AlixPartners

MARCH 2025

ALIXPARTNERS' MID-MARKET DEBT REPORT: 2024 REVIEW AND H1 2025 OUTLOOK

Leveraged deals surged nearly 50%, fuelled by an uptick in LBO activity made possible by improving credit conditions. The number of refinancings also increased as private equity firms grappled with misalignment on valuations, limiting exit opportunities. Following a slow year in 2023, lenders were eager to deploy capital, and the number of deals involving both banks and private credit firms doubled. Looking ahead to 2025, narrowing valuation gaps and record levels of dry powder resulting in more borrower-friendly terms could unlock new opportunities, but geopolitical uncertainty seems set to reshape the market's near-term future landscape.

The 22nd edition of the biannual AlixPartners' Mid-Market Debt Report covers more than 75 bank and non-bank lenders active in the UK and European mid-market (debt transactions valued up to €400m).

INTEREST RATES AND INFLATION STABILITY, BUT POLITICAL UNCERTAINTY LOOMED OVER H2 2024

- Steadily declining inflation and interest rates laid the foundation for increased M&A activity. However, concerns over the UK Autumn Budget dampened business confidence and deal activity in Q3.
- The UK Autumn Budget significantly impacted industries employing high-levels of entry level workers by increasing the National Minimum and National Living Wages. These changes will elevate costs, affecting profitability and cash flow, and could ultimately prove inflationary, leading to interest rates remaining higher for longer.

LEVERAGED DEBT ACTIVITY UP BY ALMOST 50%

- Leveraged deal activity jumped 48% to 779 in 2024, up from 526 in 2023. On average, each participant of this survey completed 7 more deals than in 2023, up to 20.8 deals from 13.7, which is the highest we have reported.
- European M&A deal count grew by 17%[1] in 2024. Consistent with this theme, LBO and add-on activity reported in this survey increased by 41% in 2024, as investors sought to deploy capital.

SPONSORS HIT THE MATURITY WALL

- The valuation gap between buyers and sellers continued to constrain M&A activity, though the gap is narrowing. Private equity firms are holding onto businesses for longer; average holding periods for exits in 2024 reached 5.7 years[2] in Europe, up from 4.7 years[2] in 2019. GPs are turning to alternative strategies to return cash to LPs, such as continuation vehicles and dividend recaps.
- Facilities from the peak LBO activity in 2021 are starting to mature, so if the exit is delayed, which many are, the facility must be refinanced. Our survey finds that refinancing activity increased by 53% in 2024.

PRIVATE DEBT MARKET EVOLUTION

- Private credit has grown to reach 25% the size of the private equity market, with room for further growth. But how do they grow? Enter tie-ups with banks; for example, Apollo with Citi and Oaktree with Lloyds. This broadens the origination funnel, giving funds a competitive edge.
- While the 'refinancing wall' is looming over the market, there is significant capacity to underwrite it. Preqin reports there is $80bn[3] of dry powder in Europe currently across direct lending and special situations strategies.

