William Blair

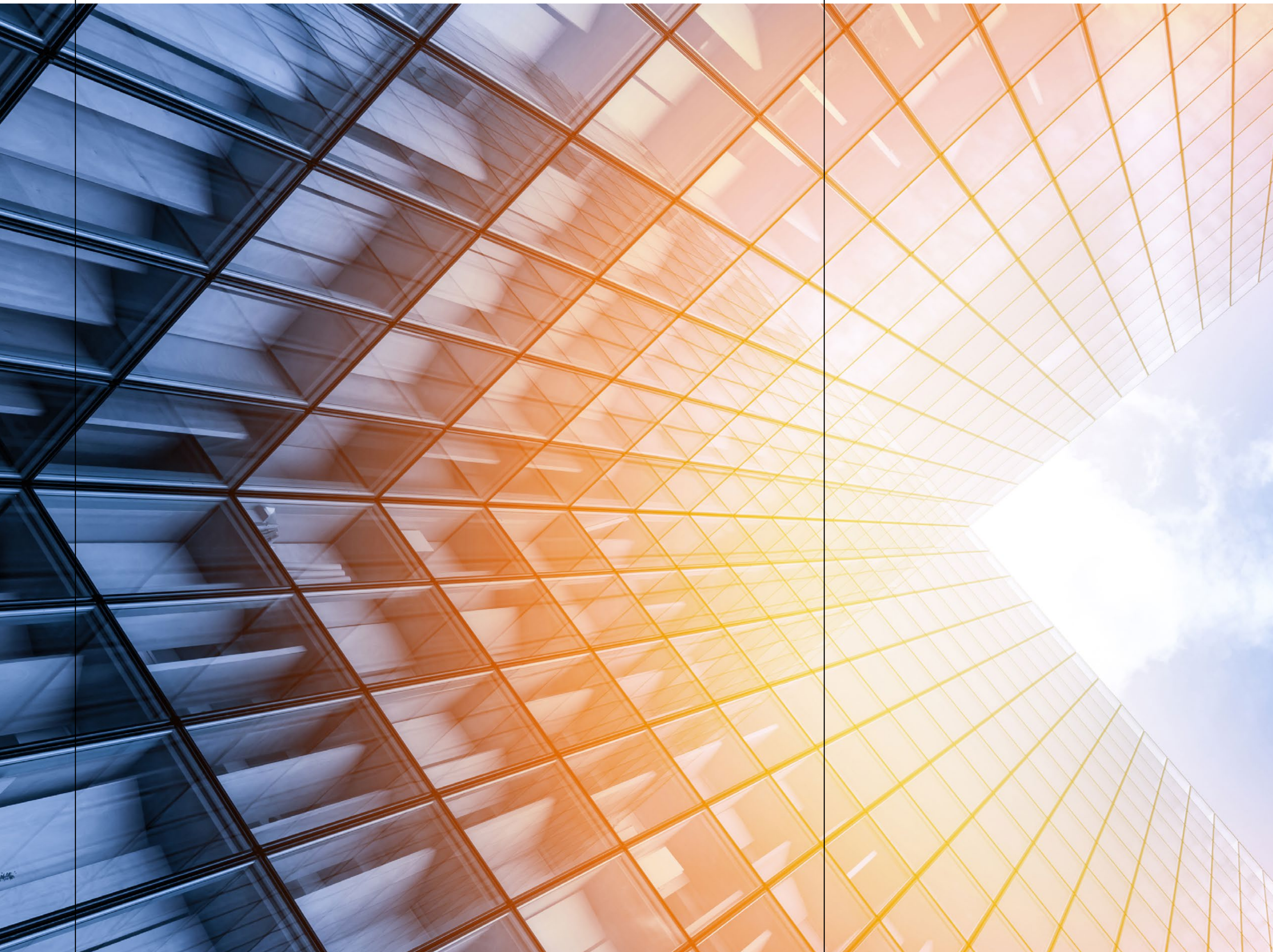
Q2 2020

Don't Call It a Comeback…

In This Report

Highlights From William Blair's Quarterly Leveraged Finance Survey

Leveraged Finance



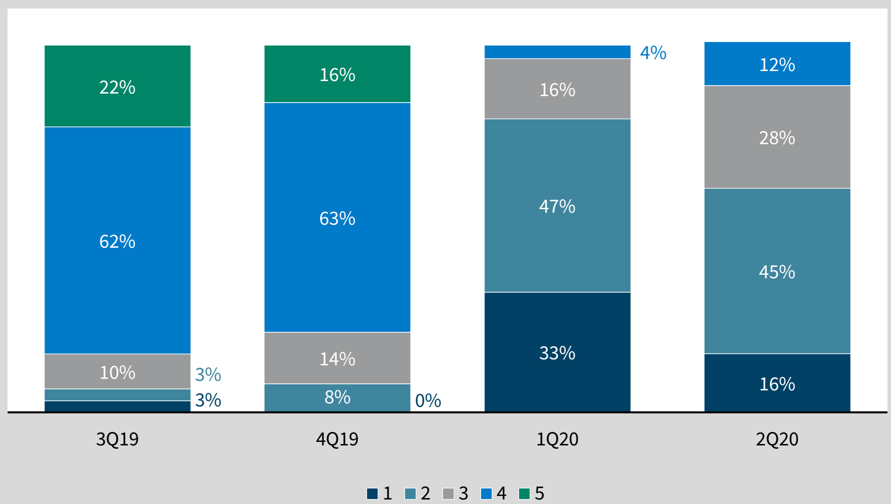
Don’t Call It a Comeback...

Leveraged finance market comes back to life after a devastating end to the first quarter, but COVID-related uncertainty clouds recovery outlook.

After a complete shutdown in March, the leveraged finance market was able to regain its footing during the second quarter. Direct lenders, who spent much of March and April focused on their own portfolio and liquidity needs, were able to turn their attention to new opportunities, and by June, institutional loan volume had surpassed the combined total from March, April, and May. While pricing remained elevated, and terms tighter than pre-COVID levels, the trend shifted back in borrowers’ favor during the quarter as market tone improved and activity picked up. This led