William Blair

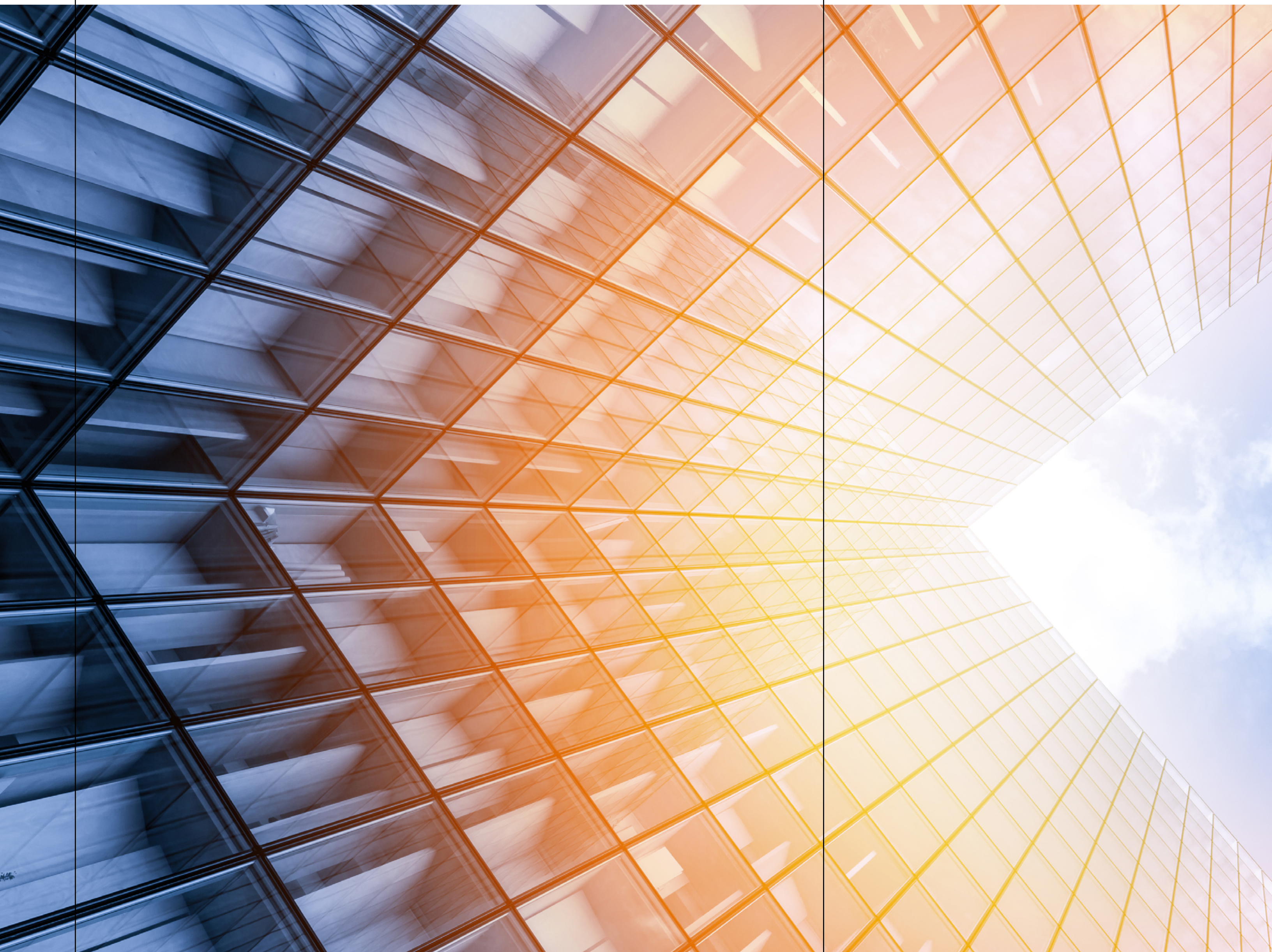
Q4 2021

**Leveraged Finance Market Finishes Banner Year With Another Record-Setting Quarter**

**In This Report**

Highlights From William Blair's Quarterly Leveraged Finance Survey

# Leveraged Finance



# Leveraged Finance Market Finishes Banner Year With Another Record-Setting Quarter

**Despite a modest cooldown, the leveraged finance market ended the year with the highest fourth-quarter volume on record.**

Despite a modest cooldown from the torrential pace seen in the first three quarters of the year, the U.S. leveraged finance market finished 2021 with its largest fourth quarter on record. Institutional leveraged loan volume totaled $126.8 billion for the quarter—an increase of 56% year-over-year—fueled by an abundance of liquidity and robust M&A activity.

