William Blair

Q4 2020

Leveraged Finance Market Slams Door on 2020 With Solid Fourth Quarter

In This Report

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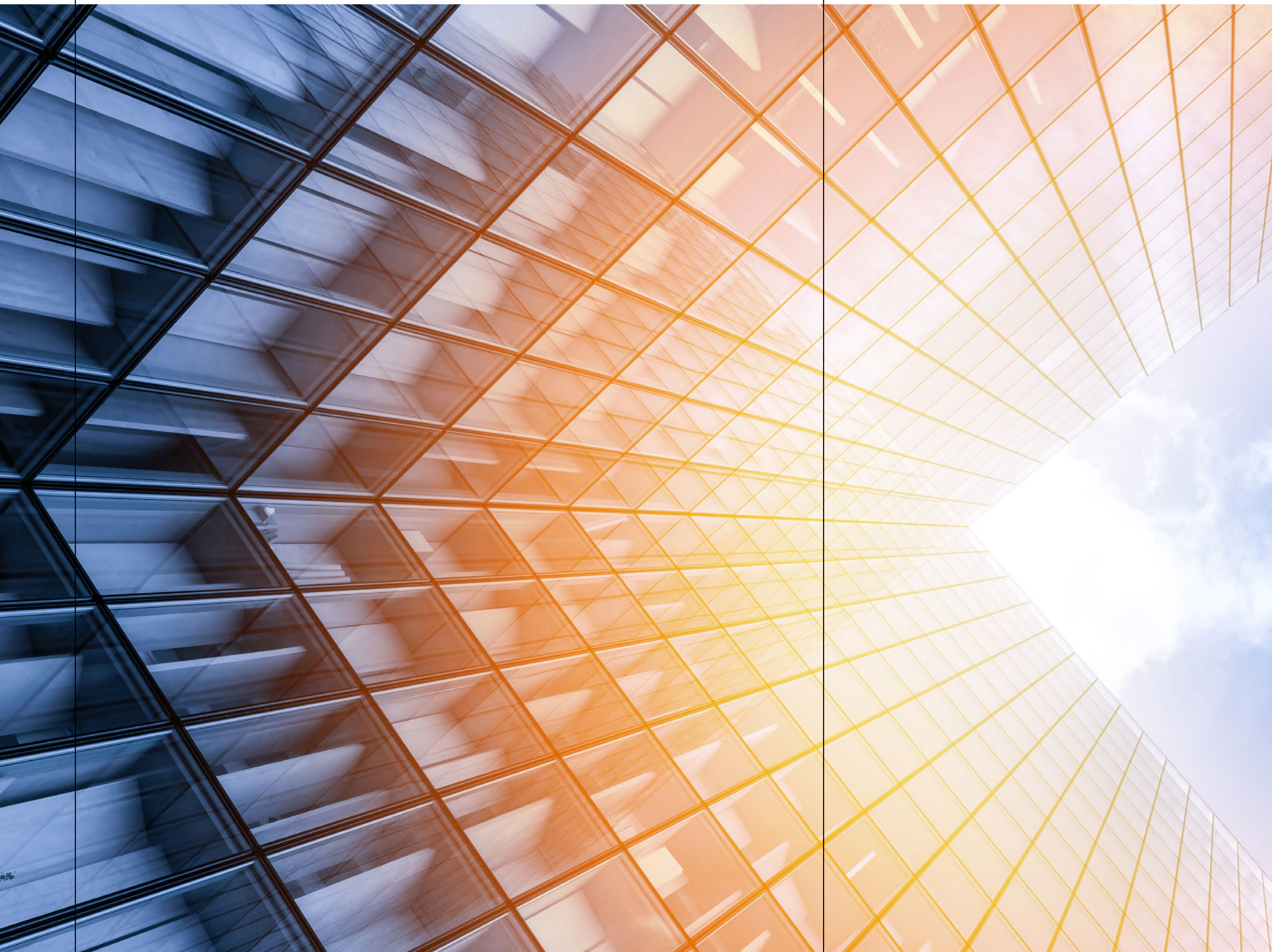
Leveraged Finance



