

# CAPITAL RESTRUCTURING PERSPECTIVES



Quarterly Update  
Third Quarter 2023

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# DISTRESSED MARKET INDICATORS

## KEY HIGHLIGHTS

- The S&P default rate was 1.3% in Q3 2023, down from 1.7% in Q2 but still at a multi-year high. Private debt defaults are estimated to reach 5% as the high interest rate environment is becoming a growing challenge
- Per LCD data, the distressed cohort of performing index loans, defined as loans trading below 80% of par for the rolling three month period ended September 2023 averaged 5.01%, up from 4.02% the same period a year prior
- At the end of 2008, before the peak of covenant amendment activity during the Global Financial Crisis, the covenant-lite share of the US Leveraged Loan Index was just 15% — it currently stands at 89%, indicative of the extent of future restructuring requirements
- Private credit shops are expanding their use of restructuring strategies including specifically pay-in-kind debt and preferred equity in the face of sharply higher rates that are putting pressure on borrowers and circumventing immediate repayments, but at the cost of added leverage
- Rating agencies are starting to adjust their outlooks based upon the expected increase in interest payments with September marking the 17th straight month with a negative combined upgrade-to-downgrade ratio
- The above-average default rates are projected a year from now, with the narrative calling less for a dramatic spike, but rather a rate that is elevated for a longer duration
- LCD's 12-month forward forecast for leveraged loan defaults is 2.50%-2.99% — at the 2.75% midpoint, this would push the loan default rate slightly above its 2.70% historical average

