



Credit Markets Update

March 31, 2023

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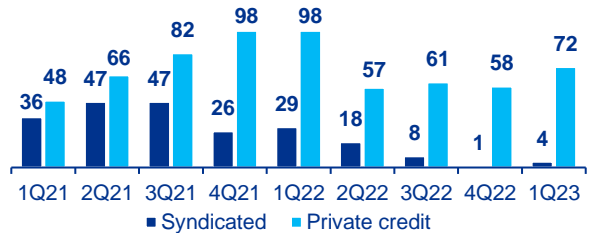
The leveraged loan market was off to a decent start in 2023 before becoming abruptly undone in March, as investor confidence dwindled due to heightened recession fears amidst high profile bank failures

- 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

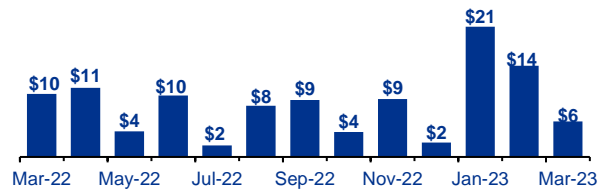
New Issue Leveraged Loan Volume (\$bn)



Count of LBOs financed in broadly syndicated vs private credit markets



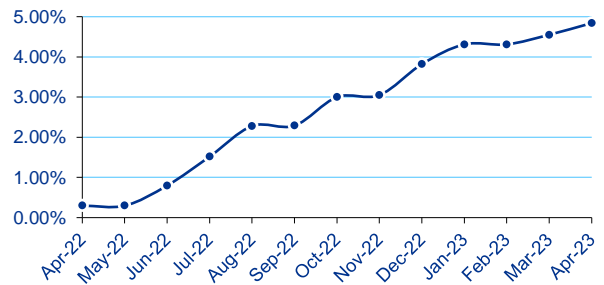
High Yield Volume (\$bn)⁽¹⁾



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

Secured Overnight Financing Rate (SOFR)



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

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

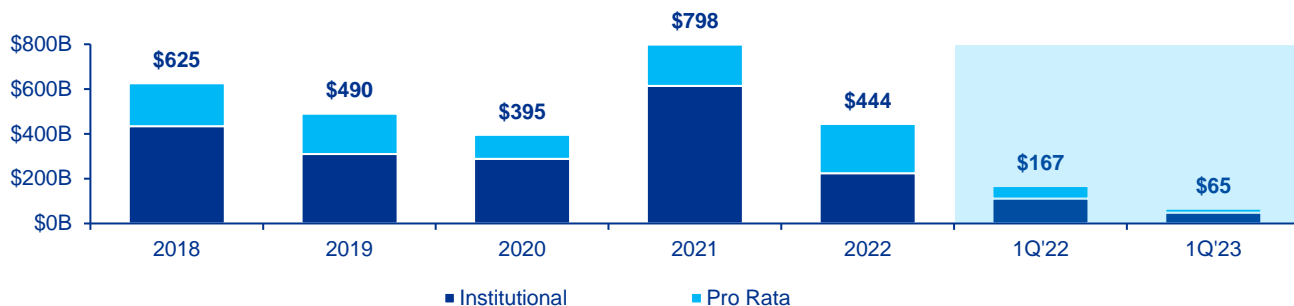
Source: Standard & Poor - Leveraged Commentary & Data, KPMG Market Research.



