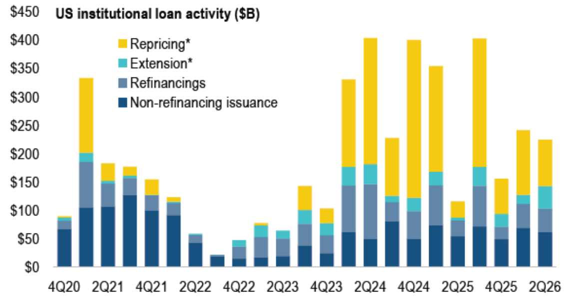
Capital Markets Update
2nd Quarter 2026

July 2026

Capital Markets Update – 2nd Quarter 2026

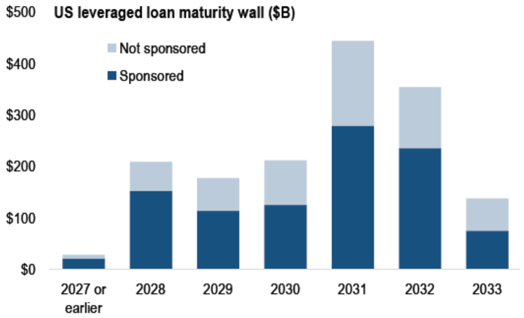
Capital Markets Themes

Non-LBO deals, such as repricings, extensions, drive Q2 activity ....



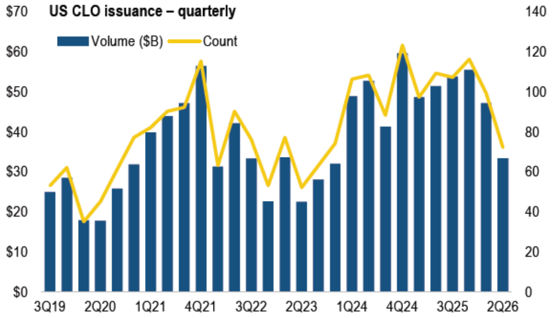
Source: PitchBook | LCD • Data through June 30, 2026
*Reflects repricings and extensions done via an amendment process only

... as exit-challenged sponsors target 2028 maturities.



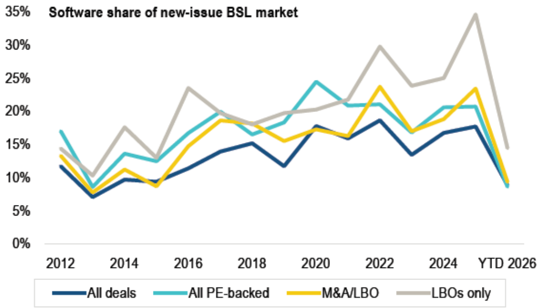
Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through June 26, 2026

Macro risks drag CLO issuance to slowest pace since 2023 ...



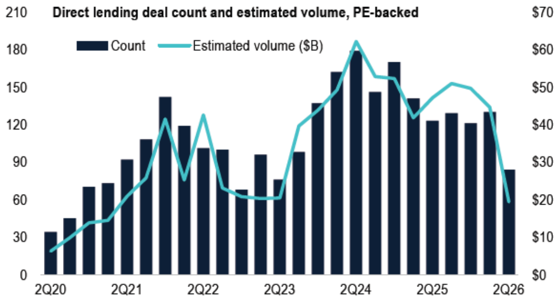
Source: PitchBook | LCD • Data through June 30, 2026

... while software loses its throne in the BSL market.



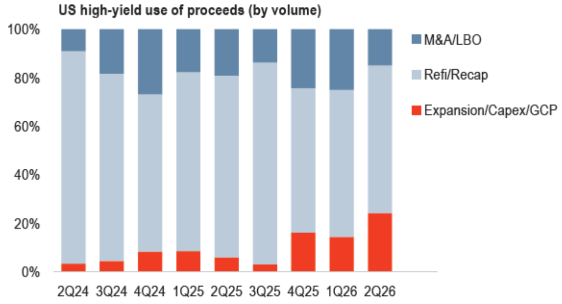
Sources: PitchBook | LCD • Data through June 30, 2026

PE dealmaking drought, direct lending activity plummets ...



Source: PitchBook | LCD • Data through June 30, 2026
Direct lending analysis is based on transactions covered by LCD News

... while AI urgency/FOMO fuels high-yield issuance.



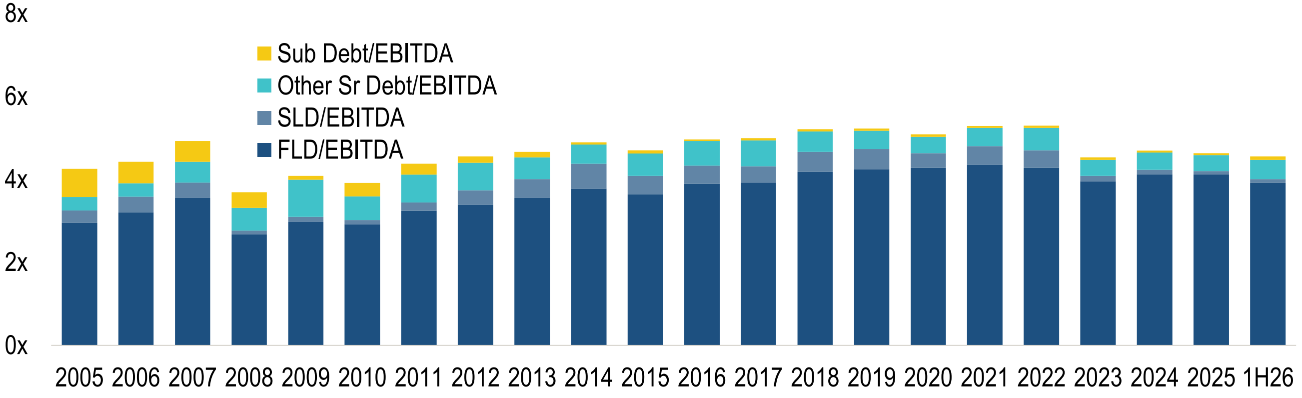
Source: PitchBook | LCD • Data through June 30, 2026

