



Credit Markets Update

March 31, 2018

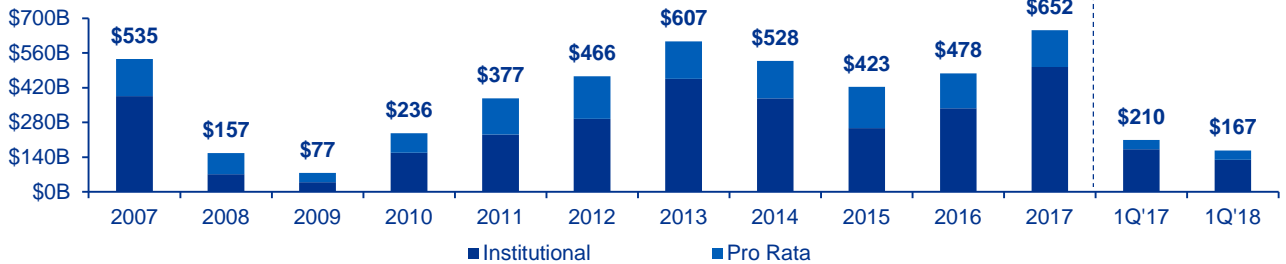
Credit Markets Update as of March 31, 2018

We are pleased to provide this summary update of the U.S credit markets through the first calendar quarter ending March 31, 2018 to our clients and friends:

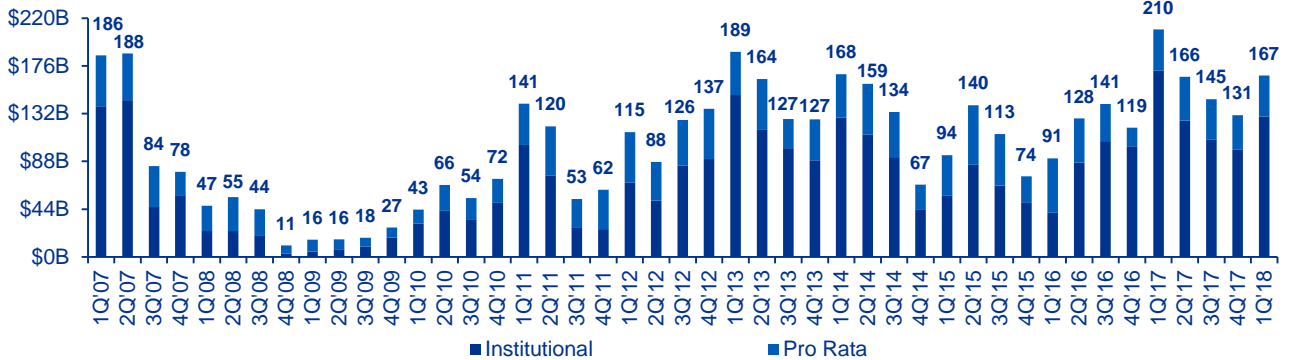
- **The fundamental backdrop for the overall credit market remained volatile in the first quarter**, as rising interest rates triggered pain for some fixed income investors. However, leveraged loan volume remained strong with terms continuing to favor issuers, countervailed by bonds weaker performance
- **Newly issued leveraged loan volume showed a rise of 28.0% in the first quarter** of 2018 over the last quarter, standing at \$167 billion after three consecutive quarterly declines in 2017
- **New-issue covenant-lite loan volume decreased by 13.8% to \$102 billion in the first quarter of 2018** from \$119 billion in the corresponding quarter of previous year
- **Non-investment grade B rated first lien pro rata** and institutional syndicated leveraged loans remain attractive to investors with spread of L+346 and L+344, respectively, in the first quarter of 2018
- **Number of LBO transactions and volume rose by 10.3% and 7.0% from the first quarter of 2017** to reach 43 and \$54 billion, respectively, in the first quarter of 2018. First quarter transactions and volume numbers are up 95.5% and 87.6%, respectively, over the last quarter
- **Purchase price multiples for middle market LBOs** increased to 10.5x in the first quarter of 2018 from 8.3x in the corresponding quarter of last year, indicating a sign of strong leveraged loan market
- **Debt multiples of middle market and large corporate LBO loans stood at 5.4x and 5.9x**, respectively, in the first quarter of 2018, almost flat at levels seen in full year 2017
- **Equity contribution to LBOs decreased to 39.2% of the purchase price in the first quarter of 2018** from 41.3% in 2017. However, the contribution when compared with the first quarter of 2017 is higher by 0.7%
- **Second lien loan issuance volume stood at \$6 billion in the first quarter**, an increase of 61.8% over the last quarter, while a 14.3% dip from the corresponding quarter of 2017
- **High yield bond issuance volume decreased in the first quarter of 2018** to \$64 billion from \$82 billion and \$68 billion in the corresponding quarter a year ago and the last quarter, respectively. Out of total volume in the first quarter, more than 15.4% was used to support M&A and LBO transactions
- **High yield bond pricing increased to 6.6% in the first quarter of 2018** from 6.5% and 6.4% in the corresponding quarter a year ago and the last quarter, respectively
- **Funds flows into leveraged loan funds increased to \$36 billion in the first quarter of 2018** from \$31 billion in the previous quarter
- **CLO volume increased to \$32 billion in the first quarter of 2018**, up 84.6% from \$17 billion in the corresponding quarter a year ago, and spreads tightened to L+104
- **Distress indicators eased during the quarter**, with the dollar amount and number of facilities of all outstanding first lien loans trading in the secondary market at prices of L+1000 or greater falling to 2.3% and 2.9%, respectively
- **Percentage of leveraged loans in default or in bankruptcy fell to 1.9%** in the first quarter of 2018 from 2.1% in the corresponding quarter of last year, marking improvements in credit fundamentals

Leveraged Loans

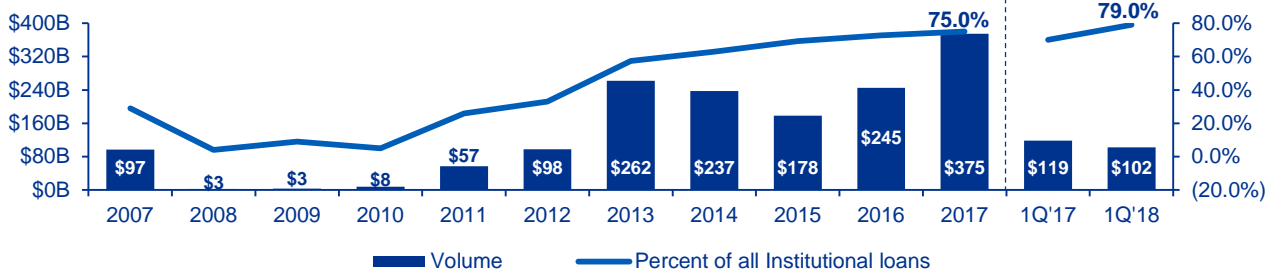
New Issue Leveraged Loan Volume - Annual (\$bn)



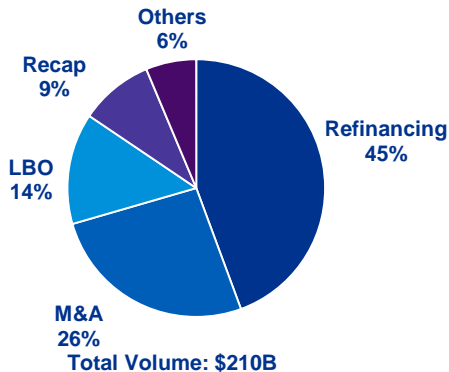
New Issue Leveraged Loan Volume - Quarterly (\$bn)



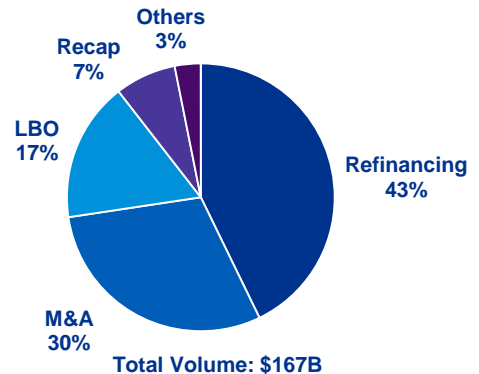
New-Issue Cov-Lite Loans (\$bn)



