



Solvency Opinions

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Marshall & Stevens
be your guide.

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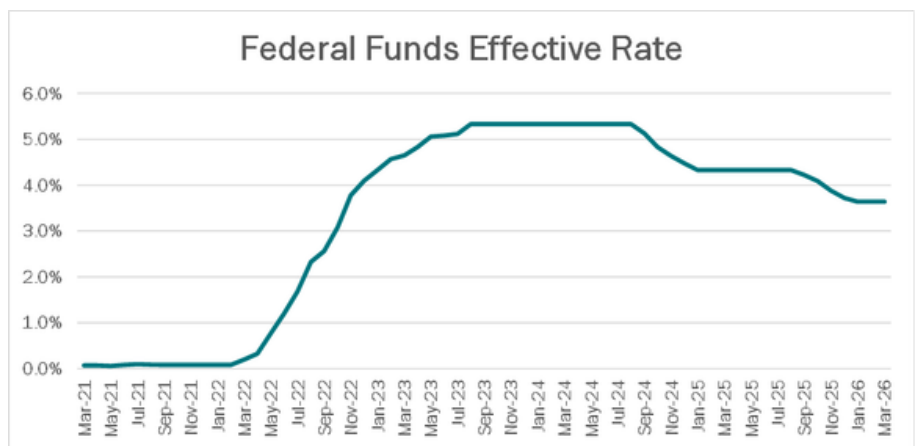
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INTRODUCTION

With borrowing costs declining from their 2023 peak as the Federal Reserve has begun easing monetary policy, private equity sponsors are seizing the chance to return cash to limited partners through dividend recapitalizations. Traditional exits like IPOs and strategic sales remain slow, and market data shows recap volumes increasing sharply. Each deal, however, adds leverage and raises the risk of creditor challenges, making independent solvency opinions essential. These opinions confirm that a company remains adequately capitalized and able to meet financial obligations, protecting boards, lenders, and sponsors. With rates expected to remain below their recent peak, increased demand for both dividend recaps and the solvency opinions that support them will continue.

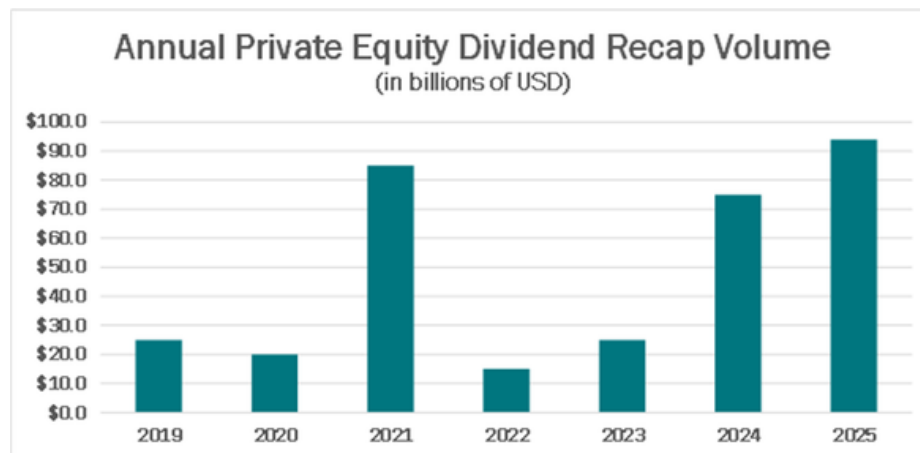
Interest Rates

After holding the federal funds rate near zero through 2021 and most of 2022 (as the graph below from the Federal Reserve Bank of St. Louis illustrates), the Federal Reserve began an aggressive tightening campaign in mid-2022 that continued through 2023, lifting the rate above 5.25%. Policy then pivoted in summer 2024 with three successive cuts—September, November, and December—bringing the target range down to roughly 4.25%–4.50%. The Fed held that level through the first half of 2025 before delivering additional easing, bringing the federal funds rate to a range of approximately 3.50%–3.75% as of early 2026. This cycle, clearly visible in the accompanying FRED chart, underscores how borrowing costs have eased and debt markets have reopened, setting the stage for a resurgence in leveraged recapitalizations as sponsors look for ways to return capital to investors while exit markets remain constrained.