many lenders to believe that the window for outsized risk-adjusted returns may have passed. That said, a sustained recovery will depend on whether the U.S. can get this virus under control; as one lender put it, if we have a second wave of coronavirus all bets are off.

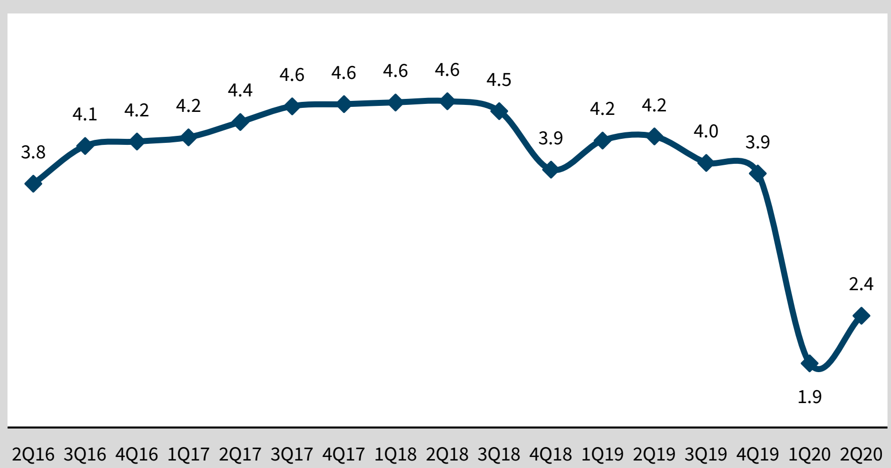
Results from our quarterly leveraged finance survey reflect the trends that shaped the second quarter. Please do not hesitate to reach out if you have questions about what we are seeing in today’s market or other credit-related topics you would like to discuss in more detail.

On a scale of 1 to 5, how do you rate today's lending environment?



1 = Most Lender-Friendly; 5 = Most Borrower-Friendly

William Blair Leveraged Lending Index(1)



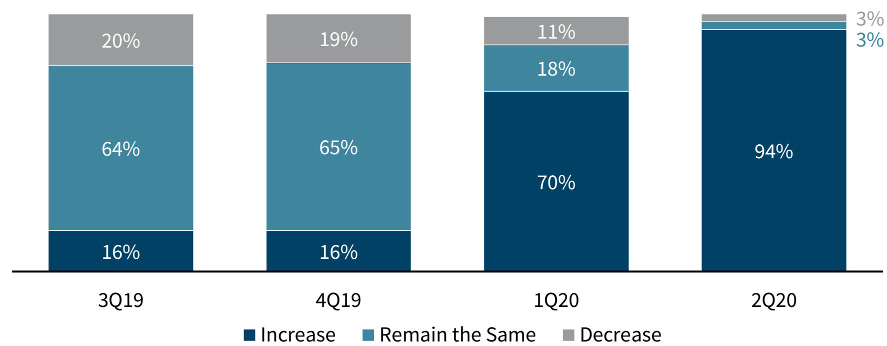
1 = Most Lender-Friendly; 5 = Most Borrower-Friendly

(1) Weighted average lender response to the question, “On a scale of 1 to 5, how would your firm rate today’s lending environment?”

