William Blair

Q1 2024

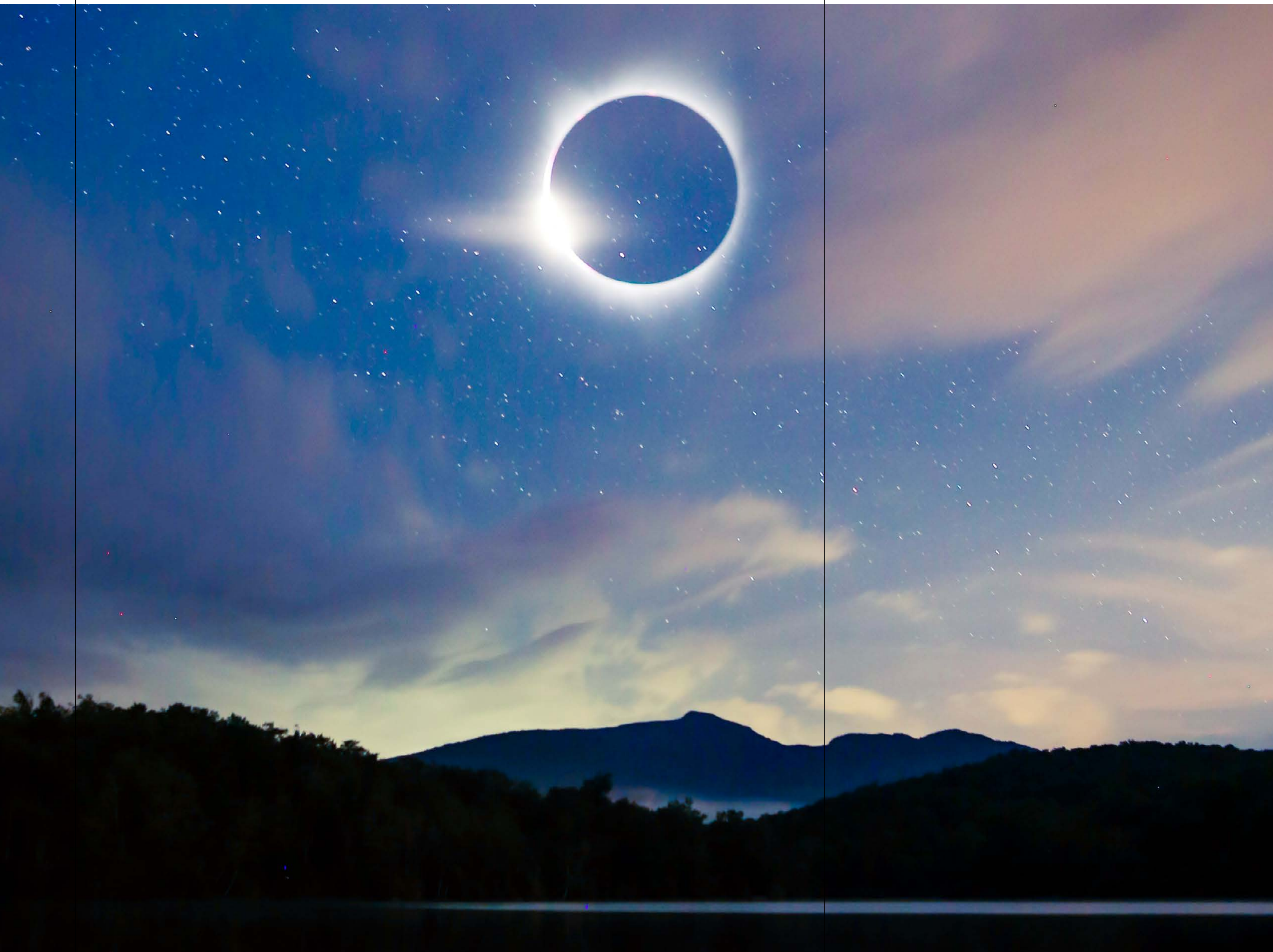
**Leverage Loan Volume in Q1 Eclipses 2023**

**In This Report**

Analysis of Q1 U.S. Institutional Loan Volume

Highlights, Analysis, and Results From William Blair's Quarterly Leveraged Finance Lender Survey

# Leveraged Finance



# Leverage Loan Volume in Q1 Eclipses 2023

After a humdrum 2023, first-quarter institutional loan volume hits highest total since 2021, revitalizing the leveraged finance markets.

