

Q2 2024

**Refinancings Headline at  
“Loan-a-Palooza”**

**In This Report**

Analysis of Q2 U.S. Institutional  
Loan Volume

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

# Leveraged Finance



## Refinancings Headline at “Loan-a-Palooza”

After a hot start to the year, the leveraged loan market sparks a heat wave just in time for summer as loan volumes climb to near record levels.

What’s not to like about summer? Besides the periodical emergence of cicadas, life is typically good. From soaking in the sun, to the barbecues and fireworks on the Fourth of July, to preparing for Lollapalooza, or even touring the Italian coastline, there is never any shortage of exciting activities in the summer. This year, the leveraged loan market is doing its part to contribute to the excitement, with the second quarter being one of the busiest on record.

After a revitalizing start to the year, the U.S. leveraged loan market continued its strong momentum with \$145.8 billion of institutional loan volume this quarter. This surpassed first-quarter volume of \$143.1 billion and was the busiest quarter since 2021, bringing year-to-date volume to \$288.9 billion. That’s nearly triple the \$102.7 billion total for the same period last year. Refinancings fueled a majority of the volume, accounting for \$94.3 billion, or 65% of this quarter’s total loan issuance. The continued frenzy of refinancings has been driven by pricing contraction across the market as competition for new deals remains intense. As demand heavily outweighs supply,

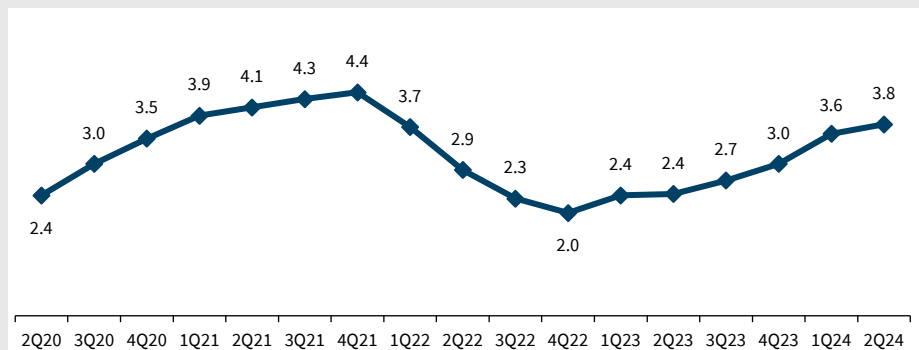
lenders are being forced to concede on pricing and other key terms to win new deals. As a result, borrowers are lining up to replace their existing debt with less expensive loans. Subsequently, William Blair’s Leveraged Lending Index, which measures conditions in leveraged lending markets on a scale of 1 (the most lender-friendly) to 5 (the most borrower-friendly), rose for the sixth consecutive quarter to 3.8. Nearly 70% of respondents to this quarter’s survey also indicated they made borrower-friendly concessions that they historically would not have made to win a new deal, with reduced pricing and increased leverage being the most prominent concessions. Other common concessions were related to reduced covenants or increased cushions and giving additional credit for add-backs and synergies.

### Repricings Topping the Charts

If you include loan activity related to repricings and extensions via an amendment, loan volume has been on a record-setting pace in 2024, totaling \$736.1 billion through June. That total is the highest amount recorded since the global financial crisis and is more than double the volume from 2022 and 2023 combined. As a result, roughly 30% of the entire \$1.4 trillion leveraged loan asset class has been repriced this year. The continued supply and demand imbalance is propelling the repricing mania as investor demand continues to significantly outweigh supply. In addition to suppressed M&A volume, year-to-date middle market and private credit CLO issuance is at an all-time high, fueling investor demand for new loans even further. In addition, as the broadly syndicated

### 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 reached its highest level since 2021 as lender sentiment continues to improve.



## Investors hope for an encore of M&A activity for the remainder of 2024 after dividend recapitalizations draw record crowds

markets opened earlier this year, borrowers gained significant leverage in negotiations with their lenders. If they didn't reprice their existing loans, borrowers could refinance the debt at lower rates through the syndicated market, and with insufficient net loan supply, many lenders chose to reprice their deals and keep their portfolios intact.

