

William Blair

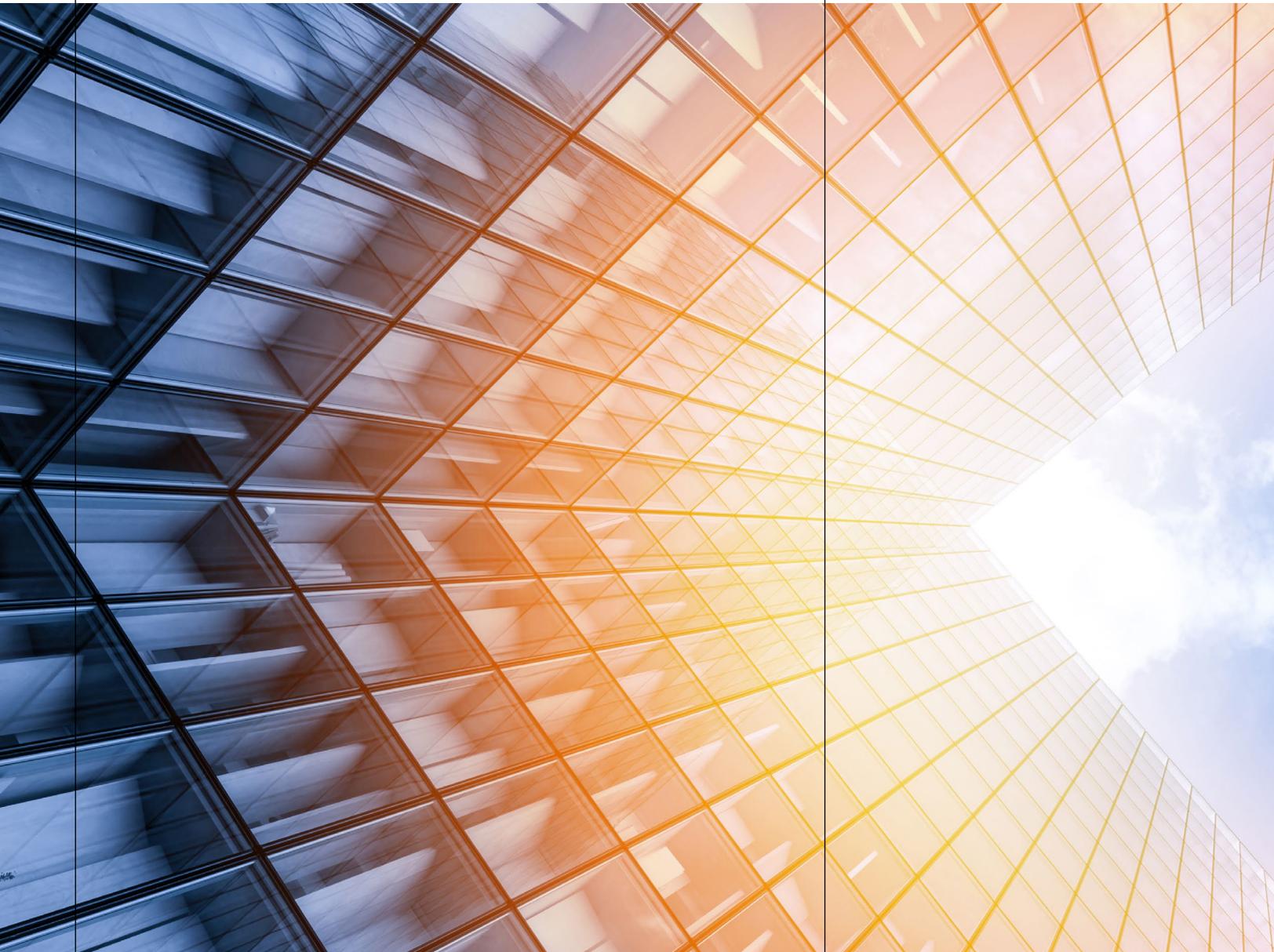
Q3 2021

**Record-Breaking M&A Activity
Drives Robust Quarter in
Leveraged Finance**

In This Report

Highlights From William Blair's
Quarterly Leveraged
Finance Survey

Leveraged Finance



Record-Breaking M&A Activity Drives Robust Quarter in Leveraged Finance

Borrower-friendly market conditions strengthened in the third quarter as demand for leveraged loans remained at all-time highs

