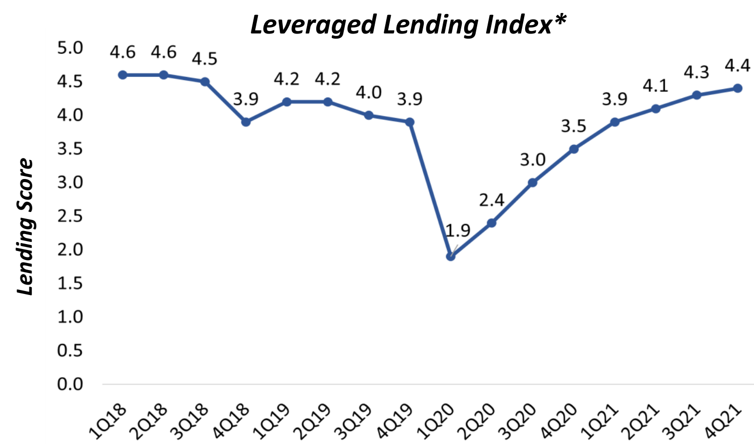
Leveraged Finance Report

2021 Overview

Debt financing markets continued to experience momentum in 2021. Transaction volume hit an all-time high, new financing options emerged, and private credit continued to increase its share in the capital stack of middle-market borrowers; these tailwinds have set the stage for a strong 2022. New-issue volume in leveraged loans hit an all-time high in 2021, topping $615 billion and more than half of the volume, approximately $331 billion, consisted of debt raised to support M&A activity (*William Blair*)[1]. The increasingly borrower-friendly landscape generated non-traditional concessions to win deals including aggressive pricing and leverage — a dramatic turnaround from Q1 2020.



**** 1 = Most Lender-Friendly; 5 = Most Borrower-Friendly***

****Leveraged Lending Index is from William Blair's quarterly survey of middle-market leveraged finance professionals representing leading credit funds, BDCs, finance companies, commercial banks, and other credit providers to measure sentiment in the leveraged finance market. The data reflects responses from more than 60 leveraged finance professionals who participated in the survey in Q4 2021.***

Source: William Blair

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Carleton McKenna & Co:

We believe businesses are the economic engine of our society, and that business owners deserve and require a proactive advocate to maximize life changing transactions.

Firm Overview:

Carleton McKenna & Co. is an independent investment banking firm providing M&A Advisory, Capital Raising, and Pre-Transition Advisory services. We deliver hands-on transaction execution, with clear, insightful strategy to drive extraordinary success.

We work with middle market closely-held businesses, multi-generational family businesses, portfolio companies of financial sponsor firms and divisions or subsidiaries of public companies focusing in Manufacturing & Specialty Chemicals, Consumer Products, SaaS, Healthcare, B2B Services and Cybersecurity.

