William Blair

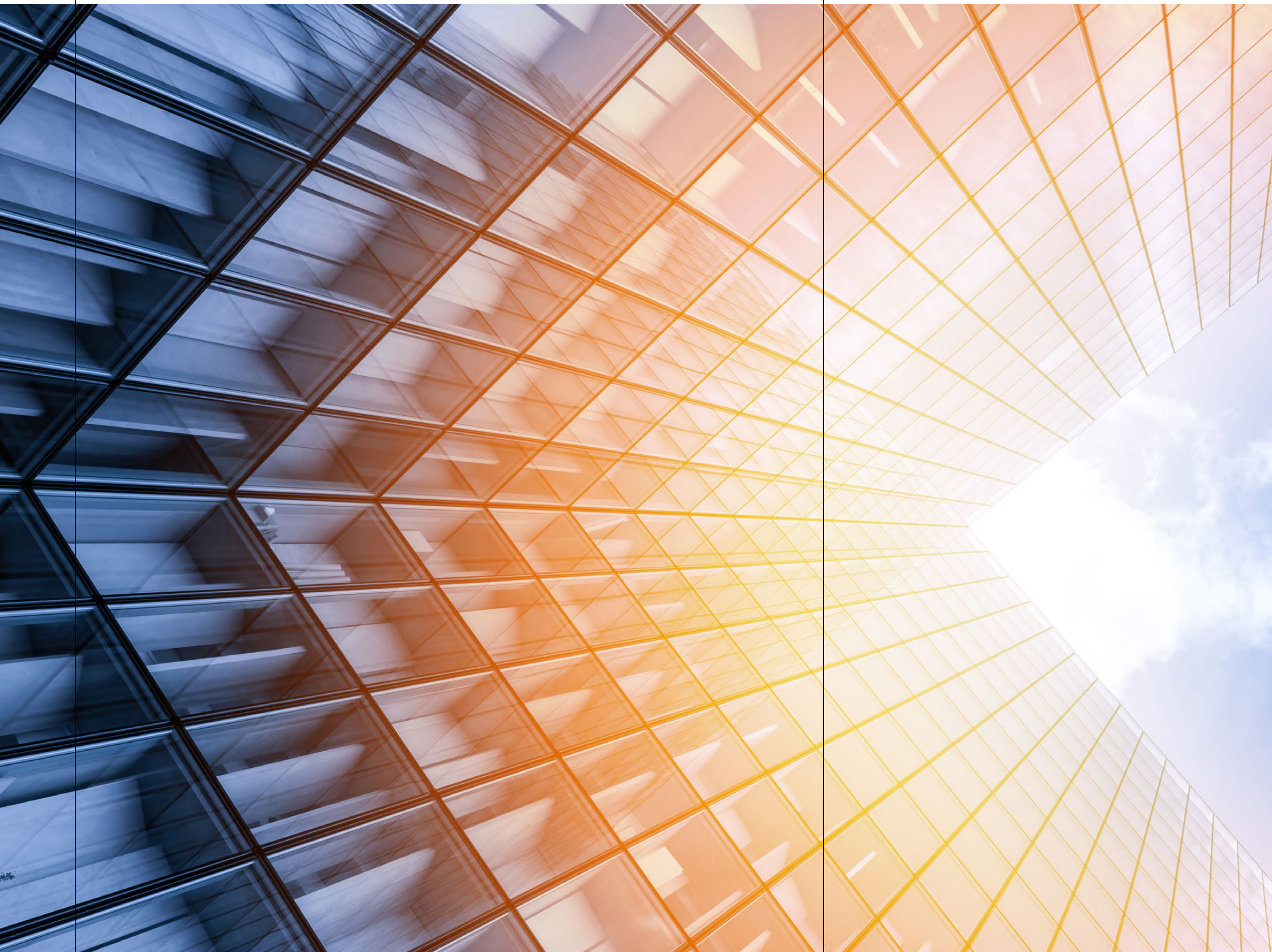
Q3 2020

Debt Markets Continue March Toward Pre-COVID Levels

In This Report

Highlights From William Blair's Quarterly Leveraged Finance Survey

Leveraged Finance



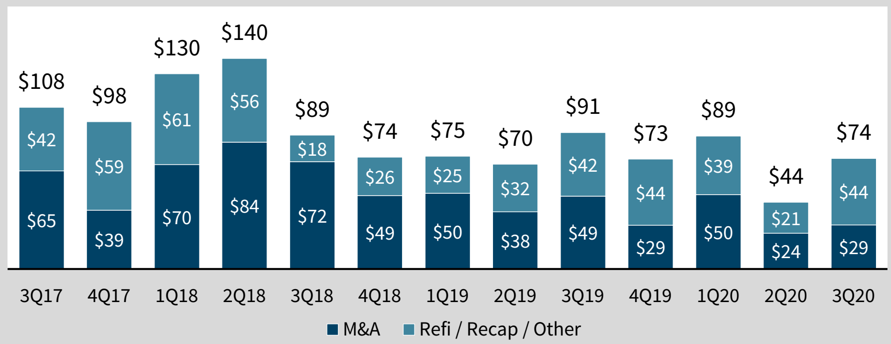
Debt Markets Continue March Toward Pre-COVID Levels

Lenders were looking to be aggressive in the third quarter, but only for borrowers with limited exposure to COVID-related disruptions.

With conditions continuing to stabilize in the third quarter, lenders once again showed an increased appetite for new opportunities. Although institutional loan volume was down roughly 19% from the third quarter of 2019, it was up 66% from the previous quarter, driven by the return of opportunistic transactions. Dividend recapitalizations