

# CAPITAL RESTRUCTURING PERSPECTIVES



Quarterly Update  
Second Quarter 2023

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# DISTRESSED MARKET INDICATORS

## KEY HIGHLIGHTS

- In the first half of 2023, the U.S. leveraged loan market faced tightening credit conditions, a weakening M&A pipeline, and rising debt costs amid rate increases that came at the fastest pace in decades
- Bankruptcies and payment misses increased at record breaking speed over the past six months, the largest increase to the 12-month trailing rate since the 2020 wave of Covid-19 related defaults
- At 1.71% in Q2 2023, loan default rates climbed close to the 10-year historical average of 1.87%
- Per LCD data, the distressed cohort of performing index loans, defined as loans trading below 80% of par, eased slightly in June and totaled \$83 billion
- Credit quality of outstanding loans continues to deteriorate — a record 36% of index loans belong to borrowers rated B-minus or lower in Q2 2023
- Other indications of stress in the quarter include falling interest-coverage ratios, high distress ratios within the Healthcare, Retail and Software sectors, and increased downgrade-to-upgrade ratios with loan downgrades outpacing upgrades for a 13th consecutive month in June (on a rolling three-month basis)

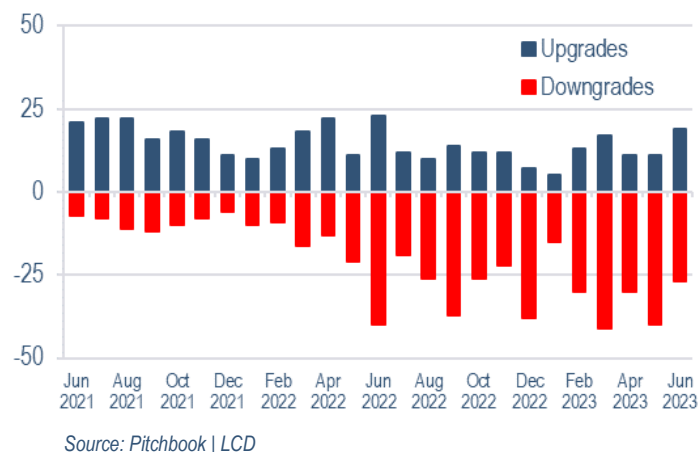
