

INVESTMENT BANKING

Leveraged Finance Newsletter

Q3 2025

**Leveraged Loan Market
Bounces Back From a Spooky
Second Quarter**

In This Report

Analysis of Q3 Trends in Leveraged
Finance

Highlights, Analysis, and Results
From William Blair's Quarterly
Leveraged Finance Lender Survey



Leveraged Loan Market Bounces Back From a Spooky Second Quarter

Significant volume returned in the third quarter, led by opportunistic activity; lenders rated conditions as most borrower-friendly in nearly four years.

The leveraged finance market has brought a rollercoaster of emotions in 2025 — optimism to fear to optimism once again. The high levels of activity that characterized the start of the year returned again in the third quarter, as conditions continue to become more borrower-friendly. However, market uncertainty persists as equities linger near all-time highs amid brewing geopolitical tensions and tariff developments. Will we see continued momentum and a possible revival of M&A activity, or will the markets fall back into the shadows?

U.S. institutional loan volume totaled \$143.7 billion in the third quarter, rebounding significantly from the \$81.5 billion recorded the previous quarter. Third-quarter volume was almost exactly in line with the first quarter as concerns around tariffs and the broader macroeconomic outlook eased for the time being. Including repricings and extensions completed via amendment, third-quarter volume reached a record high of \$404.2 billion. Despite the exceptionally active quarter, year-to-date new issue

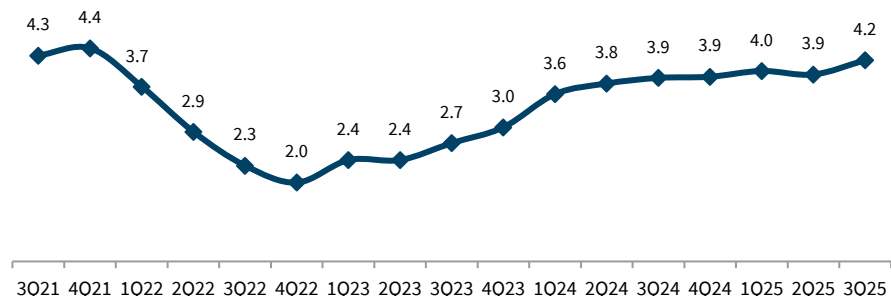
volume of \$366.2 billion, which excludes repricings and extensions, trails the same period in 2024 by 8%, as the market shock sparked by tariff announcements brought new issuance to a standstill in the second quarter. Outside of the loan market, high-yield bond issuance also reached a multi-year high during the quarter with \$118.2 billion of volume. This was the highest mark since the second quarter of 2021, as interest rate cuts have driven borrowers back to that market.

Following several quarters of more balanced supply mix, the third quarter was dominated by opportunistic refinancing and repricing activity, as was seen throughout much of 2024. Third-quarter refinancing volume finished at \$72.8 billion, up considerably from \$27.8 billion the

prior quarter. This was the first time since the second quarter of 2024 in which refinancings accounted for the majority of total new issue volume. The shift in activity is even more pronounced when including repricings and extensions, with 82% of total activity falling into one of these three categories. While opportunistic activity has returned to center stage, year-to-date M&A-related volume rose 14% year-over-year to \$115.7 billion. M&A activity is up in 2025 across all transaction types including LBOs, add-ons and corporate M&A, though it was largely driven by first quarter activity, as expectations for an M&A rebound gained traction before being quickly scrapped by the market shock in April. Drilling into the third quarter specifically, M&A-related volumes

Borrower-Friendly Market Reaches New Highs

Each quarter we ask middle-market lenders to rate overall conditions in the leveraged finance market on a scale of 1 to 5, with 5 being the most borrower-friendly conceivable. The index increased to 4.2, the highest level since late 2021, as lender demand continues to outpace supply.



Source: William Blair Leveraged Finance Survey.

were up 8% compared to a muted second quarter as the market recovers from the April shock.

