Biscuit International: an assessment and general thoughts

LME Provided Runway, but Not Yet a Solution. I return on the credit after a month.

In June 2026, Biscuit International (BI) completed a liability management exercise aimed primarily at extending the runway of an already highly leveraged capital structure. The transaction extended debt maturities pushed a portion (the cash initially injected as debt by the Sponsor Platinum Equity at the beginning of 2023) of the structural leverage of the senior capital structure down to 1.5SL, while the original Second Lien interest payment was capitalized through a switch from cash interest to PIK.

From a liquidity and near-term maturity perspective, the transaction clearly provided the Company with additional time. However, it did not, in itself, address the fundamental issue: the underlying operating performance and cash-flow generation remain insufficient relative to the current debt.

Leaving aside the volatility of commodity input costs, Biscuit International continues to operate in a challenging environment, where pricing, volumes and product mix remain under pressure, weighing on margins and limiting the Company's ability to translate revenues into sustainable Ebitda and positive free cash flow. The private-label segment is particularly exposed to retailer purchasing dynamics and margin pressure, with recent adverse weather conditions, including the heatwave, and weaker consumer confidence likely contributing to softer demand and more cautious retailer ordering patterns. It is worth noting that the broader branded biscuit market appears comparatively more resilient, with players such as Mondelez benefiting from strong brand recognition and consumer loyalty. This would suggest that the BI weakness is not necessarily indicative of a structural impairment of the broader biscuit category.

The restructuring bought the business time rather than fundamentally repaired the balance sheet. The Company now effectively has until 2030 to demonstrate a sustainable improvement in results.

I may be erring on the side of caution, but I am inclined to view the recently completed LME as having merely deferred, rather than resolved, the need for a restructuring. Indeed, the European HY market appears to be increasingly focused exactly on this risk. In the unusual August loan market, the Term Loan has fallen by roughly nine points since my previous post (marketed down and with volumes), indicating that investors are beginning to price a higher probability of distress. A "sustained" break below 70 would be particularly significant, given that the Term Loan was still trading in the mid-80s as recently as June. Such a move would bring the loan back towards levels last seen in November–December 2022 and would imply a substantial deterioration in the market's assessment of the credit name. At these levels, the Second Lien would likely be pricing materially below 40, pointing to a significant compression in implied recovery values across the capital structure.

From a recovery perspective, the current capital structure offers a degree of protection to the senior creditors. The approximately 1.5SL structural cushion beneath the senior debt, together with the Second Lien layer, provides meaningful subordination. Assuming no material deterioration in enterprise value beyond current levels, the senior debt should therefore have a relatively strong position in a conventional restructuring waterfall. One tangible risk, in my view, is the possibility of a "priming transaction" involving the existing senior debt and this may be one of the factors weighing on the loan prices.

One final consideration: in July and August, some leverage loans have traded below what I estimate to be their final recovery value, based on recovery assumptions and credit fundamentals. BI is a special case, given its recently amended balance sheet with LME. At current prices, these names should have meaningful upside potential, yet the expected catalyst has not materialised. Conversely, it is legitimate to ask why some unsecured securities, despite continuing to decline, do not trade close to zero when implied EV/EBITDA multiples suggest limited, or no recovery. My answers: this is largely a function of the holder base.

Whether a credit is held primarily by CLOs, traditional bond investors or distressed hedge funds can materially influence its trading value, the price stability and the speed of both upward and downward moves. Each investor type has different constraints, mandates and time horizons. Therefore, in today's market, fundamentals and recovery value do not necessarily determine in the short term the right price or the path of that price. It is a different market from some years ago; participants should reconsider the way they manage cash balance, make investment decisions, take profit or disinvest, shape the asset pools under mandate. Ultimately, over time, prices should settle around a level that reflects the correct value — which may be higher or lower than current levels. The key question for investors is therefore not only where an asset should ultimately trade, but also whether they know the participants behind the positions, their incentives and constraints, and whether they themselves have the time horizon, risk appetite and capacity to hold an asset while it remains depressed.