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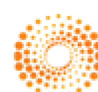

CORPORATE PARTICIPANTS

Daniel F. Harris *TCG BDC, Inc. - Head of IR*
Linda Pace *TCG BDC, Inc. - Chairperson, CEO & President*
Taylor Boswell *TCG BDC, Inc. - CIO of Direct Lending*
Thomas M. Hennigan *TCG BDC, Inc. - CFO & Chief Risk Officer*

CONFERENCE CALL PARTICIPANTS

Arren Saul Cyganovich *Citigroup Inc, Research Division - VP & Senior Analyst*
Finian Patrick O'Shea *Wells Fargo Securities, LLC, Research Division - VP and Senior Equity Analyst*
Richard Barry Shane *JP Morgan Chase & Co, Research Division - Senior Equity Analyst*
Ryan Patrick Lynch *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to TCG BDC's First Quarter 2020 Earnings Call. (Operator Instructions) Please be advised that today's conference may be recorded. (Operator Instructions) I would now like to hand the conference over to your host, Head of Investor Relations, Daniel Harris. Sir, please go ahead.

Daniel F. Harris ***TCG BDC, Inc. - Head of IR***

Thank you, operator. Good morning, and welcome to TCG BDC's First Quarter 2020 Earnings Call. Last night, we issued an earnings press release and detailed earnings presentation with our quarterly results, a copy of which is available on TCG BDC's Investor Relations website.

Following our remarks today, we will hold a question-and-answer session for analysts and institutional investors. This call is being webcast, and a replay will be available on our website.

Any forward-looking statements made today do not guarantee future performance and undue reliance should not be placed on them. These statements are based on current management expectations and involve inherent risks and uncertainties, including those identified in the Risk Factors section of our annual report on Form 10-K that could cause actual results to differ materially from those indicated.

TCG BDC assumes no obligation to update any forward-looking statements at any time.

With that, I'll turn the call over to our Chief Executive Officer, Linda Pace.

Linda Pace ***TCG BDC, Inc. - Chairperson, CEO & President***

Thank you, Dan. Good morning, everyone, and thank you for joining us on our call this morning to discuss our first quarter 2020 results. Joining me on the call today is our Chief Investment Officer, Taylor Boswell; and our Chief Financial Officer, Tom Hennigan.

The current global health and economic crisis is unprecedented and before we focus on our business, I want to start by thanking all of the frontline workers, health care and EMS professionals for keeping us safe and our communities operating.

Our thoughts are with all of the people and families across the globe that have been impacted by this health crisis. Our priority has been and remains the health and safety of our investment and operating teams at Carlyle. And equally as important, our focus remains on supporting our portfolio of companies. I'd like to focus my remarks today across 3 areas: first, highlighting the strong position of our company as we entered the crisis; second, discussing how we're benefiting from our relationship with Carlyle; and third, a quick review of our quarterly results with a focus on the actions we've taken over the last month to improve our financial leverage and flexibility.

I'll start by discussing the strength of our platform as we entered this crisis.

Our company implemented significant changes over the course of 2019 as we worked hard to optimize our portfolio and improve our

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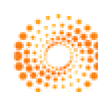

investment process. And as a result, we began 2020 in a strong position with good momentum. Our portfolio construction approach remains unchanged to maintain a diversified, high-quality first lien work portfolio currently comprised of 73% first lien loans with an average obligor size less than 1%. We have strategically positioned our portfolio to have half of the exposure to cyclical sectors and the market indices. As a result, as we enter this crisis, we have no direct exposure to upstream oil and gas and just over 1% invested in the retail sector.

And in addition, it is worth reiterating what we highlighted on last quarter's call, which is that we nearly eliminated our exposure to the last-out CUP unitranche program. A driver of historical credit underperformance prior to this recent market turmoil. That is not to say our portfolio won't experience some level of realized losses over the longer term. Of course, it will. The U.S. economy is in the early stages of a sharp deceleration, and there is a high level of remaining uncertainty.

That said, as of the end of the first quarter, 98% of our borrowers made regular payments so we would not be surprised by some level of payment volatility over the next few quarters. Ultimately, the duration and depth of this crisis will dictate the impact across our portfolio. But as we sit here today, we like our positioning. Second, our Carlyle affiliation provides us access to world-class investment and operational capabilities, most BDCs simply can't match. For instance, we benefit from a deep and experienced team of dedicated workout professionals. We've possess competitive advantages in accessing capital on attractive terms, and we benefit from Carlyle's centralized, economic and government affairs teams, which help us effectively navigate rapidly changing economic and regulatory environments.