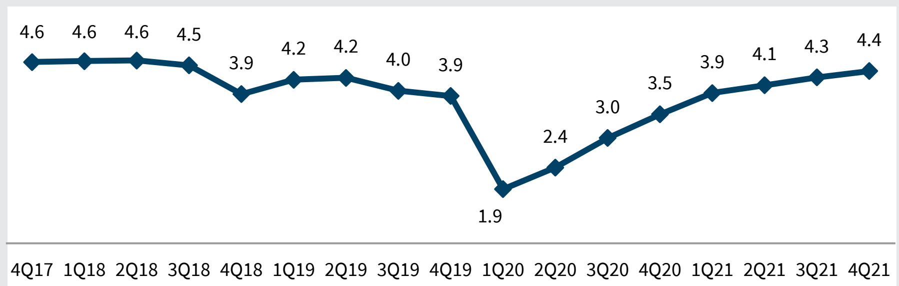
William Blair's Leveraged Lending Index continued to rise in the fourth quarter, reaching a level of 4.4 (5 is the most borrower-friendly conditions imaginable). Among respondents to William Blair's fourth-quarter Leveraged Finance Survey, 73% admitted to making borrower-friendly concessions to win a deal. Of these, 55% and 52%, respectively, indicated aggressive pricing or leverage as the most prominent concessions made, both representing LTM highs. Yet despite the continued borrower-friendly environment, lenders' appetites for new debt opportunities remained extremely strong. According to survey respondents, lender aggressiveness towards new debt opportunities was the highest it has been since the start of the pandemic.

With activity at all-time highs and many lenders experiencing hiring challenges amid tight labor markets, more than half of responding lenders indicated that they turned down new financing opportunities in the fourth quarter due to internal capacity constraints. However, now that 2021 is behind us, lenders are far less concerned about capacity being an issue, with only 17% of respondents expecting capacity constraints to continue into the first quarter.

Lenders are optimistic that new-issue loan volume will remain strong in 2022, as 72% of survey respondents said they believe volume will remain unchanged and/or modestly increase year-over-year. Lenders listed availability of capital, M&A volume, availability of quality investments, inflation and interest rates, and transition from LIBOR to SOFR as the most significant trends they expect to affect the leveraged loan market in the coming year.

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.

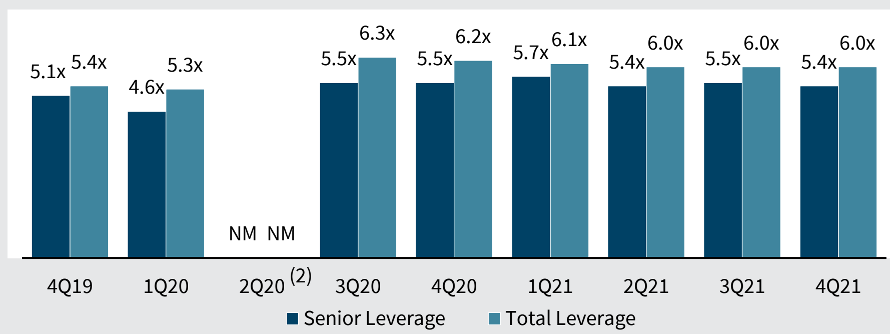
## William Blair Leveraged Lending Index [1]




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?"