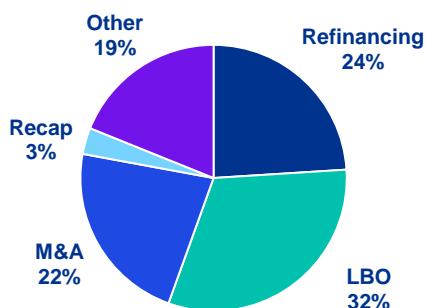
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Leveraged Loans

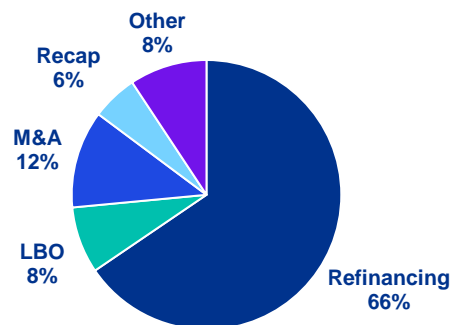
New-Issue Leveraged Loan Volume (\$bn)



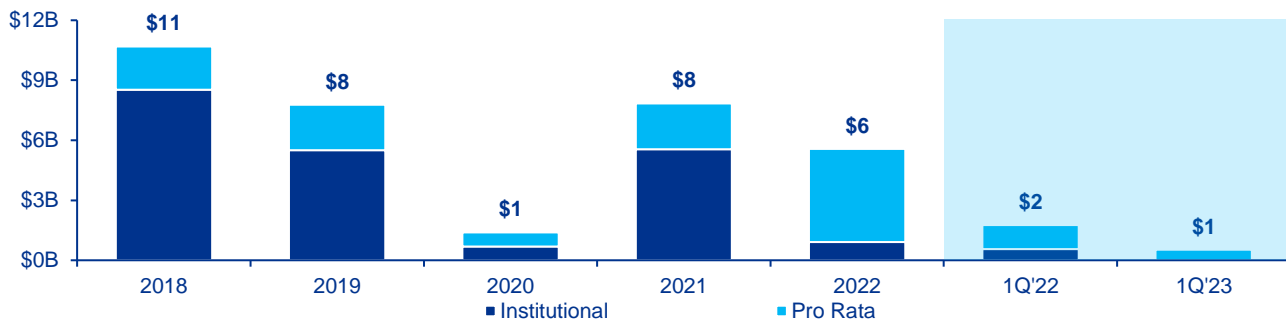
Leveraged Loan Issuance by Purpose – 1Q'22



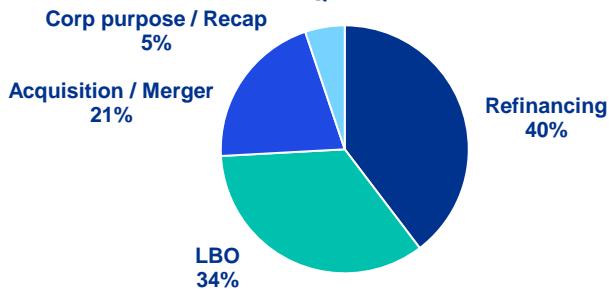
Leveraged Loan Issuance by Purpose – 1Q'23



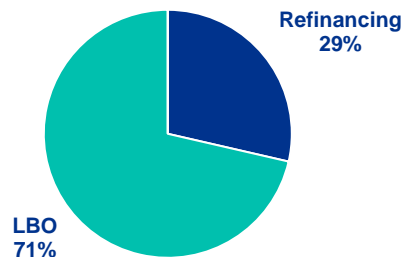
Middle Market Leveraged Loan Volume (\$bn)



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



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



Source: PitchBook | Leveraged Commentary & Data.