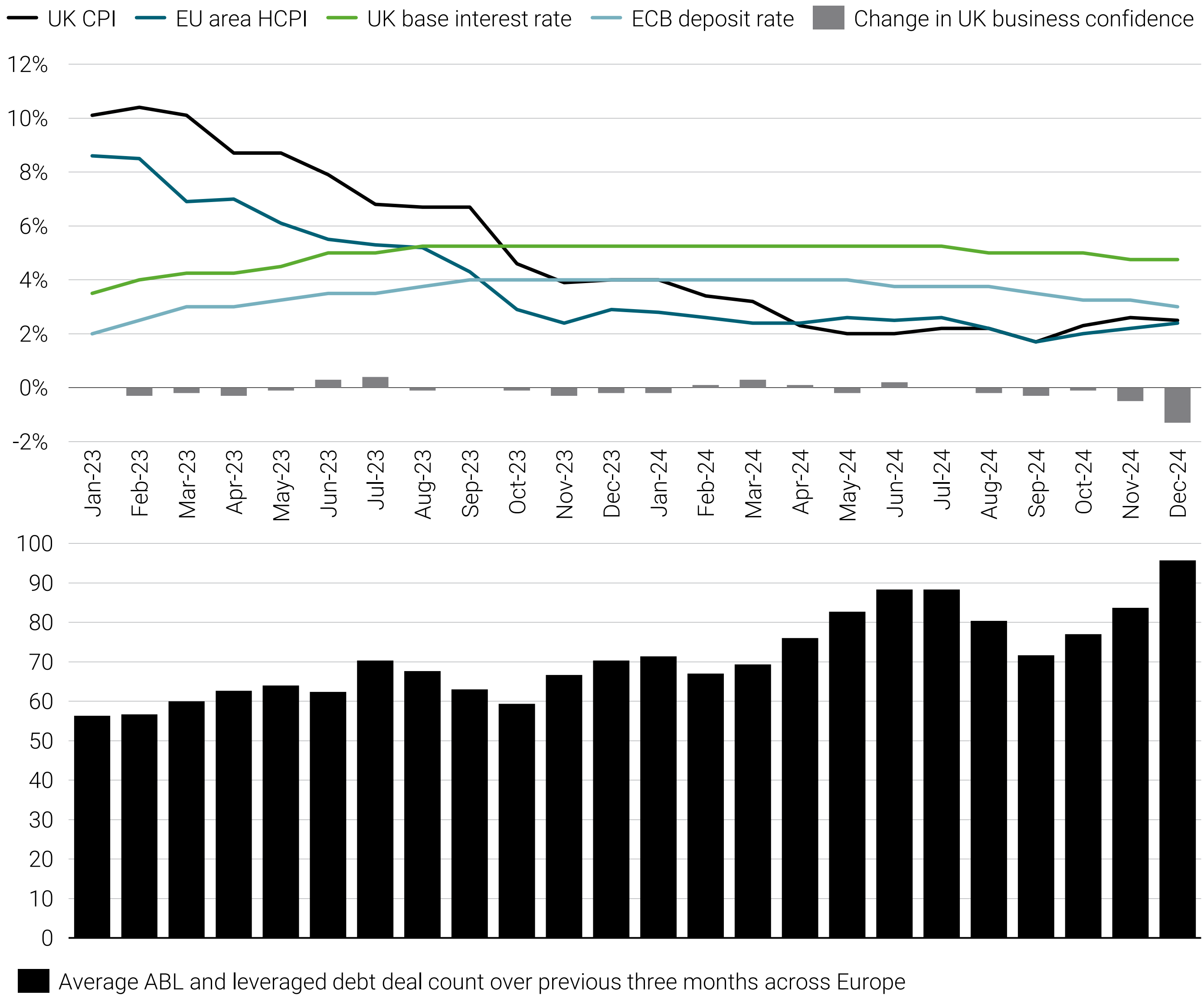
COLLABORATION, EVOLVING FINANCING STRUCTURES, AND ESG PRESSURE TO CHARACTERISE 2025?

- The mid-market debt landscape is poised for notable shifts in 2025, shaped by a combination of geopolitical uncertainty and emerging economic trends. Declining base rates are expected to narrow bid/ask valuation spreads, potentially unlocking greater M&A activity, which has remained muted amidst elevated hold periods for private equity.
- Enhanced debt serviceability may also lead to an increase in more exotic debt structures like recapitalisations. We anticipate that collaboration between public and private markets could grow. Additionally, banks continue to deepen their partnerships with private credit firms – whether through strategic alliances or direct GP investments – reflecting the continued expansion of the latter's market influence. Tie-ups between banks and private credit firms more than doubled in 2024 compared to 2023, and we expect that trend to continue.
- A borrower-friendly year may also emerge as terms more notable in large cap deals – covenant-lite structures or portability, for example – become more prevalent in the mid-market. However, ESG pressures are expected to intensify, and will likely materially affect the shape of lender composition as vanilla lenders step away from certain sectors, such as oil and gas.

1) PitchBook 2024 Annual Global M&A Report. 2) Gain.pro - The State of European Private Equity Report - H1 2025. 3) Preqin Pro

An easing macroeconomic environment improved deal conditions, although elections across the world reshaped the political landscape

- **4 July 2024 –** Sir Keir Starmer wins a landslide victory for Labour in the UK General Election.
- **1 August 2024 –** Bank of England cuts interest rates from 5.25% to 5%, the first cut since March 2020.
- **18 September 2024 –** European Central Bank (ECB) cuts its main interest rate from 3.75% to 3.5%.
- **7 November 2024 –** Bank of England cuts interest rates further from 5% to 4.75%.
- **18 December 2024 –** US Federal Reserve cuts interest rates by 25 bps, to a range of 4.25-4.5%.
- **20 January 2025 –** Donald Trump is sworn in as the 47th US President.
- **27 January 2025 –** EU announces renewed sanctions against Russia over continued aggression in Ukraine.
- **5 February 2025 –** The ECB cuts its main interest rate from 3% to 2.75%.
- **6 February 2025 –** Bank of England cuts interest rates from 4.75% to 4.5%.



