Q2 2025

Stormy Spring Leads to Sizzling Summer

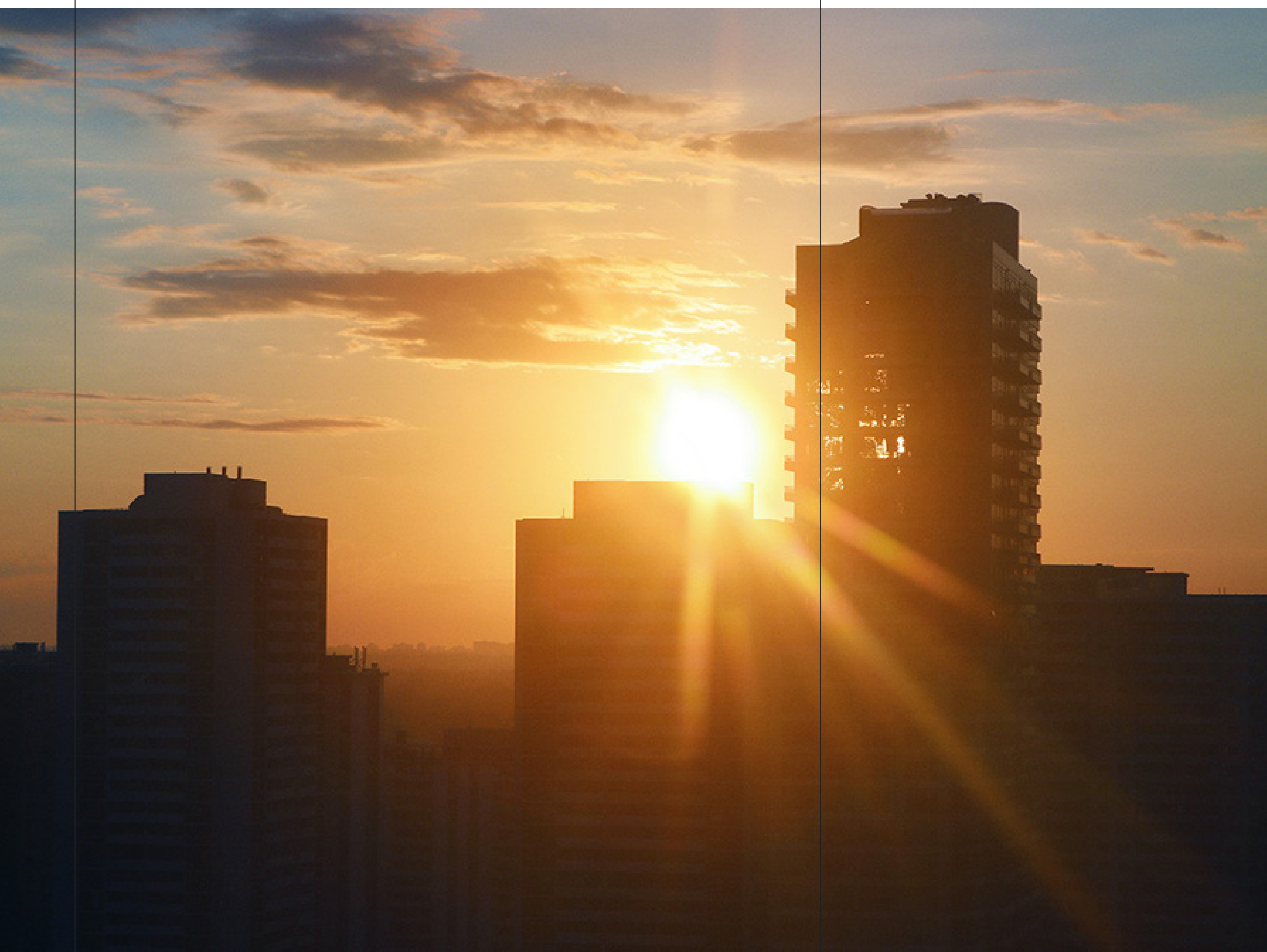
In This Report

Analysis of Q2 Trends in Leveraged Finance

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

INVESTMENT BANKING

Leveraged Finance Newsletter



Stormy Spring Leads to Sizzling Summer

In a year that has seen both market highs and lows, momentum is gaining strength despite clouds of uncertainty.

