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Capital Markets Update

Q2 · 2024

Mergers & Acquisitions | Capital Advisory | Valuation Advisory

Capital Markets Update Q2 · 2024

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Select Transactions

G&M Oil Company
G&M
$425,000,000 Senior Secured Credit Facilities
Matrix Served as the Exclusive Placement Agent

Apollo Veterinary Medical Hospitals and AVMH Ventures
APOLLO VETERINARY MEDICAL HOSPITALS
received growth capital from
CYPRIUM PARTNERS
to support the acquisition of
PET SUPPLIES PLUS Minus the hassle.

Santmyer Companies, Inc.
Santmyer
received growth capital from
LO3 CAPITAL
to support the acquisition of
COLE

Bond Distributing Company
has been acquired by
Origlio Beverage
(Honickman, Origlio and Bergson Families)

CARROLL MOTOR FUELS
Syndicated Debt Refinance & Growth Capital
Matrix Served as Sole Placement Agent

SARATOGA CASINO · HOTEL
Acquisition Financing
Matrix Served as Sole Placement Agent

The Numbers *

1,500+
Capital Raises

$400BN
Capital Raising Experience

1,000+
Capital Relationships

* *Includes lead placement experience at other institutions*

Q2 2024 Market Overview

Overview

The pro-rata bank loan market is gradually recovering after the collapse of Silicon Valley Bank (SVB) last year but there are still challenges as seen with the instability at New York Community Bank (NYCB) earlier this year and the ripple effect across the commercial bank sector. Traditional banks are desperately working to improve margins by seeking wider spreads (the difference between the interest they charge borrowers and what they pay depositors) and demanding non-credit business opportunities in return for committed capital. Tighter credit tolerances along with the overhang of non-performing commercial real estate assets continues to weigh down the sector. In general, pricing remains stable to slightly down y-o-y but the market is still adjusting and borrowers should expect additional volatility.

Market Activity

This past quarter was incredibly busy for the US leveraged loan market, setting volume due to significant repricing and refinancing activity. Leveraged loan activity hit $405 billion driven by strong demand and the ability of borrowers to refinance their loans at lower spreads. As borrowers contemplate '25 and '26 maturities, we expect increasing leveraged loan volume as borrowers (prudently) seek to manage refinance risk. Of note, healthy competition between private credit and the institutional term loan market will benefit borrowers. The rated Term Loan B market (TLB) rebounded nicely and direct lenders are taking note.

Borrowing Costs and Investor Demand

The cost of borrowing for new loans has dropped significantly - roughly 30% from the highs of 2022 and 17% lower than last year. This decrease correlates directly with supply/demand imbalance as the appetite for loan assets continues to outstrip supply. Despite the busy market, the actual supply of new loans remains muted and competition will drive wider credit terms as well as tighter pricing.

Refinancing Trends

Refinancing existing loans, especially for companies with weaker credit ratings, remains a major focus. Borrowers are using the current market conditions to de-risk by pre-empting the anticipated maturity wall in 2028 (see the record $94.3 billion in refinancings Q2'24).

Private Credit Lenders

Private credit lenders continue to lean in with more aggressive terms than the broadly syndicated loan market. Given the increased competition for assets, direct lenders are competing by reducing their interest rates and offering more flexible terms (and without the scrutiny of the ratings agencies); however, there's only so far direct lenders can moderate pricing so, all things being equal, expect the private credit markets to push the borrower-friendly theme with wider credit tolerances. Private credit market fundraising slowed somewhat over the past few quarters so the blistering pace of new entrants is retreating; however, the proliferation of recent partnerships between direct lenders and traditional commercial banks will undoubtedly open new channels.

Mergers & Acquisitions and Dividend Recapitalizations

We've observed an increase in event-driven loans (transactions supporting M&A) although volume still trails the historical averages due to higher nominal interest rates and a difficult exit environment for sponsors. Without a traditional exit via sale, private equity firms are increasingly turning to NAV loans (loans against aggregate portfolios) to return capital to shareholders. This activity will continue throughout '24 but, given the speculative value of unrealized portfolio assets (sponsored operating companies), expect this trend to moderate.

Market Outlook

The traditional bank loan market is improving but remains fragile. The long recovery post-SVB is encouraging, but recent instability highlights the need for caution. Absent an exogenous event/risk, the imbalance between loan demand and supply will continue to drive market activity and keep borrowing costs low vis-à-vis historical averages. In summary, while the market is showing resilience and signs of stability, there are still uncertainties ahead. Business owners and investors should stay informed and be prepared to react quickly if access to liquidity deteriorates.

Broadly Syndicated Loans

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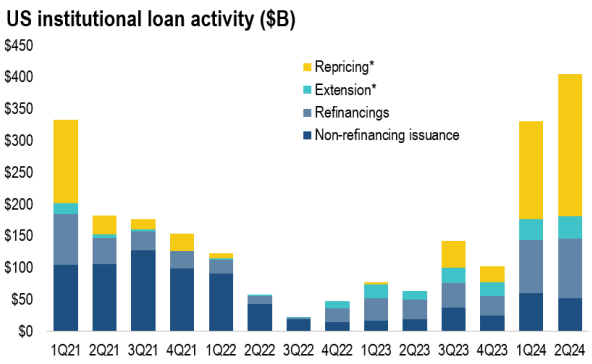
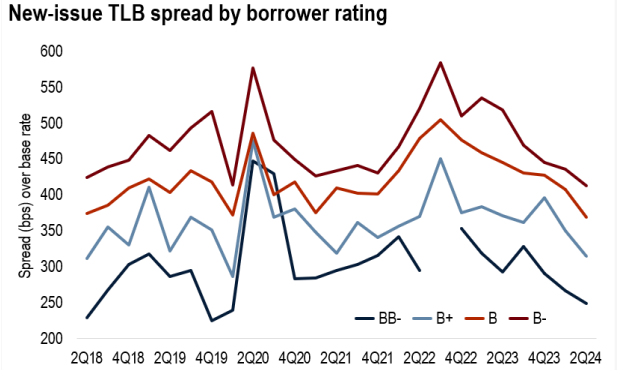
Market Update – Overarching Themes

1) Repricings and refinancings make Q2 24 the busiest quarter ever



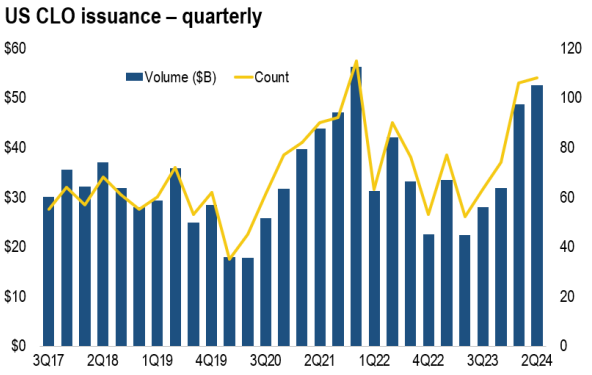
Source: PitchBook | LCD • Data through June 30, 2024
*Reflects repricings and extensions done via an amendment process only

2) New-issue spreads fall to multi-year lows ...



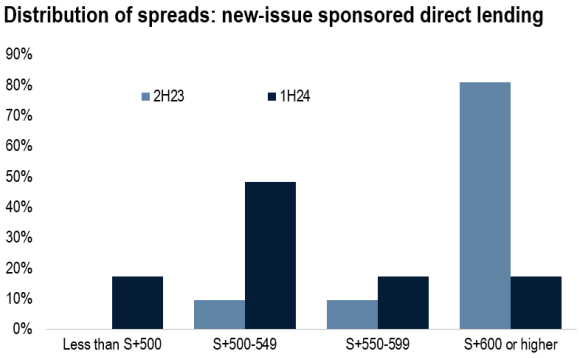
Sources: PitchBook | LCD • Data through June 30, 2024

3) ...as surging investor demand chases non-existent supply



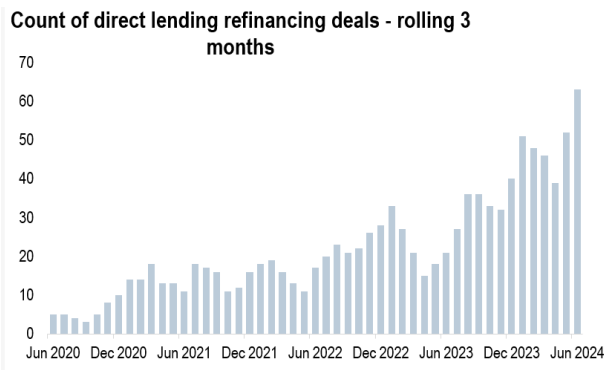
Source: PitchBook | LCD • Data through June 30, 2024

4) Private credit lenders strengthen defenses against BSL takeouts...