Q4 2024's RESURGENCE IN DEAL ACTIVITY REFLECTED A MORE WELCOMING DEALMAKING ENVIRONMENT, BUT POLICTICAL CHANGES COULD IMPACT MOMENTUM

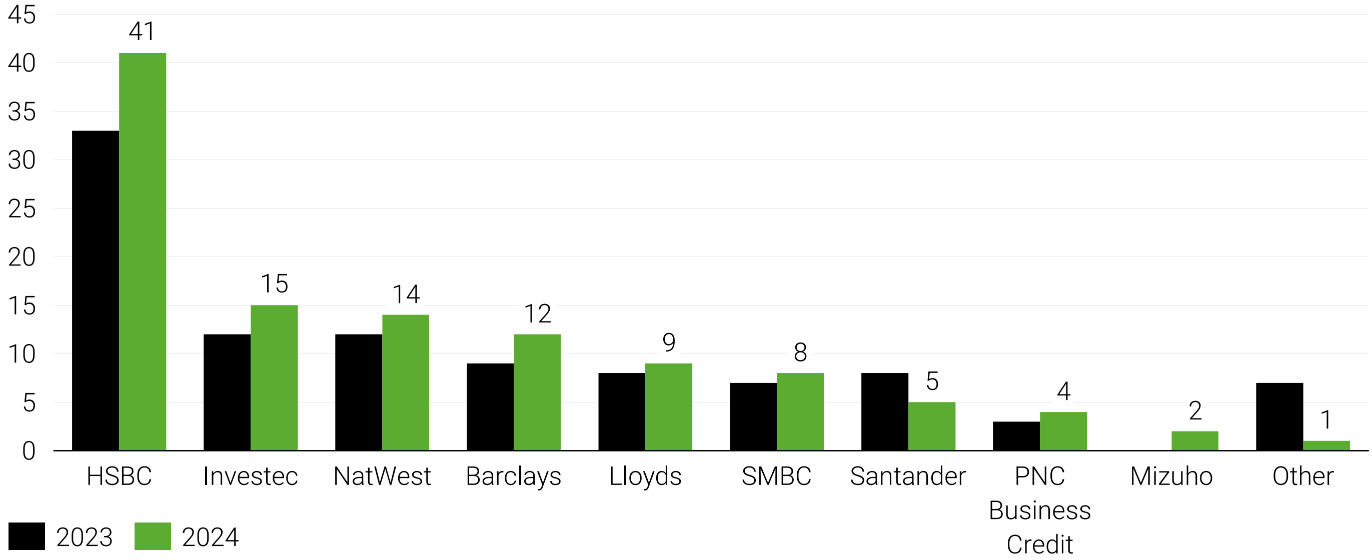
On a rolling three-month average, 2024 closed out with deal activity at its highest level than any point in the previous 24 months. Following a deeper than usual seasonal dip in Q3 activity, the impacts of greater economic stability in relation to interest rates and inflation can be seen. However, the outlook for 2025 is characterised by other disruptive factors. A new world order in geopolitics is taking root, with regulatory, tariff, and taxation policies taking shape, catalysed by the UK Government's Autumn Budget and the inauguration of a new administration in the US. Perhaps unsurprisingly, despite the calmer fiscal waters, business confidence fell in advance of the new year.

Sources: https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/june2023; https://www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp; https://www.ecb.europa.eu/stats/policy_and_exchange_rates/key_ecb_interest_rates/html/index.en.html https://www.statista.com/statistics/623727/business-confidence-in-the-united-kingdom/

Please refer to the disclaimer at the end of this report for further context on the data

Bank deal activity in the UK increased by 29% in 2024, spurred on by a 66% increase in super senior financings

