#### **CAPITAL RESTRUCTURING PERSPECTIVES** *Quarterly Update Second Quarter 2019*



RESTRUCTURING • INVESTMENT BANKING • DISTRESSED ASSET SUPPORT SERVICES



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### Q2 2019 Highlights

#### **August 2019**

To the Friends and Clients of SOLIC Capital Advisors ("SCA"):

We are pleased to share with you the SOLIConnect Capital Restructuring Perspectives guarterly update which includes perspectives relevant to restructuring and bankruptcy professionals, attorneys, workout groups, distressed debt investors, and other interested parties in the capital restructuring space.

In this edition, we provide perspectives on the restructuring market during the second guarter of 2019 which include:

- increase to 3.1% by December 2019.
- term.
- a lengthy period of uninterrupted credit growth stretching back to 2012.
- of loans.
- obtain terms previously reserved for a select few highly rated credits.
- 4Q18, when spreads averaged 497 bps.
- sponsored deals or lower middle market deals has been observed at lower levels.

We welcome your comments and hope you find our SOLIConnect report informative.

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At the end of Second Quarter 2019, Moody's and S&P reported default rates of 3.1% and 2.3%, respectively. According to Moody's, defaults in Q2 2019 were led by companies in the oil and gas sector but they expect the highest default rates over the next 12 months to be in the media sector. S&P expects its default rate to

The pace of U.S. leveraged loan defaults is expected to remain below historical averages in the coming year. The relatively benign outlook is supported by the Federal Reserve's dovish shift with its July 2019 rate cut. The expected loosening of monetary policy will play a key role in suppressing default rates in the immediate

While lender appetite for new financing transactions remains strong, deteriorating economic data and heightened global political tensions has led to concerns that credit conditions will become more difficult.

Total issuance of U.S. nonfinancial corporate debt has reached a new high of \$9 trillion, or 45% of GDP, after

The leveraged loan market has doubled in size since the last downturn, to \$1.2 trillion currently. During the 2008 peak, the share of loans quoted in distress hit 80%. At that time, the Index had just \$594 billion of leveraged loans outstanding. In today's market, an 80% distress ratio would amount to roughly \$948 billion

• Loosening of lender protections is continuing with greater numbers of middle market borrowers able to

The prevalence of covenant-lite loan agreements, currently representing 78.8% of the \$1.2 trillion in outstanding U.S. loans, has been seen as a major driver behind the lower pace of defaults.

In the first half of 2019, average spreads on middle market loans were 510 bps, only slightly wider than in

Total debt multiples for syndicated middle market deals averaged 5.6x in 2Q 2019, leverage in non-

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# ... Perspectives

**Defaults and Distress:** As shown in the chart below, at the end of Second Quarter 2019, Moody's and S&P reported default rates of 3.1% and 2.3%, respectively. According to Moody's, defaults in Q2 2019 were led by companies in the oil and gas sector but they expect the highest default rates over the next 12 months to be in the media sector. S&P expects its default rate to increase to 3.1% by December 2019.

#### *Comparative Default Rates*





**Leveraged Lending and Credit Outlook Perspectives:** Escalating trade tensions have heightened fears that economic conditions in the U.S. have worsened, with signs that businesses are curbing spending and sentiment surveys suggesting investors are moving toward more defensive asset allocations. While lender appetite for new financing transactions remains strong, deteriorating economic data and heightened global political tensions has led to concerns that credit conditions will become more difficult.

Total issuance of U.S. nonfinancial corporate debt has reached a new high of \$9 trillion, or 45% of GDP, after a lengthy period of uninterrupted credit growth stretching back to 2012. Declining average credit quality points to greater sensitivity to rising borrowing costs. The pick-up in leveraged lending and speculative-grade bond issuance is a vulnerability that could amplify credit stresses if investor risk-aversion tightens financing conditions, or reduces market access for borrowers. The pace of U.S. leveraged loan defaults is expected to remain below historical averages in the coming year. The relatively benign outlook is supported by the Federal Reserve's dovish shift with its July 2019 rate cut. The expected loosening of monetary policy will play a key role in suppressing default rates in the immediate term. While the market may still have some length to go before succumbing to above average defaults, the potential severity, in sheer volume terms, has increased dramatically.