SC&H Insights & Observations

- **2Q26 was defined by bifurcation rather than retrenchment:** Total institutional loan activity was about $224B, down just 7% from Q1 and roughly double the depressed 2Q25 level, but the composition shifted sharply. PE dealmaking fell 38% and sponsored new-money issuance dropped 33%, while corporate borrowers raised a five-year-high $53.6B, led by the $13B Warner Bros. Discovery term loan.
- **Investor demand thinned to its weakest level in over two years:** Measurable demand fell to $34.5B, the lowest since 4Q23, as CLO issuance dropped to $33.3B from $47B in Q1. Loan-fund flows turned marginally positive, and with net supply skewed to higher-rated corporate paper, technicals settled near equilibrium.
- **Pricing told a story of sharp credit tiering rather than broad widening:** B-minus spreads widened 55 bps from 4Q25 to S+409 while BB-minus and B-plus moved five bps or less, and software bids fell to about 86, an 11-point discount to the broader market.
- **Maturity management was the quarter's defining sponsor activity:** Amend-to-extend volume hit a post-GFC quarterly record of $29.5B as sponsors attacked the $208.5B 2028 wall, though the $40B software slice of that wall has barely moved this year.
- **Private credit repriced around the same risks, while high yield stayed open:** Direct lending volume fell to $33B from $74B in Q1 on the PE drought, with LBO spreads widening to about S+509, while AI- and M&A-driven high-yield issuance remained elevated.

Average Debt Multiples of Large Corporate Loans

Shows leverage in large corporate financings over time, breaking total debt to EBITDA into first-lien, second-lien, and other subordinated components.

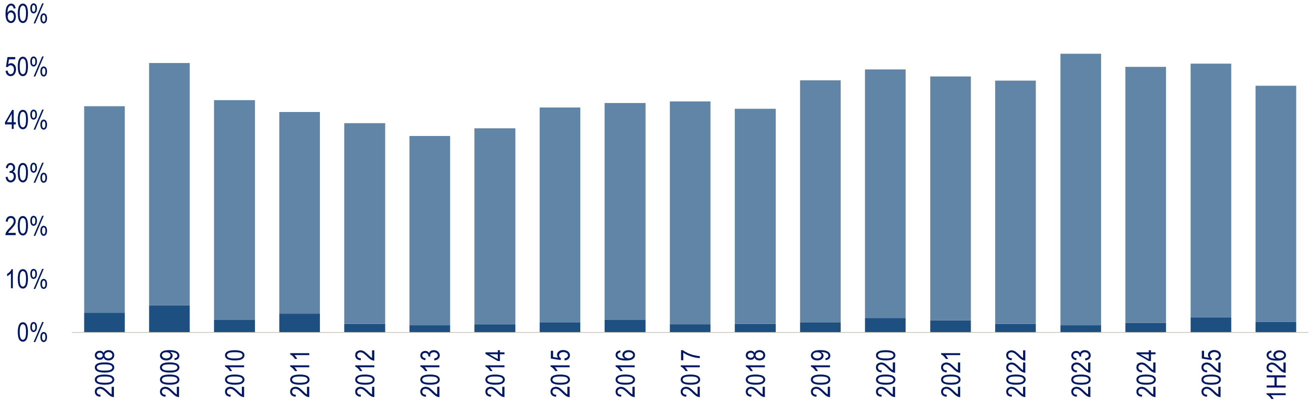


Source: PitchBook | LCD • Data through Jun. 30, 2026

- **Large corporate leverage remains above long-term pre-2015 levels, but the market is not releveraging aggressively.** After peaking above 5.2x in 2021-2022, total leverage moderated and stepped down again in 2026, landing at roughly 4.6x in 1H26 with first-lien debt at 3.9x.
- **The decline is a first-lien story, and the mix explains the offset.** First-lien leverage fell 0.2x to 3.91x, its lowest level since 2016, while other senior debt ticked up to 0.47x as corporate-heavy issuance brought more pro rata and non-TLB structures into the average. That is composition at work, not a rebuild of aggressive layering.
- **The first half suggests discipline is tightening rather than loosening.** Lenders are still supporting larger issuers, but leverage tolerance has pulled back alongside softer purchase multiples, and debt composition remains conservative.
- **Issuer takeaway:** Scale borrowers still have access, but the best execution continues to favor cleaner credit stories, durable cash flow, and limited reliance on junior capital.

Average Equity Contribution to Leveraged Buyouts

Tracks equity contribution in LBOs over time, split between new sponsor equity and rollover equity, showing how purchase structures have shifted across cycles.



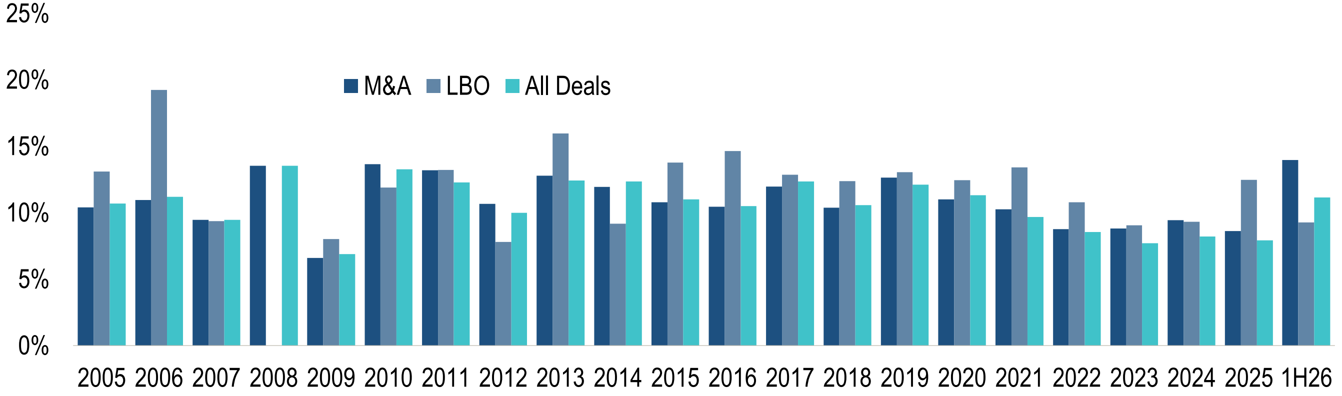
Source: PitchBook | LCD • Data through Jun. 30, 2026

- **After running around the 50% level through 2023-2025, total equity contribution stepped down to roughly 46% in 1H26, with contributed equity at about 44% of purchase price.** Even with that pullback, equity checks remain above most pre-2020 norms and still reflect a market that requires meaningful sponsor support.
- **Contributed equity continues to make up the vast majority of total equity, while rollover equity remains a smaller and relatively stable component.** The 1H26 mix reflects lower purchase multiples rather than looser structures: average LBO purchase prices fell to about 9.8x from 11.1x in 2025, letting sponsors write smaller checks in percentage terms without stretching leverage.
- **Takeaway for deal underwriting:** Buyouts remain more equity-supported than in looser markets, reinforcing lender protection and sponsor alignment even as financing conditions improve for better assets.

