CAPITAL RESTRUCTURING PERSPECTIVES

Quarterly Update
Third Quarter 2017

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Q3 2017 Highlights

November 2017

To the Friends and Clients of SOLIC Capital Advisors ("SCA"):

We are pleased to share with you the *SOLIConnect* Capital Restructuring Perspectives quarterly update which includes perspectives relevant to restructuring and bankruptcy professionals, attorneys, workout groups, distressed debt investors, and other interested parties in the capital restructuring space.

In this edition, we provide perspectives on the restructuring market during the third quarter of 2017 which include:

- Both Moody's and S&P reported a drop in the default rate at the end of the Third Quarter 2017 to 3.3% and 3.1%, respectively. Both credit rating agencies forecast a further decline in the default rate, with Moody's expecting the default rate to close the year at 3.1%, and S&P expecting the default rate to decrease to 2.8% by June 2018.
- The S&P/LSTA distress ratio continues to decline in recent months and decreased to 3.22% in September, last lower in June of 2015 (2.56%). A decline in the distress ratio indicates that defaults are likely to decrease. Aggressive lending practices and recessionary pressure may make the next distress cycle significant.
- The Bank for International Settlements noted the growth of covenant-lite loans and pointed out that U.S. companies are more leveraged than at any time since the beginning of the millennium. S&P recently reported that the median debt level of U.S. corporate borrowers now exceeds the level immediately prior to the financial crisis.
- A recent pullback in the junk-bond market is centered in the telecommunications sector, raising concerns that weakness in the group could spread. The gyrations suggest a shift away from particularly easy conditions that were on display just a few months ago. The latest wobble offers a hint that investors are getting edgier after a torrid rally in the debt of lower-rated companies this year.
- U.S. middle market leveraged loan issuance totaled $10.2 billion in 2017's third quarter, more than in either of the previous two quarters and the highest volume of any quarter since Q2 of 2015.
- Middle market leverage through the first-lien ticked down in the quarter to 4.79x, from 4.91x in Q2. Total leverage dipped to 5.50x from 5.82x.
- Covenant-lite structures continue to creep into smaller deals. Tight pricing, looser covenant packages, and aggressive structure are expected to continue. Leveraged loan investors are becoming increasingly resigned to weaker credit metrics.
- During the third quarter, SOLIC served as exclusive financial advisor in leading a competitive auction process, structuring and negotiating the terms of a §363 sale agreement of Pioneer Health System's Aberdeen Hospital, a critical access hospital, to Boa Vida Hospital of Aberdeen, a healthcare investor.

We welcome your comments and hope you find our *SOLIConnect* report informative.

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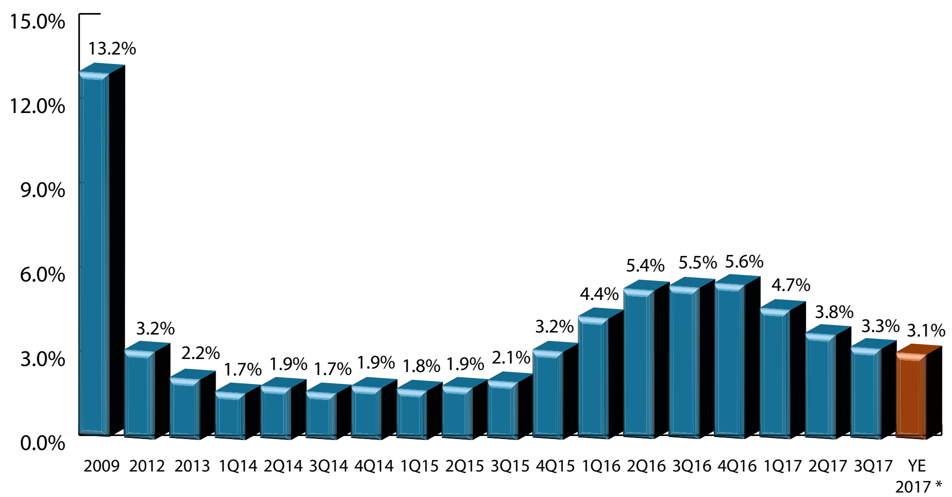
Perspectives

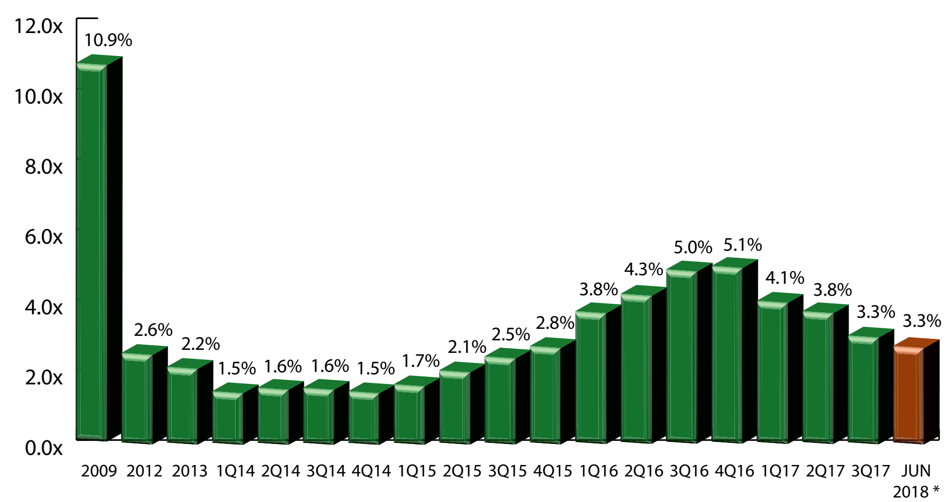
Defaults and Distress: Both Moody's and S&P reported a drop in the default rate at the end of the Third Quarter 2017 to 3.3% and 3.1%, respectively. Both credit rating agencies forecast a further decline in the default rate in the near-term, with Moody's expecting the default rate to close the year at 3.1%, and S&P expecting the default rate to decrease to 2.8% by June 2018.