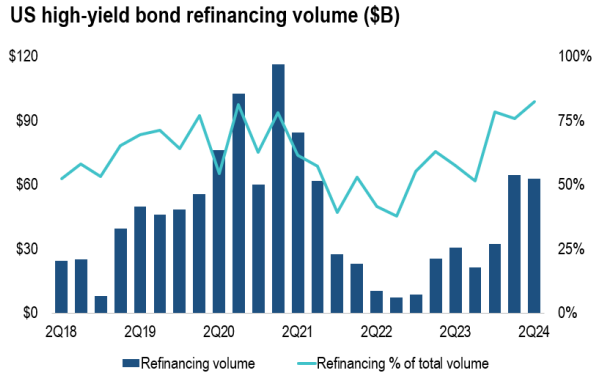
Source: PitchBook | LCD • Data through June 30, 2024
Data based on LCD News reporting; reflects spreads on senior secured loans and unitranches

5) ...by diving even deeper into the refinancing arena



Source: PitchBook | LCD • Data through June 30, 2024
Includes a handful of repricings in 2024; deal count is based on LCD News coverage

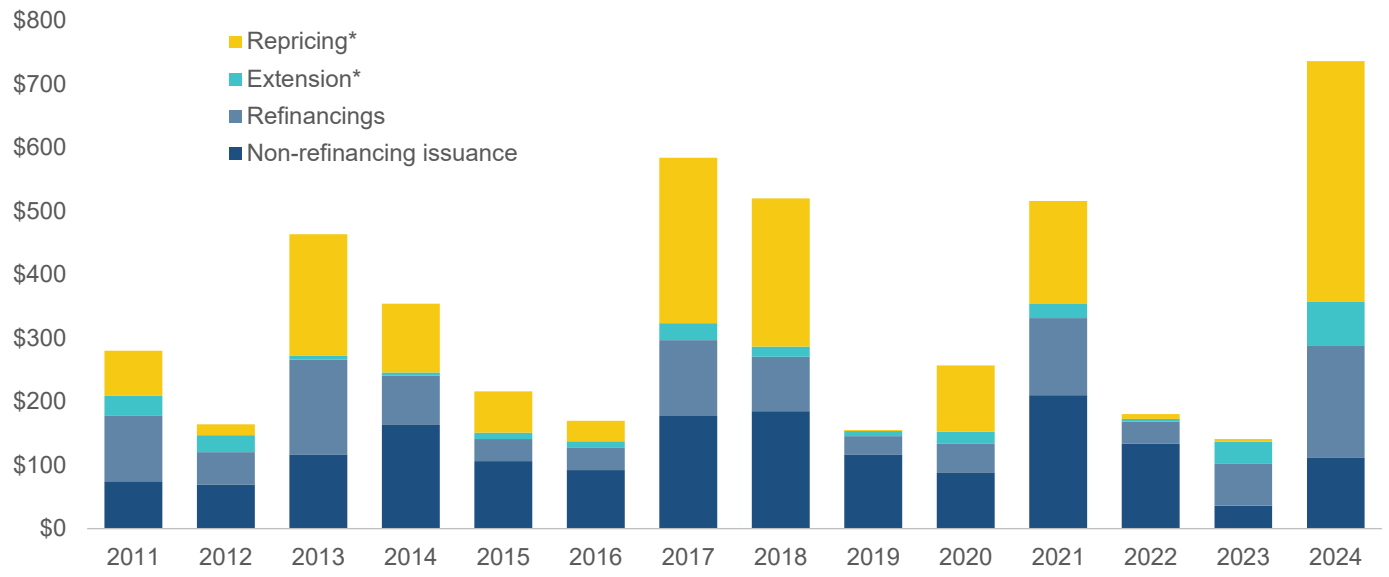
6) In high-yield, a similar trend takes shape



Source: PitchBook | LCD • Data through June 30, 2024

US Leveraged Loan Volume

Quarterly Institutional Loan Value



Record-Breaking Quarter
- The second quarter of 2024 set a new record for US institutional loan activity, with volumes surpassing previous highs.

Dominance of Repricing
- Repricing activity dominated the issuance landscape, accounting for a significant portion of the total volume.

Extension Amendments
- Extensions via amendment processes also saw notable activity, reflecting efforts by borrowers to push out maturities and improve their leverage profiles.

Non-Refinancing Issuance
- Non-refinancing issuance remained relatively low compared to repricings and extensions, highlighting a cautious approach to new debt.

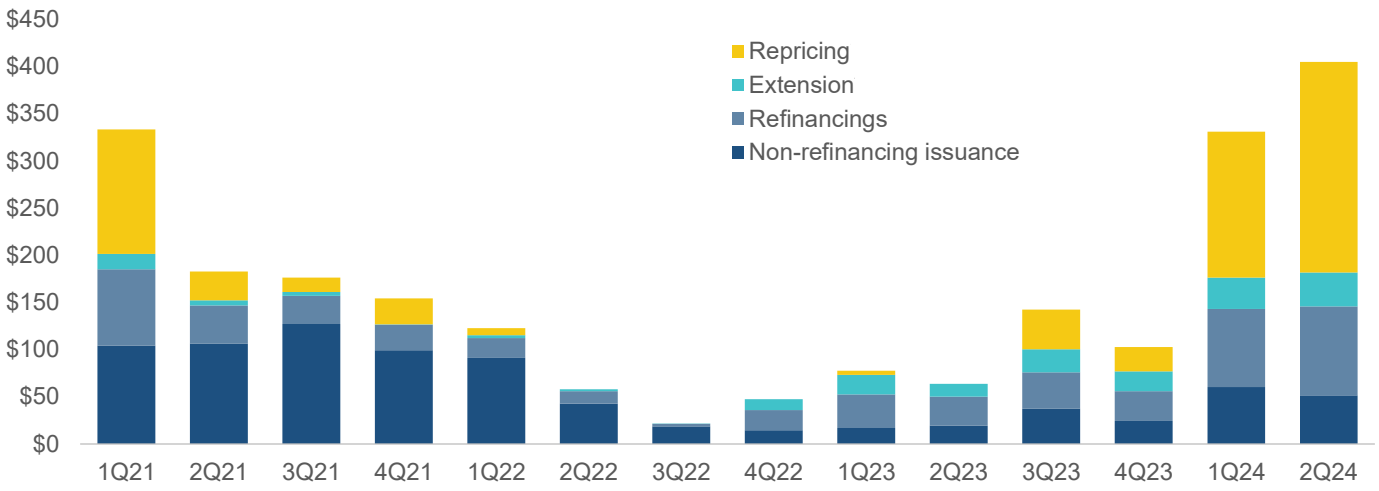
Refinancing Trends
- Refinancing of existing debt continued to be a major component of issuance activity, driven by the attractive conditions in the credit markets.

Comparison with Previous Quarters
- The data shows a clear upward trend in issuance volumes over the past few quarters, culminating in the record levels seen in Q2 2024.
- This trend points to a progressively strengthening credit market, supported by investor confidence and favorable economic indicators.

