

Debt Market Update

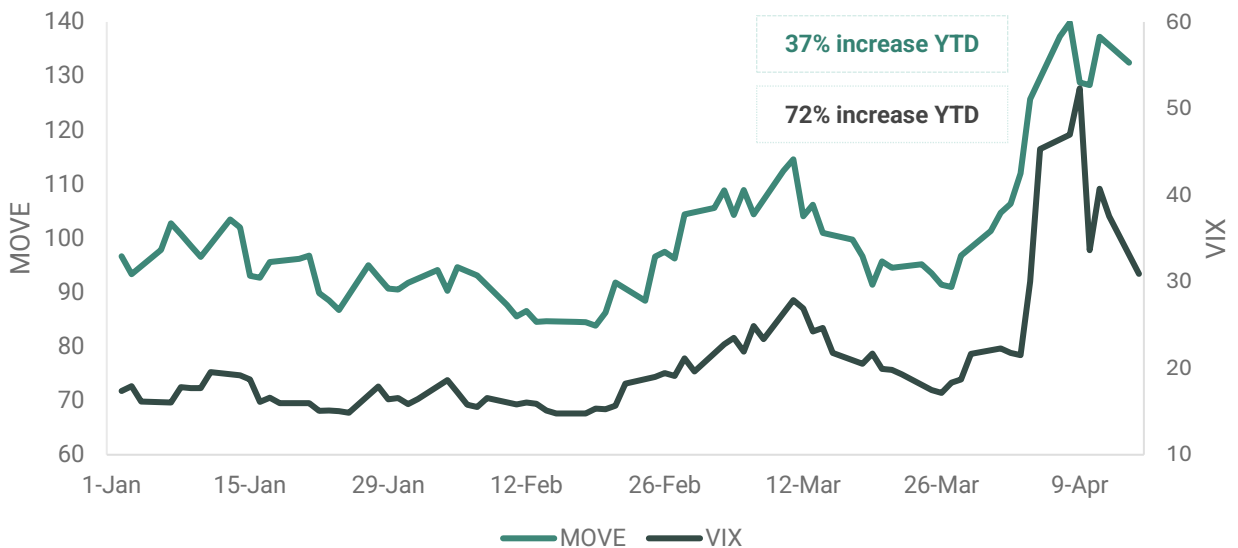
April 2025



Market Uncertainty – “Should We Stay or Should We Go?”

Recent market fluctuations cannot be ignored when reviewing the current debt markets. Outlooks published as recently as early 2025 have limited relevance to current observations. Both the Merrill Lynch Option Volatility Estimate (MOVE) and the CBOE Volatility Index (VIX) have risen dramatically since the start of the year, by 37% and 72%, respectively. Although the duration of this trend is uncertain, these conditions have led to tightened credit environments, particularly affecting M&A and the overall market outlook.

Volatility Indices Trends YTD



Source: Yahoo Finance, MarketWatch
MOVE – Merrill Lynch Option Volatility Estimate, VIX – Cboe Volatility Index

Volatility presents a challenging environment for middle market companies, particularly those in manufacturing and consumer products seeking capital

As Morningstar/DBRS predicted in February, tariffs on imported goods will increase the cost of raw materials and components to the end-user, posing challenges for lower-rated companies, especially those in sectors like manufacturing and consumer products. While some companies may more easily pass on higher input costs to their customers, others face meaningful constraints against doing so. Many of these companies may be forced to absorb the increased costs. This could lead to deteriorating operating cash flows, weakened credit metrics, and a cash-constrained balance sheet.