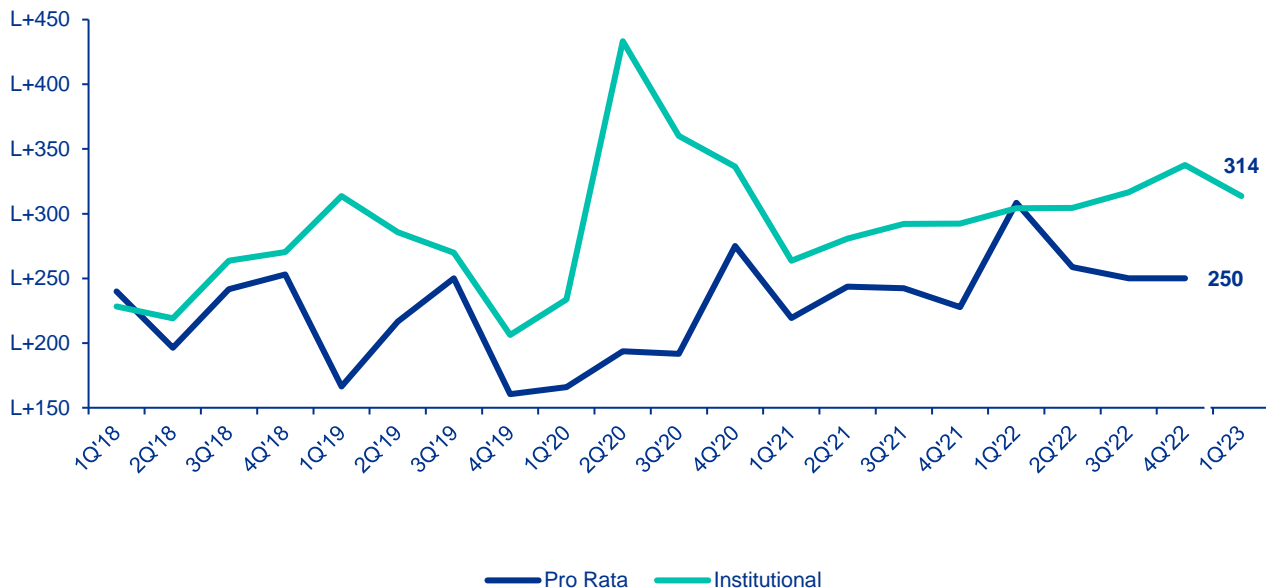
Note: Middle market refers to companies with EBITDA of \$50 million or less.



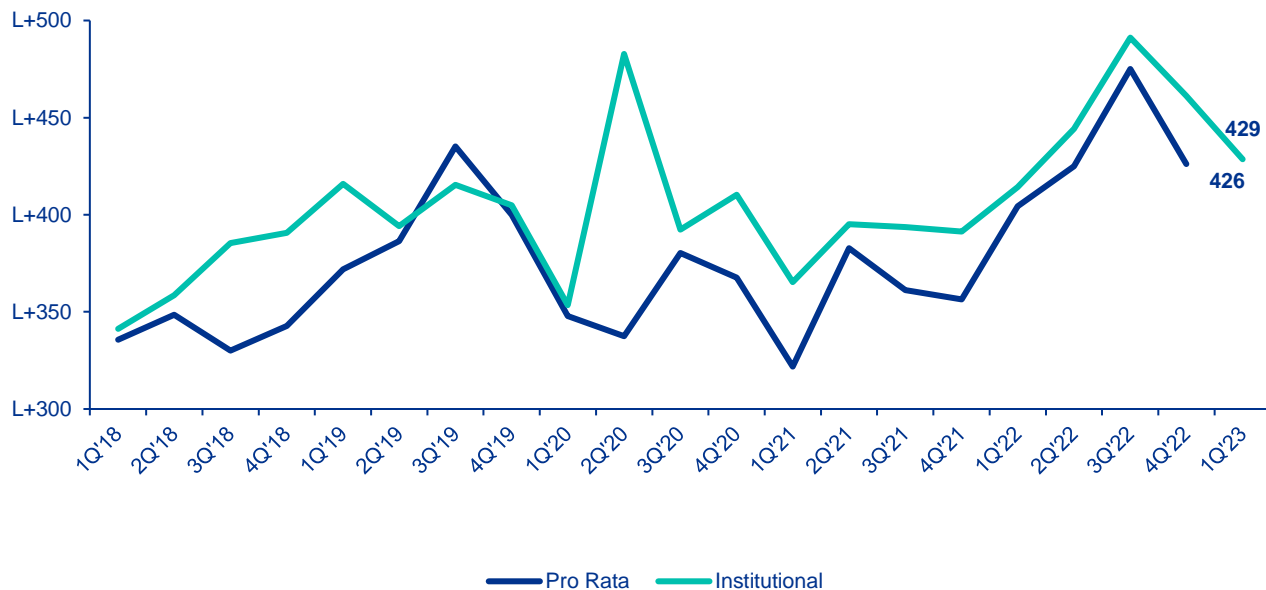
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Leveraged Loans (continued)

