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# **MARKET ALERT:** LMT RISK IN THE BUILDING PRODUCTS SECTOR

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## Market Alert: LMT Risk in the Building Products Sector

### The Bottom Line™:

- Weakening building products credits with permissive documents are very susceptible to value-shifting LMTs, with certain issuers consistently screening weakest across all three scoring frameworks.
- Covenant review has re-examined 14 names in the building products sector trading below 90% of par to evaluate LMT risk in three broad categories, highlighting which of these names are at the highest and lowest risk of an LMT.

### Overview

Select building products credits have trended weaker as inflation and tariffs continue to pressure costs, volume growth slows in cyclical end markets, cash generation becomes more volatile, and financing access tightens for lower-quality issuers. In these situations, documentation often becomes a decisive factor alongside underlying fundamentals. Issuers with weak or permissive covenant packages have significantly greater ability to *execute* liability management transactions using tools such as uptiers, dropdowns, coercive exchanges, or other investor-on-investor structures to manufacture liquidity and reallocate value across the capital structure. While the propensity for an LMT is still influenced by fundamentals, sponsor posture, upcoming maturity walls, and broader market access, the ability to complete such a transaction is dictated by document flexibility. As LMT activity remains elevated and continues to evolve despite recent headline decisions, weak documentation stands out as a leading indicator of where the next transaction may emerge (see the [Building Products Credit Report](#) published by CreditSights).

Trading down compresses option value for “plain-vanilla” refinancings, pushing sponsors and ad hoc groups toward LMTs. This dynamic is driving higher spreads and lower trading levels, creating an arbitrage incentive for LMT-style exchanges, making sponsors increasingly motivated to use document flexibility to avoid dilutive equity injections and giving lenders facing asymmetric outcomes a preferable option if a subset of creditors cooperates with a sponsor-backed uptier or drop-down.

As a result, building products borrowers with permissive documents emerge as natural targets for LMTs, especially if trading levels imply near-term refinancing stress.

With that in mind, we have focused the rest of this piece on: **Which building products issuers’ credit documents create the most LMT vulnerability?**<sup>1</sup>

<sup>1</sup> To clarify, we did not focus on the credits referenced in this report due to impending LMT chatter, we simply screened for TLBs that were trading below 90 to proactively assess the sector broadly.

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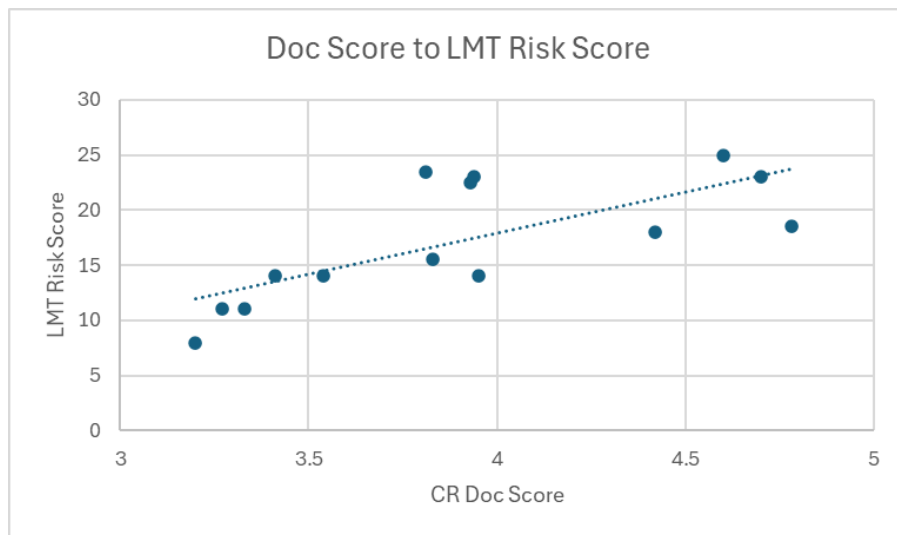
We took a deeper look at 14 building products credits in the broadly syndicated loan market that have term loans trading at or below 90% of par, as of April 7, 2026.<sup>2</sup> We analyzed the credit agreements for each of these names through four separate lenses:

1. **LMT Risk (General):** Vulnerability to maneuvers (uptiers, drop-downs, double-dips, etc.) designed to permit companies to utilize flexibility under their debt documents to avoid insolvency.
2. **Investor-on-Investor Maneuvers:** Flexibility to allow one investor group to prime or economically disadvantaging another.
3. **Sponsor-on-Investor Maneuvers:** Risk of sponsor-led structures forcing non-consenting lenders into coercive exchanges or primed positions, including via so-called “deal-aways.”
4. **Sponsor + Investor-on-Investor Maneuvers:** Risk of the sponsor and a subset of lenders conspiring to harm other lenders.