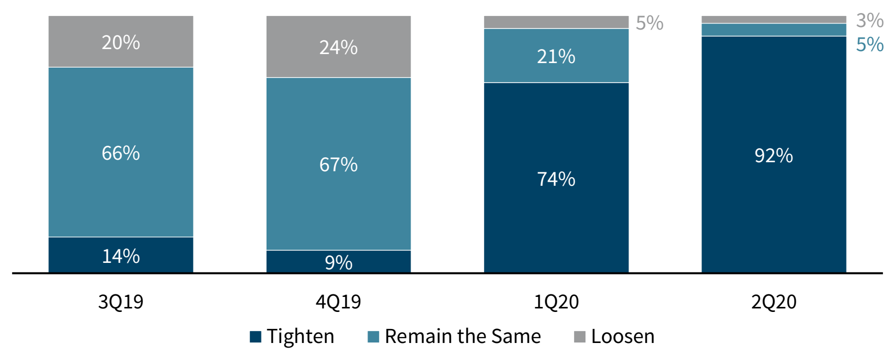
Leveraged Finance Survey

Each quarter William Blair surveys middle-market leveraged finance professionals representing leading credit funds, BDCs, finance companies, commercial banks, and other credit providers to measure sentiment in the leveraged finance market. The data reflect responses from the more than 60 leveraged finance professionals who participated in the survey this quarter.

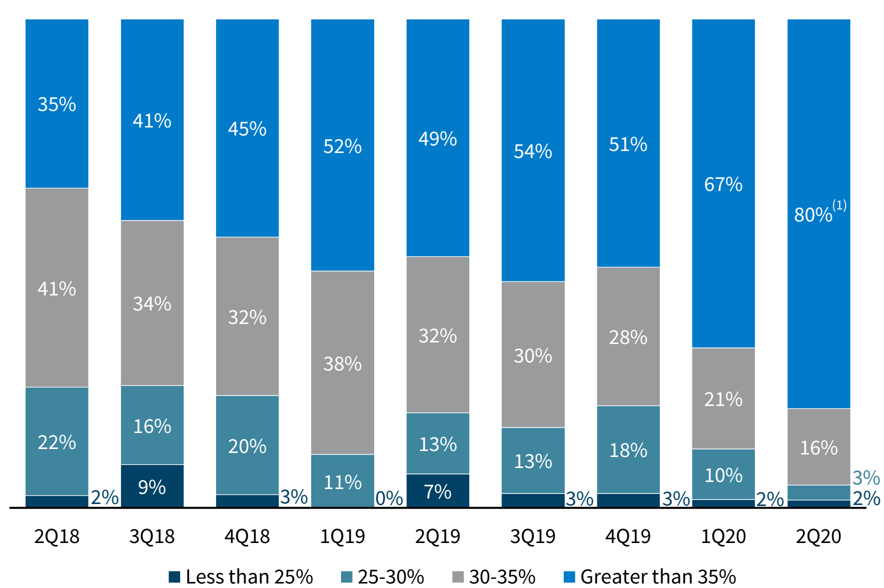
During the past quarter, did pricing for your primary debt offering?



During the past quarter, did transaction terms and leverage?