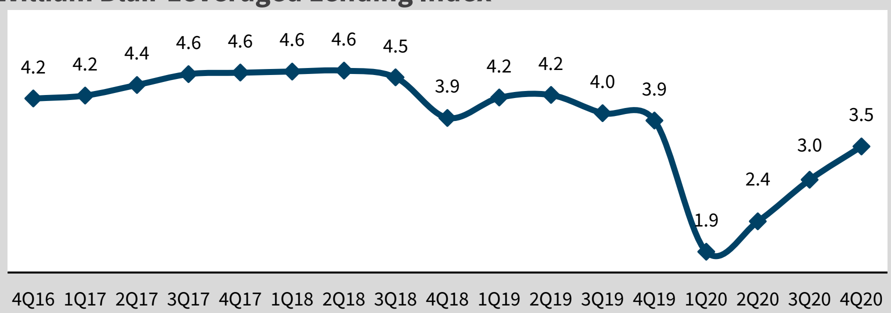
Leveraged Finance Market Slams Door on 2020 With Solid Fourth Quarter

Debt investors blocked out fourth-quarter noise to end roller-coaster year with significant momentum.

Despite a record number of COVID-19 cases and an unstable political landscape, the leveraged finance market continued to build on the previous quarter's momentum, ultimately ending 2020 in a similar fashion to the way it began. Fueled by positive vaccine developments and a significant increase in M&A activity, institutional loan volume increased to $80.5 billion[1], up more than 10% from the fourth quarter of 2019. Dividend recapitalizations accounted for $17.5 billion[1] of the total volume, the largest such figure since the first quarter of 2017. Market conditions also continued to shift in borrowers' favor, with lenders pursuing attractive financing opportunities with an aggressiveness that had not been seen since before the pandemic. Businesses in industries that are more significantly affected by COVID aren't out of the woods yet, but optimism about vaccines has eased concerns about a prolonged impact and put debt financing conversations back on the table.

Results from our quarterly leveraged finance survey reflect the trends that shaped the fourth quarter. Please don't 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.

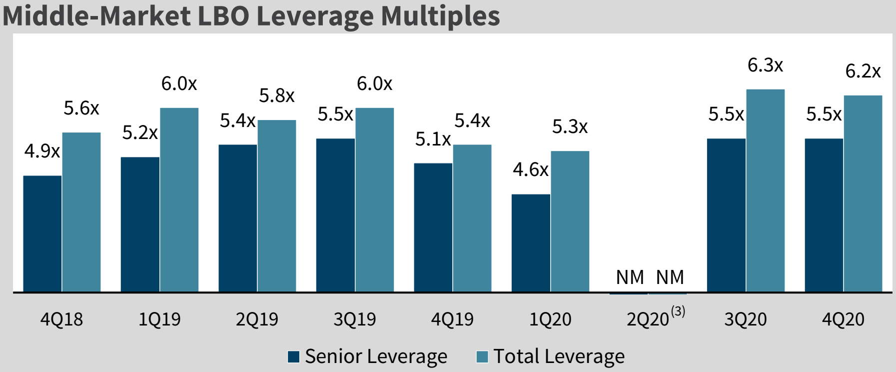
William Blair Leveraged Lending Index[2]