provided the biggest boost, totaling $15.8 billion in the third quarter after managing only $1.0 billion in the first half of the year. That said, the market has become extremely bifurcated. Competition among lenders is strong for businesses that have performed well through COVID, and they are largely getting done at pre-COVID levels. By contrast, businesses significantly impacted by COVID are having trouble getting deals done due to concerns about prolonged impact.

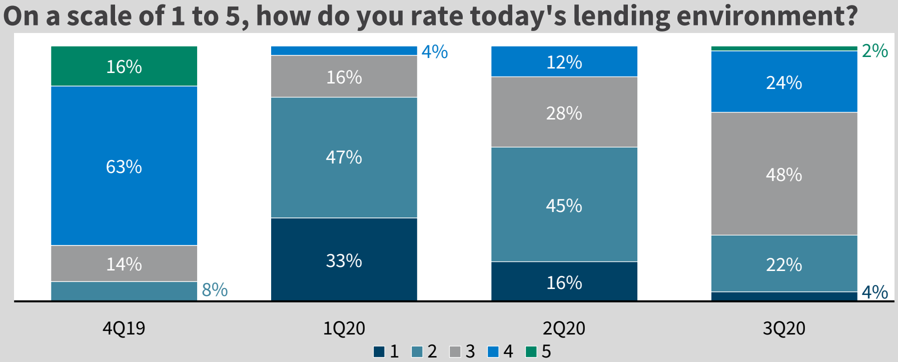
Results from our quarterly leveraged finance survey reflect the trends that shaped the third quarter. Please do not hesitate to reach out if you have questions about what we are seeing in today's market or other credit-related topics you would like to discuss in more detail.