The leveraged loan market has doubled in size since the last downturn, to \$1.2 trillion currently. During the 2008 peak, the share of loans quoted in distress hit 80%. At that time, the Index had just \$594 billion of leveraged loans outstanding. In today's market, an 80% distress ratio would amount to roughly \$948 billion of loans. The size of the CLO market was just \$82 billion at the end of 2013. It grew to \$500 billion at the end of 2017 and is roughly \$687 billion today.

Loosening of lender protections is continuing with greater numbers of middle market borrowers able to obtain terms previously reserved for a select few highly rated credits. Deals are now in the market with 30%-40% covenant cushions (and growing). In addition, sponsors are not only setting covenants at these wide margins, but also getting extremely aggressive on how they are defining 'addbacks' to EBITDA — up to 25% in many instances. The prevalence of covenant-lite loan agreements, currently representing 78.8% of the \$1.2 trillion in outstanding U.S. loans, has been seen as a major driver behind the lower pace of defaults.



# ... Perspectives

Over one-half (58%), or close to \$700 billion, of all outstanding loans tracked by the S&P/LSTA Index mature in 2024 and 2025, while only 15% / \$176 billion come due between 2020 and 2022. Many issuers approaching the market in the second quarter were mostly addressing loans with maturities in the 2020-2022 range.

In the first half of 2019, average spreads on middle market loans were 510 bps, only slightly wider than in 4Q18, when spreads averaged 497 bps, according to LCD. Average yields were stable quarter-over-quarter at 8.19%, the highest since 1Q08, when yields were 8.55%.

Total debt multiples for syndicated middle market deals averaged 5.6x in 2Q 2019, leverage in non-sponsored deals or lower middle market deals, companies with under \$20 million of EBITDA, has been observed at lower levels. Total debt multiples for companies with \$10-20 million in EBITDA range from 4–5x, while total leverage for companies with less than \$5 million in EBITDA are ranging from 3–4x per various sources.

Unitranche and private credit solutions are currently tracking in the L+475-500 pricing range since competition has continued to increase; previously around L+600. Unitranche pricing is approximately 200-400 bps higher than the aforementioned range on sub \$5 million EBITDA credits.





During 2Q2019, SOLIC Capital Advisors represented the plan trustee of The Taylor, Bean & Whitaker Plan Trust in the closing for sale of a pool of performing first lien residential mortgage loans through a competitive sale process. The Trust was established to effectuate the liquidation of the assets held by, and the distribution of proceeds to the beneficiaries of the Taylor, Bean & Whitaker Plan Trust.



### **Distressed Market Indicators**

### *Count of Amend & Extend by Quarter*

Forty-six (46) amend-to-extends were observed during the Second Quarter 2019, the highest level of activity since Second Quarter 2015, with many of these extending for over 48 months. This follows the 1H2019 trend of lower overall new issuance volume.



Source: LCD, an offering of S&P Global Market Intelligence



#### Amend & Extend by Industry – 1H19

Amend & Extend activity during Second Quarter 2019 was spread across Computers & Electronics and Services & Leasing sectors.



Source: LCD, an offering of S&P Global Market Intelligence

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a variety of industry sectors with the highest number observed in the





### **Distressed Market Indicators (cont)**

### Cumulative Maturity Wall

The amount of loans set to mature in the next couple of years remains negligible, with just \$21.9 billion due before year-end 2020. In 2021, just \$55.4 billion is now scheduled to be repaid, 57% less than what remained outstanding as of that time period when viewed in 2017.





S&P/LSTA Leveraged Loan Index consists of all loans that are in the index, namely Term loans (both amortizing and institutional), acquisition loans (after they are drawn down) and bridge loans, and senior secured



#### Current Loan Maturities by Year

This chart represents a snapshot of current loan maturities by year per the S&P/LSTA Leveraged Loan Index. Borrowers continue to chip away at the maturity wall, with just \$21.9 billion due before year-end 2020 and maturities ramping up sharply to \$335 billion in 2024 and \$359 billion in 2025, according to LCD.



