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Q4 2024 CAPITAL MARKETS

MARKET UPDATE

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Q4 2024

Capital Markets

US CREDIT MARKETS REVIEW & 2025 OUTLOOK

Key Themes

Q4 2024 was defined by repricings, refinancings, and spread compression, creating an increasingly competitive financing environment. Middle market lenders and sponsors face both opportunities and challenges, as institutional capital floods the upper tiers of the market while private credit and ABL carve out space for more bespoke solutions. For middle market players, the impact of these trends include:

- Direct lenders remain well-positioned to capture borrowers unable to access the BSL market due to ***tightened lender selectivity and execution risk concerns***.
- ***Average debt/EBITDA ratios rose slightly from 2023 levels***, still well below pre-pandemic levels but many expect multiples to continue to rise in 2025.
- Dividend recap loan volumes surged to $81.3B in 2024, versus a cumulative total of less than $26B from 2022-2023, and near 2021's record $82B full-year total due to the ***persistent supply shortage and private equity struggling to realize exits from their holdings.***
- ***M&A activity remained significantly depressed***. Loan investors saw little or virtually no net supply for the last two years amid the rising cost of debt for speculative-grade borrowers and a challenging exit environment for private-equity sponsors.
- ***ABL is regaining traction as a viable alternative for businesses*** with strong asset bases but weaker cash flow profiles.
- Recent high-profile partnerships like AGL Credit Management & Barclays, Centerbridge Partners & Wells Fargo, and TCW Group & PNC have demonstrated how ***banks can leverage their existing customer networks to participate in the direct lending market*** — by joining private credit investors to create a direct lending fund or platform, seeded by financing from both the bank and private credit investors.

The credit markets in Q4 2024 were shaped by three dominant macroeconomic forces: (1) Federal Reserve rate cuts, (2) shifting capital flows into leveraged finance, and (3) election-driven uncertainty. Despite a challenging new issuance environment, floating rate credit remained highly attractive, sustaining demand for CLOs and private credit. This dynamic created a ***significant supply/demand imbalance, leading to the tightest spreads since the great recession across both BSL and private lending markets.***

Quarter-over-Quarter Trends	↓ *Lower*	↓ *Tighter*	↑ *Increased*	↓ *Lower*	↑ *Higher*
	Loan Volume	***Spreads***	***EV / EBITDA Leverage***	***M&A Loan Volume***	***Default Rates***

Source: Pitchbook | LCD – Data through December 31, 2024

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US CREDIT MARKETS REVIEW & 2025 OUTLOOK

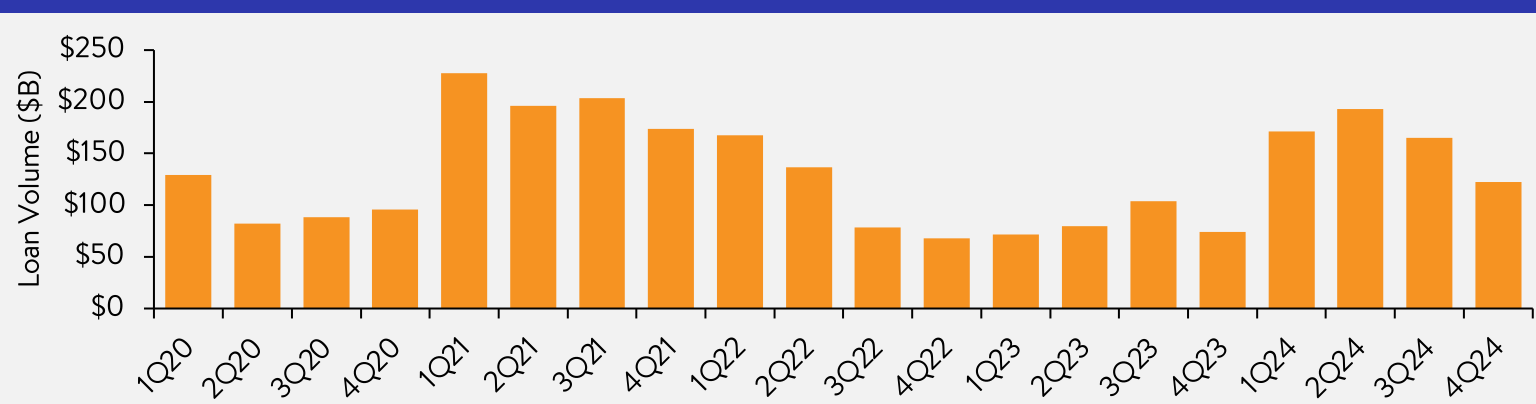
Market Overview & Macroeconomic Backdrop

Macroeconomic forces shaped credit markets in 2024, as the Fed's rate cuts and election-driven uncertainty impacted deal flow. Despite a challenging environment for new issuance, investor demand for floating rate credit remained strong, particularly in CLOs and direct lending. ***The imbalance between supply and demand resulted in significant spread tightening across both BSL and Private Credit***.

