For Institutional Use Only

RAYMOND JAMES | INVESTMENT BANKING

Q3 2023

DEBT MARKET INSIGHT

IN THIS EDITION

Raymond James Capital Structure Advisory Group

Senior Team

Geoffrey Richards
Senior Managing Director
Head of Capital Structure Advisory
212.885.1885
geoffrey.richards@raymondjames.com

Robert Schwarz
Managing Director
Head of Private Debt Placements
212.885.1806
rob.schwarz@raymodjames.com

Adam Kauffman
Managing Director (Toronto)
416.777.7145
adam.kauffman@raymondjames.com

Mike Pokrassa
Managing Director
212.885.1815
michael.pokrassa@raymondjames.com

Jacob Czarnick
Managing Director
212.885.1805
jacob.czarnick@raymondjames.com

Marsha Zebley
Vice President
Head of Business Development
212.856.4888
marsha.zebley@raymondjames.com

Extensive transaction experience[1]

100+	$3.5bn	1,000+	300+
Capital raises	Capital raised in last 12 months	Capital relationships	Restructuring transactions

- cloudco Entertainment — Has been acquired by IVEST Consumer Partners — Supported by a senior credit facility arranged by Raymond James
- ACTION Dedicated — Has been acquired by PS Logistics — A portfolio company of GAMUT Capital
- exicure — Sale of a majority stake to CHEONGBO
- APEX — Has been acquired by Morgan Stanley Capital Partners — Supported by debt financing arranged by Raymond James
- CFG Caribbean Financial Group — Senior secured credit facility arranged by Raymond James
- The Halifax Group — Has made a majority investment in MILESTONE — Supported by a senior credit facility arranged by Raymond James
- TDW T.D. Williamson — Has received a strategic investment from SCF Partners — Exclusive Financial Advisor
- Southern Siding Company — A portfolio company of The Halifax Group — Debt Financing
- american natural — A portfolio company of Tiger Infrastructure Partners — Preferred Equity Financing
- BEL USA — A portfolio company of COMVEST Partners — Debt Financing
- RCP Reverence Capital Partners — Has made a majority investment in Ministry Brands — Supported by a senior credit facility arranged by Raymond James
- afr Furniture Rental — Has completed a recapitalization in conjunction with J.P.Morgan Global Alternatives
- GOOD west — A portfolio company of Palladium Equity Partners — Debt Financing
- GreyLion — Has partnered with NORWOOD Sawmills — Supported by a senior credit facility arranged by Raymond James
- cabi — A portfolio company of Sentinel Capital Partners — Debt Financing

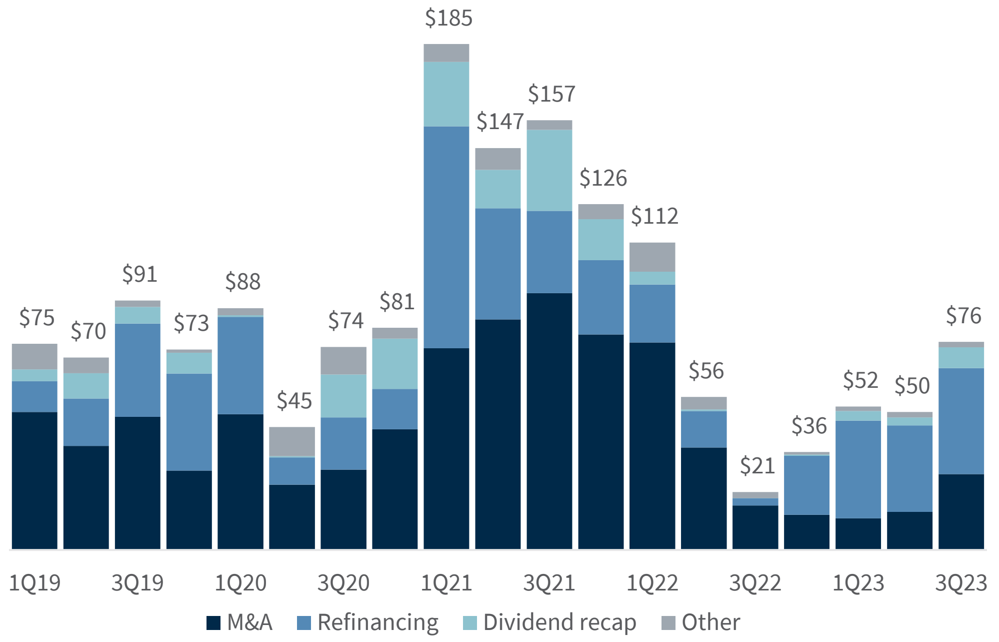
(1) Statistics as of September 2023. Tombstones reflect representative transactions completed between 8/31/2021-9/30/2023

Section 1: Broadly Syndicated Loans

Improving New Issue Volume and Secondary Pricing

($'s in billions)

US Institutional Volume



- Leveraged loan market new issuance in 3Q23 totaled $76.0bn, the highest mark since the current cycle of Fed rate hikes began in 1Q22
- Refinancing transactions continue to dominate the market for the fourth quarter in a row, representing a 51% share in 3Q23 and a 59% YTD 2023
- Increasing M&A loans contributed to overall growth, accounting for 37% of total volume and reaching a five-quarter high of $27.8 bn in 3Q23
- Dividend recapitalization increased to 10% of total volume although lenders remain cautious over opportunistic transactions

Weighted Averaged Bid of US Leveraged Loans

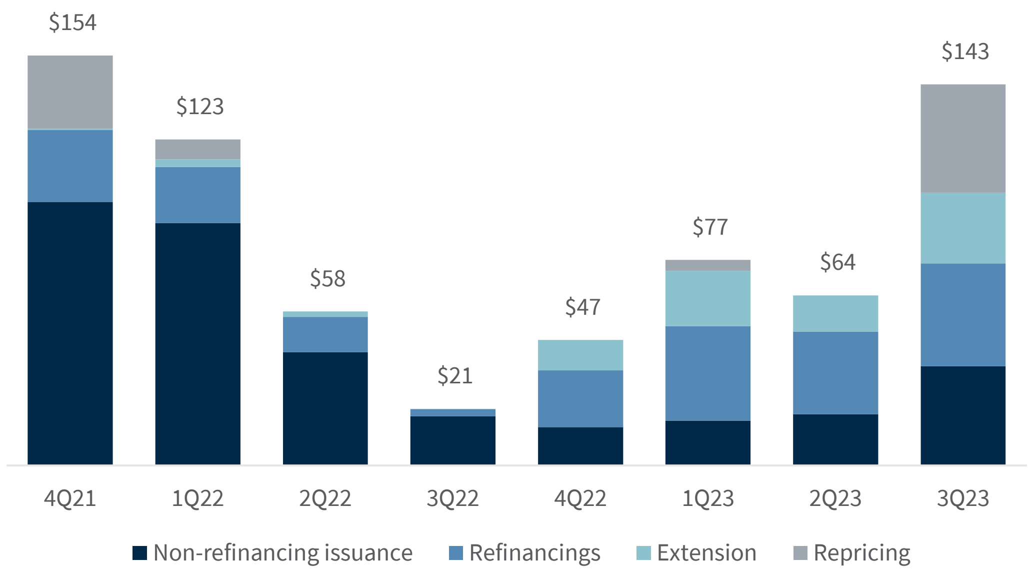
- Sustained secondary market rally in 3Q23 provided a positive backdrop for the increase in new issue activity
- After one of the most volatile periods for the leveraged loan market, which saw the weighted average bid on the Index reach 91.75 in July 2022, secondary market pricing rallied to a 2023 peak of 95.91 in mid-September 2023