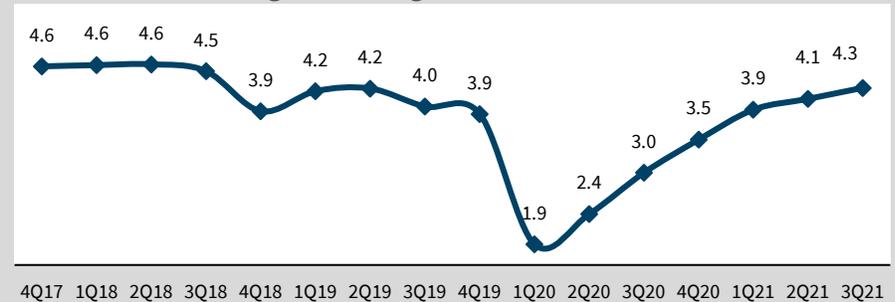
Volume in the U.S. leveraged finance market remained near all-time highs in the third quarter with \$155.3 billion of institutional loan volume. M&A-related issuance hit a record quarterly high of \$92.4 billion and was once again the main driver of volume, accounting for 59% of total issuance.

Borrower-friendly market conditions continued to strengthen in the third quarter. William Blair's Leveraged Lending Index reached a level of 4.3, the highest quarterly result in three years (5 is the most borrower-friendly conditions imaginable). Further, 75% of the respondents to William Blair's Leveraged Finance Survey indicated that they made concessions to win a deal during the third quarter that they would not have made historically.

Our survey highlights several themes that we expect to drive the leveraged finance markets as we enter the fourth quarter. Lenders in our survey expressed concern with their ability to balance the sustained increase in demand from new opportunities with capacity constraints—both internal and external. In fact, almost 50% of lenders who responded said they believe new business volume will be negatively affected by internal capacity constraints in fourth quarter. As potential changes to the tax code loom over the market, about half of the lenders in our survey said they expect a shift in their transaction mix in favor of dividend recapitalizations.

Please do not hesitate to reach out if you have questions about what we are seeing in the market today or if there are any 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?"

