



Credit Markets Update

December 31, 2017

Credit Markets Update as of December 31, 2017

We are pleased to provide this summary update of the U.S credit markets through the fourth calendar quarter ending December 31, 2017 to our clients and friends:

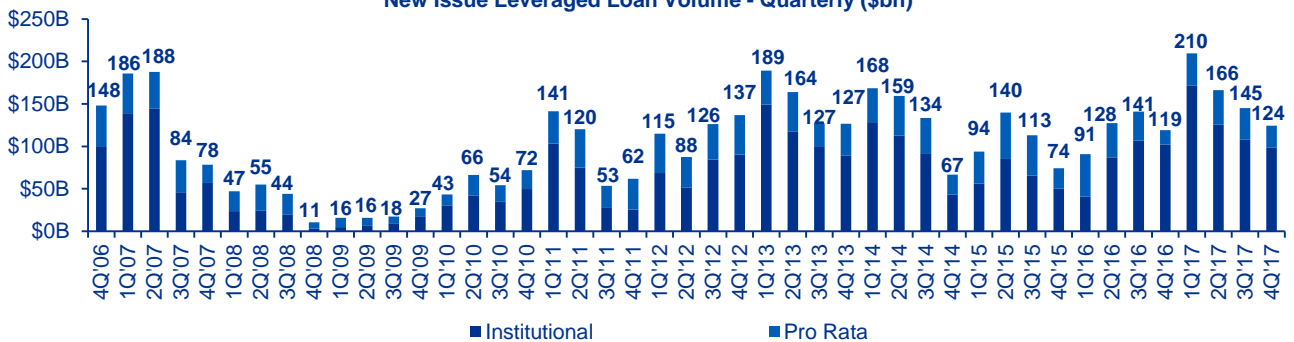
- **Overall, credit market fundamentals remained healthy in the fourth quarter**, as leveraged loan and high yield bond volume remained strong with terms continuing to favor issuers. 2017 was the busiest year ever for leveraged loans lead by M&A and repricing activity
- **Newly issued leveraged loan volume in the fourth quarter of 2017 stood at \$124 billion**, down from the blockbuster 1st quarter of 2017. On an annual basis, 2017 new-issue volume increased versus prior year, up 34.8% at \$645 billion versus \$478 billion in 2016
- **New-issue covenant-lite loan volume increased to \$375 billion in 2017**, a 53.0% increase from the previous year total of \$245 billion
- **Number of LBO transactions and volume fell by 26.7% and 27.0%, respectively, from the fourth quarter of 2016** to reach \$22 billion and \$29 billion, respectively, in the fourth quarter. Full year 2017 transactions and volume numbers are up 44.8% and 11.3%, respectively, over 2016
- **Purchase price multiples for middle market LBOs** increased to 11.6x in 2017 from 10.2x in the previous year and continued to remain above the levels of 8.5x – 9.5x seen historically
- **Debt multiples of middle market and large corporate LBO loans** rose to 5.5x and 5.8x in 2017 from 5.3x and 5.5x in the prior year, respectively
- **Equity contributions to LBOs increased** to 41.3% of the purchase price in 2017
- **Second lien loan issuance volume decreased to \$4 billion in the fourth quarter**, lowest since the fourth quarter of 2016. Full year 2017 volume was 149.1% higher as compared to 2016
- **The U.S. middle market ended 2017 on a strong note** with \$9.2 billion in syndicated transactions of \$350 million or less in the fourth quarter of 2017 which was up 11% from the fourth quarter of 2016. Total volume in all of 2017 was \$38 billion, the most since 2014
 - Demand for middle market deals pushed the private debt asset class to its most successful fundraising year ever in 2017, with over \$180 billion raised
- **High yield bond issuance volume increased in the fourth quarter and full year 2017** to \$68 billion and \$276 billion, respectively, from \$47 billion and \$229 billion in the corresponding quarter a year ago and the previous year, respectively
- **High yield bond pricing increased to 6.4% in the fourth quarter of 2017** from 5.9% in the last quarter. For full year 2017, pricing was 6.3%, down 255 bps from 2016
- **Flows into high yield bond funds remained negative in the fourth quarter** with outflow exceeding the inflow by \$9 billion
- **Funds flows into leveraged loan funds increased to \$31 billion in the fourth quarter of 2017** from \$29 billion in the previous quarter
- **CLO volume increased to \$118 billion in 2017**, up 63% from \$72 billion in 2016, and spreads tightened to L+109
- **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 remaining flat at 4.2% and 3.8%, respectively
- **Percentage of leveraged loans in default or in bankruptcy fell to 1.1% in 2017** from 1.6% last year, marking improvements in credit fundamentals

Leveraged Loans

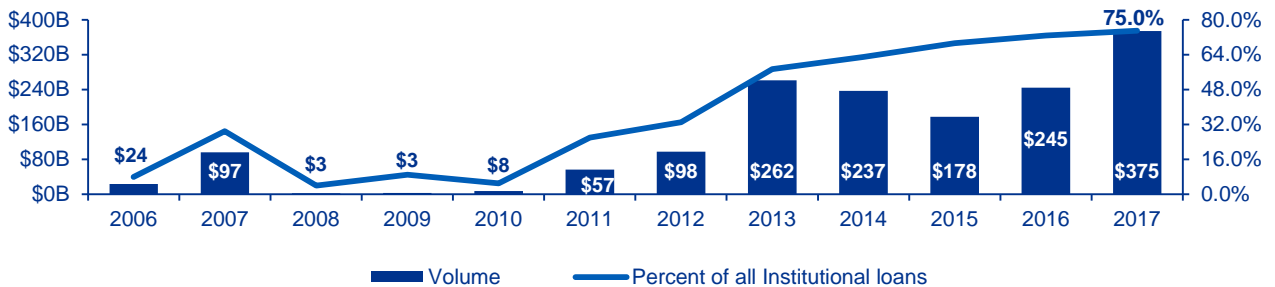
New Issue Leveraged Loan Volume - Annual (\$bn)



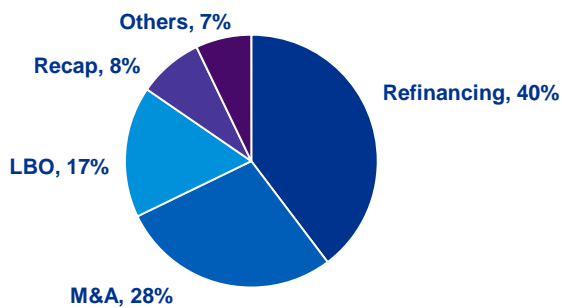
New Issue Leveraged Loan Volume - Quarterly (\$bn)



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

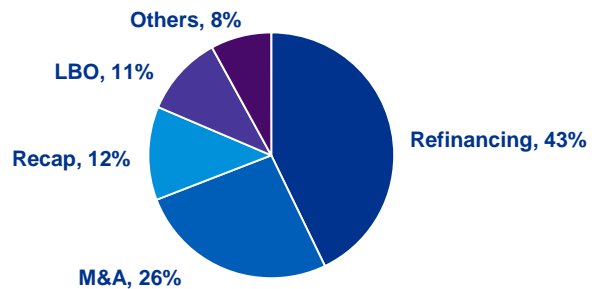


Leveraged Loan Issuance by Purpose - 2017



Total Volume: \$645B

Leveraged Loan Issuance by Purpose - 4Q'17



Total Volume: \$124B

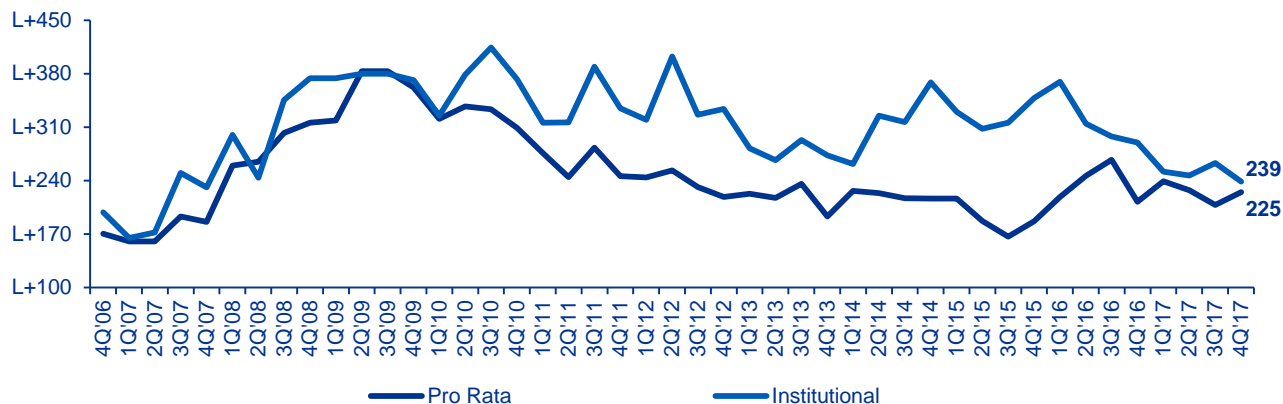
Source: Standard & Poor | Leveraged Commentary & Data



