William Blair

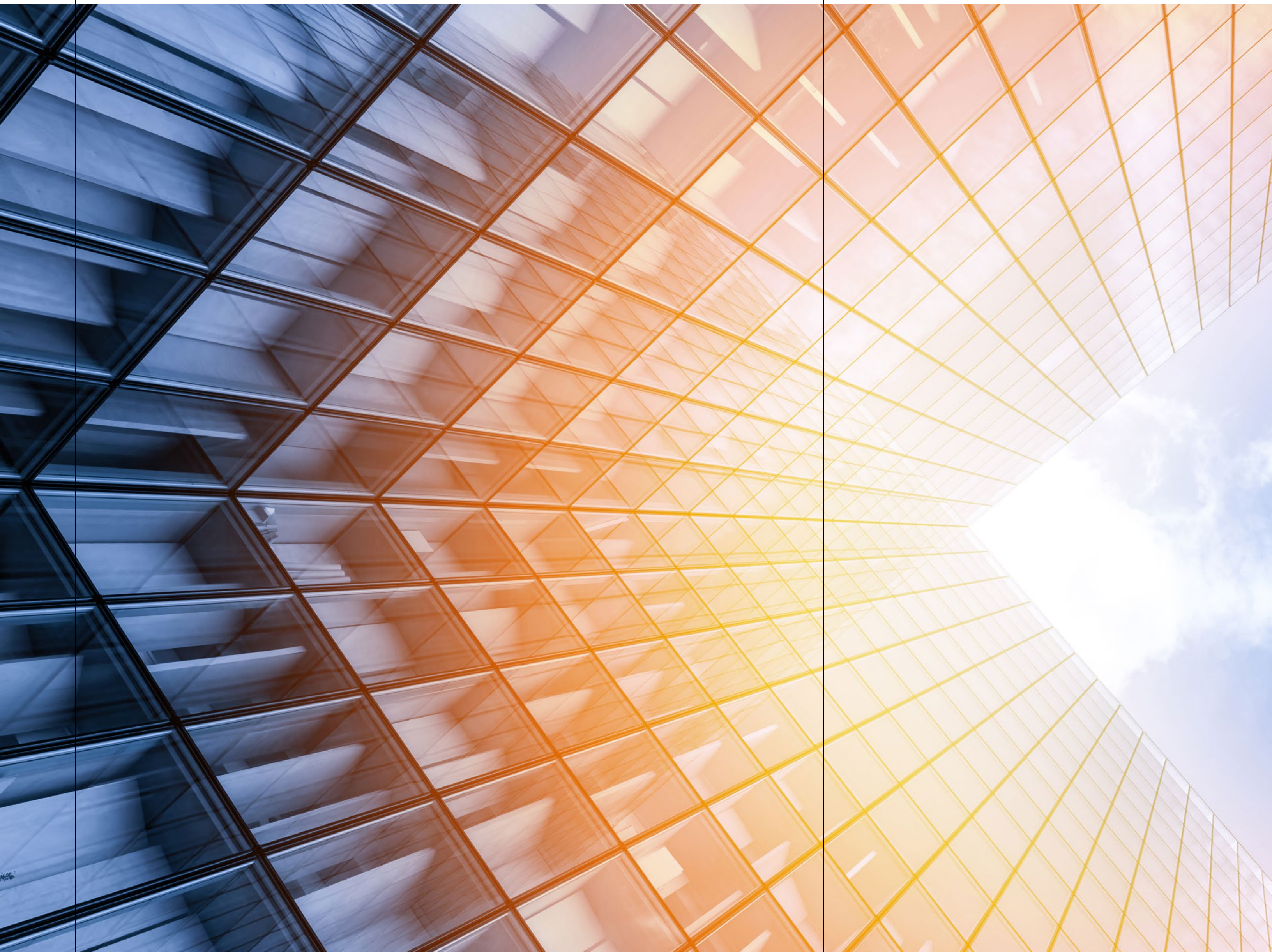
Q2 2021

Red-Hot M&A Market Fuels Another Big Quarter in Leveraged Finance

In This Report

Highlights From William Blair's Quarterly Leveraged Finance Survey

Leveraged Finance



Red-Hot M&A Market Fuels Another Big Quarter in Leveraged Finance

Demand for leveraged loans remained extremely strong during the second quarter, with market conditions shifting further in borrowers' favor

