



# Opportunistic Capital – Addressing Market Dislocation

DB Strategic Investment Forum

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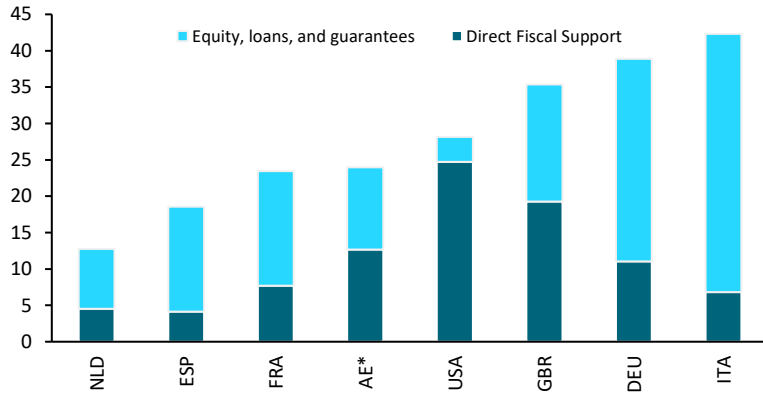
15 September 2021



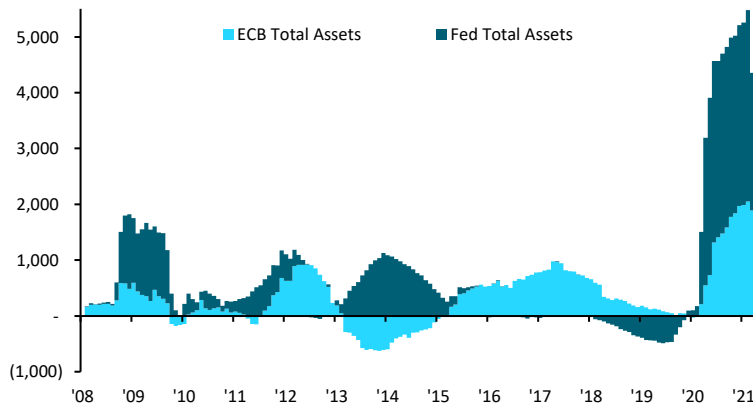
# Recovery in prices has been dramatic...