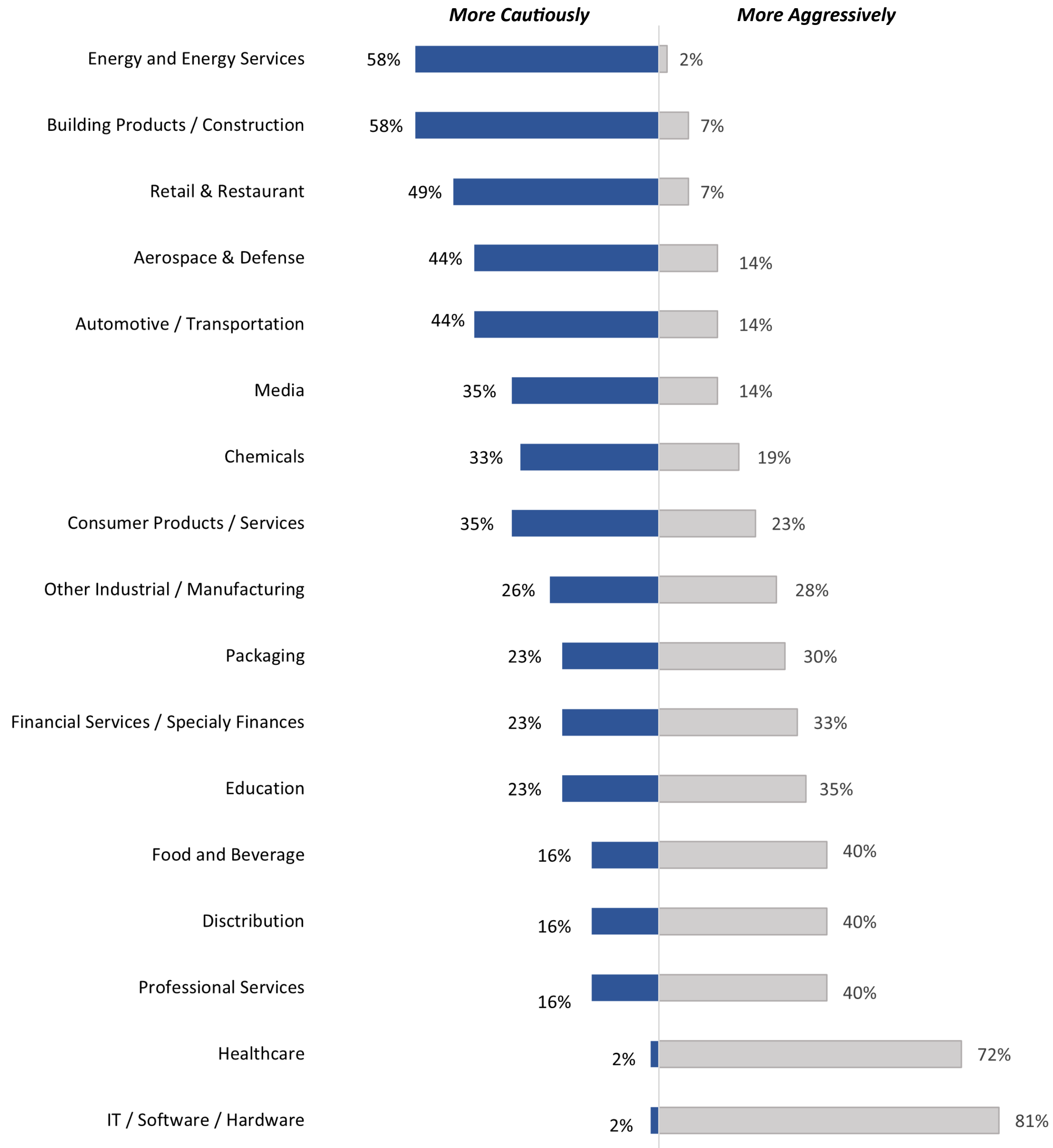
Our Team is made up of finance and accounting experts, operators, C-Suite and Board professionals, lawyers, consultants, and marketing professionals. These diverse experiences and skills drive extraordinary results for our clients.

Source: (1) William Blair

LEVERAGED FINANCE REPORT—*2021 OVERVIEW*

Middle-market leveraged finance professionals representing leading credit funds, BDCs, finance companies, commercial banks and other credit providers were surveyed regarding their attitudes toward the leveraged finance market. The data below and on the following pages reflects responses from the more than 60 leveraged finance professionals who participated in the survey from Q4 2021 (*William Blair*)[1].

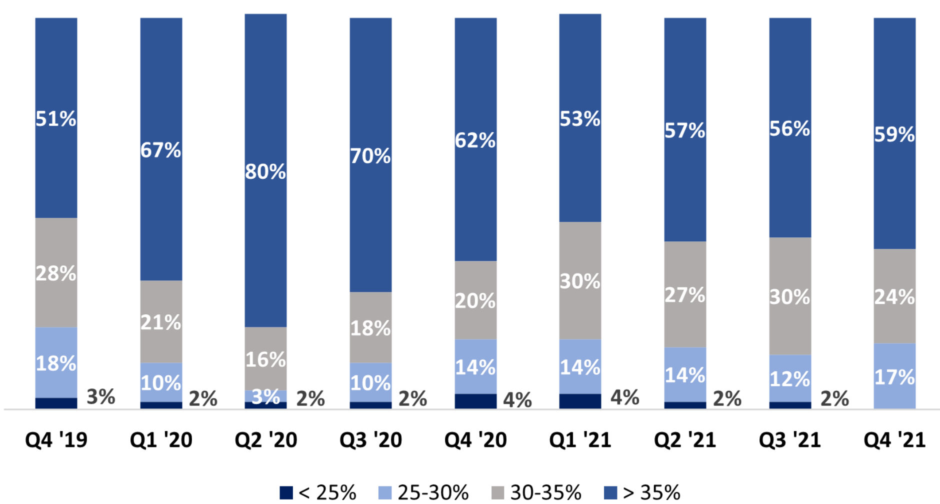
Are there any specific sectors or industries for which your firm is proceeding more aggressively or cautiously today compared with 6 months ago?