Source: Leveraged commentary and data. Data through September 30, 2023

Refinancing, Repricing and M&A Activity

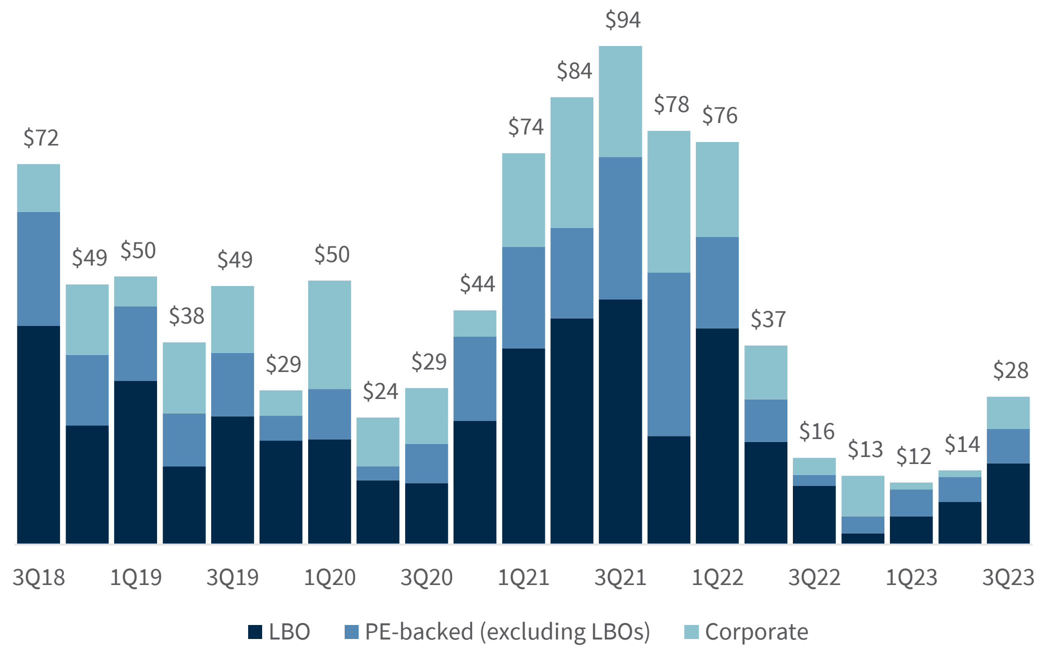
($'s in billions)

US Institutional Volume Including Repricing and Extensions[1]



- Primary market activity including extensions and repricings grew to $143bn, a seven-quarter high
- On the back of improving market conditions, borrowers focused on extending upcoming maturities
  - Refinancings totaled $38.7bn, a third consecutive quarter with volume >$30.0bn
  - Repricing and A&E activity was higher than at any point since 1Q21
  - Extensions reached a post-GFC high at $26.6bn, double the previous quarter
- Non-refinancing activity of $37.4bn is the highest since 2Q22

U.S. Institutional Loan Volume Backing M&A



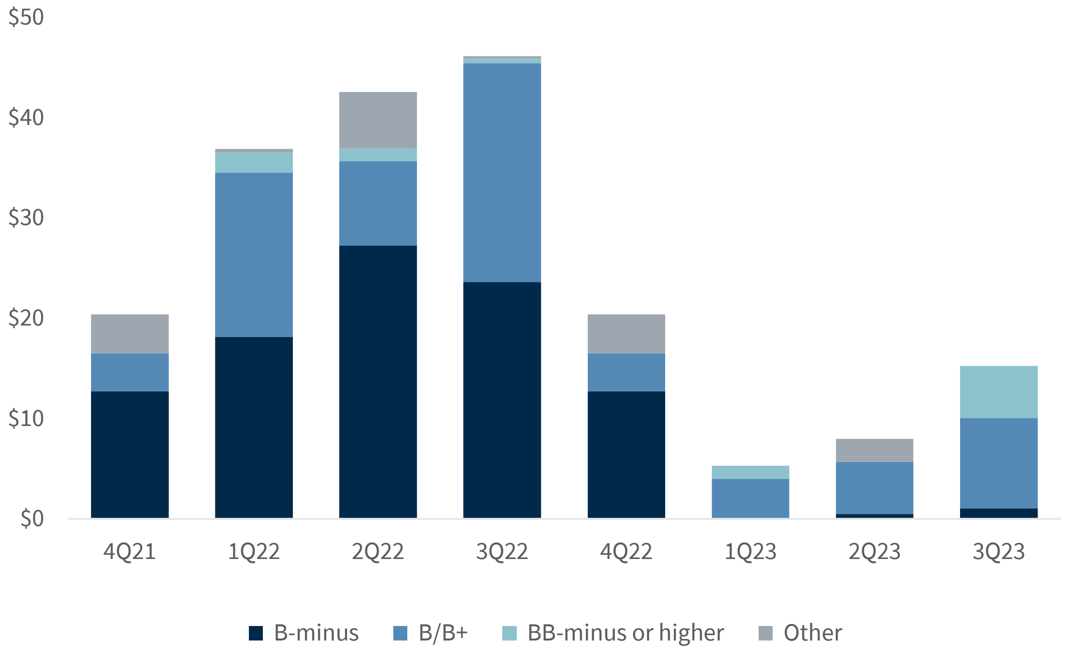
- Total LBO/M&A loan volume reached a five-quarter high of $27.8bn in 3Q23
- LBO loans totaled $15.3bn, representing 55% of the volume
  - Third straight quarter of growth and the most since 2Q22
  - Total of 12 BSLs for LBOs in 3Q23 is also the most since 2Q22
- Market activity is focused on higher-rated issuers; 95% of YTD LBO volume is from issuers rated B/B+ or higher, up from 44% in FY22
- Despite the promising uptick in acquisition-related financing, the market still badly lags historical comparable periods

(1) Total volume includes repricings and extensions via an amendment process (vs. new issuance)
Source: Data through September 30, 2023

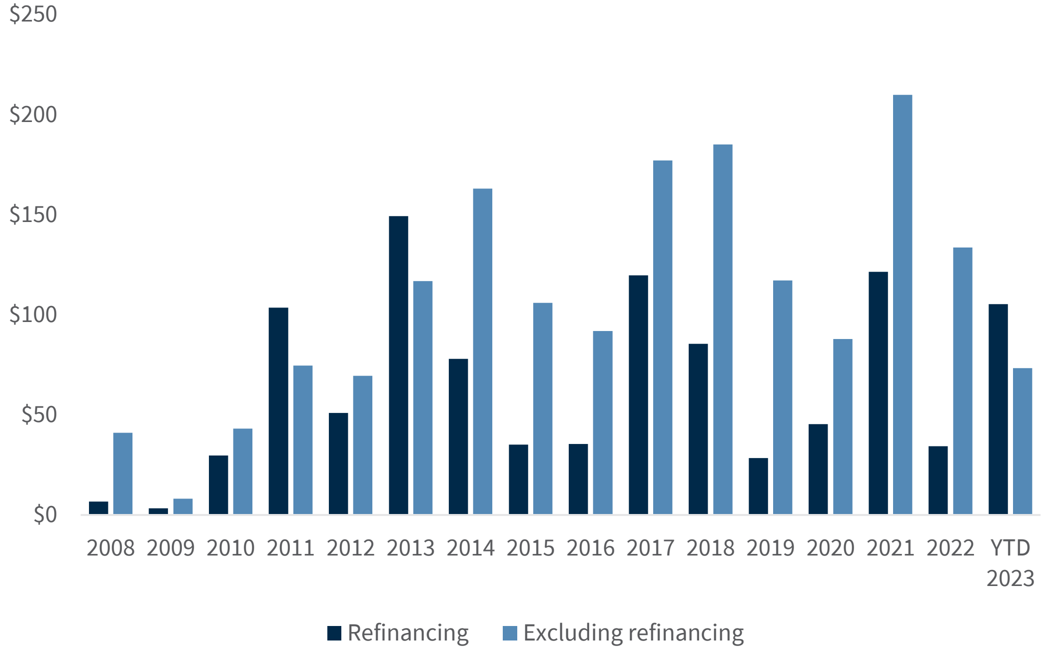
LBO Borrower Ratings and YTD Institutional Volume

($'s in billions)

LBO Institutional Loan Volume by Borrower Rating



Year-to-date institutional loan volume



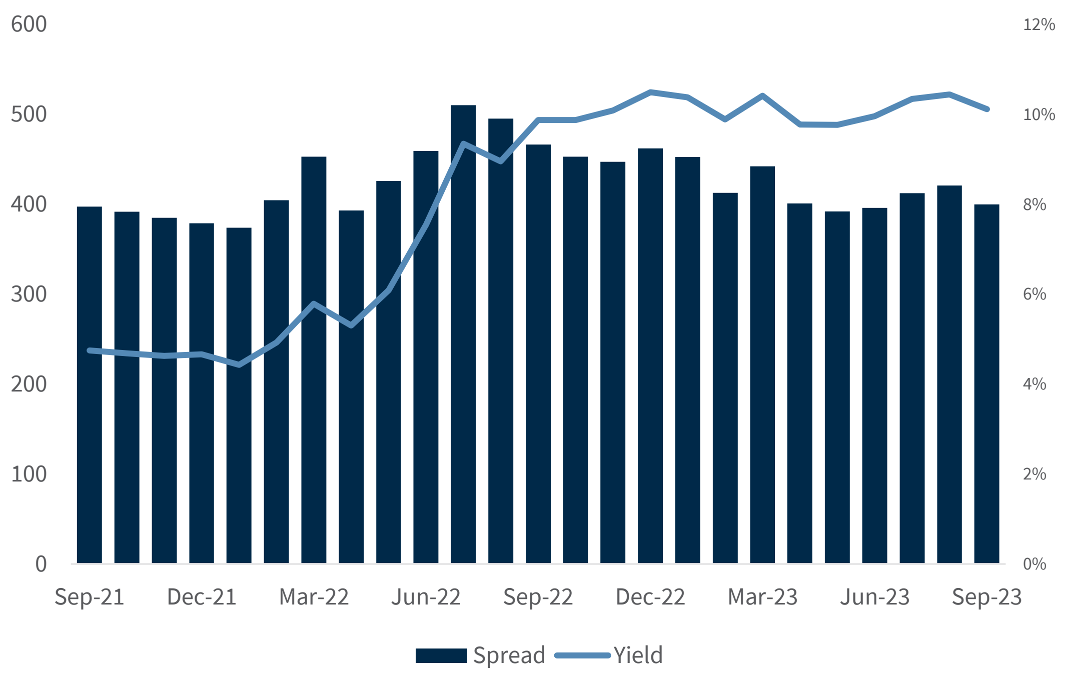
- New LBOs have leaned toward higher rated borrowers
- 95% of YTD LBO volume is from issuers carrying ratings of at least B/B+, which is up from 44% in FY22
  - In fact, there have been only three LBO deals in all of 2023 that were from issuers rated B-minus: Cvent in Q2; and Fogo de chao and Aramsco in Q3
  - Lower rated issuers have increasingly reverted to the private credit market for their financing needs

