William Blair

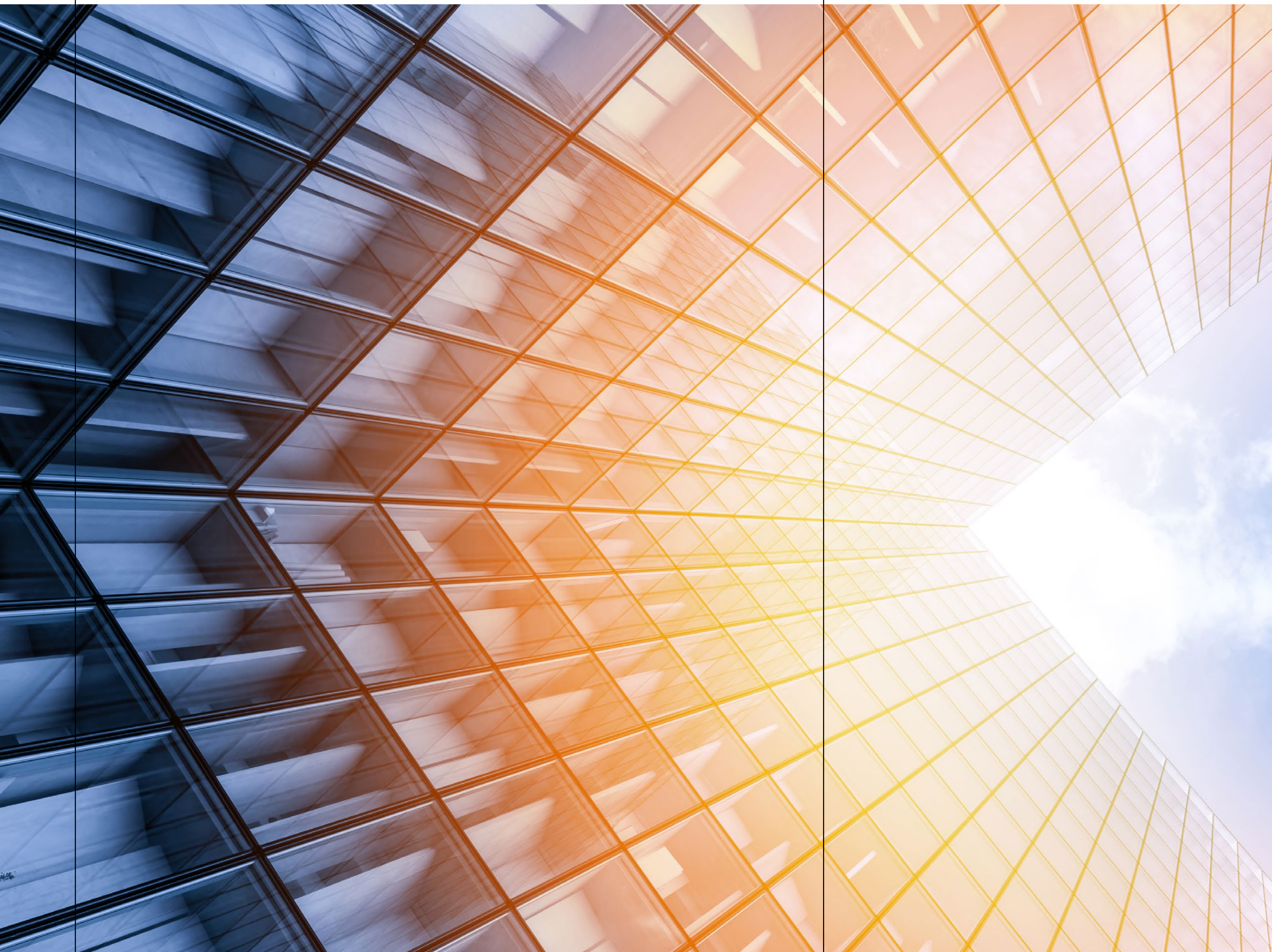
Q1 2021

Leveraged Finance Market Bursts Out of the Gate in 2021 With Record-Setting First Quarter

