

# CAPITAL RESTRUCTURING PERSPECTIVES



Quarterly Update  
Third Quarter 2022

## CONTENTS

Distressed Market Indicators.....	2
Capital Market Perspectives .....	3
Bankruptcy Trends .....	4
Leveraged Loan Trends .....	5
Selected DIP Financings and 363 Sales .....	6
SOLIC Representative Engagements .....	6
Notes .....	7



**Raoul Nowitz**  
Senior Managing Director  
rnowitz@soliccapital.com



**Neil F. Luria**  
Head of Restructuring  
Senior Managing Director  
nluria@soliccapital.com



**Edward R. Casas**  
Chairman & CEO  
Senior Managing Partner  
ecasas@soliccapital.com

*Presented by SOLIC Capital Advisors*

*Realizing Value. Delivering Results.*

**RESTRUCTURING • INVESTMENT BANKING • DISTRESSED ASSET SUPPORT SERVICES**

# DISTRESSED MARKET INDICATORS

## KEY HIGHLIGHTS

- Increasing economic uncertainty and concern about the impact of rising interest rates on non-investment grade borrowers are resulting in increased volatility in the leveraged loan market
- The default rate increased to 0.9% in September 2022, marking the highest level of loan default rates since June 2021, as the market moves off post-crisis record lows and as distress levels rise
- The probability of default across most U.S. business sectors rose in Q3 2022 - every sector except healthcare and consumer discretionary recorded a higher median one-year probability of default score at Q3 2022 over the prior quarter, according to S&P Global Market Intelligence
- By issuer count, the distress ratio jumped sharply to 5.8% in September, from 2.7% in July
- Continuing a trend to lower rating actions, downgrades outpaced upgrades for a sixth consecutive month
- Borrowers from the riskiest rung of the single-B ratings band now accounting for the largest share of the \$1.43 trillion U.S. leveraged loan asset class – for the first time in 25 years