Source: S&P/LSTA Leveraged Loan Index S&P/LSTA Leveraged Loan Index consists of all loans that are in the index, namely Term loans (both amortizing and institutional), acquisition loans (after they are drawn down) and bridge loans, and senior secured



### Distressed Market Indicators (cont)

#### DIP Financings

The volume of DIP financings reached \$2.5 billion in Second Quarter 2019, similar to the level observed in the same quarter in 2018. Hexion Holdings' \$700 million DIP in the chemicals sector accounted for one-quarter (28%) of this total.



Note: 2Q14 and 2Q17 surges due to Energy Future Holdings' DIP issuance Sources: LCD, an offering of S&P Global Market Intelligence, The Deal, and PACER



#### Section 363 Sales

Sixteen (16) Section 363 sales were announced and/or closed during the Second Quarter 2019, falling from 26 transactions during the previous quarter, on the lower end of recent quarterly activity.



Source: The Deal





Bankruptcy filings during the Second Quarter 2019 were across a variety of sectors. Several large bankruptcies with affiliates accounted for a substantial number of these including Hexion Inc. (chemicals), Legacy Reserves (oil & gas), and Jones Energy (oil & gas). Filings included:

Debtor Name	Petition Date	Liabilities	Assets	Industry	Jurisdiction
L.K. Bennett U.S.A., Inc.	4/3/2019	\$10,000,001 to \$50 million	\$1,000,001 to \$10 million	Clothing Stores	Delaware
Prohealth Rural Health Services, Inc.	6/25/2019	\$10,000,001 to \$50 million	\$100,001 to \$500,000	General Medical and Surgical Hospitals	Tennessee Middle
Springfield Hospital, Inc.	6/26/2019	\$10,000,001 to \$50 million	\$10,000,001 to \$50 million	General Medical and Surgical Hospitals	Vermont
Sunnyside Community Hospital Association	5/6/2019	\$10,000,001 to \$50 million	\$100,000,001 to \$500 million	General Medical and Surgical Hospitals	Washington Eastern
West Houston Memory Care, LLC	5/2/2019	\$10,000,001 to \$50 million	\$1,000,001 to \$10 million	Other Residential Care Facilities	Texas Northern
Kona Grill, Inc.	4/30/2019	\$50,000,001 to \$100 million	\$10,000,001 to \$50 million	Restaurants and Other Eating Places	Delaware
St. Christopher's Healthcare, LLC	6/30/2019	\$50,000,001 to \$100 million	\$100,000,001 to \$500 million	General Medical and Surgical Hospitals	Delaware
Astria Health	5/6/2019	\$100,000,001 to \$500 million	\$100,000,001 to \$500 million	General Medical and Surgical Hospitals	Washington Eastern
FTD, Inc.	6/3/2019	\$100,000,001 to \$500 million	\$100,000,001 to \$500 million	Florists	Delaware
Fuse, LLC	4/22/2019	\$100,000,001 to \$500 million	\$100,000,001 to \$500 million	Cable and Other Subscription Programming	Delaware
Insys Pharma, Inc.	6/10/2019	\$100,000,001 to \$500 million	\$100,000,001 to \$500 million	Pharmaceutical and Medicine Manufacturing	Delaware
Joerns Healthcare, LLC	6/24/2019	\$100,000,001 to \$500 million	\$100,000,001 to \$500 million	Medical Equipment and Supplies Manufacturing	Delaware



Debtor Name	Petition Date	Liabilities	Assets	Industry	Jurisdiction
LifeCare Holdings LLC	5/6/2019	\$100,000,001 to \$500 million	\$100,000,001 to \$500 million	Specialty Hospitals	Delaware
Orchids Paper Products Company	4/1/2019	\$100,000,001 to \$500 million	\$100,000,001 to \$500 million	Converted Paper Product Manufacturing	Delaware
White Star Petroleum, LLC	5/28/2019	\$100,000,001 to \$500 million	\$500,000,001 to \$1 billion	Oil and Gas Extraction	Delaware
WMC Mortgage, LLC	4/23/2019	\$100,000,001 to \$500 million	\$1,000,001 to \$10 million	Other Financial Investment Activities	Delaware
Cloud Peak Energy Inc.	5/10/2019	\$500,000,001 to \$1 billion	\$500,000,001 to \$1 billion	Coal Mining	Delaware
Southcross Energy LP LLC	4/1/2019	\$500,000,001 to \$1 billion	\$500,000,001 to \$1 billion	Pipeline Transportation of Natural Gas	Delaware
Hexion Inc.	4/1/2019	\$1,000,000,001 to \$10 billion	\$1,000,000,001 to \$10 billion	Basic Chemical Manufacturing	Delaware
Legacy Reserves Inc.	6/18/2019	\$1,000,000,001 to \$10 billion	\$500,000,001 to \$1 billion	Oil and Gas Extraction	Texas Southern

