William Blair

Q4 2024

Opportunistic Activity Defies Gravity

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Analysis of Q4 Trends in Leveraged Finance

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

Leveraged Finance Newsletter

Opportunistic Activity Defies Gravity

Opportunistic activity continued to soar in the fourth quarter, closing out 2024 with a bang as borrowers capitalized on tightening spreads.

The leveraged loan market returned to the red carpet after a 2024 box office performance worthy of a champagne toast. The year started full throttle with record setting institutional loan volume during the first six months and wrapped up miles ahead of 2023. The combination of rate cuts, a more stabilized economic outlook, and robust investor demand helped close out the busiest year since 2021. While opportunistic activity stole the show last year, investors are hopeful that a yellow brick road will lead to M&A opportunities reclaiming the spotlight in 2025.

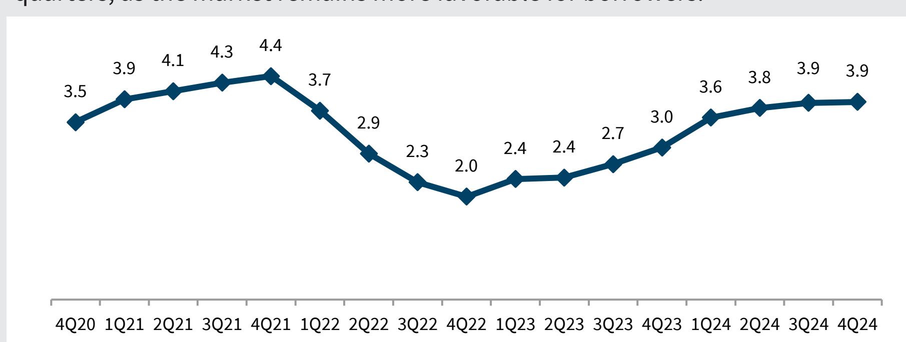
Total fourth-quarter U.S. institutional loan volume of $97.9 billion finished below the prior quarter total of $114.2 billion. However, the fourth-quarter dip is typical given the holiday slowdown in addition to the pause leading up to the presidential election. Even with this decline, fourth-quarter volume was more than 75% higher than the previous year and was the second-highest fourth-quarter volume since 2017, only behind 2021. The strong finish brought total institutional loan volume to $501.2 billion for the year, which is more than 2022 and 2023 combined. Additionally, including repricings and extensions done via an amendment, 2024 institutional loan volume climbed to almost $1.4 trillion. That is by far the highest number on record and is more than 40% higher than the previous record of $972 billion in 2017.

The market continued to roll in borrower-friendly territory as William Blair's Leveraged Lending Index held steady at 3.9 (scale of 1 to 5 with 5 being the most borrower-friendly). While the fourth quarter came up just short of the 4.0 mark, it extended the streak of consecutive quarters without a decline to 8. Lender responses to William Blair's Leveraged Finance Survey confirmed this dynamic: 77% of respondents indicated they made borrower-friendly concessions they historically would not have to win a deal. This was the highest percentage ever recorded with reduced rates and/or fees being the most prominent concession.

This borrower-friendly sentiment was evident in the $48.1 billion of refinancing activity in Q4, representing nearly half of new issue loan volume during the quarter. These factors also sparked an unprecedented wave of repricing activity, with fourth quarter amendment-driven repricing volume reaching $279 billion—the highest ever recorded. The year-end surge pushed 2024 repricing volume to $757

Borrower-Friendly Market Persists Heading into 2025

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 remained at 3.9 after climbing seven consecutive quarters, as the market remains more favorable for borrowers.



Source: William Blair Leveraged Finance Survey.

billion, shattering the previous record of $432 billion set in 2017, and was more than ten times the $72 billion of repricings completed in 2023. To put that total into further perspective, the total amount of all outstanding syndicated senior loans at the beginning of the year was $1.4 trillion based on the Morningstar LSTA U.S. Leveraged Loan Index. That means that more than half of the asset class was repriced in 2024.

