CRESCENT
Crescent Capital BDC, Inc.

Crescent Capital BDC, Inc. ("CCAP") Analyst & Investor Day Transcript
June 11, 2024

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PRESENTATION

Mark Attanasio

Slide 1 | Crescent Capital BDC, Inc. Analyst & Investor Day

Good evening and thank you for joining us for CCAP's Inaugural Analyst & Investor Day. My name is Mark Attanasio, Co-Founder of Crescent and principal owner of the Milwaukee Brewers. It's a pleasure to host this event from the Brewers' home, American Family Field. I can say with a high degree of confidence that this is probably the first public BDC Analyst Day ever hosted in the state of Wisconsin.

When Jean-Marc Chapus and I founded Crescent in 1991, we sought to build a firm singularly focused on credit with an emphasis on capital preservation and current income. While we've successfully launched and invested over 20 private credit funds over the past thirty plus years, CCAP is the sole public vehicle that we manage, providing a lens into the firm. As such, the success of CCAP has – and will continue to be – a strategic priority of Crescent's.

A consistent theme that you'll hear from us this evening is that CCAP benefits from its affiliation with the Crescent platform. We hope you leave this event with a better understanding of our platform, our track record and our experience investing across multiple cycles, which certainly has been exceptional from a default avoidance perspective and I think from other metrics now that people look at.

We've been -- sometimes your greatest weakness is your biggest strength. We're not great at marketing ourselves. It's a portfolio manager-run firm. And so we sort of share with you tonight how we look at investments in maybe a way that we don't typically. So with that, speaking of trying to market better, we brought Dan McMahon on board. And he'll introduce the rest of the program, and I look forward to seeing everybody later at the game. Thanks again, everyone, for coming.

Dan McMahon

Slide 3 | 2024 Analyst & Investor Day

Thank you, Mark Before we begin, I'll start with some important reminders. Comments made over the course of this presentation may contain forward-looking statements and are subject to risks and uncertainties. Past performance or market information is not a guarantee of future results. The Company's actual results could differ materially from those expressed in such forward-looking statements for any reason, including those listed in its SEC filings. The Company assumes no obligation to update any such forward-looking statements.

Following prepared remarks, we'll open it up to Q&A. Webcast participants can submit questions through the Q&A window on the webcast portal, so we'll be on the lookout for those.

So as you can see on the next two pages, we have senior leaders from CCAP and Crescent's Private Credit platform, more broadly, covering a lot of content this evening. So let's get started. Without further ado, I'd now like to turn it over to CCAP's CEO, Jason Breaux. Jason?

Jason Breaux

Slide 7 | Key Takeaways

Thank you, Dan. Hello everyone, my name is Jason Breaux and I'm in my 24th year at Crescent. For the past 10+ years, I've spent the majority of my time on our BDC effort. Thank you for joining our analyst and investor day. We are very excited to be presenting to you today. We appreciate your interest and look forward to providing you with information on Crescent and CCAP that we believe will give you a clear sense of what we are about.

You will hear from many Crescent folks today and the consistent themes that will come across are centered around our investment history, philosophy and process.

The takeaways that we hope to leave you with today are as follows: one, the Crescent track record in credit, which is all that we do, is extensive, two, the team is tenured, experienced and has worked together for a long time, three, we are credit investors first and therefore our approach to investment selection is consistent and disciplined and four, CCAP's attachment to Crescent has led to strong fundamental performance since inception and we think our stock represents an attractive opportunity to gain exposure to private credit with a proven, cycle tested manager.

Slide 8 | Why We Established CCAP in 2015

Before we dive into the platform, some background on CCAP. We established CCAP as a BDC in 2015 with three primary objectives: First, to bring our accredited investing experience to a broader universe of investors, and a BDC structure is an efficient way to do that; second, to further scale our private credit platform as we seek to be a solutions-oriented partner to both our private equity sponsors and our investors; and third, to have an investment vehicle that benefits from the collective resources of the firm and has the flexibility to invest in the most attractive opportunities that we see across the platform. The last point I'll make on this slide, which Mark touched on earlier, is that because CCAP is Crescent's only exchange-listed vehicle, it is the public lens into the broader Crescent organization. And therefore, the performance of CCAP and delivering a positive shareholder experience is of paramount importance to us.

Slide 9 | Progress Since Public Listing

Turning from why we launched CCAP to how we've been doing since listing. Let's look at some of the outputs of our cycle-tested investment process. From a NAV standpoint, we've generated a stable NAV per share since inception. In terms of earnings, we've reported record NII for the past five quarters and have shared our over-earn with shareholders via incremental distributions since introducing a variable supplemental dividend last year. We also just increased our base dividend to $0.42 per share based on our confidence in the resilience of our portfolio and its corresponding earnings power.

As you're aware, we completed two acquisitions since listing, which has provided CCAP with incremental scale. We approached these acquisitions of these portfolios with the same rigor that we apply to the underwriting of individual investment opportunities and the results are strong. The Alcentra acquisition, which is nearly fully realized at this point, has generated a 22% -- 21% net IRR. And finally, shortly after listing, we obtained an investment-grade rating and quickly diversified our funding mix by adding unsecured debt. Today, CCAP is rated BBB- with a positive outlook.

Slide 10 | CCAP's Approach has Delivered Outperformance

Let's look at a couple of comparative performance slides. Regardless of time frame, CCAP's performance on a NAV and economic return basis, relative to the broader BDC peer group, is strong. I'd highlight that even since CCAP's inception in 2015, the bar chart on the bottom left, which predates a portfolio or related yield, CCAP's relative performance is strong.

Slide 11 | Total Economic Return Performance

This page measures CCAP's economic return against the largest 20 externally managed BDCs on a 1- and 5-year basis, which, again, you can see CCAP's solid performance. It's important to point out the color coding here, which highlights which BDCs trade at or above NAV and which don't. As you can see, CCAP is surrounded by several peers who trade above NAV. This illustrates that based on CCAP's strong absolute and relative performance, we believe that it trades cheap when compared to our BDC peers and underscores our view that CCAP today represents a very attractive investment opportunity.

I'd now like to turn it over to Chris Wright to provide some insights on the Crescent platform.

Chris Wright

Slide 13 | A Leading Specialist Focused Exclusively on Corporate Credit

Great. Thanks, Jason, and welcome, everybody, and thanks for coming. I'm Chris Wright. I've been at Crescent for about 23 years. I grew up on the investment side. And today, I oversee our Private Credit business. So what I want to do is spend a little bit of time just going a little bit more specifically into the Crescent platform and explaining how we execute across the entire platform.

So, we focus exclusively on credit. And there's not many other people that can say that, but we focus 100% on below investment grade corporate credit. Today, we manage about $43 billion of assets under management. About 75% of that is in private credit. And the other 25% is in tradable credit. That tradable credit is syndicated loans and bonds, and we're a big CLO manager as well. We have about 500 client relationships, a 30-plus year track record that Mark described earlier. Today, we've got about 225 people at the firm. They operate out of five offices, Los Angeles, New York, Boston, Chicago as well as London. And when you look at the tenure of our senior leadership, it's right around 20 years, so we have a very tenured leadership team.

What we look to do is we look to deliver attractive returns with less volatility, lower default rates and higher recovery rates than the market average. Our platform is focused on providing solutions to our private equity sponsors that we partner with as well as the companies we invest in. Today, we have a platform that can do that. We focus on both the lower middle market as well as the core middle market, and we have strategies that can invest in everything from senior debt all the way down through junior debt.

The way that we think about credit is we focus on principal preservation. That is the one common theme you're going to hear everyone at Crescent talk about, is principal preservation. We focus on principal preservation, and we look to deliver a high current income to our investors. And how we do that is we utilize and we operate a collaborative culture that really focuses on research-driven bottoms up analysis. And so that's been successful over the past 30 years in delivering the returns.

Slide 14 | Why Crescent?

So why Crescent? In a crowded market space today, what is the differentiation? And we think we're highly differentiated. First of all, we're a pure play credit specialist. I mentioned that earlier. I think that is important for a number of reasons. In the days of asset gathering that we're in today, we have stayed true to our core expertise, and that's focusing on credit. We also think it provides us with some advantages. Sponsors, they know that we're not going to be competing with them in any way. And they know that we're also in this business. We've been in it for a long time. They know we're going to be in it for a long time in the future as well. And so they know that we are credit specialists and they like partnering with credit specialists, especially in today's world where private credit providers are becoming much more important to helping sponsors execute their investment thesis.

Secondly, we have a team with a long track record. That's a big differentiator. It provides continuity with the sponsors. We call on sponsors and when you call on someone when they're an associate and you're still calling on them 20 years later and they're managing directors and managing partners, that's a very strong relationship that goes back over a period of time. It also gives us an incredible depth of market knowledge and a library of learnings that we can draw from. And it also -- from a team standpoint, it allows us to have constructive debate. Our investment process is void of egos, and you get that over time in working together. We have a fully integrated credit platform, $43 billion that I mentioned earlier. We have broad coverage, both across private and public credit. It makes us big enough to be important and relevant to all the sponsors and companies that we invest in. But we're of the size where we can also be nimble. We can invest in small companies. We can stay with those small companies as they get larger. That's the value of incumbency. We talk a lot about the values of incumbency. And today, that value of incumbency is stronger than it's ever been in my 20-plus years in the business.

