



Houlihan
Lokey



Capital Solutions
U.S. Private Credit
Market Newsletter

January 2026



Table of Contents

01

Private Credit 2025 Recap
and 2026 Outlook

02

Equity Capital Solutions
Highlight



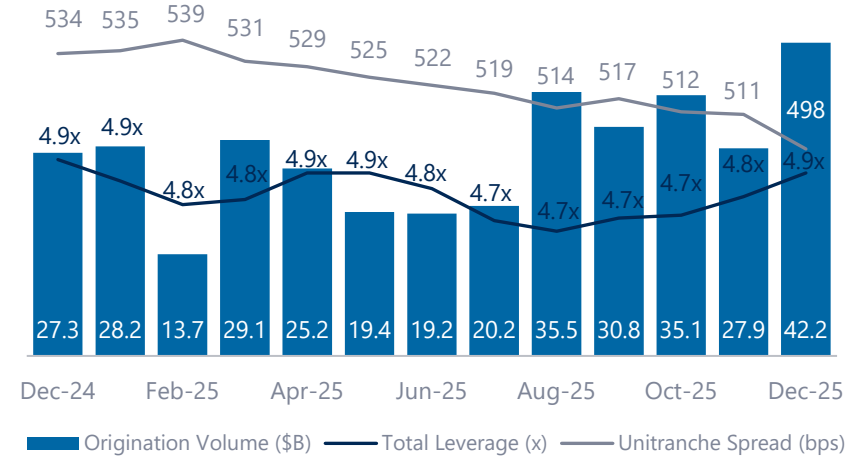
Private Credit 2025 Recap and 2026 Outlook

01

Private Credit Market Update

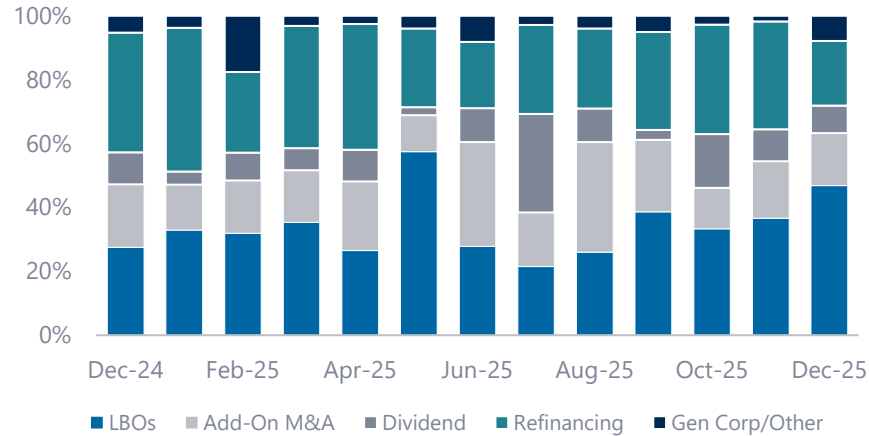
Private Credit Issuance Trends

Issuance accelerates, spreads maintain downward path, and leverage trends higher.



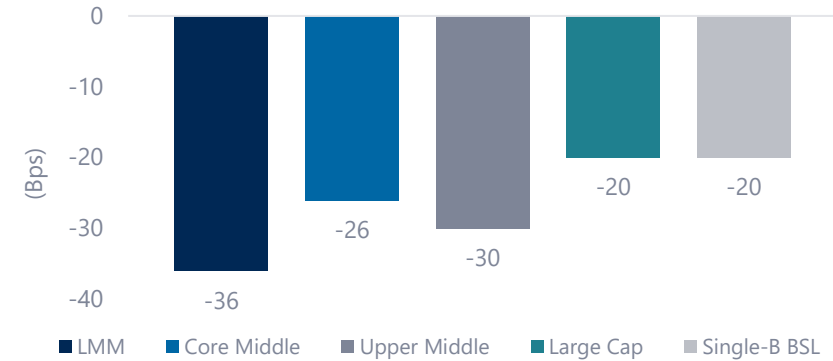
Share of Direct Lending Deal Volume

Lower interest rates fueled buyouts, M&A, and dividend volumes.



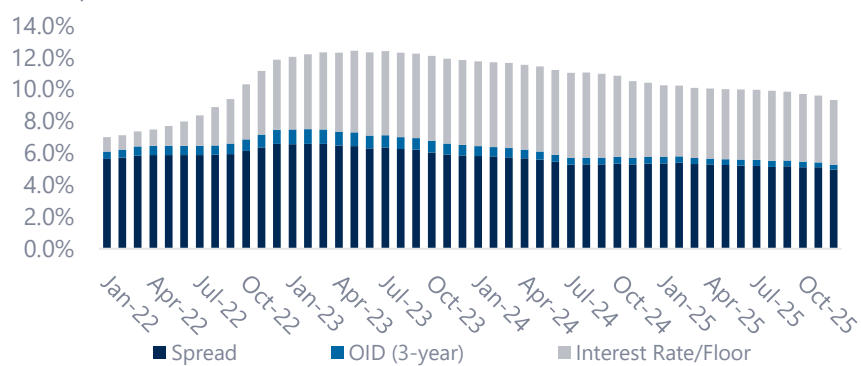
Private Spreads 2025 Movement

Spreads continued to tighten, though less drastically compared to 2024.



Private Credit Unitranche Yields Continue Compression

Unitranche all-in yields declined 29 bps to 9.33% in December; down 109 bps in 2025.



Record Breaking 2025 Volumes Boosts 2026 Direct Lending Outlook

Record-breaking direct lending volumes in 2025 have set a strong foundation for 2026. Total new issuance reached an all-time high of \$327 billion, surpassing the previous high of \$302 billion set in 2024. December alone delivered ~\$42 billion in issuance—the highest monthly total in five years—and pushed Q4 '25 to \$105 billion, a new quarterly record.