In addition, earlier in April, Carlyle's Head of Global Credit, Mark Jenkins, joined our Board of Directors. With over 30 years of credit experience across several cycles, Mark's appointment brings a tremendous amount of experience to an already strong team, and we view it as a clear benefit for both our company and our shareholders.

Finally, let me move on to an overview of results for the quarter, our dividend and capital position. As you know, we prereleased ranges for several earnings metrics for our first quarter, and generally finalized results at the top end of the ranges. We generated net investment income of $0.42 per share, alongside our previously declared regular first quarter dividend of $0.37. Net asset value per share declined 14% quarter-over-quarter to $14.18 from $16.56 last quarter. Our portfolio experienced $2.57 in realized and unrealized losses, with nearly 2/3 of that loss due to spread widening of market yield benchmarks.

The accretion to NAV from share repurchases this quarter was $0.14 per share. During the quarter, we repurchased $16 million in shares and since inception through today have utilized $86 million of our $100 million authorization. However, we believe that preserving capital in the current environment is a primary objective and we expect to slow or pause our repurchase activity in the second quarter. That said, we continue to believe our current share price does not capture the significant value of TCG BDC's earnings stream and balance sheet and represents a significant investment opportunity.

Let me shift to a discussion on our dividend. As we have previously mentioned, our company has earned net investment income in excess of our regular dividend every quarter since our IPO, a trend which continued in the first quarter. For the second quarter, we are announcing our regular dividend of $0.37 per common share, and Tom will provide additional color on how we are evaluating future dividend levels.

Regarding leverage and capital positioning, the severe mark-to-market impacts of markets selloff temporarily moved us outside of our target leverage range at quarter end. However, we are pleased to report that we have taken significant proactive steps, including selective asset sales over the last month to reduce our leverage.

And as Tom will detail, we are now, on a net basis, operating back within our target range of 1 to 1.4x. We feel that our liquid and well-capitalized balance sheet will position us to both weather downside and also take advantage of attractive new investment opportunities.

Furthermore, we announced yesterday that we closed a $50 million investment in CGBD by Carlyle. This will be in the form of convertible preferred equity with a conversion price struck at $9.50. We believe this instrument is extremely attractive economically to CGBD and its

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shareholders. With no immediate dilutive impact and a dividend yield inside that of our common shares.

Furthermore, as preferred equity, the instrument significantly increases CGBD's financial flexibility, creating capacity under our existing debt facilities, requiring no cash payments, having no meaningful covenants and positioning us well to access third-party capital markets in the future if needed.

Finally, with an as-converted ownership stake of approximately 17% held by Carlyle, its employees and founders, we believe this investment strongly reinforces Carlyle's alignment with CGBD shareholders.

Given the environment, though, we plainly state that neither the asset sales of the last month nor yesterday's capital raise were conducted under any form of stress or duress. Rather, we have been moving proactively and aggressively since the onset of the crisis to ensure that CGBD's balance sheet maintains ample flexibility to maximize value even in the most severe economic scenarios.

While we do not know what the future holds, we do feel strongly that we are currently very well positioned. I'd like to thank each of you for your time and partnership. Let me now hand the call over to our Chief Investment Officer, Taylor Boswell.

Taylor Boswell ***TCG BDC, Inc. - CIO of Direct Lending***

Thank you, Linda, and thanks to everyone on the call this morning for their interest in and support of CGBD. Our last earnings call was in late February. And what a difference 2 months has made. At that time, COVID-19 was a vastly underestimated health and economic threat, and credit markets were at their tightest in years. Now we are experiencing the largest economic shock in 70 years, accompanied by the second largest selloff in the history of leveraged credit markets. The severity of this crisis has been compounded by its suddenness, with a sharp reversal from an up into the right world to today's contractionary economic environment. Despite a rapid recovery in asset values in recent weeks, we remain cautious at Carlyle on the trajectory of the fundamental economy. As we are seeing not only significant disruption to the earnings power of corporations directly impacted by this crisis, but also the beginning of downstream impacts across the broader economy.

Immense uncertainty remains. But from what Carlyle can see, it is our expectation that the recovery will progress in fits and starts and take longer than we all would hope.