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

(2) 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

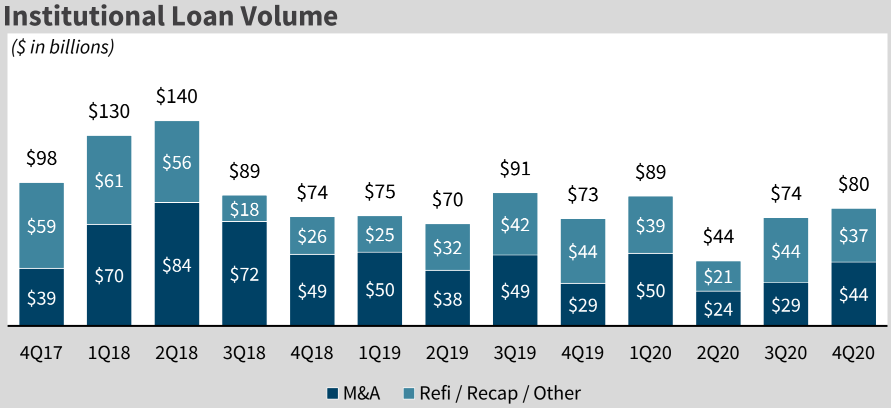


Source: William Blair Proprietary Mid-Market LBO Financing Database

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

Institutional Loan Volume

($ in billions)



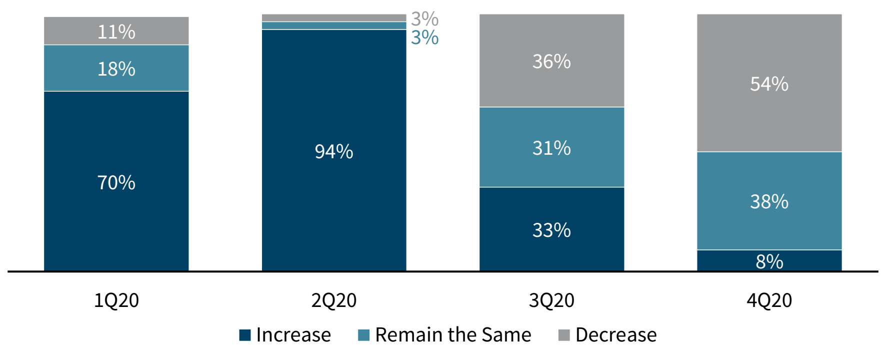
Source: LCD, an offering of SPGMI

(1) LCD, an offering of SPGMI

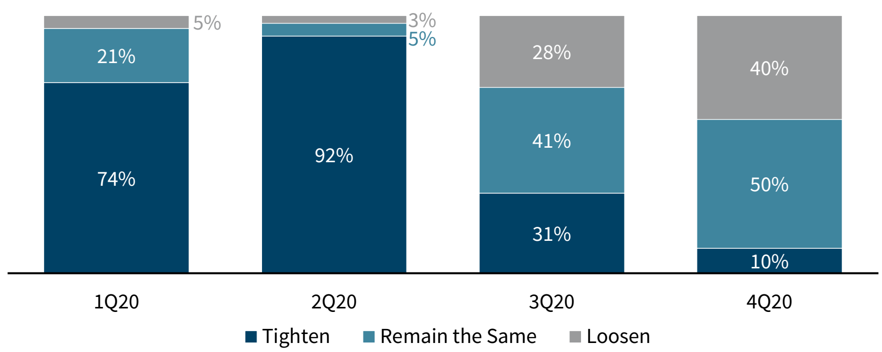
Leveraged Finance Survey

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 more than 70 leveraged finance professionals who participated in the survey this quarter.

