

# NACM Connect Chicago Meeting

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*April 23, 2026*



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# A&M Presenters

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# Discussion Topics

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- Market Views
- Macroeconomic & Credit Trends
- Iran Conflict
- Debt / Restructuring Outlook
- Private Credit
- Liability Management Exercises

# Market Views

# Market Views

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*“We are navigating a highly uncertain outlook, and while inflation has eased, it remains too high. At the same time, risks to the labor market have increased, and we must be attentive to the possibility that economic activity could slow more than expected”*

- Jerome Powell, Fed Chair (3/18/26)

*“We are closely monitoring vulnerabilities in nonbank financial institutions, including private credit, where leverage, opacity, and liquidity mismatches could amplify stress during a downturn”*

- Michael Barr, Fed Vice Chair Supervision (3/30/26)

*“When the credit cycle turns, I expect losses in private credit to be higher than people expect, particularly given the lack of transparency and the growing size of the market”*

- Jamie Dimon, CEO JP Morgan, (4/3/26)

*“Recent payroll data suggest that labor market momentum has slowed, and it is not yet clear whether hiring will remain resilient in the face of tightening financial conditions”*

- Lorie Logan, Dallas Fed President (4/6/26)

*“I don't think we're going back to the pre-war prices for the foreseeable future. Certainly won't be this year, won't even be next year. Might not be ever”*

- Mark Zandi, Moody's Chief Economist (4/6/26)

# Market Views

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*“Even before the conflict, I thought recession risks were on the rise. Recession risks are very high — and unless the hostilities are coming to an end now, the president figures out a way to stand down, declare victory and move on, and Iranians follow suit — I think recession is more than likely by the second half of the year”*

- Mark Zandi, Moody’s Chief Economist (3/25/26)

*“I have been expecting core PCE inflation to begin to edge toward 2% in the second half of 2026. But geopolitical developments have clouded that forecast, and I now see more risk of persistent above-target inflation throughout 2026”*

- Alberto Musalem, St. Louis Fed President (4/1/26)

*“I think there's much less inflation risk than Fed officials think, and more risk to the labor market to the downside than they stated”*

- Luke Tilley, Chief Economist Wilmington Trust (3/25/26)

*“Even though headline inflation has slowed, we see persistent pressures in services and wages. Unexpected shocks could reverse progress and force policymakers to tighten further than markets anticipate”*

- John Williams, NY Fed President (10/3/25)

*On \$39T in government debt... “The level of the debt is not unsustainable, but the path is not sustainable. It will not end well if we don't do something fairly soon”*

- Jerome Powell, Fed Chair (3/30/26)

# Macroeconomic Overview

# Multiple Geopolitical and Macro Headwinds Creating Risk (Including Potential Contagion Impacts)

## Americas

## Europe

## AMESA

## APAC

### Macroeconomic Stress

- Will the Fed lower rates? Could they now raise rates?
- Potential for trade war
- High financing costs and input **price pressures** persist
- Commercial real estate distress lingers
- **Private credit and AI**

- Labor markets tight, public debt has risen, and productivity is low in many countries
- European Central Bank easing policy with multiple rate cuts – though signaled that likely to hold steady for next ~ year
- Vulnerable to trade pressures

- Türkiye saw multi-year low inflation of 30.9% after pivoting away from its unconventional monetary policy (bumped interest rates to 50%)
- Egypt devalued currency and cut subsidies to combat foreign currency shortage and soaring inflation

- China's economic data is a mixed bag, Japan's policy interest rate of 0.75% and China's 5-year prime rate at 3.5%. Japan is raising rates while China is easing
- Trade war with US will significantly impact China's recently recovered GDP

### Geopolitical Volatility

- Political polarization to lead to market volatility and policy uncertainty (delays CAPEX)
- **Likely protectionist policies (tariffs)** to further fan inflation as countries hold elections
- U.S. deportations could further pressure costs

- **Russia tensions** – potential for further spillover impacts from conflicts in Ukraine and Gaza and Iran
- EU disciplined France, Belgium, Italy, Hungary, Malta, Poland and Slovakia for running excess budget deficits

- **Conflicts (Iran / Israel / Gaza / Red Sea / Hormuz)** continue to send shocks and disrupt supply chains
- New governments in Egypt, South Africa, and Türkiye confronting inflation and structural challenges

- Recent election outcomes across the sector underline shifting economic, trade and defense policies
- Ongoing **South China Sea confrontation** weighs on business confidence CAPEX

### What Does The Future Hold?

- U.S. default rate peaked in Q2, driven by consumer-facing sectors
- Policy uncertainty in Mexico, Canada will subdue investment and CAPEX
- **Cuba and Venezuela?**

- Elevated risk of low growth from a myriad of headwinds
- Few governments have sufficient fiscal space for counter-cyclical support for their economies

- Rising defaults in Egypt amid poor economy, high inflation, tight monetary policy, and depreciating currency
- High borrowing costs remain a key risk, with potential for liquidity shortfalls

- Lenders could turn cautious, cut credit lines for weaker borrowers as credit stresses, recessionary obstacles mount
- Trump tariffs a lose-lose for most of Asia, especially China and emerging economies

# Consumers Suffering From Economic Pressures

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- **Prices stretched as inflation continues to linger**
  - **Overall US consumer price inflation is ~2.4% year-over-year**, according to the latest CPI data for February 2026
  - **Food prices (all food) increased ~3.1% YOY in Feb 2026**, with grocery (food-at-home) up ~2.4% YOY and food-away-from-home (restaurant menu) ~3.9% YOY
  - **Restaurant menu prices** have been rising, with overall menu inflation ~3.9% over the past year
- **Food cost pressures and consumer strain**
  - A recent survey finds **~50% of Americans say it's hard to afford food now**, with restaurant costs up ~3.9% and grocery prices up ~2.4% YOY, pushing many households to cut back
  - Grocery and food-and-beverage store prices remain elevated in CPI data, with year-over-year increases around mid-single digits for many categories
  - Wholesale food prices jumped in early 2026 after declines, pointing to renewed cost pressures upstream of retail food

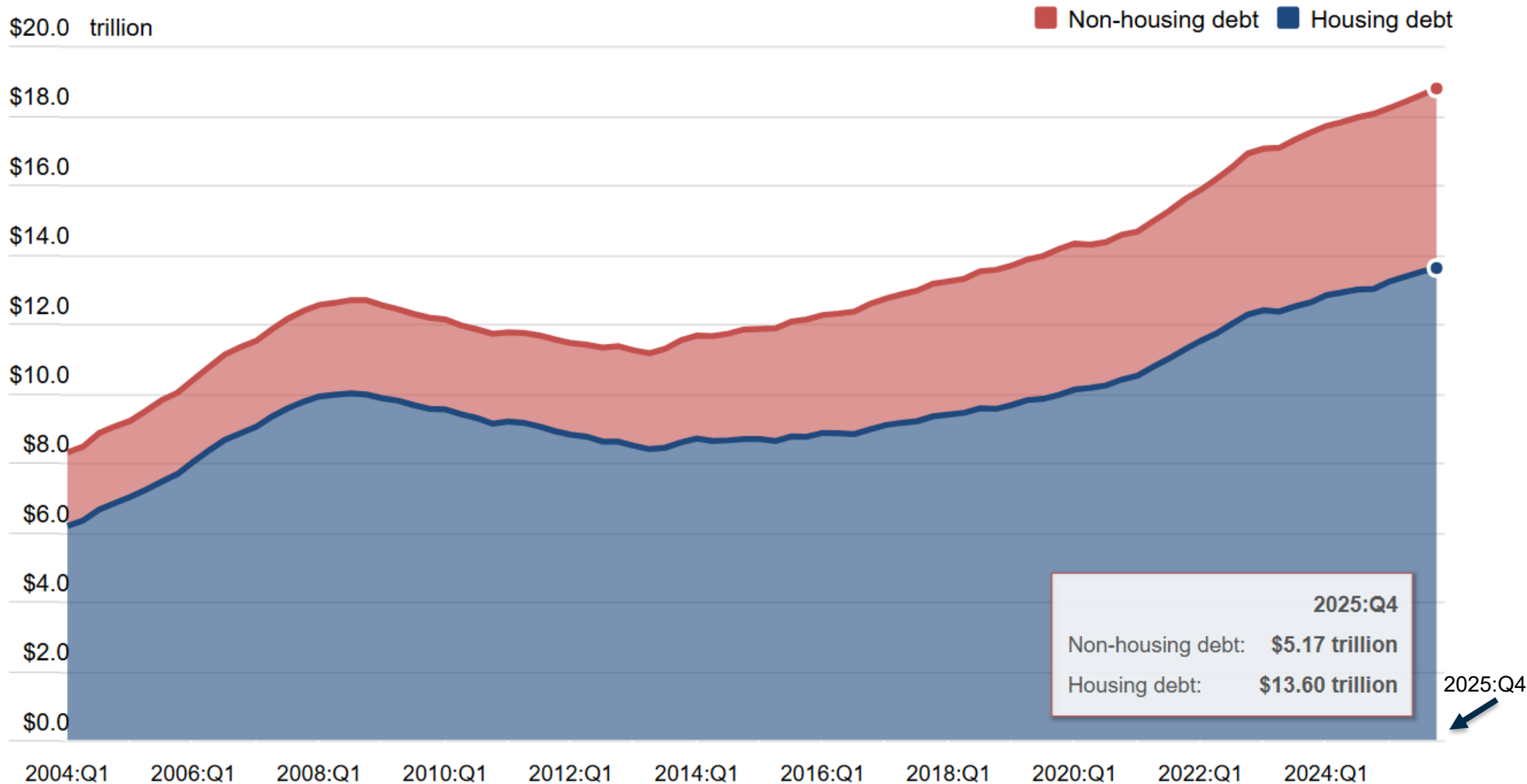
# Consumers Suffering From Economic Pressures (Cont)

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- **Americans' collective debt** ↑ to ~\$18.8T in Q2
  - **Total US credit card balances reached approximately \$1.28 trillion as of Q4 2025**, the highest on record
  - A Federal Reserve Bank of New York report confirms revolving consumer credit has grown, with credit card balances rising sequentially
  - **About 61% of cardholders carrying balances have been in debt for at least a year**, up from ~53% in late-2024
- **Savings rate and disposable income caution**
  - The **personal savings rate dropped to around ~4% in February 2026**, down from ~4.5% earlier, as consumer spending outpaced income growth
  - Real disposable personal income declined slightly while spending increased, suggesting households are dipping into savings or incurring debt to cover costs
  - Usage of “buy now, pay later” plans continues to increase and is being monitored as a **growing but still small part** of consumer credit that may signal strain among lower-income borrowers
  - **Consumer financial stress persists**, showing belt-tightening behavior and increased reliance on credit

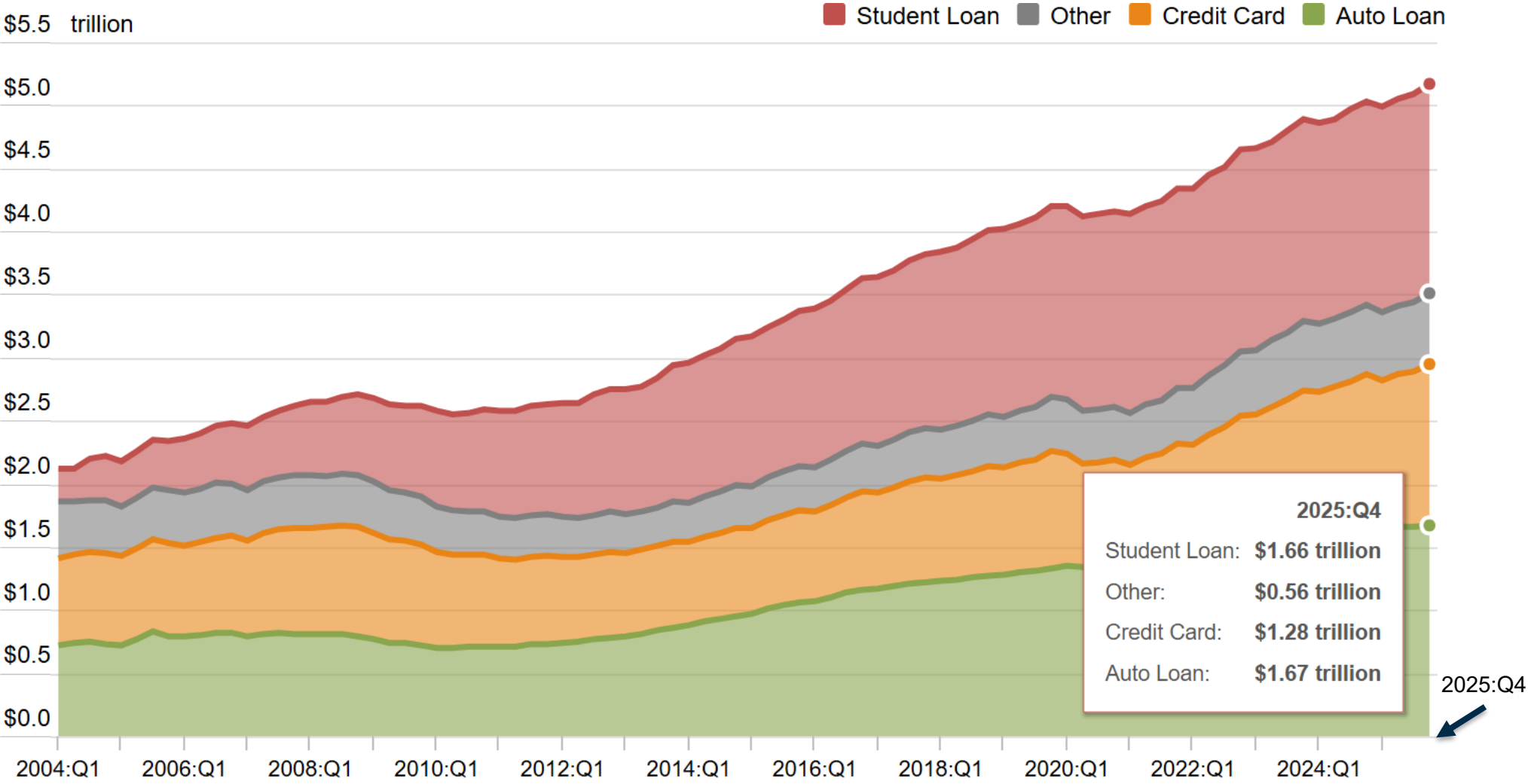
# Household Debt at All Time Highs... And Climbing