Across all four categories, we identify the five highest-risk names (providing the greatest LMT flexibility) and the five most protective names (providing the least LMT flexibility). The provisions that serve as the basis for this analysis are listed at the end of this report.

### General LMT Risk

As you can see from the chart below, a high covenant review documentation score is highly correlated to the document being at a high risk for an LMT.<sup>3</sup>



<sup>2</sup> We have sourced pricing information from the JPM Leveraged Loan Index within the following Moody's sectors: Building Materials, Construction & Building, Capital Equipment, Industrial Products Distribution, Chemicals, Plastics & Rubber, Consumer Goods: Durable, and Services: Business.

<sup>3</sup> As a refresher, [Covenant Review Documentation Scores](#) are measured on a scale of 1 (strongest protection) to 5 (weakest protection).

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Going one step further, of the 14 names we evaluated, we have ranked them by LMT Risk Score and identified which of these names are at the highest and lowest risk of an LMT generally, as shown in the table below.

In order to score the documents to evaluate susceptibility for these transactions, we focused on the absence or strength of all of the forgoing provisions. With respect to the score, the more risk that the document allowed for with respect to each provision, the higher value, measured for each provision (the “LMT Risk Score”). With respect to the LMT Risk Score, there is a maximum score of 36 and there is no minimum score.

Issuer	Doc Score	LMT RISK SCORE
Groupe Solmax	3.2	8
Empire Today	3.33	11
Empire Today	3.27	11
Oldcastle BuildingEnvelope	3.95	14
American Bath Group	3.54	14
Cabinetworks	3.41	14
Associated Materials	3.83	15.5
CoolSys Inc	4.42	18
US LBM Holdings (Amd. 4 Incremental)	4.78	18.5
Cornerstone Building Brands	3.93	22.5
Interior Logic Group	4.7	23
Jeld-Wen	3.94	23
US LBM Holdings	3.81	23.5
Wilsonart International Holdings	4.6	25

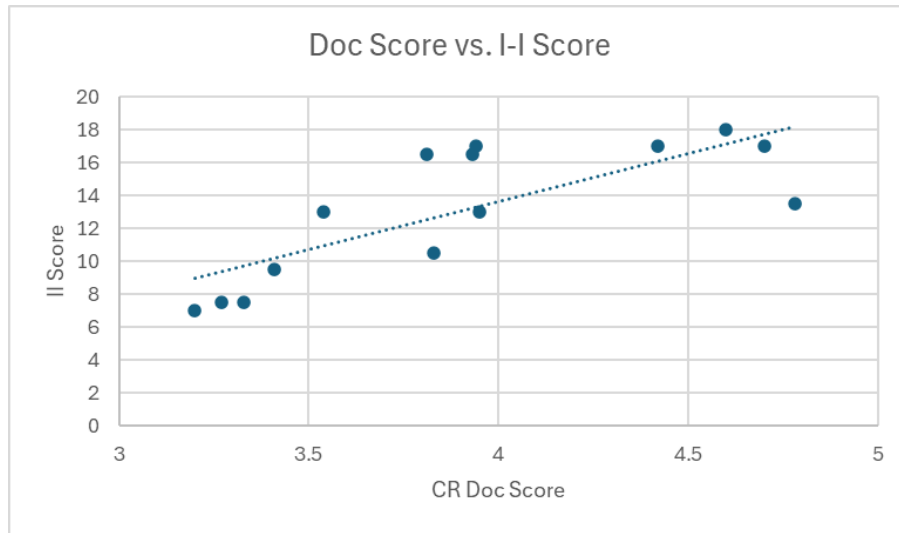
### Investor-on-Investor Maneuvers

Next, we looked at these documents to evaluate which of these were at the greatest and least risk of being the target of an Investor-on-Investor LMT, where a subset of lenders receives better collateral, priority, economics, or maturities than non-participating lenders.