New issue spreads for single-B-rated borrowers decreased 20 basis points to 354 basis points in the fourth quarter. This is lowest level recorded in over 15 years and 151 basis points lower than the peak in 3Q22. Furthermore, over 70% of respondents to William Blair's Leveraged Finance Survey indicated pricing for their primary debt offering decreased in the fourth quarter, with nearly 40% of respondents expecting this trend to continue in 2025.

Dividend recapitalizations also had a blockbuster year with total volume reaching $81.3 billion. Activity slowed in the fourth quarter to $13.1 billion compared to $27.6 billion the previous quarter; however, total 2024 volume was the second highest recording ever, only behind 2021. This was fueled by the shortage of M&A opportunities and sponsors looking for ways to return capital back to LPs without a full exit or mark on valuation.

Institutional loan volume tied to M&A decreased 39% to $28.0 billion in the fourth quarter and was the second lowest quarterly tally for 2024. The decrease was primarily driven by slower LBO activity, which dropped to $8.0 billion in Q4 compared to $22.1 billion during the prior quarter. Although M&A-related activity slowed to close out the year, total 2024 volume related to M&A increased 87% year-over-year to $131.1 billion.

Investor Liquidity Comes Center Stage

Sponsors have been hesitant to bring portfolio companies to market, with the median holding period for exited investments in 2024 being almost 6 years. These prolonged hold periods have stalled the return of capital to investors. While increased dividend activity in 2024 helped, LPs will be looking for significantly more liquidity in 2025 and beyond.

Furthermore, the maturity wall for private equity funds has been steadily building since 2021 and will soon push sponsors to exit their portfolio companies in order to return capital to investors within their fund lifecycle. Typical buyout funds have a 10-year lifespan with the ability to extend their term for 1-2 years. Over half of all active global PE funds are older than six years and have begun the harvesting stage of their fund cycle. Many sponsors have turned to continuation vehicles for their highest-quality assets; however, private equity funds will need to focus on their exit strategies to avoid hitting a nearing maturity wall.

Coming Attractions for 2025

Last year marked a huge step in the right direction, priming 2025 for further success. Investors are optimistic this year will be a banner year for M&A and that it will step back into the limelight for the first time since 2021. Many are forecasting that 2025 may even be a perfect storm for M&A, driven by several converging factors—elongated sponsor hold periods, mountains of dry powder, and a firm outlook on investor-friendly policies backed by new leadership in Washington. However, with an uptick in M&A activity, refinancings and dividend recap volume would likely lose some steam.

Diving deeper into the outlook for 2025, lenders expect private credit to continue taking share from the broadly syndicated loan market. They also believe the pace of further interest rate cuts, the new administration's economic policies, further geopolitical uncertainty, and a continued supply/demand imbalance will move the needle the most in the leveraged loan market during 2025.

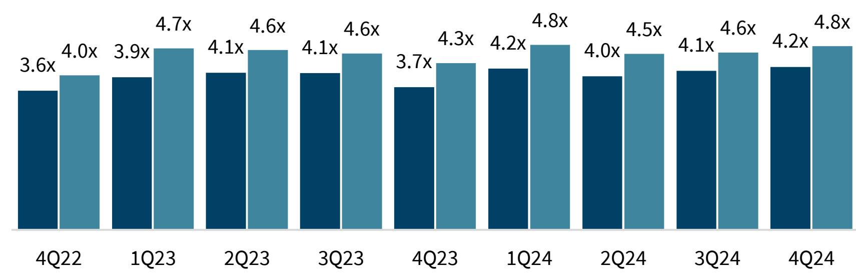
To learn more about these and other trends shaping the leveraged finance market, please don't hesitate to contact us.