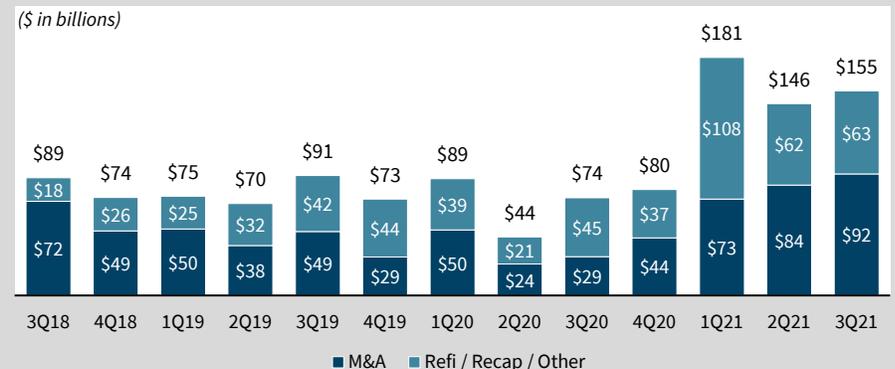
Middle-Market LBO Leverage Multiples



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

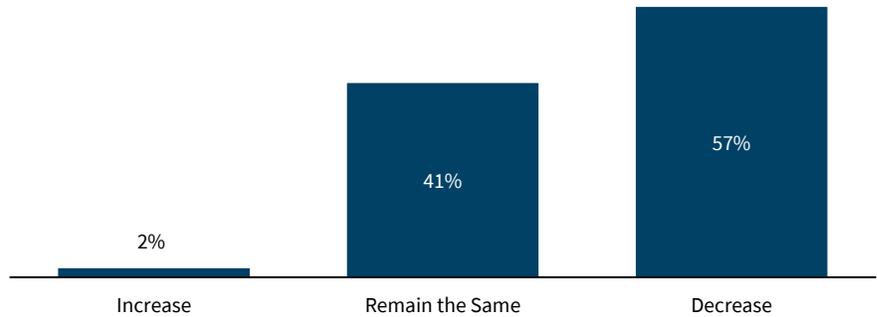


Source: LCD, an offering of SPGMI

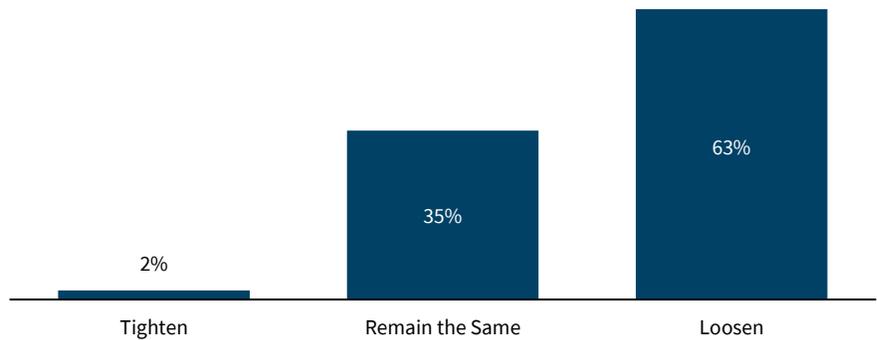
Leveraged Finance Survey

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 finance professionals who participated in the survey this quarter.

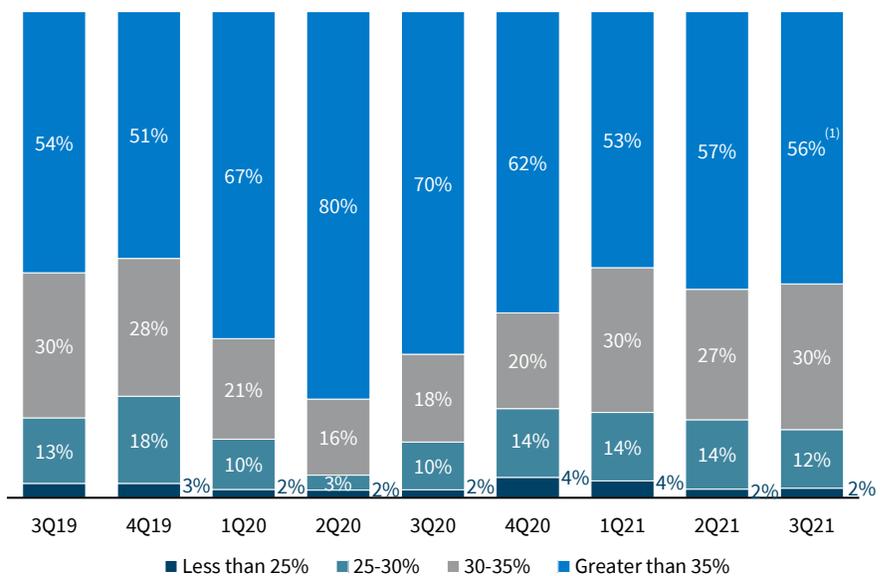
During 3Q21, did pricing for your primary debt offering?



During 3Q21, did transaction terms and leverage?



