

A large digital display on a building facade shows financial data. The text is in green and blue, listing various currencies and their corresponding values. The data is organized into columns, with currency names on the left and numerical values on the right. A small inset image of a man in a suit is visible on the right side of the display.

AUSTRALIAN DOLLAR	0.7640	0.0052
BRITISH POUND	1.7917	0.0075
CANADIAN DOLLAR	1.3261	0.0015
EURO FX	1.2379	-0.0010
JAPANESE YEN	0.9076	0.0102
MEXICAN PESO	0.8872	0.0030
SWISS FRANC	0.7956	0.0002
LIVE CATTLE	79.35	-0.05

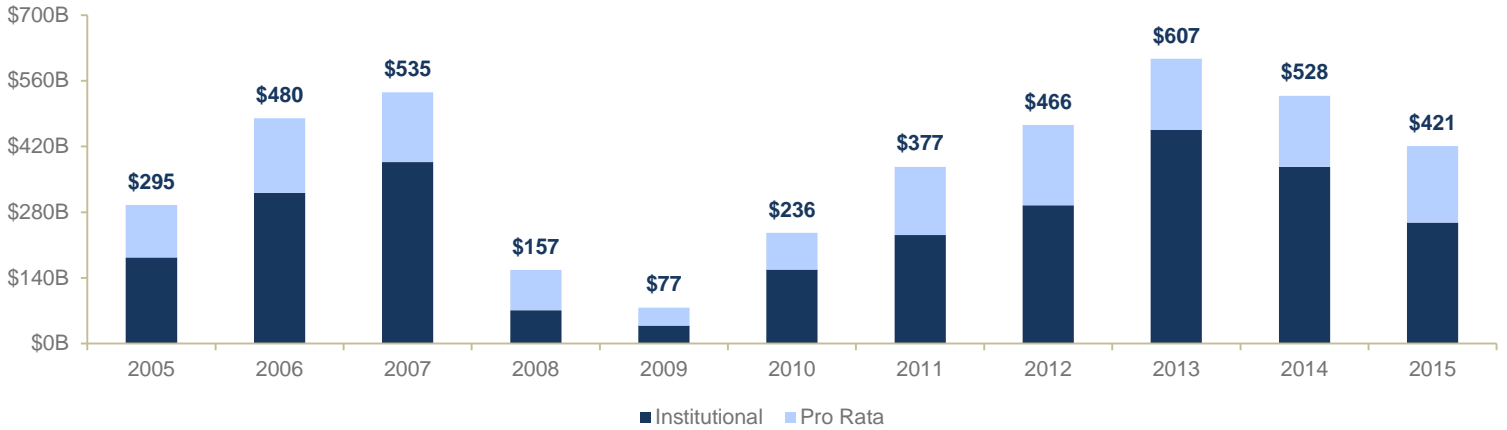
CREDIT MARKETS UPDATE AS OF DECEMBER 31, 2015

We are pleased provide this summary update of the U.S credit markets through the fourth calendar quarter ending December 31, 2015 to our clients and friends:

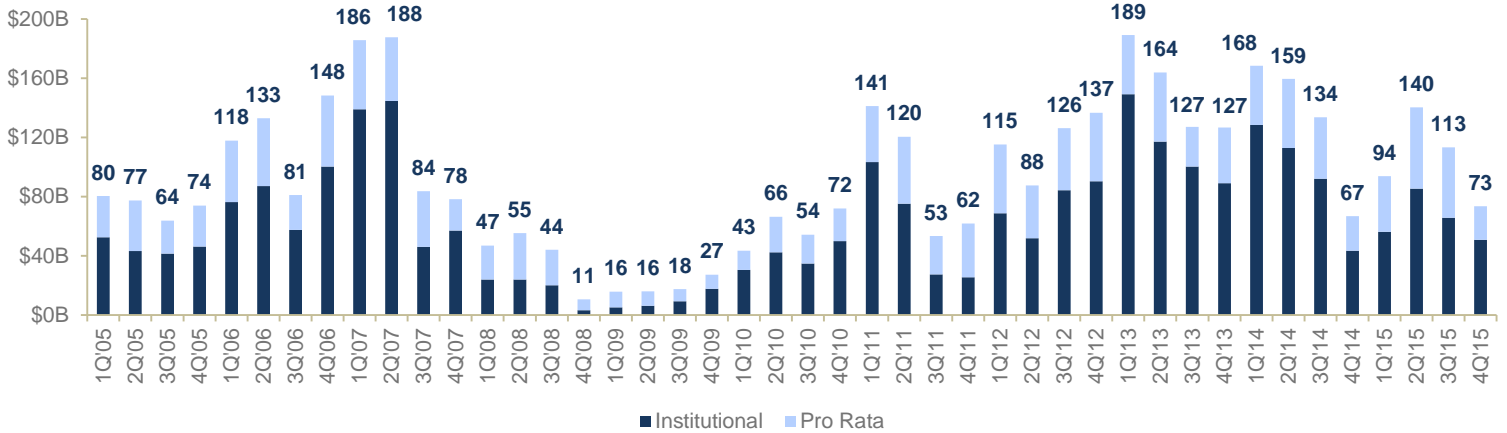
- **Overall, some of the air came out the bubble in the credit markets last quarter** with decreases in LBOs, leveraged loans, junk bonds, second lien debt and LBO leverage; increases in the price of risk; and elevated levels of distress
- **Newly issued leveraged loan volume** decreased sequentially to \$73 billion in the fourth quarter from \$113 billion in the third quarter but was relatively flat with the \$67 billion issued in the fourth quarter of 2014; for all of 2015, leveraged loan volume fell to \$421 billion, down 25.4% from 2014, and the lowest total since 2011
- **LBO transaction pricing** cooled somewhat last quarter, decreasing to 10.8x LTM EBITDA from 12.1x in the prior quarter for middle market companies having EBITDA under \$50 million, still at an unprecedented level
- **LBO loan volume** declined in the fourth quarter both sequentially and year over year
- **LBO debt multiples for middle market transactions** reverted last quarter to 5.1x, a level consistent with the average degree of leverage throughout 2014 and 2015
- **Equity contributions to LBOs** increased to 42.4%, the highest percentage since 2010
- **First lien leveraged loan pricing for non-investment grade credits** ticked up a bit in the fourth quarter to about L+350 for pro-rata “club” loans and L+450 for institutional syndicated loans on single B rated credits
- **Second lien loan volume** largely evaporated in the fourth quarter, falling to about \$1 billion, down from \$4 billion in the previous quarter and in the year ago quarter, and the lowest level since the fourth quarter of 2011
- **Second lien loan pricing increased** to almost L+1000, the highest level since 2012
- **High yield bond volume declined** precipitously in the fourth quarter and for the full year, making the issuance total in 2015 the lowest since 2011
- **High yield bond pricing remained steady** on a yield to maturity basis at approximately 6.4%
- **Funds flows from high yield funds were negative (outflow)** for the last three quarters in a row
- **Funds flows to leveraged loan funds remained positive** albeit at a subdued level relative to recent quarters
- **CLO activity was down 21.1%** in 2015 from 2014
- **CLO spreads increased** to about L+190, a level somewhat higher than experienced since 2011
- **Distress indicators up substantially in the fourth quarter** with roughly 13% by number and volume of all outstanding first lien loans trading in the secondary market priced at L+1000 or greater
- **Leveraged loans in default or in bankruptcy is at the highest level** measured by par amount outstanding since 2009 and by percent of loans outstanding since 2010

Leveraged Loans

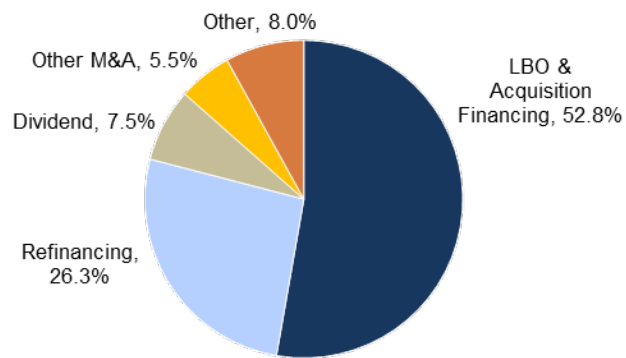
New Issue Leveraged Loan Volume - Annual



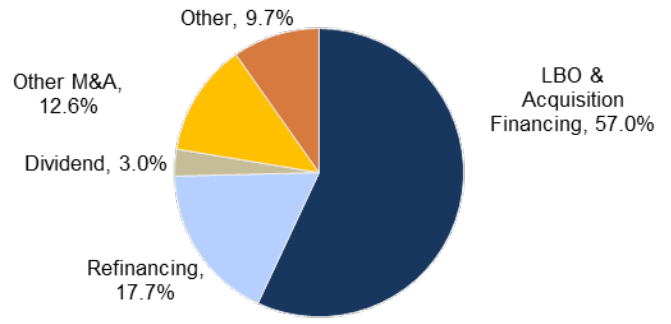
New Issue Leveraged Loan Volume - Quarterly (\$Billions)