### **Dividend Recapitalizations Draw Record Crowds**

It was another strong quarter for transactions related to dividend recapitalizations, accounting for \$15.7 billion, or 11% of total institutional loan volume. Although that is slightly below the prior quarter, year-to-date volume of \$40.5 billion is the highest total on record. While limited M&A activity has helped bring lenders to the table for dividend recaps, it has also been the primary driver on the supply side, as sponsors look for ways to return capital to their LPs. That said, not all lenders have jumped on the dividend bandwagon just yet. 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), 32% of this quarter's survey respondents fell in the 4-5 range.

### **When Will the Fed Cut Interest Rates?**

Since 2022, the Fed has increased the Federal Funds Rate 11 times. Many investors began the year anticipating multiple rate cuts in 2024, however that expectation has since dwindled after rates were left unchanged during the first four Fed meetings of the year. While spreads are at multiyear lows, the all-in cost of debt is still particularly high when accounting for the base rate component of the interest rate. The all-in yield for single-B new issuances (includes the spread, base rate, upfront fee amortized over three years, interest rate floors, and CSAs) was 9.11% at the end of June 2024. While this is below the 10.50% peak in October 2023, it's still considerably higher than the 2010-2022 average of 6.02%. This higher overall cost of debt has contributed to the slower M&A

environment over the last two years, but investors remain hopeful that rate cuts will lead to an abundance of new M&A opportunities.

### **Outlook for the Remainder of 2024**

For the remainder of 2024, lenders pointed to interest rates and the Fed's decision on rate cuts, the U.S. Presidential Election, the supply and demand imbalance, M&A activity, and increased competition among lenders as factors that they believe will have the most significant impact on the leveraged loan market. Nonetheless, with market conditions being the most borrower-friendly in years and overall sentiment continuing to improve, investors anticipate that conditions will become even more borrower-friendly in the second half of the year. Will William Blair's Leveraged Lending Index climb above 4.0 this year? Only time will tell.

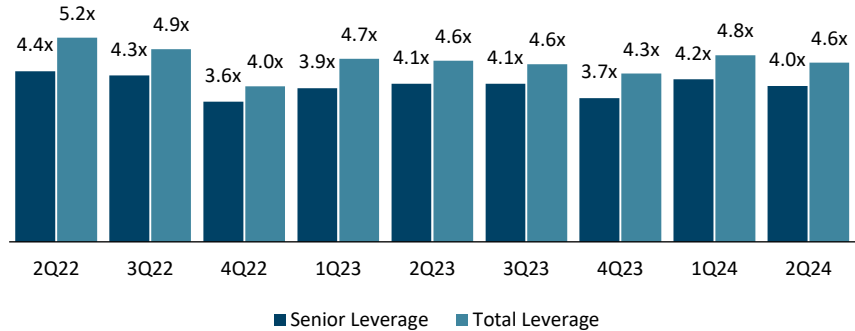
To learn more about these and other trends shaping the leveraged finance market, please don't hesitate to contact us.

## 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

After climbing to LTM highs in Q1, leverage levels retracted modestly in Q2.

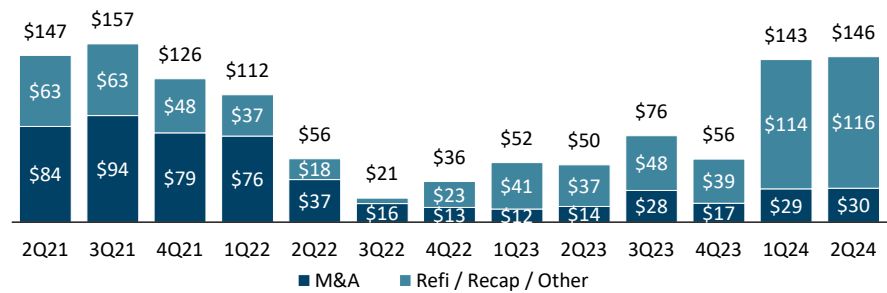


Source: LCD, a part of PitchBook. Represents the rolling 90-day average leverage multiples from all loan activity

### Institutional Loan Volume

Institutional loan volume increased to \$146 billion in Q2, which was the highest amount recorded in eleven quarters as refinancing activity continues at record pace.