### S&P Default Rate



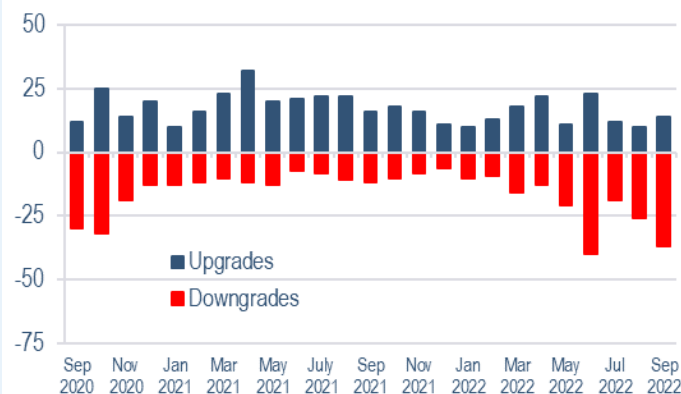
Source: Pitchbook | LCD

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



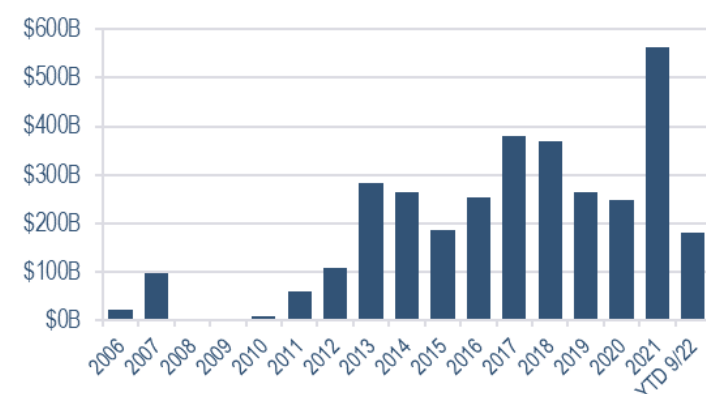
Source: Pitchbook | LCD

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



Source: Pitchbook | LCD

### Covenant-Lite Loan Issuance



Source: Pitchbook | LCD

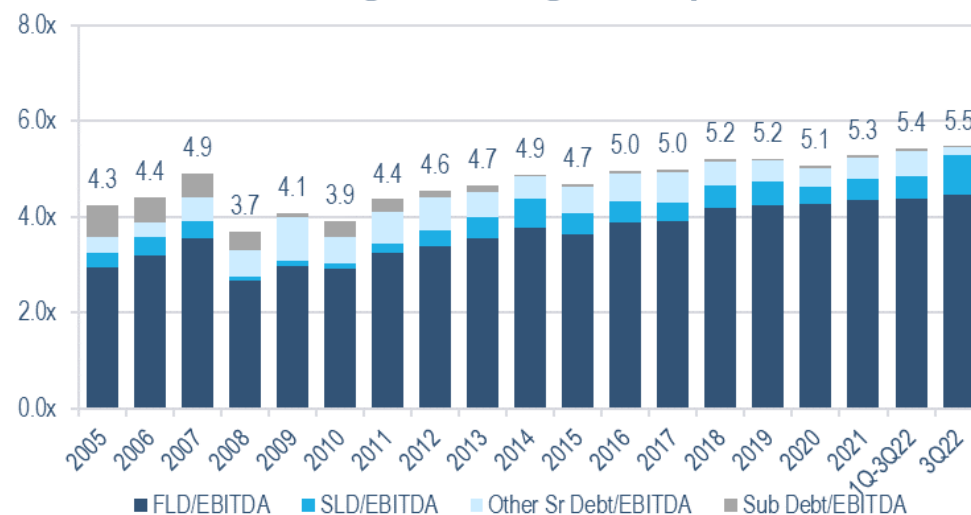
[1] Distress ratio by amount outstanding (percent of loans priced below 80)

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

## COMMENTARY

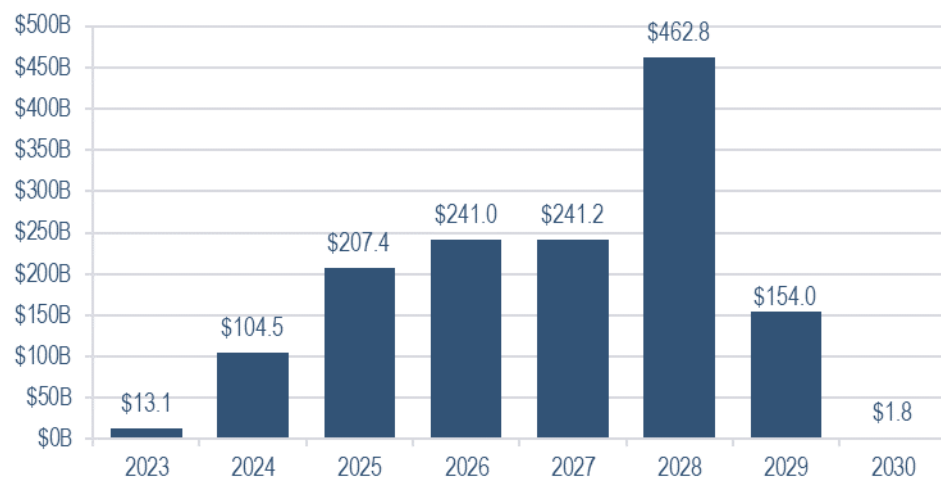
- Of outstanding loans in the Morningstar LSTA U.S. Leveraged Loan Index, 77% mature in 2026 or later, up from 69% at the end of last year, and the amount due by the end of 2024 declined to \$118 billion through Q3 2022, down from \$177 billion at the end of 2021
- Borrowers with a less-risky credit standing are still able to access leveraged finance markets for refinancing transactions
- Many companies with loans outstanding are carrying significant debt loads with the average debt-to-EBITDA ratio in new loan transactions hitting a record-high 5.5x in Q3 2022, above the 4.9x recorded just before the Global Financial Crisis
- With recessionary risks, leverage ratios will likely keep increasing, further boosting leverage levels and the likelihood of credit rating downgrades. Covenant-lite loans have become the norm in recent years with over 90% of loans issued in 2021 and early 2022 classified as covenant-lite due to the limited restrictions on borrowers' activities