New Issue First Lien Spreads BB/BB- - Quarterly



New Issue First Lien Spreads B+/B - Quarterly



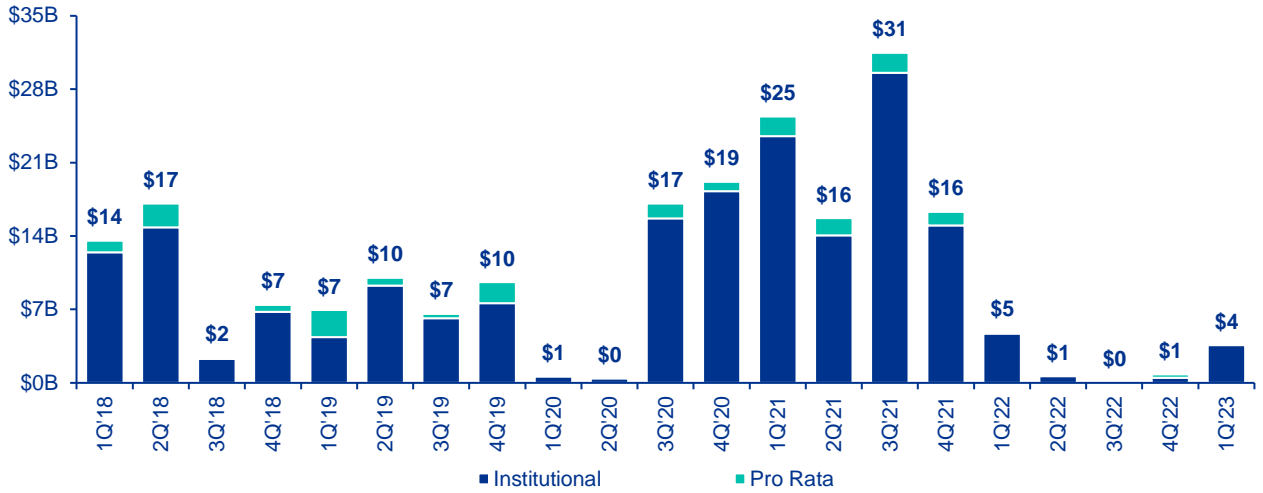
Source: PitchBook | Leveraged Commentary & Data.



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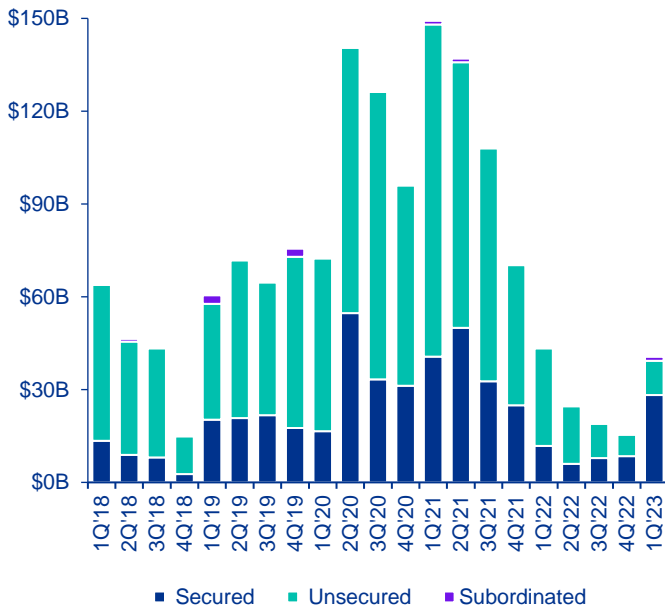
Dividend Recapitalization