Leveraged Loan Issuance by Purpose - 1Q'17



Leveraged Loan Issuance by Purpose - 1Q'18

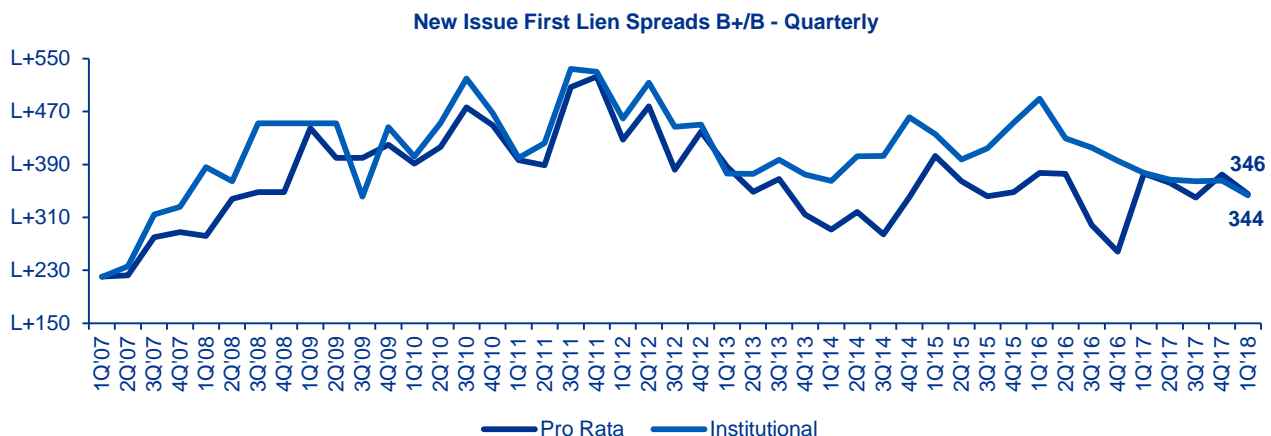
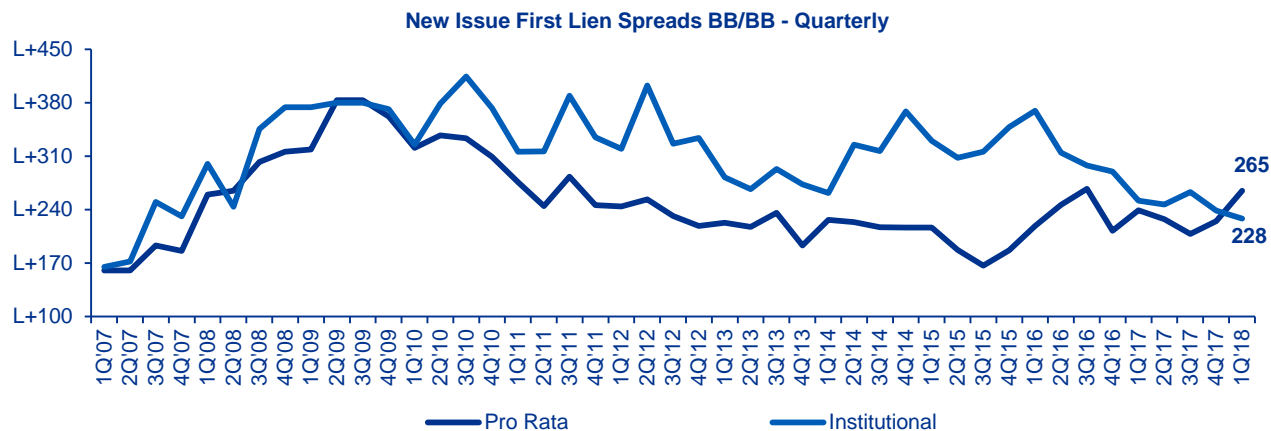


Source: Standard & Poor | Leveraged Commentary & Data



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Leveraged Loans (continued)



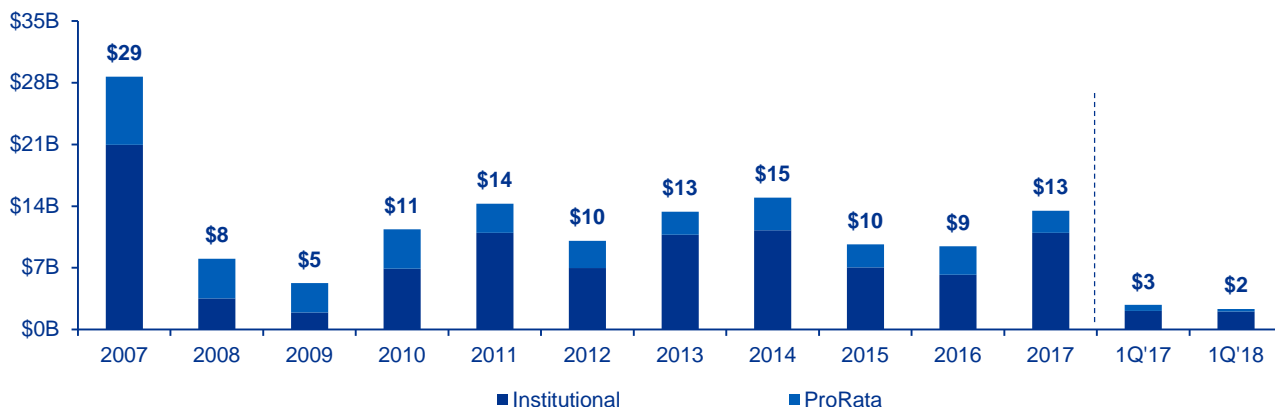
Source: Standard & Poor | Leveraged Commentary & Data



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Leveraged Loans - Middle Market

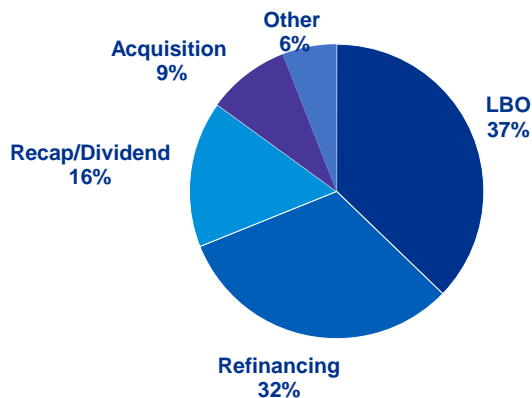
Leveraged Loan Volume- Annual (\$bn)



Leveraged Loan Volume- Quarterly (\$bn)