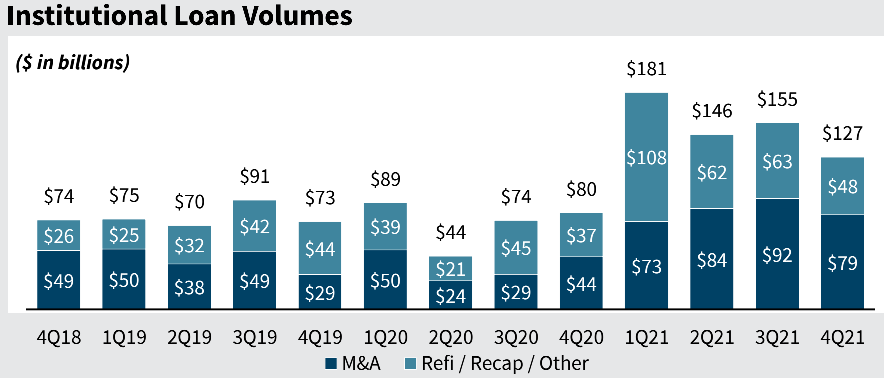
## Middle-Market LBO Leverage Multiples




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 Volumes

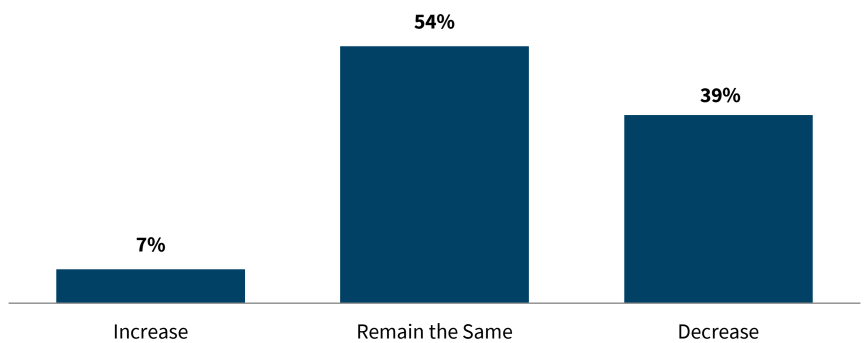



Source: LCD, an offering of SPGMI

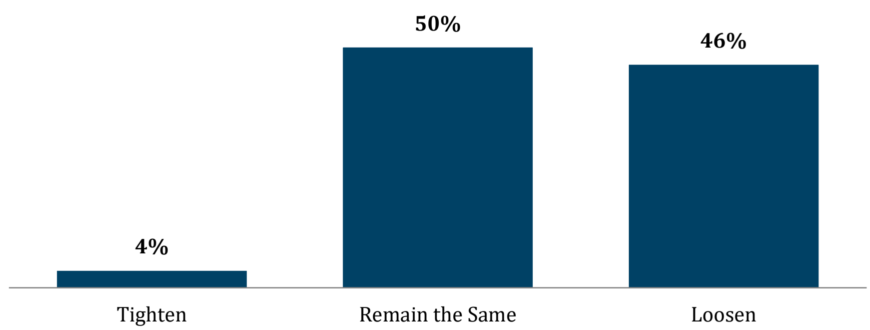
# Leveraged Finance Survey

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.

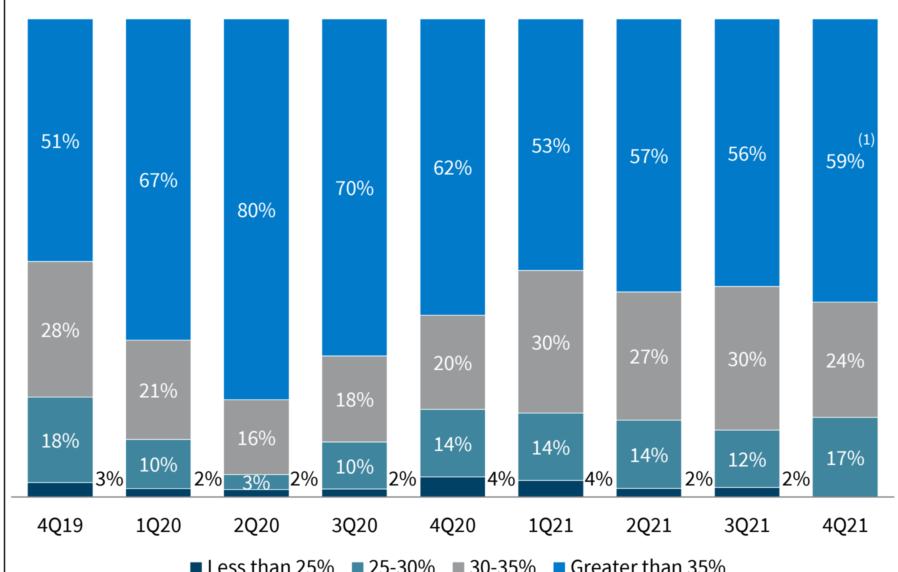
**During 4Q21, did pricing for your primary debt offering?**