EBITDA Adjustments and Synergies

Adjustments as a Percent of EBITDA

Tracks EBITDA "adjustments" as a percent of reported EBITDA, highlighting how much credit metrics rely on add-backs and pro forma assumptions across vintages.

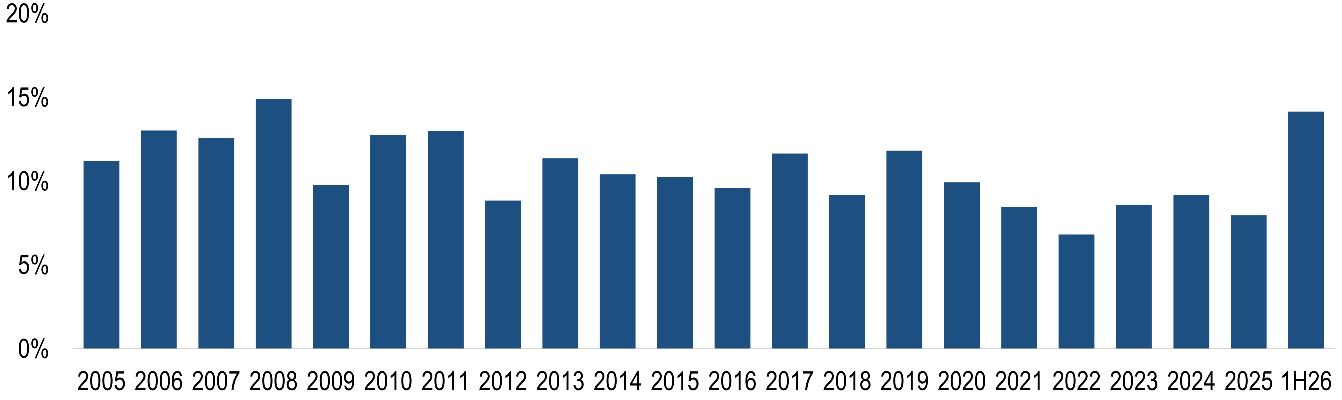


Source: PitchBook | LCD • Data through Jun. 30, 2026

- **Adjustments remain a meaningful part of underwriting, with all-deal adjustments at roughly 11.1% of EBITDA in 1H26.** That is well above 2025's 7.9% and the highest reading since 2021, suggesting pro forma adjustment use re-expanded as corporate M&A activity picked up, though thinner deal counts make half-year figures noisier than annual data.
- **The mix matters.** M&A-related adjustments rose to about 14.0% of EBITDA in 1H26 while LBO adjustment levels held near 9.3%, reinforcing that aggressiveness remains deal-type specific rather than broad-based.
- **Lender tolerance is still selective.** Cleaner, better-supported add-backs continue to matter more in a market that has become more discriminating on quality and proof points.

Avg. Synergies/EBITDA Ratio for Acq.-Related Transactions

Tracks average projected synergies as a percent of EBITDA in acquisition financings, showing how much deal underwriting depends on cost saves and integration benefits.



Source: PitchBook | LCD • Data through Jun. 30, 2026

- **Synergy reliance jumped in 1H26, with average projected synergies rising to roughly 14.2% of EBITDA from about 8.0% in 2025 and 9.2% in 2024, the highest level in the post-2005 data set.** The move likely reflects a first half dominated by large corporate acquisitions, where integration savings feature more heavily in the credit story, rather than a wholesale loosening of underwriting standards.
- **Synergies are still a meaningful part of M&A credit stories, but recent deals are relying less on future execution to justify leverage and pricing.** With fewer acquisition financings in the sample, a handful of synergy-heavy transactions can move the average sharply, so the trend deserves confirmation over coming quarters.
- **Execution takeaway:** Well-supported synergy cases still help, but lenders are putting greater weight on timing, achievability, and evidence rather than headline add-back potential.

Broadly Syndicated Loans

US Leveraged Loan Volume

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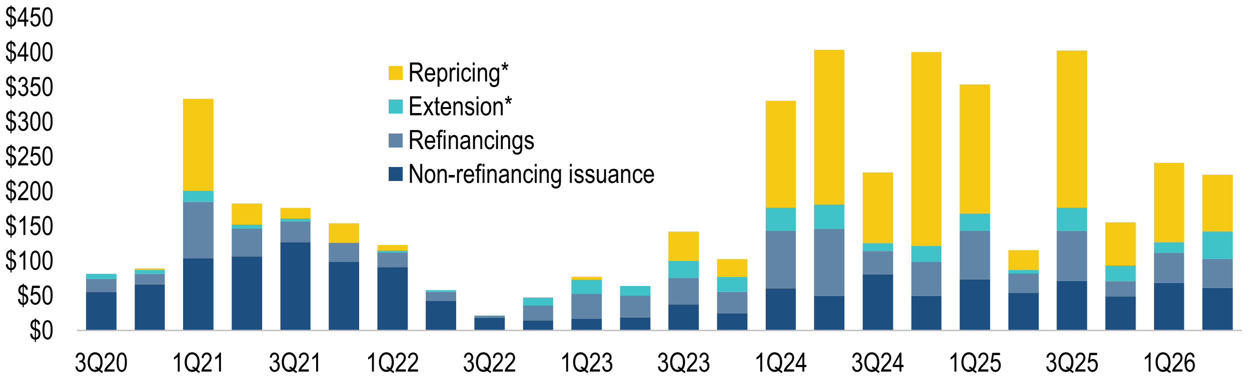
Quarterly US Institutional Loan Volume ($B)

Tracks quarterly leveraged loan refinancing and amendment activity, a key indicator of issuer ability to reduce borrowing costs and extend maturities.



