

CAPITAL RESTRUCTURING PERSPECTIVES



Quarterly Update
Second Quarter 2022

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DISTRESSED MARKET INDICATORS

KEY HIGHLIGHTS

- The default rate has edged higher from a pandemic-era low of 0.18% in April, but remains well below its historical average of 2.75%
- Looking ahead, healthy coverage ratios, a dearth of immediate maturities and limited pressing restructuring situations in the loan index would appear to indicate a below-average default rate, although market expectation is that the default rate over the next 12 months will be higher than the default rate of the last 12 months
- Tightening financial conditions amid inflationary pressure, concerns of an impending recession, continued cost pressures, and floating rate debt have prompted a significant uptick in the volume of performing loans priced below 80 — a forward-looking measure of potential future defaults
- Downgrades outpaced upgrades in June 2022, ending a 16-month upgrade cycle
- Overall, covenant-relief activity is down significantly from 2020, when companies scrambled for flexibility at the onset of the pandemic. Since the start of 2022, there have been just 17 covenant-relief transactions. During the same period in 2020, there were 121. Moreover, in terms of volume, covenant-relief activity remains at some of the lowest levels in more than a decade

S&P Default Rate



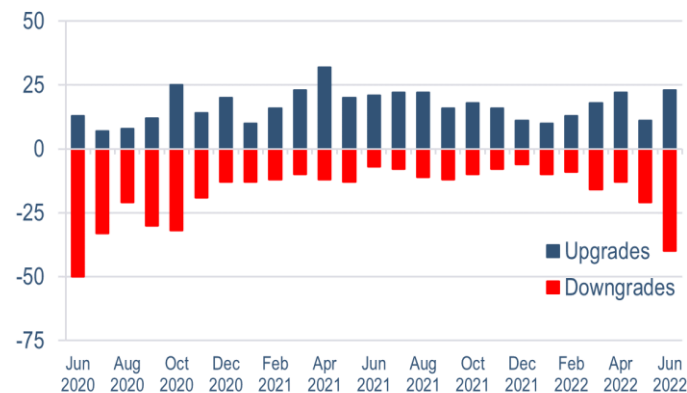
Source: Pitchbook | LCD

Distress Ratio^[1]



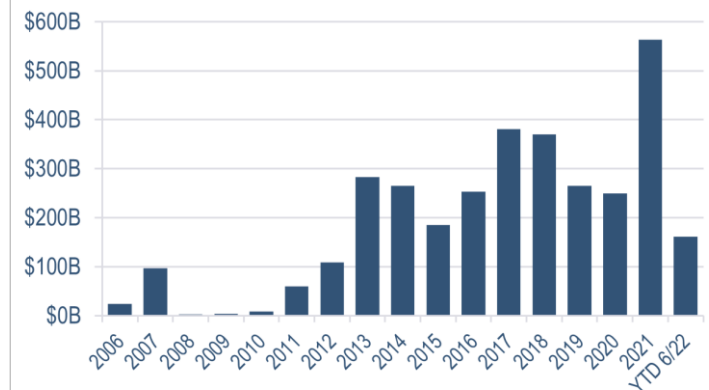
Source: Pitchbook | LCD

Upgrades and Downgrades^[2]



Source: Pitchbook | LCD

Covenant-Lite Loan Issuance



Source: Pitchbook | LCD

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

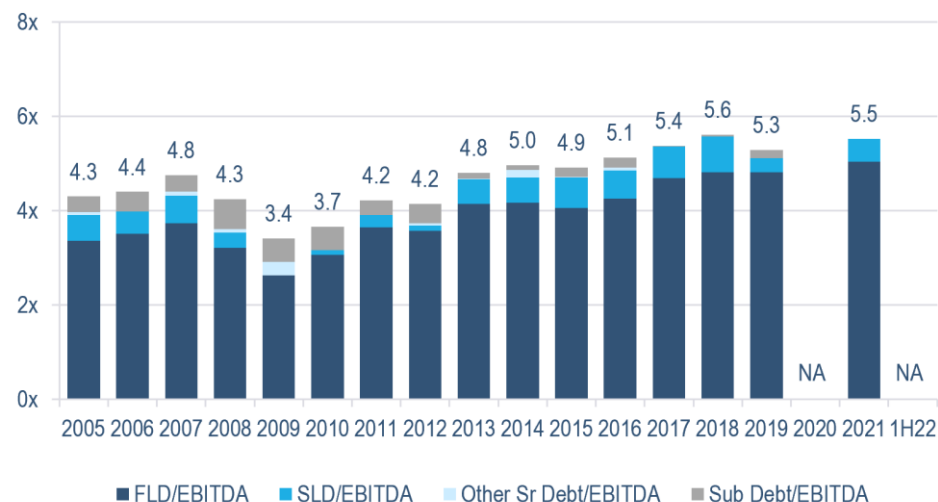
[2] Count of ratings action in S&P/LSTA Leveraged Loan Index

