



# Leveraged Lion Capital

Fixed Income Research Report

03.23.20

## LLC Portfolio Review

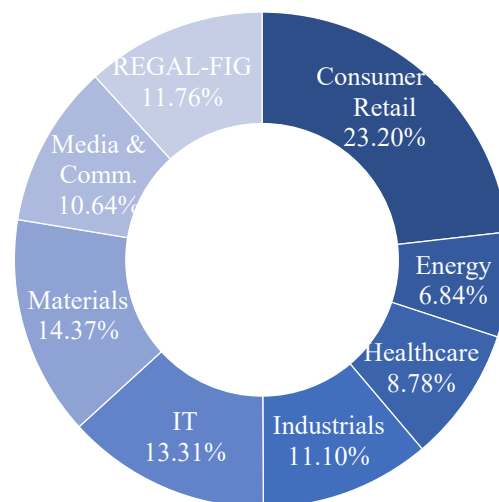
### Portfolio Characteristics

Number of holdings	26
Average price	-
Average YTM	-
Average total leverage	4.17x
Average interest coverage	5.46x

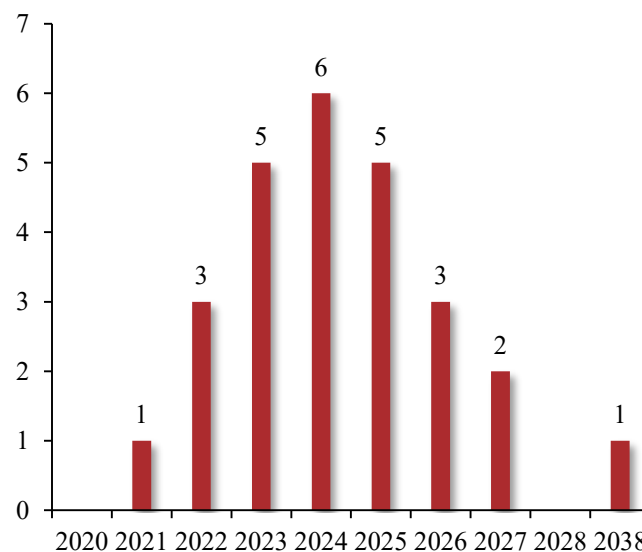
### Credit Quality (# of holdings)

<b>Bank Loans</b>	<b>57.08%</b>
BB+	10.00
BB	15.00
BB-	10.00
B+	20.00
B	35.00
<b>High Yield Corporates</b>	<b>22.60%</b>
BB-	50.00
B+	16.67
B	16.67
B-	16.67
CCC-	0.00
<b>Cash &amp; Cash Equivalents</b>	<b>20.32%</b>

### Sector Allocation (% of total assets)



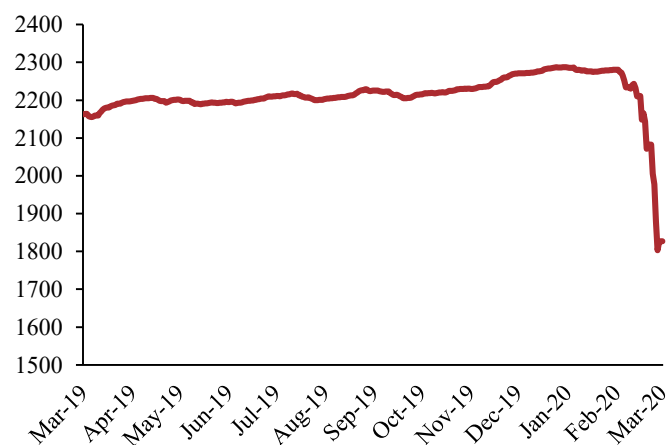
### Maturity Distribution (# of holdings)