Leveraged Loan Issuance by Purpose - 2015



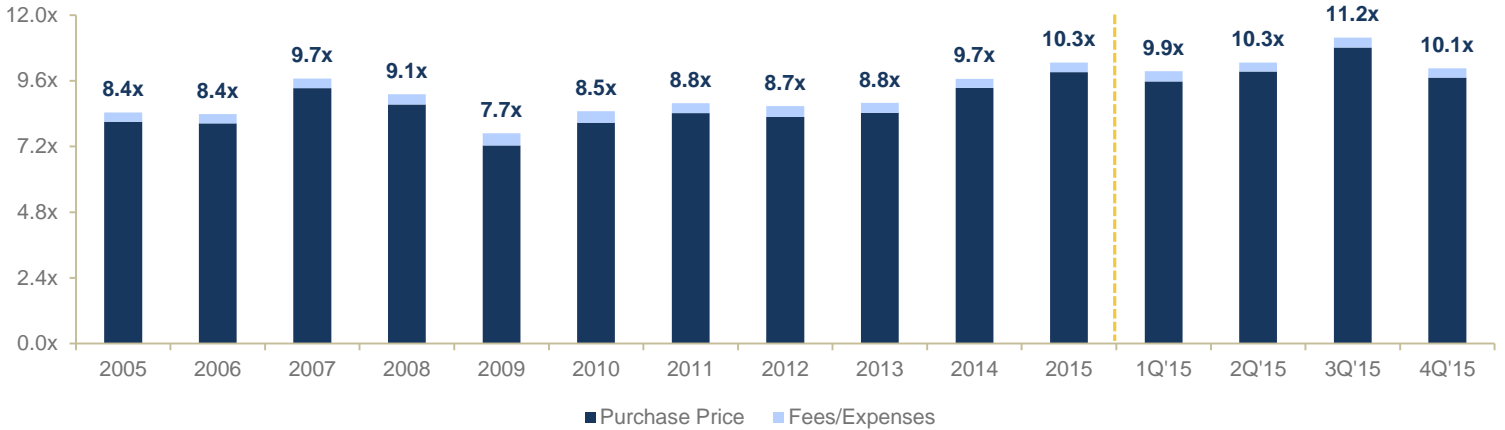
Leveraged Loan Issuance by Purpose - 4Q'15



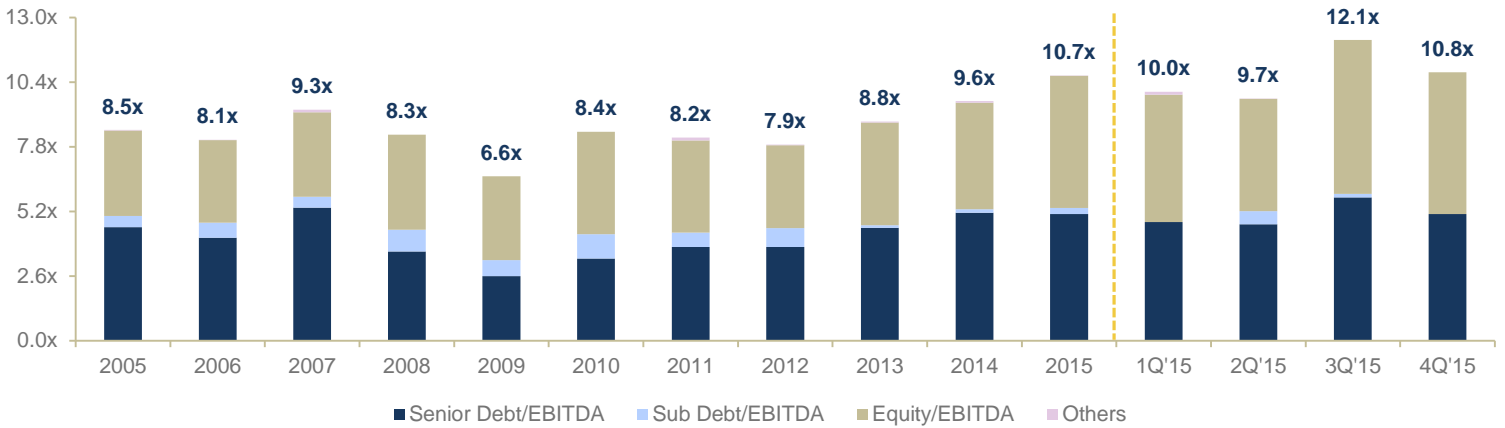
Source: Standard & Poor | Leveraged Commentary & Data

LBO Summary

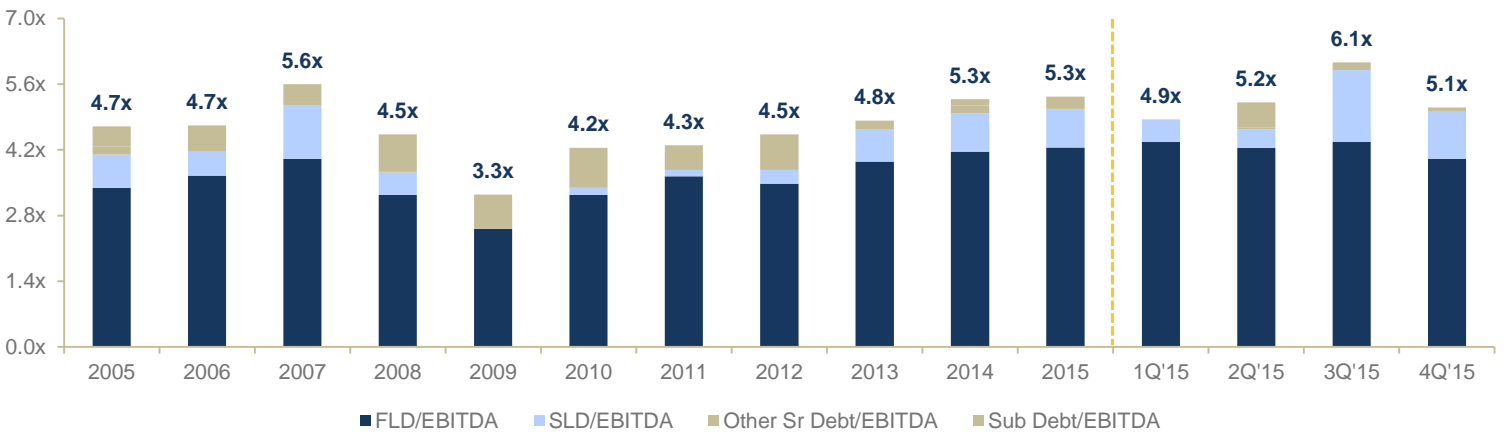
Average Purchase Price Multiple - All LBOs



Average Purchase Price Multiple [EBITDA<\$50M]



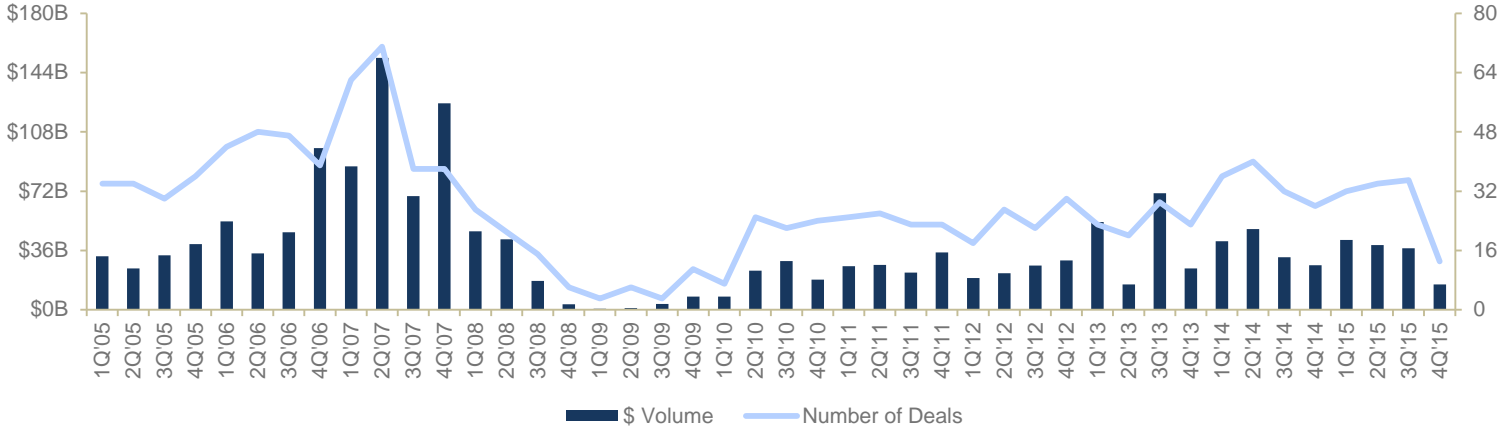
Average Debt Multiples of Middle-Market LBO Loans