- Total household debt up \$191B in Q4 (1% increase) to reach **\$18.8T**
- Mortgage balances up \$98B to \$13.17T, auto loans up \$12B to ~\$1.7T



# Non-Housing Debt Balances Contributing To The Climb

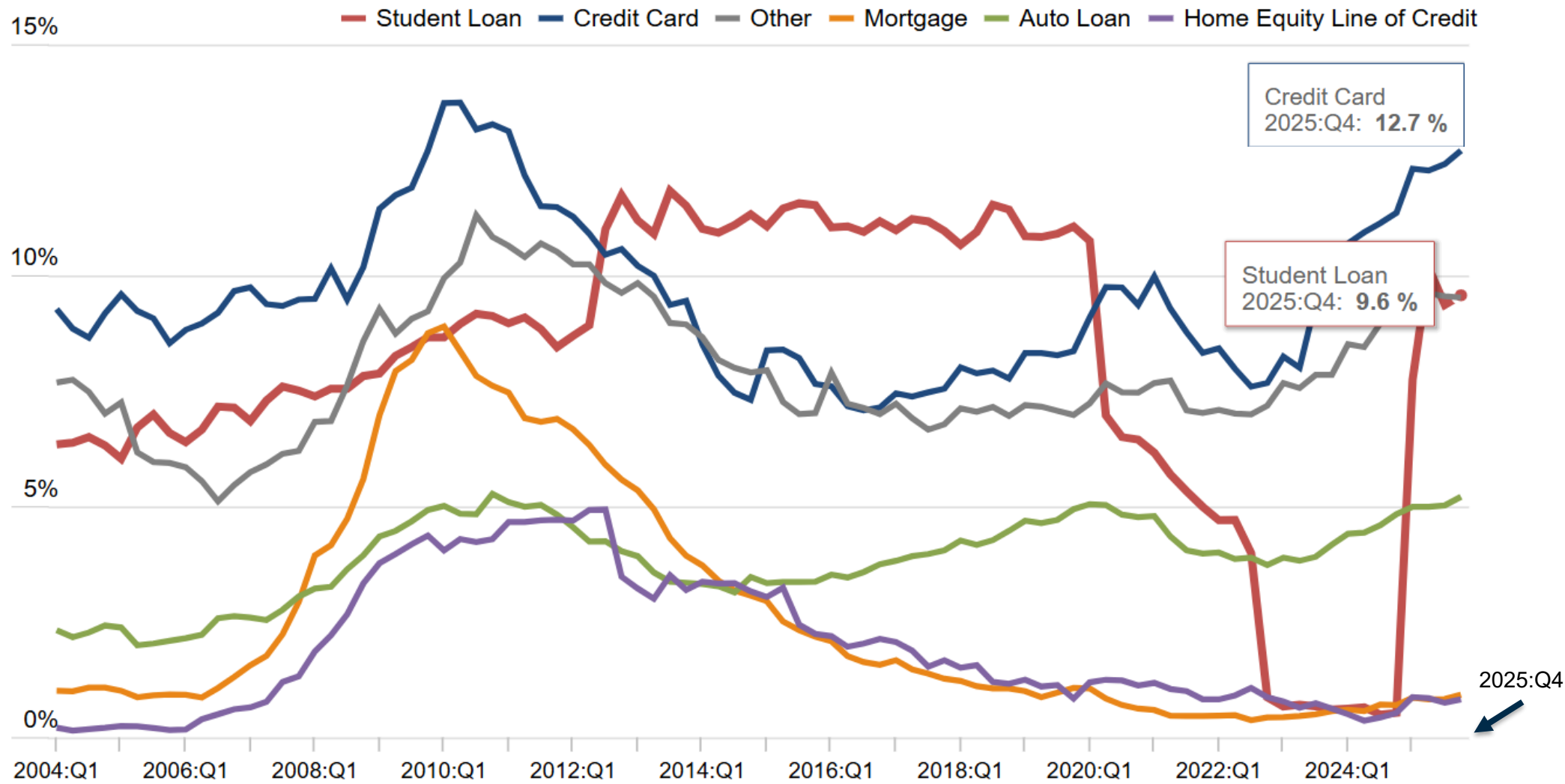
- Overall non-housing debt grew \$81B to \$5.17T
- Credit card balances now \$1.28T, up \$44B in Q4 and ~6% higher vs prior year
- Student loan balances edged up \$11B and now stand at **\$1.66T**



Source: New York Fed Consumer Credit Panel / Equifax

# Percent of Balance 90+ Days... Climbing Fast

- **4.4%** of all household debt in **some stage of delinquency** (\$809.2B past due)
- 2.91% now seriously delinquent, or 90+ days (\$535.1B past due)
- 90+: 12.7% of \$1.28T Credit Cards and 9.6% of \$1.66T Student Loans

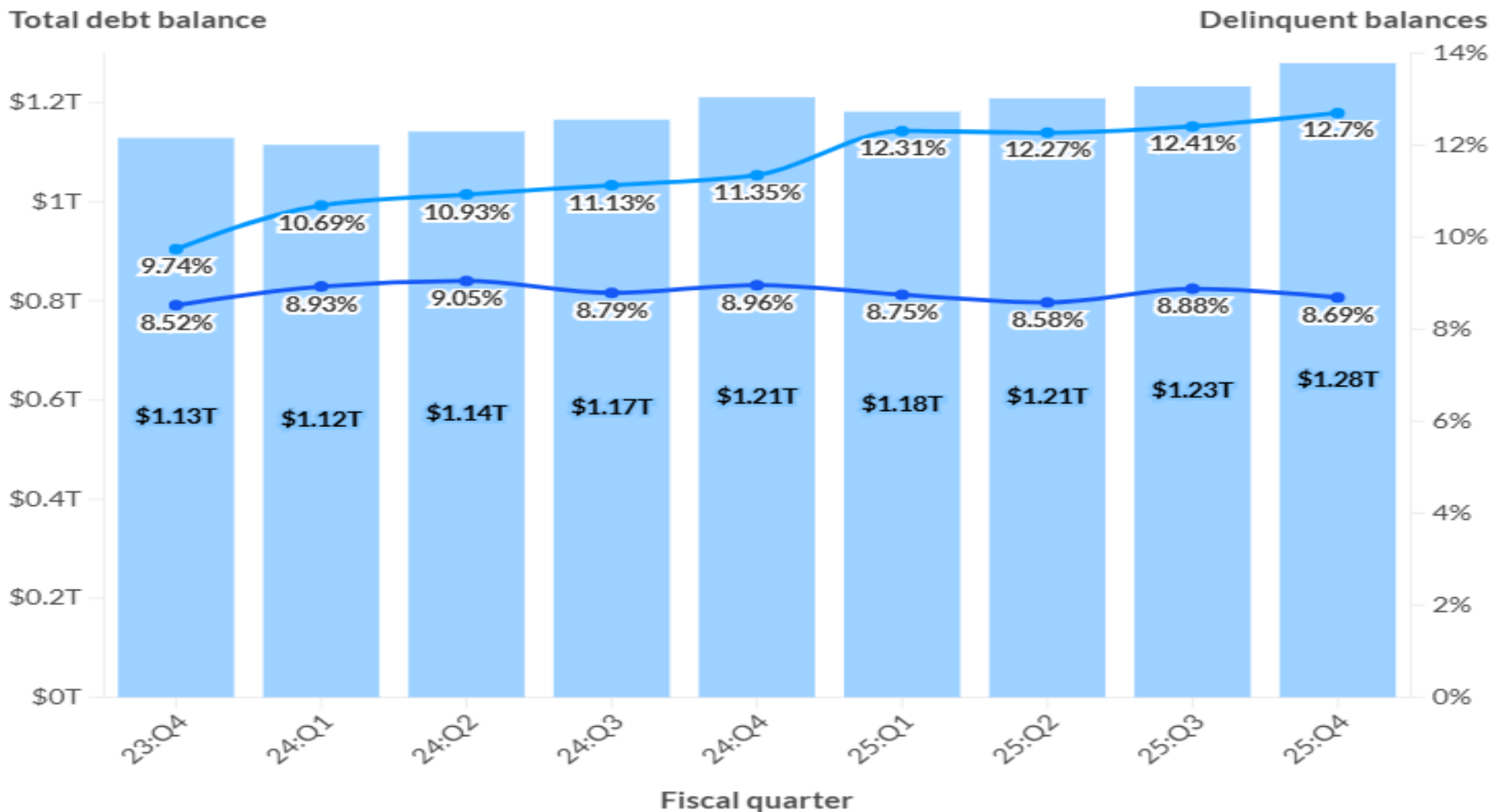


# Credit Card Debt at All Time Highs – Signals Distress

- Sharp upticks in credit card debt signals consumers are struggling with basic spending
- Credit card balances jumped \$44B in the 4<sup>th</sup> quarter 2025 and grew 5.7% overall in 2025

**Total Credit Card Balances in the U.S.: Q3 2023 – Q4 2025**

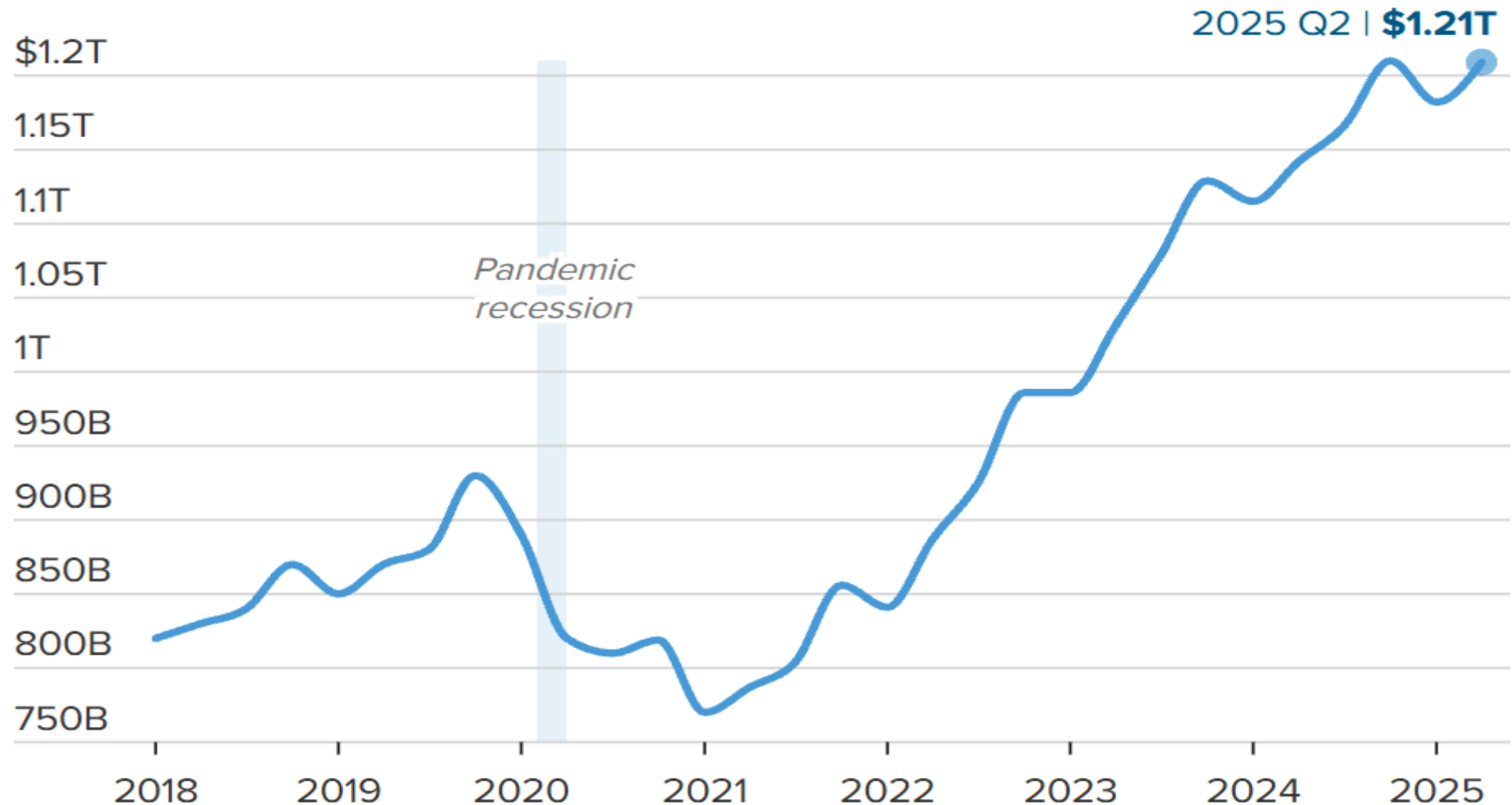
■ Transition into delinquency (30+ days) ■ Percent of balance 90+ days delinquent ■ Total debt balance (trillions)