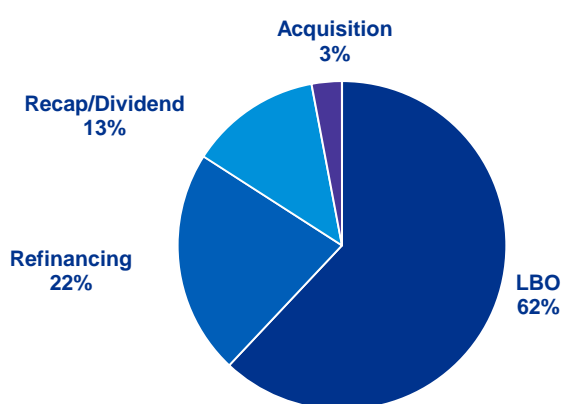


Total New-Issue Volume by Purpose - 1Q'17



Total Volume: \$2.7B

Total New-Issue Volume by Purpose - 1Q'18



Total Volume: \$2.4B

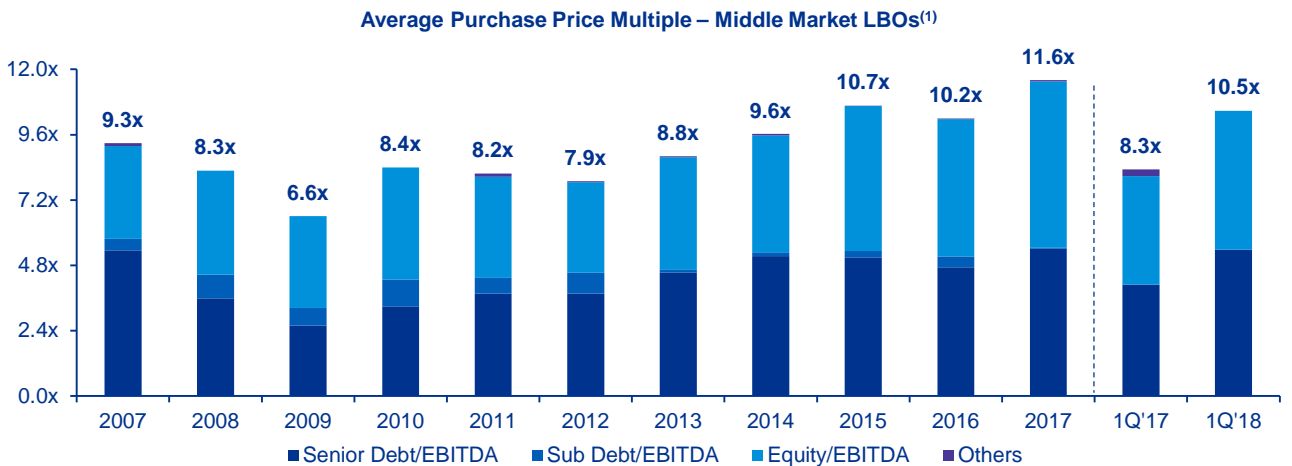
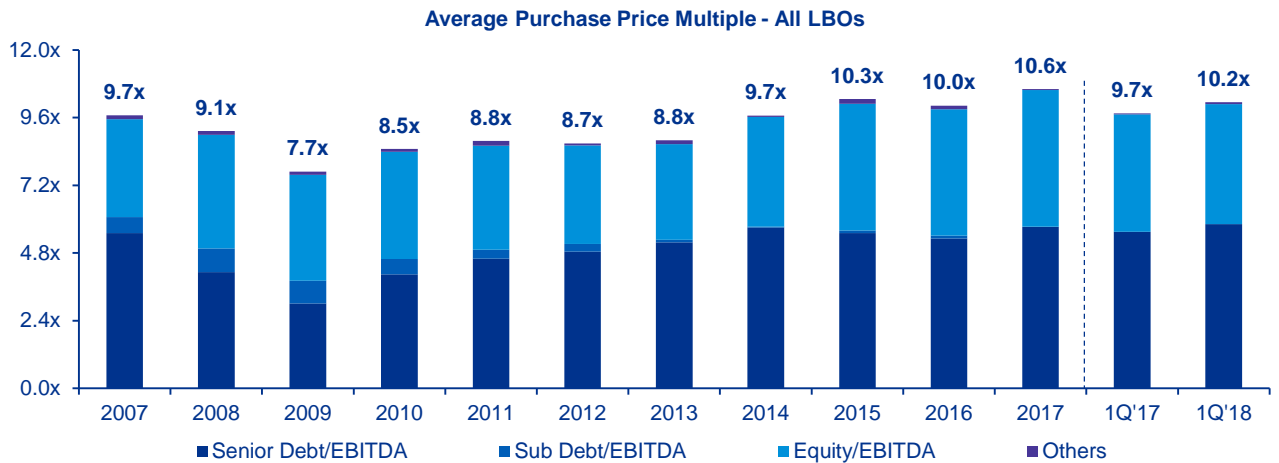
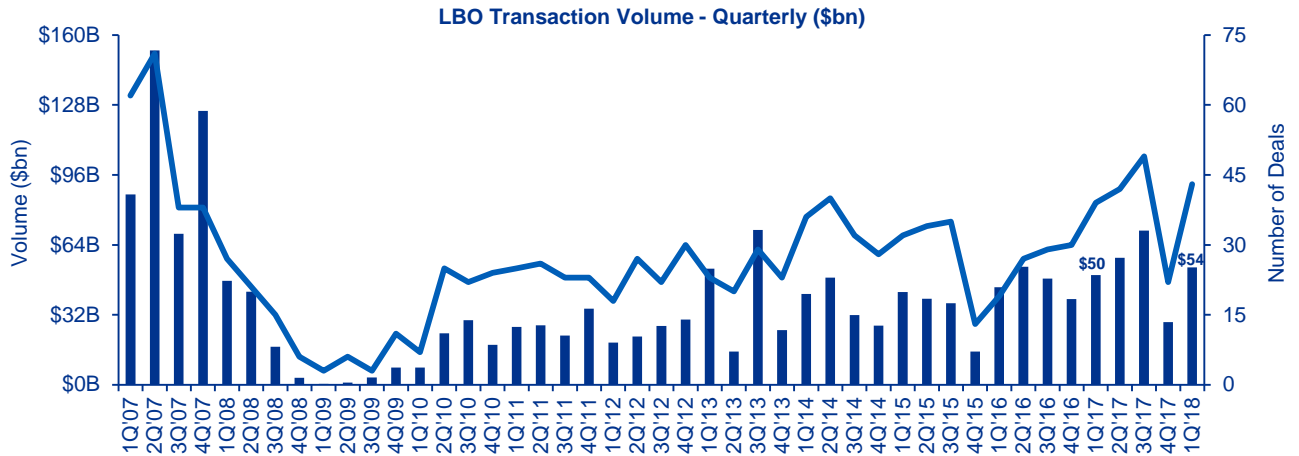
Source: Standard & Poor | Leveraged Commentary & Data

Note: Middle market refers to companies with EBITDA of \$50 million or less



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LBO Summary



Source: Standard & Poor | Leveraged Commentary & Data

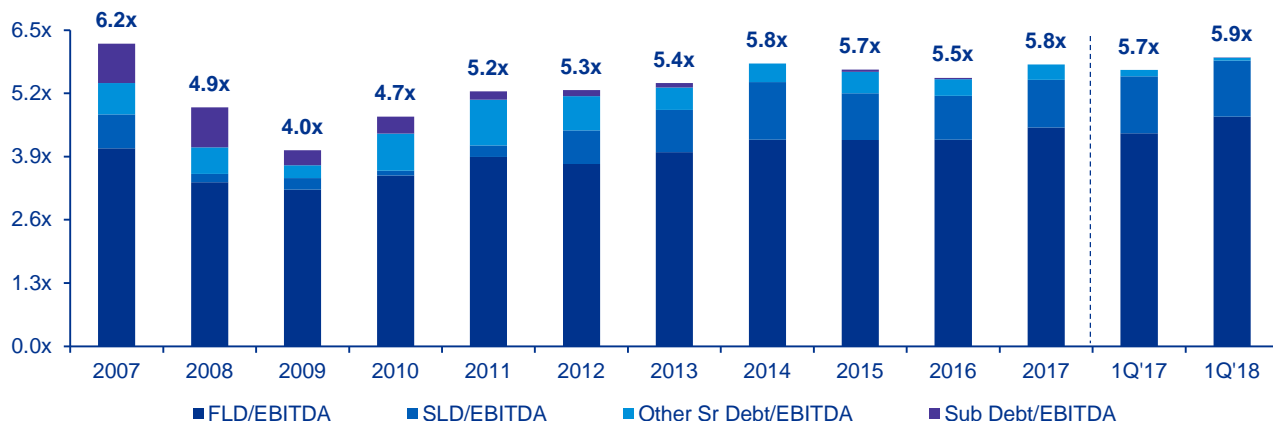
⁽¹⁾ Middle market refers to companies with EBITDA of \$50 million or less