### S&P Default Rate



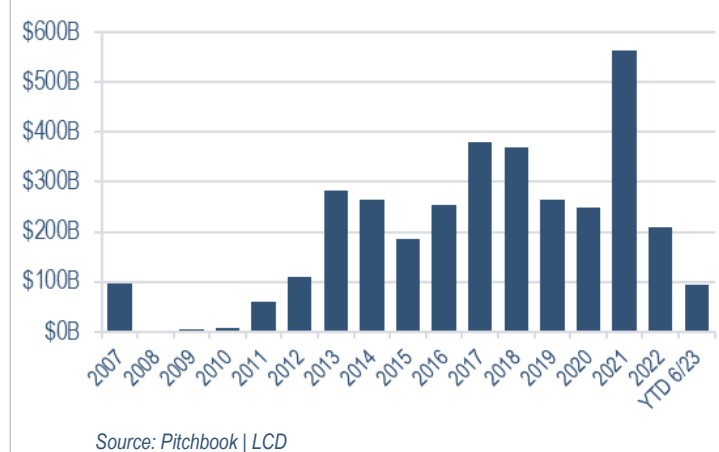
### Distress Ratio<sup>[1]</sup>



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



### Covenant-Lite Loan Issuance



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

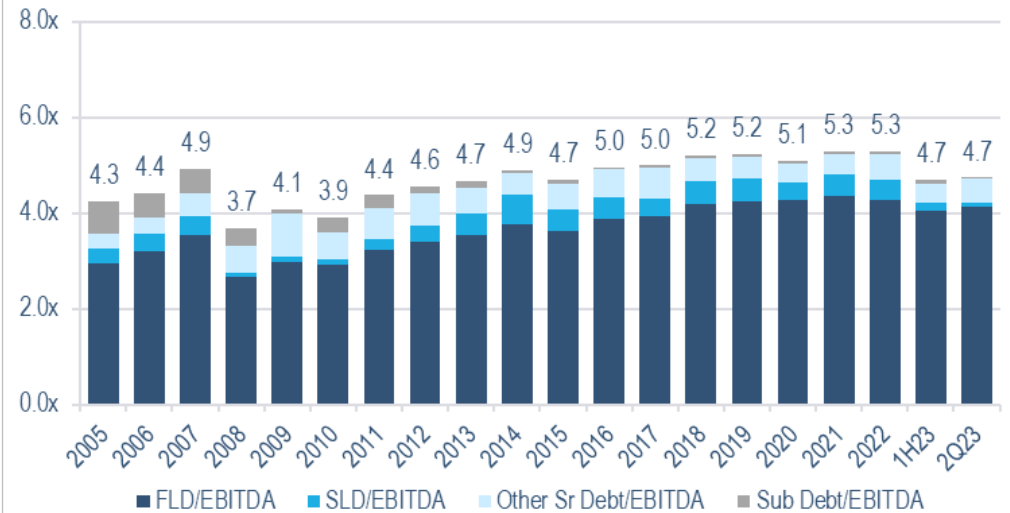
[2] Count of ratings action in S&P/LSTA Leveraged Loan Index

# CAPITAL MARKET PERSPECTIVES

## COMMENTARY

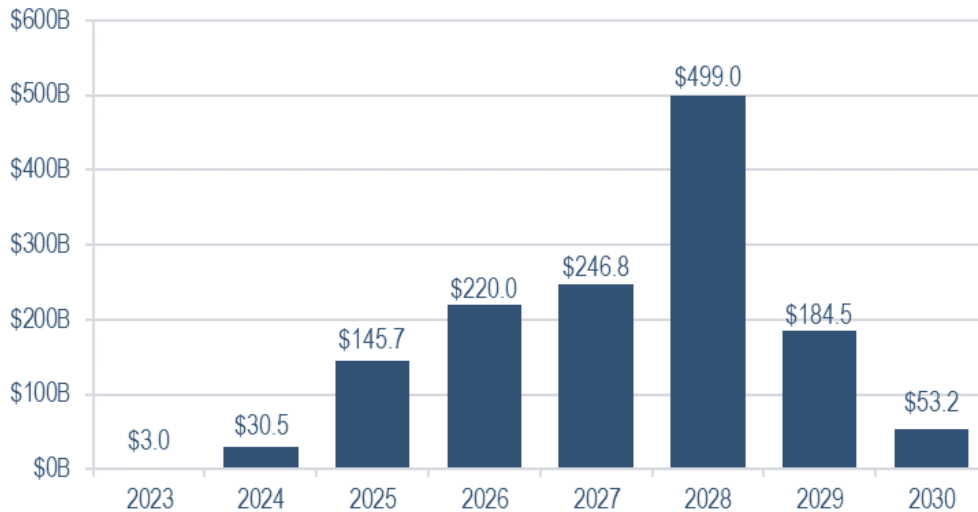
- The continued increase in the cost of capital matched a corresponding contraction in leverage multiples with Q2 2023 average leverage multiples down to 4.7x, compared with 5.3x at the end of 2022
- Amid the lack of new supply and tightening credit conditions, borrowers reduced 2024 maturities by more than 50% as of June 30, 2023 to \$30.5 billion, and 2025 maturities by 26% to \$145.7 billion
- However, the amount of loans coming due in the next two to three years remains more than any other comparable period at the Q2 marker (since 1999) and 52% of those loans coming due in the next two years belong to borrowers rated B-minus (and lower)
- The number of amend-and-extends remains high as compared to historical periods as investors have been increasingly willing to extend maturities in exchange for some partial principal repayments, higher coupons, pledges of additional collateral, and other credit enhancements

