



# Credit Markets Update

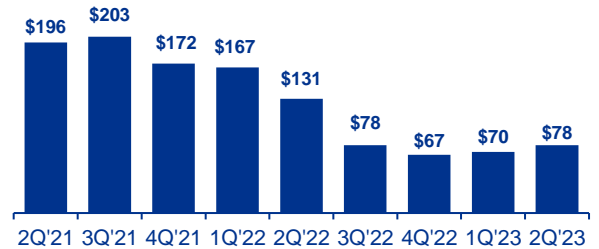
June 30, 2023

# Credit Markets Update

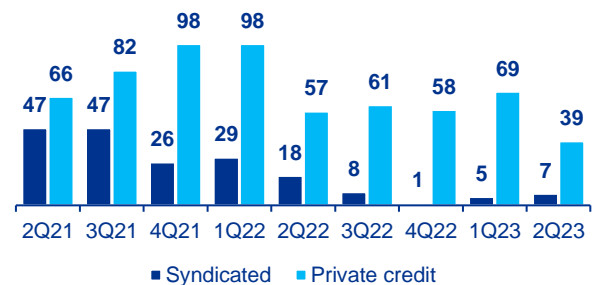
## New-issuance loan volume continued at a slow pace during the second quarter as borrowers continue to feel the pressure of high debt servicing costs

- Second quarter new issue leveraged loan volume reached \$77.9 billion, down sharply from \$131.3 billion in the second quarter of 2022, but recording the highest volume for past twelve months
  - The leveraged loan market continues at a slow pace as borrowers seek new deals focused on debt repayment and maturity extension
- Refinancing volume of \$45.1 billion accounted for much of the new-issue volume in the quarter, albeit down 4% compared to the first quarter
  - Over 74% of refinancing volume mix was composed of single-B rated issuers dealing with maturity walls
- M&A activity continues to languish with \$36.0 billion of issuance during the first half of the year
- Private credit continue to be the financing of choice for buyouts, outpacing the syndicated loan market in LBO activity
  - Private credit continues to be favored by private equity sponsors primarily driven by certainty of close as regional banks continue to be cautious
- Default rates reached 1.4% for the first half of 2023, the highest level since 2020
  - Borrowers expect to feel continued stress as covenants continue to be burdened with higher interest costs

New-Issue Leveraged Loan Volume (\$bn)



Count of LBOs financed in broadly syndicated vs private credit markets



High Yield Volume (\$bn)<sup>(1)</sup>



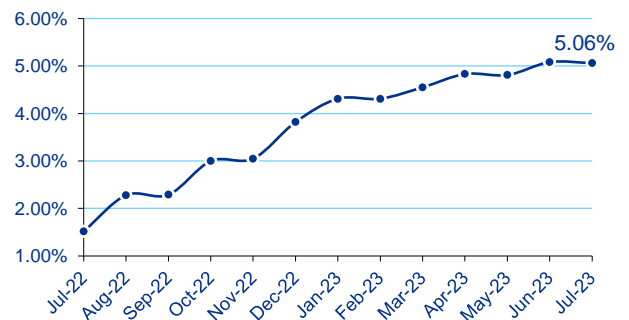
## High yield volume reached \$93.6 billion during the first half of 2023, already approaching the \$102.3 billion total of 2022

- Second quarter volume of \$53.6 billion marks a significant improvement over \$24.7 billion during the same period in 2022
- The average yield at issuance ended the second quarter at 8.7%, but not before testing a peak of 8.8% amid the top of the banking crisis

## After ten consecutive interest rate hikes, the Federal reserve paused rate hikes in June to assess the policy impact before further tightening through the remainder of 2023

- SOFR closely tracks the federal funds rate, and now remains above 5%
- The Federal Reserve indicated the possibility of more rate increases, albeit at a slower pace, to combat inflation. The Federal Reserve remains committed to its 2% inflation target

Secured Overnight Financing Rate (SOFR)



