

Market Snapshot

Special Situations Group | September 2018



Lagging 12-Month Leveraged Loan Default Rate by Issuer

Aug 2018 – 1.71%
May 2018 – 1.72%
Feb 2018 – 1.94%
Nov 2017 – 1.72%

Source: S&P Leveraged Commentary & Data

Lincoln's Observations

At over 3,500 days long, we are officially in the longest-running bull market in history, and default rates remain at historical lows. In addition, new issue volume in 1H 2018 was up 2.4% over last year driven by an abundance of new capital flowing into public and private funds, CLOs and loan mutual funds and ETFs. This positive momentum has caused a general lull in "traditional" restructuring activity, particularly in the middle-market, and left many restructuring professionals wondering where to spend their time.

Notwithstanding this market lull, Lincoln's Special Situations Group has been actively supporting its clients by providing structured or specialized financing alternatives (e.g. "bespoke financings"), both in partnership with and separate from Lincoln International's dedicated Debt Advisory Group. Given the influx of capital into various asset classes, lenders in today's market are often competing on noneconomic terms including advance rates on intellectual property, covenants, permitted EBITDA add-backs, length of implementation period for cost savings, and free-and-clear incremental debt baskets.

From a structured capital perspective, we are seeing lenders use warrants, exit fees, and payment-in-kind features to increase yield. This continued shift towards issuer-friendly terms has driven competitive processes, with many lenders providing lower than anticipated rates (as compared to originally anticipated) and our team has been quite successful on several recent bespoke financing transactions.

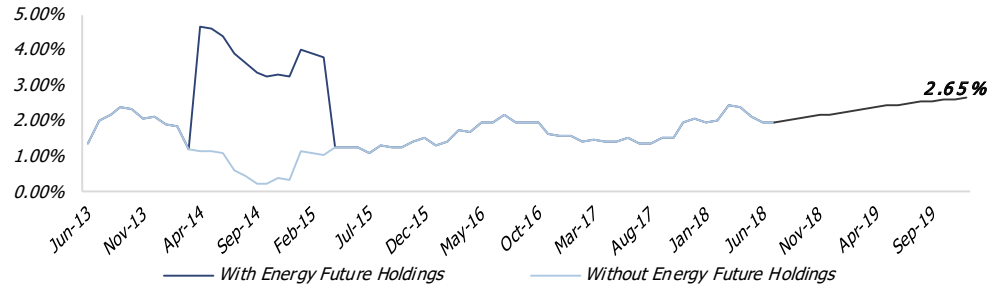
Despite seemingly unstoppable momentum in the credit markets, we believe that a higher default environment is coming. What will be the catalyst for an uptick in restructuring activity? This question is tough to answer with any level of certainty given there are just as many positive indicators as there are negative indicators. But one aspect of the market is undeniable – corporate debt relative to GDP is at an all-time high, which exposes the U.S. economy to an increase in corporate borrowing costs. 3-month LIBOR is now 2.3%, or a cumulative 200 basis points higher than 2014 and 2015 levels when over \$1 trillion of leveraged loans and high-yield bonds were issued. When coupled with an overall deterioration in credit metrics, the increase in rates suggests

that even a modest increase in LIBOR will begin to pressure borrowers' ability to meet debt service obligations. We estimate the inflection point to be around 3%. Fed funds futures suggest there is a better than 50% chance that the Fed will raise rates two more times this year which would likely push LIBOR close to 3% by mid to late 2019.

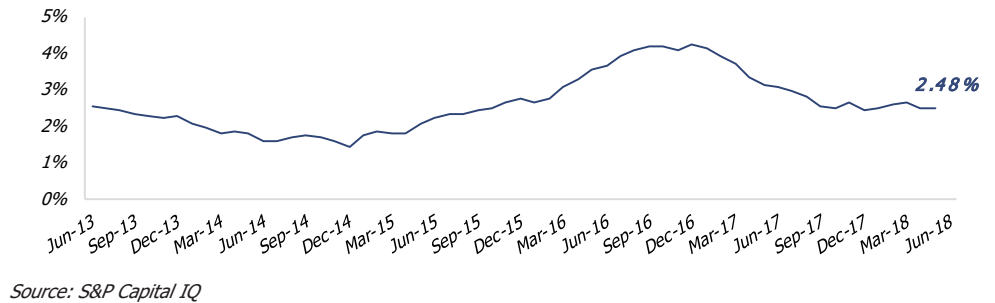
We also believe it's not too early to start planning for increased restructuring activity. Lincoln has actively grown its Special Situations Group over the last 18 months and reallocated resources to improve the group's geographic coverage. As part of this initiative, Brendan Murphy, a Managing Director in Lincoln's Special Situations Group relocated to our Chicago office over the summer to bolster our presence in the Midwest region.

