

CAPITAL RESTRUCTURING PERSPECTIVES



Quarterly Update
Fourth Quarter 2023

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Realizing Value. Delivering Results.

RESTRUCTURING • INVESTMENT BANKING • DISTRESSED ASSET SUPPORT SERVICES

DISTRESSED MARKET INDICATORS

KEY HIGHLIGHTS

- Default rates soared in 2023, particularly in consumer facing companies, and could continue to climb in 2024 as cash-strapped companies are burdened with high interest rates
- The loan default rate rose to 1.53% at the end of 2023, up 81 bps from the end of 2022
- The number of companies that failed to make required debt payments totaled 153 for 2023, up from 85 the year before, the highest default rate outside of the Covid-related spike in 2020 in seven years
- The ratio of downgrades to upgrades climbed to a seven-month high of 2.42x in December - a trend that is expected to continue due to sustained high interest rates, inflation above central bank targets, projected slowed economic growth and increased geopolitical tensions
- With higher cost of debt, a ramp-up in maturities, and the potential of softer economic growth in 2024, this year's focus will come back to credit fundamentals and liquidity analysis
- 2024 is expected to bring additional credit deterioration at the lower end of the rating scale ('B-' or below), with close to 40% of issuers at risk of downgrades

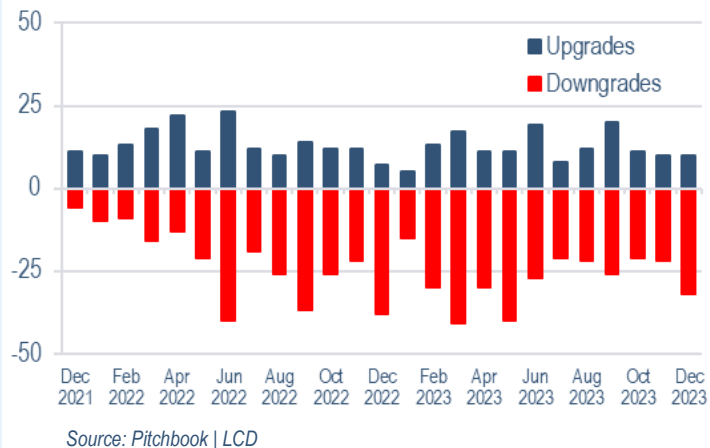
S&P Default Rate



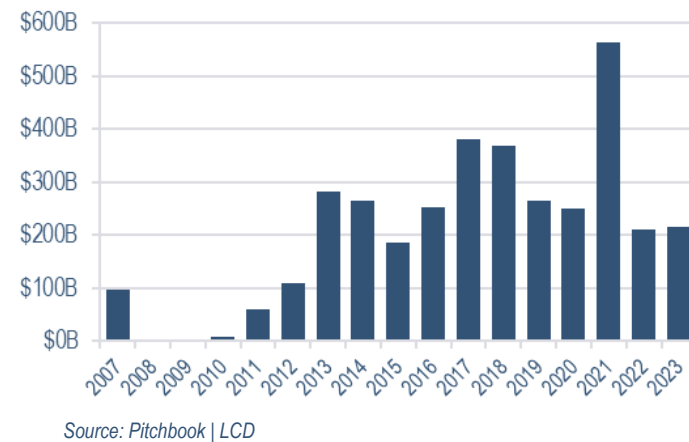
Distress Ratio^[1]



Upgrades and Downgrades^[2]



Covenant-Lite Loan Issuance



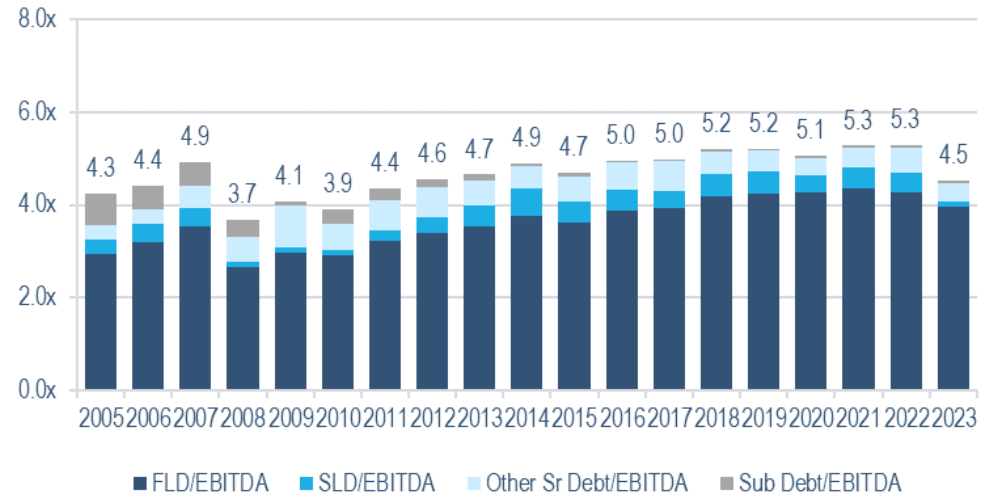
[1] Distress ratio by amount outstanding (percent of loans priced below 80)
 [2] Count of ratings action in S&P/LSTA Leveraged Loan Index