Source: New York Fed; 90-day Term SOFR rate

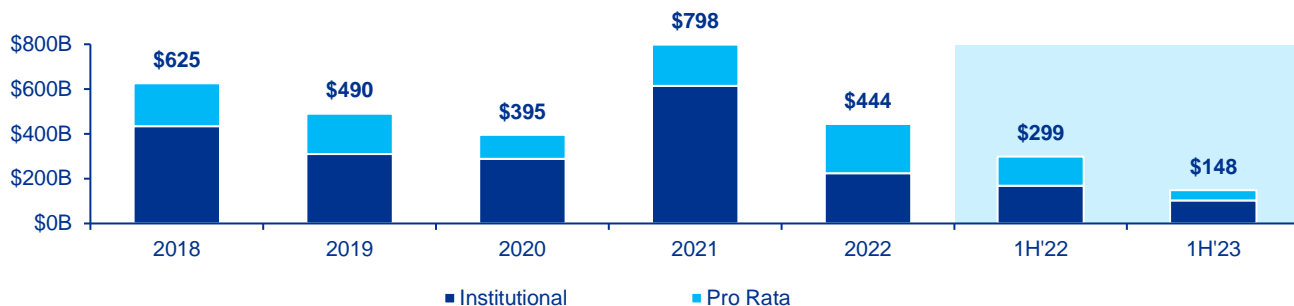
Source: PitchBook | Leveraged Commentary & Data, KPMG market research



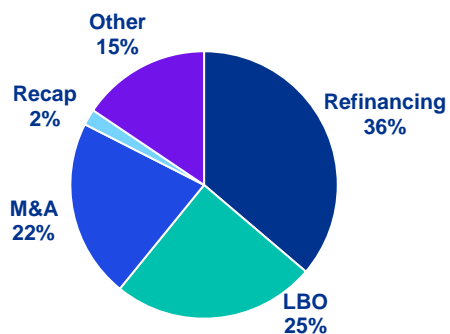
©2023 KPMG Corporate Finance LLC, a Delaware limited liability company. Member FINRA/SIPC. KPMG Corporate Finance LLC is a subsidiary of KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International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

# Leveraged Loans

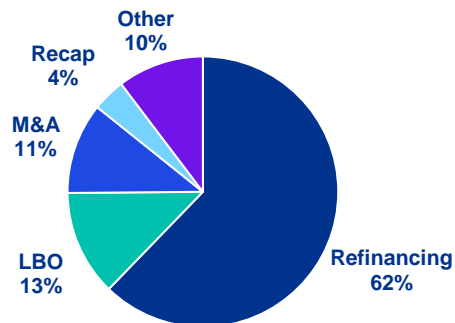
### New-Issue Leveraged Loan Volume (\$bn)



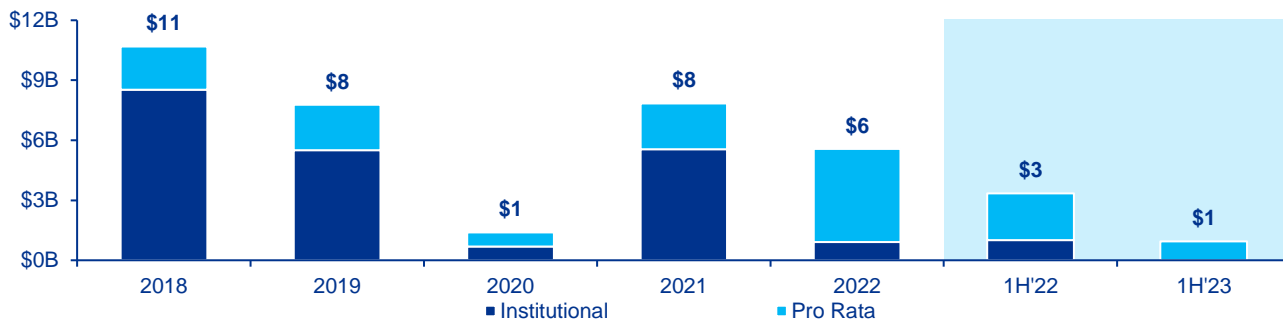
### Leveraged Loan Issuance by Purpose – 1H'22