Source: PitchBook | LCD • Data through June 30, 2024 *Reflects repricings and extensions done via an amendment process only

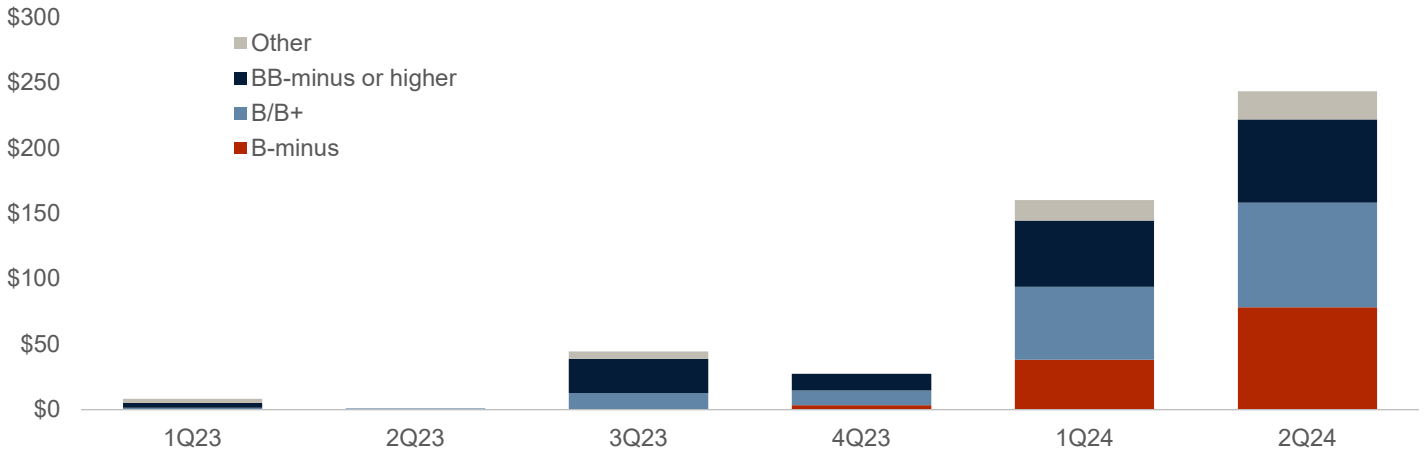
US Leveraged Loan Volume

Quarterly US Institutional Loan Volume



- Overall leveraged loan primary market activity reached a fever pitch this year, totaling a record-breaking $736 billion through June 30, eclipsing the prior post-Global Financial Crisis peak of $584 billion at this point in 2017. In contrast, each comparable period in 2022 and 2023 produced less than $200 billion of total leveraged loan transactions. This activity, which includes newly issued loans as well as repricings, kept a frantic pace in both quarters this year, totaling $405 billion in the second quarter, a record high, up from an already massive $331 billion in the first quarter.

US Refinancing Institutional Loan Issuance by Rating

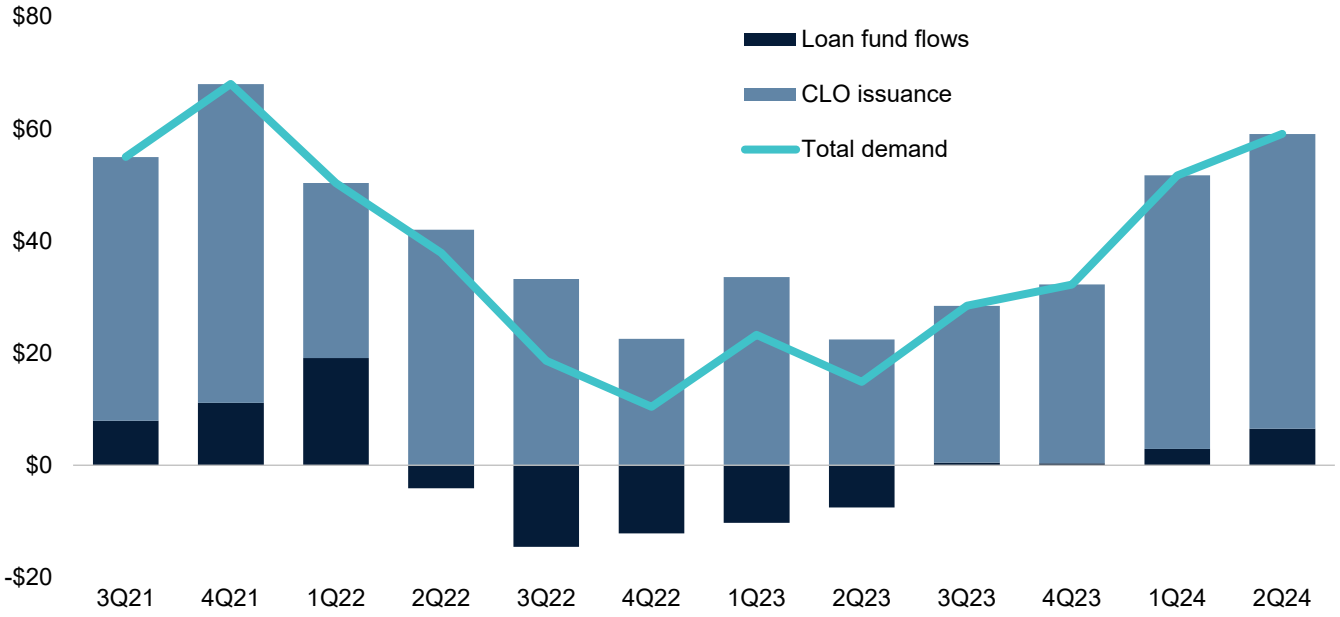


- Investors/lenders are increasingly approving more repricing amendments for lower-rated borrowers, reflecting increased risk appetite from investors, particularly in the second quarter. Out of the $243 billion Q2 total, $78.4 billion originated with companies rated B-minus by at least one ratings agency. This translates to a 32% share, above this cohort's overall footprint in the outstanding leveraged loan market (26% as of May 31).

Source: PitchBook | LCD • Data through June 30, 2024

US Leveraged Loan Market – Measurable Investor Demand ($B)

US Leveraged Loan Market – Measurable Investor Demand ($B)

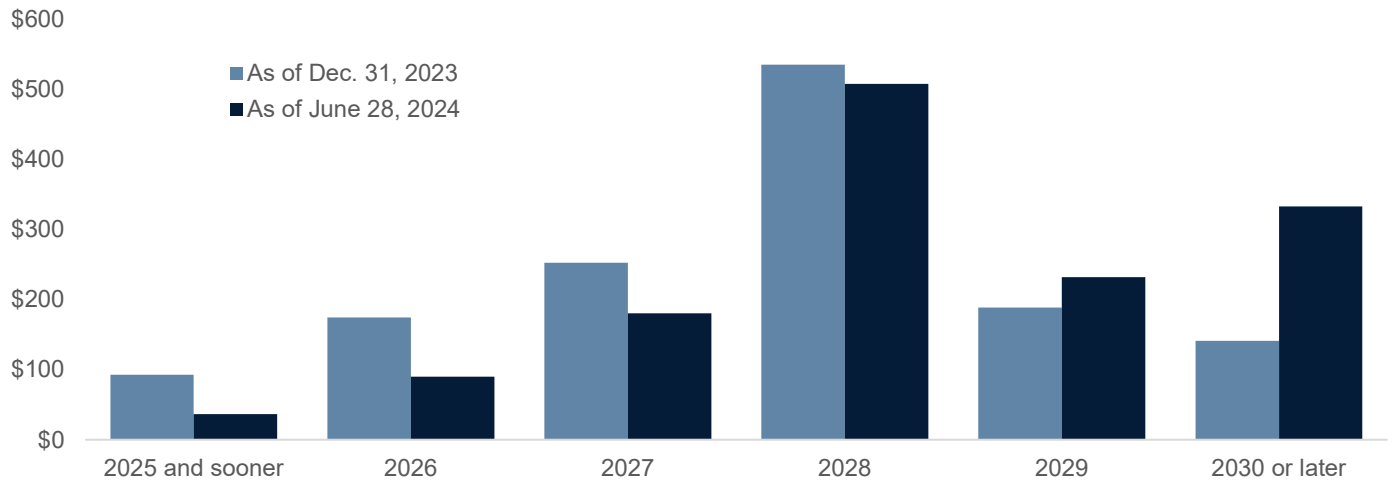


- The driving force behind the massive repricing wave and increased risk appetite is the persistent lack of net supply against surging demand from CLOs (Collateralized Loan Obligations) and other loan investors. Indeed, despite the record-breaking level of overall primary market activity, the US leveraged loan asset class has not grown in more than a year.
- Loan investor demand increased steadily, first taking small steps in the second half of 2023 and then accelerating markedly in 2024. Measurable investor demand — defined as CLO issuance combined with retail cash flows to US loan funds — rose to $59.1 billion in the second quarter, the highest reading since the last quarter of 2021, up from just $14.9 billion a year ago. This brought the year-to-date tally to $111 billion as of June 30, the highest reading for any comparable time on record.