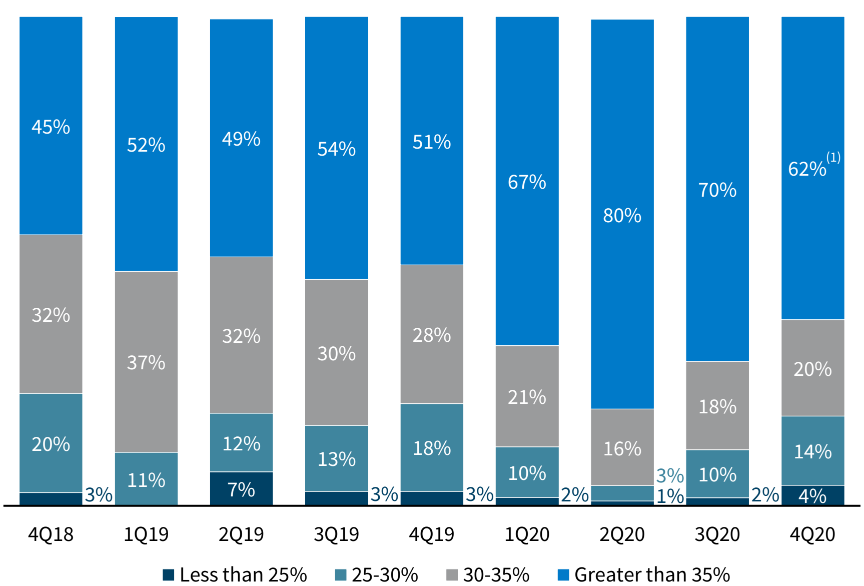
During the past quarter, did pricing for your primary debt offering?



During the past quarter, did transaction terms and leverage?

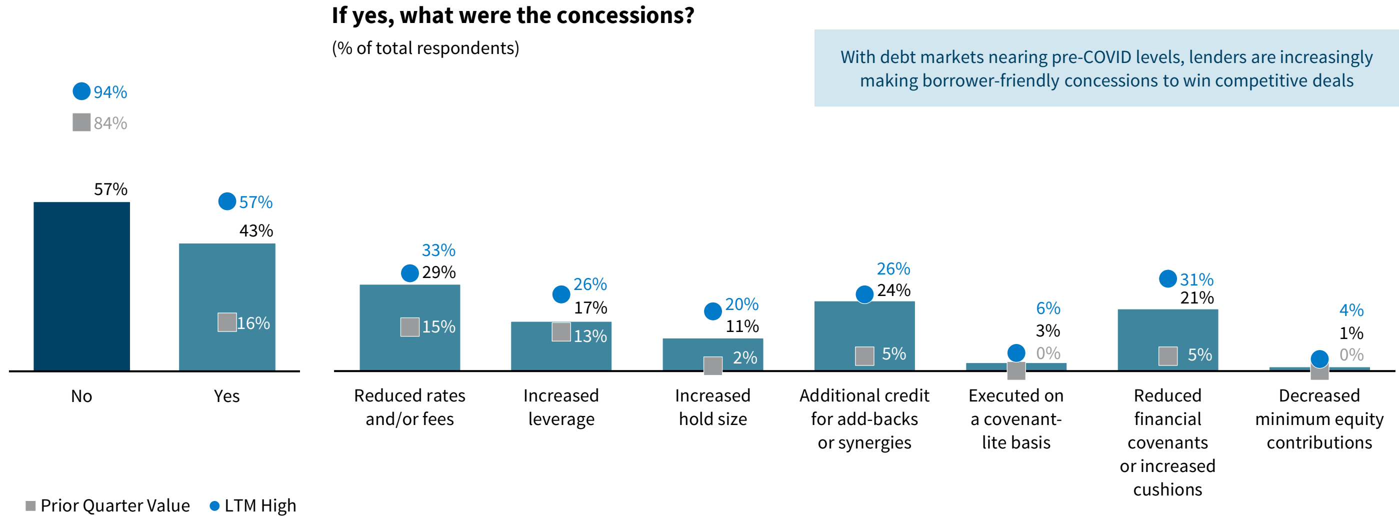


For transactions involving a private equity sponsor, what is the minimum equity contribution you require?