## Average Leverage Multiples



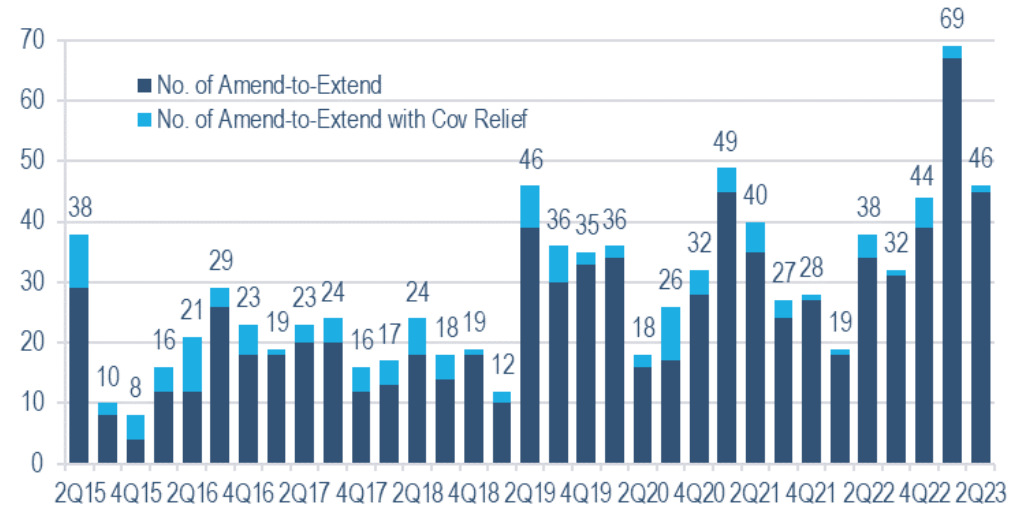
Note: FLD is abbreviation for "first lien debt" and SLD is abbreviation for "second lien debt"  
Source: Pitchbook | LCD

## Current Loan Maturities by Year



Source: Pitchbook | LCD

## Amend & Extends



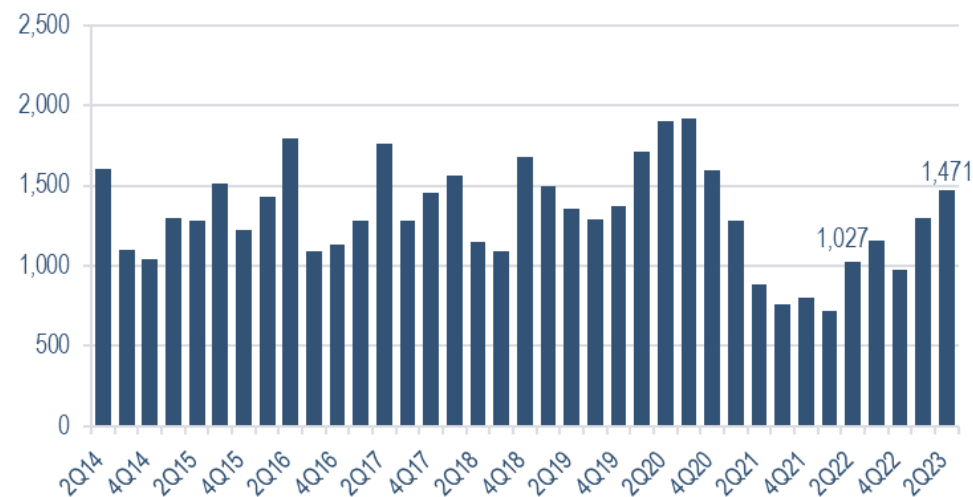
Source: Pitchbook | LCD

# BANKRUPTCY TRENDS

## COMMENTARY

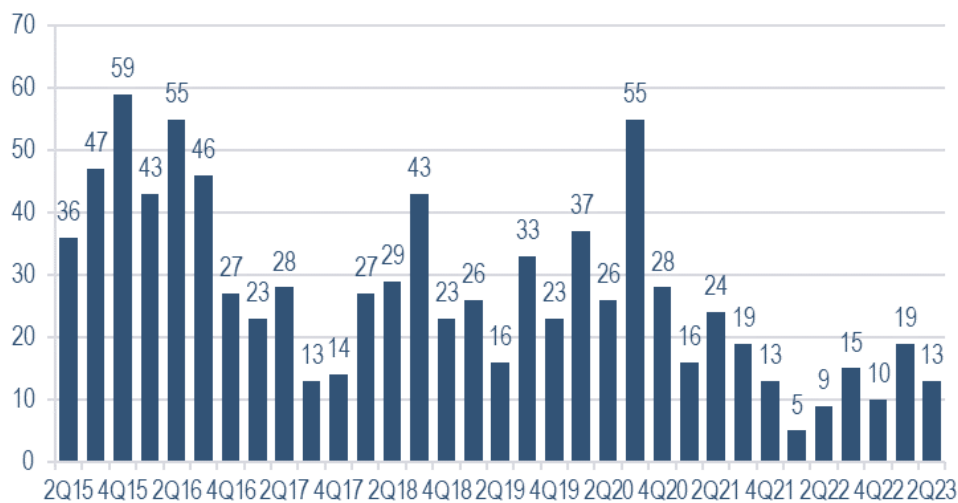
- Highest interest rates in over two decades, sticky inflation, and high leverage from pre-pandemic era led to a 40% jump in Chapter 11 bankruptcy filings in Q2 2023 as compared to the same period a year prior
- A total of 1,471 commercial Chapter 11 bankruptcies were filed in Q2 2023, up from 1,027 in Q2 2022
- Large companies have sought bankruptcy protection at a faster pace this year as they struggle to meet rising costs and shifts in consumer spending
- Chapter 11 cases of businesses with at least \$100 million in debt or assets totaled at least 82 through June, up from 29 and 43 in the same periods of 2022 and 2021, respectively
- Distress in healthcare is outpacing any other industry and through the first half 2023, there was approximately the same number of healthcare Chapter 11 filings as full year 2022
- During the quarter, national hospital-based physician group Envision Healthcare filed one of the largest healthcare Chapter 11 bankruptcy cases in recent history with over \$7 billion in debt and cancer treatment company GenesisCare also filed Chapter 11 with almost \$2 billion in debt