- YTD 2023 issuance of $179bn is the lowest amount since 2010, when $107bn was issued over the same period
- Refinancing volume is relatively strong – only four years since the Global Financial Crisis had greater volume in the first three quarters versus the $105bn this period
- Non-refinancing volume stands at $73bn, a trough not seen since the same period in 2010

Source: Leveraged commentary and data. Data through September 30, 2023

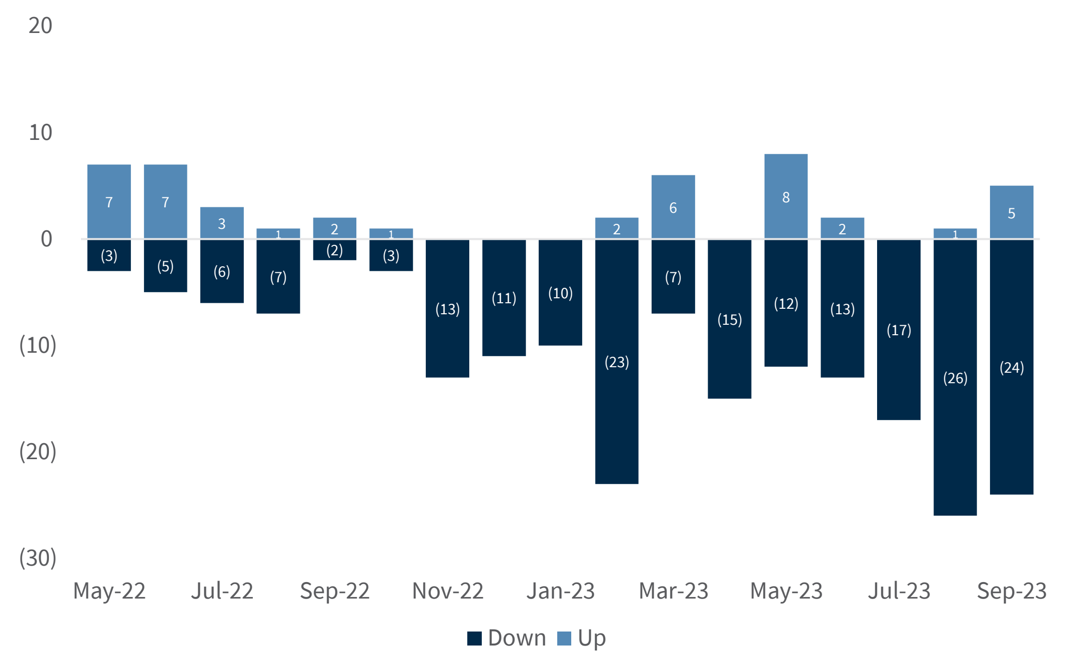
New Issuance Economics

New-Issue Spread and Yield-to-Maturity of B/B+ Loan Borrowers



- New issue spreads declined in 3Q23 on the back of a sustained secondary market rally
- The average new-issue spread for B/B+ rated issuers was 400 bps in September 2023, down 67 bps vs. the 467 bps in September 2022 and relatively flat to the 396 bps in June 2023
- The average new-issue yield for B/B+ rated issuers was 10.1% in September 2023 versus 9.9% y/y and 10.0% q/q

Count of leveraged loan flexes

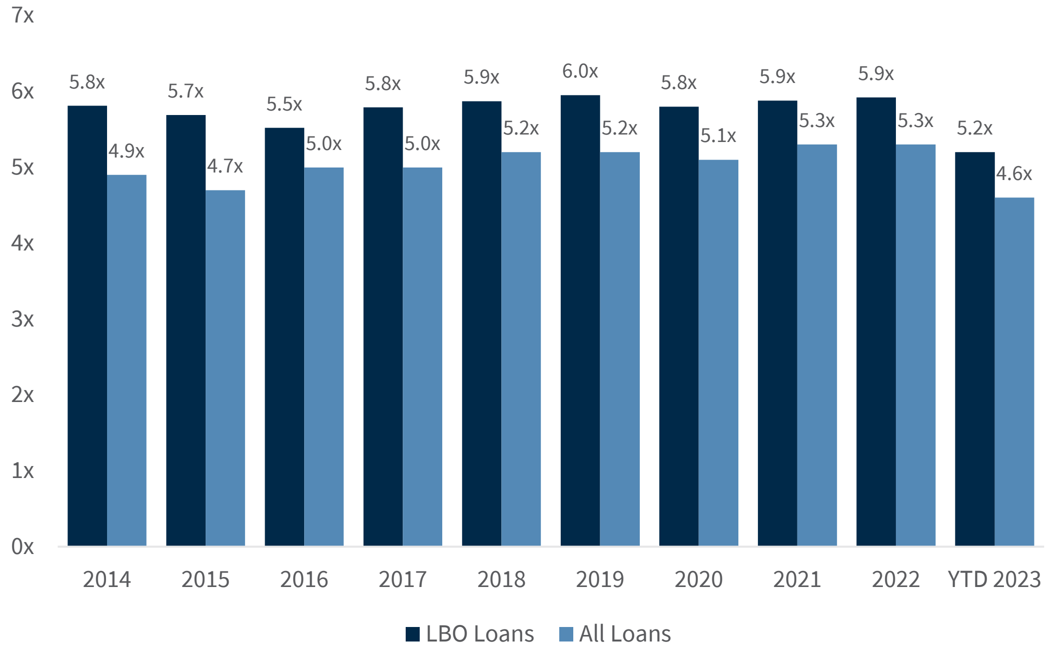


- Given reduced clearing levels for new issues, price flex activity continued to favor issuers in 3Q23
- Pricing tightened during syndication for 67 tranches while pricing widened on just 6 tranches in 3Q23, favoring borrowers more than in 2Q23, when 40 deals tightened versus 10 pushed wider

Source: Leveraged commentary and data. Data through September 30, 2023

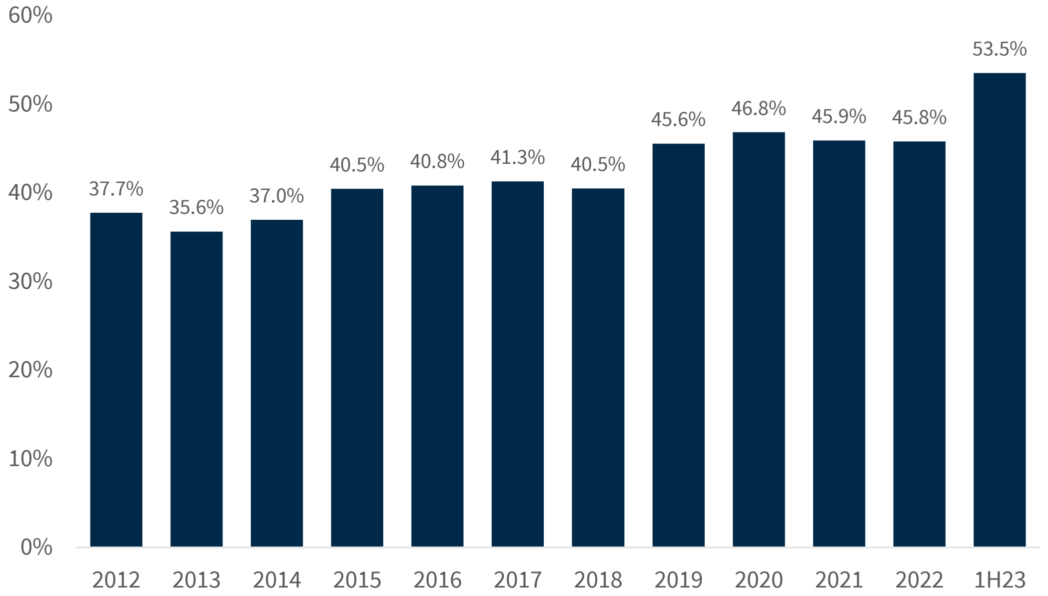
Leverage Statistics

Average Debt Multiples of Large Corporate Loans



- Average debt multiples of large corporate LBOs have remained relatively constant over the last few years at around ~6.0x; however, YTD 2023 has seen a substantial dip to 5.2x, reaching the lowest value since 2012
- Looking at the overall market, average debt multiples declined to 4.6x YTD 2023, nearing the lowest level in over 10 years