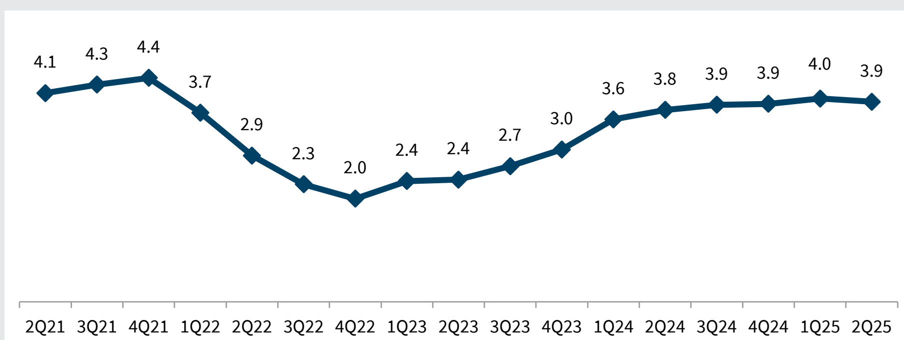
The second quarter kicked off with storms overhead. What began as a year full of optimism with a record-setting January for the leveraged loan market, gave way to an April shock shaped by tariff uncertainty. Despite a cloudy first half of the quarter, light began to shine through in June as market sentiment recovered and new issue volume strengthened. Now, with summer in full swing, will a forecast of increased M&A and stable economic conditions hold true?

U.S. leveraged loan volume totaled $79.7 billion in the second quarter, falling significantly from the first quarter mark of $143.5 billion, as tariff and macroeconomic-related volatility diminished overall market activity. When taking into account repricings and extensions done via amendment, second quarter volume was $113.4 billion, the lowest since the fourth quarter of 2023. Year-to-date total volume of $223.2 billion declined a more modest 23% compared to the same period last year.

In 2025, the leveraged loan market has been characterized by a more balanced supply picture than in 2023 and 2024. Namely, M&A-related volume is up over 44% year-to-date to $80.9 billion, representing over 36% of total volume and up significantly from 30% and 26% in 2023 and 2024, respectively. Hope remains that M&A-driven activity will continue to grow, as the $47.8 billion and $33.1 billion seen in the first and second quarters, respectively, still sit below quarterly average levels prior to the COVID-19 pandemic. In addition, dividend recapitalization volume has remained a meaningful part of the market year-to-date, accounting for $35.0 billion, or just over 15% of total issuance. Though dividend recap activity has eased from last year's record-breaking pace, activity continues to show strength, specifically with private equity sponsors. While the more balanced supply mix would generally be a positive sign for the market, it has been driven by a significant decline in refinancings and repricings, amid weakening risk appetite and widening spreads early in the quarter. Refinancing volume fell to $26.4 billion in the second quarter, down from $69.2 billion the prior quarter, marking the lowest quarterly level since late 2022. Similarly, second quarter repricing activity fell to a multiyear low of $28.5 billion. Tariff-related uncertainty to begin the quarter drove higher new-issue spreads and lower secondary prices, which significantly hampered investor

Despite Uncertainty Borrower-Friendly Market Continues

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 decreased for the first time since 2022 to 3.9, but still signals favorable conditions for borrowers.



Source: William Blair Leveraged Finance Survey.

appetite for opportunistic refinancings and repricings.

William Blair's Leveraged Lending Index fell slightly to 3.9 (scale of 1 to 5 with 5 being the most borrower-friendly), but remained squarely in borrower-friendly territory despite much of the noise in the market. As lenders remain eager to deploy capital, investor demand continues to outweigh supply that has been hampered by lower levels of M&A activity. This quarter marked the third straight quarter in which 70% or more of respondents to our survey said they've made borrower-friendly concessions they historically would not have to win a deal. Market dynamics around lender competition, dry powder, and the lack of quality deal flow continue to outweigh concerns around macroeconomic uncertainty, tariff implications, and fast-changing policy decisions. Borrowers will continue to benefit from lower spreads and greater flexibility so long as investor demand heavily exceeds the supply of opportunities.

