



DJO Global (ENMC) 8.125% 2nd Liens

We rate the 8.125% 2nd Lien bonds Buy and the 10.75% 3rd lien bonds Hold. We believe a Yield to Most Likely (YTML) of 18.03% on the 8.125% bonds is attractive for risk at the 2nd lien level. At an offer price of 94.5, the 2nd lien bonds trade at a YTW of 10.03%. We believe, however, that the most likely call date for these bonds is towards the end of 2018 (we expect DJO would refinance all of its bank and bond at the same time). Using a 12/31/18 call date, this implies a YTML of 18.03%.

We acknowledge that DJO is in the midst of a significant strategic shift, and given its current capital structure it has little room for error in executing its cost save plan or little room for error related to any unexpected negatives in the core business. In addition, DJO has a relatively short window to work through this strategic plan given its bond maturities in 2020 and 2021. All this said we believe the strategic plan management has laid out is sensible, and that management is making tangible progress. And despite our expectation for bumps along the way we suspect even if DJO can show progress (i.e. hitting our 2018 estimates with an upward trajectory and no material negative developments) the markets could be open to reasonably refinance its capital structure.

We believe DJO's core businesses have significant market positions and brand value. With low capex, little in the way of cash taxes, and expected diminishing cash add backs, we believe this company can exist on higher levels of leverage than many other companies in our HY universe. We believe DJO's significant NOLs (federal NOLs were \$813.1 mm at 12/31/16) would shield it from incremental cash tax liability (per tax reform) for many years to come. We rate the 10.75% bonds Hold as we believe this thin layer of capital is subject to significant volatility and potential impairment if DJO is not able to execute adequately on its initiatives

The risks to our ratings are most significantly centered around operational performance. If DJO falls meaningfully short of its strategic initiatives and/or experiences an adverse development in its core business, we believe the 2nd lien bonds could underperform (we rate them Buy). On the other hand, if DJO meets or exceeds expectations and does not experience other negative events or trends, the 10.75% bonds could rally (we rate them Hold).