G2 | CAPITAL ADVISORS

CAPITAL MARKETS

MARKET UPDATE

G2 | CAPITAL ADVISORS

Capital Markets

US CREDIT MARKETS REVIEW & 2025 OUTLOOK

Key Themes

The US leveraged loan market in Q1 2025 began on a high note but weakened as the quarter progressed, impacted by tariff worries, volatility in the macroeconomic environment, and declining borrower fundamentals. An equity market sell-off and heightened uncertainty reduced loan investor appetite, delaying some syndications and requiring arrangers to offer wider terms to finalize deals. Middle market players experienced the following effects:

- **Continued Spread Tightening:** Credit spreads stayed near post-GFC lows in early 2025 as lenders competed for limited deal flow, with private credit spreads compressing toward the low to mid S+500s or below for larger deals, though signs suggest this trend may taper, especially for smaller or riskier deals.
- **Resurgent Repricings and Refinancings:** While new issuance was relatively soft, Q1 saw a spike in repricings and refinancings, especially in January, though this activity faded by March due to macro uncertainty, with BSL unexpectedly outpacing direct lending in refinancing volume.
- **Supply-Constrained M&A Rebound:** Q1 M&A loan volume jumped ~70% YoY as lenders showed a strong appetite, especially for sponsor-backed LBOs. However, a thin pipeline of sale processes kept overall activity subdued and skewed toward the few high-quality credits that came to market.
- **Dividend Recaps and Sponsor Liquidity:** Sponsors leaned into dividend recaps amid low new buyout activity, pushing volumes up 91% QoQ, while companies also used favorable markets to refinance and extend maturities.
- **Private Credit's Competitive Push:** Private credit remains aggressive with abundant dry powder and flexibility advantages, while growing competition from banks and institutional investors keeps the spreads tight and borrower terms friendly.
- **Rise of Asset-Based Lending:** Asset-based loans, especially when paired in split lien transactions, continued gaining traction in Q1 as an appealing option for companies with strong assets but weaker cash flows, offering lower spreads and broader access to credit.
- **Macro & Market Volatility:** A stable Fed outlook buoyed credit markets early in Q1. However, late-quarter volatility and policy uncertainty dampened sentiment, leaving markets favorable to issuers yet increasingly cautious heading into the rest of 2025.

Overall, Q1 2025 credit markets remained strong and borrower-friendly, marked by continued spread tightening, a surge in repricings and dividend recaps, and early signs of M&A recovery while activity was concentrated in higher-quality credits. However, rising macro uncertainty, late-quarter volatility, and lack of supply of new issue deals are tempering momentum and setting a more cautious tone for the rest of the year.

Quarter-over-Quarter Trends	Higher	Tighter	Decreased	Higher	Flat
	Loan Volume	*Spreads*	*EV / EBITDA Leverage*	*M&A Loan Volume*	*Default Rates*

Source: Pitchbook | LCD – Data through March 31, 2025

Capital Markets

US CREDIT MARKETS REVIEW & 2025 OUTLOOK

Market Overview & Macroeconomic Backdrop

After a strong start, US loan issuance slowed in Q1 2025 as government policy actions raised growth concerns. Still, the US recorded $187.2 billion in new loans, **marking the busiest first quarter in four years and surpassing last year's pace.** This is a significant recovery from Q1 2023's 13-year low of $71.9 billion.

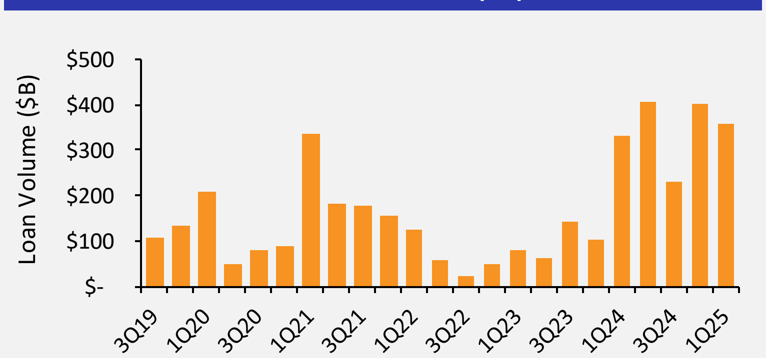
M&A-related supply offered relief for investors, with $74.5 billion in loans for LBOs and acquisitions, **a three-year high for Q1**. However, private credit M&A activity declined in Q1 due to macroeconomic challenges, including **trade policy volatility and sustained interest rates**, though a rebound is expected as conditions stabilize. Refinancings remained prominent, accounting for 50% of issuance, compared to 30% in full-year 2021 before the Federal Reserve's rate hikes began.