(\$ in billions)

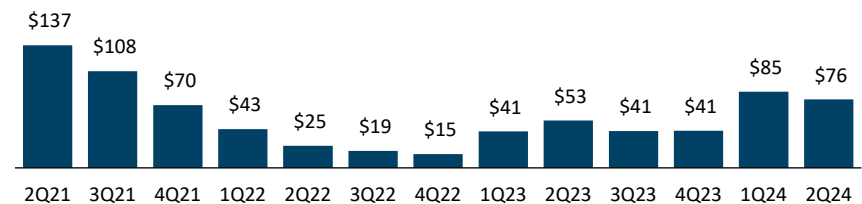


Source: LCD, a part of Pitchbook.

### High-Yield Bond Volume

High-yield bond volumes declined slightly in Q2. However, activity is significantly above 2022 and 2023 levels and year-to-date volume was the highest amount recorded since 2021.

(\$ in billions)



Source: LCD, a part of Pitchbook

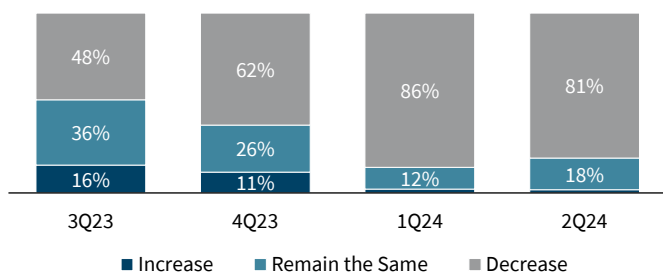
## Highlights From William Blair’s Q2 2024 Leveraged Finance Survey

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.

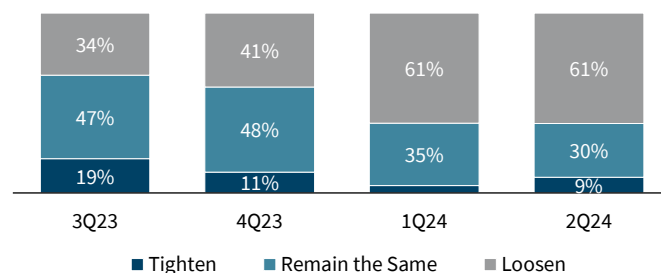
### Borrower-Friendly Conditions Maintain Momentum

Borrower-friendly pricing, leverage, and terms continue as over 80% of respondents indicated pricing tightened and over 60% of respondents indicated leverage and terms loosened this quarter.

#### Pricing



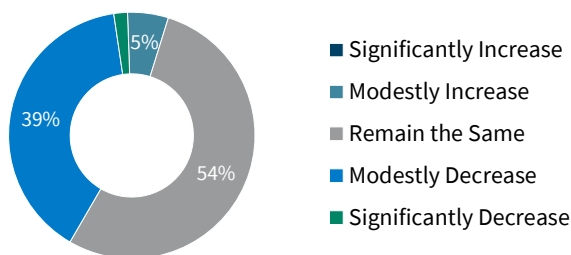
#### Leverage and Terms



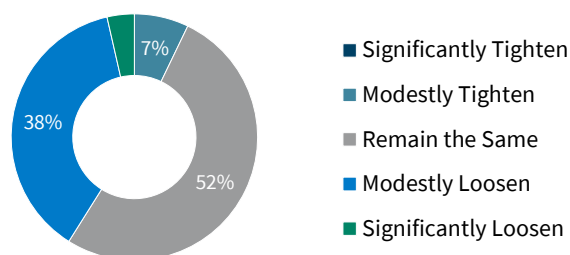
### Lending Expectations for 2024

Similarly, survey respondents expect pricing, leverage, and terms to remain in favor of borrowers for the remainder of 2024. Over 40% of respondents expect pricing to decrease and leverage and terms to loosen for the remainder of 2024 as investor appetite and competition persist.