April Showers

The announcement of wide-ranging tariffs by the Trump administration on April 2 had an extensive and profound effect that shaped the market's first half performance. Conditions began to worsen and volume started to wane towards the end of February and through March, culminating in what amounted to a complete shutdown of the broadly syndicated market for most of April. Through April 21, there was not a single transaction launched in that market, marking the longest such streak since the early days of the pandemic in 2020. As the market began to open in the later parts of the month, issuance ramped up for non-refinancing transactions, while refinancing volume continued to struggle. As a result, total volume in all of April finished at $7.5 billion and was the second lowest recording since January 2023. Amid the 15-day shutdown, April saw no repricings, just $1.4 billion of refinancings, and was largely driven by two large M&A transactions totaling $4.7 billion. Conditions across the market improved heading into May, driven by recovered secondary prices, and by June, issuance volumes had returned to more normalized levels. Total volume including repricings in June finished at $73.5 billion, marking a notable comeback from the beginning of the quarter. Market participants hope to sustain this momentum and regain lost ground heading into the third quarter.

Private Credit Shines Through

In the face of significant market volatility and the pullback of the broadly syndicated market, private credit lenders seized the moment during the second quarter turbulence. Several large LBOs turned to private credit in the second quarter, pushing estimated direct lending new issue LBO volume up to $21.9 billion, the highest since the second quarter of 2022. Additionally, this was the first quarter in over a year in which private credit financed more LBO-related volume than the broadly syndicated market, which finished the quarter with $16.0 billion in LBO financings. Competition between the two markets remains intense, with borrowers regularly refinancing one with the other as new issuers often dual-track processes in search of the best possible deal. In the last three and a half years, over $125.0 billion has shifted from the broadly syndicated market to private credit, or vice versa.

In periods of uncertainty over the last several years, the private credit market has shown the ability to offer tailored and flexible solutions, fast execution, and greater transaction certainty to gain market share and provide even the largest borrowers with an alternative to the syndicated market. Having financed over 120 deals over $1.0 billion since the start of 2022, direct lenders hope to continue the strong momentum.

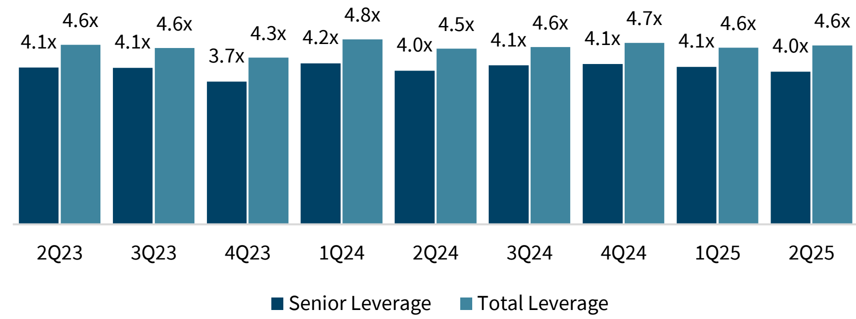
Outlook for the Remainder of 2025

Market sentiment greatly improved as the second quarter progressed, setting the stage for what could be a much stronger back half of the year. Early signs suggest a solid start to the third quarter, with new issuance volume through the first two weeks of July up 22% over the same period last year. Further, repricing activity continues to re-emerge with nearly $20.0 billion of volume launching following the Fourth of July holiday. Approximately 40% of respondents to William Blair's Leveraged Finance Survey indicated that M&A expectations for the remainder of 2025 have modestly or significantly increased over the course of the second quarter, up from just 13% in Q1. Lenders increasingly are hoping for M&A activity to revive as survey respondents highlighted M&A as a key factor that they expect to impact the market over the second half. The potential impact of tariffs, interest rates, and inflation continue to cast a cloud — but should summer bring a fresh swath of M&A volume into the market, it will be sunny skies ahead.