## Average Leverage Multiples



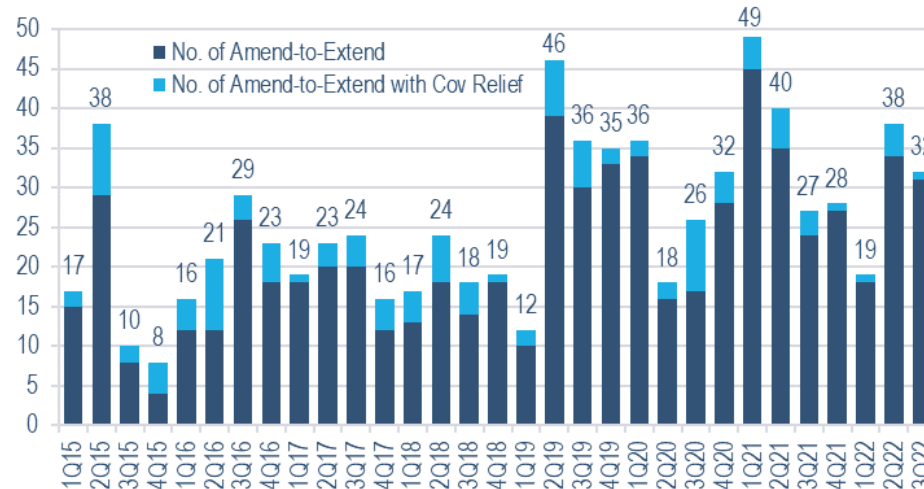
Note: FLD is abbreviation for "first lien debt" and SLD is abbreviation for "second lien debt"  
Source: Pitchbook | LCD

## Current Loan Maturities by Year



Source: Pitchbook | LCD

## Amend & Extends



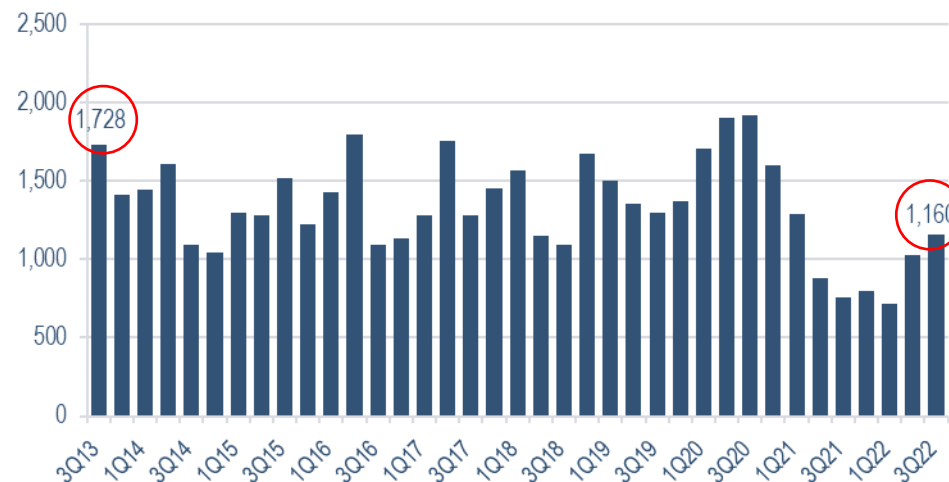
Source: Pitchbook | LCD

# BANKRUPTCY TRENDS

## COMMENTARY

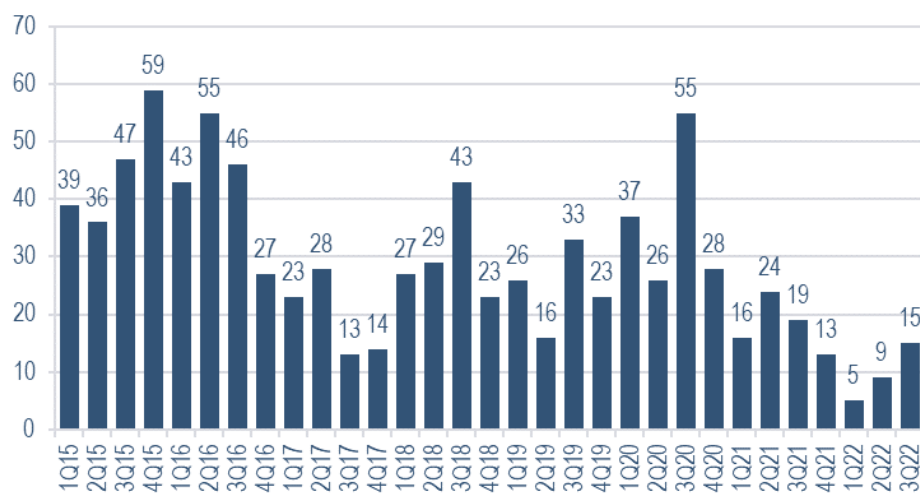
- Commercial Chapter 11 bankruptcy filings in September 2022 increased 76% over the same period last year, according to Epiq's Bankruptcy Analytics platform
- 2022 year-to-date filings are in line with 2021 levels, but with the weight of inflation, rising interest rates and concern over supply chain channels Chapter 11 filings are anticipated to continue to increase
- The volume of performing leveraged loans priced below 80 cents on the dollar (an anecdotal marker of distress that has shown to be a forward indicator for heightened default activity) increased dramatically in September
  - Nearly \$83 billion of performing loans in the Morningstar LSTA U.S. Leveraged Loan Index were priced at less than 80 cents on the dollar on Sept. 30, the largest volume of loans at distressed levels since July 2020
  - Loans priced below 90 cents on the dollar now represent nearly 20% of the index. At the end of 2021, just over 2% of the index fell below this level