Equity Contribution for Large Corporate LBOs(1)

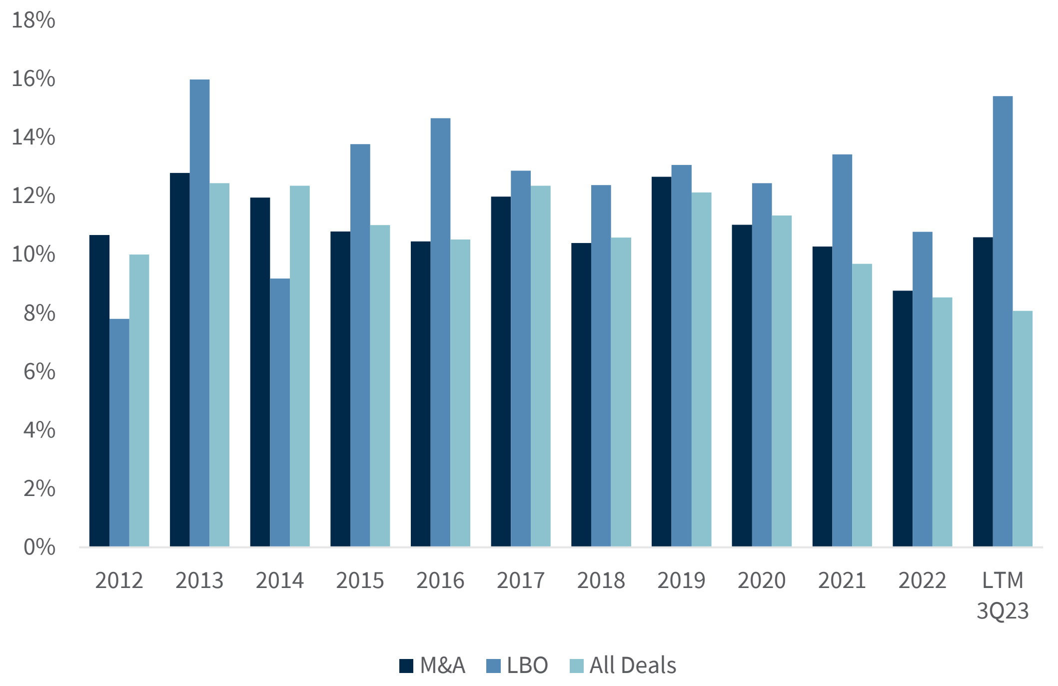


- Equity contributions have remained flat over the past few years, but saw a notable uptick, reaching 53.5% in 1H23, the highest level on record, as debt capacity has declined materially for borrowers amid a spike in interest rates and economic uncertainty

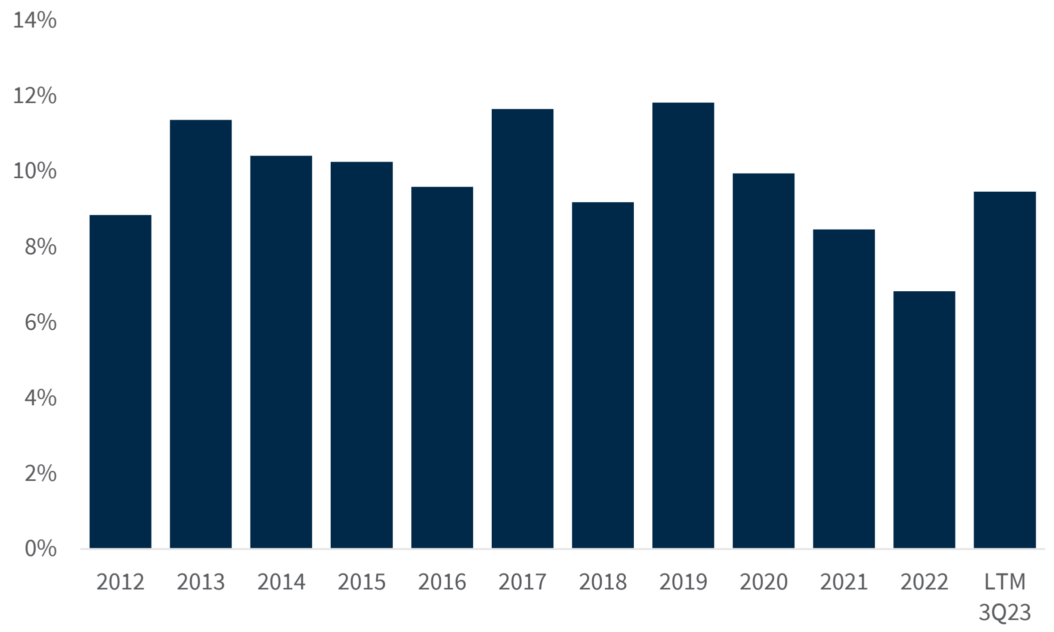
Source: Leveraged commentary and data. Data through September 30, 2023
Note: 1) Equity contribution for Large Corporate LBOs data calculated on half-yearly basis and is as of June 30, 2023

EBITDA Adjustments and Synergies

Adjustments as a Percentage of EBITDA



Average Synergies/EBITDA Ratio for Acquisition-Related Transactions



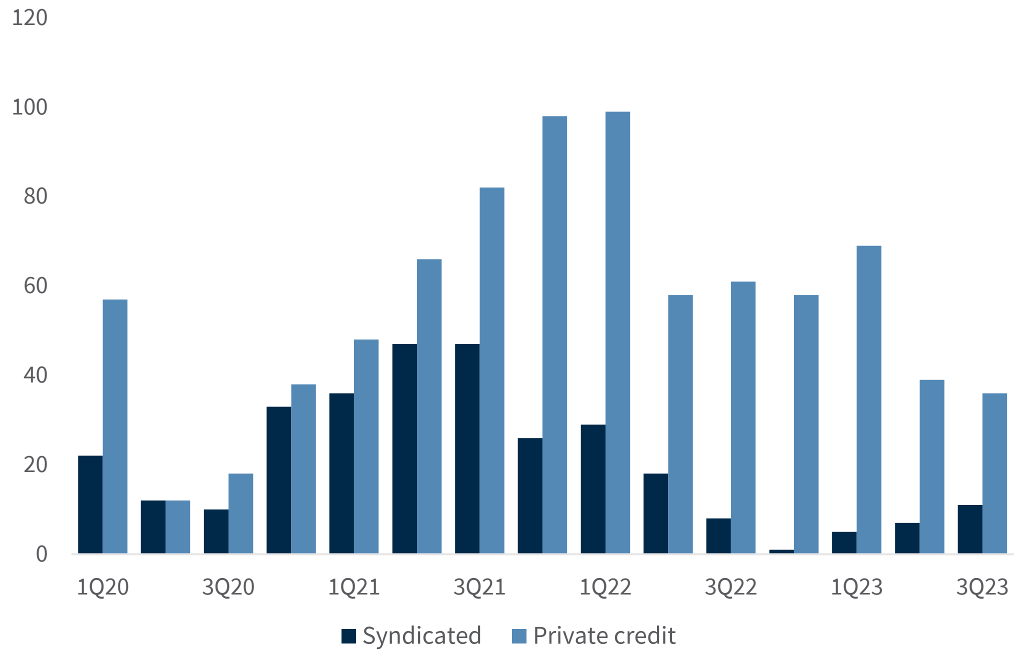
- Adjustments as a percentage of EBITDA have continued to decline with LTM 3Q23 levels reaching 8.1%, the lowest level in over a decade
- However, in a bright spot for the market, adjustments for M&A and LBO deals have increased from the recent low point in 2022
  - LTM 3Q23 levels reached 10.6% for M&A deals, up from from 8.8% in 2022
  - Similarly, LBOs saw an increase from 10.8% in 2022 to 15.4% to LTM 3Q23

- The average synergies/EBITDA ratio has trended downwards in recent years as underwriters establish more stringent requirements for synergies and other EBITDA adjustments
- 1Q23, 2Q23, and 3Q23 were the first quarters since 2019 to see an increase in the synergies/EBITDA ratio, driving the LTM 3Q23 average up to 9.5% from 6.8% in 2022

