

# DEBT MARKET UPDATE

## Q2 2021

The total U.S. leveraged loan market continued its upward trend as loan issuance was \$650 billion through May 2021, up 53 percent compared to the same period last year according to Debtwire, even despite a 50 percent decline in May versus the prior month. Loans issued to support M&A and buyout activities accounted for 22 percent of volume year-to-date through May as there were significantly more announced M&A financing transactions this year compared to the same time period last year.

Similar to the leveraged loan market, syndicated middle market (less than \$50M of EBITDA) loan volume jumped in Q1 2021 to \$2.2 billion according to S&P LCD, the highest quarterly total since Q3 2019, due to pent-up demand and hopes of a return to more normal conditions. Refinancing and buyouts accounted for nearly 70 percent of total volume followed by dividend recapitalizations and M&A activities accounting for 18 percent and 13 percent, respectively, of total volume.

In general, demand continues to outpace the supply of new money transactions. Lenders and investors still need to put capital to work, and competition for assets remains strong. Given current aggressive pricing and leverage levels, there is pressure to compete on non-economic terms such as compressed timing, looser covenants or covenant-lite packages, and a growing list of items covered under "adjusted EBITDA" as the borrower-friendly market conditions continue.

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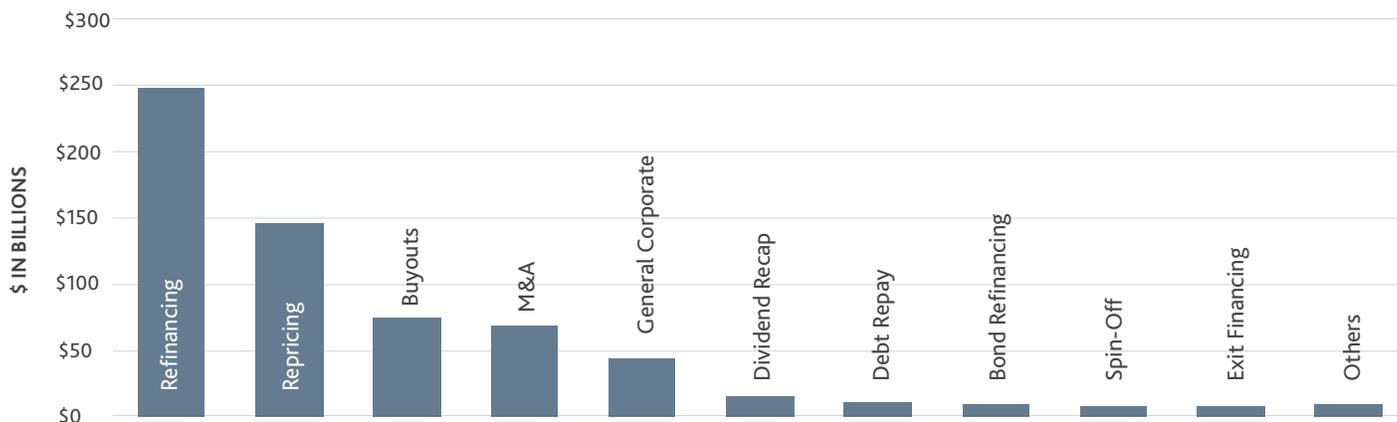


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## U.S. LEVERAGED LOANS USE OF PROCEEDS YTD 2021 (\$BN)



Source: Debtwire Par YTD through May 2021

According to S&P LCD, healthcare was the leading sector accounting for 30 percent of middle market loan volume, followed by retail at 20 percent, technology at 19 percent, leisure at 16 percent and business services at 16 percent. The improved debt market appetite for retail and leisure are potential early signs of the return of a pre-pandemic environment.

	Total Debt/EBITDA		
	< \$5M	> \$10M	> \$20M
Jun-21	3.00X – 4.00X	4.25X – 5.50X	5.00X – 6.00X
Mar-21	2.75X – 3.75X	4.00X – 5.25X	4.50X – 5.75X
Jun-20	2.50X – 3.25X	3.50X – 4.50X	4.00X – 5.00X

Source: BDO Capital estimates

	Sub. Debt Pricing (Total Coupon)		
	< \$5M	> \$10M	> \$20M
Jun-21	12% - 14%	10% - 12%	9% - 11%
Mar-21	12% - 15%	10% - 13%	9% - 11%
Jun-20	13% - 15%	11% - 13%	10% - 12%

Source: BDO Capital estimates

In the private debt market, \$27 billion worth of loans were issued for middle market borrowers during Q1 2021, which was down 20 percent from Q4 2020. Refinancing activities accounted for 47 percent of the volume during the quarter while new money transactions amounted to approximately \$14 billion. Financial sponsor-backed volume was down following a strong end to 2020 and a slow start to Q1 2021. Recapitalization financing soared in late 2020 as private equity sponsor-owned as well as non-sponsor-owned companies sought partial liquidity as many sale processes were put on hold towards the beginning of the pandemic. Financial sponsor activity picked up in the latter part of Q1 2021, and new money was the primary driver, accounting for 60 percent of financial sponsor volume.

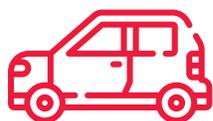
	Senior Debt/EBITDA		
	< \$5M	> \$10M	> \$20M
Jun-21	1.75X - 2.75X	2.75X - 3.50X	3.50X - 4.75X
Mar-21	1.50X - 2.75X	2.75X - 3.50X	3.25X - 4.50X
Jun-20	1.50X - 2.00X	2.50X - 3.00X	2.75X - 3.50X

Source: BDO Capital estimates

	Senior Debt Pricing		
	Bank	< \$7.5M*	> \$15M*
Jun-21	L+2.5% - 4.0%	L+5.5% - 7.5%	L+4.0% - 6.0%
Mar-21	L+3.0% - 4.5%	L+6.0% - 8.0%	L+5.5% - 7.0%
Jun-20	L+3.75% - 4.75%	L+7.0% - 8.5%	L+6.5% - 8.0%

\*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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