## Chapter 11 Filings



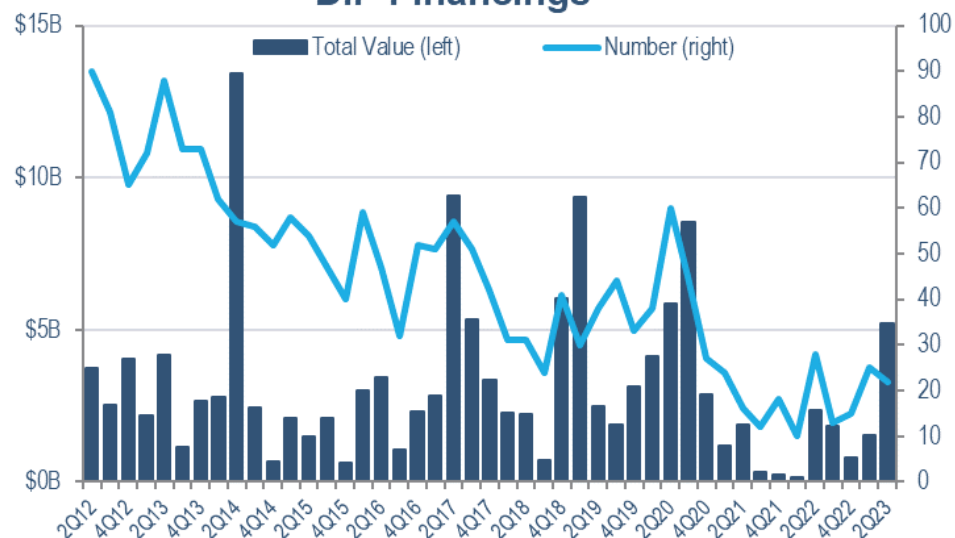
Source: American Bankruptcy Institute / Epiq

