



# Credit Markets Update

June 30, 2018

# Credit Markets Update as of June 30, 2018

We are pleased to provide this summary update of the U.S credit markets through the second calendar quarter ending June 30, 2018 to our clients and friends:

- **Overall, the credit markets showed mixed performance in the second quarter**, as many would-be fixed-rate high yield investors and issuers have switched to the floating-rate leveraged loan market, amid anticipation of continued Fed rate hikes and rising LIBOR rates
- **Newly issued** institutional leveraged loan volume issuance totaled \$274 billion in the first half of 2018, down 8% from levels during the same period a year ago. Overall, U.S. leveraged loan issuance totaled \$372 billion in 1H'18, slightly higher than issuance in 1H'17
- **New-issue covenant-lite loan** volume, which consisted of 81.0% of total leveraged loan volume, increased by 7.9% to \$223 billion in the first half of 2018 from \$207 billion during the same period of last year
- **Non-investment grade B rated first lien pro rata** and institutional syndicated leveraged loans remain attractive to investors with spread of L+353 and L+360, respectively, in the second quarter of 2018; during the same period, non-investment grade BB rated first lien pro rata and institutional syndicated loans spread of L+193 and L+219
- **LBO transaction volume reached \$67 billion** in the second quarter of 2018. 2Q'18 LBO volume increased by 25.5% versus 1Q'18, despite a decline of 18.6% in the number of LBO transactions in 2Q'18 over the previous quarter
- **Purchase price multiples for middle market LBOs** remain elevated at 10.6x and 10.3x in the first half of 2018 and 2017, respectively
- **Debt multiples of middle market and large corporate LBO loans** stood at 5.4x and 5.7x, respectively, in the first half of 2018, consistent with levels seen in the same period one year ago
- **Equity contribution to LBOs** decreased to 39.4% of the purchase price in the first half of 2018 from 40.1% during the same period a year ago, indicating use of more leverage
- **Second-lien activity in the U.S. loan market** showed an improvement in 1H'18 amid an increase in M&A transactions in 2018. Second lien loan issuance volume stood at \$10 billion in the second quarter, an increase of 72.6% over the previous quarter
- **With issuers turning to the leveraged loan market**, U.S. issuance of fixed-rate high yield bonds decreased to \$111 billion, down 23.1% from the same period in 2017. Year-to-date, more than 64.0% and 18.0% of high yield issuance has been issued to support refinancing and M&A transactions, respectively.
- **High yield bond pricing** increased to 7.4% in the second quarter of 2018 from 6.5% and 6.6% in the same quarter a year ago and the last quarter, respectively, reflecting a higher interest rate environment and shifts in capital allocation
- **Flows into high yield bond funds remained negative** in the first half with outflow exceeding the inflow by \$19 billion, driven by investors desire to allocate capital to floating rate debt
- **Funds flows into leveraged loan funds** increased to \$44 billion in the second quarter of 2018 from \$36 billion in the previous quarter
- **CLO volume reached to \$71 billion in 1H'18**, up 36.2% from \$52 billion during the same period a year ago, and spreads tightened to L+107
- **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 1.8% and 2.2%, respectively
- **Percentage of leveraged loans in default or in bankruptcy fell** to 1.3% in the first half of 2018 from 2.0% in the same period a year ago, marking improvements in credit fundamentals

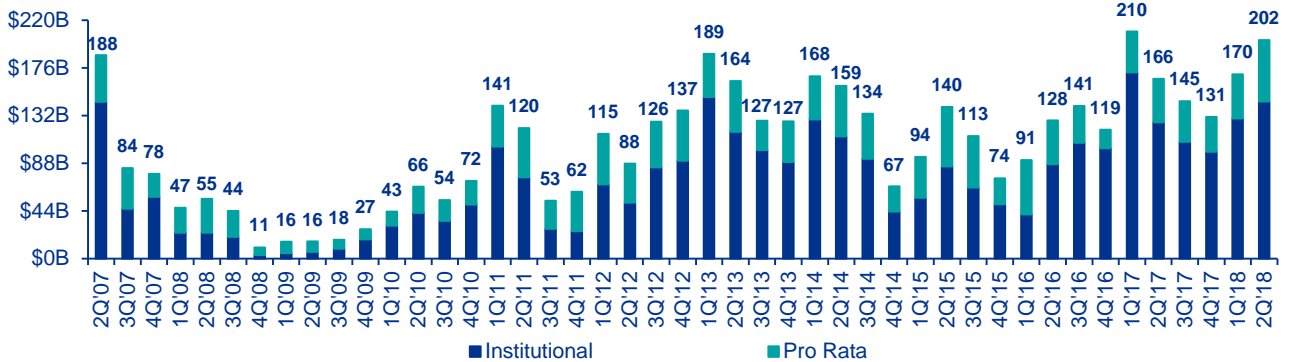


# Leveraged Loans

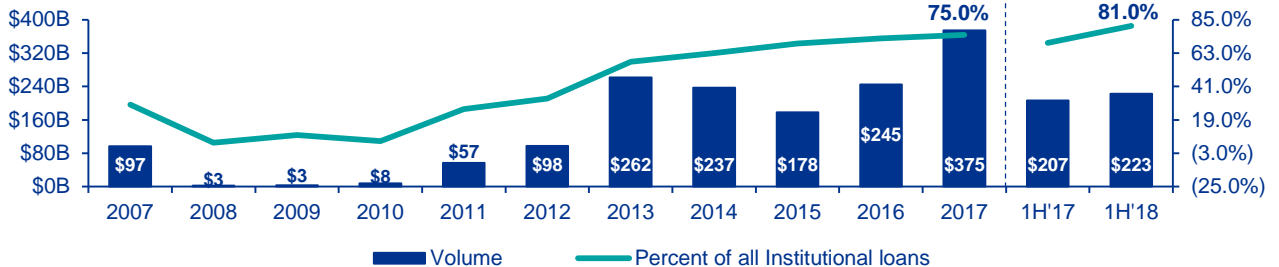
New Issue Leveraged Loan Volume - Annual (\$bn)



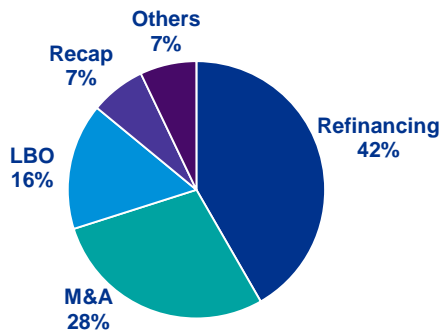
New Issue Leveraged Loan Volume - Quarterly (\$bn)



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

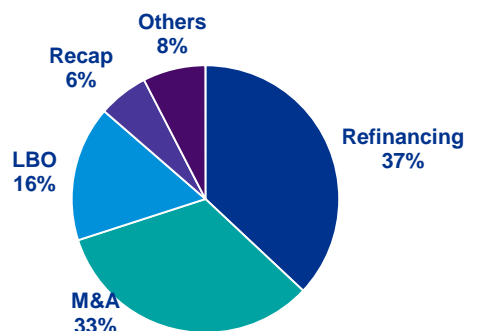


Leveraged Loan Issuance by Purpose - 1H'17



Total Volume: \$368B

Leveraged Loan Issuance by Purpose - 1H'18



Total Volume: \$372B

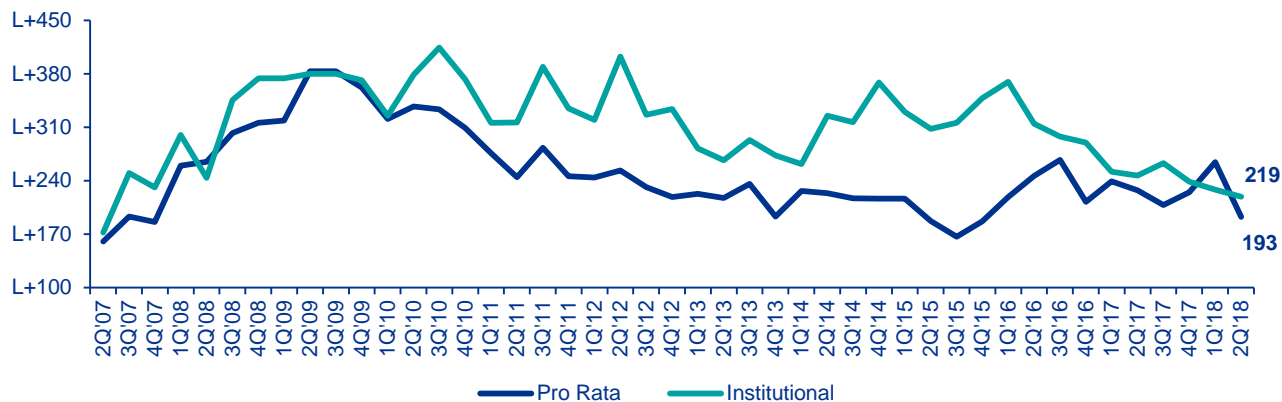
Source: Standard & Poor | Leveraged Commentary & Data