CAPITAL MARKET PERSPECTIVES

COMMENTARY

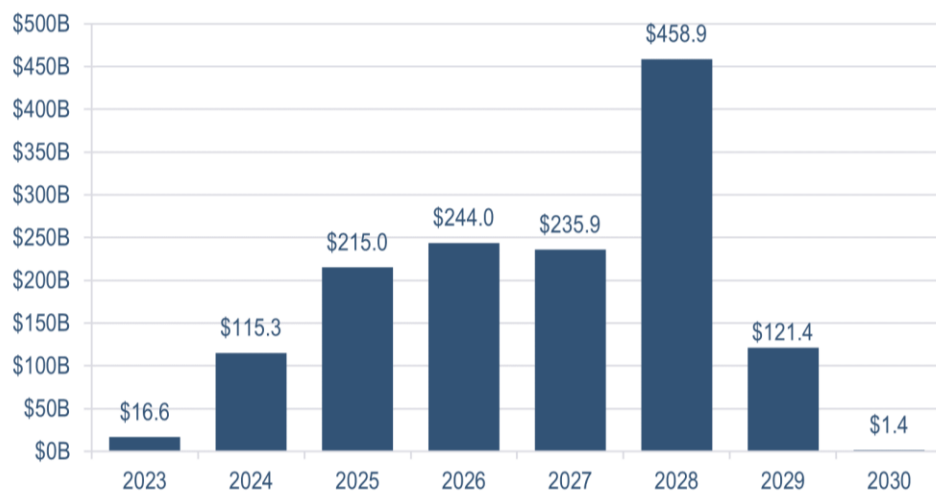
- Amend-and-extend volume soared to \$27.4 billion in June, the highest level in more than a year, according to LCD. Despite this surge, amend-and-extend volume of \$58.4 billion in the first six months of 2022 was still below the \$61.5 billion total for the year-ago comparable period
- Private credit providers continue to pick up business as syndicated loan arrangers stuck to the sidelines in the second quarter. Recent deal activity demonstrates that private debt providers have migrated from smaller deals and now include larger transactions
- Borrowers have been targeting 2023 and 2024 maturities this year, extending \$22 billion and \$12.2 billion of debt, respectively. Debt due in 2026 has also been in focus, with borrowers extending \$11.3 billion of that debt
- The volume of loans due in 2022-2024 fell by approximately \$6.7 billion between the end of May and the end of June, to roughly \$132 billion, against a backdrop of \$1.4 trillion in outstanding loan paper
- Borrowers this year have also been focused on making the switch from LIBOR to SOFR as the benchmark interest rate in their credit facilities

Middle Market Leverage Multiples



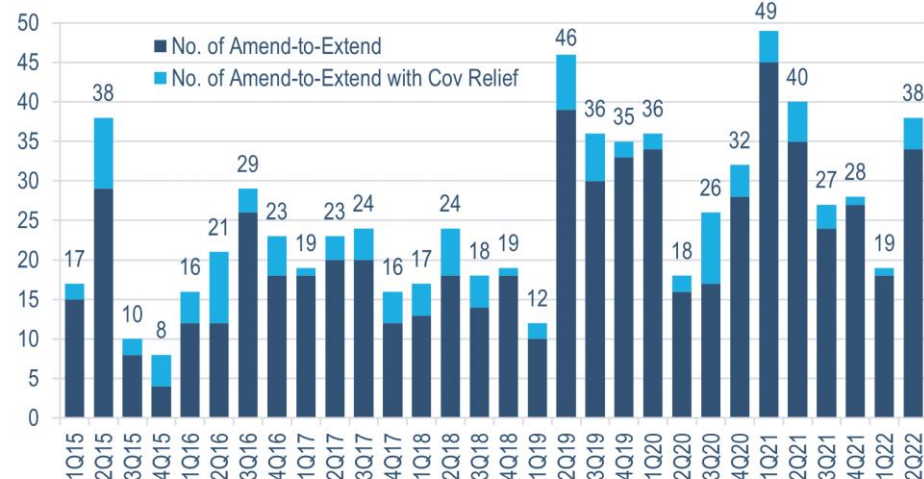
Note: FLD is abbreviation for "first lien debt" and SLD is abbreviation for "second lien debt"
Source: Pitchbook | LCD

