



Credit Markets Update

December 31, 2018

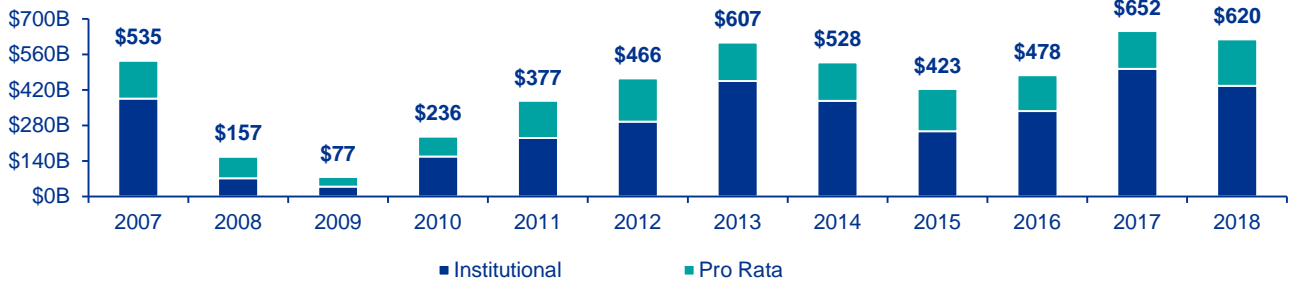
Credit Markets Update as of December 31, 2018

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

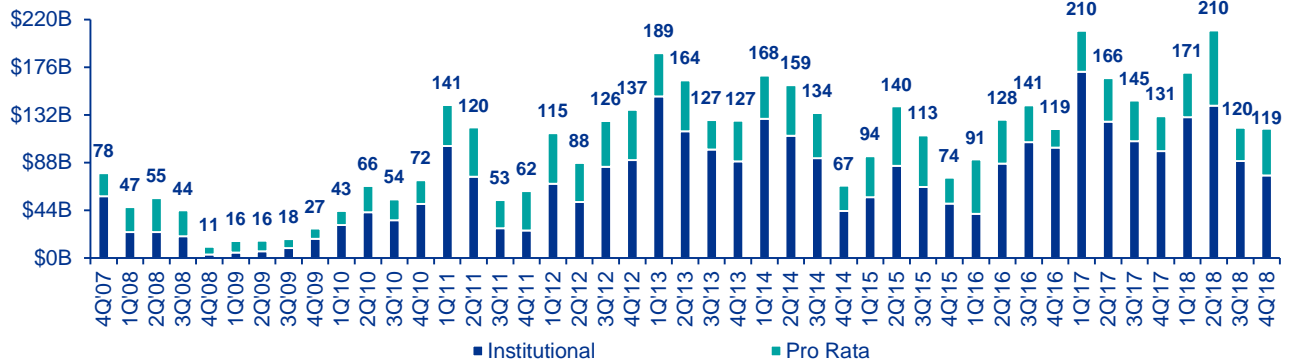
- **Overall, the credit market experienced lower volume compared to 2017 as volatility pressured the high yield market in the fourth quarter** against a backdrop of economic uncertainties and tighter monetary policy. Despite the fourth quarter volatility, M&A activity remained strong and was a key driver of institutional issuance in 2018
- **Newly issued leveraged loan volume in the fourth quarter of 2018 stood at \$119 billion**, down slightly from third quarter volume of \$120 billion. On an annual basis, 2018 new-issue volume decreased versus prior year, down 4.9% to \$620 billion versus \$652 billion in 2017
- **New-issue covenant-lite loan volume** decreased by 1.4% to \$370 billion in 2018 from \$375 billion during the previous year. New-issue covenant-lite loan volume as percentage of total volume reached an all-time high of 85%
- **Despite a widening in credit spreads during the fourth quarter, non-investment grade B rated first lien pro rata and institutional syndicated leveraged loans remain historically low** with average spreads of L+343 and L+391, respectively, in the fourth quarter of 2018; non-investment grade BB rated pro rata and institutional loans priced at average spreads of L+253 and L+270, respectively, during the same period of 2018
- **Second-lien loan issuance volume decreased to \$3 billion** in the fourth quarter, the lowest since the fourth quarter of 2016. Full year 2018 volume stood at \$24 billion, slightly lower compared to the previous year of \$25 billion
- **Number of LBO transactions and volume reached 34 and \$54 billion**, respectively, in the fourth quarter of 2018, an increase of 54.5% and 89.0%, respectively, to the last quarter of 2017. Full year 2018 transactions and volume numbers are up 3.3% and 32.4%, respectively, over 2017
- **Purchase price multiples for middle market LBOs** decreased to 10.6x in 2018 from 11.6x 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** stood at 5.5x and 5.9x, respectively, in 2018, consistent with levels seen in the previous year
- **Equity contribution to LBOs** decreased to 40.5% of the purchase price in 2018 from 41.3% in 2017
- **High yield bond issuance volume decreased** to \$169 billion in 2018, down 38.9% from the previous year. 61.7% and 22.2% of high yield issuance was used to support refinancing and M&A transactions, respectively, in 2018
- **Average high yield bond pricing increased** to 7.6% in the fourth quarter of 2018 from 7.1% in the third quarter. For full year 2018, pricing averaged 7.2%, highest since 2013
- **Flows into high yield bond funds remained negative** in the fourth quarter with net outflows of \$20 billion. The third quarter of 2018 was the only exception, with net inflows of \$1 billion, since the first quarter of 2017
- **Funds flows into leveraged loan funds dropped to \$8 billion** in the fourth quarter of 2018 from \$35 billion in the previous quarter
- **CLO volume increased to \$129 billion in 2018**, up 9.1% from \$118 billion in the previous year
- **Distress indicators advanced slightly 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 at 3.8% and 3.7%, respectively
- **Percentage of leveraged loans in default or in bankruptcy increased** to 1.3% in 2018 from 1.1% in the previous year due to a rise in new defaults

Leveraged Loans

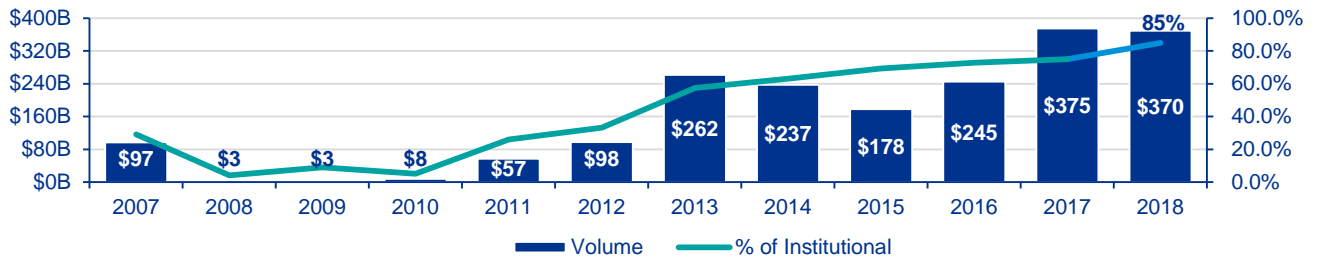
New Issue Leveraged Loan Volume - Annual (\$bn)



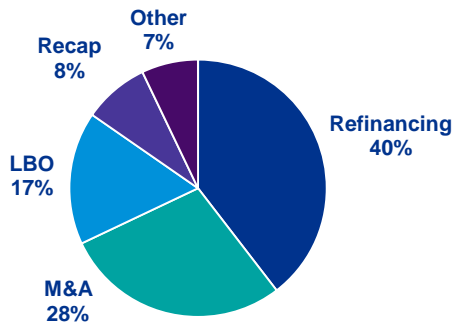
New Issue Leveraged Loan Volume - Quarterly (\$bn)