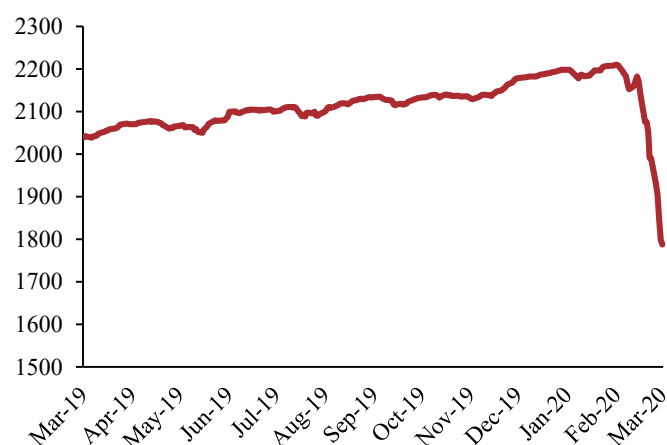
### Loan & HY Bond Market Recap

- The leveraged loan and high yield bond primary markets are effectively shut down with no deals being priced this week
- Debt funds have also seen major outflows this week. Leveraged loans funds experienced its ninth straight week of outflows of \$3.45 bn, HY bond funds saw \$2.91 bn, and IG bond funds saw a record high of \$35.6 bn in outflows
- The market value of both the leveraged loan and the high yield bond spaces have both experienced a 10% decline

### S&P/LSTA US Leveraged Loan 100 Index



### Bloomberg Barclays US Corp HY Index



### Developments in Stimulus

- Democrats blocked the Republican trillion-dollar stimulus plan on account of insufficient provisions with the corporate bailouts and aid to unemployed workers
- The Fed announced that they would extend its assistance for the economy by giving loans to businesses, backstopping funds to municipalities, and purchasing hundreds of billions of dollars in government debt

#### S&P/LSTA U.S. Leveraged Loan 100

#### Bloomberg Barclays U.S. Corp HY

	S&P/LSTA U.S. Leveraged Loan 100	Bloomberg Barclays U.S. Corp HY
1-month	-19.89%	-19.13%
YTD	-19.63%	-18.11%
Index value	1827.02	1787.42
52-week high	2287.33	2210.18
Wtd. avg. yield / YTW	11.99%	-
OAS	-	-