In the US high-yield bond market, issuance reached $68.5 billion, down from $85.1 billion in Q1 2024. This is despite the Federal Reserve signaling a potential half-percentage-point rate cut by year-end, which may spur demand as investors chase yields through fixed-rate assets.

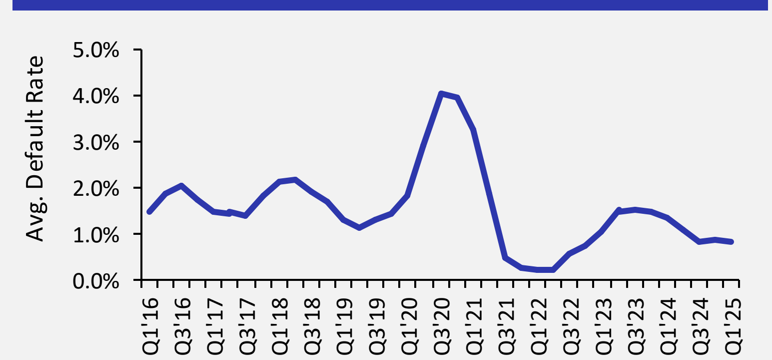
Dividend payout issuance hit a record pace early in the quarter but slowed after a mid-March selloff, totaling $31.9 billion, which is strong yet below the all-time Q1 high of $39.1 billion set in 2021.

Notable US transactions included large repricings, such as Worldpay's $5.2 billion term loan B and BMC Software's $4.31 billion first-lien term loan due in July 2031. Dividend payouts featured multibillion-dollar credits, like Clarios' $3.5 billion, seven-year term loan B.

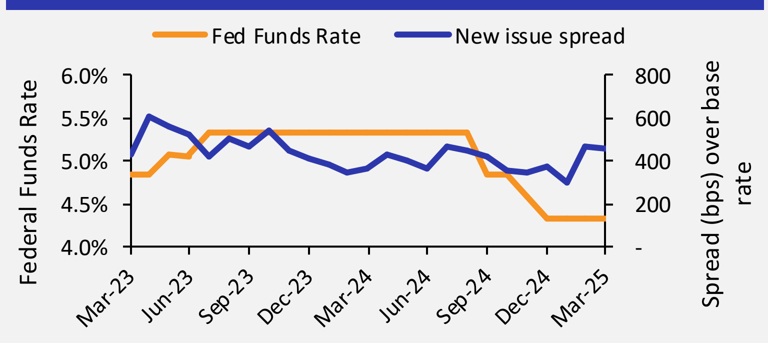
US LOAN VOLUME ($B)



DEFAULT RATE



FED FUNDS RATE VS SPREADS



DEBT/EBITDA RATIOS OF LEVERAGE LOANS

Source: Pitchbook | LCD – Data through March 31, 2025

G2 CAPITAL ADVISORS

Capital Markets

US CREDIT MARKETS REVIEW & 2025 OUTLOOK

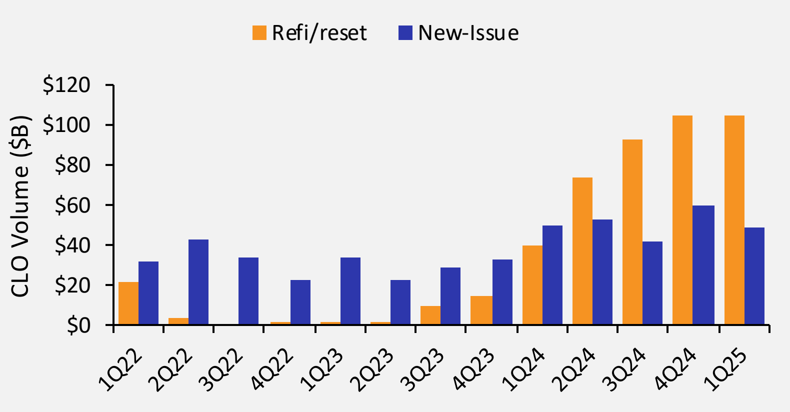
CLO Demand Surge & Repricing Wave – Middle Market Implications

