

William Blair

Q3 2024

Unmasking M&A Activity

In This Report

Analysis of Q3 Trends in Leveraged Finance

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

Leveraged Finance Newsletter



Unmasking M&A Activity

Left for dead for nearly two years, the M&A market came back to life in the third quarter, with the Fed's first interest rate cut opening the door for a wave of activity.

The markets in 2024 have been nothing short of a Hollywood thriller, brimming with volatility and unexpected turns that have kept investors on edge. The U.S. leveraged loan market surged through the first half of the year, driven primarily by refinancing and repricing activity, while M&A activity remained subdued. However, while total loan volumes slowed in the third quarter, non-refinancing issuances reached their highest levels since early 2022. With the long-anticipated interest rate cuts finally underway, M&A activity is gaining momentum, and for the first time in more than two years, M&A-related volume exceeded refinancing volume during the quarter.

Overall, leveraged loan volume totaled \$110.4 billion in Q3, down 24% from the previous quarter, although year-to-date volume of \$399.2 billion is more than double the first three quarters of 2023. M&A-related activity surged to \$45.2 billion in the third quarter, its highest total since the first quarter of 2022 when interest rates began to

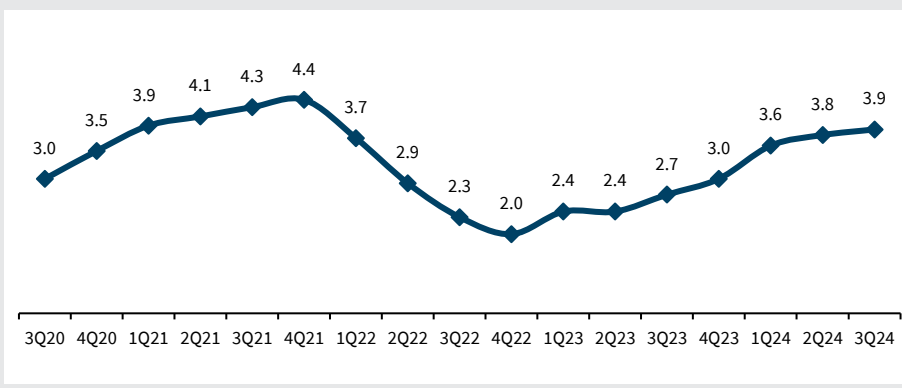
climb. Dividend-related volume also jumped to \$28.8 billion, its highest total since Q3 2021 and up 84% from the previous quarter. In fact, dividend-related volume reached a record-setting \$19.2 billion in September alone, beating the previous record of \$13.4 billion by more than 40%. Loan volume related to refinancing activity came in at \$29.8 billion for the third quarter, the lowest total since Q4 2022 and less than a third of the prior quarter's record volume of \$94.8 billion.

William Blair's Leveraged Lending Index increased for the sixth straight quarter, reaching 3.9 (scale of 1 to 5, with 5 being the most borrower friendly) as overall lender sentiment continues to improve. The further shift in borrowers' favor has been driven by

robust lender competition over the last year as lenders chase limited opportunities to deploy capital. This has been a common theme recently, driving spreads to multiyear lows. The average spread for new issue loans was S+358 bps during the third quarter, which was the second lowest recording since 2007. When looking specifically at M&A transactions backed by private equity, the average spread fell to S+383 bps, the lowest level in over six years. This tracked with William Blair's Leveraged Finance Survey results, as 65% of survey respondents indicated that pricing for primary debt offerings decreased during the third quarter. Questions about transaction terms and leverage garnered similar responses, with over half of survey respondents

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 has climbed for six consecutive quarters reaching the highest level since 2021 as lender sentiment continues to improve.



Private credit has become one of the most attractive asset classes for investors and everyone wants a piece of the action.

noting terms loosened during the third quarter. Lenders still find themselves needing to be aggressive to win new deals, with 60% of respondents noting they made aggressive, borrower-friendly concessions to win a new deal. This marks the third consecutive quarter that more than half of respondents signaled they were required to make concessions with reduced pricing, increased leverage, and reduced covenants being the primary concessions.

The King Size Candy Bar Called Private Credit

Private credit has become one of the most popular and fastest-growing asset classes and investment strategies since the Great Financial Crisis, and the shift towards private credit and away from the broadly syndicated loan market has become a prolonged trend. While the broadly syndicated markets have gained some traction this year, private credit continues to be the primary financing path for LBOs with 63 LBOs financed by private credit this quarter against the syndicated market's 18. This pattern has occurred every quarter for more than five years. Who would have thought that 15 years ago?