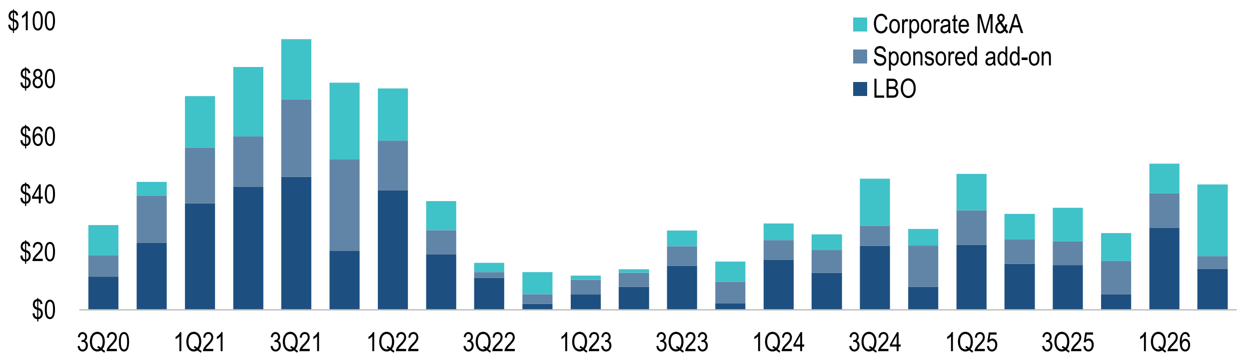
Source: PitchBook | LCD • Data through June 30, 2026

*Reflects repricings and extensions done via an amendment process only

- **2Q26 volume held up better than the macro backdrop suggested.** Total institutional loan activity was about $224B, down just 7% from Q1, roughly double the depressed 2Q25 level and 17% above the five-year quarterly average.
- **Amendments did the heavy lifting. Repricing volume of about $81B and a post-GFC record $29.5B of amend-to-extend activity drove the quarter, while refinancing volume held steady at $42B.** New-money issuance softened but did not stall: non-refinancing issuance was $61.1B, down from $68.7B in Q1, with corporate borrowers stepping in as sponsors retreated to balance-sheet defense.
- **Issuer takeaway for 2026 planning:** Windows remain open, but with just 27% of Q2 activity unrelated to extensions or spread reductions, execution favors issuers who move early when conditions allow.

M&A-Related Loan Volume

Tracks quarterly leveraged loan volumes used to finance M&A, sponsor add-ons, and LBOs, reflecting the pace of deal activity and availability of acquisition financing.



Source: PitchBook | LCD • Data through June 30, 2026

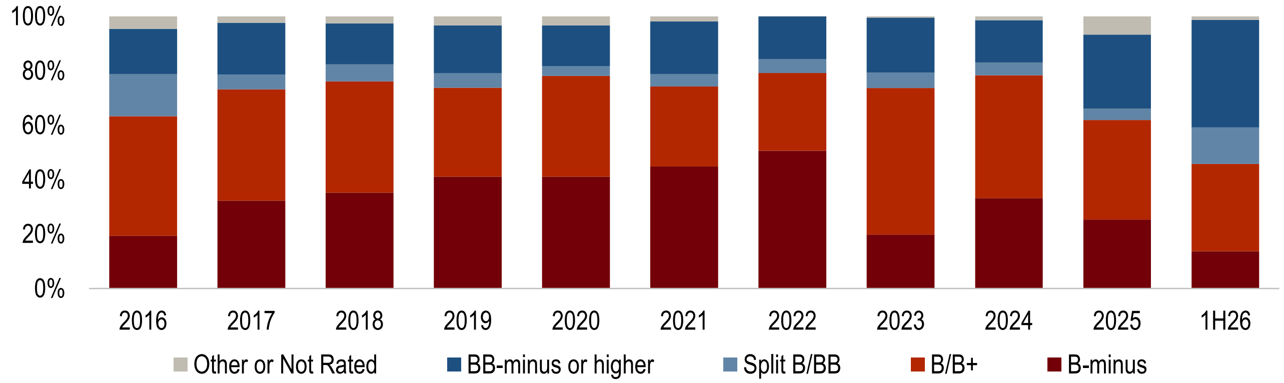
- **Acquisition financing cooled but stayed functional in 2Q26.** Institutional M&A/LBO loan volume was $43.4B, down 14% from Q1 but up 31% from 2Q25. The mix inverted: LBO volume fell by half to $14.2B and sponsored add-ons slipped to $4.4B, while corporate M&A more than doubled to $24.8B, led by the $13B Warner Bros. Discovery term loan, the largest institutional loan since the GFC.
- **The corporate surge was not a one-deal story.** Even excluding Warner Bros. Discovery, corporate M&A volume rose quarter over quarter, while sponsored M&A volume shrank 54% as PE dealmaking fell to a two-and-a-half-year low.
- **Takeaway:** The BSL market can absorb very large strategic deals even in a risk-off tape, but a durable recovery in acquisition lending still depends on sponsors returning.

Broadly Syndicated Loans

Borrower Risk Ratings/Investor Demand

M&A/LBO Loan Volume by Borrower Rating ($B)

Tracks the credit quality mix of leveraged loan issuance over time, highlighting how market windows shift financing toward higher or lower rated borrowers.

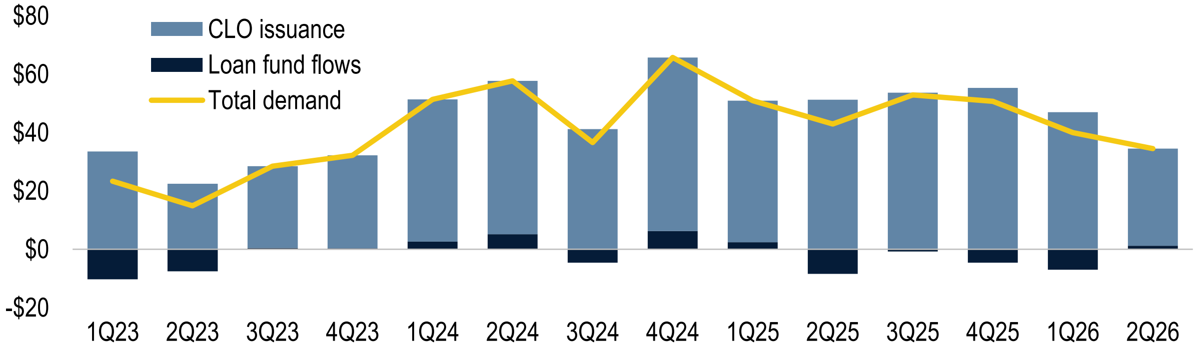


Source: PitchBook | LCD • Data through June 30, 2026

- **1H26 issuance has skewed decisively toward better-quality borrowers.** Roughly 40% of M&A/LBO loan volume carried a BB-minus or higher rating, the highest share since the GFC and double the 20% ten-year average.
- **B/B+ borrowers accounted for about 32% of volume, with split-rated B/BB credits contributing another 13%.** B-minus issuers were just 14% of volume, a 14-year low against a 34% ten-year average, underscoring how selective investors have become at the riskier end of the market.
- **The corporate-heavy deal mix explains part of the shift, but lenders are also drawing sharper lines.** Lower-rated borrowers can still access capital, though the bar for execution is materially higher than headline volumes suggest.
- **Implication for issuers:** Credit tiering has become more pronounced, with the best execution concentrated in higher-rated names and better-supported business models.