And then lastly, we have a 30-year track record. This is across multiple cycles, investing in senior debt, investing in junior debt. And through that thirty years in junior and senior debt, we have a historical net loss ratio of 7 basis points. So when you put a focus on credit, together with a team that's been together a long time with a 30-year track record and a platform that we have, we think that is a real differentiator.

Slide 15 | Investing in Credit Across Market Cycles for More Than Three Decades

So how we've built the business over time, you can see it was founded with Mark coming out of Drexel back near the end of the junk bond crash. We've thoughtfully grown it across the years across cycles. We've grown both the public and the private business in conjunction with each other. It wasn't like we built one and then added on another. We built them together. We identified synergies. We integrated the capabilities, and we grew them in conjunction with each other.

So while we started in Europe, you see we opened an office in 2004 in Europe. We actually started investing in Europe in the '90s. And so we were a global private credit firm before the words private credit even existed. And we've thoughtfully grown it. We've expanded senior direct lending in both the U.S. as well as in Europe. Obviously, launched CCAP in 2015 and then our latest add has been the nontraded BDC, which we launched just last year.

Slide 16 | Long Dated Track Record

Here's a -- this chart, I think, is very informative. It shows cumulative originations as well as the cumulative number of deals that we've closed. In our view, it's the deep investment team and bottoms up credit analysis and the long-standing relationships that are really the foundation to which has allowed us to grow the business the way that we've grown it. We've invested $39 billion in over 585 transactions and over 20-plus private credit funds. When you look through what we're -- the companies we're actually looking at, we have an approval rate of less than 3%, so we look at a lot of companies in a lot of different industries. And so that credit selection process has resulted in that 7 basis point historical net loss ratio that I mentioned earlier. I think the other thing that's informative on this chart is the sudden growth, the question everybody has on the sudden growth in private credit. The reality is we've been in private credit for a long time and we have a history of steady methodical growth. And so we've been thoughtful about how we've grown this business, how we've grown this platform and how we approach the marketplace.

Slide 17 | Experienced Team

Here's the team, the 225 people that I mentioned earlier. It's roughly 50-50 investment team and operations team. You'll see our largest population sits on the private credit side and the investment professionals in the private credit side with 80-plus professionals. When you do a deeper dive on the team, we're one of the most tenured teams in the private credit space. We think that one of our key strengths just lies in the longevity of our senior investment professionals. The senior team has been with Crescent, on average, 12 years. And this continuity allows us to successfully navigate the various economic cycles. I actually added up the page that Jason had on there earlier: just the people here represent 157 years of experience at Crescent. So we've got a lot of years of experience sitting in this room just at Crescent.

Slide 18 | Crescent Private Credit Team Continuity

When you look at this, 85% of our senior people have been with the firm for over 5 years, it's really our commitment to growth. That's our commitment to investing in our investment professionals because most of our people that excel and most of our senior people have been here since they were associates. So we invest in people, and we foster career growth opportunities for them.

Slide 19 | Access to Resources of SLC Management

I think most of you are aware, in 2021, Sun Life made a majority investment in us. Sun Life capital today is about $275 billion of assets under management. They are the asset management arm of Sun Life Financial, the publicly traded insurance company out of Toronto. In aggregate, there are about 750 investment professionals, over 1,400 clients served. What they do is they operate a multi-boutique investment strategy. What that means is they allow us to operate very independently. We have maintained our culture. They're not involved in any of our investment decisions. And so it allows us to continue to be nimble, yet we have the resources and access to capital of a much larger organization. And so we sort of get the best of both worlds. They've been very supportive of us. They've supported the CCAP stock. They supported the First Eagle acquisition. And so we have a very good relationship that gives us access to a lot of different resources. And that will continue, obviously, into the future.

Slide 21 | Crescent's Investment Strategy

So now we're going to kind of shift over to investment strategy. Our investment approach really is kind of hinged on finding high-quality businesses and defensible market positions that have sustainable competitive advantages and strong management teams. Our success is really rooted in the well-established processes that we've developed across multiple cycles. We've always embraced a collaborative approach to origination, to underwriting and to monitoring. And those are, really, the three building blocks to building a successful private credit business. On the origination side, we're looking at the core and the lower middle market, working with well-established sponsors. When we originate, we then underwrite, obviously, with a focus on principal preservation. We take a fundamental credit approach with a lens through ESG. And then we are very, very active in the monitoring. So I'm going to have Albert Lee talk a little bit more specifically about origination. Thank you.

Albert Lee

Slide 23 | Differentiated Middle Market Approach

Thanks, Chris. Appreciate you all for joining us today. As Chris mentioned, my name is Albert Lee. I've been with the firm for 14 years. I'm an example, as Chris mentioned, of someone that's been with the firm since I was an associate, so pretty much built the entirety of my career here at Crescent. I'm currently a Managing Director on the Private Credit team here at Crescent, focused on origination, underwriting and management of the portfolio.

So at this point, we want to spend a few minutes drilling down kind of on our approach to the private credit market and origination specifically. When we think about Crescent's approach to the broader private credit markets, I think it's important to really focus in on what part of the market we've built our business and our 30-plus year track record and why we've done that.

Our team has a long-standing belief that investing in businesses below that $200 million EBITDA threshold really provides us with an advantage that leads to differentiated outcomes and stronger credit returns in the long run. There's no secret that in recent quarters, we've seen a lot of competitive tension between the syndicated markets and the private credit markets. We're seeing a lot of swinging back-and forth of transactions between the two. That being said, I do think it's important to remember that the average tranche size of transactions that are being refinanced by the direct lending markets from the syndicated markets is well north of $1.4 billion over the 2023 year period. That sits squarely in this upper middle market segment that we've shown here, that you see on the slide, and sits outside of the traditional markets that we've operated in.

Because the segment of the market that we operate in typically is not able to access the syndicated loan markets due to issuer size, we're not really facing that competitive tension that has driven tighter pricing and looser documentation over the past few quarters. This provides us with an opportunity to truly lead our transactions and drive that documentation.

We're really focusing in on stronger cash flow retention and tighter EBITDA definitions, which we know drive everything within the credit docs today. Also, because we're able to lead our transactions, we're able to obtain enhanced monitoring rights, which really allow us to be proactive versus reactive as we think about our approach to the portfolio. We believe that this is an inherent advantage for private credit markets, and more specifically, here at Crescent, because it allows us to stay out in front of any potential problems before they may arise. Having this consistent dialogue with sponsors and our management team partners allows us to develop a rapport with key stakeholders and really understand the story behind the numbers. Our approach to sourcing specifically is comprehensive, while at the same time being very selective in terms of who we spend time with.

Slide 24 | Crescent's Geographic Focus

What you'll see here is an overlay of our coverage efforts that provide us with strong global origination capabilities. Our teams across the U.S. and in London focus on jurisdictions that we've transacted in for over 20 years and that we view as creditor-friendly. Crescent has a distinct focus here domestically with teams in our headquarters of Los Angeles as well as New York, Boston and Chicago.

Additionally, our large London-based team is able to supplement deal flow for CCAP from leading European sponsors. While 90% of the CCAP portfolio is in U.S. domiciled companies, we believe that the ability to opportunistically invest globally is a true differentiator for the platform and allows us to invest across uncorrelated geographic business cycles.

Mitchel Penn

Are you guys hedging the currency at Crescent?

Gerhard Lombard

Mitchel, let me take that. We are. We hedge in two ways. Through derivative instruments or we borrow on our credit lines in local currencies.

Albert Lee

Slide 25 | Trusted Relationships

So a common question that we often get asked is why do specific sponsors choose to work with Crescent versus our peers? The answer is really quite simple. It's really about tenure, trust and consistency. These are partners that have worked with our firm for over 30-plus years across multiple economic cycles. They know how we're going to react and they know that when we talk about a partnership approach, we have real proof points that we can back that up with. This is why we've completed multiple transactions with almost half of all the sponsors that we've worked with across our history.

The ability to speak to transactions with speed and certainty can't be understated. The consistency of process and team at Crescent allows us to deliver that. We have a highly disciplined and repeatable approach to investing that allows our deal teams to underwrite in an efficient and effective manner. And with the vast majority of Crescent's senior investment team having been at the firm for well over a decade, there's a trust and openness of dialogue across the investment process that allows for greater transparency and consistency of approach. This fact, along with the team that –every deal team follows an investment from origination through underwrite all the way to realization ensures a strong alignment of interests across the team and consistency of communication to our sponsor partners. Sponsors have a strong appreciation that their coverage team also owns the credit internally.

