Debt Advisory Market Update

Private debt market update

September was the worst month in recent history for the loan market as lenders continue to struggle with inflation and uncertainty.

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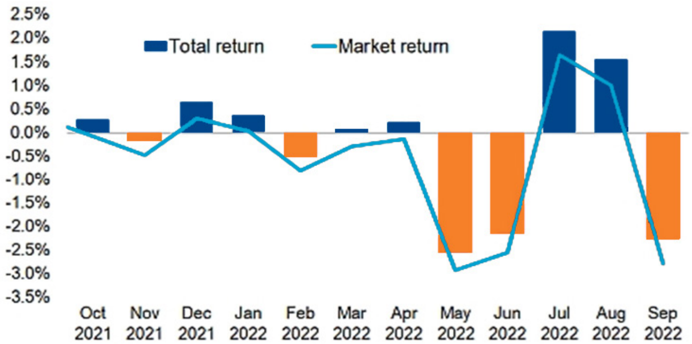
Commentary

- Broadly syndicated leveraged loans lost 2.27% in September, their worst performance since the Great Recession
  - Some of this is simply fear-driven trading volatility that will have less of an effect on the private markets, but it is indicative of the current mindset of the lending community
  - For the year loans have lost 3.25%; while this is disappointing, the loan market has significantly outperformed both the bond market (-14%) and equities (-25%), a testament to its stability in volatile markets
  - As is usually the case in volatile markets, larger and higher-rated credits saw significantly less selling
- The primary markets didn't prove much better with global M&A volume sinking to a decade low $642 billion in Q3 and US M&A volume declining to $278 billion; both are down over 40% from Q2
  - Similarly loan issuance posted its lowest quarterly volume since Q4 2009
- Arrangers in the broadly syndicated market continue to take their lumps most recently on the $16.5 billion LBO of Citrix
  - The $4.55 billion TLB for the LBO of Citrix pricing at 91 cents on the dollar
  - The financing also included a $4 billion secured notes offering priced at 83.561 to yield 10% and a $3.95 billion 2nd Lien bridge
  - Collectively arrangers lost over $500 million just on the TLB and bonds given they owned the debt in the mid-90s

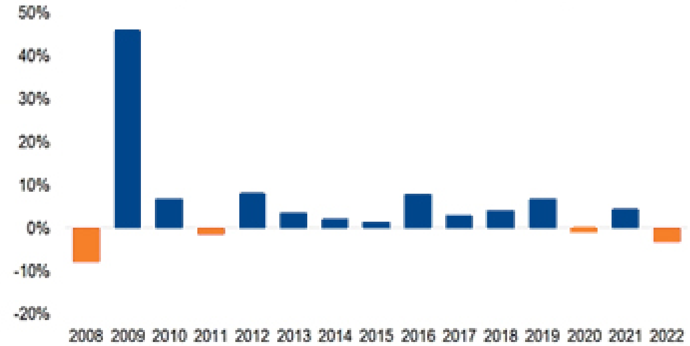
Source: DLDeals and Mesirow.

CHART 1: **US LEVERAGED LOAN RETURNS, MONTHLY**



Data through September 30, 2022. | Sources: Leveraged Commentary & Data (LCD); Morningstar LSTA US LL Index (TR USD vs. PR USD)

CHART 2: **MORNINGSTAR LSTA US LLI RETURNS, JANUARY–SEPTEMBER**



Data through September 30, 2022. | Sources: Leveraged Commentary & Data (LCD); Morningstar LSTA US LL Index (TR USD)

Financing perspectives: Private credit market environment

Current conditions

VOLUME

- Volume in Q3 was the lowest since the great recession with deals in out of favor sectors being shelved

PRICING

- Average unitranche pricing continues to creep up and is currently in the mid-to-high L+600s; with that said there is significant bifurcation with many troubled credits not being able to print at any pricing level

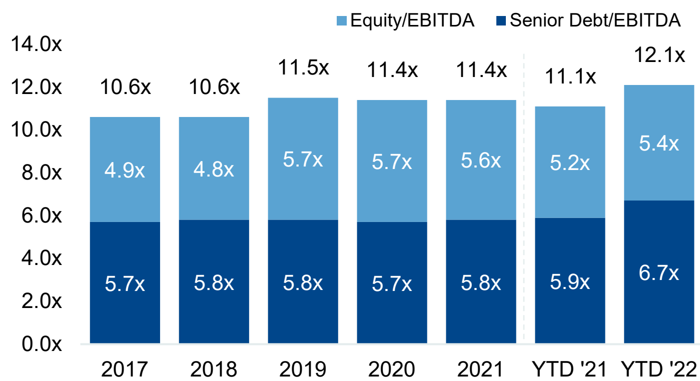
LEVERAGE

- Average LBO leverage, continued to tick down, now below 4.0x 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

Other notes

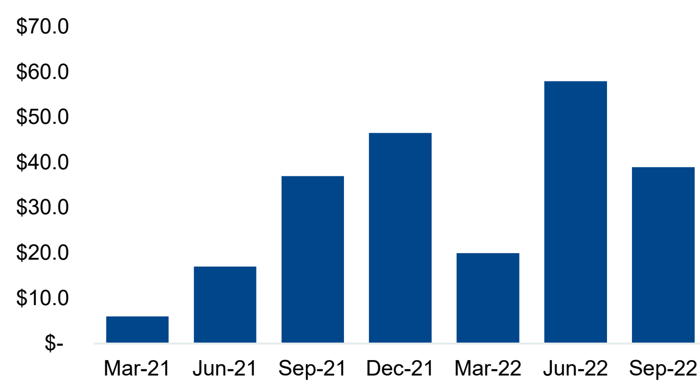
- Less important than specific terms is if a deal is financeable; lenders continue to pile into high quality deals, but deals in out of favor industries or for significantly troubled credits are getting shelved
- Several lenders continue to put money into opportunistic transactions such as dividend recaps with the thought that they'd rather put on a little more leverage on a good company than a more conservative structure on a less viable entity

CHART 3: **AVERAGE PURCHASE PRICE MULTIPLES – ALL LBOs**



Source: Leveraged Commentary & Data (LCD).

CHART 4: **MONTHLY PRIVATE LOAN ORIGINATION VOLUME**



Sources: DLD Private Data.

Source: DLDeals and Mesirow.

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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