In This Report

Highlights From William Blair's Quarterly Leveraged Finance Survey

Leveraged Finance



Leveraged Finance Market Bursts Out of the Gate in 2021 With Record-Setting First Quarter

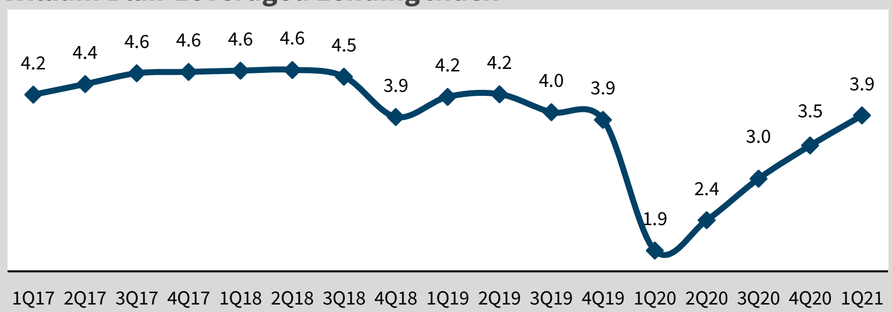
Debt markets fired on all cylinders during the first quarter, supported by favorable technical tailwinds and pent-up demand from borrowers and investors.

Building on the momentum of the second half of 2020 and encouraged by the COVID-19 vaccination rollout and the prospect of further fiscal stimulus, the U.S. leveraged finance market started 2021 with a bang. Extremely strong activity in both opportunistic and M&A-related issuance pushed total institutional loan volume to $180.8 billion in the first quarter, the highest quarterly volume of all time. This total represents an increase of more than 100% from the previous quarter as well as year-over-year. The prospect of rising interest rates also had investors rushing to floating-rate loans, creating a borrower-friendly environment and allowing issuers to take advantage of refinancing and dividend recapitalization opportunities. Refinancing volume totaled $79.4 billion for the quarter, up from $14.8 billion in the fourth quarter and $35.4 billion in the first quarter of 2020. Dividend-related volume totaled $21.8 billion, the highest amount since the second quarter of 2013.

Looking ahead to the rest of the year, respondents to William Blair's quarterly Leveraged Finance Survey indicated that they will be keeping a close eye on the continued rollout of the vaccine, the prospects for additional government stimulus, and the surplus of available capital, which has the potential to create a supply/demand imbalance in the leveraged finance market.

Results from our quarterly survey reflect the trends that shaped the first 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.

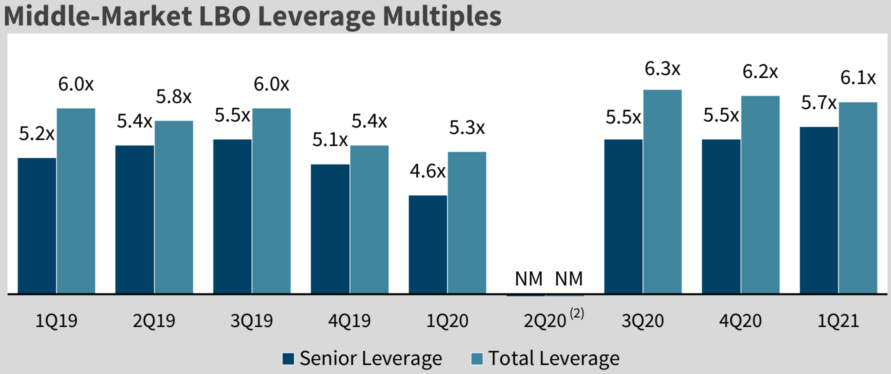
William Blair Leveraged Lending Index[(1)]



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?"

