

Special Report

High Yield – US Spotlight



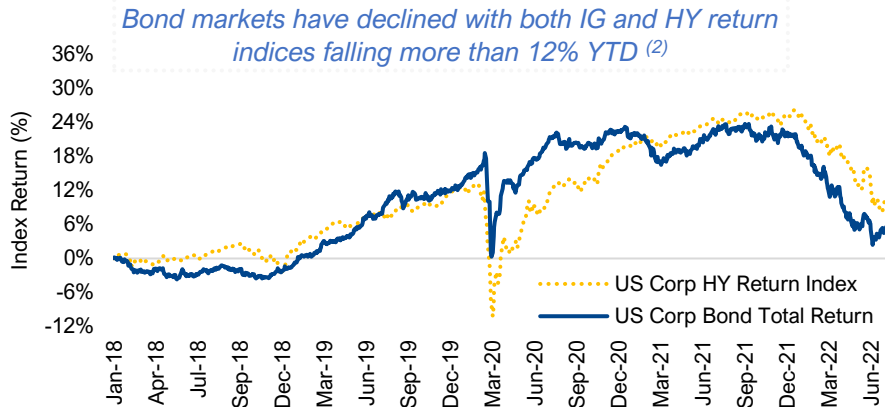
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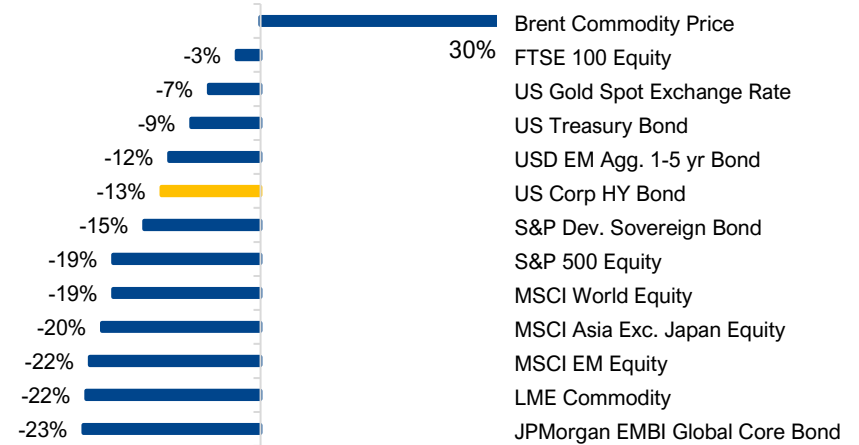
US High Yield Bond Market Performance

Heightened Risk Scenario Drives Down Returns and Widens Spreads

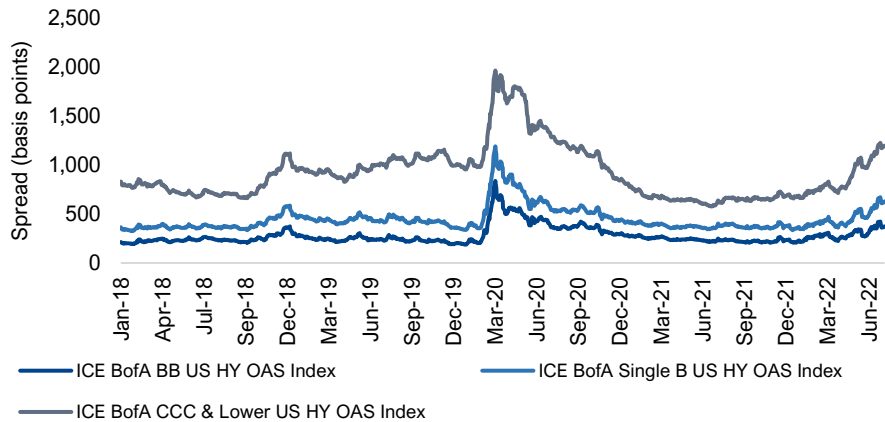
Bond Market Returns Deteriorated in 2022 (1)