Lower interest rates accelerated M&A activity, with buyout volumes climbing to a new annual high of ~\$113 billion, a 30% increase over 2024.

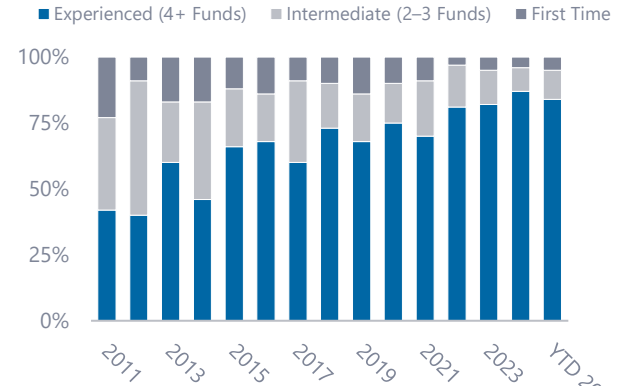
Pricing dynamics remain favorable for issuers as spreads continued to tighten in 2025. Average all-in yields have now declined 308 bps from the July 2023 peak of 12.41% and 109 bps over the course of 2025.

Private Credit Market Update (cont.)

Structural Evolution of the Manager Landscape

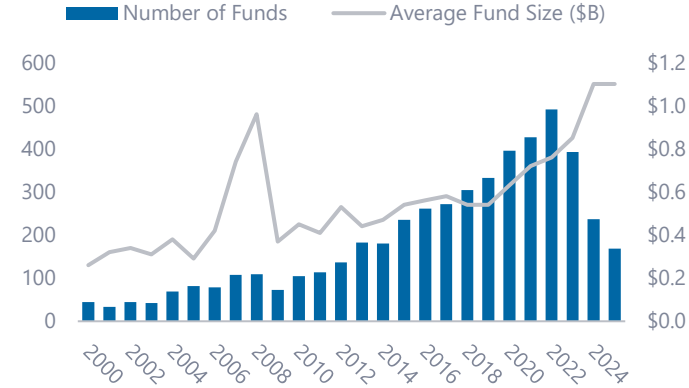
Fundraising has become increasingly concentrated: experienced managers captured 84% of 2025 capital, up from 66% in 2015.⁽¹⁾ Investors are prioritizing scale, underwriting depth, and workout capabilities, reinforcing the advantage of established platforms. Average fund size reached a record \$1.11 billion, enabling managers to support larger, more complex transactions.

Share of Total Private Credit Capital Raised by Manager Experience



Share of Total Private Credit Capital Raised by Manager Experience - BlackRock (As of Nov. 10, 2025)

Global Count of Private Credit Funds Closed Each Year and Average Fund Size

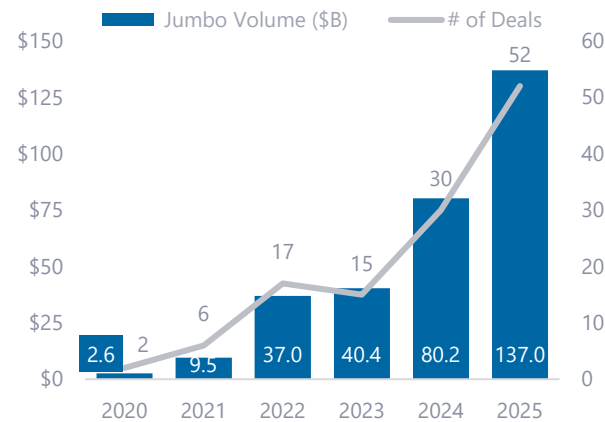


Global Count of Private Credit Funds Closed Each Year and Average Fund Size - BlackRock as of (Dec. 9, 2025)

Expansion in Deal Size and Borrower Profile

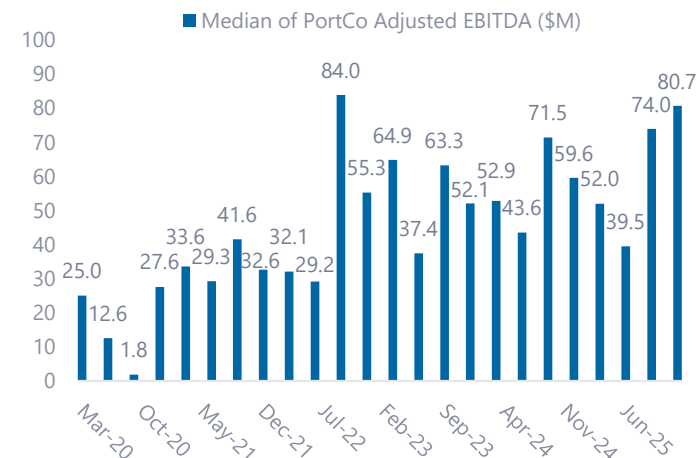
Private credit has moved decisively up market, financing \$1 billion+ jumbo deals that were historically the domain of syndicated loans. Since 2024, the U.S. private market alone has seen \$200 billion+ in jumbo loan issuance. Large-cap borrowers increasingly choose private credit for speed, certainty, confidentiality, and tailored terms, especially during periods of public market volatility.

Total Annual Jumbo Volume and Deal Count



Houlihan Lokey Financial and Valuation Advisory - (As of Dec. 31, 2025)

Quarterly New Issue Median EBITDA (2018–2025)



Houlihan Lokey Financial and Valuation Advisory - (As of Dec. 31, 2025)

The Private Credit Market Continues to Scale

Private credit has entered a new phase of maturity, marked by continued growth, increased partnerships among top managers, and a meaningful expansion in the types of borrowers the market can serve. The asset class now stands at roughly \$2.1 trillion in AUM and is expected to double by 2030, supported by the growing dominance of large, experienced managers and the steady rise in fund sizes.