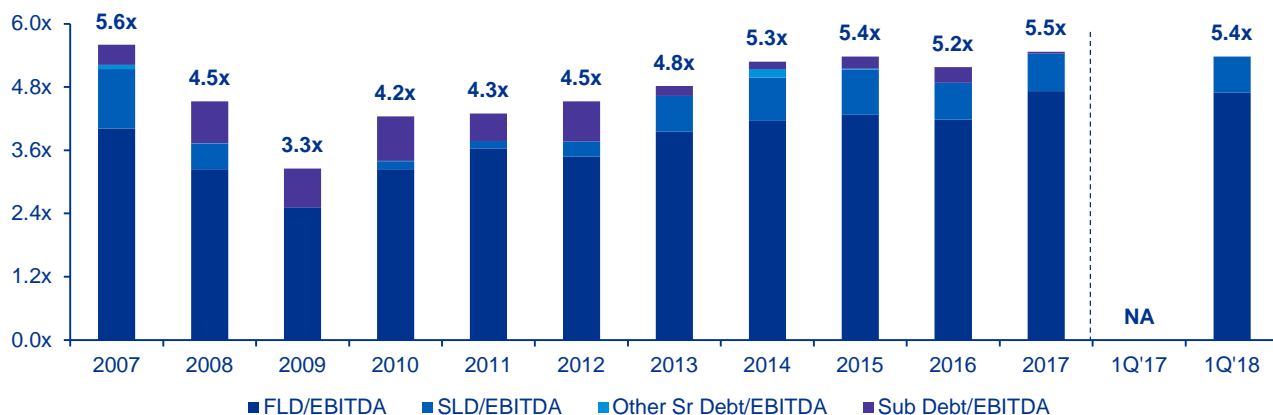
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LBO Summary (continued)

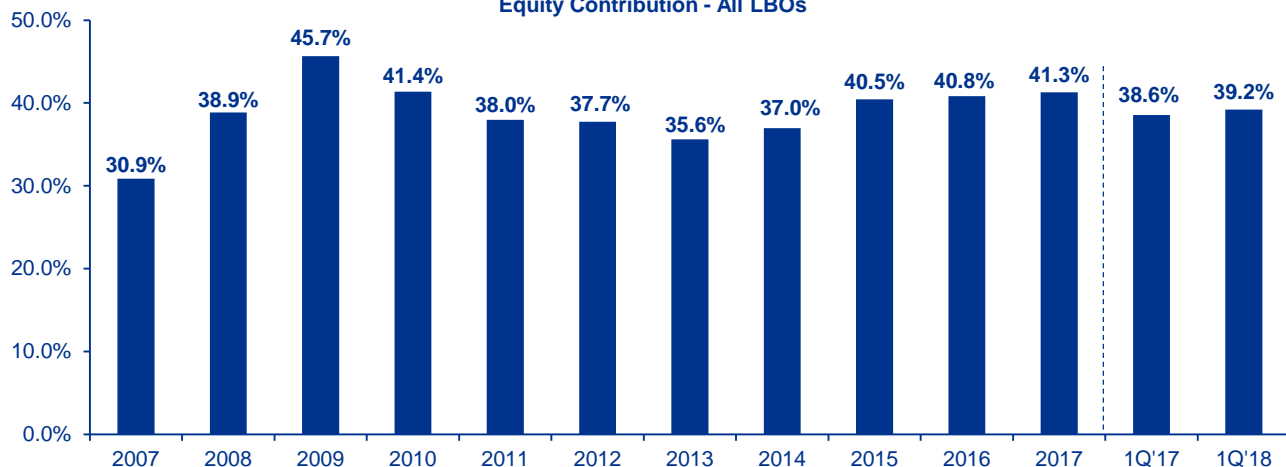
Average Debt Multiples of Large Corporate LBO Loans⁽¹⁾



Average Debt Multiples of Middle-Market LBO Loans⁽²⁾



Equity Contribution - All LBOs



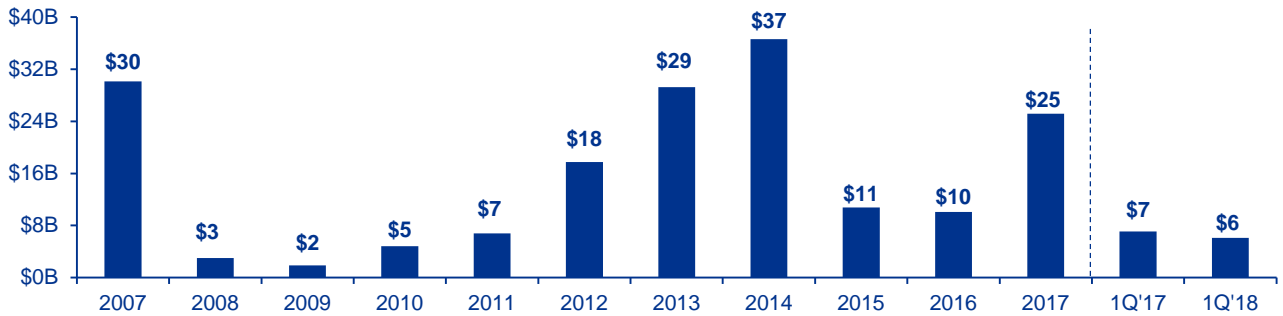
Source: Standard & Poor | Leveraged Commentary & Data

⁽¹⁾ Middle market refers to companies with EBITDA of \$50 million or less.

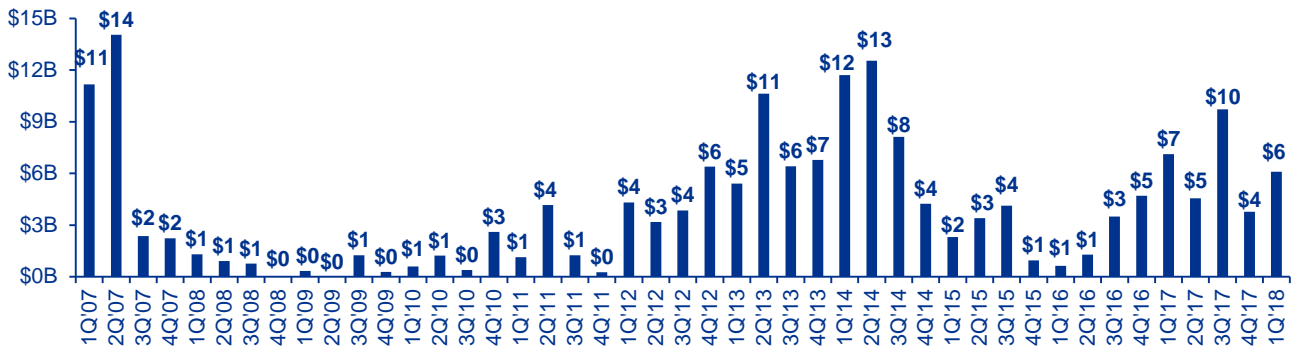
⁽²⁾ Large corporate refers to companies with EBITDA of more than \$50 million.

Second-Lien Loans

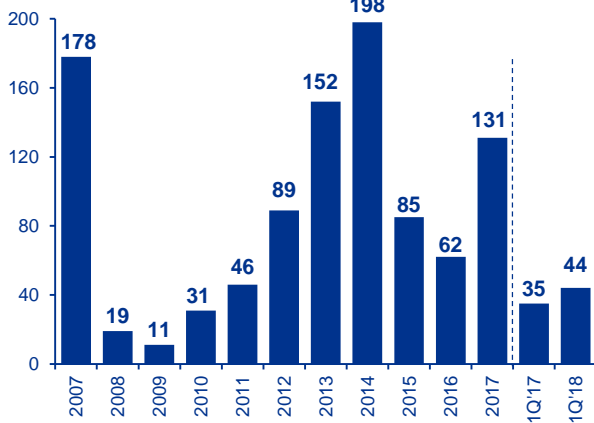
Second-Lien Loan New-Issue Volume - Annual (\$bn)