Source: LevFin Insights, S&P Global, Bloomberg

# Leveraged Lion Capital

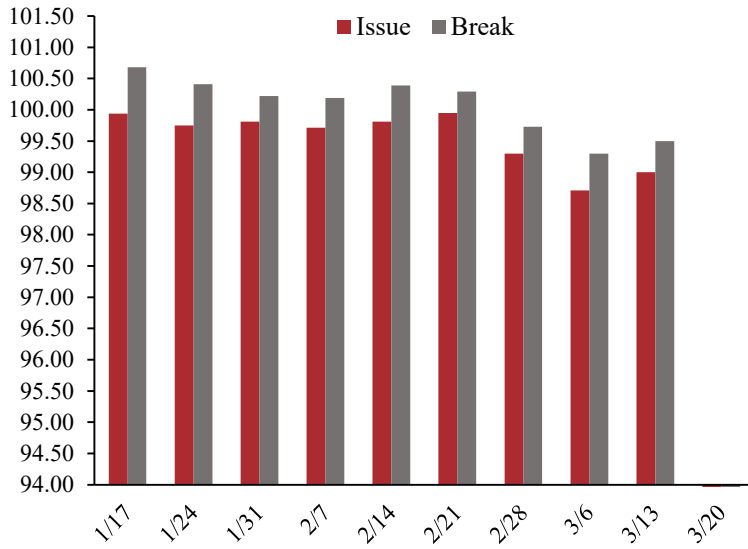
Fixed Income Weekly Report

+1.38%

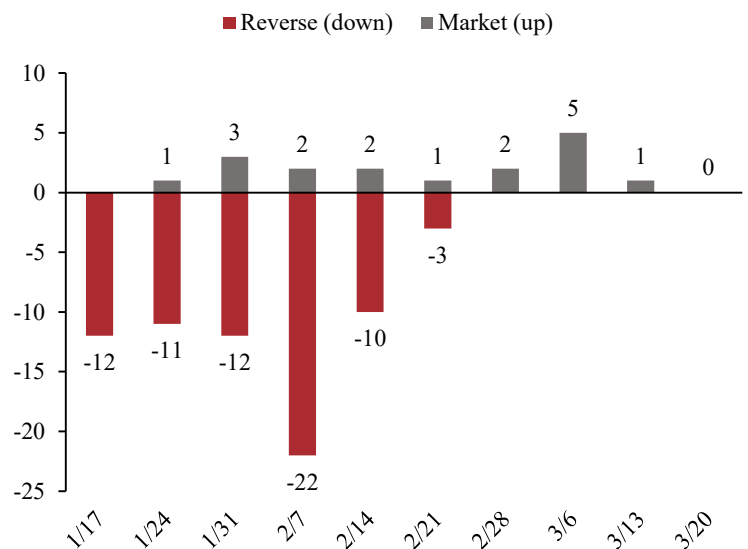
# LLC

March 23rd, 2020

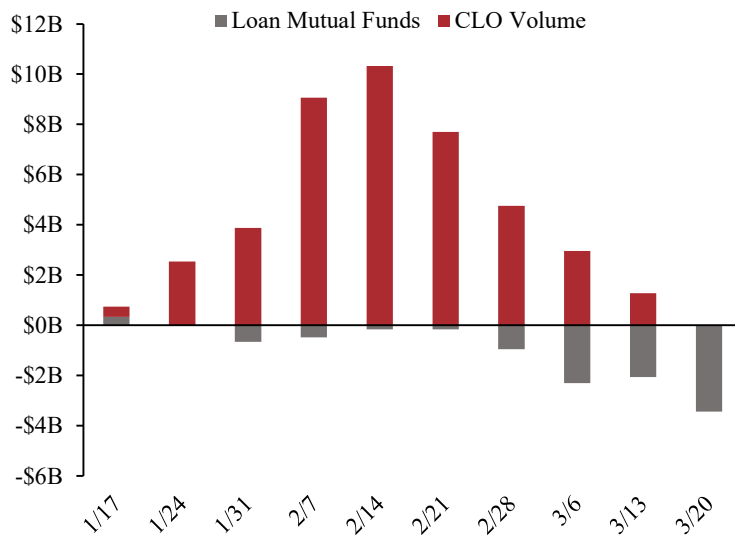
## Prices (first-lien deals)



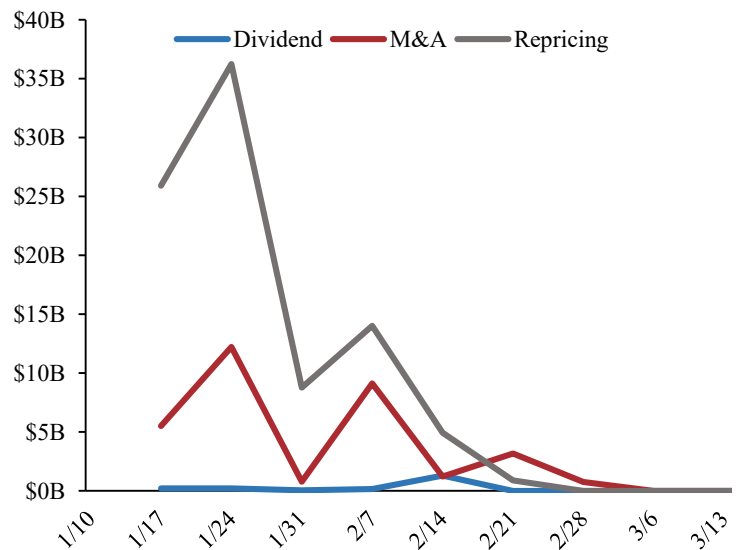
## Flex Activity



## Fund Flows



## Launched Deal Volume by Purpose



Source: LevFin Insights

### Net Launched Volume



### Recent Leveraged Loan Deals

Company	Purpose	Tranche Size	Spread (bps)	OID
Service Logic	M&A	\$140.00 mm	L+425	99.00
Open Lending LLC	Dividend	\$170.00 mm	L+650	96.50
Tosca Services LLC	M&A	\$310.00 mm	L+500	97.00
Genesis HealthCare	M&A	\$350.00 mm	L+500	98.50
Science Applications (SAIC)	M&A	\$600.00 mm	L+225	99.00
Kissner Group Holdings	LBO	\$900.00 mm	L+450	99.00
Sundyne	LBO	\$535.00 mm	L+425	99.00
Duravant LLC	M&A	\$155.00 mm	L+425	99.50