Source: PitchBook | LCD • Data through June 30, 2024

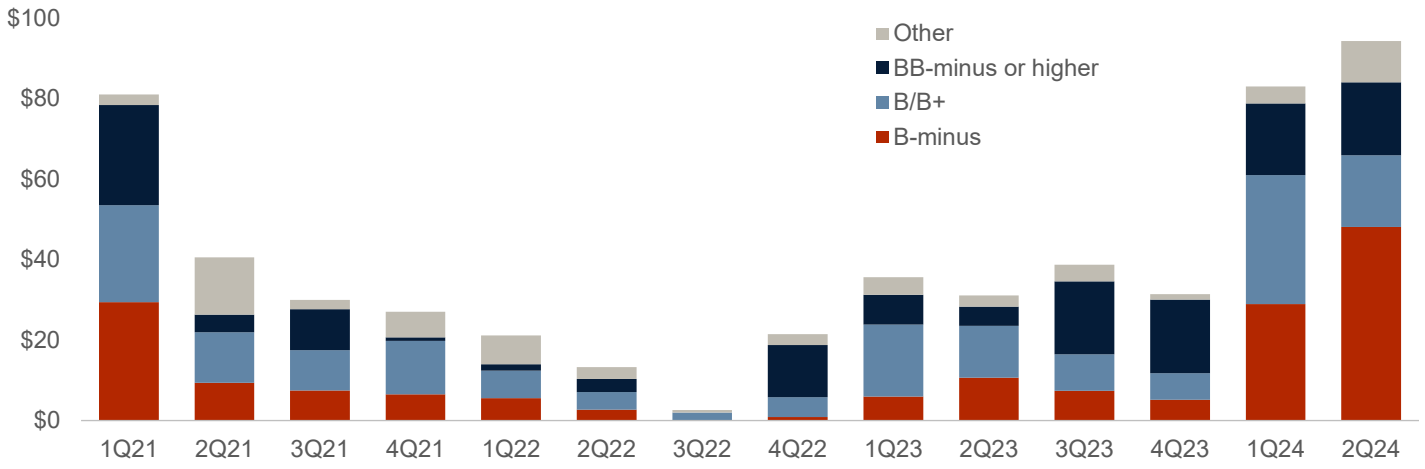
Refinancings/Borrower Risk Ratings

US Leveraged Loan Maturity Wall



- This massive refinancing effort, combined with record level of amendment extensions, significantly reduced on the near-term maturity wall. As of June 28, $36.6 billion of institutional term loans will fall due by the end of 2025, down 61% from year-end 2023. Similarly, 2026 maturities fell by 48%, to $90.1 billion, while 2027 maturities shrank by 28%, to $181 billion. Looking at the data another way, at the end of 2023, 19% of outstanding loans would be due by the end of 2026. By the midpoint of 2024, this share fell to 9%.

U.S. Refinancing Institutional Loan Issuance Volume by Borrower Rating ($B)

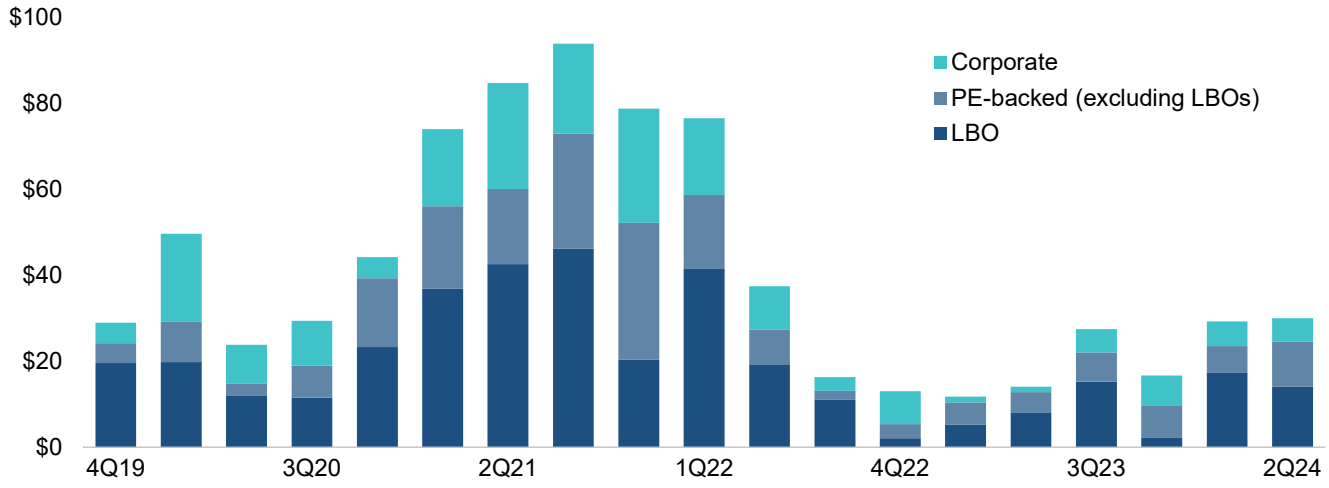


- Although higher-rated borrowers made more progress in shrinking near-term maturities versus lower-rated loans this year, risk tolerance increased given a persistent lack of net supply. As a result, an increasing number of borrowers rated B-minus jumped on the refinancing bandwagon, especially in the last few months as evidenced by 51% of the second quarter's total refinancing-related loan volume came from companies with a B-minus rating by at least one ratings agency, the highest share since 2008 (up from 35% in the first quarter and a 22% average in 2023).

Source: PitchBook | LCD • Data through June 30, 2024

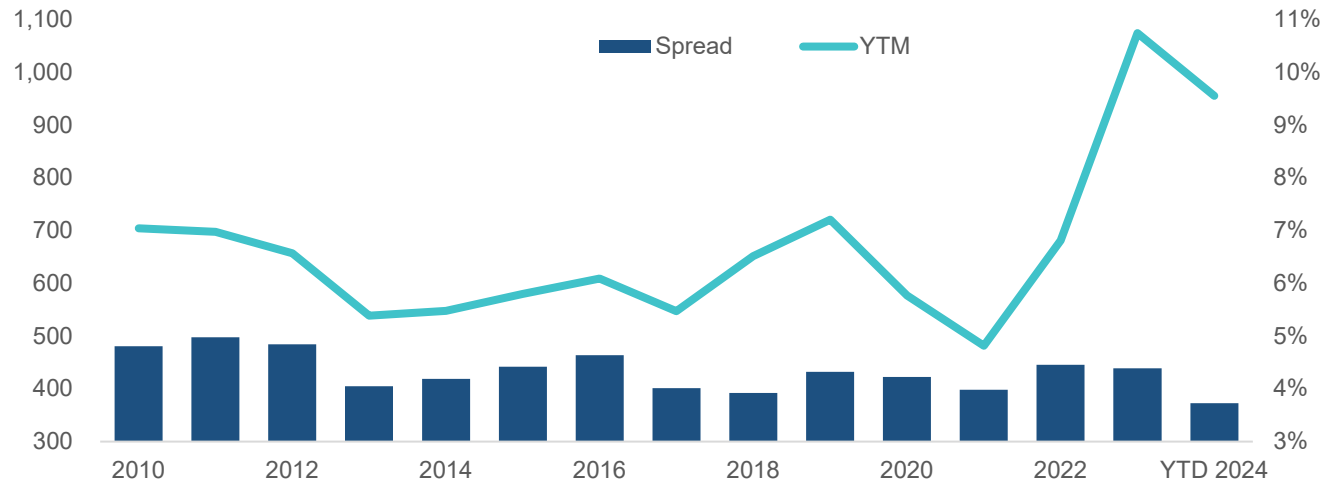
M&A Volume & Pricing Trends

US Institutional Loan Volume Backing M&A ($B)



- Leveraged loan issuance to finance buyouts and other types of M&A activity stayed roughly on par with the first quarter, at $30 billion. The low point in dealmaking appears to have been early 2023, but activity remains below the long-term trend, hindered by elevated nominal rates and the lack of exit opportunities for private equity sponsors. M&A-related loan volume averaged $58 billion per quarter between 2017 and 2021, and the long-term average post-financial crisis is $40.4 billion.