# Credit Card Debt Has Grown Dramatically From Pre-Pandemic Levels

- “There’s a growing K-shaped split in the consumer landscape, with subprime borrowers falling behind,” Tom O’Neill, market pulse advisor at Equifax

Total Credit Card Balances in the U.S.: Q1 2018 – Q2 2025



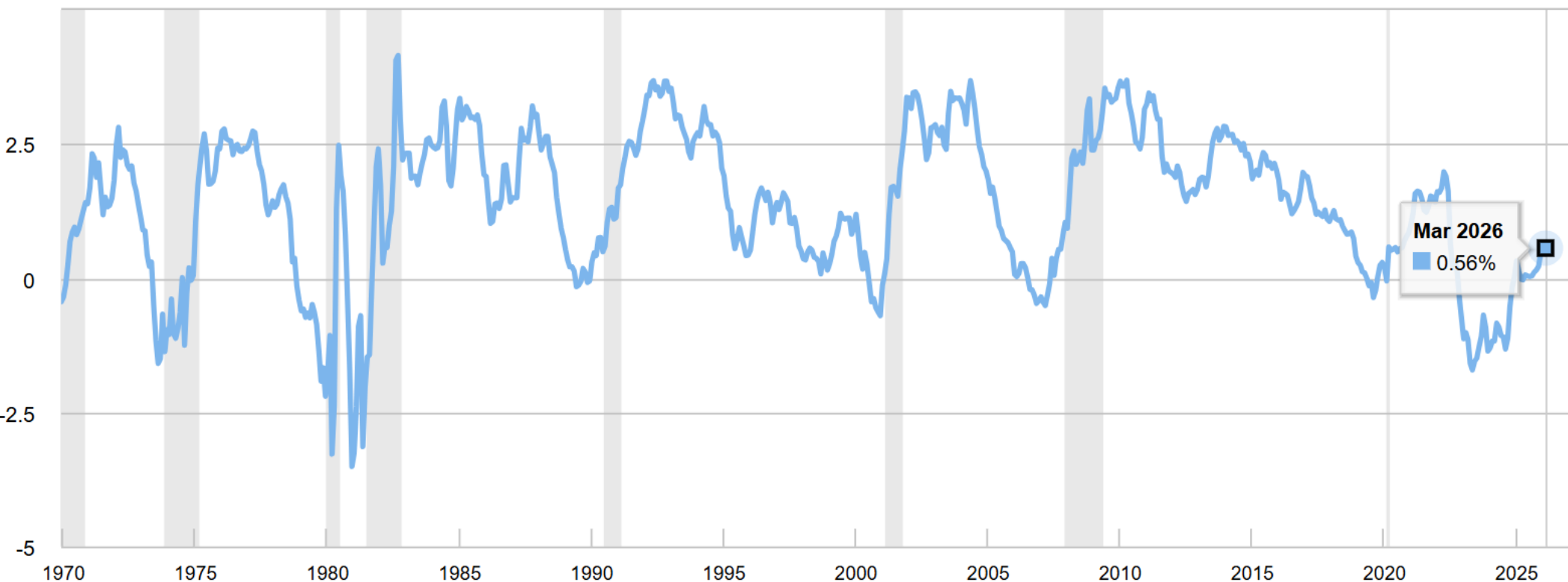
# Recession Indicator

## *Inverted Yield Curve*

- Historically, the best leading indicator of a pending recession is the inversion of the 10-year and 3-month treasury yields. An inverted yield curve occurs when long-term debt securities pay a lower interest rate than short-term debt securities, signaling market pessimism
- Just experienced the longest inversion of yield curve in history. Currently, the yield curve spread is barely positive.
- Most recessions begin after yield curve resumes positive status

### **Treasury Term Spread: 10-Year Bond Rate Minus 3-Month Bill Rate**

Percentage points (monthly average)



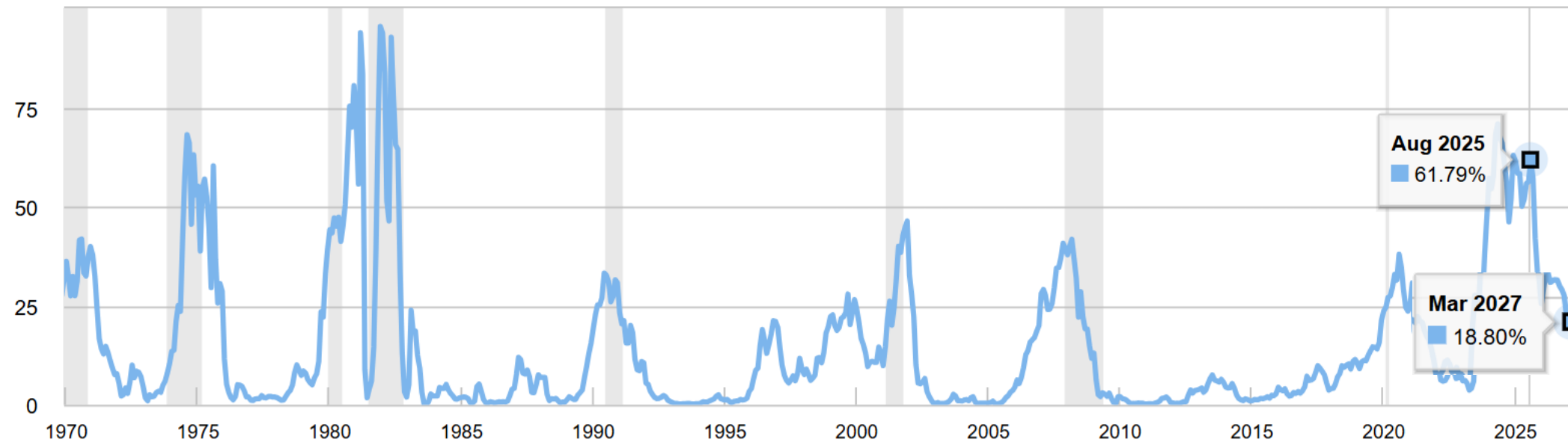
# Recession Indicator (cont.)

## *Inverted Yield Curve*

- The slope of the yield curve, or “term spread,” can be used to calculate the probability of a recession in the U.S. 12 months ahead
- Below, the probability of a U.S. recession between now and March 2027 is now ~19% (term spread = difference between the 10-year and 3-month Treasury rates)
- JP Morgan sees ~40% chance of a recession
- Moody’s believes “economy is on the precipice of recession”

### Probability of U.S. Recession, 12 Months Ahead of Term Spread Readings

Percent (monthly average)

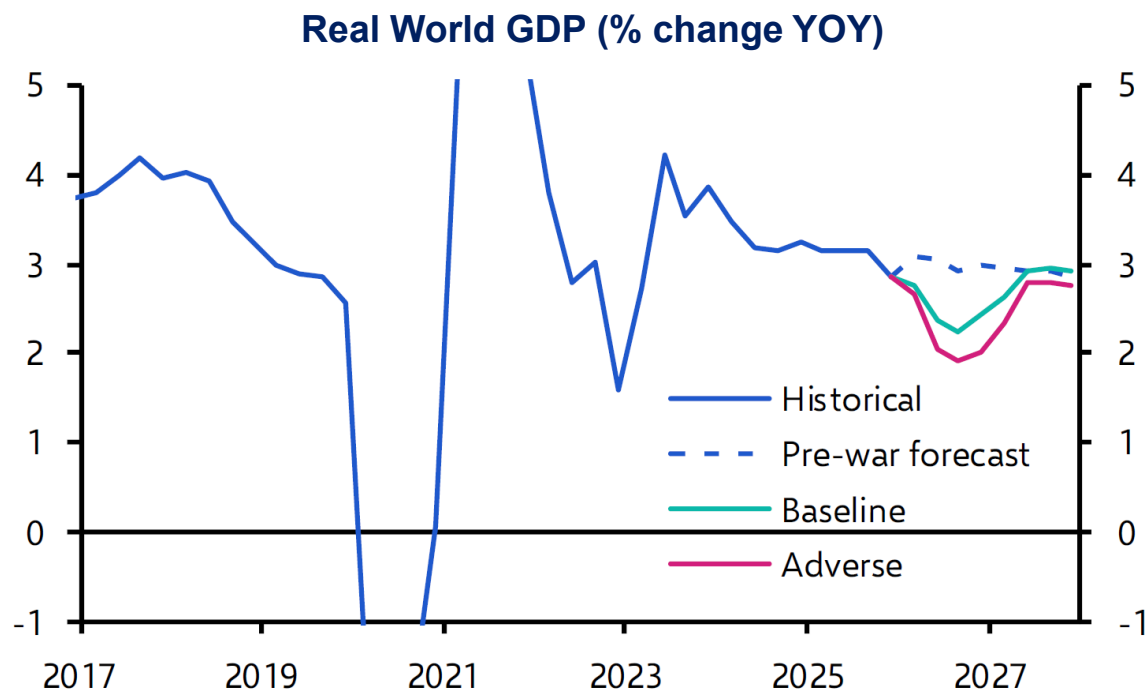


# Iran Conflict

# Iran Conflict: Forecasting the Fallout

## Considerable Uncertainty Exists





- **Impacts to economic growth and inflation are dependent upon five factors:**
  1. Duration of conflict (disruption to shipping through Strait of Hormuz--how long?)
  2. Countries' net energy trade positions (are they net importers or exporters of energy?)
  3. Energy intensity of GDP (how much oil/gas required to produce output?)
  4. Extent to which governments shield households and firms from higher energy costs (strategic reserve)
  5. Response from central banks



# Iran Conflict: How Energy Impacts Inflation

Oil and gas are most important – but other industrial inputs move through Strait: Helium (semiconductor manufacturing), sulfur (used in plastics) and fertilizer

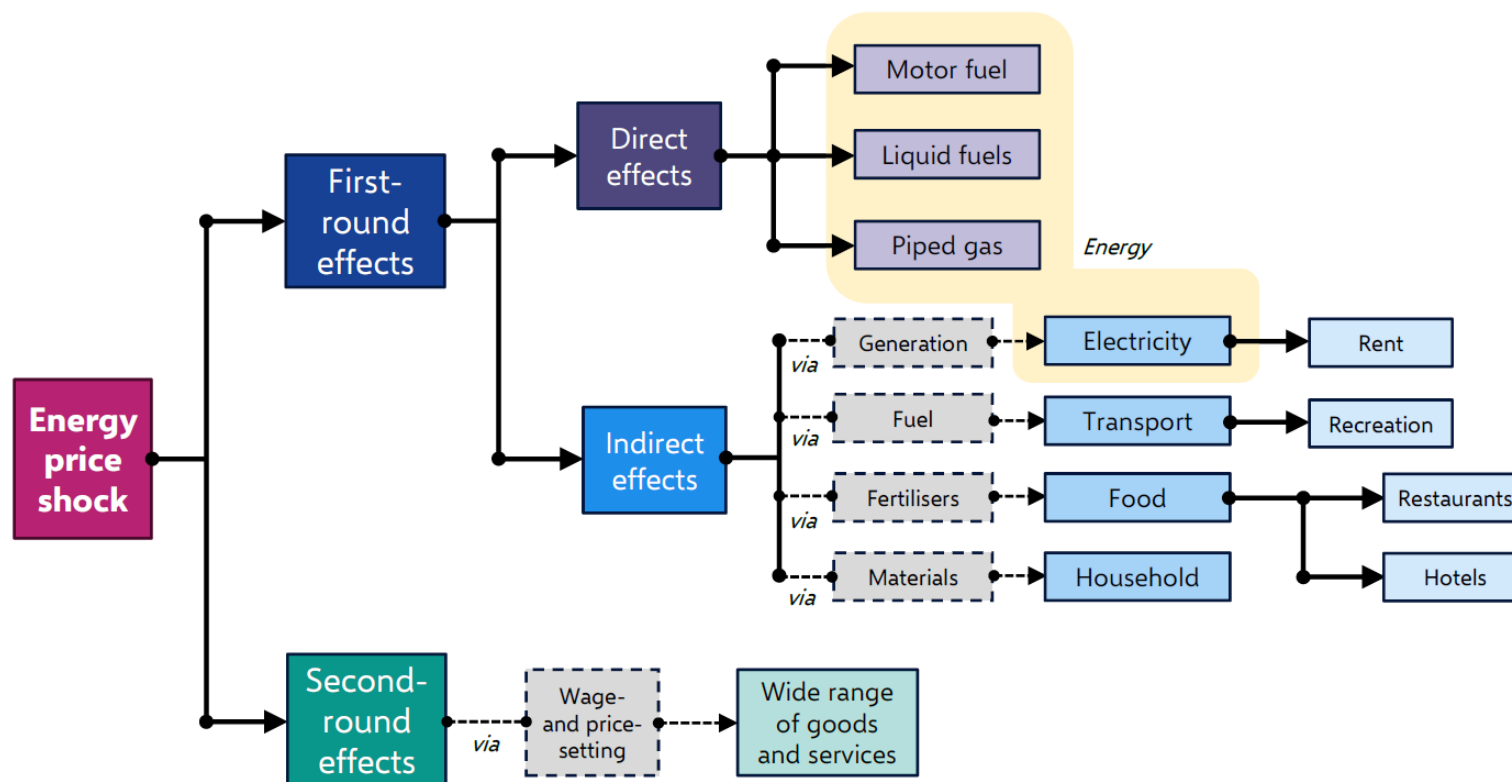
## Key Supply Chains Exposure to Hormuz Disruptions