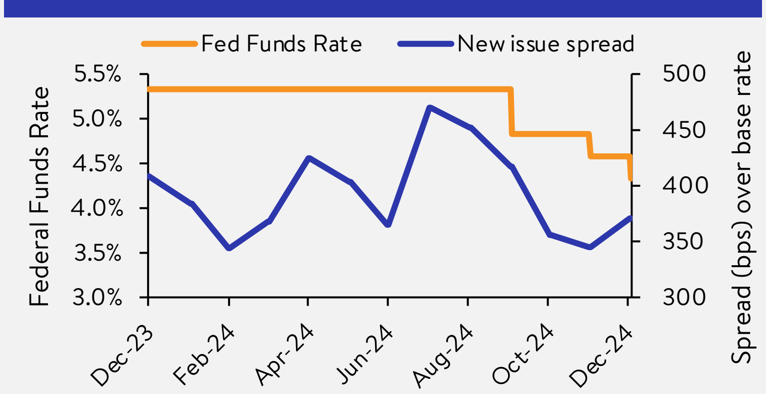
As the Fed lowered rates, credit spreads compressed dramatically in Q4 2024. Single-B BSL spreads fell to S+353, their lowest level since the Global Financial Crisis. Private Credit spreads, while still higher, are also tightening (S+450-550), narrowing the pricing gap between the two markets. This shift has made Private Credit less attractive to sponsors compared to BSL, especially for larger transactions but at the same time creates opportunities for lower and middle market players.

In prior credit cycles, as traditional lenders focused on cash flow-based underwriting, ABL played a secondary role. However, in today's market—where BSL spreads are compressing, and private lenders are becoming more industry selective—***ABL is regaining traction as a key middle market financing tool***. Companies in sectors such as manufacturing, retail, and distribution are structuring ABL facilities alongside term loans to enhance liquidity while managing overall leverage.

US LOAN VOLUME ($B)



FED FUNDS RATE VS SPREADS



DEBT/EBITDA RATIOS OF LEVERAGE LOANS

Source: Pitchbook | LCD – Data through December 31, 2024

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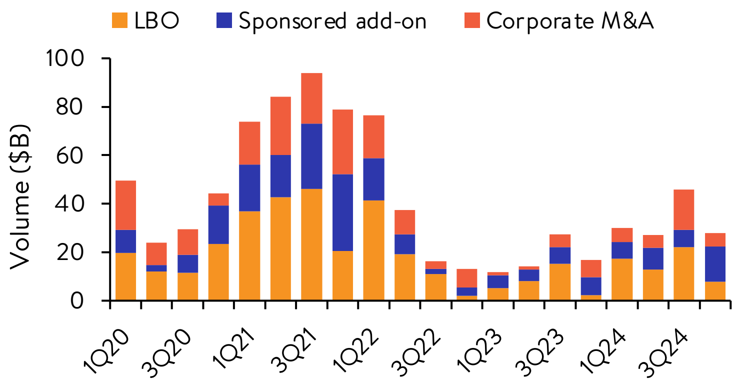
Key Trends in BSL, Private Credit & Leverage Finance, and ABL

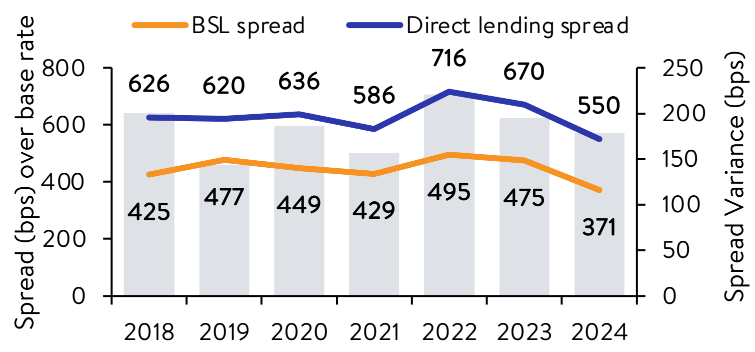
Q4 2024 saw a surge in repricings and refinancings as large-cap borrowers took advantage of falling spreads in the broadly syndicated loan (BSL) market. Record CLO issuance fueled demand, tightening spreads further and drawing institutional capital into the upper middle market.