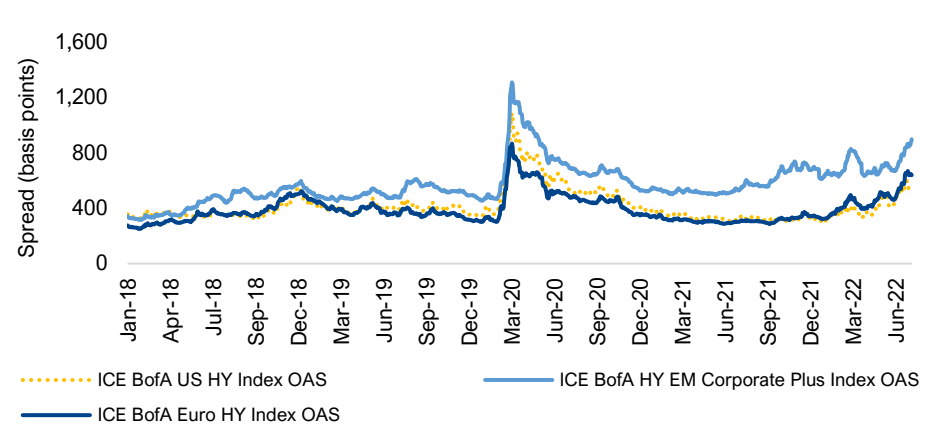
Energy Outperforms Other Asset Classes in 2022 (2)



OAS Spreads Have Widened, Indicate Escalating Risks



Emerging Markets Have Recently Underperformed



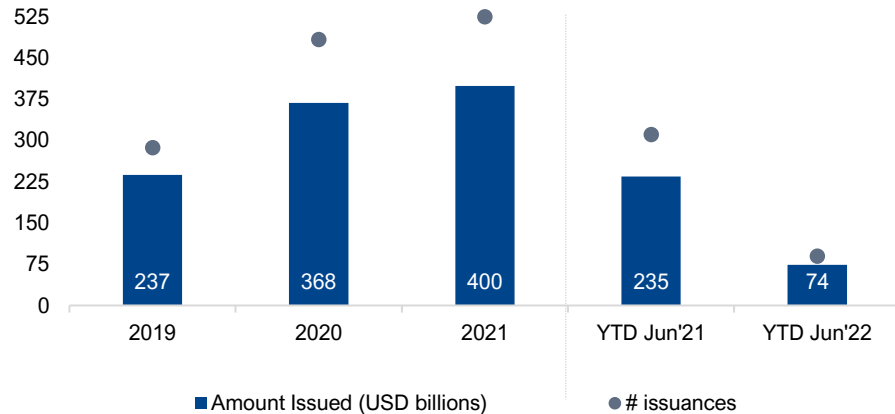
Source: Bloomberg; Federal Reserve Economic Data (FRED) - a database maintained by Federal Reserve Bank of St. Louis. <https://fred.stlouisfed.org/>

(1) HY return calculated on base price of \$1,951.84 as on January 3, 2018. IG return calculated on base price of \$2,042.81 as on January 2, 2018. (2) YTD Returns as of July 15, 2022.

