CAPITAL RESTRUCTURING PERSPECTIVES

SOLICONNECT

Quarterly Update
First Quarter 2022

CONTENTS

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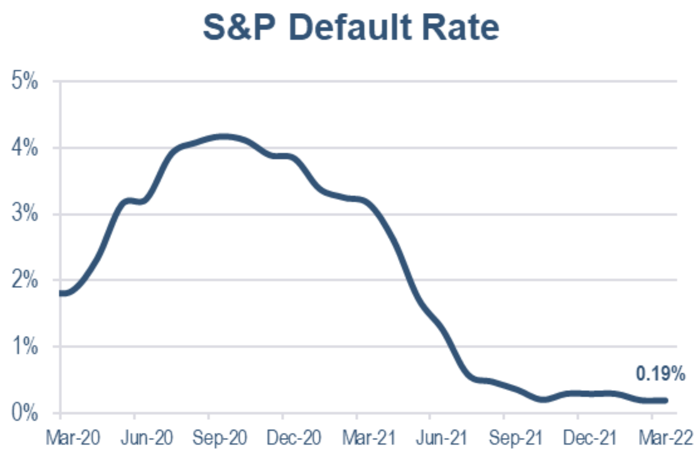
RESTRUCTURING • INVESTMENT BANKING • DISTRESSED ASSET SUPPORT SERVICES

KEY HIGHLIGHTS

- Default rates have dipped to the lowest levels in almost a decade while retail and institutional investors continued in 1Q 2022 to aggressively compete to inject money into businesses and put their vast amount of liquidity to work
- In order to access large deals, direct lenders continued to relax covenants to be considered competitive and provide accommodations on other terms
- With over 80% of total leveraged loans covenant-lite in March 2022, including over 90% of those being buildings and materials, chemicals, industrial manufacturing, insurance, and technology sector covenant-lite loans, lender protections continue to erode likely to result in higher losses
- The ratio of upgrades to downgrades of loan facilities continued to decline in Q1 2022, albeit at a lower rate, to 1.2x, from a recent rolling three-month peak of 2.5x last August, amid rising economic uncertainty



Source: S&P Global Market Intelligence, a division of S&P Global Inc.

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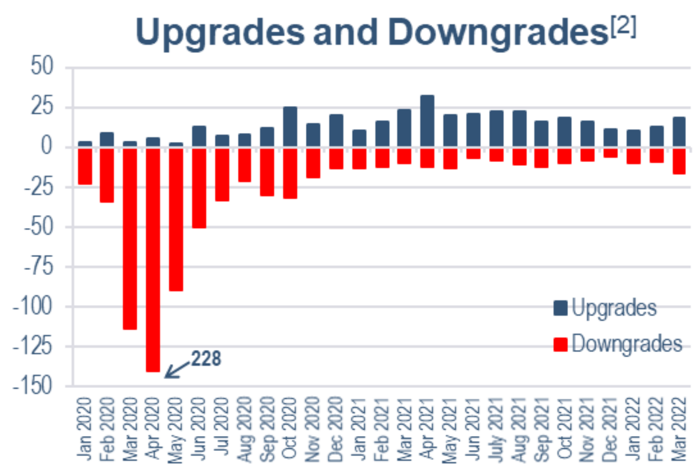

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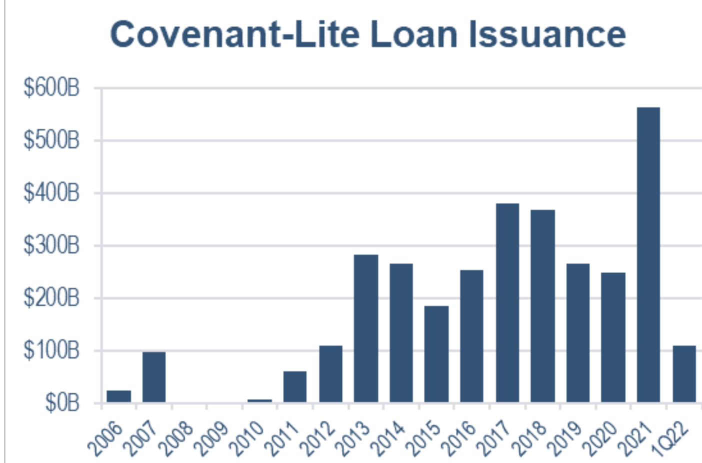


