

US Leveraged Loan, Private Credit Markets Outlook

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Presenters



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Leveraged loans

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A year of persistent volatility comes to an end

Weighted average bid of US leveraged loans

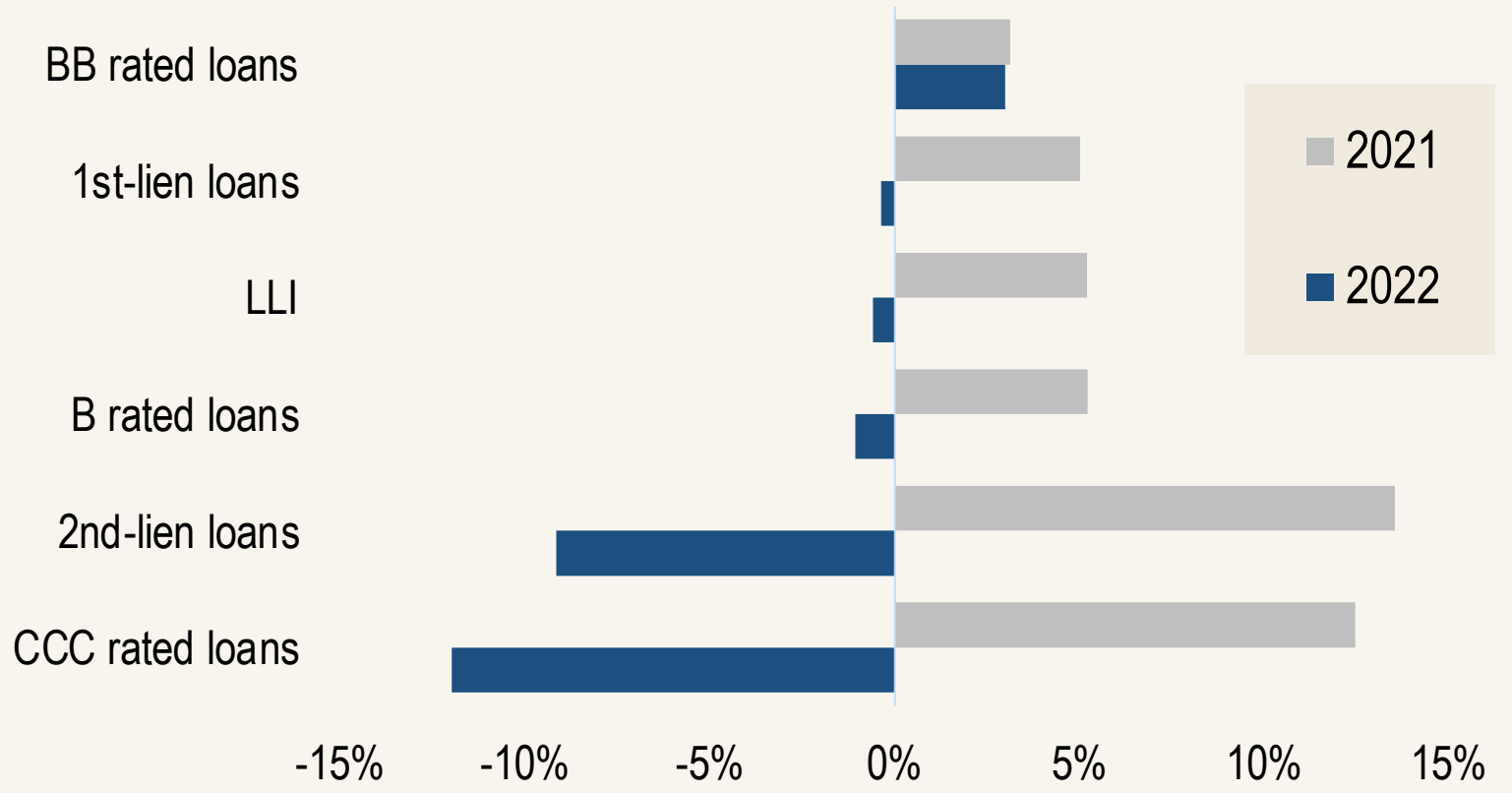


Data through Dec. 31, 2022.

Sources: Leveraged Commentary & Data (LCD); Morningstar LSTA US Leveraged Loan Index

Loans end the year in the red as investor demand for riskiest loans dries up

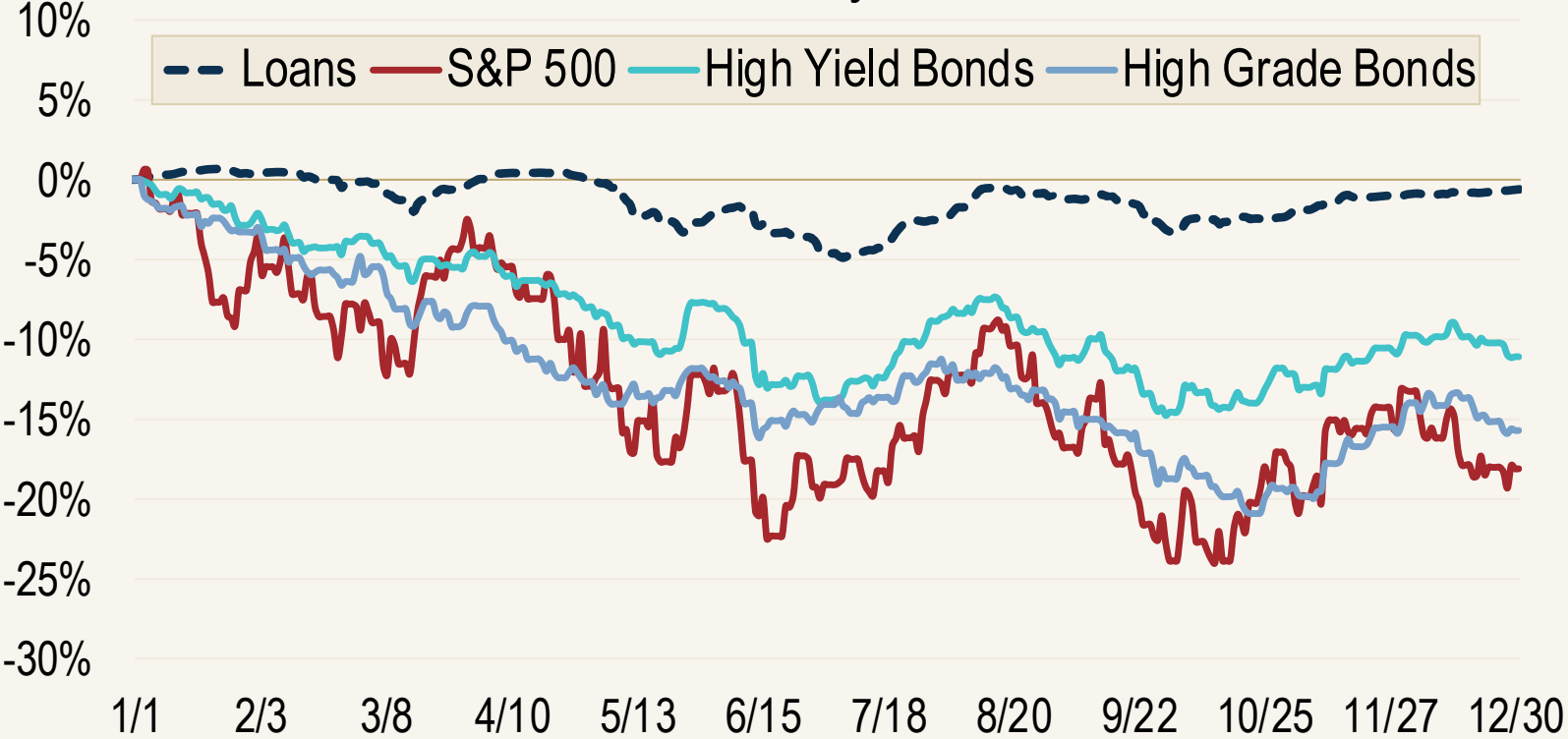
2022 vs 2021 loan returns



Data through Dec. 31, 2022.
Sources: Leveraged Commentary & Data (LCD); Morningstar LSTA US Leveraged Loan Index

Despite the loss, loans outperform other asset classes

Cumulative returns by asset class: 2022



Data through Dec. 31, 2022.
Sources: Leveraged Commentary & Data (LCD); Morningstar LSTA US LL Index; Morningstar US HY Bd TR USD; Morningstar US Corp Bd TR USD; S&P Dow Jones Indices

Loan sector winners, and losers

LLI: Top 10 performing Sectors

Sector	2022 Return
Independent Power Producers	6.70%
Oil, Gas & Consumable Fuels	6.61%
Airlines	3.78%
Insurance	3.55%
Road & Rail	3.18%
Aerospace & Defense	3.11%
Hotels, Restaurants & Leisure	2.61%
Capital Markets	2.13%
Construction & Engineering	2.09%
Food Products	1.40%