## Section 363 Sales



Source: Reorg and SOLIC Research

## DIP Financings



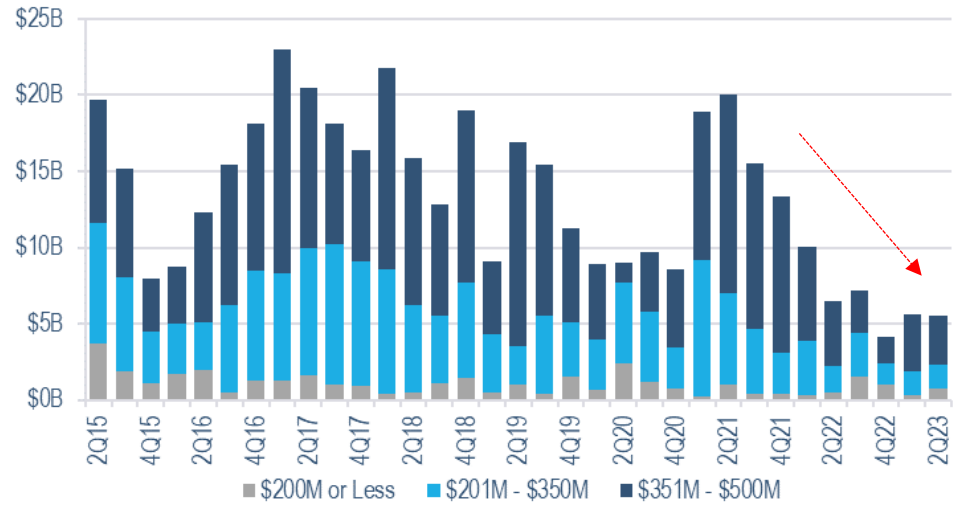
Source: Reorg and SOLIC Research

# LEVERAGED LOAN TRENDS

## COMMENTARY

- Total middle market new issue loan originations were \$5.5 billion in Q2 2023, up from \$4.2 billion in Q4 2022, but one of the lowest quarters since at least early 2015
- Primary activity was dominated by refinancings and amend-to-extend deals representing 25.1% and 48.9%, respectively of U.S. Institutional Loan Volume
- The weighted average bid of U.S. Leveraged Loans has seesawed in a roughly 230 bps range in 2023, with a low point of 92.4 and a high point of 94.7

## Middle Market Loan Issuance



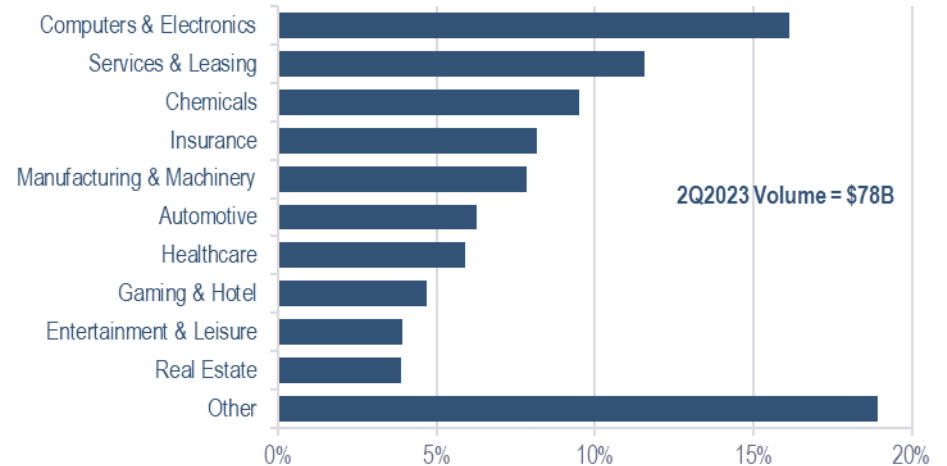
Source: Pitchbook | LCD

## 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

DIP Date	Debtor	Industry	Amount (\$ in millions)	Applicable Margin	Maturity	Reference Rate
04/11/2023	AmeriMark Interactive, LLC	Consumer	\$48.0	4.8%	1 month	Fixed
04/23/2023	Bed Bath & Beyond	Consumer	\$240.0	8.0%	4 months	SOFR ABR
05/22/2023	Benefytt Technologies, Inc.	Healthcare	\$39.0	12.0%	6 months	Fixed
06/11/2023	Center for Autism and Related Disorders, LLC	Healthcare	\$51.0	10.0% PIK	80 days	SOFR
05/05/2023	Christmas Tree Shops, LLC	Consumer	\$45.0	8.0%	6 months	SOFR Base Rate
06/04/2023	Cytxera Technologies, Inc.	Info Tech	\$200.0	8.5%	6 months	SOFR ABR
04/17/2023	David's Bridal, LLC	Consumer	\$85.0	3.0% & 12.5% PIK	4 months	Fixed
06/01/2023	Diebold Nixdorf, Inc	Info Tech	\$1,250.0	7.5%	4 months	SOFR ABR
06/01/2023	Genesis Care Pty Limited	Healthcare	\$800.0	10.0%	12 months	SOFR
04/05/2023	Inmet Mining, LLC	Energy	\$90.0	10.0%	2 months	Fixed
06/12/2023	Instant Brands Acquisition Holdings Inc.	Consumer	\$257.0	7.5%	6 months	SOFR
06/16/2023	KDC Agribusiness LLC	Consumer	\$30.0	12.0%	9 months	Fixed
06/08/2023	Lucky Bucks, LLC	Consumer	\$82.0	10.0%	4 months	SOFR
05/14/2023	MLCJR LLC	Energy	\$345.0	2.8% & 10.0% PIK	6 months	Prime Rate
05/15/2023	Monitronics International, Inc.	Industrials	\$387.0	7.0%	6 months	SOFR Base Rate
06/04/2023	Progrexion	Financials	\$63.0	8.5%	105 days	SOFR
05/24/2023	QualTek Services Inc.	Industrials	\$208.0	4.0% & 11.0% PIK	3 months	SOFR
06/14/2023	The Rockport Company, LLC	Consumer	\$77.0	6.5%	3 months	SOFR
05/14/2023	Venator Materials PLC	Materials	\$465.0	10.0%	4 months	SOFR
05/15/2023	Vice Group	Communications	\$60.0	12.0% PIK	6 months	SOFR Base Rate
04/04/2023	Virgin Orbit Holdings, Inc.	Industrials	\$74.0	12.0% & 18.0% PIK	3 months	Fixed
06/01/2023	Wesco Aircraft Holdings, Inc.	Industrials	\$300.0	8.5%	9 months	SOFR