In credit, while March's liquid market selloff was by any measure severe, markets function reasonably well throughout, characterized by orderly concern but not panic. With economic uncertainty and deeply discounted secondary trading levels, March primary deal volumes in both liquid and private credit markets effectively came to a standstill.

In April, we have seen early signs of healing in primary markets and emerging demand for private credit solutions. While traditional M&A financing will likely slow, significant capital will be required across the economy to allow borrowers to bridge through the COVID-19 environment. We see a compelling investment opportunity forming. At the same time and perhaps most consequentially for our business, competition has thinned as for a variety of reasons, a significant number of competitors have been forced to pull back from the market. This supply/demand imbalance will accrue to the benefit of competitively advantaged platforms with staying power, and we expect CGBD shareholders to benefit materially from the same.

With regards to the crisis' impact on existing private credit portfolios, we expect it will have 3 distinct stages:

First, a liquidity squeeze, characterized by unprecedented calls on revolving credit facilities from borrowers and significant mark-to-market valuation impacts. Without a properly constructed balance sheet, these pressures could significantly strain liquidity. Happily, this stage appears behind us. And as you heard from us in our prerelease, CGBD navigated it extremely well, meeting all calls on our capital in a timely fashion, needing no amendments from our lenders, and requiring no emergency funding.

In stage 2, we consider it likely that the severe macroeconomic impacts of this crisis will generate significant amendment activity across covenanted levered credit portfolios, including our own. We expect this will play out over the coming 3 to 4 months. This is not a bad thing as covenants allow lenders to come to the table early and preserve value. That said, depending on their quantity, magnitude and

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nature, these amendments could impact income generation and borrowing base eligibility of assets. Therefore, in this stage, it remains critical to maintain flexibility on the right-hand side of one's balance sheet. Our desire to remove downside risk as we pass through stage 2 of this crisis, is why we have taken proactive and decisive action over the last month to fortify our already strong balance sheet position. Specifically, since quarter end, we have sold over $150 million of assets at attractive prices. And as announced yesterday, we raised $50 million of preferred equity on compelling terms. These actions have allowed us to rapidly reestablish leverage within our target range despite March's mark-to-market shock and ensure CGBD will have ample flexibility to absorb even the most severe economic downside cases.

Stage 3 entails the hard work of value maximization. Partnering with our borrowers to preserve value and maximize realized proceeds at the individual position and portfolio level. This is likely a year-long exercise, and it is far too early in this process for us to call any shots here.

But as Linda mentioned, we very much like our relative portfolio position as well as the performance of our portfolio out of the gate.

To provide more color on our approach to stage 3, we have since early March, been engaged in a deep assessment of our portfolio's exposure to this crisis, with focus on the earnings impact, liquidity profiles and normalized valuations of each of our portfolio companies. As you would expect, we have been in continuous contact with our borrowers, management teams and owners throughout this period. Immense effort has been deployed here. The team has performed fantastically, and we are confident we have our arms around this critical work stream. Our focused credit exposures in this effort will be our investments in hotel, gaming and leisure and food and beverage, each below 5% of our portfolio as well as our investments in aerospace and defense at 6% of our portfolio. On the whole, while operating disruptions will be significant for portions of these exposures, we are confident we have invested in businesses with persistent enterprise value, and we have seen strong cooperation and support from the owners of these businesses.

As such, our focus is on ensuring these borrowers can bridge through the coming quarters without comparing long-term value. Going forward, you can expect us to continue to be as proactive as we have been thus far. And with the resources of the Carlyle platform, we feel exceptionally well positioned to drive value.

Finally, while portfolio was the focus of this call, it is worth also saying that we are doing far more than just maximizing the value of our existing assets. We're also on the hunt for compelling new investment opportunities, and we believe the current environment offers exceptional risk-adjusted returns. Having rapidly reestablished our target leverage profile, we are well positioned to capitalize on the current market, where we see decreased competition, expanded pricing, lower leverage and improved documentation. We believe each of our prudent approach to balance sheet management, our focus on portfolio value maximization and our ability to access attractive new investment opportunities position us well to drive shareholder returns in the coming quarters.

Thanks, again, for your time. I'll now turn the call over to our Chief Financial Officer, Tom Hennigan.

Thomas M. Hennigan ***TCG BDC, Inc. - CFO & Chief Risk Officer***

Thank you, Taylor. Today, I'll begin with a review of first quarter earnings, then drill deeper into three important topics. The portfolio, valuations and our balance sheet positioning.