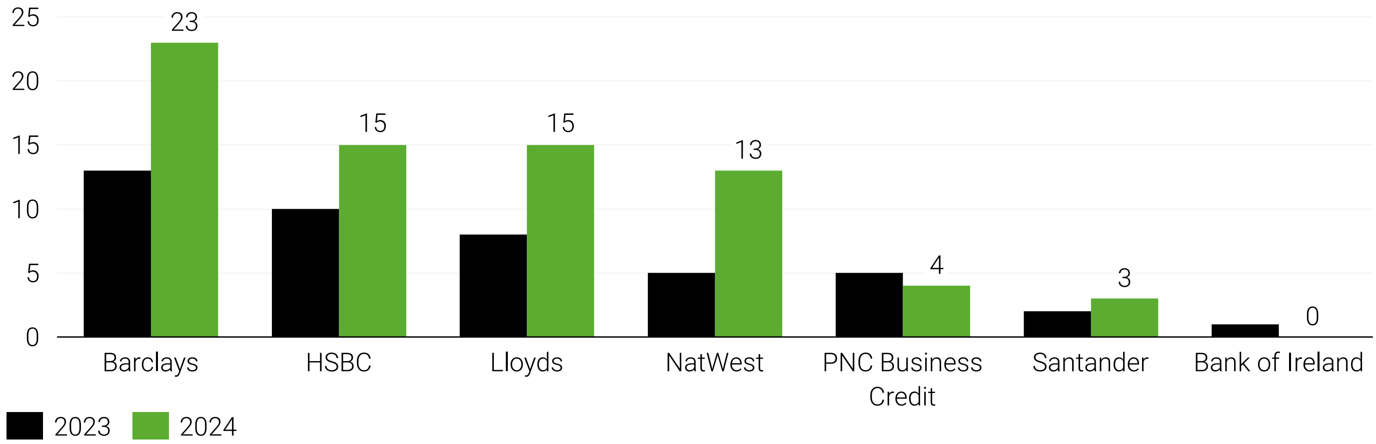
FIGURE 1: UK LEVERAGED BANK DEAL COUNT (EXCLUDING SUPER SENIOR)



INSIGHTS

- Excluding super senior deals, UK banking activity in 2024 increased by 12%, from 99 deals in 2023 to 111 deals. Almost all respondents' deal counts either increased or remained stable. HSBC completed the most UK deals with 41, up from 33 in 2023. Investec completed 15 UK deals, while NatWest and Barclays completed 14 and 12 deals respectively.
- Total activity across Europe (excluding super senior facilities) increased by 48% from 184 deals to 248 deals. 80% of the increase in activity outside the UK was driven by more business services, healthcare, and TMT deals. Across Europe, CIC completed 55 deals (up from 46), SMBC completed 39 deals (up from 20), and Bank of Ireland completed 30 deals (up from 19).

FIGURE 2: UK BANK SUPER SENIOR RCF DEAL COUNT



INSIGHTS

- UK super senior RCF deal activity increased by 66% to 73 deals in 2024, up from 44 in 2023. Barclays almost doubled the number of super senior financings in the UK, from 13 deals in 2023 to 23 in 2024, while NatWest nearly tripled their activity level, from 5 deals in 2023 to 13 in 2024. HSBC and Lloyds also reported notable year-on-year activity increases, both up to 15 deals.
- Including Europe, Bank of Ireland increased from three deals to 14, Investec completed 2 deals and both SMBC and CIC completed one deal each.
- 11 deals involved amend or extend existing facilities, up from 4 in 2023 and only 1 in 2022. Whilst this is still a relatively small portion of activity, it is a significant increase, which is likely due to sponsors holding on to investments for longer.
- Across Europe, LBO activity was the key driver in the uplift in super senior activity. In the UK in 2024, LBO activity accounted for 58% of super senior deals, which is consistent with the long term trend of 56%.

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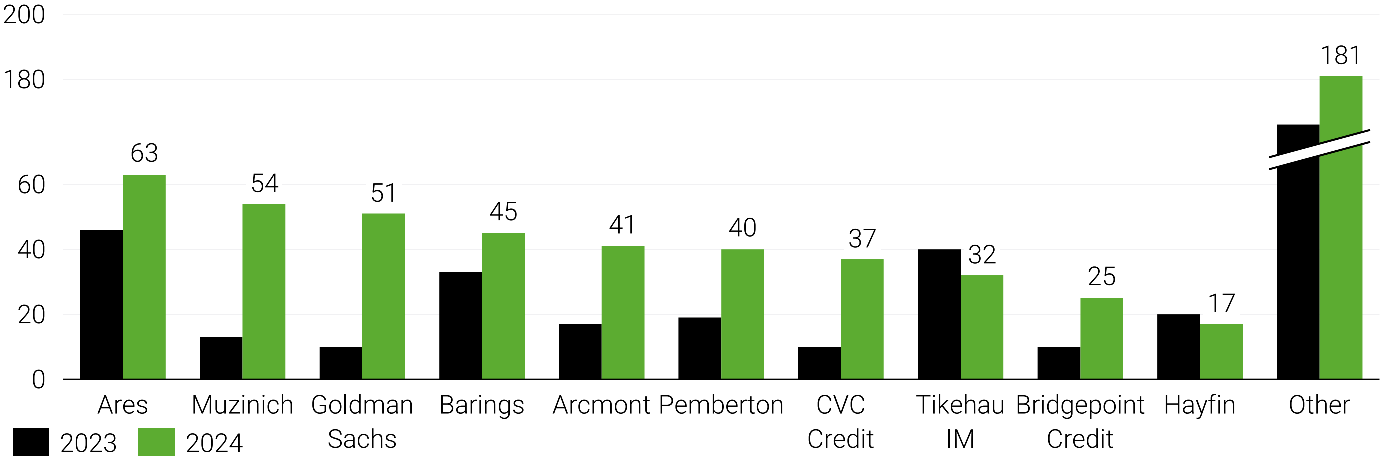
Non-bank activity increased by 51% in 2024, as credit conditions continued to improve, and all sectors reported higher activity levels than in 2023