CAPITAL MARKET PERSPECTIVES

COMMENTARY

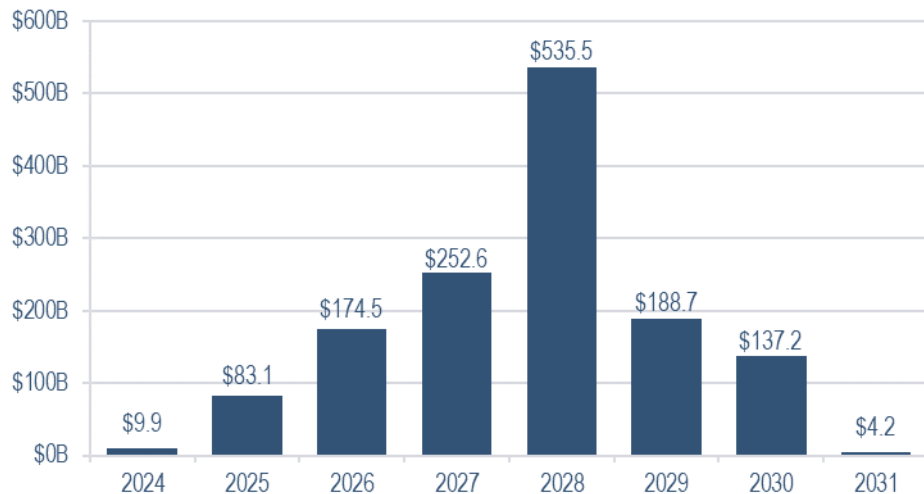
- Q4 repricing and amend & extend volume accelerated with borrowers addressing upcoming maturities by extending credit facilities
- Extensions totaled \$21.1 billion in Q4, down slightly from \$24.9 billion in Q3, but still in record territory on an annual basis, at \$80.4 billion for 2023
- At the end of 2023, the maturity wall stood at \$257 billion, with \$83 billion due in 2025 and \$175 billion in 2026 - the combined maturity wall is down from \$433 billion one year earlier
- A “corporate debt cliff” could become a problem as a large share of speculative-grade debt is expected to mature in 2025 and 2026 - debt that initially was financed at very low rates
- Average leverage multiples have fallen below 5x for the first time in eight years as LBOs, a traditional staple of the broadly syndicated market, remain largely absent

Average Leverage Multiples



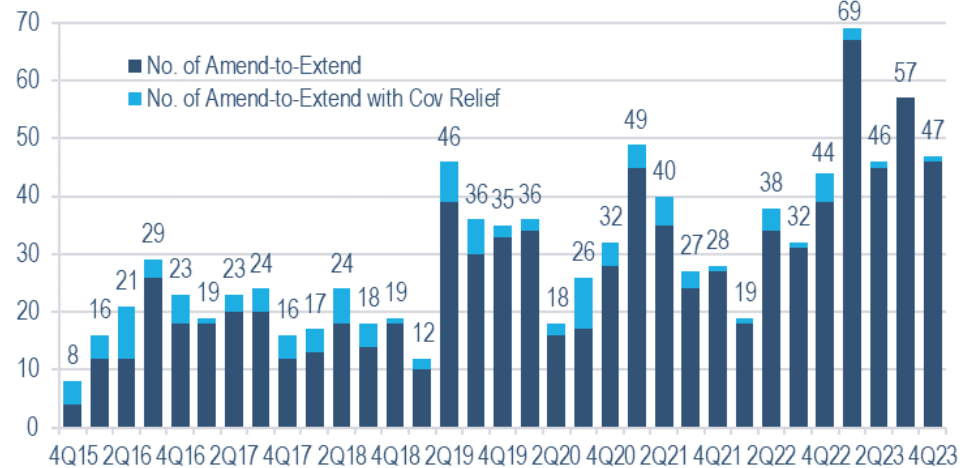
Note: FLD is abbreviation for “first lien debt” and SLD is abbreviation for “second lien debt”
Source: Pitchbook | LCD