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

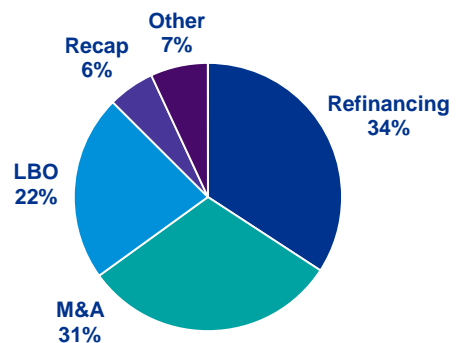


Leveraged Loan Issuance by Purpose - 2017



Total Volume: \$652B

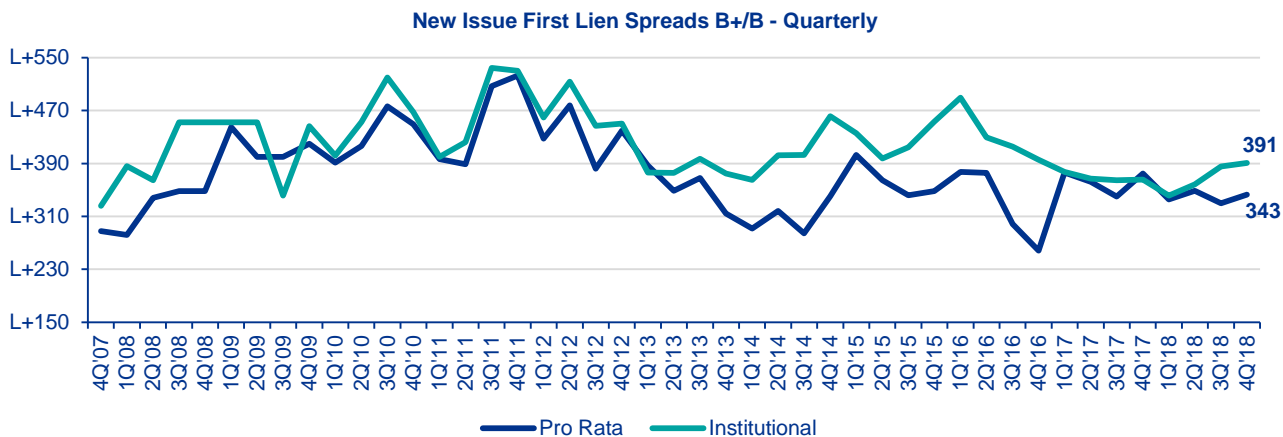
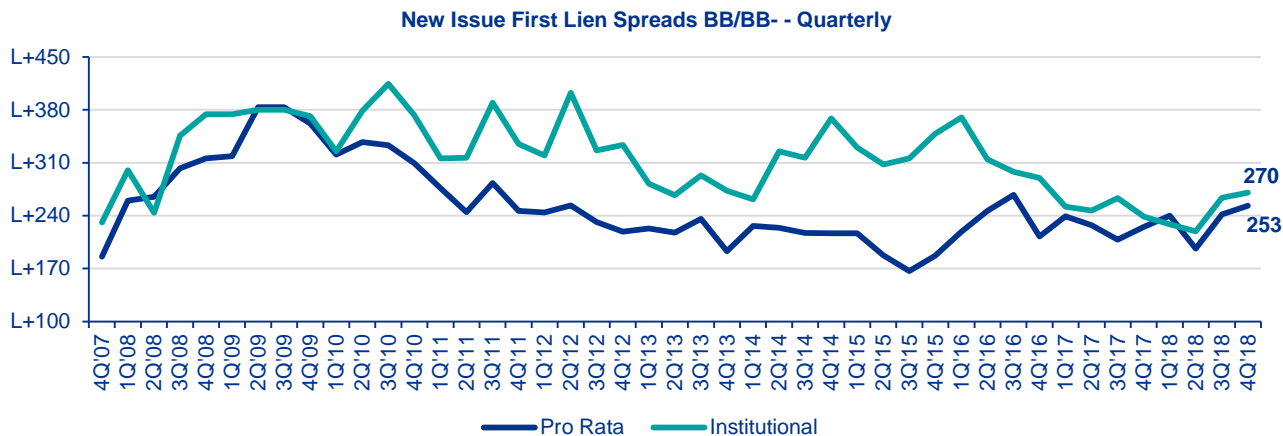
Leveraged Loan Issuance by Purpose - 2018



Total Volume: \$620B

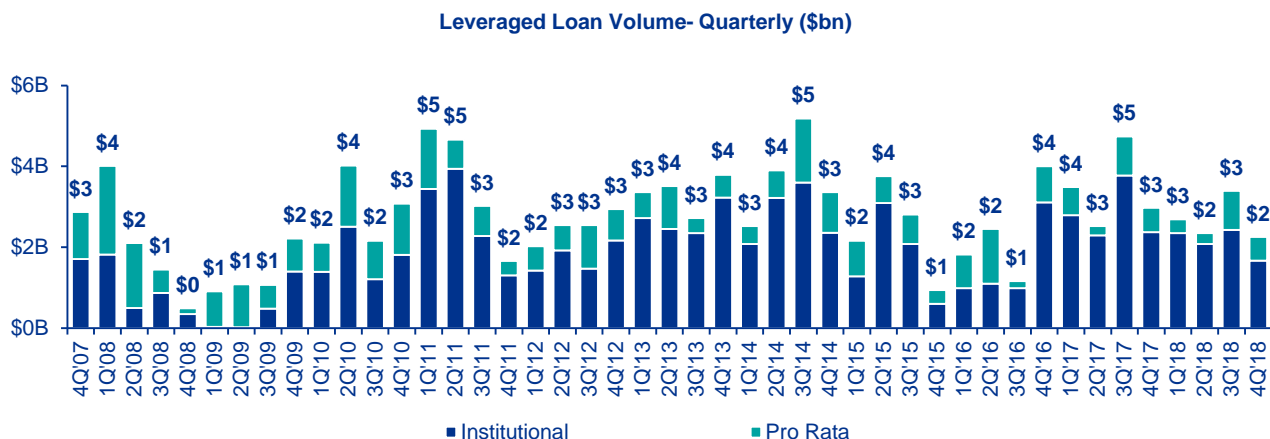
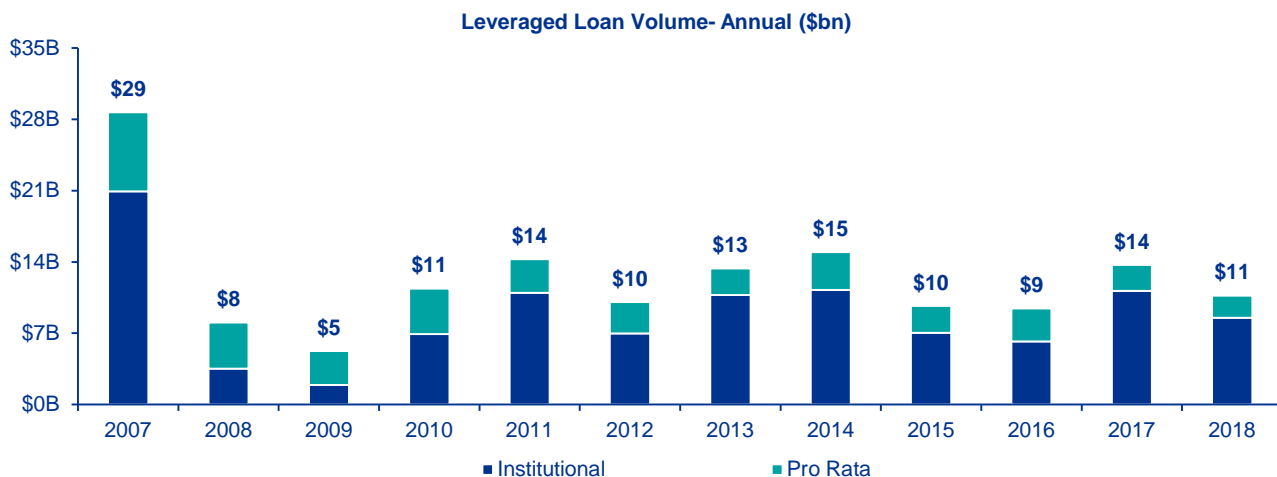
Source: Standard & Poor | Leveraged Commentary & Data

Leveraged Loans (continued)