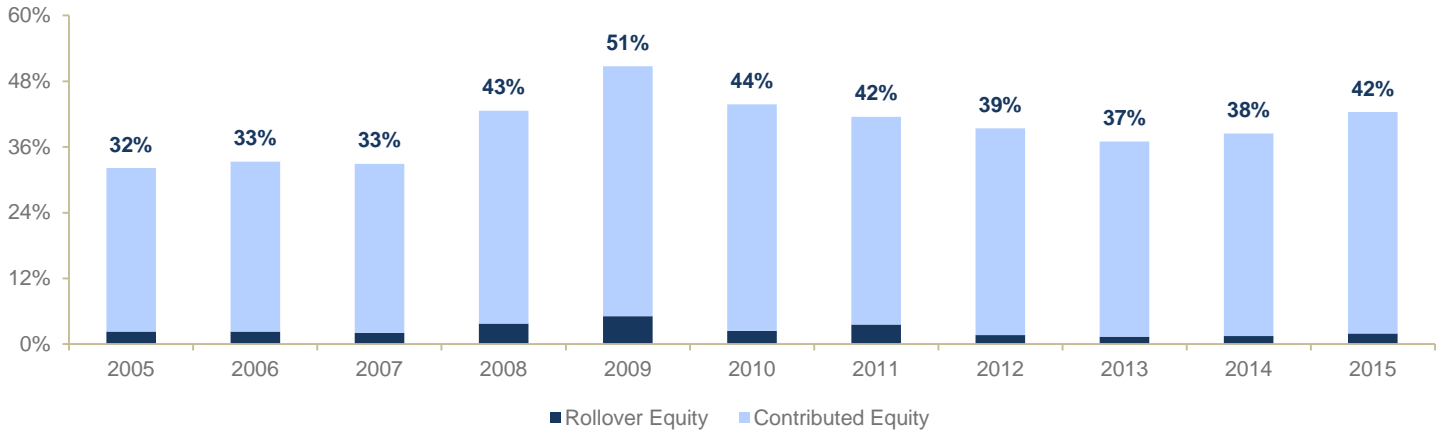
Source: Standard & Poor | Leveraged Commentary & Data

LBO Summary (continued)

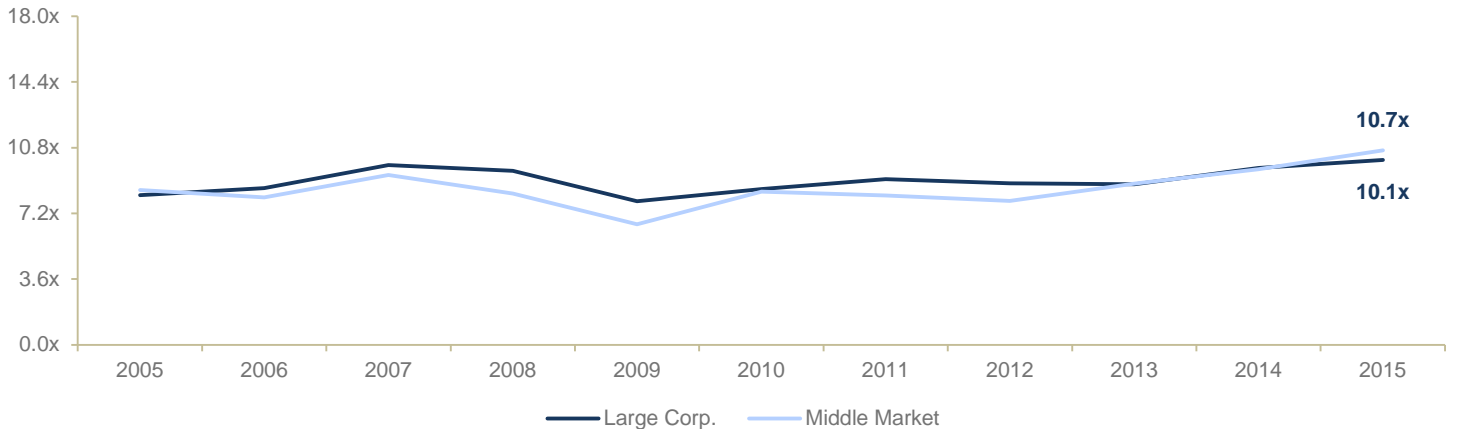
LBO Loan Volume - Quarterly



Average Equity Contribution to LBO



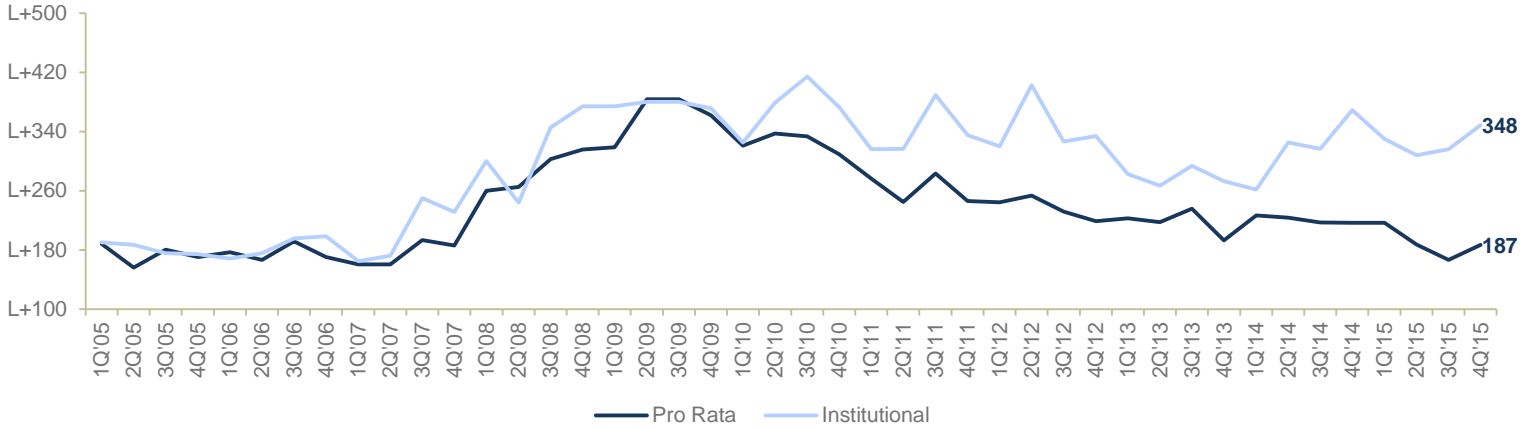
Average Purchase Price Multiple - LBO



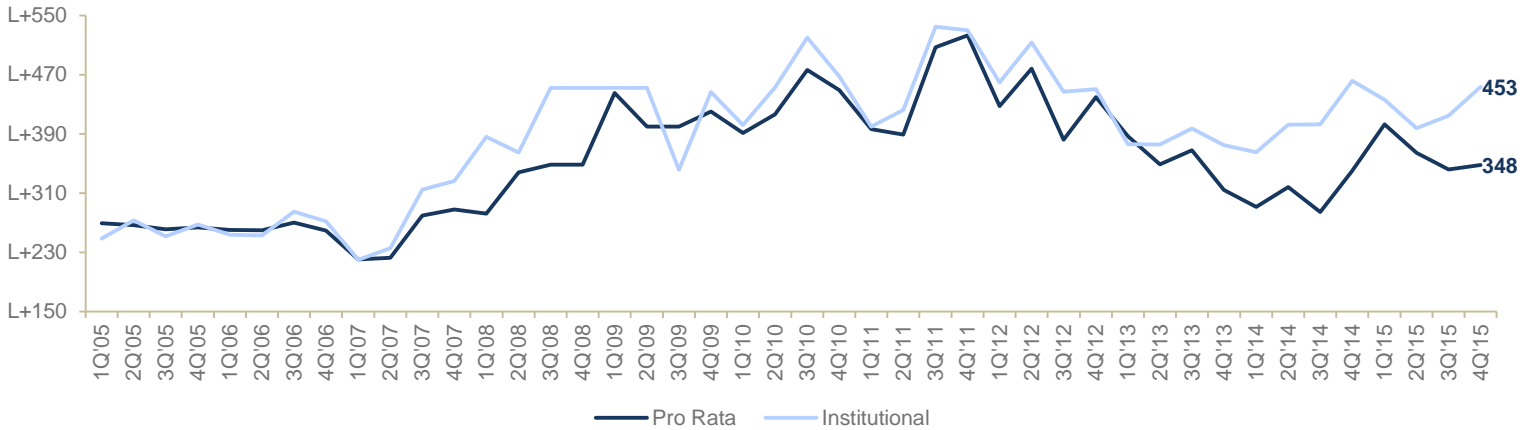
Source: Standard & Poor | Leveraged Commentary & Data