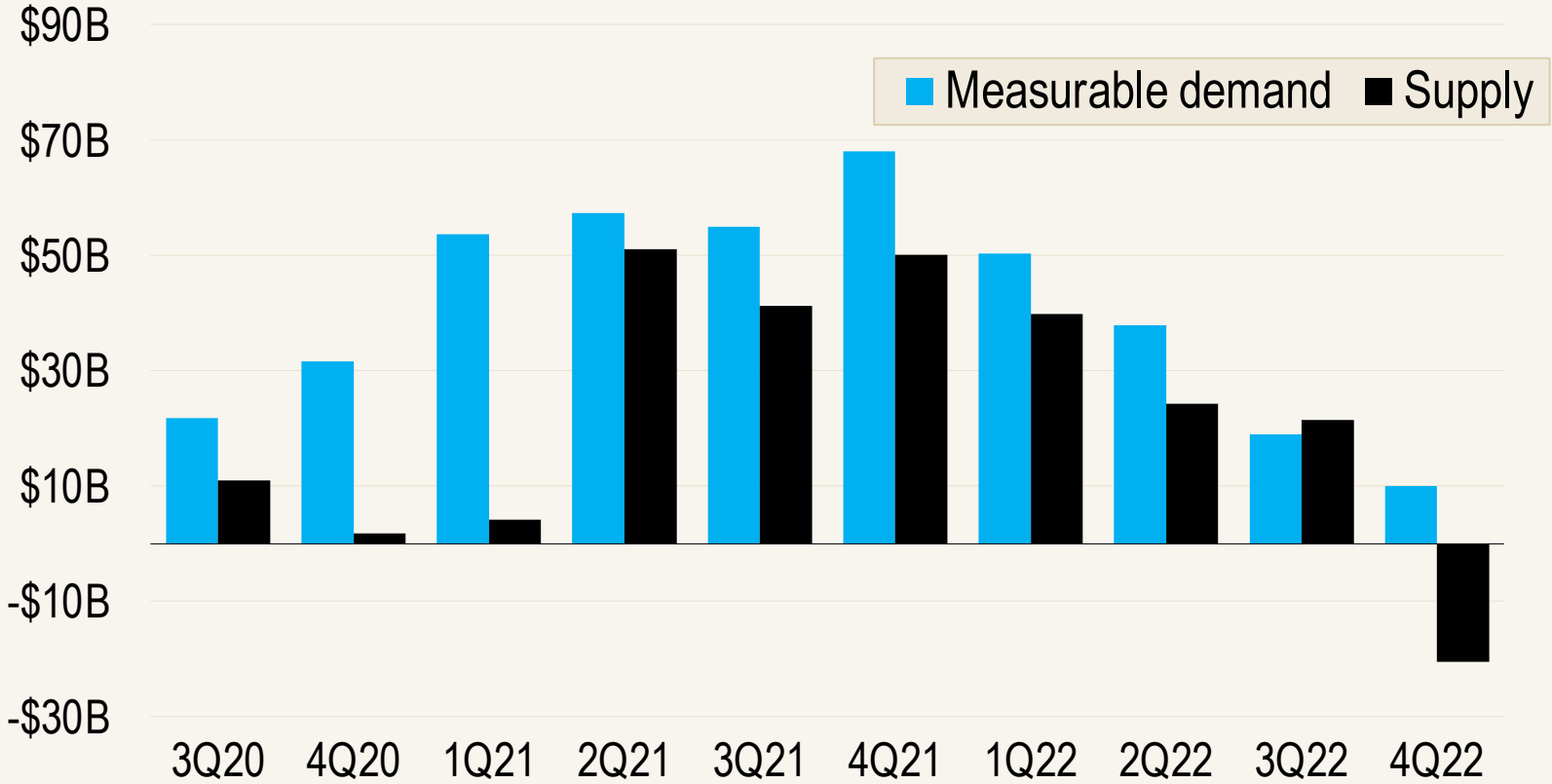
LLI: Bottom 10 performing Sectors

Sector	2022 Return
Health Care Providers & Services	-9.26%
Entertainment	-6.26%
IT Services	-3.07%
Software	-2.66%
Diversified Telecommunication Services	-2.57%
Health Care Equipment & Supplies	-2.13%
Building Products	-1.82%
Pharmaceuticals	-1.79%
Auto Components	-1.22%
Diversified Consumer Services	-0.93%

Sources: Leveraged Commentary & Data (LCD); Morningstar LSTA US Leveraged Loan Index

Both supply and demand declined throughout 2022

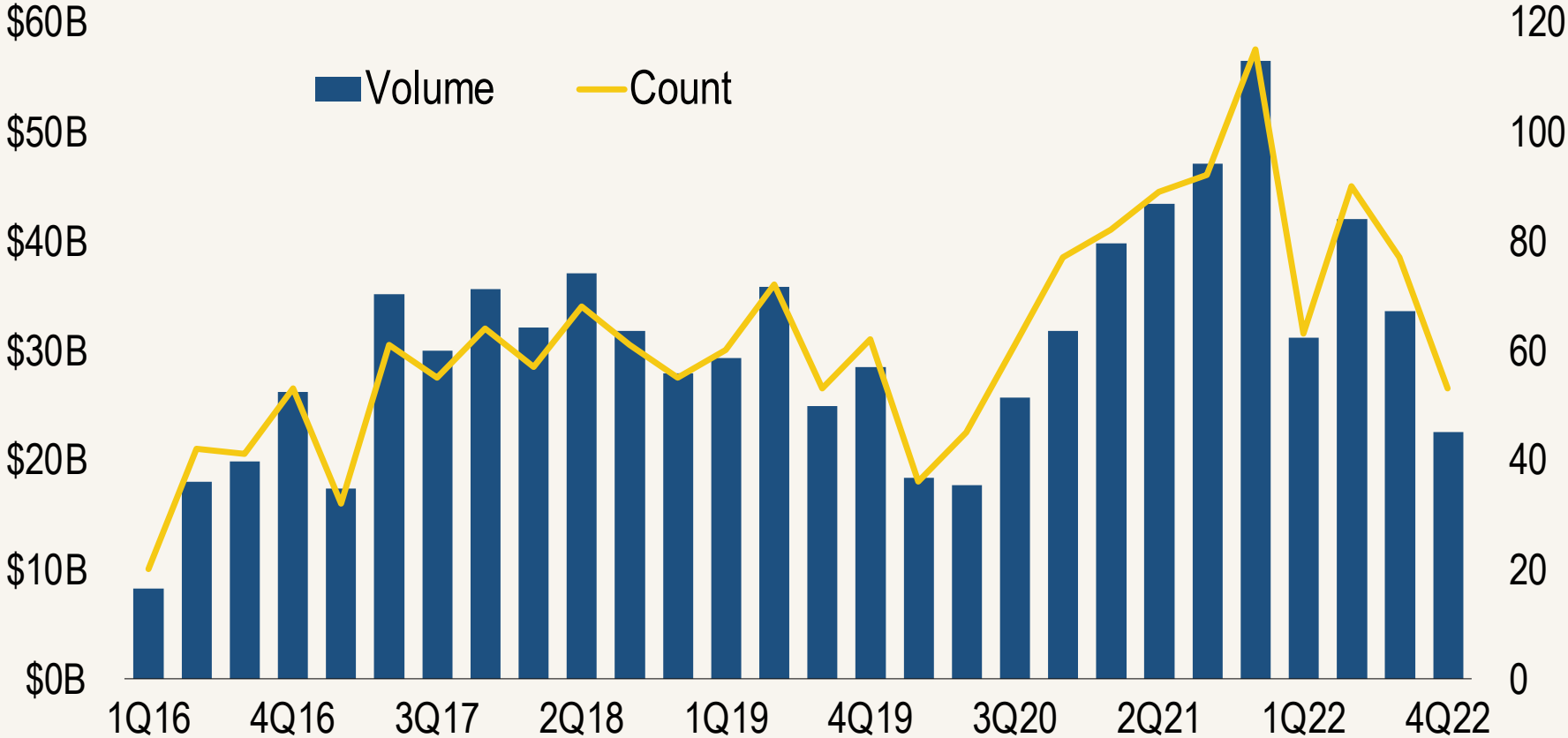
US leveraged loan market – investor supply & demand



Data through Dec. 31, 2022.
Sources: Leveraged Commentary & Data (LCD)

Arbitrage challenges crimp CLO deal environment

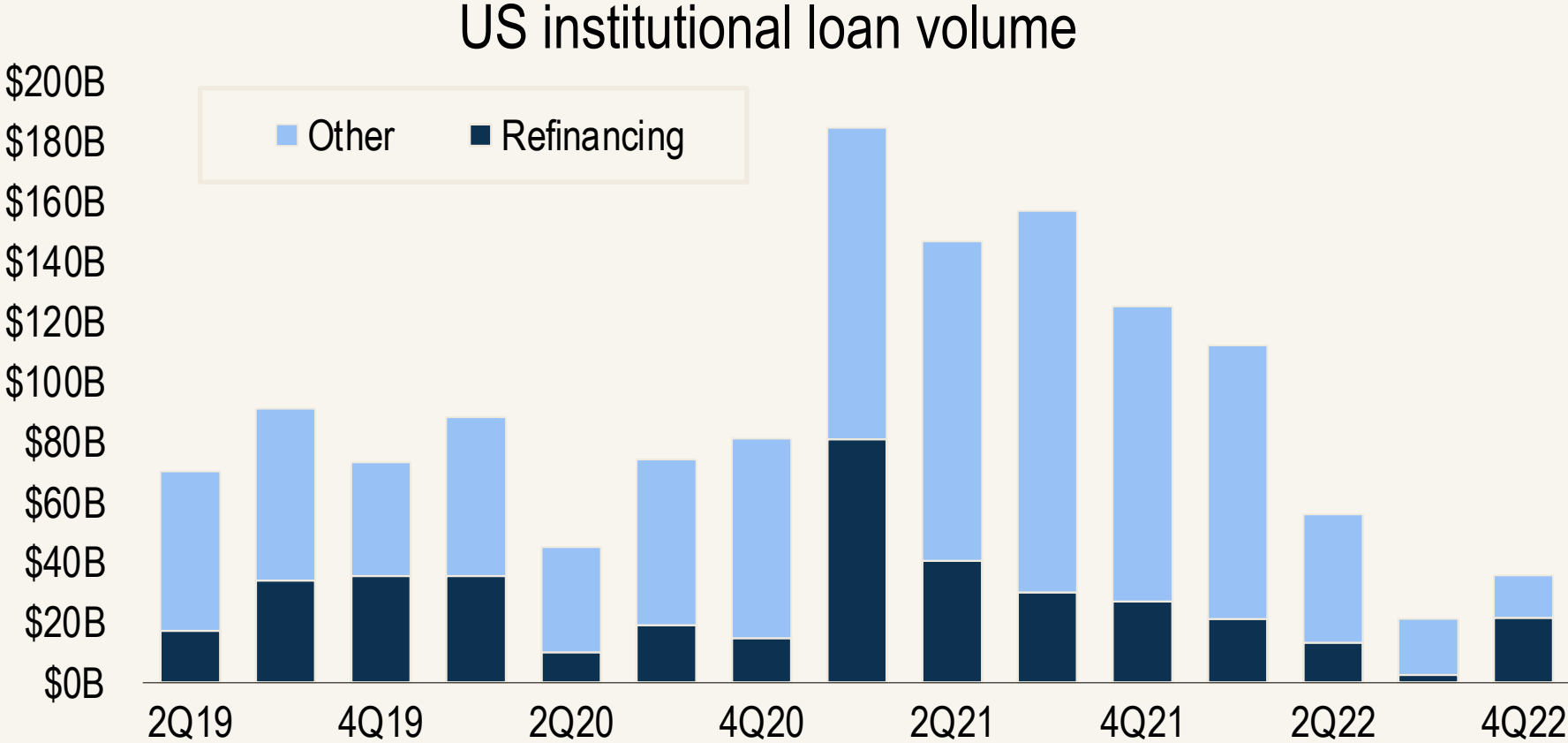
US CLO issuance – quarterly



Data through Dec. 31, 2022.