At the same time, private credit has decisively expanded up-market: what was once a financing source reserved for the middle market has evolved into a credible alternative to syndicated loans and high-yield bonds for large-cap borrowers, as evidenced by both deal size and borrower profile EBITDA growth. This shift reflects both the structural evolution of the manager landscape and the increasing appeal of private credit's certainty of execution, speed, and bespoke structuring for borrowers across the size spectrum.

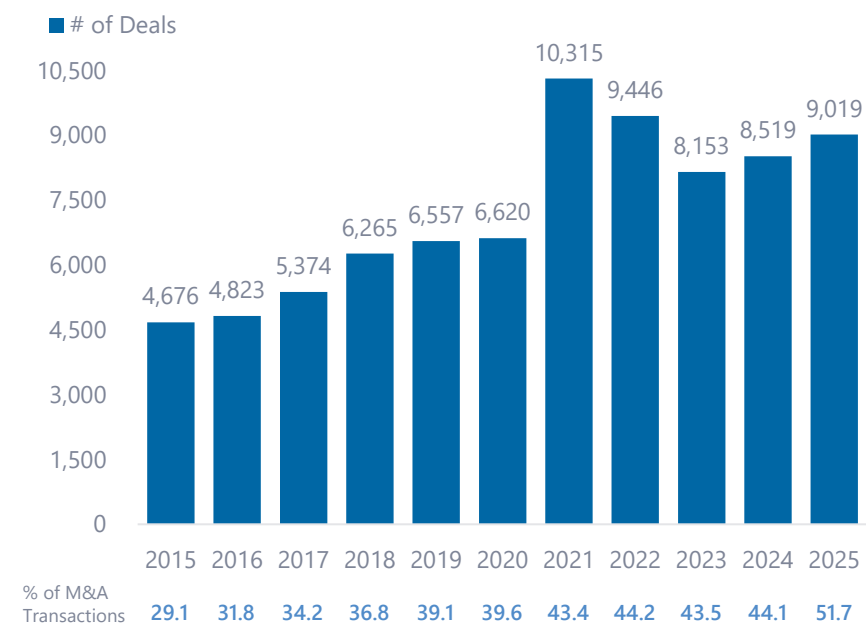
(1) An experienced manager is defined as a manager who has raised at least four funds.

M&A Momentum and Signals for Private Credit

Sponsor M&A Rebounds

Sponsor-related M&A activity accelerated in 2025 as valuation expectations between buyers and sellers began to converge. Private equity dry powder remains elevated at an estimated \$2.78 trillion, supporting a multi-year runway for deal activity. Improved macro clarity and lower rate volatility are enabling sponsors to re-engage in both platform and add-on acquisitions.

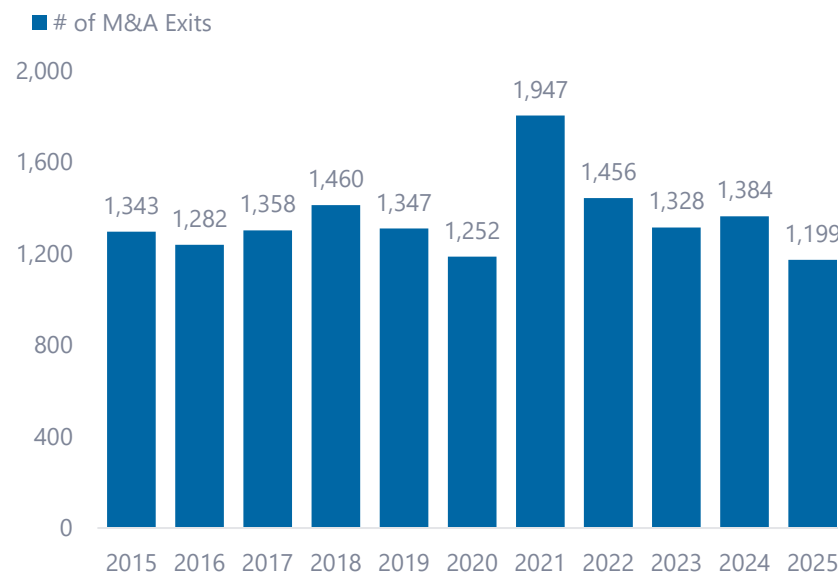
U.S. Financial Sponsor Deal Count and Percentage of Overall U.S. M&A



PE Exits Failing to Keep Pace

U.S. private equity exits rose 22% QoQ in Q3 2025, signaling a healthier and more liquid market. However, annual activity lags compared to recent years. Growth in sponsor portfolio companies has contributed to the strong pressure to sell, with more than 30% of companies having been held for five years or longer. A broader exit environment supports capital recycling, new deal formation, and greater financing demand from sponsors.

U.S. Buyout-Backed Exit Volume



Sponsor Activity Reaccelerates, Broadening the Opportunity Set

An M&A uptrend is now firmly in place after several years of mixed signals in the M&A market. Sponsor activity strengthened meaningfully through 2025, creating a more constructive backdrop for private credit issuance heading into 2026.

As macro uncertainty eased and valuation gaps narrowed, private equity firms became more active across both acquisitions and exits. Overall, private equity's appetite for risk seems to be returning, and the exit window continues to open wider.

This resurgence is critical for private credit: sponsor-backed transactions remain the largest source of deployment, and a healthier exit environment improves liquidity, capital recycling, and overall deal flow. With dry powder at elevated levels and confidence improving, sponsors are positioned to drive a more balanced and sustained financing cycle in 2026.