The first quarter always ends with excitement; particularly this year with Caitlin Clark and Women's March Madness grabbing the country's attention, fans eagerly waiting for The Masters with hopes of Tiger making the weekend, stargazers damaging their eyes after staring at the solar eclipse, and most importantly, investors feeling the resurgence of the leveraged loan market. After a year that investors would like to forget, all eyes looked toward 2024 as prospects appeared to be looking upward—and thankfully, the first quarter did not disappoint.

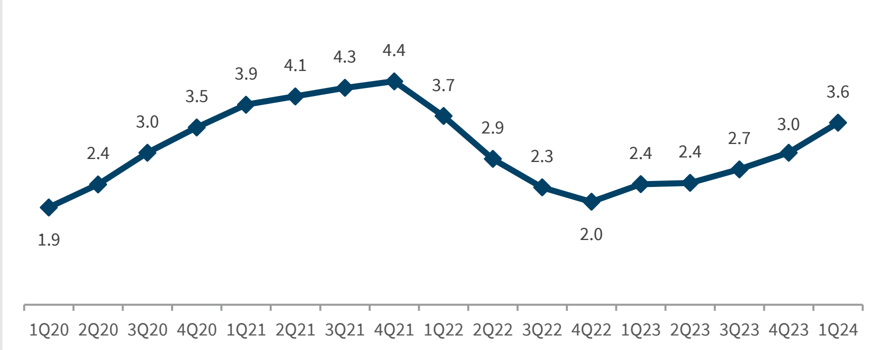
The syndicated loan market rebounded better than Zach Edey during March Madness with leveraged loan volume skyrocketing to $141.9 billion in the first quarter. This represented the highest amount recorded since the third quarter of 2021 and was the fourth highest quarter over the last five years. When comparing year-over-year, Q1 2024 was a staggering 170% higher. Refinancing activity continued to make up more than half of the total loan volume as borrowers took advantage of tightening spreads and extended debt maturities.

Total refinancing volume this quarter was $86.1 billion, which is the highest amount recorded in over 10 years. Dividend recapitalization volume also soared, reaching $20.6 billion in Q1 compared to only $3.6 billion in the previous year and was greater than the last six quarters combined. Lenders expressed mixed feelings on supporting dividend recapitalizations in 2023; however appetite trended upward this quarter according to William Blair's Leveraged Finance Survey. When asked about interest for supporting a dividend recapitalization transaction over the next six months (scale of 1 to 5, with 5 being very high), 35% of survey respondents fell in the 4-5 range, compared to just 15% in the prior quarter. As dividend activity increases, survey respondents noted the borrower/sponsor relationship, remaining cash equity, stability of cash flows, and no fundamental changes regarding incentives to key managers or owners as crucial factors when determining their willingness to support a dividend recapitalization.

M&A-related volume reached $29.2 billion, nearly doubling the amount from last quarter and was the highest amount recorded in seven quarters. This was largely driven by two mega-sized deals—KKR's LBO of Cotiviti and Stone Point's LBO of Truist Insurance—each issuing $5 billion of debt to support the buyouts. While second-lien term loans were practically non-existent the last two years, the buyout of Truist Insurance included a $1.9 billion second-lien term loan, which was the largest syndicated second-lien term loan since 2007. Although M&A-related loan volume is still below pre-rate hike levels, things seem to be trending in the right direction. Many lenders are sitting on record levels of dry powder and are desperate to put money to work, especially for LBO transactions.

**William Blair Leveraged Lending Index Continues Momentum**

Each quarter we ask middle-market lenders to rate overall conditions in the leveraged finance market on a scale of 1 to 5, with 5 being the most borrower-friendly conceivable. The index increased for the fourth straight quarter as lender sentiment continues to improve.