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

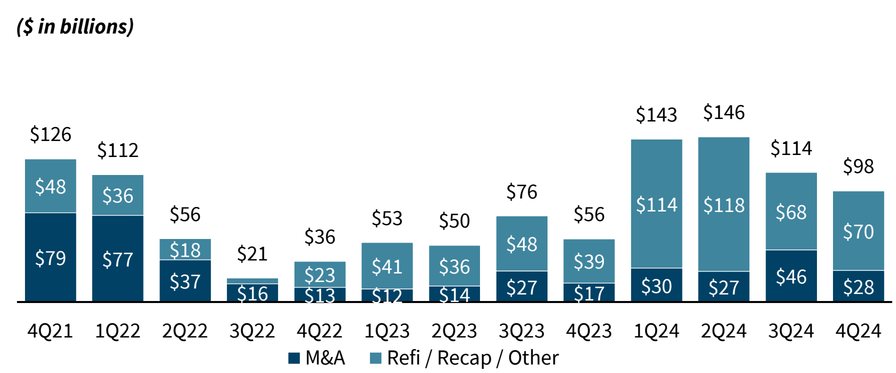
Total leverage continued to increase in Q4, matching LTM highs.



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

Institutional Loan Volume

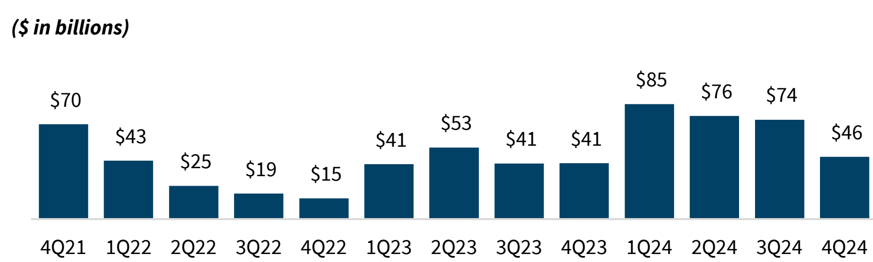
Total institutional loan volume slowed to $98 billion in Q4, driven by a decline in M&A volume. However, total 2024 volume was the highest since 2021.



Source: PitchBook LCD.

High-Yield Bond Volume

High-yield bond volume declined to $46 billion in Q4; however, total 2024 activity was more than 2022 and 2023 combined.



Source: PitchBook LCD.

Note: Based on responses received from William Blair's Leveraged Finance Survey.

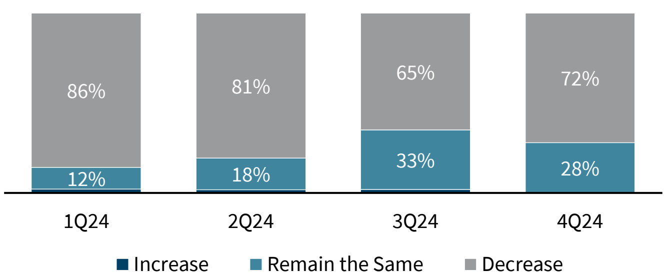
Highlights From William Blair's Q4 2024 Leveraged Finance Survey

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.

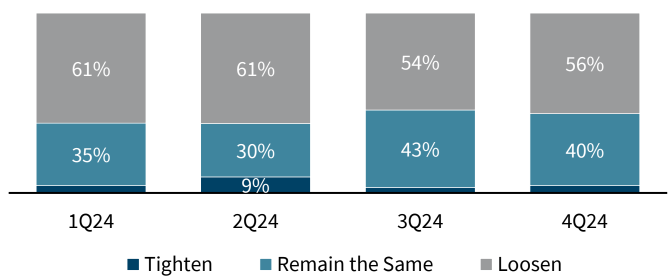
Borrower-Friendly Conditions Remain Present

Borrower-friendly pricing, leverage, and terms continue, as 72% of respondents indicated pricing tightened and 56% of respondents indicated leverage and terms loosened this quarter.