Current Loan Maturities by Year



Source: Pitchbook | LCD

Amend & Extends



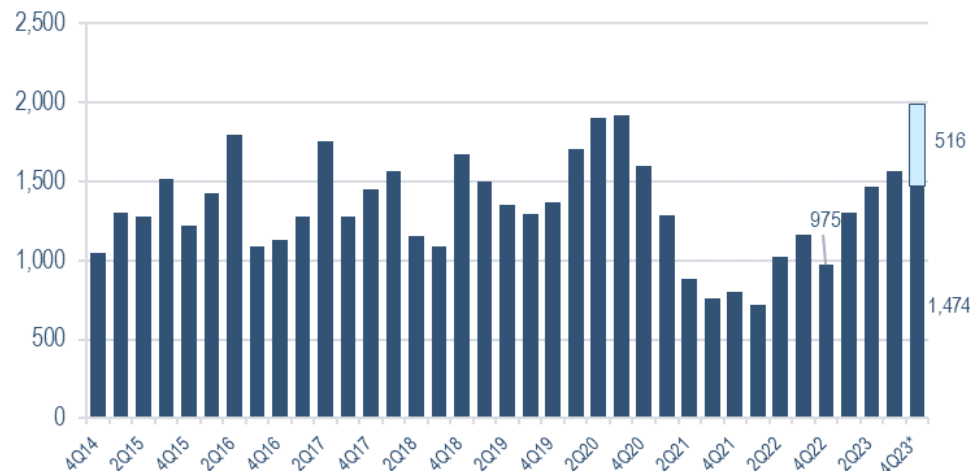
Source: Pitchbook | LCD

BANKRUPTCY TRENDS

COMMENTARY

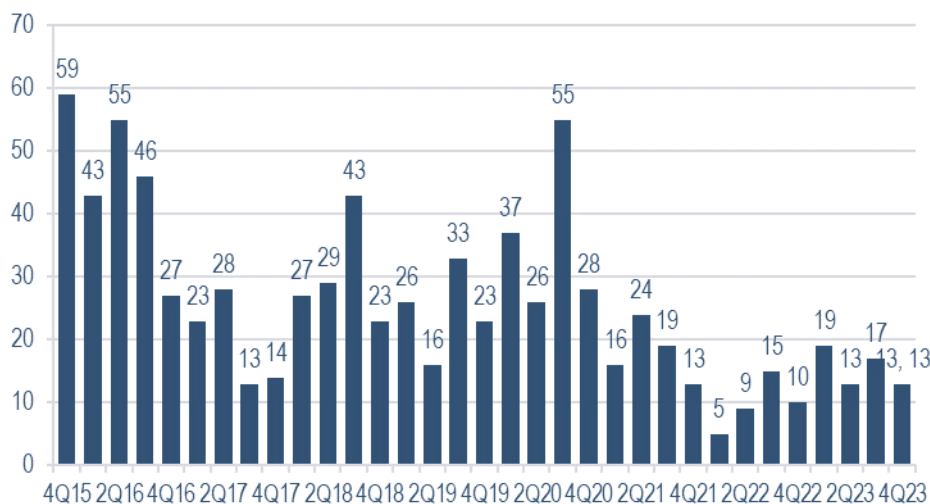
- U.S. commercial Chapter 11 bankruptcies filings increased as compared to the year prior on the back of higher interest rates, tougher lending standards and the continued runoff of pandemic-era backstops
- Along with retail and consumer products, media, entertainment, and health care are sectors likely to see increased struggles from slower economic growth and higher financing costs
- Among the large notable bankruptcies filed in 2023 were SmileDirectClub, WeWork, Rite Aid, Party City, Lordstown Motors, Bed, Bath & Beyond, and Tuesday Morning
- 2023 had the most “Chapter 22” filings since 2020, likely related to a broader uptick in bankruptcies, but lingering debts, operational troubles, failure to keep up with industry trends, and overly optimistic financial outlooks largely accounted for the high number of Chapter 11 repeats
- For the recent Chapter 22s, the strongest industry trend is the continued struggles of retailers as experienced by Tuesday Morning, Shoemaker Rockport Co., and David’s Bridal