Source: Leveraged commentary and data. Data through September 30, 2023

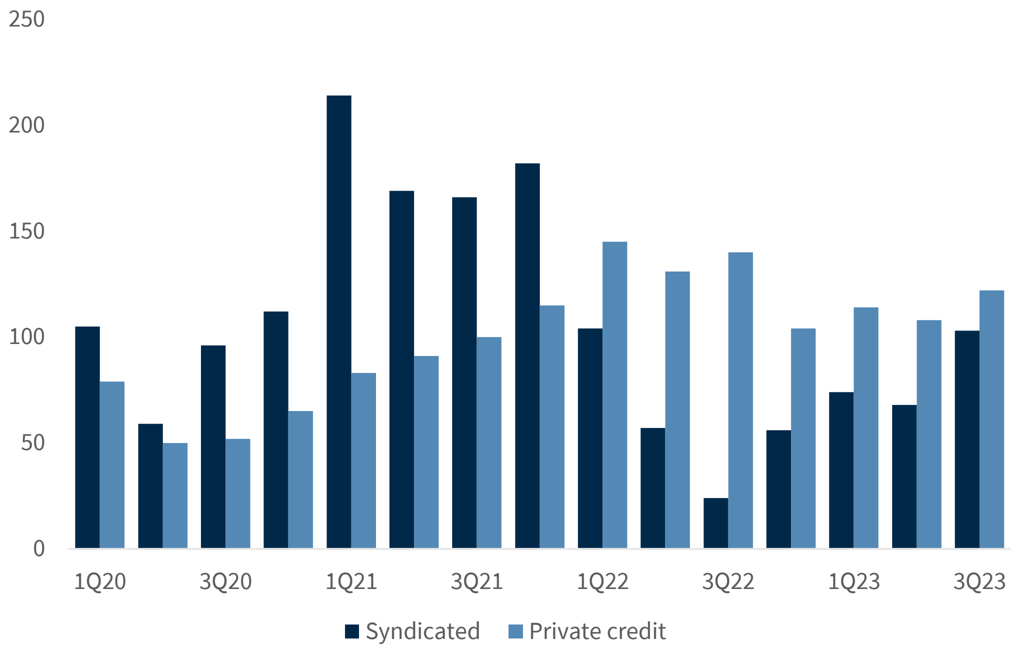
Syndicated vs. Private Credit Financing

Count of LBOs Financed in BSL vs. Private Credit Markets



- The private credit market continued to dominate over the broadly syndicated market in the number of LBO financings
- Since 2Q22, private credit has accounted for the overwhelming majority of buyout financings by count. This trend continued in 3Q23 with 36 private credit LBOs to just 11 in the BSL market

Count of non-LBOs Financed in BSL vs. Private Credit Markets



- Private credit has been outpacing syndicated loans for non-LBOs since 1Q22, and the trend continued through 3Q23 as borrowers prioritized ease of execution
- Syndicated loans, however, saw a steep jump to 103 transactions in 3Q23, up from 68 in 2Q23 and just 24 in 2Q22, but still trail the 3Q21 high of 166

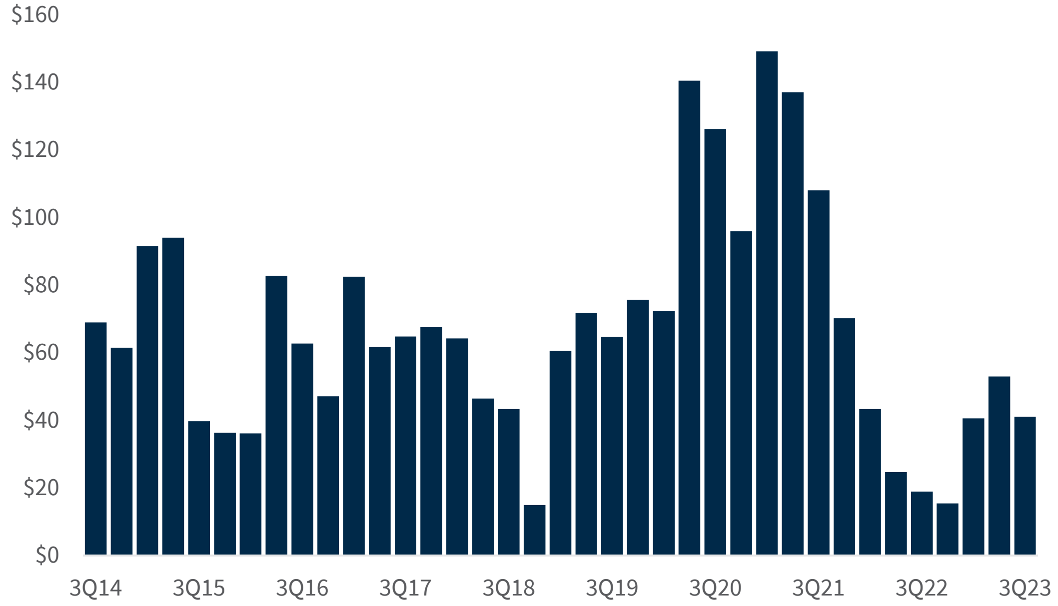
Source: Leveraged commentary and data. Data through September 30, 2023

Section 2: High Yield

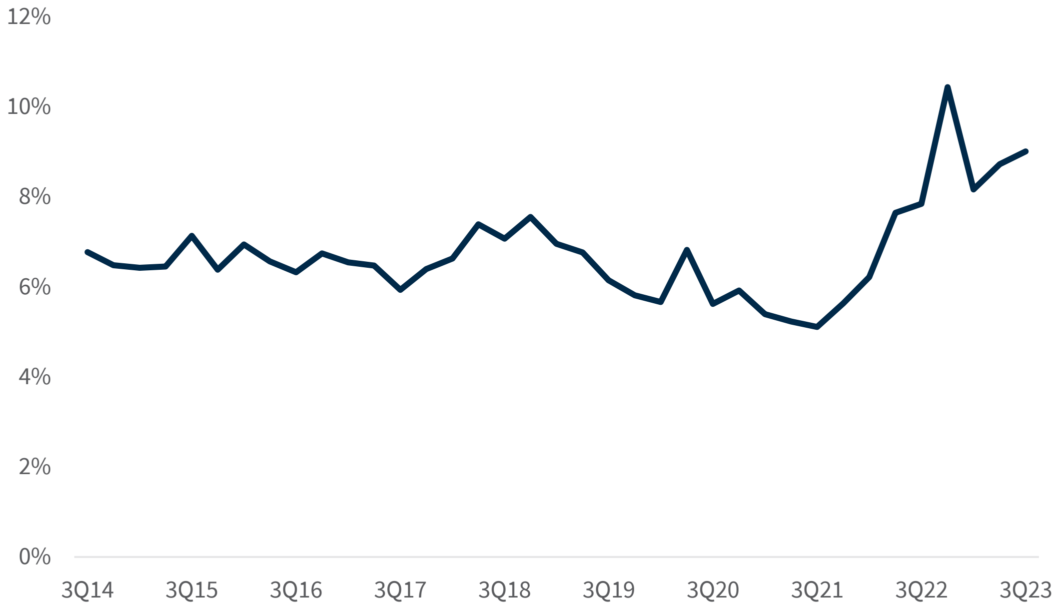
High-Yield Bonds

($'s in billions)

U.S. High-Yield Bond Volume



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



- Following seven consecutive quarters of decline, high-yield bond issuance saw a revival in the first half of 2023, rising to $40.6bn in 1Q23 and $53.0bn in 2Q23, before tapering off at $41.0bn in 3Q23
  - This relative surge followed the weakest output since the Global Financial Crisis when issuance totaled a cumulative $34.3bn during the second half of 2022

- New-issue yields in 3Q23 reflected a slight uptick to 9.01% from 8.73% in 2Q23 after a considerable drop of 228 bps in 1Q23
  - Costs remain substantially elevated versus a 5.32% annual average in 2021, including an all time low of 5.11% in 3Q21