William Blair's Leveraged Lending Index increased to 4.2 during the third quarter (scale of 1 to 5 with 5 being the most borrower-friendly), the highest reading since late 2021. Furthermore, 43% of respondents rated the current environment as a 5, which marks the largest percentage in seven years. The market is experiencing a major, sustained imbalance in supply and demand, in which lenders have a significant amount of capital to deploy across a limited number of deals. Compared to historical levels, lower M&A activity is the primary driver for this imbalance, and this year's volatility and current market uncertainty have prolonged this trend. On the demand side, private credit continues to have excess dry powder following several years of solid fundraising. In addition, middle-market CLO activity saw record issuance both in terms of volume and count during the quarter, further driving demand upward. As a result, more than 80% of respondents to William Blair's Leveraged Finance Survey indicated they've made borrower-friendly concessions they historically would not have to win a deal this quarter; the highest mark in over a year. We also saw LTM highs in lenders providing other concessions including reduced rates, higher leverage, and greater covenant flexibility. Despite the highly competitive market, lenders' investment committees continue to be focused on quality credits and have been exercising a high level of scrutiny to any tariff exposure, cyclicity, and adjustments.

Dividends in the Spotlight

Entering the year, investors had high hopes for a resurgence in M&A activity driven by the incoming presidential administration, increasing hold periods and receptive financing markets. However, the tariff and macroeconomic-driven uncertainty of the late spring tempered these expectations and delayed some activity. To help fill the void, both sponsors and lenders have looked to dividend recapitalizations as a means to return capital and put dollars to work. Dividend recap volume for the third quarter was \$29.1 billion, the second highest total on record, trailing only the third quarter of 2021. When looking at sponsor-related activity, specifically, year-to-date volume reached multi-year highs. Dividends paid to sponsors, excluding any component related to refinancing, reached \$34.7 billion through September, surpassing the full-year 2024 total and representing the strongest nine-month period since 2019.

When asked about interest in supporting a dividend recapitalization transaction over the next six months (scale of 1 to 5, with 5 being very high), 60% of this quarter's survey respondents fell in the 4-5 range, which is the highest recording since this question was introduced. Lenders continue to focus on the percentage of cash equity returned, the relationship with the sponsor, and the overall credit quality when assessing a dividend recap, but the aforementioned need to deploy capital remains a primary driver of overall appetite. However, dividends can only keep LPs satisfied for so long before liquidity from full or partial exits becomes necessary.

Spreads Sink to Record Lows

Despite rebounding volumes across both the broadly syndicated and private credit markets, spreads have tightened in the third quarter to near record lows. Competition among lenders remains intense both across markets (broadly syndicated vs. private credit) and within each one individually, as lenders compete for a lackluster supply of transactions. Among respondents to this quarter's survey, heightened competition and deal scarcity were at the top of the list of factors expected to have the greatest impact on the market for the remainder of the year. The primary effect of this heightened level of competition has been decreased spreads and OID. Of lenders who participated in William Blair's Leveraged Lending Survey a majority indicated that spreads have decreased for eight quarters in a row. Private credit pricing below S + 500 used to be rarefied air but is now increasingly common, with over 50% of sponsored deals tracked by LCD during the quarter falling below those levels. Similar trends are present within the broadly syndicated market, in which a lack of new-money issuance opportunities has driven down spreads. By the end of the third quarter, average spreads sat at or near post-COVID lows for borrowers across all ratings. Overall, the leveraged finance markets remain highly receptive to new financing opportunities across all transaction types, uses of proceeds, and borrower sizes; conditions are highly borrower-friendly, making now a great time to explore both opportunistic and M&A-related transactions.