Source: Leveraged Commentary & Data (LCD)

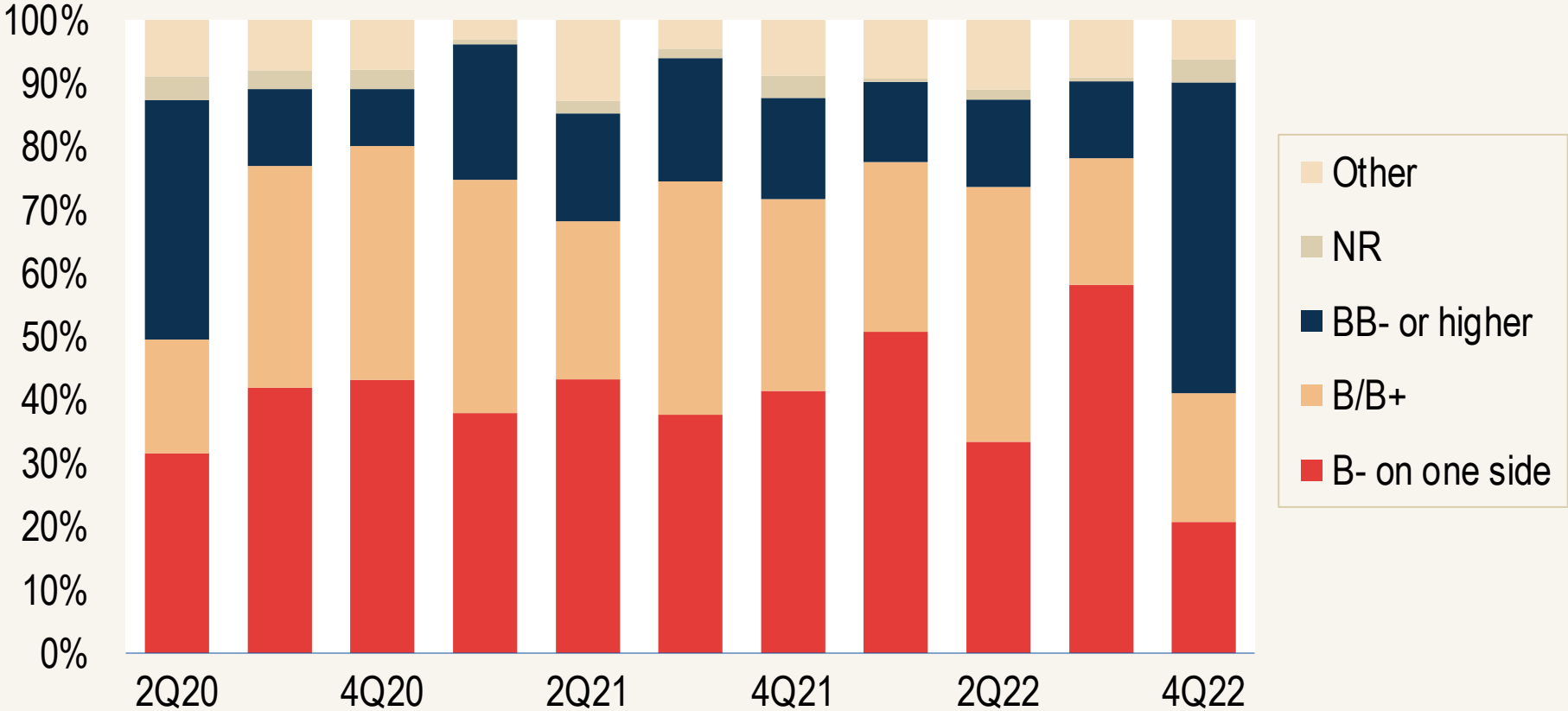
Refinancings fuel syndicated loan market upswing in 4Q22 ...



Data through Dec. 31, 2022.
Source: Leveraged Commentary & Data (LCD)

... But riskiest borrowers remain largely shut out

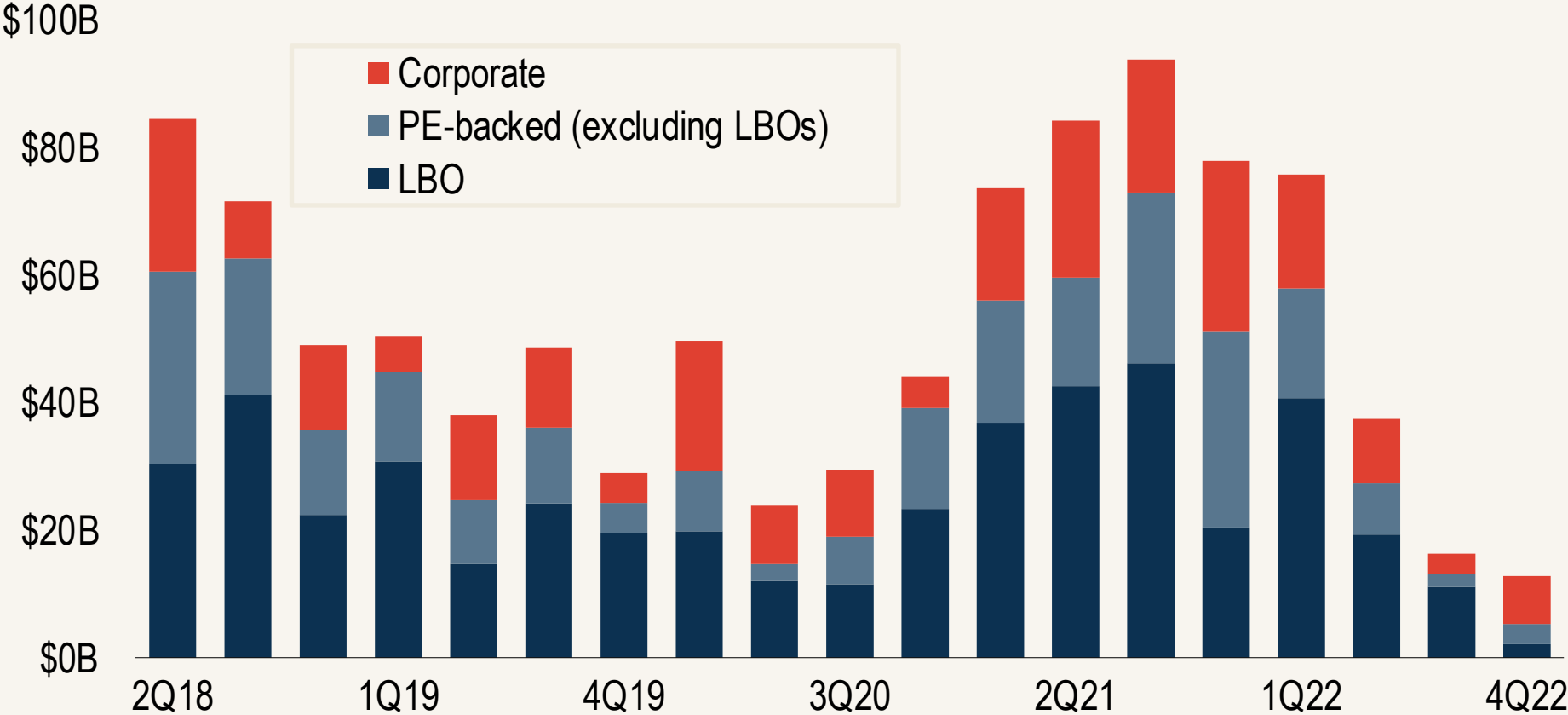
US leveraged loan volume by borrower rating



Data through Dec. 31, 2022.
Source: Leveraged Commentary & Data (LCD)