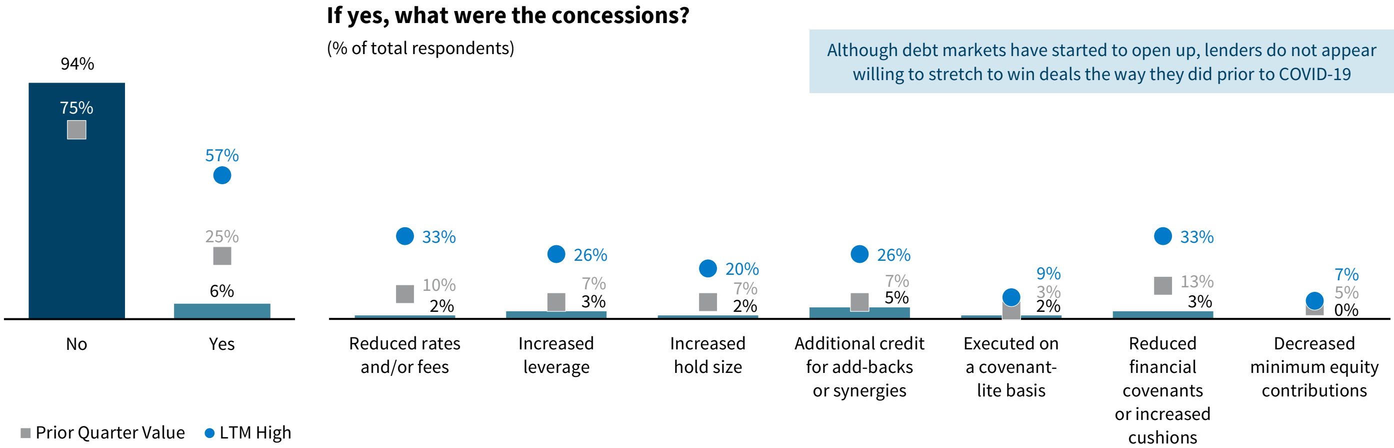


For transactions involving a private equity sponsor, what is the minimum equity contribution you require?

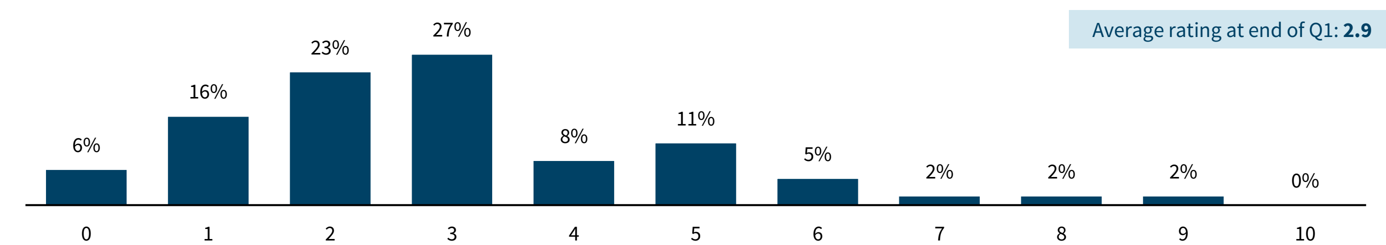


(1) 50% of 2Q20 respondents indicated they require >40%

During 2Q20, did you make borrower-friendly concessions you historically would not have to win a deal?

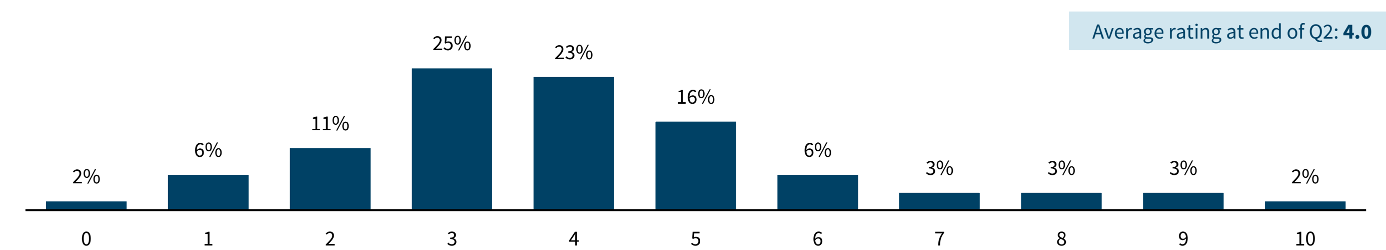


Assuming your firm's pre-COVID rating was a 5, how would you rate the aggressiveness of your firm's approach to new debt opportunities at the end of Q1?



0 = Significantly LESS Aggressive; 10 = Significantly MORE Aggressive

On the same scale, again assuming the pre-COVID rating was a 5, where would you rate the aggressiveness of your firm's approach to new debt opportunities today?