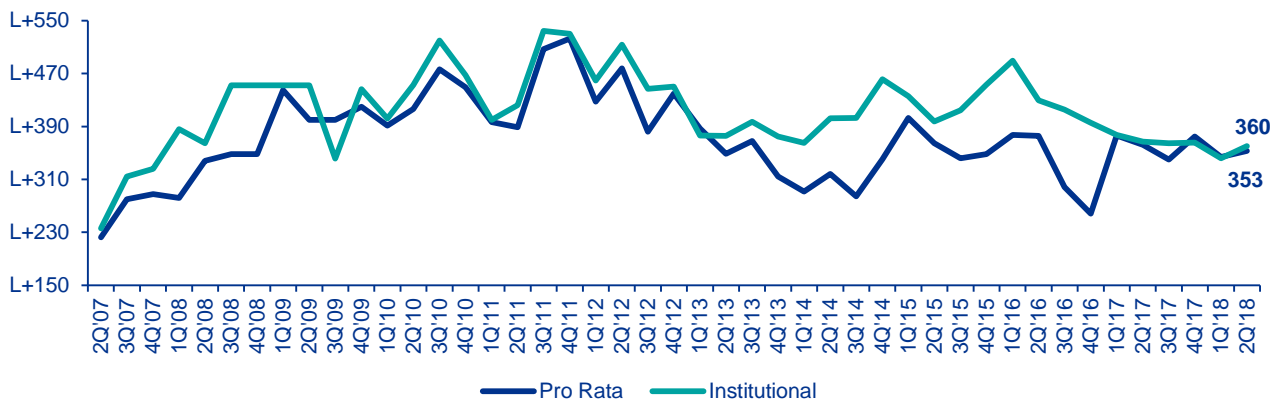
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# Leveraged Loans (continued)

New Issue First Lien Spreads BB/BB - Quarterly



New Issue First Lien Spreads B+/B - Quarterly



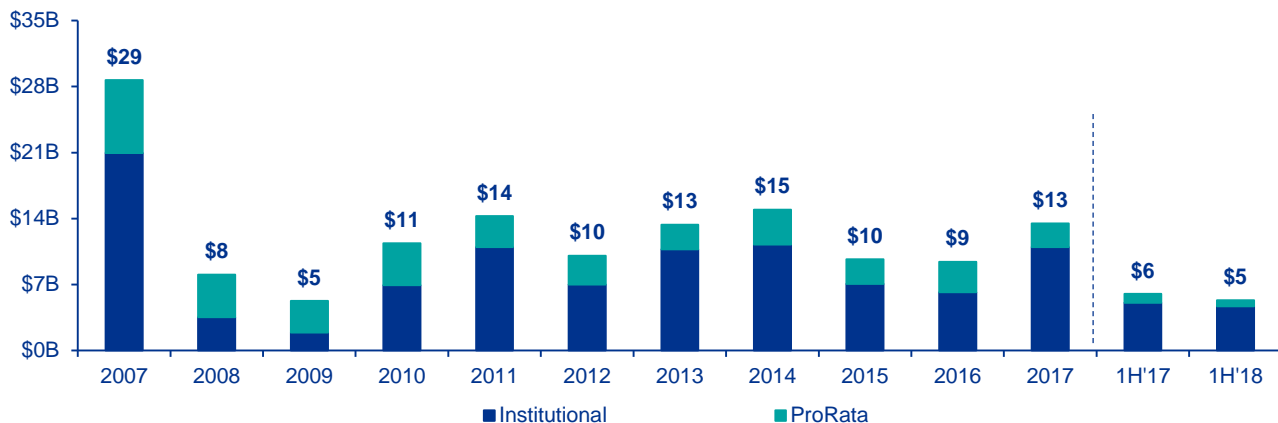
Source: Standard & Poor | Leveraged Commentary & Data



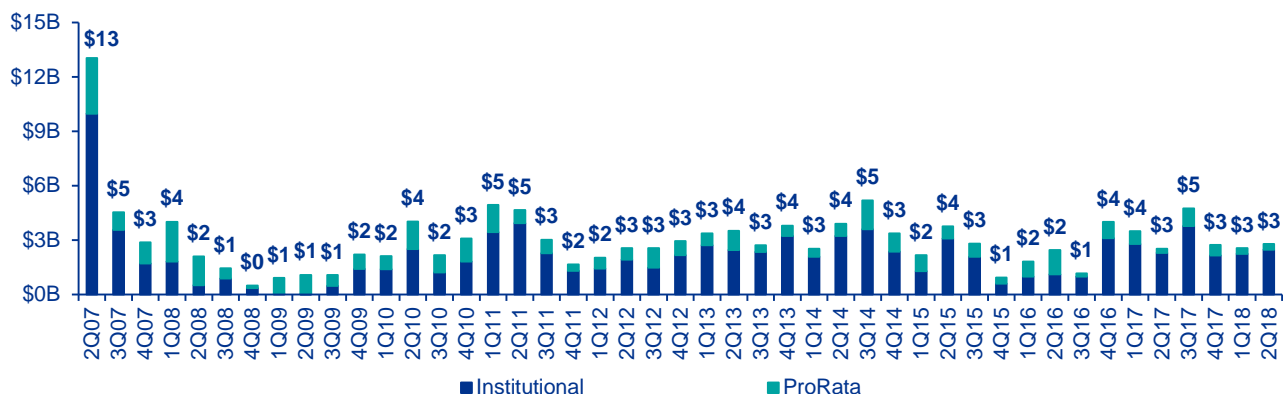
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# Leveraged Loans - Middle Market

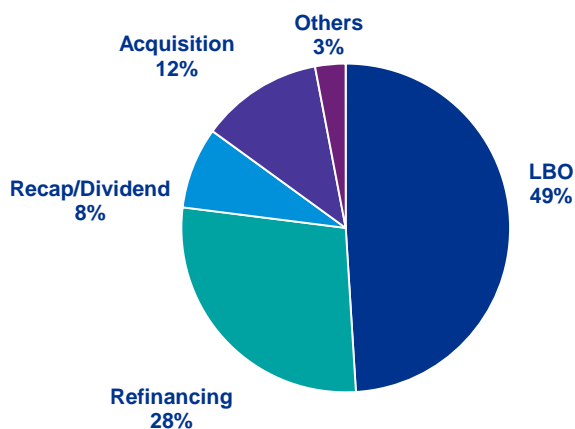
Leveraged Loan Volume- Annual (\$bn)



Leveraged Loan Volume- Quarterly (\$bn)