The question now is: how can we be of service to you? Whether you, or your portfolio company, needs distressed M&A services, a bespoke financing solution, or just want to discuss current market trends, we would like to hear from you. Please feel free to reach out to any of the SSG officers listed on page 5.

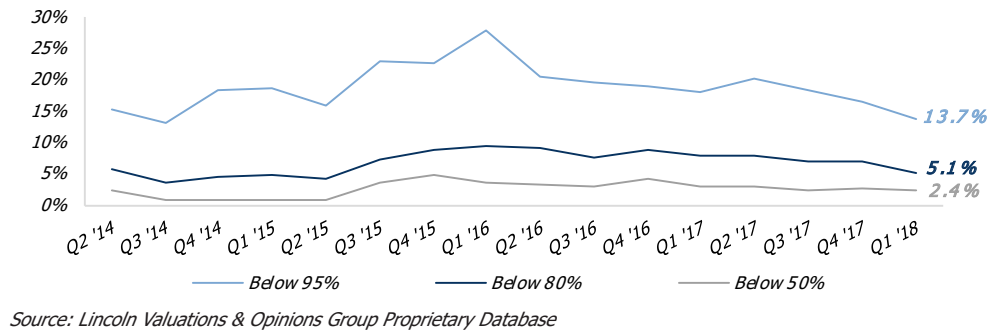
Leveraged Loan Default Rates by Loan Amount



Speculative-Grade Corporate Bond Default Rate by Amount



Loan Value Relative to Par



August S&P Ratings Downgrades

Company Name	Primary Industry	Downgrade Date	Current Rating	Previous Rating
Vertiv Group Corporation	Electrical Components and Equipment	8/31/2018	B	B+
Diamond Offshore Drilling, Inc. (NYSE:DO)	Oil and Gas Drilling	8/30/2018	B	B+
ENSCO International Incorporated	Oil and Gas Drilling	8/29/2018	B-	B+
Lanai Holdings III Inc.	Healthcare Distributors	8/29/2018	CCC+	B-
Asp Mcs Acquisition Corp.	Real Estate Services	8/28/2018	B-	B
Sequa Corporation	Aerospace and Defense	8/23/2018	CCC+	B-
iQor Holdings Inc.	Office Services and Supplies	8/23/2018	CCC	B
Harley-Davidson, Inc. (NYSE:HOG)	Motorcycle Manufacturers	8/23/2018	BBB+	A-
Lannett Company, Inc. (NYSE:LCI)	Pharmaceuticals	8/22/2018	B-	B+
Confie Seguros Holding Co.	Insurance Brokers	8/15/2018	CCC	CCC+
AutoCanada Inc. (TSX:ACQ)	Automotive Retail	8/13/2018	B+	BB-
Uniti Group Inc. (NasdaqGS:UNIT)	Specialized REITs	8/9/2018	CCC+	B-
DENTSPLY SIRONA Inc. (NasdaqGS:XRAY)	Healthcare Supplies	8/8/2018	BBB	BBB+
Carmike Cinemas, Inc.	Movies and Entertainment	8/7/2018	B	B+
NAVEX Acquisition, LLC	Application Software	8/6/2018	B-	B
Monitronics International, Inc.	Security and Alarm Services	8/3/2018	CCC	B-

Note: Excludes credits with a current rating of A- or higher

Middle Market Distressed Universe

(\$ in millions)