US Leveraged Loan Market – Measurable Investor Demand ($B)

Tracks the main sources of institutional demand for leveraged loans, showing that CLO formation has been the primary driver while retail loan funds have been a smaller, sometimes negative, swing factor.

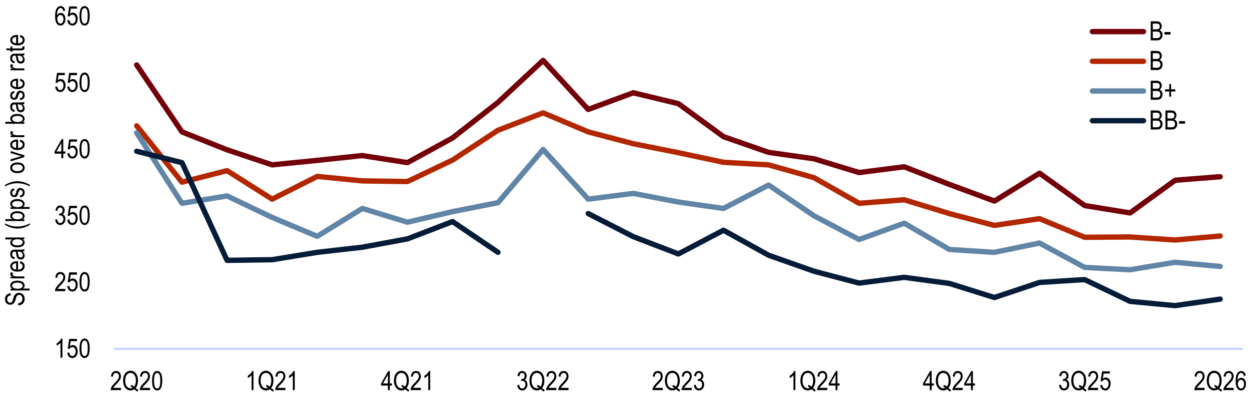


Sources: PitchBook | LCD; Morningstar Direct • Data through June 30, 2026
Fund flows data includes monthly reporters.

- **CLO issuance remained the dominant source of demand in 2Q26, but the bid thinned considerably.** New CLO formation fell to about $33.3B from $47.0B in Q1, the lowest quarterly volume in two and a half years.
- **Loan-fund flows offered only a modest offset.** Flows turned marginally positive at about $1.2B after several quarters of outflows, leaving total measurable demand at roughly $34.5B, the weakest reading since 4Q23.
- **Supply rose at the same time, leaving the market near equilibrium,** but net new paper skewed heavily toward higher-rated corporate loans, so CLO-friendly collateral remains scarce.
- **Issuer implication:** CLO demand still underpins market access, but weaker retail sentiment now matters more at the margin for pricing and deal confidence.

New Issue Term Loan B Spread by Borrower Rating

Tracks leveraged loan spreads by credit rating, showing how issuer pricing tightened materially through 2024 and 2025, with persistent premium for lower-rated borrowers.

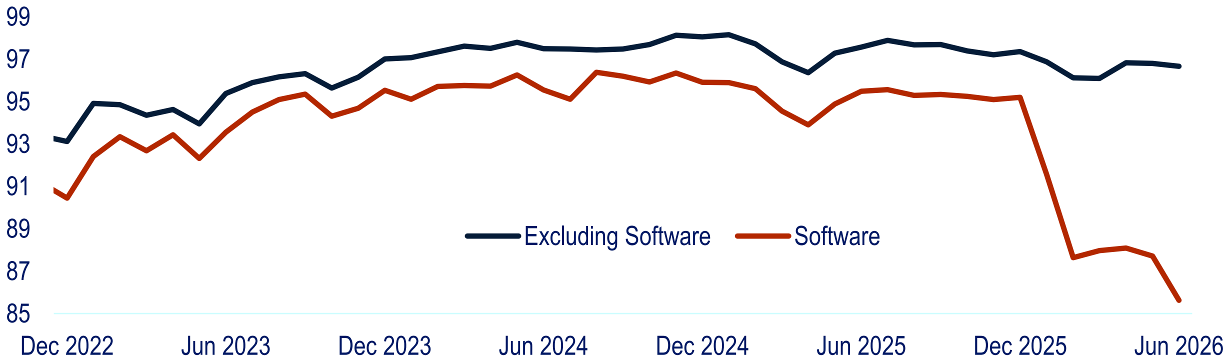


Source: PitchBook | LCD • Data through June 30, 2026

- **Spreads stabilized in aggregate during 2Q26, but dispersion beneath the surface widened.** B-minus new-issue spreads reached S+409, up 55 bps from 4Q25, while the B bucket held near S+320. The gap between B-minus and B-flat has widened to almost 90 bps, the largest premium since the onset of Covid.
- **Higher-quality borrowers saw little disruption.** BB-minus averaged about S+225 and B-plus about S+274, each within five bps of late-2025 levels. Late-quarter execution also improved: half of the deals launched in June priced at or below the tight end of talk, versus about a quarter of April and May launches.
- **Issuer takeaway:** The market is open across the stack, but the cost of being a B-minus credit has risen sharply; stronger ratings and cleaner stories are being paid for again.

Weighted Average Bid Price of Performing Loans

Tracks secondary-market pricing for performing leveraged loans, separating software credits from the rest of the market to show how sector-specific pressure shaped sentiment in 2026.



Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through June 29, 2026

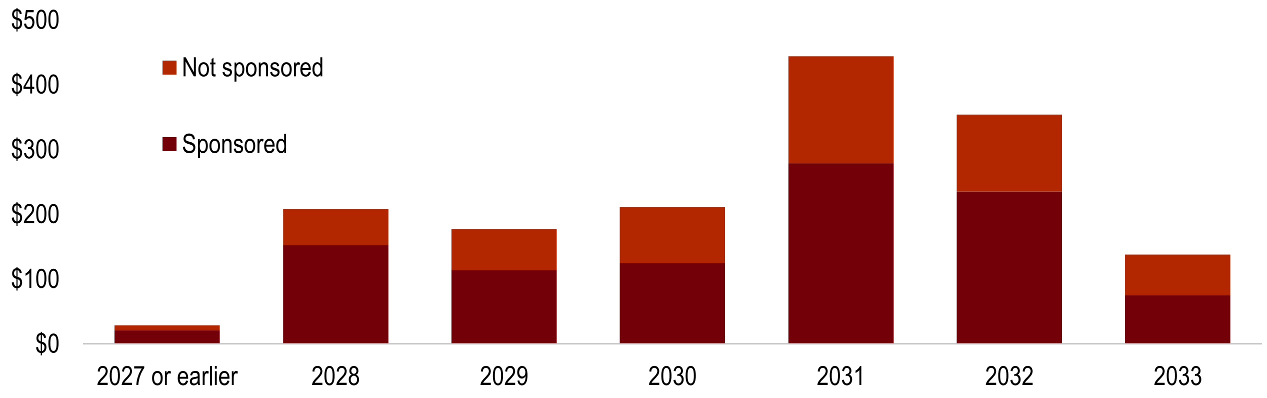
- **The software selloff deepened through the second quarter.** Average software bids fell to about 85.6 by late June, down more than two points since March, as AI-disruption concerns kept pressure on recurring-revenue business models.
- **The rest of the market held firm, with ex-software bids steady near 96.7, leaving an 11-point gap between software and the broader index, roughly five times the gap at the start of the year.** Software loans are down 6.4% in 2026 while the overall loan index has returned to positive territory, a stark performance divide.
- **Takeaway:** market access remains open, but sector selection now drives outcomes; software credits face a structurally more expensive and more skeptical market.

Broadly Syndicated Loans

Maturity Wall & Pricing Activity

US Leveraged Loan Maturity Wall ($B)

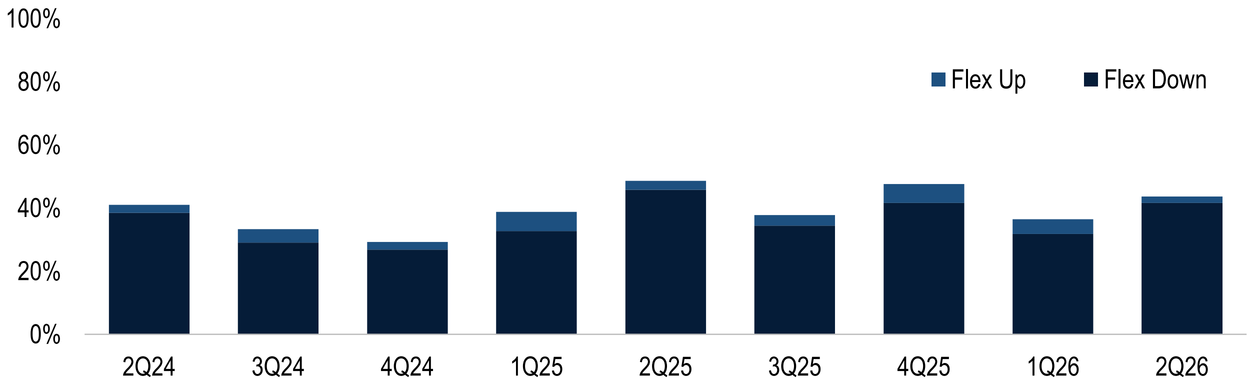
Shows the leveraged loan maturity schedule by year, split between sponsored and non-sponsored borrowers, highlighting where refinancing needs concentrate.



Source: PitchBook | LCD • Data through June 30, 2026

US Institutional Loan Flex Activity (% of Deals)

Tracks the share of institutional deals flexed tighter or wider during syndication, providing a real-time read on pricing power between borrowers and lenders.



Source: PitchBook | LCD • Data through June 30, 2026
Analysis excludes repricing and extension amendments.

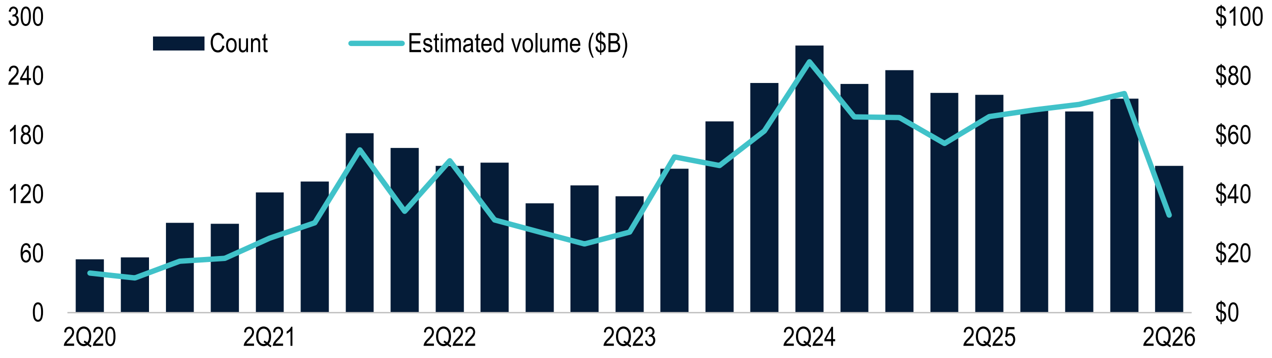
- **The wall remains concentrated in 2028 and the outer 2031-2032 years.** Loans maturing through 2027 are down to a manageable $28.4B, but $208.5B comes due in 2028 and PE-backed companies owe 73% of it.
- **Sponsors are finally moving.** Amend-to-extend volume of $29.5B in Q2 was the highest quarterly tally since the GFC, with $93.4B of sponsored extensions over the past twelve months. Even so, sponsors have trimmed their 2027 exposure at half the pace of corporate borrowers this year.
- **The concentration to watch sits in software.** Roughly $40B of software loans mature in 2028, and that slice has shrunk just 5% this year against a 42% contraction for the rest of the market.
- **Issuer implication:** Maturity management should begin well ahead of the wall, especially for weaker credits that may need more time, more structure, or alternative capital sources to refinance.

- **Syndication dynamics turned back in borrowers' favor as the quarter progressed. About 42% of institutional deals flexed tighter during syndication in 2Q26, up from 32% in Q1, while just 2% flexed wider.** The improvement was back-loaded: half of the deals launched in June priced at or below the tight end of talk, versus roughly a quarter of April and May launches.
- **The chart captures the key 2Q26 execution theme:** the window reopened, but it favored the higher-rated, non-software cohort that dominated new supply.
- **Takeaway:** conditions improved into quarter-end, but the borrower-friendly tape is concentrated in stronger credits; timing and credit profile determine who benefits.