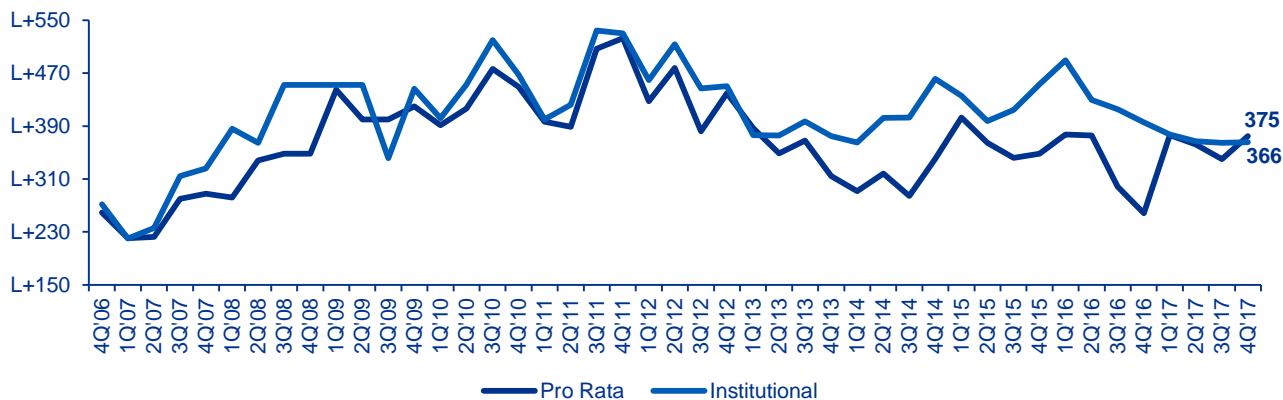
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Leveraged Loans (continued)

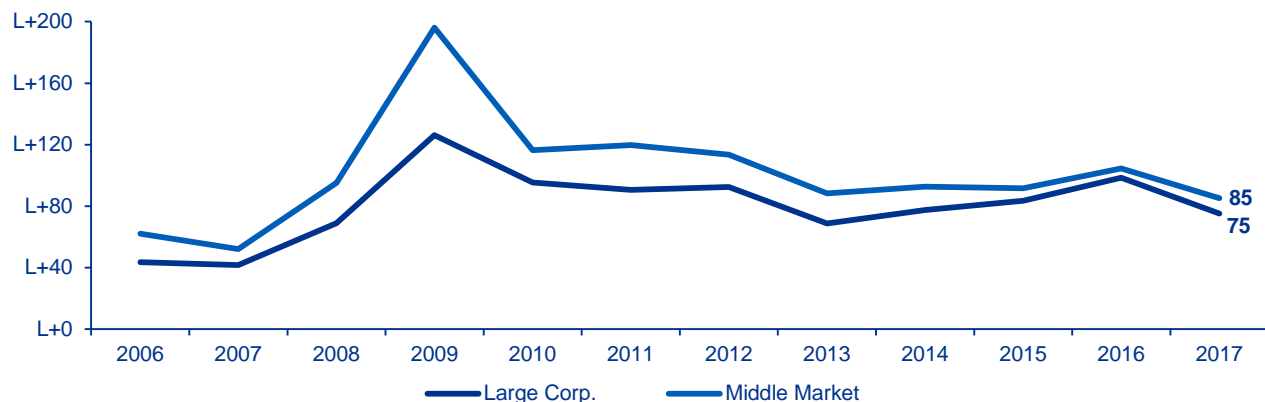
New-Issue First Lien Spreads BB/BB - Quarterly



New-Issue First Lien Spreads B+/B - Quarterly



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



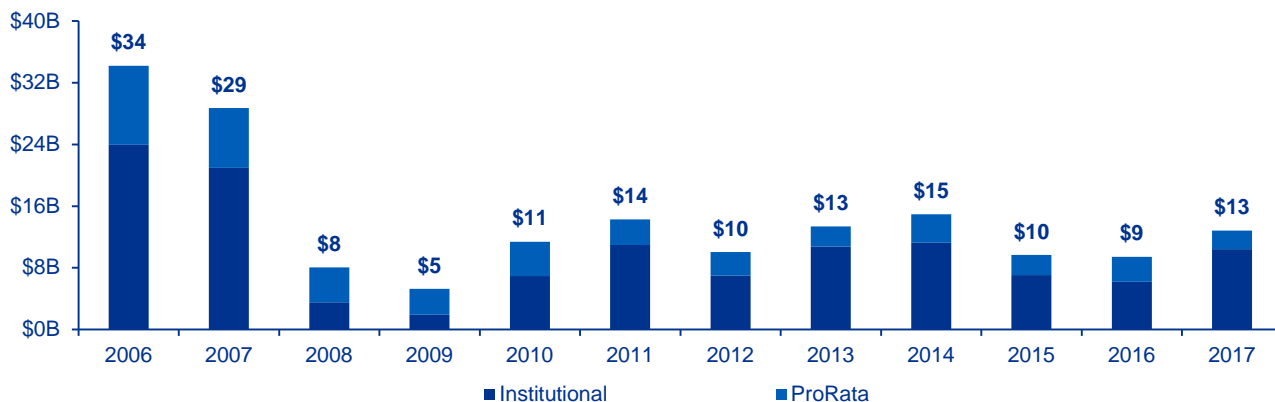
Source: Standard & Poor | Leveraged Commentary & Data



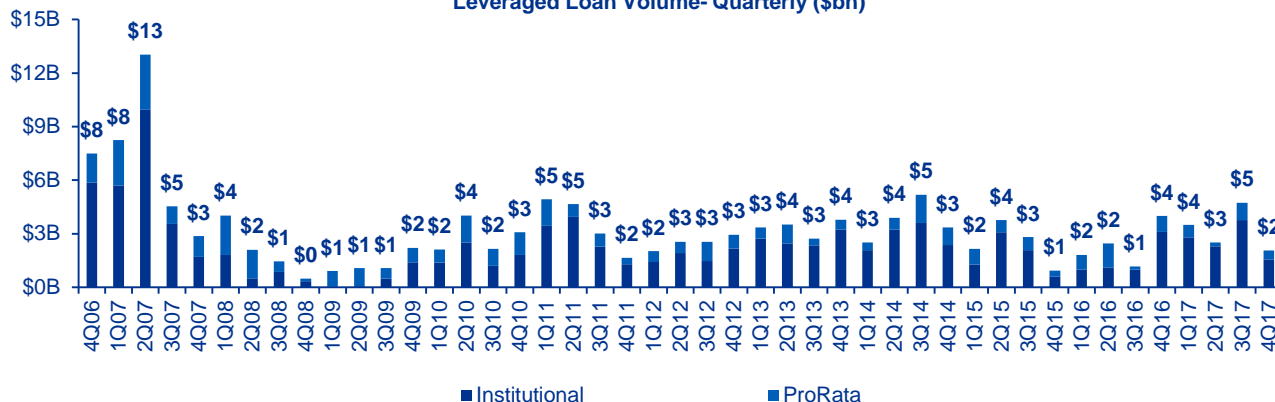
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Leveraged Loans - Middle Market

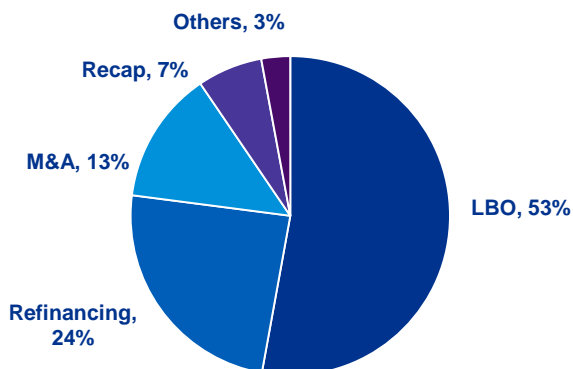
Leveraged Loan Volume- Annual (\$bn)