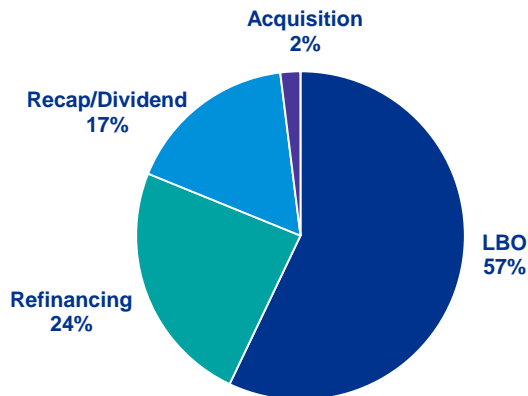


Total New-Issue Volume by Purpose - 1H'17



Total Volume: \$5.5B

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



Total Volume: \$5.3B

Source: Standard & Poor | Leveraged Commentary & Data

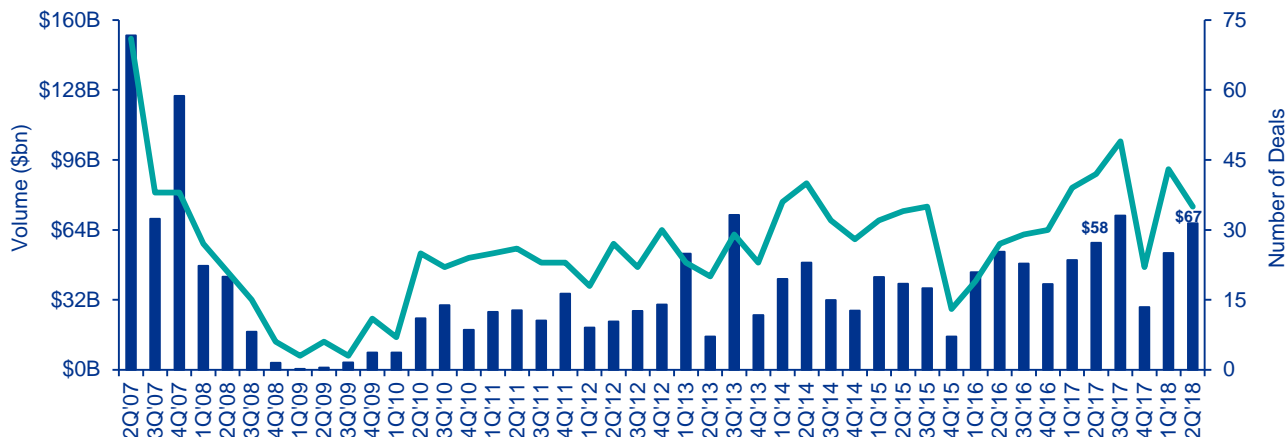
Note: Middle market refers to companies with EBITDA of \$50 million or less



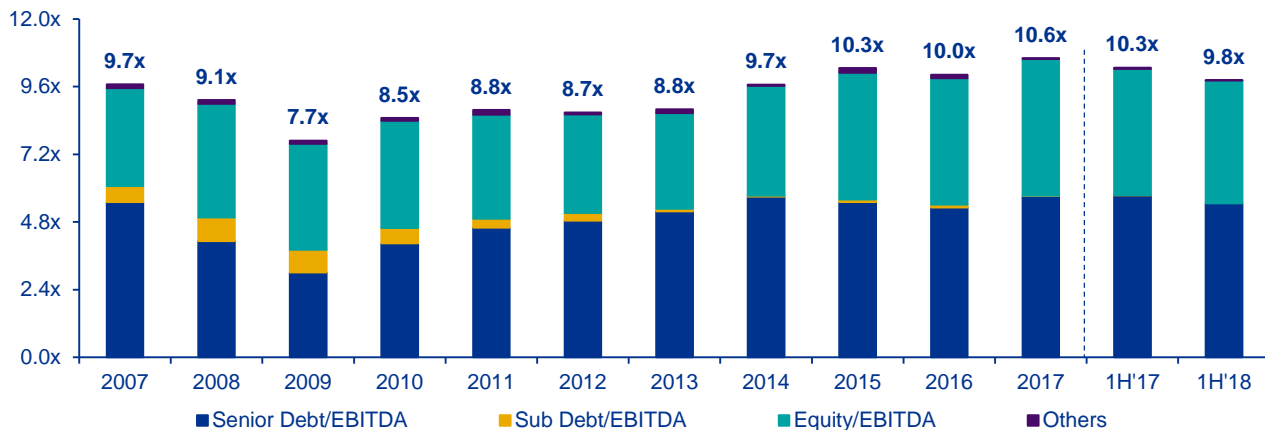
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# LBO Summary

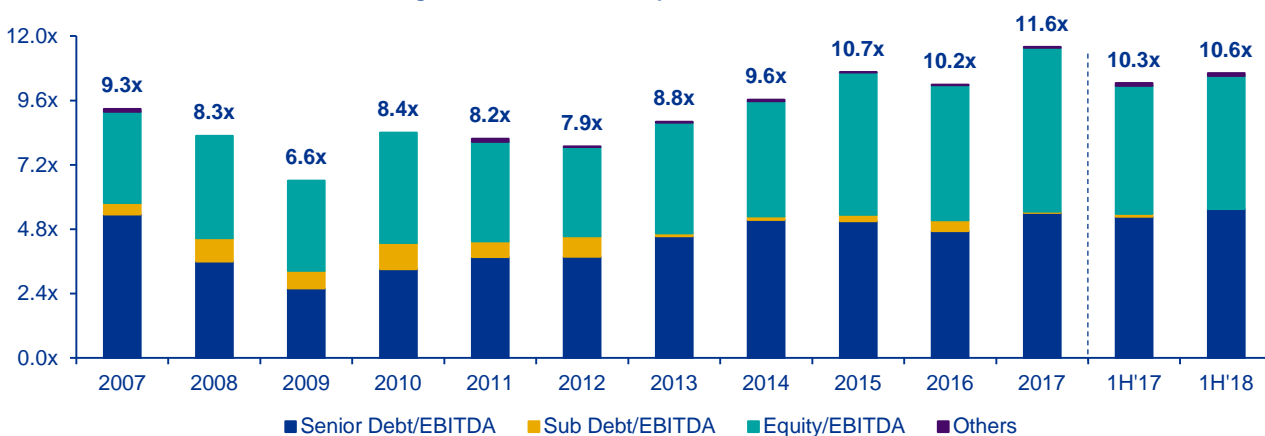
LBO Transaction Volume - Quarterly (\$bn)



Average Purchase Price Multiple - All LBOs



Average Purchase Price Multiple - Middle Market LBOs<sup>(1)</sup>



Source: Standard & Poor | Leveraged Commentary & Data

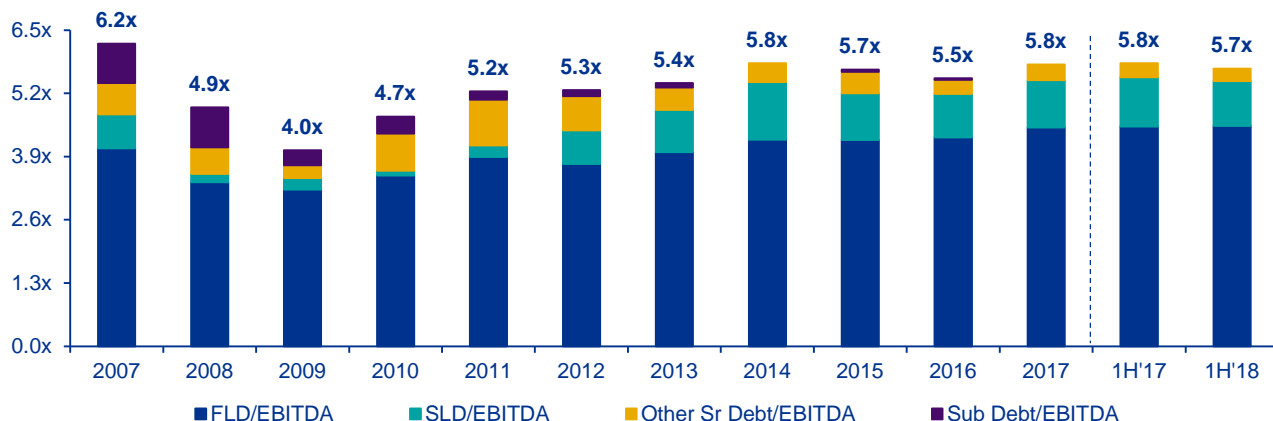
<sup>(1)</sup> Middle market refers to companies with EBITDA of \$50 million or less