Private Credit

Direct Lending Deal Count and Estimated Volume ($B)

Tracks US direct lending activity by quarter, showing how estimated volume and deal count have evolved as private credit absorbed larger financings.

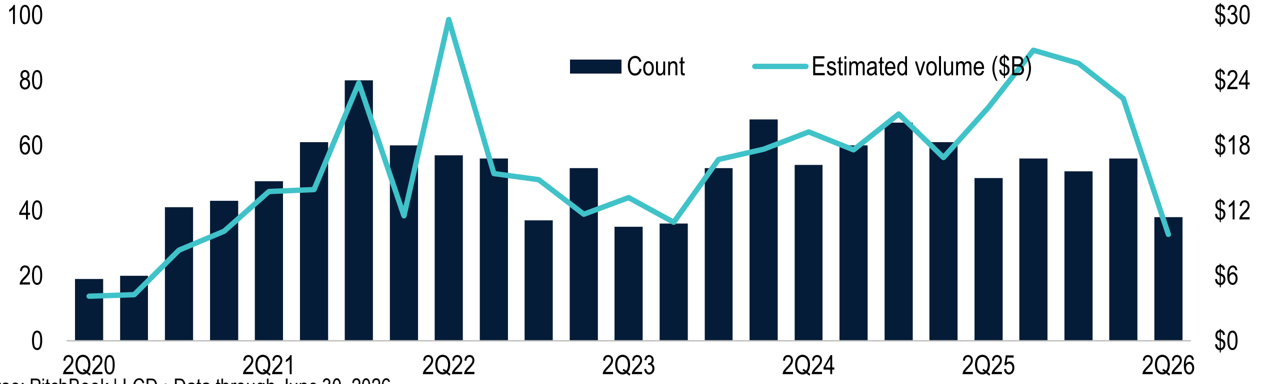


Source: PitchBook | LCD • Data through June 30, 2026
Direct lending analysis is based on transactions covered by LCD News

- **Private credit activity fell sharply in 2Q26.** Estimated direct lending volume dropped to about $33.0B across 149 deals, from $74.1B across 217 deals in Q1, which had been the highest-volume quarter in two years.
- **The pullback tracks the PE drought rather than a lender retreat.** US PE deal value fell 38% in the quarter to $177B, the lowest in two and a half years, as geopolitical shocks and AI-disruption fears froze sponsor activity.
- **Lenders describe pipelines as full and pricing as more attractive,** suggesting capacity is intact and awaiting a catalyst rather than structurally impaired.
- **Takeaway into 2026:** Private credit remains a credible execution path with ample dry powder, but deal flow now depends on a sponsor recovery rather than lender appetite.

Direct Lending Deal Count and Estimated Volume, LBOs ($B)

Tracks direct lending activity for LBO financings by quarter, showing how private credit has supported sponsor deal flow through changing market conditions.

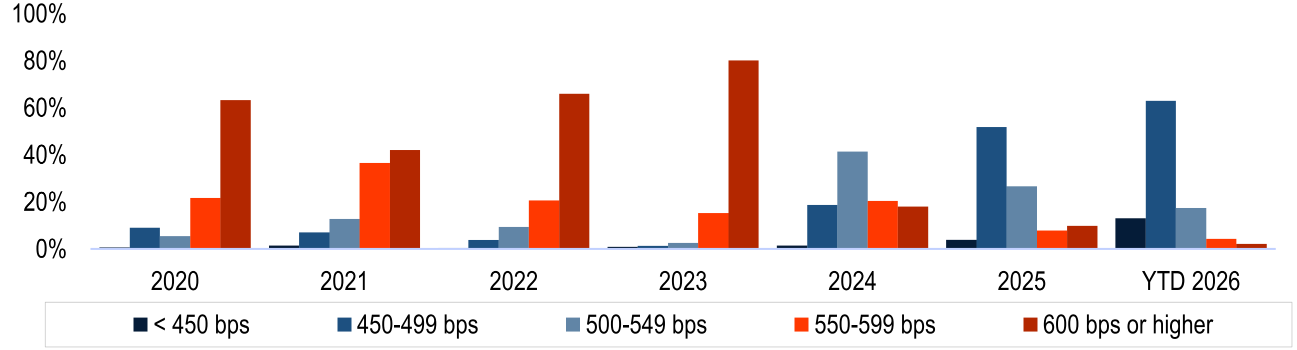


Source: PitchBook | LCD • Data through June 30, 2026
Direct lending analysis is based on transactions covered by LCD News

- **LBO direct lending slowed with the broader market in 2Q26.** Estimated volume fell to about $9.8B across 38 deals, from $22.3B and 56 deals in Q1, and no direct-lending LBO above $2B has been recorded since early March.
- **Year to date, direct lending LBO volume of about $32.1B is running 16% behind last year’s pace, with deal count trailing by 15%.** The BSL market has taken the majority of LBO financing volume this year, a reversal of the pattern of recent years.
- **That pattern fits a market where scale deals are migrating to the cheaper syndicated option,** while private credit competes hardest on credits with low AI-disruption risk and strong fundamentals.
- **Takeaway:** Direct lending remains highly relevant for sponsor financings, but with the BSL market open and cheaper, sponsors should price both channels on every deal.

New-Issue Spread Distribution of LBOs Financed in Direct Lending Market

Tracks where direct-lending LBO spreads have cleared over time, showing how private-credit pricing has shifted as lender selectivity increased.