M&A activity falls to the lowest level since 2Q10

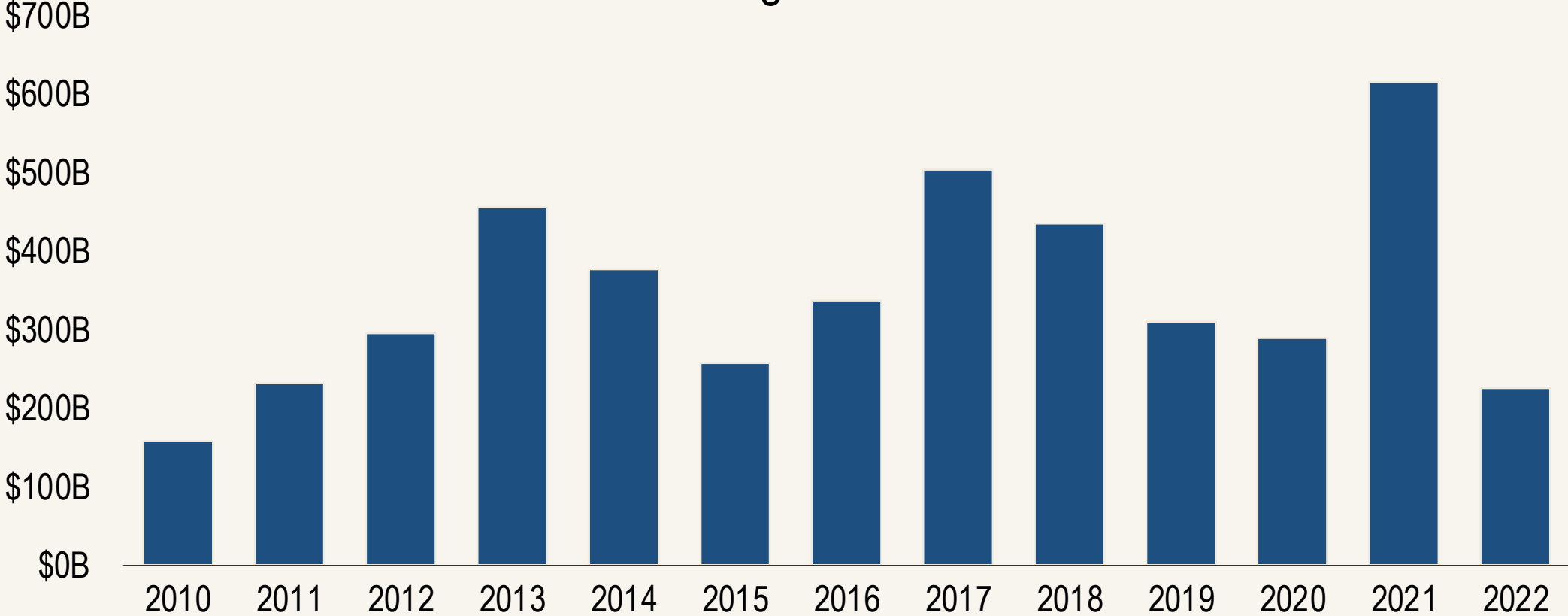
US institutional loan volume backing M&A



Data through Dec. 31, 2022.
Source: Leveraged Commentary & Data (LCD)

2022 marks a 12-year low for issuance

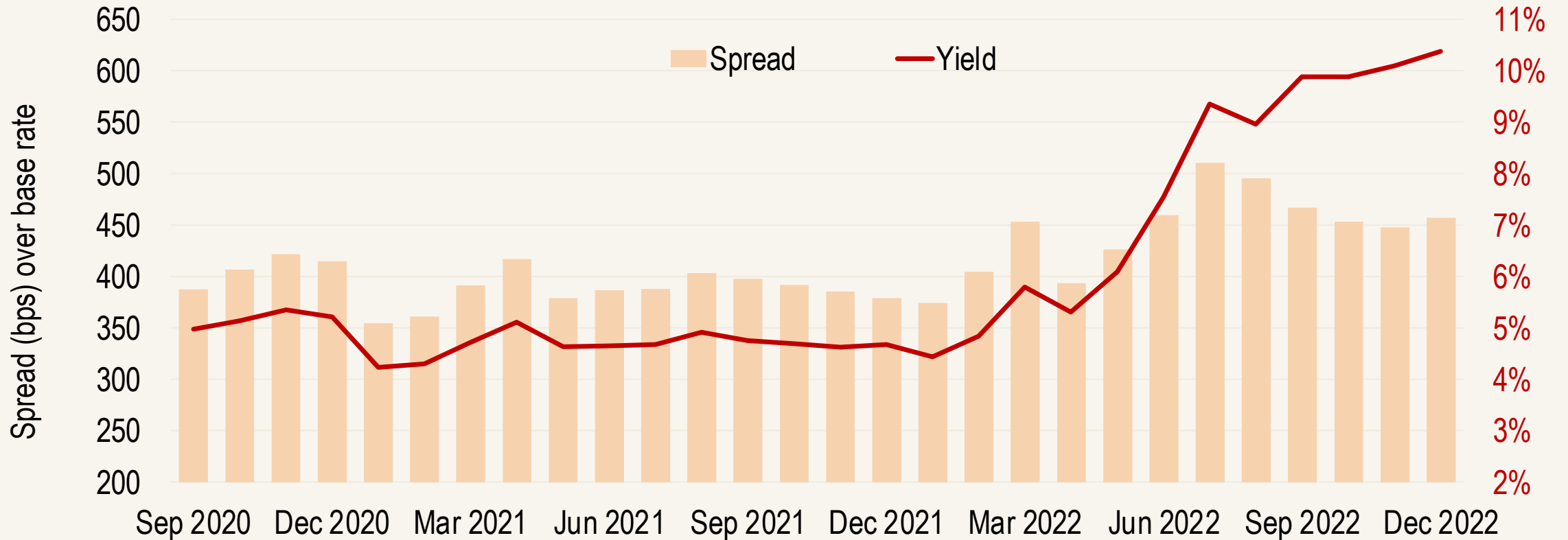
US institutional leveraged loan volume



Data through Dec. 31, 2022.
Source: Leveraged Commentary & Data (LCD)

New-issue loan yields spike to post-GFC records

New-issue spread and yield-to-maturity of B/B+ loan borrowers



Data through Dec. 22, 2022.
Source: Leveraged Commentary & Data (LCD)

Private credit

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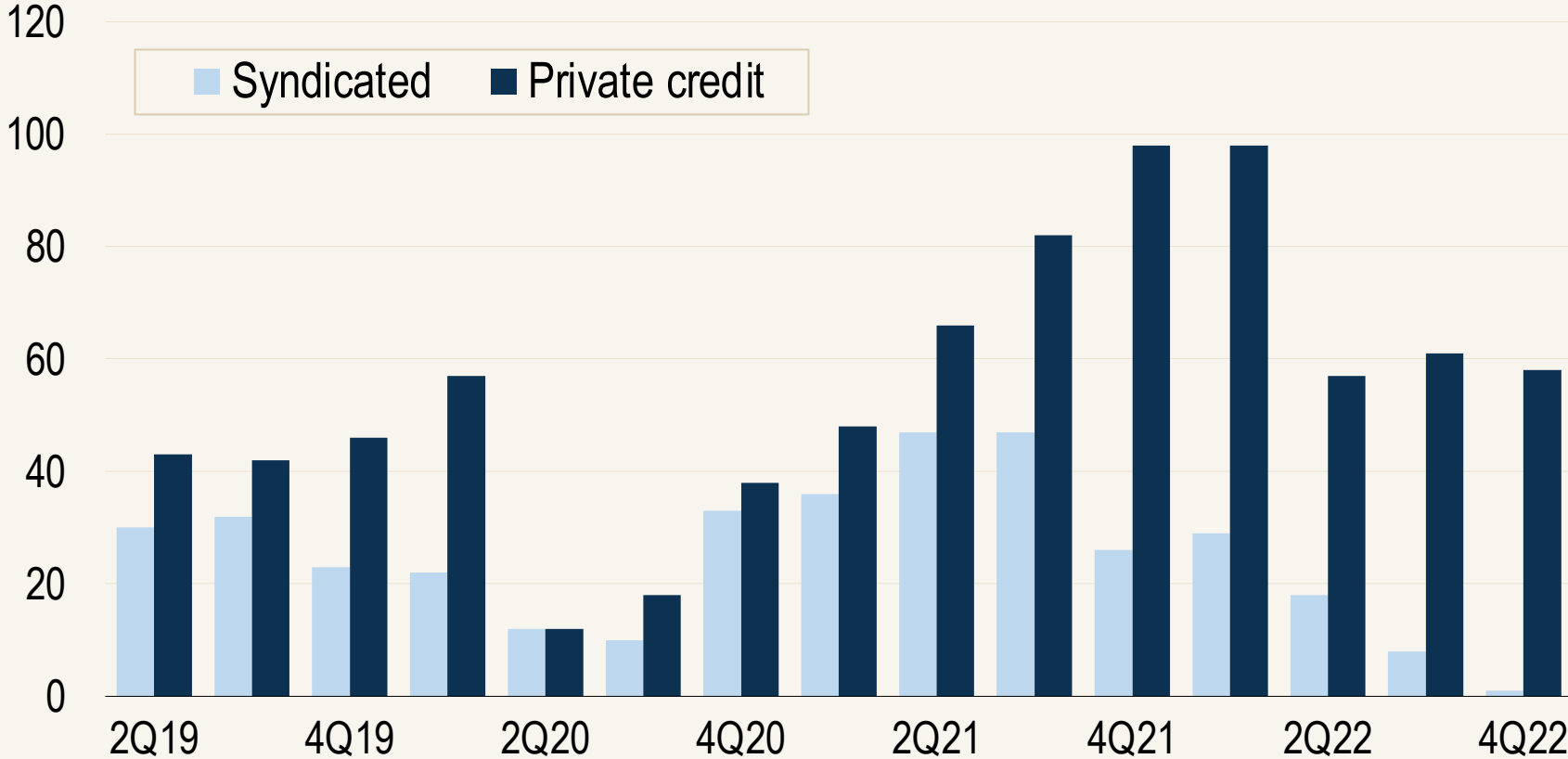


What is private credit?