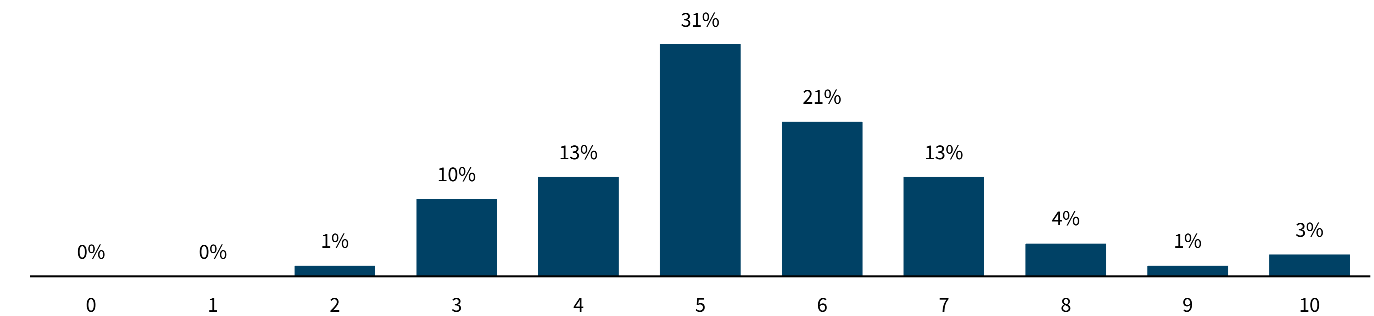


(1) 30% of respondents indicated they require >40%

During 4Q20, did you make borrower-friendly concessions you historically would not have to win a deal?



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

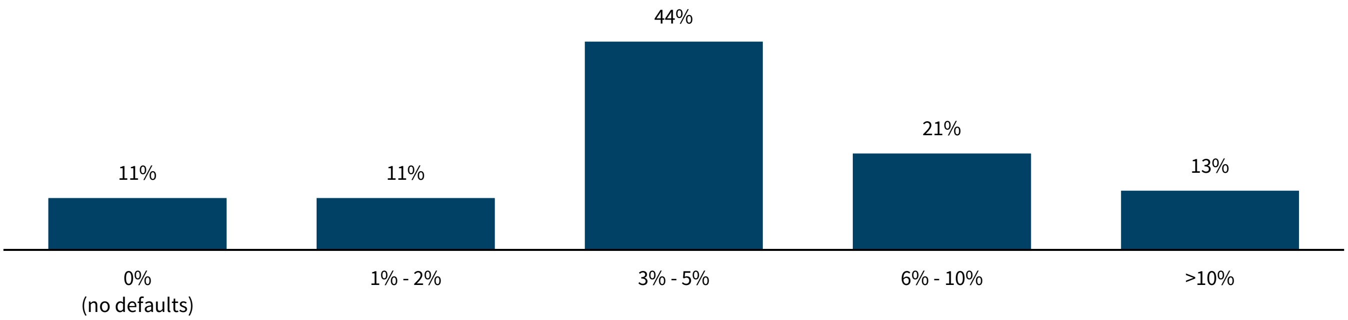
Average Rating by Quarter

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

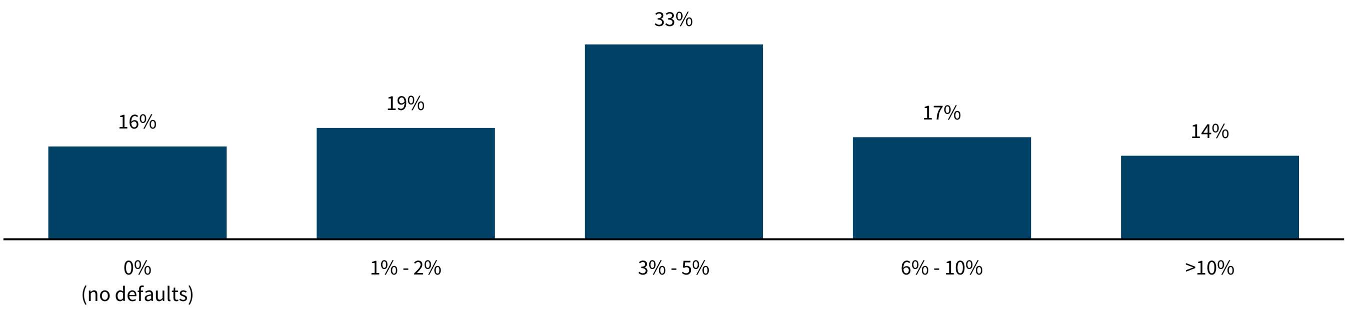
Additional color on differences in approach between pre-COVID and today