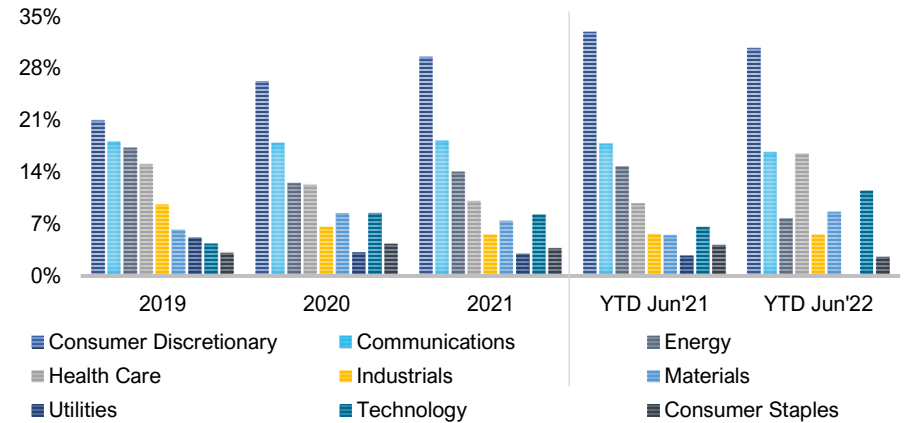
US High Yield Issuance Trend

Issuances Decline as Cost of Borrowings Surges

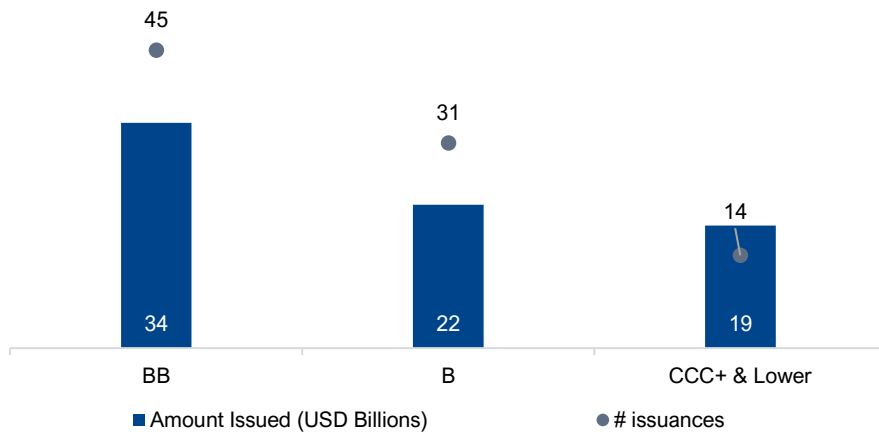
YTD 2022 Issuances Declined Significantly



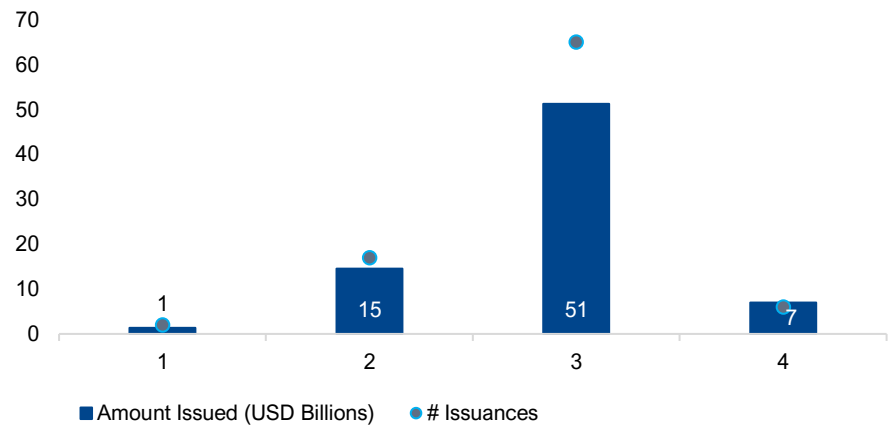
YTD Energy Issuances Slide Markedly Due to Strong Prices⁽¹⁾



US HY Issuance by Rating Category – YTD June 2022 ⁽²⁾



US HY Issuance by Maturity Bucket – YTD June 2022

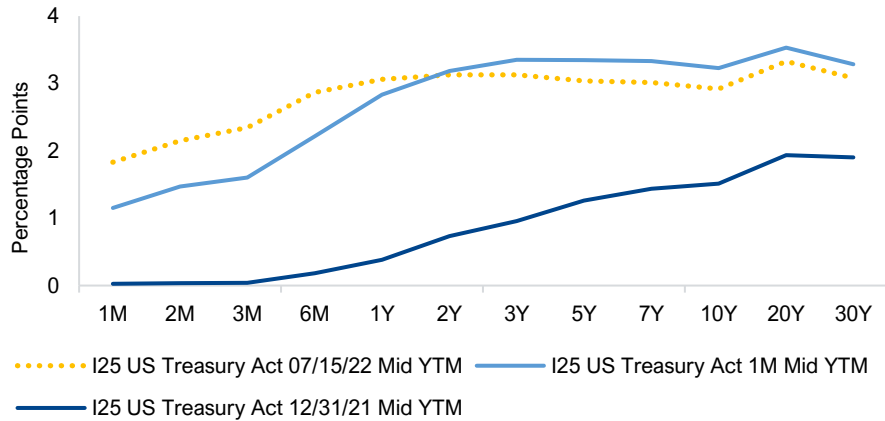


Source: Bloomberg; includes only USD denominated corporate bonds with amount issued above \$100mm, excludes bonds issued across financial sector.
⁽¹⁾ Sector based on Bloomberg's BICS Level 1 Classification; ⁽²⁾ BB includes BB+, BB, and BB-; B includes B+, B, and B-; CCC includes CCC+, CCC, and CCC-.