Source: (1) William Blair

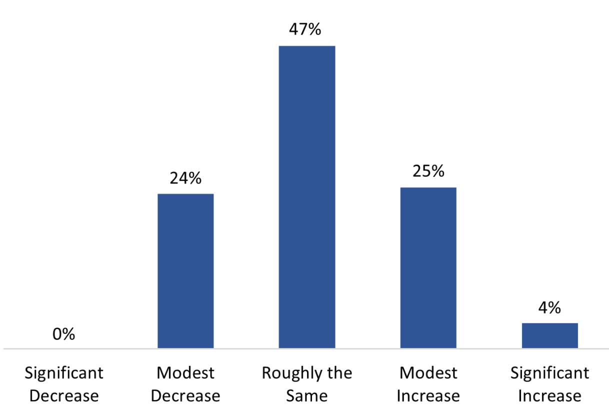
As the share of syndicated loans continued to fall in 2021, more middle-market borrowers sourced capital from direct lending or private credit outlets. Numerous transactions valued in excess of $1 billion topped direct lending markets in 2021. Although borrowers witnessed greater benefits and more flexible options through the direct lenders, it became increasingly difficult to access lender capital during the second half of 2021. The high volume of transactions in the market caused intermediaries such as law firms, accounting firms, and quality-of-earnings providers to frequently withdraw from the opportunity to engage or move quickly enough to meet transaction deadlines. Moving forward, issuers and sponsors may find it difficult to raise capital without additional assistance from investment banks or third party lenders.

For transactions involving a private equity sponsor, what is the minimum equity contribution you require?

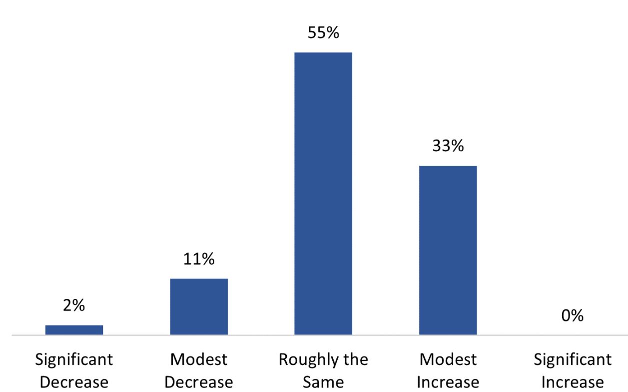


Source: William Blair

For 2022, what are your expectations for new-issue loan volume (compared to 2021)?



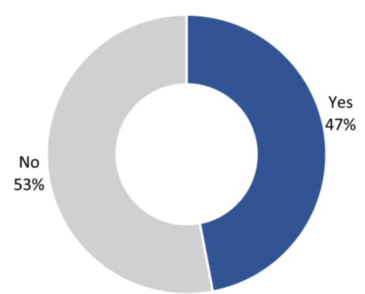
For 2022, what are your expectations for default rates (compared to 2021)?



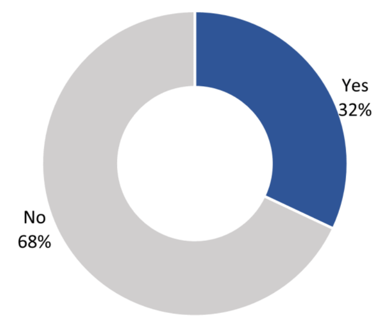
Source: William Blair

Despite the market being borrower-friendly, lenders are aggressively seeking new debt opportunities. Survey respondents reported lender aggressiveness towards new debt opportunities was at its highest since the start of the pandemic (*William Blair*)[1]. Conversely, lender respondents alluded to tight labor markets and hiring challenges. During Q4 2021 lenders had to turn down new financing opportunities due to internal capacity constraints brought on by labor shortages. However, lenders have indicated their optimism towards loan volume in 2022 with the majority of respondents forecasting a strong year.