The middle market remains a key opportunity for direct lenders to protect against the BSL market by offering structural flexibility and more reliable execution in a supply-constrained market. ***This competition between BSL and private credit is continuing to drive spreads to their lowest levels in both markets.***

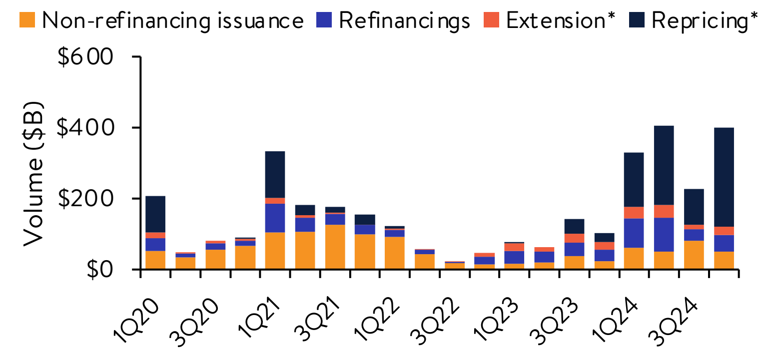
M&A RELATED LOAN ACTIVITY



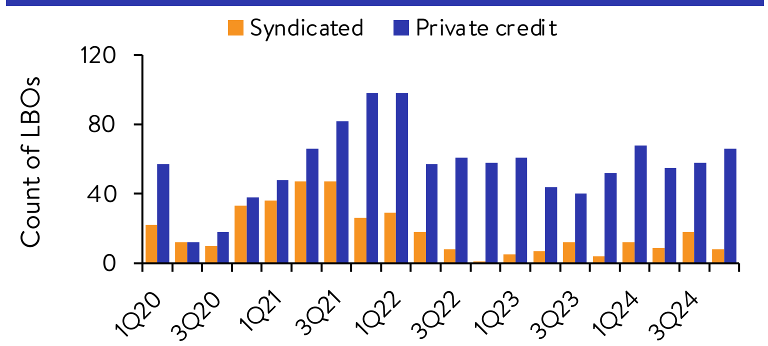
BSL vs. DIRECT LENDING LBO SPREADS



US INSTITUIONAL LOAN VOLUME ($B)



US INSTITUIONAL LOAN VOLUME ($B)



While new loan issuances continued to be at depressed levels, the election provided more clarity as to the go forward fiscal and economic policies and there is an expectation of 2025 bringing more M&A volume (and as a result more LBO volume in the private markets). Furthermore, continued fed interest rate drops should continue to drive activity.

In Q4 2024, tighter BSL spreads, record CLO issuance, and muted new loan supply created an uneven playing field for middle market borrowers. Sponsors and non-sponsored businesses unable to access aggressively priced BSL deals increasingly turned to private credit cash flow and asset based lending (ABL) for liquidity. ***As we enter 2025, ABL is emerging as a competitive financing tool for companies with strong asset bases but weaker cash flow profiles.***

Source: Pitchbook | LCD – Data through December 31, 2024

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US CREDIT MARKETS REVIEW & 2025 OUTLOOK

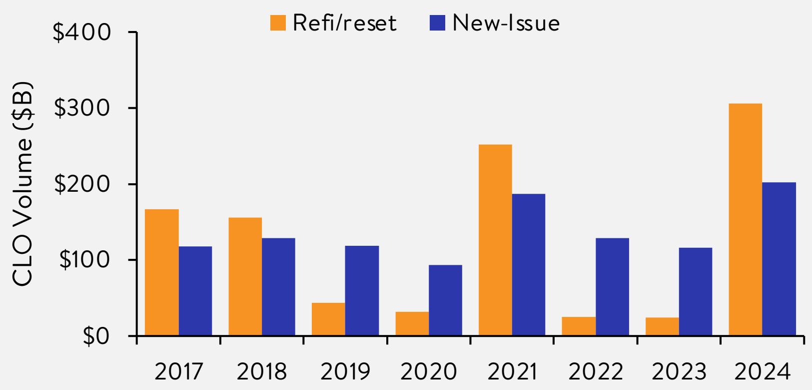
CLO Demand Surge & Repricing Wave – Middle Market Implications