As Linda previewed, we had another solid quarter of total income generation. Total investment income for the first quarter was $50.5 million, down from $53.5 million in the prior quarter. The decrease was driven by a few factors: lower interest income primarily due to lower LIBOR, a decrease in OID acceleration due to lower repayments, lower total income from the JV. Total expenses were $27 million in the quarter, down from $28 million last quarter, driven primarily by lower management and incentive fees and lower onetime credit facility fees. This resulted in net investment income for the quarter of $24 million or $0.42 per share, which remains in line with the average quarterly results since our 2017 IPO.

On May 4, our Board of Directors declared the regular dividend for the second quarter of 2020 at the same $0.37 per share, and that's payable to shareholders of record as the close of business on June 30. But as Linda noted, we'll likely see future pressure on achieving the same level of net investment income per share, given the impact of the broader economic downturn on our portfolio, the sharp drop

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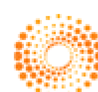

in LIBOR since February, and lower levels of income typically tied to overall M&A and refinancing activity. We remain confident in the current positioning of our portfolio. But right now, it's quite frankly, too early to predict with certainty the duration and subsequent impact of the economic disruption. So at this time, we're not in position to give guidance on forward earnings, but expect to have a clearer picture by next quarter's earnings call.

Moving on to the JV's performance. The dividend yield on our equity was 11% in the first quarter, down from 13% from the past few quarters. Lower yields compared to prior quarters were driven by a few factors: declining LIBOR, lower OID acceleration from line of repayment activity, and our decision to run the vehicle at lower leverage, given the broader economic backdrop. Given the lower leverage of the vehicle, we expect the dividend yield to be in the 9% to 11% range over the next few quarters.

Regarding the overall portfolio, it's early days, but we're pleased so far with our performance. We've had a limited number of payment issues or material amendments, although we certainly anticipate this will accelerate in the coming quarters. Our dialogue with sponsors regarding future amendments thus far has been constructive. And we recognize, in many cases, both sides will need to contribute to the solution. Specifically, our expectation is that if borrowers require material concessions from lenders, the sponsors will be supportive with additional equity.

On to some of the metrics. In the first quarter, we added 1 new borrower to nonaccrual status. So total nonaccruals stood at 2.2% at fair value and 5.4% of cost. The weighted average internal risk rating remained 2.3. There's an inherent lag in when we'll see the impact of the pandemic flow through to our borrowers' financial results. Even when our borrowers report March quarterly results, we expect, in many cases, a somewhat muted impact of the current environment. So we're taking a closer look at our risk rating methods for the June quarter, with a view towards making it more forward-looking in effort to provide greater clarity and transparency.

On the valuations, our total aggregate realized and unrealized net loss was $145 million for the quarter. The primary drivers were market yields and quotes. That contributed about 2/3 of the decline as yields gapped out by 300 to 400 basis points across both the large-cap and middle market. Across our portfolio of first lien loans, valuations declined about 5 points, while second liens were down about 10 points. In addition, we had some further markdowns on certain watch list deals with historical performance issues that were exacerbated by the current market environment. You'll also see a markdown on our equity investment in the JV. This was due to changes in our base valuation assumptions, such as the discount rate, default rate and reinvestment rate, but not underlying credit performance at the JV. So far in the second quarter, we've seen a rebound in market yields. However, we remain cautious of our macro outlook to anticipate further valuation and NAV volatility in the coming quarters.

I'll finish with a deeper dive into our financing facilities and liquidity. Total debt outstanding was about $1.3 billion at quarter end, up about $85 million from prior quarter, and statutory leverage was 1.58x, or closer to 1.50 after giving effect to excess cash that we opted to hold on the balance sheet at quarter end. At the beginning of March, we were tracking at the inside 1.3x by quarter end, well within our target range. But the combination of the mark-to-market impact on valuations, which alone contributed about 0.2 of a turn of leverage, combined with the higher revolver draws from our borrowers and our excess cash cushion resulted in leverage falling outside our target range.

That said, reducing leverage is one of our top priorities. And as both Linda and Taylor highlighted earlier, we've already made significant progress. Following the recent asset sales, our statutory leverage will be back inside our target leverage range on a net basis. And after factoring in anticipated debt repayment from the preferred equity proceeds, our net financial leverage, which reflects the preferred investment as true equity, given its conversion rights will be below 1.3x. Along with this recent deleveraging, unused commitments under our credit facilities plus cash will increase from $320 million at quarter end to over $400 million.