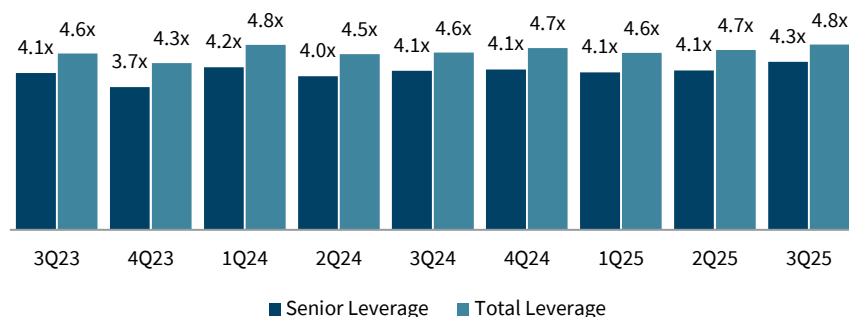
To learn more about these and other trends shaping the leveraged finance market, please don't hesitate to contact us.

Market Analysis

Each quarter, we look behind the numbers to examine the market dynamics that are driving trends in pricing and volume in leveraged finance transactions.

Leveraged Loan Multiples

Total leverage ticked up slightly in Q3, reaching LTM highs, but remained largely in line with prior quarters

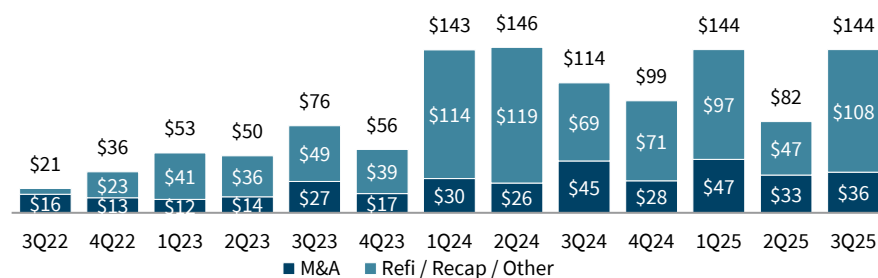


Source: PitchBook LCD. Represents the rolling 90-day average leverage multiples from all loan activity.

Institutional Loan Volume

Total institutional loan volume jumped to \$144 billion in Q3, matching Q1 and in line with the first half of 2024. Opportunistic activity led the way this quarter, as M&A-related volumes remained subdued.

(\$ in billions)

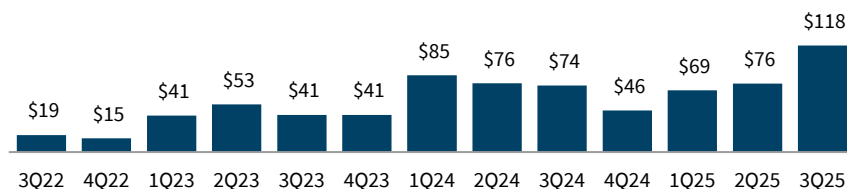


Source: PitchBook LCD.

High-Yield Bond Volume

High-yield bond volume increased to \$118 billion in Q3, a multiyear high, as the market continues to benefit from tailwinds related to interest rate cuts.

(\$ in billions)



Source: PitchBook LCD.

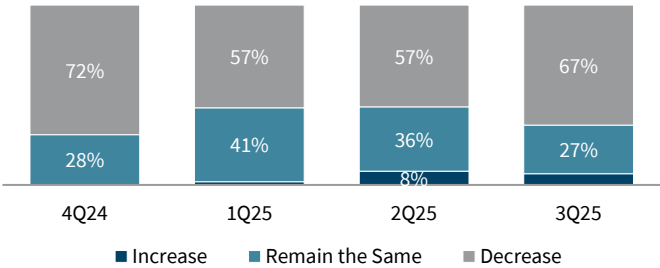
Highlights From William Blair’s Q3 2025 Leveraged Finance Survey

Each quarter, William Blair surveys middle-market leveraged finance professionals representing leading credit funds, BDCs, commercial finance companies, commercial banks, and other credit providers to measure sentiment in the leveraged finance market.