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



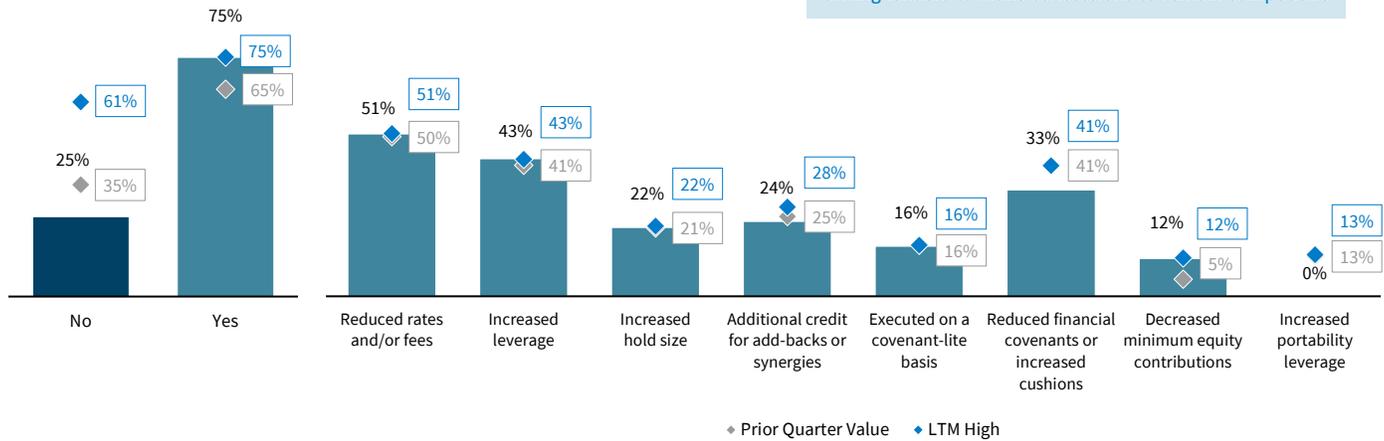
(1) 16% of respondents indicated they require >40%

During 3Q21, did you make borrower-friendly concessions you historically would not have to win a deal?

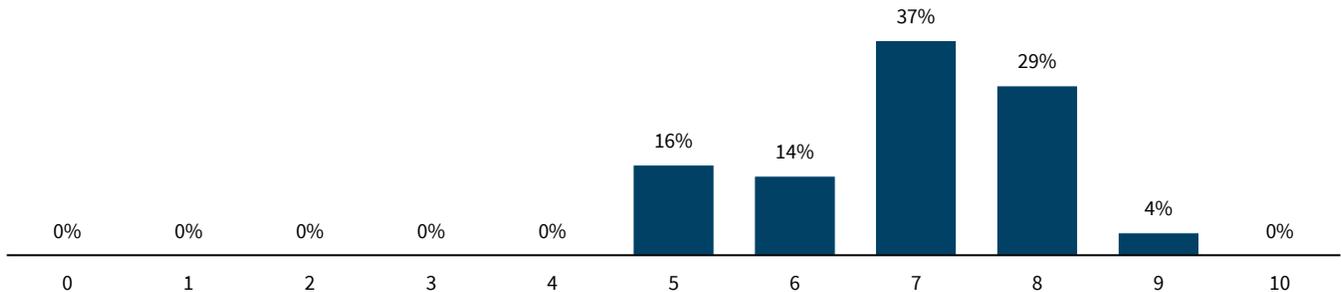
If yes, what were the concessions?

(% of total respondents)

Strong M&A markets and efforts to utilize dry powder are driving lenders to make concessions to remain competitive

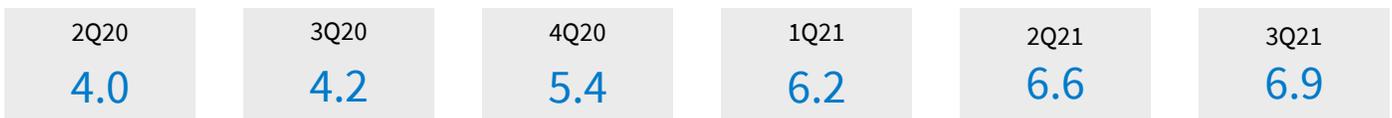


Assuming your firm’s pre-COVID rating was a 5, how would you rate the aggressiveness of your firm’s approach to new debt opportunities today?