Private Credit Snapshot January 2026

Houlihan Lokey provides new issuance insights based on the firm's Portfolio Valuation and Fund Advisory Services practice, which is a leading advisor to many of the world's largest asset managers.

New Issuance Metrics

EBITDA	<\$20 Million EBITDA				\$20 Million to \$100 Million EBITDA				>\$100 Million EBITDA			
	Security Type	Pricing	OID	Leverage	LTV	Pricing	OID	Leverage	LTV	Pricing	OID	Leverage
First Lien Loan	S+475–525 bps	98.0–99.0	3.25x–4.25x	40%	S+425–500 bps	98.5–99.0	3.75x–4.75x	40%	S+425–475 bps	98.5–99.5	4.25x–5.25x	40%
Unitranche	S+500–550 bps	98.0–99.0	4.25x–5.25x	50%	S+450–525 bps	98.5–99.0	5.25x–6.25x	50%	S+425–500 bps	98.5–99.5	5.25x–6.75x	55%
Second Lien Loan	N/A	N/A	N/A	N/A	S+650–750 bps	97.0–98.0	5.25x–6.25x	50%	S+650–725 bps	97.5–98.0	5.25x–6.75x	55%
Sub Debt	All-in: 13.0%–15.0%	97.0–98.0	5.25x–6.25x	60%	All-in: 12.0%–14.0%	97.0–98.0	6.25x–7.25x	60%	All-in: 11.0%–13.0%	97.0–98.0	6.25x–7.25x	60%
Preferred	All-in: 15.0%–19.0%	N/A	N/A	N/A	All-in: 14.0%–18.0%	N/A	N/A	N/A	All-in: 14.0%–17.0%	N/A	N/A	N/A

Source: Houlihan Lokey Financial and Valuation Advisory.

Notes: These insights are gleaned from the private credit valuation process and reflect current new issuance metrics. The data sheds light on market trends, encompassing aspects like pricing, leverage, and loan-to-value ratios for various issuer sizes. Houlihan Lokey conducts tens-of-thousands of valuations annually. Leveraging its integration within a world-class corporate finance, capital markets, financial restructuring, and financial advisory platform, Houlihan Lokey gains a real-time understanding of market sentiment and a distinctive perspective on the private credit market.

Houlihan Lokey's Portfolio Valuation and Fund Advisory Services Offers Proprietary Insights on Current Market Trends

The private credit market entered 2026 with cautious optimism as deal activity improved late in 2025. A reduction in macroeconomic uncertainty and lower financing costs has spurred an increase in new LBO transactions. Despite the increased activity, credit markets remain highly competitive, and pricing terms for high-quality businesses are aggressive. This intense competition can also lead to a deterioration in loan documentation in some areas.

Yield dynamics remain unchanged, with declining benchmark rates and spread compression pushing all-in yields lower and squeezing fund-level dividends, contributing to higher redemption requests. Even so, private credit continues to offer attractive relative value, with spreads over liquid credit still compelling and capital inflows outpacing redemptions. Realizing these returns, however, depends on stable credit performance as the market closely watches for signs of portfolio stress or rising defaults.

Investor Landscape and Trends Into 2026

The private credit landscape in 2026 will be defined by scale, dispersion, and renewed opportunity. Larger managers are positioned to continue gaining share, but underwriting discipline, transparency, and credit selection will matter more than ever. A more active sponsor environment, clearer macro policy backdrop, and an expanding borrower universe create a supportive setting for deployment. With interest rate cuts already inspiring dealmaking and easing exit constraints for private equity sponsors, the U.S. private credit market appears poised for a year of expansion.

Key Themes for 2026

01 Spread Dynamics Expected to Stabilize

- With anticipated growth in loan supply, spreads are expected to stabilize.
- Private credit continues to benefit from structurally higher base rates, supporting compelling income-driven returns.

02 Underwriting Rigor Becomes a Core Differentiator

- Credit selection and workout capabilities will matter more as dispersion increases.
- Lenders will need to demonstrate tighter monitoring, more robust diligence, and clearer reporting to meet investor expectations.

03 Manager Performance Dispersion May Widen

- Greater differentiation across manager quality, borrower size, and sector performance.
- Investors will increasingly scrutinize earnings durability, cash flow quality, and early signs of stress among private borrowers.

04 Credit Secondaries—Nascent but Growing Market

- Credit secondaries have seen a steady increase in volume, reflecting their acceptance as a portfolio management tool for both LPs and GPs.
- Growing capital base inclusive of both traditional secondary investors and large private credit managers.

Credit Secondaries Overview



2025 saw record demand for credit-focused secondary funds, with leading firms **securing \$15 billion+ for dedicated credit secondaries strategies.**

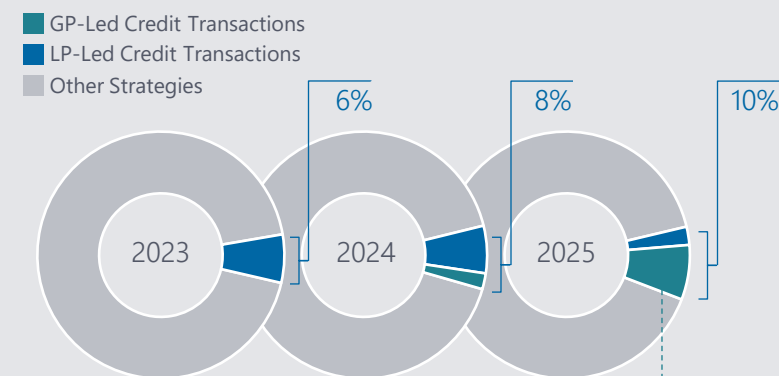


Institutional investors are **increasingly allocating to credit secondaries** strategies as part of broader portfolio diversification efforts, driven by demand for stable returns, lower volatility, and increased cash yield.