Comparative Default Rates

Moody's
(U.S. Speculative Grade)



S&P
(U.S. Speculative Grade)



**Forecast*
Note: 2Q14 defaults rates from Moody's and S&P exclude EFH

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As shown on the following page, the S&P/LSTA distress ratio continues to decline in recent months and decreased to 3.22% in September, last lower in June of 2015 (2.56%). A decline in the distress ratio indicates that defaults are likely to decrease in line with expected near-term trends.

Despite the Toys 'R' Us bankruptcy, a looming default for sometime as one of the largest remnants of the LBO boom, expectations continue for a slow grind higher in the leveraged loan default rate. Given a relatively short list of borrowers with very near-term maturities, an increasing lack of covenants to force issuers to the restructuring table, and barring a dramatic increase in rates, interest coverage not expecting to tighten meaningfully in the near-term, the market is likely to remain below historical averages in the year ahead.

In the longer term, aggressive lending practices and recessionary pressure may make the next distress cycle significant. Regulators are taking note. In its last quarterly report, the Bank for International Settlements noted the growth of covenant-lite loans and pointed out that U.S. companies are more leveraged than at any time since the beginning of the millennium. S&P recently reported that the median debt level of U.S. corporate borrowers now exceeds the level immediately prior to the financial crisis.

A recent pullback in the junk-bond market is centered in the telecommunications sector, raising concerns that weakness in the group could spread. The gyrations suggest a shift away from particularly easy conditions that were on display just a few months ago. The latest wobble offers a hint that investors are getting edgier after a torrid rally in the debt of lower-rated companies this year.

Maturity Wall: The U.S. leveraged loan maturity wall — when speculative-grade borrowers will have to address credits coming due — has been pushed back considerably. At the start of this year some $26 billion of U.S. leveraged loans were set to mature in 2018; that number has dwindled to just $15 billion. In 2019 and 2020, that number climbs to $35 billion and $75 billion, respectively. In 2021 maturities start to ramp-up meaningfully to roughly $152 billion, then to $168 billion in 2022, and in 2023, the number heightens further to $227 billion.

Perspectives (cont)

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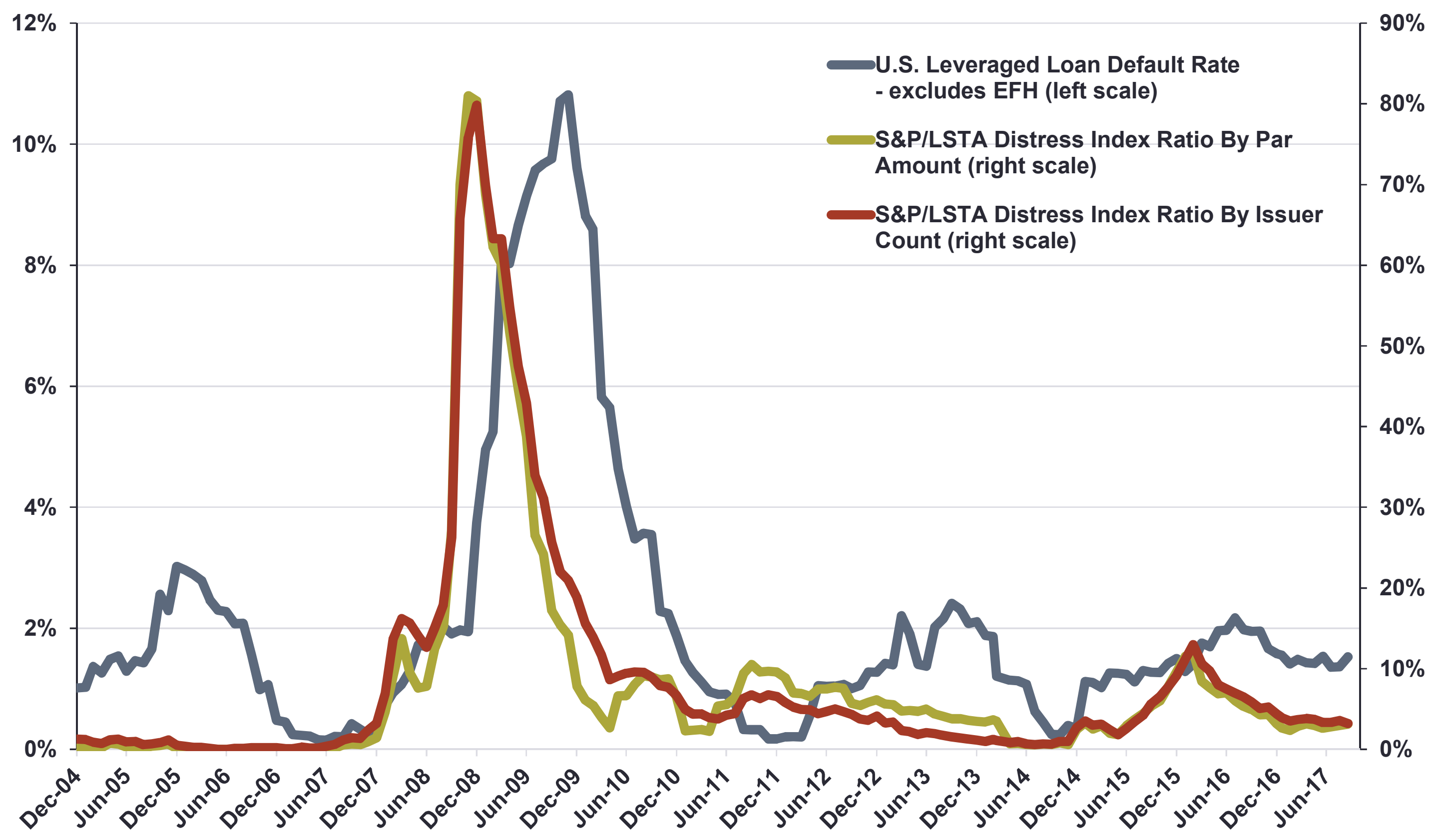
U.S. Speculative Grade Default Rate versus Distressed Credit Ratio



Source: LCD, an offering of S&P Global Market Intelligence
** Distress ratio is the number of distressed securities divided by the total number of speculative-grade-rated issues. Distressed securities are defined as those securities trading at 1,000 bps or greater over comparable Treasuries.*

Financing: U.S. middle market leveraged loan issuance totaled $10.2 billion in 2017's third quarter, more than in either of the previous two quarters, according to LCD. Q3 2017 issuance was the highest volume of any quarter since Q2 of 2015. Middle market issuance (defined as deals of $350 million or less) was $28.3 billion in the first nine months of the year, already topping the 2016 full-year total of $24.6 billion.