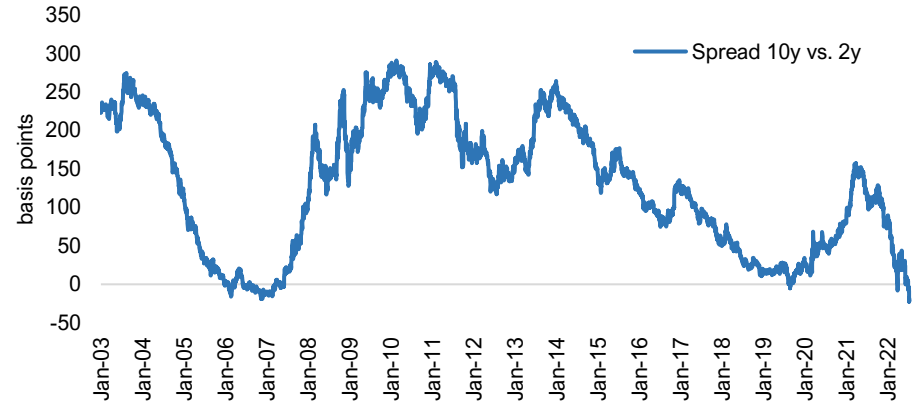
Sovereign Yield Trends

Yield Curve Inversion Highlights Recession Fears

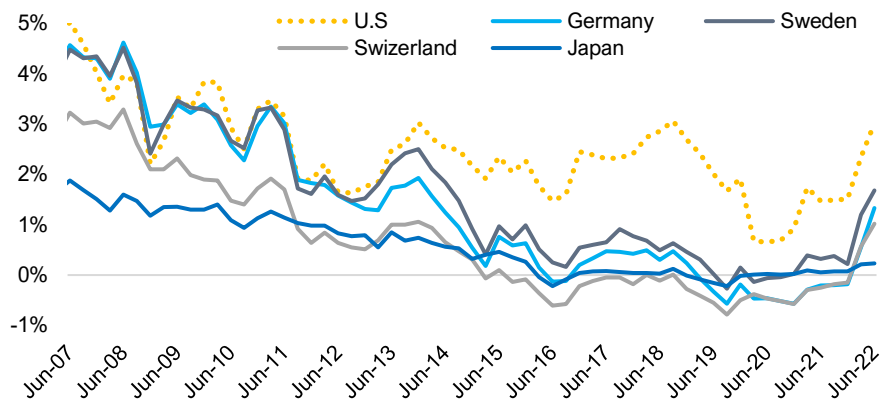
Yield Curve – Flattening to Inverted Now (1)



10Y – 2Y Spread Turns Negative for the First Time Since 2019 (2)



10-Year Sovereign Yields (3)



Yield Curves Indicate Recession in the US in 2023 or 2024

- US 10Y – 2Y government bond spreads entered negative territory for the first time since 2019. Historically, negative spreads have been followed by periods of recession.
- Rising short-term rates might push higher inflows to money market firms in H2 2022.
- Though bankruptcy cases have declined in the post-pandemic period (owing to government aid), the number of corporations filing for Chapter 11 could rise in 2022 as aid packages dry up and weak market conditions impact cash flows. Industrials and Consumer discretionary had the most bankruptcy cases.

Source: Bloomberg; [United States Government Bonds - Yields Curve \(worldgovernmentbonds.com\)](https://www.worldgovernmentbonds.com)

(1) Spot as on July 15, 2022. (2) Includes Daily Prices. (3) Includes Quarterly Prices.