Pricing



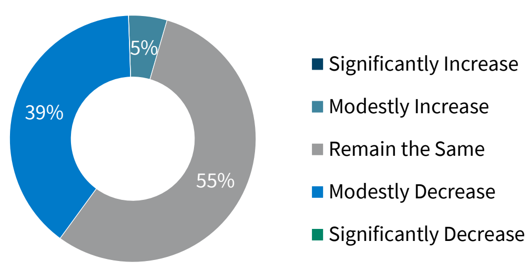
Leverage and Terms



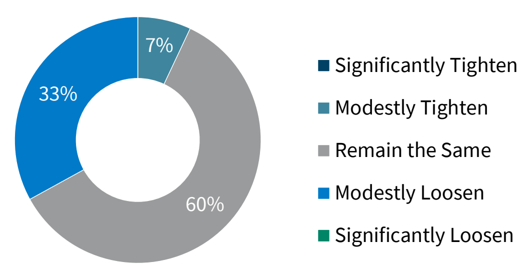
Lending Expectations for 2025

Similarly, survey respondents expect pricing, leverage, and terms to remain in favor of borrowers heading into the new year. While the majority of respondents anticipate pricing, leverage, and terms to remain the same, about a third expect more borrower-friendly terms in 2025 as investor appetite and the need to deploy capital intensify.

Pricing Expectations



Leverage and Terms Expectations

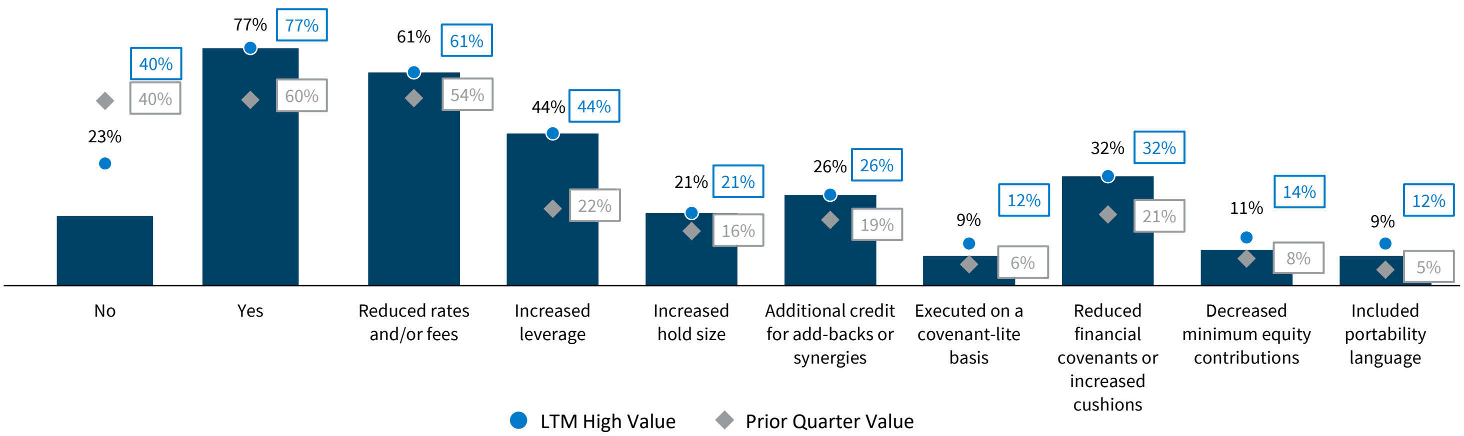


Note: Based on responses received from William Blair's Leveraged Finance Survey.

