

# CAPITAL RESTRUCTURING PERSPECTIVES



Quarterly Update  
First Quarter 2023

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# DISTRESSED MARKET INDICATORS

## KEY HIGHLIGHTS

- In March, the volume of defaults among constituents of the Morningstar LSTA U.S. Leveraged Loan Index outpaced the prior five months combined - as a result, the default rate for March 2023 rose to 1.3% up from 0.8% in January 2023
- Per LCD data, the distressed cohort of performing index loans, defined as loans trading below 80% of par, totaled almost \$87 billion at the end of March, an increase of \$12 billion from February. However, the March level is still below the recent high watermark of \$103 billion, at the end of December 2022
- The Healthcare and Software sectors comprise almost 40% of all distressed loans priced below 80% of par
- The distress ratio was 6.3% as of March 31, up from 5.4% at the end of February and down from 7.4% at the end of 2022 - the Index remains elevated compared to a five-year average of 3.8%
- Due mainly to the deterioration in credit profiles, loan downgrades continue to outpace upgrades, with the rolling three-month pace at 2.5x in March

### S&P Default Rate



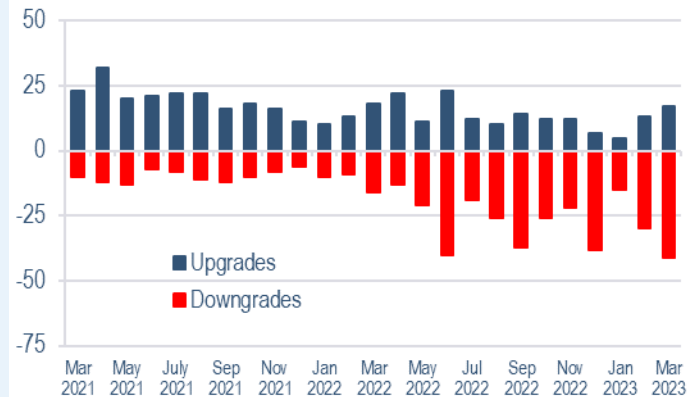
Source: Pitchbook | LCD

### Distress Ratio<sup>[1]</sup>



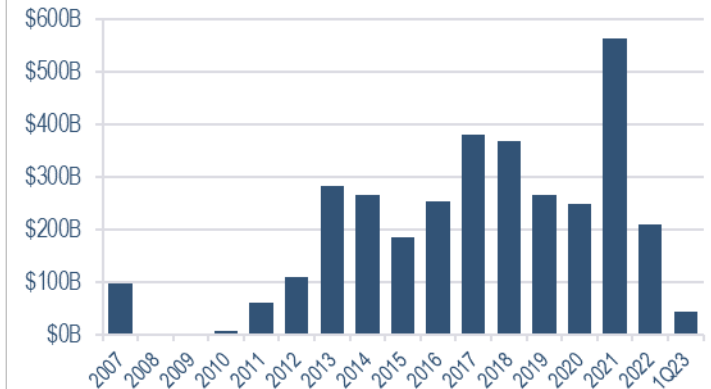
Source: Pitchbook | LCD

### Upgrades and Downgrades<sup>[2]</sup>



Source: Pitchbook | LCD

### Covenant-Lite Loan Issuance



Source: Pitchbook | LCD

[1] Distress ratio by amount outstanding (percent of loans priced below 80)

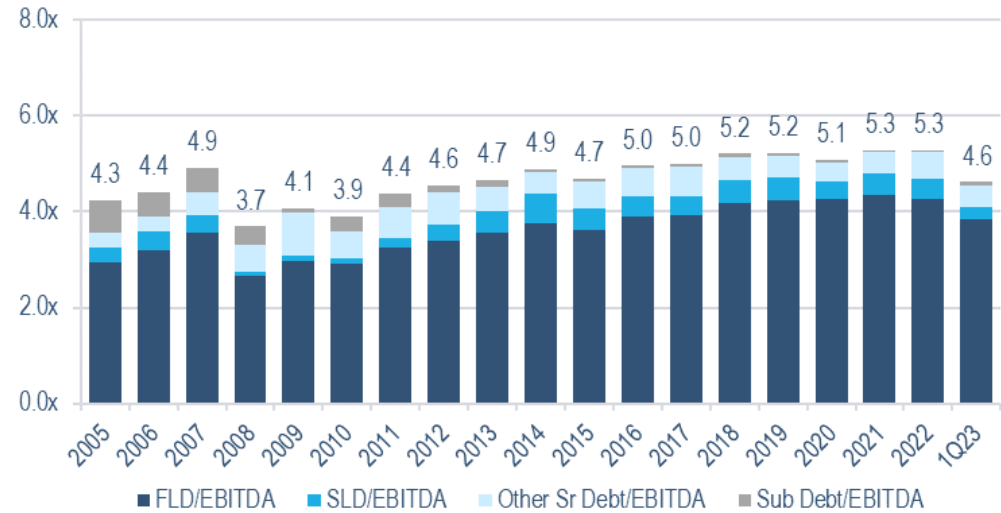
[2] Count of ratings action in S&P/LSTA Leveraged Loan Index