The over \$2.0 trillion private credit asset class has provided consistent returns, and now it seems everyone wants a piece of the action. As a result, private debt has become the second largest fundraising strategy, only behind private equity. Total fundraising for private credit is on pace to match last year's total of \$215.5 billion, which would make 2024 the fifth consecutive year with over \$200 billion of capital raised for the asset class. Most recently, Ares Management closed its U.S. Senior Direct Lending Fund after raising \$33.6 billion, which makes it the largest private credit fund ever and is more

than double the size of its \$14.9 billion predecessor fund that closed in 2021. Other mega funds this year include HPS Investment Partners' \$21.1 billion Specialty Loan Fund and Goldman Sach's \$13.1 billion West Street Loan Partners fund.

With its increased popularity, private credit has seen more competition as new investors crowd a market that already included insurance platforms, traditional asset managers, and now even banks. Partnerships between commercial banks and credit managers have become the latest craze as the FOMO appears to have reached an apex. JP Morgan recently announced it has set aside \$10 billion of its own capital to partner with direct lenders including FS Investments, Cliffwater, and Shenkman Capital. Other joint ventures include Apollo's \$25 billion partnership with Citi, Marathon Asset Management's partnership with Webster Bank, Centerbridge's \$5 billion partnership with Wells Fargo, and LuminArx's partnership with Citi. Now investors just need something to do with all of that dry powder.

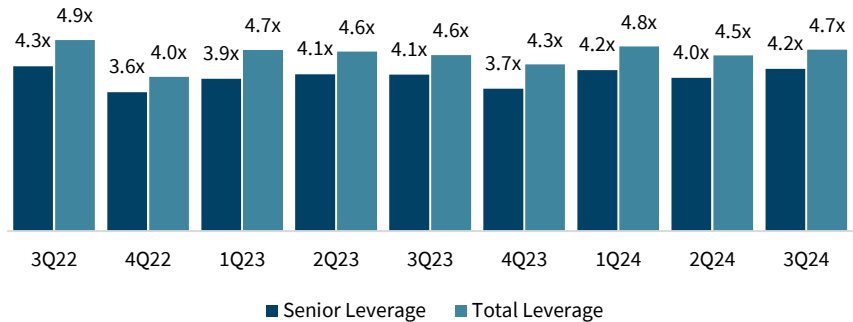
To learn more about these and other trends shaping the leveraged finance market, please don't hesitate to contact us.

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 slightly increased in Q3, nearing LTM highs after modestly retracting in Q2.

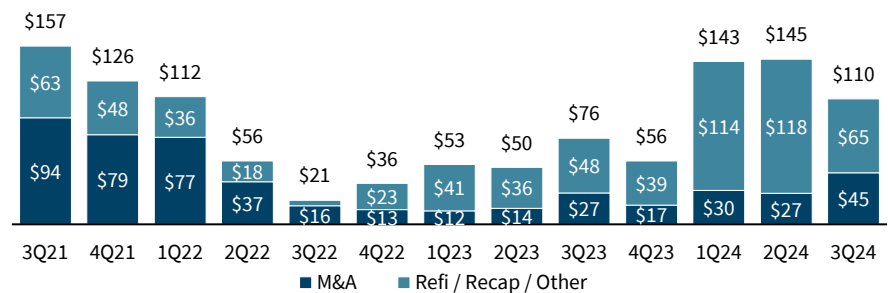


Source: PitchBook LCD. Represents the rolling 90-day average leverage multiples from all loan activity.

Institutional Loan Volume

Total institutional loan volume slowed to \$110 billion in Q3; however, M&A-related volume surged to the highest amount since 1Q22.

(\$ in billions)

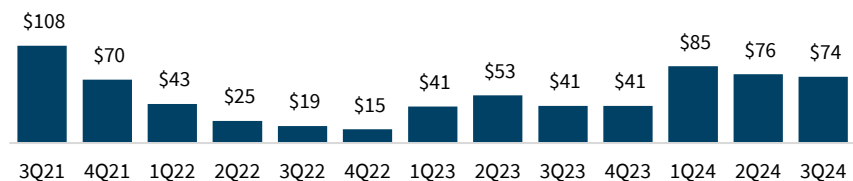


Source: PitchBook LCD.

High-Yield Bond Volume

High-yield bond activity continues to be active in 2024. While Q3 volume was nearly flat, YTD volume is significantly above 2022 and 2023 levels.

