William Blair

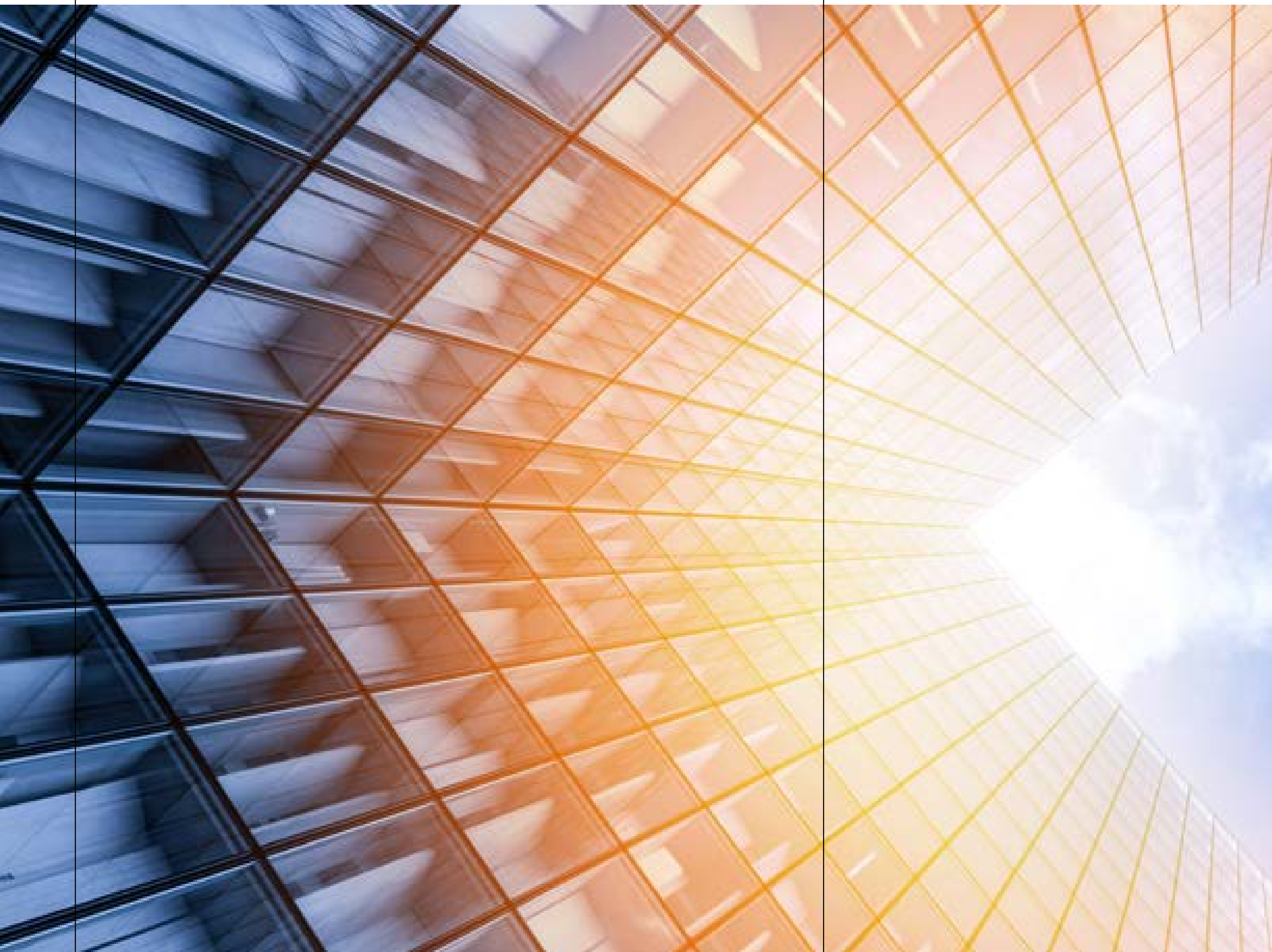
Q1 2022

Leveraged Finance Activity Stumbles in Q1 Amid Macroeconomic and Geopolitical Uncertainty

In This Report

Highlights From William Blair's Quarterly Leveraged Finance Survey

Leveraged Finance



Leveraged Finance Activity Stumbles in Q1 Amid Macroeconomic and Geopolitical Uncertainty

The Fed's first rate hike since 2018, rising inflation, and Russia's invasion of Ukraine created significant headwinds for the leveraged finance market during the quarter.