Supply Chain	Key Commodities & Hormuz Exposure	Downstream Sectors
 <b>Agriculture &amp; Fertilizers</b>	Sulfur (50%), Urea (34%), Ammonia (23%), Phosphate Rock (23%)	Global food production, livestock & animal feed, food processing, biofuels
 <b>Petrochemicals &amp; Chemicals</b>	Methanol (40%), Polyethylene (15%), Polypropylene (9%), LPG (29%)	Plastics & packaging, automotive components, consumer goods, textiles
 <b>Metals</b>	Aluminum (9%)	Aerospace, automotive, construction, power infrastructure
 <b>Semiconductors</b>	Helium (30%)	Semiconductor manufacturing, electronics, medical imaging

# Iran Conflict: How Energy Impacts Inflation (Con't)

- Increases across countries depend on import dependence and the weight of these items in CPI baskets
- After first impacting gasoline prices higher energy costs will eventually feed through to household electricity and utility bills
- Second round impacts possible through wages and pricing behavior possible

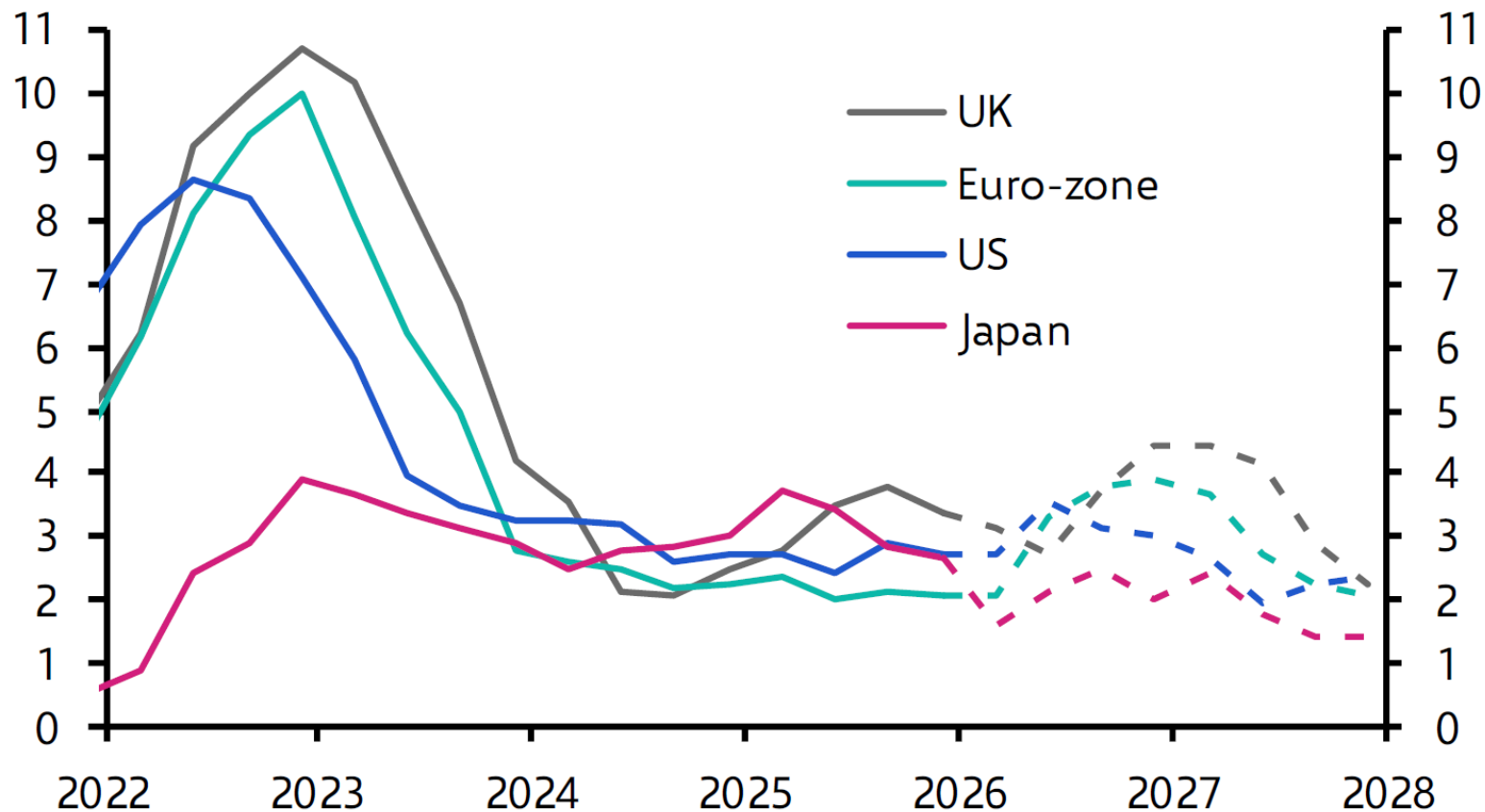
## Where Higher Energy Prices Show Up In CPI



# Iran Conflict: Forecasted Impacts to Inflation

- US inflation is likely to peak at 3-5%. Inflation in Europe and Asia could peak at 4-6% with the additional risk that inflation in Europe and Asia could remain elevated for longer as compared to US inflation
  - **US inflation hit 3.3% in April (highest since summer 2024)**
- The graph below is a baseline scenario: inflation could be much more severe depending upon length of conflict

**Baseline Scenario Headline Inflation (%)**

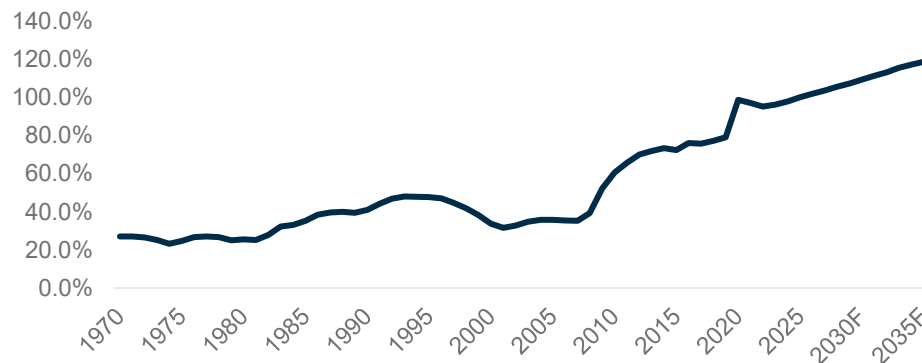


# Credit Market Trends

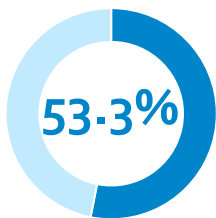
# Debt Summary

In 2025, rising rates drove the US debt growth, while leveraged loans, refinancings, and credit outperformance highlighted cost-conscious, opportunistic capital markets

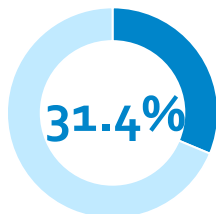
**The US Government Debt  
(% of GDP, 1970–2035F)**



- ▶ As of January 6, 2026, the US national debt reached \$38.4 trillion, up \$2.2 trillion Y-o-Y and \$10.7 trillion over five years, driven largely by rising interest rates, which averaged 3.4% on marketable debt in December 2025
- ▶ In 2025, ~\$37.0 billion of mostly B- or lower institutional term loans were refinanced via private credit, highlighting robust demand for lower-rated credit, though access remains selective and sensitive to lender risk appetite
- ▶ Interest payments accounted for 18.4% of total federal revenues in 2025 and are projected to rise to 22.2% by 2035, indicating a growing crowd-out effect on other federal priorities



In Q4 2025, **Refinancing** accounted for the largest share of US-sponsored new-issue loan volume at **53.3%**, followed by Acquisition and Dividend Recapitalization deals



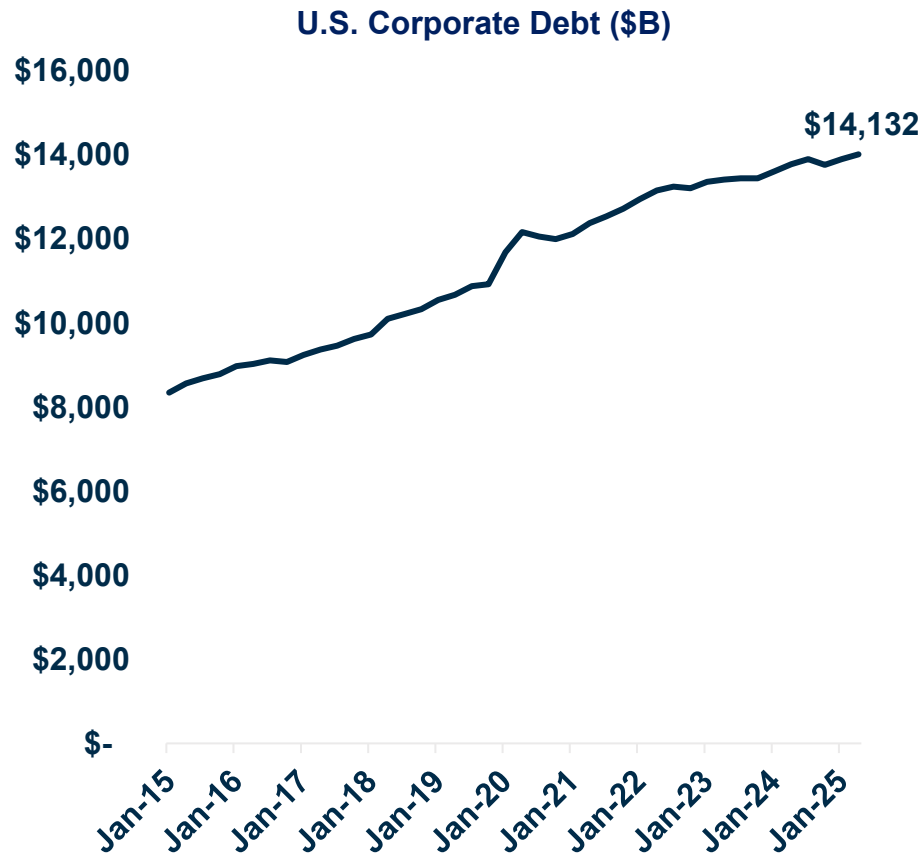
In Q4 2025, **Refinancing** led the US-sponsored institutional loan issuance at **31.4%**, followed by Acquisition and Dividend Recapitalization deals

In 2025, the US primary leveraged loan market was driven largely by opportunistic refinancing, repricing, and steady net new-money issuance, even as overall activity fell from 2024's record amid elevated base rates and macroeconomic uncertainty

Robust corporate M&A and sponsor-backed add-ons drove LBO issuance, compressed spreads, and repricing's that lowered borrowing costs, highlighting a cost-conscious market focused on optimizing capital structures

# Restructuring Outlook

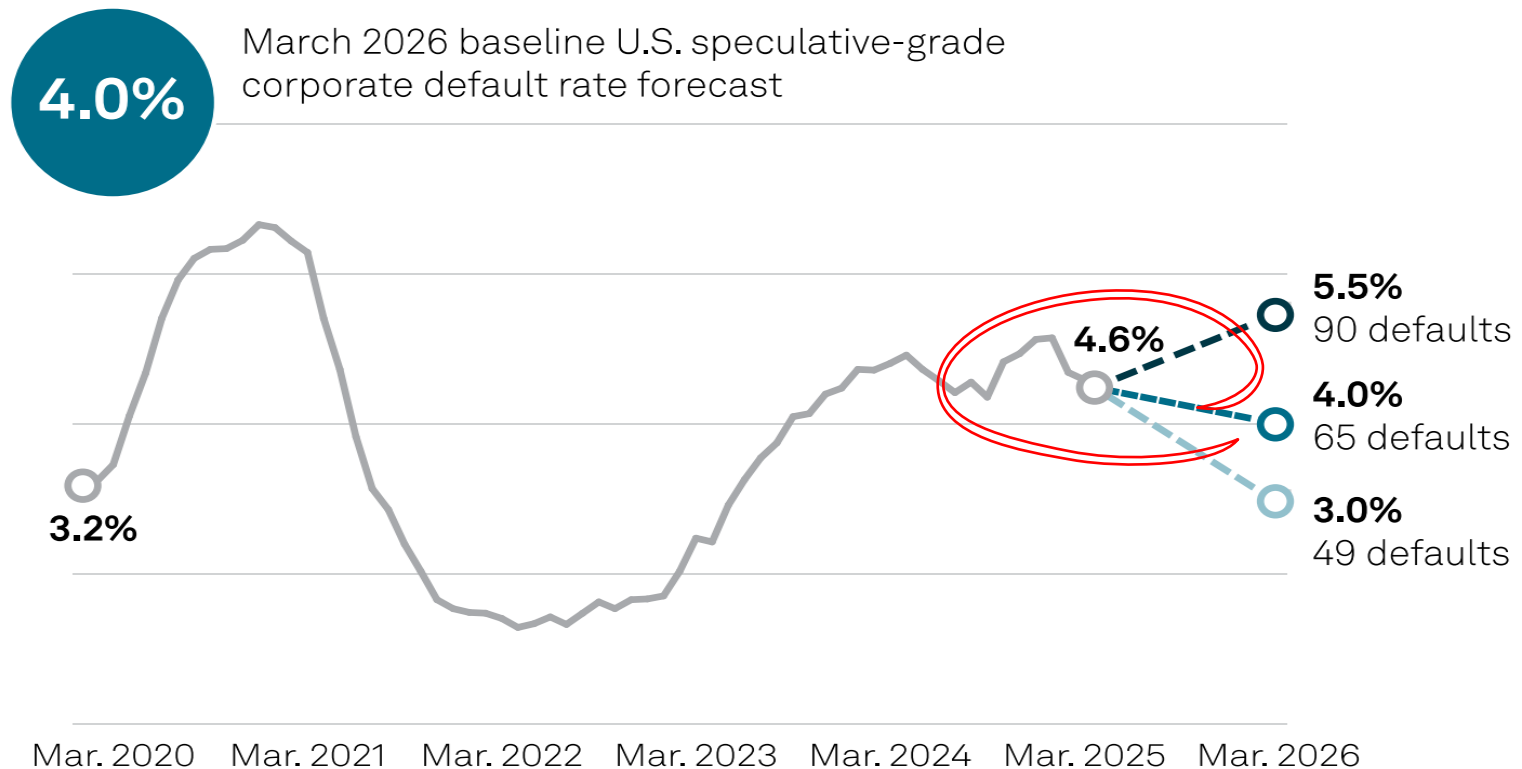
Corporate funded debt continues its meteoric rise; corporate profits, which have kept up for the most part, are now showing some cracks



