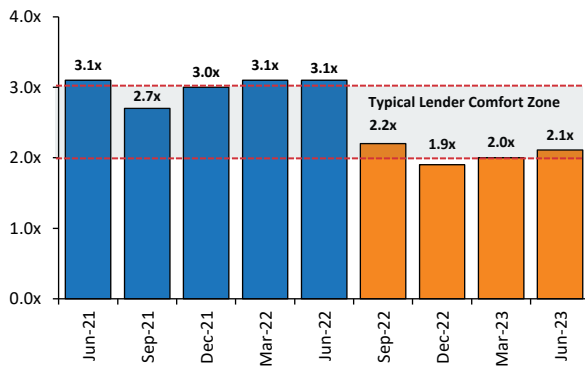


As the dog days of summer draw to a close, beachgoers are not the only ones trying to beat the heat. Corporate borrowers continue to feel the pressure of increased interest expense amidst a stagnating economic environment. Cash is king, and preservation of liquidity is top of mind in the C-suite as lenders are monitoring key ratios more frequently than ever. Here are two trends that borrowers are leveraging to beat the heat:

- **PIK interest:** Borrowers are frequently requesting a “PIK toggle” for incremental cash flow flexibility, and qualifying existing loans are increasingly seeing this option triggered. Of course, there’s no such thing as a free lunch, as PIK interest typically accrues at a higher rate than cash pay. Lenders’ portfolios are seeing this shift to non-cash returns as borrowers focus on cash preservation.
- **Unitranche loans:** Accounting for nearly 80% of sponsor-backed financings in July, “uni” structures provide an attractive alternative to bank loans by offering low quarterly principal payments while achieving a similar blended cost of capital as compared to a combination of senior and mezzanine debt.

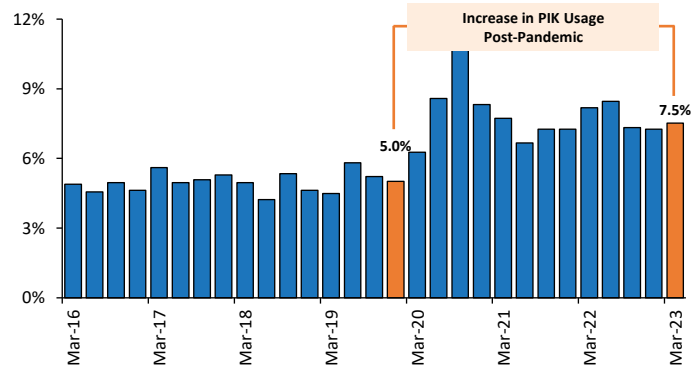
Borrowers Straining to Cover Interest Costs...

Interest Coverage Ratio



...Are Increasingly Triggering PIK Toggles

PIK Interest as a % of Total Income for Lenders

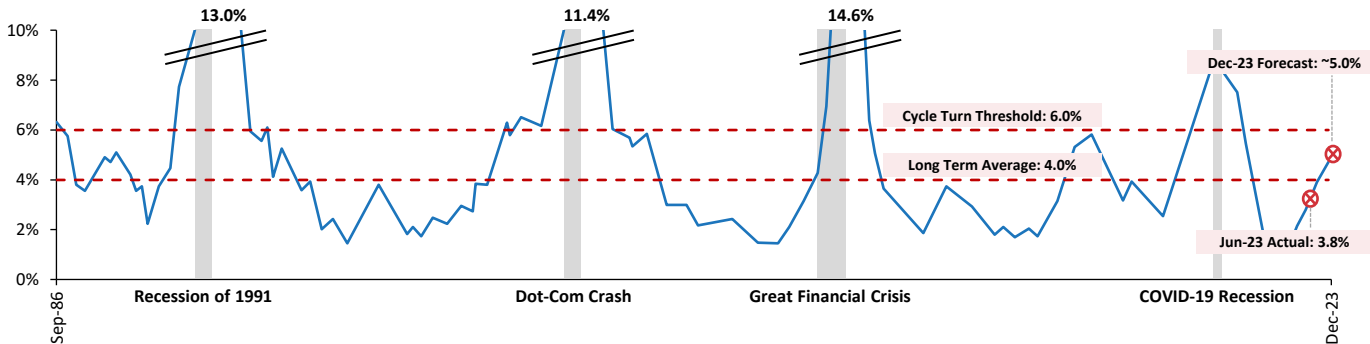


Source: KBRA DLD, Cliffwater CDLI

Proprietary Insights from Our Colleagues at MUFG

“After reaching historically low levels in early 2022, default rates have begun to move higher. Over the last 12 months, 20 USD HY Issuers defaulted on \$34bn of bonds. As default rates typically “lag” the economic cycle, default rates may not peak until late 2024 or early 2025.”

US Speculative Grade Default Rate



MUFG Capital Markets Strategy

Intrepid’s Capital Advisory Group enables founders, management teams, and financial sponsors to access institutional capital across all forms of debt and equity to execute mission-critical transactions. We are experts at solving complex capital structure needs for our clients, and have global access to capital sources including banks, direct lenders, hedge funds, family offices, and private equity institutions.

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