Leveraged Loan Pricing

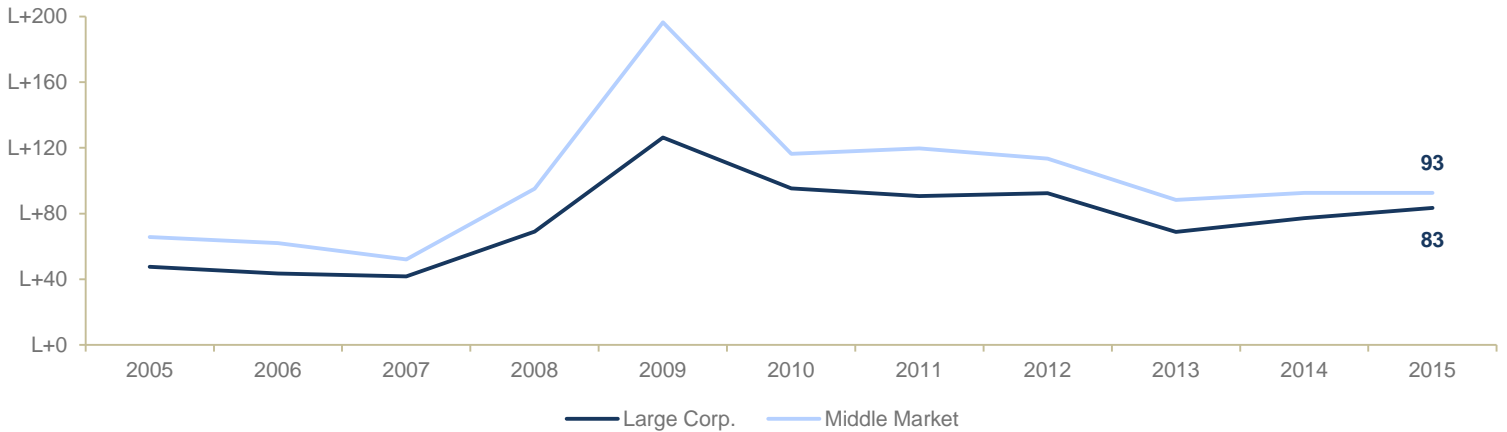
Average New Issue Spreads BB/BB - Quarterly



Average New Issue Spreads B+/B - Quarterly



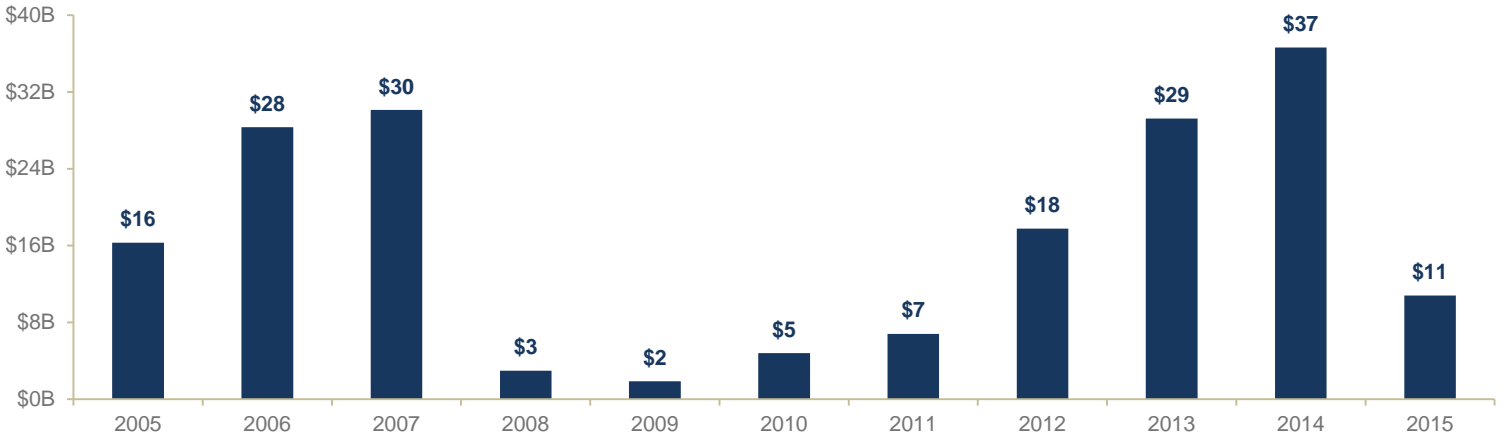
Average Spread Per Turn of Leverage (SPU) on LBO's*



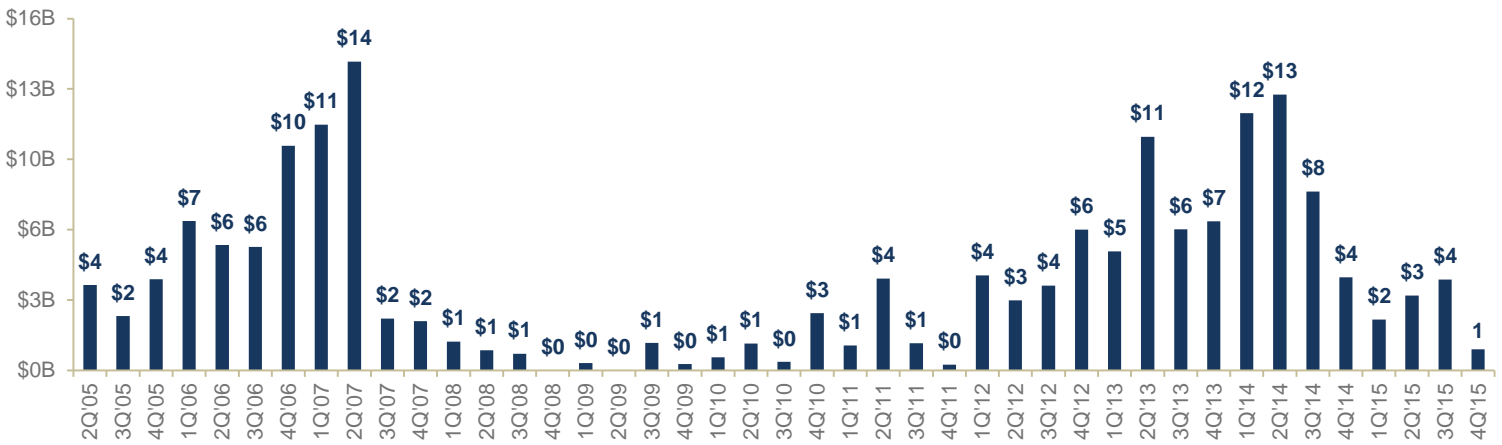
*Calculated as average pricing (spread) divided by average leverage on LBO's
Source: Standard & Poor | Leveraged Commentary & Data