- More willing to go from deal in the door to full commitment in a condensed timeframe (10 days vs. 2-3 weeks pre-COVID)
- Smaller hold sizes, not going long on syndications and more cautious on certain industries
- Focus on liquidity and actual cash flow
- Willing to concede on pricing with businesses that have been minimally affected by COVID
- Sponsored-transactions with a bend toward defensive industries are receiving the strongest, most constructive support
- Stronger support for existing clients relative to new opportunities
- Focused on COVID adjustments and sponsor actions during the height of the pandemic (transparency, fairness etc.)
- Specific focus on COVID-resilient businesses with concerns around further shutdowns despite vaccine and stimulus
- We are taking the same approach to winning deals. However, the credit underwriting process is more in-depth

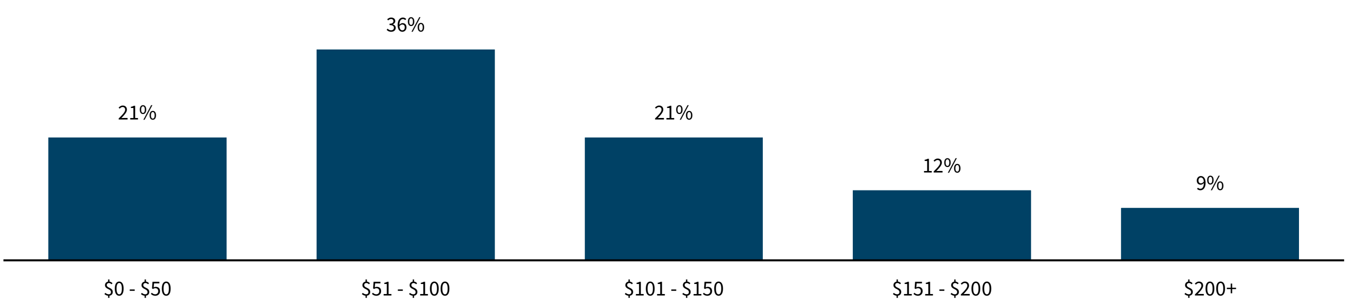
Over the past 9 months, what percentage of your firm's loan portfolio experienced some form of default (including companies that would have defaulted if not for an amendment)?



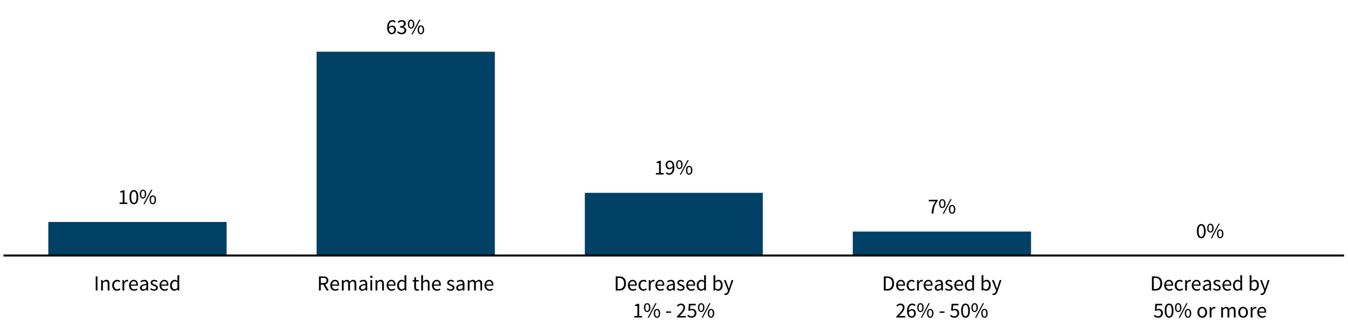
What would the percentage be if you include companies that you expect will default in the next 3 months?