- Despite recent softness, corporate profits continue to exceed pre-pandemic levels

# Credit Markets Trends - Where Were We?

May '25 update: The U.S. speculative-grade corporate default rate was expected to hit 4.0% by March 2026 (note wide range up to 5.5%)



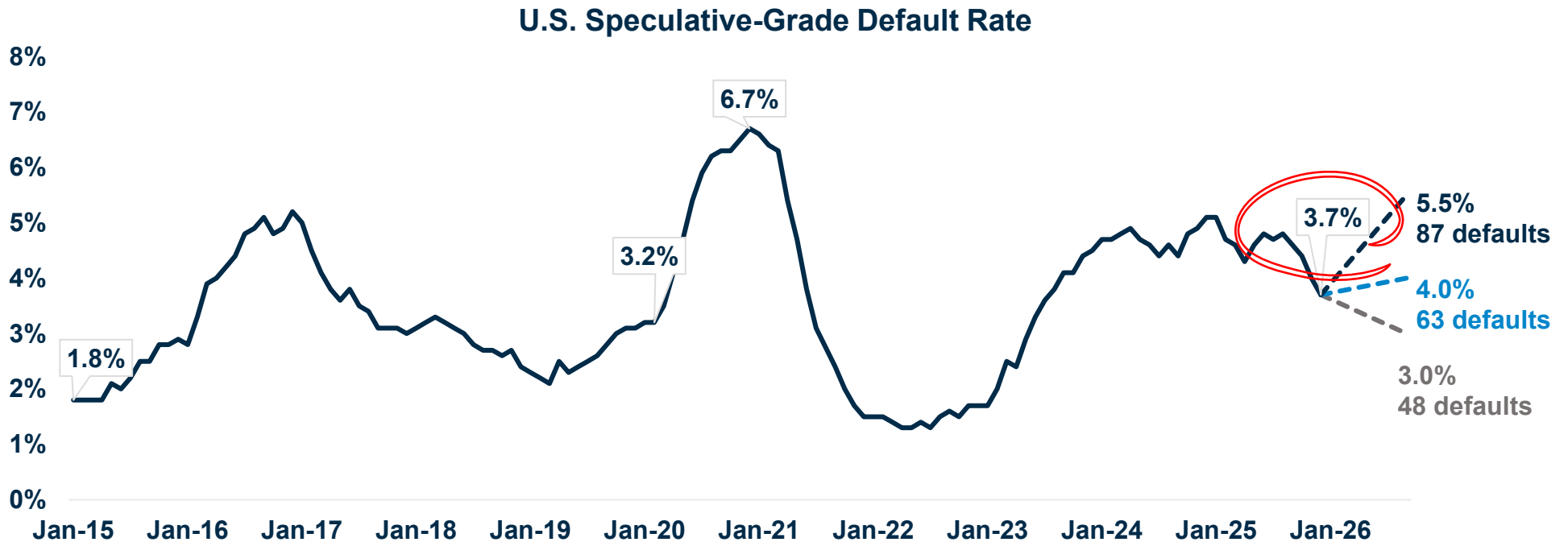
**Pessimistic scenario:** Pessimistic scenario: Current 90-day pauses fail to produce final decisions and result in higher tariffs than currently in effect. High potential for countertariffs add to the strain.

**Base scenario:** The currently falling default rate trend may be challenged as global trade disruptions take their toll. Still, we do not see widespread vulnerability as a result of direct exposure to tariffs for most of the speculative-grade population at this time. The potential impact on the broader economy and consumer spending is also a risk.

**Optimistic scenario:** Current tariff levels under the 90-day pauses are not reinstated to previously higher levels, but are rather largely limited to 10% outside of China and specific industries. The hit to inflation is minimal, allowing the Fed to lower rates.

# Credit Markets Trends - Where Are We?

The U.S. speculative-grade corporate default rate is now expected to stabilize to 4% by September 2026 but could rise as high as 5.5%



### Pessimistic Scenario

All disappointment or a sharp market correction hits business investment, strains consumers, and pressures already-weak CCC/C credits.

### Base Scenario

Defaults drift lower on solid fundamentals, but gains are capped by repeat CCC/C defaulters and high rates.

### Optimistic Scenario

Resilient growth and easing fears reopen primary markets for CCC/C issuers, reducing the prevalence of distressed exchanges.

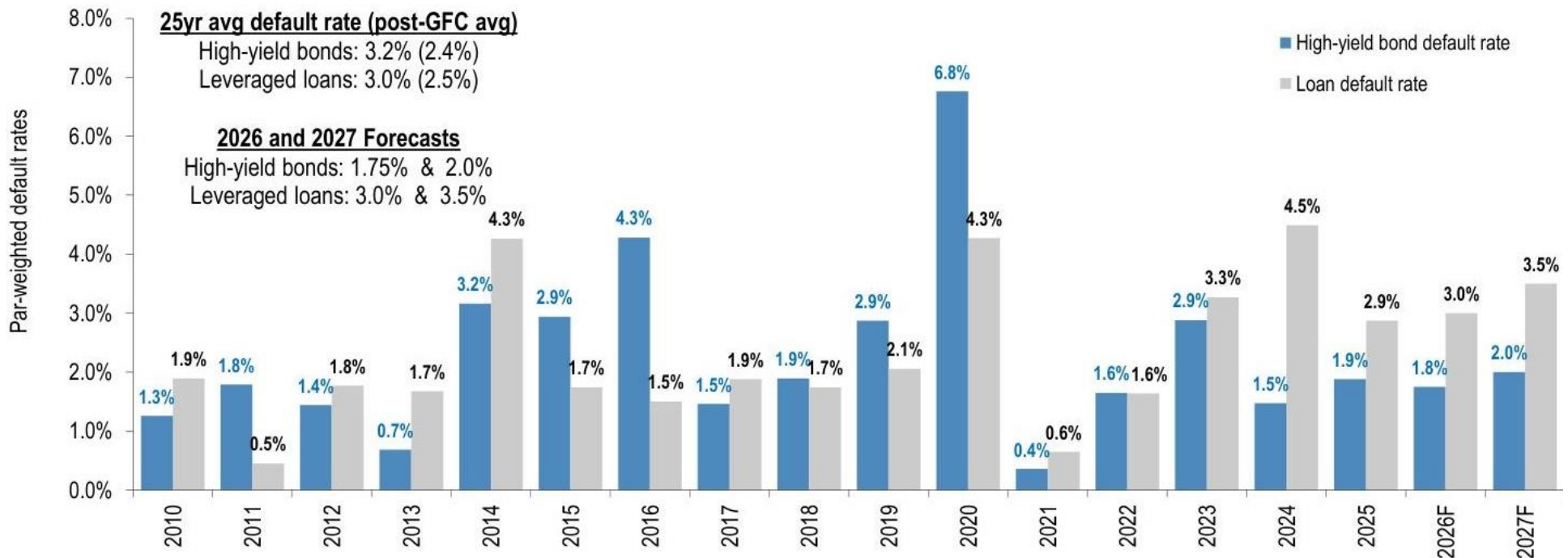
As of December 2025

Source: S&P Global Ratings Default, Transition, and Recovery; S&P Credit Conditions

# Restructuring Outlook

JP Morgan expects default rates to rise significantly through 2027

## High-Yield Bond and Loan Default Rates



JPM forecasts high-yield bond and leveraged loan default rates to increase to 1.75% and 3.0% by 2026. For context, the 25-year long-term average default rate for high-yield bonds and loans is 3.2% and 3%, respectively. Importantly, these forecasts assume the Fed can narrowly navigate a soft economic landing.

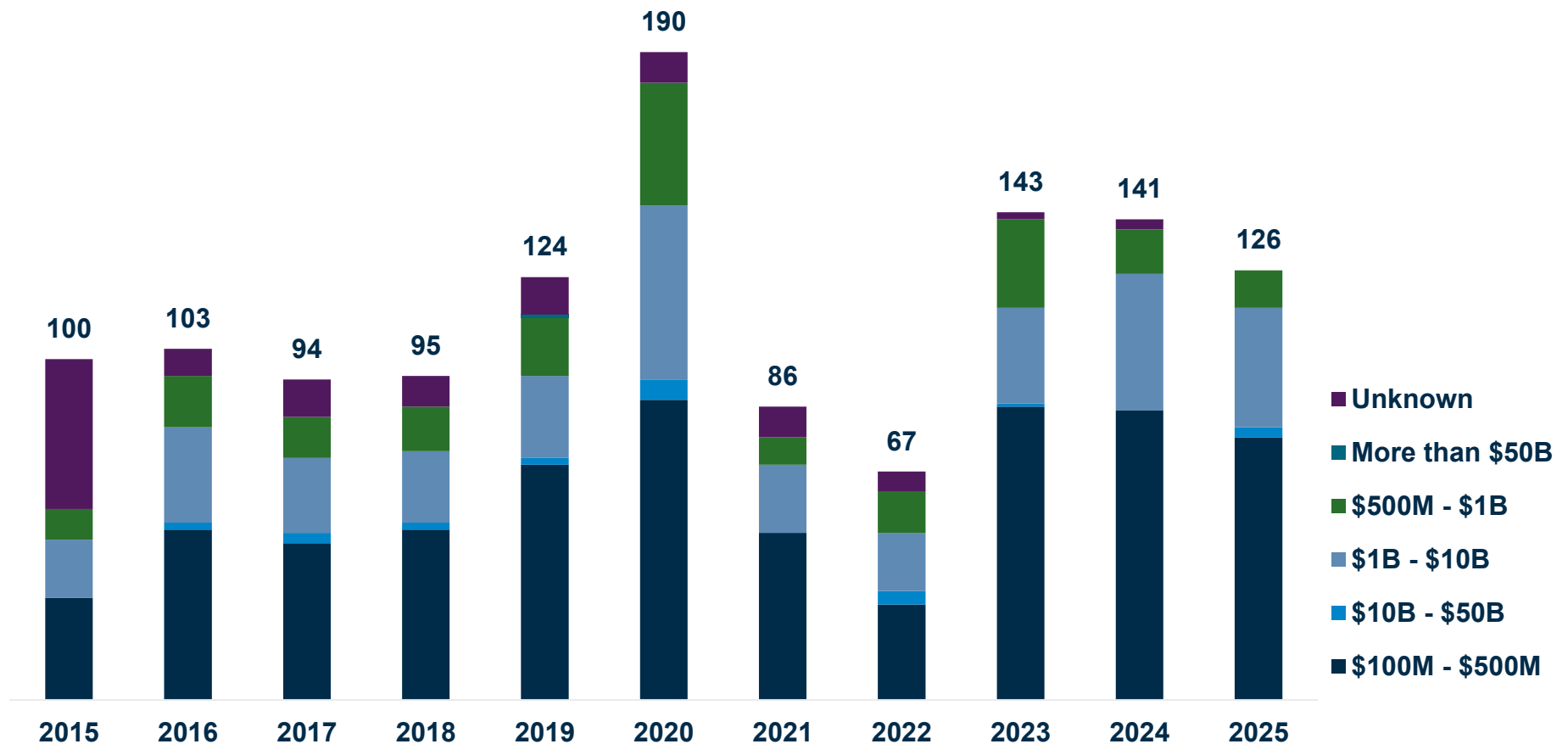
**Note: JPM has a wider, higher quality universe than S&P's Speculative Grade.**

# Debt and Restructuring Outlook

# Restructuring Outlook

In 2025, the number of bankruptcy filings increased to 126, reaching around 90% of the 2023 and 2024 highs that were exceeded only by 2020.