Despite economic concerns, CLO creation in early 2025 remained robust, with managers and investors dismissing recession fears to deliver a strong Q1. LCD data shows $48.6 billion across 97 transactions, nearly matching Q1 2024's $48.8 billion from 106 deals, with $19.9 billion in February and $18.8 billion in March, despite slightly wider but tight spreads.

Banking analysts forecast $180-215 billion in new issuance for 2025, with $215 billion potentially topping 2024's $202 billion. Yet, concerns linger that momentum could fade if spreads widen and defaults rise, with JPMorgan noting surprise at pushback to their bearish outlook on AAA spread widening and an 11% issuance drop.

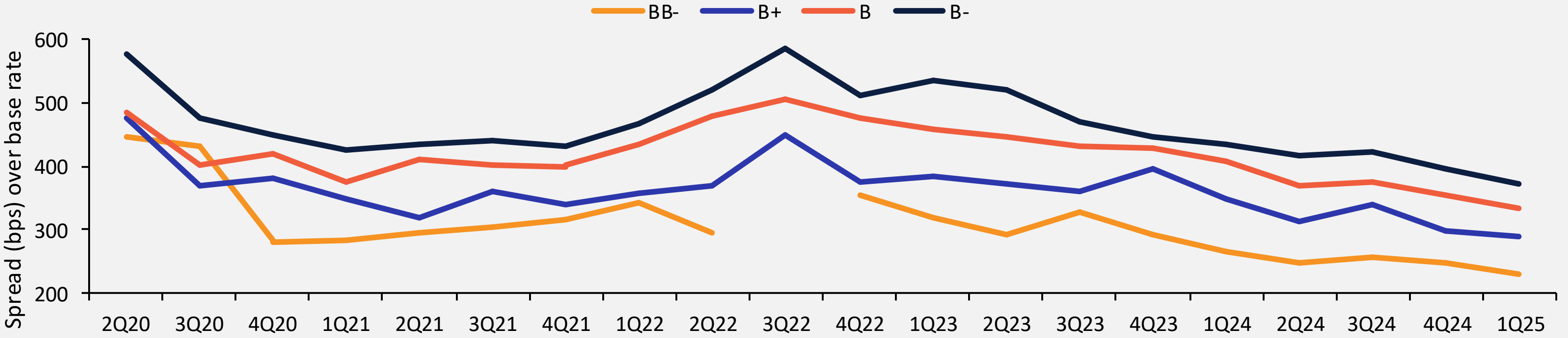
Refinancings and resets neared peak years, with $40.9 billion in refinancings and $63 billion in resets in Q1, exceeding Q1 2024 but below Q4 2024's $104.2 billion total. February's $15.4 billion in refinancings marked the highest monthly volume since March 2021's $17.4 billion, driven by leading firms. Record-low spreads drive this activity, prompting managers to refinance older deals from 2022-2023's wider spread environment. Investors accept lower rates for short-duration refinancings, with an average AAA spread of 99.92 bps over term SOFR, the second-tightest in nine years per LCD data, building on 2024's $18.63 billion in refinanced CLOs.

US CLO VOLUME ($B)



In Q1 2025, the CLO exchange-traded fund sector hit record levels, with the number of funds rising to 19, all vying for secondary and primary-market CLO debt securities, and their combined AUM reaching about $31.6 billion by March 20. However, March introduced some volatility, as retail investors offloaded CLO holdings to capitalize on equity market deals amid a significant stock market sell-off, according to market analysts. Even the largest CLO ETF, the Janus Henderson AAA CLO ETF (NYSE: JAAA), saw weekly outflows for the first time since its 2020 debut, per bank research. A Feb. 28 BofA report noted CLO ETF inflows of $3 billion in February, with a year-to-date total of $7.5 billion, as top funds from Janus Henderson and PGIM outperformed leveraged-loan funds.