Chapter 11 Filings



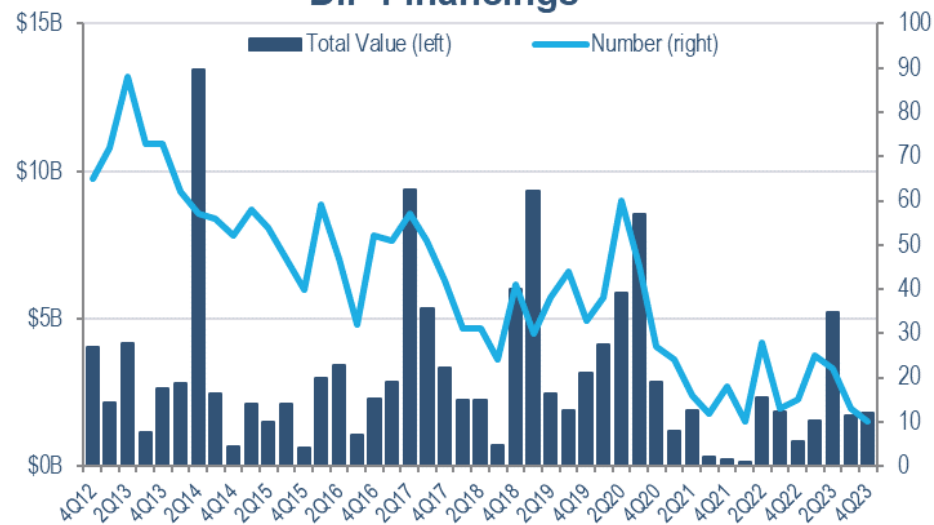
*WeWork represents 516 filings during 4Q23
Source: American Bankruptcy Institute / Epiq

Section 363 Sales



Source: Reorg and SOLIC Research

DIP Financings



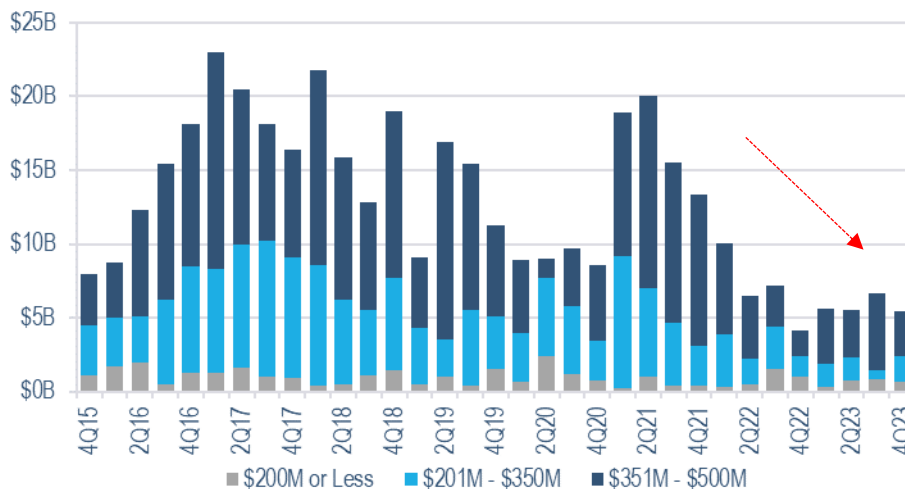
Source: Reorg and SOLIC Research

LEVERAGED LOAN TRENDS

COMMENTARY

- Supply remained suppressed in 2024 as high rates deterred M&A activity, leaving refinancing and extensions to take a larger share of new issuance refinancing accounted for almost 60% of total 2023 institutional loan issuance
- Middle market new issuance, between \$351M - \$500M, totaled \$3.0 billion in Q4 2023, almost double the same period a year prior, but down from the previous quarter's \$5.3 billion
- Total new issue volume was \$72.3 billion in Q4, with electronics and services/leasing comprising over 32% of the total
- Strong momentum in the secondary market continues to fuel a repricing surge for US leveraged loans as new-issue spreads tighten to their lowest levels since 2021