Lenders and sponsors are finding ways to add leverage in order to win auctions in an increasingly heated middle market. Preferred equity or PIK HoldCo notes (subordinated to second lien and mezzanine debt) are prevalent, once again, in a market where enterprise value multiples are well into double digits.

Middle market leverage through the first-lien ticked down in the quarter to 4.79x, from 4.91x in Q2. Total leverage dipped to 5.50x from 5.82x. Average yields on first-lien debt financing of middle market borrowers compressed further to 6.17% at the end of Q3 from 6.34% at the end of Q2.

Covenant-lite structures continue to creep into smaller deals. As larger lenders and investment banks move slightly down market into upper middle markets for deal flow, issuers are benefitting from lower pricing and more lax covenant packages typical of the broadly syndicated markets. Tight pricing, looser covenant packages, and aggressive structure are expected to continue. Leveraged loan investors are becoming increasingly resigned to weaker credit metrics.

The volume of second lien paper issued in North America reached roughly $28 billion in the first three quarters of the year. By comparison, approximately $4.5 billion of second lien loans were issued in the comparable period last year. Syndicated second-lien issuance jumped to $9.7 billion in 3Q, from $4.5 billion in 2Q, and was the highest of any quarter since 2Q14. This is partly attributable to the steady rise in M&A (57% of total second-lien issuance), but also to increased dividend deals (17%) and refinancing (26%).

Recent Representative Transaction

PIONEER
Community Hospital of Aberdeen

has been acquired by

BOA VIDA HOSPITAL

Sell Side Advisor

Pioneer Hospital of Aberdeen ("Pioneer of Aberdeen") is a critical access hospital based in Aberdeen, Mississippi. Pioneer of Aberdeen provides a wide variety of services including acute care hospital services, surgical services, comprehensive physical, speech, and occupational therapy, swing beds, inpatient and outpatient behavioral health programs, sleep center, a 19-room assisted living unit and a 28-independent living unit. Additionally, Pioneer is a Level IV designated Trauma Facility, providing essential 24/7 emergency care services.

SOLIC served as exclusive financial advisor in leading a competitive auction process, structuring and negotiating the terms of a §363 sale agreement of Pioneer of Aberdeen to Boa Vida Hospital of Aberdeen, a healthcare investor.

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Distressed Market Indicators

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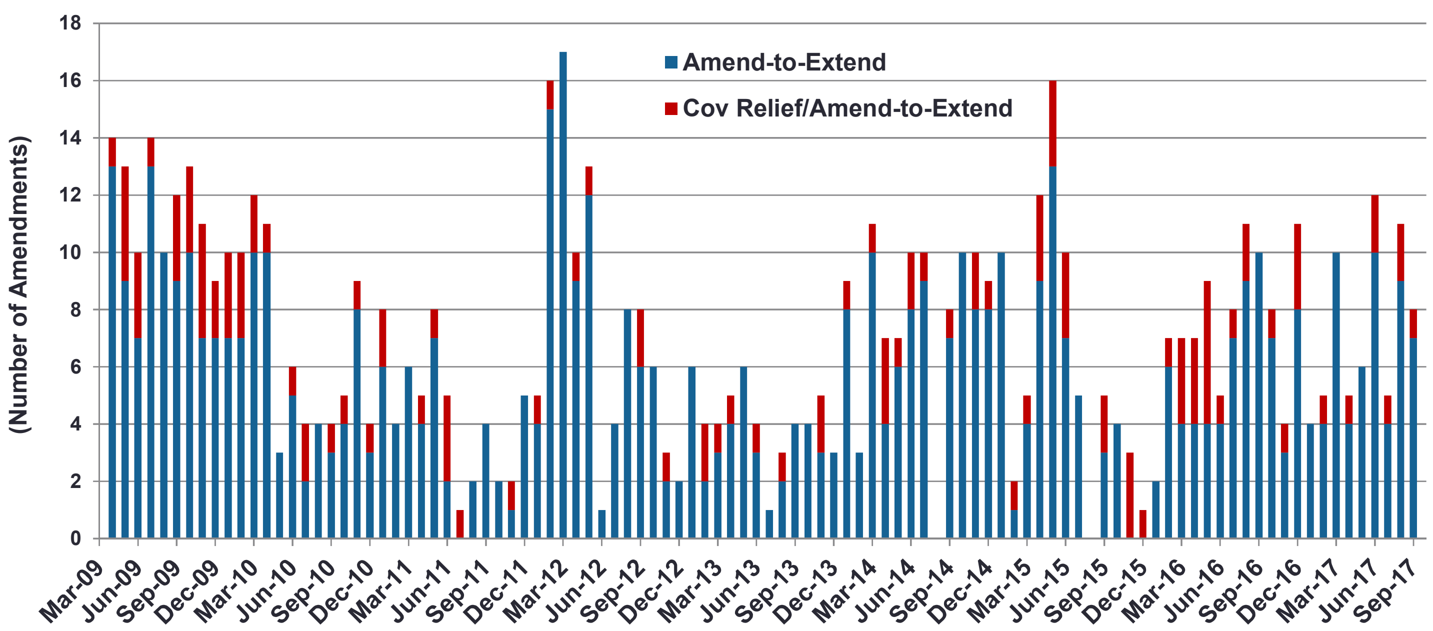
Count of Amend & Extend by Month