In order to score the documents to evaluate susceptibility for these transactions, we focused on the absence or strength of the following provisions in the documents: J.Crew / Pluralsight blockers, Serta, Serta buyback process, buyback consideration limitations, vote-rigging blockers, double-dip blockers, intercompany debt subordination required, inside maturity, MFN protection, the presence of any anti-cooperation features, and any voting cap (the “I-I Score”). With respect to the I-I Score, there is a maximum score of 22 and there is no minimum score.

As illustrated below, a high covenant review documentation score is still very highly correlated to a risk of Investor-on-Investor LMT susceptibility.

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The chart below illustrates which of the 14 surveyed names are at the highest and lowest risk of these types of transactions:

Issuer	Doc Score	II SCORE
Groupe Solmax	3.2	7
Empire Today	3.33	7.5
Empire Today	3.27	7.5
Cabinetworks	3.41	9.5
Associated Materials	3.83	10.5
American Bath Group	3.54	13
Oldcastle BuildingEnvelope	3.95	13
US LBM Holdings (Amd. 4 Incremental)	4.78	13.5
Cornerstone Building Brands	3.93	16.5
US LBM Holdings	3.81	16.5
CoolSys Inc	4.42	17
Interior Logic Group	4.7	17
Jeld-Wen	3.94	17
Wilsonart International Holdings	4.6	18

### Sponsor-on-Investor Maneuvers

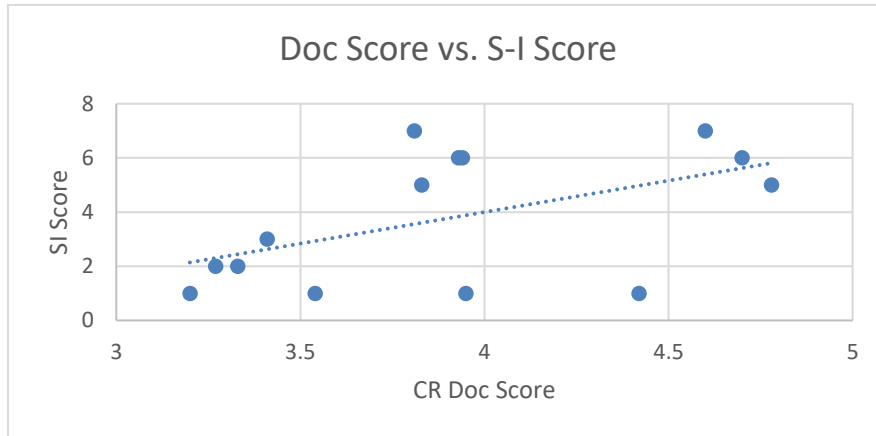
Next, we evaluated which of the surveyed names were at the greatest and least risk of being the target of a Sponsor-on-Investor LMT, where the issuer / sponsor shifts value away from the lender group as a whole (typically by moving assets outside the credit group, adding structural / priming leverage, or increasing capacity / leverage through covenant flexibility).

In order to score the documents to evaluate susceptibility for these transactions, we focused on the absence or strength of the following provisions in the documents: Chewy blockers, uncapped intercompany

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investments flexibility, asset sale sweep stepdowns, annual basket carry forward/back, pick-your-poison, high-watermark EBITDA, and anti-law-firm provisions (the “S-I Score”). With respect to the S-I Score, there is a maximum score of 14 and there is no minimum score.

As illustrated below, a high covenant review documentation score is moderately correlated to the risk of sponsor-on-investor LMT susceptibility. This lower correlation comes more from sector-wide documentation trends rather than overall LMT risk however.