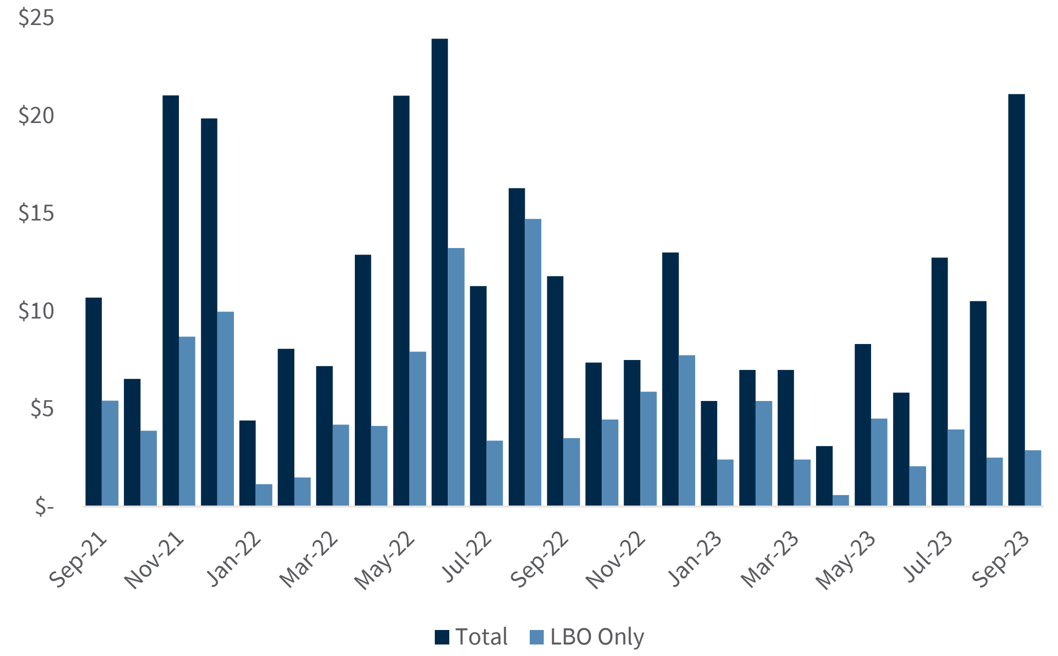
Source: Leveraged commentary and data. Data through September 30, 2023

Section 3: Private Debt

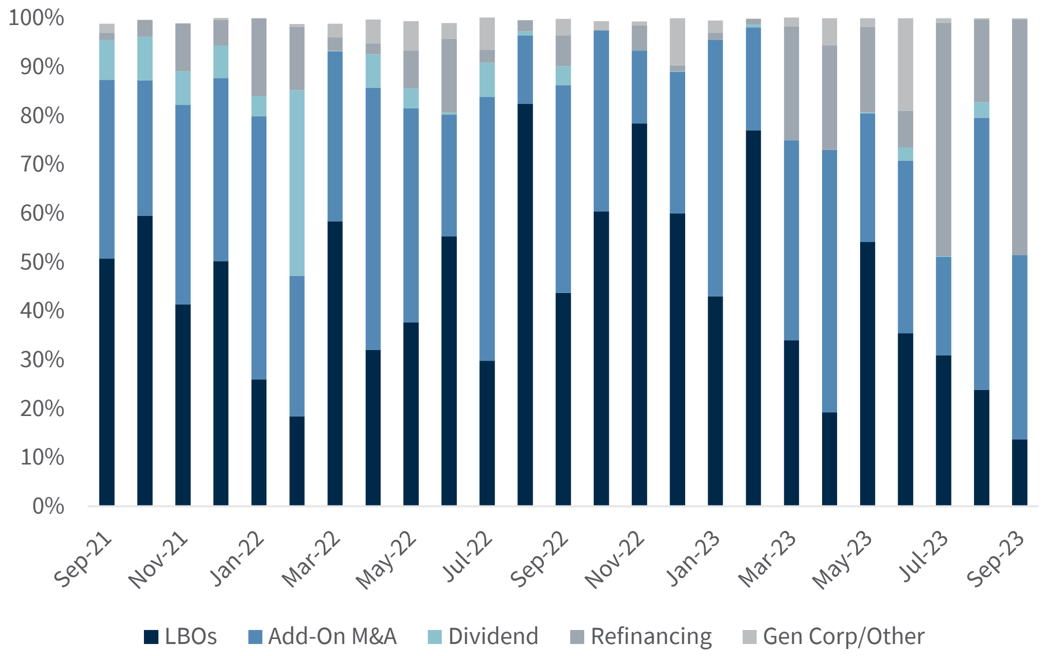
Volume and Use of Proceeds

($'s in billions)

Private Debt Monthly Origination



Private Debt Monthly Volume by Proceeds



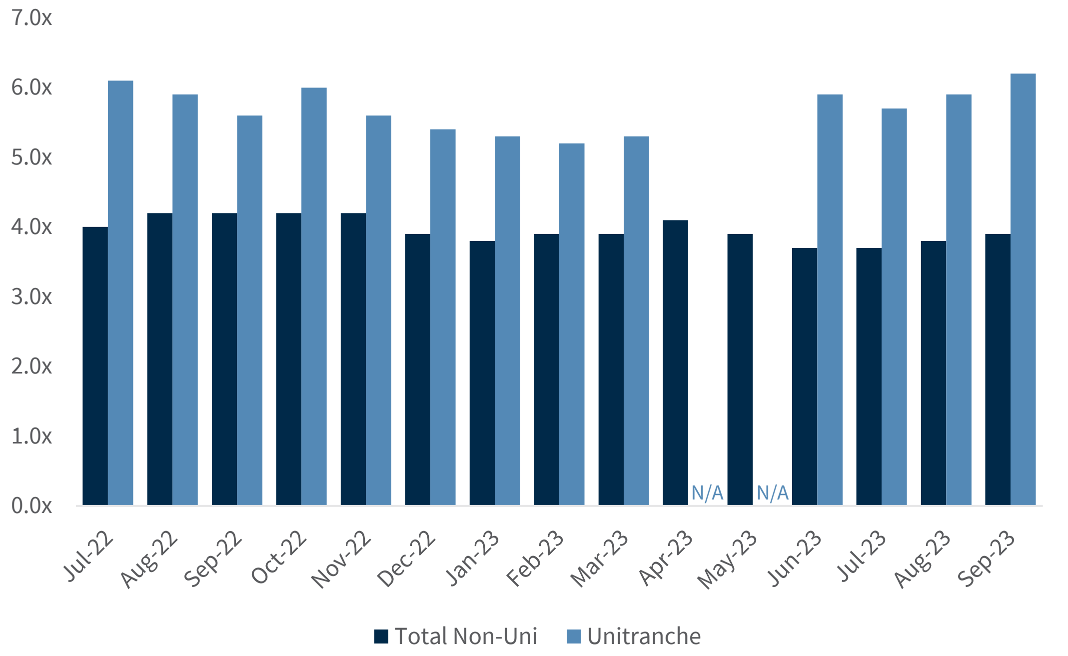
- A busy September was buoyed by jumbo activity that surpassed $21bn bringing total 3Q23 private debt volume to $44.4bn vs $17.3bn in 2Q23
  - September was the strongest month in more than a year, with levels not seen since June of 2022 when total issuance reached $23.9bn
- Jumbo deal volume of $26bn set a quarterly record high, while Integrity Marketing's $6.2bn refinancing set a record for the largest private debt market deal
- Once again, managers are pegging capacity at $9bn or more for a single deal

- Jumbo refinancings, including over $11bn for Integrity Marketing and Finastra alone, shifted the deal mix as refinancings accounted for 40% of volume in 3Q23 versus 20% during 2Q23
- Add-on M&A of $16bn accounted for 37% of total deal flow, the busiest quarter since 2Q22
- LBO volume of $9.4bn remains significantly below the $22bn in 3Q22, but was higher than the $7bn in 2Q23

Source: Direct lending deals. Data through September 2023

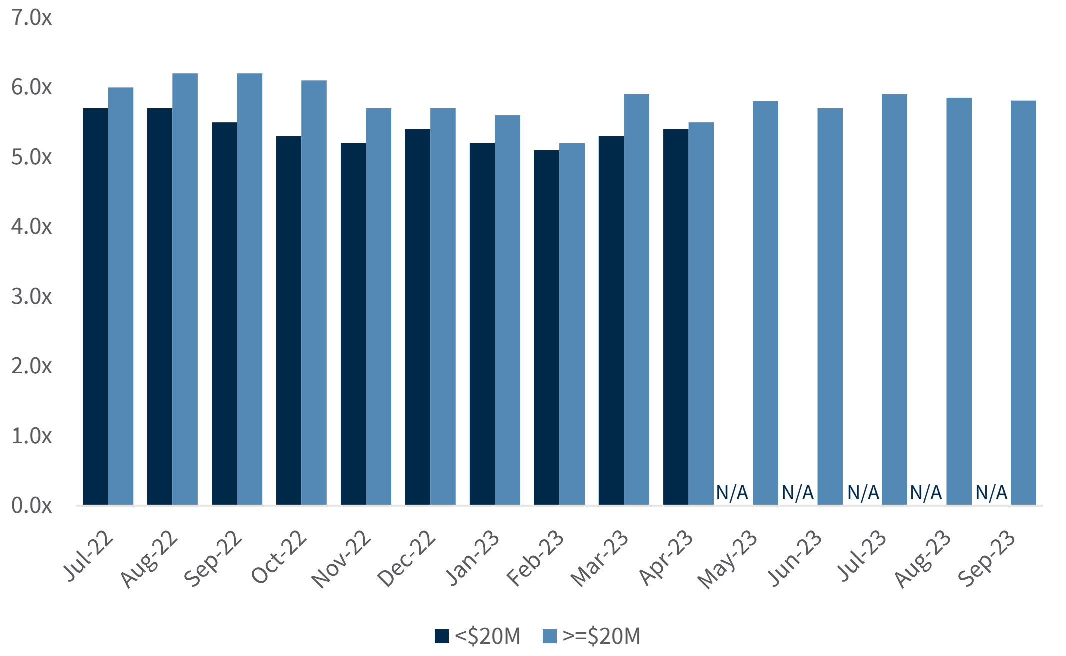
Average Leverage Multiples

LBO Leverage



- The 6.2x average LBO leverage for unitranche[(1)] loans recorded at end of 3Q23 was likely inflated by larger deals within the financial and healthcare industries
- For non-uni LBO financings, leverage at the end of 3Q23 was 3.9x, up from 3.8x in August and 3.7x at June