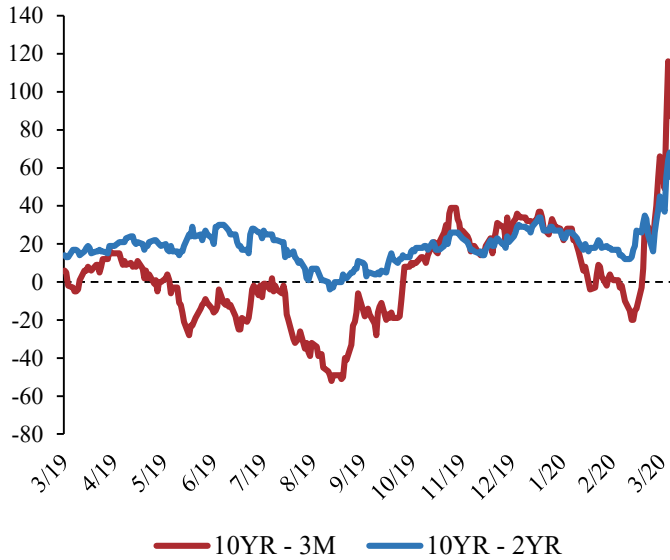
### Recent High-Yield Bond Deals

Company	Purpose	Tranche Size	Coupon	Issue Price
Charter Communications	GCP	\$1,100.00 mm	4.500%	102.50
Charter Communications	GCP	\$1,400.00 mm	4.500%	100.00
Science Applications (SAIC)	M&A	\$400.00 mm	4.875%	100.00
Cleveland-Cliffs Inc	M&A	\$725.00 mm	6.750%	98.783
Graphic Packaging	Refinancing	\$450.00 mm	3.500%	100.00
American Airlines Group Inc	GCP	\$500.00 mm	3.750%	100.00
Zayo Group LLC	LBO	\$1,500.00 mm	4.000%	100.00
Zayo Group LLC	LBO	\$1,080.00 mm	6.125%	100.00