M&A-Related New-Issue Loan Spread and YTM

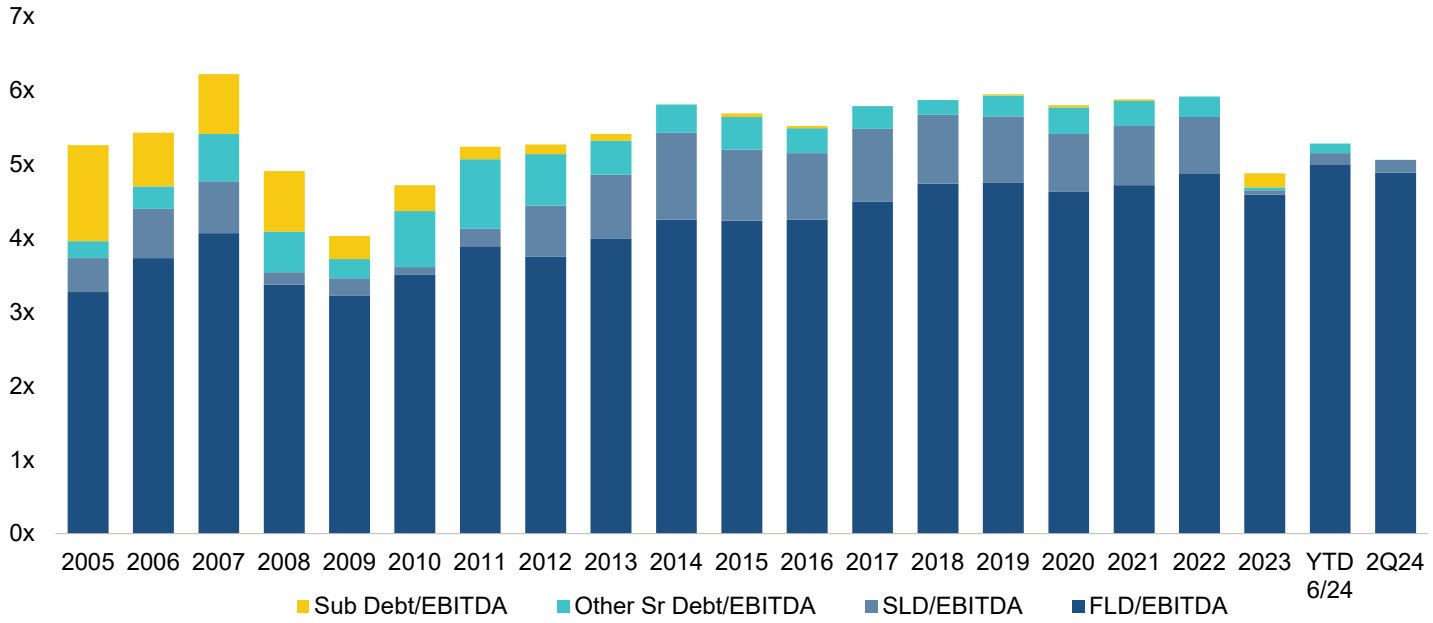


- The lack of new M&A transactions — the source of net new supply for loan investors — pushed the borrowing spreads to the lowest levels since 2007, averaging S+373 so far this year. This is nearly 70 bps below last year's average and more than 20 bps tighter than during 2021, the peak year for M&A loan volume; however, taking into account the base rate, the overall cost of debt remains near the highest levels in over 20 years — the average yield-to-maturity is 9.55% so far this year. That's down from a 10.74% peak in 2023 but higher than any other year since 2001 thereby keeping some borrowers and financial sponsors on the sidelines (or, in many cases, deploying less leverage).

Source: PitchBook | LCD • Data through June 30, 2024

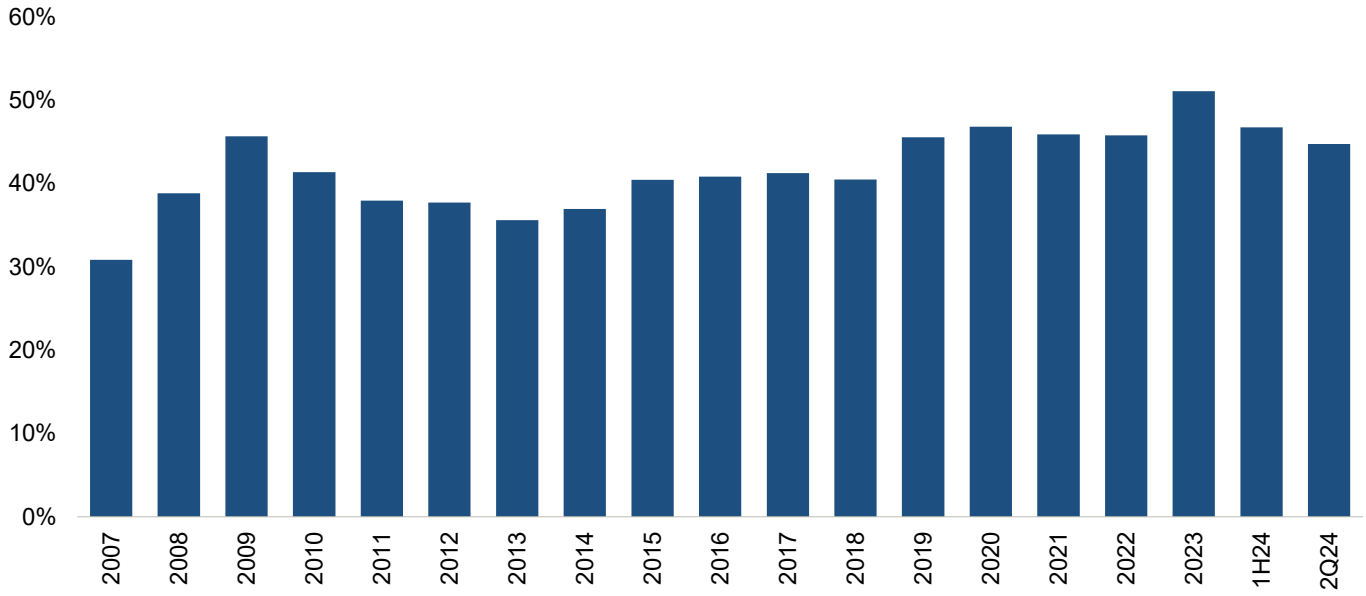
Leverage Statistics

Average Debt Multiples of Large Corporate



- Average debt multiples of large corporate LBOs dropped almost a complete turn to 5.06x over the past eighteen months after sitting at ~6x for the past five years.

Equity Contribution for Large Corporate LBO's

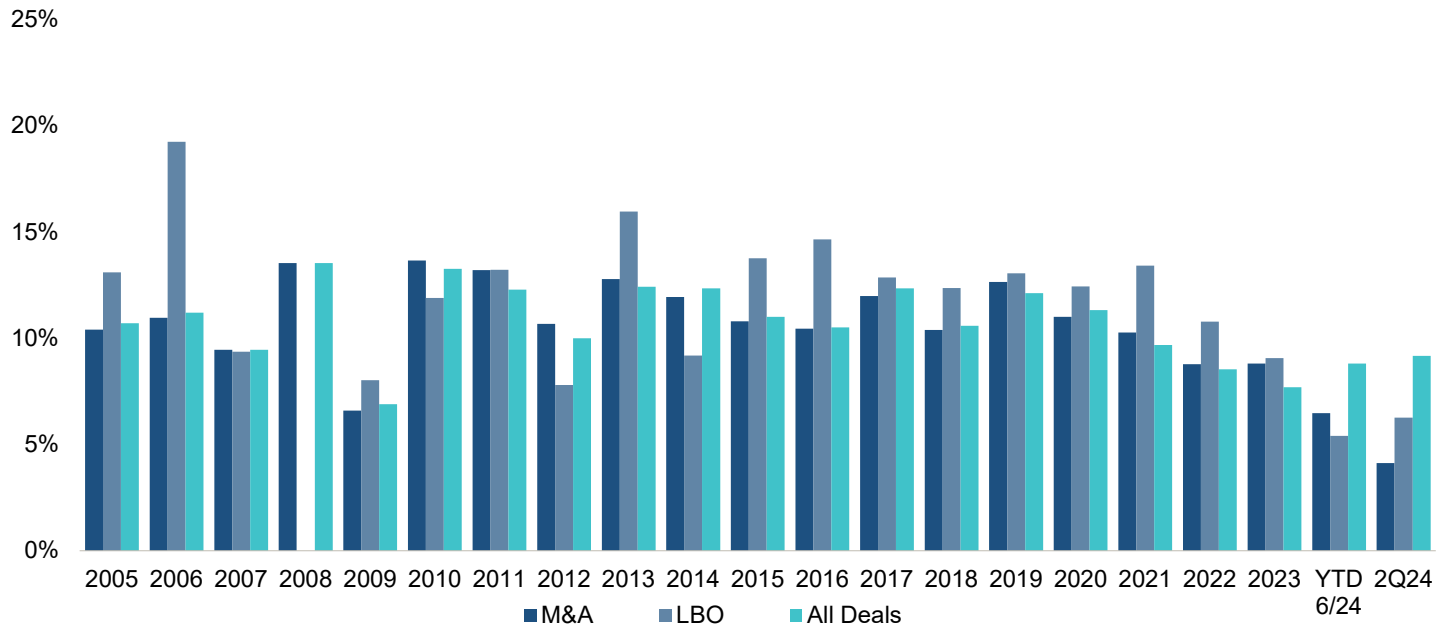


- Equity contributions declined to roughly a ~45% after averaging 51% through 2023.