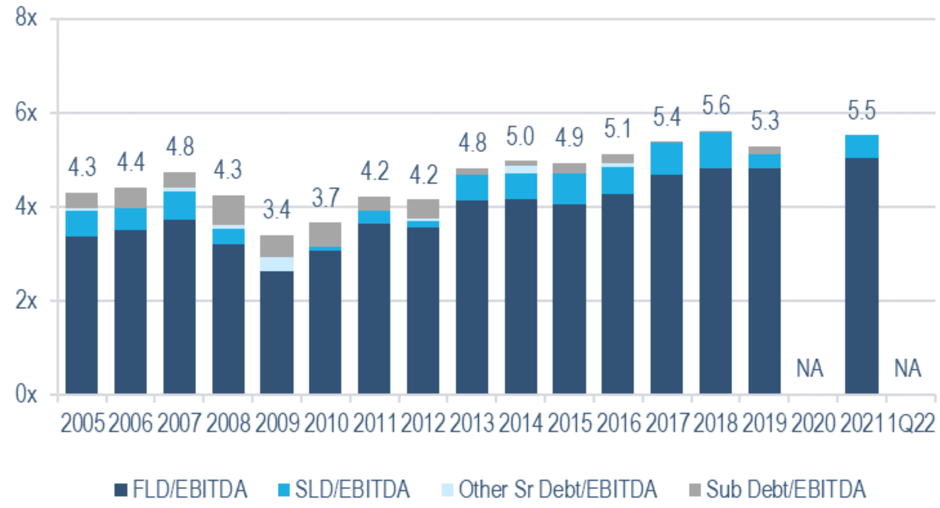
Source: S&P Global Market Intelligence, a division of S&P Global Inc.

[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

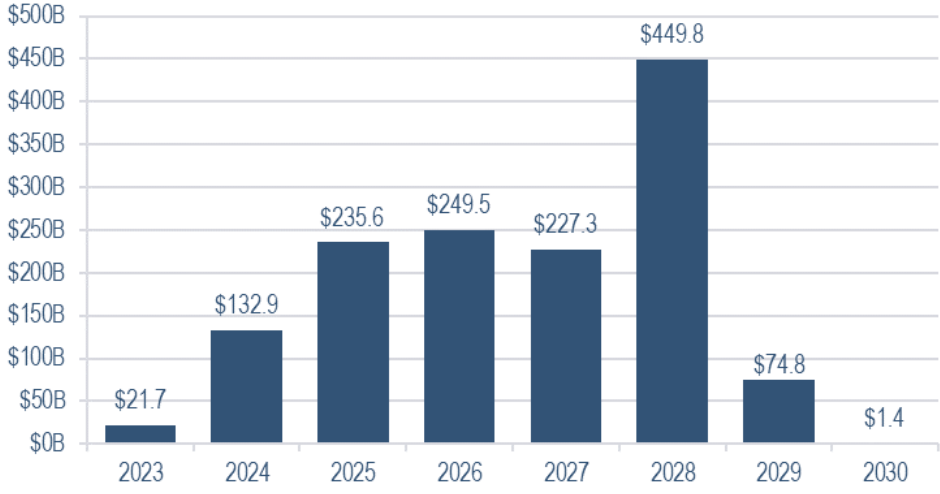
- Facilitated by a rush of borrowers looking to ink extensions before the end of Q1 2022, amend-and-extend leveraged loan activity jumped to $6.9 billion in March, from $5.2 billion in February and $800 million in January – however, Q1 2022 volume total for Amend & Extend deals totaled $12.8 billion, well below last year's pace, when $34.2 billion was recorded in Q1 2021
- Some of the larger executions included Tenet Healthcare Corp.'s upsized $1.9 billion revolver that was extended to March 2027, from September 2024; DCP Midstream Operating LP's $1.4 billion ESG-linked revolver that was extended to March 2027; and WESCO International's upsized $1.4 billion revolver that was extended to March 2027, from June 2025
- On the institutional side, borrowers thus far this year have been focusing on loans coming due in 2024, extending $2.8 billion of that debt
- The volume of loans due in 2023-2024 totaled $155 billion against a backdrop of approximately $1.4 trillion in outstanding loan paper