Current Loan Maturities by Year



Source: Pitchbook | LCD

Amend & Extends



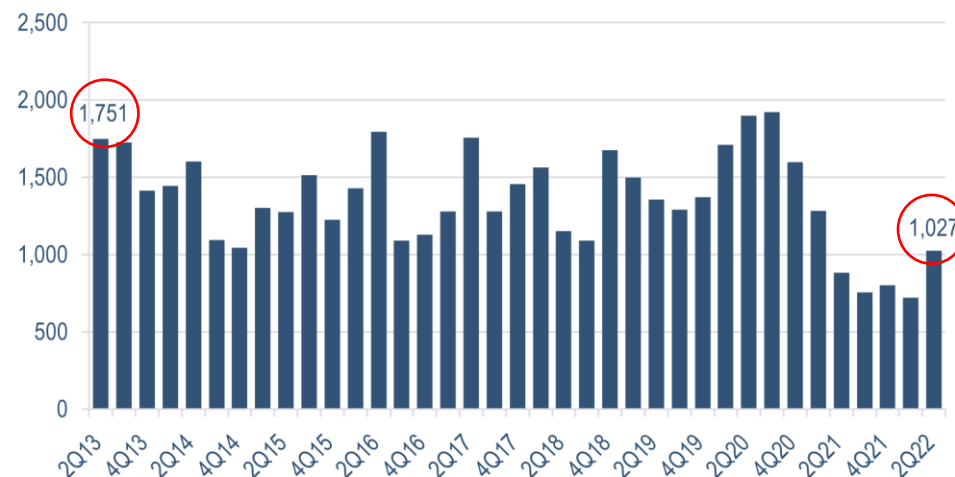
Source: Pitchbook | LCD

BANKRUPTCY TRENDS

COMMENTARY

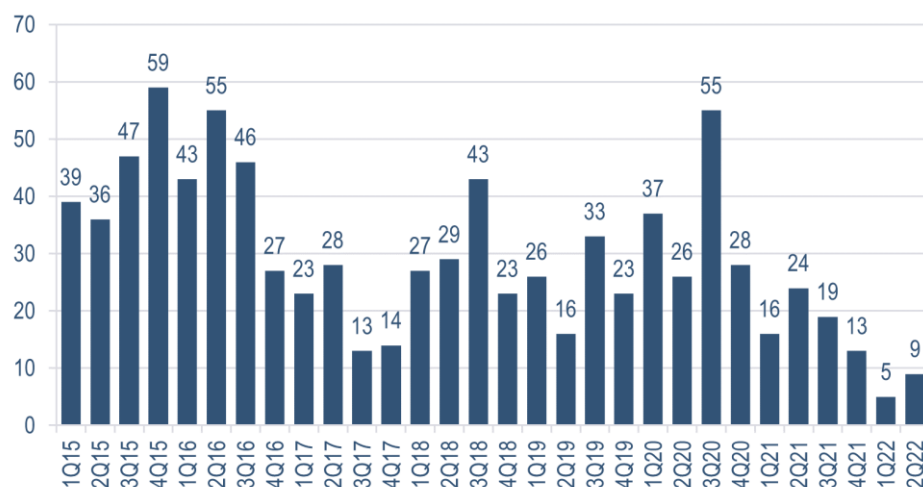
- Although remaining below last year's totals due largely to government support packages provided in response to COVID-19, Epiq reports that bankruptcy filings have started to increase in Q2 2022 and total just over 1,000
- Turbulence in the market including inflation concerns, labor shortages in key industries, and a downward shift in housing prices all point toward increased bankruptcies in the months ahead
- June 2022 was the first month since April 2021 to record at least 30 cases (up from the 2022 monthly average of 18.2) and the first month since March 2021 to tally at least 10 cases with more than \$100 million in liabilities (up from the 2022 monthly average of 3.2)