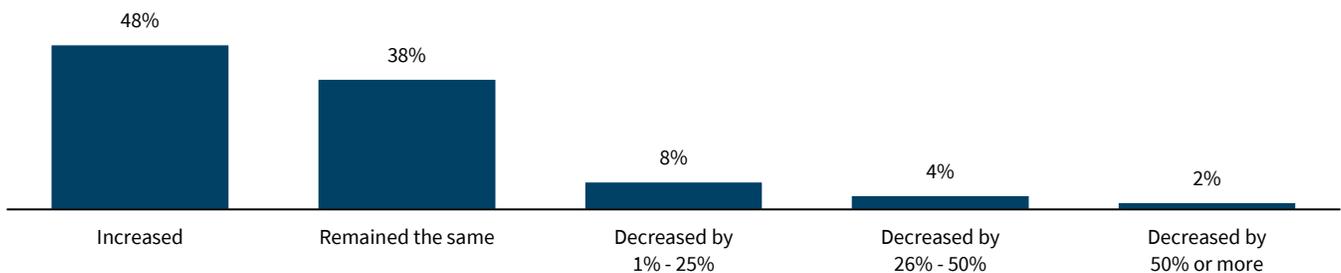


0 = Significantly LESS Aggressive; 10 = Significantly MORE Aggressive

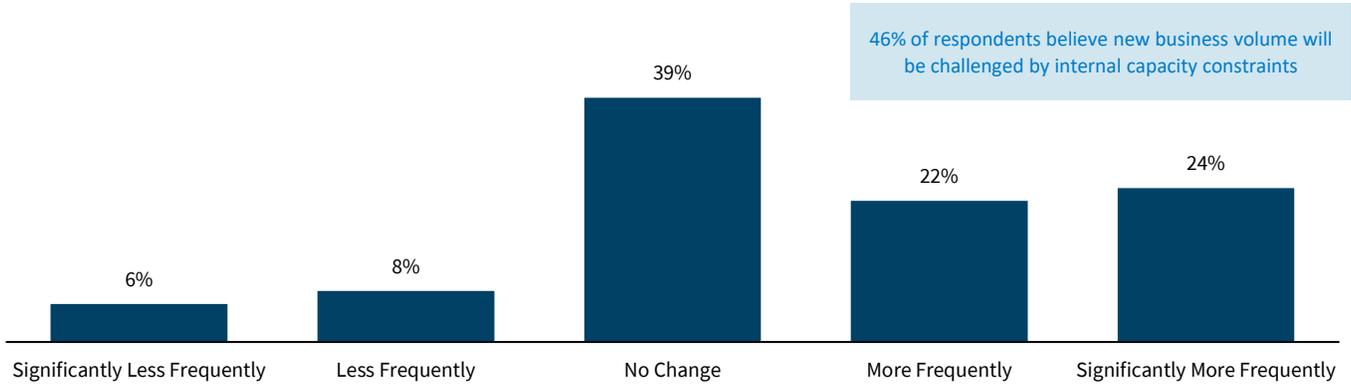
Average Rating by Quarter



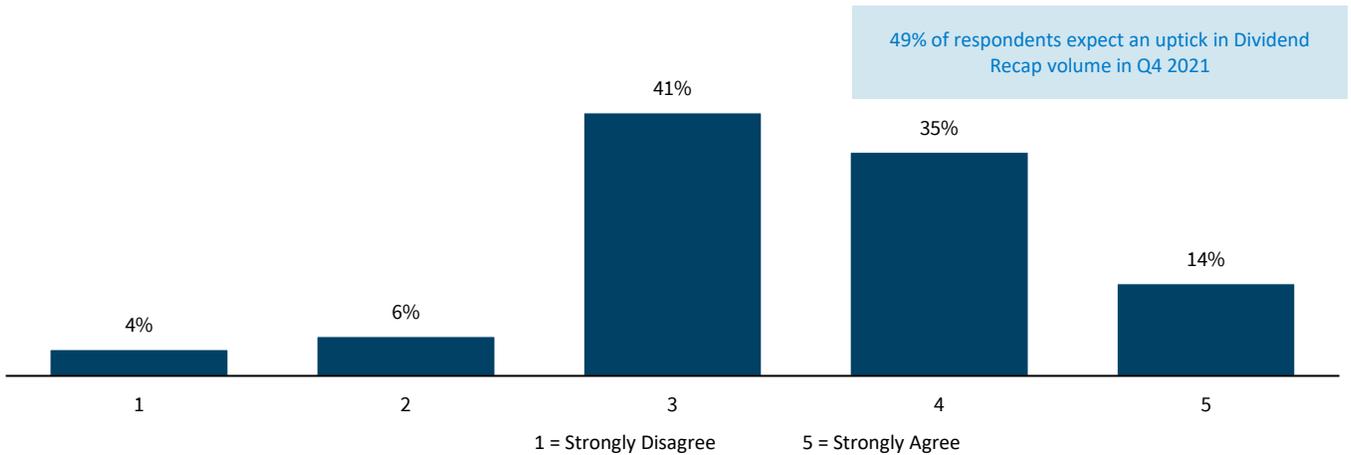
Compared to your firm’s pre-COVID hold sizes, what have