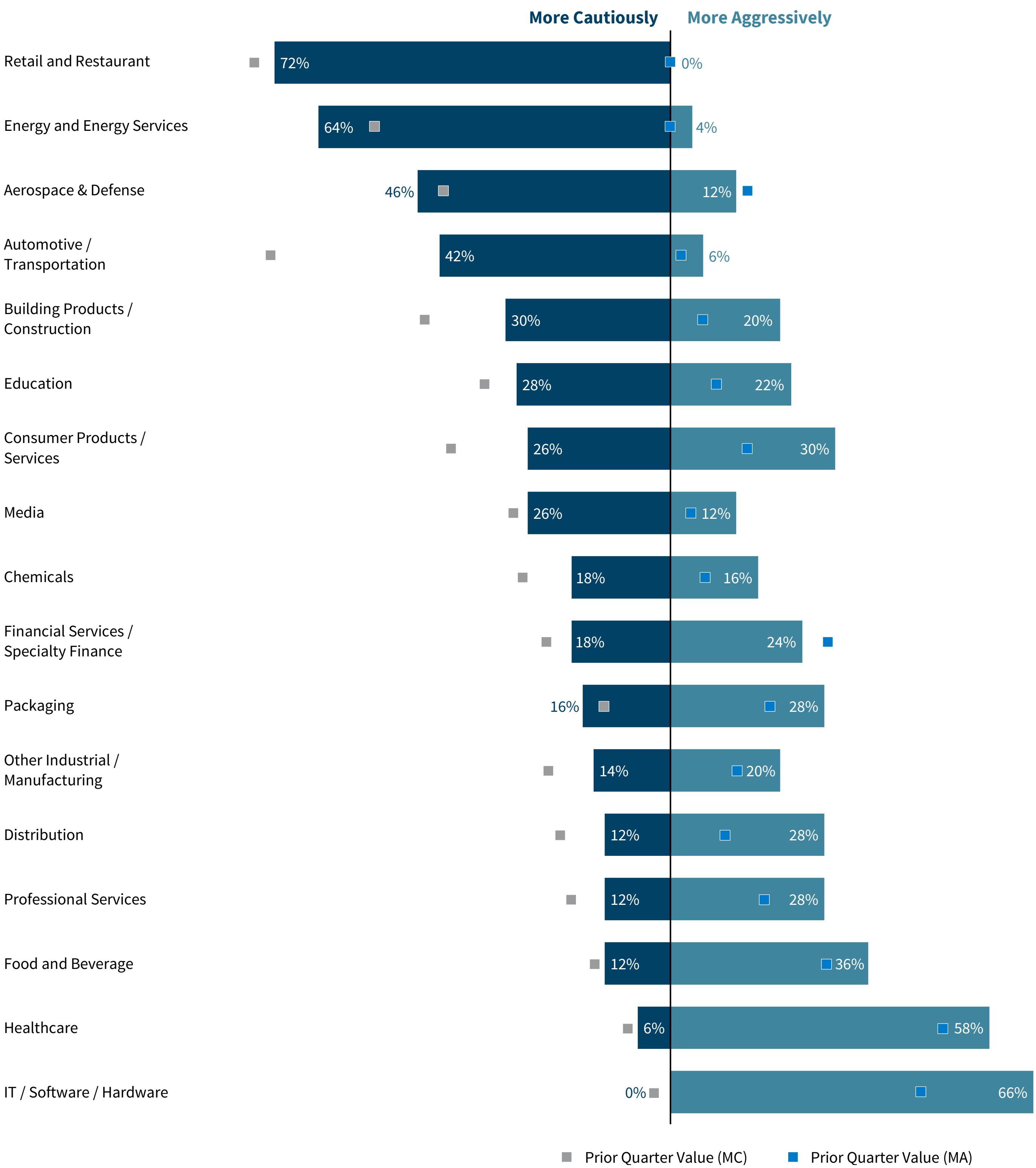
What is your firm's current maximum hold size for a single credit?