Institutional Loan Volume



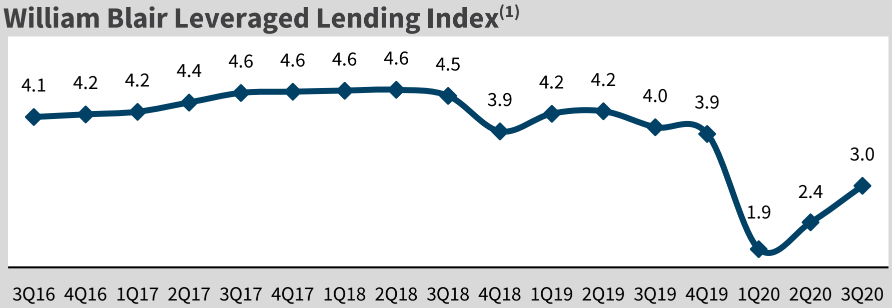
Source: LCD, an offering of SPGMI

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)



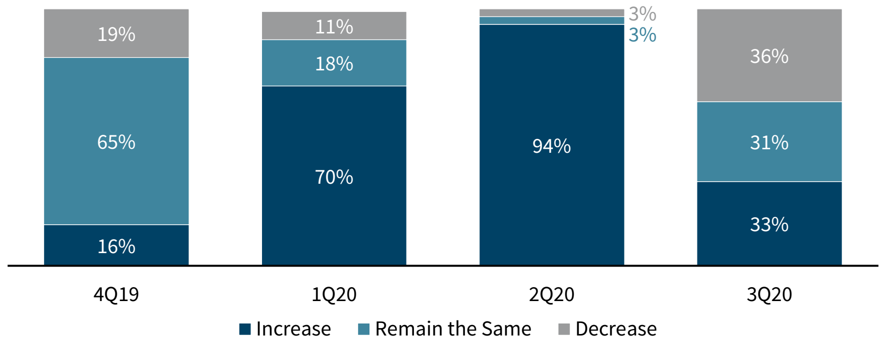
1 = Most Lender-Friendly; 5 = Most Borrower-Friendly

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

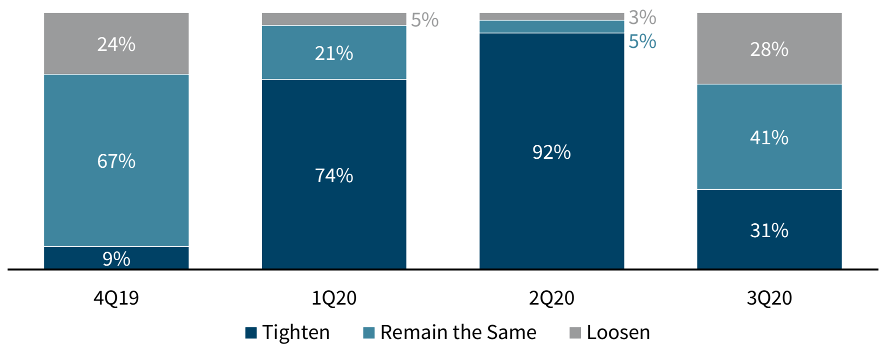
Leveraged Finance Survey

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.

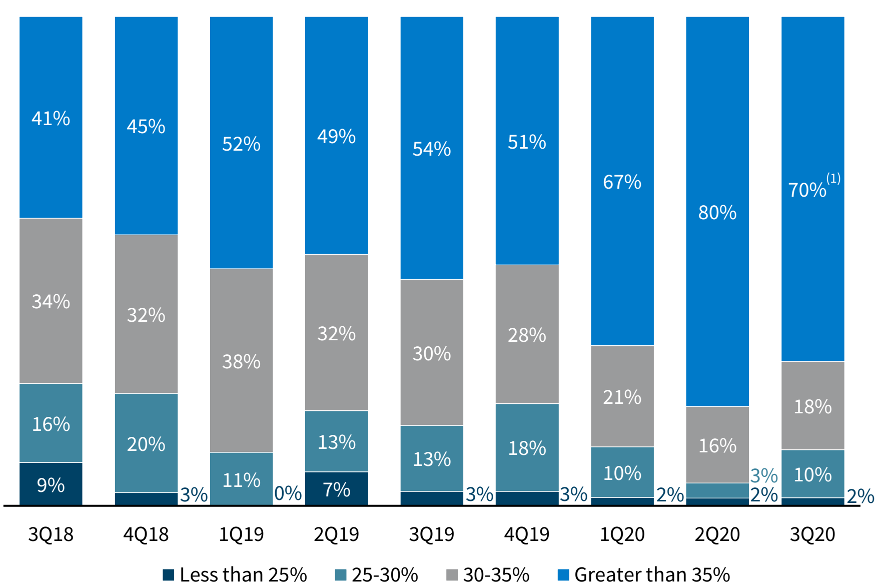
During the past quarter, did pricing for your primary debt offering?