you observed regarding your firm’s current maximum hold size?



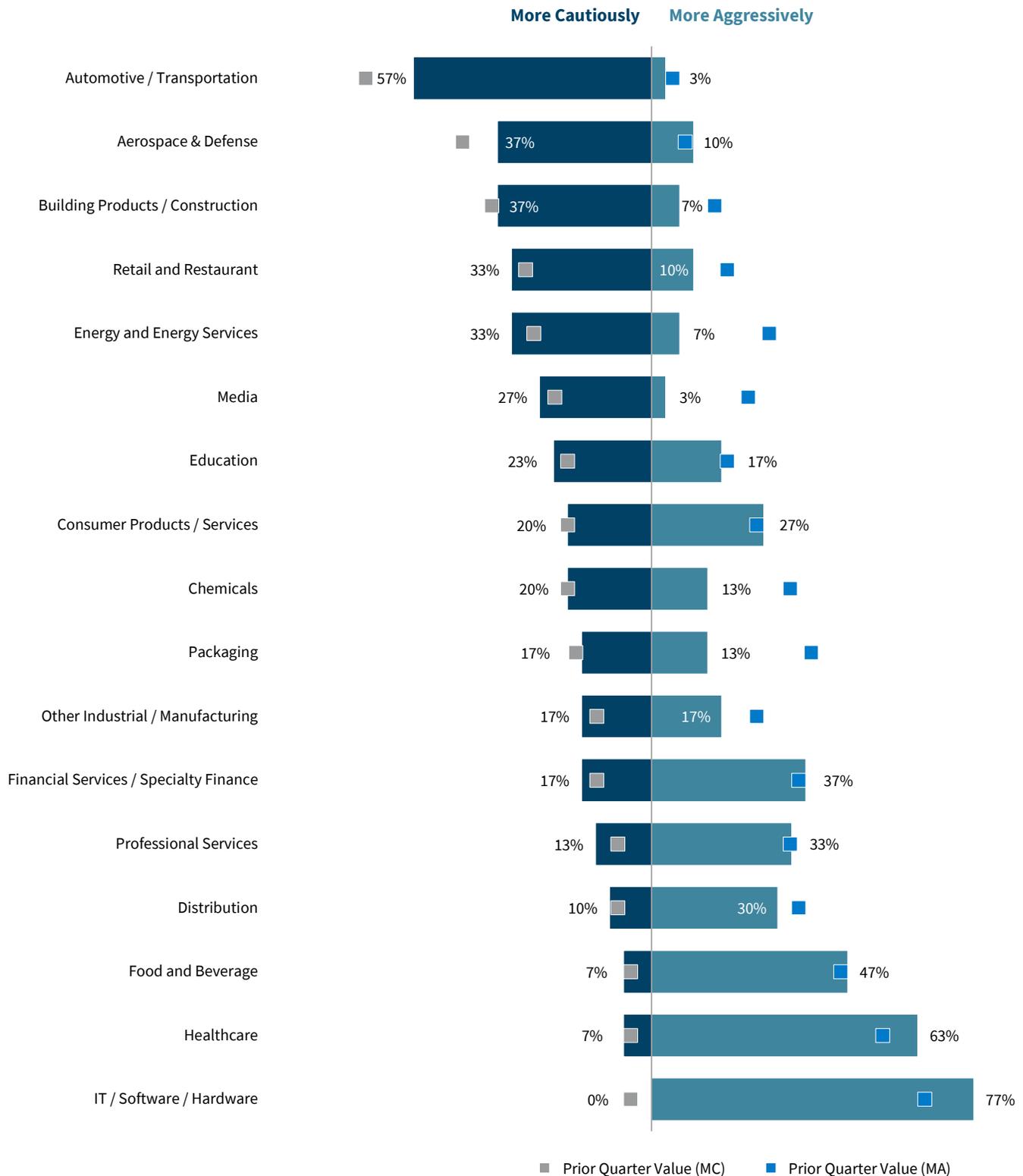
Compared to Q4 in previous years (pre-COVID), how much more or less frequently do you expect to turn down new financing opportunities due to internal capacity constraints?