Meanwhile, commercial banks, traditional lenders have retreated

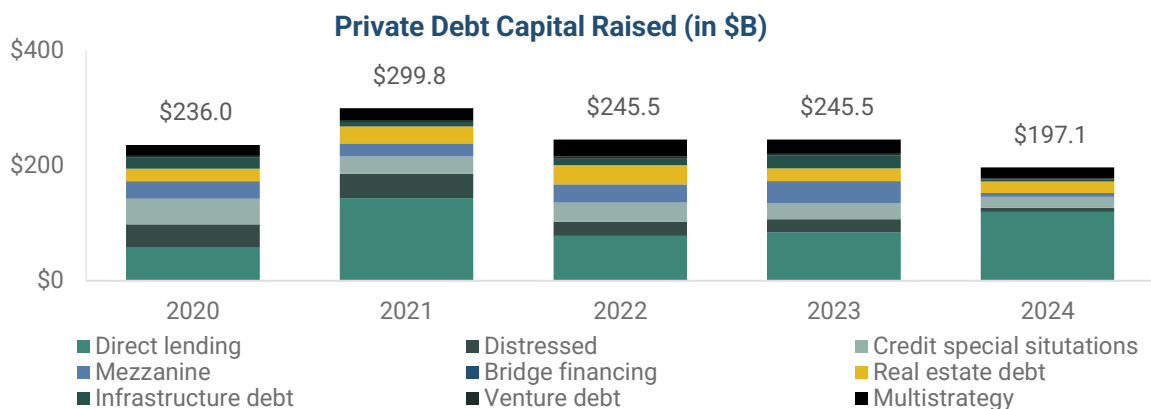
Banks, traditionally the backbone of middle market loan issuance, have taken a back seat in recent years as they face pressure from regulations, investment challenges, and economic uncertainty.



Source: BlackRock

Nonetheless, debt financing remains available

Despite these challenges, debt financing remains available to middle market borrowers, offering much needed flexibility to a company's capital structure. Thanks to the substantial amount of private debt capital raised in recent years (\$1.2T since 2020) access to debt financing is still feasible.



Source: PitchBook

Enter the growing reliance on specialty finance

Specialty finance and alternative credit solutions play a pivotal role in filling the gap left by traditional banks, offering flexible and bespoke financing options, both asset-based, and cash flow driven, to middle market borrowers and private equity firms:

- **Asset Based Lines:** Higher advance rates on receivables, inventory (even international) and equipment
- **Bridge Loans:** Quick cash to smooth timing hiccups
- **Senior Cash Flow:** First lien cash flow facilities at or near traditional bank financing rates
- **Mezzanine Financing:** Subordinated debt with equity upside, keeping ownership intact
- **Unitranche:** Senior and junior tiers of debt blended into a single offering
- **Non-Traditional Collateral:** Tapping IP or royalties for offbeat deals

Bringing timely benefits to the middle market borrower

Specialty lenders bring speed (30–60 day closings), flexibility (such as PIK toggles), and value-add expertise at relatively competitive pricing.

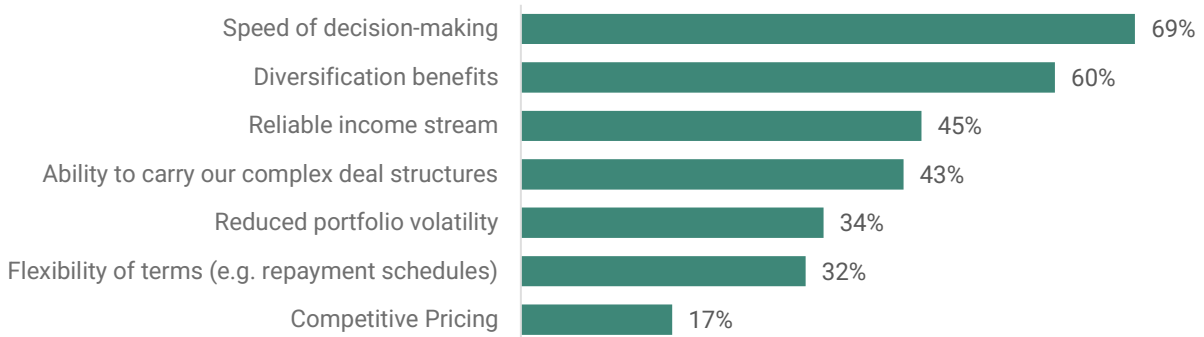
Metrics	Traditional Banks	Private Credit
Market Share Change	Decreased (-20%)	Increased Significantly (+60%)
Financial Covenant Compliance Ratio (FCCR)	Tightening towards 2x	Loosening towards 1.5x
Leverage	Stable (~4.5x)	Increasing (6.0-6.5x)
Covenants	Tightening	Loosening (70%)
Yields	Lower (implied by market share loss)	Higher (11-12%)
Deal Speed	Slower (60-75 days)	Faster (30-40 days)
ABL Loan-to-Value (LTV)	Lower (50-60%)	Higher (70-85%)
Asset Sale Sweeps	More Stringent (85% full sweeps)	Less Stringent (75% in 60% of cases)
EBITDA Addbacks	Lower	Higher (Increased by 25%)
Borrower Flexibility Demand	Decreased acceptance of tight terms	Increased demand for flexibility (60%)
Overall Trends	Risk Averse	Growth Focus & Flexible

Source: ABF Journal

Benefits of specialty credit

In a calmer, but still choppy, market, Debtwire/SRS Acquiom's recent survey found that speed of decision-making (69%) is the top quality that companies value about private credit.