Second-Lien Loans

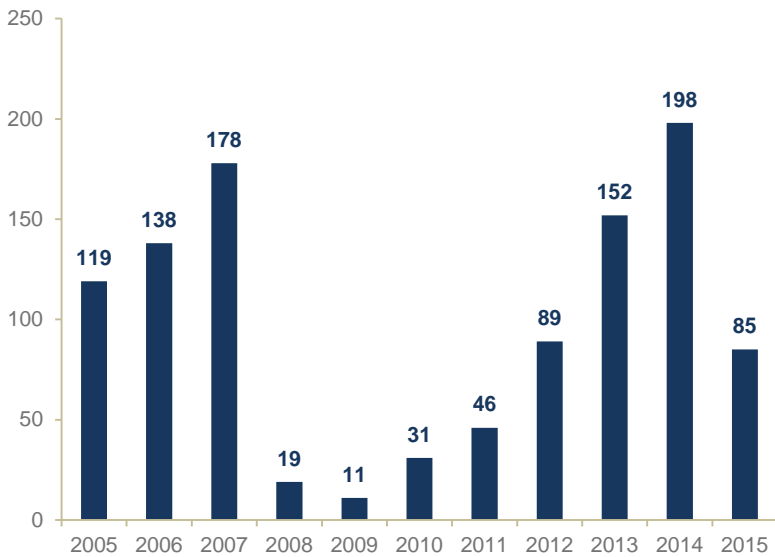
Second-Lien Loan Volume - Annual



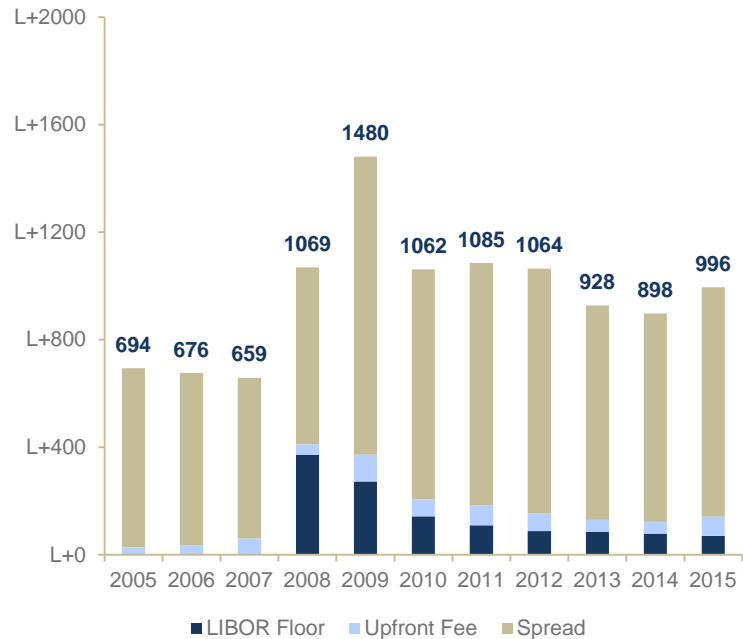
Second Lien Loan Volume - Quarterly



New-Issue Volume of Second-Lien Loans
Number of Deals



Average New Issue Second-Lien Spreads

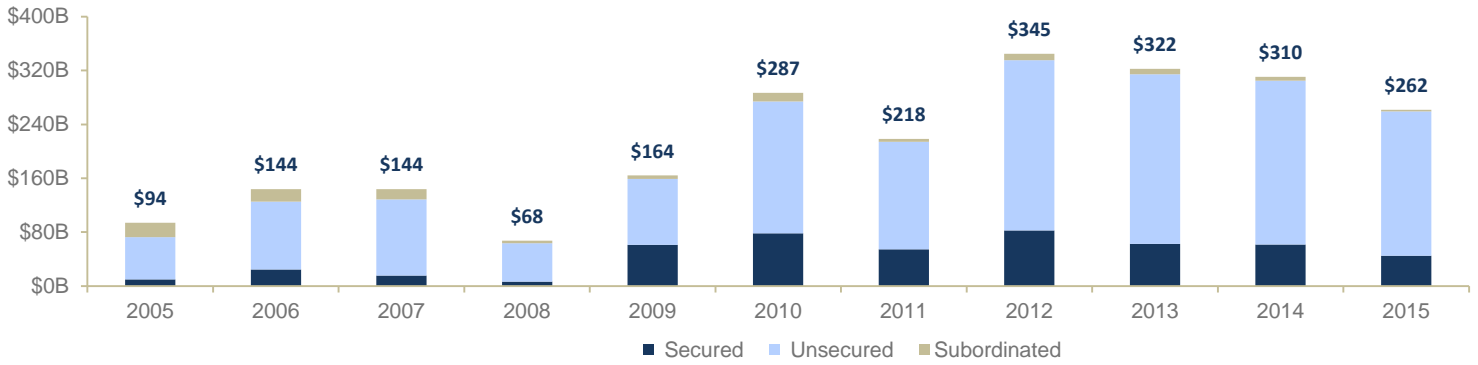


Source: Standard & Poor | Leveraged Commentary & Data

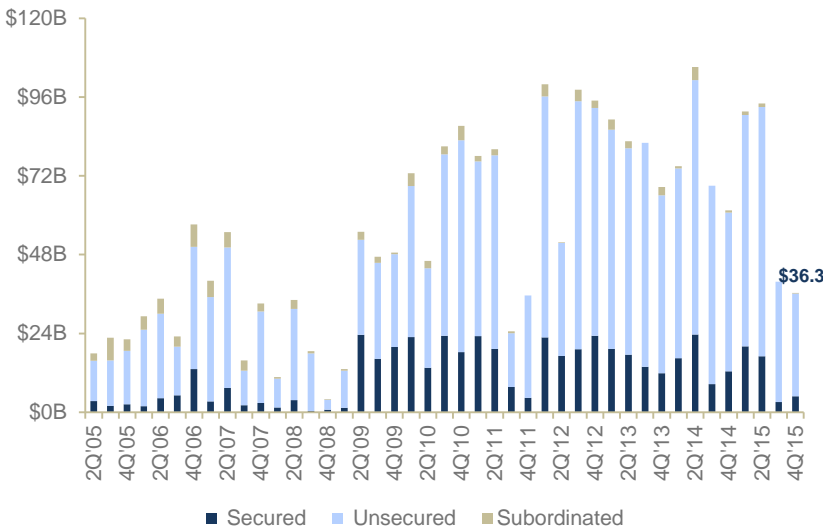
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High Yield Bonds