Middle Market Loan Issuance



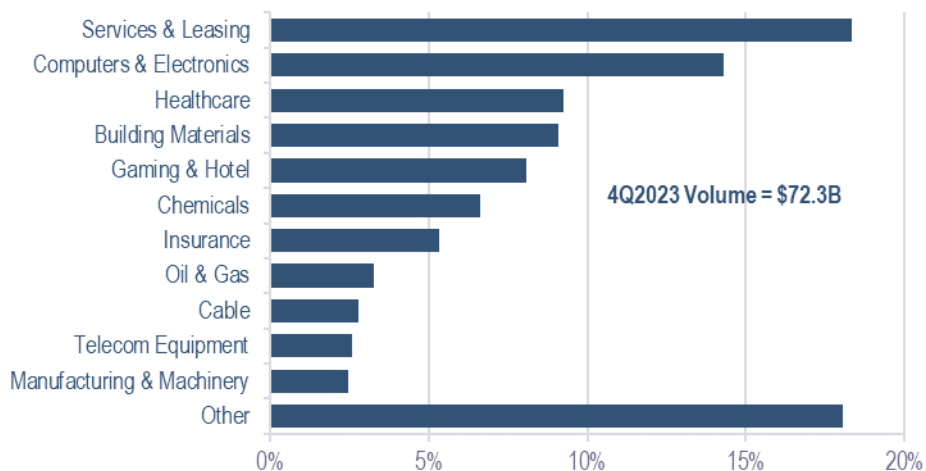
Source: Pitchbook | LCD

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
10/24/2023	Air Methods Corp.	Healthcare	\$155.0	10.0%	4 months	SOFR
10/22/2023	Akumin Inc.	Healthcare	\$75.0	8.0% PIK	2 months	Fixed
10/2/2023	Barretts Minerals Inc.	Materials	\$30.0	14.0%	8 months	Fixed
12/6/2023	Mercon Coffee Corp.	Consumer	\$40.0	10.0%	6 months	SOFR
10/15/2023	OSG Holdings, Inc.	Comms	\$50.0	8.0%	3 months	SOFR
12/10/2023	Pennsylvania Real Estate Investment Trust	Real Estate	\$60.0	7.0%	3 months	SOFR
10/15/2023	Rite Aid Corporation (FILO)	Consumer	\$400.0	5.25%	12 months	SOFR
10/15/2023	Rite Aid Corporation (Term Loan)	Consumer	\$200.0	7.5%	12 months	SOFR
11/6/2023	The We Co. ^[1]	Real Estate	\$750.0	N/A	N/A	ABR
10/23/2023	Unconditional Love Inc.	Consumer	\$47.0	8.0%	3 months	SOFR

Select Section 363 Sales

Date	Target	Buyer	Industry	Deal Value (\$ in millions)
11/08/2023	Anagram Holdings	Celebration Bidco LLC	Consumer Discretionary	\$168.4
12/20/2023	Bird Global Inc.	Bird Scooter Acquisition Corp.	Industrials	\$76.6
12/17/2023	Ebix Inc	Zinnia Distributor Solutions LLC	Information Technology	\$400.0
10/16/2023	Iconic Brands Inc.	ActionPak Inc.	Consumer Staples	\$1.5
12/19/2023	Impel Pharmaceuticals Inc.	JN Bidco LLC	Health Care	\$17.5
12/08/2023	Near Intelligence Inc.	BTC Near HoldCo LLC	Information Technology	\$50.0
10/25/2023	Premier Kings Inc.	Newell-Berg Alliance AL LLC (North Alabama Region Assets) RRG of Jacksonville LLC (Savannah & Jackson Assets)	Consumer Discretionary	\$34.0
11/10/2023	Quality Iron Fabricators LLC	LFM Capital Partners L.P.	Materials	\$9.0
10/15/2023	Rite Aid Corporation	MedImpact Healthcare Systems Inc.(Elixir Assets)	Consumer Staples	\$575.0
12/07/2023	Troika Media Group	Blue Torch Finance LLC	Communication Services	\$51.0
10/23/2023	Unconditional Love Inc.	Bucky Acquisition Holdco LLC an affiliate of Hildred Capital Management LLC	Consumer Staples	\$66.8
10/27/2023	Water Gremlin Company	Accuma Corporation	Industrials	\$18.9
10/03/2023	Zymergen Inc.	Ginkgo Bioworks Inc.	Health Care	\$9.8

[1] Terms of We Co.'s DIP financing are contained in an undisclosed term sheet

Source: Reorg and SOLIC Research

SOLIC Representative Engagement

**Undisclosed
Senior Living Community**

has been acquired by

Undisclosed Acquirors

Restructuring Advisor

SOLIC Capital Advisors was retained by a leading and prominent not-for-profit senior living community serving a Midwest Jewish community since the early 1900s as its Restructuring Advisor. This portfolio comprised 617 skilled nursing beds, 356 assisted living, 25 memory care units, and 193 independent living units, with an aquatic and therapy center.

SOLIC professionals were retained to review and assess the feasibility of the Company's transformation and performance improvement plan along with reviewing its current financial forecast model. Further, SOLIC professionals prepared a long-range financial model that led to the raising of capital from the community which was instrumental in implementing key elements of the Company's business turnaround plan; executed several forbearance agreements with key lenders and creditors; and communicated implementation plans and strategic alternatives to the Board of Trustees.

SOLIC professionals were integral in key elements that resulted in the sale of the facilities in December 2023 through two competitive solicitation processes.

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 the purpose 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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