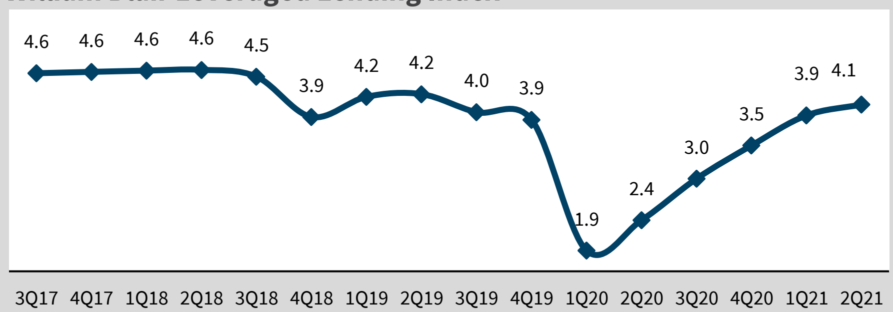
After recording an all-time high for institutional loan volume in the first quarter, the U.S. leveraged finance market kept its momentum in the second quarter with $145.8 billion of institutional loan volume. M&A-related issuance was the main driver once again, accounting for 58% of the total volume; the $83.9 billion in M&A-related issuance is the second-highest quarterly total on record.

Market conditions continued shifting in borrowers' favor in the second quarter. William Blair's Leveraged Lending Index rose above 4.0 for the first time in two years (5 is the most borrower-friendly conditions imaginable), and more than 65% of the respondents to William Blair's Leveraged Finance Survey indicated that they made concessions to win a deal during the second quarter that they would not have made historically.

Results from our survey reflect other trends shaping leveraged finance activity in 2021. Lenders identified several factors that could significantly affect the market in the second half of the year, led by inflation, Fed activity, tax law changes, and surging COVID cases. ESG issues have also become much more of a focus, with 74% of lenders indicating that their firms have already implemented ESG policies and another 15% stating that their firms are currently evaluating ESG policies.

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.

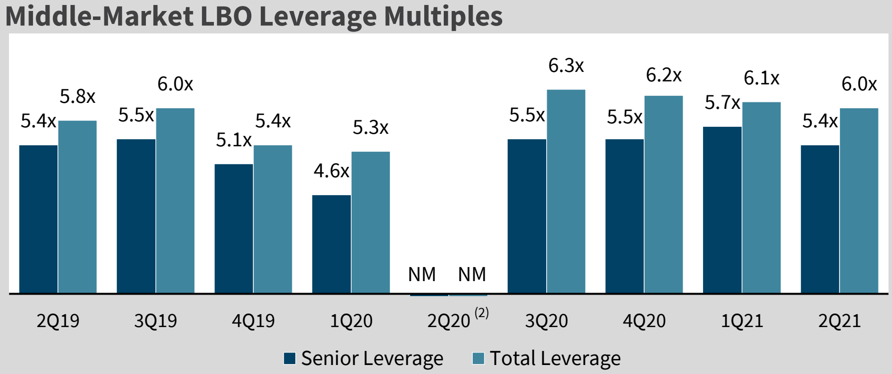
William Blair Leveraged Lending Index[1]



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

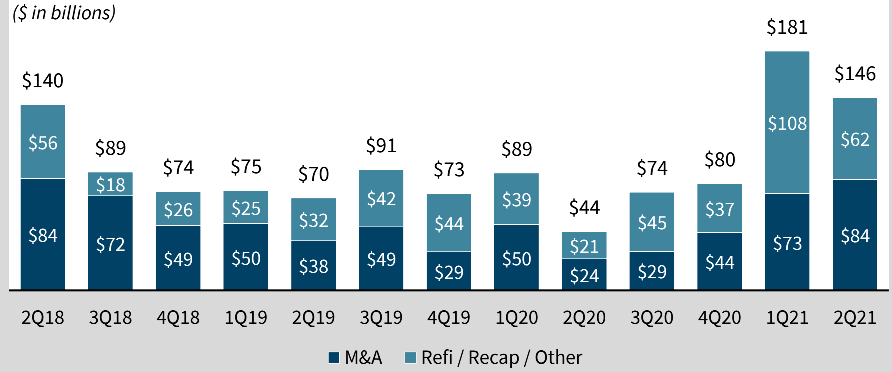


Source: William Blair Proprietary Mid-Market LBO Financing Database

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

Institutional Loan Volume

($ in billions)