### S&P Default Rate



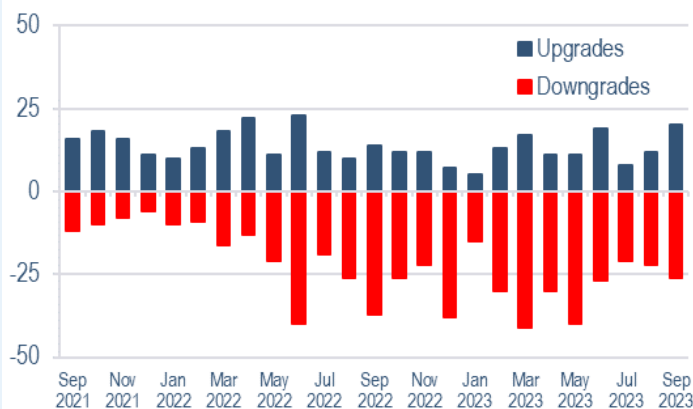
Source: Pitchbook | LCD

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



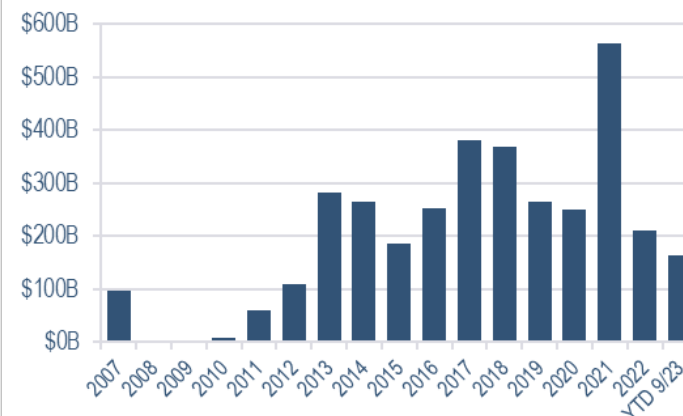
Source: Pitchbook | LCD

### 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)

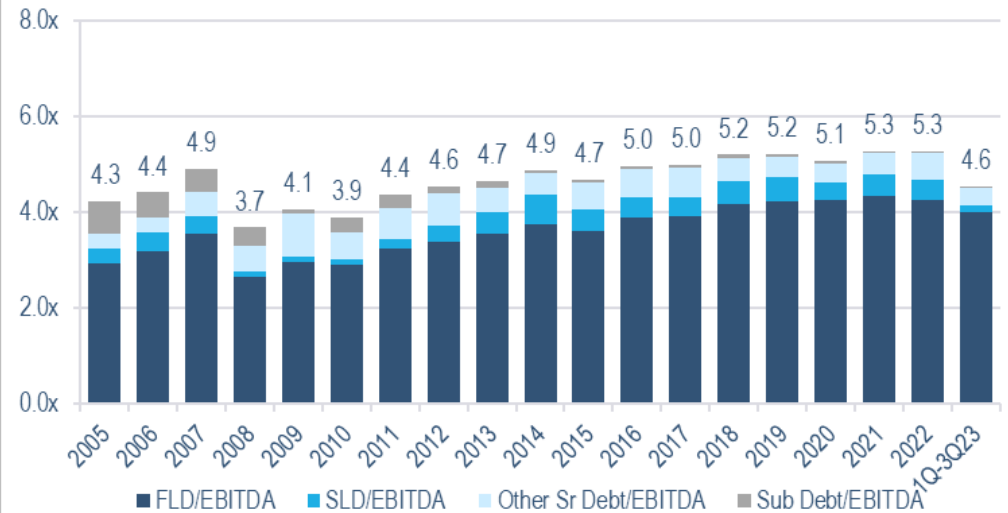
[2] Count of ratings action in S&P/LSTA Leveraged Loan Index

# CAPITAL MARKET PERSPECTIVES

## COMMENTARY

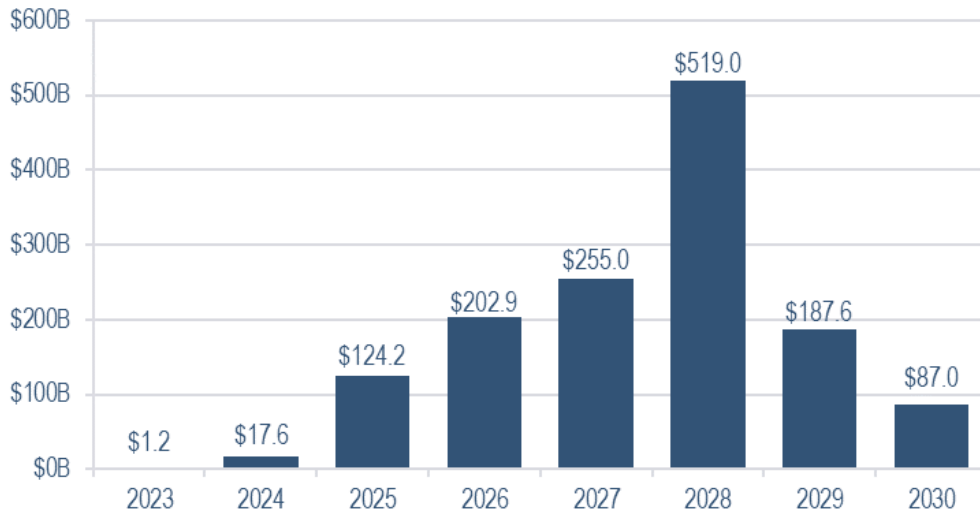
- Q3 repricing and amend & extend volume remains at a multi-year high
- Extensions reached a dollar value post-Global Financial Crisis high, at \$26.6 billion, up from \$13.7 billion in Q2, and repricings surged to their highest dollar level since Q1 of 2021, at \$40.7 billion
- With the heavy extension activity, borrowers have collectively made progress addressing the loan maturity wall - 2024 institutional loan maturities have been reduced from \$74.9 billion at the end of 2022 to \$17.6 billion as of Sept. 29, a drop of 76%
- Most of this progress was made by higher-rated issuers; the B/B+ cohort cut 2024 outstandings by 96%, to \$1.2 billion
- While the syndicated loan market has successfully pushed back maturities to 2025/2026, private debt still has >10% of its deals due next year and another 20% in 2025
- With one third of private debt loans maturing in the next 2.5 years, restructurings and write-downs are likely to increase
- The continued increase in the cost of capital is matched by a corresponding contraction in leverage multiples with Q3 2023 average leverage multiples down to 4.6x, compared with 5.3x at the end of 2022