Private credit remained the **fastest-growing secondary strategy during 2025**, with transaction volume reaching **\$20 billion+** – nearly double that from 2024. The 2026 outlook remains largely unchanged, with higher interest rates continuing to slow refinancing activity and extending fund durations.

Credit Secondaries Transactions (2023–2025)



GP-led transactions have grown from being a negligible share of total credit secondary market volume in 2023 to more than two-thirds in 2025.⁽¹⁾

Capital Solutions Global Overview

Houlihan Lokey's Capital Solutions Group comprises ~200 professionals globally and offers clients a broad range of tailored financing alternatives and strategic financial advice.

Our team has deep senior-level relationships across the capital markets and a long track record of raising capital across varying market conditions. With deep expertise in both private and public markets, we are committed to delivering innovative, value-enhancing solutions that support long-term success for our clients.

LTM Key Facts and Figures



\$38B
Capital Raised



~200
FTEs



120+
Transactions Closed



18
Offices



~50
Managing Directors



8
Countries

Note: LTM Key Facts and Figures as of December 31, 2025.



Capital Solutions Capabilities Overview

Private Corporate Credit

- ABLs/FILOs
- First Lien and Unitranche Loans
- Second Lien and Mezzanine Loans
- HoldCo PIK Instruments

MGT, a portfolio company of The Vistria Group
Dividend Recapitalization
Co-Lead Placement Agent

Acquisition Financing / Recapitalization
ABL Revolver, Term Loan & DDTL
~\$530 million
Exclusive Placement Agent

Kodak Alaris, a portfolio company of Kingswood Capital Management
Revolver and Term Loan
Dividend Recapitalization
Exclusive Placement Agent

Asset and Structured Finance

- Financial Assets: Specialty Finance and Esoteric Asset Classes
- Real Assets: Infrastructure, Real Estate, and Project Finance
- Private Securitizations and Structured Asset Sales

LILY-1 Funding LLC, an affiliate company of Coventry Capital
\$250,000,000 Asset-Backed Notes
Exclusive Placement Agent

Gigstream, a portfolio company of Crestline Investors, has issued Asset-Backed Notes
Sole Placement Agent & Sole Structuring Agent

Frontiera Energy Center, a 540 MW natural-gas-fired combined-cycle power plant in Mission, Texas, has successfully raised a new First Lien Term Loan to refinance its existing debt facilities
Exclusive Placement Agent

Markets Advisory

- Bank Commitments, Leveraged Loans, HY Bonds
- IPOs, Follow-Ons, Monetization Alternatives, Rights Offerings, Convertibles
- Privatizations, Spinoffs

Freedom Mortgage Holdings LLC
Senior Notes Offering
\$800,000,000
Joint Book-Running Manager

Velocity Vehicle Group in partnership with Cranemere
\$500 million 8% Senior Notes due June 2029
Exclusive Financial Advisor

UL Solutions
Follow-On Offering Class A Common Stock
\$1,127,000,000
23,000,000 Shares
Price: \$49.00 per share
Co-Manager

GP Advisory

- Strategic Advisory for Asset Managers
- Firm-Level Equity Stake Sales and Debt Financings
- Fund-Level NAV Loans and Preferred Equity

Graham Partners has closed on an all-primary minority GP Stake investment from PACT Capital Partners
Financial Advisor

Kingswood Capital Management has sold a minority equity GP stake to Bonaccord Capital Partners
Sellside Advisor

Proprium Capital Partners has agreed to sell a controlling equity interest to, and secured an anchor fund commitment from Legal & General
Transaction Pending
Sellside Advisor

Equity Placements

- Growth Equity
- Structured Equity
- Minority Stake Sales

EP Wealth Advisors, a portfolio company of Berkshire Partners, has received a significant minority investment from Ares Management
Financial Advisor

Reworld, a portfolio company of EQT, has sold a minority equity stake to GIC
Joint-Lead Placement Agent

Takanock has received a \$500 million equity commitment from Arclight Capital Partners and DigitalBridge
Exclusive Financial Advisor

Directs/Co-Investments

- LP-Style Capital to Support Single-Asset Transactions
- Mid-Life Co-Investments
- Specialty Investment Vehicles for Esoteric Asset Classes

Strength Capital Partners has acquired Grand Equipment Company
Financial Advisor

The Acacia Group has invested in Connor Consulting
Financial Advisor

Liberty Hall Capital Partners has acquired Paxia Solutions
Exclusive Financial Advisor

Secondary Solutions

- Continuation Vehicles
- Fund Tender Processes With Stapled Capital
- Sale of LP Interests and Strip Sales

Single-Asset Continuation Vehicle
\$835,000,000
Financial Advisor

GCP Capital Partners
Single-Asset Continuation Vehicle
ALKEME
Financial Advisor

Project Palmetto Single-Asset Continuation Vehicle for Comply365
Liberty Hall Capital Partners
Financial Advisor

Primary Capital Advisory

- Control Buyout
- Growth Equity
- Alternatives

Revelstoke Capital Partners Fund III, L.P.
U.S. Healthcare Private Equity
\$1.7 billion
Lead Placement Agent

Loriant Healthcare Fund III
\$503,067,500
U.S. Healthcare Buyout
June 2025
Exclusive Placement Agent

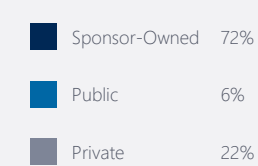
GSP 5.0 Fund
\$1,200,000,000
U.S. Middle-Market Multi-Unit Consumer and Business Services
February 2025
Exclusive Placement Agent