CLO issuance surged to a record $202B in 2024, tightening spreads in the broadly syndicated market and shifting capital away from middle market transactions. Institutional demand for floating rate assets pulled large borrowers into refinancings, ***leaving middle market lenders with an opportunity to capitalize on sponsors looking for flexible, non-bank lending solutions.***

As more institutional investors move into the upper middle market, direct lenders are seeing increased demand from both sponsors and non-sponsored borrowers who are seeking direct lending solutions to avoid syndication risk and/or where they might not be eligible for the BSL market. These borrowers value execution certainty, covenant flexibility, and bespoke deal structures over ultra-tight pricing. This dynamic presents a key opportunity for middle market lenders to maintain premium pricing and differentiate with non-syndicated solutions.

With fewer new loans available in the BSL market and rising selectivity in private credit, ABL is becoming a strategic tool for middle market companies. Borrowers that may not meet traditional EBITDA thresholds or face tighter credit requirements are leveraging ABL solutions to bridge liquidity gaps and improve capital efficiency.

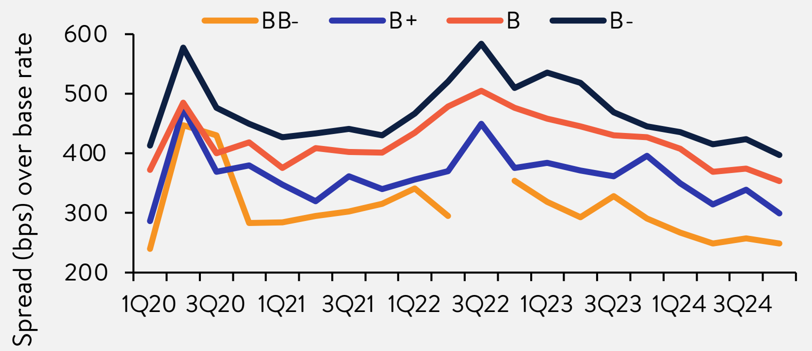
US CLO VOLUME ($B)



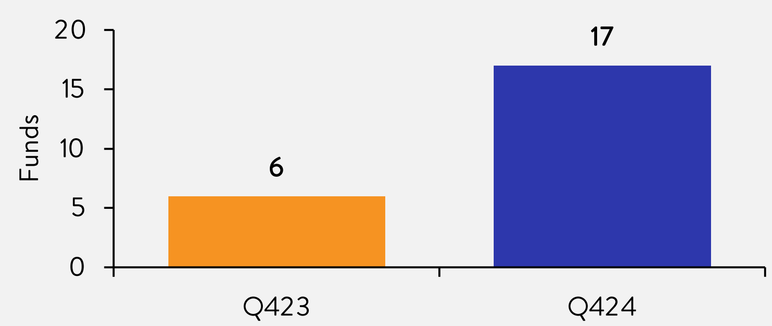
A growing number of asset manager are launching ABF strategies and partnerships. According to a recent Prequin survey, 58% of private credit managers indicated they will prioritize an ABL strategy in 2025.

- Partners Group – launched a multi-sector ABF platform
- The TCW Group – established an ABF business with $1B+ in capital commitments
- Oaktree Capital – Fundraising target of $2B for its first ABF product
- Apollo – launched the Apollo Asset Backed Credit Company
- Blackstone Credit & Insurance – Dedicated ABF team which partnered with banks in 2024 to acquire multiple loan portfolios for example
- Sixth Street – launched Private Asset-Based Investment Fund I, which focuses on asset-based loans

NEW ISSUE TBL SPREADS



NEW ASSET-BASED FINANCE FUNDS IN DEVELOPMENT



Source: Pitchbook | LCD – Data through December 31, 2024; Private Capital Solutions