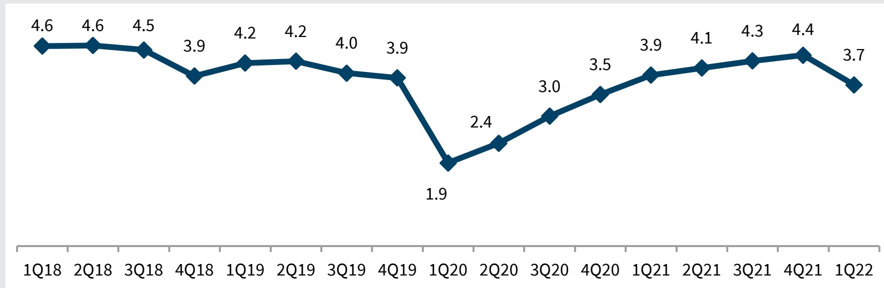
U.S. institutional leveraged loan volume in Q1 initially maintained its momentum following a record-breaking year in 2021 as January volume totaled $72.7 billion, up 48% year-over-year and the second highest January in history. However, as uncertainty and volatility in the macroeconomic and geopolitical landscape pressured the broader capital markets, leveraged loan volume declined meaningfully in February and March. As a result, institutional volume limped across the Q1 finish line with a total of $113.9 billion, down 39% versus the first quarter of 2021.

William Blair's Leveraged Lending Index followed a similar path and saw its first quarterly decline since the start of the COVID pandemic. The index modestly decreased to a level of 3.7 as lenders' willingness to stretch in order to win new deals softened, particularly in the syndicated loan market. However, that cautious approach has created an opportunity for direct lenders to fill the void and draw borrowers to the private debt market with attractive terms and a higher certainty of close.

For the remainder of 2022, lenders anticipate rising interest rates, inflation, supply chain challenges, and the quality and quantity of available assets in the market to have the most significant impact on the leveraged loan market.

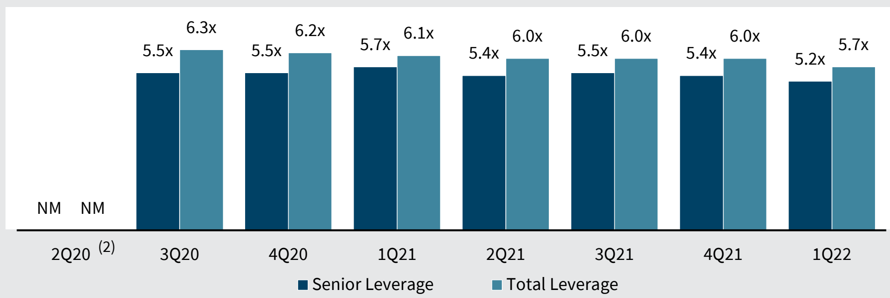
Please do not hesitate to reach out if you have questions about what we are seeing in the market today or if there are any other credit-related topics you would like to discuss in more detail.

William Blair Leveraged Lending Index (1)



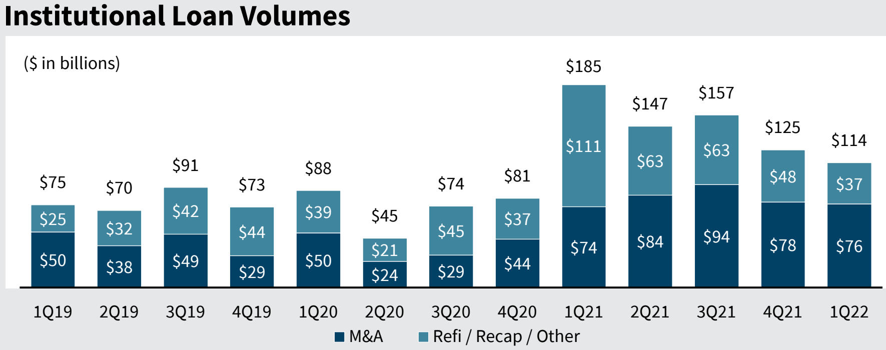
1 = Most Lender-Friendly; 5 = Most Borrower-Friendly
(1) Average lender response to the question, "On a scale of 1 to 5, how would your firm rate today's lending environment?"