Source: Federal Judiciary



## Eselect DIP Financings

Nineteen (19) DIP financings over \$25 million were announced during the Second Quarter 2019 across a range of industry sectors, including six in energy and four in healthcare. Hexion Holdings in the chemicals sector secured the largest DIP at \$700 million, followed by Legacy Reserves (\$350 million) and Southcross (\$255 million) in the energy sector.

Debtor Name	Industry	DIP Date	Amount (\$ mil- lions)	Margin Over LIBOR	Term/Length of Agreement (months)	Upfront Fee
Achaogen Inc.[1]	Healthcare	4/15/2019	\$25.0	841	5	-
Astria Health[2]	Healthcare	5/6/2019	\$36.0	947	8	-
Bristow Group Inc.	Automotive	5/11/2019	\$75.0	600	12	-
Cloud Peak Energy Inc.	Energy	5/12/2019	\$35.0	900	9	1.0%
EdgeMarc Energy Holdings LLC[1]	Energy	5/15/2019	\$108.0	872	6	3.0%
FTD Cos. Inc.[1]	Retail	6/3/2019	\$94.5	910	3	2.5%
Fusion Connect Inc.	Telecom	6/3/2019	\$59.5	1,000	4	-
Hexion Holdings LLC[3]	Chemicals	4/1/2019	\$700.0	175	18	-
Hollander Sleep Products LLC	Manufacturing	5/19/2019	\$118.0	400	5	-
Hospital Acquisition LLC[2]	Healthcare	5/7/2019	\$57.7	850	6	1.0%
Joerns WoundCo Holdings Inc.	Healthcare	6/25/2019	\$80.0	600	4	-
Kona Grill Inc.[1]	Retail	4/30/2019	\$39.2	847	4	2.0%
Legacy Reserves Inc.	Energy	6/18/2019	\$350.0	525	8	1.8%
Southcross Energy Partners LP	Energy	4/1/2019	\$255.0	1,000	6	-
SportCo Holdings Inc.[1]	Retail	6/10/2019	\$30.0	635	3	1.7%
Sungard Availability Services Capital Inc.	Technology	5/1/2019	\$100.0	750	6	3.0%
Vanguard Natural Resources	Energy	4/30/2019	\$130.0	550	8	-
White Star Petroleum Holdings LLC	Energy	5/28/2019	\$28.5	1,000	7	3.0%
WMC Mortgage LLC	Financial Services	4/23/2019	\$25.0	500	9	-



Pricing on DIPs below \$100M was slightly higher in 2Q19 than in 2Q18 driven by the higher-priced DIPs of Fusion Connect Inc. and White Star Petroleum Holdings LLC.

Summary Comparison					
	Margin Over LIBOR	Term/Length of Agreement (months)	Upfront Fee		
Second Quarter 2019:					
Mean (\$100MM+)	550	8	3.00%		
Median (\$100MM+)	610	8	2.58%		
Mean (\$25-\$100MM)	802	7	1.86%		
Median (\$25-\$100MM)	848	7	1.83%		
Second Quarter 2018:					
Mean (\$100MM+)	594	3	3.00%		
Median (\$100MM+)	569	3	3.00%		
Mean (\$25-\$100MM)	797	5	NM		
Median (\$25-\$100MM)	765	5	NM		

Implied margin over 3-month LIBOR as a result of prime rate pricing
Implied margin over 3-month LIBOR as a result of fixed rate pricing
Margin over Libor represents weighted average of \$350M RC and a \$345M TLB at L+350
Sources: LCD, an offering of S&P Global Market Intelligence, The Deal, and PACER



### C Section 363 Sales

Sixteen (16) Section 363 sales were announced during the Second Quarter 2019, including Ditech (\$1.1 billion) and Reverse Mortgage Solutions (\$762 million) in the financial services sector, and Orchids Paper Products (\$207 million) in the manufacturing space.

