Mesirow

Debt Advisory Market Update

Private debt market update

Choppy market conditions are forcing borrowers to get creative on their financings.

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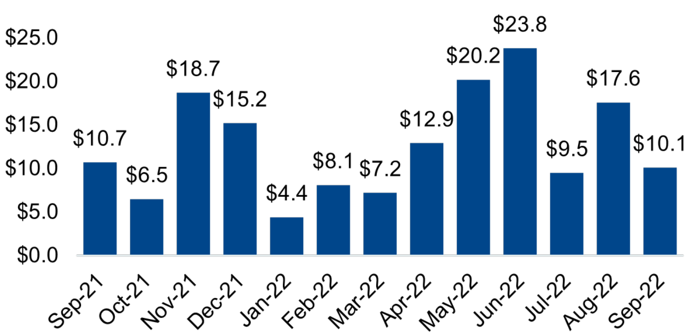
Commentary

- While market conditions remain choppy, deals continue to get completed especially in the private debt markets
  - Deal volume in Q3 was $39 billion, down from $57 billion in Q2, but in line with 3Q'21's $38.5 billion and ahead of the $38 billion completed in the broadly syndicated markets (leveraged loans and high yield bonds combined)[1]
    - The public markets, on the other hand, had amongst their worst quarters since the Credit Crisis with $16.9 billion of high yield bonds and $21.4 billion of leveraged loans closing down 62% and 86% respectively from Q2'22
    - With the appetite of underwriting banks significantly lower the private markets look to continue to steal market share
    - Additionally the private markets remain better suited to whether a downturn as they are less susceptible to the volatility of the public markets and have limited exposure to capital charges and forced liquidations
  - Fundraising remains active, albeit well below 2021's record; managers closed $18.5 billion in Q3'22, down from $19.3 billion in Q2'22; most of this money is going to larger funds, as there were fewer total funds closed

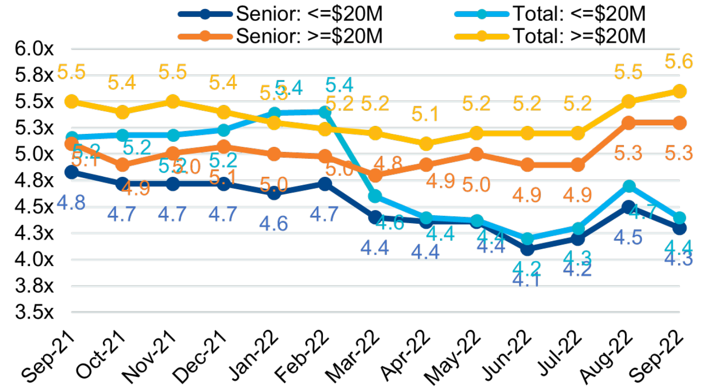
1. Given the nature of the private debt market many more deals get completed than publicly reported | Source: DLDeals and Mesirow.

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



Data through September 30, 2022. | As tracked by submissions to DLDeals. | Geography: U.S.

CHART 2: **LEVERAGE: <=$20M VERSUS >=$20M EBITDA**



Data through September 30, 2022. | Sources: DLD Private Data. | Geography: U.S.

Financing perspectives: Private credit market environment

Current conditions

PRICING

- While spreads continue to climb, it is the underlying rate (SOFR or LIBOR) that remains the largest portion of rate increases; 1-month SOFR is now ~3.75% from ~0% in January
- Since January credit spreads have only increased by 50–100 bps in the private markets (to S+600–700) and 100–150 bps in the broadly syndicated markets (to S+500–600)
- All-in rates have now climbed over 10% on average
- The forward curve indicates we are in for an additional 2.25% of rate hikes through Q1'23