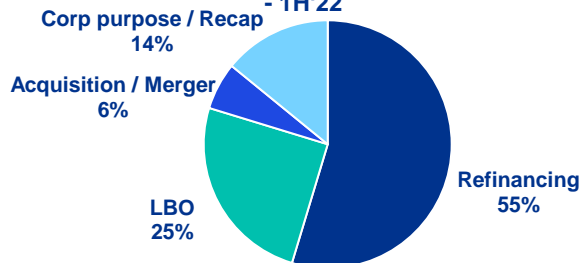
### Leveraged Loan Issuance by Purpose - 1H'23



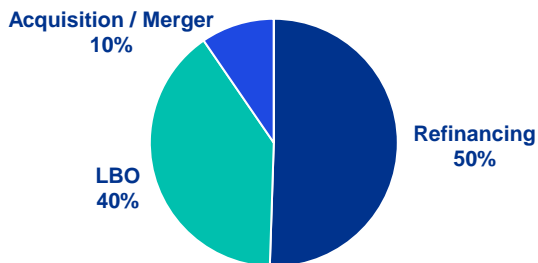
### Middle Market Leveraged Loan Volume (\$bn)



### Middle Market Leveraged Loan Volume by Purpose - 1H'22



### Middle Market Leveraged Loan Volume by Purpose - 1H'23



Source: PitchBook | Leveraged Commentary & Data.

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



©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.

# Leveraged Loans (continued)

New Issue First Lien Spreads BB/BB- - Quarterly



New Issue First Lien Spreads B+/B - Quarterly



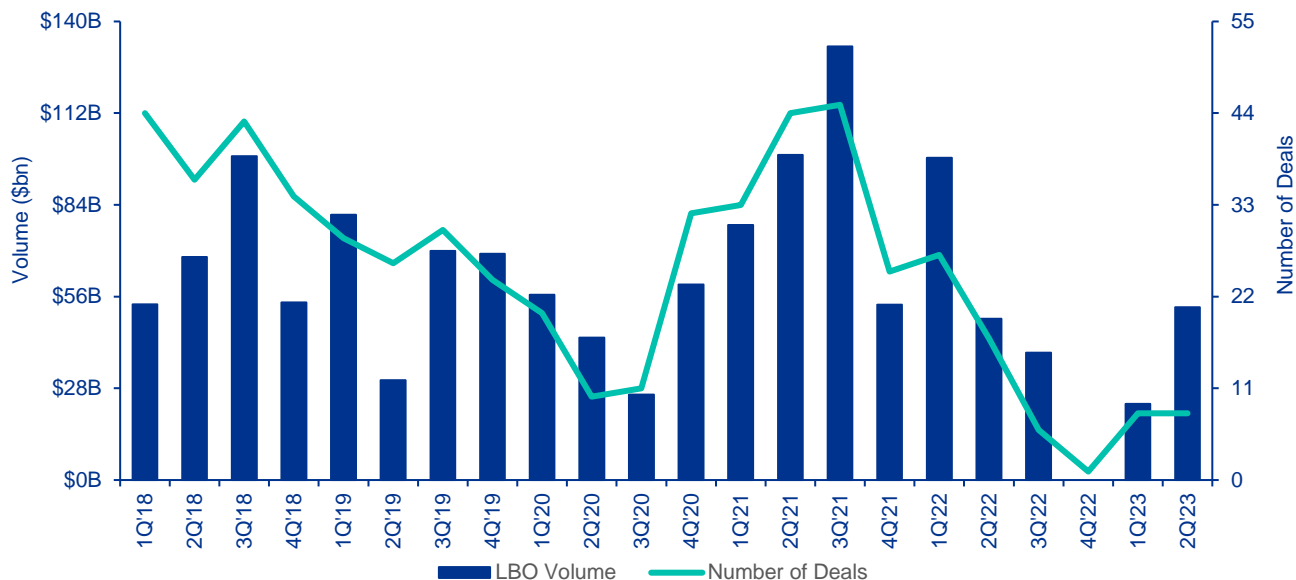
Source: PitchBook | Leveraged Commentary & Data.