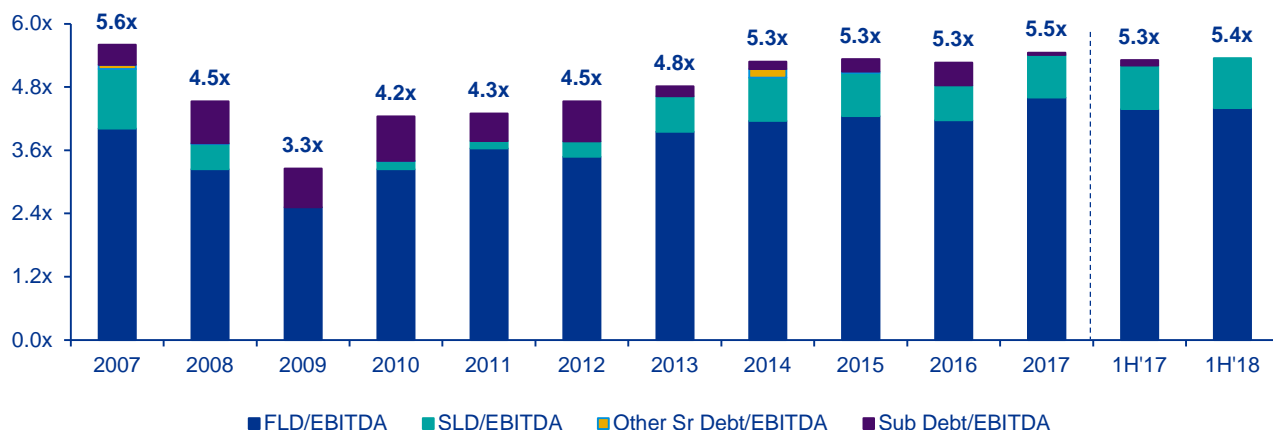
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# LBO Summary (continued)

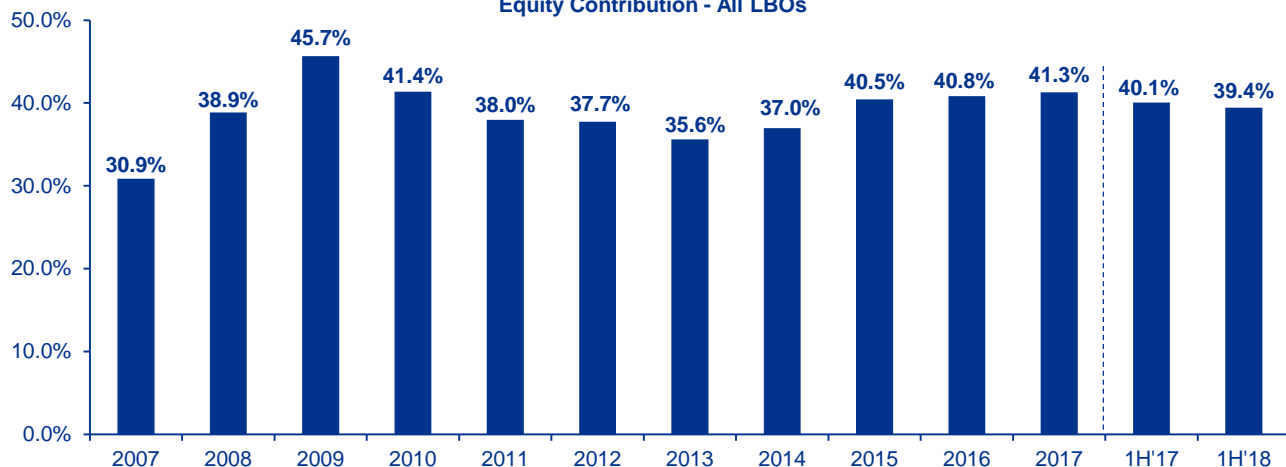
Average Debt Multiples of Large Corporate LBO Loans<sup>(1)</sup>



Average Debt Multiples of Middle-Market LBO Loans<sup>(2)</sup>



Equity Contribution - All LBOs



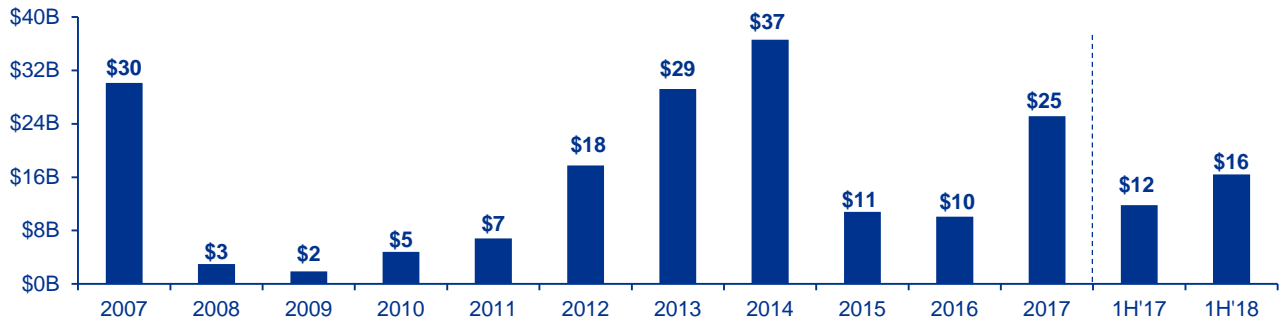
Source: Standard & Poor | Leveraged Commentary & Data

<sup>(1)</sup> Large corporate refers to companies with EBITDA of more than \$50 million.

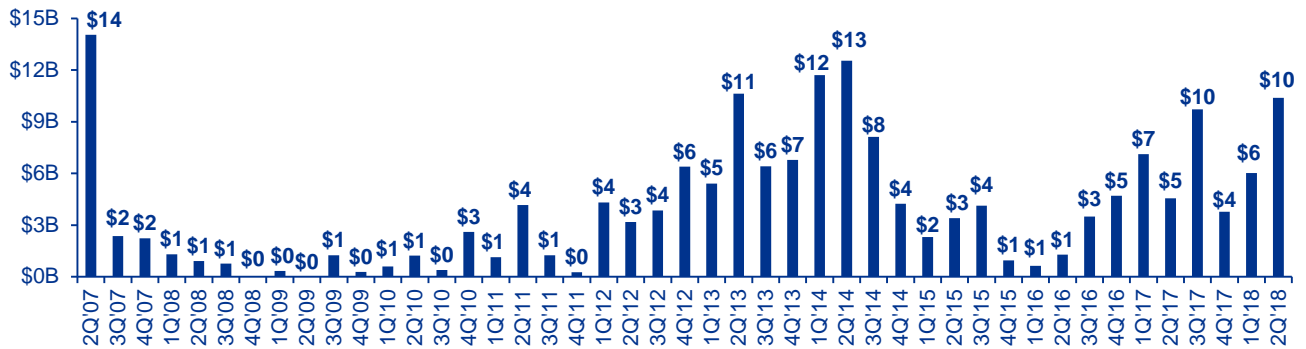
<sup>(2)</sup> Middle market refers to companies with EBITDA of \$50 million or less.

# Second-Lien Loans

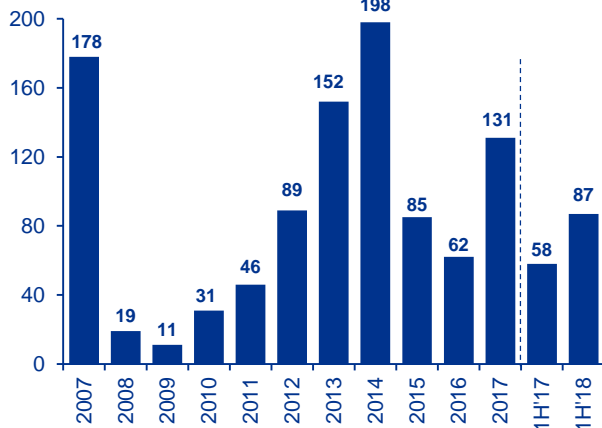
Second-Lien Loan New-Issue Volume - Annual (\$bn)