## Okay, it's happening! Everybody stay calm—the broadly syndicated loan market regains traction

Lenders are optimistic for 2024 as the syndicated loan markets finally gained momentum and M&A activity rebounded. Respondents to our survey indicated they believe this quarter's momentum will extend throughout the year as 61% of respondents expect pricing to decrease and 65% of respondents expect transaction terms and leverage to loosen. For the remainder of 2024, lenders anticipate the reemergence of the syndicated markets, the U.S. presidential election, interest rate cuts, and transaction volume to have the most impact on the leveraged loan market.

**Spreads Continue to Tighten**

For the fifth straight quarter, William Blair's Leverage Lending Index climbed higher into borrower-friendly territory reaching 3.6 (scale of 1 to 5, with 5 being the most borrower-friendly). With investors starving for new deals and the broadly syndicated market reopening, lenders were forced to make pricing and other concessions to win new deals. New issue pricing has continued to contract with single-B spreads tightening to 377 basis points last quarter compared to 421 basis points in the fourth quarter of 2023. This also represents the lowest recorded pricing since the beginning of 2021. Survey respondents echoed this trend, with 86% indicating that pricing decreased in Q1. Additionally, 65% of respondents indicated they made borrower-friendly concessions to win a new deal, with 59% stating lower pricing was the primary concession made. With the broadly syndicated markets open for business, direct lenders are feeling more pressure and must be competitive in pricing to stay in the game.

**The Broadly Syndicated Loan Market Is Open for Business**

The syndicated loan market reawakened in 2024 after a drowsy two years, with overall investor sentiment improving and the economic outlook becoming more encouraging. For the past year, direct lenders took charge as the syndicated loan market was practically closed. Private credit was the dominant financing option for borrowers in 2023, with 198 LBOs financed by private credit compared to only 28 in the broadly syndicated market, equating to a private-credit-to-syndicated ratio of 7.0x according to LCD, a part of Pitchbook. One advantage of the broadly syndicated markets is they can offer lower pricing relative to their private capital counterparts, but that was not much of an option the last two years. With the resurgence of the syndicated loan market in Q1, borrowers had more competitive options on the menu. During the first quarter, 28 companies rushed to the syndicated loan market to refinance debt previously provided by direct lenders. Private credit remains the primary option for LBO transactions, but competition is getting fierce as syndicated lenders attempt a comeback.

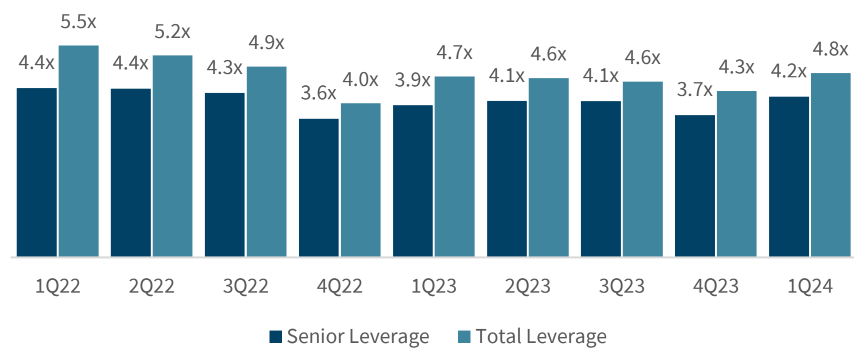
To learn more about these and other trends shaping the leveraged finance market, please don't hesitate to contact us.

# Market Analysis

Each quarter, we look behind the numbers to examine the market dynamics that are driving trends in pricing and volume in leveraged finance transactions.

## Leveraged Loan Multiples

Total leverage in Q1 reached its highest levels since Q3 2022 after retracting in Q4.

