



DEBT MARKET UPDATE

Q3 2021

While the U.S. leveraged loan market took a breather in August 2021, total year-to-date loan issuance was \$977 billion according to Debtwire, a 69 percent increase compared to the prior year. Demand for new money loans remained strong, accounting for 72 percent of August volume as buyouts and M&A activity totaled over \$15 billion and \$14 billion, respectively. This trend is expected to continue for the remainder of the year as the number of announced M&A transactions and ongoing sale auctions build.

A surge of refinancing and repricing activity which accounted for nearly 70 percent of loan issuance during the first quarter of the year helped to push loan margins lower. The growing share of new money issuance to total loan volume throughout the year has led to loan spreads marginally widening but pricing remains favorable for borrowers.

The M&A market continues to benefit from excess liquidity, high valuation multiples, potential tax change concerns, and continued Fed support for lower interest rates, which should lead to a steady flow of new money financing opportunities for the remainder of the year. As the deal calendar builds, there may be a rush of new deal closings at year-end which could reverse the supply/demand imbalance seen up until now.

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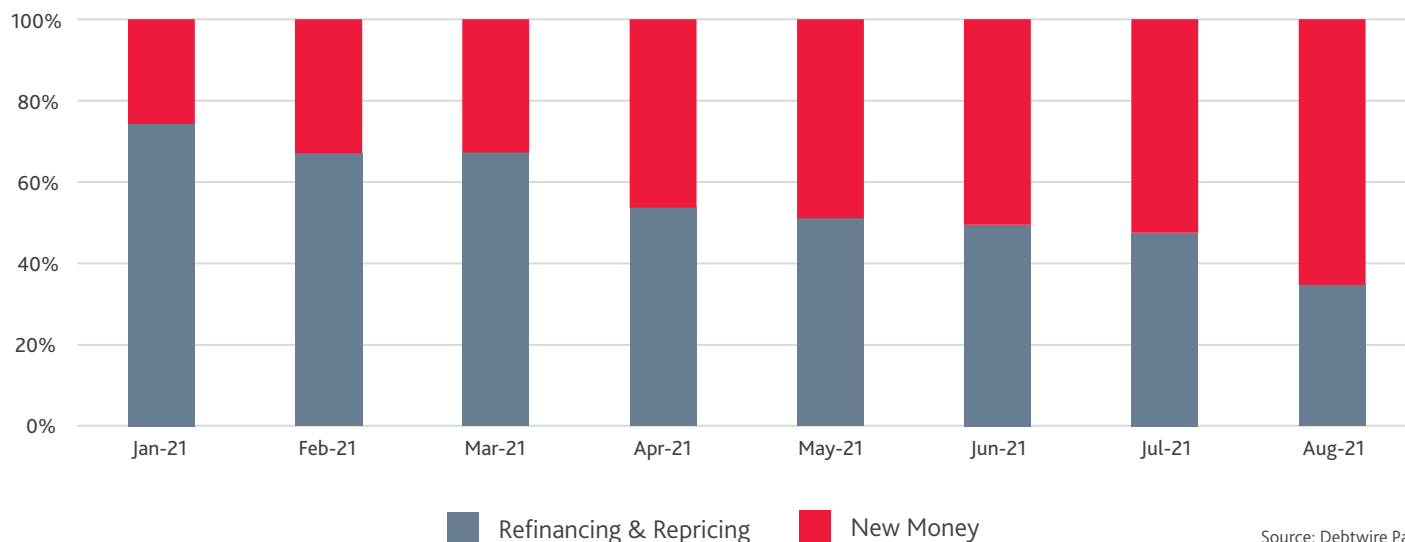
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U.S. LEVERAGED LOAN ISSUANCE



	Total Debt/EBITDA		
	< \$5M	> \$10M	> \$20M
Sep 2021	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
Sep 2020	2.50x – 3.25x	3.50x – 4.50x	4.00x – 5.00x

Source: BDO Capital estimates

In the private debt market, \$46 billion worth of loans were issued for middle market borrowers during Q2 2021 according to Refinitiv, which was up 55 percent from Q1 2021. Refinancing activities accounted for 50 percent of the volume during the quarter while new money transactions amounted to approximately \$23 billion. Financial sponsor-backed volume was up 45 percent following a slow start in Q1 2021 driven by new money purposes including buyouts, add-on acquisitions and dividends. Refinancing was a key driver of non-financial sponsor-backed transactions which totaled \$29 billion during Q2 2021. Financial sponsor activity for the entire first half of 2021 totaled \$29 billion which was only \$8 billion less than all of 2020.

	Senior Debt/EBITDA		
	< \$5M	> \$10M	> \$20M
Sep 2021	1.75x – 2.75x	2.75x – 3.50x	3.50x – 5.00x
Jun 2021	1.75x – 2.75x	2.75x – 3.50x	3.50x – 4.75x
Sep 2020	1.50x – 2.00x	2.50x – 3.00x	2.75x – 3.50x

Source: BDO Capital estimates

	Sub. Debt Pricing (Total Coupon)		
	< \$5M	> \$10M	> \$20M
Sep 2021	12% – 15%	10% – 13%	8% – 11%
Jun 2021	12% – 14%	10% – 12%	9% – 11%
Sep 2020	13% – 15%	11% – 13%	10% – 12%

Source: BDO Capital estimates

New capital continued to enter the private debt market during the first half of 2021 across middle market collateralized loan obligations, business development company public equity, private debt funds and mezzanine funds which totaled \$47 billion according to Refinitiv. Direct lending accounted for the largest share of the private debt market, and the number of direct lenders continued to grow. Market activity for the remainder of the year is expected to be robust, driven by opportunistic financings and M&A transactions. Lenders are looking to maintain discipline in underwriting and structuring transactions; however, competition in the market, especially for strong credit, continues to have them pushing the envelope.

	Senior Debt Pricing		
	Bank	< \$10M*	> \$15M*
Sep 2021	L+2.0% – 4.5%	L+5.5% – 8.0%	L+4.0% – 6.5%
Jun 2021	L+2.5% – 4.5%	L+5.5% – 7.5%	L+4.0% – 6.0%
Sep 2020	L+3.5% – 4.5%	L+6.5% – 8.5%	L+5.5% – 7.5%

*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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