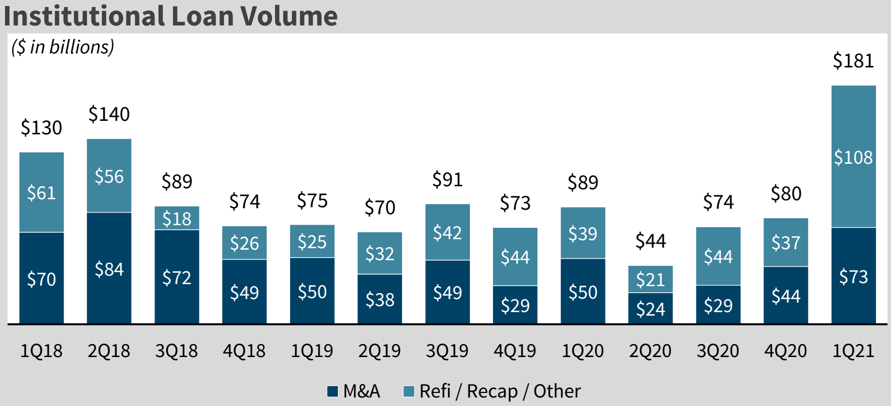
Middle-Market LBO Leverage Multiples



Source: William Blair Proprietary Mid-Market LBO Financing Database

(2) Limited number of proposals received during 2Q20 due to initial shock of COVID-19 pandemic

Institutional Loan Volume

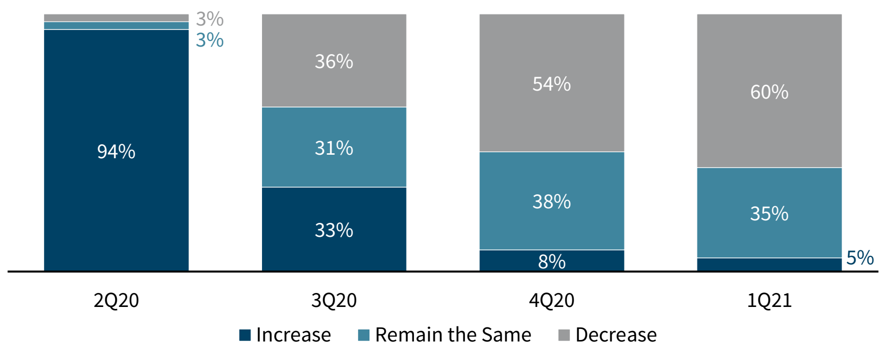


Source: LCD, an offering of SPGMI

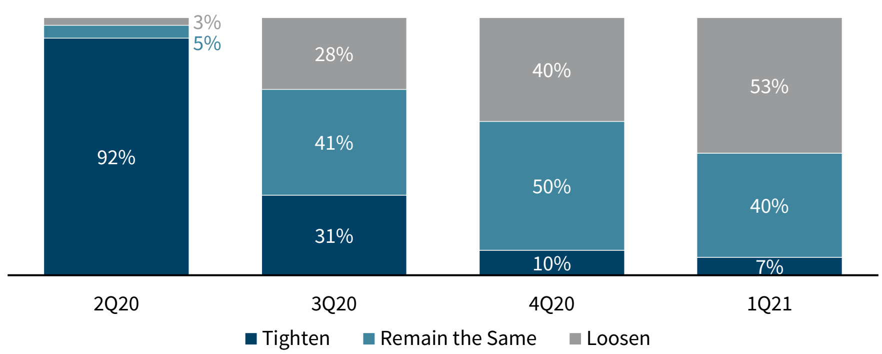
Leveraged Finance Survey

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 approximately 60 leveraged financed professionals who participated in the survey this quarter.