**During 4Q21, did transaction terms and leverage?**



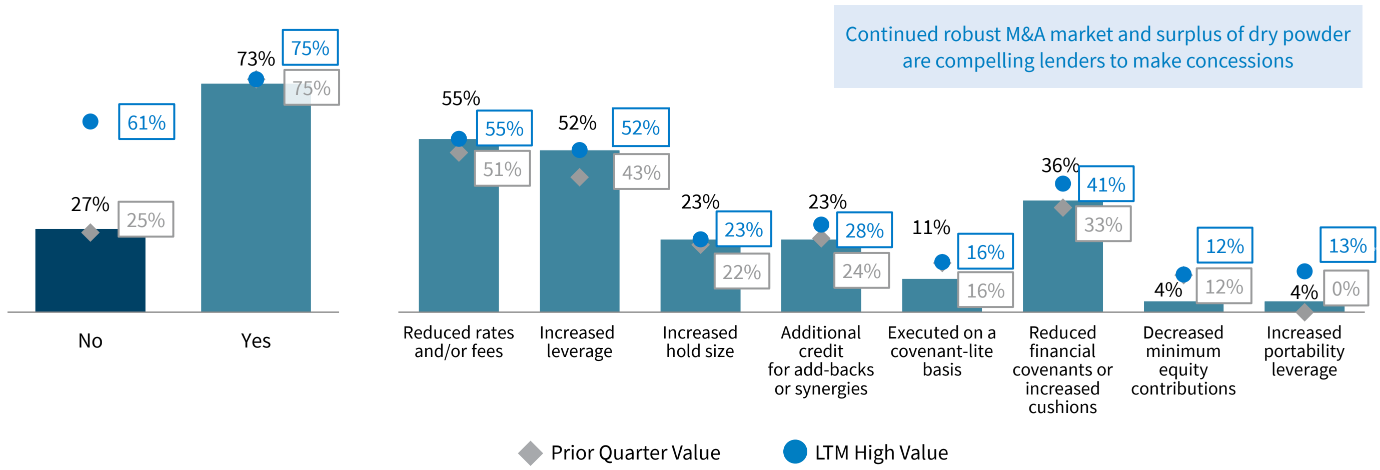

**For transactions involving a private equity sponsor, what is the minimum equity contribution you require?**



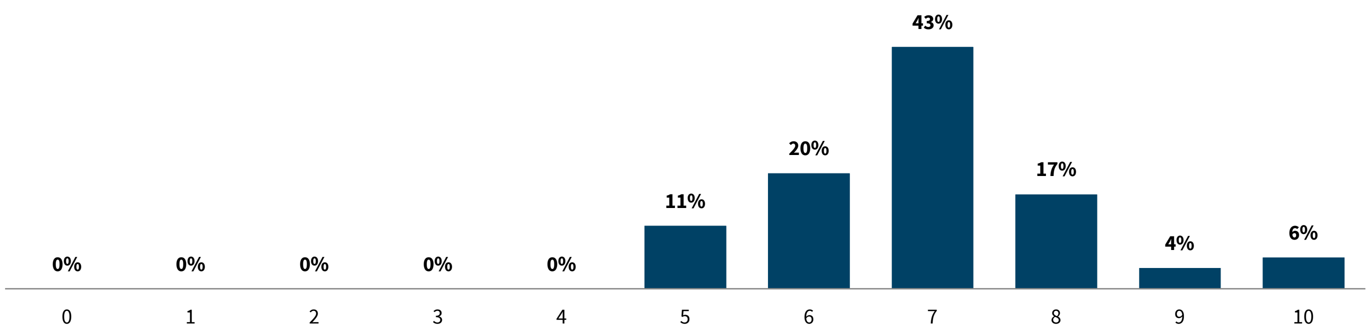

(1) 19% of respondents indicated they require >40%.