Lenders Remain Competitive

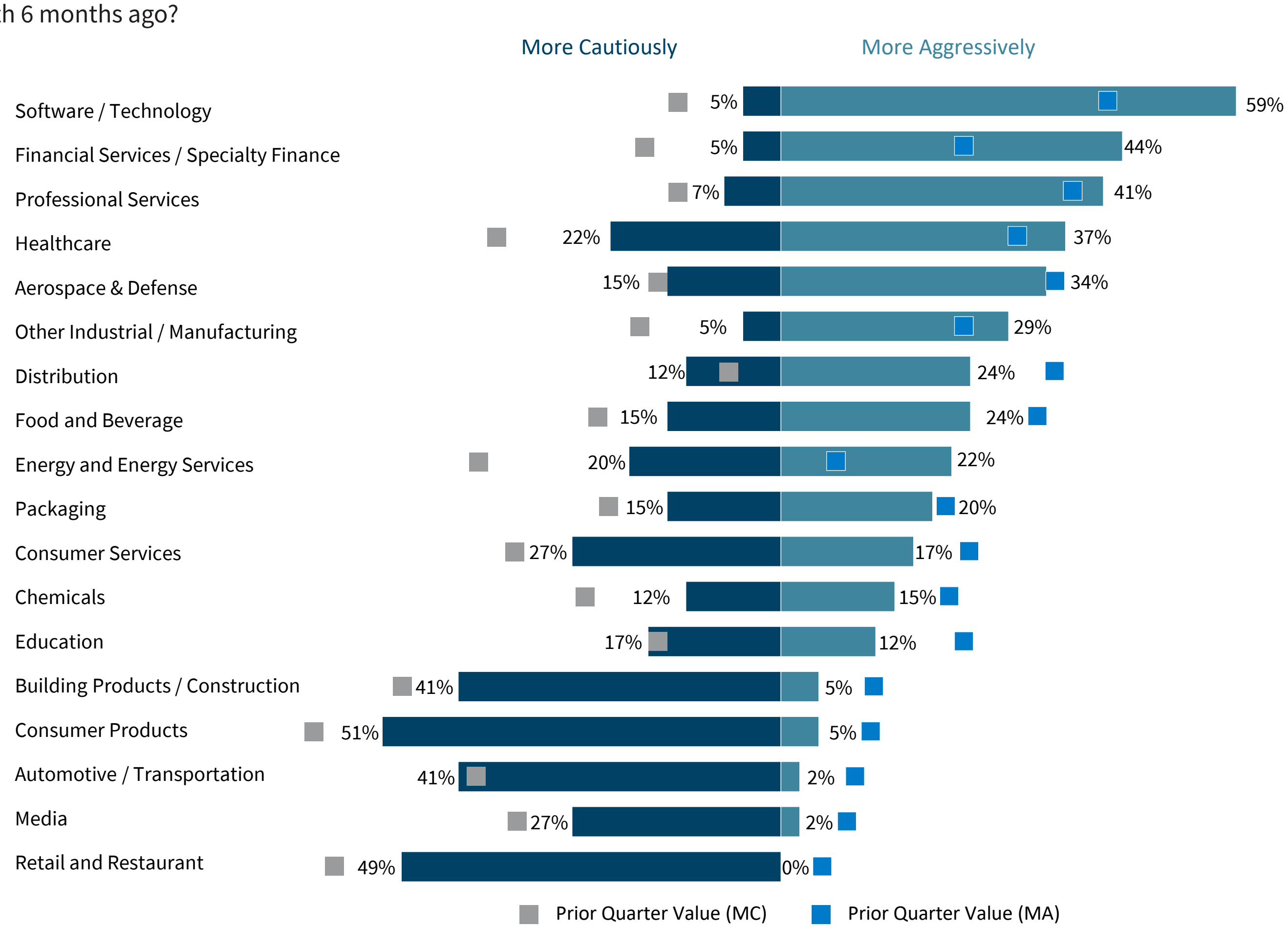
With the lack of new M&A volume and overall limited supply of financing opportunities, lenders remain aggressive, making borrower-friendly concessions to win new deals. Nearly 80% of respondents indicated they made borrower-friendly concessions they historically would not have to win a deal—the highest reading on record.