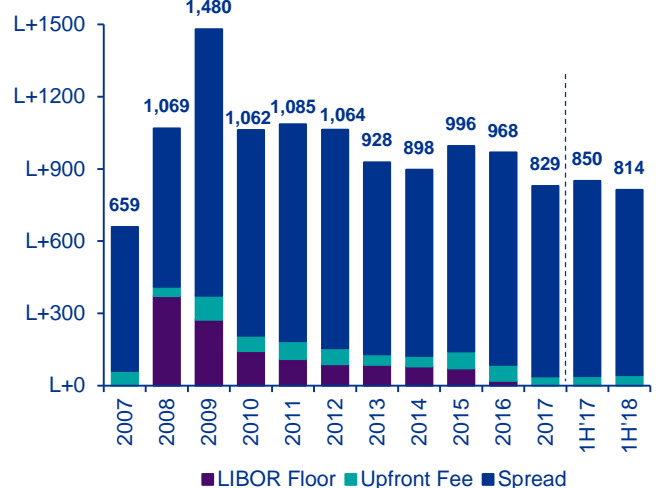
Second Lien Loan New-Issue Volume - Quarterly (\$bn)



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



Average New Issue Second-Lien Spreads



Source: Standard & Poor | Leveraged Commentary & Data

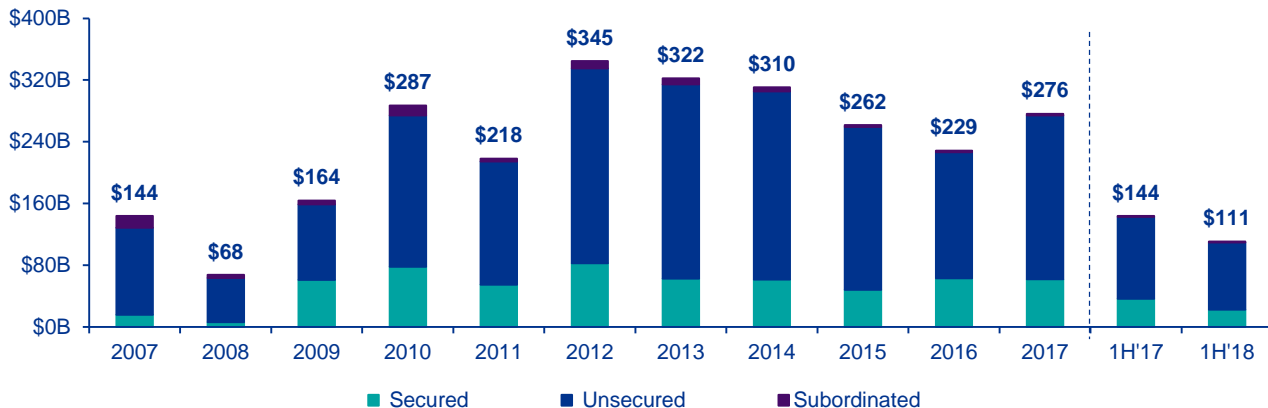


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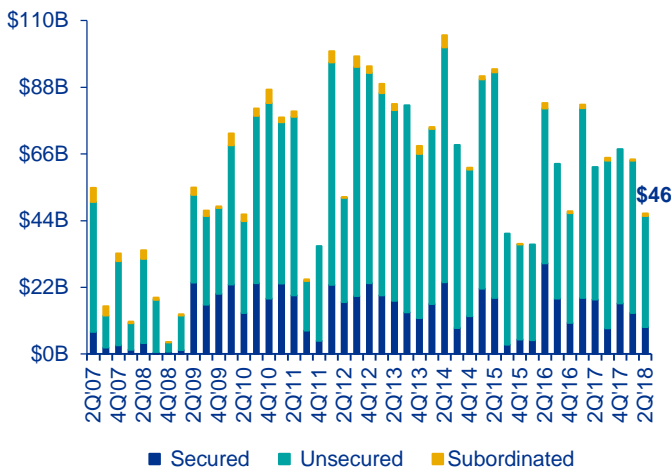


# High Yield Bonds

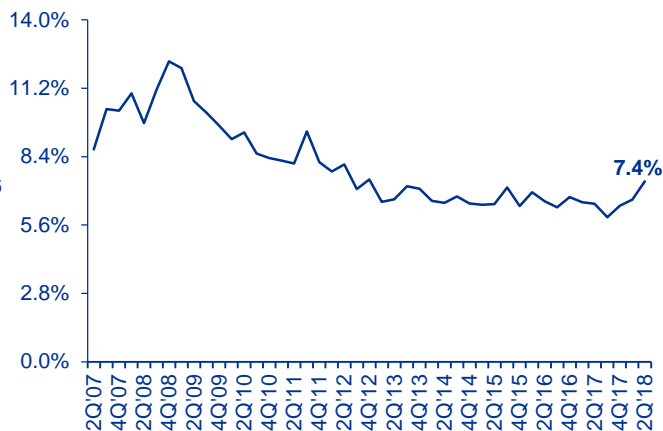
High Yield Bond Issuance – Annual (\$bn)



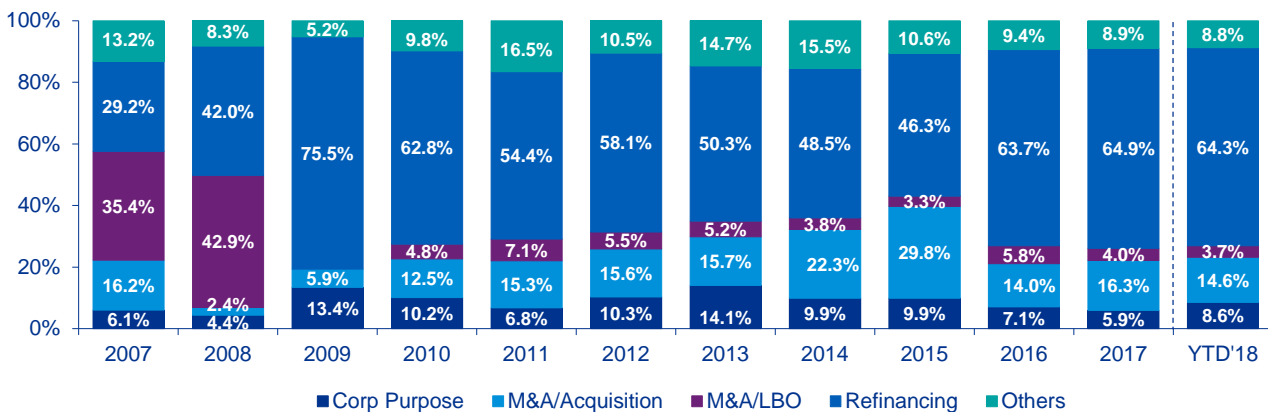
High Yield Bond Issuance – Quarterly (\$bn)



New issue High yield Bond yield to Maturity



High Yield Bond Issuance by Purpose



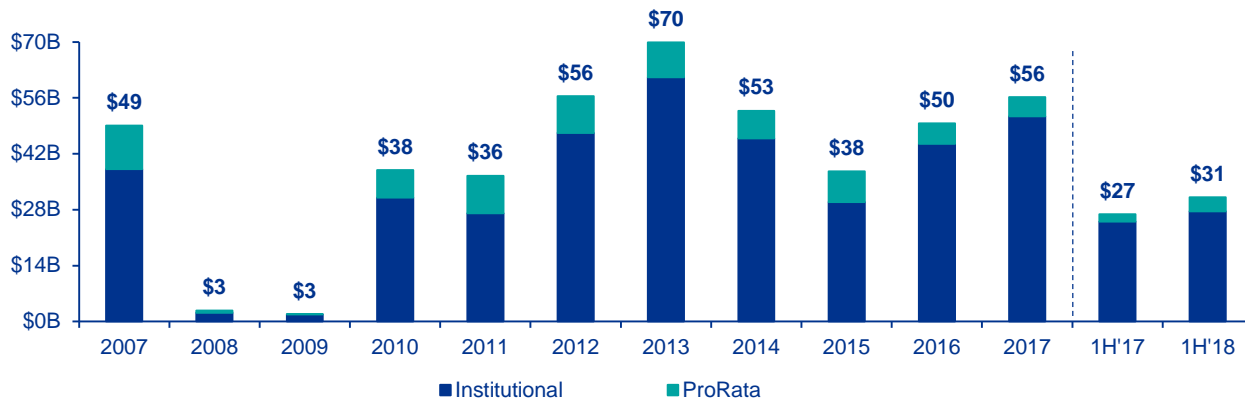
Source: Standard & Poor | Leveraged Commentary & Data