## Select Section 363 Sales

Date	Target	Buyer	Industry	Deal Value (\$ in millions)
04/11/2023	AmeriMark Interactive LLC	Midwest Catalog Brands LLC, SLR-AMI Acquisition SPV LLC	Consumer	\$97.0
05/14/2023	Athenex Inc.	Oaktree Strategic Credit Asset Holdings LLC, Sagent Pharmaceuticals, C-MER Specialty Group Limited	Healthcare	\$36.5
04/23/2023	Bed Bath & Beyond	Overstock.com Inc., Dream 545 Weston Canal Road LLC	Consumer	\$37.0
04/02/2023	Boxed Inc.	SPRESSO LLC, MSG Distributors Inc.	Consumer	\$27.9
04/05/2023	Inmet Mining LLC	Bluegrass Energy LLC, Coking Coal LLC	Energy	\$59.5
05/16/2023	Lifesize Inc.	Enghouse Interactive Inc.	Communications	\$20.7
04/07/2023	Pear Therapeutics Inc.	Nox Health Group Inc., Harvest Bio LLC	Healthcare	\$5.9
06/13/2023	Pill Club Pharmacy Holdings LLC	Thirty Madison Inc.	Business Services	\$32.3
04/13/2023	PLx Pharma Inc.	PLx Acquisition Company LLC	Healthcare	\$3.1
04/24/2023	Silver Creek Industries LLC	Silver Creek Modular LLC	Industrials	\$17.6
04/27/2023	Tritek International Inc.	Premium Iowa Pork LLC, AgriSwine Alliance Inc., Compeer Financial PCA & Compeer Financial FLCA	Consumer	\$16.2
05/15/2023	Vice Group Holding Inc.	Vice Acquisition Holdco LLC	Communications	\$350.0
04/04/2023	Virgin Orbit Holdings Inc.	Stratolaunch LLC, Rocket Lab USA Inc., Firefly Aerospace Inc., Launcher Inc.	Industrials	\$39.6

