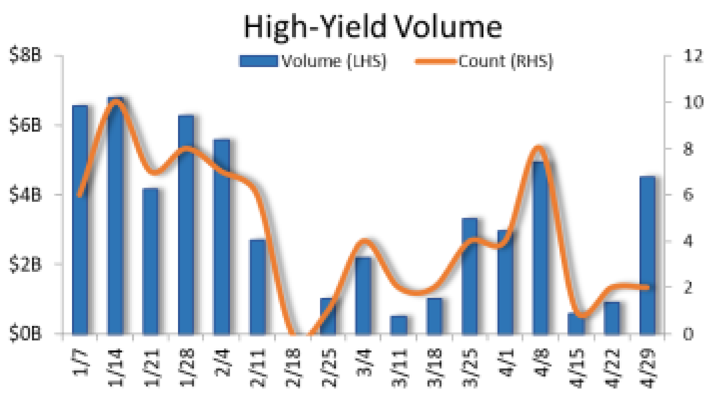
Research Date: May 5, 2022

U.S. High Yield April Wrap-Up: Negative Sentiment Continues

According to our sister company, LevFin Insights, "negative sentiment continued to prevail in U.S. high-yield," with $10.95 billion of supply in April. In the primary, Oldcastle BuildingEnvelope came to market with an offering of $985 million of secured and unsecured bonds backing its LBO. The covenant terms were initially extremely aggressive, but heavy changes were made during marketing. Outside of the primary, there was plenty to digest, including Incora's reported priming recap, Musk's bid for Twitter, and Mattel's rumored LBO talks. We also published our Q1 TrendLines report, and surveyed 30 deals where there had been successful buy-side pushback on covenant terms.



Source: LevFin Insights

The Primary Market

Oldcastle BuildingEnvelope came to market with an offering of $985 million of secured and unsecured bonds in connection with its LBO by KPS Capital Partners. The preliminary terms included, among other things, an extremely aggressive formulation of the Pick Your Poison concept, a broken build-up basket, numerous material exclusions to the ratio tests, off-market "no worse" tests, and a disregarded amount concept. Notably, the preliminary terms provided for at least $1.695 billion of day-one Unrestricted Subsidiary investments capacity, a large part of which was due to the Pick Your Poison concept. On April 12, we issued a market alert describing the Pick Your Poison concept in the Oldcastle BuildingEnvelope bonds, noting that this was the third issuer we had seen come to market with this expanded version of the concept. On April 14, a supplement to the preliminary terms was circulated by the company reallocating the entire $400 million of secured notes to the term loan, and eliminating a number of aggressive features (including the Pick Your Poison concept).

In April, we also covered issuances by GISI, Hess Midstream Operations, Burford, Hilcorp Energy, Holly Energy Partners, Earthstone Energy, Vermilion, VistaJet, Carvana, Bioventus, and Mineral Resources.

M&A

Musk offered to buy Twitter. In an April 14, 2022 13D filing with the SEC, Elon Musk disclosed that he had made an offer to acquire all of the outstanding common stock of Twitter for cash at $54.20 per share. Following this disclosure, we examined whether the acquisition would trigger a 101 put right for holders of Twitter's non-convertible

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bonds, and briefly reviewed the redemption provisions for those bonds. We also looked at how much secured debt Twitter could incur to finance a takeover of the company under Twitter's non-convertible bonds. Finally, we discussed the debt commitment letter disclosure, and whether Twitter's outstanding non-convertible bonds might get redeemed with a make-whole premium.

There were rumors of a Mattel LBO. The Wall Street Journal reported that, according to people familiar with the matter, Mattel had "held talks with private-equity firms about a potential sale." In light of this, we examined whether an LBO would trigger a 101 put right for holders of Mattel's guaranteed bonds, and whether the equity claw might be available. We also looked at whether Mattel would have sufficient Restricted Payments capacity under the guaranteed bonds to upstream cash, or provide credit support for acquisition financing debt, in connection with a typical LBO.

JetBlue submitted a proposal to acquire Spirit Airlines. JetBlue disclosed that it had submitted a proposal to acquire Spirit Airlines for $33 per share in cash, implying a fully diluted equity value of $3.6 billion. Spirit had previously agreed to merge with Frontier Airlines. In light of this development, we examined whether the Acquisition would trigger a Change of Control under Spirit's outstanding secured bonds.