The chart below illustrates which names are at the highest and lowest risk of these types of transactions:

Issuer	Doc Score	SI SCORE
American Bath Group	3.54	1
CoolSys Inc	4.42	1
Groupe Solmax	3.2	1
Oldcastle BuildingEnvelope	3.95	1
Empire Today	3.33	2
Empire Today	3.27	2
Cabinetworks	3.41	3
Associated Materials	3.83	5
US LBM Holdings (Amd. 4 Incremental)	4.78	5
Cornerstone Building Brands	3.93	6
Interior Logic Group	4.7	6
Jeld-Wen	3.94	6
US LBM Holdings	3.81	7
Wilsonart International Holdings	4.6	7

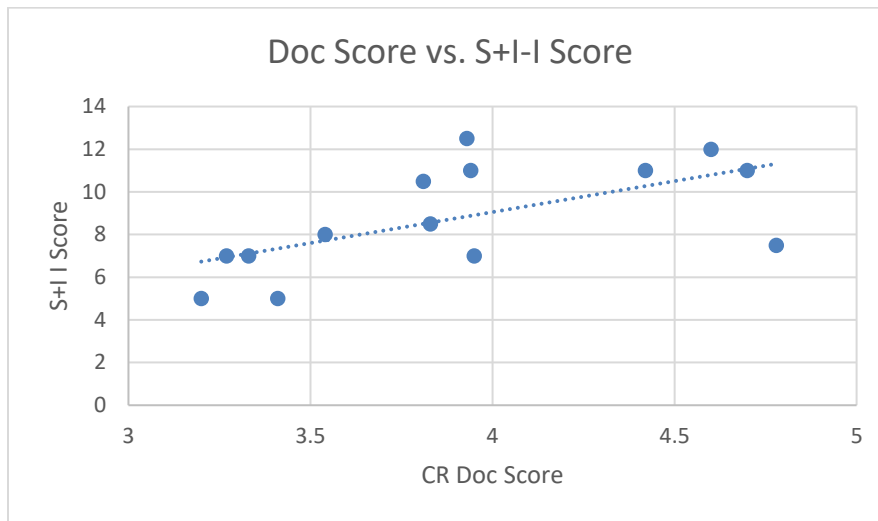
### Sponsor + Investor-on-Investor Maneuvers

Finally, we looked at these documents to evaluate which of these were at the greatest and least risk of being the target of a Sponsor + Investor-on-Investor LMT, where the issuer / sponsor teams up with a subset of lenders, intending to harm another group of lenders.

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In order to score the documents to evaluate susceptibility for these transactions, we focused on the absence or strength of the following provisions in the documents: J.Crew / Pluralsight blockers, Serta, Serta buyback process, vote rigging / Incora blocker, double-dip / At Home blocker, intercompany debt subordination required, anti-cooperation, and voting / concentration cap provisions (the “S+I-I Score”). With respect to the S+I-I Score, there is a maximum score of 16 and there is no minimum score.

As illustrated below, a high covenant review documentation score is still correlated to a risk of Sponsor + Investor-on-Investor LMT susceptibility.



The chart below illustrates which names are at the highest and lowest risk of these types of transactions:

Issuer	Doc Score	S+I I SCORE
Cabnetworks	3.41	5
Groupe Solmax	3.2	5
Empire Today	3.33	7
Empire Today	3.27	7
Oldcastle BuildingEnvelope	3.95	7
US LBM Holdings (Amd. 4 Incremental)	4.78	7.5
American Bath Group	3.54	8
Associated Materials	3.83	8.5
US LBM Holdings	3.81	10.5
CoolSys Inc	4.42	11
Interior Logic Group	4.7	11
Jeld-Wen	3.94	11
Wilsonart International Holdings	4.6	12
Cornerstone Building Brands	3.93	12.5

### Conclusion

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Taken together, as investors consider the sector-wide weakening, there is a clear correlation between weak documentation and elevated LMT risk. However, documentation in isolation is not determinative of whether LMT activity ultimately occurs, as sponsor incentives, capital structure flexibility, liquidity needs, and market conditions also play a role in shaping outcomes. While this analysis highlights which agreements present the greatest and least vulnerability, the underlying mechanics vary meaningfully by borrower. Specific questions about how any individual provision operates, interacts with other terms, or could be deployed in practice should be directed to the Covenant Review team for further discussion.