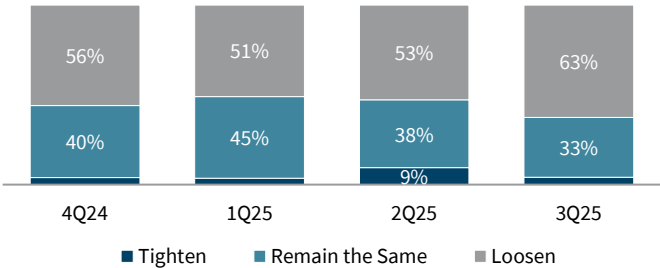
Borrower-Friendly Conditions Remain Present

Borrower-friendly pricing, leverage, and terms continue as 67% of respondents indicated pricing tightened and 63% of respondents indicated leverage and terms loosened this quarter. This marks the eighth straight quarter in which a majority of lenders have indicated pricing tightened.

Pricing



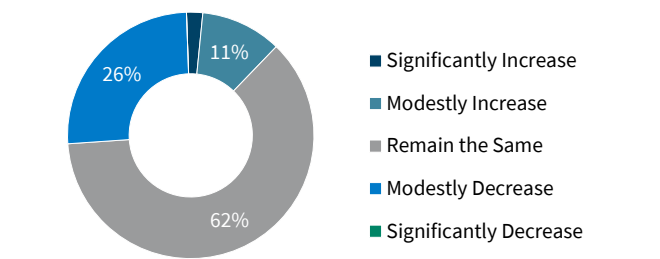
Leverage and Terms



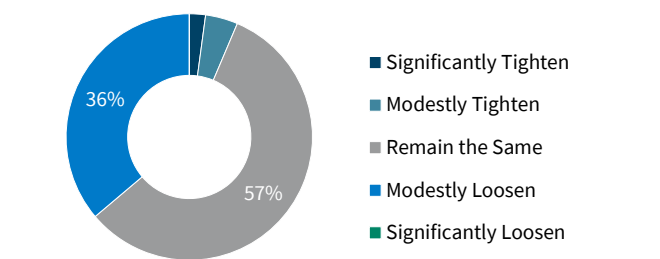
Lending Expectations

Similarly, survey respondents expect pricing, leverage, and terms to remain in favor of borrowers for the remainder of 2025. While majority of respondents anticipate pricing and leverage and terms to remain the same, there has been a sustained trend towards borrow-friendly conditions over the last several quarters as investor appetite and the need to deploy capital intensify.