# CAPITAL MARKET PERSPECTIVES

## COMMENTARY

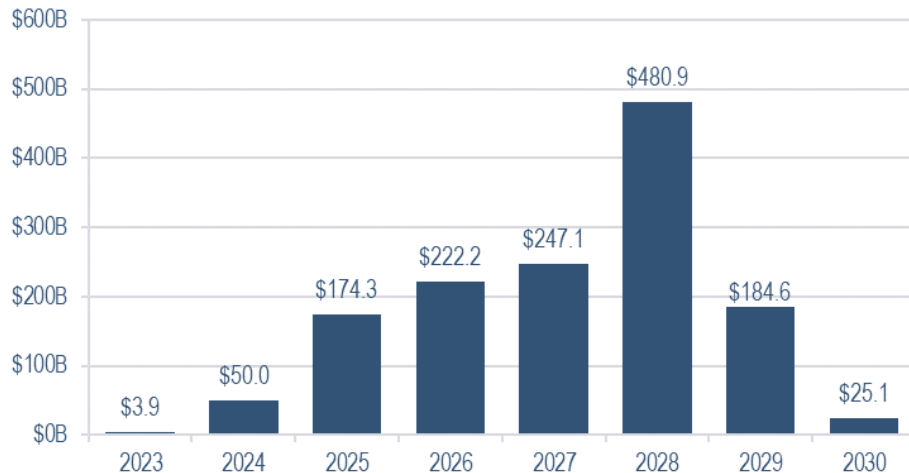
- Through the end of Q1 2025, \$89.7 billion is due to mature, marking the largest dollar volume outstanding for a Q1 period with maturities due in the next two years
- Of the \$54 billion of debt maturing before the end of 2024, 69% is rated B- or lower, or is unrated
- Amend-and-extend activity increased precipitously in Q1 2023 with a total of \$18.6 billion of institutional term loans extended in the quarter, the most since Q3 2016
- The continued increase in the cost of capital is matched by a corresponding contraction in leverage multiples with Q1 2023 average leverage multiples down to 4.6x from 5.3x at the end of 2022 and the lowest since 2012

## Average Leverage Multiples



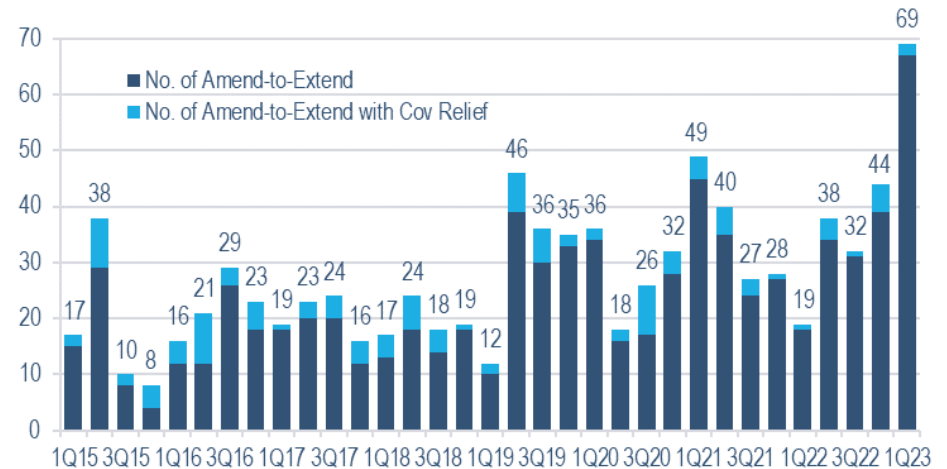
Note: FLD is abbreviation for "first lien debt" and SLD is abbreviation for "second lien debt"  
Source: Pitchbook | LCD

