

January 2020 | Volume 8

Featured Content

2020 - Direct Lending In An Uncertain Environment

A Time for Fundamentals

As 2020 is now upon us we wanted to wish everyone a Happy New Year and offer a few thoughts on a year that has started and will likely end with uncertainty. It didn't take long for 2020 to provide a jolt to the markets with geopolitical events stealing the headlines in the early days of January. The U.S – Iran conflict surfacing as we ramp into an election year will certainly keep everyone on their toes as portfolio allocation options are evaluated.

At Tree Line, in times like these we take comfort in our daily focus on the fundamentals. Our strategy, like many others, has certainly benefited from quieter times as the market has enjoyed a 10 year bull run for the ages. However, our diversified portfolio of senior secured loans is constructed to endure and outperform in challenging economic environments.

Since our inception, we have focused on a strategy that is designed to withstand economic volatility. We have invested over \$1.4 billion across nearly 100 loan transactions with a working assumption that a market correction or recession is imminent. It's that investment philosophy and commitment to the fundamentals that gives us confidence when the market presents uncertainty or challenges.

Our portfolio construction strategy places a premium on the following:

- **Senior Secured Structures** – First Lien and Unitranche loan structures enabling us to control our destiny in the event of under performance is essential. In 2019, 91% of our loans were First-Lien Term Loans with 8% in Unitranche Last-Out Term Loans and 1% in Equity Co-investments. This is an intentional increase on our part to invest further in First-Lien structures as we get later in a credit cycle.
- **Sponsor Backed Companies** – We target companies that have received a significant investment from a private equity firm with liquidity to invest further. We want partners with a cash invested and will avoid dividend recaps whereby we are cashing out our partners. Today, our weighted average Loan to Value across all portfolios is 47% which highlights a healthy level of equity support.

- **Low Leverage** – At Tree Line, we have maintained a weighted average leverage of less than 3.8x since inception and 3.6x as of today. Other market segments have chased leverage higher with record levels of 6x and 7x leverage multiples. A disciplined focus on leverage in a senior secured structure has proven to prevail in the toughest of climates and that has not been lost on us.
- **High Free Cash** – We target businesses that convert the vast majority of EBITDA to free cash enabling us to withstand meaningful declines prior to not being able to service debt (interest and amortization). Today, our weighted average fixed charge coverage across all portfolios is 2.0x providing significant cushion.
- **Quality of EBITDA**- Ensuring we are lending against a true EBITDA number versus a forward or synergy-adjusted EBITDA is and will be important. We have consistently avoided deals requiring synergy related addbacks to EBITDA and reviews all addbacks through a qualify.

The lower middle-market affords us the opportunity to consistently invest with discipline as evidenced by the fundamental noted above. We will be the last to predict when a market will shift but we will acknowledge that markets do shift. To that end, we will remain relentlessly focused on the fundamentals to ensure our portfolios are well positioned to perform through any uncertainty that lies ahead.

Tree Line Highlights & Outlook

Tree Line wrapped up 2019 with \$1.3 billion under management having invested \$460 million in the year. We saw incredible growth from follow-on acquisitions where sponsors are selecting Tree Line given our ability to finance future growth.

We are continuing to make significant investments in our team and technology. Tree Line is launching an office in Los Angeles in Q1 2020 and intends to open a new office in Austin in Q2 2020. Our team will continue to expand in 2020 as we are actively hiring both investment and operations professionals.

We are very excited by the opportunity in front of us. We look forward to working with all of our partners further and hope to connect with each of you very soon.

Happy New Year!

The Tree Line Team

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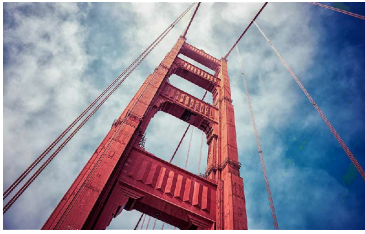
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About Tree Line

Tree Line Capital Partners is a private credit asset management firm focused on direct lending to the lower middle market. The firm provides first lien term loans, unitranche term loans and equity co-investments to lower middle market borrowers with between \$3M-\$30M of EBITDA in North America in transaction sizes up to \$150M. Tree Line currently manages \$1.3B in investable capital, and has completed over 90 transactions for acquisitions, recapitalizations, refinancings, expansion projects and other growth capital needs. Tree Line's team has extensive direct lending experience spanning multiple economic cycles and has generated significant repeat investment opportunities from the private equity community through reliable execution coupled with a direct relationship approach. Tree Line is headquartered in San Francisco with offices in New York and New Orleans.

Visit www.treelinecp.com for additional detail.

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