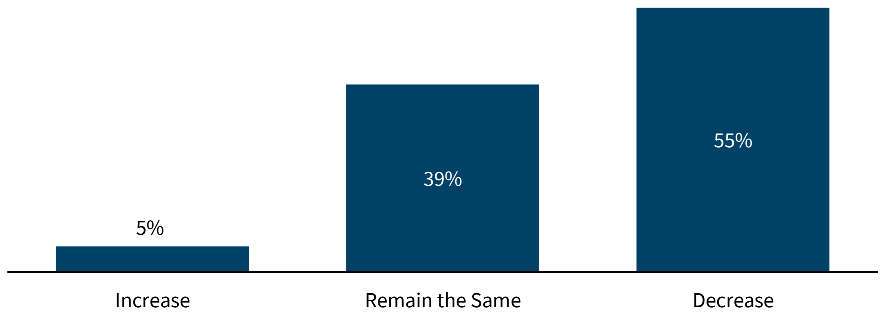


Source: LCD, an offering of SPGMI

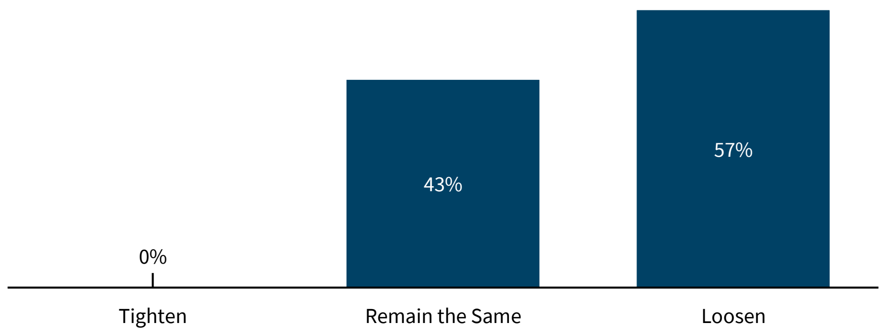
Leveraged Finance Survey

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.

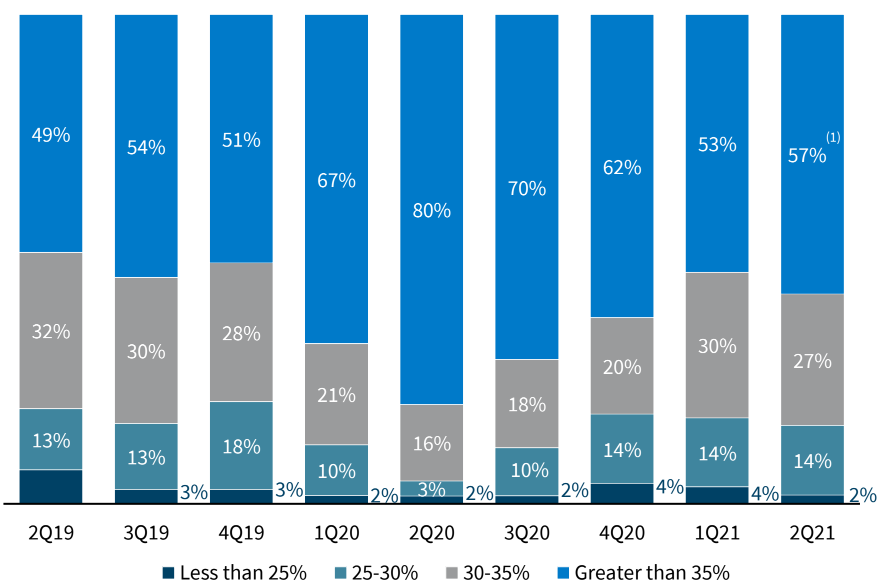
During 2Q21, did pricing for your primary debt offering?