#### Pricing Expectations



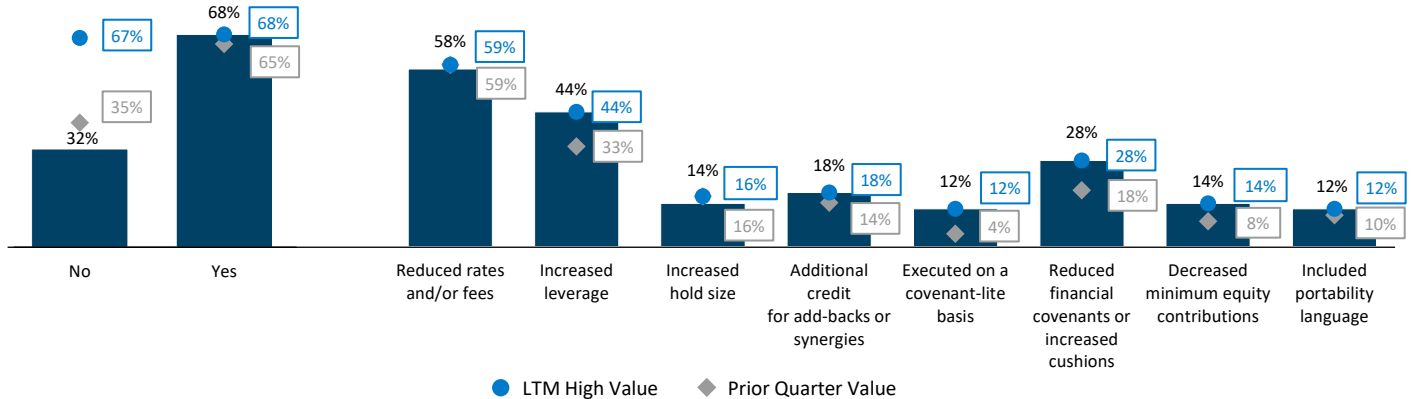
#### Leverage and Terms Expectations



## Lenders Remain Competitive

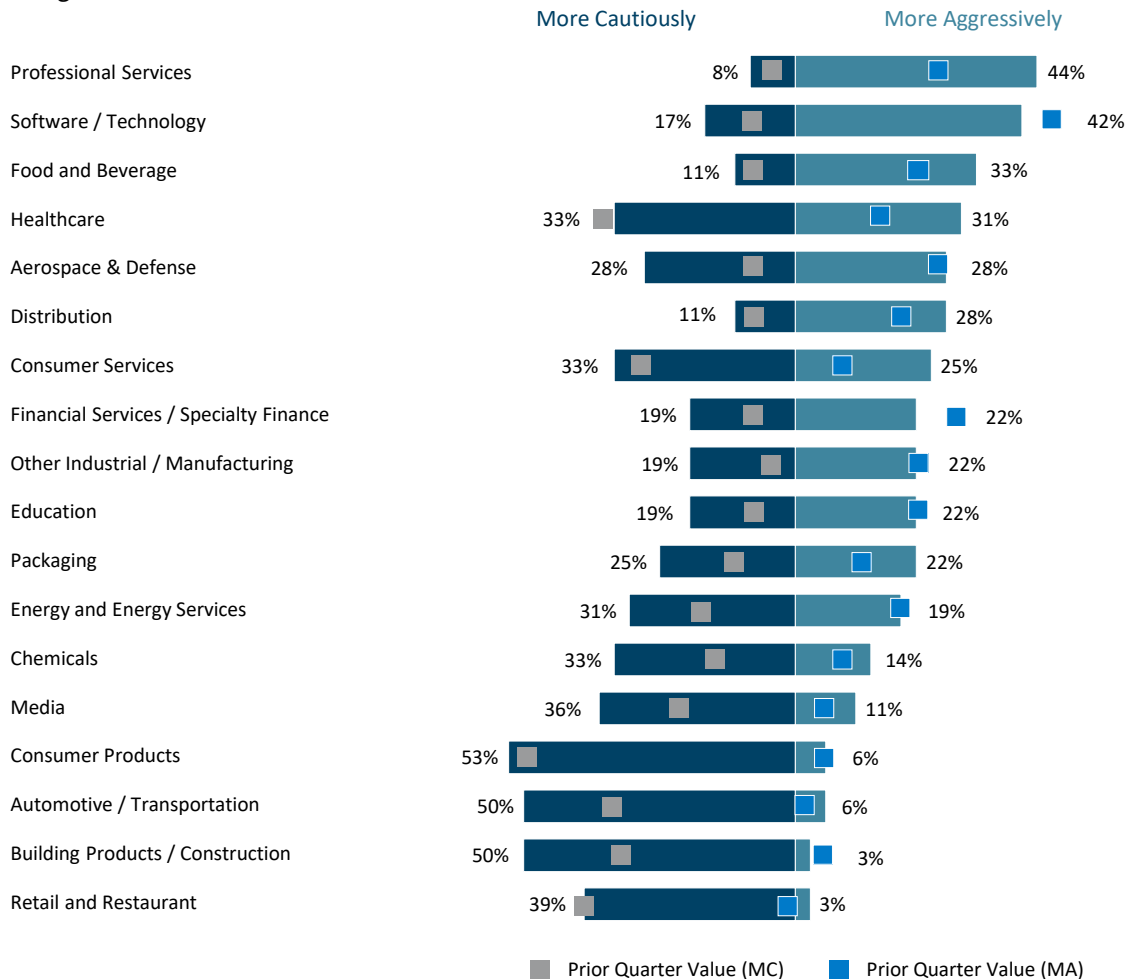
As investor demand continues to outweigh supply, lenders are forced to make borrower-friendly concessions to win new deals. Consequently, concessions in nearly every category reached LTM highs this quarter.