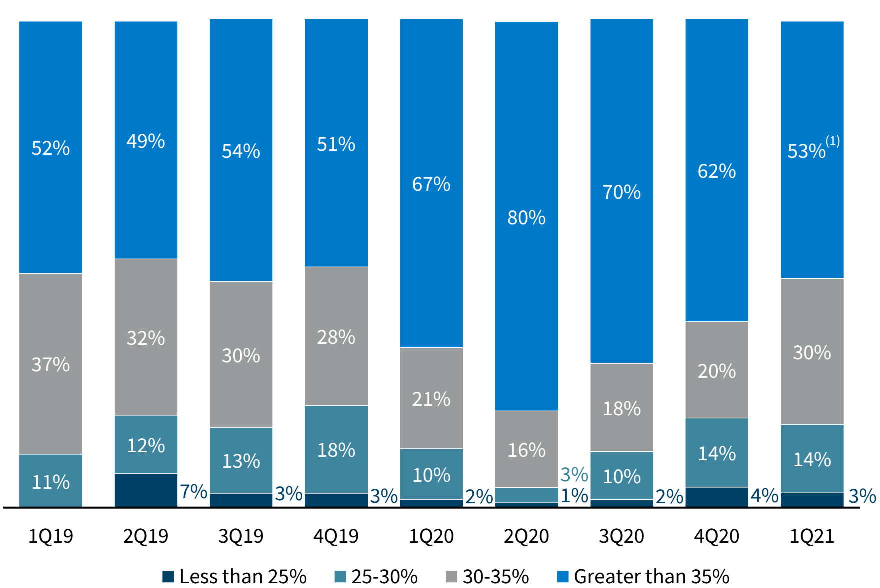
During the past quarter, did pricing for your primary debt offering?



During the past quarter, did transaction terms and leverage?



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



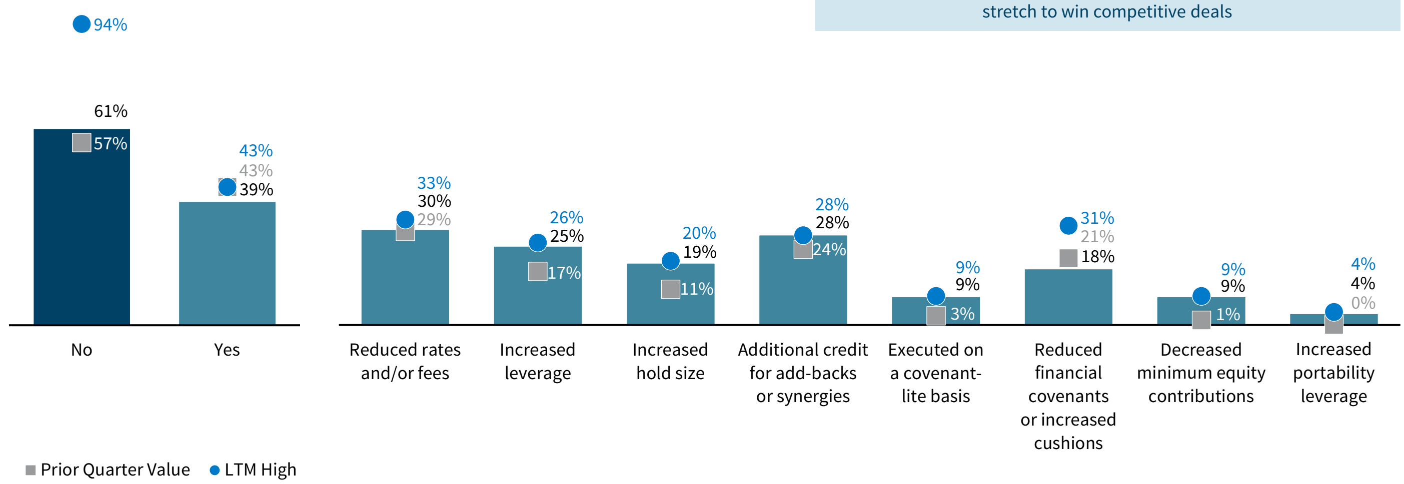
(1) 21% of respondents indicated they require >40%

During 1Q21, did you make borrower-friendly concessions you historically would not have to win a deal?

