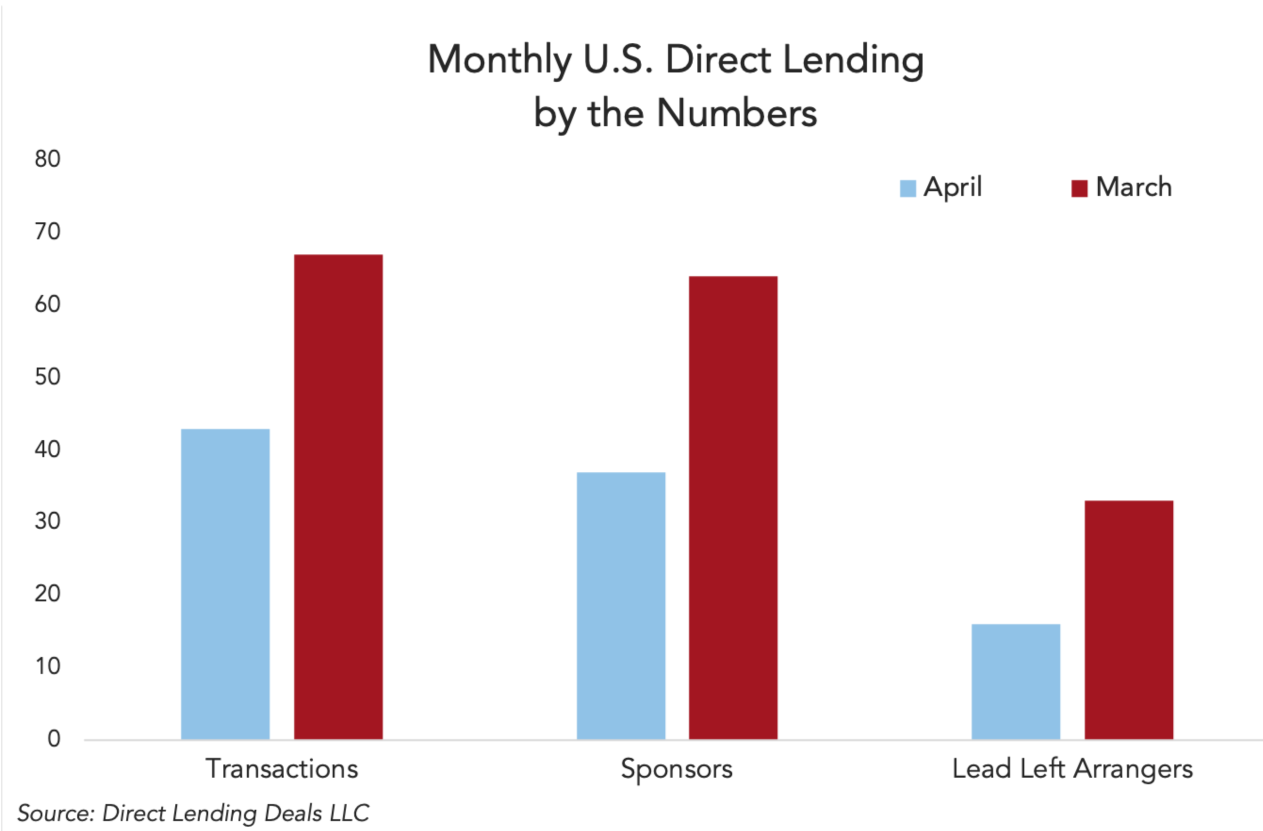
April volume retreats as expected, May forecast is weak

KBRA DLD | May 7, 2020



Direct lending volume retreated in April, with transactions slipping to 43 from 67 in March, according to Direct Lending Deals.

It was the slowest month for deal flow since DLD launched last September, and most of the mandates were underwritten pre-Covid.

The forecast for May is much weaker. Managers have been focused primarily on existing portfolio companies, some of which are now nearing their second full month of zero revenue generation.

On a quarterly call with analysts this week, management at BDC bellwether **Ares Capital** lowered expectations for 2Q originations, saying most new business would arise from opportunities across the existing portfolio.

The BDC's backlog— deals with a signed commitment and expected to close— stands at $210 million, down from $735 million at the end of last year. The pipeline— ongoing discussions but no formal mandate has been signed— totals $140 million, down from $390 million.

Fidus Investments, a smaller BDC that targets the lower middle market, shared a similar outlook on originations. CEO Edward Ross said the BDC’s priority remains existing borrowers.