Source: PitchBook | LCD • Data through June 30, 2024

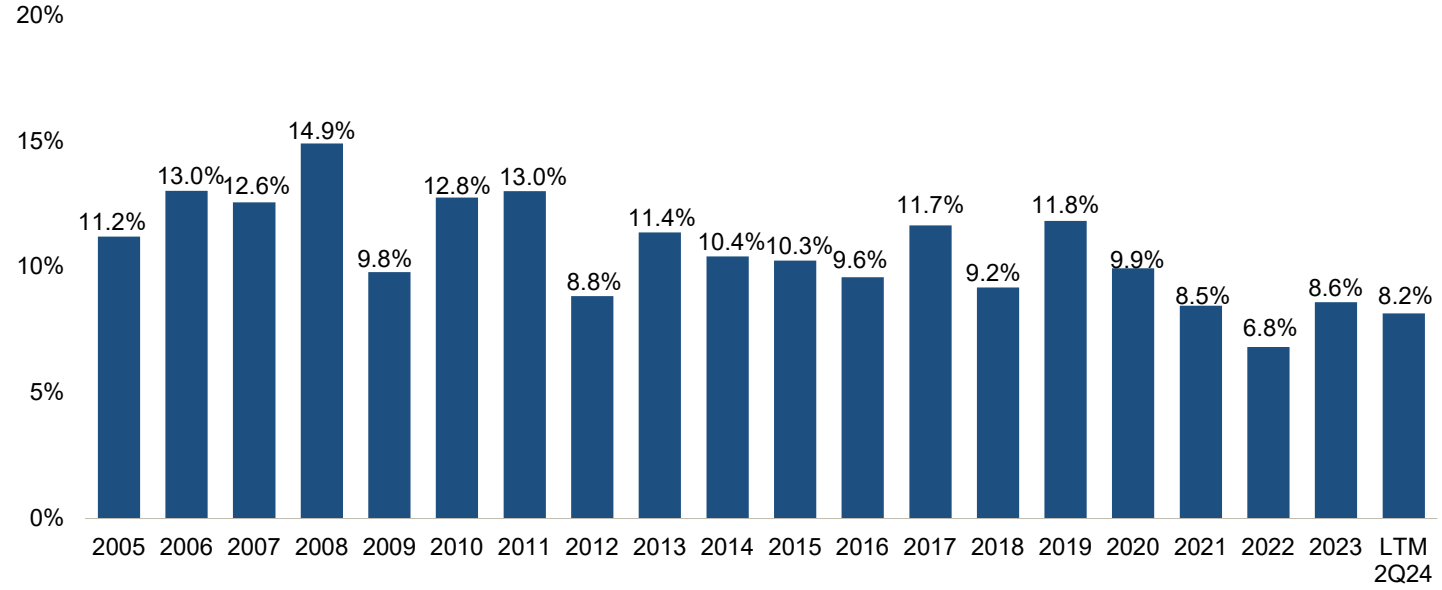
EBITDA Adjustments and Synergies

Adjustments as a Percent of EBITDA



- Adjustments as a percentage of EBITDA have been steadily decreasing on an aggregate basis over the course of the past few years .
- In 2023, adjustments as a percentage of EBITDA continued to remain in check, hovering near its lowest level since 2009 amidst the Great Financial Crisis.

Avg. Synergies/EBITDA Ratio for Acq.-Rated Transactions



- The average synergies/EBITDA ratio decreased from 11.8% in 2019 to 8.2% in LTMQ2 24, consistent with 2023. Underwriters remain wary of synergistic adjustments to EBITDA.

Source: PitchBook | LCD • Data through June 30, 2024

HIGH-YIELD BONDS

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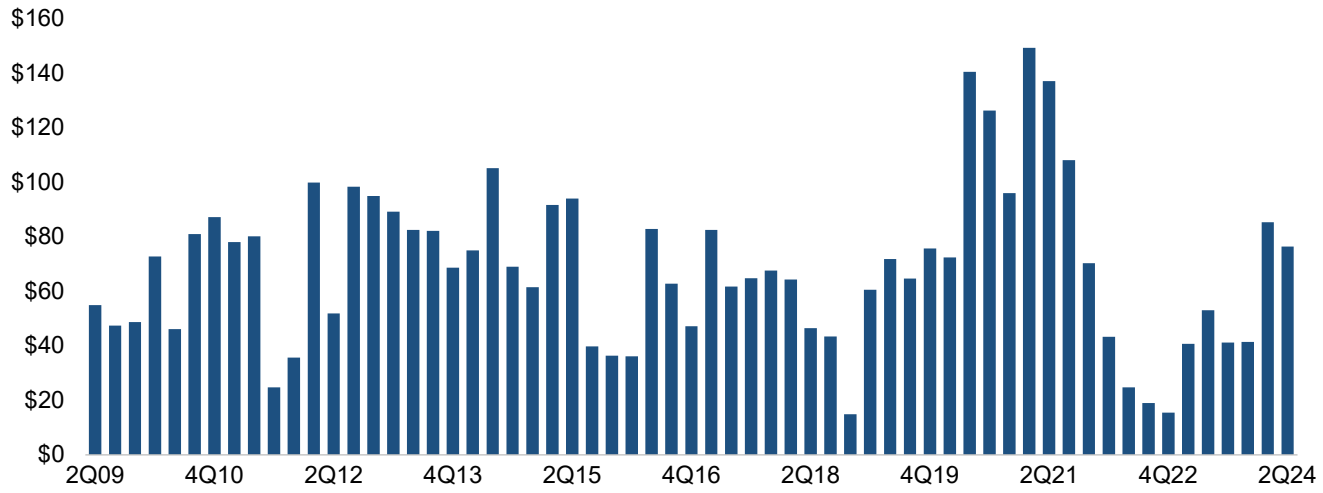
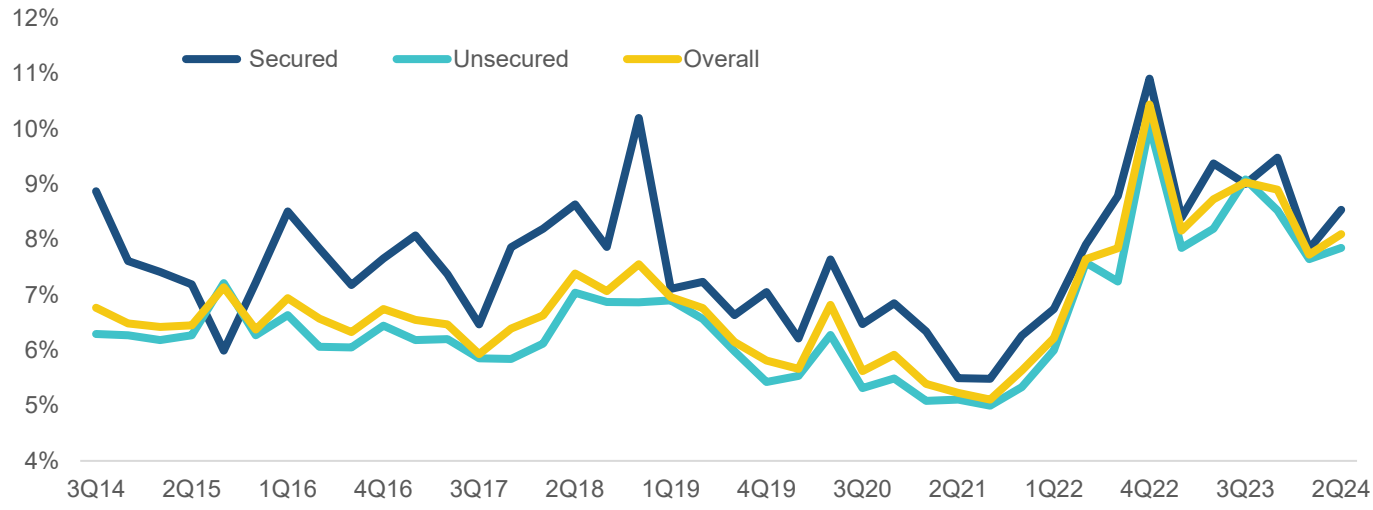
High-Yield Bonds