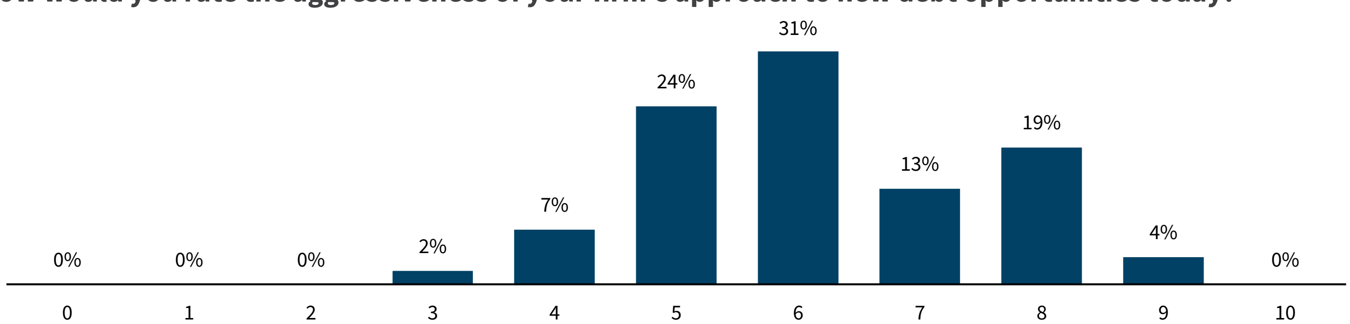
If yes, what were the concessions?

(% of total respondents)

With debt markets heating up, lenders are more willing to stretch to win competitive deals



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 today?