©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.

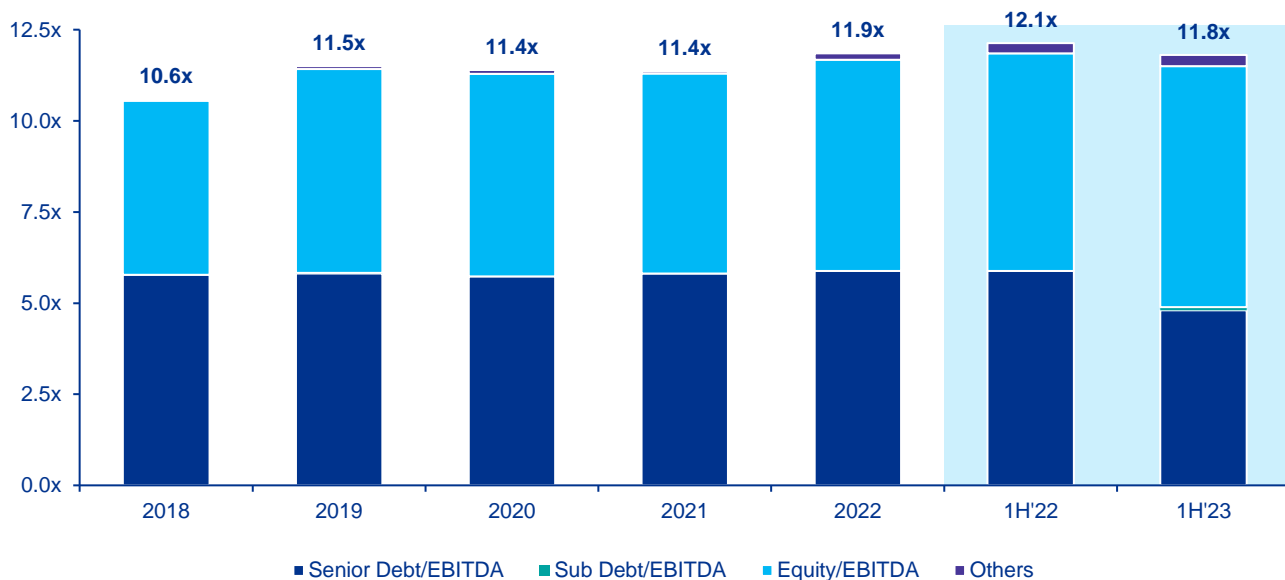
# LBO Summary

## LBO Transaction Volume - Quarterly (\$bn)



Note: 4Q'22 LBO volume data not available

## Average Purchase Price Multiple - All LBOs



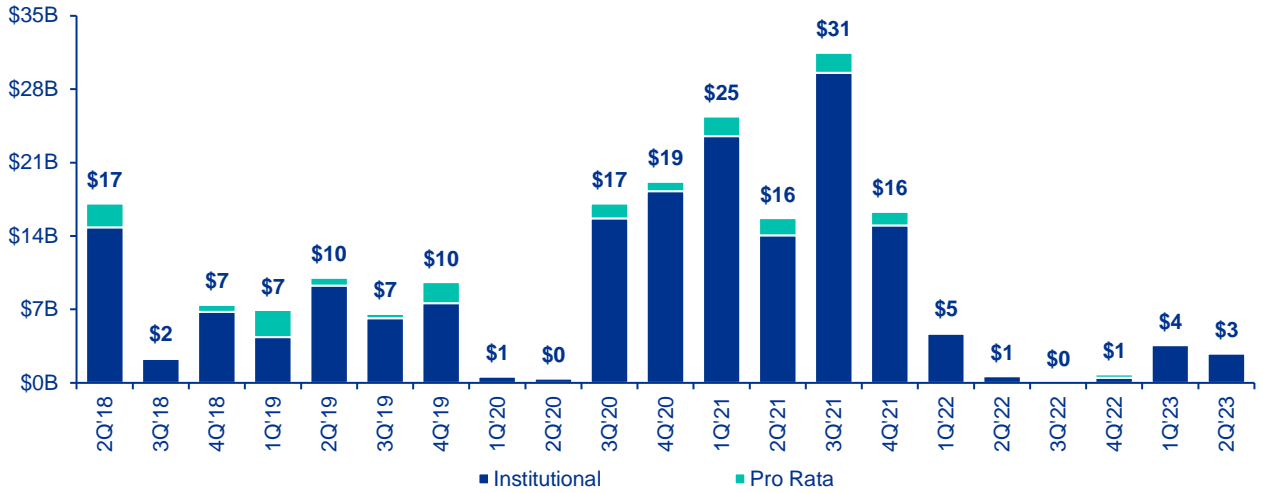