## Largest fiscal expansion since World War II<sup>1</sup>

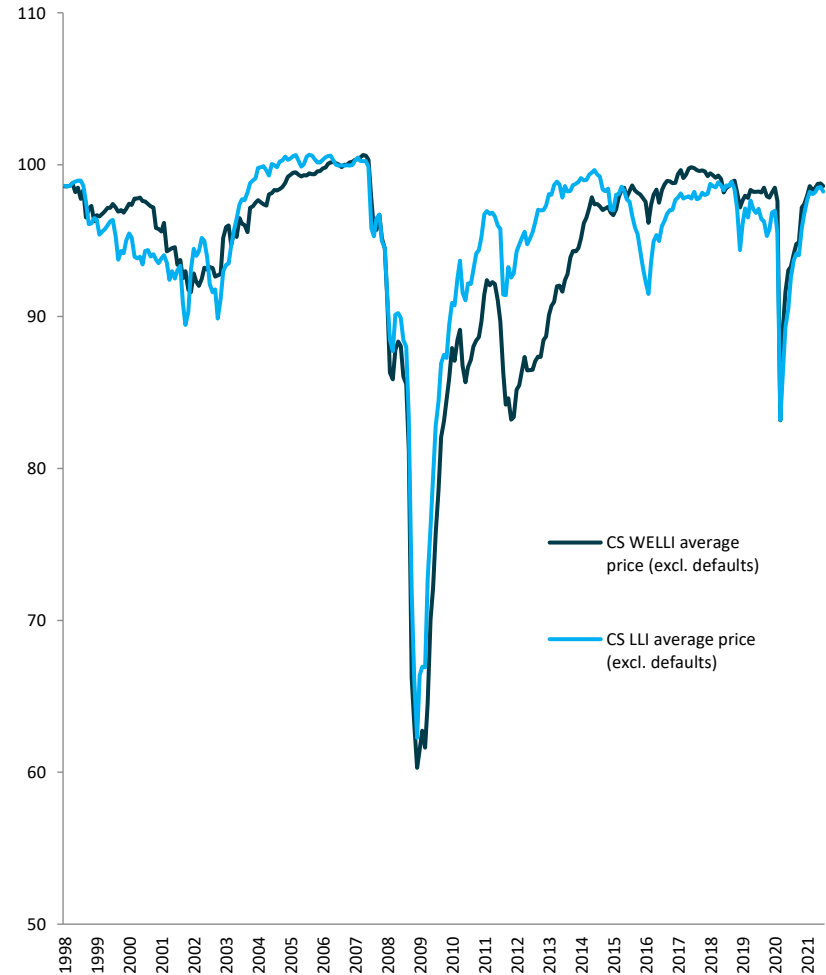
Covid-19 support measures as a % of GDP



## Quantitative Easing dwarfs that of 2008 GFC<sup>2</sup>



## Indices traded back up to par following unprecedented stimulus support<sup>3</sup>



Source:  
 1: IMF Fiscal Monitor January 2021 update. \*AE= advanced economies. Includes estimates from latest \$1.9tr US fiscal package. Includes additional fiscal spending announced in UK Spring Budget 2021.  
 2: Bloomberg data, June 2021  
 3: Source Credit Suisse Western European Leveraged Loan Index (non-USD) and CS Leveraged Loan Index (LLI), average price excluding defaults, data as at 31 July 2021.

# Crowded “Recovery Trades” offer limited risk-adjusted return

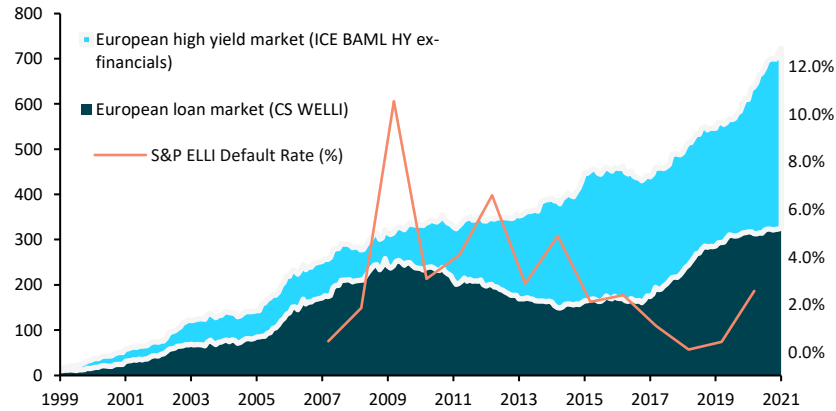
The post-Covid rally has pushed trading levels of Covid-affected credits to above 90c, despite EBITDA remaining negative

Company	Country	Industry Group	2019 EBITDA	LTM EBITDA	Price (% of par)	Spread
Credit A	Europe	Consumer & Retail	~ €200m	~ (€90m)	90.00	> 700 bps
Credit B	Europe	Travel & Leisure	~ €150m	~ (€0m)	91.00	> 650 bps
Credit C	Europe	Travel & Leisure	~ €200m	~ (€70m)	91.25	> 500 bps
Credit D	Global	Travel & Leisure	~ €500m	~ (€80m)	96.75	> 350 bps
Credit E	Global	Consumer & Retail	~ €900m	~ (€400m)	98.50	> 250 bps
Credit F	Global	Travel & Leisure	~ €200m	~ (€35m)	96.50	> 500 bps
Credit G	Europe	Real Estate	~ €75m	~ (€10m)	102.50	> 400 bps
Credit H	Northern Europe	Travel & Leisure	~ €120m	~ (€60m)	95.75	> 650 bps

# Deteriorating market fundamentals

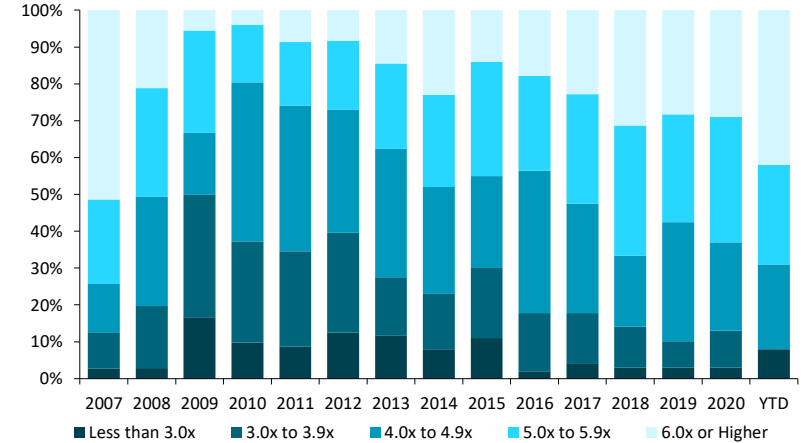
## European HY market has tripled since 2007<sup>1</sup>

Europe: Size of high yield and loan markets; Index value (€ billion)