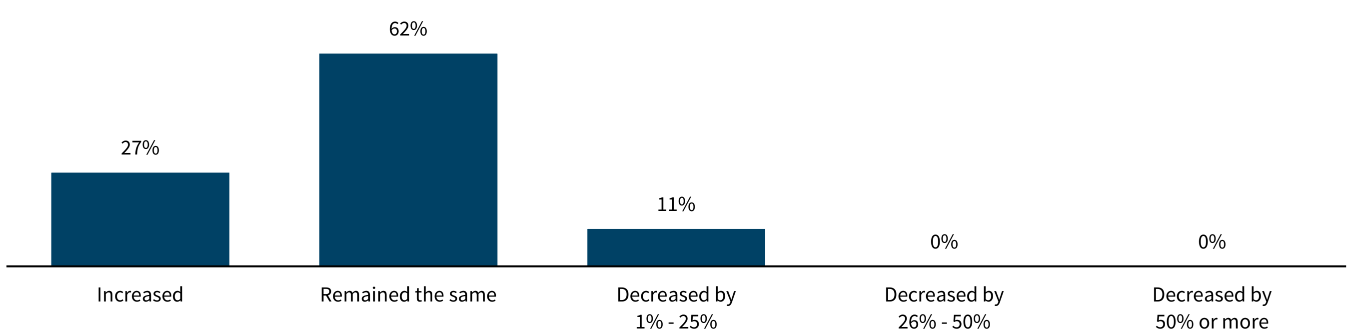


0 = Significantly LESS Aggressive; 10 = Significantly MORE Aggressive

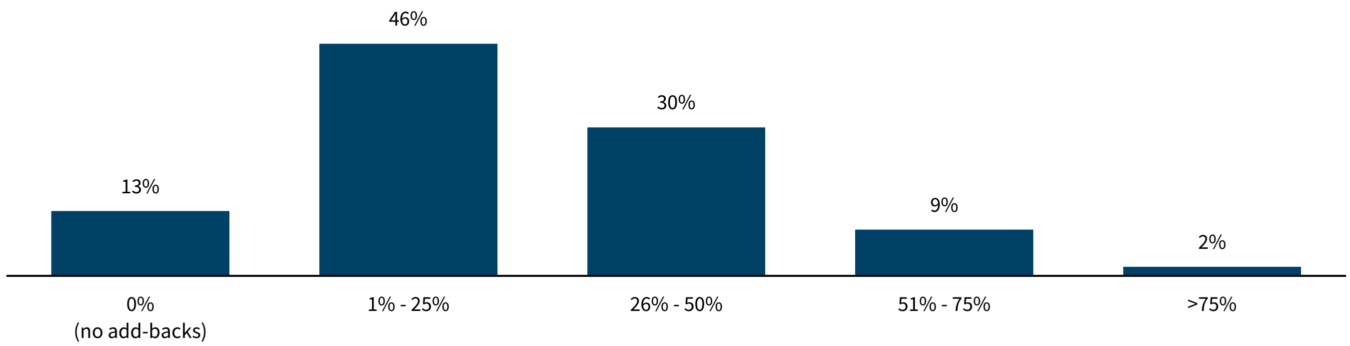
Average Rating by Quarter

1Q20	2Q20	3Q20	4Q20	1Q21
2.9	4.0	4.2	5.4	6.2

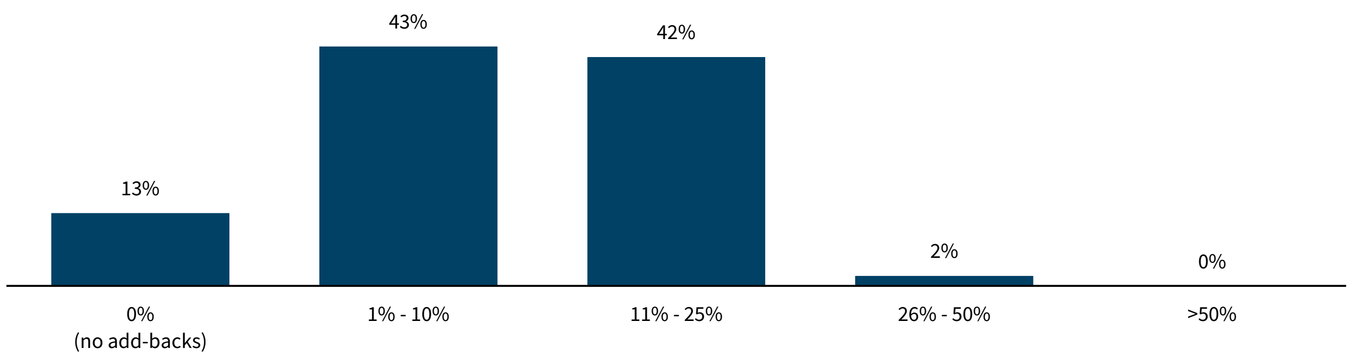
Compared to your firm's pre-COVID hold sizes, what have you observed regarding your firm's current maximum hold size?



During Q1 2021, what percentage of the term sheets you provided for new opportunities involved your firm giving credit for COVID-related add-backs?