## Average Leverage Multiples



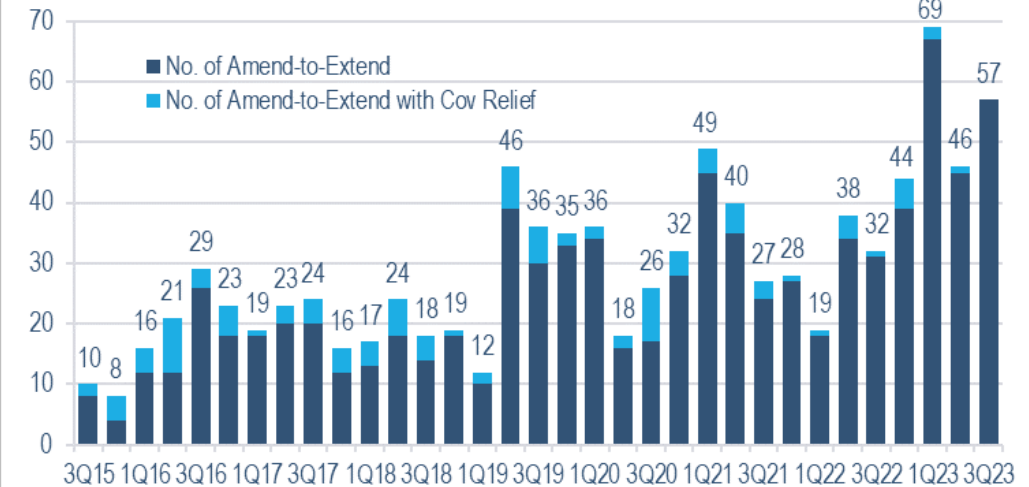
Note: FLD is abbreviation for "first lien debt" and SLD is abbreviation for "second lien debt"  
Source: Pitchbook | LCD