Middle Market Leverage Multiples



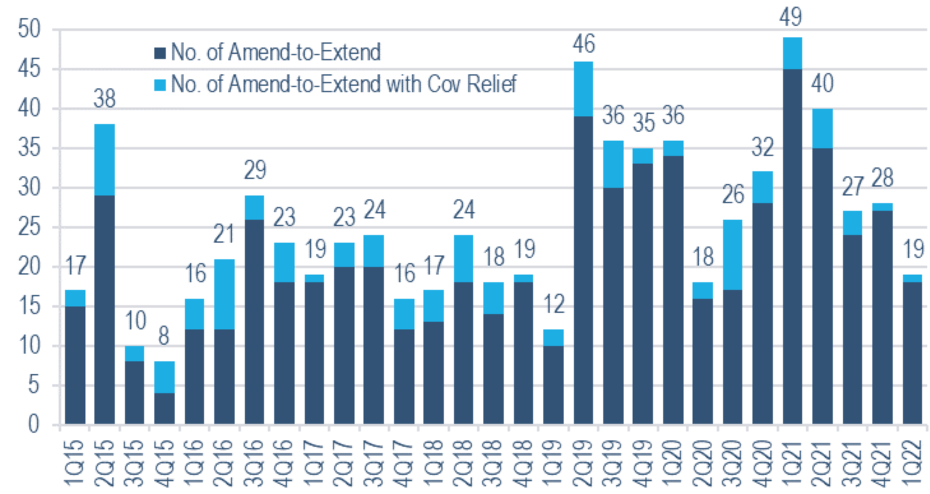
Source: S&P Global Market Intelligence, a division of S&P Global Inc.

Current Loan Maturities by Year



Source: S&P Global Market Intelligence, a division of S&P Global Inc.

Amend & Extends

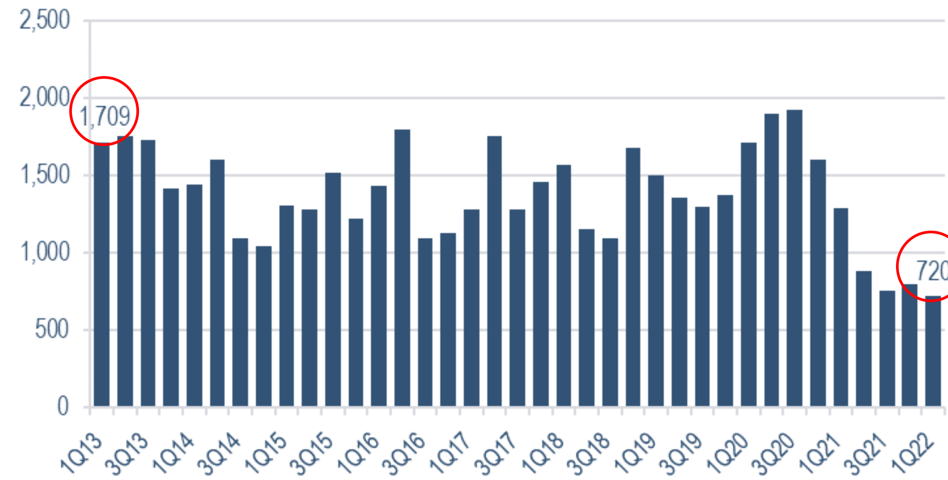


Source: S&P Global Market Intelligence, a division of S&P Global Inc.