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

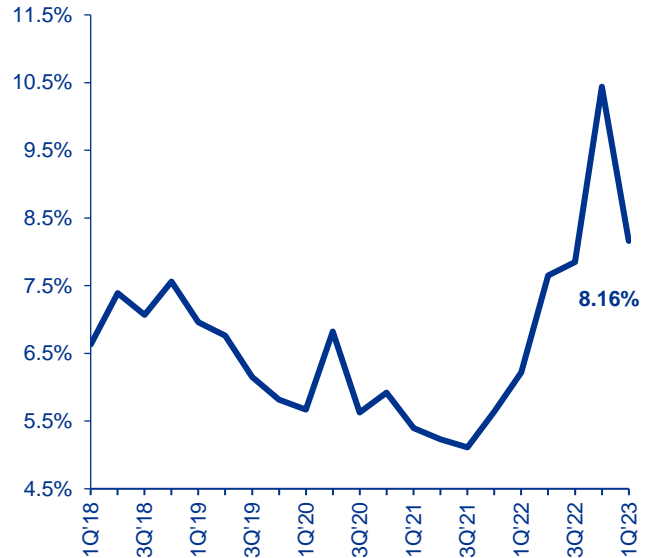


High Yield Bonds

High Yield Bond Issuance – Quarterly (\$bn)



New issue High yield Bond yield to Maturity



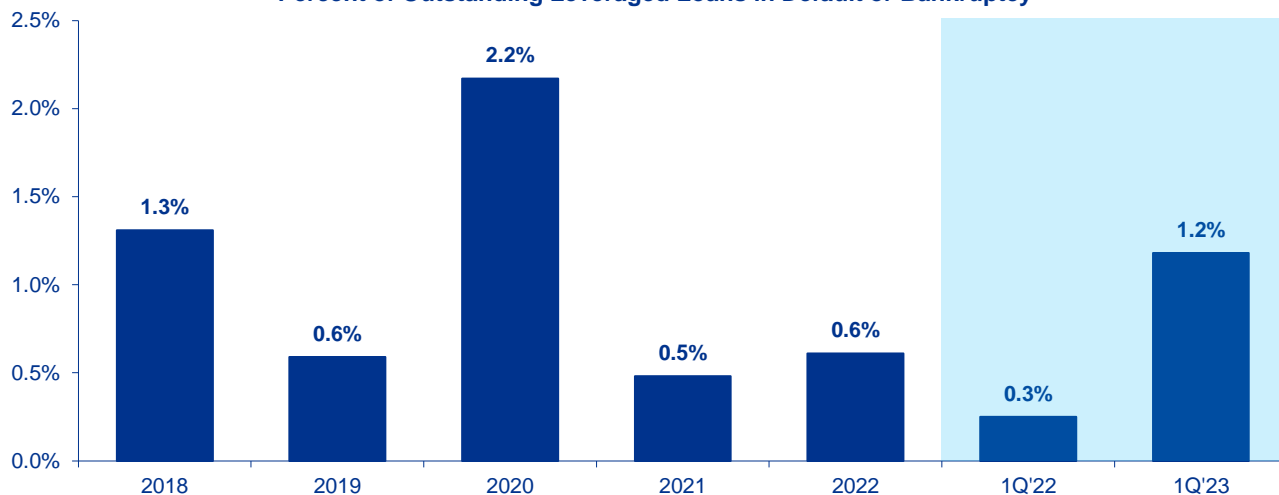
Source: PitchBook | Leveraged Commentary & Data.