**Company Bankruptcies  
with over \$100M in Liabilities**

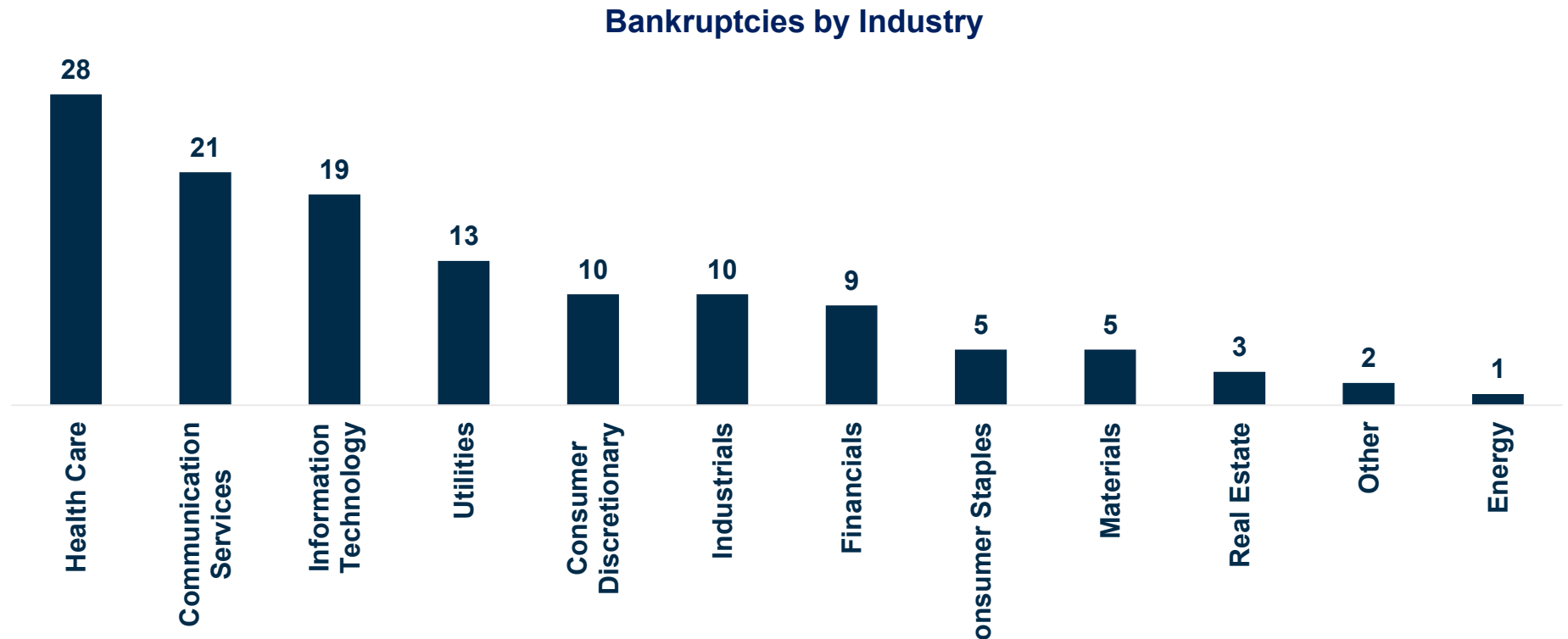


As of 4Q 2025

Source: Octus Intelligence Bankruptcy data, A&M Analysis

# Restructuring Outlook

Healthcare, TMT and IT sectors (AI impact on software) continue to have the largest number of bankruptcies

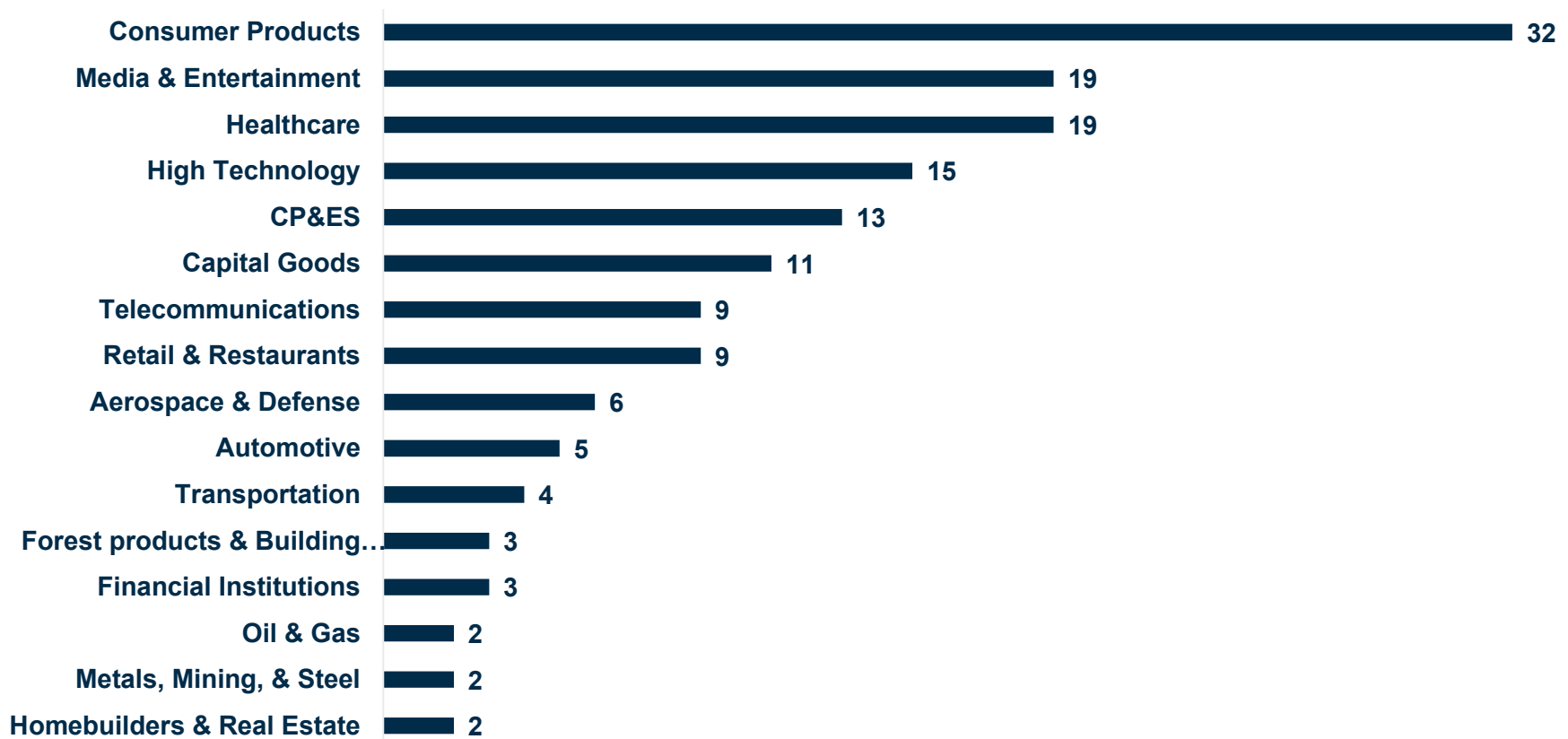


Healthcare sector challenges stem from multiple converging factors including declining reimbursement rates, increased insurance liability premiums, and rising labor, product, and operating costs. Genesis Healthcare's bankruptcy exemplifies these pressures, with the company unable to handle \$8 million per month in settlement and defense costs related to personal injury and wrongful death cases

# Restructuring Outlook

Default volumes are dominated by sectors with the highest exposure to consumer spending, a precursor to more restructuring and bankruptcies in non-essential, luxury, or durable goods

U.S. Weakest Links by Sector

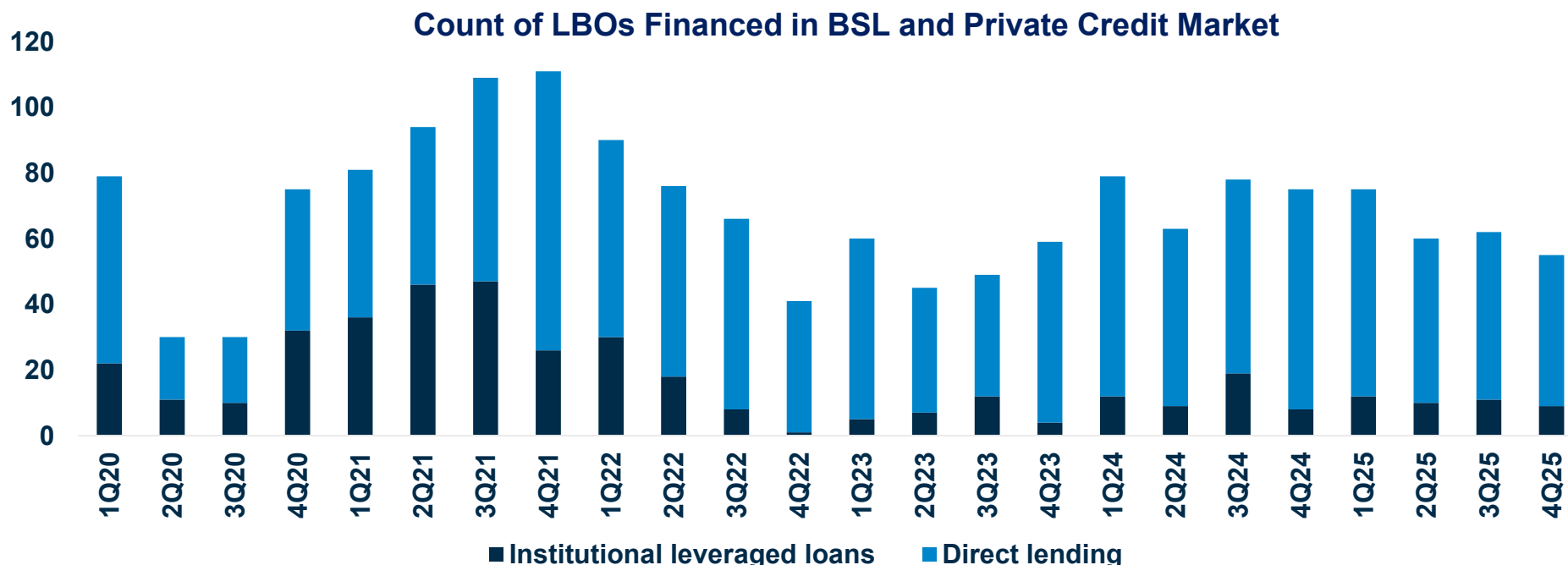


As of December 2025

Source: S&P Global Ratings Default, Transition, and Recovery

# Credit Markets Trends

Private credit financing has been the driving force behind the LBO market in recent years



While private credit was historically focused on the middle market, it has moved into "jumbo" territory previously dominated by banks.

- In 2025, private lenders committed to multiple \$2+ billion financings

**Market pricing suggests that weaker credits unable to meet demand in syndicated markets are moving to private credit, while private issuers are increasingly moving towards syndicated markets when financing becomes more affordable there.**

- Private credit has removed or refinanced more than \$70B of syndicated loans over the past two years, representing approximately 4% of the universe. Most of these refinanced loans were rated B3 and paid a premium to exit the syndicated market.
- In 2025 through 3Q, private credit saw \$32B in deal volume used to take out syndicated bank loans - Conversely, \$29B in syndicated loans were issued to take out private credit loans, resulting in a net cannibalization of only \$3.6B.
- Increased competition between private and syndicated markets has fueled a surge in cross-market refinancings

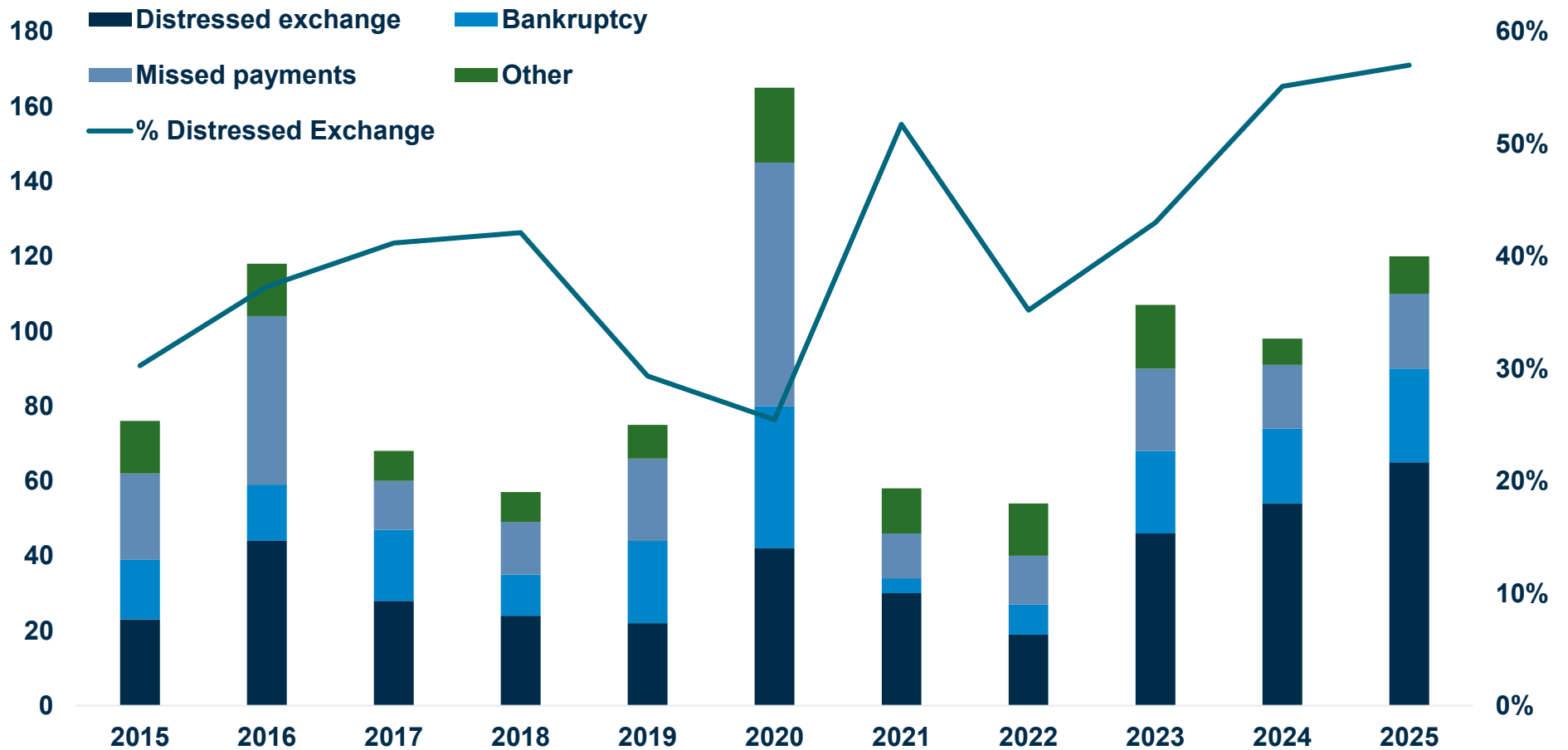
As of 4Q 2025

Source: JP Morgan, Pitchbook LCD: Private Credit Monitor

# Restructuring Outlook

Distressed exchanges reached a new high as a percent of defaults in 2024 and maintained their prominence through 2025

Global Distressed Debt Exchanges



As of December 2025  
Source: S&P Global Credit Conditions Q2 2025

# Private Credit: Rising Scrutiny on Valuations

The recent bankruptcies of First Brands and Tricolor are a catalyst for tighter scrutiny on private equity valuation practices and transparency across the asset class

## BCRED AUM Growth



## Recent Credit Events and Valuation Scrutiny

- Blue Owl halted investor withdrawals and sold ~\$1.4B of loans to return capital, underscoring liquidity mismatches between redemption terms and illiquid assets. Pressure was amplified by exposure to a collapsed UK property lender.
- Blackstone's \$82B Private Credit Fund ("BCRED") fund saw \$3.7B of withdrawals in Q1 2026, with redemption requests above typical limits. To meet redemptions, the firm and senior executives injected ~\$400M of internal capital.
- Fair value estimates rely heavily on judgment and unobservable inputs, creating **potential gaps between internal NAV and market reality**. Slow mark updates and discounted cash-flow models smooth reported returns, potentially understating underlying risk.
- Private credit fees tied to AUM and NAV mean aggressive markdowns can trigger redemptions and hurt fundraising, creating structural incentives to delay valuation adjustments.