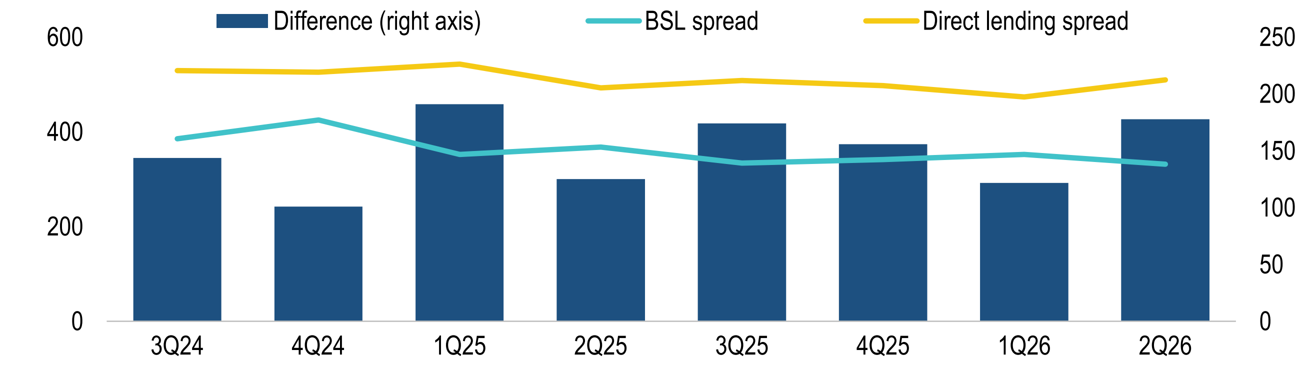


Source: PitchBook | LCD • Data through May 31, 2026

- **The YTD 2026 distribution is bifurcating rather than simply widening:** about 76% of direct-lending LBOs have cleared at S+499 or tighter, including 13% below S+450, even as recent deals price wider.
- **The forward tone has shifted:** lenders report plain-vanilla spreads moving out roughly 25 to 50 bps, with a loan that cleared at S+450 late last year now likely pricing near S+500 with more OID. A small Q2 LBO sample averaged about S+509, versus S+474 in Q1, though the data set is thin.
- **Takeaway:** private credit is resetting toward wider pricing, tighter leverage, and better terms for lenders; sponsors should underwrite to the new clearing level, not last year's.

Spread of LBOs Financed in BSL vs Direct Lending Market (bps)

Compares average LBO financing spreads in the BSL and direct lending markets, highlighting the trade-off between price and execution certainty.



Source: PitchBook | LCD • Data through June 30, 2026
Direct lending analysis is based on transactions covered by LCD News

- **The direct-lending premium to BSL re-widened in 2Q26,** moving to roughly 178 bps as direct lending LBO spreads rose to about S+509 while BSL LBO spreads tightened to about S+332.
- **The BSL market has been the cheaper option all year and has taken the majority of LBO financing volume,** a reversal of the private-credit dominance of 2022-2024.
- **The chart reinforces the central 2Q26 takeaway for sponsors and issuers:** capital markets are increasingly dual-track, and the right venue depends on the balance between economics, certainty, and deal complexity at the time of launch.
- **Takeaway:** issuers should continue to run a true dual-track process, because the relative value between BSL and direct lending can shift quickly with market tone.

About SC&H Capital

SC&H Capital is an investment banking advisory firm focused on delivering outstanding results to leading middle market and growth companies.

Our solution-driven approach combines creativity and industry experience to help founder and sponsor owned businesses navigate M&A and financing processes and achieve their goals.

- SC&H Capital has completed 1,000+ M&A advisory, financing, and ESOP transactions with an aggregate economic value of over $500 billion*
- Senior banking team professionals have an average of over 20 years of experience in transaction advisory services
- Recognized by clients for providing relevant market and industry insights to help unlock their full strategic value
- Deep expertise across specialty distribution, manufacturing, consumer, food & bev, etc.

Our Solutions

- Mergers & Acquisitions
- Capital Solutions
- ESOP Transactions
- Special Situations
- Business Valuations

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Includes experience from SC&H professionals are prior firms

SC&H Capital brings deep expertise and extensive experience in capital solutions engagements, consistently delivering exceptional outcomes for our clients.

1,000+
Completed Transactions*

$500B+
in Deal Value Since Inception*

40
Seasoned Investment Bankers

Industry Coverage Overview

Downstream Energy	Consumer	Manufacturing
Business Services	Specialty Distribution	Industrials
Healthcare	Multi-Unit	Government Contracting
Food & Bev	Technology & Software	And More...

SC&H's Capital Solutions Experience

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Below is a sample of our Capital Solutions transactions*

G&M OIL COMPANY
Received a $425,000,000 Senior Secured Credit Facility
SC&H Professionals Served as Sole Placement Agent

Downstream Energy | Multi-Unit
One of California's largest independently owned fuel retailers with over 200 locations

WATERSHED CARWASH
Executed a recapitalization
SC&H Professionals Served as Sole Placement Agent

Consumer | Multi-Unit
Portfolio of over 30 carwash locations in Texas and Oklahoma

arboris pine tree extracts
Received a Strategic Investment from
TCW
SC&H Professionals Served as Sole Placement Agent

Manufacturing
Leading manufacturer of plant sterols

College AVE STUDENT LOANS
$1,000,000,000 Lending Services Agreement
FIRSTRUST BANK
Firstrust Bank Served as Administrative Agent
SC&H Professionals Served as Sole Placement Agent

Consumer Finance
Fintech originator of private student loans.

TruFood MFG
Received a $36,000,000 Senior Secured Credit Facility
SC&H Professionals Served as Sole Placement Agent

Food & Bev | Manufacturing
Contract manufacturer of snack foods

SARATOGA CASINO · HOTEL
Received Financing to Support the Acquisition of
MAGNOLIA BLUFFS CASINO – HOTEL NATCHEZ, MS
SC&H Professionals Served as Sole Placement Agent

Gaming | Consumer
Hotel and casino that was executing a strategic acquisition

Marcal
Received a $125,000,000 Private Placement
SC&H Professionals Served as Sole Placement Agent

Manufacturing | Consumer
Manufacturer of recycled paper products including tissues, napkins, and paper towels

Aphena Pharma Solutions
Refinanced its Existing Credit Facility
SC&H Served as Sole Placement Agent

Manufacturing | Healthcare
Contract manufacturing and packaging of OTC and Rx liquid and topical products

ComfortResearch
Refinanced its Existing Credit Facility
SC&H Served as Sole Placement Agent

Manufacturing | Consumer
Manufacturer of durable household goods such as bean bags and pool furniture

**Includes experience from SC&H professionals at prior firms*

Contact Us For More Information

sc&h /capital

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Guided by our values — for our clients, colleagues, and communities. Driven by results.

Expertly Qualified

We pursue excellence through continuous learning, expanded expertise, and proactive exploration of new opportunities.

Exceptionally Responsive

We deliver timely, high-value outcomes by actively listening, honoring our commitments, and exceeding expectations.

People-Focused

Integrity guides everything we do. We value collaboration, accountability, and a commitment to our clients, colleagues, and communities.

Results Driven

We take ownership of outcomes and innovate continuously to achieve measurable, lasting success for our clients.