Pricing Expectations



Leverage and Terms Expectations

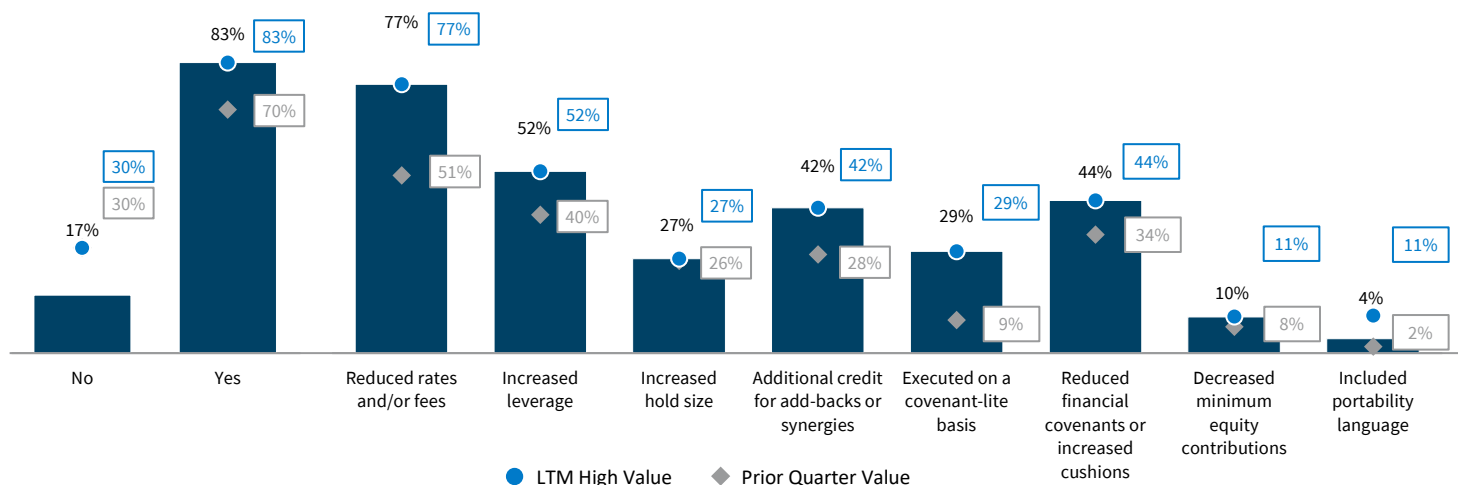


Note: Based on responses received from William Blair’s Leveraged Finance Survey.

Lender Competition Intensifies

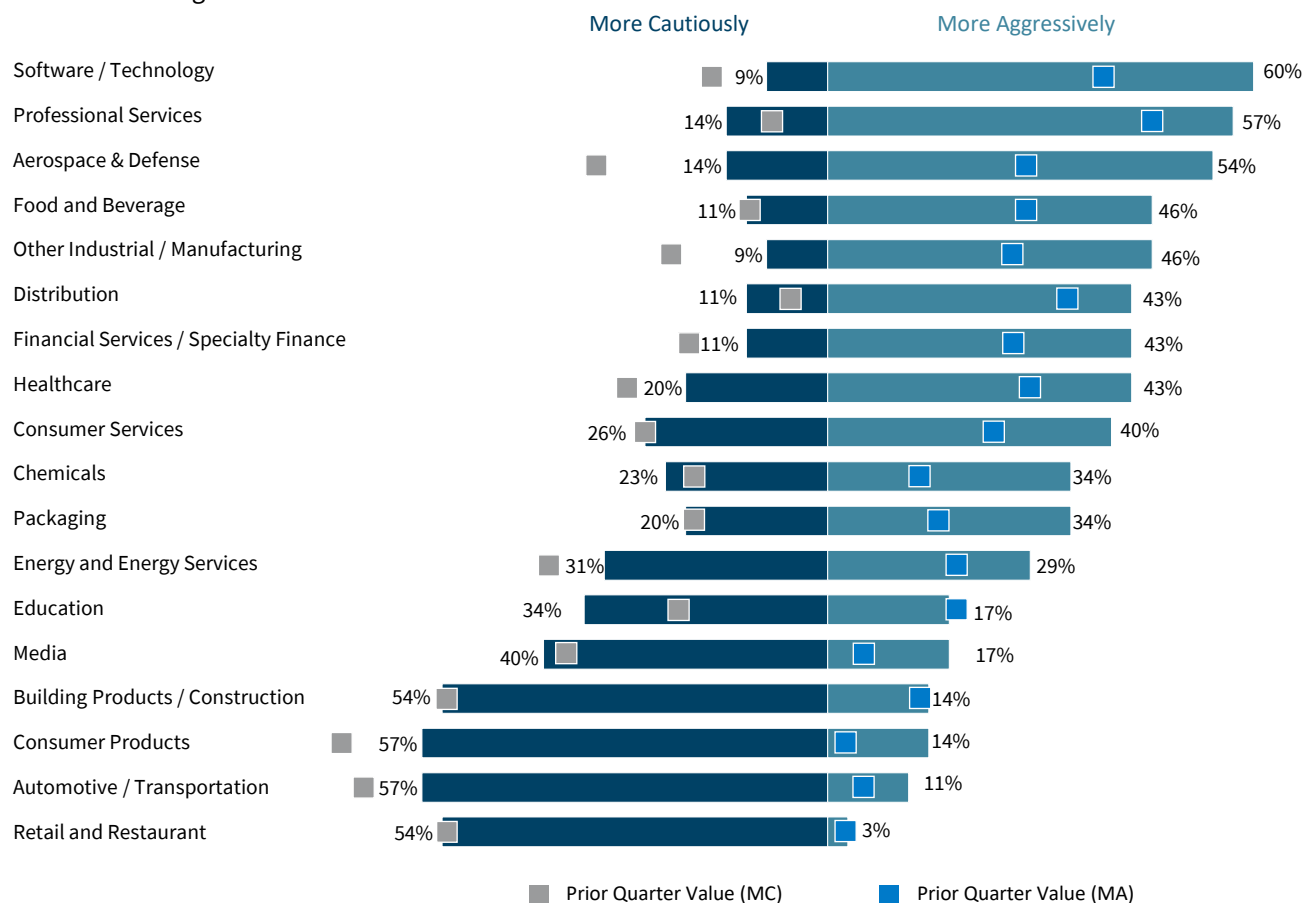
With M&A-related volume still relatively limited, sustained competition from the broadly syndicated market and the persistent need to deploy capital, lenders aggressiveness has intensified, making borrower-friendly concessions to win new deals. 83% of respondents indicated they made such concessions during the quarter, a new LTM high.