(\$ in billions)



Source: PitchBook LCD.

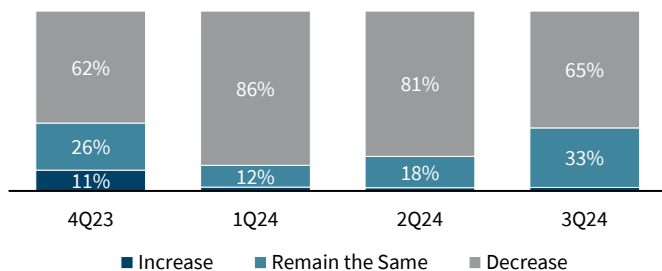
Highlights From William Blair's Q3 2024 Leveraged Finance Survey

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.

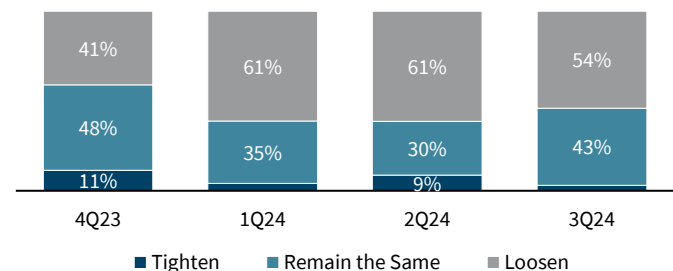
Borrower-Friendly Conditions Remain Present

Borrower-friendly pricing, leverage, and terms continue as 65% of respondents indicated pricing tightened and over 50% of respondents indicated leverage and terms loosened this quarter.

Pricing



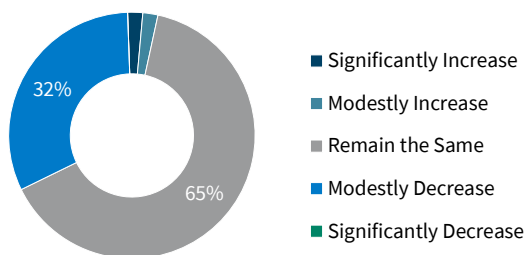
Leverage and Terms



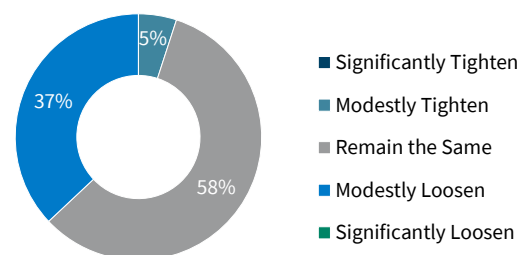
Lending Expectations for 2024

Similarly, survey respondents expect pricing, leverage, and terms to remain in favor of borrowers throughout the end of the year. While the majority of respondents anticipate pricing, leverage, and terms to remain the same, about a third expect more borrower-friendly terms for the remainder of 2024, as investor appetite and competition persist.