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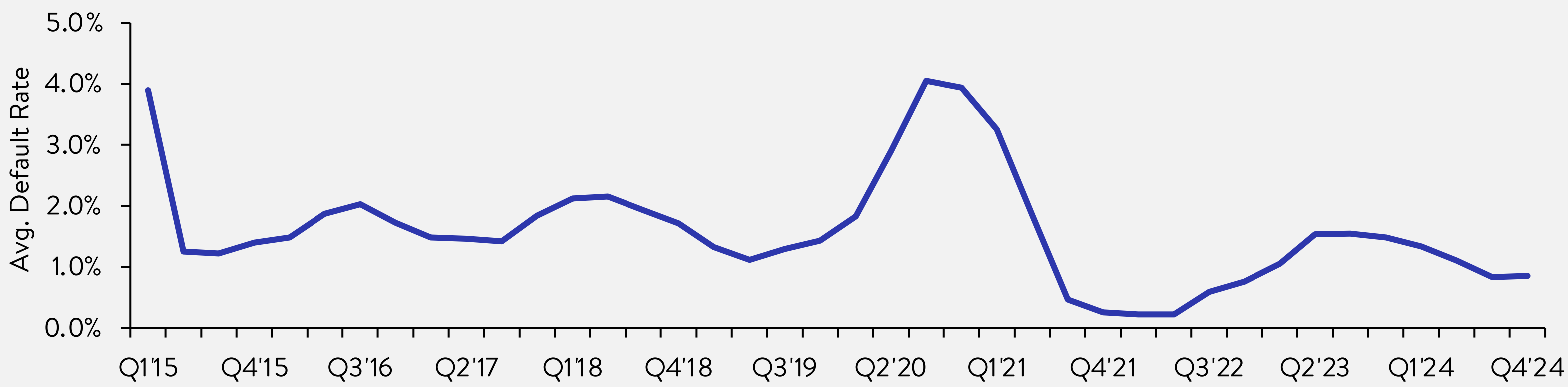
US CREDIT MARKETS REVIEW & 2025 OUTLOOK

Defaults Edge Higher in 2024, with Risks Mounting for 2025

In 2024, private credit default rates rose modestly, signaling emerging stress but not a widespread crisis. According to Proskauer, the overall private credit default rate increased to 1.95% in Q3 2024 (from 1.41% a year earlier), with core middle market borrowers experiencing a 3% default rate. This remained below the 4.21% default rate for syndicated loans tracked by the Morningstar LSTA US Leveraged Loan Index. Despite broader market concerns, commentators expect defaults to remain relatively stable rather than spike sharply.

However, Bank of America projects private credit defaults could climb to 4% in 2025, converging with public market levels, as vintage 2021 deals reach their "end game" scenarios, potentially triggering restructuring or recapitalization events. Furthermore, the absence of covenants in many recent private credit deals could increase loss severity, with recoveries. While the overall default rate may remain moderate, the severity of losses could increase in the future.

DEFAULT RATE



2025 Defaults Outlook

- Private credit default rates are likely to rise, potentially reaching 4% (converging with syndicated loan default rates) as stressed 2021 vintage deals mature.
- At G2, we are seeing increased restructuring activity in private credit portfolios, driving opportunities for distressed investors.
- Future recovery rates could be under pressure, especially for covenant-lite deals, as private credit investors continue to compete against the BSL market with new deployments still at period lows.
- Middle market borrowers may face tighter refinancing options, boosting demand for ABL and structured equity / junior capital solutions.
- Private credit default rates rose slightly in 2024, but could increase to 4% in 2025, potentially leading to higher loss severity from covenant-light deals.

Source: Pitchbook | LCD – Data through December 31, 2024; Private Capital Solutions

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US CREDIT MARKETS REVIEW & 2025 OUTLOOK