**During 4Q21, did you make borrower-friendly concessions you historically would not have to win a deal?**

**If yes, what were the concessions?**




**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?**

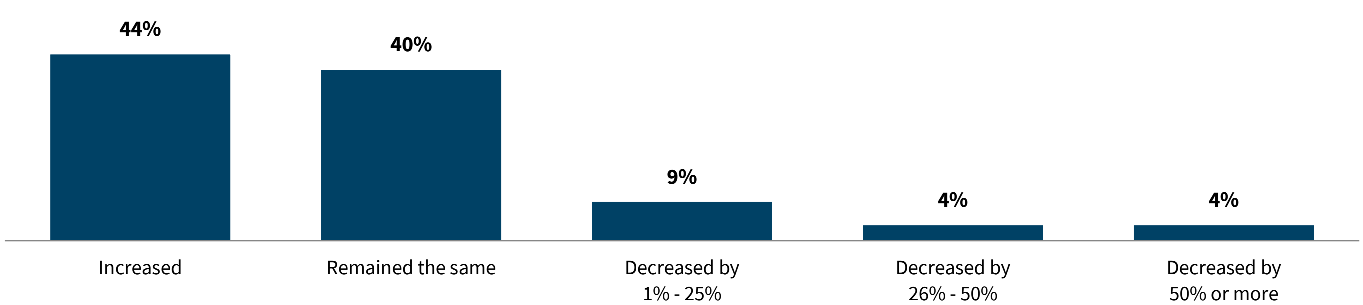



0 = Significantly LESS Aggressive; 10 = Significantly MORE Aggressive

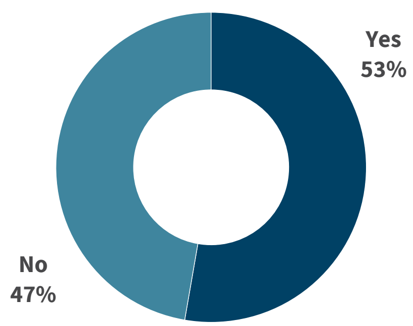
**Average Rating by Quarter**

| 3Q20 | 4Q20 | 1Q21 | 2Q21 | 3Q21 | 4Q21 |
|---|---|---|---|---|---|
| 4.2 | 5.4 | 6.2 | 6.6 | 6.9 | 7.0 |

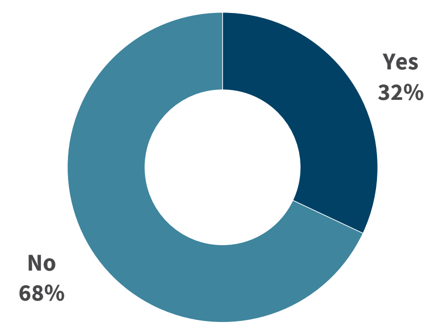
**Compared to your firm's pre-COVID hold sizes,**
**what have you observed regarding your firm's current maximum hold size?**



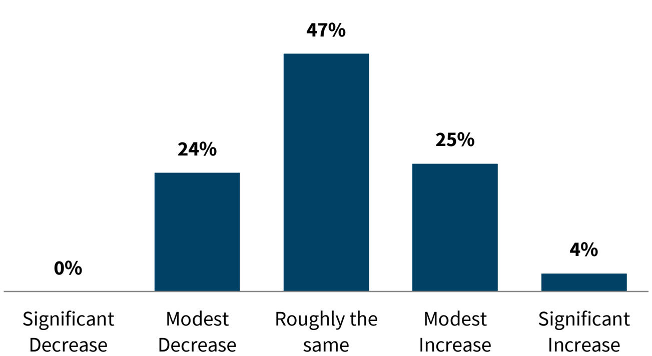
**During Q4 2021, did your firm turn down any new financing opportunities due to internal capacity constraints?**