## Chapter 11 Filings



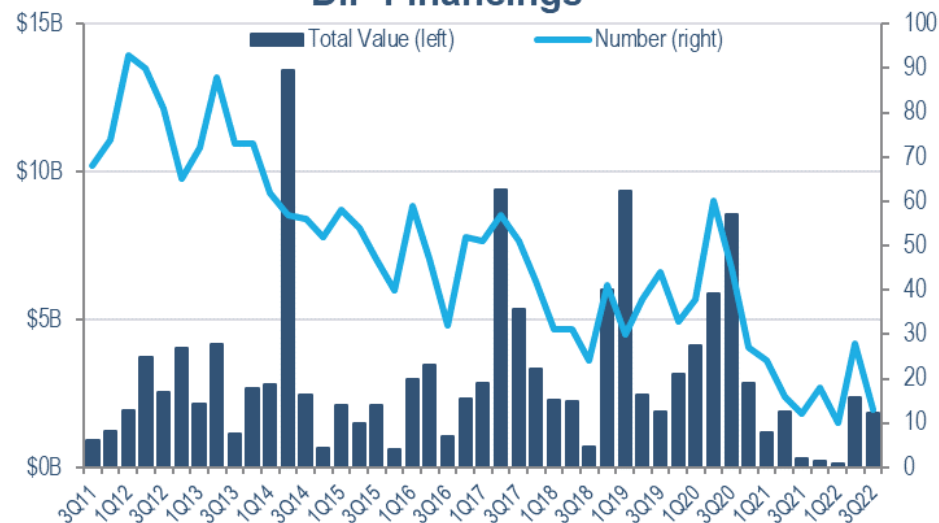
Source: American Bankruptcy Institute / Epiq