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

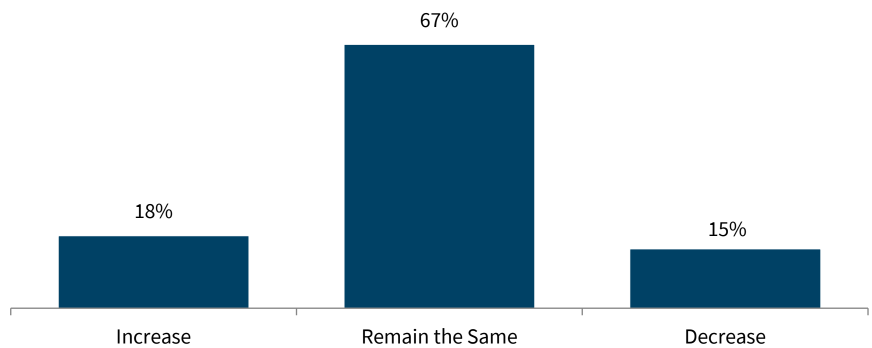


Source: S&P Leveraged Commentary & Data

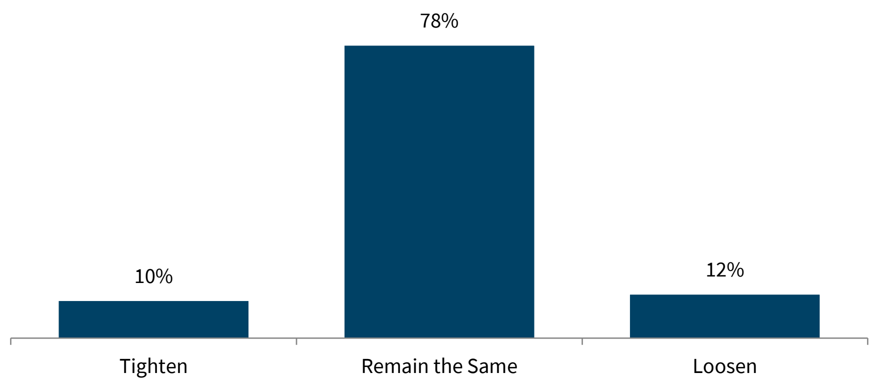
Leveraged Finance Survey

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 reflects responses from the approximately 60 leveraged finance professionals who participated in the survey this quarter.

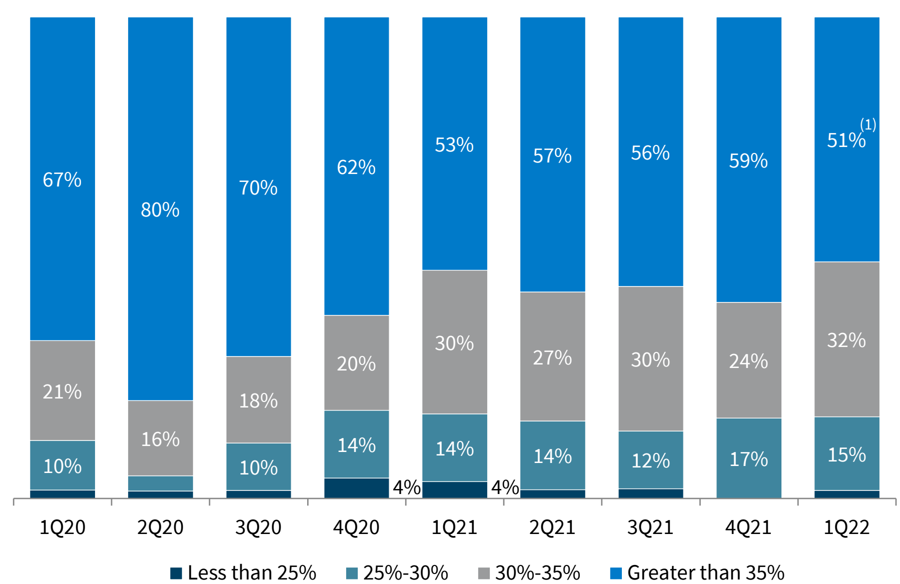
During 1Q22, did pricing for your primary debt offering?