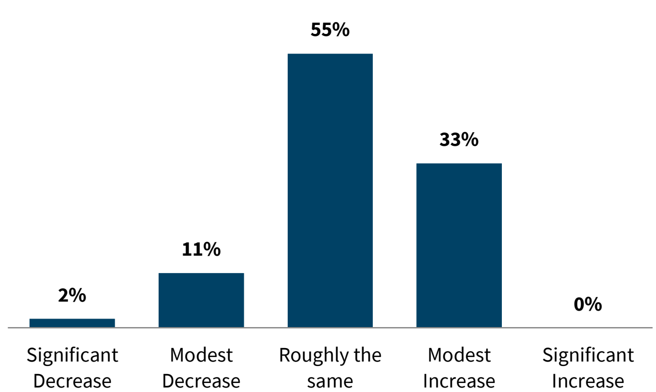

**If yes, do you expect capacity issues to continue in Q1 2022**



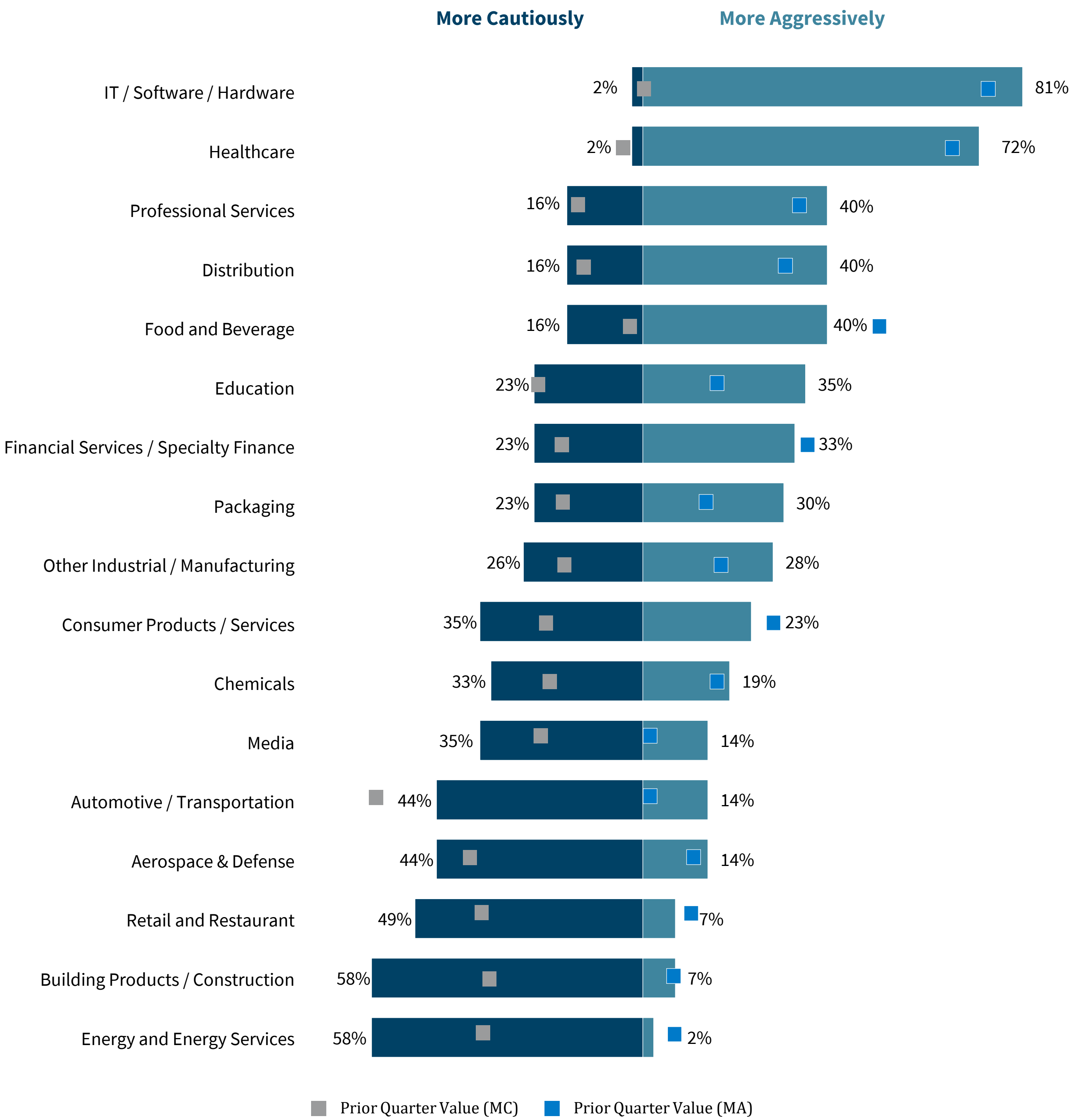

**For 2022, what are your expectations for new-issue loan volume (compared to 2021)?**



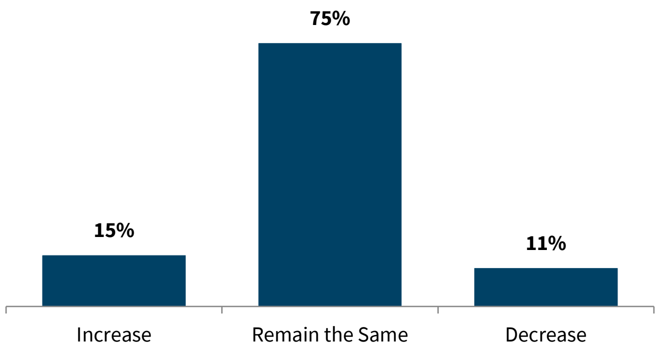

**For 2022, what are your expectations regarding default rates (compared to 2021)?**



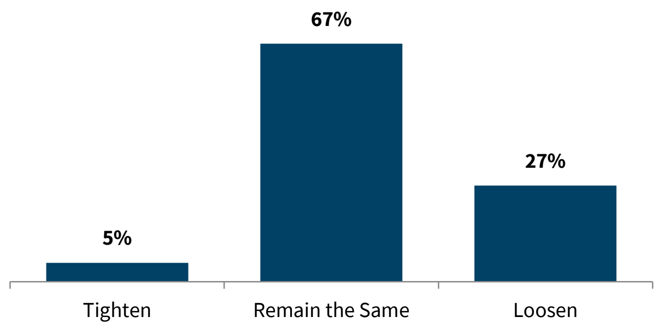
**Are there any specific sectors or industries for which your firm is proceeding more aggressively or cautiously today compared with 6 months ago?**



**Looking ahead to 2022, what are your expectations regarding pricing of your primary debt offering?**




**Looking ahead to 2022, what are your expectations regarding transaction terms and leverage?**




**In 2022, what factors or trends do you expect will have the most significant impact on the leveraged loan market?**

- Investor liquidity – if it remains high, then terms may continue to swing in favor of borrowers
- Whether there will be enough deal volume to accommodate YoY lender growth given the banner year in 2021 - if not, fight for assets will be a bloodbath
- COVID impact and restrictions
- Changes in the Fed's monetary policies
- Supply and demand; pace of Fed rate hikes
- LIBOR to SOFR transition, labor markets, and supply chain dynamics
- Availability of quality investments
- Inflation and interest rates
- Primary equity markets; margin pressure from supply chain and labor
- Labor and freight inflation, too much liquidity
- Fed rate changes will be the driving force in 2022
- Continued growth in covenant-lite unitranche financings
- Supply chain disruption
- Availability of capital.  If money continues to pour in, nothing will change - terms may become more borrower friendly
- Call protection, leverage, cash interest rates
- Increased use of covenants