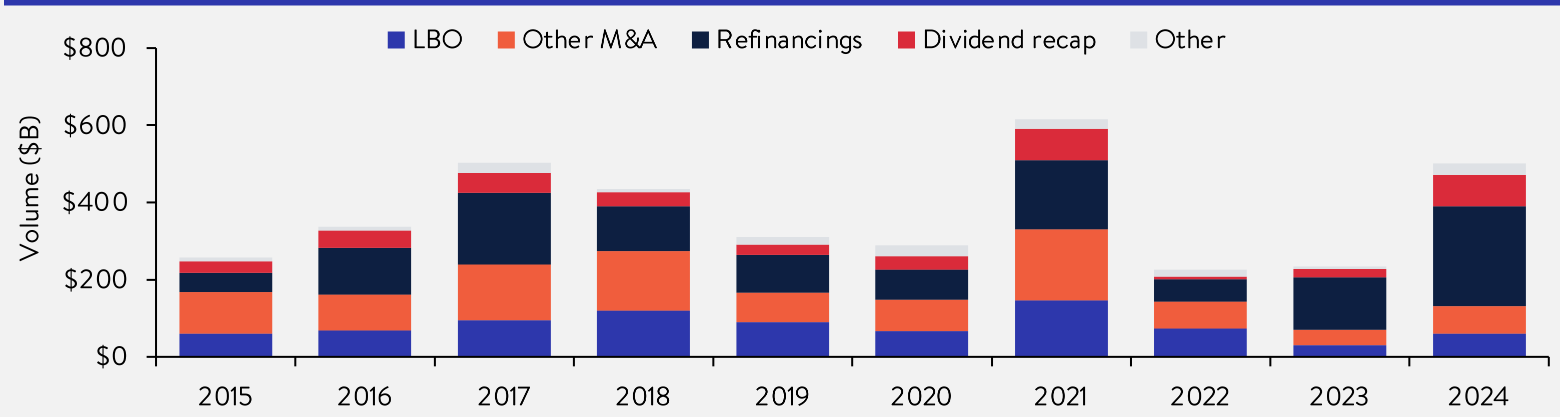
Conclusion

As we move into 2025, expect a shift in market dynamics for new loan issuances as the Federal Reserve continues its rate-cutting cycle and M&A activity picks up

Spreads have likely leveled out in the middle market as supply constraints ease due to rising lender / volume activity. For middle market borrowers, the ability to secure financing will hinge on credit metrics, industry fundamentals, and willingness to explore alternative capital solutions such as ABL and structured private credit

Dividend recaps will continue to play an important role through 2025 as a way of providing sponsors with liquidity for their portfolios

US INSTITUIONAL LOAN VOLUME ($B)



2025 Outlook

Leveraged loans

- New supply will be more balanced with a pullback in opportunistic issuance and increased LBO and M&A financing.
- Demand for loans will remain strong with another robust year of CLO issuance expected.
- Returns for the asset class will be driven by carry amid a higher-for-longer rate environment, and with price appreciation limited.

Private credit

- M&A, LBO activity may accelerate amid hopes of dealmaking-friendly policies under new US presidential administration.
- Near-term broadly syndicated loan maturities offer a trove of private credit investment opportunities.
- Questions loom about policy changes that could affect industries that some private credit lenders have focused on, such as healthcare and defense.

Source: Pitchbook | LCD – Data through December 31, 2024

FEATURED G2 PROJECTS

G2 Capital Advisors served as the exclusive financial advisor to ACS Industries, Inc., on its refinancing by PGIM Private Capital and Citizens Bank.

ACS INDUSTRIES, INC.

has been refinanced by

PGIM PRIVATE CAPITAL

Citizens™

Financial Advisor

About the Company

ACS Industries Inc. ("ACS") is an 85-year-old, fourth-generation family-owned, global manufacturer of critical-to-function components to systems suppliers in the automotive and industrial spaces, as well as a leading provider of disposable cleaning products to the North American foodservice and janitorial industries. The Company supplies Original Equipment Manufacturer (OEM), Tier-1 customers, and to leading redistributors through its global footprint with facilities in four countries on three continents, supported by corporate headquarters and R&D in the U.S.

Situation

ACS had identified key growth initiatives in new geographies, customers, and end markets that could significantly expand current operations. The Company was seeking to refinance its existing debt to expand its financial capacity and support near-term growth strategies.

Engagement

G2 Capital Advisors, LLC ("G2") served as the exclusive financial advisor to ACS, providing a combination of capital markets capabilities and industry expertise from its Industrials and Manufacturing ("I&M") team. G2 ran a competitive capital markets process and explored a range of solutions, including multiple combinations of capital solutions from various providers. By identifying the right financial partners, G2 sought to provide ACS with a financing solution that aligned with ownership's objectives and the Company's financial profile.

Outcome

With the support from G2, ACS closed a transaction through a partnership between PGIM Private Capital ("Prudential") and the incumbent capital provider Citizens Bank ("Citizens"). Prudential provided a senior term loan and Citizens elected to remain involved by providing a new Line of Credit and Capex facility, in partnership with Prudential, reflecting that firm's confidence in the Company.

Source: Pitchbook | LCD – Data through December 31, 2024

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MARKET UPDATE

FEATURED G2 PROJECTS

G2 Capital Advisors served as the exclusive financial advisor to Quality Meats, a leading Arby's franchisee and portfolio company of GenRock Capital Management, on its refinancing

has been refinanced by

Financial Advisor

About the Company

Quality Meats West, LLC ("Quality Meats", or the "Company"), a portfolio company of GenRock Capital Management ("GenRock"), is a leading Arby's franchisee, operating 26 restaurants across five states in the central United States. Founded in 1985, the Company has a strong track record of delivering quality meals and superb financial results, consistently out-performing brand-average metrics and generating impressive store-level profitability.