U.S. High-Yield Bond Volume ($B)



- High-yield issuers — overwhelmingly motivated by refinancing needs — navigated a tricky June calendar to extend a sprinting pace since rates inflected lower post the November FOMC meeting. Issuance was already $11.3 billion for the month to June 17, an eighth straight double-digit monthly total. And, after soothing mid-month CPI and FOMC updates, substantial further issuance post the Juneteenth break cemented three-year highs for each of the June, second-quarter and YTD totals, LCD data show.

New-Issue Yield for U.S. High-Yield Bonds



- New senior unsecured issues cleared the high-yield primary at an average yield of 8.54% in the second quarter, up more than a point from the average in the first quarter, and versus a post-pandemic peak at 10.44% in the final quarter of 2022.

Source: PitchBook | LCD • Data through June 30, 2024

Private Credit

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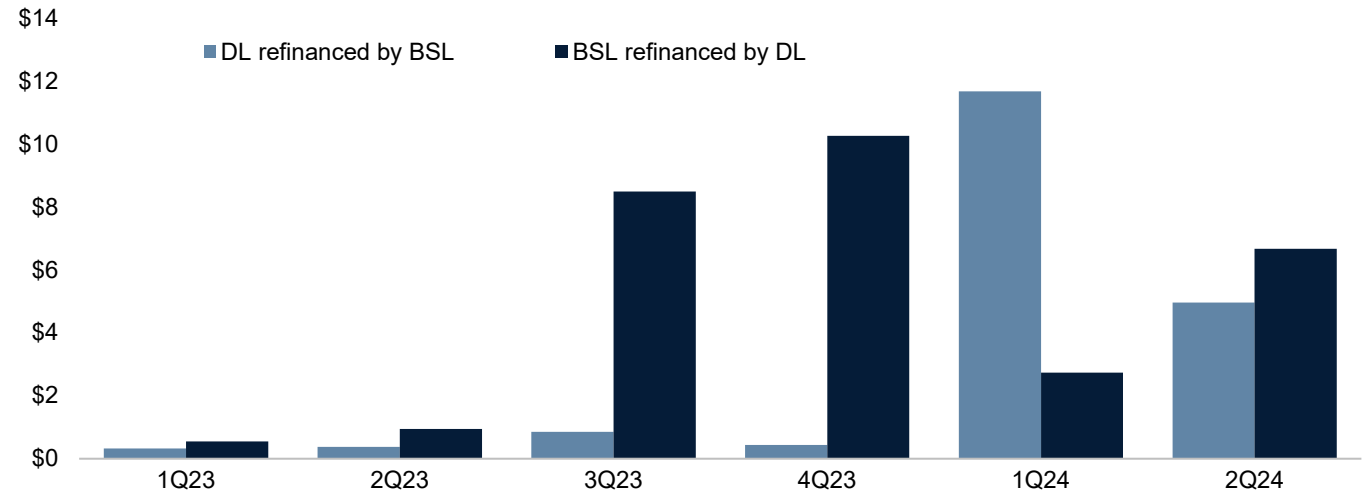
Private Credit

Syndicated Loans and Direct Lending Takeouts ($B)



- Private credit providers are fighting back. They needed to get creative to defend territory from an onslaught of repricings and refinancings unleashed in the first quarter, and it's working. LCD data show that the volume of private credit loans taken out by broadly syndicated loans slowed in the second quarter.

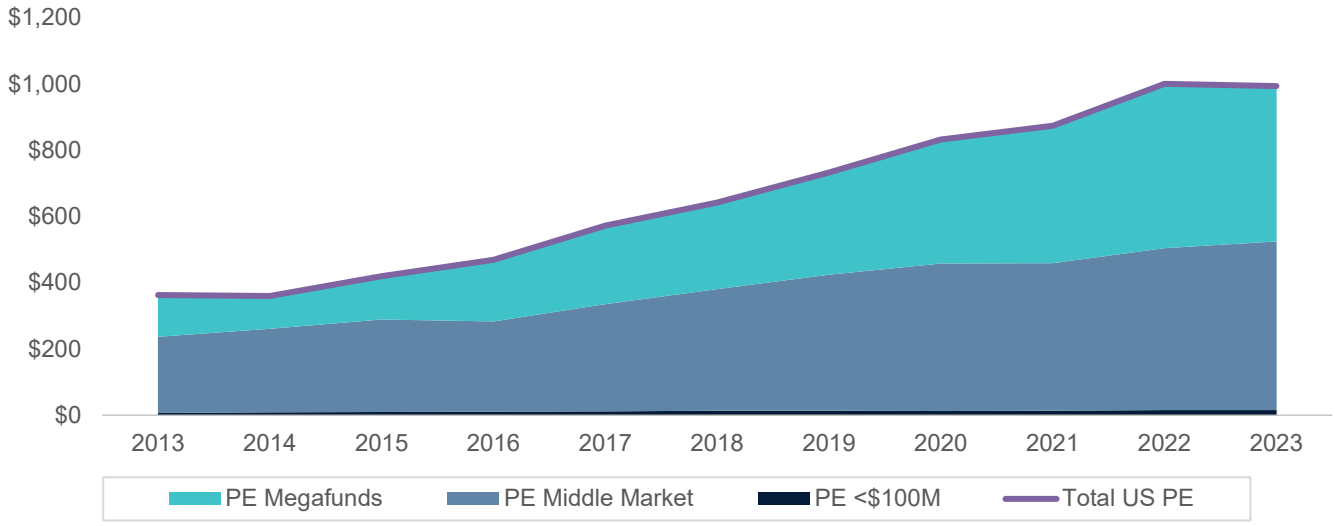
New-Issue Spread of Acquisition-Related Deals, PE-Backed Companies

- While M&A is still less active than what private credit providers would prefer, spreads on broadly syndicated loans and direct loans for acquisition-related deals are converging, Private credit lenders are grappling with the new market reality is by agreeing to cut spreads within existing lender groups – a simple but elegant approach. Anecdotes suggest calls from sponsors and agents with requests for spread reduction. Eyewatering savings by borrowers of as much as 300 bps were available in the second quarter with 175-250 bps easily curtailed from spreads.