Leveraged Loan Volume- Quarterly (\$bn)

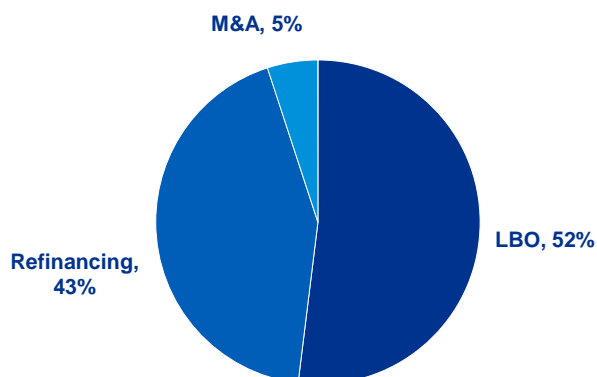


Total New-Issue Volume by Purpose - 2017



Total Volume: \$13B

Total New-Issue Volume by Purpose - 4Q'17



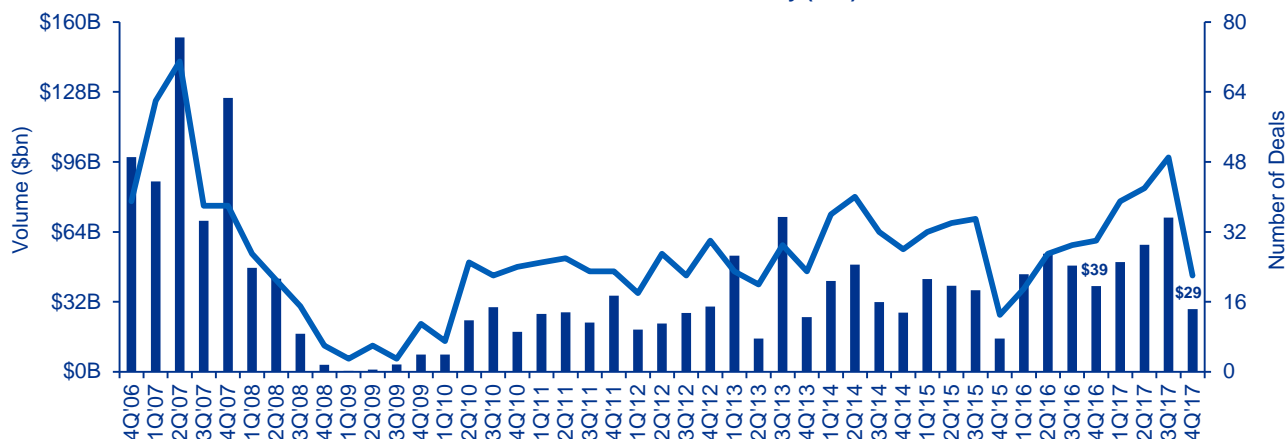
Total Volume: \$2B

Source: Standard & Poor | Leveraged Commentary & Data

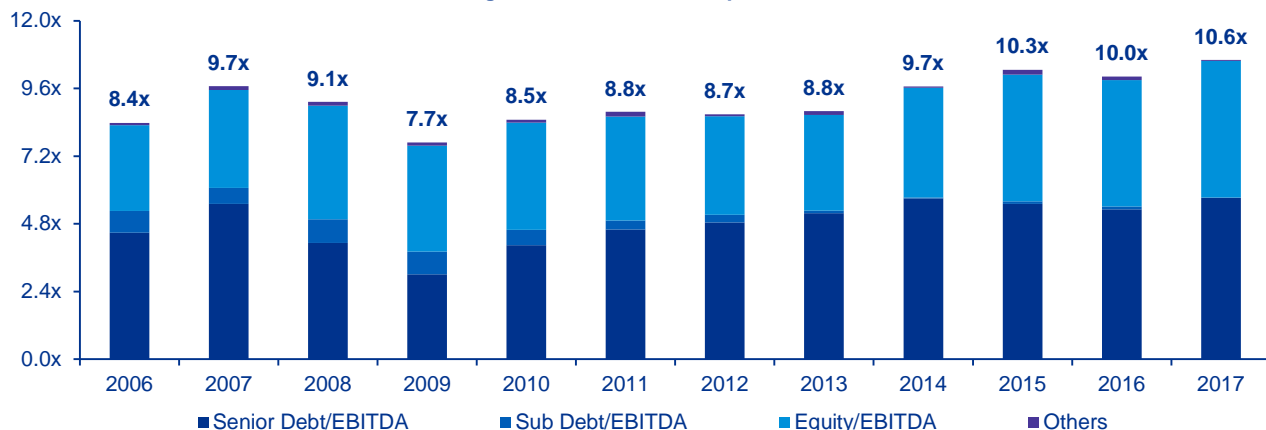
Note: Middle market refers to companies with EBITDA of \$50 million or less

LBO Summary

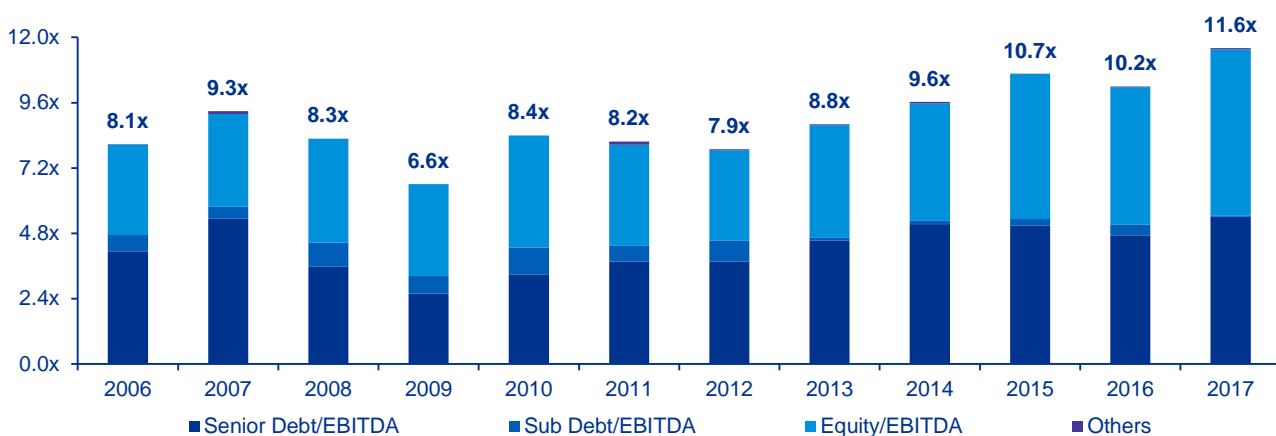
LBO Transaction Volume - Quarterly (\$bn)



Average Purchase Price Multiple - All LBOs



Average Purchase Price Multiple - Middle Market LBOs⁽¹⁾



Source: Standard & Poor | Leveraged Commentary & Data

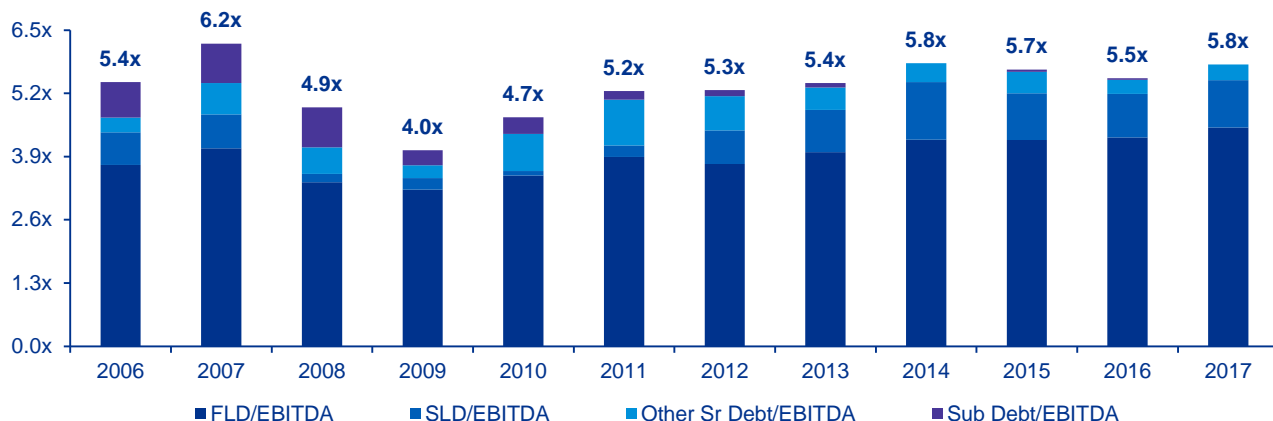
⁽¹⁾ Middle market refers to companies with EBITDA of \$50 million or less