During 1Q22, did transaction terms and leverage?



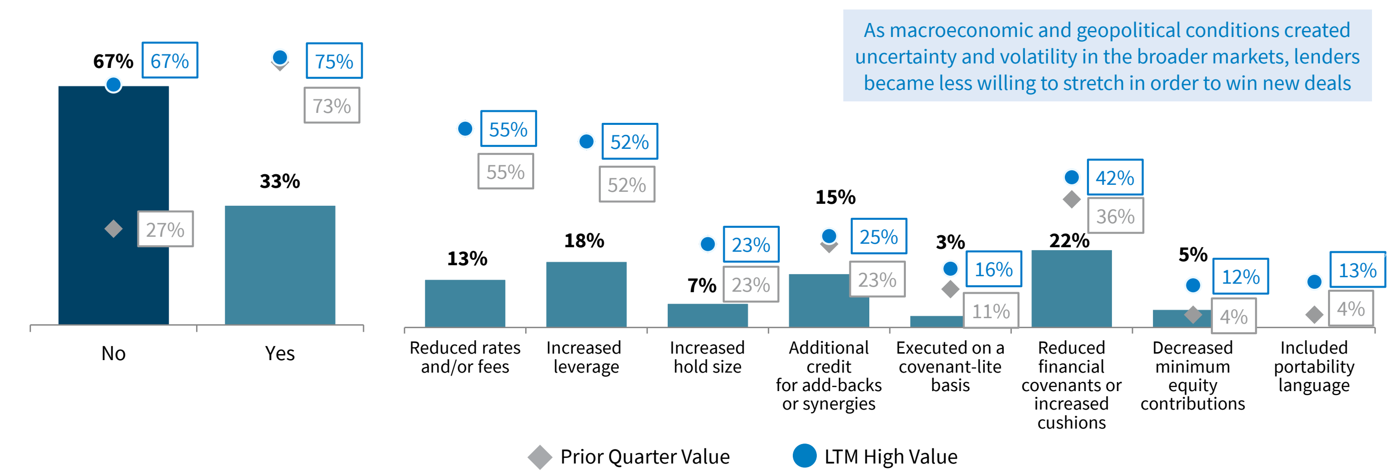
For transactions involving a private equity sponsor, what is the minimum equity contribution you require?



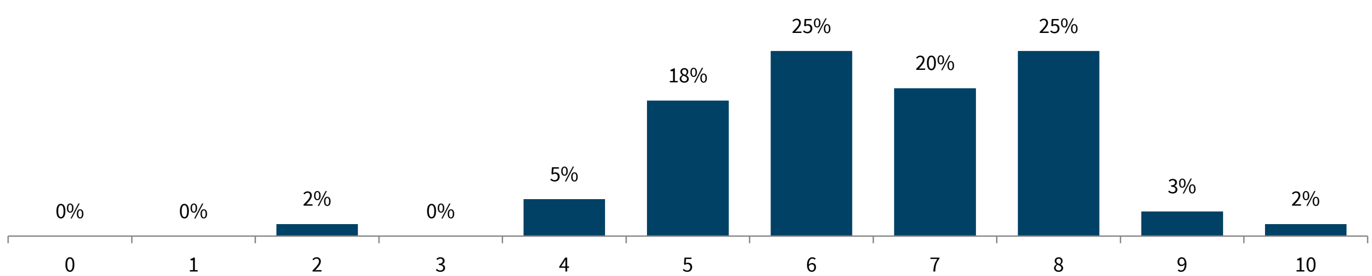
(1) 15% of respondents indicated they require >40%.

During 1Q22, 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?