NEW ISSUE TBL SPREADS



Source: Pitchbook | LCD – Data through March 31, 2025

G2 | CAPITAL ADVISORS

Capital Markets

US CREDIT MARKETS REVIEW & 2025 OUTLOOK

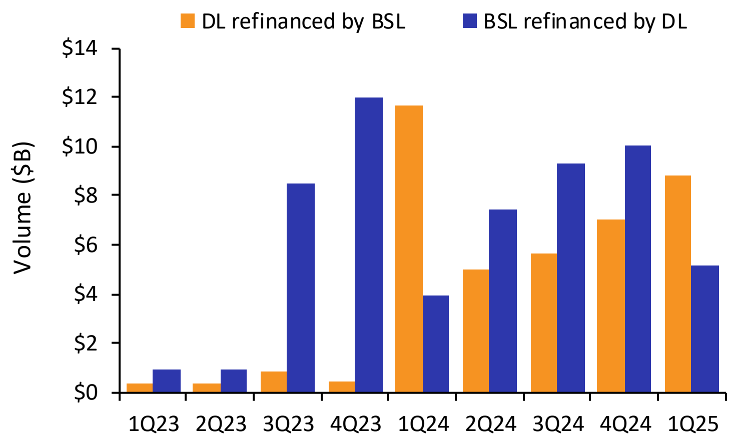
Key Trends in BSL, Private Credit & Leverage Finance, and ABL

Private credit lenders maintained a stronghold in Q1 2025 despite losing out on the refinancing battle with the BSL market for the first time in three quarters. These transactions underscore the strength of private credit's origination capabilities—many of the assets exiting to the BSL market were initially structured, priced, and closed by direct lenders. This dynamic has reinforced private credit's role as a key entry point for capital deployment, especially in volatile or transitional market conditions. Most borrowers continued to favor private credit for its certainty of execution, bespoke structuring, and relationship-driven approach.

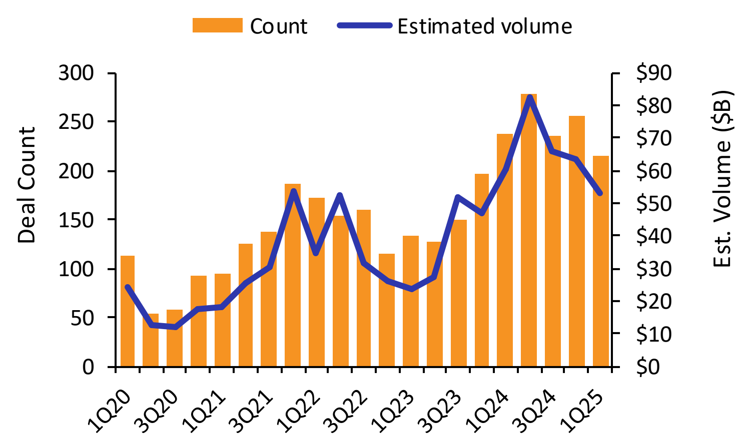
Private credit deal volumes declined in Q1 2025, reflecting a slower start to the year as sponsors and borrowers adjusted to evolving market conditions. While broader M&A sentiment showed early signs of recovery, execution in the private credit space remained subdued due to a limited supply of high-quality transactions and continued valuation disparity. Many sponsors paused new processes or delayed launches amid uncertainty around pricing expectations and exit timelines. Activity was primarily concentrated in add-ons and smaller platform deals. Despite the volume decline, lenders remained highly active in evaluating opportunities, maintaining dry powder and readiness for a potential uptick in H2.

New Issue TLB spreads tightened in Q1 2025 by approximately 25–50 bps compared to Q4 2024. This compression was driven by improving investor sentiment, declining forward base rates, and increased demand for floating-rate paper amid stabilizing credit fundamentals. Institutional investors showed growing comfort with underwriting risk, especially in upper middle market transactions. As a result, issuers with scale and solid sponsor backing benefited from more favorable pricing, though covenants remained relatively lender-friendly, signaling a balanced risk-sharing environment.