Capital Solutions Private Credit Solutions

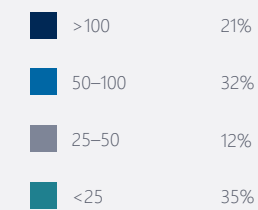
 <p>Trading Technologies Revolver, Senior Term Loan, and Delayed Draw Term Loan Refinancing & Growth Capital Placement Agent</p>	 <p>Spinrite, a portfolio company of Comvest Private Equity Revolver & Term Loan Refinancing Exclusive Placement Agent</p>	 <p>Voyant Beauty, a portfolio company of Wind Point Partners Senior Term Loan Refinancing Exclusive Placement Agent</p>	 <p>Prime Providers, a portfolio company of Pine Street Group Revolver, Senior Term Loan & DDTL Acquisition Financing & Refinancing Undisclosed Exclusive Placement Agent</p>	 <p>LILY-2 Funding LLC, an affiliate company of Coventry \$250,000,000 Asset-Backed Notes Exclusive Placement Agent</p>	 <p>ARC Health Partners, a portfolio company of Thurston Group Refinancing & Acquisition Financing \$181,500,000 Exclusive Placement Agent</p>	 <p>\$5,000,000 Revolver \$37,200,000 Term Loan \$57,800,000 Delayed Draw Term Loan Acquisition Financing Exclusive Placement Agent</p>
 <p>MGT, a portfolio company of The Vistria Group Dividend Recapitalization Co-Lead Placement Agent</p>	 <p>Acquisition Financing / Recapitalization ABL Revolver, Term Loan & DDTL ~\$530 million Exclusive Placement Agent</p>	 <p>Kodak Alaris, a portfolio company of Kingswood Capital Management Revolver and Term Loan Dividend Recapitalization Exclusive Placement Agent</p>	 <p>Mercury, a portfolio company of Northleaf Capital Partners Senior Secured Credit Facility Growth Financing Exclusive Placement Agent</p>	 <p>Growth Financing \$150,000,000 Senior Term Loan Exclusive Placement Agent</p>	 <p>Gigstream, a portfolio company of Crestline Investors, has issued Asset-Backed Notes Sole Placement Agent & Sole Structuring Agent</p>	 <p>ACRES Capital Rated Term Loan & Preferred Equity Refinancing Exclusive Placement Agent</p>
 <p>CCMP Growth Advisors, LP, has acquired Airo Mechanical, a portfolio company of Thomas Investments and Stephens Capital Partners Exclusive Buy-side Advisor & Placement Agent</p>	 <p>PayComplete, a portfolio company of ACON Investments \$15,000,000 Revolver \$113,000,000 Term Loan Refinancing Exclusive Placement Agent</p>	 <p>Evolv Technologies Holdings, Inc. Revolver & Term Loan Growth Capital \$75,000,000 Exclusive Placement Agent</p>	 <p>7RIDGE Limited Senior Secured Term Loan & Delayed Draw Term Loan Refinancing & Growth Capital \$75,000,000 Exclusive Placement Agent</p>	 <p>Senior Term Loan and Delayed-Draw Term Loan \$105,000,000 Exclusive Placement Agent</p>	 <p>Frontier Energy Center, a 540 MW natural-gas-fired combined-cycle power plant in Mission, Texas, has successfully raised a new First Lien Term Loan to refinance its existing debt facilities Exclusive Placement Agent</p>	 <p>Scout Surface Solutions has acquired Kinetic Pressure Control Acquisition Financing Exclusive Placement Agent</p>
 <p>Mood Media, a portfolio company of Vector Capital Revolver and Term Loan Refinancing Exclusive Placement Agent</p>	 <p>DartPoints, a portfolio company of Nova Infrastructure, Astra Capital Management, and OIC Senior Term Loan, Delayed Draw Term Loan & Equity Co-Investment Acquisition Financing & Growth Capital Exclusive Placement Agent</p>	 <p>LILY-1 Funding LLC, an affiliate company of Coventry Capital \$250,000,000 Asset-Backed Notes Exclusive Placement Agent</p>	 <p>Behavioral Health Group, a portfolio company of Vistria Group Revolver, Senior Term Loan, DDTL & HoldCo PIK Notes Refinancing Exclusive Placement Agent</p>	 <p>American Piping Products, a portfolio company of Center Rock ABL Revolver & Term Loan Refinancing Exclusive Placement Agent</p>	 <p>Archtop Fiber, a portfolio company of Post Road Group Senior Secured Credit Facility Growth Financing \$190,000,000 Exclusive Placement Agent</p>	 <p>ThreeSixty Group, a portfolio company of AEA ABL Revolver & Senior Term Loan Refinancing \$415,000,000 Exclusive Placement Agent</p>

Closed Deal Summary

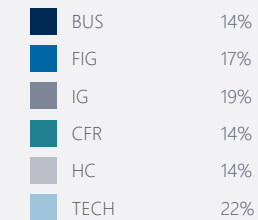
By Ownership



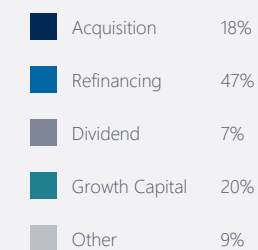
By EBITDA (\$M)



By Industry



By Use of Proceeds



Key Facts and Figures

~\$10B
Capital Raised

~\$250M
Average Deal Size

25
Deals in Market

650+
Unique Investors⁽¹⁾

18
Managing Directors

53
FTEs

Note: Closed Deals and Key Facts and Figures reflect U.S. closed deals for LTM ending December 2025; Closed Deal Summary is based on deal count.