- Illiquid loans/no secondary market
- Fewer lenders in each deal
- No syndication risk/‘price-flex’
- Unrated borrowers

Private credit cornered the LBO market as 2022 progressed

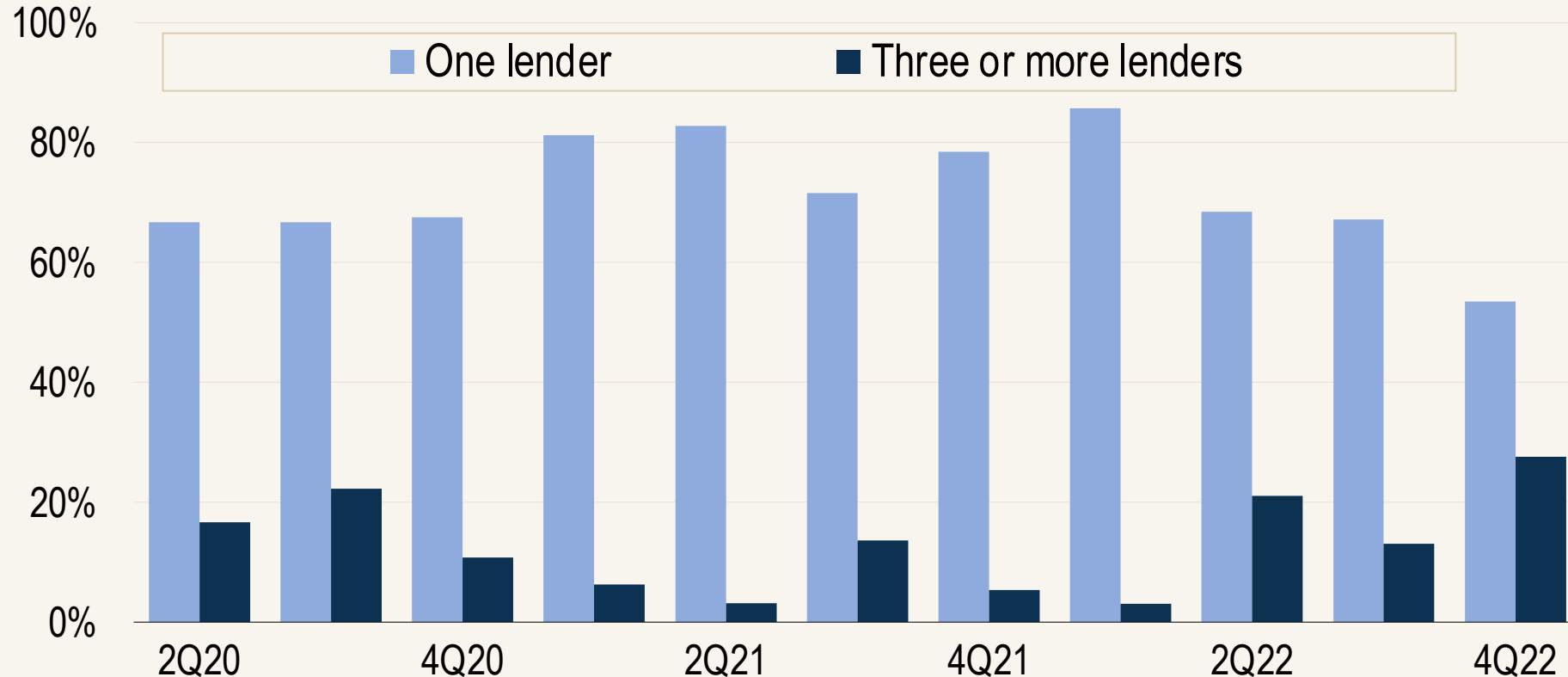
Count of LBOs financed in BSL vs private credit markets



Data through Dec. 31, 2022.
Private credit count is based on transactions covered by LCD News
Sources: Leveraged Commentary & Data (LCD)

Multiple-lender private credit deals increased as 2022 market tightened

Share of LBOs financed in private credit market



Data through Dec. 31, 2022.

Analysis is based on transactions covered by LCD News

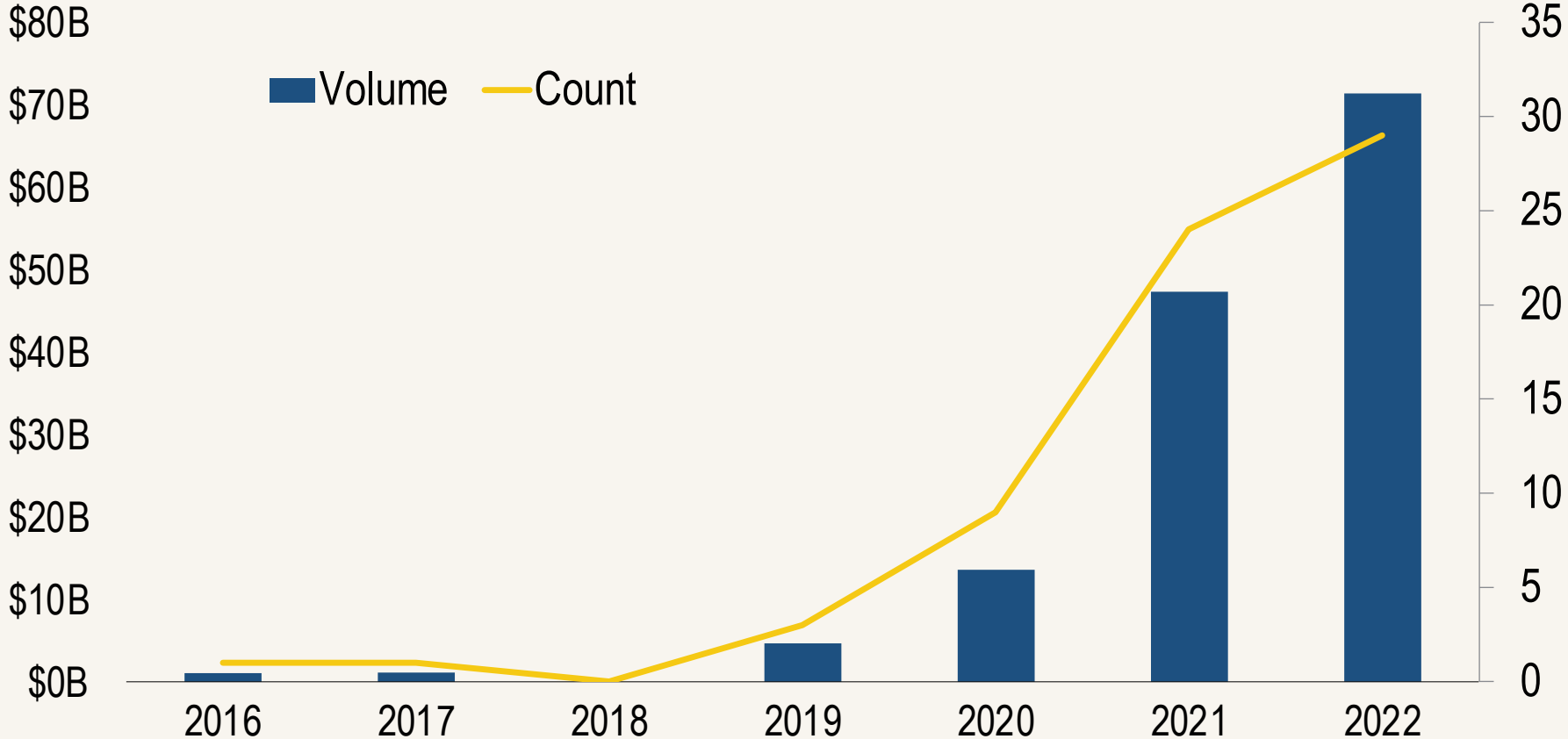
Sources: Leveraged Commentary & Data (LCD)

PE-led take-private deals in US announced between July 1, 2022 and December 31, 2022

Announced date (2022)	Company	Acquirer(s)	Loan type	Deal size (\$M)
December 15	Trean Insurance Group	Altaris Capital Partners	Non-Bank	166.95
December 14	Maxar Technologies	Advent International	Private Debt	6,400.00
December 12	Coupa	Thoma Bravo	Private Debt	6,150.40
October 27	UserTesting	Sunstone Partners, Thoma Bravo	Equity Only	1,300.00
October 24	Weber Inc.	BDT & Company	Private Debt	172.49
October 24	AgroFresh Solutions	Paine Schwartz Partners	Non-Bank	158.07
October 12	KnowBe4	Vista Equity Partners	Private Debt	4,600.00
October 11	ForgeRock	Thoma Bravo	Equity Only	2,300.00
September 28	Billtrust	EQT AB	Private Debt	1,700.00
September 4	ChannelAdvisor	CommerceHub, Insight Partners	Private Debt	725.00
August 20	Computer Services	Bridgeport Partners, Centerbridge	Non-Bank	1,594.80
August 8	Avalara	Vista Equity Partners	Private Debt	8,400.00
August 4	Atlas Air Worldwide	Apollo Global Management	Private Debt	2,909.31
August 2	Ping Identity	Thoma Bravo	Private Debt	2,800.00
July 21	Hanger	Patient Square Capital	Private Debt	1,250.00
July 12	Sharps Compliance	Aurora Capital Partners	Private Debt	170.01