Situation

GenRock invested in Quality Meats in 2019 and implemented a new credit facility at that time. Five years later, facing an upcoming loan maturity, Quality Meats sought a refinancing solution that would address its existing debt, fund capital investment for restaurant remodels, and position the Company for long-term growth.

Engagement

G2 Capital Advisors ("G2") was engaged in the fall of 2024 as the exclusive financial advisor to Quality Meats. Leveraging deep expertise in the quick-service restaurant (QSR) industry, G2 quickly developed a strategy tailored to Quality Meats' needs. G2 conducted a comprehensive market assessment to identify strategic financing partners, managed a streamlined refinancing process, and delivered a customized financial structure that met both immediate priorities and future growth objectives.

Outcome

G2 successfully secured a new financing solution for Quality Meats in partnership with Old National Bank. The capital solution includes a term loan and a development line of credit, providing flexibility to refinance outstanding debt, fund restaurant remodels, and support operational growth initiatives.

Matt Ailey, Founder & Managing Partner at GenRock shared "G2 team's speed, expertise, and hands-on approach were instrumental in navigating this important refinancing. The new capital structure enables us to invest in our restaurants, while continuing to deliver quality operations and drive strong financial performance. We are also excited to work with Old National Bank as our new financing partner to continue to build and grow Quality Meats."

Source: Pitchbook | LCD – Data through December 31, 2024

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CAPITAL MARKETS OVERVIEW

Supporting Capital Structures with Expertise, Access, Insight and Robust Process Execution

G2's expertise streamlines the financing process ensuring efficiency, optimal deal structure, and a competitive outcome while minimizing client effort and disruption.

Timing →	*Minimize client time & resources and strict timeframe*
Process →	*Acute attention to detail from beginning to end*
Efficiency →	*Targeted outreach attracts specialized lenders*
Cost →	*Highly competitive dynamics generate advantageous pricing*
Structure →	*Various structure choices for optimal outcome*

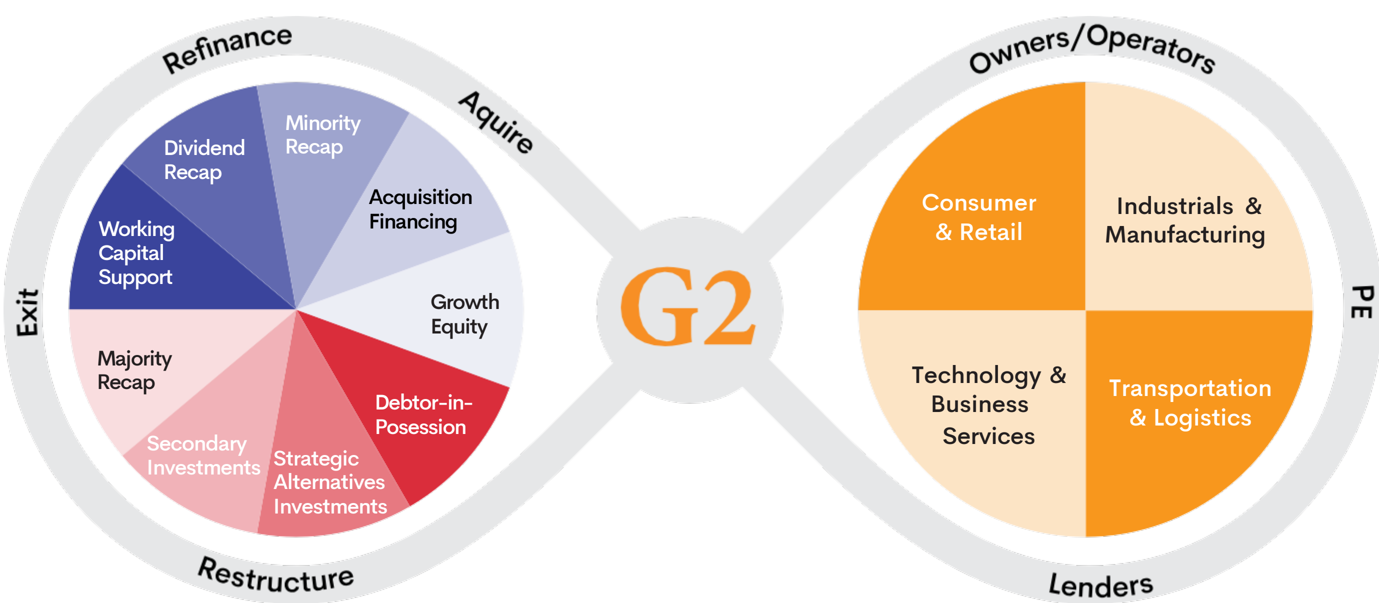
By The Numbers:

600+
Transactions executed

1500+
Lenders in G2 network

$3B+
Debt Capital Raised

235
Firm's combined years in lending



Typical Structures

- Senior Secured
- Growth Equity
- Acquisition Financing
- Asset-based Lending (ABL)
- Unitranche
- Minority Equity
- Mezzanine / Sub Debt
- Dividend Recap
- Structured Equity

Credit Expertise:

Deep understanding of credit positioning, real-time market insights and trends enables us to create a multitude of viable financing options

Access to Key Lenders:

Strong connections with debt and equity decision-makers allows direct engagement with key stakeholders, that drive certainty of close

Industry Expertise:

We achieve a lower cost of capital by demonstrating industry depth and negotiating solutions informed by sector dynamics.

Robust Process Execution

Acute attention to detail and a proprietary process provides a comprehensive exploration of financing options, positioning our Client's for the best possible outcome.

Source: Pitchbook | LCD – Data through December 31, 2024

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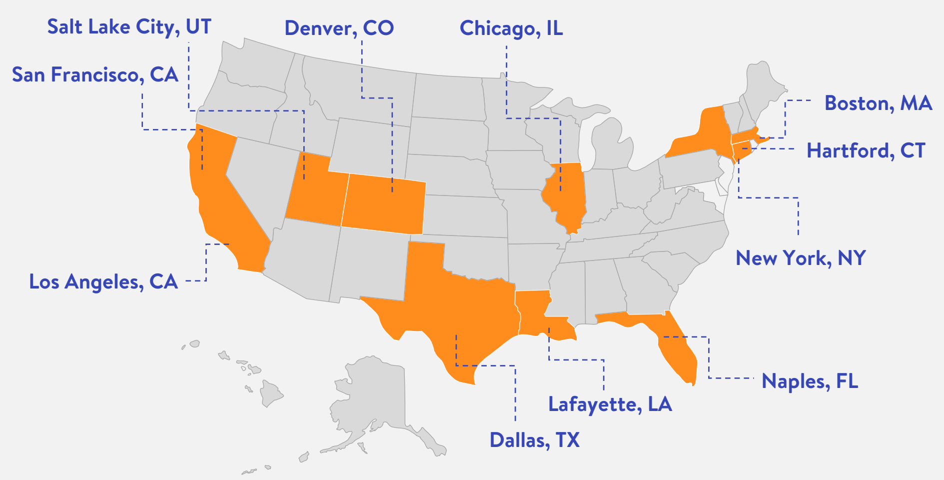
FIRM OVERVIEW

Overview:

- 600+ mandates in 15 years
- $5.5B+ total executed transaction value
- Extensive industry experience
- Robust strategic and sponsor relationships
- Active touchpoints with logical sellers and buyers



Sector Expertise:

Industrials & Manufacturing

I&M Focus Sectors:
- Niche Manufacturing
- Industrial Services
- Building Products
- Metals & Materials
- Containers & Packaging

Transportation & Logistics

T&L Focus Sectors:
- Asset-Based Transportation
- Final Mile Delivery
- Freight Brokerage
- Warehouse & Distribution
- International Logistics

Technology & Business Services

TBS Focus Sectors:
- IT Services & Cloud Solutions
- Outsourced Business Services
- Facility Services
- Tech-Enabled Services & Software

Consumer & Retail

C&R Focus Sectors:
- Multi-Unit Consumer
- Food & Beverage
- Health & Wellness
- Consumer Goods

A Multi-faceted Platform:

Focused on crafting bespoke operational and financial advisory solutions for our corporate and investor clients. G2 works with clients across a range of situations.

SELL-SIDE M&A ADVISORY

BUY-SIDE M&A ADVISORY

CAPITAL MARKETS

RESTRUCTURING ADVISORY SERVICES

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