Key US Chapter 11 Bankruptcies Filed in June (1/2)

Creditors Have Pushed for Ch. 11 Filing on Concerns of Default; Few Filings Voluntary to Facilitate Asset Sale

01 Strike LLC (Private)

Industry: Construction

Strike Struck With Bankruptcy; Liquidates Assets as Operations Wind Down

- Strike LLC, a Texas-based company that services pipelines and energy infrastructure, completed its Ch. 11 liquidation plan on June 6. All assets were sold to American Industrial Partners, a private equity firm and the company's largest debtholder, for ~\$118mm, which served as the stalking horse bid.
- Strike had filed for bankruptcy protection in December 2021 after its key projects led to significant cash burn, inducing a liquidity crunch, followed by its inability to refinance its debt due November 2021. It had been struggling since 2018 with operational delays, cost overruns, regulatory delays, and adverse weather events.

02 TPC Group Inc. (Private)

Industry: Chemicals

Bond Price: 54.18

YTM: 48% (Sr. Secured)

Largest Processor of Petrochemical Butane in North America Goes for Chapter 11 Protection

- Houston-based petrochemical producer, TPC Group Inc., filed for voluntary Chapter 11 protection on June 1.
- TPC was embattled by supply-chain disruptions, commodity price hikes, rising energy costs, and significant operational challenges due to the 2021 Winter Storm Uri, and liquidity strain attributable to litigations from an explosion/fire at its plants in Port Neches, Texas, in 2019.
- In April, TPC missed interest payments on its 10.875% 1L notes and 10.5% 1L notes due 2024. TPC, burdened with a significant debt load, seeks to eliminate ~\$0.95bn to \$1.3bn of secured debt.

03 Gold Standard Baking LLC (Private)

Industry: Packaged Food

North America's Largest Croissant and Sweet Baked Goods Manufacturer Goes Bankrupt

- Gold Standard Baking LLC, a leading croissant maker, filed for Ch. 11 in June 2022, citing concerns about high leverage and COVID-19-induced operational challenges, such as worker shortages and rising input costs. However, workforce challenges date back to 2017, when discrepancies in reporting standards led to mass layoffs and difficulty in maintaining a qualified workforce.
- A consortium of family offices (through 37 Baking Holdings LLC), along with the management (including CEO), have agreed to acquire the company's Chicago assets, via a stalking horse bid and DIP financing.

Source: Fitch; Moody's; Reuters

Key US Chapter 11 Bankruptcies Filed in June (2/2)

Creditors Have Pushed for Ch. 11 Filing on Concerns of Default; Few Filings Voluntary to Facilitate Asset Sale

04 Revlon Inc (NYSE: REV)

Industry: Consumer Staples
Bond Price: 7.699
YTM: 198% (Sr. Unsec.)

90-Year Legacy Brand Goes Bankrupt

- Revlon Inc, a leading cosmetics maker known for its nail polishes and lipsticks, filed for Chapter 11 protection on June 15, citing post-pandemic supply-chain issues. Revlon battled higher sourcing costs, working capital challenges, deteriorating earnings, significant debt load, and strong competition from celebrity-backed cosmetic peers, which impacted its cash flows and debt-servicing capacity.
- Revlon has \$3.7bn debt on the balance sheet. Meanwhile, it secured court approval for an additional debt of \$375mm to restructure the business.

05 Stimwave Technologies Inc (Private)

Industry: Medical Devices

Voluntary Ch. 11 Protection Filing by Medical Device Manufacturer Stimwave to Facilitate Asset Sale

- Stimwave Technologies, a Florida-based provider of neurostimulation products for chronic pain, filed for voluntary chapter 11 protection on June 15. The company intends to sell its assets to its existing lender, Kennedy Lewis Management LP, through a stalking horse bid process.
- Kennedy has committed to provide up to \$40mn in DIP financing. The company holds ~\$100mm in assets and ~\$50mm in liabilities.

Source: Fitch; Moody's; Reuters

Buzz in the Market - US Special Situations (1/2)

Distressed Firms Head for Potential Chapter 11 Bankruptcy Protection

01 Endo International Plc (Nasdaq: ENDP)

Industry: Pharmaceutical

Bond Price: 9.036

YTM: 155%

Rating: C (Sr. Unsec.)

