Mesirow

Debt Advisory Market Update

Private debt market update

While the markets continue to function (albeit at higher pricing and moderately worse terms), summer vacations were in full effect as the end of the summer saw a slowdown across the board.

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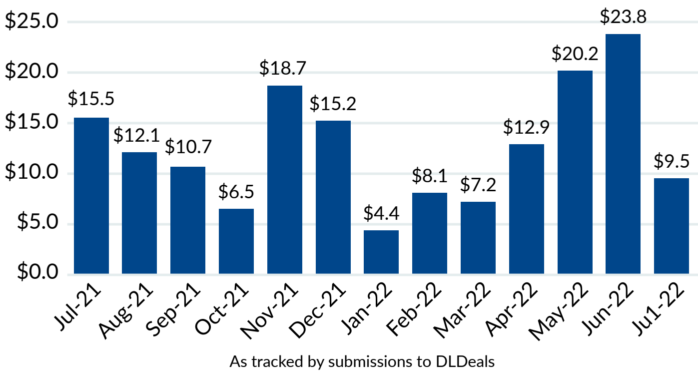
Commentary

- Rising rates and a summer slowdown made July the lowest direct lending volume month since March with $9.5 billion of total deal volume
  - Only 28% was for true new issue (LBO or M&A), the lowest percentage since February
  - August was presumably similarly slow, although data has yet to be released
- While it's yet another datapoint pointing towards a slower economy, very few lenders I speak with remain overly worried
  - Twin Brook, for example, has already announced 5 deals in September after completing 8 transactions in August
- It is important to note that most of the slowdown has occurred at the higher end of the market as some mega-funds have cut back their ticket sizes
  - There were no jumbo deals ($1 billion+) closed in July, although there were 2 in August (Avalara and the analytic solutions segment of PerkinElmer)
    - Owl Rock, Apollo, HPS and others remain active on this front, although at a slower pace than over the past few years
  - Lenders that play down market seem to be offering firmer packages given smaller fluctuations in inflows from the pension funds and other institutional investors that comprise their LP base

Source: DLDeals and Mesirow.

CHART 1: **MONTHLY PRIVATE LOAN ORIGINATION VOLUME**

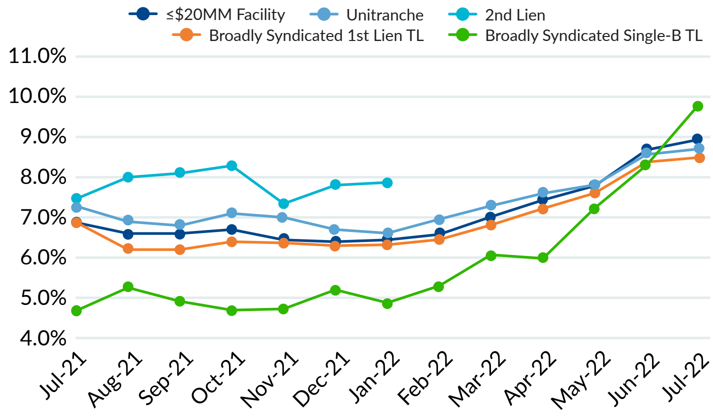
($ billions)



Sources: DLD Private Data.

CHART 2: **PRIVATE VS. LIQUID DEBT**

Using 3M LIBOR Rate



Sources: DLD Private Data.

Financing perspectives: Private credit market environment

Current conditions

PRICING

- Average unitranche pricing has crept up into the low-L+600s with the average lower middle market transaction at S+608 in July from S+600 in June and S+583 in May
- 1% SOFR floor and 2% upfront remains standard, although lenders are indicating they are pitching new business at 2.5% upfront

LEVERAGE

- 3x–5x leverage remains standard
- Average LBO leverage, however, in July ticked down to 4.0x from 4.2x in June; this is down from 5.2x in February
- The lower middle market (less than $20MM of EBITDA) has seen a much larger decrease than larger credits after peaking near 5.5x in February

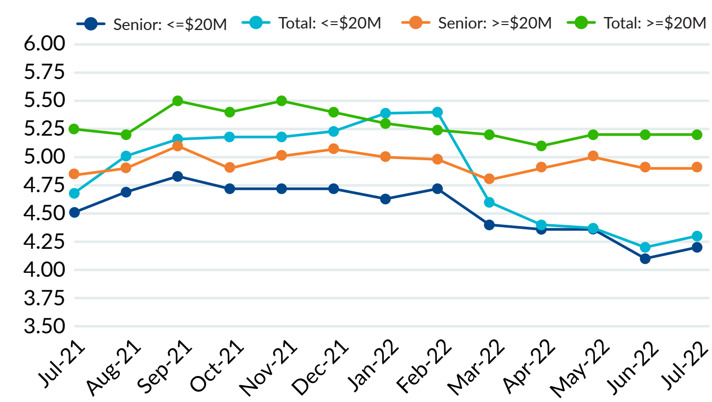
COVENANTS

- Often two financial covenants with cushions limited to 25–30%

Other notes

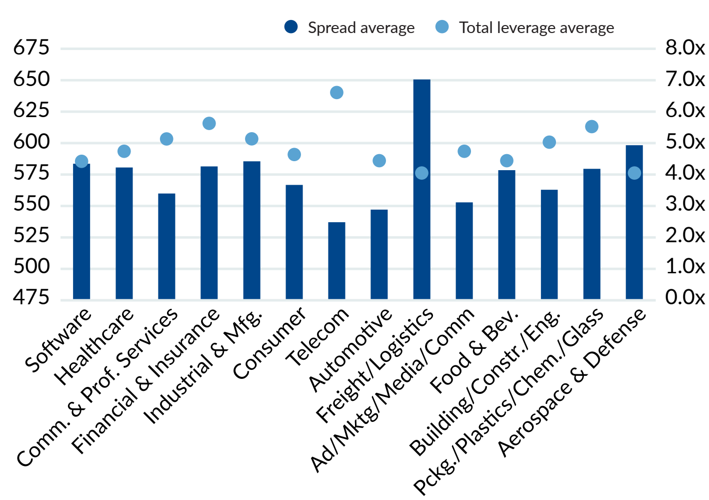
- Lenders are less willing to accept EBITDA add-backs they may have previously been fine with
  - Readily identifiable cost synergies to be achieved in 12–18 months remain acceptable, but longer dated cost synergies or any revenue synergies remain highly scrutinized
- Delayed draw terms loans continue to be available
- The public markets remain very choppy as a result of several hung underwrites; yields shot up to 9.8% from 8.3% on single-B broadly syndicated paper

CHART 3: **LEVERAGE: <=$20M VERSUS >=$20M EBITDA**



Sources: DLD Private Data.

CHART 4: **AVERAGE SPREAD AND TOTAL LEVERAGE BY INDUSTRY: 1H2022**



Sources: DLD Private Data.

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About Mesirow

Mesirow is an independent, employee-owned financial services firm founded in 1937. Headquartered in Chicago, with locations around the world, we serve clients through a personal, custom approach to reaching financial goals and acting as a force for social good. With capabilities spanning Global Investment Management, Capital Markets & Investment Banking, and Advisory Services, we invest in what matters: our clients, our communities and our culture. To learn more, visit mesirow.com and follow us on LinkedIn.

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