(1) Unique Investor is defined as a lender/investor who has participated in a transaction that closed in LTM ending December 2025.



Equity Capital Solutions Highlight

02

Houlihan Lokey Equity Capital Solutions Overview



Over the past six months, the Equity Capital Solutions team has continued to deliver strong results, demonstrating consistent execution across markets and sectors.

Our recent activity highlights the team's depth of experience across all ECS products, connectivity with a broad universe of investors, and cross-border capabilities.

U.S. Key Facts and Figures



22
Transactions
Closed



\$6B
Capital
Raised



7
Industry
Sectors

DIRECTS/CO-INVESTMENTS

Raising capital to support single-asset deals, including:

- Deals outside of a traditional fund structure.
- Excess fee-paying co-invest for funded sponsors.
- Institutional capital for independent sponsors, family offices, and management teams.

EQUITY PLACEMENTS

Raising capital for companies seeking financing for organic growth, M&A, secondary liquidity, or recapitalizations in the form of:

- Growth equity transactions.
- Structured equity transactions.
- Minority stake sales.

SECONDARY SOLUTIONS

Providing GP- and LP-led liquidity solutions across existing investments, including:

- Continuation vehicles.
- Fund strip sales.
- LP tender processes.
- Fund-level financings.
- Fund restructurings.

STRENGTH CAPITAL
Grand Equipment
Strength Capital Partners has acquired Grand Equipment Company
Financial Advisor

ACACIA
CONNOR
The Acacia Group has invested in Connor Consulting
Financial Advisor

FLUENCY
INTEGRITY GROWTH PARTNERS
Fluency, Inc., has received a growth equity investment from Integrity Growth Partners
Financial Advisor

ep wealth advisors
Berkshire Partners
ARES
EP Wealth Advisors, a portfolio company of Berkshire Partners, has received a significant minority investment from Ares Management
Financial Advisor

ridge
TRADING TECHNOLOGIES
Single-Asset Continuation Vehicle
\$835,000,000
Financial Advisor

GCP Capital Partners
ALKEME
GCP Capital Partners
Single-Asset Continuation Vehicle
ALKEME
Financial Advisor

LIBERTY HALL Capital Partners
PAXIA
Liberty Hall Capital Partners has acquired Paxia Solutions
Exclusive Financial Advisor

BVG
GLD
Brand Velocity Group has invested in GLD
Financial Advisor

mykaarma
H.L.G. GROWTH PARTNERS
WARBURG PINCUS
H.L.G. Growth Partners has sold a minority stake in its portfolio company myKaarma to Warburg Pincus
Financial Advisor

takanock
ARCLIGHT
DIGITALBRIDGE
Takanock has received a \$500 million equity commitment from ArcLight Capital Partners and DigitalBridge
Exclusive Financial Advisor

Project Palmetto
LIBERTY HALL Capital Partners
Project Palmetto
Single-Asset Continuation Vehicle for Comply365
Liberty Hall Capital Partners
Financial Advisor

Project Elevate
NEWSPRING
Project Elevate
Multi-Asset Continuation Vehicle for Two NSG Fund IV Companies
NewSpring
Financial Advisor

Q&A With Co-Heads of Houlihan Lokey Equity Capital Solutions

Q: Equity capital markets closed 2025 on the back of record issuance and improved sentiment, yet the backdrop remains shaped by recent policy shifts, inflation dynamics, and evolving rate conditions. As we enter 2026 with both greater clarity in certain areas and lingering uncertainty in others, how do you see the outlook for equity capital markets this year?

A: **Swain:** Public equity markets enter 2026 on the back of continued growth in 2025, marked by robust global performance and investor confidence. U.S. indices delivered high-teens returns, while international markets outperformed on the back of a weaker dollar. Looking ahead, the backdrop is expected to be defined by moderating inflation, steady economic growth, and easing monetary policy, all of which support constructive issuance conditions. At the same time, elevated valuations, ongoing tariff uncertainty, and geopolitical risks, particularly around trade policy and potential ongoing military conflicts, remain meaningful sources of volatility.

Private markets are also entering 2026 with renewed momentum. After another year of macro-driven hesitation, private equity firms are shifting from a defensive stance toward more active deployment, supported by pent-up demand, improving exit conditions, and record levels of dry powder. There is continued valuation scrutiny and a greater focus on operational value creation. Private equity fundraising is stabilizing, with capital increasingly flowing to large multi-strategy platforms, as well as differentiated, specialized managers who have proven their “right to win.” Secondaries as an asset class continues to stand out as a bright spot given its attractive risk-return profile.

A: **Fitzgerald:** A few of the biggest themes we saw last year included:

- An urgency for GPs to get liquidity back to their LPs;
- Sponsor-backed and founder-backed companies looking for capital through minority stake sales/minority capital raises so they could maintain control of the companies while accessing interim liquidity; and
- M&A processes that didn’t achieve valuation expectations and pivoted to a minority equity raise.

While the market has experienced a pickup in M&A and IPO exits, we expect 2026 to be another very active year for interim liquidity events for sponsors and founders alike.



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Q&A With Co-Heads of Houlihan Lokey Equity Capital Solutions (cont.)

Q: There has been a meaningful evolution in the equity capital markets over the past several years; what structural changes and innovations do you see as being most significant moving forward?

A: **Swain:** The structural shifts and innovations redefining equity capital markets I'd highlight are:

- **Secondary Market Expansion:** Record volumes driven by high unrealized values in a slower exit environment; secondaries are now a mainstream liquidity and a value-added tool in a sponsor's toolkit to drive liquidity to LPs.
- **DPI as the Key Benchmark:** LPs increasingly prioritize cash distributions over IRR in a tougher fundraising environment.
- **Broader Investor Access:** Growth of '40 Act vehicles lowering minimums and simplifying entry into private markets.
- **Evolving Exit Pathways:** Sponsors using secondary solutions to realign incentives and extend ownership to drive the next chapter of value creation.
- **Maturing Directs Market:** Strong growth in targeted co-investment activity, with directs volume meaningfully higher year-over-year.