Dividend Recaps as a Path to Return Cash to LPs:

Dividend recapitalizations are becoming an increasingly common liquidity tool as traditional private equity exits — such as IPOs and strategic sales — remain sluggish. Sponsors still need to return cash to their investors, and borrowing to fund distributions has become a practical substitute. The chart below indicates this trend, as Houlihan Lokey and Bloomberg report a sharp rise in dividend-recap volume, with 2025 activity of \$94 billion. Pitch Book has likewise highlighted a surge in leveraged-loan amendments as companies brace for the looming 2026 maturity wall, while Dechert notes that even the high-yield bond market is increasingly tapped to finance these deals. Taken together, these developments show that dividend recaps are no longer a tactical, opportunistic measure but a central element of the private equity liquidity strategy.



Dividend Recaps and Need for Solvency Opinions

While dividend recaps provide a valuable way to unlock liquidity, they also bring risk. Adding leverage makes companies more vulnerable to downturns and can expose directors and sponsors to legal challenges. If creditors argue that a recap left a company undercapitalized, they may pursue fraudulent transfer claims in bankruptcy. Directors, in turn, must be able to demonstrate that they considered solvency at the time of the transaction to avoid allegations of breaching fiduciary duties. Lenders, too, demand reassurance that borrowers can sustain additional debt and still meet obligations.

This is where solvency opinions become critical. A solvency opinion provides independent confirmation that a company remains financially sound after a recapitalization. It examines whether assets exceed liabilities, whether projected cash flows are sufficient to service obligations, and whether the company retains adequate capital to continue operations. Instead of simply looking at one set of projections, solvency analyses consider multiple scenarios and stress tests to determine whether a company could withstand adverse conditions. This

broader evaluation provides boards with defensible support for approving recapitalizations and reassures lenders that the company is resilient enough to handle increased debt.

As interest rates remain below recent levels and private equity sponsors look to return capital to shareholders, it is reasonable to expect that recapitalizations will increase in frequency. These transactions may be attractive to sponsors seeking to return capital, but they carry solvency risks that must be carefully considered. For boards, lenders, and investors, obtaining a solvency opinion is not simply a formality but provides essential protection. An independent opinion demonstrates diligence, satisfies fiduciary duties, reassures creditors, and reduces the risk of later challenges. In today's environment, solvency opinions are the safeguard that separates responsible dealmaking from unnecessary exposure, ensuring that transactions are completed on a sound and defensible basis.

Conclusion

After several years of elevated interest rates, borrowing costs have declined from recent highs as the Federal Reserve has begun easing policy. With debt becoming more affordable, private equity sponsors are turning to leveraged recapitalizations to generate liquidity in an environment where traditional exits remain limited. Market data shows recapitalizations are already increasing, and solvency opinions are now being obtained as a matter of course in these transactions.

While dividend recaps provide cash to investors, they also raise solvency risks. Additional leverage can leave companies vulnerable, creating the potential for fraudulent transfer claims in bankruptcy and exposing directors to fiduciary liability if they cannot demonstrate that solvency was carefully evaluated. Creditors, too, require assurance that borrowers can handle higher debt loads.

This is where solvency opinions are critical as they deliver independent confirmation that a company remains financially sound with increased debt levels. Solvency opinions support boards in fulfilling their fiduciary duties, provide lenders confidence in the borrower's financial position, and protect sponsors from claims that transactions left companies overextended.

As interest rates remain below their recent peak and recapitalizations accelerate, solvency opinions are not a formality, they are essential. They provide independent validation that separates prudent decision-making from unnecessary risk and ensure that transactions are executed on a defensible foundation.



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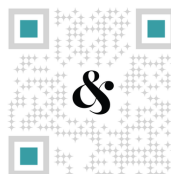
EXPERTISE IN ACTION

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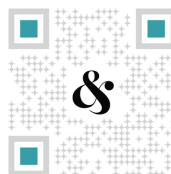
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