Asset Class	Issuer Name	Industry	CPN	Bid Price	YTW(Bid)	Maturity	Amt Out
Bonds	Aceto Corp	Health Care	2.00%	80.11	12.87%	11/1/2020	\$144
Bonds	Aegerion Pharmaceuticals Inc	Health Care	2.00%	75.24	35.09%	8/15/2019	\$325
Loans	ALM Media LLC	Communications	6.85%	89.38	13.19%	7/31/2020	\$215
Bonds	Assertio Therapeutics Inc	Health Care	2.50%	81.46	9.81%	9/1/2021	\$345
Bonds	Avid Technology Inc	Technology	2.00%	89.09	8.76%	6/15/2020	\$125
Bonds	Bellatrix Exploration Ltd	Energy	8.50%	60.60	43.73%	5/15/2020	\$240
Loans	Bluestem Brands Inc	Consumer Discretionary	9.84%	67.00	32.96%	11/7/2020	\$478
Loans	Caelus Energy Alaska 03 LLC	Energy	9.84%	89.50	17.36%	4/15/2020	\$300
Bonds	Centrus Energy Corp	Materials	8.00%	87.30	24.24%	9/30/2019	\$32
Loans	Crossmark Holdings Inc	Consumer Staples	5.84%	62.52	46.29%	12/21/2019	\$307
Loans	CTI Foods Holding Co LLC	Consumer Staples	5.82%	80.00	19.14%	6/26/2020	\$347
Loans	Empire Generating Co LLC	Utilities	6.58%	75.00	19.23%	3/14/2021	\$303
Loans	Empire Generating Co LLC	Utilities	6.58%	75.13	19.16%	3/14/2021	\$30
Bonds	Endologix Inc	Health Care	3.25%	77.16	16.24%	11/1/2020	\$85
Bonds	ENTREC Corp	Industrials	8.50%	89.00	13.31%	6/30/2021	\$22
Loans	Everest Holdings LLC	Consumer Discretionary	7.59%	88.75	14.65%	7/1/2020	\$225
Bonds	Fortress Global Enterprises	Materials	7.00%	84.00	21.58%	12/31/2019	\$61
Bonds	Imperial Metals Corp	Materials	7.00%	87.45	35.20%	3/15/2019	\$325
Loans	Indra Holdings Corp	Consumer Discretionary	6.60%	49.75	36.94%	5/1/2021	\$245
Bonds	JAKKS Pacific Inc	Consumer Discretionary	4.88%	85.82	14.38%	6/1/2020	\$113
Bonds	Legacy Reserves LP / Legacy	Energy	8.00%	81.22	18.62%	12/1/2020	\$233
Loans	LifeCare Holdings LLC	Health Care	7.57%	85.50	86.83%	11/30/2018	\$197
Loans	Longview Power LLC	Utilities	8.34%	85.00	15.37%	4/13/2021	\$298
Loans	New Millennium Holdco Inc	Health Care	8.84%	54.71	39.64%	12/21/2020	\$600
Loans	New Trident Holdcorp Inc	Health Care	7.60%	70.63	50.39%	7/31/2019	\$216
Loans	New Trident Holdcorp Inc	Health Care	11.35%	50.00	55.27%	7/31/2020	\$155
Bonds	PaperWorks Industries Inc	Materials	9.50%	54.75	90.42%	8/15/2019	\$4
Loans	Pier 1 Imports US Inc	Consumer Discretionary	5.85%	85.75	12.24%	4/30/2021	\$193
Bonds	Pinnacle Operating Corp	Consumer Staples	9.00%	86.85	16.36%	11/15/2020	\$28
Loans	Sheridan Production Partners	Energy	5.83%	89.13	17.27%	10/1/2019	\$93
Bonds	SiTV LLC / SiTV Finance Inc	Communications	10.38%	57.63	95.56%	7/1/2019	\$240
Loans	Southcross Energy Partners	Energy	6.59%	86.87	12.02%	8/4/2021	\$431
Loans	Steak n Shake Inc	Consumer Discretionary	6.08%	82.00	14.78%	3/19/2021	\$185
Bonds	Stornoway Diamond Corp	Materials	6.25%	51.21	34.49%	7/8/2021	\$81
Bonds	Techniplas LLC	Industrials	10.00%	89.34	17.69%	5/1/2020	\$175
Loans	TOMS Shoes LLC	Consumer Discretionary	7.85%	77.50	21.00%	10/31/2020	\$307
Loans	Triple Point Group Holdings	Technology	6.59%	89.25	13.17%	7/13/2020	\$280
Loans	Triple Point Technology Inc	Technology	10.59%	82.25	18.67%	7/13/2021	\$125
Loans	TwentyEighty Inc	Consumer Discretionary	3.35%	71.63	33.86%	3/31/2020	\$100
Bonds	Vitamin Shoppe Inc	Consumer Discretionary	2.25%	88.10	8.18%	12/1/2020	\$68
Bonds	VIVUS Inc	Health Care	4.50%	66.67	31.98%	5/1/2020	\$190

Source: Bloomberg, as of September 5, 2018

Note: Criteria includes the following: bid price 45-90, country: US or Canada, funded debt outstanding \$100-\$750M, maturity within 36 months. Excludes banks, financial institutions and credits in bankruptcy or in default.