Over time, private lenders step up for bigger deals

Count and volume of direct lending deals of \$1B or more

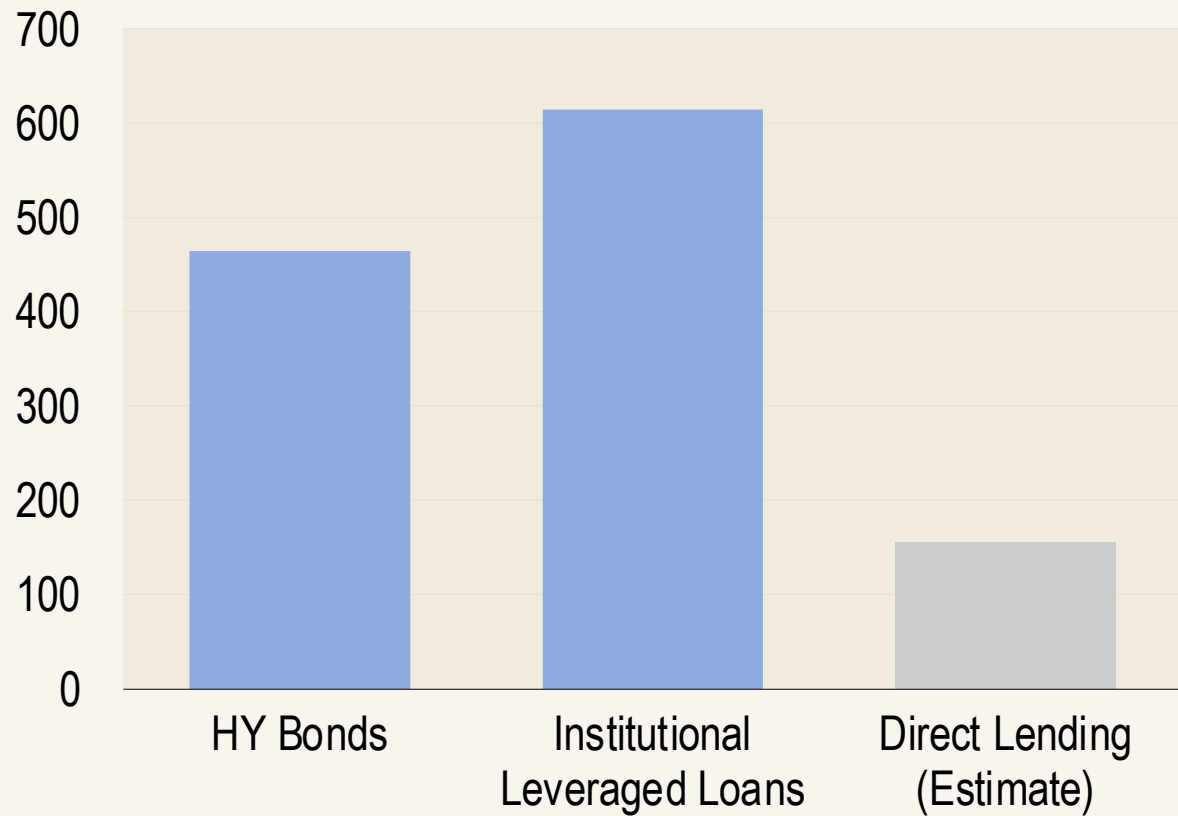


Data through Dec. 31, 2022.

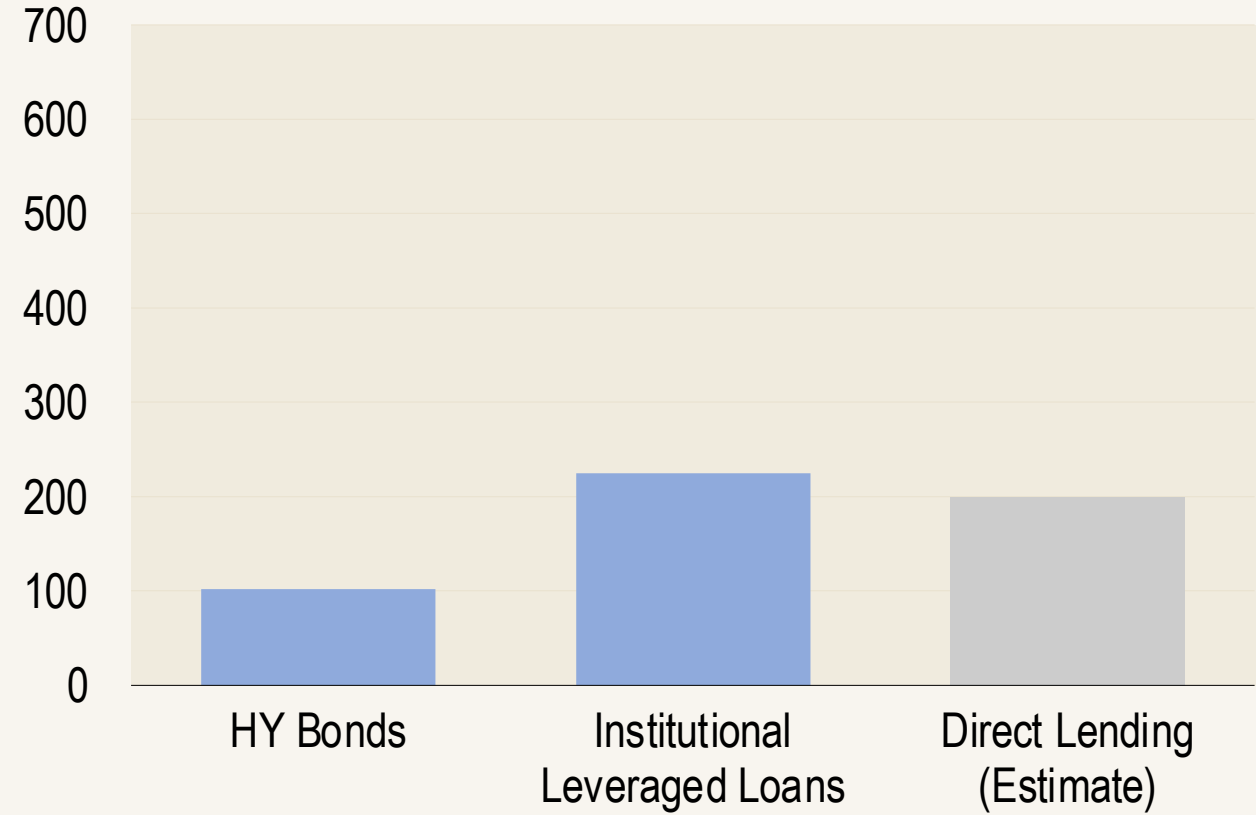
Source: Leveraged Commentary & Data (LCD)

Amid 2022 market turbulence, private lenders seize the opportunity

New-issue volume: 2021 (\$B)



New-issue volume: 2022 (\$B)



Data through Dec. 31, 2022.
Direct Lending analysis is based on transactions covered by LCD News
Sources: Leveraged Commentary & Data (LCD)

LCD Client Survey: Thoughts around private credit

"Speed and certainty of execution, relative to public markets"

"Significant dry powder"

"More leverage for moderately higher pricing"

"Propping up market, may be concealing companies that need restructuring"

"Bank appetite will remain weak"

"Lenders have overstretched in the past year. Will now focus on selectivity."

Private credit: Trends in 2023

**Continued
migration from
other financing
sources**

**Yields at
10%+**

**More
defaults**

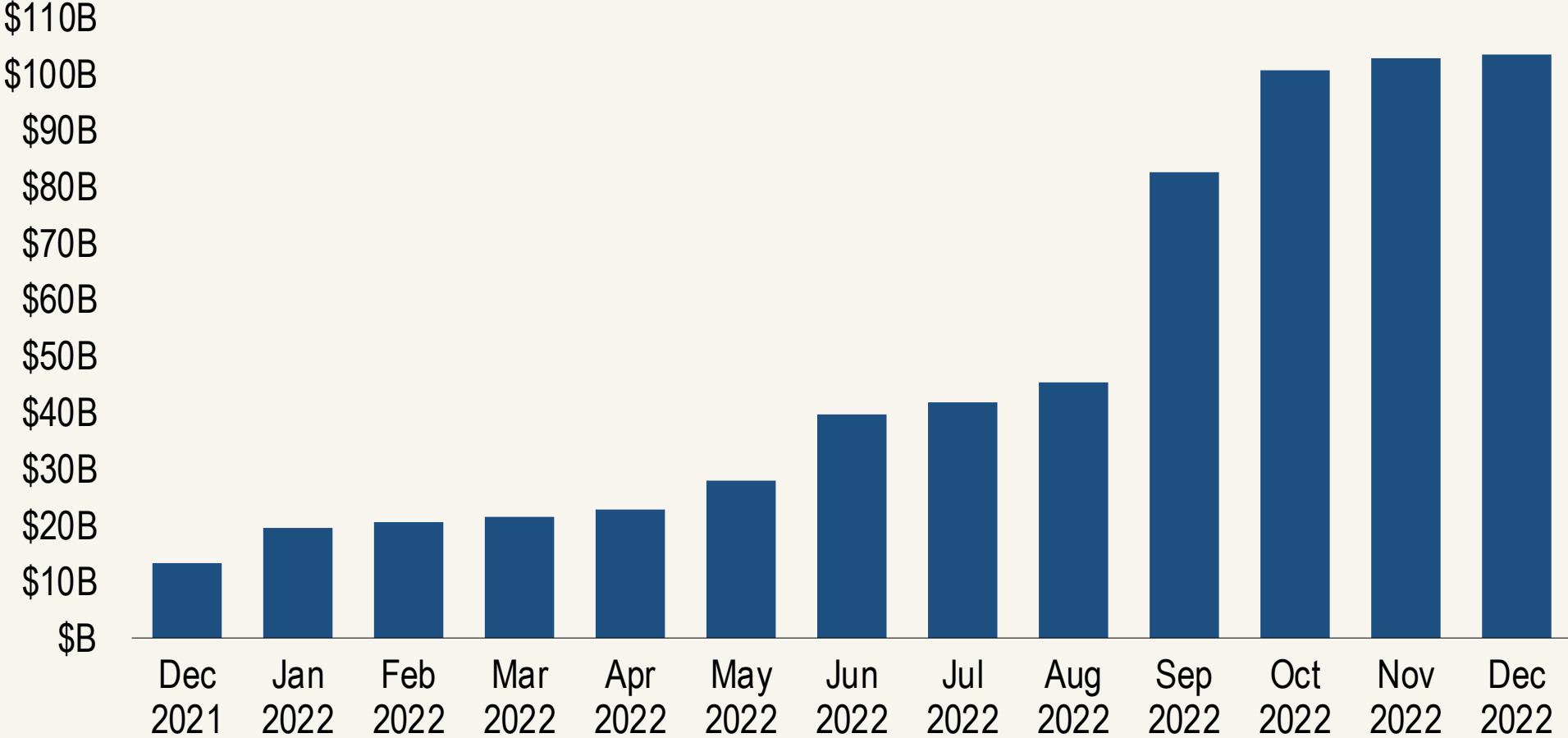
Defaults and distress: 2022, and a look ahead

Rachelle Kakouris
Director, Research – LCD



US distressed loan volume soars amid market volatility

US distressed loan volume



Data through Dec. 31, 2022.
Sources: Leveraged Commentary & Data (LCD); Morningstar LSTA US Leveraged Loan Index