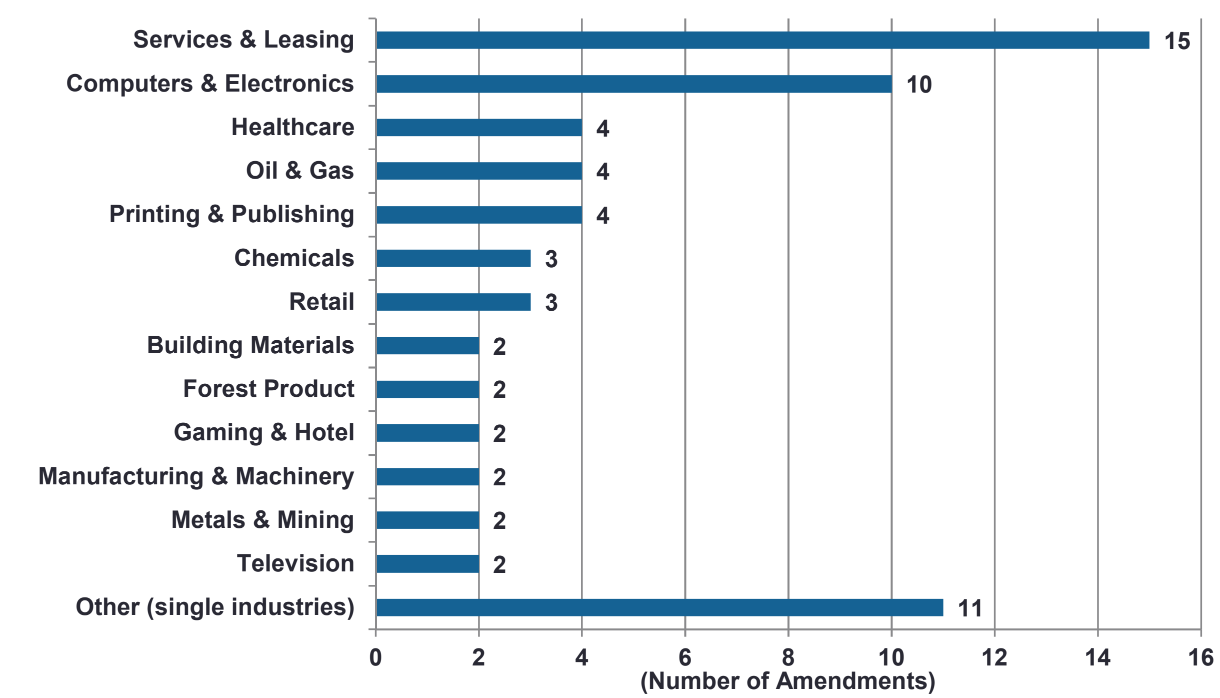
Twenty-four (24) amend-to-extends were observed during the Third Quarter 2017, maintaining the activity observed during recent quarters.



Source: LCD, an offering of S&P Global Market Intelligence

Amend & Extend by Industry – YTD September 2017

Amend & Extend activity during the Third Quarter 2017 was spread across a variety of industry sectors. Significant A&E activity was observed in the Services & Leasing, Computers & Electronics, and Retail sectors - with three Retail deals this quarter including the announced 99 Cents Only Stores transaction, At Home Group, and Container Store Inc.



Source: LCD, an offering of S&P Global Market Intelligence

Distressed Market Indicators (cont)

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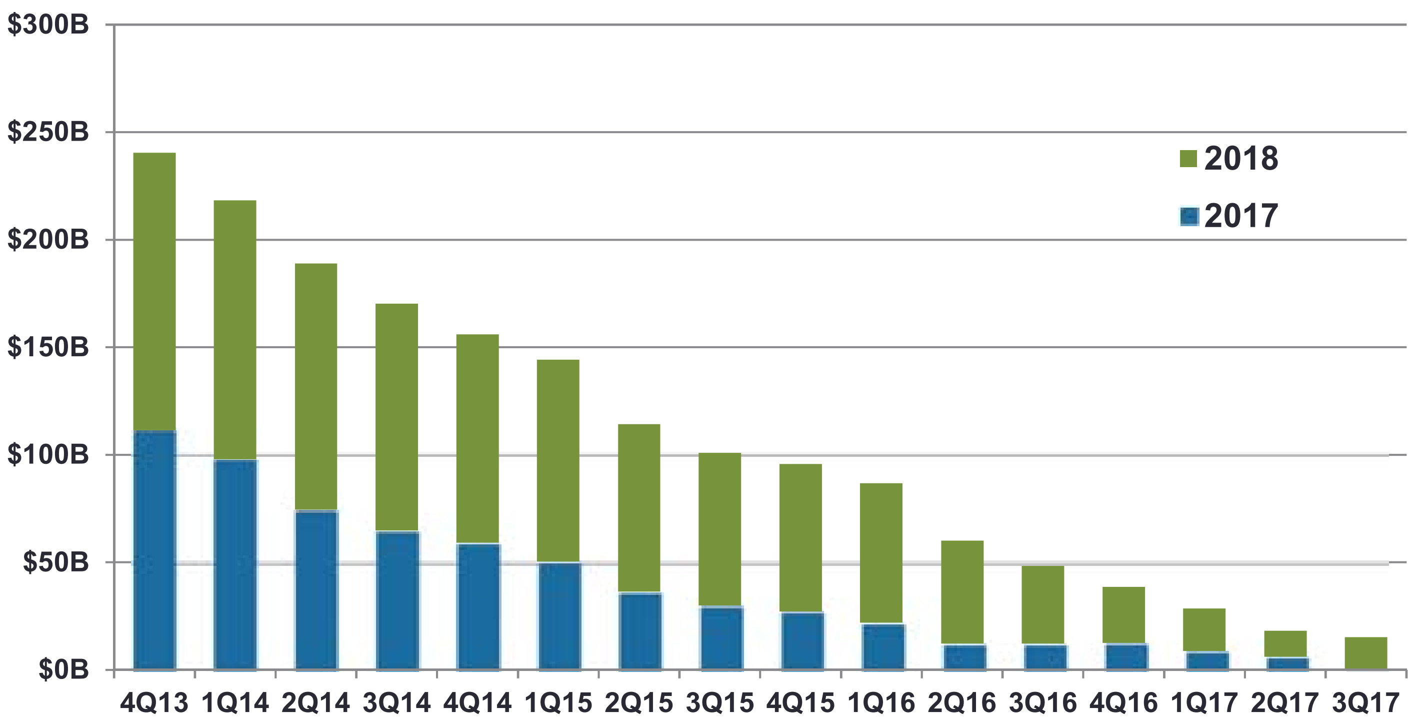
2017 / 2018 Maturity Wall