Source: PitchBook | Leveraged Commentary & Data.



©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.

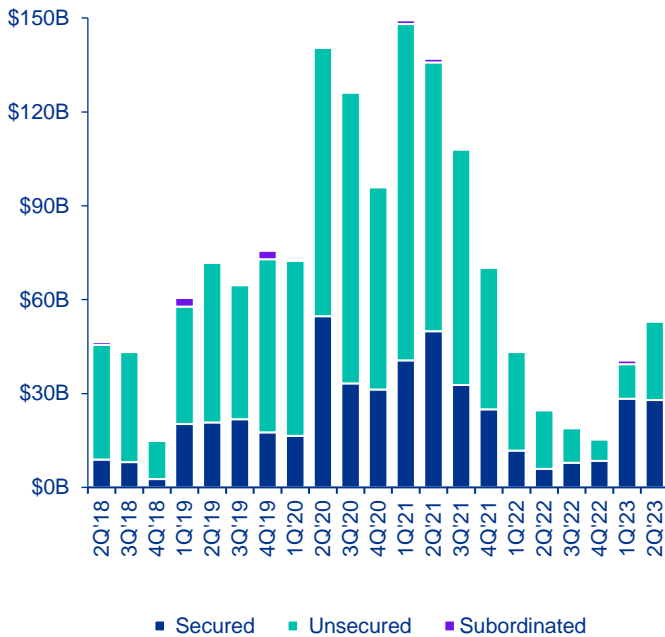
# Dividend Recapitalization

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

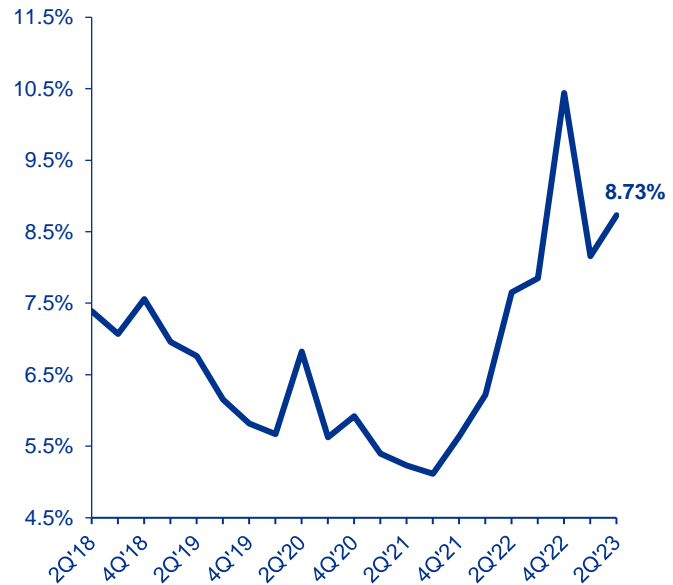


# High Yield Bonds

High Yield Bond Issuance – Quarterly (\$bn)