During the past quarter, did transaction terms and leverage?



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



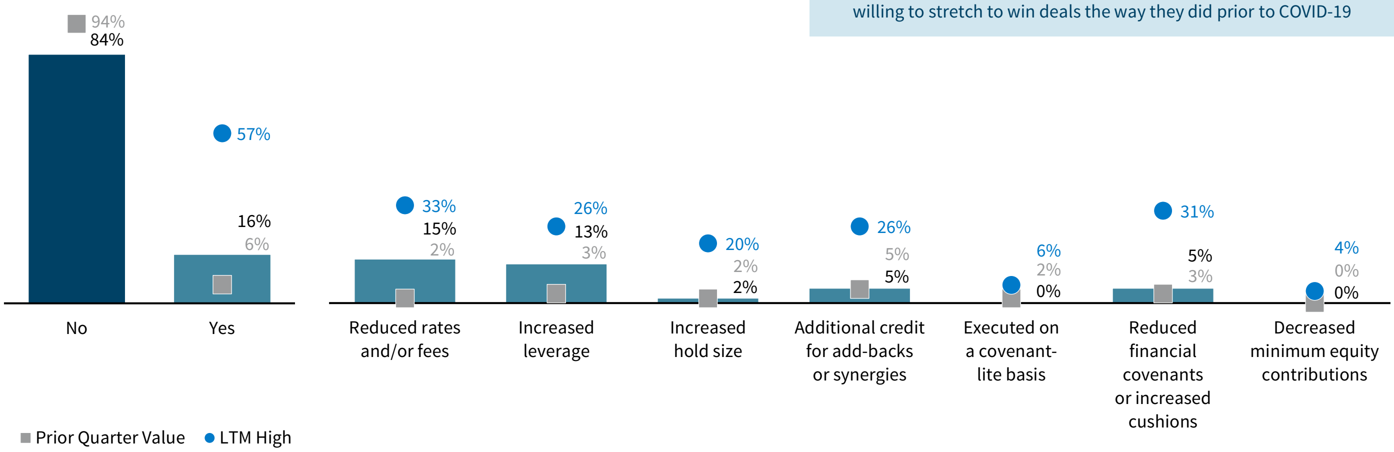
(1) 43% of respondents indicated they require >40%

During 3Q20, did you make borrower-friendly concessions you historically would not have to win a deal?

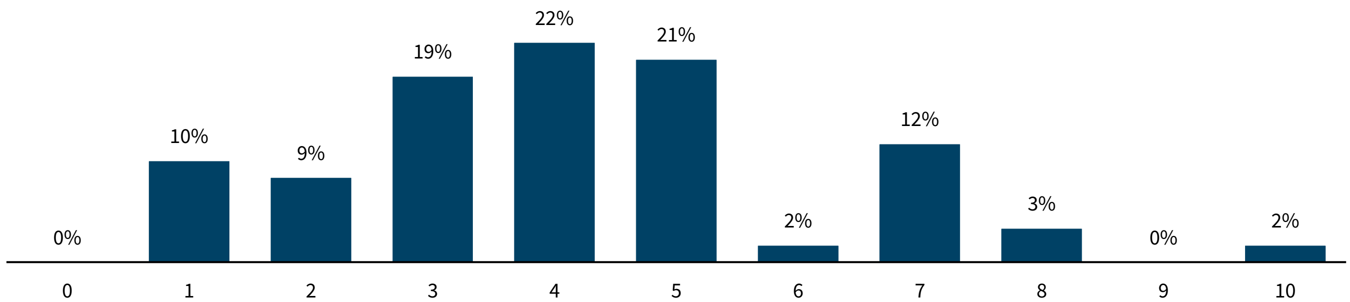
If yes, what were the concessions?