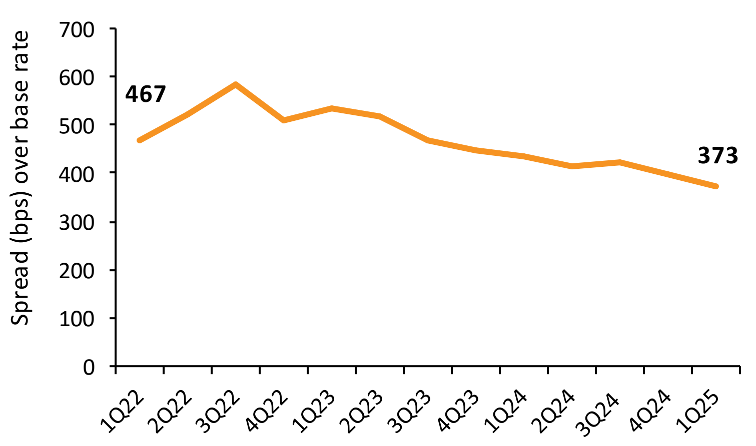
BSL VS DIRECT LENDING REFINANCING



DL DEAL COUNT AND EST. VOLUME



NEW-ISSUE TLB SPREAD FOR B- BORROWERS



Source: Pitchbook | LCD – Data through March 31, 2025   **Reflects repricings and extensions done via an amendment process only*

G2 CAPITAL ADVISORS

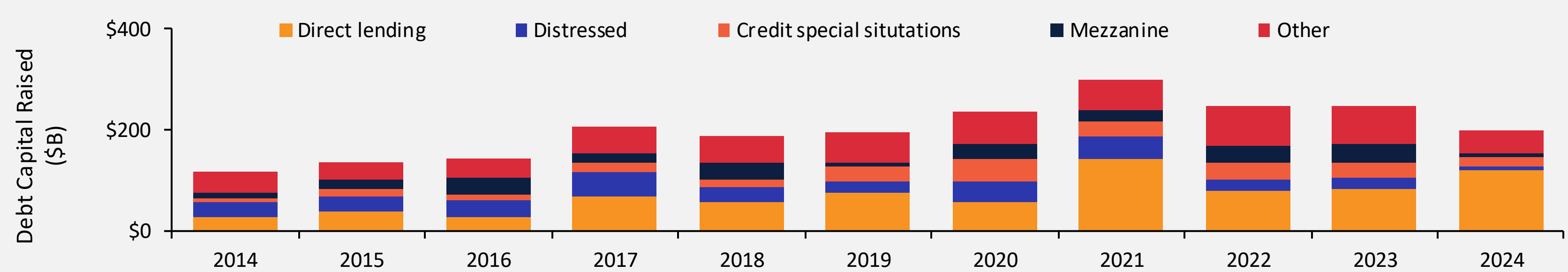
Capital Markets

US CREDIT MARKETS REVIEW & 2025 OUTLOOK

Private Credit Stance

In early 2025, the private credit market faced competitive pressures, regulatory uncertainty, and shifting borrower behavior. Government cost-cutting, particularly by the new DOGE, impacted enterprise software and business services, while looming tariffs concerned automotive borrowers. Lenders explored financing for college athletics amid NCAA rule changes. The rise in payment-in-kind (PIK) interest reflects borrower caution in a high-rate environment. Despite slower deal activity, large firms consolidated market share and formed bank partnerships, setting the stage for a potentially stronger second half.