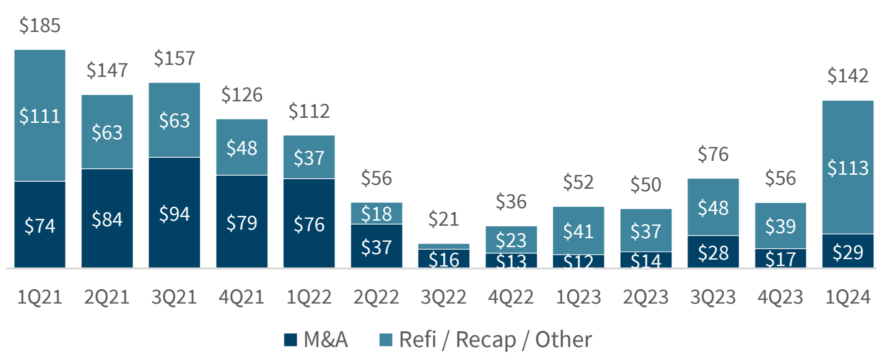



Source: LCD, a part of Pitchbook. Represents the rolling 90-day average leverage multiples from all loan activity

## Institutional Loan Volume

Institutional loan volume surged in Q1 after a dismal 2023. Q1 total volume reached the highest amount recorded in 10 quarters, with refinancing volume leading the way.

***($ in billions)***

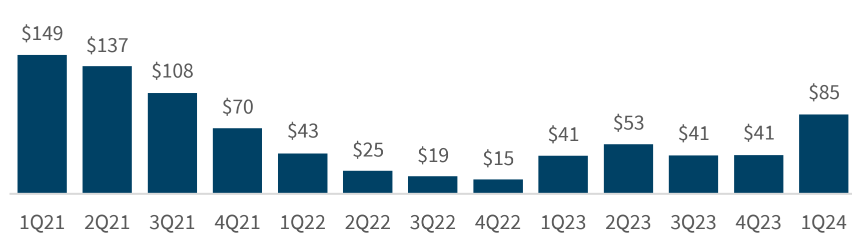



Source: LCD, a part of Pitchbook

## High-Yield Bond Volume

High-yield bond volume increased to $85 billion in Q1, which is more than double that of the previous two quarters combined and the highest amount recorded since Q3 2021.

***($ in billions)***




Source: LCD, a part of Pitchbook

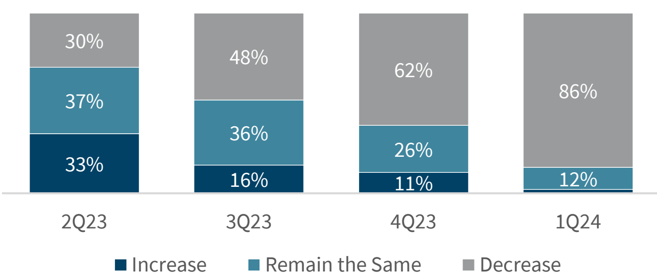
## Highlights From William Blair's Q1 2024 Leveraged Finance Survey

Each quarter, William Blair surveys middle-market leveraged finance professionals representing leading credit funds, BDCs, commercial finance companies, commercial banks, and other credit providers to measure sentiment in the leveraged finance market. The data reflects responses from approximately 60 leveraged finance professionals who participated in the survey this quarter.

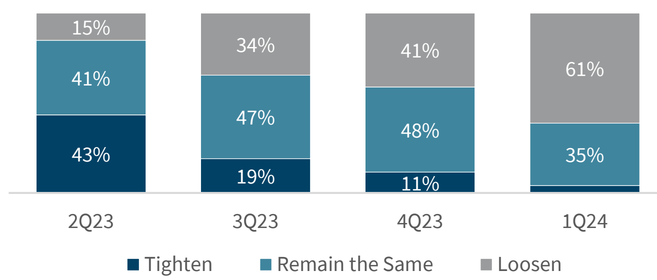
## Borrower-Friendly Conditions Maintain Momentum

Momentum toward more borrower-friendly pricing, leverage, and terms continued in the first quarter as 86% of respondents indicated pricing tightened and over 60% of respondents indicated leverage and terms loosened.