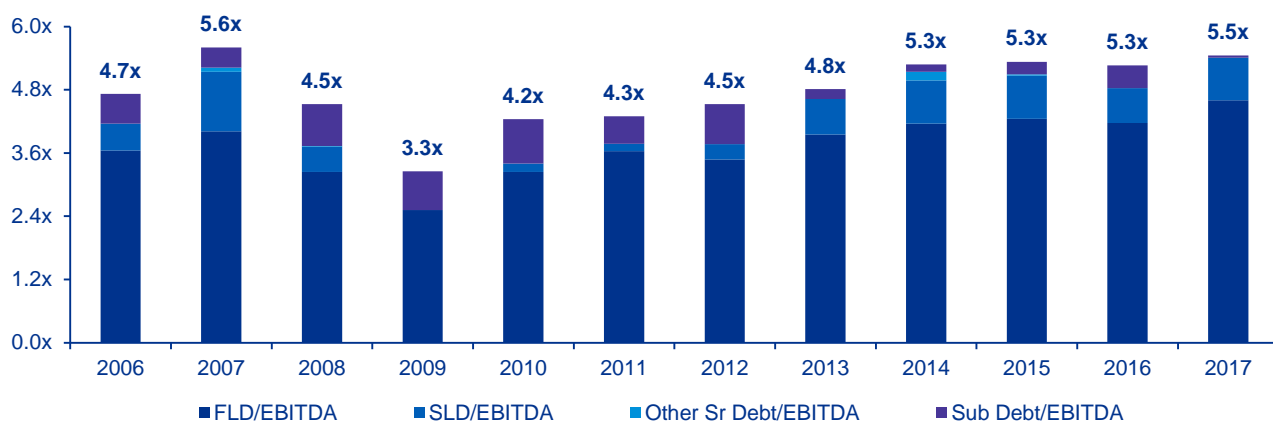
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LBO Summary (continued)

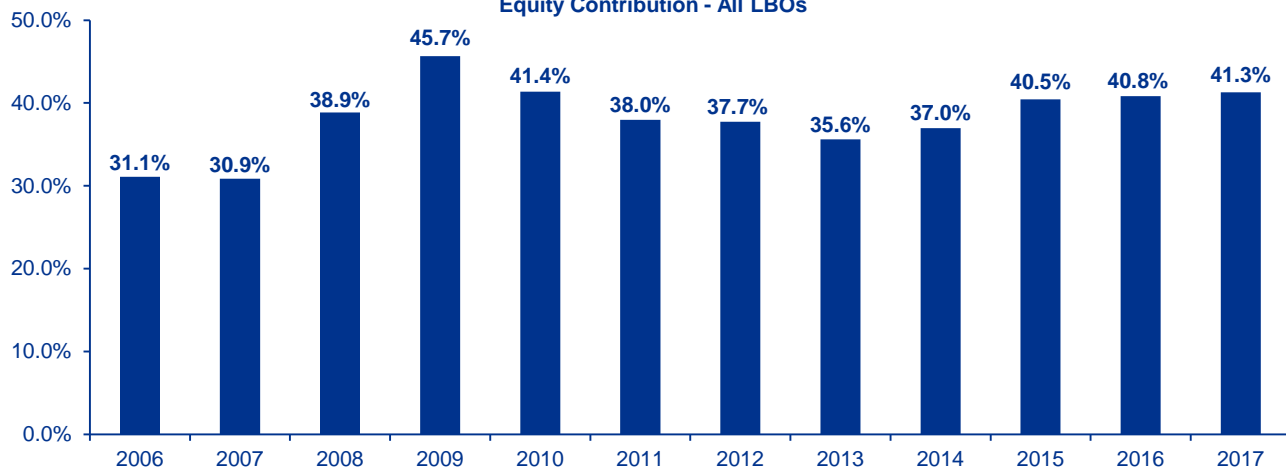
Average Debt Multiples of Large Corporate LBO Loans⁽¹⁾



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



Equity Contribution - All LBOs



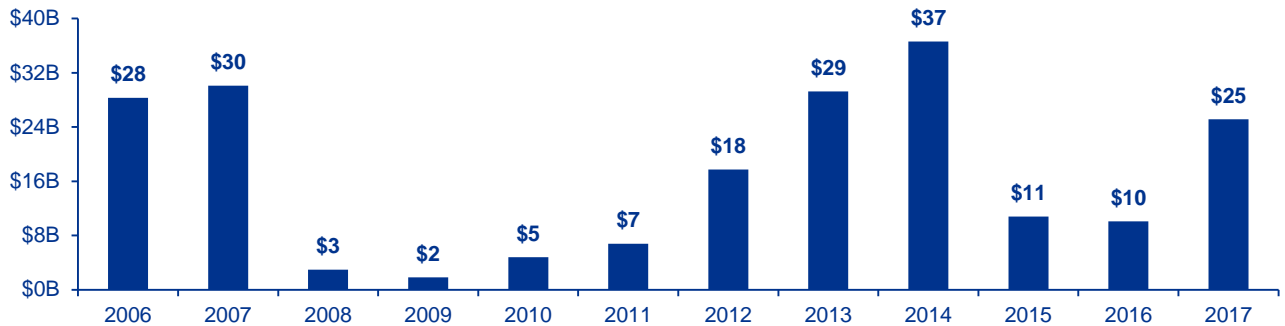
Source: Standard & Poor | Leveraged Commentary & Data

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

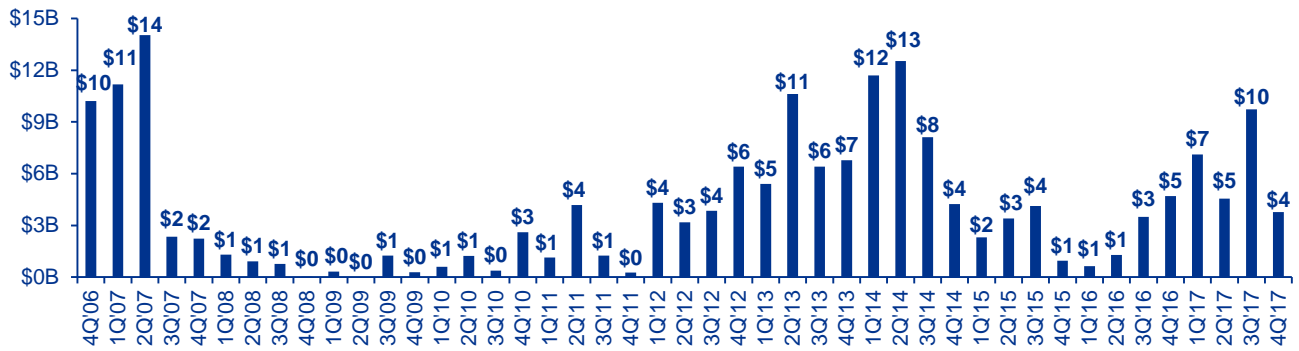
(2) Middle market refers to companies with EBITDA of \$50 million or less.