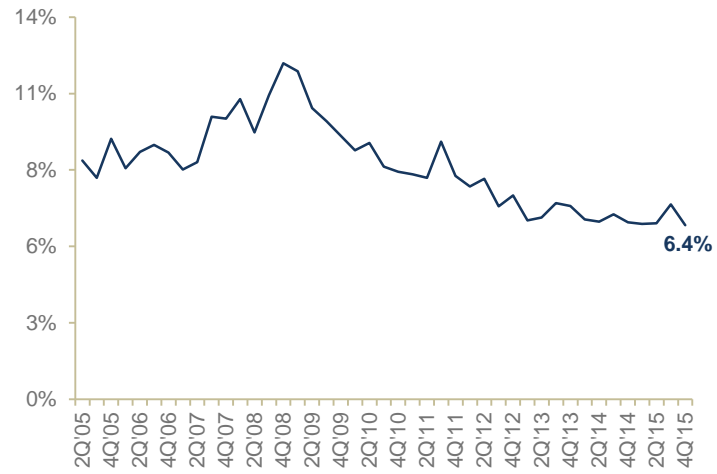
High Yield Bond Issuance – Annual



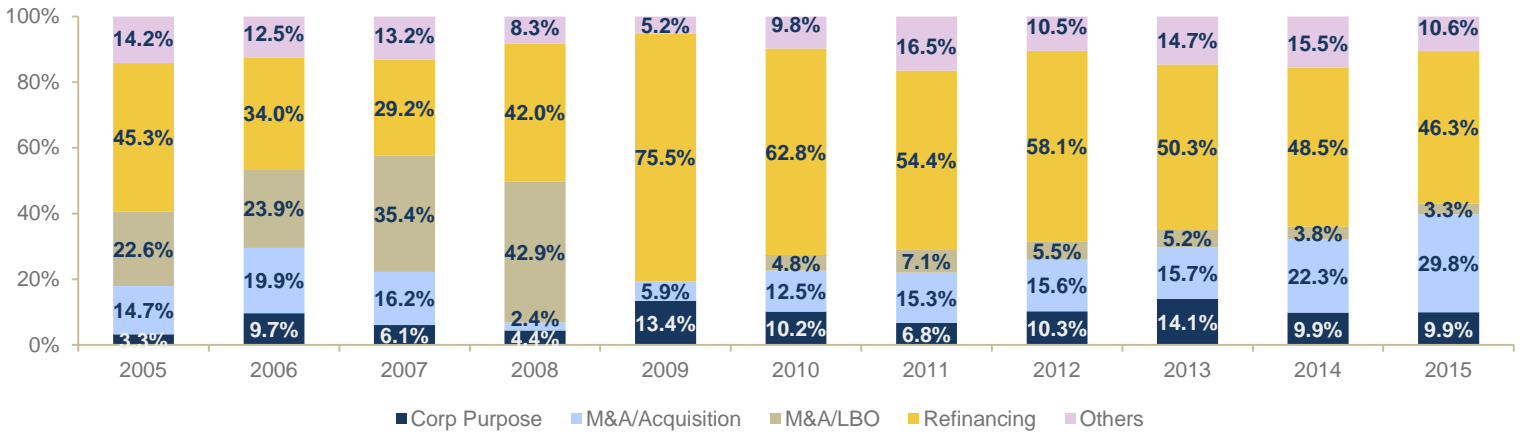
High Yield Bond Issuance – Quarterly



New issue High Yield Bond Yield to Maturity



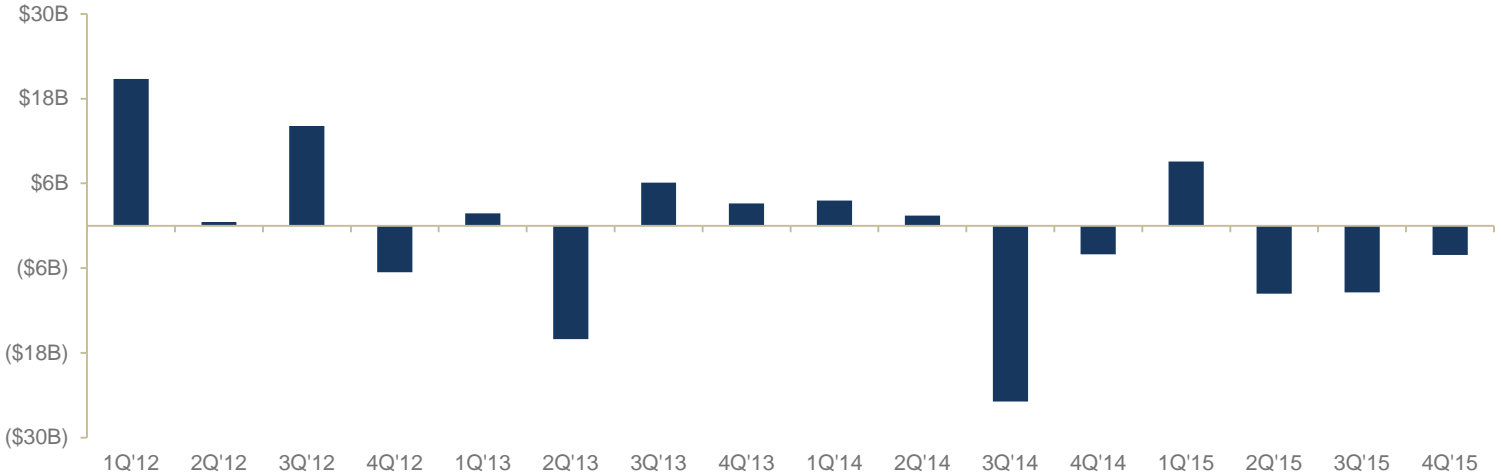
High Yield Bond Issuance by Purpose



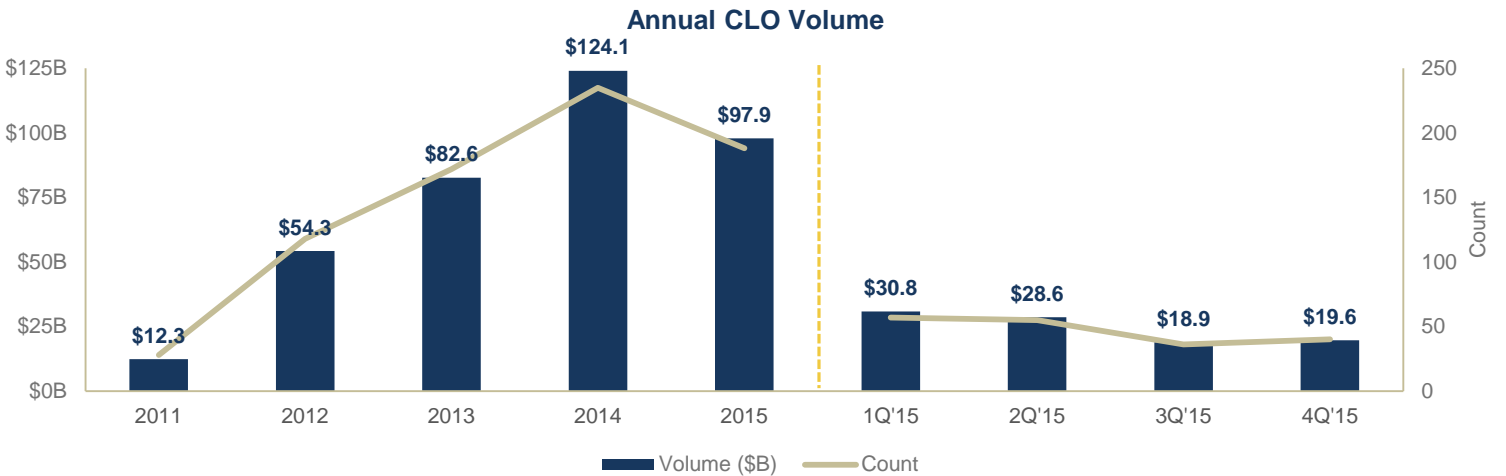
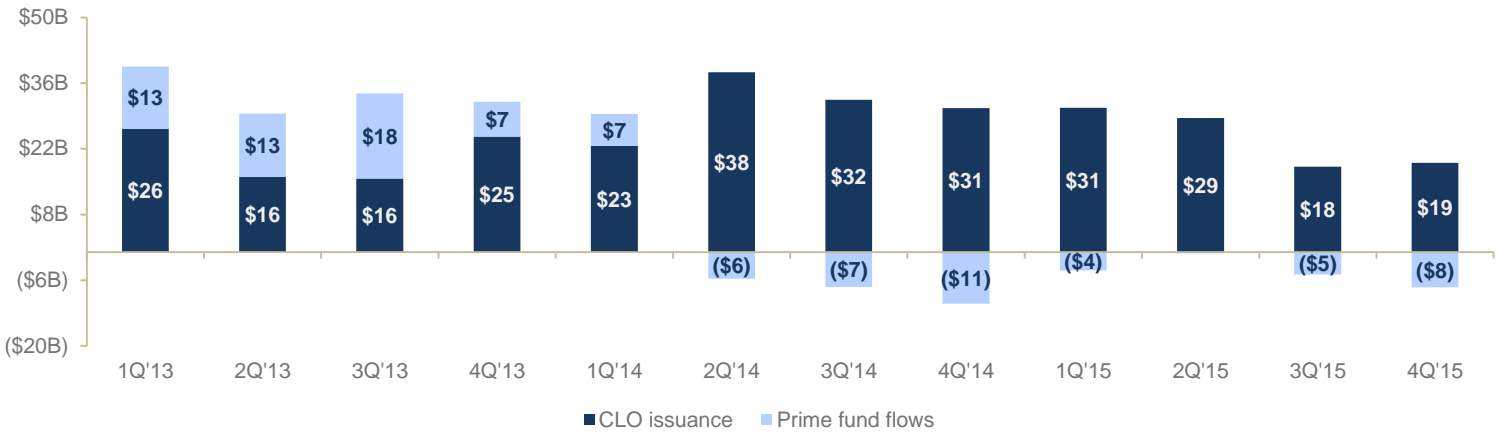
Source: Standard & Poor | Leveraged Commentary & Data