### Pricing



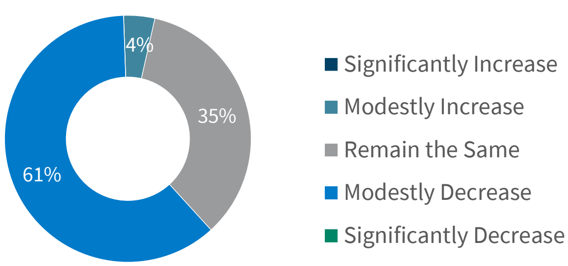

### Leverage and Terms



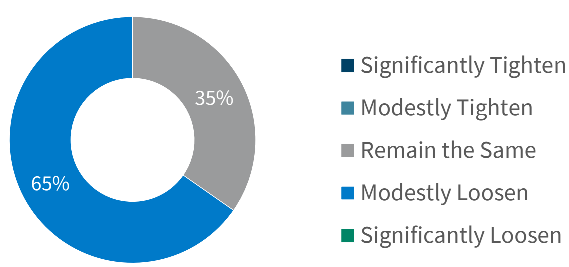

## Lending Expectations for 2024

Similarly, survey respondents expect pricing, leverage, and terms to remain in favor of borrowers in the year ahead. Over 60% of respondents expect pricing to decrease and 65% of respondents expect leverage and terms to loosen for 2024 as robust investor appetite and fierce competition from the syndicated loan market is revived.