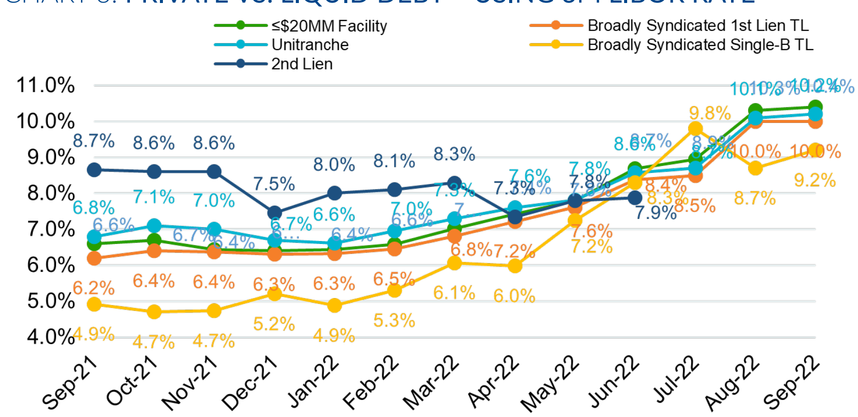
LEVERAGE

- Leverage continues to dip ending Q2 at ~5.5x for middle market LBO unitranches from 6x earlier this year
- This is ~0.5x higher than bifurcated deals completed on a senior + junior basis

COVENANTS

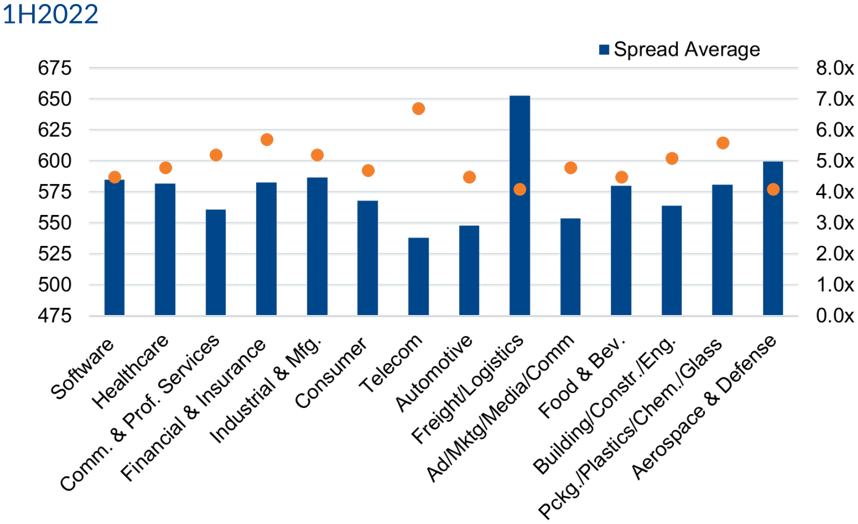
- While covenants haven't moved significantly, lenders are more prudent on what they will accept as EBITDA add-backs

CHART 3: **PRIVATE VS. LIQUID DEBT – USING 3M LIBOR RATE**



Source: DLD Private Data | Geography: U.S.