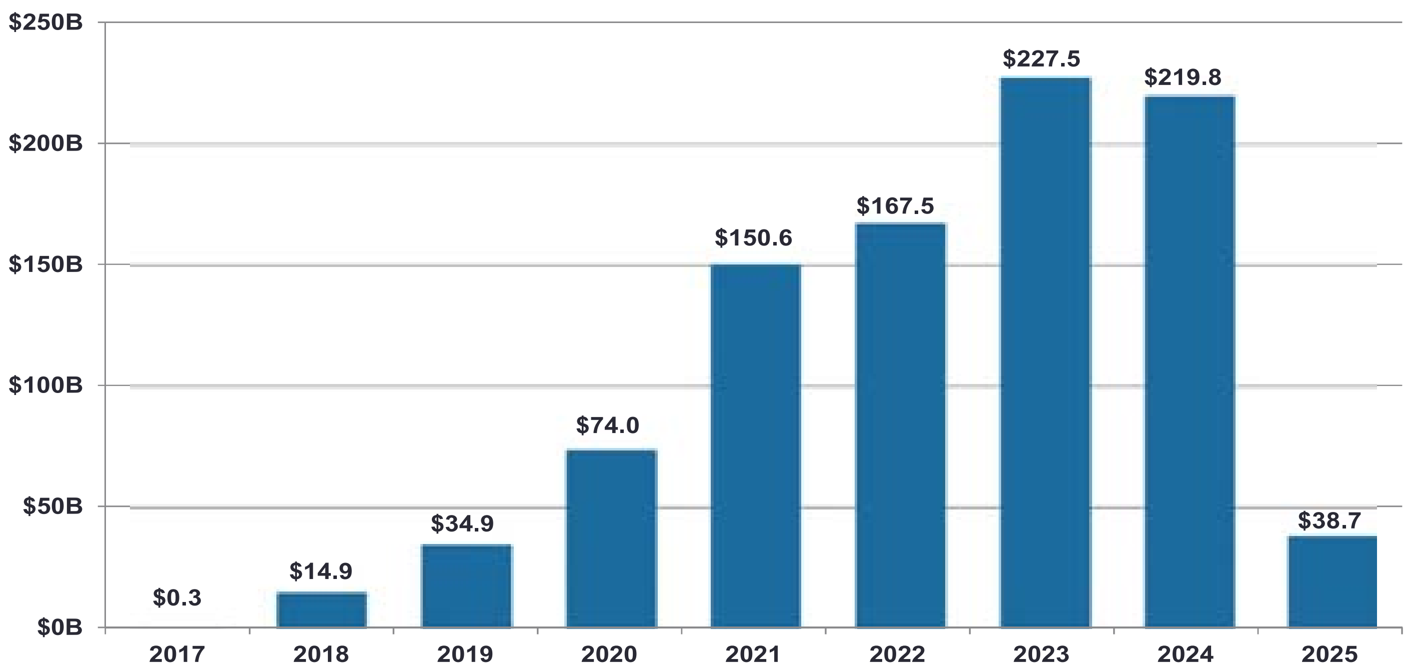
At the beginning of the year, $26 billion of U.S. leveraged loans were set to mature in 2018; that number has dwindled to just $15 billion.



Source: S&P/LSTA Leveraged Loan Index
S&P/LSTA Leveraged Loan Index consists of all loans that are in the index, namely Term loans (both amortizing and institutional), acquisition loans (after they are drawn down) and bridge loans, and senior secured

Current Loan Maturities by Year

This chart represents a snapshot of current loan maturities by year per the S&P/LSTA Leveraged Loan Index. Maturities start to climb sharply to $151 billion in 2021, then to $168 billion in 2022, and in 2023, the number grows to $228 billion.



Source: S&P/LSTA Leveraged Loan Index
S&P/LSTA Leveraged Loan Index consists of all loans that are in the index, namely Term loans (both amortizing and institutional), acquisition loans (after they are drawn down) and bridge loans, and senior secured

Distressed Market Indicators (cont)