Source: Reorg and SOLIC Research

## SOLIC Representative Engagements

<b>HEALTHCARE</b>	<p>\$190,000,000</p> <p><b>Yonder Living Care</b></p> <p>Debt Restructuring</p> <p>Operational Restructuring</p> <p>Executive Chairman</p> <p>Restructuring Advisor</p>	<p>\$156,000,000</p> <p><b>SUMNER</b></p> <p>Regional Health Systems, Inc.</p> <p>Operational Restructuring</p> <p>Interim Management</p> <p>Restructuring Advisor</p>	<p>\$690,600,000</p> <p>Sale of Assets on behalf of</p> <p><b>MedCath</b></p> <p>MedCath Corporation (Nasdaq: MDTH)</p> <p>Sell Side Advisor</p>	<p>\$200,000,000</p> <p>Recapitalization</p> <p><b>PRIMECARE</b></p> <p>Restructuring Advisor</p>
<b>RETAIL AND CONSUMER PRODUCTS</b>	<p>\$300,000,000</p> <p><b>LOEHMANN'S</b></p> <p>Loehmann's Holdings, Inc. has been acquired by</p> <p><b>ISTITHMAR</b></p> <p>ISTITHMAR GROUP HOLDINGS</p> <p>IstithmarPLSC</p> <p>Sell Side Advisor</p>	<p>\$232,000,000</p> <p><b>RADICA</b></p> <p>Radica Games Limited (Nasdaq: RADA) has been acquired by</p> <p><b>Mattel, Inc.</b> (NYSE: MAT)</p> <p>Sell Side Advisor</p>	<p>\$89,000,000</p> <p><b>Sur La Table</b></p> <p>THE ART &amp; SOUL OF COOKING</p> <p>Investment Banking</p> <p>Restructuring Advisor</p>	<p>\$165,000,000</p> <p>Debt Restructuring</p> <p><b>HARTZ</b></p> <p>Restructuring Advisor</p>
<b>FINANCIAL SERVICES</b>	<p>\$5,000,000,000</p> <p>Pre-Filing Secured</p> <p>Indebtedness</p> <p><b>TB&amp;W</b></p> <p>Restructuring Advisor</p>	<p>\$750,000,000</p> <p>Assets under Management</p> <p><b>SageCrest II, LLC</b></p> <p>Restructuring Advisor</p>	<p>\$4,500,000,000</p> <p>of Assets</p> <p><b>SENTINEL</b></p> <p>SENTINEL MANAGEMENT GROUP OF INC.</p> <p>Restructuring Advisor</p>	<p>\$450,000,000</p> <p>Assets under Management</p> <p><b>Bayou Funds</b></p> <p>Restructuring Advisor</p>
<b>ENERGY</b>	<p>\$40,000,000,000</p> <p><b>Energy Future Holdings</b></p> <p>Financial Advisor</p>	<p>Pre Restructuring</p> <p>Invested Capital of Over \$800,000,000</p> <p><b>BOSQUET POWER COMPANY</b></p> <p>Restructuring Advisor</p>	<p>\$240,600,000</p> <p>Restructured Debt</p> <p><b>VAREL INTERNATIONAL</b></p> <p>Restructuring Advisor</p>	<p>\$13,100,000</p> <p>has consummated an Institutional Private Placement of Series A Senior Preferred Units</p> <p><b>Alexin, LLC</b></p> <p>with Term Loan and Revolving Credit Facilities \$30,000,000</p> <p>Financial Advisor</p>
<b>MANUFACTURING, BUSINESS SERVICES, OTHER</b>	<p><b>MORTON</b></p> <p>Morton Custom Plastics</p> <p>Financial Advisor</p>	<p><b>Tensor</b></p> <p>Tensor Corporation completed a capital restructuring of</p> <p>\$280,000,000 of senior debt and</p> <p>\$100,000,000 of subordinated debt</p> <p>Restructuring Advisor</p>	<p>Operational Restructuring</p> <p><b>Boschi Laboratories, Inc.</b></p> <p>acquired by Investment Group led by John Paul de Joria</p> <p><b>medicia</b></p> <p>acquired by Joshua Partners, LLC</p> <p>Restructuring Advisor</p>	<p>Heartland Automotive Holdings, Inc. Heartland Automotive Services America's Largest City, Local Franchises</p> <p><b>Capital Restructuring</b></p> <p>2008: \$289,800,000 2015: \$259,400,000</p> <p>Sale to Wynnchurch Capital 2018: \$250,000,000</p> <p><b>jiffylube</b></p> <p>Financial Advisor</p>
<b>REAL ESTATE AND INFRASTRUCTURE</b>	<p>\$118,000,000</p> <p>Sale of senior notes secured by property located at 610 Lexington Avenue New York</p> <p><b>610 LEX</b></p> <p>Sell Side Advisor</p>	<p>\$212,320,000</p> <p>Debt Restructuring</p> <p><b>SunCal Companies</b></p> <p>The Westland Project Albuquerque, New Mexico</p> <p>Restructuring Advisor</p>	<p>\$87,000,000</p> <p>Debt Restructuring for the Illinois Tollway Oasis Project</p> <p><b>WILTON PARTNERS</b></p> <p>REAL ESTATE DEVELOPMENT</p> <p>Restructuring Advisor</p>	<p>\$500,000,000</p> <p>Senior &amp; Mezzanine Debt Restructuring related to 19 Master Planned Communities</p> <p><b>DE Shaw &amp; Co</b></p> <p>Restructuring Advisor</p>

# 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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