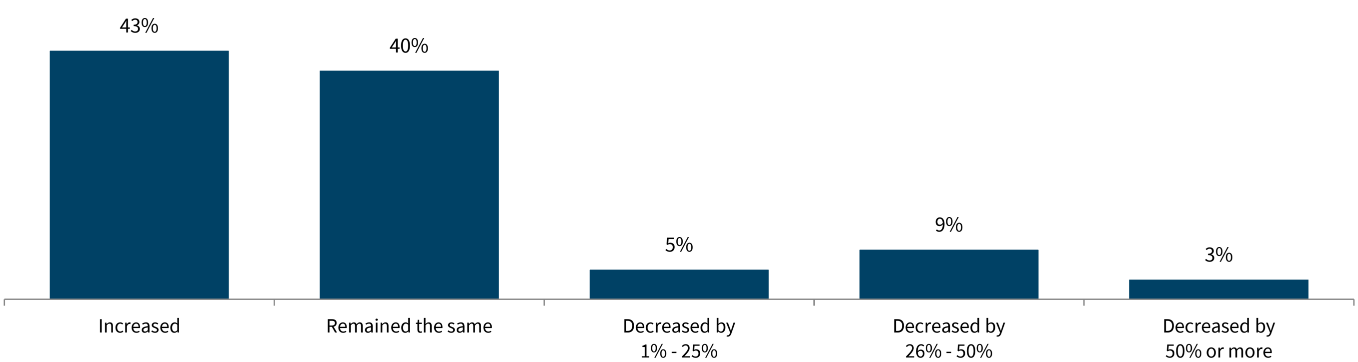


0 = Significantly LESS Aggressive; 10 = Significantly MORE Aggressive

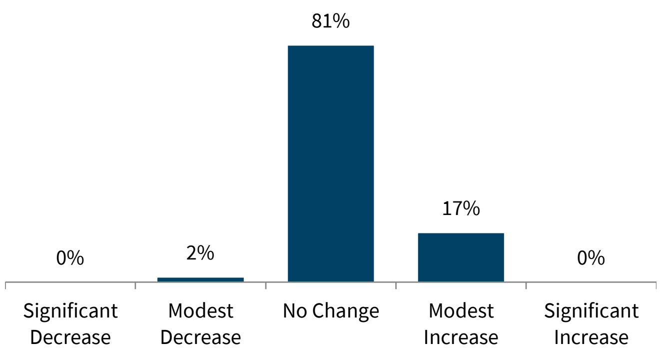
Average Rating by Quarter

4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
5.4	6.2	6.6	6.9	7.0	6.5

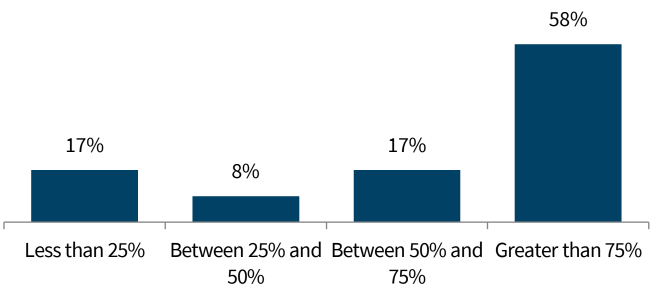
Compared to your firm's pre-COVID hold sizes,
what have you observed regarding your firm's current maximum hold size?



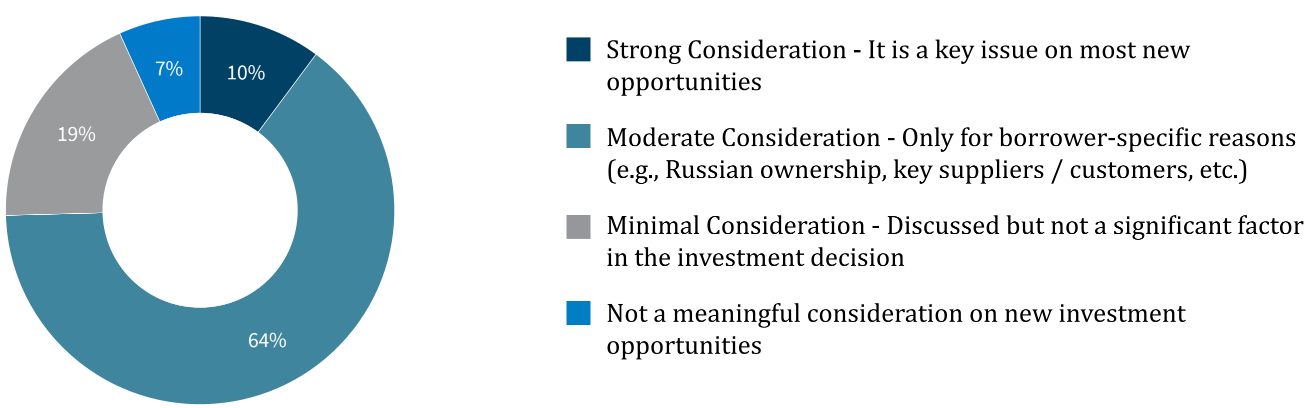
Over the past 6 months, what have you experienced regarding the number of covenant-lite transactions your firm has entered?