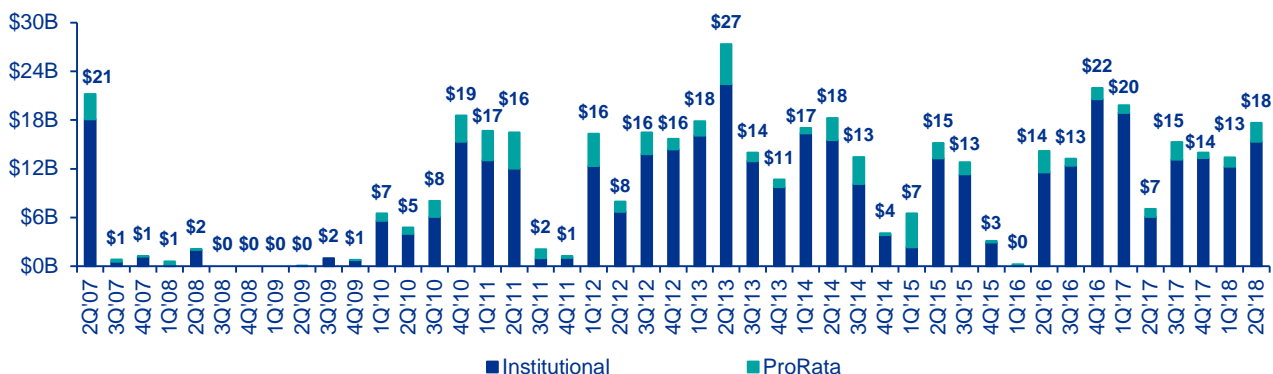
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# Dividend Recapitalization

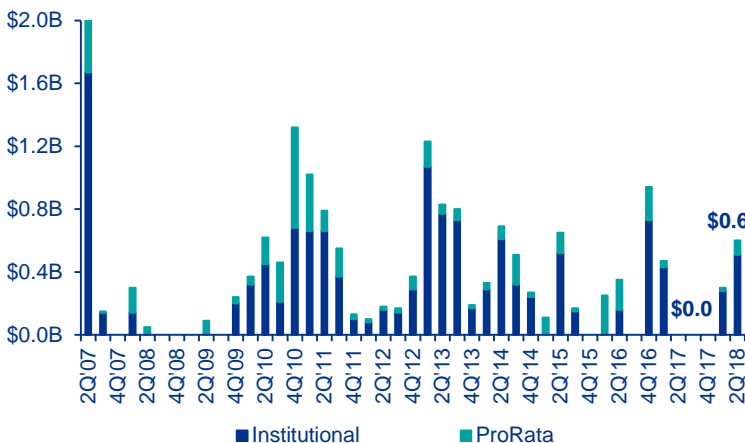
Dividend or Stock Repurchase Loan Volume- Annual (\$bn)



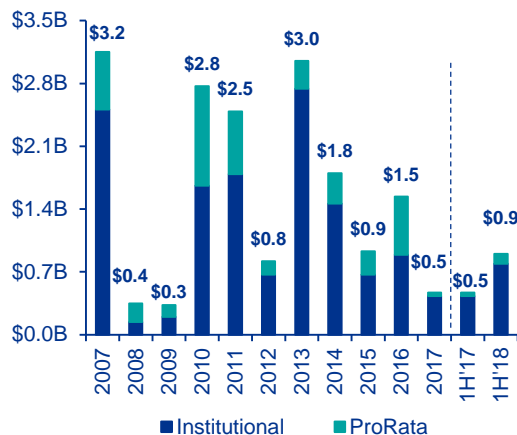
Dividend or Stock Repurchase Loan Volume- Quarterly (\$bn)



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



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

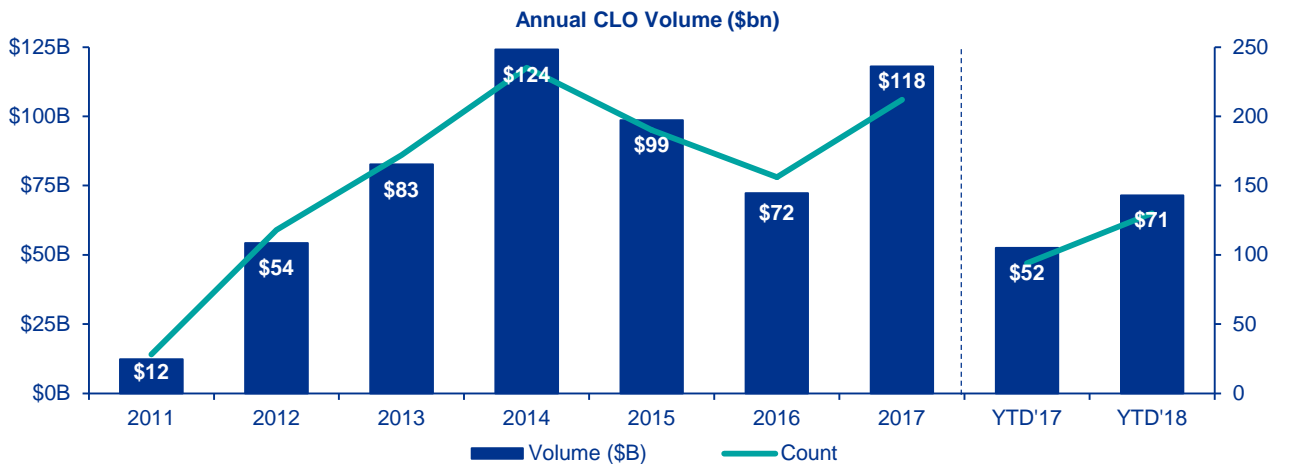
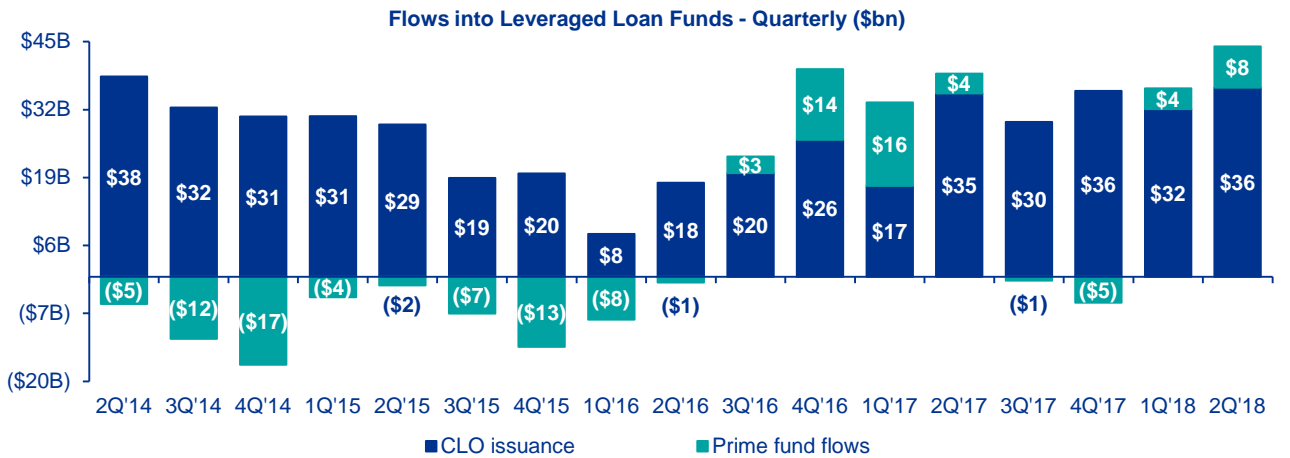
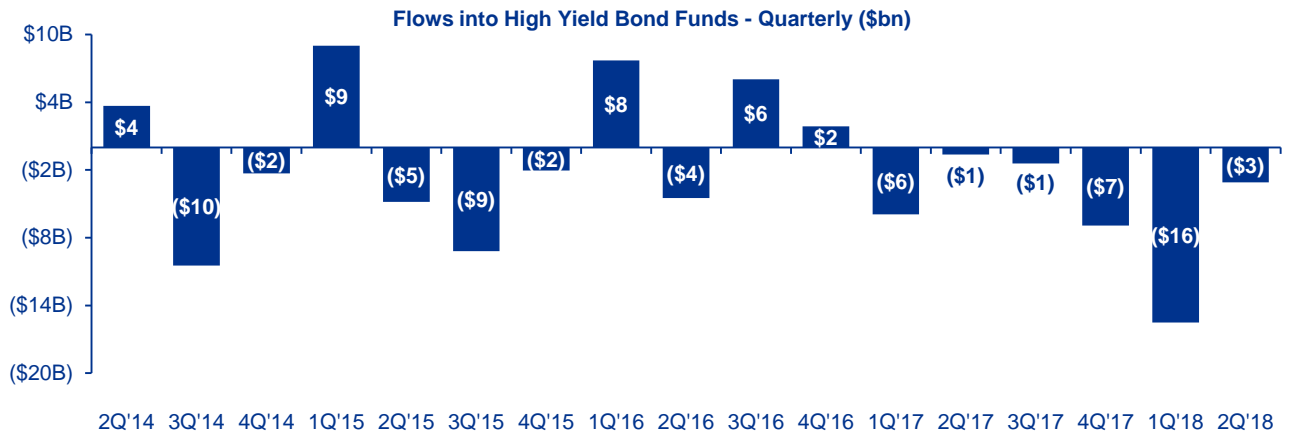