We believe this is more than sufficient flexibility to meet unfunded commitments to our existing borrowers, to protect the current portfolio of additional capital as required and to further weather mark-to-market declines.

In conclusion, we worked to aggressively manage leverage and solidify our overall capital and liquidity position, which positions us well for any challenges we may face over the next few quarters.

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With that, let me turn the call back over to Linda for some closing remarks.

Linda Pace ***TCG BDC, Inc. - Chairperson, CEO & President***

Thank you, Tom. I'd like to conclude by thanking each of you for joining our call this morning. We at Carlyle truly hope you and your families are healthy and doing well. Without a doubt, these are uncertain times. But our goal at TCG BDC is to work hard to ensure our portfolio and balance sheet are as well positioned as possible to manage through future volatility and take advantage of opportunities to deliver shareholder value.

With that, we're pleased to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of Rick Shane of JPMorgan.

Richard Barry Shane ***JP Morgan Chase & Co, Research Division - Senior Equity Analyst***

Look, the transaction -- the convert transaction is a very interesting transaction. It's a -- obviously, from a capital perspective and a period of uncertainty, very positive to have a capital infusion, even if it is at a cost, I think there's a benefit to buying insurance in this tape. It's also a very good signal that your affiliate committed and sees the value in the entity. But I am curious, from a governance perspective, how you thought about pricing both on the coupon and on the convert?

Taylor Boswell ***TCG BDC, Inc. - CIO of Direct Lending***

Rick, it's Taylor Boswell. Thanks for the question. We really are held to a standard that we transact on a very fair basis of the vehicle. And it's a standard that we take very seriously as both a company and a manager. And I'll tell you that we went through a very thorough process over the course of the month of April. And we looked at a lot of options, reviewing them in-depth with our Board.

And at the end of the day, everyone felt very comfortable that the capital that was being offered was on superior terms to what was otherwise available in the market. And what we did specifically is we took both reverse inquiry and sought feedback on what terms might look like for various other terms of financing, whether it be unsecured debt, convertible debt, rights offerings or otherwise. And ultimately, the Board concluded that this instrument was most favorable because it achieves the flexibility impacts you mentioned before, but also comes with a relatively low cost.

So if you compare it up against other alternatives, it's structurally attractive, meaning it has a PIK option for payment. It has no covenants. It has a long duration. Those characteristics not generally available in the other financings offered in this market. And then economically attractive with a dividend rate well inside of the common and a strike price up 30% versus the last close and over 50% versus the VWAP. And so ultimately, we think the construction of the instrument really demonstrates plainly that it's conducted on a favorable basis for CGBD shareholders relative to other financing alternatives.

Richard Barry Shane ***JP Morgan Chase & Co, Research Division - Senior Equity Analyst***

Yes. Look, I think that's all totally fair. And there's one thing I hadn't even thought about until you started answering the question, which is that having a transaction executed without any perceived overhang in the market in a period of volatility is another advantage as well in terms of being able to do that with a higher degree of secrecy.

Taylor Boswell ***TCG BDC, Inc. - CIO of Direct Lending***

Yes. I mean, we really spent a lot of time, as I said, chasing all the alternatives we've seen, unsecured debt, rights offerings and the like.

And really, in terms of flexibility and nothing matches an equity instrument, ultimately, and the dilutive impact of this transaction is far less than the other equity raise alternatives that are available in this market. So I think it became pretty clear for our Board and the

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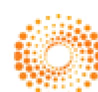

independent members of our Board as we work through the process that this would hit the flexibility goal and sort of be an optimal economic outcome for the shareholders.

Operator

Our next question comes from Arren Cyganovich of Citi.

Arren Saul Cyganovich ***Citigroup Inc, Research Division - VP & Senior Analyst***

I was wondering if you could talk a little bit about how portfolio companies performed in April, end of March, obviously, it's quite a bit different than the end of April. And whether or not you've had any chance to look at the financial performance and the ability for them to pay at this point in the quarter?