## Current Loan Maturities by Year



Source: Pitchbook | LCD

## Amend & Extends



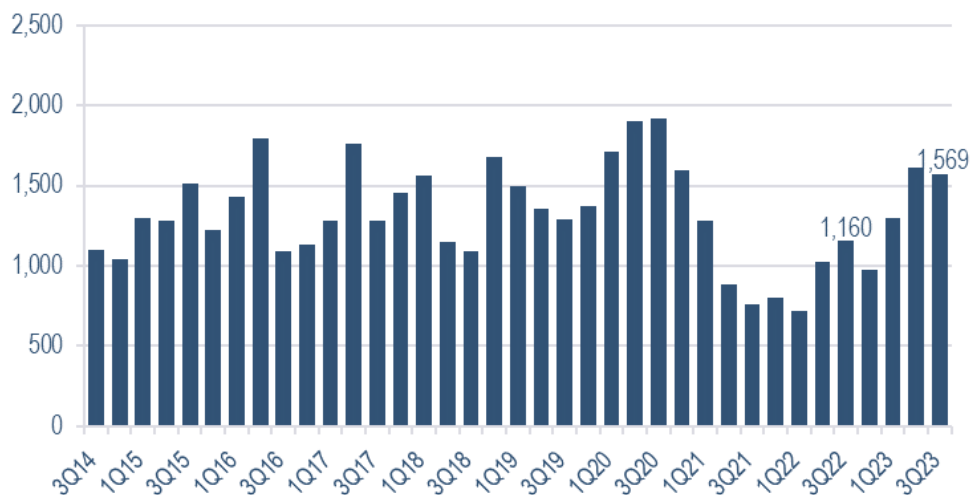
Source: Pitchbook | LCD

# BANKRUPTCY TRENDS

## COMMENTARY

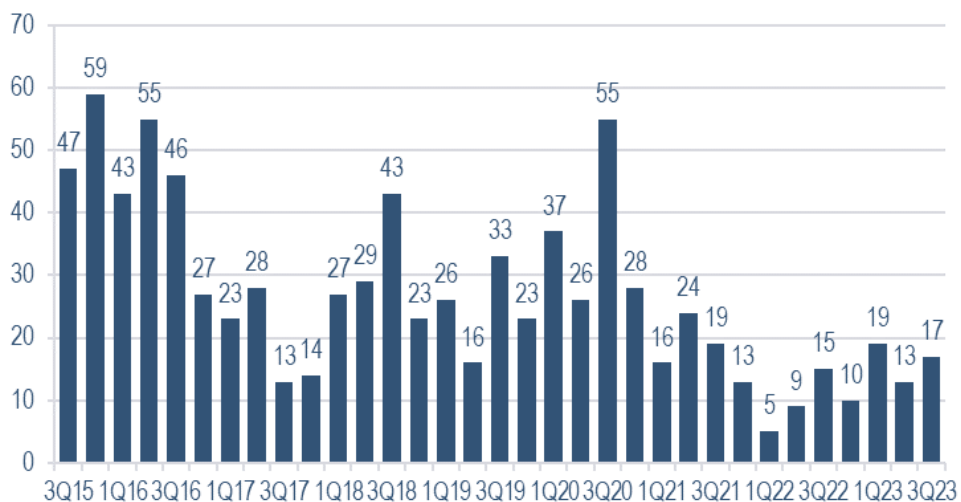
- 1,569 commercial Chapter 11 bankruptcies were filed in Q3 2023, up 35% from the same period a year prior
- For the first nine months of 2023, there have been more corporate bankruptcy filings than in all of 2021 or 2022 as companies continue to face high interest rates and a tight labor market
- SmileDirectClub Inc., Amyris Inc., and Yellow Corp., were the quarter's largest bankruptcies with more than \$1 billion in liabilities
- Healthcare and consumer discretionary sectors have recorded the most bankruptcies thus far in 2023, a trend that is likely to continue for the foreseeable future as staffing costs remain elevated amid tighter operating margins

## Chapter 11 Filings



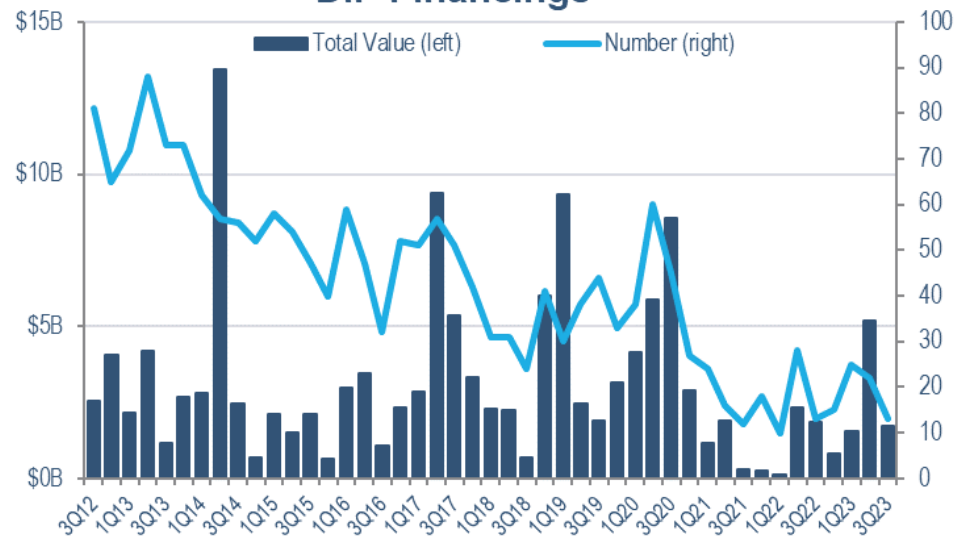
Source: American Bankruptcy Institute / Epiq