Second-Lien Loans

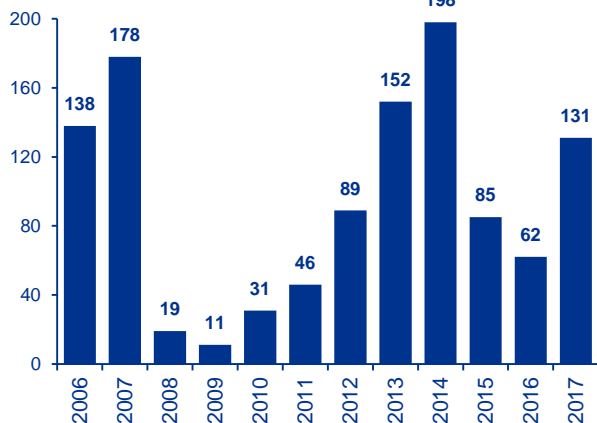
Second-Lien Loan New-Issue Volume - Annual (\$bn)



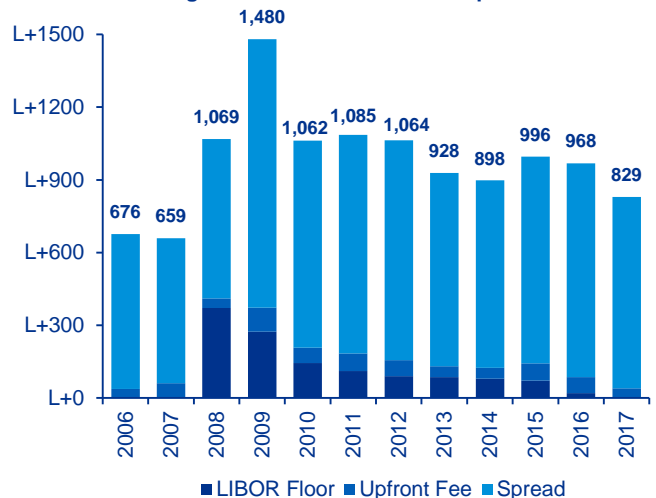
Second Lien Loan New-Issue Volume - Quarterly (\$bn)



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



Average New Issue Second-Lien Spreads



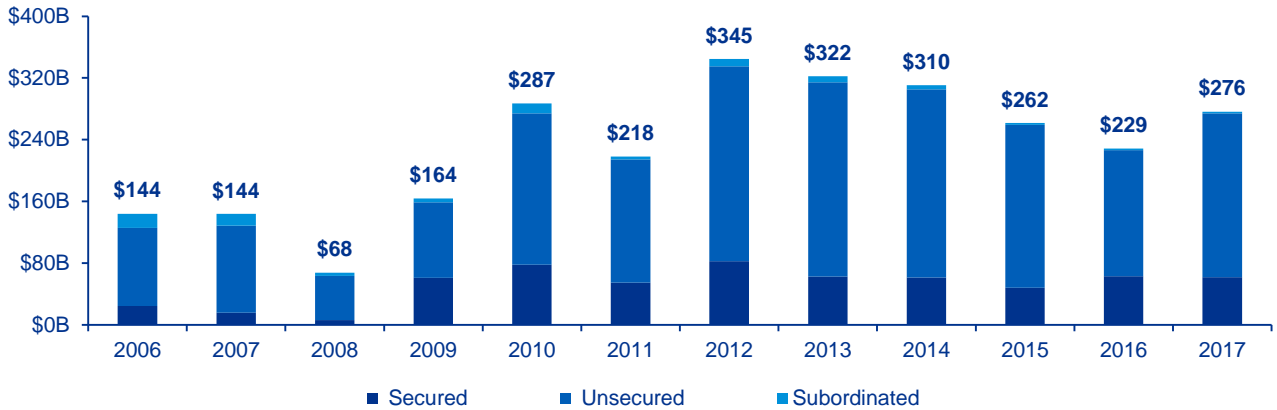
Source: Standard & Poor | Leveraged Commentary & Data



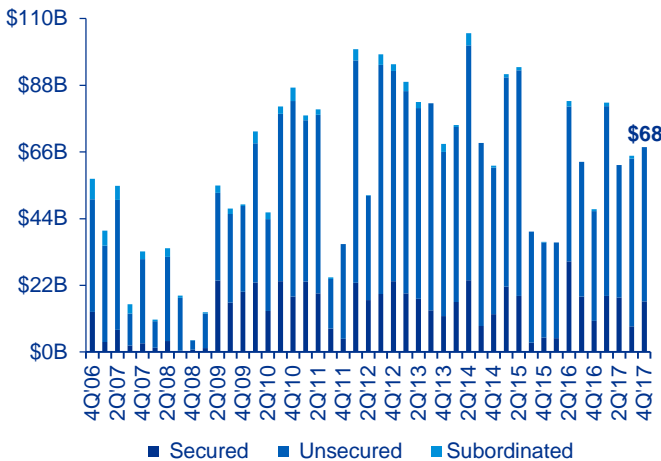
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High Yield Bonds

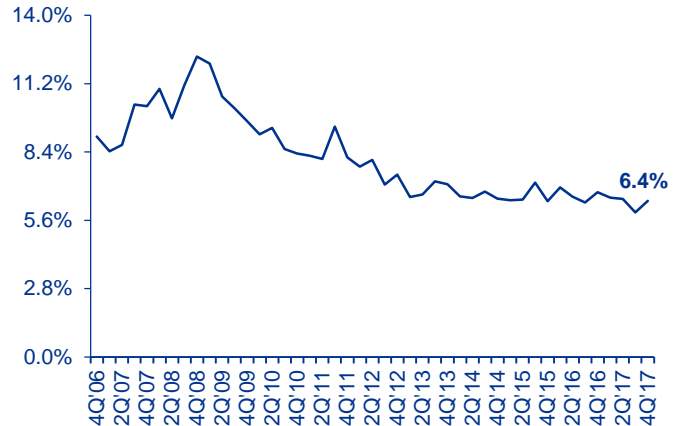
High Yield Bond Issuance – Annual (\$bn)



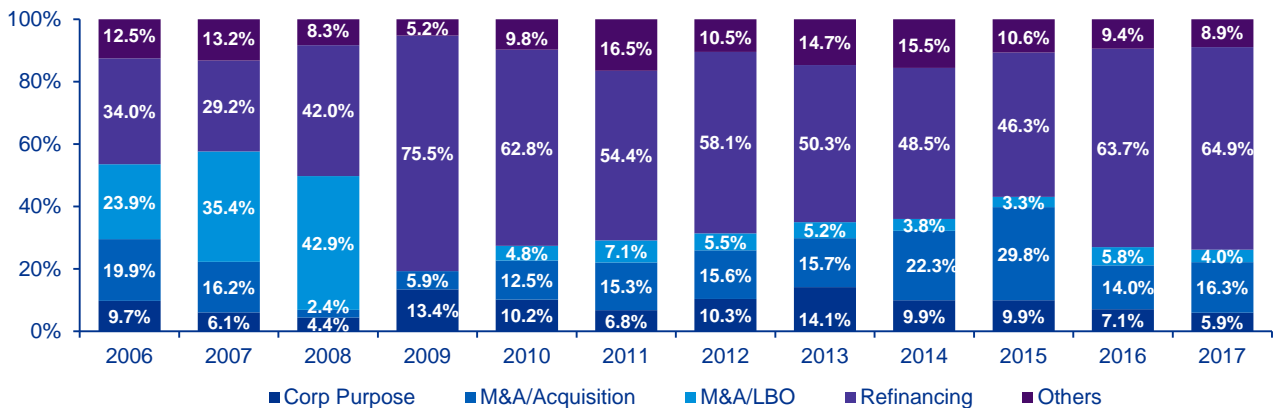
High Yield Bond Issuance – Quarterly (\$bn)



New Issue High Yield Bond Yield to Maturity



High Yield Bond Issuance by Purpose



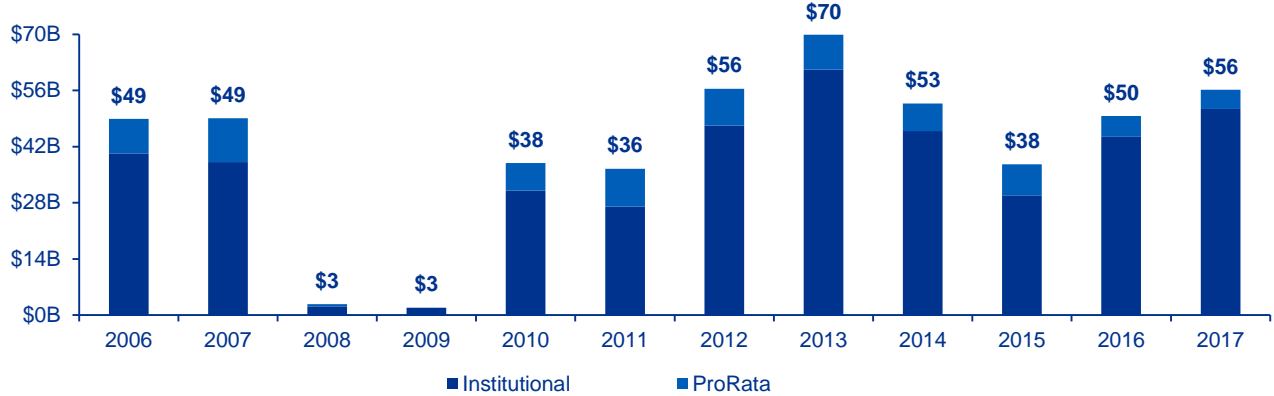
Source: Standard & Poor | Leveraged Commentary & Data