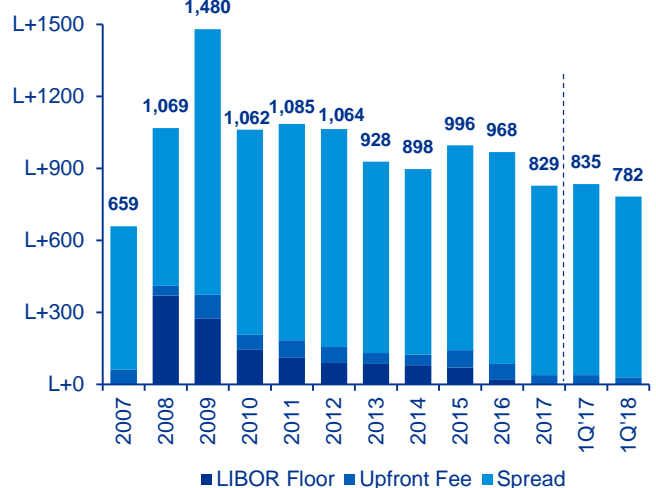
Second Lien Loan New-Issue Volume - Quarterly (\$bn)



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



Average New Issue Second-Lien Spreads

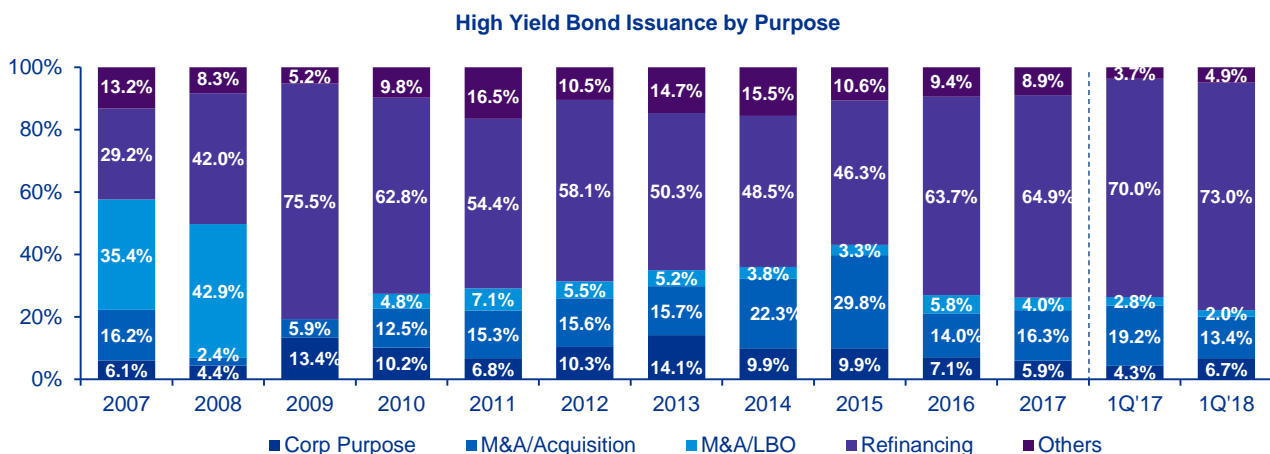
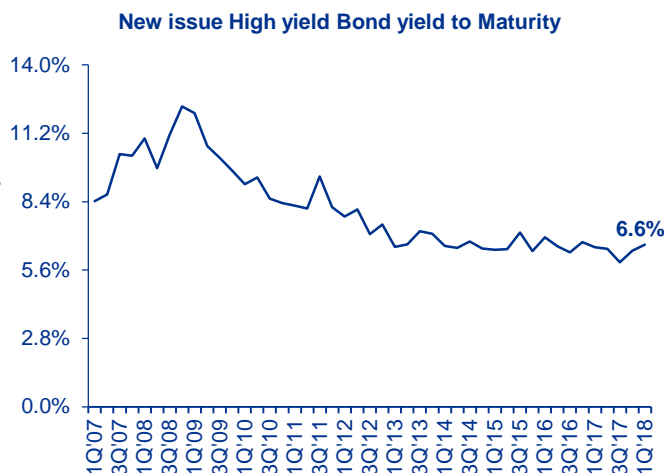
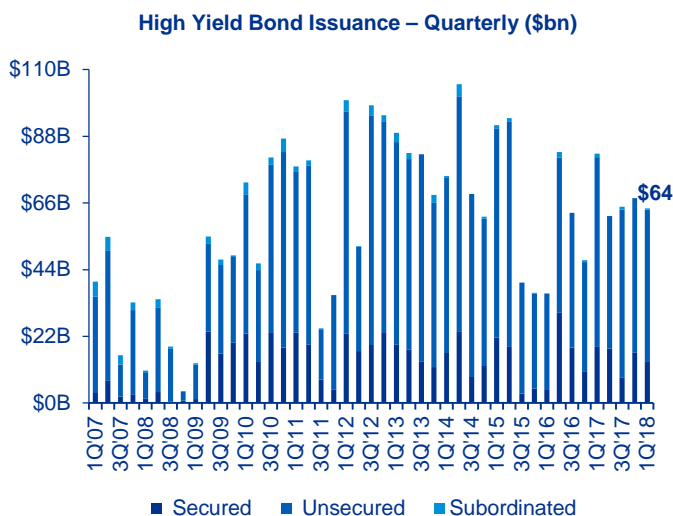
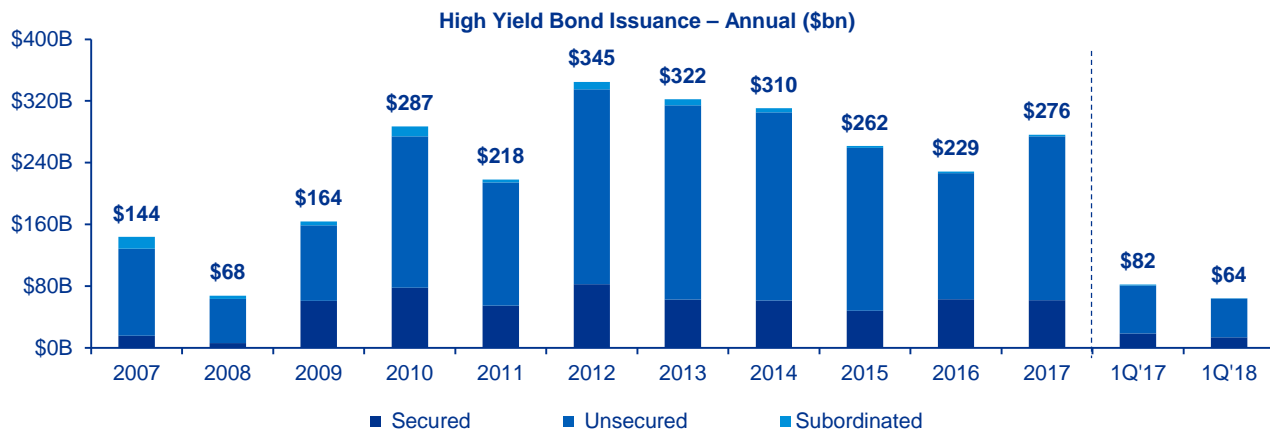


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High Yield Bonds



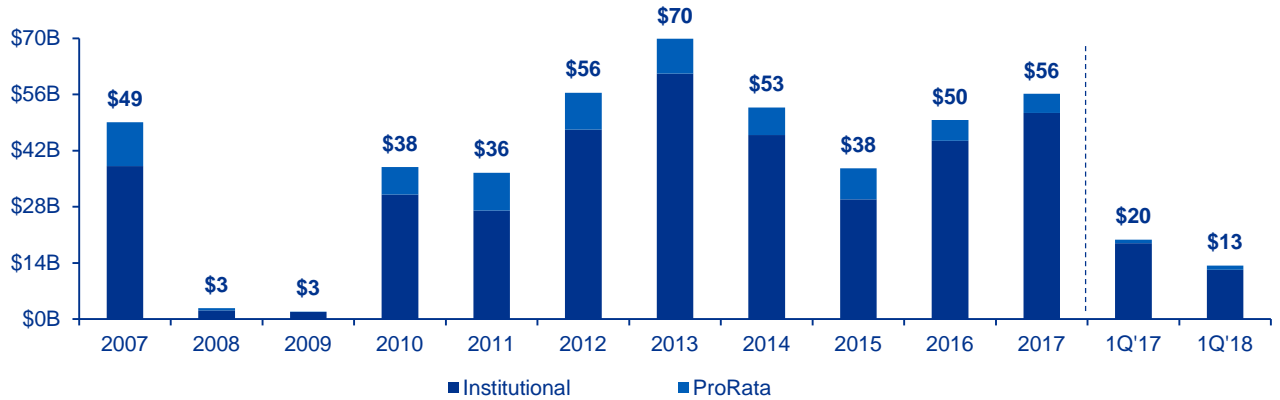
Source: Standard & Poor | Leveraged Commentary & Data