## Current Loan Maturities by Year



Source: Pitchbook | LCD

## Amend & Extends



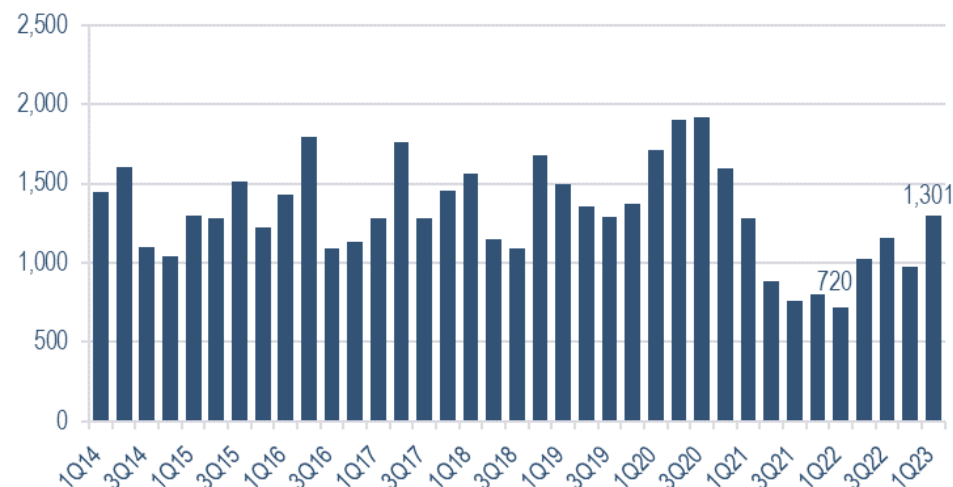
Source: Pitchbook | LCD

# BANKRUPTCY TRENDS

## COMMENTARY

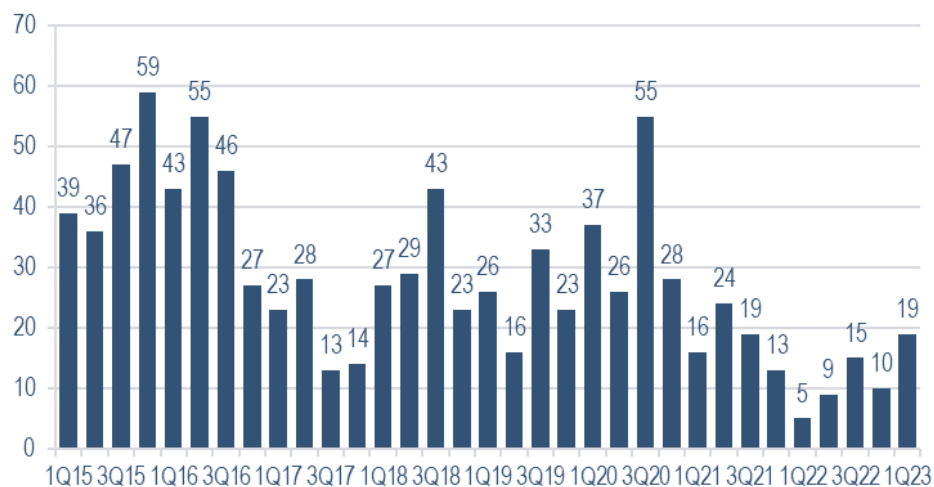
- Higher interest rates, inflation, and other financial distress prompted more U.S. businesses to file for bankruptcy in March 2023, the fourth straight month-to-month increase in commercial filings
- Commercial chapter 11 filings increased 81% to 1,301 in Q1 2023 vs. 720 the same period a year prior
- In March 2023, for the first time since 2021, two banks collapsed in the U.S. Both bank failures made the list of the largest bank failures in terms of total assets lost: the failure of Silicon Valley Bank amounted to approximately \$209 billion of assets lost, while Signature Bank had approximately \$110 billion dollars when it collapsed
- Sinclair Broadcast Group's regional sports business, Diamond Sports Group LLC and communications equipment company, Avaya Inc., were other significant bankruptcies in Q1 2023 with assets and liabilities at over \$1 billion