PRIVATE DEBT CAPITAL RAISED BY TYPE ($B)



Bank & Private Credit Partnerships:

Date	Bank	Asset manager(s)
Mar 2025	Deutsche Bank	DWS Group
Mar 2025	Silicon Valley Bank	Pinegrove Venture
Jan 2025	Standard Chartered PLC	Apollo
Jan 2025	BMO Financial Group	Canal Road Group
Dec 2024	Santander Corporate & Investment Banking	Pemberton
Oct 2024	Piper Sandler Companies	BC Partners Credit
Oct 2024	JPMorgan Chase & Co	FS Investments, Cliffwater, Shenkman Capital Management, et al
Oct 2024	Mizuho Financial Group	Golub Capital
Sep 2024	Citigroup	Apollo Global Management
Jul 2024	Lloyd's Bank	Oaktree Capital Management
May 2024	PNC	TCW Private Credit

2025 Private Credit Loan Feature Outlook

- **Borrower-Friendly Pricing Likely to Hold**
  Spreads near decade-lows; barring a macro shock, the supply-demand imbalance, especially for sponsor-backed LBOs, should keep yields tight through 2025, despite modest widening.
- **Abundant Dry Powder Sustains Competition**
  Record fundraising and unspent capital at direct-lending platforms pressure lenders to deploy, maintaining flexible terms and leverage for strong credits.
- **Covenant-Lite Now Reaching Below $50 MM EBITDA**
  Covenant-lite facilities, once for upper-middle-market borrowers, now reach **$25–50 MM** EBITDA firms, with tighter baskets and springing tests.
- **Asset-Based "Barbell" Structures on the Rise**
  Collateral-rich borrowers pair **ABL revolvers** with term loans, lowering spreads and boosting liquidity.

Source: Pitchbook | LCD – Data through March 31, 2025

G2 CAPITAL ADVISORS

Capital Markets

US CREDIT MARKETS REVIEW & 2025 OUTLOOK

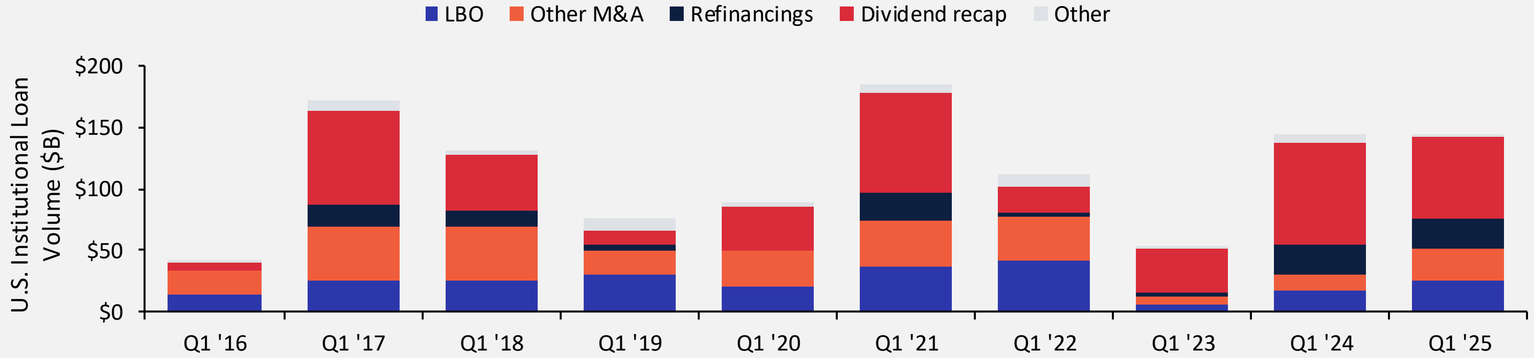
Conclusion

Heading into 2H 2025, abundant dry powder keeps lenders fiercely competitive for high-quality credits. However, tariff uncertainty and an unclear Fed rate path are nudging the market into a "risk-on but watchful" stance. Borrowers need robust credit metrics and strong industry fundamentals in order to attract optimal financing; otherwise, willingness to explore alternative financing like asset-based lending (ABL) or structured private credit to stand out.

Spreads should stay tight for solid borrowers, while weaker names pivot to ABL or bespoke private-credit structures—and a prolonged macro drag could push more 2021-vintage deals into amend-and-extend or restructuring territory.

Dividend recaps will continue to be critical tool for sponsors to unlock portfolio liquidity through 2025, adapting to the evolving market landscape.