Slide 26 | Focus on Sponsor Backed Transactions

On this slide here, we're seeing the benefits that our longstanding sourcing channels have provided for the Crescent platform over the past decade. Our investment teams benefit from a consistent flow of transaction opportunities to work through that really allow us to be selective as evidenced by our annual funding rate of 3%. Another critical point that I'd like to hit on is how we approach our sponsor relationships. At Crescent, it's really about a focus on depth of relationship versus breadth of relationships. We view these sponsors as true partners that we have found a strong alignment with across both investment parameters and style as well as a consistent approach to partnership that allows for a strong dialogue and openness of communication. This leads to a core set of sponsors that we really focus our coverage efforts on in order to deepen those relationships over the years, while executing multiple transactions with each. This builds a trust across the firms that allows us to have difficult discussions when necessary, without the concern that it could strain partnerships going forward, something that's going to be critically important in times economic stress.

We're also consistently looking to selectively supplement this group with firms that are a strong fit to our investment style and approach. This focus on building deep relationships has translated into multiple relationships across our firm's history that have spent decades across hundreds of transactions. These types of relationships ensure that we are able to, not only invest in, but lead transactions with our core sponsors and businesses that fit our investment criteria to a T.

Over time, sponsors develop a strong knowledge of what we like and in turn, know which transactions will be a strong fit for us and are sure to make sure to call us first on such transactions. These sponsors also lean on us to provide them with thoughtful and timely feedback on how things should be structured and have a trust with their Crescent counterparts that's really un-matched across the market.

Slide 27 | Most Active Relationships Span Decades

While it's obvious that competition has increased, it's truly hard to displace relationships that have been cultivated over decades. We can provide no stronger evidence than what you see here on this slide, demonstrating strong sponsor relationships that have been built over multiple transactions and decades that continue to this very day. And with that, I'll pass it over to my partner, Chris Wang, who will provide some more color on our origination and underwriting processes.

Chris Wang

Slide 28 | Leveraging the Crescent Platform

Thanks, Albert. Good evening, everyone, and it's great to be here with you tonight. My name is Chris Wang, and I've been with Crescent for 13 years. I focus on Private Credit. I'd like to spend the next three slides talking through the power of the Crescent platform, and more specifically, the power of incumbency that the Crescent platform provides. The beauty of CCAP is that it accesses and leverages the entire Crescent platform, all 30-plus years of relationship building, sourcing and credit underwriting experience, not to mention our market presence and our reputation.

As you know, we go to market as one unified entity, Crescent. In just the past 5 years, through Crescent's private credit strategies, CCAP has reviewed over 8,000 new investment opportunities. In that same amount of time, Crescent's private credit strategies have collectively invested over $25 billion of capital. You'll see here that CCAP typically represents anywhere from 5% to 9% of that volume. This enables CCAP to participate in transactions alongside the size, scale and AUM of Crescent, where the aggregate Crescent commitment to a single issuer may be several hundred million dollars, yet this still allows CCAP to have a highly diversified portfolio of almost 200 issuers with an average position size of $10 million.

Mitchel Penn

Who do you normally see competing for your deals? Like, what other BDCs are there in sort of your peer group?

Chris Wang

Yes. I would say – so it's actually very specific depending on the size of the company and the sponsor. So we see a lot of the sponsors. They each typically have their relationships that they've worked with for many years. So it would really depend, I'd say, based on the size of the company and sponsor. We typically don't see the same competitor across the board. That will be pretty rare.

Mitchel Penn

So pick a size and just tell me who the peer group is, I don't care.

Chris Wang

Jason, how do you think about it?

Jason Breaux

I would say it's not entirely consistent, Mitchel, but we could run across Ares, at times, certainly Golub, at times. Down in the lower mid-market, there's really no one that can speak for meaningful size in the lower mid-market like we can, but we can come up and sometimes partner with Apogem or with Twin Brook at times, NXT sometimes.

Troy Ward

One of the things that I noticed when you talk about the core middle market, it seems like it's a little wider, the brackets that I've seen a lot of folks put on it, maybe the core middle markets grows from $40 million to $80 million or $40 million to $100 million. The top end of what you're calling $200 million. How has that changed or has it changed in your 20-plus years? Have you seen your EBITDA targets increase and maybe some of your sponsors look up as well? So, I mean, how has that changed? And is $200 million core middle market? Or is that the bottom? Or the upper end?

Jason Breaux

It's a good question, Troy. I think part of it is we are trying to be solutions oriented to our sponsors. And as our sponsors grow in size, we're trying to be able to service them the appropriate way that we can. So as new sponsors do move up to slightly larger companies, we're trying to accommodate that by being a solutions provider to them. When we think about core mid-market versus upper mid-market, some of the delineation comes around what's really competitive with the broadly syndicated loan market, where you generally need kind of $1 billion-plus in tranche size to have, I would say, merit to pursue the broadly syndicated loan market where you can get an attractive rating, justify the cost of those ratings and attract CLO demand, really, which is the primary buyer of those instruments.

Chris Wang

Slide 29 | Incumbency Is a Stable Source of Deal Flow

Great. Next slide please. So one of the key benefits of the Crescent platform is being the incumbent lender. So our existing portfolio provides a proprietary investment opportunity pipeline as well as credit advantages. First, I'll talk a little bit about the sourcing benefits. As the incumbent lender, you are the first call for any additional capital needs. So this can include add-on acquisition financing, recapitalizations or even a change-of-control transaction.

Crescent's lower middle market presence provides an early look at new opportunities as those companies transition to their next phase of growth. This is noteworthy because most core middle market lenders do not have a lower middle market presence, so we're able to start our relationships with these companies and these management teams at an earlier time. There are clear credit underwriting advantages as well. As an incumbent lender, many times, we have gotten to know these companies very well. We may have seen the management team at every quarterly Board meeting for the past 5 years. We may have had a first-row seat to see how they've managed through the pandemic, through labor wage pressures, through supply chain disruptions. This knowledge and background will then provide us with a benefit to be able to move quickly and with conviction to re-underwriting that business. Incumbent-related investments have averaged just under 30% over the past 5 years.

Robert Dodd

Just on that. I mean, talk about the advantages of underwriting and the other advantages in underwriting outcomes -- sorry, I mean -- so it's been, call it, 30% of commitments, what percentage of losses have come from follow-on incumbent second-time borrowers versus first time borrowers?

Chris Wang

Right. So, I'd definitely say one of the clear advantages is you get to know the company very, very well. And if you reinvest -- so even for existing incumbent positions, we re-underwrite those positions. So we go through the entire re-underwriting process. So if you looked at our incumbent positions, they generally are going to be very well-performing businesses, as you would expect. If it doesn't perform well, if we have a reason to believe it isn't a solid credit, we wouldn't reinvest in it. So we definitely have higher conviction, more information and more background in these incumbent positions.

Robert Dodd

But are you right more often? Higher conviction doesn't mean you're right at the end.

Chris Wang

Yes.

Robert Dodd

It means you believe you're right at the beginning.

Chris Wang

Yes, I would venture to say we would have lower loss ratios, lower loss rates, lower defaults on those positions.

Slide 30 | Case Studies – Incumbency

So on the next slide, I'll walk you through two case studies showing the examples of incumbency at work. These two case studies illustrate how symbiotic the relationship is between Crescent and our portfolio companies. We oftentimes help these companies grow from a very early stage. You'll note that both of these businesses are in recession-resilient cash-generative businesses. The company on the left is a full-service provider of nondiscretionary fire inspection services. In 2019, we supported that business with a $200 million commitment across funded and unfunded debt. The company at that time had $24 million of EBITDA. Through multiple rounds of incremental growth financing, the company grew their EBITDA over 10x to $247 million today. We grew our investment, utilizing our position of incumbency to $519 million investment today across the Crescent platform.

On the right-hand side of the slide, this company is a leading independent distributor of life and health insurance products focused on the senior market. This is another 2019 investment. We made a $90 million commitment in 2019 when the company had $83 million of EBITDA. Fast forward today, they grew EBITDA nearly 9x to $742 million. We increased our investment in this business by about 5x to $479 million today.

Mitchel Penn

Should we assume, like, in the $200 million case and the $90 million case that -- you have a full set of covenants, right? These are smaller companies the first time. And as you refinance or give them more capital, do the covenants change? I mean, are we seeing a lot less covenants? I'm just curious where it breaks.

Chris Wang

That's actually a really good point because one of the benefits of incumbency is when you start financing businesses when they're smaller, typically, the documentation, if you think about the way the incremental financing is structured, it's structured as an incremental financing through the existing document, so you actually retain a lot of the covenants, a lot of the baskets, a lot of the ratios of a smaller business, even though it's now much larger. So we've definitely seen that as a benefit. So we retain a lot of the strength in documentation as these companies grow.

Slide 32 | Underwriting in Today's Environment

So next slide, so origination is just the first step of our investment process. Our core credit discipline stems from the underwriting standards that we have established for over 30 years. Over this next section, I will walk you through an overview of our approach to underwriting, our credit philosophy and how we apply that approach to different sectors. Afterwards, Ray Barrios will come up and cover our approach to structuring deals and wrap up the discussion with how ESG is incorporated into our underwriting framework.