LCD's Restructuring Watch List grows 50% in H2 2022

LCD restructuring watchlist					
Issuer	Industry	Action	Recent developments	Activity date	
Air Methods	Healthcare	downgrade	Cut to CCC, from B-, on likelihood of default. Previously cut 3 notches, to Caa3, on risk the company will not be able to refinance debt when it comes due in April 2024.	Nov-17-2022	
Avaya	Telecom	restructuring talks	Files cleansing docs showing negotiations, incl. possible Ch. 11. CFO replaced with AlixPartners MD. Recently cut to CCC- on going concern doubts. Moody's cut to Caa2. Cap. structure deemed unsustainable.	Dec-13-2022	
Exela Technologies	Data Processing	distressed exchange	Skips interest payment on 11.5% 1st priority sr sec notes due 2026, and 10% 1st priority sr sec notes due 2023. Enters 30-day grace period.	Jan-17-2023	
Fly Leasing	Services & Leasing	distressed exchange	Rated CCC, from SD, post sub-par debt repurchase. Rated BB- in June 2022.	Oct-19-2022	
Lucky Bucks	Gaming & Hotel	downgrade	Cut to CCC- on possible debt restructuring. Previously cut 3 notches, to CCC, on 9/30/22.	Jan-17-2023	
Shutterfly (Photo Holdings)	Retail	downgrade	Cut two notches, to CCC, on "increased potential for distressed exchange."	Oct-07-2022	
Yak Mat (YAK Access)	Forest Products	downgrade	Company nearing deal for out of court restructuring, WSJ reports. Previously cut to Caa1 on tight liquidity / CCC at S&P on elevated refi risk.	Jan-05-2022	

LCD's Restructuring Watch List tracks companies that have (1) missed a bond or loan payment, (2) entered a forbearance agreement, (3) publicly stated they are contemplating bankruptcy or an out-of-court restructuring, or are reported to have hired restructuring counsel, (4) commenced a distressed exchange, (5) received a going-concern qualification, (6) deemed by one or more rating agencies to have unsustainable capital structure / be a restructuring risk.

Credit downgrade levels climb anew

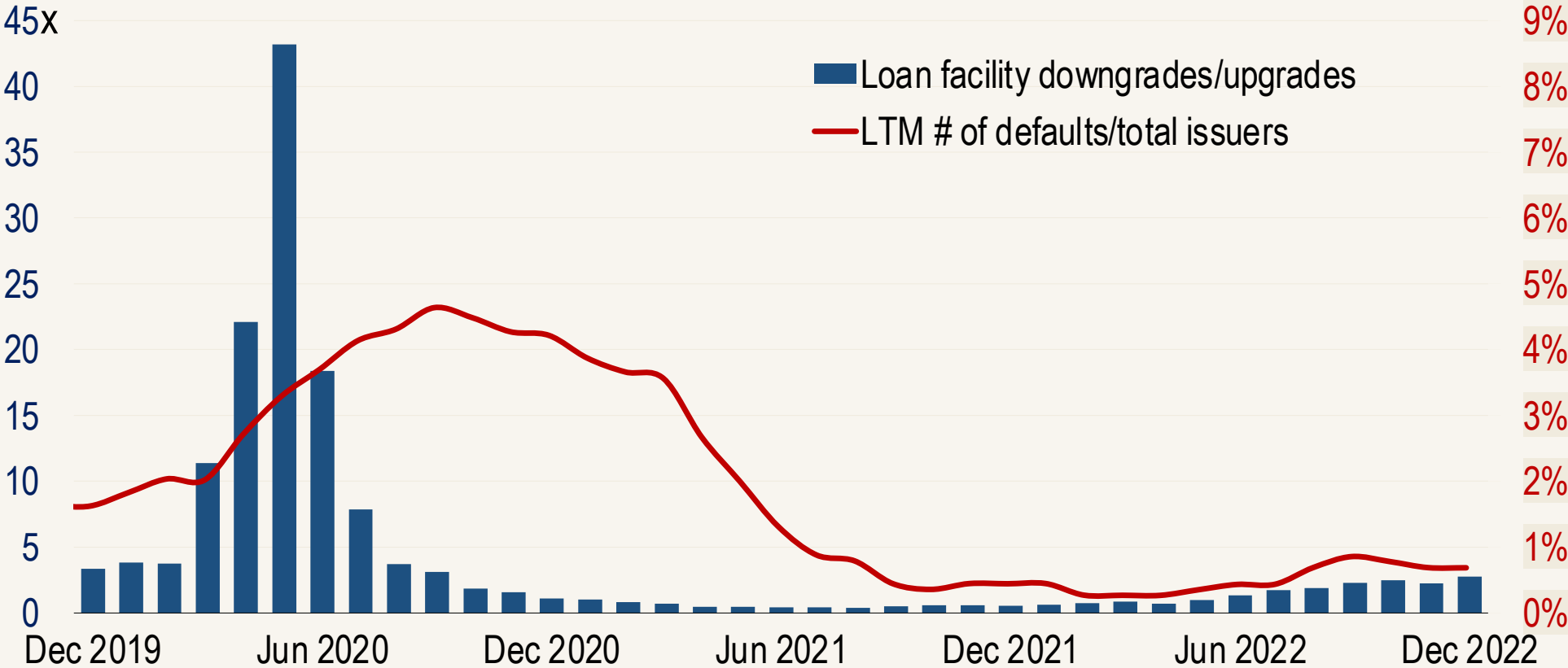
US leveraged loans: ratio of downgrade to upgrades



Data is rolling 3 months; through Dec. 31, 2022.
Source: Leveraged Commentary & Data (LCD)

Versus pandemic-onset peak, downgrades/defaults remain light

Downgrades/upgrades ratio and LTM leveraged loan default rate

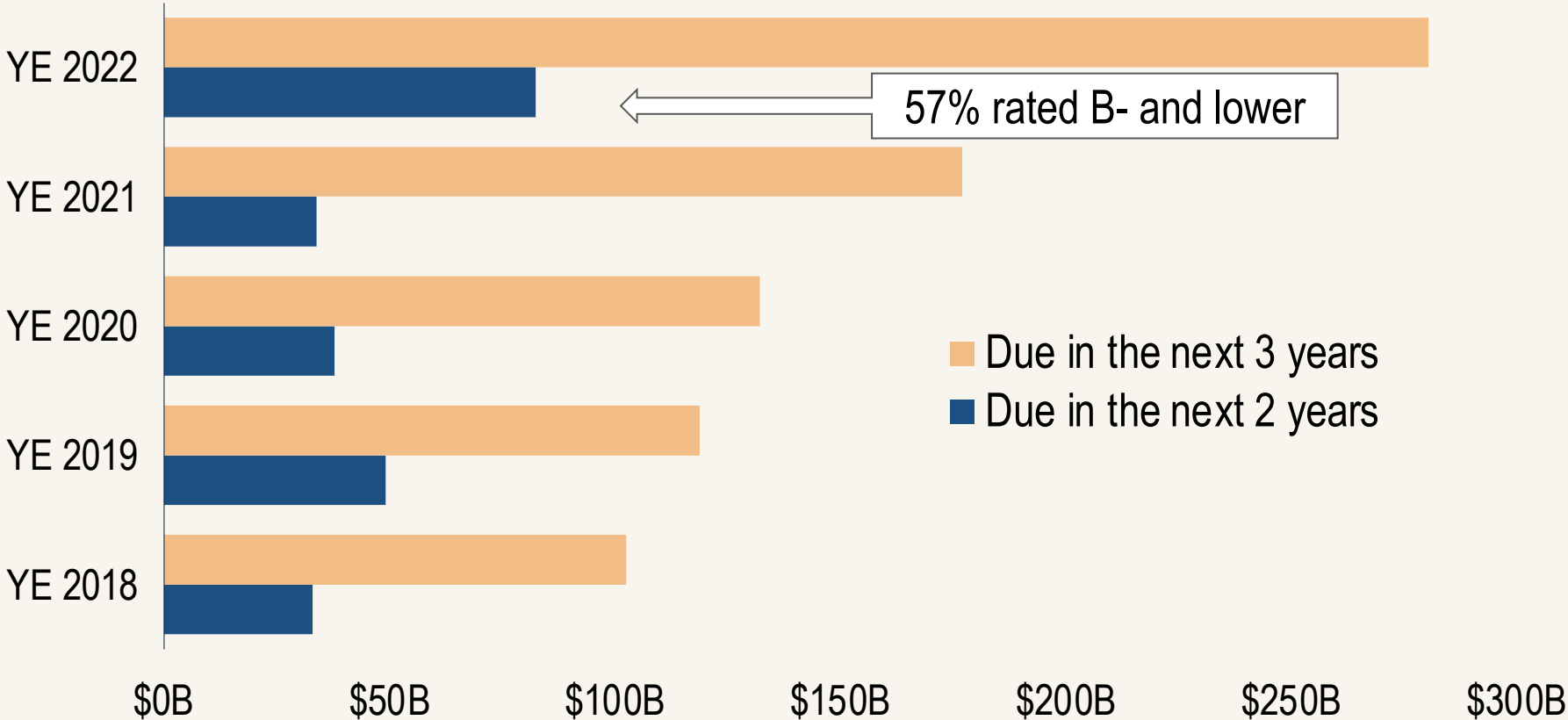


Data through Dec. 31, 2022.