US INSTITUTIONAL LOAN VOLUME ($B) Jan 1 – Mar 31



2025 Outlook

Leveraged loans

- Q1 2025 loan issuance reached $144.5B, the highest since 2021, far exceeding the post-GFC quarterly average of $100B.
- Refinancings fell to 45%, while net supply grew to $79.1B, reflecting a healthier, more balanced leveraged loan market.
- Dividend recapitalizations surged to $24.4B year-to-date, a record pace, though activity notably slowed in March.

Private credit

- BSL take-outs tighten the race as $8.8B of unitranche loans were refinanced in the syndicated market in Q1, yet direct lenders still win on speed, certainty, and bespoke structuring.
- Record fundraising and new bank-PC partnerships keep capital plentiful for sponsor LBOs and the **$27B** YTD dividend-recap pipeline, even as overall M&A supply remains modest.
- Private credit offers increased privacy and customized solutions for smaller add-on deals, evident in financing trends observed in March.

Source: Pitchbook | LCD – Data through March 31, 2025

G2 | CAPITAL ADVISORS

MARKET UPDATE

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 marketscapabilities and industry expertise from its Industrials and Manufacturing ("I&M") team. G2 ran a competitive capital markets process andexplored 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 remaininvolved 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 March 31, 2025

G2 | CAPITAL ADVISORS

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

QUALITY MEATS LLC · Arby's

has been refinanced by

OLD NATIONAL BANK

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 March 31, 2025

G2 | CAPITAL ADVISORS

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*

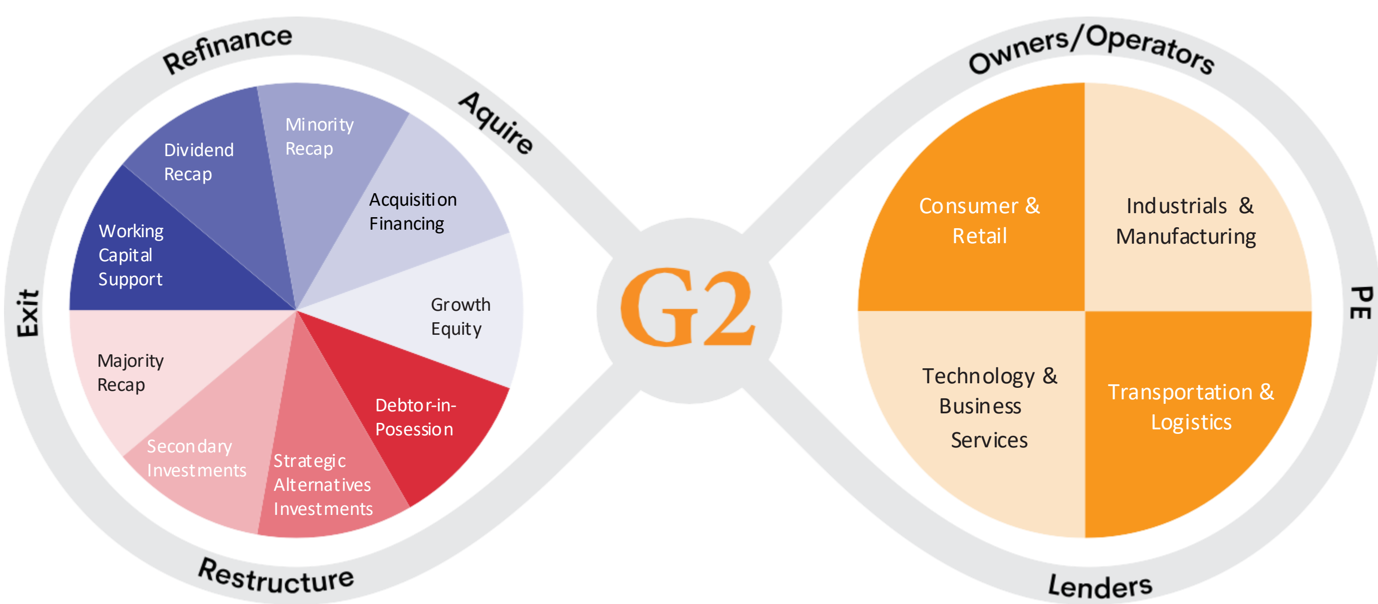
By The Numbers:

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.