So before we jump into underwriting, I'd like to provide a little bit of context to help frame our approach. We hear a lot that private credit, as an asset class, is new and is not cycle tested and is unproven. There's a lot of hypotheticals that we hear about it. We hear about questions of what happens to private credit in a recession, what happens to private credit when there are high interest rates. Here at Crescent, it's not hypothetical. We've actually invested in private credit for more than three decades. So our team has actually invested through multiple market cycles. We invested through the dot-com crisis, the global financial crisis. We've also invested through prior periods of higher

interest rates. People seem to forget interest rates were higher than they are today in the '90s and the 2000s. So one of the things that we're very proud of is our track record of actually having invested in these different market environments.

Our success can be attributed to maintaining a very consistent investment focus and strong underwriting discipline. So how do we underwrite in this market today? We invest behind recession-resilient businesses, where we have deep prior investment expertise. Again, the benefits of incumbency, the benefits of seeing tens of thousands of deals over 30 plus years. This has led us to investing in primarily non-cyclical businesses in sectors like health care, software and business services. We invest behind highly cash-generative business models with high free cash flow conversion. This means we typically do not like businesses with high capital expenditures or high working capital requirements. We like businesses with a high percentage of recurring revenue as well as companies that provide a mission-critical product or service, that means they have more pricing power with their customers and more negotiating leverage with their suppliers.

It's not just making sure we're investing behind the right companies. It's also making sure that we're structuring the right capital. So we are very intent on making sure these capital structures are prudent. They have the right leverage and currency tests and they have the right loan to values. The right capital structure will allow a company and a business to withstand periods of high interest rates and economic weakness.

And finally, we have a cycle-tested approach to how we protect our capital through directly negotiating stringent documentation. First, we pursue covenants that matter with tighter contractual protections. We don't want cash leaving the borrower so we restrict the borrower's ability to incur additional debt or to pay out dividends. That means there's more cash left at the borrower to service our debt. Our enhanced information rights, which you've already heard about, oftentimes include Board observation rights and monthly reporting packages allow us to track company performance more closely. And then if needed, we can then utilize our tighter contractual rights to get to the negotiating table sooner and achieve a better outcome overall. And I think it goes without saying that in order to achieve these goals, you do need to lead deals. We think it's very important that when you lead a deal, you get to directly control documentation, structure, pricing and you know what you're getting into.

Bryce Rowe

What percent of deals do you guys, roughly -- what percent of deals do you guys lead or co-lead on origination?

Chris Wang

Yes. I don't know the exact number off the top of my head for the whole portfolio. I don't know if Jason or someone else does, but it is the vast majority.

Jason Breaux

It’s a meaningful majority across CCAP, and it somewhat depends by fund. It’s probably higher in the private funds, and the reason -- it's probably higher in the private funds, maybe upwards of 80-plus percent. The difference there, oftentimes, is on the private fund side, you're trying to get significant allocations where you're trying to put maybe multiple hundred million dollar slugs to work.

And on the CCAP side, we can be a little bit more nimble because we don't have to put as much capital to work. So if we're running on a few trees for a property with some sponsors and those sponsors don't prevail, but we like the credit, we've already underwritten the credit, maybe one of our peers might be the agent on and partnered with the winning sponsor, we might talk to that agent and see if we can find a way to participate in that transaction because we've already done the work and we like the credit. Because that will probably be a smaller check, it would likely enable CCAP to participate in that transaction, whereas maybe it can't be justified on the private fund side because they can't get enough paper.

Chris Wang

Slide 33 | Mature, Resilient Businesses

Next slide, please. The first thing that you learn about Crescent is probably our conservative reputation. And how did we earn that reputation? It really starts with our approach to credit. So, we have a philosophy of what is a good credit versus what is a bad credit. Credit is binary for us. That starts in the types of businesses that we invest in. These are mature companies with annuity-like revenue streams. We care about cash flows a lot. We are a cash flow lender, so we like businesses that have been operating for a long time, have a history of being able to generate cash flow consistently. These companies are typically market leaders. Again, low CapEx, low working capital requirements. We do avoid cyclical businesses. We avoid businesses with high capital intensity, and we avoid turnaround situations. We also avoid annual recurring revenue loans, or ARR loans, primarily because they are not driven by true fundamental cash flow, which again, we are a cash flow lender, and they are not cycle tested. For us, credit is binary, again, we do everything we can to make sure we get our capital back to preserve our principal.

Mitchel Penn

Do you guys ever track the ones you pass?

Chris Wang

We do. We do, and so for example, why we passed -- these are very typically a very quick pass. So these are -- we know that we don't like high-capital intensity. We know we don't -- we avoid annual recurring revenue loans, right? So if we get a call from one of our sponsors with an annual recurring revenue loan, we can turn that down very quickly. They appreciate that quick feedback.

Mitchel Penn

What I mean is do you track, like, five years from now, you go back and you look at all the ones you passed on to see how they perform versus the ones you accepted, right? Like, in the money management business, we used to do that all the time, right? If we didn't do an investment, we bought something else, we track it and see if we were any good, right? How do you know if you’re…

Chris Wang

Yes.

Jason Breaux

We do look at performance of deals that we pass on. I think the difference between maybe an equity book and a credit book is that many of the deals that we pass on might actually pay off fine. But we have to be extremely selective because one miss is costly in a credit fund. And we're all capped on our upside, right? So our goal is to really avoid losing investments and generate a very high batting average on the investments that we make.

Chris Wang

Slide 34 | Sectors in Focus – Healthcare and Software

Yes. I mean, when you think about credit, right, alpha is really generated by loss avoidance. We can't have the losses.

So -- next slide. So I want to walk through -- walk everybody through a couple of examples of how we approach two different sectors here, so healthcare and software, and we'll start with healthcare. So when we invest in health care, we look for companies with stable demand drivers, predictable recurring revenue models, sticky customer relationships and high barriers to switching. We look for healthcare businesses that not only exhibit strong defensive characteristics such as being uncorrelated with economic cycles, but also benefit from significant macro growth tailwinds. An example would be a company that helps offer critical value-added solutions like cost containment to the healthcare industry. That is something that is going to be a significant macro growth tailwind. Depending on the

subsector within health care, there are several unique diligence areas that you need to dig into. I'll give you a couple of examples.

For certain healthcare businesses, you do need to form of view of how good the recurring -- the revenue cycle management function is at that business. You need to understand what does the payer mix look like, what's the commercial payer mix versus the government payer mix, what are the CPT codes for reimbursement, how have those codes trended over time, what do the labor retention statistics look like. And finally, if this is a multisite healthcare business or de novo business, have they sufficiently invested in the infrastructure of that business to support the multisite healthcare business.

Things that draw extra scrutiny or skepticism from us in health care, include high acuity businesses like hospitals, which we tend to avoid. Single-payer businesses carry significant risk as well as companies that offer a more commoditized offering. We spend a lot of time digging into the company's growth thesis, including if it's a, "build versus a buy" business or it's an organic growth thesis. So all of those things matter.

Next, in software, we look for franchises with a large installed base of users generating predictable, contractually recurring revenue from subscription and maintenance plans. We like companies that have a highly embedded mission-critical solution that carries a high cost of failure, yet represents only a small fraction of the company's total operating expenditures. This means there's pricing power and leverage in contract negotiations.

High customer retention is key. Once a customer adopts and gains expertise with the specific software offering, they may adopt it on an enterprise basis. And once they do that, they may be unwilling or unable to switch providers given high switching costs. Finally, in software, high margins, minimal CapEx, tax assets, low working capital requirements contribute to high free cash flow conversion, which we like for our businesses.

Mitchel Penn

Are you guys doing, like, you're typically 5-, 7-year loans, right?

Chris Wang

That's right.

Mitchel Penn

So are you doing like 10-years analysis? 20-year analysis? Because you got bullets, right? These are, essentially, bullet loans. So somebody either -- they have to refinance it or you have to be comfortable they can take you out, right? So I'm just curious if you're doing 10-year analysis? 20-year analysis?

Chris Wang

Yes. So when we think about credit, so first and foremost, we're credit investors. So we're always thinking about the downside. So I would say when we're projecting the next 5, 10, 15 years for a particular company, we're projecting a base case, but then we're projecting multiple downside cases. We're always thinking about what could go wrong, right? What if revenues decline, what if costs go up, what if they lose one of their biggest customers, what happens if regulatory changes occur and they start having different headwinds or having different requirements. So we always think about the downside in many, many ways.

We do want to make sure the company is a good viable business. Again, we're credit first and we're credit binary. So if the company is a company that we don't think will exist in 10 years, we're not going to invest in that business. So the fundamental core is always going to be credit first, that credit has to stand on its own, and then we will poke as many holes as we can in that credit. If it makes it through that analysis, then we'll invest in it.