COMMENTARY

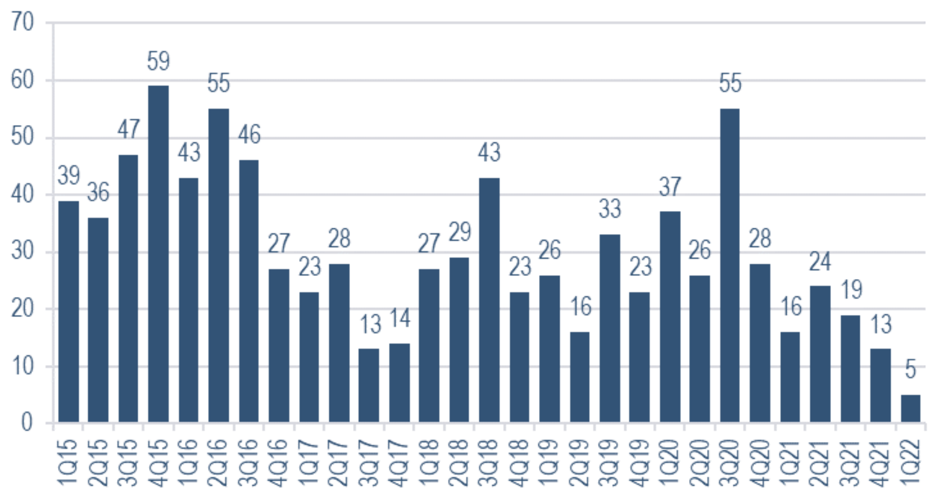
- Chapter 11 bankruptcies declined almost 60% in Q1 2022 vs. Q1 2020 to the lowest levels in more than a decade
- Forgivable business loans, near-zero interest rates, and eviction and foreclosure moratoriums, all led to the decline in bankruptcies in the quarter
- Lenders continue to be reluctant in enforcing remedies and realizing losses; overall viability of various business uncertainties persist in the face of interest rate increases and recessionary headwinds talk that commenced later in the quarter
- Both debt and equity investors continued to move into riskier assets in Q1 2022 in the pursuit of seeking better returns
- The downward trend in bankruptcy filings is not expected to continue given numerous challenges including rising interest rates in Q2 2022, supply chain pressures, escalating costs and labor shortages, and some discussion of recessionary risks