During 2Q21, did transaction terms and leverage?



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

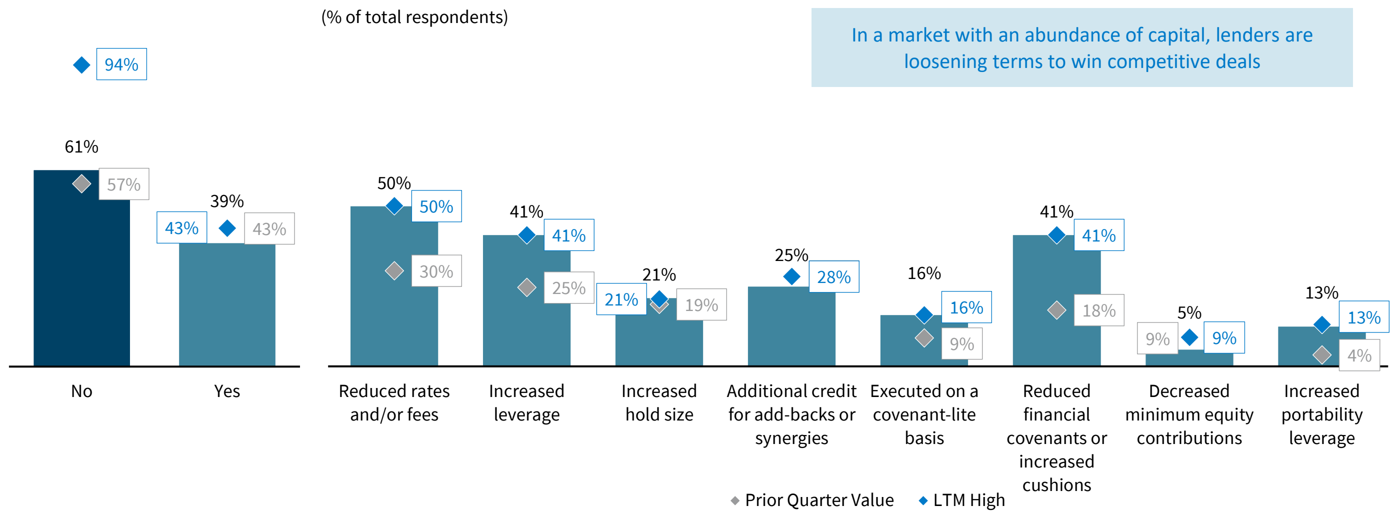


(1) 27% of respondents indicated they require >40%

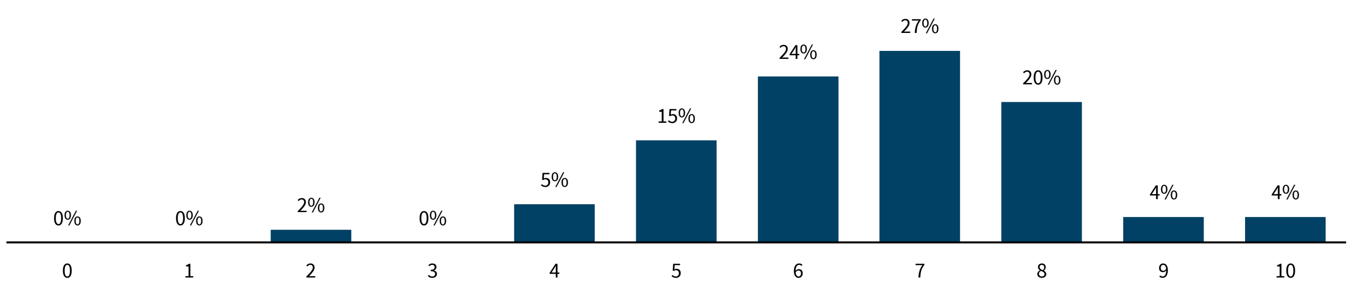
During 2Q21, did you make borrower-friendly concessions you historically would not have to win a deal?

If yes, what were the concessions?

(% of total respondents)



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?