## Market Implications & Outlook

- **Tightening of Underwriting Standards:** Lenders are expected to tighten covenants, lower leverage multiples and demand stronger collateral. Tricolor and First Brands Group have heightened scrutiny over lending standards.
- **Higher Loan Spreads:** Credit spreads have recently widened toward levels seen during prior recession scares. The market recognizes that a spread widening of 50 to 150 basis points indicates demanding more premium for risk.
- **Greater Valuation Transparency:** Retail redemption pressures have tested semi-liquid private credit fund structures, shifting the retail growth engine from "hyper-growth" to a "prove-it" phase. The industry is likely to adopt greater valuation transparency through wider use of third-party valuation agents, more frequent mark-to-market adjustments, and stronger disclosures.

# Private Credit Pressure Signals Restructuring?

## Recent Market Catalysts

Major liquidity stress is hitting retail-focused private credit funds:

- Blackstone's \$82B BCRED facing 7.9% redemption requests.
- Blue Owl permanently halted redemptions in its retail fund OBDC II.

**Software Sector Vulnerability:** A structural reassessment of credit quality is underway, with Apollo's leadership warning of a prolonged market shakeout driven by AI disruption, especially for SaaS.

**Managers:** Share prices declined across alternative asset managers, and fundraising is expected to see negative effects as investors reassess risk.

**Default Rate Projections:** UBS forecasts that software loan defaults could surge from current 3-5% levels to up to 15%, exposing \$600-\$750B in sector-specific loan exposure to forced asset sales.

## Broader Credit Market Implications



- **Market Bifurcation:** The crisis has highlighted the systemic risks of "semi-liquid" retail structures, potentially forcing industry consolidation that favors institutional managers demonstrating strict liquidity discipline.
- **Tightening Middle-Market Conditions and Refinancing Walls.** Middle-market credit conditions are tightening as the sector faces significant maturity walls, including \$12.7B in 2026 debt maturities for BDCs.

- **Spillover Effects into High-Yield and Leveraged Loans:** The interconnectivity between private and public credit markets means that private credit stress does not remain isolated.
- **Default Normalization and Asset Quality.** Data from KKR shows that private credit stress is idiosyncratic and concentrated in the lower middle market with the default rate at an elevated 9.3%. According to CFRA's base case scenario, the market is pricing in default rates spiking to a 4% to 6% range.

## Restructuring Opportunities



- **Recovery Expectations:** Recent private credit restructurings show senior lenders averaging approximately 50% recoveries, with out-of-court transactions yielding slightly higher principal recoveries than in-court Chapter 11 cases.
- **Deal Mechanics:** Restructuring deal flow is heavily shifting toward out-of-court debt-for-equity exchanges and below-par debt exchanges that extend remaining maturities by two to seven years.
- **DIP Financing Battles:** As defaults normalize, restructuring professionals anticipate increased friction over non-consensual priming Debtor-in-Possession (DIP) loans, as incumbent private credit lenders fight to protect collateral in situations lacking sizable equity cushions.

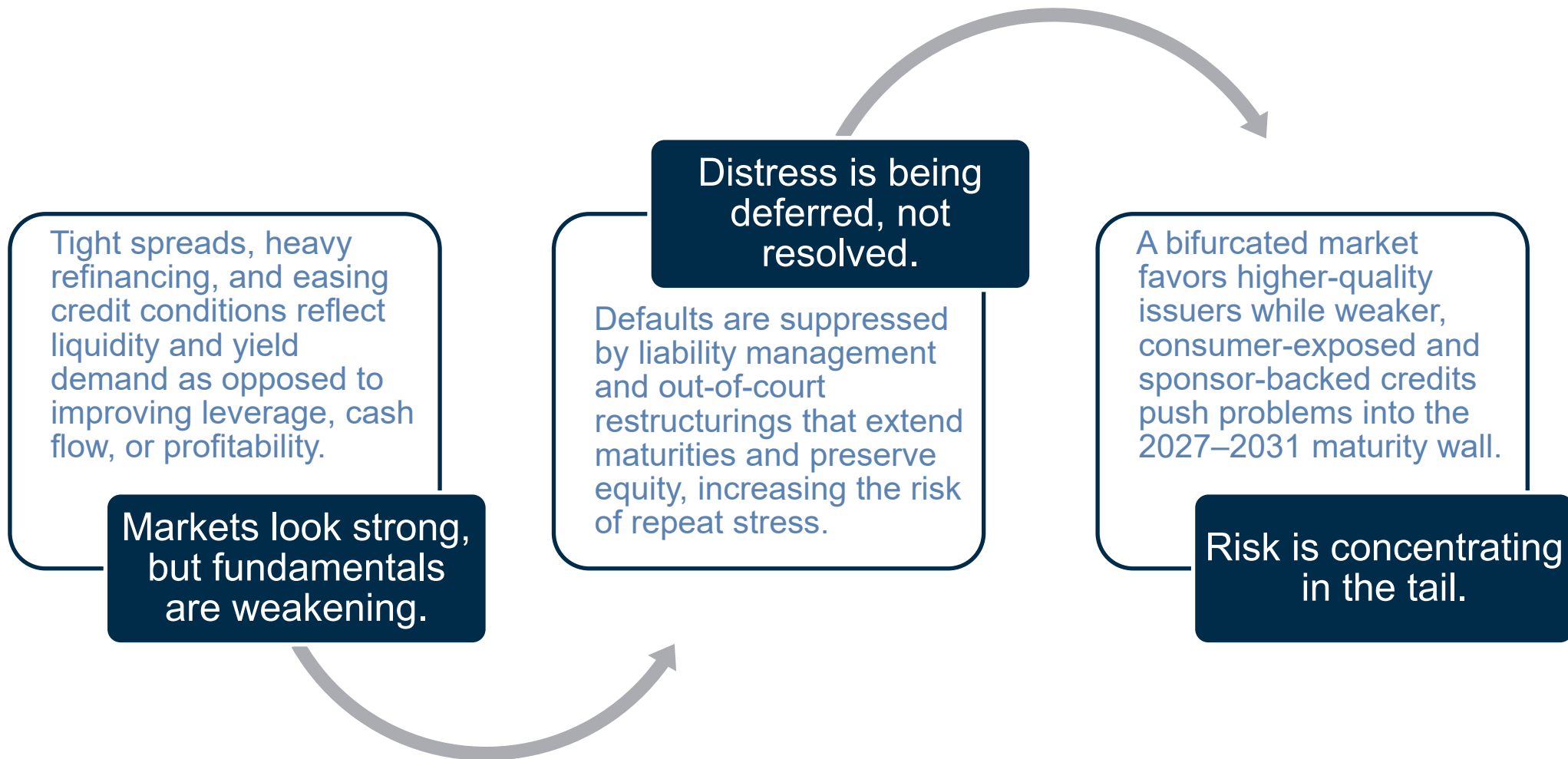
# Private Credit Poses Unique Risks To the Market

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- Not long ago, major players on Wall Street were celebrating the golden age of private credit
- Now direct lending market is facing increased scrutiny as private credit is perceived as a significant financial risk amid rising market volatility due to the Iran war and AI disruption
- Conflict in the Middle East has led to higher energy prices
  - Raises concerns about inflation, prolonged high interest rates, and a potential global economic slowdown (stagflation would mean more zombie companies)
- Analysts warn that default rates in private credit could double in the coming years, particularly due to the sector's exposure to software
- Significantly less transparency poses more risks of default
- Watch outs:
  - Non-public companies less likely to share audited financials and more creative in calculating adjusted EBITDA
  - Aggressive debt fueled growth works well when things go well... but multiplies losses when they don't
  - Off balance sheet debt and reverse factoring
- More important than ever to know who you're selling to and require private company financial statements to review and discuss with management
  - Include off balance sheet debt in your calculations
  - Does the interest rate a company is paying on its reverse factoring make sense given its credit profile?
  - UCC searches and understand working capital programs
  - Background checks

# What Does It All Mean?

Near-term stability masks a structurally elevated restructuring cycle.



# Liability Management Exercises (LMEs)

# LMEs That Filed For Bankruptcy in 2025

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Over a third of liability management transactions end up in Chapter 11 bankruptcies



# LMEs – Risk to Unsecured Creditors

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LMEs that go bad and enter bankruptcy are harmful to unsecured creditors

- **Negative impacts to unsecured creditors**

- Lenders might secure unencumbered collateral that otherwise could fund recoveries to unsecured creditors
- Double-dip transaction potentially creates two secured claims which general unsecured creditors sit behind
- LME transactions that eventually end up in bankruptcy court are heavily litigated, which results in an increase in professional fees and less money available to pay postpetition trade
  - Recent LMEs that have been litigated include (i) Envision Healthcare, (ii) Robertshaw and (iii) Westco Aircraft
  - Lenders are increasingly using pro-rata deals that allow all lenders to partake. Will be interesting if 2025 / 2026 results in less LME litigation for deals that are pro-rata deals
- Secured lender prior to the LME are more likely to be undersecured post-LME and therefore have a larger deficiency claim, which could swamp recoveries to unsecured creditors
- Trade vendors have no say in an LME / LMT

# LMEs – Mitigate Risk

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Unsecured creditors have options if a Company files for bankruptcy after completing an LME

- **Be Preemptive**

- As part of your credit review search for terms such as LME, LMT, double-dip, uptier transaction, drop-down and out of court restructurings for your distressed customers
- Know who owns your customer. LMEs have been used by private equity: Apollo, Bain Platinum Equity, Crestview and TPG
- Strategics have used LMEs, Sinclair Broadcast Group did an uptier transaction as part of the Diamond Sports process, which primed existing term loan
- Understand terms of LME
  - Did the Company reduce leverage or kick the can?
  - Is the LME contentious, will lender on lender violence force the company into bankruptcy?

- **Unsecured Creditors Committee: Steps to Maximize Recoveries**

- **Fraudulent conveyance** – For any new loan or unencumbered collateral granted in an LME, unsecured creditors should investigate if transfers or transactions were for less than reasonably equivalent value
- **Waterfall Model** – LMEs involving complicated intercompany loans will necessitate the unsecured creditors committee undertake a legal entity recovery analysis for all of the Debtors' legal entities to determine where value resides and where claims *sit*
  - *Oftentimes, if a lender creates new a subsidiary or takes collateral at a previously unencumbered subsidiary that lender is likely to be oversecured and trade creditors at that given subsidiary should be in the money*
- **Pick a Friend** – Unsecured creditors can leverage an LME if there is litigation / strife between two competing types of secured creditors groups

# Role Of Restructuring Advisor And Value Of Serving On An Unsecured Creditors' Committee

# Corporate Restructuring Services

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Alvarez & Marsal brings a distinct hands-on approach to complex operational and financial challenges requiring speed to execution.

## **Turnaround & Restructuring Advisory**

A&M is known for its distinctive restructuring heritage, hands-on approach and relentless focus on execution and results. We deliver specialist operational, consulting and industry expertise to management and investors seeking to accelerate performance, overcome challenges and maximize value across the corporate and investment lifecycles. A&M has been consistently recognized for helping clients drive positive change with international awards from prestigious organizations and publications, including the Turnaround Management Association (TMA) and Private Equity News.

## **Interim and Crisis Management**

A&M acts on an interim basis to fill critical management vacancies such as Chief Executive Officer, Chief Restructuring Officer and Chief Financial Officer, to help guide companies through crises and other challenging business or economic environments.

## **Case Management Services**

A&M Case Management Services (CMS) works to minimize the administrative impact on key employees by managing the organizational and reporting requirements of the bankruptcy process through the use of proprietary, industry-tested processes and state-of-the-art, web-based technology.

# Corporate Restructuring Services (Cont'd)

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Whether serving as trusted advisers or in interim management roles, A&M stands for leadership, problem solving and value creation.

## Corporate Finance

Supporting mid-market transactions, Alvarez & Marsal delivers expertise in mergers and acquisitions for buy- and sell-side transactions, access to senior debt, mezzanine debt and equity, as well as restructuring advice to renegotiate and amend securities.

## Creditor Advisory

Alvarez & Marsal provides support to creditor groups with interests in companies engaged in complex restructuring, bankruptcy or distressed situations.

A&M assists creditors' committees to evaluate and ultimately, defend and support the best alternatives to maximize recoveries. Our integrated platform addresses all critical issues faced by creditors' committees. Drawing upon our professionals' in-depth knowledge and experience in restructuring, Chapter 11 bankruptcy filings and relevant industry experience, we can ensure the strongest representation and defense of the committee's interests.