During Q4 2021, did your firm turn down any new financing opportunities due to internal capacity constraints?

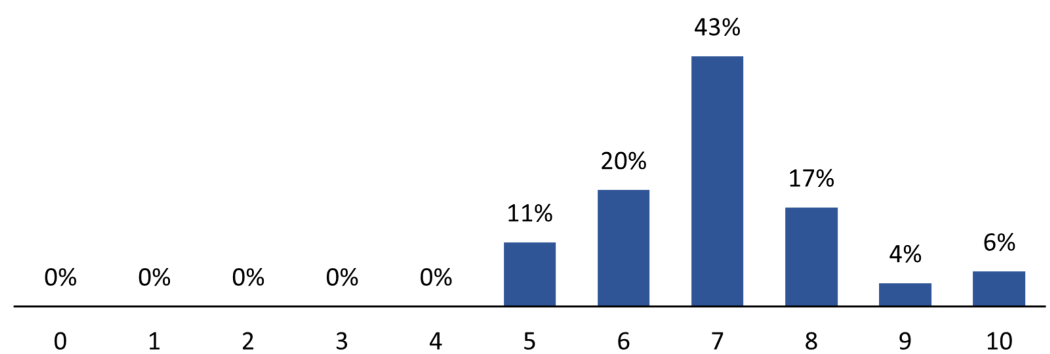


If yes, do you expect capacity issues to continue in 2022?



Source: William Blair

Assuming your firm's pre-COVID rating was a 5, how would you rate the aggressiveness of your firm's approach to new debt opportunities?



Source: William Blair

Average Rating by Quarter

Q3 '20	Q4 '20	Q1 '21	Q2 '21	Q3 '21	Q4 '21
4.2	5.4	6.2	6.6	6.9	7.0

Source: (1) William Blair

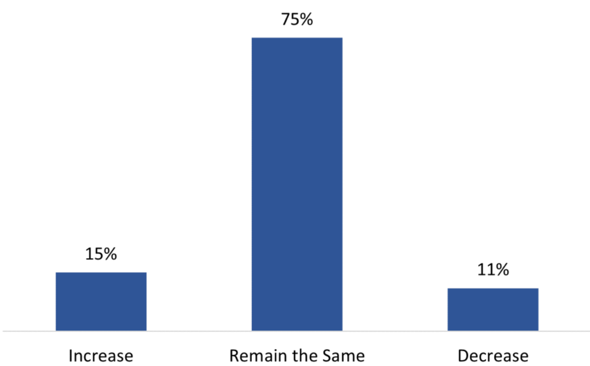
LEVERAGED FINANCE REPORT—*2021 OVERVIEW*

Availability of capital, M&A volume, availability of quality investments, inflation and interest rates, and the transition from the London Interbank Offered Rate (LIBOR) to the Secured Overnight Financing Rate (SOFR) are the most significant trends that lenders expect will affect the leveraged loan market in the coming year.

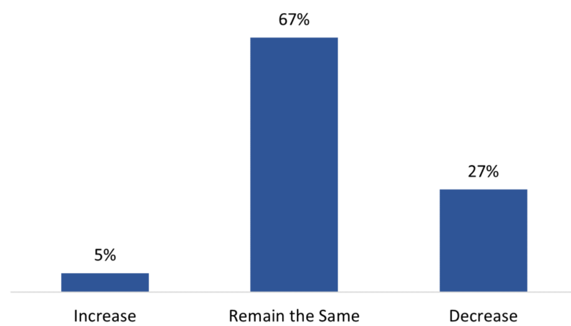
Additional factors and trends that hold significant impact on the market include:

- Fluctuation in Fed rates, monetary policy and inflation rates for labor and freight;
- High investor liquidity; and
- Increased use of covenants and continued growth in covenant-lite unitranche financings.

Looking ahead to 2022, what are your expectations regarding pricing of your primary debt offering?



Looking ahead to 2022, what are your expectations regarding transaction terms and leverage?



Source: William Blair

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