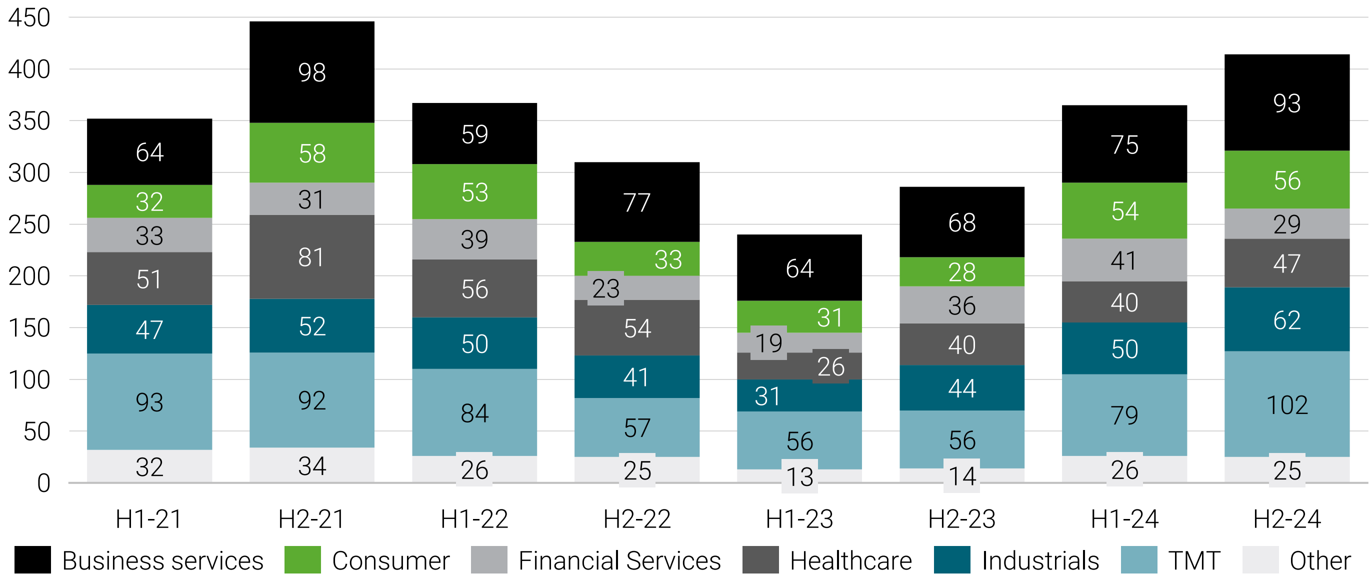
FIGURE 3: EUROPEAN LEVERAGED NON-BANK DEAL COUNT



INSIGHT

- 586 European non-bank deals were completed in 2024, an increase of 53% from 384 in 2023. On average, each fund completed 17.2 deals, which is only 11% lower than the peak of 19.5 in 2021, and is 29% higher than the average over the last 5 years.
- Ares was the most active fund in this part of the market, completing 63 deals in 2024, up from 46 in 2023. Muzinich quadrupled deal activity, reporting 54 deals in 2024, up from 13 in 2023.
- The macroeconomic conditions of the past few years have made it more challenging for funds to deploy capital, leading to a divergence in the market. In turn, this has led to some level of consolidation in the market, as demonstrated by the merger of Blackrock with HPS Investment Partners. Our survey also supports this trend as the top 10 funds accounted for 69% of activity in 2024, up from 57% in 2023.

FIGURE 4: EUROPEAN LEVERAGED DEAL ACTIVITY BY SECTOR



INSIGHTS

- All sectors reported higher activity levels in 2024 than in 2023. TMT saw the highest number of deals overall, 181 in 2024, up 62% from 112 in 2023. The recent boom in AI will have been a key factor and is likely to drive further activity in the space as more businesses deploy the technology. 71% of TMT deals were related to LBOs or add-ons and 18% were associated with refinancings and amend & extend deals.
- Amidst continued macro consumer spending challenges, consumer-leveraged deals nearly doubled to 110 in 2024, up by 83% from 60 deals in 2023. However, in contrast to TMT, 37% related to refinancings and amend or extend deals.
- Business services saw the second-highest number of deals behind TMT at 168, which represents a 27% increase from 2023, and is 4% higher than the peak in 2021. Industrials deal activity also increased significantly, up 49% in 2024.