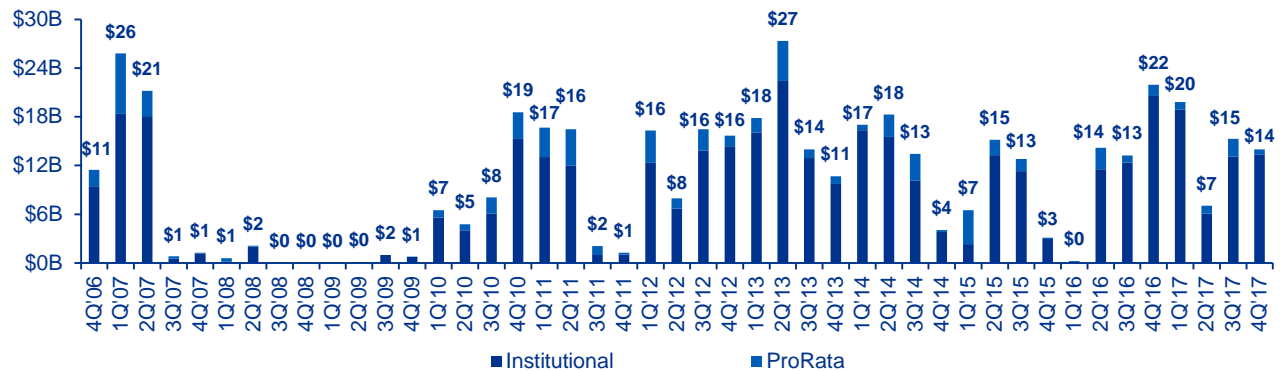
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Dividend Recapitalization

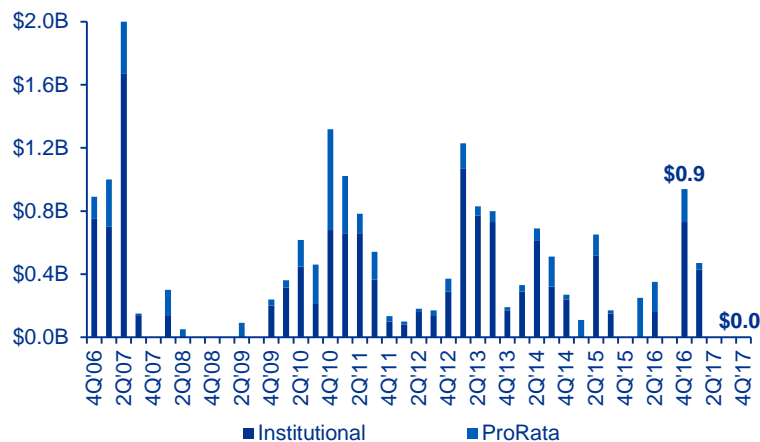
Dividend or Stock Repurchase Loan Volume- Annual (\$bn)



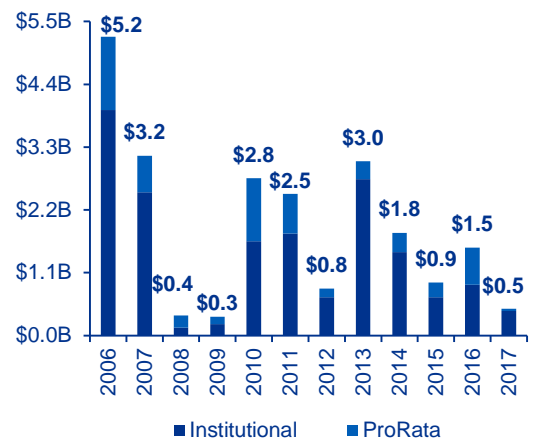
Dividend or Stock Repurchase Loan Volume- Quarterly (\$bn)



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



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



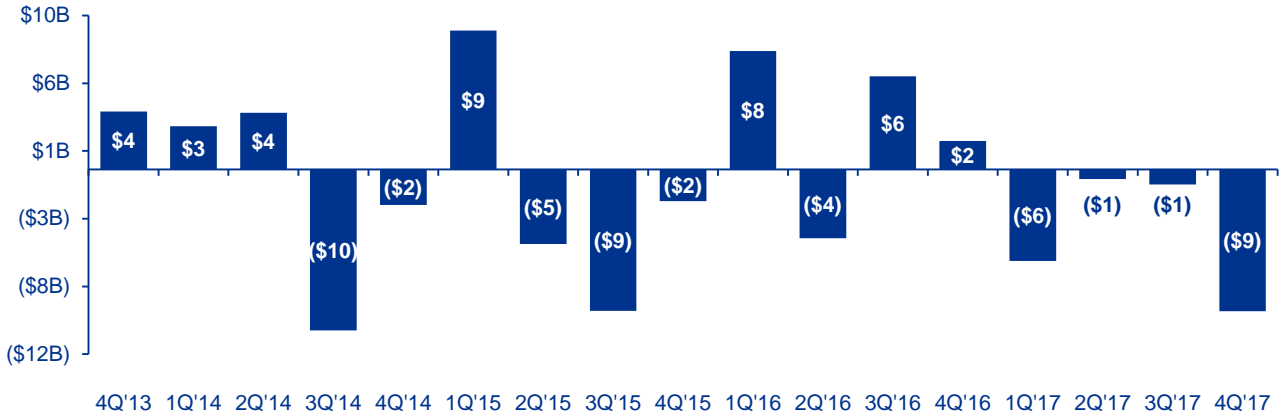
Source: Standard & Poor | Leveraged Commentary & Data



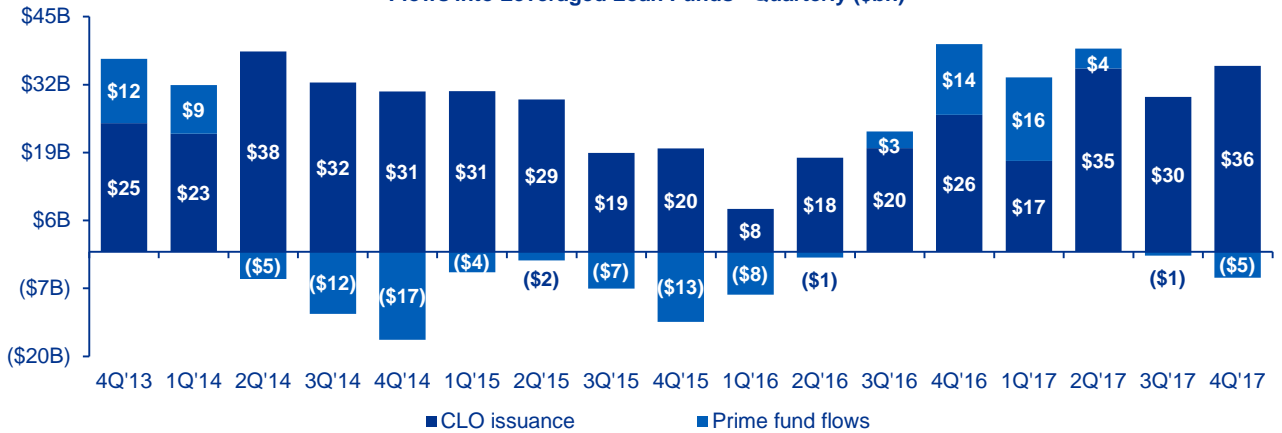
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Funds Flows