Chapter 11 Filings



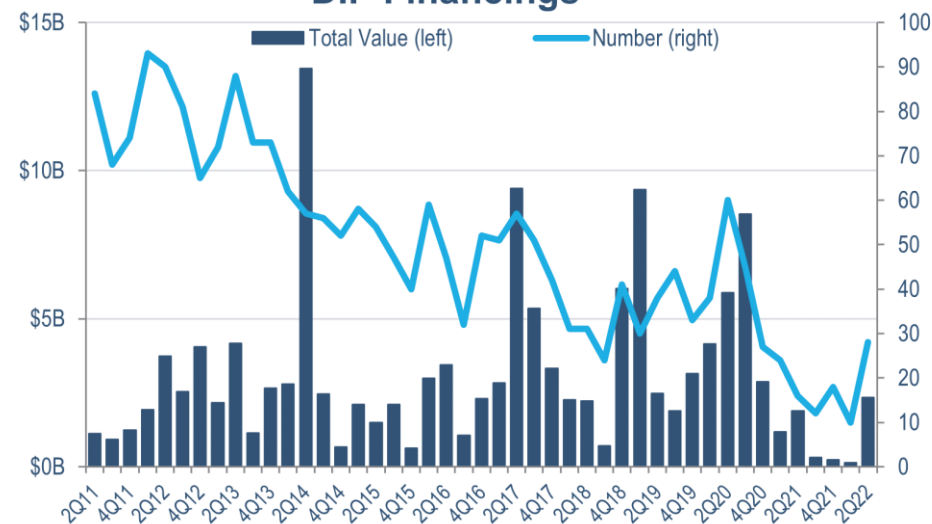
Source: American Bankruptcy Institute / Epiq