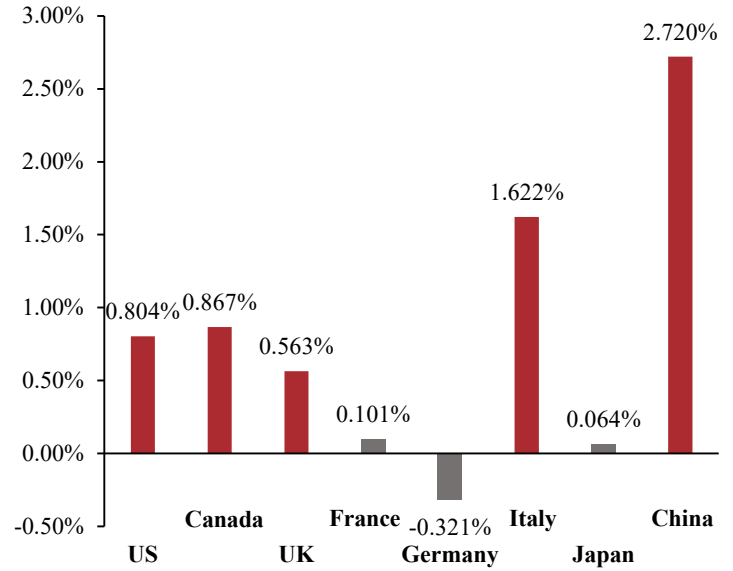
Source: LevFin Insights



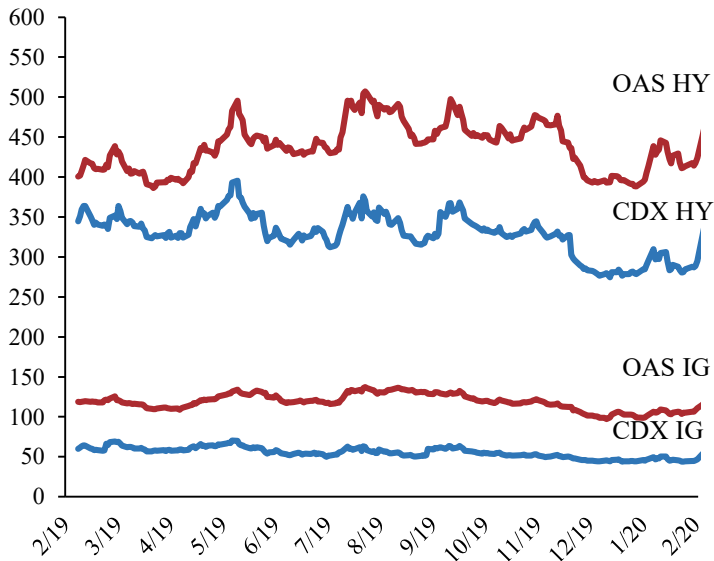
## Treasury Yield Curve Spreads



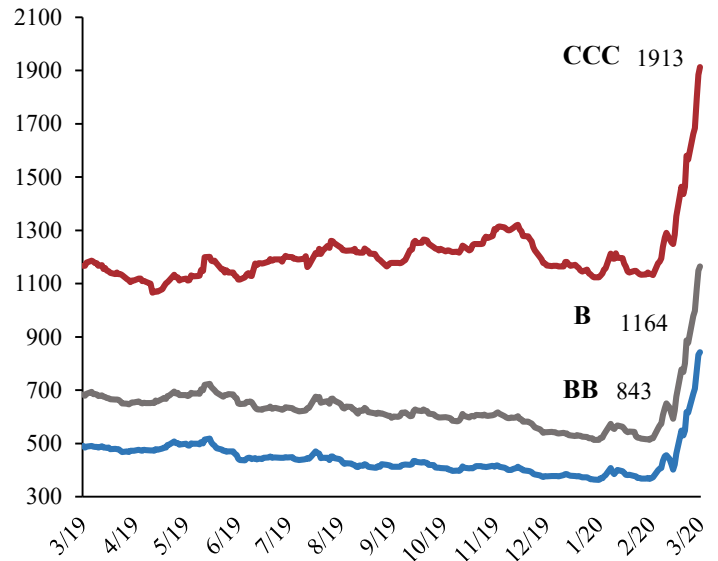
## 10-year Government Bond Yields



## Corporate Credit OAS & CDS Spreads



## ICE BofAML US High-Yield Index YTW



Source: WSJ & St. Louis Fed

## Special Topics & Notable Developments

### “Coronavirus Clauses” Emerge in Loan Documents

- New language is showing up in loan documents that allow issuers to add back lost revenue to the calculation of profits in order to avoid triggering both financial and maintenance covenants
  - In the case of “extraordinary, unusual, infrequently occurring or nonrecurring loss, charge or expense,” most loan documentation already allows for issuers to add back lost profits to not have exceeding debt levels
- The new clause, however, allows borrowers to add back estimates of revenue that was expected to be earned if the extraordinary event had not occurred
- Although the lawyers of issuers are inserting these clauses into the loan agreements, it has been difficult for the issuers to get investors to accept the agreements due to current environment that makes selling debt exceptionally difficult

