Legal Perspectives on Loan Market Trends

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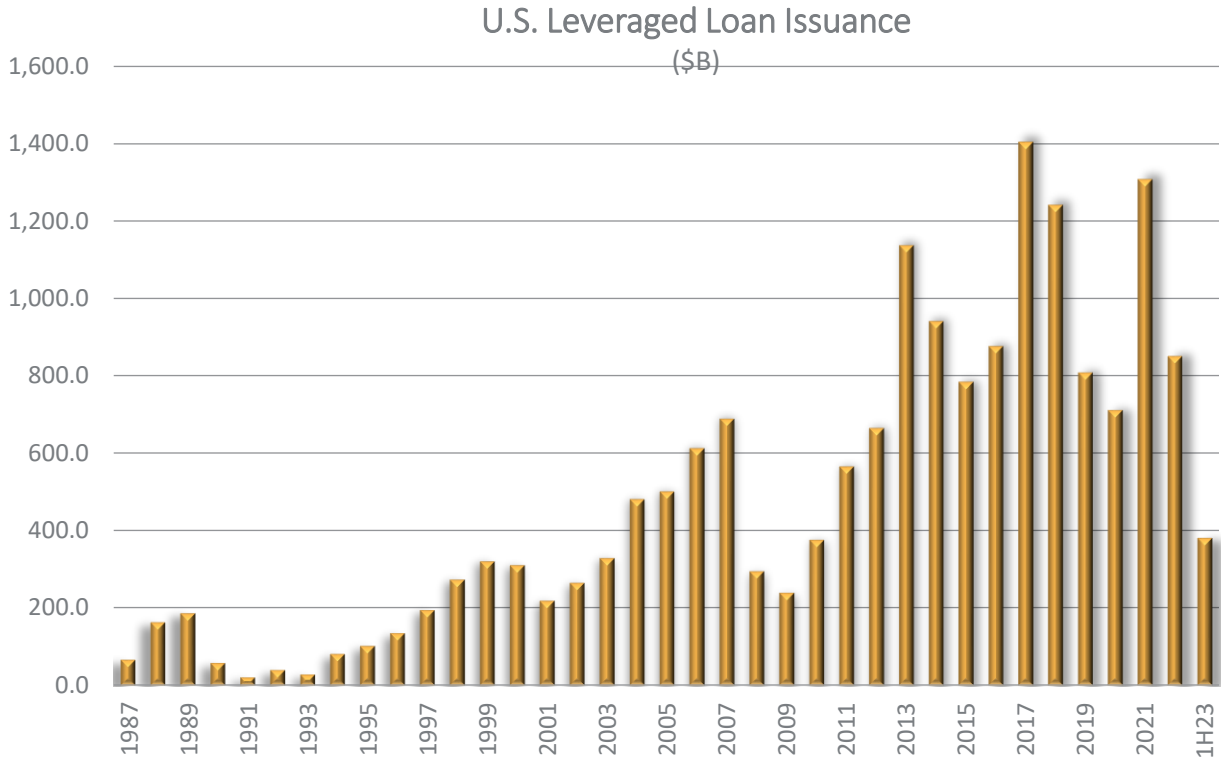
Presentation Overview

- Primary Market
  - Broadly Syndicated Loans
  - Middle Market
- Private Credit
  - Direct Lending
- Liability Management Transactions
  - The Double Dip
- Defaults and Recoveries
- Panelists' Predictions

- …. and a Slido Question for the audience!

2023 – A Challenging Year For The Loan Market



Source: Refinitiv LPC

Private Credit

- Direct Lending
  - Can the BSL market compete with direct lenders:
    - on terms?
    - on pricing?

The Third Type of LMT is the Double Dip

- The drop-down financing and uptiering transaction are two common types of liability management transactions used by borrowers in the loan market.

- The double dip has emerged this year as another type of liability management transaction.