Section 363 Sales



Source: Reorg and SOLIC Research

DIP Financings



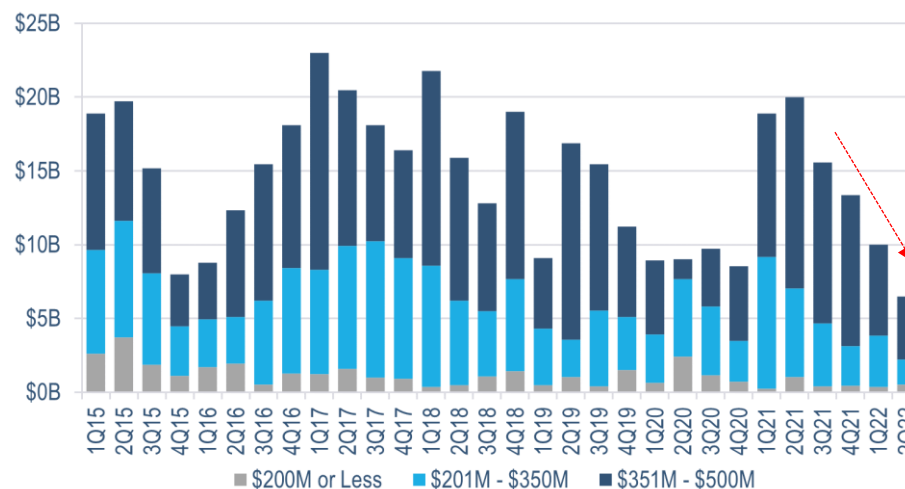
Source: Reorg and SOLIC Research

LEVERAGED LOAN TRENDS

COMMENTARY

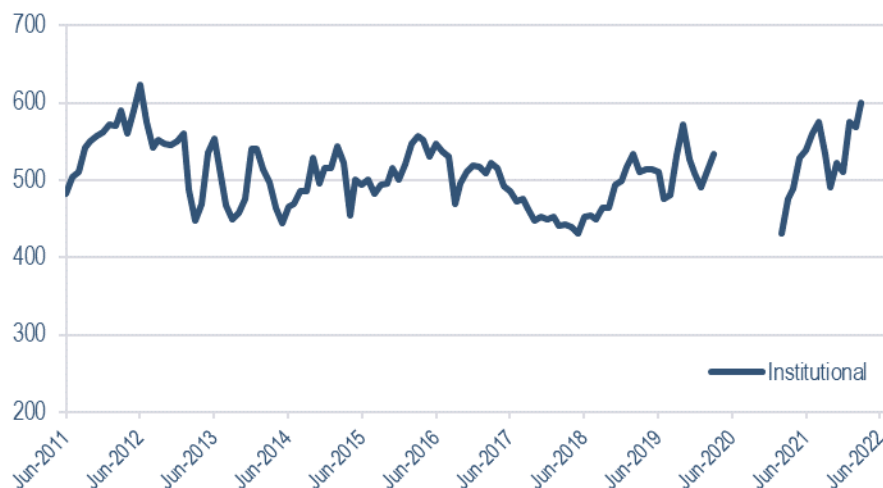
- Q2 2022 origination volumes plummeted with market participants worried about inflation, rising rates, the potential for recession, supply chain issues and the ongoing war in Ukraine
- Middle market loan issuance in Q2 2022 was down almost 40% from the prior quarter to \$6.0 billion
- Institutional loan volume in Q2 2022 was \$55.1 billion, the lowest output since Q2 2020, when the market was overcome by the onset of Covid-19
- Total U.S. leveraged loan volume in Q2 2022, including pro rata issuance, was \$100 billion, a six-quarter low
- Challenging times for new issues were reflected in average pricing; spreads for new institutional term loans from B/B+ rated borrowers rose steadily through the quarter
- The average spread in June was the highest it has been since late 2018/early 2019; the average spread on B/B+ rated institutional middle market loans rising to ~600 bps by end of Q2 2022
- During the quarter, SOFR became the standard reference rate for new issues in the institutional loan market, and all issuance in Q2 2022 (excluding add-ons) tied to the benchmark

Middle Market Loan Issuance



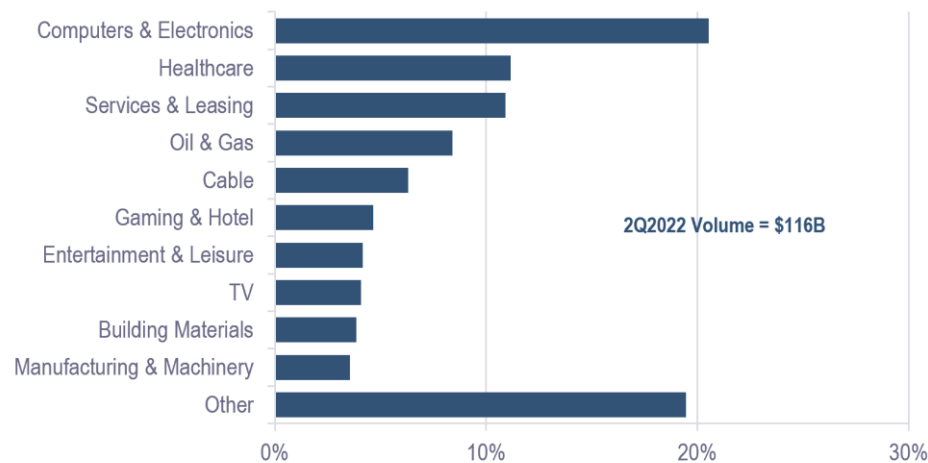
Source: Pitchbook | LCD

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
Armstrong Flooring Inc.	Construction	05/09/2022	\$30.0	11% Fixed	2	None, Fixed
Corsicana Bedding LLC	Consumer Products	06/25/2022	\$40.0	3.8%	4	Prime
Enjoy Technology Inc.	Technology	06/30/2022	\$55.0	12% PIK	3	None, Fixed
First Guaranty Mortgage Corp.	Financial Services	06/30/2022	\$41.6	11% PIK	5	None, Fixed
GWG Holdings Inc.	Financial Services	04/20/2022	\$65.0	9.0%	8	Prime
MD Helicopters Inc	Aerospace & Defense	04/12/2022	\$60.0	8.5% Fixed	1	Libor
Stimwave Technologies Inc.	Healthcare	06/15/2022	\$40.0	10% PIK	4	None, Fixed
Sungard AS New Holdings LLC	Financial Services	04/11/2022	\$335.9	8.5%	4	Libor
Talen Energy Supply LLC	Energy	05/10/2022	\$1,300.0	4.8%	18	SOFR
TPC Group Inc.	Chemicals	06/01/2022	\$344.0	6.8%	9	Prime