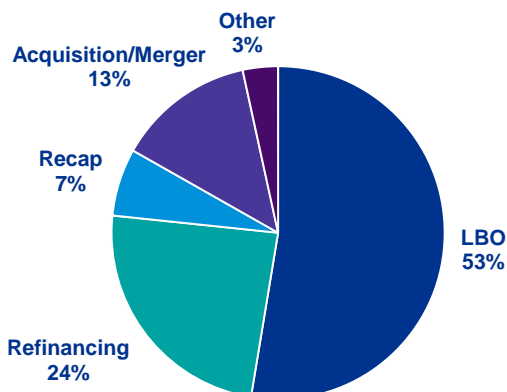


Source: Standard & Poor | Leveraged Commentary & Data

Leveraged Loans - Middle Market

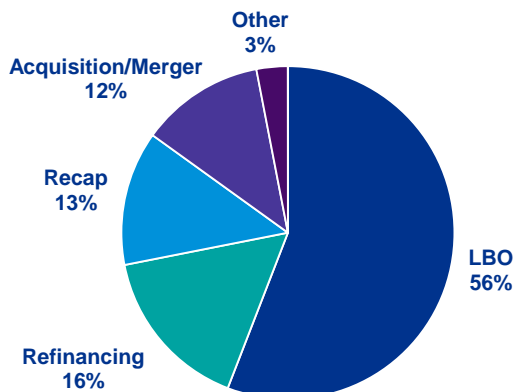


Total New-Issue Volume by Purpose - 2017



Total Volume: \$13.7B

Total New-Issue Volume by Purpose - 2018



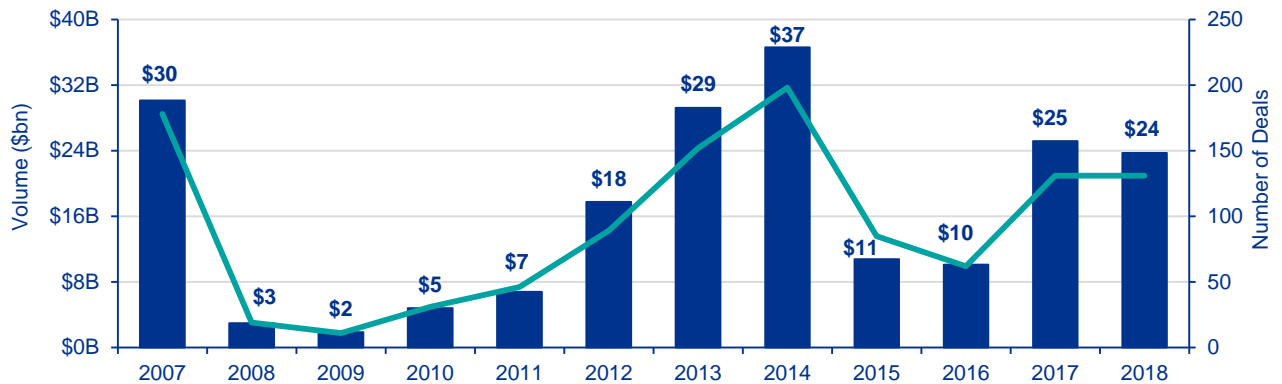
Total Volume: \$10.7B

Source: Standard & Poor | Leveraged Commentary & Data

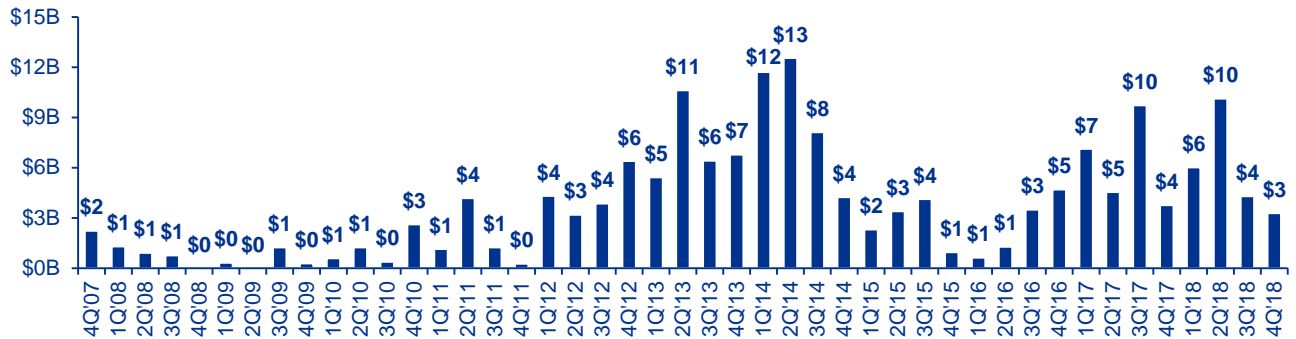
Note: Middle market refers to companies with EBITDA of \$50 million or less

Second-Lien Loans

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



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



Average New Issue Second-Lien Spreads



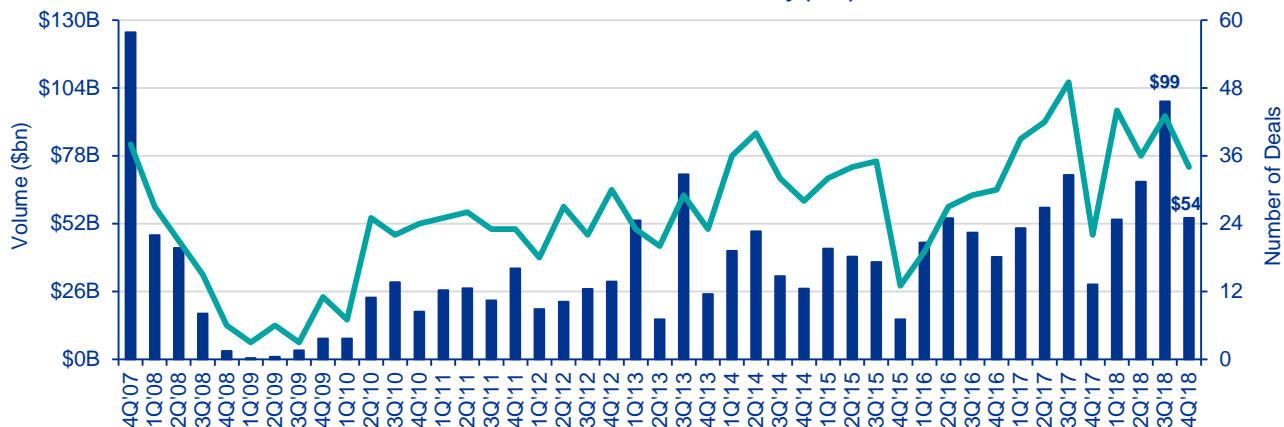
Source: Standard & Poor | Leveraged Commentary & Data



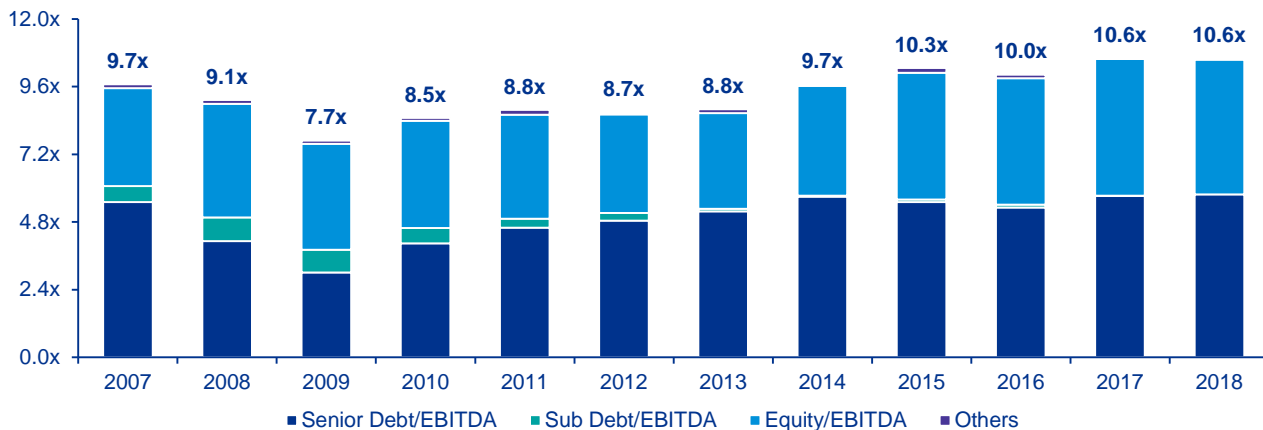
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LBO Summary