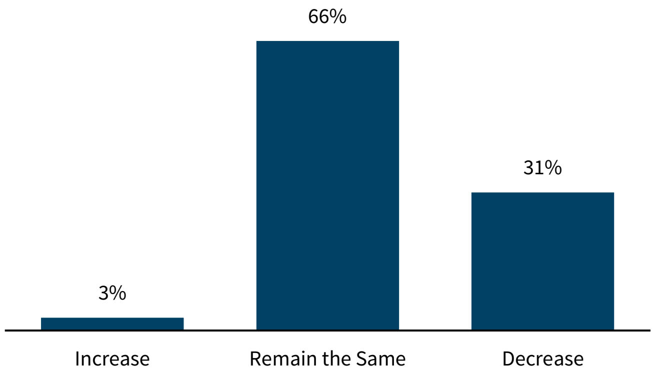
Compared to your firm's pre-COVID hold sizes,
what have you observed regarding your firm's current maximum hold size?



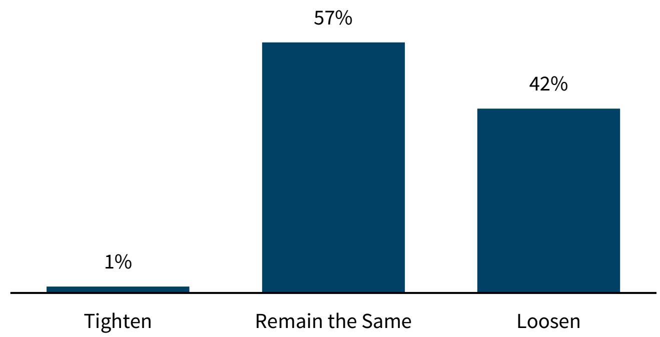
Are there any specific sectors or industries for which your firm is proceeding more aggressively or cautiously today compared with 6 months ago?



Looking ahead to 2021, what are your expectations regarding pricing of your primary debt offering?



Looking ahead to 2021, what are your expectations regarding transaction terms and leverage?



Looking ahead to 2021, what factors or trends do you expect will have the greatest impact on the leveraged loan market?

- Extremely high activity in Q1 from continuing to work off the backlog from 2H 2020. Resumption of business travel post-vaccine (ie 2H 2021) will lead to even more deals hitting the market. Despite huge dry powder overhang, lenders and sponsors will be able to pick their spots, but processes will remain accelerated
- Continue the aggressive push that was experienced in Q4. Biggest reason is continued low interest and abundance of capital for both equity and debt to facilitate transactions
- Will be highly active and competitive. Biggest factor will be vaccine's timely rollout, acceptance (will requisite portion of population take it) and effectiveness
- The market will continue to loosen as we go into 2021 and as a vaccine is rolled out
- Adjustments for COVID will have the biggest impact on leverage and enterprise value
- Robust liquidity will lead to an issuer-friendly market
- Continuing of current trends, including aggressive terms for high quality deals; possible deal flow slow down in Q1 from the current flurry of activity
- Monster year for M&A and refinancing given the extensive dry powder
- Public markets overly enthusiastic about pace, adoption, and efficacy of vaccines. A backup here could quickly flow to the private markets, crimping liquidity and alternatives, but creating pockets for opportunistic investment
- Reopening of global economy and virus caseloads
- Hold size will be competitive advantage in dictating terms and getting enhanced economics / pricing
- Good deals will be bid aggressively and credit underwriting will be in-depth
- TTM EBITDA decline thru 3/31 for COVID-impacted businesses

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 / 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 425 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 1,125 advisory and financing transactions totaling over $430 billion in value for our clients.*

Leveraged Finance

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* In the past five years as of December 31, 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 2016 to 2020, the team advised on more than $430 billion in completed transaction volume.