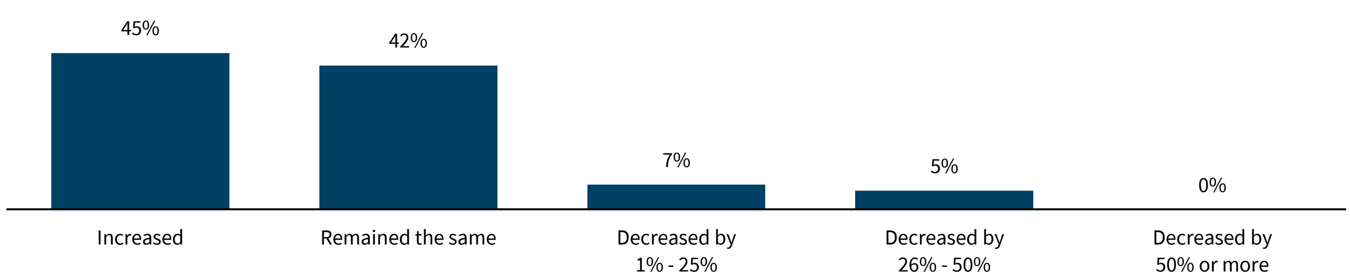


0 = Significantly LESS Aggressive; 10 = Significantly MORE Aggressive

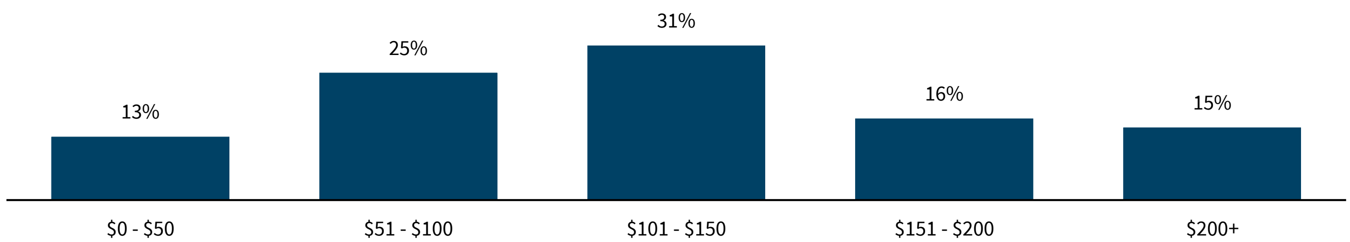
Average Rating by Quarter

2Q20	3Q20	4Q20	1Q21	2Q21
4.0	4.2	5.4	6.2	6.6

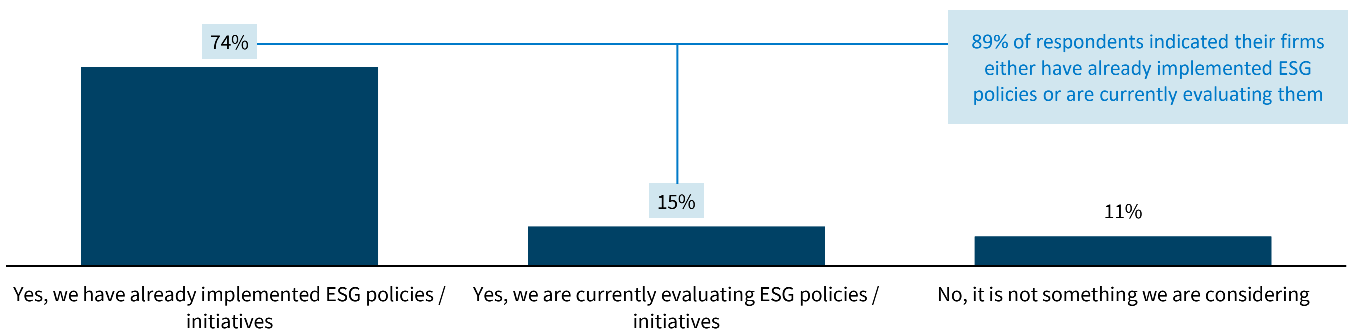
Compared to your firm's pre-COVID hold sizes, what have you observed regarding your firm's current maximum hold size?