Conduent to separate its transportation business. Conduent announced that it was pursuing a separation of its Transportation business through either a sale or a spin-off. Following that announcement, we examined how an Asset Sale or spin-off of the Transportation business would implicate the covenants for Conduent's outstanding bonds.

A consortium offered to buy Cumulus Media. Reports indicated that a consortium led by radio industry veteran Jeff Warshaw had offered to buy Cumulus Media for $1.2 billion, including debt. Subscribers asked us how this transaction would affect the company's outstanding bonds. Accordingly, we examined how the potential acquisition might implicate the Change of Control covenant and redemption provisions for those bonds.

EQT AB explored a sale of Wash Multifamily Laundry Systems. Bloomberg reported that EQT AB was exploring a sale of WASH Multifamily Laundry Systems. In light of this news, we examined whether a sale would trigger the 101 Change of Control put under WASH Multifamily Laundry System's bonds, and reviewed the redemption provisions for those bonds.

Other Special Reports

How to prevent the next Incora-like transaction. On March 29, Incora announced that it had completed a "comprehensive recapitalization." According to reports, the transaction included $250 million of new money that was provided by a group of bondholders led by Silver Point Capital. In exchange for that new money, Incora reportedly let the Silver Point group jump ahead of other creditors in the ranking hierarchy. That was reportedly done by first stripping the collateral backing existing first lien bonds, and then re-pledging that collateral to secure the new bonds to be given to the Silver Point group on a first lien basis. We have not seen definitive documentation confirming these reports. However, we did take a take a look at some provisions that might have prevented the reported Incora restructuring, had they been included in the indenture for the company's 9% Senior Secured Notes due 2026.

Successful buy-side pushback. There is speculation that recent market conditions may give bond buyers more leverage to negotiate covenants in the near term. According to Matt Fuller of LevFin Insights, "Certainly there is a view that, as the high-yield market deteriorates on inflationary pressures and global financial weakness amid war in Ukraine … the buy-side will garner more leverage on deal flow. However, this early in the inflection, the higher yields have been enticing and outflows from the asset class moderating." In April, we did a survey of 30 deals where changes were made during marketing, and identified the eight most common sorts of changes.

Envision Healthcare defaults. On April 1, Envision Healthcare delivered a notice of default to its lenders. That notice stated that the company was in default under its credit agreement because, among other things, it had failed to timely provide its fiscal year 2021 financials. This development led to questions on the impact of this default on the company's outstanding 8.75% Senior Notes due 2026. In light of this, we took a look and briefly assessed the implications of the delay in reporting under the covenants of those bonds.

Would Mattel's bond guarantees fall away? Mattel currently has three series of unsecured bonds outstanding that benefit from subsidiary guarantees, and three series of unsecured bonds outstanding that do not benefit from any guarantees. In March, we discussed whether the bond guarantees would fall away if Mattel or any of its debt were to be upgraded to investment grade status. In April, we discussed whether the bond guarantees would fall away if the credit agreement guarantees were released.

Loans vs. Bonds. Indentures and credit agreements contain provisions that address similar concepts, sometimes in very different ways. In our Loans vs. Bonds series, we compare and contrast how some of these concepts are treated differently in high yield bonds and leveraged loans. In April, we compared how certain select provisions in recent leveraged loans compare against the corresponding provisions of parity lien bonds issued as part of the same financing transaction in the U.S.

Q1 2022 Trends. Our High Yield TrendLines series presents a number of key data points on important features and trends in U.S. high yield bond covenants. In April, we published key data points for Q1. Notably, we started including a number of new data points that were not included in prior installments, including data points related to "Pick Your Poison" provisions, day one dividend capacity, day one Unrestricted Subsidiary investment capacity, and the $1 of Ratio debt condition to using the Restricted Payments build-up basket.

Secondary Market

We also added to our library of reports on bonds trading in the secondary market. See reports on CommScope, Gulfport Energy, Delek, American Bath Group, Realogy, Venator, Carvana, Victoria's Secret, and Switch.

— *Covenant Review*

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