Selected Special Situations Experience*

Lincoln's Special Situations Group Brings Together all the Strengths of the Global Platform to Drive Results for Its Clients

Company / Debtor Representations

HOBBICO
LOVE YOUR HOBBY

has sold substantially all of its assets pursuant to Section 363 of the Bankruptcy Code to

Quantum
DIGITAL PRINTING CO.

Debtor Advisor

RCR INTERNATIONAL INC.

has sold substantially all of its assets pursuant to the Companies Creditors Arrangement Act to

ma

Debtor Advisor

KRACO

has sold substantially all of its assets pursuant to Article 9 of the Uniform Commercial Code to

NITEO **CA**

Company Advisor

k'nex

has been sold to

Basic Fun

Company Advisor

CROSS

has been sold to

TRANSOM
CAPITAL GROUP

Company Advisor

THL Credit

has sold

CIRS

pursuant to Section 363 of the Bankruptcy Code to

TCAP TRIANGLE CAPITAL CORPORATION

Debtor Advisor

NETSHAPE
Technologies, Inc.

has restructured approximately \$110 million of financial obligations

Company Advisor

Katy

has sold substantially all of its assets pursuant to Section 363 of the Bankruptcy Code to

American Plastics, LLC
an affiliate of **Highview** VICTORY PARK CAPITAL

Debtor Advisor

ITMA **2018**

Eastern Outfitters

has sold substantially all the assets of

BOBS **OUTFITTERS**

pursuant to Section 363 of the Bankruptcy Code to

SPORTS DIRECT.COM

Debtor Advisor

VESTIS
RETAIL GROUP

has sold substantially all the assets of

BOBS **OUTFITTERS**

pursuant to Section 363 of the Bankruptcy Code to affiliates of its 2nd Lien Lenders

Debtor Advisor

HANCOCK FABRICS
crafts & more

has sold substantially all of its operating assets to

GREAT AMERICAN GROUP **Michaels**

pursuant to Section 363 of the Bankruptcy Code

Debtor Advisor

United Road Towing
Redefining The Towing Experience

has restructured and recapitalized its balance sheet

Company Advisor

Creditor / Buyer Representations

DREAM CENTER
EDUCATION HOLDINGS, LLC

has acquired selected assets of

EDMC
Education Management Corporation

Buyer Representation

chassisx

has confirmed a Plan of Reorganization addressing approximately \$1 billion in liabilities

Chapter 11 Restructuring

Creditors Committee

Reorganization addressing approximately \$570 million in liabilities with creditors sponsoring a \$265 million rights offering

Creditors Committee

Visteon

has confirmed a Plan of Reorganization addressing approximately \$3 billion in liabilities with creditors sponsoring a \$1.3 billion rights offering

Creditors Committee

ERP
compliant FUELS

has acquired distinct assets during a Section 363 of the Bankruptcy Code of

PATRIOT COAL

Buyer Representation

PREMIER
COMBUSTIBLES

Plan of Reorganization pending

Chapter 11 Restructuring

Official Equity Committee

Note: * Indicates transactions performed by Lincoln professionals during previous employment

About Lincoln International

Lincoln International specializes in merger and acquisition advisory services, debt advisory services, private capital raising and restructuring advice on mid-market transactions. Lincoln International also provides fairness opinions, valuations and joint venture and partnering advisory services on a wide range of transaction sizes. With twenty offices in the Americas, Asia and Europe, Lincoln International has strong local knowledge and contacts in key global economies. The firm provides clients with senior-level attention, in-depth industry expertise and integrated resources. By being focused and independent, Lincoln International serves its clients without conflicts of interest.

More information about Lincoln International can be obtained at www.lincolnternational.com. Lincoln's U.S. Special Situations Group

About Special Situations Group

Lincoln International has extensive experience advising businesses and their creditor and stakeholder constituencies during periods of financial challenge or unique circumstances, having completed over 150 special situations transactions with over \$100 billion of debt restructured. This expertise is partnered with industry depth, international access and debt capital markets knowledge to provide our clients with unmatched capabilities focused in the middle market.

Global Industry Groups

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Consumer
Energy, Power & Infrastructure
Healthcare
Industrials
Technology, Media & Telecom

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Chicago
Dallas
Frankfurt
London
Los Angeles
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Milan
Moscow
Mumbai
Munich
New York
Paris
San Francisco
São Paulo
Stockholm
Tokyo
Vienna
Zurich

Advisory Services

Mergers & Acquisitions
Debt Advisory
Special Situations
Joint Ventures & Partnering
Valuations & Opinions

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