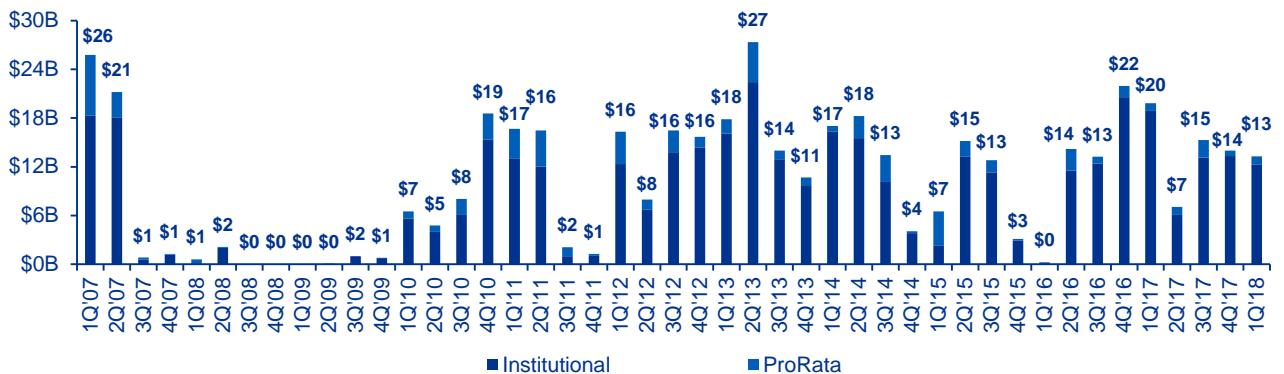
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Dividend Recapitalization

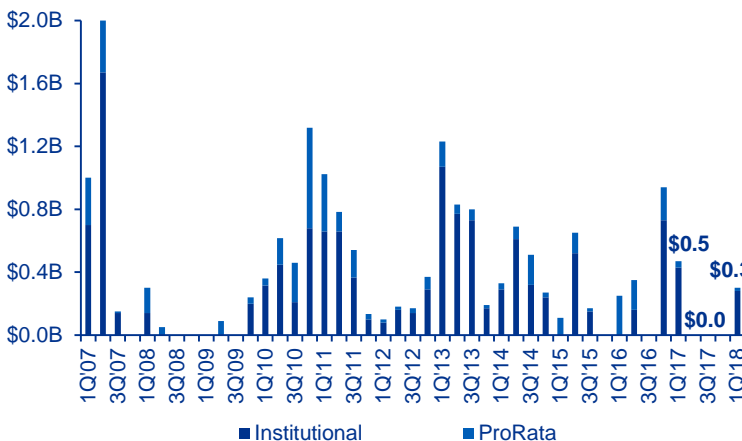
Dividend or Stock Repurchase Loan Volume- Annual (\$bn)



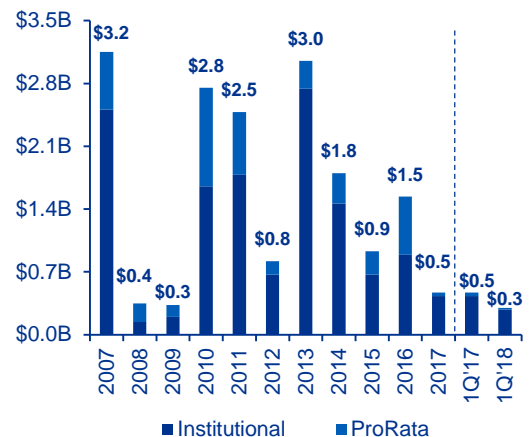
Dividend or Stock Repurchase Loan Volume- Quarterly (\$bn)



Middle-Market Dividend Related Volume- Quarterly (\$bn)



Middle-Market Dividend Related Volume- Annual (\$bn)



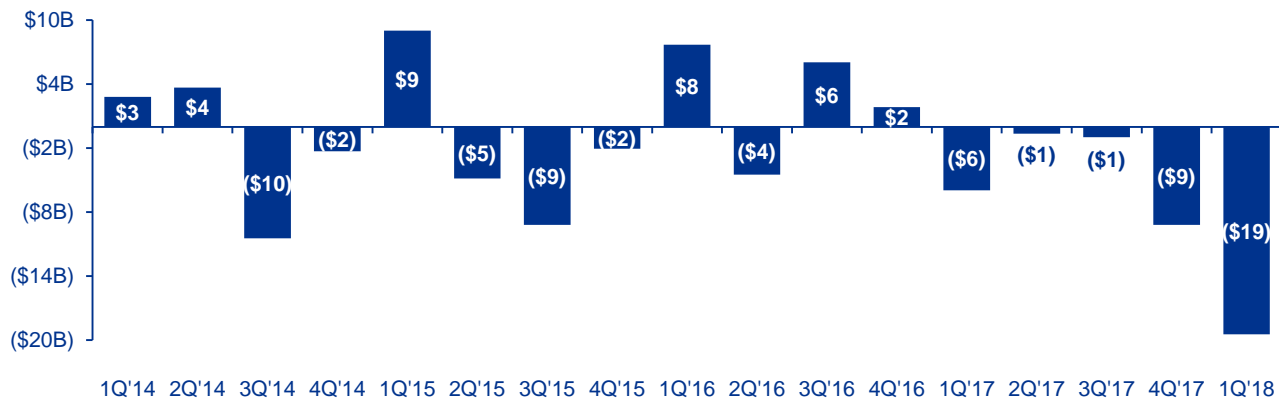
Source: Standard & Poor | Leveraged Commentary & Data



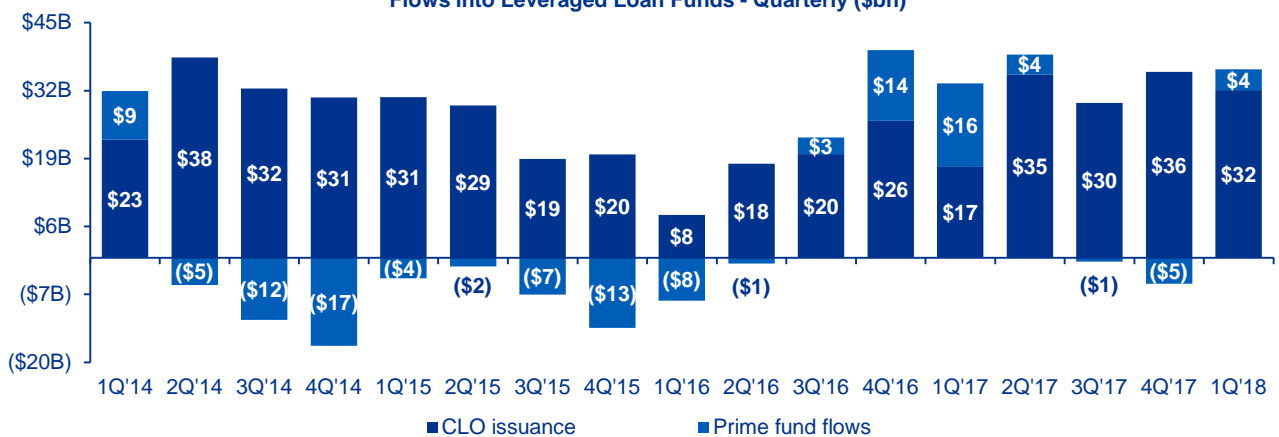
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Funds Flows

