Credit Markets Update

The leveraged loan market was off to a decent start in 2023 before becoming abruptly undone in March, as investor confidence dwindled due to heightened recession fears amidst high profile bank failures

- First quarter new issue leveraged loan volume reached $65.3 billion, down sharply from $167.4 billion in the first quarter of 2022, and just behind $67.0 billion in the preceding quarter, hitting the lowest loan volume since 2016
  - It was a promising start to the year in the leveraged loan market as opportunistic refinancings were brought to market to address near term maturities, before being derailed due to concerns over an economic downturn as a result of a SVB-led banking crisis
- Refinancing volume continued strong momentum from the fourth quarter, marking $43.0 billion in the first quarter to record the highest quarterly total in the past 24 months
  - Amid muted M&A activity, refinancing volume captured 66% of the total supply in the quarter, compared to M&A at 20%
  - Over 68% of refinancing volume mix was composed of single-B rated issuers, a significant increase from 27% in the prior quarter
- Private credit remains the financing of choice for buyouts. Direct lending continued to take share of M&A volume and expanded its lead on the number of syndicated loan transactions

Investor hopes of a Fed-led soft landing for the economy drove January and February to the first double-digit high yield monthly volume totals since October-November 2021, before collapsing in March

- First quarter volume of $40.6 billion is the second lowest volume since the global financial crisis
- The average yield at issuance declined significantly to 8.0% at the end of first quarter, before recording 7.81% in February

The Federal reserve raised interest rates twice in 2023 despite banking system turmoil, citing high inflation and tight labor market. After nine consecutive interest rate hikes, the Federal reserve is expected to hike one more time (before a pause) to meet the targeted 5.1% by the end of 2023

- SOFR closely tracks the federal funds rate, inching closer to 5.0% at the beginning of April 2023
- While the Federal Reserve continues to pronounce confidence in the U.S. banking system, a recession caused by over-tightening remains a common fear, as high interest rate continue to affect the value of Treasuries and other securities, a critical source of capital for most U.S. banks

Source: Standard & Poor - Leveraged Commentary & Data, KPMG Market Research.
Leveraged Loans

New-Issue Leveraged Loan Volume ($bn)

- 2018: $625
- 2019: $490
- 2020: $395
- 2021: $798
- 2022: $444
- 1Q’22: $167
- 1Q’23: $65

Leveraged Loan Issuance by Purpose – 1Q’22

- Refinancing: 24%
- LBO: 32%
- Recap: 3%
- M&A: 22%
- Other: 19%

Middle Market Leveraged Loan Volume ($bn)

- 2018: $11
- 2019: $8
- 2020: $1
- 2021: $8
- 2022: $6
- 1Q’22: $2
- 1Q’23: $1

Middle Market Leveraged Loan Volume by Purpose – 1Q’22

- LBO: 34%
- Refinancing: 40%
- Acquisition/Merger: 21%
- Recap: 5%

Middle Market Leveraged Loan Volume by Purpose – 1Q’23

- LBO: 71%
- Refinancing: 29%
Leveraged Loans (continued)

New Issue First Lien Spreads BB/BB- - Quarterly

New Issue First Lien Spreads B+/B - Quarterly

Source: PitchBook | Leveraged Commentary & Data.
Dividend Recapitalization

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

High Yield Bonds

High Yield Bond Issuance – Quarterly ($bn)

New issue High yield Bond yield to Maturity

Source: PitchBook | Leveraged Commentary & Data.

©2023 KPMG Corporate Finance LLC, a Delaware limited liability company. Member FINRA/SIPC. KPMG Corporate Finance LLC is a subsidiary of KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.
Distress and Defaults

Percent of Outstanding Leveraged Loans in Default or Bankruptcy

- 2018: 1.3%
- 2019: 0.6%
- 2020: 2.2%
- 2021: 0.5%
- 2022: 0.6%
- 1Q'22: 0.3%
- 1Q'23: 1.2%

Price to Book Value

Public BDCs - Price to Book Value Multiple - Quarterly

- Q1'19: 0.93x
- Q2'19: 0.92x
- Q3'19: 0.93x
- Q4'19: 0.95x
- Q1'20: 0.50x
- Q2'20: 0.73x
- Q3'20: 0.73x
- Q4'20: 0.86x
- Q1'21: 0.98x
- Q2'21: 1.02x
- Q3'21: 0.99x
- Q4'21: 0.99x
- Q1'22: 0.83x
- Q2'22: 0.76x
- Q3'22: 0.82x
- Q4'22: 0.84x
- Q1'23: 0.83x

Source: PitchBook | Leveraged Commentary & Data.
Debt Capital Markets 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

- 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

Selected Debt Capital Markets Transactions

**Project Bulldog**
Debt Advisory
Acting as the exclusive financial advisor to a commercial point-of-purchase solution provider in connection with raising debt
In Process

**Project Rays**
Debt Advisory
Acting as the exclusive financial advisor to a group of dental service organizations in connection with raising debt
In Process

**Project Move**
Debt Advisory
Acting as the exclusive financial advisor to Fortem Holdings in connection with securing debt for the acquisition of C&TDG Management LLC
Not Disclosed

**ForteM Holdings**
Debt Advisory
Acted as the exclusive financial advisor to Fortem Holdings in connection with securing debt for the acquisition of C&TDG Management LLC
Not Disclosed

**AgXplore**
Debt Advisory
Acted as financial advisor to AgXplore in connection with raising credit facilities used for a recapitalization
Not Disclosed

**Tidewater Fleet Supply**
Debt Advisory
Acted as the exclusive financial advisor to Tidewater Fleet Supply in connection with securing a new credit facility
Not Disclosed

**O2**
Debt Advisory
Has completed a capital raise (senior debt and equity co-investment) to fund the acquisition of Priority Environmental Services
Not Disclosed

For more information, contact:

**Philip Isom**
Principal
Global Head of M&A
312-665-1911
pisom@kpmg.com

**Michael Rudolph**
Managing Director
Debt Capital Markets
312-665-1441
msrudolph@kpmg.com

**Doug Christensen**
Director
Debt Capital Markets
312-665-2960
djchristensen@kpmg.com

**Rob Caliento**
Senior Associate
Debt Capital Markets
212-954-6201
rcaliento@kpmg.com

www.kpmgcorporatefinance.com
Corporate finance services, including Financing, Debt Advisory, and Valuation Services, are not performed by all KPMG member firms and are not offered by member firms in certain jurisdictions due to legal or regulatory constraints.
Important notice

The information contained in this newsletter is of a general nature and is not intended to address the circumstances of any particular individual or entity including their investment objectives or financial needs. In preparing this newsletter, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act or rely on the information in this newsletter without appropriate professional advice after a thorough examination of the particular situation. The information contained in this newsletter does not constitute a recommendation, offer, or solicitation to buy, sell or hold any security of any issuer. Past performance does not guarantee future results.