Chapter 11 Filings



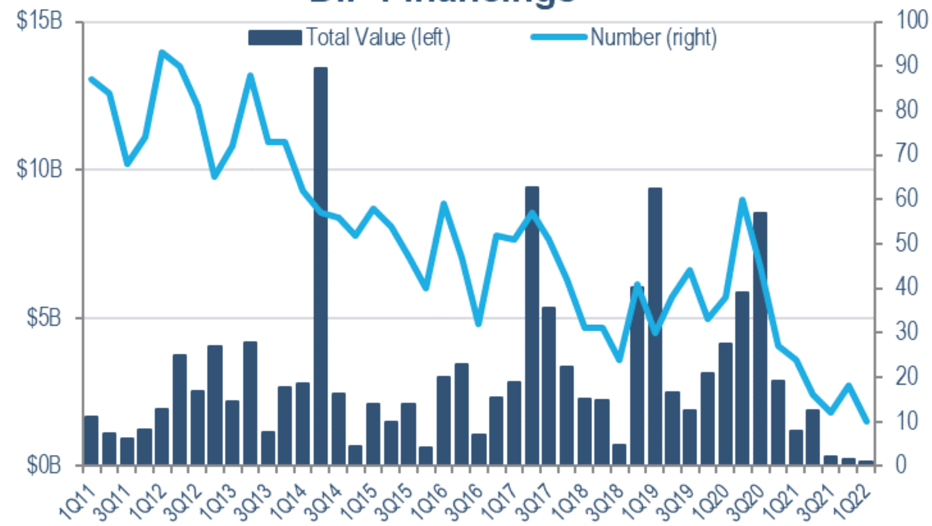
Source: American Bankruptcy Institute

Section 363 Sales



Source: The Deal

DIP Financings

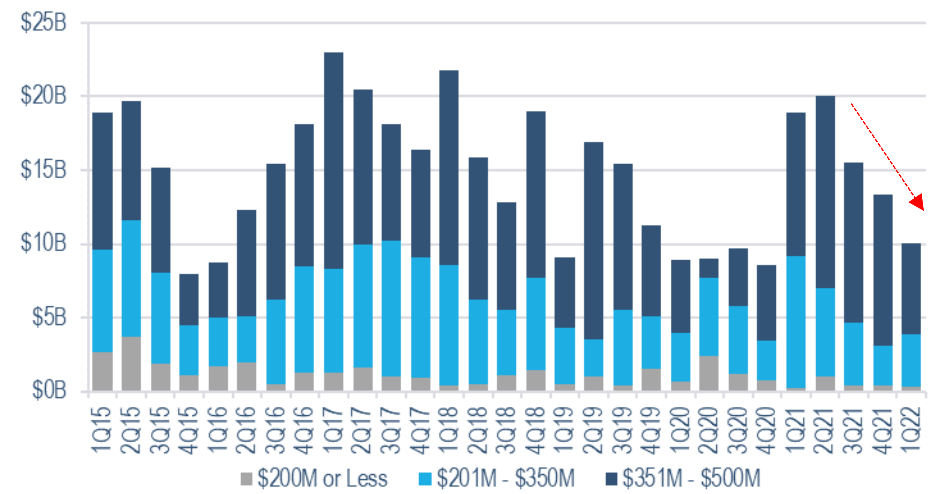


Source: The Deal

COMMENTARY

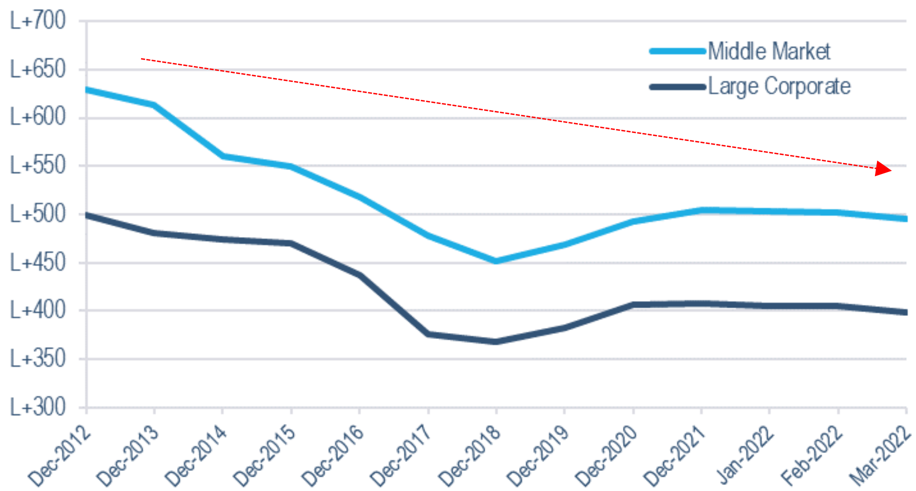
- Q1 2022 origination volumes were lighter than expected as credit market participants turned attention toward Russia's invasion of Ukraine, rising oil prices, and soaring inflation
- The long-awaited transition from a LIBOR base rate to a term SOFR rate for all new loans issued after January 1, 2022 required new-issue loans to undergo a pricing discovery
- The average yield to maturity of 5.35% in March was 92 bps higher than where it stood in January, marking its highest level since November 2020
- Underlying benchmark rates rose during the quarter, with three-month rates for both Libor (0.96%) and term SOFR (0.56%) higher than floors on the majority of new loans issued
- For the remainder of 2022, lenders anticipate rising interest rates, inflation, supply chain challenges, and the quality and quantity of available assets in the market to have the most significant impact on the leveraged loan market