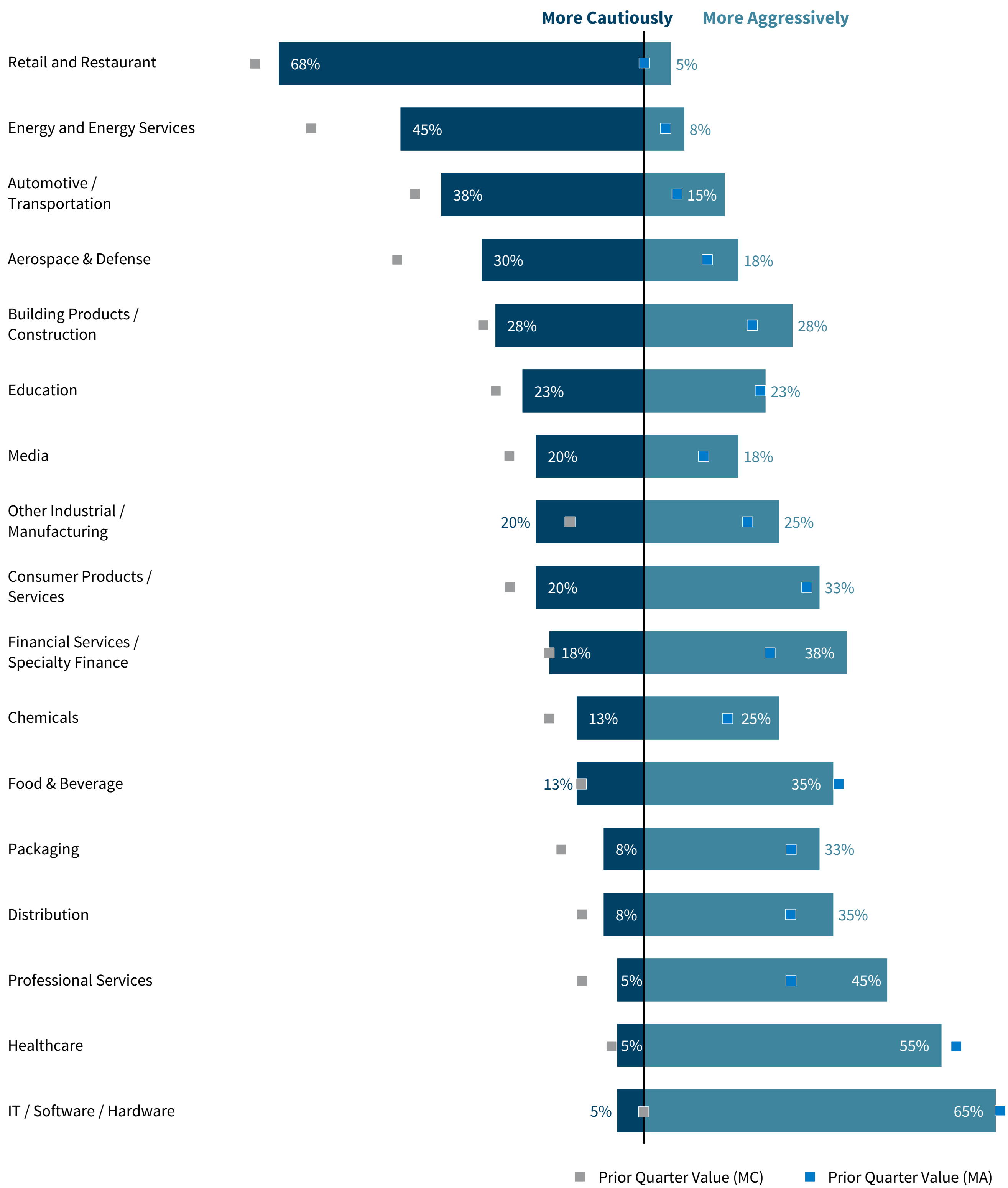
During Q1 2021, when you gave credit for COVID-related add-backs, what percentage of the final EBITDA figure did the adjustment typically represent?



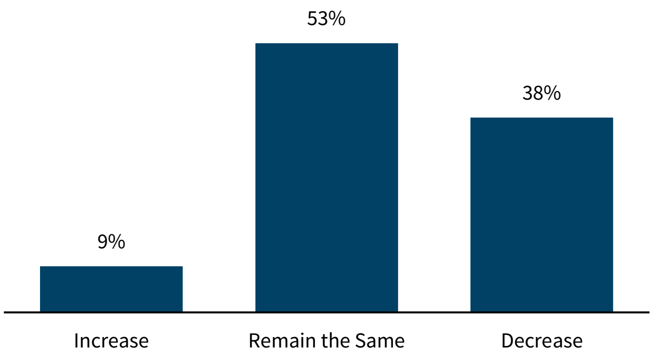
Additional color on your firm's position on COVID adjustments (what is and is not allowed)?