Date Announced	Target	Buyer	Industry	Deal Value (\$ in millions)
5/20/2019	Aegerion Pharmaceuticals Inc.	Amryt Pharma plc	Healthcare - Pharmaceuticals	na
Description	Amryt Pharma plc has agreed to acquire A	Aegerion Pharmaceuticals Inc. from Novelion T	herapeutics Inc. for an und	isclosed sum.
6/4/2019	American Home Products LLC	Louver Shop Holdings LLC	Consumer and household products	\$8.0
Description	Louver Shop Holdings LLC has agreed t	to acquire American Home Products LLC for	\$8 million.	
5/31/2019	Cherry Bros. LLC	Believe Group LLC	Services - Business services	na
Description	Believe Group LLC has acquired	Cherry Bros. LLC for an undisclosed sum.		
4/12/2019	Decor Holdings Inc.	RADG Holdings LLC	Retail - Furniture	\$19.0
Description	RADG Holdings LLC has agreed to acqu	uire Altamont Capital Partners backed-Decor	Holdings Inc. for \$19 milli	on.
6/17/2019	Ditech Financial LLC	New Residential Investment Corp.	Financial Services	\$1,055.0
Description	New Residential Investment Corp. has a	agreed to acquire Ditech Financial LLC from	Ditech Holding Corp. for \$	1.055 billion.
6/17/2019	F+W Media Inc book publishing business	Penguin Random House LLC	Media - Publishing	\$5.6
Description	Penguin Random House LLC has agree	d to acquire F+W Media Inc.'s book publishi	ng business for \$5.6 millio	n.
6/18/2019	F+W Media Inc family tree, writing, woodworking, horticulture and collectibles communities	Active Interest Media Inc.	Media - Publishing	\$1.8
Description		Interest Media Inc. through its subsidiary Cr iting, woodworking, horticulture and collectit		•
6/17/2019	F+W Media Inc sky & telescope community	American Astronomical Society	Media - Publishing	\$1.2
Description	American Astronomical Society has agree	eed to acquire F+W Media Inc.'s sky & teleso	cope community for \$1.225	5 million.



Date Announced	Target	Buyer	Industry	Deal Value (\$ in millions)		
6/2/2019	FTD Cos. Inc North America and Latin America business	Nexus Capital Management LP	Retail	\$95.0		
Description	Nexus Capital Management LP through America and Latin America business for	its subsidiary Gateway Mercury Holdings LL \$95 million in cash.	C agreed to acquire FTD	Cos. Inc.'s North		
5/14/2019	Kona Grill Inc restaurants assets	Williston Holding Co. Inc.	Retail - Restaurants	\$20.3		
Description	Williston Holding Co. Inc. has agreed to	acquire Kona Grill Inc.'s 27 restaurants for \$	20.3 million.			
6/28/2019	Orchids Paper Products Co.	Cascades Inc.	Manufacturing	\$207.0		
Description	Cascades Inc. has agreed to acquire Or	rchids Paper Products Co. for \$207 million in	cash.			
5/2/2019	Promise Hospital of East Los Angeles LP; Kindred Hospital Paramount	Kindred Healthcare Inc.	Healthcare	\$7.0		
Description		d by Welsh, Carson, Anderson & Stowe LP, H Angeles LP from Promise Healthcare Group I	•			
6/17/2019	Reverse Mortgage Solutions Inc.	Waterfall Asset Management LLC	Financial Services	\$762.4		
Description	•	gh its subsidiaries Mortgage Assets Manager Dutions Inc. from Ditech Holding Corp. for \$7		-1 LLC has		
4/19/2019	Sizmek Inc data management and demand-side platforms	Zeta Global Holdings Corp.	Technology	na		
Description	Zeta Global Holdings Corp. has agreed to acquire Sizmek Inc.'s data management and demand-side platforms for an undisclosed sum.					
4/17/2019	Specialty Retail Shops Holding Corp 26 stores	Monarch Alternative Capital LP	Retail	\$8.5		
Description	Monarch Alternative Capital LP has acquired and the second s	uired Specialty Retail Shops Holding Corp.'s	26 stores for \$8.5 million.			
6/20/2019	Z Gallerie LLC	DirectBuy Holdings Inc.	Retail - Furniture	\$20.3		
Description	cription CSC Generation Incbacked DirectBuy Holdings Inc. has agreed to acquire Z Gallerie LLC from Brentwood Associates for \$20.3 million.					