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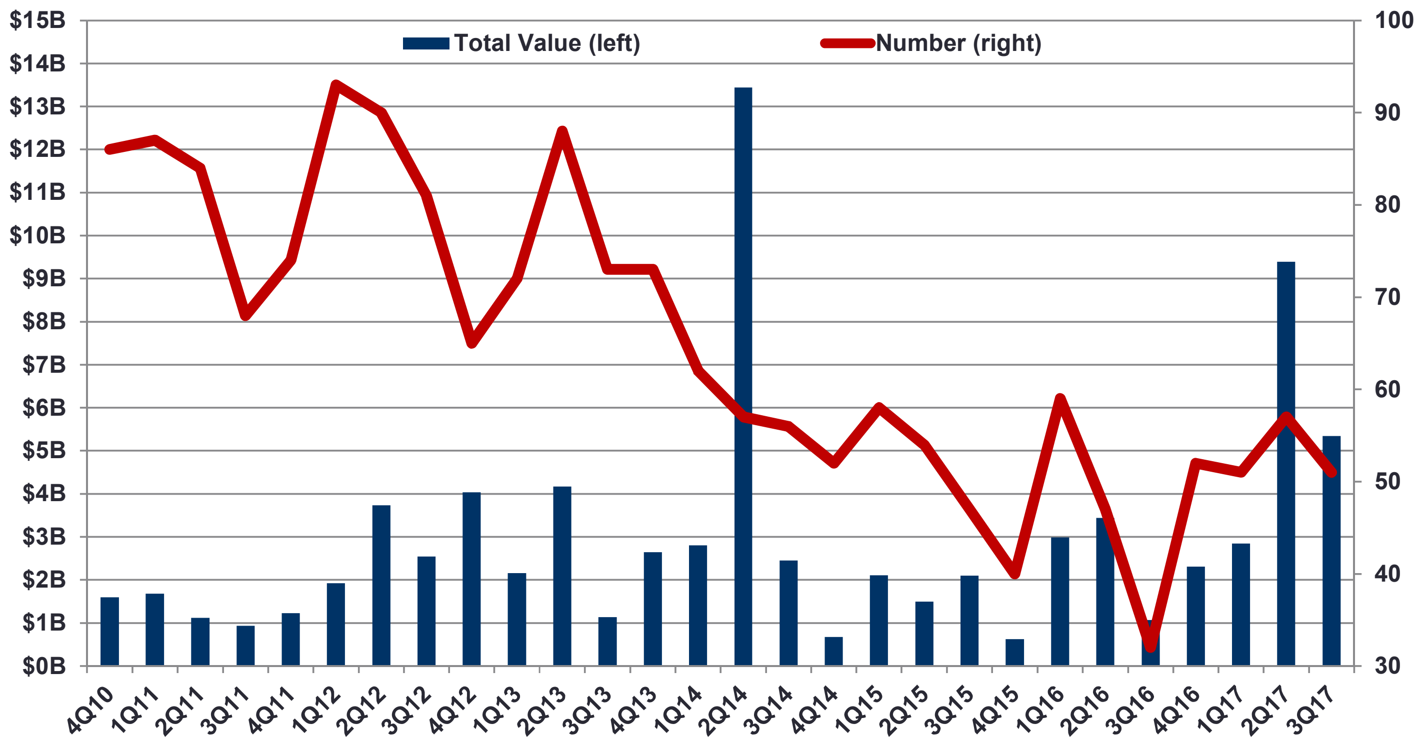
DIP Financings

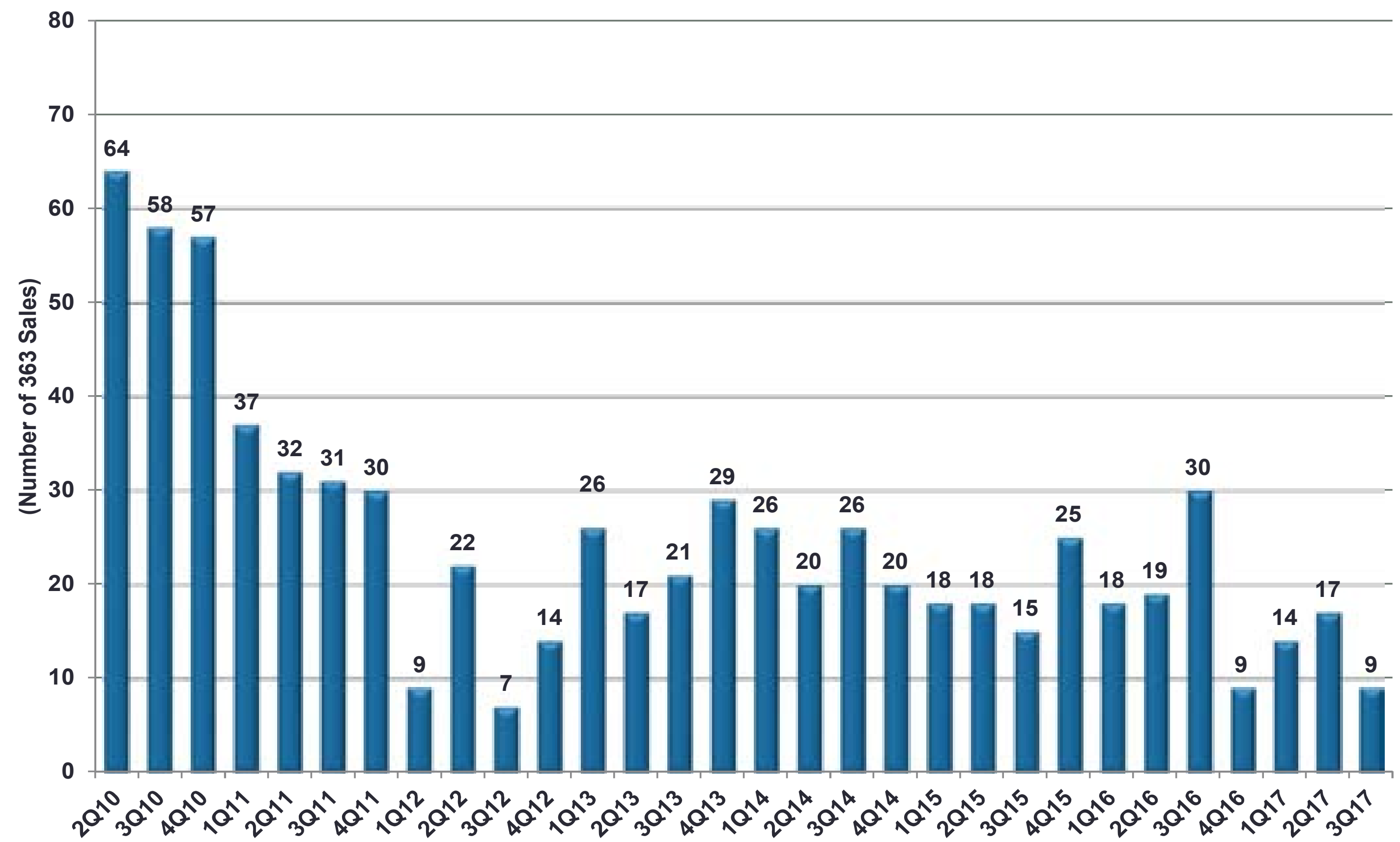
The volume of DIP financings reached $5.3 billion in Third Quarter 2017 significantly higher than the $1.1 billion observed during the same period in 2016 and lower than the Second Quarter 2017 which saw Energy Future Holdings Corp.'s $6.3 billion replacement DIP financing.