- Revenue-related adjustments are typically non-starters. Certain identifiable, one-time, non-recurring COVID add-backs have been allowed on occasion
- Credit typically only given for 2-3 months of easily identifiable shutdown related deterioration where shutdowns could be identified as the primary culprit of revenue declines. Or, for cost related, in cases where subsequent performance validated the temporary nature of excess costs and a reversion to normalized levels
- Our preferred approach is to provide credit for the additional costs incurred as a result of COVID but increasingly we are having to give credit for lost profits. In those instances, we typically seek to limit the time period for the COVID addback, cap it as a percentage of overall EBITDA and make sure to net out any benefit that the Company has received as a result of government relief efforts
- No revenue adjustments and focus on more recent months returning or trending towards pre-COVID performance
- We are more comfortable with confirmable cost reduction savings or one-time higher costs (buying PPE) than giving Companies a free pass on potential revenue they could have earned w/o COVID based on prior years
- Allowing: Addbacks for one-time expenses (enhanced facility cleaning, workforce testing, on-site medical, PPE), run-rating of EBITDA for businesses that clearly experienced a temporary significant downturn but have shown a consistent recovery (i.e. four-wall healthcare)
- Not Allowing: Applying a revenue and EBITDA increase for businesses where the COVID impact was actual, but not significant

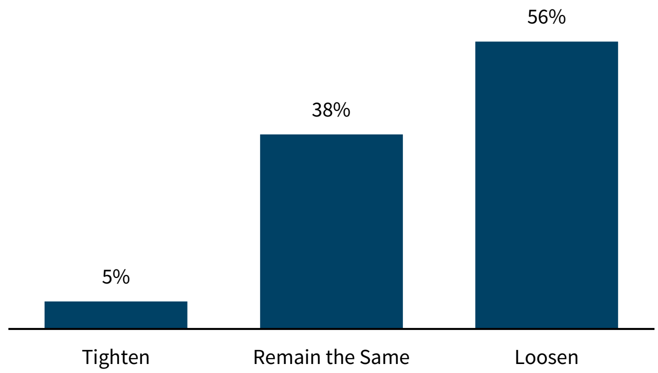
Are there any specific sectors or industries for which your firm is proceeding more aggressively or cautiously today compared with 6 months ago?



For the remainder of 2021, what are your expectations regarding pricing of your primary debt offering?



For the remainder of 2021, what are your expectations regarding transaction terms and leverage?



For the remainder of 2021, what factors or trends do you expect will have the greatest impact on the leveraged loan market?

- Fear of recession, increase in companies being brought to market (right now there's insufficient supply of new loans), and behavior of mega funds
- More aggressive terms given the abundance of liquidity in the market
- An increase in the number of cov-lite unitranche financings, particularly in the software market for high quality subscription revenue model businesses
- The flood of fiscal stimulus will make investors more reckless
- Record amount of PE dry powder, CLO formation and resurgence of M&A and LBOs
- Slowdown in activity in mid-2020 and continued fundraising has resulted in significant amounts of dry powder. Competition to win deals will only increase
- Pacing of vaccination rollout and risks from new variants. Volume of transaction opportunities in the market
- Supply/Demand imbalance and whether lenders will focus underwriting on LTV on potentially inflated enterprise values vs the sustainability of EBITDA/repayment
- Quality of deal flow, competition for lower number of quality assets
- General macroeconomic health, rising long-term rates
- Portfolio run off and spreads tightening
- Pick up in M&A activity in Q2 until year-end

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 Andelyn Biosciences Senior Secured Term Loan Preferred Equity	$170,000,000 Colson Group Unitranche Credit Facility	Not Disclosed Telestream Unitranche Credit Facility
Not Disclosed SANUWAVE Secured Notes	Not Disclosed Penn Machine / 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	$160,000,000 AEVEX Aerospace Unitranche Credit Facility	$410,000,000 CM Group First Lien and Second Lien Credit Facilities

William Blair by the Numbers

100+

completed leveraged finance transactions since 2015

$14B+

arranged financing since 2015

475+

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 $31 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 475 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 200 senior bankers around the world, William Blair has completed more than 1,200 advisory and financing transactions totaling over $460 billion in value for our clients.*

Leveraged Finance

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* In the past five years as of March 31, 2021

Disclosure

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 over 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 2016 to 2020, the team advised on more than $430 billion in completed transaction volume.