Qualities Companies Value about Private Credit

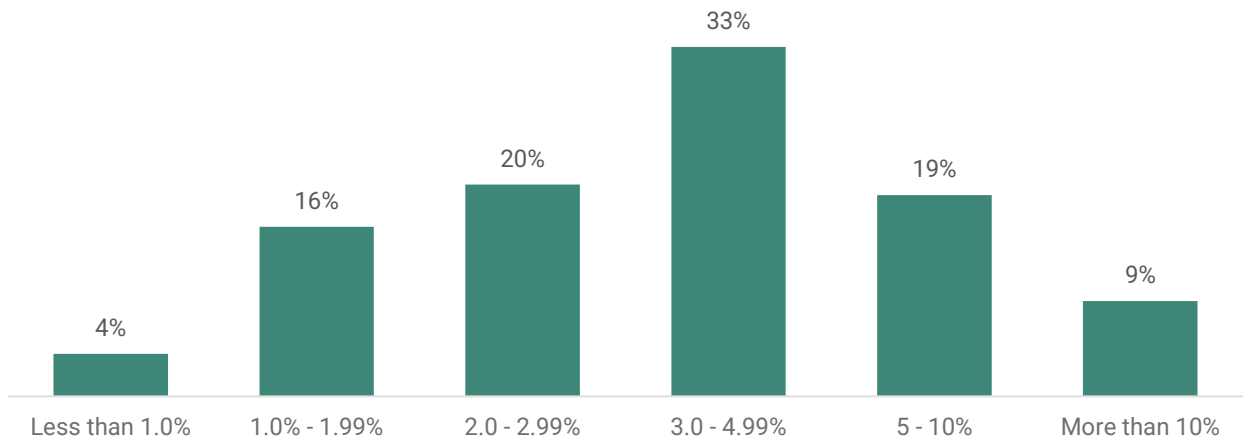


Source: Debtwire/SRS Acquiom

But sourcing the right lender to produce the best term sheet can be challenging and time consuming

A recent Proskauer survey of 152 private lenders revealed that less than half (27%) of private lenders close more than five out of every one hundred deals they review. For middle market companies and their sponsors focused on day-to-day operations, the time involved in sourcing the right lender with the optimal terms can be a substantial distraction.

% of Deals Closed in Relation to Screened



Source: Proskauer

Indicative Market Terms

Leverage Ratio	< \$10MM EBITDA	> \$10MM EBITDA	> \$25MM EBITDA
Senior Debt/EBITDA	1.50x - 2.50x	2.00x - 3.50x	4.00x - 5.00x
Total Debt/EBITDA	2.50x - 4.00x	4.00x - 7.00x	5.00x - 10.00x

Pricing Type	< \$10MM EBITDA	> \$10MM EBITDA	> \$25MM EBITDA
Senior Commercial Bank Cash Flow	S+ 3.50% - 4.25%	S+ 3.25% - 3.75%	S+ 3.00% - 3.50%
Senior Non-Bank/Unitranche	S+ 4.00% - 7.50%	S+ 4.00% - 6.00%	S+ 2.50% - 6.00%
Junior Capital (Cash + PIK)	S+ 8.50% - 11.50%	S+ 7.00% - 8.50%	S+ 6.50% - 8.00%

Source: Based on discussions with various market participants

	Sector Considerations	Healthcare	Mfg.	Retail	Tech
ABL Advanced Rates	Receivables	80%+	70%+*	NA	80%+*
	Inventory	NA	55 - 65% NOLV	70 - 80% LTV	NA
	Equipment	70% LTV	80% LTV	NA	60% LTV

Pricing	ABL Rates	8 - 10% (equipment)	6 - 10%	7 - 12%	6 - 14%
	DIP Financing yields	13 - 16%	12 - 15%	-	13 - 16%
	Unitranche yields	10 - 12%	10 - 12%	10 - 14%	8 - 14%
	Mezzanine Pricing yields	12 - 15% (tech capex)	12 - 14%	12 - 15%	12 - 15% (data centers)