## Fiduciary Services

A&M serves as court-appointed trustees, examiners, plan administrators, litigation trustees, liquidating trustees, mediators, monitors and receivers in multiple cases.

# Role / Function of the Unsecured Creditors Committee

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The bankruptcy code provides for the appointment of an unsecured creditors committee (UCC) in Chapter 11 cases

- **As a fiduciary for all unsecured creditors, the creditors committee acts as a “check and balance” to the Debtor in its negotiations with lenders and other case constituents to ensure that unsecured creditor interests are fairly represented**
  - UCCs usually consist of three, five, or seven members, and are selected through a process run by the U.S. Trustee
  - UCC members typically include indenture trustees, *trade vendors*, landlords, union and pension representatives, and litigation claimants
  
- **The UCC has two main goals:**
  - Maximize value for *all* unsecured creditors
  - Assess the creditworthiness / viability of the go-forward business

# Importance of Unsecured Creditors Committees

Members of an unsecured creditors committee (UCC) have an opportunity to help unsecured creditors achieve the goals of maximizing value and assessing the creditworthiness of the go-forward business

- **As a fiduciary for all unsecured creditors, the unsecured creditors committee (UCC) acts as watchdog, consultant, and negotiator to determine the Debtor's future**
  - Access to Debtor's financial and operational information
  - Consult with the Debtor concerning administration of the case
  - Provide input on the bankruptcy process, litigation, exit strategy, and distributions
  - Negotiate DIP financing / use of cash collateral
  - Assess fulsomeness of sale process of business / assets
  - Assess viability / creditworthiness of go-forward business
  - Formulate / negotiate chapter 11 plan

## Pros

- Influence on the decision making of the Debtors and the outcome of the Chapter 11 case
- Access to the Debtors' confidential financial and operational information
- A deeper understanding of the Debtors' operations and creditworthiness of their business
- No cost to serve outside of time

## Cons

- Dedicate 30-60 minutes per week to attend committee calls (send an employee – growth opportunity)

# Role of the UCC's Financial Advisor

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UCCs select their own counsel and financial advisor, free of charge, to help them perform their fiduciary duties

- Ensure ample liquidity runway for bankruptcy process
- Identify potential buyers in an asset sale, or evaluate whether the Debtor's business plan is viable in a reorganization
- Prepare creditor recovery model and liquidation analysis on an entity-by-entity basis
- Quantify economic impact that the proposed Plan has on unsecured creditors under various scenarios
- Investigate potential causes of action to assess whether value provided to Debtor in exchange for releases from such causes of action is reasonable
- Determine whether the Plan can be improved to provide more value for unsecured creditors
- Assist counsel in framing Plan objection (if necessary) and negotiating key Plan provisions

Your A&M Team

# Rich Newman

## Managing Director | UCC Practice Co-Chair

- Richard Newman co-leads Alvarez & Marsal's Unsecured Creditors' Committee practice. Managing Director with Alvarez & Marsal Creditor Advisory in Chicago where he provides financial advisory services to creditors and focuses on representing official committees of unsecured creditors in bankruptcy proceedings. Specializes in 363 sales, liquidity management, business plan review, solvency, formulation of reorganization plans and litigation support
- With more than twenty years of restructuring experience, Mr. Newman has advised unsecured creditor committees, healthy and distressed companies in leveraged recapitalizations, mergers and acquisitions, and support of interim management roles
- Unsecured Creditor Committee assignments: Avaya, Avianca, Boomerang Tube, Buccaneer Energy, CEC Entertainment, Constar, Endeavour, Getty Petroleum, Global Aviation, Hollander Sleep Products, Keywell LLC, Kodak, LifeCare, Mallinckrodt Pharmaceuticals, NewPage, NPC International, Orchids Paper, NORPAC Foods, Inc., Ryckman Creek Resources, LLC, Shiloh Industries, SunEdison, Synergy Pharmaceuticals, Takata, Tintri, and Westinghouse
- Debtor financial advisory, bank advisory, or out-of-court deals: Appleton Coated, Chesapeake Corporation, Detroit Public Schools, Dresser, Inc., Kimball Hill Homes, Severstal North America, Inc., Tronox Inc., Union Carbide and Visteon Corp
- Testimony experience includes (i) Orchids Paper Products Company Case No. 19-10729, (ii) TK Holdings Inc. (f/k/a Takata) Case No. 17-11375 (November 2017), and (iii) Deposition re: SGK Ventures, LLC (f/k/a Keywell, LLC) Case No. 13-37603 (August 2014), among others
- B.S. in economics from George Washington University and a master's degree in business administration from The University of Texas. Mr. Newman passed all three levels of the CIRA exam and received the Kroll Zolfo Cooper / Randy Waits Award for excellence on the CIRA exam



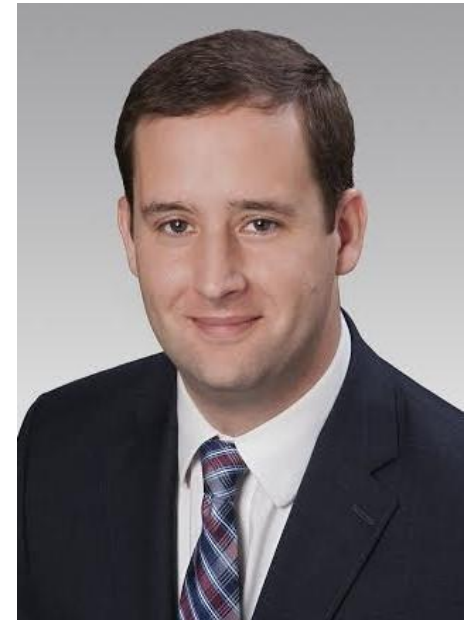
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# Conrad Ragan

## Director | UCC Practice

- Conrad Ragan is a Director with Alvarez & Marsal's North American Commercial Restructuring practice, where he specializes in representing official committees of unsecured creditors in bankruptcy proceedings with a focus on implementing strategies to maximize creditor recoveries, the development and evaluation of financial models, business reviews and stakeholder negotiations. Mr. Ragan is a frequent speaker at industry events and serves on the Independent Standards Board governing U.S. commercial collections agencies through the CCA of A
- Mr. Ragan brings 20 years of corporate credit and lending experience in both large corporate and large financial institutions. Prior to joining A&M, Mr. Ragan spent more than 10 years as a Director with PepsiCo, where he led PepsiCo's corporate credit risk management team. There, his group was responsible for end-to-end North America corporate credit risk, comprised of a ~\$70 billion annual portfolio with ~ 200 thousand customers across all PepsiCo business lines, including the ownership of sector bad debt reserves (CECL). Additionally, Mr. Ragan led supply chain risk covering all suppliers globally, encompassing ~\$40 billion in annual spend. At PepsiCo he regularly led multimillion dollar strategic finance actions, including M&A, contract negotiations, bankruptcy / insolvency management, CAPEX committee, Audit committee, and policy writing
- Recent chapter 11 engagements include Primalend, Luminar, Powin, DRF Logistics, as well as Northvolt AB. Notably, Mr. Ragan has served on and / or chaired a number of unsecured creditors' committees, including Caesars Entertainment, Red Lobster, 99 Cents Only Stores, Cineworld Group, Vital Pharmaceuticals, Marsh Supermarkets, Haggen, Tops Grocery, Dahl's, Gas Mart, Western Convenience, Alco, Quizno's, Markpol and Papa Gino's
- Before joining PepsiCo, Mr. Ragan spent over 10 years working at several large financial institutions where he specialized in capital markets and commercial lending
- Mr. Ragan graduated cum laude from North Carolina State University's College of Management with a bachelor's degree in Business Management and a minor in Economics. Additionally, Mr. Ragan has a Master of Business Administration from Wake Forest University where he was Dean's Scholar



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# Appendix




# Overview: Debt Continues to Rise Rapidly

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- **US debt is rising rapidly, with interest expense now a structural driver**
  - As of January 6, 2026, the US gross national debt reached \$38.4 trillion, reflecting an increase of \$2.2 trillion Y-o-Y and \$10.7 trillion over the past five years, confirming a sustained upward debt trajectory
  - The acceleration in debt burden is increasingly driven by higher interest rates rather than incremental fiscal expansion, materially changing the composition of federal spending
  - The average interest rate on marketable Treasury debt rose to 3.4% in December 2025, up from 3.3% in 2024 and 1.5% 5 years ago, sharply increasing debt-servicing costs on a much larger principal base
- **Near-term deficit improvement masks underlying fiscal pressure**
  - According to the CBO's December 2025 Budget Review, the Q4 2025 federal deficit totaled \$601.0 billion, which was \$110.0 billion lower than Q1 2024
  - This improvement primarily reflects payment-timing effects, with spending pulled forward into Q4 2025, rather than a structural reduction in fiscal imbalance
- **Interest expenses are becoming a binding constraint on fiscal flexibility**
  - Net interest outlays reached \$355.0 billion in Q4 2025, driven by the combination of higher rates and elevated debt levels
  - The Treasury paid an average of \$92.0 billion per month in net interest during the quarter, representing a 13.0% Y-o-Y increase
  - ***Interest payments accounted for 18.4% of total federal revenues in 2025 and are projected to rise to 22.2% by 2035, indicating a growing crowd-out effect on other federal priorities***
- **Leveraged loan performance is supported by income, not credit quality**
  - The US leveraged loans finished 2025 with above-average returns, primarily driven by strong interest income rather than price appreciation
  - Total issuance reached \$155.5 billion, with record CLO formation offsetting retail fund outflows, sustaining market liquidity
  - Performance dispersion widened materially, with lower-rated borrowers underperforming, highlighting growing credit risk as floating-rate benefits diminish and refinancing costs rise

# Liability Management Exercise (“LMEs”)

## Introduction to LME types

	Description	Transactions
<p><b>Drop-Down Financing</b></p>	<ul style="list-style-type: none"> <li>Company transfers assets (often collateral) to a subsidiary outside of the credit group</li> <li>New lenders (or a subset of existing lenders) provide structurally senior financing (or exchange existing loans for structurally senior debt to capture discount) to the subsidiary secured by the transferred assets</li> <li>These transactions often, but not always, utilize Unrestricted Subsidiaries</li> </ul>	
<p><b>Uptier Priming</b></p>	<ul style="list-style-type: none"> <li>Company reaches agreement with groups of majority lenders within one tranche of debt to subordinate liens or obligation to new debt</li> <li>Company uses “open market purchases” provisions to incur new priming debt from consenting Lenders to pay off or rolls up existing debt of consenting Lenders</li> </ul>	
<p><b>Double - DIP</b></p>	<ul style="list-style-type: none"> <li>Description on following page</li> </ul>	

# Liability Management Exercise (“LMEs”)

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An LME occurs when a borrower at risk of defaulting restructures its liabilities outside of court by directly negotiating with its creditors or by securing rescue capital from outside parties

- **The typical LME involves the borrower raising new debt that is either senior to the existing debt or backed by collateral that had previously been pledged to the existing debt**
  - Existing lenders might be harmed as their collateral might be less secure than initially thought
- **New LME Structure – The Double-dip**
  - Step 1: A new subsidiary is created
  - Step 2: The new subsidiary issues debt
  - Step 3: Proceeds of new debt are used to fund an intercompany loan made to the parent on a secured basis
  - Step 4: The borrower provides a guarantee on this intercompany loan.
  - **Unsecured creditors lose** as two claims are created on the company’s assets, (i) loan to the parent company and the loan guarantee
  - Companies and lenders prefer Double DIPs to asset drop downs as assets don’t need to be transferred to different entities
- **Even though LMEs are postponing bankruptcies LMEs rarely solve the troubled borrowers underlying problem**
  - In 2024, nearly 35% of defaults and LMEs involved companies that had previously defaulted or executed an LME

# Notable National NACR Clients

A&M has performed large, complex reorganizations for many high-profile companies across almost all industries:



# A&M's Retail Practice

A&M has a dedicated retail practice that has worked with a comprehensive set of retailers and consumer brands, building real and practical insights across different retail platforms

Apparel & Department Stores



Specialty Retail



Discount / Wholesale



Restaurants



Grocers, Distributors



ALVAREZ & MARSAL

# Select Unsecured Creditors' Committee Experience

 <p><b>Mallinckrodt</b></p>	 <p><b>Boomerang Tube</b></p>	 <p><b>clarus</b> THERAPEUTICS</p>	 <p><b>Frontier</b> COMMUNICATIONS</p>	 <p><b>Cyxtera</b></p>
 <p><b>CEC</b> entertainment</p>	 <p>LSC COMMUNICATIONS</p>	 <p><b>Westinghouse</b></p>	 <p><b>BOXED</b></p>	 <p><b>NCM</b> NATIONAL CINEMEDIA</p>
 <p><b>SYNERGY</b> PHARMACEUTICALS</p>	 <p><b>Tintri</b></p>	 <p><b>BED BATH &amp; BEYOND</b></p>	 <p><b>smile</b> DIRECT CLUB</p>	 <p><b>VICE</b></p>
 <p><b>CORSICANA</b> MATTRESS COMPANY</p>	 <p><b>ORCHIDS</b> PAPER</p>	 <p><b>fred's</b></p>	 <p><b>THE RoomStore</b> FURNITURE &amp; ACCESSORIES</p>	 <p><b>LUCKY</b> EST. 1990 <b>BRAND</b></p>
 <p><b>Avianca</b></p>	 <p>EST. 1975 <b>EARTH FARE</b> HEALTHY FOOD FOR EVERYONE</p>	 <p><b>SHILOH</b></p>	 <p><b>TAKATA</b></p>	 <p><b>npc</b> international</p>

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