

Leveraged Finance:
Navigating Today's Rising
Rate Environment



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Cash is king. Today's debt markets are evolving quickly given the macroeconomic backdrop, hawkish fed, and inflationary environment. Historically low LIBOR rates of the past 5+ years, competitive dynamics among lenders, and the ubiquitous 1% annual amortization requirement from direct lenders have made the fixed charge coverage ratio almost an afterthought.

In many sectors, LBO leverage levels over the last several years have been governed as much by enterprise value as cash flow. However, the combination of the rising cost of debt, recessionary concerns, and consequently the related impact on earnings is causing many lenders to renew their focus on a company's ability to service its debt.

Over the last 90 days, our conversations with lenders indicate that credit committees have tightened their credit boxes and are increasingly focused on cash. The fixed charge coverage ratio (FCCR) is the primary tool used by most lenders to evaluate a company's debt service ability. We have seen the FCCR start to re-appear in financial covenant packages. Some lenders have also increased their internal underwriting FCCR threshold to 1.3-1.5x compared to 1.1x-1.3x during the same time last year.

In addition, we are also seeing increased diligence related to capital expenditures, earn-outs and seller notes, cash tax distributions, tax-deductible interest caps, asset step-ups (and resulting tax shields), aggressive EBITDA adjustments, and recent

performance ramps. Ultimately, the capital structure that provided a comfortable cushion yesterday may be significantly tighter today.

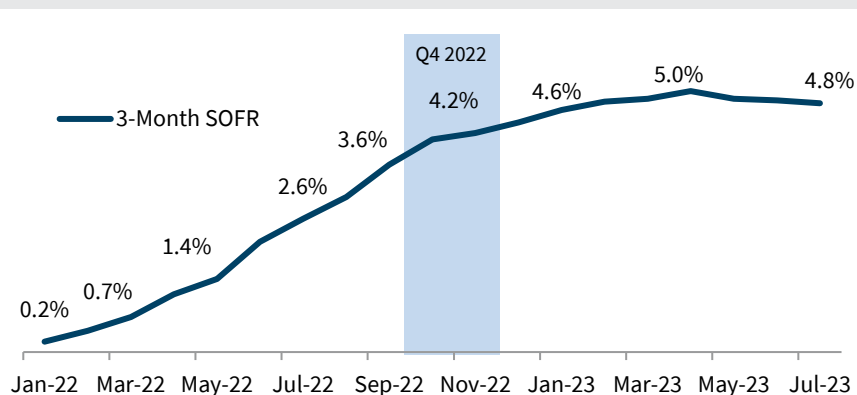
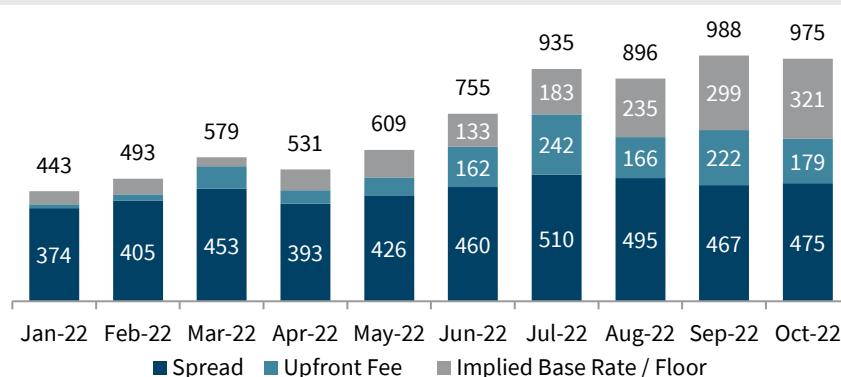
The leveraged finance markets remain largely receptive despite rising levels of uncertainty. In our current and recent financing processes, we continue to receive multiple competitive proposals providing our clients with optionality. The William Blair Leverage Finance

team is well suited to aid in your ability to run a process even in a tough market. Our broad lender relationships and product expertise allow us to craft a unique story for your business and ensure you achieve a market clearing process. With numerous liquidity solutions at our fingertips, the leverage finance team is well equipped to discuss alternatives to traditional senior cash-pay debt structures.