Slido Question

Borrowers who have implemented a liability management transaction will:

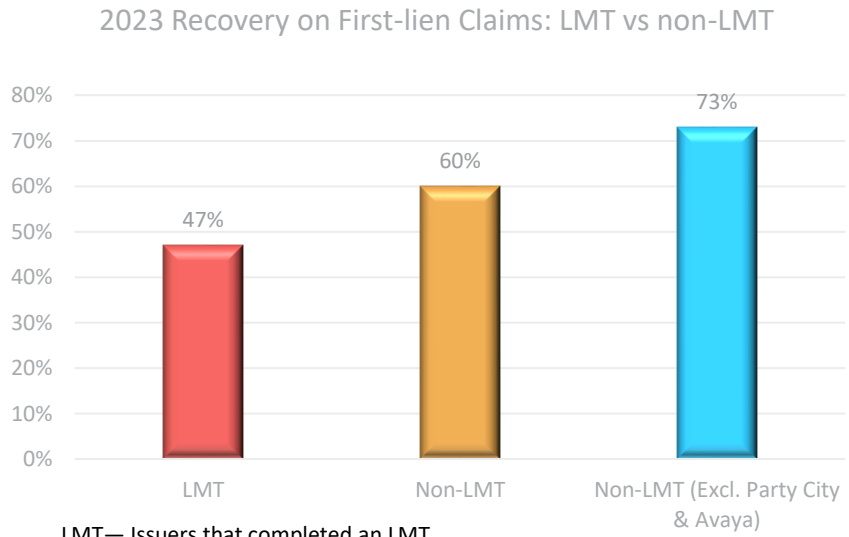
A. Avoid bankruptcy and successfully manage their business through the rough patch

B. Delay bankruptcy, and when they file, recoveries will be about the same as the historical average recovery rate (about 76%)

C. Delay bankruptcy, and when they file, recoveries will be much lower than the historical average recovery rate (about 76%)

2023 Recovery – Liability Management Transactions (LMT)

- Issuers who executed LMTs prior to bankruptcy experienced weighted average aggregate recoveries of 47% on their original first-lien claims in 2023
  - This trails behind recoveries for issuers without LMTs (60%)
- No issuers with LMTs recovered more than 70% on their first-lien claims in 2023 on a weighted average basis
- Among issuers without LMTs, Party City and Avaya are the two largest issuers with recovery below 'RR5'. Taking them out of the equation, issuers without LMTs would have recovered 73% on their first-lien claims, in line with historical levels
- Talen Energy is the only issuer with more than $1 billion claims that saw a 'RR1' recovery



LMT— Issuers that completed an LMT.
Non-LMT— Remaining issuers.
Note: Includes issuers that have not yet emerged in 2023.
Source: Fitch Ratings.

Post-Liability Management Transaction Rating Migration

FITCH WIRE: Most Liability Management Transactions Only Delay Default, Clip Recoveries

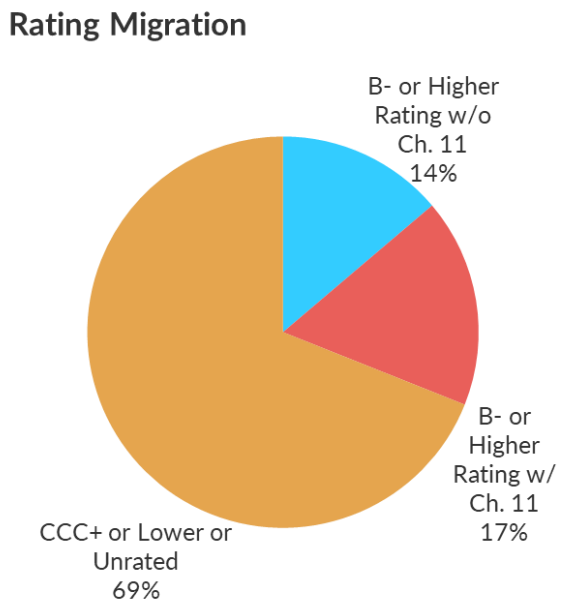
Liability management transactions (LMTs) typically either constitute or delay issuer defaults, rather than help avoid them.