### During 2Q24, did you make borrower-friendly concessions you historically would not have to win a deal? If yes, what were the concessions?

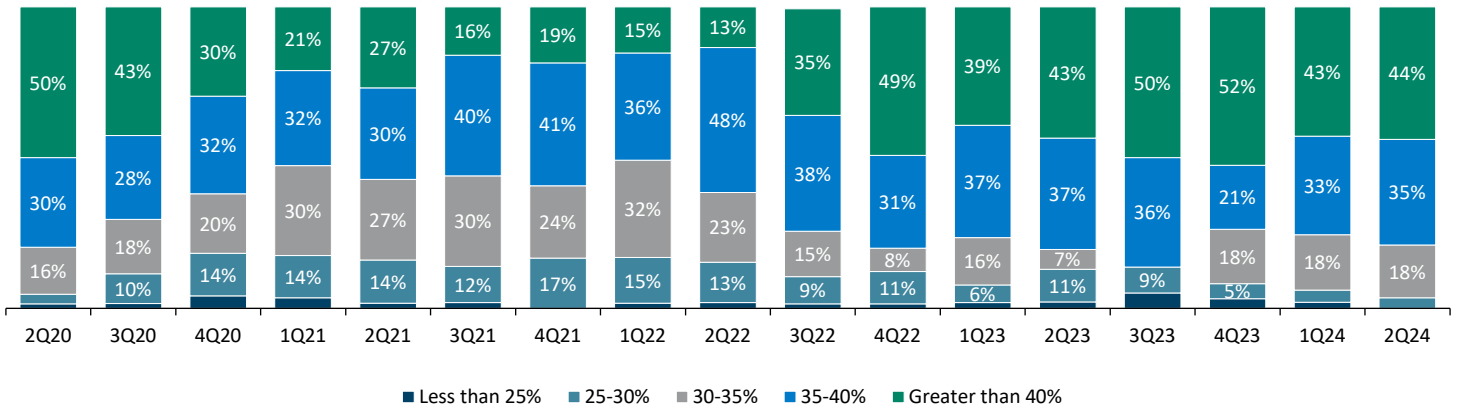


## Additional Highlights

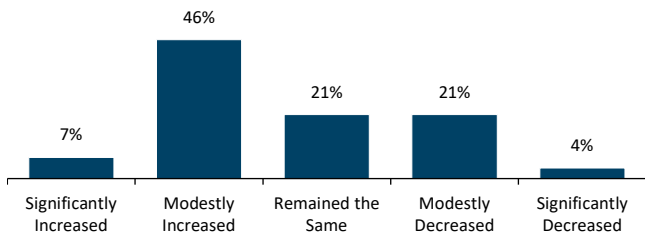
Are there any specific sectors or industries for which your firm is proceeding more aggressively or cautiously today compared with six months ago?