## Chapter 11 Filings



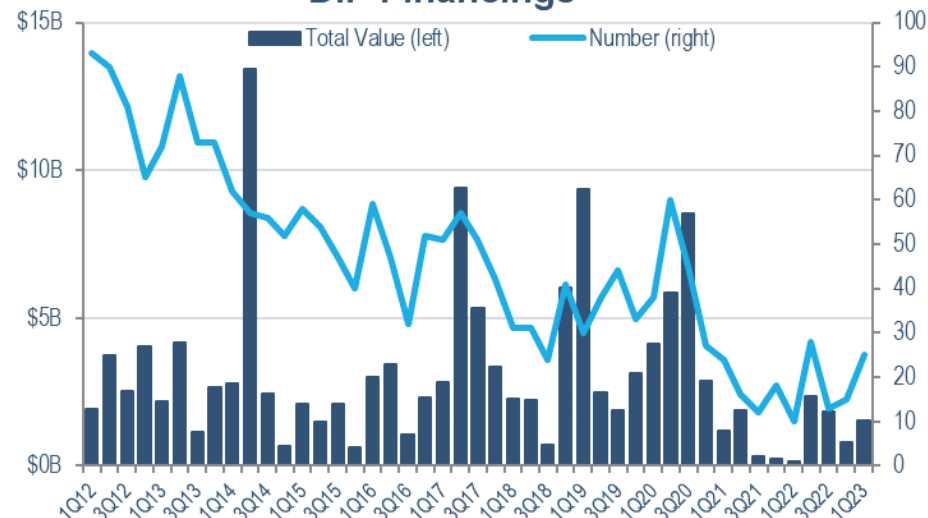
Source: American Bankruptcy Institute / Epiq

## Section 363 Sales



Source: Reorg and SOLIC Research

## DIP Financings



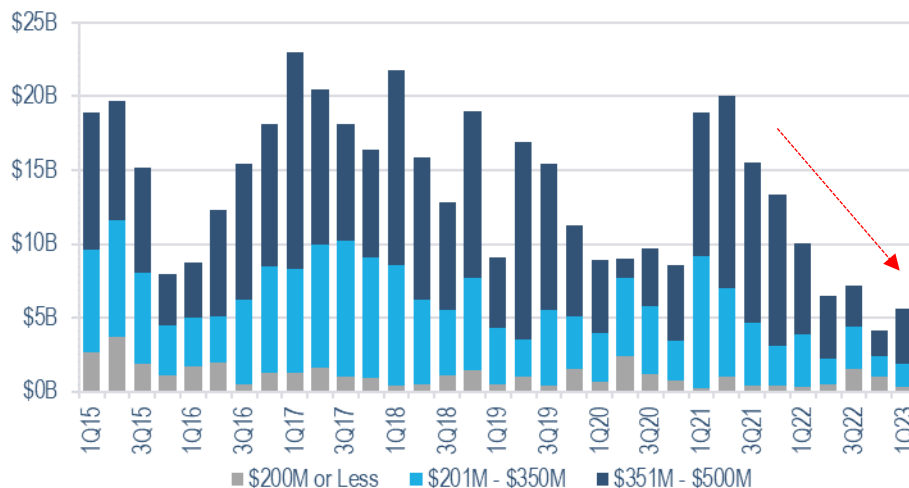
Source: Reorg and SOLIC Research

# LEVERAGED LOAN TRENDS

## COMMENTARY

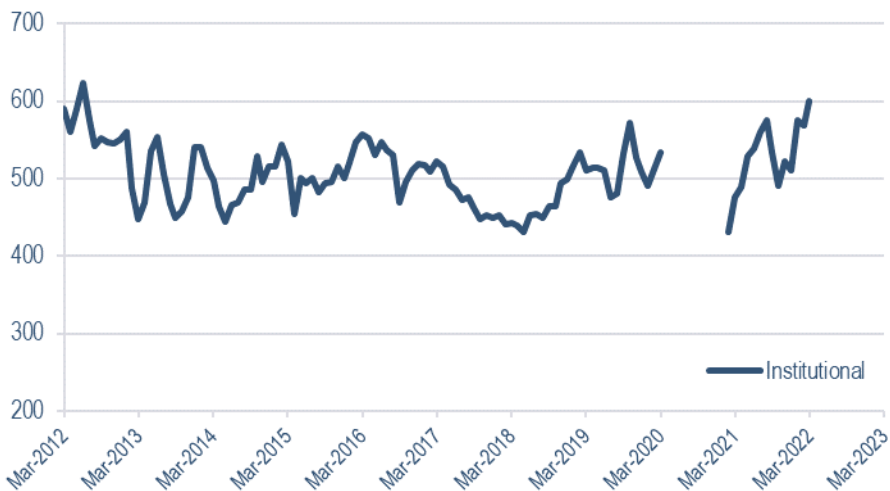
- Middle market new issue loan originations totaled \$5.6 billion in Q1 2023, up from \$4.2 billion in Q4 2022, but the lowest level of any first quarter in at least 10 years
- Refinancing activity drove issuance volumes and accounted for 70% of the supply in Q1 as issuers used the opportunity to address near-term maturities
- The sudden onset of bank troubles during Q1 2023 was reflected by volatility in the secondary loan market
- After hitting a 2023 weighted average loan bid high of 94.71 on February 9th, a 2.27-point gain from 92.44 at the end of 2022, the average bid of the index had fallen to 92.59 by March 24th
- Credit spreads have been on the rise since August of 2022 due to a number of factors including geopolitical turmoil and aggressive Fed actions in stemming inflation concerns, likely to result in slowing economic growth, and a rising risk of recession

