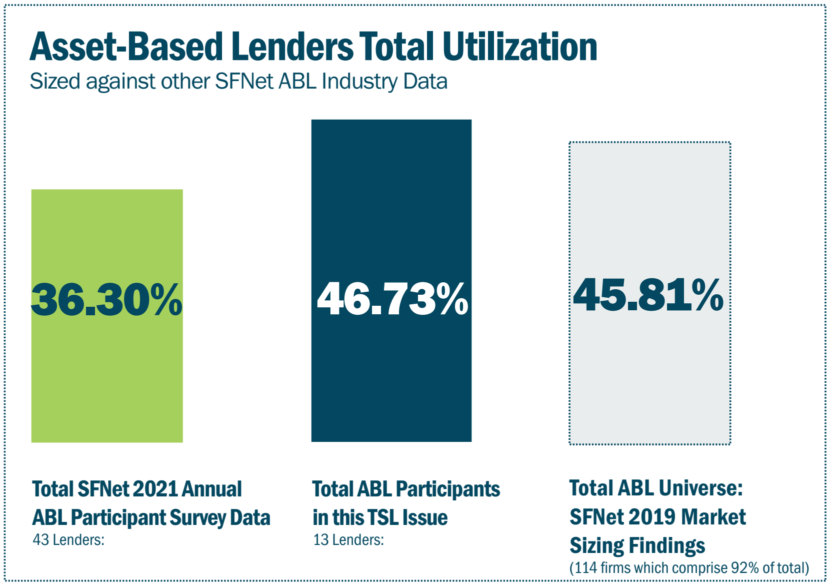
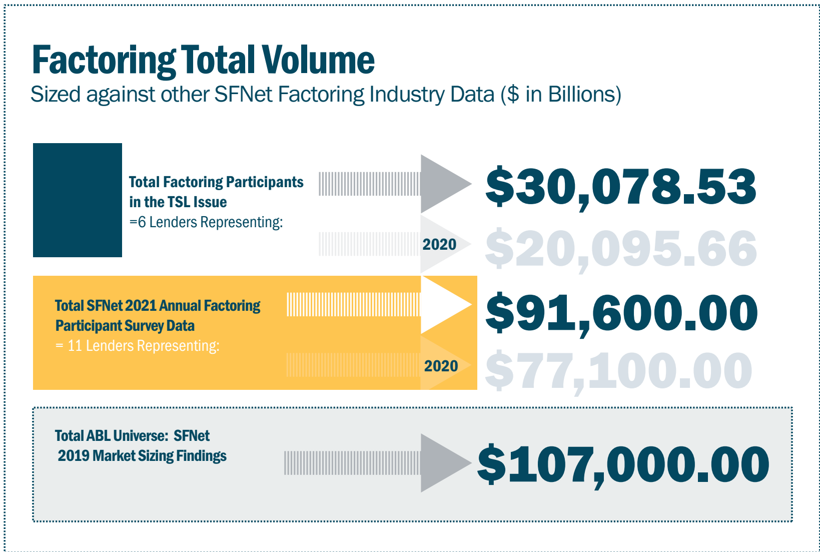


Figure 4.



uncertainty, could undermine economic growth and favorable business conditions. Fortunately, should we enter a period of contraction, both ABL and factoring have fared well in such environments as companies seek additional sources of working capital."

FACTORING COMPILATION:

TSL Data Issue + 2021 Annual Factoting Survey + SFNet Market Sizing Report

"Events of the past 24 months have challenged drawing any conclusions about business borrowing patterns or trends. It is, however, clear from the data, that factoring is a flexible and durable form of working capital liquidity for businesses operating in various situations and adapts well to a changing macro environment," said Terry Keating, Access Capital, Inc., a member of SFNet's Data Committee.

After a brief, but severe, recession in early 2020, 2021 saw rapid economic growth as real gross domestic product increased by 5.7% (compared to a 3.4% decrease in 2020). This continued economic recovery featured improving business conditions overall and increased demand for financing, including factoring.

Overall factoring volume increased by 18.7% in 2021, reflecting the economic recovery and improved business demand as well as a growing acceptance of factoring as a financing mechanism. Shifts in volume away from the Northeast align with regional trends in asset-based lending and may stem from stronger economic growth in large Sunbelt states.

Factoring clients increased significantly, nearly doubling. Overall client growth might be expected given the growth in volume; however, such pronounced growth may also reflect factors gaining clients through acquisitions as opposed to developing entirely new clients. Regional client shifts to the Southeast parallel volume trends; and, in terms of industry concentration, fewer electronics and furniture clients could stem from supply chain disruptions, whereas growth in textiles and apparel coincides with surging demand for durable goods and has been accompanied by rapid growth in transportation factoring.

Overall revenues increased relative to both volume and average earning assets, but interest revenue decreased, potentially a result of intensifying competition for clients. On the other hand, service fee revenue increased, which could reflect increased extensions or other accommodations that generate fees.

While overall expenses declined relative to volume, other personnel expenses increased. Notably, personnel expenses for business development dropped, a trend that parallels a decline in the total number of business development employees.

Portfolios had a strong year, with a significant decline in gross write-offs relative to volume and average earning assets and with recoveries increasing. Compared to past years, portfolios had solid credit performance.

As to be expected with rising revenues and falling expenses, profits increased in 2020. Pre-tax income rose dramatically relative to both volume and average earning assets.

Overall, 2021 was a strong year for the factoring industry, but there are challenges on the horizon. Rising inflation could stymie real economic growth and continue to exert upward pressure on wages, an important component of expenses. In addition to spurring wage growth, labor shortages could also challenge factors as they hire new staff and expand to meet demand.