So on software, things that we avoid, we talked a little bit about before ARR loans, which, again, we avoid because we are cash flow lenders. We are very careful to understand what is recurring versus reoccurring. We always look

into the margin sustainability of these software businesses and really understanding the tech risk. We want to be on the right side of the tech risk.

Mitchel Penn

How do you deal with AI?

Chris Wang

So this is a great question. So we -- I think every investor, every person on this planet is thinking about AI, We are thinking about it, too. So again, we're credit investors and we think about AI in terms of how could it disrupt every single business, right? We are in the boardroom for a lot of our portfolio companies, and we hear them talking about how can we utilize AI to drive this business forward. So it is very much very topical. It comes up with almost every business that we think about that we talk about. Again, when you think about the next 10 years, what are some downside scenarios? How could AI impact this business.

Slide 35 | More Layers to Diversification

So the next slide, please. So here, we lay out the sector exposure across CCAP's portfolio. You'll see that this portfolio is highly diversified by sector. And as you would expect, given our focus on noncyclical businesses, highly cash flow-generative businesses, the top three sectors are healthcare, software and business services. But there are many layers to diversification. Companies may be bucketed together in the same sector, but they may have different demand drivers, revenue models and cost structures. So I'll give you a few examples. Within healthcare, we further broke it down into healthcare providers, healthcare service and healthcare equipment.

If you think about it, there's a very diversity of demand drivers, even within healthcare providers. The demand driver for hospice is different and uncorrelated with the demand driver to veterinary care, which is uncorrelated with the demand driver for behavioral therapy. So we do think about diversification very carefully. Same goes with software. Here, we've broken it down based on end markets. So as you would expect, a software business serving a variety of end markets, each one will exist in a different ecosystem that adds additional layers of diversification to the business. So with that, I'd like to introduce my colleague, Ray Barrios, who will walk you through additional insights on how we approach underwriting.

Raymond Barrios

Slide 36 | Credit Is in Our DNA…Details Matter

Hey, everyone. Ray Barrios. Like all the other speakers, I started my career here at Crescent as a junior investment professional. I'm entering my 16th year here at Crescent. So, details matter when structuring transactions and negotiating credit agreements. It's extremely easy to focus on headline leverage and covenant data points. And oftentimes, a lot of people take these things at face value. However, we at Crescent believe it's critical to dig deeper and really understand the details to minimize our risk. It's the details that can determine a good or bad outcome for us as lenders. Take leverage. Lower leverage is obviously better, but leverage can be easily manipulated. Our approach at Crescent is to focus on tighter EBITDA definitions to limit add-backs and other noncash adjustments.

Ultimately, our focus is on actual cash flow generation. It's actual cash flow -- cash inflows that pay our interest. It's not defined EBITDA or other noncash adjustments. Maintenance covenants are clearly helpful protections but they can often be a lagging indicator of performance and sometimes may be set too wide. So at Crescent, we're really focused on – and others have talked about this – on getting enhanced monitoring to provide the best access to real-time information, minimizing cash leakage. We want to minimize any restricted payments, especially while our debt is still outstanding. And we also want to limit the ability to incur additional debt post closing. So we're very sensitive to the ability of companies to lever up beyond initial closing leverage.

Mitchel Penn

Do you have carve-out buckets?

Raymond Barrios

Yes. There are certainly things that we'll carve out for, and it's going to be bespoke and customized to the needs of every single business. But there -- as we think about sizing baskets and ability to incur any debt or pay any money out of the system, it's going to be a highly negotiated point that we're trying to limit as lenders.

Mitchel Penn

I assume it's just limited to a percent of the total debt…

Raymond Barrios

Yes. We're always very focused on the amount of debt that they can incur. Sometimes it's tied to a percentage of EBITDA. So it's going to vary from basket to basket. But we're obviously trying to avoid those situations where we can get hurt as creditors.

Robert Dodd
Do you do revolvers when you -- so do they have covenants preventing, prohibiting use of the revolver to pay the interest?

Raymond Barrios

Yes. So if there's a covenant trip, then access to...

Robert Dodd

No, but if it's compliant with other covenants, they just want to draw the revolver to pay the interest on that main loan, can they do that?

Raymond Barrios

Typically, there are certain -- there's some latitude in what they can use revolvers for. But to the extent that cash flow is getting tight, obviously, that's something that we're trying to limit. And that's typically going to get captured by one of the other maintenance covenants that are already built into our credit agreements.

Chris Wright

Yes, I mean, the reality is cash is fungible.

Robert Dodd

Yes. Exactly. That's the…

Chris Wright

So you have the liquidity covenants but the cash is fungible.

Mitchel Penn
But I assume if somebody does that, you're looking at it, right? Like that's a trigger, right?

Chris Wright

Absolutely. Absolutely.

Raymond Barrios

We're tracking revolver utilization. So any time there's any sort of revolver draw and if we see a tick up in abnormal revolver utilization in conjunction with watching the monthly financials that we're receiving, that's a call to the CFO or a call to the sponsor, "Hey, what's going on here?"

Slide 37 | The Upper Middle Market Conundrum

The upper middle market conundrum. So there's been a lot of media coverage on the rapid and aggressive fundraising in private credit. That's certainly been the case with the rise of fundraising in the retail channel. Non-traded BDCs alone have raised close to $30 billion of equity in the last twelve months. Most of the capital has been concentrated in a handful of the largest managers with continuous monthly inflows of capital. So just in the month of May, the top four managers, by fundraising, have raised pretty staggering amounts, $300 million, $430 million, $600 million, $1.2 billion. So that's just equity and that doesn't include available capital from fund leverage. So this has created a lot of pressure for managers to actually deploy that capital. It's easiest and most efficient to deploy capital in the largest companies so they could write checks of size and scale.

Mitchel Penn

At what spread does it not become economic, right, because what you're saying is you've got all this competitive pressure, the industry does. And we all know you can borrow at a spread of x, right, and you're an "invest" in x. Where does it -- like, when you think about it, we're around 500 over SOFR, 550…

Raymond Barrios

It's really going to be a function of competing with the broadly syndicated loan market. And when you're talking about the amounts of capital that's being raised and this is what -- we've talked a lot about the greater than $200 million of EBITDA, that's the market that's really competing head-to-head with the broadly syndicated loan market. And it's a resurgent broadly syndicated loan market. Obviously, this year, it's come alive and has been looking to take market share back from private credit. So when private credit competes directly against the broadly syndicated market, those terms tend to converge to look a lot more like broadly syndicated terms.

Mitchel Penn

But you guys haven't seen spreads compress in your market?

Raymond Barrios

It's much more muted down market. So when you look at the lower and core middle market, it's not as acute as it is in the broadly syndicated and upper middle market. So our view is that bigger doesn't necessarily mean better, especially in the cases when bigger means it looks a lot like BSL markets.

Slide 38 | Targeted Approach to Seniority

So we have a very targeted approach to seniority. Crescent is deliberate on investing in the right place in the capital structure for every single investment. For example, we don't like to invest in junior debt positions in smaller companies. However, we are willing to invest in junior positions for larger, more established businesses. Importantly, Crescent's heritage is in junior debt investing. Our track record in mezzanine debt goes back to 1992. Our experience and knowledge in investing deeper into the capital structure is invaluable even when underwriting unitranche investments that stretch deeper than traditional first lien loans. The weighted average EBITDA for our first-lien investment is $33 million. As you can see, the deeper we go in the capital structure, the larger the company.

Slide 39 | Market Segmentation Drives Structure

Next slide. Similarly, company size is one of the factors we consider in determining how much leverage is appropriate. In general, larger, more stable companies should be able to support more leverage. For the few upper middle market companies in our portfolio, i.e., greater than $200 million of EBITDA, leverage tends to be higher at 6.8x, and maintenance covenants are less common. We have these protections in about 25% of these deals.

Importantly, we're not really doing much in the greater than $200 million EBITDA segment. It's only 4% of our debt portfolio today. As you look down market, at our core and lower middle market focus of less than $200 million of EBITDA, we structure leverage more conservatively at 5.5 turns on a weighted average basis and with tighter covenants. We have maintenance covenants in about 3/4 of our deals.

Mitchel Penn

What's the relative performance in the different buckets in terms of credit losses? Because you guys play in the BSL, right, through your CLO group I'm just curious, are you – is it pretty constant? Or is there…

Raymond Barrios

I mean, when you're looking at broadly syndicated loans, I think the stats that we've seen is that loss rates for BSLs, over several decades, the data indicates it's about 100 basis points. And that's – several people have mentioned it here today, but Crescent's loss ratio over 3 decades is 7 basis points, so it's a pretty big delta relative to the BSL market.

Slide 40 | Investing Responsibly to Guide Better-Informed Decisions

Raymond Barrios

Like many firms, Crescent has integrated ESG considerations into our investment process and decision making. Ultimately, we believe ESG integration makes us more informed investors by incorporating these considerations into our diligence process. Many industries or issues that would flash red on an ESG dashboard are generally ones we would tend to avoid anyway, given our focus on noncyclical high-free cash flow generative businesses. For example, given the highly cyclical nature of energy markets, you generally won't see us investing directly into oil and gas companies.