## Middle Market Loan Issuance



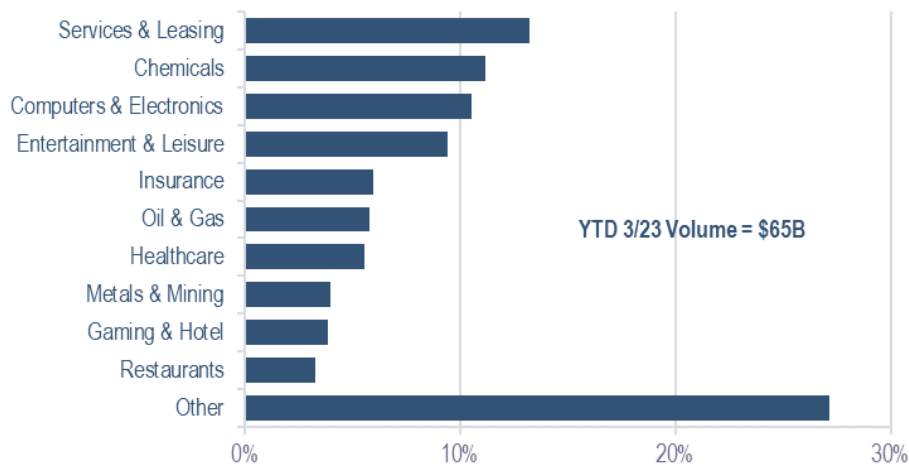
Source: Pitchbook | LCD

## Spreads for Middle Market Issuers



Source: Pitchbook | LCD  
Data not reported during Covid (Apr 2020 – Jan 2021)

## Loan Issuance by Sector



Source: Pitchbook | LCD

# SELECT DIP FINANCINGS AND 363 SALES

## Select DIP Financings

Debtor	Industry	DIP Date	Amount (\$ in millions)	Applicable Margin	Maturity (months)	Reference Rate
Avaya Inc.	Info Tech	02/14/2023	\$500.0	8.0%	6	SOFR
Cleveland Integrity Services, Inc.	Energy	01/29/2023	\$30.0	12.0%	3	Fixed
FORMA Brands, LLC	Consumer	01/12/2023	\$33.0	5.0%	4	SOFR
IEH Auto Parts Holding	Consumer	01/31/2023	\$75.0	8% PIK	6	Fixed
Invacare Corporation	Healthcare	01/31/2023	\$70.0	15.0%	4	Fixed
Invacare Corporation	Healthcare	01/31/2023	\$12.0	4.3%	3	ABR
Mountain Express Oil Co.	Energy	03/18/2023	\$144.0	8.0%	4	Fixed
NBG Home	Consumer	02/08/2023	\$60.0	10.0%	2	SOFR
Nova Wildcat ShurLine Holdings	Consumer	01/29/2023	\$49.0	7.0%	2	Base Rate <sup>[1]</sup>
Party City Holdco Inc.	Consumer	01/17/2023	\$150.0	10.0%	6	SOFR
Serta Simmons Bedding, LLC	Consumer	01/23/2023	\$125.0	4.5%	6	SOFR
Sorrento Therapeutics, Inc.	Healthcare	02/13/2023	\$75.0	14.0%	4	Fixed
Starry Group Holdings, Inc.	Communications	02/20/2023	\$75.0	13% PIK	6	Fixed
Tuesday Morning Corp.	Consumer	02/14/2023	\$84.0	12.8%	6	Fixed
Tuesday Morning Corp.	Consumer	02/14/2023	\$13.0	11.0%	6	SOFR