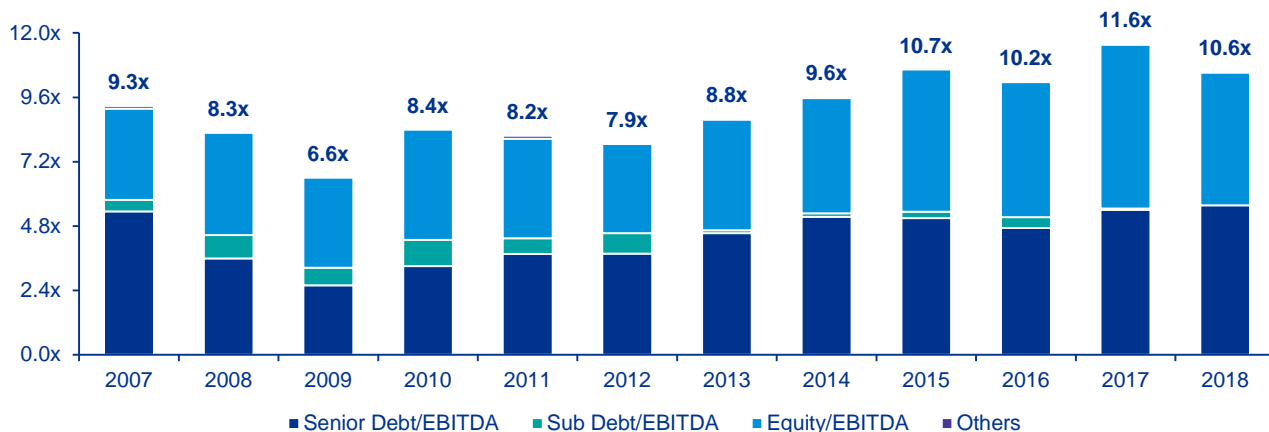
LBO Transaction Volume - Quarterly (\$bn)



Average Purchase Price Multiple - All LBOs



Average Purchase Price Multiple - Middle Market LBOs⁽¹⁾



Source: Standard & Poor | Leveraged Commentary & Data

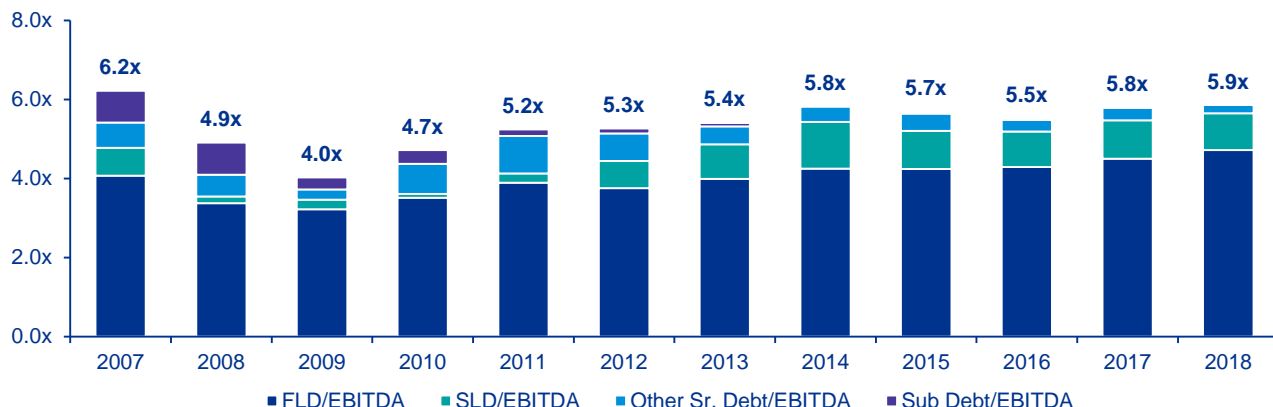
⁽¹⁾ Middle market refers to companies with EBITDA of \$50 million or less



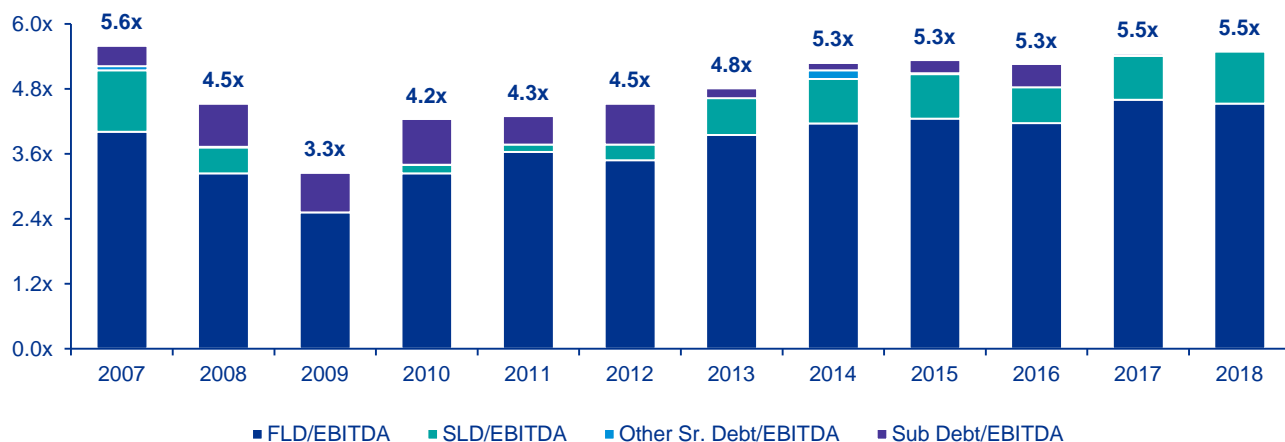
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LBO Summary (continued)

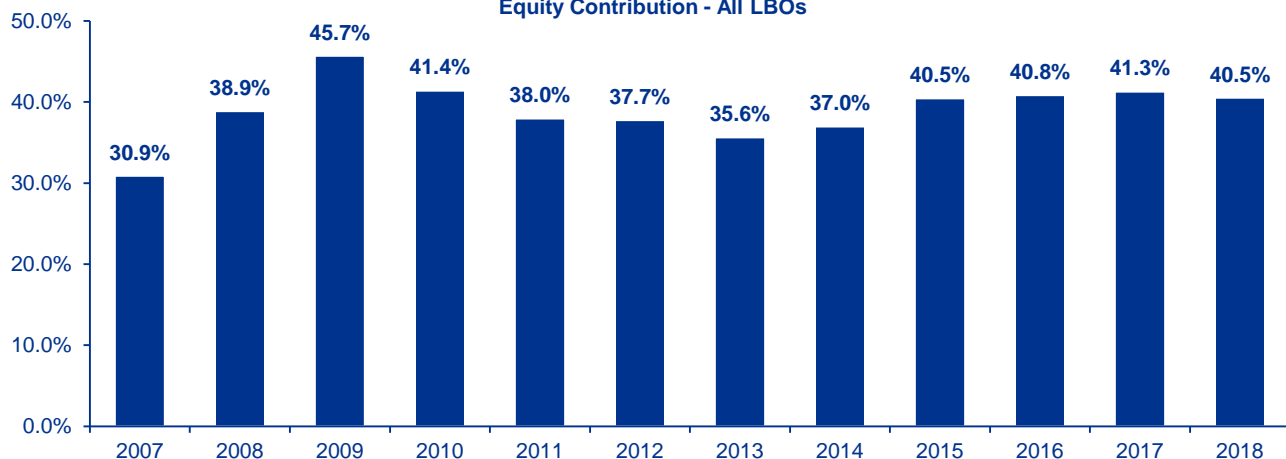
Average Debt Multiples of Large Corporate LBO Loans⁽¹⁾