During Q3 2025, did you make borrower-friendly concessions you historically would not have to win a deal? If yes, what were the concessions?

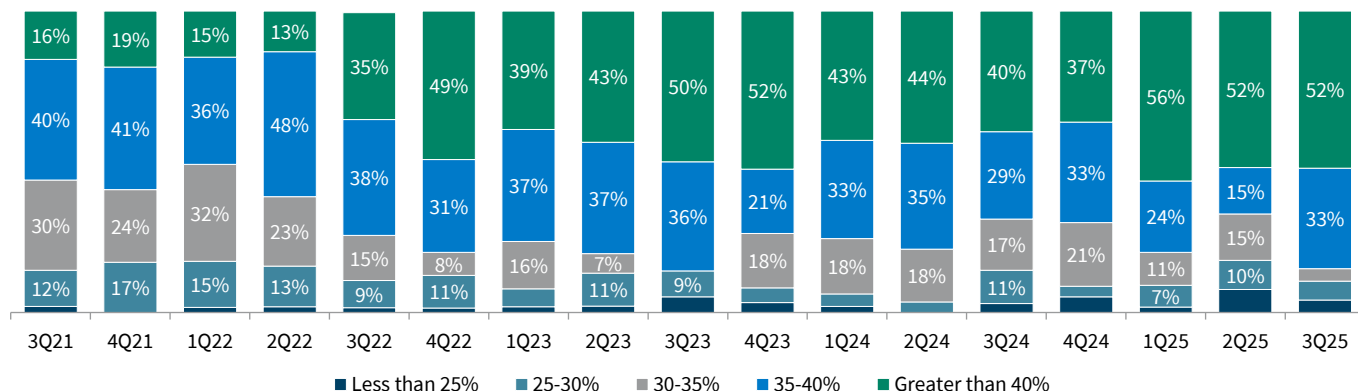


Additional Highlights

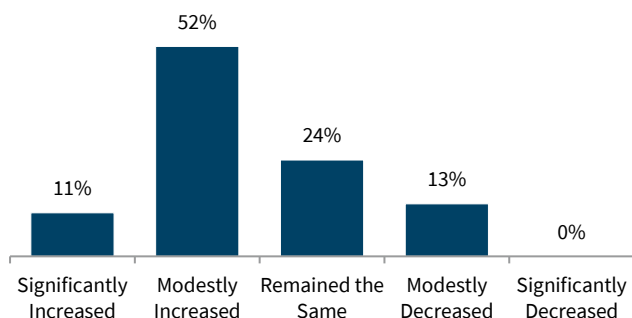
Are there any specific sectors or industries for which your firm is proceeding more aggressively or cautiously today compared with six months ago?