(% of total respondents)

Although debt markets have started to open up, lenders do not appear willing to stretch to win deals the way they did prior to COVID-19



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

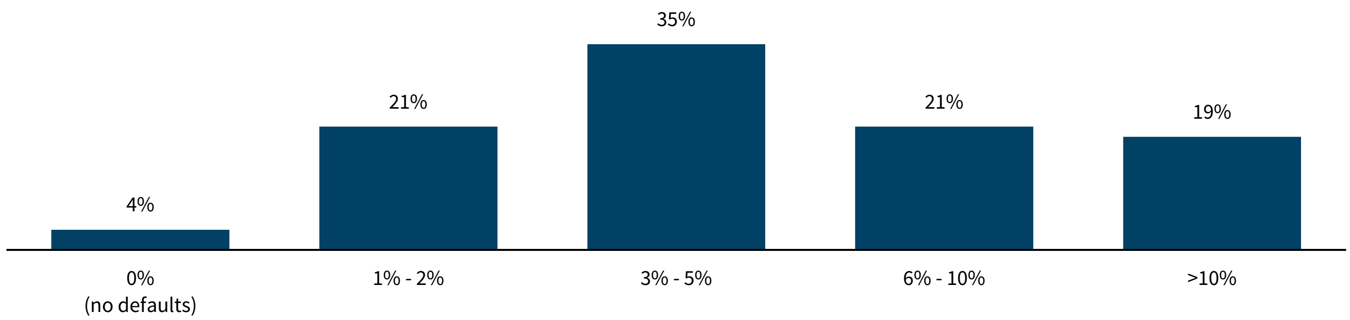
Average Rating by Quarter

1Q20	2Q20	3Q20
2.9	4.0	4.2

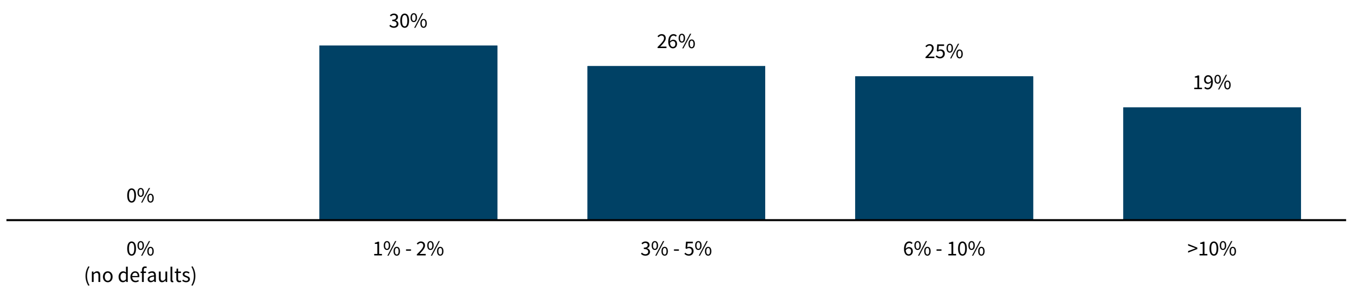
Additional color on differences in approach between pre-COVID and today