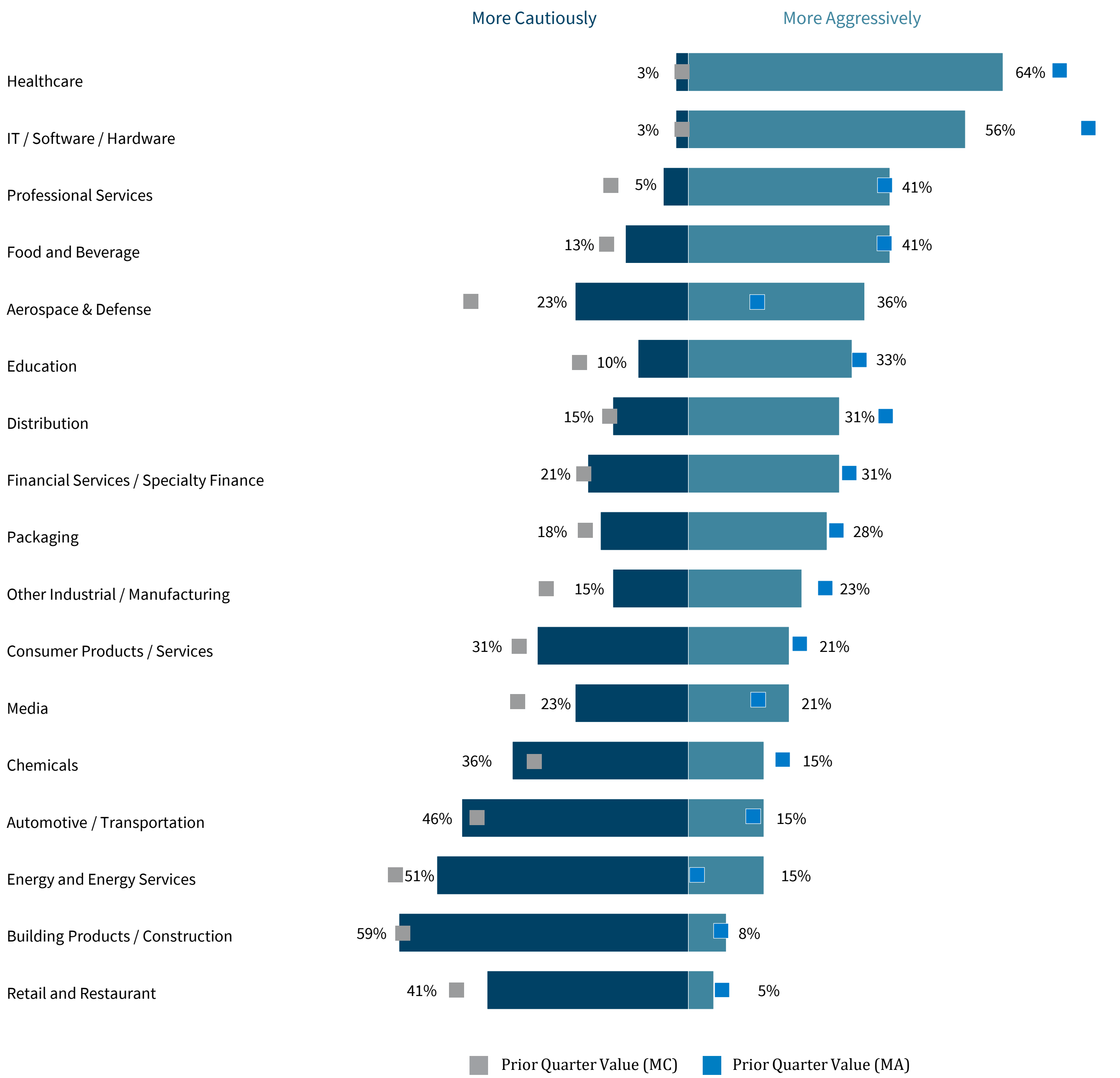
For new loan facilities closed in Q1 2022, what percentage were priced using SOFR (as opposed to LIBOR)?