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



Equity Contribution - All LBOs



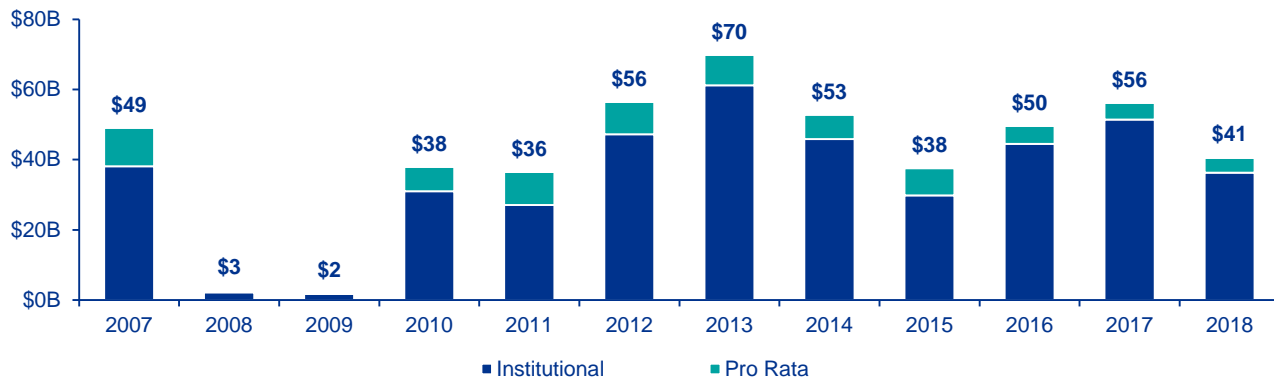
Source: Standard & Poor | Leveraged Commentary & Data

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

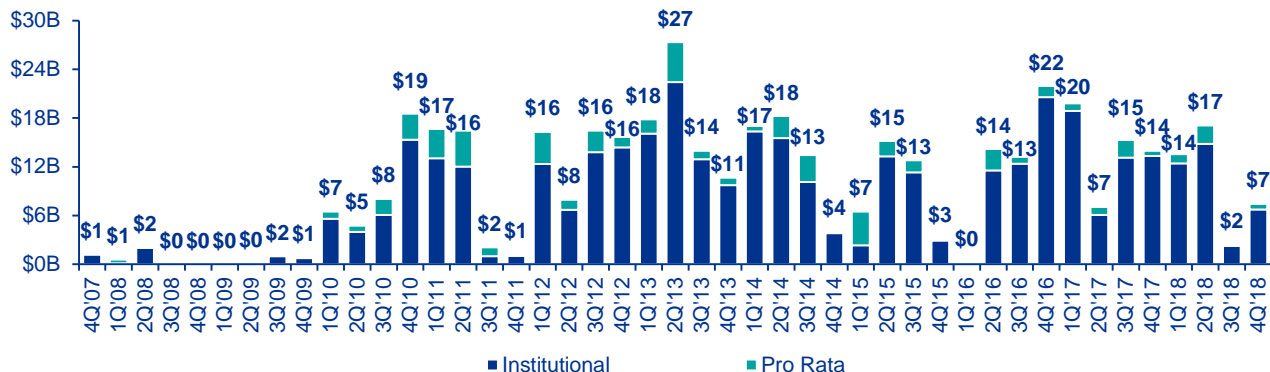
⁽²⁾ Middle market refers to companies with EBITDA of \$50 million or less.

Dividend Recapitalization

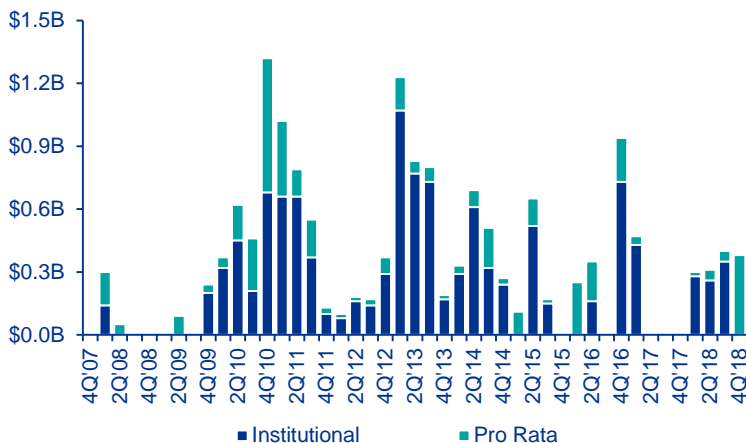
Dividend or Stock Repurchase Loan Volume- Annual (\$bn)



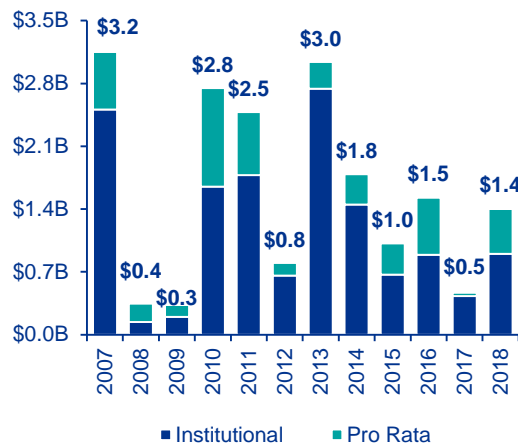
Dividend or Stock Repurchase Loan Volume- Quarterly (\$bn)



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



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



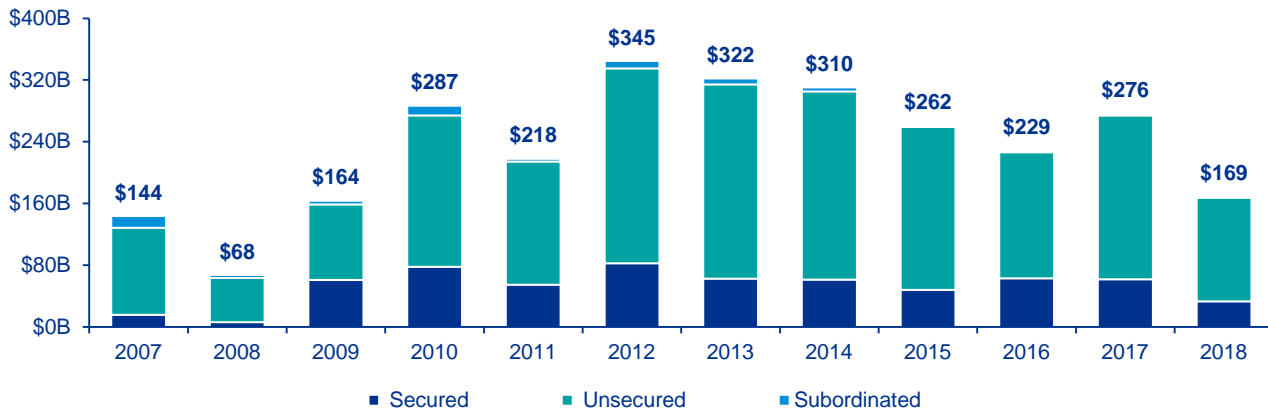
Source: Standard & Poor | Leveraged Commentary & Data



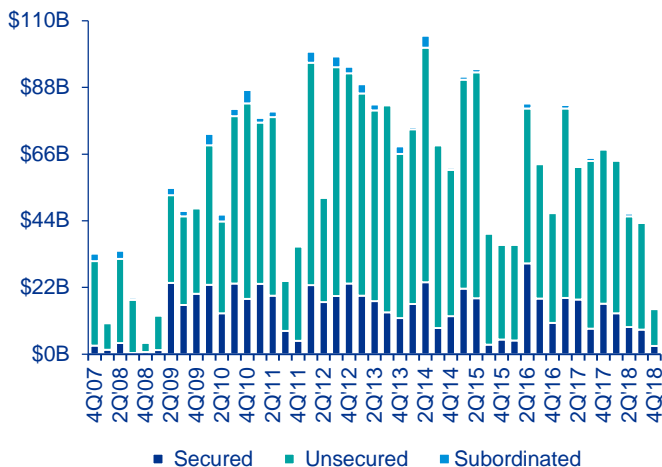
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High Yield Bonds