Thomas M. Hennigan ***TCG BDC, Inc. - CFO & Chief Risk Officer***

Arren, it's Tom. So far, it's a little early in terms of receiving any second quarter results. What we can say is we're in very close dialogue with our borrowers and our sponsors regarding their liquidity forecasts. And in most cases, I'd say that the initial blush from the sponsors and companies in a lot of cases is, hey, here's our liquidity forecast. In a lot of those cases, as we receive subsequent updates, those forecasts are looking better as the company is really focus on the liquidity positions. In terms of actual financial performance, it's a little bit early. I think we're going to get a more significant round of -- we'll get the March financials for many borrowers in the next week. And I think it's a little bit early in terms of April results. But I think that our borrowers are very much focused on liquidity.

And so far, I think they're making good strides to manage costs, to manage liquidity. And we certainly anticipate that in terms of asks, we had a limited number of amendments at the end of the first quarter. We anticipate that that's going to likely accelerate in the next six weeks as we head into the June time frame and borrowers, even if they have liquidity, they may be looking for some relief to create additional liquidity to get through the current market environment.

Arren Saul Cyganovich ***Citigroup Inc, Research Division - VP & Senior Analyst***

And what type of amendments are you willing and able to provide to the company? We -- I cover a pretty broad cross-section of companies and consumer finance, obviously, are giving a lot of deferrals in moratoriums and payments, commercial is a little bit more focused on the individual opportunities, but there's still banks are giving deferrals as well. What's your ability to work with the borrowers to help provide some relief?

Thomas M. Hennigan ***TCG BDC, Inc. - CFO & Chief Risk Officer***

Yes. We have, I'd say, significant flexibility to work with our borrowers. And certainly, we're shoring up our liquidity position capital structure. In the last month, we were even better. We went from a good position to an even better position, not knowing to what extent our borrowers are going to ask for amendments, whether it be for PIK amendments or covenant relief, so what we're looking for in our amendment conversations is a fair deal. And for example, if a private equity sponsor is going to write a significant check to support liquidity, then we'll obviously be more likely to offer or to be agreeable to a PIK amendment where, let's say, for a short amount of time, we will convert some of our cash interest into PIK. And then that's the way we see some of these liquidity situations where companies are more strained. Where if the sponsor is going to support the business, we think the lenders should be part of the solution, and we're certainly willing, capable and have the flexibility to offer an amendment where we would take some of our interest in PIK.

Arren Saul Cyganovich ***Citigroup Inc, Research Division - VP & Senior Analyst***

And how do you treat that from a nonaccrual perspective, if you give them an amendment to change to PIK for a short period of time that doesn't put that particular loan on nonaccrual status?

Thomas M. Hennigan ***TCG BDC, Inc. - CFO & Chief Risk Officer***

That's correct. It would be situation by situation, but certainly, to the extent we have a private equity sponsor who's supporting the business, that's putting a stake in the ground in terms of where they see equity value where we see equity value in the business. And it will also factor in as we look at those situations as what's our long-term view of the business. And if we're current on payments, there's no payment default. And we believe that we will have full recovery on the loan. And that's a situation where those loans would -- irrespective of the PIK status, those would not be on nonaccrual.

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Operator

(Operator Instructions) Our next question comes from the line of Finian O'Shea of Wells Fargo Securities.

Finian Patrick O'Shea ***Wells Fargo Securities, LLC, Research Division - VP and Senior Equity Analyst***

I hope everyone is doing well. I first want to go back to the convert. Forgive me, I missed the beginning of the call. And appreciating that the terms are better than market terms out there for sure. I'm -- what's curious to me is the conversion premium, how you arrived to that? Is this based on any sort of market rate? Or is it balanced in conjunction with the terms and spread? Or just any color you'd give on why -- I think it was a 57% average premium you used.

Taylor Boswell ***TCG BDC, Inc. - CIO of Direct Lending***

Fin, it's Taylor. Really, we pulled through a lot of comparable transaction work, whether they be corporate converts, financial converts and we've received some indications over the course of the month of April of where people would be willing to transact from a conversion premium perspective. And without digging too far into the details, what I would say is as a comp versus financial converts, BDC converts and what we were able to see as indicative terms over the last month, these conversion premiums are well outside of what the market would have otherwise asked for. So I think we feel pretty comfortable with this level. And to your point, to the prior point, I mean I think embedded in here is, hopefully, a strong message for the shareholders of both the support of Carlyle of the vehicle, but also Carlyle's view of value ultimately in the stock.

Finian Patrick O'Shea ***Wells Fargo Securities, LLC, Research Division - VP and Senior Equity Analyst***

I appreciate that. And on the case where you don't reach that share price, would you plan to deleverage, to redeem that? Or is there any other sort of scenarios that you're able to work with between the BDC and the parent if it comes time? And do you think you'll still want to maintain that capital, prolong it or pay it down?