## Section 363 Sales



Source: Reorg and SOLIC Research

## DIP Financings



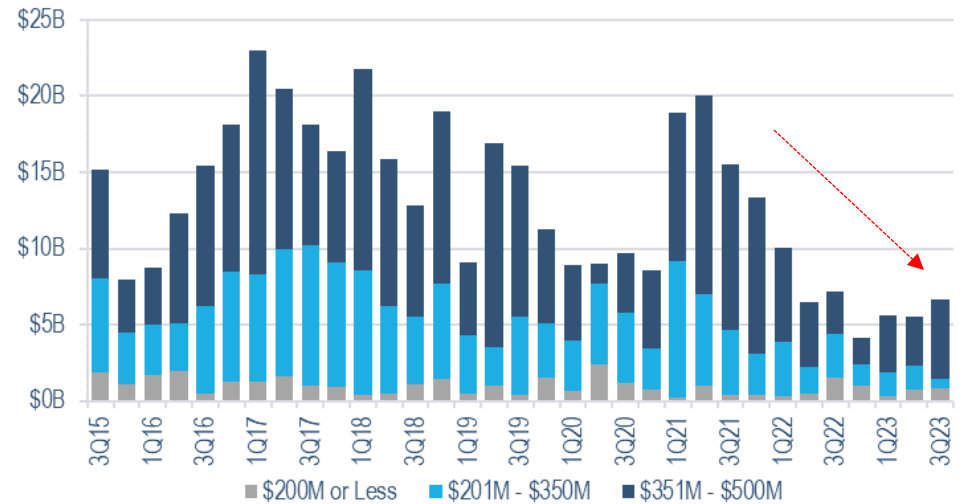
Source: Reorg and SOLIC Research

# LEVERAGED LOAN TRENDS

## COMMENTARY

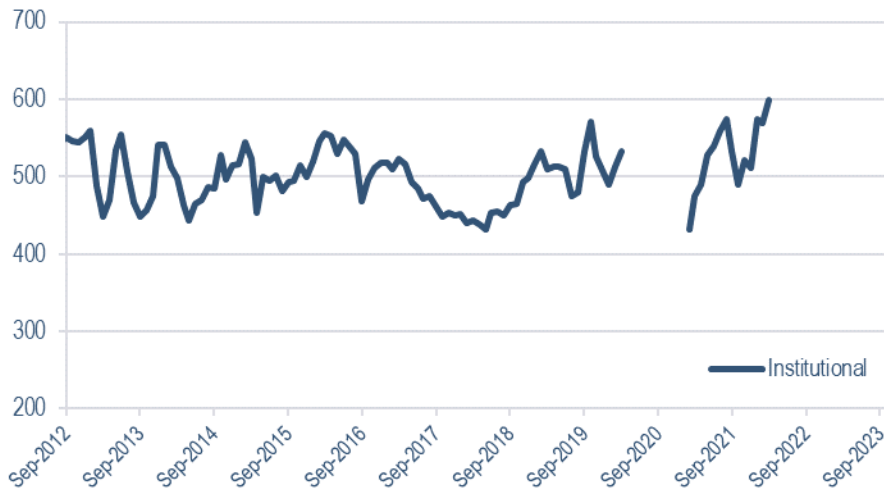
- Middle market new issuances between \$351M - \$500M totaled \$5.3 billion in Q3, the highest mark since the rate-hike onset in Q1 2022 but still significantly below historical volumes
- Total primary market activity totaled \$94.3 billion, with electronics and services/leasing comprising over 35% of the total
- While institutional loans backing M&A rose to almost \$22 billion in Q3, acquisition-related financing still lags historical comparable periods - the \$179 billion issued through the first three quarters of 2023 is the lowest output since 2010, when \$107 billion was issued over the same period