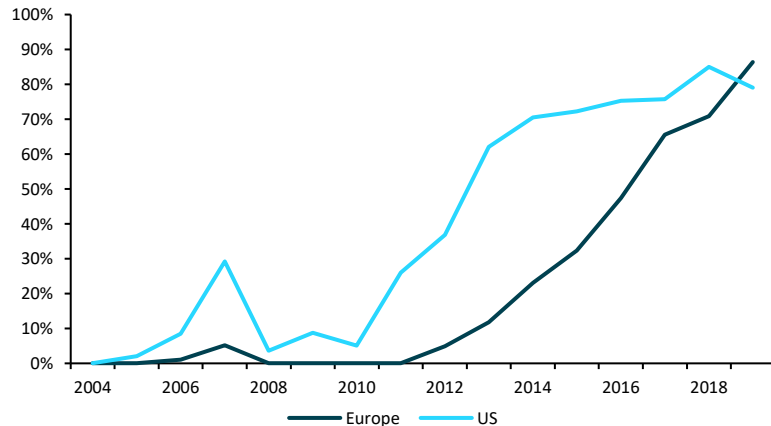


## LBO acquisition multiples have grown on lower quality EBITDA<sup>2</sup>

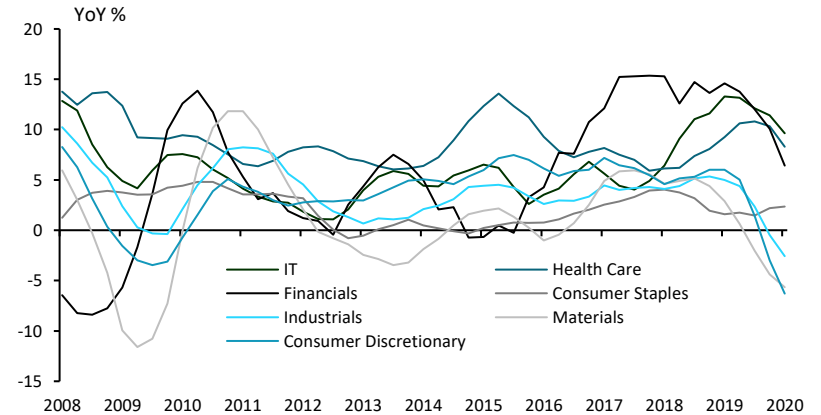
Distribution of Deals by Pro Forma Debt/EBITDA Levels



## Covenant lite penetration is at record highs<sup>2</sup>



## Broad-based fall in revenues across sectors



Source: 1) Credit Suisse, Bank of America Merrill Lynch. Data to 31 March 2021. Index does not include all issuers in the market. CS WELLI is the Credit Suisse Western European Leveraged Loan Index. Further detail and definition of the indices are provided in the index disclaimer in the Notes section. 2) S&P LCD, data to 31 March 2021

# Current themes and opportunities

## Market catalysts

### Persistent Over-Leverage

- Global need for companies to de-lever from Covid-19 overhang

### Fading Government Covid-19 Support Programmes

- Gradual retraction of largest governmental stimulus packages seen since WWII

### Unsustainable Purchase Multiples

- M&A activity has ramped up following initial Covid-19 impact, supported by rising leverage

### Structural Near-Term Changes induced by Covid-19

- Strong sector bifurcation has led to a division in the market between winners and losers
- Accelerated rates of automation and transition to internet-based economy has left companies under-financed
- Rapid increase in raw materials prices and shipping costs
- Disruptions to supply chains worldwide

## Investment opportunities / Current deal pipeline

### Special Situations

- Over-levered corporates requiring a combination of operational and financial restructuring, together with a new-money need
- Financing to support a private equity sponsor acquiring assets out of administration
- Rescue financing opportunities
- Minority equity investments alongside private equity sponsors in need of additional funding

### Distressed Situations

- Stressed / distressed opportunities created by impact from Covid-19 or disruptive technologies, often controlled by incumbent/existing lenders (limited liquidity, restrictive transfer language)
- Over-levered businesses where sponsor is handing over the keys

### Hard Assets

- Businesses with hard assets (such as property) being sold or financed at a significant discount to intrinsic value (e.g. real estate private equity, development loans)

### Bank de-leveraging

- Banks becoming motivated sellers of assets in their corporate and real-estate portfolios (whether RCFs or Term Loans)

### Growth capital / companies in misunderstood sectors

- Financing of acquisitions in Covid-impacted sectors, with or without refinancing of existing debt
- Financing of companies operating in niche industries

Recovery Fund is uniquely positioned to leverage the broader ICG platform, and to source and execute transactions where supply-demand imbalances create a dislocation between risk and return

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