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

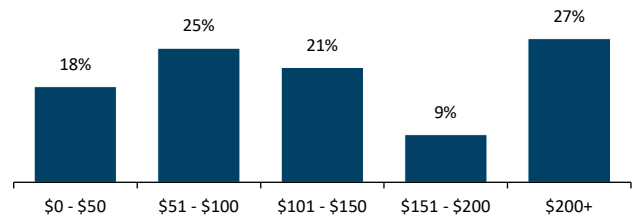


**During Q2 2024, how did new-issue loan volume compare to that in the previous six months?**

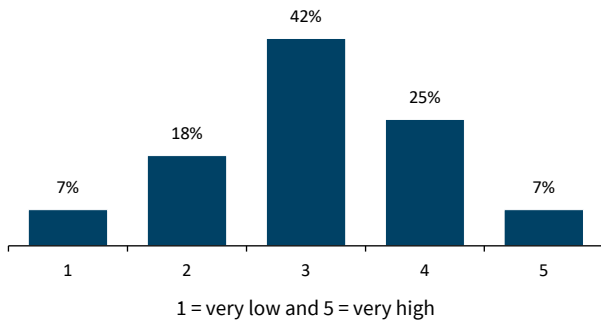


**What is your firm's current maximum hold size for a single credit?**

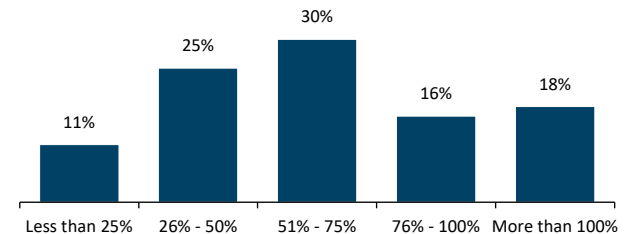
(\$ in millions)



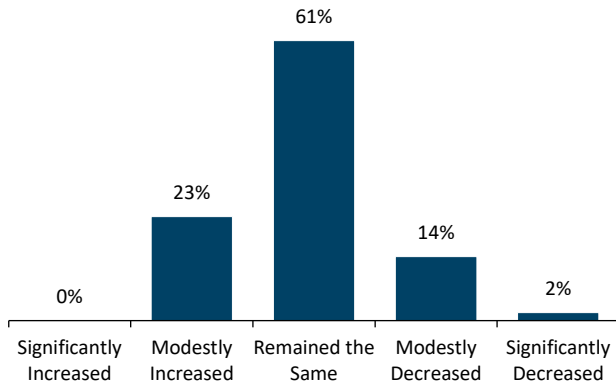
**What is your appetite level for supporting a dividend recapitalization transaction over the next six months?**



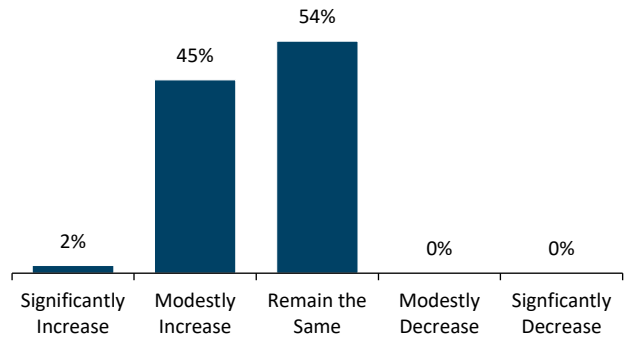
**For a dividend recapitalization transaction, what is the maximum percentage of cash equity returned to investors you would be comfortable with?**



**During Q2 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 pace of rate cuts
- Looming maturities of COVID-era LBOs which require refinancings
- Continued borrower-friendly pressure on rates and terms due to excess capital in the marketplace
- Emergence of repricings in the private credit market
- U.S. Presidential Election
- Increased leverage due to lack of activity
- M&A market – if activity increases, the supply / demand imbalance in direct lending will even out
- Sustained performance of the U.S. economy and stability of capital markets
- Geopolitical risk
- Valuation gap among sponsors limiting M&A activity in a higher-for-longer environment
- Further deterioration of legal documents
- Macroeconomic risks including the potential of weakening jobs data and a slowing economy
- Pressure on mid-level banks and the effect of interest rates on bank loan portfolios
- Excess of capital leading to extremely competitive dynamics for lenders, with concessions on terms and pricing continuing to be needed to win new deals
- 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**



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
- 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 1,440 advisory and financing transactions totaling over \$770 billion in value for our clients.\*

### **Leveraged Finance Group Leadership**

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\* In the past five years as of June 30, 2024

**Disclosure**

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