### Pricing Expectations



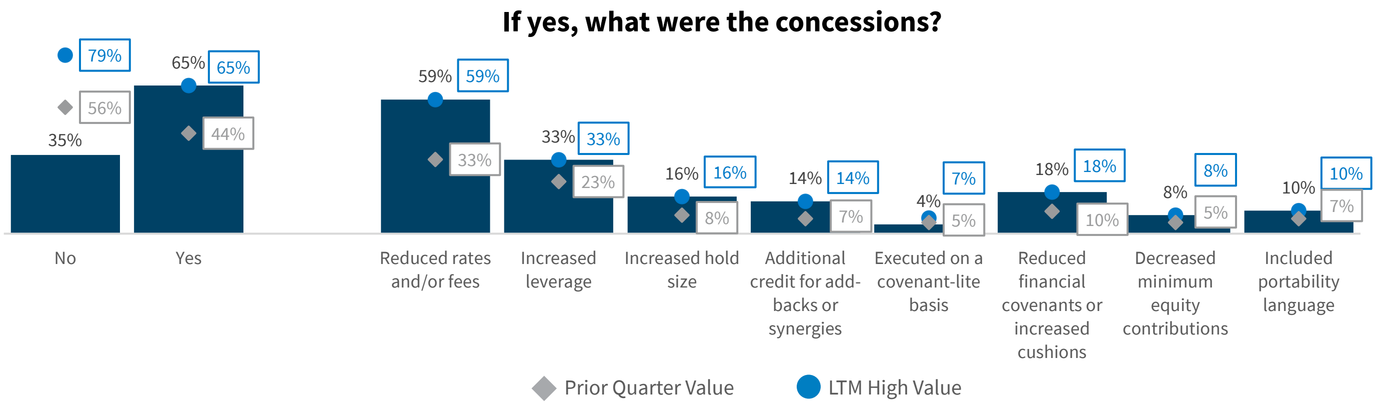

### Leverage and Terms Expectations



## Lender Competition Intensifies

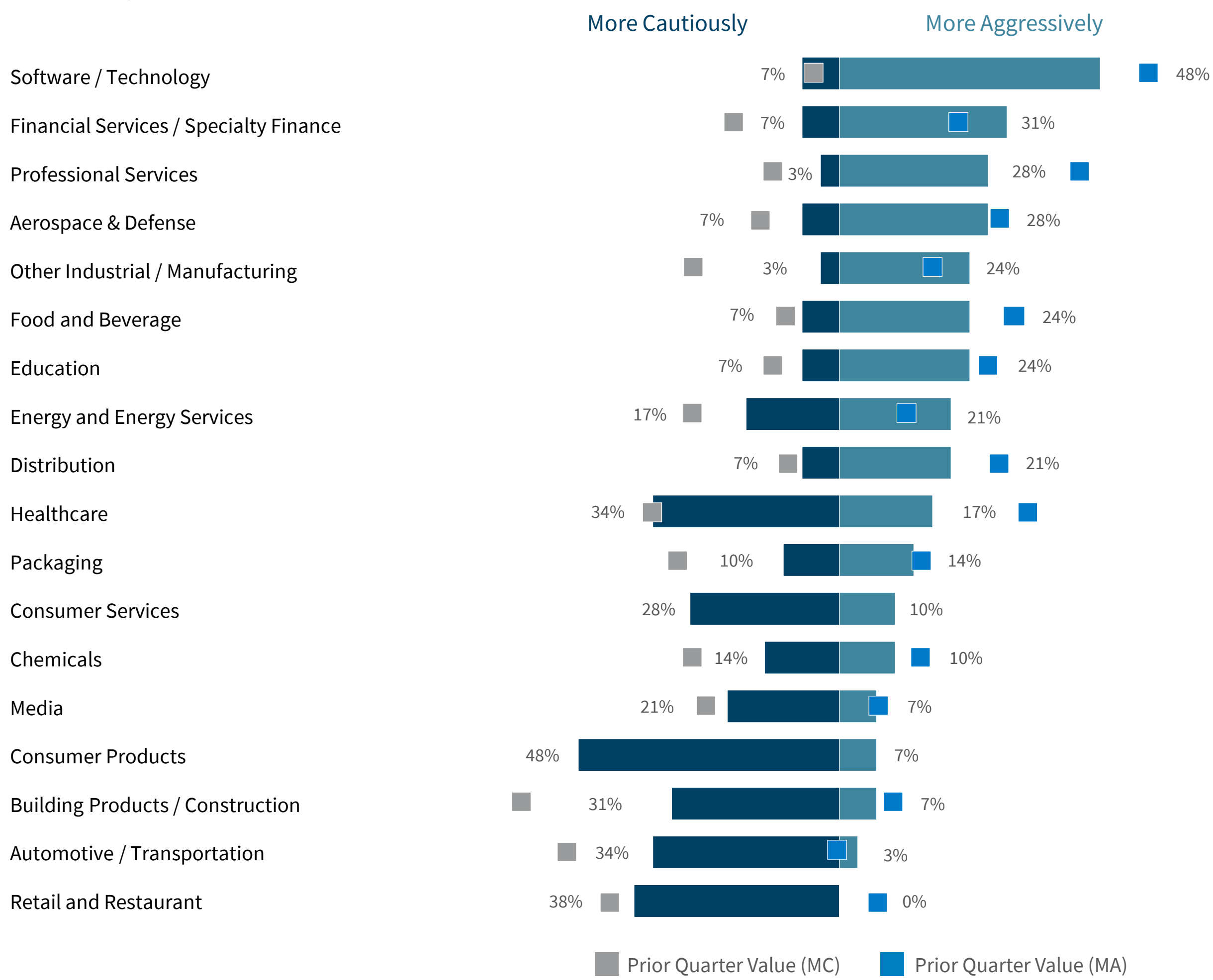
With the resurgence of the syndicated loan market and vigorous investor demand, lenders continue to make borrower-friendly concessions to win new deals. Concessions in nearly every category reached LTM highs last quarter.