### **Provisions Considered in the Scores:**

The provisions that we have looked at for each of these names to rank them against each other are below:

Provision	Description	Why it matters in distress
<b>J.Crew / Pluralsight blocker</b>	Prohibits transfer of certain assets to non-guarantor subsidiaries and/or unrestricted subsidiaries; blockers to non-guarantor restricted subsidiaries are sometimes referred to as “Pluralsight” blockers after the June 2024 private credit LMT	Limits drop-down / asset transfer techniques that can set up differential treatment in an exchange and leave non-participating lenders with weakened collateral / guarantor coverage, particularly with respect to material IP.
<b>Chewy</b>	Either establishes that existing guarantors cannot be released unless they cease to be a restricted subsidiary (a “true” blocker) or requires that a guarantor that becomes non-wholly owned can only be released if certain conditions are met (a “qualified” blocker); conditions can include having sufficient investments capacity and whether the underlying transaction was with an affiliate or if it had a bona fide purpose	Limits transfers of valuable assets to excluded subsidiaries / subsidiaries outside the credit group (value leakage / structural subordination).
<b>Serta</b>	Most commonly takes the form of requiring heightened consent to acquiesce to subordination (often consent of “directly and adversely affected” creditors) of payment and lien priority	Restricts non-pro rata uptier / priming transactions that advantage a participating subset of lenders.

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<b>Serta buyback process</b>	Can take the form of “Dutch auction,” open market purchases or include language explicitly permitting privately negotiated transactions	Tightens repurchase / exchange mechanics so they can't be used to run coercive, non-pro rata exchanges among lenders without making an open market offer that any lender can see in a third-party trading service.
<b>Vote-rigging / Incora</b>	Prohibits incremental creditors (e.g., add-on lenders under a credit agreement's accordion) from being counted in voting thresholds for any concurrently sought amendment	Prevents disenfranchisement / affiliate voting tactics used to force amendments or exchanges and incurrence of incremental debt to rig a vote.
<b>Double dip / At Home</b>	Typically requires any intercompany debt owed by the borrower or guarantor to a non-guarantor to be subordinated in right of payment and/or collateral, which effectively shuts off the secondary claim  May explicitly prohibit debt incurrences designed to create multiple claims in bankruptcy arising from a single debt issuance or prohibit unrestricted subsidiaries from owning debt or equity of, or having liens on the assets of, restricted subsidiaries	Limits structures that let a subset capture multiple claims on the same value via guarantee / collateral layering.

In addition to the above classic LMT blockers, we have also looked at the following provisions:

Provision	Why it matters in distress
<b>Buybacks limited to cash</b>	Prevents paper-for-paper exchanges that can create winners / losers across the lender group.
<b>Intercompany debt subordination required</b>	Ensures the intercompany claims arising from the intercompany debt basket can't be elevated, pledged, or sold in ways that prime existing lenders. This is distinct from the Double Dip blocker, which applies more broadly to every incurrence of debt.
<b>Inside maturity</b>	Limits incremental / senior / pari passu debt that matures earlier and creates pressure dynamics benefiting a lender group with an inside maturity.
<b>MFN protection</b>	Prevents later pari passu secured debt from being issued with better economics (typically based on all-in yield) than existing lenders.
<b>Anti-cooperation</b>	Limits cooperation agreements that enable a subset to coordinate coercive LMTs or control votes / process.

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<b>Voting / concentration cap</b>	Caps voting power to reduce the ability of a concentrated holder / group to force certain outcomes that may be detrimental to other lenders or prohibits a single lender (and its affiliates) from acquiring a concentrated hold in a particular class.
<b>Uncapped intercompany investments</b>	Allows unlimited investments / transfers to non-guarantor restricted subsidiaries that can siphon value away from the lender group.
<b>Asset sale sweep stepdowns</b>	Permits erosion of mandatory prepayments over time and preserves deleveraging discipline.
<b>Annual basket carry forward / back</b>	Permits warehousing unused capacity that can later fund leakage, priming, or incremental leverage.
<b>Pick-your-poison</b>	Allows converting restricted payment, investments, and/or junior debt prepayments capacity into debt capacity, increasing leverage / optionality outside traditional debt baskets.
<b>High-watermark EBITDA</b>	Permits permanent inflation of EBITDA for leverage / basket tests, which would otherwise boost capacity even after earnings fall.
<b>Anti-law-firm</b>	Typically restricts lenders' choice of counsel / coordination, weakening lender organization in workouts / LMTs (formulation-dependent).

— *Covenant Review*

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