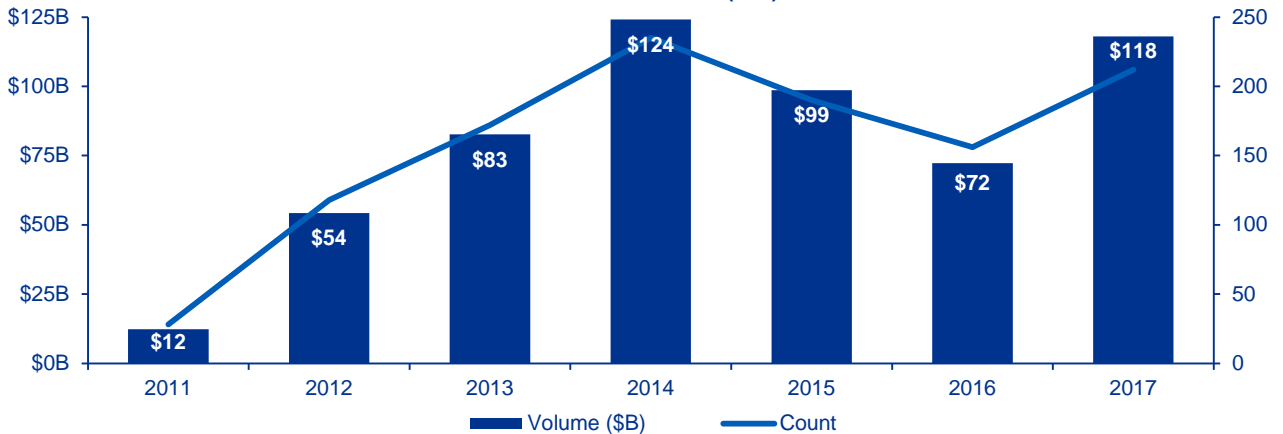
Flows into High Yield Bond Funds - Quarterly (\$bn)



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



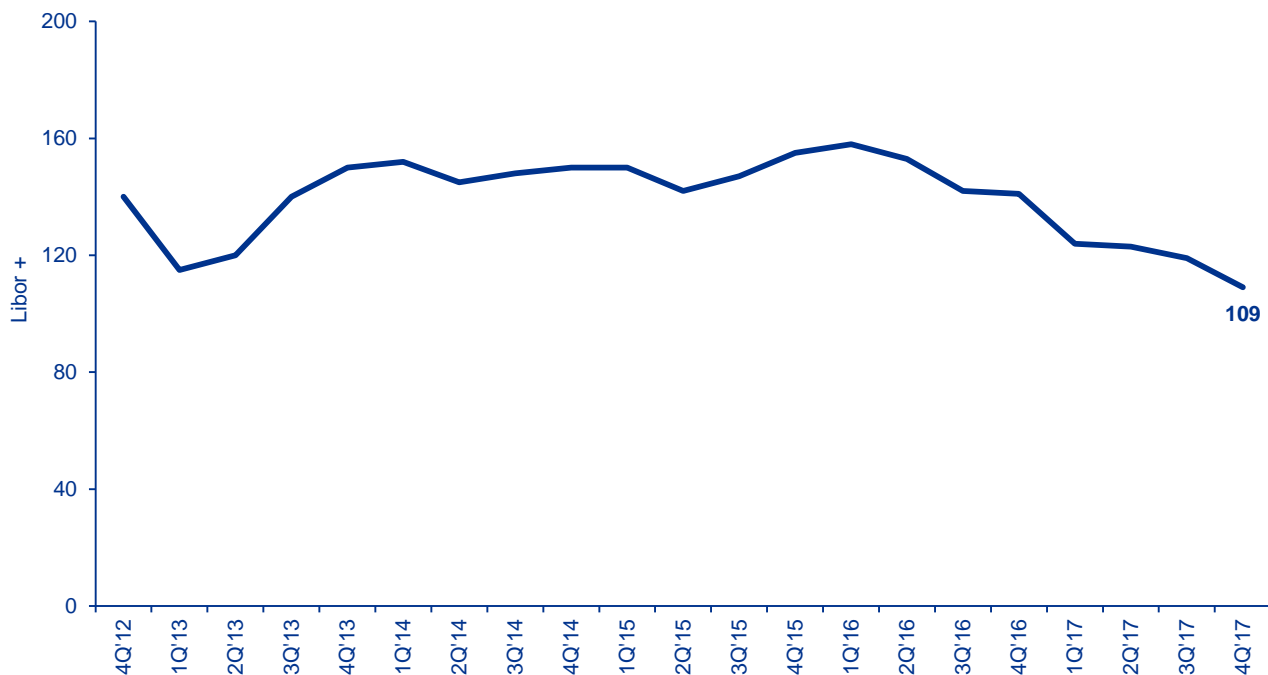
Annual CLO Volume (\$bn)



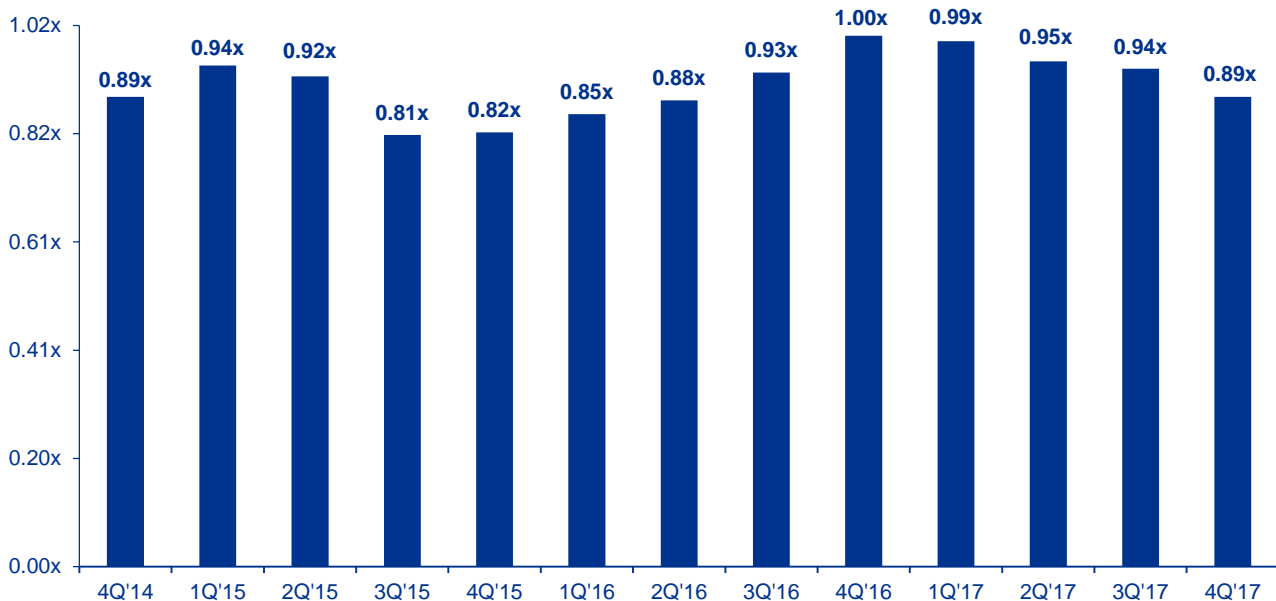
Source: Standard & Poor | Leveraged Commentary & Data

Funds Flows (continued)