Q: Structured equity has become a key tool for companies navigating between private credit and traditional ECM. What types of situations are driving the most demand?

A: **Fitzgerald:** Over the course of my career, there has never been a deeper pool of flexible capital. Structured equity, opportunistic credit, capital solutions, and special situations funds are all focused on providing bespoke financing structures for companies available to issuers.

A structured security helps to bridge a potential gap of issuer and investor valuation expectations. By providing downside protection through a minimum return/liquidation preference (or other structural features), investors can underwrite a higher valuation. We had multiple structured equity transactions last year where our clients' valuations were in excess of market-leading publicly traded comparables. Structured equity helps minimize the dilutive impact of the capital raise but still provides upside/alignment for new investors to ensure they are motivated to help drive equity appreciation.

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Q&A With Co-Heads of Houlihan Lokey Equity Capital Solutions (cont.)

Q: What's one trend in equity capital markets that you think is underappreciated?

A: **Swain:** One underappreciated trend in today's equity capital markets has been the rise of directs. In an environment defined by high rates, inflation, muted IPO activity, and tougher fundraising, directs have shifted from a niche tool to a core part of how capital is deployed. They offer a "win-win" for both GPs and LPs—LPs gain greater transparency, targeted exposure, and often better economics than in a blind-pool fund, while GPs use co-investment opportunities to attract future fund commitments, broaden their LP base, and stay active between fundraises. As fundraising cycles lengthen and investors seek more control and clarity, directs are becoming a structurally more important component of the private markets ecosystem.

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In an environment defined by high rates, inflation, muted IPO activity, and tougher fundraising, directs have shifted from a niche tool to a core part of how capital is deployed.

Q: In today's market environment, which types of issuers are best positioned to access the equity capital markets—whether to address upcoming maturities, strengthen balance sheets, or raise growth capital?

A: **Fitzgerald:** When I reflect on the attributes of our financing clients from 2025, there are several consistencies across the group.

- Leadership position in their respective industry/subindustry vertical;
- Organic growth (can range based on the industry);
- Aggressive but realistic expectations for their definition of success for the financing (valuation, security structure, governance, etc.); and
- Commitment to the process—willingness to invest in third-party materials when appropriate (QoE, market study, data cube, etc.), management assisting in compiling extensive marketing/diligence materials, and spending time with investors before formally launching the transaction.

Q&A With Co-Heads of Houlihan Lokey Equity Capital Solutions (cont.)

Q: Are you seeing a shift in the types of investors participating in ECM transactions?

A: **Swain:** We're seeing a clear broadening of the investor base participating in ECM transactions. GP-led secondaries continue to expand as traditional private equity firms and large asset managers enter the space, reflecting the asset class's rapid maturation. At the same time, the retail channel is becoming increasingly influential, as '40 Act vehicles are opening private markets to a wider audience. Large sovereign wealth funds and major pension plans have also become increasingly active, often anchoring transactions and building in-house capabilities for secondaries and directs. Family offices, armed with patient capital and growing investment sophistication, are deploying meaningful capital across the private markets ecosystem. Together, these shifts are creating a more diverse and dynamic investor ecosystem across ECM.

Q: In this environment, what is the role of an independent ECM advisor like Houlihan Lokey?

A: **Fitzgerald:** The role of an independent advisor requires providing unique ideas, collaboration and execution versus relying on a balance sheet. As the market has evolved, there is greater importance on being able to provide a full suite of financing options for our clients. The ability to provide debt, equity and hybrid financing solutions for our corporate, GP and LP clients, has been a huge point of differentiation for our Capital Solutions team. We are a global team that collaborates to provide capital across the balance sheet.

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About Houlihan Lokey: A Leading Independent, Global Advisory Firm

Houlihan Lokey is the trusted advisor to more top decision-makers than any other independent global investment bank.

2,778 Global Employees 33 Locations Worldwide \$12.21B Market Cap⁽¹⁾ \$2.6B Revenue⁽²⁾ ~25% Employee-owned No Debt



CORPORATE FINANCE

2025 M&A Advisory Rankings
Global Transactions Under \$1 Billion

Advisor	Deals
1 Houlihan Lokey	441
2 Rothschild & Co	356
3 Goldman Sachs & Co	238
4 Jefferies LLC	224
5 Morgan Stanley	218

Source: LSEG.
Excludes accounting firms and brokers.

FINANCIAL RESTRUCTURING

2025 Global Distressed Debt &
Bankruptcy Restructuring Rankings

Advisor	Deals
1 Houlihan Lokey	83
2 PJT Partners Inc	55
3 Lazard	50
4 Rothschild & Co	44
5 Evercore Inc	33

Source: LSEG.

FINANCIAL AND VALUATION ADVISORY

2001–2025 Global M&A
Fairness Advisory Rankings

Advisor	Deals
1 Houlihan Lokey	1,170
2 Duff & Phelps, A Kroll Business	1,069
3 JP Morgan	1,034
4 UBS	769
5 Morgan Stanley	716

Source: LSEG.
Announced or completed transactions.

FINANCIAL SPONSORS COVERAGE

2024 Global Private Equity Financial
Advisors Rankings

Advisor	Deals
1 Houlihan Lokey	232
2 Rothschild & Co	189
3 Jefferies	175
4 William Blair & Co	150
5 Morgan Stanley	147

Source: The Deal.

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62.78

98.71

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