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

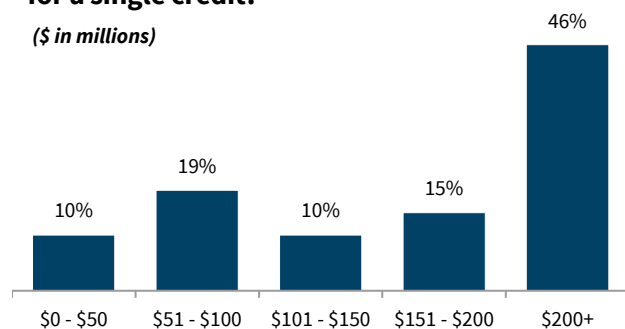


During Q3 2025, how did new-issue loan volume compare to that in the previous six months?

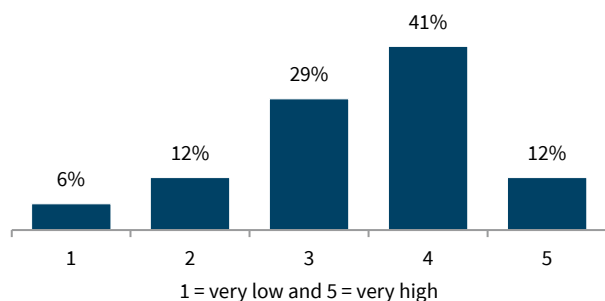


What is your firm's current maximum hold size for a single credit?

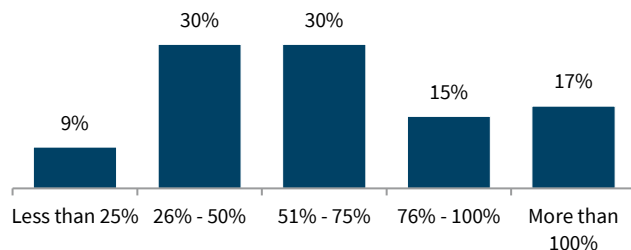
(\$ in millions)



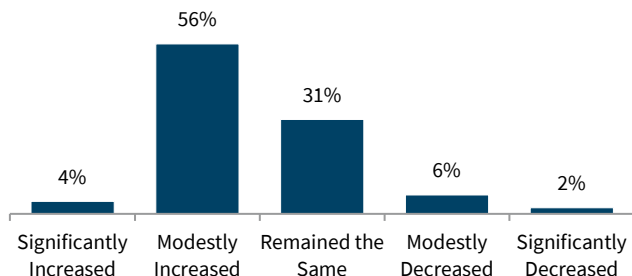
What is your appetite level for supporting a dividend recapitalization transaction over the next six months?



For a dividend recapitalization transaction, what is the maximum percentage of cash equity returned to investors you would be comfortable with?

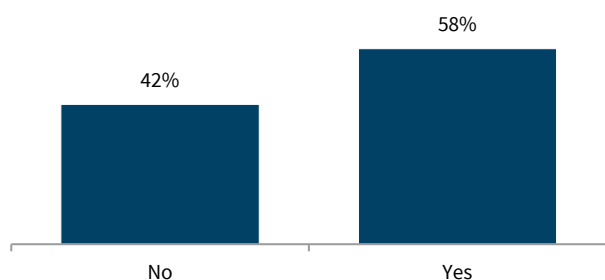


During Q3 2025, how have your expectations for M&A activity for the remainder of 2025 changed?



Note: Based on responses received from William Blair's Leveraged Finance Survey.

Is your institution ever willing to include portability mechanics in a new debt transaction? If yes, what are the primary considerations or criteria when including portability?