Sources: Leveraged Commentary & Data, Morningstar LSTA US Leveraged Loan Index

Near-term maturities remain scarce, though riskier debt dominates

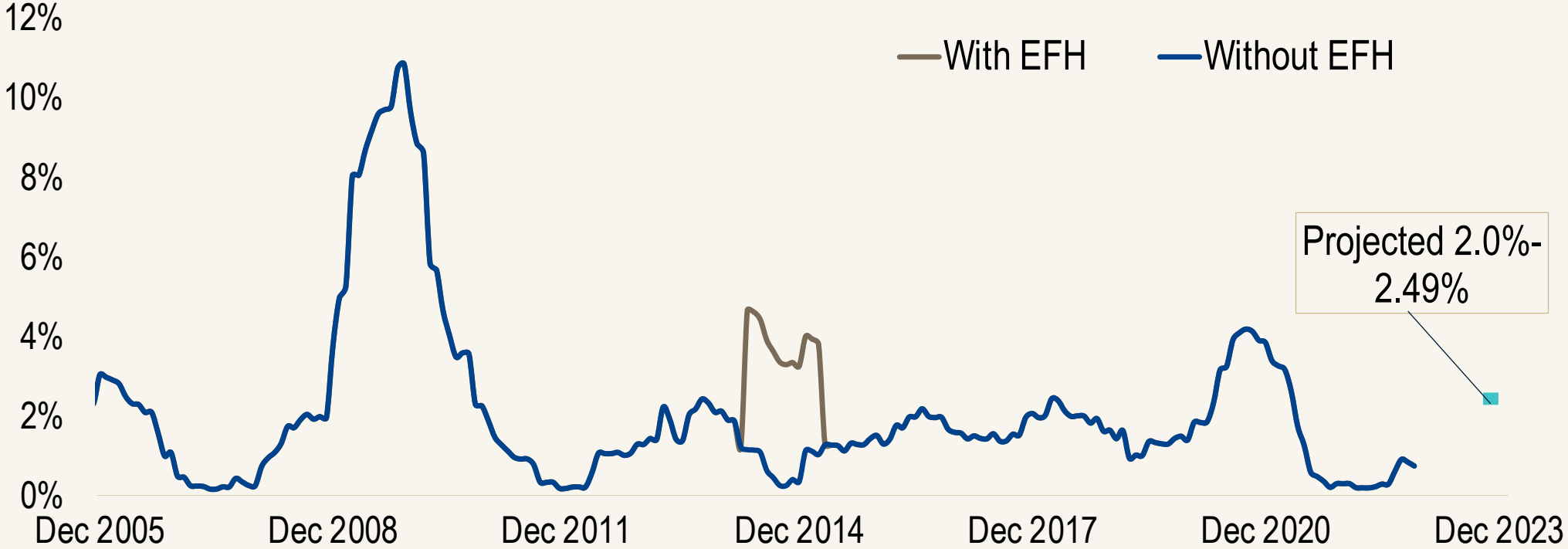
US leveraged loan maturity wall



Data through Dec. 31, 2022.
Source: Morningstar LSTA US Leveraged Loan Index; Leveraged Commentary & Data (LCD)

LCD's year-end 2022 Leveraged Loan Survey

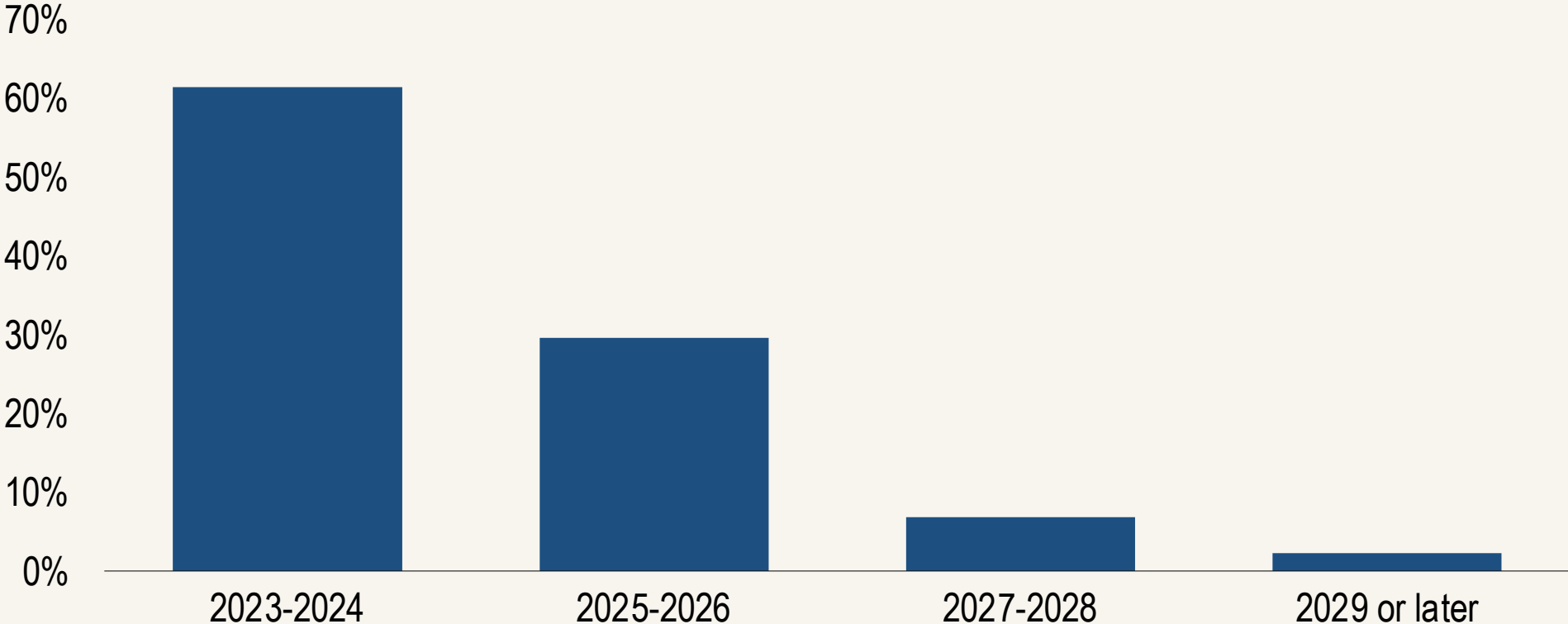
What do you think the US loan default rate will be 12 months (12/31/2023) from now?



Data as of Dec. 9, 2022.
Chart shows historical and projected default rates by dollar amount. EFH = Energy Future Holdings.
Sources: Leveraged Commentary & Data (LCD); Morningstar LSTA US Leveraged Loan Index

LCD's year-end 2022 Leveraged Loan Survey

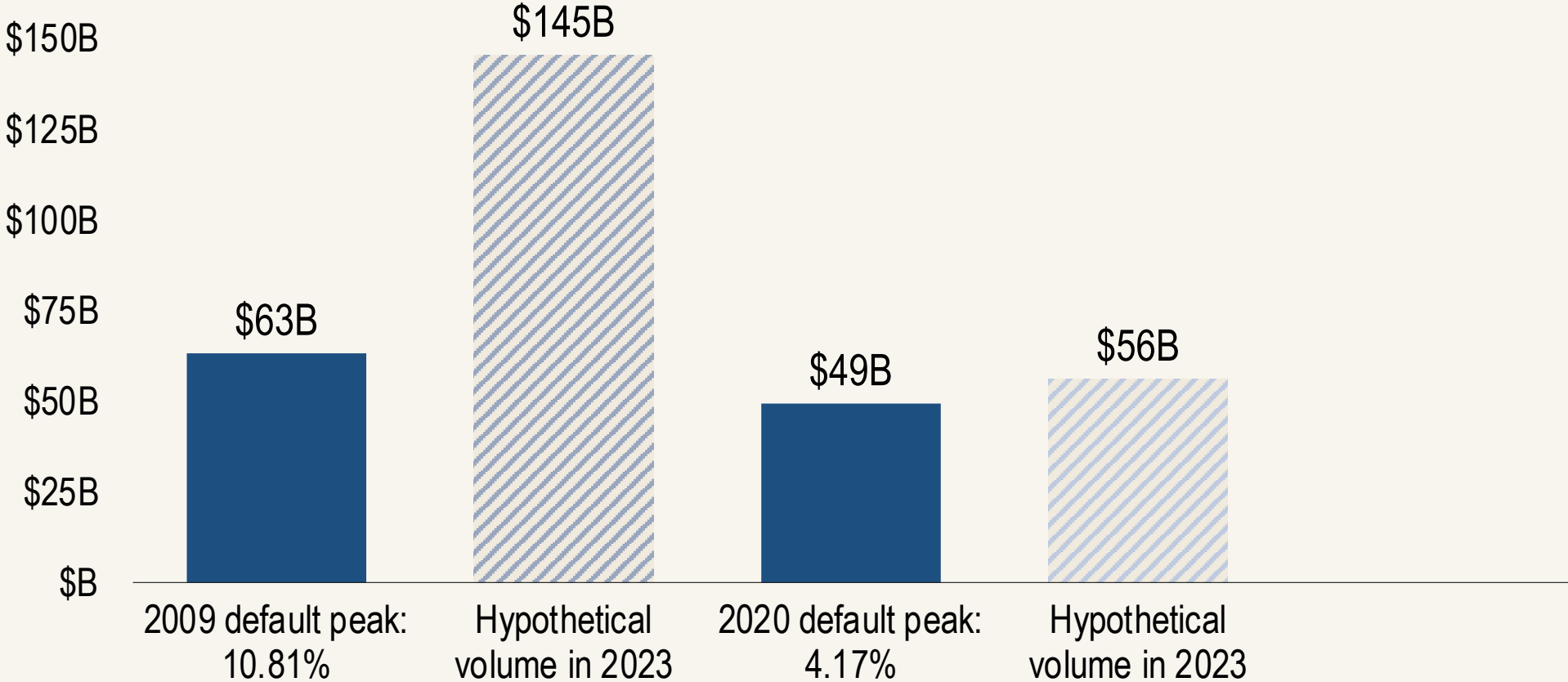
When do you think the Morningstar LSTA US Leveraged Loan Index will reach its historical default rate of 2.73% (by principal amount)?



Data as of Dec. 9, 2022.
Source: Leveraged Commentary & Data (LCD)

Defaults: How bad would things need to get?

Hypothetical volume required to match past loan default peaks



Data through Dec. 31, 2022.

Sources: Leveraged Commentary & Data (LCD); Morningstar LSTA US Leveraged Loan Index

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