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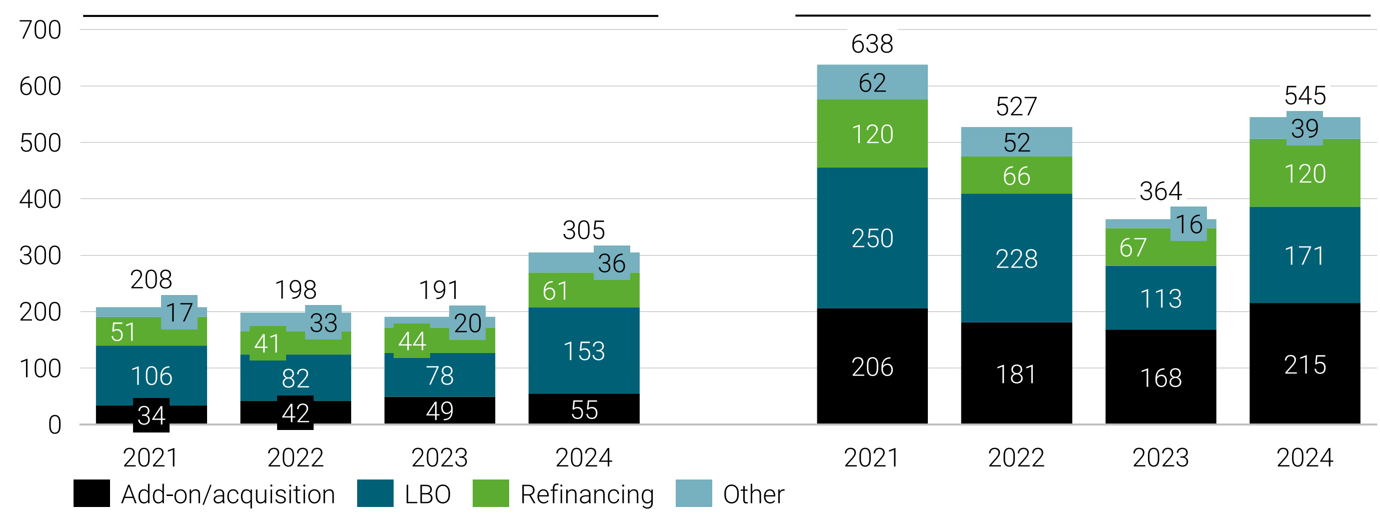
Debt activity to support LBOs returned in 2024, increasing by 57%, supplemented by a 26% increase in add-ons

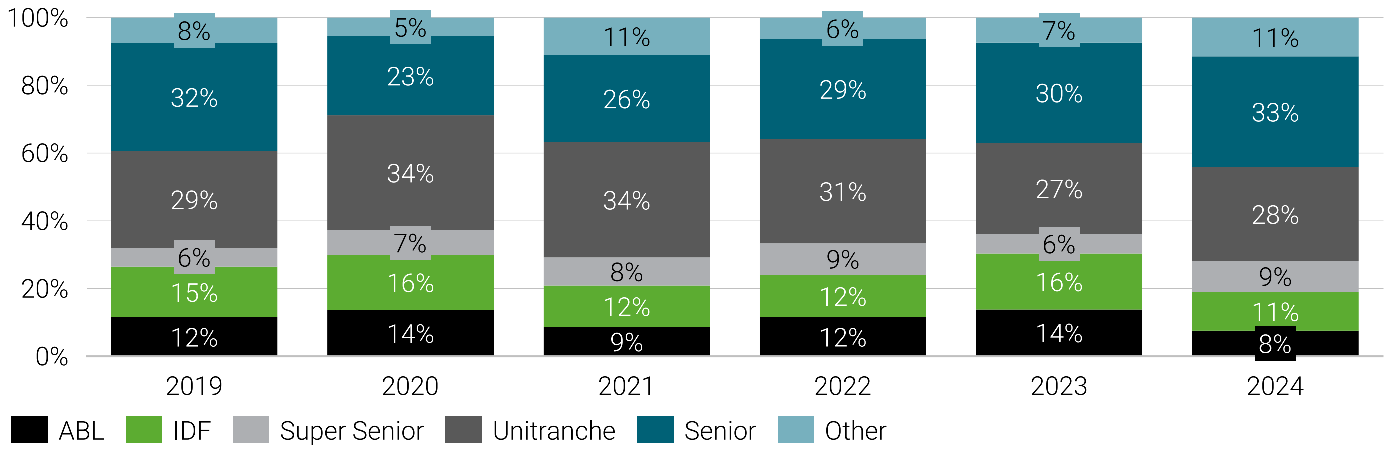
FIGURE 5: EUROPEAN LEVERAGED DEAL ACTIVITY BY PURPOSE, BANKS VS NON-BANKS[1]