Middle Market Loan Issuance



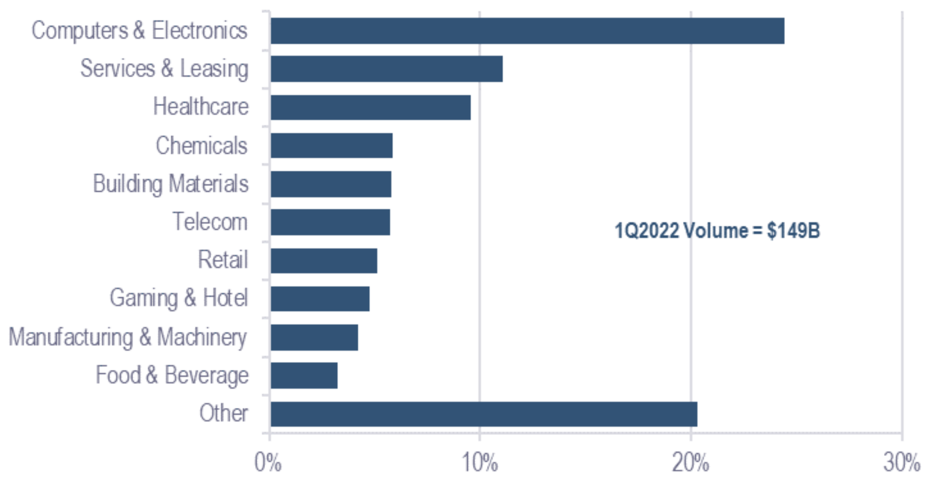
Source: S&P Global Market Intelligence, a division of S&P Global Inc.

Debt Pricing



Source: S&P Global Market Intelligence, a division of S&P Global Inc.

Loan Issuance by Sector



Source: S&P Global Market Intelligence, a division of S&P Global Inc.

Selected DIP Financings

Debtor	Industry	DIP Date	Amount ($ in millions)	Applicable Margin	Maturity (months)	Reference Rate
MD Helicopters	Industrials	03/30/2022	$60.0	8.5%	5	None, Fixed
Bankruptcy Type: Renegotiated | DIP Facility Type: Term Loan | Filing District: Delaware						
Rockall Energy Holdings	Energy	03/09/2022	$51.0	7.0%	30	SOFR
Bankruptcy Type: Prepackaged | DIP Facility Type: Term Loan | Filing District: Texas Northern						
Tilden Marcellus	Energy	02/04/2022	$13.0	10.0%	5	LIBOR
Bankruptcy Type: Freefall | DIP Facility Type: Term Loan | Filing District: Pennsylvania Western						

Source: The Deal

Selected Section 363 Sales

Date	Target	Buyer	Industry	Deal Value ($ in millions)
1/18/2022	BHCosmetics Holdings LLC - intellectual property	RBI Acquisition Holdings LLC	Consumer and household products	$3.9
1/20/2022	Cycle Force Group LLC	Messingschlager GmbH & Co. KG	Consumer and household products	na
1/20/2022	GVS Texas Holdings I LLC	CBRE WWG Storage Partners JV III LLC	Business Services	$450.0
3/30/2022	MD Helicopters Inc.	Bardin Hill Investment Partners LP; MBIA Insurance Corp.	Automotive - Aerospace; Manufacturing	na
2/3/2022	RLCH Inc.	Sunlight Barclay Tower LLC	Construction; Real Estate	$10.2

Source: The Deal

SOLIC REPRESENTATIVE ENGAGEMENT

Leading Physician Practice Management Company

Financial Advisor

In connection with a recapitalization transaction, SOLIC advised a leading physician practice management company on the potential financial impact of reimbursement issues covering out-of-network claims volume associated with the recent No Surprises Act legislation.

SOLIC's role included the following:

- Collecting amount per procedure code for all claims subject to a commercial payer contract by state
- Calculating a preliminary aggregate revenue impact based on applying the number of aggregate out of network claims against the differential of median in-network rate vs. out-of-network rates
- Summing the aggregate revenue differential and annualizing for full-year impact
- Assessing completed and in-progress status of negotiations on out-of-network to in-network commercial contracts and their implications relative to calculated median in-network rates

NOTES

SOURCES

S&P, American Bankruptcy Institute 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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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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