## Section 363 Sales



Source: Reorg and SOLIC Research

## DIP Financings



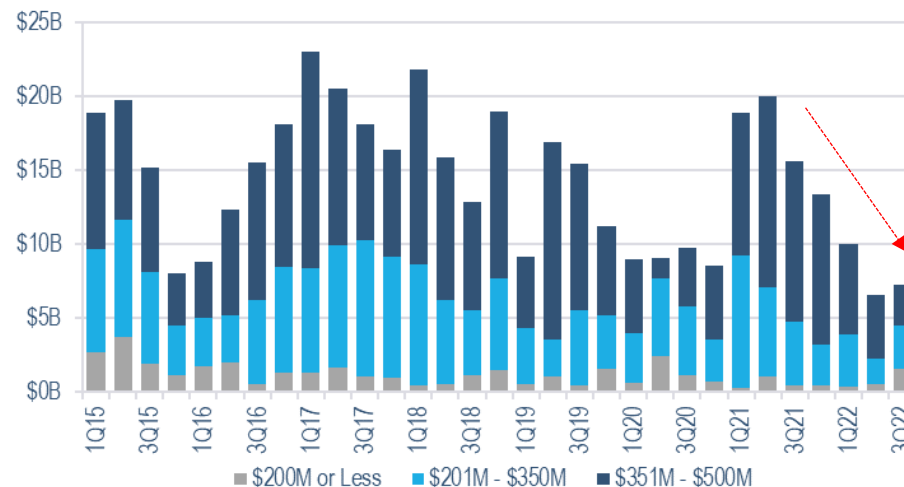
Source: Reorg and SOLIC Research

# LEVERAGED LOAN TRENDS

## COMMENTARY

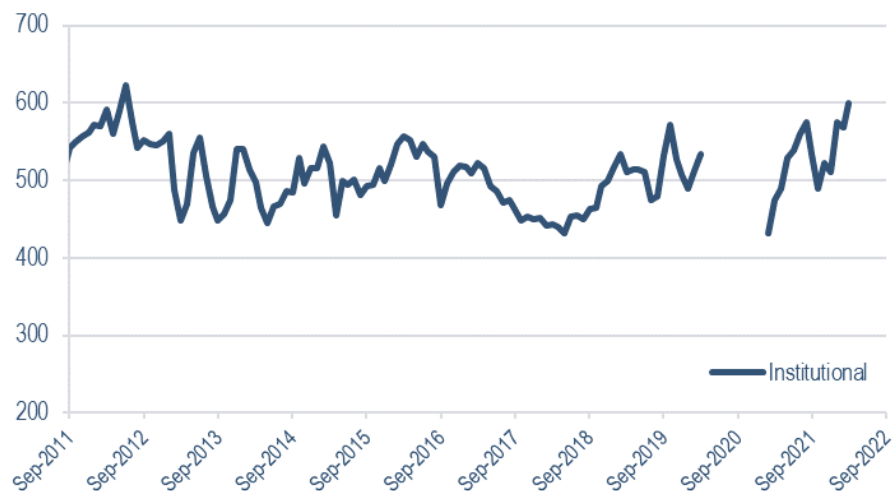
- Institutional leveraged loan volume originations plummeted to a post-crisis low in Q3 2022 totaling \$20.1 billion as investors shun risk amid inflation
  - The \$20.1 billion in institutional issuance marked a 63% decline from Q2 and an 86% decrease from the same period in 2021
  - Additionally, it is the lowest figure since Q4 2009, when the loan market ground to a halt in the aftermath of the Global Financial Crisis
- Middle market new issue loan originations in Q3 2022 totaled \$7.2 billion and was essentially flat from the prior quarter and down 54% from the same period a year prior
- For lenders with money to put to work, the current market hails the advent of a new, attractive vintage of loans with greater compensation for risk-taking, with higher spreads and more attractive terms
- Credit spreads, on average, have spiked 50 – 100 basis points for commercial bank lenders, while non-bank direct credit funds have increased spreads by 100 – 300 basis points. Recent hikes in credit spreads impacted even the highest credit quality issuers in Q3
- Loan volumes in more volatile, cyclical sectors including apparel, restaurants, construction, and discretionary consumer products have decreased precipitously

## Middle Market Loan Issuance



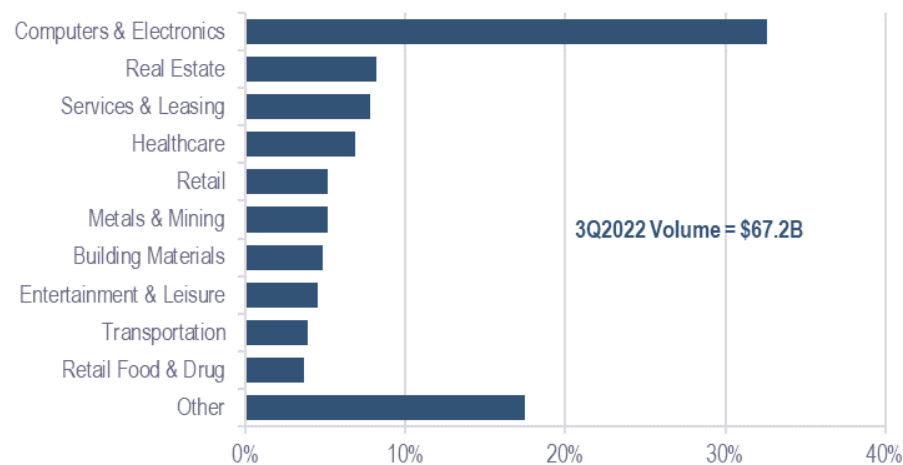
Source: Pitchbook | LCD

## Spreads for Middle Market Issuers



Source: Pitchbook | LCD

## Loan Issuance by Sector



Source: Pitchbook | LCD



# SELECTED DIP FINANCINGS AND 363 SALES

## Selected DIP Financings

Debtor	Industry	DIP Date	Amount (\$ in millions)	Applicable Margin	Maturity (months)	Reference Rate
Carestream Health Inc.	Healthcare	08/23/2022	\$80.0	9.0%	2.5	SOFR
Phoenix Services Topco LLC	Materials	09/27/2022	\$200.0	10% PIK	6	ABR
Revlon, Inc.	Consumer Staples	07/19/2022	\$1,425.0	6.4%	12	ABR and SOFR