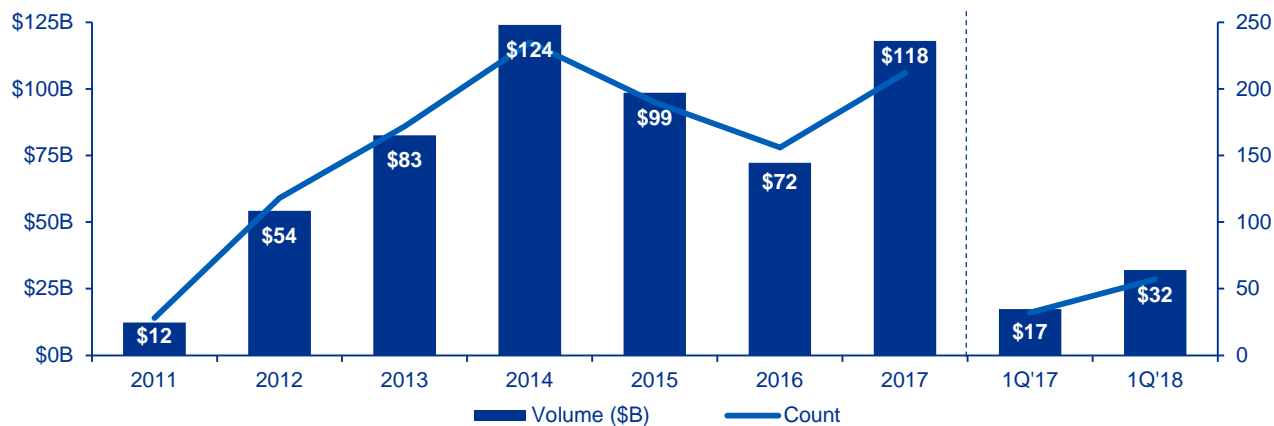
Flows into High Yield Bond Funds - Quarterly (\$bn)



Flows into Leveraged Loan Funds - Quarterly (\$bn)



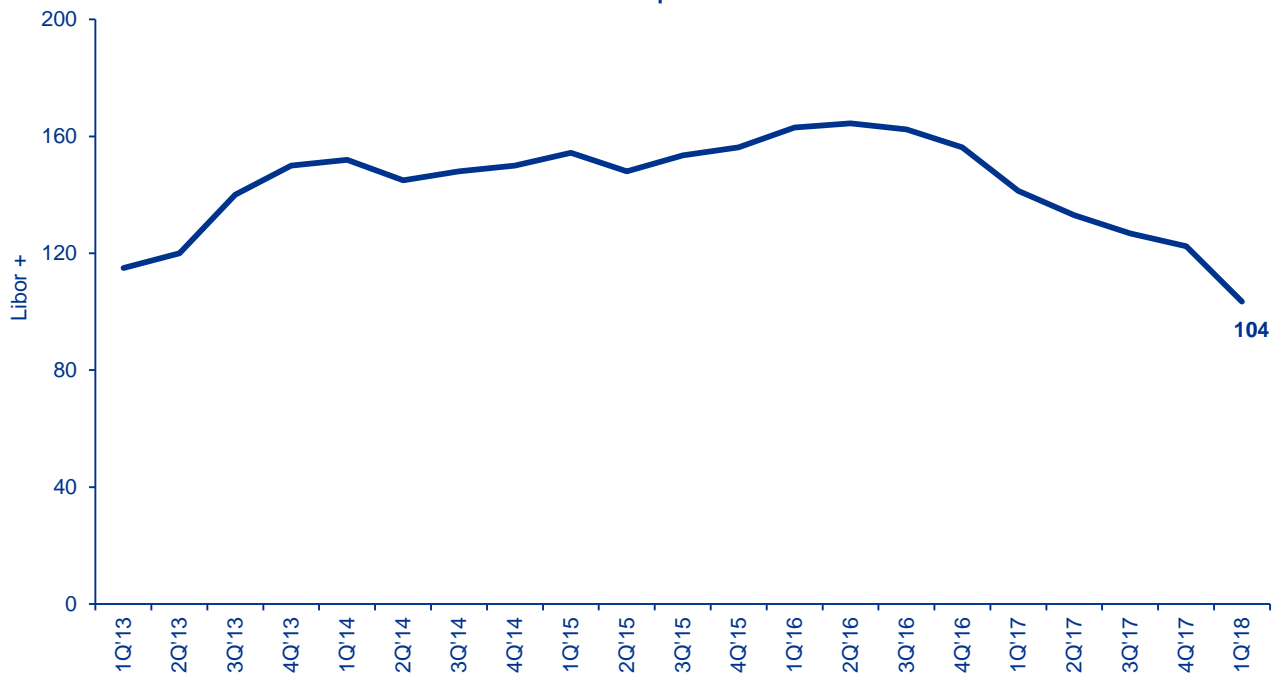
Annual CLO Volume (\$bn)



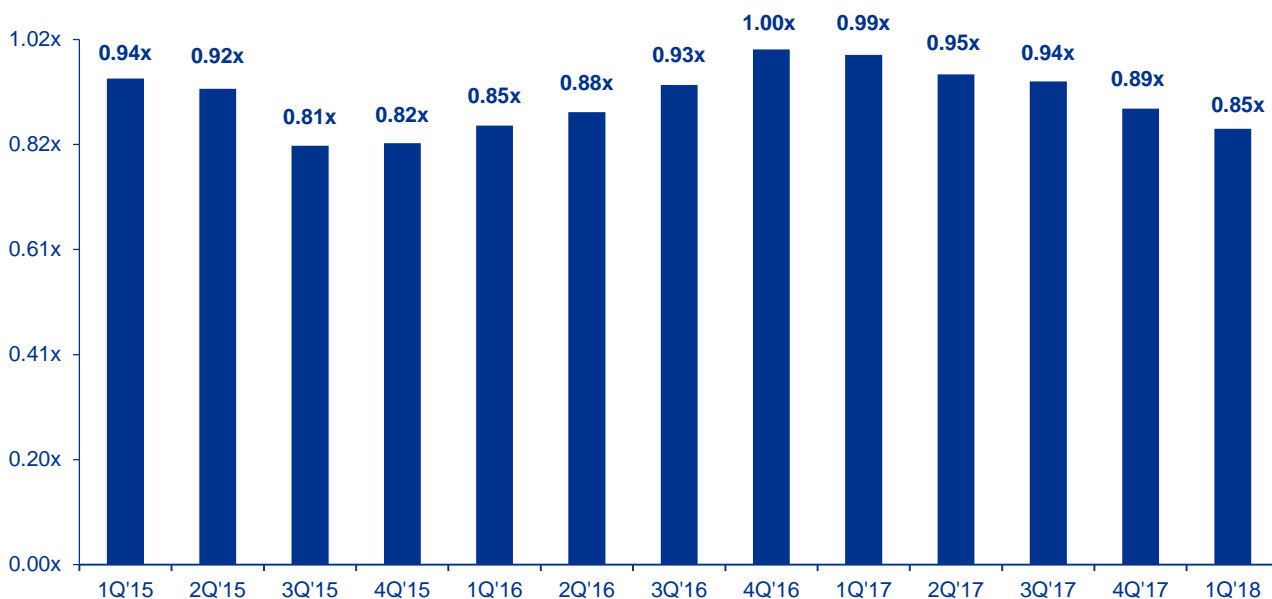
Source: Standard & Poor | Leveraged Commentary & Data

Funds Flows (continued)