Troy Ward

We use an outside service for ESG and I've never found them to be accurate or they never look at the right stuff. They're sort of -- it's almost like they're grading CFA exams where they look for keywords.

Raymond Barrios

Yes, yes. So in our liquid credit business, we do use an outside service. I think it's MSCI that provides similar -- a similar type of service. On the private side, it's much more of a bespoke analysis that evaluates these ESG considerations on a case-by-case and company-by-company specific basis.

Troy Ward

Are you getting any indication that investors, particularly international, are wanting to see more data on the BDC portfolios relative to ESG and scores and things like that?

Jason Breaux

Definitely out of Europe, Troy, we are seeing more anchoring on that front with European investors, and they're looking for carbon analysis as well. Europe seems to be a bit more sensitive on ESG considerations relative to what we're seeing here States side.

Troy Ward

I manage capital for some international investors. And I haven't been asked yet. And it's quite -- honestly, it surprised me that -- because we're getting it in all other avenues across the credit platform and then from investors and they convey ESG scores on their portfolios. And I have not been asked yet on BDCs. And right now, I can just say it's not available because I only have what you provide. Do you anticipate providing more detailed information on ESG in your portfolio?

Jason Breaux

I think it's a trend that's continuing. And from a disclosure standpoint, I don't think we're there yet. But I do think that, over time, ESG disclosure is going to be enhanced in the industry.

Raymond Barrios

There are some challenges. As a creditor, you don't necessarily have access to a lot of the information that you would have as the actual owner of the business, and you can't drive a lot of the engagement activities that some folks want to see as simply being a lender to that business.

Raymond Barrios

Now Elizabeth is going to talk about how we monitor our portfolio companies.

Slide 42 | Active Portfolio Management

Elizabeth Ko

Alright. Thanks, everyone. It's good to see you all. I'm Elizabeth Ko. I'm a Managing Director on our Private Credit team. I've been with the team for 17 years since 2007. Today, I'm going to walk you through portfolio management, and this is an area that I'm very close to.

So when we think about portfolio management, there are a couple of key pillars to really ensure that it is effective. And those couple of key pillars are information rights and processes. And when we think about, first, the information rights, I mean, that really starts before the deal even comes into our portfolio. So when we're negotiating our deals, we are looking for an information package that really gives us a good window into the company's performance. And that gives us the room to -- the time to really react and to game plan. So we're going to look for quarterly financials, annual audits, management budgets. Those are pretty standard.

We're also looking for enhanced information rights. So some of the things that were mentioned before, monthly financials, board observer rights, these are the kinds of things that are not present in BSL deals. You combine that with the direct dialogue that we're having with our sponsors and with the management teams. And that is really giving us a far better picture of what is going on with the business, with performance, key developments and really the outlook of the business and the market that they serve in.

The second pillar is the processes, the processes that we put in place internally within the firm and how we internalize that across our teams. So as a team, we have weekly meetings. In these weekly meetings, we're talking about, not only new deal opportunities, but also latest developments with our portfolio companies as they're coming in.

On a monthly basis, we are updating performance trackers. The performance trackers are just very efficient ways to really capture what is going on with the company and really quickly identify some red flags. And each quarter, we are going through a very comprehensive portfolio review, where we're talking through each of the companies within the portfolio, really identifying potential issues and again, identifying some sector-specific themes. In this quarterly review, we're also reviewing valuation marks and risk ratings, and I'll discuss those in a minute.

And then as we think about who's involved with this, our original deal teams are involved in the entire process, while we also have our portfolio managers and other non-investment professionals overseeing the processes and making sure that things are running smoothly.

Mitchel Penn

What percentage of the time do you guys recommend changing covenants or getting extra protection or -- I'm just curious, like, what amount, what percent?

Elizabeth Ko

Well, the outside of the deal, how we approach covenants, it kind of depends on -- a lot of it is driven by the market that it's in. What Ray had talked about before, upper middle market, that 4%, that comprises our portfolio. Those are generally not going to have maintenance covenant packages. And so we would approach those in a very different way. We'd be focused on definitions of EBITDA, some of the -- like, debt incurrence covenants that we're talking about. When you go into like the core and lower middle markets, that's where we have much more leeway into negotiating for covenants like that. And as we kind of go through the process of managing and owning a credit, things can change. It can go -- oftentimes, we have the benefit of an existing credit agreement if it’s more robust. And if things go sideways, then we certainly would look to improve upon that.

Mitchel Penn

Right. I’m just curious. Is it 5%? 10%? Once they trip a covenant, how often are you able to improve your position?

Elizabeth Ko

I would say the vast majority. If they're tripping a covenant, the vast majority of times, we're looking for, and we're going to talk about this in a second, in the next -- when we go to the next slide. Yes.

Robert Dodd

Well, I'd just like to know, I mean, where does this sort of break down on EBITDA? The $200-plus million EBITDA, how often do you get monthly recording versus weekly? Or is it the very small companies? Very small is non-objective. Is it the very small ones who get the more regular reporting, but maybe the quality of the data isn't as deep? Where is kind of the sweet spot about access and quality of reporting you get?

Elizabeth Ko

Yes. I would say, first of all, there's not really a trade-off between quality and frequency. For example. Look, I mean, I think we have -- if we kind of look at, call it, $75 million in less of EBITDA, I mean, we're certainly going to have more frequent, monthly reporting. I don't know if you have a better idea of, like, kind of that breakpoint. But in a lot of our deals in that core middle market, we're getting Board observer rights, which is tremendously deep. So it is just kind of a different dynamic that we have.

Mitchel Penn

How do they hold you guys accountable? So is it the deal team? So you do a loan and they trip a covenant down the road. Let's say, in year 3. Who decides? Is it the deal team? Or is it your team that decides, "Okay, we want $10 million additional equity or we want whatever it is?”

Jason Breaux

It's -- so the deal team is closest to the situation. So they're the ones that are engaging with the management team and the sponsor on what's going on, and they're going to have the best real-time information as to the situation. But what happens is the deal team brings that to the larger group, and we talk about it on a weekly basis generally or

sometimes twice a week around what's going on within the portfolio. And so multiple senior members of the team will have input on any given situation. What to propose back in terms of what we're looking for.

Mitchel Penn

Got it. And your team is the one that flags all this so everybody is aware of what's going on?

Jason Breaux

The deal team has a responsibility, at each meeting, to be prepared to talk about what's going on with their respective transactions.

Chris Wright

And we have weekly monitoring meetings and then quarterly reviews, so we have a very standard process on which this stuff gets flagged. Every week, we have details of leverage, trends and so you get out in front of it so you know which ones you should be careful to keep an eye on.

Elizabeth Ko
It's really hard to hide behind -- yes.

Jason Breaux

That's true. We're often talking 6 months in advance about what we think is going to happen because we have that visibility and we have those triggers in place.

Elizabeth Ko

Slide 43 | Crescent's Risk Rating Process

So here, we have our risk rating process. As we evaluate investment performance, we have this structure for identifying risky investments. So alongside the monitoring process, all investments are going through a risk rating review. The review involves, again, folks across the organization. So the deal team as well as non-investment professionals that are in our finance, operations and compliance organizations. We rate our investments across 5 different risk tiers that we show here. So levels 1 and 2 are investments that are performing at or above expectations.

All investments that are new, they're starting at level 2. So they can be upgraded to 1 or they can be downgraded from there. So level 3, 4 and 5 are investments that are performing below expectations, and they're sitting on our watch list. And specifically, once an investment hits 4 or 5, it may go on non-accrual. So that means that the way we define it is a company where we see the potential of principal loss. That 4 and 5 cumulatively comprises 1% of the entire portfolio.

Any investment in these final three tiers, 3, 4 and 5, they go through more frequent third-party valuations. So just to ensure that we are just being very conservative or being appropriate in our valuations. The vast majority of investments that are on 3, 4 and 5 eventually go back up to a risk rating of 2 or 1. And I would just stress that our approach -- our philosophy and our culture is to be cautious in terms of maintaining our watch list. We don't want to be slow in identifying potential risky investments. We do not, for example, wait until there is a covenant default for moving something down the risk rating scale. And then conversely, in terms of moving something up the risk rating scale, we really want to make sure that we're very sure that something is not going to have another problem in the near term before we upgrade something.

Slide 44 | Watchlist and Workout Approach

So here is our watchlist and workout approach. We've laid out here the different phases of how we deal with problematic investments. We talked earlier about our process for identifying watchlist deals early, so that's Phase 1 right here. While this is happening, we would re-underwrite the credit and develop downside cases. We may have

informal discussions with sponsors with the goal of influencing some decisions, decisions on how they're spending excess cash, CapEx investment, et cetera.