Selected Section 363 Sales

Date	Target	Buyer	Industry	Deal Value (\$ in millions)
05/23/2022	Christian Care Centers Inc.	North Texas Benevolent Holdings LLC	Health Care	\$44.3
06/25/2022	Corsicana Bedding	Blue Torch Finance	Consumer Discretionary	\$125.2
04/11/2022	Ector County Energy Center	Rockland Capital	Utilities	\$91.3
04/24/2022	EYP Group Holdings Inc.	Ault Alliance Inc.	Consumer Discretionary	\$67.7
05/06/2022	Fairport Baptist Homes	Rochester Friendly Home	Health Care	\$8.3
06/22/2022	Gold Standard Baking	37 Baking Holdings LLC	Consumer Staples	\$20.0
05/15/2022	Pareteum Corp.	Circles MVNE Pte. Ltd. and Channel Ventures Group LLC	Communication Services	\$60.0
5/31/2022	Rockall Energy Holdings	Formentera Partners	Energy - Oil Production	\$85.0
06/15/2022	Stimwave Technologies Incorporated	Kennedy Lewis	Health Care - Medical Devices	\$39.3

Source: Reorg and SOLIC Research

SOLIC Representative Engagements

HEALTHCARE	 \$190,000,000 Debt Restructuring Operational Restructuring Executive Chairman Restructuring Advisor	 \$156,000,000 Operational Restructuring Interim Management Restructuring Advisor	 \$690,600,000 Sale of Assets on behalf of MedCath Corporation (Nasdaq: MDTH) Sell Side Advisor	 \$200,000,000 Recapitalization Restructuring Advisor
	 \$300,000,000 Loehmann's Holdings, Inc. has been acquired by ESTITHMAR (NYSE: MAT) Sell Side Advisor	 \$232,000,000 Radica Games Limited (Nasdaq: RADG) has been acquired by MUTEL, Inc. (NYSE: MAT) Sell Side Advisor	 \$89,000,000 Investment Banking Restructuring Advisor	 \$165,000,000 Debt Restructuring Restructuring Advisor
	 \$5,000,000,000 Pre-Filing Secured Indebtedness Restructuring Advisor	 \$750,000,000 Assets under Management Restructuring Advisor	 \$4,500,000,000 of Assets Restructuring Advisor	 \$450,000,000 Assets under Management Restructuring Advisor
	 \$40,000,000,000 Financial Advisor	 Pre Restructuring Invested Capital of Over \$800,000,000 Restructuring Advisor	 \$240,600,000 Restructured Debt Restructuring Advisor	 \$13,100,000 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
MANUFACTURING, BUSINESS SERVICES, OTHER	 Morton Custom Plastics Financial Advisor	 Tensar Corporation completed a capital restructuring of \$280,000,000 of senior debt and \$100,000,000 of subordinated debt Restructuring Advisor	 Operational Restructuring acquired by Investment Group led by John Paul de Joria and medica acquired by Joshua Partners, LLC Restructuring Advisor	 Capital Restructuring 2008: \$289,800,000 2015: \$259,400,000 Sale to Wynnchance Capital 2018: \$250,000,000 Financial Advisor
	 \$118,000,000 Sale of senior notes secured by property located at 610 Lexington Avenue New York Sell Side Advisor	 \$212,320,000 Debt Restructuring The Westland Project Albuquerque, New Mexico Restructuring Advisor	 \$87,000,000 Debt Restructuring for the Illinois Tollway Oasis Project Restructuring Advisor	 \$500,000,000 Senior & Mezzanine Debt Restructuring related to 19 Master Planned Communities Restructuring Advisor
REAL ESTATE AND INFRASTRUCTURE				

NOTES

SOURCES

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

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