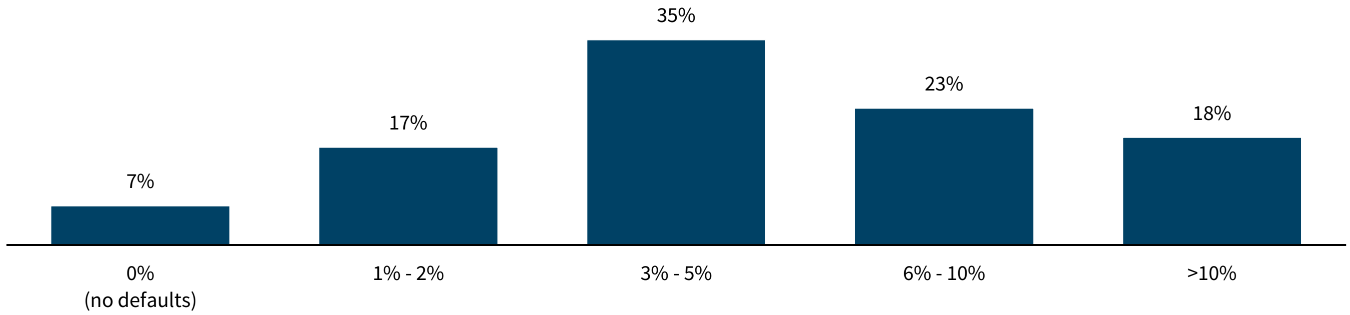


0 = Significantly LESS Aggressive; 10 = Significantly MORE Aggressive

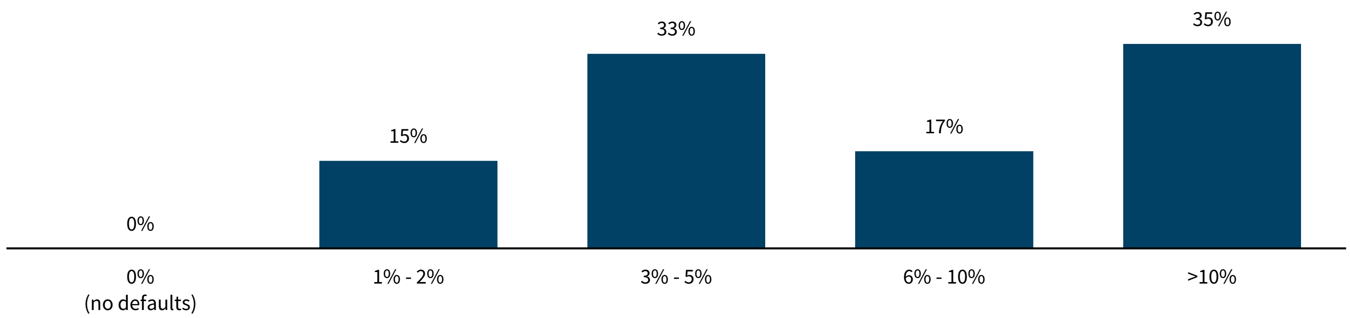
Additional color on differences in approach between end of Q1 and today

- March/April was market shock and paralysis. May/June has seen some return to new term sheets being issued, albeit only for businesses not significantly affected by COVID-19
- There are more opportunities today than in March/April. We are very interested in financing businesses unaffected by COVID-19. For those that have been negatively impacted, we would like to see stability, if not improvement, in the monthly performance before getting involved
- In March/April we were focused on portfolio and potential DDTL needs. Today we are looking at add-ons and platform transactions that were previously put on hold by sponsors
- Limiting new LBO dollars to supporting our best clients. Continuing to support add-ons for existing portfolio accounts, but only with increased pricing
- Today we are asking the question "what does this look like coming out of COVID" as opposed to "show us your COVID plan and when you expect to improve"

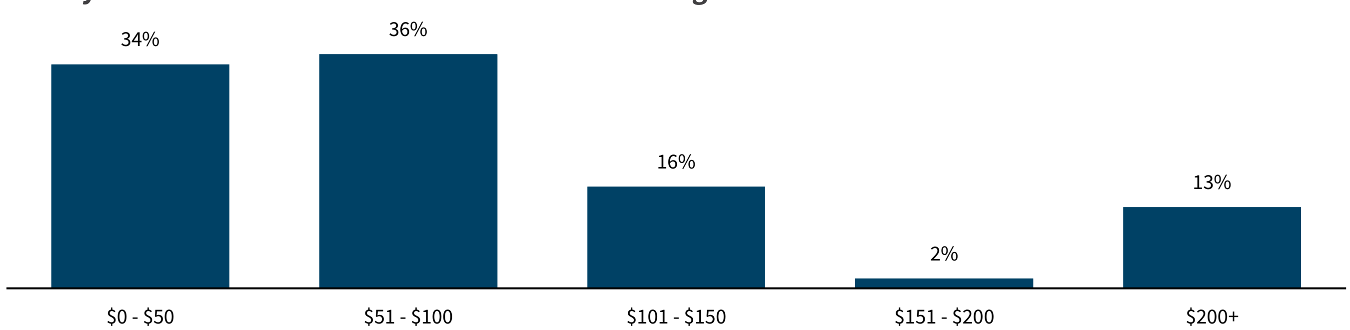
During Q2, what percentage of your firm's loan portfolio experienced some form of default (including companies that would have defaulted if not for an amendment)?