U.S. CLO Spreads



Public BDCs - Price to Book Value Multiple - Quarterly

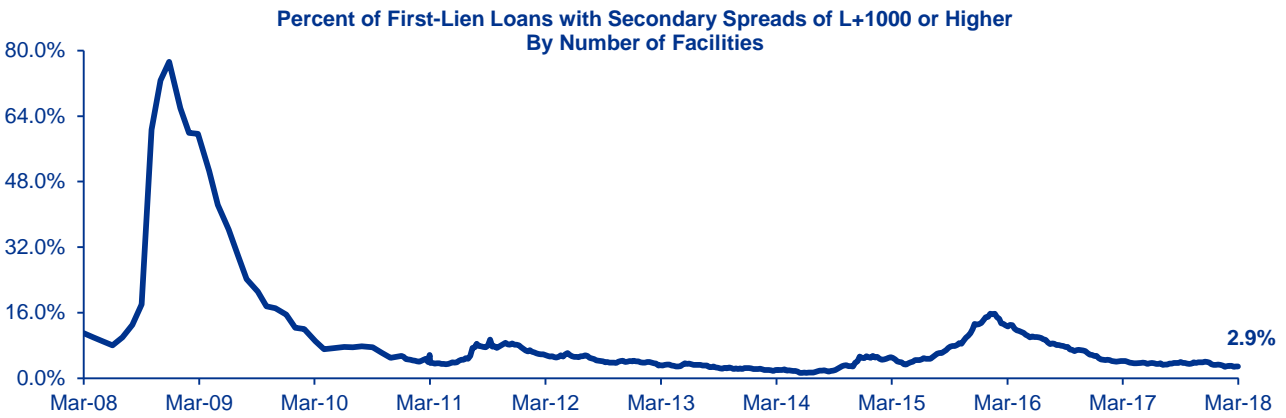
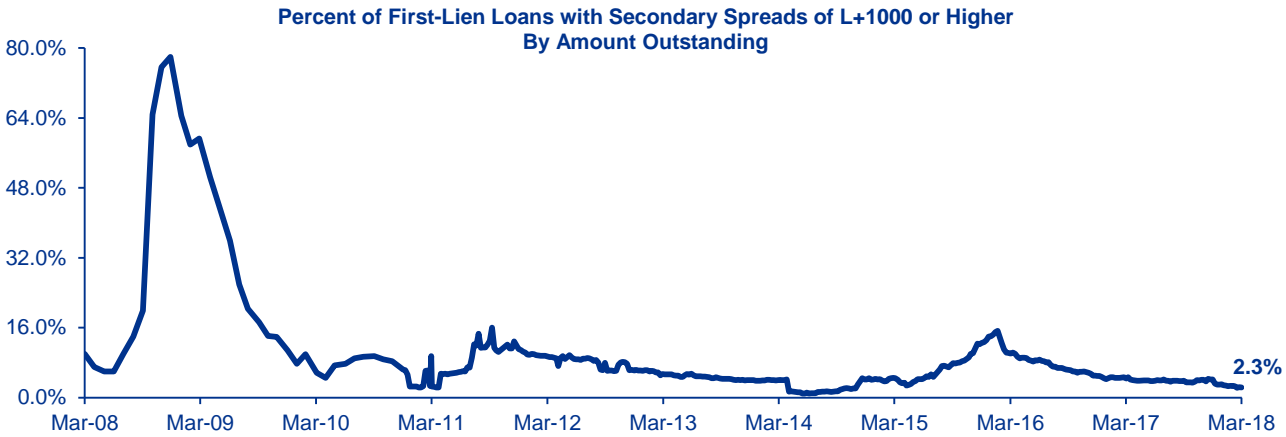


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Distress and Defaults



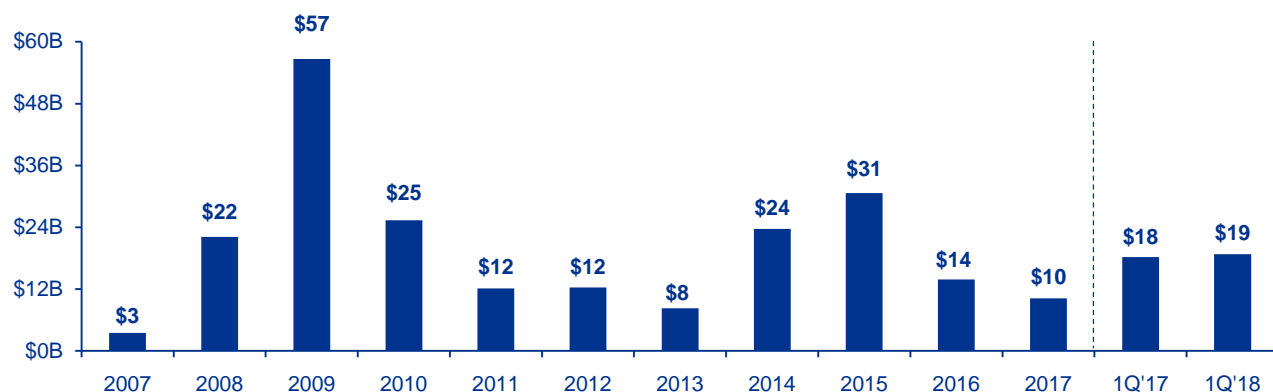
Source: Standard & Poor | Leveraged Commentary & Data



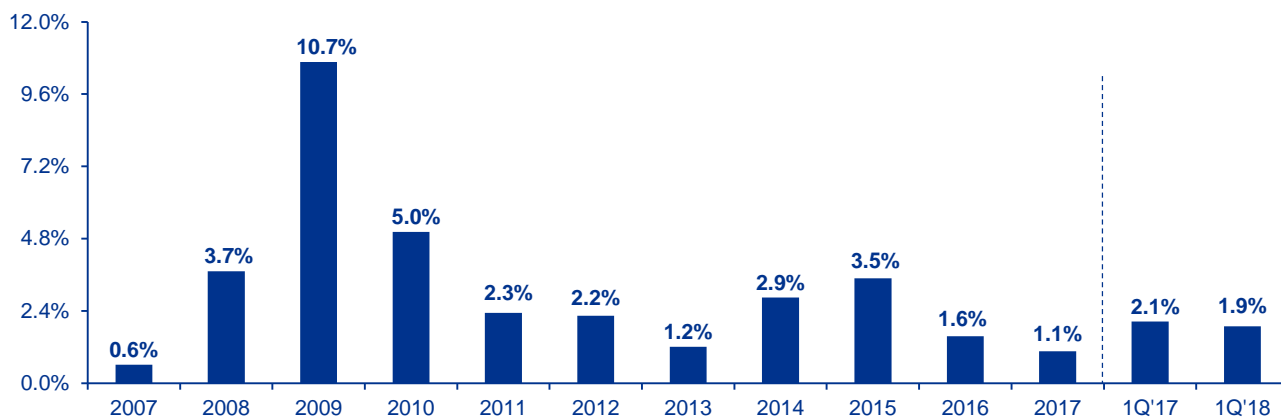
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Distress and Defaults (continued)

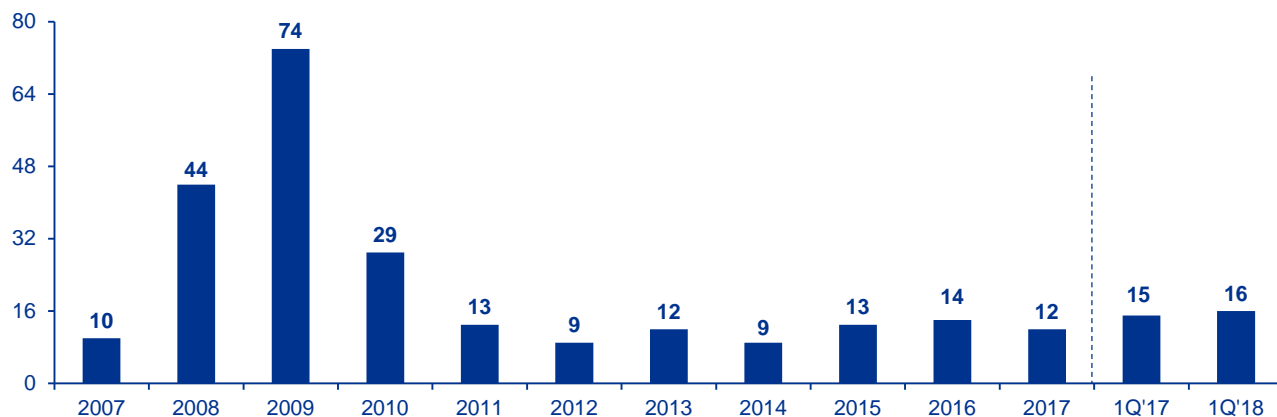
Par Amount of Leveraged Loans in Payment Default or Bankruptcy (\$bn)



Percent of Outstanding Leveraged Loans in Default or Bankruptcy



Number of Issuers in Payment Default or Bankruptcy



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

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- Dividend recapitalizations and minority buyouts
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