Other	Unitranche Leverage	5 - 5.5x	3 - 5x	5 - 5.5x	6 - 8x
	Debt Service Coverage Ratio	-	Min. 1.3x	1.3x	1.5x

Source: ABF Journal and discussions with various market participants

Note: *Advance rates on retail inventory contingent on 8-10x turnover and subjected to a 15-20% stress test on markdowns

Recent Sponsor-Backed Market Transactions

Sponsor	Company	Date	Sector	Deal type	Key Investor(s)	\$ Amount
Constellation Brands	Hiyo Inc.	4/17/2025	Food & Beverage	Senior Debt Investment	SG Credit Partners	Undisclosed
PeakSpan Capital	Tapcheck, Inc.	4/14/2025	On-Demand Pay	Credit Facility	Victory Park Capital	\$200M
SCF Partners	Phoenix Service Partners, LLC	4/2/2025	Oil & Gas	ABL Facility	First Horizon Bank, Texas Capital Bank	\$200M
Francisco Partners	Forcepoint, LLC	4/1/2025	SaaS	Revolving Credit Facility	KeyBanc Capital Markets	\$75M
C2 Capital Partners	Stella & Chewy's, LLC	3/26/2025	Pet Food	Senior Credit Facility	SLR Credit Solutions	\$230M
BlackRock	Jupiter Power LLC	3/19/2025	Energy	Corporate Credit Facility	Barclays	Undisclosed
Southfield Capital	Construction Specifications, Inc.	3/18/2025	B2B	Senior Credit Facility	Monroe Capital	\$350M
Housatonic Partners	MaxiTransfers, LLC	3/13/2025	FinTech	Second Lien and Revolving Credit	Overland Advantage, WFC	\$164M
CVC Capital Partners	ExamWorks Group, Inc.	3/7/2025	TMT	Revolving Credit Facility	BofA Securities	\$86M
Webster Equity Partners	Oceans Healthcare, L.L.C.	3/6/2025	Healthcare	Senior Credit Facility	Comvest Credit Partners	\$286M
One Equity Partners	Spartronics, LLC	1/24/2025	Mfg.	Revolving Credit Facility	Bank Hapoalim	\$250M
Goldman Sachs Asset Mgmt.	Diesco Ltd.	1/23/2025	Food & Beverage	Senior Credit Facility	Comvest Credit Partners	\$50M
L-Squared Capital Partners	BTX Precision, Inc.	1/16/2025	Mfg.	Delayed Draw Term Loan	CFT Capital Partners	\$150M

Source: ABF Journal, Pitchbook

How Ankura Capital Advisors Can Help

The professionals at Ankura Capital Advisors know the market and know the lenders. We work closely with both sponsor-backed, and non-sponsor backed companies, assisting them in sourcing the most competitive financing terms from the lenders best suited to help companies recapitalize and/or grow their business.



Kathleen Lauster
Head of ACA

klauster@ankuracapitaladvisors.com
646.978.9860



Matthew Lapish
Managing Director

mlapish@ankuracapitaladvisors.com
646.971.8081



Jeffrey Goodman
Managing Director

jgoodman@ankuracapitaladvisors.com
646.969.3256

AWARDS

2024



Financial Deal of the Year
(Under \$500M)

2023, 2024



Wall Street Top 50

2024



Top 100
Restructuring Professionals

2023



Special Situations
M&A Deal

2023



Best M&A Advisory
Firm of the Year

TRANSACTION TYPES

Sell and Buy-Side M&A
§ 363 and Article 9 sales
Refinancings
Buyouts, Recapitalizations, and Carve-outs
Growth Capital, "Rescue" Capital, DIP Financing

STRUCTURES

Secured Loans:
Asset-Backed and Cash Flow Loans
1st and 2nd Lien and Unitranche Loans
Fund Level (NAV) Loans
Other Structures: Mezzanine, Pref Equity

INDUSTRY COVERAGE



Automotive



Manufacturing,
Chemicals & Industrials



Technology, Media &
Telecom



Building Products &
Construction



Healthcare & Life
Sciences



Retail & Consumer



Business Services



Food & Beverage



Financial Services



Transportation & Logistics