- Revenue visibility has become the highest priority underwriting element; sponsored transactions also significantly favored to non-sponsored
- We are in a bifurcated market. If there is COVID impact, we are cautious. If no/limited COVID impact, we will be aggressive
- Capital optimization is key; need to get paid for risk; we are willing to be aggressive but need to be rewarded for the risk
- Higher focus on credit documents and EBITDA addbacks
- Holds are lower, pricing is higher, and leverage is lower. However, the market has become more aggressive since July 1st
- We target the best quality opportunities and then get aggressive. Don't chase the rubbish
- Tighter underwriting standards and an awareness that stimulus propping up sectors of the economy can't go on forever
- We are still making investment and our leverage is almost identical to other years

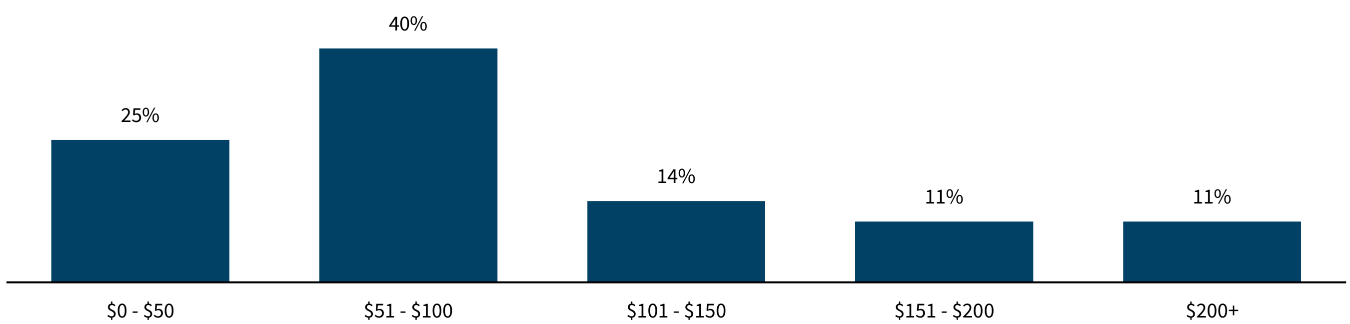
During Q3, what percentage of your firm's loan portfolio experienced some form of default (including companies that would have defaulted if not for an amendment)?



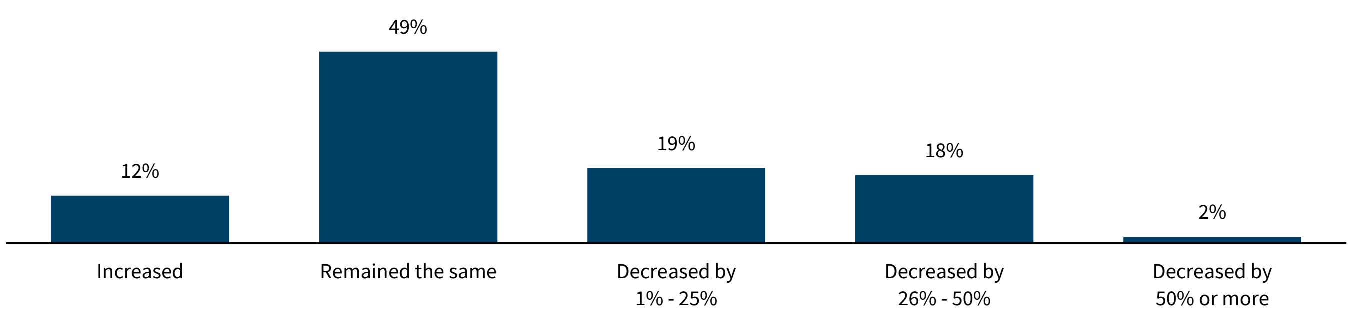
What would the percentage be if you include companies that you expect will default in the next 3 months?