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

Leveraged Loan Multiples

Total leverage remained largely in line with the prior quarter in Q2, just below LTM highs.



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

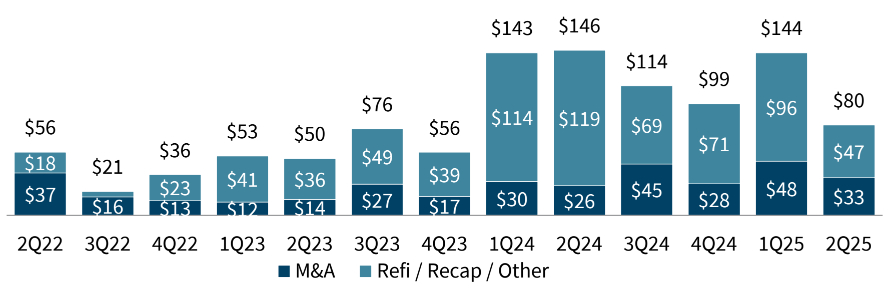
Market Analysis

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

Institutional Loan Volume

Total institutional loan volume declined to $80 billion in Q2, following a strong first quarter. Overall, the financing markets experienced volatility over the course of the quarter related to tariff and macroeconomic-related uncertainty.

($ in billions)

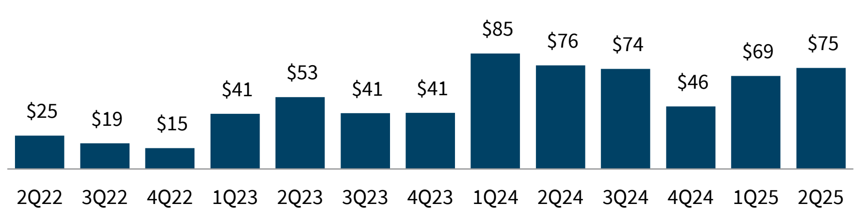


Source: PitchBook LCD.

High-Yield Bond Volume

High-yield bond volume increased to $75 billion in Q2, as the market continues the strong performance of last year, sitting well above the average levels of 2022 and 2023.

($ in billions)



Source: PitchBook LCD.

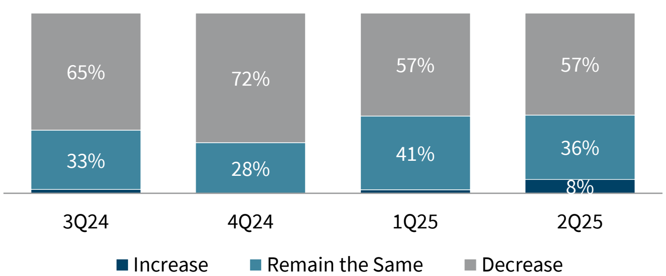
Highlights From William Blair's Q2 2025 Leveraged Finance Survey

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. The data reflects responses from approximately 55 leveraged finance professionals who participated in the survey this quarter.

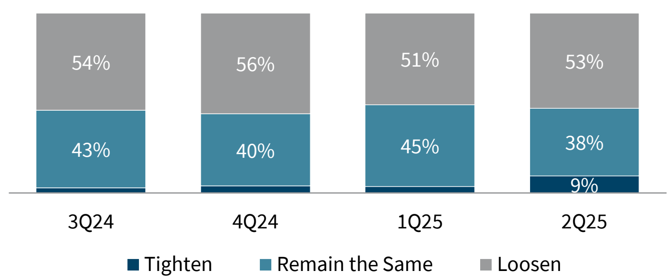
Borrower-Friendly Conditions Remain Present

Borrower-friendly pricing, leverage, and terms continue as 57% of respondents indicated pricing tightened and 53% of respondents indicated leverage and terms loosened this quarter.