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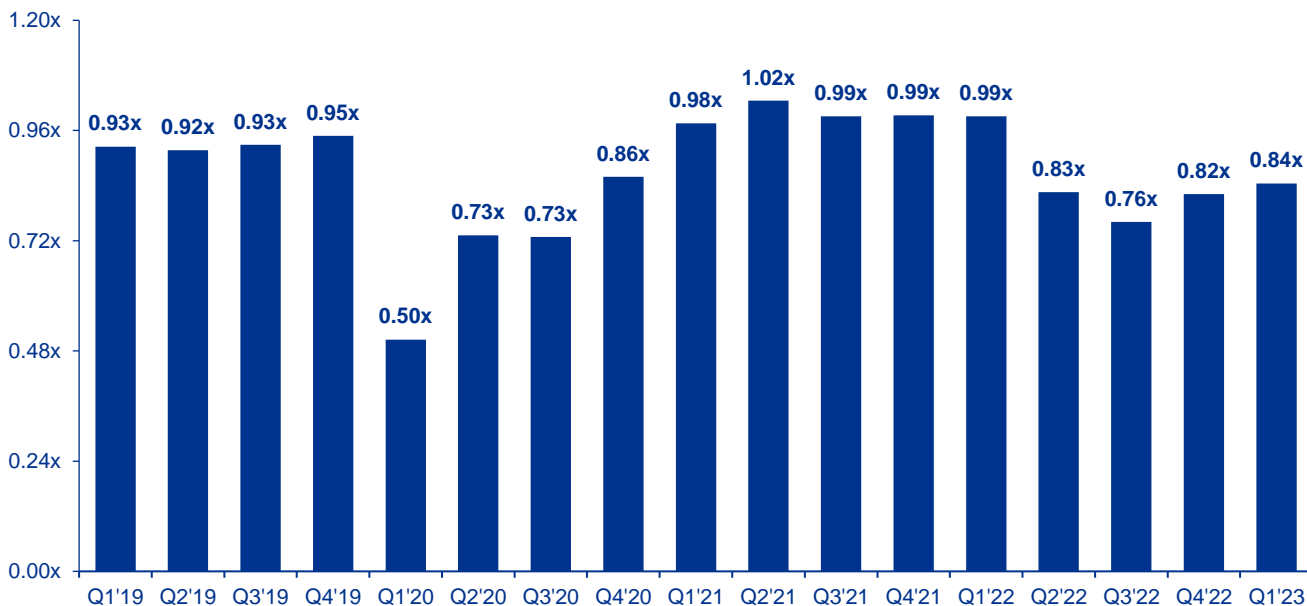
Distress and Defaults

Percent of Outstanding Leveraged Loans in Default or Bankruptcy



Price to Book Value

Public BDCs - Price to Book Value Multiple - Quarterly



Source: PitchBook | Leveraged Commentary & Data.



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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>Project Bulldog</p> <p>Debt Advisory</p> <p>Acting as the exclusive financial advisor to a commercial point-of-purchase solution provider in connection with raising debt</p> <p>In Process</p>	 <p>Project Rays</p> <p>Debt Advisory</p> <p>Acting as the exclusive financial advisor to a group of dental service organizations in connection with raising debt</p> <p>In Process</p>	 <p>Project Move</p> <p>Debt Advisory</p> <p>Acting as the exclusive financial advisor to a fitness / recovery equipment provider in connection with raising senior debt and junior capital to be used for a recapitalization</p> <p>Not Disclosed</p>	 <p>Debt Advisory</p> <p>Acted as the exclusive financial advisor to Fortem Holdings in connection with securing debt for the acquisition of C&TDG Management LLC</p> <p>Not Disclosed</p>
  <p>Debt Advisory</p> <p>Acted as the exclusive financial advisor to Nextlink in connection with securing a new credit facility</p> <p>Not Disclosed</p>	  <p>Debt Advisory</p> <p>Acted as financial advisor to AgXplore in connection with raising credit facilities used for a recapitalization</p> <p>Not Disclosed</p>	  <p>A portfolio company of</p>  <p>Debt Advisory</p> <p>Acted as the exclusive financial advisor to Tidewater Fleet Supply in connection with securing a new credit facility</p> <p>Not Disclosed</p>	  <p>Debt Advisory</p> <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</p>

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