## Selected Section 363 Sales

Date	Target	Buyer	Industry	Deal Value (\$ in millions)
08/04/2022	8e14 Networks Inc.	VMware	Information Technology	\$12.5
07/11/2022	Armstrong Flooring Inc. - North American assets	Gordon Brothers Group LLC; AHF LLC	Construction - Building products	\$107.0
07/01/2022	Black News Channel LLC	Entertainment Studios Inc.	Media - Television production/distribution	\$11.0
09/20/2022	Electric Last Mile Solutions Inc.	Mullen Automotive Inc.	Automotive; Manufacturing; Financial	\$240.0
08/16/2022	Endo International plc	ad hoc first lien group	Health Care	\$6,000.0
07/06/2022	Enjoy Technology Inc.	Asurion LLC	Technology - IT Services	\$110.0
07/11/2022	GenapSys Inc.	Sequencing Health	Health Care	\$42.0
08/02/2022	GetSwift Inc.	SF2 GSW LLC	Technology	\$5.3
08/29/2022	Level Four Orthotics amp Prosthetics Inc.	Bionic Prosthetics and Orthotics Group LLC	Health Care	\$3.3
07/28/2022	Masten Space Systems Inc.	Astrobotic Technology Inc.	Industrials	\$4.2
09/09/2022	Path Medical LLC	Physicians Group LLC	Healthcare - Diagnostics	na
07/05/2022	Plamex Investment LLC	Sterling Organization LLC	Real Estate	\$164.6
08/11/2022	Ryan Environmental LLC - Bridgeport Assets	Ryan Construction Services Inc.	Environmental Services	\$1.8
08/02/2022	SunGard Availability Services Inc. - U.S. colocation and network business	Stonecourt Capital LP; Longboat Advisors LLC; 365 SG Operating Co. LLC; Lumerity Capital LLC	Services	\$52.5
09/26/2022	Voyager Digital Holdings Inc.	West Realm Shires Services Inc.	Technology	\$1,422.0

Source: Reorg and SOLIC Research

## SOLIC Representative Engagements

<b>HEALTHCARE</b>	<b>Yonder Living Care</b> Debt Restructuring Operational Restructuring Executive Chairman Restructuring Advisor	<b>SUMNER</b> Regional Health Systems, Inc. Operational Restructuring Interim Management Restructuring Advisor	<b>MedCath</b> MedCath Corporation (Nasdaq: MDTH) Sell Side Advisor	<b>PRIMECARE</b> Recapitalization Restructuring Advisor
<b>RETAIL AND CONSUMER PRODUCTS</b>	<b>LOEHMANN'S</b> Loehmann's Holdings, Inc. has been acquired by Istithmar PLC Sell Side Advisor	<b>RADICA</b> Radica Games Limited (Nasdaq: RADA) has been acquired by Mattel, Inc. (NYSE: MAT) Sell Side Advisor	<b>Sur la Table</b> THE ART & SOUL OF COOKING Investment Banking Restructuring Advisor	<b>HARTZ</b> Debt Restructuring Restructuring Advisor
<b>FINANCIAL SERVICES</b>	<b>TB&amp;W</b> Pre-Filing Secured Indebtedness Restructuring Advisor	<b>SageCrest II, LLC</b> Assets under Management Restructuring Advisor	<b>SENTINEL</b> Sentinel Manufacturing Co. Inc. Restructuring Advisor	<b>Bayou Funds</b> Assets under Management Restructuring Advisor
<b>ENERGY</b>	<b>Energy Future Holdings</b> Financial Advisor	<b>Pre Restructuring Invested Capital of Over \$800,000,000</b> Restructuring Advisor	<b>VAREL INTERNATIONAL</b> Restructured Debt Restructuring Advisor	<b>Alexis, LLC</b> has consummated an Institutional Private Placement of Series A Senior Preferred Units \$13,100,000 with Term Loan and Revolving Credit Facilities \$30,000,000 Financial Advisor
<b>MANUFACTURING, BUSINESS SERVICES, OTHER</b>	<b>MORTON</b> Morton Custom Plastics Financial Advisor	<b>Tensor</b> Tensor Corporation completed a capital restructuring of \$280,000,000 of senior debt and \$100,000,000 of subordinated debt Restructuring Advisor	<b>Operational Restructuring</b> Roche Laboratories, Inc. acquired by Investment Group led by John Paul de Joria and medicia acquired by Joshua Partners, LLC Restructuring Advisor	<b>Heartland Automotive Holdings, Inc.</b> Heartland Automotive Services America's Largest Jiffy Lube Franchise <b>Capital Restructuring</b> 2008: \$289,800,000 2015: \$259,400,000 <b>Sale to Wynnchurch Capital</b> 2018: \$250,000,000 Financial Advisor
<b>REAL ESTATE AND INFRASTRUCTURE</b>	<b>610 LEX</b> Sale of senior notes secured by property located at 610 Lexington Avenue New York Sell Side Advisor	<b>SunCal Companies</b> The Westland Project Albuquerque, New Mexico Restructuring Advisor	<b>WILTON PARTNERS</b> REAL ESTATE DEVELOPMENT Debt Restructuring for the Illinois Tollway Oasis Project Restructuring Advisor	<b>DE Shaw &amp; Co</b> Senior & Mezzanine Debt Restructuring related to 19 Master Planned Communities Restructuring Advisor