Source: The Deal

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## Amend & Extend Deals

Forty-six (46) Amend & Extend deals were announced during the Second Quarter 2019, with three-quarters of these locking in for extended periods (24 months or longer).

Name	Amend Deal Date	S&P Loan Rating	Moody's Loan Rating	Extension
ACCO Brands Corp.	5/23/2019	NR	NR	28 months
ACI Worldwide Inc.	4/11/2019	NR	NR	26 months
Air Transport Services Group Inc.	5/30/2019	NR	NR	12 months
Aveanna Healthcare	5/15/2019	CCC	Caa2	24 months
Axalta Coating Systems	6/28/2019	B+	B1	31 months
Boot Barn Holdings	6/12/2019	NR	NR	24 months
Builders FirstSource Inc.	4/24/2019	BB-	B3	20 months
CACI International Inc.	5/8/2019	BB+	Ba2	12 months
Callaway Golf Company	5/23/2019	NR	NR	18 months
Concentra Operating Corp.	4/8/2019	B+	B1	12 months
Consol Mining Company	4/3/2019	BB	Ba3	16 months
Cooper Tire & Rubber Company	6/14/2019	BB	NR	16 months
CoreLogic	5/31/2019	BB	Ba2	45 months
Credit Acceptance Corporation	6/27/2019	NR	NR	36 months
Distribution International	5/28/2019	CCC+	B3	24 months
GEO Group Inc.	6/13/2019	NR	NR	36 months
Global Partners LP	4/24/2019	NR	NR	24 months
Green Plains Renewable Energy Inc.	6/28/2019	NR	NR	36 months
Helix Energy Solutions Group Inc.	6/28/2019	NR	NR	18 months
Hilton Hotels Corp.	6/10/2019	BBB-	Baa3	32 months
Horizon Pharma plc	5/9/2019	BB+	Ba1	24 months
Jack in the Box Inc.	5/2/2019	NR	NR	12 months
Malibu Boats Inc.	5/16/2019	NR	NR	24 months



Name	Amend Deal Date	S&P Loan Rating	Moody's Loan Rating	Extension
MoneyGram International Inc.	5/14/2019	BB-	B2	36 months
Navistar International Corp.	5/23/2019	NR	NR	30 months
Netflix	4/2/2019	NR	NR	20 months
NRG Energy Inc.	5/28/2019	BB+	Ba3	35 months
Octave Music Group	5/10/2019	CCC+	Caa1	25 months
ON Semiconductor Corp.	6/12/2019	BB	Ba1	38 months
OSI Systems Inc.	4/24/2019	NR	NR	28 months
Osum Production Corp.	6/13/2019	B+	B3	24 months
Penn Virginia Corporation	5/7/2019	NR	NR	44 months
Resolute Forest Products	5/20/2019	NR	Ba3	48 months
Starwood Property Trust Inc.	4/17/2019	NR	NR	8 months
The J. Jill Group Inc	6/12/2019	NR	NR	36 months
Townsquare Media Inc.	4/30/2019	NR	NR	24 months
TTM Technologies Inc.	6/3/2019	NR	Ba2	49 months
Ultimate Fighting Championship Ltd. (Add-on 5/17)	4/22/2019	B+	B2	32 months
Ultimate Fighting Championship Ltd. (RC 8/16)	4/22/2019	B+	B2	32 months
Uniti Group Inc.	6/24/2019	NR	NR	24 months
Vail Resorts Inc.	4/16/2019	NR	NR	8 months
Ventia Finco	6/4/2019	BB+	Ba2	48 months
WEX Inc.	5/7/2019	BB-	Ba3	36 months
World Acceptance Corp.	6/7/2019	NR	NR	24 months
XPO Logistics	4/30/2019	NR	NR	42 months
Zayo Group Holdings Inc.	4/3/2019	NR	Ba2	36 months

Source: LCD, an offering of S&P Global Market Intelligence





#### Notes

- Sources: S&P, Moody's, The Deal, 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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