

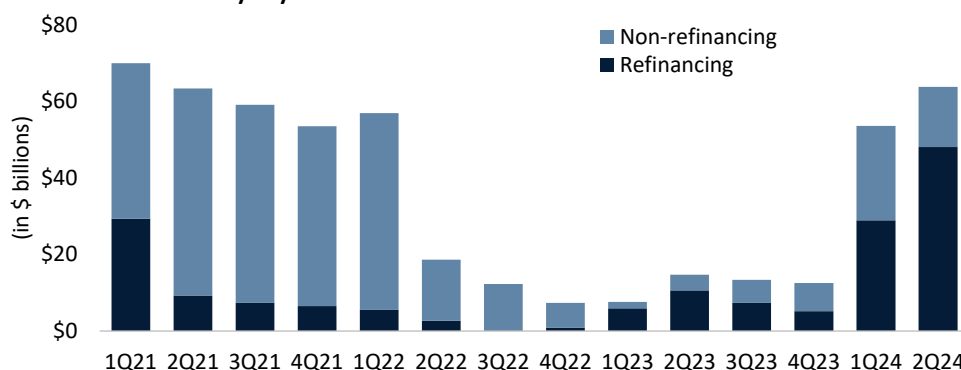
## Private Credit: Competitive Refinancing Pressure Muted in the Lower Middle Market

Private credit (direct lending) has increasingly captured a larger share of the loan market in recent years, partly by refinancing borrowers from the broadly syndicated loan market. While the broadly syndicated loan market regained some ground in Q1 2024, private credit lenders countered by reducing pricing in Q2 to defend their position.<sup>(1)</sup>

Private credit loans are typically higher priced than syndicated loans. However, the heightened competition has tightened this pricing gap, leading to a convergence in spreads.

There are mitigating factors. We believe a key driver behind the recent refinancing activity is the return of lower-rated B-minus borrowers to the syndicated loan market. Data reveals that these B-minus borrowers are refinancing through broadly syndicated loans at the highest levels in years. This suggests the influx of borrowers into the syndicated market is not necessarily due to their credit quality but rather their ability to tap into a more accommodating market.

Broadly Syndicated Borrowers Rated B-Minus<sup>(1)</sup>



Additionally, investors may sidestep the competitive refinancing pressure by targeting the lower middle market. Unitranche spreads for borrowers with below \$15 million EBITDA tightened by only 75 basis points year-over-year in Q2 2024, compared to 100-125 basis points for those with over \$40 million EBITDA. We believe the difference is partially because the broadly syndicated market is typically inaccessible to borrowers with under \$50 million EBITDA.

Unitranche Loan Pricing by Borrower Size<sup>(2)</sup>

EBITDA	<\$15 million	\$15 million to \$40 million	\$40 million to \$100 million	>\$100 million
Q2 2023	S + 625-725 bps	S + 625-700 bps	S + 600-700 bps	S + 600-700 bps
Q2 2024	S + 550-650 bps	S + 525-625 bps	S + 500-600 bps	S + 475-575 bps
Change	75 bps	75-100bps	100 bps	125 bps

Lenders to smaller companies face less refinancing pressure, especially considering the relatively higher costs associated with refinancing. Moreover, the lower middle market typically offers lenders more favorable covenant packages and tighter legal documentation which can further mitigate risk.

Footnotes:

(1) PitchBook LCD

(2) Lincoln International

## Disclosures

Past Performance is not indicative of future results

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