U.S. CLO Spreads



Public BDCs - Price to Book Value Multiple - Quarterly

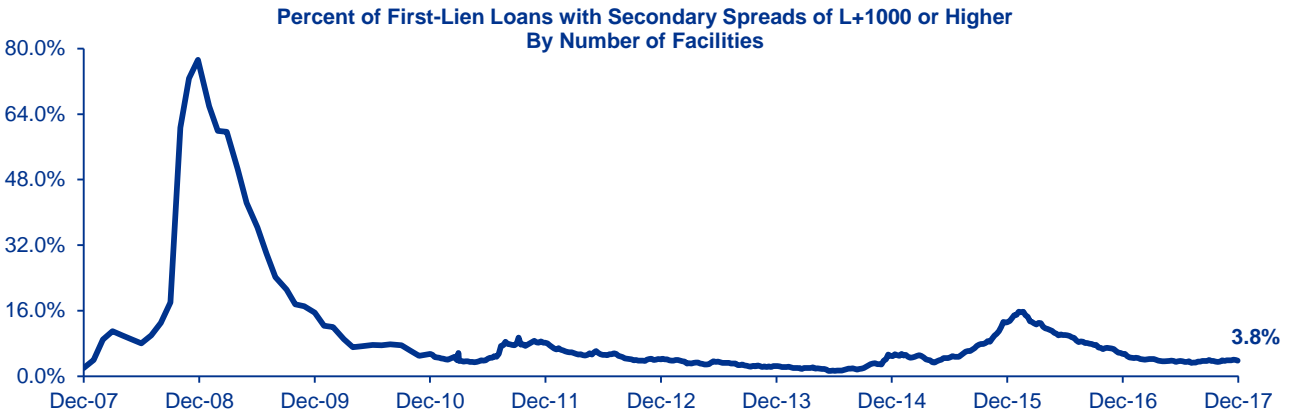
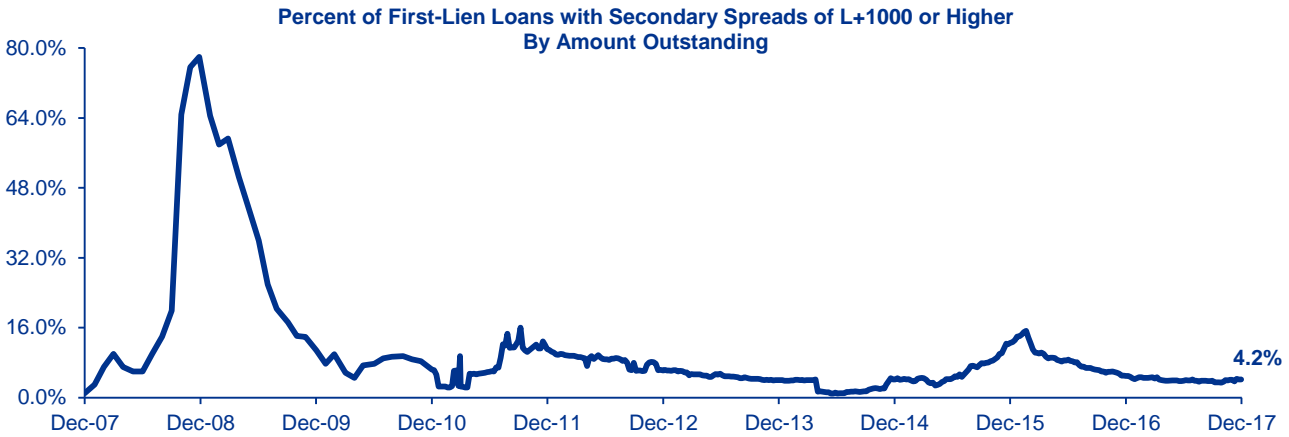


Source: Standard & Poor | Leveraged Commentary & Data



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Distress and Defaults



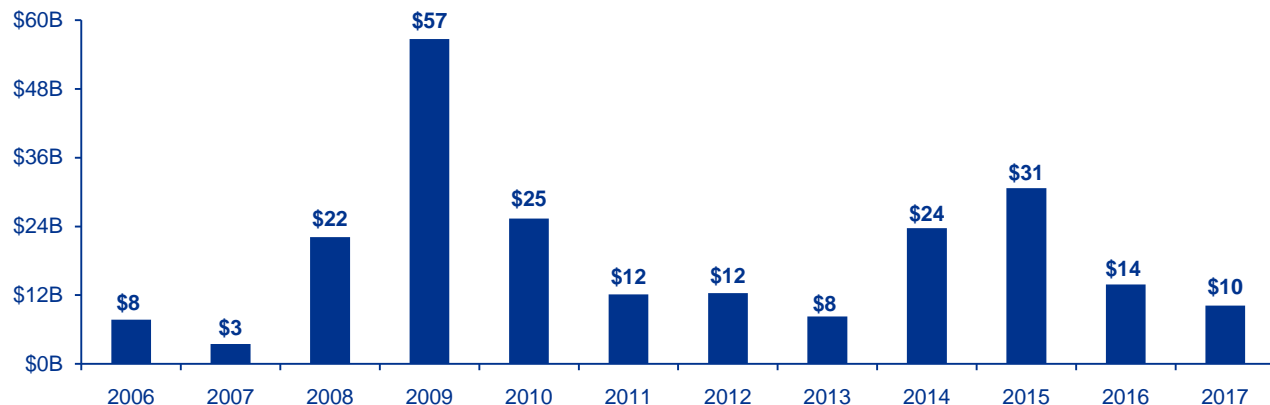
Source: Standard & Poor | Leveraged Commentary & Data



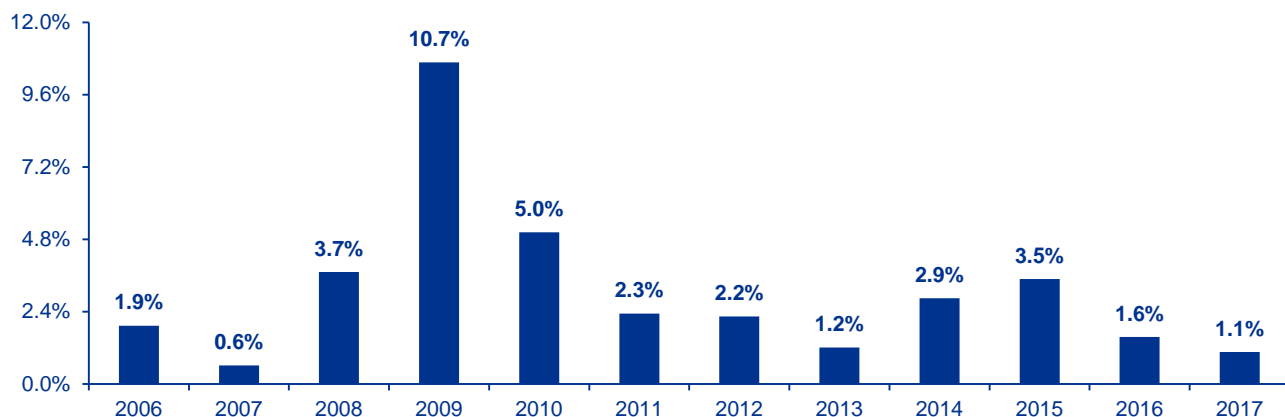
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Distress and Defaults (continued)

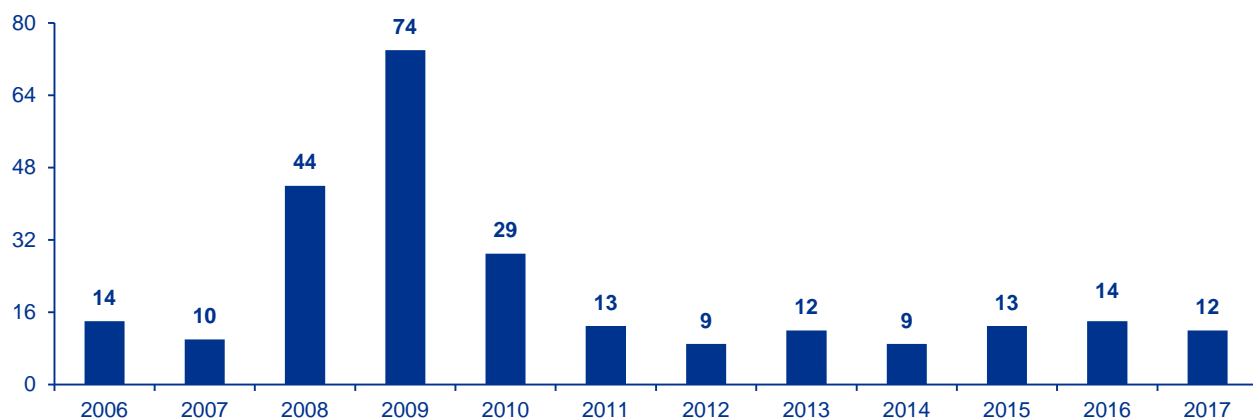
Par Amount of Leveraged Loans in Payment Default or Bankruptcy (\$bn)



Percent of Outstanding Leveraged Loans in Default or Bankruptcy



Number of Issuers in Payment Default or Bankruptcy



Source: Standard & Poor | Leveraged Commentary & Data

KPMG Investment Banking – Capital Advisory

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 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 advisory 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

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

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KPMG Restructuring

Restructuring Practice

KPMG Restructuring understands the complex challenges organizations face, regardless of size, industry or global reach

We bring this understanding to the service of our clients, working with companies, management teams, senior lenders, investors or other important stakeholders to help identify, develop, and deliver restructuring solutions that provide sustainable improvements to cash flow, profit & loss, and the balance sheet

We help our clients turn around performance and generate lasting value

KPMG's Differentiated Offering

- Comprehensive and integrated network of services
- Deep industry knowledge and specialist resources
- Global platform

End to End Solution

- Assessment of strategic alternatives
- Turnaround and crisis management
- Plant level operations assessment and performance improvement
- Debt restructuring and exchange offers
- M&A, including Article 9 and bankruptcy §363 sales
- Plans of reorganization
- Quality of earnings and due diligence



All Major Verticals Covered

- Depth and breadth of specialist resources

Global Platform

- Restructuring professionals in every major country
- In middle market, unmatched global footprint

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