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



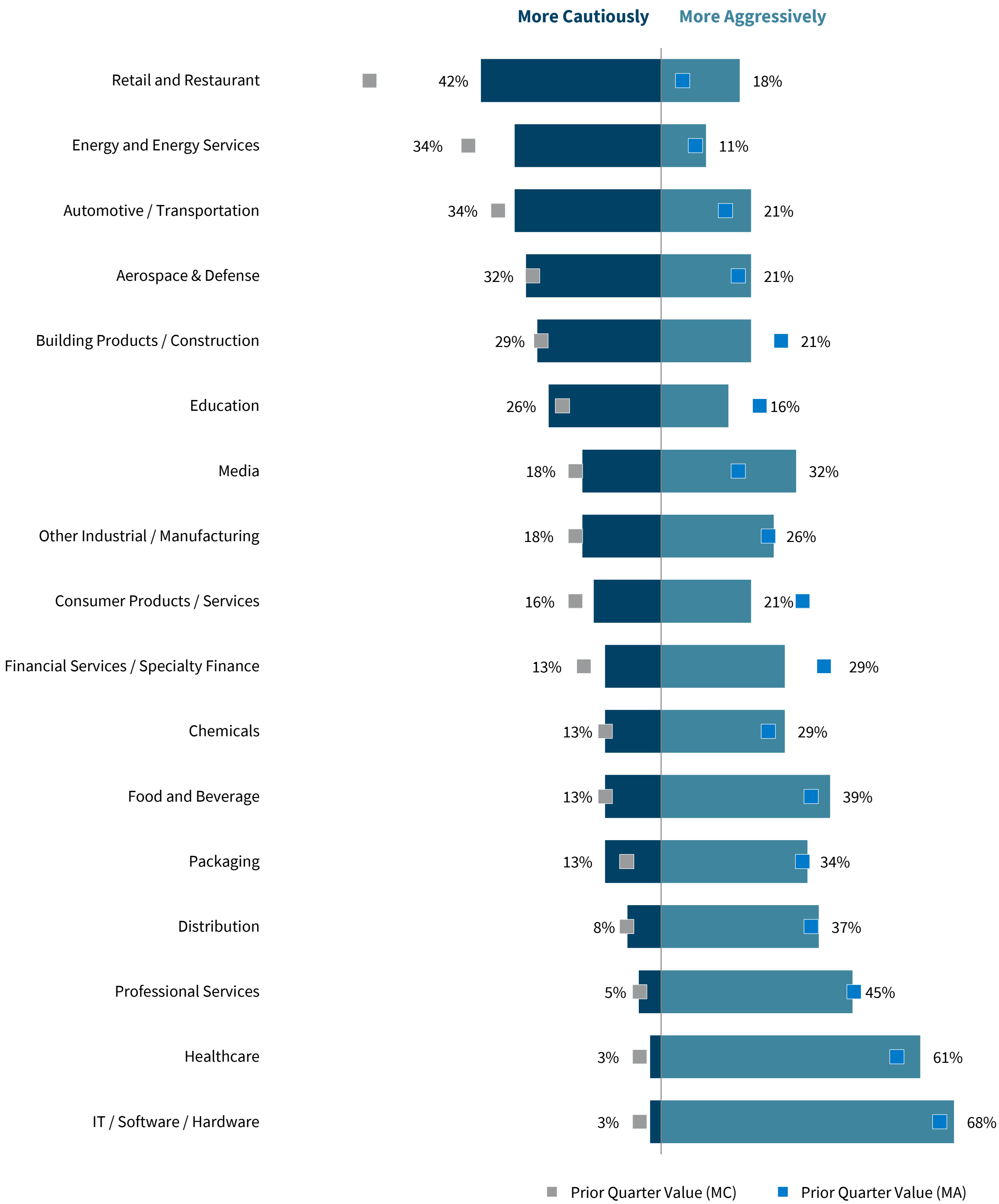
Has your firm implemented or considered implementing an Environmental, Social & Governance (ESG) policy related to how new credit opportunities are evaluated?