Pricing



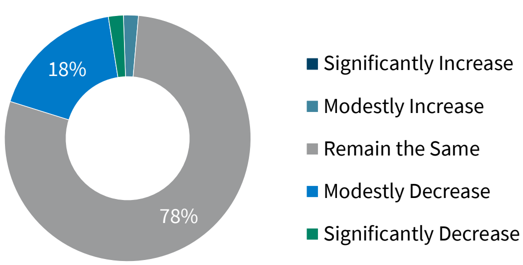
Leverage and Terms



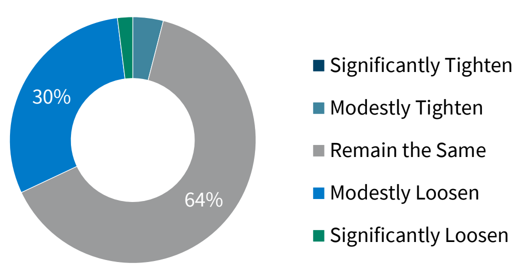
Lending Expectations

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

Pricing Expectations



Leverage and Terms Expectations

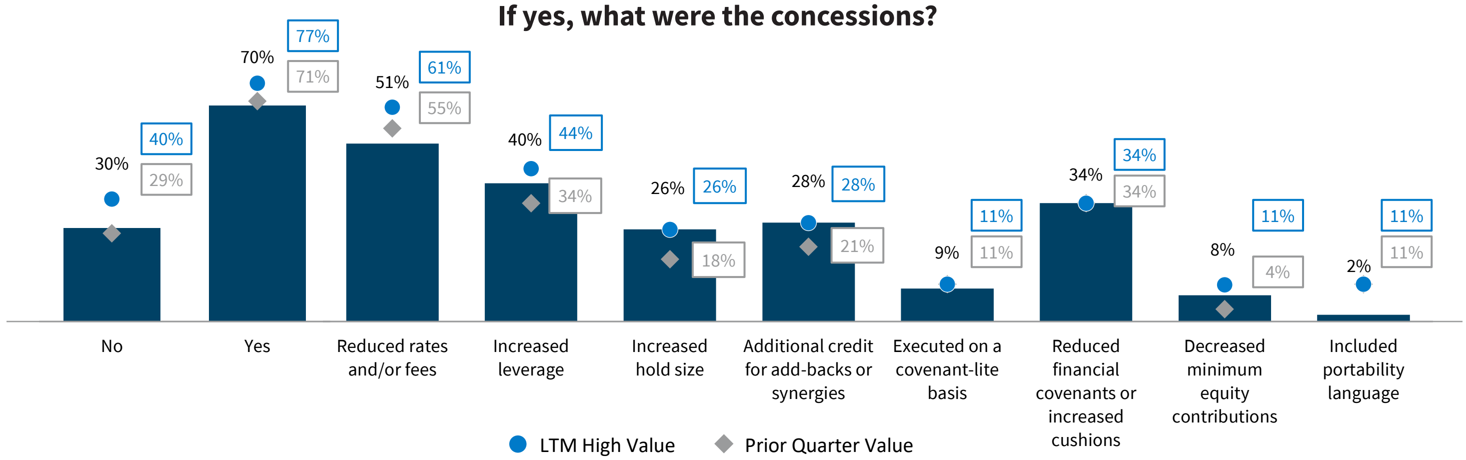


Note: Based on responses received from William Blair's Leveraged Finance Survey.