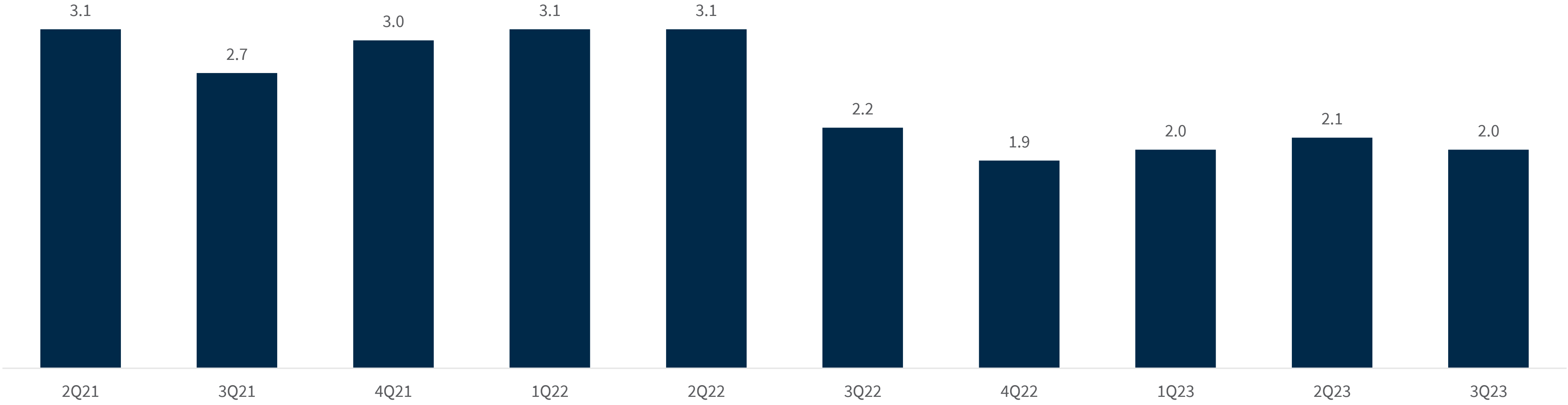
Unitranche Leverage <$20MM vs. >=$20MM EBITDA



- Unitranche leverage for >=$20MM loans rose to 5.8x as of 3Q23, up slightly from 5.7x at the end of 2Q23
- There were not enough unitranche loans in the lower middle market to form a representative sample in May, June, July, August and September
  - This is unsurprising considering DLD's >=5.0x all-senior definition for unitranche, and the move by lenders to tighten leverage amid escalating base rates, particularly for smaller borrowers

(1) DLD defines unitranche as >=5x all. senior
Source: Direct lending deals (calculated based on rolling 90 days data). Data through September 2023

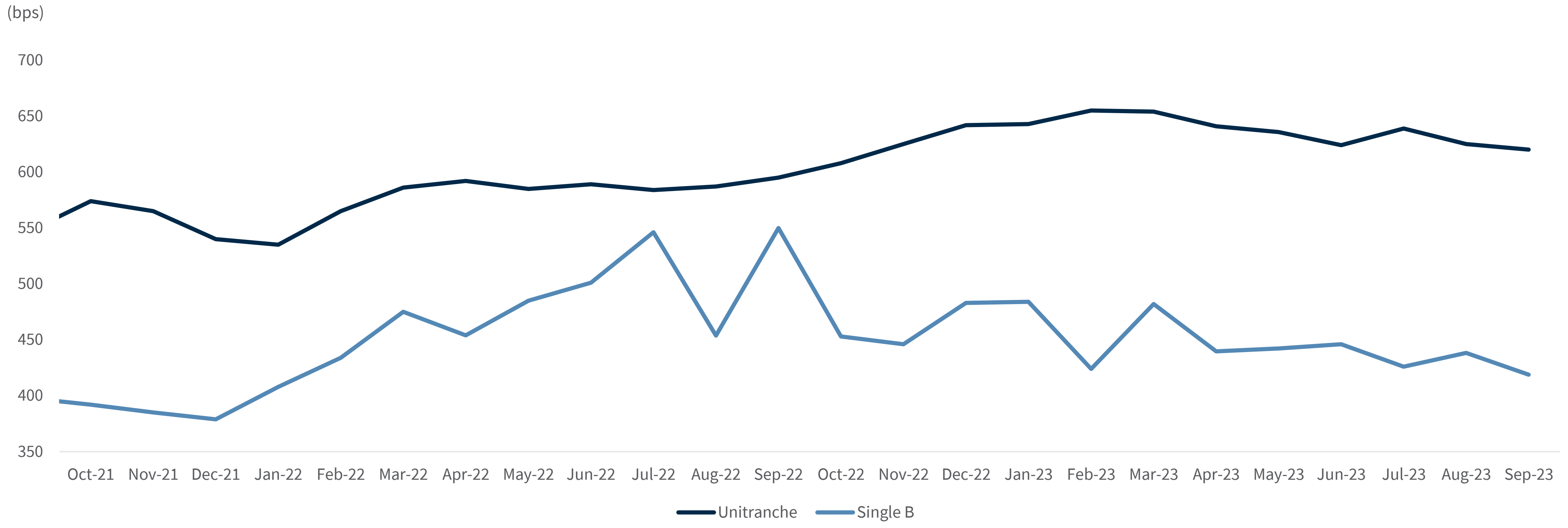
Interest Coverage Ratio



- Average interest coverage decreased marginally in 3Q23 to 2.0x, down from 2.1x in 2Q23 and equal to the 2.0x of 1Q23
- Over the past year, average interest coverage ratios have stayed relatively consistent at the low end of the 2.0x – 2.5x comfort zone for lenders
  - If coverage levels remain depressed, there could be further erosion as borrowers cope with elevated base rates for the longer term

Source: Direct lending deals. Data through September 2023

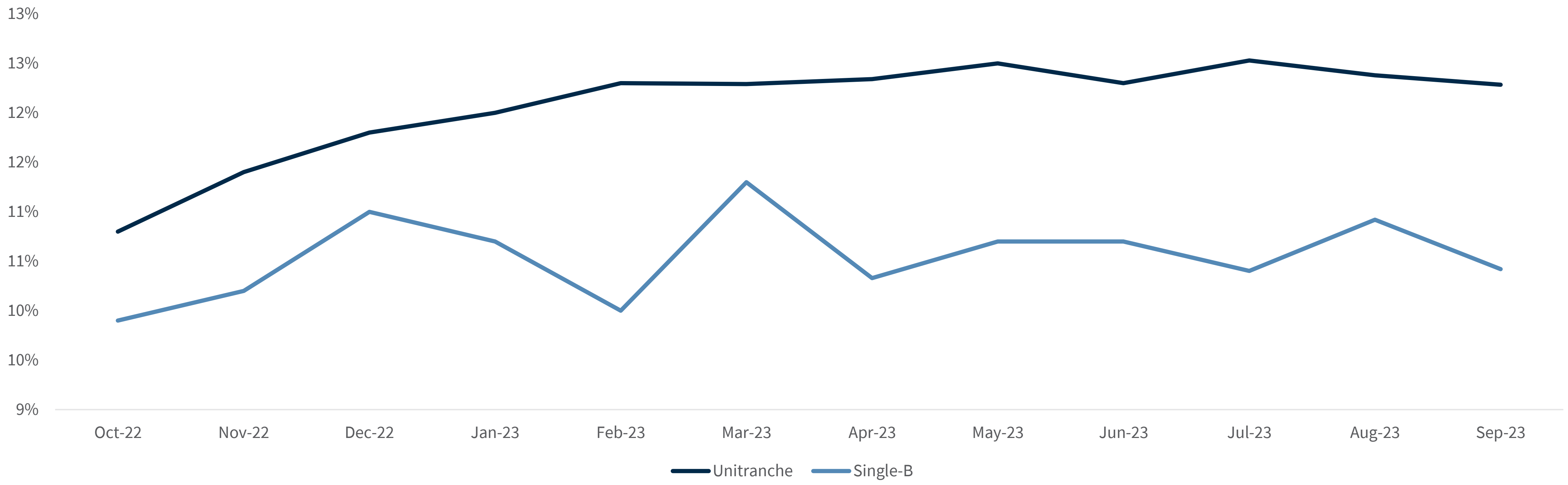
Unitranche vs. Single B Spreads



- Unitranche spreads have declined from a recent high of 655bps in February 2023 to 620bps in September 2023
- Single B spreads have declined from a recent high of 550bps in September 2022 to 419bps in September 2023
- The gap in pricing has widened significantly from 45bps in September 2022 to 201bps in September 2023