### During Q1 24, did you make borrower-friendly concessions you historically would not have to win a deal?



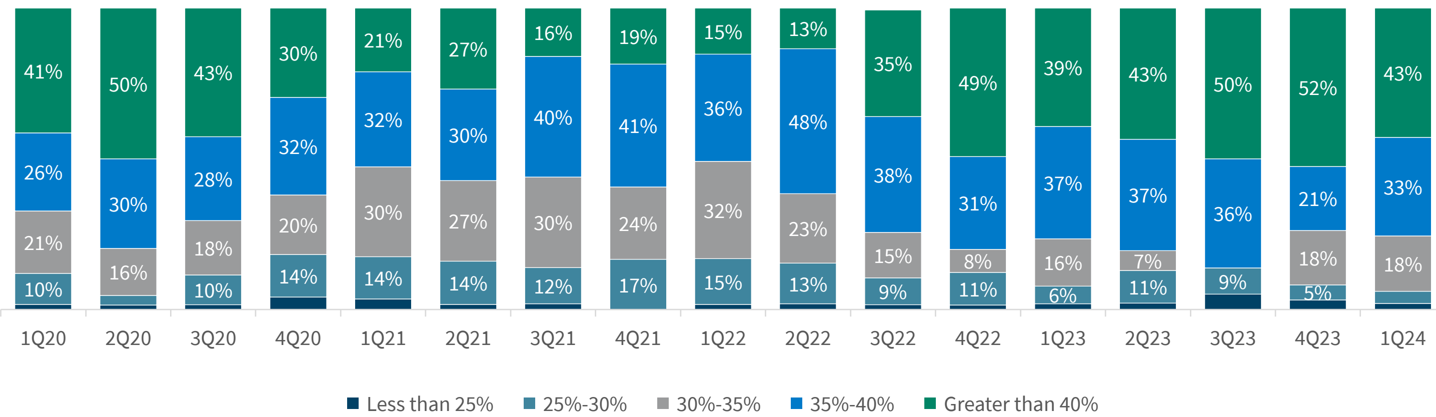

## Additional Highlights

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

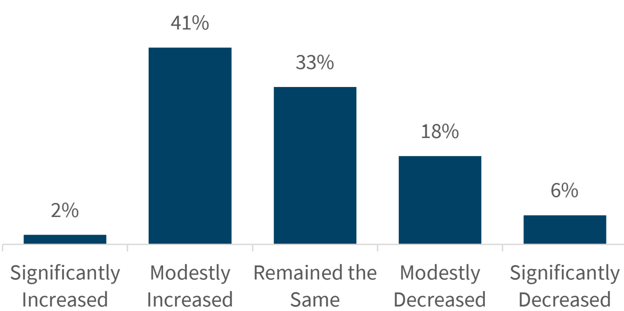



Note: Consumer Services and Consumer Products were broken out this quarter and therefore prior quarter values are unavailable.

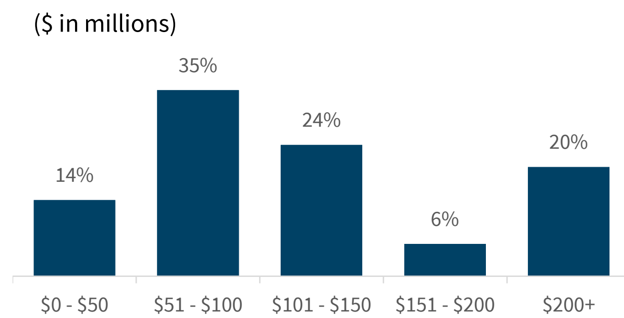
## For transactions involving a private equity sponsor, what is the minimum equity contribution you require?