Note: 2Q14 and 2Q17 surges due to Energy Future Holdings' DIP issuance
Source: The Deal

Section 363 Sales

Section 363 asset sale activity fell to just nine transactions during the Third Quarter 2017. This is the lowest level seen during a single quarter over the last five years recognizing lower Chapter 11 volume and motivations by key constituents to resolve outcomes via Plan of Reorganization constructs.



Source: The Deal

Select Bankruptcies

205 companies (including their affiliates) with over $10 million of aggregate debt filed for bankruptcy during the Third Quarter 2017 across a variety of sectors. Filings included:

Debtor Name	Petition Date	Liabilities	Assets	Industry	Jurisdiction
Alevo Manufacturing, Inc.	8/18/2017	10,000,000 to 100,000,000	10,000,000 to 100,000,000	Energy, Manufacturing, Computers & Electronics	Middle District of North Carolina
Briar Hill Foods, LLC	8/25/2017	10,000,000 to 100,000,000	Less than 10,000,000	Food & Beverage, Retail	Northern District of Ohio
Crossroads Business Center, LLC	7/10/2017	10,000,000 to 100,000,000	Less than 10,000,000	Real Estate	Eastern District of Michigan
Ford Steel, LLC	8/21/2017	10,000,000 to 100,000,000	10,000,000 to 100,000,000	Manufacturing	Southern District of Texas
Grand View Financial LLC	8/17/2017	10,000,000 to 100,000,000	10,000,000 to 100,000,000	Financial Services	Central District of California
Lightray Capital, LLC	7/25/2017	10,000,000 to 100,000,000	100,000,001 to 500,000,000	Financial Services	Southern District of Florida
Morehead Memorial Hospital	7/10/2017	10,000,000 to 100,000,000	10,000,000 to 100,000,000	Health, Hospital	Middle District of North Carolina
Sterling Entertainment	7/6/2017	10,000,000 to 100,000,000	10,000,000 to 100,000,000	Entertainment/ Recreation, Food & Beverage	District of Nevada
University of Wisconsin Oshkosh Foundation, Inc.	8/17/2017	10,000,000 to 100,000,000	10,000,000 to 100,000,000	Education	Eastern District of Wisconsin
Vitamin World, Inc.	9/11/2017	10,000,000 to 100,000,000	10,000,000 to 100,000,000	Retail, Health	District of Delaware
Aerogroup International Holdings, LLC	9/15/2017	100,000,001 to 500,000,000	10,000,000 to 100,000,000	Retail, Manufacturing	District of Delaware
Beaulieu Group, LLC	7/16/2017	100,000,001 to 500,000,000	100,000,001 to 500,000,000	Manufacturing	Northern District of Georgia
Perfumania, Inc.	8/26/2017	100,000,001 to 500,000,000	100,000,001 to 500,000,000	Retail	District of Delaware

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Debtor Name	Petition Date	Liabilities	Assets	Industry	Jurisdiction
TerraVia Holdings, Inc.	8/2/2017	100,000,001 to 500,000,000	100,000,001 to 500,000,000	Pharmaceutical/ Biotech, Food & Beverage, Manufacturing	District of Delaware
True Religion Apparel, Inc.	7/5/2017	100,000,001 to 500,000,000	100,000,001 to 500,000,000	Retail	District of Delaware
Tulare Local Healthcare District	9/30/2017	100,000,001 to 500,000,000	100,000,001 to 500,000,000	Health, Hospital, Chapter 9 Proceeding	Eastern District of California
WD Encore Software, LLC	9/8/2017	100,000,001 to 500,000,000	100,000,001 to 500,000,000	Computers & Electronics, Media	District of Minnesota
Paragon Offshore plc	7/20/2017	500,000,001 to 1 Billion	100,000,001 to 500,000,000	Oil/Gas, Marine	District of Delaware
Seadrill Limited	9/12/2017	Over 5 Billion	Over 5 Billion	Oil/Gas	Southern District of Texas
Toys "R" Us, Inc.	9/19/2017	Over 5 Billion	Over 5 Billion	Retail	Eastern District of Virginia

Summary *(including affiliated entities)*

Liabilities	Number of Filings (3Q17)
Less than $10,000,000	831
$10,000,000 to $100,000,000	113
$100,000,001 to $500,000,000	57
$500,000,001 to $1 Billion	1
Over $1 Billion, but less than $5 Billion	5
Over $5 Billion*	29
Total Filings	1,036

** Toys 'R' Us affiliates filed 24 of these 29 bankruptcies*
Source: Federal Judiciary

Select DIP Financings

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Four (4) DIP financings over $25 million were announced during the Third Quarter 2017 all in the retail and consumer products sector, including a $3.1 billion DIP facility obtained by Toys 'R' Us from several lenders.

Debtor Name	Industry	DIP Date	Amount ($ millions)	Margin Over LIBOR	Term/Length of Agreement (months)	Upfront Fee
Beaulieu Group LLC	Consumer Products	7/16/2017	$70.00	550	4	1.3%
Model Reorg Acquisition LLC	Retail	8/27/2017	$83.75	325	4	1.0%
Toys 'R' Us Inc. [1]	Retail	9/19/2017	$3,125.00	424	16	-
True Religion Apparel Inc.	Retail	7/5/2017	$60.00	300	5	-

[1] Margin over Libor represents weighted average of $2,300M ABL at L+250, $450M TL at L+775 and an implied margin over libor of $375M Taj Notes at 12% held by an ad hoc group

Sources: LCD, an offering of S&P Global Market Intelligence, The Deal, and PACER

Pricing of DIPs during Third Quarter 2017 continue to reflect the trend of a high degree of competitiveness and a search for yield.