Pricing Expectations



Leverage and Terms Expectations

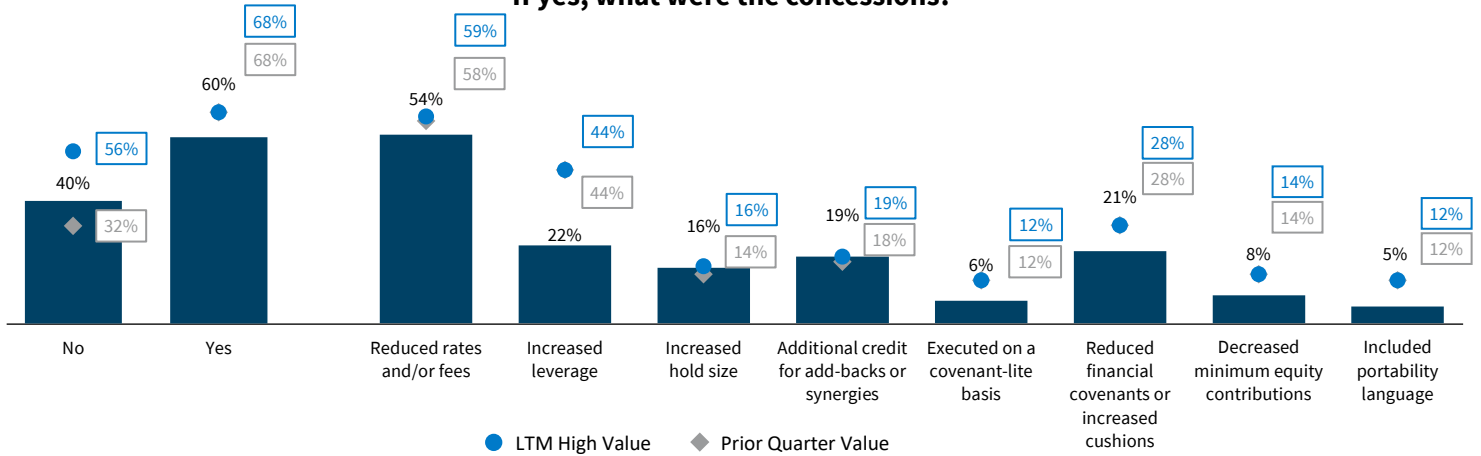


Lenders Remain Competitive

As investor demand continues to outweigh supply, lenders remain forced to make borrower-friendly concessions to win new deals. Concessions related to increased hold size and additional credit for add-backs or synergies reached LTM highs this quarter.

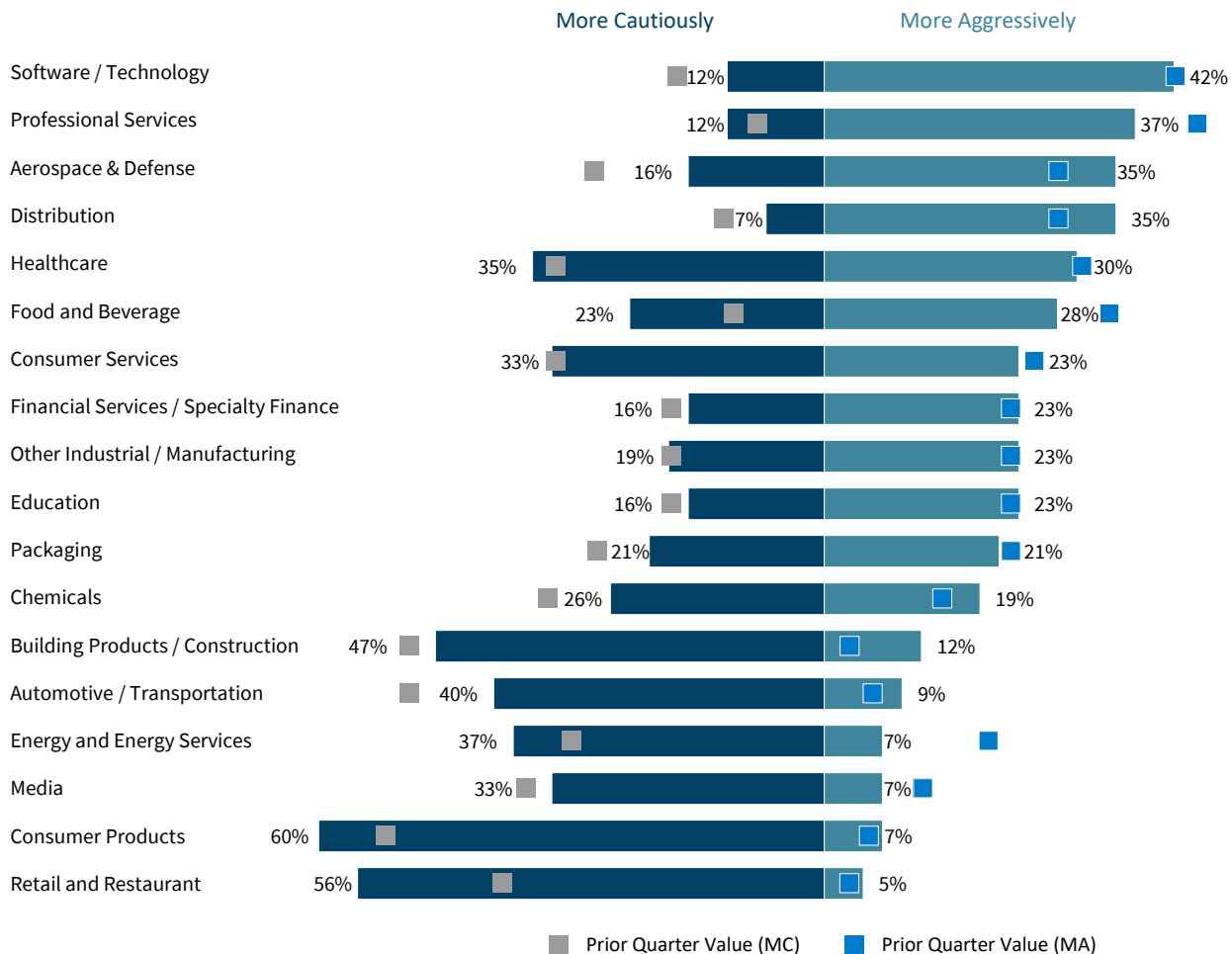
During 3Q24, did you make borrower-friendly concessions you historically would not have to win a deal?