### Banks May Have to Load Up to \$35 Bn in Debt On to Their Balance Sheets

- Due to the primary market for both leveraged loans and high yield bonds having no activity with investors being risk adverse in this environment, banks may have to come up with up to \$35 bn in order to honor their agreements with private equity firms and highly levered companies to finance deals
- With no clear ending in sight for the turmoil in the primary market, the banks may have to take losses to fulfill their obligations, which is especially worrisome as many companies need to draw on revolvers or credit lines
- In addition to the HY bond and leveraged loan deals that the banks have committed to underwriting, there are also around \$1.2 trillion in untapped revolvers for issuers in the corporate index
- Of that \$1.2 trillion, the 6 big banks have \$352 bn in commitments to the sectors that are the most affected by the virus pandemic and the oil-price war, including leisure, transportation, health care, energy and mining
  - \$800 bn of the total untapped revolvers is from BBB rated firms
- It is important to note that during the financial crisis, that banks alone drew upon about 30% of their available credit during that time businesses were still able to operate

### HY Spreads Widen to 11-Year High

- HY spreads widened by 177 bps this week to a near 11-year high of 904 bps
- An alarming size of the HY and leveraged loan market has crossed into distressed territory
- The total figure of corporate bonds that yield 10% above US Treasuries and leveraged loans trading below 80 cents on the dollar has risen to \$533 bn from \$214 bn in just two weeks
  - Including loans to small to mid-sized companies, the total distressed figure could be over \$1 trillion

Source: Bloomberg, WSJ & LevFin Insights

### Upcoming Economic Calendar

Day	Time	Report	Period	Previous	Forecast
Monday 3/23	8:30 am	Chicago Fed National Activity	February	-0.25	-0.4
Tuesday 3/24	9:45 am	Markit Composite PMI Flash	March	49.6	40.8
Tuesday 3/24	9:45 am	Markit Services PMI Flash	March	49.4	40
Tuesday 3/24	9:45 am	Markit Manufacturing PMI Flash	March	50.7	42
Tuesday 3/24	10:00 am	New Home Sales (MoM)	February	7.9%	-3.7%
Tuesday 3/24	10:00 am	Richmond Fed Manufacturing	March	-2	-16
Wednesday 3/25	8:30 am	Durable Goods Orders (MoM)	February	-0.2%	-0.7%
Wednesday 3/25	8:30 am	Durable Goods Orders ex Def.	February	3.6%	-2.7%
Thursday 3/26	8:30 am	GDP Growth Rate (QoQ) Final	Q4	2.1%	2.1%
Thursday 3/26	8:30 pm	Initial Jobless Claims	3/21	281K	750K
Thursday 3/26	8:30 am	Corporate Profits (QoQ)	Q4	0.6%	-
Friday 3/27	8:30 am	Personal Spending (MoM)	February	0.2%	0.3%
Friday 3/27	8:30 am	Core PCE Price Index (YoY)	February	1.6%	1.8%

### Previous Economic Calendar

Day	Time	Report	Period	Previous	Actual
Monday 3/16	8:30 am	NY Empire State Manufacturing	March	12.90	-21.50
Tuesday 3/17	8:30 am	Retail Sales (MoM)	February	0.6%	-0.5%
Tuesday 3/17	8:30 am	Retail Sales Ex Autos (MoM)	February	0.6%	-0.4%
Tuesday 3/17	9:15 am	Industrial Production (YoY)	February	-1.0%	0.0%
Tuesday 3/17	9:15 am	Manufacturing Production (YoY)	February	-1.0%	-0.4%
Tuesday 3/17	9:15 am	Capacity Utilization	February	76.6%	77.0%
Tuesday 3/17	10:00 am	Business Inventories (MoM)	January	0.0%	-0.1%
Wednesday 3/18	8:30 am	Building Permits (MoM)	February	9.2%	-5.5%
Wednesday 3/18	8:30 am	Housing Starts (MoM)	February	1.4%	-1.5%
Wednesday 3/18	2:00 pm	Fed Interest Rate Decision	-	0 – 0.25%	Canceled
Thursday 3/19	8:30 am	Initial Jobless Claims	3/14	211K	281K
Thursday 3/19	8:30 am	Philadelphia Fed Manufacturing	March	36.7	-12.7
Friday 3/20	10:00 am	Existing Home Sales (MoM)	February	-2.0%	6.5%