Summary Comparison

	Margin Over LIBOR	Term/Length of Agreement (months)	Upfront Fee
Third Quarter 2017:			
Mean ($100MM+) [1]	424	16	n/a
Median ($100MM+) [1]	325	16	n/a
Mean ($25-$100MM)	392	4	1.13%
Median ($25-$100MM)	325	4	1.13%
Third Quarter 2016:			
Mean ($100MM+)	500	7	1.25%
Median ($100MM+)	375	7	1.25%
Mean ($25-$100MM)	875	6	1.25%
Median ($25-$100MM)	875	6	1.25%

[1] There was only one DIP financing greater that $100MM. Therefore this represents DIP financing information for Toys 'R' Us Inc.

Sources: LCD, an offering of S&P Global Market Intelligence, The Deal, and PACER

Section 363 Sales

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Nine (9) Section 363 sales were completed during the Third Quarter 2017, all small by size (at $100 MM and below in terms of deal value).

Date	Target	Buyer	Industry	Deal Value ($ in millions)
7/22/2017	**Aquion Energy Inc.**	**China Titans Energy Technology Group Co. Ltd.**	**Chemicals; Energy; Manufacturing**	**$9.2**
Description	China Titans Energy Technology Group Co. Ltd. through its subsidiary Juline-Titans LLC has agreed to acquire Aquion Energy Inc. for $9.16 million.			
7/17/2017	**Avaya Inc. - networking business**	**Extreme Networks Inc.**	**Technology**	**$100.0**
Description	Extreme Networks Inc. has acquired Avaya Inc.'s networking business for approximately $100 million.			
8/1/2017	**BCBG Max Azria Global Holdings LLC**	**Marquee Brands LLC; Global Brands Group Holding Ltd.**	**Retail - Clothing retail**	**ND**
Description	An investor group including Global Brands Group Holding Ltd. and Marquee Brands LLC has acquired BCBG Max Azria Group LLC for an undisclosed sum.			
8/29/2017	**CS Mining LLC**	**Tamra Mining Co. LLC**	**Metals - Copper**	**$75.00**
Description	Tamra Mining Co. LLC, a joint venture company formed by LCR Group, CCI U.S. Asset Holdings LLC and Earth Ground Worldwide Ltd. has acquired CS Mining LLC for $75 million.			
8/16/2017	**Heliopower Inc.**	**Sierra Nevada Solar Inc.**	**Energy**	**$0.2**
Description	Sierra Nevada Solar Inc. has acquired Heliopower Inc. for $150,000.			
8/9/2017	**Ignite Restaurant Group Inc.**	**Landry's Inc.**	**Retail**	**$57.0**
Description	Landry's Inc., a subsidiary of Fertitta Holdings Inc. has acquired Ignite Restaurant Group Inc. for $57 million (previously $55 million).			
7/21/2017	**Katy Industries Inc.**	**Victory Park Capital Advisors LLC; Highview Capital LLC**	**Manufacturing; Consumer and household products**	**ND**
Description	Jansan Acquisition LLC, a vehicle made up of pre-petition lenders Highview Capital LLC and Victory Park Capital Advisors LLC, has agreed to acquire Katy Industries Inc. for an undisclosed sum.			
7/10/2017	**Molycorp Minerals LLC - Mountain Pass rare earth mine assets**	**MP Mine Operations LLC**	**Metals**	**$20.5**
Description	MP Mine Operations LLC has agreed to acquire Mountain Pass rare earth mine assets from Molycorp Minerals LLC for $20.5 million.			
9/29/2017	**TerraVia Holdings Inc.**	**Corbion NV**	**Food**	**$20.0**
Description	Corbion NV has acquired TerraVia Holdings Inc. for $20 million in cash.			

Source: The Deal

Amend & Extend Deals

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Twenty-four (24) Amend & Extend deals were announced during the Third Quarter 2017, continuing a recent trend with a majority of extensions for a period over 24 months, and some for over 36 months as investors seek to lock in yield for a longer term.

Name	Amend Deal Date	S&P Loan Rating	Moody's Loan Rating	Extension
99 Cents Only Stores	9/19/2017	CCC+	Caa1	36 months
ARC Document Solutions	7/19/2017	NR	NR	32 months
AssuredPartners Inc	9/13/2017	B	B2	24 months
At Home Group	8/7/2017	NR	NR	36 months
BreitBurn Energy Partners	8/11/2017	na	na	3 months
Container Store Inc	7/26/2017	B	B2	28 months
Cross Country Healthcare Inc	8/3/2017	NR	NR	14 months
Dana Holding Corp	8/18/2017	NR	NR	14 months
e.l.f Beauty	8/25/2017	NR	NR	8 months
FleetCor Technologies Inc	7/13/2017	BB+	Ba2	33 months
Ingevity	8/23/2017	NR	NR	12 months
Internet Brands	8/16/2017	B	B1	37 months
Iron Mountain Inc	8/22/2017	NR	NR	37 months
Nexstar Broadcasting Group Inc	7/19/2017	BB+	Ba3	12 months
NuStar Logistics	8/22/2017	BB+	NR	12 months
Renfro Corp	9/26/2017	B	B3	26 months
Sabre Holdings Corp. (Add-on TLa 8/16)	8/24/2017	BB-	Ba2	12 months
Sabre Holdings Corp. (RC 8/16)	8/24/2017	BB-	Ba2	12 months
Synnex Corp	9/1/2017	NR	NR	28 months
Time Inc. (RC 5/14)	9/22/2017	BB-	Ba2	42 months
Time Inc. (TL 5/14)	9/22/2017	BB-	Ba2	42 months
Transaction Network Services Inc. (Add-on TL 3/14)	9/5/2017	BB-	B1	30 months
Transaction Network Services Inc. (RC 2/13)	9/5/2017	BB-	B1	24 months
YRC Worldwide	7/10/2017	B-	Ba3	41 months

Source: LCD, an offering of S&P Global Market Intelligence

NOTES

Notes

- Sources: S&P, Moody's, The Deal, 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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