If yes, what were the concessions?

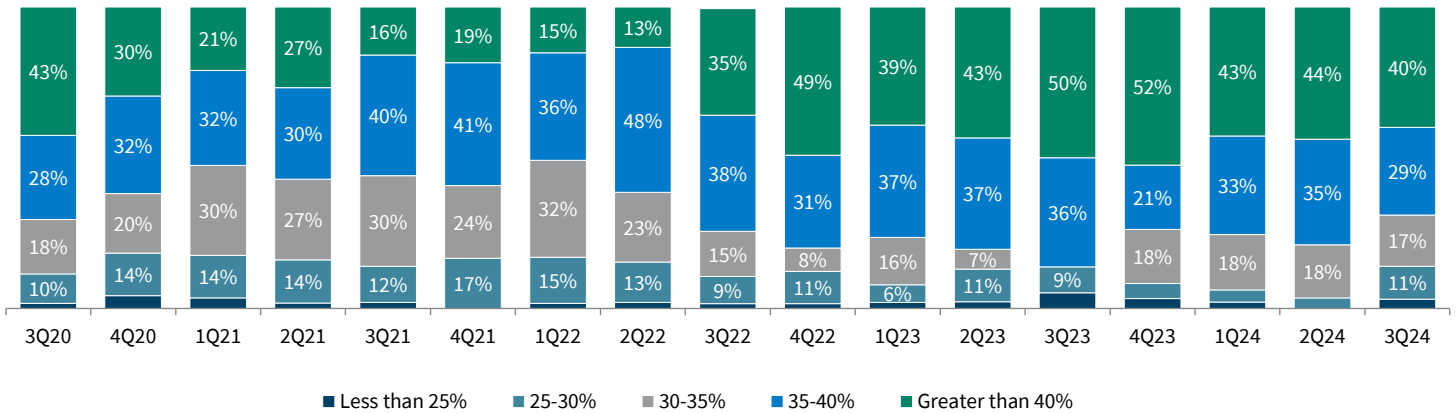


Additional Highlights

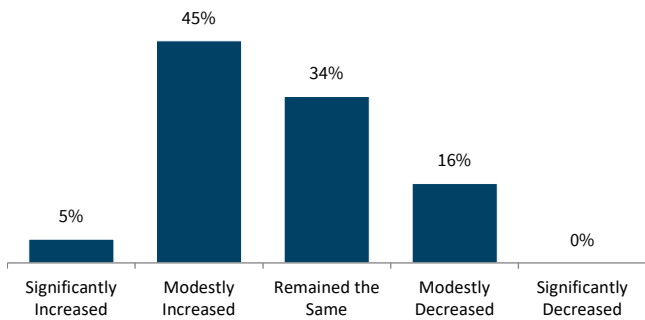
Are there any specific sectors or industries for which your firm is proceeding more aggressively or cautiously today compared with 6 months ago?



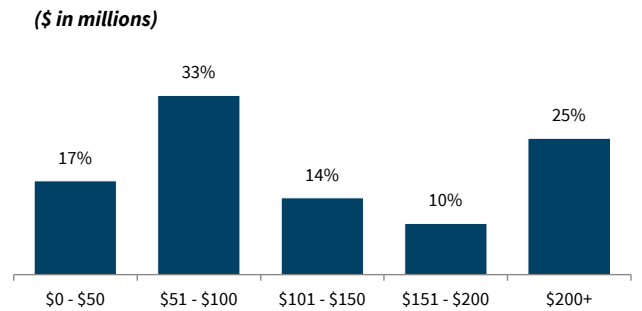
For transactions involving a private equity sponsor, what is the minimum equity contribution you require?