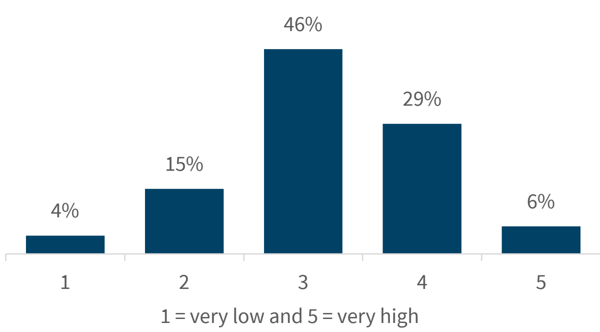

## During Q1 2024, how did new-issue loan volume compare to that in the previous six months?



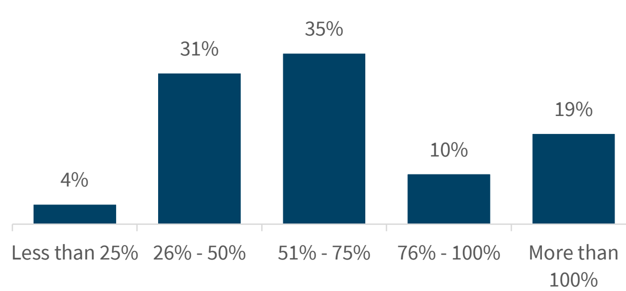

## What is your firm's current maximum hold size for a single credit?



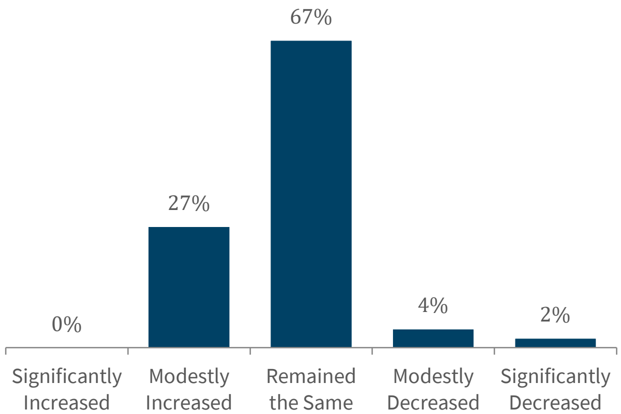

## What is your appetite level for supporting a dividend recapitalization transaction over the next six months?



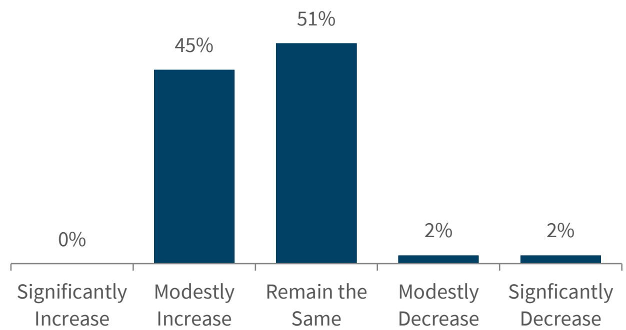

## For a dividend recapitalization transaction, what is the maximum percentage of cash equity returned to investors you would be comfortable with?



### During Q1 2024, how did default rate activity compare to that in the previous six months?




### For the remainder of 2024, do you expect the level of default rates to …




### For 2024, what factors or trends do you expect will have the most significant impact on the leveraged loan market?

- Volume, volume, volume
- Significant dry powder to deploy, driving better terms for high-quality borrowers in a market with limited M&A
- Continued focus on sponsor-based deals at the expense of non-sponsored and off-the-run transactions
- Inflation and other macroeconomic factors
- Reemergence of the broadly syndicated loan market
- The need for sponsors to return capital, narrowing bid-ask spreads
- Increased risk of defaults due to higher-for-longer interest rates
- Lack of dividend recaps by sponsors while rates remain high
- Geopolitical risk
- Lack of deals and excess availability of capital will continue to cause increased competition and the loosening of terms for strong assets
- Competitive dynamics amongst lenders
- Lack of sponsor-to-sponsor M&A volumes
- U.S. presidential election
- Fed policy and the pace of future rate changes
- Weakening consumer demand affecting borrowers
- Potential change in tax rates

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

| Company | Transaction | Date |
|---|---|---|
| Starrett | Senior Secured Credit Facility | Pending |
| Sensor Tower | Senior Secured Credit Facility | 2024 |
| Bishop Lifting | Debt Placement | 2023 |
| Primutec Solutions Group | Senior Secured Credit Facility | 2023 |
| Certified Power Inc. | Unitranche Credit Facility | 2023 |
| amino | Senior Secured Credit Facility<br>Preferred Equity | 2023 |
| Potbelly Sandwich Works | Senior Term Loan | 2023 |
| EFC International | Senior & Subordinated Debt | 2023 |
| Cellipont Bioservices | Senior Secured Term Loan | 2023 |

**William Blair Leveraged Finance by the Numbers**

160+

*completed leveraged finance transactions since 2016*

$21B+

*arranged financing since 2016*

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 260 senior bankers around the world, William Blair has completed more than 1,440 advisory and financing transactions totaling over $765 billion in value for our clients.*

**Leveraged Finance Group Leadership**

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* In the past five years as of March 31, 2024