INSIGHTS

- After economic conditions hampered M&A activity in 2023, momentum built through 2024. LBO deals increased by 57% from 178 to 280 deals, banks almost doubled the number of LBO deals, and funds increased by 51%.
- In 2021, funds completed 456 LBO and add-on deals, which was significantly higher than 2018, 2019, or 2020. Ordinarily these would be refinanced as part of the sale of the businesses; however, since sponsors are delaying exiting investments, these facilities now require refinancing. While refinancing activity accounted for only 21% of deals, total refinancing activity increased by 53%.
- Overall banks participated in 39% of transactions in H2 2024, consistent with H1 2024. The number of bank-only transactions increased by 44% in 2024 and fund-only increased by similar amount at 41%. The number of transactions involving both banks and funds had been steadily decreasing over the last decade, however, in 2024, this increased by 145% to 71.
- Other deal activity includes dividend recaps and amend and extend transactions, which together more than doubled from 34 to 74 deals. This demonstrated how sponsors are facilitating delayed exits and returning capital via alternative means.

FIGURE 6: EUROPEAN DEAL ACTIVITY BY STRUCTURE



INSIGHTS

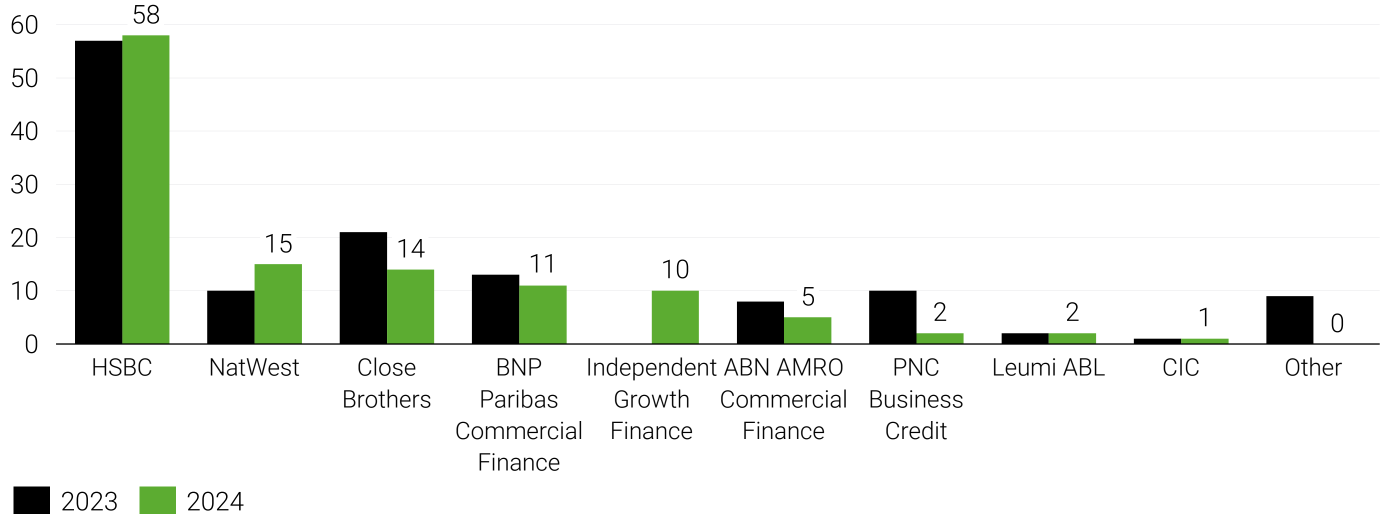
- Activity across all types of leveraged facility increased in 2024 and, broadly, the mix of facilities is similar to previous years. The number of super senior activities more than doubled to 94, three more than the previous record in this survey in 2022. The number of senior and unitranche facilities increased by 43% and 34%, respectively.
- ABL and IDF activity spiked in 2020 and 2023 as borrowers turned to their asset base to raise finance. Both these periods had high levels of economic uncertainty, be that COVID-19 or surging inflation. In periods of improving macroeconomic conditions, borrowers' credit against cash flow is more available.