New issue High yield Bond yield to Maturity

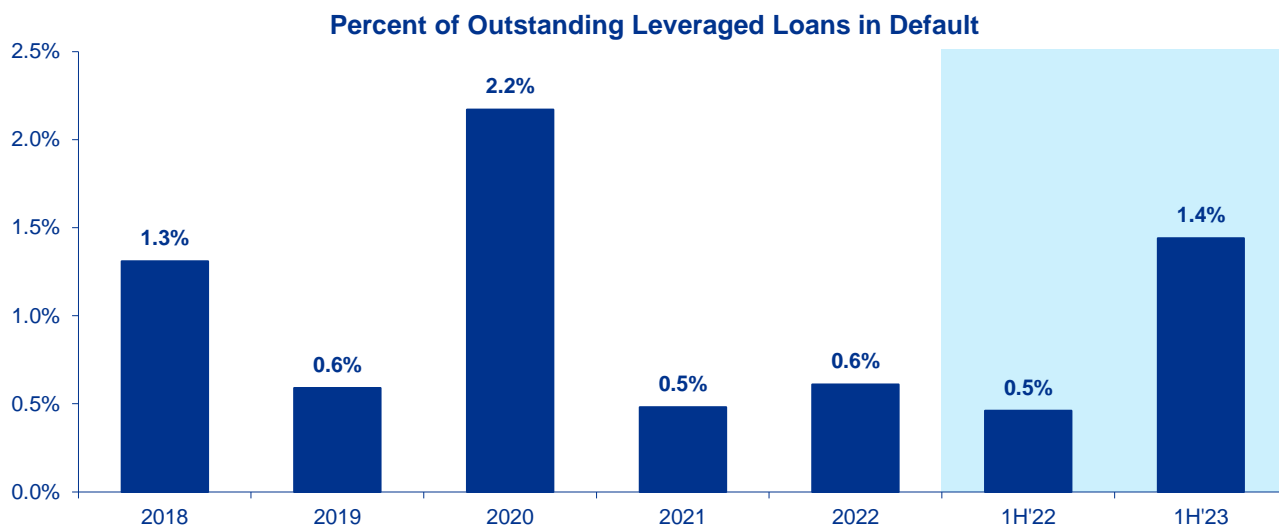


Source: PitchBook | Leveraged Commentary & Data.