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# Funds Flows



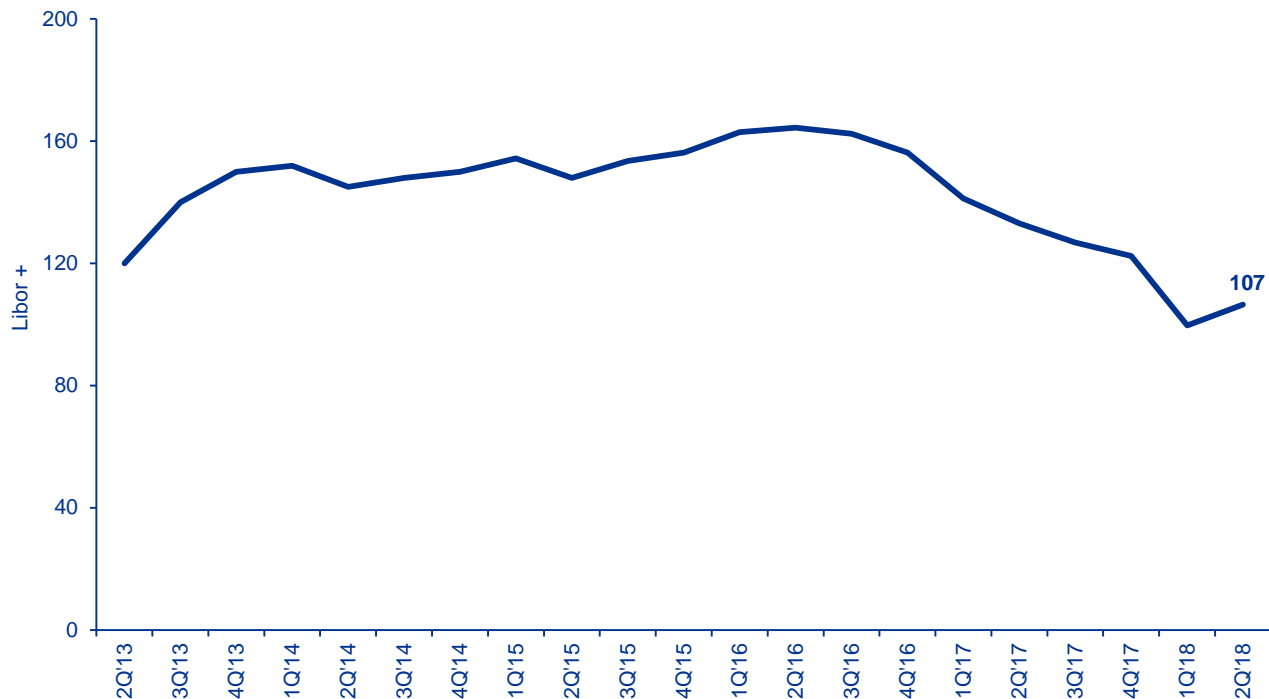
Source: Standard & Poor | Leveraged Commentary & Data



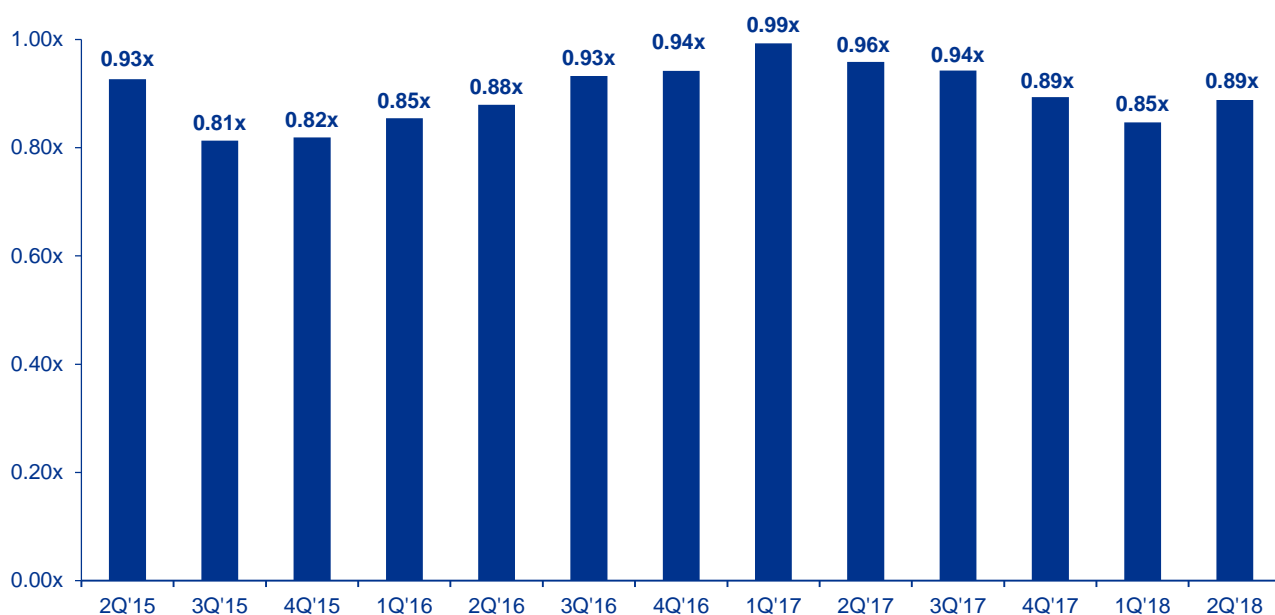
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# Funds Flows (continued)