Funds Flows

Flows into High Yield Bond Funds - Quarterly

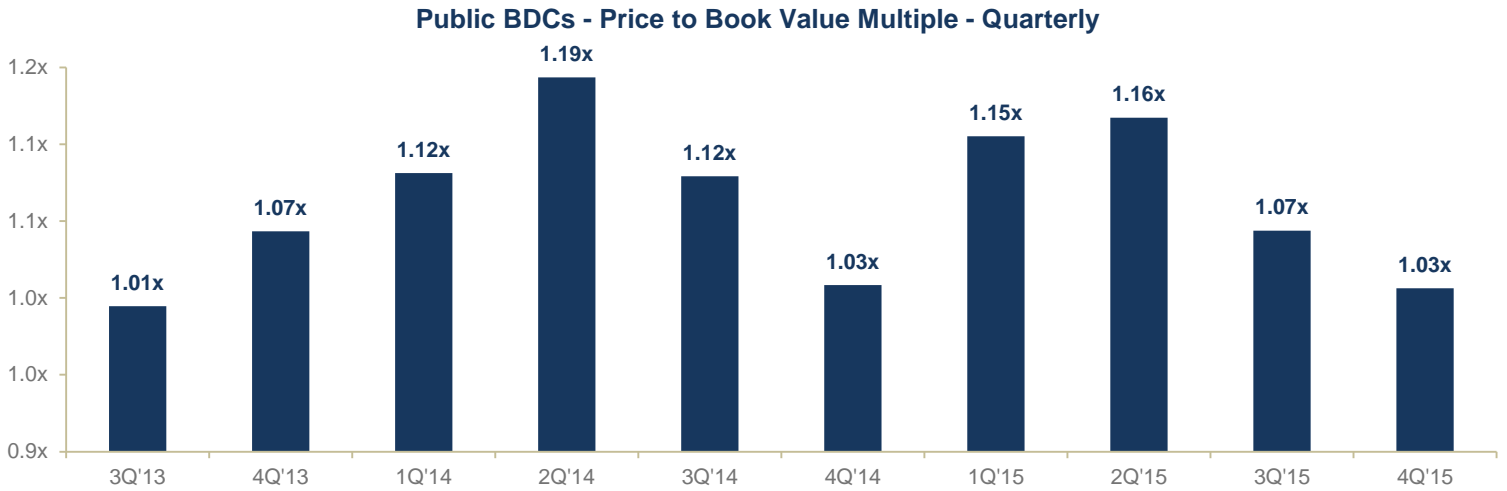
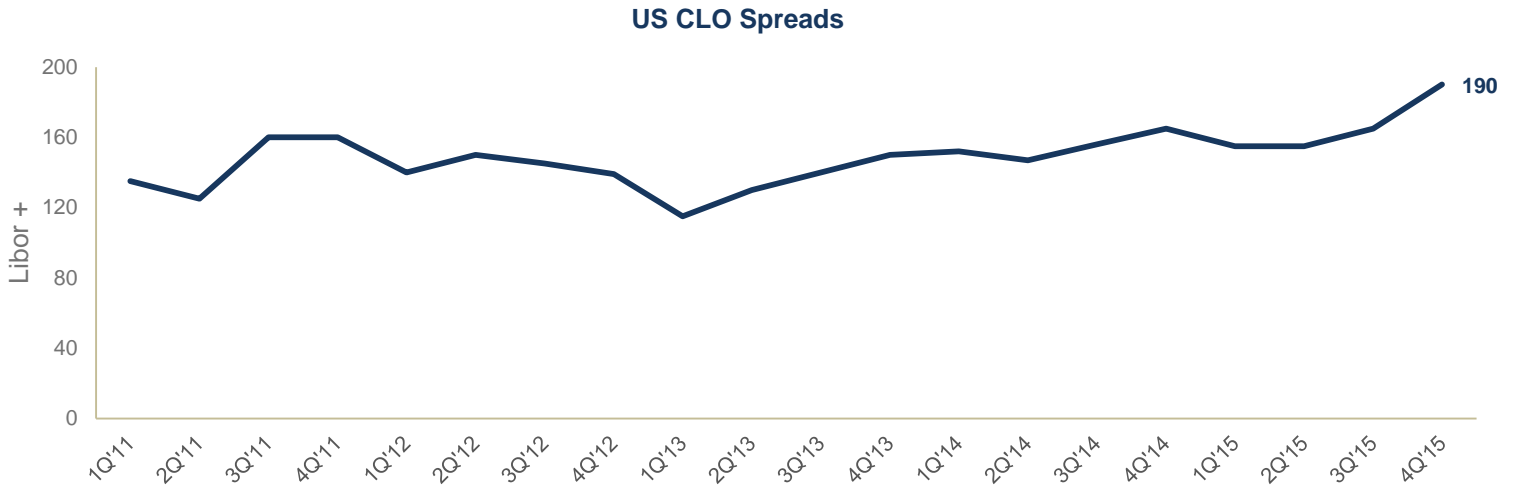


Flows into Leveraged Loan Funds - Quarterly



Source: Standard & Poor | Leveraged Commentary & Data

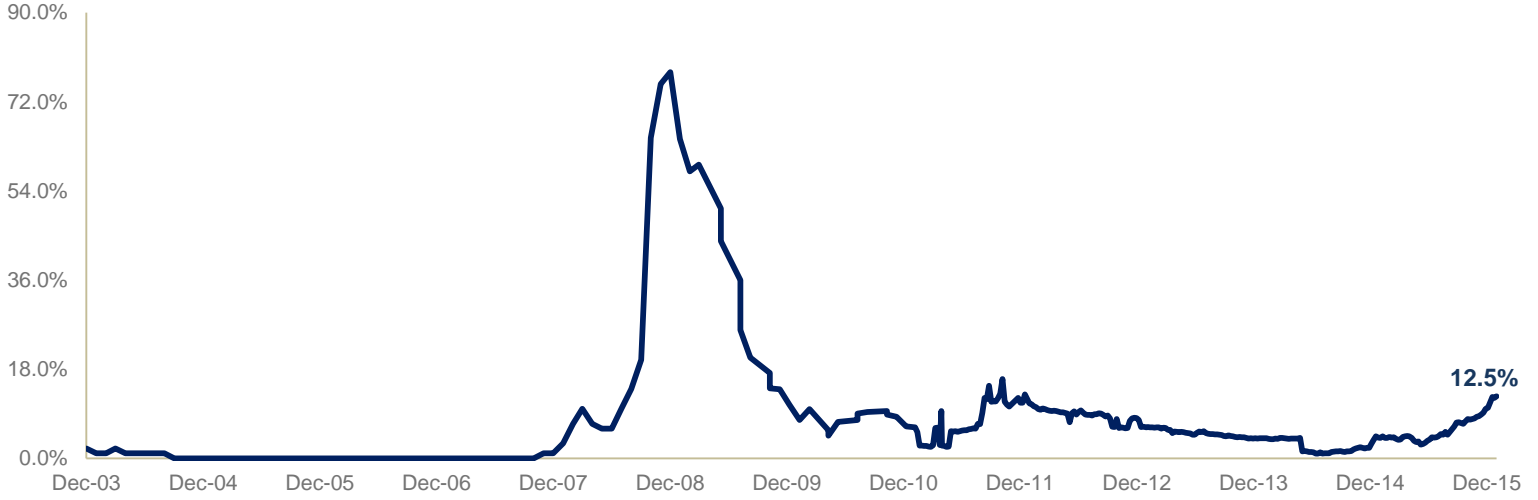
Funds Flows (continued)



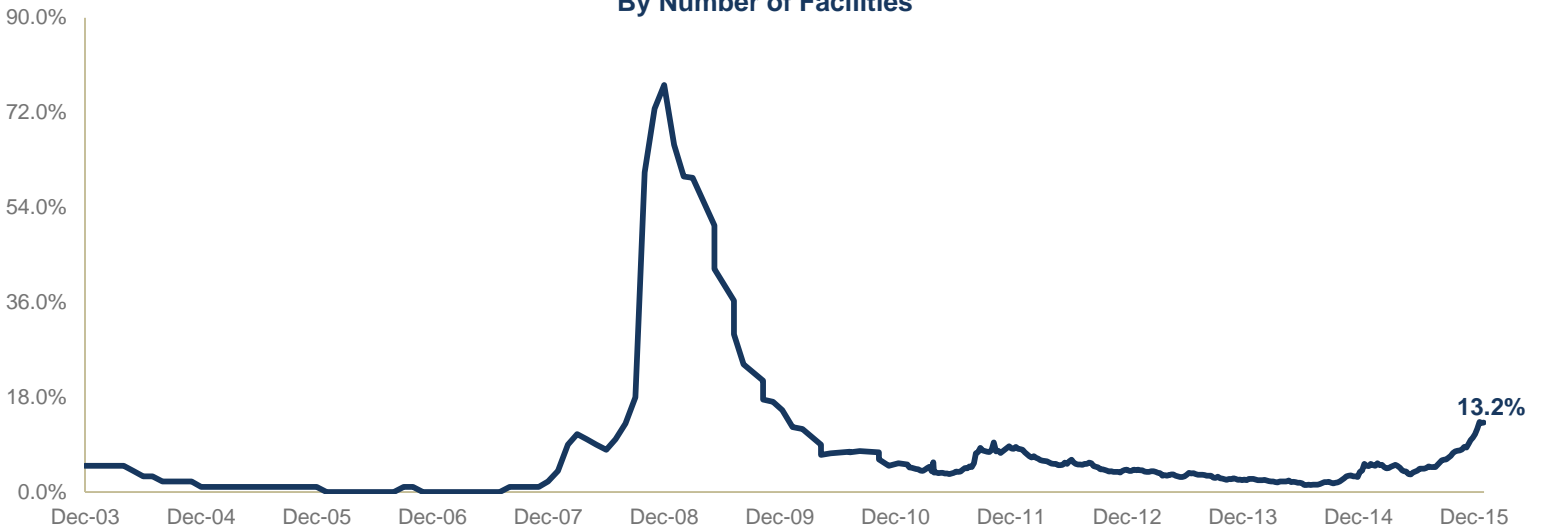
Source: Standard & Poor | Leveraged Commentary & Data