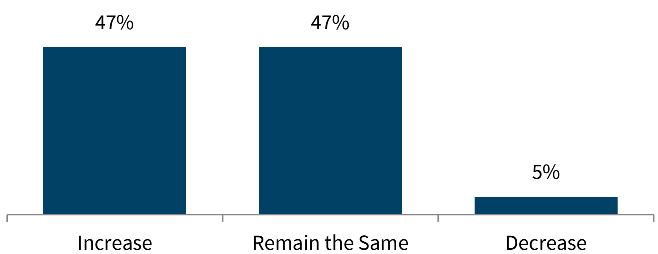
What level of consideration does the war in Ukraine receive when evaluating new opportunities?



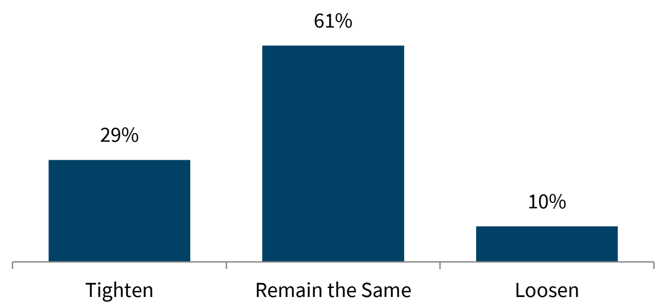
Are there any specific sectors or industries for which your firm is proceeding more aggressively or cautiously today compared with 6 months ago?



For the remainder of 2022, what are your expectations regarding pricing of your primary debt offering?



For the remainder of 2022, what are your expectations regarding transaction terms and leverage?



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

- Rising interest rates and softer performance as many companies compare against a strong 2021
- New deal volume (demand is currently outpacing supply)
- Commodity prices, inflation, supply chain, magnitude and frequency of Fed rate hikes
- Interest rate increases, inflation, Russia / Ukraine conflict & fallout, supply chain constraints, quality and quantity of assets available in the market
- M&A activity and public market volatility that could impact private valuations
- Ongoing war in Ukraine, broader macroeconomic outlook and performance of equity markets
- Supply chain / inflation driving stress in certain situations. Do not expect lenders to be as understanding as they were at the onset of COVID
- Interest rates, overall health of the US economy, and the interrelated impacts of the war in Ukraine
- Impact of rising costs (supply chain delays / transportation costs, material costs, labor rates, oil / gas prices) and labor availability
- Conversion of SOFR and credit spread adjustments
- Input cost inflation and impact on margins, supply chain considerations, CLO formation
- 1H22 results will set the tone for the year as we would have had 6+ months of wage and cost inflation, rising rates, and geopolitical instability reflected in financial results
- To the extent recessionary pressure starts to impact portfolio company performance, leverage and pricing for new deals will likely reflect a more conservative approach and / or increased risk premiums
- European landscape and interest rate environment

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 Country Pure Foods Senior Secured Credit Facility 2021	Not Disclosed OneCare Media First Lien Credit Facility 2021	$180,000,000 HungerRush Unitranche Credit Facility 2021
Not Disclosed KALERIS Unitranche Credit Facility 2021	Not Disclosed ConnectAmerica a portfolio company of Rockbridge Growth Equity Senior & Subordinated Debt Preferred Equity 2021	Not Disclosed uniFund Senior Secured Credit Facility 2021
Not Disclosed Andelyn Biosciences Senior Secured Term Loan Preferred Equity 2021	$350,000,000 Verra Mobility Senior Notes 2021	$170,000,000 Colson Group Unitranche Credit Facility 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 the 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 $700 billion in value for our clients.*

Leveraged Finance

Michael Ward
+ 1 312 364 8529
mward@williamblair.com

Mark Birkett
+1 312 364 8783
mbirkett@williamblair.com

Darren Bank
+1 312 801 7833
dbank@williamblair.com

* In the past five years as of March 31, 2022