## Select Section 363 Sales

Date	Target	Buyer	Industry	Deal Value (\$ in millions)
03/03/2023	American Virtual Cloud Technologies Inc.	Skyvera, LLC	Info Tech	\$6.8
03/29/2023	Banyan Cay Resort & Golf LLC	Westside Property Investment Co.	Consumer	\$102.1
02/08/2023	Big Village Holding LLC	Bright Mountain Media Inc., Cadent LLC, ZStream Acquisition LLC, Insticator Inc.	Communications	\$31.5
01/13/2023	Bolta US Ltd.	SMP Automotive Systems Alabama	Industrials	\$16.0
01/29/2023	Cleveland Integrity Services Inc.	CIS Purchaser LLC	Energy	\$30.0
02/06/2023	Delphi Behavioral Health Group	Delphi Lender Acquisition Co LLC	Health Care	\$15.0
01/12/2023	Forma Brands LLC	FB Acquisition LLC	Consumer	\$690.0
01/16/2023	GigaMonster Networks LLC	SkyWire Holdings Inc.	Communications	\$26.6
02/24/2023	HyreCar Inc.	Holmes Motors Inc.	Industrials	\$7.8
02/05/2023	Independent Pet Partners	Main Street Capital, Newstone Capital, CION Investment	Consumer	\$60.0
01/30/2023	Navarro Pecan Company Inc.	RJS Holdings LLC	Consumer	\$17.6
02/08/2023	NBG Home	KKR and Silver Point	Consumer	\$117.7
01/30/2023	Normandie Lofts KTown LLC	Winstar Properties LLC	Real Estate	\$7.8
01/29/2023	Nova Wildcat ShurLine Holdings Inc.	Gordon Brothers Commercial & Industrial	Consumer	\$27.1
01/17/2023	Party City Holdco Inc. (Mexico unit)	Impulsora Euro S.A., Articulos Creativos de México S.A.	Consumer	\$5.4
01/16/2023	Performance Powersports	CPS USA Acquisition LLC	Consumer	\$10.5
03/14/2023	Premier Cajun Kings LLC	AIM Associates Capital Group	Consumer	\$4.6
01/02/2023	TOMS King LLC	Karali North America LLC	Consumer	\$7.6
01/11/2023	Tricida Inc.	Renibus Therapeutics Inc.	Health Care	\$152.5

[1] Highest of Prime Rate, Overnight Bank Funding Rate or SOFR

Source: Reorg and SOLIC Research

## SOLIC Representative Engagement



American Virtual Cloud Technologies, Inc. ("the Company") was a leading provider of white-label Unified Communications as a Service (UCaaS) products to domestic and international phone companies and IT resellers. An aggressive R&D strategy by the

Company to offer innovative texting, routing and related communication products had resulted in significant expansion of the Company's cost structure that caused material liquidity challenges and threatened the Company's ability to continue as a going concern. The Company was facing de-listing by NASDAQ and default under its secured convertible notes.

SOLIC was retained as the Company's restructuring adviser to provide operating and capital restructuring services and advise the Board on potential strategic alternatives.

As Restructuring Advisor, SOLIC managed the following:

- Restructured trade terms with two critical vendors deferring over \$4.5M of payments and providing immediate liquidity
- Oversaw an operational restructuring that reduced FTEs by over 30% and contactors by over 50% and resulted in annualized cost improvements of over \$7M
- Negotiated the sale of certain products and software providing an immediate cash infusion
- Negotiated the conversion of the Company's convertible notes, enabling the Company to pursue equity raise through an ATM offering and QIB Placement
- Ultimately facilitated a sale of the business to Skyvera LLC through a competitive sale process under Section 363 of the U.S. Bankruptcy Code

# NOTES

## SOURCES

Pitchbook | LCD, American Bankruptcy Institute / Epiq and others as indicated.

The charts and graphs used in this report have been compiled by SOLIC Capital Advisors solely for purposes of illustration.



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**Randy Chalker**  
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Our firm offers a comprehensive suite of services to assist our clients including: SOLIC Capital Advisors (financial advisory), SOLIC Capital, LLC (FINRA Registered Broker/Dealer), SOLIC Capital Management (asset management services and Registered Investment Advisor - RIA), and SOLIC Capital Partners (principal investing).

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