## Middle Market Loan Issuance



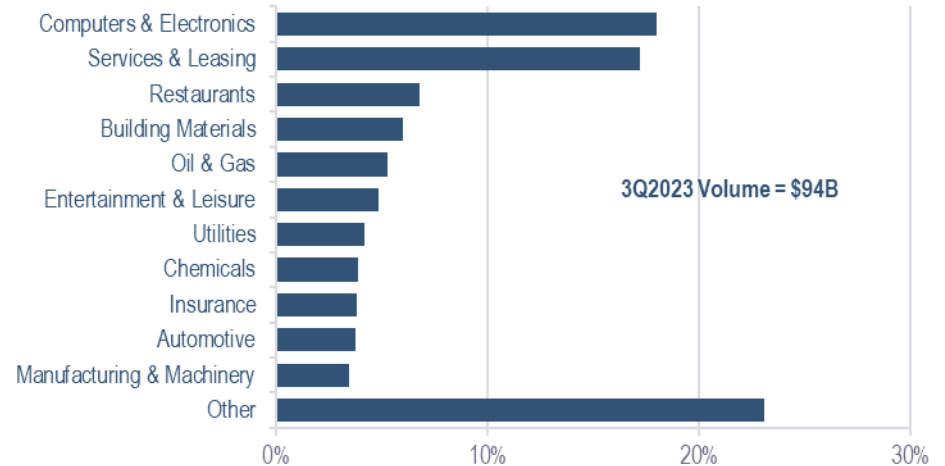
Source: Pitchbook | LCD

## 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 |
|------------|---|------------|-------------------------|-------------------|-----------|----------------|
| 08/28/2023 | Agilethought, Inc.                      | Info Tech  | \$119.0                 | 11.0% PIK         | 3 months  | SOFR           |
| 07/05/2023 | Alpine Summit Energy Partners Inc.      | Energy     | \$46.5                  | 2.0% PIK          | 4 months  | Prime          |
| 08/09/2023 | Amyris, Inc.                            | Industrial | \$190.0                 | 12.0% PIK         | 4 months  | Fixed          |
| 09/27/2023 | Capstone Green Energy Corporation       | Industrial | \$30.0                  | 8.8%              | 1 month   | Fixed          |
| 08/15/2023 | Grupo Hima San Pablo Inc.               | Healthcare | \$39.0                  | 14.0%             | 6 months  | SOFR           |
| 08/28/2023 | Mallinckrodt Plc                        | Healthcare | \$250.0                 | 8.0%              | 12 months | SOFR           |
| 09/11/2023 | Noble House Home Furnishings, LLC       | Consumer   | \$83.0                  | 4.5%              | 2 months  | SOFR           |
| 09/29/2023 | SmileDirectClub, Inc.                   | Healthcare | \$80.0                  | 17.5% PIK         | 3 months  | Fixed          |
| 09/10/2023 | Soft Surroundings Holdings, LLC         | Consumer   | \$49.7                  | 12.0%             | 3 months  | SOFR           |
| 08/29/2023 | Sunland Medical Foundation              | Healthcare | \$35.3                  | 12.0%             | 6 months  | Fixed          |
| 08/07/2023 | Western Global Airlines, Inc.           | Industrial | \$75.0                  | 9.0%              | 4 months  | SOFR           |
| 07/22/2023 | Williams Industrial Services Group Inc. | Industrial | \$31.5                  | 9.0%              | 12 months | SOFR           |
| 08/06/2023 | Yellow Corporation <sup>[1][2]</sup>    | Industrial | \$686.5                 | 8.9%              | 3 months  | Fixed          |