During 4Q24, did you make borrower-friendly concessions you historically would not have to win a deal? If yes, what were the concessions?



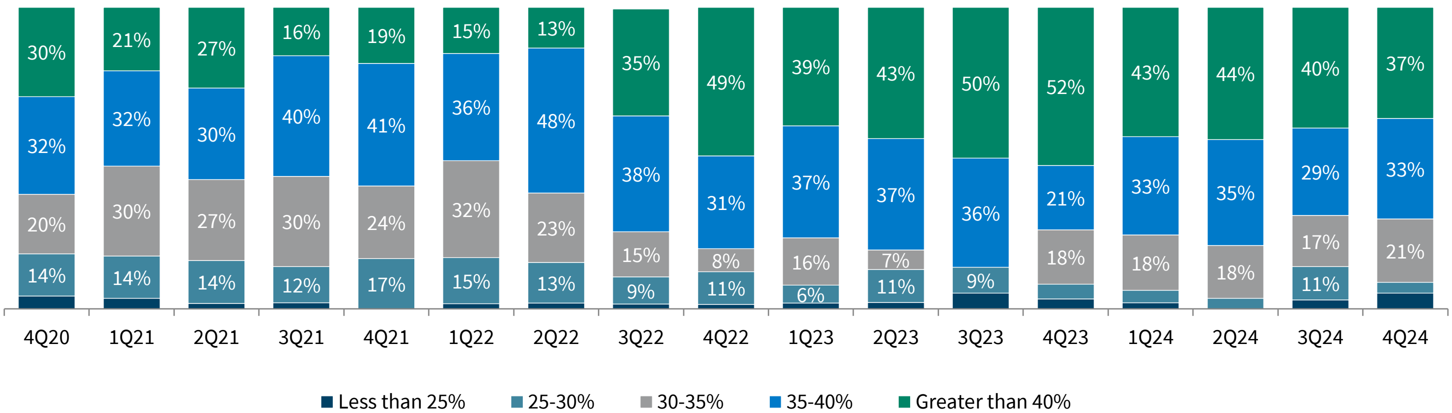
Additional Highlights

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

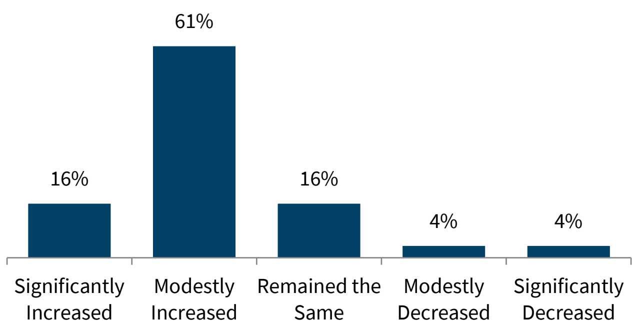


Note: Based on responses received from William Blair's Leveraged Finance Survey.

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

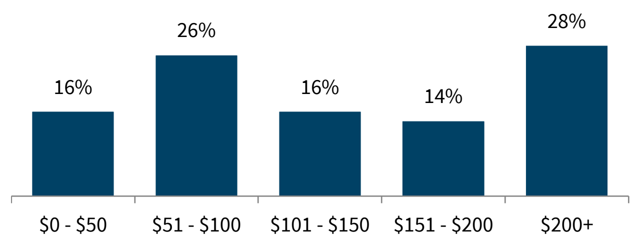


During Q4 2024, how did new-issue loan volume compare to that in the previous six months?

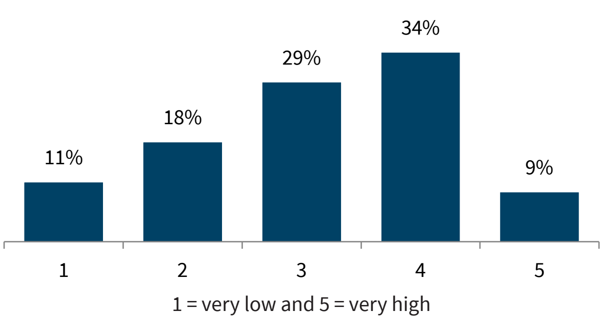


What is your firm's current maximum hold size for a single credit?