Distress and Defaults

**Percent of First-Lien Loans with Secondary Spreads of L+1000 or Higher
By Amount Outstanding**



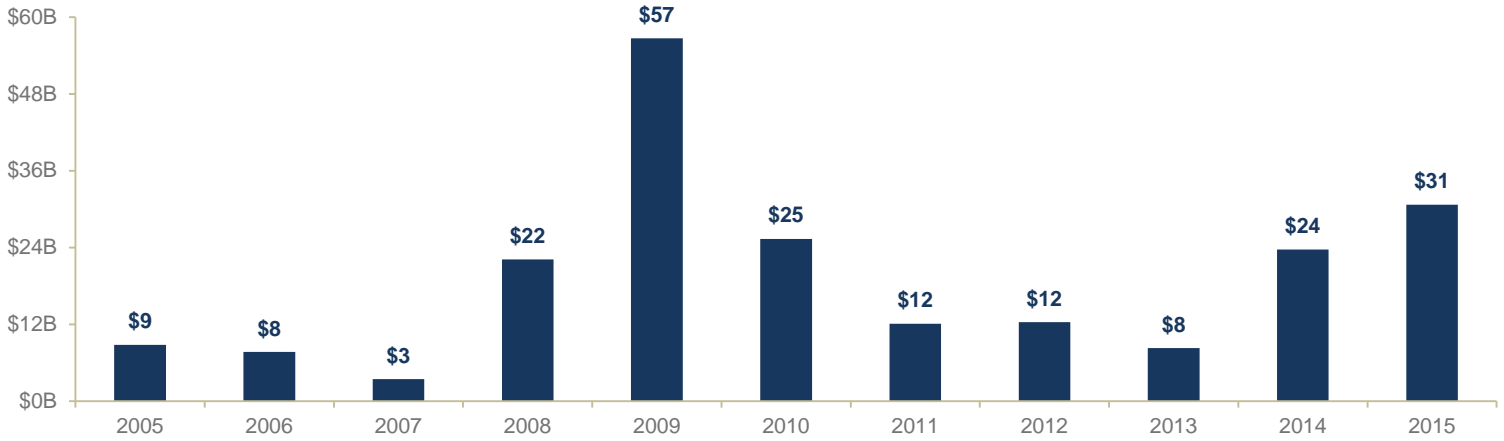
**Percent of First-Lien Loans with Secondary Spreads of L+1000 or Higher
By Number of Facilities**



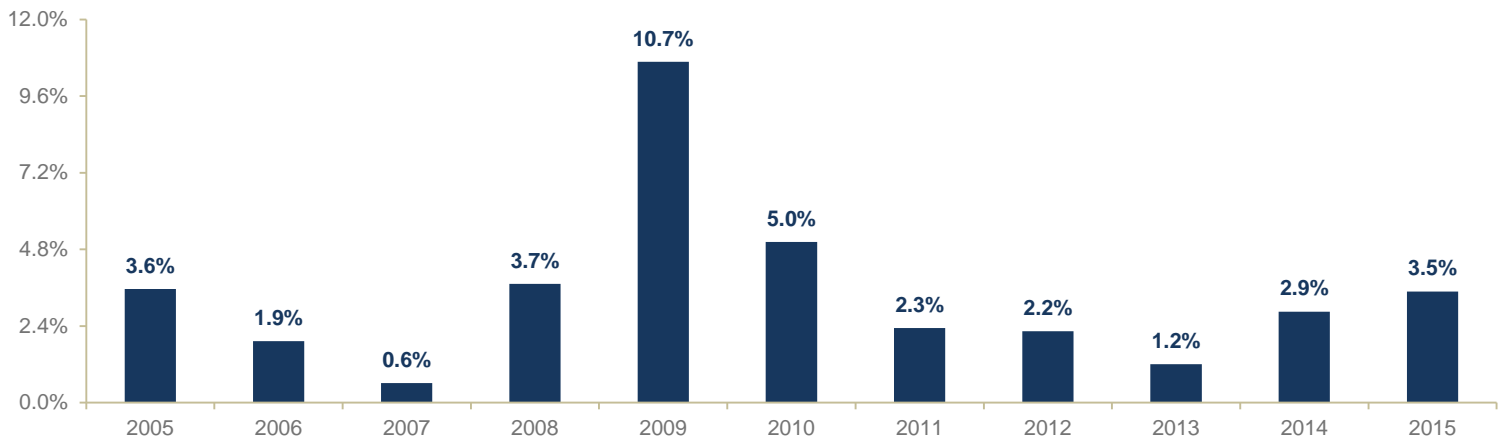
Source: Standard & Poor | Leveraged Commentary & Data

Distress and Defaults (continued)

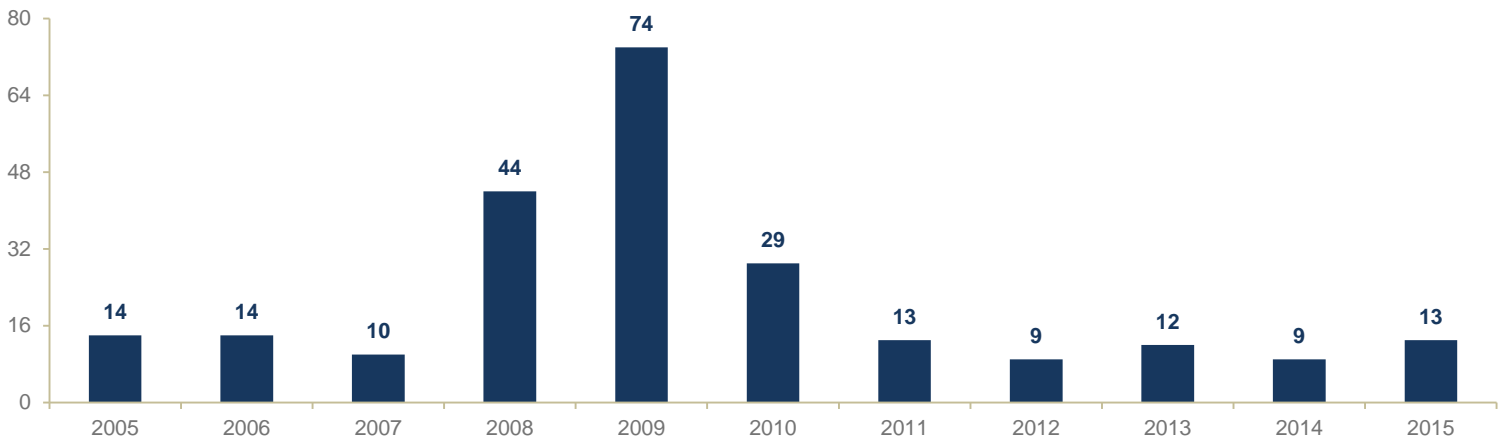
Par Amount of Leveraged Loans in Payment Default or Bankruptcy



Percent of Outstanding Leveraged Loans in Default or Bankruptcy



Number of Issuers in Payment Default or Bankruptcy



Source: Standard & Poor | Leveraged Commentary & Data

CDS North America High Yield Index



Constituents

Latest Additions to the CDS HY Index

Company	Current Bid	Company	Current Bid
California Resources Corporation	4,978	Whiting Petroleum Corp.	878
Dynegey Inc.	811	MarkWest Energy Partners, L.P.	380
Communications Sales & Leasing, Inc.	583	HD Supply, Inc.	265
Sabine Pass Liquefaction, LLC	580	T-Mobile US, Inc.	266
Valeant Pharmaceuticals International, Inc.	602	DaVita HealthCare Partners Inc.	256

Largest Increases in CDS Pricing

Company	Current Bid	1-Week Change
Whiting Petroleum Corp.	878	56%
Tesoro Corporation	284	54%
American Axle & Manufacturing	474	41%
Deluxe Corp.	68	38%
The Hertz Corporation	619	33%

Largest Decreases in CDS Pricing

Company	Current Bid	1-Week Change
Peabody Energy Corporation	6,858	(19%)
J. C. Penney Company, Inc.	904	(3%)
iHeartCommunications, Inc.	4,208	(3%)
T-Mobile US, Inc.	266	(3%)
MBIA Insurance Corporation	3,731	(1%)

Source: S&P Capital IQ, Markit website; *As of January 15, 2016.

Capital Advisory Practice

We are a leading global financial advisor with real time knowledge of the capital markets. We advise on a wide range of transactions involving both debt and equity, including raising financing for acquisitions, buyouts, dividend recapitalizations, growth capital, special situations, and DIP and exit financing in bankruptcies.

We maintain close relationships with hundreds of debt, mezzanine and equity capital providers, including banks, BDCs, specialty finance companies, insurance companies, family offices, and a vast array of credit and equity funds and other private investors.

Our team has decades of capital markets experience and has raised over \$15 billion of debt and equity financing across numerous industries.

Value added advisor

- Unbiased and objective advice
- Local market insight with strong relationships across all tranches of capital
- Experienced deal team
- Flexible and innovative approach
- Fully integrated service offering
- KPMG global advisory network

Select Credentials

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Primary Service Offerings

Capital Advisory

- Independent capital structure review for boards of directors
- Assess funding options for specific capital initiatives
- Assess and assist in developing optimal capital structure and capital management plan
- Independent review of cost of capital
- Debt capacity review

Debt and Equity Capital Raises

- Senior debt financing, refinancing or amendments
- Acquisition and growth capital
- Leveraged ESOP financing
- Dividend recapitalizations and minority buyouts
- Mezzanine/junior subordinated financing
- Structured and minority equity
- Project financing
- Capital for special situations, including bankruptcies

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