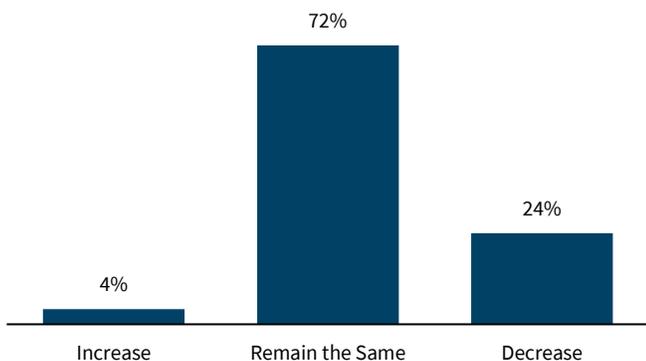
On a scale of 1 to 5, do you expect the number of dividend recapitalizations in Q4 2021 to increase (on a YoY basis) as a result of potential tax code changes in 2022?



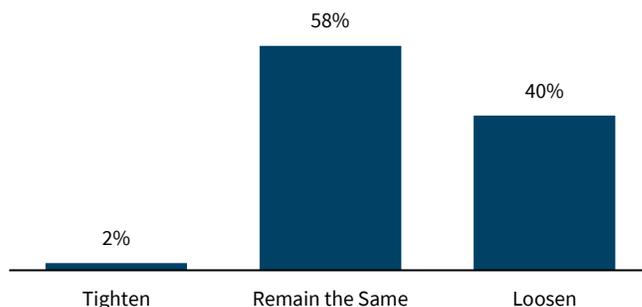
Are there any specific sectors or industries for which your firm is proceeding more aggressively or cautiously today compared with 6 months ago?



**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?**

- Volume of deals and supply / demand equilibrium
- Supply of quality deals should reduce some, not all, of the aggressive terms lenders are offering
- Desire to put money to work; potential tax impacts pulling transaction volume into Q4 2021
- Credit terms may temporarily tighten in lenders' favor as sellers frantically try to close before year-end
- Competitive environment due to low levels of default in the industry
- Continued M&A volume as sellers seek to exit ahead of any tax changes and take advantage of a seller's market
- Internal capacity to process deal flow
- Increased deal volume will soon satisfy demand and terms will rationalize to some extent
- Capacity within underwriter ranks will determine how many deals are pursued
- Potential geopolitical issues, COVID, increasing longer term rates, inflation
- Labor market and supply chain disruption on businesses
- Supply / demand imbalance and pace of new volume in the market
- Continued COVID / macroeconomic uncertainty
- Availability of both internal and external resources – investment firms, law firms, and third-party providers are at full capacity and the hiring market is tight

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
OneCare Media
First Lien Credit Facility

\$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

**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 1,350 advisory and financing transactions totaling over \$600 billion in value for our clients.*

Leveraged Finance

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