High Yield Bond Issuance – Annual (\$bn)



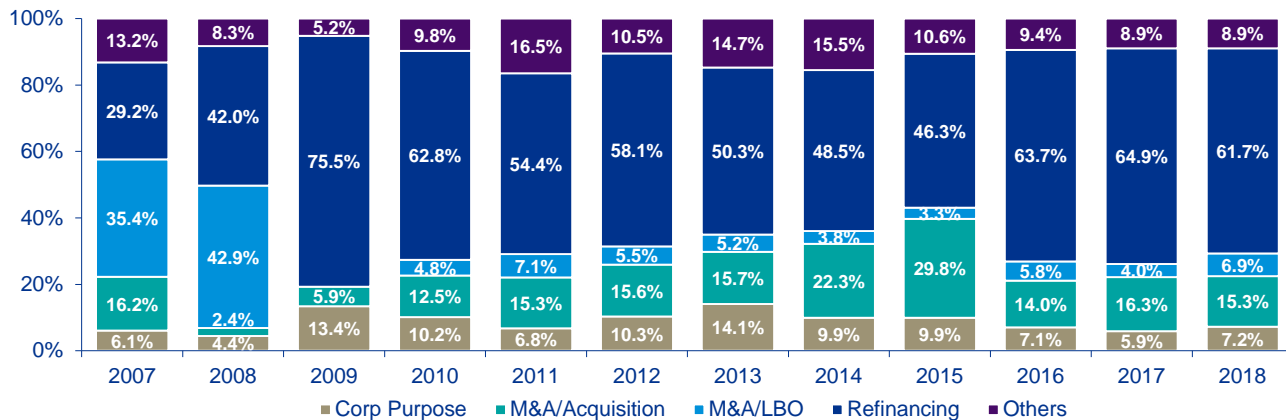
High Yield Bond Issuance – Quarterly (\$bn)



New issue High yield Bond yield to Maturity



High Yield Bond Issuance by Purpose



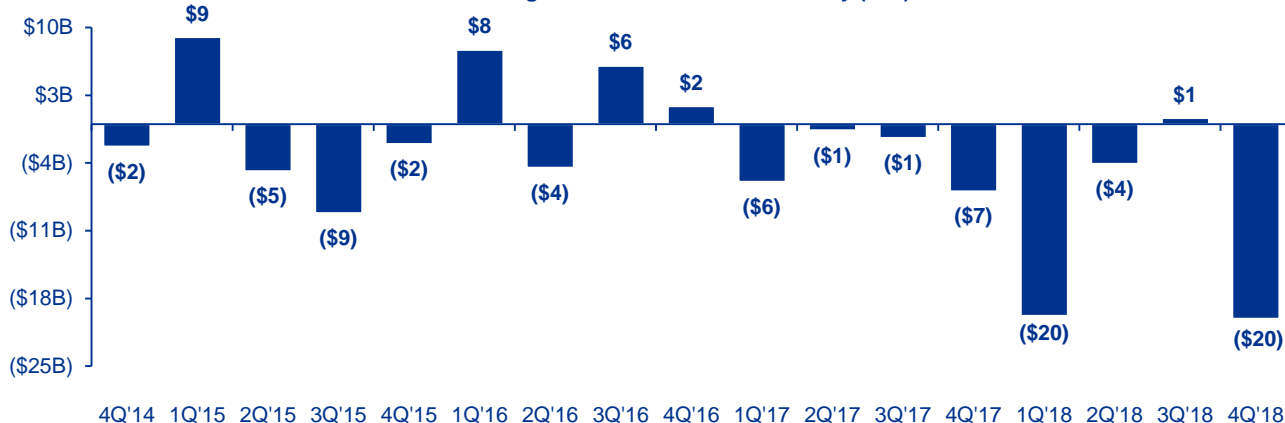
Source: Standard & Poor | Leveraged Commentary & Data



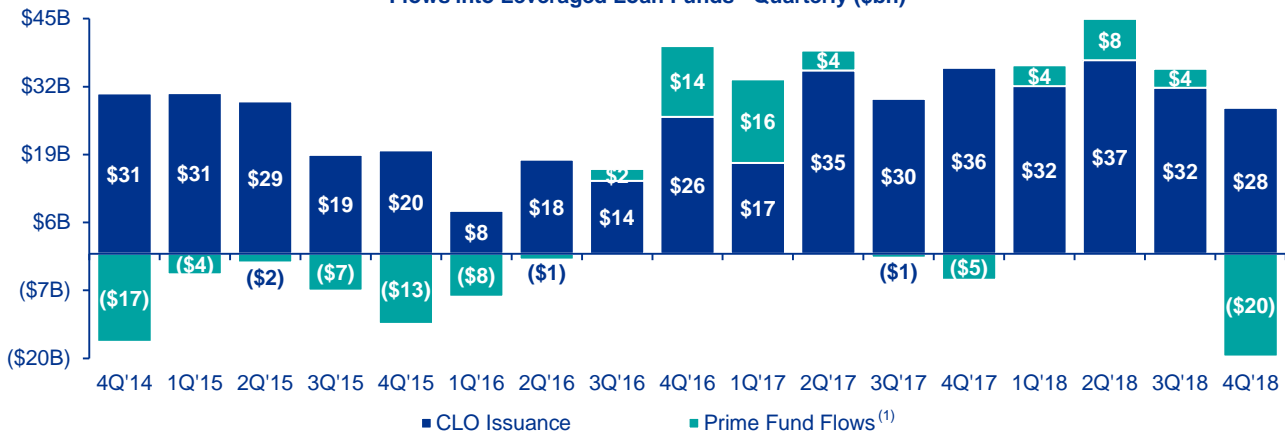
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Funds Flows

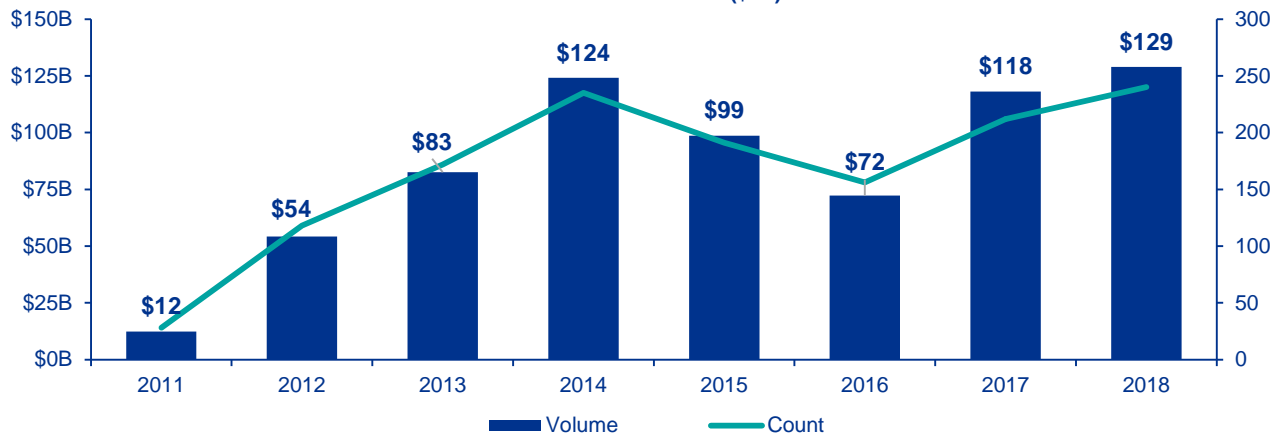
Flows into High Yield Bond Funds - Quarterly (\$bn)



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



Annual CLO Volume (\$bn)