Most of our deals really stop at this phase. So we have them on a risk rating 3, and we're monitoring very closely and over time, things stabilize and eventually go back to an upgraded position. But some go through Phases 2 and 3 here, where we have to amend and closely monitor the investments. By the time we receive a formal amendment, we have already spent a lot of time on the investment itself. So at this phase, we're actively negotiating an amendment. So being in our position as a lead on these deals, we're in the driver seat of those negotiations. So for example, in exchange for amending some of the things we talked about. It would be improving the credit agreement. It may be improving yields on the investment. We may be looking for sponsor equity contributions or increased reporting, even further increases for our reporting.

Most of our deals eventually recover. They don't pass the 3 phase of this schematic, but sometimes we're not perfect, and we have deals that go further into restructuring mode and they go into Phase 4 and 5. So there are a lot of reasons why companies underperform. And I would say there's really similarly no one size- fits-all approach to how we deal with these problem investments. So some of these things may involve restructuring the capital structure to try to allow for new liquidity in the business. It may involve prepping a company for sale. It may even involve us taking over the keys and owning a business, setting up a new government structure, a new management team and really trying to turn around the business. These are all things that we've done in the past.

We have a very deep base of internal and external resources that really help us drive to an exit in these challenged investments. And as Mark said early on, Crescent's Private Credit business has been around for three decades. And it's been -- it was originally focused on junior capital. So I think that DNA of being in the junior part of the capital structure, the risky part of the capital structure really gives us the ability to be very nimble in these risky situations.

Slide 45 | Cycle-Tested Since 1992

And then finally, for this section, really, what does this all mean for performance? Crescent has been able to drive default rates and recoveries that we're very proud of. We talked about earlier, 7 basis point annual default rate versus a broader loan market at close to 3 points and an 87% recovery rate relative to the broader loan market at 62%. So this is across all of our private credit investments, which includes, not only senior, but also junior investments. And it's over the course of our 30-plus year history that spans multiple credit cycles. So with that, I'll pass it on to Henry, Gerhard and Jason to talk through the CCAP opportunity.

Henry Chung

Slide 47 | The CCAP Value Proposition

Thank you, Elizabeth. For those that I'm meeting in-person for the first time, my name is Henry Chung, President of CCAP. I've been with Crescent for 9 years now in the Private Credit side of the house. So we trust that it's been informative to hear from our broader team about the ingredients that have developed Crescent to be a leading player in private credit for over 3 decades. It is critically important for us to highlight that CCAP is an extension of this very platform.

Over the following section, Gerhard, Jason and I will be covering how the Crescent formula drives opportunity in CCAP. We heard from Jason that access to the Crescent platform has historically been focused on institutional investors. CCAP was the first product that we developed that broadened our reach to public investors. And this has allowed the broader investor universe to enjoy the same partnership and access to Crescent's expertise that our institutional relationships have enjoyed over the decades. The people, process and performance that were covered by the team directly serves the shareholders of CCAP. Our investment philosophy guides our asset selection, and we have demonstrated that our approach is clearly one that can weather economic cycles.

We believe that this approach will continue to deliver superior credit outcomes and, in turn, a superior shareholder experience.

Slide 48 | Investment Portfolio Performance Ratings

Turning to the next slide. The team emphasized that everything for us starts and ends with our cycle-tested investment process, specifically how we source, underwrite and monitor credit. If you look at how the CCAP portfolio has performed, there's notable consistency in portfolio level performance. Elizabeth discussed our risk rating process and how we use it to monitor the portfolio. And what you'll see on this page is that outside of our traction and subsequent recovery at the start of COVID, the vast majority of our portfolio has performed at or above our underwriting expectations over the years. We strive to be transparent about the health of our portfolio with the market. And one of the ways we do so is by taking a preemptive approach towards how we classify our watch list investments.

We will always have a watch list, and that will ebb and flow depending on the macro environment. What we are particularly pleased with is how the yellow segment of the chart, which represents our 4- and 5-rated investments, has remained a de minimis portion of our portfolio over time. We also believe that this is a direct result of the investment process that we have applied from origination through underwriting, monitoring and realization.

Slide 49 | Well Defined M&A Playbook

Our investment approach has also resulted in us driving incremental value for shareholders through M&A opportunities. While we believe it is our obligation as fiduciaries to evaluate every portfolio acquisition opportunity that comes our way, how we focus our effort is going to be very much an extension of our established investment process.

We are especially conservative when underwriting investments that we have not lived with since the initial deal. And as a result, you will see that the style of M&A that we pursue has a very consistent profile to it. What is going to make sense or the most sense for CCAP, from an M&A perspective, is a portfolio that has a complexion that is complementary to CCAP in terms of being first-lien focused, sponsor-backed and accretive from a gross yield standpoint and a portfolio size that is digestible and does not add undue concentration and risk to the CCAP portfolio and a tangible roadmap to rotation from acquired assets into assets that have come through Crescent's traditional origination engine.

The chart below demonstrates, effectively, a 4-year history of the acquired portfolio rotation story dating back to acquiring Alcentra's BDC in January of 2020 to First Eagle's BDC last year. The takeaway here is that while M&A will not be the primary way that CCAP invests, Crescent's investment approach and depth of resources across the platform has allowed us to execute on an M&A playbook that accelerates growth and drives incremental ROE in a measured and thoughtful way.

Slide 50 | Track Record of Dividend Coverage

A key tenet to our approach to managing CCAP has been to earn our dividend and that has yielded consistent earnings in excess of our base dividend going back to inception. The cumulative over-earn has continued to widen over time, which has directly contributed to ROE for our shareholders. While earning the dividend is not a point of differentiation in today's base rate environment, we know that a concept as simple as earning your base dividend was a differentiating feature of public BDCs during the zero base rate environment.

Taking note of Ray's discussion earlier in the presentation with respect to what we have observed in the market with the loosening of terms, PIK interest and aggressive chasing of yield by some participants, we expect that earning the dividend will, at some point, be a distinguishing feature once again. Investment processes have not been tested in this low default rate environment, but we do expect them to be. And we believe that Crescent’s cycle-tested track record and process will be a differentiator.

Slide 51 | Thoughtful Dividend Policy

In a similar vein, it has been important for us to develop a dividend policy that is centered around delivering shareholders' reliable distributions. Our view is informed by a multi-cycle view of base rates, default rates and what may happen to leveraged borrowers in those various scenarios. We have augmented our approach to building a

defensible distribution strategy, not just by establishing a portfolio that is fundamentally able to withstand various macro headwinds, but also ensuring that the investment income that we do generate supports our cash distributions. One of the ways that we do this is by ensuring that, virtually, all of our net investment income is earning cash interest and not PIK.

While dividend coverage across the space is near record highs, we are focused on playing defense, particularly in a market like today's. Our combined approach of a variable supplemental dividend is tailored to deliver excess cash income to shareholders in rate environments like we are in today, and while providing a floor in the form of a base dividend for shareholders in the event the environment changes.

With that, I'll turn it over to Gerhard now to cover the other ways that we have insured alignment with our shareholders and our approach to leveraging the Crescent platform from a capital structure perspective.

Gerhard Lombard

Slide 52 | Alignment with Our Shareholders

Thanks, Henry, and good evening, everyone. Nice to see you. I'm Gerhard Lombard, I'm the Chief Financial Officer for CCAP. I have been with Crescent for about 8 years. I have about 25-plus years of industry experience. So we spent most of our time today talking about portfolio construction and credit. You just heard from Henry about how that translates into stockholder returns, net of expenses, into a sustainable dividend. I'll spend a few minutes on the next couple of slides talking about stockholder alignment and our debt capital structure. We strongly believe in being good capital stewards, focused on the preservation of capital and generating attractive risk-adjusted returns.

Crescent, in its capacity as adviser to CCAP, has demonstrated stockholder alignment in a number of ways that you can see listed on the slide here. First, we have provided direct transactional support in the form of cash for CCAP's equity growth initiatives over the past couple of years since inception in 2015:

First, in the form of transaction support for the 2020 acquisition of the Alcentra portfolio; secondly, in the form of support for the secondary offering in 2021; and then lastly, the 2023 acquisition of the First Eagle book.

Second, we believe in our investment strategy and the quality of our portfolio. Crescent and its affiliates own approximately 7.9% of CCAP stock, including direct investments in the stock by speakers in the room that you heard today.

Third, we believe in NAV stability and a sustainable dividend. CCAP has never done a dilutive offering and has never cut its dividend.

And finally, in the last column, Crescent and its parent, Sun Life, and its affiliated entities have supported the stock through a series of 10b-5 stock purchase programs. The current program is $10 million in size, and we expect that program to be exhausted in the next 6 months or so in the second half of 2024.

Slide 53 | Platform Capital Markets Relationships

Turning to the next slide on our debt capital structure. Before I talk about CCAP specifically, I will talk about the power of the platform. We have in excess of $12 billion of debt capital across the Crescent platform and about another $5 billion in the form of directly negotiated CLO debt, and that is relative to about $1.2 billion of committed capital in the form of debt at CCAP.