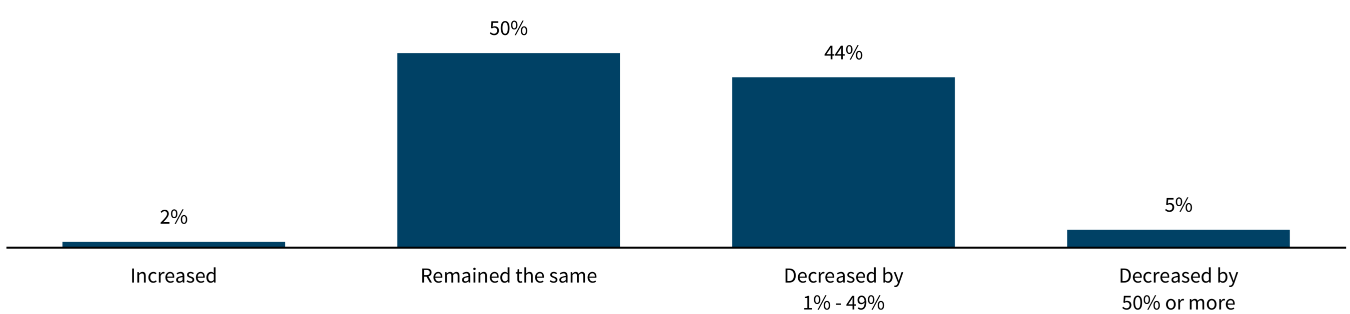
What would the percentage be if you include companies that you expect will default in the next 3 months?



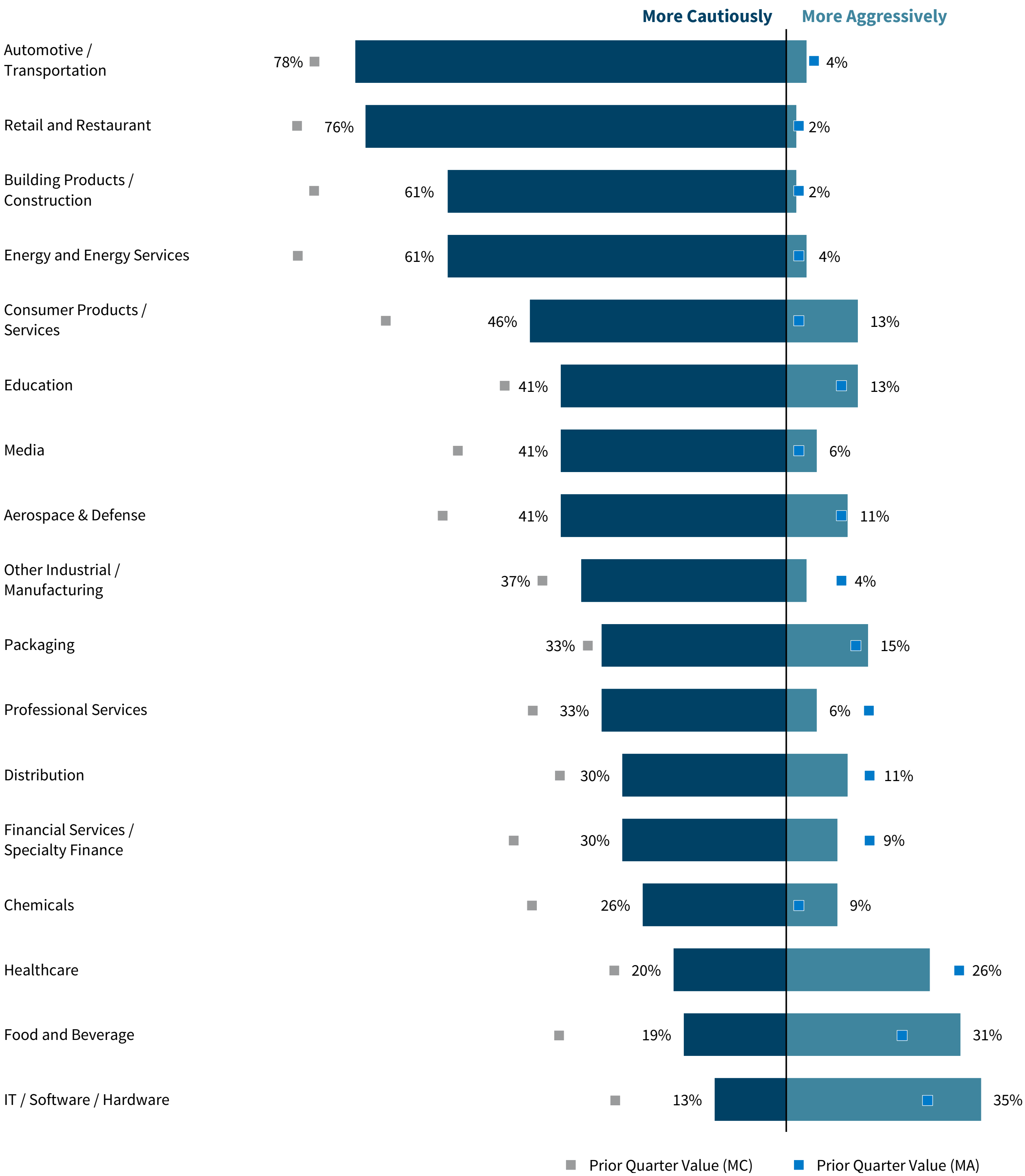
What is your firm's current maximum hold size for a single credit?