U.S. CLO Spreads



Public BDCs - Price to Book Value Multiple - Quarterly

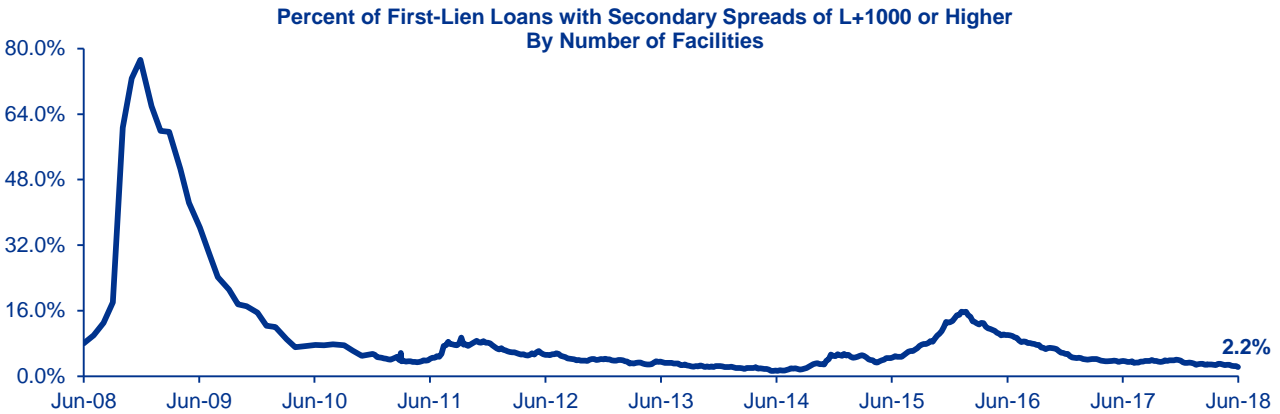
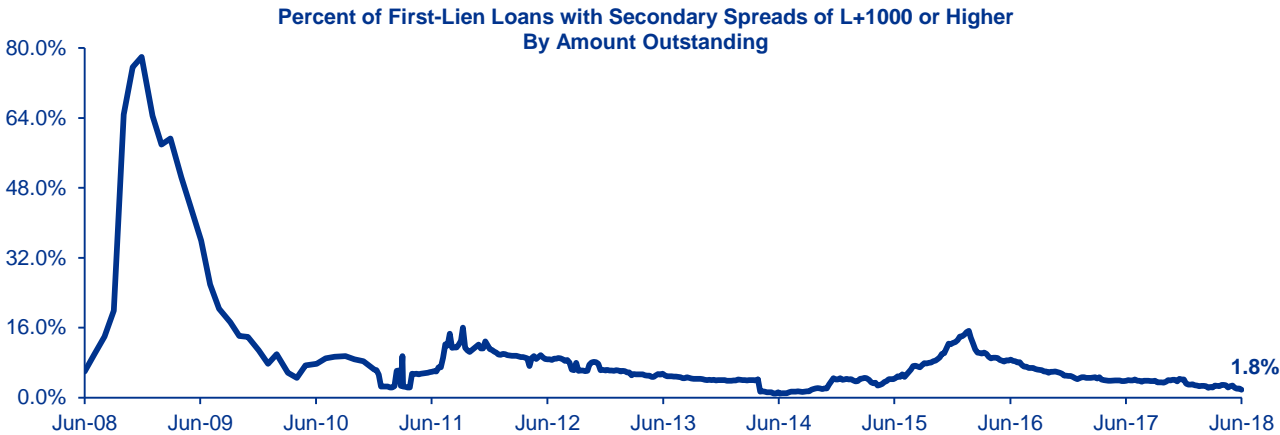


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# Distress and Defaults



Source: Standard & Poor | Leveraged Commentary & Data

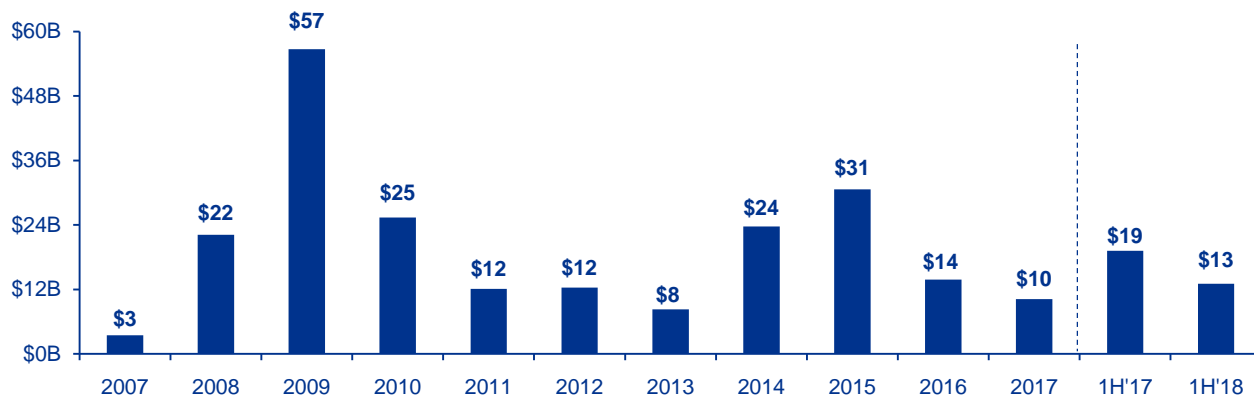


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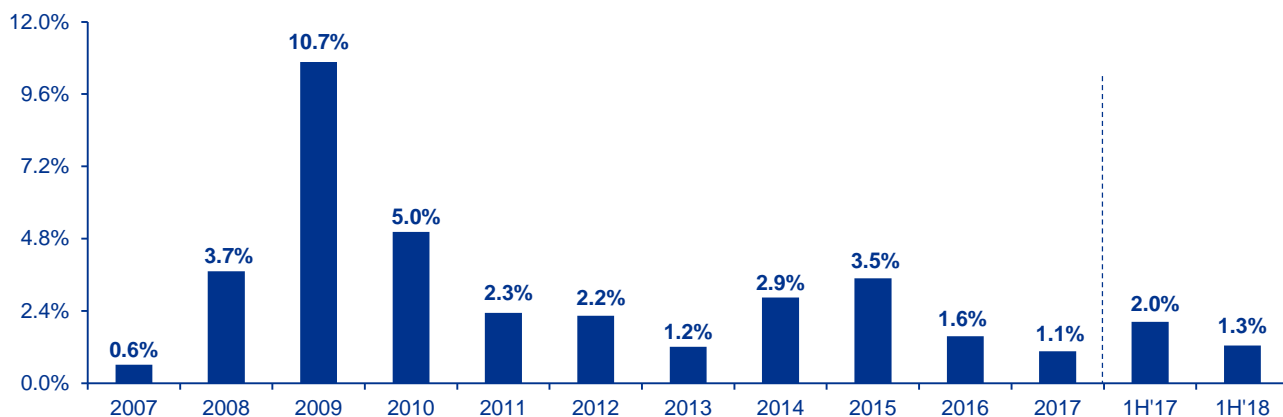


# Distress and Defaults (continued)

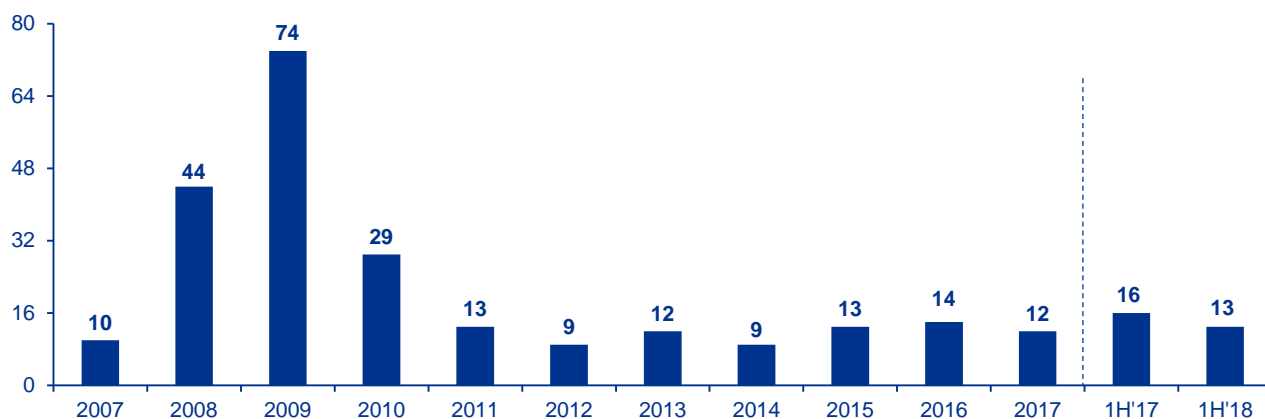
Par Amount of Leveraged Loans in Payment Default or Bankruptcy (\$bn)



Percent of Outstanding Leveraged Loans in Default or Bankruptcy



Number of Issuers in Payment Default or Bankruptcy



Source: Standard & Poor | Leveraged Commentary & Data



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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

## Primary service offerings

### Debt and equity capital raises

- Senior debt financing, refinancing or amendments
- Acquisition and growth capital
- 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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- 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

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