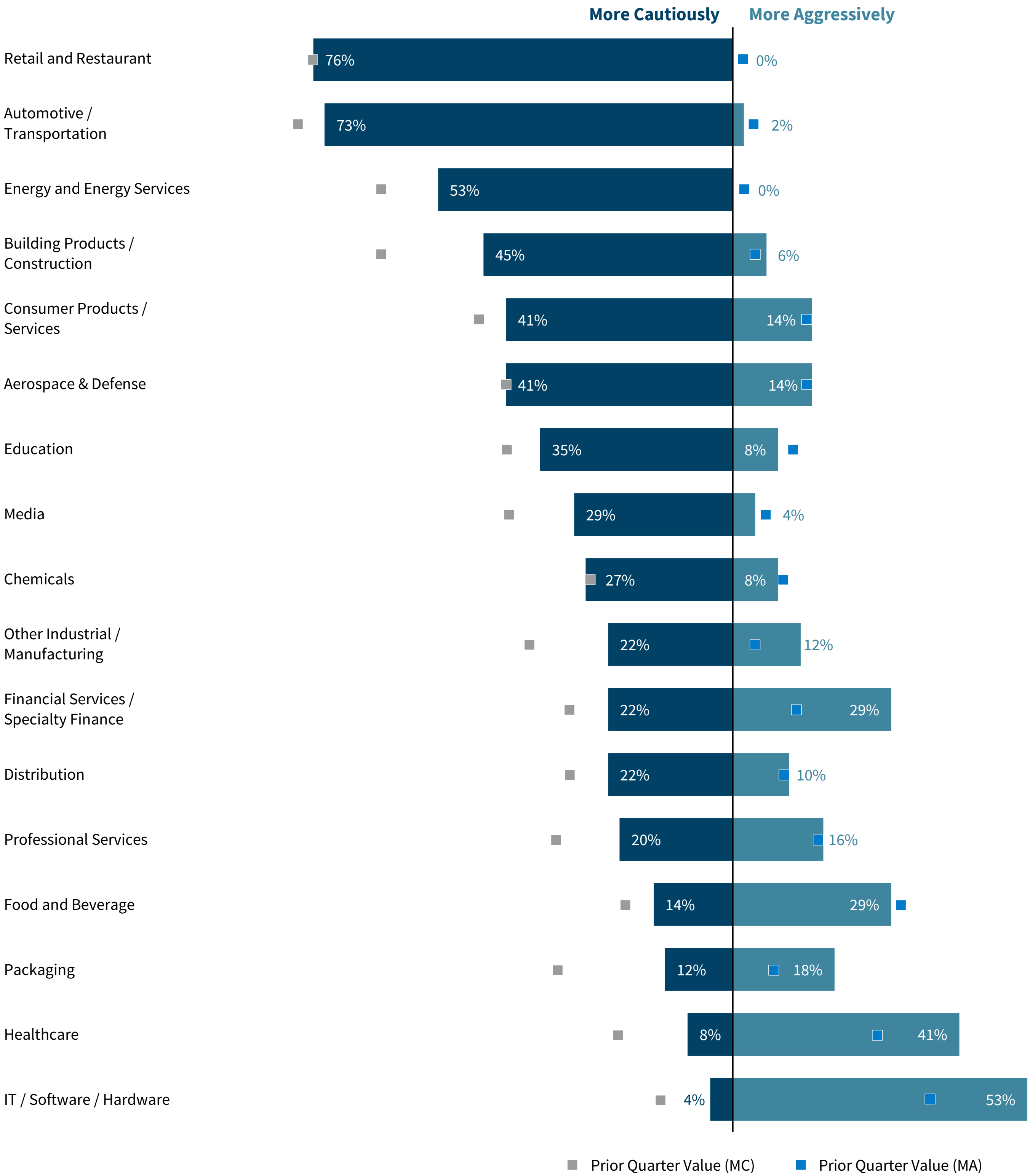
What is your firm's current maximum hold size for a single credit?