1) Transactions involving both banks and non-banks are included in both charts

Please refer to the disclaimer at the end of this report for further context on the data

ABL and IDF activity slumped by 19% from the record high in 2023 due to improved cash flows increasing debt capacity from leveraged facilities

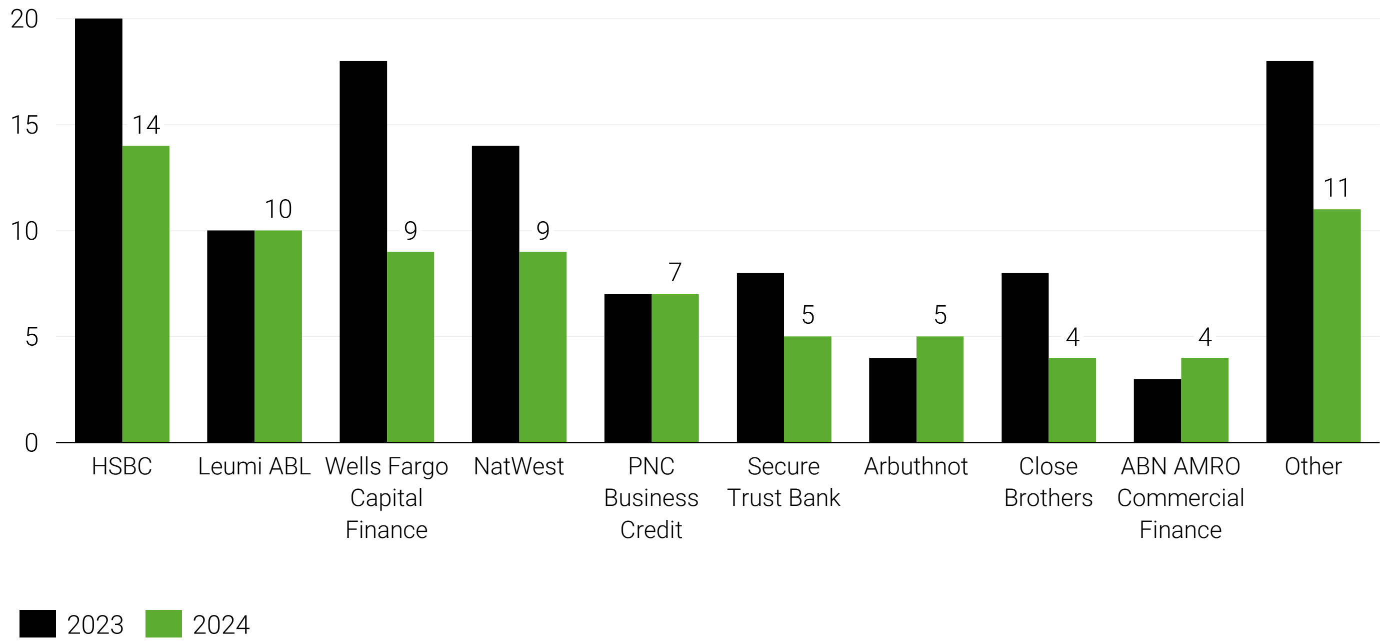
FIGURE 7: EUROPEAN RECEIVABLES/IDF-ONLY ABL DEAL COUNT



INSIGHTS

- IDF-only deals decreased by 10% in 2024, from 131 to 118 deals.
- HSBC accounted for almost half of IDF-only transactions, with 58 deals, one more than in 2023. NatWest reported 15 deals, an increase of five from 10 in 2023. Close Brothers completed 14 deals, down from 21 in 2023 and BNP Paribas completed 11 deals, down from 13.

FIGURE 8: EUROPEAN ABL DEAL COUNT (EXCLUDING RECEIVABLES/IDF ONLY DEALS)



INSIGHTS

- Multi-asset ABL deals dropped further in H2 2024 to 36 deals, from 42 in H1 2024. Across the year, 32 fewer deals were completed in 2024 compared to 2023, 110 in 2023, down to 76 in 2024.
- The decrease in activity was generally experienced across the board. HSBC activity dropped from 20 to 14 deals, Wells Fargo halved from 18 to nine, alongside NatWest down from 14 to nine deals. Although, going against this trend, Arbuthnot and ABN AMRO completed one more deal each in 2024, an increase from four and three, respectively. Additionally, both Leumi ABL and PNC Business Credit maintained the same level as 2023.
- ABL and IDF activity decreased across both M&A-led deals (down 51%) and refinancings (down 15%). Easing macroeconomic conditions paved the way for increased leveraged activity, partially at the expense of ABL and IDF activity.

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ABOUT US

For more than 40 years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.