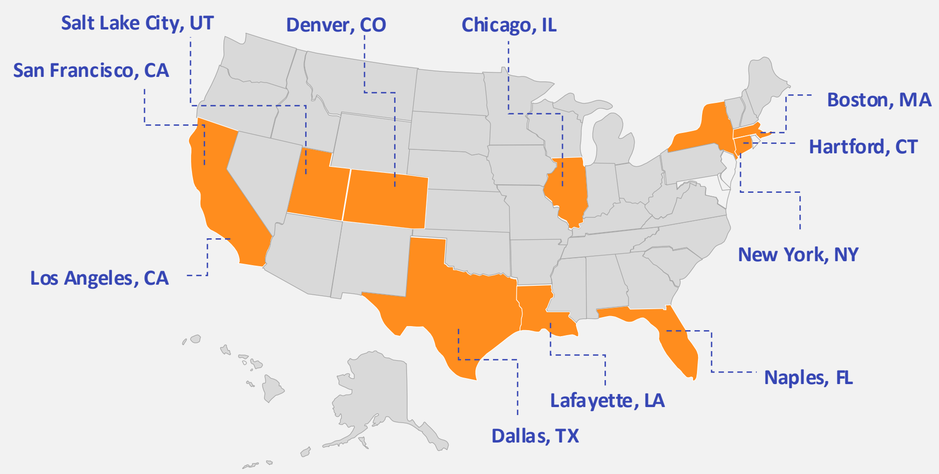
Source: Pitchbook | LCD – Data through March 31, 2025

G2 | CAPITAL ADVISORS

FIRM OVERVIEW

Overview:

- 600+ client engagements across all products 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

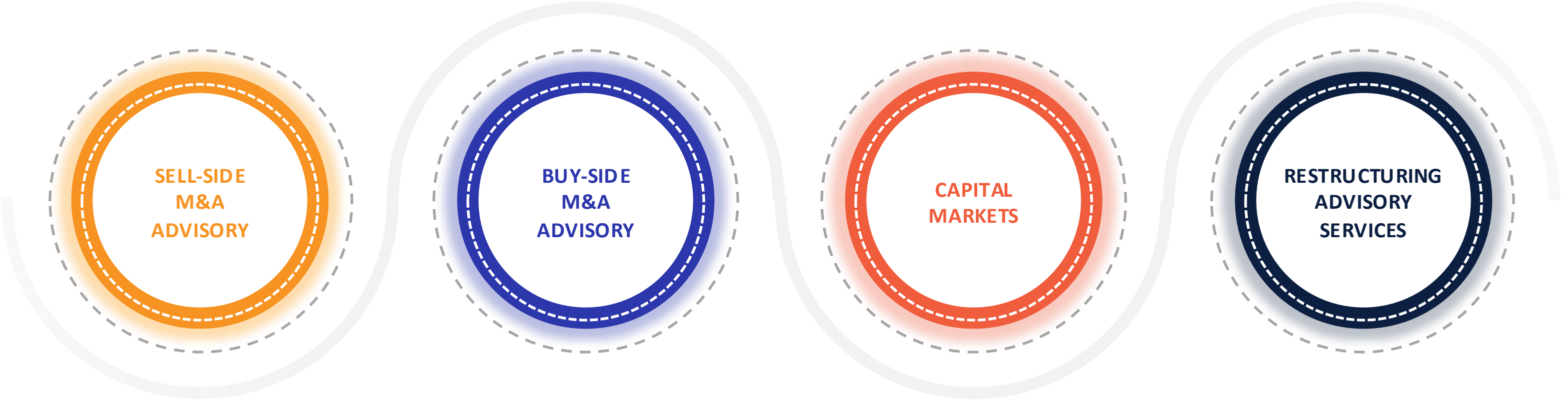
TBS Focus Sectors:
- IT Services & Cloud Solutions
- Outsourced Business Services
- Facility Services
- Tech-Enabled Services & Software

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.



Connect With Our Team:

Reed Upson
Managing Director
rupson@g2cap.com
415.755.8851

Ben Wright
Chief Operating Officer
bwright@g2cap.com
619.972.3586