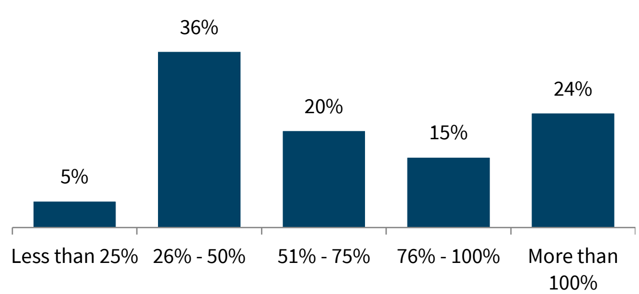
($ in millions)



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

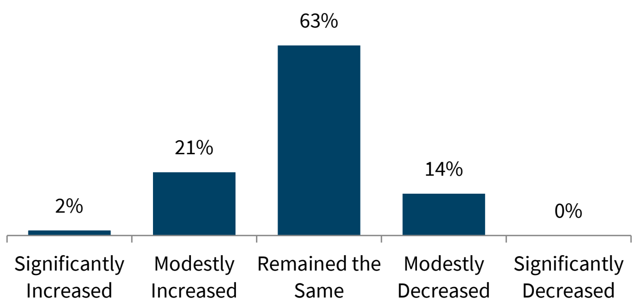


For a dividend recapitalization transaction, what is the maximum percentage of cash equity returned to investors you would be comfortable with?

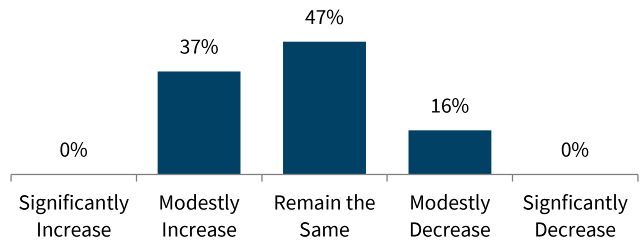


Note: Based on responses received from William Blair's Leveraged Finance Survey.

During Q4 2024, how did default rate activity compare to that in the previous six months?



Looking ahead to 2025, do you expect the level of default rates to …



Looking ahead to 2025, what factors or trends do you expect will have the most significant impact on the leveraged loan market?

- New Trump administration, economic policies, and legislation
- Geopolitics and federal government trade policy regarding tariffs and labor changes
- Ongoing inflation and the Fed's decision on potential interest rate cuts
- Potential for increase in defaults
- The increasing market share of direct lenders
- The acceleration of portfolio churn against the preservation of AUM breeding high competition for deals
- M&A quality and volume driven by exit activity and backlog of transactions
- Consumer sentiment
- Ability of PE funds to exit deals from the '18-'21 vintages (i.e., many have not deleveraged)
- Pace of deployment relative to capital raised
- Dry powder and LP demands for liquidity in both equity and credit
- CLO liability pricing trends

Note: Based on responses received from William Blair's Leveraged Finance Survey.

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

MedVet – Leading Specialty Healthcare for Pets Senior Secured Credit Facilities Preferred Equity 2024	Starrett Senior Secured Credit Facility 2024	Diverzify Senior Secured Credit Facilities 2024
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 Preferred Equity 2023	Cellipont Bioservices Senior Secured Term Loan 2023

William Blair Leveraged Finance by the Numbers

170+
completed leveraged finance transactions since 2016

$22B+
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 255 senior bankers around the world, William Blair has completed more than 1,460 advisory and financing transactions totaling over $810 billion in value for our clients.*

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

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