Source: Direct lending deals. Data through September 2023

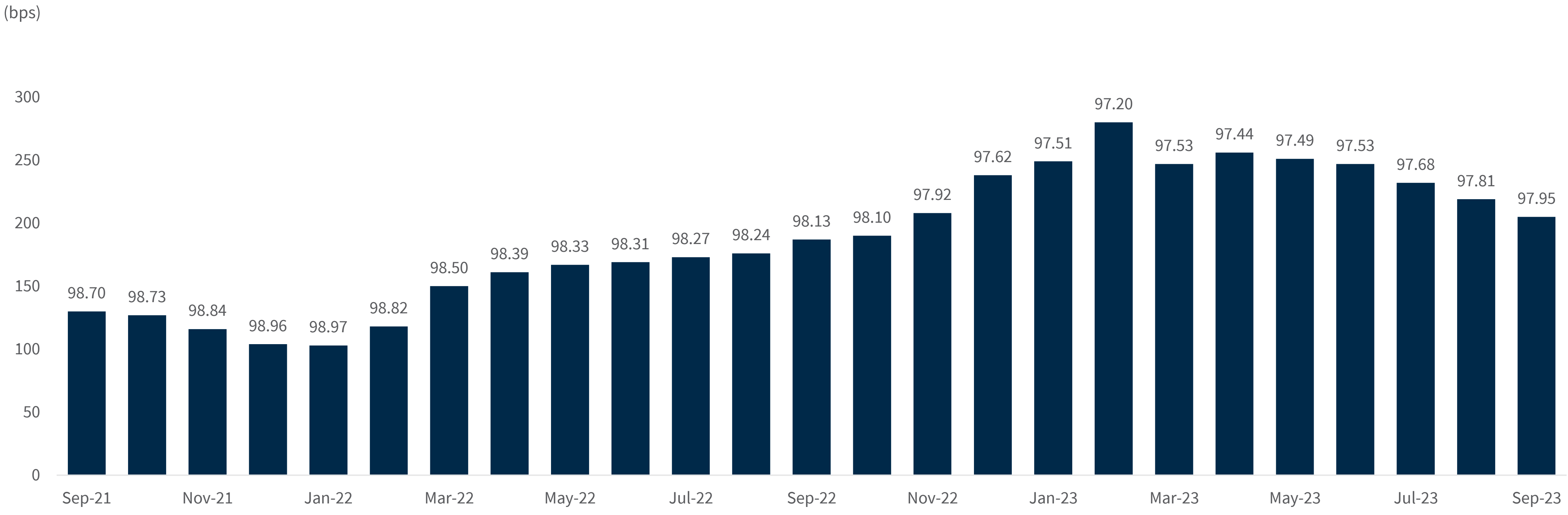
Unitranche vs. Single-B Yields



- The average unitranche spread dropped 10bps in August, to 12.4%, and another 10bps in September to 12.3%, to close the quarter in line with June ’s 12.3%
  - Yields on unitranche loans decreased from 12.5% in May and July, their highest values over the past year, to 12.3% in September
- Single-B yields finished the third quarter lower, averaging 10.4% at the end of September, down from 10.9% in August, and 10.7% in June
  - The average unitranche premium over Single-B institutional debt widened by 40bps in September, to 190 bps, for a 30-bps increase since June ‘23

Source: Direct lending deals. Data through September 2023

Direct Lending Average Discount



- Discounting stands at the tightest level in 10 months, at an average of 97.95
  - The average discount is now approaching 98, a level not seen since October of 2022
- Fees have been narrowing since April, with a 15 bps drop from June to July followed by nearly equal drops in August and September

Source: Direct lending deals. Data through September 2023

Latest Mega Unitranche Deals

Date	Company	Arrangers	Sponsor	Size
Sep-23	**Integrity Marketing (new Refi)**	Blue Owl	Harvest Partners, HGGC, Silver Lake	$6,200
Sep-23	**Hyland Software**	Golub, Blue Owl	Thoma Bravo	3,400
Sep-23	**Higginbotham (size estimated)**	KKR	Stone Point	1,100
Sep-23	**BradyIFS**	Blue Owl, Ares, Blackstone, Oak Hill, BMO, KKR, Antares, Carlyle, Golub	Kelso	2,700
Sep-23	**Legends Hospitality**	Ares, KKR, Apollo, Oaktree, HPS	Sixth Street	1,850
Sep-23	**NextGen Healthcare**	Barings, Ares, Oaktree, Oak Hill, Neuberger	Thoma Bravo	1,000
Sep-23	**PCF Insurance Services (Incremental)**	Blue Owl, Crescent	HGGC	NA
Aug-23	**BDO**	Apollo	Non-Sponsored	1,340
Aug-23	**VetCor**	Golub, KKR, Oak Hill	Harvest Partners, Cressey	NA
Jul-23	**Finastra**	Oak Hill, Blue Owl	Vista Equity	5,300
Jul-23	**New Relic**	Blue Owl, AB Private Credit, Blackstone, Sixth Street	Francisco Partners, TPG	2650
Jul-23	**Risk Strategies (Incremental)**	Golub, MidCap, KKR	Kelso	4,480
Jul-23	**PCF Insurance Services (Incremental)**	Blue Owl, Crescent	HGGC	2,250

- Unitranche volumes were reignited in 3Q23 due to a large number of mega-unitranche transactions
- Integrity Marketing’s $6.2bn refinancing coupled with Finastra’s July $5.3bn refinancing reset the market paradigm, expanding capacity expectations to $9bn or more for a single deal

Source: Direct lending deals
Note: All deal size amounts are in US $ millions

Private Market Steals

Date	Borrower	Sponsor	New Arranger	Proceeds	($M)	Agent
Sep-23	**BlueCrest**	Platinum	Silver Point	Refi	$425	DB
Sep-23	**Hyland Software**	Thoma Bravo	Golub	Refi	3,400	CS
Aug-23	**Avid Technology**	STG	Sixth Street, Silver Point	LBO	600	JPM
Aug-23	**Finastra**	Vista Equity	Oak Hill, Blue Owl	Refi	5,300	MS
Aug-23	**VetCor**	Harvest, Cressey	Golub, KKR, Oak Hill	Growth	3,290	JEFF
Jun-23	**Circor**	KKR	KKR, Ares, Apollo	LBO	725	Truist
Apr-23	**Melissa & Doug**	AEA	Oaktree	Refi	325	CS
Mar-23	**RR Donnelley**	Chatham	Apollo	Refi	1,250	JEFF
Mar-23	**Momentive**	Symphony	Silver Point	LBO	~500	JPM

- Through YTD 2023, direct lenders have pulled at least $17.3bn of business away from the BSL market versus $15.8bn for the same period last year
- Most private market steals are happening at the large end of the market with 85% of the $17.4bn in steals YTD, being greater than $1bn, a figure in line with the 86% share of steals seen in the same period during 2022, across $15.8bn in volume
- Nearly 62% of the 2023 steals supported refinancings by volume versus 21.6% for the class of 2022
- The private market's ease of execution and growing capacity to hold multi-billion dollar loans continue to drive more sponsors to direct lending, particularly as BSL issuers address upcoming maturities for lower rated issuers

Source: Direct lending deals
Note: All deal size amounts are in US $ millions

USA

ATLANTA | BALTIMORE | BOSTON | CHARLOTTE | CHICAGO | DALLAS | DENVER | GREATER WASHINGTON, D.C. | HOUSTON
LOS ANGELES | MEMPHIS | NASHVILLE | NEW YORK | RALEIGH | SAN FRANCISCO | ST. PETERSBURG

EUROPE

LONDON | MUNICH | FRANKFURT

CANADA

CALGARY | TORONTO | VANCOUVER

raymondjames.com/ib

INTERNATIONAL HEADQUARTERS: THE RAYMOND JAMES FINANCIAL CENTER
880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863
raymondjames.com

RAYMOND JAMES® | INVESTMENT BANKING