So we are active in the debt capital markets throughout the year. We have over 50 active lender relationships, and more than that, more lenders that we engage with in the ordinary course of business on a daily basis. Our key lender relationships are with about 14 or 15 lead banks that are among the largest financial institutions on the Street. This allows us to have a finger on the pulse of pricing and best execution in the debt capital markets.

And so it really allows us to have deep relationships with lenders across the spectrum, whether or not CCAP is actively engaging to amend or add new debt to its capital structure. Turning to CCAP specifically on the next slide.

Slide 54 | CCAP's Leverage Strategy

The key point that I would like to make here relates to the table on the bottom of the slide. We have generally prioritized measured growth over time and operated at a relatively conservative debt-to-equity ratio. This has resulted in growth at a reasonable pace over time relative to our target range of 1.1x to 1.4x over the last couple of years and even prior to that, all the way back to inception.

What this means is that there is further room for NII expansion over the coming quarters while maintaining a debt-to-equity ratio that we are comfortable operating at, and we have sufficient liquidity to fund further investments. With that, I'll turn it back to Jason.

Jason Breaux

Slide 55 | Illustrative Return Analysis

Okay. Thanks, Gerhard. A couple more slides here. As I mentioned earlier on, we believe CCAP represents an attractive investment opportunity today. Based on the most recent quarterly results, annualizing the base and supplemental dividend currently generates north of an 11% yield. And if you agree with our view that CCAP trades cheap today, a pull to NAV implies a return of approximately 20% all-in. On top of that, we do believe there is the potential for incremental NAV accretion from, one, the over-earn of the base and supplemental dividend in a higher-for-longer rate environment; and two, the continued monetization of the acquired First Eagle portfolio.

Slide 56 | Concluding Remarks

Last slide. So in conclusion, we hope that we were able to give you a more fulsome understanding of the Crescent platform, our history our philosophy and our approach to private credit. We truly believe that Crescent's long-standing relationships and cycle-tested process and track record are differentiators and we are excited about our prospects ahead.

The historical and ongoing support from Crescent and Sun Life aligns us well with our stockholders, and we are committed to continuing to deliver stable and attractive returns to our stockholders. And I'd like to thank you for your time here today, and we're happy to take some questions. I know we've had some along the way. We've got probably a little bit of time here before we move on to the next chapter of the evening.

QUESTION AND ANSWER

Bryce Rowe

Jason, you guys have a long history, maybe longer than many BDCs have. You called out your loss rate over that period of time. What did you see from a default and loss perspective maybe in the recessions that you actually lived through and some other BDCs haven't?

Jason Breaux

Well, it's interesting. It's a great question, Bryce, and it's something that we talk a lot about as we think about how to market ourselves on a go-forward basis. It's -- if you are a private credit manager and you've launched your business in the last 15 years, chances are your returns look pretty decent. We haven't really had a true credit cycle since the GFC. The pandemic was a temporary dislocation where we all saw some mark-to-market movement. But for the most part, folks came out of that okay. I do think, in this environment, we are actually set up for some differentiation again. We're in a period of time now where we're dealing with higher cost of capital. I think the consensus is that we're probably dealing with that for a longer period of time. And when you're financing companies with real leverage, that can have consequences.

So I do believe that we will start to see some differentiation and some variability across manager performance again. We certainly saw that back in '08 and '09, into 2010. We can pull lots of data for you in terms of our performance. But I think if you compared us to broader market indices and our peers during that period of time, I think we would show very favorably.

Troy Ward

Healthcare has been an area that's been tricky for lenders over the decades. You put it up as one of your primary focuses. How do you get comfortable with the healthcare investing when others have clearly -- it's been a lot of capital loss, quite honestly. And there's a lot of concern about it, it seems like, over the last quarters and years.

Jason Breaux

Yes, it's certainly been a popular topic these days, Troy. We've got a long history of investing in healthcare. I think one of the areas that we've seen folks get into trouble, both on the sponsor side as well as on the creditor side, as Chris talked about it earlier, but the "buy versus build" approach. There's been a lot of financing taking place in health care roll-ups as an example. Those investments played out for a period of time when cost of capital was near 0.

We're in a different environment now where that investment thesis isn't necessarily available or as readily available as it once was. So the de novo approach to the sponsor investment thesis around healthcare providers has been an area where folks have gotten hurt. We've been very cognizant of that. We have gotten hurt in the past certainly with some of the de novo issues with certain credits, but that's something that we're very mindful of. We continue to be mindful of making sure that we see favorable industry tailwinds behind some of the health care businesses that we're backing.

So Chris talked a little bit about that in terms of cost containment. If you think about longer-term trends, baby boomer home health. There are interesting trends going on in that segment of the market that, I think, have very favorable tailwinds. And we're certainly focused on diversification and making sure that we're not too concentrated in any particular payor or segment of the market that might have too strong of a correlation to really hurt the portfolio overall.

Henry Chung

How we structure those deals, too, is going to be informed by what we’ve seen in prior cycles. So in acquisition strategies, for instance, there's going to be a lot of restrictions around when you can incur additional debt, how much the business needs to de-lever before it can do so. And same with a de novo approach as well, if you're going to use that capital to finance expansion of your clinic base, there are certain thresholds that need to be met from our current perspective, and those are going to be the primary filters that we have.

The other addition that we havewhich we've seen in the past where others have gotten tripped up on is using a definition of EBITDA that's not reflective of actual cash flow generation. That's one of our best goals in terms of making sure that EBITDA lines up with actual free cash flows in order to make sure there's sufficient cash being generated to service our debt.

Robert Dodd

Sort of related, if I can. I mean, yes, you point out healthcare, a lot of roll-ups up has been problematic. I mean, insurance is now north of 5% in portfolio. It's growing for a lot of BDCs. A lot of that is roll-ups as well. What are the differences, if any, that make you comfortable with maybe an insurance roll up where you're not comfortable with a health care roll-up?

Henry Chung

Well, I can start by providing some high-level commentary. The main difference is unit economics of an insurance brokerage business versus ahealthcare business, because they have similar attributes in the sense that it's highly fragmented in terms of the actual units themselves. But what insurance brokerage is likely to do is that they are quite high in terms of scale and how much cash they drop to the bottom line.

And even in a kind of cost of capital environment like we're in today, where you have 11%, 12% debt cost of capital, the math still works from a roll-up perspective where you can drive incremental equity returns in a way that provides sufficient margin of safety from a level of free cash flow profile. So that business model doesn't necessarily break just because you're adding more and more brokerages or single units to the overall platform.

Chris Wright

I think availability of labor is important. So I think you have to be sometimes careful -- one of the things that we spend a lot of time on is understanding availability of labor on healthcare. So, for instance, maybe a dental roll-up. Oftentimes it's the dentist. You go to the dentist because you know that person. Once that person retires or leaves, you're probably going to find a different dentist.

It's a little different in insurance, where it's a little bit more -- it's still a relationship, but it can be more replaceable. So those are the types of things that you've got to really kind of get your arms around and understand the concentrations around that. And so we try to spend, a lot of time, understanding that.

Mitchel Penn

So I was just curious what's your optimal size of CCAP? Where do you see it going?

Jason Breaux

CCAP today is about $1.6 billion in size. Do we want it to get bigger? We certainly do. There's no doubt about it. I think there's a market for us in terms of our specialization for CCAP to be a bigger entity. We've tried to -- we've talked about measured growth on a few slides here today, and, I think we will continue to maintain our discipline for CCAP, for measured growth.

We have the fortunate benefit of being a part of a much larger institutional credit platform, where we don't have to grow for the sake of growth. We can still maintain a high degree of relevance in the market with our sponsors and our clients without growing CCAP. As you saw earlier, CCAP is roughly 5% to 10% of the average ticket overall at Crescent. So we don't have that pressure of growing for the sake of growth at CCAP. But certainly, we'd like it to be a bigger BDC.

Dan McMahon

Maybe one from the webcast audience. "What economic indicators are you watching closely that would adversely affect your portfolio?"

Jason Breaux

Not surprisingly, we're watching inflation data. We're certainly watching jobs. We're watching the health of the consumer, which is, I think one area where we continue to be somewhat surprised in the strength of the consumer. We look at specific sector-oriented data around spending, enterprise spending and the like.

So we pay attention to a lot of macro metrics that could potentially impact the portfolio, but it also guides us in terms of some of the filters that we apply, the kinds of companies that we like to underwrite and put into the portfolio, recession -resistant businesses that we think will withstand let's say, a recession down the road.

One of the areas that I'm particularly, I would say, a bit concerned about is the real estate maturity wall. I think, there's about $1.5 trillion of real estate -- commercial real estate-oriented maturities over the balance of '24 and '25. And I think about $300 billion of that is office. And what's interesting is you're actually seeing occupancy rates decline in this environment, which is otherwise quite robust.

We're not real estate investors. We don't have real estate exposure in our portfolios, but I think some real dislocation in the commercial real estate market and a contraction in financing availability and credit could have certain consequences for the broader economy.

Okay. Thanks, everyone. We look forward to enjoying the game with you and for those folks on the web, thank you for your time and attention.