## Select Section 363 Sales

| Date       | Target                                     | Buyer   | Industry    | Deal Value (\$ in millions) |
|------------|--|---|-------------|-----------------------------|
| 08/28/2023 | Agilethought Inc.                          | AT Holdings Corp.   | Info Tech   | \$100.0                     |
| 07/05/2023 | Alpine Summit Energy Partners Inc.         | San Isidro Energy Company II LLC and Needmore Minerals LLC  | Energy      | \$83.0                      |
| 07/23/2023 | AppHarvest Products LLC                    | Equilibrium via CEFF II AppHarvest Holdings LLC (Richmond and Morehead facilities), Bosch Berries Kentucky Operations Corp. (Somerset Assets) | Consumer    | \$157.7                     |
| 08/24/2023 | C.W. Keller & Associates LLC               | CWK Associates LLC  | Industrial  | \$2.1                       |
| 07/20/2023 | Firstox Laboratories LLC                   | Advanced Health and Human Corporation   | Healthcare  | \$6.3                       |
| 08/15/2023 | Grupo HIMA San Pablo, Inc.                 | Fajardo Integrated Medical Center LLC   | Healthcare  | \$7.0                       |
| 09/13/2023 | Hartman SPE LLC                            | Salim Dossani (One Mason Plaza & Fondren Plaza)   | Real Estate | \$26.4                      |
| 09/26/2023 | Legacy-Xspire Holdings LLC                 | Blue Water Biotech Inc  | Healthcare  | \$8.0                       |
| 08/07/2023 | Mercy Hospital Iowa City Iowa              | State of Iowa (State University of Iowa)  | Healthcare  | \$20.0                      |
| 08/14/2023 | Nashville Senior Care LLC                  | Cascasis LLC  | Healthcare  | \$41.0                      |
| 09/11/2023 | Noble House Home Furnishings LLC           | GigaCloud Technology Inc.   | Consumer    | \$85.0                      |
| 07/17/2023 | Novan Inc.                                 | Ligand Pharmaceuticals Incorporated (R&D Assets), Mayne Pharma LLC (Commercial Assets)  | Healthcare  | \$20.2                      |
| 08/23/2023 | Orbital Infrastructure Group Inc.          | Ocelot Bidco LLC (Front Line Assets), Streeterville Capital LLC (GTS Assets)  | Industrial  | \$211.0                     |
| 07/02/2023 | Tattooed Chef Inc.                         | Numerous buyers including Hilco Real Estate and Naturasol S.A. de CV (Equipment & Machinery)  | Consumer    | \$23.3                      |
| 07/10/2023 | University Square Real Estate Holdings LLC | University Square Acquisitions LLC  | Industrial  | \$3.5                       |
| 07/27/2023 | Voyager Aviation Holdings LLC              | Azorra Explorer Holdings Limited  | Financials  | \$801.5                     |
| 07/22/2023 | Williams Industrial Services Group Inc.    | EnergySolutions Nuclear Services LLC  | Industrial  | \$60.0                      |

[1] Reference rate is the weighted average of the Senior and Junior TL facilities

[2] Maturity date of the Senior Facility (\$644 MM) is 90 days after the Petition Date; maturity date of the Junior facility (\$42.5 MM) is February 2024

Source: Reorg and SOLIC Research

## SOLIC Representative Engagement



AU Health System (AUHS) is an academic medical center in Augusta, GA with 632 beds inclusive of the Children’s Hospital of Georgia and a Level 1 trauma center and is affiliated with the Medical College of Georgia. Approximately 600 physicians are employed through its associated practice plans.

AUHS also owns Roosevelt Warm Springs Hospital comprised of 52-bed inpatient rehabilitation hospital and a 32-bed acute care hospital. In addition, AUHS is in the process of building the Columbia County Hospital which will be a 100-bed community teaching hospital.

SOLIC professionals served as Chief Restructuring Officer, Interim Chief Financial Officer, and support staff and guided AUHS through a successful sale to Wellstar Health System.

# 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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