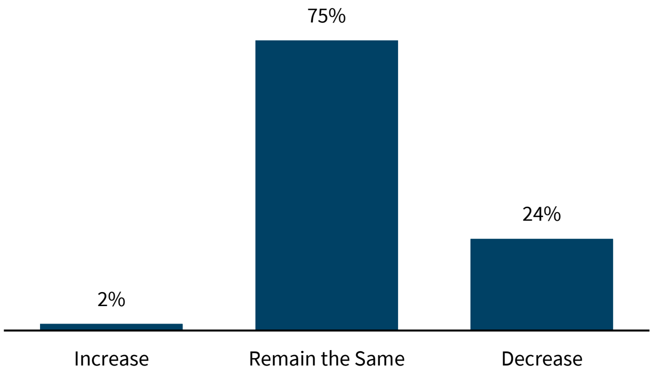
If yes, please expand on your firm's ESG policies / initiatives as it relates to new credit opportunities

- Custom designed ESG framework used at the time of screening, underwriting, and portfolio monitoring of a credit investment
- Screening prospective companies for ESG risks (typically occurs later in the diligence process)
- This has become an extreme point of focus for us now. We include a special ESG section / questionnaire in our diligence requests
- ESG diligence list when no third party ESG work has been commissioned.
- Require an affirmative covenant to implement formal ESG policy at the borrower if one is not in place at closing
- We have an ESG committee in place that will be consulted on deals that may be an ESG issue
- Implemented formal ESG policies and procedures in 2016 and now has a robust program; ESG considerations are integrated into individual investment decisions and overall portfolio construction
- We score each of the three components. The score does not have to be perfect but if there is a material issue that cannot be sufficiently mitigated, we may decline the opportunity
- All potential credit opportunities reviewed by a third party ESG reviewer
- Every investment committee includes ESG considerations
- Focus on assessing ESG risk and ways to mitigate/influence situations where there is a clear ESG issue

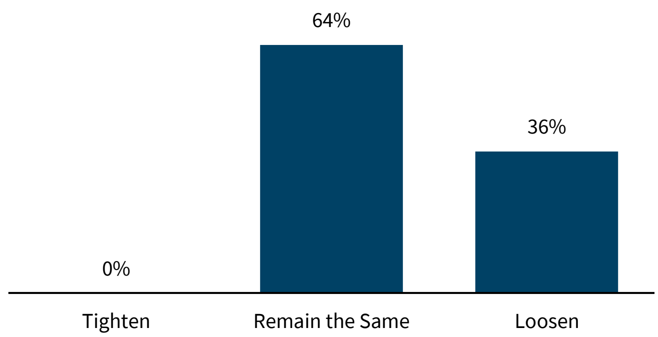
Are there any specific sectors or industries for which your firm is proceeding more aggressively or cautiously today compared with 6 months ago?



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 most significant impact on the leveraged loan market?

- Inflation concerns along with the tightening of the treasury market
- COVID second wave along with rising interest rates
- Loan supply and number of companies that seek to transact before the anticipated Oct/Nov tax increases take place
- Market liquidity and Federal Reserve actions
- Free money availability causing market quality deterioration
- Continued growth of private credit funds and competition for top tier assets
- M&A volume exploding, soaking up dry powder, re-finding equilibrium of terms
- Continued capital deployment from private equity buyers; lenders' increased appetite for earning assets
- Inflation, labor shortage (increased cost of labor), and commodities volatility
- Tax law changes (if proposed capital gains changes are pushed to 2022, it will be a heavy Q4)
- Equity valuations / asset values, if things remain inflated, leveraged lending terms will continue to loosen
- Tax law changes, an increase of market entrants and scaling of existing credit shops
- A drop-off in the supply of new paper
- Potential tax law changes driving M&A volume

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:

$180,000,000 HungerRush Unitranche Credit Facility	Not Disclosed KALERIS Unitranche Credit Facility	Not Disclosed ConnectAmerica a portfolio company of Rockbridge Growth Equity Senior & Subordinated Debt Preferred Equity
Not Disclosed uniFund Senior Secured Credit Facility	Not Disclosed Andelyn Biosciences Senior Secured Term Loan Preferred Equity	$170,000,000 Colson Group Unitranche Credit Facility

William Blair by the Numbers

125+

completed leveraged finance transactions since 2015

$19B+

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 $33 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 1,250 advisory and financing transactions totaling over $500 billion in value for our clients.*

Leveraged Finance

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* In the past five years as of June 30, 2021