Lender Competition Persists

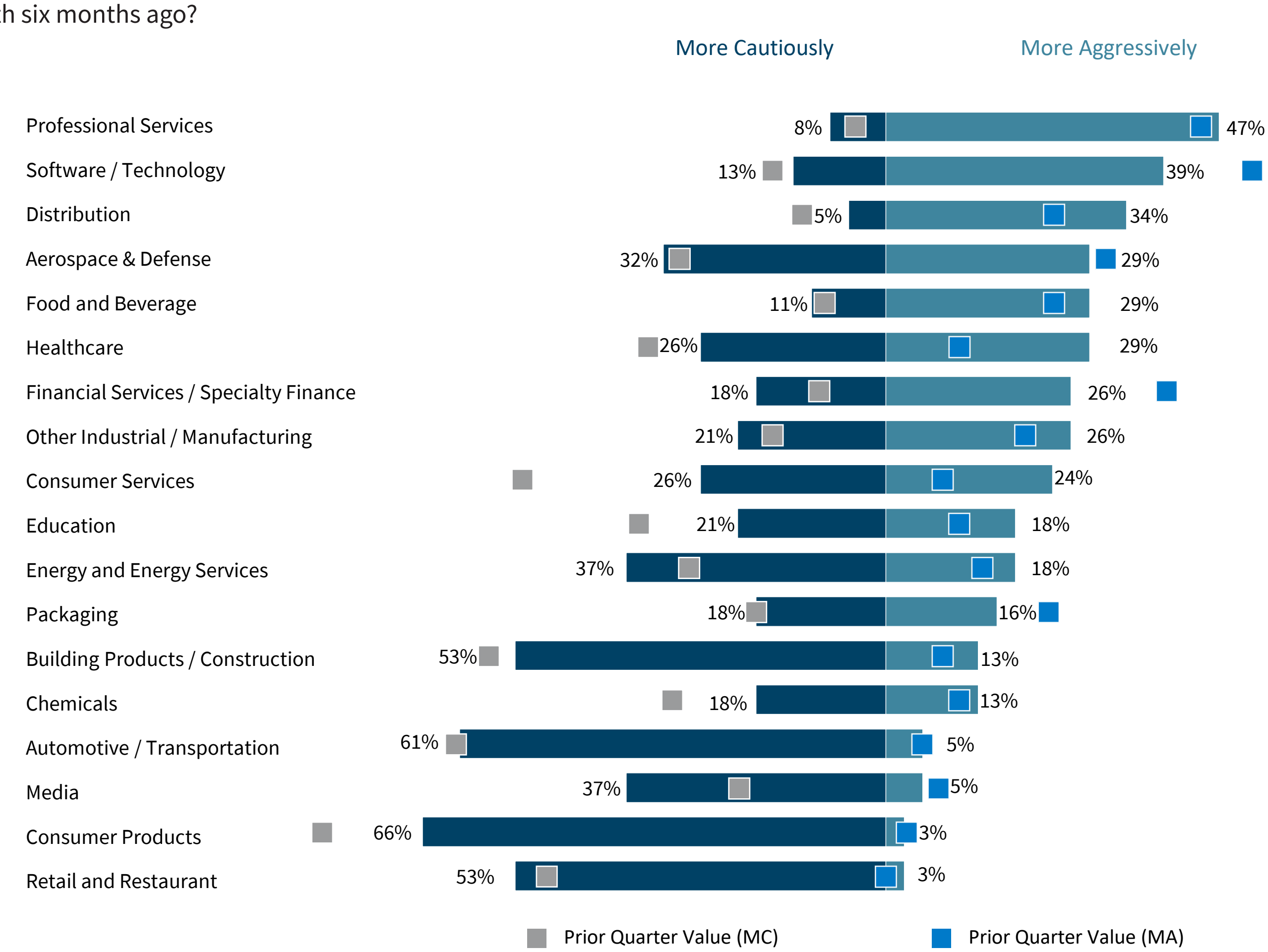
With M&A-related volume still relatively limited, sustained competition from the broadly syndicated market and the persistent need to deploy capital, lenders remain aggressive, making borrower-friendly concessions to win new deals. 70% of respondents indicated they made such concessions during the quarter, which is just off LTM highs.

During Q2 2025, did you make borrower-friendly concessions you historically would not have to win a deal? If yes, what were the concessions?