Impact of Rising Interest Rates on LBO Leverage^{2,3}

Scenarios	Q4 2021	Q4 2022
EBITDA	\$50	\$50
Leverage	6.5x	4.2x
Active SOFR Rate	1.0%	4.2%
Spread	S + 550bps	S + 650bps
Cash Interest	6.50%	10.70%
Interest Coverage	2.4x	2.2x
FCCR ¹	1.5x	1.5x

Average New Issue Loan Pricing and SOFR Curve²



1. (EBITDA – Capex – Cash Taxes) / (Cash Interest + Scheduled Amortization)





2. Source: LCD, a part of PitchBook, William Blair Estimates

3. Assumptions: LIBOR/SOFR Floor: 1.0%; Amortization: 1.0%; Cash Tax Distribution: 40.0%; Capex: \$4.0; D&A:\$4.0; Goodwill Tax Shield: \$10.0

William Blair's Leveraged Finance Group

Team of dedicated leveraged finance professionals with significant experience across the full suite of middle-market financing structures

Common Transaction Objectives

	Refinancings	Access greater flexibility, improve terms, and/or replace existing capital provider that the company has "outgrown"
	Acquisitions	Position business for potential future sale
	Growth Capital	Finance bolt-on or transformational acquisitions
	Shareholder Liquidity	Provide "dry powder" so capital is available to immediately act on acquisition pipeline

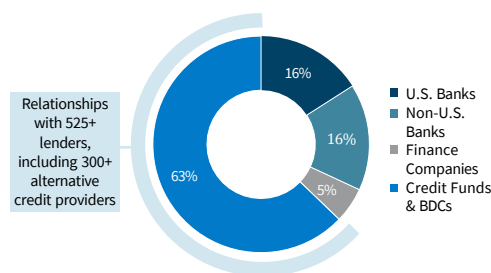
How We Are Different

- **Conflict-free advisory** focused on delivering best solution available
- **Proprietary 360° view** of leveraged finance market from William Blair's global M&A and debt advisory practices
- **Seamless integration** with William Blair's sector coverage teams
- Experts at **orchestrating competitive auctions** to achieve optimal financing outcomes
- Provides turn-key financing teams able to deliver **unparalleled speed, execution, and certainty to close**

Full Service Offering

- Senior bank loans
- Leveraged loans
- Unitranche facilities
- Second lien loans
- Subordinated debt
- Late-stage / venture debt
- Structured equity

Market-clearing Distribution



Select Transaction Experience

<p>\$365,000,000</p> <p>DrivenBrands</p> <p>Securitization</p> <p>2022</p>	<p>Not Disclosed</p> <p>MCE</p> <p>Senior Secured Credit Facility</p> <p>2022</p>	<p>Not Disclosed</p> <p>CCS</p> <p>Senior Secured Credit Facilities Preferred Equity</p> <p>2022</p>	<p>Not Disclosed</p> <p>OneCare Media</p> <p>First Lien Credit Facility</p> <p>2021</p>	
<p>\$180,000,000</p> <p>HungerRush</p> <p>Unitranche Credit Facility</p> <p>2021</p>	<p>Not Disclosed</p> <p>KALERIS</p> <p>Unitranche Credit Facility</p> <p>2021</p>	<p>Not Disclosed</p> <p>ConnectAmerica</p> <p>Senior & Subordinated Debt Preferred Equity</p> <p>2021</p>	<p>Not Disclosed</p> <p>uniFund</p> <p>Senior Secured Credit Facility</p> <p>2021</p>	<p>Not Disclosed</p> <p>Andelyn Biosciences</p> <p>Senior Secured Term Loan Preferred Equity</p> <p>2021</p>

William Blair Leveraged Finance by the Numbers

135+

completed transactions since 2015

55+

Financial sponsor clients

525+

banks and alternative credit provider relationships

\$20B+

arranged financing since 2015

Leveraged Finance Group Investment Banking

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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 2017 to 2021, the team advised on more than \$680 billion in completed transaction volume.