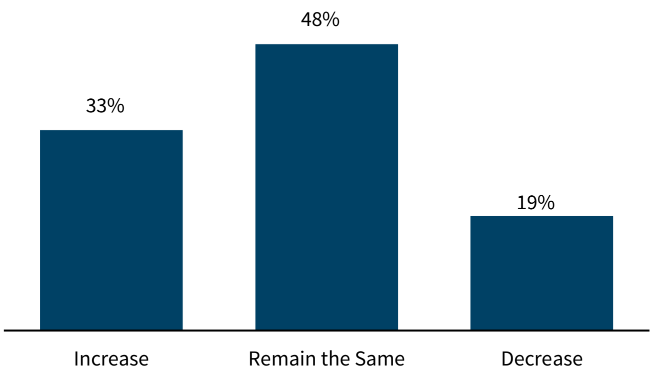
Compared to your firm's pre-COVID hold sizes,
what have you observed regarding your firm's current maximum hold size?



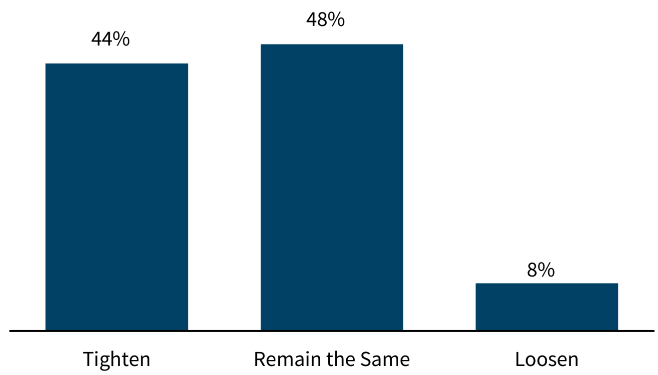
Are there any specific sectors or industries for which your firm is proceeding more aggressively or cautiously today compared with 6 months ago?



For the remainder of 2020, what are your expectations regarding pricing of your primary debt offering?



For the remainder of 2020, what are your expectations regarding transaction terms and leverage?



For the remainder of 2020, what factors or trends do you expect will have the greatest impact on the leveraged loan market?