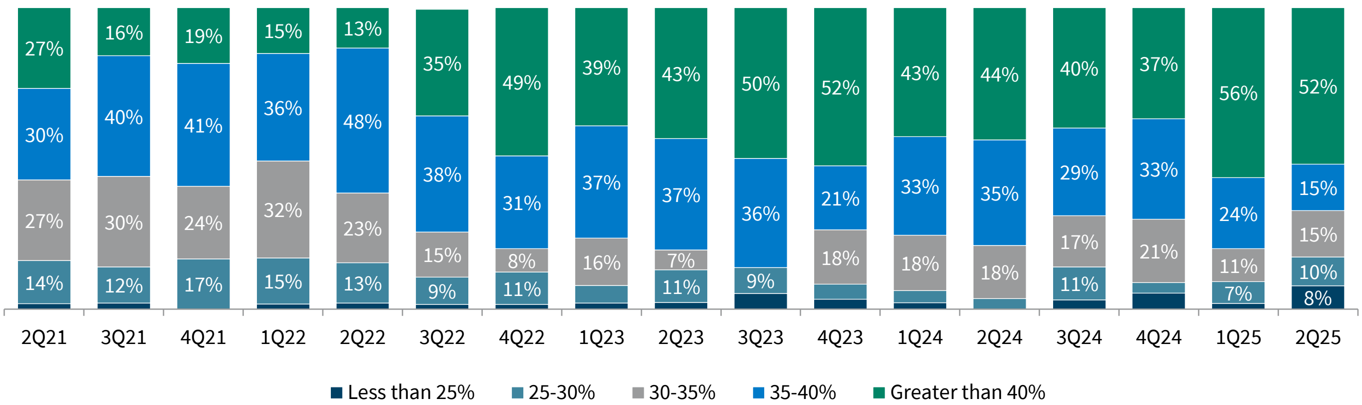


Additional Highlights

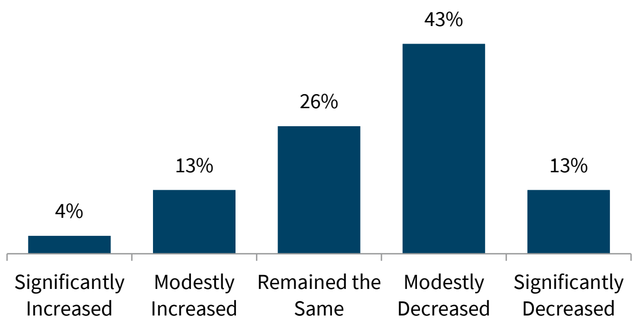
Are there any specific sectors or industries for which your firm is proceeding more aggressively or cautiously today compared with six months ago?



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

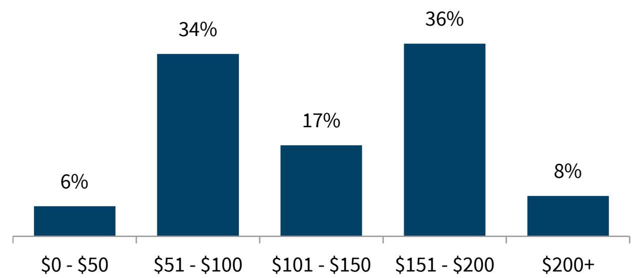


During Q2 2025, how did new-issue loan volume compare to that in the previous six months?

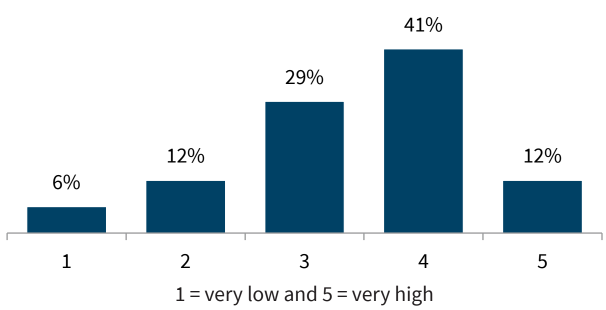


What is your firm's current maximum hold size for a single credit?