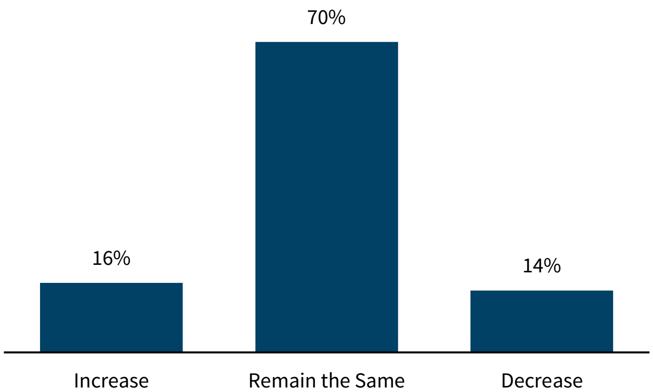
**Compared to your firm's pre-COVID hold sizes,
what have you observed regarding your firm's current maximum hold size?**



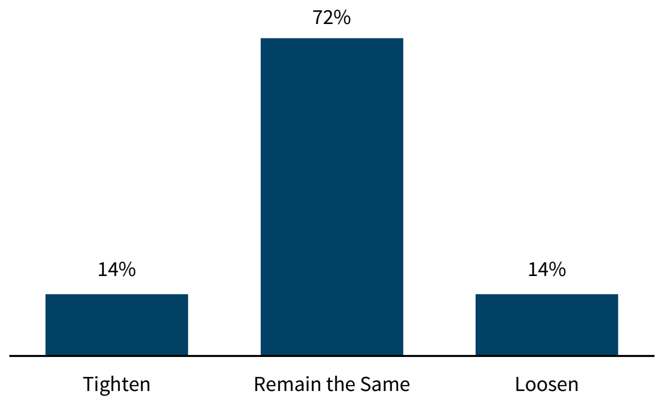
Are there any specific sectors or industries for which your firm is proceeding more aggressively or cautiously today compared with 6 months ago?



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
- Lenders on the sidelines too long and now anxious to do transactions
- Expectation that lenders will need 150bps more yield and leverage will fall 1.0x short of pre-COVID, on average. Primary factors will include COVID surge, election, and lack of high quality M&A volume
- Potential for a consumer recession as stimulus wears off, election, and virus "second wave"
- Concerns over capital gains tax being increased if Democrats win will drive sale processes. Economic uncertainty and market volatility may offset
- Post-Labor Day excitement for new deals was high, but practically, potential re-emergence of COVID hotspots, the election, SCOTUS process, social issues, and geopolitical tensions will put a damper on new deal activity
- Activity will be low. Hard for lenders to support recapitalizations in the current environment and M&A activity is tepid
- It has gotten more competitive, more quickly than I would have expected
- Presidential election results and effect on tax rates/M&A volume
- Pent-up M&A activity will drive loan volume
- The market seems to be fairly aggressive and not taking into account the uncertainty from the pandemic and the election
- Quality of deals coming to market will be relatively high, with strong competition for these assets. This assumes no major reversion in the country's progress against COVID
- By the end of 2020 the pendulum will begin to swing in favor of lenders w/resect to pricing & structure. This will be driven by an increase in defaults, as the long term impacts of industries adversely affected by the pandemic sets in
- 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

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 telestream Unitranche Credit Facility	Not Disclosed SANUWAVE Secured Notes	Not Disclosed Penn Machine Since 1931 / Western Forge & Flange Co. Split Lien Credit Facilities
Not Disclosed Esterline Interface Technologies Split Lien Credit Facilities	Not Disclosed Sealforlife Industries Multi-Currency Credit Facilities	$70,300,000 Strauss Senior Secured Credit Facilities
$160,000,000 AEVEX Aerospace Unitranche Credit Facility	$410,000,000 CM Group First Lien and Second Lien Credit Facilities	Not Disclosed Lighthouse Senior Secured Credit Facilities

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
- Thoughtful, customized financing processes that produce outstanding outcomes

With more than 180 senior bankers around the world, William Blair has completed more than 1,050 advisory and financing transactions totaling nearly $370 billion in value for our clients.*

Leveraged Finance

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

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.