- Top-tier sponsor, typically from an approved list
- Strong underlying credit quality and business performance
- Size (e.g., \$100M+ EBITDA) and minimum equity stipulations
- Duration of portability and appropriate restrictions / protections
- Relationship with lender and / or borrower
- Leverage cap, covenants, and loan-to-value conditions
- Will provide to maintain agency in a favored credit
- Strong likelihood of execution by a sponsor and no event of default
- Expected buyer universe and buyer AUM
- Later in hold period or looking to sell in next 1-2 years

Have the recent changes in tariff and other economic policies from the new administration changed the way your firm thinks about and underwrites new opportunities? If so, please explain how you are incorporating that potential risk in your underwriting and origination processes (decision making, structure, terms, etc.)?

- Tariff risk remains a recurring topic in deal discussions for both new and existing opportunities
- Heightened focus on supply chain flexibility, product commoditization, and ability to re-source inputs
- Increased scrutiny of vendor relationships and origin of supplies, with tariff sensitivity built into underwriting
- Stronger preference for recession-resistant businesses with demonstrated ability to pass through costs and manage margin compression
- Deals with unclear tariff pass-through or sourcing processes are seeing tightened leverage or being abandoned altogether
- More conservative underwriting with lower leverage, tighter projections, and deeper downside case analyses
- Avoiding sectors with prolonged tariff exposure and building in additional stress scenarios
- Inventory buildup and pre-buying behaviors are being evaluated for longer-term margin and working capital impacts
- Passing on more opportunities where tariff risk materially affects revenue, demand, or margin profile

For the remainder of 2025, what factors or trends do you expect will have the most significant impact on the leveraged loan market?

- | | | |
|---|---|---|
| • Excess supply of capital chasing too few transactions | • Actions by the Fed and visibility into economic policy will affect market confidence | • Deal scarcity forcing aggressive bidding on available opportunities |
| • Economic growth remaining positive in coming months | • Hunger to deploy capital by new entrants and willingness to accept thinner terms | • Administration's position on tariffs, geopolitics, and international pressures adding uncertainty |
| • Heightened competition for limited, high-quality assets | • Expectations around inflation, interest rates, recession risk, valuation, and growth | • Anticipation that rate-cut cycle will support M&A and exits |
| • Lower volatility and easing rates expected to unlock more deal flow | • Persistent shortage of M&A activity despite strong demand | • Significant dry powder in private credit and availability of new deals |
| • Level of upcoming debt maturity walls | • Regulatory environment affecting tariffs, labor disruption, and supply chain disruption | • Recession fears and overall consumer sentiment |
| • Artificial intelligence | | |

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.

Select Transactions



a portfolio company of
SHERIDAN
CAPITAL PARTNERS

Unitranche Credit Facility

2025



HARROW
Your patients. Our purpose.

Senior Unsecured Notes

2025



a portfolio company of
Atlantic Street Capital

Unitranche Credit Facility

2025



VARDIS
SWITZERLAND

Senior Secured Term Loan
(Add-on)

2025



UNISYS

Senior Secured Notes

Financial Advisor

2025



a portfolio company of
PSG

has completed a
dividend recapitalisation

2025



VARDIS
SWITZERLAND

Senior Secured Term Loan

2025



MEDVET
Leading Specialty Healthcare for Pets

Senior Secured Credit Facilities
Preferred Equity

2024



SensorTower

Senior Secured Credit Facility

2024

William Blair Leveraged Finance by the Numbers

175+

completed leveraged finance transactions since 2016

\$24B+

arranged financing since 2016

500+

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.

- Conflict-free advisory focused on delivering the best solution available in the market
- Proprietary 360-degree view of leveraged finance market from William Blair's global M&A and debt advisory practices; relationships with more than 500 lenders and significant transaction experience with alternative credit providers
- Experts at orchestrating competitive auctions to achieve optimal financing outcomes in complex engagements, including those requiring insightful credit positioning and the arrangement of multiple layers of capital
- Seamless integration with William Blair's sector coverage teams
- Turn-key financing teams able to deliver unparalleled speed, execution, and certainty to close

With more than 250 senior bankers around the world, William Blair has completed more than 1,500 advisory and financing transactions totaling over \$835 billion in value for our clients.*

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*In the past five years as of September 30, 2025.

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