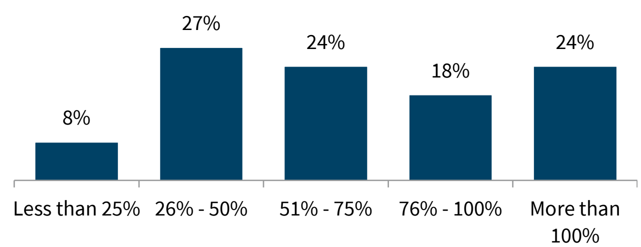
($ in millions)



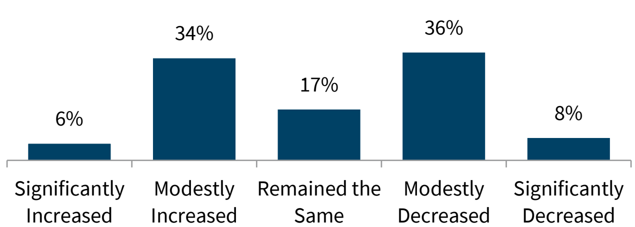
What is your appetite level for supporting a dividend recapitalization transaction over the next six months?



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

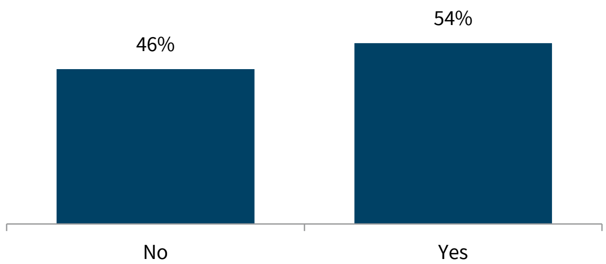


During Q2 2025, how have your expectations for M&A activity for the remainder of 2025 changed?



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?



- Tariff risks and broader economic uncertainty are now key factors in deal evaluation
- Top-tier or approved sponsor, typically from a whitelist
- Reasonable leverage and cash cushion
- Preference for incumbent portfolio company
- Strong existing relationship with lender or borrower
- Size, track record, and experience of PE sponsor
- Industry with high familiarity and strong conviction
- Strong underlying credit quality and business performance
- Transaction size of the deal
- Minimum equity capitalization and loan-to-value

Have the recent changes in tariff and other economic policies from the Trump 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 risks and broader economic uncertainty are now key factors in deal evaluation
- Caution around sectors heavily impacted by tariffs, inflation, or government spending
- Preference for domestic-oriented businesses with limited exposure to international trade or federal contracts
- Increased scrutiny of supply chains to assess direct and indirect tariff exposure
- Focused on understanding a business's ability to pass on costs and withstand margin compression
- More conservative underwriting with lower leverage, tighter projections, and downside case analysis
- Portfolios are shifting toward less cyclical industries and recession-resistant business models
- Tariff impacts are being quantified and incorporated into base and sensitized financial models
- Trending towards lower-priced opportunities in exchange for reduced leverage
- Greater focus on marketed leverage and leverage without adjustments together with cash interest coverage after sensitizing for higher rates going forward

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

- Impact of tariffs, interest rates, and inflation on growth
- Sponsors' resistance to sell at lower multiples, reducing deal flow activity
- Geopolitical risk, including global conflicts and political volatility
- Certainty around tariffs and economic policy that could help thaw the M&A market
- U.S. trade policy and the Federal Reserve
- Pressure to deploy capital is feeding aggressive market behavior
- Shock of a potential global macro event, stagflation, or recession concerns
- Resurgence in refinancing and dividend recap activity if M&A volume remains low
- Heightened sponsor inbounds amidst mixed asset quality
- Lack of quality deal flow combined with excess liquidity breeding a competitive environment
- Liability Management Exercises (LMEs) becoming more relevant in the current environment

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

unisys Senior Secured Notes Financial Advisor 2025	mapal os 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	Diverzify Senior Secured Credit Facilities 2024
Starrett Senior Secured Credit Facility 2024	BISHOP LIFTING Debt Placement 2023	PRIMUTEC SOLUTIONS GROUP Senior Secured Credit Facility 2023

William Blair Leveraged Finance by the Numbers

170+

completed leveraged finance transactions since 2016

$23B+

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
- Turnkey financing teams able to deliver unparalleled speed, execution, and certainty to close

With more than 260 senior bankers around the world, William Blair has completed more than 1,475 advisory and financing transactions totaling over $828 billion in value for our clients.*

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

Disclosure