Source: PitchBook | LCD • Data through June 30, 2024

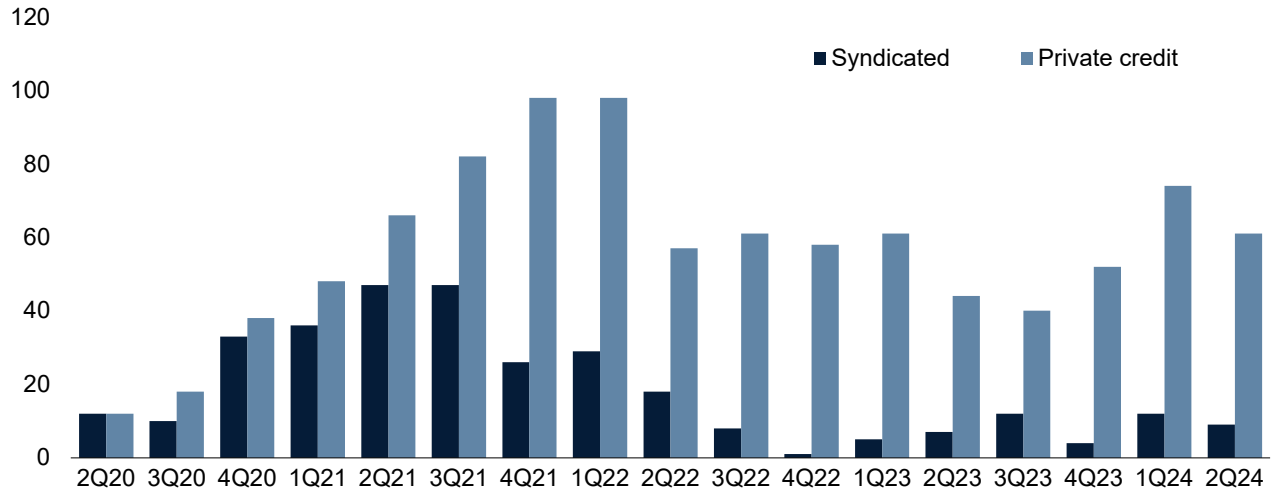
Private Credit

US PE Cumulative Dry Powder ($B)[1]



- Private credit investors, looking ahead to 2024, can expect a resurgence of deal activity, steady-to-tighter spreads, and a renewed focus on private debt recovery levels as defaults rise.
- Private equity sponsors have significant dry powder ready to deploy and are yearning for more exit opportunities after a challenging year.
- The expectation among sponsors is that new deal volume should pick up in 2024 alongside pent-up M&A opportunities.

Count of LBOs Financed in BSL vs. Private Credit Markets[2]



- Private equity sponsors routinely use dual-tracking loans in private credit and the syndicated market to see where the best terms and pricing are available, with many credit platforms offering both options. Even as banks are keen to showcase the comeback of the syndicated loan market, direct lenders continue to lock up $1 billion+ deals at a steady clip.

1. Source: PitchBook • Data through December 31, 2023
2. Source: PitchBook | LCD • Data through June 30, 2024

Glossary of Terms/Methodology

Glossary of Terms/Methodology

Dataset covered:

- Unless noted otherwise, all the data included in this update reflects the U.S. broadly syndicated leveraged loans market, as tracked by PitchBook LCD. With the exception of the section titled "Outstanding Institutional Market Statistics", the data reflects the new-issue (primary) leveraged loan market. The dataset includes all leveraged loans syndicated in the U.S., including USD-denominated tranches of borrowers domiciled in Europe and other locations.

- Secondary market analysis, i.e. "Outstanding Institutional Market Statistics" section is based on the Morningstar LSTA US Leveraged Loan Index.

Definitions and calculations methodologies:

- **Average Calculations:** Unless noted otherwise, all averages are straight averages (not weighted by size).

- **Broadly Syndicated Loans:** A broadly syndicated loan (BSL) is a large loan, typically exceeding $100 million, extended to a borrower by a group of lenders. These loans are arranged by one or several banks, known as arrangers, which then sell portions of the loan to a syndicate of banks, institutional investors, and other financial entities. BSLs are usually senior secured loans with floating interest rates tied to a benchmark like SOFR and may include covenants to protect lenders. Institutional term loans (Term Loan Bs), a subset of the broadly syndicated market, generally do not have financial maintenance covenants. BSLs tend to be rated by one of the major credit ratings agencies (S&P, Moody's, or Fitch). They can also be traded in a secondary market for liquidity.

- **Covenant-Lite:** Loans that have bond-like financial incurrence covenants rather than the traditional maintenance covenants.

- **EBITDA:** Reflects pro forma adjusted EBITDA, as provided in the Offering Memorandum during the loan syndication process.

- **High Yield:** High yield bonds, also known as junk bonds, are bonds that offer higher interest rates due to their lower credit ratings compared to investment-grade bonds. These bonds are issued by companies or entities with higher risk of default. The higher yield compensates investors for the increased risk. High yield bonds are commonly used by companies to raise capital for growth, acquisitions, or refinancing. They can be traded in secondary markets, providing liquidity to investors.

- **Institutional Debt/Institutional Facilities:** Tranches sold primarily to institutional investors, i.e. loan investors who are primarily funded by pooled funds. The funds can take the form of structured vehicles (CLOs), mutual funds, hedge funds, and pension funds. Institutional loan tranches traditionally have a bullet repayment with little (1% per annum) or no amortization, a longer maturity than a revolver or amortizing term loan and a spread of over 200 bps over a base rate. They are frequently subject to a pricing grid and sometimes carry call premiums/prepayment fees.

- **Interest Coverage Ratio:** EBITDA to interest ratio at closing of each loan, based on pro forma adjusted EBITDA provided in the Offering Memorandum during the loan syndication process.

- **LBO:** Acquisition of the majority share of a company by a private equity sponsor. Excludes recapitalizations, refinancings, and follow-on acquisitions.

- **Leverage Ratio:** Debt to EBITDA ratio at closing of each loan, based on pro forma adjusted EBITDA provided in the Offering Memorandum during the loan syndication process.

- **Private Credit:** Private credit refers to non-bank lending provided by private institutions, such as private equity firms, asset managers, and hedge funds, to companies. It serves issuers that may not have access to traditional bank loans or public debt markets, as well as those seeking financing for higher leveraged acquisitions or additional capital when traditional banks are more cautious. Private credit includes direct loans, mezzanine financing, and distressed debt, offering flexible terms and higher yields to compensate for the increased risk. Private credit loans tend not to be rated by the major credit ratings agencies and for most issuers are provided by a single lender vs. syndicate.

- **Pro-Rata Debt/Pro-Rata Facilities:** Includes revolving credit and amortizing term loans, which are packaged together and usually syndicated to banks.

Glossary of Terms/Methodology

- **Recapitalization:** A leveraged loan backing a recapitalization results in changes in the composition of an entity's balance sheet mix between debt and equity either by 1) issuing debt to pay a dividend or repurchase stock, or 2) selling new equity, in some cases to repay debt.
- **Spread:** Premium above a base rate; data reflects contractual spread at issuance of each loan.
- **Volume:** The amount of loans launched into syndication during the specified time period. The date used for calculation is the bank meeting or lender call date of the transaction. In case of add-on loans, only the incremental amount is included. Extensions (A-to-E) or repricings done via an amendment process are not included in volume calculations.
- **Yield-to-Maturity:** The primary yield adjusted for the break price over the stated term of the facility.

About Matrix

About Matrix Capital Markets Group, Inc.

Founded in 1988, Matrix Capital Markets Group, Inc. is an independent, advisory focused, privately-held investment bank headquartered in Richmond, VA, with additional offices in Baltimore, MD and New York, NY. Matrix provides merger & acquisition and financial advisory services for privately-held, private-equity owned, not-for-profit and publicly traded companies. Matrix's advisory services include company sales, recapitalizations, capital raises of debt & equity, corporate carve outs, special situations, management buyouts, corporate valuations and fairness opinions.

Our industry focused, dedicated sector advisory groups serve clients in the automotive aftermarket, downstream energy & convenience retail, healthcare and outdoor recreation & marine markets. Our broad sector advisory groups serve clients in a wide range of industries including business services, consumer, diversified industrials, restaurants and transportation & logistics. For additional information or to contact our team members, please visit www.matrixcmg.com.

About Matrix's Capital Advisory Investment Banking Group
Capital availability, capital access, and capital options are the three top priorities of any business owner and management team.

Whether investing in growth, managing shareholder liquidity, and/or funding working capital, the Capital Advisory Group at Matrix helps public, private, and not-for-profit clients navigate the increasingly complex capital markets landscape when contemplating events ranging from refinance strategies to complete recapitalizations.

Types of Capital Raised
- First-Lien/Senior-Secured and Unsecured Bank Loans
- Second-Lien/Split-Lien
- Mezzanine Debt
- Unitranche Facilities
- Sale Leaseback
- Bridge Financing
- Unregistered Private Placements
- High-Yield and Investment Grade Bonds
- Minority Equity
- Convertible Preferred Equity
- DIP Financing/Restructurings

Types of Investors
- Commercial and Investment Banks
- Direct Lenders / BDCs / Private Credit Strategies
- Institutional Investors (CLOs and other Structured Vehicles)
- Insurance Companies
- Special Credit Funds
- Private Equity Firms
- Family Offices
- Hedge Funds
- Mutual Funds
- Restructuring, Distressed, and Special Situation Lenders

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