Bankruptcy Cloud Looms as Endo Missed Interest Payments

- Endo International, a US-based Ireland-domiciled generics and specialty pharmaceutical company, missed interest payments worth \$38mm due on June 30 on its 6.0% senior unsecured notes due 2028 (\$1.2bn).
- The company was recently challenged by weak earnings following the US FDA's approval of a generic version of its best-selling drug, Vasostrict, significant litigations related to opioid liabilities, and huge debt obligations.
- It is currently in a 30-day deadline to evaluate strategic alternatives, failing which would lead to default. Endo's senior lenders favor bankruptcy and forced the company to skip payments, while lower-ranked debts seek out-of-court restructuring options.

02 Bed Bath & Beyond (Nasdaq: BBBY)

Industry: Retail

Bond Price: 19.704

YTM: 26%

Rating: B- (Sr. Unsec.)

Fortune 500 Company, Bed Bath & Beyond, Looks at Potential Ch. 11 Bankruptcy Protection

- Bed Bath & Beyond, an US merchandise retail chain operating ~1,500 retail stores, is struggling to turn around its business amid challenging market conditions, as seen from its weak bond prices.
- Deteriorating financials, widening losses, inventory mis-management, continued cash burn, retail industry headwinds, reduced consumer spending amid inflation, high future lease obligations, and the CEO's exit have jeopardized its business. Negative cash flows and high leverage at 5.0x estimated in FY 2022.

03 Ahern Rentals (Private)

Industry: Industrials

Bond Price: 77.492

YTM: 43%

Rating: CC- (2L Sec.)

Largest Independently Owned Equipment Rental Company Commences DDE

- Las Vegas-based rental equipment provider, Ahern Rentals, launched a distressed debt exchange on June 30 for its 7.375% second-lien notes due 2023 (\$550mm), amid liquidity concerns. Participating noteholders will receive a new second-priority senior secured debt in the exchange deal.
- Also, previous attempts to sell these bonds failed to materialize as investors demanded higher interest and protection.

Source: Fitch; Moody's; Reuters

Buzz in the Market - US Special Situations (2/2)

Distressed Firms Head for Potential Chapter 11 Bankruptcy Protection

04 **Diamond Sports Group (Private)**

Industry: Media
Entertainment
Bond Price: 10.137
YTM: 86%
Rating: CC+ (Sr. Unsec.)

Leading Regional Broadcaster of NBA, MLB, and NHL games Under Distress

- Diamonds Sports Group, a sports game broadcaster owning and operating 21 RSNs in the US, recently executed a distressed exchange agreement. A post-transaction leverage of 15-20x is expected in 2023. The company believes it can avoid bankruptcy after the restructuring deal by transforming its 14 RSNs from the legacy MVPD / vMVPD bundles to DTC, OTT streaming service.
- The company has been challenged by various headwinds, including industry-wide cord-cutting trends, non-renewal of distribution contracts, and significant debt, which has resulted in operating losses, high leverage, weak liquidity, and increased risk of defaults.

05 **Service King Collision Repair Centers (Private)**

Industry: Automotive

Leading Collision and Auto Body Repair Company Gets Capital Injection

- On May 31, Service King Collision Repair Centers, an automotive repair shop operator, initiated a recapitalization transaction to strengthen its financial position and reduce its debt load by over \$500mm. The Company would receive \$200mm in new capital and the existing debt maturities will be extended to June 2027.
- Service King has grappled with rising costs and wages, and labor shortages, along with high leverage and weak operating performance, causing interest payment defaults on its 7.875% unsecured notes due 2022.

06 **Mallinckrodt (OTC: MNKPF)**

Industry:
Pharmaceuticals
Bond Price: 73.487
YTM: 24%
Rating: CCC (2L Sec.)

Bankrupt Mallinckrodt Lowers Exit-Financing Ask

- Mallinckrodt Pharmaceuticals Plc, a US-based Ireland-domiciled manufacturer of specialty drugs, seeks to raise \$650mm in exit financing. Its earlier ask for \$900mm lacked any takers. The company, which filed for bankruptcy protection in 2020, awaits exit financing to reorganize its capital structure approved in February 2022.
- Amid the pandemic crisis, the company went bankrupt due to significant US opioid litigations and a court tussle over Medicaid rebate penalties for Acthar, its top-selling drug.

Source: Fitch; Moody's; Reuters



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