# 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.

### SIGN UP FOR OUR NEWSLETTERS

SOLIC Capital Advisors publishes a series of reports analyzing relevant trends and news for selected industries. To view all of our quarterly industry reports or to make changes to your subscription(s), please go to [soliccapi.com/SOLICconnect](https://soliccapi.com/SOLICconnect) Thank you for your interest.

## LEADERSHIP TEAM

**Edward R. Casas**  
Chairman & CEO  
Senior Managing Partner

**Neil F. Luria**  
Head of Restructuring  
Senior Managing Director

**Gregory F. Hagood**  
Head of Investment Banking  
Senior Managing Director

**Robert E. Annas**  
Senior Managing Director

**Raoul Nowitz**  
Senior Managing Director

**Matthew E. Rubin**  
Senior Managing Director

**Sam Barhoumeh**  
Managing Director

**Matthew M. Caine**  
Managing Director

**Mary Missbach Dressler**  
Managing Director

**Meg Finnegan**  
Managing Director

**Greg Kilfoy**  
Managing Director

**George N. Koutsonicolis**  
Managing Director

**Benjamin Niernberg**  
Managing Director

**S. Waite Popejoy**  
Managing Director



SOLIC Capital Advisors ("SOLIC") is a leading financial advisory firm providing restructuring, investment banking and distressed asset support services to companies, lenders, institutional investors, the legal community and other creditor constituencies. SOLIC provides creative solutions to complex challenges by combining market knowledge with deep industry expertise to realize value and deliver results for our clients. SOLIC's multi-disciplinary team has successfully led more than 600 mandates, involving over \$150 billion in capitalization, across a wide array of industry sectors, creating significant stakeholder value.

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).

## RESTRUCTURING • INVESTMENT BANKING • DISTRESSED ASSET SUPPORT SERVICES

[soliccapi.com](https://soliccapi.com) | 847.583.1618

OFFICE LOCATIONS **Atlanta** | **Chicago** | **Orlando**

SOLIC gathers its data from sources it considers reliable. However, it does not guarantee the accuracy or completeness of the information provided within this publication. Any opinions presented reflect the current judgment of the authors and are subject to change. SOLIC makes no warranties, expressed or implied, regarding the accuracy of this information or any opinions expressed by the authors. (Officers, directors and employees of SOLIC and its subsidiaries may have positions in the securities of the companies discussed.) This publication does not constitute a recommendation with respect to the securities of any company discussed herein, and it should not be construed as such. SOLIC or its affiliates may from time to time provide investment banking or related services to these companies. Like all SOLIC employees, the authors of this publication receive compensation that is affected by overall firm profitability.

©2022 SOLIC Capital Advisors, LLC. All rights reserved.

Investment banking, private placement, merger, acquisition and divestiture services offered through SOLIC Capital, LLC. Member FINRA/SIPC. SOLIC Capital Management, LLC is a Registered Investment Adviser in the State of Illinois. SOLIC is not a certified public accounting firm and does not provide audit, attest, or public accounting services.

