



DEBT MARKET UPDATE

Q3 2022

Total U.S. leveraged lending during the first half of 2022 has experienced heightened volatility given global economic uncertainty, continued inflationary pressures and greater geopolitical risk. According to Debtwire, total leveraged loan volume declined 23 percent compared to the prior year to approximately \$612 billion and institutional leveraged loan volume declined 62 percent compared to the prior year period to approximately \$200 billion. Institutional refinancing and repricing volume was hit particularly hard as the Federal Reserve ended its stimulus programs and rising interest rates created significant market uncertainty. Instead, borrowers utilized revolvers and asset backed facilities which helped to offset some of the institutional loan volume decline.

The M&A market faced similar headwinds and deal volume decreased 14 percent compared to the prior year period to more than \$989 billion through June 2022, according to PitchBook. While previously negotiated deals closed, announced activity diminished due to market uncertainties. The M&A market outlook for the second half of 2022 and 2023 is uncertain, and valuations appear to have peaked.

The economy faces uncertainties given recent data points. The U.S. Consumer Price Index hit 9.1 percent in June 2022, a 40-year high, as rising demand, wage pressures and supply chain disruptions pushed up prices. The GDP recorded a second quarterly decline during Q2, and the Federal Reserve increased rates again by 75 bps at the end of July. There is debate as to whether we are technically in a recession because of low unemployment rates and pockets of economic strength. Whether we are in a recession or not, economic momentum has slowed significantly, and the Federal Reserve's window of opportunity to produce a soft landing for the economy may be quickly closing.

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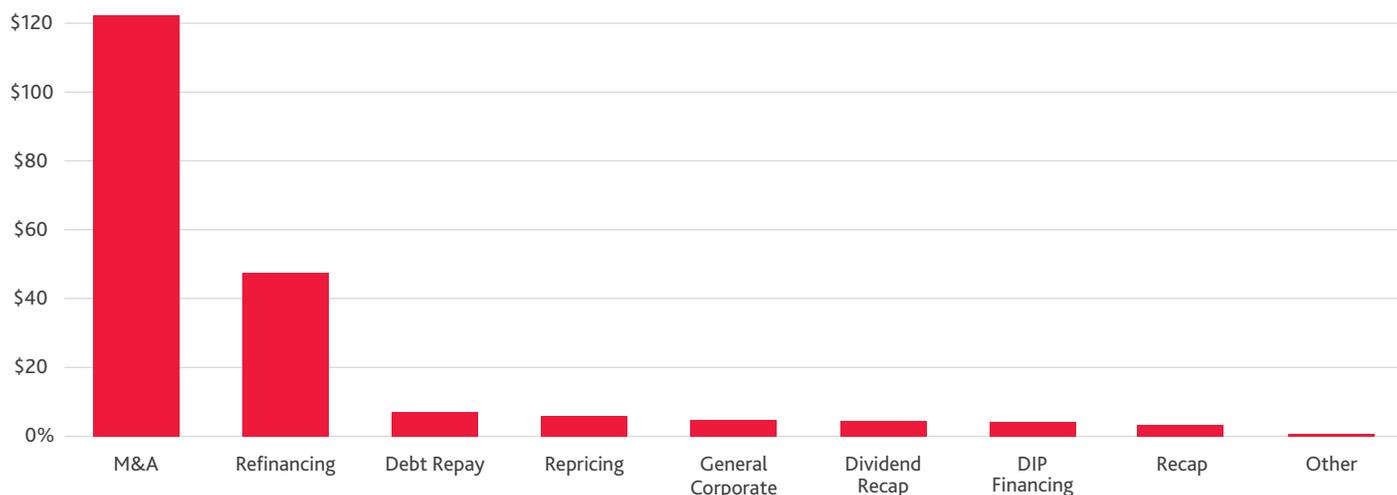
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BDO CAPITAL ADVISORS, LLC

"Trusted Investment Bankers for the Middle Market"

U.S. INSTITUTIONAL LEVERAGED LOAN USE OF PROCEEDS YTD* 2022 (\$ IN BILLIONS)



Source: Debtwire Par; *YTD as of 6/30/22

	Total Debt/EBITDA		
	< \$5M	> \$10M	> \$20M
Jun 2022	2.75x – 3.75x	4.25x – 5.25x	5.00x – 6.50x
Mar 2022	3.00x – 4.00x	4.50x – 5.50x	5.50x – 6.50x
Jun 2021	3.00x – 4.00x	4.25x – 5.50x	5.00x – 6.00x

Source: BDO Capital estimates

In the private debt market, approximately \$48 billion of loans were issued for middle market borrowers during Q2 2022, down 17 percent from the prior year period. New money transactions accounted for approximately half of the quarterly volume, with the remaining for refinancing as borrowers continued to opportunistically extend maturities ahead of future interest rate hikes. Sponsor-backed financings accounted for approximately USD 14 billion of volume in Q2 2022 which represented a 35 percent decline compared to the prior year period. Leveraged buyout volume was down 65 percent compared to the prior year as sellers expected market high purchase prices to continue, while buyers worried about market volatility and economic outlook.

	Senior Debt/EBITDA		
	< \$5M	> \$10M	> \$20M
Jun 2022	1.50x – 2.50x	2.50x – 3.25x	3.25x – 5.50x
Mar 2022	1.75x – 2.75x	2.75x – 3.50x	3.50x – 5.50x
Jun 2021	1.75x – 2.75x	2.75x – 3.50x	3.50x – 4.75x

Source: BDO Capital estimates

	Sub. Debt Pricing (Total Coupon)		
	< \$5M	> \$10M	> \$20M
Jun 2022	13% – 15%	11% – 13%	9% – 11%
Mar 2022	12% – 15%	10% – 13%	8% – 11%
Jun 2021	12% – 14%	10% – 12%	9% – 11%

Source: BDO Capital estimates

Despite increased market volatility, private lenders continued to provide availability. The direct lending market offers greater confidentiality, flexibility and customization for borrowers while providing more structural protections for lenders. This availability comes at a price but yields in the private debt market have seen less volatility than the broader leveraged loan market. Read additional BDO Capital commentary on capital raising strategies in [PitchBook's Q2 2022 Global M&A Report](#).

	Senior Debt Pricing		
	Bank	< \$10M*	> \$15M*
Jun 2022	S+2.5% – 5.0%	S+6.3% – 8.8%	S+5.0% – 7.5%
Mar 2022	S+2.0% – 4.5%	S+5.8% – 8.3%	S+4.5% – 7.0%
Jun 2021	L+2.5% – 4.5%	L+5.5% – 7.5%	L+4.0% – 6.0%

*Non-bank lenders / Source: BDO Capital estimates

SELECT TRANSACTIONS



U.S. Auto Sales
\$60,000,000
 Revolving Credit Facility



WT Hardwood Groups
\$60,000,000
 Senior Credit Facility & Junior Capital



Jindal Films
\$50,000,000
 Senior Credit Facility



TruFoodMfg
\$36,000,000
 Senior Credit Facility



MOGAS Industres, Inc.
\$50,000,000
 Senior Credit Facility



Leader Distribution Systems, Inc.
\$9,000,000
 Senior and Subordinated Notes

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