Taylor Boswell ***TCG BDC, Inc. - CIO of Direct Lending***

Our intention here is for this to be a long-term investment in the vehicle. And you'll see when you peel into the details of the instrument, that it has a put right in year seven. So it is well outside of our other financing maturities and the like. And what you'll also see is that put right is settleable and likely to be settled in the form of equity. And so that's one of the key reasons that underpins what Tom referenced before, which is our view is that really, this is an equity instrument in the capital structure. And while the '40 Act considers this as leverage under that definition, pretty much by any other standard, it's an equity instrument that we expect to be settled with equity. So that's how it's constructed in that respect, Fin, but a long-term investment in the vehicle and that is the intention and the structure.

Finian Patrick O'Shea ***Wells Fargo Securities, LLC, Research Division - VP and Senior Equity Analyst***

Got it. I appreciate it. I didn't catch that earlier. Just another -- just one more for Tom. The SPV balance had come down a little. Are you able to give any color on how that came about? Was it a repay? Or did you pay down with cash?

Thomas M. Hennigan ***TCG BDC, Inc. - CFO & Chief Risk Officer***

I think it was a combination. I don't think it was a decided markdown or sorry, pay down in that position. Yes. And that balance, I think it was a combination of repayments or loans just in managing our balance sheet amongst our various credit facilities kind of loans moving in and out of that vehicle. Overall -- on the total outstanding size.

Finian Patrick O'Shea ***Wells Fargo Securities, LLC, Research Division - VP and Senior Equity Analyst***

Okay. And then just one final one, if I may. I apologize if I missed this as well. The middle market MMLC, any -- it seems like you're keeping the dividend at a reasonably consistent range, a little bit down. Any -- is it -- just looking in the surface, they were both pretty much equity positions, the mezz loan and the sub and interest. Does this materially short -- I assume this was in some respect a conservative move, right? Can you tell us like what that does for the BDC or the MMLC?

Thomas M. Hennigan ***TCG BDC, Inc. - CFO & Chief Risk Officer***

Yes. What you see, this is similar to what we did at the end of 2018 when the market dislocated to a lesser extent. We opted to run the vehicle at a lower leverage level. So effectively with the materially lower leverage level, you're right, the total investment is the same, but we really -- there's a higher level of equity and lower mezzanine, so that's why you'll see beginning in the second quarter kind of a flip

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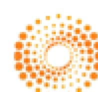

where the mezzanine, which is pay down 0 will be much lower income, but you'll see the dividend from the JV be higher as it just -- as there's more income, but on a higher equity base, and that's why you see that the yield that we've had in the 13% range will now be a lower yield percentage but a higher dollar number for the dividend yield.

In the aggregate, we see the dollar amount coming down somewhat. And one of the things with the JV earnings, at least in the near-term is for the most part, our liabilities are tied to 90-day LIBOR. And just based on some anomalies in that market, the resets on a lot of our contracts in early April time frame were at higher level than where LIBOR is today. So we'll see a little bit of pressure, particularly based on LIBOR, more pressure than the simple rates would dictate the market, the rates having down in the market, just based on the timing when we reset some of our rates, you'll see a little bit of depressed earnings, particularly in the second quarter that'll contribute to overall lower JV income for the second quarter.

Finian Patrick O'Shea ***Wells Fargo Securities, LLC, Research Division - VP and Senior Equity Analyst***

And does your -- when you pay down, sort of say, pay down the MMLC, the mezz you provide is a form of a revolver, right? And we're just looking at the language there. Does that automatically convert to sub interest? Or do you sort of have a choice there? Or do you get what I'm asking?

Thomas M. Hennigan ***TCG BDC, Inc. - CFO & Chief Risk Officer***

The calling equity is a Board decision, so it's a 50-50 vote between the 2 members of the JV. Our BDC and PSP.

Operator

Our next question comes from Ryan Lynch of KBW.

Ryan Patrick Lynch ***Keefe, Bruyette, & Woods, Inc., Research Division - MD***

And I hope you guys all are doing well. Apologize if I missed this in the beginning, I hopped on a little late. But can you speak to both the securitization that you guys have on your balance sheet as well as the securitizations in your middle market credit fund regarding your comfort with some of the covenants of those, specifically the CCC bucket or the OC cushion given the dramatic kind of swings we've recently had in the market?