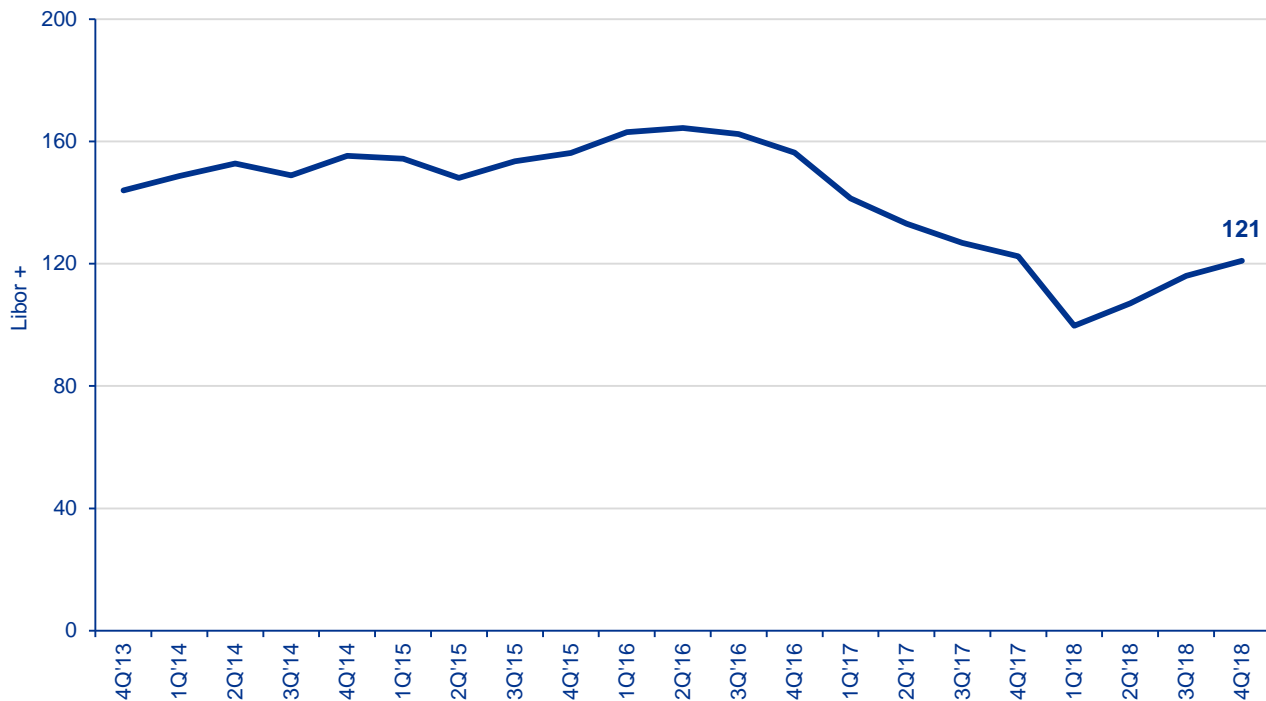


Source: Standard & Poor | Leveraged Commentary & Data

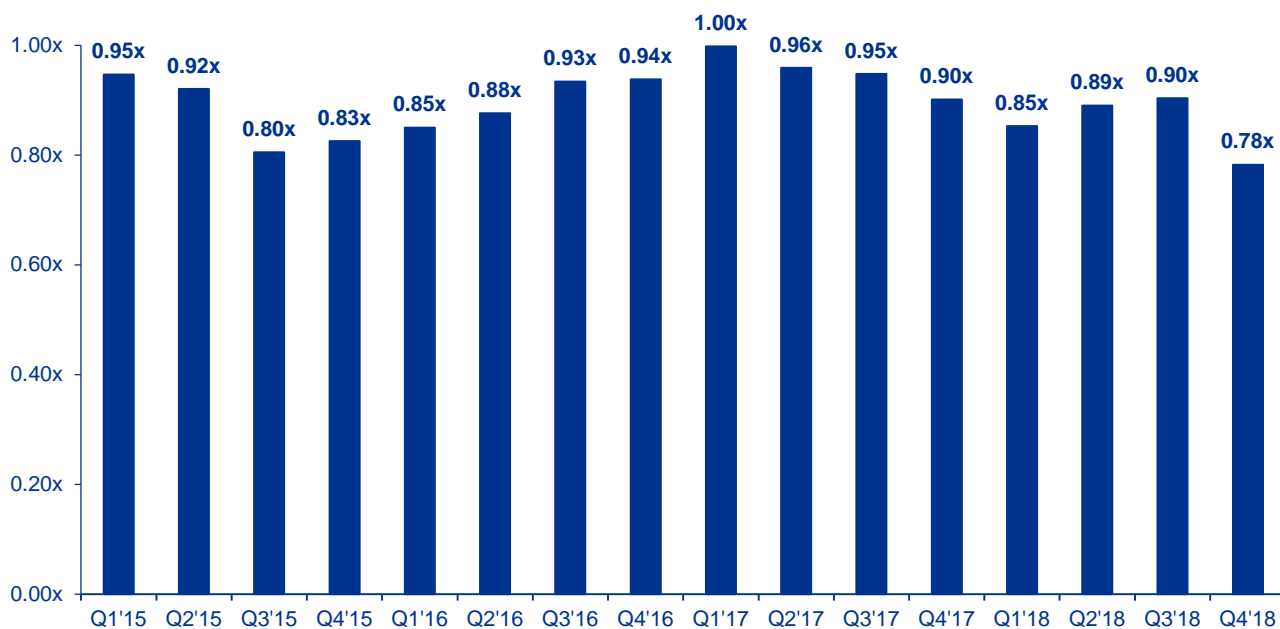
⁽¹⁾ Prime Funds Flows represent funds flows from loan participation mutual funds.

Funds Flows (continued)

U.S. CLO Spreads



Public BDCs - Price to Book Value Multiple - Quarterly



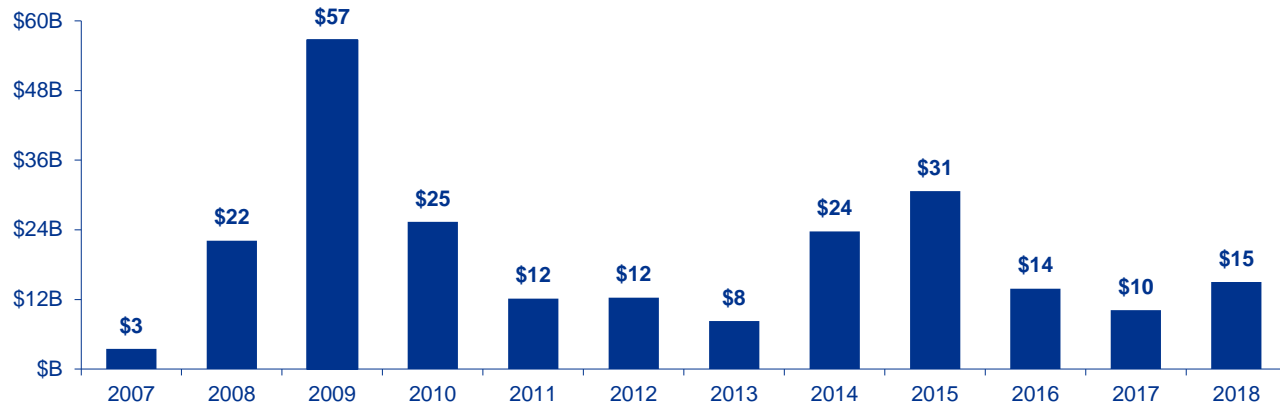
Source: Standard & Poor | Leveraged Commentary & Data