- Continued dislocation between banks, sponsors, and borrowers due to COVID-19 and the immediate and long-term impact on certain borrowers' sustainability and growth prospects
- Lower leverage, lower holds, lower number of active lenders, higher pricing, tighter docs
- Expectation is that more shops will start returning to the market and processes will get more competitive as the year progresses. However, if we have a second wave or significant regional relapses, all bets are off
- Relatively light M&A volume. More club activity given generally lower hold levels. Defensive businesses that also experienced solid performance during the COVID downturn will get multiples close to pre-COVID levels
- Impact of Q2 2020 earnings will put pressure on the leveraged loan market given fund leverage and downgrades
- Second wave of COVID-19 on portfolio companies will have the biggest market impact
- Once Q2 numbers start rolling in we will see more defaults. The debt markets will tighten and sponsors will seek opportunistic acquisitions. M&A could be up but more equity will be required
- Lack of M&A activity due to difficulty with valuations. Sellers inability to recognize pre-COVID multiples, buyers waiting to see if there is continued stress, etc.
- It's difficult to forecast and depends on both the potential for further COVID-related shocks and, even absent further COVID impacts, for deterioration of macro fundamentals as knock-on effects from the initial shutdown continue to play out through the economy
- In the short term pricing will stay the same/tighten slightly, but in the longer term pricing will widen and structures will tighten as the year moves on and corporate earnings underperform
- Meaningful levels of equity capital available though low supply of high quality transactions - the pace of rebound/potential second wave of COVID impact could have most material impact

Drawing on our deep product expertise and the strength of our relationships, William Blair has built a leading leveraged finance franchise. Sponsors and business owners turn to us for outstanding execution in support of their capital-raising objectives.

Recent transactions include:

Not Disclosed Penn Machine / Western Forge & Flange Co. Split Lien Credit Facilities March 2020	Not Disclosed Esterline Interface Technologies Split Lien Credit Facilities September 2019	Not Disclosed Sealforlife Industries Multi-Currency Credit Facilities July 2019
$70,300,000 Strauss Senior Secured Credit Facilities June 2019	$160,000,000 Aevex Aerospace Unitranche Credit Facility May 2019	$410,000,000 CM Group First Lien and Second Lien Credit Facilities May 2019

William Blair by the Numbers

100+

completed leveraged finance transactions since 2015

$14B+

arranged financing since 2015

425+

lender and alternative credit provider relationships

William Blair's Leveraged Finance team structures and arranges debt capital in support of acquisitions, recapitalizations, and growth through its well established relationships with debt capital providers globally.

- Over $30 billion of completed financing arranged since 2012
- Specialists who are experts in complex engagements, including those requiring insightful credit positioning and the arrangement of multiple layers of capital
- Robust distribution capabilities providing a 360° view of the market; relationships with more than 400 lenders and significant transaction experience with alternative credit providers
- Real-time, proprietary view of the leveraged finance market from William Blair's global M&A and debt advisory practices
- Senior banker attention and unbiased, objective advice; senior bankers average more than 20 years of experience
- Thoughtful, customized financing processes that produce outstanding outcomes

With more than 180 senior bankers around the world, William Blair has completed more than 1,075 advisory and financing transactions totaling nearly $365 billion in value for our clients.*

Leveraged Finance

Michael Ward
Managing Director
+1 312 364 8529
mward@williamblair.com

Jason Sutherland
Director
+1 312 364 8961
jsutherland@williamblair.com

Olivier Lopez
Director
+1 312 364 8460
olopez@williamblair.com

Darren Bank
Vice President
+1 312 801 7833
dbank@williamblair.com

* In the past five years as of June 30, 2020

Disclosure
"William Blair" is a trade name for William Blair & Company, L.L.C., William Blair Investment Management, LLC and William Blair International, Ltd. William Blair & Company, L.L.C. and William Blair Investment Management, LLC are each a Delaware company and regulated by the Securities and Exchange Commission. William Blair & Company, L.L.C. is also regulated by The Financial Industry Regulatory Authority and other principal exchanges. William Blair International, Ltd is authorized and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom. William Blair only offers products and services where it is permitted to do so. Some of these products and services are only offered to persons or institutions situated in the United States and are not offered to persons or institutions outside the United States.

This material has been approved for distribution in the United Kingdom by William Blair International, Ltd. Regulated by the Financial Conduct Authority (FCA), and is directed only at, and is only made available to, persons falling within COB 3.5 and 3.6 of the FCA Handbook (being "Eligible Counterparties" and Professional Clients). This Document is not to be distributed or passed on at any "Retail Clients." No persons other than persons to whom this document is directed should rely on it or its contents or use it as the basis to make an investment decision.

About William Blair Investment Banking

William Blair's investment banking group enables corporations, financial sponsors, and owner/entrepreneurs around the world to achieve their growth, liquidity, and financing objectives.

Drawing on the collective intellectual capital and deep sector expertise of a global team that reaches 20 cities on four continents, the investment banking group brings a rigorous and innovative approach to corporate board advisory projects, mergers and acquisitions, and equity and debt financing. From 2015 to 2019, the team advised on more than $365 billion in completed transaction volume.