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



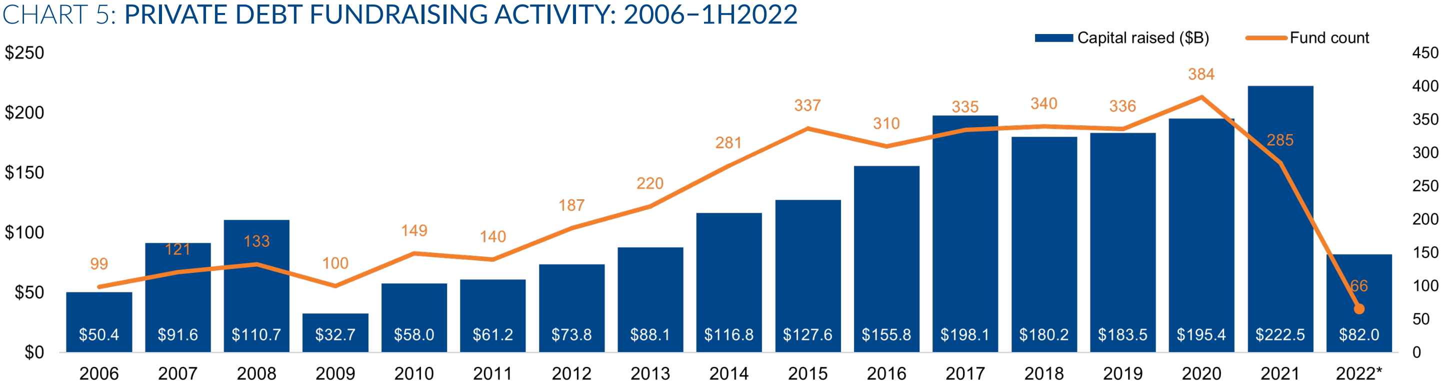
Source: DLD Private Data | Geography: U.S.

Source: DLDeals and Mesirow.

Other notes

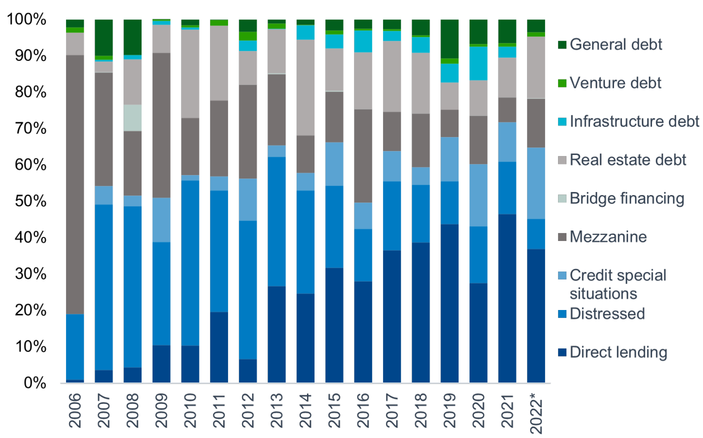
- It should be noted that mezz lenders continue to lend on a fixed rate basis that hasn't moved significantly so far this year (12-14% on average).
  - This is a boon to borrowers and lenders a like as mezz lenders haven't seen much volume in recent years, while borrowers take advantage of the fixed rates in a rising rate environment

CHART 5: PRIVATE DEBT FUNDRAISING ACTIVITY: 2006–1H2022



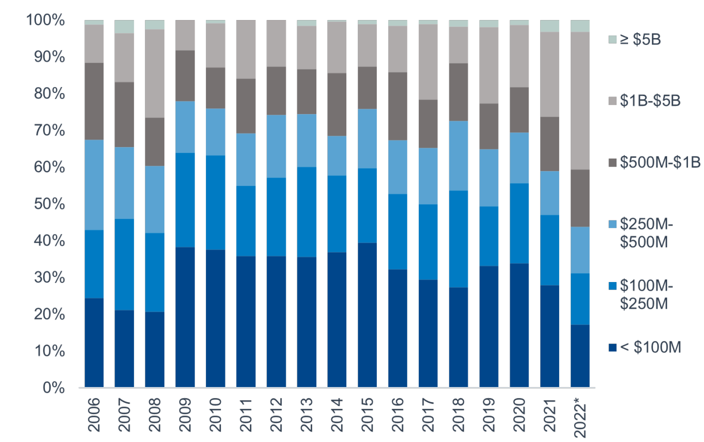
Source: Pitchbook. | Geography: Global

CHART 6: PRIVATE DEBT FUNDRAISING BY STRATEGIES: 2006–1H2022



Source: Pitchbook. | Geography: Global.

CHART 7: PRIVATE DEBT FUNDRAISING BY FUND SIZE: 2006–1H2022



Source: Pitchbook. | Geography: Global.

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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