Thomas M. Hennigan ***TCG BDC, Inc. - CFO & Chief Risk Officer***

Sure, Ryan. It's Tom. First, I'll start with the one -- the vehicles at the JV. Those are easier. Those are both static CLOs. So no issues at all with those vehicles in terms of various tests just based on the static nature. On the BDC's on balance sheet CLO, key points on that vehicle is, given that's a traditional middle market CLO, you have much higher CCC baskets, it's about 17.5% versus your regular broadly syndicated deal that would have 7.5%.

So no doubt, we're seeing CCC sensitivity just like the broader market, but we've got such a much larger bucket and we have much more insulation from CCC issues because it's a traditional middle market CLO. And then from an OC test perspective, we've got -- we've run some sensitivities on that. We have significant cushion before we have to worry about any OC or other key covenant tests.

Taylor Boswell ***TCG BDC, Inc. - CIO of Direct Lending***

And I think, Ryan, it's Taylor. What I might just layer in is we've chosen to run our balance sheet with a very diversified funding structure, so sort of using each of the tools available to us. And we've liked that mix very much. And it's performed very well for us through this crisis and continues to perform. So hopefully, what you're also hearing from us on this call is we do have a view that the world is very uncertain. And we have a -- we're really prioritizing, we're removing downside over the alternative of trying to pin a base case and absolutely optimize. And so you've seen us take these actions over the course of the last month with some selective asset sales, with the convert raise to really take what was a very good position from a liquidity perspective, and fortify it and drive ourselves back into our target leverage range, which we're happy to be at right now. And also have a bunch of flexibility to accommodate for any number of scenarios that might play out from here. So I guess that's a long way of saying, we're not seeing those kinds of issues in our financing vehicles today. We're not anticipating them with what we see, but we are making sure all of our bases are covered given the absolute level of uncertainty in the marketplace.

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Ryan Patrick Lynch ***Keefe, Bruyette, & Woods, Inc., Research Division - MD***

Okay. And then with your preferred that you issued, I believe it has a 7% coupon in cash or 9% of coupon in PIK. Have you guys determined or maybe you said this and I missed it, have you guys determined whether you guys are going to pay that in cash? Or do the 9% PIK yet?

Thomas M. Hennigan ***TCG BDC, Inc. - CFO & Chief Risk Officer***

The Board hasn't made a determination yet for the coming quarter.

Ryan Patrick Lynch ***Keefe, Bruyette, & Woods, Inc., Research Division - MD***

Okay. And then on the asset sales that you made, in April, I think you said over $150 million. I guess, how is that determined of what assets you were going to sell? Were those more liquid loans? And then also, I would think that the loans if you're getting attractive prices to exit those on, some of the stronger ones that are closer to par, are going to be some of the more well established, better performing recession-resistant loans in this environment. And if that's the case, then you're kind of selling off some of your best assets and I believe in some, I think, the -- I know it's a small portion, but some of the more troubled assets on your book. So can you just talk about the 150 -- over $150 million of asset sales, how were those selected and I guess, how those assets were selected?

Taylor Boswell ***TCG BDC, Inc. - CIO of Direct Lending***

Yes. It's Taylor again. The assets we sold were representative assets amongst our first lien book, I would say, in the portfolio, in line from a leverage and yield perspective and generally pretty diversified by sector. So I don't think that the net result of those $150 million of sales out of the $2 billion portfolio is any sort of significant skewing in the risk factors in the book. And they weren't actually, the preponderance of them were not liquid loans or BSL loans. They were mainly traditional middle market credits, which we're really, really pleased by and we've got a well-developed capital markets capability at Carlyle credit and it lets us find liquidity and good bids, even in very challenging markets. So those assets that we did sell some a shade below, some a shade above our 3/31 marks. But generally, in line and attractive. So I think we feel good about that activity and don't feel like we either priced a significant amount of NAV or skewed the risk in the book as a result of those actions. Okay.

Operator

At this time, I'd like to turn the call over to Dan Harris for closing remarks. Sir?

Daniel F. Harris ***TCG BDC, Inc. - Head of IR***

Thank you, all. We appreciate your time and attention this morning, and we hope you and your families stay safe and happy. Please call Investor Relations directly or we will contact you after the call with any follow-up questions.

Thank you very much. We look forward to talking to you next quarter.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating.

You may now disconnect.

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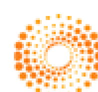

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