Fitch examined the performance of 30 LMTs that were publicly disclosed between 2014 and 2023. All 30 LMTs involved distressed issuers with ratings at or below 'CCC+' at the time.

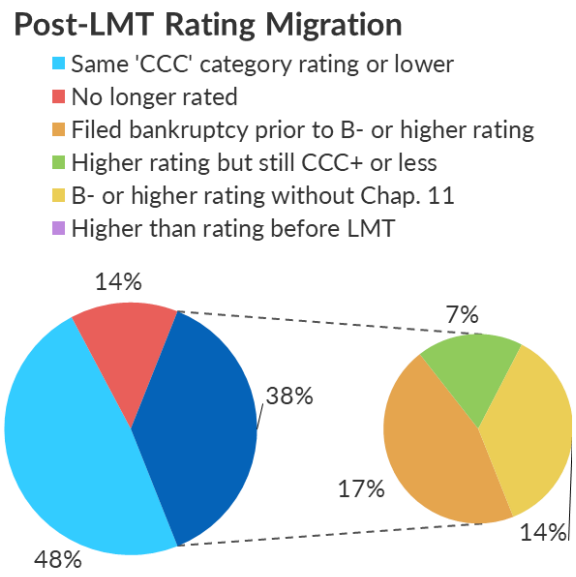
- 17 were deemed distressed debt exchanges (DDEs)
- Seven subsequently filed Chapter 11 or executed DDEs

Benefits to issuer credit profiles remain elusive

- 14 issuers are rated today at same 'CCC' level or lower
- Two have higher ratings but still in 'CCC' range
- Five migrated to 'B' range through Chapter 11
- Only four reached 'B' range without Chapter 11
- 11 are higher than rating before LMT