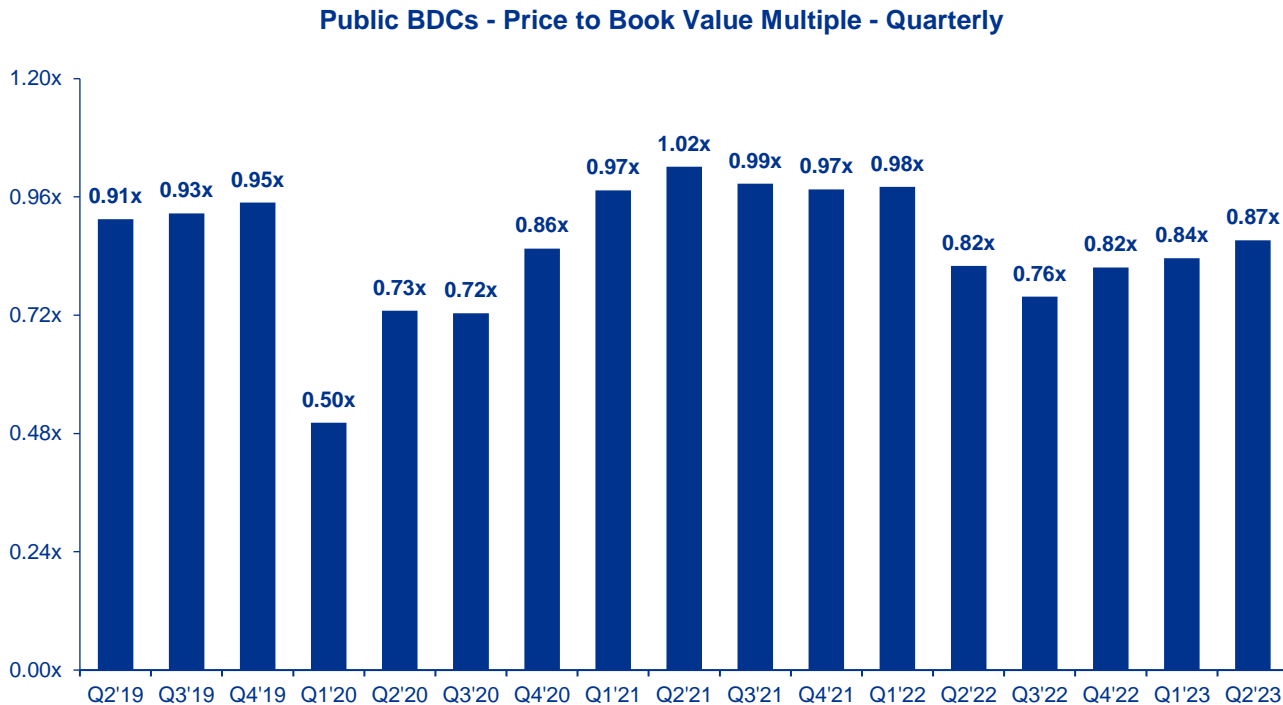


©2023 KPMG Corporate Finance LLC, a Delaware limited liability company. Member FINRA/SIPC. KPMG Corporate Finance LLC is a subsidiary of KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International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

# Distress and Defaults



# Price to Book Value



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.

# KPMG Investment Banking - Debt Capital Markets

## 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
















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

## Selected Debt Capital Markets Transactions

 <p><b>Project Diamond</b></p> <p><b>Debt Advisory</b></p> <p>Acting as the exclusive financial advisor to a specialty pharmaceuticals company in connection with raising debt capital</p> <p><b>In Process</b></p>	 <p><b>Project Panthers</b></p> <p><b>Debt Advisory</b></p> <p>Acting as the exclusive financial advisor to a Southeast-based Alcohol Distilling Business in connection with acquisition financing</p> <p><b>In Process</b></p>	  <p><b>Debt Advisory</b></p> <p>Acting as the exclusive financial advisor to a commercial point-of-purchase provider in connection with raising debt</p> <p><b>Not Disclosed</b></p>	  <p><b>Debt Advisory</b></p> <p>Acted as the exclusive financial advisor to Fortem Holdings in connection with securing debt for the acquisition of C&amp;TDG Management LLC</p> <p><b>Not Disclosed</b></p>
  <p><b>Debt Advisory</b></p> <p>Acted as the exclusive financial advisor to Nextlink in connection with securing a new credit facility</p> <p><b>Not Disclosed</b></p>	  <p><b>Debt Advisory</b></p> <p>Acted as financial advisor to AgXplore in connection with raising credit facilities used for a recapitalization</p> <p><b>Not Disclosed</b></p>	  <p>A portfolio company of</p>  <p><b>Debt Advisory</b></p> <p>Acted as the exclusive financial advisor to Tidewater Fleet Supply in connection with securing a new credit facility</p> <p><b>Not Disclosed</b></p>	  <p><b>Debt Advisory</b></p> <p>Has completed a capital raise (senior debt and equity co-investment) to fund the acquisition of 1 Priority Environmental Services</p> <p><b>Not Disclosed</b></p>

## For more information, contact:



**Michael Rudolph**  
 Managing Director  
 Debt Capital Markets  
 312-665-1442  
 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](http://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.



©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.



# 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.