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<br>Country Pure Foods<br>Senior Secured Credit Facility<br>2021 | Not Disclosed<br>OneCare Media<br>First Lien Credit Facility<br>2021 | $180,000,000<br>HungerRush<br>Unitranche Credit Facility<br>2021 |
| Not Disclosed<br>KALERIS<br>Unitranche Credit Facility<br>2021 | Not Disclosed<br>ConnectAmerica<br>a portfolio company of Rockbridge Growth Equity<br>Senior & Subordinated Debt<br>Preferred Equity<br>2021 | Not Disclosed<br>uniFund<br>Senior Secured Credit Facility<br>2021 |
| Not Disclosed<br>Andelyn Biosciences<br>Senior Secured<br>Term Loan<br>Preferred Equity<br>2021 | $350,000,000<br>Verra Mobility<br>Senior Notes<br>2021 | $170,000,000<br>Colson Group<br>Unitranche Credit Facility<br>2021 |

**William Blair Leveraged Finance by the Numbers**

125+

*completed leveraged finance transactions since 2015*

$19B+

*arranged financing since 2015*

500+

*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.

- Conflict-free advisory focused on delivering the best solution available in the market
- Proprietary 360-degree view of leveraged finance market from William Blair's global M&A and debt advisory practices; relationships with more than 500 lenders and significant transaction experience with alternative credit providers
- Experts at orchestrating competitive auctions to achieve optimal financing outcomes in complex engagements, including those requiring insightful credit positioning and the arrangement of multiple layers of capital
- Seamless integration with William Blair's sector coverage teams
- Turn-key financing teams able to deliver unparalleled speed, execution, and certainty to close

With more than 200 senior bankers around the world, William Blair has completed more than 1,400 advisory and financing transactions totaling over $975 billion in value for our clients.*

## Leveraged Finance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* In the past five years as of December 31, 2021