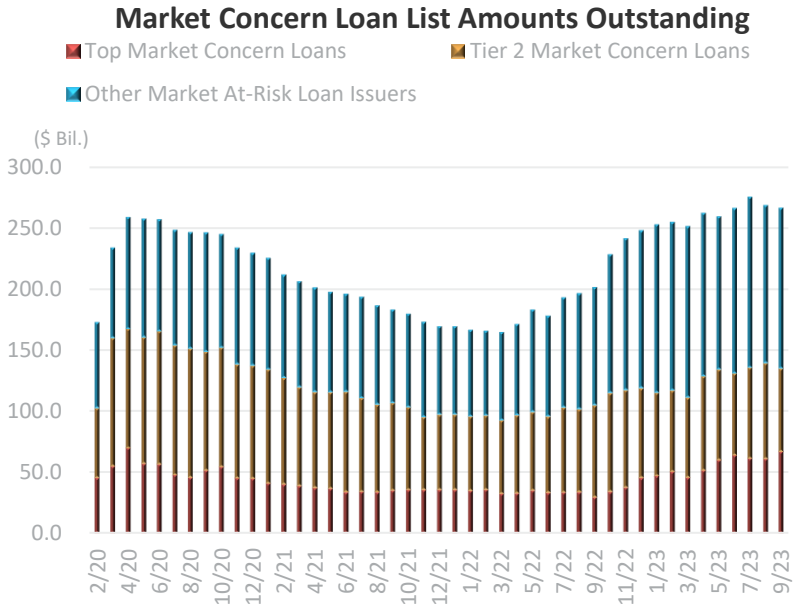


Source: Fitch Ratings

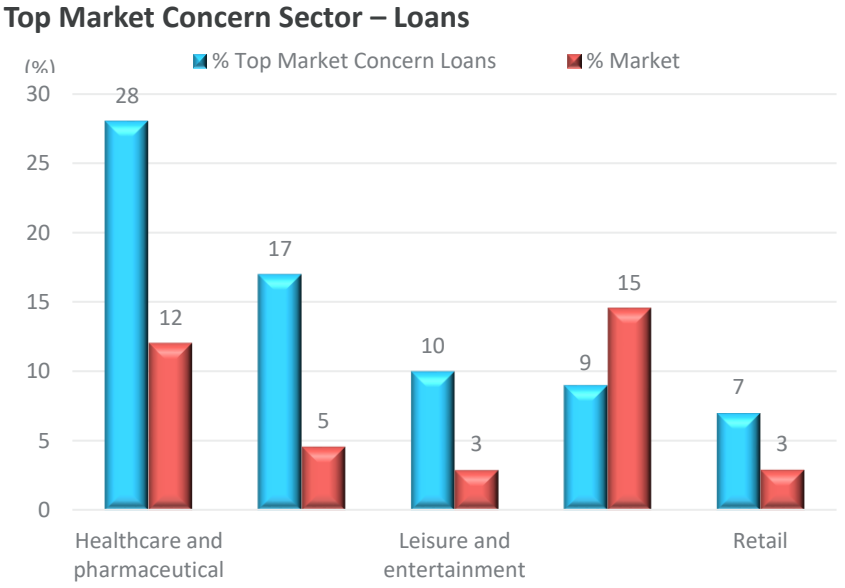


Source: Fitch Ratings

Fitch Ratings Loans of Concern: Volume & Top Sectors



Source: Fitch Ratings US. Leveraged Loan Index.

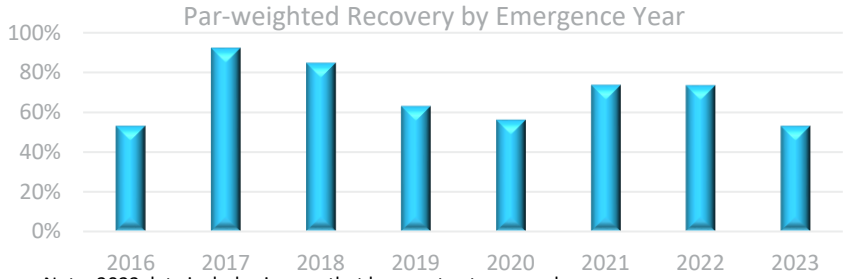


Source: Fitch U.S. Leveraged Loan Index

First Lien Debt Instruments: Par-Weighted Recoveries

FITCH WIRE: **2023 First-Lien Recoveries In Line With Previous Stress Years**

- Fitch assesses ultimate recoveries through analysis of company-specific bankruptcy filings including disclosure statements
- Issuers who emerged in 2023 have exhibited low ultimate recoveries, in-line with past stress years (i.e., 2016 & 2020)
- Overall 2023 recovery are dragged down by TMT and Retail (46% and 36%) as well as several other individual filers in other sectors
- Technology exhibited a 45% average recovery due to Chapter 22 filings from Avaya (21%) and Monitronics (49%), and Chapter 11 filing from Diebold (49%)
- Healthcare & Pharma exhibited markedly better recoveries than the 53% cross-sector weighted average at 68% (in-line with the 2016-2023 overall average)



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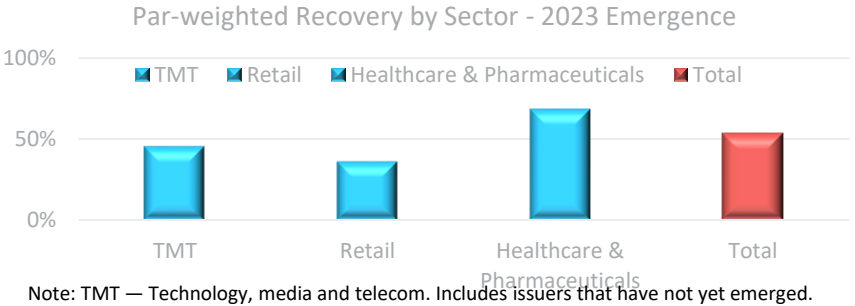

Note: TMT — Technology, media and telecom. Includes issuers that have not yet emerged.

Panelists’ Predictions

- For the broadly syndicated loans
- For the middle market
- The outlook for the distressed market