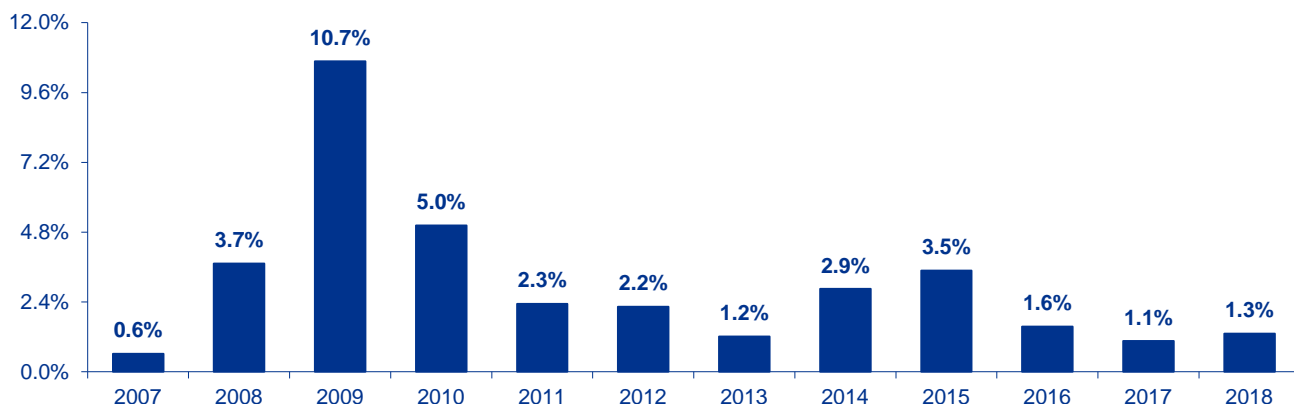
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Distress and Defaults

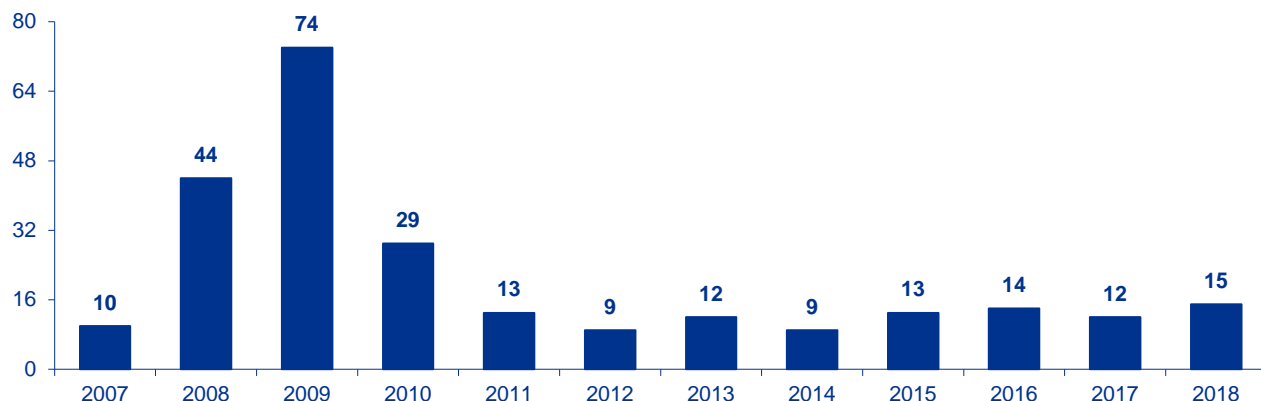
Par Amount of Leveraged Loans in Payment Default or Bankruptcy (\$bn)



Percent of Outstanding Leveraged Loans in Default or Bankruptcy



Number of Issuers in Payment Default or Bankruptcy

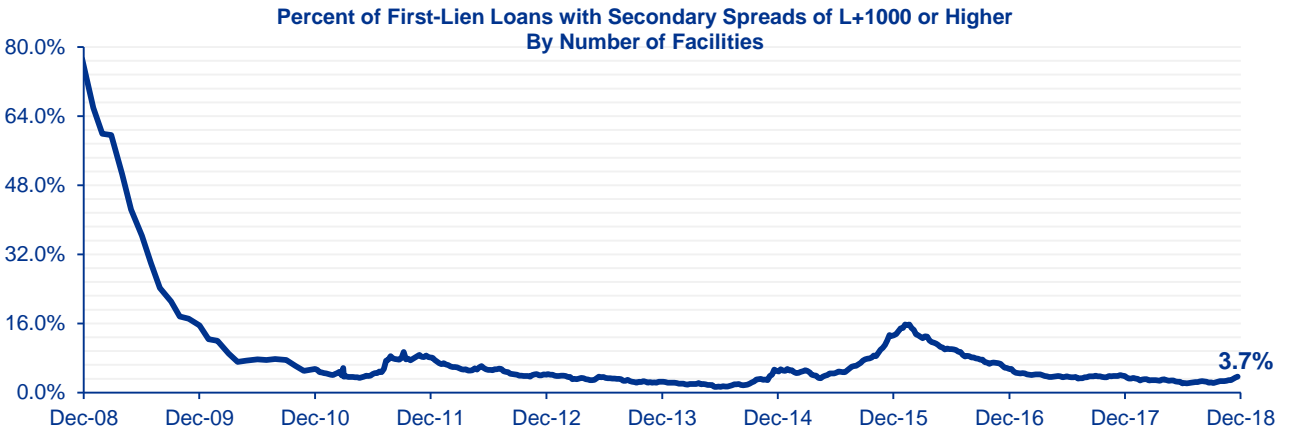
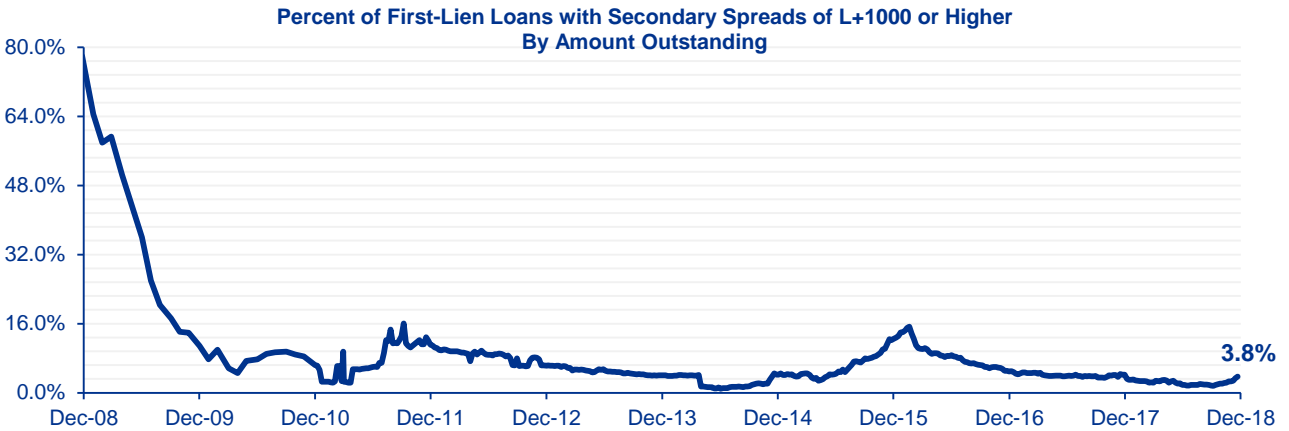


Source: Standard & Poor | Leveraged Commentary & Data



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Distress and Defaults (continued)



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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 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

Capital Advisory Transactions

  Debt Advisory <p>Acted as the exclusive financial advisor to Smartlink in connection with securing a new credit facility</p> <p>Not Disclosed 2018</p>	  Debt Advisory <p>Acted as the exclusive financial advisor to The Markets in connection with refinancing a senior secured asset-based revolving credit facility</p> <p>Not Disclosed 2018</p>	  Debt Advisory <p>Has completed a capital raise (senior debt and equity co-investment) to fund the acquisition of 1 Priority Environmental Services</p> <p>Not Disclosed 2018</p>	  Debt Advisory <p>Acted as exclusive financial advisor to Razzoo's, Inc. in a debt capital raise</p> <p>Not Disclosed 2017</p>
  Debt Advisory <p>Acted as financial advisor and placement agent to Heckler & Koch on a refinancing</p> <p>\$170,000,000 2017</p>	  Debt Advisory <p>Financial advisor and placement agent to Burke America Parts Group in a capital raise</p> <p>\$72 million 2016</p>	  Debt Advisory <p>Acted as financial advisor in raising acquisition for the purchase of Irvin Automotive, a subsidiary of Takata</p> <p>\$175,000,000 2016</p>	  Debt Advisory <p>Acted as financial advisor to TriVero Group on raising acquisition financing for the purchase of BTM Company</p> <p>\$21 million 2015</p>

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