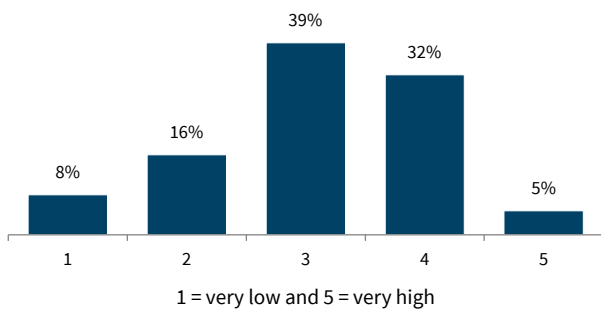
During Q3 2024, how did new-issue loan volume compare to that in the previous six months?



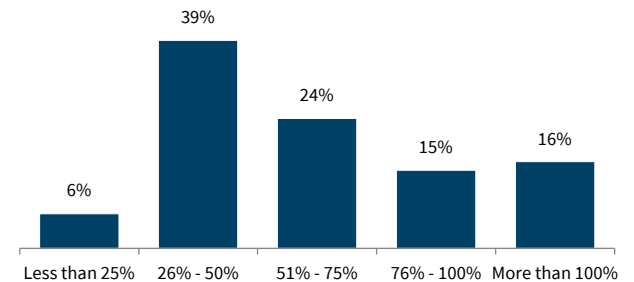
What is your firm's current maximum hold size for a single credit?



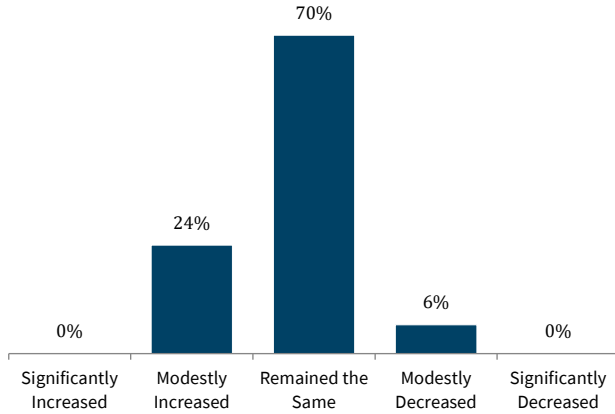
What is your appetite level for supporting a dividend recapitalization transaction over the next six months?



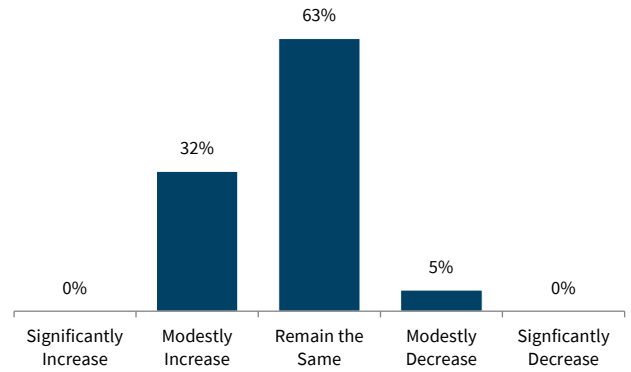
For a dividend recapitalization transaction, what is the maximum percentage of cash equity returned to investors you would be comfortable with?



During Q3 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?

- Interest rates and the cadence of rate cuts
- U.S. presidential election
- Deal volume given depressed M&A activity, but showing signs of improvement
- Dry powder and pressure from LPs to deploy and return capital
- Current geopolitical environment and escalation of worldwide events
- Supply/demand imbalance in private credit and private equity due to the high amount of capital raised over the last five years
- Continued market pressure resulting in loosening of terms on pricing, leverage, and documentation
- Repricing requests in the private credit market
- Macroeconomic development—in particular, U.S. domestic economic growth
- Fed signaling on future policy decisions
- Default rates
- Increase in new middle market/lower middle market buyout activity, driving competition and a return of the “house lender” dynamic to win deals
- Private equity seeking exits for portfolio companies
- Potential tax reforms

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



Senior Secured Credit Facilities
Preferred Equity

2024



Senior Secured Credit Facility

2024




Senior Secured Credit Facilities

2024



Senior Secured Credit Facility

2024



Debt Placement

2023




Senior Secured Credit Facility

2023



Unitranche Credit Facility

2023



Senior Secured Credit Facility
Preferred Equity

2023



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
- Turnkey financing teams able to deliver unparalleled speed, execution, and certainty to close

With more than 255 senior bankers around the world, William Blair has completed more than 1,440 advisory and financing transactions totaling over \$785 billion in value for our clients.*

Leveraged Finance Group Leadership

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* In the past five years as of September 30, 2024

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